

Weekly Market View

Fasten your seatbelts

After a strong rebound this month, risk assets face near-term event risks, including the US elections and another pandemic wave in Europe and the US. We would view any near-term volatility as an opportunity to average into our preferred risk assets, as the medium-term outlook remains constructive.

Equities: We remain positive on Chinese equities, especially consumer discretionary, technology and healthcare sectors, amid signs of a recovery in consumer demand and on the government's technology sector reforms.

Bonds: Asia USD bonds are likely to be relatively immune from risks faced by some high-yielding property issuers due to tighter leverage requirements

FX: We believe the PBoC's decision to ease foreign currency purchases is likely to slow, but not alter the CNH's medium-term strength

Also find out...

Do you still prefer US REITS despite this year's underperformance?

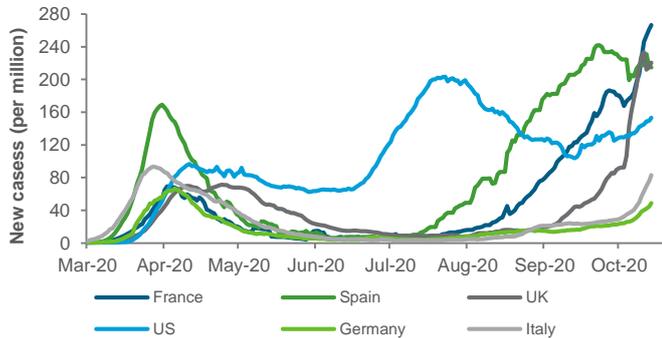
Does gold's feeble rebound this month alter your bullish view?

What are the near-term event risks for investors?

Charts of the week: Approaching an air pocket?

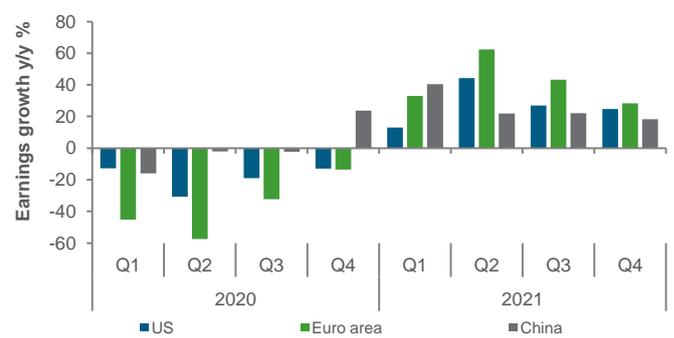
Europe's second pandemic wave is a near-term headwind for risk assets, though expectations of a 2021 earnings recovery remain intact

Daily new COVID-19 cases per million people in the US and Europe



Source: Our World in Data, FactSet, Standard Chartered; *Q3 2020 to Q4 2021 are consensus earnings estimates

Consensus estimates* show earnings are expected to recover in 2021



Editorial

Fasten your seatbelts

This month's strong rally in risk assets faces a road bump. Barring a last-minute patch-up, a pre-election US fiscal stimulus looks unlikely; COVID-19 cases are accelerating in Europe, leading to regional restrictions; the US is seeing a 3rd pandemic wave; and chances of a vaccine this year are receding. Any post-election uncertainty in the US could add to short-term volatility. For now, charts remain bullish, with strong support for the S&P500 index around 3,429 (1.6% below current level). However, any pullback due to event risks would present an opportunity to average into our preferred assets, given our constructive medium-term outlook.

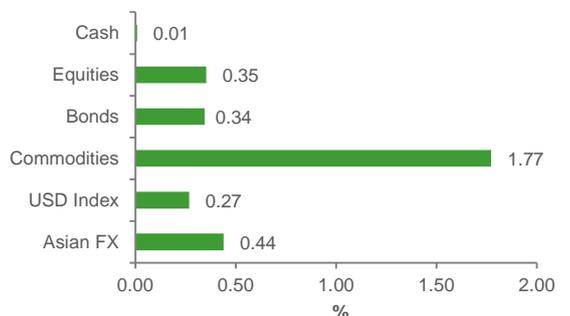
Global equities and High Yield bonds recovered this month from September's correction, with China leading the rebound on back of strong manufacturing and export data. China's local governments are flush with funds from bond sales, ready to be deployed into infrastructure projects. The services sector is also recovering as COVID-19 remains under control. China's Golden Week holiday showed consumers are regaining confidence – holiday travel recovered to 80% of pre-pandemic levels. President Xi's trip to southern China and plans to turn the Greater Bay Area into a technology hub have boosted confidence (see page 4).

