Standard Chartered
Private Bank

weekly **market view**

macro strategy | 8 February 2019

This reflects the views of the Wealth Management Group

Editorial

Promising start to the 'Year of the Boar'

- **The Fed's rate pause, solid US data and constructive US-China trade talks are positive for risk assets.**
- **Equities:** US Q4 18 earnings have marginally exceeded expectations and profit and revenue growth remained healthy, supporting our positive view on the market.
- **Bonds:** Emerging Market (EM) USD bonds and US High Yield (HY) bonds have rallied further amid renewed risk appetite. We prefer the former, though valuations have become less attractive.
- **FX:** EUR/USD has again failed to sustainably break above a key technical resistance. It is testing downside support at 1.1285.

What's new?

- **Promising start to the 'Year of the Boar'.** We wish our readers a Happy and Prosperous Lunar New Year! The year has started on a constructive note, with risk assets holding onto January's gains on the back of a) the Fed's confirmation that interest rates will be on hold for a while, b) another solid US jobs and business confidence (ISM) data, which eased concerns about a growth slowdown, and c) optimistic comments from US and China officials at the end of the first round of trade talks (although President Trump's comments that a meeting with President Xi is unlikely this month dampened some of the optimism). Our assessment remains that these factors, combined with strong US earnings and China's incrementally pro-growth measures, are supportive of equities (especially in the US and Asia ex-Japan) and other risk assets, such as EM USD government bonds over the next 6-12 months.
- **Energy sector leads positive US earnings surprises.** Almost 70% of S&P500 companies have exceeded consensus earnings estimates for Q4 18 (with 60% of companies reporting so far). Earnings grew 16%, slightly better than the growth estimated at the start of the season, while revenue rose a healthy 5.8%. The energy sector, one of our preferred US sectors, provided the biggest positive earnings surprise on the back of 77% earnings growth. We remain positive on the sector amid expectations of moderately higher oil prices as OPEC members cut output, while supplies from Venezuela decline.
- **EUR/USD fails to break above key technical resistance.** The pair retraced from its 100-day moving average resistance for the fourth time since December amid continued weak Euro area economic data. The European Commission cut its 2019 growth forecast for the region to 1.3% from 1.9% amid data showing slowing retail sales, falling industrial production and factory orders and easing inflation. A regional investor sentiment indicator slumped to its lowest since 2014. Against this backdrop, the EUR/USD is likely to test its next technical support at 1.1285, followed by around 1.12 in the near term.

What we are watching

- **Brexit talks.** UK PM May is due to report back to parliament by 13 February with an improved Brexit deal with the EU. An agreement on the border between the UK and Northern Ireland remains the main sticking point. A failure to win any concessions from the EU is likely to delay Brexit beyond 29 March.

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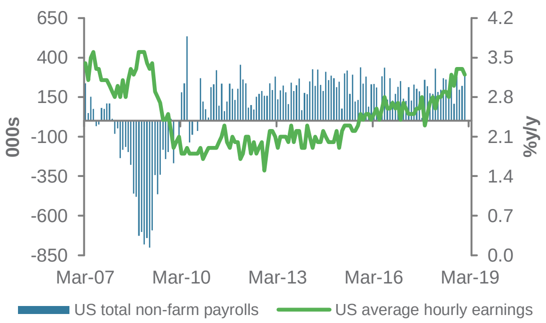
The US job market remains robust, underpinning US corporate earnings, equities and global risk assets

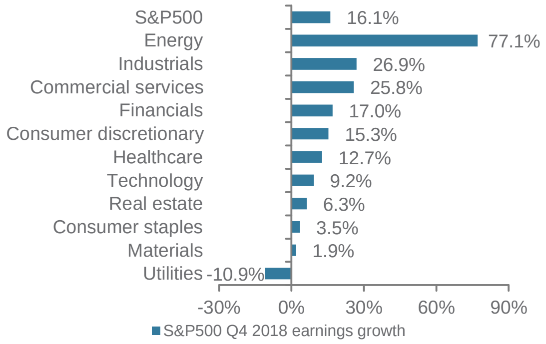
US monthly net jobs created (LHS); annual hourly earnings growth (RHS)



Source: Bloomberg, Standard Chartered

The energy sector led a 16% rise in US earnings in Q4 18; the sector beat consensus estimates by 18%

S&P500 index member earnings for Q4 18 (with more than 60% of the companies reporting so far)



Source: Refinitiv EIKON, Standard Chartered

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What does this mean for investors?

Global equities held on to gains made in January as US stocks and the USD outperformed amid supportive Fed policy and earnings data. US High Yield debt outperformed in bond markets.

