Standard Chartered Priority

# weekly market view

This reflects the views of the Wealth Management Group

**macro** strategy | 17 March 2017

## Editorial

# In no mood to rock the boat

- **Global stocks and gold recovered while US bond yields and the USD fell after the Fed calmed worries about a faster rate hiking path and Dutch voters rebuffed an anti-EU party.**
- **Equities:** The Fed's reiteration of a gradual rate hiking path amid strong data and earnings is supportive of US equities. The Dutch vote against a populist party is positive for Euro area stocks.
- **Bonds:** We would use the yield pullback to rebalance to less rate-sensitive bonds. HY bond valuations have eased somewhat after the recent pullback, opening up opportunities.
- **FX:** The USD could retrace further amid reduced concerns of accelerated Fed rate hikes. We remain tactically bullish on the EUR after the breakout above 1.0700 following the Dutch polls.

### What's new?

- **Fed, Dutch voters calm nerves.** After delivering on a widely expected 25bps rate hike, Fed Chair Yellen reassured markets of a gradual pace of hikes going forward. We continue to believe the Fed's data-driven approach implies 1-2 more hikes this year assuming core and long-term inflation expectations remain within expectations. Support for pro-EU parties in the Dutch polls eases Euro area political risks ahead of the upcoming French elections.
- **BoE maintains policy as PM May set to trigger Brexit talks.** UK lawmakers gave May a free hand to start talks on leaving the EU, leading Scottish leaders to call for another referendum on independence. Despite the uncertainty, which has started to impact wage growth and consumption, some BoE members are worried about rising inflation. We remain cautious on UK stocks.
- **China plans to link Mainland bond market with Hong Kong.** The bond connect (similar to the stock connect) is expected to start by end-2017. While we await details, this may help ease some pressure on CNY and CNH bonds, which have been hurt by reduced foreign demand YTD and rising short-term rates (the PBoC raised money market rates by 10bps again this week). We expect gradual policy tightening to continue as the PBoC balances sustained fiscal easing by tightening credit growth.
- **Boost to Indian reform.** The win by PM Modi's ruling party in key state polls is likely to boost his position in the upper house of the parliament. This should enable Modi to push further reforms through. India remains our most preferred equity market in Asia.

### Implications

- **Stay positive on stocks.** Easing Fed policy and European political risks are positive for US and Euro area stocks. Our next focus is on Trump's ability to repeal 'Obamacare' as this would determine his chances of pushing through tax reforms.
- **High Yield (HY) bond opportunities.** HY bonds once again offer an opportunity to reduce sensitivity to rising interest rates after the recent (albeit modest) easing in valuations.
- **Tactically bullish on EUR.** The next resistance is at 1.0872; any break higher could lead EUR/USD to test the 1.1000 level. US Treasury secretary Mnuchin's comments at the G20 meeting in Germany this weekend would be in focus for FX markets.

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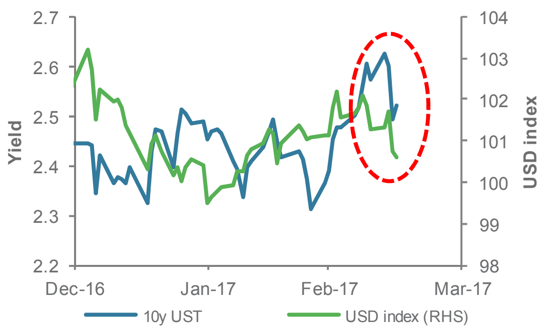
**US Treasury yields and the USD slumped after the Fed reiterated a gradual rate hiking path**

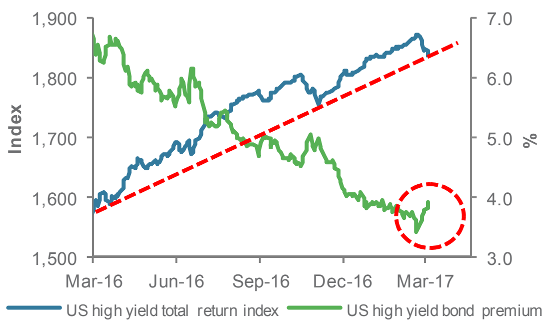
*US 10y Treasury yield, USD (DXY) index*




