

### Fed remained on hold, scaled back hike forecast

- As widely expected, the Fed kept its policy stance unchanged at a targeted range of 0.25%-0.50% for the Fed funds rate. But, the Committee scaled back its forecasts for rate increases for this year from four to two. The decision headlined a heavy dose of monetary policy announcements, bookended by unchanged stances from the Bank of Japan (BoJ) and Bank of England (BoE).
- Since the Fed's dovish surprise, Japanese equities have remained weak, while European equities have been flat. In contrast, US and EM equities along with commodities have held up relatively well. But additional USD weakness may be more difficult to achieve now, so further markets moves may depend on the earnings season that is just starting.
- For the time being, Asian central banks have an opportunity to cut rates in the coming month thanks to the weak USD. PBOC cut the MLF rates last week and Bank Indonesia also cut rates. This week, we are looking forward to Taiwan rate cut, while Thailand and Philippines are expected to hold. Malaysia and Singapore will report inflation this week and are also emerging as likely candidates for monetary easing in the coming month.

### Performance

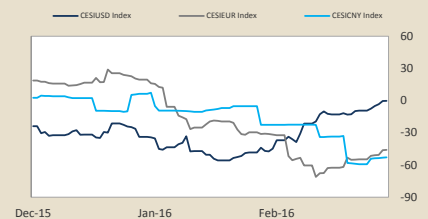
- Global equities were up with the MSCI World Index rising 1.39% as the Fed remained on hold. In the US, the Dow Jones Industrial Average increased 2.26%, the S&P 500 Index added 1.35%, and the Nasdaq Composite Index gained 0.99%. European equities, as measured by Stoxx Europe 600 Index, inched up 1.11%. Meanwhile, Japanese equities retreated as strength in the yen weighed the market. (Nikkei 225: -1.26% and Topix index: -1.05%).
- EM assets continued to outperform with the weaker US dollar. The MSCI Emerging Markets index finished higher 3.23% led by the MSCI Emerging Europe and the MSCI Latin America gaining 5.25% and 3.33% respectively. The MSCI Asia ex-Japan also posted a positive weekly gain of 2.93%. Within Asia, the Shanghai Composite Index advanced 5.2%, following a report showing a recovery in the nation's property market.

### Asset Allocation

- Equities** — There may be more momentum in equities markets going into the earnings season, particularly with tailwinds from weaker USD.
- Credit** — USD and euro IG credit spreads expected to tighten further; Favour US financials and consumer driven sectors.
- Rates** — Modest growth, benign inflation pressures and loose policy to keep core rates low.
- Commodities** — Improving EM macro sentiment, on the back of stronger Chinese economic data and signals of support from the PBoC, helped to spur a strong short-covering rally across the complex, particularly among the most China-exposed markets including industrial commodities and energy products.

### Mixed dose of US economic data

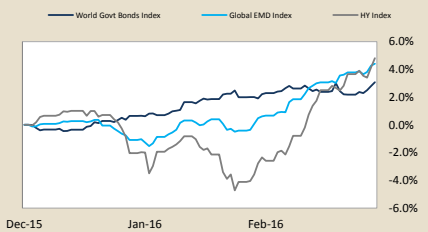
#### Citi Economic Surprise Index



Source: Bloomberg as of 18 March 2016

### Credit markets extend their rally

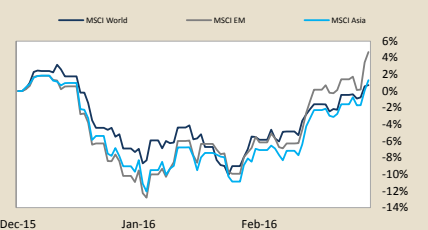
#### Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 18 March 2016

