

Central Banks To The Rescue

- The Bank of Japan (BoJ) maintained its asset purchase program, while announcing that it will adopt a negative interest-rate strategy—in a three-tier system—and delay the timing of reaching its 2.0% inflation target. The decision came as Japan reported larger-than-expected drops in December household spending and industrial production, along with a modest increase in its core consumer price inflation. The BoJ said it will maintain its asset purchases and negative interest rates as long as it is necessary.
- While the BoJ move is seen to be positive for risk assets and commodity bloc currencies, Citi analysts believe Japanese equities may enter a rebound phase with real estate, utilities, and land transport sectors being key beneficiaries.
- Citi analysts believe the BOJ move may put pressure on the ECB to consider further cuts to its deposit rate at its March 10 meeting. On January 21, ECB sent a clear message it may act in March if inflation prospects do not improve.

Performance

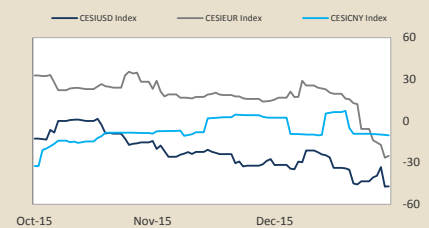
- Global equities rose (MSCI World index: +1.92%) with the global markets getting a boost from the surprise announcement from BoJ to adopt a negative interest-rate policy. In the US, the Dow Jones Industrial Average and the S&P 500 Index advanced 2.32% and 1.75% respectively and the Nasdaq Composite also jumped 2.38%. European equities finished the week higher with the benchmark Stoxx Europe 600 Index up 1.16% and Japanese equities jumped (Nikkei 225: +3.30% and Topix index: +4.21%) with the yen falling post the BoJ's decision.
- Finally, the MSCI Emerging Markets index soared 4.46% with the MSCI Emerging Europe (+7.58%) and the MSCI Latin America (+7.61%) outperforming the MSCI Asia Pacific (+3.01%). Within Asia, mainland Chinese equity markets failed to erase earlier losses and posted negative weekly gains (SHCOMP: -6.14%).

Asset Allocation

- **Equities** — We think that this global market, which began back in March 2009, is ageing but not finished. We favour Europe ex-UK and Japan where central banks are supportive with reasonable EPS momentum. We maintain a mildly cyclical sector tilt, with Financials being the favoured sector.
- **Credit** — We see HY significantly outperforming IG to end-2016, in both Europe and US.
- **Rates** — Across the major government bond markets, forecasts to end-2016 are mixed. EMU government bonds likely to outperform, while Japan and US may underperform.
- **Commodities** — 2016 may likely be a year of volatile and ongoing price adjustments. Citi analysts downgraded base metals to a small underweight (from neutral) and upgraded precious metals to neutral (from underweight).

Still soft economic data

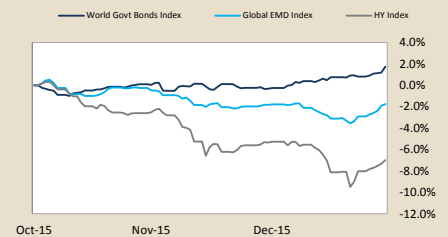
Citi Economic Surprise Index



Source: Bloomberg as of 29 January 2016

HY recovers amid rising oil prices

Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 29 January 2016

BoJ move sends stocks higher

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 29 January 2016

Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
1-Feb	SK	Exports YoY	Jan	-10.3%	-13.8%	-12.5%
1-Feb	US	Personal Income	Dec	0.2%	0.3%	0.2%
1-Feb	CH	Manufacturing PMI	Jan	49.6	49.7	49.6
1-Feb	EC	Markit Eurozone Manufacturing PM	Jan	52.3	52.3	52.3
2-Feb	SK	CPI YoY	Jan	1.1%	1.3%	0.9%
2-Feb	IN	RBI Repurchase Rate	2 Feb	6.8%	6.8%	6.8%
2-Feb	EC	Unemployment Rate	Dec	10.5%	10.5%	10.5%
3-Feb	TH	BoT Benchmark Interest Rate	3 Feb	1.5%	1.5%	1.5%
3-Feb	CH	Caixin China PMI Composite	Jan	--	49.4	--
4-Feb	US	Factory Orders	Dec	-2.8%	-0.2%	-2.7%
4-Feb	US	Initial Jobless Claims	30 Jan	280K	278K	265K
5-Feb	US	Change in Nonfarm Payrolls	Jan	190K	292K	225K

