



Weekly Roundup

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Chart of the Week – Yellow and black Gold rising again.....

- The technical set up on Gold looks increasingly bullish and we continue to expect further gains
- The picture on Silver also looks constructive and over time it may well outperform Gold.
- Crude Oil (Brent and WTI) both look constructive but have not yet broken out to the upside

Equities – Short-term bounce, but not out of the woods yet

- The price action on major US equity and related indices has been more constructive in recent days but our overall concern of lower levels going forward remains.
- Despite the bounce in recent days the more medium term charts still suggest that we are likely to see renewed losses going forward.

Local Markets – Mixed bag in FX LM

- In general we are seeing stabilization in Local Markets after a rather volatile January though we remain of the bias that this is only the beginning of what will be a trying time for LM FX over 2014.
- In the meantime, there has been clear divergence across LM FX as some of the biggest decliners have seen sharp snap backs over the last few days while other currencies continue to come under pressure
- Some of the currencies that could continue to see pressure are BRL, MXN and RUB, while THB and PHP appear likely to appreciate in the near-term

Chart of the Week – Yellow and black Gold rising again.....

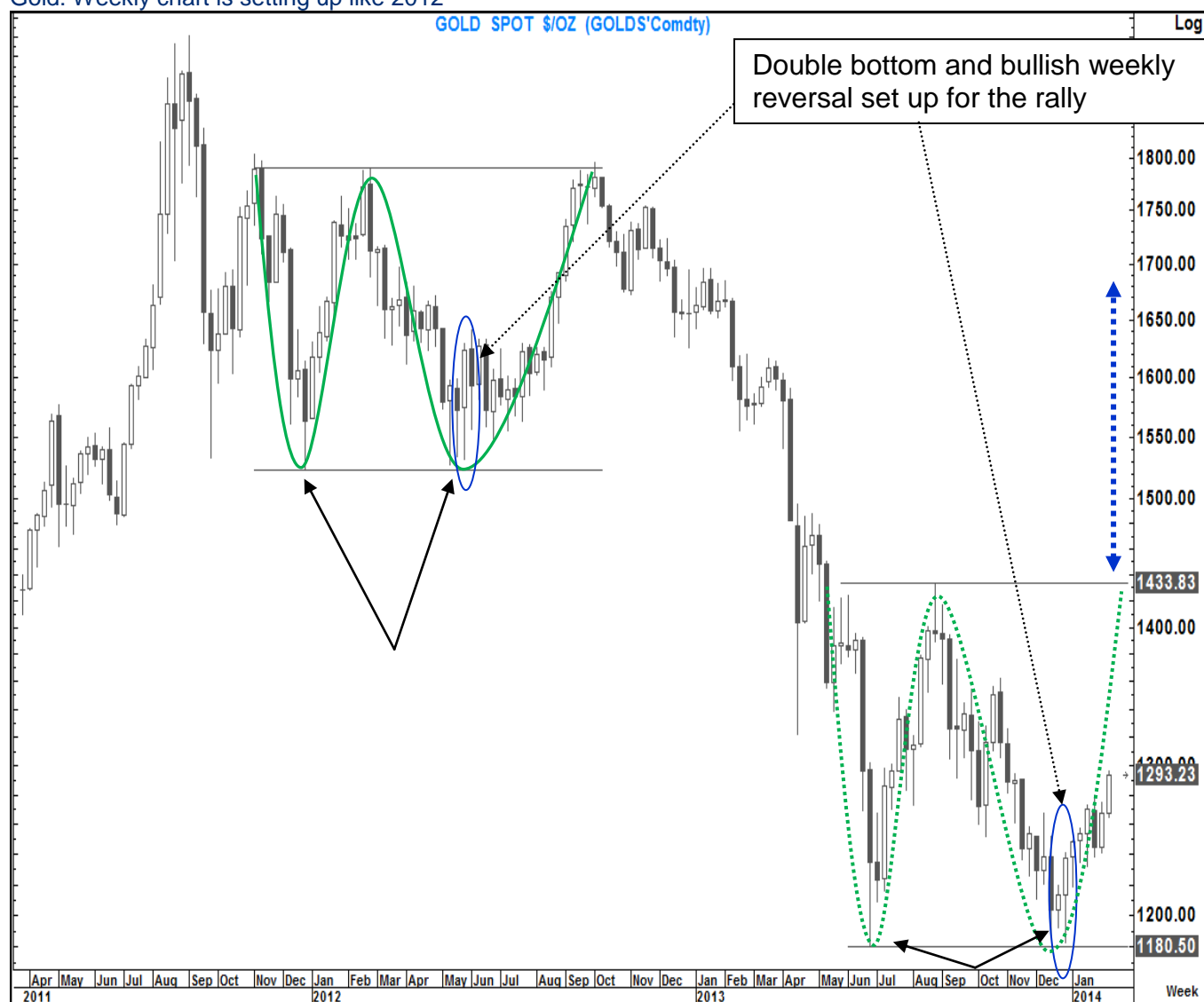
- The technical set up on Gold looks increasingly bullish and we continue to expect further gains
- The picture on Silver also looks constructive and over time it may well outperform Gold.
- Crude Oil (Brent and WTI) both look constructive but have not yet broken out to the topside

Gold: Daily chart looking very constructive



- Following the hold of support just above \$1,180 this chart has gone from strength to strength with a turn higher that took us back above both the 55 day moving average and the downward sloping trend line decisively.
- It is now approaching the 200 day moving average which stands at \$1,305.50. A close above here would further support our view of a move to test major resistance at \$1,434 with interim resistance around the October 2013 high at \$1,362
- The \$1,434 level is a potential neckline for a double bottom formation off the \$1,180.50-1,182.50 level. A weekly close above here, if seen, would suggest extended gains towards \$1,685+
- **As the chart below shows, we may have “seen this movie” before**

Gold: Weekly chart is setting up like 2012



Source: Aspen graphics/Bloomberg February 12, 2014.

- Between December 2011 and May 2012 we saw Gold form a double bottom and post a bullish weekly reversal 2 weeks after the 2nd low was posted. That ultimately led to a test of the double bottom neckline by October 2012 albeit that it was not able to break above that resistance on a weekly close basis (\$1,791)
- This time around we have also seen a double bottom (Between June and Dec 2013) with a bullish weekly reversal posted on the same week that the 2nd low was put in.
- We fully expect that Gold has the potential to once again test the neckline of a double bottom which stands at \$1,434)
- A weekly close above here, if seen, would suggest (as noted above) extended gains towards \$1,685+

Gold : Monthly chart still looks similar to the 1970's



Source: Aspen graphics/Bloomberg February 12, 2014.

- In 1974-1976 as the equity market surged Gold corrected sharply in a move that took it 14% below the 55 month moving average.
- In 2011-2013 as the equity market surged Gold corrected sharply in a move that took it 14% below the 55 month moving average.
- In fact the correction in 1974-1976 was greater in real terms than that seen today (44% versus 29%)
- Between 1976 and early 1980 Gold surged higher again in an even stronger uptrend than that seen from 1969-1974
- If you ignore the surge seen in Dec 1979-Jan 1980 (prompted by the U.S.S.R. invasion of Afghanistan) both impulsive moves (1969-1974 and 1976-1980) saw Gold multiply by a factor of around 5 times. The rally from 2001 to 2011 (Much longer in time) saw gold multiply by a factor of over 7 times.
- A trend from the 2001 low of similar percentage (excluding the USSR invasion pop) as seen in 1969-1980 would suggest we could ultimately see a level of \$3,500...maybe as early as late 2016/early 2017.
- Why is the move much slower this time? Prior to the sharp move from 1970-1980 Gold was suppressed /controlled in a \$15 range for the prior 50 years (\$20-\$35). When it was allowed to float 'freely' the pressure "cooker effect" kicked in to compensate for that period. For more than 30 years leading into 2001 Gold has been relatively freely floating (Albeit with elements of Central Bank interference). As a consequence the "pressure cooker effect" to create really sharp moves over a very short timeframe was not in place this time. While this has still led to significant gains in the first leg higher it has been over a much longer time frame. In contrast the 2nd rally in 1976-1980 came after gold had already had its "pressure cooker break" and had been floating for about 6 years. This suggests that a renewed rally in Gold now could well be more similar in time frame to the 1976-1980 move.

