Weekly Market View

A turnaround in China?

China's markets are likely turning a corner, with some assets such as internet sector equities offering short-term tactical opportunities and others such as High Yield bonds and material and industrial sector equities offering medium-term openings.

We will need to see a more dovish turn in China's fiscal, monetary and regulatory policies before we become more constructive on China equities more broadly on a 12-month horizon.

Equities: On technical charts, China's internet sector has held key support levels in recent weeks. We believe investors with low exposure to China equities may take advantage of this tactical opportunity.

Bonds: Asia and China High Yield bonds remain attractive, given cheaper valuations vs. history. Strong Q2 earnings and expectations for further policy easing are also supportive.

FX: The technical outlook for EUR/USD has improved amid Euro area inflation surprise. A break above 1.1910 could pave the way towards 1.2000.

+

Is it time to add exposure to Asian and Chinese High Yield bonds?

Which currencies will benefit the most as the USD weakens?

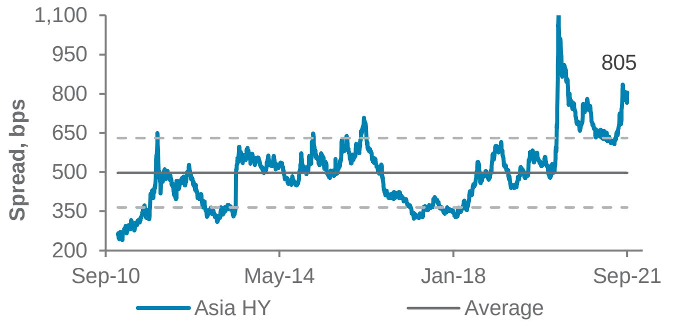
What is the technical outlook for some of your thematic ideas?

Important disclosures can be found in the Disclosures Appendix.

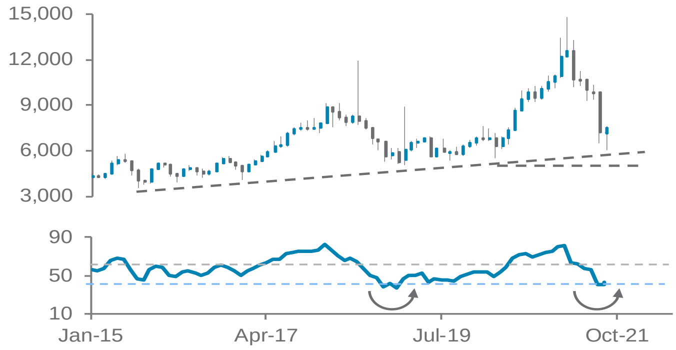
Charts of the week: Early signs of a turnaround?

China's beaten down High Yield bonds and internet sector stocks offer tactical opportunities

Asia High Yield bond yield premium over US Treasuries



CSI Overseas China Internet Index; Relative Strength Index*



Source: Bloomberg, Standard Chartered; *RSI is a momentum indicator

Editorial

A turnaround in China?

Predicting market bottoms is hard, but often markets offer better odds of winning. We believe some Chinese assets offer attractive odds today, including short-term tactical opportunities in the internet sector equities and medium-term opportunities in High Yield bonds and material and industrial sector equities. We will need to see a dovish turn in China's fiscal, monetary and regulatory policies before we turn more constructive on China equities more broadly on a 12-month horizon.

Our cautiously optimistic view is based on the following factors:

Policy: This year's underperformance of China markets started with the tight policies adopted in Q1 as it became clear the economy had recovered from the pandemic much faster than its peers. Policymakers, worried about overheating, imposed credit curbs and pulled back fiscal spending levers. We believe these measures, having succeeded in stabilising the economy, are due for a rethink. The PBoC's recent cut in the bank reserve requirement ratio (RRR) suggests it is turning dovish. We expect the central bank to follow through with more cuts.

History suggests it takes more than one RRR cut to revive growth, albeit with a 6-9 months lag. This implies China's growth data is likely to stabilise by late this year or early next year. The authorities could accelerate the recovery, by relaxing their fiscal stance. Indeed, the surge in government bond sales in August hints at such a turnaround – local governments underutilised borrowing limits in H1, giving them leeway to increase borrowing to fund infrastructure spending. Our preferred industrial and material equity sectors and the beaten down High Yield bonds in China would benefit from such a turnaround. The breakout of the equity sectors in technical charts and the tightening of China High Yield bond spreads in recent days are promising (see pages 4-5).

