Standard Chartered Private Bank

weekly **market view**

macro strategy | 18 April 2019

This reflects the views of the Wealth Management Group

Editorial

China data confirms upturn

- **A stream of upbeat China data confirms our view that the economy is starting to respond to stimulus. China's growth stabilisation is likely to support global investor sentiment.**
- **Equities:** Europe's industrials sector is likely to benefit from China's economic upturn. US banks' Q1 earnings were lifted by prior rate hikes, but management guidance has been cautious.
- **Bonds:** Strong demand for Emerging Market (EM) USD government bonds, Asia USD bonds has helped offset a surge in supply, leading to a continued decline in yield premiums.
- **FX:** GBP/USD is testing strong support at 1.3000 amid slow progress in Brexit talks between the UK government and opposition. The GBP is likely to gain from a soft-Brexit outcome.

What's new?

- **China data confirms upturn.** China's economy appears to be responding to the government's well-orchestrated stimulus sooner than market expectations, based on a string of data unveiled over the past week. Growth in total credit, industrial production and retail sales in March significantly beat forecasts, and fixed asset investment continued to accelerate. Most of the turnaround appears to be led by state-owned companies and sectors (eg. infrastructure, metals and mining), which had earlier slowed due to the government's deleveraging campaign and efforts to clean up the environment. China's upbeat data is likely to revive global business and investor sentiment and supports our bullish outlook for global equities, with a preference for Asia ex-Japan (and China, within the region). In bonds, we would prefer to add exposure through EM USD government bonds.
- **Europe's industrials sector to benefit from China rebound.** European equities have rallied 15% YTD. Europe's industrials sector is among the top-performing sector, rising 20% YTD, amid expectations of increased new orders from China as authorities there boosted credit stimulus. Meanwhile, rising expectations of further ECB support for bank loans and deposits, amid continued downgrades to Euro area growth estimates, and banking sector consolidation have driven financials 17% higher YTD. Industrials is our preferred sector in Europe, while banks are a core holding.
- **AUD supported by improving China data.** AUD/USD is testing key resistance at 0.7200 following strong China data, which could provide support for the commodity export-driven economy. The pair reversed sharp losses suffered earlier following the release of RBA policy meeting minutes that raised the possibility of a rate cut and tolerance for a weaker exchange rate amid weak domestic outlook. The synchronised AUD upturn against major currencies (JPY, SGD, EUR) likely reflects the risk-on sentiment related to China. However, we will await further confirmation to determine if this move could lead to a stronger trend. The next key resistances for AUD/USD, AUD/JPY and AUD/SGD are 0.7400, 81.8000 and 0.9820, respectively.

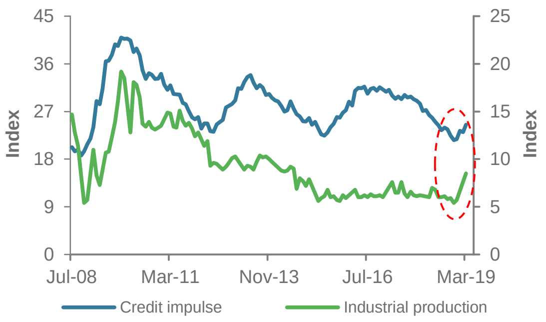
What we are watching

- US housing data and durable goods orders; German IFO survey; BoJ policy; Brexit talks; US trade talks with China and Japan.

Contents

China's credit stimulus is helping revive key economic sectors

China's credit impulse, industrial production growth



Source: Bloomberg, Standard Chartered

Europe's industrial sector has outperformed YTD on the back of expectations of a recovery in China

Performance of MSCI Europe, MSCI Europe Industrials and MSCI Europe Banks indices YTD (100 = 31 Dec 2018)

Source: Bloomberg, Standard Chartered

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What does this mean for investors?

Emerging Markets continued to lead global equities higher, helped by better-than-expected China data. Government bonds declined as yields rose on renewed economic optimism.

Equities: Focus on China, US financials sector

- **China financials benefit from growth boost.** Hong Kong and China equities have edged higher, close to a 10-month high, amid China's better-than-expected economic data. The financial sector has rallied on strong growth in total social financing and money supply for March, which should boost banking sector revenue. In addition, accelerated growth in fixed asset investment has boosted sentiment towards infrastructure-related sectors. China equities, both onshore and offshore, are our preferred markets within Asia ex-Japan. Financials and consumer discretionary are our preferred China equity sectors.
- **US banks deliver positive Q1 earnings surprise.** US retail oriented banks' earnings have surprised on the upside, driven by better-than-expected interest income. This is due in part to the lagged effect of prior Fed rate hikes. However, forward earnings guidance has been cautious, reflecting expectations of no rate hikes by the Fed in 2019, which is likely to limit future growth in interest income. Consensus expectations point to 3.0% rise in US banks earnings in Q1 compared with a 2.3% decline in S&P earnings. We expect the US financials sector to perform broadly in line with overall US equities over the coming 12 months.