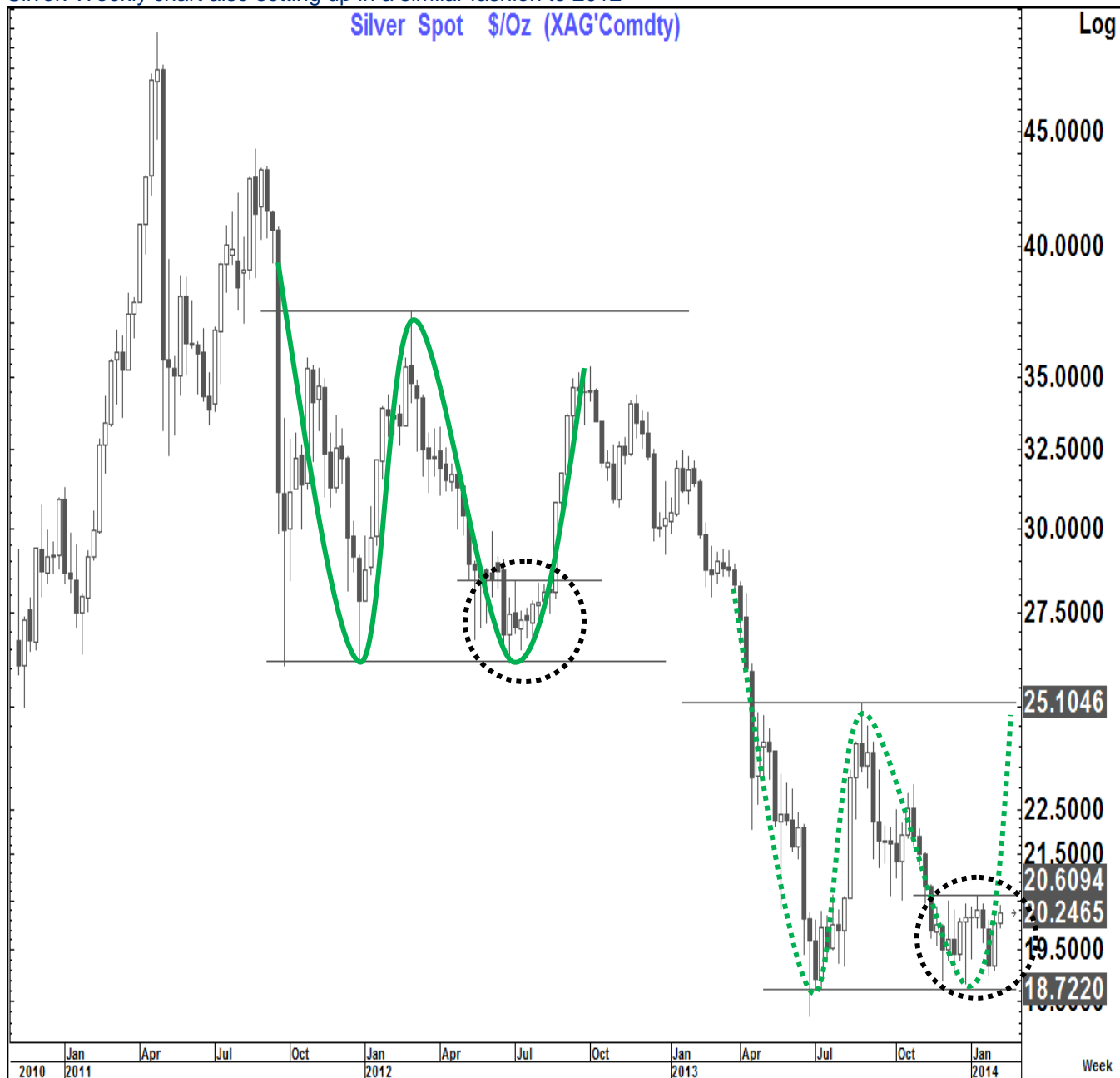
Silver: daily chart setting up nicely.



Source: Aspen graphics/Bloomberg February 12, 2014.

- Silver has also broken above the downward sloping trend line and the 55 day moving average and looks to be forming a shorter term double bottom. The neckline stands at \$20.60 and a break would suggest a move towards \$22 which would take it above the 200 day moving average at \$21.07.
- Further resistance is met at \$23.09 (October 2013 high) and then the most important level is the longer term double bottom neckline at \$25.10.
- A weekly close above here, if seen, would suggest extended gains towards \$31+
- If both the Gold and Silver longer term double bottoms were completed and targets reached (\$1,685 in Gold and \$31 in Silver) that would suggest a **Gold versus Silver ratio of about 54** compared to the present level of about 64 (So Silver to outperform Gold by about 50% - A move of about 45% in Silver versus 30% in Gold)

Silver: Weekly chart also setting up in a similar fashion to 2012

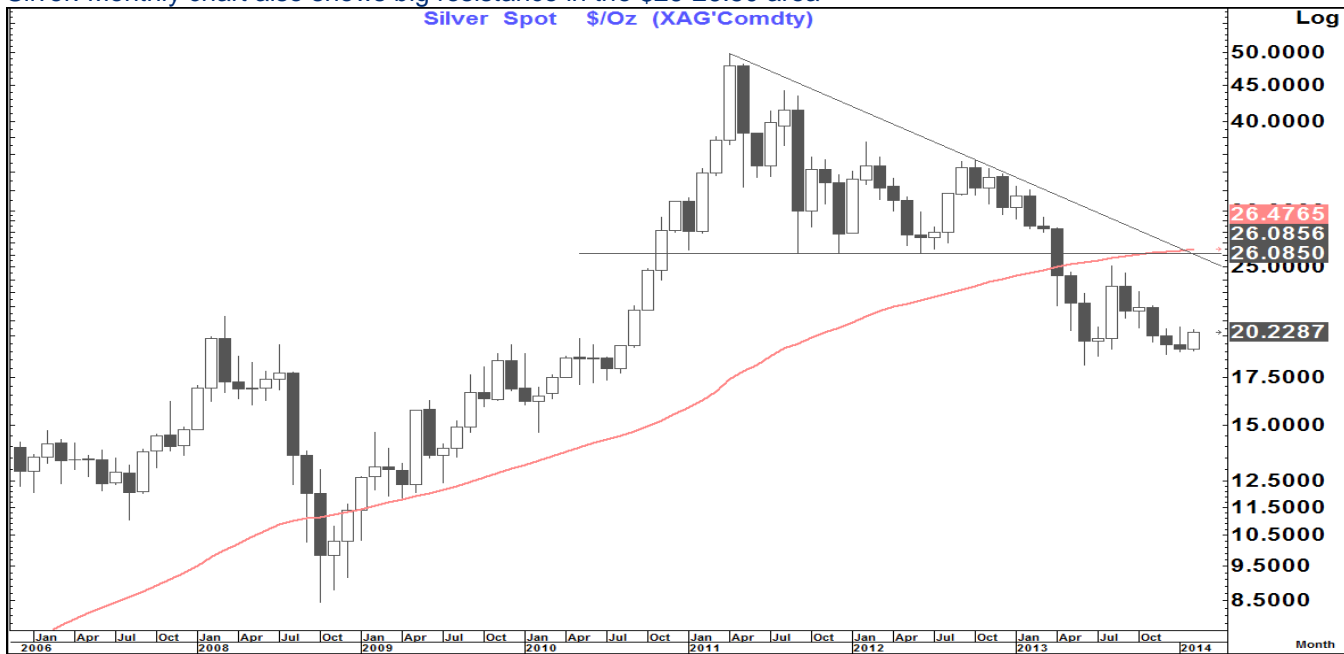


Source: Aspen graphics/Bloomberg February 12, 2014.

- In 2012 Silver did rally strongly off its base but just fell short of the neckline around \$37.50 before falling again.
- A decisive break above the \$20.60 level (Weekly close) should yield an acceleration towards the important \$25.10 level
- However, it is a weekly close above this level, if seen, that would suggest the much bigger move towards \$31+

Market Commentary | February 13, 2014

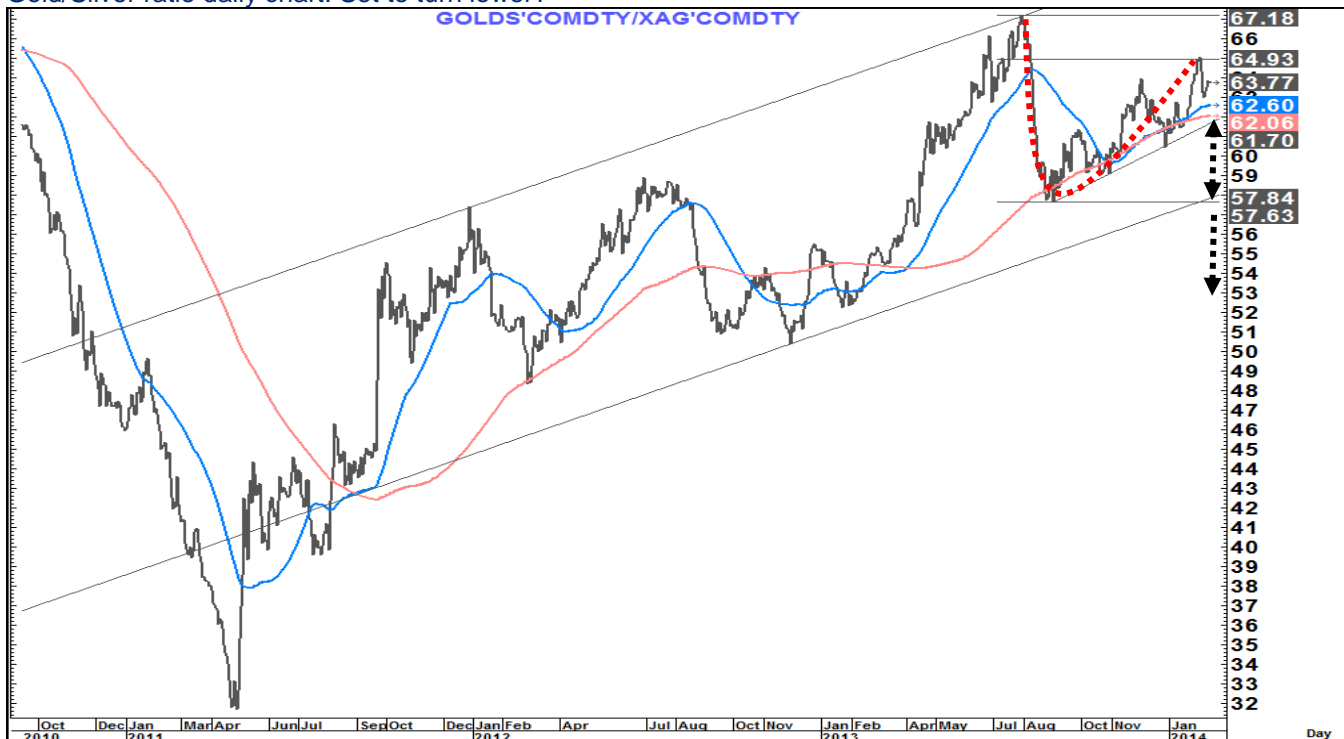
Silver: Monthly chart also shows big resistance in the \$26-26.50 area



Source: Aspen graphics/Bloomberg February 12, 2014.

- This is where the downward sloping trend line, the horizontal resistance and the 55 month moving average converge.
- Regaining these levels on a monthly close basis would suggest a very constructive outlook and make that \$31 area look very achievable.

Gold/Silver ratio daily chart: Set to turn lower?

