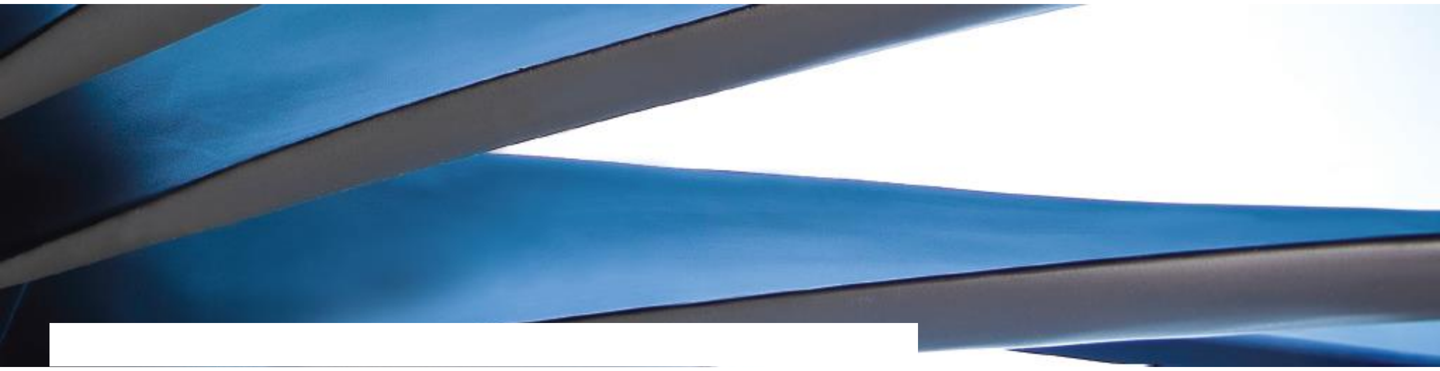

4 APRIL 2017

EM Equities Upgraded to Overweight

By Florence Tan, Tae Hyon Ahn, Celestee Tan

The powerful six-year rally in the US dollar (USD), which has weighed on Emerging Markets (EM) appears to be in its late stages. EM equity valuations have fallen towards a historically large discount to the US. On the back of this, Citi analysts upgraded Emerging Europe (EMEA) and Asia to overweight while adding slightly to an existing overweight in Latin America (LatAm).

At the same time, Citi analysts increased its underweight to Global Fixed Income by moderately reducing the overweight to US High Yield bonds as spreads have tightened considerably.

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Market Performance

In the US, the Dow Jones Industrial Average dropped 0.72%, the S&P 500 was almost flat, while the Nasdaq Composite gained 1.48%. The Stoxx Europe 600 rose 2.94% while Japanese stocks fell with the Nikkei 225 and the Topix down 1.10% and 1.48% respectively in March on the back of yen strength.

In contrast, MSCI Emerging Markets had a stellar performance in March, rising 2.35%, led by MSCI Asia ex Japan (3.13%), MSCI Emerging Europe (1.73%) and MSCI Latin America (0.42%). Within Emerging Markets, Indonesia's Jakarta Composite Index (JCI) jumped 3.37% in March on improved sentiment.

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EM Equities Upgraded to Overweight (continued)

Global Equities: Neutral

US: Neutral. While doubts have risen, the Republican controlled Congress appears likely to succeed in passing US corporate and personal income tax cuts this year, which may support equities. However, the strong winter seasonal period for returns has passed, and summer corrections are common.

Europe: Underweight. European economic fundamentals are firming and policy remains accommodative. However, Citi analysts remains cautious about political risks in Europe, where several key elections lie ahead.

Japan: Neutral. Japanese equities are major beneficiaries of US policy, with Fed tightening likely to weaken the yen. However, the volatile outlook and domestic challenges keep Citi from an overweight.

Emerging Markets (EM): Overweight Asia: While the Fed and US policy could still cause a setback, solid domestic economic growth and low valuations lead Citi analysts to overweight Asia for the first time in several years. Overweight Latin America: Valuations remain attractive despite strong equity returns in 2016 and the risks associated with Fed tightening and US trade policies. Overweight EMEA: Citi raised EMEA EM equities to a slight overweight.

Global Fixed Income: Underweight

Investment Grade (IG): Overweight. Although valuations have become less compelling, US IG corporate bonds remain at an overweight as yields still remain higher than other IG quality assets.

