weekly **market view**

macro strategy | 5 April 2019

This reflects the views of the Wealth Management Group

Editorial

Greenshoots in China

- **A recovery in China's business confidence indicators likely portends a stabilisation of growth. Risk of a hard Brexit has also receded. We believe these are positive for risk assets.**
- **Equities:** US Q1 earnings estimates have been revised lower, raising the prospect of positive surprises. The MSCI China index broke above a key resistance, helped by positive data.
- **Bonds:** The US yield curve (10-year minus 3-month yield) has turned positive as recession risk eases. We prefer EM USD government bonds given the attractive risk-reward balance.
- **FX:** The GBP stands to benefit after the parliament ruled out the possibility of a no-deal Brexit scenario. USD/INR rose after the RBI cut rates, but faces a tough resistance around 70.5.

What's new?

- **Greenshoots in China.** Hong Kong and China stocks have broken above the key resistance to a nine-month high following stronger-than-expected China manufacturing and services sector business indices. Manufacturing sector new orders and new export orders have also rebounded, suggesting a pickup in activity in the coming months as the impact of recent stimulus measures filter through to the broader economy. Sentiment was also boosted by better-than-expected earnings and revenue for 2018, led by positive surprises from the consumer discretionary sector. On technicals, the MSCI China index's break above December's high of 78.0 triggered a double-bottom pattern (given the October and January lows), implying a potential rise towards 88.0 (around 2% above current levels). China offshore and onshore equities remain our preferred markets in Asia.
- **Hard Brexit risk recedes.** The UK lower House approved a bill that ruled out Brexit without an agreement with the EU. This likely removes from the equation arguably the biggest downside risk. The next focus is on whether PM May seeks an extension of the 12 April deadline for the UK to leave the EU and whether the EU grants an extension (and by how long?). The probability of a second Brexit referendum has risen in recent weeks as a way to break the ongoing deadlock. The GBP has recovered from December's two-year lows around 1.25 to around 1.31, making it the best-performing G10 currency YTD. It faces resistance around 1.34, followed by 1.3630. Although we expect near-term volatility, we remain bullish over the medium term as short positions are reversed with fading Brexit risks.
- **Oil rebounds.** Brent oil rebounded to a five-month high above USD 69/bbl, as OPEC supply fell to a four-year low. Concerns about falling Venezuelan output have also supported prices as US restrictions tighten from May. The next focus is on whether US waivers on sanctions against importing Iranian oil for eight economies (including China and India) are extended beyond May and whether US output sets new record highs. We expect prices to range within USD 65-75/bbl in the next 6-12 months.

What we are watching

- US jobs report (for March); US-China trade talks; China total social financing; ECB policy meeting (10 April); Brexit extension.

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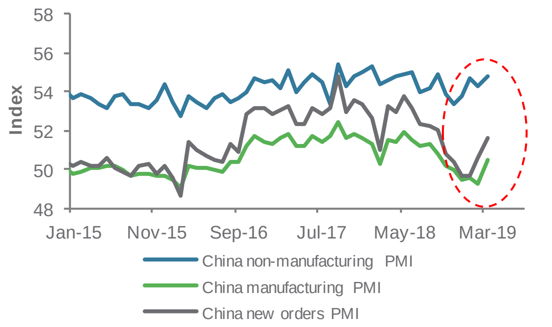
China manufacturing and services sector business indices showed signs of recovery in March

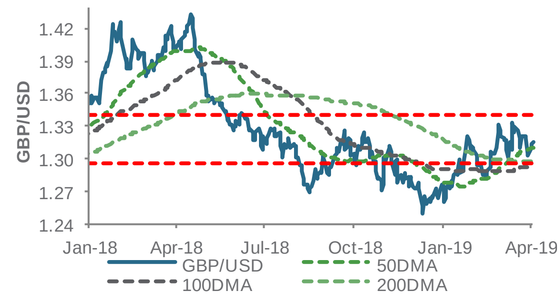
China manufacturing and non-manufacturing PMI and manufacturing sector new orders PMI



Source: Bloomberg, Standard Chartered

GBP/USD has rallied from December's lows as Brexit risks faded, but now faces resistance at around 1.34

GBP/USD



Source: Bloomberg, Standard Chartered

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What does this mean for investors?

Global equities extended gains, led by Emerging Markets, amid better-than-expected economic data from China. EM bonds outperformed in debt markets. Crude oil set a five-month high.

