

### Stocks extend losses as oil rout deepens

- Crude oil prices continued to tumble to near seven-year lows on oversupply concerns following OPEC decision to maintain current production levels. The oil rout has also elevated credit risk in the energy sector, causing unusually poor credit market liquidity. Furthermore, weakness in the yuan remained a drag courtesy of the People's Bank of China's multiple cuts to its reference rate to the weakest level in more than four years.
- All of the markets focus may likely be on Wednesday's FOMC monetary policy decision, with Citi analysts forecasting a 25 bps increase to its target fed funds rate to a 0.25-0.50% range.
- We expect the markets to remain choppy through the year-end because of low volume and poor liquidity, as many investors try to lighten up their books. But we still expect the economic expansion to continue into 2016, which would be starting on a cleaner slate after the year-end repositioning.

### Performance

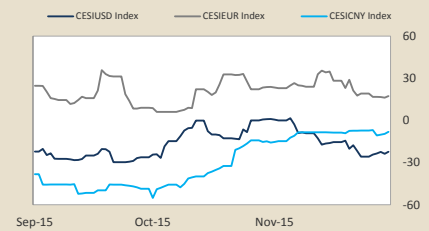
- Stocks finished off a dismal week with the MSCI World index losing 3.49%. US markets were solidly lower for the week, as the Dow Jones Industrial Average decreased 3.26%, the S&P 500 Index lost 3.79%, and the Nasdaq Composite Index fell 4.06%. European equities saw widespread losses, with the Stoxx Europe 600 Index falling 4.0% on the week to a two-month low, led by basic materials and oil & gas stocks amid the continued downside volatility for the commodity markets. Meanwhile, Japan also finished the week lower with the Nikkei and the Topix index declining 1.40% and 1.56% respectively.
- Finally, the MSCI Emerging Markets index lost 4.77% dragged by the MSCI Emerging Europe (-5.46%) and the MSCI Latin America (-4.90%). The MSCI Asia Pacific also finished in the red (-3.33%) with China H-shares being the biggest underperformer (HSCEI: -5.35%).

### Asset Allocation

- **Equities** — Falling commodity prices, signs of stress in HY credit markets, and renewed uncertainty from China may continue to be headwinds and keep investors cautious even if we get a post-FOMC relief rally in risk sentiment. European and Japanese equities remain overweight.
- **Credit** — We see some opportunities in US and European credit markets especially in financials. While we remain overweight on high yield (ex-energy), we prefer quality credits given rising default rates.
- **Rates** — ECB QE expansion may likely deepen net negative sovereign bond supply, providing strong technical support. We favour extending duration, especially in Eurozone (EZ) periphery markets.
- **Commodities** — 2016 may likely be a year of volatile and ongoing 'W-shaped' price adjustments, as the market grapples with conflicting signals. However, market may rebalance by year-end.

### Improving Chinese data

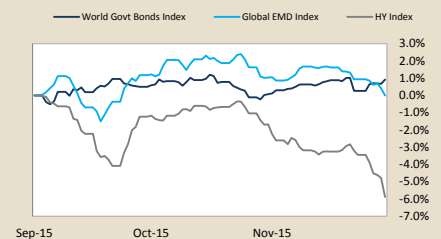
#### Citi Economic Surprise Index



Source: Bloomberg as of 11 December 2015

### High Yield bonds hit by oil rout

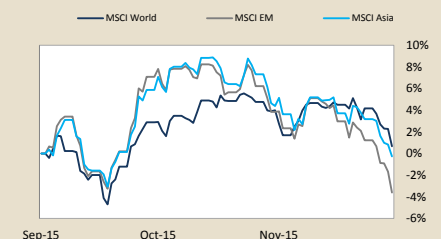
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 11 December 2015

### Equities ending the week lower

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 11 December 2015

### Week Ahead Key Data and Event

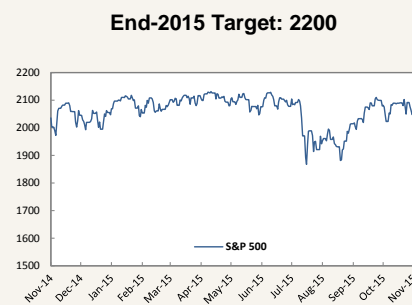
Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
14-Dec	EC	Industrial Production SA MoM	Oct	0.3%	-0.3%	0.2%
15-Dec	US	CPI MoM	Nov	0.0%	0.2%	0.0%
16-Dec	US	Industrial Production MoM	Nov	-0.1%	-0.2%	0.0%
16-Dec	EC	Market Eurozone Manufacturing PMI	Dec P	52.8	52.8	52.8
16-Dec	EC	Market Eurozone Services PMI	Dec P	54.0	54.2	53.9
16-Dec	EC	Market Eurozone Composite PMI	Dec P	54.2	54.2	54.0
16-Dec	EC	CPI YoY	Nov F	0.1%	--	0.1%
17-Dec	HK	Unemployment Rate SA	Nov	3.3%	3.3%	3.4%
17-Dec	US	Initial Jobless Claims	12-Dec	274K	282K	275K
17-Dec	US	Leading Index	Nov	0.1%	0.6%	0.1%
17-Dec	SI	Non-oil Domestic Exports YoY	Nov	1.6%	-0.5%	1.5%
17-Dec	TA	CBC Benchmark Interest Rate	17-Dec	1.6%	1.8%	1.6%