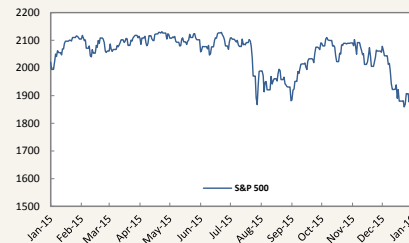
Source: Bloomberg as of 29 January 2016

Drivers and Risks by Market

United States

- **Driver:** The US economy slowed in the final quarter of 2015, but pockets of weakness were confined to sectors subject to transitory drags. Meanwhile, strength in the economy was concentrated in areas driven by an increasingly confident consumer—a sign of resilience.
- **Risk:** Growing fears that the US economy is headed toward recession appear premature in the wake of the recent slowdown in growth and global financial market turmoil.
- **Implication:** As a result, we maintain our 2% to 2.5% medium-term US growth outlook. Citi analysts continue to anticipate three Fed rate hikes this year, but acknowledge that the increased uncertainty associated with the recent financial instability could slow the pace of Fed tightening.

End-2016 Target: 2150

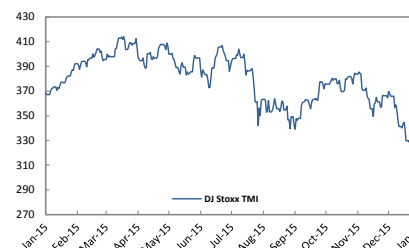


Source: Bloomberg as of 29 January 2016

Europe

- **Driver:** The recent Labour market reforms in periphery countries may likely continue to push the euro area NAWRU (non-accelerating wage rate of unemployment) lower over the coming years, in our view, keeping wage pressures muted even if the unemployment rate continue to fall. Together with weakness in commodity prices and a large output gap, we argue that this may further reduce the scope for any pick-up in core inflation in the next couple of years.
- **Risk:** Citi analysts see four downside risks to the euro area outlook: (i) slowdown in emerging market economies, (ii) increased financial and commodity markets volatility, (iii) higher geopolitical risks and (iv) continued inflation undershooting.
- **Implication:** Citi analysts prefer three Value hedges: 1) companies with surplus FCF and strong balance sheets, 2) Overweight Oil & Gas/Underweight Industrials, and 3) cheapen exposure to EPS/DPS momentum strategies.

End-2016 Target: 400

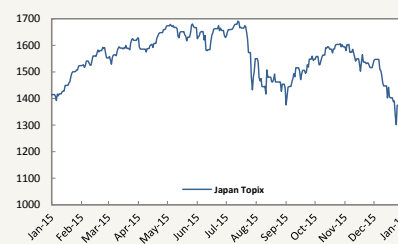


Source: Bloomberg as of 29 January 2016

Japan

- **Driver:** The BoJ introduced a negative policy rate of -0.1% in a surprise move at its Jan 29 policy meeting. It kept its asset purchase programme (which expands the monetary base by ¥80trn/year) unchanged.
- **Risk:** Citi analysts do not think any further declines in long-term interest rates may give a strong impact on the real economy. Indeed, we have not seen noticeable changes in business investment and wage growth despite a significant decline in interest rates and the yen-dollar rate to date.
- **Implication:** The BoJ's announcement caused the JGB yield curve likely to flatten. We believe lower interest rates are positive for the real estate, utilities, and land transport sectors but negative for banks and insurance. Exporters as a whole are also likely to benefit from reduced yen appreciation risk.

