CITIGOLD
wealth management

Financial Market Analysis

Volume 5, Issue 29 July 18, 2005

>> SUMMARY

ECONOMIC OVERVIEW

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EUROPE	:	Demise of the EU unlikely
JAPAN	:	Business investment likely to maintain solid growth
ASIA	:	Economic stimulus in Taiwan unlikely to boost GDP

EQUITIES

US	:	Skepticism in the recent rally looks to be waning
EUROPE	:	Stocks with good dividend yield and growth likely to outperform
JAPAN	:	Market expected to remain buoyant
ASIA	:	Near term still positive on the Asian market

BONDS

US	:	Corporate market rebounds
EUROPE	:	Third weekly drop
JAPAN	:	Market remains composed in the face of better economic data

CURRENCIES

US	:	Positive USD bias in the short term
EUR	:	Likely remains vulnerable against USD
JPY	:	Unlikely to strengthen due to high oil prices
GBP	:	GBP likely to weaken
AUD	:	Recent ranges likely to continue

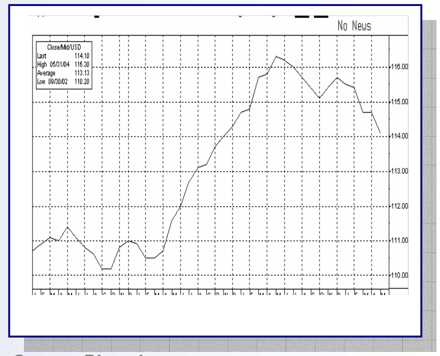
US/North America

ECONOMIC OVERVIEW:

Expansion looks in good shape

- A strong showing by consumers and a benign inflation reading reinforced the view that the expansion is in good shape.
- A 0.6% rise in retail sales suggests that consumer spending rose solidly in June despite the drain from higher oil prices.
- Citigroup analysts estimate that real GDP growth in the 2Q is about 3¼% annualized, while 3Q growth could accelerate to 4¼%.
- At the same time, the core Producer Price Index fell 0.1%, underscoring the Fed's continuing theme of measured rate hikes.
- Higher interest rates could eventually slow consumers, however Citigroup analysts felt the impact will be on wealth not cash flow.
- In addition, the better inflation news in June is likely only a temporary reprieve, as gas prices should impact July readings.
- Therefore inflation risks will likely continue to dominate policy considerations near term.

US Leading Indicators:
Jan 2002 – May 2005



Source: Bloomberg

EQUITIES:

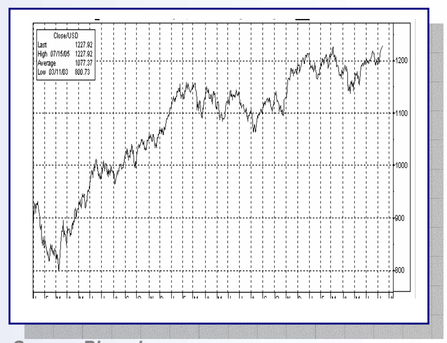
Skepticism in the recent rally looks to be waning

Week ending Jul 15, 2005:

Dow: +1.83 *S&P500: +1.33* *Nasdaq: +2.08*

- Equity markets ended the week in positive territory, as solid earnings and a mild report on inflation helped boost U.S. stocks.
- The markets bounce off from fear levels generated by the London attacks has led to the argument that risk aversion is diminishing.
- Citigroup analysts say it is unlikely that bullishness is now rampant, but rather that skepticism in the recent rally has begun to wane.
- This argues for further S&P gains and Citigroup analysts suggest buying technology hardware, semiconductor and diversified financial names, and avoiding commodity and utility stocks.
- In addition, earnings news does not look to be generating cautionary signals with most companies beating 2Q earnings estimates.

