Staying the course

Volatility has increased significantly on concerns that slowing growth in Asia/Europe and the Ebola outbreak could undermine US growth. While these factors may dominate sentiment near term, the bigger picture remains supportive for equities and the USD, particularly in the US and Europe. Recent developments should encourage loose monetary policy settings, which should be positive for our diversified income allocation theme.

- **Volatility jumps.** The key question is whether this signals a shift to sustained losses for riskier assets, such as global equities, high yield (HY) bonds and carry currencies. While volatility may remain elevated in the near term, we doubt it will be sustained:
  1) **One source of volatility may be postponed.** Normally, volatility picks up around 3-months ahead of the first Fed rate hike. The recent weakness in non-US growth and the related slump in commodity prices could push the first rate hike further back from our current expectation of Q2 15.
  2) **The ECB and BOJ appear committed to confronting deflationary concerns head on.** Europe is entering a critical period with the ECB under increasing pressure to act.
  3) **Ebola outbreaks in the US, Spain likely to be short-lived.** The Nigeria experience suggests outbreaks are containable, while the SARS experience suggests that once the situation is contained, the stock market could rebound strongly.

Implications for investors

- **Global equities still expected to outperform.** While our US equity market checklist is somewhat less positive relative to mid-year, we believe lower oil prices, high fund manager cash positions and the strong start to the Q3 earnings reporting cycles will help. On balance, equities should continue to outperform.
- **Europe requires a catalyst.** The banking sector's asset quality review (26 October) and the ensuing ECB meeting (6 November) are key. We believe the market is under-estimating the scope for positive surprises amidst signs of an economic slowdown.
- **Loose monetary policies should help the income basket recover strongly.** While the 'risk-off' environment has hurt the income theme in the short term, we believe loose policy settings should help the combination of high dividend equities and bonds to outperform over the medium term.

Contents

US equity market checklist becoming less positive

5 out of 12 short term indicators now flashing red

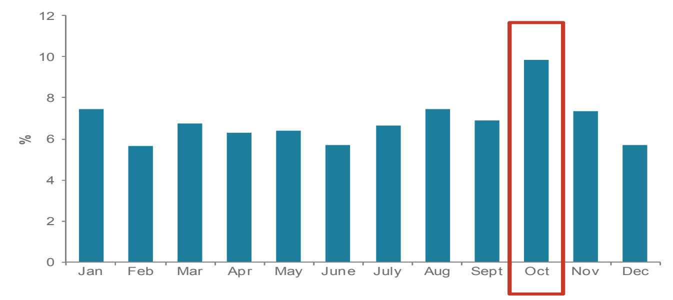
Market indicators	Jun	Oct
Valuations at 17x forward P/E		
Unsustainable pace of appreciation		
Domestic outperfoming global		?
Defensives outperforming cyclicals sectors		x
Treasury rally	x	x
Global indicators	**Jun**	**Oct**
Negative surprises from Europe/Japan		x
Significant slowing in EM growth	x	x
Reversal of Manufacturing recovery		
Significant USD strength		x
Domestic Indicators	**Jun**	**Oct**
Fading employment momentum		
Stalled housing recovery		?
Policy wildcard		

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*

Increased volatility is normal in October

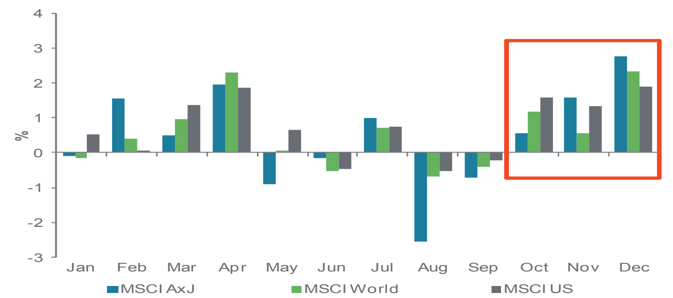
Average monthly range for MSCI AC world index, by month since1970, %



Source: Bloomberg, Standard Chartered

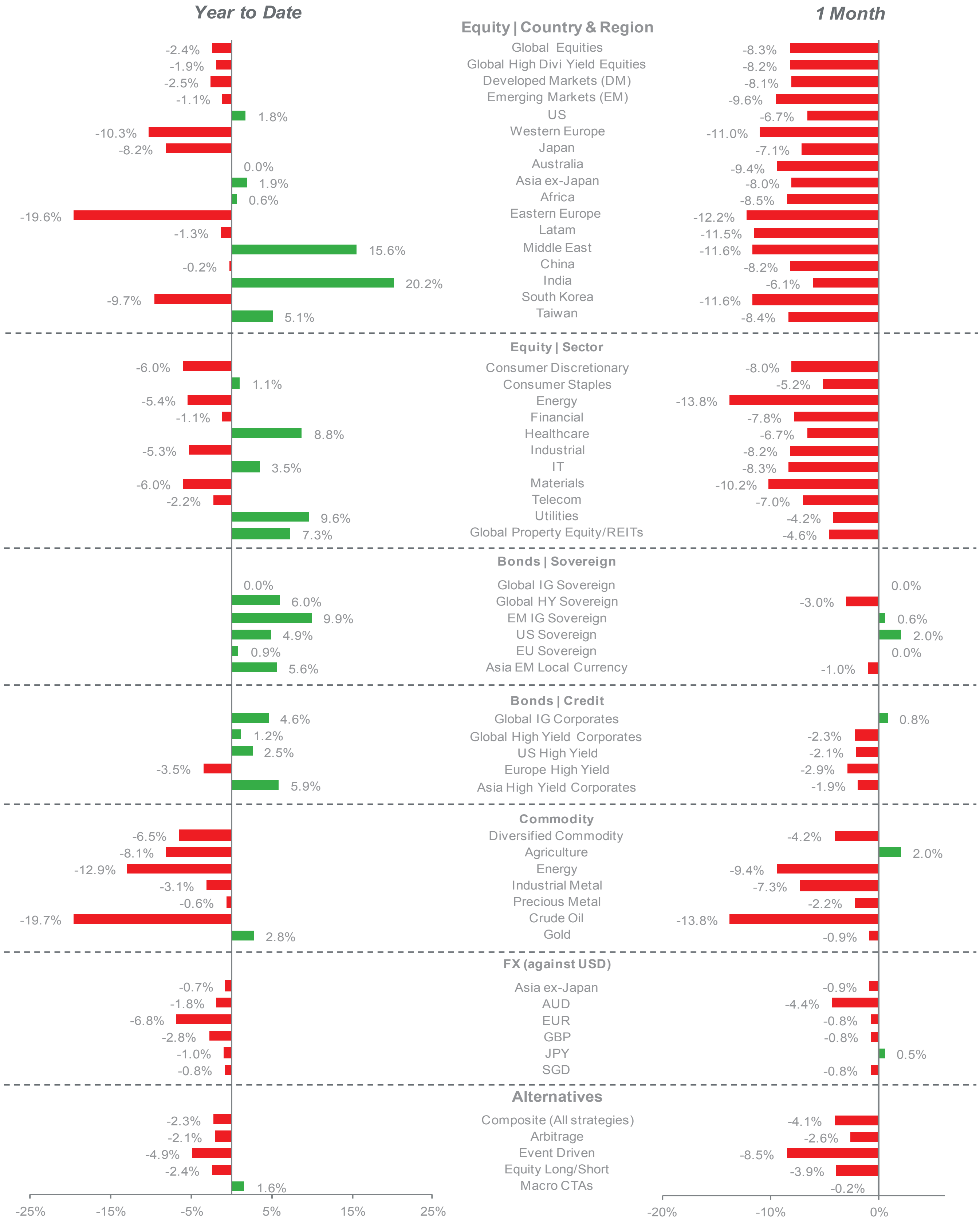
Global equities normally see strong returns in October and Q4

Average returns for US equities, by month since 1991 (1995 for Asia ex-Japan)



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 16 October 2014 and 1-month performance from 16 September to 16 October 2014*

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

Investment Strategy

- **Volatility has risen likely on fears of Europe/Asia economic weakness and an Ebola outbreak undermining US growth**
- **Central bank policy action, particularly in Europe and China, will be key in determining how long this risk-off environment lasts**

Volatility increases. China and Europe have both seen their consensus 2015 economic growth forecasts being revised lower on the back of weak economic data. Meanwhile, deflationary concerns are rising, particularly in Europe where inflation stands at a meagre 0.3% y/y. The second Ebola case in the US further undermined sentiment as fears of a more widespread outbreak increased and raised concerns that the main engine of global growth may be at risk.