*Source: Bloomberg, Standard Chartered*

**US HY bond yield premium over Treasuries (spreads) have pulled back, providing an opportunity to add exposure**

*US HY total return index, yield premium over Treasuries*




*Source: Bloomberg, Standard Chartered*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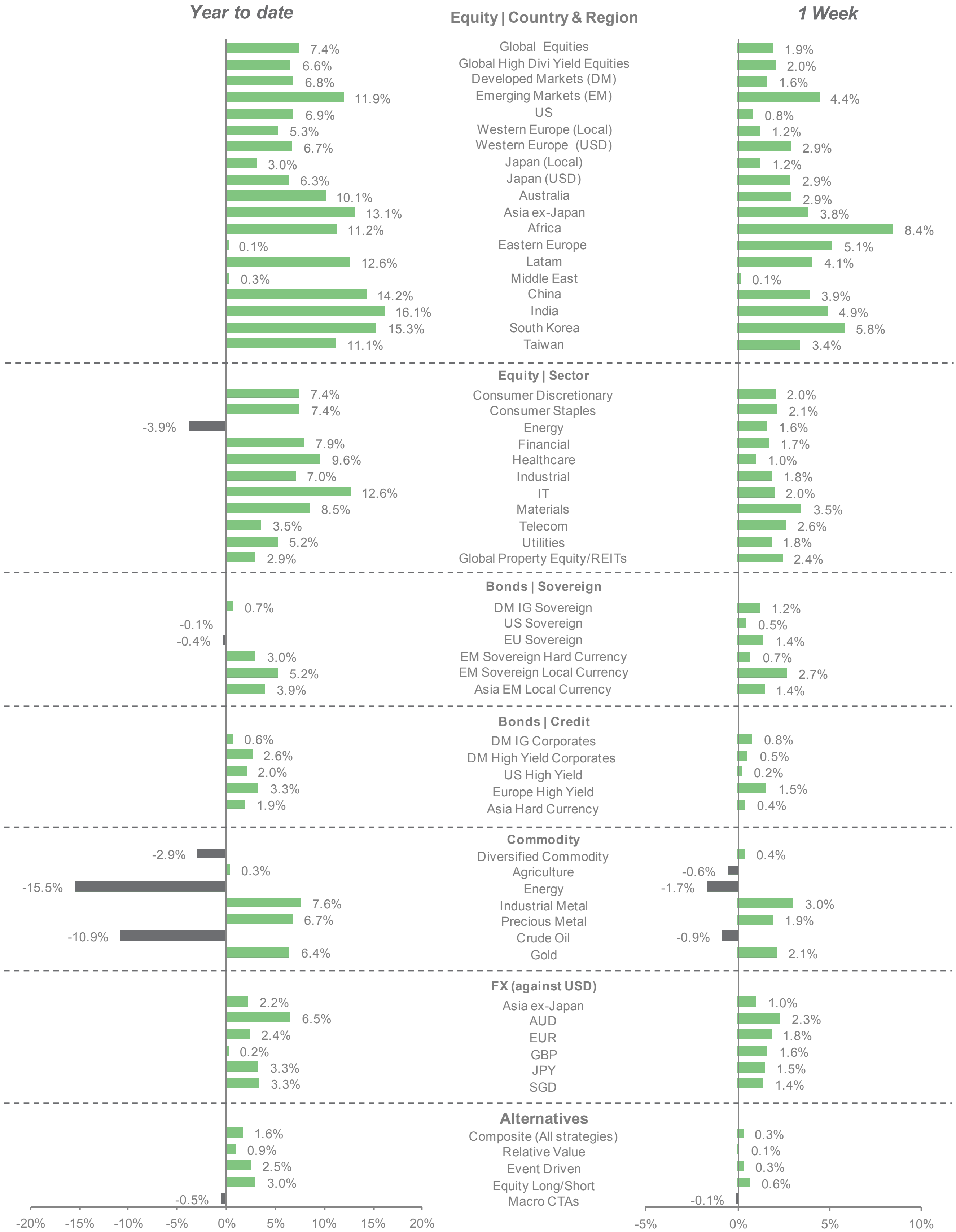
# Market performance summary*




*Performance in USD terms unless otherwise stated, YTD period from 31 December 2016 to 16 March 2017, 1 week period: 09 Mar 2017 to 16 March 2017
Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, HFRX, FTSE, Bloomberg, Standard Chartered

# What does this mean for investors?

**Global stocks and bonds rebounded after the Fed eased concerns about a faster-than-expected rate hiking path. The USD suffered broad-based declines, while gold rose.**

