

### Oil Prices Stepped Back Sending Equities Lower

- US Nonfarm payrolls surprised to the downside in April with Nonfarm payrolls rising by 160K jobs (m/m) in April (consensus: 200K). The unemployment rate held at 5.0%, but labour force participation dipped after several months of increase. Taking a closer look at the US payroll data suggest it was not all bad news. An upbeat aspect of the report was the rise in wages, which now have increased 2.5% over the past 12 months, an acceleration from the 2.3% pace in the prior month. With market focus shifting to the next FOMC meeting in June, current consensus view calls for no rate hike in June and Citi economists expect just one rate hike this year in September.
- Meanwhile, the moderation in manufacturing confidence and weakness in China PMIs have caused commodity prices to move lower for the week (ICE Brent: -5.73% and WTI: -2.74%). However, lower spare capacity in oil production, heightened disruption risk in Iraq and Venezuela, and lower supply ex-US mean oil prices may average higher in 4Q16. Citi analysts continue to expect Brent prices in the \$50s by 4Q16, and averaging \$60 in 2017.

### Performance

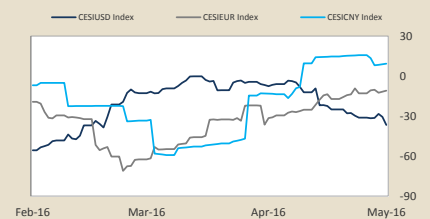
- Equities were broadly lower on the week (MSCI World index: -1.9%) led by commodity-related sectors as oil prices softened. In the US, the Dow Jones Industrial Average decreased 0.19%, the S&P 500 Index lost 0.4%, and the Nasdaq Composite Index declined 0.82%. European equities, measured by Stoxx Europe 600 Index, plummeted 2.87% while Japanese equities also declined (Nikkei 225: -3.36% and Topix index: -3.15%).
- Finally, the MSCI Emerging Markets index fell 4.15% with the MSCI Emerging Europe losing 4.66% and the MSCI Latin America dropping 5.87%. Closer to home, the MSCI Asia Pacific index also saw a weekly loss of 3.22%. Within Asia, Chinese H-shares along with equities in Hong Kong and Singapore were among the worst performers. (HSCEI: -5.23%; Hang Seng: -4.54%; STI: -3.79%).

### Asset Allocation

- Equities** — We expect global equities to remain stuck in the current trading range for this year, however new highs could be achieved by mid-2017 if the global EPS outlook improves.
- Credit** — We remain overweight both US and European high yield debt. Energy-related sectors remain attractive, though reliant upon stability in crude oil prices.
- Rates** — Across the major government bond markets, forecasts to mid-2017 are fairly mixed. EMU bonds likely to outperform.
- Commodities** — Oversupplied markets may begin to diminish in 2016. And a boost in energy prices could also help to secure a floor under all commodities.

### Softer-than-expected Chinese Data

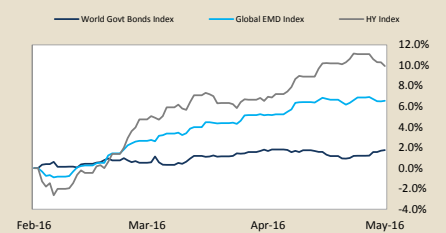
#### Citi Economic Surprise Index



Source: Bloomberg as of 6 May 2016

### HY spreads widened

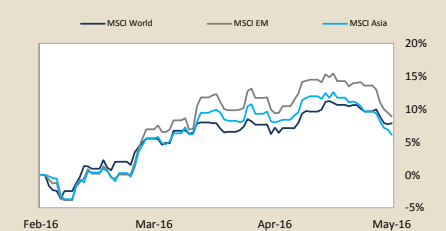
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 6 May 2016

### Equities stepped back

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 6 May 2016

#### Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
10-May	CH	CPI YoY	Apr	2.3%	2.3%	2.3%
11-May	TH	BoT Benchmark Interest Rate	May 11	1.5%	1.5%	1.5%
11-May	JN	Leading Index CI	Mar	96.3	96.8	96.2
12-May	EC	Industrial Production SA MoM	Mar	0.0%	-0.8%	0.2%
12-May	US	Import Price Index MoM	Apr	0.6%	0.2%	0.8%
12-May	PH	BSP Overnight Borrowing Rate	May 12	4.0%	4.0%	4.0%
12-May	US	Initial Jobless Claims	May 7	270K	274K	280K
13-May	JN	Tertiary Industry Index MoM	Mar	-0.1%	-0.1%	0.2%
13-May	US	PPI Final Demand MoM	Apr	0.3%	-0.1%	0.3%
13-May	EC	GDP SA QoQ	1Q	0.6%	0.3%	0.6%
13-May	US	Retail Sales Advance MoM	Apr	0.8%	-0.3%	1.0%
13-May	SK	BoK 7-Day Repo Rate	May 13	1.5%	1.5%	1.5%

