

WEEKLY MARKET UPDATE

14 April 2015

H-shares rally still has further to go

- Hong Kong listed Chinese equities (H-shares) sky-rocketed last week, triggered by upward southbound flows. This outperformance is backed by flows from HK/China investors rather than foreign flows. US/EU investors' market share in HK dropped 6ppt to 25% in 2014 against the backdrop of rising US\$ and China's macro concerns while HK/China investors gained 7ppt.
- Despite the rally, on-shore local Chinese stocks (A-shares) are still trading at a significant premium versus offshore H-shares with A/H P/E premium at 35%. We believe the current A/H valuation premium may narrow to historical average levels at 21% by end-2015 and eventually to 0% over several years with conversions in prices in both markets through SH-HK connect or potential SZ-HK connect.

Performance

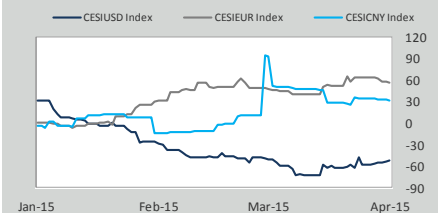
- Global equities rose again last week with MSCI AC World reaching a new record high of 435.93. US equities continued to post weekly gains with the Dow Jones and S&P 500 index higher 1.66% and 2.70% respectively.
- European equities also finished the week higher with the Stoxx Europe gaining 3.8%. Japanese equities also rose with the Nikkei and Topix up 2.43% and 1.62% respectively.
- EM equities continue to outperform DM counterparts with the MSCI Emerging Markets Index up 4.05% led by Russia (RTS: 7.45%). MSCI Latin America and the MSCI Emerging Europe rose 2.81% and 5.64% respectively while the MSCI Asia rose 4.71%.
- In China, offshore Chinese equities (H-shares) continued to outperform local shares with the HSCEI up 10.46% versus the Shanghai Composite which gained 4.41% last week.

Asset Allocation

- **Equities** — We think this bull market is maturing but not finished. At a trailing PE of 18x, global equities are no longer cheap. But they still look attractive compared to QE-inflated bond markets. We remain equities overweight via Europe and Japan.
- **Credit** — We see further spread tightening in Europe in particular, with HY expected to outperform IG. In the US, it is likely that spreads range trade. Favour high quality Single-B & Double-B credits.
- **Rates** — We forecast divergent yield paths for the major government bond markets in 2015. European government bonds may outperform USTs.
- **Commodities** — We expect further price weakness in the short term, and a recovery further out.

Europe and Asia enjoy positive momentum

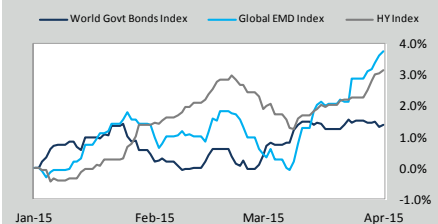
Citi Economic Surprise Index



Source: Bloomberg as of 10 April 2015

EM Debts continue to outperform

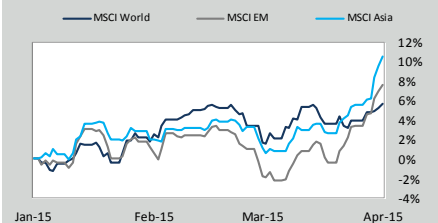
Accumulated 3-month Bond Index Returns



Source: Bloomberg as of 10 April 2015

Asian equities continue to outperform

Accumulated 3-month Equity Index Returns



Source: Bloomberg as of 10 April 2015

Week Ahead Key Data and Event

Date	Country	Data & Event	Period	Survey	Prior	Citi Fct
13-Apr	JN	Machine Orders MoM	Feb	-2.2%	-1.7%	-5.0%
13-Apr	JN	PPI YoY	Mar	0.4%	0.5%	0.7%
13-Apr	CH	Exports YoY CNY	Mar	8.2%	48.9%	10.0%
13-Apr	CH	Money Supply M2 YoY	Mar	12.4%	12.5%	12.6%
13-Apr	CH	New Yuan Loans CNY (Bn)	Mar	1,040	1,020	1,300
14-Apr	US	Retail Sales Advance MoM	Mar	1.0%	-0.6%	1.2%
15-Apr	US	Industrial Production MoM	Mar	-0.3%	0.1%	-0.7%
15-Apr	CH	GDP YoY	1Q	7.0%	7.3%	6.7%
15-Apr	EC	ECB Deposit Facility Rate	15-Apr	-0.2%	-0.2%	--
17-Apr	US	CPI MoM	Mar	0.3%	0.2%	0.4%
17-Apr	EC	CPI MoM	Mar	1.1%	0.6%	1.1%
17-Apr	US	U. of Mich. Sentiment	Apr P	94.0	93.0	93.0

