Standard Chartered
Private Bank

Weekly Market View

China's consumers to the rescue?

Risk assets are likely to come under further pressure ahead of the US election season, though we expect supportive policymakers and, increasingly, China's rising consumption to provide fundamental support to the medium-term uptrend in risk assets. We would average into our preferred assets on any further decline

Equities: US and Euro area benchmark indices are 4% away from strong technical support levels. Euro area stocks look weaker, though, having failed to break above a key technical resistance

Bonds: We remain positive on US High Yield bonds, despite recent outflows, amid stabilising default rates and a supportive Fed

FX: We expect the USD rally to be temporary; EUR/USD support is at 1.15

Also find out...

Are equity sector moves reflecting rising chances of a COVID-19 vaccine?

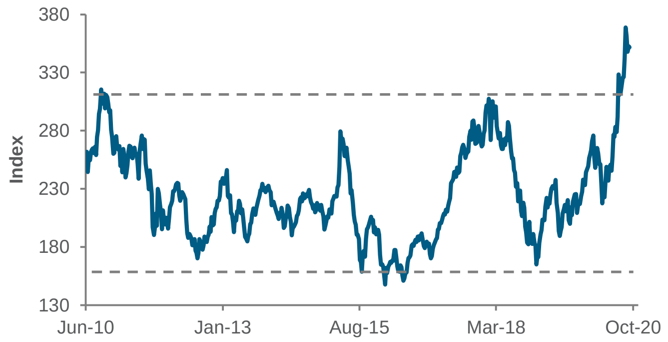
Why have Euro area banking sector equities fallen sharply?

Should we buy gold on the dip?

Charts of the week: China's consumers on the march

China's consumers are likely to drive the next phase of its recovery, acting as stabilisers ahead of a volatile US election season

The MSCI China consumer discretionary sector index broke above technical resistance



The S&P 500 index has immediate support around the 200-day moving average

Source: MSCI, Bloomberg, Standard Chartered

Editorial

China's consumers to the rescue?

Risk assets are likely to come under further pressure as we head into a volatile US election season. However, we believe there is one source, besides supportive policymakers, that can act as a near-term stabiliser for markets: China's resurgent consumption. China's rapid recovery from the pandemic, initially fuelled by its industries and infrastructure spending, has been a big driver of global risk assets. We believe the next phase of China's recovery is likely to be supported by its consumers.

A defining feature of the current recovery was the early restart of China's manufacturing sector in Q2. This was just in time to cater to the consumption rebound in the US and Europe as they emerged from lockdowns, with pent-up demand for work-from-home electronic gear, ventilators, masks and medical supplies. While China's manufacturing recovered, domestic consumption lagged because, unlike in the West, China's stimulus was directed at industrial and infrastructure sectors.

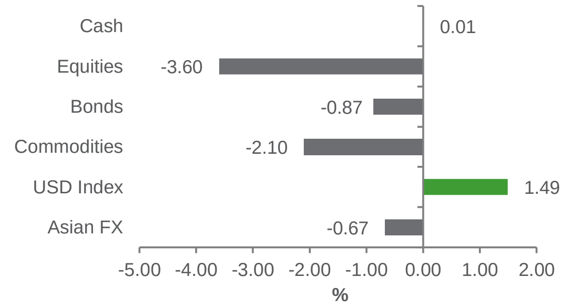
The upcoming "Golden week" holiday season (1-8 October) is likely to help reset the balance. Early signs are promising, with air ticket and hotel bookings exceeding last year's levels. The government's new "internal circulation" strategy, which focusses on boosting the domestic economy and reducing China's dependence on exports, is another plus for consumption. In our view, this is positive for China's technology and consumer discretionary sector equities and Asian USD bonds, especially in the high-yielding segment dominated by Chinese property companies.

The other focus for markets is the upcoming US election season, with the first presidential debate scheduled on 29 September. With Democratic candidate Biden ahead in the race (raising concerns about his taxation and regulatory policies) and uncertainty on whether the Congress will pass another stimulus before the elections, especially with the emerging battle over a Supreme Court nomination, there is a risk that the ongoing equity market pullback could extend. The S&P 500 index has support at 3,106 (4% below Thursday's close - see page 4).

