Standard Chartered

Fed supports equity and income themes

The US Fed pushed back its rate hike expectations. This should give equities and income-generating assets another boost. Volatility may fall short-term, before rising later in the year.

Global and European equities are approaching key resistance levels, but we are becoming increasingly confident that these levels will be breached given supportive fundamentals. This would lead to significant upside risks.

- **Fed more 'patient'.** The Fed softened its outlook for rates. This fits in with the recent tightening in monetary conditions due to USD strength, the recent softening of economic data and the continued weakness in inflation and inflation expectations.
- **Volatility may be subdued in the near term.** Given we have pushed out our expectation for the first US rate hike from June to September, with a risk that it could be delayed further, volatility may remain benign for longer than previously expected.

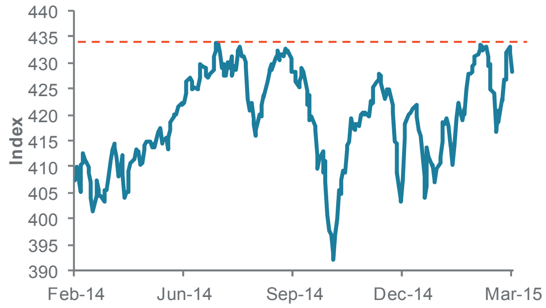
Implications for investors:

- **Equities likely to reach new highs.** Concerns over the '7-year itch' ('normal' equity bull market cycles are around 7-8 years in duration) are likely misplaced. It usually requires US monetary policy to become restrictive before the market peaks. With the market predicting sub-2% interest rates into 2017, we believe equity markets have scope to rally for some time to come.
- **Europe and Japan (on a currency-hedged basis) our preferred regions.** There are clear signs of an improvement in Europe's credit conditions, which is normally a good sign for both the economy and the stock market. In Japan, higher real wages may help its equity market to wean itself off the need for an ever-weakening JPY. We would be selective in Asia for now.
- **Income theme remains supported.** Lower US interest rates for longer should support the performance of most income assets. INR and CNY bonds look attractive, as do high-dividend-yielding equities.
- **USD takes a breather.** A consolidation of USD strength was long overdue and the Fed's reduced rate forecasts provided the catalyst. We remain bullish longer term, but believe the USD may trade within a range for some weeks, possibly months.

Contents

Global equities testing recent highs once again

MSCI AC World equity index (USD)

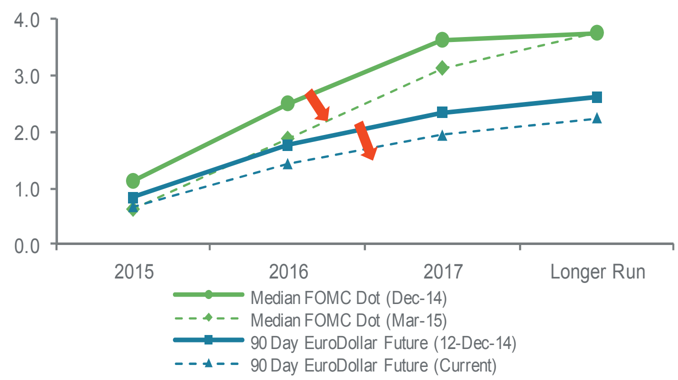


Source: BCA Research, Standard Chartered

Steve Brice	*Chief Investment Strategist*
Clive McDonnell	*Head, Equity Investment Strategy*
Manpreet Gill	*Head, FICC Investment Strategy*
Adi Monappa, CFA	*Head, Asset Allocation & Portfolio Solutions*
Audrey Goh, CFA	*Investment Strategist*
Victor Teo, CFA	*Investment Strategist*
Tariq Ali, CFA	*Investment Strategist*
Abhilash Narayan	*Investment Strategist*

The Fed and investors have both lowered US rate expectations

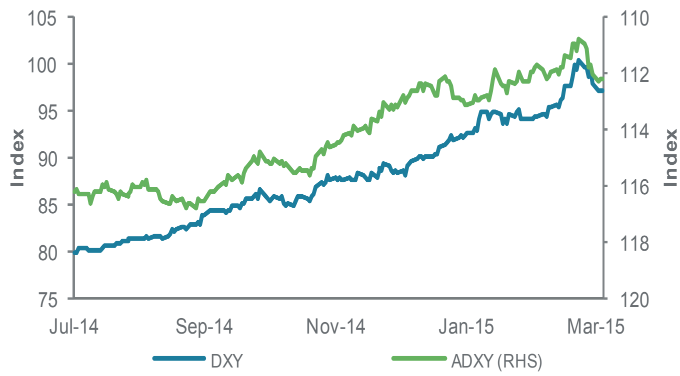
US rate forecasts by the Fed and investors (EuroDollar market) (%)



Source: Bloomberg, Standard Chartered

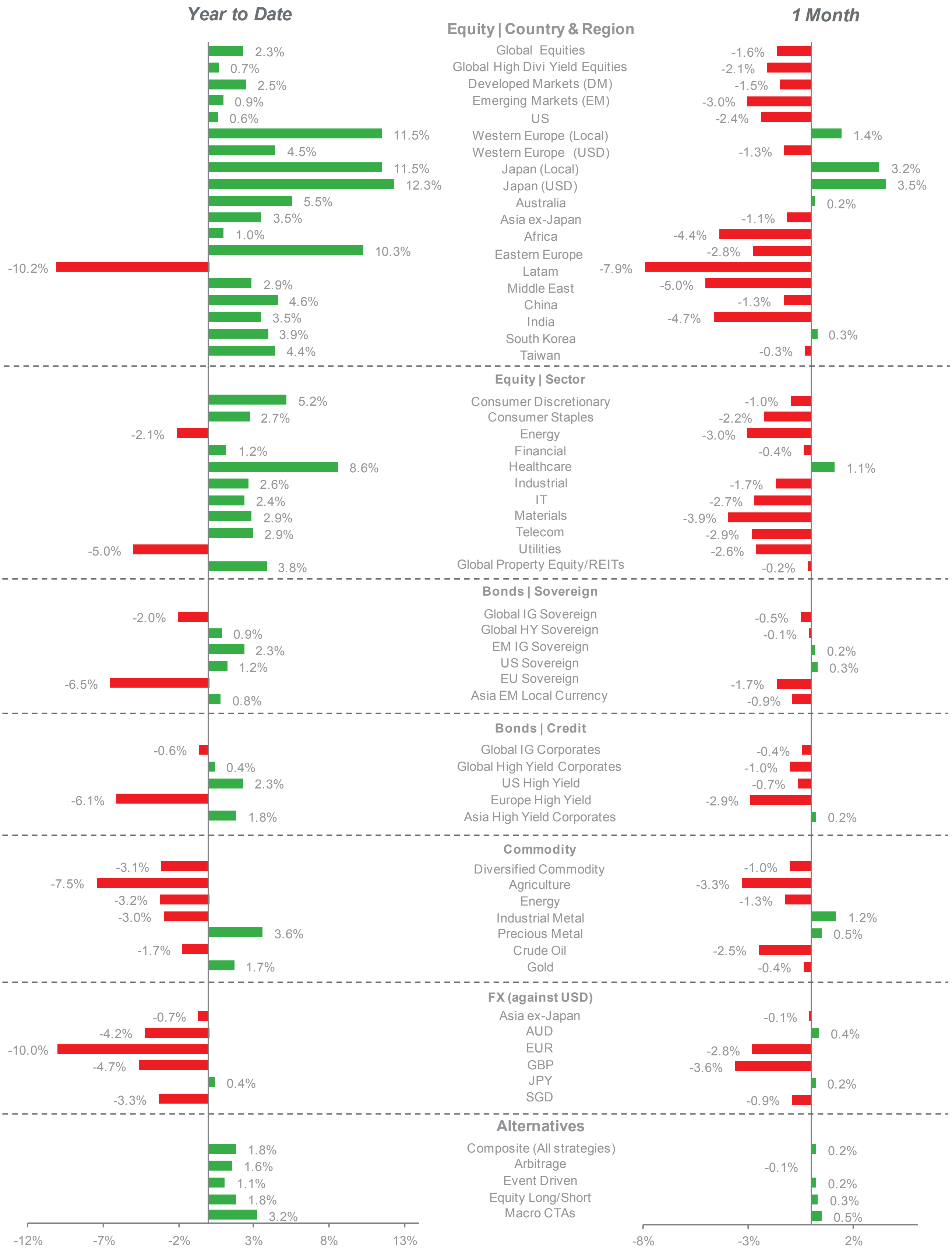
USD takes a pause in its appreciating trend

