Standard Chartered Private Bank

weekly market view

This reflects the views of the Wealth Management Group

macro strategy | 11 April 2014

Emerging Markets play catch-up

A key theme since mid-March has been the outperformance of Emerging Markets (EM) across most asset classes. While Developed Markets (DM) still have a slight edge in year-to-date total returns in some asset classes (such as HY bonds), the gap is closing. We believe some improvements in recent EM data and event risks are likely behind the outperformance. While we maintain our preference for DM assets over EM assets, markets are clearly testing this view.

Within DM equities, we remain relatively unconcerned by volatility in technology stocks. Much of the volatility was concentrated in arguably over-valued pockets, such as internet media, but the overall sector continues to offer value, in our view.

We are also encouraged by the improving economic recovery signals from the US jobs market and relatively balanced messaging from the Fed meeting minutes. Both suggest the US economy may be emerging from its weather-related soft patch and we prefer to close our long position in 30-year US Treasury bonds (a position we opened in our 2014 Outlook), which has performed well year-to-date.

Looking ahead, China's monthly round of economic data, due over the coming weekend, may be particularly significant in light of reports suggesting further stimulus measures may be in the offing. We believe one of the most attractive opportunities lies in onshore Chinese corporate credit. The recent stabilisation of the CNY suggests the entry opportunity offered by a weaker currency may begin to close.

MACRO OVERVIEW

- **US:** Net job creation returned to their pre-winter trend. Fed minutes helped ease concerns of accelerated Fed tightening
- **Europe:** The Bank of England left policy unchanged
- **Asia:** China exports and imports both contracted y/y in March. South Korean and Indonesian central banks left policy unchanged

FIXED INCOME: Underweight

- **G3 sovereign: UW –** 10-year US Treasury yields may remain range-bound between 2.6% and 2.8% in the short term
- **CNY onshore bonds –** Opportunity to add CNY bonds at an attractive currency level may begin to close

EQUITIES: Overweight

- **Global equities: OW –** US technology sector volatility magnitude not unusual. Upward trend remains in place
- **EM equities: UW –** We expect rally to extend higher short term, but remain mindful of elevated risks in the medium term as we move towards Fed rate hikes

COMMODITIES: Neutral

- **Gold: UW –** Remain long-term bearish

CURRENCIES: USD bounce may be in the offing

- **USD:** Oversold indicators suggest bounce in the near term is likely

Contents

US and Chinese economic surprises may be close to bottoming

Economic surprise indices – US & China

Source: Citigroup, Bloomberg, Standard Chartered

Key events this week:

Data/Event		Date
US	Retail Sales Ex Auto and Gas	14-Apr
CN	New Yuan Loans	14-Apr
EC	ZEW Survey Expectations	15-Apr
US	CPI y/y	15-Apr
US	NAHB Housing Market Index	16-Apr
EC	CPI y/y	16-Apr
CN	Industrial Production & GDP, y/y	16-Apr
US	Fed releases Beige Book	17-Apr

