

Markets Turn Cautiously Bullish Ahead of FOMC

- Last week the ECB over-delivered, cutting main interest rates and expanding its massive bond buying program. However, Draghi added that he does not anticipate the need to cut rates further, triggering investor disappointment and sparking sharp downside reversal and a surge in the euro on Friday. Nevertheless, ECB's more aggressive package of measures suggests support for European equities, thus leading Citi analysts to raise their end-2016 Stoxx target from 360 to 380.
- In China, new yuan loans and aggregate financing—a measure of total credit issued—came in well below forecasts for February while real activity data is disappointing with both retail sales and IP YTD growth lower than expected. Against this backdrop, Citi analysts believe China's policymakers may need to provide further aggregate demand support including fiscal and monetary.
- This week's FOMC meeting is priced by markets to be a "non-event" with no rate hike probable. Nevertheless, markets may be surprised by the FOMC discussion and new economic projections that imply interest rate normalization may continue at a pace much faster than implied by market pricing.

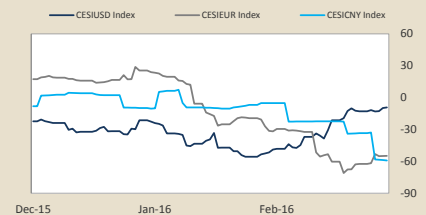
Performance

- Global equities were up with the MSCI World Index rising 1.14%. In the US, the Dow Jones Industrial Average and the S&P 500 Index gained 1.21% and 1.11% respectively and the Nasdaq Composite Index increased 0.67%. European equities, as measured by Stoxx Europe 600 Index, inched up 0.13%. Meanwhile, Japanese equities retreated as strength in the yen weighed the market. (Nikkei 225: -0.45% and Topix index: -1.17%).
- EM assets continued to outperform with the weaker US dollar. The MSCI Emerging Markets index finished higher 1.26% led by the MSCI Emerging Europe and the MSCI Latin America gaining 3.09% and 2.00% respectively. The MSCI Asia ex-Japan also posted a positive weekly gain of 0.73%. Australian equities rose 1.5% while shares in mainland China lost ground (SHCOMP: -2.22%).

Asset Allocation

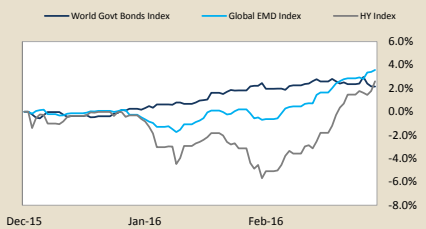
- **Equities** — We think the ECB's latest policy actions are likely to under-pin a more positive period for risk assets, including European equities.
- **Credit** — Both US and European investment grade corporate spreads remain attractive. We favour longer duration opportunities, as we have little concern over rising long-term rates.
- **Rates** — Interest rates in core developed sovereign bond markets have drifted higher over the last few weeks, as the main drivers of headline risk (i.e. China, oil) appear to have stabilized.
- **Commodities** — Gold trading has shown a clear bias towards risk-off buying and we expect these inflows to continue to drive price upside through 1H as macro uncertainty remains elevated. However, lingering risk-off sentiment may not be enough to provide sustained support.

Disappointing Chinese data Citi Economic Surprise Index



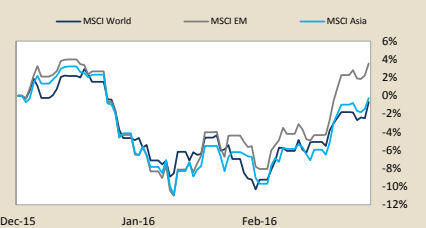
Source: Bloomberg as of 11 March 2016

Credit markets extend their rally Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 11 March 2016

EM continues to outperform Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 11 March 2016

Week Ahead Key Data and Event						
Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
14-Mar	EC	Industrial Production SA MoM	Jan	1.7%	-1.0%	--
15-Mar	US	Retail Sales Advance MoM	Feb	-0.1%	0.2%	0.0%
15-Mar	JN	Tertiary Industry Index MoM	Jan	0.3%	-0.6%	45.0%
15-Mar	EC	Employment QoQ	4Q	--	0.3%	--
16-Mar	US	CPI MoM	Feb	-0.2%	0.0%	-0.5%
16-Mar	US	Industrial Production MoM	Feb	-0.3%	0.9%	0.0%
17-Mar	JN	Exports YoY	Feb	-3.0%	-12.9%	-7.8%
17-Mar	US	Leading Index	Feb	0.2%	-0.2%	0.2%
17-Mar	ID	Bank Indonesia Deposit Facility Rate	17 Mar	4.8%	5.0%	5.0%
17-Mar	EC	CPI MoM	Feb	0.1%	-1.4%	--
17-Mar	US	FOMC Rate Decision (Upper Boun	16 Mar	0.5%	0.5%	0.5%
18-Mar	US	U. of Mich. Sentiment	Mar P	92.2	91.7	--