S&P 500:
Dec 31, 2002 – Jul 15, 2005



Source: Bloomberg

FIXED INCOME:

Corporate market rebounds

As at Jul 15 vs. Jul 08, 2005

2-yr Try: 3.87/3.77 *5-yr Try: 3.98/3.88* *10-yrTry: 4.17/4.10*

Treasuries: For the week US Treasuries declined on a mix of improved sentiment about the economy and reduced demand. A diligent Federal Reserve combined with well contained inflationary pressures mean the Treasury yield curve is likely to continue to flatten.

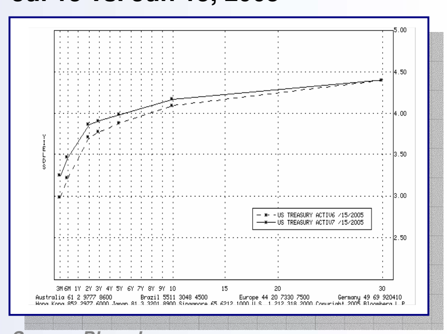
Mortgages: The mortgage basis looks attractive given the recent fall in volatility. Mortgage performance, however, has been flat over the past week. Citigroup analysts think that strong mortgage performance is more likely, and see this as a buying opportunity in MBSs.

High-Grade Corporates: The market rebounded from its calm helped by stronger economic data and the equity market. Perhaps the recent rise in rates has helped invigorate demand by buyers who were turned off by the very low level of yields.

High-Yield Corporates: The high-yield market continued to push higher with both bond and stock investors seeming to have taken the position that earnings are going to come out better than expected. This is likely to continue as sentiment has investors excited about the underlying fundamentals of the market.

EMD: EM had a fairly quiet week but generally are benefiting from improving credit quality driven by sound fundamentals, a largely benign external environment, and generally positive market technicals.

US Treasury Yield Curve:
Jul 15 vs. Jun 15, 2005



Source: Bloomberg

Source: Citigroup Smith Barney Equity Research and Citigroup Economic & Market

Global Currencies

USD [USD]:

Positive USD bias in the short term

- Citigroup analysts maintain a positive USD bias in the short term.
- Robust US cyclical factors have been joined this week by stabilizing trade data.
- **Citigroup analysts add a short EUR/USD recommendation this week.**

Euro [Eur]:

Likely remains vulnerable against USD

- Political uncertainty is diminishing as a EUR driver, while prospects for an ECB rate cut ease.
- The EUR may strengthen on the crosses but likely remains vulnerable against the USD.

Japanese Yen [JPY]:

Unlikely to strengthen due to high oil prices

- The JPY continues to weaken, as the oil price remains high.
- Citigroup analysts are wary about chasing the JPY lower but acknowledge that the JPY is unlikely to strengthen until oil subsides.

British Pound [GBP]:

GBP likely to weaken

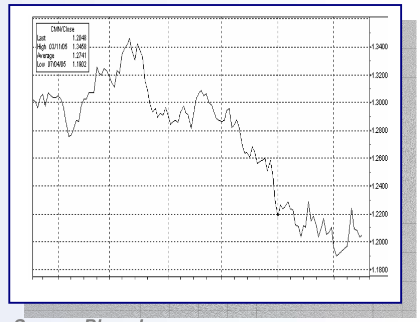
- The GBP continues to weaken as UK economic data disappoints.
- Citigroup analysts expect the Bank of England to cut interest rates in August and to ease by a cumulative 75 bps this year.
- The GBP should weaken.
- Citigroup analysts raise the target on long EUR/GBP this week.

Australia Dollar [AUD]:

Recent ranges likely to continue

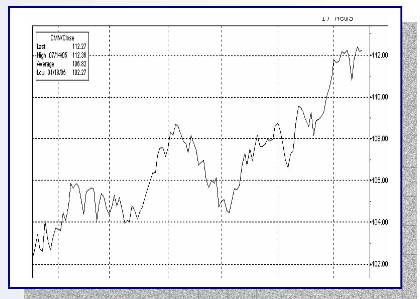
- AUD has been very volatile, benefiting from decreasing market risk aversion and strong commodity prices, but diminishing yield support.
- Citigroup analysts do not expect recent ranges to break.

