



# Weekly Market View

## Taper talk

US stocks rose and the benchmark 10-year Treasury yield fell below a crucial support even after US inflation jumped to a 13-year high of 5%. The market reaction supports our view that the current bout of inflation is transitory and that the Fed is unlikely to start unwinding its unprecedented monetary stimulus soon.

Given this, we stick with our pro-risk stance, based on our outlook for strong economic growth and corporate earnings.

**Equities:** We see a minimal impact to our preferred view on equities from the plan for a 15% global minimum corporate tax.

**Bonds:** Any sustained break in the US 10-year Treasury yield below 1.47% could potentially pave the way for a test of the 1.3% support. However, fundamentals suggest the decline in yields may be overdone.

**FX:** The USD index is nearing a key technical support. Short positions could trigger a near-term bounce.



What is your view on China equities and CNH? What are the drivers at work?

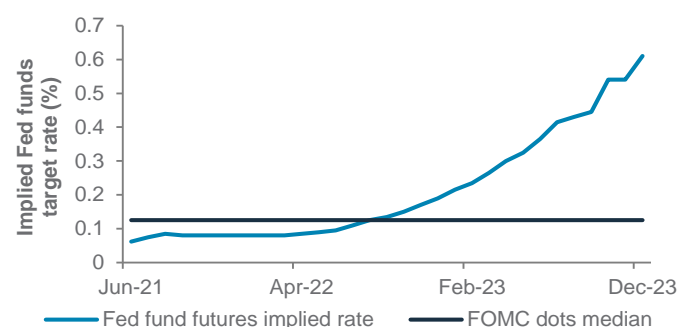
What is the outlook for gold following recent regulatory changes?

What do the charts say about S&P500, USD/CNH and WTI crude oil trends?

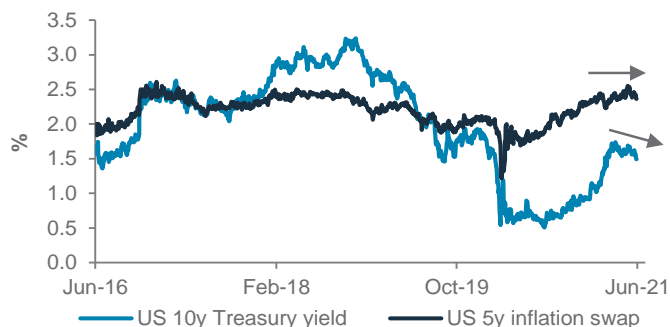
## Charts of the week: Markets running ahead of the Fed

### Money markets are anticipating a Fed rate hike by 2023, but recent data have challenged this view

Fed rate expectations (markets\* vs Fed policymakers\*\*)



US 10-year Treasury yield; long-term inflation estimates^



Source: Bloomberg, Standard Chartered; \*Fed funds futures markets; \*\*Median forecasts; ^five-year inflation expectations, five years from now

## Editorial

### Taper talk

The market reaction to a new set of information often says a lot about how investors are positioned. US stocks broke out to an all-time high and US 10-year Treasury yields are once again testing the key 1.47% support level even after data showed US inflation in May rose more than expected to 5% y/y, a 13-year high. This suggests markets agree with the Fed that the current bout of inflation is transitory and that the Fed is unlikely to start unwinding its unprecedented monetary stimulus soon.

For months, as the US economy gathered momentum and inflation expectations were upgraded, investors have toyed with a key question: When will the US central bank take away the punchbowl? Based on recent data, we believe next week's meeting is too soon for the Fed to signal any change, although there is a rising chance it may announce tapering of its bond purchases in the next 6-12 months. This is unlikely to surprise the market. Investors are anticipating a Fed rate hike by H1 2023, which implies tapering is likely to start in H1 2022.

