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Wealth Management Chief Investment Office
6 April 2023

Weekly Market View

The signal from gold

- Gold's break above USD 2,000/oz following weaker-than-expected US data this week suggests the 'bad news is good news' narrative is likely running out of steam again. The safe haven metal is now barely 2% away from breaking above its all-time high of USD 2,075.47 hit at the peak of the COVID crisis in August 2020.

- We expect it to scale a new record as the US enters a recession over the next 6-12 months. Gold and high-grade bonds have been the best performers among major asset classes in the past three recessions and we expect that record to continue in the coming downturn.

- For those still Overweight on equities, the recent rally in risk assets offers an opportunity to rebalance from US and European equities to high grade Developed Market government bonds and Asia USD bonds. Meanwhile, this week's gains in energy sector equities is an opportunity to rebalance to more defensive equity sectors.

Does OPEC+'s surprise decision to cut oil output change your outlook for oil prices and energy sector equities?

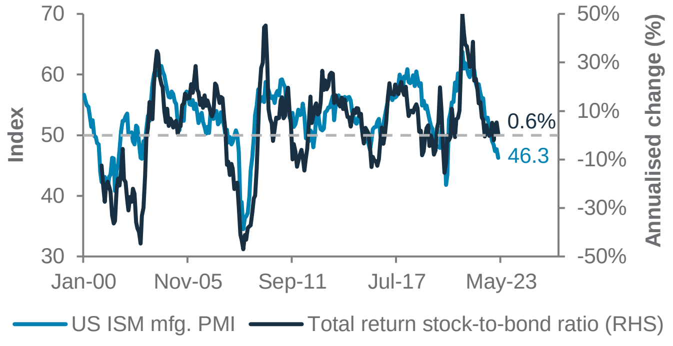
Are there any cross-currency opportunities between European and commodity currencies?

What is the key message from the macro indicators over the past week?

Charts of the week: Headwind for equities, tailwind for gold

Continued downturn in global manufacturing and broader economic activity is a headwind for stocks and tailwind for gold

US ISM manufacturing PMI, stocks-to-bonds total returns ratio



Gold price and real (inflation-adjusted) US 2-year bond yield*

Source: Bloomberg, Standard Chartered; *yield derived from US 2-year inflation-protected government bonds

Editorial

The signal from gold

Gold's break above USD 2,000/oz following weaker-than-expected US data this week suggests the 'bad news is good news' narrative is likely running out of steam again. The safe haven metal is now barely 2% away from breaking above its all-time high of USD 2,075.47 hit at the peak of the COVID crisis in August 2020. We expect it to scale a new record as the US enters a recession over the next 6-12 months. Gold and high-grade bonds have been the best performers among major asset classes in the past three recessions and we expect that record to continue in the coming downturn. This explains our recent upgrade to gold and Developed Market Government bonds to Overweight in our tactical asset allocation and our increased preference for defensive equity sectors in the US and Europe.

Gold's price action – it has surged over 10% since the start of March and 25% since September lows – suggests there are other drivers besides a falling USD and inflation-adjusted yields pushing the precious metal higher. The US banking crisis in March, which briefly spilled over into Europe, has led to a flight to safety. While major central bank measures to provide banks with liquidity appears to have stabilised sentiment, US small lenders have seen a sharp deposit flight in March, based on the Fed's weekly data. Moreover, the episode is likely to lead to further tightening of lending conditions, especially at smaller US banks which are also disproportionately exposed to the COVID-impacted commercial real estate sector.

The central bank liquidity boost to stem the US banking crisis did feed the 'bad news is good news' narrative in the second half of March as investors started pricing in Fed rate cuts in the second half of the year, driving bond yields sharply lower, especially for shorter maturities. Risk assets rallied briefly. However, surprisingly weak global manufacturing business confidence indicators (PMIs), including contractionary US new orders PMI, followed by a surprisingly sharp drop in the US services sector PMIs over the past week have turned the focus back to the risk of a US recession in the next 6-12 months.