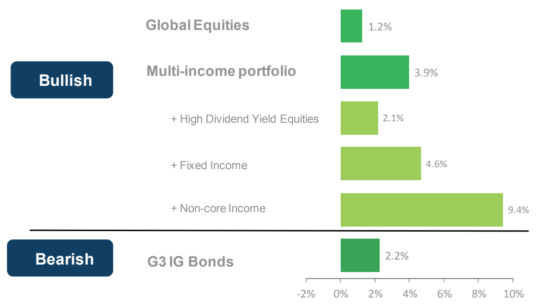
Interest rate-hike expectations and 10-year bond yields diverge. The chart on the right shows that while markets continue to expect the first Fed rate hike in Q3 2015, long-dated bond markets appear less convinced. While there is usually no smoke without fire, we believe the decline in yields has as much to do with 1) lower yields in Europe, 2) rising surpluses in Asia looking for a home and 3) stop-losses being triggered for large investors. Our central scenario is that US bond yields will rise, but the risks of a delay in the rate hike cycle are increasing.

Implications for investors:

- **Use equity market weakness as an opportunity to add.** We believe the risk-off environment may be relatively short-lived:
  - Low deposit/bond yields mean the hurdle returns required to justify equity exposure remain low and are likely to remain low for an extended period.
  - Fund managers have already built large cash positions.
  - Early indications on the US earnings season are positive.
  - Equity market weakness has typically been limited to 5-10% over the past two years. We are currently 11% from the peak.
  - We expect Western healthcare systems to be able to cope with any Ebola outbreak expeditiously. Nigeria looks set to meet the World Health Organisation's six-week no-case threshold and to be declared Ebola-free in the coming days.
  - Seasonal factors and historical analysis of equity returns after mid-term elections are supportive.
- **Ebola and Europe developments key short term.** The above factors could be dominated by negative news regarding the Ebola situation and Europe policy settings in the coming weeks.
- **Income theme benefit from loose policy settings.** Events over the past few weeks suggest that monetary policy will remain loose for the foreseeable future. This should help a diversified income allocation and the US Dollar quickly recoup recent losses.

Bullish A.G.I.L.E. themes in positive territory despite recent weakness

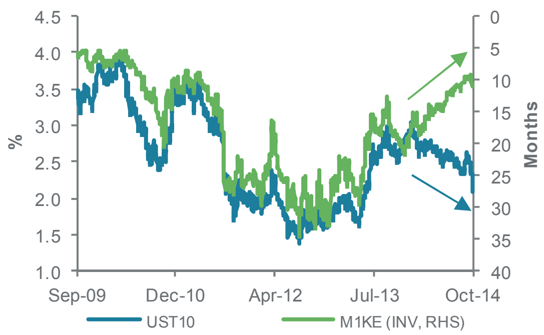
*A.G.I.L.E. performance since Outlook 2014 was published**



** For the period 16 December 2013 to 16 October 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)*

Breakdown between Fed interest rate expectations and US Treasury yields is key

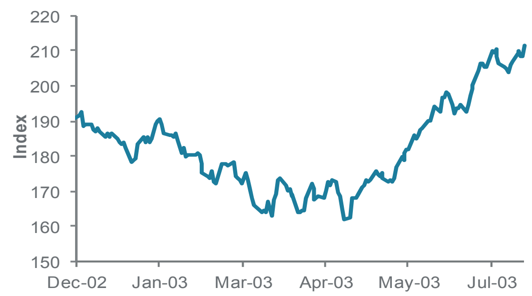
Months to first rate hike vs. US 10-year Treasury yield



Source: Morgan Stanley, Bloomberg, Standard Chartered

Ebola outbreak a risk, but Asia experienced a strong equity rebound once SARS was under control in 2003

MSCI Asia ex-Japan Index in Dec 2002-July 2003



Source: Bloomberg, Standard Chartered

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

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

Source: Standard Chartered

Standard Chartered
Here for good

Economic and policy outlook

Slowing global growth, inflation raise policy-easing hopes

- **Fed policymakers** are increasingly concerned that slowing growth in Europe and Asia and the stronger USD could hurt the still-robust US economy. The US continued to recover strongly into Q3. However, inflation pressures remained subdued due to continued slack in the labour market and falling commodity prices. Weaker global growth and falling inflation expectations have raised the risk of the Fed delaying its first rate hike in 2015.
- **The ECB** is under increasing pressure to ease policy further as Euro area growth and inflation expectations have deteriorated despite previous policy interventions. The 26 October report on bank asset quality is likely to lift some uncertainty, enabling banks to jump-start lending as demand for loans shows signs of picking up. However, rising deflationary pressures are likely to lead the ECB to broaden its asset purchases programme.
- In **Emerging Markets (EM)**, consensus growth estimates for Asia and China have been downgraded. **China's** central bank took actions to support growth. The **Bank of Korea** cut rates for the second time in two months. Inflation in **India** continued to decline, raising the prospects for easier monetary policy next year. **Brazil's** second round of presidential polls on 26 October is too close to call. Investors are rooting for opposition candidate Neves as the economy struggles to emerge from a recession.

US: 'Goldilocks' theme intact

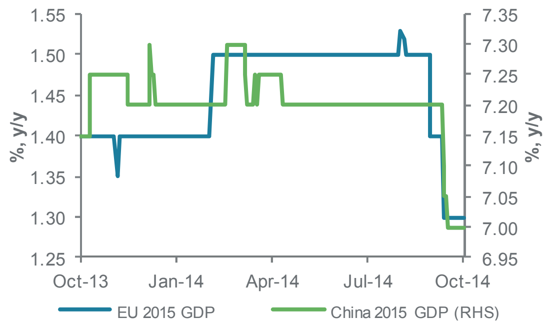
- **Job market remains robust.** US hiring accelerated in September after a brief slowdown in the previous month, sustaining the fastest pace of hiring since 1999. Job openings at a 13-year high in August suggest a sustained pace of job creation into Q4.
- **Wage growth subdued.** Although the unemployment rate fell to a six-year low of 5.9% in September, average hourly earnings remained flat m/m, pointing to residual labour market slack. This is reflected in the 11.8% underemployment rate, as millions worked part-time because of the lack of full-time opportunities.
- **'Goldilocks' economy**. Robust growth in employment and subdued wages extend the 'Goldilocks' scenario of non-inflationary growth, which has been the hallmark of US recovery in recent years. The Fed's preferred measure of inflation was 1.5% in August. However, a pick-up in wages will be critical for sustaining consumer confidence which showed signs of flagging.
- **Strong USD and lower oil prices** have put downward pressure on inflation expectations through cheaper imports. Continued USD strength could make exports less competitive.
- **Fed worried about slowing global growth.** Fed officials have urged patience in tightening policy as slowing growth in Europe and Asia and the stronger USD act as headwind to US growth. We still believe the robust job market will put upward pressure on wages, setting the stage for a rate hike in Q2 15. However, there is a growing risk that the timing could be delayed. Fed fund futures suggest investors expect the first rate hike in Q3.

Europe: ECB under pressure to ease more

- **Euro area growth and inflation weaken**. A contraction in Euro area industrial production in September, sustained declines in factory gate prices, still-high unemployment and weakening investor confidence have raised the chance of the region's economy having contracted in Q3, after stagnating in the previous quarter. Surveys of manufacturing and services sector purchasing managers suggested minimal growth.