Source: Bloomberg, Standard Chartered

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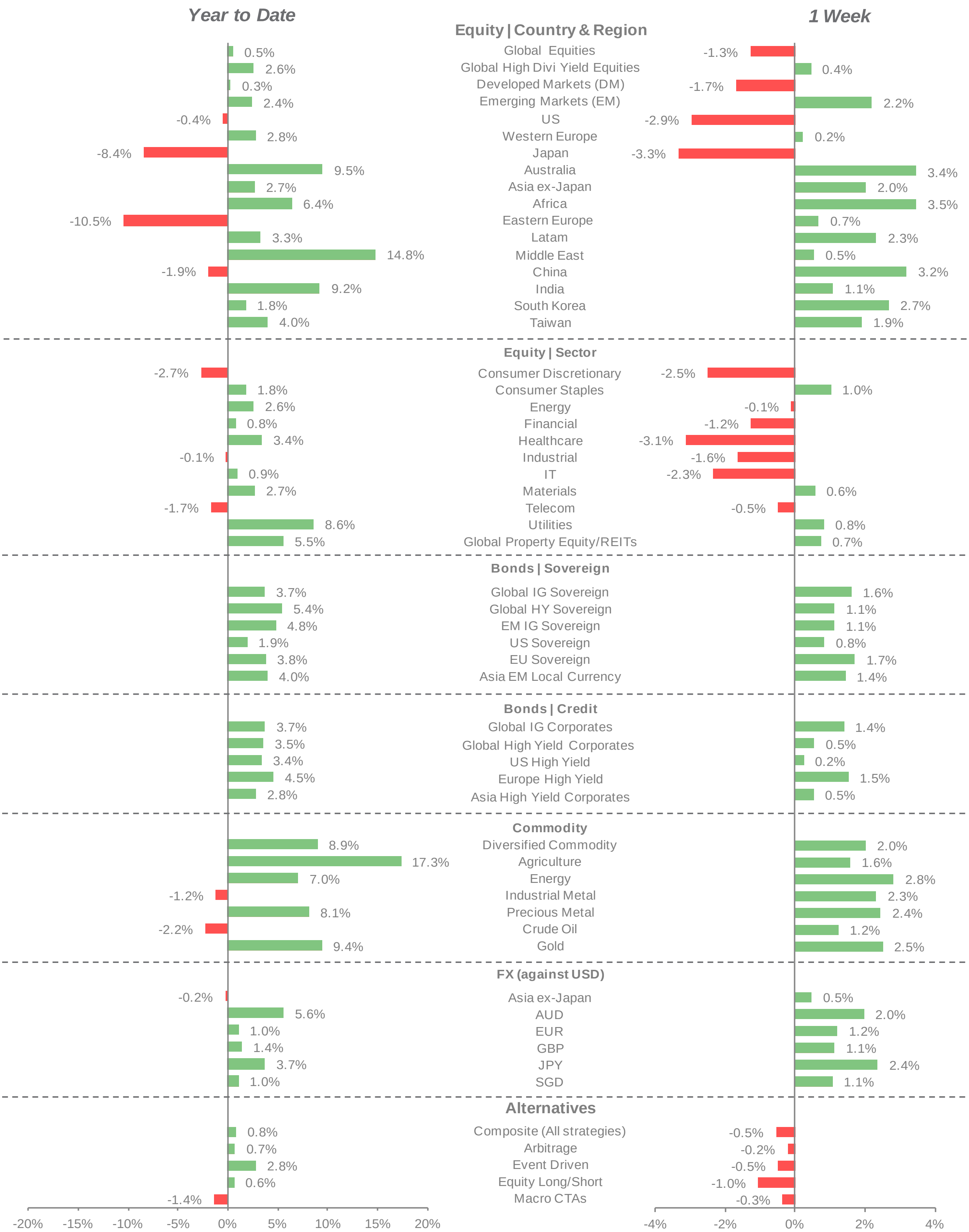
Market performance summary*



**Performance in USD terms unless otherwise stated, YTD period from 31 December 2013 to 10 April 2014, 1 week period: 3 April to 10 April 2014*

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

US recovery firmly back on track

Equities underperformed bonds and commodities last week. Within equities, however, most Emerging Markets delivered strong positive absolute returns, while the biggest losers were US and Japanese equities. Asian currencies also gained against the US Dollar. Three key takeaways this week are:

1. Cloud over US economic data finally begins to lift

March jobs data (non-farm payrolls) marks the return of the US labour market recovery to its earlier trend, in our view. While the headline number may have slightly disappointed, we believe the report indicated a return to the recovery trend in the US labour market. The three-month moving average of net job creation returned to approximately pre-winter levels; the previous release was revised higher and the number of hours worked rose.

The minutes of the last Fed meeting also support our view of a continuing US recovery. The minutes noted officials remain convinced much of the recent data weakness was weather-related. More significantly, the minutes marked a departure from explicit targets for unemployment and inflation, noting the tightening cycle would likely be unusually gradual even after the Fed began raising rates. The minutes did suggest, however, that officials were divided on how much slack remained in the labour market. Overall, we believe these factors are consistent with our view of an initial Fed rate hike in Q2 2015.