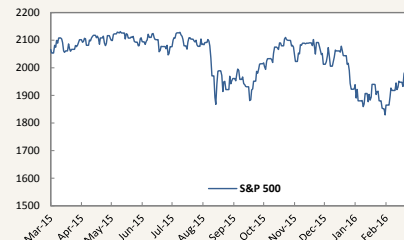
Source: Bloomberg as of 11 March 2016

Drivers and Risks by Market

United States

- **Driver:** This week's FOMC meeting is priced by markets to be a "non-event" with no rate hike probable. We believe there may likely be no more than two rate increases this year, but the FOMC may put in a third one.
- **Risk:** Nevertheless, markets may be surprised by the FOMC discussion and new economic projections that imply interest rate normalization may continue at a pace much faster than implied by market pricing.
- **Implication:** Citi analysts believe that although the US economy remains on a moderate growth path, the downside risks associated with market-induced uncertainty are rising and sizable. Moreover, there is a risk that inflation expectations may become unanchored, which would imply a more aggressive monetary policy response to economic and financial shocks.

End-2016 Target: 2150

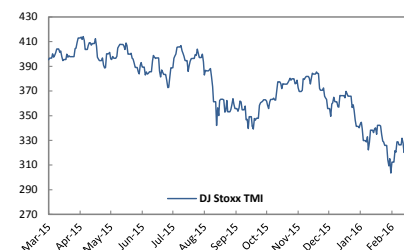


Source: Bloomberg as of 11 March 2016

Europe

- **Driver:** Last week, Draghi and the ECB surprised most market participants with a more aggressive package of additional policies. We think the ECB's latest policy actions are likely to under-pin a more positive period for risk assets, including equities. With € IG corporate bonds now on the ECB's "shopping list", we see the ECB as a buyer of last resort returning to the market.
- **Risk:** Subdued wage growth, second-round effects of recent fall in energy prices, and a still-high output gap are likely to keep consumer core inflation low for a longer period.
- **Implication:** Citi analysts raise our end-2016 Stoxx target from 360 to 380 (end-16E & end-17E P/E of 17.1x & 14.9x, end-16E & end-17E DY of 3.4% & 3.7%). Additionally, European corporate bond spreads are likely to narrow over coming months as the ECB's new policies are implemented. Narrower spreads may support outperformance from Financials, Autos, Construction and Basic Resources.

End-2016 Target: 380

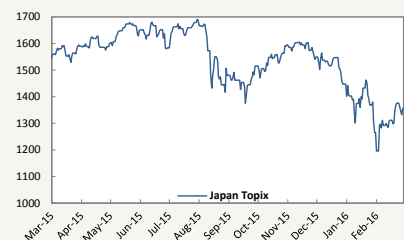


Source: Bloomberg as of 11 March 2016

Japan

- **Driver:** We anticipate a rebound due in part to expectations for government policy. However, it is unclear whether this will produce a real bottom. Citi's forecast range for the near term is 1,175-1,525 for TOPIX (mean of 1,350) and 14,500-18,500 for the Nikkei 225 (mean of 16,500). Our end-March 2016 TOPIX forecast is 1,400, while our Nikkei 225 forecast is 17,500.
- **Risk:** While we feel that the relative performance of Japanese equities in a resource-price rebound phase may not shine, we think the phase presents a good opportunity for sector rotation.
- **Implication:** Sectors that find it easy to benefit from an upturn in crude prices include mining, trading companies, non-ferrous metals, and marine transport. Conversely, rising crude prices could negatively affect the transport, utilities, and rubber product sectors.

End-2016 Target: 1500

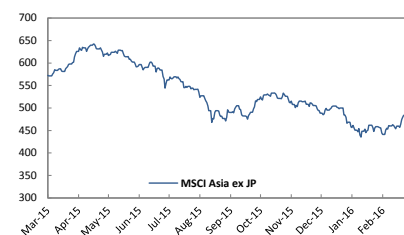


Source: Bloomberg as of 11 March 2016

Asia

- **Driver:** In China, we view property easing and necessary liquidity as tactical painkillers during the transition surgery process, designed to avoid a hard landing rather than to act as critical growth drivers (i.e. not V-shape rebound). Our constructive stance on China offshore stocks is mainly based on the data-supported scenario of economic transition.
- **Risk:** Upward property prices have raised concerns about China's back to property-led old model – but we disagree. In fact, China's strategic focus has shifted to consumption & innovation as witnessed by 80%+ of the content in the NPC report.
- **Implication:** Citi analysts reiterate our OW property stance given it is still in a sweet spot (improving fundamentals and too early to call tightening) and OW consumer discretionary (household goods & auto). Rising property prices benefit auto sales given certain wealth effects.

