

### Stocks dip as volatility remains

- Another round of worries over China is weighing on global markets, while the USD continued to strengthen. These are likely to weigh on broader EM and commodities. Markets are shifting attention to potential policy upside in Japan, as China and US signals become less clear.
- Meanwhile in the UK, the BoE's Monetary Policy Committee (MPC) voted unanimously to keep interest rates unchanged at 0.5%, citing persistent low inflation as one of the reasons to hold off on a rate hike. The BoE also cut its economic growth forecast and warned of the potential negative impact if next month's vote is in favour to leave the European Union.
- This week's focus includes the FOMC meeting minutes (Thur), Japan's 1Q GDP (Wed) and the G7 Finance Ministers' meeting (Fri) prior to the May 26-27 summit. Malaysia and Indonesia will hold central bank meetings on Thursday.

### Performance

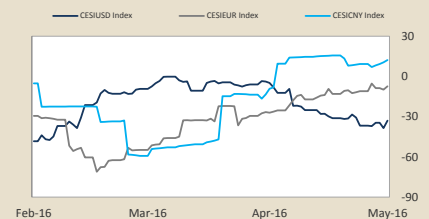
- Equities were slightly lower on the week (MSCI World index: -0.51%) as markets continued to grapple with festering growth concerns. In the US, the Dow Jones Industrial Average declined 1.16%, the S&P 500 Index lost 0.51% and the Nasdaq Composite decreased 0.39%. In contrast, European equities, measured by Stoxx Europe 600 Index, rose 0.91% while Japanese equities also advanced as the yen pulled back (Nikkei 225: 1.90% and Topix: 1.68%).
- Finally, the MSCI Emerging Markets index fell 1.15% led by MSCI Asia Pacific (-1.53%). The MSCI Emerging Europe saw a weekly gain of 0.54% while the MSCI Latin America ended the week relatively flat (0.01%). Within Asia, the Philippines stock market was the outperformer, rising on last week's upbeat election (PSEi: 6.36%) while China stocks posted their fourth week of declines. The Shanghai Composite slid 2.96% and the Hang Seng China Enterprises Index sank 2.01%.

### Asset Allocation

- **Equities** — We remain cautious about DM equities in particular US equities. Some areas of EM equities have started to underperform, alongside recent weakness in selected EM FX.
- **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** — Tactically it does not feel like a great place to add to duration although we maintain our bullish stance. Positioning in core rates is probably closer to neutral now.
- **Commodities** — Commodity complexes are vulnerable to positioning unwinds. Given inverse correlations, USD trends matter.

### Upbeat US Data

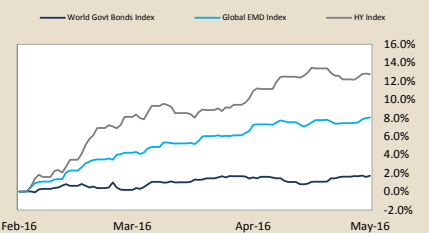
#### Citi Economic Surprise Index



Source: Bloomberg as of 13 May 2016

### HY spreads widened

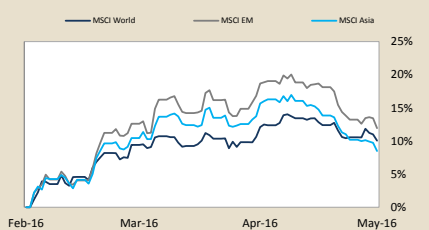
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 13 May 2016

### Another volatile week for equities

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 13 May 2016

### Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
16-May	US	Empire Manufacturing	May	6.5	9.6	7.0
17-May	SI	Non-oil Domestic Exports YoY	Apr	-7.9%	-15.6%	-12.6%
17-May	SI	Non-oil Domestic Exports SA MoM	Apr	4.4%	0.2%	1.3%
17-May	AU	RBA May Meeting Minutes	-	-	-	-
17-May	US	CPI MoM	Apr	0.3%	0.1%	0.3%
17-May	HK	Unemployment Rate SA	Apr	3.4%	3.4%	3.5%
18-May	JN	GDP SA QoQ	1Q P	0.1%	-0.3%	-0.1%
18-May	EC	CPI YoY	Apr F	-0.2%	-0.2%	-0.3%
19-May	MA	BNM Overnight Policy Rate	19-May	3.3%	3.3%	3.3%
19-May	ID	Bank Indonesia Reference Rate	19-May	6.8%	6.8%	6.8%
19-May	US	Initial Jobless Claims	14-May	275K	294K	270K
20-May	TA	Export Orders YoY	Apr	-4.4%	-4.7%	-2.6%

