

Uncertainty ahead of monetary policy decisions

- UK referendum risks have dominated global market sentiment as we saw more polls in favour of leave over the weekend. Citi's view is that the probability of 'Leave' is towards the top of their 30-40% range although we may continue to see uncertainty right up until polling day on 23rd June.
- This week, the headlining event is poised to be the monetary policy decision from the Federal Open Market Committee (FOMC) on 14-15 June. Although June rate hike expectations were taken off the table by recent disappointing labour report, markets will be paying close attention to the FOMC's updated economic projections and Yellen's press conference shortly after the decision.
- This week also sees the BoJ meeting on 15-16 June where Citi analysts think there is very little chance that the central bank may ease further ahead of July elections. Instead, we assign additional easing probabilities of 55% to July and 45% to a subsequent period.

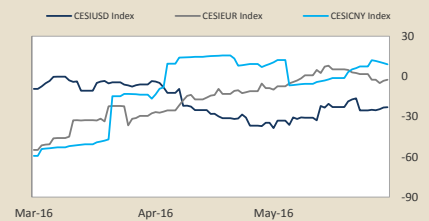
Performance

- Global markets appeared cautious ahead of a plethora of monetary policy decisions as the MSCI World index fell up 0.62%. US equities finished mixed as the Dow Jones Industrial Average increased 0.33%, the S&P 500 Index decreased 0.15% and the Nasdaq Composite declined 0.97%. European equities as measured by the Stoxx Europe 600 Index lost 2.45% and Japanese stocks retreated on the week (Nikkei 225: -0.25% and Topix: -0.49%).
- Meanwhile, EM equities outperformed their peers in developed markets (MSCI EM: +0.94%) led by MSCI Emerging Europe (+1.49%) and Latin America (+0.27%). The MSCI Asia ex-Japan also gained 1.13% and within the region, the KOSPI and TAIEX were the biggest outperformers, gaining 1.60% and 1.49% respectively.

Asset Allocation

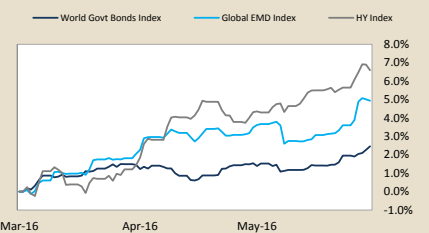
- **Equities** — A dovish Fed, weaker USD and higher oil are helping equities, especially US and EM. Equities in Europe and Japan are now under pressure due to FX strength. Current trends may be reversed by Fed's lift off in the medium term.
- **Credit** — The current environment of a weaker USD and higher oil prices has inclined us to increase weights to USD HY vs. EUR HY while we remain overweight on both.
- **Rates** — 10y UST yields are still in a declining trend long term but were recently currently consolidating in a 1.7-1.9% sideways range. With long term inflation expectations remaining low, Citi's strategy continue to add durations on sell offs.
- **Commodities** — Citi analysts believe that much of the aggregate commodity positioning rebound in 2016 has been fuelled by speculative net longs in gold, to play a weaker USD.

Better than expected data in Europe Citi Economic Surprise Index



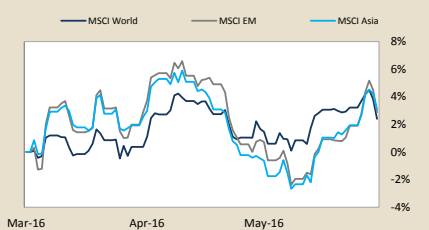
Source: Bloomberg as of 10 June 2016

HY supported by rising oil prices Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 10 June 2016

Equities cautious ahead of policy week Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 10 June 2016

Week Ahead Key Data and Event

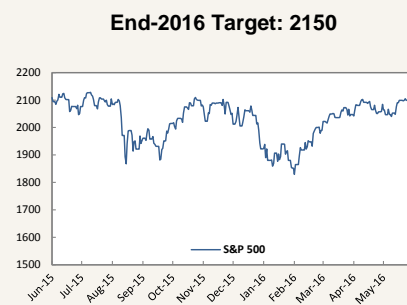
Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
14-Jun	US	Retail Sales Advance MoM	May	0.3%	1.3%	0.3%
14-Jun	EC	Industrial Production SA MoM	Apr	0.8%	-0.8%	1.0%
14-Jun	IN	Wholesale Prices YoY	May	0.5%	0.3%	0.1%
15-Jun	SK	Unemployment rate SA	May	3.8%	3.7%	3.9%
15-Jun	US	PPI Final Demand MoM	May	0.3%	0.2%	--
15-Jun	US	Industrial Production MoM	May	-0.2%	0.7%	0.0%
16-Jun	JN	BOJ Policy Rate	16-Jun	--	-0.1%	-0.1%
16-Jun	EC	CPI YoY	May F	-0.1%	-0.1%	-0.1%
16-Jun	US	FOMC meeting	16-Jun	--	--	--
16-Jun	US	CPI MoM	May	0.3%	0.4%	0.3%
16-Jun	US	Initial Jobless Claims	11-Jun	270k	264k	275k
17-Jun	SI	Non-oil Domestic Exports YoY	May	-1.3%	-7.9%	-5.4%

