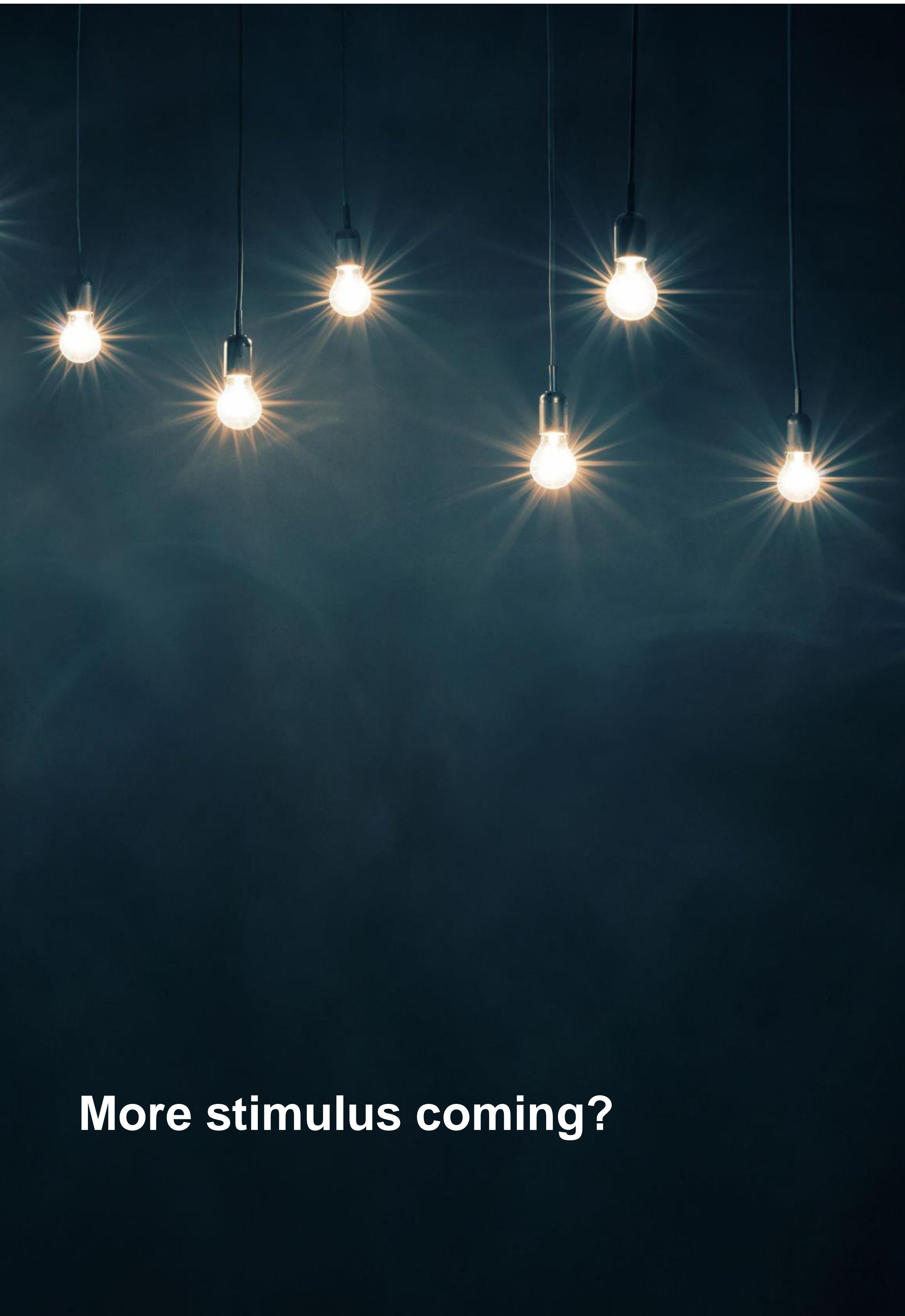
Standard Chartered Private Bank

Weekly Market View



More stimulus coming?

Policy stances in China, Europe and the US are turning more supportive of the ongoing rebound in risk assets. This is likely to overcome the Q1 impact from the coronavirus.

