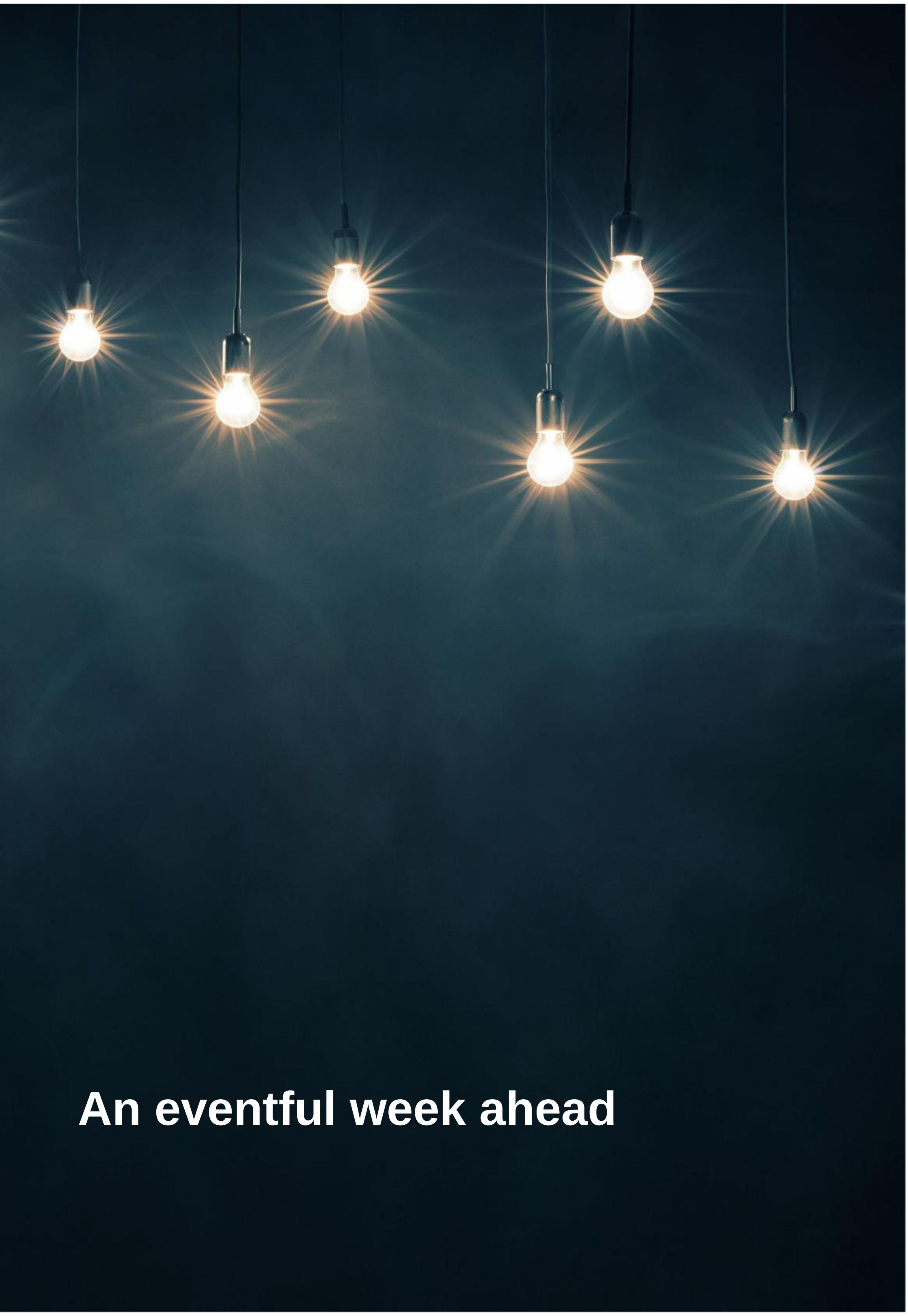
Macro Strategy | 6 December 2019

Standard Chartered Private Bank

Weekly Market View



An eventful week ahead

Fed and ECB policies are likely to remain supportive of global risk assets; the GBP should get a further boost after UK elections

Equities: This week's consolidation does not signal a change in the medium-term uptrend, in our view

Bonds: Asian USD bonds, with robust fundamentals, are unlikely to be impacted by recent defaults in the onshore China bond market

