

Strong US payrolls lift sentiment

- Last week, US Nonfarm payrolls increased 255K in July, well ahead of the 180K consensus. The employment report was strong and beat expectations in nearly every aspect, including payrolls, wages, hours, household employment and labour force.
- This came after the Bank of England delivered a big monetary easing package to prevent the UK economy from falling into recession and to halt a downward spiral following the EU referendum. Beyond the widely expected 25bp rate cut, the Monetary Policy Committee (MPC) also announced a total of £70bn in new asset purchases and a £100bn cheap funding facility for banks. Finally, over the weekend, China's FX reserves held up basically unchanged despite notable RMB depreciation in June and early July.
- This week, the Reserve Bank of Indonesia (RBI) is expected to leave policy unchanged on Tuesday, as is the Bank of Korea on Wednesday.

Performance

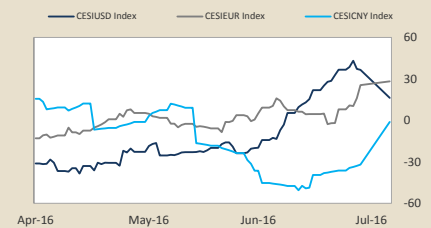
- Global stocks fell slightly on the week as the MSCI World lost 0.12%. US markets gained ground, as the Dow Jones Industrial Average increased 0.60%, the S&P 500 Index ticked 0.43% to the upside and the Nasdaq Composite advanced 1.14%. In contrast, European equities as measured by the Stoxx Europe 600 Index slipped 0.15%, due to banking woes while Japanese stocks fell (Nikkei 225: -1.90% and Topix: -3.24%) on disappointing stimulus measures.
- Meanwhile, EM equities finished the week higher (MSCI EM: 1.38%), as the MSCI Emerging Europe spiked up 1.74%, the MSCI Latin America gained 1.27% and the MSCI Asia ex-Japan rose 1.29%. Within Asia, Indonesia was the outperformer. The Jakarta Composite added 3.92% last week after the nation's 2Q growth beat estimates on increased government spending.

Asset Allocation

- **Equities** — We believe dividends continue to remain an important source of equity returns. Within equities, we are turning more constructive on emerging markets relative to developed markets.
- **Credit** — Despite a significant rally this year, we believe the relative value proposition remains compelling in Emerging market debt (EMD), especially in Latin America and certain parts of Asia.
- **Rates** — The low global interest rate environment should anchor the long-end for US Treasuries as foreign investors continue to bid up safe haven, higher yielding USD assets.
- **Commodities** — We expect commodity prices to generally remain on their upward trajectory, even if there is considerable volatility along the way.

Improving China data

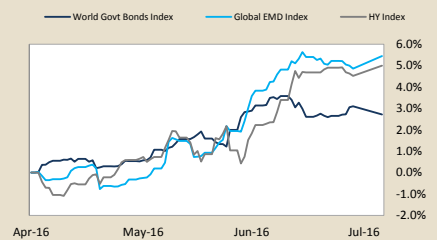
Citi Economic Surprise Index



Source: Bloomberg as of 5 August 2016

HY bonds and EM debts outperform

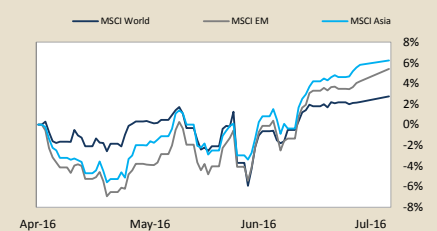
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 5 August 2016

EM equities continue to rally

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 5 August 2016

Week Ahead Key Data and Event

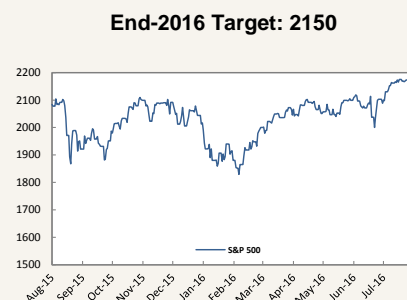
Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
9-Aug	CH	CPI YoY	Jul	1.8%	1.9%	1.9%
9-Aug	CH	PPI YoY	Jul	-2.0%	-2.6%	-2.0%
10-Aug	JN	Tertiary Industry Index MoM	Jun	0.3%	-0.7%	0.5%
10-Aug	JN	PPI MoM	Jul	-0.1%	-0.1%	0.0%
12-Aug	MA	GDP YoY	2Q	4.0%	4.2%	3.9%
12-Aug	HK	GDP YoY	2Q	0.9%	0.8%	0.9%
12-Aug	CH	Industrial Production YoY	Jul	6.2%	6.2%	6.1%
12-Aug	CH	Retail Sales YoY	Jul	10.5%	10.6%	10.4%
12-Aug	US	PPI Final Demand MoM	Jul	0.1%	0.5%	0.1%
12-Aug	US	Retail Sales Advance MoM	Jul	0.4%	0.6%	0.4%
12-Aug	EC	Industrial Production SA MoM	Jun	0.5%	-1.2%	1.0%
12-Aug	EC	GDP SA QoQ	2Q P	0.3%	0.3%	0.3%

