

US Payrolls Spike After May Plunge

- US Payrolls surprised with the June non-farm payrolls rising 287k, after a downward revised print of 11k in May. Even after accounting for the 35k strike effect, it is still a very positive number. The three-month moving average reading stands at 147k, in line with an economy that is heading towards full employment. The unemployment rate rose to 4.9%, as the labour participation rate also edged up by 0.1% to 62.7% in June.
- Record low rates and extended sub-par global growth recovery continues to be supportive for Income. Against this backdrop, we prefer investment grade and high yield bonds in the developed markets with a focus on the quality. We have increased exposure to EM carry/local bonds given that EM could benefit from the current macro development of low/negative interest rates, pause in the USD strength due to a slower pace of Fed's rate hike and stabilizing oil prices. Within the equity space, dividend stocks may perform as the search for yield remains a key theme across global equities.

Performance

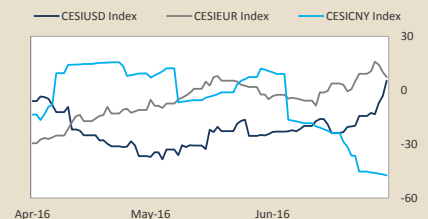
- Global stocks stayed flat last week (MSCI World: -0.02%) despite the US jobs data sending US equities back toward record highs. The Dow Jones Industrial Average and the S&P 500 Index were higher 1.10% and 1.28% respectively and the Nasdaq Composite rallied 1.94% last week. European equities as measured by the Stoxx Europe 600 Index slid 1.47% and Japanese stocks suffered as flight-to-safety continued to boost the yen. (Nikkei 225: -3.67% and Topix: -3.55%).
- Meanwhile, EM equities finished the week lower (MSCI EM: -1.24%) The MSCI Latin America lost 1.09% despite the Brazil's Bovespa index gaining 1.74% while the MSCI Emerging Europe lost 0.55% last week. The MSCI Asia ex-Japan was also down 1.16%. Chinese equities finished mixed with the H-shares lower (HSCEI: -2.04%) and local A-shares higher (Shanghai Composite: +1.9%).

Asset Allocation

- Equities** — We suspect that global equities may remain trapped in a trading range for the next 12 months. Income attractions, especially relative to bonds, provide a floor to global equities but lackluster EPS provide a cap to the upside.
- Credit** — US IG corporates likely to benefit from lower core sovereign rates. Favour select issuers in US energy, financials and REITS.
- Rates** — Modest growth, benign inflation pressures and negative policy rates likely to keep core rates low.
- Commodities** — Gold may reaffirm its status as a safe-haven in 2H, while USD, possibly dovish Fed and wider macro themes that kept gold buoyant pre-Referendum, are more likely to persist, adding to upside momentum.

Solid US data

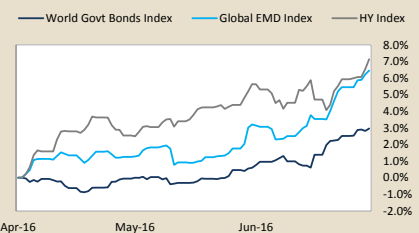
Citi Economic Surprise Index



Source: Bloomberg as of 8 July 2016

Bonds gained on the week

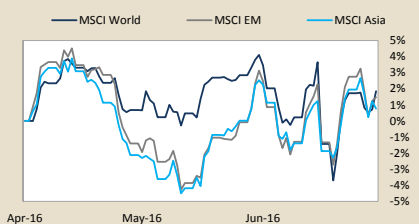
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 8 July 2016

Equities continue to be volatile

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 8 July 2016

Week Ahead Key Data and Event

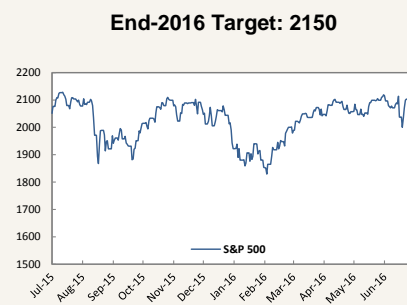
Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
11-Jul	CH	Money Supply M2 YoY	Jun	11.4%	11.8%	12.0%
11-Jul	EC	Eurogroup meeting		--	--	--
12-Jul	JN	Tertiary Industry Index MoM	May	-0.7%	1.4%	-0.9%
13-Jul	CH	Exports YoY	Jun	-5.0%	-4.1%	-6.1%
14-Jul	EC	UK: MPC Outcome and Minutes		0.3%	0.5%	0.3%
14-Jul	SK	Bok 7-Day Repo Rate	14-Jul	1.3%	1.3%	1.3%
14-Jul	US	Initial Jobless Claims	9-Jul	265K	254K	270K
15-Jul	US	Retail Sales Advance MoM	Jun	0.1%	0.5%	0.2%
15-Jul	US	Industrial Production MoM	Jun	0.2%	-0.4%	0.7%
15-Jul	CH	GDP YTD YoY	2Q	6.6%	6.7%	6.5%
15-Jul	US	Business Inventories	May	0.1%	0.1%	--
15-Jul	US	U. of Mich. Sentiment	Jul	93.0	93.5	--

