

### The Bear Takes A Rest

- The ECB meeting was more dovish than market expectations with ECB President Mario Draghi preparing the ground for potentially more easing in March. It expectedly left its monetary policy stance unchanged with its benchmark interest rate remaining at a record low of 0.05%. However, at the press conference following the decision, Draghi suggested the central bank may deploy further stimulus measures sooner than expected as he noted that it is necessary to review and possibly reconsider its policy stance at its next meeting in March and there are "no limits" to its action
- China's economy grew 6.8% in 4Q 2015, below the consensus forecast of 6.9%. The full year growth for 2015 came in at 6.9%, the weakest pace since 1990 and down from 7.3% in 2014. While the ongoing economic slowdown suggests further stimulus should be needed, there are signs of growth stabilization. The services sector contributed more than a half of the GDP growth, or 50.5% for the first time.

### Performance

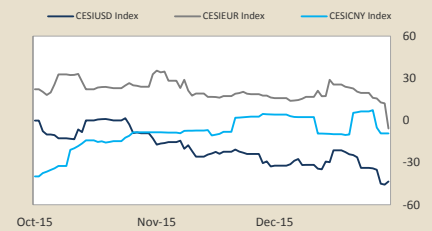
- Global equities welcomed Draghi's comments with the MSCI World index posting a positive weekly gain of 0.96%. In the US, the Dow Jones index and the S&P 500 index rose 0.66% and 1.41% respectively while the Nasdaq index gained 2.29%. Also European equities finished the week higher with the benchmark Stoxx Europe 600 Index up 2.58%. Meanwhile, despite big jumps for two last trading sessions, Japanese equities stayed in red with Japan's Nikkei 225 and Topix index losing 1.1% and 2.02% respectively.
- Finally, the MSCI Emerging Markets index was up 0.21% with the MSCI Emerging Europe outperforming (+3.22%) as Russia's RTS index soared 5.88% on surging oil prices. The MSCI Latin America (-0.31%) and the MSCI Asia Pacific (-0.51%) could not ease earlier losses.

### Asset Allocation

- Equities** — Citi analysts see this bull market as tired and old, but not finished. We would buy into this correction. Japan and Europe are our preferred markets. Meanwhile, Citi analysts believe stabilization remains fragile and retain a cautious view on China for now.
- Credit** — Despite rising default rates, HY spreads are trading too wide. While we overweight HY (excluding Energy HY) and IG bonds in Europe as well as US, we prefer Europe HY vs. US HY.
- Rates** — Risk bounces may take yields higher from time to time but not sustainably in our view. EMU government bonds likely to outperform, Japan and US may underperform.
- Commodities** — 2016 will 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).

### Economic data continue to disappoint

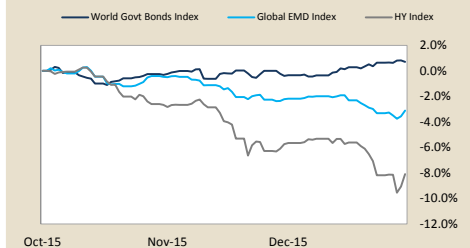
#### Citi Economic Surprise Index



Source: Bloomberg as of 22 January 2016

### HY spreads are too wide

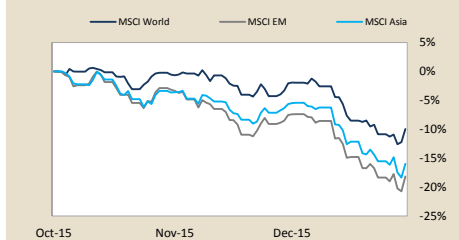
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 22 January 2016

### Equity rebounds on ECB hints at more stimulus

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 22 January 2016

### Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
25-Jan	JN	Exports YoY	Dec	-7.0%	-3.3%	-7.3%
28-Jan	US	Durable Goods Orders	Dec	-0.5%	0.0%	-4.2%
28-Jan	JN	Retail Trade YoY	Dec	0.2%	-1.0%	-0.1%
28-Jan	US	FOMC Rate Decision (Upper Bound: 27-Jan)	Jan	0.5%	0.5%	0.5%
28-Jan	EC	Economic Sentiment	Jan	106.4	106.8	106.0
28-Jan	US	Initial Jobless Claims	23-Jan	281K	293K	255K
29-Jan	JN	Overall Household Spending YoY	Dec	-2.5%	-2.9%	-3.3%
29-Jan	EC	CPI Estimate YoY	Jan	0.4%	0.2%	0.3%
29-Jan	US	GDP Annualized QoQ	4Q	0.8%	2.0%	0.9%
29-Jan	EC	M3 Money Supply YoY	Dec	5.2%	5.1%	4.5%
29-Jan	US	Chicago Purchasing Manager	Jan	45.9	42.9	--
1-Feb	CH	Manufacturing PMI	Jan	49.6	49.7	--

