

### Markets seeing some reprieve

- Recent flare-up in a flight-to-safety appeared to wane, with the rallies for gold and the yen gradually decreasing. Robust Chinese lending statistics and a much stronger-than-expected US industrial production report also helped underpin sentiment.
- Relative stability in the oil and commodity markets, also helped boost stocks, along with signs that the Chinese government was increasing support for its slowing economy. However, Fed uncertainty remained as the FOMC minutes from its January monetary policy meeting showed policymakers voicing concerns over the recent turmoil in the markets.
- This week, markets will likely focus on G20 finance ministers meeting in Shanghai for discussion on growth-supportive measures, 2nd pass at US 4Q GDP, Japan CPI and China property price releases may move sentiment in Asia.

### Performance

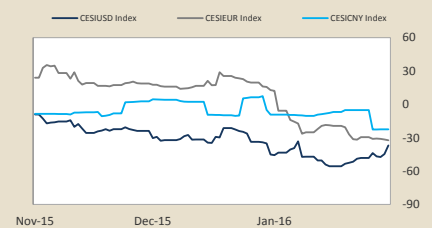
- Global markets showed some signs of relative stability after the recent bout of heightened volatility as the MSCI World Index gained 3.55% for the week. In the US, the Dow Jones Industrial Average increased 2.62%, the S&P 500 Index added 2.84%, and the Nasdaq Composite Index gained 3.85%. European equities, as measured by Stoxx Europe 600 Index, also saw an upbeat week, gaining 4.47%. Meanwhile, Japanese equities saw its best weekly advance in 6 years (Nikkei 225: 6.79% and Topix index: 7.99%).
- Finally, the MSCI Emerging Markets index rose 4.18% with the MSCI Emerging Europe gaining 4.41% and the MSCI Latin America advancing 3.79%. Closer to home, the MSCI Asia Pacific index also had a stellar week, increasing 4.24%. Within Asia, the HSCEI was the best performing index, rising 8.09%, the largest weekly gain in China in 2 months.

### Asset Allocation

- Equities** — Although a global growth recession is not our base case, Citi's strategy is building a barbell portfolio which has defensive positions while buying oversold cyclicals to ride out this 'bear-market' rally.
- Credit** — While spreads are near historical highs, default rates are still far from a recession. We prefer HY bonds in US as well as Europe.
- Rates** — Even if short-term rates are expected to rise, long-term yields may remain well-anchored given the low inflation rate and slow economic growth in the US.
- Commodities** — It is all about OPEC now for oil markets. Headlines around the deal to freeze oil output between Russia and select OPEC members seem to be the driver. For oil prices to go higher, actual production cuts are needed.

### Stronger than expected US data

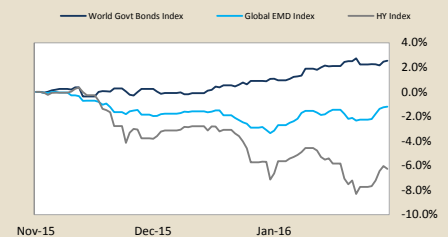
#### Citi Economic Surprise Index



Source: Bloomberg as of 19 February 2016

### HY dragged by low oil prices

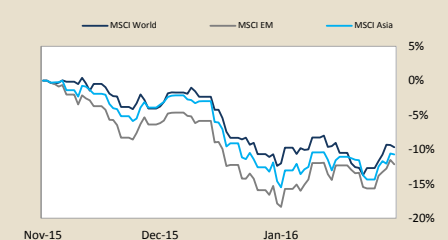
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 19 February 2016

### Markets seeing some reprieve

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 19 February 2016

#### Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fcst
22-Feb	EC	Markt Eurozone Manufacturing PMI	Feb P	52.0	52.3	51.9
22-Feb	EC	Markt Eurozone Services PMI	Feb P	53.4	53.6	53.3
22-Feb	EC	Markt Eurozone Composite PMI	Feb P	53.3	53.6	53.2
23-Feb	SI	CPI YoY	Jan	-0.5%	-0.6%	-0.9%
24-Feb	HK	GDP YoY	4Q	2.1%	2.3%	2.2%
24-Feb	SI	GDP YoY	4Q F	1.8%	2.0%	1.3%
24-Feb	TA	Export Orders YoY	Jan	-10.5%	-12.3%	-10.5%
25-Feb	EC	CPI YoY	Jan F	0.4%	0.4%	0.4%
25-Feb	US	Durable Goods Orders	Jan P	2.5%	-5.0%	5.3%
26-Feb	US	GDP Annualized QoQ	4Q S	0.4%	0.7%	0.3%
26-Feb	JN	Nat CPI YoY	Jan	0.0%	0.2%	0.0%
26-Feb	EC	Economic Confidence	Feb	104.4	105.0	103.6