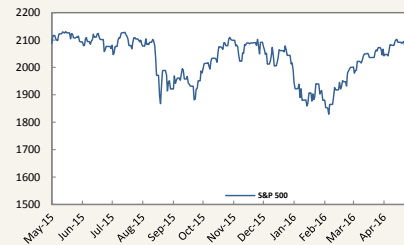
Source: Bloomberg as of 6 May 2016

## Drivers and Risks by Market

### United States

- **Driver:** Nonfarm payrolls rose by just 160K in April, undershooting both the Street (+200k) and our below-consensus call (+190K). The unemployment rate held steady at 5.0% in April.
- **Risk:** Given increasing concerns about the US consumer and inflation risks, markets probably may hone in on this week's retail sales, PPI, and consumer sentiment reports. We believe that the weakness of consumer spending in the first quarter of this year was transitory and may be prolonged by more cautious consumer behaviour.
- **Implication:** Despite the disappointing jobs report, the data likely were sufficiently positive to keep Fed officials from adjusting rhetoric around June and July being "live" meetings. Citi analysts expect just one rate hike this year, in September.

End-2016 Target: 2150

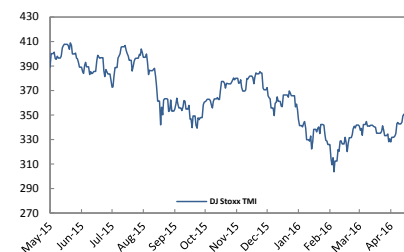


Source: Bloomberg as of 6 May 2016

### Europe

- **Driver:** Banks have strengthened their capital position since the financial crisis and the combination of a negative deposit facility rate (-40bp) and greater appetite for risk mean that the supply side of the lending equation has improved noticeably in the past two years. Recent ECB policy decisions, including the launch of a new set of TLTROs at zero (potential negative) cost for banks, point to a further easing in financing conditions for the broader economy in coming quarters.
- **Risk:** Sharp falls in UK PMIs in April, in stark contrast to stable readings in continental Europe, point to a broadening and deepening impact of UK referendum uncertainty on the economy.
- **Implication:** Cheap bank credit is probably here to stay. We therefore expect further improvement in loan demand and believe that the Euro zone capex upswing could be a positive surprise, reinforcing the already-visible gains in domestic demand.

End-2016 Target: 380

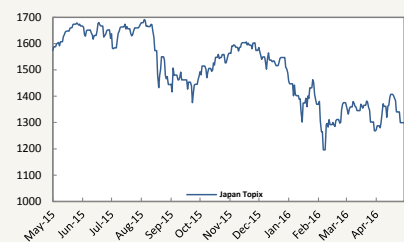


Source: Bloomberg as of 6 May 2016

### Japan

- **Driver:** The Bank of Japan downgraded its core CPI forecast for FY2016 from +0.8% YoY in January to +0.5% YoY. Unlike with previous downward revisions, policymakers attributed the downgrading of inflation forecasts this time to weaker-than-expected economic activity and underwhelming wage growth.
- **Risk:** The effectiveness of the negative interest rate policy (NIRP) remains quite uncertain, while the financial market reaction to an additional policy rate cut is hard to predict.
- **Implication:** Citi analysts maintain our base-case scenario of further easing in July but attach only about a 50% probability to this scenario and assign probabilities of around 15% to June and around 35% to October or later.

End-2016 Target: 1500

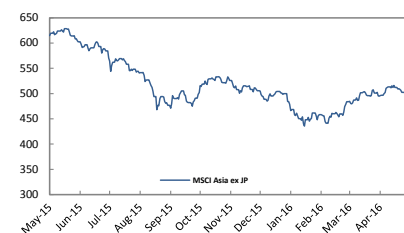


Source: Bloomberg as of 6 May 2016

### Asia

- **Driver:** Despite upside data surprises since Apr, it is too early to call a growth bottom, and we still forecast a slowdown for ASEAN-5 to 4.1% in 2016 (2015: 4.2%), though Indonesia and Thailand could pick up slightly.
- **Risk:** Regional export growth till Feb remains negative, but we see pockets of improvements in manufactured export momentum and services exports.
- **Implication:** With less dependence on exports and leverage, and greater willingness to use policy bullets, we are more confident on growth in Indonesia, and to a lesser extent Philippines (given election risks). Upside surprises in Thailand come from depressed levels, but nonetheless tourism and infrastructure cushion against the export slump, helped by fiscal easing. Limited policy room, high domestic leverage and greater openness leaves Malaysia and Singapore more vulnerable.