A renewed COVID-19 wave and rising Brexit uncertainty are other near-term risks. However, our constructive 12-month outlook, based on robust policy support and improving chances of a vaccine by early 2021, means that we would average into our preferred risk assets (page 8).

Equities, bonds and commodities resumed their decline in the past week amid risk-off sentiment; USD rose

Benchmark market performance w/w*



Source: Bloomberg; *week of 17 Sept. 2020 to 24 Sept. 2020

Our proprietary market diversity indicators point to low risk of a short-term trend reversal

Market diversity across key asset classes

Level 1	Diversity	Diversity trend since 24-Aug-20	Fractal dimension
Global Bonds	◐	↑	1.34
MSCI ACWI	◐	↑	1.49
Gold	●	↑	1.52
Equity			
MSCI US	●	↑	1.52
MSCI Europe	●	↑	2.28
MSCI AC AXJ	◐	↑	1.45
Fixed Income			
DM Corp Bond	◐	↑	1.34
DM High Yield	◐	↑	1.43
EM USD	●	↑	1.59
EM Local Currency	●	↑	2.02
Asia Hard Currency	◐	↑	1.35
Currencies			
USD/CNH	◐	→	1.33
EUR/USD	◐	↑	1.38
USD/JPY	●	→	1.58
GBP/USD	●	↑	1.51
AUD/USD	◐	↑	1.48

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity**

Legend: ● High ◐ Low to mid ○ Critically low

The weekly macro balance sheet

	Positive for risk assets	Negative for risk assets
COVID-19	• Daily new cases in Japan, Australia, Brazil and Mexico continued to decline from their July/August highs • India's daily cases stabilised near record highs • US firm Johnson & Johnson started final stage vaccine trials	• Daily new cases have started to rise again in the US and continued to rise in Europe. Spain, France, UK hit new record highs • France, UK, Spain ordered regional lockdowns and restrictions on business and social activities
	Our assessment: Negative, on balance, amid renewed rise in cases in the US and Europe, with the latter re-imposing restrictions.	
Macro data	• US new home sales beat forecasts and existing homes sales rose, as expected, in August to the strongest pace since 2006 • IFO Institute raised Germany's 2020 GDP forecast to -5.2% from -6.7% • Euro area consumer confidence unexpectedly rose in September • ECB said Euro area banks borrowed another USD174bn in ultra-cheap loans to sustain lending	• US National Activity Index and business confidence indicators showed a slower-than-expected pace of activity in August/September • US initial jobless claims unexpectedly rose above expectations • Euro area business confidence (PMI) in September unexpectedly fell
	Our assessment: Neutral, on balance, as stronger-than-expected US new home sales and Euro area consumer confidence was offset by surprisingly weak US economic activity indicators.	
Policy developments	• US Republican and Democrat leaders said they were open to fresh talks towards a stimulus package • ECB's Lagarde said there was a sufficient toolkit to add stimulus • UK Chancellor announced an extended job-support fiscal package for another six months • China said it will boost investment in strategic industries, including technology sectors, and accelerate its COVID-19 vaccine development • Australia's RBA said it may buy more bonds to drive rates lower as the economy faced a 'gradual and uneven recovery'	• US House passed a stopgap bill to fund the government until December, dousing expectations of a broader fiscal stimulus package • Fed's Bostic said economic recovery would get harder, with more permanent job losses, without further fiscal stimulus • Fed's Bullard said the US had already delivered enough financial aid • ECB's Pannetta warned about the risks of policy being 'too slow' given the 'remote' risk of inflation
	Our assessment: Negative, on balance, amid rising concerns that the US Congress may not pass another stimulus before elections.	
Other developments		• TikTok's sale process remained clouded in uncertainty amid US national security concerns • Ireland raised concerns about a potential collapse of Brexit talks
	Our assessment: US-China tensions and Brexit talks remain risks.	

