

Post-Brexit relief rally puts positive spin on week

- Despite UK Brexit downside shock carried over to the beginning of the week, US stocks snapped back and rallied to close sharply higher, pushing the S&P 500 into positive territory for 2Q and the year. Crude oil prices recovered and the European markets rebounded sharply, led by the UK, to aid the global rally, which was underpinned by pledges from central banks—notably the Bank of England—to support the financial markets from the likely impact of the Brexit vote.
- Although global markets may continue to grapple with the Brexit fallout, this week's US economic calendar will bring a plethora of key reports. Citi economists have pushed back their call for Fed rate hike to December and the focus will likely be this Friday's US Non-Farm payroll numbers where last month's number showed the slowest pace of job gains for six years. The Fed's June meeting minutes may also provide some guidance on Fed's latest thinking. ISM and durable goods orders will also be watched.

Performance

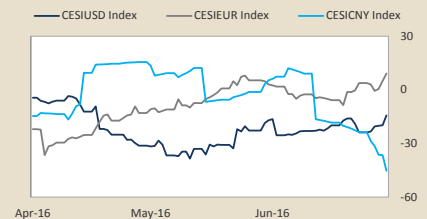
- Global markets saw some respite for the week with the MSCI World index gaining 3.30%. US equities finished nicely higher as the Dow Jones Industrial Average and the S&P 500 Index surged 3.2% and the Nasdaq Composite rallied 3.3% last week. European equities as measured by the Stoxx Europe 600 Index rose 3.19% and Japanese stocks soared on the week (Nikkei 225: 4.89% and Topix: 4.15%).
- Meanwhile, EM equities outperformed their peers in developed markets (MSCI EM: 4.14%) led by MSCI Latin America (6.95%) and MSCI Emerging Europe (1.49%). The MSCI Asia ex-Japan also gained 3.90% and within the region, the FSSTI and KOSPI were the biggest outperformers, gaining 4.06% and 3.22% respectively.

Asset Allocation

- **Equities** — The UK Leave vote may push global equities back towards the bottom of their recent trading range. There could be an opportunity if they approach that level.
- **Credit** — In credit, we remain overweight overall driven by our US tilts. But we remain cautious about European credit, in particular financials. The outlook for EM external appears improving.
- **Rates** — Across the major government bonds, forecasts to mid-2017 are mixed. EM sovereign bonds may outperform.
- **Commodities** — We remain slightly overweight energy and favour precious metals.

Weak Chinese data

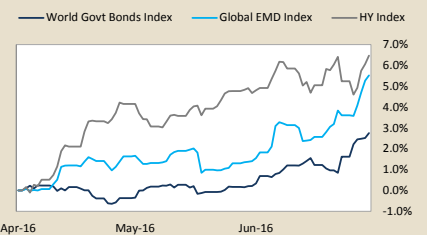
Citi Economic Surprise Index



Source: Bloomberg as of 1 July 2016

HY supported by rising oil prices

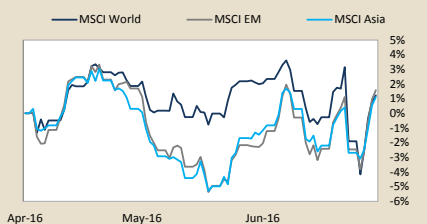
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 1 July 2016

Equities see relief rally

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 1 July 2016

Week Ahead Key Data and Event

| Date | Country | Data & Event | Period | Survey | Prior | Citi Fcst |
|-------|---------|-------------------------------|--------|--------|-------|-----------|
| 5-Jul | TA | CPI YoY | Jun | 1.1% | 1.2% | 0.8% |
| 5-Jul | TA | WPI YoY | Jun | -- | -2.8% | -2.2% |
| 5-Jul | EC | Market Eurozone Services PMI | Jun F | 52.4 | 52.4 | 52.4 |
| 5-Jul | EC | Market Eurozone Composite PMI | Jun F | 52.8 | 52.8 | 52.8 |
| 5-Jul | EC | Retail Sales MoM | May | 0.4% | 0.0% | 0.5% |
| 5-Jul | CH | Caixin China PMI Services | Jun | -- | 51.2 | -- |
| 5-Jul | CH | Caixin China PMI Composite | Jun | -- | 50.5 | -- |
| 7-Jul | SI | GDP YoY | 2Q A | 2.3% | 1.8% | 2.4% |
| 7-Jul | US | Initial Jobless Claims | 2-Jul | 267k | 268k | 275k |
| 8-Jul | US | Change in Nonfarm Payrolls | Jun | 175k | 38k | 155k |
| 8-Jul | TA | Imports YoY | Jun | -3.0% | -3.4% | -2.8% |
| 8-Jul | TA | Exports YoY | Jun | -2.8% | -9.6% | -2.2% |