Source: Bloomberg as of 5 August 2016

Drivers and Risks by Market

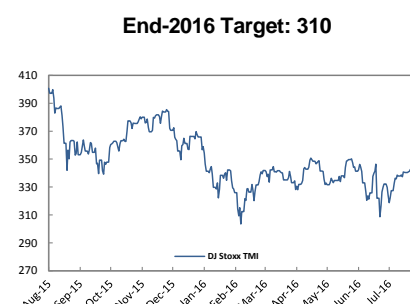
United States

- **Driver:** Nonfarm Payrolls posted a second consecutive 200K+ reading in July, beating even the highest among consensus expectations.
- **Risk:** The Fed is likely to consider developments in financial markets (especially the dollar), the international environment (e.g. Brexit fallout, China weakness), and the generalized level of uncertainty caused by both external (e.g. geopolitical risks) and internal (US elections) factors.
- **Implication:** We believe the Fed may choose to wait for more data, and for US presidential and congressional election-related uncertainty to subside. Thus we retain our December Fed rate hike call for now.



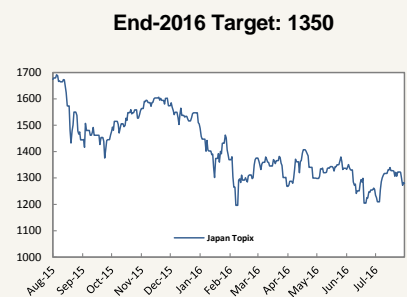
Europe

- **Driver:** The Bank of England delivered a big monetary easing package to prevent the UK economy from falling into recession and to halt a downward spiral following the EU referendum. Beyond the widely expected 25bp rate cut, the Monetary Policy Committee (MPC) also announced a total of £70bn in new asset purchases and a £100bn cheap funding facility for banks. Furthermore, the MPC opened the door for another rate cut later this year if data do not rebound quickly.
- **Risk:** Due to the weakness in the sterling, the BoE also revised up its inflation forecast. Should we see much higher inflation rates, the window for additional stimulus may close.
- **Implication:** Citi analysts pencil in a 15bp rate cut to 0.10% for the November meeting. Most MPC members expect a further rate cut if data confirm the risk of growth falling to near-zero in 2H16.



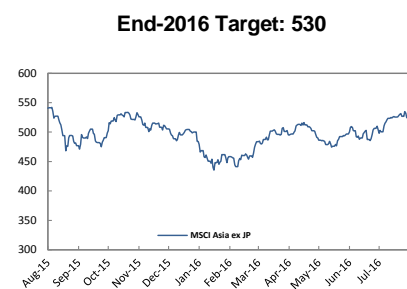
Japan

- **Driver:** On August 2, the government announced “an economic package to bring about investment in the future” by Cabinet resolution. The package’s project size will amount to ¥28.1trn and fiscal measures to ¥13.5trn. This is likely to boost real GDP by 0.2% in FY2016 and 0.4% in FY2017.
- **Risk:** Key risks include Yen strength which continues to pose as a risk on earnings. If the fiscal year average forex rate were ¥100/\$, the EPS growth rate would be cut to 2.5%, while at ¥95/\$, EPS would be flat YoY and at ¥90/\$, EPS would fall 2.5%.
- **Implication:** Amid speculation that monetary policy may be reaching the limits of its effectiveness, we think the Abe administration is likely to shift the focus of its macroeconomic policies to fiscal measures. This is likely to benefit infrastructure-related sectors and companies.



Asia

- **Driver:** After the notable volatility after Brexit, the Renminbi (RMB) exchange rate started to appreciate from the end of July benefiting from a weak Dollar (DXY) index. We expect the PBoC to keep the RMB stable ahead of the G20 summit in China on 4th-5th September the RMB’s inclusion in the Special drawing rights (SDR) basket in October.
- **Risk:** Delays to a cut in the Reserve Requirement Ratio (RRR) may keep firms’ funding costs high, and weigh on investment growth. This in turn leads to a more sluggish growth outlook in Q3.
- **Implication:** To achieve the growth target set by the National People’s Congress (NPC) in March, further monetary policy easing is not only necessary but also urgent. Citi analysts maintain our call for a 50bps RRR cut in August.