There are also more signs of a slowdown in the US job market: US job openings fell sharply, below 10m for the first time since May 2021, while private sector job creation (ADP) fell below estimates, adding to other early warning signals (the broader non-farm payrolls data on Friday is likely to confirm the job market slowdown). Meanwhile, last weekend's jolt from OPEC+, which decided to cut output by a combined 1.65mbpd from May, is likely to hurt global consumer demand further in the coming months as the resulting jump in oil prices is likely to act as a 'tax' on consumers. The OPEC+ decision does raise the risk of near-term inflation staying higher for longer, which also means central banks keep rates higher for longer (the consensus expects US core CPI inflation to have accelerated to 5.6% y/y in March). A slowing US job market, combined with still-elevated inflation and interest rates, would be a further headwind for corporate earnings and risk assets.

Investment implications: The above backdrop has increased our conviction on Gold and DM government bonds, given their track record of outperformance during past recessions. Gold is also likely to benefit if higher oil prices put downward pressure on real bond yields. US 10-year and 2-year government bond yields are both testing their 50-week moving averages - a decisive break below would be bullish for bonds. For those still Overweight on equities, the recent rally in risk assets offers an opportunity to rebalance from US and European equities to high grade DM government bonds and Asia USD bonds. Meanwhile, this week's gains in energy sector equities following the OPEC+ surprise is an opportunity to rebalance to more defensive equity sectors (healthcare, consumer staples and utilities in the US and utilities in Europe), since oil prices and energy sector corporate earnings would be vulnerable to a US recession.

— Rajat Bhattacharya

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: Slowing US core inflation, Euro area headline inflation

(-) factors: Hawkish Fed/ECB, weak US ISM PMIs, OPEC+ output cut

	Positive for risk assets	Negative for risk assets
Macro data	• US core PCE consumer inflation rose less than expected by 0.3% m/m; headline rose as expected • Euro area headline CPI eased more than expected to 0.9% m/m • Euro area producer inflation contracted 0.5% m/m • China official manufacturing PMI fell less than expected to 51.9; non-mfg and Caixin services PMI beat expectations, rising to 58.2 and 57.8 respectively	• US ISM manufacturing fell more than expected to 46.3; new orders PMI fell more than expected to 44.3 • US ISM services fell more than expected to 51.2 • US jobs openings fell more than expected, below 10m for the first time since 2021; private sector (ADP) added less jobs than expected • US factory orders fell 0.7% m/m, more than expected • China Caixin manufacturing PMI fell more than expected to 50
	Our assessment: Neutral – Slowing US and Euro area inflation, strong China services PMIs vs decline in US manufacturing and services PMIs, falling job openings	
Policy developments	• RBA stood pat on policy rates as expected	• Fed officials reiterated the need to raise rates further to combat inflation • ECB's Lagarde said there was more "ground to cover on rates" as core inflation is "still significantly too high" • RBNZ hiked rate by 50bps, more than expected
	Our assessment: Negative – Hawkish Fed, ECB and RBNZ	
Other developments		• OPEC+ surprised with plans to cut crude oil output by 1.65 mb/d, including Russia's extension of its 500kb/d production cut • BoJ Governor Kuroda's term ends on Friday • Finland joined NATO; Russia warned of retaliation
	Our assessment: Negative – OPEC+ surprise output cut	

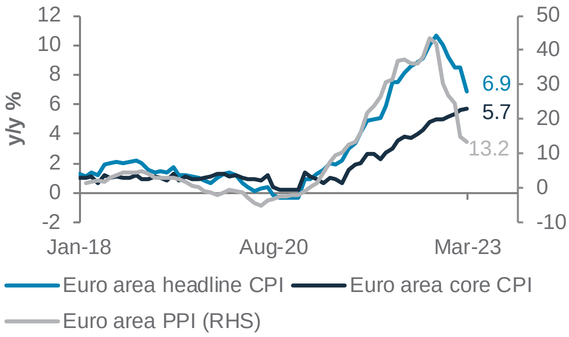
US job openings fell to a 21-month low, adding to early signs of a slowdown in the job market