We believe the Fed will be guided by two key factors:

**The US job market recovery:** Weaker-than-expected job creation in April and May has pushed back tapering talk. This partly explains the pullback in US Treasury yields in recent weeks. Although the US jobless rate has fallen from the post-pandemic high of 14.8% to 5.8% in May, the US needs to recover at least 8m more jobs to reach the Fed's "maximum employment" goal. The Fed has been particularly concerned about lower income jobs, which constitute two-thirds of those unemployed. Here, the recovery could take longer, not only due to distortions created by state jobless benefits, some of

which could last till September, but also due to a skills gap. This explains the divergence between record job vacancies and the high number of unemployed workers.

**US inflation:** We believe this week's inflation print, which included a 3.8% y/y surge in core prices – a 29-year high – marks the peak of this cycle. The y/y surge is an effect of the collapse in crude oil and other prices in Q2 2020. We expect prices to decelerate by Q1 22 as critical segments (such as used car, hotel and airline prices) moderate amid easing supply bottlenecks, although there is a risk that this transition could take longer than currently estimated. Shelter costs, which account for two-fifth of core inflation, are likely to be relatively subdued as big city rents remain under pressure. Meanwhile, wage pressures, seen in some low-paid services sectors, are likely to fade as more workers return to the job market.

The Fed has made it clear as part of its new policy that it wants to see, rather than anticipate, the economy achieving "maximum employment" and core inflation sustainably staying above 2% for some time before it starts to tighten its monetary policy. The Fed is unlikely to have enough clarity on these two factors before Q4 to take a decision. However, it may start "talking about talking about" tapering earlier – perhaps as soon as its annual Jackson Hole meeting in August – if these factors evolve as expected. We believe markets are better prepared now for a Fed tapering than in 2013. Treasury yields surged earlier this year in anticipation of less easy Fed policy. Also, more frequent Fed communications reduce the scope for policy surprises. Given this, we stick with our pro-risk stance, based on our outlook for strong economic growth and corporate earnings.

— 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

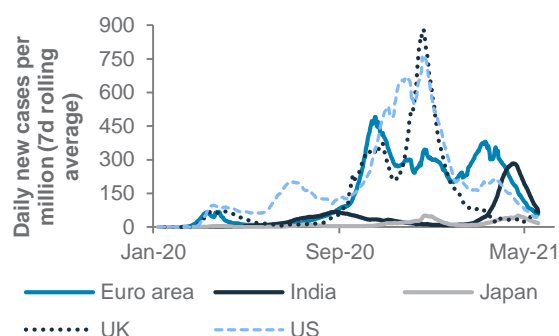
**(+) factor: US, Euro area pandemic gains, policy support**

**(-) factor: COVID variants, weaker-than-expected data**

	Positive for risk assets	Negative for risk assets
<b>COVID-19</b>	<ul style="list-style-type: none"> <li>US and Euro area new cases continued to fall; EU parliament approved vaccine passports for quarantine-free travel</li> <li>India cases continued to fall; states lift restrictions</li> <li>G7 members to deliver 1bn extra COVID-19 vaccine doses globally</li> </ul>	<ul style="list-style-type: none"> <li>UK reported most new cases since February, raising concerns re-opening may be delayed</li> <li>US's Fauci warned the Delta variant accounted for 6% of new US cases</li> <li>China's Guangzhou tightened restrictions</li> </ul>
	<b>Our assessment: Neutral</b> – US, Euro area progress vs concerns about the Delta variant	
<b>Macro data</b>	<ul style="list-style-type: none"> <li>US job openings rose more than expected, jobless rate fell more than expected</li> <li>Euro area Sentix investor confidence rose more than expected</li> <li>The ECB upgraded Euro area 2021-22 growth forecast to 4.6% and 4.7%, from 4% and 4.1% in March, respectively</li> <li>Japan personal spending rose more than expected</li> </ul>	<ul style="list-style-type: none"> <li>US payrolls rose less than expected and consumer inflation rose more than expected</li> <li>China imports, exports rose less than expected; producer prices rose more than expected, consumer prices rose less than expected</li> <li>Euro area y/y retail sales rose less than expected</li> <li>US, German factory orders surprisingly weak</li> </ul>
	<b>Our assessment: Negative</b> – Weaker-than-expected US jobs, China trade, US/German factory orders	
<b>Policy developments</b>	<ul style="list-style-type: none"> <li>US Senate passed a bill to invest USD 250bn to boost manufacturing</li> <li>A smaller bipartisan group of US Senators agreed on infrastructure stimulus plan, with no tax hikes, after earlier broad-based talks faltered</li> <li>ECB pledged to maintain ultra-easy policy</li> </ul>	<ul style="list-style-type: none"> <li>G7 leaders agreed on a 15% global minimum corporate tax plan</li> </ul>
	<b>Our assessment: Positive</b> – Strong US fiscal policy	