Currency Forecast

Currency	Last price 05-Aug-16	Forecasts						
		Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	
G10-US Dollar								
Euro	EURUSD	1.11	1.12	1.15	1.15	1.16	1.17	1.17
Japanese yen	USDJPY	102	105	105	104	103	102	101
British Pound	GBPUSD	1.31	1.27	1.28	1.28	1.29	1.30	1.30
Swiss Franc	USDCHF	0.98	0.97	0.96	0.95	0.95	0.94	0.94
Australian Dollar	AUDUSD	0.76	0.78	0.78	0.78	0.78	0.79	0.79
New Zealand	NZDUSD	0.71	0.70	0.70	0.70	0.70	0.69	0.69
Canadian Dollar	USDCAD	1.32	1.28	1.26	1.25	1.24	1.23	1.21
EM Asia								
Chinese Renminbi	USDCNY	6.66	6.77	6.79	6.83	6.87	6.91	6.95
Hong Kong	USDHKD	7.76	7.77	7.78	7.78	7.78	7.79	7.79
Indonesian Rupiah	USDIDR	13,117	13,316	13,464	13,515	13,535	13,555	13,575
Indian Rupee	USDINR	66.8	69.1	69.8	70.0	70.0	70.0	70.0
Korean Won	USDKRW	1,111	1,168	1,178	1,168	1,152	1,136	1,120
Malaysian Ringgit	USDMYR	4.03	4.11	4.10	4.05	3.99	3.93	3.87
Philippine Peso	USDPHP	46.9	47.8	48.0	47.9	47.8	47.7	47.6
Singapore Dollar	USDSGD	1.35	1.39	1.39	1.39	1.39	1.40	1.40
Thai Baht	USDTHB	35.1	35.7	35.9	35.8	35.6	35.4	35.2
Taiwan Dollar	USDTWD	31.5	32.4	32.5	32.6	32.7	32.8	32.9
EM Europe								
Russian Ruble	USDRUB	65.5	61.0	60.2	60.1	60.3	60.6	60.8
South African Rand	USDZAR	13.73	15.27	15.45	15.55	15.61	15.67	15.73
EM Latam								
Brazilian Real	USDBRL	3.17	3.38	3.48	3.55	3.61	3.67	3.73
Mexican Peso	USDMXN	18.8	18.9	19.0	18.9	18.8	18.7	18.6

Source: Citi Research and Bloomberg as of 5 August 2016

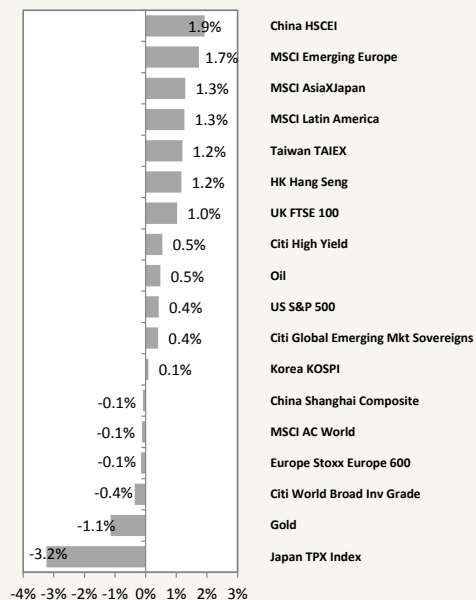
Short Rates and 10-Year Yield Forecasts

	Last price 05-Aug-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	-0.10	-0.10	-0.30	-0.30	-0.50
Euro Area	0.00	-0.10	-0.20	-0.25	-0.25	-0.25
10-Year Yield (Period Average)						
US	1.59	1.60	1.60	1.65	1.65	1.65
Japan	-0.10	-0.25	-0.25	-0.25	-0.20	-0.20
Euro Area	-0.07	-0.10	-0.15	-0.20	-0.20	-0.15

Source: Citi Research and Bloomberg as of 5 August 2016

Weekly Market Performance

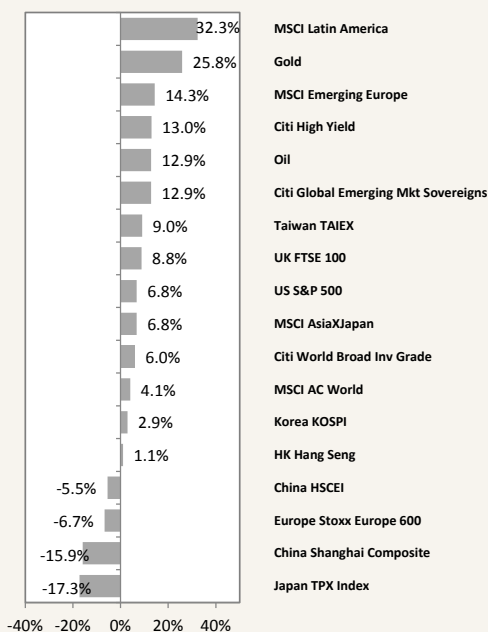
(1 – 5 August 2016)