FX: USD/CNH could test 6.95 if a partial trade deal is signed

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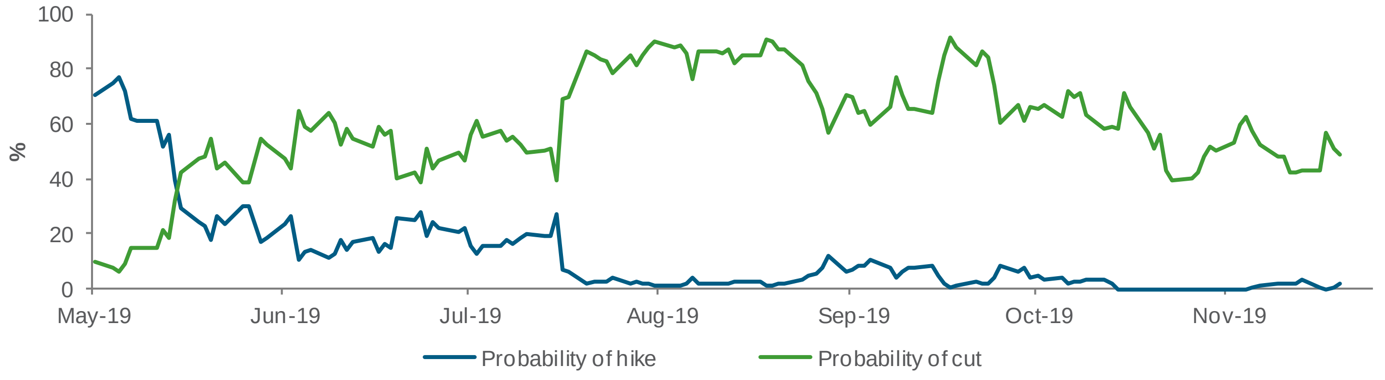
Chart of the week: Market expects a dovish Fed in 2020

Money markets indicate an almost 50% chance that the Fed may cut rates again by June 2020



Source: Bloomberg, Standard Chartered

Editorial

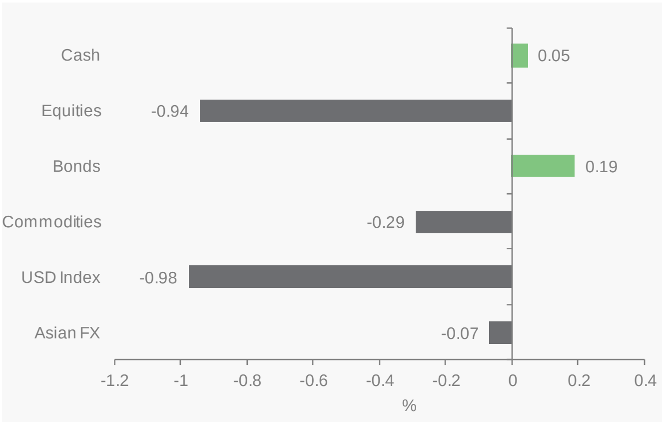
An eventful week ahead

The coming week contains a few potential near- and medium-term market trigger-points. With equities still stretched despite some softness earlier this week, US-China trade talks remain one key source of risk. A further deal delay or a breakdown in talks would raise the prospect of a rise in US tariffs on China from 15 December; in our assessment, equities are not priced for such an outcome. This suggests a cautious stance for now, unless we see a trade breakthrough.

Three other events will have longer-term positive implications for risk assets, in our view: 1) the Fed is likely to signal a prolonged pause in its rates policy after its 11 December meeting, short of a surge in inflation; 2) the ECB on 12 December will probably signal a prolonged phase of ultra-loose monetary policy, with new President Lagarde likely calling on Euro area governments (especially Germany) to increase fiscal spending to revive growth and inflation; and 3) polls suggest UK PM Johnson's Conservative party looks set to win a majority in the 12 December election, which would clear the way for an orderly Brexit. These events would set the stage for a medium-term rally in risk assets, in our view.

