

Divergence to create opportunities

Global macro and policy developments are generally following the path we laid out in our June semi-annual review. Prompted by increased evidence of economic recovery, the Fed is more and more focused on when it will need to hike rates. Meanwhile, Europe, Japan and China are easing policy. We believe the risks associated with rising US interest rates are overplayed. Instead, the focus should be on the opportunities created by the divergence in central bank policy.

Key themes:

- **Rising US interest rates, part of the divergence story, are usually bullish for stocks early in a tightening cycle.** Against this backdrop, there are two key things to note:
 - 1) **Any significant increase in market volatility normally occurs shortly before and after the rate hike cycle starts.** With the first Fed rate hike expected only in Q2 2015, any volatility may well start from significantly higher levels. This view is reinforced by still high fund manager cash positions.
 - 2) **Equity markets normally recover strongly following the aforementioned volatility.** Sustained weakness usually occurs when the focus shifts from supporting growth to combating inflation, unlikely in the next 2 years.

Implications for investors

- **Global equity remains the asset class of choice.** While volatility may well pick up at some point, we believe global equity markets may be significantly higher than current levels by the time we get there (see chart for a view of how this may play out).
- **Do not give up on European equities.** Europe remains our region of choice, with looser monetary policies and a weak EUR likely to provide a boost. The US is also expected to perform well. For Emerging Markets, the out-performance since March needs to be validated by a pick-up in relative earnings.
- **USD sentiment improves.** The USD has broken higher versus the major currencies, as expected. Divergent economic fundamentals in Asia mean that some currencies are more vulnerable to USD strength than others, but, in aggregate, we expect Asian currencies to be relatively resilient to USD strength.

Contents

<i>Divergence to create opportunities</i>	1
<i>Market Performance Summary</i>	2
<i>Investment Strategy</i>	3
<i>Economic and policy outlook</i>	4
<i>Fixed Income – Underweight</i>	6
<i>Equity – Overweight</i>	7
<i>Commodities – Neutral</i>	9
<i>Alternative Strategies – Overweight</i>	10
<i>Foreign Exchange</i>	10
<i>Asset Allocation Summary</i>	12
<i>Economic & Market Calendar</i>	13

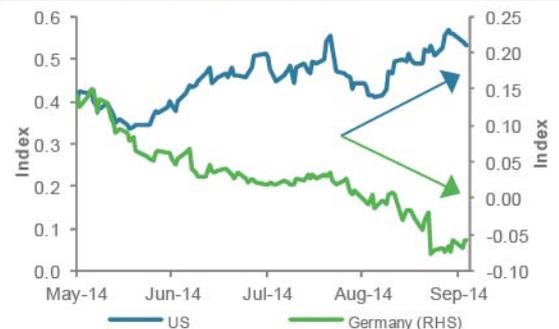
Divergence – what we mean

The most significant form of divergence today is in central bank policy. The ECB, BoJ and PBoC have been easing monetary policy, while the Fed has begun to slow down its easing programme and is expected to tighten policy in 2015.

While most central banks remain firmly growth-supportive, this policy divergence likely reflects the fact that different economies are at different stages of growth recovery. Relatively speaking, the US is at the most advanced stage, in our view.

This is the most visible in the bond market, where yields are rising in the US and falling elsewhere.

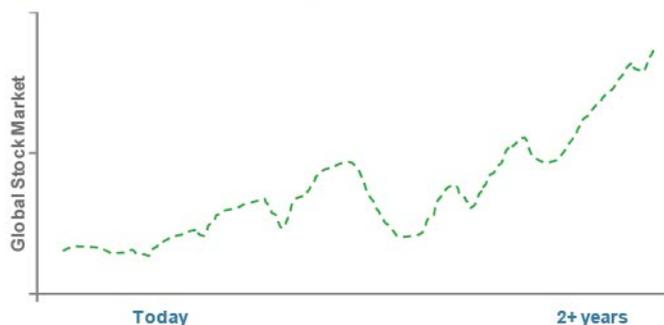
US and Europe 2-year bond yields



Source: Bloomberg, Standard Chartered

We may be some time away from increased equity market volatility

Stylised possible future path for global equities



Source: Bloomberg, Standard Chartered

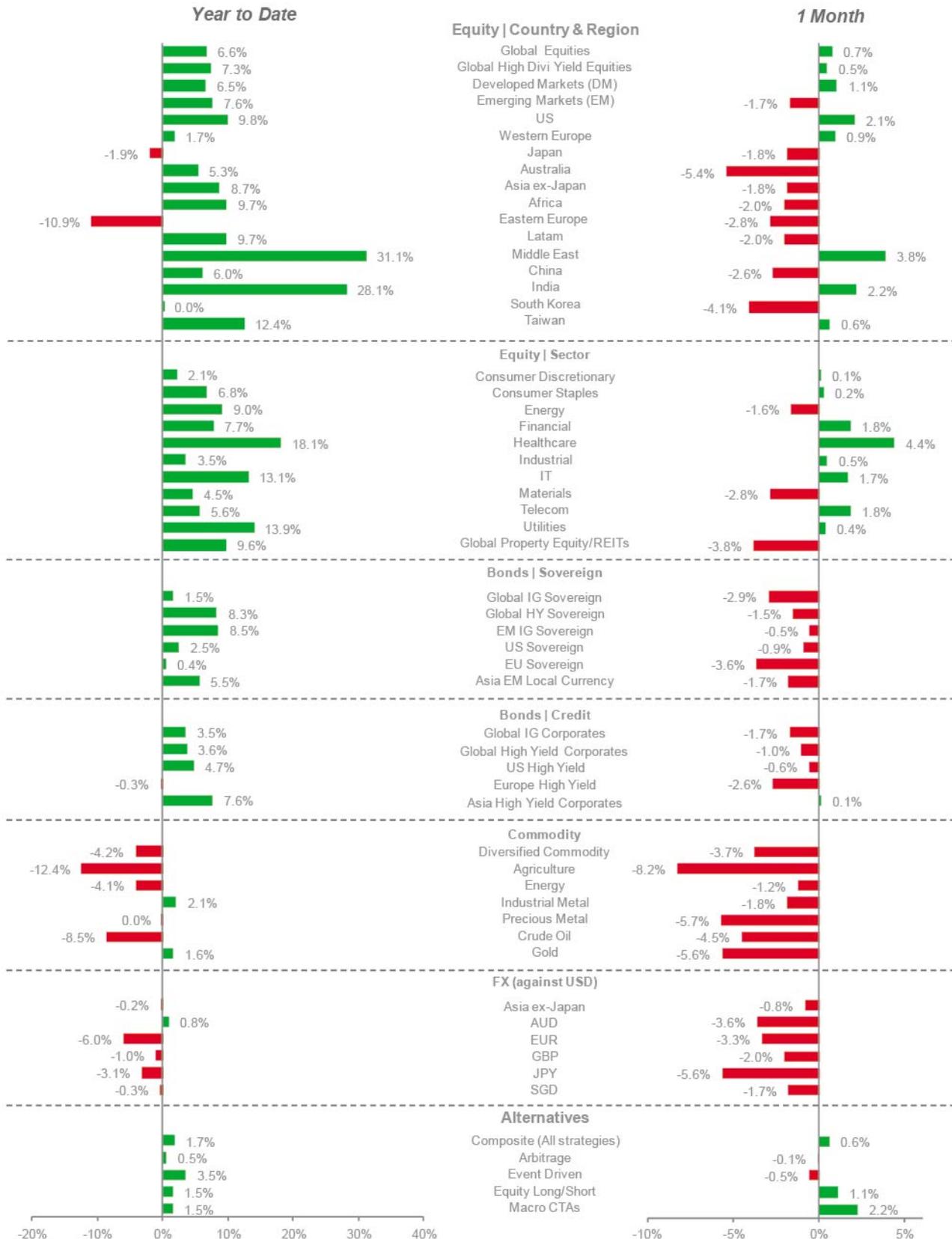
Europe has performed well since we rated it Overweight, but is only marginally higher so far this year

MSCI Europe total return (USD) index



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 2013 to 18 September 2014 and 1-month performance from 18 August to 18 September 2014

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

Investment Strategy

- Monetary policies are set to diverge, but will remain focused on supporting growth, even in the US
- Risk assets, especially equities, are likely to remain supported in the near term, with volatility only likely to rise closer to the timing of the first Fed rate hike
- Equity market leadership may change in the coming 6-12 months. Europe remains our preferred equity market

Monetary policy divergence will create opportunities rather than risks. Speculation over the likely timing of the first US rate hike has intensified over the past month. Elsewhere, the focus has been on how aggressive Europe, China and Japan will be in easing policy. However, policy intent is not yet divergent with the focus remaining securely on supporting economic activity.

