

BoJ and Fed in focus this week

- Along with an accelerating earnings season, this week's robust US economic calendar will be headlined by the first look (of three) at 1Q GDP, which will follow Wednesday's monetary policy decision from the Federal Open Market Committee (FOMC).
- Citi analysts estimate US real 1Q GDP grew by 0.9% (SAAR) as softer consumer spending and increased drag from net exports explains much of the deceleration. As for the FOMC meeting, it is likely to be a non event. We expect the Fed to hike rates in September or later if data come in strong enough and markets remain calm.
- Meanwhile, this week sees the Bank of Japan (BoJ) meeting on April 27-28. We expect the BoJ may leave policy unchanged. The policy board could probably introduce some form of support for financial institutions in the regions hit by the Kumamoto earthquake, but is unlikely to reduce the policy rate or expand the asset purchase program (JGB and ETF purchases), in our view.

Performance

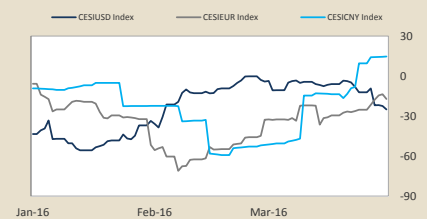
- Global equities ticked up higher on the week, with the MSCI World index gaining 0.83%. In the US, the Dow Jones Industrial Average advanced 0.59% and the S&P 500 Index gained 0.52%, while the Nasdaq Composite decreased 0.65% as technology stocks fell. European equities finished much higher, with the Stoxx Europe 600 Index up 1.65%. Finally, Japanese equities rebounded strongly with the Nikkei 225 index and Topix index rallying 4.30% and 3.39% respectively.
- EM equities underperformed their DM counterparts on the week, falling 0.18%. MSCI Emerging Europe was the outperformer, gaining 2.15% while the MSCI Latin America lost 0.78%. MSCI Asia ex Japan fell marginally by 0.20%. Within Asia, Indonesian and Thai equities were among the best performers with the JCI and SET indices up 1.89% and 1.83% respectively.

Asset Allocation

- **Equities** — We stay cautious about US equities given their prices are near resistance. Low yields and high commodity prices may support EM outperformance.
- **Credit** — While we remain overweight on IG and HY both in the US and Europe, we are more positive on US credit despite the ECB easing bias. Meanwhile, EM credit is doing ok.
- **Rates** — Real yields are still falling in line with global growth. Overall, Citi's strategy is buying duration on dips.
- **Commodities** — Higher commodity prices are likely due to central bank easing, especially in China, USD weakness and (actual and expected) supply restraint.

Positive Chinese data

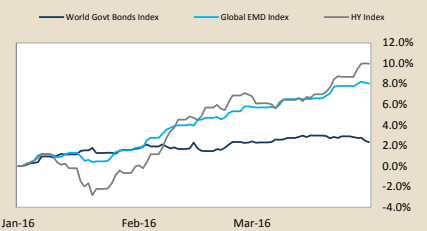
Citi Economic Surprise Index



Source: Bloomberg as of 22 April 2016

HY benefiting from rising oil prices

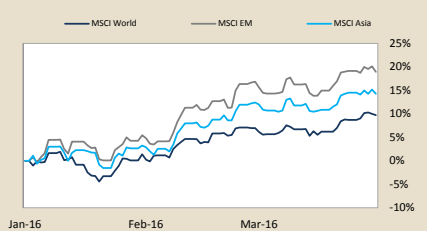
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 22 April 2016

EM equities continue to outperform

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 22 April 2016

Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
28-Apr	SK	GDP YoY	1Q P	2.7%	3.1%	2.6%
28-Apr	JN	Retail Sales MoM	Mar	0.5%	-2.3%	0.7%
28-Apr	JN	Industrial Production MoM	Mar P	2.8%	-5.2%	1.6%
28-Apr	JN	Nat CPI YoY	Mar	0.0%	0.3%	0.0%
28-Apr	JN	BOJ Policy Rate	28-Apr	-0.1%	-0.1%	-0.1%
28-Apr	EC	Economic Confidence	Apr	103.4	103.0	102.5
28-Apr	US	Initial Jobless Claims	23-Apr	260K	247K	250K
28-Apr	US	GDP Annualized QoQ	1Q A	0.6%	1.4%	0.9%
29-Apr	TA	GDP YoY	1Q P	-0.6%	-0.5%	-0.3%
29-Apr	EC	Unemployment Rate	Mar	10.3%	10.3%	10.2%
29-Apr	EC	CPI Estimate YoY	Apr	0.0%	---	-0.1%
29-Apr	EC	GDP SA QoQ	1Q A	0.4%	0.3%	0.4%

