

Stocks post weekly drops as global rout persists

- Market sentiment remains cautious despite some short covering seen in US equities and the sharp rally in oil prices last Friday. Volatility in the markets was further bolstered by US Fed Chairwoman Yellen delivering her two-day Congressional monetary policy testimony. Yellen did not close the door on further rate hikes this year, but did note that the Central Bank is revisiting the possibility of negative interest rate policies (NIRP) and that global economic weakness, notably in China, poses a risk.
- As a result, Citi analysts have postponed our March rate hike to June because of the FOMC's penchant to react to markets. It is unlikely that there will be more than one or two interest rate hikes this year.
- Finally, all eyes will be on China market as it reopens after a week long holiday. This week, we will see several data releases from China including new loan, money supply, FDI, trade and inflation numbers.

Performance

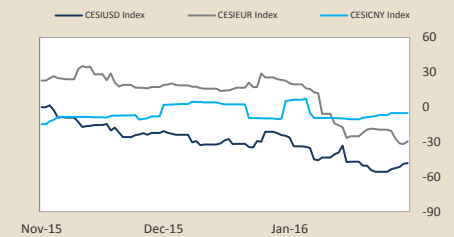
- Equities were broadly lower on the week (MSCI World index: -2.59%) as the global rout continues. In the US, the Dow Jones Industrial Average decreased 1.43%, the S&P 500 Index lost 0.81%, and the Nasdaq Composite Index declined 0.59%. Heightened credit concerns also saw European equities, as measured by Stoxx Europe 600 Index, plummeting 3.29%. Meanwhile, Japanese equities saw its biggest weekly fall in more than 7 years (Nikkei 225: -11.10% and Topix index: -12.61%) as investors are concerned that the yen has appreciated too much despite the BoJ moving to negative interest rates last month.
- Finally, the MSCI Emerging Markets index fell 3.84% with the MSCI Emerging Europe losing 4.28% and the MSCI Latin America dropping 3.63%. Closer to home, the MSCI Asia Pacific index also underperformed, declining 3.71%. Within Asia, the HSCEI and Sensex30 indices were the worst performing, falling 6.82% and 6.62% respectively.

Asset Allocation

- Equities** — A global growth recession is far from assured but financial markets seem to be on their way to pricing one in. We think that this global bull market, which began back in March 2009, is ageing but not finished.
- 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** — Despite already low oil prices, the outlook for the 1H16 remains bearish as supply/demand imbalances point to rising inventories. Late 2016 is looking better balanced in Citi's base case but this relies on non-OPEC production losing significant momentum.

Still soft economic data

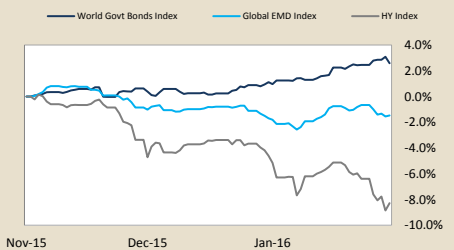
Citi Economic Surprise Index



Source: Bloomberg as of 12 February 2016

HY dragged by low oil prices

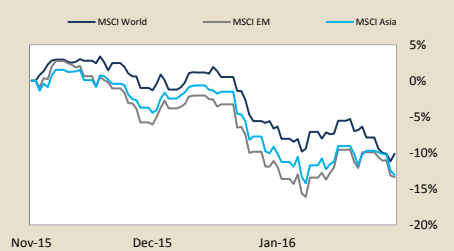
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 12 February 2016

Global rout continues

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 12 February 2016

Week Ahead Key Data and Event

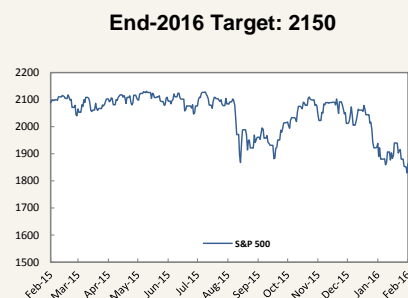
Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
16-Feb	SK	BoK 7-Day Repo Rate	Feb	1.5%	1.5%	1.5%
16-Feb	TA	Exports YoY	Jan	-14.3%	-13.9%	--
16-Feb	TA	Imports YoY	Jan	-14.4%	-15.6%	--
17-Feb	JN	Machine Orders YoY	Dec	-2.8%	1.2%	-1.1%
17-Feb	US	Industrial Production MoM	Jan	0.4%	-0.4%	0.5%
17-Feb	SI	Non-oil Domestic Exports YoY	Jan	-7.6%	-7.2%	2.0%
18-Feb	US	Leading Index	Jan	-0.2%	-0.2%	-0.1%
18-Feb	CH	CPI YoY	Jan	1.9%	1.6%	1.8%
18-Feb	CH	PPI YoY	Jan	-5.4%	-5.9%	-6.0%
19-Feb	US	CPI MoM	Jan	-0.1%	-0.1%	-0.2%
19-Feb	JN	All Industry Activity Index MoM	Dec	-0.3%	-1.0%	-0.3%
19-Feb	EC	Consumer Confidence	Feb A	-6.6	-6.3	-7.0

