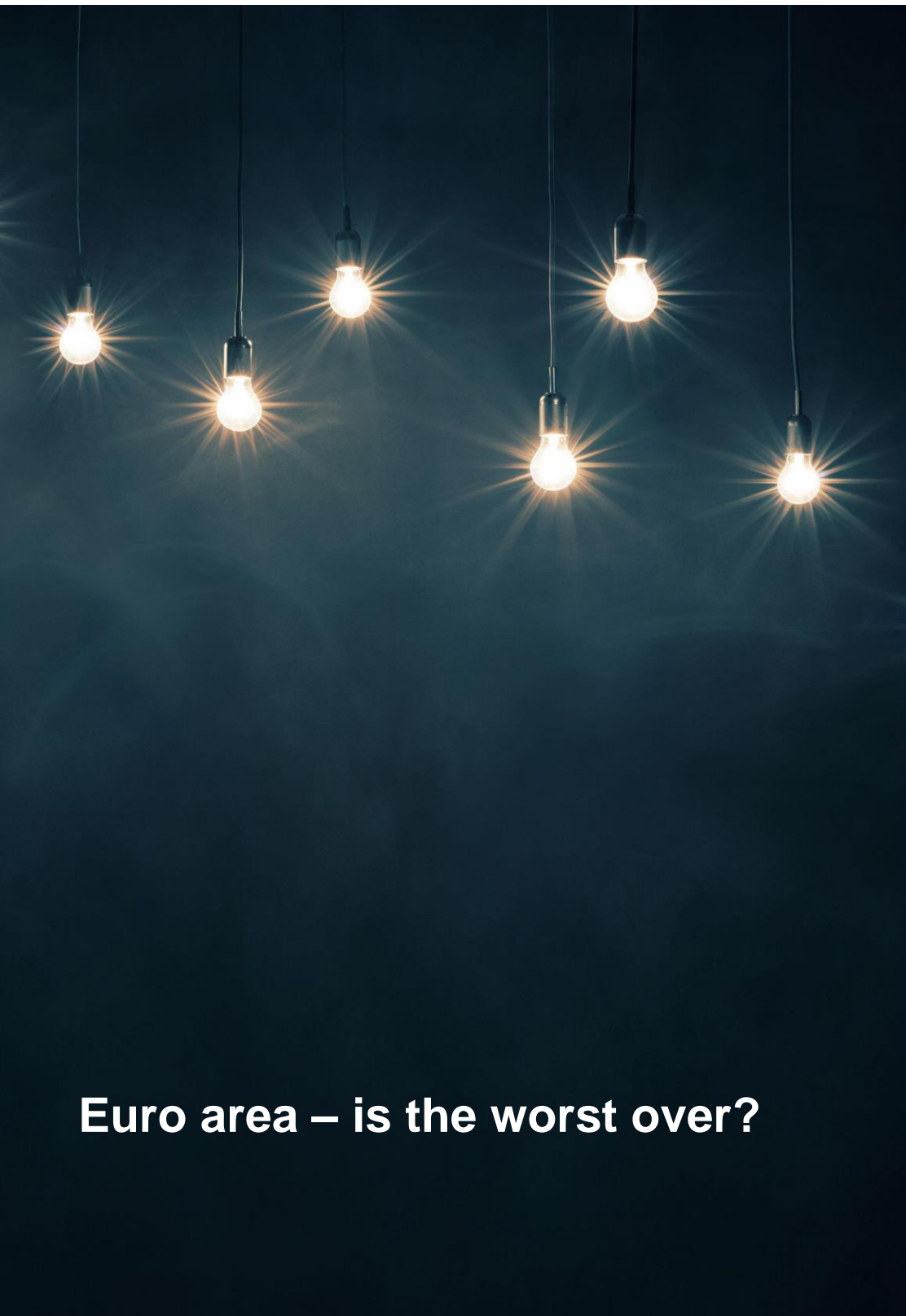


# Weekly Market View

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## Euro area – is the worst over?

**Fundamental, geopolitical and technical drivers are underpinning the recovery in Euro area risk assets, in our opinion**

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**Equities:** The rebalancing of MSCI indices on 26 November to include more China A-shares is likely to lead to greater fund inflows

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**Bonds:** We see the weakness in Emerging Market bonds due to uncertainty in Chile as an opportunity to add exposure

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**FX:** Gold is at an inflection point; 1445 is a key support

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## Chart of the week: Europe ex-UK stocks broke to a new high

MSCI Europe ex-UK index



Source: Bloomberg, Standard Chartered

## Editorial

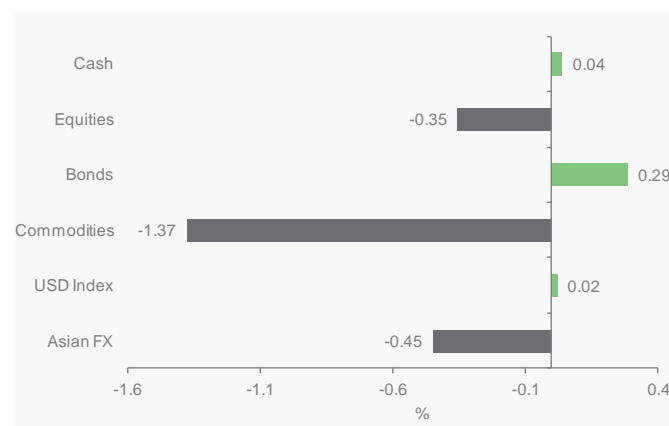
### Euro area – is the worst over?

There are fundamental, geopolitical and technical drivers underpinning the continued recovery of Euro area risk assets, in our assessment. Recent data indicates investor sentiment and the growth outlook are turning around from multi-year lows as US-China trade tensions ease, adding support to the region's domestic consumption-driven growth this year. The region's auto sector, which has significantly dragged growth, is likely to get a reprieve with the US likely postponing tariff impositions. Meanwhile, the region's banking sector equities rebounded after the ECB took steps to shield the sector from negative interest rates. These drivers are likely to help corporate earnings recover in coming quarters (see page 5).

The above factors, combined with cheap valuations and easy monetary policy, support our recent upgrade of the region's equities to preferred. The MSCI Europe ex-UK index broke above a key resistance to scale a record high. From a technical standpoint, the breakout from a bullish ascending triangle pattern implies a possible 20% upside (see chart).

**Global equities consolidated after five weeks of gains. Bonds recovered amid a delay in the signing of a US-China partial trade agreement and a weak set of data in China**

Benchmark market performance w/w\*



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)

\*Week of 07 November 2019 to 14 November 2019

### Asian equities undermined by HK political uncertainty

Asia ex-Japan equities pulled back from six-month highs this week, dragged down by Hong Kong stocks that have been hit by the ongoing political uncertainty and falling domestic growth. Renewed hurdles to a 'Phase 1' US-China trade agreement, following US President Trump's comments that he had not agreed to a tariff roll-back as suggested by a Chinese official last week, also weighed on Asian stocks.

Hong Kong uncertainty, and its impact on domestic growth, is likely to remain a near-term focus. The Hang Seng index retreated from a key technical resistance (the 200 Day Moving Average [DMA]). While the index's strong momentum in recent months, despite the political unrest, suggests scope for a recovery, the outlook for the property sector is likely to be a major driver in the coming weeks.

The Hang Seng Property index is testing a key support on the lower edge of an upward-sloping channel from August (now at 36,900), slightly above the August low of 35,380. Any break below this could accentuate downside risks of the property index toward the October 2018 low of 33,396 (9% below Thursday's close). The lower edge of the channel for the Hang Seng index is at 25,870 (1.7% below Thursday's close).

### China's weak data raises chance of policy easing

China's run of soft economic data continued in October, suggesting earlier fiscal and monetary measures, at best, helped to stabilise the economy rather than trigger a rebound. Credit growth, fixed asset investment, industrial production and retail sales for October all came in below consensus estimates and were weaker than the previous month. Real estate and infrastructure investments continued to slow, offsetting a mild recovery in manufacturing sector investment. The weakening data, however, has not impacted employment significantly, with the surveyed jobless rate declining to 5.1% in October.

The broad-based slowdown in the economy raises the chances of further policy easing by the central bank, in our opinion. This could include further cuts to bank reserve requirements and the new benchmark medium-term lending facility rate. The surge in headline inflation is unlikely to deter the PBoC from easing, in our view, given it remains driven almost entirely by pork prices and is offset by stable core inflation and deepening factory-gate price deflation.

### Conservatives get a boost in UK election campaign

The UK's ruling Conservative Party got a surprise lift this week in the run-up to the 12 December general elections after the rival Brexit party decided not to contest in the seats held by the Conservatives (almost half the number of contested seats). This lowers the risk of a division of pro-Brexit votes, which could be crucial in the UK's first-past-the-post elections. Recent polls reflect the improving prospects for the Conservatives winning an outright majority in the elections. A Conservative win would likely imply a swifter conclusion to the UK's departure from the EU on the terms agreed by PM Boris Johnson. It would also mean reduced risk of major policy changes proposed by a Labour party-led coalition.

The latest political turn reinforces our medium-term bullish view on the GBP. GBP/USD has found strong technical support around 1.2700. In the near-term, we expect a rally to test the previous 1.3010 high if polls maintain recent trends. A break here would likely trigger a move towards 1.3170 resistance, followed by this year's high of 1.3385.

### The political uncertainty-driven weakness in Hong Kong's property sector stocks has dragged the benchmark Hang Seng index lower this week

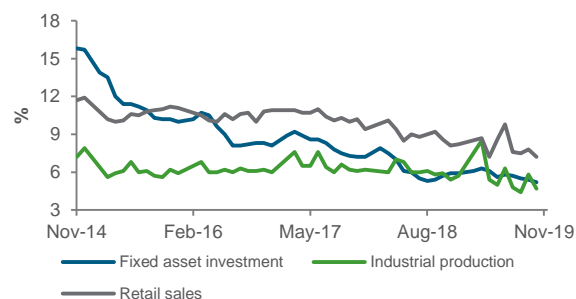
Hong Kong Hang Seng Properties index



Source: Bloomberg, Standard Chartered

### China's continued slowdown points to likelihood of further monetary policy easing

China's fixed asset investment, industrial production and retail sales growth



Source: Bloomberg, Standard Chartered

### GBP/USD has found a strong technical support around 1.27; it needs to break above 1.3010 to sustain gains

GBP/USD



Source: Bloomberg, Standard Chartered

## What does this mean for investors?

### Equities

**Why have equity markets softened this week?** Global equity markets consolidated over the past week after five weeks of gains. This is likely explained by hawkish comments by President Trump on the prospects for a US-China trade deal, weak data in China, political unrest in Hong Kong dragging local and regional stocks and cash raising ahead of major upcoming equity IPOs.

Having said that, the consolidation in global equities needs to be viewed in the context of the 5% rally since the start of October. We would argue that some consolidation is logical given both the above factors and the fact that equities now appear overbought. Consolidation should help global equities (MSCI All-Country World equity index) sustain an eventual move towards the January 2018 record high, which is about 2% above current levels.

**What are the implications of the inclusion of more China A-shares in MSCI's index rebalancing?** The rebalancing will raise the weight of China A-shares in MSCI indices, adding 189 mid-cap A-shares at the close of 26 November. The event is significant in that this is the first time mid-cap A-shares (including ChiNext Mid cap, 'China's Nasdaq') will be included in MSCI indices (previously MSCI index inclusions only covered large-cap A-shares). The final rebalancing could trigger further fund flows into the China onshore market (as seen after the previous boost in the weighting of China A-shares in MSCI indices in May and August). China onshore equities remain one of our preferred equity markets in Asia.

### Bonds

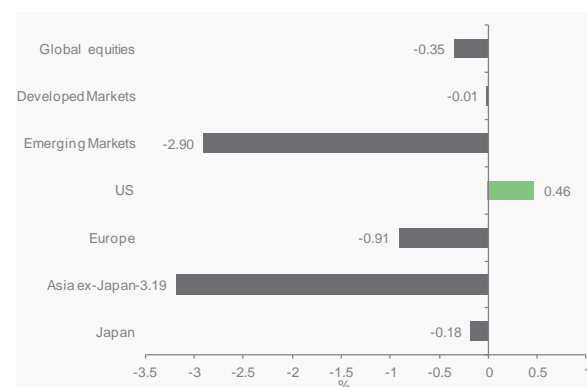
**Are Emerging Market (EM) bonds immune to idiosyncratic risks?** Both EM USD and local currency government bonds underperformed Developed Market (DM) government bonds this week, led by concerns about social unrest in Chile and a set of weak data in China. Chilean government bonds and the Chilean Peso both dropped after the head of Chile's central bank hinted at using a variety of monetary tools to offset the economic impact of domestic political unrest.

We believe that events in Chile are likely to have a very limited impact on the EM bond universe, similar to past experiences with country-specific risks, given Chilean bonds accounts for 2.5% of the USD and 2.2% of the local currency bond indices. Instead, we would view the recent weakness in EM bonds as an opportunity to add exposure.

### FX

**Is the gold rally fading?** XAU/USD (gold) continued to correct lower from the six-year high hit in September as safe haven demand waned. However, the pair has bounced from key 1,445-1,450 support level this week. We believe XAU/USD is near a short-term inflection point. If the recent support gives way, we would expect a fairly quick move down to 1,405-1,410, where further buying should appear. Only a break above the resistance band between 1,505 and 1,520 would signal the likelihood of a push to re-test the September high around 1,555-1,560 and a possible resumption of the medium-term uptrend.

### Benchmark (USD) equity market performance w/w\*



Source: MSCI, Bloomberg, Standard Chartered  
 \*Week of 07 November 2019 to 14 November 2019

### US, Euro area and EM equity market technicals are positive

Technical levels of key markets as of 14 November 2019

Index	Spot	1st support	1st resistance	Short-term trend
S&P 500	3,097	3,023	3,140	↑
STOXX 50	3,689	3,621	3,760	↗
FTSE 100	7,293	7,240	7,460	↘
Nikkei 225	23,162	22,700	23,635	→
Shanghai Comp	2,910	2,890	3,006	→
Hang Seng	26,324	25,540	27,340	→
MSCI Asia ex-Japan	646	637	669	↑
MSCI EM	1,042	1,038	1,075	↑
Brent (ICE)	62	59	64	↗
Gold	1,469	1,425	1,495	→
UST 10Y Yield	1.83	1.51	2.15	↗

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

### EM USD government bond yield premiums rose over the past week amid idiosyncratic risks (around Chile), presenting an opportunity to add exposure

Yield premium of EM USD government bonds over US Treasuries



Source: Bloomberg, Standard Chartered

## Top client question

### Q Has the outlook for Euro area equities brightened?

The Euro area Q3 earnings season has been better than expected, with EPS (earnings-per-share) growth improving from a 5.1% contraction at the start of November to a 4.7% contraction currently, led by consumer discretionary and industrials sectors. While a pessimistic view would argue that the outcome is still a contraction in earnings, we note investor attention has been increasingly focused on the improvement in the prospects for earnings growth in 2020 that is currently forecast to be 10%.

Investors in Euro area equities can be forgiven for having a sense of déjà vu. We have been in this situation before where earnings growth expectations were bright for the coming year, but then subsequently disappointed. However, this time, the drivers of the optimism appear to be built on more solid foundations:

- 1. Removal of an overhang for Euro area banks:** The ECB's decision to exempt 48% of Euro area banks' overnight deposits with the central bank from negative interest rates is a major positive for banks and is likely to boost net interest margins in 2020.
- 2. Sector-specific factors:** The improved outlook for the largest sectors in the Euro area (financials) and growing headwinds for the US technology sector create the possibility of relative outperformance of Euro area equities over those in the US. This has sparked a pick-up in inflows to Euro area equities (USD 3.4bn over past three weeks) as investors begin to realise that the prolonged period of fund outflows (USD100bn YTD) and the underperformance of Euro area equities could potentially reverse.
- 3. Reducing US-China trade war:** Collateral damage in Europe from the US-China trade war could lessen if US-China trade tensions ease. Any postponement of a US threat to impose tariff on auto imports would also help improve the outlook for Euro area exports.

We recently upgraded Euro area equities to preferred, driven in part by the improving outlook for the financial sector. We acknowledge that President Trump's stance on the US-China trade war is fickle, but believe his desire to get re-elected will nudge him to agree to a 'Phase 1' trade deal, which will be positive for global trade. This, in turn, is a positive for Euro area equities given the region's dependence on exports as a growth driver.

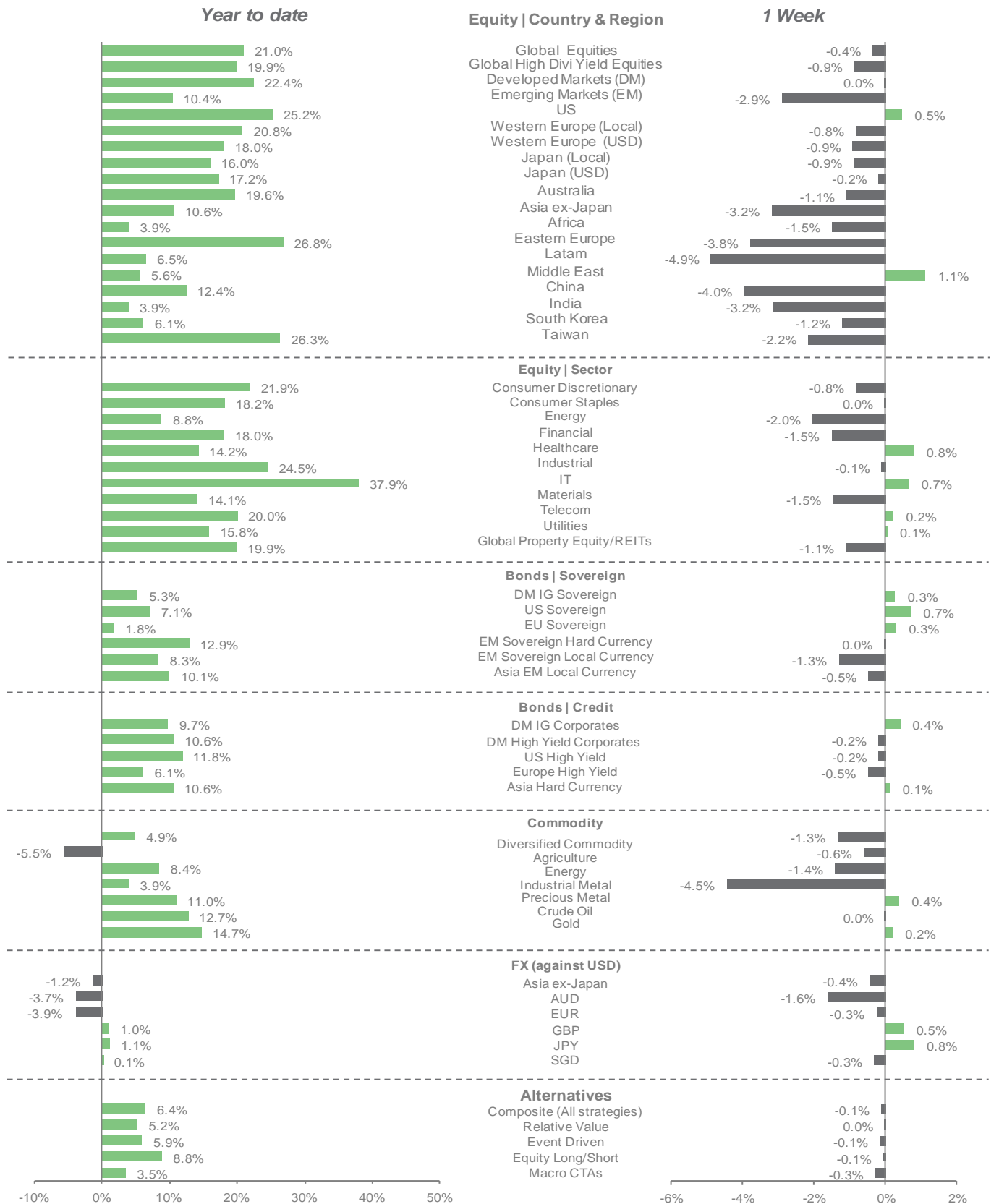
### Euro area earnings are expected to rebound in the coming quarters

Consensus earnings estimates for MSCI Europe ex-UK index



Source: FactSet, Standard Chartered

## Market performance summary \*



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

\*Performance in USD terms unless otherwise stated, YTD period from 31 December 2018 to 14 November 2019, 1 week period: 07 November 2019 to 14 November 2019

## Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
<b>MON</b>						
<b>TUE</b>	US	Building Permits	19-Nov-19	Oct	1390k	1391k
	US	Housing Starts	19-Nov-19	Oct	1315k	1256k
<b>WED</b>	JN	Trade Balance Adjusted	20-Nov-19	Oct	–	-¥97.2b
	JN	Exports y/y	20-Nov-19	Oct	–	-5.2%
	GE	PPI y/y	20-Nov-19	Oct	–	-0.1%
<b>THUR</b>	US	Philadelphia Fed Business Outlook	21-Nov-19	Nov	6.7	5.6
	US	Initial Jobless Claims	21-Nov-19	16-Nov	–	–
	EC	Consumer Confidence	21-Nov-19	Nov A	–	-7.6
	US	Existing Home Sales	21-Nov-19	Oct	5.49m	5.38m
<b>FR/SAT</b>	JN	Natl CPI y/y	22-Nov-19	Oct	0.4%	0.2%
	JN	Jibun Bank Japan PMI Composite	22-Nov-19	Nov P	–	49.8
	FR	Markit France Composite PMI	22-Nov-19	Nov P	–	52.6
	GE	Markit/BME Germany Composite PMI	22-Nov-19	Nov P	–	48.9
	EC	Markit Eurozone Composite PMI	22-Nov-19	Nov P	–	50.6
	US	Markit US Composite PMI	22-Nov-19	Nov P	–	50.9
	Event	This Week	Date	Period	Actual	Prior
<b>MON</b>	JN	Core Machine Orders y/y	11-Nov-19	Sep	5.1%	-14.5%
	UK	GDP q/q	11-Nov-19	3Q P	0.3%	-0.2%
<b>TUE</b>	GE	ZEW Survey Expectations	12-Nov-19	Nov	-2.1	-22.8
	EC	ZEW Survey Expectations	12-Nov-19	Nov	-1.0	-23.5
	US	NFIB Small Business Optimism	12-Nov-19	Oct	102.4	101.8
<b>WED</b>	JN	PPI y/y	13-Nov-19	Oct	-0.4%	-1.1%
	UK	CPI Core y/y	13-Nov-19	Oct	1.7%	1.7%
	US	CPI Ex Food and Energy y/y	13-Nov-19	Oct	2.3%	2.4%
<b>THUR</b>	JN	GDP Annualized SA q/q	14-Nov-19	3Q P	0.2%	1.8%
	CH	Fixed Assets Ex Rural YTD y/y	14-Nov-19	Oct	5.2%	5.4%
	CH	Industrial Production y/y	14-Nov-19	Oct	4.7%	5.8%
	CH	Retail Sales y/y	14-Nov-19	Oct	7.2%	7.8%
	UK	Retail Sales Ex Auto Fuel y/y	14-Nov-19	Oct	2.7%	2.9%
	US	PPI Ex Food and Energy y/y	14-Nov-19	Oct	1.6%	2.0%
<b>FR/SAT</b>	MX	Overnight Rate	15-Nov-19	14-Nov	7.5%	7.75%
	US	Retail Sales Ex Auto and Gas	15-Nov-19	Oct		0.0%
	US	Industrial Production m/m	15-Nov-19	Oct		-0.4%

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue

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

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