

# Monthly Market Outlook

25 November 2011

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## Asset allocation

	3-mth	12-mth
Cash	N	N
Fixed Income	UW	UW
Equity	N	N
Commodities	OW	N
Alternatives	N	OW

Note: OW = Overweight, N = Neutral, UW = Underweight. See Page 13-14 for more details

## Europe: Contagion to the mother ship?

German 10yr bond yields



Source: Bloomberg, Standard Chartered

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## Concerted policy action required

Last month, we argued markets were priced for neglect. Europe's policy response was ambitious in theory, but limited in practice. While equity markets rallied, this was short-lived. Concerted policy action is still required for such rallies to be sustained.

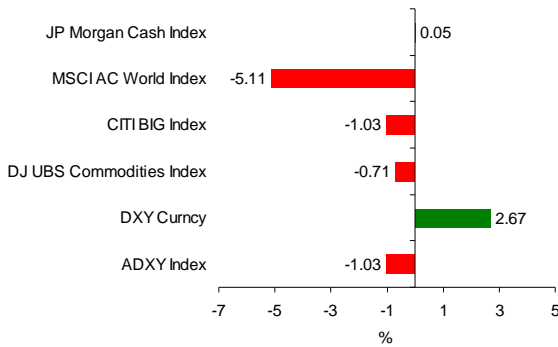
### Policy neglect is not sustainable

- In the West, we remain in the muddle through/mild recession environment
- In Asia, a hard landing is still likely to be avoided
- Quantitative easing likely in both the US and Europe in 2012
- European policy makers need to step up to the plate given contagion to Italy, France and now maybe Germany, and signals of tightening bank lending standards going forward

### Implications

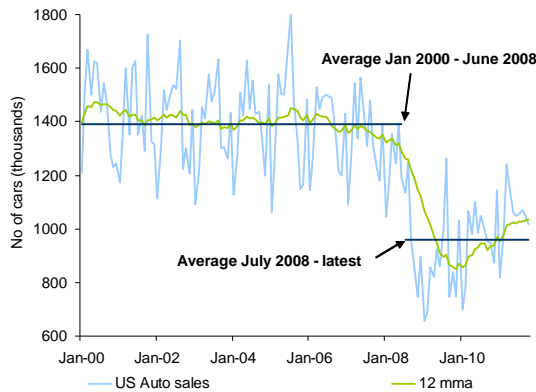
- Cash:** Returns still not keeping up with the pace of inflation
- Bonds:** Retain underweight positioning on 3m and 12m basis
  - UW investment grade** debt on both a 3m and 12m basis
  - OW corporate high yield** on a 3m and 12m basis
  - CNH** our favoured local currency bond market
- Equities:** Remain Neutral. OW DM (US & Japan) vs. EM short term, but OW EM vs. DM on a longer time horizon. Themes:
  - Large capitalisation, high dividend yielding stocks with excellent franchises, defensive business models, exposure to emerging market growth and trading at attractive valuations
  - Inflation hedges: Gold and energy sectors
  - Japan and, on the longer term, China, Russia and Thailand equity markets
- Commodities:** Overweight gold and energy on a 3m basis and gold on a 12m basis
  - Gold:** We remain structurally bullish on gold, although we have been highlighting the likelihood of a short-term correction to 1600-1650 area, offering a buying opportunity
  - Oil:** Likely to remain supported on geopolitical concerns
- Alternatives:** Maintain 12m overweight stance as we see heightened volatility going forward
- Currencies:** USD likely to remain strong near-term on heightened risk aversion

**Asset performance\* (USD)**



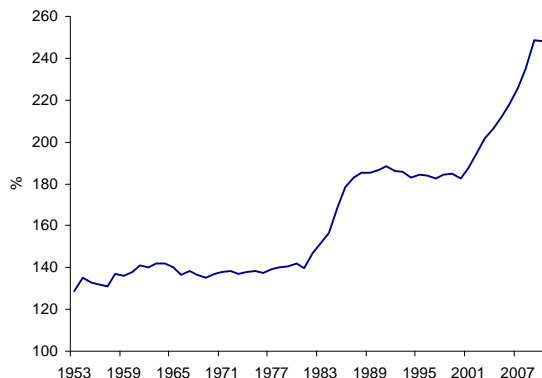
\*month of Oct 20 to Nov 23.  
Source: Bloomberg, Standard Chartered

**Pent-up demand building in the auto sector**  
*US auto sales*



Source: Bloomberg, Standard Chartered

**Deleveraging has yet to take place**  
*US total debt % of GDP*



Source: Bloomberg, Standard Chartered

**Market performance**

It has been another volatile and challenging month for asset markets. Equities gave up earlier gains as policy makers failed to come up with solutions to the debt challenges in the western world and the growth outlook deteriorated, particularly in Europe. Interestingly, global bond markets have failed to counter this weakness as contagion spread to Italy and France. Commodity markets were also lower, led by agricultural prices.

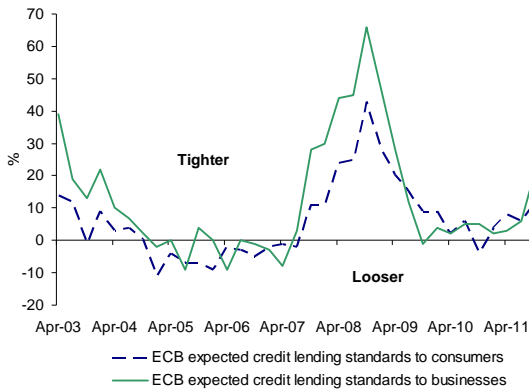
**Economic and Monetary Outlook**

The three key themes of global economic growth, quantitative easing in the developed markets (DM) and Europe's sovereign debt crisis remain the critical areas.