Equities: We believe improving policy and technical backdrop supports adding exposure to offshore China equities

Bonds: We prefer Emerging Market bonds over US High bonds, which are coming under stress from the decline in oil prices

FX: We turn bullish on AUD with return of risk-sentiment

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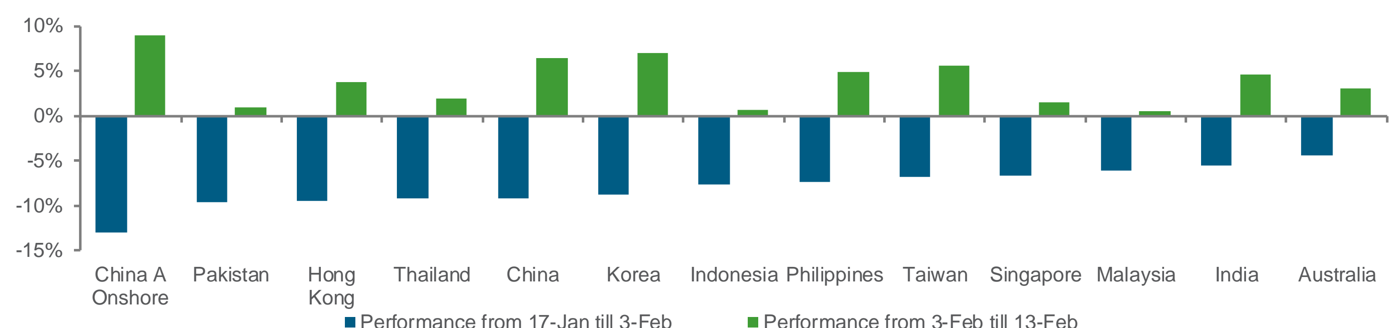
Chart of the week: China and Korea stocks have recovered the most

Performance of Asian markets from 17 Jan to 3 Feb (MSCI Asia ex-Japan index's peak-to-trough) and from 3 Feb to 13 Feb



Source: Bloomberg, Standard Chartered; All equity indices are MSCI indices

Editorial

More stimulus coming?

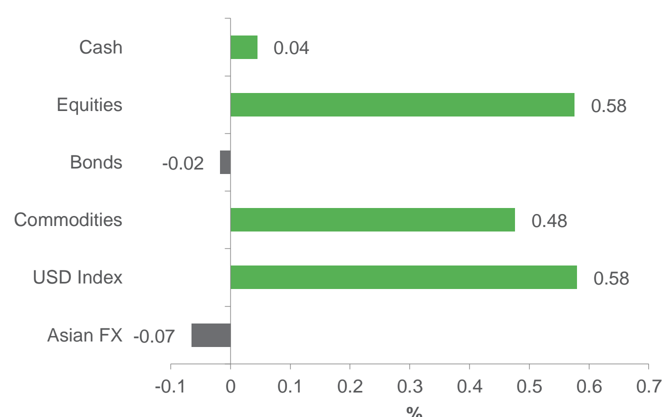
Policy stances in China, Europe and the US are turning more supportive of the ongoing rebound in risk assets. China's decision to allow local governments to borrow more to finance infrastructure projects cements its pro-active policy stance to counter the impact of the coronavirus outbreak. We expect more stimulus measures in the coming weeks.

Although the Fed announced it would modestly pare liquidity injections, US data showed the fiscal deficit for the first four months of the current fiscal year surged 25% y/y. There is also a rising chance of fiscal policy easing in Europe, with pro-stimulus coalition partners likely to gain the upper hand following political shifts in Germany (where Chancellor Merkel's protégé is stepping down), Ireland (where left-wing Sinn Fein surged in elections) and the UK (with a new finance minister).

The global stimulus is likely to revive global corporate earnings after a brief impact in Q1 from virus outbreak. While US and European equity indices hit new all-time highs, technical indicators in China have turned positive (see page 5). We believe this policy and technical backdrop supports adding exposure to offshore China equities. We are also more positive on the AUD with the return of risk-on sentiment (see page 4).