2. Bank of Japan or Bank of England policy unchanged, for now

The Bank of Japan (BoJ) left policy unchanged this week. However, this does not change our view that further stimulus remains likely. We noted last week how weakness in the retailers component of the Tankan survey pointed to downside risks to inflation. We also believe that much depends on the outcome of wage negotiations. Ultimately, higher wages can be a support to inflation as much as JPY weakness, potentially negating the need for further stimulus. Overall, we continue to believe risks to the JPY remain tilted to the downside.

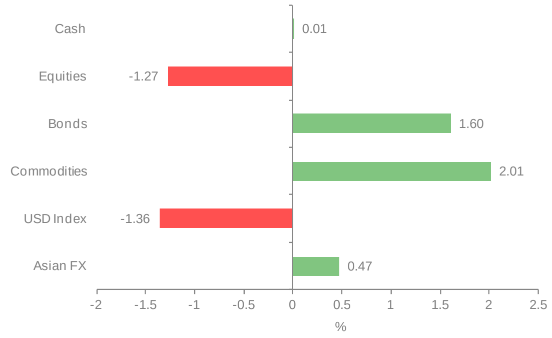
The Bank of England (BoE) also kept policy on hold, leaving both interest rates and its quantitative easing program unchanged.

3. Emerging Markets – elections, stimulus and upcoming data

Upcoming monthly economic data in China is likely to be key to the likelihood of further economic stimulus measures. Given Chinese policymakers continue to seek a balance between maintaining growth and deleveraging, we believe any further stimulus measures are likely to comprise of targeted policy (such as a reduction in housing market curbs, for example) rather than a more blunt policy tool such as interest rates or a significant, sustained increase in credit growth. March CPI inflation rose to 2.4% y/y, but remains relatively benign. Reports pointing to the possibility of policy meetings shortly after the release of Q1 2014 economic data make the upcoming round of economic data (lending, retail sales and growth) even more important than usual. However, with the China economic surprises index at post-2009 lows, the scope for data to disappoint is likely receding.

Commencement of elections in both India and Indonesia mean a key source of uncertainty may soon be behind us. Indonesia's parliamentary elections set the stage for presidential elections in July. In India, a staggered national election calendar means the process is only likely to be completed by mid-May. Either way, a market-friendly outcome in either, or both, elections means a key source of political uncertainty may soon be coming to an end.

Benchmark (USD) performance w/w*



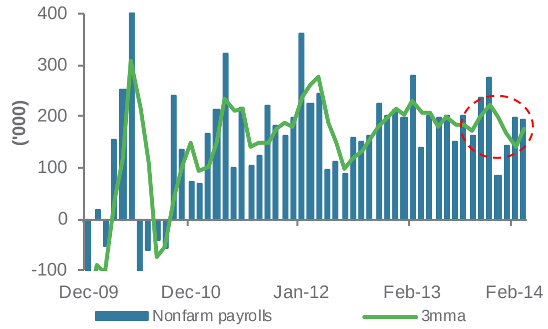
**week of 3 to 10 April 2014*

Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered

Indices used are JP Morgan Cash, MSCI AC World TR, Citi World Big, DJ-UBS Commodity, DXY, ADXY

Trend in US net job creation added in the US likely returning to pre-winter levels

US non-farm payrolls (3mma)



Source: Bloomberg, Standard Chartered

Pick up in Japan wages could be a source of inflation pressures

IMF Japan wage index (6mma)

Source: IMF, Bloomberg, Standard Chartered

What does this mean for investors?

We retain our Overweights on Developed Market (DM) equities and the US technology sector, despite recent market volatility. On technology specifically, we note the broader sector is not reflective of the lofty valuations of select pockets such as social media. The opportunity to add to China onshore bonds at an attractive FX level may be closing as the CNY stabilises, while the USD may be primed for a bounce in the near term versus other currencies.

Equities: US technology sector volatility not unusual. We remain Overweight. We believe the recent volatility in US technology equities may have felt worse than it was because most of the correction in headline indices was concentrated within one day.

However, we remain unconcerned for two reasons. First, the magnitude of the pullback was largely within the bounds of usual levels of volatility. Second, much of the volatility was concentrated in fairly over-valued parts of technology, such as social media. For example, the average forward P/E of the eight US internet media companies that have listed in the past three years is 381x, compared with just 15.7x for the technology sector as a whole. Any weakness in US internet companies, which are arguably overvalued, does not take away from the attractiveness of the sector as a whole, in our view.