**1. Global growth prospects still poor**

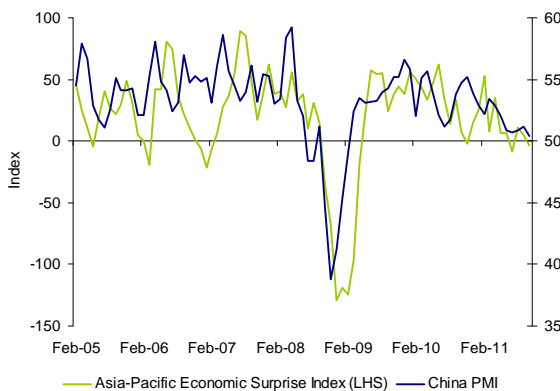
- In the **US**, the data has continued to surprise positively. The easing of Japan supply side disruptions and the expected boost due to the investment tax credit (which expires at the end of the year) are helping.
- There is significant pent-up demand – the sharply rising average vintage of cars on the road is an example of this. However, debt levels remain high and while personal savings rates have increased, if you strip out social transfers from the increasingly cash-strapped government, they fall back to around zero.
- Meanwhile, legislators appear unwilling to learn the mistake of the debt ceiling debacle with the Super Committee – tasked with agreeing at least USD 1.2 trillion in budget savings over the next decade – abandoning talks this week. While this only leads to automatic rolling cuts from 2013, the continued prioritisation of political capital over the economy is hardly likely to inspire business or consumer confidence. It may also signal that any stimulus and extension of the payroll tax cut (necessary to avoid a fiscal contraction in 2012) are going to face the same fate.
- In **Europe**, the data continues to disappoint. We are now expecting a technical recession starting in Q4 2011. If the authorities do not address the rolling debt crisis (see below)

**Bank deleveraging a key risk in Europe**  
*ECB lending standards*



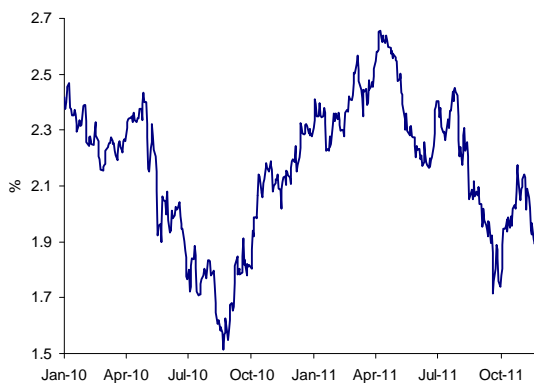
Source: Bloomberg, Standard Chartered

**Asia data has started to disappoint, although China data is consistent with a soft landing**



Source: Bloomberg, Standard Chartered

**Despite the economic rebound, inflation expectations are falling again**  
*US 10yr breakeven yield*



Source: Bloomberg, Standard Chartered

the risk of this becoming more sinister is increasing. While banking sector lending standards are still loosening in Europe, according to the latest ECB survey, this is expected to change in 2012. Given the pressures on capital ratios, this is hardly surprising.

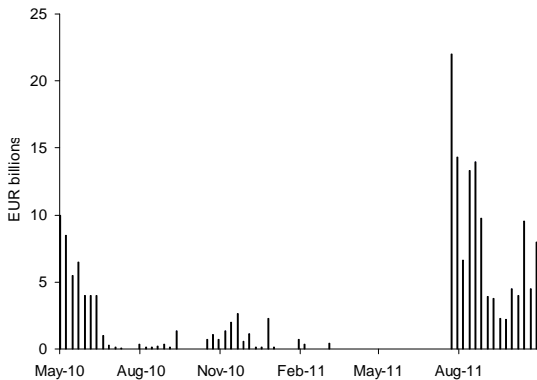
- **Japan** had been the one bastion of strength, but even this looks to be changing. While the reconstruction activity should support growth in 2012, data has started disappointing (eg. retail trade, industrial production and housing starts), a strong Q3 GDP print notwithstanding.
- Finally, the rest of **Asia** is also starting to disappoint slightly. China is slowing in response to both the tightening of domestic policy over the past 18 months and the global slowdown. Property prices are also starting to weaken, an outcome that the authorities have been trying to engineer for some months. Inflation, while still high, appears to have peaked. The tide is shifting slowly, but surely, towards easier rather than tighter policy. We expect a cut in the reserve requirement ratio before year-end.

**Conclusion: We remain in a muddle-through/mild recession environment in Developed Markets. If anything, we have seen a slight deterioration in the fundamentals over the past month, especially outside of the US.**

**2. Quantitative easing**

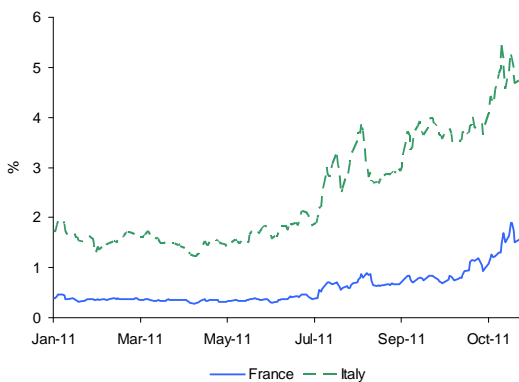
- In the **US**, the Fed remains divided on the desirability and need for further quantitative easing. Clearly, the rebound in recent economic data has bought some time for US policymakers. That said, it is interesting to note that inflation expectations are starting to fall. If these fall towards 1.5%, the level at which QE2 was first signalled in 2010, expect talk of QE3 to intensify.
- In **Europe**, the UK remains the most proactive in pursuing quantitative easing. The European Central Bank (ECB) remains more cautious. At a time when bond yield spreads in the Euro area have been widening (including for Italy and France), the ECB has increased purchases of debt securities according to data. However, this has not been sufficient, in Italy's case, to push yields back below the 6% level. Political resistance to such action remains particularly acute in Germany. While we believe such action is inevitable if the Euro project is to be saved, the road to this outcome looks far from smooth.