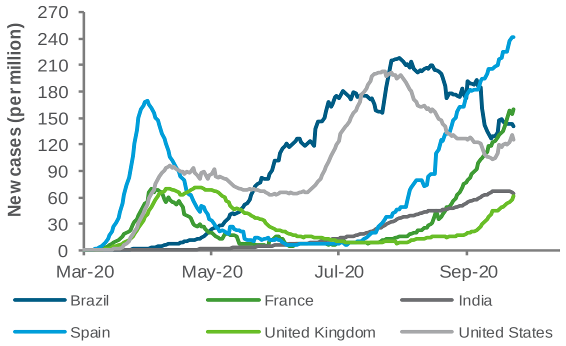
Our weekly net assessment: On balance, this week's data and policy were negative. A delay in finalising a new US fiscal package is a key risk.

(+) factor: Supportive central banks, vaccine developments

(-) factor: COVID resurgence in Europe, US; US stimulus delay; US-China tensions; Brexit

New COVID-19 cases are rising again in the US; new cases in Spain, France and the UK hit new record highs

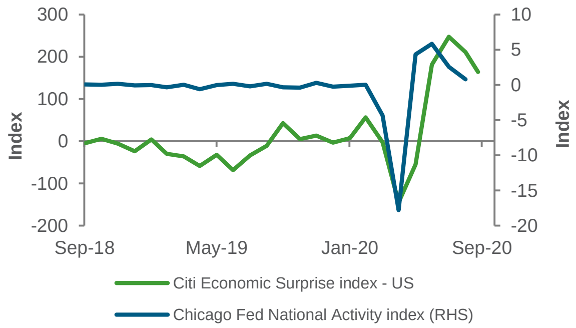
Daily new COVID-19 cases per million people in the US, key European markets, India and Brazil



Source: Our World in Data, Standard Chartered

US economic data is slowing after the initially strong rebound from April lows

US economic surprises index; Chicago Fed national activity index



Source: Bloomberg, Standard Chartered

China's consumption, having mostly recovered from Q1's slump, is likely to get a further boost from the upcoming Golden Week holidays

China's retail sales by major consumer item, including big-ticket items such as cars and jewellery

Source: Bloomberg, Standard Chartered

Top client questions

Are equity sector moves reflecting rising chances of a COVID-19 vaccine?

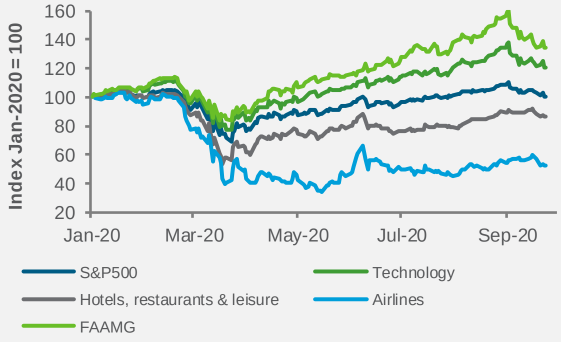
While the development and distribution of a COVID-19 vaccine is complex, media reports suggest that a vaccine could be available by the end of 2020. A vaccine should pave the way towards containment of the pandemic and a normalisation of economic activities. This scenario appears to be relatively well-priced by the equities market; global equities and the S&P500 have bounced back strongly by over 40% since bottoming at the end of March.

However, while the overall market index might be pricing in a vaccine-led normalisation of economic activity, underlying equity sectors' performances suggest otherwise. The chart alongside illustrates the performance of the S&P500 and the various sectors. Leaders that have pulled up the market belong to the technology sector. On the other hand, airlines, hotels, restaurants and leisure sectors, which are sensitive to normalisation of economic activity following the deployment of a vaccine, continue to underperform. Early vaccine availability could reverse some of the former's outperformance, while the latter group could begin to catch up. Having said that, we would caution that longer-term impact on sectors such as airlines and leisure remains uncertain, until there is better clarity on what a "new normal" in the post-COVID-19 world would look like.

A vaccine would, of course, likely have a positive impact on economic growth overall. This would support a rebound in 2021 which, together with the significant policy stimulus around the world, drives our preference for global equities.

