

### Heavy economic calendar to ring in the New Year

- 2016 seems to have started with a bang. The latest flare up between Saudi Arabia and Iran has brought up oil prices on the first trading day of 2016. This week sees the release of Dec Fed minutes and US payrolls. In Asia, markets may likely focus more on China's currency after a volatile end of year. We also get CPI data for Thailand, Indonesia, Philippines, Taiwan and China this week.
- Europe also sees PMIs release this week. Little changes are expected for the solidly expanding Eurozone. The UK, however, is more uncertain, as the markets begin to evaluate Brexit odds after PM Cameron suggested that a referendum could take place as early as mid-June, which has dragged the GBP in Dec. Greek worries may also be flaring up, as PM Tsipras is again holding back on pension reform, challenging the next disbursement of aid.
- In Japan, the last BOJ meeting of 2015 led the market to believe that additional QE from BOJ is likely to be farther away, as the BOJ may push back the timing for reaching the inflation target, while the government played down the significance of 2% level.

### Performance

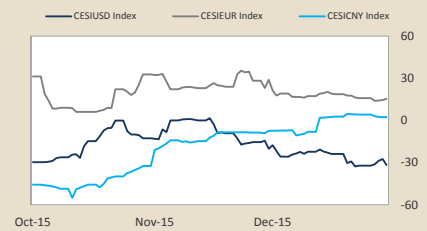
- Stocks finished off the year lower with the MSCI World index losing 4.26% in 2015. In the US, the S&P 500 was down 0.73%, the Dow Jones Industrial Average was off 2.23% and the Nasdaq was up 5.73% for the year. Although Europe posted the worst December since 2002, the benchmark Stoxx Europe 600 Index posted a yearly advance of 6.79%. Meanwhile, Japan's Nikkei 225 and Topix posted a 9.07% and 9.93% gain for 2015 respectively.
- Finally, the MSCI Emerging Markets index lost 16.95% dragged by the MSCI Emerging Europe (-8.13%), the MSCI Latin America (-32.92%) and the MSCI Asia Pacific (-11.31%). Within Asia, China A-shares ended the year up 9.41%, while H-shares were down 19.39%.

### Asset Allocation

- **Equities** — Initial reaction to the Fed rate hike is positive, but a plethora of lead indicators suggest limited upside for US equities in the short term.
- **Credit** — While credit spreads may tighten less in this Fed cycle than prior ones, we maintain overweight positions in HY market given that a tremendous amount of bad news seems to have already been priced in.
- **Rates** — Historically, yields rise as the Fed hikes but they did not in 2004 and they may not this time either given demand from Europe and Japan for yield, low inflation and heavily short duration positioning running into the FOMC meeting.
- **Commodities** — 2016 may likely be a year of volatile and ongoing 'W-shaped' price adjustments, as the market grapples with conflicting signals.

### Improving data out of Europe

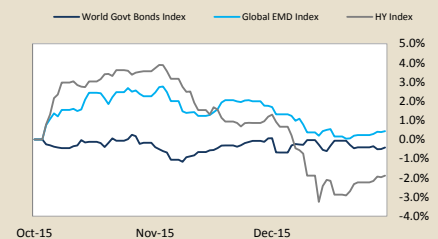
#### Citi Economic Surprise Index



Source: Bloomberg as of 31 December 2015

### Bond-like returns for 2015

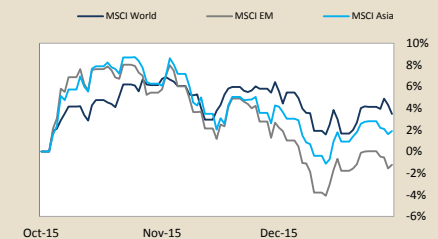
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 31 December 2015