**ECB not doing enough to avoid crisis intensifying**  
*Weekly purchase of Euro area sovereign debt by ECB*



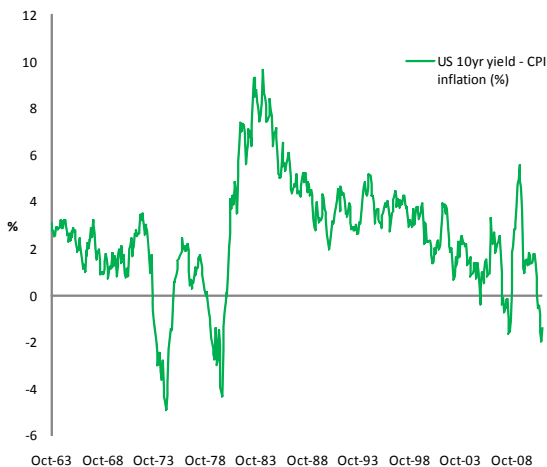
Source: Bloomberg, Standard Chartered

**Contagion spreads to France**  
*10yr spreads over 10yr German Bund*



Source: Bloomberg, Standard Chartered

**Negative US real yields illustrate lack of value**  
*Real US 10-year yields*



Source: Bloomberg, Standard Chartered

**Conclusion: We reiterate our expectations for further quantitative easing from both the US and Europe, the economic/market climate will have to deteriorate further first.**

**3. European debt crisis**

- The significant widening of French and Italian government bond yield spreads versus German bunds has dramatically increased the stakes for policy makers. From a political perspective, both countries should be viewed as core to the Euro project, in our opinion – unlike countries such as Greece, Ireland, Portugal and, arguably, even Spain. The failure to garner enough demand to cover a German 10-year bond auction may further increase the pressure on governments to act in a concerted fashion.
- Policy makers have an increasingly stark choice – allow the Euro project to disintegrate or determine which countries ring-fence and then allocate sufficient firepower to this aim (via the ECB or a significantly expanded EFSF).
- At the moment, they are unwilling to accept either course of action. After indicating that it is possible for countries to leave the single currency, German Chancellor Merkel has stressed that greater political integration rather than less is what is required – although she remains opposed to ECB underwriting debt or the issuance of Eurobonds.

**Conclusion: So far, the muddle through response to the crisis has been sufficient to avoid a Depression-like outcome in the Euro area. While we ultimately believe the Euro project will be saved, in one form or another, the risk of policy mistakes remains very high.**

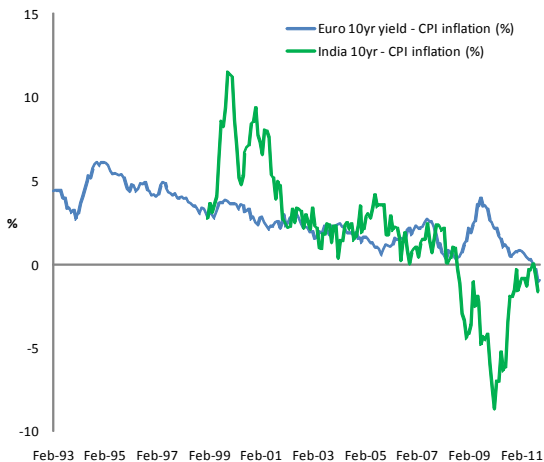
**Investment Strategies**

▪ **Fixed income – UW both 3m and 12m**

**Underweight G3 sovereign and corporate investment grade –**  
We remain underweight G3 sovereign and corporate investment grade bonds on a 3m and 12m basis.

In our view, the only way to justify current, or lower, **US** Treasury yields is if the economy enter deflation. We do not see deflation as a likely outcome as the Fed is committed to avoiding it. Strong momentum and the Fed's artificial bid mean there is a risk that yields drift lower in the near term.

**Real yields negative in Euro & many parts of Asia**  
*Euro and India real 10-year yields*



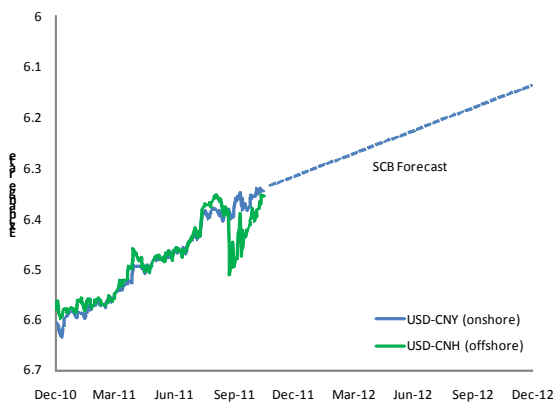
Source: Bloomberg, Standard Chartered

In **Europe**, one could create an analogous case for the lack of value in German Bunds. Yields elsewhere are much higher, but this is likely for good reason given the continued contagion and debt restructuring risks.

US corporate investment grade spreads are within usual ranges. The lower absolute spread over Treasuries mean they carry much of the risk of sovereign bonds without offering substantially higher compensation, making them less attractive than usual in our view.

**Asian local currency bond markets** offer relatively higher yields with a more attractive risk-reward trade-off than the G3 markets. However, the current risk environment may create near-term risks for Asian currencies. Hence, we would avoid allocating more weight to Asian local currency bonds at this time.

**Currency alone argues for Dim Sum gains**  
*On-shore CNY, offshore CNH and SCB forecasts*



Source: Bloomberg, Standard Chartered

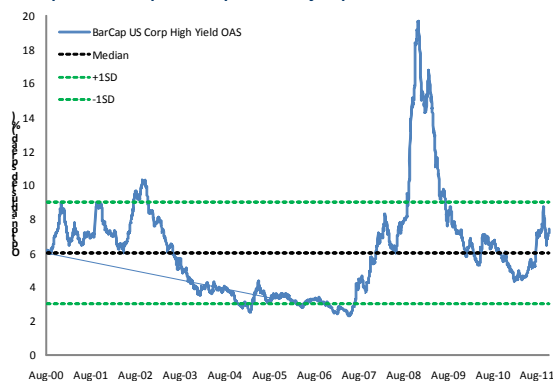
The one exception to this is the Hong Kong-based **CNH market**, where we see more of an opportunity because

1. We believe the CNY will continue to appreciate in the coming year while the CNH is likely to shift back to trading at a premium to the CNY, rather than at the slight discount being seen currently.
2. CNH (or 'Dim Sum') bonds are somewhat more reasonably priced after last quarter's selloff.

