

# Weekly Market View



When will it stop?

Global policymakers have implemented extraordinary measures. A peak in COVID-19 cases in Europe and the US, global fiscal stimulus packages and an end to the global USD squeeze are key to reviving sentiment

**Equities:** History shows there is a high probability of positive market returns from current elevated levels of fear

**Bonds:** Asian USD bond volatility remains low, underlining their defensive quality

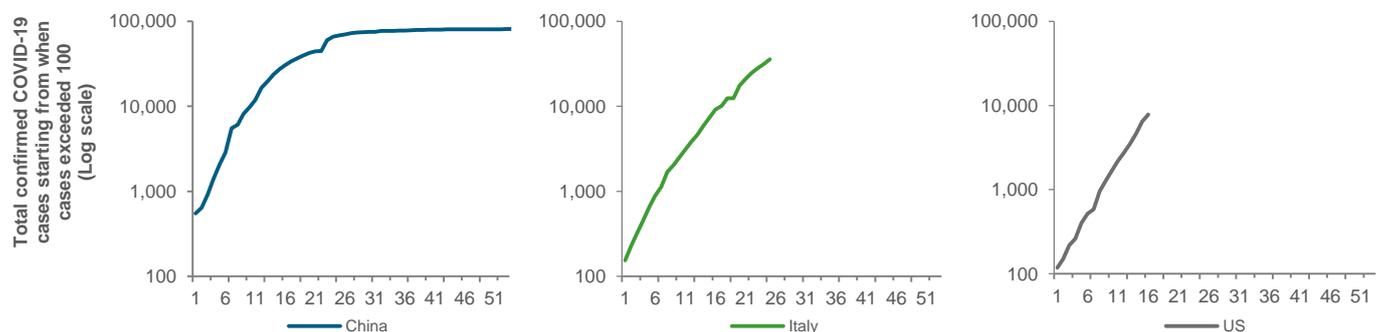
**FX:** Fed's expansion of USD swap lines could alleviate global USD shortages

## Contents

When will it stop?	1
What does this mean for investors?	4
Why is the USD surging despite Fed rate cuts, liquidity boosts?	5
Market performance summary	9
Economic and market calendar	10
Disclosures	11

## Chart of the week: COVID-19 may follow the same path as China

The trajectory of COVID-19 cases in China, Italy and the US. Italy already showing early signs of slowing



Source: Bloomberg, Standard Chartered

## Editorial

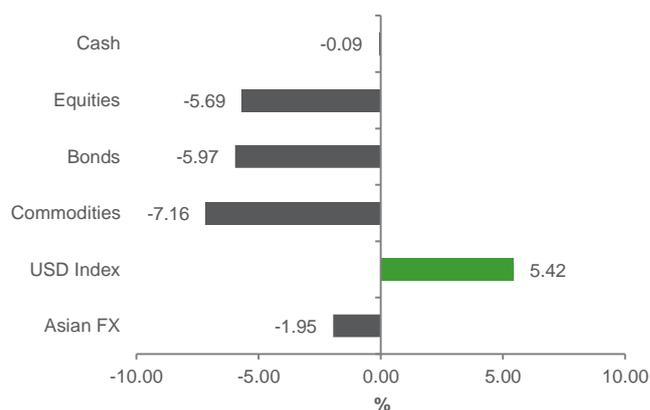
### When will it stop?

Risk assets dropped deeper into a bear market and money markets showed signs of strain. We are watching four indicators that could signal a turnaround in sentiment: a) **A peak in new COVID-19 infections in Italy** – this would provide the first indication from the West of how long it takes, under lockdown conditions, for the virus to peak; b) **whether the US shuts down major cities** – a total lockdown would hit the economy in the near term, but could prevent a significant virus spread; c) **Whether the US Congress can quickly agree to a USD 1.2trn fiscal stimulus plan**, including cash to households – these measures could help households and businesses tide over the coming weeks of economic dislocation and prevent the ongoing liquidity crisis from morphing into a solvency crisis; d) **Whether the Fed’s USD swap lines are effectively transmitted worldwide?**

The good news is that the crisis has already pushed global policymakers to consider unprecedented peacetime measures, including nationalisation of industries, massive liquidity injections and fiscal stimulus. These steps can potentially help economies and markets rebound fast once the virus subsides.

**Global equities and commodities extended their decline deeper into a bear market and riskier bonds slumped further amid a continued spread of COVID-19 across Europe and the US; the USD continued to strengthen broadly amid concerns about a global USD shortage**

Benchmark market performance w/w\*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered  
 \*Week of 12 March 2020 to 19 March 2020

## Significant step-up in policy support

Global policymakers have taken significant monetary and fiscal policy measures aimed at keeping businesses solvent and workers employed. The speed at which the measures have been approved is almost unprecedented during peacetime as authorities use the blueprint from the aftermath of the 2008 financial crisis. In our assessment, the wide-ranging measures should ease the liquidity crunch as they start filtering through the financial system. They are also likely to provide significant fuel for equities and other risk assets once COVID-19 fears subside.