### Equities ending the year lower

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 31 December 2015

### Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
4-Jan	EC	Markt Eurozone Manufacturing PMI	Dec F	53.1	53.1	--
4-Jan	US	ISM Manufacturing	Dec	49.0	48.6	48.0
4-Jan	US	Markt US Manufacturing PMI	Dec F	51.1	51.3	--
5-Jan	EC	CPI Estimate YoY	Dec	0.4%	0.2%	0.4%
6-Jan	US	U.S. Fed Releases Minutes	--	--	--	--
6-Jan	CH	Caxin China PMI Composite	Dec	--	50.5	--
6-Jan	JN	Nikkei Japan PMI Composite	Dec	--	52.3	--
6-Jan	US	Factory Orders	Nov	-0.2%	1.5%	0.0%
7-Jan	EC	Unemployment Rate	Nov	10.7%	10.7%	10.6%
7-Jan	EC	Retail Sales MoM	Nov	0.2%	-0.1%	-0.1%
7-Jan	EC	Economic Confidence	Dec	106.0	106.1	106.0
8-Jan	US	Change in Nonfarm Payrolls	Dec	200k	211k	210k

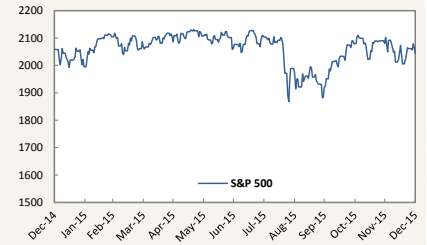
Source: Bloomberg as of 31 December 2015

## Drivers and Risks by Market

### United States

- **Driver:** Upward earnings revisions as a % of total revisions for the S&P 500 are down since November. On December 18th, Citi analysts reduced their 2015 S&P 500 EPS estimate to \$120.00 from \$122.75 and lowered their 2016 forecast to \$128.50 from \$132.50.
- **Risk:** While credit conditions remain favourable in the US (except for recent energy debt related disruptions in the high yield markets), Citi analysts see limited upside in the short term based on labour costs constraining margins, US IG credit selling off and earnings revisions turning more negative.
- **Implication:** In general, we remain constructive longer term while preferring buying on weakness rather than chasing the tape. We maintain our mid-2016 and end-2016 S&P 500 targets of 2,300 and 2,200 respectively.

End-2016 Target: 2200

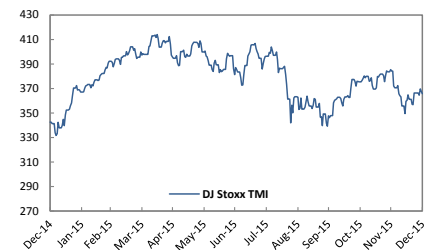


Source: Bloomberg as of 31 December 2015

### Europe

- **Driver:** The euro area economy is in a much earlier stage of the cycle, with the recovery being two years' old (vs. six in the US). Citi analysts continue to expect the ECB to deliver additional policy easing in 2016 – 2017 and maintain that the most likely time for the ECB to hike interest rates may be at the earliest in Dec-18.
- **Risk:** One of the key inputs for the ECB's future decisions will be the level of the euro for the next staff macroeconomic projections in Mar-16. If the Fed were to deliver the four hikes implied by the median dot for 2016, then this may imply more EUR/USD weakness than Citi forecast, reducing the need for supplementary QE.
- **Implication:** The high level of unemployment and a large output gap may probably prevent the ECB from hiking until 2018, given the risks of slowing the recovery, delaying the rebound in inflation and undermining the credibility of the ECB's commitment to defend price stability.

