



# Weekly Market View

## What to expect from central banks?

→ As we enter the first round of central bank policy meetings this year, markets have pared back aggressive rate cut expectations in the US and Europe and rate hike expectations in Japan, especially for Q1.

→ The reversals came after a set of resilient labour market data, stronger-than-expected headline inflation and retail sales in the US and a rebound in inflation in Europe. In Japan, inflation moderated and wage growth underwhelmed, easing the urgency for the BoJ to tighten policy.

→ The rebound in US and European bond yields because of the repricing of rate cut expectations has opened a window to average into those bonds. In equity markets, we continue to prefer Japan, while US markets await technology sector earnings for further direction.

→ In FX, we expect technical rebounds in gold and AUD as the broad USD index heads into a key resistance after a rebound this year.

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What are the key takeaways from the US Q4 bank earnings so far?

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What is driving the downtrend in China equities? Will there be a reversal soon?

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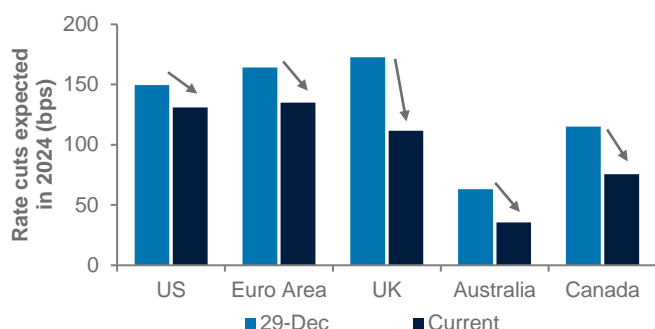
What is the outlook for UK government bonds and GBP after the recent batch of data?



## Charts of the week: Not so fast

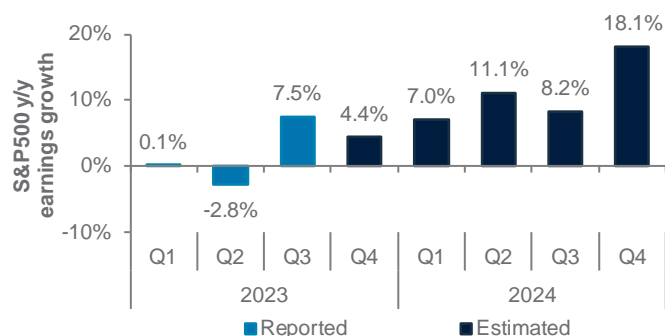
**Markets have pared back rate cut expectations, leading to consolidation in bonds and stocks; US earnings are the next focus**

Money market expectations of policy rate cuts in 2024



Source: Bloomberg, Standard Chartered

S&P500 index quarterly earnings and estimates for 2024



## Editorial

### What to expect from central banks?

As we enter the first round of central bank policy meetings this year, markets have pared back aggressive rate cut expectations in the US and Europe and rate hike expectations in Japan, especially for Q1. The reversals came after a set of resilient labour market data, stronger-than-expected headline inflation and retail sales in the US and a rebound in inflation in Europe. In Japan, inflation moderated and wage growth underwhelmed, likely reducing the urgency for the BoJ to tighten policy. The rebound in US and European bond yields because of the repricing of rate cut expectations has opened a window to average into those bonds. In equity markets, we continue to prefer Japan, while US markets await technology sector earnings for further direction. In FX, we expect technical rebounds in gold and AUD as the broad USD index heads into a key resistance after a rebound this year.

**Central bank season kicks off:** The BoJ will be the first to meet among the major central banks this year. Latest data showed consumer inflation slowed to 2.6% y/y in December, having peaked at 4.3% in Jan 2023, and wage growth decelerated sharply to 0.2% y/y in November. The data makes it harder for the BoJ to justify an immediate tightening of its monetary policy. The ECB, the next major central bank to meet this year, has the opposite challenge of when to cut rates. While ECB President Lagarde did leave the door open for the first rate cut in summer, she said the aggressive rate cut expectations priced in by markets were unhelpful in the central bank's fight to sustainably curb inflation. We expect the ECB to cut 75bps this year, but only in H2 as inflation decelerates later this year. Fed policymakers (decision on 31 Jan) have been particularly vocal in pushing back against rate cut expectations. We expect the first 25bps rate cut in Q2 and another 100bps of cuts in H2 as the consumption-driven expansion lasts a while longer.