Emerging Market (EM) asset outperformance tests our preference for DM assets. A key theme over the past few weeks has been the outperformance of EM assets (not only equities, but also bonds and currencies). We believe a perceived reduction in key EM risks (Turkey's trade balance, China's stimulus measures and commencement of elections in India and Indonesia) and a reduction in fears of faster-than-expected Fed tightening have been key drivers of this rally. We maintain our Overweight on DM equities relative to EM equities, but markets are clearly testing this view.

Bonds: Turnaround in CNY likely means the opportunity offered by a weaker currency may be closing. The CNY is showing signs of bottoming and has actually strengthened slightly since 20 March. While two-year onshore yields have been largely flat over the past month, absolute yields remain more attractive than those on offer in the offshore CNH (Dim Sum) bond market.

10-year US Treasury yields likely to remain range-bound short-term. US Treasury yields have been trapped within a tight, but upward-trending, channel since January 2014. Our long-term expectation of higher yields is unchanged, but we are not expecting a strong directional move short-term unless yields break out of this range.

FX: USD weakness presents an opportunity to average in. USD weakness was the clear theme last week, likely due to further declines in economic surprises and the relatively dovish tone in Fed minutes. However, we note that the USD now looks oversold, suggesting a short-term rebound may be in the offing, except against the CNY. Longer term, current levels may offer an opportunity to average in. USD/JPY may offer the best pair through which to express this view – we were clearly early in our call to go long last week, but technical levels suggest the opportunity remains in place.

Conclusion: We remain Overweight DM vs EM equities, but markets are testing our view. We remain Overweight the technology sector as recent weakness is likely driven by select parts of technology. Add to CNY onshore credit exposure and go long USD/JPY.

Magnitude of recent volatility in the US technology sector not unusual

MSCI AC World Technology Index

Source: MSCI, Bloomberg, Standard Chartered

EM HY beginning to catch up with DM HY, though the latter is still outperforming YTD

EM HY and DM HY total returns

Source: JPMorgan, Barclays Capital, Bloomberg, Standard Chartered

USD may be oversold in the near term

Equally-weighted US dollar index

Source: Bloomberg, Standard Chartered

Taking profit on very long-maturity bonds

We take profit on our long position on 30-year Treasuries following their strong performance year-to-date. However, we believe the opportunity in going short the spread between 30-year and 10-year Treasuries remains in place.

In our 2014 annual outlook, we highlighted opportunities in

i. holding a long position in 30-year US Treasuries, and

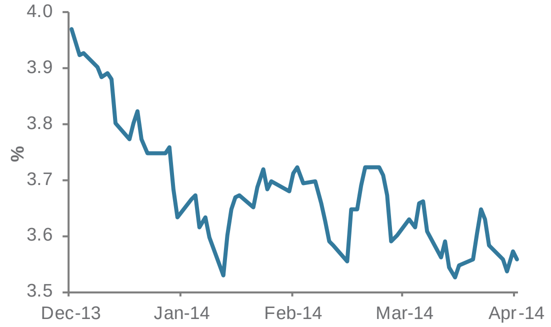
ii. going short the spread between 30-year and 10-year US Treasuries.

Since the time we published these views, 30-year US Treasury bonds have performed strongly: yields have fallen 44.9bps year-to-date. Given this performance has been realised over a relatively short period of time and has been accompanied by a number of tailwinds favouring longer-maturity Treasuries since the beginning of the year, we believe current levels offer an attractive level to take profit.

However, we maintain our conviction in going short the spread between 30-year and 10-year US Treasuries. This spread (i.e. the yield differential between 30-year and 10-year Treasuries) remains very wide relative to history. We believe further, gradual normalisation of Fed policy is likely to gradually narrow this spread.

