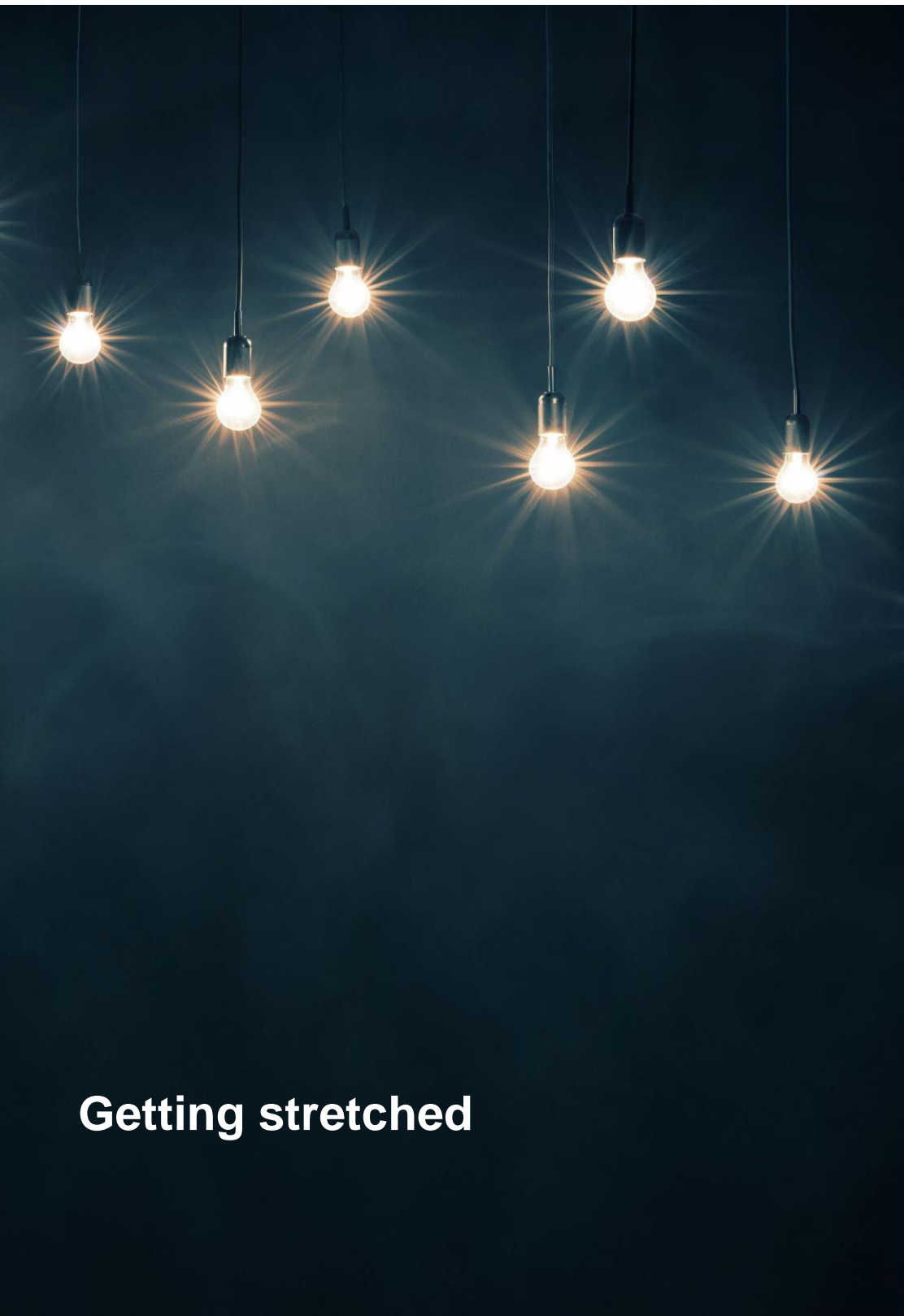


Weekly Market View



Getting stretched

Equities look increasingly vulnerable, making it imprudent to chase the rally. Any retreat is likely to be short-lived, though

Equities: A surge in M&As has emerged as the latest catalyst in the equity rally

Bonds: Asian USD bonds are likely to remain well supported despite the surge in High Yield bond issuance. The asset class is dominated by investment grade issuers

FX: We see limited further upside in USD/JPY

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Chart of the week: Global stocks face tough resistance

