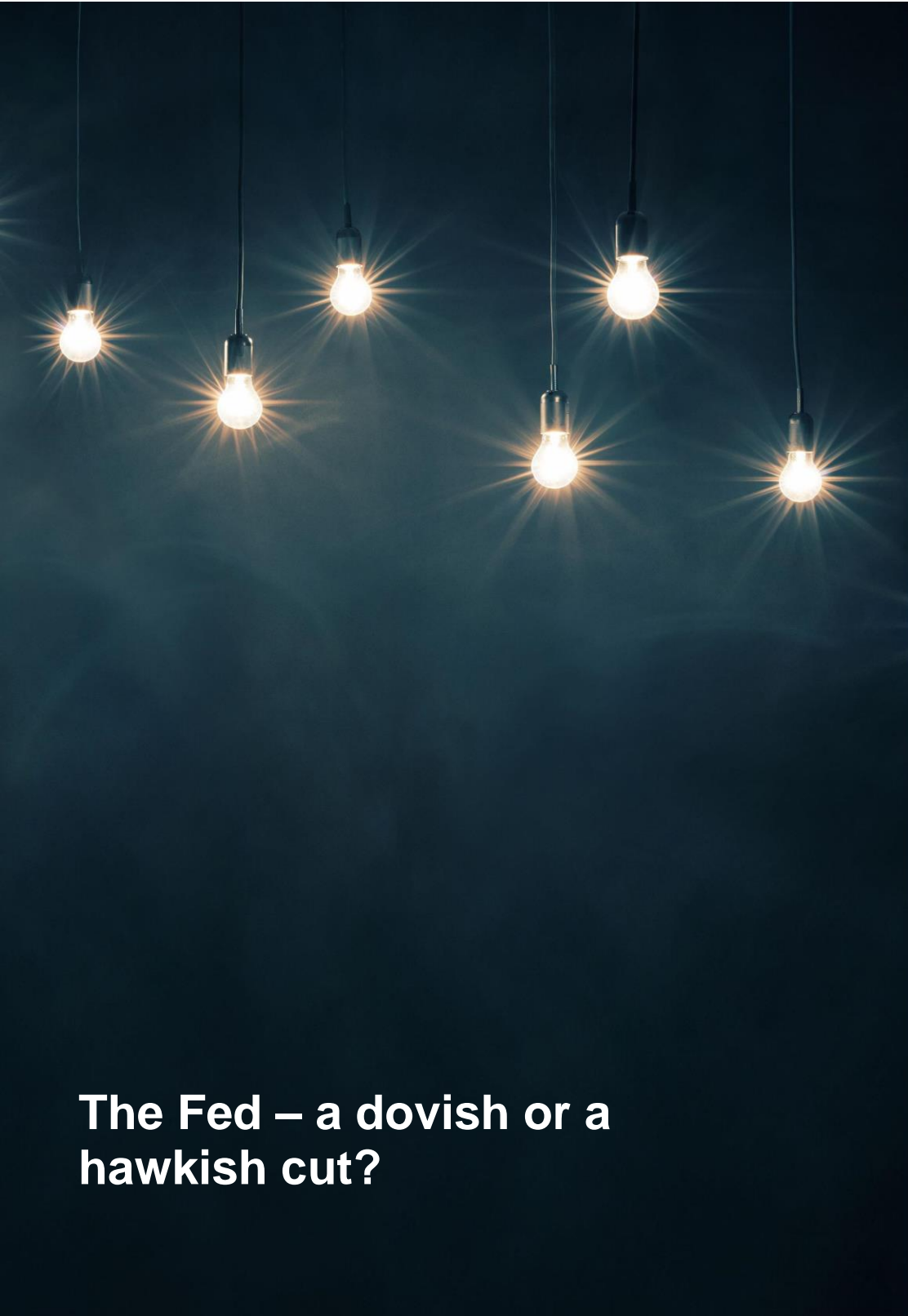


Weekly Market View



The Fed – a dovish or a hawkish cut?