## Equities: Gradual Fed rate hikes positive for stocks

- **US stocks respond positively to Fed.** The Fed's reiteration of a gradual rate hiking path reassured investors. The S&P500 is less than 1% away from March's record high of 2,396. President Trump's budget proposals hurt the healthcare sector further. The focus is now on Trump's ability to repeal Obamacare, as success here is likely to boost confidence about his ability to push through tax reforms (which is key to driving US equities higher).
- **China consumer discretionary, property sectors outperform.** The HSCEI (Hong Kong-listed China shares) has surged 12% YTD, led by the consumer discretionary and real estate sectors that have gained 31% and 25%, respectively, though admittedly this partly reflects a low starting point given their poor performance in 2016. Gains in the real estate sector were likely supported by improving inventory levels. We continue to prefer China's 'new economy' sectors.
- **Indian banks outperform amid loan restructuring hopes.** The bank sector has risen 17% YTD amid increasing optimism about loan restructuring. The emphatic win by PM Modi's ruling party in recent state elections is positive for further reforms.

## Bonds: Fed reiterates gradual rate hiking path

- **Inflation expectations key to future hikes.** Although US Treasury yields pulled back after the Fed retained its projection for two more hikes this year and three in 2018, data supports our long-term view that yields are likely to grind higher. 2.60%-2.65% is a key resistance region for US 10y Treasury yields.
- **Prepare to add HY bond exposure.** Although the magnitude of the pullback in HY bond valuations has been moderate so far, we believe it makes sense to look for opportunities to add exposure in the coming days. Fundamentals remain strong and valuations appear less concerning after accounting for low default rates.
- **Still neutral on EM USD bonds.** The recent weakness in EM USD bonds has been mainly driven by rising US Treasury yields, while yield premiums have remained stable. Bonds have rebounded modestly following the Fed decision. We maintain a neutral stance – while the bonds form the core of a well diversified allocation, we believe there are more attractive alternatives, given EM bonds' high sensitivity to rising rates.

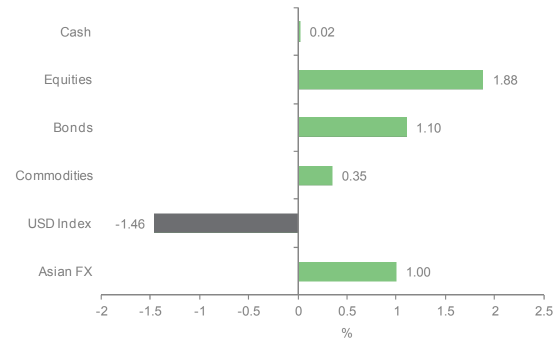
## FX: Tactically bullish on EUR

- **Dutch vote for pro-EU party boosts EUR.** The win by pro-EU parties in the Dutch elections signals waning support for far right parties ahead of the elections in France in April-May. The EUR's break above 1.0700 brightens the technical outlook; any break of the next resistance at 1.0872 is likely to lead to a test of 1.1000.
- **AUD close to key technical resistance.** The AUD rose amid a broadbased USD pullback and rising iron ore prices, which offset a weaker-than expected Australia jobs data. A break above 0.773 would be a bullish signal for a further rise towards 0.800. We remain positive on the AUD vs NZD and SGD in the near term.

## Commodities: Gold rebounds amid falling bond yields

- **Gold rebounds from USD 1,200/oz as US Treasury yields fall.** This suggests the recent downtrend may have ended. We believe the recovery sets the stage for gold to re-test the USD 1,250-1,260/oz resistance zone.

### Benchmark (USD) performance w/w*




**Week of 09 March 2017 to 16 March 2017*

*Source: MSCI, JP Morgan, Citigroup, Bloomberg, Standard Chartered (Indices used are JP Morgan Cash, MSCI AC World TR, Citi Non-MBS WorldBig Govt/Govt Sponsored, Bloomberg Commodity, DXY and ADXY)*

