

Weekly Focus 1 **China lowered required reserve ratio**

Chart 1: Market Performance

Key Points

- China's economic data last month were generally below market expectations.
- The People's Bank of China on Saturday announced to cut the required reserve ratio for banks by 50 basis points.

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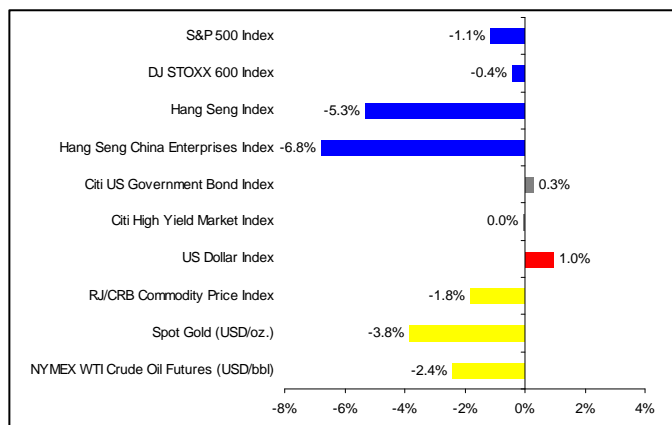
- Import grew 0.3% year-on-year in April, lower than the 11% market estimates
- New RMB loans were RMB 681.8 billion in April, lower than the RMB 800 billion market estimates

Citi analysts lowered its forecast of Chinese 2010 economic growth to 8.1%, from the previous estimate 8.4%. Growth may slow to 7.5% this quarter.

As the risk of further slowdown increases, The People's Bank of China announced to cut the required reserve ratio for major banks to 20%.

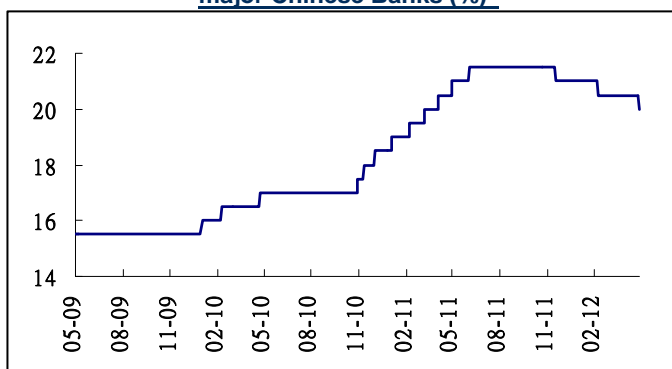
It is anticipated that China will roll out more monetary easing measures and more active fiscal measures, economic growth may rebound in the 3rd Q.

The recent pullback of Chinese equities may be buying opportunities.



Source: Bloomberg LP, as of May 11, 2012

Chart 2: Required Reserve Ratio for major Chinese Banks (%)



Source: Bloomberg LP, as of May 13, 2012

Weekly Focus 2 **Probability of Greece exiting Eurozone increases**

Key Points

- Greece's two main political parties failed to build a coalition government after the elections.
- Citi analysts anticipate that the probability of Greece exiting Eurozone within the next 12 to 18 months is between 50-75%.

Greece's two main political parties failed to build a coalition government as voters flocked to anti-austerity parties.

If Greece is unable not implement the austerity measures and the next tranche of bailout funds may be delayed.

Citi analysts views on Greek debt problem

- The Greek sovereign and also Greek banks could run out of funding, and the country may be forced to leave the euro area. Citi analysts anticipate that the probability of Greece exiting Eurozone within the next 12 to 18 months is between 50-75%.
- However, even if Greece exits from the eurozone, the European Central Bank and euro members may come up with plans to address the long-term sovereign debt problem.
- As such, a complete euro breakup is unlikely in 2012.

Chart 3: Latest development of Greek debt problem

- Greece's two main political parties failed to build a coalition government.
- If Greece is unable not implement the austerity measures and the next tranche of bailout funds may be delayed.
- The Greek sovereign and also Greek banks could run out of funding, and the country may be forced to leave the euro area.

Source: Citi, as of May 11, 2012

Weekly Investment Insight

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Global Financial Market Focus (As at May 11, 2012)

Global Equities

U.S.			
Last Week Performance	Close	Change	% Change
S&P 500 Index	1,353.39	-15.71	-1.15%
Dow Jones Ind. Avg. Index	12,820.60	-217.67	-1.67%
NASDAQ Composite	2,933.82	-22.52	-0.76%

- U.S. stocks fell as political tension in Greece heightened concern about Europe's debt crisis and an U.S. investment bank's \$2 billion trading loss weighed on shares of banks.
- Citi analysts expect the S&P 500 Index may reach 1,425 by 2012 year-end, as healthy corporate credit conditions remain in place and may still support capital investment and job growth.

China / Hong Kong			
Last Week Performance	Close	Change	% Change
Shanghai Composite	2,394.98	-57.03	-2.33%
Hang Seng Index	19,964.63	-1121.37	-5.32%
HS China Enterprises Index	10,143.07	-739.11	-6.79%

- China's stocks fell as economic data released last week showed a bigger than expected slowdown. Over the weekend, the People's Bank of China announced to cut the required reserve ratio for banks by 50 basis points.
- Citi analysts anticipate the China stocks market may stay range-bound for most of 2012. In 2012, the Hang Seng China Enterprise Index may fall into a range of 10,700-12,000. The Shanghai A-share Index may move in a range of 2,400-2800.

Fixed Income

Last Week Performance	Close (%)	Change (%)
10yr U.S. Treasuries (Yield)	1.838	-0.04

- Treasury yields fell as political tension in Greece intensified concern about a euro exit and a deepening of the debt crisis.
- U.S. High Yield Bond posted -0.03% return last week. The average credit spread widened 11 bps to 611 bps, according to the Citi High Yield Market Index.
- Weak economic growth prospects and falling inflation expectations may anchor bond yields at low levels. If an economic recession is avoided, Citi analysts expect investment grade corporate bonds may provide more attractive investment opportunities than sovereign bonds.

Commodities

Last Week Performance	Close	Change	% Change
WTI Crude Oil Futures (USD/bbl)	96.13	-2.36	-2.40%
Spot Gold (USD/ounce)	1,579.40	-62.82	-3.83%

- Gold dropped, tracking the sharp losses in equities and commodities amid fears over a worsening European debt crisis.
- Crude oil dropped after data showed China's economy slowing more than expected in April and concern grew that Europe's debt crisis will worsen, reducing fuel consumption.
- Citi analysts anticipate gold may reach \$1,750/oz in 6-12 months as gold looks attractive in an environment of further monetary expansion, low policy rates, a weaker USD and higher sovereign risks. Citi analysts anticipate that Brent oil Future may stay above \$120-125/barrel

U.S. S&P 500 Index – 3-Month Chart



Source: Bloomberg LP, as of May 11, 2012

Shanghai Composite – 3-Month Chart



Source: Bloomberg LP, as of May 11, 2012

10 Years U.S. Treasury Yield – 3-Month Chart



Source: Bloomberg LP, as of May 11, 2012

Spot Gold – 3-Month Chart



Source: Bloomberg LP, as of May 11, 2012

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