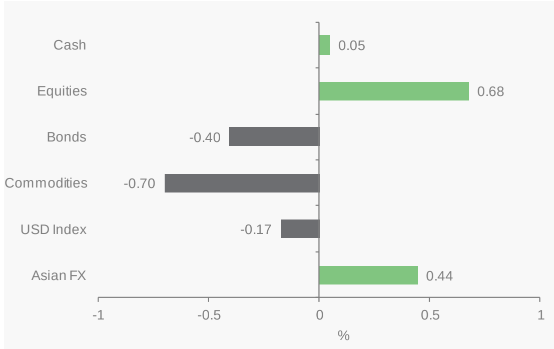
Bonds: Strong data drive Treasury, Bund yields higher

- **Treasury, Bund yields rise to one-month highs.** US 10-year Treasury yields rose close to 2.6%, its highest level since the dovish Fed meeting in March, helped by robust economic data and upbeat cues from the ongoing US Q1 earnings season. 10-year German Bund yields rose close to 0.1%. The rebound is in line with our expectations of modestly higher yields, as flagged in our recent publications. However, following the recent move, we believe government bond yields have returned to more reasonable levels, which should limit near-term downside risks.
- **Corporate, EM bond yield premiums compress.** Yield premiums for corporate bonds declined across most markets, helped by improved risk sentiment. Yield premiums for Emerging Market (EM) USD government bonds and Asian USD bonds fell despite the sharp uptick in bond supply, which suggests the issuance has been relatively well absorbed so far. However, the sharp rise in government bond yields more than offset the compression in premiums, resulting in Developed Market investment-grade corporate bonds posting negative returns for the week. We view the recent rise in government bond yields as a good opportunity to rebalance towards EM USD government bonds.

FX: EUR slips on growth downgrades

- **EUR/USD split between growth downgrades, improving external outlook.** The pair continued to trade within a tight range between the support at 1.1175 and resistance at 1.1450. Some ECB members suggested the bank's economic projections may be too optimistic. Meanwhile, Germany's economic ministry cut the country's growth forecast for 2019 to 0.5%, which would be the weakest in six years. However, the improving outlook for China's growth and reduced concerns about a hard Brexit led to a ZEW survey indicator of Euro area growth for the next six months to turn positive for the first time in a year. The regional business confidence indicators (PMI) for April will be the next focus.

Benchmark (USD) performance w/w*



**Week of 11 April 2019 to 17 April 2019*

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 and ADXY)

Equity market technicals are positive worldwide

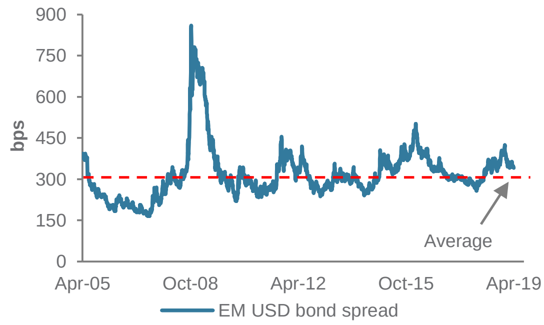
Technical levels of key market indicators as on 17 April

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,900	2,850	2,940	↑
STOXX 50	3,478	3,392	3,510	↗
FTSE 100	7,471	7,344	7,510	↗
Nikkei 225	22,278	21,300	23,000	↗
Shanghai Comp	3,263	3,120	3,340	↑
Hang Seng	30,125	28,900	30,900	↑
MSCI Asia ex-Japan	686	659	700	↑
MSCI EM	1,096	1,054	1,131	↑
Brent (ICE)	72	66	75	↑
Gold	1,274	1,250	1,308	↘
UST 10Y Yield	2.59	2.34	2.80	↑

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

EM USD government bonds are still slightly cheap, despite this year's decline in yield premiums

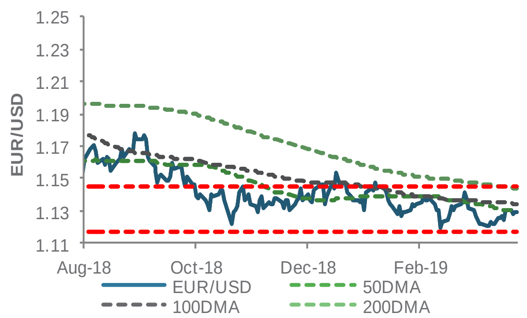
EM USD government bond yield premium over Treasuries and average premium since 2005



Source: Bloomberg, Standard Chartered

EUR/USD has formed a strong base around 1.12

EUR/USD



Source: Refinitiv, Standard Chartered

Top client questions

Q1. Do you see a further rise in oil prices, given the recent rally?