### EM continues to outperform DM

#### Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 18 March 2016

#### Week Ahead Key Data and Event

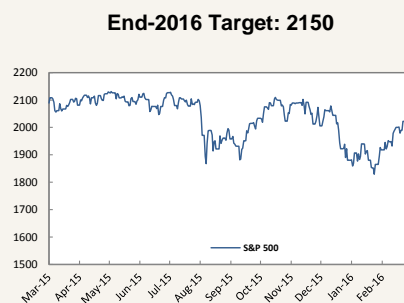
| Date   | Country | Data & Event                      | Period | Survey | Prior | Citi Fct |
|--------|---------|-----------------------------------|--------|--------|-------|----------|
| 22-Mar | TA      | Unemployment Rate                 | Feb    | 3.9%   | 3.9%  | 3.9%     |
| 22-Mar | JN      | All Industry Activity Index MoM   | Jan    | 1.9%   | -0.9% | 1.9%     |
| 22-Mar | EC      | Markit Eurozone Manufacturing PMI | Mar P  | 51.4   | 51.2  | 51.3     |
| 22-Mar | EC      | Markit Eurozone Services PMI      | Mar P  | 53.3   | 53.3  | 53.4     |
| 22-Mar | EC      | Markit Eurozone Composite PMI     | Mar P  | 53.0   | 53.0  | 53.1     |
| 23-Mar | EC      | Consumer Confidence               | Mar A  | -8.3   | -8.8  | -8.0     |
| 23-Mar | SI      | CPI NSA MoM                       | Feb    | 0.2%   | -0.2% | -0.3%    |
| 23-Mar | SI      | CPI YoY                           | Feb    | -0.8%  | -0.6% | -0.9%    |
| 25-Mar | SK      | GDP SA QoQ                        | 4Q F   | 0.6%   | 0.6%  | --       |
| 25-Mar | SK      | GDP YoY                           | 4Q F   | 3.0%   | 3.0%  | --       |
| 25-Mar | JN      | Nat CPI YoY                       | Feb    | 0.3%   | 0.0%  | 0.4%     |
| 25-Mar | US      | GDP Annualized QoQ                | 4Q T   | 1.0%   | 1.0%  | 1.0%     |

Source: Bloomberg as of 18 March 2016

## Drivers and Risks by Market

### United States

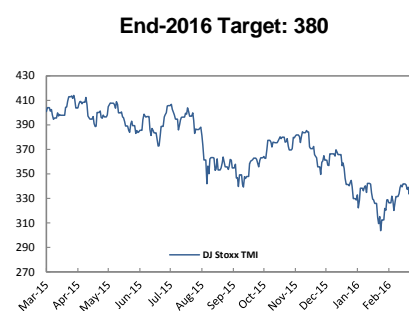
- **Driver:** As widely expected, the Fed kept its policy stance unchanged at a targeted range of 0.25%-0.50% for the Fed funds rate. But, the Committee scaled back its forecasts for rate increases for this year from four to two.
- **Risk:** We are concerned that the dovish shift ratifies Fed's behaviour that could raise policy uncertainty, reduce growth, and prolong market volatility.
- **Implication:** The relatively dovish stance revealed after the March meeting verifies Citi's model of Fed behaviour, which caters more toward keeping markets calm than anchoring monetary policy to macro fundamentals. Indeed, Citi analysts believe that this global data dependence is likely to limit Fed to 2 hikes this year: June and December.



Source: Bloomberg as of 18 March 2016

### Europe

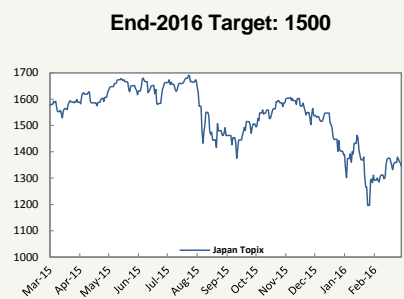
- **Driver:** We estimate that the additional expansion of monetary policy could lift our euro area financial conditions index (FCI) by 0.5-0.7SD over 2016-2018. We calculate that this could boost the level of real GDP by 0.3-0.4% (i.e. around 0.15% per year) above the baseline during the period.
- **Risk:** The effects on inflation would be relatively modest (0.1-0.2pp over the total period), reflecting the still large negative output gap.
- **Implication:** Citi analysts expect the ECB to be successful in improving the transmission of its monetary policy stance through the bank lending channel. But this is unlikely to be enough to bring inflation back to target. We expect more interest rate cuts and further adjustments to the Asset Purchase Programme (APP), probably from Sep-16.



Source: Bloomberg as of 18 March 2016

### Japan

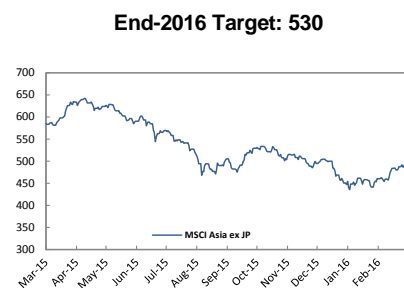
- **Driver:** Wage hikes this year have generally been smaller than last year at leading manufacturers. We expect that average wage hikes this year could be 0.4%-0.5%, following the 0.7% gain in spring 2015. Against this backdrop, we think service inflation is unlikely to pick up meaningfully.
- **Risk:** Consumer confidence fell sharply in the wake of the BoJ's decision to introduce negative interest rates.
- **Implication:** We continue to expect the BoJ to implement additional easing measures in the form of a further reduction in interest rates in July, with the policy rate probably being cut to -0.3%. However, we do not expect asset purchases—including JGB—to be expanded.



