

A June Fed rate hike seems off the table

- The US economy added just 38,000 jobs in May, well below consensus expectations of 160,000. April's job growth was revised lower to a gain of 123,000 jobs. The miss was one of the largest since August 2011, when there was no job gain reported for the month.
- In the near-term, this jobs report may likely spark renewed concerns over the strength of the recovery both for investors and FOMC. Citi analysts however think that the US economy is not falling into a recession and expect US GDP growth to be around 1.7% in 2016. In Citi's view, a much stronger June jobs report could potentially reverse the short term weakness in the USD.
- As a result, a June rate hike seems off the table, while a July hike appears much less likely. Market pricing for a June and July rate hike plummeted to 4% and 27% respectively from 22% and 54% ahead of the release of April employment data. Citi analysts maintain their forecast of one rate hike this year, most likely in September.

Performance

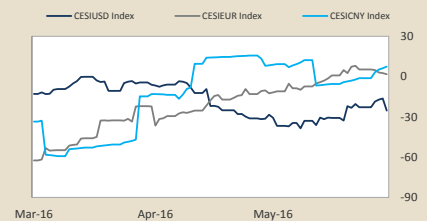
- Global equities finished slightly above the flat line despite weaker PMIs and softer US jobs with the MSCI World index inching up 0.23%. US equities finished mixed with the Dow Jones Industrial Average lower 0.37% while the S&P 500 Index stayed unchanged and the Nasdaq Composite increased 0.18%. European equities as measured by the Stoxx Europe 600 Index lost 2.39% and Japanese stocks retreated on the week despite PM Abe postponing a sales-tax increase (Nikkei 225: -1.14% and Topix: -0.94%).
- Meanwhile, EM equities outperformed their peers in developed markets (MSCI EM: +0.98%) led by MSCI Latin America (+2.21%). The MSCI Asia ex-Japan also gained 0.88% while the MSCI Emerging Europe lost 1.48% last week. Within Asia, the Chinese market outperformed on MSCI inclusion hopes (SHCOMP: +4.17% and HSCEI: +2.50%).

Asset Allocation

- **Equities** — We expect equities to remain stuck in the current trading range for this year with the downside limited by relatively attractive yields in a low interest rate environment and the upside capped by lackluster EPS growth.
- **Credit** — To mid-2017, we do not see too much spread movement from current levels. European credit may outperform its US counterparts in both HY and IG.
- **Rates** — Across the major government bonds, forecasts to mid-2017 are mostly for higher yields. Return expectations are fairly mixed. EMU bonds may outperform.
- **Commodities** — Fundamentals are firming and bottoms were likely hit earlier this year. The main risks are Fed rate hikes and signs of demand weakness in China.

Disappointing PMI and US jobs data

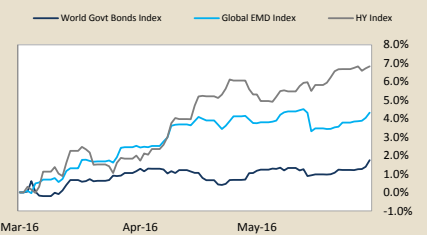
Citi Economic Surprise Index



Source: Bloomberg as of 3 June 2016

HY supported by rising oil prices

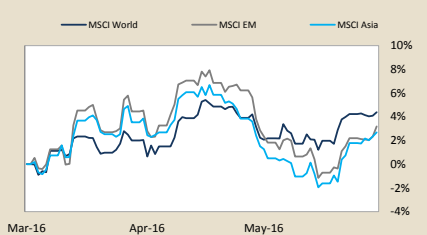
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 3 June 2016

