

Weekly Market View

Recovery meets virus roadblock

Equities and other risk assets are showing signs of fatigue after a three-month rally. Rising COVID-19 cases in the US could be a trigger for a short-term pullback. We would use any reversal as an opportunity to add to risk assets as economic data and earnings expectations continue to improve

Equities: US, European and Asia ex-Japan benchmarks have strong technical support around 10% below current levels; we do not expect the supports to break

Bonds: We would use any pullback in risk assets to add to Emerging Market USD and Asia USD bonds

FX: EUR/USD could see near-term weakness as the USD bounces; 1.1030 is a strong support for the pair

Recovery meets virus roadblock

Also find out...

How the virus risks stack up against improving economic data and rising policy support

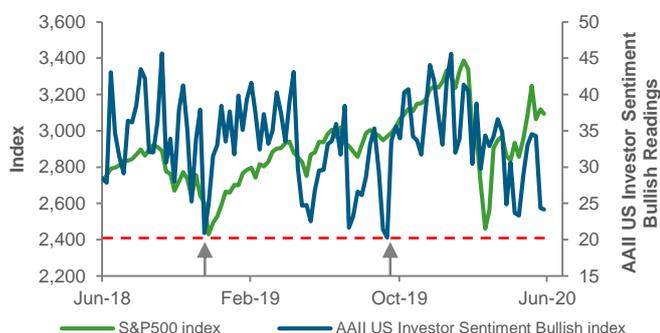
Do technical charts indicate that the rally in equities is over?

What is the short-term outlook for the USD?

Chart of the week: Investor sentiment flagging despite strong data

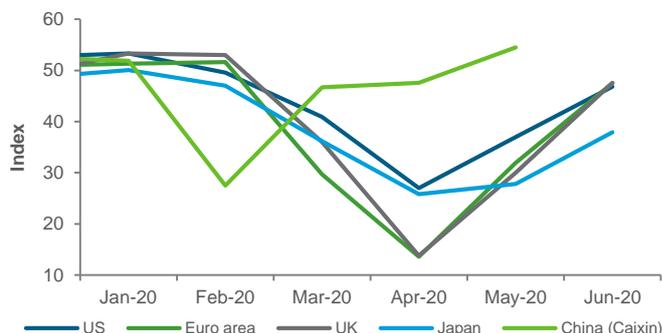
Rising COVID-19 cases in the US has hurt investor sentiment; however, we believe the rebound in data should support the risk asset rally

AAII US bullish investor sentiment and S&P500 indices



Source: Bloomberg, Standard Chartered

Business confidence indicators (composite PMIs) in major economies



Editorial

Recovery meets virus roadblock

The tussle between the bulls and bears is likely to turn in favour of the bears in the near term. Technical charts are flagging the risk of a consolidation in risk assets in the coming weeks, and investor sentiment has weakened. However, the S&P 500, Stoxx Europe 600 and MSCI Asia ex-Japan equity indices will need to break through strong support levels at around 2,767, 323 and 583, all about 10% below current levels, for the medium-term uptrend to be challenged (see page 3 for details).

The immediate threat to the three-month long rally in risk assets is likely the rise in COVID-19 infections to new record highs in large southern US states such as California, Florida and Texas. The outbreak has forced New York and other northeast states to impose quarantines on visitors from the affected states. Meanwhile, the pandemic continues to worsen in key Emerging Markets (EMs) such as India, Brazil, South Africa, Mexico and Indonesia.

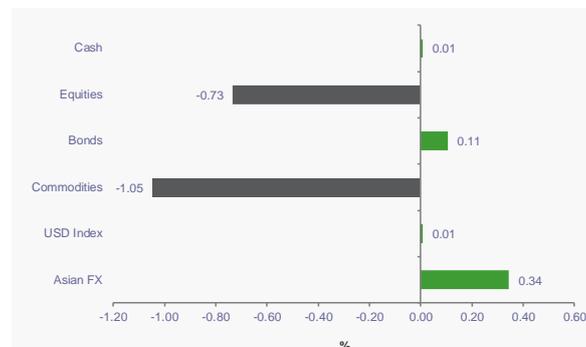
The good news is that Europe and north Asia appear to have successfully prevented a second wave so far after re-opening economies 2-3 months ago. Beijing's reported success in bringing a new cluster of infections under control over the past week shows the rapid build-up of health system capacities to test, track and isolate affected patients before cases turn into a large-scale outbreak.