### S&P500 is 0.8% away from its next key resistance

*Technical levels of key market indicators as of 16 March*

| Index | Spot | 1st support | 1st resistance | Short-term trend |
|---|---|---|---|---|
| S&P500 | 2,381 | 2,335 | 2,400 | ↗ |
| STOXX 50 | 3,440 | 3,318 | 3,470 | ↗ |
| FTSE 100 | 7,416 | 7,266 | 7,475 | ↑ |
| Nikkei 225 | 19,501 | 19,150 | 20,000 | ↗ |
| Shanghai Comp | 3,269 | 3,195 | 3,300 | ↗ |
| Hang Seng | 24,288 | 23,440 | 24,400 | ↗ |
| MSCI Asia ex-Japan | 581 | 558 | 580 | ↗ |
| MSCI EM | 963 | 937 | 980 | ↑ |
| Brent crude oil (ICE) | 52 | 50 | 54 | ↘ |
| Gold | 1,226 | 1,180 | 1,245 | ↗ |
| UST 10Y Yield | 2.54 | 2.29 | 2.65 | ↗ |

*Source: Trading Central, Standard Chartered*
*Note: Arrows represent short-term trend opinions*

### The EUR broke above a key resistance at 1.0700; the next resistance is at 1.0872

*EUR/USD*


*Source: Bloomberg, Standard Chartered*

### Gold bounced back from USD 1,200/oz, setting the stage for a re-test of the USD 1,250-1,260/oz range

*Gold price per ounce*


*Source: Bloomberg, Standard Chartered*

# Top client questions

**Q. What is the latest outlook on oil prices following the recent correction?**

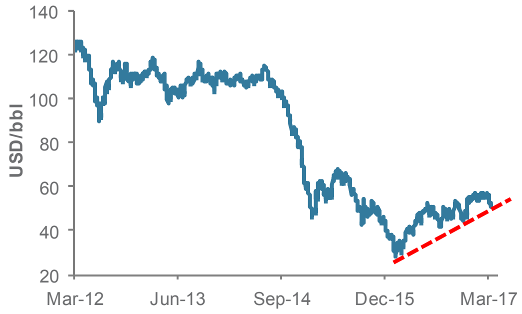
We maintain our medium-term constructive outlook on oil prices, expecting them to reach USD 60-65/bbl by the end of the year. However, in the short term, we believe risks continue to be tilted towards the downside. The sharp pullback last week was likely led by concerns over rising US production. In addition, speculative positioning was near extreme net-long levels, suggesting OPEC's production cuts were largely priced-in.

At the current juncture, oil appears to have found some support following a release of lower US oil stocks and as the Fed did not signal a faster pace of rate hikes in its statement. However, we would not be surprised to see a further move lower short-term. Recent newsflow suggesting Saudi Arabia's concerns over other members' lack of contribution to the agreed cuts highlights a potential for uncertainty regarding the deal. In addition, data showed that global oil inventories rose for the first time in six months in January. Seasonal demand factors could also further weigh on prices.

Technically, oil remains above the 200DMA line and the upward slopping trendline from the 2016 low. The price action from here will be crucial. A rebound from here would suggest that most negatives have already been priced-in, while a break lower could indicate a deeper correction towards USD 45/bbl.

**Although near-term risks for crude oil are tilted downwards, we maintain our medium-term constructive outlook**

*Brent crude oil price*




*Source: Bloomberg, Standard Chartered*

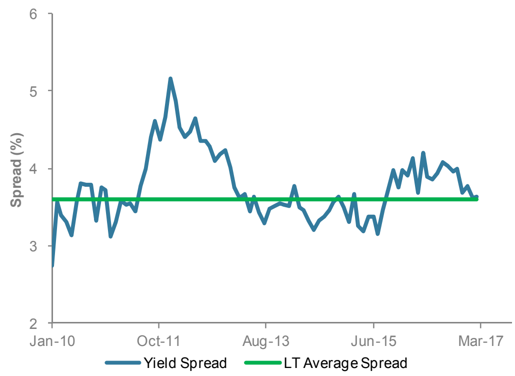
**Q: What is the outlook for REITs and Asia property sector amid rising US rates?**

Investors with a preference for income have in recent years focused on high dividend-yield equities, which include real estate investment trusts (REIT's). High dividend yield equities typically perform well in an environment when the yield from traditional income producing assets, including government bonds, is falling and underperform as yields rise. In recent years the spread between the yield on these two assets has been wide, resulting in the outperformance of REIT's over government bonds. However, since the election of US President Donald Trump, US bond yields have been rising, narrowing the spread between the two, this has resulted in underperformance of REIT's relative to government bonds.