High Yield (HY): Overweight. Citi analysts slightly reduced the substantial overweight in US HY. Though fundamentals are still solid and relative value exists compared to other markets, spreads have tightened substantially since their widest levels last year and are close to all-time lows.

Emerging Market Debt: Overweight. LatAm bonds are attractive on a global basis. Given a more stable outlook for oil and commodities broadly in 2017, Citi remains overweight LatAm (hard currency and local) as well as local Asian bonds while remaining neutral EMEA.

Commodities: Overweight

Gold: Overweight. Gold remains an important diversifier to help manage portfolio risk. The precious metal has maintained a significant negative correlation with traditional risk assets.

Countdown to the French Elections

Five presidential hopefuls faced off on 20 March 2017 in the first of three TV debates. The first round of voting will take place on 23 April 2017 with a run-off on 7 May 2017 if no candidate secures an absolute majority of the vote in the first round.

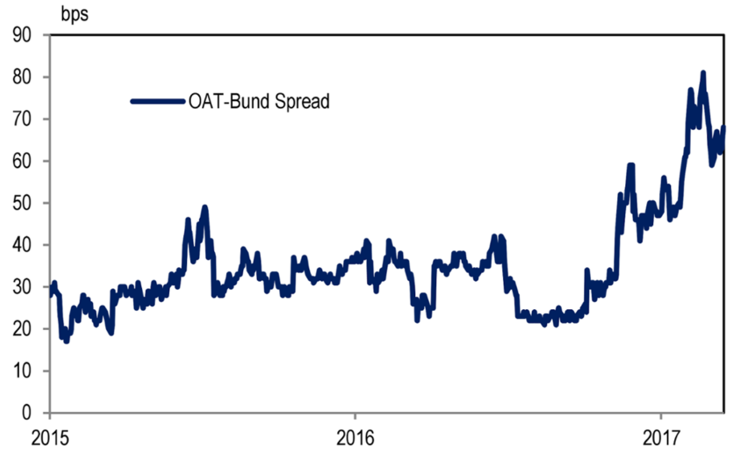
- In the aftermath of the debate, polls show that independent centrist Emmanuel Macron gained 0.5pt of first round voting intentions to 26%, moving ahead of National Front (NF) candidate Marine Le Pen with 24.5% (-0.5pt), and further distancing conservative party candidate François Fillon into third place with 17% (-0.5pt). Far Left candidate Jean-Luc Mélenchon moved into fourth (+0.5pt) with 13.5% ahead of Socialist Party candidate Benoit Hamon (-2pt) with 11.5%.

- The polls led to some relief about the risk of a victory of the far-right FN party. The spread between the French 10-year Government Bonds and German Bunds narrowed to 64bp, from a recent high of 81bp a month ago (but still higher from just 21bp in August 2016).

- In Citi's view, there is still a risk of a Le Pen victory and this will likely lead to some volatility in asset prices over the next 6 weeks. Nevertheless, Citi analysts continue to expect a mainstream candidate to win the French Presidential election.

"European political risks continue to fester. Investors should prepare for volatility ahead."

OAT-Bund 10 Year Spread (bps), 2015-2017



Source: Citi Research as of 22 March 2017.

- Risks and opportunities: Given the large number of undecided voters, greater clarity on the final order between Le Pen, Macron and Fillon may only emerge in the two weeks leading up to 23 April 2017. The heavy political calendar in Europe leads Citi analysts to be underweight European equities. That said, given the improving macro fundamentals in the eurozone, there is the potential for European equities to rally if political risks fade.

Focus Shifts to Earnings in India

Citi analysts remain positive on the market over the medium-term but notes that earnings growth would be needed to drive the market higher.

Domestic fundamentals have improved:

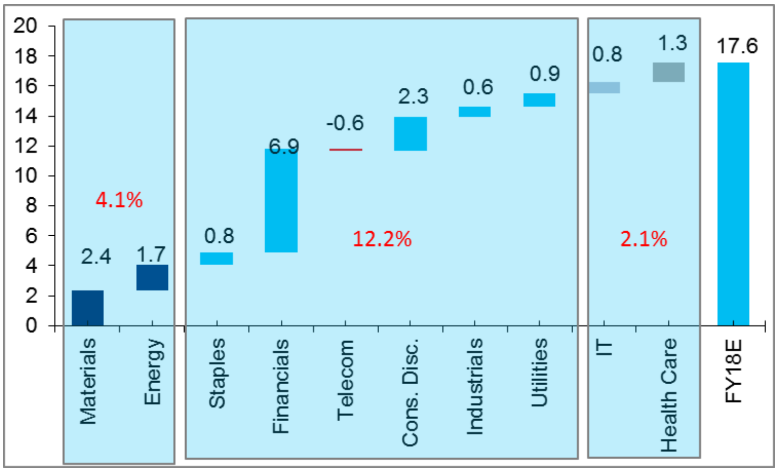
- The Bharatiya Janata Party (BJP) asserts dominance: PM Modi led the BJP to a landslide victory in the Uttar Pradesh state elections. The win was particularly important to Modi following his controversial war on cash in November last year. Citi analysts expect the win to set the stage for a renewed focus on long-term reforms and more policy actions.

- Government delivered a balanced budget for 2018: focusing on a) increasing public capital expenditure spending, b) rural development, and c) long-term initiatives such as digital governance etc.

- October – December earnings better than expected: Earnings for the October to December quarter were expected to be impacted by India's war on cash, but reported earnings grew 24% over the same period last year, helped by the financials and commodities sectors. Excluding these sectors, earnings declined 7%. The negative impact on earnings may continue into the January to March quarter before gradually fading away.

"Financials and materials likely to drive earnings growth in 2018."

18% earnings growth underpinned by Financials and Materials



Source: Citi Research as of 22 March 2017.

- Focus now shifts to earnings. Citi analysts expect earnings to grow 18% in 2018 as the financials sector enjoy a moderate pick up in credit growth. The materials and energy sectors are also likely to benefit from higher global commodity prices.

- Citi analysts have revised up their end-2017 Sensex target to 31,500 from 30,000, which translates to a 7% upside from current levels.

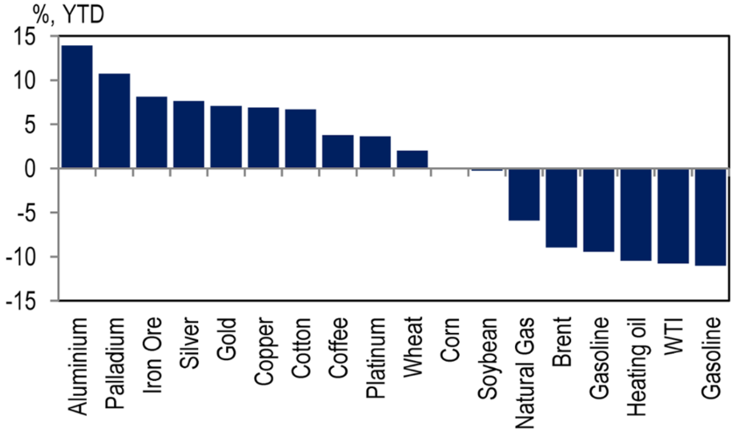
Oil at a Turning Point

Brent crude slips below the key $50 a barrel for the first time this year in March. In Citi analysts' view, temporary imbalances between supply and demand are to be expected and they remain positive on the outlook for oil.

- Oil prices sold off in the first half of March on market concerns over Saudi's commitment to the OPEC production cuts. Rising crude inventories combined with the rise in shale rig counts in the US also weighed on investor sentiment towards oil. Citi analysts expect OPEC output cuts to be extended in the second half of this year. Hence, pullback in oil prices can be viewed as potential opportunities for investors.

"Citi's end-2017 forecast for WTI and Brent stand at $62/bbl and $65/bbl respectively."

Commodity Prices (YTD % Change), as of March 20



Source: Citi Research as of 22 March 2017.

- Increasing refinery demand and OPEC supply cuts likely to drive prices higher. Refinery maintenance is set to drop from above 7 million barrels per day (m b/d) in March to 3.5 m b/d in June. This, along with expected OPEC supply cuts should help to lower crude inventories in the second quarter of the year.

- Going into the second half of 2017, Citi analysts are currently expecting Brent to trade above $60/bbl, as the current OPEC deal gets extended.

- A rebound in oil prices is likely to support the Energy sector which Citi analysts are overweight on. Among the large oil and gas companies, known as supermajors, Citi analysts favour companies that can deliver sustainable, low-cost growth with a business model that has adjusted to the reality of lower oil prices.

- Citi analysts are also positive on companies that offer integrated services. These companies are exposed to both shale and the Middle East, which Citi analysts believe are areas of growth.