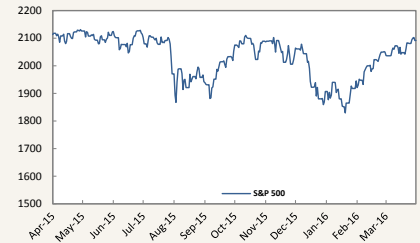
Source: Bloomberg as of 22 April 2016

Drivers and Risks by Market

United States

- **Driver:** The US dollar has stopped appreciating and indeed has dipped 6% since the trade weighted dollar peaked on January 20. The change in the US dollar's trajectory has many implications to industry group performance. The removal of this substantial drag on overseas earnings is significant and provides some confidence in a resurgence of growth in 2H16.
- **Risk:** Investors pulled \$4.63 billion from total equity funds for the week ending April 13th (versus the prior week's \$5.84 billion outflow) led by US funds posting outflows of \$4.33 billion.
- **Implication:** History suggests that a weaker dollar supports more cyclical stocks. In this context, an ongoing preference for value over growth is reinforced. Citi's proprietary lead indicator model and the expectation for better GDP growth in the next couple of quarters also support value outperformance.

End-2016 Target: 2150

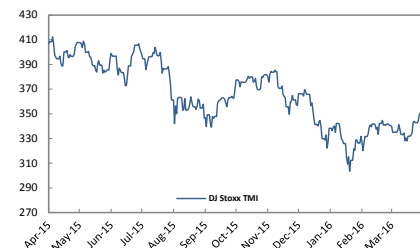


Source: Bloomberg as of 22 April 2016

Europe

- **Driver:** The Italian economy is improving, but very slowly despite moderately expansionary fiscal policy and ECB monetary stimulus. Citi analysts believe weakness in the banking sector is probably still representing a headwind against the recovery.
- **Risk:** Italy's high exposure to global trade and emerging markets mean that in 2016 Italian exports may likely see their worst performance since 2009. This could hinder investment decisions, although the ongoing fiscal and monetary policy stimuli should still help GDP to expand by 1.0% this year.
- **Implication:** In Citi's view, Italy's constitutional referendum, likely in October, represents a major event which could potentially cause political instability to return going into 2017. If it fails, it could potentially cause a significant rise in political instability going into 2017.

End-2016 Target: 380

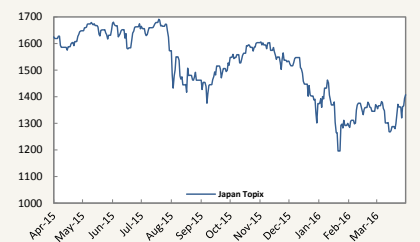


Source: Bloomberg as of 22 April 2016

Japan

- **Driver:** Citi analysts expect the BoJ to leave policy unchanged on April 28. The policy board may probably introduce some form of support for financial institutions in the regions hit by the Kumamoto earthquake, but is unlikely to reduce the policy rate or expand the asset purchase program (JGB and ETF purchases).
- **Risk:** Citi's revision index for Japan has been in negative territory since the start of the year, during which time FY15 EPS forecasts have fallen sharply. We believe there is still room for FY16 EPS forecasts to be revised down further. If the ¥/\$ rate stays around the current level, Citi's EPS forecast would look a bit optimistic. We forecast an EPS growth rate of 2.7% with an average FY16 FX forecast at ¥112/\$.
- **Implication:** We prefer names with firm earnings forecast and companies with more aggressive shareholder returns while avoiding companies with higher pension shortfalls.

End-2016 Target: 1500

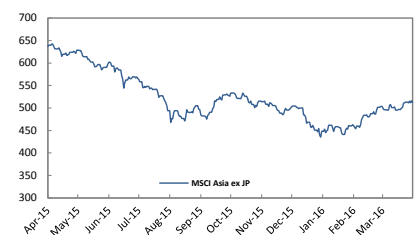


Source: Bloomberg as of 22 April 2016

Emerging Markets

- **Driver:** Citi analysts think that there are a number of drivers that may support dividends in EM over the next few years. First, free cash flow in EM could improve. Second is increased shareholder activism, most evident recently in markets like Korea, where corporate structures are being recast and in the process freeing capital for shareholders. With more aging populations amid declining working population, dividend investing may draw more investor attention especially in the current low-rate environment.
- **Risk:** There are some sectors that are underpaying dividends. Consumer Discretionary, Consumer Staples, Healthcare and Industrials are among sectors that have relatively small contribution to dividends paid in EM.
- **Implication:** Some of the major sectors for dividend contribution are Financials, Tech and the broad commodity complex. Together they make up 69% of the dividends paid out to shareholders.