US equity sectors, which are sensitive to normalisation of economic activity following the deployment of a vaccine, have underperformed the broader market

Relative performance of various US equity sectors; Index: 100 = 1 Jan 2020



Source: Bloomberg, Standard Chartered

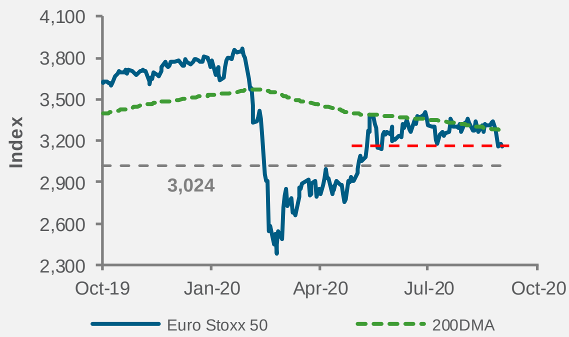
What is the technical outlook for S&P 500 and Euro Stoxx 50?

The failure to break past key resistance on an uptrend line from 2018 and the subsequent fall below immediate support at the February high of 3,394 confirm that the upward pressure has faded in the short term for the S&P 500 index. Moreover, the fall below the 55-day moving average (for the first time since April) has opened the way towards fairly strong support on the 200-day MA (now at 3,106; 4% below Thursday's close), near the 38.2% retracement of the March-September rise. Immediate support is at 3216, and strong support is at 2,890 (the 50% retracement). We believe the current retreat is corrective, and even if the index were to retrace to 2,890 after a strong rally, it would be reasonable and would not necessarily imply a reversal.

In contrast, the Euro Stoxx 50 index has been capped by the 200-day MA in this entire rally – a reflection of relative weakness vs. its peer (the S&P 500 index hit a record high earlier this month). The European benchmark is now attempting to break below crucial support at the August low of 3,174. While this support is strong and a break below is by no means imminent, the odds of a break below are rising. Such a break could pave the way initially toward 3,118, possibly towards the April high of 3,024 (4% below Thursday's close). On the upside, the index would need to break above the 200-day MA for the short-term outlook to turn bullish.

Euro Stoxx 50 index has strong support around the April high of 3024, 4% below Thursday's close

Euro Stoxx 50 index



Source: MSCI, FactSet, Standard Chartered

S&P500 index has immediate support 1% below current level

Technical indicators for key markets as on 17 Sept. 2020

Index	Spot	1st support	1st resistance
S&P500	3,247	3,216	3,298
STOXX 50	3,160	3,118	3,242
FTSE 100	5,823	5,749	5,952
Nikkei 225	23,088	22,997	23,269
Shanghai Comp	3,223	3,185	3,300
Hang Seng	23,311	22,930	24,074
MSCI Asia ex-Japan	695	684	717
MSCI EM	1,058	1,041	1,092
Brent (ICE)	41.9	41.2	42.9
Gold	1,869	1,838	1,925
UST 10Y Yield	0.67	0.66	0.68

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Why have European banking sector equities fallen sharply?

The Euro Stoxx 50 banks index is down about 10% over the past week following the release of classified US Financial Crimes Enforcement Network (FinCEN) suspicious transaction reports (STRs).

While these documents relate to the 2000-2017 period and filing of an STR does not imply the transaction was illicit, the return in focus to prior money laundering and terrorist financing weaknesses is weighing on the sector. Renewed investigations by regulators would reinforce perceptions that banks need increased regulatory oversight and/or higher levels of reserves.

An added factor that has also weighed on bank equities is news of monetary policy confirming a "lower for longer" interest rate outlook. The Bank of England, for example, recently issued a statement that cutting rates into negative territory is a "realistic possibility".

Euro area banks currently trade on 0.3x 2020 price to book value, compared to 0.7x for US banks. Such low valuation levels for Euro area banks signal, amongst other things, that investors do not believe the book value is accurate; specifically, they will need to write off more non-performing loans, which will reduce their book value. Many investors are hoping that the Euro area regulator will allow a resumption of dividends in 2021. However, this remains uncertain. We lower our sector view on European banks to neutral, and remain neutral on US banks.

We lower our view on the Euro area banking sector to neutral amid uncertainty about resumption of dividends and expectations of lower-for-longer interest rates

Euro Stoxx 50 banks index

Source: Bloomberg, Standard Chartered

Are you concerned about the recent outflows from the US High Yield bond market?