This is bullish for risk assets in general, and equities in particular. It is normal for equity market volatility to pick up closer to the timing of the first US first rate hike. However, with the first hike expected in Q2, volatility may remain low into the end of the year and into the beginning of 2015.

Being A.G.I.L.E. likely to become increasingly important. At the beginning of the year, we argued investors may need to be A.G.I.L.E. as we move towards US policy tightening. Thus far, the main change we have made has been to increase our allocation to Asia ex-Japan equities, while retaining our Overweight to US and European equities. Looking forward, we may see a change in equity market leadership. For now, Europe is our favoured market, followed by the US. Asia is on watch for a further potential upgrade should earnings validate the outperformance seen since March.

Implications for investors:

- **Equity: Do not give up on Europe.** Since we went Overweight in July, the USD total returns for European equities have been over 15%. Recent returns have been meagre – marginally positive since the beginning of the year. EUR losses have clearly undermined USD returns, but should give a significant boost to earnings going forward given the significant exposure to offshore revenues (over 50%). Europe remains our preferred market
- **Do not be too bearish on bonds.** While US interest rate hike expectations have risen recently, the decline in commodity prices will mitigate inflationary pressures to some extent. Therefore, the risks to the strong growth, low inflation outlook have diminished somewhat.
- **USD likely to strengthen further.** While there are signs that the USD may be overbought in the short term, we believe the USD will continue to strengthen in the coming months against the EUR and AUD. Asian currencies, in aggregate, may be resilient, although some currencies, such as the Indonesian rupiah, may come under some pressure. The CNY, CNH are likely to remain resilient.

Asset Class	Relative Outlook	Start Date
Cash	UW	Feb-12
Fixed Income	UW	Jan-11
Equity	OW	Aug-12
Commodities	N	Nov-13
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

Bullish A.G.I.L.E. themes have performed well

AGILE performance since Outlook 2014 was published*



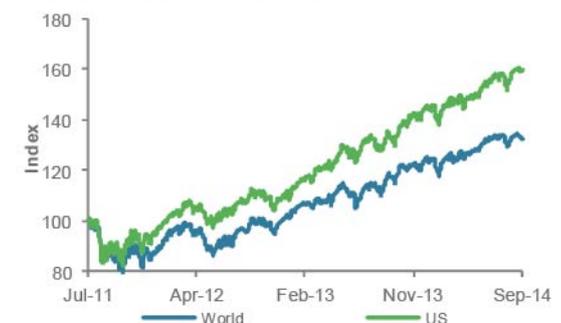
* For the period 16 December 2013 to 18 September 2014

Source: Bloomberg, Standard Chartered

* Income basket is as described in the Outlook 2014: A Year to be A.G.I.L.E., Figure 53 and then revised in the August Global Market Outlook (Volatility likely to remain low for a while)

Will equity market leadership change?

US equity market performance relative to the MSCI all-country world index (total return)



Source: Bloomberg, Standard Chartered

Sub-asset Class	Relative Outlook	Start Date
Cash	UW	Feb-12
Fixed Income	DM IG	UW
	EM IG	N
	DM HY	N
	EM HY	OW
	US	OW
Equity	Europe	OW
	Japan	N
	Asia ex-Japan	N
	Other EM	UW
	Commodities	N
Alternatives	OW	

Economic and policy outlook

US Fed policy diverges from the rest; China boosts stimulus

- The **US Federal Reserve** signalled the end of its asset purchase programme by October while reiterating its resolve to keep rates near zero for a “considerable time”. However, it raised its end-2015 and 2016 rates forecasts. Although job creation slowed in August, job vacancies, housing, retail sales, consumer and business confidence improved, indicating that the broader economy is gaining momentum. We expect wages to pick up over the coming months, forcing the Fed to raise rates by H1 15.
- The **ECB** embarked on its latest round of stimulus to revive flagging growth and inflation. Its low-cost lending programme disappointed analyst expectations, with banks taking up a mere EUR 82bn at the first auction. The low take up of cheap ECB loans has increased the pressure on the ECB to take further action. In the UK, Scottish voters’ rejection of independence sets the stage for a rate hike in H1 2015.
- In **Emerging Markets (EM)**, **China** stepped up its targeted stimulus measures as slowing industrial production, investment growth, imports and inflation pointed to a domestic slowdown.

US: Firing on almost all cylinders

- **Strong jobs market despite hitting a bump in August.** US job creation hit a road-bump in August, with net new payrolls falling below 200,000 for the first time since January. However, job openings held close to a 13-year high, while monthly job creation this year averaged the highest since 1999, reflecting the underlying strength of the economy. The under-employment rate dropped to a six-year low, but remains elevated at 12%.
- **Optimistic consumers.** The improving jobs outlook boosted consumer confidence to a seven-year high, encouraging people to take on debt to buy homes and cars. Retail sales growth accelerated to a four-month high in August. Improving demand is filtering through to the factories and construction activity – the ISM manufacturing index rose to a three-and-half year high, while a services sector index rose to a nine-year high.
- **Wages under control, sustaining ‘Goldilocks’ theme.** The improving job market has yet to show up in wages. Hourly earnings rose 2.1% y/y in August, only slightly faster than the 2% rise in July. This is keeping inflation in check – annual consumer inflation fell to 1.7% in August, staying below the Fed’s 2% target.

Fed: All set to end quantitative easing programme

- **Ending asset purchases by October.** The Fed tapered its monthly asset purchases to USD 15bn, preparing to end the programme by next month. Fed Chair Yellen reiterated her promise to keep rates low for a “considerable time” amid growing calls from other Fed policymakers to prepare for a rate hike as early as next year. The Fed raised its end-2015 rate forecast to 1.35% from 1.13% and end-2016 forecast to 2.85% from 2.50%. We believe a pick-up in wages is likely to force the first hike by June.

Europe: ECB loan boost to support growth; Scots stay with UK

- The **ECB’s** first low-cost long-term lending programme disappointed, with banks taking up just EUR 82bn loans. The ECB’s rate cut to a record low of 0.05% and the weaker EUR should still provide a significant boost to the economy and mitigate deflationary pressures. However, the weak take up of cheap loans will increase the pressure on the ECB to implement more broad-based quantitative easing measures.