Euro area and China GDP estimates downgraded

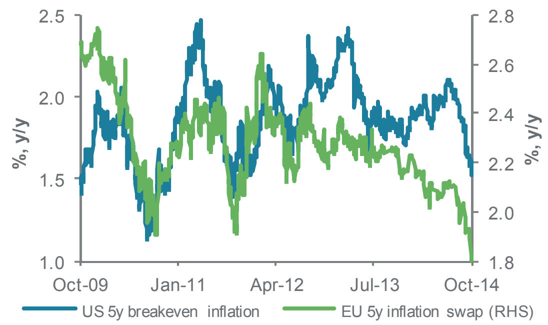
Consensus 2015 GDP growth estimates (%, y/y)



Source: Bloomberg, Standard Chartered

Euro area, US inflation expectations decline

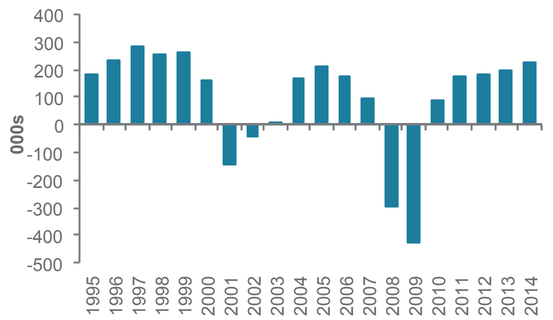
Euro area rolling 5-year inflation expectations starting in 5 years, US 5Y breakeven inflation (%, y/y)



Source: Bloomberg, Standard Chartered

US's pace of hiring remains the strongest since 1999

Average monthly net job creation ('000)



Source: Bloomberg, Standard Chartered

Euro area PMIs suggest weak growth in Q3 as investor expectations deteriorate

Euro area PMI, ZEW survey expectations

Source: Bloomberg, Standard Chartered

- **Germany faces recession**. The Euro area's largest economy may have contracted for the second straight quarter in Q3. Industrial production suffered its steepest decline in August since January 2009 and a survey of purchasing managers suggests manufacturing shrank in September. Meanwhile, investor confidence slumped for the tenth straight month in October.
- **Falling inflation expectations may force ECB to ease further**. The Euro area's long-term inflation expectations have declined further despite the ECB cutting rates to record lows and its low-cost, long-term lending programme. A recession in Germany may weaken the country's opposition against further monetary and fiscal stimulus. The next ECB meeting is on 6 November.
- **26 October report on banks' asset quality is key.** The report is likely to lift some uncertainty about the health of banks and help boost lending. However, we believe the ECB may have to broaden its monetary stimulus by next year (by buying government bonds) if inflation expectations stay weak.
- **Greek officials clashed with Euro area finance ministers** over a plan to exit its bailout programme. The disagreements threaten to raise borrowing costs for other Euro area peripheral countries.

China: Rate cut, targeted policy easing to support growth

- **Growth expectations for Q3 have been cut** to 7.2%, while 2015 forecasts have been cut to 7.0% from 7.2%, as per consensus estimates. September's lending upturn augurs well for Q4 growth.
- **China cut interest rates,** lowering the 14-day repo rate to 3.4% from 3.7% in two steps since September, as growth and inflation weakened. Purchasing managers' surveys showed manufacturing and services growth slowed further in September. Meanwhile, consumer price inflation eased to its lowest since January 2010.
- **More stimulus on the way.** We believe the authorities are likely to increase targeted stimulus measures aimed at priority sectors.

Other EM: Korea cuts rates, Indian inflation extends downtrend

- **Bank of Korea cut its key interest rate to its lowest since 2010**. The second cut in two months, which has lowered the benchmark rate to 2.0%, followed calls from the Finance Minister to set monetary policy in 'harmony' with the government's fiscal policies aimed at stimulating growth. A drop in September inflation to 1.1% suggests policies will remain accommodative.
- **India's consumer inflation dropped for the second straight month,** while factory gate inflation fell to a five-year low, indicating that the central bank's tight money policies are helping curb price rises. Consumer price growth has slowed from a November 2013 peak above 11% to 6.5% in September, setting the stage for the central bank to cut rates sometime next year.

Japan: Bank of Japan (BoJ) under pressure to ease further

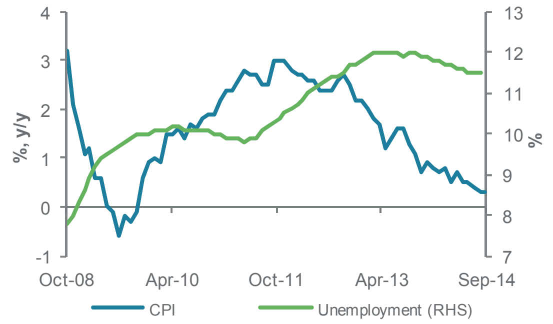
- **BoJ unlikely to meet inflation target**. Inflation swaps suggest the central bank is unlikely to meet its 2% consumer inflation target by April 2015. Longer-term inflation expectations have declined sharply after the April sales tax hike led to a sharp slowdown in growth. Governor Kuroda said there is scope for the central bank to increase its government and corporate bond holdings further, if needed. We expect further easing by Q1 15.

Conclusion:

Growth and inflation in the Euro area and Asia have weakened significantly over the past month. Although US growth remains robust, Fed officials are worried weaker global growth and the strong USD could hurt US exports. This raises the risk of a delay in Fed's rate hike and boosts the chances of more policy easing in Europe and Asia.

Euro area inflation drops amidst high unemployment

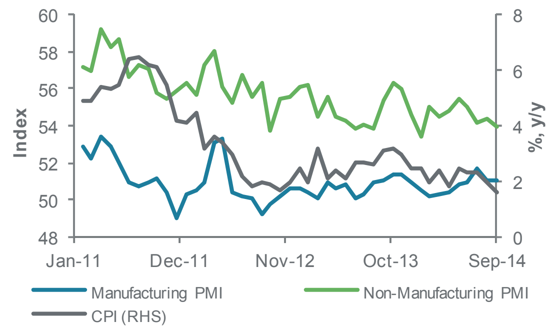
Euro area consumer inflation (%, y/y), unemployment (%)



Source: Bloomberg, Standard Chartered

China's PMIs suggest weaker growth while inflation weakens further

Manufacturing and services PMIs; CPI (%, y/y)



Source: Bloomberg, Standard Chartered

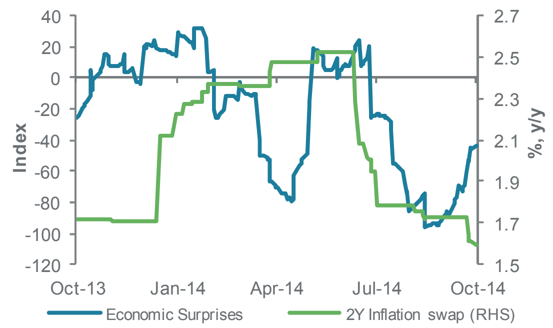
India's consumer inflation declines sharply

India's Consumer Price Index (%, y/y)

Source: Bloomberg, Standard Chartered

Japan's inflation outlook weakens further

Two-year inflation swap (%, y/y); Economic Surprises Index



Source: Citigroup, Bloomberg, Standard Chartered

Fixed Income – Underweight

- Inflation expectations, technicals are largely behind the move lower in yields. G3 government bond total returns may be slightly positive, but are likely to be very small from here
- We prefer Asia's local currency bonds (especially CNY, CNH and INR) and Emerging Market High Yield (EM HY) sovereign bonds. Recent weakness has created greater value
- Managing total exposure to HY bonds remain key.