USD indices – DXY and Asia DXY (Inverted)



Source: Bloomberg, Standard Chartered

Market Performance Summary (Year to Date & 1 Month)*



** All performance shown in USD terms, unless otherwise stated.*

**YTD performance data from 31 December 2014 to 12 February 2015 and 1-month performance from 26 February to 26 March 2015*

Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

Investment Strategy

- **The Fed signalled that it is likely to be increasingly patient in terms of initiating a rate hike cycle. Risks are clearly skewed towards a delay in the first Fed rate hike.**
- **This outcome is positive for equities and income assets. Europe and Japan (FX-hedged) remain our preferred equity markets, though the US should do well too. Volatility may temporarily ease before resuming its upward trend.**
- **US Treasury yields may remain lower for longer. The reversal in two-year yields may cause the USD rally to pause, in turn reducing one source of risk on CNY, CNH and INR bonds.**

The Fed removes 'patient' from its statement, but all other signals point to continued, if not greater, patience. The Fed's lower projections of policy rates over the next few years fit in with the recent softening of economic data and the lack of wage inflation. An initial rate hike now appears more likely in September, though risks are skewed towards a further delay unless US wage growth accelerates soon.

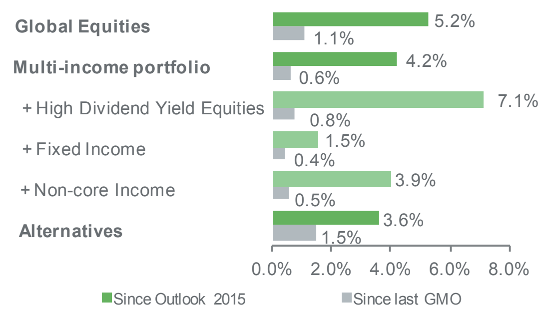
Subdued US yields may lead to USD consolidation. European and Japanese yields have already fallen to extremely low levels, suppressing (two-year) US yields. This means the USD may lack a near-term trigger to extend its rally. However, we would differentiate this short-term consolidation view from our long-term view, which remains constructive.

Implications for investors:

- **Stay Overweight equities.** Any extension of zero US rates is supportive for equities. We continue to favour European and Japanese equities on an FX-hedged basis, but US markets should also benefit directly from any delay in a Fed rate hike.
- **Income assets to benefit from any delay in Fed rate hikes.** High-dividend-yielding equities should benefit, especially if equities remain well-supported. In addition, CNY, CNH and INR bonds are likely to gain from relatively less pressure from USD strength and what appears to be Chinese policymaker effort to keep the currency within a relatively stable, sideways range.
- **Seasonality and technicals are risks.** Seasonality could be a drag on returns, given equity markets' record of lower average returns over the May-September period. European and global equities are also approaching key resistance levels, though here we are increasingly confident that markets will break above these levels, especially if a Fed rate hike is delayed.
- **Act quickly to take advantage of volatility.** Equity, bond and FX volatility may face temporary weakness before resuming their uptrend. This suggests that investors should be quick in taking advantage of current levels to generate yield. In the G10 FX universe, for example, the GBP is a great example of an opportunity on offer from elevated volatility levels.

Bullish W.I.D.E.N. themes have had a decent start to 2015

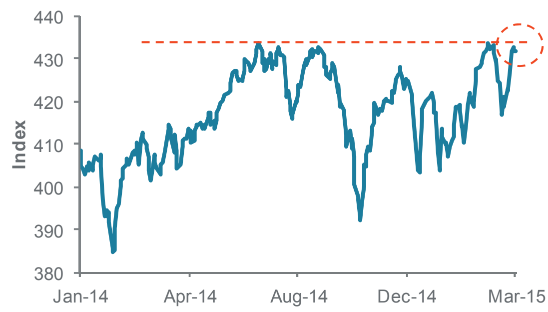
W.I.D.E.N. performance since Outlook 2015 was published and since last Global Market Outlook***



** For the period 12 December 2014 to 25 March 2015*
Source: Bloomberg, Standard Chartered
*** For the period 13 February 2015 to 25 March 2015*
** Income basket is as described in the Outlook 2015: A Year to W.I.D.E.N. Investment Horizons, Figure 60)*

A break above key resistance would be short-term bullish for global equities

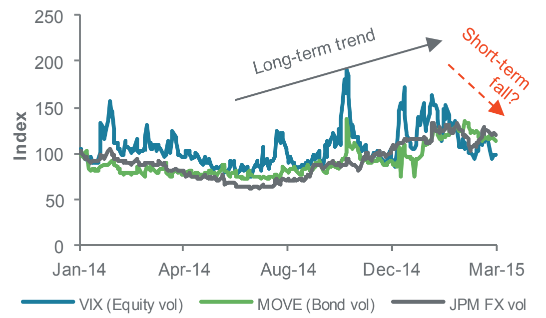
MSCI World Index



Source: DataStream, Standard Chartered

Volatility has already begun to soften near-term

Equity, bond and FX volatility indices



Source: Bloomberg, Standard Chartered

Asset Class	Relative Outlook	Start Date
Cash	UW	Feb-12
Fixed Income	UW	Jan-11
Equity	OW	Aug-12
Commodities	UW	Dec-14
Alternatives	OW	Jun-13

Legend
Start Date - Date at which this tactical stance was initiated
OW - Overweight N - Neutral UW - Underweight
DM - Developed Markets
EM - Emerging Markets

Source: Standard Chartered

	Sub-asset Class	Relative Outlook	Start Date
Cash		UW	Feb-12
Fixed Income	DM IG	UW	Jan-11
	EM IG	OW	Dec-14
	DM HY	N	Jul-14
	EM HY	N	Dec-14
Equity	US	N	Feb-15
	Europe	OW*	Jul-13
	Japan	OW*	Nov-14
	Asia ex-Japan	UW	Dec-14
	Other EM	UW	Aug-12
Commodities		UW	Dec-14
Alternatives		OW	Jun-13

**Currency-hedged*

Economic and policy outlook

US rate hike expectations have been pushed back after the Fed softened its outlook for inflation and interest rates. Growth estimates for Europe have improved. In Japan, wage increases are key to a revival in growth and inflation. A continued decline in inflation worldwide implies easy money policies are here to stay.

