



# Weekly Market View

## Stars aligning for Asia

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→ Equities in Asia ex-Japan, especially China, appear to be at such a juncture. China equities have started to outperform Asia ex-Japan and global equities for the first time since March.

→ We now believe China is close to, if not at, a pivotal point in turning its economy around as the Party Congress draws near. A stream of monetary and fiscal policy measures in recent weeks, timed with the easing of COVID-19 lockdowns across major cities, have provided catalysts for a turnaround.

→ Thus, we believe it would be opportune to gradually reallocate available risk capital to Asia ex-Japan equities, particularly China, within a diversified portfolio.

for Asia

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What is the outlook for USD/JPY after it hit a 20-year high?

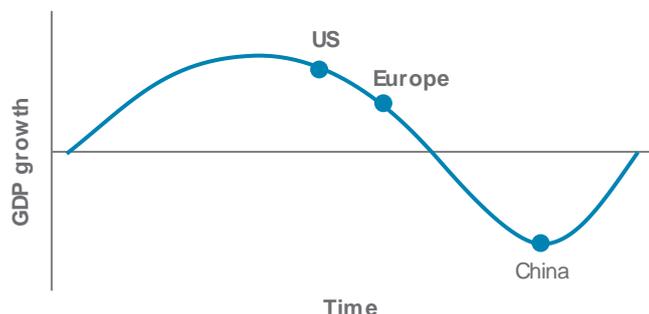
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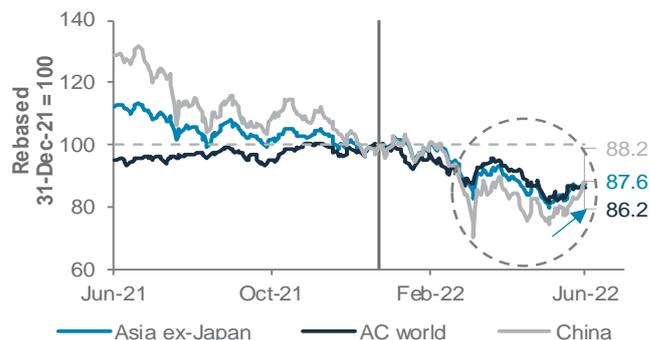
## Charts of the week: China on the cusp of a turnaround?

**China's economy is likely close to bottoming while other economies slow; this should be positive for Asia's equity market**

Our view of where key economies are today in a stylised cycle



Relative performance of global, Asia ex-Japan, China equities\*



Source: Bloomberg, Standard Chartered; \*Based on MSCI All Country World, Asia ex-Japan and China indices, Index: 100 = 31 December 2021

## Editorial

### Stars aligning for Asia

In markets, it is not often that we see valuations, policy and technicals aligning at the same time. When they do, they usually signal the start of a new trend. Equities in Asia ex-Japan, especially China, appear to be at such a juncture. China equities have started to outperform Asia ex-Japan and global equities for the first time since March.

In these pages, we highlighted earlier that the downturn in China's economy and markets since last year was largely policy-driven as authorities sought a soft landing for an overheated economy after its sharp recovery from 2020's COVID-19 crisis. Authorities also used the opportunity to address imbalances and excesses in the economy, particularly in the property and technology sectors. We also opined that, just as the downturn was policy-driven, any recovery would be policy-driven. Our view was that very few countries in the world have a tighter grip over various levers of the economy than China.

We now believe China is close to, if not at, a pivotal point in turning its economy around as the Party Congress (likely in Q4) draws near. A stream of coordinated monetary and fiscal policy measures in recent weeks, timed with the easing of COVID-19 lockdowns across major cities as infections ebb, have provided catalysts for a turnaround. These include: a) Policy rate cuts, enabled by subdued domestic inflation pressures, and specific measures to revive the property and infrastructure sectors; b) Premier Li Keqiang's clear message to revive infrastructure spending after the economy contracted in April and unemployment rose sharply; c) Reports of authorities closing the chapter on regulatory tightening against internet platform companies. The past 10 days have seen the rollout of more stimulus measures, including tax cuts on automobile purchases and approval of 60 new online game titles.