Yields on 30-year US Treasuries have fallen YTD

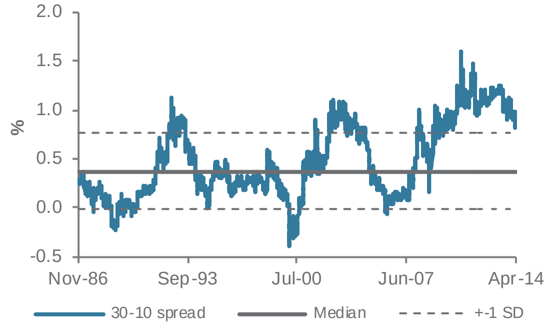
US Treasury 30-year yields



Source: Bloomberg, Standard Chartered

US Treasury spread between 30-year and 10-year bonds still remains wide relative to history

Spread between 30-year and 10-year US Treasury yields

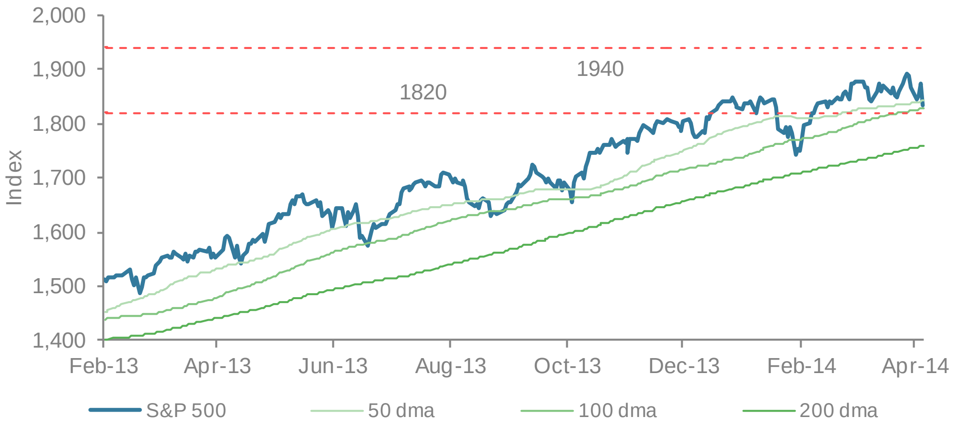


Source: Bloomberg, Standard Chartered

Technical Analysis

S&P 500 – Positive

- The index has maintained its upward trajectory despite some interim volatility, which has so far been short-lived. Last week's pullback found support at levels that are well above the June 2013 uptrend, which has guided the pace of the up-move. We believe the on-going consolidation is healthy and the index should eventually start moving higher as long as it trades above 1,820.
- Support: 1,820 Resistance: 1,940



(Daily Chart)

MSCI Asia Ex-Japan (USD) – Positive

- The index extended gains after the previous week's strong rebound and looks likely to carry on this trend. It appears to have broken above 560, which is the resistance line connecting the tops since late 2012, suggesting the index is now likely to target 580. Any pullback is likely to be limited to USD 540, in our opinion, though firmer support lies lower at 520. The trend also remains well-supported by the larger upward sloping channel lines, which argue for further upside.
- Support: 520 Resistance: 580

(Daily Chart)

Euro Stoxx 600 – Moderately Positive

- The index has maintained its upward bias, moving within the uptrend channel evolving since August 2013. We observe some momentum indicators slowing down slightly, but do not see this as a problem from a medium-term perspective. We believe there is room for further upside in the near term, but note 346-350 is a historical resistance zone.
- Support: 325 Resistance: 346

Source: Bloomberg, Standard Chartered

(Daily Chart)