Equities grind higher despite soft data

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 3 June 2016

Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
6-Jun	EC	Senx Investor Confidence	Jun	7.0	6.2	--
7-Jun	EC	GDP SA QoQ	1Q	0.5%	0.5%	0.5%
7-Jun	JN	Coincident Index	Apr	112.7	111.1	112.9
7-Jun	CH	Foreign Reserves US\$ billion	May	3,200.0	3,219.7	3,204.7
8-Jun	CH	Exports YoY	May	-4.2%	-1.8%	-5.3%
8-Jun	JN	GDP SA QoQ	1Q	0.5%	0.4%	0.4%
9-Jun	JN	Machine Orders MoM	Apr	-3.0%	5.5%	-4.5%
9-Jun	CH	CPI YoY	May	2.3%	2.3%	2.2%
9-Jun	SK	BoK 7-Day Repo Rate	9-Jun	1.5%	1.5%	150.0%
9-Jun	US	Initial Jobless Claims	4-Jun	270K	267K	275K
10-Jun	JN	Tertiary Industry Index MoM	Apr	0.6%	-0.7%	0.2%
10-Jun	US	U. of Mich. Sentiment	Jun	94.0	94.7	--

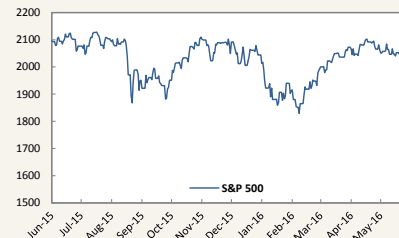
Source: Bloomberg as of 3 June 2016

Drivers and Risks by Market

United States

- **Driver:** The US economy added just 38,000 jobs in May, well below consensus expectations of 160,000. April's job growth was revised lower to a gain of 123,000 jobs. The miss was one of the largest since August 2011, when there was no job gain reported for the month.
- **Risk:** In the near-term, this jobs report may likely spark renewed concerns over the strength of the recovery both for investors and FOMC.
- **Implication:** Until Friday's employment report, global and US economic developments had satisfied the preconditions for raising rates. Citi analysts believe that a hike in June is off the table, possibly July as well. However, a 116K 3-month average payroll gain may not derail a Fed hike later this year. Thus, Citi analysts stay with our September call, but remain vigilant for data revisions/ reversals in coming months.

End-2016 Target: 2150

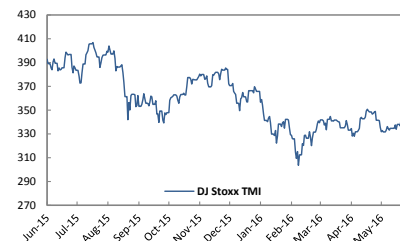


Source: Bloomberg as of 3 June 2016

Europe

- **Driver:** Recent fiscal consolidation efforts across the euro area have been significant in terms of bringing the budget deficits below 3% of GDP on aggregate, albeit by relying more on cyclical improvements rather than structural efforts in 2015.
- **Risk:** The weak fiscal position may leave sovereigns at the mercy of sudden changes in market funding conditions, due to changes in monetary policy and/or investor risk appetite.
- **Implication:** A new fiscal board, European Fiscal Board (EFB) was established in late 2015. Although we are yet to see its first recommendations, we suspect that greater cooperation and coordination between the ECB and the EFB could improve the euro area policy mix and help to shorten the time for inflation to return to target.

End-2016 Target: 380

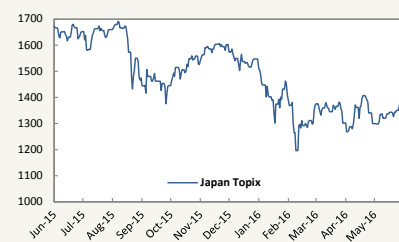


Source: Bloomberg as of 3 June 2016

Japan

- **Driver:** According to the media, PM Abe may postpone the consumption tax hike that was planned for April 2017. Citi analysts expect the postponement of the tax hike, if it happens, to be positive for Japanese equities. If there is no hike, economic stimulus package of ¥5-6trn is likely to be announced in Citi's view.
- **Risk:** PM Abe said at the G7 summit last week that the current global economic conditions look similar to the situation before Lehman's bankruptcy. His statement is creating ripples at home and abroad. While he seemingly aims to justify a postponement of the planned consumption tax hike, policy mishap remains a risk.
- **Implication:** Citi analysts believe that a combination of the postponement of the tax hike and the stimulus could help stabilize earnings in domestic demand-driven sectors.

