

# Weekly Market View

## Time for Euro area, Asia to play catch-up?

Renewed economic restrictions in the US amid resurgent COVID-19 cases imply Euro area and Asia ex-Japan economies and markets could catch up with the US in the coming months

**Equities:** Euro area and Asia ex-Japan equities are breaking higher; faster economic recoveries and attractive valuations support further gains

**Bonds:** We believe a weaker USD, increased fund flows and attractive valuations are positive for Emerging Market USD and Asia USD bonds; we also prefer US High Yield bonds

**FX:** EUR, AUD could benefit as the USD weakens in the next 12 months

Time for Euro area, Asia to play catch up

### Also find out...

Where is economic data improving the most?

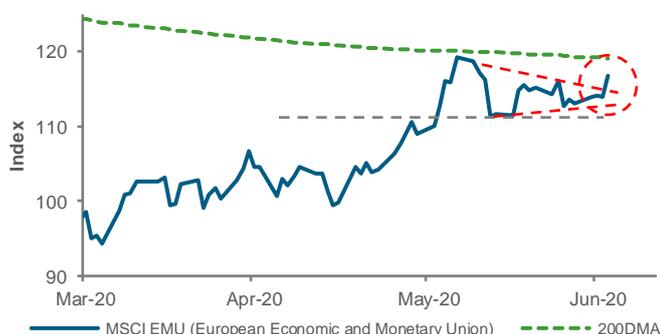
What are the key policy developments this week?

Where are the main COVID-19 hotspots?

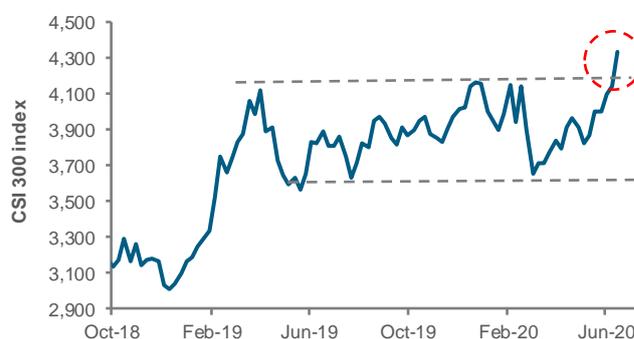
## Chart of the week: Euro area, Asia equities likely poised for gains

Euro area and Asia ex-Japan equities could catch up with US equities in the next 6-12 months as their economic recoveries accelerate

MSCI Euro area index



CSI 300 index (China A-shares index)



Source: Bloomberg, Standard Chartered

## Editorial

### Time for Euro area, Asia to play catch-up?

In our H2 20 Outlook published this week (see *Global Market Outlook: Navigating the recoveries*), a key conclusion was that markets and economies are likely to recover at varying speeds from H1 20's COVID-19 shock. For investors, this means tracking: 1) the diverging pace of economic re-openings as the pandemic is contained, 2) the relative scale of stimulus measures, 3) geopolitical risks, and 4) valuations across asset classes to see how much has been factored in.

The first of those drivers came into sharp focus this week, with the decision by at least 12 US states, including New York and California, to roll back or pause their planned economic re-openings. We have been flagging the continued rise in new COVID-19 cases in large southern states for a few weeks. While we do not expect the new restrictions to be as severe as the ones in Q2 20, they raise the chance of a near-term pullback in risk assets if more states decide to impose tighter lockdowns.

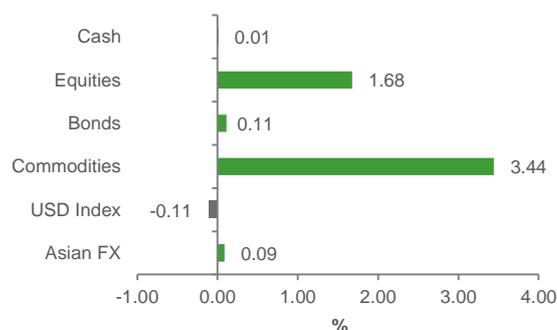
Near-term challenges notwithstanding, we remain constructive on risk assets over the next 12 months, with a slight preference for corporate and Emerging Market (EM) bonds over equities. This view is based on improving economic data (see page 3) and inexpensive valuations of "riskier assets" vs Developed Market government bonds. Record low bond yields have lowered the threshold for riskier assets to outperform.

Within riskier assets, there is a rising probability of Euro area and Asia-ex-Japan equities catching up with US counterparts in the next 6-12 months as their economies emerge from the H1 20 recession faster than the US (especially given renewed US lockdowns). Such a scenario could also trigger USD weakness. A weaker USD would likely support fund flows towards EMs, benefitting two of our preferred bond assets: EM USD government and Asian USD bonds. Inexpensive valuations of ex-US assets support this trend.