EUR/USD:
Jan 18 – Jul 18, 2005



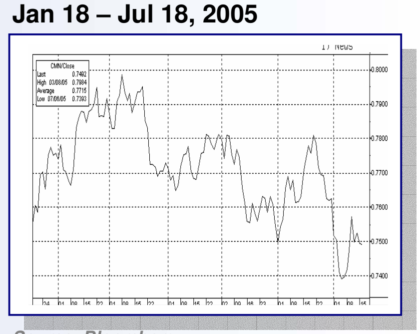
Source: Bloomberg

USD/JPY:
Jan 18 – Jul 18, 2005



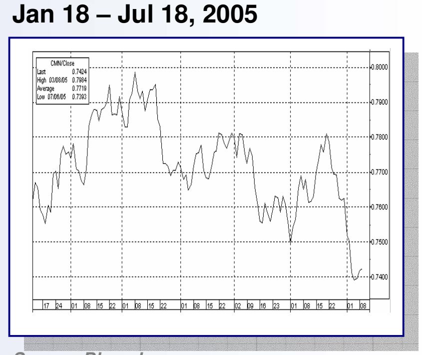
Source: Bloomberg

GBP/USD:
Jan 18 – Jul 18, 2005



Source: Bloomberg

AUD/USD:
Jan 18 – Jul 18, 2005



Source: Bloomberg

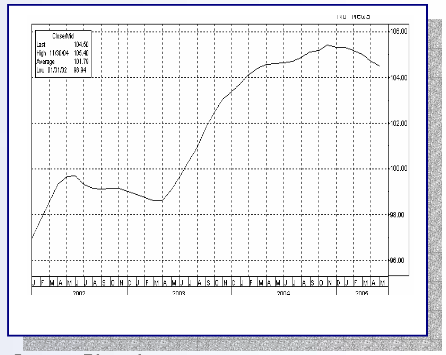
Europe

ECONOMIC OVERVIEW:

Demise of the EU unlikely

- The rejection of the EU constitution by the French and Dutch has sparked debate on a demise of European Monetary Union.
- Although Citigroup analysts say they cannot rule out the possibility that some countries may leave the EU, they say the chances of this happening are very low.
- For one the costs of going back to a floating rate currency would be very high for individual countries.
- Second higher regional and country specialization of production and trade have made members more interdependent.
- Adjusting to the challenge of increased global competition would also be harder outside the EMU.
- So rather than breaking up, the choice is more likely to lie between full political union and a more decentralized free-trade zone.

EURO 15 Leading Indicators: Jan 2002 – May 2005



Source: Bloomberg

EQUITIES:

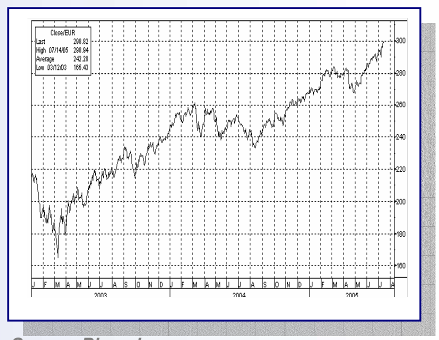
Stocks with good dividend yield and growth likely to outperform

Week Ending Jul 18, 2005:

CAC: +1.70 *DAX: +2.50* *DJ Euro STOXX: +1.51*

- European markets continued their recent run of strength last week as 2Q results got off to a positive start.
- For the past five years Bunds and Utilities have outperformed Telecoms and Banks.
- Currently equity markets are seeing big yield sectors and bunds all trading at very similar historical yields – around 3.3%.
- Citigroup analysts say that this means it may be time to focus on dividend growth rather than yield.
- Citigroup analysts suggest switching from Utilities into Telecoms and Banks, as dividend surprises likely remain greater in these sectors.
- In addition, investors should not be looking at sectors and perhaps should concentrate on stocks which offer a combination of high dividend yields and strong dividend growth.

