

No Agreement on Oil Freeze Hurts Sentiment

- A deal to freeze oil output by OPEC and non-OPEC producers fell apart on Sunday after Saudi Arabia wanted all OPEC members to agree on a freeze which Iran has refused and was not present at the meeting. Oil prices took a step back on the news. Given that oil prices are still 40% higher than the February lows, the apparent lack of coordination between oil producers at the Doha conference may water down expectations of any supply side response in the near future.
- Although bearishness in energy prices may spill over and hurt risk sentiment in the near-term, Citi analysts believe that the negative spillover of lower oil prices to other commodities and asset classes may be limited.
- Citi's view is that oil prices may settle closer to the US\$50 by year end and trade within US\$50-60 range in 2017 on the heels of lower production from US plus increasing demand which may reduce the surplus output.

Performance

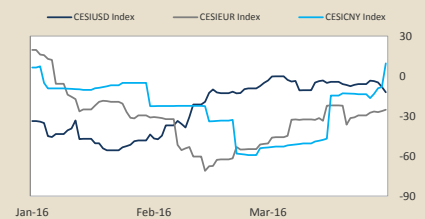
- Global equities rose sharply last week led by value stocks, with the MSCI World index gaining 2.48%.
- In the US, the Dow Jones Industrial Average and the S&P 500 Index gained 1.82% and 1.62% respectively, while the Nasdaq Composite was up 1.8%. European equities finished much higher, with the Stoxx Europe 600 Index up 3.29%. Japanese equities rebounded strongly with the Nikkei 225 index and Topix index rallying 6.49% and 5.72% respectively as the yen retreated from its recent surge.
- EM equities continue to outperform on the back of a dovish Fed and weaker dollar. Rallies in Brazilian equities sent the MSCI Latin America higher 5.85% while the MSCI Asia ex Japan and the MSCI Emerging Europe gained 3.3% and 1.47% respectively. Within Asia, Chinese equities traded in Hong Kong (HSCEI: +5.85%) and Australian equities (S&P/ASX 200: +4.45%) are among the best performers.

Asset Allocation

- **Equities** — We suspect that global equities may remain in a trading range, with the downside limited by yield attractions and the upside capped by the mediocre EPS outlook.
- **Credit** — Investment grade bonds look more attractive in the US and Europe. High Yield Bonds in the US and Europe are also maintained at Overweight (European HY to a greater degree).
- **Rates** — Modest growth, benign inflation and loose central bank policy to keep core rates low; Prefer to extend duration in US and Eurozone.
- **Commodities** — The lows may be behind us for oil prices and we expect prices to continue to grind higher as the year progresses.

Positive Chinese data

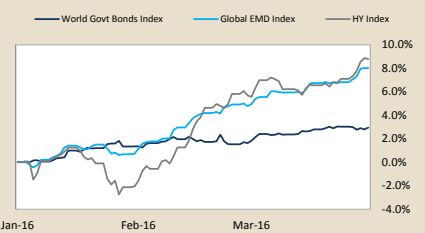
Citi Economic Surprise Index



Source: Bloomberg as of 15 April 2016

Spreads continue to tighten

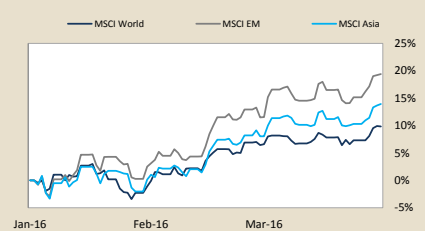
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 15 April 2016

EM equities continue to outperform

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 15 April 2016

Week Ahead Key Data and Event

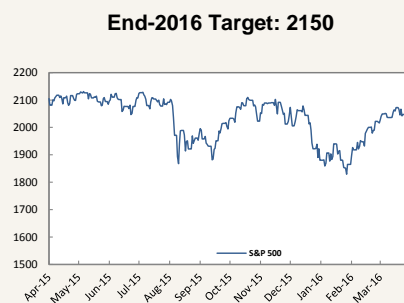
Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
18-Apr	IN	Wholesale Prices YoY	Mar	-0.7%	-0.9%	-0.3%
18-Apr	SI	Non-oil Domestic Exports YoY	Mar	-12.3%	2.1%	-19.4%
19-Apr	SK	BoK 7-Day Repo Rate	Apr	1.5%	1.5%	1.3%
20-Apr	JN	Exports YoY	Mar	-7.0%	-4.0%	-6.3%
20-Apr	TA	Export Orders YoY	Mar	-8.0%	-7.4%	-11.3%
21-Apr	EC	Consumer Confidence	Apr	-9.3	-9.7	-10.5
21-Apr	ID	Bank Indonesia Reference Rate	Apr	6.8%	6.8%	6.8%
21-Apr	US	Leading Index	Mar	0.4%	0.1%	0.5%
21-Apr	US	Initial Jobless Claims	16-Apr	265K	253K	245K
22-Apr	EC	Markit Eurozone Manufacturing PMI	Apr	51.9	51.6	51.6
22-Apr	EC	Markit Eurozone Services PMI	Apr	53.3	53.1	53.4
22-Apr	JN	Tertiary Industry Index MoM	Feb	-0.5%	1.5%	-1.3%