Equities: Focus on US Q1 earnings

- **US Q1 earnings estimates revised lower, raising the prospect of positive surprises.** The US Q1 earnings season gathers pace from 10 April. Consensus estimates from Refinitiv point to a 2.1% y/y decline in earnings. The estimates have been revised lower since the start of the year. However, there are signs the downtrend may be bottoming. The low expectations mean that the bar for positive earnings surprises is low.
- **US business activity indicators mixed.** US manufacturing activity (ISM manufacturing index) recovered in March from two-year lows, led by strong gains in the employment and new orders components. Meanwhile, the services sector indicator (ISM non-manufacturing index) slowed further to 56.1 (from 59.7) and US retail sales for February disappointed after a strong recovery the month before, partly due to bad weather. Overall, the picture is one of a moderately slowing economy, still around the longer-term trend growth. We retain US equities as a core holding.
- **Euro area equities boosted by hopes of stimulus measures.** The MSCI Euro area index rose to a six-month high amid calls for further policy stimulus measures in the region. EC President Jean-Claude Juncker said he was "slightly worried" about Italy's economy, urging the government for more growth-boosting measures. France's central bank governor also urged Germany to consider fiscal stimulus amid slowing growth and inflation. Talks of more stimulus have supported risk sentiment and Euro area equities, led by a rebound in regional banks, insurers and automakers. Any recovery in China's economy and/or a US-China trade deal could potentially provide a further boost. Euro area equities remain a core holding for now.

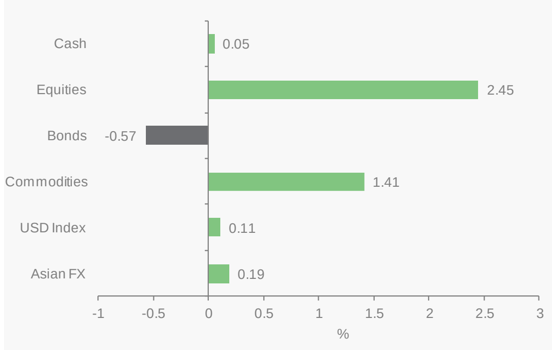
Bonds: US yield curve turns positive again

- **US long-term yields likely to recover further.** The difference between the US 10-year and 3-month Treasury yields turned positive again after briefly dipping to negative in March, as the 10-year yield rebounded close to 2.53% from a 15-month low of 2.34%. Decent data and optimism around a US-China trade deal have reduced concerns about an impending recession, lowering expectations of a Fed rate cut this year. We believe the 10-year yield has further to recover, given reasonably strong economic data, and expect it to settle around 2.75% in the next 6-12 months.
- **Corporate and EM bond yield premiums compress.** Yield premiums across corporate bonds and EM USD government bonds declined, given rising risk appetite. However, the concurrent increase in US Treasury yields meant the price gains were largely muted. Although both EM USD government and local currency bonds delivered positive returns over the past week, local currency bonds outperformed owing to FX gains. That said, we retain our preference for EM USD government bonds, as we believe they continue to offer a superior risk-reward.

FX: USD/INR rebounds after RBI rate cut

- **USD/INR forms a strong base around 68.35.** The RBI's 25bps rate cut is likely to support growth, bolstering the outlook for local equities. The pair has built a near-term base around 68.35 and faces resistance around 70.50. Trading is likely to be choppy over the next month during a tightly-contested general election.

Benchmark (USD) performance w/w*



**Week of 28 March 2019 to 04 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)

Asia and US equity market technicals are positive

Technical levels of key market indicators as on 4 April

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,879	2,814	2,940	↑
STOXX 50	3,442	3,340	3,492	↘
FTSE 100	7,402	7,307	7,450	↗
Nikkei 225	21,776	20,900	21,880	→
Shanghai Comp	3,247	3,073	3,340	↑
Hang Seng	29,936	28,600	30,900	↑
MSCI Asia ex-Japan	678	651	700	↑
MSCI EM	1,081	1,038	1,097	↗
Brent (ICE)	69	64	75	↑
Gold	1,292	1,276	1,322	↘
UST 10Y Yield	2.53	2.34	2.58	↘

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

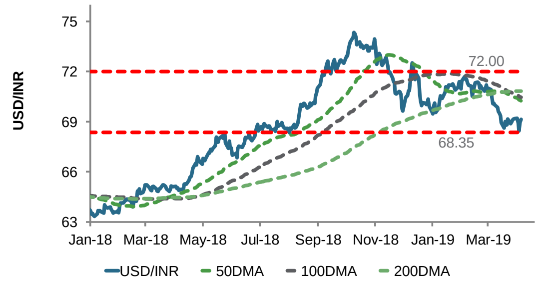
US yield curve has turned positive again as reasonably strong economic data eased recession risks

Difference between US 10-year and 3-month Treasury yields

Source: JPMorgan, Bloomberg, Standard Chartered

USD/INR has formed a base around 68.35

USD/INR



Source: Bloomberg, Standard Chartered

Top client questions

Q1. What is the outlook for the US 10-year Treasury yield given the recent declines?

