

Another wild weekly ride

- Global markets continued to see heightened volatility, with multiple selloffs leading to an extension of the rout to begin 2016. The same catalysts that led to last week's tumble persisted, with crude oil prices falling to 12-month lows and China facing heightened global growth/currency concerns.
- In the US, retail sales missed expectations notably, with core sales declining 0.3% vs +0.3% expected. The New York regional Fed manufacturing survey also hit the lowest since 2009, with downward revisions to historical data. Industrial production declined, missing expectations in Dec. The only beat was consumer sentiment by a small margin.
- Finally, the weekend produced significant news in Asia, including the landslide victory for opposition party in Taiwan, as well as further tightening of CNH policy by the PBOC. However, no meaningful central bank signals were given on additional liquidity provision.

Performance

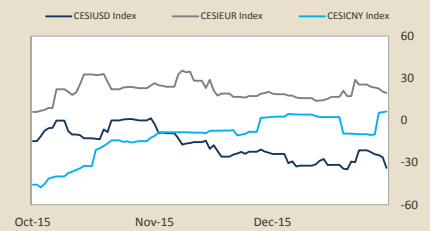
- Global equity markets were lower for the week, as the Dow Jones Industrial Average dropped 2.19%, the S&P 500 Index fell 2.17%, and the Nasdaq Composite Index lost 3.34%. Europe also posted a negative weekly return as the benchmark Stoxx Europe 600 Index lost 3.37%. Japan's Nikkei 225 and Topix finished lower 3.11% and 3.10% respectively.
- Finally, the MSCI Emerging Markets index fell 4.17% dragged by the MSCI Latin America (-2.91%), the MSCI Asia Pacific (-3.84%) and the MSCI Emerging Europe (-7.60%). Chinese equities were the biggest underperformers with the Shanghai Composite and HSCEI plunging 8.96% and 6.89% respectively. In contrast, equities in Thailand held up relatively better, as the SET index posted a positive return of 0.13%.

Asset Allocation

- Equities** — Still negative sentiment amid China concerns and less helpful monetary policy. Earnings revisions do not look bright in the US and EM. Still prefer Europe and Japan.
- Credit** — Citi analysts expect HY markets to outperform IG in both US and Europe. Brexit risk premia are rising although it is not yet fully priced. Thus British spreads could widen even further.
- Rates** — Citi's strategists forecast divergent yield paths for the major government bond markets to end-2016. EMU bonds are expected to outperform; Japan and US likely to underperform.
- Commodities** — The China fuelled commodity rout continues. But positioning unwinds have been sharp and major commodities are testing important supports.

US economic data disappointed

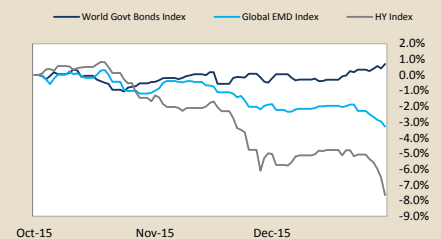
Citi Economic Surprise Index



Source: Bloomberg as of 15 January 2016

HY bonds dragged down by falling oil

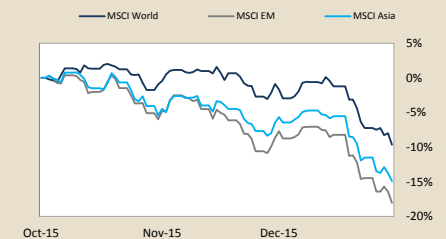
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 15 January 2016