End-2016 Target: 1650

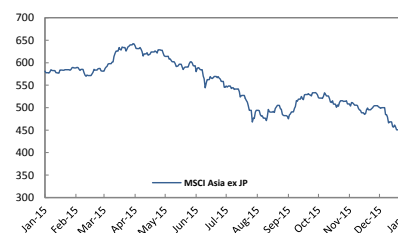


Source: Bloomberg as of 29 January 2016

Asia

- **Driver:** Equity investors seem to be forecasting a China crisis scenario ahead, as offshore China equities trade cheaper than in the 2008 financial crisis. Citi analysts do not predict a crisis ahead because: 1) top risky sectors (coal, steel, cement, chemicals, non-ferrous metal, & oil/gas) contribute 5% of urban employment, thus limited consumption hurt; and 2) they contribute less than 10% of total credit.
- **Risk:** Citi analysts view 2016 as being the first year that will see real supply-side surgery: de-capacity with rising defaults. The supply-side adjustments may imply further pain, and thus, more policy easing: both fiscal and monetary will be required.
- **Implication:** Although it is too early to aggressively buy now given de-capacity overhang, the downside of MSCI China seems limited unless there is an unexpected financial crisis. In terms of sectors, Citi analysts OW I.T., Health Care, Con. Disc., Property, Insurance, Transportation, and Utilities, and UW Energy, Materials and Con. Staples.

End-2016 Target: 530



Source: Bloomberg as of 29 January 2016

Currency Forecast

	Currency	Last price 29-Jan-16	Forecasts				
			Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
G10-US Dollar							
Euro	EURUSD	1.08	1.08	1.05	1.05	1.05	1.05
Japanese yen	USDJPY	121	120	123	123	123	122
British Pound	GBPUSD	1.42	1.43	1.44	1.43	1.42	1.42
Swiss Franc	USDCHF	1.02	1.02	1.04	1.05	1.05	1.05
Australian Dollar	AUDUSD	0.71	0.68	0.68	0.68	0.69	0.69
New Zealand	NZDUSD	0.65	0.63	0.64	0.64	0.64	0.65
Canadian Dollar	USDCAD	1.40	1.43	1.41	1.38	1.36	1.34
EM Asia							
Chinese Renminbi	USDCNY	6.58	6.97	7.16	7.17	7.13	7.09
Hong Kong	USDHKD	7.79	7.79	7.79	7.79	7.79	7.78
Indonesian Rupiah	USDIDR	13,778	14,374	14,563	14,584	14,564	14,544
Indian Rupee	USDINR	67.79	68.3	68.9	68.8	68.6	68.4
Korean Won	USDKRW	1,199	1,252	1,267	1,255	1,238	1,220
Malaysian Ringgit	USDMYR	4.15	4.53	4.55	4.51	4.46	4.41
Philippine Peso	USDPHP	47.74	48.2	48.4	48.3	48.0	47.7
Singapore Dollar	USDSGD	1.42	1.47	1.49	1.49	1.48	1.47
Thai Baht	USDTHB	35.69	37.3	37.7	37.6	37.3	37.1
Taiwan Dollar	USDTHB	33.33	34.5	34.9	34.7	34.3	33.9
EM Europe							
Russian Ruble	USDRUB	75.55	73.0	70.8	69.6	68.7	67.7
South African Rand	USDZAR	15.89	17.82	18.39	17.93	17.24	16.55
EM Latam							
Brazilian Real	USDBRL	4.00	4.35	4.39	4.36	4.31	4.26
Mexican Peso	USDMXN	18.11	18.2	18.3	18.0	17.6	17.2