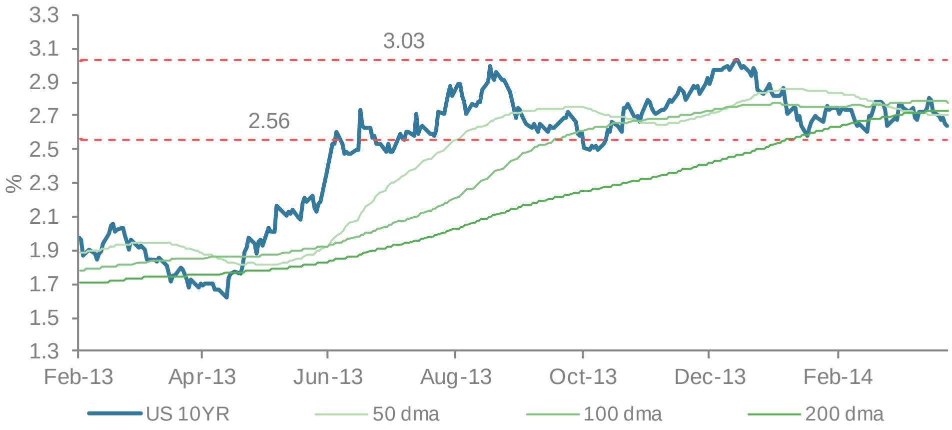
Gold – Negative

- Gold rebounded as anticipated this week from USD 1,270 to the immediate retracement resistance level at USD 1,320. The medium-term trend appears sideways within a broader USD 1,200-1,400 range. However, the current rebound has, once again, made it attractive for sellers with a short-term horizon. We remain negative on the yellow metal as the trend is likely to weaken as long it trades below 1,350.
- Support: 1,230 Resistance: 1,350

(Daily Chart)

US 10-year Treasury yields – Positive

- The US 10-year yield has been trading in a narrow band of 2.6%-2.8% for the last few weeks. Over a slightly longer-term horizon, it trades in a broader band of 2.56%–3.1% post the sharp up-move from May 2013. While momentum is subdued within this range, a breakout either side could signal further direction. Crucial supports are at 2.6% and 2.55%.
- Support: 2.56% Resistance: 3.03%



(Daily Chart)

AUD/USD – Neutral

- The AUD appears on track to achieve the bullish inverse head and shoulders pattern implied target of 0.95. We have started to see momentum indicators leap into overbought territory, hence prefer remaining neutral at current levels. We believe the pair could face significant resistance or retrace lower as it moves closer to 0.95. From a medium-term perspective, we also observe it nearing the higher end of the broader rebound's retracement range.
- Support: 0.915 Resistance: 0.95

Source: Bloomberg, Standard Chartered

(Daily Chart)

Economic & Market Calendar

Next Week: April 14 - April 18

	Event		Period	Expected	Prior
MON	EC	Industrial Production WDA y/y	Feb	–	2.20%
MON	US	Retail Sales Ex Auto and Gas	Mar	–	0.30%
MON	US	Business Inventories	Feb	0.50%	0.40%
MON	CH	New Yuan Loans	Mar	1000.0bn	644.5bn
MON	CH	Aggregate Financing RMB	Mar	1850.0bn	938.7bn
MON	CH	Money Supply M2 y/y	Mar	13.00%	13.30%
MON	IN	Exports y/y	Mar	–	-3.70%
TUE	JN	Machine Tool Orders y/y	Mar F	–	–
TUE	UK	CPI y/y	Mar	–	1.70%
TUE	UK	CPI Core y/y	Mar	–	1.70%
TUE	GE	ZEW Survey Expectations	Apr	–	46.6
TUE	EC	ZEW Survey Expectations	Apr	–	61.5
TUE	US	Empire Manufacturing	Apr	8	5.61
TUE	US	CPI y/y	Mar	1.50%	1.10%
TUE	US	CPI Ex Food and Energy y/y	Mar	1.60%	1.60%
TUE	CA	Existing Home Sales m/m	Mar	–	0.30%
TUE	US	NAHB Housing Market Index	Apr	50	47
TUE	AU	RBA Minutes April Meeting			
TUE	IN	Wholesale Prices y/y	Mar	5.30%	4.68%
TUE	IN	CPI y/y	Mar	8.24%	8.10%
WED	JN	Industrial Production y/y	Feb F	–	6.90%
WED	UK	Average Weekly Earnings 3M/y/y	Feb	–	1.40%
WED	EC	CPI y/y	Mar F	–	0.50%
WED	EC	CPI Core y/y	Mar F	–	0.80%
WED	US	MBA Mortgage Applications	11-Apr	–	-1.60%
WED	US	Manufacturing (SIC) Production	Mar	0.50%	0.80%
WED	CA	Bank of Canada Rate Decision	16-Apr	–	1.00%
WED	AU	Westpac Leading Index m/m	Mar	–	-0.10%
WED	CH	Business Climate Index	1Q	–	119.5
WED	CH	Fixed Assets Ex Rural YTD y/y	Mar	18.00%	17.90%
WED	CH	Retail Sales y/y	Mar	12.20%	–
WED	CH	Industrial Production y/y	Mar	9.00%	–
WED	CH	GDP y/y	1Q	7.30%	7.70%
THUR	US	U.S. Fed Releases Beige Book			
THUR	CA	CPI y/y	Mar	–	1.10%
THUR	US	Initial Jobless Claims	12-Apr	–	–
THUR	US	Philadelphia Fed Business Outlook	Apr	9.5	9
THUR	SI	Electronic Exports y/y	Mar	–	-3.70%
THUR	SI	Non-oil Domestic Exports y/y	Mar	–	9.10%
THUR	NZ	ANZ Consumer Confidence Index	Apr	–	132
THUR	AU	NAB Business Confidence	1Q	–	8
THUR	HK	Composite Interest Rate	Mar	–	0.37%
FRI	MA	CPI y/y	Mar	–	3.50%