US job openings-to-unemployment ratio

Source: Bloomberg; Standard Chartered

Euro area headline inflation continued to slow due to a y/y decline in energy prices, but core inflation continued to rise, adding pressure on the ECB

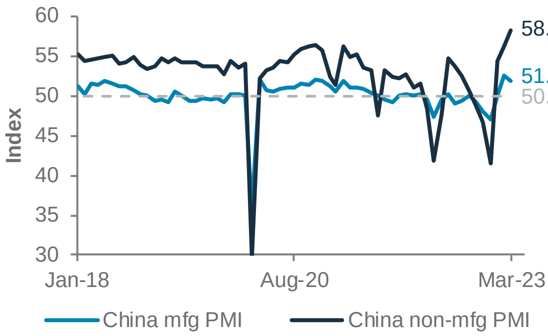
Euro area headline and core consumer and producer price inflation



Source: Bloomberg, Standard Chartered

China's services sector activity is rebounding strongly, while manufacturing is challenged by slowing export orders

China's manufacturing and non-manufacturing PMI



Source: Bloomberg, Standard Chartered

Top client questions

Your Q2 FX forecasts show greater upside conviction in European currencies relative to commodity currencies. Are there any cross-currency opportunities here?

We expect both European and commodity currencies to rise on a modestly weaker USD but expect the EUR to outperform on a three-month horizon. One big driver of this is monetary policy divergence. Relative to the US, Europe arguably faces marginally higher inflation pressure and slightly lesser growth concerns relative to the US, as a much-feared energy price shock to economic activity failed to materialise due to an unusually mild winter in Europe. This means that, while we expect the Fed to raise rates by 25bps before going on a pause and likely cutting before year-end, we expect the ECB to raise rates by 50bps and stay on hold till 2024. This is likely to offer the EUR a relative yield advantage vs the USD.

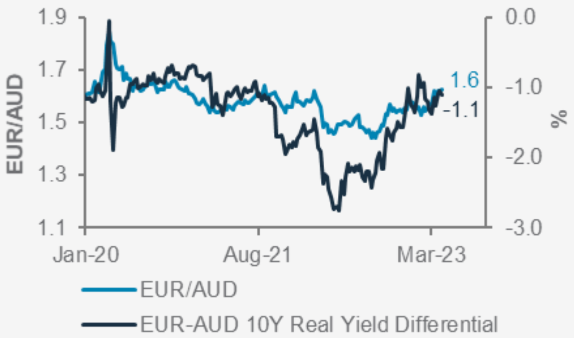
Commodity currencies face two headwinds relative to the EUR. First is an arguably less commodity-intensive economic rebound in China given its focus on boosting domestic consumption relative to promoting investment. Second is the vulnerability of housing markets in the Developed Markets to the ever-tighter monetary policy, which is likely to curtail building activities and, by extension, demand for commodities. These headwinds explain the commodity currencies' likely underperformance vs the EUR in the next three months.

Nevertheless, on a cross-currency perspective, short-term (2-4 weeks) technical signals for the EUR/AUD, EUR/NZD and EUR/CAD appear largely neutral currently. Therefore, for now, we would focus on technical trading opportunities in the EUR/GBP (we are bullish), GBP/CHF (bearish) and AUD/CAD (bullish) pairs that are likely primed for reversals as they approach one extreme of their recent trend channels. Meanwhile, we would remain on watch for more attractive technical signals on the EUR vs commodity currency pairs. Please see our *Daily Navigator* for key technical levels and further updates.

— **Manpreet Gill,** *Chief Investment Officer, AMEE*

We expect EUR/AUD to rise over a three-month horizon as more ECB rate hikes are likely to give the EUR an inflation-adjusted yield advantage; near-term technicals, though, are less supportive

EUR/AUD



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Does OPEC+'s surprise decision to cut oil output change your oil price and energy sector equities outlook?