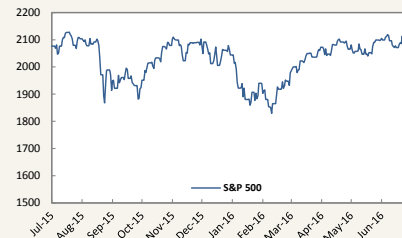
Source: Bloomberg as of 1 July 2016

Drivers and Risks by Market

United States

- **Driver:** Despite fears of a reduction in capital spending given Fed policy uncertainty, concerns about global economic growth and even recent Brexit driven worry, data collected from US companies suggests a better environment. While plans could change, corporate guidance edged up from a 2016 non-Energy 4.2% increase in February to a 5.3% gain year over year.
- **Risk:** Energy industry capital investment is expected to plunge 30% in 2016 after a 21% drop in 2015, and worse than the 23% planned decline in February. Weaker commodity prices still are acting as a drag on aggregate corporate profits as industrial companies scale back while Fed concerns should also restrain multiple expansion prospects.
- **Implication:** We remain generally constructive long term while preferring to buy on weakness given encouraging capital spending intentions (outside of the oil patch).

End-2016 Target: 2150

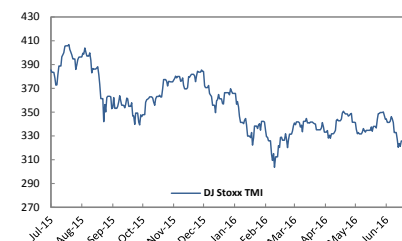


Source: Bloomberg as of 1 July 2016

Europe

- **Driver:** Citi sees Brent averaging US\$60 in 2017, with upside over downside risks and "major forces at work rebalancing the market on the supply side" with rebalancing from both non-OPEC and OPEC countries.
- **Risk:** Brexit's impact on oil markets may be limited and focused on the demand side. At this stage, global demand does not appear under threat. Oil prices may continue to be supported by the improving supply dynamics across the industry.
- **Implication:** Citi analysts see four strong supports for the bull case on oil equity: 1) new supply-driven up-cycle in oil prices, 2) new return, cashflow & profitability focus by CEOs to drive EPS up-cycle, 3) attractive absolute and relative valuations including an attractive DY, 4) hedge vs political risks.

End-2016 Target: 310

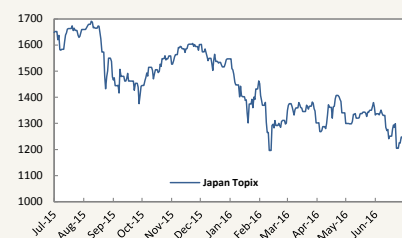


Source: Bloomberg as of 1 July 2016

Japan

- **Driver:** As strategies for benefiting from additional BoJ easing and economic stimulus, Citi analysts prefer 1) Bond Refugees and 2) infrastructure-related stocks.
- **Risk:** Citi analysts feel that Japan is now less unattractive as yen appreciation and the rising oil price has already been priced in to some extent. However, there is a risk of downward guidance revisions when firms with high European (especially UK) sales weightings announce results. If the yen were to strengthen to the mid-¥90/\$ range, it would raise the risk of EPS growth turning negative in FY16.
- **Implication:** Citi analysts have revised down our equity market outlook on June 27 in response to the Brexit vote. Citi's base-case scenario calls for TOPIX to reach 1,350 at end-December 2016 and 1,500 at end-December 2017. Citi continues to prefer domestic-demand and defensive sectors while remaining underweight banks and insurers based on expectations of an expansion in the BoJ's NIRP.

End-2016 Target: 1350

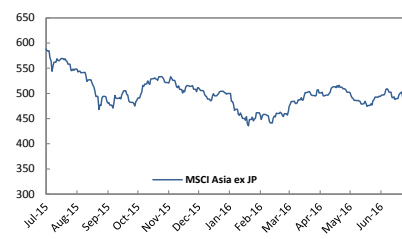


Source: Bloomberg as of 1 July 2016

Asia

- **Driver:** Sentiment towards Asia remains very weak amid investor fears surrounding China. Asia valuations are way below mean on both book and earnings. Asia has also been hurt over past five years by strengthening USD and its deflationary impact. Even post-Brexit, dollar is weaker than it was back in January. This should be positive for asset turn and liquidity creation, and facilitates earnings surprises.
- **Risk:** A key headwind for Asia has been the strong USD. Whenever the USD has been strong, Asian equities have done poorly. The USD peaked in late 2015 and since then has failed to regain that level.
- **Implication:** Citi's target for MSCI Asia ex Index is 575 for mid-2017E (assuming 16% capital return and 3% dividend yield). Among markets, Citi's outlook for Korean equities is getting more positive while remaining cautious on equities in China.

End-2016 Target: 530



Source: Bloomberg as of 1 July 2016

Currency Forecast

| | Currency | Last price 01-Jul-16 | Forecasts | | | | | |
|----------------------|----------|-------------------------|-----------|--------|--------|--------|--------|--------|
| | | | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
| G10-US Dollar | | | | | | | | |
| Euro | EURUSD | 1.11 | 1.11 | 1.13 | 1.15 | 1.16 | 1.16 | 1.17 |
| Japanese yen | USDJPY | 103 | 104 | 104 | 105 | 104 | 103 | 102 |
| British Pound | GBPUSD | 1.33 | 1.26 | 1.27 | 1.28 | 1.29 | 1.31 | 1.33 |
| Swiss Franc | USDCHF | 0.97 | 0.98 | 0.97 | 0.96 | 0.95 | 0.95 | 0.94 |
| Australian Dollar | AUDUSD | 0.75 | 0.73 | 0.73 | 0.74 | 0.75 | 0.76 | 0.77 |
| New Zealand | NZDUSD | 0.72 | 0.69 | 0.70 | 0.70 | 0.70 | 0.70 | 0.69 |
| Canadian Dollar | USDCAD | 1.29 | 1.29 | 1.27 | 1.26 | 1.25 | 1.24 | 1.22 |
| EM Asia | | | | | | | | |
| Chinese Renminbi | USDCNY | 6.66 | 6.68 | 6.71 | 6.75 | 6.80 | 6.85 | 6.90 |
| Hong Kong | USDHKD | 7.76 | 7.77 | 7.77 | 7.78 | 7.78 | 7.78 | 7.79 |
| Indonesian Rupiah | USDIDR | 13,115 | 13,627 | 13,665 | 13,701 | 13,721 | 13,741 | 13,761 |
| Indian Rupee | USDINR | 67.3 | 68.9 | 69.5 | 70.0 | 70.0 | 70.0 | 70.0 |
| Korean Won | USDKRW | 1,145 | 1,193 | 1,196 | 1,199 | 1,179 | 1,159 | 1,139 |
| Malaysian Ringgit | USDMYR | 4.00 | 4.11 | 4.11 | 4.10 | 4.04 | 3.98 | 3.92 |
| Philippine Peso | USDPHP | 46.9 | 47.3 | 47.6 | 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 | 35.1 | 36.1 | 36.3 | 36.5 | 36.5 | 36.5 | 36.5 |
| Taiwan Dollar | USDUSD | 32.2 | 32.8 | 32.9 | 33.0 | 33.0 | 33.0 | 33.0 |
| EM Europe | | | | | | | | |
| Russian Ruble | USDRUB | 63.8 | 65.0 | 63.4 | 61.8 | 61.7 | 61.5 | 61.4 |
| South African Rand | USDZAR | 14.56 | 15.63 | 15.82 | 16.00 | 15.96 | 15.92 | 15.88 |
| EM Latam | | | | | | | | |
| Brazilian Real | USDBRL | 3.24 | 3.58 | 3.69 | 3.80 | 3.84 | 3.88 | 3.92 |
| Mexican Peso | USDMXN | 18.4 | 19.0 | 19.0 | 19.0 | 18.8 | 18.6 | 18.4 |

Source: Citi Research and Bloomberg as of 1 July 2016

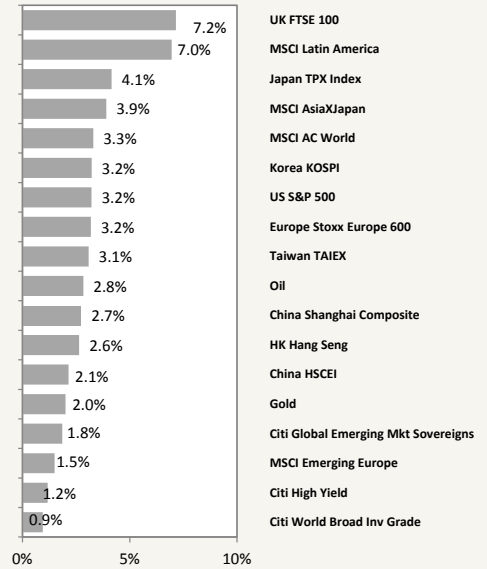
Short Rates and 10-Year Yield Forecasts

| | Last price 01-Jul-16 | Forecasts | | | | |
|---------------------------------------|-------------------------|-----------|-------|-------|-------|-------|
| | | 3Q16 | 4Q16 | 1Q17 | 2Q17 | 3Q17 |
| Short Rates (End of Period) | | | | | | |
| US | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 |
| 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 | 1.44 | 1.60 | 1.60 | 1.65 | 1.65 | 1.65 |
| Japan | -0.26 | -0.25 | -0.25 | -0.25 | -0.20 | -0.20 |
| Euro Area | -0.13 | -0.10 | -0.15 | -0.20 | -0.20 | -0.15 |

Source: Citi Research and Bloomberg as of 1 July 2016

Weekly Market Performance

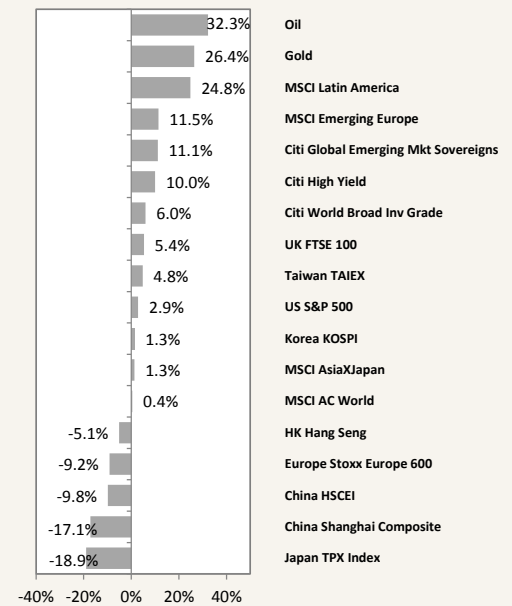
(27 June - 1 July 2016)



Source: Bloomberg as of 1 July 2016

Market Performance (Year-To-Date)

(As of 1 July 2016)



Source: Bloomberg as of 1 July 2016

World Market At Glance

| | Last price 01-Jul-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 | 401.07 | 432.64 | 351.25 | 3.30% | -0.28% | -5.86% | 0.43% | 0.43% |
| Dow Jones Industrial Average | 17949.37 | 18167.63 | 15370.33 | 3.15% | 0.90% | 1.08% | 3.01% | 3.01% |
| S&P 500 | 2102.95 | 2132.82 | 1810.10 | 3.22% | 0.17% | 1.23% | 2.89% | 2.89% |
| NASDAQ | 4862.57 | 5231.94 | 4209.76 | 3.28% | -1.81% | -3.00% | -2.89% | -2.89% |
| Europe | | | | | | | | |
| MSCI Europe | 386.34 | 462.99 | 353.59 | 3.49% | -3.13% | -14.02% | -5.99% | -5.99% |
| Stoxx Europe 600 | 332.24 | 408.73 | 302.59 | 3.19% | -3.45% | -14.17% | -9.18% | -6.91% |
| FTSE100 | 6577.83 | 6813.41 | 5499.51 | 7.15% | 6.23% | -0.47% | 5.37% | -5.01% |
| CAC40 | 4273.96 | 5217.80 | 3892.46 | 4.07% | -4.50% | -12.48% | -7.83% | -5.53% |
| DAX | 9776.12 | 11802.37 | 8699.29 | 2.29% | -4.20% | -12.56% | -9.00% | -7.12% |
| Japan | | | | | | | | |
| NIKKEI225 | 15682.48 | 20946.93 | 14864.01 | 4.89% | -7.51% | -22.86% | -17.61% | -3.06% |
| Topix | 1254.44 | 1702.83 | 1192.80 | 4.15% | -7.90% | -23.34% | -18.93% | -4.61% |
| Emerging Markets | | | | | | | | |
| MSCI Emerging Market | 839.25 | 972.79 | 686.74 | 4.14% | 3.97% | -13.65% | 5.68% | 5.68% |
| MSCI Latin America | 2284.43 | 2518.18 | 1550.47 | 6.95% | 11.73% | -8.35% | 24.85% | 24.85% |
| MSCI Emerging Europe | 123.00 | 137.68 | 91.09 | 1.49% | 1.85% | -10.58% | 11.46% | 11.46% |
| Brazil Bovespa | 52233.04 | 54977.70 | 37046.07 | 4.25% | 6.57% | -0.99% | 20.49% | 47.75% |
| Russia RTS | 933.32 | 968.03 | 607.14 | 2.28% | 4.81% | 0.29% | 23.29% | 23.29% |
| Asia | | | | | | | | |
| MSCI Asia ex-Japan | 506.48 | 588.94 | 434.84 | 3.90% | 2.61% | -14.03% | 1.31% | 1.31% |
| Australia S&P/ASX 200 | 5246.61 | 5727.70 | 4706.70 | 2.61% | -1.44% | -4.88% | -0.93% | 1.71% |
| China HSCEI (H-shares) | 8712.89 | 13080.00 | 7498.81 | 2.14% | 0.05% | -32.88% | -9.81% | -9.92% |
| China Shanghai Composite | 2932.48 | 4184.45 | 2638.30 | 2.74% | 0.65% | -27.66% | -17.14% | -19.25% |
| Hong Kong Hang Seng | 20794.37 | 26470.44 | 18278.80 | 2.64% | 0.16% | -20.78% | -5.11% | -5.22% |
| India Sensex30 | 27144.91 | 28578.33 | 22494.61 | 2.83% | 1.61% | -3.13% | 3.93% | 2.41% |
| Indonesia JCI | 4971.58 | 5039.69 | 4033.59 | 2.83% | 2.73% | 1.38% | 8.24% | 14.53% |
| Malaysia KLCI | 1646.22 | 1744.19 | 1503.68 | 0.74% | 1.21% | -4.73% | -2.73% | 4.82% |
| Korea KOSPI | 1987.32 | 2109.68 | 1800.75 | 3.22% | 0.23% | -5.27% | 1.33% | 3.85% |
| Philippines PSE | 7830.35 | 7980.75 | 6084.28 | 2.63% | 4.39% | 3.37% | 12.63% | 12.46% |
| Singapore STI | 2846.37 | 3383.56 | 2528.44 | 4.06% | 2.00% | -14.55% | -1.26% | 3.94% |
| Taiwan TAIEX | 8738.24 | 9369.50 | 7203.07 | 3.08% | 1.64% | -6.79% | 4.80% | 7.01% |
| Thailand SET | 1444.99 | 1512.65 | 1220.96 | 2.25% | 2.06% | -3.96% | 12.19% | 15.15% |
| Commodity | | | | | | | | |
| Oil | 48.99 | 58.98 | 26.05 | 2.83% | -0.04% | -13.99% | 32.26% | 32.26% |
| Gold spot | 1341.85 | 1359.08 | 1046.43 | 2.01% | 10.62% | 14.80% | 26.42% | 26.42% |

Source: Bloomberg as of 1 July 2016

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