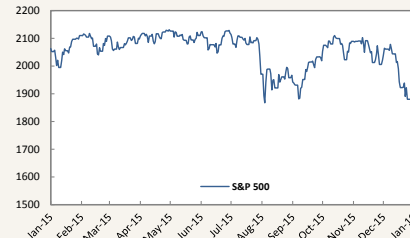
Source: Bloomberg as of 22 January 2016

## Drivers and Risks by Market

### United States

- **Driver:** Citi proprietary measure of the equity risk premium ticked up to 5.28% in December from 5.23% in November partly due to uncertainty around energy prices. According to Citi analysts, however, every drop of a penny per gallon of gasoline is estimated to save US consumers more than \$1.0 billion annually after taxes, implying a substantive consumption benefit. Given energy price shifts often show up in the economy with an 18-month lag, we may see positive impacts of low energy prices in 2H 2016.
- **Risk:** Given the impact of Energy earnings within the S&P 500 is less than 5%, the focus on the energy sector for the direction of S&P trend seems misguided.
- **Implication:** With energy industry employment accounting for 1.0% of US jobs and energy capex at roughly 0.5% of GDP (down from 1.0% in 2013), we suggest investors should rethink the negative narrative being generated from oil prices.

End-2016 Target: 2200

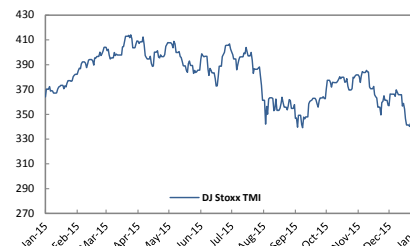


Source: Bloomberg as of 22 January 2016

### Europe

- **Driver:** The European Central Bank (ECB) sends a clear message it may act in March if inflation prospects don't improve. It expectedly left its monetary policy stance unchanged with its benchmark interest rate remaining at a record low of 0.05%. However, President Mario Draghi suggested the central bank may deploy further stimulus measures as soon as March.
- **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. Most of these factors are likely to remain in place when the new Staff Projections are formalized in the first half of February.
- **Implication:** Despite the recent financial turmoil, Citi analysts would buy into this correction and continue to align with: 1) momentum/delivery, 2) liquidity, 3) strong balance sheets.

End-2016 Target: 400

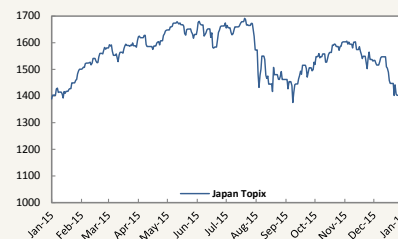


Source: Bloomberg as of 22 January 2016

### Japan

- **Driver:** As the BoJ monetary policy committee is due to meet on January 28-29, equity market expectations of additional easing by the BoJ are rising. Citi analysts think there is a 30%-40% chance of additional easing at the monetary policy committee meeting on January 28-29. Against this backdrop, near-term downside potential for equities looks limited.
- **Risk:** It seems that the ECB and BoJ are less sensitive to (equity) market moves than the Fed was before. While additional BoJ easing could bring comfort to equity markets, at the same it could trigger another sell-off by disappointed investors if the fine-print of the easing fails to meet financial markets' expectations.
- **Implication:** Citi analysts cut their end-December 2016 TOPIX target to 1,650 from 1,850 and revise down our EPS forecasts factoring in changes in forex assumption.

End-2016 Target: 1650

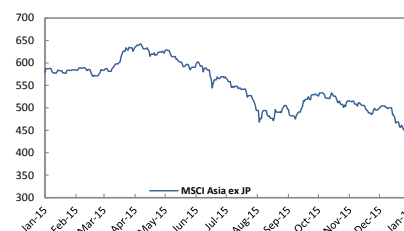


Source: Bloomberg as of 22 January 2016

### Asia

- **Driver:** China's fourth quarter 2015 GDP was 6.8% (consensus: 6.9%). The full year growth for 2015 was 6.9%, the weakest pace since 1990 and down from 7.3% in 2014. Looking into the report, a bright spot may have been the rise in the country's services sector which contributed more than a half of the GDP growth for the first time, as the nation transitions to a consumer driven economy.
- **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:** Citi analysts revise down their index targets given that investors may require a higher premium for currency risk, which suppresses stock market valuation. Our 2016-end targets for MSCI China index is lowered to 65 (from 69), while the CSI 300 target is revised to 3,000 (from 3,300). The 2016-end targets for HSCIE and SHCOMP are forecast at 10,400 and 2,800 respectively.