Meanwhile, valuations remain supportive for an upturn. Despite the nascent rebound, China equities are priced at a 24% discount to global equities. Also, technical charts and fund flows, which a few weeks ago indicated a beaten down asset class in search of a catalyst, have also started to turn. Global

investors have noticed – a fund tracking China stocks this week saw record daily inflows. Since China equities have been the biggest drag on MSCI Asia ex-Japan's underperformance vs. the MSCI All Country World index this year, an upturn in China bodes well for the region's equities in the next 6-12 months.

For sure, a sustained upturn in China stocks still faces a few hurdles, not least from developments in the rest of the world. The World Bank once again cut its global growth forecast and flagged stagflation risks. A full reopening of China's economy, which depends on a sustained end to the COVID outbreak, itself raises the risk of a further rise in oil and commodity prices. Saudi Arabia's decision to raise prices for Asian oil exports underscores a tight oil market, which is stoking global inflation, especially in developed countries. Meanwhile, another flare-up in the Ukraine war remains a persistent risk.

Against this backdrop, the Fed's outlook on rates will be closely watched next week (the Fed is expected to hike rates by 50bps next week and in July). Despite the ECB this week signalling impending rate hikes in Q3, sustained Fed hawkishness until inflation decisively slows is likely to keep the USD underpinned, limiting fund flows into Emerging Markets. Meanwhile, the JPY's plunge to a 20-year low vs the USD has made Japanese exports significantly more competitive vs the rest of Asia. While USD/CNH has adjusted to a stronger USD this year, policymakers in Beijing might be encouraged to allow further adjustment to maintain China's competitiveness.

Nevertheless, an assessment of the risks vs the rewards point to gradually allocating available risk capital to Asia ex-Japan equities, particularly China, within a diversified portfolio, given China's valuation, policy and technical advantages. As our stylised chart indicates, China's economy is likely close to the bottom of its cycle, while the rest of the world is slowing. While our base case remains that the US economy avoids a recession in the next 6-12 months, we believe Asia ex-Japan equities, led by China, have a better chance of medium-term outperformance as policymakers in Beijing step up efforts to revive China's economy from its severe downturn.

— 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 in the near term.

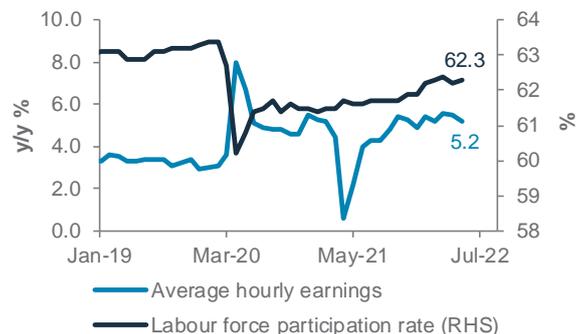
**(+) factors:** China relaxing regulatory stance, unwinding lockdowns

**(-) factors:** Escalation in Ukraine, weaker US services, hawkish ECB

	Positive for risk assets	Negative for risk assets
<b>COVID</b>	<ul style="list-style-type: none"> <li>China eased lockdowns in more cities; only eight cities still have control measures</li> <li>Foreign travel bookings are approaching pre-pandemic levels (ForwardKeys data)</li> </ul>	<ul style="list-style-type: none"> <li>Shanghai locked down 8 city districts for mass testing amid new cases</li> <li>Hong Kong added most cases in six weeks</li> </ul>
	<b>Our assessment: Positive</b> – China unwinding lockdowns	
<b>Macro data</b>	<ul style="list-style-type: none"> <li>US job creation in May beat expectations, with jobless rate holding steady</li> <li>Euro Sentix Investor Confidence improved more than expected</li> <li>China exports in May rose more than expected</li> </ul>	<ul style="list-style-type: none"> <li>US services activity slowed more than expected; initial jobless claims rose more than expected</li> <li>The World Bank cut its growth outlook again and warned of stagflation risks</li> <li>German factory orders fell</li> </ul>
	<b>Our assessment: Neutral</b> – Strong US job market, recovering Euro investor sentiment vs weaker US services activity	
<b>Policy developments</b>	<ul style="list-style-type: none"> <li>China approved 60 new online game titles</li> <li>Reports suggest more relaxed regulatory approach in China for internet platform companies</li> <li>The Fed estimated quantitative tightening is equivalent to c.56bps in rate hikes</li> </ul>	<ul style="list-style-type: none"> <li>Yellen said US inflation to stay high and it was a mistake to call it “transitory”</li> <li>ECB flagged 25bps hike in July and at least 25bps hike in September and end net asset purchases on 1 July</li> <li>The RBA and RBI both raised rates by more-than-expected 50bps</li> </ul>
	<b>Our assessment: Neutral</b> – China easing vs hawkish ECB	
<b>Other developments</b>	<ul style="list-style-type: none"> <li>US Congress reviewing plan to buy enriched uranium locally to wean off Russian imports</li> <li>UK PM Johnson survived vote of confidence by party MPs, reducing near-term political uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>Russia missiles hit Kyiv for the first time since late April</li> <li>Saudi Arabia increased oil prices for Asia more than anticipated</li> </ul>
	<b>Our assessment: Negative</b> – Ukraine war escalated, Saudi oil price hike	