End-2016 Target: 530



Source: Bloomberg as of 11 March 2016

Currency Forecast

Currency	Last price		Forecasts					
	11-Mar-16		Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
G10-US Dollar								
Euro	EURUSD	1.12	1.13	1.12	1.11	1.11	1.11	1.11
Japanese yen	USDJPY	114	111	111	112	112	112	112
British Pound	GBPUSD	1.44	1.35	1.36	1.38	1.39	1.38	1.38
Swiss Franc	USDCHF	0.98	0.97	0.98	0.99	0.99	0.99	1.00
Australian Dollar	AUDUSD	0.76	0.70	0.70	0.71	0.71	0.71	0.71
New Zealand	NZDUSD	0.67	0.66	0.66	0.65	0.65	0.65	0.65
Canadian Dollar	USDCAD	1.32	1.37	1.37	1.37	1.36	1.35	1.34
EM Asia								
Chinese Renminbi	USDCNY	6.49	6.72	6.91	7.10	7.18	7.14	7.10
Hong Kong	USDHKD	7.76	7.79	7.80	7.81	7.82	7.81	7.81
Indonesian Rupiah	USDIRD	13,075	13,824	14,010	14,198	14,318	14,358	14,398
Indian Rupee	USDINR	67.05	68.5	68.7	68.9	68.9	68.7	68.5
Korean Won	USDKRW	1,193	1,233	1,253	1,274	1,277	1,260	1,244
Malaysian Ringgit	USDMYR	4.09	4.31	4.41	4.50	4.53	4.48	4.43
Philippine Peso	USDPHP	46.63	48.0	48.4	48.8	48.9	48.7	48.5
Singapore Dollar	USDSGD	1.37	1.45	1.47	1.49	1.49	1.48	1.47
Thai Baht	USDTHB	35.05	36.5	36.9	37.2	37.4	37.3	37.2
Taiwan Dollar	USDUSD	32.80	34.1	34.6	35.2	35.4	35.2	35.0
EM Europe								
Russian Ruble	USDRUB	69.71	79.0	76.0	73.1	71.2	70.7	70.2
South African Rand	USDZAR	15.22	16.54	16.84	17.14	17.25	17.16	17.06
EM Latam								
Brazilian Real	USDBRL	3.59	4.16	4.26	4.35	4.38	4.33	4.28
Mexican Peso	USDMXN	17.70	18.1	18.2	18.3	18.3	18.1	18.0

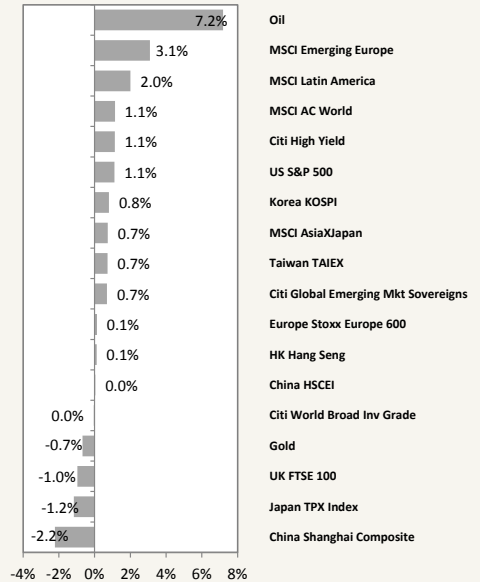
Source: Citi Research and Bloomberg as of 11 March 2016

Short Rates and 10-Year Yield Forecasts

	Last price		Forecasts				
	11-Mar-16		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	0.05	0.05	0.05	0.05	0.05
10-Year Yield (Period Average)							
US		1.98	2.25	2.30	2.30	2.33	2.35
Japan		-0.02	-0.10	-0.15	-0.15	-0.20	-0.20
Euro Area		0.27	0.30	0.40	0.50	0.60	0.60

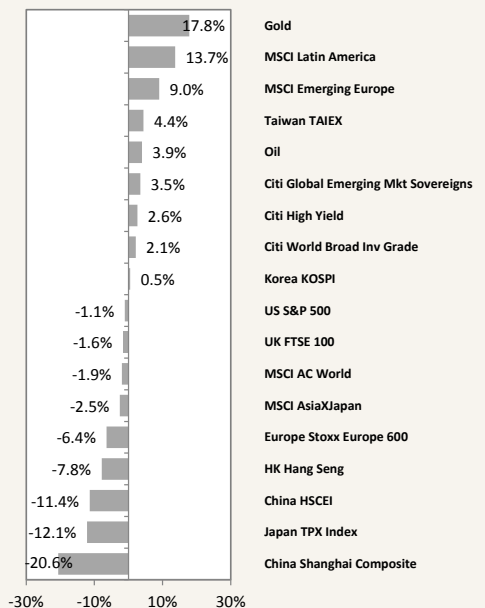
Source: Citi Research and Bloomberg as of 11 March 2016

Weekly Market Performance (7 - 11 March 2016)



Source: Bloomberg as of 11 March 2016

Market Performance (Year-To-Date) (As of 11 March 2016)



Source: Bloomberg as of 11 March 2016

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	11-Mar-16	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
US / Global								
MSCI World	391.75	443.98	351.25	1.14%	10.87%	-6.00%	-1.91%	-1.91%
Dow Jones Industrial Average	17213.31	18351.36	15370.33	1.21%	9.92%	-2.39%	-1.22%	-1.22%
S&P 500	2022.19	2134.72	1810.10	1.11%	10.56%	-0.88%	-1.06%	-1.06%
NASDAQ	4748.47	5231.94	4209.76	0.67%	11.29%	-2.09%	-5.17%	-5.17%
Europe								
MSCI Europe	397.05	478.94	355.54	1.57%	11.19%	-9.49%	-3.39%	-3.39%
Stoxx Europe 600	342.23	415.18	302.59	0.13%	12.73%	-13.46%	-6.45%	-3.95%
FTSE100	6139.79	7122.74	5499.51	-0.96%	10.89%	-8.65%	-1.64%	-3.85%
CAC40	4492.79	5283.71	3892.46	0.81%	15.30%	-10.10%	-3.11%	-0.53%
DAX	9831.13	12390.75	8699.29	0.07%	12.32%	-16.73%	-8.49%	-6.43%
Japan								
NIKKEI225	16938.87	20952.71	14865.77	-0.45%	7.80%	-9.53%	-11.01%	-5.62%
Topix	1359.32	1702.83	1193.85	-1.17%	7.46%	-10.90%	-12.15%	-6.83%
Emerging Markets								
MSCI Emerging Market	800.91	1069.13	686.74	1.26%	12.32%	-15.07%	0.85%	0.85%
MSCI Latin America	2080.59	2776.68	1550.47	2.00%	24.40%	-13.43%	13.71%	13.71%
MSCI Emerging Europe	120.29	159.85	91.09	3.09%	19.98%	-5.51%	9.01%	9.01%
Brazil Bovespa	49638.68	58574.79	37046.07	1.13%	26.25%	1.50%	14.51%	25.25%
Russia RTS	845.59	1092.52	607.14	3.34%	25.96%	-0.28%	11.70%	11.70%
Asia								
MSCI Asia ex-Japan	487.38	644.14	434.84	0.73%	9.66%	-14.50%	-2.51%	-2.51%
Australia S&P/ASX 200	5166.39	5996.40	4706.70	1.50%	7.16%	-10.82%	-2.45%	1.14%
China HSCEI (H-shares)	8561.37	14962.74	7498.81	0.04%	11.80%	-25.01%	-11.38%	-11.48%
China Shanghai Composite	2810.31	5178.19	2638.30	-2.22%	1.69%	-14.60%	-20.59%	-20.48%
Hong Kong Hang Seng	20199.60	28588.52	18278.80	0.11%	8.92%	-14.83%	-7.82%	-7.93%
India Sensex30	24717.99	29183.76	22494.61	0.29%	7.70%	-13.75%	-5.36%	-6.37%
Indonesia JCI	4813.78	5524.04	4033.59	-0.76%	0.79%	-11.18%	4.81%	11.89%
Malaysia KLCI	1696.54	1867.53	1503.68	0.24%	3.20%	-4.59%	0.24%	5.95%
Korea KOSPI	1971.41	2189.54	1800.75	0.81%	5.90%	-0.48%	0.51%	-0.09%
Philippines PSE	7098.64	8136.97	6084.28	2.89%	6.53%	-8.88%	2.11%	3.08%
Singapore STI	2828.86	3549.85	2528.44	-0.29%	11.45%	-16.27%	-1.87%	1.33%
Taiwan TAIEX	8706.14	10014.28	7203.07	0.72%	7.98%	-8.58%	4.41%	5.40%
Thailand SET	1393.41	1575.39	1220.96	1.01%	8.80%	-9.74%	8.18%	11.29%
Commodity								
Oil	38.50	62.58	26.05	7.18%	46.89%	-20.07%	3.94%	3.94%
Gold spot	1250.70	1285.18	1046.43	-0.68%	0.32%	8.26%	17.83%	17.83%

Source: Bloomberg as of 11 March 2016

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