Global equities extended gains and commodities recovered some lost ground with the easing of concerns around the coronavirus and amid expectations of more stimulus measures worldwide

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 06 February 2020 to 13 February 2020

Record-setting US stocks reflect earnings, policy optimism

The rebound in US stocks from a mild late-January pullback suggests investors have put behind them concerns about any prolonged global impact from China's coronavirus outbreak. As we highlighted before, the US economy is the least exposed to China among major economies. With the US-China phase one trade deal removing another key uncertainty over US exports and its manufacturing sector, we believe investors are likely to focus on three main drivers of US equities near- term: 1**. Strong earnings**: 76% of S&P500 companies have reported Q4 earnings. Of these, 71% have beaten expectations, with the technology sector seeing the most beats (84%). Moreover, the consensus continues to expect earnings growth to accelerate to 8% in 2020. **2. Fiscal policy support**: data this week showed US fiscal deficit in the first four months of the fiscal year surged 25% y/y, with government spending rising 10% compared with the same period last year. **3. Monetary policy support**: Although the Fed decided to pare down its short-term liquidity injections, Chair Powell told US Congress this week the Fed will use its crisis-era policy tools "aggressively" in case of an economic downturn.

Our preference for US equities globally – and the technology sector in particular – is chiefly based on the above three factors, and recent data and comments suggest those factors remain supportive.

EUR likely due for a rebound

The EUR/USD's slump to an almost three-year low suggests the ongoing "carry trade" continues, with investors preferring the USD as a higher-yielding safe-haven for now. A sustained break of the pair below the 1.0860 support could extend the decline towards 1.0700 and possibly lower. Still, positioning is stretched near term and a rebound is due.

We are watching European political shifts (Germany and Ireland), alongside the ECB's increased efforts to persuade Euro area members that monetary policy has limited firepower and the region needs to urgently deploy fiscal stimulus. Combined with significant China fiscal and monetary stimulus, which could trigger a V-shaped recovery in Europe's biggest export market from Q2, we believe this could be a potent driver for global growth and for a significant EUR/USD reversal.

Are crude oil prices bottoming?

Crude oil prices have fallen 20% since January's high as coronavirus concerns gripped markets. Given expectations that the outbreak may peak in February, we believe oil could be at an inflection point. Global oil demand growth has been adversely impacted, but the scale of the demand destruction is possibly overstated. Moreover, supply-side factors are supportive as OPEC is ready to cut output further, which should mitigate the negative impact on oil prices from falling demand.

On technical charts, WTI crude is testing support on a horizontal trendline from mid-2019 at about USD 50.5/bbl. This support is strong – prices have rebounded thrice from here in recent months. Hence, a brief pause near term would not be surprising, especially given the positive divergence on the daily charts (a double-bottom in price associated with a rising 14-day Relative Strength Index).

Any break above immediate resistance at the early-February high of 52.20 could lead to a potential rise towards 55.00 in the short term and the 200DMA (56.75) offers stronger resistance. Oil would need to break above the long-term moving average for the medium-term outlook to turn constructive. On the downside, any break below the horizontal trendline support at 50.50 could expose downside risks toward the 2018 low of 42.36 (although this is not our central scenario).

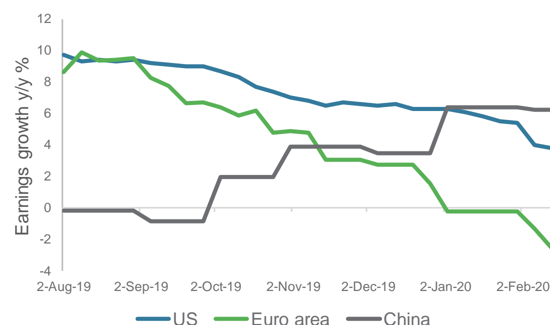
US stocks have recovered from late-January's brief dip to scale new record highs

S&P500 index

Source: Bloomberg, Standard Chartered

Global Q1 earnings expectations are likely to remain under pressure in the near-term, but a V-shaped recovery is likely from Q2

Consensus Q1 y/y earnings growth expectations for the US, Euro area and China



Source: Bloomberg, Standard Chartered

The EUR decline appears stretched; however, a sustained break of the 1.0860 support could extend the decline towards 1.07

EUR/USD

Source: Bloomberg, Standard Chartered

What does this mean for investors?