Global equities pared back November's gains after facing resistance near their all-time high, partly on doubts on whether a partial US-China trade agreement will be concluded soon

Benchmark market performance w/w*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered (Indices used are JP Morgan Cash, MSCI AC World TR, Citi World Big, DJ-UBS Commodity, DXY and ADXY)

*Week of 28 November 2019 to 05 December 2019

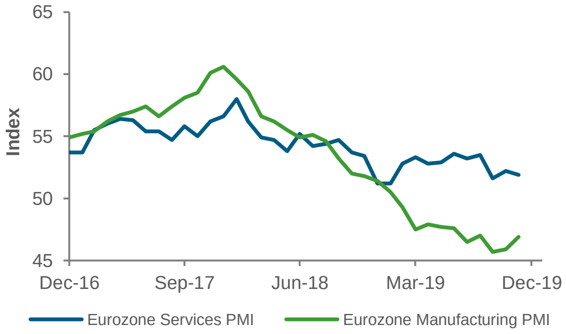
What to expect from the Fed and the ECB this week?

Two of the world's most powerful central banks are unlikely to unsettle the ongoing rally in risk assets, which has been partly led by expectations of continued easy monetary policies supporting growth, in our view. The dovish turnaround in Fed policy at the start of the year and the more aggressive loosening of policy by the ECB in Q3 '19 appear to have helped stabilise economic data in both regions. This is evident from the business confidence indicators (PMIs, ISM, IFO, ZEW) for November. A still-weak manufacturing sector in both the economies means they need to be nurtured further towards recovery.

Having stabilised their economies, the Fed and the ECB would be keen to sustain the expansion, especially given the significant external headwinds from global trade (South Korean exports, a leading indicator, contracted for the 12th month in a row in November) and political uncertainty in the run-up to the US presidential election in November 2020 (especially with the US House of Representatives setting in motion a vote to impeach President Trump). Hence, we expect both central banks to keep interest rates below inflation and sustain bond purchases unless inflation rises significantly and persistently. Markets are partly pricing a Fed rate cut by mid-2020, which sits well with our own expectations. Continued monetary policy stimulus and chances of further fiscal stimulus in China and Europe are key factors behind our 6-12-month bullish view on risk assets.

Euro area business confidence indicators showed further signs of stabilisation in November

Euro area PMIs for the manufacturing and services sectors



Source: Bloomberg, Standard Chartered

UK election likely to be positive for GBP, domestic assets

GBP/USD decisively broke above a key resistance (1.3000) to its strongest level since May, as markets priced in an outright majority for the ruling Conservative Party in the 12 December election (as signalled by the latest opinion polls). A clear win for PM Johnson's party would raise the prospects for an orderly Brexit by 31 January on the terms agreed between Johnson and the EU leaders. Nevertheless, some polls also signal the Labour party may be catching up, which raises the prospects of a post-election alliance between Labour and Liberal Democrat parties. In our view, such a coalition government could also be positive for the GBP, possibly after a brief correction, given that the alliance is likely to call for a second referendum on Brexit which, according to the polls, would lead to the UK staying on in the EU.

Given this risk-reward, we remain bullish on the GBP. GBP/USD faces a major resistance at 1.3385-1.3475, with a break likely opening the way to 1.4000. Technical support is around 1.2900. GBP/SGD also looks attractive on the charts, especially on any dip towards 1.7730. UK domestic equities, including financial sector stocks, are other likely beneficiaries following the elections as pent-up business investment is likely to pick up if Brexit uncertainty reduces, boosting earnings.

GBP/SGD has broken out to its highest since May; the pair looks attractive on technical charts, in our view, especially on any dip towards 1.7730

GBP/SGD

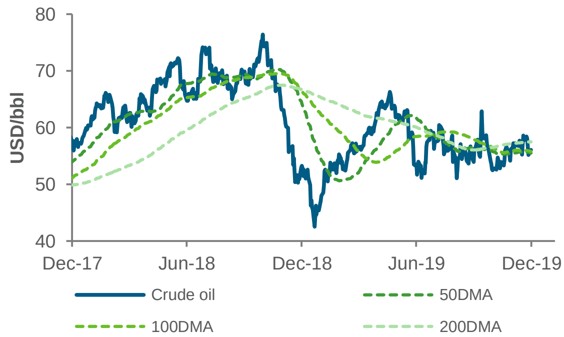
Source: Bloomberg, Standard Chartered

OPEC's sustained output cuts to keep oil prices supported

OPEC+ (includes non-OPEC countries such as Russia) agreed in principle to deepen output cuts by 0.5mbd, but has yet to provide details. Production cuts (~1.2mbd) were first rolled out in December 2018 and subsequently extended until March 2020 in July. Saudi Arabia, the largest OPEC producer, has cut a lot more than it should under the current agreement, while some countries, like Iraq and Nigeria, have been less compliant. Against this backdrop, we expect WTI crude oil to remain in a range around USD 57/bbl over the next few months. Tighter compliance of the cuts should help prop up prices in the near term amid a recovery in global growth, but we believe this could be offset by rising non-OPEC supply in the medium term.