We also take comfort from record stimulus measures, which are already filtering through to an improvement in economic data and corporate earnings expectations. Global business confidence indicators for June (PMIs) suggested a second month of recovery in economic activity from the depths of the pandemic crisis in March-April. This supports our view that major economies should return to growth in Q3. There are also growing expectations of more stimulus, including in the US (see page 2).

Thus, we see a major breakdown in risk assets as a low probability outcome. Indeed, we would view any short-term reversal as a healthy pullback after the sharp rebound since March, opening up opportunities to add exposure to our preferred assets: US and Asia ex-Japan equities (with a preference for the healthcare and technology sectors), EM and Asia USD bonds and currencies such as the EUR, AUD and GBP. Gold remains a key hedge against risks, such as any revival of US-China tensions in the run-up to the November US election.

Global equities gave back the previous week's gains and government bonds rose amid concerns about rising virus cases in some US states

Benchmark market performance w/w*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered

*Week of 18 June 2020 to 25 June 2020

The S&P500 index has support 1.2% below current level

Technical indicators for key markets as on 25 June 2020

Index	Spot	1st support	1st resistance
S&P	3,084	3,046	3,127
STOXX 50	3,219	3,177	3,280
FTSE 100	6,147	6,074	6,270
Nikkei 225	22,475	22,307	22,596
Shanghai Comp	2,980	2,970	2,984
Hang Seng	24,651	24,472	24,868
MSCI Asia ex-Japan	653	649	658
MSCI EM	1,004	998	1,013
Brent (ICE)	41.5	40.2	43.0
Gold	1,761	1,745	1,777
UST 10Y Yield	0.68	0.66	0.70

Source: Bloomberg, Standard Chartered

The weekly macro balance-sheet

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Beijing officials said a revival of the pandemic that had resulted in a partial lockdown of the city has been brought "under control", though they had found cases of community transmission 	<ul style="list-style-type: none"> US health officials warned of a "disturbing surge" in new cases as daily infections hit a record in California, Florida and Texas New York and other northeast US states imposed 14-day quarantines on visitors from affected southern states. Texas halted a phased re-opening plan Cases in Brazil, India and South Africa continued to rise; cases in Australia, Germany rose again

Our view: There is growing risk of affected US states reinstating lockdowns, though we do not expect the restrictions to be as severe as those imposed in March-April

	Positive for risk assets	Negative for risk assets
Macro data and events	<ul style="list-style-type: none"> Global PMIs (business confidence indicators) jumped for the second month in June. Some markets/sectors (France, UK manufacturing) signalled a return to expansion for the first time since the pandemic US new home sales rose 17% m/m in May, adding to signs of a housing rebound; durable goods orders rose 16% m/m in May German IFO data showed rising expectations for Euro area growth in the next six months, while Euro area consumer confidence continued to rise President Trump said the US-China Phase 1 trade deal was "fully intact"; China said earlier it was committed to buying US farm goods as part of the deal 	<ul style="list-style-type: none"> IMF downgraded global growth forecast for 2020 to -4.9% from -3.0%; it expects India to report its first contraction in 40 years US existing home sales fell 9.7% m/m in May, extending its fall for the third month in a row German producer price y/y contraction accelerated to -2.2% US continuing jobless claims stayed close to 20m, though initial claims fell for 12th week China unveiled a blueprint for a law that will give it tighter control over Hong Kong's security India reportedly plans to impose tariffs on imports from China amid a military standoff US considering more tariffs on USD 7.5bn imports from EU, UK

	Positive for risk assets	Negative for risk assets
Policy developments	<ul style="list-style-type: none"> US Treasury Secretary Mnuchin said the administration is considering another fiscal stimulus, which is expected to pass Congress in July ECB set up new liquidity facility for non-Euro area central banks Italy's PM Conte said more fiscal stimulus was needed, focusing on infrastructure and tax cuts The UK mullied extending its job-retention programme Spain extended its loan guarantee programme for businesses by EUR 50bn 	<ul style="list-style-type: none"> Fed officials Evans, Rosengren warned a hasty re-opening of cities risks resurgence of the pandemic, slowing down the economic recovery An EU Council meeting to discuss a proposed EUR 750bn pandemic recovery plan funded by debt shared among EU members was inconclusive UK's Chief Brexit negotiator said differences with EU stayed wide RBA Governor Lowe said growth would remain mediocre without reforms, with rates staying at current level for years