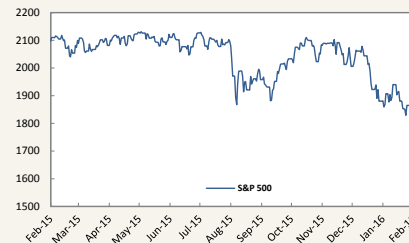
Source: Bloomberg as of 19 February 2016

## Drivers and Risks by Market

### United States

- **Driver:** Given the feedback loop between markets and FOMC behaviour that is very sensitive and reactive to turbulent market conditions, Citi analysts have delayed their March forecast for the next interest hike. While June would be the next natural hiking opportunity, they would not be surprised if the delay lasts into September. They see one or two interest rate hikes this year—possibly one in June or September (60-40) and the next in December or March 2017, depending on the strength of the economy and inflation prospects later this year.
- **Risk:** EBIT margin pressures remain a concern given additional anticipated Fed rate hikes and the uncertainty surrounding the US presidential elections.
- **Implication:** We remain generally constructive long term. Market trends are likely to be driven by a 5%-type earnings pickup as well as EPS guidance.

End-2016 Target: 2150

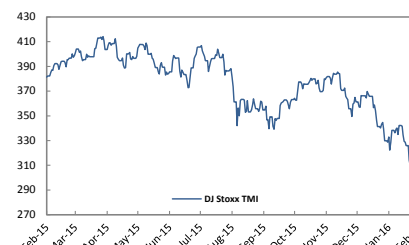


Source: Bloomberg as of 19 February 2016

### Europe

- **Driver:** According to the ECB's January meeting minutes, the Governing Council (GC) widely agreed to avoid markets developing "undue expectations" following the "market volatility around the December 2015 meeting".
- **Risk:** The GC acknowledged that economic "downside risks had increased again". A key debate was on cheap oil, with "concerns expressed that recent weak wage dynamics could point to incipient signs of second-round effects".
- **Implication:** While the minutes do not show any discussion of individual monetary policy tools, Citi analysts expect a 10bp deposit rate cut and a front-loading of the monthly asset purchases, perhaps by €15bn for at least three months, at the 10 March meeting.

End-2016 Target: 360

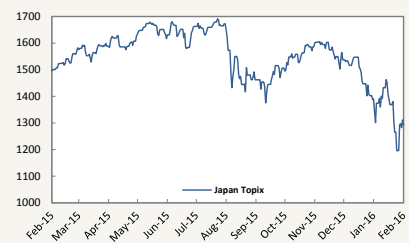


Source: Bloomberg as of 19 February 2016

### Japan

- **Driver:** The TOPIX EPS has begun to decline since peaking last August. October–December cumulative results (excluding financials, 29 industries) saw the RP growth rate slowing to 9.0% from 13.4% previously, mainly due to manufacturing, in response to the slowdown in the global economy.
- **Risk:** The bottom-up analyst consensus forecast for RP growth (in the TSE 33 sectors) is 7.5% for FY15 and 9.0% for FY16. The revision index suggests downward revisions for the consensus.
- **Implication:** Citi analysts believe the market may continue to prefer companies that are aggressive about shareholder returns and respond positively to share buybacks and/or dividend hikes.

End-2016 Target: 1650

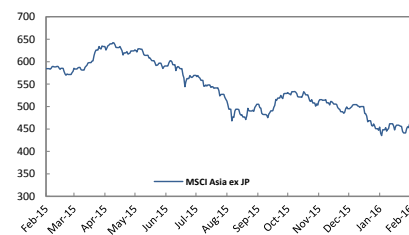


Source: Bloomberg as of 19 February 2016

### Asia

- **Driver:** In China, the Jan monetary data came out stronger than market expectations. The M2 growth accelerated to 14.0%YoY from 13.3%YoY in Dec (Consensus: 13.5%YoY), strongest reading since Jul 2014. New yuan loans also increased to RMB 2.5tn in Jan or up 70.7% YoY.
- **Risk:** Strong financing/liquidity data may continue to stabilize growth in China short-term but medium term growth risks are likely to persist. Citi analysts think Chinese policymakers still need to ease monetary and fiscal policy to stabilize demand, hopefully while tackling problems of chronic overcapacity and unproductive firms.
- **Implication:** Strong credit/liquidity aggregate in January may likely delay any broad based monetary policy easing via benchmark interest rate or RRR cuts, especially amid policymakers' intent to maintain a relatively stable FX policy.