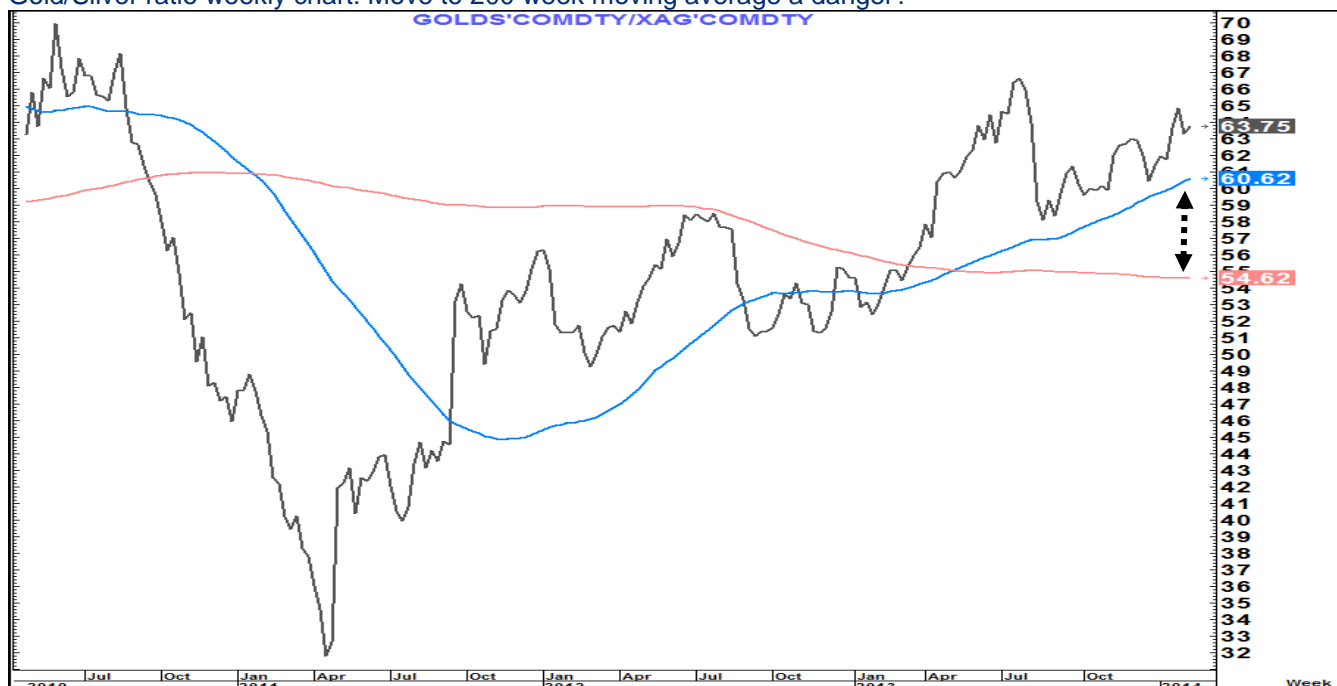


Source: Aspen graphics/Bloomberg February 13, 2014.

- The bounce in this ratio since August last year has so far peaked at the 76.4% pullback of the July-August fall.
- Initial support is met between 61.70-62.60 (Rising trend line and 55/200 day moving averages).
- More important support stands between 57.63 and 57.84 (Pivot off which the 76.4% pullback was posted and channel base). A close below here would suggest an acceleration of losses to the downside

Market Commentary | February 13, 2014

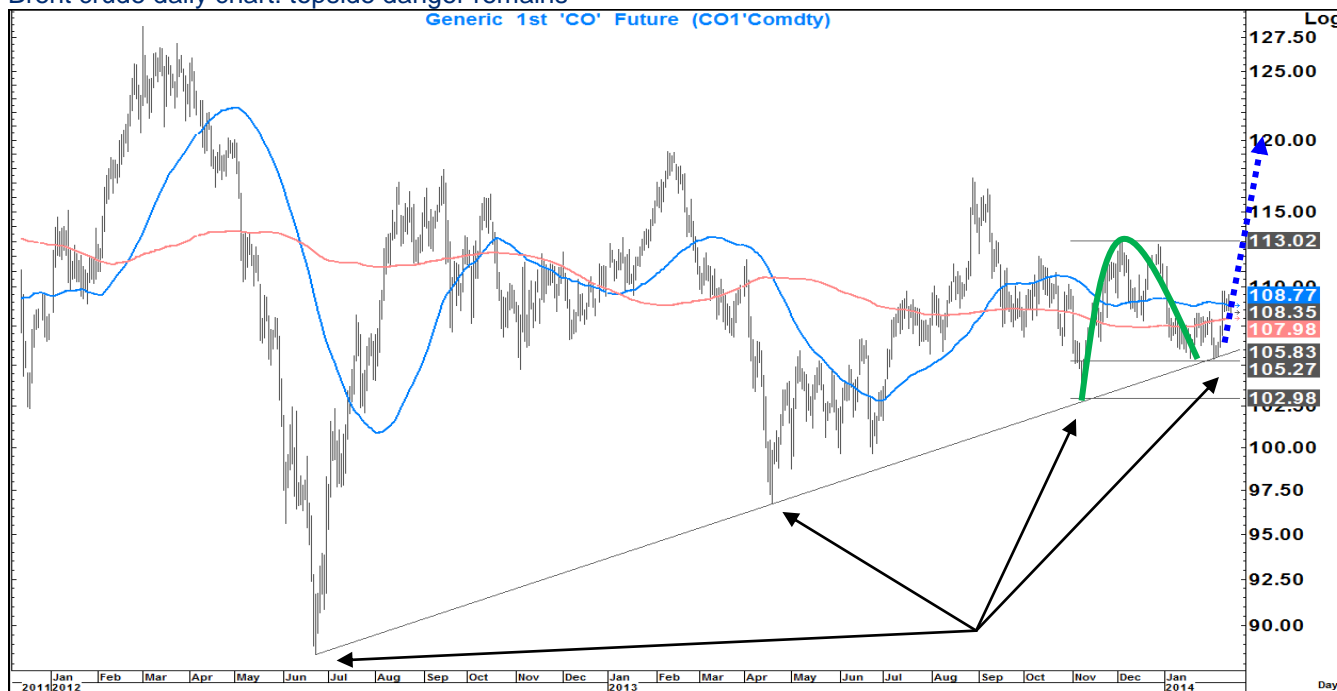
Gold/Silver ratio weekly chart: Move to 200 week moving average a danger?



Source: Aspen graphics/Bloomberg February 13, 2014.

- Further support could be seen at the 55 week moving average which stands at 60.62. In addition there is a decent gap to the 22 week moving average at 54.62 (Very similar to the level of 54 mentioned above if our extended targets for Gold and silver were achieved)

Brent crude daily chart: topside danger remains



Source: Aspen graphics/Bloomberg February 13, 2014.

- Having held rising trend line support in November and again in February as it posted a double bottom off the 76.4% pullback the Brent crude chart looks constructive.
- It is now consolidating around the converged 55/200 day moving averages but we would still expect a test of good resistance around \$113 going forward. A break above here (the pivot off which the 76.4% pullback was posted) would suggest accelerated gains to test the August 2013 high at \$117.34 and possibly the Feb 2013 highs at \$119.17

Brent crude weekly chart: Very strong base forming



Source: Aspen graphics/Bloomberg February 13, 2014.

- Technical developments here look very constructive
 - Hold yet again of 200 week moving average
 - Strong bounce off that support with bullish outside week last week.
 - Pattern looks clearly like a triangle/consolidation over last 2 years.
- We ultimately expect a test of the top of this triangle just above \$114 and a potential breakout to re-test the double highs from 2011-2012 at \$127-128.40
- A weekly close over that latter range would suggest continued gains towards the 2008 highs at \$147.50

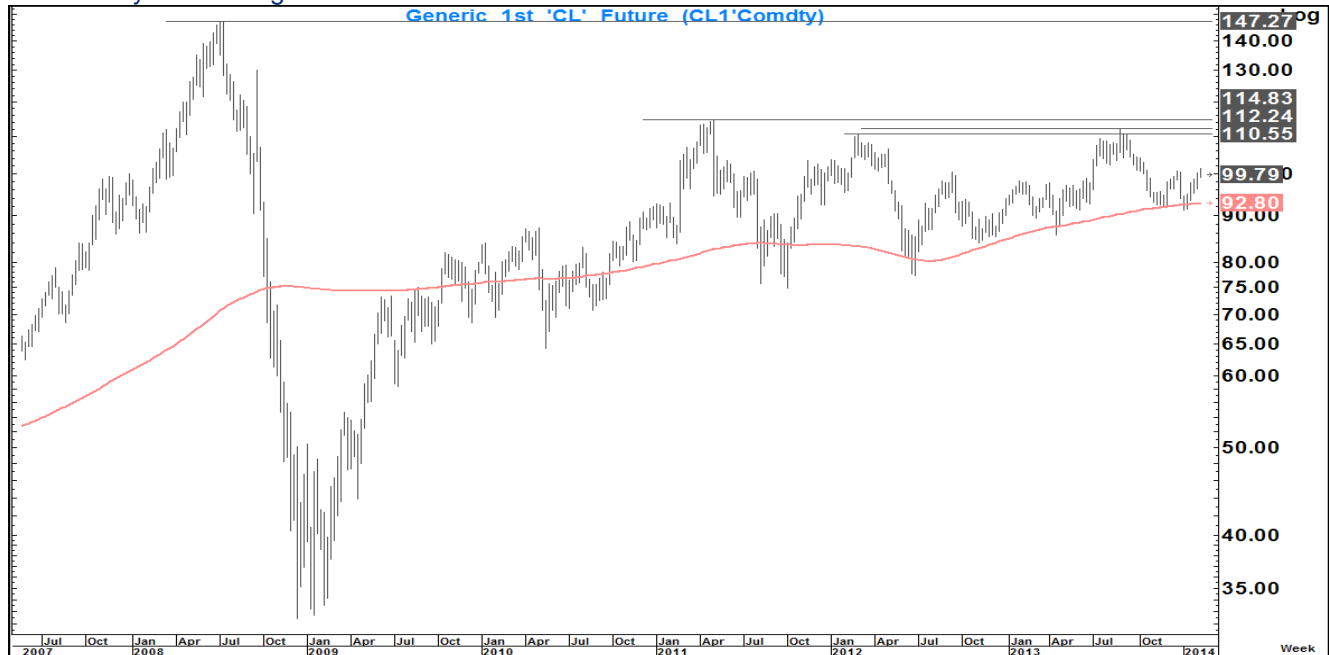
WTI crude daily chart: Trying to complete a double bottom



Source: Aspen graphics/Bloomberg February 13, 2014.