End-2016 Target: 1500

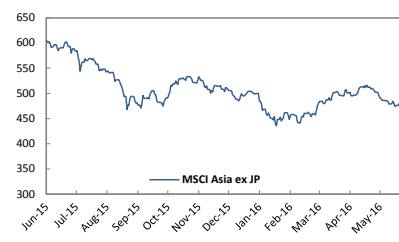


Source: Bloomberg as of 3 June 2016

Asia

- **Driver:** GDP growth in EM (ex-China) fell below DM growth late last year, for the first time since 1998. This period of economic underperformance is now very likely to be coming to an end, largely thanks to the fact that growth in Russia and Brazil – whose deep recessions were at the root of EM's weakness on average – probably have upside risks now. Stable oil prices support risk appetite towards EM.
- **Risk:** Ironically, higher oil price is producing the upside risks to inflation that might bring us closer to the most obvious threat to EM asset prices: Fed hikes. Also rising protectionism may hurt EM exporters.
- **Implication:** Assuming a zero chance of a 50bp hike, a 25bp move by July is priced with a 68% probability based on the Fed Fund Futures, Citi analysts expect EM currencies to grind weaker into the June/July FOMC but the strength in USD may be more gradual than what we observed earlier this year.

End-2016 Target: 530



Source: Bloomberg as of 3 June 2016

Currency Forecast

	Currency	Last price	Forecasts					
		03-Jun-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
G10-US Dollar								
Euro	EURUSD	1.14	1.11	1.13	1.15	1.16	1.16	1.16
Japanese yen	USDJPY	107	114	112	111	110	109	109
British Pound	GBPUSD	1.45	1.50	1.51	1.52	1.52	1.51	1.49
Swiss Franc	USDCHF	0.98	0.99	0.97	0.96	0.95	0.95	0.95
Australian Dollar	AUDUSD	0.74	0.70	0.71	0.72	0.74	0.76	0.79
New Zealand	NZDUSD	0.70	0.65	0.66	0.67	0.67	0.68	0.68
Canadian Dollar	USDCAD	1.29	1.33	1.31	1.29	1.28	1.27	1.27
EM Asia								
Chinese Renminbi	USDCNY	6.55	6.61	6.66	6.72	6.77	6.82	6.87
Hong Kong	USDHKD	7.77	7.76	7.77	7.78	7.78	7.78	7.78
Indonesian Rupiah	USDIDR	13,591	13,604	13,642	13,679	13,709	13,729	13,749
Indian Rupee	USDINR	67.3	67.5	67.9	68.3	68.6	68.9	69.2
Korean Won	USDKRW	1,184	1,199	1,192	1,184	1,173	1,157	1,141
Malaysian Ringgit	USDMYR	4.15	4.10	4.06	4.02	3.97	3.90	3.83
Philippine Peso	USDPHP	46.5	47.0	47.4	47.8	48.0	47.9	47.8
Singapore Dollar	USDSGD	1.36	1.38	1.38	1.39	1.39	1.39	1.39
Thai Baht	USDTHB	35.6	36.0	36.2	36.4	36.5	36.5	36.5
Taiwan Dollar	USDTWD	32.6	33.0	33.2	33.4	33.5	33.4	33.3
EM Europe								
Russian Ruble	USDRUB	65.6	65.6	64.0	62.4	61.6	61.6	61.7
South African Rand	USDZAR	15.09	15.81	15.88	15.96	16.00	16.00	16.00
EM Latam								
Brazilian Real	USDBRL	3.53	3.51	3.62	3.74	3.82	3.86	3.90
Mexican Peso	USDMXN	18.6	18.2	18.3	18.4	18.4	18.2	18.0