Besides valuations, we see further policy stimulus as a key driver of risk assets in the coming weeks. In the US, there is bipartisan support for another fiscal spending package in July. In Europe, differences around an unprecedented region-wide Pandemic Recovery fund remain wide, but Franco-German support could still push it through. Rising US-China tensions is the main geopolitical risk to watch (see page 3). We believe gold would be a good hedge against such risks.

Global equities gained over the past week, led by Europe and Asia ex-Japan stocks, while Emerging Markets broadly were lifted by gains in commodity prices

Benchmark market performance w/w\*



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

\*Week of 25 June 2020 to 02 July 2020

### S&P500 index faces resistance 1.3% above current level

Technical indicators for key markets as on 02 July 2020

Index	Spot	1st support	1st resistance
S&P	3,130	3,049	3,170
STOXX 50	3,320	3,243	3,359
FTSE 100	6,240	6,185	6,268
Nikkei 225	22,229	21,979	22,496
Shanghai Comp	3,129	3,017	3,184
Hang Seng	25,301	24,634	25,634
MSCI Asia ex-Japan	667	653	674
MSCI EM	1,023	1,004	1,033
Brent (ICE)	42.9	41.6	43.7
Gold	1,776	1,770	1,782
UST 10Y Yield	0.67	0.64	0.69

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"> <li>A vaccine trial showed promising results as patients developed antibodies to fight the COVID-19 virus; the study has not undergone peer review yet</li> </ul>	<ul style="list-style-type: none"> <li>At least 12 US states rolled back or paused economic re-opening plans as new cases rose to a record high</li> <li>WHO officials warned “the worst is yet to come” and some countries may need to re-instate lockdowns as new cases rise</li> </ul>

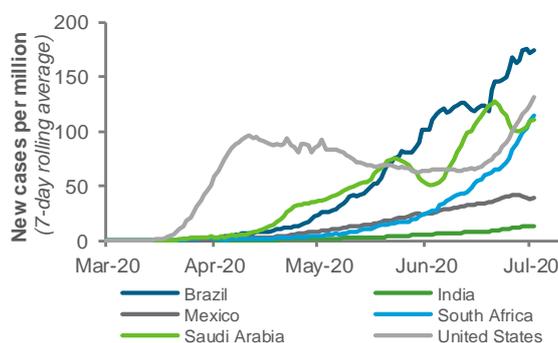
**Our view: The rollback of US re-openings is a setback, though we do not expect the restrictions to be as severe as those imposed in March-April**

	Positive for risk assets	Negative for risk assets
Macro data and events	<ul style="list-style-type: none"> <li>US non-farm payrolls climbed by a more-than-expected 4.8mn in June; jobless rate fell 2.3ppts to 11.1%, indicating the job market recovered for the 2<sup>nd</sup> month</li> <li>US manufacturing activity indicator (ISM PMI) returned to expansionary levels for the first time since the pandemic in June (up 9.5ppts to 52.6), beating consensus estimates; factory orders jumped 8% m/m in May</li> <li>US consumer confidence had its biggest monthly gain in June since 2011 as lockdowns eased; French consumer spending jumped 37% m/m in May</li> <li>German consumer price inflation rose to 0.8% m/m in June; retail sales jumped 14% m/m in May</li> <li>BoE’s Haskel said ongoing UK recovery means Q2 contraction may not be as deep as expected</li> <li>China’s manufacturing activity indicator (PMI) remained in expansion level in June (50.9), beating consensus estimates; new orders rose; non-manufacturing PMI rose to 54.4</li> <li>China announced liberalisation of capital flows between 11 cities in the Greater Bay area, including Hong Kong and Macau</li> </ul>	<ul style="list-style-type: none"> <li>ECB officials said the economic recovery would be “much more protracted” than expected; Fed Chair Powell said the recovery was “extraordinarily uncertain”, given virus containment risks</li> <li>US continuing jobless claims stayed near 20m, although initial jobless claims fell for 13<sup>th</sup> week</li> <li>Euro area jobless rate rose to 7.4% in May, from 7.3% in April</li> <li>Japan’s Tankan index for large manufacturers plunged in Q2 20 to its lowest since 2009; May industrial output fell 8.4% m/m</li> <li>The US and China imposed selective visa restrictions on each other; the US restricted defence and high-tech exports to Hong Kong as a new law tightening China’s control over Hong Kong came into force</li> <li>EU chief Brexit negotiator Barnier rejected UK’s proposal for financial firms to do business with the EU after Brexit; PM Johnson said the UK was ready to leave on “Australia terms” if no agreement was reached</li> <li>Scottish Nationalist Party members in UK parliament called for another independence vote for Scotland</li> </ul>
Policy developments	<ul style="list-style-type: none"> <li>Fed minutes indicated “highly accommodative monetary policy for some time”; it also launched its programme to buy corporate bonds from the primary market</li> <li>US Senate extended Paycheck Protection Programme to 8 Aug</li> <li>China cut lending rates by 25-50bps targeted at small businesses and pledged more loans for struggling firms</li> <li>German parliament backed the ECB’s bond-buying programme</li> </ul>	<ul style="list-style-type: none"> <li>Fed capped bank dividends and banned buybacks till Q3 20</li> <li>German Chancellor Merkel said EU members were “far apart” from reaching a deal on EU-wide fiscal stimulus measures; she urged leaders to quickly approve the planned stimulus</li> </ul>

