



# Weekly Market View

## Policy turning too tight?

US disinflation continues, but the Fed remains cautious about cutting rates until it sees further signs of easing prices.

We believe the Fed is being cautious lest it loosens financial conditions prematurely. We expect disinflation to continue over the coming months as official shelter inflation catches up with already declining market rents.

Sustained disinflation would make US policy too tight, likely leading the Fed to start cutting rates in H2 as it turns its focus towards supporting growth.

Combined with a robust outlook for US corporate earnings and strong technicals, Fed rate cuts are likely to support US equity outperformance, especially the technology and communication services sectors vs. global equities this year.

Meanwhile, the Bank of Japan delayed a decision to reduce bond purchases to next month. USD/JPY could test 160 in the coming days.

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What are the market implications of EU tariffs on China electric vehicles?

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What are the implications of the recent slowdown in the PBoC's gold buying?

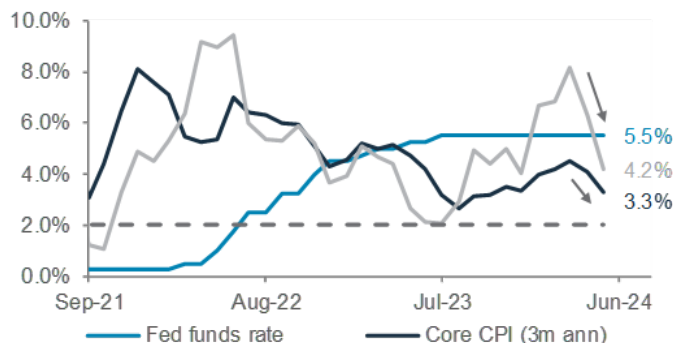
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What is the JPY and GBP outlook around their central bank meetings?

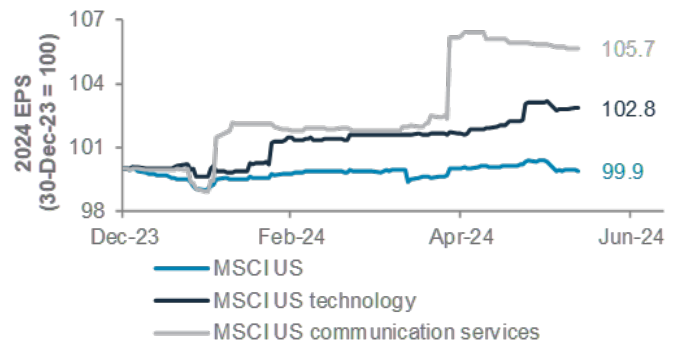
# Charts of the week: Is the Fed too cautious?

**We expect the Fed to cut its policy rate in H2 24 as the monetary policy turns too tight amid continued disinflation**

Fed rate; US core and supercore\* inflation, 3m annualised



Consensus 2024 earnings estimates for US and key sectors#



Source: FactSet, Bloomberg, Standard Chartered; Dotted line = Fed inflation target; \*core services ex-housing; #rebased to 100 = 31 Dec 2023

## Editorial

### Policy turning too tight?

US disinflation continues, but the Fed remains cautious about cutting rates until it sees further signs of easing price pressures – that is the key message over the past week. We believe the Fed is being cautious lest it loosens financial conditions prematurely. We expect disinflation to continue over the coming months as official shelter inflation catches up with already declining market rents. Sustained disinflation would make US policy too tight, likely leading the Fed to start cutting rates in H2 as it turns its focus towards supporting growth. Combined with a robust outlook for US corporate earnings and strong technicals, Fed rate cuts are likely to support US equity outperformance vs. global equities in the coming months.

**Cooling inflation:** Latest data for May showed US inflation cooled for the second straight month. US headline inflation was unchanged m/m, while core inflation cooled for the second straight month to 0.2% m/m, falling short of estimated 0.3%. The so-called ‘supercore’ inflation (core services ex-shelter) contracted (-0.1% m/m) for the first time in over three years.

The data highlights that, barring shelter inflation which remains sticky (0.4% m/m), broader inflation is slowing again after a brief upturn at the start of the year. The two other sticky components of services inflation, medical care services and auto insurance, also slowed in May. Falling market rents suggest shelter inflation is likely to decline in H2, while falling new and used car prices point to further declines in auto insurance and repair costs. Also, forward-looking labour market indicators (declining job vacancy, hiring and quits rates) point to continued deceleration in ‘supercore’ inflation in the coming months, given wages are a key component of the latter.