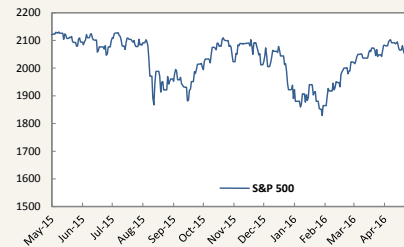
Source: Bloomberg as of 13 May 2016

## Drivers and Risks by Market

### United States

- **Driver:** Market trends may be driven by a 5%-type earnings pickup. As we enter the final stages of the earnings season with 86% of companies having reported, 74% of S&P500 companies beat Earning per share (EPS) estimates. The actual EPS is running at -8% y/y and at -1% ex-Energy. 54% of companies beat sales estimates, higher than the previous quarters because of the weaker dollar. Sales is running at -3% y/y and +1% ex-Energy.
- **Risk:** We envision restraint owing to expected EBIT margin pressures, the impact of additional Fed rate hikes and the uncertainty surrounding the US elections.
- **Implication:** Citi analysts anticipate better year-over-year EPS trends in 2H16 given the recently weaker US dollar and remain generally constructive long term while preferring to buy on weakness.

End-2016 Target: 2150

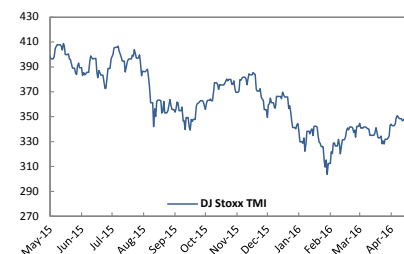


Source: Bloomberg as of 13 May 2016

### Europe

- **Driver:** In Europe, 71% of companies have reported earnings. 59% of Stoxx600 companies beat EPS estimates. The actual Q1 EPS growth is coming in at -19% y/y and -13% ex-Energy. Only 44% of the companies beat sales expectations, down from the previous quarters. Top-line growth is soft, at -5%.
- **Risk:** In case of a vote to leave the EU, the BoE's Monetary Policy Committee (MPC) expects a fall in sterling, lower growth and higher inflation. A potential Brexit not only impacts the UK, but may also likely reverberate across the EU, triggering a wave of referendums elsewhere as well as emboldening separatist parties.
- **Implication:** Nevertheless, we see the prospect of stronger EPS growth in Europe in 2017E: 1) move away from 1Q16 global recession fears, 2) rising CPI, especially DM, 3) higher EM GDP growth in 2017E vs 2016E, 4) improving bank lending in Euro Area suggests support for credit/capex cycle, 5) end/reversal of commodity EPS drag, and 6) diminishing EPS headwinds for European banks.

End-2016 Target: 380

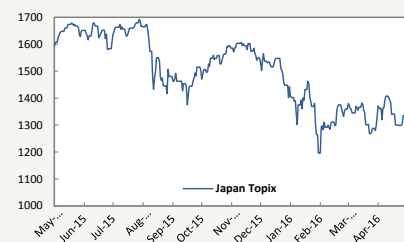


Source: Bloomberg as of 13 May 2016

### Japan

- **Driver:** In Citi's view, the strong momentum toward bolstering shareholder returns could catalyse a re-rating of Japanese equities by global investors. TSE-listed stocks are expected to return a total of ¥17.8trn to shareholders in FY15. This could represent a near-doubling over the past three years, with share buybacks expected to rise 320% to ¥5.5trn in FY2015 from ¥1.3trn in FY12. Citi thinks negative interest rate policy (NIRP) may continue to drive companies to allocate surplus cash to shareholder return.
- **Risk:** Dividend payouts and yields in Japan are well below the averages of major markets, but over the past two years Japan has seen these two increasing.
- **Implication:** Citi analysts prefer 1) companies which may adopt more efficient capital policies to improve shareholder returns; 2) cash-rich (net cash) companies; 3) companies with high dividend yields and dividend per share (DPS) growth and 4) J-REIT and defensive sectors paying 2% or more dividends.