Dow Jones Stoxx: Dec 31, 2002 – July 15, 2005



Source: Bloomberg

FIXED INCOME:

Third weekly drop

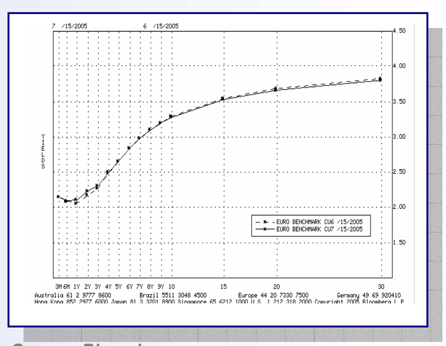
As at Jul 15 vs. Jul 08, 22005:

2-yr Eurobond: 2.23/2.15 *5-yr Eurobond: 2.66/2.57*

10-yr Eurobond: 3.28/3.18

- European government bonds had their third weekly drop partly due to decreased prospects of a rate cut.
- In the near term Citigroup analysts believe limited issuance of Euro government bonds expected in July and August may further suppress Euro yields over this quarter.

Euro Yield Curve: Jul 15 vs. Jun 15, 2005



Source: Bloomberg

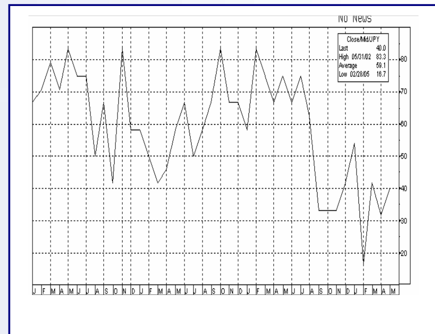
Japan

Economic Overview:

Business investment likely to maintain solid growth

- Conflicting business investment data emerged this month.
- According to the Tankan report, business investment plans for FY05 showed an acceleration. However machinery orders cautioned a deceleration.
- This has led to views about private capex diverging but Citigroup analysts say machinery orders likely understated private capex and the Tankan report was an overstatement due to the delay of business investment plans.
- In addition, they expect machinery orders to maintain a solid growth pace due to robust construction spending in FY05.
- Citigroup analysts expect business investment not to accelerate but likely to maintain solid growth going forward.

Japan Leading Indicators:
Jan 2002 – May 2005



Source: Bloomberg

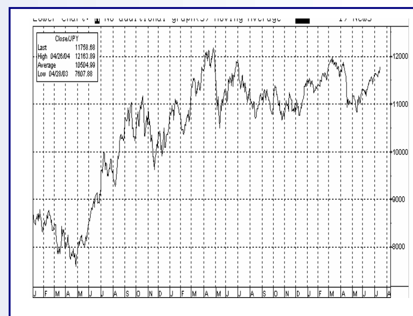
Equities:

Market expected to remain buoyant

Week Ending Jul 15, 2004
Nikkei 225: +1.67

- Japan's Post privatisation bill is likely to be revised and enacted probably in early August.
- If the bill passes, the market will focus on prospective tax increases, including the consumption tax hike.
- Given the looming tax increases, Citigroup analysts advise caution on domestic demand stocks.
- Citigroup analysts expect the equity market to remain somewhat buoyant and to continue to favour low-valuation, global economy stocks that should benefit from yen weakness.

