

Dovish Fed and Strong Data Send Stocks Higher

- The US Federal Reserve Chair Yellen maintained her dovish tone last week when she delivered her speech to the Economic Club of New York. She pointed out that the FOMC projections for economic growth, unemployment, and inflation are little changed from its estimates that accompanied its monetary policy decision earlier this month. Given her strident dovishness, Citi analysts have changed their projected number of rate increases this year to possibly one in September or even as late as December.
- On data front, US Nonfarm payrolls rose by 215,000 jobs (m/m) in March, well above a consensus forecast of 205,000. Excluding government hiring and firing, private sector payrolls increased by 195,000, versus the forecasted gain of 190,000. The unemployment rate ticked higher to 5.0% from 4.9%, where it was expected to remain, while average hourly earnings grew by 0.3% m/m (consensus: 0.2%).
- China's March official PMI posted a larger-than-expected increase to 50.2, ending a 7-month contraction and consistent with our expectation of a stabilization in 2Q16. That compares with 49.0 in February, which was the lowest reading since 2011.

Performance

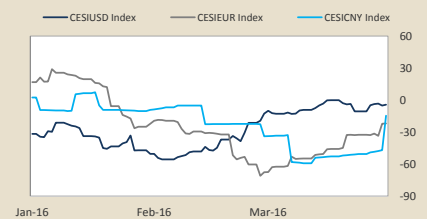
- Equities finished mostly to the upside, with the MSCI World Index rising 1.08% fueled by supportive central banks. Equities in US outperformed other DM peers as the Dow Jones Industrial Average and the S&P 500 Index gained 1.58% and 1.81% respectively. The Nasdaq Composite also jumped 2.95%.
- European equities declined, with the Stoxx Europe 600 Index losing 0.58%. Meanwhile, Japanese equities plummeted with the Yen gaining strength (Nikkei 225: -4.93% and Topix index: -4.73%).
- EM equities benefited from the dovish Fed and weakness in USD with the MSCI Emerging Markets higher 1.71%. The MSCI Emerging Europe (+2.26%) and the MSCI Latin America (+3.88%) outperformed the MSCI Asia ex-Japan (+0.98%). Within Asia, China was the best performer on stronger than expected data (SHCOMP: +1.01% and HSCEI: +1.63%).

Asset Allocation

- **Equities** — Emerging markets have surged ahead, aided by a weaker US dollar. Future gains likely to hinge on improving global growth.
- **Credit** — Citi analysts forecast spread tightening in both € IG and HY driven by the ECB. In \$ credit, our forecasts are more mixed.
- **Rates** — Across the major government bond markets, forecasts to end-2016 are fairly mixed. EMU bonds may outperform.
- **Commodities** — Citi expects more uncertainty and similar volatility to persist through Q2 as commodity markets struggle to find a sustainable price level.

Stabilizing economic data

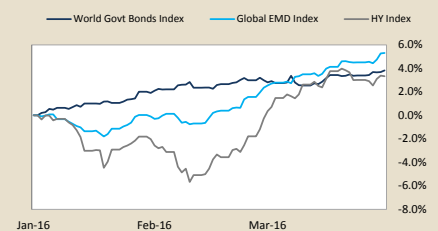
Citi Economic Surprise Index



Source: Bloomberg as of 1 April 2016

EM got a boost from Fed

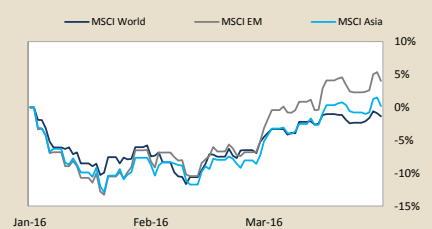
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 1 April 2016

A dovish Fed supports EM equities

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 1 April 2016

Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
4-Apr	EC	Unemployment Rate	Feb	10.3%	10.3%	10.2%
4-Apr	CH	Leading Index	Feb	--	98.1	--
5-Apr	EC	Retail Sales YoY	Feb	1.9%	2.0%	2.1%
5-Apr	IN	RBI Repurchase Rate	5 Apr	6.5%	6.8%	6.5%
5-Apr	EC	Markt Eurozone Composite PMI	Mar F	53.7	53.7	53.7
5-Apr	US	ISM Non-Man. Composite	Mar	54.1	53.4	--
5-Apr	US	Trade Balance	Feb	-46.2B	-45.7B	-46.5B
6-Apr	JN	Leading Index CI	Feb	99.8	101.8	100.0
6-Apr	CH	Caixin China PMI Composite	Mar	--	49.4	--
7-Apr	US	FOMC Minutes Released	15-16 Mar	--	--	--
8-Apr	JN	BoP Current Account Balance (Yen)	Feb	2032.3B	520.8B	2028.7B
10-Apr	CH	New Yuan Loans CNY bn	Mar	1125.0	726.6	1041.8

