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Wealth Management Chief Investment Office
12 November 2021

Weekly Market View

Getting hotter

The breakout of US inflation to a 30-year high and broadening of price pressures globally have challenged the central bank narrative that inflation is transitory. Nevertheless, several central banks, led by the Fed and BoE, have made it clear in recent weeks that their priority remains healing job markets, rather than fighting near-term inflation pressures.

The decidedly dovish near-term monetary policy outlook, combined with the surprisingly strong rebound in US job creation in October, leave us constructive on risk assets over the next 6-12 months.

Equities: Higher inflation is positive for our theme of rotation to Value sectors such as energy and financials.

Bonds: Signs of relaxation in China's property sector measures are positive for sentiment. We believe valuations are attractive for investors with a 6-12-month horizon.

FX: The recent rebound in USD/CAD offers an attractive entry point to express a bearish view on the pair.

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Has your bearish USD view changed after the recent US inflation, jobs data??

Is the outlook for China property sector stocks and bonds improving?

What is the technical outlook for Gold and US financial sector stocks?

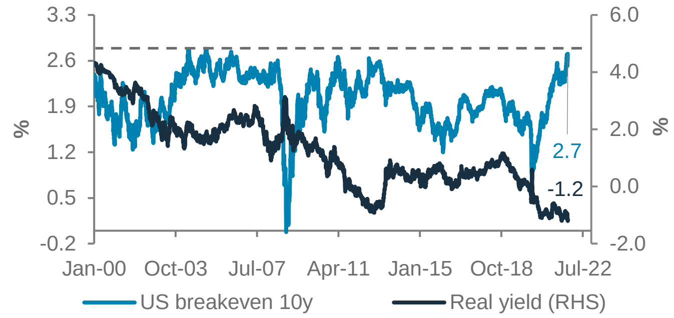
Important disclosures can be found in the Disclosures Appendix.

Charts of the week: Watching inflation expectations

US consumer inflation rose to a 30-year high, but long-term inflation expectations are still within their decade-long range

US headline and core consumer inflation

US 10-year inflation expectations#, real* 10-year bond yield



Source: Bloomberg, Standard Chartered; #Derived from 10-year Treasury Inflation-Protected Securities; *Real yield = Inflation-adjusted yield

Editorial

Getting hotter

The breakout of US inflation to a 30-year high, a surge in US wages and a broadening of price pressures across sectors globally have challenged the central bank narrative that inflation is transitory. Nevertheless, a wide swathe of central banks, led by the Fed and BoE, have made it clear in recent weeks that their priority remains healing job markets, rather than fighting near-term inflation pressures. The decidedly dovish near-term monetary policy outlook, combined with the surprisingly strong rebound in US job creation in October – as special jobless benefits ended and COVID-19 cases declined – leave us constructive on risk assets over the next 6-12 months.

The US Congress's approval of the USD 1trn infrastructure bill is another positive, supporting our outlook for above-trend US growth and strong corporate earnings in the coming year. This should continue to fuel cyclical equity sectors such as energy, financials and industrials, with investor positioning still being light. Gold, which broke higher, and commodity sectors and private real estate are other likely winners from higher inflation. The USD index (DXY) also broke higher, but this could abate if central banks push back against rate hike expectations.

With key US inflation and labour market data out of the way, the focus over the coming weeks will be on these three main areas:

1. **Inflation expectations** – this is arguably a key marker for determining Fed policy. For now, 4-7-year inflation expectations have risen to record highs, but expectations beyond that are still within their 20-year range. We believe the Fed will come under pressure to act if longer-term expectations break higher eg. 10-year expectations# (see chart above) rise towards 3%.