**Overweight high yield** as this asset class provides significant value in our opinion due to

1. spreads over Treasuries being much wider than still-improving fundamentals justify
2. historical returns from current spread levels over 1 and 3 year periods having been attractive – since 2000, the average returns when US high yield spreads crossed 7.25% were 6.7% over one year (leaving aside the more prolonged 2008 episode) and 10.7% over 3 years
3. high absolute spreads provide more of a buffer against higher Treasury yields
4. low growth environment has historically generated superior returns for high yield when compared to equities

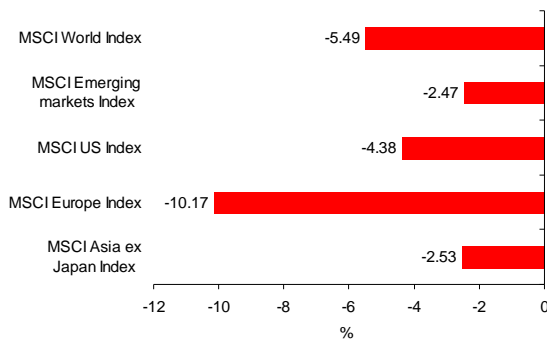
**High yield spreads wide, offer value**  
*BarCap US Corp HY option-adj. spread*



Source: Bloomberg, Barclays Capital, Standard Chartered

**We acknowledge the risk of spread-widening in the near term such that the path to these returns may not be a smooth one.**

### Equity Market Performance



From 20 Oct to 23 Nov 2011  
Source: Standard Chartered, Bloomberg

### Japan trading close to trough levels



Source: Standard Chartered, Bloomberg

### Japan can enjoy significant bear market rallies



Source: Standard Chartered, Bloomberg

Overall, though, the risk-reward trade-off for US high yield bonds still looks attractive.

### Equities – N both 3m and 12m

We maintain a Neutral view on equities as valuations and dividend yields for many companies are at attractive levels and, with inflation being a looming and current threat, equities are certainly more attractive than sovereign and investment grade bonds. Furthermore, many of the more defensive equity names have performed extremely well in the current environment (see for example the Tobacco, Fast foods, Energy and Healthcare industries). Key is sector and stock selection.

In terms of current positioning, we would recommend the following:

- Remain Neutral on equity allocations.
- Take exposure cautiously, adding on sell offs.
- Add to exposure if and when it becomes clearer the Fed and ECB will intervene.
- OW companies with sustainable and high dividend yields.
- Invest in areas that are inflation proof or will perform well in a rising inflation environment. We continue to see significant longer-term upside in the gold/silver mining sector and are similarly positive on the underlying commodity.
- Use volatility to trade out of vulnerable sectors (financials) and into more defensive areas.

### Short term: OW DM vs. EM.

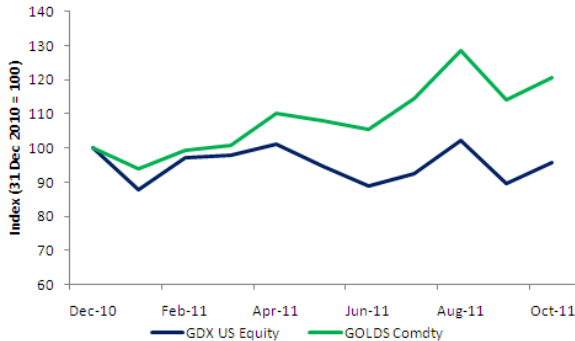
- We have a relative preference for US/Japan over EM in the short term as the markets are more liquid and are less impacted by trading flows. Valuations also look supportive.

Current themes:

- **Developed markets:** we prefer attractively valued names with high dividend yield, stable earnings growth, great franchises and brands, sizeable international revenue base with exposure to the emerging markets and with defensive business models.
- **Energy:** we like the oil majors with significant exposure to upstream many of which have defensive business models and generate substantial dividend yields.
- **Japan:** equities are at trough lows and look very cheap, particularly against the local bond market. Japan has had a number of significant bear market rallies.

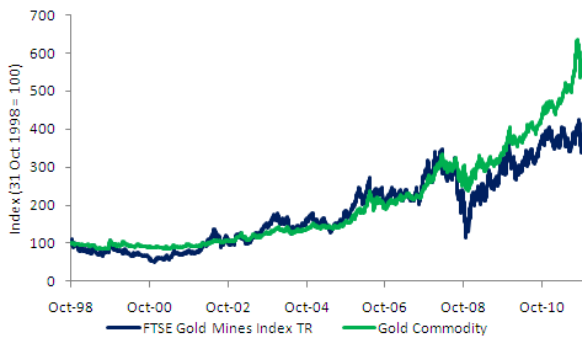
**Gold miners looking relatively cheap to the underlying commodity**

Gold commodity & GDX index



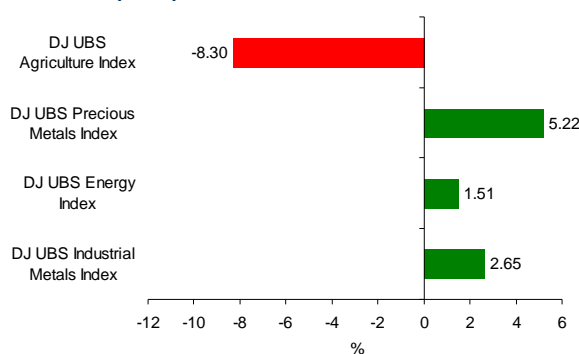
Source: Standard Chartered, Bloomberg

**Historically the miners are well correlated to the underlying**



Source: Standard Chartered, Bloomberg

**Commodities sub-sector performances over the last week (USD)\***



\*week of Oct 20 to Nov 23 2011.  
Source: Bloomberg, Standard Chartered

- **Inflation hedges:** Gold miners are looking relatively cheap and will be well supported if gold prices remain stable or rise further as we expect.

**Longer term: OW EM vs. DM:**

- We have a relative preference for the emerging markets over developed over the longer term as their underlying economies are still strong. EM also offers higher beta to the underlying market and would thus, if history is any guide, outperform should policy makers ultimately surprise on the upside.

Themes we like:

- **Inflation hedges: Gold and Energy** plays
- **Emerging markets** such as China and Russia
- **Japan**
- **Defensive large capitalisations in US/EU** that have high exposure to Asia/China/India

Our positioning is thus highly defensive on the short term, to manage through a period of higher volatility while, on the longer term, we would be prepared to take greater exposure to higher beta plays that offer greater protection against the ills of further QE, or money printing.

▪ **Commodities – OW 3m, N 12m**

We have maintained our 3m and 12m commodities stance to overweight and underweight respectively. Uncertainty surrounding the Euro area debt crisis, expectations of further quantitative easing and prospects of slower global economic growth were the key factors in our considerations.

- **Gold:** We maintain our OW position on both a 3m and 12m basis. Fundamental drivers underlying the upward trend in gold price continues to be supportive of our view.
  - high and rising G7 government debt levels
  - negative real interest rates in the US
  - the likelihood of further monetary easing
  - strong demand from India and China
  - increasing central bank demand
  - limited growth in supply.

