



# Weekly Market View

## Fed rate cut draws closer

→ The Fed is inching towards its first rate cut, aided by a cooling US job market and slowing inflation. Fed Chair Powell signalled as much in his Congress testimony this week as he highlighted the risk of keeping rates too high.

→ Markets have cheered the latest turn of events as it confirms the economic soft-landing narrative, with the Fed expected to come to the rescue as growth slows.

→ However, there are risks to chasing the US-led equity rally in the near term, with investor positioning in the US technology sector looking increasingly crowded.

→ Instead, we see value in Euro area equities and French financial sector bonds amid easing political uncertainty after the election, and in Emerging Market USD bonds, which are likely to benefit from Fed rate cuts.

→ We see limited downside for US government bond yields and the USD amid rising prospects of a Trump presidency (and the fiscal stimulus to follow).

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What do you expect from China's upcoming Third Plenum and what are the market implications?

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What are the implications for China USD bonds and CNH after the recent changes in the PBOC's policy framework?

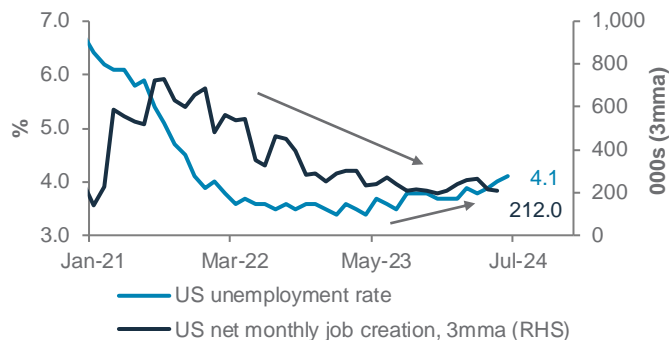
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What is the outlook for the AUD and NZD?

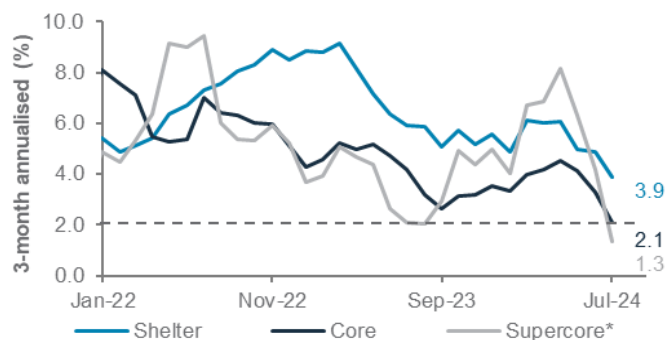
## Charts of the week: Slowing job market, cooling inflation

**We believe a slowdown in job creation and cooling inflation are setting the stage for the first Fed rate cut in this cycle**

US net monthly job creation (3mma), unemployment rate



US core, 'supercore'\* and shelter inflation, 3-month annualised



Source: Bloomberg, Standard Chartered; \*core services, excluding housing, inflation

## Editorial

### Fed rate cut draws closer

The Fed is inching towards its first rate cut, encouraged by a cooling US job market and slowing inflation. Fed Chair Powell signalled as much in his semi-annual Congress testimony this week as he highlighted the risk of keeping rates too high. Markets have cheered the latest turn of events as it confirms the ongoing economic soft-landing narrative, with the Fed expected to come to the rescue as growth slows.

However, there are risks to chasing the US-led equity rally in the near term, with investor positioning in the US technology sector looking increasingly crowded. Instead, we see value in Euro area equities and French financial sector bonds amid easing political uncertainty after the election, and in Emerging Market (EM) USD bonds, which are likely to benefit from Fed rate cuts. We see limited downside for US government bond yields and USD amid rising prospects of a Trump presidency.

**Slowing US economy:** US job creation continued to slow in June. Downward revisions to April and May payrolls meant the three-month moving average fell to 177,000, a three-and-a-half-year low. The jobless rate rose to 4.1%, just short of the Fed's long-term natural rate of 4.2%. Meanwhile, price pressures abated further, with headline prices contracting 0.1% m/m, core inflation slowing to 0.1% m/m and 'supercore' inflation (core services, ex-housing) contracting 0.05%. The latest reports have raised the chance of a September rate cut, with the Fed possibly signalling a cut as soon as the 31 July policy meeting.

**Not chasing the US equity rally:** While early Fed rate cuts would help the US economy achieve a soft landing, we wouldn't chase the equity rally at this stage, given increasingly stretched investor positioning for the technology sector, which raises the risk of a near-term reversal. We would wait for confirmation from Q2 corporate earnings. Consensus expects S&P500 index earnings to grow 10.1% y/y in Q2, with the communication

services (22% y/y earnings growth), healthcare (20%) and technology (17%) sectors expected to outperform.

**Bank earnings:** The immediate focus will be on bank earnings, especially the health of loan books (with credit card and auto loan delinquencies rising) and commercial real estate books of regional lenders. Corporate earnings guidance for H2 is also key, as consensus expects US earnings to broaden out to sectors other than technology and communication services.

**Limited downside for US bond yields and USD:** Rising expectations of Fed rate cuts are likely to put further downward pressure on US bond yields and the USD, lifting gold higher in the near-term. However, these moves are likely to be limited by the increasing prospects of a Trump presidency (and the fiscal stimulus to follow), especially after President Biden's latest gaffes this week (see page 3).

**Euro area equities** look attractive after the French election-led sell-off. France has a hung parliament, with a low chance of a major shift in policy agenda. This leaves investors to focus on the healthy outlook for major companies driving France's and the region's benchmark indices. We also see **value in French financial sector bonds** that had also sold off. Major French banks derive most of their earnings outside France, have strong balance sheets and have access to global capital markets.

**EM USD government bonds** also look attractive, given the approaching Fed rate cuts and relatively high yield premium over Developed Market bonds. EM fundamentals have improved in recent years by strong foreign exchange reserves, healthy fiscal balances and greater access to external capital.

**Selective opportunities in China:** Although our quantitative model for the MSCI China index has turned bearish, we see opportunities in select sectors (see page 4), which are likely to benefit from government policy. The Communist Party's Third Plenum is likely to be a further catalyst for these sectors.

## The weekly macro balance sheet

**Our weekly net assessment:** On balance, we see the past week's data and policy as positive for risk assets in the near term

**(+) factors:** Dovish Fed, ECB; US disinflation; easing political uncertainty in Europe

**(-) factors:** Rising US jobless rate; slowing China inflation; rising US political uncertainty

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US added more jobs than expected at 206,000; wage growth slowed as expected to 3.9% y/y</li> <li>US consumer inflation slowed more than expected to 3% y/y; core inflation slowed more than expected to 3.3% y/y</li> <li>US NFIB small business optimism rose unexpectedly</li> <li>US NY Fed inflation expectations slowed</li> </ul>	<ul style="list-style-type: none"> <li>US unemployment rate rose unexpectedly to 4.1%; April and May job gains were revised lower</li> <li>Euro area Sentix Investor Confidence slowed sharply to -7.3</li> <li>Euro area retail sales rose less than expected at 0.1% m/m</li> <li>China consumer inflation slowed unexpectedly to 0.2% y/y; producer prices contracted 0.8% y/y, as expected</li> </ul>
	<b>Our assessment: Neutral</b> – Robust US job gains, rising US small business optimism, US disinflation vs rising US jobless rate, slowing Euro area investor confidence, China inflation	
Policy developments	<ul style="list-style-type: none"> <li>Fed Chair Powell acknowledged the risks of holding interest rates elevated for too long, hinting at a rate cut soon</li> <li>ECB's Centeno questioned whether the current pace of policy easing was adequate</li> </ul>	<ul style="list-style-type: none"> <li>The BoJ signalled progress in wage and price increases</li> <li>The BoJ discussed tapering bond purchases</li> </ul>
	<b>Our assessment: Positive</b> – Dovish Fed and ECB	
Other developments	<ul style="list-style-type: none"> <li>No single party secured an absolute majority in the French elections, though the far-left made surprise gains to secure the largest number of seats</li> </ul>	<ul style="list-style-type: none"> <li>President Biden misspoke at a press conference and a NATO event, mistakenly referring to Vice President Harris as "Vice President Trump" and Ukraine President Zelensky as "President Putin"</li> </ul>
	<b>Our assessment: Neutral</b> – Easing political uncertainty in Europe vs. rising uncertainty in the US	

### US small business optimism rose unexpectedly in June from cycle lows

US NFIB small business optimism index



Source: Bloomberg, Standard Chartered

### Euro area investor confidence slowed sharply, while retail sales rose less than expected

Euro area Sentix Investor Confidence index, retail sales



Source: Bloomberg, Standard Chartered

### China's consumer inflation slowed unexpectedly, while producer prices fell, albeit at a slower pace, sustaining deflationary pressures

China's consumer and producer price inflation



Source: Bloomberg, Standard Chartered

## Top client questions

### Where do you see opportunities in Euro area equities after the French elections?

Political uncertainties in France over the past few weeks have triggered a massive sell-off in domestic equities – the CAC 40 index plunged around 8% from its highest closing level since May. However, fading political headwinds after the elections are likely to lift Euro area equities in the near term, given the outcome of a hung parliament, with the right wing failing to get a majority.

First, we expect major stocks to withstand regional political events, given their diversified, international revenue base – over 50% of revenue generated from companies in the MSCI EMU index comes from outside the Euro area and the UK. Second, potential interest rate cuts by the ECB in H2 are likely to boost market sentiment.

Overall, we retain a Neutral stance on Euro area equities. That said, we see a potential catch-up from Euro area stocks in the near term, as relative valuations of Euro area versus US equities have fallen sharply since French President Macron called for a snap election in mid-June. Euro area equities are trading at a relative discount of 42%, significantly below their long-term average. On a sectoral view, we favour opportunities in the technology and healthcare sectors to benefit from surging AI-related demand and medical spending.

— **Michelle Kam**, *Investment Strategist*

### What do you expect from the Third Plenum in China and what are the implications for China equities?

The Third Plenum – starting 15 July – is about “advancing China-style modernisation via deepening reforms”. Official remarks leading up to the formal session indicate party leaders will prioritise advancing already-introduced reforms in a concerted manner to maximise benefits for the entire population.

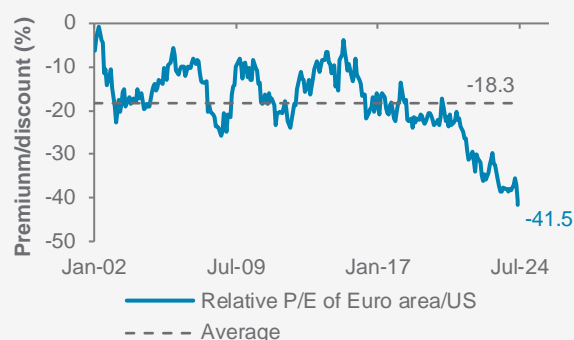
We expect the plenum to (i) reiterate the party’s support for private-sector expansion and a stronger state sector, with a decisive role for the market in resource allocation; (ii) take steps to remove cross-region barriers, encourage innovation and green transition, and improve income distribution; and (iii) attach greater importance to security, addressing risks in the housing and financial sectors and increasing the resilience of the supply chain. The market will likely pay close attention to potential fiscal/tax reforms.

Our technical model is indicating continued downward pressure for Chinese equities. However, there are pockets of opportunities, such as non-financial high dividend-yielding state-owned enterprises. The technology hardware sub-sector is also attractive, given the replacement cycle of AI-enabled personal computers and smartphones.

— **Daniel Lam**, *Head, Equity Strategy*

### Euro area equities are trading at a significant valuation discount to US equities

Relative P/E of MSCI EMU vs MSCI US



Source: FactSet, Standard Chartered

### Hong Kong’s Hang Seng Index has found support at the key 17,300 level

Hang Seng Index and key technical support level



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What are the implications for China USD bonds and the CNH after the recent changes to the PBoC's monetary policy framework?

On 1 July, after the 10-year China government bond yield hit a historical low of around 2.2%, the PBoC announced it would borrow government bonds from primary market dealers to sell in public markets as a new mean to control the yield curve. Subsequently, the PBoC introduced overnight repo and reverse repo rates in its short-term policy tools. These measures led to a rise in both short-term and long-term yields as fears of liquidity tightening operations and yield curve control increased.

Overall, we see the recent surge in China onshore yields as temporary. Demand for longer-term bonds remains strong and we believe the new repo rates are aimed at enhancing the availability of short-term monetary tools, rather than tightening liquidity.

Meanwhile, we retain our tactical buy recommendation on offshore China USD bonds as the interest rate differential between offshore and onshore rates will likely continue to attract onshore investors.

For the CNH, the focus shifts to the Third Plenum next week, especially policies to support the property market and consumer spending. USD/CNH is likely to trade in an ascending channel, moving towards 7.31 over the next few weeks.

— Cedric Lam, Senior Investment Strategist

— Iris Yuen, Investment Strategist

### Q What is the outlook for the AUD and the NZD?

The RBA is likely to keep interest rates unchanged at its 6 August meeting, as elevated inflation and strong retail sales underscored a higher-for-longer interest rate regime in Australia. This contrasts with the US, where Fed Chair Powell recently hinted at a looming rate cut. The break above 0.6710 suggests AUD/USD is biased to the upside, with 0.6850 the next key resistance level.

Elsewhere, the RBNZ kept its official cash rate at 5.5%, but hinted at a potential rate cut in the near future. The RBNZ highlighted signs of easing inflation and expectations of headline CPI returning to target in H2, likely bringing forward the first cut to October instead of November. Technically, the momentum indicator (MACD) for NZD/USD suggests continuous downward pressure in the near term. We expect the pair to test its support at 0.6040 in the next few weeks.

Among commodity currencies, the CAD shows resilience, as oil prices are likely to trade around their two-month high amid robust demand outlook as US oil inventories decline. Therefore, we initiated a bearish NZD/CAD idea to capture the above views.

— Iris Yuen, Investment Strategist

### We see the recent surge in the China onshore government bond yield as temporary

US and China 10-year government bond yields



Source: Bloomberg, Standard Chartered

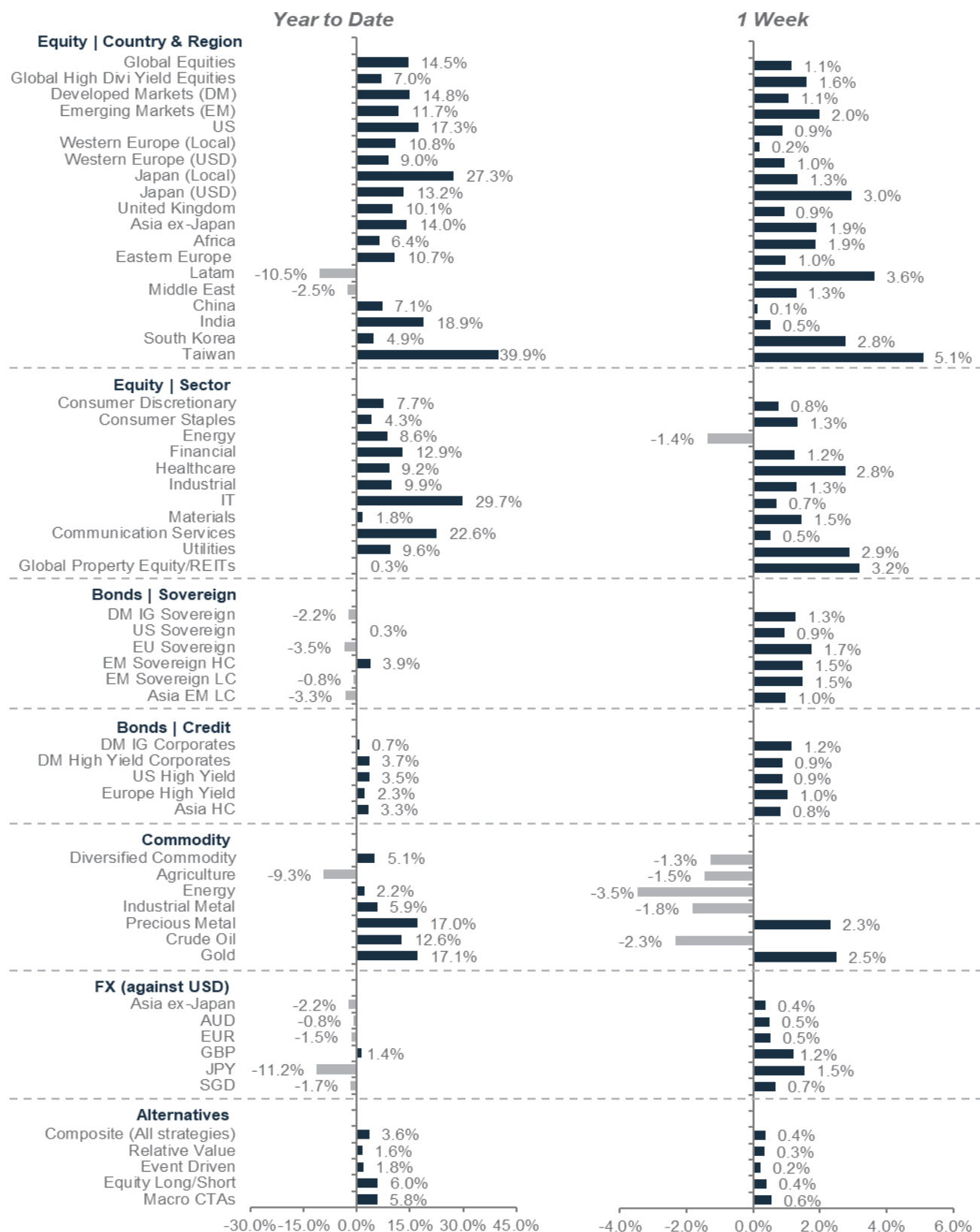
### The AUD/USD momentum indicator suggests continuous upward pressure in the near term

AUD/USD and momentum indicator (MACD)



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, 2024 YTD performance from 31 December 2023 to 11 July 2024; 1-week period: 4 July 2024 to 11 July 2024

Our 12-month asset class views at a glance

Asset class	
<b>Equities</b> ▲	<b>Preferred Sectors</b>
Euro area ◆	US Communication ▲
US ▲	US Technology ▲
UK ▼	Europe Technology ▲
Asia ex-Japan ◆	Europe Healthcare ▲
Japan ◆	China Communication ▲
Other EM ◆	China Discretionary ▲
	China Technology ▲
<b>Bonds (Credit)</b> ◆	India Industrials ▲
Asia USD ◆	India Discretionary ▲
Corp DM HY ◆	India Healthcare ▲
Govt EM USD ▲	
Corp DM IG ◆	<b>Alternatives</b> ◆
<b>Bonds (Govt)</b> ◆	<b>Gold</b> ◆
Govt EM Local ▼	
Govt DM IG ◆	

Source: Standard Chartered Global Investment Committee

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

The S&P500 has next interim resistance at 5,709

Technical indicators for key markets as of 11 July close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P500	5,585	5,394	5,709	21.6	1.4
STOXX 50	4,976	4,850	5,072	13.3	3.4
FTSE 100	8,223	8,117	8,319	11.6	3.9
Topix	2,929	2,766	3,020	15.8	2.3
Shanghai Comp	2,970	2,902	3,041	10.8	3.5
Hang Seng	17,832	17,299	18,443	8.5	4.3
Nifty 50	24,316	23,528	24,782	20.1	1.5
MSCI Asia ex-Japan	721	696	735	13.1	2.5
MSCI EM	1,125	1,084	1,147	12.3	2.9
WTI (Spot)	82.6	78.4	85.7	na	na
Gold	2,415	2,331	2,462	na	na
UST 10Y Yield	4.21	4.09	4.41	na	na

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	CH	Third Plenum	Jul		
	CH	GDP y/y	2Q	5.0%	5.3%
	CH	Industrial Production y/y	Jun	4.8%	5.6%
	CH	Retail Sales y/y	Jun	3.3%	3.7%
	CH	Fixed Assets Ex Rural YTD y/y	Jun	3.8%	4.0%
TUE	US	Empire Manufacturing	Jul	-7.0	-6.0
	EC	ZEW Survey Expectations	Jul	–	51.3
	US	Retail Sales Ex Auto and Gas	Jun	0.4%	0.1%
WED	UK	CPI y/y	Jun	–	2.0%
	UK	CPI Core y/y	Jun	–	3.5%
	US	Housing Starts	Jun	1300k	1277k
	US	Building Permits	Jun	1388k	1386k
	US	Industrial Production m/m	Jun	0.4%	0.9%
THU	UK	ILO Unemployment Rate 3Mths	May	–	4.4%
	EC	ECB Deposit Facility Rate	7/18/24	–	3.8%
	US	Philadelphia Fed Business Outlook	Jul	2.9	1.3
	US	Leading Index	Jun	-0.3%	-0.5%
FRI/ SAT	UK	Retail Sales Ex Auto Fuel y/y	Jun	–	1.2%

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

Investor diversity in US equities nearing a key threshold

Our proprietary market diversity indicators as of 11 July close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.70
Global Equities	○	↓	1.35
Gold	●	↑	1.82
<b>Equity</b>			
MSCI US	○	↓	1.30
MSCI Europe	●	↑	1.58
MSCI AC AXJ	○	→	1.45
<b>Fixed Income</b>			
DM Corp Bond	●	↓	1.56
DM High Yield	●	→	1.51
EM USD	●	→	1.62
EM Local	●	↓	1.81
Asia USD	●	↓	1.56
<b>Currencies</b>			
EUR/USD	●	↓	1.60

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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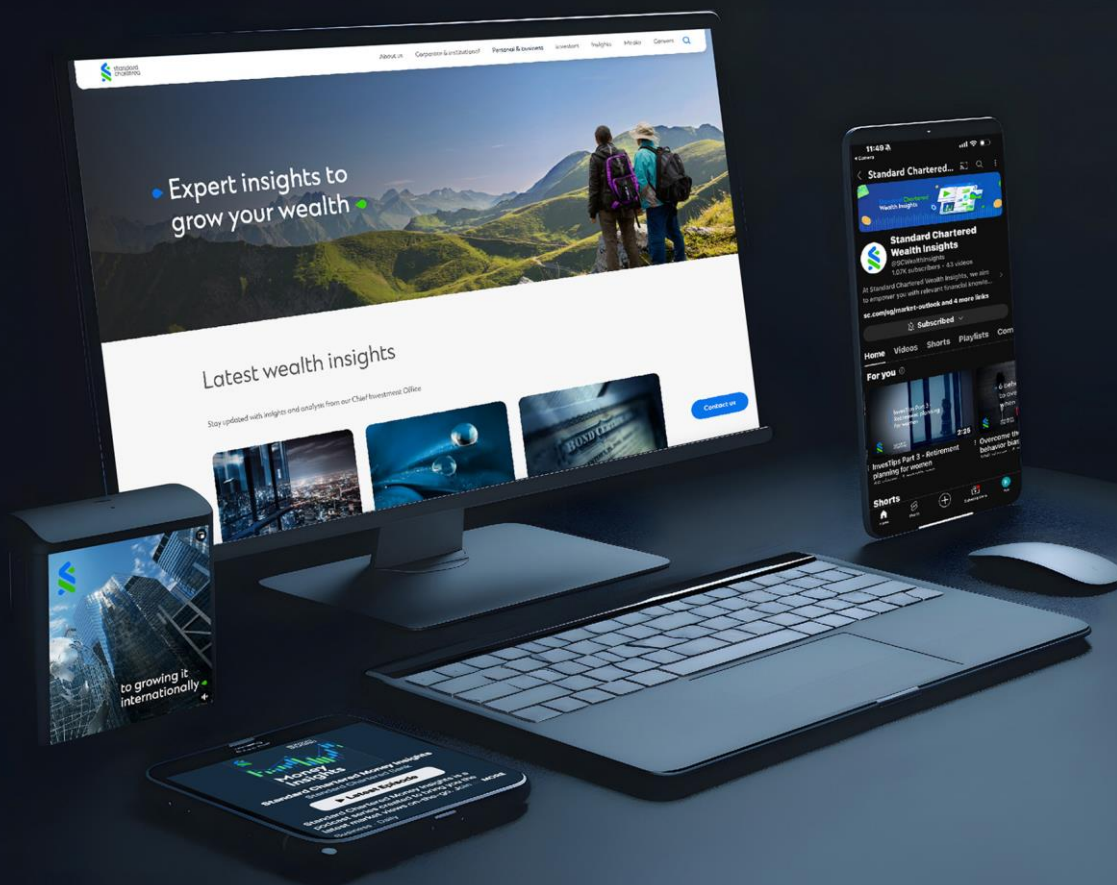
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