Oil has traded in a narrow range since mid-year; we expect this trend to continue as sustained OPEC output cuts are offset by rising non-OPEC supply

West Texas Intermediate (WTI) crude oil price



Source: Bloomberg, Standard Chartered

What does this mean for investors?

Equities

What can we deduce from the brief consolidation this week? Global equities retracted almost 1% over the past week after President Trump raised the potential for a delay in a US-China trade deal until after the 2020 election. The news sent bond prices higher and equity prices lower on concerns over the global growth outlook, and, in turn, corporate earnings, in 2020. The shallow drawdown, however, suggests investors have not ruled out a near-term partial trade truce.

Cyclical sectors, including industrials and energy, suffered the most in the sell off. The weakness in energy contrasts with the rally in oil prices. The divergence likely reflects the former focusing on the risks to growth in 2020, as opposed to geopolitical considerations that can impact day-to-day moves in oil prices. Banks also suffered from the dip in bond yields as investors focused on the downside risks to yields and, in turn, banks' interest income. We retain our preference for US equities and the financial sector, given our view that the consolidation in markets reflects uncertainty around trade as opposed to a change in the trend. Even if there is a near-term delay in reaching a partial trade deal, our baseline expectation is that domestic economic compulsions on both sides would encourage an eventual truce in 2020.

Bonds

Should we be worried about Asia USD bonds, given recent defaults by Chinese issuers? We continue to view Asian USD bonds as a preferred area within bonds despite the recent defaults and bond restructuring from Chinese companies. While defaults from Chinese issuers in the onshore CNY-denominated bond market have risen sharply over the past few months, we do not believe they are likely to create a materially negative impact on the offshore USD-denominated bond market. Issuers in the offshore market generally have a better credit quality, with 76% bonds rated Investment Grade.

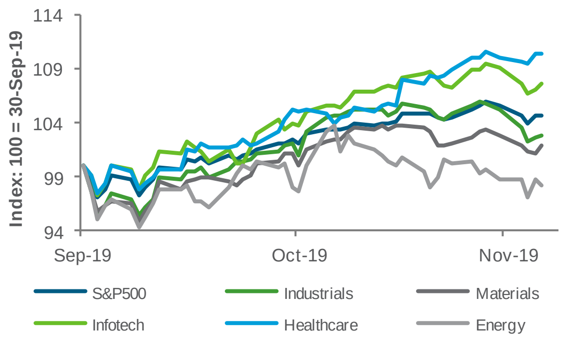
Are US energy sector bonds a risk to the broader HY asset class? Yield premiums for US High Yield (HY) bonds rose earlier in the week amid US-China trade tensions and weak manufacturing data. The energy sector (13% of US HY bonds) continues to lead underperformance, with their yield premium over the broader HY market now at the highest level since 2016. Given range-bound oil prices and a slowdown in cost cuts, markets are increasingly concerned about a potential spike in the sector's default rates. Having said that, we believe US HY's attractive yield and broadly reasonable valuations should help buffer some of the impact. We continue to view Developed Market HY bonds as a core holding.

FX

Is USD/CNH weakness over? USD/CNH rallied over November from a base near 6.9500, completing a retracement of the fall from around 7.1700 in October. Attention now turns to US tariff increases, currently scheduled for 15 December, and if a US-China "deal" could be completed ahead of this deadline. The near-term implications for CNH could be significant approaching year-end, as market liquidity and risk appetite are likely to dip. If a significant trade deal, which includes a "currency agreement", is announced, we could see USD/CNH challenge the October low at 6.9500, followed by 6.8200-6.8700. With "no deal" and additional tariffs, a re-test of the 2019 high around 7.1950 appears likely.