Equities off to a rough start

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 15 January 2016

Week Ahead Key Data and Event

| Date | Country | Data & Event | Period | Survey | Prior | Citi Fct |
|--------|---------|-----------------------------------|--------|--------|-------|----------|
| 19-Jan | CH | GDP YoY | 4Q | 6.9% | 6.9% | 6.8% |
| 19-Jan | CH | Industrial Production YoY | Dec | 6.0% | 6.2% | 5.9% |
| 19-Jan | CH | Retail Sales YoY | Dec | 11.3% | 11.2% | 11.0% |
| 19-Jan | CH | Fixed Assets Ex Rural YTD YoY | Dec | 10.2% | 10.2% | 10.3% |
| 19-Jan | HK | Unemployment Rate SA | Dec | 3.3% | 3.3% | 3.3% |
| 20-Jan | US | CPI MoM | Dec | 0.0% | 0.0% | 0.1% |
| 21-Jan | US | Initial Jobless Claims | 16-Jan | 280k | 284k | 280k |
| 21-Jan | JN | All Industry Activity Index MoM | Nov | -0.7% | 1.0% | -0.7% |
| 21-Jan | EC | Consumer Confidence | Jan A | -5.7 | -5.7 | -5.5 |
| 21-Jan | EC | Market Eurozone Manufacturing PMI | Jan P | 53.0 | 53.2 | 52.8 |
| 22-Jan | EC | Market Eurozone Services PMI | Jan P | 54.1 | 54.2 | 54.2 |
| 22-Jan | EC | Market Eurozone Composite PMI | Jan P | 54.1 | 54.3 | 54.1 |

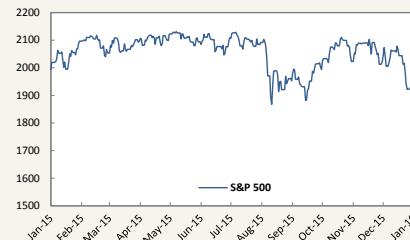
Source: Bloomberg as of 15 January 2016

Drivers and Risks by Market

United States

- **Driver:** Citi analysts believe that market trends may be driven by a 5%-type earnings pickup as well as EPS guidance. In January, upward earnings revisions as a % of total revisions for the S&P 500 fell to 46.0% from 49.2% in December with the Oil and Gas contributing to the weakness in upward revision trends.
- **Risk:** Weaker commodity prices are acting as a drag on aggregate corporate profits as industrial companies scale back. Fed policy concerns should also restrain multiple expansion prospects.
- **Implication:** While the anxiety over China is intense, Citi US strategists believe Chinese and US equity markets are not as correlated as most investors believe, with the clear exception of the GFC period. Furthermore, Chinese exports represent a very small component of US economic activity, though there are several S&P 500 constituents with fairly large Chinese sales and growth exposures.

End-2016 Target: 2200

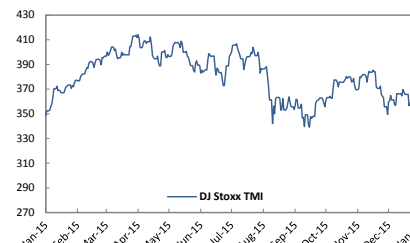


Source: Bloomberg as of 15 January 2016

Europe

- **Driver:** The ECB may probably stay put at its January 20-21 Governing Council (GC) meeting. Despite severe downside risks to inflation, it is probably too soon after the December meeting to double down.
- **Risk:** Combined with core inflation weakness, record low oil prices point to new inflation target shortfalls and the risk of un-anchoring inflation expectations.
- **Implication:** The ECB has a plethora of policy tools at its disposal to provide further monetary stimulus although many may be only marginally effective to stem a large-scale shortfall of inflation relative to target. Policy options range from rate cuts, new lending facilities via bond purchases.

End-2016 Target: 400

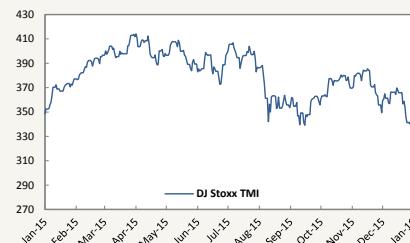


Source: Bloomberg as of 15 January 2016

Japan

- **Driver:** We think that Japanese politics and the Abe administration's policy stance are key drivers of Japanese equity markets in 2016. With the BoJ's additional easing likely in 2016, Citi analysts believe this easing could come as soon as January if the ¥/\$ rate remains at ¥118/\$, or is stronger.
- **Risk:** One downside scenario, in Citi's view, is that the Abe administration again shifts its policy focus to non-economic matters such as constitutional reform.
- **Implication:** Citi analysts prefer domestic demand-related names, defensives, and financials with their base-case scenario for the end-2016 TOPIX at 1,850. FY3/17 TOPIX EPS is forecast to grow 6.7% (7.5% on calendar year basis) while Citi estimates FY3/16 EPS growth at 17.1%, well above those of major markets, thanks to yen depreciation and decline in crude oil prices.