We see three other policy drivers underpinning risk assets in the event of any pullback: a) increased chances of a bigger US fiscal stimulus after the elections, given the likelihood of a Democrat 'clean sweep'. A Biden victory would likely lead to USD 3trn of immediate stimulus and trillions more in infrastructure spending in the coming years. The spending plans could revive long-term growth, helping overcome concerns about higher taxes and tighter regulations; b) decision by European governments to extend job support programmes into 2021, with the ECB likely to ease monetary policy further as the region battles a second COVID-19 wave; and c) chances of reduced geopolitical uncertainty in the event of a Biden win, given his more diplomatic approach to foreign policy.

We expect the above factors to revive growth and corporate earnings expectations and weaken the USD in the next 6-12 months. The ensuing earnings season will be watched closely for signs that the worst is over for companies. US Q3 bank earnings beat expectations, although lower provisions have raised concerns about complacency. We will also look for guidance from our preferred sectors (such as technology, healthcare) to confirm that expectations of a profit recovery next year remain intact.

Equities and commodities extended gains in the past week and Asian currencies rose amid strong China data

Benchmark market performance w/w*



Source: Bloomberg; *week of 8 Oct 2020 to 15 Oct 2020

Our proprietary market diversity indicators point to low risk of a short-term trend reversal

Market diversity across key asset classes

Level 1	Diversity	Diversity trend since 14-Sep-20	Fractal dimension
Global Bonds	○	↑	1.39
MSCI ACWI	○	↑	1.46
Gold	●	↑	1.58
Equity			
MSCI US	○	→	1.45
MSCI Europe	●	↑	1.80
MSCI AC AXJ	○	↑	1.43
Fixed Income			
DM Corp Bond	○	↑	1.45
DM High Yield	○	→	1.41
EM USD	●	↑	1.56
EM Local Currency	●	↑	1.80
Asia Hard Currency	○	↑	1.44
Currencies			
USD/CNH	○	→	1.35
EUR/USD	○	↑	1.44
USD/JPY	●	→	1.57
GBP/USD	○	↓	1.45
AUD/USD	●	↑	1.58

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

The weekly macro balance sheet

Our weekly net assessment: On balance, data and policy were neutral

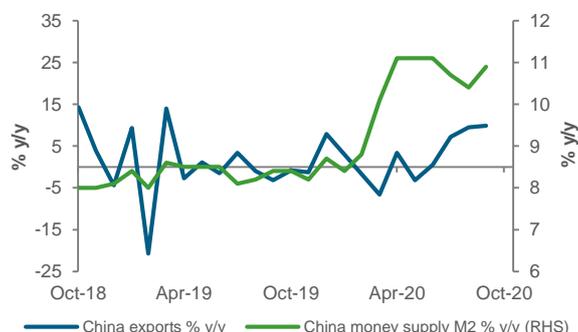
(+) factor: Strong China data and investment pledge