### US weekly earnings growth appears to be peaking, while labour participation continues to rise

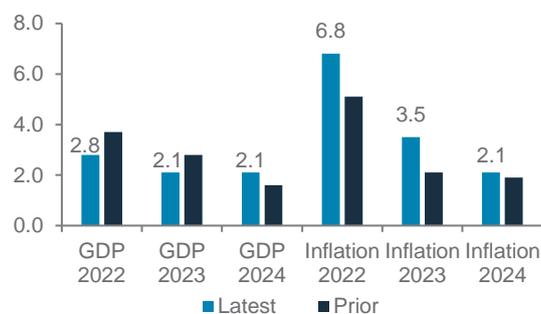
US average weekly earnings; labour force participation



Source: Bloomberg; Standard Chartered

### The ECB cut growth and raised inflation forecasts for 2022 and 2023

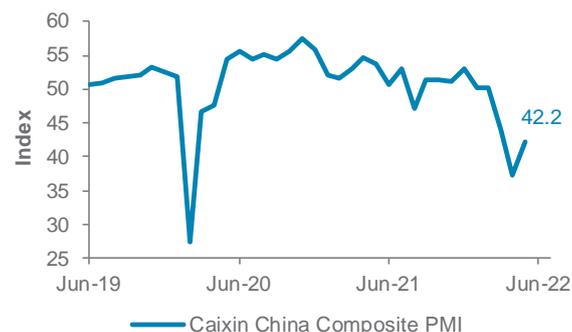
ECB's new Euro area growth and inflation forecasts



Source: Bloomberg, Standard Chartered

### A measure of China's services sector activity among small and medium-sized businesses showed tentative signs of bottoming

China Caixin Services PMI



Source: Bloomberg, Standard Chartered

## Top client questions

### Q What are the investor implications of recent policy developments in China?

There have been several policy developments in China this week that we view as being increasingly positive for financial markets. First, the economy has started to gradually reopen following the decline in COVID-19 cases. As of 6 June, only eight cities were following COVID-19 control measures. Second, the publication approval of 60 game titles and the end of regulatory probe into Didi are examples of signs that regulatory tightening is starting to soften. Third, better-than-expected earnings from Chinese internet companies are a bright spot. Lastly, the China Banking and Insurance Regulatory Commission (CBIRC) instructed financial institutions to support asset management companies by being more active with their asset acquisition and restructuring, a measure viewed as positive for the property sector.

Asian USD bonds rose following these developments, extending their outperformance relative to global bonds in 2022 year-to-date. Several reports noted that secondary market liquidity has notably improved this week. Our preference for Asian USD bonds remains unchanged given attractive valuations (yield premiums over Treasuries), especially within a multi-asset income strategy.

On equities, we observed strong buying in Hong Kong and China equities on 'up' days, and low volume, or limited selling, on 'down' days, which is a positive signal from a technical point of view. Short-term technical are also starting to look more attractive – the Hang Seng index tested technical support around 19,000 in May 2022, held that support with strong volume, and has since broken above key resistance levels at 20,800, 21,300 and 21,600 over the last two weeks. We believe these have become the new technical support levels, followed by an extremely strong support at 19,900. We believe these offer attractive levels to add exposure.

More broadly, this improving short-term technical outlook dovetails well into our long-term (6-12 month) preference for Asia ex-Japan, including Chinese, equities. Relatively inexpensive valuations to global equities (the MSCI China index's P/E ratio is about 30% lower than that of the MSCI All-Country World index) combined with positive policy developments discussed earlier offer combine to form an increasingly attractive outlook, in our assessment.