**Investment implications: US rates:** We see the ongoing repricing of rate markets as a moderation of aggressive market

expectations of rate cuts, rather than a challenge to the US economic soft-landing thesis. Markets have come closer to our Fed and ECB rate cut expectations. The pullback in rates has opened a window to average into US and European government bonds. We flagged earlier the 200DMA for the US 10-year government yield (4.08%) offers a strong resistance. While there is scope for the yield to rise briefly towards the next key technical resistance of 4.25%, the ongoing rebound in yields offers medium-term investors a chance to average in as we expect growth and inflation to slow in the coming quarters.

**US equities:** We are also looking for a window to average into US equities. Technically, S&P500 index is less than 1% away from its all-time high of 4818.62 (a tough near-term resistance). US bank earnings season has been mixed so far, with guidance for pressure on net interest margins in 2024 dampening sentiment. Nevertheless, more than 80% of S&P500 index companies that have reported earnings so far have surpassed expectations. Our investor diversity indicator is flagging elevated risk of a near-term reversal in US financial (and European technology) sectors. US technology and communication services sector earnings in the next two weeks hold the key to near-term outlook for US equities. We expect the two sectors to lead earnings growth in Q4 23 and 2024.

Meanwhile, **Japan** remains our preferred equity market. We see further upside as BoJ rate hike expectations moderate. Domestic investor flows from a new tax saving plan are a tailwind, while improving corporate governance and geopolitical risks in the rest of Asia is helping revive foreign inflows.

**FX:** We expect the USD index (DXY) to consolidate around its 200DMA of 103.46 in the near-term (next resistance 104.3) after the rebound so far this year. We see a tactical opportunity to turn bullish on gold (with a target of USD 2,140/oz) and AUD. AUD looks oversold following disappointing China data. We see an opportunity to turn tactically bullish on AUD/EUR, with a target of 0.6150.

## 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:** Policy continuity in Taiwan, strong US retail sales

**(-) factors:** Hawkish central banks, weak US mfg., Q4 23 China growth

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US retail sales rose more than expected by 0.6% m/m</li> <li>US factory output rose unexpectedly</li> <li>US producer prices fell unexpectedly by 0.1% m/m</li> <li>China factory output and fixed assets investment rose more than expected</li> <li>US housing starts and building permits were higher than expected</li> </ul>	<ul style="list-style-type: none"> <li>US NY Fed mfg. survey fell unexpectedly to -43.7, the lowest since May 2020</li> <li>Germany's economy contracted 0.3% y/y in 2023 as expected</li> <li>Euro area ZEW economic sentiment fell to 22.7</li> <li>China economy expanded less than expected by 1% q/q in Q4 23</li> <li>China retail sales slowed more than expected</li> <li>China home prices fell by the most m/m since 2015</li> </ul>
	<b>Our assessment: Negative</b> – Weak US manufacturing, contracting German economy, sluggish China growth	
Policy developments	<ul style="list-style-type: none"> <li>ECB's Lagarde said policy rate cuts are likely this summer, though market expectations of aggressive rate cuts are a distraction</li> <li>The Fed's Beige Book noted strong holiday spending during Christmas, especially in the northeast, but most regions reported a fall in manufacturing activity</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Waller pushed back against the number of rate cuts priced by the market</li> <li>ECB's Holzmann suggested the possibility of no rate cuts in 2024</li> <li>Chinese Premier Li Qiang signalled China won't turn to huge stimulus in 2024</li> <li>The PBoC leaves its one-year policy unchanged unexpectedly</li> </ul>
	<b>Our assessment: Negative</b> – Hawkish central banks	
Other developments	<ul style="list-style-type: none"> <li>The ruling DPP candidate Lai won the presidential election; DPP failed to win a majority in the parliament</li> </ul>	
	<b>Our assessment: Positive</b> – Policy continuity in Taiwan	

### US retail sales and industrial production beat estimates in December

US headline and controlled-group retail sales and industrial production



Source: Bloomberg; Standard Chartered

### Euro area economic growth expectations halted a nascent recovery since Q4

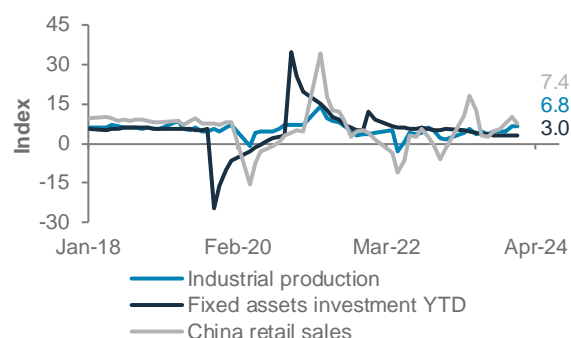
Euro area ZEW survey expectations of economic growth