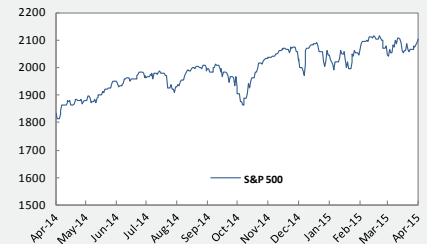
Source: Bloomberg as of 10 April 2015

Drivers and Risks By Market

United States

- **Driver:** Citi's view is that US stock market gains may mostly match earnings growth, especially once the Fed begins to lift rates. Equities typically climb for many months after the first rate hike, not to mention the third year of a presidential cycle is typically strong for equities.
- **Risk:** Earnings face challenges from a stronger dollar, weak energy prices and the soft global economy, but may generate a modest pickup due to consumer benefits from energy savings as well as likely wage gains and job creation.
- **Implication:** Large caps and value could lead in 2015. Capital spending excluding the Energy sector may show a 5% gain in 2015. Capex is expected to grow double digits in tech.

End-2015 Target: 2200

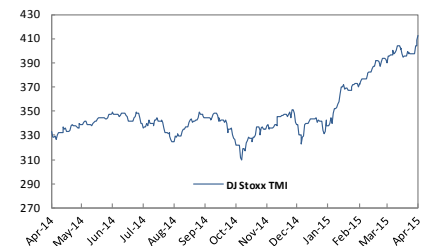


Source: Bloomberg as of 10 April 2015

Europe

- **Driver:** Higher PMIs have traditionally meant higher EPS. Europe has recently joined Japan as the only other region with positive ERI (Earnings Revision Index). Stronger macro and a weaker euro are helping to drive net EPS upgrades. We expect these conditions to persist and see 10%+ EPS growth in 2015 and 2016, with upside risk.
- **Risk:** We see two key risks: 1) growth cycle interrupted/broken, 2) upside CPI risk and hence sharply higher rates. Elections in France and Spain also highlight the theme of rising political uncertainty across Europe.
- **Implication:** We retain our thematic preference of liquidity and leverage beneficiaries. Key themes include (1) Yield strategies (High dividend yields and growth stocks), (2) Cyclical/Financials over Defensives, (3) Potential de-equitisation cases (companies with a strong balance sheet) and (4) Beneficiaries of weak Euro and companies with high sales exposure to the US.

End-2015 Target: 450

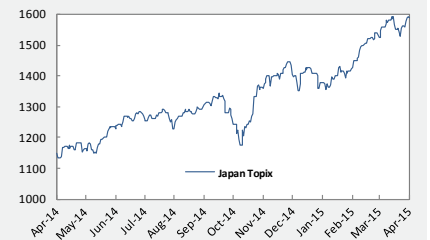


Source: Bloomberg as of 10 April 2015

Japan

- **Driver:** We expect the Japanese economy to continue recovering thanks to declines in oil prices, further yen depreciation caused by monetary policy and wage increases. We continue to expect the Bank of Japan (BoJ) will implement additional easing measures around July this year.
- **Risk:** Two main drivers for a recent rebound in Japan's export and production—namely, a pickup in equipment investment in the US and a recovery in global technology demand—may be losing steam and starting to weigh on Japan's manufacturers. Core capital goods orders in the US are peaking while Japan's production of electronic parts and devices appears to be slowing.
- **Implication:** Auto related and industrial sectors are likely to be supported by the yen depreciation. Financials are a big laggard and are likely to benefit from increases in asset prices caused by the policies to get Japan out of deflation.

End-2015 Target: 1650

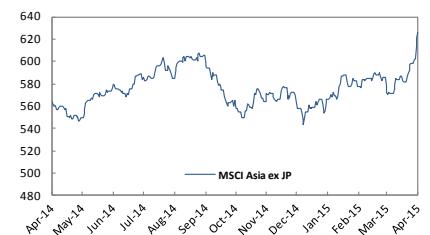


Source: Bloomberg as of 10 April 2015

Asia

- **Driver:** Asia continues to be the main beneficiary of lower commodity prices and the US growth upswing. We expect that to continue into Q2. Given the CA surpluses in Asia, this is also the region where rates have room to fall further.
- **Risk:** The Chinese economy observed a weak start for 2015, and faces further downside risks from the combination of slowing credit growth, real exchange rate appreciation and sluggish world trade growth.
- **Implication:** Prefer China, Taiwan and Singapore and within sectors, prefer Financials, Utilities, Consumer Disc and IT.