US growth estimates revised up, EU, Japan lowered

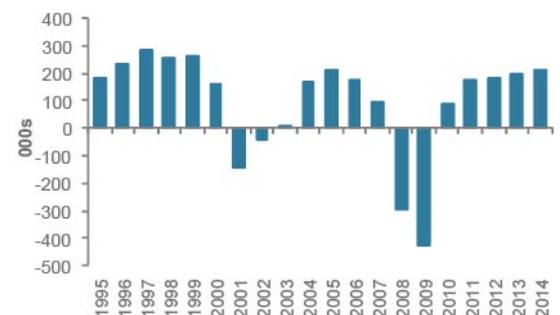
Consensus 2014 GDP growth estimates (% y/y)



Source: Bloomberg, Standard Chartered

US hiring strongest since 1999 despite August blip

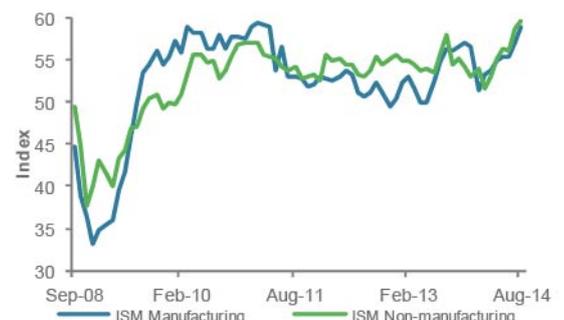
Average monthly net job creation ('000s)



Source: Bloomberg, Standard Chartered

US manufacturing and services sectors trend up

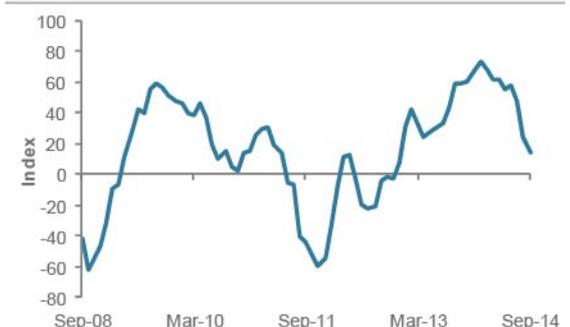
US ISM manufacturing and non-manufacturing PMI



Source: Bloomberg, Standard Chartered

Euro area investor confidence weakens

ZEW survey of Euro area investor expectations



Source: Bloomberg, Standard Chartered

- **Euro area sentiment takes a hit amid Ukraine tensions.** Although Euro area industrial production picked up marginally in July, economic confidence in August among executives and consumers fell to its lowest this year and the German ZEW survey of investor expectations in September suggested the euro area will remain weak in the near term.
- With unemployment rate staying at 11.5% and consumer inflation at 0.4%, less than a quarter of the ECB's target, **we expect more stimulus from the central bank** – even perhaps broadening the scope of its asset purchase programme beyond private sector bonds over the next year despite German opposition.
- **Scottish voters rejected independence**, removing a major uncertainty over the UK's economic outlook. The UK's economic data has improved since last year with a pick up in jobs – unemployment rate dropped to a six-year low of 6.2% in the three months to July. However, wage growth remained subdued, giving the BoE some time before considering a rate hike.

EM: China boosts stimulus as economy slows

China: Liquidity boost for top five banks to revive growth

- **China's central bank provided CNY 500bn in three-month loans to the nation's five largest banks**, according to news reports, raising its targeted lending measures to revive flagging growth. The step follows a series of data which reflected a slowdown in the domestic economy, despite earlier targeted loans to priority sectors such as farms, rural housing and transportation.
- **Industrial output in August was the weakest since the global financial crisis**; fixed asset investments and retail sales slowed; imports contracted y/y for the second straight month; and the broadest measure of new credit declined 40% y/y.
- **Expect more stimulus.** Although Premier Li has warned against relying on monetary stimulus to boost growth, urging more focus on reforms, we expect further targeted measures as the authorities aim for 7.5% annual growth. Subdued inflation should give the authorities scope to stimulate further. Consumer inflation eased to a four-month low of 2% in August, and factory gate prices continued to contract for the 30th consecutive month.

Other EMs: Indian industrial growth, exports slow

- **India's industrial production growth almost stalled in July**, losing momentum for the second straight month. Export growth slowed for the second straight month in August. We believe the new government's efforts to remove bureaucratic bottlenecks and measures to attract local and foreign direct investments will lead to a growth rebound. A sustained decline in inflation – consumer price growth has slowed from a peak above 11% to 7.8% in August – should set the stage for the central bank to cut rates.

Japan: BoJ under pressure to stimulate as economy weakens

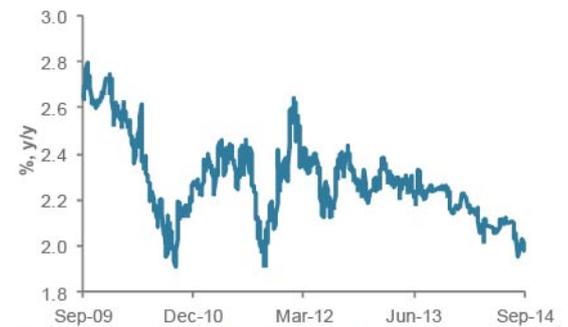
- **Japan's economy continued to reel from the April sales tax hike.** The economy shrank an annualised 7.1% in Q2, with the slowdown extending into Q3. Retail sales and household spending fell in July and the current account surplus fell 31% y/y. We expect the government and the central bank to boost stimulus if growth weakens further and inflation expectations deteriorate.

Conclusion:

The US Fed is all set to end its quantitative easing programme as the economy shows signs of a broad-based recovery. This is in sharp contrast to other major economies: the Euro area and China embarked on new stimulus measures while Japan is under increased pressure to revive flagging growth and inflation expectations.

Euro area inflation expectations stay subdued

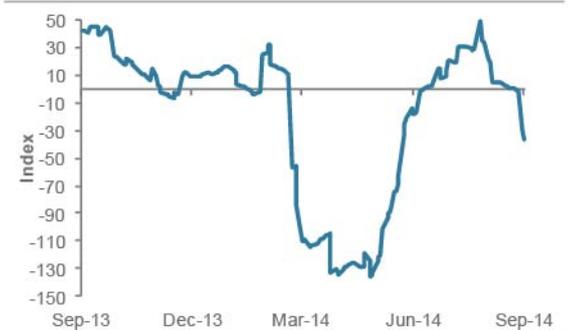
Euro area rolling 5-year inflation expectations starting in 5 years (% y/y)*



Source: Bloomberg, Standard Chartered

China's economic surprises turn negative

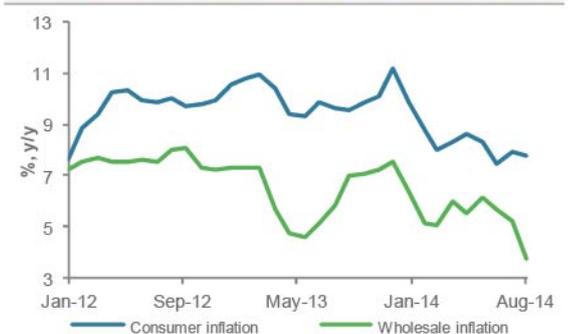
China economic surprises index



Source: Citigroup, Bloomberg, Standard Chartered

India's inflation is on a downtrend

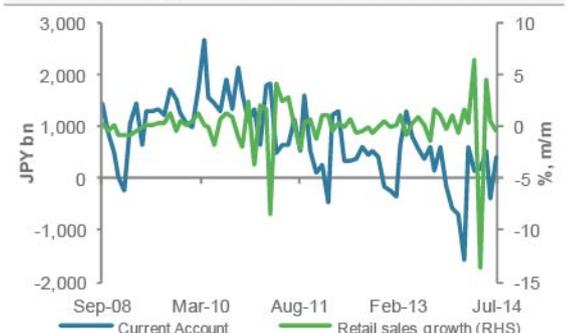
India's Consumer and Wholesale Price Indices (% y/y)



Source: Bloomberg, Standard Chartered

Japan current account surplus, retail sales slow

Current account balance (JPY bn), Retail Sales (% m/m)



Source: Bloomberg, Standard Chartered

Fixed Income – Underweight

- US Treasury yields likely to continue rebounding higher after the fall in German Bund yields begins to reverse
- We like Asia local currency bonds (especially CNY, CNH and INR) and Emerging Market High Yield (EM HY) sovereign bonds
- We are Neutral Developed Market High Yield (DM HY) and Asian corporate HY and believe managing total exposure is key

G3 and EM (USD) sovereign bonds:

- **Rebound in German Bund yields allows US Treasury yields to rise.** Falling German Bund yields were likely a key factor behind falling US Treasury yields as they increased the relative attractiveness of USD yields. However, Bund yields appear to have bottomed, resulting in a rebound in Treasury yields.
- **We continue to expect US Treasury yields to grind higher** as the market gradually prices in the likelihood of higher Fed rates. The outcome of the Fed's most recent FOMC meeting supports our view that the first policy rate hike is likely in the H1 2015.
- **EM HY government bonds have outperformed DM HY despite individual country risks** and negative news flow from Ukraine, Argentina and, most recently, Venezuela. This supports our view that EM HY government bonds offer more of a valuation buffer. Attractive absolute yields, value relative to DM HY and diversified sovereign credit exposure remain key factors behind our Overweight on EM HY government bonds.