Some short-term consolidation is likely given the general appreciation of the USD.

### Gold and oil prices to stay on an uptrend



Source: Bloomberg, Standard Chartered

- **Non-gold commodities:** We have maintained our 3m neutral and 12m underweight outlook for non-gold commodities.
  - Crude oil price is expected to continue on an uptrend given supply constraints as well as rising geo-political risks in the Middle East. There is a risk of a reversal in prices if global growth is worse than expected.
  - Industrial metals remain vulnerable to prospects of slowing global growth and demand from China.
  - Agriculture prices have fallen significantly on investor liquidation given the uncertainty over the Euro area sovereign debt crisis.

**Conclusion: We continue to prefer gold and oil within the commodities asset class. These commodities are expected to attract more funds in the event of further quantitative easing compared to the rest.**

### Alternative strategies – N 3m and OW 12m

We continue to favour alternative investment strategies in an uncertain environment. The ability to go long and short different asset classes is likely to be beneficial as soon as a trend re-emerges, while experiencing low volatility. Gradually lower correlations across asset classes are likely to be supportive.

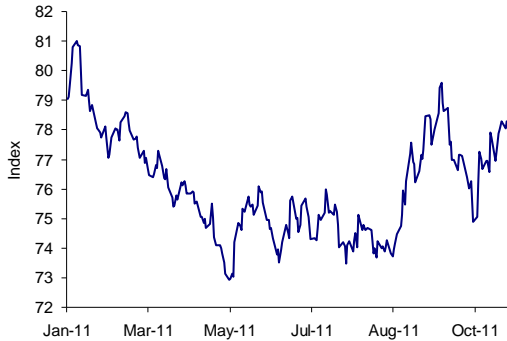
Specifically we favour macro and commodity trading strategies because

1. They are able to take positions across asset classes
2. Both have performed well in a variety of investing environments.

Both strategies have strong performance records over the past decade in both good and difficult years. This record, in our eyes, makes these strategies very attractive in an uncertain investing environment like today.

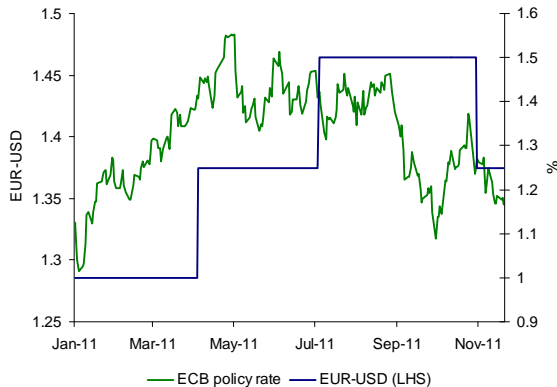


**USD stays firm**  
*DXY Index*



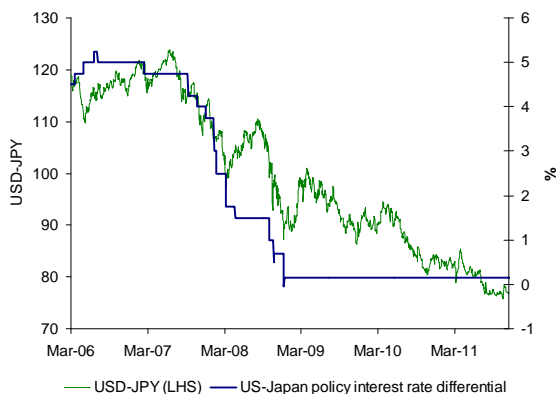
Source: Bloomberg, Standard Chartered

**EUR has been impressively resilient, but faces strong downward pressure**



Source: Bloomberg, Standard Chartered

**Narrowing US-Japan policy interest rate differential supportive of a stronger JPY**



Source: Bloomberg, Standard Chartered

**Currencies**

With ongoing uncertainty in the Euro area and prospects of lower economic growth, stronger demand for safe-haven currencies is likely to be seen in the short term, led by the USD. The US DXY Index, a proxy for the USD, could retest its 100 WMA at 78.78 and its channel resistance at 80. However, we expect the USD to resume its downward trend in 2012 given expectations of QE3.

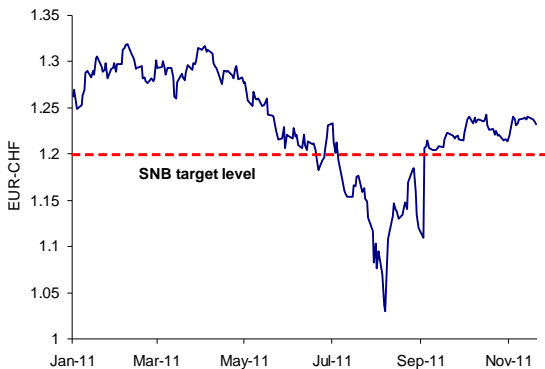
**EUR-USD**

- Rising risk of recession and the sovereign debt crisis continue to haunt the Euro area. This coupled with expectations of further monetary policy easing by the ECB is expected to mount further downward pressure on the EUR. Despite these issues, the EUR has been impressively resilient so far.
- The implementation of QE3 in the US however, is expected to outweigh monetary policy easing in the Euro area and thus push the EUR higher in 2012.
- We expect EUR-USD to retest its psychological support at 1.30 soon. We would anticipate more downside if 1.30 is violated.

**USD-JPY**

- The strength of the JPY has been driven by strong demand for safe-haven currencies given rising risk-aversion among investors.
- We believe a USD-JPY break below 76 would trigger serious action by the Japanese authorities to stem the appreciation of the JPY.
- However, with the spread between the US and Japan interest rate unlikely to change for the foreseeable future (the Fed has indicated it will keep rates low until mid-2013), the JPY is expected to come under continued pressure to appreciate.
- The line-in-the-sand at 75-76 may hold for now, absent a serious shock to the global financial markets, but sustained JPY weakness looks unlikely.