Regulatory reforms: The scale of regulatory reforms since Q2 caught investors by surprise. These reforms are aimed at curbing monopolies, reducing property sector leverage and restraining businesses such as internet gaming, social media and private tutoring, which are not in line with the government's socio-economic objectives captured in President Xi Jinping's call for "Common Prosperity". We believe these reforms are here to stay as the government seeks to reduce income disparities and broaden the middle class. Instead, the government is prioritising on developing China's strategic advantage in areas like semiconductors, 'green' infrastructure and electric vehicles. Thus, focusing on sectors aligned with these objectives may give investors an edge, in our view.

US-China rivalry: The competition has brought risk as well as opportunities. To pick one impact area, China's major internet companies with access to consumer data have become a flashpoint. These companies are listed in the US. US regulatory demands for more disclosures could force the ADRs to delist from the US and move to Hong Kong. Nevertheless, the ADRs are trading at a big discount vs US peers, which suggests the risks may be priced in. Technicals are turning too (see page 4).

Zero-tolerance policy on COVID-19: China's zero-tolerance approach against the recent resurgence of the Delta variant has clouded the market outlook. However, China's success in controlling the spread yet again means authorities should gradually relax mobility restrictions. Furthermore, with one of the world's highest levels of vaccinations, China is well placed to shift to a "living with COVID" strategy like Europe and the US.

In summary, China's markets are likely turning a corner, offering investors some tactical and long-term opportunities, but we need clarity on policies before rebuilding broader positions. Sector and stock pickers may have an edge in this market.

— Rajat Bhattacharya

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as neutral for risk assets

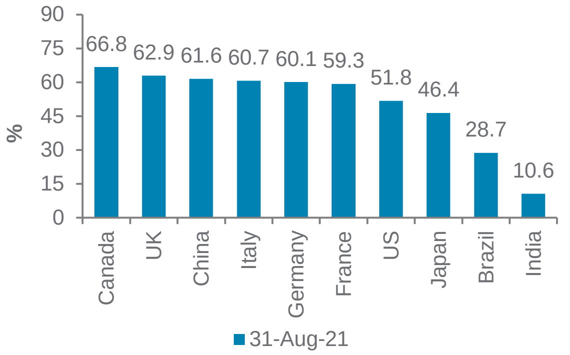
(+) factors: Rising vaccinations, strong US, Europe PMIs, dovish Fed

(-) factors: US COVID, surprisingly weak US, EU sentiment, China PMI

	Positive for risk assets	Negative for risk assets
COVID-19	• Hospitalisations in highly vaccinated UK, Canada and Israel stayed well below prior waves despite a surge in infections • Vaccinations continue to rise globally; EU said 70% adults fully vaccinated • Cases appear to have peaked in Europe and Asia	• US new cases, fatalities and hospitalisations continued to surge, although pace slowing • Daily infections hit a new record in Australia; New South Wales Premier said intensive care patients will hit a peak in October • China maintained travel restrictions to curb outbreak
	Our assessment: Neutral – Vaccine efficacy in the UK, Canada vs continued rise in US infections, hospitalisations	
Macro data	• US manufacturing sector business confidence (PMI) rose more than expected to 59.9 in August • US initial jobless claims fell more than expected and factory orders rose more than expected • Euro area manufacturing sector PMI stood at a robust 61.4 in August • UK, Japan PMIs fell less than expected	• US consumer confidence and Euro area economic sentiment fell more than expected • Euro area inflation rose faster than expected • China's manufacturing PMI fell more than expected, non-manufacturing PMI indicated first contraction since February 2020 • Japan's industrial output rose less than expected
	Our assessment: Neutral – Strong US, Europe manufacturing PMI vs surprisingly weak US, EU sentiments, China PMI	
Policy developments	• The Fed's Powell said rate hikes unlikely anytime soon, although tapering of bond purchases likely this year • China's central bank provided largest monetary injection in six months	
	Our assessment: Positive – Fed reassurance on rate hikes	
Other developments		• China tightened internet gaming rules for teenagers
	Our assessment: Negative – Tighter China regulations	

Most Developed Markets have achieved high levels of vaccinations, enabling them to "live with COVID"