Equities: US Q4 18 earnings beat estimates

- **Takeaways from Q4 18 earnings.** Among our preferred sectors, energy sector earnings beat estimates by 18%, while industrials, consumer staples, technology and healthcare sectors exceeded estimates by 2-3%. The healthcare sector also beat revenue estimates by 2%. However, companies have guided 2019 earnings estimates lower, with consensus now estimating 4.5% rise in US earnings this year, down from 7.3% at the start of 2019.
- **Catalysts for sustained rally.** A slowdown in future US earnings remains a key risk to global equity markets. However, we believe a supportive policy environment (including in the US, Europe and China) and a breakthrough in US-China trade talks could revive business confidence and sustain risk sentiment. US equities are also likely to benefit from pent-up share buybacks as the earnings season ends.

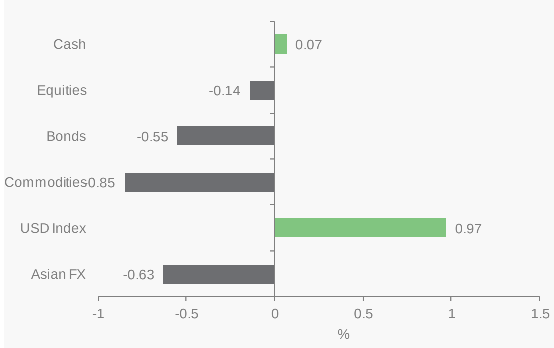
Bonds: EM bonds and US High Yield bonds continue to rally

- **Risk-on rally in EM USD bonds.** Emerging Market (EM) USD government bonds delivered another week of gains. Yield premiums declined further as they likely benefitted from positive investor sentiment following the dovish guidance from the Fed. The premiums have declined almost 70bps since rising to a three-year high in early January. Given the strong rally in EM USD and local currency government bonds, the valuations have become less attractive. While the USD-denominated bonds remain our most preferred area within bonds, opportunities for further capital gains may be limited in the near term.
- **US High Yield bonds extend gains.** US High Yield (HY) bonds saw a further decline in yield premiums as they likely benefitted from strong demand following dovish Fed comments and strong US economic data. However, with the yield premiums falling nearly 120bps since the start of the year, we are not keen to chase the rally.

FX: Opportunities in GBP/AUD

- **Dovish RBA comments drive AUD lower.** The AUD fell sharply after RBA Governor Philip Lowe revived the prospects of an interest rate cut in the event unemployment rose and inflation failed to rise. Although this was not his central scenario, it marked a dovish tweak in the RBA's stance – the bank has repeatedly said that the next move in the rates could be higher. Although rising iron ore prices and improved global risk sentiment are supportive for the AUD, we believe the RBA's dovish tilt against the backdrop of a weakening housing market will likely weigh on the AUD. We expect GBP/AUD to particularly benefit from a weaker AUD as 'hard Brexit' risks recede.
- **INR gains as RBI surprises with a rate cut.** The drop in USD/INR following the surprise 25bps rate cut suggests markets are willing to give the new RBI governor the benefit of the doubt in terms of focussing on reviving economic growth, while inflation remains subdued. However, downside in USD/INR could be limited as oil prices extend their recovery, putting pressure on India's current account deficit. Also, the government missed its budget deficit target for the current fiscal year and set a higher-than-planned deficit target for the next. The twin deficits are likely to add to INR depreciation pressures. USD/INR is testing resistance at the 100DMA. The next resistance is at 72.60.

Benchmark (USD) performance w/w*



**Week of 31 January 2019 to 07 February 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 equity market technicals have turned positive

Technical levels of key market indicators as on 07 Feb.

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,706	2,640	2,817	↗
STOXX 50	3,151	3,126	3,275	↗
FTSE 100	7,094	6,995	7,219	↗
Nikkei 225	20,500	19,900	21,880	↗
Shanghai Comp	2,618	2,535	2,645	↗
Hang Seng	27,990	26,800	29,100	↑
MSCI Asia ex-Japan	641	615	660	↗
MSCI EM	1,042	1,009	1,097	↗
Brent (ICE)	62	59	64	↗
Gold	1,310	1,287	1,347	↗
UST 10Y Yield	2.66	2.52	2.82	↘