2. **Central bank reaction function** – the upcoming nomination for the Fed Chair's position and to the various Board vacancies is key. There are increased expectations that President Biden will announce the nominations by Thanksgiving Day (25 November). We believe Biden will choose between incumbent Powell and current Fed Board Governor Brainard for the Fed Chair. Both policymakers are from the dovish camp within the Fed – they are more inclined towards letting the economy run 'hot' until unemployment, especially in the lower income segment, falls further, and wages rise higher. Goods inflation is also likely to come off the boil next year. This raises the hurdle for any Fed tightening, although the Fed might choose to accelerate the tapering of bond purchases if inflation and wage pressures continue to rise rapidly. The impact of any such move on the bond market is likely to be limited, though, as Treasury issuance falls next year. Also, higher wages should not be a problem for corporate margins as long as productivity continues to rise due to pandemic-driven technology upgrades.

3. **China's policy direction** – the Communist Party Central Committee set the stage this week for President Xi to stay in power for a record third term. This could set the tone for future policy. Investors have been disappointed with the lack of major stimulus to revive growth, as authorities focus on deleveraging the property sector, redistributing income and driving investments into strategic industries. However, we see nascent signs of relaxation of some property sector measures (page 5).

A well-calibrated, policy-driven slowdown in China – aimed at putting growth on a more sustainable long-term path – is not necessarily negative for global risk assets in the near term. If anything, a managed slowdown in China, while the rest of the world (and especially the US) is heating up, would help keep global inflation pressures, especially from commodity prices, in check. In many ways, this is the reverse of the aftermath of the last Global Financial Crisis when China stimulated its economy, offsetting the deflationary impulses from the Developed Markets. Such a scenario, along with structural deflation pressures in the Japan, and arguably the Euro area, would leave space for Developed Markets' central banks to stay accommodative for longer, prolonging the reflationary cycle.

— 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: Falling global COVID cases, US job gains, infrastructure bill

(-) factors: Rising inflation, revival in Euro area COVID cases

	Positive for risk assets	Negative for risk assets
COVID-19	• New cases in the US, UK, Australia, Japan, Singapore and most of Asia, and Latin America continued to fall or stabilised at low levels • Hospitalisations in most countries stayed well below last winter's peak levels • US lifted entry restrictions for vaccinated travellers from over 30 countries	• New cases rose across the Euro area and South Korea, and hit record highs in Germany, New Zealand and Russia • Several Chinese cities remained under lockdown amid recent COVID cases • A report said US vaccine mandates could reduce port workers ahead of Christmas
	Our assessment: Neutral – Falling global cases, subdued hospitalisations vs revival in Euro area	
Macro data	• US job creation rose more than expected in October, unemployment rate fell to 4.6% and initial jobless claims fell last week to a new pandemic low • Euro area retail sales rose above forecast; economic sentiment (ZEW), investor confidence (Sentix) rose • China exports rose more than expected; steps taken to boost coal output	• US consumer inflation rose to 6.2%, the highest since 1990, beating expectations; producer prices accelerated • German inflation rose to 4.6%, the highest since 1993; exports, industrial output unexpectedly fell • China's consumer and producer inflation rose more than expected; aggregate lending fell below forecasts
	Our assessment: Neutral – Strong US job market vs rising US, German inflation	
Policy developments	• US Congress approved USD 1trn infrastructure bill • PBoC announced low-cost loans to help companies cut carbon emissions	
	Our assessment: Positive – US infrastructure, China stimulus	
Other developments	• China, US agreed to work together on climate issues	• Reports said US warned Russia may invade Ukraine
	Our assessment: Neutral – China-US climate cooperation vs Russia-Ukraine uncertainty	

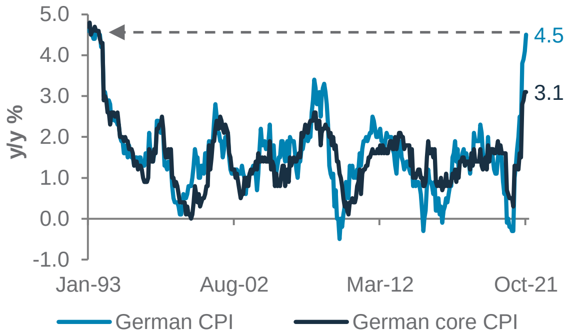
Gold has broken higher as inflation accelerated in the US, Euro area and China

Gold prices (USD/oz)