Global equities (MSCI All Country World Index) testing January 2018's all-time high



Source: Bloomberg, Standard Chartered

Editorial

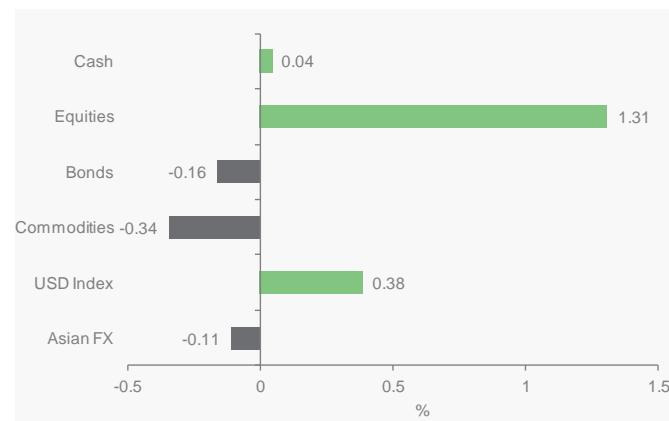
Getting stretched

Further gains in risk assets over the past week make them more vulnerable to a near-term pullback, making it imprudent to chase the ongoing rally at this juncture, in our view. Global stocks (MSCI All-Country World Index) are testing a major resistance (early 2018 record high). While large M&A deals, stabilisation of global growth and signs of more stimulus in China are among the factors that have likely sustained the rally thus far, technical indicators are getting increasingly stretched (see page 5). Any delay in the expected partial US-China trade deal could be a trigger for such a reversal. The US bill approved by President Trump supporting democracy in Hong Kong could potentially delay an interim trade deal.

Any near-term retreat is likely to be shallow, though (i.e. not of the Q4 2018 scale of 10% or more), opening up an opportunity to add exposure. There are signs of business confidence indicators bottoming in Europe. Meanwhile, this year's rebound in US core inflation seems to be flagging – which supports our view that the Fed will remain dovish in 2020. These factors are supportive of medium-term gains in risk assets, albeit following a likely near-term pullback.

Global equities resumed their climb following a week of consolidation, lifted by large M&A deals, signs of stabilisation in global growth and more stimulus 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 21 November 2019 to 28 November 2019

China upsizes the stimulus

China's decision to pre-approve CNY 1trn of local government bond sales for 2020 is yet another sign that the government is likely preparing to step up policy measures to support the economy. The pre-approved bond sales quota is almost half of this year's projected bond sales and is explicitly aimed at promoting infrastructure projects and expanding domestic demand. The central government also urged local governments to accelerate loan disbursement to specific projects so that they can start early. The earlier-than-usual approvals (which are usually done at the National People's Congress in March every year) suggest that the authorities are pushing for an immediate pick-up in infrastructure investment to counter sustained weakness in recent economic data. The 10% y/y drop in China's industrial profits in October reported this week underscores the extent of the slowdown in the manufacturing sector.

Infrastructure spending has been the missing element in China's gradual policy support measures, which has thus far included tax cuts for households and companies, and more recently, cuts in interest rates, including for mortgages. A rebound in infrastructure investment could potentially revive the manufacturing sector and help support China equities. The Shanghai Composite index is 4.2% below the next key resistance level.

UK poll signals Conservative party majority

The latest YouGov poll pointed to a 68-seat majority for the UK's ruling Conservative Party. That would be the largest since Margaret Thatcher was the Prime Minister in the 1980s. This is particularly significant, in our view, given that a similar poll was the best predictor of the outcome of the previous election in 2017. Other polls so far have also pointed to a sizeable lead for the Conservatives in the share of votes.

While it is still early to conclude the outcome of the 12 December elections (note that pre-poll surveys have a wide margin of error), a significant victory would enable PM Johnson to get parliament's approval for the Brexit deal that he negotiated with the EU. It should also give him significant leverage in subsequent negotiations to reach a trade deal with the EU and other major economies.

Such a scenario would be bullish for the GBP, in our opinion. GBP/USD has traded in a narrow range between 1.28-1.30 after surging more than 6% in the middle of October. Technical charts argue that a break of 1.30 could take the pair to 1.3170, followed by 1.3385.