Source: Bloomberg, Standard Chartered

### China's industrial output and fixed asset investment beat estimates, but retail sales underwhelmed

China industrial production, fixed asset investment (YTD) and retail sales



Source: Bloomberg, Standard Chartered

## Top client questions

### Q What are the key takeaways from the US's Q4 23 bank earnings reported so far?

A total of 29% of the US financial sector has reported Q4 23 earnings so far, delivering a 9.2% positive earnings surprise, according to Bloomberg data. Net interest income (NII) remained strong, and a resilient economic environment supported banks' results. Banks faced one-off charges tied to the Federal Deposit Insurance Corporation's fund to backstop depositors but excluding that, expenses also jumped. Net charge-offs related to commercial real estate continued to rise, with the credit cycle still seen in early stages. The guidance for 2024 was mixed. NII is expected to fall with interest rate cuts but may be mitigated by loan growth if the US economy pulls off a soft landing. The cost of deposits is likely to rise despite the rate cuts as depositors continue to shift from non-interest bearing accounts. Capital market activity is expected to improve in 2024, but there is less certainty on timing.

The mixed outlook led to profit taking in bank stocks. The financial sector performed well in Q4 23, surpassing last year's high before regional bank failures. Our diversity indicator is almost flashing crowded positioning, implying the sector could turn lower. We see US financials as a core holding, performing in line with the broader US market over the next 6-12 months.

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

### Q What is driving the downtrend in China/ Hong Kong equities? Will there be a reversal soon?

The recent underperformance of China's equity market has been due to China's prolonged macro weakness. China's Q4 23 GDP growth missed consensus forecast. Property investment and retail sales data were weaker than expected. Continual deflationary trends and falling home prices further point towards balance sheet recession dynamics, challenging effectiveness of monetary policy.

On the external front, foreign funds have been rotating out of offshore China equities (listed in the US and Hong Kong) into other Asian markets, such as India and Japan. Escalation of geopolitical risks (for instance, ruling DPP candidate Lai Ching Te winning Taiwan's presidential election, and Trump's victory in the Iowa caucus) have added uncertainties to China equities in the near term. Hong Kong equities were also impacted by news about proposed value-added taxes on Hong Kong properties, albeit later denied by Financial Secretary Paul Chan (which helped recover some losses).

Overall, we are Neutral China equities within Asia ex-Japan. We believe a sustained resurgence in the China market is possible if the government rolls out significant stimulus. While policy support has remained largely muted (China's latest one-year medium-term lending facility rate stayed flat at 2.5%), a near-term technical rebound can occur, given the market's inexpensive valuation and light investor positioning.

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

### US financial sector equities have surpassed the high of last year before the regional banks crisis and are vulnerable to profit taking in the near term

MSCI US Financials and MSCI US indices over the past year



Source: Bloomberg, Standard Chartered

### Foreign funds have been rotating out of China into other EM regions

Total fund assets of MSCI China ETF and MSCI EM ex-China ETF



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What is the outlook for UK government bonds and the GBP following the recent UK labour market and inflation data?

The UK labour market and inflation data this week delivered mixed signals for the BoE. Although November wage growth slowed for the fourth consecutive month to 6.5% y/y, it remained above its five-year average of 4.6% y/y. Meanwhile, December headline inflation overshot market expectations and rose for the first time in 10 months to 4.0% y/y. However, we view the introduction of tobacco duty as a major driver of the uptick. In addition, the December services inflation rebounded to 6.4% y/y, albeit largely due to volatile components such as airfares. As such, we believe the BoE will likely stay put for now and await more data before signalling a shift in the monetary policy. The market has partially dialled back its rate cut expectations. The money market currently forecasts 100bps of rate cuts this year, expecting the first cut to take place in the June meeting.