Source: Bloomberg as of 10 June 2016

Drivers and Risks by Market

United States

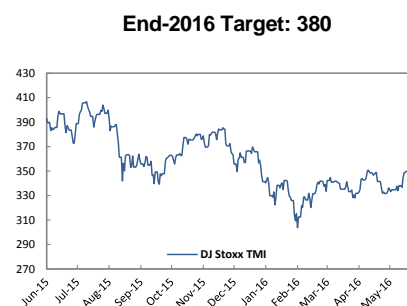
- **Driver:** The recent jobs numbers raised concerns around the health of the US economy leading to changes in equity market positioning. As a result, financials sold off and defensive sectors bounced. Citi analysts, however, anticipate a better earnings story in 2H16 given the recently weaker US dollar and stabilising oil prices.
- **Risk:** The impact of additional Fed rate hikes and the uncertainty surrounding the US presidential elections may prevent the price to earnings (P/E) from rerating higher.
- **Implication:** While Citi analysts maintain our year-end 2016 S&P 500 objective of 2,150 and our mid-2016 target of 2,100, they believe that data around new orders from the ISM manufacturing index and home sales would argue that there is good reason to believe in continued recovery and continue to prefer value stocks, especially in Energy, Capital Goods and Banks.



Source: Bloomberg as of 10 June 2016

Europe

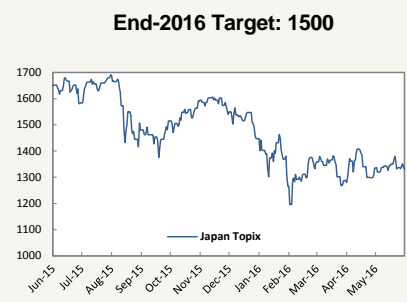
- **Driver:** The UK's membership of the EU will be voted on 23rd June. Half of the polls released last week show a lead for Leave, increasing the uncertainty in the run-up to the UK Referendum. Our Citi 10-poll average also shows a shrinking Remain lead from 3.3pp last week to 0.7pp.
- **Risk:** Brexit is likely to trigger economic weakness for the UK, in the form of poorer export performance, lower consumer spending from reduced migration inflows and weaker investment growth.
- **Implication:** A Brexit is not Citi's base case. Citi analysts still see a 60-70% probability of a Remain vote, but have recently pushed their assessment to the bottom of this range. Although we remain overweight on Europe, we maintain an underweight position in UK equities. On sectors, we maintain an overweight position in the European energy sector and underweight in financials into Brexit risk. However, financials and cyclical sectors may enjoy a post-referendum relief rally.



Source: Bloomberg as of 10 June 2016

Japan

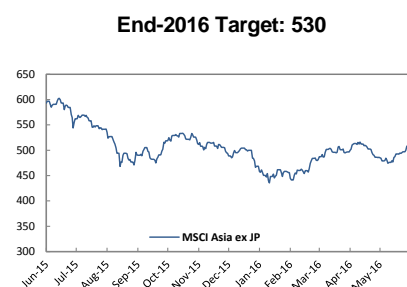
- **Driver:** While markets focus on the BoJ's monetary policy committee meeting on June 15-16, Citi analysts think there is very little chance that the BoJ will move to ease further in June. They assign additional easing probabilities of 55% to July and 45% to a subsequent period. The possibility of additional June easing could emerge if the yen strengthens to over ¥105/\$.
- **Risk:** Foreign investors continue to reduce their positions in Japanese equity. Japan is now less unattractive, thanks to the tax hike postponement in Citi's view.
- **Implication:** We remain vigilant about yen-strength risk and maintain a neutral position in Japanese equities. Key catalysts include corporate governance reform, increased shareholder returns, the government's economic stimulus measures (social infrastructure investment), and further monetary easing by the BoJ.