**SNB likely to hold current target level firm**

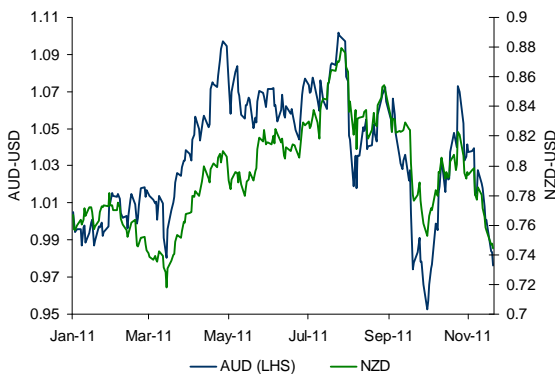


Source: Bloomberg, Standard Chartered

**USD-CHF**

- The Swiss National Bank (SNB) has been under significant pressure to adjust the currency target level given weakening export growth and the growing threat of deflation.
- We believe the SNB will hold to its peg of CHF 1.20 per EUR for three main reasons;
  - Slower growth in the Swiss economy will reduce the demand for the CHF
  - Significant rise in money supply is expected to push inflation higher based on historical experience
  - Another competitive devaluation would be extremely sensitive from a political perspective
- The SNB is most likely to implement macro-prudential measures to stem significant inflows.

**AUD and NZD pressured by uncertainty surrounding the Euro area**



Source: Bloomberg, Standard Chartered

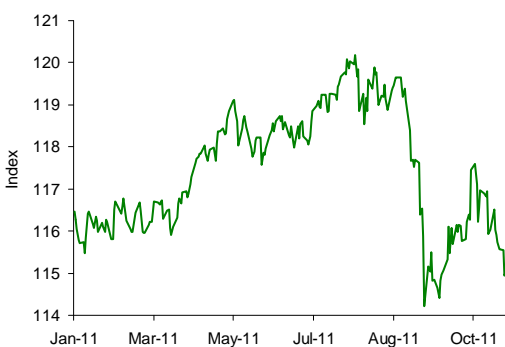
**AUD-USD**

- The performance of the AUD over the past month has been driven primarily by sentiment surrounding developments in the Euro area with other factors such as a moderating domestic economy and a slowdown in China weighing on the currency.
- Lingering uncertainty in the global financial markets is expected to keep the AUD below parity, until there is greater conviction for QE3 in the US.

**NZD-USD**

- Though the NZD faces similar pressures as that of the AUD, domestic growth in New Zealand is expected to improve due to re-construction efforts post the Christchurch earthquake.
- Monetary policy is not expected to be tightened in the near future and NZD strength was noted as being a factor reducing the need for a rise in the key benchmark rate despite heightened inflation levels.
- The NZD is expected to face selling pressures as tensions surrounding the Euro area debt crisis remain.

**Asian currencies to depreciate for now  
ADXY Index**

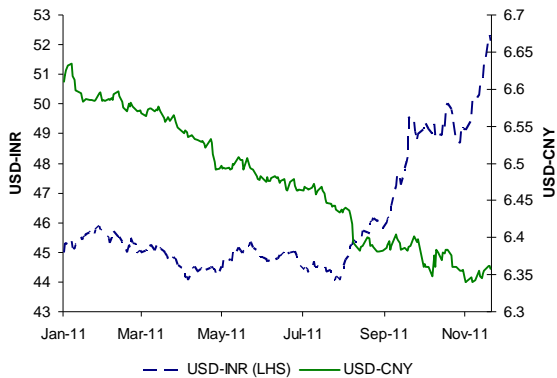


Source: Bloomberg, Standard Chartered

**Asian currencies**

- Most Asian currencies are expected to depreciate against the USD given monetary policy easing amidst slower growth prospects and from possible deleveraging arising from the ongoing crisis in the Euro area.
- However, if growth in Asia holds up better than expected and is QE3 implemented, this trend could reverse. Asian central banks are expected to intervene in their foreign exchange markets to stem any sharp depreciation of their currency.

**INR weakened significantly while China expected to reduce the pace of appreciation**



Source: Bloomberg, Standard Chartered

- The CNY is forecasted to appreciate against the USD albeit at a slower pace than earlier anticipated given growth concerns. Further easing of monetary policy in China is already underway.
- Going forward INR is expected to face continued selling pressures given concerns over domestic growth and general pessimism surrounding the developments in the Euro area. It is speculated that authorities in India have already been intervening in the foreign exchange market to stem the depreciation of the INR. We expect further intervention.

## Key Risks

The three key risks remain

1. **Europe** continues to underwhelm with their policy response even as the crisis intensifies. Contagion is spreading to Italy and France (and now Germany) and the banks are signalling that they are likely to tighten lending standards in 2012. The economy already appears to be heading into recession and concerted policy action is required to avoid something worse.
2. **US recession** fears have eased somewhat in recent weeks, but the debt overhang remains a concern. We believe the Fed will do everything in its power to make this a smooth process by targeting nominal growth – read above average inflation – but the risk of a disruptive deleveraging remains very significant.
3. Recent data suggests that the risks of a **hard landing in China** may have eased slightly in recent times. Policymakers are already selectively easing policy and we expect more broad-brush measures by the end of the year. The banking and property sectors are the main area of concern.

## Conclusion

Regular readers will note that we have not made significant changes to our asset allocation profile this month. Clearly we live in a very dynamic environment, but we believe our cautious positioning – overweight DM equities versus EM equities short term, and overweight gold and alternatives on a 12m basis – is reflective of the uncertainty facing global asset markets at this juncture. We continue to believe in assets that either pay you handsomely for owning them – high yield debt and high dividend equities – or protect you from the risk of inflation – gold/silver and their related equities. Meanwhile, long term investors should use market volatility to their advantage by averaging into assets that look cheap on a historical basis such as equities and high yield debt.

