



Weekly Market View

The Fed vs the BoJ

→ Among a plethora of central bank policy meetings next week, the spotlight is likely to be on the US Federal Reserve and the Bank of Japan policy meetings.

→ We believe the Fed wants to cut rates to support slowing growth but cannot do so yet after hotter-than-expected inflation reports. Meanwhile, the BoJ is under growing pressure to end its negative interest rates for the first time since 2016.

While we expect the BoJ to move gradually without unsettling markets, the emerging rate divergence between the Fed and the BoJ, if extended further, could have implications for FX and equity markets.

→ For Japanese equities, a potentially more important driver would be any decision by the BoJ to pause or sell down its ETF holdings.

What are the likely implications of the BoJ's upcoming policy meeting on the JPY and Japanese equities?

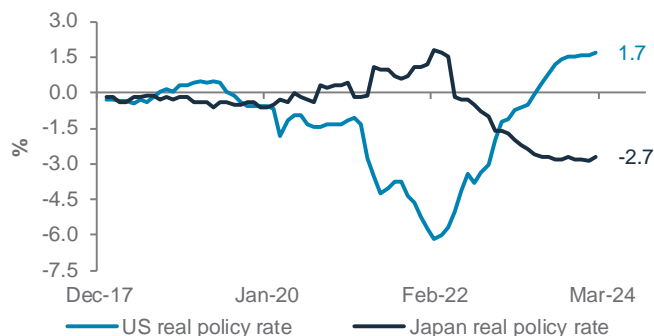
Can India's record-breaking equity rally extend?

Is the latest gold rally sustainable? How does this impact the outlook for the AUD?

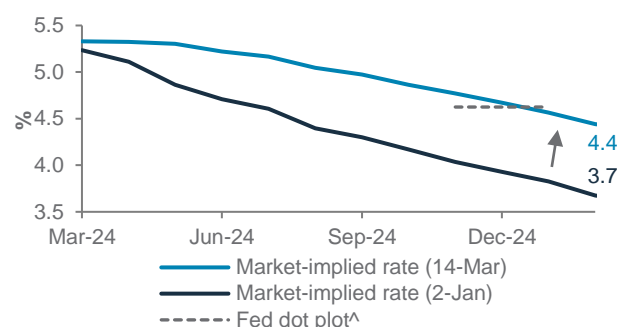
Charts of the week: Policy reconvergence?

Fed rate cut likely by June to avoid policy from turning too tight; BoJ rate hike likely to avoid policy turning too loose

Policy rates in the US and Japan adjusted for core inflation



Money market and Fed estimates of policy rates through 2025



Source: Bloomberg, Standard Chartered; ^Fed dot plot refers to the Fed's projection of where its policy rate is likely to be in December 2024 (4.6%)

Editorial

The Fed vs the BoJ

We are heading into one of the busiest policymaking seasons of the year, with central banks from the US, Japan, UK, Switzerland and Australia among the Developed Markets scheduled to meet next week. Nevertheless, the spotlight is likely to be on the Fed and the BoJ. We believe the Fed wants to cut rates to support slowing growth but cannot do so yet after hotter-than-expected inflation reports. Meanwhile, the BoJ is under growing pressure to end its negative interest rates for the first time since 2016. While we expect the BoJ to move gradually without unsettling markets, the emerging rates convergence between the Fed and BoJ, if extended further, could have implications for FX and equity markets. US equities are valued near the top of their historical range, while USD/JPY remains extremely overvalued, making them vulnerable.

Fed's reaction: The Fed's first public reaction to the latest hotter-than-expected inflation data will be a key focus. US inflation has been sticky in recent months – headline consumer inflation accelerated for the second straight month to 0.4% m/m in February, while core inflation held steady at 0.4% m/m, both more than twice the rate needed to stabilise annual inflation near the Fed's 2% target. Meanwhile, producer price inflation accelerated to 0.6% m/m.

As a result, money markets have pushed back the timing of the first Fed rate cut to June, bringing it in line with our own estimates. Markets have also reduced expectations of total rate cuts this year to around 75bps, bringing it in line with the Fed's projections made in December. The Fed's commentary and new economic projections next week will show whether it agrees with the market. Shelter inflation, which accounts for 45% of core CPI inflation and is still propping up overall inflation, is likely to cool later this year, based on new rental contracts. We believe this should give the Fed the space to start cutting rates more aggressively in H2 to support growth.

Underlying job market weakness: The latest US jobs report also supports our June Fed rate cut view. While headline job creation, at 275,000 net new jobs, was robust in February, the downward revision of the previous two months by 167,000 jobs underscores underlying labour market softness. Also, the jobless rate measured by the parallel household survey rose to a 25-month high of 3.9%, while the unemployment rate of permanent job losers moved closer to a key metric which has signalled all eight recessions since the 1960s.

Japan moving out of negative rates: In Japan, pressure is growing on the BoJ to end its eight-year-old negative interest rates policy and hike rates for the first time since 2007. This follows spring wage negotiations where worker unions have negotiated the steepest wage increases in 30 years. Also, data showed Japan's economy avoided a technical recession in Q4.

Impact on markets: An end to the BoJ's negative rate policy, while causing short-term JPY volatility, is unlikely to lead to a prolonged impact on markets as the move is widely expected. Also, Japan has the most negative real rates among Developed Markets. Hence, a one-off shift from negative to zero (or marginally positive) rate, while psychologically important, is unlikely to put an end to the JPY's borrowing cost advantage or trigger significant JPY strength. However, if such a move signals the start of a trend towards higher rates, it could trigger the start of a major JPY appreciation, given the undervaluation of the currency. We expect the BoJ to follow a gradual approach in tweaking its rates and 'yield curve control' policy wherein it restricts Japan's 10-year bond yields within a target band.

Similarly, a one-off adjustment to BoJ's negative rate policy which results in a moderate appreciation in the JPY is likely to have minimal impact on Japan's equity markets, although it could lead to short-term volatility. A potentially more important driver for Japan's equity markets would be any decision by the BoJ to pause or sell down its ETF holdings (see page 4).

The weekly macro balance sheet

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

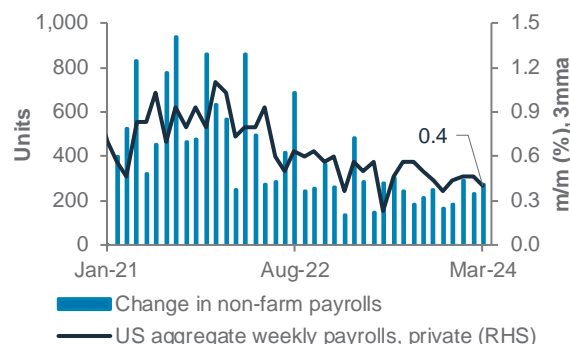
(+) factors: Robust US job creation, China's Vanke avoided default

(-) factors: Sticky US inflation, rising US jobless rate, hawkish BoJ

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US added 275,000 net new jobs in February, more than expected Japan's final Q4 2023 GDP reading was revised higher, enabling the economy to avoid a technical recession 	<ul style="list-style-type: none"> US headline CPI rose by 3.2% y/y unexpectedly; core inflation slowed less than expected to 3.8% y/y US headline and core producer prices rose more than expected US unemployment rate rose unexpectedly to 3.9% US retail sales rose less than expected by 0.6% m/m US small business optimism fell unexpectedly Euro area factory output fell more than expected UK unemployment rate rose unexpectedly
	Our assessment: Negative – Sticky US inflation, rising US jobless rate, contracting Euro area factory output	
Policy developments		<ul style="list-style-type: none"> BoJ officials are reportedly considering a rate hike in March and scrapping ETF purchases PBoC left one-year lending (MLF) rate unchanged and withdrew liquidity
	Our assessment: Negative – Hawkish BoJ	
Other developments	<ul style="list-style-type: none"> China's Vanke is in talks with banks on a debt swap to help avoid its first default 	<ul style="list-style-type: none"> Major Japanese companies agreed to pay increases close to 6%, adding to signs of firm wage growth
	Our assessment: Neutral – The second-largest, state-owned Chinese developer avoids default vs firm Japan wage growth	

US job creation continued to beat estimates, but aggregate payrolls growth remains on a downtrend

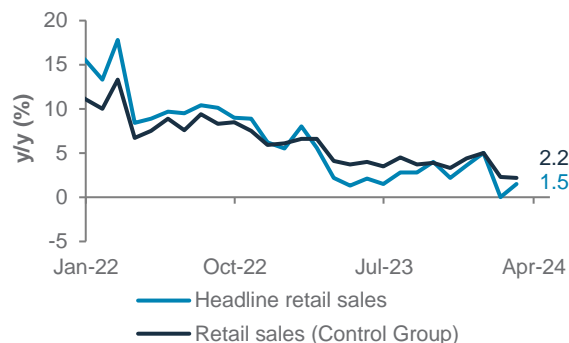
US monthly non-farm payrolls; aggregate payrolls growth*



Source: Bloomberg; Standard Chartered; *three-month moving average of m/m growth in total employment x average weekly hours worked x average hourly wages

US retail sales fell short of estimates in February

US retail sales, headline and control group*



Source: Bloomberg, Standard Chartered; *control group measures core retail sales and is used in USD GDP calculation

Euro area factory output fell more than expected, underlining the weak outlook for the manufacturing sector

Euro area industrial production



Source: Bloomberg, Standard Chartered

Top client questions

Q What are your expectations from the March BoJ policy meeting, and the likely implications for the JPY and Japan equities?

The bond market is currently pricing an over 50% chance of a rate hike from the BoJ on 19 March 2024, which would end the central bank's negative interest rate policy (NIRP); this probability has risen from 35% a month ago. Japan's spring wage negotiations revealed that firms have agreed to the demands of the country's largest trade union confederation, Rengo, for a 5.85% pay increase, surpassing the 5.00% mark for the first time in 30 years. This development sets the stage for higher inflation expectations and for the BoJ to potentially adopt a more hawkish stance at its policy meeting.

While a rate hike could argue for a much stronger JPY, we also see near-term resilience in the USD and a risk of a hawkish tilt from the Fed policy meeting next week following a hotter-than-expected inflation report. This combination is likely to limit USD/JPY weakness in near term. We see the pair likely moving to 145 over the next three months.

A stronger JPY typically leads to weakness in the Japan equity market. However, from a USD-denominated investor's point of view, equity weakness and JPY strength are likely to largely offset each other. For equities, we see longer-term benefits as Japan's equity valuation could re-rate higher from expectations of price increases that are supportive of profit growth. Any change in the BoJ's ETF purchase policy is also a risk. However, we expect careful signalling from the BoJ on how it would manage its ETF position, which is likely to limit any fallout. Overall, we expect Japan equities to outperform global equities on a 6-12-month horizon, in USD terms. We expect this to be driven by ongoing investor inflows, relatively attractive valuations and improving corporate governance that raises the ROE and remunerates shareholders generously via dividends and share buybacks.

— **Fook Hien Yap**, *Senior Investment Strategist*

— **Iris Yuen**, *Investment Strategist*

Japanese equities typically weaken as JPY strengthens, but we expect foreign investors to be compensated by a stronger JPY. We see technical support for the Topix at 2615, followed by 2470

Price chart for Topix index and technical support lines



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Is the latest gold rally sustainable? How does this impact the outlook for AUD?

Gold started March on a strong note, setting a new all-time high:

1. Real yields and the USD, which have an inverse relationship with gold, fell over the last few weeks.
2. The latest Commitment of Traders (COT) report showed a large jump in managed money positioning. These funds were previously running a low exposure to gold futures.
3. Central bank demand remained resilient going in 2024.

From here, CTAs (ie, trend-following investors) could join the rally. However, there are headwinds too. First, some technical indicators, including RSI and Stochastics, appear stretched. Second, elevated prices could dampen central bank and physical demand, at least in the short term. Third, continued strength in equity markets could keep retail buyers away from gold ETFs. On balance, the bar for gains to extend further in the near term is high.

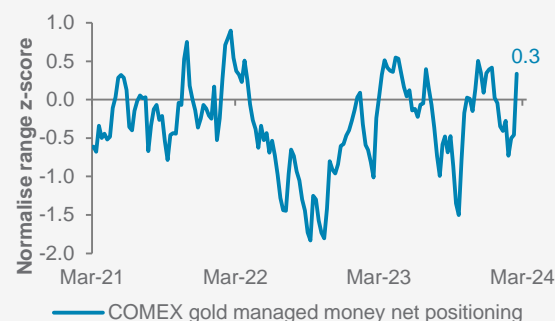
For AUD/USD, the latest gold rally acts as a near-term tailwind given that Australia is one of the largest gold producers. Historically, the growth rate of gold prices and AUD/USD have a high positive correlation. In addition, Australia's economic fundamentals remain strong, illustrated by the composite PMI improving for four months to return back to expansionary territory and wage growth accelerating to close to a 15-year high. The market expects to see the first RBA rate cut in Q3 24, slightly later than other central banks. These should support AUD/USD at 0.66 over the next 3 months and 0.70 over the next 6-12 months.

— **Zhong Liang Han, CFA**, *Investment Strategist*

— **Iris Yuen**, *Investment Strategist*

Institutional investor positioning in gold rose sharply last week

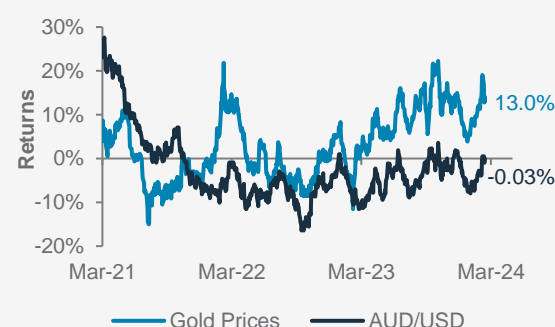
COMEX gold managed money net positioning



Source: CFTC, Bloomberg, Standard Chartered

The growth rate of gold prices and the Australian Dollar are positively related

Gold prices y/y return, AUD/USD y/y return



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q India equities broke to a new record high earlier in March. Can the gains extend? What are your preferred sectors and themes?

India Nifty equity index (+29%) outperformed Emerging Market (EM) peers represented by the MSCI EM index (+16%) over the past 12 months in USD terms (price returns), on robust economic growth, improving macro fundamentals and a strong corporate earnings delivery. However, the outperformance has also driven valuations for India equities higher, both relative to EM peers and its own long-term average.

In our view, a higher valuation premium for India equities is justified, given the presence of cyclical and structural drivers of performance:

- 1. Robust macro fundamentals:** The Indian economy has endured the impact of rapid global monetary policy tightening better than many major economies, supported by a pick-up in investments, improving consumption, low household debt and high domestic savings, while inflationary pressures have remained anchored around the central bank's comfort zone.
- 2. Strong earnings delivery:** As per Bloomberg consensus estimates, the Nifty index's EPS is expected to grow 17% and 13% for FY 24 and FY 25, respectively, taking overall average EPS growth to around 18% between FY 20 and FY 25, the best cycle since the 2004-08 period.
- 3. More reasonable valuations:** The Nifty index's 12-month forward P/E ratio is trading at 20x, lower than the 2021 peak of 23x. While this is higher than its long-term average of 17.7%, in our assessment, India equities' valuation premium to peers' is justified given superior GDP growth and earnings delivery.
- 4. Low foreign investor positioning and strong domestic flows:** Foreign ownership of Indian listed equities is close to decadal lows of around 18% despite strong foreign investor inflows (CY23: USD 21.3bn). Domestic flows remain strong on greater adoption of financial assets and robust systematic investment inflows into mutual funds.

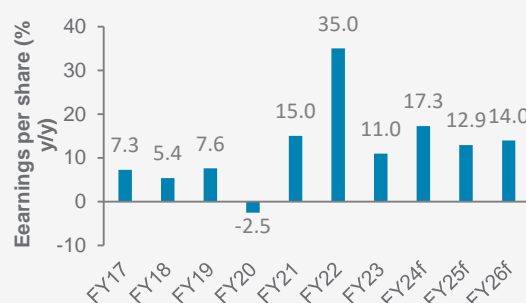
We remain selective in our risk taking in equities and prefer large-cap equities, where we are Overweight relative to small- and mid-cap equities, given their higher margin of safety in terms of earnings and valuations. Our concern on small- or mid-cap equities is due to negative earnings revisions and a cyclically high valuation premium over large cap equities.

In terms of equity sectors, we prefer a barbell approach. We are Overweight domestic cyclicals given the superior earnings outlook relative to other sectors. We are Overweight consumer discretionary and industrials. We are also Overweight healthcare, as its defensive nature acts as a potential hedge against global uncertainty.

— **Ravi Kumar Singh**, Chief Investment Strategist, India

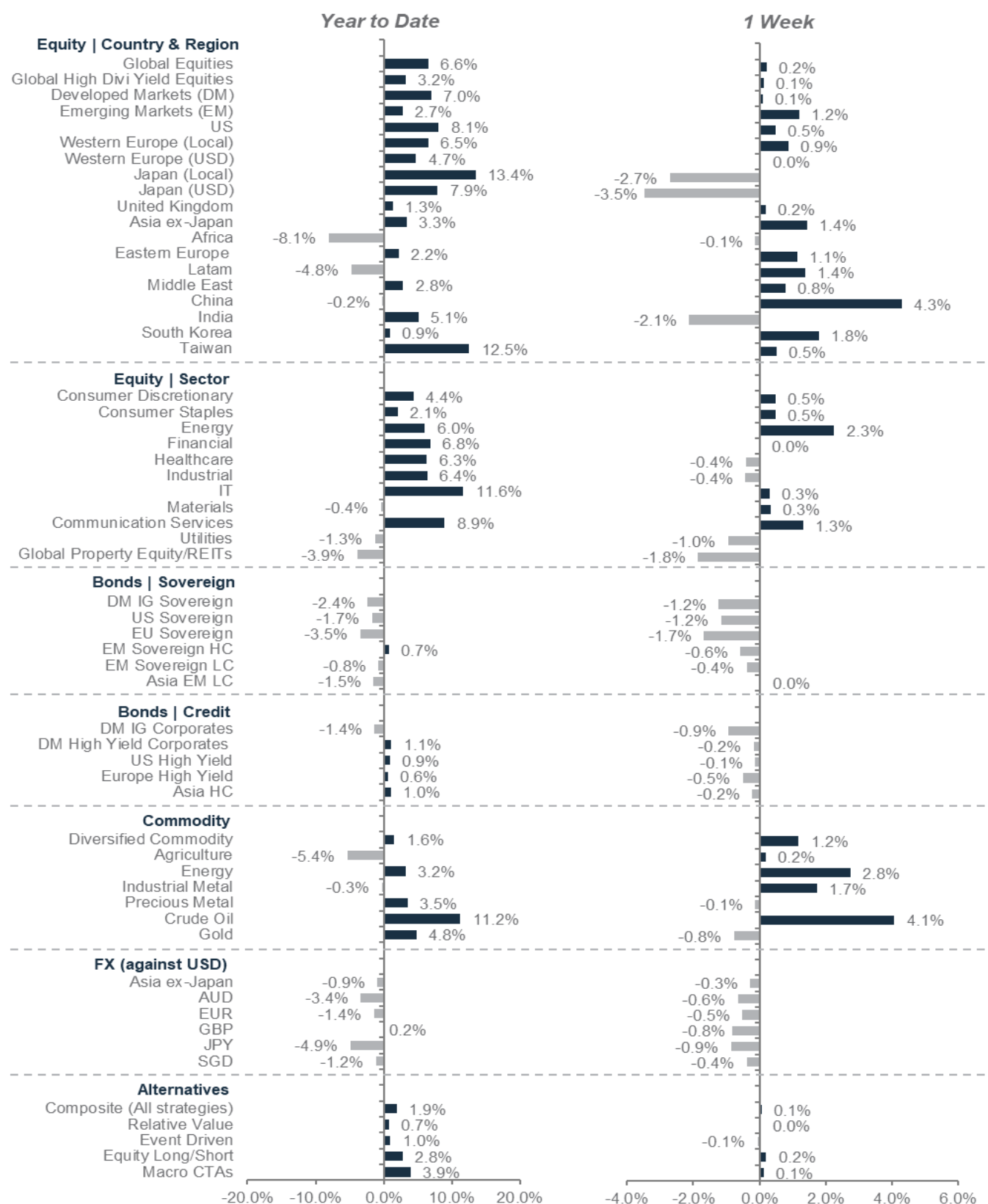
Indian equity earnings growth expectations remain robust

Consensus earnings per share growth estimates for Indian equities (Nifty 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, 2024 YTD performance from 31 December 2023 to 14 March 2024; 1-week period: 7 March 2024 to 14 March 2024

Our 12-month asset class views at a glance

Asset class	
Equities	▲
Euro area	◆
US	▲
UK	▼
Asia ex-Japan	◆
Japan	▲
Other EM	◆
Bonds (Credit)	◆
Asia USD	◆
Corp DM HY	◆
Govt EM USD	▼
Corp DM IG	◆
Bonds (Govt)	▲
Govt EM Local	◆
Govt DM IG	▲

Source: Standard Chartered Global Investment Committee

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

S&P500 index has immediate support at 5,121

Technical indicators for key markets as of 14 March close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,150	5,121	5,178	20.9	1.5
STOXX 50	4,993	4,949	5,019	14.0	3.3
FTSE 100	7,743	7,678	7,790	11.3	4.1
Topix	2,662	2,631	2,709	15.5	2.4
Shanghai Comp	3,038	3,028	3,058	10.2	3.5
Hang Seng	16,962	16,512	17,252	8.0	4.5
Nifty 50	22,147	21,984	22,322	20.2	1.5
MSCI Asia ex-Japan	662	655	665	12.8	2.7
MSCI EM	1,049	1,041	1,053	12.1	3.0
WTI (Spot)	81.3	78.8	82.5	na	na
Gold	2,162	2,153	2,177	na	na
UST 10Y Yield	4.29	4.15	4.36	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	Property Investment YTD y/y	Feb	-8.0%	–
	CH	Fixed Assets Ex Rural YTD y/y	Feb	3.2%	–
TUE	EC	ZEW Survey Expectations	Mar	–	25.0
	US	Building Permits	Feb	1500k	1470k
	US	Housing Starts	Feb	1430k	1331k
	JP	BOJ Policy Balance Rate	Mar	-0.1%	-0.1%
WED	UK	CPI y/y	Feb	–	4.0%
	UK	CPI Core y/y	Feb	–	5.1%
	EC	Consumer Confidence	Mar P	–	-15.5
THU	US	FOMC Rate Decision (Upper Bound)	20-Mar -24	5.5%	5.5%
	EC	HCOB Eurozone Manufacturing PMI	Mar P	–	46.5
	EC	HCOB Eurozone Services PMI	Mar P	–	50.2
	UK	S&P Global UK Manufacturing PMI	Mar P	–	47.5
	UK	S&P Global UK Services PMI	Mar P	–	53.8
	UK	Bank of England Bank Rate	21-Mar-24	–	5.3%
	US	S&P Global US Manufacturing PMI	Mar P	–	52.2
	US	S&P Global US Services PMI	Mar P	–	52.3
	US	Leading Index	Feb	-0.3%	-0.4%
FRI/ SAT					

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 normalised across major assets

Our proprietary market diversity indicators as of 14 March

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.72
Global Equities	●	→	1.29
Gold	●	↓	1.34
Equity			
MSCI US	●	↑	1.30
MSCI Europe	●	→	1.31
MSCI AC AXJ	●	↓	1.39
Fixed Income			
DM Corp Bond	●	↑	1.66
DM High Yield	●	→	1.35
EM USD	●	↑	1.45
EM Local	●	→	1.43
Asia USD	●	↑	1.45
Currencies			
EUR/USD	●	↑	1.82

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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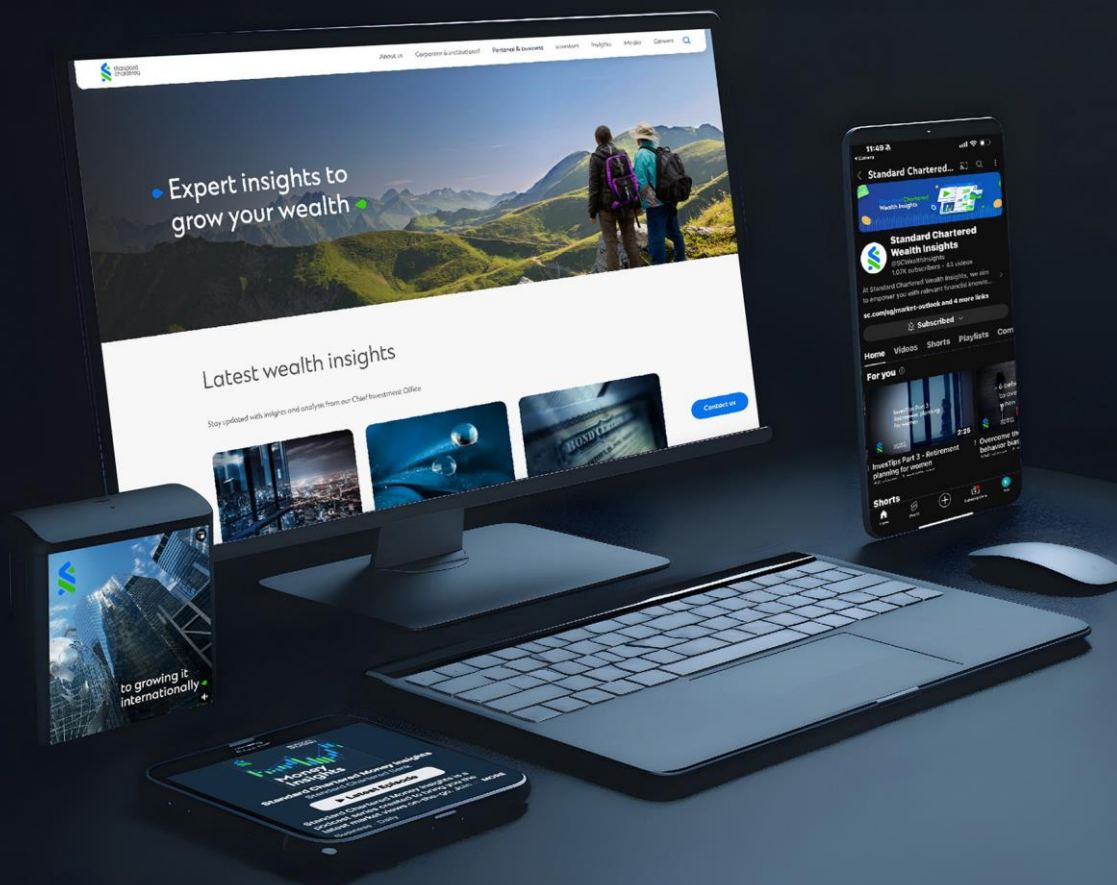
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