Some US cyclical sectors that had led the US equity market rally since October, such as industrials, pulled back the most in the latest consolidation phase

Relative performance of select S&P500 index sectors (index: 100 = 30 September 2019)



Source: Bloomberg, Standard Chartered

Europe and China technicals turned weaker this week

Technical levels of key markets as of 05 December 2019

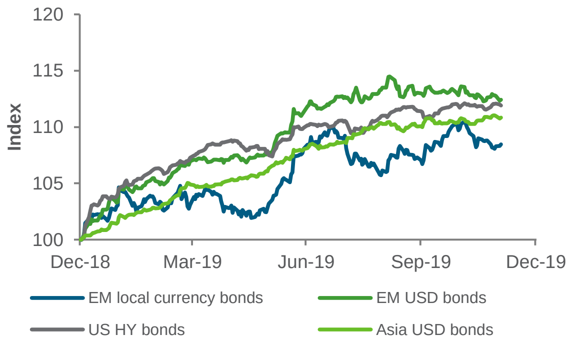
Index	Spot	1st support	1st resistance	Short-term trend
S&P 500	3,117	3,068	3,155	↑
STOXX 50	3,648	3,570	3,730	↘
FTSE 100	7,138	7,000	7,440	↘
Nikkei 225	23,300	22,700	23,600	↗
Shanghai Comp	2,899	2,825	2,950	↘
Hang Seng	26,217	25,540	27,200	↘
MSCI Asia ex-Japan	647	637	659	→
MSCI EM	1,043	1,010	1,058	→
Brent (ICE)	63	60	65	↗
Gold	1,476	1,445	1,495	→
UST 10Y Yield	1.80	1.68	2.00	↗

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

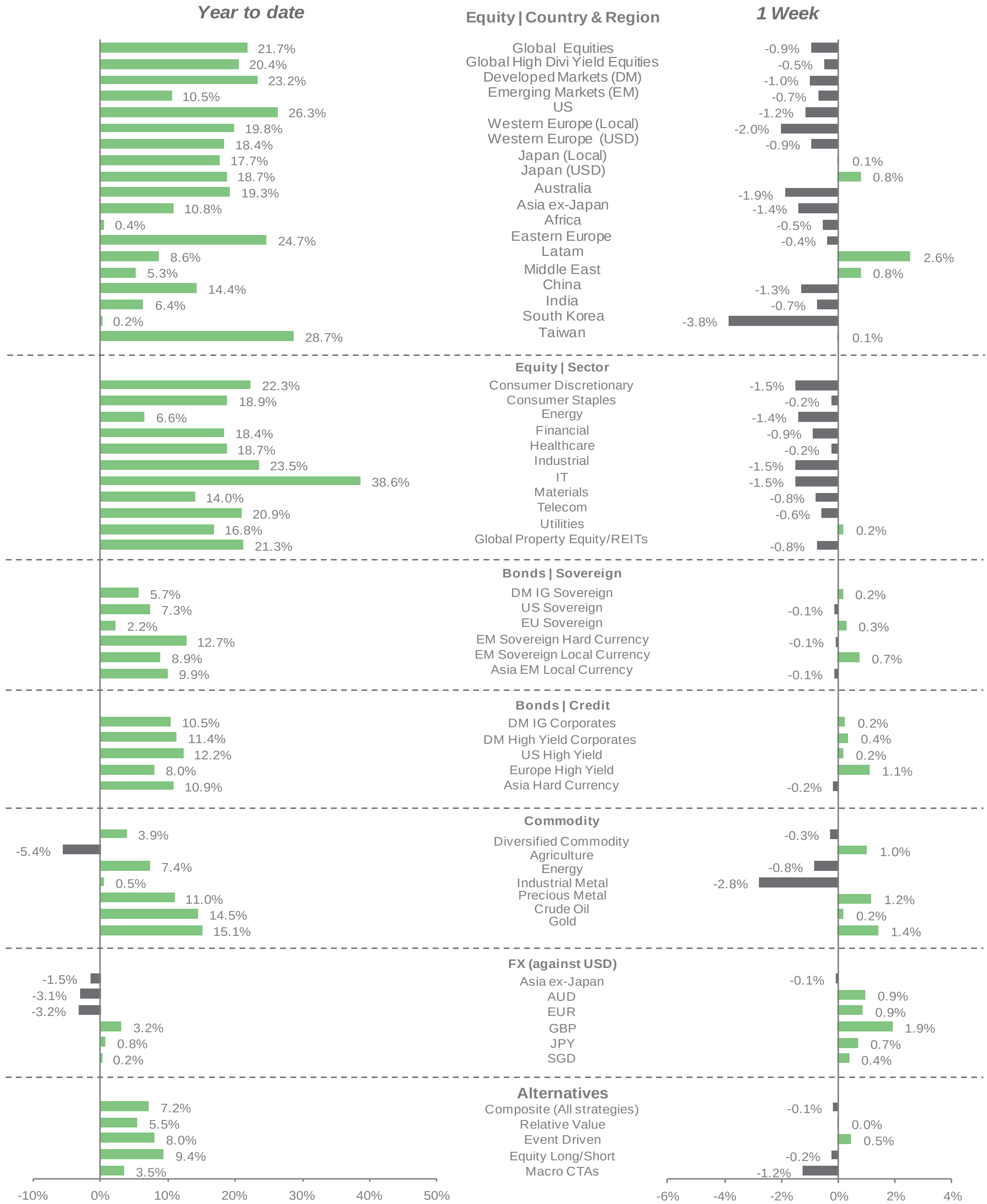
Asia USD bonds have delivered strong returns YTD, with much less volatility than other bond asset classes, supported by their robust credit quality