### COVID-19 cases are declining in most countries, but are rising again in the UK

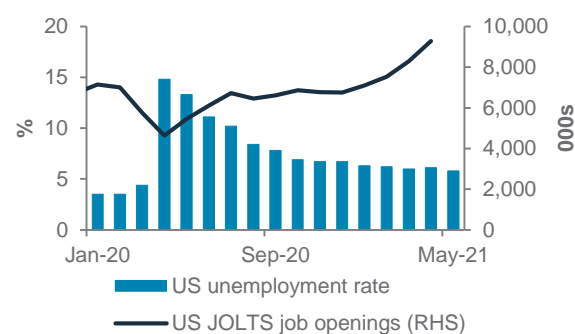
Daily new COVID-19 cases per million people



Source: Our World in Data, Standard Chartered

### US jobless rate continues to fall, but rising vacancies suggest many jobs may take longer to fill due to skills shortages

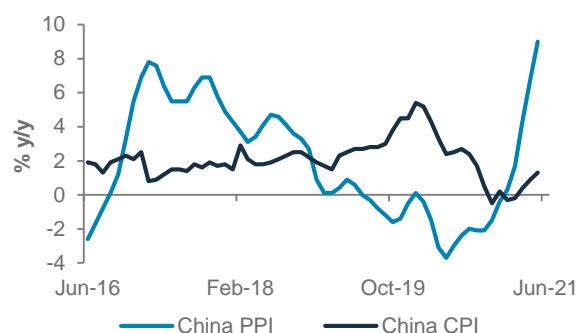
US unemployment rate; JOLTS job openings



Source: Bloomberg, Standard Chartered

### China's producers have been unable to pass on higher costs to consumers; this could weigh on corporate profit margins

China consumer and producer price inflation



Source: Bloomberg, Standard Chartered

## Top client questions

### Q Are US Treasury yields about to break lower?

The 10-year US Treasury yield has dipped below key technical support at the May low of 1.47% following the release of May US inflation data, potentially paving the way for a test of the next support level at 1.30%. On the upside, the yield would need to break above the May high of 1.707% for the short-term downward pressure to fade.

Mixed US economic data, especially the weaker-than-expected jobs data, setbacks in Biden's fiscal stimulus plan and the Fed's stated view that the current inflation spike is transitory have helped yields edge lower. Investor positioning has also supported lower yields (ie. higher bond prices).

However, fundamentally, we believe the recent decline in yields may be overdone, leading to increased likelihood of a modest increase in yields over the next few months. A renewed focus on Fed tapering could be one catalyst over the coming months. This would also mean the yield curve steepens (i.e. difference between short and long-term yields increases).

— **Abhilash Narayan**, *Senior Investment Strategist*

### Q How will a global minimum corporate tax affect our outlook for equities?

We see a minimal impact to our preferred view on equities.

A global minimum corporate tax rate of at least 15% would have a negligible impact on S&P500 earnings, in our view. Within US equity markets, technology and healthcare sectors are likely to be relatively more affected, given their low effective tax rates and high foreign income.