Source: Citi Research and Bloomberg as of 3 June 2016

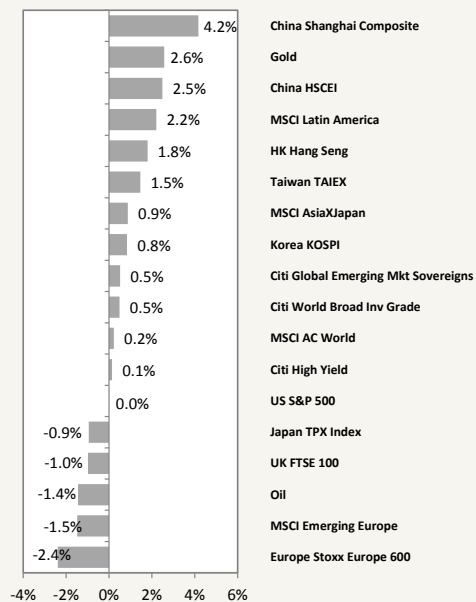
Short Rates and 10-Year Yield Forecasts

	Last price	Forecasts				
	03-Jun-16	3Q16	4Q16	1Q17	2Q17	3Q17
Short Rates (End of Period)						
US	0.50	0.75	0.75	1.00	1.00	1.25
Japan	-0.10	-0.30	-0.30	-0.30	-0.30	-0.50
Euro Area	0.00	-0.05	-0.10	-0.25	-0.25	-0.25
10-Year Yield (Period Average)						
US	1.70	1.90	2.00	2.10	2.15	2.20
Japan	-0.11	-0.20	-0.25	-0.20	-0.20	-0.25
Euro Area	0.07	0.15	0.20	0.20	0.25	0.30

Source: Citi Research and Bloomberg as of 3 June 2016

Weekly Market Performance

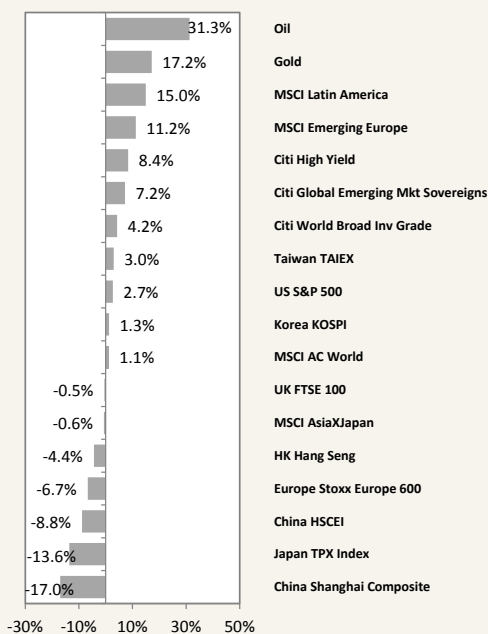
(30 May - 3 June 2016)



Source: Bloomberg as of 3 June 2016

Market Performance (Year-To-Date)

(As of 3 June 2016)