Asia local currency bonds:

- **Asian local currency bonds remain attractive, in our view.** USD strength was a factor in the most recent pullback, though Asian currencies have clearly been quite resilient given the magnitude of USD strength. We remain comfortable with the asset class given the yield on offer.
- **CNY or CNH bonds offered protection during recent volatility, as expected.** Over the first half of September, onshore CNY bonds generated slightly positive total returns, in contrast with negative returns from both global equities and DM HY bonds. This is similar to the experience of the 2013 'taper tantrum' and provides us greater comfort that CNY bonds are likely to be a good portfolio hedge as markets adjust their US interest rate view.
- **INR bonds may also outperform other regional bonds.** The attractive yield on offer, gradually rising room for policy easing and reduced risks to the currency point to potential outperformance, in our view.

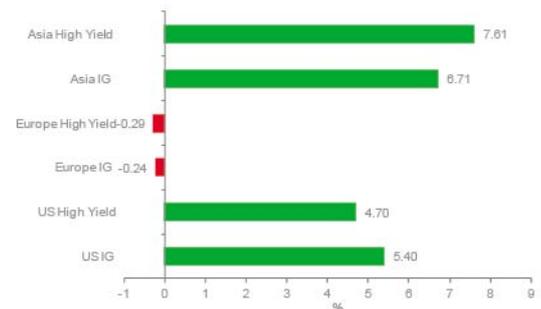
Corporate credit (USD):

- **Managing total exposure to HY credit remains key.** The lack of value in HY bonds in both DM and Asia argues against substantial exposure, but the reasonably attractive yield on offer is still likely to be in demand given low yields available elsewhere. We believe capping exposure to benchmark levels within a diversified portfolio remains the best way to manage these opposing forces. See page 12 for our suggested allocation weights.

Conclusion:

Asian local currency bonds (CNY, CNH and INR) and EM HY sovereigns remain our preferred bond asset classes. We remain Underweight G3 government bonds and expect yields to rise. We prefer to cap total exposure to HY across DM and Asia.

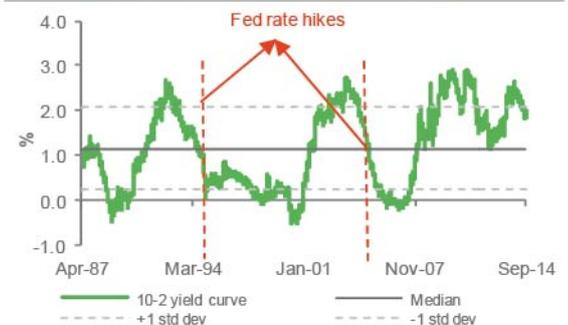
Performance of fixed income YTD* (USD)



* For the period 31 December 2013 to 18 September 2014
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

US yield curve has flattened well ahead of previous Fed rate hikes

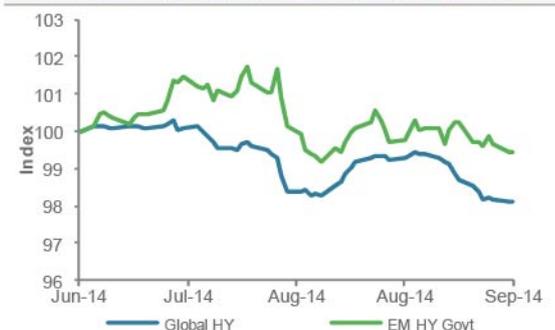
Spread between 10-yr and 2-yr Treasury yields



Source: Bloomberg, Standard Chartered

EM HY sovereigns have outperformed DM HY since mid-year

EM HY sovereigns, DM HY total returns; 20-Jun=100



Source: Bloomberg, Standard Chartered

CNY bonds were little affected by the taper tantrum

Performance of select asset classes during Bernanke's 'taper tantrum' (21 May-24 June 2013)



Source: Bloomberg, Standard Chartered

Equity – Overweight

- Increase in FX volatility has yet to feed into significant equity market fluctuations. We see little to change this in the coming 2-3 months absent an external shock. Fund manager cash positions remain elevated, which should support equities.
- Europe remains our favoured region on a 12-month view. Monetary stimulus and a weak EUR should help boost corporate earnings. Europe is trading close to its extreme discount to the US on a price-earnings basis.
- Improvement in earnings outlook crucial for Emerging Market equities to reassert outperformance seen from March-August.
- The Shanghai Hong Kong Stock Connect (SHKSC) is on track for its launch on 13 October. There is evidence that investors have increased their exposure to A shares via RQFII ETFs. This is in line with our view that the A-H spread will narrow.
- We are currently Overweight Korean equities and note investor concerns over a loss of export competitiveness due to a weaker yen. Analysis of this issue highlights that, while there is a short-term negative impact, the long-term impact is limited.

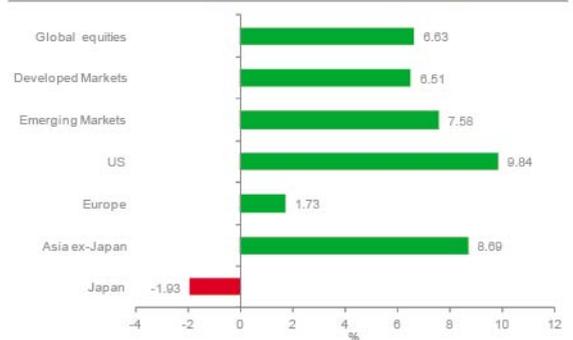
Global equities – DM versus EM

- **Developed Markets (DM) have outperformed Emerging Markets (EM) over the past month**, partially reflecting a DM rebound from the weakness in July/August. The rally in Europe was fuelled by monetary easing by the ECB and a weaker EUR. In the US, markets have been rallying in the face of rising FX market volatility and weaker-than-expected non-farm payroll data. Investors are rightly looking through the noise in the US data and focusing on the incremental improvement in growth amidst low inflation.
- **We remain Overweight both US and European equity markets**, expecting incremental improvement in growth and earnings in both markets. Returns may be higher in Europe as the European Central Bank is scaling up its monetary stimulus programme while the US Federal Reserve is gradually shifting towards tighter monetary policy settings.
- **The Nikkei 225 has surged around 5% over the past 30 days**, although in USD terms, the market is marginally lower (reflecting the sharp JPY fall in recent times). The catalyst for the surge in the index was twofold. First, the Bank of Japan bought bonds at negative yields which propelled the JPY weaker. Second, Prime Minister Abe announced a cabinet reshuffle, which has raised expectations that the third arrow of Abenomics, reform, is finally happening.
- **Examples of reforms** that are under way include soon to be announced changes to the asset allocation guidelines of the Government Pension Investment Fund (GPIF) in favour of risky assets. The GPIF is the world's largest pension fund, with JPY 127trn/USD 1.2trn under management.
- **We are neutral Japanese equities in USD terms**, but have become increasingly optimistic about the outlook, especially in local currency terms. Key things to watch include any signs of higher private sector wages and a pick-up in corporate sector investment.