- Pattern again looks constructive here as WTI is trying to complete a double bottom with a neckline at \$100.75.
- A close above here would suggest extended gains towards \$110+

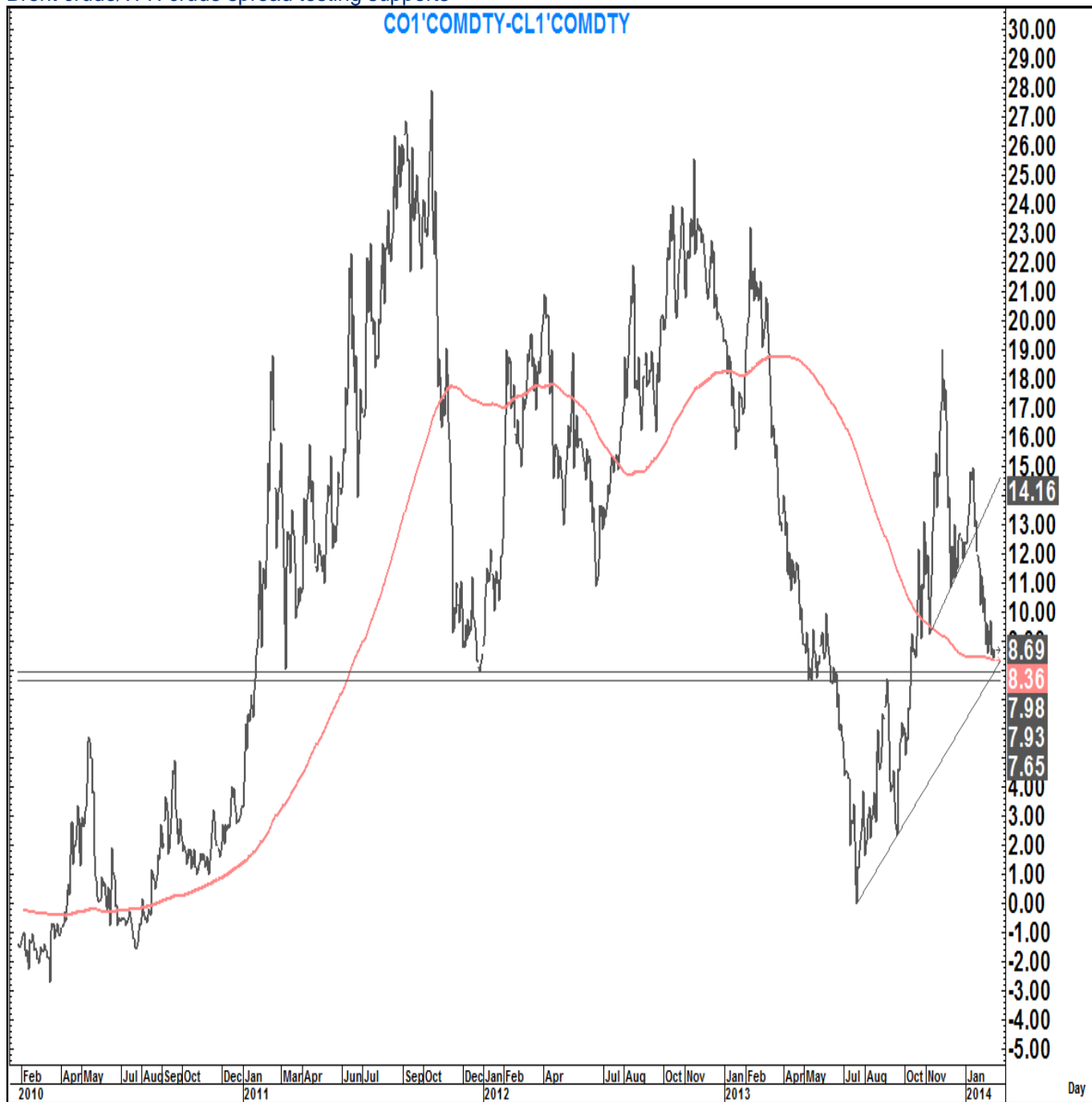
WTI weekly chart has good resistance above



Source: Aspen graphics/Bloomberg February 13, 2014.

- Trend line resistance is met at \$110.55; \$112.24 and \$114.83
- Above here and levels to watch are
 - \$120.16 : 76.4% pullback of 2008-2009 fall (Not shown)
 - \$130: Spike high in Sept. 2008
 - \$147.27: All-time high.

Brent crude/WTI crude spread testing supports



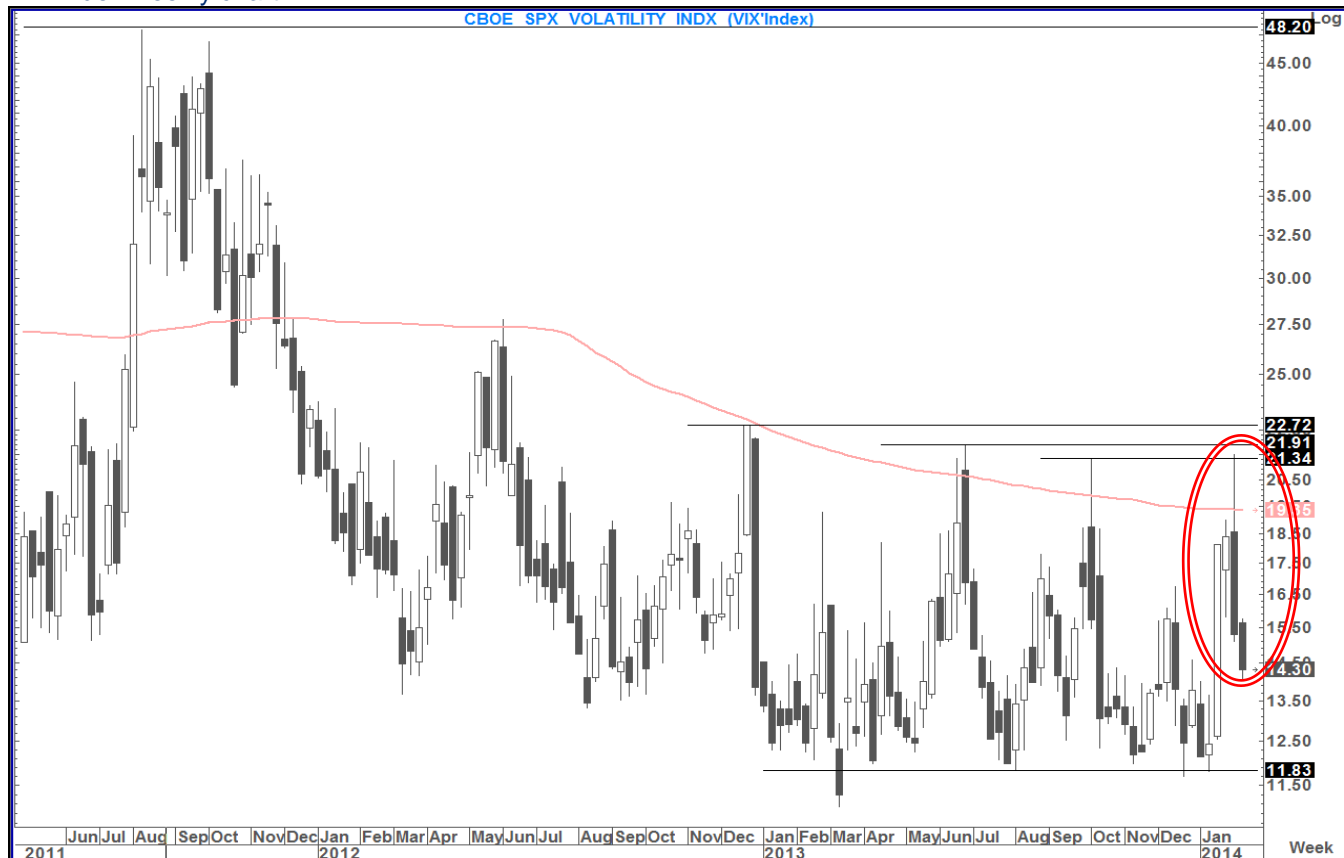
Source: Aspen graphics/Bloomberg February 13, 2014.

- Good horizontal support on this spread is met in the 7.65-7.98 area and the 200 day moving average stands at 8.36
- A close below this range, if seen, would suggest further narrowing of this spread is likely.

Equities – Short-term bounce, but not out of the woods yet.

- The price action on major US equity and related indices has been more constructive in recent days but our overall concern of lower levels going forward remains.
- Despite the bounce in recent days the more medium term charts still suggest that we are likely to see renewed losses going forward.