Source: Bloomberg as of 3 June 2016

World Market At Glance

	Last price 03-Jun-16	52-Week High	52-Week Low	Historical Returns (%)				Year-to-date (USD)
				1 week	1 month	1 year	Year-to-date	
US / Global								
MSCI World	403.87	438.45	351.25	0.23%	1.03%	-7.46%	1.13%	1.13%
Dow Jones Industrial Average	17807.06	18188.81	15370.33	-0.37%	0.32%	-1.49%	2.19%	2.19%
S&P 500	2099.13	2132.82	1810.10	0.00%	1.73%	-0.71%	2.70%	2.70%
NASDAQ	4942.52	5231.94	4209.76	0.18%	3.76%	-3.07%	-1.30%	-1.30%
Europe								
MSCI Europe	401.37	470.83	355.54	-0.63%	-0.25%	-14.03%	-2.34%	-2.34%
Stoxx Europe 600	341.29	408.73	302.59	-2.39%	1.71%	-13.80%	-6.70%	-2.75%
FTSE100	6209.63	6873.43	5499.51	-0.98%	0.39%	-10.66%	-0.52%	-1.98%
CAC40	4421.78	5217.80	3892.46	-2.06%	1.14%	-12.16%	-4.64%	-0.61%
DAX	10103.26	11802.37	8699.29	-1.78%	1.78%	-11.53%	-5.96%	-2.38%
Japan								
NIKKEI225	16642.23	20952.71	14865.77	-1.14%	3.06%	-18.71%	-12.56%	-1.20%
Topix	1337.23	1702.83	1193.85	-0.94%	2.87%	-19.93%	-13.58%	-2.35%
Emerging Markets								
MSCI Emerging Market	816.18	995.15	686.74	0.98%	-0.60%	-18.04%	2.78%	2.78%
MSCI Latin America	2104.07	2596.00	1550.47	2.21%	-3.85%	-17.09%	14.99%	14.99%
MSCI Emerging Europe	122.74	144.63	91.09	-1.48%	-4.25%	-13.32%	11.23%	11.23%
Brazil Bovespa	50619.50	54977.70	37046.07	3.20%	-3.14%	-5.42%	16.77%	30.72%
Russia RTS	902.64	989.87	607.14	-1.62%	-5.10%	-4.71%	19.23%	19.23%
Asia								
MSCI Asia ex-Japan	496.83	605.19	434.84	0.88%	0.26%	-18.37%	-0.62%	-0.62%
Australia S&P/ASX 200	5318.89	5727.70	4706.70	-1.61%	-0.65%	-4.74%	0.43%	1.05%
China HSCEI (H-shares)	8809.81	14227.74	7498.81	2.50%	0.70%	-37.59%	-8.81%	-9.02%
China Shanghai Composite	2938.68	5178.19	2638.30	4.17%	-1.80%	-40.15%	-16.97%	-17.82%
Hong Kong Hang Seng	20947.24	27646.72	18278.80	1.80%	1.31%	-24.26%	-4.41%	-4.63%
India Sensex30	26843.03	28578.33	22494.61	0.71%	6.39%	0.02%	2.78%	1.79%
Indonesia JCI	4853.92	5100.57	4033.59	0.81%	0.87%	-5.39%	5.68%	9.02%
Malaysia KLCI	1636.46	1746.28	1503.68	-0.04%	-0.91%	-6.44%	-3.31%	1.69%
Korea KOSPI	1985.84	2110.81	1800.75	0.85%	-0.03%	-3.75%	1.25%	2.23%
Philippines PSE	7514.22	7697.33	6084.28	1.38%	6.64%	-0.63%	8.09%	9.64%
Singapore STI	2809.23	3383.56	2528.44	0.24%	-0.07%	-16.14%	-2.55%	1.60%
Taiwan TAIEX	8587.36	9500.57	7203.07	1.46%	3.54%	-10.14%	2.99%	4.99%
Thailand SET	1436.43	1524.59	1220.96	1.68%	2.76%	-3.08%	11.52%	13.76%
Commodity								
Oil	48.62	61.82	26.05	-1.44%	11.39%	-18.48%	31.26%	31.26%
Gold spot	1244.20	1303.82	1046.43	2.58%	-3.29%	4.99%	17.22%	17.22%

Source: Bloomberg as of 3 June 2016

Disclaimer

"Citi analysts" refers to investment professionals within Citi Research ("CR"), Citi Global Markets Inc. ("CGMI") and voting members of the Citi Global Investment Committee. Citibank N.A. and its affiliates / subsidiaries provide no independent research or analysis in the substance or preparation of this document.