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

This Week: April 7 - April 11

	Event		Period	Actual	Prior
MON	GE	Industrial Production WDA y/y	Feb	4.80%	5.00%
MON	EC	Sentix Investor Confidence	Apr	14.1	13.9
MON	TA	CPI y/y	Mar	1.61%	-0.05%
MON	TA	Exports y/y	Mar	2.00%	7.90%
TUE	UK	Industrial Production y/y	Feb	2.70%	2.80%
TUE	UK	Manufacturing Production y/y	Feb	3.80%	3.20%
TUE	US	NFIB Small Business Optimism	Mar	93.4	91.4
TUE	JN	BOJ 2014 Monetary Base Target	8-Apr	¥270tn	¥270tn
TUE	JN	Bank of Japan Monetary Policy Statement	Mar	–	–
TUE	AU	NAB Business Confidence	Mar	4	7
TUE	AU	NAB Business Conditions	Mar	1	0
WED	JN	BoJ Monthly Economic Report	Mar	–	–
WED	US	MBA Mortgage Applications	4-Apr	-1.60%	-1.20%
WED	SK	Unemployment rate SA	Mar	3.50%	3.90%
WED	AU	Westpac Consumer Conf Index	Apr	99.7	99.5
THUR	US	Fed Releases FOMC minutes			
THUR	JN	Machine Tool Orders y/y	Mar P	10.80%	26.10%
THUR	EC	ECB Publishes Monthly Report	Mar	–	–
THUR	UK	Bank of England Bank Rate	10-Apr	0.50%	0.50%
THUR	UK	BOE Asset Purchase Target	Apr	375bn	375bn
THUR	CA	New Housing Price Index y/y	Feb	1.50%	1.50%
THUR	US	Initial Jobless Claims	5-Apr	300K	332K
THUR	SK	BoK 7-Day Repo Rate	10-Apr	2.50%	2.50%
THUR	AU	Consumer Inflation Expectation	Apr	2.4%	2.10%
THUR	AU	Unemployment Rate	Mar	5.80%	6.10%
THUR	MA	Industrial Production y/y	Feb	6.70%	3.50%
THUR	CH	Exports y/y	Mar	-6.60%	-18.10%
THUR	IN	Exports y/y	Mar	–	-3.70%
THUR	SI	GDP y/y	1Q A	–	5.50%
FRI	GE	CPI y/y	Mar F	–	1.00%
FRI	UK	Construction Output SA y/y	Feb	–	5.40%
FRI	US	PPI Ex Food and Energy y/y	Mar	–	1.10%
FRI	US	Univ. of Michigan Confidence	Apr P	–	80
FRI	JN	Domestic CGPI y/y	Mar	–	1.80%
FRI	CH	CPI y/y	Mar	–	2.00%
FRI	IN	Industrial Production y/y	Feb	–	0.10%

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P - preliminary data, F - final data, sa - seasonally adjusted
y/y - year on year, m/m - month-on-month

Source: Bloomberg, Standard Chartered

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