Nikkei 225:
Dec 31, 2002 – Jul 15, 2005



Source: Bloomberg

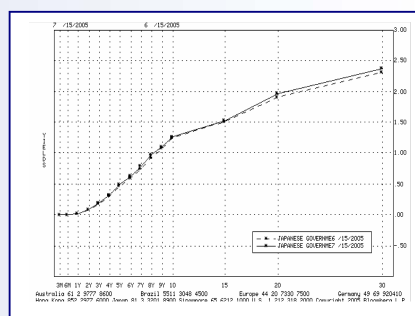
FIXED INCOME:

Market remains composed in the face of better economic data

As at Jul 15 vs. Jul 08, 2005:
2-yr JGB: 0.08/0.08 5-yr JGB:0.49/0. 44 10-yr JGB: 1.28/1.22

- The JGB market has stayed resilient in the face of signs that the Japanese economy is gathering strength.
- As a result, the 10-year JGB yield's range has converged slightly above 1.20%.
- Long-term interest rates in Japan have remained lower than expected.
- The market appears to be looking for guidance and cautious range trading between 1.16% and 1.25% in the 10-years, appears the better option for now, say Citigroup analysts.

Japan Yield Curve:
Jul 15 vs. Jun 15, 2005



Source: Bloomberg

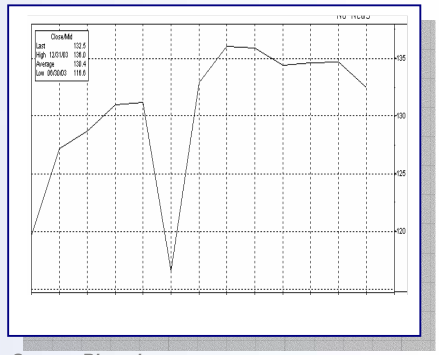
Asia Pacific Ex Japan

ECONOMIC OVERVIEW:

Economic stimulus in Taiwan unlikely to boost GDP

- In **Taiwan**, the government has proposed an economic stimulus plan aimed at achieving 4% real GDP growth in 2005 and possibly boosting growth to 4.5%.
- Citigroup analysts however say the implementation of these measures may buffer the economy but are unlikely to give a boost to economic growth in 2005.
- This is partly because it is already half way through the year. Also, some of the measures are just extensions of existing programmes.
- In addition, these stimulus measures are often less effective then monetary or fiscal policy.
- Citigroup analysts maintain their forecast for a trend like pace of growth at 4.0% yoy in 2H05 and 3.6% for the full year 2005.

China Business Climate Index: Jan 2002 – Mar 2005



Source: Bloomberg

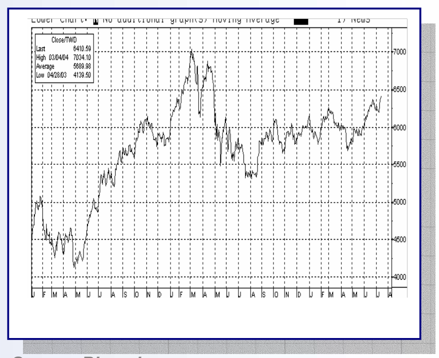
Nb: The China Business Climate index ranges from 0 to 200. When the Index is higher than 100, it indicates that the economic performance is improving.

EQUITIES:

Near term still positive on the Asian market

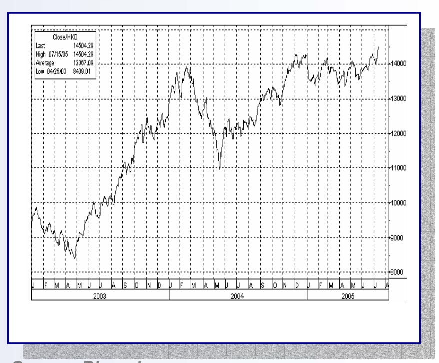
- The recent run up in Asian markets does not seem to have been backed by improvements in company fundamentals for 2006E.
- For 2006, sales growth is expected to drop from 15% to 5%. All sectors are expected to show declines in sales growth, however the decline is lowest in Technology, Consumer Staples and highest in Energy and Materials.
- Across countries, Hong Kong and Taiwan are expected to outperform, while Thailand and China show a decline in sales.
- Weakening Asia ex Japan export growth remains a risk to Asia’s top line growth.
- In addition, high oil prices also pose a risk especially to Thailand, Singapore and the Philippines.
- For the near term, according to their momentum indicators, Citigroup analysts still have a buy indicator for the region expect for the Philippines and Thailand.
- In terms of sectors all are Buys expect for Industrials and Materials.