G3 and EM (USD) sovereign bonds:

- **Rise in market volatility on growth concerns, falling inflation expectations and a break of technical levels were likely key drivers of sharply lower government bond yields.** The shift to safe-haven assets is not surprising during a bout of volatility, though the magnitude does appear disproportionate to economic fundamentals, in our view. Markets were also likely concerned about the potential spill-over of Euro area deflation risk to the US.
- **Low yields likely to mean meagre total returns.** We still expect yields to grind higher as we approach the Fed lift-off date. However, even if we are wrong, the low yield on offer means total returns are likely to be meagre from here. We continue to expect G3 government bonds to underperform and the spread between 30-year and 10-year US Treasury yields to narrow.
- **Value in EM HY government bonds.** Spreads have widened recently, but the asset class continued to outperform Developed Market (DM) HY bonds. Spreads are now slightly wider than their long-term median, underscoring our view that the asset class offers value, especially given the search for yield environment.

Asian local currency bonds:

- **CNY and CNH bonds continued to deliver through the recent bout of volatility.** Onshore CNY bonds, for example, have delivered positive returns since 31 August. This stands in sharp contrast to negative returns across most other major bond and equity asset classes. We continue to favour CNY, CNH bonds.
- **We continue to like INR bonds.** The attractive yield on offer, gradually increasing room for policy easing (given the recent softening in inflation) and reduced risks to the currency (due to lower oil prices) point to potential outperformance, in our view.
- **The broader Asian local currency bond universe was less insulated from recent volatility.** While continued USD strength means contribution to returns from FX may be limited, we remain comfortable with the asset class given the yield on offer.

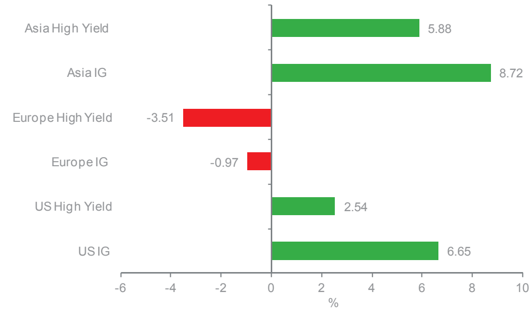
Corporate credit (USD):

- **DM HY spreads have widened by approximately 150bps since their trough in June earlier this year.** Despite this, spreads remain well below the asset class average, underscoring our view that DM HY lacks value. Surveys also suggest investors still perceive HY bonds to be a crowded trade.
- **Managing total exposure remains key.** We believe a neutral stance and a cap on total portfolio exposure remains the best way to manage the trade-off between yields (that are now slightly higher than before) and risk from still-expensive valuations. 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 prefer to cap total exposure to HY across DM and Asia.

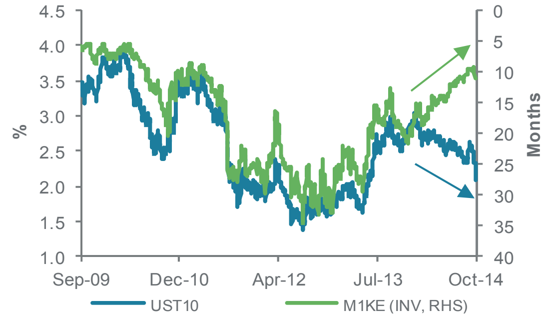
Performance of fixed income YTD* (USD)



** For the period 31 December 2013 to 16 October 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 Treasury yield fall disproportionate to fundamentals

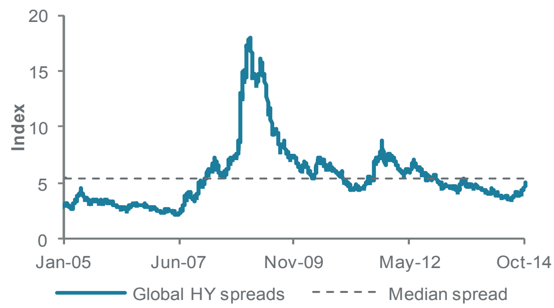
US 10-year Treasury yield vs. market expectations of months to first Fed rate hike



Source: Morgan Stanley, Bloomberg, Standard Chartered

Global HY spreads still below asset class average despite the magnitude of recent weakness

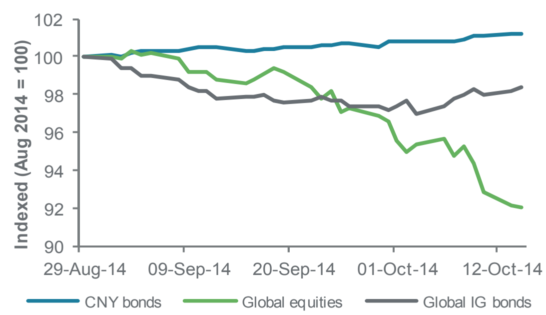
Global HY spread (%)



Source: Bloomberg, Standard Chartered

CNY bonds delivered positive returns through the most recent bout of market volatility

Performance of CNY bonds (S&P China Corporate Bond Index), global equities (MSCI AC World) and Global IG bonds (Barclays Capital Global Agg Index), 29 August 2014=100



Source: Bloomberg, Standard Chartered

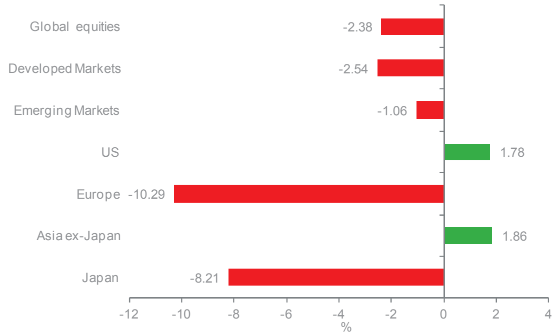
Equity – Overweight

- We acknowledge the risks posed by slower European and EM growth on the US. Nevertheless, we continue to believe that the US economic recovery is self sustaining and advise investors to remain invested.
- There has been a change of tone at the Fed based on evidence of a slowdown in growth in the EU and Emerging Markets (EM) impacting US growth prospects.
- The ECB will release its Asset Quality review on 26 October, nine banks are expected to fail. This will not surprise markets, but speed in announcing capital raising plans will be key to maintaining confidence.
- Asian equity market performance is diverging, implying a greater role in country selection. We are overweight India and Korea.
- The Q3 earnings season is expected to witness stronger earnings growth trends in Europe when compared with the US. The tech sector in Europe is forecast to see the highest earnings growth.
- The drop in commodity prices has been dominated by energy. While this is a positive, Asia consumers attach more importance to food prices.

Global equities' declines reflect growth concerns

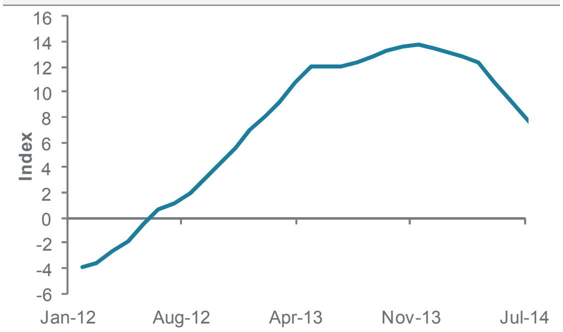
- **Change in tone at the Fed**. The S&P500 has fallen 9.5% over the past 30 days as investors become increasingly concerned about the impact of slower global growth on US recovery prospects. Fed Vice Chairman Stanley Fischer highlighted the risks posed by 'foreign growth weakness' on the US economy. He is the first FOMC member to warn of the risks posed by weaker global growth on the US economy.
- **Signs of weakness in growth.** The decline in the S&P500 was not attributable only to international growth concerns. The US economy has been showing signs of slowing in recent months; the ISM and consumer confidence have declined and the Case-Shiller Home Price Index continues to show signs of a slowdown. Nevertheless, while domestic growth indicators have softened, they remain in positive and employment data remains strong
- **Large cap performance in line with small cap**. While there has been no differentiation in performance over the past 30 days, we continue to prefer large cap over small cap.
- **ECB asset quality review** (AQR). The ECB will release the results of its AQR on 26 October. It needs to balance the competing interests of ensuring a rigorous review, but not spooking investors by taking a hard line on asset quality at a time when asset values are recovering.
- **Nine banks expected to fail.** Consensus amongst European bank analysts is that nine banks could fail the AQR, requiring up to EUR 51bn in new capital. While the results will not be published until the end of the month, banks have already been given the preliminary findings, giving them the opportunity to clarify issues and, if necessary, make plans to raise new capital
- **Looking beyond the tests**, the two key factors are driving our positive stance on European equities are: 1) 55% of Euro area corporate revenue is generated outside the region and 2) a weaker euro has had a positive impact on corporate earnings. It is estimated that a 10% decline in the euro Trade-weighted Index lifts Euro area corporate earnings by 6%.