End-2016 Target: 530



Source: Bloomberg as of 19 February 2016

## Currency Forecast

Currency	Last price 19-Feb-16	Forecasts					
		Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>G10-US Dollar</b>							
Euro	EURUSD 1.11	1.13	1.12	1.11	1.11	1.11	1.11
Japanese yen	USDJPY 113	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 0.99	0.97	0.98	0.99	0.99	0.99	1.00
Australian Dollar	AUDUSD 0.71	0.70	0.70	0.71	0.71	0.71	0.71
New Zealand	NZDUSD 0.66	0.66	0.66	0.65	0.65	0.65	0.65
Canadian Dollar	USDCAD 1.38	1.37	1.37	1.37	1.36	1.35	1.34
<b>EM Asia</b>							
Chinese Renminbi	USDCNY 6.52	6.72	6.91	7.10	7.18	7.14	7.10
Hong Kong	USDHKD 7.78	7.79	7.80	7.81	7.82	7.81	7.81
Indonesian Rupiah	USIDR 13,509	13,824	14,010	14,198	14,318	14,358	14,398
Indian Rupee	USDINR 68.47	68.5	68.7	68.9	68.9	68.7	68.5
Korean Won	USDKRW 1,234	1,233	1,253	1,274	1,277	1,260	1,244
Malaysian Ringgit	USDMYR 4.21	4.31	4.41	4.50	4.53	4.48	4.43
Philippine Peso	USDPHP 47.59	48.0	48.4	48.8	48.9	48.7	48.5
Singapore Dollar	USDSGD 1.41	1.45	1.47	1.49	1.49	1.48	1.47
Thai Baht	USDTHB 35.74	36.5	36.9	37.2	37.4	37.3	37.2
Taiwan Dollar	USD TWD 33.25	34.1	34.6	35.2	35.4	35.2	35.0
<b>EM Europe</b>							
Russian Ruble	USDRUB 77.00	79.0	76.0	73.1	71.2	70.7	70.2
South African Rand	USDZAR 15.40	16.54	16.84	17.14	17.25	17.16	17.06
<b>EM Latam</b>							
Brazilian Real	USDBRL 4.02	4.16	4.26	4.35	4.38	4.33	4.28
Mexican Peso	USDMXN 18.22	18.1	18.2	18.3	18.3	18.1	18.0

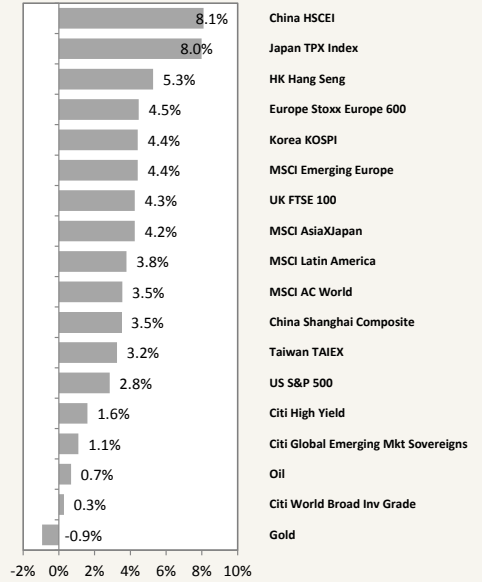
Source: Citi Research and Bloomberg as of 19 February 2016

## Short Rates and 10-Year Yield Forecasts

	Last price 19-Feb-16	Forecasts				
		1Q16	2Q16	3Q16	4Q16	1Q17
<b>Short Rates (End of Period)</b>						
US	0.50	0.50	0.75	0.75	1.00	1.00
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
<b>10-Year Yield (Period Average)</b>						
US	1.74	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	0.20	0.20	0.20	0.30	0.40	0.50

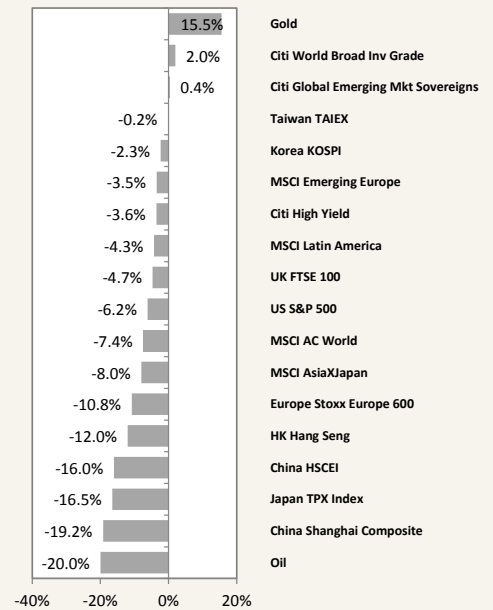
Source: Citi Research and Bloomberg as of 19 February 2016