Source: Bloomberg as of 8 July 2016

Drivers and Risks by Market

United States

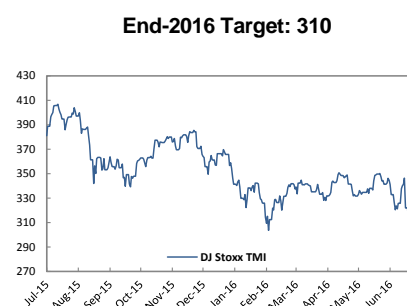
- **Driver:** Nonfarm payrolls surged in June (287K) after almost no gains in May. Additions were broad based. The average over the last three months was 147K, about the mid-point of the range (125 to 175) of payroll additions consistent with being within the full-employment range. (May-June payrolls averaged 149K.) More importantly, the US labour market may not be worsening as Fed officials feared.
- **Risk:** More data will be needed to confirm that labour market improvement is still underway. Furthermore, continued low levels of investment could reinforce low output growth, which may warrant a longer period of accommodation.
- **Implication:** The labour market data raises the probability of a 2016 rate hike, but the Fed may remain in “wait-and-see” mode, since this is a pre-Brexit number.



Source: Bloomberg as of 8 July 2016

Europe

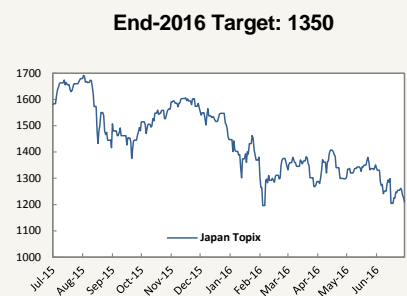
- **Driver:** The Bank of England’s Monetary Policy Committee (MPC) will hold its first formal meeting since the EU referendum on 14 July. Citi analysts continue to think that the MPC may announce a 25bp rate cut to 0.25% and highlight the increased economic and policy uncertainty. Such a move would confirm implicit market expectations and thus avoid adverse reactions leading to tighter financial conditions.
- **Risk:** If economic indicators or financial conditions were to deteriorate noticeably over the coming week, we believe a 50bp rate cut would become more likely. Negative interest rates remain unlikely, in our view.
- **Implication:** At the August meeting, the BoE could signal that it is ready to re-launch its dormant asset purchase programme. Given that Gilt yields are already historically low, we see a good chance that the BoE would venture into other asset markets such as bank and corporate bonds. However, at this stage, we do not expect the MPC to launch new purchases.



Source: Bloomberg as of 8 July 2016

Japan

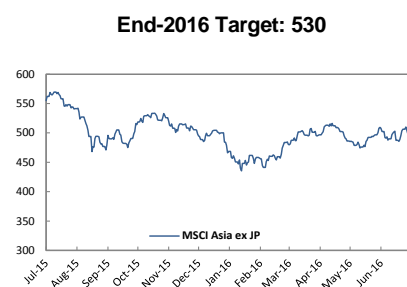
- **Driver:** Japanese valuations have been stuck at low levels compared with those of other major markets, partly as a result of Japanese equities’ poor relative performance in recent months. Citi analysts expect Japanese stocks to find some upside if the BoJ implements additional easing or the government launches an economic stimulus package. We forecast additional easing by the BoJ in July.
- **Risk:** Amid rising global economic and political uncertainty, we remain wary of yen appreciation fueled by risk aversion. We note that if the yen were to appreciate to ¥95/\$ or stronger, it could cause EPS growth to turn negative in FY16.
- **Implication:** Citi’s TOPIX forecasts are 1,350 for end-16, 1,450 for mid-17, and 1,500 for end-17. We forecast EPS growth of +5.0% in FY16 and anticipate a modest re-rating to a PER of 14.0x. In terms of strategy, we prefer domestic-demand and defensive sectors while underweight banks and insurers based on expectations of an expansion in the BoJ’s NIRP.