***Please note:** This document represents the view of Standard Chartered's Global Investment Committee.*

## Asset Allocation Summary

### Tactical Asset Allocation - December 2011 (3M)

All figures are in percentages

Currency : USD

Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	N	25	5	5	5
Investment Grade	IG Developed World	UW	27	16	0	0
	IG Emerging World	UW	4	9	0	0
High Yield	HY Developed World	OW	0	6	6	0
	HY Emerging World	OW	6	6	11	5
Developed Market Equity	North America	OW	6	9	15	21
	Europe	UW	4	7	11	17
	Japan	OW	1	3	4	6
Emerging Market Equity	Asia ex-Japan	UW	6	11	18	25
	Other EM	UW	3	5	7	11
Commodities	Commodities ex-Gold	N	5	10	10	0
	Gold	OW	3	3	3	5
Hedge FoF/CTAs		N	10	10	10	5

### Tactical Asset Allocation - December 2011 (12M)

All figures are in percentages

Currency : USD

Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	N	25	5	5	5
Investment Grade	IG Developed World	UW	27	15	0	0
	IG Emerging World	UW	4	8	0	0
High Yield	HY Developed World	OW	0	7	6	0
	HY Emerging World	OW	6	7	11	5
Developed Market Equity	North America	UW	4	7	11	16
	Europe	UW	4	7	11	16
	Japan	OW	1	3	4	6
Emerging Market Equity	Asia ex-Japan	OW	8	13	22	30
	Other EM	N	3	5	7	12
Commodities	Commodities ex-Gold	UW	0	5	5	0
	Gold	OW	5	5	5	5
Hedge FoF/CTAs		OW	13	13	13	5

### Strategic Asset Allocation 2011 (Global)

All figures are in percentages

Currency : USD

Asset Class	Region	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	25	5	5	5
Investment Grade	IG Developed World	30	20	0	0
	IG Emerging World	5	10	5	0
High Yield	HY Developed World	0	5	5	0
	HY Emerging World	5	5	10	5
Developed Market Equity	North America	5	8	13	18
	Europe	5	8	12	18
	Japan	0	2	3	4
Emerging Market Equity	Asia ex-Japan	7	12	20	28
	Other EM	3	5	7	12
Commodities		5	10	10	5
Hedge FoF/CTAs		10	10	10	5

Source: Standard Chartered

## Equity Sector Strategy

25 November 2011

### US Sector Weightings

Sector	View	Rationale
Precious Metals	OW	Good hedge against inflation and supported by our long term view of gold prices
Consumer Staples	OW	Slowing economy and heightened risk of recession makes it a safe haven play
Energy	OW	Valuations are supportive as are our longer term forecasted increase in oil prices
Health Care	N	Cheap valuations but risk of lower government healthcare spending
Information Technology	N	Attractive valuations and strong cash flows
Consumer Discretionary	N	Typically 'out of favour' during recessionary segment of business cycle
Telecommunication Services	N	Stable cash flows, High dividends but face challenges in customer retention
Utilities	N	Highly defensive
Financials	UW	Banks have significant exposure to sovereign risk, increase in non-performing loans
Industrials	UW	Highly cyclical and sensitive to an economic slowdown

\* Precious metals in place of Materials

Source: Standard Chartered

### Europe Sector Weightings

Sector	Weight	Rationale
Consumer Staples	OW	Slowing Economy and heightened risk of recession makes it a safe haven play
Energy	OW	Valuations are supportive as are our longer-term price forecasts for oil
Industrials	OW	Number of stocks are attractively priced and relatively defensive
Telecommunication Services	OW	Relatively defensive. High dividend yield. Mobile still offering growth.
Health Care	N	Typically outperforms in a bear market, but risk of lower government spending
Information Technology	N	Attractive valuations, but difficult environment. Few names to pick from
Utilities	N	Highly defensive with higher than average dividend yields
Consumer Discretionary	UW	Typically 'out of favour' during recessionary segment of business cycle
Financials	UW	Significant exposure to sovereign risk and tough business model at present
Materials	UW	Concerns over economic slowdown and weak demand from China.

Source: Standard Chartered

### China Sector Weightings

Sector	Weight	Rationale
Energy	OW	Sector consists of several strong companies with good assets, growing production.
Consumer Discretionary	OW	Sector to benefit from the secular growth in domestic consumption
Telecommunication Services	OW	Increasing usage of smart phones to create opportunities for companies to grow
Utilities	OW	Infrastructure still relatively under-developed, sector to see strong capacity growth
Health Care	N	Projected robust growth but valuations look fair.
Industrials	N	Difficult environment but valuations look cheap
Information Technology	N	Growth opportunities aplenty but valuations not compelling
Materials	N	Sector usually underperforms as growth wanes. Valuations look attractive though.
Consumer Staples	UW	Margins at risk while valuations look at best fair
Financials	UW	Very poor visibility on fundamentals, valuations have arguably priced in negatives