A Fed rate cut next week, with a dovish tone, is likely to further boost risk appetite, in our view

Equities: US Q3 earnings from the financial and technology sectors have beaten forecasts, supporting our bullish view on US equities

Bonds: Any decline in Treasury yields after the Fed meeting may be used to add EM USD exposure; EM local currency bonds look attractive

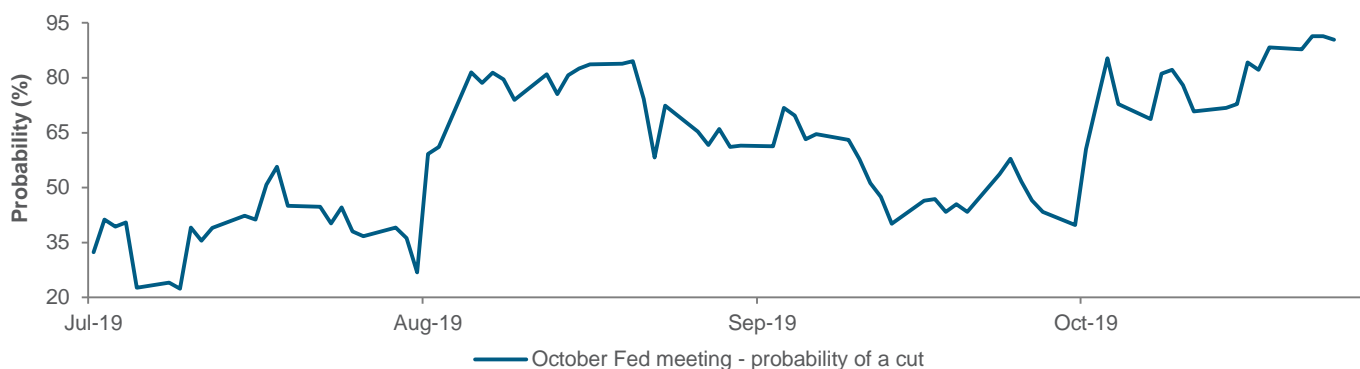
FX: GBP, AUD, CAD look attractive as the USD peaks

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| What does this mean for investors? | 4 |
| What are the best opportunities if the USD is peaking? | 5 |
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Chart of the week: Markets pricing in a Fed cut on 31 October

Probability of a 25bps Fed rate cut at the 31 October policy meeting based on money market pricing



Source: Bloomberg, Standard Chartered

Editorial

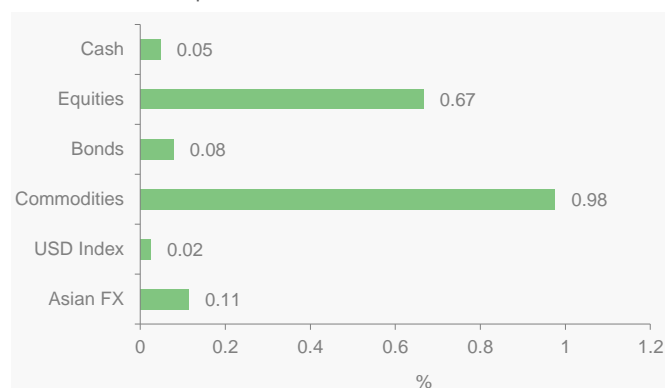
The Fed – a dovish or a hawkish cut?

As the risk rally extends with further signs of progress in US-China trade talks, the focus turns towards the Fed meeting on 31 October. Money markets expect another 25bps rate cut amid soft data. The Fed's reluctance to surprise the market is another reason why we believe it is likely to deliver in line with expectations. The USD, which is showing signs of peaking (see page 3 and 5), is likely to break lower if the Fed signals openness to further easing, with risk assets and some currencies (GBP, CAD, AUD, NZD) gaining.

The Brexit saga (besides a hawkish Fed) is a risk to the above view. Although PM Johnson won the UK parliament's broad approval for his deal for an orderly departure from the EU, it remains uncertain whether an exit will happen by the 31 October deadline. A prolonged parliamentary process to legislate the deal would scupper a quick departure. That could bring into play a second referendum or an election, both of which would likely lead to a GBP pullback in the near term. This would likely present an opportunity for medium-term investors to add to GBP allocation, where appropriate.