Source: Bloomberg as of 8 July 2016

Asia

- **Driver:** China is likely to muddle through with GDP growth of 6.0-6.5% and a more stable CPI of close to 2% in the coming quarters. Policies remain friendly but well anticipated in the past quarters. We expect property FAI stabilization to largely offset manufacturing FAI weakness, but China’s strategic focus will stay on consumption upgrade and manufacturing R&D. 2H16 reform focus will be on SOEs and opening of capital markets, such as the SZ-HK connect move.
- **Risk:** Brexit could drag China’s GDP by 0.1ppt pa, while the 8 Nov US election results may affect China’s trade outlook.
- **Implication:** We set our mid-17 MSCI China index target at 62 while HSCEI and CSI300 targets are at 9,500 and 3,000. In terms of sector strategy, we 1) Prefer Non-bank Financials over Banks; 2) OW IT, Consumer Disc and Health Care, but UW Consumer Staples; 3) Neutral Telecoms but UW Utilities; 4) OW Industrials but Neutral Energy and Materials.



Source: Bloomberg as of 8 July 2016

Currency Forecast

Currency	Last price 08-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	101	104	104	105	104	103	102
British Pound	GBPUSD	1.30	1.26	1.27	1.28	1.29	1.31	1.33
Swiss Franc	USDCHF	0.98	0.98	0.97	0.96	0.95	0.95	0.94
Australian Dollar	AUDUSD	0.76	0.73	0.73	0.74	0.75	0.76	0.77
New Zealand	NZDUSD	0.73	0.69	0.70	0.70	0.70	0.70	0.69
Canadian Dollar	USDCAD	1.30	1.29	1.27	1.26	1.25	1.24	1.22
EM Asia								
Chinese Renminbi	USDCNY	6.69	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	13,138	13,627	13,665	13,701	13,721	13,741	13,761
Indian Rupee	USDINR	67.4	68.9	69.5	70.0	70.0	70.0	70.0
Korean Won	USDKRW	1,162	1,193	1,196	1,199	1,179	1,159	1,139
Malaysian Ringgit	USDMYR	4.03	4.11	4.11	4.10	4.04	3.98	3.92
Philippine Peso	USDPHP	47.1	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	35.3	36.1	36.3	36.5	36.5	36.5	36.5
Taiwan Dollar	USDTWD	32.3	32.8	32.9	33.0	33.0	33.0	33.0
EM Europe								
Russian Ruble	USDRUB	64.0	65.0	63.4	61.8	61.7	61.5	61.4
South African Rand	USDZAR	14.54	15.63	15.82	16.00	15.96	15.92	15.88
EM Latam								
Brazilian Real	USDBRL	3.30	3.58	3.69	3.80	3.84	3.88	3.92
Mexican Peso	USDMXN	18.5	19.0	19.0	19.0	18.8	18.6	18.4

Source: Citi Research and Bloomberg as of 8 July 2016

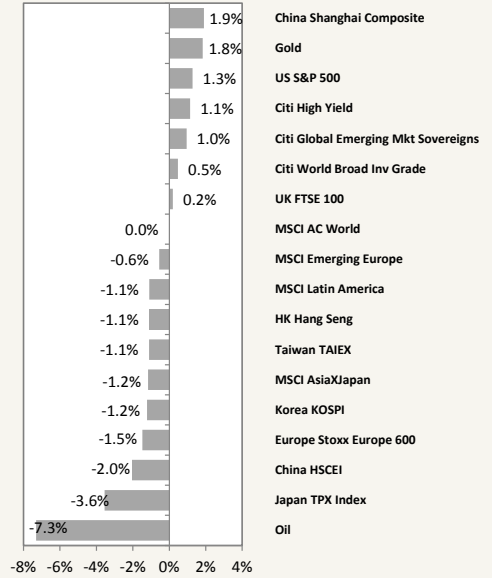
Short Rates and 10-Year Yield Forecasts

	Last price 08-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	1.36	1.60	1.60	1.65	1.65	1.65
Japan	-0.29	-0.25	-0.25	-0.25	-0.20	-0.20
Euro Area	-0.18	-0.10	-0.15	-0.20	-0.20	-0.15

Source: Citi Research and Bloomberg as of 8 July 2016

Weekly Market Performance

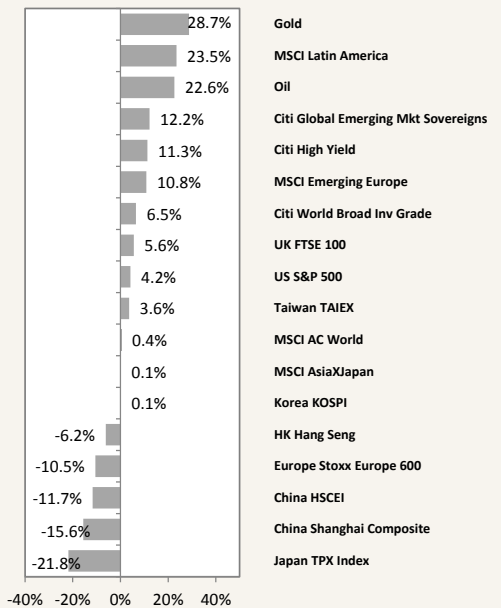
(4 - 8 July 2016)



Source: Bloomberg as of 8 July 2016

Market Performance (Year-To-Date)

(As of 8 July 2016)



Source: Bloomberg as of 8 July 2016

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				Year-to-date (USD)
	08-Jul-16	High	Low	1 week	1 month	1 year	Year-to-date	
US / Global								
MSCI World	400.99	432.64	351.25	-0.02%	-2.12%	-3.17%	0.41%	0.41%
Dow Jones Industrial Average	18146.74	18167.63	15370.33	1.10%	0.79%	3.60%	4.14%	4.14%
S&P 500	2129.90	2132.82	1810.10	1.28%	0.51%	4.07%	4.21%	4.21%
NASDAQ	4956.76	5231.94	4209.76	1.94%	-0.36%	0.96%	-1.01%	-1.01%
Europe								
MSCI Europe	377.88	462.99	353.59	-2.19%	-7.43%	-12.48%	-8.05%	-8.05%
Stoxx Europe 600	327.35	408.73	302.59	-1.47%	-4.99%	-12.21%	-10.51%	-8.96%
FTSE100	6590.64	6813.41	5499.51	0.19%	4.59%	1.54%	5.58%	-7.11%
CAC40	4190.68	5217.80	3892.46	-1.95%	-5.80%	-9.66%	-9.63%	-8.05%
DAX	9629.66	11802.37	8699.29	-1.50%	-5.75%	-10.40%	-10.36%	-9.18%
Japan								
NIKKEI225	15106.98	20946.93	14864.01	-3.67%	-10.24%	-23.46%	-20.63%	-4.78%
Topix	1209.88	1702.83	1192.80	-3.55%	-10.44%	-23.55%	-21.81%	-6.19%
Emerging Markets								
MSCI Emerging Market	828.84	945.61	686.74	-1.24%	-1.61%	-8.37%	4.37%	4.37%
MSCI Latin America	2259.47	2518.18	1550.47	-1.09%	2.23%	-5.94%	23.48%	23.48%
MSCI Emerging Europe	122.32	136.71	91.09	-0.55%	-6.05%	-6.18%	10.85%	10.85%
Brazil Bovespa	53140.74	54977.70	37046.07	1.74%	2.93%	2.62%	22.59%	47.46%
Russia RTS	934.35	968.03	607.14	0.11%	-3.21%	6.70%	23.42%	23.42%
Asia								
MSCI Asia ex-Japan	500.59	570.95	434.84	-1.16%	-1.73%	-8.00%	0.13%	0.13%
Australia S&P/ASX 200	5230.54	5727.70	4706.70	-0.31%	-2.60%	-4.37%	-1.23%	2.45%
China HSCEI (H-shares)	8534.79	12077.13	7498.81	-2.04%	-5.46%	-23.16%	-11.66%	-11.75%
China Shanghai Composite	2988.09	4184.45	2638.30	1.90%	2.08%	-14.80%	-15.57%	-18.09%
Hong Kong Hang Seng	20564.17	25634.32	18278.80	-1.11%	-3.44%	-12.55%	-6.16%	-6.26%
India Sensex30	27126.90	28578.33	22494.61	-0.07%	0.39%	-2.03%	3.86%	2.45%
Indonesia JCI	4971.58	5080.30	4033.59	0.00%	1.13%	2.05%	8.24%	14.53%
Malaysia KLCI	1644.54	1744.19	1503.68	-0.10%	-0.80%	-3.02%	-2.83%	4.58%
Korea KOSPI	1963.10	2101.22	1800.75	-1.22%	-3.16%	-2.63%	0.09%	2.70%
Philippines PSE	7771.52	7980.75	6084.28	-0.75%	0.63%	5.54%	11.79%	11.40%
Singapore STI	2847.04	3383.56	2528.44	0.02%	-0.54%	-13.33%	-1.24%	4.05%
Taiwan TAIEX	8640.91	9225.91	7203.07	-1.11%	-0.86%	-3.73%	3.63%	5.48%
Thailand SET	1455.65	1496.17	1220.96	0.74%	0.70%	-0.99%	13.01%	15.79%
Commodity								
Oil	45.41	53.50	26.05	-7.31%	-11.36%	-12.08%	22.60%	22.60%
Gold spot	1366.38	1375.45	1046.43	1.83%	8.20%	17.95%	28.73%	28.73%

Source: Bloomberg as of 8 July 2016

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