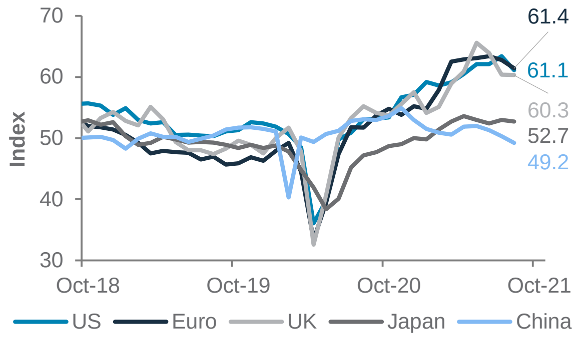
The share of fully vaccinated population in the world's 10 largest economies



Source: Our World in Data, Standard Chartered

Business confidence in Europe and the US remains robust, and much stronger than in Japan and China, despite easing from lofty levels

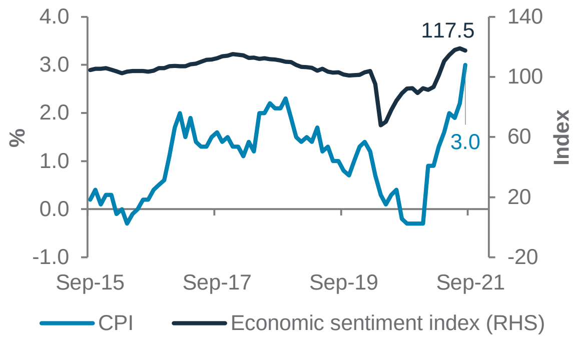
Purchasing Managers Indices (PMIs)



Source: Bloomberg, Standard Chartered

The surge in Euro area inflation is primarily due to one-off factors, such as oil prices and taxes, which are unlikely to persuade the ECB to tighten policy

Euro area consumer inflation, Economic Sentiment Index



Source: Bloomberg, Standard Chartered

Top client questions

Is Hong Kong/China equities turning the corner?

There have been encouraging signs this week for Hong Kong/China equities, especially for Chinese internet companies. First, the rollover of long positions dominated the Hang Seng Index Futures expiry on Monday, suggesting a long positioning bias for the month of September. Following that, internet stocks recorded a "V-shaped" recovery on Tuesday, ending the day with massive buying volumes, despite the news on Monday evening about plans to restrict when and for how long children can play video games.

On technical charts, the largest Chinese internet names – some of the bellwether stocks in the Hang Seng index – have held key support levels over the last few weeks. Furthermore, the MSCI China index looks deeply oversold as it tries to rebound from strong support at the 200-WMA. As the accompanying chart shows, the index has rebounded from similar conditions in the past and a rebound this time around would not be surprising. More recently, the index has managed to recoup its mid-August losses in the past two weeks and the rise above the 16 August high is an encouraging sign.

However, a hold above the long-term moving average does not necessarily imply that China equities are preferred over a 6-12 month time horizon. The index needs to break above the horizontal trendline from January 2021 (at 102) for the medium-term downward pressure to fade.

So, while the near-term visibility may have improved slightly for Chinese equities, risks remain: such as potential contagion from developments related to Evergrande Group (the property developer whose bonds have sold off on concerns over a potential default) and the government's long-term reform agenda for more "equality" in society and related regulation uncertainties. On the other hand, the growth slowdown could prompt policymakers to accelerate monetary and/or fiscal policy easing.

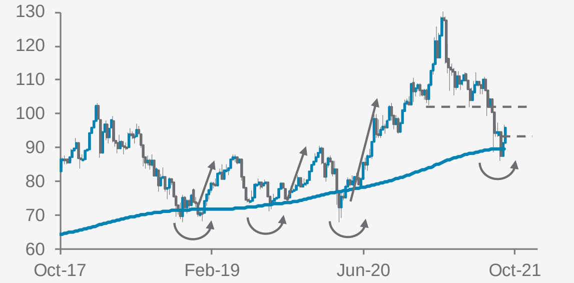
Overall, we see the risks and rewards balanced on a 12-month horizon, where China remains a core holding within Asia ex-Japan, which is also a core holding (ie. expected to perform broadly in line with global equities). However, it appears that investors are adjusting to the new paradigm in China and are willing to participate if they see tactical buying opportunities.