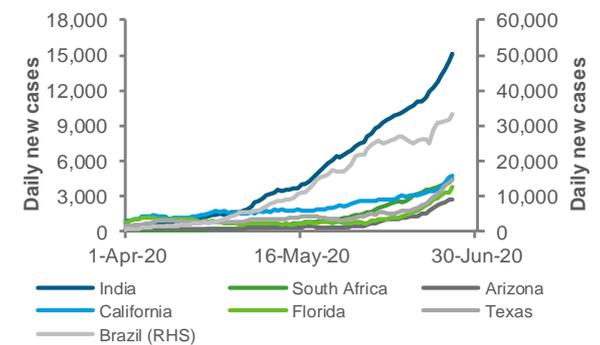
Our weekly net assessment: On balance, we see the continued rise in COVID-19 cases in the US as a threat to risk assets in the near term despite improving macro data and policy development

(+) factor: Improving PMIs, IFO data; President Trump and China's support for a trade deal; and plans for further policy support

(-) factor: Resurgence in COVID-19 and concerns about economies re-opening too rapidly; building disinflation pressures; and US policy risk

New COVID-19 infections hit record highs in large southern US states and in major EMs such as Brazil, India and South Africa

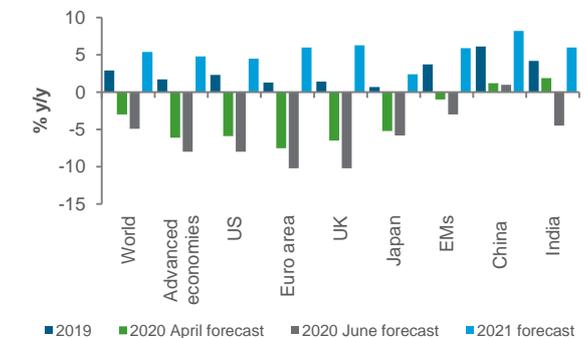
Daily new COVID-19 cases



Source: Bloomberg; Standard Chartered

IMF downgraded 2020 growth forecasts for most major economies, but still expects a growth rebound in 2021

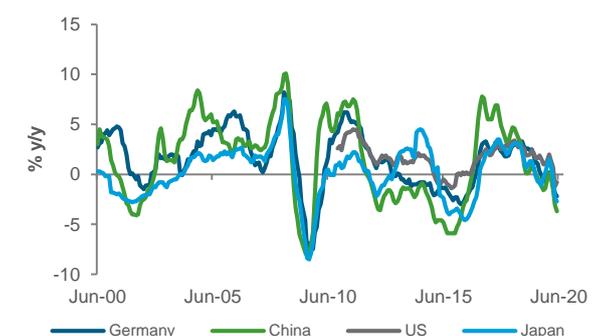
IMF forecasts for growth in key economies for 2020, 2021



Source: Bloomberg, Standard Chartered

Germany's deepening producer prices contraction adds to the global disinflationary trend, keeping pressure on central banks to stimulate further

Producer price inflation in Germany, China, the US and Japan



Source: Bloomberg; Standard Chartered

Top client questions

Q What is the short-term outlook for the USD?

We currently see a window for a brief USD rally.

This implies a brief decline in EUR/USD, since the EUR is the largest component of the DXY (USD index). The pair's rally from 1.0770 to 1.1420 in May-June has already seen a correction back to 1.1170, but we expect another decline to test, and likely break, this level. From a technical perspective, if support at 1.1150-1.1170 fails to hold, we believe the 1.1000-1.1100 level will see strong investor interest to accumulate EUR/USD. Once this downside correction is complete, we expect the next leg higher towards the June high and then the March peak at 1.1490. A break above the latter would be strongly supportive of our medium-term bullish view on EUR/USD.

Unlike the EUR, the JPY is more positively correlated with the USD. In our view, USD/JPY will likely remain capped around 108.00 for now. Support around 106.00 has held since mid-March, but we see a rising risk of a move to test 105.00-105.30 if markets turn more "risk-off". The support level around 105 is expected to hold in the near term.

Another interesting pair to watch is EUR/JPY, where we see initial support around 119.40 and then at 118.25. In line with our medium-term view, we anticipate strong investment flows into EUR/JPY on price declines for an eventual reassertion of the uptrend, initially to 124.40.

