1 APRIL 2020

Growth Likely to Deteriorate Before Bottoming

Data on China's services Purchasing Managers Index (PMI) on 18 March showed an unprecedented collapse in the non-manufacturing PMI and is likely a sign for other economies. Due to the dependence of advanced economies on the services sector, these historic PMIs which came in far worse than the global financial crisis for Euro Area (EA) and Japan, led Citi analysts to further revise down GDP projections. 2020 global GDP is now seen contracting by 1.6% YoY (-2.9pp). Advanced Economies are projected to contract by 3.6% YoY (-3.8pp) and Emerging Markets, while positive, have also been revised down to 1.1% YoY (-1.9pp) in 2020.

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Market Performance

In the US – the Dow Jones Industrial Average fell 13.74%, S&P 500 retreated 12.51% and Nasdaq Composite declined 10.12% in March.

In Europe, the European Stoxx 600 fell 14.80% and the FTSE100 retreated 13.81%. In Japan, Nikkei 225 and Topix declined 10.53% and 7.14% respectively.

MSCI Emerging Markets fell 15.61% in March. MSCI Latin America and MSCI Emerging Europe retreated sharply, down 34.63% and 23.06% respectively.

In Asia, MSCI Asia ex Japan declined 12.24% for the month, with the India BSE Sensex Index under-performing, down 23.05%.

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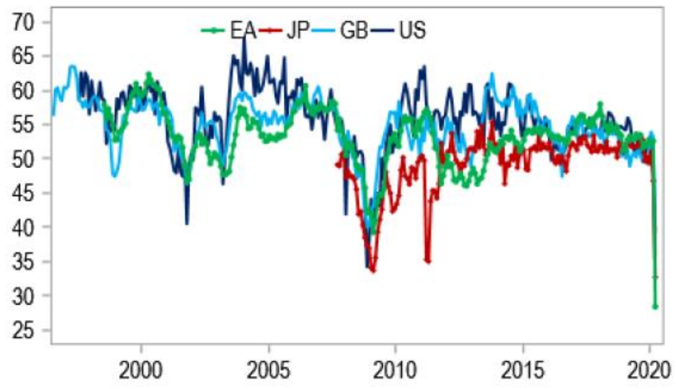
- Looking at Chinese data, Citi analysts believe it takes more time for the consumer to return to normalcy than for manufacturing to recover. This delay is of particular concern for services-dependent advanced economies, and some tourist-dependent EMs.

- In Citi's updated forecasts, Europe stands out with 4 quarters of deep recession (YoY basis) to yield -8.4% YoY for 2020. Similarly, Japan may see a full year of recession, although improving in Q4 to end at -1.9% YoY. The US is projected to have a milder response to the crisis, although still 3 quarters of contraction and -0.5% YoY. In EM, Latin America see downgrades for Mexico (multiple whammy from oil, virus and US recession). Emerging Asia is buoyed by a resurgence projected for China, which may be IT-intensive based on 5G.

GDP Growth Forecast for 2020	%
Global	-1.6
Advanced Economies	-3.6
Emerging Markets	1.1

G4 – Services PMI (Index), 2000-2020 March



Source: Citi Research. As of 27 March 2020.

- The unprecedented speed of deterioration in equity markets and credit spreads have been partially unwound by unprecedented monetary policy actions. The fundamentals of recovery depend on limiting the cascading of business bankruptcies, layoffs, and consumer scarring which could deepen the recession and lengthen the time taken to return to growth.

- While the immediate economic outlook may be weak, Citi's Global Investment Committee (GIC) sees increasing signs that the acute crisis phase may be relatively short. The GIC is neutral global equities, underweight global fixed income and overweight gold. However, with beginning signs that medium-term (12-18 month) market opportunities may outweigh risks, it may soon be time to add to risk allocations in a targeted way.

- However, as authorities race to add healthcare capacity, the rapid growth rate of the virus suggest it may be pre-mature to assume that economically disruptive public health measures have peaked. This argues against taking high levels of immediate risk. Diversified, long-term portfolio allocation remains preferred.

Fixed Income Markets – Quality Matters

Citi analysts believe there are benefits in keeping portfolio exposure to strong sovereign bond markets such as US Treasuries, while avoiding many others.

- US Treasuries: Global "risk off" sentiment around COVID-19 has seen US treasury yields drop to record low levels. Large scale fiscal packages have temporarily put a floor in long-dated yields while the Federal Reserve has cut short-rates to zero, steepening the curve. Renewed asset purchases may limit how far yields can ultimately rise and yields may stay low for the foreseeable future. Nonetheless, Citi's Global Investment Committee (GIC) sees benefits in maintaining portfolio exposure to the strong sovereign bond markets and remain overweight US Treasuries and avoid negative yielding bonds, such as European sovereign bonds, as these fail to offer protection when interest rates move higher.

- Investment grade (IG) - US and Europe: US IG credit spreads have widened to levels not seen since the global financial crisis. As volatility subsides from historically high levels, the need to raise cash in even the highest quality of assets may also decline. Citi analysts prefer US high quality corporate bonds, given renewed cheapening of valuations. While ECB corporate bond purchase may support tight spreads in Europe IG, low yields pose greater risks.

"US HY markets have sold off severely, but valuations may get cheaper."

US high yield spreads at 2012 & 2016 levels

Source: Citi Private Bank. As of 30 March 2020.

- High Yield (HY) - US and Europe: Citi analysts are cautious on US HY. While spreads at are widest levels since 2008, valuations may get cheaper with still elevated concerns over the virus. HY issuers in Europe may also continue to be under pressure in the near-term, especially in regions most impacted by COVID-19, such as Italy.

- Emerging Markets (EM): USD EM debt continues to offer some of the best relative value in global fixed income. Local currency EM yields have fallen to lowest levels on record, and EM FX has weakened. Persistent USD strength may continue to weigh on unhedged returns. When implementing EM exposures, a globally diversified portfolio is favored to dampen single-country risk.

Oil Markets Poised to Get Worse Before Improving

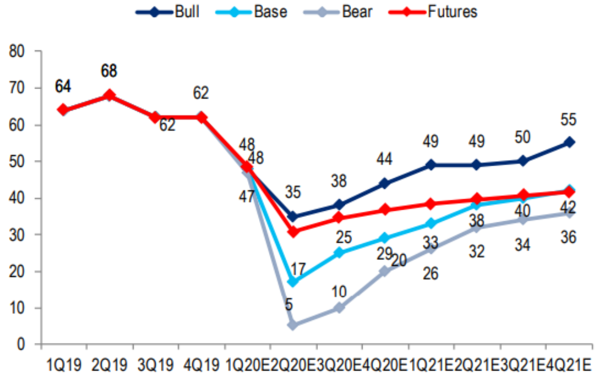
The global oil industry may be reshaped from this year's pressures. Citi analysts expect Brent and WTI prices to average US$17/bbl in 2Q and US$25-$30/bbl in 3Q and 4Q.

- The rapid shuttering of activities in Europe and North America, just as China is seeing a rapid recovery, points to a potentially even steeper decline in demand than previously assumed. As the pandemic worsens, more countries are imposing the type of lockdown and social distancing measures seen in China and Italy. Oil is directly hit by these measures. Transport fuel demand could fall by as much as 70% in affected regions. With such a steep demand decline, losses could exceed 16m bbd or more in 2Q, multiple times larger than what the world has ever seen.

- Citi analysts project that in their base case, the oil demand impact from COVID-19 and the possible subsequent economic slowdown could be around 8.7m bbd on an annual basis. Thus, 2020 oil demand growth could end up being down by 7.5m bbd against a growth of 1.25m bbd expected in late 2019.

"Brent and WTI crude oil prices could average US$17/bbl in 2Q 2020."

Citi's Brent oil price outlook scenarios vs. futures curve ($/bbl)



Source: Citi Research. As of 18 March 2020.

- Global inventories look set to rise to unprecedented highs above prior peaks. In the near-term, tensions may continue between Saudi Arabia and Russia, before eventually coming back to the table to make production cuts of some sort, such as reverting to December 2019 quotas, as refiners drop crude buying and storage fills up. Oil stock can also overwhelm storage, whether due to capacity or in terms of how quickly it can fill.

- The radical decline in demand in 2Q may in turn see refinery runs collapse by over 2m bbd, and trigger an unprecedented growth in inventory of one billion barrels over two months. This could result in a combination of a severe price collapse to less than US$10/bbl (Brent) at times and a severe curtailment of production. Citi analysts now expect Brent and WTI prices to average US$17/bbl in 2Q, moving to the US$25-$30/bbl range in 2H 2020 and averaging in the US$30's for 2021.

Volatility Aplenty in G10 Currencies

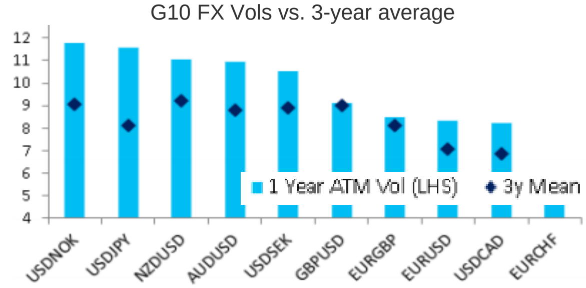
As COVID-19 cases increase globally, G10 FX volatility has increased and may remain elevated until new cases begin to plateau.

- USD: Until new cases of COVID-19 plateau, continuing monetary and fiscal policy response will be key in stabilizing confidence. With Fed Funds rates at the zero lower bound, QE and as the Fed continues to expand liquidity measures, the likely outcome is excess USD in the system. The erosion of the high carry in USD with rates converging to the rest of the world may see USD weaken vs EUR and JPY, but falling commodity prices suggest USD resilience against commodity FX/high beta G10 currencies.

- EUR: With US monetary policy converging to Euro Area, and potential for greater policy space for the Fed versus ECB, this means relative rates and excess reserves may become a key driver from now on to better support EUR.

"FX volatility has increased and may remain elevated until new cases plateau."

G10 FX Vols vs. 3-year average



Source: Citi Research. As of 12 March 2020.

- JPY: Safe haven JPY inflows is likely the prominent driver of JPY in bouts of risk-off. With that in mind, it is worth highlighting that USD/JPY's correlation to US stocks is at the highs.

- GBP: There is a strong emphasis on fiscal/monetary coordination in UK with QE looking increasingly likely following BoE's rate cuts to near zero-bound. Medium-term expectations of UK economic performance are low and upside positive economic surprises may lead to GBP rallies given how cheap it is.

- AUD: Over the medium-term, the risk of Australia tipping into a technical recession is elevated – RBA has already cut rates to near zero bound and commenced bond purchases with yield curve targeting. While this feels priced in and recently announced fiscal measures to target companies impacted by COVID-19 could support business confidence, upside in AUD is likely to be capped as the RBA holds yields near zero "for some years".

- Asia: Asian currencies are expected to be flat in the next 3 months and gain around 1% in 12 months, with MYR underperforming, and IDR and KRW outperforming. Widening interest spreads between US and China in 1H20 may favor RMB assets that attract more capital inflows.

World Market at a Glance

	Last price	52-Week	52-Week	Historical Returns (%)			
	31-Mar-20	High	Low	1 week	1 month	1 year	Year-to-date
US / Global							
Dow Jones Industrial Average	21917.16	29568.57	18213.65	5.85%	-13.74%	-15.47%	-23.20%
S&P 500	2584.59	3393.52	2191.86	5.61%	-12.51%	-8.81%	-20.00%
NASDAQ	7700.10	9838.37	6631.42	3.80%	-10.12%	-0.38%	-14.18%
Europe							
MSCI Europe	362.93	492.21	306.80	6.76%	-15.02%	-18.24%	-25.26%
Stoxx Europe 600	320.06	433.90	268.57	5.28%	-14.80%	-15.57%	-23.03%
FTSE100	5671.96	7727.49	4898.79	4.15%	-13.81%	-22.08%	-24.80%
CAC40	4396.12	6111.41	3632.06	3.62%	-17.21%	-17.84%	-26.46%
DAX	9935.84	13795.24	8255.65	2.43%	-16.44%	-13.80%	-25.01%
Japan							
NIKKEI225	18917.01	24115.95	16358.19	4.56%	-10.53%	-10.79%	-20.04%
Topix	1403.04	1747.20	1199.25	5.25%	-7.14%	-11.85%	-18.49%
Emerging Markets							
MSCI Emerging Market	848.58	1150.91	751.76	5.85%	-15.61%	-19.80%	-23.87%
MSCI Latin America	1576.60	2988.77	1364.55	5.24%	-34.63%	-42.59%	-45.96%
MSCI Emerging Europe	122.21	201.86	100.91	4.28%	-23.06%	-25.88%	-36.68%
MSCI EM Middle East & Africa	175.46	271.86	158.71	4.10%	-21.58%	-30.35%	-34.42%
Brazil Bovespa	73019.80	119593.10	61690.50	4.72%	-29.90%	-23.47%	-36.86%
Russia RTS	1014.44	1651.82	808.79	5.09%	-21.95%	-15.33%	-34.51%
Asia							
MSCI Asia ex-Japan	560.22	716.40	495.22	6.19%	-12.24%	-15.56%	-18.60%
Australia S&P/ASX 200	5076.83	7197.20	4402.50	7.20%	-21.18%	-17.86%	-24.05%
China HSCEI (H-shares)	9594.77	11881.68	8290.34	4.47%	-6.87%	-15.68%	-14.09%
China Shanghai Composite	2750.30	3288.45	2646.81	1.02%	-4.51%	-11.02%	-9.83%
Hong Kong Hang Seng	23603.48	30280.12	21139.26	4.15%	-9.67%	-18.75%	-16.27%
India Sensex30	29468.49	42273.87	25638.90	10.48%	-23.05%	-23.80%	-28.57%
Indonesia JCI	4538.93	6636.33	3911.72	15.27%	-16.76%	-29.83%	-27.95%
Malaysia KLCI	1350.89	1694.55	1207.80	4.63%	-8.89%	-17.81%	-14.97%
Korea KOSPI	1754.64	2277.23	1439.43	8.99%	-11.69%	-18.03%	-20.16%
Philippines PSE	5321.23	8419.59	4039.15	11.46%	-21.61%	-32.82%	-31.91%
Singapore STI	2481.23	3415.18	2208.42	5.05%	-17.60%	-22.77%	-23.01%
Taiwan TAIEX	9708.06	12197.64	8523.63	4.55%	-14.03%	-8.77%	-19.08%
Thailand SET	1125.86	1748.15	969.08	8.90%	-16.01%	-31.29%	-28.74%
Commodity							
Oil	20.48	66.60	19.27	-14.70%	-54.24%	-65.95%	-66.46%
Gold spot	1577.18	1703.39	1266.35	-3.38%	-0.54%	22.04%	3.95%

Source: Bloomberg as of 31 March 2020.

Currency Forecasts

	Currency	Last price 31-Mar-20	Forecasts Jun-20	Sep-20	Dec-20	Mar-21
G10-US Dollar						
Euro	EURUSD	1.10	1.14	1.15	1.15	1.16
Japanese yen	USDJPY	107.5	101	101	100	98
British Pound	GBPUSD	1.24	1.32	1.33	1.34	1.36
Swiss Franc	USDCHF	0.96	0.93	0.94	0.94	0.94
Australian Dollar	AUDUSD	0.61	0.67	0.67	0.67	0.68
New Zealand	NZDUSD	0.60	0.63	0.64	0.64	0.64
Canadian Dollar	USDCAD	1.41	1.37	1.38	1.38	1.37
EM Asia						
Chinese Renminbi	USDCNY	7.08	6.90	6.88	6.85	6.78
Hong Kong	USDHKD	7.75	7.78	7.78	7.78	7.77
Indonesian Rupiah	USDIDR	16,310	14136	13948	13809	13848
Indian Rupee	USDINR	75.5	73.2	72.8	72.5	72.6
Korean Won	USDKRW	1,219	1178	1171	1164	1161
Malaysian Ringgit	USDMYR	4.32	4.27	4.26	4.24	4.19
Philippine Peso	USDPHP	50.7	50.6	50.7	50.8	50.7
Singapore Dollar	USDSGD	1.42	1.38	1.37	1.37	1.36
Thai Baht	USDTHB	32.8	31.7	31.7	31.8	31.6
Taiwan Dollar	USDTWD	30.2	29.7	29.6	29.5	29.4
EM Europe						
Czech Koruna	USDCZK	24.80	22.5	22.3	22.0	21.8
Hungarian Forint	USDHUF	327	294	294	294	292
Polish Zloty	USDPLN	4.13	3.79	3.79	3.77	3.72
Israeli Shekel	USDILS	3.55	3.50	3.50	3.50	3.49
Russian Ruble	USDRUB	78.4	70.4	67.4	65.1	65.7
Turkish Lira	USDTRY	6.62	6.56	6.81	7.01	7.06
South African Rand	USDZAR	17.84	15.67	15.57	15.48	15.38
EM Latam						
Brazilian Real	USDBRL	5.21	4.57	4.47	4.39	4.36
Chilean Peso	USDCLP	855	827	826	823	819
Mexican Peso	USDMXN	23.7	20.7	20.6	20.6	20.6
Colombian Peso	USDCOP	4056	3734	3715	3698	3688

Source: Citi Research as of 31 March 2020.

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