**Cautious Fed:** Fed Chair Powell, after leaving interest rates unchanged at the latest policy meeting, acknowledged the two straight months of softer-than-expected inflation data, but

added that annual inflation (core CPI inflation in May: 3.4% y/y) “remains too high.” As a result, the Fed, in its June forecast update, reduced its median projected rate cuts for this year to just one cut, compared with three cuts anticipated in March, and raised its inflation estimates for 2024 and 2025.

Powell said Fed policymakers need “greater confidence” that inflation remains on a downtrend before it eases policy. We believe the Fed is being cautious about communicating a dovish signal early, lest it repeats its ‘mistake’ late last year when a dovish signal led to a significant easing of financial conditions, thus defeating the Fed’s primary objective of cooling growth and inflation. Nevertheless, Fed policy is likely turning too tight as disinflation continues. There was a near-even split among the Fed members voting for two rate cuts this year (eight members) and one cut (seven members), with four members voting for no changes this year. We believe a few more months of 0.2% m/m or lower core inflation could sway more Fed policymakers towards one or more rate cuts this year.

**Investment implications:** The latest US inflation data sustains the economic soft-landing thesis wherein growth and inflation continue to moderate, which is positive for risk assets. We believe improving US corporate earnings estimates, especially for US technology and communications services, is likely to continue driving US equity outperformance vs. the rest of the world, especially if the Fed starts to cut rates. Our quantitative and technical models remain upbeat on global and US equities.

**Implications of BoJ decision:** The Bank of Japan (BoJ) held its benchmark rate in the 0.0-0.1% range, as expected, and said it would decide on cutting bond purchases at the next policy meeting in July. USD/JPY rose to a six-week high and Japanese government bond yields fell as markets were expecting a decision on reducing bond purchases at this meeting. USD/JPY could test 160 in the coming days, if it breaks above the near-term resistance at 158 (see page 5).

## 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

**(+) factor:** Cooling US inflation, robust US labour market, China exports

**(-) factor:** Hawkish Fed, political uncertainty in France

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>The US added more jobs than expected at 272,000</li> <li>US consumer inflation was unexpectedly unchanged month over month; core inflation slowed more than expected to 0.2% m/m</li> <li>US producer prices fell more than expected</li> <li>Euro area Sentix investor confidence improved more than expected</li> <li>China exports rose more than expected by 7.6% y/y</li> <li>China producer prices contracted less than expected by -1.5% y/y</li> </ul>	<ul style="list-style-type: none"> <li>US unemployment rate rose unexpectedly to 4.0% y/y; average hourly earnings rose more than expected by 4.1% y/y</li> <li>China imports rose less than expected by 1.8% y/y</li> <li>China CPI slowed more than expected to 0.3% y/y</li> <li>UK factory output contracted more than expected</li> </ul>
	<b>Our assessment: Positive</b> – Cooling US consumer inflation, robust US labour market, rising China exports, recovering Euro area investor confidence	
Policy developments	<ul style="list-style-type: none"> <li>China's State Council urged local governments to implement new creative measures to absorb unsold houses</li> <li>The Bank of Japan held rates as expected and delayed a reduction in bond purchases to July</li> </ul>	<ul style="list-style-type: none"> <li>The Fed projected one rate cut this year in its latest quarterly projections, instead of three cuts projected earlier, after revising its inflation forecasts higher; it left its policy rate unchanged, as expected</li> </ul>
	<b>Our assessment: Neutral</b> – China policy support vs hawkish Fed projections	
Other developments	<ul style="list-style-type: none"> <li>Europe's centrist coalition won a majority, as expected, in the EU parliament elections</li> </ul>	<ul style="list-style-type: none"> <li>French President Macron called for a snap legislative election after setbacks in the EU election; latest polls point to a weaker political coalition</li> </ul>
	<b>Our assessment: Negative</b> – Political uncertainty in France	

**Fed policymakers now expect only one rate cut this year, instead of three cuts projected in March, as they revised inflation forecasts higher**

Fed's June vs March economic and rate projections

	GDP		Unemployment		Core PCE		Rates estimates	
Dates	Old	New	Old	New	Old	New	Old	New
2024	2.1	2.1	4.0	4.0	2.6	2.8	4.6	5.1
2025	2.0	2.0	4.1	4.2	2.2	2.3	3.9	4.1
2026	2.0	2.0	4.0	4.1	2.0	2.0	3.1	3.1
LR*	1.8	1.8	4.1	4.2			2.6	2.8

Source: US Federal Reserve; Standard Chartered; \*longer-run estimates

**Euro area investor confidence continued to improve, rising above the neutral level amid an improving near-term growth outlook**

Euro area Sentix Investor Confidence index



Source: Bloomberg, Standard Chartered

**China's deflationary pressures continued despite a pick-up in exports**

China's consumer and producer price inflation and exports growth



Source: Bloomberg, Standard Chartered



## Top client questions

### Q What are the market implications of EU tariffs on China electric vehicles?

Following the US announcement of higher tariffs on Chinese electric vehicle (EV) imports last month, the EU said it would impose additional tariffs on Chinese EV imports. Preliminary tariffs range from 17.4% to 38.1% on top of the existing 10.0% duties, which will come into effect from 4 July 2024.

However, we expect the impact on China's consumer discretionary sector to be limited, given the relatively small share of EVs within the sector and the ongoing gradual increase in demand across the wider sector. We also believe the competitiveness of Chinese EVs in Europe should remain stable given their pricing strategies.

Having said that, the measures are likely to contribute to a further rise in geopolitical tensions between China and the West. We believe China is likely to retaliate against these European tariffs by imposing tariffs on cars imported from the EU. The US Presidential elections could also raise the risk of further disputes. Hence, we remain Neutral on Chinese equities within Asia-ex-Japan.

— Jason Wong, Equity Analyst

### Q What are the implications of the recent slowdown in the PBoC's gold buying?

China's central bank significantly slowed its rate of gold purchases in May this year. This follows a gradual slowdown in purchases since H2 23 – the average monthly addition was 26 tonnes in Q3 23, which fell to 15 tonnes in Q4 23 and just 1 tonne this quarter. China's central bank demand remains key for gold, given it accounted for almost half of global net purchases over the last 18 months.

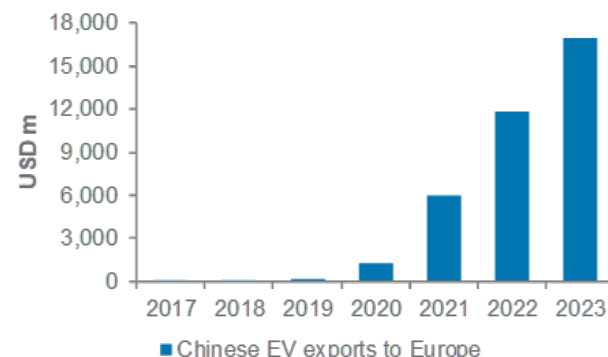
We previously highlighted that elevated prices would dampen central bank demand in the short term, slowing the pace of gold price gains. An analysis of PBoC's past purchases reveals that they similarly tapered off after previous price gains. In our view, this illustrates the PBoC's price sensitivity.

That said, it is likely China's central bank demand will return. In 2016, purchases paused for one month before they resumed. Moreover, the share of gold in China's total reserves is only around 5%, despite the recent round of buying. That is still significantly below the double-digit percentage allocation of other major central banks. Hence, we continue to expect prices to be rangebound, with USD 2,200/oz being a key technical support level.

— Zhong Liang Han, CFA, Investment Strategist

### Chinese EV exports to Europe have been growing in recent years

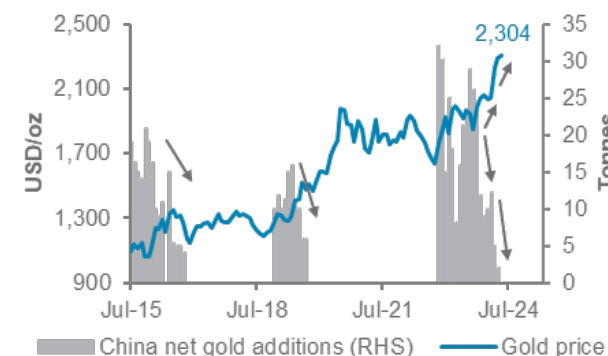
Chinese EV exports in USD mn



Source: China Customs, Standard Chartered

### Chinese central bank gold purchases historically tapered when prices surged

Gold price, China net gold additions



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What is the JPY and GBP outlook around their central bank meetings?

The BoJ left policy rates unchanged at its latest meeting while stating it will set out plans for reducing the amount of its bond buying at its July meeting. However, the previous reduction in JGB purchases on 13 May did not lead to any sustainable JPY appreciation. The latest meeting also failed to boost market expectations for future hikes. Therefore, we still see interest rates differentials favouring the 'JPY carry trade' for now i.e., using the JPY as a borrowing currency to buy higher yielding currencies. Technical resistance for USD/JPY remains at 160.

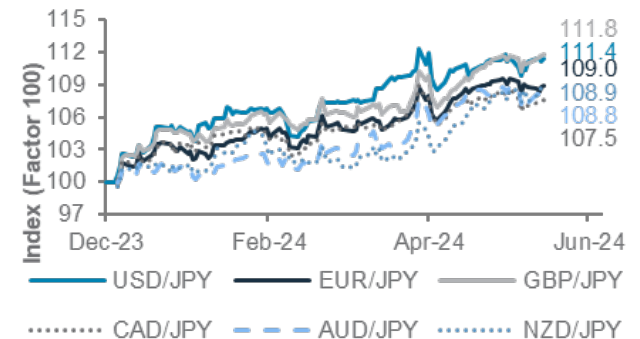
Meanwhile, UK economic data remains mixed, with GDP growth slowing modestly in April, wage growth remaining at a four-month high and manufacturing PMI reaching expansion in May. The UK retail sales growth in May also points to consumption resilience and the likelihood of sticky inflation, supporting a further delay to the start of the BoE cutting cycle compared to the ECB. Markets expect the BoE to leave rates unchanged this month and cut by 25bps by November.

We see GBP/USD as rangebound between 1.2640 and 1.2890 ahead of the BoE meeting next week. The outcome of the upcoming UK election is likely to provide some support to the GBP in the coming months. Opinion polls suggest the Labour party is expected to win the election in July. A Labour party win is likely to lead FX markets to price in closer ties with the Euro area in the medium to longer term. This likely exposes the EUR/GBP to further downside towards 0.8390.

— Iris Yuen, Investment Strategist

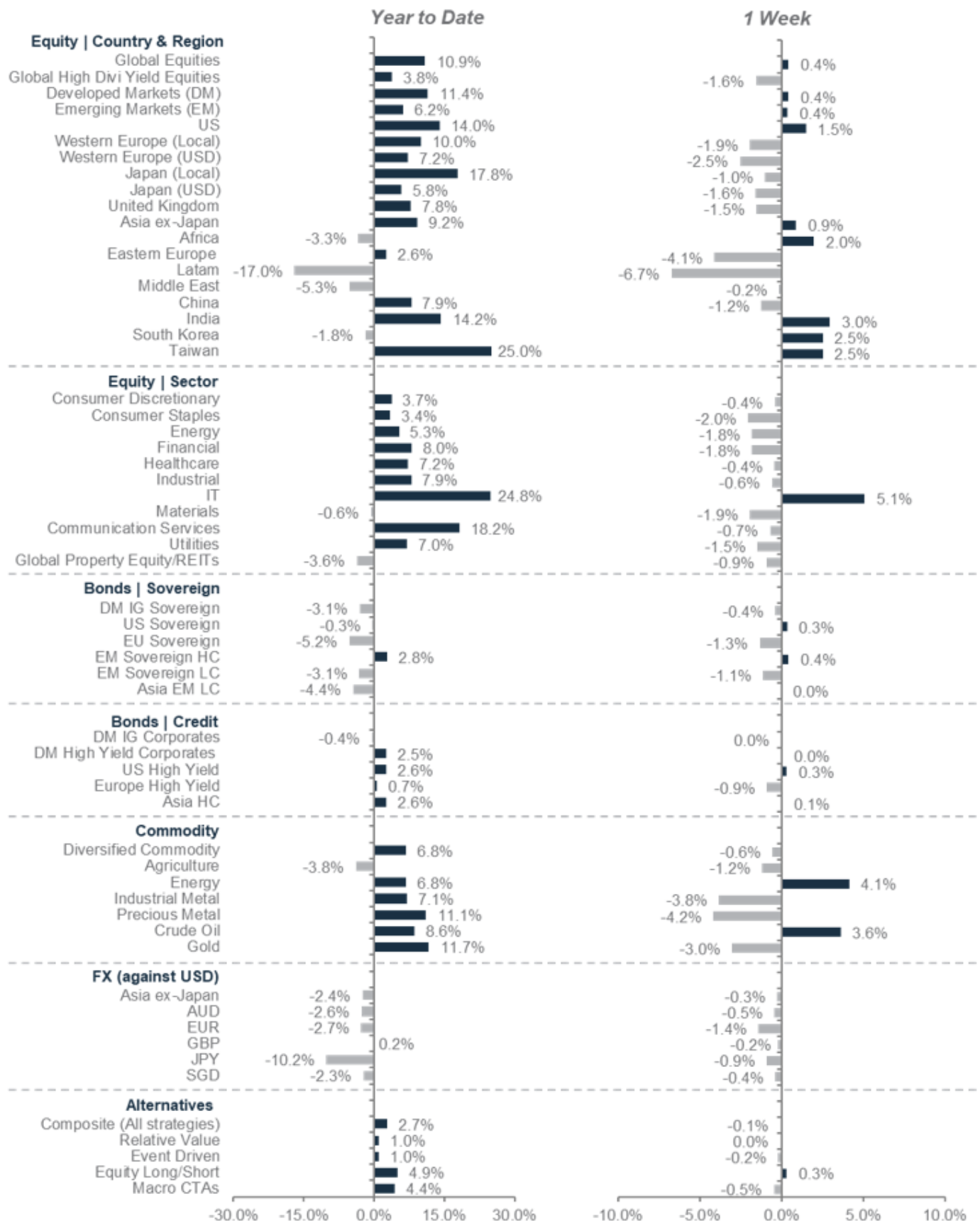
### The JPY has weakened sharply against most major currencies, supporting the so-called 'carry trade'

JPY vs. major currencies; Year-to-date performance



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 13 June 2024; 1-week period: 6 June 2024 to 13 June 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 ◆	US Energy ▲
Asia ex-Japan ◆	Europe Healthcare ▲
Japan ▲	Europe Energy ▲
Other EM ◆	Europe Technology ▲
	China Communication ▲
<b>Bonds (Credit)</b> ◆	China Discretionary ▲
Asia USD ◆	China Technology ▲
Corp DM HY ◆	China Energy ▲
Govt EM USD ▲	China Industrial ▲
Corp DM IG ◆	
	<b>Alternatives</b> ◆
<b>Bonds (Govt)</b> ◆	
Govt EM Local ▼	<b>Gold</b> ◆
Govt DM IG ◆	

Source: Standard Chartered Global Investment Committee

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

## Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON	CH	Industrial Production y/y	May	6.0%	6.7%
	CH	Retail Sales y/y	May	3.0%	2.3%
	CH	Fixed Assets Ex Rural YTD y/y	May	4.2%	4.2%
	CH	Property Investment YTD y/y	May	-10.0%	-9.8%
TUE	EC	ZEW Survey Expectations	Jun	–	47.0
	US	Retail Sales Ex Auto & Gas	May	–	-0.1%
	US	Industrial Production m/m	May	0.4%	0.0%
	AU	RBA Cash Rate Target	Jun	4.4%	4.4%
WED	UK	CPI Core y/y	May	–	3.9%
	JP	BOJ Minutes of April Meeting			
THU	UK	Bank of England Bank Rate	20-Jun-24	5.3%	5.3%
	US	Housing Starts	May	1375k	1360k
	US	Building Permits	May	–	1440k
	EC	Consumer Confidence	Jun P	–	-14.3
FRI/SAT	UK	Retail Sales Ex Auto Fuel y/y	May	–	-3.0%
	EC	HCOB Eurozone Manufacturing PMI	Jun P	–	47.3
	EC	HCOB Eurozone Services PMI	Jun P	–	53.2
	US	S&P Global US Manufacturing PMI	Jun P	–	51.3
	US	S&P Global US Services PMI	Jun P	–	54.8
	US	Leading Index	May	–	-0.6%
	US	Existing Home Sales	May	4.10m	4.14m

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

## The S&P 500 has next interim resistance at 5,523

Technical indicators for key markets as on 13 June close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	12m dividend yield (%)
S&P 500	5,434	5,268	5,523	21.2	1.4
STOXX 50	4,936	4,876	5,049	13.4	3.4
FTSE 100	8,164	8,028	8,387	11.6	4.0
Topix	2,732	2,682	2,796	15.1	2.4
Shanghai Comp	3,029	2,970	3,131	10.8	3.5
Hang Seng	18,113	17,406	19,263	8.6	4.2
Nifty 50	23,399	21,960	24,159	20.2	1.5
MSCI Asia ex-Japan	694	675	709	13.0	2.6
MSCI EM	1,076	1,048	1,103	12.1	3.0
WTI (Spot)	78.6	76.3	80.1	na	na
Gold	2,304	2,244	2,407	na	na
UST 10Y Yield	4.24	4.10	4.51	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

## Investor diversity remains healthy across asset classes

Our proprietary market diversity indicators as of 13 June close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.56
Global Equities	●	→	1.53
Gold	●	↑	1.48
<b>Equity</b>			
MSCI US	●	↓	1.47
MSCI Europe	●	→	1.64
MSCI AC AXJ	●	↑	1.58
<b>Fixed Income</b>			
DM Corp Bond	●	↑	1.92
DM High Yield	●	→	1.62
EM USD	●	↓	1.70
EM Local	●	→	1.43
Asia USD	●	↓	1.69
<b>Currencies</b>			
EUR/USD	●	→	1.72

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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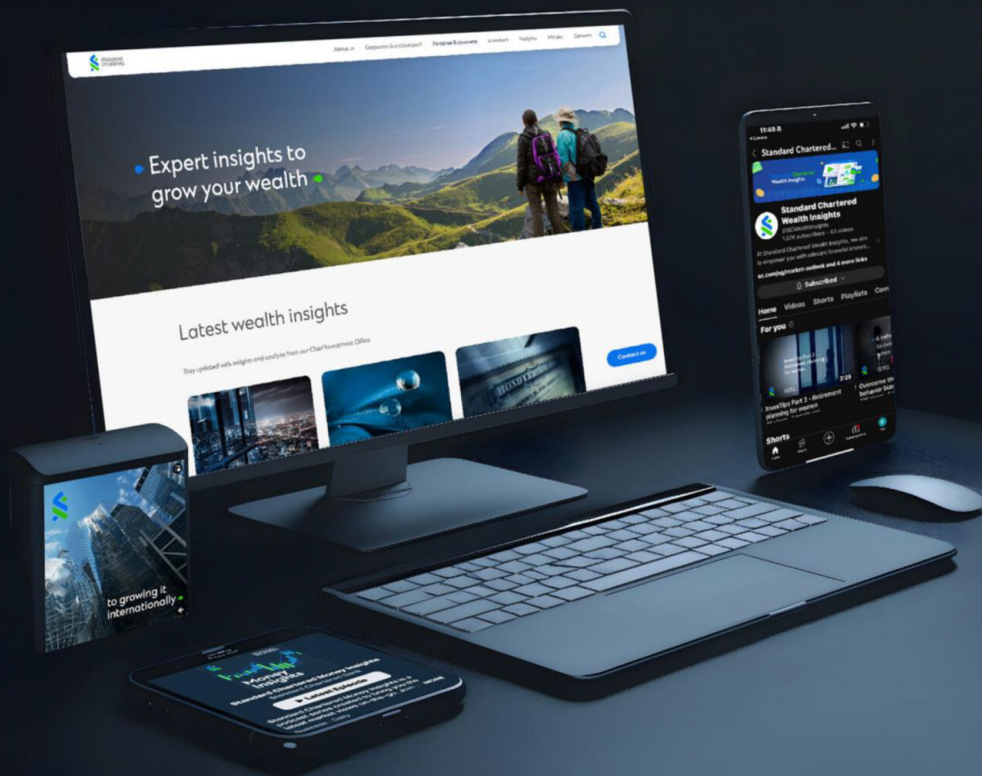
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