Source: Bloomberg as of 11 December 2015

## Drivers and Risks by Market

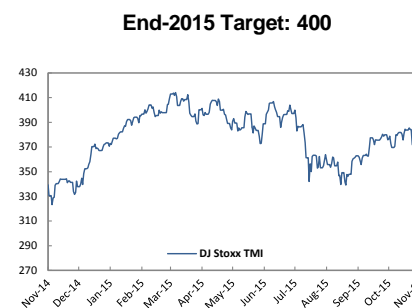
### United States

- **Driver:** S&P 500 corporate profits margins have slipped and weakness may continue in 2016 as USD strength is the main force holding back earnings next year.
- **Risk:** Margin pressures are one of the reasons Citi analysts see 2016 as another challenging year for equities with a better 1H16 than 2H16. However, we do not foresee a recession next year which would lead to more significant operating profit margin deterioration and commensurate stock market weakness.
- **Implication:** Looking at sectors and industry groups where margins already have collapsed may make some more sense than owning the ones that might be prone to downward pressure. Thus Energy looks quite intriguing. Also we continue to favour Banks due to valuation, expected Fed rate hikes and some loan growth while IT-related capital spending should continue to support IT names in 2016.



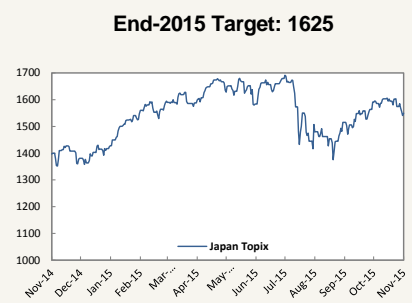
### Europe

- **Driver:** The Eurozone is leading its global peers in manufacturing PMIs by more and for longer than at any time since 2010. While weak Euro helps, structural reforms have also reinvigorated manufacturing in the Eurozone periphery. Eurozone manufacturing is likely to continue catching up with the rest of the world in 2016 given favourable exchange rates and the long-term effects of structural reforms likely to play out.
- **Risk:** While the outperformance of Eurozone manufacturing relative to the US or China may continue, manufacturing is unlikely to produce high growth rates in the near-term. Weak demand from emerging markets and subdued global trade growth limit the upside for the export-oriented sector.
- **Implication:** Against this backdrop, European GDP growth may be moderate. We tilt our sector strategy towards domestic cyclicals and Financials and away from EM cyclicals and Defensives.



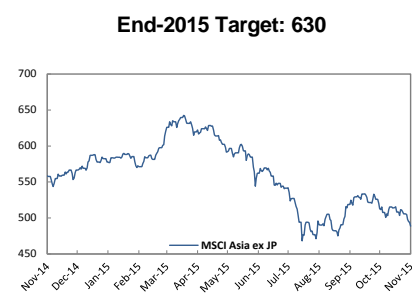
### Japan

- **Driver:** Last week, the ruling coalition, consisting of the LDP and New Komeito, decided to introduce a reduced consumption tax rate in April 2017 for food applied much more broadly than the LDP initially planned.
- **Risk:** While there is mounting speculation that there will be a combined Upper House and Lower House election in 2016, if PM Abe won, he would stay in power beyond September 2018 and political stability may support fiscal reform and share price gains. One risk is that PM Abe's attention could turn to non-economic factors like Constitutional reform after the election in 2016.
- **Implication:** Introduction of the reduced tax rate for food may mitigate the negative impact of the tax hike on consumer spending albeit modestly. We expect more populist policies in the pipeline and see a 55% probability to the BoJ embarking on additional easing in January 2016 and a 25% probability for April 2016.