Source: Bloomberg as of 12 February 2016

Drivers and Risks by Market

United States

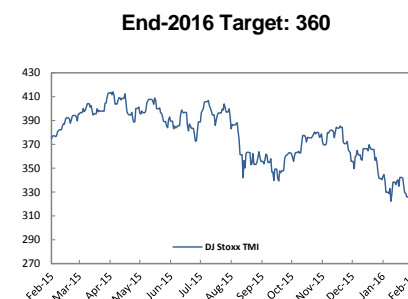
- **Driver:** Chair Yellen's baseline view remains one of moderate growth. She admits global developments and induced market turmoil foreshadow downside risks—but only if the turmoil persists. Inflation's trajectory toward the Fed's target may likely be delayed as oil prices continue to decline.
- **Risk:** Employing only financial market conditions, we estimate the probability of a US recession in the next year to range from near 0% to 18%. However, there is a better chance for a growth slowdown.
- **Implication:** The FOMC's penchant to react to financial market conditions causes us to delay our March rate hike forecast to June. It may be unlikely that we will see more than one or two interest rate hikes this year - possibly one in June or September and the next in December or March 2017.



Source: Bloomberg as of 12 February 2016

Europe

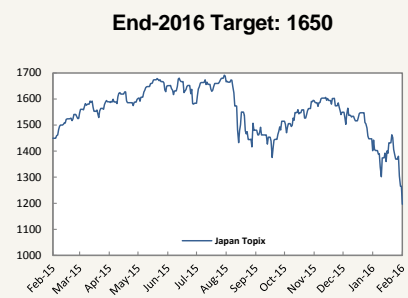
- **Driver:** Citi's view remains as no "significant and synchronized" global recession. Nevertheless, given the near-term uncertainty and reduced growth expectations (top-down earnings growth of 0-5% for 2016-17E from 4-7%), we now target Stoxx at 360 for end-2016 (2017E P/E of 15x-16x and a 2017E DY of 3.7x-3.8x).
- **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:** In terms of sectors, we raise Autos to Overweight given fundamental/earnings support. In contrast, we lower Banks to Neutral as challenges have been more acute than expected. We see significant value in sector but would be selective.



Source: Bloomberg as of 12 February 2016

Japan

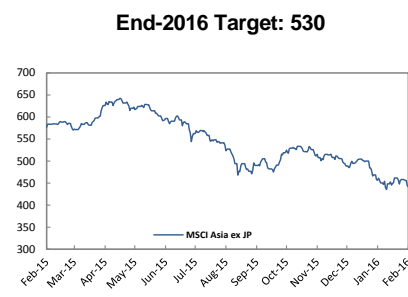
- **Driver:** Citi analysts think the BoJ may resolve to ease further in 2H16. We also expect a swift response to the risk of a slowdown in the economy on the part of the Abe administration ahead of the Upper House election.
- **Risk:** The bottom-up consensus for FY3/17 TOPIX EPS growth is +9.1% and Citi's top-down projection is for +6.2%. However, it looks as if the equity market has recently been pricing in an FY3/17 EPS recession of around 15%.
- **Implication:** Citi analysts continue to prefer domestic demand and defensive sectors. We upgrade energy to neutral from underweight based on the possibility that the price of crude has bottomed out while we downgrade financials (banks and insurers) to underweight from neutral due to the flattening of the yield curve.



Source: Bloomberg as of 12 February 2016

Asia

- **Driver:** Citi analysts believe it is unlikely that China will proactively devalue RMB significantly to drive exports given a) China's global export market share is already high at mid-teens; b) currency weakness tends to produce weak ROE companies in the long term; c) China's strategic focus on innovation-driven manufacturing upgrade. Nevertheless, we do expect RMB to depreciate against USD gradually given divergent economic fundamentals.
- **Risk:** RMB weakness may see a) Net importers suffer; b) Companies with US\$ net debt suffer financial losses; and c) Companies reporting in HKD suffer EPS F/X translation losses.
- **Implication:** Citi's analysis suggests every 5% RMB weakness results in 1% decrease of RMB-denominated MSCI China EPS, mainly given FX debt financial loss (partially offset by net export gain). However, for offshore equities, there are also translation losses to HKD-denominated MSCI China. Sector wise, Transportation, Energy and Property have high EPS sensitivity to RMB weakness.