Within Chinese equities, we favour the following sectors: a) Energy – we see room for the sector to catch up to reflect the rise in oil prices; b) Financials – government policies to stabilise economic growth should start to alleviate credit quality concerns at Chinese banks, which trade at a significant discount to their book value; c) Industrials – a sector aligned with policymakers' goals to increase domestic high-end manufacturing.

— Daniel Lam, Head, Equity Strategy  
 — Zhong Liang Han, Investment Strategist

### The Hang Seng index, after rebounding from key support levels, broke above a key resistance level, making a reversal of the downtrend more likely

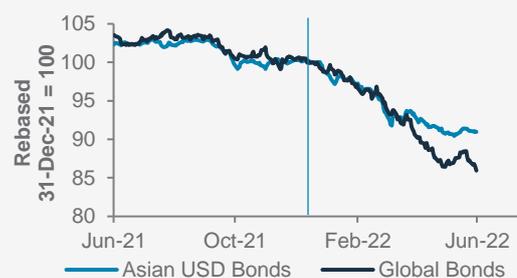
Hang Seng Index and key technical levels



Source: Refinitiv, Standard Chartered

### Asia USD bonds have started to outperform global bonds since March

Relative performance of Asia USD bond and Global bond indices; Index: 100 = 31 Dec 2021



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What is the implication of the recent outperformance of Investment Grade bonds over High Yield bonds?

Developed Market High Yield (DM HY) bonds have underperformed their Investment Grade (IG) counterparts since April. We believe this is likely due to concerns over economic growth, which historically tend to drag HY bond returns. However, this trend reversed after a stronger-than-expected US jobs report. We do not believe a US recession is imminent, given normalising activity, easing supply chains and no new warning signs from our recession checklist. Easing concerns are likely to offer support to DM HY bonds.

Another factor supportive of our positive view is DM HY bond fundamentals. As we have already highlighted in our publications, Q1 earnings for US companies have been relatively strong. While a more hawkish Fed, tightening financial conditions and the surge in financing costs might lead to higher idiosyncratic risks, we believe the rating upgrade/downgrade ratio continued to indicate an upward shift in credit quality. Also, the number of rising stars (rating action move from HY to IG) has continued to outpace fallen angels (vice versa).

Finally, we see valuation of DM HY bonds as cheap when compared to historical average. Slow primary market activity is less of a concern to us as we believe HY issuers have front-loaded fund raising during the policy loosening window in previous years.

— Cedric Lam, Senior Investment Strategist

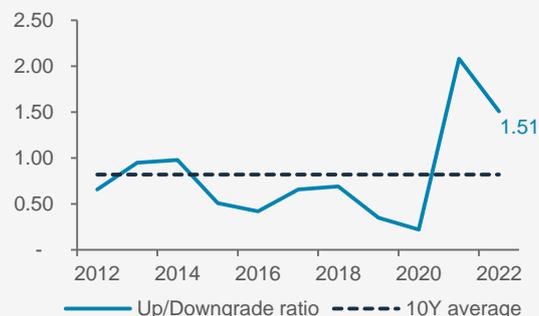
### Q What is the outlook for USD/JPY after it hit a 20-year high?

USD/JPY has surged almost 6% vs the USD in the past two weeks, displaying capitulation similar to what was witnessed during the 14% rally in April. USD/JPY has touched a new 20-year high, while SGD/JPY is at a 35-year high. Our own market diversity indicator as well as other momentum indicators are flagging very overbought conditions on multiple time horizons, but the uptrend is strong. This divergence in drivers causes us to view the risk-reward for taking a directional position on USD/JPY as unattractive for now, though we are looking for an opportunity to sell USD/JPY when macro drivers and technicals provide a clearer signal of a likely sharp reversal.

There are two key macro drivers. Firstly, the monetary policy divergence is stark. The Fed narrative is to front-load rate hikes and balance sheet reduction to bring inflation to heel. On the other side, the BoJ is trying to lift inflation and is unlikely to soften its current yield curve control policy until core inflation stabilises around c.2%. Governor Kuroda has also said that, on balance, a weak JPY is currently supportive of the Japanese economy. Secondly, Japan is a large importer of oil and has seen its Terms of Trade – export prices relative to import prices – fall sharply post the Ukraine war. Until these drivers begin to reverse, the core USD/JPY uptrend is likely to continue. Technical resistance levels are near 135, 138 and 140, while support lies around 130, with key support at 126-127.