Developed Market (DM) Investment Grade (IG) government bond yield pulled back this week as central bank speakers signalled a longer-than-expected pause before cutting interest rates. Hawkish DM banker speeches and mixed domestic macro data have tempered the BoE full-year policy rate cut expectation and pushed its first rate cut further from now. The benchmark UK 10-year government bond yield rose by 9bps to 3.93% and is now hovering around its 50DMA resistance of 3.94%. When compared with last December when the 10-year yield touched the 8-month low of 3.43% intraday on 27 December 2023, we believe the adjustment over the last few weeks has offered an attractive entry point to average into UK government bonds. We are Overweight DM IG government bonds, which include the UK government bonds. We believe this bond asset class offers an attractive yield and risk-reward balance, stemming from the expectation of DM central bank pivots amid risks of an economic slowdown.

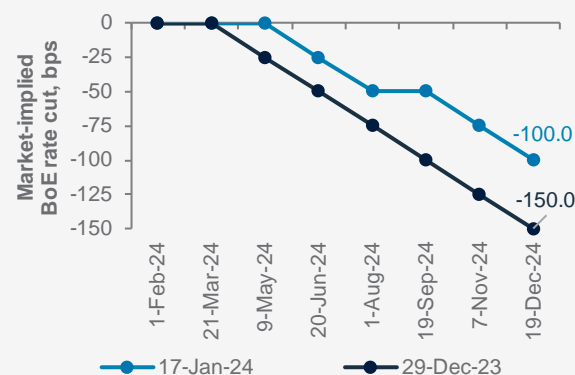
For the GBP, after the labour market and inflation updates, we believe the overall market focus will shift to the January consumer confidence data next Friday. Continued strengthening of consumer confidence will likely keep the UK-US net-of inflation (real) yield differential in a narrow range. Hence, we expect GBP/USD to likely consolidate between 1.250 and 1.283 in the next two weeks. Our three-month view on GBP/USD remains unchanged at around 1.260 level.

— **Cedric Lam**, Senior Investment Strategist

— **Iris Yuen**, Investment Strategist

### Expectation of BoE monetary policy rate cuts have been tempered and pushed back

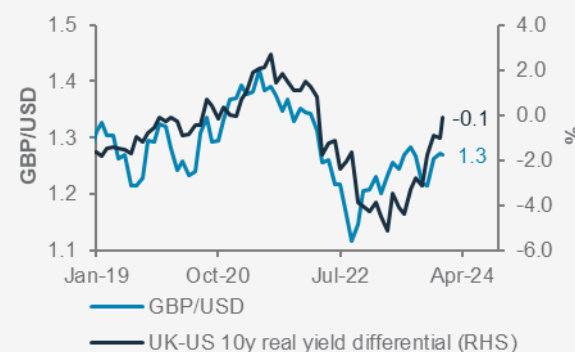
Money market implied BoE policy rate cuts