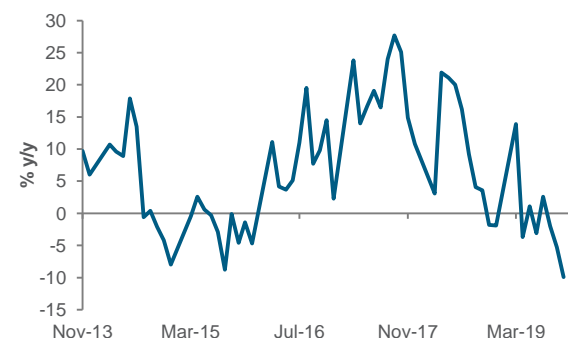
On our radar: China reaction to HK bill, US jobs data, PMIs

President Trump's signing of a bill supporting democracy in Hong Kong risks a breakdown in the US-China trade talks in the near term. China has said it would retaliate if the bill was signed into law. Given the equity market rally since October has been supported by expectations of a partial trade deal, any delay here could trigger a temporary market drawdown. Hong Kong's Hang Seng index has struggled to sustain its recent rally, facing resistance at 27,228.

US job data for November is another focus. The payroll numbers are likely to be distorted for the second month due to the return of General Motors' striking workers to the workforce, but a robust underlying trend is likely to support consumption in the coming holiday season. A sustained recovery in US business confidence data (ISM) for manufacturing and services sectors for November would be supportive of the ongoing rally in risk assets.

China's industrial profits suffered their biggest annual decline on record in October, increasing pressure on policymakers to support the economy

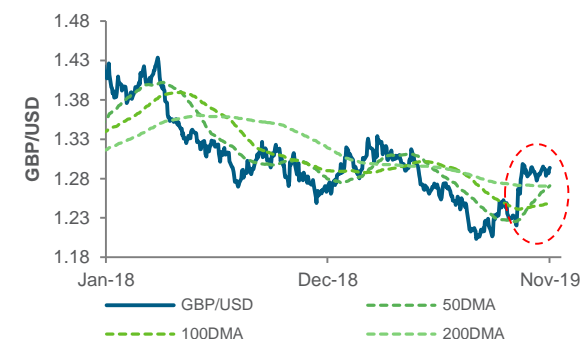
China's industrial profits



Source: Bloomberg, Standard Chartered

GBP/USD has plateaued over the past couple of months as markets await the outcome of 12 December elections

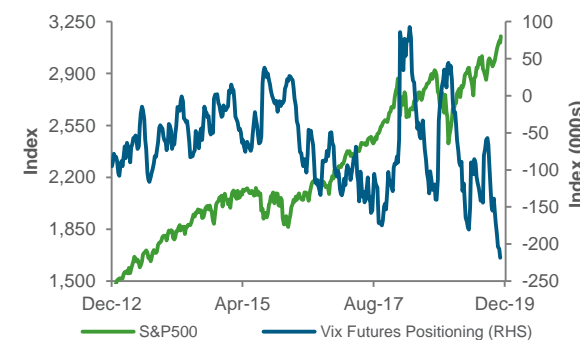
GBP/USD



Source: Bloomberg, Standard Chartered

Investors do not appear to be positioned for a rise in volatility, implying any negative surprise could jolt equities and other risk assets

S&P500 index and VIX (CBOE volatility index) futures positioning



Source: Bloomberg, Standard Chartered

What does this mean for investors?

Equities

What is the significance of the recent M&As? Merger & acquisition (M&A) announcements surged over the past week, with a total of USD 50bn in deal announcements: Online brokerage Charles Schwab agreed to acquire TD Ameritrade for USD 25bn, fashion house LVMH agreed to acquire Tiffany for USD 16.6bn and pharmaceutical producer Novartis acquired The Medicines Company for USD 9.7bn.

The surge in M&A activity has emerged as a new catalyst driving US equities higher. The value of US M&A activity rose to USD 1.67trn in the first nine months of 2019, a record high. However, on a global basis, the value of deals declined slightly to USD 3.05trn from a year ago. Typically, M&A activity tends to peak in the same year as the economic cycle peaks, which means it acts as a 'coincident indicator'. It is also worth noting that each cycle tends to see a new high in M&A. Given we are yet to beat the 2017 high of USD 3.5trn in global M&A activity, the current business cycle likely has further to go. This, in turn, supports our bullish view of US equities in the next 6-12 months.