Taiwan Weighted Index: Dec 31, 2002 – Jul 15, 2005



Source: Bloomberg

Hang Seng: Dec 31, 2002 – Jul 15, 2005



Source: Bloomberg

World Markets at a Glance (Data as at July 15, 2005)

	Previous Week's Close	12-Mth Weekly High	12-Mth Weekly Low	10-Year* High	% Return YTD (LC)	% Return YTD (USD)
Taiwan Weighted Index	**6,410.59**	**6,410.59**	5,373.85	8,448.84	4.41%	3.91%
Hang Seng	**14,504.29**	**14,504.29**	12,059.20	16,962.10	1.93%	1.87%
Kuala Lumpur Composite	916.84	929.74	808.47	1,237.96	1.04%	1.04%
JASDAQ Index (Japan)	**101.22**	**101.22**	82.11	97.28	12.06%	2.89%
Straits Times Industrial	**2,250.29**	**2,250.29**	1,850.26	2,479.58	8.91%	5.41%
Dow Jones Euro STOXX	**298.82**	**298.82**	233.30	416.23	11.76%	-1.19%
CAC 40 (France)	**4,373.77**	**4,373.77**	3,484.84	5,958.32	14.46%	1.81%
S&P 500	**1,227.92**	**1,227.92**	1,063.97	1,469.25	1.32%	1.32%
DAX (Germany)	**4,712.90**	**4,712.90**	3,646.99	6,958.14	10.73%	-2.09%
NASDAQ Composite	2,156.78	2,175.44	1,757.22	4,069.31	-0.86%	-0.86%
All Ordinaries (Australia)	4,254.20	4,267.30	3,489.10	4,053.10	4.96%	0.54%
Dow Jones Indus. Avg	10,640.83	10,940.55	9,757.81	11,497.12	-1.32%	-1.32%
NASDAQ 100	1,577.82	1,621.12	1,307.82	3,707.83	-2.67%	-2.67%
FTSE 100 (UK)	5,230.80	5,232.20	4,301.50	6,930.20	8.65%	-0.56%
Nikkei 225	11,758.68	11,925.36	10,756.80	19,868.15	2.35%	-6.02%
Mumbai Sensex 30 (India)	**7,271.54**	**7,271.54**	4,951.17	6,602.69	10.13%	9.98%
Thai Stock Exchange	655.46	740.04	588.87	1,280.81	-1.89%	-8.39%
Indonesia Stock Market	1,131.46	1,147.87	746.76	1,000.23	13.12%	7.84%
Philippines Stock Exchange	1,897.08	2,166.10	1,551.23	3,170.56	4.07%	4.82%
Korea Composite	1,059.60	1,059.60	733.95	1,028.07	18.27%	18.52%

*As at 31 Dec 93 - 31 Dec 04

Global Currency Forecasts vs. Forwards (date as at July 14, 2005)