High Yield (HY) bonds in Developed Markets, particularly the US, have witnessed a sharp uptick in outflows over the past few days. These are likely driven by recently weak risk sentiment, with concerns about a delay in additional US fiscal stimulus the main factor.

Historically, US HY bond yield premiums have had a high correlation with equity markets, given that they are among the riskiest segments of bonds. Hence, the recent sell-off in equity markets may have served as a profit-taking catalyst for HY investors, especially given relatively overweight positioning prior to the most recent pullback.

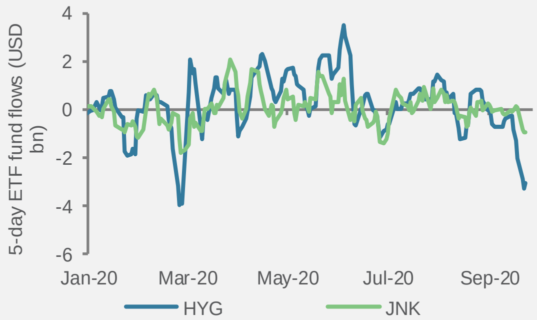
In the near term, volatility could extend. Analogous to our view on equities, it is open to debate how far risky assets (including HY bonds) pull back before US policymakers provide more fiscal stimulus. September is also usually characterised by strong seasonal bond supply, which could also contribute to modestly lower bond prices.

On a 12-month horizon, though, we remain bullish on US HY bonds and would be happy to add exposure on near-term dips because:

1) High frequency data indicates default rates may have plateaued. This, combined with a slowing pace of rating downgrades, may indicate we are closer to the bottom of the credit quality cycle.
2) Medium-term ultra-easy central bank policy and the low yields on higher quality Investment Grade bonds means the search for yield is likely to intensify, supporting demand for HY bonds
3) The rise in aggregate cash balances YTD across HY issuers means the likelihood of severe liquidity stress over the next 3-6 months has reduced, in our assessment.

Although US High Yield bonds have recently seen rising outflows, we remain bullish on a 12-month horizon amid stabilising default rates and supportive central bank policies

5-day fund flows in two of the biggest US High Yield bond ETFs



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Does the USD have much further upside?

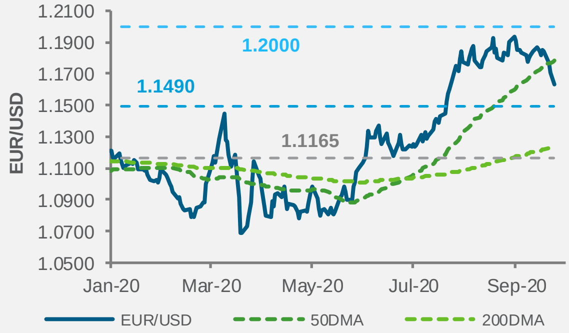
A USD corrective rally is clearly underway as risk sentiment has turned more cautious. Rising new COVID-19 cases in the US and Europe and thus-far stalled US fiscal stimulus talks likely caused risk appetite to falter. This has triggered the liquidation of some speculative short USD positions.

We expect volatile markets in the coming weeks as the US election process gathers steam, but remain confident that the longer-term fundamental outlook will continue to drive a persistent medium-term USD downtrend. We also believe that the Fed will move quickly to avoid any USD liquidity stress that occurred in Q1. Therefore, we believe the USD rally is likely to be temporary and the focus should be to identify technical levels that can be used to accumulate currencies against the USD.

EUR/USD has broken below 1.1685 and could slide towards strong technical support around 1.1490. If this level fails to hold, the next area of strong technical support lies between 1.1165 and 1.1230. Only a break below this deeper support would cause us to question the medium-term uptrend. Position liquidation has seen AUD/USD slip below 0.7060 and raises the chance of a decline towards 0.6925 initially. Strong technical support between 0.6685 and 0.6775 is expected to hold and provide a base for the next leg of the AUD/USD rally to test the previous high above 0.74.

We expect the USD rally to be temporary, hence EUR/USD is likely to find initial support around 1.1490

EUR/USD



Source: Bloomberg, Standard Chartered

Should we buy gold on the dip?