Source: Bloomberg as of 5 August 2016

Market Performance (Year-To-Date)

(As of 5 August 2016)



Source: Bloomberg as of 5 August 2016

World Market At Glance

	Last price 05-Aug-16	52-Week High	52-Week Low	Historical Returns (%)				
				1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
US / Global								
MSCI World	415.58	427.23	351.25	-0.12%	4.55%	-2.38%	4.06%	4.06%
Dow Jones Industrial Average	18543.53	18622.01	15370.33	0.60%	3.94%	5.72%	6.42%	6.42%
S&P 500	2182.87	2182.87	1810.10	0.43%	4.52%	3.95%	6.80%	6.80%
NASDAQ	5221.12	5227.23	4209.76	1.14%	8.26%	1.58%	4.27%	4.27%
Europe								
MSCI Europe	393.75	459.91	353.59	-1.11%	4.45%	-13.95%	-4.19%	-4.19%
Stoxx Europe 600	341.38	400.39	302.59	-0.15%	5.31%	-15.49%	-6.68%	-4.77%
FTSE100	6793.47	6802.41	5499.51	1.03%	3.79%	0.61%	8.83%	-3.40%
CAC40	4410.55	5197.65	3892.46	-0.66%	5.94%	-15.13%	-4.88%	-2.94%
DAX	10367.21	11618.30	8699.29	0.29%	8.76%	-10.91%	-3.50%	-1.93%
Japan								
NIKKEI225	16254.45	20946.93	14864.01	-1.90%	3.73%	-21.15%	-14.60%	1.21%
Topix	1279.90	1702.83	1192.80	-3.24%	1.85%	-23.17%	-17.28%	-1.97%
Emerging Markets								
MSCI Emerging Market	885.52	894.78	686.74	1.38%	6.47%	-0.72%	11.51%	11.51%
MSCI Latin America	2421.67	2437.91	1550.47	1.27%	8.60%	8.04%	32.35%	32.35%
MSCI Emerging Europe	126.13	133.76	91.09	1.74%	3.77%	-2.02%	14.30%	14.30%
Brazil Bovespa	57661.14	58030.38	37046.07	0.62%	11.22%	14.66%	33.01%	65.12%
Russia RTS	935.46	975.21	607.14	0.85%	1.11%	10.85%	23.57%	23.57%
Asia								
MSCI Asia ex-Japan	533.71	546.72	434.84	1.29%	5.71%	-1.93%	6.75%	6.75%
Australia S&P/ASX 200	5497.41	5611.20	4706.70	-1.17%	5.15%	-3.11%	3.81%	8.42%
China HSCEI (H-shares)	9131.52	11580.05	7498.81	1.93%	5.65%	-17.93%	-5.48%	-5.54%
China Shanghai Composite	2976.70	4006.34	2638.30	-0.09%	-0.99%	-19.43%	-15.89%	-18.01%
Hong Kong Hang Seng	22146.09	24924.07	18278.80	1.16%	6.72%	-9.66%	1.06%	0.99%
India Sensex30	28078.35	28417.59	22494.61	0.09%	3.36%	-0.51%	7.51%	6.52%
Indonesia JCI	5420.25	5457.63	4033.59	3.92%	9.02%	11.75%	18.01%	24.67%
Malaysia KLCI	1664.04	1729.13	1503.68	0.65%	0.81%	-3.57%	-1.68%	4.76%
Korea KOSPI	2017.94	2064.72	1800.75	0.09%	1.41%	-0.58%	2.89%	8.73%
Philippines PSE	7970.35	8118.44	6084.28	0.09%	2.08%	4.02%	14.65%	14.53%
Singapore STI	2828.17	3214.50	2528.44	-1.41%	-1.27%	-11.38%	-1.89%	3.27%
Taiwan TAIEX	9092.12	9153.99	7203.07	1.20%	4.31%	6.44%	9.04%	13.87%
Thailand SET	1518.69	1540.09	1220.96	-0.35%	4.73%	5.73%	17.91%	21.22%
Commodity								
Oil	41.80	51.67	26.05	0.48%	-10.30%	-7.42%	12.85%	12.85%
Gold spot	1335.55	1375.45	1046.43	-1.14%	-1.53%	23.09%	25.83%	25.83%

Source: Bloomberg as of 5 August 2016

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