- **Fed rate hike expectations pushed back to September.** The US central bank softened its outlook for inflation, target unemployment and interest rates. We now believe a rate hike is more likely in September as inflation remains subdued. A pickup in wages would be key to the timing of a hike.
- **Euro area growth and confidence pick up despite deflation.** Business and investor confidence accelerated on the ECB's quantitative easing (QE) programme. ECB bond-buying started this month, boosting liquidity conditions. This, combined with a weaker EUR and record-low borrowing costs, is stimulating credit growth. However, prices continued to fall, reflecting substantial spare capacity across the region.
- **Japanese wage hike likely to boost confidence.** Early indications suggest that workers are likely to get an average 1-2% pay rise, the biggest in many years. A wage increase of this order is likely to boost domestic consumption, revive growth and inflation and delay further easing by the Bank of Japan (BoJ).
- **China, India and other EMs cut rates; Brazil hikes as currency weakens.** China's continued slowdown and the drop in commodity prices are weighing on growth across EMs. However, lower inflation is providing room for many central banks to ease policy. We expect China and India to ease policy further.

US: Fed softens rate outlook as wage pressures remain subdued

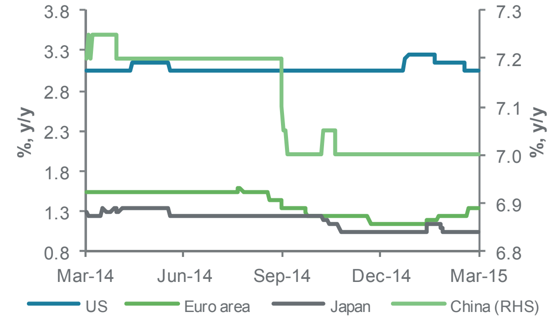
- **Robust job market fails to lift wages.** US employers added more than 200,000 jobs for the 12th month in February, reducing the jobless rate to 5.5%, the lowest since 2008. However, wage growth has yet to pick up, averaging only 2% since 2010.
- **Q1 growth downgraded due to bad weather, strong USD.** GDP growth forecasts for Q1 have been cut to 2.2%, from 3% only four months ago, as another harsh winter hurt retail sales, while a strong USD hurt manufacturing and exports. Meanwhile, energy sector investments have slowed.
- **Inflation expectations decline with oil prices.** Consensus inflation estimates for 2015 have been cut to 0.3%, from 2.0% in November. Longer-term inflation expectations have also fallen after a brief rebound in February.
- **Fed cites subdued wages and inflation for lower rate outlook.** Fed Chair Janet Yellen said sluggish wage growth and a weaker inflation outlook were among the reasons the central bank cut its interest rate projections for end-2015 by half and for end-2016 and end-2017 by 50bps. It also cut its optimal unemployment rate target to 5.0-5.2% from 5.2-5.5%.
- **Fed expected to lift rates in September or later.** We believe the robust job market will eventually put upward pressure on wages, setting the stage for a rate hike in September. However, there is a risk that the rate hike could be delayed further.

Europe: ECB's QE helping revive growth, while deflation persists

- **Euro area business and investor sentiment, loan demand improves.** The pickup in investor and business confidence and credit demand is helping revive growth across the region. The ECB upgraded its Euro area GDP forecast for 2015 to 1.5% from 1.0% and for 2016 to 1.9% from 1.5%.

Euro area growth expectations have been upgraded, while US growth forecasts have been downgraded

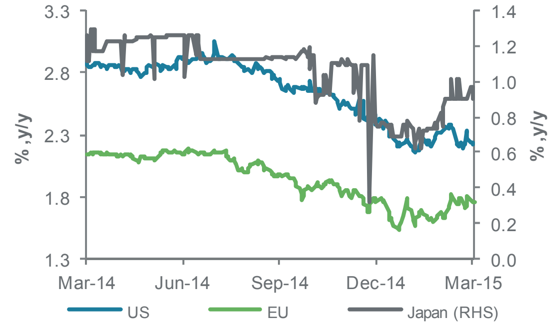
Consensus GDP growth forecasts for 2015 (%, y/y)



Source: Citigroup, Bloomberg, Standard Chartered

Long-term inflation expectations have bottomed in the Euro area and US and are recovering in Japan

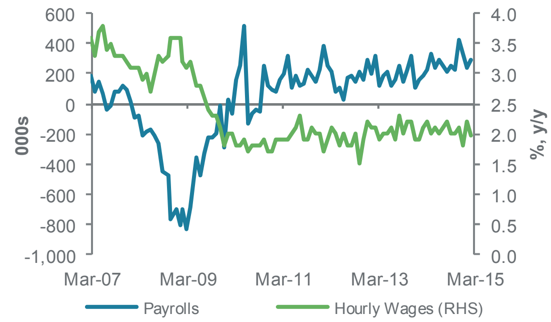
5-year inflation expectations in 5 years' time (%, y/y)



Source: Bloomberg, Standard Chartered

US job creation continues to be robust, but wage growth has averaged around 2% since 2010

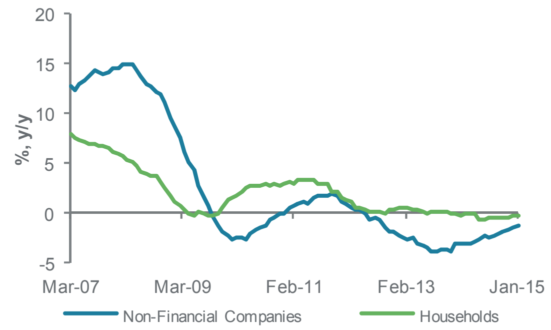
Non-farm payrolls ('000s); Avg. hourly earnings (%, y/y)



Source: Bloomberg, Standard Chartered

Euro area lending is recovering gradually

Growth in loans to non-financial cos. and households (%)



Source: Bloomberg, Standard Chartered

- **ECB QE drives turnaround.** The turnaround in sentiment since the start of the year coincides with the ECB's unprecedented government bond-buying programme, which was announced in January and started this month. The pickup in Euro area credit demand is key as it historically correlates with acceleration in economic growth as well as a revival in risk asset prices.
- **Germany leads revival, but others joining in.** Germany, the region's largest economy, is benefitting the most from the sharp decline in the EUR. However, business confidence in other major Euro area economies, such as France, Italy and Spain, has also started improving mainly driven by the services sector.
- **Consumer and producer prices continue to fall.** Euro area consumer prices contracted for the third straight month in February, while producer prices (which have been contracting since 2013) decelerated. Falling inflation highlights substantial slack in the labour market and productive capacity.
- **ECB's inflation forecasts suggest QE to continue into 2016.** The ECB raised its forecast for consumer inflation to 1.5% for 2015 and to 1.8% for 2016. The upgraded forecasts still fall short of the ECB's 2% inflation target, suggesting that it may need to continue with its QE programme well into 2016, if not longer.
- **Greek uncertainty unlikely to stall Euro area recovery.** Although the Greek bailout negotiations may be protracted, causing short-term uncertainty, we do not expect it to unravel the region's nascent recovery.

Japan: Strong wage gains may boost consumer confidence

- **Employers offer biggest pay rise in years.** Japanese workers are likely to get an average 1-2% pay increase this year. This would be the biggest jump in years, helping revive consumption and inflation expectations hit by last year's sales tax rise.
- **BoJ likely to hold off from further easing for now.** Japan's authorities have pushed for at least a 1% wage hike. A bigger-than-expected rise is likely to help revive inflation towards its 2% target by 2016. Hence, the BoJ is likely to hold its fire for now.

China: Premier Li promises support if slowdown hurts jobs

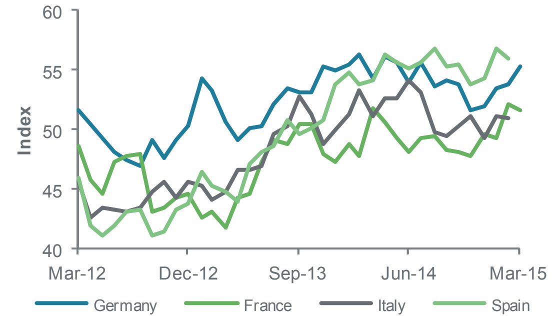
- **Slowing growth and inflation point to further stimulus.** Surveys showed that China's manufacturing sector contracted in March, while lending, retail sales and investments slowed in February. Consumer inflation is close to five-year lows while producer prices have been falling since 2012.
- **Expect further easing as slowdown persists.** With growth slowing and inflation remaining below the government's 3% target, the authorities are likely to cut rates and lower bank reserve requirements further to meet the 7% GDP growth target.

Other EMs: India passes key reforms, but land bill stalled

- **India approves insurance, mining and coal sector liberalisation bills.** The passage of reform bills is a major win for the Modi government. However, the land acquisition bill, critical to jumpstarting infrastructure projects, faces opposition.
- **Low inflation allows Asian central banks to ease policy.** China, India, South Korea, Thailand and Indonesia have cut rates over the past month. We expect further easing by India and Singapore as disinflation creates space to tackle slowing growth.
- **Brazil's fourth rate hike in six months as the BRL slumps.** Brazil raised its key rate for the fourth time since October to counter rising inflation and defend its currency, which has lost 26% over the past year. The likelihood of a downgrade in credit rating has increased as commodity prices continue to slide.

Euro area PMIs are on an uptrend in major economies

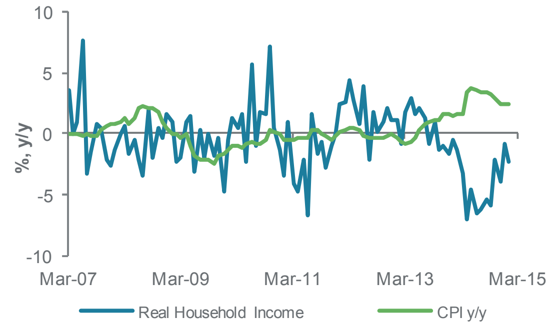
Purchasing Managers indices for key Euro area members



Source: Bloomberg, Standard Chartered

Japan's wage deals and weaker inflation are likely to boost real wage growth in 2015

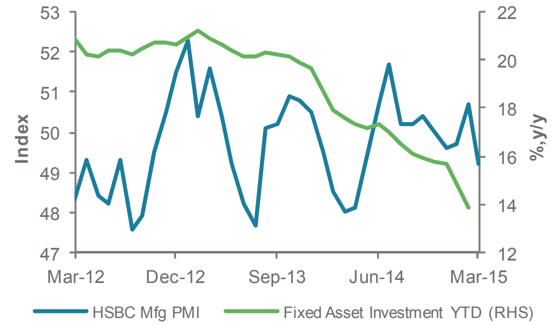
Household real wages (%, y/y); CPI (%, y/y)



Source: Bloomberg, Standard Chartered

China's manufacturing sector contracted in March while fixed asset investments continue to slow

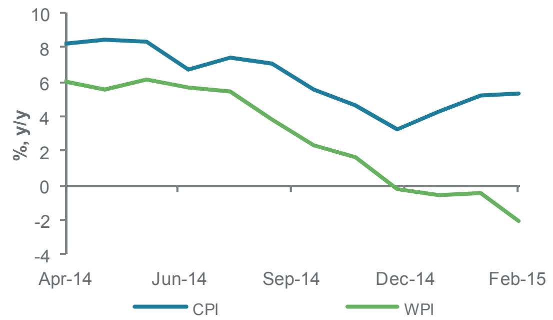
Flash manufacturing PMI and fixed asset investments (YTD, %, y/y)



Source: Bloomberg, Standard Chartered

Weaker Indian inflation supports RBI's easing bias

India's consumer and wholesale price indices (%, y/y)



Source: Bloomberg, Standard Chartered

Fixed Income – Underweight

- We expect yields to remain lower for longer, given our outlook for a delayed Fed rate hike. We also continue to favour corporate credit over sovereign debt.
- CNY, CNH and INR local currency and Emerging Market (EM) Investment Grade (IG) sovereign bonds remain our preferred bond asset classes.

G3 and EM (USD) sovereign bonds

- **US Treasury yields likely to remain low for longer.** We attribute this to two factors. First, the Fed's recent comments lead us to believe that its first rate hike is likely to be delayed. This reduces the upward pressure on US Treasury yields. Second, the ECB's bond-buying programme has pushed European sovereign bond yields lower, with a large amount of debt offering negative or close to zero yields. The relative attractiveness of US Treasuries creates an incentive for investors to favour US over European government bonds, which is likely to cap US yields, despite the likelihood of a rate hike later this year.
- **In the USD sovereign bond space, we prefer EM IG bonds.** EM IG bonds have been among the best performing bond asset classes in 2015 YTD, despite concerns around Brazil and Turkey. We believe this is because many concerns are now well-known and likely priced in by the market.
- **We favour selective exposure to EM High Yield (HY) government bonds.** While they are inexpensive, we believe this is justified due to risks in Russia, Venezuela and Ukraine. We maintain our Neutral view and would, instead, prefer selective exposure within a broader allocation towards EM bonds.

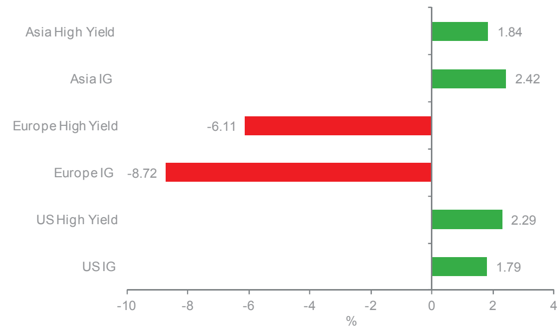
Asian local currency bonds

- **We continue to like CNY and CNH bonds.** They continue to offer attractive yields along with the potential for capital gains. The currency is now the key factor to total returns. Bringing these three drivers of returns together suggests that absolute returns are likely to be positive under most scenarios. It would likely take policy-led currency weakness to tip total returns into negative territory, something we believe is unlikely for now (please see page 10-11 for currency views).

Corporate credit (USD)

- **We continue to favour corporate credit over sovereign bonds**. Although lower rates for longer is positive for sovereign bonds, it is also supportive for corporate credit. We prefer the latter for the yield premium on offer.
- **We remain comfortable with Asian Corporate Credit.** We remain cognizant of the increasing credit risks in China, which form a large component of the universe. That said, Asian corporate spreads have been less volatile over recent years relative to other major regions. We continue to favour neutral exposure within a well-diversified portfolio.
- **Maintain benchmark exposure to Developed Market (DM) HY corporate bonds.** While spreads may be wider, we believe this is justified given deterioration in credit quality. Although European HY faces a more supportive macro environment, thanks to the ECB's bond-buying plan, they are also expensive relative to the US; credit spreads are lower than their long-term average. We continue to believe maintaining benchmark exposure to HY bonds balances these risks with the yield on offer.

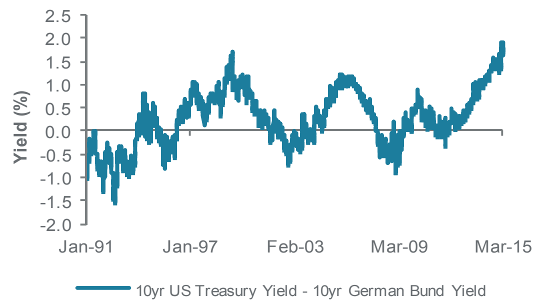
Performance of fixed income YTD* (USD)



** For the period 31 December 2014 to 26 March 2015*
Source: Barclays Capital, JPMorgan, Bloomberg, Standard Chartered. Indices are Barclays Capital US Agg, US High Yield, Euro Agg, Pan-Euro High Yield, JPMorgan Asia Credit Index

The yield differential between the 10-year US Treasury and 10-year German Bund is close to historical highs

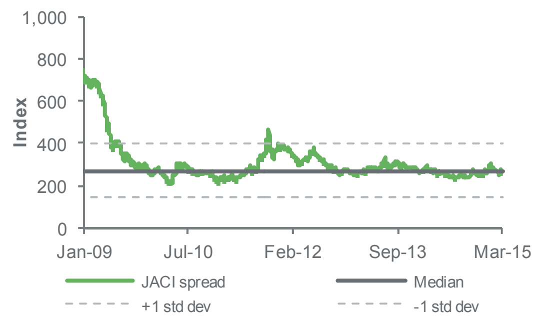
US Treasury yields vs. German Bunds 10yr



Source: Bloomberg, Standard Chartered

Asian corporate credit spreads have been fairly stable over the recent years

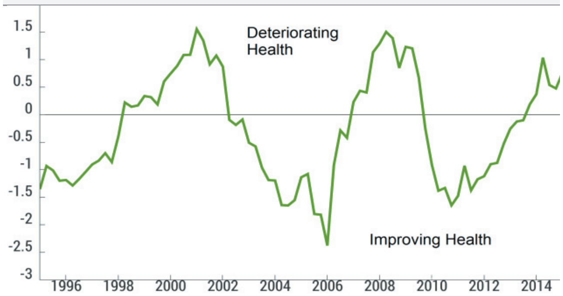
JACI credit spreads



Source: Bloomberg, Standard Chartered

Aggregate corporate credit quality is deteriorating in the US

BCA US corporate health indicator



Source: BCA, Standard Chartered

Equity – Overweight

- **Remain bullish global equities.** Concerns over the 7-year cycle in equities are likely misplaced. We expect equity prices to break higher, with any pullbacks likely to be temporary. Our preferred markets, in order of preference, are Europe and Japan, both on a currency-hedged basis, followed by the US and Asia ex-Japan.
- **We expect further upside to Europe and Japan equities on a currency-hedged basis.** Economic data is improving relative to the US, driving strong outperformance YTD. With both markets nearing potential technical resistance, we expect any short-term pullbacks to offer good buying opportunities for investors.
- **Be selective within Asia ex-Japan.** The delay to Fed's first rate hike could well support sentiment in the region. We are bullish on four markets: China, India, Taiwan and Thailand.

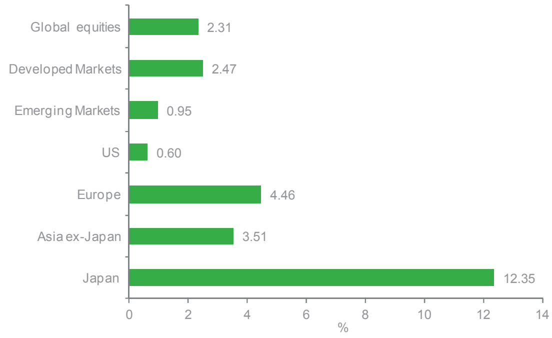
Still room for global equities to rally

- **We believe concerns over the 7-year equity cycle are likely misplaced.** It normally requires a much more restrictive monetary environment or a business recession before equity markets peak. We highlight three indicators that continue to underpin our constructive view on equities:
  1) **Growth:** Historically since 1960, every economic recession has been associated with significant stock market declines. Risk of a global business recession seems unlikely in the next two years, outside selected pockets of countries within Emerging Markets (EM). Global GDP growth is expected to pick up and forecasts have been revised up recently. We expect room for upside surprise, led by growth in Europe and Japan, while US still remains on a firm footing. This should continue to support risky asset classes such as equities.
  2) **Interest rates:** Markets tend to struggle when interest rates are restrictive and above their neutral rate. While level of the neutral rate is debatable, the first few rate hikes generally do not derail equity performance, notwithstanding potential short-term market volatility. We view any pullback as good opportunities for investors to build exposure to equities.
  3) **Valuations:** While the absolute price-to-earnings ratio is elevated at 16x 12-month forward P/E, global equities still offer value relative to bond yields. The current P/E is also below levels observed when inflation was at similar levels historically.

Divergent earnings trend drives EU and Japan outperformance

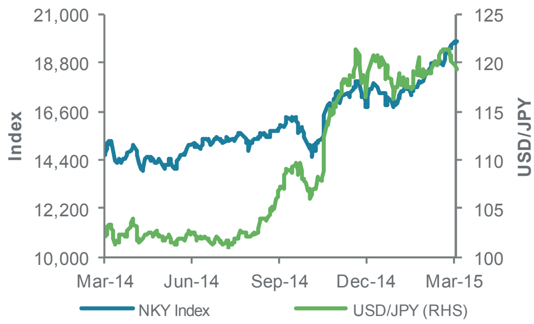
- **Europe earnings revision the highest since 2012.** This has largely been driven by the sharp decline in the EUR, which boosted earnings for export-oriented companies. With most credit and growth indicators improving, we expect the positive earnings revisions to persist, supporting European equities.
- **Japan equities outperformed without further JPY depreciation.** This is a positive sign on the sustainability of the uptrend and has been driven by domestic buying (GPIF and BoJ). Real wages are expected to increase in the upcoming annual wage negotiations between major manufacturers and unions, against the backdrop of falling inflation.
- **Consensus continued to revise up earnings in Japan** on the back of stronger margins and increased buybacks and dividends. Several companies have announced hikes to dividend payouts and accelerated share buybacks, which should continue to support market sentiment.