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

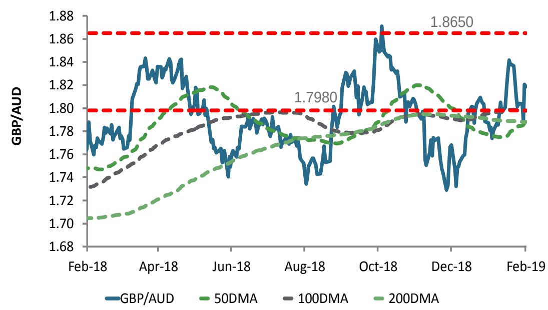
EM USD bond yield premiums have tightened from undervalued levels amid revived global risk appetite

EM USD government bond yield premium over US Treasuries

Source: Bloomberg, Standard Chartered

GBP/AUD is likely to benefit from the RBA's latest dovish tilt and receding chances of a 'hard Brexit'

GBP/AUD



Source: Bloomberg, Standard Chartered

Top client questions

Q1. Where do you see tactical trading opportunities in Hong Kong/China equities?

We see tactical opportunities in the Hong Kong/China financial sector. The Hang Seng Financial index (HSF index), down over 20% in 2018, is beginning to show some signs of life.

From a policy perspective, China's government announced more growth-supportive measures at the end of January, supporting mainland banks by allowing them to issue perpetual bonds. Those rated AA or above can be used as collateral for medium- and long-term lending and relending operations. This could help bolster the capital base of the mainland banks and inject liquidity into the system.

According to the technical charts, the index is attempting to break above the crucial resistance at the December high of 37,676, roughly coinciding with the 200-day moving average but given the 12% rally in January, a minor retreat of 2-4% is possible. The 24 January low of 36,908 would be the immediate support, with a second and stronger support at the January low of 34,448.

However, longer-term technical charts suggest there is a growing chance of an eventual break above the December high resistance. The index has rebounded from a strong support – the 55-month moving average and 50% retracement of the 2016-18 rise. A decisive break above the December high resistance would trigger a double-bottom (the October and January lows), implying a possible rise of 8-10% from current levels.

Of course, it may not be a straight line rise – there are several 'roadblocks' on the way, including the September high of 38,654, the end-August high of 39,013, and a fairly strong resistance at the Q1 18 low of around 41,000.

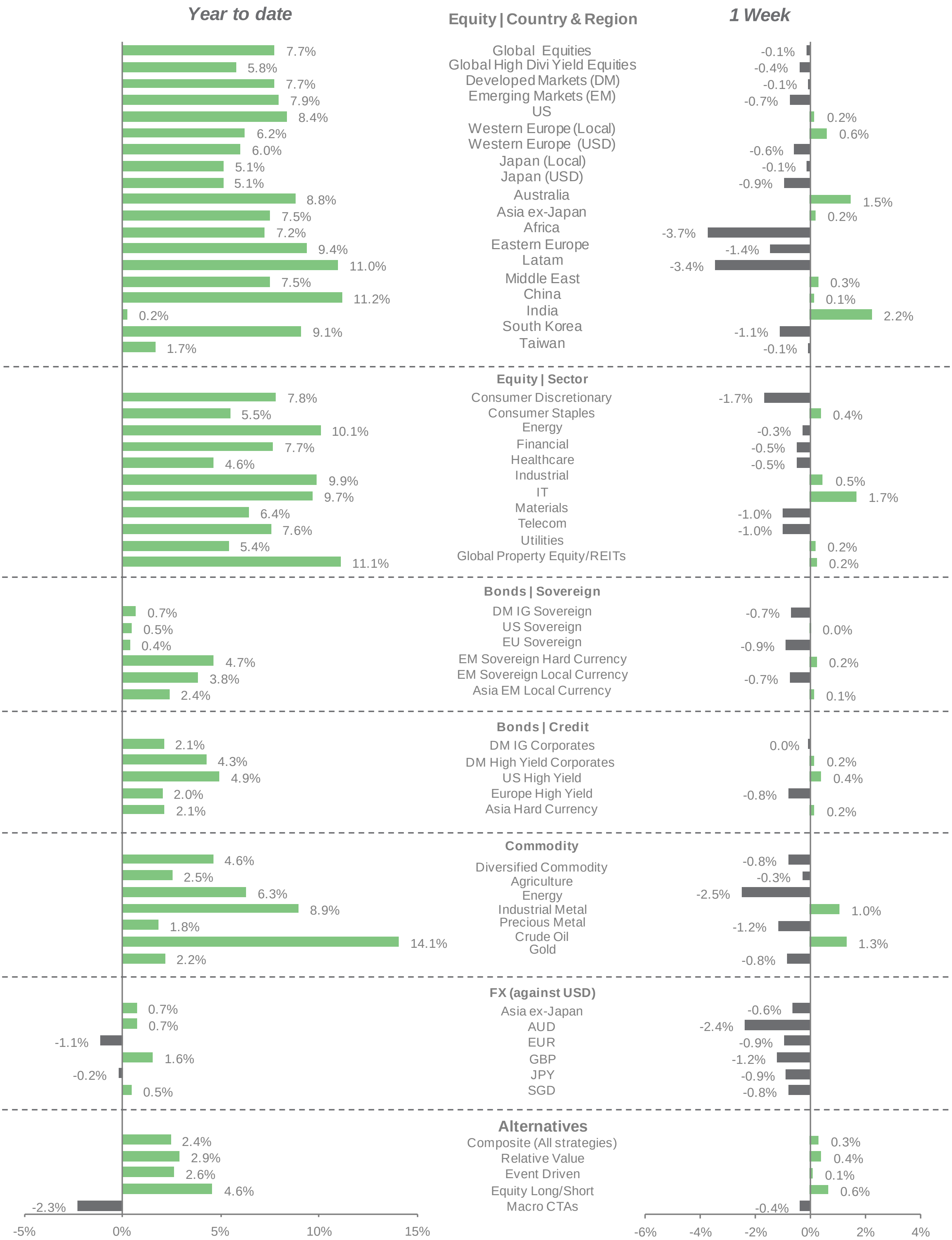
This fundamental and technical backdrop raises the likelihood of further gains in the financial sector in China and Hong Kong.

