

### Life After Brexit

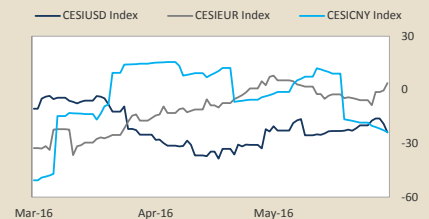
- On 23 June, UK finally chose to exit the 28-nation EU it had joined in 1973. It might be fair to say that this was unexpected given that markets had aggressively priced in "Remain" in the run up to the referendum.
- Post Referendum Reaction**
  - The outcome of the vote for the UK to leave the European Union surprised financial markets. Risk-off sentiment has driven a sharp sell-off in GBP, Euro and global equities, while safe haven investing has dominated.
  - UK Prime Minister David Cameron has resigned following the UK's exit from Europe. He said he will remain in place until the Conservative party conference in October.
  - Central banks quick responded to stabilize markets. The Bank of England governor pledged £250 billion of additional liquidity. The Swiss National Bank intervened in currency markets to keep the Swiss franc from appreciating too much. The US Federal Reserve and European Central Bank issued a statement saying they were watching the situation closely.
- While the sell-off has been sizable, market conditions remain orderly in Citi view. Friday's market sell-off and flight to safety has been mainly a reversal of premature optimism for a "Remain" victory in the run up to the referendum.
- Citi analysts believe that Brexit is unlikely to generate a large impact on fundamentals, at least in the short term. In Citi's view, the combination of little change to fundamentals and central banks' policy support could keep the negative fall-out contained.**
- Nevertheless, negative sentiment and poor liquidity could keep volatility in financial markets elevated. We carefully monitor for potential channels of contagion, for instance, a widening in peripheral European bond spreads to the banking system.

### Winners and Losers of Brexit

- The UK Leave vote has driven a sharp sell-off in global equities, with European markets suffering the most. The MSCI World index fell 4.76% on Friday.
- Losers:** GBP was hit hard (GBPUSD: -8.2%) while Japanese equities (Nikkei 225: -7.92%), European equities (Stoxx Europe 600: -7.03%), European financials (MSCI Europe Financials Index: -12.7%) and REITs (EPRA Europe: -10.84%) also suffered.
- Winners:** Heightened risk aversion sent safe haven assets higher as investors see protections in Gold (+4.7%), US Treasury bonds (US 10 year Treasury yields: -19bps), US dollar (Dollar Index: +2.2%) and Japanese Yen (USDJPY: -3.7%).

#### Data from China disappoints

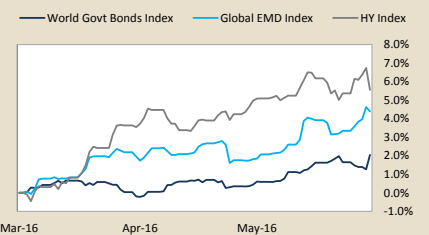
##### Citi Economic Surprise Index



Source: Bloomberg as of 24 June 2016

#### Govt Bonds supported by risk off sentiment

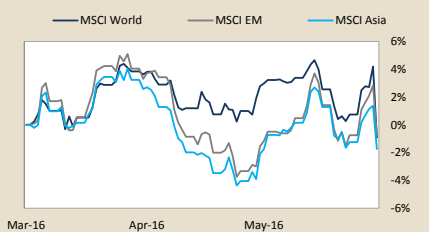
##### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 24 June 2016

#### Equities hurt by Brexit vote

##### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 24 June 2016

#### Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct.
28-Jun	US	GDP Annualized QoQ	1Q T	1.0%	0.8%	0.8%
28-Jun	US	Consumer Confidence Index	Jun	93.4	92.6	---
29-Jun	EC	Economic Confidence	Jun	104.7	104.7	105.2
29-Jun	JN	Retail Trade YoY	May	-1.6%	-0.8%	-1.9%
30-Jun	TA	CBG Benchmark Interest Rate	30-Jun	--	1.5%	1.4%
30-Jun	JN	Industrial Production MoM	May P	-0.2%	0.5%	-0.2%
30-Jun	EC	CPI Estimate YoY	Jun	0.0%	-0.1%	-0.1%
30-Jun	US	Initial Jobless Claims	25-Jun	267K	259K	275K
1-Jul	JN	Nat'l CPI YoY	May	-0.5%	-0.3%	-0.6%
1-Jul	CH	Manufacturing PMI	Jun	50.0	50.1	50.0
1-Jul	EC	Market Eurozone Manufacturing PMI	Jun F	52.6	52.6	52.6
1-Jul	EC	Unemployment Rate	May	10.1%	10.2%	10.1%

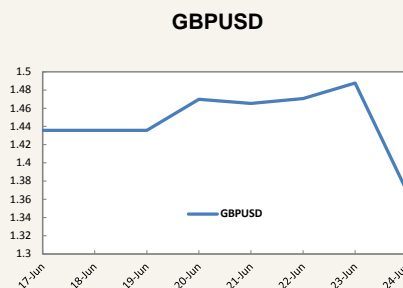
Source: Bloomberg as of 24 June 2016

## Market Implications

Prior to the referendum, we had discussed post-referendum scenarios and how investors should position under these scenarios. Markets have unfolded as expected under our Brexit scenario so far.