End-2016 Target: 440

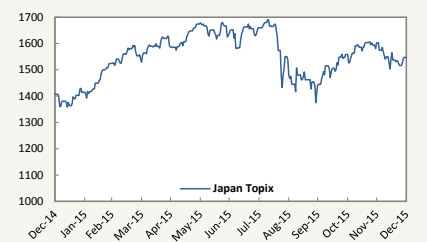


Source: Bloomberg as of 31 December 2015

### Japan

- **Driver:** As the Bank of Japan (BoJ) unexpectedly introduced policy measures to complement its policy of quantitative and qualitative easing (QQE), Citi strategists have changed their stance on the BoJ monetary policy outlook. Previously, their base-case scenario envisioned additional easing in January or April 2016 but they currently believe the BoJ is unlikely to implement additional easing measures at least during the first half of next year and perhaps not until autumn.
- **Risk:** Even assuming that the BoJ will act in 2016, it appears difficult for it to surprise the financial markets to the upside, given the apparently limited ammunition at its disposal now.
- **Implication:** While the BoJ announced supplementary measures for its QQE program, Citi analysts think the positive impact on equity market may be limited. We note the risk that the market may regard the measures as marking the limits of the BoJ's will and resources to ease monetary policy.

End-2016 Target: 1850

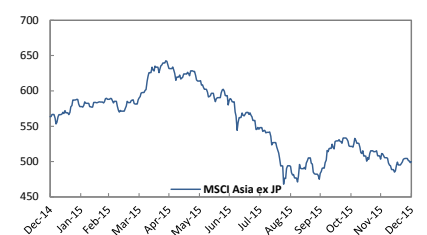


Source: Bloomberg as of 31 December 2015

### Asia

- **Driver:** The China State Council announced Residence Permit provisional regulations on 12 Dec, which will take effect from 1 Jan 2016, is regarded as a significant urbanization process.
- **Risk:** Despite signs of stabilization in Chinese economy, Citi analysts still view overall economic momentum in 4Q as disappointing and fragile.
- **Implication:** With improving social services coverage under the Residence Permit, we believe it is a positive step for the urbanization process and consumption-biased sectors such as Property, Insurance, Consumer Discretionary, Health Care, I.T., and Transport may benefit.

End-2016 Target: 610



Source: Bloomberg as of 31 December 2015

## Currency Forecast

Currency	Last price 31-Dec-15	Forecasts					
		Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	
<b>G10-US Dollar</b>							
Euro	EURUSD	1.09	1.09	1.06	1.03	1.03	1.04
Japanese yen	USDJPY	120	120	122	124	124	124
British Pound	GBPUSD	1.47	1.48	1.46	1.45	1.46	1.47
Swiss Franc	USDCHF	1.00	0.98	1.01	1.03	1.03	1.04
Australian Dollar	AUDUSD	0.73	0.72	0.70	0.69	0.69	0.69
New Zealand	NZDUSD	0.68	0.68	0.66	0.65	0.65	0.65
Canadian Dollar	USDCAD	1.38	1.41	1.39	1.38	1.36	1.35
<b>EM Asia</b>							
Chinese Renminbi	USDCNY	6.49	6.66	6.73	6.80	6.76	6.72
Hong Kong	USDHKD	7.75	7.76	7.78	7.79	7.78	7.78
Indonesian Rupiah	USDIDR	13,788	14,141	14,328	14,500	14,500	14,500
Indian Rupee	USDINR	66.15	67.3	67.7	68.0	68.0	68.0
Korean Won	USDKRW	1,175	1,189	1,208	1,224	1,215	1,206
Malaysian Ringgit	USDMYR	4.29	4.43	4.47	4.50	4.46	4.42
Philippine Peso	USDPHP	46.91	47.8	48.2	48.5	48.2	47.9
Singapore Dollar	USDSGD	1.42	1.45	1.46	1.47	1.47	1.46
Thai Baht	USDTHB	36.03	36.7	37.0	37.3	37.1	37.0
Taiwan Dollar	USDTHB	32.86	33.7	34.0	34.2	33.9	33.7
<b>EM Europe</b>							
Russian Ruble	USDRUB	72.52	69.3	70.2	70.9	69.8	68.7
South African Rand	USDZAR	15.47	15.64	15.83	15.98	15.78	15.58
<b>EM Latam</b>							
Brazilian Real	USDBRL	3.96	4.33	4.37	4.39	4.31	4.23
Mexican Peso	USDMXN	17.21	17.0	17.0	17.0	16.9	16.8