The Hang Seng Financial index has fundamental and technical support for further gains

Hang Seng Financial index

Source: Bloomberg, Standard Chartered

Market performance summary*



**Performance in USD terms unless otherwise stated, YTD period from 31 December 2018 to 07 February 2019, 1 week period: 31 January 2019 to 07 February 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	UK	GDP y/y	11-Feb-19	4Q P	–	1.5%
	CH	Foreign Reserves	11-Feb-19	Jan	$3081.85b	$3072.71b
TUE	IN	CPI y/y	12-Feb-19	Jan	–	2.2%
	IN	Industrial Production y/y	12-Feb-19	Dec	–	0.5%
WED	UK	CPI Core y/y	13-Feb-19	Jan	–	1.9%
	US	CPI Ex Food and Energy y/y	13-Feb-19	Jan	2.1%	2.2%
THUR	JN	GDP Annualized SA q/q	14-Feb-19	4Q P	1.4%	-2.5%
	US	PPI Ex Food and Energy y/y	14-Feb-19	Jan	–	2.7%
	US	Retail Sales Ex Auto and Gas	14-Feb-19	Dec	0.4%	0.5%
	CH	Exports y/y	14-Feb-19	Jan	-2.7%	-4.4%
FRI/SAT	CH	CPI y/y	15-Feb-19	Jan	–	1.9%
	CH	PPI y/y	15-Feb-19	Jan	–	0.9%
	UK	Retail Sales Ex Auto Fuel y/y	15-Feb-19	Jan	–	2.6%
	US	Industrial Production m/m	15-Feb-19	Jan	0.2%	0.3%
	IN	Exports y/y	15-Feb-19	Jan	–	0.3%

	Event	This Week	Date	Period	Actual	Prior
MON	EC	Sentix Investor Confidence	04-Feb-19	Feb	-3.7	-1.5
	EC	PPI y/y	04-Feb-19	Dec	3.0%	4.0%
TUE	JN	Nikkei Japan PMI Composite	05-Feb-19	Jan	50.9	52.0
	AU	RBA Cash Rate Target	05-Feb-19	5-Feb	1.5%	1.5%
	IN	Nikkei India PMI Composite	05-Feb-19	Jan	53.6	53.6
	UK	Markit/CIPS UK Composite PMI	05-Feb-19	Jan	50.3	51.4
	EC	Retail Sales y/y	05-Feb-19	Dec	0.8%	1.8%
	US	ISM Non-Manufacturing Index	05-Feb-19	Jan	56.7	58.0
WED	GE	Factory Orders WDA y/y	06-Feb-19	Dec	-7.0%	-3.4%
THUR	BZ	Selic Rate	07-Feb-19	6-Feb	6.5%	6.5%
	IN	RBI Repurchase Rate	07-Feb-19	7-Feb	6.25%	6.5%
	GE	Industrial Production WDA y/y	07-Feb-19	Dec	-3.9%	-4.0%
	UK	Bank of England Bank Rate	07-Feb-19	7-Feb	0.75%	0.75%
FRI/SAT	MX	Overnight Rate	08-Feb-19	7-Feb	8.25%	8.25%
	GE	Exports SA m/m	08-Feb-19	Dec	–	-0.3%
	RU	Key Rate	08-Feb-19	8-Feb	–	7.75%

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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