End-2015 Target: 630



Source: Bloomberg as of 10 April 2015

Currency Forecast

Currency	Last price 10-Apr-15	Forecasts					
		Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	
G10-US Dollar							
Euro	EURUSD	1.06	1.02	0.97	0.93	0.93	0.94
Japanese yen	USDJPY	120	124	127	130	131	132
British Pound	GBPUSD	1.46	1.46	1.41	1.37	1.37	1.37
Swiss Franc	USDCHF	0.98	1.07	1.13	1.18	1.18	1.17
Australian Dollar	AUDUSD	0.77	0.72	0.71	0.70	0.70	0.70
New Zealand	NZDUSD	0.75	0.69	0.67	0.66	0.66	0.66
Canadian Dollar	USDCAD	1.26	1.31	1.33	1.35	1.35	1.35
EM Asia							
Chinese Renminbi	USDCNY	6.21	6.26	6.28	6.30	6.30	6.30
Hong Kong	USDHKD	7.75	7.78	7.78	7.79	7.79	7.79
Indonesian Rupiah	USDIR	12,927	13,587	13,700	13,781	13,621	13,461
Indian Rupee	USDINR	62	63.9	64.5	65.0	64.9	64.8
Korean Won	USDKRW	1,093	1,159	1,170	1,179	1,171	1,163
Malaysian Ringgit	USDMYR	3.67	3.77	3.80	3.83	3.81	3.80
Philippine Peso	USDPHP	44.39	45.6	45.8	46.0	46.1	46.2
Singapore Dollar	USDSGD	1.37	1.43	1.44	1.45	1.45	1.45
Thai Baht	USDTHB	32.55	33.6	33.7	33.9	33.9	33.9
Taiwan Dollar	USDTWD	31.23	32.1	32.3	32.5	32.4	32.3
EM Europe							
Russian Ruble	USDRUB	53.59	67.0	68.7	70.1	69.6	2.8
South African Rand	USDZAR	12.00	12.72	12.87	12.98	12.84	0.00
EM Latam							
Brazilian Real	USDBRL	3.08	3.40	3.40	3.40	3.36	3.32
Mexican Peso	USDMXN	15.23	15.4	15.2	15.0	14.8	14.6

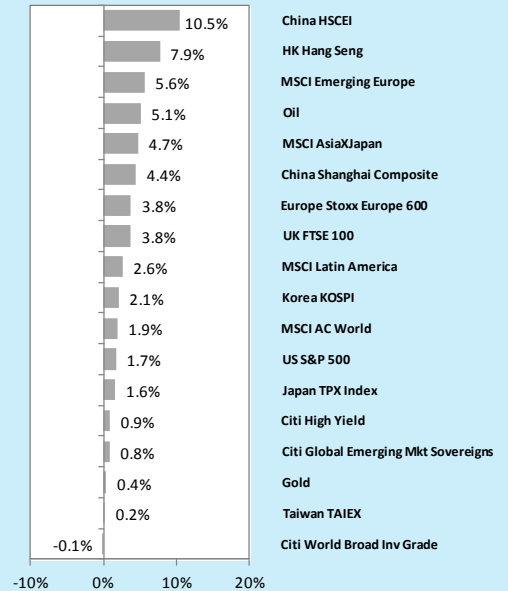
Source: Citi Research and Bloomberg as of 10 April 2015

Short Rates and 10-Year Yield Forecasts

Short Rates (End of Period)	Last price 10-Apr-15	Forecasts					
		2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
US	0.25	0.25	0.25	0.50	0.50	0.75	1.00
Japan	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Euro Area	0.05	0.05	0.05	0.05	0.05	0.05	0.05
10-Year Yield (Period Average)							
US	1.95	2.05	2.30	2.45	2.50	2.55	2.60
Japan	0.34	0.35	0.40	0.45	0.50	0.50	0.55
Euro Area	0.16	-0.05	-0.05	0.20	0.25	0.30	0.30

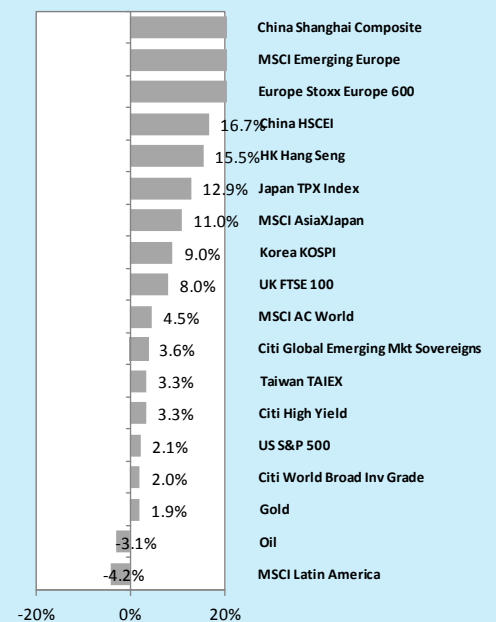
Source: Citi Research and Bloomberg as of 10 April 2015