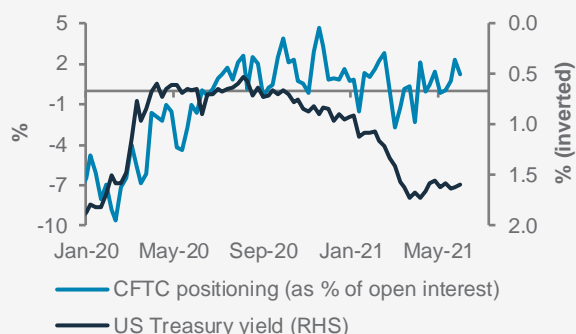
This historic agreement signed by G7 officials comes as an effort to reduce incentives for multinational companies to shift to low-tax jurisdictions. The first pillar is to mandate firms to pay taxes where they operate, while the second is to commit to a minimum corporate tax rate of 15%. We believe this proposed 15% minimum tax floor is likely to reduce the pressure on the Biden administration to raise the corporate tax rate from 21% to 28%.

Currently, there is some uncertainty over the likely impact of the new tax proposals as it depends on how governments implement the policy. In the meantime, we believe other factors, such as global policy stimulus and strong economic and corporate earnings growth remain much more powerful drivers of the equity market rally.

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

### The benchmark US Treasury yield has pulled back in Q2, with recent data and investor positioning supporting lower yields

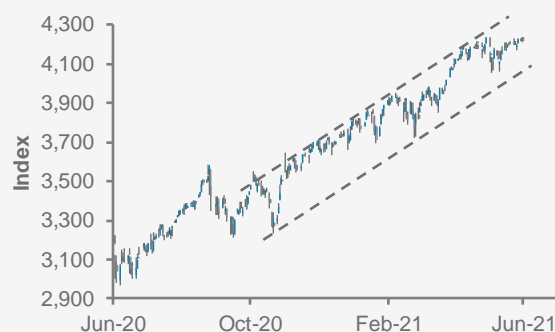
3m change in US 10-year Treasury yield;  
Investor positioning as % of open interest



Source: Bloomberg, Standard Chartered

### US S&P500 index uptrend remains intact; we see stimulus, growth and earnings as likely more important drivers than G7 tax change

S&P500 index



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What is your view on Chinese equities? What are the various drivers at work?

We view Chinese equities as a core holding within Asia ex-Japan equities; we prefer onshore over offshore equities. On a technical basis, the CSI 300 should find immediate support at around 5,180.

Despite policy efforts to contain commodity and crypto assets, we hold a positive bias on China onshore equities if key technical support holds. Foreign investors have also remained undeterred by the recent price correction, with Northbound flows staying resilient. Any CNY gains would also help offset the inflationary impact of rising global commodity prices.

While Chinese equities have historically struggled to do well in periods of high PPI inflation, we do not expect outright monetary tightening as such policy is usually not used to tackle supply-side constraints. There has also been a weak correlation between PPI and CPI in recent years. Key risks to our sanguine view are US-China tensions, any near-term rebound in USD/CNH and possible impact on profit margins if producer costs remain high.

— DJ Cheong, CFA, Investment Strategist

### Q Can current trends in the USD and CNH extend?

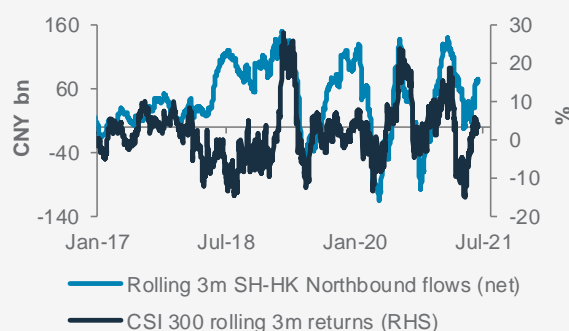
We expect further medium-term USD downside, but recent consolidation could last for a few more weeks amid uncertainty over the spread of COVID-19 variants, higher inflation data, monetary policy uncertainty and rising trade and geopolitical tensions.

The USD (DXY) index is nearing important technical support around 88 – 89, and current short USD positioning could trigger a small corrective bounce that should be capped at around 1 – 2%, barring an unexpected change in outlook for the dollar's main bearish drivers, namely real interest rates, growth rates and rising US trade and budget deficits.

USD/CNH broke below key technical support at 6.40 and the PBoC stepped in to shift market sentiment away from a “one-way” narrative. Some of the steps taken are a continuation of the process to relax capital account controls, which could ultimately help USD/CNH to move lower in the longer-term. In the short-term, we expect the pair to consolidate, and this could include a rebound towards 6.46 technical resistance level. Authorities are likely to target market stabilisation and are expected to lean against further USD/CNH declines in the coming months.

### Foreign investor flows into China onshore equities remain supportive

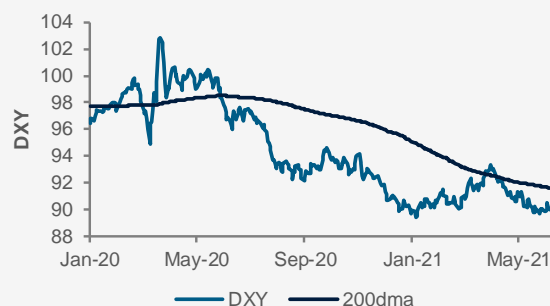
Rolling 3-month Shanghai-Hong Kong net northbound flows (CNY bn) and rolling 3-month CSI 300 returns (% , RHS)



Source: Bloomberg, Standard Chartered

### The USD index is nearing a key technical support around 88-89 and current USD short positions could trigger a corrective bounce

USD (DXY) index



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What is the outlook for gold following recent proposed regulatory changes?

We do not expect recent Basel III regulatory developments to impact gold prices significantly. Central banks are now able to revalue their gold reserves higher on their balance sheet under certain conditions, but these are merely accounting effects and they do not have an impact on existing gold prices.

Clearing banks (which are key in settling gold-related transactions) are impacted as the new regulations now require more collateral for each unit of unallocated\* gold held. This could potentially result in lower liquidity and/or increased costs in the paper gold market as higher collateral requirements reduce the incentive to hold gold. This could widen the price spread between physical gold and paper gold markets modestly.

For price trends, though, we still believe the trajectories of real (net of inflation) yields and the USD remain the key drivers to focus on. While we retain our bullish 12-month view on gold prices, gains could be front-loaded as inflation concerns dominate. Extended inflation concerns would be positive for gold as they exert downward pressure on real yields, while early taper talks would be a headwind for gold as they pose the risk of higher yields.

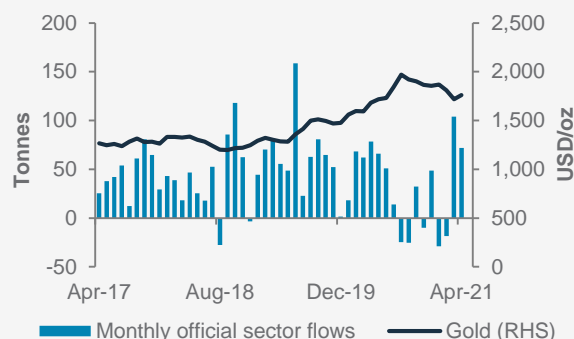
We would add to gold allocations on dips towards the 1,825–1,855 support, targeting 1,920, followed by 1,960.

*\*Allocated gold – Each owner has title to specific bars; Unallocated gold – Specific bars not set aside, and the customer only has general entitlement to the metal*

— DJ Cheong, CFA, Investment Strategist

### Central bank gold demand rebounds, but will unlikely hit highs observed in previous years

Monthly official sector flows (tonnes), Average monthly gold prices (USD/oz, RHS)



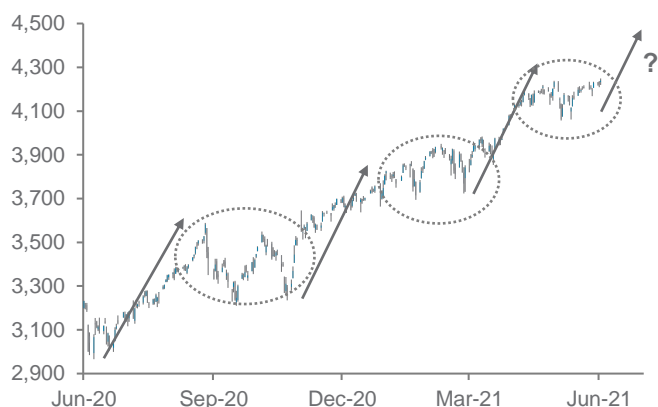
Source: World Gold Council, Standard Chartered  
 Note: Excludes Japan which reported an 81t increase in its gold reserves in March 2021, the culmination of an off-market transaction between two different divisions within the Ministry of Finance

## Technical charts of the week

**Manish Jaradi**  
Senior Investment Strategist

### S&P500: Breaking higher?

S&P 500 daily chart

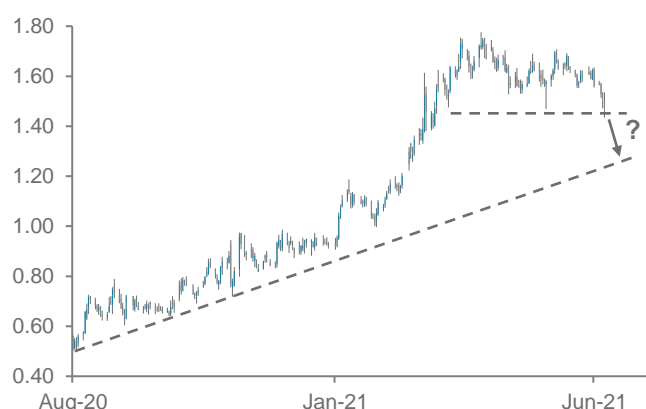


Source: Refinitiv, Standard Chartered

Two-steps-forward-one-step-back has been a feature of the S&P500 index rally. So far, we have no reason to believe this time may be any different.

### US 10y Treasury yield: Looking vulnerable

US 10-year Treasury yield daily chart

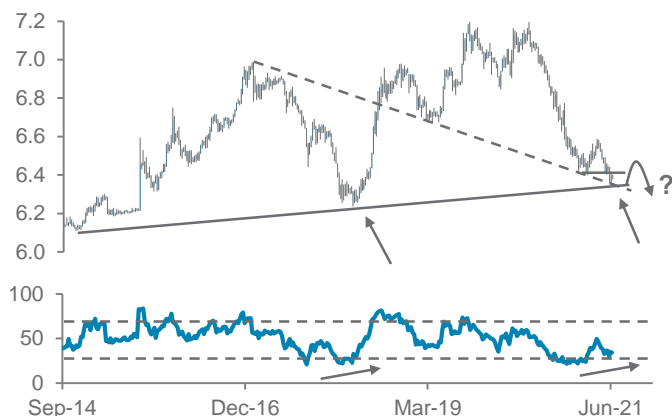


Source: Refinitiv, Standard Chartered

The yield's attempt to break below support at May's low of 1.47% has potentially opened the way towards strong support on an uptrend line from August (1.30%).

### USD/CNH: Risk of a short-term pause

USD/CNH Weekly chart with the 14-week Relative Strength Index (RSI)

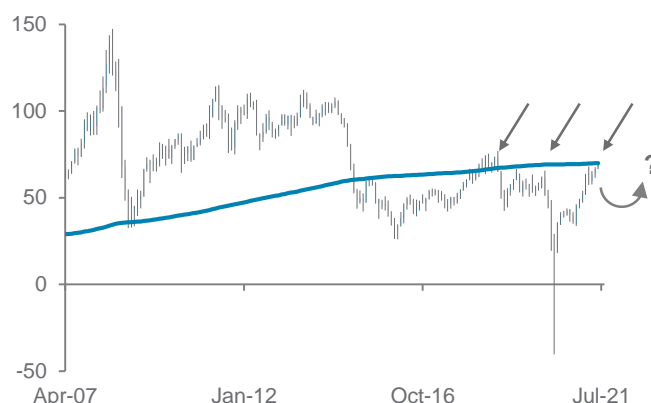


Source: Refinitiv, Standard Chartered

The medium-term downtrend remains intact. However, a temporary pause is likely amid positive momentum divergence (declining price vs rising RSI) and as USD/CNH tests converged support.

### WTI crude oil: Testing major hurdle

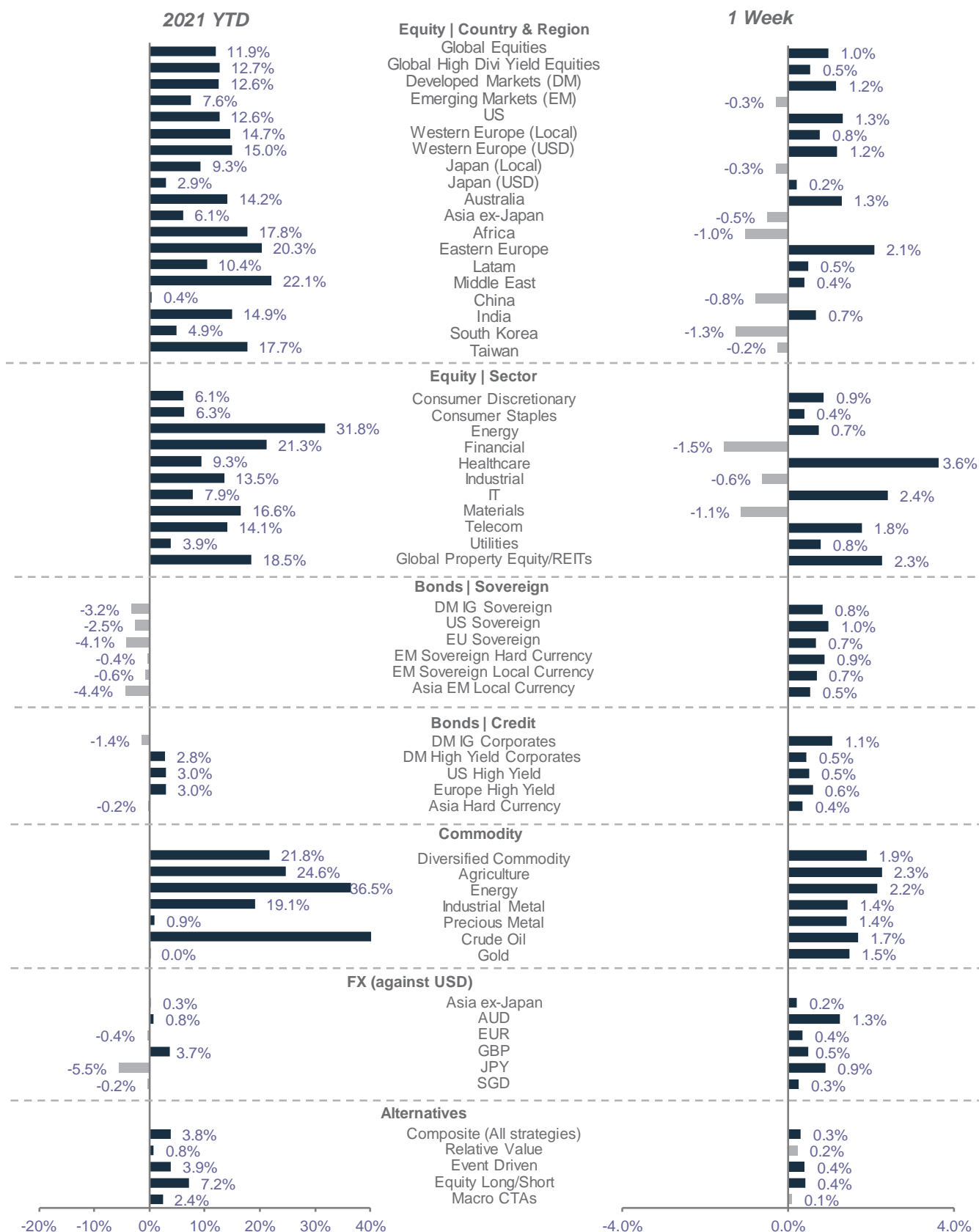
WTI Crude oil futures continuous contract Monthly chart with the 200-Month Moving Average (200-MMA)



Source: Refinitiv, Standard Chartered

WTI crude oil is close to resistance on the 200-MMA. A minor retreat can't be ruled out in the short term, given the extent and the pace of the rise since last year.

## 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 10 June 2021; 1-week period: 03 June 2021 to 10 June 2021



### Our asset class views at a glance

Asset class	
<b>Equities</b> ▲	<b>Alternatives</b> ◆
Euro area ▲	Equity hedge ▲
UK ▲	Event-driven ▲
US ▲	Relative value ◆
Asia ex-Japan ◆	Global macro ▼
Japan ▼	
Other EM ◆	<b>Cash</b> ▼
	USD ▼
<b>Bonds (Credit)</b> ◆	EUR ▲
Asia USD ▲	GBP ▲
Corp DM HY ▲	AUD ▲
Govt EM USD ▲	CNY ◆
Corp DM IG ▼	JPY ◆
<b>Bonds (Govt)</b> ▼	<b>Gold</b> ▲
Govt EM Local ◆	
Govt DM IG ▼	

Source: Standard Chartered Global Investment Committee

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

### S&P500 has first support 0.3% below current level

Technical indicators for key markets as on 10 June 2021

Index	Spot	1st support	1st resistance
S&P500	4,239	4,226	4,246
STOXX 50	4,096	4,091	4,099
FTSE 100	7,088	7,073	7,099
Nikkei 225	28,959	28,873	29,032
Shanghai Comp	3,611	3,590	3,621
Hang Seng	28,739	28,679	28,858
MSCI Asia ex-Japan	889	885	892
MSCI EM	1,379	1,374	1,383
Brent (ICE)	72.5	71.8	72.9
Gold	1,898	1,891	1,902
UST 10Y Yield	1.43	1.39	1.52

Source: Bloomberg, Standard Chartered

### Economic and market calendar

	Event	Next week	Period	Prior
MON				
TUE	US	Retail Sales Ex Auto and Gas	May	-0.8%
	US	PPI Ex Food and Energy y/y	May	4.1%
	US	Industrial Production m/m	May	0.5%
WED	CH	Retail Sales y/y	May	17.7%
	CH	Industrial Production y/y	May	9.8%
	US	Housing Starts	May	1569k
THUR	US	FOMC Rate Decision (Upper Bound)	16-Jun	0.3%
	US	Initial Jobless Claims	12-Jun	-
FRI/ SAT	EC	ECB Current Account SA	Apr	17.8b
	JN	BOJ Policy Balance Rate	18-Jun	-0.1%

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

### Investor diversity has normalised across assets

Our proprietary market diversity indicators as of 09 June

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.49
Global Equities	●	→	1.34
Gold	●	↓	1.31
<b>Equity</b>			
MSCI US	●	→	1.37
MSCI Europe	●	→	1.30
MSCI AC AXJ	●	↓	1.82
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.41
DM High Yield	●	↓	1.32
EM USD	●	↓	1.37
EM Local	●	↓	1.31
Asia USD	●	→	1.59
<b>Currencies</b>			
EUR/USD	●	↓	1.49

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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