Source: Bloomberg as of 18 March 2016

### Asia

- **Driver:** China released on March 17th a 150-page 13th Five-Year Plan covering 20 sections, with increasing focus on GDP quality (30% more 2020E indicators about innovation, green & life quality, while keeping 6.5% GDP quantity target).
- **Risk:** We expect stabilization of property investment to relieve hard-landing concerns, although a 3- to 5-year-period is needed to address overcapacity of most cyclical sectors.
- **Implication:** Despite the 16% rebound from Feb low, MSCI China trades at 1.0stdev below 10-year avg., and we see further normalization potential. Citi analysts are more constructive than consensus about China's economic transition given declining share of old economies, resilient consumption, and gradual breakthrough of new manufacturing industries.



Source: Bloomberg as of 18 March 2016

## Currency Forecast

| Currency             | Last price<br>18-Mar-16 | Forecasts |        |        |        |        |        |
|----------------------|-------------------------|-----------|--------|--------|--------|--------|--------|
|                      |                         | Mar-16    | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
| <b>G10-US Dollar</b> |                         |           |        |        |        |        |        |
| Euro                 | EURUSD                  | 1.13      | 1.13   | 1.11   | 1.10   | 1.10   | 1.10   |
| Japanese yen         | USDJPY                  | 112       | 110    | 110    | 111    | 111    | 111    |
| British Pound        | GBPUSD                  | 1.45      | 1.43   | 1.43   | 1.44   | 1.45   | 1.42   |
| Swiss Franc          | USDCHF                  | 0.97      | 0.97   | 0.98   | 0.99   | 1.00   | 1.00   |
| Australian Dollar    | AUDUSD                  | 0.76      | 0.77   | 0.77   | 0.75   | 0.73   | 0.73   |
| New Zealand          | NZDUSD                  | 0.68      | 0.68   | 0.67   | 0.66   | 0.65   | 0.65   |
| Canadian Dollar      | USDCAD                  | 1.30      | 1.30   | 1.30   | 1.30   | 1.30   | 1.30   |
| <b>EM Asia</b>       |                         |           |        |        |        |        |        |
| Chinese Renminbi     | USDCNY                  | 6.47      | 6.52   | 6.65   | 6.73   | 6.81   | 6.85   |
| Hong Kong            | USDHKD                  | 7.76      | 7.76   | 7.78   | 7.79   | 7.80   | 7.80   |
| Indonesian Rupiah    | USDIDR                  | 13,117    | 13,214 | 13,485 | 13,654 | 13,811 | 13,971 |
| Indian Rupee         | USDINR                  | 66.51     | 66.9   | 67.8   | 68.4   | 69.0   | 69.4   |
| Korean Won           | USDKRW                  | 1,162     | 1,172  | 1,195  | 1,209  | 1,219  | 1,215  |
| Malaysian Ringgit    | USDMYR                  | 4.05      | 4.11   | 4.24   | 4.30   | 4.35   | 4.34   |
| Philippine Peso      | USDPHP                  | 46.33     | 46.5   | 47.3   | 47.9   | 48.5   | 48.4   |
| Singapore Dollar     | USDSGD                  | 1.36      | 1.37   | 1.41   | 1.45   | 1.48   | 1.47   |
| Thai Baht            | USDTHB                  | 34.91     | 34.9   | 35.5   | 36.1   | 36.6   | 36.7   |
| Taiwan Dollar        | USDTWD                  | 32.36     | 32.7   | 33.6   | 34.1   | 34.5   | 34.1   |
| <b>EM Europe</b>     |                         |           |        |        |        |        |        |
| Russian Ruble        | USDRUB                  | 68.24     | 70.6   | 72.9   | 72.3   | 71.7   | 71.1   |
| South African Rand   | USDZAR                  | 15.26     | 15.64  | 16.30  | 16.68  | 16.99  | 16.95  |
| <b>EM Latam</b>      |                         |           |        |        |        |        |        |
| Brazilian Real       | USDBRL                  | 3.62      | 3.57   | 3.68   | 3.91   | 4.10   | 4.08   |
| Mexican Peso         | USDMXN                  | 17.39     | 17.5   | 17.9   | 18.0   | 18.1   | 18.0   |