Draghi surprises markets

- **European equity markets rallied** and the EUR continued to weaken following the ECB's confirmation that it will buy asset-backed securities. The commitment to unconventional measures

Performance of equity markets YTD* (USD)



* For the period 31 December 2013 to 18 September 2014
Source: Bloomberg, Standard Chartered. MSCI Indices are USD total return

Stronger against DM currencies; flat against Asian currencies

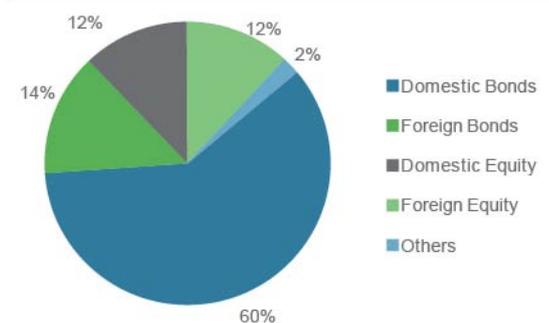
USD against peers



Source: Bloomberg, Standard Chartered

Investors expect the world's largest pension fund to increase allocation to equities

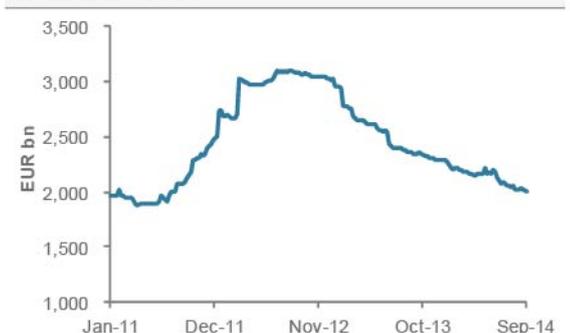
Japanese Government Investment Pension Fund



Source: Japanese GPIF, Standard Chartered

ECB is committed to increasing its balance sheet to its 2012 highs

ECB balance sheet



Source: Bloomberg, Standard Chartered

could see it scoop up as much as EUR700bn of these and other assets. This would see its balance sheet expand 35% to EUR 2.7trn, albeit only back to levels witnessed in 2012.

- We view the renewed ECB commitment to monetary easing positively. In combination with a weak EUR, and noting that more than 55% of the Euro area's corporate revenue comes from outside the single currency area, the outlook for corporate earnings is improving. Meanwhile, we note that Europe is still trading at an extreme discount to the US market, making it cheap on a relative basis.

Shanghai Hong Kong Stock connect

- Shanghai Hong Kong Stock Connect (SHKSC) is expected to launch on 13 October. Our Investment Brief published on 15 September highlighted our views on the impact of this programme on the respective equity markets. We particularly emphasise on the concept of Scarcity Value of select Hong Kong listed sectors, with little or no representation in China. These include Gaming, Telecoms, Technology and Energy.
- Positive recent developments, which we consider to be supportive of the launch, include: HKMA announcement of a CNY 10bn intra-day repo arrangement with local banks, which gives them access to CNY liquidity to ensure settlement proceeds smoothly; expectations that the CNY 20,000 daily limit on conversion of foreign currency to CNY will be lifted – if confirmed, this would add further liquidity to the system and be supportive of SHKSC.
- The recent closure of Deutsche Bank and China Southern Securities RQFII funds to new investors after meeting their fund quota is evidence that investors have been increasing their exposure to A shares before the launch of the SHKSC. Investors have been buying these ETFs in anticipation of a narrowing of the discount between A and H shares. We estimate the A-H discount could change to a premium, averaging 7% over the next six months.
- Adding to the positive sentiment towards China is the recent announcement by the PBoC to provide CNY 500bn in three-month loans to the big five banks. Economists expect the bias to remain towards more incremental easing, including reserve requirement cuts. Nevertheless, it appears that easing will remain targeted towards specific industries, infrastructure and environment and not across the board.

Yen weakness drags Korea lower

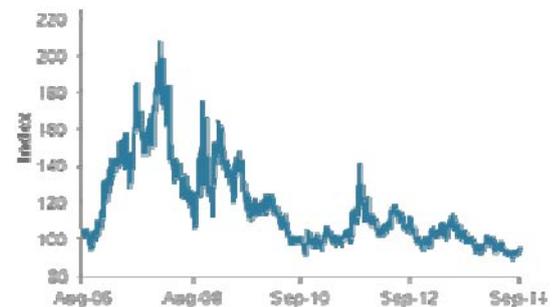
- The KRW/JPY cross rate has appreciated 4% over the past 30 days, signalling a possible deterioration in competitiveness of Korean exporters relative to their Japanese peers. While the fluctuation in the KRW/JPY cross rate can impact the short-term performance of individual stocks, we note that, over the medium term, a stronger KRW has not been an obstacle to gains in the KOSPI. Specifically, during the period of KRW strength against the JPY in H2 12, when the currency gained 17%, the KOSPI rose 12% in local currency terms. It is against this backdrop that we retain our overweight stance on Korean equities.

Conclusion:

We remain positive towards equities, expecting positive returns in both DM and EM equities in the coming 12 months. We are Overweight US and Europe and Neutral on Japan and Asia ex-Japan. In certain markets, particularly Europe and Japan, it may be beneficial for investors to hedge their currency risks to enhance market returns.

China A shares trade at discount to HK H shares

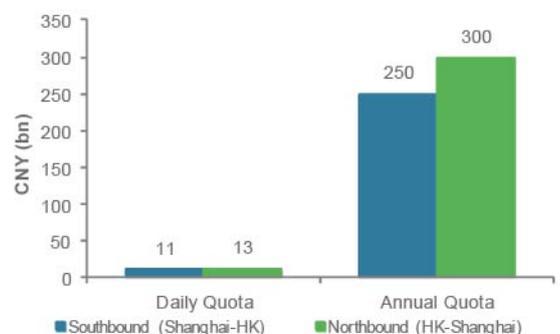
We expect the A share discount to narrow thru year end



Source: Bloomberg, Standard Chartered

Investors expect the quota to expand over time

SHKSC quotas



Source: HKMA, Standard Chartered

Commodities – Neutral

- We maintain a Neutral view on commodities.
- An end to Fed QE, a pricing in of Fed rate hikes and a stronger USD are negatives for gold. We are Underweight and bearish gold.
- Likely producer support, policy easing in Europe and China and technical factors are oil-supportive. We remain Overweight.

We remain Underweight and bearish gold. A stronger USD and renewed market focus on the likely timing of a first Fed rate hike are both negative factors for gold, in our view, and were likely the key reasons behind gold's renewed weakness over the past month. Continued strong equity market returns and rising yields also raise the opportunity cost of holding gold, a non-yielding asset.

Inflation remains the key upside risk to gold. However, even here, we are cautious. Inflation-adjusted prices remain very high relative to the late 1970s price spike, suggesting inflation would have to rise substantially (eg. into double-digit levels) before higher gold prices are justified. Meanwhile, the recent decline in other commodity prices may reduce short-term inflationary pressures.

We remain Overweight energy. We believe a stronger USD was a key factor behind Brent oil's dip below USD 100/bbl (see chart on right) because both the timing and the magnitude of the currency's strength line up remarkably well.

However, two factors cause us to remain Overweight oil. First, oil prices are increasingly close to key OPEC countries' budget break-even levels, which may encourage them to reduce output to support prices. Second, data suggests global demand remains robust and is likely to be further supported by recent policy easing in Europe and China. The fact that prices are at the bottom of their post-2010 range also provides technical support.

The key risk to our view is a greater-than-expected slowdown in Asian growth, an increasingly large source of demand. However, this is not our base case.