Global equity markets and commodities extended their rally over the past week amid further signs of progress in US-China trade talks

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 17 October 2019 to 24 October 2019

A reliable Fed

We expect the Fed to cut rates once more this year in its efforts to shore up business and consumer confidence amid slowing growth and inflation expectations. A cut at the 31 October policy meeting is most likely, given money markets are pricing in a 90% probability of a rate cut. The Fed has rarely gone against market expectations and is unlikely to do so now, lest a pause drives bond yields sharply higher tightening financial conditions. Recent data have indicated that the manufacturing sector downturn could be seeping into the consumer sector. Underlying US retail sales (ex-autos) stagnated in September, implying that consumption and overall US growth slowed in Q3 19 from Q2 19. This justifies a Fed rate cut, with an openness to ease further.

The Fed's dovish turn this year, which was followed by other central banks, has been a key driver of equities and other risk assets such as Emerging Market (EM) bonds YTD. Another cut, with a dovish bias, is likely to help sustain the rally. The US S&P 500 index faces resistance at 3028 and then 3140 (0.6% and 4.3% above current levels).

Still-weak European data calls for more stimulus

European business activity, reflected in the October PMI data, supports our view that the region needs more stimulus, especially through fiscal easing. Although the data showed some signs of stabilisation, it indicated the underlying economy remains stagnant, with region-wide manufacturing and Germany's overall economy contracting at the start of Q4 19. ECB President Draghi, chairing his last policy meeting this week, said the continued economic weakness justified the renewed monetary policy easing delivered by the central bank at its September meeting in the face of opposition from some policymakers. We expect incoming ECB President Christine Lagarde to continue with easy monetary policies. Lagarde's political experience (former French Finance Minister and IMF chief) should also help her lobby governments, especially Germany, to boost fiscal spending.

We believe downbeat market expectations raise the chances of upside in European assets, including the EUR and Euro area equities. A US-China trade truce, expected to be formalised in mid-November when President Trump meets President Xi on the sidelines of the APEC leaders' meeting, may also help revive investor sentiment.

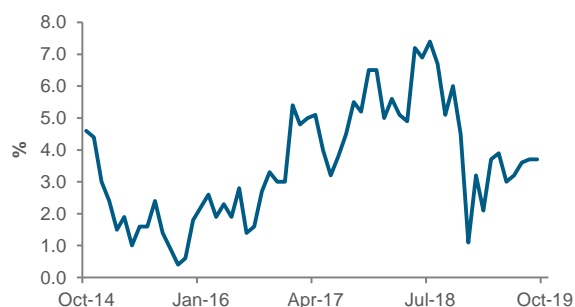
Cracks in the USD rally?

The DXY (USD) index's failure to break above tough resistance on the upper edge of a rising channel from 2018 (at 99.30) suggests at least a pause in the uptrend. The pace and extent of the index's retreat raises the prospect of a retest of the lower edge - an upward-sloping line from early 2019 (at 96.45). To be sure, there is no confirmation yet that the medium-term uptrend has ended. The support on the lower edge of the channel is strong and the index could well resume its rise, like in recent months. However, a break below the support could spell trouble for the USD's 3-year rally. Such a break could open the way towards the late-2018 low of 93.81 (about 4% below current levels).

We believe the broad USD is in a peaking process. In recent weeks, we have turned tactically bullish on EUR/USD and NZD/USD and bearish on USD/CAD to position for a peak in the USD (some of these have been closed as we await better re-entry levels). We recognise this peaking process can be long drawn. This month's moves in currencies suggest the building blocks of a peak in the USD could be falling into place, opening up opportunities for medium-term investors.

US retail sales have slowed this year, dragging down overall economic growth in Q3 19

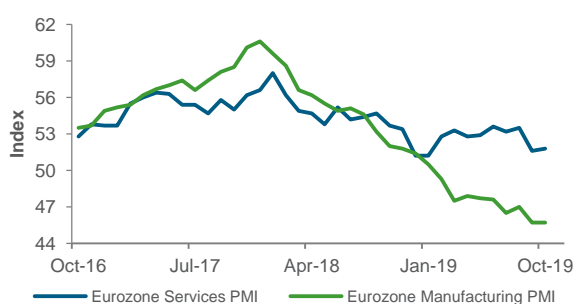
US retail sales, excluding autos, y/y



Source: Bloomberg, Standard Chartered

Euro area economic activity stabilised, but remains close to stagnant levels, with the manufacturing sector still contracting

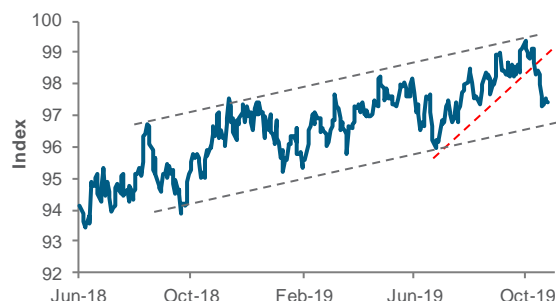
Euro area services and manufacturing PMI



Source: Bloomberg, Standard Chartered

The USD rally appears to have paused for now, although it remains in a well-established longer-term uptrend

Broad USD index



Source: Bloomberg, Standard Chartered

What does this mean for investors?