### US HY bond issuers' fundamentals remain supportive as rating upgrades continue to outpace downgrades

S&P rating upgrade/downgrade ratio



Source: Bloomberg, Standard Chartered

### USD/JPY has surged again as monetary policy divergence and high energy prices continue to dominate; despite extended technicals, more upside is possible until macro drivers change

USD/JPY and key technical levels



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### **Q** Are there further upside risks to oil prices?

Oil (WTI) prices rose c.4.5% in the past week, climbing over the psychological resistance of USD 120/bbl on tight demand/supply balance concerns. While our baseline view is that oil prices stay at elevated levels, we see the risks skewed to the upside.

The global oil market's demand/supply balance remains tight. OPEC+ efforts to raise production by 648k barrels per day (bpd) in July and August have not been viewed as being sufficient to offset likely losses of Russian output. The US Energy Information Administration has forecast Russian crude output to decline by 18% to 9.3m/bpd by the end of 2023, down from 11.3m/bpd in Q1 2022. Global oil inventories also remain at a multi-year low.

On the demand side, a reopening of the Chinese economy is expected to lift demand. China's oil imports grew c.7% y/y in April to 10.5m/bpd.

These price-positive factors notwithstanding, short-term technicals argue the uptrend in oil prices could take a pause before continuing, given several key technical indicators are near overbought levels. Technicals resistance sits at the March high of 130.5, while major support is around 102.

— **Nataniel Tang**, *Investment Strategist*

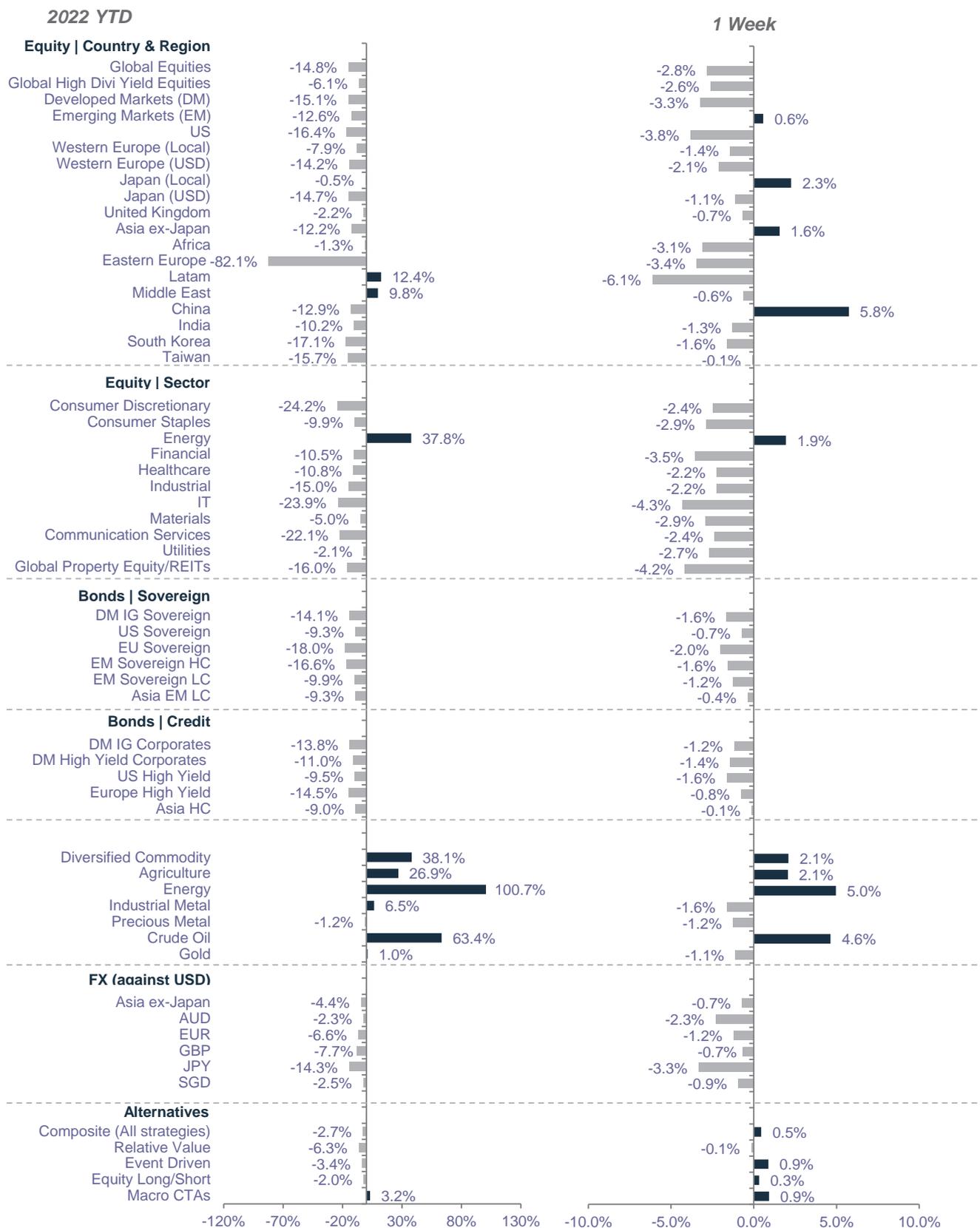
### **Oil prices continue to trend higher as the Ukraine war drags on; a reopening of China could be the catalyst for a test of USD 130.5/bbl**