Performance of equity markets YTD* (USD) update



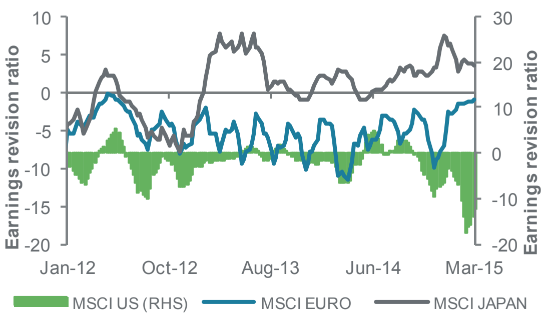
** For the period 31 December 2014 to 26 March 2015*
Source: Bloomberg, Standard Chartered. MSCI Indices are USD total return

Japanese stock market outperformed in spite of limited JPY weakness
Nikkei index versus USD/JPY



Source: Standard Chartered

Europe and Japan earnings upgrades are driving outperformance against US equities
Earnings revision ratio in US, Europe and Japan



Source: Datastream, Standard Chartered

- **We remain bullish on US equities, expecting them to deliver positive returns in the next 12 months.** While USD strength has weighed on earnings, dovish comments from the Fed last week will likely support sentiment in the near term. We prefer domestically focused companies.

Be selective in Asia

- **Hopes of more easing expected to support China equities.** We expect policy makers to ease the reserve requirement ratio and interest rates, given the renewed slowdown. Recent news to allow local governments to swap their high interest debt for lower-cost bonds should reduce concerns over credit risks for the banking sector near-term.
- **Shenzhen-Shanghai Stock Connect expected to be launched in the second half.** The Shenzhen Stock Exchange is a more liquid market and has more listed companies than the Shanghai Stock Exchange. Unlike Shanghai, the Shenzhen exchange has significant weighting towards technology, consumer and healthcare sectors which can benefit as China rebalances to a more consumer-focused economy. We are monitoring this development.
- **Recent pullback in Indian equities presents an opportunity.** The RBI second surprise rate cut this year should continue to support growth momentum, particularly in the infrastructure and banking sectors. We note that valuations have pulled back with the Sensex now trading close to its historical mean at c.15.7x 12-month forward P/E.
- **Sentiment in Singapore and Hong Kong may be supported short-term.** Both markets have sizeable weighting to real estate sectors, which tend to underperform when interest rates are rising. Their rate cycles tend to follow the US. A delay in a Fed rate hike may well provide a short-term boost. However, we Underweight them on a 12-month view, expecting interest rates to ultimately move higher. MAS may loosen monetary policy, pushing up domestic rates. (Please refer to page 11 for details)

Some bottom-fishing seen in energy equities

- **The global energy sector declined c.30% since oil prices declined from mid-2014.** Consensus earnings have been cut sharply, with analysts now expecting -31% y/y EPS growth in the next 12 months, lower than 30% y/y in March 2009. We remain Overweight energy on a 12-month basis. We believe oil prices will eventually be higher than they are today, but the timing of such a sustained rebound remains unclear and is likely only after inventories start falling. We are encouraged by the following, which should support energy equities:
  - **Oil majors are starting to cut capex plans, focusing on capital discipline and shareholder value.** This should help manage leverage, support free cash flow generation and reduce the risks of dividend cuts.
  - **The sector looks increasingly attractive to income and value investors.** It offers a dividend yield of 3.6% at the low end of its valuation range. We remain focused on integrated oil majors where earnings tend to be more resilient during downturns in oil prices, but acknowledge that there are values among some selective upstream names.

Conclusion:

While major indices are approaching key resistance levels, we expect any pullback to be temporary. Markets rarely peak going into the first few rate hikes. We advocate investors using any pullback to position in equities, epsecially Europe and Japan on a currency-hedged basis.

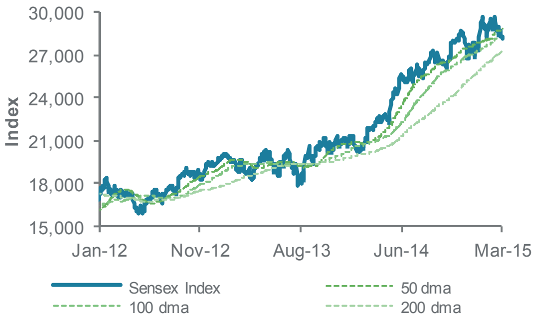
Markets are anticipating further easing measures

China monetary conditions vs. MSCI China Index

Source: Bloomberg, Standard Chartered

Sensex is now trading at a short-term support

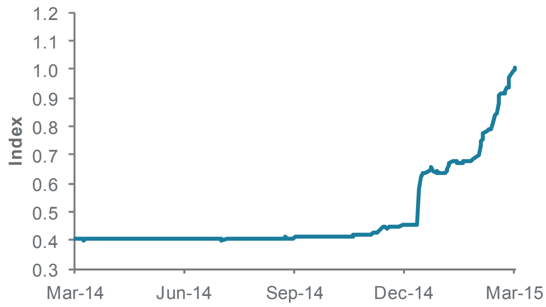
Sensex Index



Source: Bloomberg, Standard Chartered

Spike in interest rates expected to negatively impact real estate-related companies

Singapore 3 month interbank rate



Source: Reuters, Standard Chartered

The energy sector appears attractive to income and value investors

MSCI AC World Energy Index

Source: Bloomberg, Standard Chartered

Commodities – Underweight

- Oil prices likely to rebound, but it is unclear whether this is likely in a matter of months or years. In the near term, prices may weaken further once geopolitical risks ease.
- We expect gold to remain range-bound in the short term, but gradually head lower over a 12-month period.

We remain Neutral on energy within commodities and expect near-term downside in prices. With oil trading at the lowest level since 2009, we believe there may be some, albeit limited, downside from current levels. However, we also highlight that the timeline for a substantial pickup in oil prices remains uncertain.

We believe the current situation in oil markets is largely a supply-side issue as opposed to demand. Hence, the time taken by suppliers to adjust in response to current prices remains uncertain. So far, we do not see any evidence of suppliers cutting back production substantially. Reports of rising geopolitical risks (most recently in Yemen and Nigeria) could cause short-lived price gains. However, short of any event that causes a major disruption in supply, we believe any such rebounds are likely to be short-lived.

An indicator to watch for changes in supply would be US oil inventories. In volume terms, oil inventories are near the highest levels since availability of data. Since this is still somewhat below maximum storage capacity, we do not rule out further worsening of the supply glut in the short term. Overall, despite considerable price weakness, we do not favour positioning for an imminent rebound amid what is still an unfavourable risk-reward situation.