US Dollar Bullishness Scaled Back

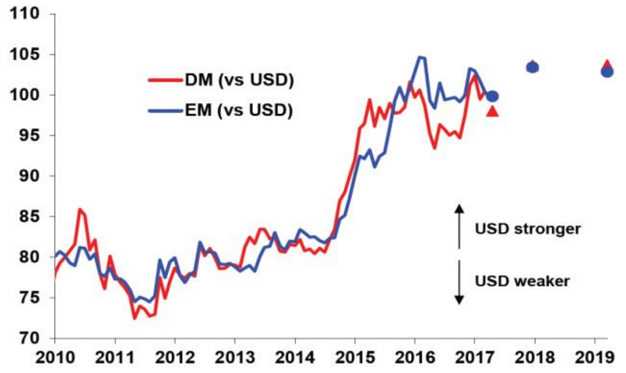
USD momentum appears to have taken a back seat in the near term. However, over the next 6-12 months, Citi analysts still see the greenback gaining 3-4% on a global basis.

- Emerging signs of a pick up in growth in Europe, Asia and EM as well as disappointment over the US fiscal policy/tax reform timeline have contributed to recent dollar weakness. Citi analysts believe that policy tightening in China and discussions of the same within the European Central Bank (ECB) could take the USD lower in the near term.

- Over 6-12 months, Citi analysts expect the USD to gain 3-4%, reflecting a renewed focus on fiscal policy in the US and concerns in Europe when the ECB starts cutting back on its bond purchases.

> "Citi analysts expect the greenback to gain 3-4% over the medium term."

DM & EM – Forecasts Paths



Source: Citi Research as of 17 March 2017.

- With fiscal stimulus in the US delayed and Fed hikes largely priced in, this could result in short term EUR strength with a spike to 1.10-1.12 over 0-3 months. Further out, Citi's 6-12 months forecast of 1.04 for the EUR/USD takes into account some dollar strength.

- The widening gap between US and Japanese yields could see USD/JPY climb to 120+ this year.

- Given expectations that the Fed will only raise rates gradually, Citi analysts expect the commodity currencies (AUD, NZD, CAD) to perform moderately well in the medium term.

- Uncertainty about the implications of a "hard Brexit" remains and as such it is difficult to be fundamentally bullish on the GBP. However, with valuations for the currency extremely cheap, Citi analysts now forecast only modest downside ahead.

- While CNY stability may support EM Asia currencies in the near term, USD strength and the risk of a US border adjustment tax may weigh on EM Asia currencies in the medium term.

World Market at a Glance

	Last price 31-Mar-17	52-Week High	52-Week Low	Historical Returns (%) 1 week	1 month	1 year	Year-to-date
US / Global							
Dow Jones Industrial Average	20663.22	21169.11	17063.08	0.32%	-1.63%	16.84%	4.56%
S&P 500	2362.72	2400.98	1991.68	0.80%	-0.86%	14.71%	5.53%
NASDAQ	5911.74	5928.93	4574.25	1.42%	0.70%	21.39%	9.82%
Europe							
MSCI Europe	426.20	429.01	353.59	0.14%	2.71%	6.55%	6.53%
Stoxx Europe 600	381.14	382.74	307.81	1.23%	1.58%	12.92%	5.46%
FTSE100	7322.92	7447.00	5788.74	-0.19%	-0.70%	18.59%	2.52%
CAC40	5122.51	5132.93	3955.98	2.02%	2.55%	16.82%	5.35%
DAX	12312.87	12375.58	9214.10	2.06%	2.37%	23.55%	7.25%
Japan							
NIKKEI225	18909.26	19668.01	14864.01	-1.83%	-2.88%	12.83%	-1.07%
Topix	1512.60	1578.51	1192.80	-2.03%	-2.92%	12.28%	-0.40%
Emerging Markets							
MSCI Emerging Market	958.37	979.75	780.68	-1.11%	2.93%	14.53%	11.15%
MSCI Latin America	2611.10	2719.09	2010.63	-0.40%	0.16%	20.41%	11.55%
MSCI Emerging Europe	146.84	153.21	116.92	-1.57%	0.22%	15.80%	0.07%
MSCI EM Middle East & Africa	249.85	262.39	214.75	-4.68%	-1.12%	6.03%	2.08%
Brazil Bovespa	64984.07	69487.58	47873.65	1.77%	-2.70%	29.82%	7.90%
Russia RTS	1113.76	1196.99	839.62	-0.97%	0.50%	27.11%	-3.35%
Asia							
MSCI Asia ex-Japan	582.00	589.86	474.10	-0.39%	4.06%	14.66%	13.15%
Australia S&P/ASX 200	5864.91	5901.50	4893.50	1.94%	2.36%	15.39%	3.51%
China HSCEI (H-shares)	10273.67	10698.28	8175.96	-1.95%	1.27%	14.11%	9.35%
China Shanghai Composite	3222.51	3301.21	2780.76	-1.44%	0.13%	7.28%	3.83%
Hong Kong Hang Seng	24111.59	24656.65	19594.61	-1.01%	2.37%	16.05%	9.60%
India Sensex30	29620.50	29926.94	24523.20	0.68%	2.73%	16.88%	11.24%
Indonesia JCI	5568.11	5654.40	4690.56	0.02%	3.28%	14.92%	5.12%
Malaysia KLCI	1740.09	1759.76	1611.88	-0.32%	1.86%	1.31%	5.99%
Korea KOSPI	2160.23	2182.42	1892.75	-0.40%	3.92%	8.24%	6.60%
Philippines PSE	7311.72	8118.44	6499.00	0.58%	0.89%	0.68%	6.89%
Singapore STI	3175.11	3189.81	2703.48	1.02%	1.69%	11.76%	10.22%
Taiwan TAIEX	9811.52	9976.61	7999.98	-0.92%	1.69%	12.20%	6.03%
Thailand SET	1575.11	1600.79	1343.13	0.10%	0.57%	11.89%	2.08%
Commodity							
Oil	50.60	55.24	35.24	5.48%	-5.12%	31.98%	-5.81%
Gold spot	1249.35	1375.45	1121.03	0.47%	1.20%	1.35%	8.43%