Equities

Are Euro area earnings supporting a bullish view? In the Euro area, 41% of companies have reported Q4 2019 earnings so far, of which 37% have beaten consensus expectations. Q4 earnings are expected to rise 5% y/y, but the market continues to focus on the 9% earnings growth expected for 2020.

We believe an extremely accommodative monetary policy is supportive of Euro area earnings by reducing borrowing costs for both companies and consumers. The ECB continues to call for fiscal stimulus, which appears more probable now following political upsets in Germany and Ireland. Reports suggest Eurozone finance ministers may agree to more growth-friendly fiscal policies this month, a departure from past statements of a broadly neutral fiscal stance, amid fresh recession concerns in Germany. This could lead to more spending in Germany, helping overcome the impact of China's coronavirus on the region.

Given this, Euro area equities remain a preferred investment. The key risk is a prolonged economic impact from the coronavirus outbreak, which could stymie Europe's nascent economic recovery.

Bonds

Does the recent US High Yield (HY) bond outperformance signal lower risk from oil prices? Yield premiums for US HY bonds fell over the past week, despite a further rise in yield premiums of energy sector bonds due to low oil prices. We believe the strong performance of the overall asset class was due to an idiosyncratic M&A-related news in the communications sector and does not mask the fact that the commodity sectors (energy and metals/mining) remain stressed and face risk of higher default rates. Hence, we prefer EM bonds over Developed Market (DM) HY bonds.

Are you still bullish on Emerging Market (EM) local currency bonds, despite the weak YTD performance? Our bullish stance on EM local currency bonds was predicated on expectation of further policy easing by EM central banks and a weaker USD. EM central banks continue to ease policy in line with our expectations and returns in local currency terms stand close to 2% YTD. However, the strength of the USD has hurt USD returns. That said, we believe the USD might be close to peaking in the near term, which may offer an opportunity to add exposure to EM local currency bonds.

FX

Which currencies are likely to benefit from the risk-on sentiment? While the USD index (DXY) has pushed above 99 and may move another 1% higher towards resistance at 100.15, some currencies are beginning to show signs of returning to strength, mainly based on rising expectation for China anchoring the CNY and delivering significant fiscal and monetary stimulus to stabilise economic activity following the coronavirus shutdowns.

We believe the best-performing currencies near term could be the AUD, NZD and CAD, whose economies should benefit from any fiscal stimulus in China. In Australia, domestic stimulus is expected to help rebuild regions devastated by the bushfires. In the coming weeks, these currencies could recapture their January losses, with targets around 0.69-0.70 for AUD/USD, 0.66-0.67 for NZD/USD and 1.30 for USD/CAD.

Euro area earnings are expected to rebound strongly in 2020, after a dip in Q1 caused by the impact on businesses as a result of the coronavirus outbreak

Consensus Euro area quarterly earnings expectations

Source: FactSet, Standard Chartered

Most equity market technicals have turned positive

Technical levels of key markets as of 13 February 2020

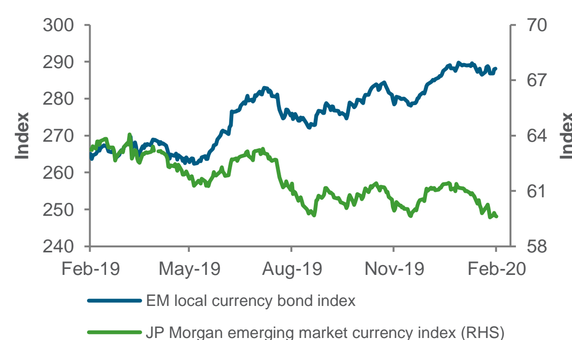
Index	Spot	1st support	1st resistance	Short-term trend
S&P 500	3,374	3,290	3,390	↑
STOXX 50	3,847	3,717	3,900	↑
FTSE 100	7,452	7,360	7,540	↗
Nikkei 225	23,828	22,860	24,400	↑
Shanghai Comp	2,906	2,785	2,976	↗
Hang Seng	27,730	26,790	28,490	↑
MSCI Asia ex-Japan	692	670	698	↑
MSCI EM	1,110	1,073	1,118	→
Brent (ICE)	56	50	61	↓
Gold	1,577	1,540	1,595	→
UST 10Y Yield	1.60	1.50	1.76	↓