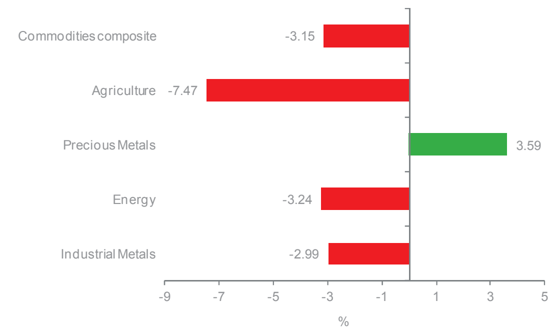
We remain Neutral on gold within commodities and expect modest downside in prices. We expect modest downside in gold prices from current levels. From a demand-supply perspective, we do not see major changes on either side. On demand, investor interest in gold continues to be low. Gold ETF holdings showed a reduction in March following an uptick in the previous month. On the supply side, gold inventory levels are lower than 2014 levels, but are higher than 2013, when gold rallied to 1,400 per ounce.

From a macroeconomic perspective, the overall environment does not suggest a strong rally in gold over the next 12 months. Potential interest rate hikes by the Fed and an eventually stronger USD remain major headwinds. In the short term, however, a potential delay in a Fed rate hike and near-term USD consolidation may limit downside. Hence, we expect gold to trade in the 1,100-1,300 range in the short term.

We remain Neutral on industrial metals within commodities and expect modest downside to prices. We expect base metal prices to remain weak without a substantial change in demand or supply. On the demand side, demand for base metals from China has been weak amid lower residential and business investment. On the supply side, inventories in both iron ore and aluminium, although below peak levels, remain substantially elevated relative to history. In copper, there has been a considerable build-up in inventories in 2015, suggesting further decline in demand. In aggregate, although the demand-supply situation remains bleak, the majority of this may have been incorporated in the substantial fall in base metal prices already seen.

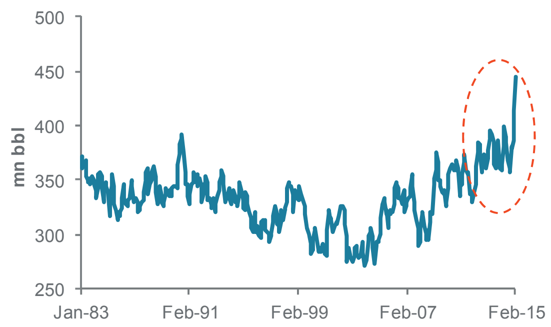
We remain Neutral on agriculture. Overall, elevated stock levels from 2014 continue to exert downward pressure on prices. Corn prices have begun to pick up, with prices near the highest levels in 2015. Wheat and cotton have remained range-bound while sugar continues to trend lower. Overall, we expect agriculture commodity prices to pick up marginally from last year, amid a slight improvement in demand.

Performance of commodities YTD* (USD)



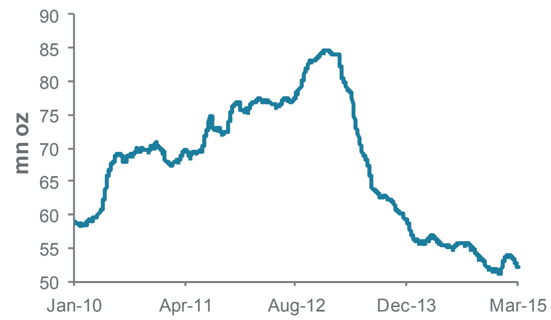
** For the period 31 December 2014 to 26 March 2015*
Source: DJUBS, Bloomberg, Standard Chartered
DJUBS, DJUBS Agri, DJUBS Precious metals, DJUBS Energy, DJUBS Industrial metals

US crude oil inventories at record levels reflect the large supply glut
US total crude oil inventories



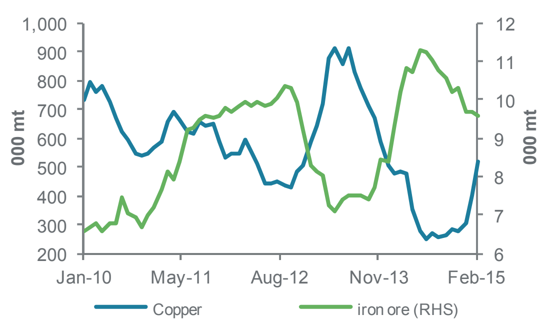
Source: Bloomberg, Standard Chartered

Investor interest in gold continues to remain low; no significant inflows seen in gold ETFs
Total known holdings in gold ETFs



Source: Bloomberg, Standard Chartered

Copper inventories are building up, while those of iron ore remain elevated
Iron ore and copper inventories



Source: Bloomberg, Standard Chartered

Alternative Strategies – Overweight

- We remain Overweight alternative strategies as divergence in central bank policy, clearer macro and market trends and rising demand for protection against volatility offer support.
- Our favoured strategies remain equity long/short, macro/CTA and event-driven strategies.
- Equity long/short and macro strategies outperformed, though any pause in the USD rally poses a short-term risk to the latter. Event-driven strategies underperformed slightly, but long-term trends remain encouraging.

Equity long/short plays catch-up as we approach a seasonally lower-return period for equities. Long/short strategies outperformed over the past month, recovering from earlier underperformance. We remain focused on sector performance dispersion, which in our view remains a key potential source of outperformance of this sub-strategy. We believe this will be particularly valuable as we approach May-September when equity markets generally post lower average returns.

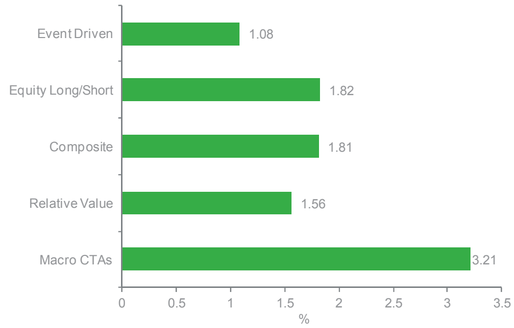
Macro strategies may face near-term risk from USD consolidation. The strategy's high correlation with the USD rally suggests that its near-term outperformance may be at risk if the USD faces a period of consolidation. However, the strategy is ultimately dependent on clear-cut trends in financial markets, which we believe should be forthcoming in an ultimately normalising policy environment.

Event-driven strategies underperformed slightly, but global M&A volume trends remain encouraging. We maintain our preference for the sub-strategy as total M&A deal volume, a key long-term driver of returns, remains on an encouraging trend.

Conclusion:

Remain Overweight on alternative strategies, favouring diversified exposure. Within the asset class, we favour equity long/short, event-driven and macro/CTA strategies.

Performance of alternative strategies YTD* (USD)



** For the period 31 December 2014 to 26 March 2015*
Source: HFRX, Bloomberg, Standard Chartered
HFRX global hedge, HFRX equity hedge, HFRX event driven, HFRX relative value, HFRX macro/CTA

Foreign Exchange

- We continue to expect modest USD strength over a 12-month horizon, but expect a period of sideways consolidation in the interim.
- Investors could use current levels of volatility to generate yield. The GBP is one opportunity given elevated volatility levels.