Source: Bloomberg as of 15 April 2016

Drivers and Risks by Market

United States

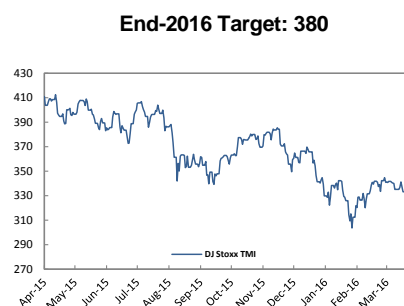
- **Driver:** For the near term, recently revised and incoming data imply 1Q GDP may grow by 0.9% while growing 1.7% for the year. Despite such tepid growth prospects, we continue to project a slow decline in the unemployment rate to 4.7% by end-2016, and 4.5% by end-2017.
- **Risk:** With many unknowns associated with Fed policy raising perceived policy uncertainty, and with many important political events scheduled in the next few months, we believe that our outlook has little potential to be surprised on the upside. But the risks are very evident on the downside.
- **Implication:** Citi analysts maintain their mid-2016 S&P 500 objective of 2,100 and end-2016 target of 2,150. Looking further out, Citi analysts introduce a mid-2017 target of 2,250, highlighting roughly 8% further appreciation potential over the next 15 months. On sectors, we are overweight on Financials, IT, Industrials and Energy.



Source: Bloomberg as of 15 April 2016

Europe

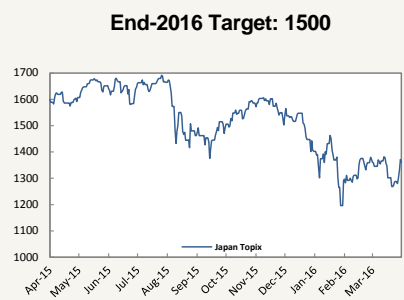
- **Driver:** The current macro "regime" of more benign US\$ and oil prices is likely to support higher share prices, in our view, especially when combined with ECB-sponsored credit spread narrowing.
- **Risk:** The June 23rd EU referendum in UK is likely to be the key focus in coming months. Citi analysts think the vote will be very close, with the associated uncertainty likely to be a drag on UK asset prices.
- **Implication:** The combination of rising oil prices, rising inflation and narrowing credit spreads would likely be supportive of Financials and other cyclicals in Europe. Sectors such as Insurance, Autos and Oil & Gas would likely be supported by this scenario over the rest of this year. Banks and Basic Resources also score well.



Source: Bloomberg as of 15 April 2016

Japan

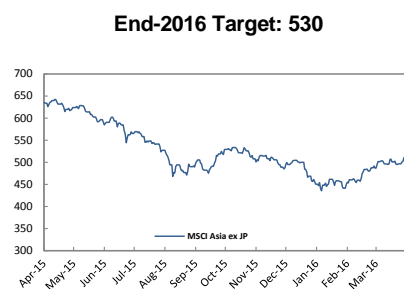
- **Driver:** Potential catalysts for a reappraisal of Japanese stocks include the Japan Comprehensive Action Plan and the next growth strategy (due to be announced by mid-May), expansionary fiscal policies (including a decision to postpone the consumption tax hike), and progress in the dialogue between executives and investors ahead of this year's Annual General Meetings season in June.
- **Risk:** Citi analysts note that if the yen were to remain at ¥109/\$ or stronger, it would heighten the risk of EPS growth turning negative in FY16.
- **Implication:** We continue to favour domestic demand-related sectors and defensives. We think additional easing by the BoJ would at least help to prevent the yen strengthening any further, and in that sense additional downside for exporter stocks should be limited. We believe more BoJ easing would be especially positive for J-REITs and real estate, but negative for banks and insurers.



Source: Bloomberg as of 15 April 2016

Emerging Markets

- **Driver:** The drivers for the next quarter are still attractive valuations, a stable-to-weaker US\$, subdued sentiment, EPS revisions which are no longer worse compared to DM and the continuation of growth surprises.
- **Risk:** 1) a stronger US\$ would have severely negative consequences. The outlook for earnings would deteriorate as commodity prices would weaken again and fears about the banking system would resurface; 2) Seasonality - the weakest quarter historically has been 3Q.
- **Implication:** Citi analysts retain a pro-value/risk position among sectors with financials, tech, consumer cyclicals and utilities as overweights, and we underweight the defensives but also the energy/material complex, which has suffered.



Source: Bloomberg as of 15 April 2016

Currency Forecast

	Currency	Last price 15-Apr-16	Forecasts					
			Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
G10-US Dollar								
Euro	EURUSD	1.13	1.13	1.11	1.10	1.10	1.10	1.10
Japanese yen	USDJPY	109	110	110	111	111	111	111
British Pound	GBPUSD	1.42	1.43	1.44	1.45	1.43	1.42	1.41
Swiss Franc	USDCHF	0.97	0.98	0.99	1.00	1.00	1.00	1.00
Australian Dollar	AUDUSD	0.77	0.77	0.75	0.73	0.73	0.73	0.72
New Zealand	NZDUSD	0.69	0.67	0.66	0.65	0.65	0.65	0.65
Canadian Dollar	USDCAD	1.28	1.30	1.30	1.30	1.30	1.30	1.30
EM Asia								
Chinese Renminbi	USDCNY	6.48	6.65	6.73	6.81	6.85	6.89	6.93
Hong Kong	USDHKD	7.76	7.78	7.79	7.80	7.80	7.80	7.79
Indonesian Rupiah	USDIDR	13,173	13,485	13,654	13,811	13,891	13,971	14,051
Indian Rupee	USDINR	66.6	67.8	68.4	69.0	69.2	69.4	69.6
Korean Won	USDKRW	1,146	1,195	1,209	1,219	1,215	1,211	1,207
Malaysian Ringgit	USDMYR	3.91	4.24	4.30	4.35	4.34	4.33	4.32
Philippine Peso	USDPHP	46.1	47.3	47.9	48.5	48.4	48.3	48.2
Singapore Dollar	USDSGD	1.36	1.41	1.45	1.48	1.47	1.47	1.46
Thai Baht	USDTHB	35.1	35.5	36.1	36.6	36.7	36.8	36.9
Taiwan Dollar	USD TWD	32.3	33.6	34.1	34.5	34.3	34.1	33.9
EM Europe								
Russian Ruble	USDRUB	66.4	72.9	72.3	71.7	71.1	70.5	70.0
South African Rand	USDZAR	14.55	16.30	16.68	16.99	16.95	16.91	16.87
EM Latam								
Brazilian Real	USDBRL	3.53	3.68	3.91	4.10	4.08	4.06	4.04
Mexican Peso	USDMXN	17.6	17.9	18.0	18.1	18.0	17.8	17.7

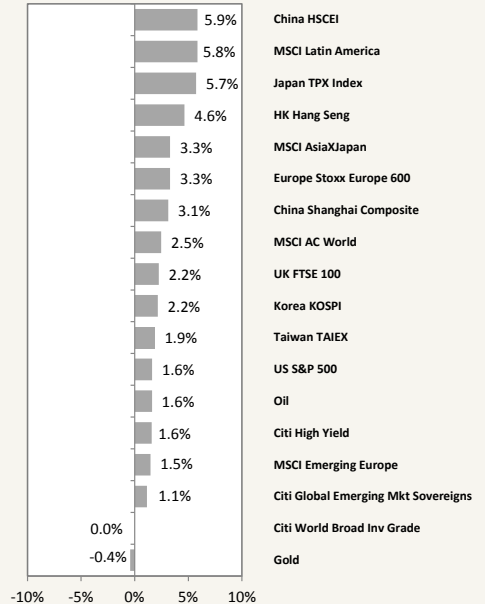
Source: Citi Research and Bloomberg as of 15 April 2016

Short Rates and 10-Year Yield Forecasts

	Last price 15-Apr-16	Forecasts				
		2Q16	3Q16	4Q16	1Q17	2Q17
Short Rates (End of Period)						
US	0.50	0.50	0.75	0.75	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	1.75	1.80	1.90	2.00	2.10	2.15
Japan	-0.11	-0.10	-0.15	-0.15	-0.20	-0.15
Euro Area	0.13	0.15	0.15	0.20	0.20	0.30

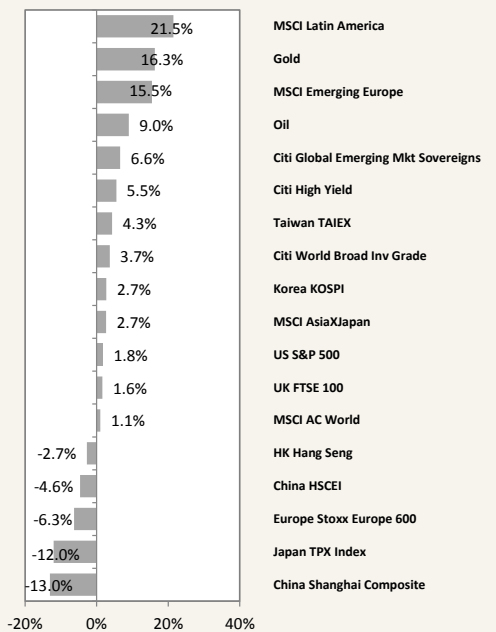
Source: Citi Research and Bloomberg as of 15 April 2016

Weekly Market Performance (11 - 15 April 2016)



Source: Bloomberg as of 15 April 2016

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



Source: Bloomberg as of 15 April 2016

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	15-Apr-16	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
US / Global								
MSCI World	403.58	443.98	351.25	2.48%	3.55%	-7.64%	1.06%	1.06%
Dow Jones Industrial Average	17897.46	18351.36	15370.33	1.82%	3.74%	-1.19%	2.71%	2.71%
S&P 500	2080.73	2134.72	1810.10	1.62%	3.21%	-1.23%	1.80%	1.80%
NASDAQ	4938.22	5231.94	4209.76	1.80%	4.43%	-1.45%	-1.38%	-1.38%
Europe								
MSCI Europe	403.49	478.94	355.54	2.46%	2.52%	-12.69%	-1.82%	-1.82%
Stoxx Europe 600	342.79	412.67	302.59	3.29%	0.57%	-17.21%	-6.29%	-2.57%
FTSE100	6343.75	7122.74	5499.51	2.25%	3.32%	-10.61%	1.62%	-1.87%
CAC40	4495.17	5283.71	3892.46	4.46%	0.50%	-14.45%	-3.06%	0.79%
DAX	10051.57	12079.03	8699.29	4.46%	1.19%	-17.82%	-6.44%	-3.12%
Japan								
NIKKEI225	16848.03	20952.71	14865.77	6.49%	-1.57%	-15.21%	-11.48%	-1.76%
Topix	1361.40	1702.83	1193.85	5.72%	-0.78%	-14.31%	-12.01%	-2.35%
Emerging Markets								
MSCI Emerging Market	846.70	1069.13	686.74	3.66%	7.09%	-18.34%	6.62%	6.62%
MSCI Latin America	2222.31	2776.68	1550.47	5.85%	12.21%	-15.54%	21.45%	21.45%
MSCI Emerging Europe	127.43	159.85	91.09	1.47%	7.56%	-16.09%	15.48%	15.48%
Brazil Bovespa	53227.74	58574.79	37046.07	5.84%	12.94%	-3.08%	22.79%	36.94%
Russia RTS	905.10	1092.52	607.14	2.96%	10.16%	-13.99%	19.56%	19.56%
Asia								
MSCI Asia ex-Japan	513.19	644.14	434.84	3.30%	5.45%	-18.30%	2.65%	2.65%
Australia S&P/ASX 200	5157.49	5985.60	4706.70	4.45%	0.90%	-12.71%	-2.61%	3.18%
China HSCEI (H-shares)	9214.98	14962.74	7498.81	5.86%	7.08%	-36.32%	-4.62%	-4.68%
China Shanghai Composite	3078.12	5178.19	2638.30	3.12%	7.46%	-24.63%	-13.03%	-12.93%
Hong Kong Hang Seng	21316.47	28588.52	18278.80	4.64%	5.07%	-22.82%	-2.73%	-2.79%
India Sensex30	25626.75	29094.61	22494.61	3.86%	4.38%	-11.02%	-1.88%	-2.32%
Indonesia JCI	4823.57	5464.34	4033.59	-0.48%	-0.54%	-10.91%	5.02%	10.43%
Malaysia KLCI	1727.99	1867.53	1503.68	0.56%	2.19%	-6.09%	2.10%	12.69%
Korea KOSPI	2014.71	2189.54	1800.75	2.16%	2.27%	-4.96%	2.72%	5.64%
Philippines PSE	7321.30	7996.44	6084.28	1.02%	2.42%	-7.40%	5.31%	7.16%
Singapore STI	2923.94	3536.58	2528.44	4.12%	2.98%	-17.40%	1.43%	5.96%
Taiwan TAIEX	8700.39	10014.28	7203.07	1.86%	1.04%	-8.80%	4.35%	6.23%
Thailand SET	1385.42	1575.39	1220.96	1.15%	0.18%	-10.49%	7.56%	10.71%
Commodity								
Oil	40.36	62.58	26.05	1.61%	11.06%	-28.43%	8.96%	8.96%
Gold spot	1234.15	1285.18	1046.43	-0.42%	0.15%	2.62%	16.27%	16.27%

Source: Bloomberg as of 15 April 2016

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