Source: Bloomberg as of 10 June 2016

Asia

- **Driver:** In China, industrial production stayed stable at 6.0% YoY in May. Export-orientated industries accelerated (from -1.0%YoY in April to 0.8%YoY in May) and high-technology and equipment manufacturing industry grew at 11.5%YoY and 8.5%YoY respectively. Industries with overcapacities, however, suffered, with coal production further decelerating to -15.5 % YoY in May from -11.0% YoY in April.
- **Risk:** FAI growth slowed sharply on falling private manufacturing investment and real estate investment (9.6 %YoY in May vs. 10.5% YoY in April). This suggests firms are still very cautious in expanding production on very high real interest rate and sluggish demand.
- **Implication:** May activity indicators, consistent with the stable PMI, suggest that growth momentum in Q2 has moderated. Nonetheless, Citi maintains its call that another RRR cut of 50bps in June or July will still be needed in order to meaningfully lower firms' funding costs.



Source: Bloomberg as of 10 June 2016

Currency Forecast

Currency	Last price		Forecasts					
	10-Jun-16		Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
G10-US Dollar								
Euro	EURUSD	1.13	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	1.43	1.50	1.51	1.52	1.52	1.51	1.49
Swiss Franc	USDCHF	0.96	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	0.71	0.65	0.66	0.67	0.67	0.68	0.68
Canadian Dollar	USDCAD	1.28	1.33	1.31	1.29	1.28	1.27	1.27
EM Asia								
Chinese Renminbi	USDCNY	6.56	6.61	6.66	6.72	6.77	6.82	6.87
Hong Kong	USDHKD	7.76	7.76	7.77	7.78	7.78	7.78	7.78
Indonesian Rupiah	USDIDR	13,294	13,604	13,642	13,679	13,709	13,729	13,749
Indian Rupee	USDINR	66.8	67.5	67.9	68.3	68.6	68.9	69.2
Korean Won	USDKRW	1,165	1,199	1,192	1,184	1,173	1,157	1,141
Malaysian Ringgit	USDMYR	4.07	4.10	4.06	4.02	3.97	3.90	3.83
Philippine Peso	USDPHP	46.1	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	35.3	36.0	36.2	36.4	36.5	36.5	36.5
Taiwan Dollar	USDTWD	32.3	33.0	33.2	33.4	33.5	33.4	33.3
EM Europe								
Russian Ruble	USDRUB	65.5	65.6	64.0	62.4	61.6	61.6	61.7
South African Rand	USDZAR	15.23	15.81	15.88	15.96	16.00	16.00	16.00
EM Latam								
Brazilian Real	USDBRL	3.42	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 10 June 2016

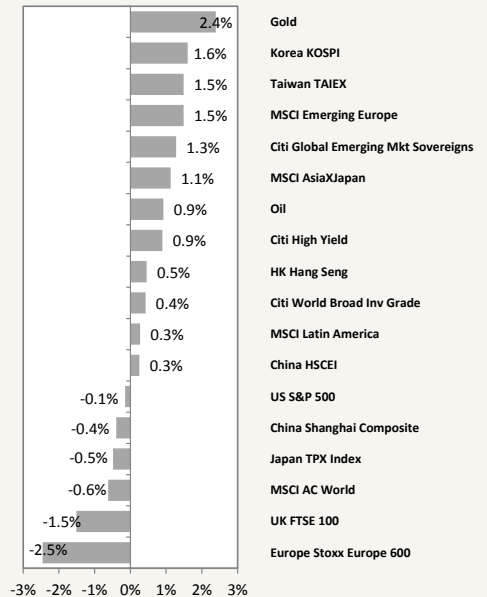
Short Rates and 10-Year Yield Forecasts

	Last price		Forecasts				
	10-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	1.64		1.90	2.00	2.10	2.15	2.20
Japan	-0.16		-0.20	-0.25	-0.20	-0.20	-0.25
Euro Area	0.02		0.15	0.20	0.20	0.25	0.30

Source: Citi Research and Bloomberg as of 10 June 2016

Weekly Market Performance

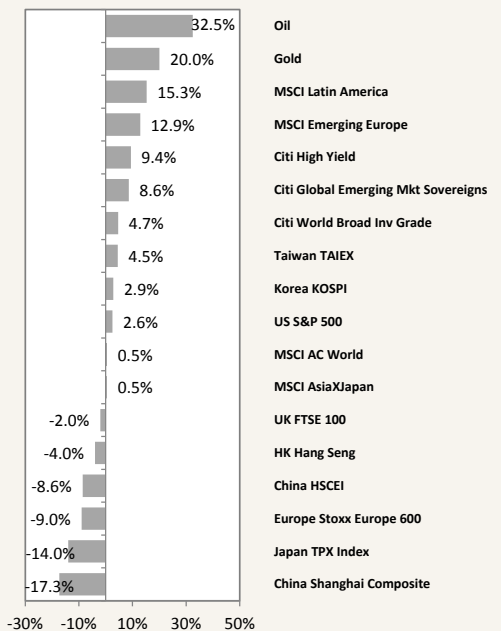
(6 - 10 June 2016)



Source: Bloomberg as of 10 June 2016

Market Performance (Year-To-Date)

(As of 10 June 2016)



Source: Bloomberg as of 10 June 2016

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	10-Jun-16	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
US / Global								
MSCI World	401.37	438.45	351.25	-0.62%	0.37%	-7.25%	0.50%	0.50%
Dow Jones Industrial Average	17865.34	18188.81	15370.33	0.33%	-0.35%	-0.75%	2.53%	2.53%
S&P 500	2096.07	2132.82	1810.10	-0.15%	0.56%	-0.43%	2.55%	2.55%
NASDAQ	4894.55	5231.94	4209.76	-0.97%	1.76%	-3.59%	-2.25%	-2.25%
Europe								
MSCI Europe	391.12	470.83	355.54	-2.55%	-1.82%	-15.41%	-4.83%	-4.83%
Stoxx Europe 600	332.92	408.73	302.59	-2.45%	-0.99%	-14.81%	-8.99%	-5.54%
FTSE100	6115.76	6873.43	5499.51	-1.51%	-0.66%	-10.46%	-2.03%	-4.67%
CAC40	4306.72	5217.80	3892.46	-2.60%	-0.73%	-12.73%	-7.12%	-3.60%
DAX	9834.62	11802.37	8699.29	-2.66%	-2.10%	-12.70%	-8.46%	-5.38%
Japan								
NIKKEI225	16601.36	20952.71	14865.77	-0.25%	0.22%	-17.19%	-12.78%	-1.80%
Topix	1330.72	1702.83	1193.85	-0.49%	-0.31%	-18.27%	-14.00%	-3.17%
Emerging Markets								
MSCI Emerging Market	823.82	995.15	686.74	0.94%	2.10%	-15.75%	3.74%	3.74%
MSCI Latin America	2109.85	2596.00	1550.47	0.27%	-4.63%	-17.42%	15.30%	15.30%
MSCI Emerging Europe	124.57	144.63	91.09	1.49%	0.76%	-12.94%	12.89%	12.89%
Brazil Bovespa	49422.16	54977.70	37046.07	-2.37%	-6.88%	-8.27%	14.01%	31.61%
Russia RTS	924.65	989.87	607.14	2.44%	3.07%	-3.58%	22.14%	22.14%
Asia								
MSCI Asia ex-Japan	502.43	602.97	434.84	1.13%	3.38%	-15.14%	0.50%	0.50%
Australia S&P/ASX 200	5312.60	5727.70	4706.70	-0.12%	-0.57%	-3.03%	0.32%	1.64%
China HSCEI (H-shares)	8831.97	14007.12	7498.81	0.25%	4.07%	-35.14%	-8.58%	-8.74%
China Shanghai Composite	2927.16	5178.19	2638.30	-0.39%	3.34%	-42.67%	-17.29%	-18.25%
Hong Kong Hang Seng	21042.64	27470.50	18278.80	0.46%	3.95%	-21.15%	-3.98%	-4.14%
India Sensex30	26635.75	28578.33	22494.61	-0.77%	3.35%	-0.76%	1.98%	0.96%
Indonesia JCI	4848.06	4992.04	4033.59	-0.12%	1.78%	-1.73%	5.55%	9.79%
Malaysia KLCI	1641.22	1744.19	1503.68	0.29%	0.33%	-5.44%	-3.03%	2.37%
Korea KOSPI	2017.63	2110.81	1800.75	1.60%	1.77%	-1.64%	2.87%	3.56%
Philippines PSE	7509.94	7792.34	6084.28	-0.06%	4.67%	1.70%	8.02%	9.96%
Singapore STI	2822.97	3383.56	2528.44	0.49%	2.98%	-15.12%	-2.07%	2.18%
Taiwan TAIEX	8715.48	9500.57	7203.07	1.49%	6.86%	-6.27%	4.53%	7.06%
Thailand SET	1429.21	1524.59	1220.96	-0.50%	2.81%	-4.98%	10.96%	13.57%
Commodity								
Oil	49.07	61.57	26.05	0.93%	9.87%	-20.12%	32.48%	32.48%
Gold spot	1273.92	1303.82	1046.43	2.39%	0.64%	7.39%	20.02%	20.02%

Source: Bloomberg as of 10 June 2016

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