Q Do technical charts indicate the rally is over in equities?

As outlined last week, we view the recent softness in equities as a short-term consolidation or pause in the rally. This is reinforced by chart developments in recent days, mainly the failure to close the bearish gap between 10 June and 11 June despite repeated attempts. This follows a retreat from near key resistance at the 24 February high of 3,260.

From a near-term perspective, the mid-June low of 2,966 (below the initial support at 3046) is secondary support to watch. A break below would be a sign of easing upward pressure, but not necessarily a reversal. The three-month long uptrend is unlikely to reverse while the mid-May low of 2,767 (about 10% from Thursday's close) remains intact. While support at 2,966 could be at risk, we assign a low probability of 2,767 being broken. Interestingly, the American Association of Individual Investors bullish sentiment index is now at 24, not far from the 20 mark that has been associated with rebounds in the past.

Like its US counterpart, the Europe Stoxx 600 index attempted to close its bearish gap between 10 June and 11 June, but retreated from resistance at the upper edge of the gap (10 June low of 367). The mid-June low of 345 is the immediate support to watch. A break lower would imply the 3-month long upward pressure has faded. However, the mid-May low of 323 (around 10% below Thursday's close) is a vital support for a bullish view to hold.

The MSCI Asia ex-Japan index (MXASJ) has been capped by a key converged resistance around 665, including the 5 March high and 76.4% retracement of the January-March fall. However, only a break below the 25 May low of 583 (about 11% below Thursday's close) would pose a threat to the rebound since March.

EUR/USD has stronger support at around 1.1030, if the immediate support near 1.1150 breaks

EUR/USD



Source: Bloomberg; Standard Chartered

The S&P500 index has support at 2,967; technical charts suggest it will need to break below 2,767 to reverse the 3 month long uptrend

S&P500 index



Source: Bloomberg; Standard Chartered

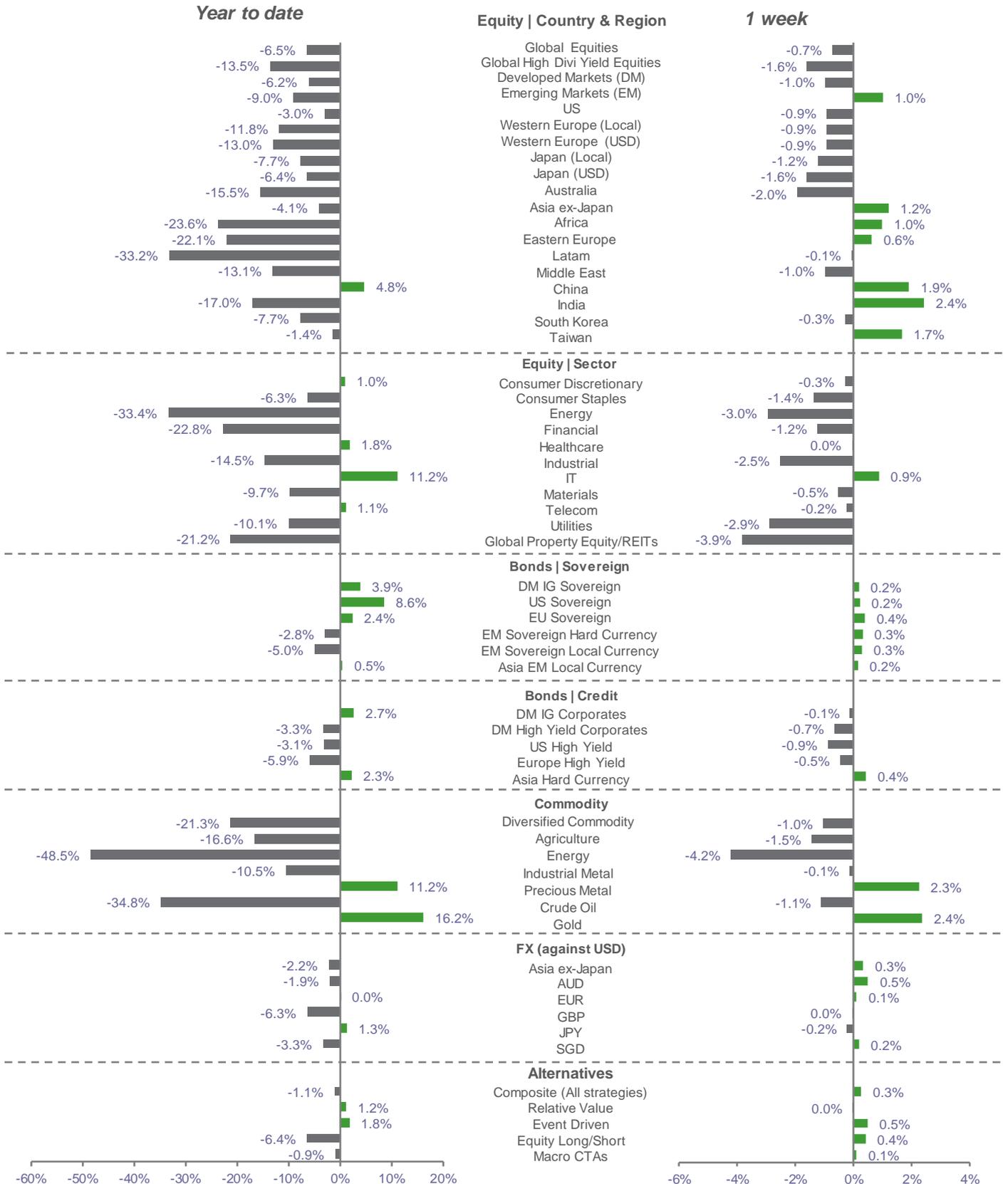
The MSCI Asia ex-Japan index will need to break below the 25 May low of 583 to pose a threat to the rebound since March