Source: Bloomberg as of 12 February 2016

Currency Forecast

Currency	Last price 12-Feb-16	Forecasts				
		Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
G10-US Dollar						
Euro	EURUSD 1.13	1.08	1.05	1.05	1.05	1.05
Japanese yen	USDJPY 113	120	123	123	123	122
British Pound	GBPUSD 1.45	1.43	1.44	1.43	1.42	1.42
Swiss Franc	USDCHF 0.98	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 0.66	0.63	0.64	0.64	0.64	0.65
Canadian Dollar	USDCAD 1.39	1.43	1.41	1.38	1.36	1.34
EM Asia						
Chinese Renminbi	USDCNY 6.36	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 13,490	14,374	14,563	14,584	14,564	14,544
Indian Rupee	USDINR 68.24	68.3	68.9	68.8	68.6	68.4
Korean Won	USDKRW 1,212	1,252	1,267	1,255	1,238	1,220
Malaysian Ringgit	USDMYR 4.16	4.53	4.55	4.51	4.46	4.41
Philippine Peso	USDPHP 47.61	48.2	48.4	48.3	48.0	47.7
Singapore Dollar	USDSGD 1.40	1.47	1.49	1.49	1.48	1.47
Thai Baht	USDTHB 35.59	37.3	37.7	37.6	37.3	37.1
Taiwan Dollar	USDTHB 33.02	34.5	34.9	34.7	34.3	33.9
EM Europe						
Russian Ruble	USDRUB 78.66	73.0	70.8	69.6	68.7	67.7
South African Rand	USDZAR 15.88	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 18.91	18.2	18.3	18.0	17.6	17.2

Source: Citi Research and Bloomberg as of 12 February 2016

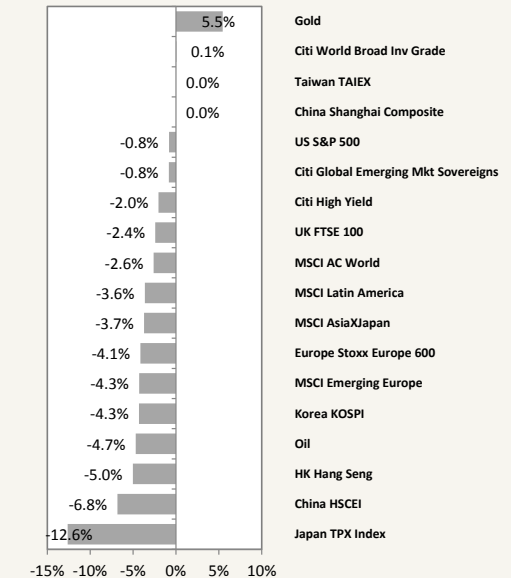
Short Rates and 10-Year Yield Forecasts

	Last price 12-Feb-16	Forecasts				
		1Q16	2Q16	3Q16	4Q16	1Q17
Short Rates (End of Period)						
US	0.50	0.75	1.00	1.00	1.25	1.50
Japan	0.10	-0.10	-0.10	-0.30	-0.30	-0.30
Euro Area	0.05	0.05	0.05	0.05	0.05	0.05
10-Year Yield (Period Average)						
US	1.75	2.15	2.25	2.30	2.30	2.33
Japan	0.02	-0.10	-0.10	-0.15	-0.15	-0.15
Euro Area	0.26	0.20	0.20	0.30	0.40	0.50

Source: Citi Research and Bloomberg as of 12 February 2016

Weekly Market Performance

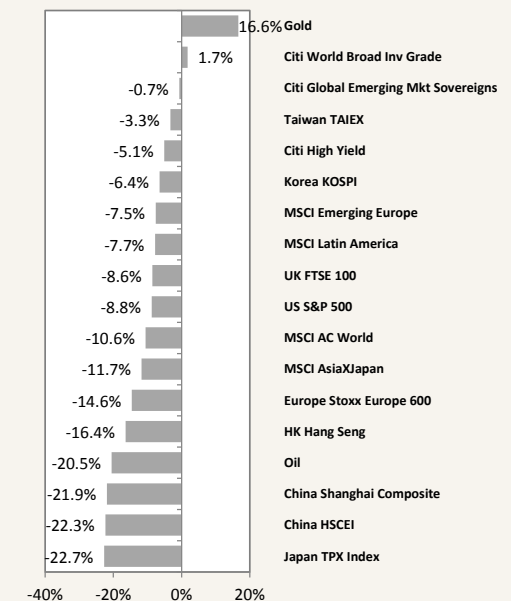
(8 - 12 February 2016)