We believe investors with little exposure to Hong Kong/China equities may take advantage of these short-term opportunities 1) via buying stocks with short-term momentum, or 2) earning income by selling volatility through structures. Those who already have a high exposure may use the expected rally as an opportunity to rebalance their portfolio and rotate into our preferred markets in Europe and the US, which we expect to outperform in the coming 6-12 months.

— **Daniel Lam, CFA,** *Senior Cross-asset Strategist*
— **Manish Jaradi,** *Senior Investment Strategist*

China equities are holding above key support

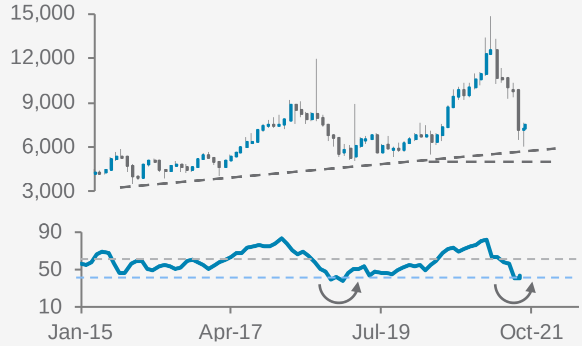
MSCI China index weekly chart, with 200-week moving average



Source: Bloomberg, Standard Chartered

China's internet sector is showing signs of stabilisation

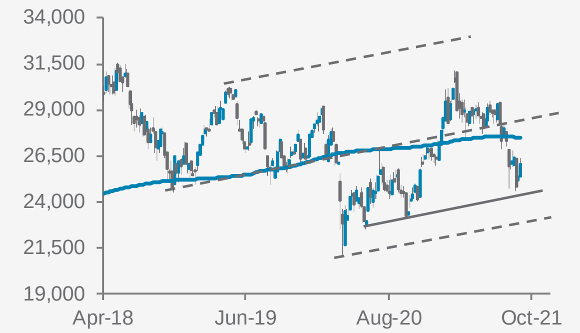
CSI Overseas China Internet index monthly chart, with Relative Strength Index (a momentum indicator)



Source: Bloomberg, Standard Chartered

The Hang Seng Index is within its well-established range despite the pullback in recent weeks

Hang Seng Index weekly chart, with 200-week moving average



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Is it time to add exposure to Asian and Chinese High Yield (HY) bonds?

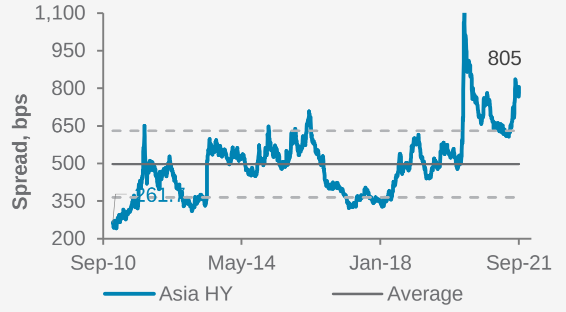
In the Weekly Market View dated 20 August 2021, we talked about the attractive risk-reward offered after excessive Chinese default risk was being priced among Asian HY bonds. Since then, the HY bond yield premium has been rangebound. Nonetheless, we see more positive developments, such as (i) easing concerns towards China's regulatory overhaul, (ii) rising market expectations of a state bail-out for Huarong, and (iii) strong Q2 earnings.

We believe Asian HY bonds remain attractive even after their recent rebound. Valuations remain very attractive relative to history, and yield premiums are considerably higher compared to their US and European HY counterparts. In the Chinese HY bond space, while the broad regulatory scrutiny is unlikely to end anytime soon, we believe default rates are unlikely to rise substantially. Also, recent earnings reports suggest more Chinese HY bond issuers, especially in the real estate sector, have shrugged off regulatory tightness and edged closer to fulfilling regulatory requirements. As such, we favour adding exposure to Chinese HY bonds, with a bias towards issuers from either defensive sectors or market leaders with strong fundamentals.

— **Cedric Lam,** *Senior Investment Strategist*

Asian High Yield USD bonds, dominated by China bonds, still look very attractive relative to their history

Asian High Yield USD bond yield premium over Treasuries and +/- 1 standard deviation from mean



Source: Bloomberg, Standard Chartered

Which currencies will benefit as the USD weakens?

