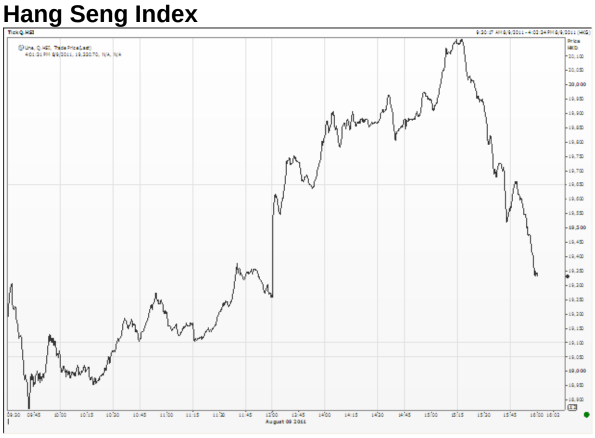
Market Watch

10 August 2011

QE3 expected in Q1 2012

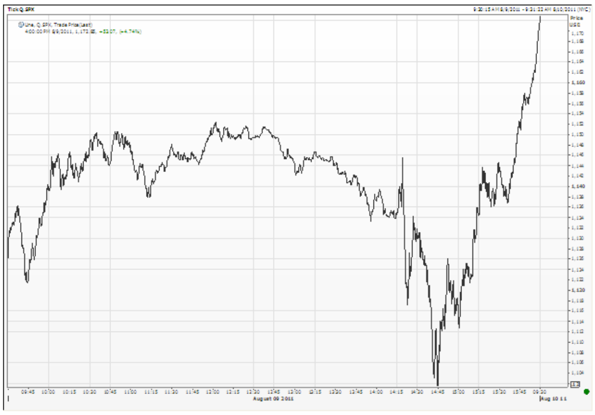
Intraday price action – 09 August 2010

Hang Seng Index



Eurostoxx50

S&P500



Source: ThomsonReuters, Standard Chartered

US stocks rebound strongly, recouping back most of Monday's loss following Fed comments. Asia dollar index up 0.6%

Fed forecasts 'exceptionally low' interest rates through H1 2013, hints at further quantitative easing should economic conditions warrant.

SCB economists now expect QE3 to be launched in Q1 2012

Fed's unprecedented commitment is encouraging but financial markets are not out of the woods. The global economic outlook and the European sovereign debt crisis remain major concerns.

Today has few major events of note in the calendar. Asia and Europe may take their lead from the US last night

Equity market valuations are still extremely attractive both from a historic perspective and on a relative value basis versus bonds

Our central scenario remains for an economic recovery in H2

Equities, alternatives and gold expected to outperform on a 12m basis

Market summary

- Asian equity markets broadly lower yesterday. China outperformed (in line with our overweight stance), closing only marginally lower, despite slightly worse than expected economic data.
- After falling over 5% intra-day, the Eurostoxx 50 index closed marginally higher.
- Finally, the S&P500 index reversed that trend rising 4.7% on the back of the FOMC statement which hinted at further easing should the economy need it.
- Equity market volatility index (VIX) fell back to 36 from 48.

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Excerpts from the FOMC statement

"...**economic growth so far this year has been considerably slower than the Committee had expected.** Indicators suggest a deterioration in overall labor market conditions in recent months, and the unemployment rate has moved up. Household spending has flattened out, investment in nonresidential structures is still weak, and the housing sector remains depressed...

The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further...

The Committee currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are **likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.** The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings."

Source: ThomsonReuters, Standard Chartered

- US Treasury yields bounce off lows of 2.04% to close only marginally lower at 2.27%.
- Gold continues to soar, currently trading at 1740 as markets speculate that QE3 could be around the corner.
- High yield, Asian and commodity currencies bounced strongly on increased risk appetite. The Asia dollar index rose 0.6% from its low. After hitting parity yesterday, the AUD-USD and USD-CAD pairs are now trading at just below 1.04and 0.98, respectively.

Yesterday Views and News

- **China:** Chinese data was slightly worse than expected. Inflation rose to 6.5% in July from 6.4% in June, but a government official indicated inflationary pressures should fall in H2, consistent with our view that inflation should start falling next month. Industrial production rose 14% y/y, weaker than the 14.6% expected and down from 15.1% in June. Retail sales rose 17.2% y/y versus 17.6% expected and urban investment rose 25.4%, marginally below expectations. **China's data reinforces our view that the central bank will shift to an easing stance before the end of the year**. Global financial market turmoil merely reinforces this outlook.
- **Europe:** The opposition in Italy is criticising PM Berlusconi for ceding power to the ECB. Meanwhile, ECB's Nowotny indicated concern as the growing number of bank deposits at the central bank which may suggest banks are once again worried about lending to each other.
- **US:** The Fed has responded to the market decline by highlighting that it will likely keep interest rates on hold through H1 2013. It stressed that growth has disappointed while it expects inflation to moderate to levels at or below the FOMC's dual mandate of price stability and full employment. Effectively, the Fed appears to be preparing the ground for further quantitative easing unless the US economy rebounds in H2. **SCB economists now expect QE3 to be launched in Q1 2012.**

Today's Focus

Economic data: China releases trade data with exports expected to decelerate, while imports accelerate. In Japan, the cabinet office will release its monthly economic report which is expected to highlight the recovering economy. France releases industrial production data, which is expected to decline significant m/m.

Fed/Europe: No major events scheduled for today

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Disclosure Appendix

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