End-2016 Target: 530



Source: Bloomberg as of 6 May 2016

## Currency Forecast

Currency	Last price		Forecasts					
	06-May-16		Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
<b>G10-US Dollar</b>								
Euro	EURUSD	1.14	1.15	1.16	1.16	1.16	1.16	1.15
Japanese yen	USDJPY	107	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	0.97	0.96	0.95	0.95	0.95	0.95	0.95
Australian Dollar	AUDUSD	0.74	0.80	0.81	0.82	0.82	0.83	0.84
New Zealand	NZDUSD	0.68	0.71	0.70	0.70	0.70	0.70	0.70
Canadian Dollar	USDCAD	1.29	1.27	1.26	1.25	1.25	1.25	1.25
<b>EM Asia</b>								
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	13,348	13,164	13,314	13,464	13,545	13,605	13,665
Indian Rupee	USDINR	66.6	66.7	67.3	67.9	68.3	68.7	69.1
Korean Won	USDKRW	1,170	1,145	1,156	1,167	1,160	1,146	1,131
Malaysian Ringgit	USDMYR	4.00	3.79	3.77	3.75	3.74	3.72	3.69
Philippine Peso	USDPHP	47.1	46.4	46.7	46.9	47.1	47.2	47.3
Singapore Dollar	USDSGD	1.36	1.36	1.37	1.38	1.38	1.39	1.39
Thai Baht	USDTHB	35.1	35.1	35.3	35.5	35.6	35.8	36.1
Taiwan Dollar	USDTWD	32.4	32.5	32.7	33.0	33.0	33.0	33.0
<b>EM Europe</b>								
Russian Ruble	USDRUB	66.2	67.5	66.5	65.5	65.1	64.7	64.4
South African Rand	USDZAR	14.88	14.66	15.03	15.41	15.57	15.67	15.78
<b>EM Latam</b>								
Brazilian Real	USDBRL	3.50	3.52	3.69	3.86	3.91	3.93	3.96
Mexican Peso	USDMXN	17.9	17.5	17.7	17.9	17.9	17.8	17.7

Source: Citi Research and Bloomberg as of 6 May 2016

## Short Rates and 10-Year Yield Forecasts

	Last price		Forecasts				
	06-May-16		2Q16	3Q16	4Q16	1Q17	2Q17
<b>Short Rates (End of Period)</b>							
US	0.50		0.50	0.75	0.75	1.00	1.00
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
<b>10-Year Yield (Period Average)</b>							
US	1.78		1.85	1.90	2.00	2.10	2.15
Japan	-0.12		-0.15	-0.20	-0.20	-0.25	-0.20
Euro Area	0.14		0.15	0.15	0.20	0.20	0.25

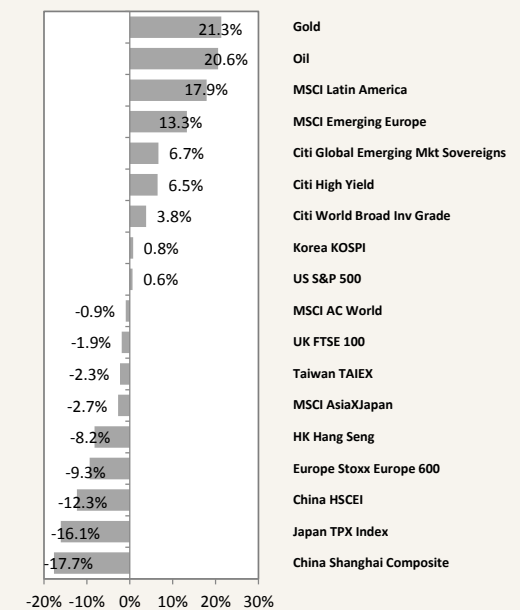
Source: Citi Research and Bloomberg as of 6 May 2016