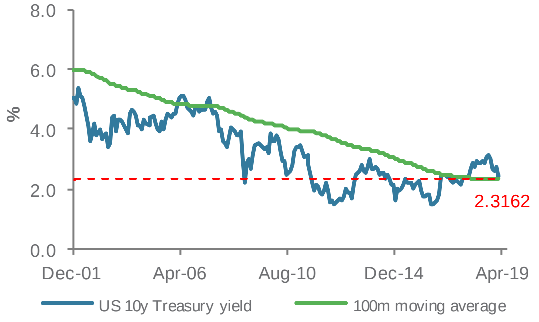
The US 10-year Treasury yield had declined to 15-month low in March after making a 7-year high in October. Fears of a US recession and concerns of a prolonged slowdown in China have weighed on US Treasury yield. However, this month's upbeat US manufacturing activity data, improving credit conditions in China and the rebound in China's manufacturing indicators have allayed some of those concerns. Moreover, with the US and China reportedly close to a trade deal and the Brexit endgame likely nearing, the safe-haven support for the US Treasury yield could be ebbing.

The US 10-year Treasury yield is looking deeply oversold and is now forming a fairly strong support, which could limit its downside. There is a support cluster at 2.25% to 2.30%, including 2.27% (the 50% retracement of the 2016-18 rise), and the 100-month moving average just above 2.31%. The convergence of multiple supports raises the probability of the yield holding up at 2.25-2.3%. If there is a further decline, we believe the next support at the late-2017 low of 2.00% is unlikely to be broken.

The slide in the yield YTD is in line with what we had outlined in our *Outlook 2019*. However, the downside has exceeded our expectations. We maintain our view of a rebound in yields to settle around 2.75% over the next 6-12 months as near-term recession risks appear overdone.

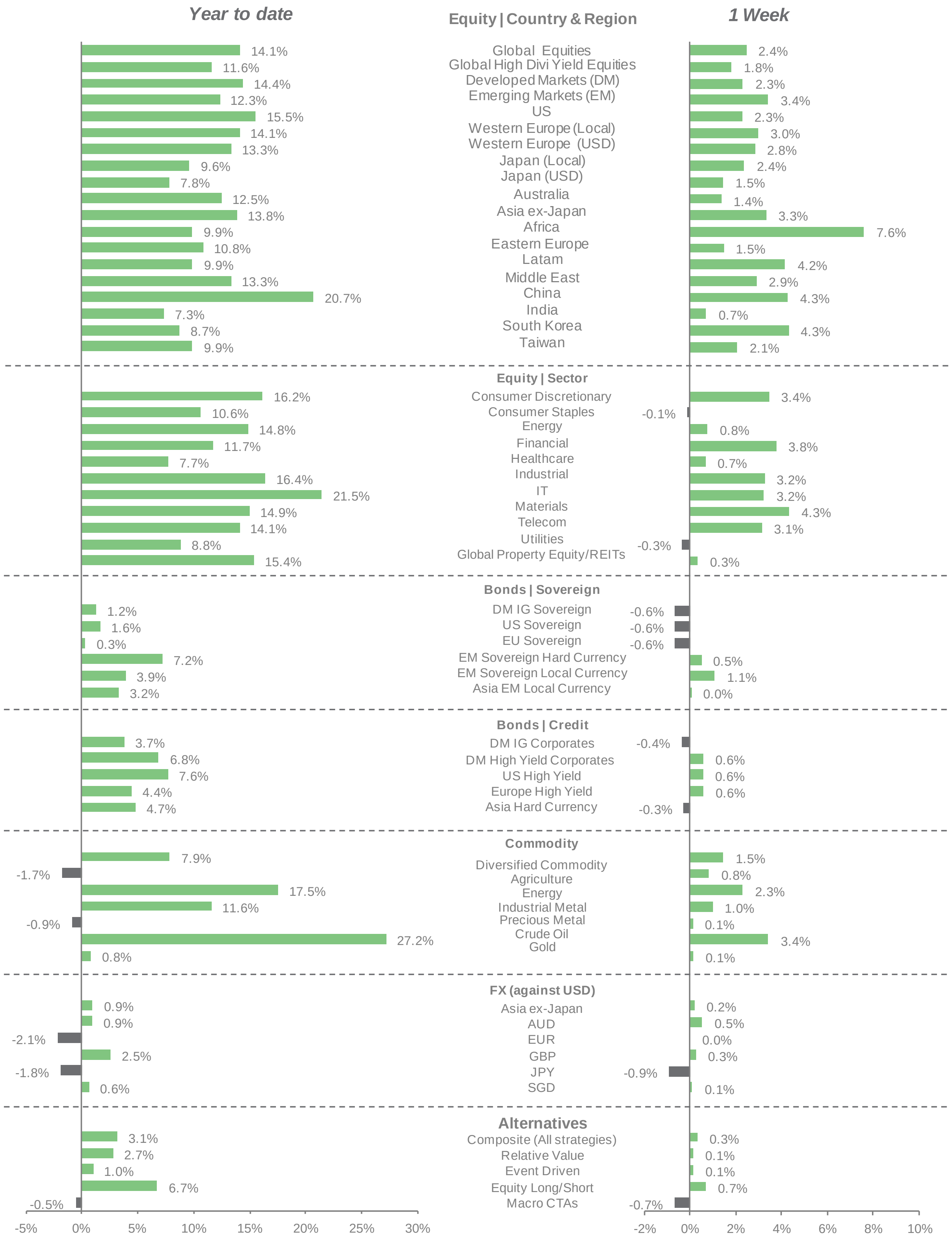
The US 10-year Treasury yield has a strong support around 2.30%