US WTI crude oil 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, 2022 YTD performance from 31 December 2021 to 09 June 2022; 1-week period: 02 June 2022 to 09 June 2022

### Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

### The US 10-year bond yield has next resistance at 3.05%

Technical indicators for key markets as on 09 June 2022

Index	Spot	1st support	1st resistance
S&P 500	4,018	3,970	4,113
STOXX 50	3,724	3,686	3,800
FTSE 100	7,476	7,432	7,564
Nikkei 225	28,247	27,923	28,408
Shanghai Comp	3,239	3,229	3,256
Hang Seng	21,869	21,596	22,079
MSCI Asia ex-Japan	688	680	694
MSCI EM	1,067	1,061	1,074
Brent (ICE)	122.9	120.4	124.5
Gold	1,846	1,841	1,853
UST 10y Yield	3.05	2.97	3.09

Source: Bloomberg, Standard Chartered

Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

### Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON					
	UK	ILO Unemployment Rate 3Mths	Apr	-	3.7%
TUE	EC	ZEW Survey Expectations	Jun	-	-29.5
	US	NFIB Small Business Optimism	May	-	93.2
	US	PPI Ex Food and Energy y/y	May	-	8.8%
	US	PPI Final Demand y/y	May	10.8%	11.0%
WED	CH	Industrial Production y/y	May	-1.0%	-2.9%
	CH	Retail Sales y/y	May	-7.1%	-11.1%
	CH	Fixed Assets Ex Rural YTD y/y	May	6.1%	6.8%
	CH	Property Investment YTD y/y	May	-4.0%	-2.7%
	US	Empire Manufacturing	Jun	0.0	-11.6
	US	Retail Sales Ex Auto and Gas	May	0.5%	1.0%
THUR	US	FOMC Rate Decision (Upper Bound)	15-Jun-22	1.5%	1.0%
	UK	Bank of England Bank Rate	16-Jun-22	-	1.0%
	US	Housing Starts	May	1720k	1724k
FR/SAT	US	Industrial Production m/m	May	0.4%	1.1%
	US	Leading Index	May	-0.4%	-0.3%

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

### Investor diversity has again declined in global bonds

Our proprietary market diversity indicators as of 25 May

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	→	1.22
Global Equities	●	↓	1.71
Gold	◐	→	1.39
<b>Equity</b>			
MSCI US	●	→	1.70
MSCI Europe	●	↑	1.78
MSCI AC AXJ	●	↑	2.41
<b>Fixed Income</b>			
DM Gov Bond	○	→	1.20
DM High Yield	◐	↑	1.49
EM USD	◐	↑	1.48
EM Local	◐	↑	1.50
Asia USD	●	↑	1.59
<b>Currencies</b>			
EUR/USD	◐	↑	1.53

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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