Equities

What can we infer from US Q3 earnings reports? A third of the S&P500 companies have reported results so far, with reporting by the financial sector being the most advanced (over half of the companies in the sector have already reported). The results sustain the trend of beating expectations, as seen in previous quarters.

Revenue for the financial sector has been 2.1% better than expected, while earnings have beaten expectations by 3.8%. Consumer spending on bank credit cards grew and loss provisions at banks remained low, indicating robust consumer health. Corporate and industrial loans continued to grow as well. Banks' net interest income figures have generally surprised to the upside, overcoming pressure from lower interest rates.

Results from the consumer staples sector are also well underway and are positive. With a third of the companies reporting, earnings have beaten expectations by 5.1%. Industrial sector earnings have been less upbeat, with the sector delivering a 1.8% positive surprise. High exposure to overseas sales (accounting for over 40% of revenue) means the sector is naturally affected by geopolitical tensions. The closely watched technology sector, which has delivered the best equity returns YTD, delivered a 7.2% positive earnings surprise, with revenue 1.1% better than expected. These are relatively early days for the sector though, as only 24% of the companies in the sector have reported so far.

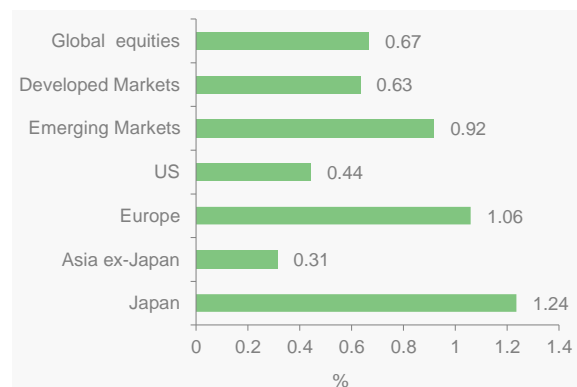
The positive surprises from Q3 earnings so far reaffirm our preferred view on US equities.

Bonds

How should investors position ahead of the Fed meeting? Markets are now pricing nearly a 90% probability of a rate cut next week after several Fed speakers highlighted concerns about low inflation expectations. However, we believe US Treasury yields are likely to remain range-bound, as we expect the Fed to deliver a rate cut next week and pause thereafter as it assesses incoming data, leaving open the scope for further easing. Thus, we would use any decline in bond yields to rotate out of Developed Market (DM) government bonds and into higher yielding Emerging Market (EM) bonds.

EM local currency government bonds outperformed global bonds over the past week (they have also outperformed EM USD bonds in recent weeks), helped by currency strength and positive developments in a few countries. In Brazil, the passage of pension reforms in the Senate is a major step forward for the government's fiscal reforms, which could lead to further inflows into Brazilian assets, lower yields and boost the currency. In Indonesia, President Widodo announced his new cabinet, which has a good mix of experienced politicians and technocrats, something viewed positively by the markets. Given our bearish bias towards the USD and stabilising sentiment towards EM, we would look at any weakness in EM local currency bonds as an opportunity to add exposure.

Benchmark (USD) equity market performance w/w*



Source: MSCI, Bloomberg, Standard Chartered
 *Week of 17 October 2019 to 24 October 2019