Source: Bloomberg, Standard Chartered

German inflationary pressures have risen, partly due to supply bottlenecks and energy prices, which we expect to dissipate by H2 2022

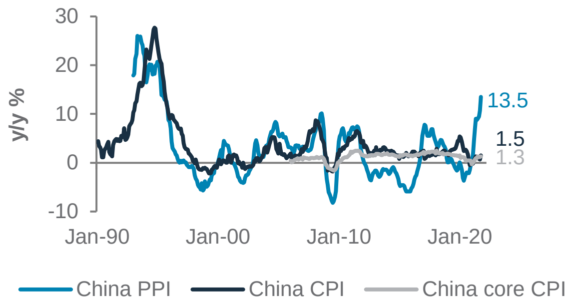
German headline and core consumer inflation



Source: Bloomberg, Standard Chartered

China's consumer inflation rose in October, but remained well below PBoC's 3% target; the surge in producer inflation needs to be watched closely

China's consumer and producer price inflation



Source: Bloomberg, Standard Chartered

Top client questions

What do potentially higher inflation expectations mean for equity sectors?

A scenario of higher and prolonged inflation raises potential headwinds for equities, though the sector impact is likely to vary. Higher costs could hurt corporate profit margins at some point, dragging earnings growth. Such uncertainties may also hurt capex plans of companies. Central banks, including the Fed, may be forced to bring forward their tightening plans, reducing liquidity support for the market. Having said that, the passing of the US USD 1tn infrastructure bill should help offset some of the coming fiscal drag.

From an equity sector point of view, fiscal policy is expected to lend a tailwind to the US industrial sector due to the investment ramp-up in highways, high-speed internet and other policy priorities aimed at retaining US leadership across several key industries. Technically, the MSCI US Industrials index has broken above key resistance at 400, a resistance level that had otherwise held for most of 2021.

A higher inflation scenario supports our bias towards rising US Treasury yields, further lending tailwind to our theme of rotation from Growth into Value sectors, such as energy and financials.

— **Daniel Lam, CFA,** *Senior Cross-asset Strategist*

US industrial sector equities have broken higher after the strong inflation data and passage of the USD 1tn infrastructure bill

MSCI US industrial sector index

Source: Bloomberg, Standard Chartered

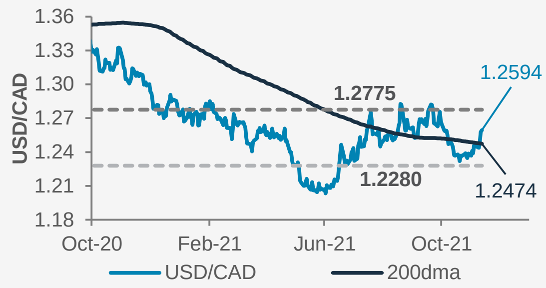
Has your bearish USD view changed after recent US inflation and jobs data?

Over the past weeks, we have highlighted our expectation that high beta currencies were likely to correct and weaken towards attractive entry levels for investors. Indeed, the stronger US employment and inflation data pushed the USD index (DXY) above resistance at 95, and EUR/USD has slipped below support at 1.1490. If EUR/USD fails to bounce back above 1.15, the next level of support comes in at 1.1290. The USD may be choppy, with a bid tone ahead of the November US employment and inflation data releases and the mid-December Fed meeting. In the interim we expect Fed officials to tread a delicate balance and push back against aggressive rate hike expectations. Real US Treasury yields should stay low, supporting risk assets. These conditions should underpin high beta currencies, with the CAD also benefiting from a more hawkish central bank.

AUD/USD should find technical support at 0.7210 - 0.7275 and may offer investors a good buying opportunity for a rally to re-test 0.7560 resistance. A break below 0.7170, though, would be a warning signal and a fall below 0.71 would likely turn the short-term outlook bearish. USD/CAD pushed above initial resistance at 1.2520 but we expect the 1.2590 – 1.2670 technical resistance band to hold and set up a decline to test 1.2280 and an eventual fall towards 1.20. A sustained rally above 1.2775, though, would turn the short-term outlook neutral and risk a test of the 2021 high around 1.2950.