End-2016 Target: 575



Source: Bloomberg as of 22 January 2016

## Currency Forecast

	Currency	Last price 22-Jan-16	Forecasts				
			Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>G10-US Dollar</b>							
Euro	EURUSD	1.08	1.08	1.05	1.05	1.05	1.05
Japanese yen	USDJPY	119	120	123	123	123	122
British Pound	GBPUSD	1.43	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	0.70	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	1.41	1.43	1.40	1.38	1.36	1.34
<b>EM Asia</b>							
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	USDIDR	13,845	14,380	14,569	14,583	14,563	14,544
Indian Rupee	USDINR	67.63	68.3	68.9	68.8	68.6	68.4
Korean Won	USDKRW	1,200	1,252	1,268	1,255	1,237	1,219
Malaysian Ringgit	USDMYR	4.29	4.53	4.55	4.51	4.46	4.41
Philippine Peso	USDPHP	47.71	48.2	48.5	48.2	48.0	47.7
Singapore Dollar	USDSGD	1.43	1.48	1.49	1.49	1.48	1.47
Thai Baht	USDTHB	36.01	37.3	37.7	37.6	37.3	37.1
Taiwan Dollar	USDTHB	33.52	34.6	34.9	34.7	34.3	33.9
<b>EM Europe</b>							
Russian Ruble	USDRUB	78.11	73.0	70.8	69.6	68.6	67.7
South African Rand	USDZAR	16.47	17.84	18.41	17.91	17.22	16.52
<b>EM Latam</b>							
Brazilian Real	USDBRL	4.09	4.36	4.39	4.36	4.31	4.26
Mexican Peso	USDMXN	18.44	18.2	18.3	18.0	17.6	17.2

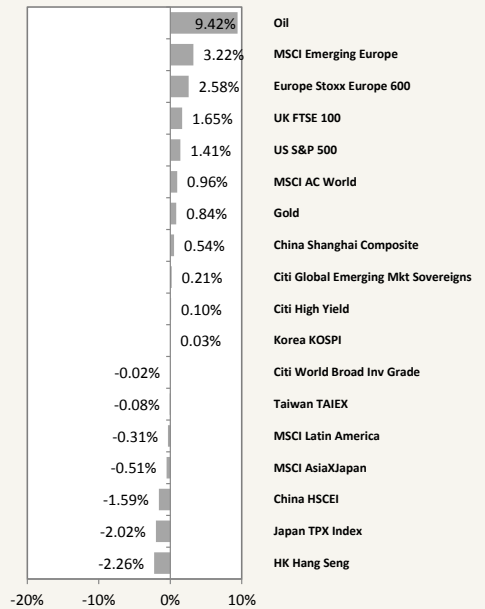
Source: Citi Research and Bloomberg as of 22 January 2016

## Short Rates and 10-Year Yield Forecasts

	Last price 22-Jan-16	Forecasts				
		1Q16	2Q16	3Q16	4Q16	1Q17
<b>Short Rates (End of Period)</b>						
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
<b>10-Year Yield (Period Average)</b>						
US	2.05	2.20	2.25	2.30	2.30	2.33
Japan	0.24	0.25	0.35	0.45	0.50	0.50
Euro Area	0.48	0.20	0.20	0.30	0.40	0.50

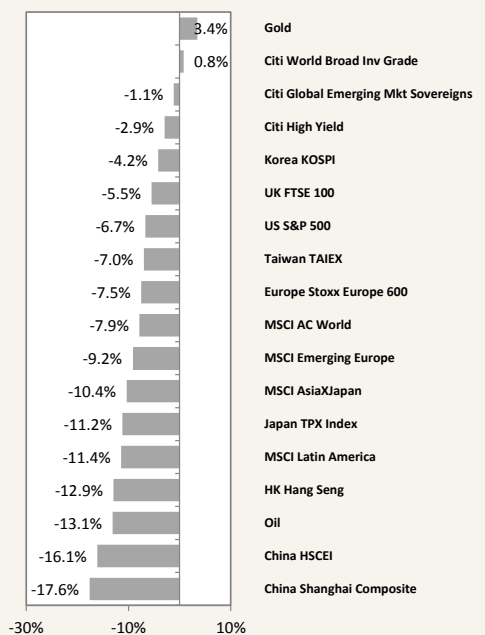
Source: Citi Research and Bloomberg as of 22 January 2016

## Weekly Market Performance (18 - 22 January 2016)



Source: Bloomberg as of 22 January 2016

## Market Performance (Year-To-Date) (As of 22 January 2016)



Source: Bloomberg as of 22 January 2016

## World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				
	22-Jan-16	High	Low	1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
<b>US / Global</b>								
MSCI World	367.97	443.98	352.10	0.96%	-7.23%	-12.08%	-7.86%	-7.86%
Dow Jones Industrial Average	16093.51	18351.36	15370.33	0.66%	-7.60%	-9.66%	-7.64%	-7.64%
S&P 500	1906.90	2134.72	1812.29	1.41%	-6.48%	-7.57%	-6.70%	-6.70%
NASDAQ	4591.18	5231.94	4292.14	2.29%	-8.20%	-3.35%	-8.31%	-8.31%
<b>Europe</b>								
MSCI Europe	378.96	478.94	361.02	1.48%	-6.44%	-13.44%	-7.79%	-7.79%
Stoxx Europe 600	338.36	415.18	320.46	2.58%	-5.19%	-7.06%	-7.50%	-7.96%
FTSE100	5900.01	7122.74	5639.88	1.65%	-3.01%	-13.19%	-5.48%	-8.30%
CAC40	4336.69	5283.71	4084.68	3.01%	-5.06%	-4.75%	-6.48%	-6.93%
DAX	9764.88	12390.75	9314.57	2.30%	-6.90%	-6.43%	-9.10%	-9.92%
<b>Japan</b>								
NIKKEI225	16958.53	20952.71	16017.26	-1.10%	-10.21%	-2.14%	-10.90%	-9.33%
Topix	1374.19	1702.83	1301.49	-2.02%	-10.39%	-1.10%	-11.19%	-9.62%
<b>Emerging Markets</b>								
MSCI Emerging Market	710.66	1069.13	686.74	0.21%	-10.56%	-27.74%	-10.51%	-10.51%
MSCI Latin America	1620.67	2776.68	1550.47	-0.31%	-11.25%	-41.45%	-11.43%	-11.43%
MSCI Emerging Europe	100.21	159.85	91.09	3.22%	-9.61%	-20.21%	-9.19%	-9.19%
MSCI EM Middle East & Africa	185.01	300.26	175.35	1.69%	-12.56%	-33.77%	-11.99%	-11.99%
Brazil Bovespa	38031.22	58574.79	37046.07	-1.39%	-12.51%	-23.08%	-12.27%	-15.64%
Russia RTS	691.40	1092.52	607.14	5.88%	-9.31%	-15.39%	-8.67%	-8.67%
<b>Asia</b>								
MSCI Asia ex-Japan	448.14	644.14	434.84	-0.51%	-10.27%	-22.66%	-10.36%	-10.36%
Australia S&P/ASX 200	4915.95	5996.90	4803.90	0.47%	-3.92%	-9.30%	-7.17%	-10.79%
China HSCEI (H-shares)	8104.98	14962.74	7823.86	-1.59%	-16.71%	-32.72%	-16.11%	-16.56%
China Shanghai Composite	2916.56	5178.19	2844.70	0.54%	-20.13%	-12.77%	-17.59%	-18.75%
Hong Kong Hang Seng	19080.51	28588.52	18534.30	-2.26%	-12.60%	-22.19%	-12.93%	-13.40%
India Sensex30	24435.66	30024.74	23839.76	-0.08%	-4.51%	-15.76%	-6.44%	-8.31%
Indonesia JCI	4456.74	5524.04	4033.59	-1.49%	-1.35%	-15.16%	-2.97%	-2.54%
Malaysia KLCI	1625.21	1867.53	1503.68	-0.21%	-1.10%	-8.79%	-3.98%	-3.24%
Korea KOSPI	1879.43	2189.54	1800.75	0.03%	-5.68%	-2.15%	-4.17%	-5.79%
Philippines PSE	6208.05	8136.97	6084.28	-3.74%	-10.88%	-16.29%	-10.70%	-12.16%
Singapore STI	2577.09	3549.85	2529.01	-2.04%	-9.67%	-23.54%	-10.60%	-11.32%
Taiwan TAIEX	7756.18	10014.28	7203.07	-0.08%	-6.47%	-17.22%	-6.98%	-8.63%
Thailand SET	1268.03	1619.77	1220.96	1.78%	0.50%	-18.73%	-1.55%	-1.45%
<b>Commodity</b>								
Oil	32.19	62.58	26.19	9.42%	-10.93%	-30.49%	-13.09%	-13.09%
Gold spot	1098.00	1299.37	1046.43	0.84%	2.38%	-15.68%	3.45%	3.45%

Source: Bloomberg as of 22 January 2016

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