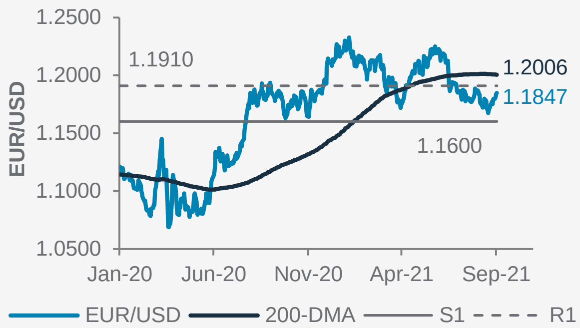
Broad USD weakness has returned after the Jackson Hole symposium last week. While the dovish market reaction towards Fed Chair Powell's tone could persist in the short term, risk sentiment will likely stay choppy if COVID-19 trends and economic data deteriorates. We expect the Fed to announce bond purchase tapering by end-2021. FX volatility could rise ahead of key US economic data releases as markets await clarity from the Fed's proposed timeline for tapering. However, that should not stand in the way of a weaker USD against European and commodity-linked currencies over the next 6 to 12 months as global growth recovery resumes.

EUR/USD has stayed relatively firm over the past few days, propped up by higher-than-expected Euro area inflation data as well as slightly hawkish ECB comments (which have alluded to a gradual drawdown of pandemic emergency purchases). These factors will likely set the tone for next week's policy discussion. The technical outlook for EUR/USD has also improved recently, with the pair finding support at around 1.1600-1.1700, which we expect to hold. A break above 1.1910 could pave the way higher towards 1.1965 and 1.2000. Beyond that, Germany's federal election on 26 September will be the next catalyst to monitor closely.

— **DJ Cheong, CFA,** *Investment Strategist*

The Euro area inflation surprise and hawkish comments from some ECB policymakers are supportive for the EUR

EUR/USD



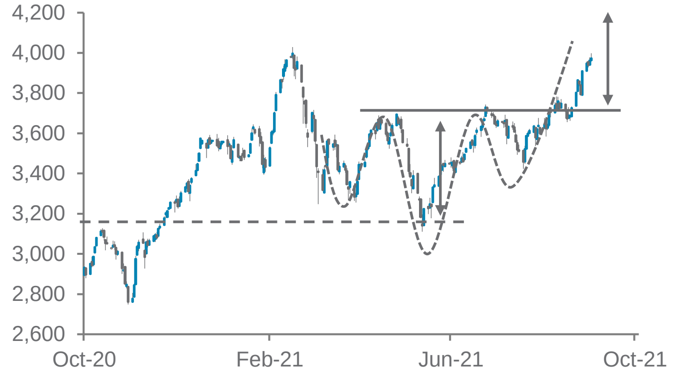
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

Global Fintech: Bullish pattern points to further upside

Indxx Global FinTech Thematic index (NTR) daily chart



Source: Bloomberg, Standard Chartered

> The bullish reverse head-and-shoulders pattern points to further upside, potentially towards 4280 (about 8% from Thursday's close). This would imply a rise above the early 2021 high, rendering the index back on its long-term upward trajectory.

Global Infrastructure: Gearing up for the next leg higher

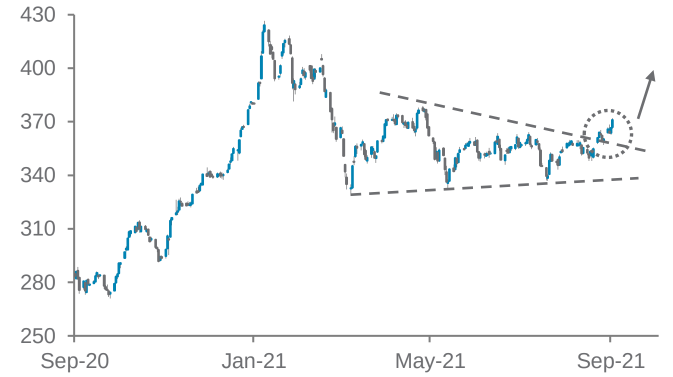
S&P Global Infrastructure (NTR) index daily chart

Source: Bloomberg, Standard Chartered

> The Global Infrastructure index is staging a bullish break similar to the Global Fintech index, albeit with a smaller price objective. Nevertheless, this would imply a breakout of the recent range and potentially a move towards the top of the rising trendline since 2015.