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

EM local currency bonds have been hurt by EM currency weakness this year

EM local currency bond total returns and EM currency index



Source: Bloomberg, Standard Chartered

Top client questions

Is it time to get back into China/Asia equities?

Sentiment towards equity markets in China and Asia has improved as new coronavirus cases declined in the past week, raising hopes that the epidemic may be peaking. The delayed resumption of work after the Lunar New Year holidays from 10 February should help gradual normalisation of economic activity. Incremental stimulus measures to finance infrastructure investment and steps to lower borrowing costs for businesses add to earlier tax cuts and steps to increase bank liquidity. We believe these coordinated fiscal and monetary stimulus measures are likely to help economic activity recover from the impact of the outbreak by Q2, after a sharp slowdown in the current quarter.

This constructive backdrop has helped revive risk sentiment in Asian financial markets, resulting in a 5.4% recovery in the MSCI Asia ex-Japan equity index from its low on 3 February. The index is now 3.3% below the 17 January peak. The MSCI China index of offshore-listed equities has rebounded 6.7%, to 3.5% below January's peak.

There are some risk factors we need to watch. On 12 Feb, China's Hubei province revised up the number of viral cases as it reclassified the method of diagnosis of the infection. We need to monitor data to confirm whether the number of new cases continues to decline. Meanwhile, the continued freeze on economic activity in key industrial cities and the repercussions on global supply chain remain uncertain. So far, operational disruption has impacted most sectors, although the extent varies depending on the sector exposure and characteristics.

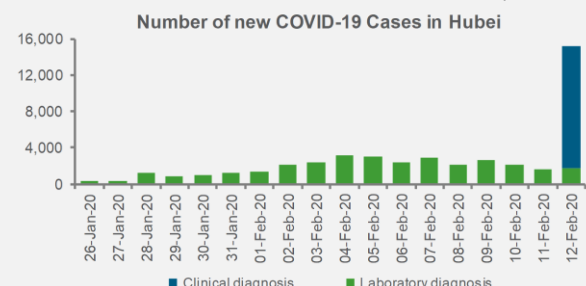
We believe a few sectors have been largely immune to this disruption: the internet, education and utilities. The extended holiday in China has reduced technology sector production and affected Asian equities - in particular, the hardware and semiconductor companies in the supply chain. It is therefore not surprising to see that the information technology sector in the MSCI Asia ex-Japan index experiencing the biggest rebound (11%) among the various sectors from its trough in February after China decided to resume production. We also note that the Macau gaming sector has rallied recently on hopes of improving gross gaming revenue in Q2 when the virus is expected to subside.

On technical charts, we believe the break in the MSCI China index above key resistance at the 6 February high of 85.71 is bullish. A bullish crossover by the Moving Average Convergence Divergence indicator (MACD) on the daily charts raises the odds that the worst could well be over for the index. The break above 85.71 has cleared the way towards 88.00-90.00. Any break above 88.00-90.00 could pave the way towards the 2018 high of 103.17 (roughly 20% from current levels). This follows a rebound in the MSCI China index from strong support – the 200-day moving average (DMA) and an uptrend line from August. On the weekly charts, the index is well above its 200DMA, indicating that the medium-term uptrend remains intact.

Thus, China offshore remains our preferred equity market in Asia ex-Japan. We continue to favour consumer staples and consumer discretionary, which is likely to benefit from a V-shaped recovery in the coming months. Meanwhile, healthcare, media and information technology sectors are likely to outperform if the epidemic worsens.