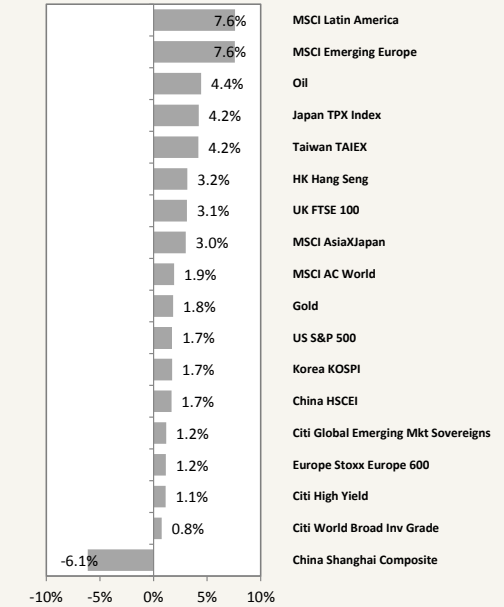
Source: Citi Research and Bloomberg as of 29 January 2016

Short Rates and 10-Year Yield Forecasts

	Last price 29-Jan-16	Forecasts				
		1Q16	2Q16	3Q16	4Q16	1Q17
Short Rates (End of Period)						
US	0.50	0.75	0.75	1.00	1.25	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
10-Year Yield (Period Average)						
US	1.92	2.20	2.25	2.30	2.30	2.33
Japan	0.23	0.25	0.35	0.45	0.50	0.50
Euro Area	0.33	0.20	0.20	0.30	0.40	0.50

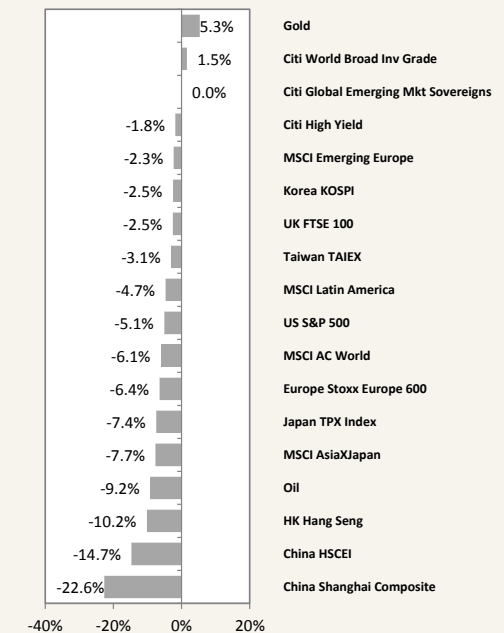
Source: Citi Research and Bloomberg as of 29 January 2016

Weekly Market Performance (25 - 29 January 2016)



Source: Bloomberg as of 29 January 2016

Market Performance (Year-To-Date) (As of 29 January 2016)