End-2016 Target: 530



Source: Bloomberg as of 22 April 2016

Currency Forecast

	Currency	Last price	Forecasts					
		22-Apr-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
G10-US Dollar								
Euro	EURUSD	1.12	1.15	1.16	1.16	1.16	1.16	1.15
Japanese yen	USDJPY	112	113	111	109	108	108	108
British Pound	GBPUSD	1.44	1.44	1.48	1.52	1.52	1.50	1.49
Swiss Franc	USDCHF	0.98	0.96	0.95	0.95	0.95	0.95	0.95
Australian Dollar	AUDUSD	0.77	0.80	0.81	0.82	0.82	0.83	0.84
New Zealand	NZDUSD	0.69	0.71	0.70	0.70	0.70	0.70	0.70
Canadian Dollar	USDCAD	1.27	1.27	1.26	1.25	1.25	1.25	1.25
EM Asia								
Chinese Renminbi	USDCNY	6.50	6.52	6.55	6.59	6.66	6.74	6.82
Hong Kong	USDHKD	7.76	7.76	7.77	7.78	7.78	7.78	7.79
Indonesian Rupiah	USDIDR	13,200	13,164	13,314	13,464	13,545	13,605	13,665
Indian Rupee	USDINR	66.5	66.7	67.3	67.9	68.3	68.7	69.1
Korean Won	USDKRW	1,143	1,145	1,156	1,167	1,160	1,146	1,131
Malaysian Ringgit	USDMYR	3.90	3.79	3.77	3.75	3.74	3.72	3.69
Philippine Peso	USDPHP	46.6	46.4	46.7	46.9	47.1	47.2	47.3
Singapore Dollar	USDSGD	1.35	1.36	1.37	1.38	1.38	1.39	1.39
Thai Baht	USDTHB	35.0	35.1	35.3	35.5	35.6	35.8	36.1
Taiwan Dollar	USDTWD	32.3	32.5	32.7	33.0	33.0	33.0	33.0
EM Europe								
Russian Ruble	USDRUB	66.5	67.5	66.5	65.5	65.1	64.7	64.4
South African Rand	USDZAR	14.40	14.66	15.03	15.41	15.57	15.67	15.78
EM Latam								
Brazilian Real	USDBRL	3.56	3.52	3.69	3.86	3.91	3.93	3.96
Mexican Peso	USDMXN	17.5	17.5	17.7	17.9	17.9	17.8	17.7

Source: Citi Research and Bloomberg as of 22 April 2016

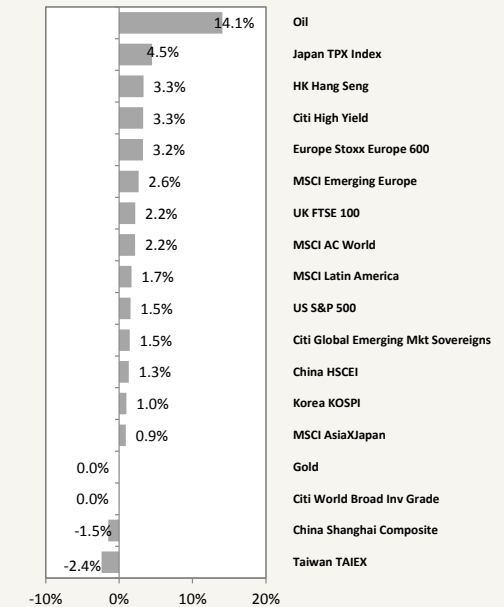
Short Rates and 10-Year Yield Forecasts

	Last price	Forecasts				
	22-Apr-16	2Q16	3Q16	4Q16	1Q17	2Q17
Short Rates (End of Period)						
US	0.50	0.50	0.75	0.75	1.00	1.25
Japan	-0.10	-0.10	-0.30	-0.30	-0.30	-0.30
Euro Area	0.00	0.00	-0.05	-0.10	-0.25	-0.25
10-Year Yield (Period Average)						
US	1.89	1.80	1.90	2.00	2.10	2.15
Japan	-0.12	-0.10	-0.15	-0.15	-0.20	-0.15
Euro Area	0.23	0.15	0.15	0.20	0.20	0.30

Source: Citi Research and Bloomberg as of 22 April 2016

Weekly Market Performance

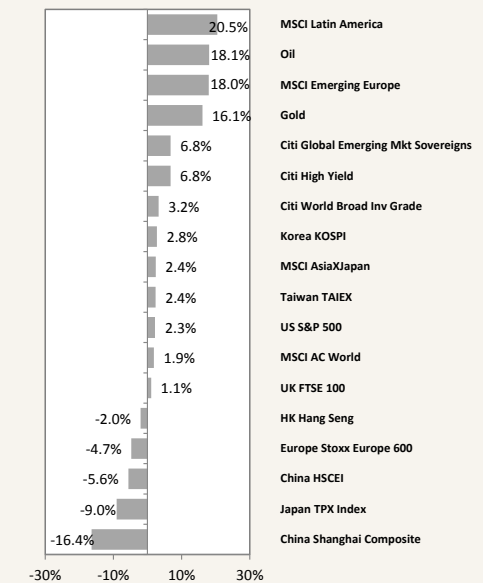
(18 - 22 April 2016)



Source: Bloomberg as of 22 April 2016

Market Performance (Year-To-Date)

(As of 22 April 2016)



Source: Bloomberg as of 22 April 2016

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	22-Apr-16	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
US / Global								
MSCI World	406.92	443.98	351.25	0.83%	2.51%	-7.12%	1.89%	1.89%
Dow Jones Industrial Average	18003.75	18351.36	15370.33	0.59%	2.40%	-0.19%	3.32%	3.32%
S&P 500	2091.58	2134.72	1810.10	0.52%	2.04%	-0.78%	2.33%	2.33%
NASDAQ	4906.23	5231.94	4209.76	-0.65%	1.75%	-2.56%	-2.02%	-2.02%
Europe								
MSCI Europe	408.66	478.94	355.54	1.28%	2.80%	-11.40%	-0.56%	-0.56%
Stoxx Europe 600	348.46	412.67	302.59	1.65%	2.40%	-14.80%	-4.74%	-1.61%
FTSE100	6310.44	7122.74	5499.51	-0.53%	1.90%	-10.21%	1.09%	-1.30%
CAC40	4569.66	5283.71	3892.46	1.66%	3.11%	-12.31%	-1.45%	1.78%
DAX	10373.49	12050.71	8699.29	3.20%	3.84%	-12.59%	-3.44%	-0.68%
Japan								
NIKKEI225	17572.49	20952.71	14865.77	4.30%	3.07%	-12.72%	-7.68%	-0.27%
Topix	1407.50	1702.83	1193.85	3.39%	2.74%	-13.21%	-9.04%	-1.74%
Emerging Markets								
MSCI Emerging Market	845.21	1069.13	686.74	-0.18%	1.77%	-19.32%	6.43%	6.43%
MSCI Latin America	2205.03	2776.68	1550.47	-0.78%	2.06%	-16.63%	20.51%	20.51%
MSCI Emerging Europe	130.17	159.85	91.09	2.15%	2.67%	-12.43%	17.96%	17.96%
Brazil Bovespa	52907.88	58574.79	37046.07	-0.60%	3.72%	-3.13%	22.05%	34.81%
Russia RTS	931.46	1092.52	607.14	2.91%	4.77%	-7.23%	23.04%	23.04%
Asia								
MSCI Asia ex-Japan	512.15	644.14	434.84	-0.20%	1.67%	-19.38%	2.44%	2.44%
Australia S&P/ASX 200	5236.37	5985.60	4706.70	1.53%	1.35%	-10.30%	-1.12%	4.42%
China HSCEI (H-shares)	9120.91	14962.74	7498.81	-1.02%	2.48%	-37.82%	-5.59%	-5.67%
China Shanghai Composite	2959.24	5178.19	2638.30	-3.86%	-1.34%	-32.72%	-16.39%	-16.60%
Hong Kong Hang Seng	21467.04	28588.52	18278.80	0.71%	3.87%	-23.15%	-2.04%	-2.13%
India Sensex30	25838.14	28578.33	22494.61	0.82%	2.00%	-7.36%	-1.07%	-1.76%
Indonesia JCI	4914.74	5464.34	4033.59	1.89%	1.21%	-9.61%	7.00%	12.34%
Malaysia KLCI	1717.96	1867.53	1503.68	-0.58%	-0.39%	-7.38%	1.50%	11.64%
Korea KOSPI	2015.49	2189.54	1800.75	0.04%	0.94%	-5.99%	2.76%	5.33%
Philippines PSE	7255.39	7964.53	6084.28	-0.90%	-1.18%	-7.37%	4.36%	4.82%
Singapore STI	2940.43	3523.08	2528.44	0.56%	2.08%	-15.90%	2.00%	6.70%
Taiwan TAIEX	8535.75	10014.28	7203.07	-1.89%	-2.84%	-11.21%	2.37%	4.06%
Thailand SET	1410.81	1562.64	1220.96	1.83%	0.97%	-9.10%	9.53%	12.59%
Commodity								
Oil	43.73	62.58	26.05	8.35%	5.50%	-22.13%	18.06%	18.06%
Gold spot	1232.53	1285.18	1046.43	-0.13%	-1.26%	3.81%	16.12%	16.12%

Source: Bloomberg as of 22 April 2016

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