Source: Bloomberg, Standard Chartered

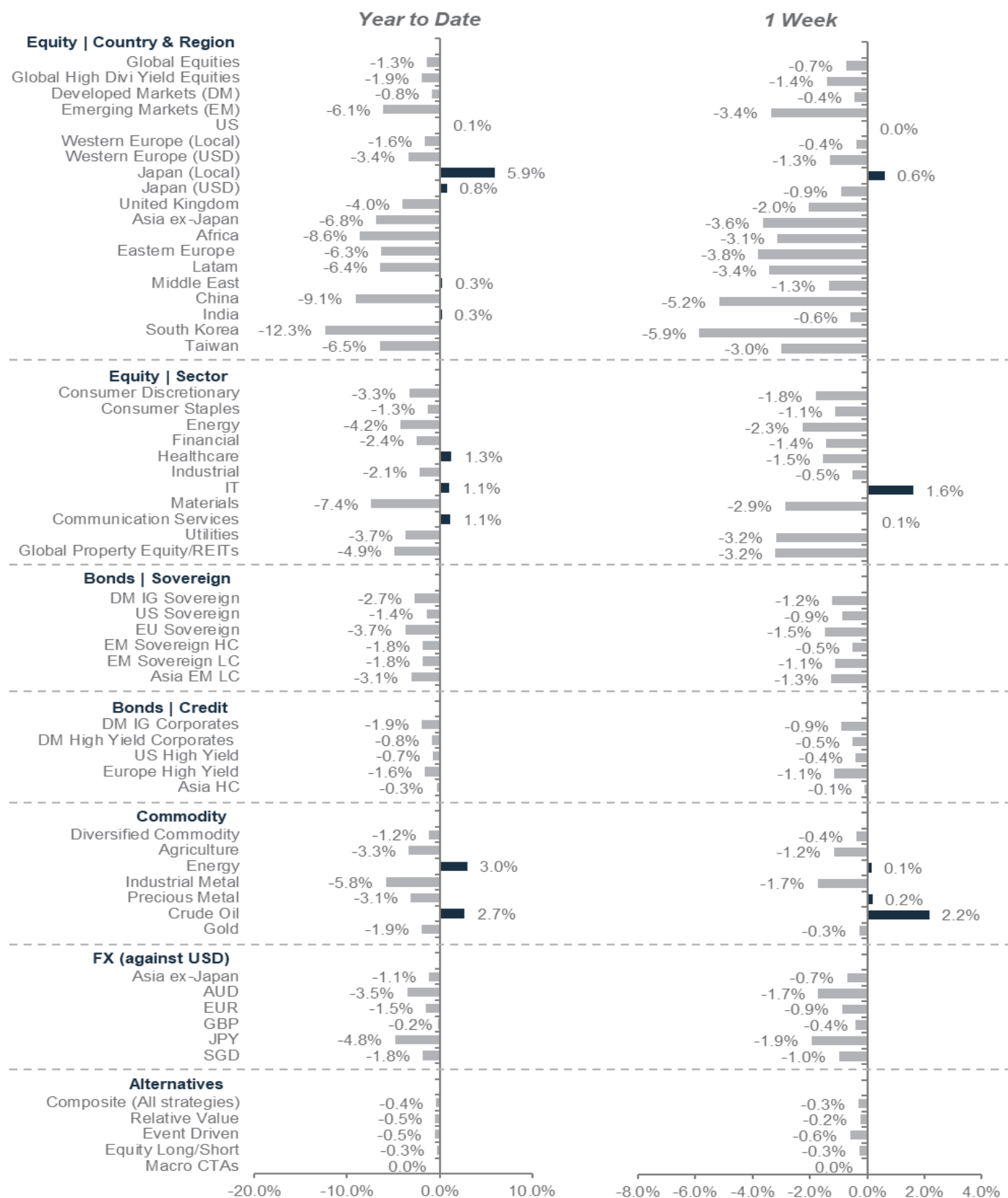
### We expect GBP/USD to consolidate in the short-term amid narrow UK-US net-of-inflation (real) yield differential

GBP/USD and 10-year real yield differential



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 18 January 2024; 1-week period: 11 January 2024 to 18 January 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 Healthcare	▲	
Asia ex-Japan	◆		Europe Technology	▲	
Japan	▲		Europe Healthcare	▲	
Other EM	◆		China Discretionary	▲	
			China Communication	▲	
			China Technology	▲	
<b>Bonds (Credit)</b>			<b>Alternatives</b>		
Asia USD	◆				
Corp DM HY	◆				
Govt EM USD	▼				
Corp DM IG	◆		<b>Gold</b>		
<b>Bonds (Govt)</b>					
Govt EM Local	◆				
Govt DM IG	▲				

Source: Standard Chartered Global Investment Committee

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

## The US 10-year yield faces immediate resistance at 4.21%

Technical indicators for key markets as of 18 January close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,781	4,752	4,797	19.7	1.6
STOXX 50	4,453	4,411	4,488	12.3	4.0
FTSE 100	7,459	7,395	7,574	10.7	4.4
Topix	2,492	2,481	2,514	15.0	2.4
Shanghai Comp	2,846	2,822	2,882	9.4	3.8
Hang Seng	15,392	15,031	15,999	7.2	4.9
Nifty 50	21,462	21,251	21,886	19.6	1.5
MSCI Asia ex-Japan	598	588	614	11.6	2.9
MSCI EM	961	948	986	11.2	3.3
WTI (Spot)	74.1	73.0	74.6	na	na
Gold	2,023	2,001	2,051	na	na
UST 10Y Yield	4.14	4.01	4.21	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	US	Leading Index	Dec	-0.3%	-0.5%
	EC	Consumer Confidence	Jan P	–	-15.0
TUE	US	Democrat 2024			
	JP	BoJ Policy Meeting			
WED	EC	HCOB Eurozone Manufacturing PMI	Jan P	–	44.4
	EC	HCOB Eurozone Services PMI	Jan P	–	48.8
	UK	S&P Global UK Manufacturing PMI	Jan P	–	46.2
	UK	S&P Global UK Services PMI	Jan P	–	53.4
	US	S&P Global US Manufacturing PMI	Jan P	–	47.9
	US	S&P Global US Services PMI	Jan P	–	51.4
THU	EC	ECB Main Refinancing Rate	25-Jan-24	–	4.5%
	EC	ECB Deposit Facility Rate	25-Jan-24	–	4.0%
	US	GDP Annualized q/q	4Q A	1.8%	4.9%
	US	Durable Goods Orders	Dec P	0.9%	5.4%
	US	New Home Sales	Dec	650k	590k
FRI/SAT	EC	M3 Money Supply y/y	Dec	–	-0.9%
	US	PCE Deflator y/y	Dec	2.6%	2.6%
	US	PCE Core Deflator y/y	Dec	3.0%	3.2%