Gold has slipped below USD 1900/oz as the USD rebounded over the past few days. We regard this decline as a corrective one, exacerbated by the unwinding of crowded speculative positions, and still see fundamental factors staying supportive over the next 6-12 months.

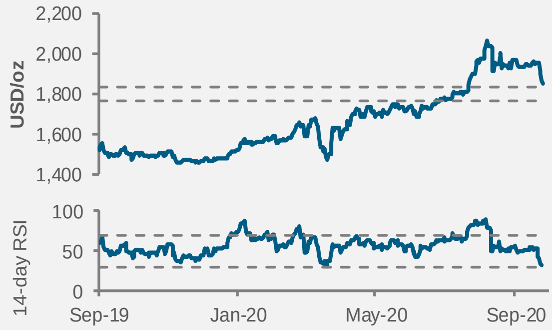
With US policy rates at the zero lower-bound, we believe real (net of inflation) yields should remain capped in the medium term, and could fall further if inflation rises even moderately. This should bode well for gold given its non-yielding characteristics. A weaker USD is also likely to be a tailwind for the precious metal.

In the short term, we believe the uncertainty surrounding the 2020 US presidential election, the risk of delays associated with the outcome as well as ongoing US-China tensions should also offer support to gold.

On technical charts, while the correction in gold prices appears to be quite aggressive, we believe 1,820-1,835 should act as a strong support zone. If that fails to hold, it could pave the way towards 1,765 and 1,690. Our preferred strategy remains unchanged – we would use the dip to add exposure to the precious metal.

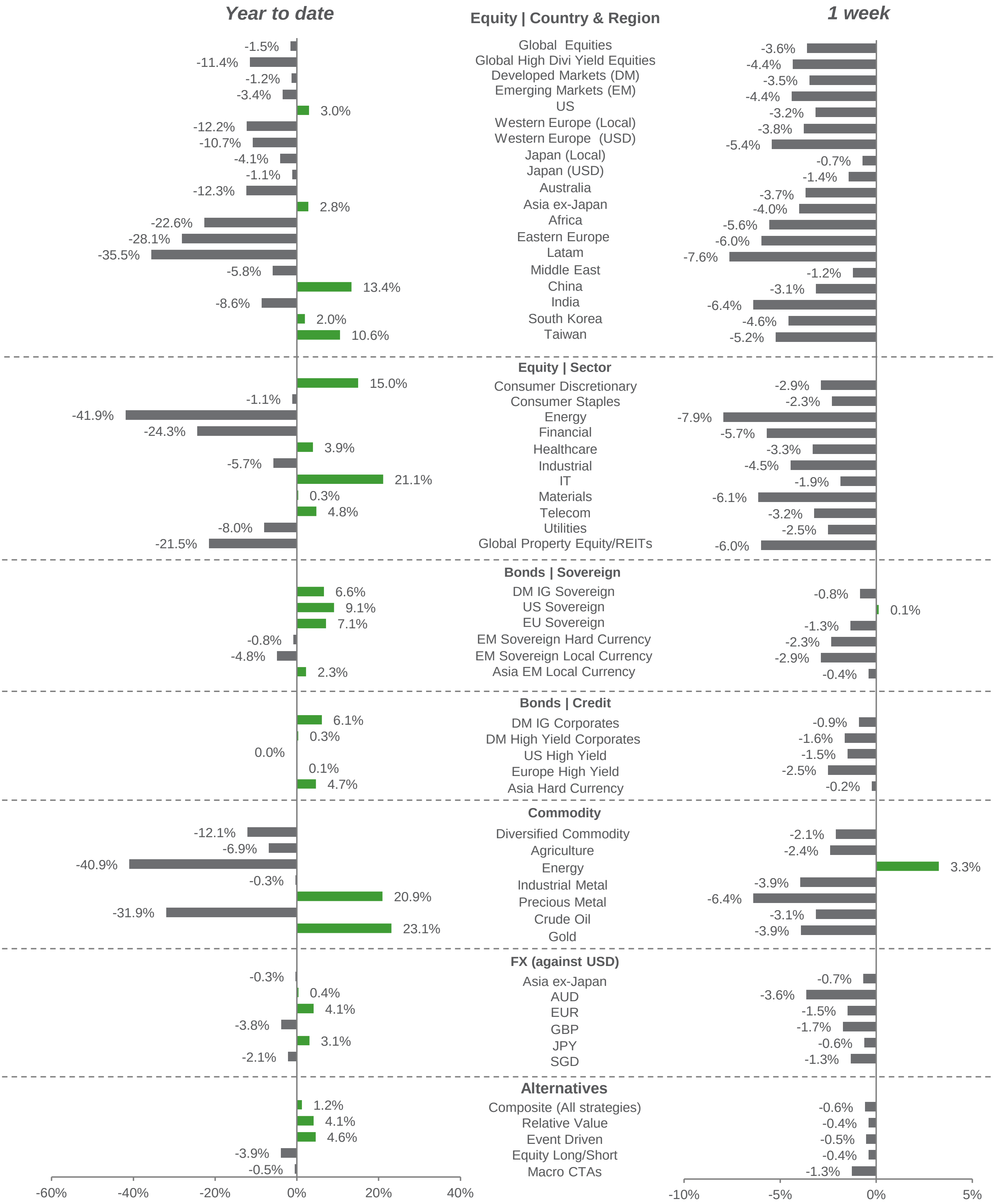
We see the gold price drop below 1,900/oz as a corrective retracement in a medium-term term uptrend; strong technical support lies around 1,820-1,835