### Asia

- **Driver:** In China, industrial profits accelerated to 6.2%YoY, the second-highest reading this year (consensus: 5.7%YoY, Citi: 5.6%YoY) while Retail sales increased to 11.2%YoY, beating consensus (11.1%YoY). The Fixed Asset Investment growth remained intact at 10.2%YoY, higher than expectations. Infrastructure investment growth surged to 24%YoY, which we see as a sign of fiscal/quasi-fiscal spending kicking in, while real estate investment growth shows no sign of bottoming.
- **Risk:** Despite signs of stabilization, Citi analysts still view overall economic momentum in 4Q as disappointing and fragile.
- **Implication:** To contain downside growth risks, we expect more RRR and rate cuts along with more fiscal easing. Also we believe a gradually more flexible RMB is more effective than being aligned with a strong USD and it seems to be in progress.



## Currency Forecast

Currency	Last price 11-Dec-15	Forecasts					
		Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	
<b>G10-US Dollar</b>							
Euro	EURUSD	1.10	1.05	1.03	1.01	1.00	1.01
Japanese yen	USDJPY	121	124	126	127	128	129
British Pound	GBPUSD	1.52	1.50	1.49	1.48	1.47	1.48
Swiss Franc	USDCHF	0.98	1.02	1.04	1.05	1.06	1.06
Australian Dollar	AUDUSD	0.72	0.70	0.68	0.67	0.66	0.67
New Zealand	NZDUSD	0.67	0.62	0.60	0.59	0.58	0.59
Canadian Dollar	USDCAD	1.38	1.36	1.37	1.38	1.37	1.36
<b>EM Asia</b>							
Chinese Renminbi	USDCNY	6.46	6.41	6.53	6.64	6.69	6.67
Hong Kong	USDHKD	7.75	7.75	7.77	7.78	7.79	7.78
Indonesian Rupiah	USDIDR	13,993	14,023	14,209	14,395	14,500	14,500
Indian Rupee	USDINR	66.90	66.6	67.1	67.7	68.0	68.0
Korean Won	USDKRW	1,180	1,177	1,196	1,215	1,221	1,212
Malaysian Ringgit	USDMYR	4.30	4.45	4.47	4.49	4.48	4.44
Philippine Peso	USDPHP	47.31	47.5	47.9	48.3	48.4	48.1
Singapore Dollar	USDSGD	1.41	1.44	1.45	1.46	1.47	1.46
Thai Baht	USDTHB	36.13	36.4	36.8	37.1	37.2	37.0
Taiwan Dollar	USDTHB	32.82	33.0	33.4	33.8	33.9	33.7
<b>EM Europe</b>							
Russian Ruble	USDRUB	70.38	66.3	68.5	70.7	71.4	70.1
South African Rand	USDZAR	15.90	14.42	14.55	14.68	14.68	14.53
<b>EM Latam</b>							
Brazilian Real	USDBRL	3.87	4.01	4.08	4.16	4.18	4.14
Mexican Peso	USDMXN	17.39	16.9	16.9	17.0	16.9	16.8

Source: Citi Research and Bloomberg as of 11 December 2015

## Short Rates and 10-Year Yield Forecasts

Short Rates (End of Period)	Last price 11-Dec-15	Forecasts				
		4Q15	1Q16	2Q16	3Q16	4Q16
US	0.25	0.50	0.50	0.75	0.75	1.00
Japan	0.10	0.10	0.10	0.10	0.10	0.10
Euro Area	0.05	0.05	0.05	0.05	0.05	0.05
<b>10-Year Yield (Period Average)</b>						
US	2.13	2.15	2.20	2.25	2.30	2.30
Japan	0.31	0.30	0.25	0.35	0.45	0.50
Euro Area	0.54	0.20	0.20	0.20	0.30	0.40

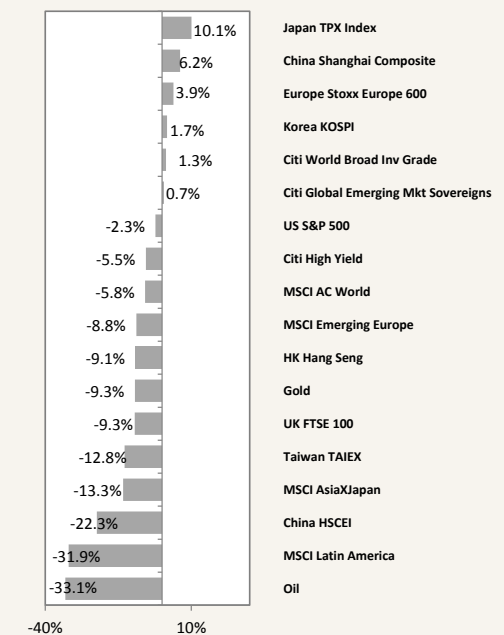
Source: Citi Research and Bloomberg as of 11 December 2015