The measures so far that are potential game-changers include:

- 1) The Fed cut rates by 150bps in two weeks to 0-0.25%, a low last seen in the 2008 financial crisis. The BoE, RBA also cut rates to record lows.
- 2) The Fed, ECB, BoJ and BoE have restarted or ramped up bond buying, providing significant liquidity support to banks and businesses
- 3) The Fed has boosted funding swap lines with almost all major central banks (except for China) to ease USD shortages (though the efficiency of transmission will be critical);
- 4) The Fed, ECB and BoJ have started liquidity facilities to ease companies' short-term borrowing costs and support the flow of credit to households and businesses;
- 5) China has cut interest rates, bank reserve requirements and liquidity provisions for commercial banks;
- 6) The US, UK, Euro area, Japan and China have significantly boosted fiscal spending – fiscal deficits could cross 2008 crisis highs;
- 7) The Trump administration has proposed a USD 1.2trn fiscal spending plan that includes tax cuts and USD 500bn of cash payments to households. The proposal is being challenged by Democrats;
- 8) The UK is set to double its national debt to boost spending, while governments consider nationalising airlines (see page 7 for more).

## China economic activity shows signs of recovery

China's January-February data showed a record plunge in economic activity due to COVID-19-related lockdowns. Industrial production, fixed asset investment and retail sales growth contracted -13.5% y/y, -24.5% y/y and -20.5% y/y, respectively. The data indicates what could be seen in Europe, which has enacted similar lockdowns, with 1-2 months' delay (a plunge in Europe's ZEW survey indicator of economic growth points to the same conclusion). The US could also see similar contractions in the coming months as major cities curtail economic activity.

The good news is China's government has started to relax its lockdown measures since end-February. As businesses re-open, economic activity has started to pick up. For example, subway passenger traffic in nine major cities on 18 March was 40% of same period last year, up from less than 10% just a month ago. Daily property sales in 30 major cities have risen to 2,500 this week, from almost none at the start of February. Migrant workers returning to large cities, coal consumption at power plants and container loadings at ports tell the same story.

Meanwhile, the government has stepped up monetary easing to bolster the economy. With effect from 16 March, the PBoC cut its targeted bank reserve requirement ratio (RRR) by 50-100bps to inject an estimated CNY 550bn. We expect more easing measures in the coming months.

The peak in COVID-19 cases, gradual resumption of activity and stimulus measures could lead to continued outperformance of China's equity market vs. the rest of the world in the coming months.

**Monetary policy has been eased significantly in recent weeks across major economies; governments are also accelerating fiscal policy easing, but the US and Euro area can do more**

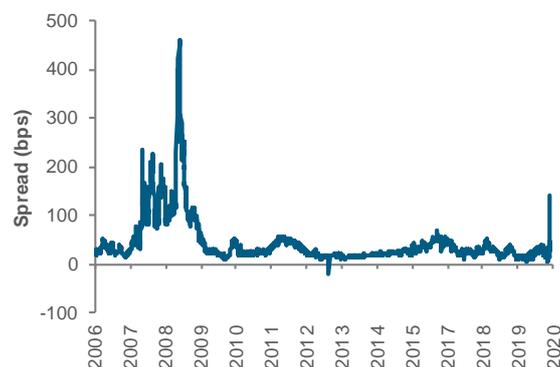
Factors to watch in coming weeks – our view

	US	Europe	China
Monetary Policy	●	●	●
Fiscal Policy	●	●	●
New COVID-19 Cases	●	●	●
Real-time economic data	●	●	●

Source: Standard Chartered

**US commercial paper markets (source of short-term corporate funding) showed signs of strains, although they are far from levels reached in 2008**

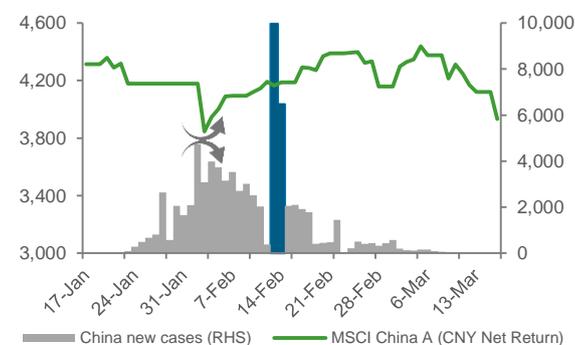
US commercial paper 3-month yield premium over Treasury bills



Source: Bloomberg, Standard Chartered

**Equity markets in China bottomed around the same time when new COVID-19 cases in the country peaked**

China's COVID-19 new cases and MSCI China index



Source: Bloomberg, Standard Chartered

## What does this mean for investors?

### Equities

**Are there signs of equity markets bottoming?** After the swift drop into a bear market last week, global equities continued to be weak in the US and Europe, making new lows in the past week. Share buybacks, which have been a major support in the US, are expected to dip after large US banks suspended their buyback program. The financials sector accounted for c.25% of 2019 share buybacks, second only to the technology sector. Markets remain highly volatile, which is typical after a sharp sell-off, with the defensive sectors, namely consumer staples, healthcare and utilities, continuing to outperform.

