

### Heading into the UK referendum

- Investors' focus this week will be squarely upon Thursday's UK's EU referendum. With recent polls leaving the result too close to forecast with confidence, the ebb and flow of various polls and opinions of influencers may keep markets volatile as uncertainty will likely persist until results are announced (expected around 4am BST Friday/11am Singapore – HK Time).
- Citi's base case remains that the outcome of the UK referendum will be a close call but Remain is at the bottom end of a 60-70% probability. According to Citi analysts, political flirtation with political alternatives is often followed by a "snapback" to the status quo.
- Ahead of that vote, investors will also look to US Fed Chair Yellen's semi-annual Congressional testimony on 21 and 22 June. The testimony will be an opportunity for Yellen to elaborate on the Fed's contingency plans and the range of policy response to the Brexit vote.

### Performance

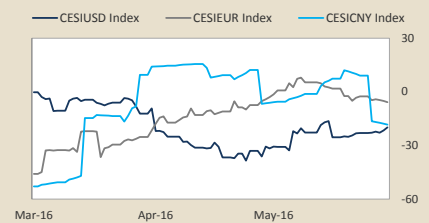
- Global markets remained cautious ahead of the UK referendum. The MSCI World index fell 1.8% with the S&P500 down 1.2%. Not surprisingly, the Stoxx Europe 600 Index fell 2.1%. Japan was a underperformer. The Nikkei 225 and Topix fell 6% as the yen strengthened after the BoJ kept monetary policy unchanged last week.
- EM equities also fell in the risk-off environment. MSCI EM fell 2.1%. Emerging Europe declined 2.1% while Latin America and Asia fell 0.3% and 2.5% respectively.

### Asset Allocation

- Equities** — Weak earnings growth are likely to weigh on equities but dividends are expected to lend some support. Beyond the near term, accommodative monetary policies, higher oil and modest USD strength are positives for equities. Citi analysts remain modestly overweight European equities
- Credit** — With yields likely to be anchored even if the Fed resumes it hiking cycle, Investment Grade Credits and High Yields remain attractive from a risk reward perspective.
- Commodities** — Commodities have turned the corner and are unlikely to return to their 1Q16 lows. Citi analysts prefer to express their warming up to the commodity theme via an Overweight in the Energy sector. Gold is expected to face headwinds post its referendum-fueled rally.

### Better than expected data in Europe

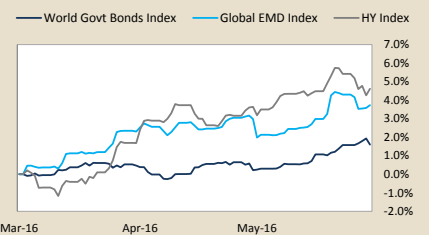
#### Citi Economic Surprise Index



Source: Bloomberg as of 17 June 2016

### HY supported by rising oil prices

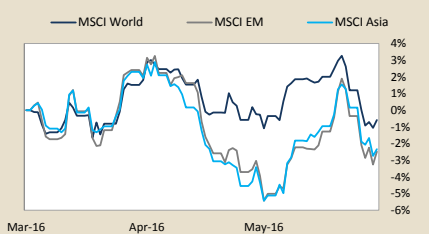
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 17 June 2016

### Equities cautious ahead of policy week

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 17 June 2016

#### Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
20-Jun	TA	Export Orders YoY	May	-7.0%	-11.1%	-8.8%
20-Jun	JN	Exports YoY	May	-10.0%	-10.1%	-7.1%
21-Jun	JN	All Industry Activity Index MoM	Apr	1.2%	0.1%	1.1%
22-Jun	EC	Consumer Confidence	Jun	-7.0	-7.0	-5.5
22-Jun	TH	BoT Benchmark Interest Rate	22-Jun	1.5%	1.5%	1.5%
22-Jun	US	Existing Home Sales	May	5.55M	5.45M	5.66M
23-Jun	PH	BSP Overnight Borrowing Rate	23-Jun	3.0%	3.0%	3.0%
23-Jun	EC	Market Eurozone Manufacturing PM	Jun	51.4	51.5	51.2
23-Jun	US	Leading Index	May	0.1%	0.6%	-0.1%
23-Jun	US	Initial Jobless Claims	18-Jun	270K	277K	270K
24-Jun	US	Durable Goods Orders	May	-0.4%	3.4%	0.9%
24-Jun	US	U. of Mich. Sentiment	Jun	94.1	94.3	--

Source: Bloomberg as of 17 June 2016

## Drivers and Risks (Special UK Referendum Report)

### If the Remain side wins:

- **Implications on asset markets:** Citi sees modest upside risk to risk assets. Higher beta Emerging Market/Asian assets may rally harder as well as benefit from a dovish Fed. Gold is likely to sell off after rallying 7% since the beginning of June. The GBP is expected to gain, followed by the EUR.
- **Politics:** The margin of victory is likely to be politically significant. A decisive outcome on either side will probably encourage a more stable political environment as losers will be forced to give way to a clear mandate.

Asian markets may rally harder

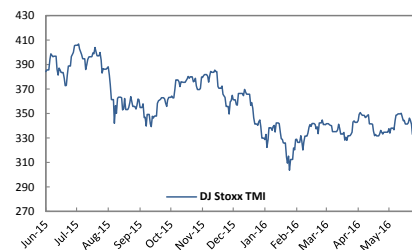


Source: Bloomberg as of 17 June 2016

### If the Leave side wins:

- **Implications on asset markets:** Citi analysts believe that flight to safety flows will probably result in a selloff in global equity markets. Core bonds are likely to benefit in a Brexit storm, as would gold. GBP is likely to fall, together with the EUR.
- **European equities:** Citi analysts estimate the downside Brexit risk for European equities to be around 5%, although a 5-10% decline in European financials cannot be ruled out given the sector's high domestic exposure. Citi analysts believe that a lot of bad news has already been priced into European equities although this will not make it immune to additional negative newsflow. The equity risk premia for developed equity markets such as the US and Europe are already close to the highs of the Global Financial Crisis (GFC).
- For a sharp fall of 10-20% in European equities, post-Brexit would require a significant rise in systemic risk across Europe. This would be a repeat of 2011 where Italian Credit Default Swaps (CDS) rose above 500. Citi analysts expect any rise in systemic risk to be intercepted by policy actions. Possible actions could include activating mutual swap lines to ensure market liquidity, selective asset purchases by the Fed, ECB or BoJ as well as coordinated foreign exchange intervention. The policy response is unlikely to target specific asset price or exchange rate levels, but aim to smooth and calm markets.

Downside priced in



Source: Bloomberg as of 17 June 2016

### Other considerations:

- **US:** Uncertainty caused by the voting outcome (including longer run considerations such as the UK's status as a gateway to the EU or London's role as a financial center) may dampen US growth (by delaying and/or reducing investment expenditures)
- **Europe:** Regardless of the outcome from the UK referendum, this is unlikely to extinguish the hopes of other would-be separatists. This potentially makes political uncertainty an ongoing major risk to the European economic outlook. Citi analysts are monitoring these risks diligently.
- **Asia:** While the direct trade exposure to UK is small, a more significant demand impact would be if Brexit adversely affected growth in the broader EU.

Uncertainty may dampen US growth



Source: Bloomberg as of 17 June 2016

## Currency Forecast

Currency	Last price 17-Jun-16	Forecasts						
		Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	
<b>G10-US Dollar</b>								
Euro	EURUSD	1.13	1.11	1.13	1.15	1.16	1.16	1.16
Japanese yen	USDJPY	104	114	112	111	110	109	109
British Pound	GBPUSD	1.44	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	0.70	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
<b>EM Asia</b>								
Chinese Renminbi	USDCNY	6.59	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	13,339	13,604	13,642	13,679	13,709	13,729	13,749
Indian Rupee	USDINR	67.1	67.5	67.9	68.3	68.6	68.9	69.2
Korean Won	USDKRW	1,173	1,199	1,192	1,184	1,173	1,157	1,141
Malaysian Ringgit	USDMYR	4.10	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	1.35	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	USDTHB	32.4	33.0	33.2	33.4	33.5	33.4	33.3
<b>EM Europe</b>								
Russian Ruble	USDRUB	64.8	65.6	64.0	62.4	61.6	61.6	61.7
South African Rand	USDZAR	15.15	15.81	15.88	15.96	16.00	16.00	16.00
<b>EM Latam</b>								
Brazilian Real	USDBRL	3.42	3.51	3.62	3.74	3.82	3.86	3.90
Mexican Peso	USDMXN	18.8	18.2	18.3	18.4	18.4	18.2	18.0

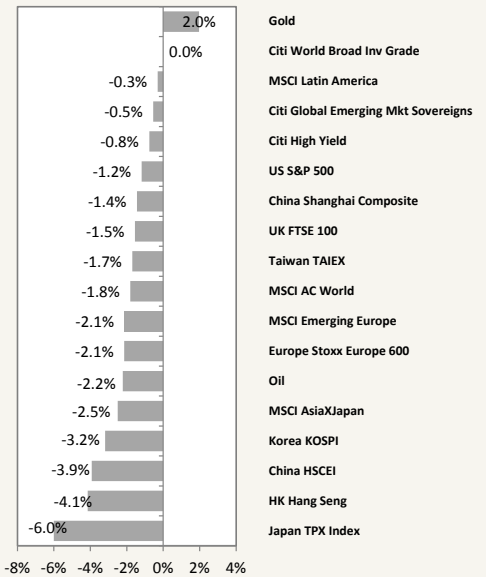
Source: Citi Research and Bloomberg as of 17 June 2016

## Short Rates and 10-Year Yield Forecasts

	Last price 17-Jun-16	Forecasts				
		3Q16	4Q16	1Q17	2Q17	3Q17
<b>Short Rates (End of Period)</b>						
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
<b>10-Year Yield (Period Average)</b>						
US	1.61	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

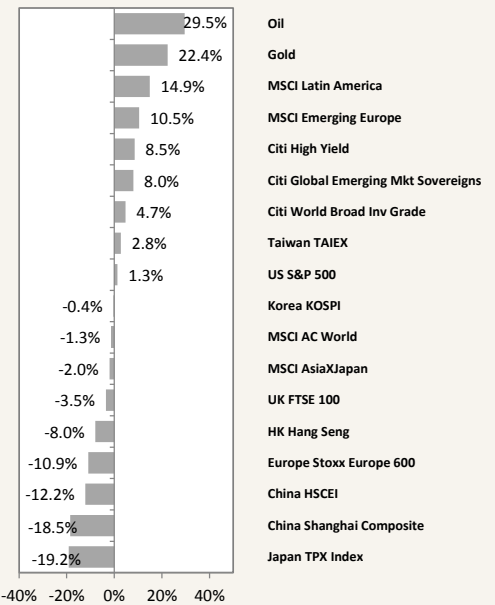
Source: Citi Research and Bloomberg as of 17 June 2016

## Weekly Market Performance (13 - 17 June 2016)



Source: Bloomberg as of 17 June 2016

## Market Performance (Year-To-Date) (As of 17 June 2016)



Source: Bloomberg as of 17 June 2016

## World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				Year-to-date (USD)
	17-Jun-16	High	Low	1 week	1 month	1 year	Year-to-date	
<b>US / Global</b>								
MSCI World	394.12	438.45	351.25	-1.81%	-0.26%	-8.16%	-1.31%	-1.31%
Dow Jones Industrial Average	17675.16	18188.81	15370.33	-1.06%	0.83%	-1.45%	1.44%	1.44%
S&P 500	2071.22	2132.82	1810.10	-1.19%	1.17%	-1.39%	1.33%	1.33%
NASDAQ	4800.34	5231.94	4209.76	-1.92%	1.79%	-5.22%	-4.14%	-4.14%
<b>Europe</b>								
MSCI Europe	381.37	470.83	355.54	-2.49%	-3.39%	-15.52%	-7.20%	-7.20%
Stoxx Europe 600	325.78	408.73	302.59	-2.14%	-2.67%	-15.10%	-10.94%	-7.66%
FTSE100	6021.09	6873.43	5499.51	-1.55%	-2.38%	-9.87%	-3.54%	-6.29%
CAC40	4193.83	5217.80	3892.46	-2.62%	-2.41%	-12.46%	-9.56%	-6.22%
DAX	9631.36	11802.37	8699.29	-2.07%	-2.62%	-12.27%	-10.35%	-7.42%
<b>Japan</b>								
NIKKEI225	15599.66	20952.71	14865.77	-6.03%	-6.32%	-22.85%	-18.04%	-5.16%
Topix	1250.83	1702.83	1193.85	-6.00%	-6.36%	-23.44%	-19.16%	-6.46%
<b>Emerging Markets</b>								
MSCI Emerging Market	806.22	995.15	686.74	-2.14%	0.57%	-16.83%	1.52%	1.52%
MSCI Latin America	2103.36	2593.29	1550.47	-0.31%	-1.78%	-16.98%	14.95%	14.95%
MSCI Emerging Europe	121.92	144.63	91.09	-2.13%	-4.22%	-14.29%	10.48%	10.48%
Brazil Bovespa	49533.84	54977.70	37046.07	0.23%	-2.57%	-6.98%	14.27%	31.85%
Russia RTS	910.28	988.40	607.14	-1.55%	-2.30%	-5.82%	20.24%	20.24%
<b>Asia</b>								
MSCI Asia ex-Japan	489.88	602.97	434.84	-2.50%	1.11%	-16.82%	-2.01%	-2.01%
Australia S&P/ASX 200	5162.66	5727.70	4706.70	-2.82%	-4.32%	-7.73%	-2.52%	-1.23%
China HSCEI (H-shares)	8485.87	13752.72	7498.81	-3.92%	0.71%	-36.74%	-12.16%	-12.29%
China Shanghai Composite	2885.11	4744.08	2638.30	-1.44%	1.46%	-41.93%	-18.48%	-19.69%
Hong Kong Hang Seng	20169.98	27470.50	18278.80	-4.15%	0.25%	-24.61%	-7.96%	-8.10%
India Sensex30	26625.91	28578.33	22494.61	-0.04%	3.31%	-0.77%	1.95%	0.64%
Indonesia JCI	4835.14	4992.04	4033.59	-0.27%	2.24%	-2.24%	5.27%	9.40%
Malaysia KLCI	1624.18	1744.19	1503.68	-1.04%	-0.56%	-5.95%	-4.04%	0.88%
Korea KOSPI	1953.40	2110.81	1800.75	-3.18%	-0.74%	-4.00%	-0.40%	0.06%
Philippines PSE	7622.07	7792.34	6084.28	1.49%	1.29%	1.14%	9.64%	10.86%
Singapore STI	2763.42	3383.56	2528.44	-2.11%	-0.64%	-16.91%	-4.14%	0.66%
Taiwan TAIEX	8568.08	9500.57	7203.07	-1.69%	5.25%	-6.77%	2.76%	4.52%
Thailand SET	1421.32	1524.59	1220.96	-0.55%	1.05%	-6.17%	10.35%	12.93%
<b>Commodity</b>								
Oil	47.98	61.57	26.05	-2.22%	-0.68%	-19.93%	29.54%	29.54%
Gold spot	1299.00	1315.71	1046.43	1.97%	1.57%	9.57%	22.38%	22.38%

Source: Bloomberg as of 17 June 2016

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