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 have normalised across most markets

Our proprietary market diversity indicators as of 18 January

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↓	1.30
Global Equities	●	↓	1.31
Gold	●	↑	1.57
<b>Equity</b>			
MSCI US	●	↓	1.29
MSCI Europe	●	↓	1.34
MSCI AC AXJ	●	↑	1.90
<b>Fixed Income</b>			
DM Corp Bond	●	↓	1.29
DM High Yield	○	↓	1.25
EM USD	●	↓	1.28
EM Local	●	↓	1.30
Asia USD	●	↓	1.32
<b>Currencies</b>			
EUR/USD	●	↓	1.44

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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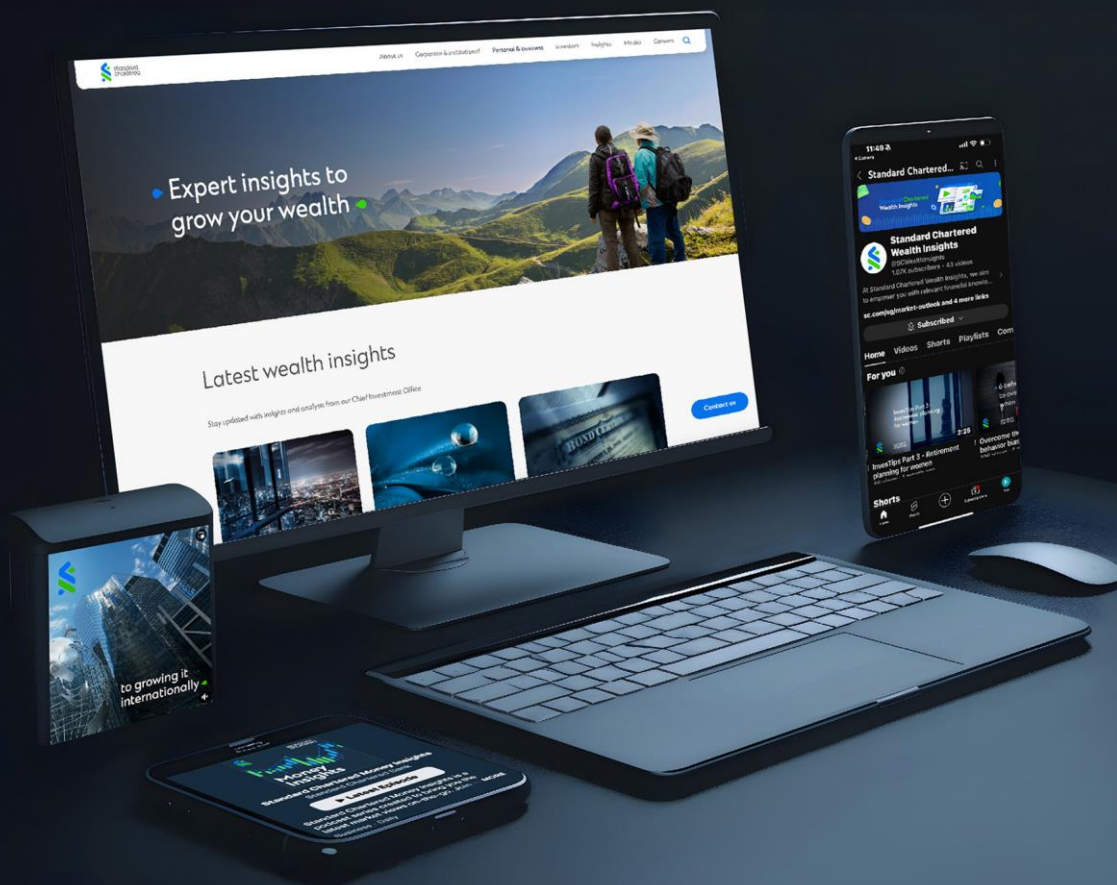
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