We remain Neutral on industrial metals. Prices fell further in September following weak Chinese economic data. Minor stimulus measures may offer some limited support, but the price outlook remains mixed, in our opinion:

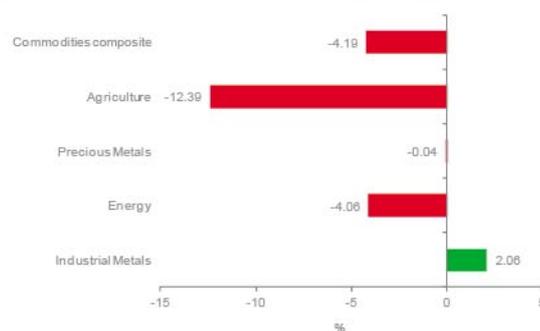
- China's housing market remains crucial due to its role as a key source of demand for many commodities, such as copper. Ongoing weakness does not help, though the selective easing measures are likely to help offset this to some extent.
- Inventories remain elevated in China, suggesting that even a rebound in demand is likely to take time to work through into the price. Global inventories (at the London Metals Exchange) have also started to rebound.

We remain Neutral on agricultural commodities. Prices fell with renewed vigour in September, this time driven by strong supply growth, particularly in grains such as wheat. In the absence of a disruptive weather event, this is likely to keep prices capped until the next season's planting intentions adjust.

Conclusion:

We retain our Neutral stance on commodities. Energy remains our most preferred sub-asset class, particularly given the magnitude of recent price weakness, while gold remains the least preferred.

Performance of commodities YTD* (USD)



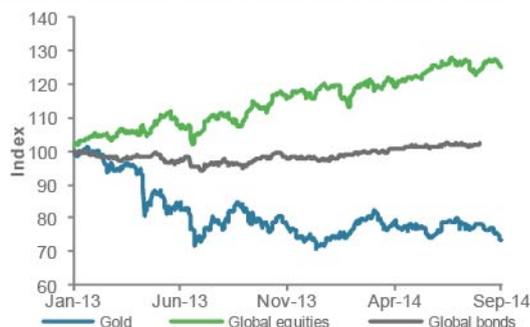
* For the period 31 December 2013 to 18 September 2014

Source: DJUBS, Bloomberg, Standard Chartered

DJUBS, DJUBS Agri, DJUBS Precious metals, DJUBS Energy, DJUBS Industrial metals

Equities and bond performance has been raising the opportunity cost of holding gold

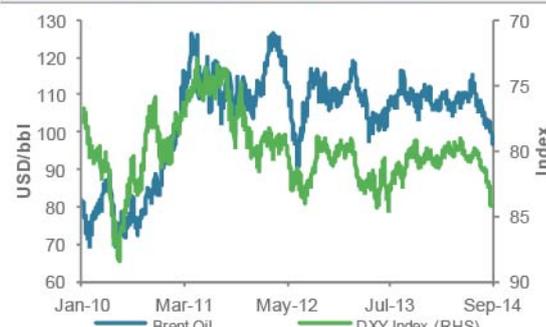
Spot gold, MSCI AC World and BarCap Global Agg



Source: MSCI, Barclays Capital, Bloomberg, Standard Chartered

USD strength has been one key factor behind recent oil price weakness

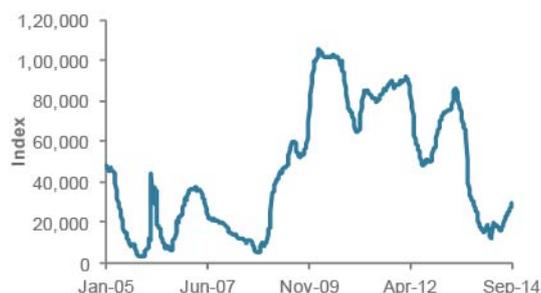
Brent oil price (USD/bbl) vs. US Dollar Index



Source: BP Statistical Review 2014, Standard Chartered

Copper inventories are rising again

Copper LME stocks



Source: Bloomberg, Standard Chartered

Alternative Strategies – Overweight

- We remain Overweight alternative strategies, as they offer exposure to equities, our preferred asset class.
- We believe alternative strategies may be especially attractive in an environment where rising policy divergence and uncertainty over the timing of the Fed's first rate hike may raise uncertainty. A diversified approach offers attractive exposure by itself, but equity long/short strategies offer an alternative way of gaining exposure to equities, our preferred asset class.

Alternative strategies have largely delivered equity-correlated returns with lower volatility. The strategy's returns have ebbed and flowed alongside global equities, while total volatility has been lower, which is along expected lines.

Event-driven strategies have been the key outperformer, driven by a rebound in mergers and acquisitions activity. This is in contrast to equity long/short strategies that have been held back by reduced dispersion in stocks, which, in turn, reduced opportunities to go long and short equities.

We continue to see alternative strategies in general and long-short strategies in particular as attractive in the current environment. Their ability to provide equity exposure while providing reduced volatility relative to a long-only position is attractive, in our opinion, especially when one considers upcoming risks from shifting Fed rate expectations and today's unusually low volatility levels.

Conclusion:

Stay Overweight on alternative strategies. We favour diversified exposure and equity long/short strategies to ensure portfolio diversification and lower volatility relative to long-only equities.

Foreign Exchange

USD: We expect appreciation over the medium term

We expect further USD strength on the back of Fed tightening and monetary policy divergence. The key basis for our view is higher short-term yields. Once Fed exits its quantitative easing programme in October, the focus on the timing and pace of rate hikes will merely intensify. In this regard, US yields are likely to pick up and increase interest rate differentials with most other countries. Furthermore, major central banks continue to ease further or maintain loose monetary policies, reflecting increased divergence between the US and other regions.

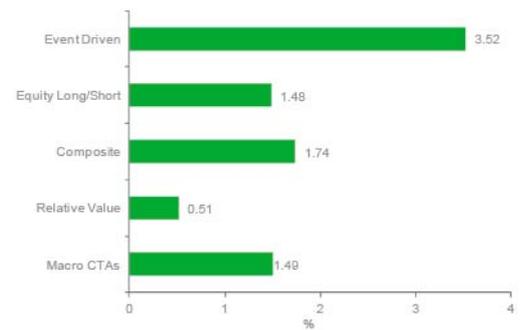
EUR: We expect depreciation over the medium term

We expect further EUR depreciation to extend over the medium term. In our view, expectations of additional monetary easing and further divergence of interest rates with the US will be the main drivers. While the ECB has announced a host of new policy measures, most of these have yet to be implemented. We believe the measures are likely to be expanded, potentially including more comprehensive asset purchases, to avoid a sustained weakness in the European economy. These are likely to keep European rates near record lows. Fed rate hikes are likely to further increase interest rate differentials and decrease the attractiveness of European yields.

JPY: We expect depreciation over the medium term

We expect the JPY to extend its recent weakness following a breakout from its narrow trading range. In our view, additional BOJ easing and Fed rate hikes will be key factors driving the currency lower. We believe expectations for additional BOJ easing will grow as we approach April 2015, the two-year target for doubling the monetary

Performance of alternative strategies YTD* (USD)



* For the period 31 December 2013 to 18 September 2014
Source: HFRX, Bloomberg, Standard Chartered
HFRX global hedge, HFRX equity hedge, HFRX event driven, HFRX relative value, HFRX macro/CTA

Short term

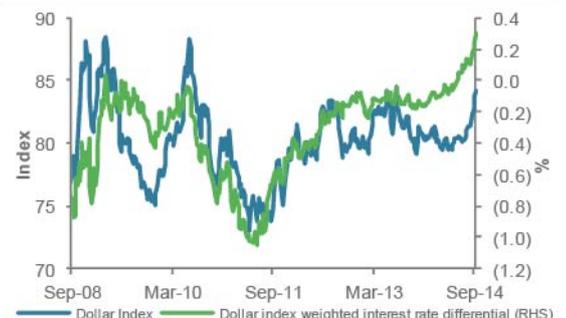
refers to a horizon of less than 3 months

Medium term

refers to a time horizon of 6 to 12 months

Divergence between US and other regions to underpin the USD

US interest rate differentials (dollar index weighted) and US Dollar Index



Source: Bloomberg, Standard Chartered

base. While some improvements have been seen in the Japanese economy, we don't believe these are sufficient to anchor long-term inflation expectations. Moreover, the authorities seem eager to implement the second tax hike, which could raise pressure on the BoJ to consider additional easing. Higher US yields will be an additional factor increasing the interest rate differential and weakening the JPY.