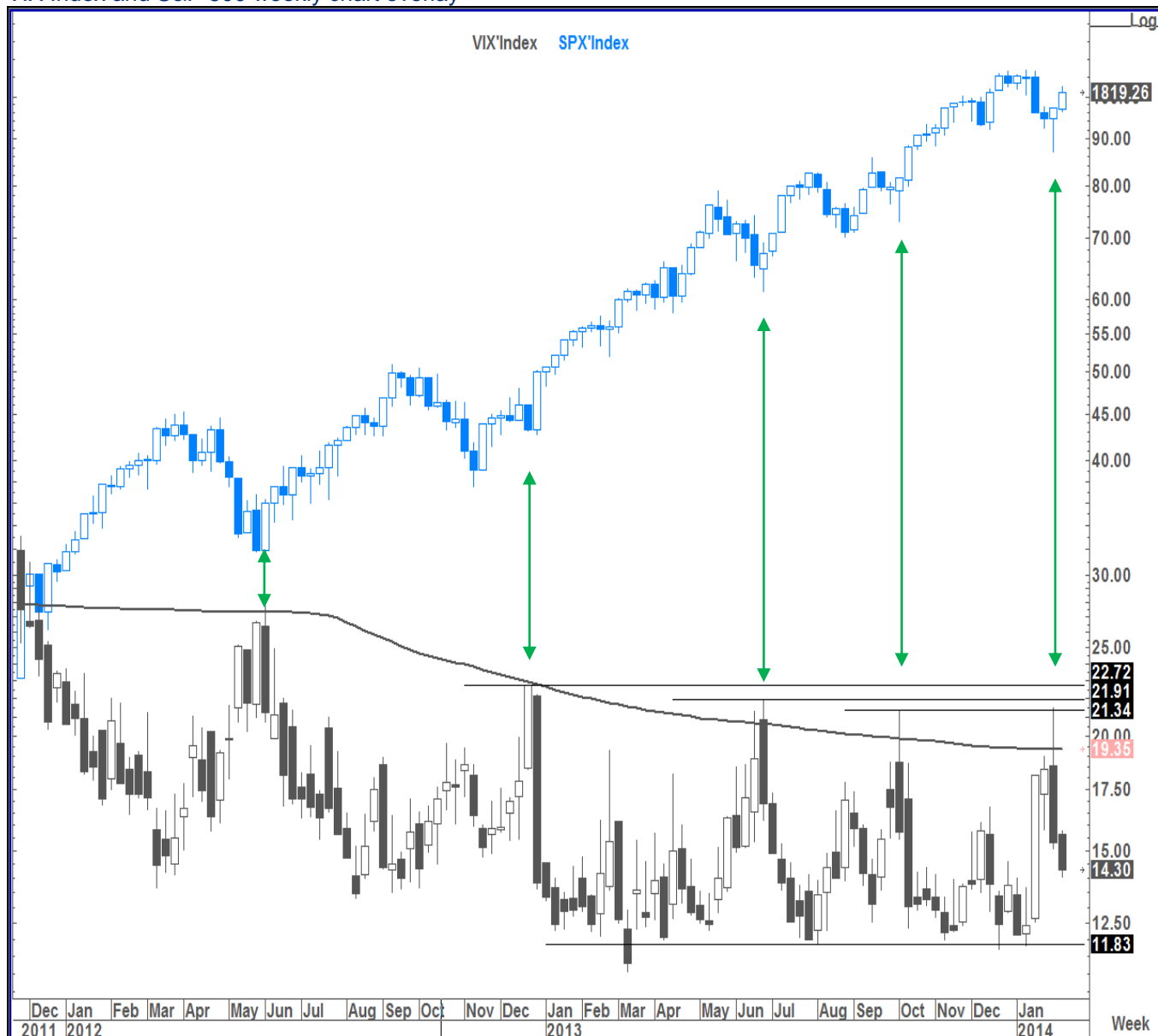
VIX Index weekly chart



Source: Aspen graphics/Bloomberg February 12, 2014.

- The VIX Index failed to post a weekly close above the 200 week moving average at 19.37% last week. This is similar to the prior 4 occasions in 2012-2013 when the market traded above the 200 week moving average but did not close above it
- Instead it has turned down after testing resistance levels in the 21.34%-21.91% area and posted a bearish weekly reversal last week
- This suggested lower levels were likely to be seen in the short term which, as a minimum, indicated a consolidation on the S&P 500 if not a bounce. We saw signs of that dynamic materialize this week.

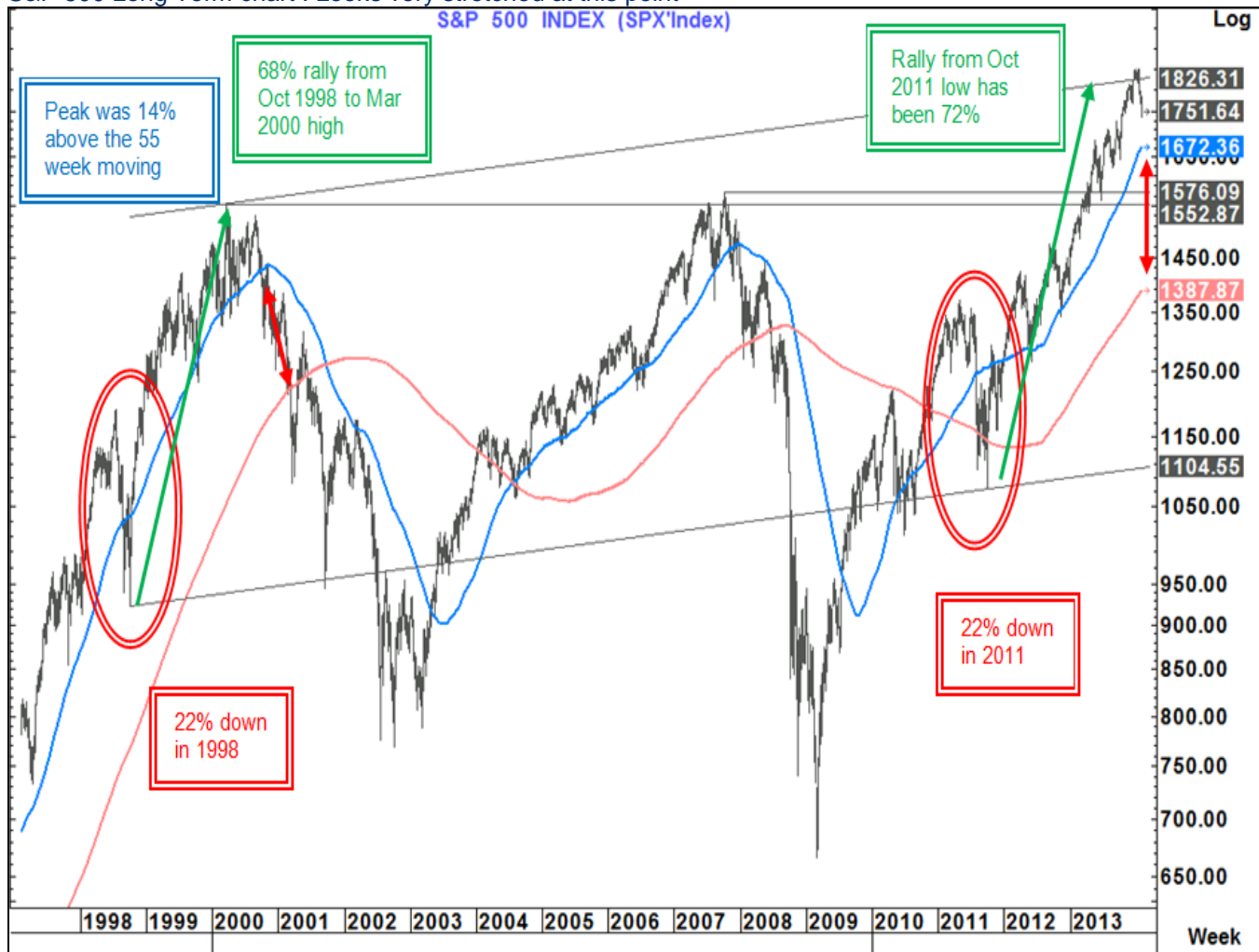
VIX Index and S&P 500 weekly chart overlay



Source: Aspen graphics/Bloomberg February 12, 2014.

- Previous examples of the VIX turning down have come hand in hand with a good interim low on the S&P 500, which posted a clear weekly hammer pattern last week
- This strongly supported the idea that the near term was likely to see a more stable market for a time although it still appears “stretched” on the longer term charts...

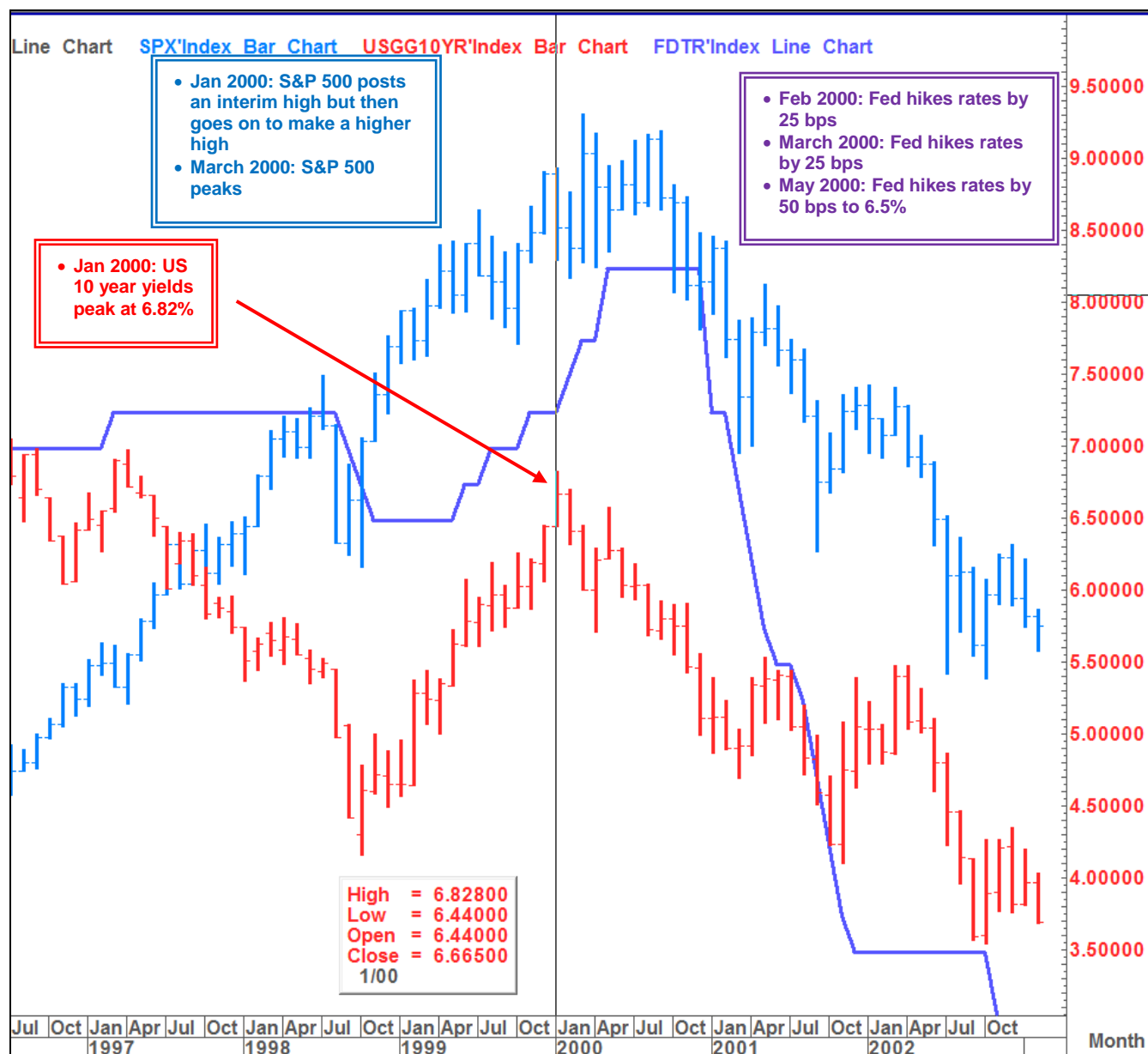
S&P 500 Long Term chart : Looks very stretched at this point



Source: Aspen graphics/Bloomberg February 12, 2014.