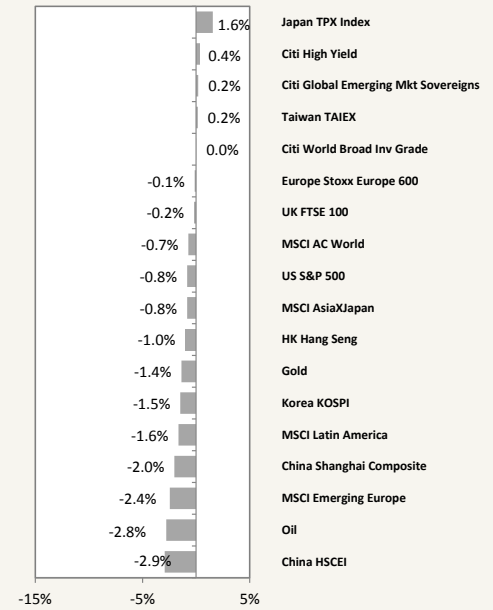
Source: Citi Research and Bloomberg as of 31 December 2015

## Short Rates and 10-Year Yield Forecasts

Short Rates (End of Period)	Last price 31-Dec-15	10-Year Yield (Period Average)				
		1Q16	2Q16	3Q16	4Q16	1Q17
US	0.50	0.50	0.75	0.75	1.00	1.25
Japan	0.10	0.10	0.10	0.10	0.10	0.1
Euro Area	0.05	0.05	0.05	0.05	0.05	0.05
US	2.27	2.20	2.25	2.30	2.30	2.33
Japan	0.28	0.25	0.35	0.45	0.50	0.50
Euro Area	0.63	0.20	0.20	0.30	0.40	0.50

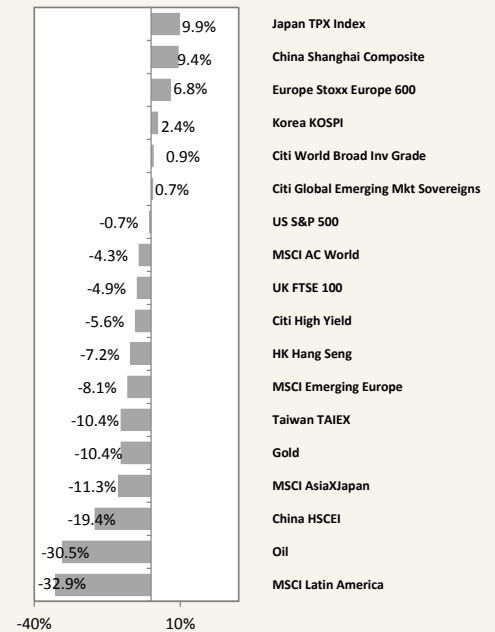
Source: Citi Research and Bloomberg as of 31 December 2015