Euro area equity market technicals have turned positive

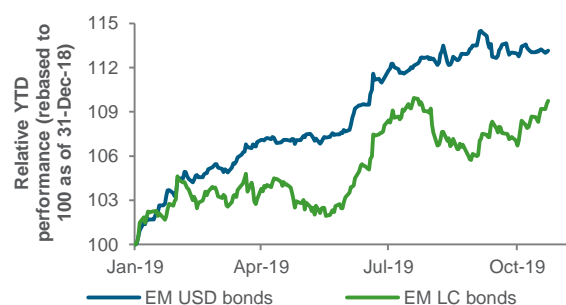
Technical levels of key markets as of 24 October 2019

| Index | Spot | 1st support | 1st resistance | Short-term trend |
|--------------------|--------|-------------|----------------|------------------|
| S&P 500 | 3,010 | 2,890 | 3,028 | → |
| STOXX 50 | 3,621 | 3,480 | 3,709 | ↗ |
| FTSE 100 | 7,328 | 7,000 | 7,435 | ↘ |
| Nikkei 225 | 22,751 | 22,200 | 23,000 | ↗ |
| Shanghai Comp | 2,941 | 2,890 | 3,045 | ↗ |
| Hang Seng | 26,798 | 25,950 | 27,365 | ↗ |
| MSCI Asia ex-Japan | 638 | 619 | 643 | → |
| MSCI EM | 1,037 | 990 | 1,059 | ↗ |
| Brent (ICE) | 62 | 58 | 63 | → |
| Gold | 1,503 | 1,476 | 1,505 | ↘ |
| UST 10Y Yield | 1.77 | 1.43 | 1.94 | ↗ |

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

EM USD bonds have outperformed their local-currency counterparts YTD, but the latter is catching up

Relative YTD total returns from EM USD government bonds and EM local currency bonds



Source: Bloomberg, Standard Chartered

Top client question

What are the best opportunities if the USD is peaking?

The USD has continued a mildly bearish bias on expectations of a Fed rate cut next week, and signs of softening rhetoric and increasing hope for US-China trade talks. Recent FX market movements have, however, been dominated by the GBP. Within two weeks, GBP/USD rallied to a touch above 1.30 from below 1.22. The driver of this move was specific to the UK – a sharp reduction in risk of a no-deal Brexit.

GBP/USD is likely to remain volatile as the last scenes of the current Brexit act are played out. We expect some initial consolidation after the sharp rise, but short positioning and investment opportunities could be drivers of a more sustained rally. We believe that “Brexit with a deal” is the baseline outcome for the UK now. PM Johnson has called for an election on 12th December although current signs are that the Opposition parties will resist one, and that the Withdrawal bill process could be continued. There is still a possibility that an amendment supporting a second referendum could be attached to the Brexit bill to secure passage. Initial GBP/USD support is at around 1.2700, with further support levels down to 1.2500, and we anticipate a continuation rally to the next upside targets for GBP/USD at 1.3165 and 1.3385.

Our expectations for a broadly lower USD could be an opportunity for investors to acquire currencies whose bank notes feature the “Queen’s portrait” - namely the AUD, the NZD and the CAD. By various measures, these currencies appear to be undervalued, and each has recently shown signs of a turnaround.

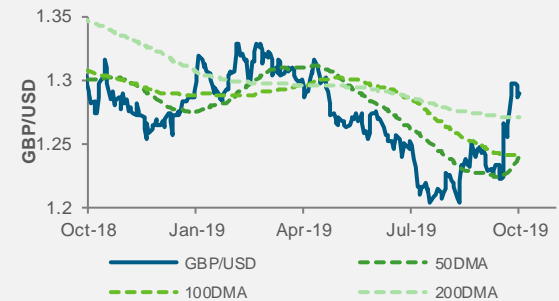
USD/CAD has weathered an election this week with barely any movement. We believe the Bank of Canada has less reason to ease monetary policy than the Fed, and there is a reasonable degree of confidence in the Canadian economic data. From a technical perspective, USD/CAD has remained below the 200DMA (currently resistance is around 1.3280) and is testing a support trendline that dates back to 2012. A sustained break below 1.3000 would target 1.2780 initially and then 1.2520.

AUD/USD: The Reserve Bank of Australia has softened language around further rate cuts while the domestic economy (including the important housing market) appears to be stabilising. If US-China trade talks continue to progress, we believe the downtrend that began in January 2018 could reverse. AUD/USD appears to have cemented a technical double-bottom around 0.6670 and is approaching a key resistance level at 0.6895. A break would suggest the rally could initially target 0.7080 and 0.7200.

NZD/USD made a recent low at 0.6200 and has since progressed steadily higher. A break of a key resistance at 0.6450 would encourage a test of 0.6600 and then 0.6790 over the coming weeks.