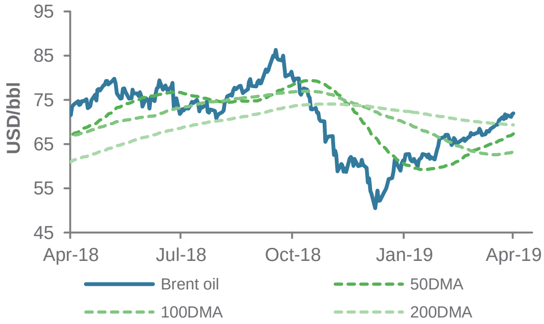
Yes, albeit after some near-term consolidation/retreat. Our measure of investor diversity shows that the rally in Brent is looking relatively stretched in the near term. Several technical indicators also show that oil is possibly overbought as it tests key resistance at the August low of 70.50/bbl. A brief retreat cannot be ruled out, given it has rallied around 45% since its trough in December last year. There is immediate (moderate) support at an uptrend line from January (now at about USD 69.50/bbl). Any break below would indicate that the short-term upward pressure had eased, opening the way towards a fairly strong support at the March low of USD 64/bbl.

A tightening supply backdrop still seems to be the primary theme in oil prices, led by an extension of OPEC supply cuts. Unplanned outages (ie, Venezuela and Libya) also present upside risks. Additionally, the outlook for the global economy is beginning to improve, largely led by China and Emerging Markets, which is supportive of oil demand.

Beyond any near-term retreat, the probability of higher oil prices has risen in recent months following the rebound in December from a strong support on the 200-week moving average and a tighter demand-supply picture. However, investors will be closely watching whether US waivers for Iranian sanctions, which are set to expire in early May, are rolled over (especially for China and India).

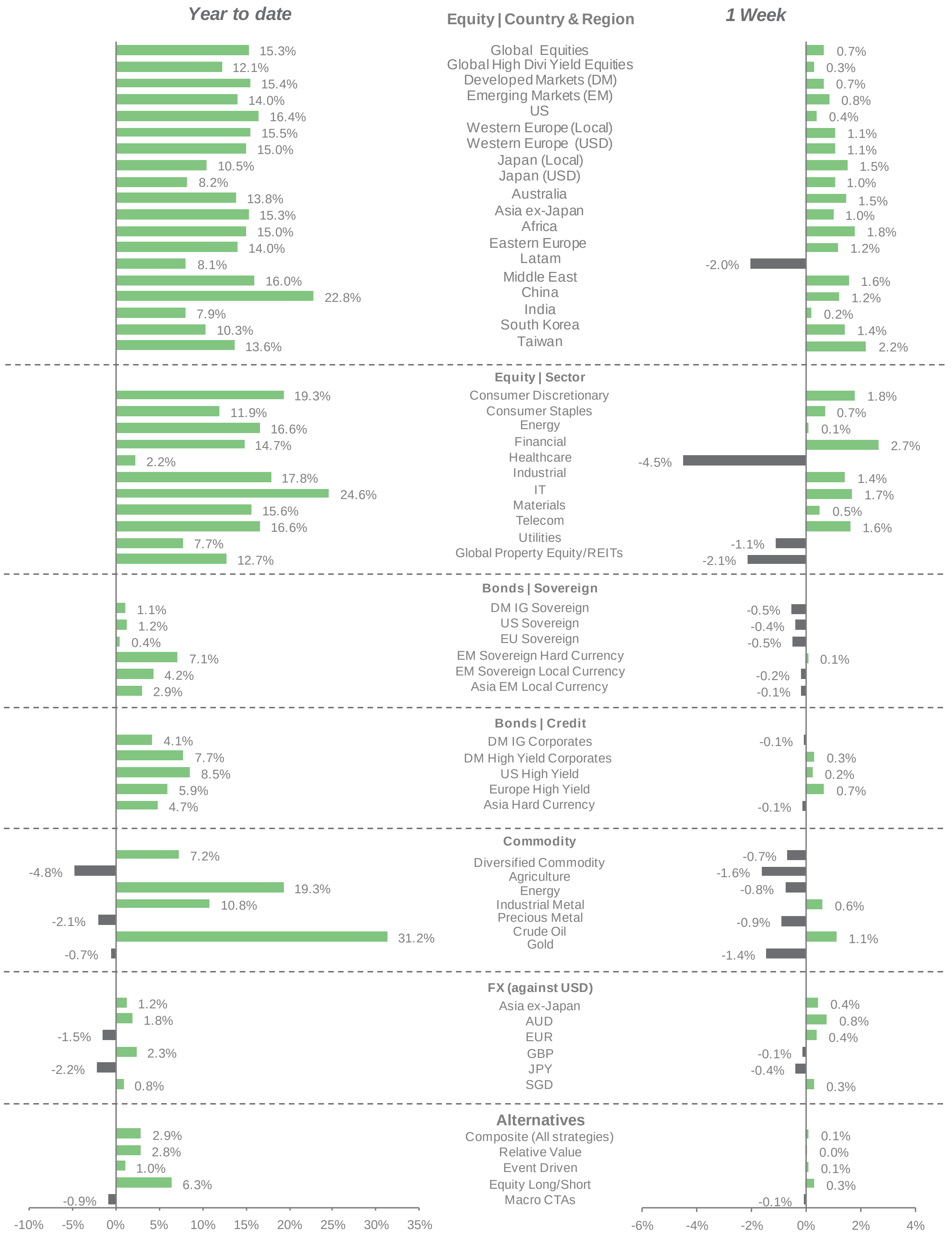
Brent oil's rally could take a breather in the near-term, before moving higher