Hong Kong equities edged higher earlier in the week amid de-escalation of domestic tensions and the debut of Alibaba on the Hong Kong Exchange. The company will be admitted to the Hang Seng index earlier than expected on 9 December. Big IPOs are typically supportive of equity market sentiment, which could help offset Hong Kong's domestic political and global trade-related uncertainties.

Bonds

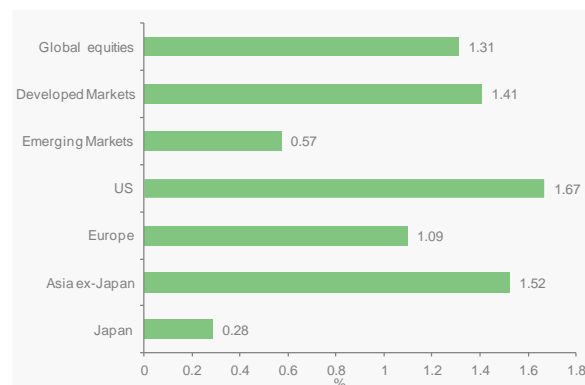
Could the surge in Asia bond issuance undermine performance? Asian USD bond yield premiums were relatively unchanged, as a large amount of new bond issuance was offset by the relatively defensive qualities of the asset class. According to Bloomberg, Asian High Yield (HY) USD bond issuance has exceeded USD 100bn within a year for the first time, driven largely by Chinese HY issuers. Although the issuances have resulted in a modest increase in the proportion of HY bonds in the Asian USD bond universe, Investment Grade (IG) bonds still constitute over 75% of the universe and the average credit quality has remained stable. Given sound fundamentals and a dedicated regional investor base, we continue to like Asian USD bonds.

FX

Is it time for a pullback in USD/JPY? USD/JPY rose to a five-month high at 109.60, although momentum has been weak thus far. Looking at the longer-term chart, we can identify a strong downtrend line from June 2015 that now crosses near 110.60. We also see a retracement level from the April 2019 high (112.40) to the August 2019 low (104.41) at 110.51. Technical resistance between 110.50 and 110.60 should, therefore, provide a hurdle against further gains.

From a fundamental perspective, currency markets appear to be in a holding pattern, awaiting a 'phase one' US-China trade deal announcement. A strong deal would likely push USD/CNY lower, and the broad USD should also decline as risk sentiment improves. The decline in USD/JPY may be muted as demand for safe havens falls, but we expect it would eventually follow the broad trend lower. A disappointing trade deal (or a delay) could push USD/JPY sharply lower as investors seek safety. On balance, we see limited risk-reward for long USD/JPY positions from current levels around 109.50.

Benchmark (USD) equity market performance w/w*



Source: MSCI, Bloomberg, Standard Chartered
 *Week of 21 November 2019 to 28 November 2019

Developed equity market technicals remain positive

Technical levels of key markets as of 28 November 2019

Index	Spot	1st support	1st resistance	Short-term trend
S&P 500	3,154	3,090	3,210	↑
STOXX 50	3,704	3,594	3,760	↗
FTSE 100	7,416	7,290	7,530	↗
Nikkei 225	23,409	22,700	23,635	↗
Shanghai Comp	2,890	2,825	3,000	↘
Hang Seng	26,894	26,200	27,340	→
MSCI Asia ex-Japan	656	637	669	→
MSCI EM	1,050	1,038	1,075	→
Brent (ICE)	64	60	67	↗
Gold	1,456	1,425	1,495	→
UST 10Y Yield	1.77	1.68	2.00	↗

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

Asian High Yield USD bond issuance has surged this year, but they remain less than a quarter of the asset class universe

Asia HY USD bonds as percentage of Asia USD bond index



Source: Bloomberg, Standard Chartered

Top client question

Q Are technical charts for equity markets getting stretched?