**Our weekly net assessment: On balance, we see macro events this week as neutral for risk assets**

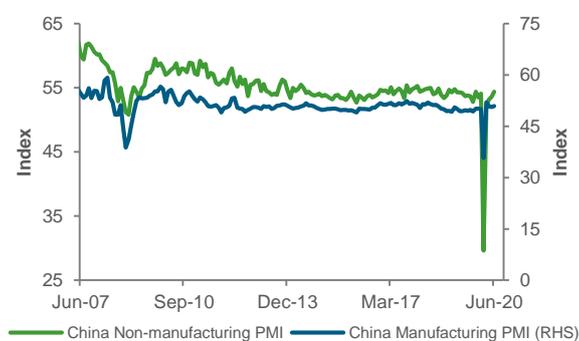
- (+) factor: positive surprise in US jobs, US & China PMI data
- (-) factor: Renewed US economic restrictions; rising US-China tensions

**Daily new COVID-19 cases in the US have risen to new record highs as infections in major southern states rise**  
 Daily new COVID-19 cases per million population



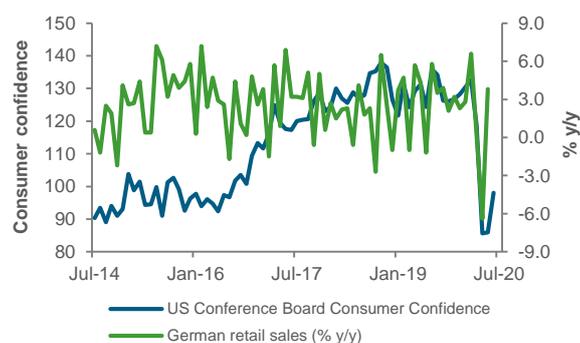
Source: Our World in Data; Standard Chartered

**China’s activity data remained above expansion territory in June, cementing its recovery from the COVID-19 shock**  
 China’s Manufacturing and Non-manufacturing PMIs



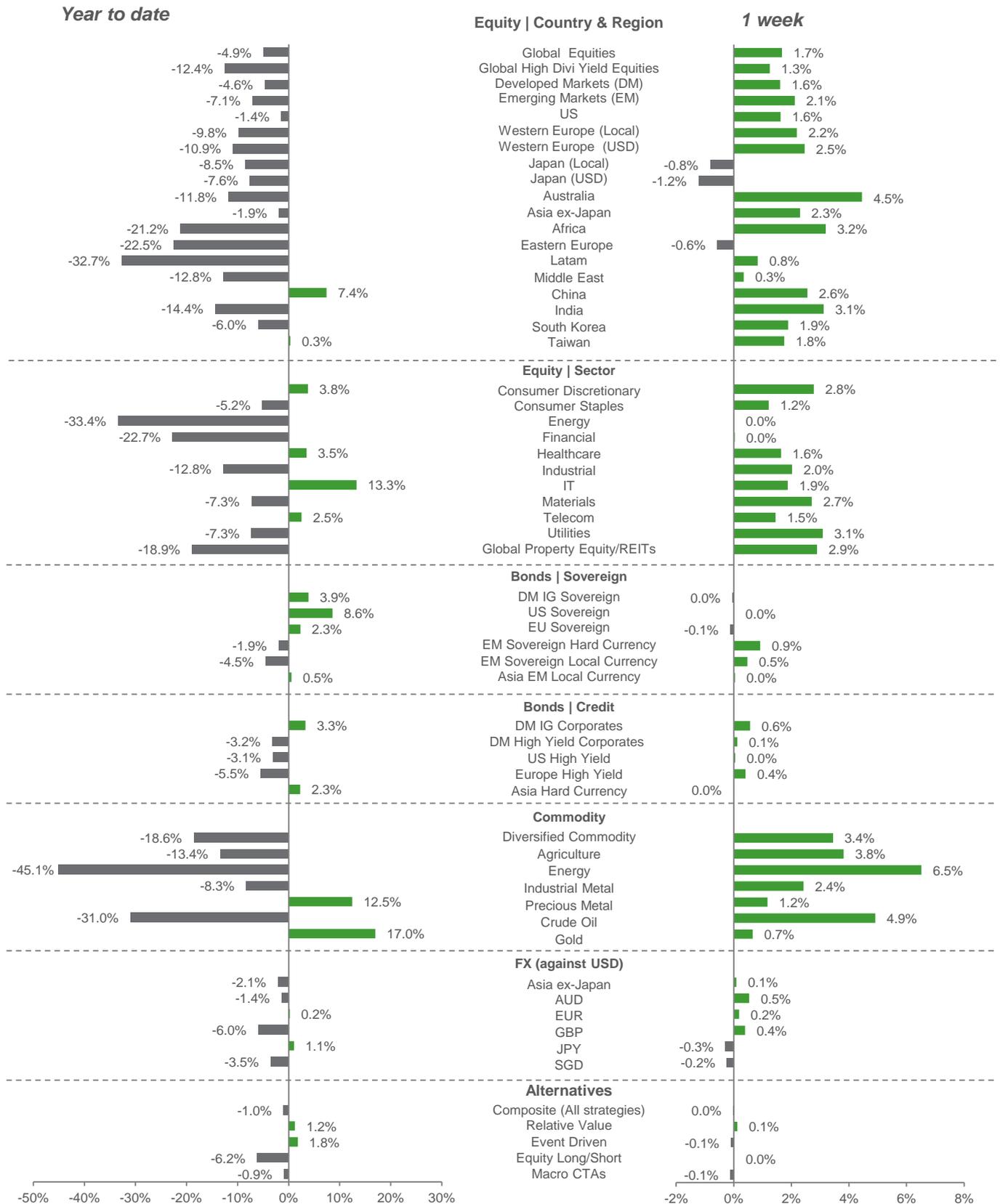
Source: Bloomberg, Standard Chartered

**German consumption rebounded strongly as lockdowns eased; US consumer confidence was also starting to recover before the latest pause in economic re-openings**  
 US Consumer Confidence index; German retail sales growth



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 02 July 2020, 1 week period: 25 June 2020 to 02 July 2020

## Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	GE	Factory Orders WDA y/y	06-Jul-2020	May	-	-36.6%
	EC	Sentix Investor Confidence	06-Jul-2020	Jul	-	-24.8
	EC	Retail Sales y/y	06-Jul-2020	May	-	-19.6%
	US	ISM Non-Manufacturing Index	06-Jul-2020	Jun	50	45.4
TUE	JN	Household Spending y/y	07-Jul-2020	May	-10.1%	-11.1%
	GE	Industrial Production WDA y/y	07-Jul-2020	May	-	-25.3%
WED						
THUR	CH	CPI y/y	09-Jul-2020	Jun	2.5%	2.4%
	GE	Exports SA m/m	09-Jul-2020	May	-	-24.0%
	JN	Machine Tool Orders y/y	09-Jul-2020	Jun P	-	-52.8%
FRI/SAT	JN	PPI y/y	10-Jul-2020	Jun	-2.3%	-2.7%
	FR	Industrial Production y/y	10-Jul-2020	May	-	-34.2%
	US	PPI Ex Food and Energy y/y	10-Jul-2020	Jun	-	0.3%
	CH	Money Supply M2 y/y	10-Jul-2020	Jun	11.1%	11.1%
	CH	New Yuan Loans CNY	10-Jul-2020	Jun	1800.0b	1482.1b

	Event	This Week	Date	Period	Actual	Prior
MON	JN	Retail Sales y/y	29-Jun-2020	May	-12.3%	-13.9%
	EC	Economic Confidence	29-Jun-2020	Jun	75.7	67.5
TUE	JN	Jobless Rate	30-Jun-2020	May	2.9%	2.6%
	JN	Industrial Production y/y	30-Jun-2020	May P	-25.9%	-15.0%
	EC	CPI Core y/y	30-Jun-2020	Jun P	0.8%	0.9%
	US	Conf. Board Consumer Confidence	30-Jun-2020	Jun	98.1	85.9
WED	SK	Exports y/y	01-Jul-2020	Jun	-10.9%	-23.6%
	US	ISM Manufacturing	01-Jul-2020	Jun	52.6	43.1
THUR	EC	PPI y/y	02-Jul-2020	May	-5.0%	-4.5%
	US	Change in Nonfarm Payrolls	02-Jul-2020	Jun	4800k	2699k
	US	Unemployment Rate	02-Jul-2020	Jun	11.1%	13.3%
	US	Average Hourly Earnings y/y	02-Jul-2020	Jun	5.0%	6.6%
FRI/SAT	CH	Caixin China PMI Composite	03-Jul-2020	Jun	-	54.5
	IN	Markit India PMI Composite	03-Jul-2020	Jun	-	14.8

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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