Source: Bloomberg as of 29 January 2016

World Market At Glance

	Last price 29-Jan-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	375.02	443.98	352.10	1.92%	-7.31%	-9.51%	-6.09%	-6.09%
Dow Jones Industrial Average	16466.30	18351.36	15370.33	2.32%	-7.08%	-5.46%	-5.50%	-5.50%
S&P 500	1940.24	2134.72	1812.29	1.75%	-6.65%	-4.01%	-5.07%	-5.07%
NASDAQ	4613.95	5231.94	4292.14	0.50%	-9.67%	-1.48%	-7.86%	-7.86%
Europe								
MSCI Europe	384.09	478.94	361.02	1.35%	-7.96%	-12.57%	-6.54%	-6.54%
Stoxx Europe 600	342.27	415.18	320.46	1.16%	-7.41%	-7.18%	-6.44%	-6.63%
FTSE100	6083.79	7122.74	5639.88	3.11%	-3.65%	-10.67%	-2.54%	-5.92%
CAC40	4417.02	5283.71	4084.68	1.85%	-6.05%	-4.63%	-4.75%	-4.95%
DAX	9798.11	12390.75	9314.57	0.34%	-9.78%	-8.75%	-8.80%	-9.36%
Japan								
NIKKEI225	17518.30	20952.71	16017.26	3.30%	-7.71%	-0.50%	-7.96%	-8.22%
Topix	1432.07	1702.83	1301.49	4.21%	-7.21%	1.31%	-7.45%	-7.71%
Emerging Markets								
MSCI Emerging Market	742.37	1069.13	686.74	4.46%	-7.17%	-23.72%	-6.52%	-6.52%
MSCI Latin America	1744.05	2776.68	1550.47	7.61%	-6.63%	-34.23%	-4.69%	-4.69%
MSCI Emerging Europe	107.81	159.85	91.09	7.58%	-4.04%	-9.37%	-2.30%	-2.30%
MSCI EM Middle East & Africa	201.29	300.26	175.35	8.80%	-6.06%	-26.38%	-4.24%	-4.24%
Brazil Bovespa	40405.99	58574.79	37046.07	6.24%	-7.44%	-15.40%	-6.79%	-7.82%
Russia RTS	745.30	1092.52	607.14	7.80%	-3.16%	-0.29%	-1.55%	-1.55%
Asia								
MSCI Asia ex-Japan	461.64	644.14	434.84	3.01%	-7.83%	-20.59%	-7.66%	-7.66%
Australia S&P/ASX 200	5005.52	5996.90	4803.90	1.82%	-4.97%	-10.13%	-5.48%	-8.21%
China HSCEI (H-shares)	8241.36	14962.74	7823.86	1.68%	-15.81%	-29.78%	-14.69%	-15.07%
China Shanghai Composite	2737.60	5178.19	2638.30	-6.14%	-23.18%	-16.08%	-22.65%	-23.67%
Hong Kong Hang Seng	19683.11	28588.52	18534.30	3.16%	-10.53%	-19.97%	-10.18%	-10.57%
India Sensex30	24870.69	30024.74	23839.76	1.78%	-4.64%	-16.21%	-4.77%	-7.08%
Indonesia JCI	4615.16	5524.04	4033.59	3.55%	1.00%	-12.30%	0.48%	1.74%
Malaysia KLCI	1667.80	1867.53	1503.68	2.62%	-1.04%	-6.42%	-1.46%	2.27%
Korea KOSPI	1912.06	2189.54	1800.75	1.74%	-2.76%	-2.00%	-2.51%	-5.30%
Philippines PSE	6687.62	8136.97	6084.28	7.72%	-3.80%	-12.20%	-3.80%	-5.29%
Singapore STI	2629.11	3549.85	2529.01	2.02%	-8.97%	-23.10%	-8.80%	-9.24%
Taiwan TAIEX	8080.60	10014.28	7203.07	4.18%	-2.57%	-14.28%	-3.09%	-4.70%
Thailand SET	1300.98	1619.77	1220.96	2.60%	1.34%	-17.99%	1.01%	2.15%
Commodity								
Oil	33.62	62.58	26.19	4.44%	-11.22%	-24.50%	-9.23%	-9.23%
Gold spot	1118.17	1285.97	1046.43	1.84%	4.59%	-11.07%	5.35%	5.35%

Source: Bloomberg as of 29 January 2016

Disclaimer

"Citi analysts" refers to investment professionals within Citi Research ("CR"), Citi Global Markets Inc. ("CGMI") and voting members of the Citi Global Investment Committee. Citibank N.A. and its affiliates / subsidiaries provide no independent research or analysis in the substance or preparation of this document.