(-) factor: Europe's tighter restrictions; fading near-term US stimulus plan

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Daily new cases continued to decline from August-September highs in India, Brazil and Mexico President Trump resumed normal activity after more than a week of COVID-19 treatment 	<ul style="list-style-type: none"> France announced a night curfew in Paris, Spain imposed an emergency in Madrid and UK, Italy and Germany tightened restrictions in more regions amid a surge in cases US cases rebounded; health officials warned of further rise in winter months Trials for a Johnson & Johnson vaccine and Eli Lilly antibody treatment were halted after adverse reactions; a study showed the popular Remdesivir drug had little effect
	Our assessment: Negative, on balance, with Europe re-imposing restrictions amid a surge in cases and with US cases rising again	
Macro data	<ul style="list-style-type: none"> US producer price inflation, an indicator of corporate pricing power, and small business optimism accelerated stronger than expected in September US consumer inflation slowed, reducing pressure on the Fed to adjust policy China's total credit accelerated faster than expected in September; exports and auto sales accelerated; Golden Week holiday travel was back to 80% of pre-pandemic levels 	<ul style="list-style-type: none"> Euro area and Japan industrial production unexpectedly slowed in August Euro area's ZEW economic indicator dropped in October to the weakest in five months and German consumer deflation worsened in September to its weakest since 2015 US initial jobless claims were above expectations Japan's producer price deflation worsened in September
	Our assessment: Neutral, on balance, as revival of US producer pricing power and acceleration in China's credit were offset by rising deflationary pressures in Europe and Japan	
Policy developments	<ul style="list-style-type: none"> President Trump said he was ready to raise his offer for a fiscal stimulus to secure a deal ECB's Lagarde said central bank ready to implement more stimulus measures as Europe faces a 2nd pandemic wave China's President Xi announced plans to attract more foreign investment and develop the Greater Bay Area as a technology hub 	<ul style="list-style-type: none"> US Treasury Secretary said getting a fiscal stimulus agreement before the election "would be difficult" after many Republicans rejected Trump's proposal for a broader stimulus China imposed debt-ratio caps on property firms
	Our assessment: Neutral, on balance, as expectations of sustained stimulus in the Euro area and China were offset by reduced expectations of a fiscal stimulus in the US in the near term	
Other developments	<ul style="list-style-type: none"> The UK agreed to continue with Brexit trade talks beyond PM Johnson's 15 October deadline 	<ul style="list-style-type: none"> Thailand imposed an emergency in Bangkok amid political protests
	Our assessment: Positive, on balance, with reduced concerns about a breakdown in Brexit trade talks	

China's industries and exports have driven the country's recovery from the pandemic; its sustained credit growth, channelled into infrastructure investments, and rising consumption is likely to support the recovery

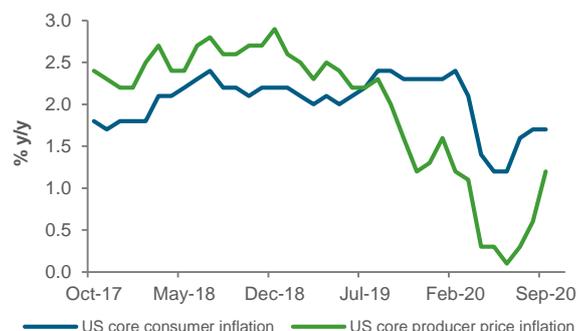
China's export and money supply growth



Source: Our World in Data, Standard Chartered

The bounce in US producer price inflation suggests companies are regaining pricing power; consumer inflation has normalised after a drop in H1 FY20

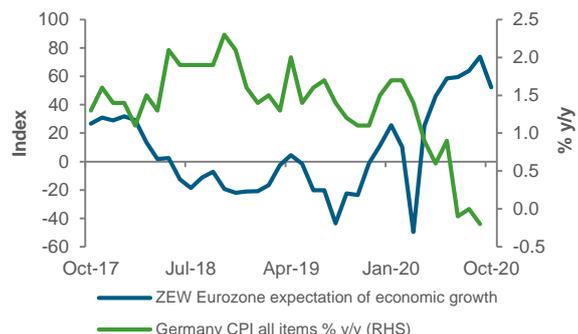
US core producer and consumer price inflation



Source: Bloomberg, Standard Chartered

Euro area's economic outlook is facing increased headwinds from a second pandemic wave, deepening deflationary pressures

Euro area ZEW Survey of economic expectations; German consumer inflation



Source: Bloomberg, Standard Chartered

Top client questions

Q Is your constructive view on China assets intact following recent policy measures?

We reaffirm our constructive view on Chinese equities amid a continued consumption recovery and recent policy developments. The government reported that, during the National Day Golden Week, national domestic visits and tourism revenue recovered to 79% and 70% of 2019 levels, respectively, which marked an improvement from the three-day Dragon Boat Festival holiday in June and five-day Labour Day holiday in May. Although other consumption data show an average 20% y/y decline, there have been encouraging signs of sequential improvement, which reaffirm our view that the recovery remains intact. Barring a new COVID-19 wave, we expect the rebound to continue with good momentum, on the back of robust demand and gradual relaxation in travelling restrictions. Consumer discretionary is likely to benefit from pent-up demand in a post-COVID-19 world.

President Xi's visit to southern China after the Golden Week holiday has signalled accelerating reforms in the tech sector and financial markets. The Shenzhen Stock Exchange has been given the opportunity to pilot Chinese depositary receipts (CDR) for high-tech and innovative firms. This is to relax foreign investment restrictions on certain hi-tech industries and ease entry permits for private equity and venture capital funds. Shenzhen has also been allowed to test CNY capital account convertibility. We believe these measures could help build Shenzhen not only as a global technology centre, but also as an international financial centre amid US-China tensions. China equities remain our preferred market in Asia ex-Japan, with healthcare, technology and consumer discretionary being our preferred sectors.

Q Do you still prefer US REITs?

US REITs have underperformed the S&P500 index this year, but we retain our preference for the sub-sector, despite our neutral stance on the overall US real estate sector, due to its attractive dividends which are likely to drive its outperformance in a low interest rate world.

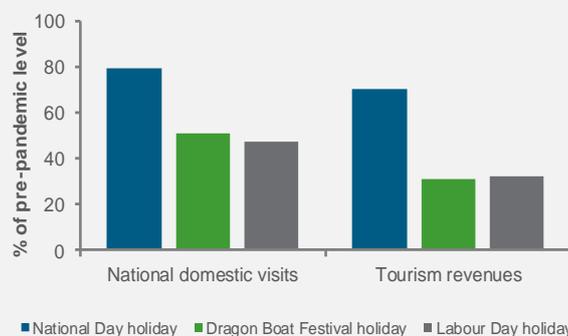
REITs, by design, pay out most of their net income as dividends or distributions to investors. As the income they generate is typically contractual rental payments, this underpins a relatively reliable source of income. Thus, they are viewed as a bond proxy. Low yields also support the financing of property acquisitions by REITs. US 10-year bond yields are at historical lows and we expect the Fed to act to prevent a sustained rise in yields in the next 12 months. As such, low bond yields are a favourable tailwind for REITs to perform well.

COVID-19 has had a varied impact on the diverse US REITs sectors, such as retail, residential, infrastructure, healthcare and office. Specialty, industrial and storage REITs, that benefit from e-commerce and cloud investments, have done well and this trend is likely to continue. Meanwhile, lodging, retail and office REITs suffered the impact of lockdowns and would need a successful containment of the virus before normalising. The outlook for office demand is also uncertain as enterprises move towards 'working-from-home'.

Our net assessment is that US REITs are a preferred holding, as low bond yields are likely to emerge as the main driver for the sector to outperform in the coming 6-12 months.

China Golden Week holidays saw domestic travel and tourism revenues return to 70-80% of pre-pandemic levels

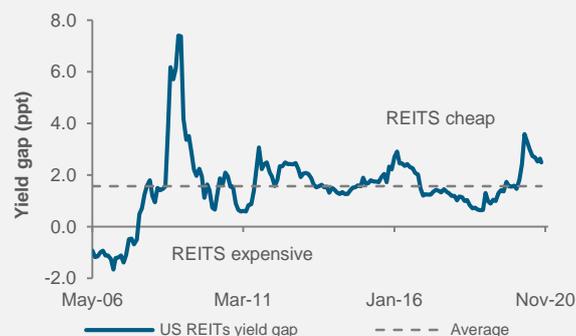
Domestic travel and tourism revenue during this year's three holidays vs. pre-pandemic levels



Source: China's Ministry of Culture and Tourism, Standard Chartered

US REITs offer attractive dividends, which we believe will drive their outperformance in a low interest rate world

US REIT yield gap over US Treasuries



Source: FactSet; Standard Chartered

S&P500 faces resistance 1% above the current level

Technical indicators for key markets as on 15 Oct. 2020

Index	Spot	1st support	1st resistance
S&P500	3,483	3,462	3,519
STOXX 50	3,193	3,158	3,263
FTSE 100	5,833	5,771	5,955
Nikkei 225	23,507	23,467	23,587
Shanghai Comp	3,332	3,283	3,371
Hang Seng	24,159	23,963	24,511
MSCI Asia ex-Japan	739	735	747
MSCI EM	1,121	1,115	1,132
Brent (ICE)	43.2	42.1	43.7
Gold	1,909	1,890	1,929
UST 10Y Yield	0.73	0.71	0.76

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Should Asia USD bond investors be concerned about tighter leverage regulations on China's property sector?

In our assessment, the recent measures by authorities to impose tighter leverage regulations on property developers is a proactive step to prevent the industry from overheating. We do not believe this is the beginning of an industry tightening cycle, as the property sector should be one of the key contributors to the economic recovery. As such, we believe any systemic risk stemming from a liquidity crunch is contained at the moment with (a) the cash collection ratio of many developers remaining strong and (b) major refinancing channels, such as bonds, loans and asset securitisation, largely intact. Additionally, developers have reported a y/y increase in contracted sales in 2020, despite the pandemic.

While profit margins are likely to be negatively impacted as developers pursue discounts to speed up cash repatriation, we believe they would refocus on improving quality organic growth under a more prudent capital management approach, which is credit positive.

Chinese property bonds contributed only c.10% of the JPMorgan Asian Credit Index, and separately, Chinese HY property bonds contributed over one-third of the Asian HY bond universe. Hence, while any idiosyncratic risk from individual developers with weak fundamentals can dampen risk sentiment, we believe the impact on Asian USD bond index is likely to be limited and temporary. Thus, we continue to view Asian USD bonds as a preferred asset class.

Q Is the PBoC signalling an end to the recent CNH rally?

The PBoC's decision to ease foreign currency purchases, following a 7% rally in the CNH since end-May, has raised speculation of a move to a neutral FX policy stance and a gradual relaxation of restrictions on investment outflows, thwarting the ongoing rally.

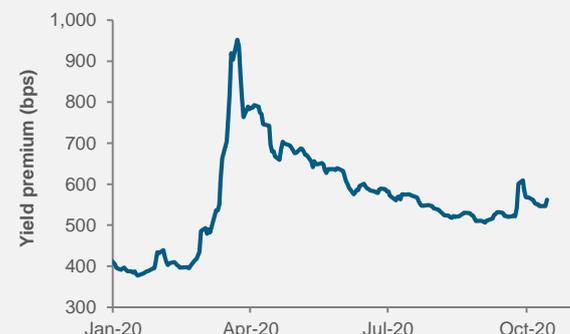
We see the removal of the need for local entities to hold 20% reserves against forward foreign currency purchases as another step in the longer-term process to internationalise the CNY. Over the medium term, a more "market-determined" exchange rate would likely appeal to foreign governments and investors, while the PBoC removes some risk of "one-way currency bets".

Over the coming year, we believe fundamentals, such as relative interest and growth rates, and receding geopolitical headwinds amid rising chances of a Biden presidency, are positive for the CNH. The PBoC's moves to ease foreign currency purchases may help offset any USD selling pressure if local corporates, who have accumulated excess USD for emergency liquidity purposes, decide that is no longer necessary in the event of a Biden win.

In the near term, we can look at a precedent in 2017, when the PBoC took a similar decision. USD/CNH rallied around 2% in the first month, but then fell by around 6% over the next four months. A similar outcome could see USD/CNH capped around 6.80-6.85 through the US election and then decline to 6.40-6.45 by March 2021. On the charts, we expect short-term resistance between 6.80 and 6.88 levels. On the downside, a break below the March 2019 low at 6.67 would signal a deeper decline towards 6.60 and potentially 6.46.

We expect Asia USD bonds to be relatively immune from idiosyncratic risks faced by some high yielding property issuers due to tightening leverage requirements

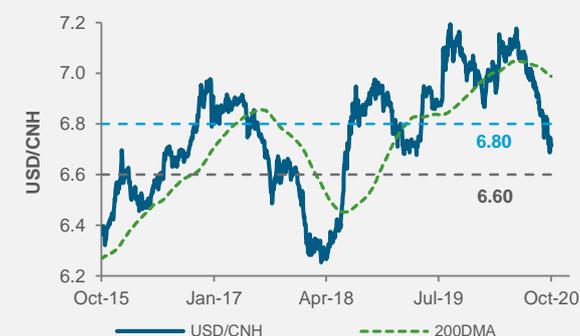
Yield premium of Asian USD bonds over US Treasuries



Source: Bloomberg, Standard Chartered

PBoC's recent policy move is unlikely to reverse USD/CNH's medium-term downtrend, given CNH's strong fundamentals, such as China's growth and interest rates

USD/CNH



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Does gold's feeble rebound this month from September's pullback alter your bullish view?

The fundamental drivers of gold remain intact, including low and falling real (net of inflation) yields and a weaker USD, as we detailed in our recent Global Market Outlook.

From a technical perspective too, the retreat since August is viewed as unwinding of the extreme overbought conditions on longer-term charts, rather than the end of the uptrend.

On the monthly chart, the 14-month Relative Strength Index, a measure of momentum, rose to 84 in July, explaining the retreat over the past couple of months. Levels above 70 are considered overbought, and levels around 90 reflect extreme overbought conditions, heightening the risk of a pause in a rally. The failure to decisively stay above major resistance at the 2011 high of 1,920 confirms the loss of steam following the near 80% advance since late 2018.

That said, the long-term uptrend remains intact given that the yellow metal is above the 200-week moving average (now at 1,398). However, in order to resume the uptrend, gold would need to break above key resistance at the mid-September high of 1,973 (immediate resistance is at 1,929). On the downside, there's initial support at 1,890, but any break below subsequent support at the September low of 1,848 would raise the chances of a drop toward the 200-day moving average (now at 1,753), which could be a tough cushion to crack.

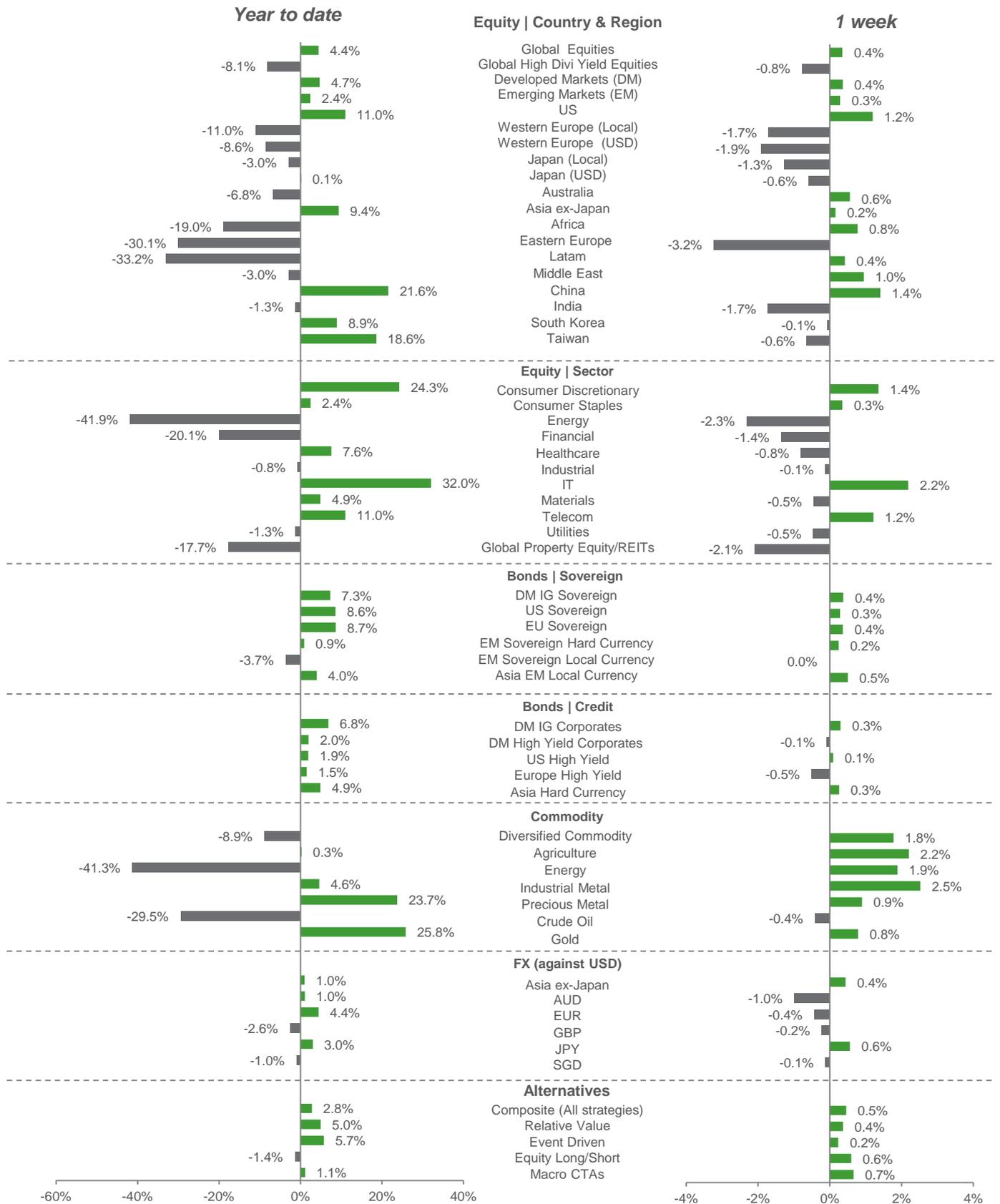
Gold's medium-term uptrend remains intact, having held above its 200DMA; however, it needs to break above the September high of 1,973 to resume its uptrend

Gold price



Source: Bloomberg, 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, 2019 performance from 31 December 2019 to 15 October 2020, 1 week period: 8 October 2020 to 15 October 2020

Our asset class views at a glance

Equities ▲	Bonds (Rates) ▼	Bonds (Credit) ▲	Alternative Strategies ◆	Cash ▼	Gold ▲
Asia ex-Japan ▲	Govt EM local ◆	Asia USD ▲	Equity hedge ◆	USD ▼	
US ▲	Govt DM IG ▼	Govt EM USD ▲	Event-driven ◆	EUR ▲	
Euro area ◆		Corp DM HY ▲	Relative value ◆	GBP ▲	
Japan ◆		Corp DM IG ▼	Global macro ◆	AUD ▲	
Other EM ◆				CNY ▲	
UK ▼				JPY ◆	

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	This Week	Period	Actual	Event	Next Week	Period	Prior
MON	JN	PPI y/y	Sep	-0.8%	JN	Exports y/y	Sep	-14.8%
	JN	Core Machine Orders y/y	Aug	-15.2%	CH	GDP y/y	3Q	3.2%
	IN	CPI y/y	Sep	7.3%	CH	Industrial Production y/y	Sep	5.6%
	IN	Industrial Production y/y	Aug	-8.0%	CH	Retail Sales y/y	Sep	0.5%
TUE	EC	ZEW Survey Expectations	Oct	52.3	CH	Fixed Assets Ex Rural YTD y/y	Sep	-0.3%
	US	Real Avg Weekly Earnings y/y	Sep	4.1%	US	Building Permits	Sep	1476k
	US	CPI Ex Food and Energy y/y	Sep	1.7%				
	CH	Exports y/y	Sep	9.9%				
WED	US	PPI Ex Food and Energy y/y	Sep	1.2%				
THUR	JN	Nationwide Dept Sales y/y	Sep	-22.0%				
	EC	Consumer Confidence	Oct A	-13.9				
	US	Last Presidential debate	22 Oct					
	US	Federal Reserve Releases Beige Book						
	US	Existing Home Sales	Sep	6.00m				
FRI/SAT	US	Retail Sales Ex Auto and Gas	Sep		JN	Jibun Bank Japan PMI Composite	Oct P	46.6
	US	Industrial Production m/m	Sep		FR	Markit France Composite PMI	Oct P	48.5
	US	Capacity Utilization	Sep		GE	Markit/BME Germany Composite PMI	Oct P	54.7
					EC	Markit Eurozone Composite PMI	Oct P	50.4
					US	Markit US Composite PMI	Oct P	54.3

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue; *refers to Jan-Feb 2020 combined data

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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