USD/CAD has retraced 50% of its previous decline and offers an increasingly attractive entry point to express a bearish view on the pair

USD/CAD (daily) with key technical levels



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Have there been any significant developments that improve the China property sector bonds and stocks outlook?

We continue to believe there are three factors that investors should watch out for as potential catalysts for a turn in sentiment towards the China property sector: (1) signs of government intervention, (2) any indications of a reduction in funding stress, and (3) avoidance of measures that extends stress to higher quality developers.

In this context, over the past week, China real estate equities and bonds rebounded as several reports tentatively suggested some dialling back of policy tightness:

1. Reuters reported that several developers reportedly met with the Development Research Centre of the State Council on 8 November.
2. China's Securities Times reported that selected developers are authorised to issue inter-bank market bonds again.
3. A Cailian report said some state-owned developers made a request to regulators to allow debt raised for M&A purposes to be exempted from the 3 Red Lines measures of indebtedness

On the margin, we view these developments as positive for the sector's liquidity profile and supportive of a short-term improvement in market sentiment. However, a long-lasting improvement is likely to need a more significant shift on the 3 potential catalysts we laid out above.

On a longer 6-12 month horizon, we continue to see value in Asia USD bonds in the context of a well-diversified investment allocation, with a preference within that towards Asia HY bonds, given the extent of worries which now appear to be already priced in. In equities, though, we retain our core holding view on Asia ex-Japan, with our relative preference for the US and Euro area equity markets.

— **Cedric Lam,** *Senior Investment Strategist*

China's USD-denominated corporate bond spreads tightened this week amid expectations of relaxation of property measures

China USD bond yield premium over Treasuries

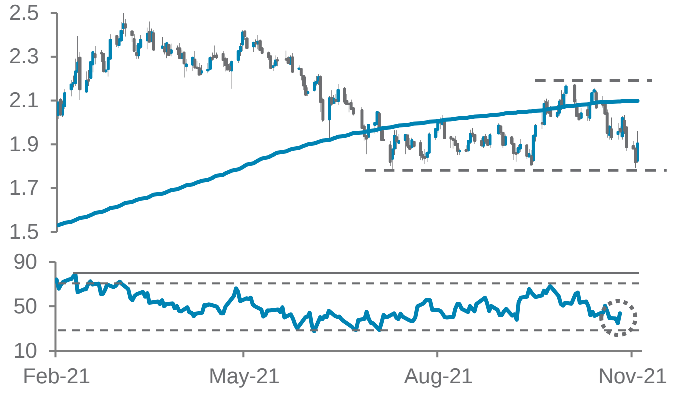
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

US 30-year Treasury yield: Range scenario intact

US 30-year Treasury yield daily chart with 200-DMA and RSI

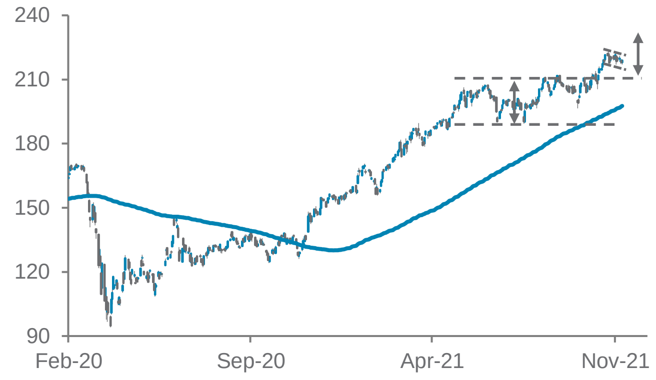


Source: Refinitiv, Standard Chartered

The rebound in yields associated with feeble momentum does not alter the short-term range scenario. Indeed, the rebound is not surprising given the strong support. The yield would need to break above resistance on the 200-DMA and the October high of 2.18% for the outlook to turn yield bullish.