Weekly Market Performance (6 – 10 April 2015)



Source: Bloomberg as of 10 April 2015

Market Performance (Year-To-Date) (As of 10 April 2015)



Source: Bloomberg as of 10 April 2015

World Market At Glance

	Last price	52-Week	52-Week	Historical Returns (%)				Year-to-date (USD)
	10-Apr-15	High	Low	1 week	1 month	1 year	Year-to-date	
US / Global								
MSCI World	435.93	435.93	387.49	1.92%	4.49%	6.77%	4.51%	4.51%
Dow Jones Industrial Average	18057.65	18288.63	15855.12	1.66%	2.23%	11.67%	1.32%	1.32%
S&P 500	2102.06	2119.59	1814.36	1.70%	2.83%	14.67%	2.10%	2.10%
NASDAQ	4995.98	5042.14	3946.03	2.23%	2.80%	23.23%	5.49%	5.49%
Europe								
MSCI Europe	461.24	506.61	409.57	1.35%	5.40%	-5.96%	5.82%	5.82%
Stoxx Europe 600	412.93	413.03	302.48	3.80%	5.97%	23.85%	20.55%	5.53%
FTSE100	7089.77	7095.36	6072.68	3.75%	5.77%	6.74%	7.98%	1.55%
CAC40	5240.46	5240.65	3789.11	3.28%	7.34%	18.74%	22.65%	7.36%
DAX	12374.73	12390.75	8354.97	3.40%	7.60%	30.89%	26.20%	9.96%
Japan								
NIKKEI225	19907.63	20006.00	13885.11	2.43%	6.66%	39.21%	14.08%	13.35%
Topix	1589.54	1596.81	1121.50	1.62%	4.25%	38.28%	12.93%	12.21%
Emerging Markets								
MSCI Emerging Market	1034.59	1104.31	906.25	4.05%	9.63%	1.26%	8.19%	8.19%
MSCI Latin America	2614.23	3720.81	2317.86	2.61%	10.64%	-20.20%	-4.16%	-4.16%
MSCI Emerging Europe	147.80	198.14	106.52	5.64%	15.65%	-17.54%	23.04%	23.04%
MSCI EM Middle East & Africa	290.82	341.09	248.54	3.02%	10.02%	-10.66%	7.41%	7.41%
Brazil Bovespa	54214.11	62304.88	45852.81	2.05%	12.26%	6.04%	8.41%	-6.82%
Russia RTS	999.38	1421.07	578.21	7.45%	18.22%	-17.64%	26.39%	26.39%
Asia								
MSCI Asia ex-Japan	625.95	632.93	542.90	4.71%	9.31%	10.94%	11.04%	11.04%
Australia S&P/ASX 200	5968.37	5996.90	5122.00	1.18%	2.48%	8.90%	10.30%	3.65%
China HSCEI (H-shares)	13987.53	14380.49	9620.42	10.46%	21.55%	34.22%	16.71%	16.77%
China Shanghai Composite	4034.31	4109.52	1991.06	4.41%	22.77%	89.02%	24.72%	24.60%
Hong Kong Hang Seng	27272.39	27922.67	21680.33	7.90%	14.12%	17.62%	15.54%	15.59%
India Sensex30	28879.38	30024.74	22247.39	2.19%	0.59%	27.14%	5.02%	6.70%
Indonesia JCI	5491.34	5524.04	4721.60	0.64%	0.52%	15.23%	5.06%	0.94%
Malaysia KLCI	1844.31	1896.23	1671.82	0.53%	3.05%	-0.82%	4.72%	-0.02%
Korea KOSPI	2087.76	2099.97	1876.27	2.07%	5.19%	3.94%	8.99%	9.25%
Philippines PSE	8127.48	8136.97	6570.60	1.68%	3.82%	22.42%	12.40%	12.76%
Singapore STI	3472.38	3493.62	3149.91	0.54%	2.18%	8.39%	3.19%	0.02%
Taiwan TAIEX	9617.70	9775.63	8501.29	0.18%	0.85%	7.48%	3.34%	4.61%
Thailand SET	1547.83	1619.77	1369.63	0.77%	1.10%	11.39%	3.35%	4.41%
Commodity								
Oil	51.64	107.73	42.03	5.09%	6.94%	-50.06%	-3.06%	-3.06%
Gold spot	1207.57	1345.46	1131.24	0.39%	3.94%	-8.44%	1.92%	1.92%

Source: Bloomberg as of 10 April 2015

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