GBP: We remain medium-term Neutral

We remain medium-term neutral. The recent weakness in the GBP was driven primarily by concerns over Scotland's referendum for independence which have now passed. We expect focus to return to the UK's economic fundamentals. While we expect the BoE to hike rates next year, these are likely to be gradual and limited. In our opinion, the GBP may recover some of its recent losses but is unlikely to test its recent highs amid a stronger USD.

Commodity Currencies: We turn medium-term bearish on the AUD and NZD (from neutral earlier)

We expect AUD to depreciate in the medium term. We premise this downgrade on two key considerations. First, prices of iron-ore and coal, Australia's key exports, continue to decline amid softer demand from China. Second, the spread between Australian and US rates is likely to narrow. Fed tightening is likely to push US yields higher, while the RBA maintains rates near record lows, as unemployment remains near crisis highs. In our view, the narrowing of the rate differential greatly reduces the appeal of Australian debt. In addition, an increase in AUD volatility may further lower attractiveness of carry trades.

We expect the downtrend in the NZD to continue. The sharp fall in dairy prices has begun to deteriorate the trade balance while recent data suggests the growth outlook is softening. The RBNZ has indicated a pause in interest rate hikes for now, which, in our view, is likely to further depress sentiment on the currency.

We remain neutral on the CAD. In our view, positive and negative factors are largely balanced.

SGD: We remain medium-term Neutral

We expect the SGD to continue to trade in a broad range. While recent economic data has been disappointing, we expect the Monetary Authority of Singapore to maintain its tightening bias. However, since the currency (trade-weighted) trades near the bottom of the top half of the currency band (see adjacent chart), short-term strength in the SGD cannot be ruled out.

Other Asia ex-Japan: We remain medium-term Neutral

We are Neutral on Asia ex-Japan as a whole, but generally prefer North Asian currencies (CNY, KRW, TWD). With respect to the CNY, the authorities have kept the daily fixing rate range-bound, suggesting the currency is likely to remain stable in the short term. Longer term, we expect the currency to appreciate, driven by fundamental reforms in China.

We remain constructive on KRW and TWD amid an improving global growth outlook and strong balance of payments fundamentals. We are also constructive on the INR, where increased capital inflows have allowed the central bank to accumulate foreign reserves.

We express caution on the IDR and MYR. The IDR has experienced deterioration in its balance of payments, leaving it more exposed to capital outflows. The MYR, which rallied recently, may be more exposed to US interest rate hikes given its low interest rate differential.

Conclusion:

We remain medium-term bullish on the USD and the CNY, turn bearish on the AUD and the NZD and remain bearish on the JPY and the EUR. We favour the CNH, the KRW and the TWD in Asia.

EUR: Interest rate differentials driving EUR lower

German-US 2y interest rate differentials



Source: Bloomberg, Standard Chartered

JPY: An eventual rise in US 10-year yields likely to drive USD/JPY higher

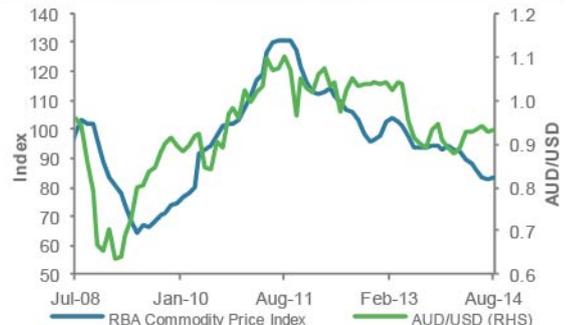
US-Japan 10-year interest rate differentials and USD/JPY



Source: Bloomberg, Standard Chartered

AUD: Weakness in commodity prices pressuring the currency

RBA commodity price index and AUD/USD



Source: Bloomberg, Standard Chartered

SGD: Trade-weighted SGD near lower end of the middle of the NEER policy band

Trade-weighted SGD and NEER policy trading band



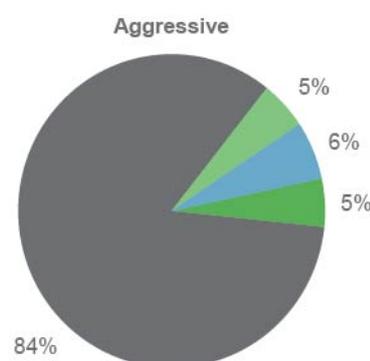
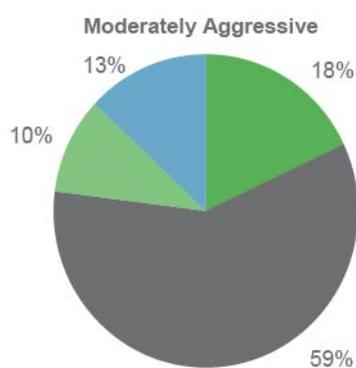
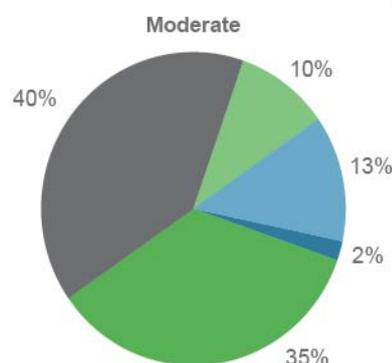
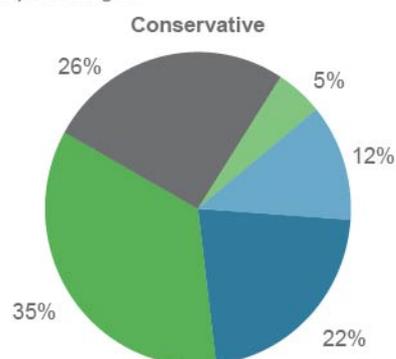
Source: Bloomberg, Standard Chartered

Asset Allocation Summary

Tactical Asset Allocation - October 2014 (12M)

All figures are in percentages

Currency: USD



■ Cash - UW ■ Fixed Income - UW ■ Equity - OW ■ Commodities - N ■ Alternatives - OW

Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	UW	22	2	0	0
Investment Grade	IG Developed World	UW	23	15	0	0
	IG Emerging World	N	5	9	4	0
High Yield	HY Developed World	N	2	5	4	2
	HY Emerging World	OW	5	6	9	3
Developed Market Equity	North America	OW	8	12	17	24
	Europe	OW	8	11	17	24
	Japan	N	0	2	3	4
Emerging Market Equity	Asia ex-Japan	N	8	13	19	26
	Other EM	UW	2	2	4	6
Commodities	Commodities	N	5	10	10	5
Alternatives		OW	12	13	13	6

Source: Standard Chartered

Steve Brice Chief Investment Strategist
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