- As we can see on the refreshed long term chart, the rally seen after the 22% correction down in 2011 has been similar to that seen after the 22% correction down in 1998
- From that 1998 low, we rallied 68% to the 2000 high
- So far we have rallied 72% since the October 2011 low
- We are as stretched to the 55 week moving average as we were then and there is also a sizable gap between the 55 week and 200 week moving averages
- In 2000, the market fell quite sharply in Jan - the S&P 500 was down 140 points or 10% in January before turning back up and making a higher high in March that year.
- But what gave the leading indication???

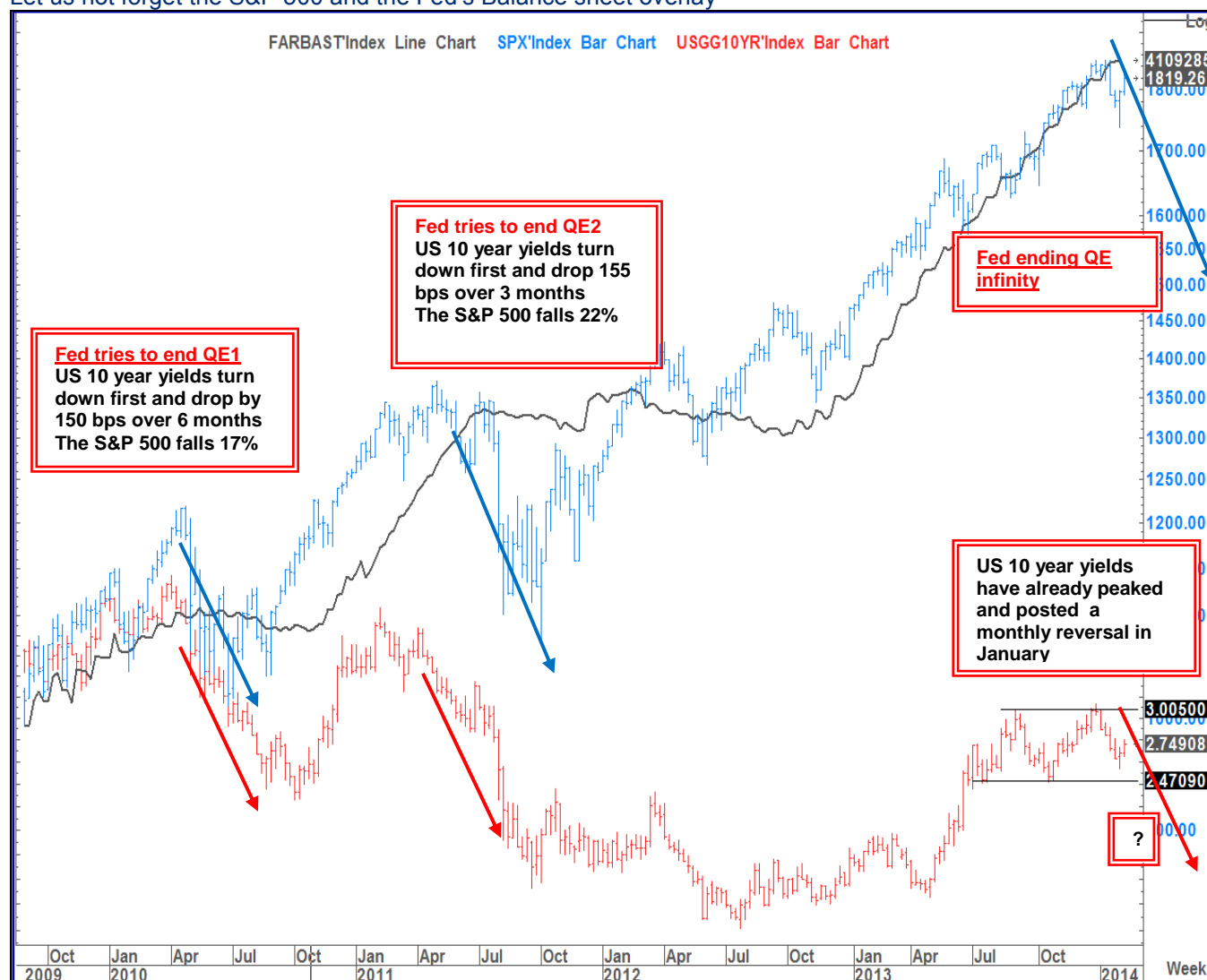
S&P 500 in 2000 overlaid with Fed Funds rate and US 10 year yields



Source: Aspen graphics/Bloomberg February 12, 2014.

- US 10 year yields hit a trend high in January 2000 while the correction down in Jan on the S&P 500 was quickly followed by a bounce back to make a higher high in March. The Federal Reserve had begun tightening in Summer 1999 and continued to hike until May but long-term yields had already stopped going up and were actually trending down by the time the hiking stopped.
- What we learn from this is that eventually tightening in policy had its role to play in ending the stock market rally and, as is very often the case, the fixed income markets gave the leading indication.
- This time, the Federal Reserve is adjusting its balance sheet through tapering. At the present QE would come to an end in September/October this year.
- Once again, the fixed income markets appear to be giving the leading indication. The Fed tapering has started yet yields are lower than when tapering was announced. When the Fed tried to end QE1 and QE2, the same thing happened...yields went down first and equity markets came under pressure
- At the same time we have elevated (and potentially rising) oil prices as we did in 2000. In addition, mortgage rates have aggressively spiked over the last year by the most (on a percentage basis) since, interestingly enough, 1999 into 2000. One of our favourite "Techamental" charts –consumer confidence (not included) also looks like it could be peaking in a fashion similar to 2000 and 2007 before the Equity market also peaked.

Let us not forget the S&P 500 and the Fed's Balance sheet overlay

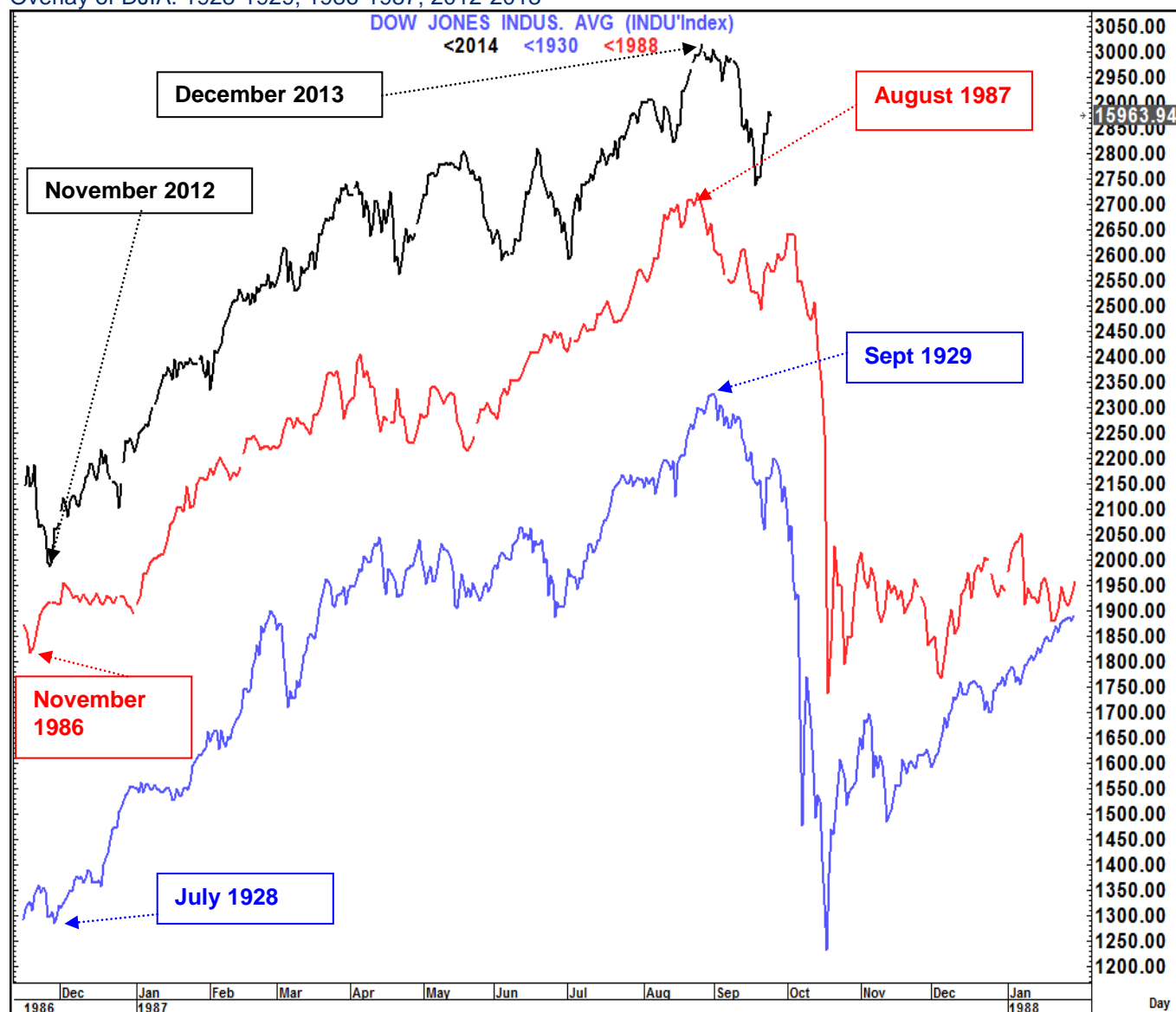


Source: Aspen graphics/Bloomberg February 12, 2014.