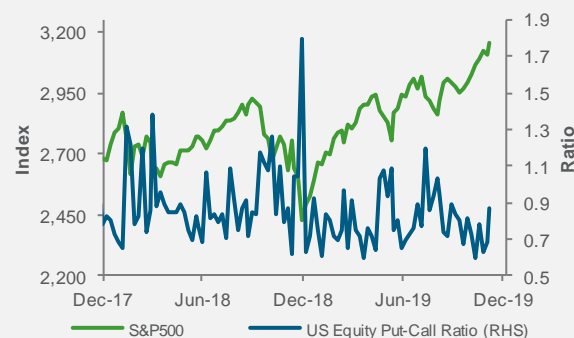
The S&P 500 index has risen to a fresh record this week, defying the key resistance area we pointed out last week. This includes the upper edge of a rising channel from 2018 (now at about 3125; -0.9% from Wednesday's close of 3154) and the upper edge of another rising channel from June 2019 (at about 3165; +0.3% from Wednesday's close). The Relative Strength Index (a measure of market momentum) on the daily and weekly charts have further moved into overbought territory from last week. The retreats in Q2 (-7.6%) and Q3 (-6.7%) were preceded by similar levels on the 14-day RSI readings.

Moreover, sentiment indicators like the short VIX positioning (i.e. investors positioned for lower volatility and higher index levels remains at the lowest on record) imply that bullish sentiment is at an extreme. The US equities (S&P500 index) put-call ratio is just off a near four-month low, indicating reduced fear in the market. However, the sentiment and technical indicators are necessary, but not sufficient, conditions to lead to a pullback. A catalyst is still needed. There is minor support at the 20 November low of 3091 (2% below Wednesday's close), and fairly strong support at the July high of 3028 (4% below Wednesday's close). A break below 3028 could indicate that the short-term upward pressure had eased.

Beyond the short term, however, the strength of the move reflects that this recent rally is not just a dead-cat bounce, but a fresh leg higher in the bull market. Hence, any retreat could be short lived and would open up an opportunity to add exposure, in our view.

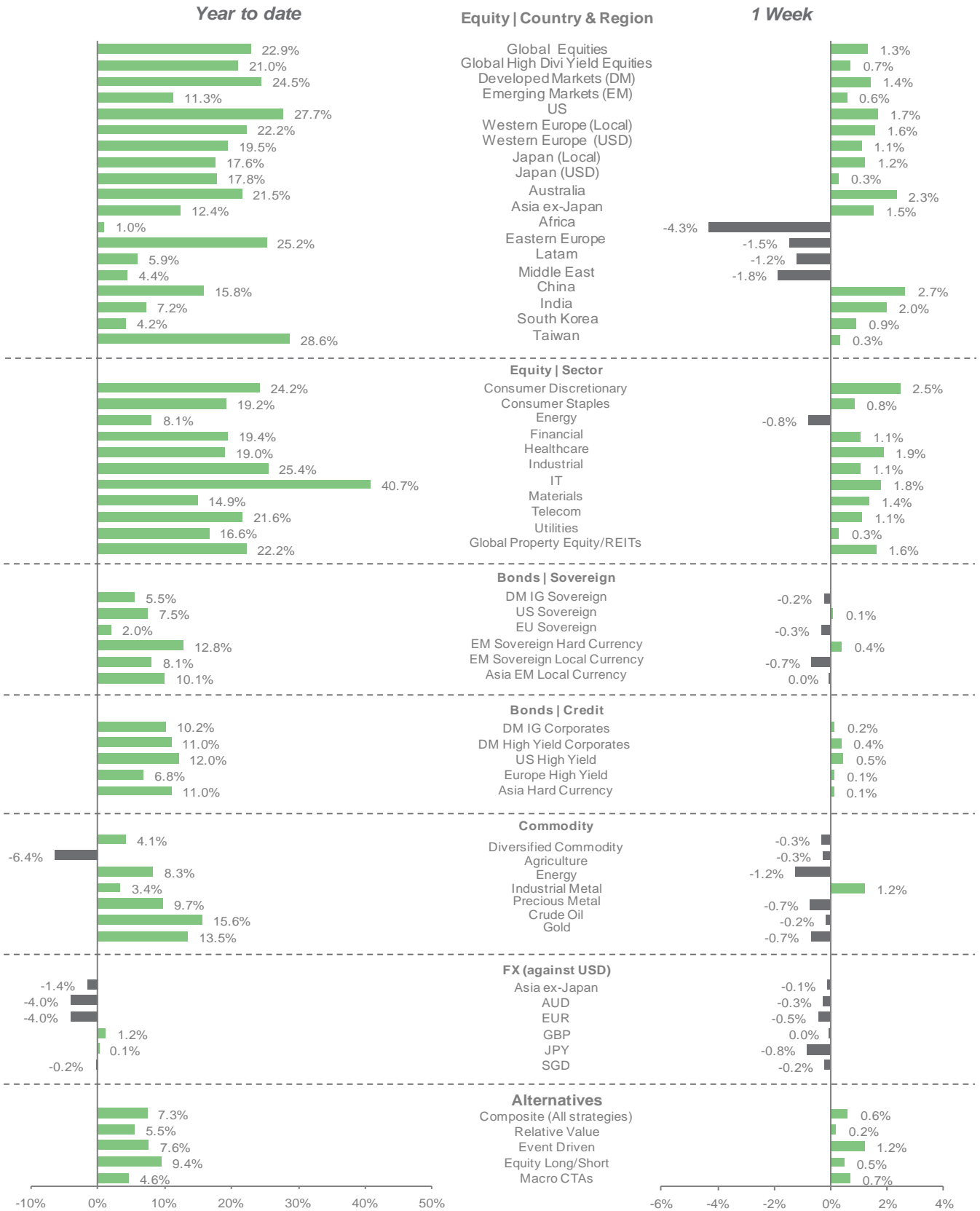
US S&P500 put-call ratio is just off a four-month low, indicating reduced fear in the market