Global Wind Energy: Winds of change

ISE Global Wind Energy (TR) index daily chart

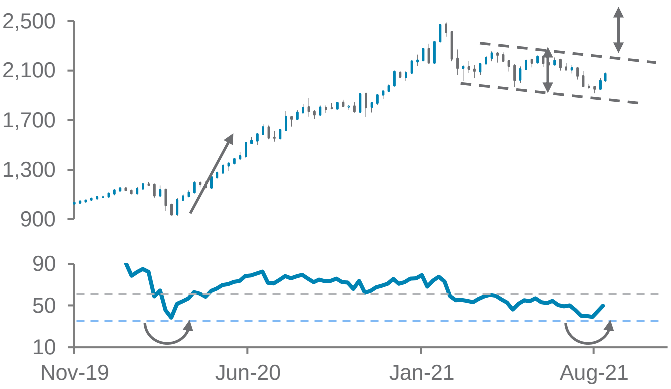


Source: Bloomberg, Standard Chartered

> After months of sideway price action, the Global Wind Energy index is beginning to flex its muscles again. Triangle formations being continuation patterns, the recent break above the triangle raises the prospect of the resumption of the uptrend, initially towards 400 (7.5% from Thursday's close).

Gaming and Esports: Could be about to reboot

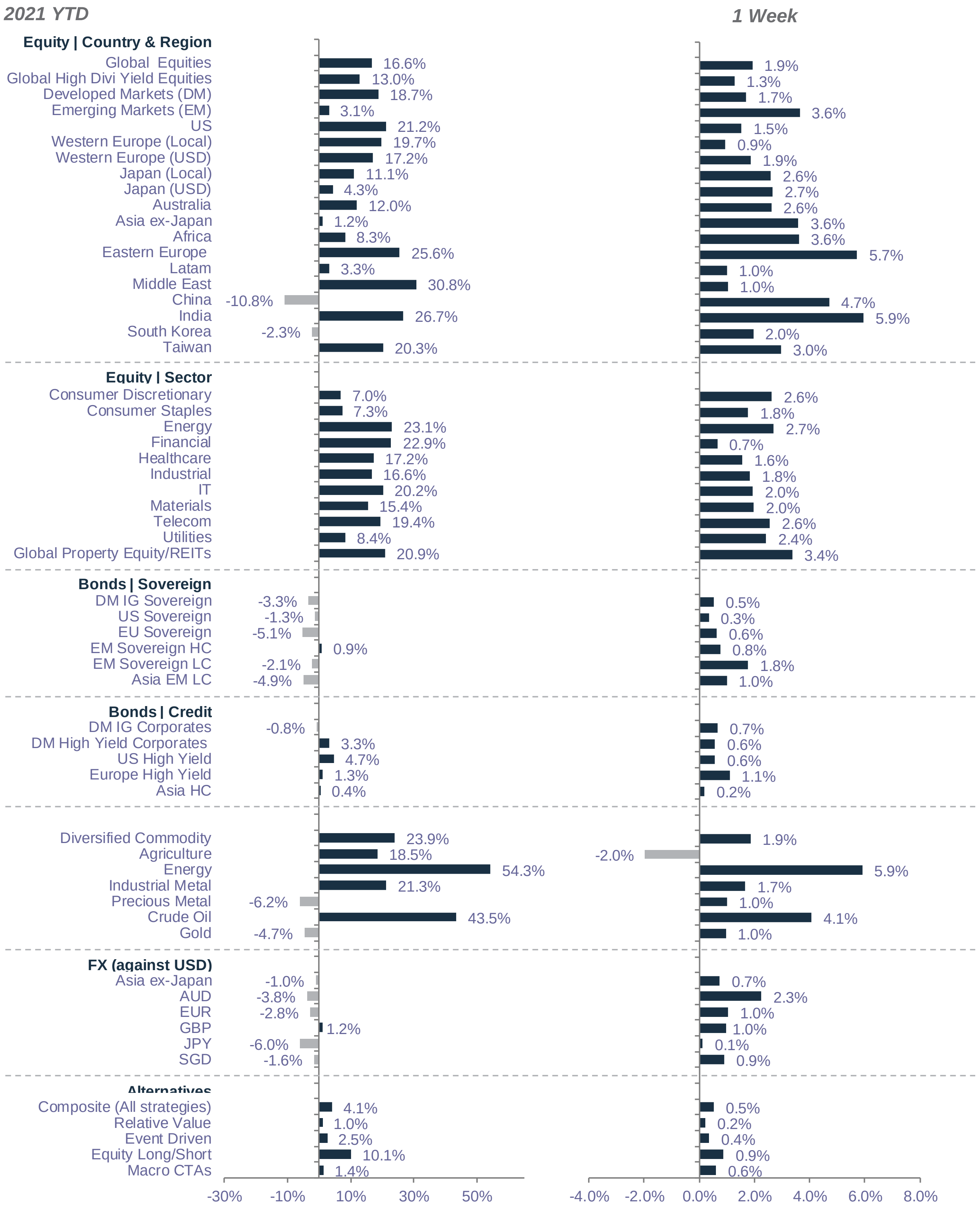
Solactive Video Games and Esports index daily chart with RSI