MSCI Asia ex-Japan index



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 25 June 2020, 1 week period: 18 June 2020 to 25 June 2020

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	JN	Retail Sales y/y	29-Jun-2020	May	-12.5%	-13.9%
	EC	Economic Confidence	29-Jun-2020	Jun	–	67.5
TUE	JN	Jobless Rate	30-Jun-2020	May	2.8%	2.6%
	JN	Industrial Production y/y	30-Jun-2020	May P	-22.7%	-15.0%
	EC	CPI Core y/y	30-Jun-2020	Jun P	–	0.9%
WED	US	Conf. Board Consumer Confidence	30-Jun-2020	Jun	90	86.6
	SK	Exports y/y	01-Jul-2020	Jun	-6.4%	-23.6%
THUR	US	ISM Manufacturing	01-Jul-2020	Jun	48.5	43.1
	EC	PPI y/y	02-Jul-2020	May	–	-4.5%
	US	Change in Nonfarm Payrolls	02-Jul-2020	Jun	3000k	2509k
	US	Unemployment Rate	02-Jul-2020	Jun	12.3%	13.3%
FRI/ SAT	US	Average Hourly Earnings y/y	02-Jul-2020	Jun	–	6.7%
	CH	Caixin China PMI Composite	03-Jul-2020	Jun	–	54.5
	IN	Markit India PMI Composite	03-Jul-2020	Jun	–	14.8

	Event	This Week	Date	Period	Actual	Prior
MON	EC	Consumer Confidence	22-Jun-2020	Jun A	-14.7	-18.8
TUE	JN	Jibun Bank Japan PMI Composite	23-Jun-2020	Jun P	37.9	27.8
	JN	Nationwide Dept Sales y/y	23-Jun-2020	May	-65.6%	-72.8%
	FR	Markit France Composite PMI	23-Jun-2020	Jun P	51.3	32.1
	GE	Markit/BME Germany Composite PMI	23-Jun-2020	Jun P	45.8	32.3
	EC	Markit Eurozone Composite PMI	23-Jun-2020	Jun P	47.5	31.9
	UK	Markit/CIPS UK Composite PMI	23-Jun-2020	Jun P	47.6	30
	US	Markit US Composite PMI	23-Jun-2020	Jun P	46.8	37
	US	New Home Sales	23-Jun-2020	May	676k	580k
WED	JN	PPI Services y/y	24-Jun-2020	May	0.8%	0.8%
	GE	IFO Expectations	24-Jun-2020	Jun	91.4	80.5
THUR	US	Cap Goods Orders Nondef Ex Air	25-Jun-2020	May P	2.3%	-6.5%
FRI/ SAT	EC	M3 Money Supply y/y	26-Jun-2020	May	–	8.3%
	US	Personal Income	26-Jun-2020	May	–	10.5%

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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