		1 Month		3 Months		6 Months		12 Months	
Currency	Spot	Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
EUR/USD	1.2084	**1.1700**	1.2099	**1.2000**	1.2131	**1.2800**	1.2188	**1.3300**	1.2309
GBP/USD	1.7578	**1.6830**	1.7565	**1.7140**	1.7541	**1.8030**	1.7527	**1.8470**	1.7525
USD/CHF	1.2910	**1.3250**	1.2878	**1.2830**	1.2814	**1.1950**	1.2709	**1.1500**	1.2505
USD/JPY	112.28	**112.00**	111.85	**108.00**	111.16	**100.00**	110.04	**95.00**	107.81
USD/CAD	1.2106	**1.2300**	1.2072	**1.2200**	1.2051	**1.1800**	1.2022	**1.1300**	1.1967
AUD/USD	0.7508	**0.7400**	0.7510	**0.7700**	0.7486	**0.7900**	0.7455	**0.8000**	0.7403
NZD/USD	0.6745	**0.6700**	0.6741	**0.7100**	0.6704	**0.7200**	0.6655	**0.7100**	0.6573
EUR/JPY	135.68	**131.04**	135.32	**129.60**	134.84	**128.00**	134.12	**126.35**	132.70
GBP/JPY	197.37	**188.55**	196.46	**185.14**	194.98	**180.28**	192.87	**175.49**	188.94
AUD/JPY	84.29	**82.88**	84.00	**83.16**	83.21	**79.00**	82.04	**76.00**	79.82
EUR/CHF	1.5600	**1.5500**	1.5580	**1.5400**	1.5544	**1.5300**	1.5491	**1.5300**	1.5392
EUR/GBP	0.6875	**0.6950**	0.6888	**0.7000**	0.6915	**0.7100**	0.6954	**0.7200**	0.7023
EUR/SEK	9.3965	**9.5000**	9.3990	**9.6000**	9.3900	**9.4000**	9.3767	**9.2000**	9.3546
EUR/NOK	7.9261	**7.9000**	7.9338	**7.9000**	7.9342	**7.8000**	7.9385	**7.8000**	7.9540

As of noon London time -- July 14, 2005.

Source: CitiFX Views

Asian Currency Forecasts and Forwards (date as at July 14, 2005)

		Spot	1 Month		3 Months		6 Months		12 Months	
	Range in Jan	13-Jul	Forecast	*Forward*	Forecast	*Forward*	Forecast	*Forward*	Forecast	*Forward*
Versus USD										
Japan YEN	106.72-110.81	111.38	**112.00**	*111.06*	**108.00**	*110.35*	100.00	*109.24*	95.00	*107.02*
Euro EUR	1.2038-1.2329	1.2184	**1.1700**	*1.2197*	**1.2000**	*1.2230*	1.2800	*1.2288*	1.3300	*1.2410*
China RMB	8.2765-8.2765	8.2764	8.2800	*8.2344*	7.8650	*8.1264*	7.8650	*8.0214*	7.8650	*7.8264*
Hong Kong HK$	7.769-7.7837	7.7787	7.7750	*7.7796*	7.7800	*7.7824*	7.7850	*7.7895*	7.7900	*7.8065*
India INR	43.488-43.742	43.53	43.50	*43.63*	43.50	*43.77*	43.00	*43.94*	42.50	*44.14*
Indonesia IDR	9544-9768	9781	9850	*9833*	9650	*9949*	9450	*10026*	9200	*10346*
Malaysia MYR	3.8-3.8	3.8000	3.8000	*3.7944*	3.8000	*3.7913*	3.7200	*3.7781*	3.7200	*3.7535*
Philippines P	54.5-55.96	56.150	56.500	*56.390*	56.250	*56.710*	55.250	*57.210*	56.300	*58.220*
Singapore SGD	1.6605-1.6856	1.6890	1.6900	*1.6869*	1.6550	*1.6820*	1.6100	*1.6736*	1.5800	*1.6567*
South Korea KRW	1003.5-1035	1037.1	1050.0	*1037.3*	1020.0	*1037.0*	980.0	*1035.8*	950.0	*1032.9*
Taiwan TWD	31.218-31.615	31.978	**32.200**	*31.920*	**31.750**	*31.788*	**31.250**	*31.593*	**30.500**	*31.193*
Thailand THB	40.525-41.325	41.860	**42.750**	*41.918*	**42.000**	*41.920*	**41.000**	*41.840*	**40.000**	*41.735*
Vietnam VND*	15849-15875	15874	**15895**	*15935*	**15920**	*16056*	15940	*16236*	16000	*16597*

Note: * State Bank of Vietnam Forward Ceiling Rates
Source: Datastream, Citigroup estimates.

Source: Asian Economic Weekly