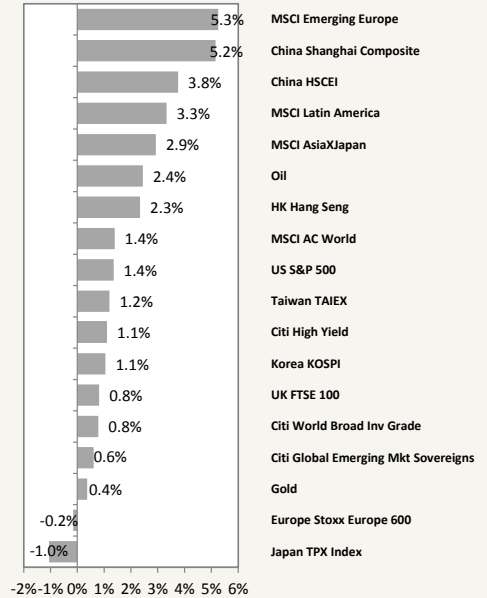
Source: Citi Research and Bloomberg as of 18 March 2016

## Short Rates and 10-Year Yield Forecasts

|                                       | Last price<br>18-Mar-16 | Forecasts |       |       |       |       |
|---------------------------------------|-------------------------|-----------|-------|-------|-------|-------|
|                                       |                         | 2Q16      | 3Q16  | 4Q16  | 1Q17  | 2Q17  |
| <b>Short Rates (End of Period)</b>    |                         |           |       |       |       |       |
| 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  |
| <b>10-Year Yield (Period Average)</b> |                         |           |       |       |       |       |
| US                                    | 1.87                    | 2.25      | 2.30  | 2.30  | 2.33  | 2.35  |
| Japan                                 | -0.05                   | -0.10     | -0.15 | -0.15 | -0.20 | -0.20 |
| Euro Area                             | 0.21                    | 0.30      | 0.40  | 0.50  | 0.60  | 0.60  |

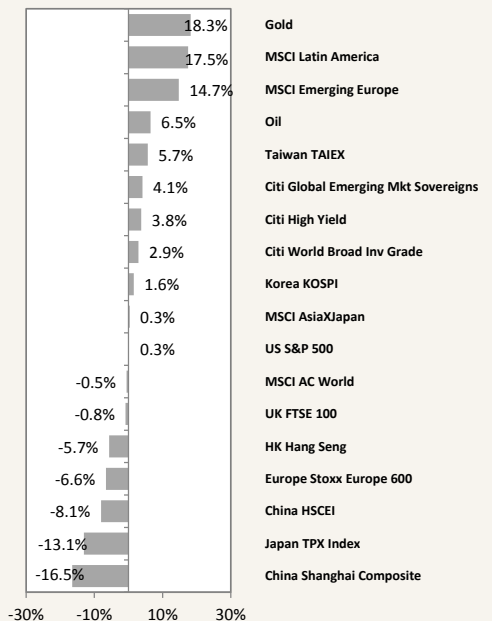
Source: Citi Research and Bloomberg as of 18 March 2016