## Weekly Market Performance (28- 31 December 2015)



Source: Bloomberg as of 31 December 2015

## Market Performance (Year-To-Date) (As of 31 December 2015)



Source: Bloomberg as of 31 December 2015

## World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	31-Dec-15	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
<b>US / Global</b>								
MSCI World	399.36	443.98	372.91	-0.72%	-2.87%	-4.26%	-4.26%	-4.26%
Dow Jones Industrial Average	17425.03	18351.36	15370.33	-0.72%	-2.59%	-2.23%	-2.23%	-2.23%
S&P 500	2043.94	2134.72	1867.01	-0.83%	-2.79%	-0.73%	-0.73%	-0.73%
NASDAQ	5007.41	5231.94	4292.14	-0.81%	-2.89%	5.73%	5.73%	5.73%
<b>Europe</b>								
MSCI Europe	410.97	478.94	392.63	-1.11%	-2.84%	-5.72%	-5.72%	-5.72%
Stoxx Europe 600	365.81	415.18	330.85	-0.13%	-4.80%	6.79%	6.79%	-4.10%
FTSE100	6242.32	7122.74	5768.22	-0.20%	-2.40%	-4.93%	-4.93%	-10.10%
CAC40	4637.06	5283.71	4076.16	-0.56%	-5.65%	8.53%	8.53%	-2.54%
DAX	10743.01	12390.75	9325.05	0.14%	-4.60%	9.56%	9.56%	-1.67%
<b>Japan</b>								
NIKKEI225	19033.71	20952.71	16592.57	1.30%	-4.89%	9.07%	9.07%	8.03%
Topix	1547.30	1702.83	1343.29	1.55%	-3.41%	9.93%	9.93%	8.88%
<b>Emerging Markets</b>								
MSCI Emerging Market	794.14	1069.13	762.71	-1.23%	-3.80%	-16.96%	-16.96%	-16.96%
MSCI Latin America	1829.81	2776.68	1808.94	-1.64%	-6.24%	-32.92%	-32.92%	-32.92%
MSCI Emerging Europe	110.35	159.85	107.43	-2.45%	-7.14%	-8.13%	-8.13%	-8.13%
MSCI EM Middle East & Africa	210.21	300.26	196.57	-2.40%	-7.25%	-22.37%	-22.37%	-22.37%
Brazil Bovespa	43349.96	58574.79	42749.23	-1.51%	-3.77%	-13.31%	-13.31%	-41.97%
Russia RTS	757.04	1092.52	708.25	-3.08%	-9.78%	-4.26%	-4.26%	-4.26%
<b>Asia</b>								
MSCI Asia ex-Japan	499.94	644.14	466.92	-0.83%	-2.27%	-11.32%	-11.32%	-11.32%
Australia S&P/ASX 200	5295.90	5996.90	4909.56	1.70%	0.57%	-2.13%	-2.13%	-12.62%
China HSCEI (H-shares)	9661.03	14962.74	9058.54	-2.94%	-2.88%	-19.39%	-19.39%	-19.35%
China Shanghai Composite	3539.18	5178.19	2850.71	-2.03%	2.40%	9.41%	9.41%	4.69%
Hong Kong Hang Seng	21914.40	28588.52	20368.12	-1.01%	-2.09%	-7.16%	-7.16%	-7.12%
India Sensex30	26117.54	30024.74	24833.54	1.08%	-0.20%	-5.03%	-5.03%	-9.34%
Indonesia JCI	4593.01	5524.04	4033.59	1.56%	0.78%	-12.13%	-12.13%	-21.35%
Malaysia KLCI	1692.51	1867.53	1503.68	1.74%	0.60%	-3.90%	-3.90%	-21.83%
Korea KOSPI	1961.31	2189.54	1800.75	-1.47%	-3.09%	2.39%	2.39%	-4.71%
Philippines PSE	6952.08	8136.97	6603.19	-0.72%	-1.54%	-3.85%	-3.85%	-8.37%
Singapore STI	2882.73	3549.85	2740.36	0.18%	0.43%	-14.34%	-14.34%	-19.92%
Taiwan TAIEX	8338.06	10014.28	7203.07	0.16%	-1.48%	-10.41%	-10.41%	-13.94%
Thailand SET	1288.02	1619.77	1251.99	0.30%	-5.08%	-14.00%	-14.00%	-21.61%
<b>Commodity</b>								
Oil	37.04	62.58	33.98	-2.78%	-11.49%	-30.47%	-30.47%	-30.47%
Gold spot	1061.42	1307.98	1046.43	-1.37%	-0.74%	-10.42%	-10.42%	-10.42%

Source: Bloomberg as of 31 December 2015

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