End-2016 Target: 1850

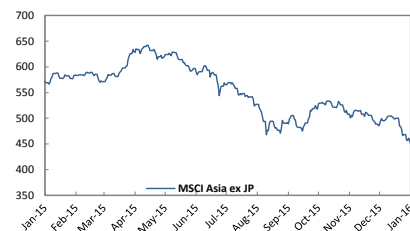


Source: Bloomberg as of 15 January 2016

Asia

- **Driver:** The PBOC may reportedly impose a required reserve ratio (RRR) on offshore banks with yuan deposits in the mainland, starting January 25. The reserve ratio was previously at 0% for foreign banks. It is unclear whether foreign banks will be imposed similar to those of SME banks with 15.5% RRR or large banks with 17.5% RRR.
- **Risk:** Though we see greater risk of faster RMB depreciation vs. USD, the process is likely to go in fits and starts with periodic usage of capital flow measures for macro-prudential purposes to ease the losses on both RMB spot and official reserves.
- **Implication:** We see this move as another 'macro prudential' measure meant to reduce the depreciation pressures by raising the cost of shorting offshore CNH relative to onshore while having a minimal impact on onshore liquidity conditions. Citi analysts estimate that offshore bank deposits in the mainland amounts to about RMB1.223 trillion, and if the majority of those deposits are RMB-denominated, an average 17% RRR would drain about RMB207.5bn of liquidity.

End-2016 Target: 575



Source: Bloomberg as of 15 January 2016

Currency Forecast

| Currency | Last price | | Forecasts | | | | |
|----------------------|------------|--------|-----------|--------|--------|--------|--------|
| | 15-Jan-16 | | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
| G10-US Dollar | | | | | | | |
| Euro | EURUSD | 1.09 | 1.08 | 1.05 | 1.05 | 1.05 | 1.05 |
| Japanese yen | USDJPY | 117 | 120 | 123 | 123 | 123 | 122 |
| British Pound | GBPUSD | 1.43 | 1.43 | 1.44 | 1.43 | 1.42 | 1.42 |
| Swiss Franc | USDCHF | 1.00 | 1.02 | 1.04 | 1.05 | 1.05 | 1.05 |
| Australian Dollar | AUDUSD | 0.69 | 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 | 1.45 | 1.43 | 1.40 | 1.38 | 1.36 | 1.34 |
| EM Asia | | | | | | | |
| Chinese Renminbi | USDCNY | 6.58 | 6.87 | 6.98 | 6.93 | 6.85 | 6.77 |
| Hong Kong | USDHKD | 7.80 | 7.79 | 7.79 | 7.79 | 7.79 | 7.78 |
| Indonesian Rupiah | USDIIDR | 13,910 | 14,380 | 14,569 | 14,583 | 14,563 | 14,544 |
| Indian Rupee | USDINR | 67.61 | 68.3 | 68.9 | 68.8 | 68.6 | 68.4 |
| Korean Won | USDKRW | 1,213 | 1,252 | 1,268 | 1,255 | 1,237 | 1,219 |
| Malaysian Ringgit | USDMYR | 4.40 | 4.53 | 4.55 | 4.51 | 4.46 | 4.41 |
| Philippine Peso | USDPHP | 47.78 | 48.2 | 48.5 | 48.2 | 48.0 | 47.7 |
| Singapore Dollar | USDSGD | 1.44 | 1.48 | 1.49 | 1.49 | 1.48 | 1.47 |
| Thai Baht | USDTHB | 36.36 | 37.3 | 37.7 | 37.6 | 37.3 | 37.1 |
| Taiwan Dollar | USDTWD | 33.66 | 34.6 | 34.9 | 34.7 | 34.3 | 33.9 |
| EM Europe | | | | | | | |
| Russian Ruble | USDRUB | 77.70 | 73.0 | 70.8 | 69.6 | 68.6 | 67.7 |
| South African Rand | USDZAR | 16.79 | 17.84 | 18.41 | 17.91 | 17.22 | 16.52 |
| EM Latam | | | | | | | |
| Brazilian Real | USDBRL | 4.05 | 4.36 | 4.39 | 4.36 | 4.31 | 4.26 |
| Mexican Peso | USDMXN | 18.26 | 18.2 | 18.3 | 18.0 | 17.6 | 17.2 |