REIT's can be sub-divided into specific sectors including the industrials, logistics and retail. Each has sector-specific drivers, including demand for floor space and new supply. Nevertheless, in general, government bond yields are the predominant driver of REIT's through the cycle. As we expect one or two more rate hikes by the Fed this year, and rising US government bond yields, the spread between REIT's dividend yields and US government bond yields is likely to narrow, resulting in under performance relative to other asset classes. For income orientated investors, a diversified holding of REIT's is still expected to generate healthy income. However, volatility is likely to rise. For growth-orientated investors, now may be a time to switch into other growth assets that offer a better risk/return profile.

**The yield spread between Singapore REITs and Singapore 10-year government bonds have declined and are now close to their long-term average**

*Yield spread between Singapore REITs and 10-year government bonds*




*Source: Bloomberg, Standard Chartered*

# Economic & Market Calendar

| | Event | Next Week | Date | Period | Expected | Prior |
|---|---|---|---|---|---|---|
| MON | EC | EU Finance Ministers meet in Brussels | 03/20/2017 | | | |
| TUE | UK | CPI Core y/y | 03/21/2017 | Feb | – | 1.6% |
| | US | Fed's Evans speaks on economy and policy | 03/21/2017 | | | |
| WED | JN | Exports y/y | 03/22/2017 | Feb | 10.0% | 1.3% |
| | JN | BoJ minutes of 30-31 Jan. meeting | 03/22/2017 | | | |
| | US | Existing Home Sales | 03/22/2017 | Feb | 5.58m | 5.69m |
| | US | Fed's Mester speaks at Univ. of Richmond | 03/22/2017 | | | |
| THUR | UK | Retail Sales Ex Auto Fuel y/y | 03/23/2017 | Feb | – | 2.6% |
| | US | New Home Sales | 03/23/2017 | Feb | 560k | 555k |
| | US | Fed's Yellen speaks at Community Development Conf. | 03/24/2017 | | | |
| FRI/SAT | JN | Nikkei Japan PMI Mfg | 03/24/2017 | Mar P | – | 53.3 |
| | US | Fed's Kashkari, Kaplan and Evans speak at separate events | 03/24/2017 | | – | |
| | GE | Markit/BME Germany Composite PMI | 03/24/2017 | Mar P | – | 56.1 |
| | EC | Markit Eurozone Composite PMI | 03/24/2017 | Mar P | – | 56 |
| | US | Durable Goods Orders | 03/24/2017 | Feb P | 1.0% | 2.0% |

| | Event | This Week | Date | Period | Actual | Prior |
|---|---|---|---|---|---|---|
| MON | JN | Machine orders y/y | 03/13/2017 | Jan | -8.2% | 6.7% |
| TUE | CH | Fixed Assets Ex Rural YTD y/y | 03/14/2017 | Feb | 8.9% | 8.1% |
| | GE | ZEW Survey Current Situation | 03/14/2017 | Mar | 77.3 | 76.4 |
| | IN | CPI y/y | 03/14/2017 | Feb | 3.7% | 3.2% |
| WED | UK | Employment Change 3M/3M | 03/15/2017 | Jan | 92k | 37k |
| | US | CPI y/y | 03/15/2017 | Feb | 2.7% | 2.5% |
| | US | CPI Ex Food and Energy y/y | 03/15/2017 | Feb | 2.2% | 2.3% |
| | US | Retail Sales Ex Auto and Gas | 03/15/2017 | Feb | 0.2% | 1.1% |
| THUR | US | FOMC Rate Decision (Upper Bound) | 03/16/2017 | 15-Mar | 1.0% | 0.8% |
| | JN | BOJ Policy Balance Rate | 03/16/2017 | 16-Mar | -0.1% | -0.1% |
| | JN | Machine Tool Orders y/y | 03/16/2017 | Feb F | 9.1% | 9.1% |
| | EC | CPI y/y | 03/16/2017 | Feb F | – | 2.0% |
| | UK | Bank of England Bank Rate | 03/16/2017 | 16-Mar | – | 0.3% |
| | US | Housing Starts | 03/16/2017 | Feb | – | 1246k |
| | US | Building Permits | 03/16/2017 | Feb | – | 1293k |
| FRI/SAT | US | Industrial Production m/m | 03/17/2017 | Feb | – | -0.3% |
| | | G20 Finance Ministers' meeting in Germany | 03/17-18/2017 | | | |

Previous 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

*Source: Bloomberg, Standard Chartered; key indicators highlighted in blue*

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