GBP/USD’s initial support is around 1.27, followed by 1.25; a continuation of the recent rally could take it to 1.3165, followed by 1.3385

GBP/USD



Source: Bloomberg, Standard Chartered

USD/CAD has remained below its 200DMA; it needs to sustainably break below 1.30 for continuation of the downtrend

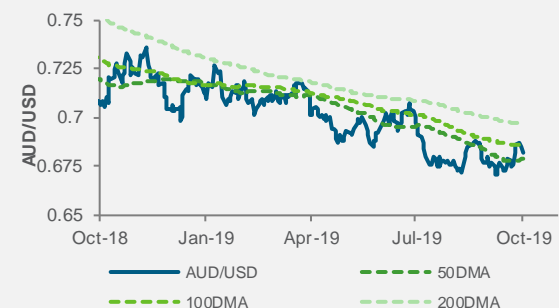
USD/CAD



Source: Bloomberg, Standard Chartered

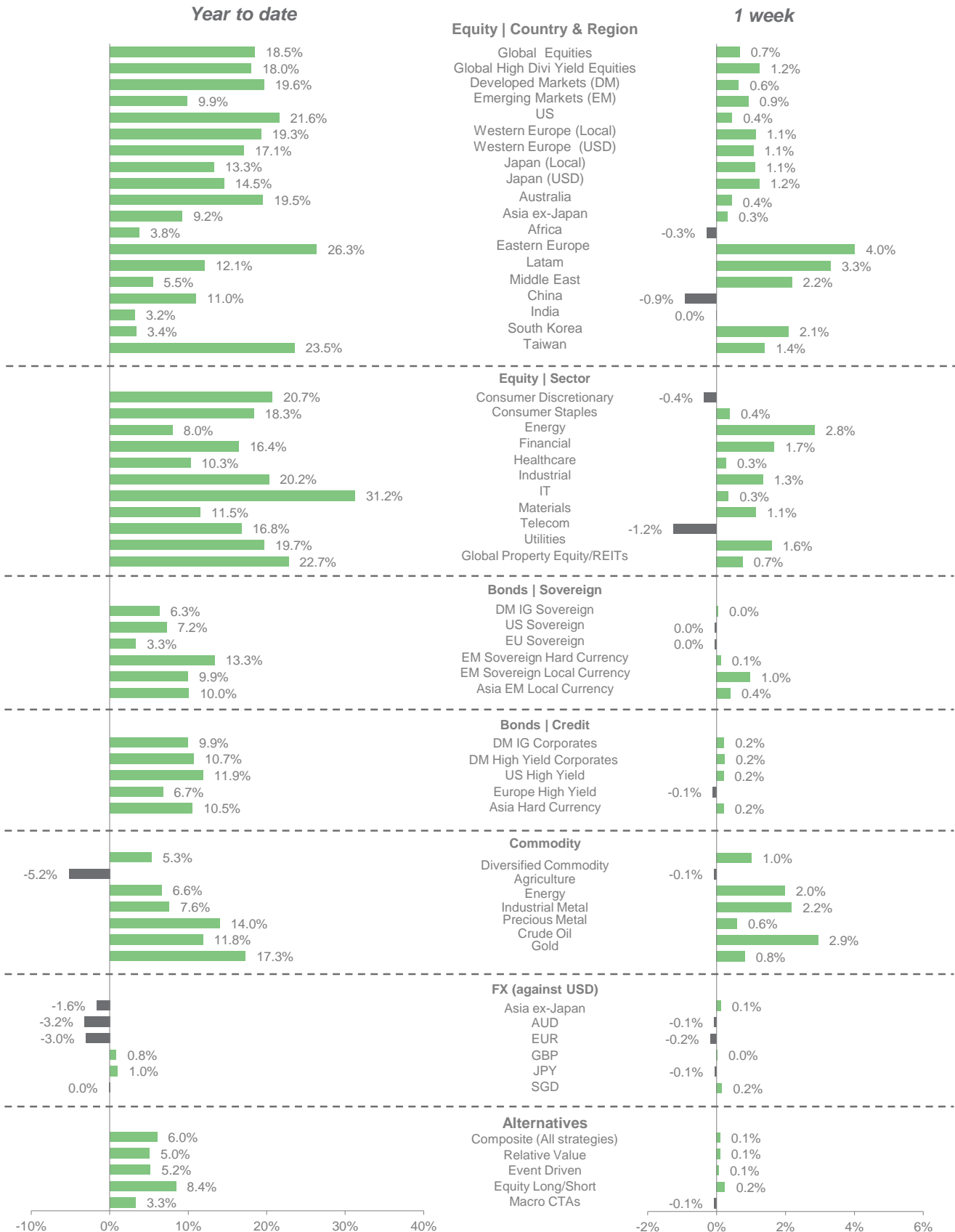
AUD/USD appears to have cemented a technical double-bottom around 0.6670 and is approaching a key technical resistance level at 0.6895