Economic & Market Calendar

Next Week: Sep 22 - Sep 26						This Week: Sep 15 - Sep 19					
	Event	Period	Expected	Prior		Event	Period	Actual	Prior		
MON	JN Supermarket sales y/y	Aug	-	-2.1%	UK Rightmove House Prices m/m	Sep	0.9%	-2.9%			
	US Existing home sales	Aug	5.19M	5.15M	IN Wholesale prices y/y	Aug	3.74%	5.19%			
	EC Consumer Confidence	Sep A	-	-10.0	EC Trade Balance SA	Jul	12.2B	13.8B			
	NZ Westpac Consumer Confidence	Q3	-	121.2	IN Exports y/y	Aug	2.4%	7.3%			
	TA Export Orders y/y	Aug	6.8%	5.7%	IN Imports y/y	Aug	2.1%	4.3%			
	HK CPI Composite y/y	Aug	-	4.0%	US Industrial Production m/m	Aug	-0.1%	0.2%			
					US Empire Manufacturing	Sep	27.54	14.69			
					SI Retail Sales SA m/m	Jul	-0.2%	-1.1%			
TUE	CH HSBC China Manufacturing PMI	Sep P	50.2	50.2	AU RBA Meeting Minutes	Sep	-	-			
	FR Business Confidence	Sep	-	91	UK CPI y/y	Aug	1.5%	1.6%			
	GE Markit/BME Germany Composite PMI	Sep P	-	53.7	GE ZEW Survey Expectations	Sep	6.9	8.6			
	EC Markit Eurozone Composite PMI	Sep P	-	52.5	EC ZEW Survey Expectations	Sep	14.2	23.7			
	EC Markit Eurozone Services PMI	Sep P	-	53.1	US PPI Final Demand m/m	Aug	0.0%	0.1%			
	EC Markit Eurozone Manufacturing PMI	Sep P	-	50.7	CH Foreign Direct Investment y/y	Aug	-14.0%	-16.9%			
	CA Retail Sales m/m	Jul	-	1.1%	CA Manufacturing Sales m/m	Jul	2.5%	0.9%			
	US Markit US Manufacturing PMI	Sep P	-	57.9							
	US Richmond Fed Manufacturing Index	Sep	10	12							
	SI CPI y/y	Aug	-	1.2%							
WED	JN Markit/JMMA Japan Manu. PMI	Sep P	-	52.2	EC EU27 New Car Registrations	Aug	2.1%	5.6%			
	GE IFO Business Climate	Sep	-	106.3	UK Bank of England Minutes	-	-	-			
	GE IFO Current Assessment	Sep	-	111.1	UK ILO Unemployment Rate	Jul	6.2%	6.4%			
	GE IFO Expectations	Sep	-	101.7	EC CPI y/y	Aug F	0.4%	0.3%			
	US New Home Sales m/m	Aug	429K	412K	US CPI m/m	Aug	-0.2%	0.1%			
	NZ Trade Balance	Aug	-	-692M	US Current Account Balance	Q2	-98.5B	-111.2B			
	VN CPI y/y	Sep	-	4.31%	US NAHB Housing Market Index	Sep	59	55			
					NZ BoP Current Account Balance	Q2	-1.065B	1.468B			
					SI Non-oil Domestic Exports SA m/m	Aug	7.6%	2.5%			
					TH BoT Policy Meeting	Sep17	2.00%	2.00%			
				MA CPI y/y	Aug	3.3%	3.2%				
THUR	AU Job Vacancies	Aug	-	2.5%	NZ GDP SA q/q	Q2	0.7%	1.0%			
	EC M3 Money Supply y/y	Aug	-	1.8%	JN Trade Balance JPY	Aug	-948.5B	-962.1B			
	US Cap Goods Orders Non-def ex-Air	Aug	0.4%	-0.7%	JN Exports y/y	Aug	-1.3%	3.9%			
	US Markit US Services PMI	Sep P	-	59.5	JN Imports y/y	Aug	-1.5%	2.3%			
	US Markit US Composite PMI	Sep P	-	59.7	MA BNM policy	Sep18	3.25%	3.25%			
	US Kansas City Fed Manufacturing Act.	Sep	-	3	US FOMC QE3 Pace	Sep18	\$15B	\$25B			
	UK Nationwide House Price m/m	Sep	-	0.8%	UK Retail Sales Incl. Auto m/m	Aug	0.4%	0.0%			
	TA Central bank policy decision	Sep25	-	1.875%	UK Scottish Independence Referendum						
	HK Exports y/y	Aug	-	6.8%	US Housing Starts	Aug	956K	1117K			
					US Building Permits	Aug	998K	1057K			
				US Philadelphia Fed Business Outlook	Sep	22.5	28.0				
				EC Loan take-up in first round of TLTRO	Sep	82B					
FRI	UK Nationwide House Price m/m	Sep	-	0.8%	JN All Industry Activity Index m/m	Jul	-	-0.4%			
	SK Consumer Confidence	Sep	-	107	JN Nationwide Dept Store Sales y/y	Aug	-	-2.5%			
	JN National CPI y/y	Aug	-	3.4%	GE PPI m/m	Aug	-	-			
	GE GfK Consumer Confidence	Oct	-	8.6	EC ECB Current Account SA	Jul	-	13.1B			
	FR Consumer Confidence	Sep	-	86	CA Wholesale Trade Sales m/m	Jul	-	0.6%			
	IT Business Confidence	Sep	-	95.7	CA CPI y/y	Aug	-	2.1%			
	US GDP Annualised q/q	Q2 T	4.5%	4.2%	NZ ANZ Consumer Confidence m/m	Sep	-	-5.4%			
	BZ Outstanding Loans m/m	Aug	-	0.2%							
	US University of Michigan Confidence	Sep F	85.0	84.6							
	TH Customs Trade Balance	Aug	-	-\$1.10B							
SI Industrial Production SA m/m	Aug	-1.5%	2.7%								
Previous data are for the preceding period unless otherwise indicated Data are % change on previous period unless otherwise indicated P - preliminary data, F - final data, sa - seasonally adjusted y/y - year on year, m/m - month-on-month, q/q - quarter on quarter						Previous data are for the preceding period unless otherwise indicated Data are % change on previous period unless otherwise indicated P - preliminary data, F - final data, sa - seasonally adjusted y/y - year on year, m/m - month-on-month, q/q - quarter on quarter					

Source: Bloomberg, Standard Chartered

Disclosure Appendix

This document is not research material and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. This document does not necessarily represent the views of every function within the Standard Chartered Bank, particularly those of the Global Research function.

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

In Dubai International Financial Centre (“DIFC”), the attached material is circulated by Standard Chartered Bank DIFC on behalf of the product and/or Issuer. Standard Chartered Bank DIFC is regulated by the Dubai Financial Services Authority (DFSA) and is authorised to provide financial products and services to persons who meet the qualifying criteria of a Professional Client under the DFSA rules. The protection and compensation rights that may generally be available to retail customers in the DIFC or other jurisdictions will not be afforded to Professional Clients in the DIFC.

Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively “SCB”) according to local regulatory requirements. With respect to any jurisdiction in which there is a SCB entity, this document is distributed in such jurisdiction by, and is attributable to, such local SCB entity. Recipients in any jurisdiction should contact the local SCB entity in relation to any matters arising from, or in connection with, this document. Not all products and services are provided by all SCB entities.

This document is being distributed for general information only and it does not constitute an offer, recommendation, solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments. This document is for general evaluation only, it does not take into account the specific investment objectives, financial situation, particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons.

Opinions, projections and estimates are solely those of SCB at the date of this document and subject to change without notice. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. Any forecast contained herein as to likely future movements in rates or prices or likely future events or occurrences constitutes an opinion only and is not indicative of actual future movements in rates or prices or actual future events or occurrences (as the case may be).

This document has not and will not be registered as a prospectus in any jurisdiction and it is not authorised by any regulatory authority under any regulations.

SCB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by us. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.

SCB, and/or a connected company, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities, currencies or financial instruments referred to on this document or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. Accordingly, SCB, its affiliates and/or subsidiaries may have a conflict of interest that could affect the objectivity of this document.

This document must not be forwarded or otherwise made available to any other person without the express written consent of SCB.

Copyright: Standard Chartered Bank 2014. Copyright in all materials, text, articles and information contained herein is the property of, and may only be reproduced with permission of an authorised signatory of, Standard Chartered Bank. Copyright in materials created by third parties and the rights under copyright of such parties are hereby acknowledged. Copyright in all other materials not belonging to third parties and copyright in these materials as a compilation vests and shall remain at all times copyright of Standard Chartered Bank and should not be reproduced or used except for business purposes on behalf of Standard Chartered Bank or save with the express prior written consent of an authorised signatory of Standard Chartered Bank. All rights reserved. © Standard Chartered Bank 2014.

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT.