



Weekly Market View

A leftward shift in Europe?

Germany's upcoming federal elections has the potential to fundamentally alter the policymaking compass of Europe, lifting its growth potential. The ECB too remains highly accommodative, despite upgrading growth and inflation forecasts and announcing plans to slow the pace of its pandemic bond purchases.

We believe the unfolding political and policy map of the Euro area will enable regional equities to outperform global stocks and the EUR to rise in the next 6-12 months.

Equities: Indian stocks have broken above long-term trend. We see the rally extending as the economy gradually returns to normalcy with widening vaccinations.

Bonds: We remain constructive on Asian High Yield bonds and view the recent sell-off driven by real estate sector bonds as an opportunity to add exposure to the broader asset class.

FX: We continue to look for a stronger AUD/USD after a short-term consolidation, aided by accelerating vaccinations, rising China stimulus and a peak in the USD.



What is your view about the recent rally in Japanese stocks?

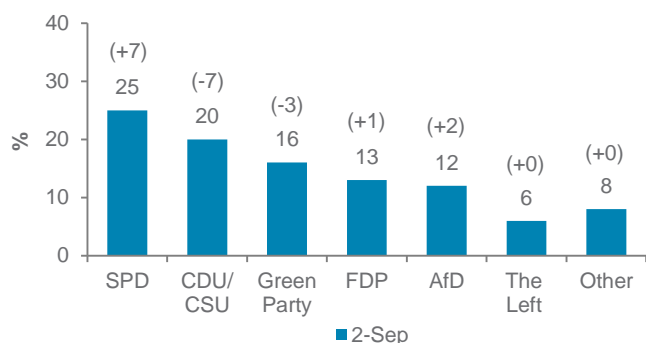
Should we be concerned about the continued weakness in China's property sector bonds?

What is the technical outlook for Indian and Japanese stocks?

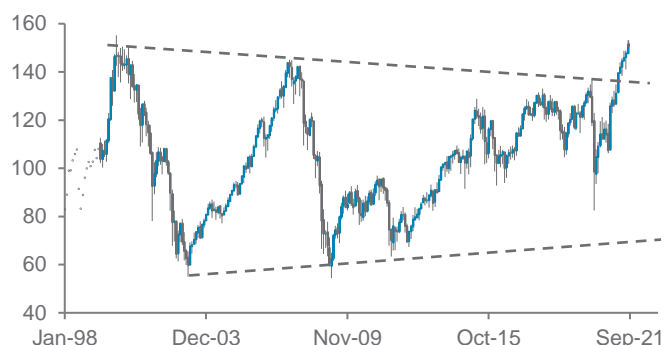
Charts of the week: Starting to price a fiscally easier Europe?

An SPD-led coalition in Germany would likely mean more fiscal easing, possibly across the EU, lifting growth prospects

Opinion poll asking voters which party they will vote for*



MSCI EMU index (EUR)



Source: Deutsche Welle, Infratest dimap/ARD, Bloomberg, Standard Chartered; *Values in brackets are percentage point change from August

Editorial

A leftward shift in Europe?

German elections are rarely exciting. The upcoming federal election on 26 September is different, as it has the potential to fundamentally alter the policymaking compass of Europe. The socialist party (SPD) is ahead in the opinion polls and its leader Olaf Scholz is tipped to replace the conservative party's (CDU) Angela Merkel as the head of the next government in coalition with the Green party. Such an outcome would end CDU's and Merkel's 16-year iron grip over economic policy, potentially leading Germany to ease its historically austere fiscal stance to fund "green" infrastructure. It is also likely to have a far-reaching impact on the Euro area's monetary, trade and foreign policies.

The bond market appears to be catching up to this theme, with the 10-year German bund yield rising 16bps from August's low of -0.52% and the yield curve steepening. The EUR also seems to have caught a bid, with ECB policymakers turning more hawkish with plans to slow the pace of bond purchases. The Euro area stock market, one of the world's best performing this year, is likely to extend gains as a more fiscally activist government in Berlin improves the region's growth potential.

The Euro area has been one of our most preferred equity markets this year and this has worked well. The region's equities have returned 15% in USD terms YTD, trailing only behind our other preferred equity market – the US. The region's relative success in COVID-19 vaccinations has a lot to do with the outperformance. The EU came from behind the US and is now one of the most vaccinated parts of the world, with more than 70% of the adult population fully inoculated. This has enabled economic activity to gradually return to normal, which in turn has triggered upgrades to growth and corporate earnings estimates. The vaccination success has shown that the region can get its act together in times of crisis. We believe this will be an underlying driver of capital flows in the next 6-12 months,

especially given the need for governments to provide booster doses as the efficacy of the vaccines wane with time.

The German elections are not a done deal, though. While SPD is ahead in the polls and is most likely to head the next coalition, any permutation among the six major parties is possible. Thus, markets could be left in a speculative limbo as the results are tallied. Nevertheless, we believe most coalition outcomes (especially with SPD and Greens as key players) will support fiscal expansion on infrastructure as well as a stronger EU-wide defence union. A greater role in the government for the former communists (called "the Left") is a risk, though, as it could lead to higher taxes. However, we see Scholz as a moderating voice that should allow the coalition to refrain from wasteful spending.

The ECB's move this week to slow pandemic bond purchases instils uncertainty. While President Lagarde insisted the move was not "tapering", the ECB is clearly worried about headline inflation running above its 2% target. This leaves the December meeting "live", with key decisions to be made on whether to end the pandemic bond purchases by March and instead boost the long-standing Asset Purchases Programme. Nevertheless, we believe the ECB will maintain its record low rates for longer, given inflation is primarily due to technical factors, such as oil prices and German taxes. Core inflation remains subdued, while high joblessness and COVID uncertainty warrant caution.

On balance, we believe the unfolding political and policy map of EU would enable Euro area equities to outperform global equities and the EUR to rise vs the USD in the next 6-12 months. The region's equity market has a Value-bias, given the dominance of financial, material and energy sectors, which we believe will outperform amid rising bond yields, resumption of dividend payments by banks and economic growth upgrades. A fiscally leftward shift in Germany will likely fuel this trend.

— Rajat Bhattacharya

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as neutral for risk assets

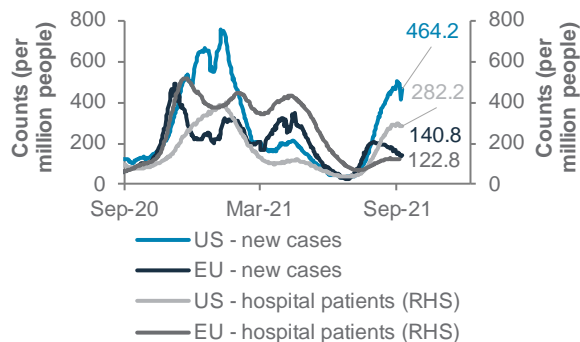
(+) factors: Peak cases, rising vaccinations, robust US services PMI

(-) factors: US COVID cases & weak job creation, Euro area sentiment

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Cases in most of Asia, Europe and Latin America appear to have peaked Hospitalisations in highly vaccinated UK and Canada are well below prior waves despite a surge in infections Vaccinations continue to rise globally; US vaccinated 70% adults with at least one dose; China fully vaccinated two-thirds of its population 	<ul style="list-style-type: none"> US cases, hospitalisations, still elevated, leading President Biden to mandate vaccinations for federal employees and businesses with more than 100 staff Infections hit a new record in Australia and continue to rise in the UK and Germany Tokyo extended emergency measures in Tokyo and other regions until 30 Sep
	Our assessment: Neutral – Peak cases in most of Europe and Asia and rising vaccinations vs still-elevated US, UK cases	
Macro data	<ul style="list-style-type: none"> US job openings (JOLTS) rose to a new record and weekly initial jobless claims fell more than expected US services sector business confidence (ISM PMI) fell less than expected to a still robust 61.7 Euro area and Japan GDP accelerated faster than expected in Q2 China's exports rose more than expected China consumer inflation unexpectedly slowed 	<ul style="list-style-type: none"> US job creation slowed significantly below forecasts; Fed's Beige Book showed economy slowed in August amid COVID revival Euro area economic and investor sentiment (ZEW & Sentix) fell below estimates Euro area retail sales rose less than expected; German exports slowed more than expected China producer inflation accelerated more than expected to a 13-year high
	Our assessment: Neutral – Strong US services, China export data vs surprisingly weak US job creation, Euro area sentiment	
Policy developments	<ul style="list-style-type: none"> Germany's Socialist-Green coalition leads in polls ahead of 26 Sep election ECB President Lagarde insisted ECB was not 'tapering' bond purchases and that policy will remain highly accommodative 	<ul style="list-style-type: none"> ECB to slow the pace of pandemic emergency bond purchases, but kept rates at record low levels Fed's Bullard, Williams reiterated need to dial back stimulus by year end
	Our assessment: Positive – A Socialist-Green German coalition raises the chances of further fiscal easing in Europe	

COVID-19 new cases and hospitalisations are much lower in Europe vs the US, likely due to more pervasive vaccinations

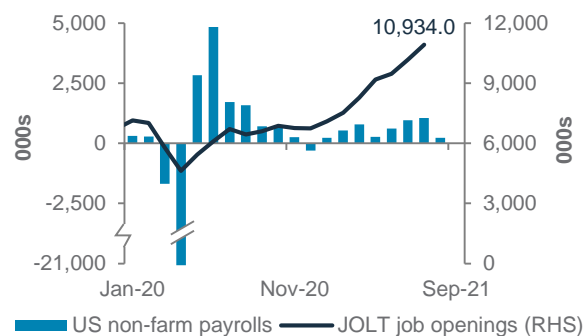
Daily new cases, hospitalisations* in the US and the four largest Euro area economies, 7-day average



Source: Our World in Data, Standard Chartered; *EU new cases include Germany, France, Italy and Spain, but EU hospitalisation numbers include only France, Italy and Spain

US job creation slowed significantly in August amid rising COVID-19 cases, although high job openings suggest the decline could be temporary

US new job creation and job openings (JOLTS)



Source: Bloomberg, Standard Chartered

The ECB raised growth forecast for 2021 and lifted inflation forecasts through to 2023; still inflation is expected to fall below its 2% target next year

ECB forecasts for Euro area, % y/y

	2021	2022	2023
September 2021 forecast			
Real GDP	5.0	4.6	2.1
Consumer inflation	2.2	1.7	1.5
June 2021 forecast			
Real GDP	4.6	4.7	2.1
Consumer inflation	1.9	1.5	1.4

Source: ECB, Standard Chartered

Top client questions

Q What is your view regarding the recent strength in Japanese equities?

Markets have viewed Japan Prime Minister Suga's decision to pull out from the leadership elections for the ruling Liberal Democratic Party (LDP) in a positive light, with the MSCI Japan index breaking above YTD highs both in JPY and USD terms. The outgoing PM has been blamed for policy missteps in fighting the COVID-19 pandemic as well as the decision to proceed with hosting the Olympics.

While Japan will likely return to an era of revolving-door prime ministers, the country has been able to function well in the past with short-term prime ministers, given the ultimate need for various LDP factions to preserve their control over the government. The LDP is unlikely to lose the upcoming lower house election, with Suga gone. Investors appear to be pricing in increased prospects of fiscal policy easing amid a backdrop of ultra-dovish BoJ monetary policy.

While recent political developments are a positive, and could lead to outperformance in the near-term, major shifts in policy are unlikely. Therefore, we still expect Japan to continue underperforming global equities in the next 6-12 months, in USD terms.

— DJ Cheong, CFA, *Investment Strategist*

Q Does the rally in Indian equities have legs?

India is one of the world's best-performing major equities markets this year, up 27% in USD terms. It remains one of our preferred equity markets in Asia on the back of:

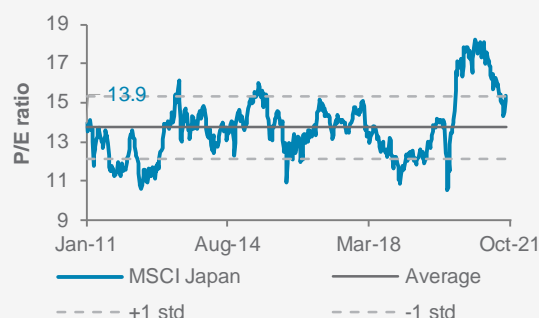
1. A faster return to economic normalcy, with high-frequency indicators such as business confidence, electricity consumption and e-way bills pointing to a revival in economic activity.
2. A ramp-up in vaccinations to almost 7m a day and over 50% of India's adult population having received at least one dose.
3. Stronger earnings growth expectations. Nifty earnings grew 15% for the year ending March 2021, the highest growth in over a decade. Earnings estimates continue to be revised higher and consensus earnings growth expectations are 34% and 17% for this fiscal year and next, respectively.
4. A benign policy environment, with the RBI likely to maintain an accommodative stance for the remainder of 2021.
5. Increased inflows from domestic investors over the last few months, with the stable systematic investment plans inflows hitting a record monthly rate of c.USD 1.3bn.

While we retain our preference for India over the next 6-12 months, volatility could increase as technical indicators and investor positioning look stretched. However, we would remain buyers on any dips as fundamentals remain robust and continue to improve.

— Vinay Joseph, *Chief Investment Strategist (India)*

Japan's equity valuations remain elevated despite their recent decline

Price/earnings ratio of MSCI Japan index



Source: Bloomberg, Standard Chartered

Indian stocks have broken above their long-term trend; we see further gains as the economy gradually returns to normalcy with vaccinations

MSCI India index, INR



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Should Asia HY bond investors be concerned about continued weakness in China's property sector?

Concerns around Chinese property sector bonds persist as China Evergrande's debt problems (trading of its bonds was halted in the onshore market yesterday) are showing signs of spilling over to other property developers. As a result, Chinese HY bonds underperformed over the past week, extending the weak run that began in July.

However, we retain our favourable view on the Asian HY bonds owing to the following reasons:

1. Excluding China, Asian HY bonds have been fairly resilient, with the non-China HY bonds sharply outperforming. Hence, the contagion in Chinese bonds appears to be contained for now.
2. As we highlighted in the Weekly Market View on 3 September, current valuations are extremely cheap, offering investors an attractive risk-reward in our opinion.
3. Although we have seen concerns around specific developers, China YTD property sales till August 2021 are running ahead of the previous year, indicating strong underlying property demand.

Hence, we continue to view Asian HY bonds as preferred within the global bonds complex and would look at the current sell-off as an opportunity to accumulate exposure to the asset class.

— **Abhilash Narayan**, *Senior Investment Strategist*

Q What is the outlook for the AUD as Australia starts to "live with COVID"?

Australia has shifted from a "zero-COVID" strategy to the "vaccinate and live with it" approach. This has likely become a political, as well as an economic, imperative for the government, and data already shows that 65% of first vaccinations have now been completed. Increasing vaccine supply, aided by the "swap deal" with the UK, means the gap between doses should shorten and a double vaccination rate of c.70% could be achieved by the end of October.

The RBA indicated the Delta outbreak has delayed, but not derailed, the recovery and that health conditions and activity restrictions are the key determinants for the timing of economic re-ignition. After a "material" GDP decline in Q3, it expects Q4 to be positive and the expansion to continue into 2022. It has maintained a very accommodative policy stance, but it is also mindful of a booming housing market fuelled by cheap borrowing.

After a period of consolidation, we continue to look for a stronger AUD. Initial near-term technical support should kick in around 0.72–0.73 and, given our anticipation of accelerating vaccinations, rising China fiscal stimulus and a peaking USD, we do not foresee a sustained break below strong 0.70-0.71 support.

Asian High Yield USD bonds have remained relatively stable YTD, despite the sharp decline in real estate bonds (c. 80% of which are from China)

Total YTD returns of Asian High Yield bonds vs. Asian real estate sector bonds



Source: Bloomberg, Standard Chartered; Asian real estate sector index includes Investment Grade bonds

AUD/USD has initial technical support around 0.72-0.73 and a stronger support around 0.70-0.71



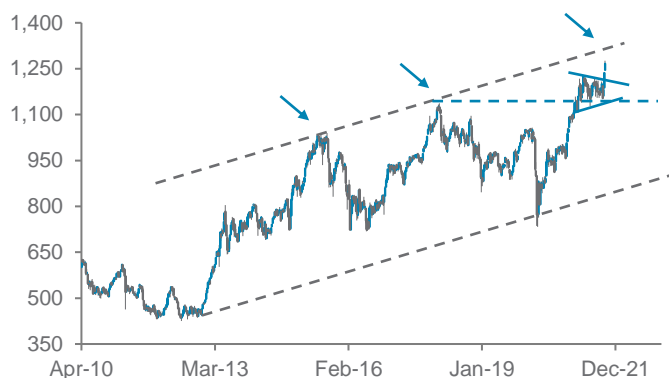
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
 Senior Investment Strategist

Japan equities: Bullish break

MSCI Japan weekly chart



Source: Bloomberg, Standard Chartered

The recent jump in the MSCI Japan index can be explained by the break from the continuation pattern. Importantly, during the consolidation, the index failed to break below support at the 2018 high, painting a bullish backdrop. Still, there is stiff resistance on the upper edge of the channel.