US 10-year Treasury yield and 100-month moving average



Source: Bloomberg, Standard Chartered

Market performance summary*



**Performance in USD terms unless otherwise stated, YTD period from 31 December 2018 to 04 April 2019, 1 week period: 28 March 2019 to 04 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	JN	BoP Current Account Adjusted	8-Apr-19	Feb P	–	¥1833.0b
	GE	Exports SA m/m	8-Apr-19	Feb	0.4%	0.1%
	EC	Sentix Investor Confidence	8-Apr-19	Apr	–	-2.2
WED	JN	PPI y/y	10-Apr-19	Mar	–	0.8%
	JN	Core Machine Orders y/y	10-Apr-19	Feb	–	-2.9%
	EC	ECB Main Refinancing Rate	10-Apr-19	10-Apr	–	0.0%
	US	CPI Ex Food and Energy y/y	10-Apr-19	Mar	2.1%	2.1%
THUR	CH	CPI y/y	11-Apr-19	Mar	2.3%	1.5%
	CH	PPI y/y	11-Apr-19	Mar	0.4%	0.1%
	US	PPI Ex Food and Energy y/y	11-Apr-19	Mar	2.5%	2.5%
	US	Initial Jobless Claims	11-Apr-19	6-Apr	–	–
FRI/SAT	IN	CPI y/y	12-Apr-19	Mar	–	2.6%
	IN	Industrial Production y/y	12-Apr-19	Feb	–	1.7%
	US	U. of Mich. Sentiment	12-Apr-19	Apr P	98	98.4
	CH	Exports y/y	12-Apr-19	Mar	6.4%	-20.8%

	Event	This Week	Date	Period	Actual	Prior
MON	EC	Unemployment Rate	1-Apr-19	Feb	7.8%	7.8%
	EC	CPI Core y/y	1-Apr-19	Mar A	0.8%	1.0%
	US	Retail Sales Ex Auto and Gas	1-Apr-19	Feb	-0.6%	1.7%
	US	ISM Manufacturing	1-Apr-19	Mar	55.3	54.2
TUE	AU	RBA Cash Rate Target	2-Apr-19	2-Apr	1.5%	1.5%
	IN	Nikkei India PMI Mfg	2-Apr-19	Mar	52.6	54.3
WED	JN	Nikkei Japan PMI Composite	3-Apr-19	Mar	50.4	50.7
	CH	Caixin China PMI Composite	3-Apr-19	Mar	52.9	50.7
	GE	Markit Germany Services PMI	3-Apr-19	Mar F	55.4	54.9
	EC	Markit Eurozone Composite PMI	3-Apr-19	Mar F	51.6	51.3
	EC	Retail Sales y/y	3-Apr-19	Feb	2.8%	2.2%
	US	ISM Non-Manufacturing Index	3-Apr-19	Mar	56.1	59.7
THUR	GE	Factory Orders WDA y/y	4-Apr-19	Feb	-8.4%	-3.6%
	IN	RBI Repurchase Rate	4-Apr-19	04-Apr	6.00%	6.25%
FRI/SAT	GE	Industrial Production WDA y/y	5-Apr-19	Feb	–	-3.3%
	US	Change in Nonfarm Payrolls	5-Apr-19	Mar	–	20k
	US	Average Hourly Earnings y/y	5-Apr-19	Mar	–	3.4%

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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