The OPEC+ grouping of leading oil producers surprised markets over the weekend by announcing an unexpected oil production cut of 1.65mb/d, effective from May 2023. This follows production cuts of 2mb/d announced in October 2022. What is interesting in this announcement was its voluntary nature, with the production cut responsibilities shared largely among OPEC+ members that have a strong compliance track record. The list includes the five largest OPEC+ crude producers, with Saudi Arabia leading the way by pledging a 500kb/d supply reduction. Russia also extended its oil production cut of 500kb/d through 2023, from its original timeline of June, though its impact is likely to be more limited given the sanctions are already in place.

Since our 2023 Outlook, we have been highlighting the likelihood that OPEC+ is likely to intervene should oil prices fall below its average budget breakeven price, estimated to average around USD 70/bbl. Hence, the latest action does not come as a complete surprise. Addressing the supply surplus in the market in light of the weakening growth data was likely one key driver of the move; in its announcement, Saudi Arabia called the cuts "a precautionary measure" aimed at supporting the stability of the oil market. A second factor that likely prompted the cut was the lack of US follow-through in refilling its strategic petroleum reserves (SPR) even after oil prices fell into the range where it had earlier said it would start purchases.

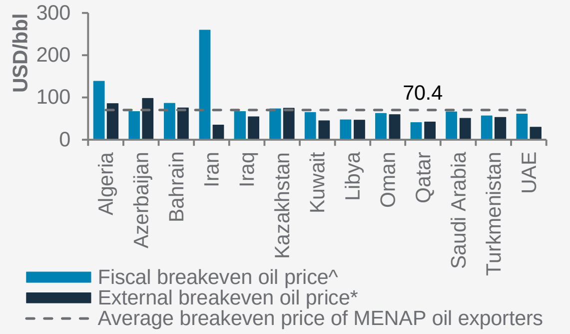
In the near term, we believe WTI oil prices are likely to temporarily overshoot above our three-month forecast of USD 70/bbl, given the extremely low open interest and positioning. OPEC+'s move also has the potential to push the market into a deficit in Q2 vs earlier expectations of a surplus. In the long run, though, we would keep a close watch on three potential drivers: 1) the extent to which the planned cuts result in actual reduction in production volume; 2) the US' reaction to the OPEC+ cut, particularly with respect to SPR refill purchases; 3) the degree to which oil demand contracts on slowing global growth. On balance, we see the OPEC+ cut as moderately raising upside risks to our 12-month forecast of USD 65/bbl.

The OPEC+ decision is also likely to be incrementally positive in the near term for energy sector equities, which jumped in tandem with the oil prices this week. We recently closed our Overweight on the energy sector as we are starting to see negative earnings revisions in the sector, something that is likely to continue if oil prices remain soft. The latest oil price rebound offers a good opportunity to reduce exposure to the equity sector.

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

OPEC+ has an economic incentive to prop up the oil price as they use oil revenue to fund their budgets

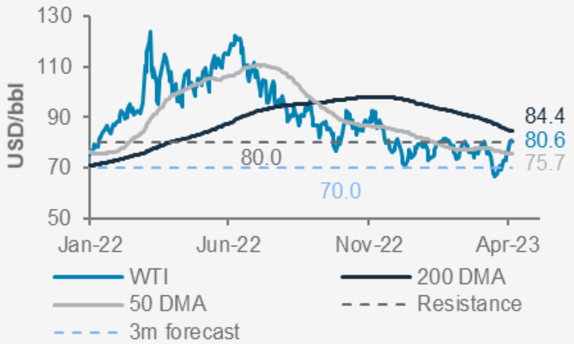
Breakeven oil price of MENAP oil exporters



Source: IMF, Bloomberg, Standard Chartered
^The oil price at which fiscal balance is zero; *The oil price at which the current account balance is zero

The WTI oil price is likely to temporarily overshoot above our three-month forecast of USD 70/bbl following the surprise OPEC+ output cut

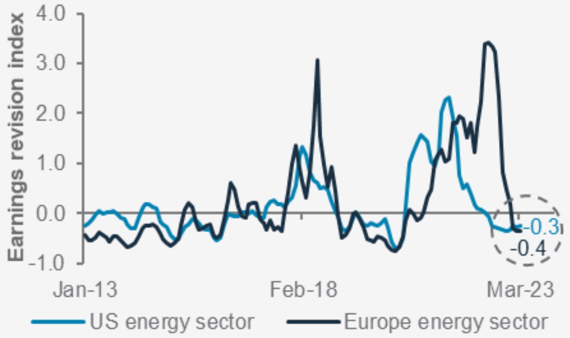
WTI crude oil



Source: Bloomberg, Standard Chartered

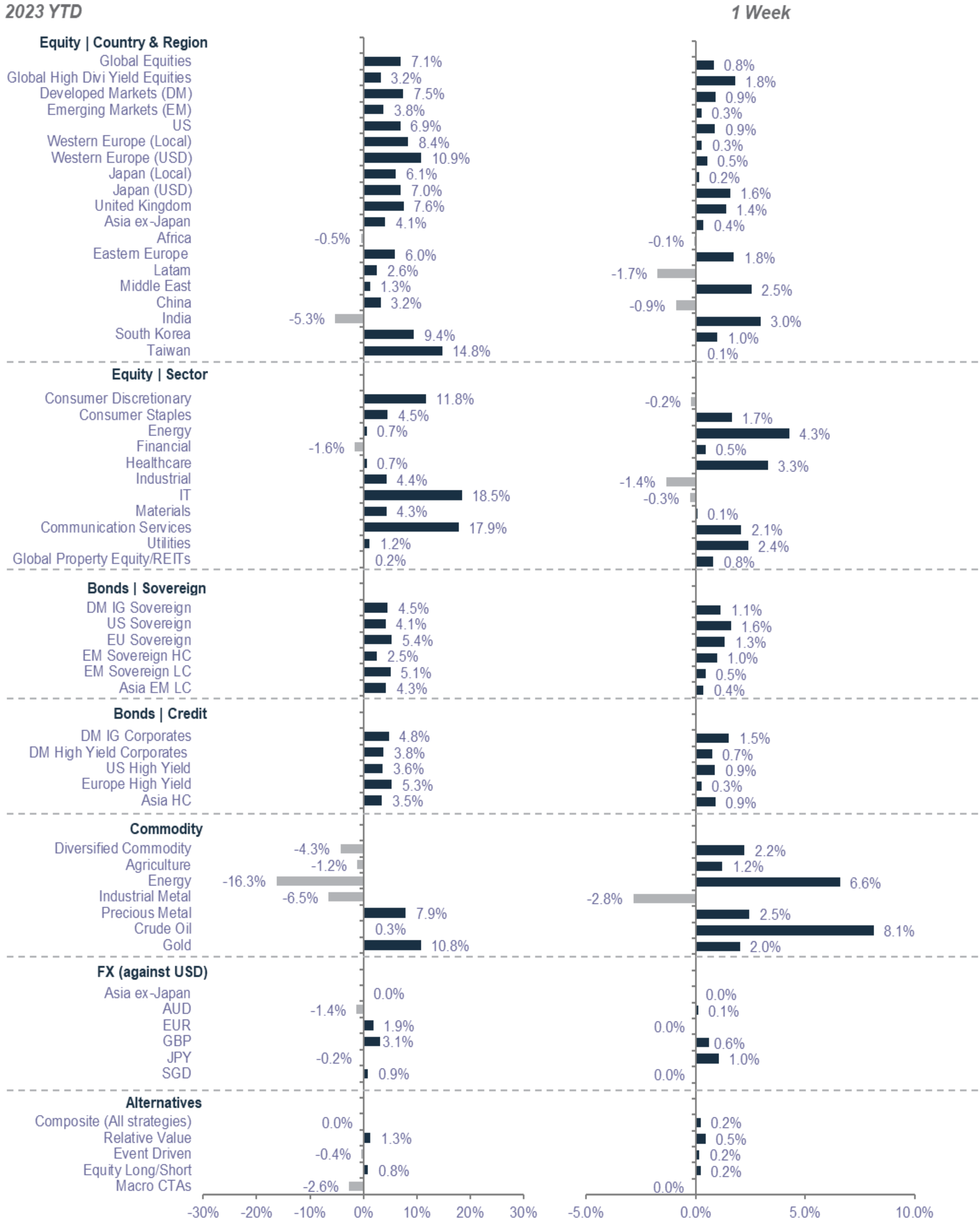
The US and European energy equity sectors have seen negative earnings revisions lately

Earnings revision* for MSCI US Energy and MSCI Europe Energy



Source: FactSet, Standard Chartered
*Earnings revision = 3-month moving average of (earnings upgrades / earnings downgrades – 1)

Market performance summary *



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2023 YTD performance from 31 December 2022 to 05 April 2023; 1-week period: 29 March 2023 to 05 April 2023

Our 12-month asset class views at a glance

Asset class	View
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	▲

Preferred Sectors	View
US Healthcare	▲
US Staples	▲
US Utilities	▲
Europe Utilities	▲
China Discretionary	▲
China Comm. Services	▲
China Technology	▲
China Industrials	▲
Alternatives	◆
Gold	▲

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

		Event Next week	Period	Expected	Prior
MON					
TUE	CH	CPI y/y	Mar	1.0%	1.0%
TUE	CH	PPI y/y	Mar	-2.4%	-1.4%
TUE	EC	Sentix Investor Confidence	Apr	–	-11.1
TUE	EC	Retail Sales y/y	Feb	–	-2.3%
WED	US	CPI y/y	Mar	5.2%	6.0%
WED	US	CPI Ex Food and Energy y/y	Mar	5.6%	5.5%
THU	UK	Industrial Production y/y	Feb	–	-4.3%
THU	US	PPI Final Demand y/y	Mar	–	4.6%
THU	US	PPI Ex Food and Energy y/y	Mar	–	4.4%
THU	CH	Exports y/y	Mar	-7.4%	-9.9%
THU	US	FOMC Meeting Minutes	Mar		
FRI/SAT	US	Retail Sales Ex Auto and Gas	Mar	–	0.0%
FRI/SAT	US	Industrial Production m/m	Mar	0.3%	0.0%
FRI/SAT	US	U. of Mich. Sentiment	Apr P	–	62

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

Next support for the US 10-year bond yield is at 3.22%

Technical indicators for key markets as of 05 April close

Index	Spot	1st support	1st resistance
S&P 500	4,090	4,053	4,126
STOXX 50	4,298	4,284	4,314
FTSE 100	7,663	7,631	7,684
Nikkei 225	27,480	27,225	28,012
Shanghai Comp	3,313	3,278	3,330
Hang Seng	20,275	20,230	20,364
MSCI Asia ex-Japan	643	641	645
MSCI EM	988	986	990
WTI (Spot)	84.9	81.1	86.8
Gold	2,019	1,985	2,037
UST 10y Yield	3.30	3.22	3.47

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 05 April

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	◐	→	1.48
Global Equities	◐	→	1.45
Gold	◐	↓	1.36
Equity			
MSCI US	◐	→	1.47
MSCI Europe	◐	↑	1.39
MSCI AC AXJ	●	↑	1.73
Fixed Income			
DM Corp Bond	◐	↑	1.48
DM High Yield	●	↑	1.58
EM USD	●	↑	1.69
EM Local	◐	↑	1.37
Asia USD	●	↑	1.60
Currencies			
EUR/USD	◐	↑	1.47

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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