Performance of equity markets YTD* (USD) Update



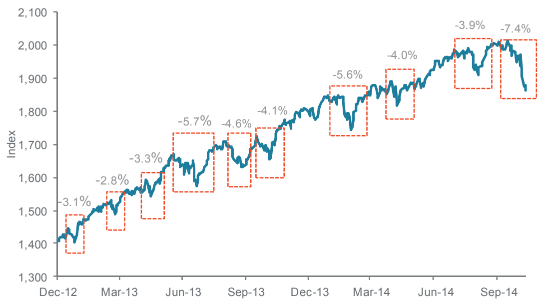
** For the period 31 December 2013 to 18 September 2014*
Source: Bloomberg, Standard Chartered. MSCI Indices are USD total return

US housing market weakens
Case-Shiller 20-city Home Price Index



Source: Bloomberg, Standard Chartered

Recent S&P500 correction is larger than average, but such corrections are not unusual
S&P500 trend and corrections since 2012



Source: Japanese GPIF, Standard Chartered

Our GIC view on equity markets

US	**OW**
Europe	**OW**
Japan	**N**
Other EM	**UW**
Asia ex-Japan*	**N**
South Korea	**OW**
India	**OW**
Malaysia	**UW**

Source: Standard Chartered

** China, Taiwan, Singapore, Hong Kong, Philippines, Indonesia, Thailand are Neutral weighted.*

- **Asian equities – mixed signals**. Asian equity markets marginally outperformed global markets over the past 30 days. Nevertheless, there are differences in individual country performance trends. India, where we are Overweight, has outperformed. Domestic Chinese equity markets posted a 1% positive return, while Chinese H-shares listed in Hong Kong declined 5%.
- **We are Overweight Korea**, which declined 7% over the same period despite two rate cuts by the Bank of Korea in as many months. Despite its poor recent performance, we remain upbeat on the prospects for the market. This view is driven by our conviction that China, which is the biggest destination for Korean exporters, could further ease policy to stimulate demand.

Q3 earnings season – off to a good start

- **Consensus earnings expectations** for the Q3 earnings season are for 6.5% growth for the S&P500 and 12% for the DJ Stoxx 600. In the S&P500, the materials sector is expected to witness the strongest earnings growth in Q3, with consumer discretionary witnessing the weakest. In the DJ Stoxx 600, the technology sector is expected to witness the strongest EPS growth, energy the weakest. While it is early days, both regions have generated positive surprises on average, thus far.

Commodities decline

- **The CRB commodity price index** (CPI) has declined almost 10% from its highs in May this year. While oil prices have fallen 26% from their highs, food prices are down only 6%. Given energy price subsidies in many Asian economies and the high weighting of food in CPI baskets, the impact of falling headline commodity prices may be more muted than investors expect.
- **US consumer boost**. While food dominates the consumer price baskets of Asian consumers, energy has a big influence on consumers in the US and the EU. The impact is bigger in the US due to lower taxes on petrol prices compared to Europe. American consumers have seen a boost in their disposable income thanks to the 50% drop in average pump prices since June, which have declined to USD3.18 per gallon.

Risks to consider

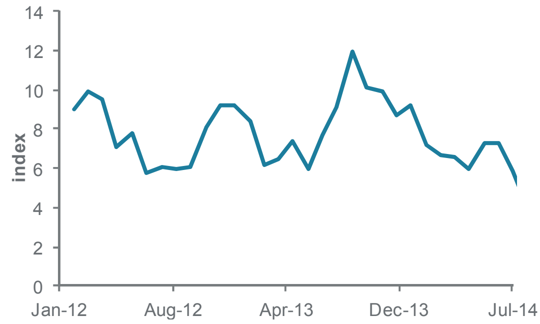
- **Growth** – Signs of slowdown in economic growth are evident. We are concerned about Europe and China, but remain positive on US growth prospects, viewing current weakness as temporary. We will be watching ECB governor Draghi's comments closely.
- **Ebola –** A recent Gallup poll showed 22% of US households expressed concerns about the spread of the disease. For now, investors remain sanguine. However, we do see this as a short term risk if incidents of the disease beyond West Africa increase.
- **OPEC –** The oil cartel will meet on 27 Nov, where the topic of cuts to production to support prices will likely be on the agenda. Production cuts are relevant given the International Energy Association's reduced demand forecast by 200k bbl/day in 2015.
- **China** – Our Global Investment Council recently raised its expectations for the Chinese authorities to ease monetary policy to 44% from the previous 37%. This was based on increasing anxiety that growth could slip below 7% in 2015.

Conclusion:

- We remain positive on equities, anticipating they will outperform other asset classes over the next 12 months. The recent correction should be viewed as an opportunity to build positions, in line with our asset allocations recommended on page 12.

China is slowing down more than expected

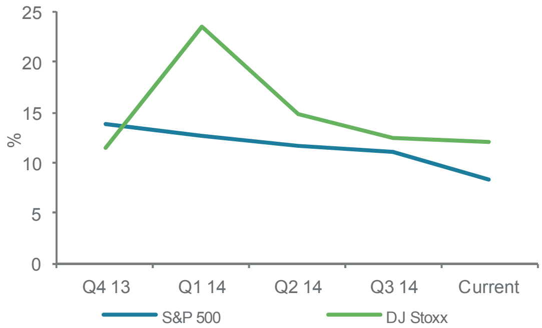
Li Keqiang Index measuring freight movement, power consumption and bank lending



Source: Bloomberg, Standard Chartered

Q3 US and EU corporate earnings growth ranges from 8% to 12%

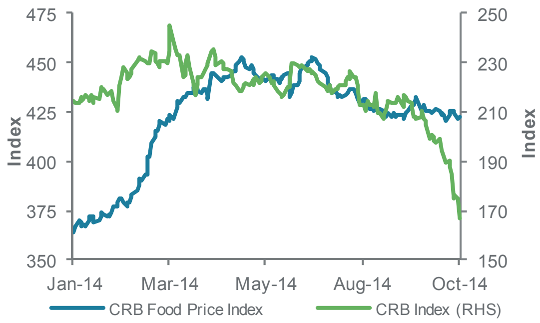
Consensus earnings forecasts for S&P500 and DJ Stoxx



Source: IBES, Standard Chartered

Decline in commodity prices dominated by oil

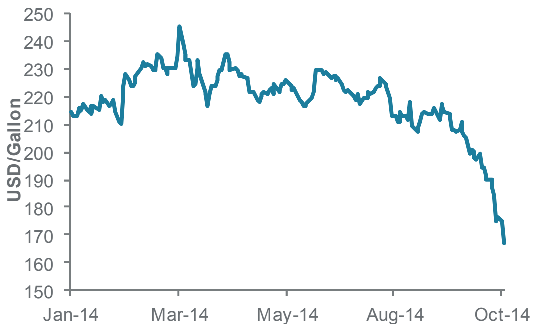
CRB headline and food price indices



Source: Bloomberg, Standard Chartered

US petrol prices have declined by 50% since July

US average pump prices for 1 gallon of unleaded fuel



Source: Bloomberg, Standard Chartered

Commodities – Neutral

- We maintain a Neutral view on commodities.
- Gold's performance remained disappointing in the face of volatility. We remain Underweight.
- Momentum 'price war' talk could extend oil weakness a little further, but producer budget break-evens are likely to offer support soon. We remain Overweight.