China's coronavirus cases appeared to have peaked earlier in February, before the recent revision of back-data as a result of the way the infections are diagnosed

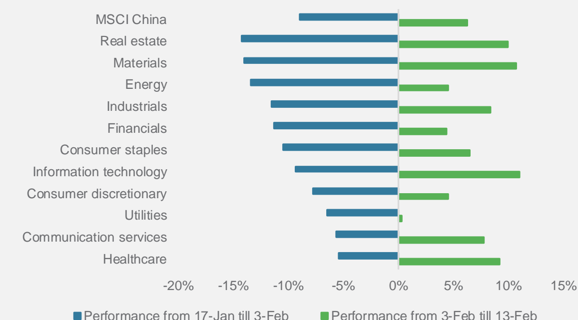
Number of new coronavirus cases in China's Hubei province



Source: China's National Health Commission, WHO, Standard Chartered

China's information technology sector equities have rebounded the most from the trough in February after the resumption of production in most regions

Performance of various sectors from 17 January's peak to 3 February's trough in MSCI China index and the recovery from the trough



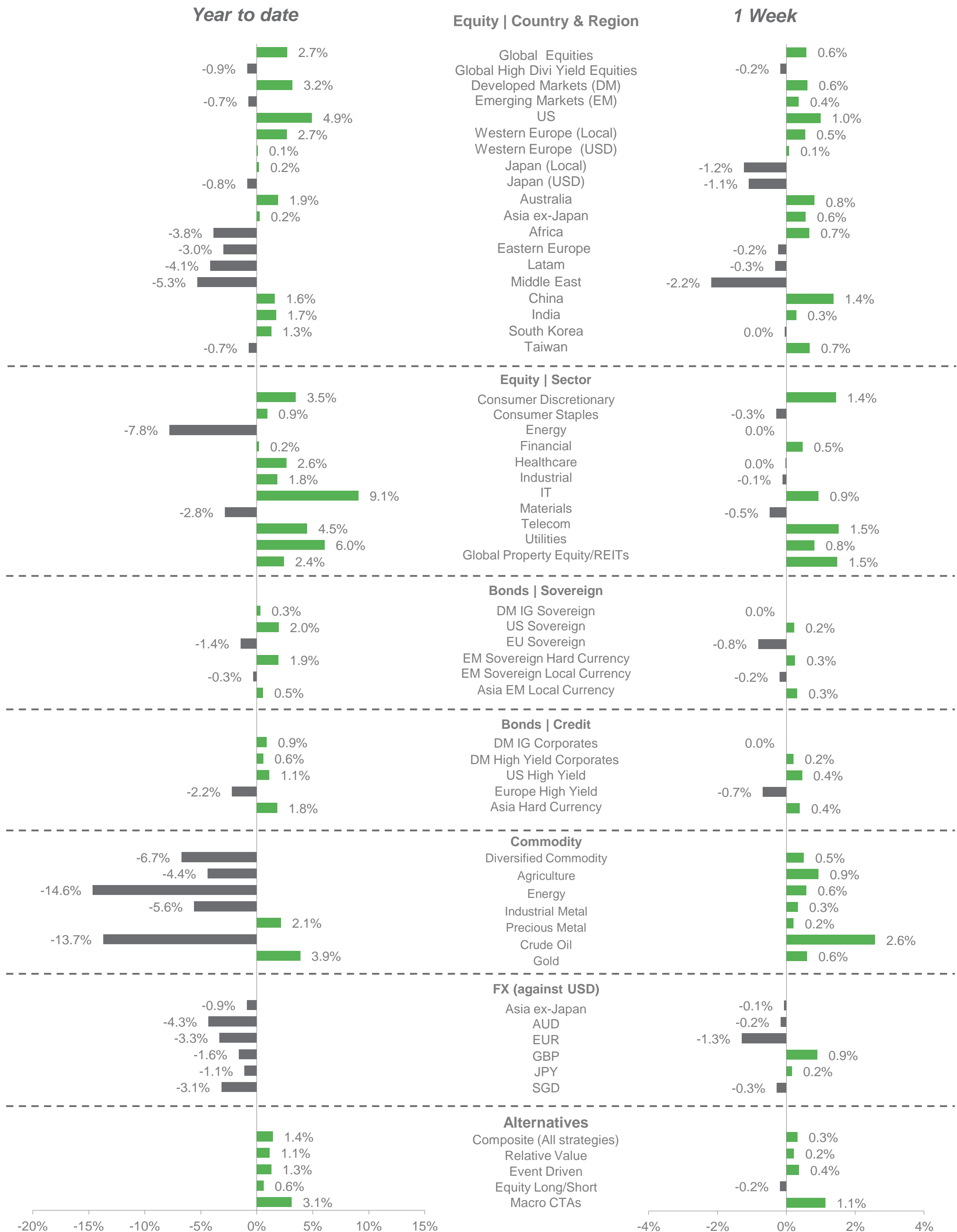
Source: Bloomberg, Standard Chartered

We believe the break in the MSCI China index this week above a key resistance (85.71) is bullish

MSCI China index

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 13 February 2020, 1 week period: 06 February 2020 to 13 February 2020

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	JN	GDP Annualized SA q/q	17-Feb-20	4Q P	-3.8%	1.8%
TUE	EC	ZEW Survey Expectations	18-Feb-20	Feb	–	25.6
WED	JN	Exports	19-Feb-20	Jan	-7.1%	-6.3%
	US	Housing Starts	19-Feb-20	Jan	1400k	1608k
	US	PPI Ex Food and Energy y/y	19-Feb-20	Jan	1.3%	1.1%
THUR	GE	PPI y/y	20-Feb-20	Jan	–	-0.2%
	EC	Consumer Confidence	20-Feb-20	Feb A	–	-8.1
FRI/SAT	JN	Natl CPI Ex Fresh Food, Energy y/y	21-Feb-20	Jan	0.8%	0.9%