S&P 500 index and put-call ratio



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, YTD period from 31 December 2018 to 28 November 2019, 1 week period: 21 November 2019 to 28 November 2019

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	SK	Markit South Korea PMI Mfg	02-Dec-19	Nov	–	48.4
	US	ISM Manufacturing	02-Dec-19	Nov	49.5	48.3
TUE	AU	RBA Cash Rate Target	03-Dec-19	3-Dec	0.8%	0.8%
WED	CH	Caixin China PMI Composite	04-Dec-19	Nov	–	52.0
	IN	Markit India PMI Composite	04-Dec-19	Nov	–	49.6
	US	ISM Non-Manufacturing Index	04-Dec-19	Nov	54.5	54.7
THUR	IN	RBI Repurchase Rate	05-Dec-19	5-Dec	4.9%	5.2%
	GE	Factory Orders WDA y/y	05-Dec-19	Oct	-2.2%	-5.4%
	EC	Retail Sales y/y	05-Dec-19	Oct	–	3.1%
	US	Trade Balance	05-Dec-19	Oct	-\$48.9b	-\$52.5b
FRI/SAT	GE	Industrial Production WDA y/y	06-Dec-19	Oct	-3.4%	-4.3%
	US	Change in Nonfarm Payrolls	06-Dec-19	Nov	190k	128k
	US	Unemployment Rate	06-Dec-19	Nov	3.6%	3.6%
	US	Average Hourly Earnings y/y	06-Dec-19	Nov	3.0%	3.0%
	US	U. of Mich. Sentiment	06-Dec-19	Dec P	97.0	96.8
	Event	This Week	Date	Period	Actual	Prior
MON	GE	IFO Expectations	25-Nov-19	Nov	92.1	91.6
TUE	US	Conf. Board Consumer Confidence	26-Nov-19	Nov	125.5	126.1
WED	US	GDP Annualized q/q	27-Nov-19	3Q S	2.1%	1.9%
	US	Personal Consumption	27-Nov-19	3Q S	2.9%	2.9%
	US	Core PCE q/q	27-Nov-19	3Q S	2.1%	2.2%
	US	Durable Goods Orders	27-Nov-19	Oct P	0.6%	-1.4%
	US	Cap Goods Orders Nondef Ex Air	27-Nov-19	Oct P	1.2%	-0.5%
	US	Personal Income	27-Nov-19	Oct	0.0%	0.3%
	US	Real Personal Spending	27-Nov-19	Oct	0.1%	0.2%
	THUR	JN	Retail Sales y/y	28-Nov-19	Oct	-7.1%
EC		M3 Money Supply y/y	28-Nov-19	Oct	5.6%	5.6%
EC		Economic Confidence	28-Nov-19	Nov	101.3	100.8
GE		CPI EU Harmonized y/y	28-Nov-19	Nov P	1.2%	0.9%
FRI/SAT	JN	Industrial Production y/y	29-Nov-19	Oct P	–	1.3%
	JN	Consumer Confidence Index	29-Nov-19	Nov	–	36.2
	EC	CPI Core y/y	29-Nov-19	Nov P	–	1.1%

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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