The information in this document has been obtained from reports issued by CGMI. Such information is based on sources CGMI believes to be reliable. CGMI, however, does not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute CGMI's judgment as of the date of the report and are subject to change without notice. This document is for general information purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any security or currency. No part of this document may be reproduced in any manner without the written consent of Citibank N.A. Information in this document has been prepared without taking account of the objectives, financial situation, or needs of any particular investor. Any person considering an investment should consider the appropriateness of the investment having regard to their objectives, financial situation, or needs, and should seek independent advice on the suitability or otherwise of a particular investment. Investments are not deposits, are not obligations of, or guaranteed or insured by Citibank N.A., Citigroup Inc., or any of their affiliates or subsidiaries, or by any local government or insurance agency, and are subject to investment risk, including the possible loss of the principal amount invested. Investors investing in funds denominated in non-local currency should be aware of the risk of exchange rate fluctuations that may cause a loss of principal. Past performance is not indicative of future performance, prices can go up or down. Some investment products (including mutual funds) are not available to US persons and may not be available in all jurisdictions. Investors should be aware that it is his/her responsibility to seek legal and/or tax advice regarding the legal and tax consequences of his/her investment transactions. If an investor changes residence, citizenship, nationality, or place of work, it is his/her responsibility to understand how his/her investment transactions are affected by such change and comply with all applicable laws and regulations as and when such becomes applicable. Citibank does not provide legal and/or tax advice and is not responsible for advising an investor on the laws pertaining to his/her transaction.

Citi Research (CR) is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For more information, please refer to https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures

Country Specific Disclosures

- Australia** : This document is distributed in Australia by Citigroup Pty Limited ABN 88 004 325 080, AFSL 238098. For a full explanation of the risks of investing in any investment, please ensure that you fully read and understand the relevant Product Disclosure Statement prior to investing.
- Hong Kong** : This document is distributed in Hong Kong by Citibank (Hong Kong) Limited ("CHKL"). Prices and availability of financial instruments can be subject to change without notice. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested.
- India** : This document is distributed in India by Citibank N.A. Investment are subject to market risk including that of loss of principal amounts invested. Products so distributed are not obligations of, or guaranteed by, Citibank and are not bank deposits. Past performance does not guarantee future performance. Investment products cannot be offered to US and Canada Persons. Investors are advised to read and understand the Offer Documents carefully before investing.
- Indonesia** : This report is made available in Indonesia through Citibank N.A., Indonesia Branch. Citibank N. A., Indonesia is a bank that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).
- Korea** : This document is distributed in South Korea by Citibank Korea Inc. Investors should be aware that investment products are not guaranteed by the Korea Deposit Insurance Corporation and are subject to investment risk including the possible loss of the principal amount invested. Investment products are not available to US persons.
- Malaysia** : This document is distributed in Malaysia by Citibank Berhad.
- People's Republic of China** : This document is distributed by Citibank (China) Co., Ltd in the People's Republic of China (excluding the Special Administrative Regions of Hong Kong and Macau, and Taiwan).
- Philippines** : This document is made available in Philippines by Citicorp Financial Services and Insurance Brokerage Phils. Inc, and Citibank N.A. Philippine Branch. Investors should be aware that Investment products are not insured by the Philippine Deposit Insurance Corporation or Federal Deposit Insurance Corporation or any other government entity.
- Singapore** : This report is distributed in Singapore by Citibank Singapore Limited ("CSL"). Investment products are not insured under the provisions of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 of Singapore and are not eligible for deposit insurance coverage under the Deposit Insurance Scheme.
- Thailand** : This document contains general information and insights distributed in Thailand by Citigroup and is made available in English language only. Citi does not dictate or solicit investment in any specific securities and similar products. Investment contains certain risk, please study prospectus before investing. Not an obligation of, or guaranteed by, Citibank. Not bank deposits. Subject to investment risks, including possible loss of the principal amount invested. Subject to price fluctuation. Past performance does not guarantee future performance. Not offered to US persons.
- Vietnam** : This document is distributed in Vietnam by Citibank, N.A., - Ho Chi Minh City Branch and Citibank, N.A. - Hanoi Branch, licensed foreign bank's branches regulated by the State Bank of Vietnam. Investment contains certain risk, please study product's prospectus, relevant disclosures and disclaimers and the terms and conditions for details before investing. Investment products are not offered to US persons.
- United Kingdom** : This document is distributed in U.K. by Citibank Europe plc, UK Branch. The registered address in the UK is Citibank Centre, Canada Square, Canary Wharf, London E14 5LB. Citibank Europe plc, UK Branch is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.