	JN	Jibun Bank Japan PMI Composite	21-Feb-20	Feb P	–	50.1
	GE	Markit/BME Germany Composite PMI	21-Feb-20	Feb P	–	51.2
	EC	Markit Eurozone Composite PMI	21-Feb-20	Feb P	–	51.3
	UK	Markit/CIPS UK Composite PMI	21-Feb-20	Feb P	–	53.3
	EC	CPI Core y/y	21-Feb-20	Jan F	–	1.1%
	US	Markit US Manufacturing PMI	21-Feb-20	Feb P	–	51.9
	US	Markit US Services PMI	21-Feb-20	Feb P	–	53.4
	US	Markit US Composite PMI	21-Feb-20	Feb P	–	53.3
	US	Existing Home Sales	21-Feb-20	Jan	5.48m	5.54m

	Event	This Week	Date	Period	Actual	Prior
MON	JN	BoP Current Account Adjusted	10-Feb-20	Dec	¥1714.7b	¥1794.9b
	CH	PPI y/y	10-Feb-20	Jan	0.1%	-0.5%
	CH	CPI y/y	10-Feb-20	Jan	5.4%	4.5%
	EC	Sentix Investor Confidence	10-Feb-20	Feb	5.2	7.6
	CH	Money Supply M2 y/y	10-Feb-20	Jan	–	8.7%
TUE	UK	GDP y/y	11-Feb-20	4Q P	1.1%	1.1%
	UK	Industrial Production y/y	11-Feb-20	Dec	-1.8%	-1.6%
	US	NFIB Small Business Optimism	11-Feb-20	Jan	104.3	102.7
WED	JN	Machine Tool Orders y/y	12-Feb-20	Jan P	-35.6%	-33.5%
	IN	CPI y/y	12-Feb-20	Jan	7.6%	7.4%
	IN	Industrial Production y/y	12-Feb-20	Dec	-0.3%	1.8%
	IN	Exports y/y	12-Feb-20	Jan	–	-1.8%
THUR	JN	PPI y/y	13-Feb-20	Jan	1.7%	0.9%
FRI/SAT	US	Retail Sales Ex Auto and Gas	14-Feb-20	Jan	–	0.5%
	US	Industrial Production MoM	14-Feb-20	Jan	–	-0.3%
	US	U. of Mich. Sentiment	14-Feb-20	Feb P	–	99.8

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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