We remain Underweight and bearish gold. Over the past month, a rise in volatility across equities, bonds and FX was a key supportive factor for gold. Despite this, total returns were still negative. This is consistent with gold's lacklustre performance during previous risk events (eg, geopolitics) making the case that it may not provide the best hedge at current levels.

Longer-term, our Underweight view remains unchanged. 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. Further, equity market returns and rising yields also raise the opportunity cost of holding gold, a non-yielding asset.

An unexpectedly large rise in inflation or a delay in Fed tightening are key risks to our view.

We remain Overweight energy. The continued fall in oil prices has surprised us. The news flow points to a number of potential factors behind the recent fall:

- Concerns of weaker demand growth (the International Energy Agency downgraded its growth forecast)
- Reports of key oil producers, including Saudi Arabia and Iran, offering price discounts to key Asian consumers
- A rise in volatility across major asset classes

While negative momentum and rising talk of a 'price war' amongst major producers could cause oil prices to temporarily ease further, we remain Overweight long term based on two factors:

- First, prices are largely close to, or already below, the budget break-even levels of key oil producers. Key producers ultimately face an incentive to cut supply in an effort to support prices. OPEC's next meeting in late November is key.
- Second, we continue to believe demand growth is likely to remain reasonably robust if policymakers work actively to support the economy, as we expect.

A greater-than-expected slowdown in Asian or European growth is a key risk to our view.

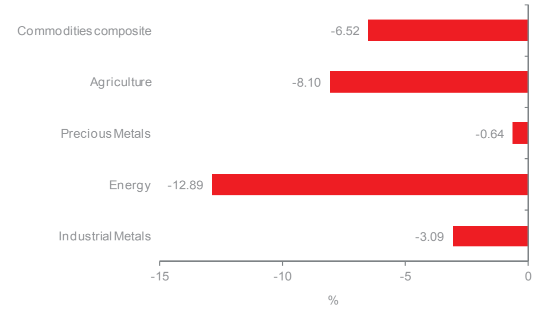
We remain Neutral on industrial metals. Prices continued to weaken over the past month, though at a slower pace than before. Risks to growth in both China and globally remain the key focus for us. Selective easing by China's central bank is a positive, but the apparent policymaker comfort with incrementally slower growth and continued weakness in China's housing market are key challenges. We continue to believe a neutral stance remains justified at this time.

We remain Neutral on agricultural commodities. Prices began rebounding in October as concerns began rising regarding potential supply shortfalls in key commodities such as soybeans and coffee. We believe the focus is increasingly likely to shift to next season's planting intentions, which will be key for the price outlook.

Conclusion:

We retain our Neutral stance on commodities. Energy remains our most preferred sub-asset class, albeit with the risk of furhter near-term weakness, while gold remains the least preferred.

Performance of commodities YTD* (USD)



** For the period 31 December 2013 to 16 October 2014*
Source: DJUBS, Bloomberg, Standard Chartered
DJUBS, DJUBS Agri, DJUBS Precious metals, DJUBS Energy, DJUBS Industrial metals

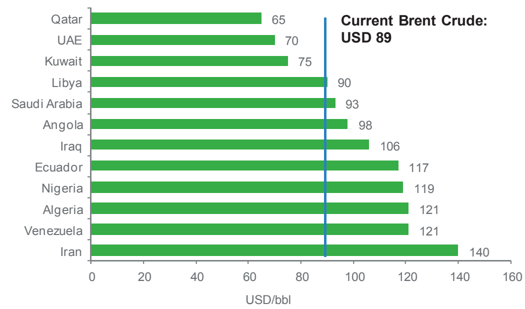
Gold's recent record at offering protection against volatility has been mixed at best

Spot gold, VIX Index

Source: MSCI, Barclays Capital, Bloomberg, Standard Chartered

Key oil producer budget break-even levels likely to offer long-term support to oil prices

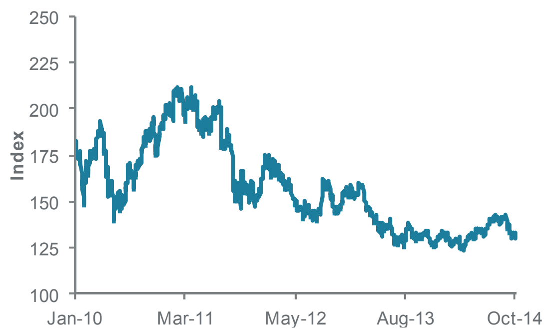
Estimated budget break-even oil price (USD)



Source: Libyan government, Angolan MOF, IMF, Arab Petroleum Investment Corp, Deustche Bank, The Wall Street Journal, Standard Chartered

Recent weakness in industrial metals likely muted due to weak outlook priced in over the past 3 years

Bloomberg Industrial Metals Index



Source: Bloomberg, Standard Chartered

Alternative Strategies – Overweight

- We remain Overweight alternative strategies, as they offer exposure to equities, our preferred asset class, with the likelihood of lower volatility. We favour both a diversified exposure to the asset class as well as equity long/short strategies within the asset class.
- Returns over the past month demonstrated the value of alternative strategies' lower volatility as they strongly outperformed global equities as volatility rose.

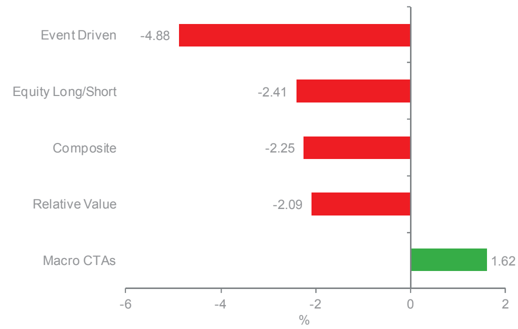
We continue to see alternative strategies in general and long-short strategies, in particular, as attractive in the current environment. Their ability to provide equity exposure while providing reduced volatility relative to a long-only position is attractive, in our opinion, especially when one considers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

The recent bout of volatility demonstrated the value of alternative strategies in a diversified portfolio. Between August 31 and October 15, global equities lost 8.7% while equity long/short strategies lost just 3.7%. While absolute returns were negative over this short period, we believe this demonstrates how alternative strategies in general, and equity long/short strategies in particular, can offer equity exposure with lower volatility.

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.

Performance of alternative strategies YTD* (USD)



** For the period 31 December 2013 to 16 October 2014*
Source: HFRX, Bloomberg, Standard Chartered
HFRX global hedge, HFRX equity hedge, HFRX event driven, HFRX relative value, HFRX macro/CTA

Foreign Exchange

USD: We expect appreciation over the medium term

We expect the USD to continue to appreciate over the next 12 months. Recent weakness in the USD is not unusual, in our view, given the very strong run-up since July this year. Furthermore, we do not see the USD strength thus far to be excessive. Previous periods of USD strength have resulted in significantly greater dollar gains. While any delay in Fed rate hikes may hurt sentiment in the short term, we still expect the USD to outperform most major peers where the economic recovery remains precarious. Higher interest rate differentials will continue to underpin the USD in the medium term, in our view.

EUR: We expect depreciation over the medium term

We expect EUR weakness to continue and see a strong case for further downside. First, a weaker EUR would be a likely outcome of further policy easing and an expansion in money supply. Second, higher US rates would further decrease the attractiveness of European debt. Third, weaker economic data in Europe point to a longer period of loose policy than the US, even in the event that the Fed pushes back the timing of the first hike. In addition, weakness in EUR since May 2014 has been relatively mild in trade-weighted terms (see chart overleaf), an exchange rate measure more important from a policy perspective.