India equities: In top gear

MSCI India monthly chart

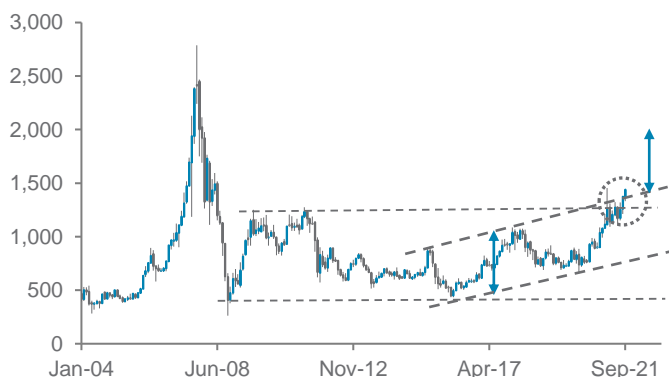


Source: Bloomberg, Standard Chartered

Gains in Indian equities have accelerated recently following the breakout from the multi-year upward-sloping channel. The width of the channel points to a move towards 2,160 (6% from Thursday's close). In the short term, however, the index is looking overbought and a minor pause cannot be ruled out.

China Materials: Material rise is possible

MSCI China Materials sector index monthly chart



Source: Refinitiv, Standard Chartered

On the monthly chart, the MSCI China Materials sector index closed August above a major resistance area: the 2011 high and the upper edge of a rising channel from 2015. The width of the recent rising channel points to a rise towards 1,850 (28% from Thursday's close).

Global Financials: Room to rise further

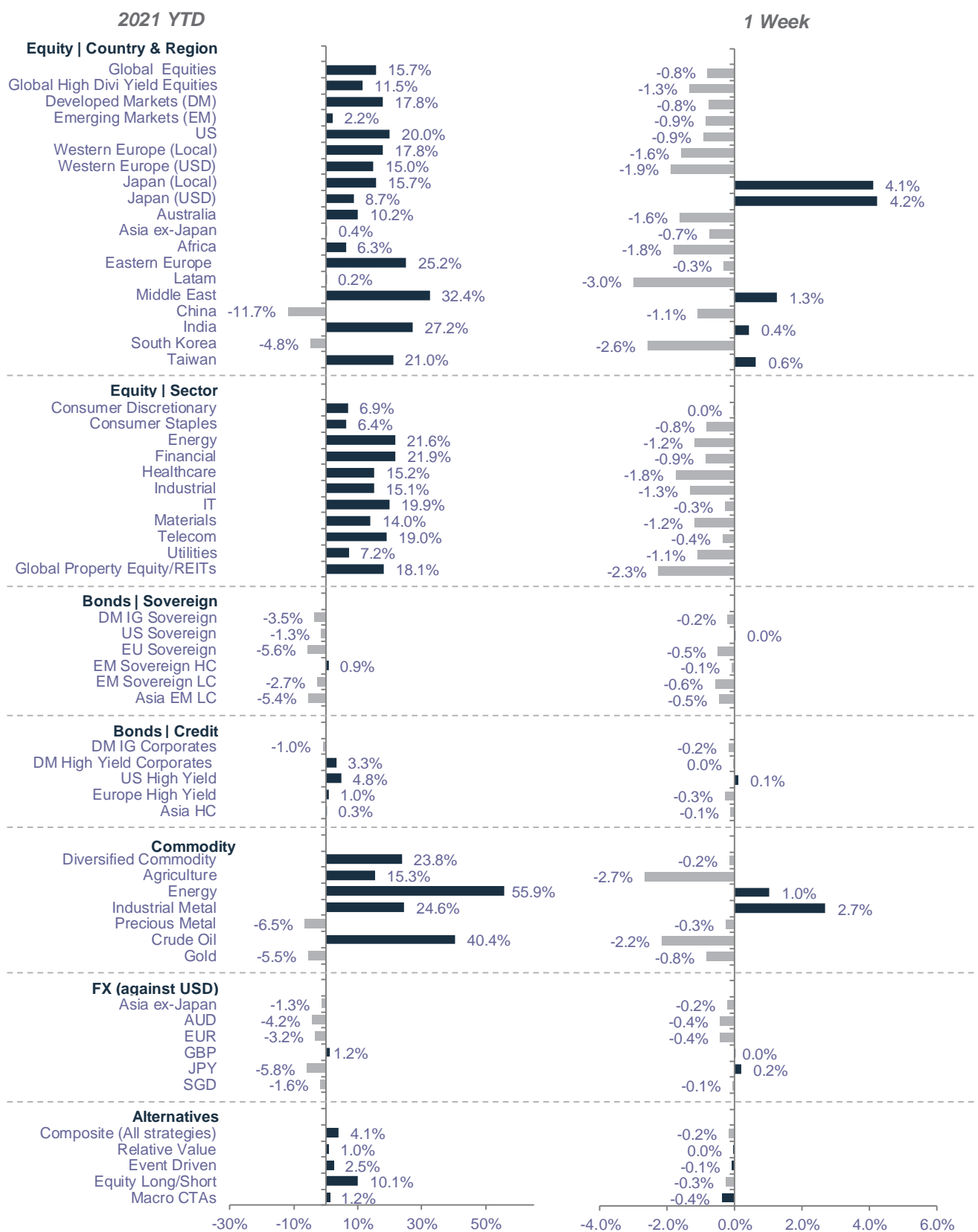
MSCI World Financials index weekly chart



Source: Bloomberg, Standard Chartered

Gains in the index have stalled recently, but it does not pose a threat to the uptrend. Indeed, the break in April above key resistance at the 2018 high of 137 has opened the way towards the pre-Global Financial Crisis high of 168 (15% from Thursday's close).

Market performance summary *



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

*Performance in USD terms unless otherwise stated, 2021 YTD performance from 31 December 2020 to 09 September 2021; 1-week period: 02 September 2021 to 09 September 2021

Our asset class views at a glance

Asset class	
Equities ▲	Alternatives ◆
Euro area ▲	Equity hedge ▲
UK ▲	Event-driven ▲
US ▲	Relative value ▼
Asia ex-Japan ◆	Global macro ◆
Japan ▼	
Other EM ◆	Cash ▼
	USD ▼
Bonds (Credit) ◆	EUR ▲
Asia USD ▲	GBP ▲
Corp DM HY ▲	CNY ◆
Govt EM USD ▲	JPY ◆
Corp DM IG ▼	AUD ▲
	NZD ▲
Bonds (Govt) ▼	CAD ▲
Govt EM Local ◆	
Govt DM IG ▼	Gold ◆

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

S&P500 has first support 0.3% below current level

Technical indicators for key markets as on 09 September 2021

Index	Spot	1st support	1st resistance
S&P500	4,493	4,479	4,521
STOXX 50	4,177	4,154	4,223
FTSE 100	7,024	6,970	7,133
Nikkei 225	30,008	29,364	30,417
Shanghai Comp	3,693	3,619	3,730
Hang Seng	25,716	25,503	26,141
MSCI Asia ex-Japan	835	829	846
MSCI EM	1,300	1,291	1,317
Brent (ICE)	71.5	71.1	72.2
Gold	1,796	1,781	1,819
UST 10Y Yield	1.30	1.27	1.35

Source: Bloomberg, Standard Chartered

Economic and market calendar

	Event	Next week	Period	Prior
MON	IN	CPI y/y	Aug	5.6%
TUE	UK	Average Weekly Earnings 3m/y/y	Jul	8.8%
	US	CPI Ex Food and Energy y/y	Aug	4.3%
WED	CH	Retail Sales y/y	Aug	8.5%
	CH	Industrial Production y/y	Aug	6.4%
	UK	CPI Core y/y	Aug	1.8%
THUR	JN	Exports y/y	Aug	37.0%
	US	Retail Sales Ex Auto and Gas	Aug	-0.7%
FRI/ SAT	EC	ECB Current Account SA	Jul	21.8b
	US	U. of Mich. Sentiment	Sep P	70.3

Source: Bloomberg, Standard Chartered

Prior 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

Investor diversity has normalised across major assets

Our proprietary market diversity indicators as of 08 September

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.75
Global Equities	○	↓	1.45
Gold	○	↓	1.42
Equity			
MSCI US	○	↓	1.32
MSCI Europe	○	→	1.49
MSCI AC AXJ	●	↑	1.62
Fixed Income			
DM Corp Bond	●	↑	2.06
DM High Yield	●	↑	1.74
EM USD	●	↑	1.53
EM Local	●	↓	1.53
Asia USD	●	↑	1.89
Currencies			
EUR/USD	○	↓	1.35

Source: Bloomberg, Standard Chartered; Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal

Legend: ● High | ○ Low to mid | ○ Critically low

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