Relative performance of EM USD government, US HY, Asia USD and EM local currency bonds YTD (index: 100 = 31 December 2019)



Source: Bloomberg, Standard Chartered

Market performance summary *



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

*Performance in USD terms unless otherwise stated, YTD period from 31 December 2018 to 05 December 2019, 1 week period: 28 November 2019 to 05 December 2019

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	GE	Exports SA m/m	09-Dec-19	Oct	–	1.5%
	EC	Sentix Investor Confidence	09-Dec-19	Dec	–	-4.5
	CH	Aggregate Financing CNY	09-Dec-19	Nov	1500.0b	618.9b
TUE	CH	CPI y/y	10-Dec-19	Nov	4.2%	3.8%
	CH	PPI y/y	10-Dec-19	Nov	-1.4%	-1.6%
	FR	Industrial Production y/y	10-Dec-19	Oct	–	0.1%
	EC	ZEW Survey Expectations	10-Dec-19	Dec	–	-1.0
	US	NFIB Small Business Optimism	10-Dec-19	Nov	103.1	102.4
WED	US	CPI Ex Food and Energy y/y	11-Dec-19	Nov	2.3%	2.3%
	US	Real Avg Hourly Earning y/y	11-Dec-19	Nov	–	1.2%
THUR	US	FOMC Rate Decision (Upper Bound)	12-Dec-19	11-Dec	1.8%	1.8%
	JN	Core Machine Orders y/y	12-Dec-19	Oct	–	5.1%
	EC	ECB Main Refinancing Rate	12-Dec-19	12-Dec	–	0.0%
	US	PPI Ex Food and Energy y/y	12-Dec-19	Nov	–	1.6%
FRI/ SAT	JN	Tankan Large Mfg Outlook	13-Dec-19	4Q	–	2.0
	US	Retail Sales Ex Auto and Gas	13-Dec-19	Nov	0.4%	0.1%

	Event	This Week	Date	Period	Actual	Prior
SUN/ MON	SK	Exports y/y	02-Dec-19	Nov	-14.3%	-14.8%
	US	ISM Manufacturing	02-Dec-19	Nov	48.1	48.3
TUE	AU	RBA Cash Rate Target	03-Dec-19	3-Dec	0.75%	0.75%
WED	CH	Caixin China PMI Composite	04-Dec-19	Nov	53.2	52.0
	IN	Markit India PMI Composite	04-Dec-19	Nov	52.7	49.6
	US	ISM Non-Manufacturing Index	04-Dec-19	Nov	53.9	54.7
THUR	IN	RBI Repurchase Rate	05-Dec-19	5-Dec	5.15%	5.15%
	GE	Factory Orders WDA y/y	05-Dec-19	Oct	-5.5%	-5.0%
	EC	Retail Sales y/y	05-Dec-19	Oct	1.4%	2.7%
	US	Trade Balance	05-Dec-19	Oct	-$47.2b	-$51.1b
FRI/SAT	GE	Industrial Production WDA y/y	06-Dec-19	Oct		-4.3%
	US	Change in Nonfarm Payrolls	06-Dec-19	Nov		128k
	US	Unemployment Rate	06-Dec-19	Nov		3.6%
	US	Average Hourly Earnings y/y	06-Dec-19	Nov		3.0%
	US	U. of Mich. Sentiment	06-Dec-19	Dec P		96.8

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue
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

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