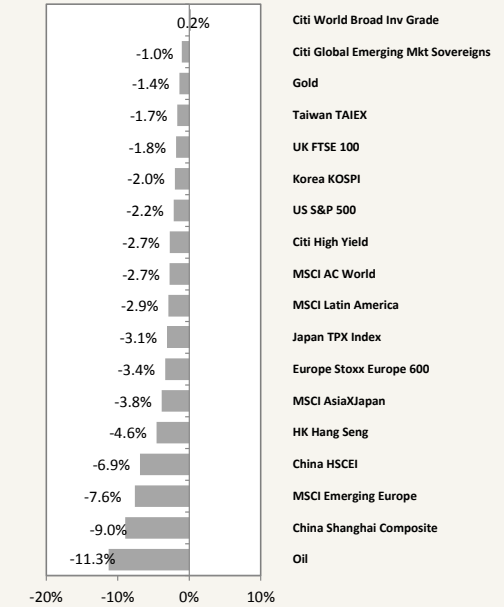
Source: Citi Research and Bloomberg as of 15 January 2016

Short Rates and 10-Year Yield Forecasts

| | Last price | | Forecasts | | | | |
|---------------------------------------|------------|------|-----------|------|------|------|------|
| | 15-Jan-16 | | 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 | | 2.03 | 2.20 | 2.25 | 2.30 | 2.30 | 2.33 |
| Japan | | 0.22 | 0.25 | 0.35 | 0.45 | 0.50 | 0.50 |
| Euro Area | | 0.47 | 0.20 | 0.20 | 0.30 | 0.40 | 0.50 |

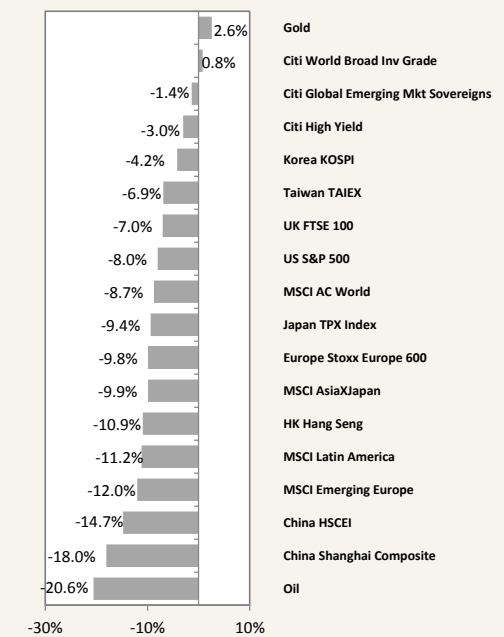
Source: Citi Research and Bloomberg as of 15 January 2016

Weekly Market Performance (11 - 15 January 2016)



Source: Bloomberg as of 15 January 2016

Market Performance (Year-To-Date) (As of 15 January 2016)