Source: Bloomberg, Standard Chartered

> A rebound in the 14-day Relative Strength Index from 40 raises the odds that the Gaming and Esports index's consolidation could be ending. Any break above the upper edge of the downward sloping channel could pave way towards 2430 (17% from Thursday's close).

Market performance summary *



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered
*Performance in USD terms unless otherwise stated, 2021 YTD performance from 31 December 2020 to 02 September 2021; 1-week period: 26 August 2021 to 02 September 2021

Our asset class views at a glance

Asset class			
Equities	▲	**Alternatives**	◆
Euro area	▲	Equity hedge	▲
UK	▲	Event-driven	▲
US	▲	Relative value	▼
Asia ex-Japan	◆	Global macro	◆
Japan	▼		
Other EM	◆	**Cash**	▼
		USD	▼
Bonds (Credit)	◆	EUR	▲
Asia USD	▲	GBP	▲
Corp DM HY	▲	CNY	◆
Govt EM USD	▲	JPY	◆
Corp DM IG	▼	AUD	▲
		NZD	▲
Bonds (Govt)	▼	CAD	▲
Govt EM Local	◆		
Govt DM IG	▼	**Gold**	◆

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

Economic and market calendar

	Event	Next week	Period	Prior
MON	UK	Markit/CIPS UK Construction PMI	Aug	58.7
TUE	AU	RBA Cash Rate Target	7-Sep	0.1%
	GE	Industrial Production WDA y/y	Jul	5.1%
	EC	ZEW Survey Expectations	Sep	42.7
WED	JN	BoP Current Account Adjusted	Jul	¥1779.1b
THUR	US	Consumer Credit	Jul	$37.690b
	CH	PPI y/y	Aug	9.0%
	GE	Exports SA m/m	Jul	1.3%
	EC	ECB Main Refinancing Rate	9-Sep	0.0%
FRI/ SAT	US	PPI Ex Food and Energy y/	Aug	6.2%

Source: Bloomberg, Standard Chartered

Prior 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

S&P500 has first support 0.4% below current level

Technical indicators for key markets as on 02 September 2021

Index	Spot	1st support	1st resistance
S&P500	4,537	4,519	4,546
STOXX 50	4,232	4,205	4,246
FTSE 100	7,164	7,134	7,179
Nikkei 225	28,544	28,132	29,603
Shanghai Comp	3,597	3,543	3,618
Hang Seng	26,090	25,541	26,223
MSCI Asia ex-Japan	841	823	850
MSCI EM	1,312	1,286	1,325
Brent (ICE)	73.0	71.9	73.8
Gold	1,810	1,809	1,817
UST 10Y Yield	1.28	1.28	1.31

Source: Bloomberg, Standard Chartered

Investor diversity has normalised across major assets

Our proprietary market diversity indicators as of 01 September

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	2.03
Global Equities	◐	→	1.48
Gold	◐	↓	1.44
Equity			
MSCI US	◐	↓	1.32
MSCI Europe	◐	→	1.46
MSCI AC AXJ	◐	↓	1.47
Fixed Income			
DM Corp Bond	●	↑	1.63
DM High Yield	●	↑	1.65
EM USD	◐	→	1.43
EM Local	●	↓	1.69
Asia USD	●	→	1.66
Currencies			
EUR/USD	◐	↓	1.35

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

Legend: ● High | ◐ Low to mid | ○ Critically low

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