## Weekly Market Performance (14 - 18 March 2016)



Source: Bloomberg as of 18 March 2016

## Market Performance (Year-To-Date) (As of 18 March 2016)



Source: Bloomberg as of 18 March 2016

## World Market At Glance

|                              | Last price | 52-Week  | 52-Week  | Historical Returns (%) |         |         |              |                    |
|------------------------------|------------|----------|----------|------------------------|---------|---------|--------------|--------------------|
|                              | 18-Mar-16  | High     | Low      | 1 week                 | 1 month | 1 year  | Year-to-date | Year-to-date (USD) |
| <b>US / Global</b>           |            |          |          |                        |         |         |              |                    |
| MSCI World                   | 397.21     | 443.98   | 351.25   | 1.39%                  | 7.02%   | -6.94%  | -0.54%       | -0.54%             |
| Dow Jones Industrial Average | 17602.30   | 18351.36 | 15370.33 | 2.26%                  | 7.24%   | -2.62%  | 1.02%        | 1.02%              |
| S&P 500                      | 2049.58    | 2134.72  | 1810.10  | 1.35%                  | 6.87%   | -2.38%  | 0.28%        | 0.28%              |
| NASDAQ                       | 4795.65    | 5231.94  | 4209.76  | 0.99%                  | 6.87%   | -3.76%  | -4.23%       | -4.23%             |
| <b>Europe</b>                |            |          |          |                        |         |         |              |                    |
| MSCI Europe                  | 401.45     | 478.94   | 355.54   | 1.11%                  | 6.04%   | -9.80%  | -2.32%       | -2.32%             |
| Stoxx Europe 600             | 341.71     | 415.18   | 302.59   | -0.15%                 | 3.89%   | -14.28% | -6.59%       | -3.07%             |
| FTSE100                      | 6189.64    | 7122.74  | 5499.51  | 0.81%                  | 3.65%   | -10.88% | -0.84%       | -2.49%             |
| CAC40                        | 4462.51    | 5283.71  | 3892.46  | -0.67%                 | 5.25%   | -11.34% | -3.76%       | -0.14%             |
| DAX                          | 9950.80    | 12390.75 | 8699.29  | 1.22%                  | 5.15%   | -16.54% | -7.37%       | -4.28%             |
| <b>Japan</b>                 |            |          |          |                        |         |         |              |                    |
| NIKKEI225                    | 16724.81   | 20952.71 | 14865.77 | -1.26%                 | 3.26%   | -14.43% | -12.13%      | -5.02%             |
| Topix                        | 1345.05    | 1702.83  | 1193.85  | -1.05%                 | 2.58%   | -15.00% | -13.07%      | -6.04%             |
| <b>Emerging Markets</b>      |            |          |          |                        |         |         |              |                    |
| MSCI Emerging Market         | 826.75     | 1069.13  | 686.74   | 3.23%                  | 10.79%  | -13.59% | 4.11%        | 4.11%              |
| MSCI Latin America           | 2149.80    | 2776.68  | 1550.47  | 3.33%                  | 21.44%  | -11.06% | 17.49%       | 17.49%             |
| MSCI Emerging Europe         | 126.61     | 159.85   | 91.09    | 5.25%                  | 16.09%  | -0.92%  | 14.73%       | 14.73%             |
| Brazil Bovespa               | 50814.66   | 58574.79 | 37046.07 | 2.37%                  | 22.51%  | -1.38%  | 17.22%       | 28.77%             |
| Russia RTS                   | 885.13     | 1092.52  | 607.14   | 4.68%                  | 17.56%  | 5.24%   | 16.92%       | 16.92%             |
| <b>Asia</b>                  |            |          |          |                        |         |         |              |                    |
| MSCI Asia ex-Japan           | 501.64     | 644.14   | 434.84   | 2.93%                  | 8.85%   | -13.31% | 0.34%        | 0.34%              |
| Australia S&P/ASX 200        | 5183.12    | 5996.40  | 4706.70  | 0.32%                  | 3.83%   | -11.28% | -2.13%       | 2.05%              |
| China HSCEI (H-shares)       | 8883.01    | 14962.74 | 7498.81  | 3.76%                  | 8.77%   | -25.86% | -8.05%       | -8.11%             |
| China Shanghai Composite     | 2955.15    | 5178.19  | 2638.30  | 5.15%                  | 3.22%   | -17.39% | -16.50%      | -16.30%            |
| Hong Kong Hang Seng          | 20671.63   | 28588.52 | 18278.80 | 2.34%                  | 6.76%   | -14.30% | -5.67%       | -5.73%             |
| India Sensex30               | 24952.74   | 29094.61 | 22494.61 | 0.95%                  | 5.51%   | -12.82% | -4.46%       | -4.70%             |
| Indonesia JCI                | 4885.71    | 5524.04  | 4033.59  | 1.49%                  | 2.24%   | -9.74%  | 6.37%        | 12.58%             |
| Malaysia KLCI                | 1716.34    | 1867.53  | 1503.68  | 1.17%                  | 2.16%   | -4.52%  | 1.41%        | 7.65%              |
| Korea KOSPI                  | 1992.12    | 2189.54  | 1800.75  | 1.05%                  | 4.36%   | -1.79%  | 1.57%        | 2.91%              |
| Philippines PSE              | 7306.74    | 8136.97  | 6084.28  | 2.93%                  | 6.69%   | -5.80%  | 5.10%        | 6.10%              |
| Singapore STI                | 2906.80    | 3549.85  | 2528.44  | 2.76%                  | 9.38%   | -13.53% | 0.83%        | 5.31%              |
| Taiwan TAIEX                 | 8810.71    | 10014.28 | 7203.07  | 1.20%                  | 5.97%   | -8.73%  | 5.67%        | 7.56%              |
| Thailand SET                 | 1382.96    | 1575.39  | 1220.96  | -0.75%                 | 6.83%   | -9.70%  | 7.37%        | 11.02%             |
| <b>Commodity</b>             |            |          |          |                        |         |         |              |                    |
| Oil                          | 39.44      | 62.58    | 26.05    | 2.44%                  | 28.18%  | -11.69% | 6.48%        | 6.48%              |
| Gold spot                    | 1255.32    | 1285.18  | 1046.43  | 0.37%                  | 1.99%   | 7.51%   | 18.27%       | 18.27%             |

Source: Bloomberg as of 18 March 2016

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