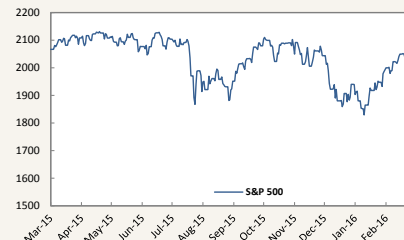
Source: Bloomberg as of 1 April 2016

Drivers and Risks by Market

United States

- **Driver:** Nonfarm payrolls rose by 215K in March, while labour force participation rose, suggesting that Americans are becoming more confident about labour market prospects. Separately, both manufacturing (ISM) and consumer confidence (U. Michigan) measures improved in March, in line with Street expectations. Consumer inflation expectations remained anchored.
- **Risk:** Potential EBIT margin pressures, the impact of additional anticipated Fed rate hikes and the uncertainty surrounding the US presidential elections could weigh on equity markets.
- **Implication:** The latest consumer spending figures imply a much slower path for 1Q consumer spending growth, likely in the 2% range. Against this backdrop, we have reduced our projection for Q1 GDP growth to 1.2% annualized, based on the slower pace of consumer spending growth, softer investment, drag from inventories, and continued deterioration in trade.

End-2016 Target: 2150

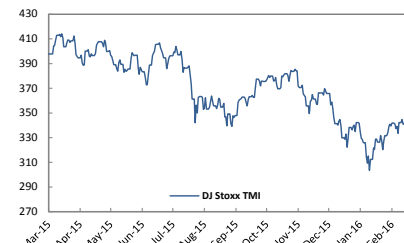


Source: Bloomberg as of 1 April 2016

Europe

- **Driver:** The ECB faced triple threats from persistent inflation under-shoot, tightening financial conditions and loss of credibility. This drew an enhanced policy response in the form of lower rates, attempts at both liquidity and credit easing as well as an asset purchase program expanded in size and breadth of target assets to include € IG corporate bonds from the end of 2Q16.
- **Risk:** Global trade weakness has impacted the Eurozone's economic recovery. Goods exports growth stalled in mid-2015. Net exports turned into a significant drag on growth.
- **Implication:** Citi analysts upgrade European Health Care to Neutral. The sector has sharply de-rated and has fallen back to a 10% P/E relative premium to the market. It has been at these low levels four times in the last 5 years and the sector's average relative return in the 12-months after hitting these levels has been +12%.

End-2016 Target: 380

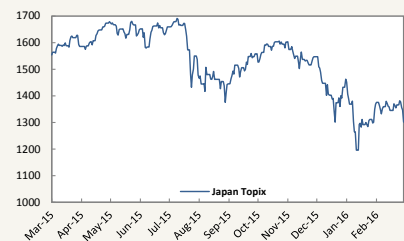


Source: Bloomberg as of 1 April 2016

Japan

- **Driver:** In a March 27 article, the *Nikkei* reported that the Abe administration is considering rolling out a ¥5trn-¥10trn stimulus package ahead of the G7 summit, and that it is also mulling postponement of the consumption tax hike (to 10% from 8%) scheduled for April 2017.
- **Risk:** If PM Abe decides to "freeze" the tax hike rather than "postpone" it, the risk of a sovereign downgrade would likely increase.
- **Implication:** As postponement would maintain household purchasing power at current levels for now, we would expect a broadly positive impact on the consumer goods sector. The biggest benefits could come in retail, transport equipment, housing, real estate, pharmaceuticals, and services.

End-2016 Target: 1500

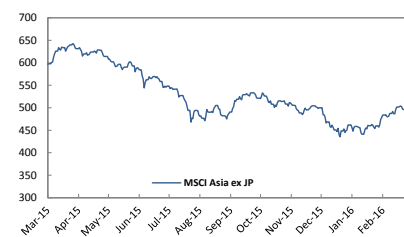


Source: Bloomberg as of 1 April 2016

Emerging Markets

- **Driver:** The MSCI is scheduled to include the other 50% of market cap of 14 Chinese companies' ADRs, effective 1 Jun 2016, following the 50% included on 1 Dec 2015 and as part of the roadmap to double China's weighting. Post June inclusion, ADRs' weight in MSCI China will be 20%, up from the current 11%, and ADRs' weight in MSCI EM will reach a significant 5.2% (higher than some countries' weights, e.g. Mexico 4.5%).
- **Risk:** Citi analysts expect stabilization of property investment to relieve hard-landing concerns, although a 3- to 5-year-period is needed to address overcapacity of most cyclical sectors.
- **Implication:** IT has been Citi's top OW given China's transition focus on internet-linked consumption and innovation. IT led the EPS positive surprises vs. consensus in FY2015's results season in addition to its leading 20%+ fwd. EPS growth.