JPY: We expect depreciation over the medium term

We expect further JPY weakness. We believe recent economic data after the tax hike is unconvincing of a broad-based recovery. Furthermore, we believe the government's insistence on another tax hike early next year will require offsetting monetary action. In addition, the weakness in currencies of several major trading partners has limited JPY depreciation on a trade-weighted basis. We believe a weaker JPY will remain an important element of policy easing.

Short term

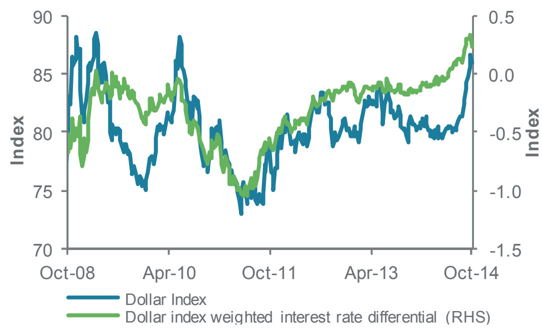
refers to a horizon of <u>less than 3 months</u>

Medium term

refers to a time horizon of <u>6 to12 months</u>

USD strength supported by widening interest rate differentials

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



Source: Bloomberg, Standard Chartered

GBP: We remain medium-term Neutral

We expect the UK to raise interest rates next year, and the EU and Japan to add to stimulus. As a result, we expect the GBP to remain largely stable against the USD, but strengthen against the EUR and JPY. However, we also highlight that recent weaker inflation poses the main risk to our view. A sustained fall in prices may compel the BoE to delay rate hikes. Of course, the Fed is under similar pressures of late.

AUD: We remain medium-term Bearish

We expect continued weakness in the AUD. We believe weakness in Australia's export commodity prices, slowing growth in China and a stronger USD will pose major headwinds to the currency. Recent messaging from the Reserve Bank of Australia (RBA) also reflects this sentiment. Despite its recent weakness, we believe the AUD is substantially overvalued and is poised to weaken further on the back of a structural downturn

SGD: We remain medium-term Neutral

We are neutral on the SGD amidst a balance of positive and negative factors. Recently, policy makers maintained the appreciation path of the policy basket. This suggests policymakers are not convinced by recent softer inflation data. On the other hand, broad USD strength will likely curtail any rally in the SGD.

CNY: We remain medium-term Neutral

We expect the CNY to appreciate over a 12-month horizon. While economic data has deteriorated somewhat, we see little evidence of a hard landing. Moreover, policymakers have maintained a largely stable CNY reference rate, suggesting comfort with the current level. We do contend, however, that CNY may remain range-bound for some time before resuming strength. Longer term, goals of policy reform would necessitate a gradually appreciating exchange rate.

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

We remain neutral overall on the Asia ex-Japan currency outlook, but express our preference for the KRW, TWD and INR. We remain cautious on the IDR and MYR and neutral on the THB.

Recent weakness in the KRW, in our view, was driven by broad growth concerns and Korean policymakers' response to JPY weakness. Despite this, we still expect the KRW and TWD to outperform other Asia ex-Japan currencies due to their sensitivity to global growth through the exports channel. These currencies have also shown resilience during previous Fed rate hiking scenarios. We are constructive on the INR on the continued maintenance of high interest rates and a stronger balance-of-payments position. High interest rate differentials should provide a margin of safety, in our view.

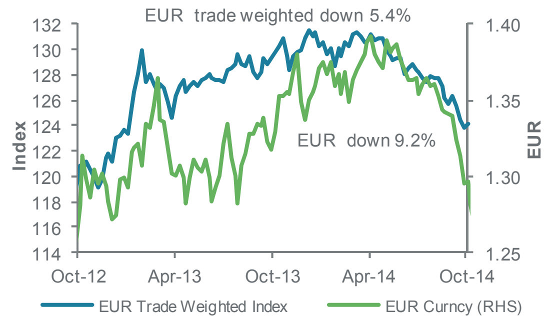
We remain cautious on the IDR and MYR. On the former, our chief concern continues to be a weaker balance-of-payments and fiscal positions. With respect to the MYR, we believe low interest-rate differentials and a high proportion of foreign debt ownership are negative for the currency.

Conclusion:

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

EUR: Trade- weighted index fall milder compared to EUR/USD

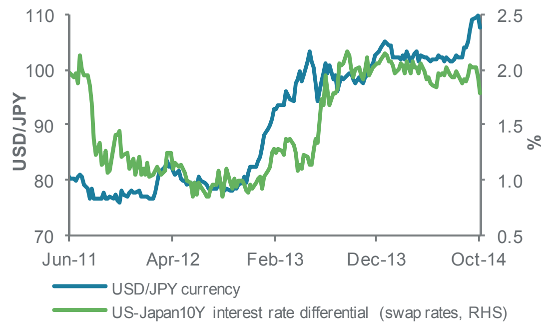
EUR trade- weighted index and EUR/USD



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

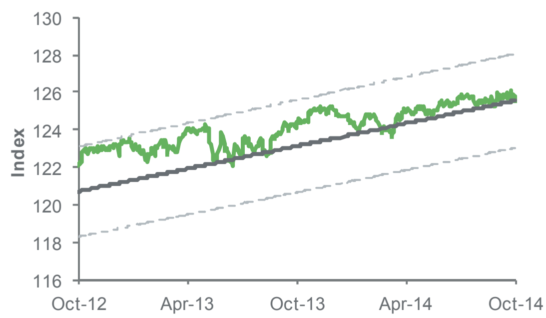
AUD: Commodity price weakness causing a large fall in terms of trade and pressuring currency

Australia terms of trade and AUD trade-weighted index

Source: Bloomberg, Standard Chartered

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

Trade-weighted SGD and NEER policy trading band

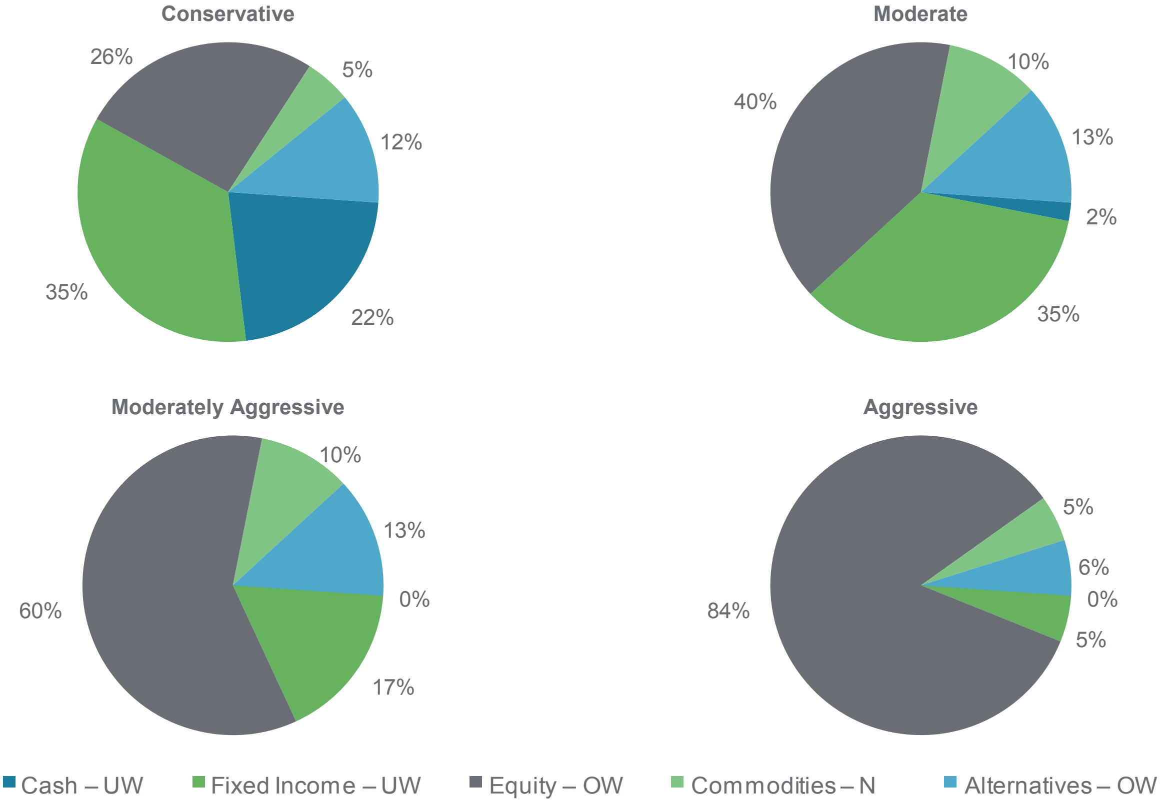


Source: Bloomberg, Standard Chartered

Asset Allocation Summary

Tactical Asset Allocation - November 2014 (12M)