AUD/USD



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 24 October 2019, 1 week period: 17 October 2019 to 24 October 2019

Economic and market calendar

| | Event | Next Week | Date | Period | Expected | Prior |
|---------|-------|----------------------------------|-----------|--------|----------|-------|
| MON | | | | | | |
| TUE | US | Conf. Board Consumer Confidence | 29-Oct-19 | Oct | 128 | 125.1 |
| WED | EC | Economic Confidence | 30-Oct-19 | Oct | – | 101.7 |
| | US | GDP Annualized q/q | 30-Oct-19 | 3Q A | 1.5% | 2.0% |
| | US | Personal Consumption | 30-Oct-19 | 3Q A | 2.5% | 4.6% |
| | GE | CPI EU Harmonized y/y | 30-Oct-19 | Oct P | – | 0.9% |
| THUR | US | FOMC Rate Decision (Upper Bound) | 31-Oct-19 | 30-Oct | 2.0% | 2.0% |
| | CH | Manufacturing PMI | 31-Oct-19 | Oct | 49.8 | 49.8 |
| | CH | Non-manufacturing PMI | 31-Oct-19 | Oct | 53.8 | 53.7 |
| | EC | Unemployment Rate | 31-Oct-19 | Sep | – | 7.4% |
| | EC | CPI Core y/y | 31-Oct-19 | Oct P | – | 1.0% |
| | US | Personal Income | 31-Oct-19 | Sep | 0.3% | 0.4% |
| FRI/SAT | CH | Caixin China PMI Mfg | 01-Nov-19 | Oct | 50.9 | 51.4 |
| | US | Change in Nonfarm Payrolls | 01-Nov-19 | Oct | 90k | 136k |
| | US | Unemployment Rate | 01-Nov-19 | Oct | 3.6% | 3.5% |
| | US | Average Hourly Earnings y/y | 01-Nov-19 | Oct | 3.0% | 2.9% |
| | US | ISM Manufacturing | 01-Nov-19 | Oct | 49 | 47.8 |

| | Event | This Week | Date | Period | Actual | Prior |
|---------|-------|-----------------------------------|-----------|--------|--------|-------|
| MON | JN | Exports y/y | 21-Oct-19 | Sep | -5.2% | -8.2% |
| TUE | US | Existing Home Sales | 22-Oct-19 | Sep | 5.38m | 5.50m |
| WED | EC | Consumer Confidence | 23-Oct-19 | Oct A | -7.6 | -6.5 |
| THUR | FR | Markit France Composite PMI | 24-Oct-19 | Oct P | 52.6 | 50.8 |
| | GE | Markit/BME Germany Composite PMI | 24-Oct-19 | Oct P | 48.6 | 48.5 |
| | EC | Markit Eurozone Manufacturing PMI | 24-Oct-19 | Oct P | 45.7 | 45.7 |
| | EC | Markit Eurozone Services PMI | 24-Oct-19 | Oct P | 51.8 | 51.6 |
| | EC | Markit Eurozone Composite PMI | 24-Oct-19 | Oct P | 50.2 | 50.1 |
| | US | Durable Goods Orders | 24-Oct-19 | Sep P | -1.1% | 0.3% |
| | US | Cap Goods Orders Nondef Ex Air | 24-Oct-19 | Sep P | -0.5% | -0.6% |
| | US | Initial Jobless Claims | 24-Oct-19 | 19-Oct | 212k | 218k |
| | US | Markit US Composite PMI | 24-Oct-19 | Oct P | 51.2 | 51 |
| | US | New Home Sales | 24-Oct-19 | Sep | 701k | 706k |
| FRI/SAT | GE | Ifo Expectations | 25-Oct-19 | Oct | – | 90.8 |

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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