### Currency

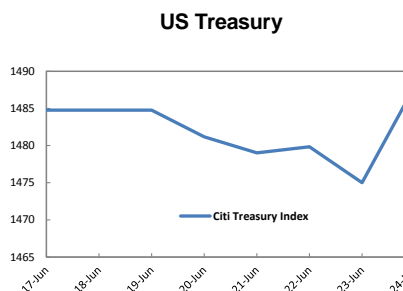
- GBPUSD may enter a period of consolidation for the time being though the prospects for the MPC to cut rates by 14-25bps and talk of a 2nd Scottish independence referendum likely to take cable lower and see sterling underperform on selected crosses (commodity bloc, Gold, JPY & CHF).
- A similar view on EUR though talk of copycat referendum potential in the euro zone and the prospects of the ECB delivering further stimulus now seen to further weaken EUR (though seen outperforming sterling).
- US rates now discount a 10% chance of a Fed rate cut at the July meeting and that rises to about 16% for the November meeting – this appears unsustainable given Fed Chair Yellen's recent comments that Brexit is unlikely to cause a global or a US recession. The risk/reward therefore remains for further USD upside, well supported by the ultra-low US rates as they can only go up should the June jobs report (due July 8th) show a stronger rebound.



Source: Bloomberg as of 24 June 2016

### Rates

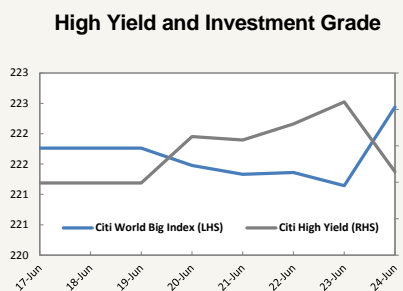
- In Citi's view, UK yields may rise at the long-end given higher political, fiscal and inflation risks. The impact on the short-end is not clear. It may benefit from flight-to-quality flows from the uncertainty as well as expectations for the MPC to keep interest rates on hold for longer.
- The short end could also suffer if foreign investors fear a run on the currency and sell. Foreign investors own about 25% of the gilt market. Gilts are likely to sharply underperform against US Treasuries and German bunds. In terms of peripheral spreads, a sharp widening should be kept in check by 2015-style ECB verbal intervention in our view. In Citi's view, Brexit would translate into an estimated 25bp of widening in the average 10-year peripheral spread to Germany and around a 10bp decline in 10-year Bunds.



Source: Bloomberg as of 24 June 2016

### Credit

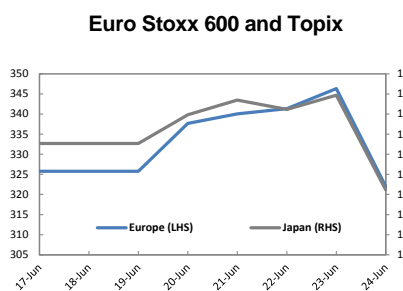
- In the aftermath of the Brex vote, credit indices are significantly wider, in particular the European indices were hit hard. In the short term, we expect US credit to outperform their European counterparts.
- Citi analysts believe support from central banks in the form of delaying a hiking cycle (Fed) or bond buying (ECB) is likely to dampen the sell-off. While many might consider this as an opportunity for adding credit, we would await further widening.
- Citi's estimates for index spreads indicate further widening from current levels (IG +10bp, HY +60bp). In the interim, markets may be choppy, but, liquidity in credit markets has held up well. The Brexit event is likely to keep the Fed from resuming the hiking cycle any time soon, which could prove to be supportive of credit markets.



Source: Bloomberg as of 24 June 2016

### Equities

- At the time of writing, the MSCI AC World index is down 5% from its recent April peak. This is not especially significant compared with the two global corrections in the past 12 months (-11% in August 2015 and -13% in Jan/Feb 2016). It suggests scope for further short-term downside.
- However, sentiment towards equities was already depressed and allocations have been light. This could help limit the downside for equities. Citi analysts do not believe this is the start of a global bear market. Out of the 18 indicators which they are monitoring, only 3.5 indicators are flashing red. This compares to 17.5 in 2000 and 13 in 2007.
- If global equities move towards the bottom of their recent trading range (about another 8% lower), there could be buying opportunities for longer term investors.