- Since (in our opinion) the single most important factor behind the stock market rally has been the expansion of the Fed's Balance sheet, this remains a key background dynamic in the sustainability of (or rather lack of) the equity market rally from these elevated levels.
- In addition US 10 year yields have already started to move down and the monthly reversal seen in January is an important sign that lower yields can still be seen (a monthly reversal lower was also seen on US 30 year yield)
- It should also be noted that in every year since 2009 (and there are plenty of other examples throughout history), the equity market has posted a decent correction down from April/May during periods in which the Fed's balance sheet was flattening out
- **This overview remains a work in progress. What we can say with a little more confidence is**
 - The long term charts show a stretched market with the multiyear rally now at a very mature stage in the S&P 500
 - The background dynamics at the Federal Reserve cannot be ignored since their expanding balance sheet was the most important factor behind this stock market rally
 - While price action may remain choppy near term there are signs that the market may well be close to if not at a peak.

At this point most readers may well have seen some version of the chart below which is “doing the rounds”. As a consequence we should comment on it.

Overlay of DJIA: 1928-1929; 1986-1987; 2012-2013



Source: Aspen graphics/Bloomberg February 13, 2014.

- Overall there is no doubt that the shape of these patterns is similar but there are important differences
- In the **13.5 month rally** into the **1929** peak the market rose about 85%
- In the 11 month rally into the 1987 peak the market rose about 56%
- In the **13.5 month rally** into the Dec **2013** peak the market rose about 33%

So while they are all directionally similar the magnitude of the 1929 and 1987 moves in pretty much the last year of the trend was more aggressive than today.

That resulted in falls of around 48% and 41% respectively in around 2 months in those instances. Even if a strong correction were to materialize a move of 1929 or 1987 proportions looks a stretch.

Overall, when we look closely the pattern of the present move is definitely more similar to that seen in 1928-1929 as we can see below.

Overlay of 1928-1929 price action with that seen in 2012-2013



Source: Aspen graphics/Bloomberg February 13, 2014.

- So what needs to happen for this overlay to remain valid?
 - Yesterday's high should be difficult to overcome (Albeit that is not a game changer. The 1987 bounce took longer (8 trading days and between 61.8% and 76.4%. That would give levels of 16,100-16,300)
 - More importantly, for these overlays to retain the potential to follow the historic periods the market should
 - Not set a new high in this bounce
 - Move lower and break the lows posted at 15,340 on 05 Feb, at which point an acceleration would be expected.
- In that instance, what would this chart suggest?
 - Using the sized overlay above it would suggest a fall towards 12,300 (high to low move of 25%+). This is not inconsistent with our view that a correction of 20%+ could be possible given the stretched nature of this market.
- Here is what we struggle with in all honesty.
 - Both this chart and the 1987 overlay would both suggest that that move would take place within the next month. i.e. that a "crash" or a "flash crash" is imminent.

- This 1929 overlay is “all over the street”.
- While we do not struggle with the idea of a strong 20%+ correction we are struggling with what “catalyst” could create a move of that speed. In addition, we feel there is a poor track record for charts like this when everybody down to the “shoeshine guy” is talking about them. That is not to say that it is not possible and we should monitor accordingly, but it is difficult to make that the base case.
- So we will monitor the price action carefully and watch for developments noted lower which would elevate our concerns in that respect. In the absence of these developments taking place we would caution against jumping on this 1929 “train” that is leaving the station.

So what **WOULD** concern us?

- A hold around here on the **DJIA** and **S&P** in the coming days and a subsequent breach (close) of **15,340** and **1,737** respectively.
- A weekly close below the 55 week moving averages
 - DJIA at 15,260
 - S&P at 1,679.
 - Their respective 200 week moving averages stand at 12,935 (22% off the peak) and 1,391 (25% off the peak)
- A monthly close below their 12 month moving averages
 - DJIA at 15,393
 - S&P at 1,701
- A weekly close on the VIX above
 - The 200 week moving average at 19.35%. This is something it has tried but failed to do on 4 separate occasions since June 2012.
 - A weekly close above 21.34-21.91%. This would create a clear double/triple bottom and suggest a move to at least 31%+. The last time we saw a move of that magnitude was in August 2011 at the heart of a correction in the S&P that saw it 22% off the year’s high by October. In that same period the high to low move on the DJIA was 19%.

So bottom line:

- We respect the magnitude of the move suggested by the overlays above as it fits with our view that a 20%+ correction remains very possible for the Equity market.
- We still need to see more building blocks take place to convince us that this move has begun.
- However, even if that is the case our base case scenario would be that it would likely be over a longer period of time (9-12 months) than the “flash crash” dynamic suggested by the charts above.
- This remains a “work in progress” and we will focus closely on this in the days and weeks/months ahead.

Local Markets – Mixed bag in FX LM

- In general we are seeing stabilization in Local Markets after a rather volatile January though we remain of the bias that this is only the beginning of what will be a trying time for LM FX over 2014
- In the meantime, there has been clear divergence across LM FX as some of the biggest decliners have seen sharp snap backs over the last few days while other currencies continue to come under pressure
- Some of the currencies that could continue to see pressure are BRL, MXN and RUB, while THB and PHP appear likely to appreciate in the near-term

USDBRL on the verge of breaking out again



Source: Aspen graphics/Bloomberg February 12, 2014.

- This has been one of our favorite long-term Local Market charts and it shows that USDBRL continues to grind higher within the upward sloping channel that began in 2011
- Within that channel, each move higher has then seen a pullback to the prior high before going on to make a new higher high within the trend
- Most recently, we have once again seen this develop as USDBRL went on to re-test the previous high in October and has since been grinding higher
- It is now in the process of testing the 2013 high around 2.45 and should we see a similar dynamic to that seen on the previous occasions it would suggest USDBRL will break higher through there setting a new higher high in this uptrend
- Important resistance comes in around 2.56-2.62 and we would expect this area to be tested on a break through resistance
- Longer-term, we continue to be of the bias that a large double bottom is developing with the neckline at 2.62 and a break through there, if seen, would suggest that USDBRL will ultimately head towards 3.70 (with good resistance beyond there at 4.00, the all-time high)

USDMXN breakout still valid but resistance needs to be broken before the rally can continue



Source: Aspen graphics/Bloomberg February 13, 2014.

- USDMXN recently broke out of a consolidating triangle pattern which suggested higher levels were likely
- We did in fact see a push higher but since then appear to be consolidating once again, albeit at higher levels than the triangle consolidation
- Overall we are still of the bias that higher levels will be seen in USDMXN; however, we would like to see a break on weekly closing basis through resistance around 13.46 before expecting the next leg of the rally to begin (as a reminder, USDMXN failed to close through there on a weekly basis on multiple tests over the last few weeks). A break through 13.46, if seen, then opens the way towards 14.07, the downward sloping trend line, and through there potentially 14.60, the 2012 high.

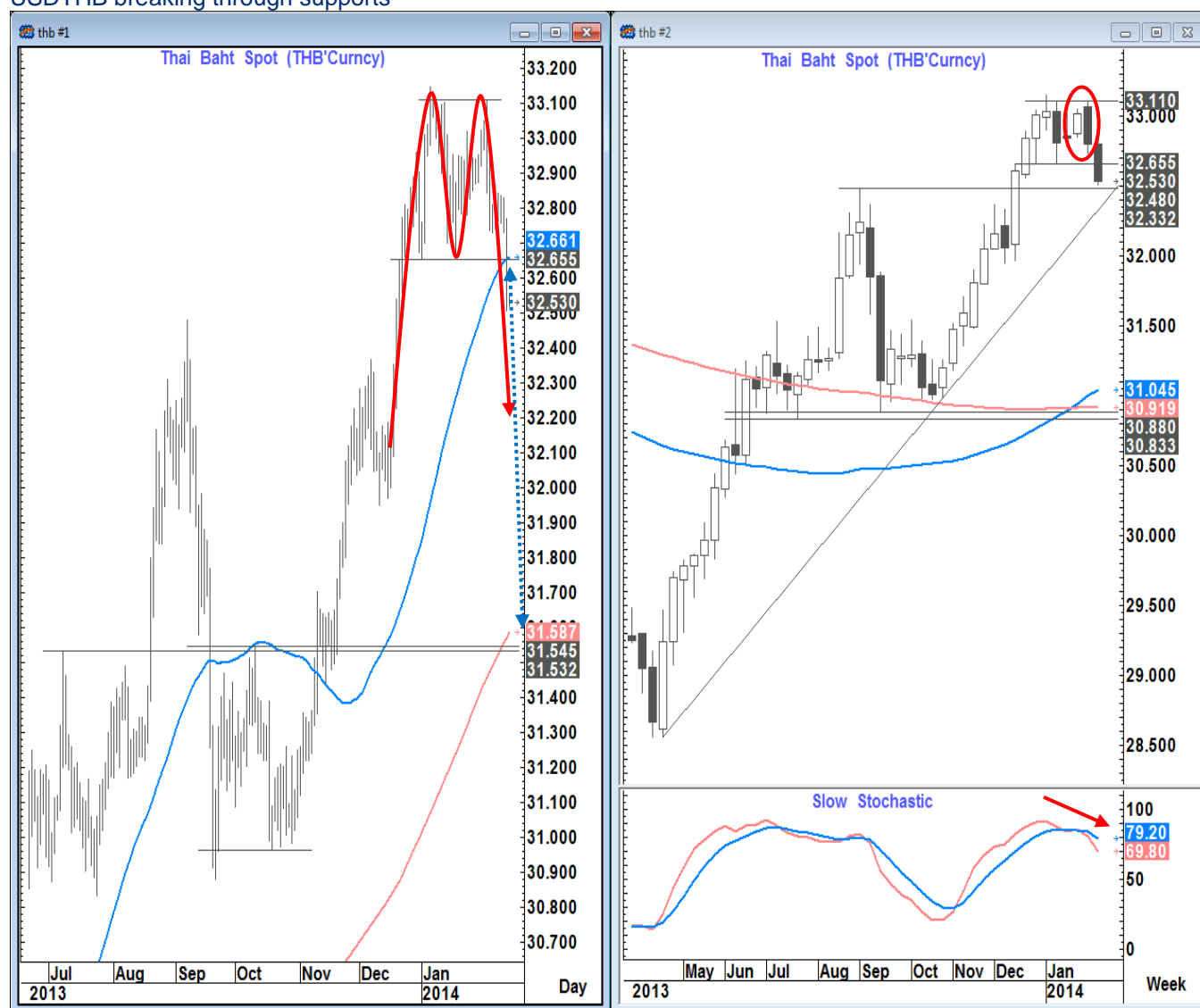
USDRUB – next target is 36.55 and then 37.56