USD: We expect modest medium-term appreciation

We expect moderate USD strength over a 12-month horizon. We believe the majority of USD strength has occurred with an approximately 22% gain in the US dollar index since July 2014. Nonetheless, we believe there remains scope for modest gains with further expected improvement in US interest rate differentials with major peers. As indicated in our 2015 Outlook, we believe the current USD rally is likely to be a structural, multi-year rally. It has exceeded all previous USD rallies, except those in the early 80s and late 90s (see adjacent chart). In our opinion, the level of economic and monetary policy divergence with major DMs and EMs is unprecedented. In this regard, we believe the very strong recent gains in the USD are not unusual. However, we recognise that the magnitude of gains in structural USD rallies is not always similar.

As we indicated last month, **the recent pullback was expected amid extreme USD speculator positioning.** Hence, it would also not be unusual to see a sideways consolidation in the short term. In our opinion, the Fed moving towards hiking rates would be the main catalyst for additional USD strength.

Short term

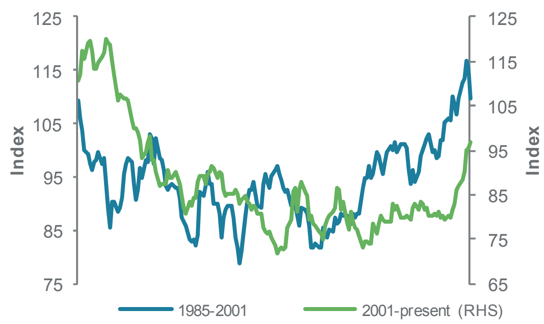
Refers to a horizon of less than 3 months

Medium term

Refers to a time horizon of 6 to12 months

Current USD rally broadly following the previous structural rally

US dollar index (1985-2001, 2001-present)



Source: Bloomberg, Standard Chartered

EUR and JPY: We expect medium-term depreciation. We expect both EUR and JPY depreciation to extend modestly over the medium term. In both cases, we believe the impact of their current easing is likely priced in and further weakness will be dependent on additional USD strength. However, a key risk to our view is equity inflows in both regions offsetting debt outflows.

GBP: We remain medium-term Neutral

We remain Neutral on the GBP over a 12-month horizon, but highlight downside risks in the short term. Currently, there is a strong focus on upcoming UK parliamentary elections in May. The lack of a clear outcome has kept the GBP weak while volatility has touched levels not seen since the Scottish referendum. In our view, the focus is likely to return to economic fundamentals following the elections, which fare better than those of Europe or Japan. We continue to expect the UK to hike interest rates 1-2 quarters after the Fed.

Commodity currencies: We remain bearish on the AUD and NZD

We expect the AUD and the NZD to depreciate in the medium term. We believe three main factors are likely to keep both the AUD and NZD under pressure. Firstly, possible policy loosening by the respective central banks would further weaken the yield advantage. Secondly, the pass-through effects of weaker commodity prices will likely keep export prices weak. Finally, an eventual pickup in currency volatility around the first Fed hike would further undermine carry trades. As a result, we believe, the recent uptick in the AUD and NZD provides an opportunity to reduce exposure to both currencies.

SGD: We turn modestly bearish on the SGD (from Neutral earlier)

We expect further weakness over a medium-term horizon. In our opinion, the Monetary Authority of Singapore (MAS) is likely to loosen policy in its upcoming meeting in April. In this regard, it may choose to further reduce the slope of its NEER policy band, shift the band lower, or widen the band. In all cases, we are likely to see further SGD weakness. However, in our view, the MAS is unlikely to signal a weaker SGD on a trend basis, as this may result in an offsetting spike in domestic short-term interest rates. Overall, manufacturing, housing and inflation data has deteriorated considerably since last year. Inflation is now in negative territory for the fourth consecutive month while manufacturing PMIs continue to signal contraction.

Other Asia ex-Japan (AxJ): We remain medium-term Neutral

In other AxJ, we favour the INR over other currencies on a relative basis while expecting further weakness in the MYR. We turn Neutral on the KRW and TWD (from moderately bearish earlier). We remain Neutral on the CNY, IDR, THB and the PHP.

With respect to the INR, we expect a strong balance-of-payments position, additional boost to growth from monetary easing and high absolute interest rates to continue to underpin the currency. On the CNY, we have seen no evidence so far that policy makers are interested in consistently weakening the RMB, despite the strong run in the USD. We believe, on balance, Chinese authorities are more focused on longer-term reforms (including greater confidence and use of their currency internationally) as opposed to short-term gains from currency depreciation.

As we expect only moderate weakness in the JPY, we do not believe policy makers in South Korea and Taiwan have a strong reason to weaken their currencies. In turn, we expect policy makers to respond with interest rate cuts in case of further weakness in economic activity. On the MYR, deteriorating export prices amid weak commodity prices and a potential downgrade in credit rating signal further weakness ahead.

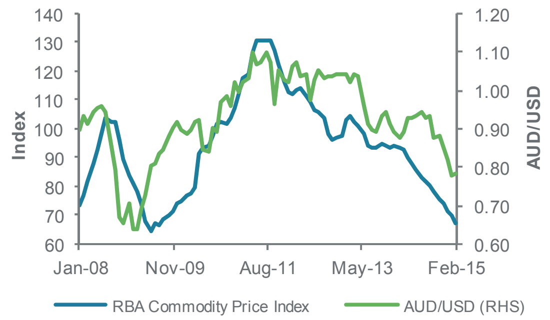
Current USD rally similar to previous mega rallies

US dollar index

Source: Bloomberg, Standard Chartered

AUD: Consistent fall in commodity prices likely to continue to weigh on AUD

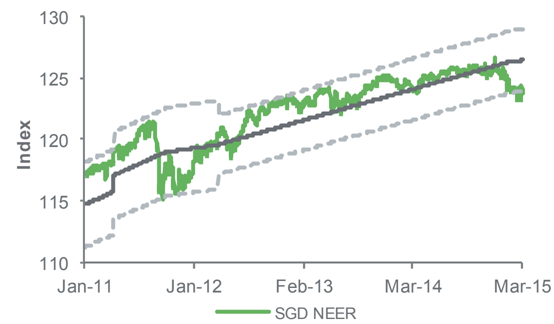
RBA commodity price index and AUD/USD



Source: Bloomberg, Standard Chartered

SGD: Trade-weighted exchange rate at the bottom of the band, signalling strong easing expectations

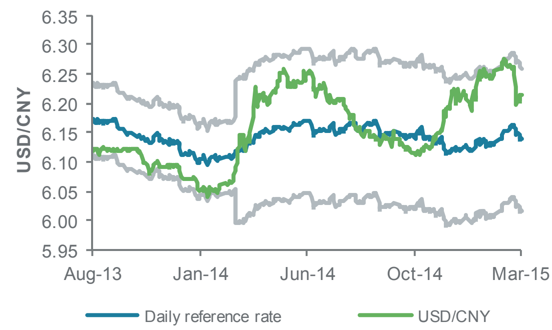
SGD NEER policy band



Source: Bloomberg, Standard Chartered

CNY: No evidence of a consistent policy-driven depreciation in the CNY

PBoC daily reference rate, policy trading band and USD/CNY



Source: Bloomberg, Standard Chartered

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