End-2016 Target: 1500

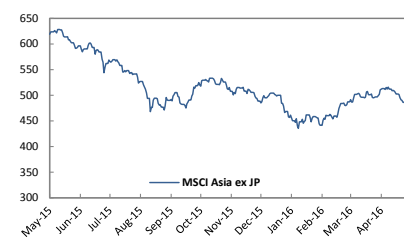


Source: Bloomberg as of 13 May 2016

### Asia

- **Driver:** In China, the credit contraction in April is more severe than the seasonal patterns suggest, and it is likely attributed to concerns over high leverage. New yuan loans fell sharply to RMB 555.6bn, driven by PBOC's window guidance, steep decline of corporate and government loans and falling RMB deposit inflows.
- **Risk:** Soft April data from China may further erode the outlook for emerging markets, add to investors' precautionary demand for dollars, and shift portfolios allocations back towards risk-averse assets.
- **Implication:** Chinese authorities appear to feel reluctant to ease monetary policy further without accompanying structural reforms. Balancing the net capital outflow since the start of the year and the need to lower firms' funding costs, Citi analysts still think an RRR cut is more likely than a cut in interest rates.

End-2016 Target: 530



Source: Bloomberg as of 13 May 2016

## Currency Forecast

Currency	Last price		Forecasts					
	13-May-16		Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
<b>G10-US Dollar</b>								
Euro	EURUSD	1.13	1.15	1.16	1.16	1.16	1.16	1.15
Japanese yen	USDJPY	109	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	0.73	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	6.53	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	USIDR	13,325	13,164	13,314	13,464	13,545	13,605	13,665
Indian Rupee	USDINR	66.8	66.7	67.3	67.9	68.3	68.7	69.1
Korean Won	USDKRW	1,171	1,145	1,156	1,167	1,160	1,146	1,131
Malaysian Ringgit	USDMYR	4.03	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	1.37	1.36	1.37	1.38	1.38	1.39	1.39
Thai Baht	USDTHB	35.5	35.1	35.3	35.5	35.6	35.8	36.1
Taiwan Dollar	USDTWD	32.6	32.5	32.7	33.0	33.0	33.0	33.0
<b>EM Europe</b>								
Russian Ruble	USDRUB	65.5	67.5	66.5	65.5	65.1	64.7	64.4
South African Rand	USDZAR	15.40	14.66	15.03	15.41	15.57	15.67	15.78
<b>EM Latam</b>								
Brazilian Real	USDBRL	3.53	3.52	3.69	3.86	3.91	3.93	3.96
Mexican Peso	USDMXN	18.2	17.5	17.7	17.9	17.9	17.8	17.7

Source: Citi Research and Bloomberg as of 13 May 2016

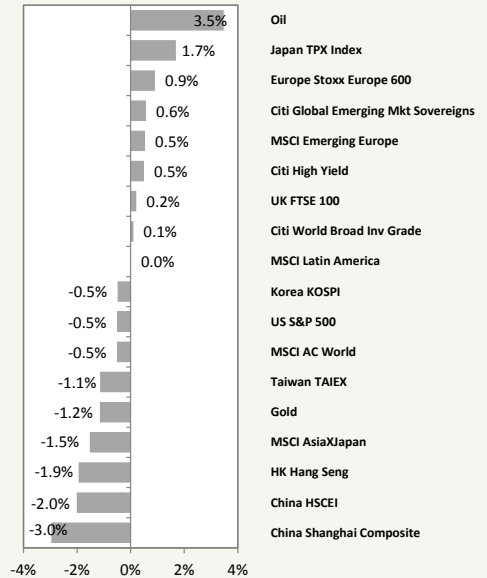
## Short Rates and 10-Year Yield Forecasts

	Last price		Forecasts				
	13-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	1.70		1.85	1.90	2.00	2.10	2.15
Japan	-0.11		-0.15	-0.20	-0.20	-0.25	-0.20
Euro Area	0.12		0.15	0.15	0.20	0.20	0.25

Source: Citi Research and Bloomberg as of 13 May 2016

## Weekly Market Performance

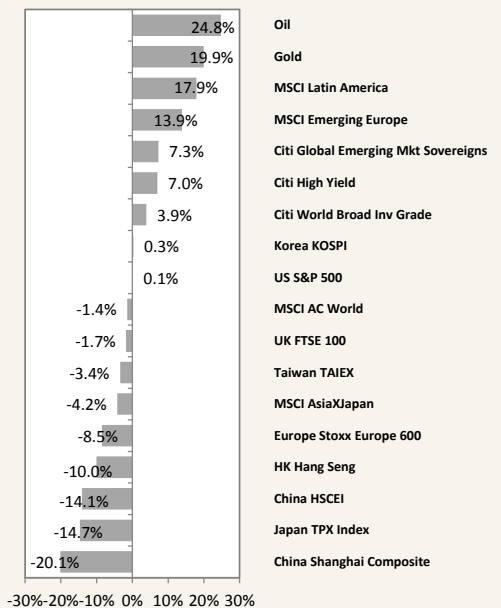
(9 - 13 May 2016)