US Financial sector equities: Holding gains

MSCI US Financial sector index daily chart with 200-DMA



Source: Bloomberg, Standard Chartered

The index has consolidated in a range recently following the bullish break last month. The broader trend remains up, with quite strong immediate support on a horizontal trendline from August. Only a break below the 200-DMA (now at 198, 9.5% below Thursday's close) would pose a risk to the uptrend.

Gold: Breaks above key resistance

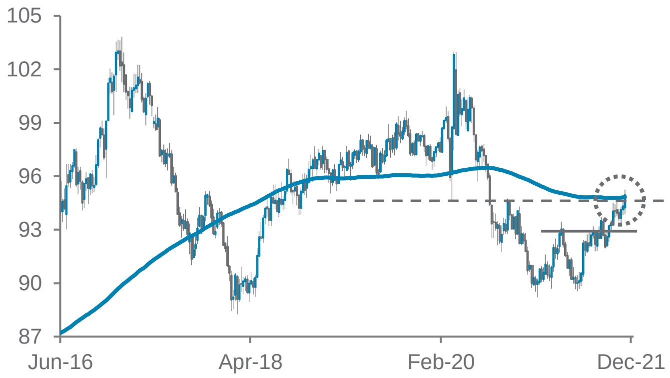
XAU/USD daily chart with 200-DMA

Source: Refinitiv, Standard Chartered

Gold's break above key resistance on the 200-DMA and the horizontal trendline at 1,835 has reduced downside risks prevalent for much of this year. However, the yellow metal needs to break above the June high of 1,916 for the medium-term outlook to turn bullish.