## Weekly Market Performance (15 - 19 February 2016)



Source: Bloomberg as of 19 February 2016

## Market Performance (Year-To-Date) (As of 19 February 2016)



Source: Bloomberg as of 19 February 2016

## World Market At Glance

	Last price 19-Feb-16	52-Week High	52-Week Low	Historical Returns (%)				
				1 week	1 month	1 year	Year-to-date	Year-to-date (USD)
<b>US / Global</b>								
MSCI World	369.74	443.98	351.25	3.55%	1.41%	-13.93%	-7.42%	-7.42%
Dow Jones Industrial Average	16391.99	18351.36	15370.33	2.62%	2.35%	-8.86%	-5.93%	-5.93%
S&P 500	1917.78	2134.72	1810.10	2.84%	1.94%	-8.57%	-6.17%	-6.17%
NASDAQ	4504.43	5231.94	4209.76	3.85%	0.61%	-8.53%	-10.04%	-10.04%
<b>Europe</b>								
MSCI Europe	375.60	478.94	355.54	3.05%	0.13%	-17.80%	-8.61%	-8.61%
Stoxx Europe 600	326.37	415.18	302.59	4.47%	-1.97%	-14.43%	-10.78%	-8.62%
FTSE100	5950.23	7122.74	5499.51	4.25%	1.25%	-13.63%	-4.68%	-7.15%
CAC40	4223.04	5283.71	3892.46	5.71%	-1.15%	-12.63%	-8.93%	-6.72%
DAX	9388.05	12390.75	8699.29	4.69%	-2.86%	-14.67%	-12.61%	-10.87%
<b>Japan</b>								
NIKKEI225	15967.17	20952.71	14865.77	6.79%	-6.34%	-12.58%	-16.11%	-10.03%
Topix	1291.82	1702.83	1193.85	7.99%	-7.09%	-13.59%	-16.51%	-10.46%
<b>Emerging Markets</b>								
MSCI Emerging Market	740.98	1069.13	686.74	4.18%	3.72%	-24.78%	-6.69%	-6.69%
MSCI Latin America	1751.95	2776.68	1550.47	3.79%	8.34%	-33.61%	-4.26%	-4.26%
MSCI Emerging Europe	106.52	159.85	91.09	4.41%	10.33%	-21.97%	-3.47%	-3.47%
MSCI EM Middle East & Africa	202.47	300.26	175.35	4.22%	10.75%	-29.28%	-3.68%	-3.68%
Brazil Bovespa	41543.41	58574.79	37046.07	4.36%	9.16%	-19.01%	-4.17%	-6.26%
Russia RTS	725.98	1092.52	607.14	5.23%	9.95%	-19.91%	-4.10%	-4.10%
<b>Asia</b>								
MSCI Asia ex-Japan	460.08	644.14	434.84	4.24%	1.31%	-21.30%	-7.97%	-7.97%
Australia S&P/ASX 200	4952.80	5996.90	4706.70	3.93%	1.01%	-16.11%	-6.48%	-8.56%
China HSCEI (H-shares)	8112.57	14962.74	7498.81	8.09%	-3.17%	-32.77%	-16.03%	-16.27%
China Shanghai Composite	2860.02	5178.19	2638.30	3.49%	-4.91%	-11.92%	-19.19%	-19.61%
Hong Kong Hang Seng	19285.50	28588.52	18278.80	5.27%	-1.78%	-22.34%	-12.00%	-12.25%
India Sensex30	23709.15	30024.74	22600.39	3.15%	-3.15%	-19.53%	-9.22%	-12.26%
Indonesia JCI	4697.56	5524.04	4033.59	-0.36%	4.58%	-12.85%	2.28%	5.20%
Malaysia KLCI	1674.88	1867.53	1503.68	1.89%	2.80%	-7.36%	-1.04%	1.00%
Korea KOSPI	1916.24	2189.54	1800.75	4.41%	1.41%	-2.30%	-2.30%	-6.63%
Philippines PSE	6792.06	8136.97	6084.28	2.07%	6.84%	-12.96%	-2.30%	-3.72%
Singapore STI	2656.87	3549.85	2528.44	4.60%	0.70%	-22.67%	-7.83%	-7.03%
Taiwan TAIEX	8325.04	10014.28	7203.07	3.25%	5.99%	-12.64%	-0.16%	-1.32%
Thailand SET	1320.19	1610.24	1220.96	3.42%	4.28%	-17.49%	2.50%	3.45%
<b>Commodity</b>								
Oil	29.64	62.58	26.05	0.68%	4.15%	-42.06%	-19.98%	-19.98%
Gold spot	1226.30	1263.47	1046.43	-0.94%	12.78%	1.62%	15.53%	15.53%

Source: Bloomberg as of 19 February 2016

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