End-2016 Target: 530



Source: Bloomberg as of 1 April 2016

Currency Forecast

Currency	Last price 01-Apr-16	Forecasts					
		Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
G10-US Dollar							
Euro	EURUSD 1.1391	1.13	1.13	1.11	1.10	1.10	1.10
Japanese yen	USDJPY 111.69	110	110	110	111	111	111
British Pound	GBPUSD 1.42	1.43	1.43	1.44	1.45	1.43	1.42
Swiss Franc	USDCHE 0.96	0.97	0.98	0.99	1.00	1.00	1.00
Australian Dollar	AUDUSD 0.77	0.77	0.77	0.75	0.73	0.73	0.73
New Zealand	NZDUSD 0.69	0.68	0.67	0.66	0.65	0.65	0.65
Canadian Dollar	USDCAD 1.30	1.30	1.30	1.30	1.30	1.30	1.30
EM Asia							
Chinese Renminbi	USDCNY 6.48	6.52	6.65	6.73	6.81	6.85	6.89
Hong Kong	USDHKD 7.75	7.76	7.78	7.79	7.80	7.80	7.80
Indonesian Rupiah	USDIDR 13,167	13,214	13,485	13,654	13,811	13,891	13,971
Indian Rupee	USDINR 66.2	66.9	67.8	68.4	69.0	69.2	69.4
Korean Won	USDKRW 1,154	1,172	1,195	1,209	1,219	1,215	1,211
Malaysian Ringgit	USDMYR 3.89	4.11	4.24	4.30	4.35	4.34	4.33
Philippine Peso	USDPHP 46.0	46.5	47.3	47.9	48.5	48.4	48.3
Singapore Dollar	USDSGD 1.35	1.37	1.41	1.45	1.48	1.47	1.47
Thai Baht	USDTHB 35.2	34.9	35.5	36.1	36.6	36.7	36.8
Taiwan Dollar	USDUSD 32.3	32.7	33.6	34.1	34.5	34.3	34.1
EM Europe							
Russian Ruble	USDRUB 67.7	70.6	72.9	72.3	71.7	71.1	70.5
South African Rand	USDZAR 14.70	15.64	16.30	16.68	16.99	16.95	16.91
EM Latam							
Brazilian Real	USDBRL 3.55	3.57	3.68	3.91	4.10	4.08	4.06
Mexican Peso	USDMXN 17.3	17.5	17.9	18.0	18.1	18.0	17.8

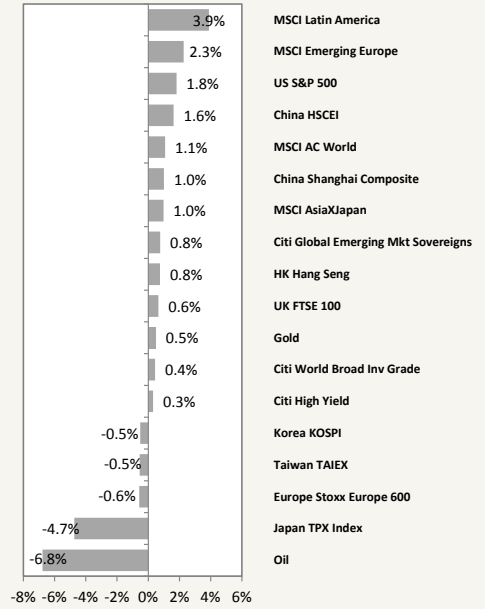
Source: Citi Research and Bloomberg as of 1 April 2016

Short Rates and 10-Year Yield Forecasts

	Last price 01-Apr-16	Forecasts				
		2Q16	3Q16	4Q16	1Q17	2Q17
Short Rates (End of Period)						
US	0.50	0.75	0.75	1.00	1.00	1.25
Japan	-0.10	-0.10	-0.30	-0.30	-0.30	-0.30
Euro Area	0.00	0.00	-0.05	-0.10	-0.25	-0.25
10-Year Yield (Period Average)						
US	1.77	1.80	1.90	2.00	2.10	2.15
Japan	-0.07	-0.10	-0.15	-0.15	-0.20	-0.15
Euro Area	0.13	0.15	0.15	0.20	0.20	0.30

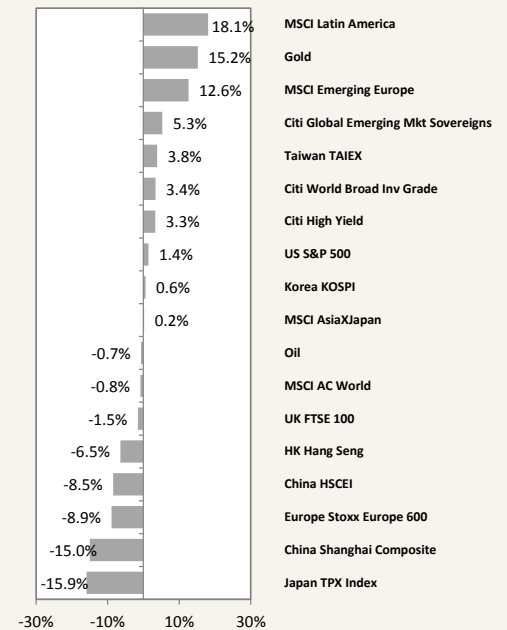
Source: Citi Research and Bloomberg as of 1 April 2016

Weekly Market Performance (28 March - 1 April 2016)



Source: Bloomberg as of 1 April 2016

Market Performance (Year-To-Date) (As of 1 April 2016)



Source: Bloomberg as of 1 April 2016

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	01-Apr-16	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
US / Global								
MSCI World	396.01	443.98	351.25	1.08%	4.66%	-6.72%	-0.84%	-0.84%
Dow Jones Industrial Average	17792.75	18351.36	15370.33	1.58%	5.50%	0.53%	2.11%	2.11%
S&P 500	2072.78	2134.72	1810.10	1.81%	4.77%	0.64%	1.41%	1.41%
NASDAQ	4914.54	5231.94	4209.76	2.95%	4.80%	0.70%	-1.85%	-1.85%
Europe								
MSCI Europe	392.90	478.94	355.54	1.02%	2.96%	-12.80%	-4.40%	-4.40%
Stoxx Europe 600	333.15	415.18	302.59	-0.58%	-1.64%	-16.40%	-8.93%	-4.52%
FTSE100	6146.05	7122.74	5499.51	0.65%	-0.11%	-9.74%	-1.54%	-4.98%
CAC40	4322.24	5283.71	3892.46	-0.17%	-1.92%	-14.62%	-6.79%	-2.28%
DAX	9794.64	12390.75	8699.29	-0.58%	0.80%	-18.39%	-8.83%	-4.81%
Japan								
NIKKEI225	16164.16	20952.71	14865.77	-4.93%	0.49%	-15.08%	-15.08%	-8.35%
Topix	1301.40	1702.83	1193.85	-4.73%	0.04%	-14.88%	-15.89%	-9.23%
Emerging Markets								
MSCI Emerging Market	826.19	1069.13	686.74	1.71%	9.73%	-15.95%	4.04%	4.04%
MSCI Latin America	2161.32	2776.68	1550.47	3.88%	16.93%	-14.22%	18.12%	18.12%
MSCI Emerging Europe	124.28	159.85	91.09	2.26%	11.69%	-8.81%	12.62%	12.62%
Brazil Bovespa	50561.53	58574.79	37046.07	1.82%	14.60%	-3.36%	16.64%	29.48%
Russia RTS	861.96	1092.52	607.14	-0.03%	9.61%	-5.32%	13.86%	13.86%
Asia								
MSCI Asia ex-Japan	500.92	644.14	434.84	0.98%	8.08%	-15.38%	0.20%	0.20%
Australia S&P/ASX 200	4999.39	5996.40	4706.70	-1.67%	1.57%	-14.70%	-5.60%	-0.65%
China HSCEI (H-shares)	8842.86	14962.74	7498.81	1.63%	9.60%	-29.47%	-8.47%	-8.53%
China Shanghai Composite	3009.53	5178.19	2638.30	1.01%	10.11%	-21.02%	-14.97%	-14.85%
Hong Kong Hang Seng	20498.92	28588.52	18278.80	0.75%	5.62%	-18.27%	-6.46%	-6.52%
India Sensex30	25269.64	29094.61	22494.61	-0.27%	6.27%	-10.58%	-3.25%	-3.22%
Indonesia JCI	4843.19	5523.29	4033.59	0.33%	1.32%	-11.41%	5.45%	11.41%
Malaysia KLCI	1710.55	1867.53	1503.68	0.40%	2.38%	-6.34%	1.07%	11.95%
Korea KOSPI	1973.57	2189.54	1800.75	-0.52%	2.97%	-2.71%	0.63%	3.24%
Philippines PSE	7245.13	8136.97	6084.28	-1.56%	7.66%	-9.36%	4.22%	6.13%
Singapore STI	2818.49	3549.85	2528.44	-1.01%	5.07%	-18.23%	-2.23%	2.75%
Taiwan TAIEX	8657.55	10014.28	7203.07	-0.54%	2.03%	-8.94%	3.83%	5.90%
Thailand SET	1400.72	1575.39	1220.96	0.43%	3.99%	-8.18%	8.75%	11.53%
Commodity								
Oil	36.79	62.58	26.05	-6.77%	6.95%	-26.55%	-0.67%	-0.67%
Gold spot	1222.50	1285.18	1046.43	0.50%	-0.78%	1.54%	15.18%	15.18%

Source: Bloomberg as of 1 April 2016

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