Source: Standard Chartered

## Economic & Market Calendar

25 November 2011

	Next Week: Nov 28 - Dec 2					This Week: Nov 21 - Nov 25					
	Event	Period	Expected	Prior		Event	Period	Actual	Prior		
MON	UK	Hometrack Housing Survey (YoY)	NOV	--	-2.80%	JN	Merchnds Trade Exports YoY	OCT	-3.7	2.3	
	JN	Small Business Confidence	NOV	--	46.4	JN	Merchnds Trade Imports YoY	OCT	17.9	12.1	
	EC	Euro-Zone M3 s.a. (YoY)	OCT	--	3.10%	UK	Rightmove House Prices (YoY)	NOV	1.20%	1.20%	
	EC	Outlook				JN	Leading Index CI	SEP F	91.5	91.6	
	US	New Home Sales	OCT	310K	313K	US	Chicago Fed Nat Activity Index	OCT	-0.13	-0.2	
	US	Dallas Fed Manf. Activity	NOV	5	2.3	US	Existing Home Sales	OCT	4.97M	4.90M	
	UK	Nat'wide House prices nsa(YoY)	NOV	--	0.80%	SI	GDP (YoY)	3Q F	6.10%	5.90%	
	PH	GDP (YoY)	3Q	4.10%	3.40%	TH	Gross Domestic Product (YoY)	3Q	3.50%	2.70%	
	TUE	JN	Jobless Rate	OCT	--	4.10%	US	GDP QoQ (Annualized)	3Q S	2.00%	2.50%
JN		Retail Trade YoY	OCT	--	-1.10%	US	Personal Consumption	3Q S	2.30%	2.40%	
US		S&P/CS Composite-20 YoY	SEP	-3.00%	-3.80%	US	Core PCE QoQ	3Q S	2.00%	2.00%	
EC		Euro-Zone Consumer Confidence	NOV A		-20.4	-19.9					
US		Richmond Fed Manufact. Index	NOV		0	-6					
TA		Unemployment Rate - sa	OCT		4.30%	4.27%					
WED	JN	Markit/JMMA Manufacturing PMI	NOV	--	50.6	US	Minutes of FOMC Meeting				
	JN	Industrial Production YOY%	OCT P	--	-3.30%	EC	PMI Composite	NOV A	47.2	46.5	
	JN	Vehicle Production (YoY)	OCT	--	-4.50%	EC	PMI Manufacturing	NOV A	46.4	47.1	
	JN	Construction Orders (YoY)	OCT	--	-9.30%	EC	PMI Services	NOV A	47.8	46.4	
	EC	Euro-Zone CPI Estimate (YoY)	NOV	--	3.00%	UK	Bank of England Minutes				
	EC	Euro-Zone Unemployment Rate	OCT	--	10.20%	EC	Industrial New Orders NSA (YoY)	SEP	1.60%	5.90%	
	CA	Gross Domestic Product YoY	SEP	--	2.40%	US	Durables Ex Transportation	OCT	0.70%	0.60%	
	CA	Teranet/National Bank HPI YoY%	SEP	--	5.40%	US	Cap Goods Orders Nondef Ex Air	OCT	-1.80%	0.90%	
	US	Chicago Purchasing Manager	NOV	58.5	58.4	US	PCE Deflator (YoY)	OCT	2.70%	2.90%	
	US	Pending Home Sales YoY	OCT	--	7.90%	US	U. of Michigan Confidence	NOV F	64.1	64.2	
	TH	Benchmark Interest Rate	30-Nov	3.13%	3.50%	SI	CPI (YoY)	OCT	5.40%	5.50%	
	MA	CPI YoY	OCT		3.40%	3.40%					
	THUR	US	Fed's Beige Book				US	Kansas City Fed Manf. Activity	NOV	4	8
		JN	Vehicle Sales (YoY)	NOV	--	28.30%	GE	IFO - Business Climate	NOV	--	106.4
EC		PMI Manufacturing	NOV F	--	46.4	GE	IFO - Current Assessment	NOV	--	116.7	
UK		PMI Manufacturing	NOV	--	47.4	GE	IFO - Expectations	NOV	--	97	
US		Initial Jobless Claims	26-Nov	390K	393K	IT	Consumer Confidence Ind. sa	NOV	--	92.9	
US		ISM Manufacturing	NOV	51.5	50.8	UK	GDP (YoY)	3Q P	--	0.50%	
US		ISM Prices Paid	NOV	45	41	TA	GDP - Constant Prices (YoY)	3Q F	--	3.37%	
SK		Consumer Price Index (YoY)	NOV	4.30%	3.90%						
TH		Consumer Price Index (YoY)	NOV	4.50%	4.19%						
ID		Inflation (YoY)	NOV	--	4.42%						
CH		PMI Manufacturing	NOV	49.8	50.4						
FRI		US	Total Vehicle Sales	NOV	13.40M	13.20M	JN	Natl CPI YoY	OCT	--	0.00%
		JN	Capital Spending	3Q	--	-7.80%	SI	Industrial Production YoY	OCT	--	12.80%
	UK	PMI Construction	NOV	--	53.9	TH	Mfg. Production Index ISIC (YoY)	OCT	-13	-0.52	
	EC	Euro-Zone PPI (MoM)	OCT	--	0.30%	CH	Industrial Profits YTD YoY	OCT	--	27.00%	
	EC	Euro-Zone PPI (YoY)	OCT	--	5.80%	CH	Leading Index	OCT	--	100.43	
	CA	Unemployment Rate	NOV	7.30%	7.30%						
	US	Unemployment Rate	NOV	9.00%	9.00%						
	US	Underemployment Rate (U6)	NOV	--	--						
	Previous data are for the preceding period unless otherwise indicated						Data are % change on previous period unless otherwise indicated				
	Data are % change on previous period unless otherwise indicated						Data are % change on previous period unless otherwise indicated				
p- preliminary data, f- final data, sa - seasonally adjusted						p- preliminary data, f- final data, sa - seasonally adjusted					
YoY - year on year, MoM - month-on-month						YoY - year on year, MoM - month-on-month					

## 3 to 12 Month Market Outlook

25 November 2011

### Central bank policy rates

	Spot	Q4 2011	Q1 2012	Q2 2012	Q3 2012
US	0.25	0-0.25	0-0.25	0-0.25	0-0.25
Europe	1.25	1.00	1.00	1.00	1.00
UK	0.50	0.50	0.50	0.50	0.50
Japan	0.10	0.10	0.10	0.10	0.10
Australia	4.50	4.50	4.25	4.25	4.25
China	6.56	6.56	6.56	6.56	6.56
Taiwan	1.88	1.88	1.88	1.88	1.88
Malaysia	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00
South Korea	3.25	3.25	3.25	3.25	3.25
India	8.50	8.50	8.50	8.25	7.75
Philippines	4.50	4.50	4.50	4.50	4.50
Thailand	3.50	3.00	3.00	3.00	3.00

### Forex

	Spot	Q4 2011	Q1 2012	Q2 2012	Q3 2012
EUR/USD	1.33	1.30	1.32	1.34	1.37
GBP/USD	1.55	1.53	1.54	1.55	1.60
USD/JPY	77.38	76	76	75	74
USD/CAD	1.05	1.04	1.02	1.00	1.00
USD/CHF	0.92	0.96	0.98	0.99	0.97
AUD/USD	0.97	0.98	0.99	1.02	1.03
NZD/USD	0.74	0.76	0.78	0.82	0.85
USD/CNY	6.37	6.32	6.28	6.24	6.18
USD/SGD	1.31	1.27	1.24	1.25	1.22
USD/MYR	3.19	3.12	3.03	3.07	3.00
USD/IDR	9150.00	8900	8700	8600	8500
USD/KRW	1158.05	1130	1095	1075	1025
USD/TWD	30.46	30.30	29.30	28.70	28.50
USD/INR	52.07	50.00	48.80	48.00	47.00
USD/THB	31.20	31.00	30.50	30.25	30.00
USD/PHP	43.77	43.00	42.50	43.00	42.00

### Commodities

	Spot	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Gold	1693.00	1750	1800	1800	1925
Silver	31.80	34	39	39	39
WTI Crude oil	96.44	96	93	100	113
Copper	7265.00	7450	8000	8500	9000
Aluminium	2019.00	2150	2100	2200	2300
Corn	592.75	660	775	735	700
Soybeans	1114.00	1200	1350	1380	1330
Wheat	591.75	650	785	750	715

Source: Bloomberg, Standard Chartered Global Research (25 Nov 2011 Economics Weekly publication)

\* Period averages for each quarter.



## Disclosure Appendix

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