USD: Make or break

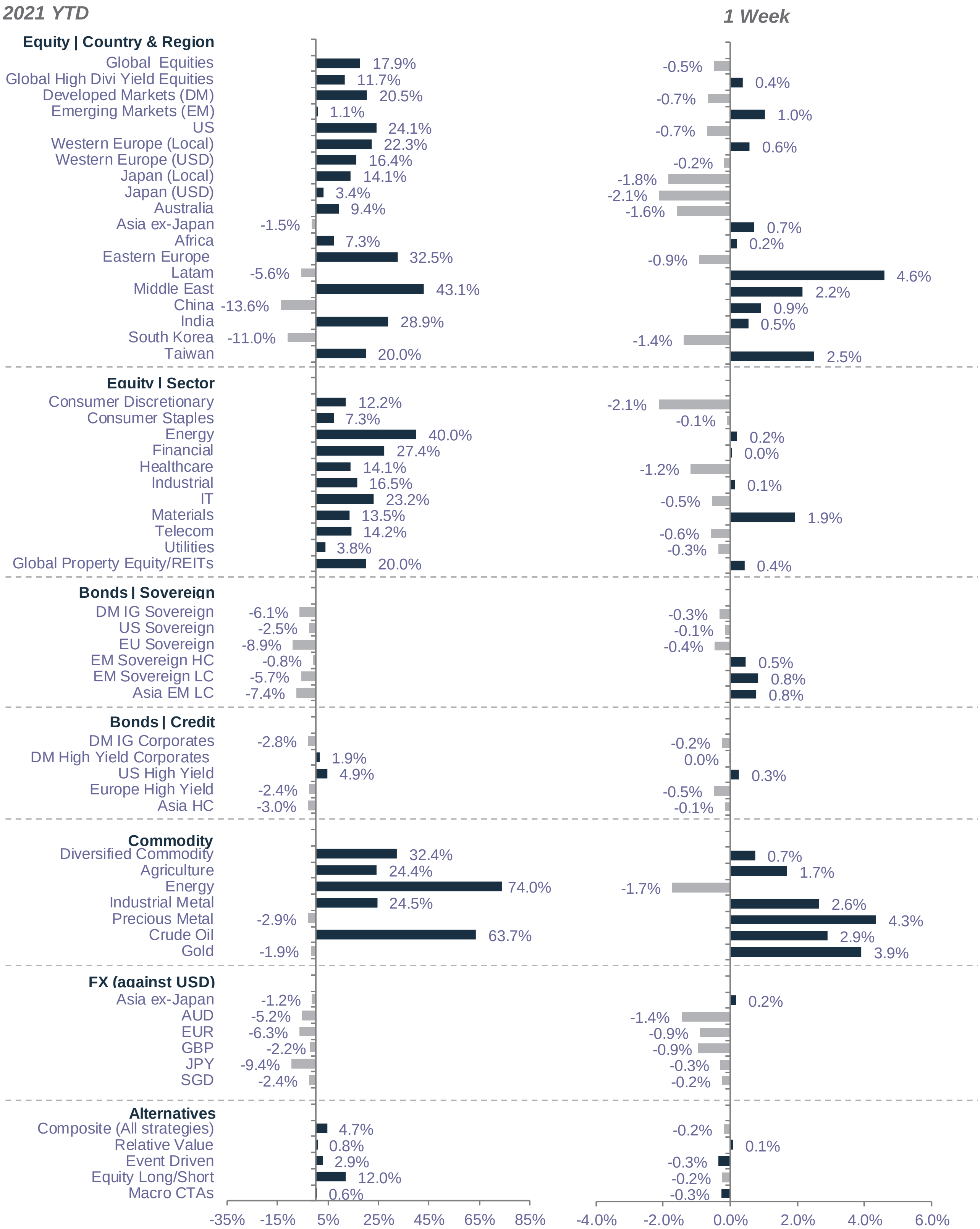
DXY index weekly chart with 200-WMA



Source: Refinitiv, Standard Chartered

The USD index (DXY) is testing crucial resistance that could either solidify this year's uptrend or trigger a resumption of the medium-term downtrend. For the latter scenario to hold, at the very least, the index needs to break below immediate support at the end-October low of 93.28.

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 11 November 2021; 1-week period: 04 November 2021 to 11 November 2021

Our 12-month asset class views at a glance

Asset class			
Equities	▲	**Alternatives**	◆
Euro area	▲	Equity hedge	▲
US	▲	Event-driven	◆
UK	◆	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

Economic and market calendar

	Event	Next week	Period	Prior
MON	CH	Retail Sales y/y	Oct	4.4%
	CH	Industrial Production y/y	Oct	3.1%
	CH	Fixed Assets Ex Rural YTD y/y	Oct	7.3%
	CH	Property Investment YTD y/y	Oct	8.8%
TUE	US	Retail Sales Ex Auto & Gas	Oct	0.7%
	US	Industrial Production m/m	Oct	-1.3%
WED	UK	CPI Core y/y	Oct	2.9%
	EU	Eurozone CPI	Oct	3.4%
	US	Housing Starts	Oct	1555k
THUR				
FRI/SAT	GE	PPI y/y	Oct	14.2%

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

The US 10-year Treasury yield faces resistance at 1.59%

Technical indicators for key markets as on 11 November 2021

Index	Spot	1st support	1st resistance
S&P500	4,649	4,630	4,685
STOXX 50	4,358	4,347	4,366
FTSE 100	7,384	7,311	7,421
Nikkei 225	29,278	29,053	29,557
Shanghai Comp	3,533	3,505	3,547
Hang Seng	25,248	24,925	25,409
MSCI Asia ex-Japan	818	811	821
MSCI EM	1,281	1,270	1,287
Brent (ICE)	82.9	82.1	84.2
Gold	1,862	1,833	1,876
UST 10Y Yield	1.55	1.47	1.59

Source: Bloomberg, Standard Chartered

Investor diversity remains normal across major assets

Our proprietary market diversity indicators as of 10 November

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.59
Global Equities	●	↓	1.54
Gold	◐	↓	1.43
Equity			
MSCI US	◐	↓	1.45
MSCI Europe	●	↑	2.00
MSCI AC AXJ	●	↑	1.69
Fixed Income			
DM Corp Bond	●	↑	2.16
DM High Yield	●	↑	2.10
EM USD	●	↑	2.20
EM Local	●	↑	1.62
Asia USD	◐	↓	1.48
Currencies			
EUR/USD	◐	→	1.43

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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