Source: Aspen graphics/Bloomberg February 12, 2014.

- It is difficult to argue with the uptrend as we remain above the 2012 high of 34.14
- While near term consolidation is possible the trend remains up and a test of the 2009 high at 36.55 is expected
- Beyond that the “channel” top is at 37.56

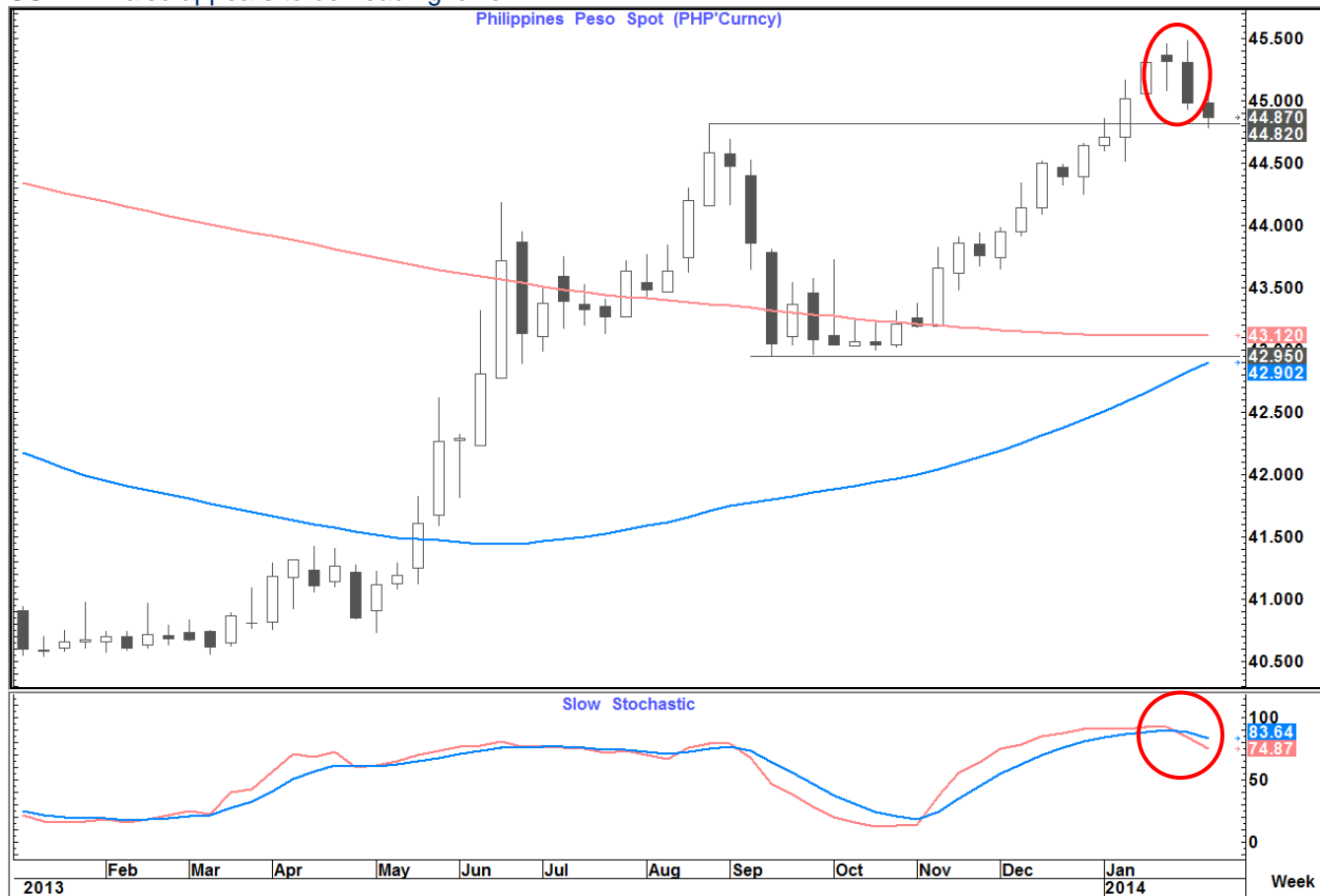
USDTHB breaking through supports



Source: Aspen graphics/Bloomberg February 12, 2014.

- USDTHB has broken below supports around 32.65 including the 55 day moving average and the neckline of a double top which targets **32.20**. There is additional support around 32.40, the converging September high and upward sloping trend line, which needs to be broken through first.
- Should we see such a break, there is a real possibility that USDTHB extends past the double top target towards the **31.50-31.60** area which includes the 200 day moving average and the July and October highs (this also served as the breakout area for the rally in August and the neckline of the double bottom that led into the most recent rally)
- An even deeper correction could take USDTHB towards 30.83-31.05, where the 55 and 200 week moving averages converge with the lows from July and September
- As a reminder, this recent move lower began with a bearish outside week near the trend highs and there is momentum divergence (not triple), all of which supports a move lower in USDTHB

USDPHP also appears to be heading lower



Source: Aspen graphics/Bloomberg February 13, 2014.

- Similarly USDPHP posted a bearish key week at the trend highs last week as momentum turned lower from historically stretched levels. Support around 44.82, the August high, is currently being tested
- A break below there opens the way towards support around 42.90-43.10, the converging 55 and 200 week moving averages and the lows from September

Portfolio update:

Position, Instrument and date	Comment	Entry price, stop	Target	Exit date and price	Profit/Loss	% of Capital used
Short EURUSD 18 Dec2013	<ul style="list-style-type: none"> We remain of the bias that USD will exhibit a strong broad based outperformance next year and in particular believe EURUSD can ultimately move as low as 1.20 in 2014. In the medium term, EURUSD may already be turning lower and beginning the downward trend we expect for next year. 	1.3692 S/L 1.3930	1.3250-1.33	----	-----	20%
Long USDMXN 24 Jan 2014	<ul style="list-style-type: none"> Bullish outside week and break through the top of the triangle consolidation after holding the 55 and 200 week moving averages as support 	13.45 S/L 13.15	14.09+	----	-----	15%
Short AUDUSD 10 Feb 2014	<ul style="list-style-type: none"> Setting up for an evening star-esque pattern off of the 76.4% retracement of the January decline It appears the downward trend is resuming for AUDUSD 	0.8933 S/L 0.9095	Initially 0.8660 and potentially 0.80	----	-----	18%
Total Capital Used						53%

Source: Aspen Graphics / Bloomberg February 13, 2013.

Short-term conviction views¹:

Instrument	View / Comment	Date Established	Target	Level today
USD Index	<ul style="list-style-type: none"> Double bottom pattern indicates a rally to 81.90 	06 Jan 2014	81.90	80.49
Gold	<ul style="list-style-type: none"> Bullish weekly reversal and weekly momentum crossing up as we bounce from the lows set in 2013 A decent bounce should be seen to \$1,433 	06 Jan 2014	\$1,361 then \$1,433	\$1,297
USDKRW	<ul style="list-style-type: none"> Weekly hammer patten Held the support level at 1048 Bearish outside week on Kospi which is beginning to make lower highs and lower lows 	06 Jan 2014	1,080-1,090 Target area met. A rally through the 200 day moving average opens the way for 1107	1,066
EURUSD	<ul style="list-style-type: none"> Shows a convincing double top (ignoring the spike high on 27 Dec) while there is a clear double bottom on the USD Index 	08 Jan 2014	1.3440	1.3669
USDMXN	<ul style="list-style-type: none"> Bullish outside week and break through triangle consolidation 	21 Jan 2014	13.46 and possibly 14.09 Initial target met. Gains to 14.09 expected	13.33
USDBRL	<ul style="list-style-type: none"> Hammer pattern at the lows where several levels have held as support (55 day moving average, parallel of the trend across the lows and horizontal supports) 	21 Jan 2014	Target met (2.41) Extended to 2.62	2.41
US 10 year yield	<ul style="list-style-type: none"> Closed below the 55 day moving average and rising trend line suggesting a move down to the 200 day moving average at 2.54% 	22 Jan 2014	2.59% (200 day moving average) Target met and extended to 2.47%	2.74%
USDTHD	<ul style="list-style-type: none"> Bullish break to new trend highs and reverse head and shoulders strongly suggests higher levels ahead will be seen 	27 Jan 2014	30.71 and then 31.54	30.36

Source: Aspen Graphics / Bloomberg February 06, 2013.

¹ Convictions represent the views of the CitiFX Technicals staff and not actual trades.



Contacts

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