The information in this document has been obtained from reports issued by CGMI. Such information is based on sources CGMI believes to be reliable. CGMI, however, does not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute CGMI's judgment as of the date of the report and are subject to change without notice. This document is for general information purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any security or currency. No part of this document may be reproduced in any manner without the written consent of Citibank N.A. Information in this document has been prepared without taking account of the objectives, financial situation, or needs of any particular investor. Any person considering an investment should consider the appropriateness of the investment having regard to their objectives, financial situation, or needs, and should seek independent advice on the suitability or otherwise of a particular investment. Investments are not deposits, are not obligations of, or guaranteed or insured by Citibank N.A., Citigroup Inc., or any of their affiliates or subsidiaries, or by any local government or insurance agency, and are subject to investment risk, including the possible loss of the principal amount invested. Investors investing in funds denominated in non-local currency should be aware of the risk of exchange rate fluctuations that may cause a loss of principal. Past performance is not indicative of future performance, prices can go up or down. Some investment products (including mutual funds) are not available to US persons and may not be available in all jurisdictions. Investors should be aware that it is his/her responsibility to seek legal and/or tax advice regarding the legal and tax consequences of his/her investment transactions. If an investor changes residence, citizenship, nationality, or place of work, it is his/her responsibility to understand how his/her investment transactions are affected by such change and comply with all applicable laws and regulations as and when such becomes applicable. Citibank does not provide legal and/or tax advice and is not responsible for advising an investor on the laws pertaining to his/her transaction.

Citi Research (CR) is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For more information, please refer to https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures

Country Specific Disclosures

- Australia** : This document is distributed in Australia by Citigroup Pty Limited ABN 88 004 325 080, AFSL 238098. For a full explanation of the risks of investing in any investment, please ensure that you fully read and understand the relevant Product Disclosure Statement prior to investing.
- Hong Kong** : This document is distributed in Hong Kong by Citibank (Hong Kong) Limited ("CHKL"). Prices and availability of financial instruments can be subject to change without notice. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested.
- India** : This document is distributed in India by Citibank N.A. Investment are subject to market risk including that of loss of principal amounts invested. Products so distributed are not obligations of, or guaranteed by, Citibank and are not bank deposits. Past performance does not guarantee future performance. Investment products cannot be offered to US and Canada Persons. Investors are advised to read and understand the Offer Documents carefully before investing.
- Indonesia** : This report is made available in Indonesia through Citibank N.A., Indonesia Branch. Citibank N. A., Indonesia is a bank that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).
- Korea** : This document is distributed in South Korea by Citibank Korea Inc. Investors should be aware that investment products are not guaranteed by the Korea Deposit Insurance Corporation and are subject to investment risk including the possible loss of the principal amount invested. Investment products are not available to US persons.
- Malaysia** : This document is distributed in Malaysia by Citibank Berhad.
- People's Republic of China** : This document is distributed by Citibank (China) Co., Ltd in the People's Republic of China (excluding the Special Administrative Regions of Hong Kong and Macau, and Taiwan).
- Philippines** : This document is made available in Philippines by Citicorp Financial Services and Insurance Brokerage Phils. Inc, Citibank N.A. Philippines. Investors should be aware that Investment products are not insured by the Philippine Deposit Insurance Corporation or Federal Deposit Insurance Corporation or any other government entity.
- Singapore** : This report is distributed in Singapore by Citibank Singapore Limited ("CSL"). Investment products are not insured under the provisions of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 of Singapore and are not eligible for deposit insurance coverage under the Deposit Insurance Scheme.
- Thailand** : This document contains general information and insights distributed in Thailand by Citigroup and is made available in English language only. Citi does not dictate or solicit investment in any specific securities and similar products. Investment contains certain risk, please study prospectus before investing. Not an obligation of, or guaranteed by, Citibank. Not bank deposits. Subject to investment risks, including possible loss of the principal amount invested. Subject to price fluctuation. Past performance does not guarantee future performance. Not offered to US persons.
- Vietnam** : This document is distributed in Vietnam by Citibank, N.A., - Ho Chi Minh City Branch and Citibank, N.A. - Hanoi Branch, licensed foreign bank's branches regulated by the State Bank of Vietnam. Investment contains certain risk, please study product's prospectus, relevant disclosures and disclaimers and the terms and conditions for details before investing. Investment products are not offered to US persons.
- United Kingdom** : This document is distributed in U.K. by Citibank Europe plc, UK Branch. The registered address in the UK is Citibank Centre, Canada Square, Canary Wharf, London E14 5LB. Citibank Europe plc, UK Branch is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.