Source: Bloomberg as of 13 May 2016

## Market Performance (Year-To-Date)

(As of 13 May 2016)



Source: Bloomberg as of 13 May 2016

## World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				Year-to-date (USD)
	13-May-16	High	Low	1 week	1 month	1 year	Year-to-date	
<b>US / Global</b>								
MSCI World	393.63	443.75	351.25	-0.51%	-2.21%	-10.17%	-1.43%	-1.43%
Dow Jones Industrial Average	17535.32	18351.36	15370.33	-1.16%	-2.08%	-2.91%	0.63%	0.63%
S&P 500	2046.61	2134.72	1810.10	-0.51%	-1.72%	-2.47%	0.13%	0.13%
NASDAQ	4717.68	5231.94	4209.76	-0.39%	-4.64%	-5.30%	-5.79%	-5.79%
<b>Europe</b>								
MSCI Europe	393.33	478.94	355.54	-0.23%	-2.45%	-16.68%	-4.29%	-4.29%
Stoxx Europe 600	334.68	409.48	302.59	0.91%	-2.44%	-15.37%	-8.51%	-4.91%
FTSE100	6138.50	7069.93	5499.51	0.21%	-3.53%	-11.67%	-1.66%	-4.12%
CAC40	4319.99	5217.80	3892.46	0.44%	-3.79%	-12.94%	-6.84%	-3.17%
DAX	9952.90	11920.31	8699.29	0.84%	-0.73%	-12.32%	-7.35%	-4.10%
<b>Japan</b>								
NIKKEI225	16412.21	20952.71	14865.77	1.90%	0.19%	-16.96%	-13.77%	-4.47%
Topix	1320.19	1702.83	1193.85	1.68%	-0.92%	-17.70%	-14.68%	-5.48%
<b>Emerging Markets</b>								
MSCI Emerging Market	796.07	1045.73	686.74	-1.15%	-5.70%	-23.00%	0.24%	0.24%
MSCI Latin America	2157.76	2765.80	1550.47	0.01%	-2.75%	-20.29%	17.92%	17.92%
MSCI Emerging Europe	125.68	159.85	91.09	0.54%	-3.49%	-20.55%	13.89%	13.89%
Brazil Bovespa	51804.31	57605.86	37046.07	0.17%	-2.53%	-8.10%	19.50%	34.64%
Russia RTS	921.88	1089.51	607.14	1.08%	-0.07%	-14.82%	21.77%	21.77%
<b>Asia</b>								
MSCI Asia ex-Japan	478.82	631.83	434.84	-1.53%	-6.20%	-22.54%	-4.22%	-4.22%
Australia S&P/ASX 200	5328.99	5803.00	4706.70	0.70%	5.43%	-6.76%	0.62%	0.40%
China HSCEI (H-shares)	8301.39	14962.74	7498.81	-2.01%	-9.68%	-40.10%	-14.07%	-14.23%
China Shanghai Composite	2827.11	5178.19	2638.30	-2.96%	-7.81%	-35.39%	-20.12%	-20.67%
Hong Kong Hang Seng	19719.29	28524.60	18278.80	-1.94%	-6.80%	-27.63%	-10.02%	-10.18%
India Sensex30	25489.57	28578.33	22494.61	1.03%	-0.54%	-6.46%	-2.40%	-3.56%
Indonesia JCI	4761.72	5347.13	4033.59	-1.26%	-1.88%	-9.23%	3.67%	7.74%
Malaysia KLCI	1628.26	1823.50	1503.68	-1.28%	-5.50%	-9.69%	-3.80%	2.61%
Korea KOSPI	1966.99	2148.70	1800.75	-0.49%	-0.72%	-6.96%	0.29%	0.37%
Philippines PSE	7436.79	7923.13	6084.28	6.36%	1.30%	-4.76%	6.97%	7.59%
Singapore STI	2734.91	3467.23	2528.44	0.15%	-5.38%	-20.80%	-5.13%	-2.00%
Taiwan TAIEX	8053.69	9766.21	7203.07	-1.14%	-6.92%	-17.18%	-3.41%	-2.75%
Thailand SET	1394.69	1536.30	1220.96	0.29%	0.67%	-6.77%	8.28%	10.15%
<b>Commodity</b>								
Oil	46.21	61.82	26.05	3.47%	10.66%	-23.62%	24.76%	24.76%
Gold spot	1273.07	1303.82	1046.43	-1.15%	2.46%	4.72%	19.94%	19.94%

Source: Bloomberg as of 13 May 2016

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