## Weekly Market Performance (2 - 6 May 2016)



Source: Bloomberg as of 6 May 2016

## Market Performance (Year-To-Date) (As of 6 May 2016)



Source: Bloomberg as of 6 May 2016

## World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				Year-to-date (USD)
	06-May-16	High	Low	1 week	1 month	1 year	Year-to-date	
<b>US / Global</b>								
MSCI World	395.66	443.75	351.25	-1.90%	0.50%	-8.99%	-0.93%	-0.93%
Dow Jones Industrial Average	17740.63	18351.36	15370.33	-0.19%	0.14%	-0.57%	1.81%	1.81%
S&P 500	2057.14	2134.72	1810.10	-0.40%	-0.46%	-1.11%	0.65%	0.65%
NASDAQ	4736.16	5231.94	4209.76	-0.82%	-3.75%	-3.73%	-5.42%	-5.42%
<b>Europe</b>								
MSCI Europe	394.22	478.94	355.54	-3.29%	0.87%	-15.21%	-4.08%	-4.08%
Stoxx Europe 600	331.67	409.48	302.59	-2.87%	0.31%	-14.67%	-9.33%	-4.67%
FTSE100	6125.70	7083.72	5499.51	-1.86%	-0.58%	-11.65%	-1.87%	-3.68%
CAC40	4301.24	5217.80	3892.46	-2.88%	0.39%	-13.66%	-7.24%	-2.47%
DAX	9869.95	11920.31	8699.29	-1.68%	2.55%	-13.04%	-8.13%	-3.80%
<b>Japan</b>								
NIKKEI225	16106.72	20952.71	14865.77	-3.36%	2.49%	-17.54%	-15.38%	-4.30%
Topix	1298.32	1702.83	1193.85	-3.15%	2.41%	-18.12%	-16.09%	-5.11%
<b>Emerging Markets</b>								
MSCI Emerging Market	805.34	1045.73	686.74	-4.15%	-0.46%	-22.60%	1.41%	1.41%
MSCI Latin America	2157.63	2765.80	1550.47	-5.87%	5.46%	-20.58%	17.92%	17.92%
MSCI Emerging Europe	125.01	159.85	91.09	-4.66%	1.79%	-21.00%	13.29%	13.29%
Brazil Bovespa	51717.82	57620.54	37046.07	-4.07%	7.53%	-9.43%	19.30%	34.48%
Russia RTS	912.02	1092.52	607.14	-4.11%	5.64%	-14.46%	20.47%	20.47%
<b>Asia</b>								
MSCI Asia ex-Japan	486.25	631.83	434.84	-3.22%	-1.76%	-22.15%	-2.74%	-2.74%
Australia S&P/ASX 200	5292.05	5803.00	4706.70	0.76%	7.00%	-7.03%	-0.07%	0.98%
China HSCEI (H-shares)	8471.70	14962.74	7498.81	-5.23%	-2.27%	-39.48%	-12.31%	-12.43%
China Shanghai Composite	2913.25	5178.19	2638.30	-0.85%	-4.50%	-31.12%	-17.69%	-17.87%
Hong Kong Hang Seng	20109.87	28524.60	18278.80	-4.54%	-0.48%	-27.25%	-8.23%	-8.36%
India Sensex30	25228.50	28578.33	22494.61	-1.48%	1.32%	-5.57%	-3.40%	-3.87%
Indonesia JCI	4822.60	5347.13	4033.59	-0.33%	-0.94%	-6.99%	5.00%	10.18%
Malaysia KLCI	1649.36	1823.50	1503.68	-1.40%	-3.94%	-9.42%	-2.55%	4.95%
Korea KOSPI	1976.71	2148.70	1800.75	-0.87%	0.27%	-6.08%	0.79%	1.85%
Philippines PSE	6991.87	7923.13	6084.28	-2.34%	-2.63%	-11.20%	0.57%	0.21%
Singapore STI	2730.80	3473.49	2528.44	-3.79%	-2.86%	-21.07%	-5.27%	-1.26%
Taiwan TAIEX	8146.43	9797.19	7203.07	-2.76%	-4.31%	-17.03%	-2.30%	-0.77%
Thailand SET	1390.70	1536.30	1220.96	-0.99%	1.25%	-8.50%	7.97%	10.84%
<b>Commodity</b>								
Oil	44.66	61.85	26.05	-2.74%	18.30%	-26.70%	20.57%	20.57%
Gold spot	1287.90	1303.82	1046.43	-0.39%	5.35%	8.03%	21.34%	21.34%

Source: Bloomberg as of 6 May 2016

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