Source: Bloomberg as of 12 February 2016

Market Performance (Year-To-Date)

(As of 12 February 2016)



Source: Bloomberg as of 12 February 2016

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				Year-to-date (USD)
	12-Feb-16	High	Low	1 week	1 month	1 year	Year-to-date	
US / Global								
MSCI World	357.07	443.98	351.25	-2.59%	-4.52%	-15.92%	-10.59%	-10.59%
Dow Jones Industrial Average	15973.84	18351.36	15370.33	-1.43%	-3.28%	-11.12%	-8.33%	-8.33%
S&P 500	1864.78	2134.72	1810.10	-0.81%	-3.81%	-10.71%	-8.77%	-8.77%
NASDAQ	4337.51	5231.94	4209.76	-0.59%	-7.44%	-10.71%	-13.38%	-13.38%
Europe								
MSCI Europe	364.47	478.94	355.54	-3.29%	-5.07%	-18.70%	-11.31%	-11.31%
Stoxx Europe 600	312.41	415.18	302.59	-4.14%	-8.98%	-16.65%	-14.60%	-11.61%
FTSE100	5707.60	7122.74	5499.51	-2.40%	-3.74%	-16.41%	-8.57%	-10.18%
CAC40	3995.06	5283.71	3892.46	-4.89%	-8.76%	-15.47%	-13.84%	-10.83%
DAX	8967.51	12390.75	8699.29	-3.43%	-10.19%	-17.88%	-16.53%	-13.96%
Japan								
NIKKEI225	14952.61	20952.71	14865.77	-11.10%	-13.16%	-16.84%	-21.44%	-16.31%
Topix	1196.28	1702.83	1193.85	-12.61%	-14.67%	-17.46%	-22.69%	-17.63%
Emerging Markets								
MSCI Emerging Market	711.24	1069.13	686.74	-3.84%	-1.66%	-26.77%	-10.44%	-10.44%
MSCI Latin America	1688.04	2776.68	1550.47	-3.63%	1.68%	-34.96%	-7.75%	-7.75%
MSCI Emerging Europe	102.02	159.85	91.09	-4.28%	0.34%	-22.80%	-7.55%	-7.55%
MSCI EM Middle East & Africa	194.28	300.26	175.35	-3.37%	2.01%	-31.13%	-7.58%	-7.58%
Brazil Bovespa	39808.05	58574.79	37046.07	-1.93%	0.74%	-19.63%	-8.17%	-8.92%
Russia RTS	689.90	1092.52	607.14	-4.96%	-0.78%	-19.96%	-8.87%	-8.87%
Asia								
MSCI Asia ex-Japan	441.35	644.14	434.84	-3.71%	-3.35%	-23.50%	-11.72%	-11.72%
Australia S&P/ASX 200	4765.35	5996.90	4706.70	-4.24%	-3.24%	-17.03%	-10.02%	-12.35%
China HSCEI (H-shares)	7505.37	14962.74	7498.81	-6.82%	-11.07%	-36.31%	-22.31%	-22.68%
China Shanghai Composite	2763.49	5178.19	2638.30	0.00%	-8.58%	-12.92%	-21.92%	-22.92%
Hong Kong Hang Seng	18319.58	28588.52	18278.80	-5.02%	-7.06%	-24.99%	-16.40%	-16.80%
India Sensex30	22986.12	30024.74	22600.39	-6.62%	-6.87%	-20.20%	-11.99%	-14.48%
Indonesia JCI	4714.39	5524.04	4033.59	-1.76%	4.47%	-11.77%	2.64%	5.66%
Malaysia KLCI	1643.74	1867.53	1503.68	-1.13%	0.14%	-8.12%	-2.88%	0.67%
Korea KOSPI	1835.28	2189.54	1800.75	-4.30%	-2.94%	-5.48%	-6.43%	-8.61%
Philippines PSE	6654.45	8136.97	6084.28	-1.64%	5.12%	-13.74%	-4.28%	-5.45%
Singapore STI	2539.95	3549.85	2528.44	-3.17%	-5.64%	-25.71%	-11.89%	-10.60%
Taiwan TAIEX	8063.00	10014.28	7203.07	0.00%	3.79%	-15.09%	-3.30%	-4.41%
Thailand SET	1276.49	1619.65	1220.96	-2.28%	1.69%	-20.88%	-0.90%	0.46%
Commodity								
Oil	29.44	62.58	26.05	-4.69%	-3.29%	-42.51%	-20.52%	-20.52%
Gold spot	1237.92	1263.47	1046.43	5.46%	13.93%	1.29%	16.63%	16.63%

Source: Bloomberg as of 12 February 2016

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