Brent Oil Daily chart



Source: Bloomberg, Standard Chartered

Market performance summary*



**Performance in USD terms unless otherwise stated, YTD period from 31 December 2018 to 17 April 2019, 1 week period: 11 April 2019 to 17 April 2019*

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

Economic & Market Calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	US	Existing Home Sales	22-Apr-19	Mar	5.28m	5.51m
TUE	EC	Consumer Confidence	23-Apr-19	Apr A	-6.9	-7.2
	US	New Home Sales	23-Apr-19	Mar	650k	667k
WED	GE	IFO Expectations	24-Apr-19	Apr	–	95.6
THUR	SK	GDP y/y	25-Apr-19	1Q P	–	3.1%
	US	Durable Goods Orders	25-Apr-19	Mar P	0.5%	-1.6%
	US	Initial Jobless Claims	25-Apr-19	20-Apr	–	–
	US	Cap Goods Orders Nondef Ex Air	25-Apr-19	Mar P	–	-0.1%
	JN	BOJ Policy Balance Rate	25-Apr-19	25-Apr	–	-0.1%
FRI/SAT	JN	Industrial Production y/y	26-Apr-19	Mar P	–	-1.1%
	US	GDP Annualized q/q	26-Apr-19	1Q A	1.8%	2.2%
	US	Personal Consumption	26-Apr-19	1Q A	–	2.5%
	US	Core PCE q/q	26-Apr-19	1Q A	–	1.8%
	CH	Industrial Profits y/y	27-Apr-19	Mar	–	–
	GE	Retail Sales y/y	27-Apr-19	Mar	–	4.7%

	Event	This Week	Date	Period	Actual	Prior
TUE	US	Industrial Production m/m	16-Apr-19	Mar	-0.1%	0.1%
WED	JN	Exports y/y	17-Apr-19	Mar	-2.4%	-1.2%
	CH	Fixed Assets Ex Rural YTD y/y	17-Apr-19	Mar	6.3%	6.1%
	CH	Industrial Production y/y	17-Apr-19	Mar	8.5%	–
	CH	Retail Sales y/y	17-Apr-19	Mar	8.7%	–
	CH	GDP y/y	17-Apr-19	1Q	6.4%	6.4%
	EC	ECB Current Account SA	17-Apr-19	Feb	26.8b	37.1b
	UK	CPI Core y/y	17-Apr-19	Mar	1.8%	1.8%
THUR	GE	Markit/BME Germany Composite PMI	18-Apr-19	Apr P	–	51.4
	EC	Markit Eurozone Composite PMI	18-Apr-19	Apr P	–	51.6
	US	Retail Sales Ex Auto and Gas	18-Apr-19	Mar	–	-0.6%
	SK	BoK 7-Day Repo Rate	18-Apr-19	18-Apr	1.75%	1.75%
	JN	Nikkei Japan PMI Mfg	18-Apr-19	Apr P	49.5	49.2
FRI/SAT	JN	Natl CPI Ex Fresh Food, Energy y/y	19-Apr-19	Mar	–	0.4%
	US	Housing Starts	19-Apr-19	Mar	–	1162k
	US	Building Permits	19-Apr-19	Mar	–	1291k

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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