All figures are in percentages *Currency: USD*



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	16	23
	Japan	N	0	2	4	5
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

Economic & Market Calendar

Next Week: Oct 20 - Oct 24

		Event	Period	Expected	Prior
MON	UK	Rightmove House Prices m/m	Oct	–	0.9%
	JN	Nationwide Dept Store Sales y/y	Sep	–	-0.3%
	EC	ECB Current Account SA	Aug	–	18.7B
	GE	PPI y/y	Sep	–	-0.8%
	TA	Exports Orders y/y	Sep	–	5.2%
	HK	Unemployment Rate SA	Sep	–	3.3%
	PH	BoP Overall	Sep	–	$114M
TUE	AU	RBA Minutes of Oct. Meeting			
	CH	Fixed Assets ex-Rural YTD y/y	Sep	16.3%	16.5%
	CH	Retail Sales y/y	Sep	11.7%	11.9%
	CH	Industrial Production y/y	Sep	7.5%	6.9%
	CH	GDP y/y	Q3	7.2%	7.5%
	HK	CPI Composite y/y	Sep	–	3.9%
	US	Existing Home Sales	Sep	5.09M	5.05M
WED	AU	Westpac Leading Index m/m	Sep	–	-0.1%
	JN	Trade Balance Adjusted (JPY)	Sep	–	-924.2B
	JN	Exports y/y	Sep	–	-1.3%
	JN	Imports y/y	Sep	–	-1.4
	AU	CPI y/y	Q3	–	3.0%
	UK	Bank of England Minutes			
	US	CPI y/y	Sep	1.6%	1.7%
	US	CPI ex Food and Energy y/y	Sep	–	1.7%
	CA	Retail Sales m/m	Aug	–	-0.1%
	CA	Bank of Canada Rate Decision	Oct 22	–	1.0%
THUR	NZ	CPI q/q	Q3	–	0.3%
	JN	Markit/JMMA Manufacturing PMI	Oct P	–	51.7
	CH	HSBC China Manufacturing PMI	Oct P	–	50.2
	GE	Markit/BME Germany Composite PMI	Oct P	–	54.1
	EC	Markit Eurozone Composite PMI	Oct P	–	52.0
	EC	Markit Eurozone Manufacturing PMI	Oct P	–	50.3
	EC	Markit Eurozone Services PMI	Oct P	–	52.4
	UK	Retail Sales incl. Auto m/m	Sep	–	0.4%
	UK	BBA Loans for House Purchase	Sep	–	41588
	US	Chicago Fed National Activity Index	Sep	–	-0.21
	US	Markit US Manufacturing PMI	Oct P	57.5	57.5
	US	Leading Index	Sep	0.7%	0.2%
	EC	Consumer Confidence	Oct A	–	-11.4
	SI	CPI y/y	Sep	0.8%	0.9%
	PH	Central Bank policy decision	Oct 23	–	4.0%
	TA	Industrial Production y/y	Sep	–	7.03%
FRI	NZ	Trade Balance	Sep	–	-472M
	NZ	Exports	Sep	–	3.52B
	NZ	Imports	Sep	–	4.00B
	SK	GDP SA q/q	Q3 P	–	0.5%
	CH	Property Prices	Sep	–	–
	GE	GfK Consumer Confidence	Nov	–	8.3
	UK	GDP q/q	Q3 A	–	0.9%
	US	New Home Sales	Sep	473K	504K
	SI	Industrial Production SA m/m	Sep	–	-0.2%
	VN	CPI y/y	Oct	–	3.62%

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

This Week: Oct 13 - Oct 17

		Event	Period	Actual	Prior
MON	NZ	Food prices m/m	Sep	-0.8%	0.3%
	IN	CPI y/y	Sep	6.46%	7.73%
	CH	Trade Balance	Sep	$30.94B	$49.84B
	CH	Exports y/y	Sep	15.3%	9.4%
	CH	Imports y/y	Sep	7.0%	-2.4%
	GE	Wholesale Price Index y/y	Sep	-0.9%	-0.6%
TUE	JN	PPI m/m	Sep	-0.1%	-0.2%
	JN	Money Stock M3 y/y	Sep	2.5%	2.4%
	AU	NAB Business Confidence	Sep	5	8
	SK	Bank Lending to Household KRW	Sep	501.3T	497.0T
	IN	Wholesale Prices y/y	Sep	2.38%	3.74%
	UK	CPI m/m	Sep	0.0%	0.4%
	UK	CPI core y/y	Sep	1.5%	1.9%
	GE	ZEW Survey Expectations	Oct	-3.6	6.9
	EC	ZEW Survey Expectations	Oct	4.1	14.2
	EC	Industrial Production SA m/m	Aug	-1.8%	0.9%
	US	NFIB Small Business Optimism	Sep	95.3	96.1
	SI	GDP SAAR q/q	Q3 A	1.2%	-0.1%
WED	AU	Westpac Consumer Conf Index	Oct	94.8	94.0
	SK	Bank of Korea policy rate	Oct 15	2.00%	2.25%
	CH	PPI y/y	Sep	-1.8%	-1.2%
	CH	CPI y/y	Sep	1.6%	2.0%
	JN	Industrial Production m/m	Aug F	-1.9%	-1.5%
	GE	CPI EU Harmonised m/m	Sep F	0.0%	0.0%
	SI	Retail Sales SA m/m	Aug	5.3%	-0.2%
	UK	Employment Change 3M/3M	Aug	46K	74K
	US	Empire Manufacturing	Oct	6.17	27.54
	US	Retail Sales Advance m/m	Sep	-0.3%	0.6%
	US	PPI Ex Food and Energy m/m	Sep	0.0%	0.1%
	US	Business Inventories	Aug	0.2%	0.4%
THUR	US	Fed Beige Book	–	–	–
	NZ	BusinessNZ Manufacturing PMI	Sep	58.1	57.0
	AU	Consumer Inflation Expectation	Oct	3.4%	3.5%
	CH	Foreign Direct Investment y/y	Sep	1.9%	-14.0%
	CH	New Yuan Loans	Sep	857.2B	702.5B
	CH	Aggregate Financing RMB	Sep	1050.0B	957.4B
	CH	Money Supply M2 y/y	Sep	12.9%	12.8%
	EC	Trade Balance	Aug	15.8B	12.7B
	EC	CPI y/y	Sep F	0.3%	0.3%
	US	Industrial Production m/m	Sep	1.0%	-0.2%
	US	Philadelphia Fed Business Outlook	Oct	20.7	22.5
	US	NAHB Housing Market Index	Oct	54	59
FRI	EC	Eurostat releases 1st GDP estimates			
	CA	CPI y/y	Sep	–	2.1%
	US	Housing Starts	Sep	–	956K
	US	Building Permits	Sep	–	1003K
	US	University of Michigan Confidence	Oct P	–	84.6
	SI	Non-oil domestic exports m/m	Sep	–	7.6%
	MA	CPI y/y	Sep	–	3.3%

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.

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