Source: Bloomberg as of 24 June 2016

## Currency Forecast

	Currency	Last price	Forecasts					
		24-Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
<b>G10-US Dollar</b>								
Euro	EURUSD	1.11	1.13	1.15	1.16	1.16	1.16	1.15
Japanese yen	USDJPY	102	112	111	110	109	109	109
British Pound	GBPUSD	1.37	1.51	1.52	1.52	1.51	1.49	1.48
Swiss Franc	USDCHF	0.97	0.97	0.96	0.95	0.95	0.95	0.95
Australian Dollar	AUDUSD	0.75	0.71	0.72	0.74	0.76	0.79	0.81
New Zealand	NZDUSD	0.71	0.66	0.67	0.67	0.68	0.68	0.69
Canadian Dollar	USDCAD	1.30	1.31	1.29	1.28	1.27	1.27	1.26
<b>EM Asia</b>								
Chinese Renminbi	USDCNY	6.62	6.66	6.72	6.77	6.82	6.87	6.92
Hong Kong	USDHKD	7.76	7.77	7.78	7.78	7.78	7.78	7.79
Indonesian Rupiah	USDIDR	13,391	13,642	13,679	13,709	13,729	13,749	13,769
Indian Rupee	USDINR	68.0	67.9	68.3	68.6	68.9	69.2	69.5
Korean Won	USDKRW	1,179	1,192	1,184	1,173	1,157	1,141	1,125
Malaysian Ringgit	USDMYR	4.09	4.06	4.02	3.97	3.90	3.83	3.76
Philippine Peso	USDPHP	46.9	47.4	47.8	48.0	47.9	47.8	47.7
Singapore Dollar	USDSGD	1.35	1.38	1.39	1.39	1.39	1.39	1.40
Thai Baht	USDTHB	35.3	36.2	36.4	36.5	36.5	36.5	36.5
Taiwan Dollar	USDTHB	32.4	33.2	33.4	33.5	33.4	33.3	33.2
<b>EM Europe</b>								
Russian Ruble	USDRUB	65.1	64.0	62.4	61.6	61.6	61.7	61.7
South African Rand	USDZAR	15.08	15.88	15.96	16.00	16.00	16.00	16.00
<b>EM Latam</b>								
Brazilian Real	USDBRL	3.37	3.62	3.74	3.82	3.86	3.90	3.94
Mexican Peso	USDMXN	18.9	18.3	18.4	18.4	18.2	18.0	17.8

Source: Citi Research and Bloomberg as of 24 June 2016

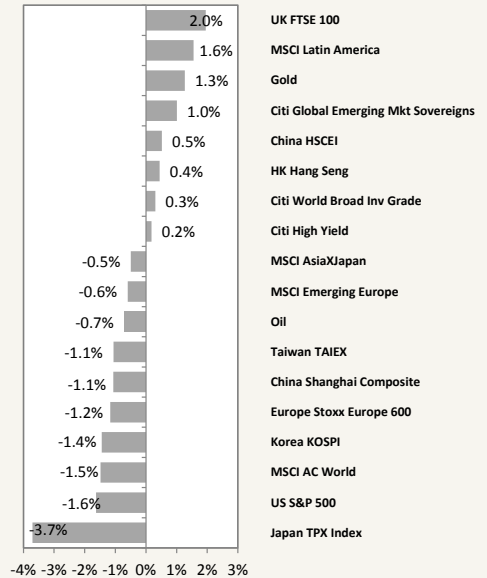
## Short Rates and 10-Year Yield Forecasts

	Last price	Forecasts				
		24-Jun-16	3Q16	4Q16	1Q17	2Q17
<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	1.56	1.90	2.00	2.10	2.15	2.20
Japan	-0.20	-0.20	-0.25	-0.20	-0.20	-0.25
Euro Area	-0.05	0.15	0.20	0.20	0.25	0.30

Source: Citi Research and Bloomberg as of 24 June 2016

## Weekly Market Performance

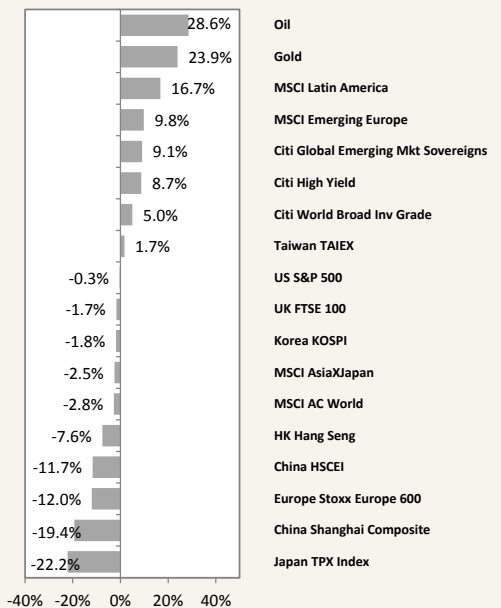
(20 - 24 June 2016)