Source: Citi Research as of 31 March 2017.

Currency Forecasts

	Currency	Last price 31-Mar-17	Forecasts Mar-17	Jun-17	Sep-17	Dec-17
G10-US Dollar						
Euro	EURUSD	1.07	1.09	1.08	1.06	1.04
Japanese yen	USDJPY	111	113	114	117	120
British Pound	GBPUSD	1.26	1.25	1.24	1.22	1.19
Swiss Franc	USDCHF	1.00	0.99	1.00	1.01	1.03
Australian Dollar	AUDUSD	0.76	0.78	0.79	0.78	0.76
New Zealand	NZDUSD	0.70	0.70	0.69	0.69	0.68
Canadian Dollar	USDCAD	1.33	1.33	1.34	1.34	1.35
EM Asia						
Chinese Renminbi	USDCNY	6.89	6.89	6.94	7.02	7.08
Hong Kong	USDHKD	7.77	7.77	7.77	7.78	7.78
Indonesian Rupiah	USDIDR	13,326	13,325	13,421	13,572	13,694
Indian Rupee	USDINR	64.9	65.3	65.6	66.4	67.1
Korean Won	USDKRW	1,118	1,138	1,156	1,169	1,179
Malaysian Ringgit	USDMYR	4.43	4.42	4.46	4.53	4.57
Philippine Peso	USDPHP	50.2	50.3	50.6	50.7	50.7
Singapore Dollar	USDSGD	1.40	1.40	1.41	1.43	1.44
Thai Baht	USDTHB	34.4	35.0	35.4	35.6	35.8
Taiwan Dollar	USDTWD	30.3	30.7	31.0	31.3	31.5
EM Europe						
Czech Koruna	USDCZK	25.38	24.46	23.95	24.35	24.69
Hungarian Forint	USDHUF	290	286	290	297	304
Polish Zloty	USDPLN	3.97	3.96	3.95	4.00	4.04
Israeli Shekel	USDILS	3.62	3.64	3.67	3.70	3.73
Russian Ruble	USDRUB	56.3	57.8	58.6	59.5	60.4
Turkish Lira	USDTRY	3.64	3.66	3.75	3.80	3.86
South African Rand	USDZAR	13.41	12.83	13.31	13.82	14.27
EM Latam						
Brazilian Real	USDBRL	3.12	3.11	3.13	3.17	3.20
Chilean Peso	USDCLP	660	661	669	679	688
Mexican Peso	USDMXN	18.7	19.2	19.7	20.2	20.6
Colombian Peso	USDCOP	2874	2944	3009	3058	3091

Source: Citi Research as of 31 March 2017.

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