## Weekly Market Performance (7- 11 December 2015)



Source: Bloomberg as of 11 December 2015

## Market Performance (Year-To-Date) (As of 11 December 2015)



Source: Bloomberg as of 11 December 2015

## World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	11-Dec-15	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
<b>US / Global</b>								
MSCI World	392.95	443.98	372.91	-3.49%	-3.58%	-5.16%	-5.79%	-5.79%
Dow Jones Industrial Average	17265.21	18351.36	15370.33	-3.26%	-2.47%	-1.88%	-3.13%	-3.13%
S&P 500	2012.37	2134.72	1867.01	-3.79%	-3.02%	-1.13%	-2.26%	-2.26%
NASDAQ	4933.47	5231.94	4292.14	-4.06%	-2.64%	4.79%	4.17%	4.17%
<b>Europe</b>								
MSCI Europe	404.63	478.94	392.63	-3.23%	-4.21%	-8.60%	-7.17%	-7.17%
Stoxx Europe 600	355.79	415.18	318.95	-3.99%	-6.05%	4.86%	3.87%	-5.63%
FTSE100	5952.78	7122.74	5768.22	-4.58%	-5.47%	-7.88%	-9.34%	-11.46%
CAC40	4549.56	5283.71	3926.34	-3.50%	-8.14%	7.66%	6.48%	-3.25%
DAX	10340.06	12390.75	9219.05	-3.83%	-5.21%	4.84%	5.45%	-4.64%
<b>Japan</b>								
NIKKEI225	19230.48	20952.71	16592.57	-1.40%	-2.34%	11.43%	10.20%	8.97%
Topix	1549.51	1702.83	1343.29	-1.56%	-2.87%	10.91%	10.09%	8.86%
<b>Emerging Markets</b>								
MSCI Emerging Market	773.56	1069.13	762.71	-4.77%	-7.18%	-18.23%	-19.11%	-19.11%
MSCI Latin America	1856.54	2776.68	1808.94	-4.90%	-8.51%	-30.87%	-31.94%	-31.94%
MSCI Emerging Europe	109.52	159.85	106.52	-5.46%	-9.86%	-16.73%	-8.82%	-8.82%
MSCI EM Middle East & Africa	196.57	300.26	196.57	-10.37%	-16.36%	-27.31%	-27.40%	-27.40%
Brazil Bovespa	45262.72	58574.79	42749.23	-0.22%	-3.83%	-9.22%	-9.49%	-38.29%
Russia RTS	777.17	1092.52	578.21	-4.26%	-8.11%	-5.68%	-1.71%	-1.71%
<b>Asia</b>								
MSCI Asia ex-Japan	488.71	644.14	466.92	-3.33%	-4.46%	-12.48%	-13.31%	-13.31%
Australia S&P/ASX 200	5029.45	5996.90	4918.40	-2.37%	-1.82%	-3.85%	-7.05%	-18.14%
China HSCEI (H-shares)	9308.00	14962.74	9058.54	-5.35%	-9.15%	-17.30%	-22.33%	-22.30%
China Shanghai Composite	3434.58	5178.19	2850.71	-2.56%	-5.91%	17.39%	6.18%	2.02%
Hong Kong Hang Seng	21464.05	28588.52	20368.12	-3.47%	-3.97%	-7.93%	-9.07%	-9.03%
India Sensex30	25044.43	30024.74	24833.54	-2.32%	-3.18%	-9.27%	-8.93%	-14.31%
Indonesia JCI	4393.52	5524.04	4033.59	-2.55%	-1.30%	-14.73%	-15.94%	-26.15%
Malaysia KLCI	1640.14	1867.53	1503.68	-1.66%	-1.51%	-5.99%	-6.88%	-24.84%
Korea KOSPI	1948.62	2189.54	1800.75	-1.31%	-2.44%	1.67%	1.72%	-6.24%
Philippines PSE	6735.01	8136.97	6603.19	-2.70%	-3.56%	-4.77%	-6.85%	-12.15%
Singapore STI	2834.63	3549.85	2740.36	-1.54%	-4.93%	-14.59%	-15.77%	-21.05%
Taiwan TAIEX	8115.89	10014.28	7203.07	-3.37%	-3.55%	-9.95%	-12.80%	-16.58%
Thailand SET	1280.92	1619.77	1251.99	-3.95%	-7.86%	-16.10%	-14.47%	-22.26%
<b>Commodity</b>								
Oil	35.62	62.58	35.16	-10.88%	-17.03%	-40.58%	-33.13%	-33.13%
Gold spot	1074.74	1307.98	1046.43	-1.11%	-1.07%	-12.45%	-9.29%	-9.29%

Source: Bloomberg as of 11 December 2015

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