Source: Bloomberg as of 24 June 2016

## Market Performance (Year-To-Date)

(As of 24 June 2016)



Source: Bloomberg as of 24 June 2016

## World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				Year-to-date (USD)
	24-Jun-16	High	Low	1 week	1 month	1 year	Year-to-date	
<b>US / Global</b>								
MSCI World	388.27	434.27	351.25	-1.48%	-2.26%	-10.83%	-2.78%	-2.78%
Dow Jones Industrial Average	17400.75	18167.63	15370.33	-1.55%	-1.72%	-3.15%	-0.14%	-0.14%
S&P 500	2037.41	2132.82	1810.10	-1.63%	-1.86%	-3.38%	-0.32%	-0.32%
NASDAQ	4707.98	5231.94	4209.76	-1.92%	-3.15%	-8.09%	-5.98%	-5.98%
<b>Europe</b>								
MSCI Europe	373.32	465.92	355.54	-2.11%	-6.30%	-19.77%	-9.16%	-9.16%
Stoxx Europe 600	321.98	408.73	302.59	-1.17%	-6.43%	-18.96%	-11.98%	-9.55%
FTSE100	6138.69	6813.41	5499.51	1.95%	-1.30%	-10.32%	-1.66%	-8.17%
CAC40	4106.73	5217.80	3892.46	-2.08%	-7.33%	-18.60%	-11.44%	-8.99%
DAX	9557.16	11802.37	8699.29	-0.77%	-4.97%	-16.69%	-11.04%	-8.96%
<b>Japan</b>								
NIKKEI225	14952.02	20946.93	14864.01	-4.15%	-9.37%	-28.35%	-21.44%	-7.32%
Topix	1204.48	1702.83	1192.80	-3.71%	-9.20%	-28.30%	-22.16%	-8.16%
<b>Emerging Markets</b>								
MSCI Emerging Market	805.87	988.14	686.74	-0.04%	2.27%	-18.87%	1.48%	1.48%
MSCI Latin America	2135.97	2548.47	1550.47	1.55%	2.84%	-16.69%	16.73%	16.73%
MSCI Emerging Europe	121.19	140.11	91.09	-0.60%	-0.65%	-14.08%	9.82%	9.82%
Brazil Bovespa	50105.26	54977.70	37046.07	1.15%	1.54%	-6.94%	15.58%	34.89%
Russia RTS	912.49	968.03	607.14	0.24%	2.36%	-4.09%	20.53%	20.53%
<b>Asia</b>								
MSCI Asia ex-Japan	487.46	599.78	434.84	-0.49%	2.26%	-19.07%	-2.50%	-2.50%
Australia S&P/ASX 200	5113.18	5727.70	4706.70	-0.96%	-3.44%	-10.09%	-3.45%	-1.11%
China HSCEI (H-shares)	8530.10	13360.11	7498.81	0.52%	2.69%	-37.67%	-11.71%	-11.80%
China Shanghai Composite	2854.29	4456.90	2638.30	-1.07%	1.16%	-39.14%	-19.35%	-21.06%
Hong Kong Hang Seng	20259.13	27016.09	18278.80	0.44%	2.16%	-26.07%	-7.55%	-7.65%
India Sensex30	26397.71	28578.33	22494.61	-0.86%	4.32%	-4.80%	1.07%	-1.32%
Indonesia JCI	4834.57	4982.91	4033.59	-0.01%	2.63%	-2.40%	5.26%	8.59%
Malaysia KLCI	1634.05	1744.19	1503.68	0.61%	0.50%	-5.64%	-3.45%	1.57%
Korea KOSPI	1925.24	2110.81	1800.75	-1.44%	-0.64%	-7.69%	-1.84%	-1.10%
Philippines PSE	7629.72	7813.58	6084.28	0.10%	3.71%	-0.18%	9.75%	9.74%
Singapore STI	2735.39	3383.56	2528.44	-1.01%	-0.54%	-18.38%	-5.11%	-0.25%
Taiwan TAIEX	8476.99	9489.91	7203.07	-1.06%	2.12%	-9.79%	1.67%	3.36%
Thailand SET	1413.19	1524.59	1220.96	-0.57%	2.09%	-6.92%	9.72%	12.06%
<b>Commodity</b>								
Oil	47.64	59.69	26.05	-0.71%	-2.02%	-20.96%	28.62%	28.62%
Gold spot	1315.45	1359.08	1046.43	1.27%	7.19%	11.91%	23.93%	23.93%

Source: Bloomberg as of 24 June 2016

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