Source: Bloomberg as of 15 January 2016

World Market At Glance

| | Last price | 52-Week | 52-Week | Historical Returns (%) | | | | |
|------------------------------|------------|----------|----------|------------------------|---------|---------|--------------|--------------------|
| | 15-Jan-16 | High | Low | 1 week | 1 month | 1 year | Year-to-date | Year-to-date (USD) |
| US / Global | | | | | | | | |
| MSCI World | 364.47 | 443.98 | 361.87 | -2.74% | -7.76% | -10.44% | -8.74% | -8.74% |
| Dow Jones Industrial Average | 15988.08 | 18351.36 | 15370.33 | -2.19% | -8.77% | -7.69% | -8.25% | -8.25% |
| S&P 500 | 1880.33 | 2134.72 | 1857.83 | -2.17% | -7.98% | -5.64% | -8.00% | -8.00% |
| NASDAQ | 4488.42 | 5231.94 | 4292.14 | -3.34% | -10.15% | -1.80% | -10.36% | -10.36% |
| Europe | | | | | | | | |
| MSCI Europe | 373.45 | 478.94 | 371.84 | -2.94% | -8.04% | -12.09% | -9.13% | -9.13% |
| Stoxx Europe 600 | 329.84 | 415.18 | 327.92 | -3.37% | -8.27% | -5.34% | -9.83% | -9.13% |
| FTSE100 | 5804.10 | 7122.74 | 5768.22 | -1.83% | -3.55% | -10.69% | -7.02% | -9.90% |
| CAC40 | 4210.16 | 5283.71 | 4178.87 | -2.85% | -8.76% | -2.61% | -9.21% | -8.50% |
| DAX | 9545.27 | 12390.75 | 9325.05 | -3.09% | -8.66% | -4.86% | -11.15% | -10.82% |
| Japan | | | | | | | | |
| NIKKEI225 | 17147.11 | 20952.71 | 16592.57 | -3.11% | -7.64% | 0.22% | -9.91% | -6.95% |
| Topix | 1402.45 | 1702.83 | 1343.29 | -3.10% | -6.66% | 1.88% | -9.36% | -6.38% |
| Emerging Markets | | | | | | | | |
| MSCI Emerging Market | 709.19 | 1069.13 | 706.10 | -4.17% | -9.01% | -26.12% | -10.70% | -10.70% |
| MSCI Latin America | 1625.73 | 2776.68 | 1604.16 | -2.91% | -13.03% | -38.24% | -11.15% | -11.15% |
| MSCI Emerging Europe | 97.08 | 159.85 | 96.40 | -7.60% | -12.22% | -18.32% | -12.03% | -12.03% |
| MSCI EM Middle East & Africa | 181.94 | 300.26 | 181.94 | -6.66% | -12.16% | -32.65% | -13.45% | -13.45% |
| Brazil Bovespa | 38569.13 | 58574.79 | 37986.07 | -5.03% | -14.05% | -19.69% | -11.03% | -13.10% |
| Russia RTS | 652.98 | 1092.52 | 647.86 | -11.38% | -16.67% | -14.35% | -13.75% | -13.75% |
| Asia | | | | | | | | |
| MSCI Asia ex-Japan | 450.45 | 644.14 | 449.29 | -3.84% | -7.51% | -21.27% | -9.90% | -9.90% |
| Australia S&P/ASX 200 | 4892.80 | 5996.90 | 4803.90 | -1.96% | -0.34% | -8.23% | -7.61% | -13.24% |
| China HSCEI (H-shares) | 8236.28 | 14962.74 | 8113.69 | -6.89% | -11.86% | -32.44% | -14.75% | -15.27% |
| China Shanghai Composite | 2900.97 | 5178.19 | 2844.70 | -8.96% | -17.36% | -13.05% | -18.03% | -19.10% |
| Hong Kong Hang Seng | 19520.77 | 28588.52 | 19195.56 | -4.56% | -8.24% | -19.84% | -10.92% | -11.47% |
| India Sensex30 | 24455.04 | 30024.74 | 24387.69 | -1.92% | -3.42% | -12.90% | -6.37% | -8.65% |
| Indonesia JCI | 4523.98 | 5524.04 | 4033.59 | -0.49% | 2.60% | -12.81% | -1.50% | -2.56% |
| Malaysia KLCI | 1628.55 | 1867.53 | 1503.68 | -1.75% | 0.35% | -6.67% | -3.78% | -5.50% |
| Korea KOSPI | 1878.87 | 2189.54 | 1800.75 | -2.02% | -2.80% | -1.84% | -4.20% | -7.51% |
| Philippines PSE | 6449.50 | 8136.97 | 6278.72 | -1.92% | -3.76% | -13.90% | -7.23% | -9.15% |
| Singapore STI | 2630.76 | 3549.85 | 2578.09 | -4.38% | -6.56% | -21.21% | -8.74% | -10.25% |
| Taiwan TAIEX | 7762.01 | 10014.28 | 7203.07 | -1.67% | -3.86% | -15.31% | -6.91% | -8.91% |
| Thailand SET | 1245.85 | 1619.77 | 1220.96 | 0.13% | -4.20% | -18.22% | -3.27% | -4.10% |
| Commodity | | | | | | | | |
| Oil | 29.42 | 62.58 | 29.13 | -11.28% | -21.23% | -36.39% | -20.57% | -20.57% |
| Gold spot | 1088.88 | 1307.98 | 1046.43 | -1.37% | 2.61% | -13.77% | 2.59% | 2.59% |

Source: Bloomberg as of 15 January 2016

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