Gold price



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, 2019 performance from 31 December 2019 to 24 September 2020, 1 week period: 17 September 2020 to 24 September 2020

Our asset class views at a glance

Equities ▲	Bonds (Rates) ▼	Bonds (Credit) ▲	Alternative Strategies ◆	Cash ▼	Gold ▲
Asia ex-Japan ▲	Govt EM local ◆	Asia USD ▲	Equity hedge ◆	USD ▼	
US ▲	Govt DM IG ▼	Govt EM USD ▲	Event-driven ◆	EUR ▲	
Euro area ▲		Corp DM HY ▲	Relative value ◆	GBP ▲	
Japan ◆		Corp DM IG ▼	Global macro ◆	AUD ▲	
Other EM ◆				CNY ◆	
UK ▼				JPY ◆	

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	This Week	Period	Actual
MON				
TUE	EC	Consumer Confidence	Sep A	-13.9
WED	JN	Jibun Bank Japan PMI Composite	Sep P	45.5
	GE	GfK Consumer Confidence	Oct	-1.6
	FR	Markit France Composite PMI	Sep P	48.5
	EC	Markit Eurozone Composite PMI	Sep P	50.1
	UK	Markit/CIPS UK Composite PMI	Sep P	55.7
	US	Markit US Manufacturing PMI	Sep P	53.5
	US	Markit US Composite PMI	Sep P	54.4
THUR	JN	Nationwide Dept Sales y/y	Aug	-22.0%
	GE	IFO Current Assessment	Sep	89.2
	US	Powell, Mnuchin Testify Before Senate Banking Committee		
	US	New Home Sales	Aug	1011k
FRI/SAT	EC	M3 Money Supply y/y	Aug	
	US	Durable Goods Orders	Aug P	
	US	Cap Goods Orders Nondef Ex Air	Aug P	

	Event	Next Week	Period	Prior
MON	GE	Retail Sales NSA y/y	Aug	5.0%
TUE	US	First US Presidential debate	Sep	
	EC	Economic Confidence	Sep	87.7
	US	Conf. Board Consumer Confidence	Sep	84.8
WED	JN	Industrial Production y/y	Aug P	-15.5%
	JN	Retail Sales y/y	Aug	-2.9%
	CH	Manufacturing PMI	Sep	51.0
	EC	CPI Core y/y	Sep P	0.4%
THUR	IN	Markit India PMI Mfg	Sep	52.0
	IN	RBI Repurchase Rate	1-Oct	4.0%
	EC	PPI y/y	Aug	-3.3%
	US	Real Personal Spending	Aug	1.6%
	US	ISM Manufacturing	Sep	56.0
FRI/SAT	JN	Consumer Confidence Index	Sep	29.3
	US	Unemployment Rate	Sep	8.4%
	US	Average Hourly Earnings y/y	Sep	4.7%

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue; *refers to Jan-Feb 2020 combined data

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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