As investors search for a market bottom, a positive contrarian signal is capitulation by retail investors: we appear to be getting that now, with US ETFs that are sought after by retail investors seeing a decline in shares outstanding. Once the selling exhausts, it could signal a near term bottom. In the longer term, history shows that when market fear is elevated (reflected in the volatility index, VIX), there is a high probability of US equities delivering positive returns in the next 12 months.

### Bonds

#### What is the outlook for US High Yield and Emerging Market bonds?

EM USD government bonds and local currency bonds fell sharply over the past couple of weeks. Intensified growth concerns, massive fund outflows, lower oil prices and a sharp reduction in bond market liquidity resulted in materially higher yield premiums. This, combined with a sharp rise in US Treasury yields, has meant the bonds were hit by a perfect storm. Yields on EM USD and Developed Market (DM) High Yield (HY) bonds are at their highest since 2009.

In the near term, further momentum-driven price declines cannot be ruled out. Looking beyond this, though, total returns have historically been very strong from current yield premium levels. This is not a surprise considering they are now approaching levels similar to those around 2001 recession peaks.

Asian USD bonds continue to stand out for their relatively low volatility and have outperformed all bonds except DM Investment Grade (IG) government bonds YTD. While fragile investor sentiment is a risk, we believe the sharp reduction in COVID-19 cases in China could help the bonds outperform most other bond asset classes in the next 1-3 months.

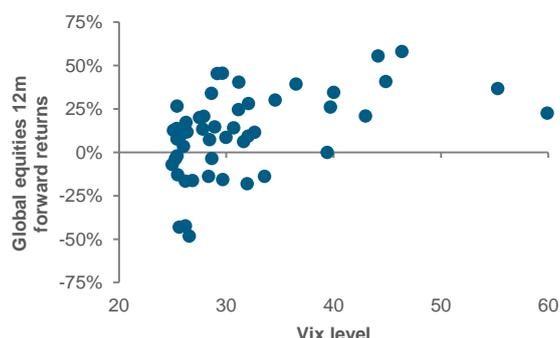
### FX

**Is the decline in AUD and SGD over?** AUD has succumbed to a broad USD surge related to global liquidity (see page 5) and concerns about a sharp global economic slowdown. The RBA cut rates to a record low of 0.25% and embarked on its first bond purchase programme, and the government announced the first in a likely series of fiscal stimulus measures. Yet, AUD/USD at its lowest point plunged over 12% since Monday, breaking below 2008's low at 0.60 and further to 0.55. AUD/SGD fell 10% over the same period, hitting a record low c. 0.80.

Technicals indicate the AUD is oversold near term. AUD/USD has no strong technical support until the all-time low around 0.48, last seen in 2001. However, assuming a near-term base around 0.55, we anticipate extreme oversold positioning could support a corrective rally towards 0.60, with stronger resistance around 0.6250. AUD/SGD could see a near-term rally towards 0.88 if the 0.80 base holds. The medium-term AUD trend remains down amid weak global growth outlook, though.

#### US equity market forward 12-month returns tend to be positive following high 'fear' (VIX) levels

Performance of S&P500 index in next 12 months from various levels of VIX index (current VIX level is 72)



Source: FactSet, Standard Chartered

#### Equity technicals remain negative across the board

Technical levels of key markets as of 19 March 2020

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,409	2,280	2,470	↓
STOXX 50	2,454	2,300	2,900	↓
FTSE 100	5,152	4,900	5,890	↓
Nikkei 225	16,553	14,800	18,200	↓
Shanghai Comp	2,702	2,560	2,880	↓
Hang Seng	21,709	19,700	23,600	↓
MSCI Asia ex-Japan	524	500	589	↓
MSCI EM	788	690	845	↓
Brent (ICE)	29	20	33	↓
Gold	1,474	1,425	1,545	↓
UST 10Y Yield	1.16	0.30	1.44	↓

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

#### AUD/USD plunged below 2008 lows towards 0.55; extremely oversold positioning could support a corrective rally towards 0.60 initially

AUD/USD



Source: Bloomberg, Standard Chartered

## Top client questions

### Q Why is the USD surging despite Fed rate cuts, liquidity boosts?

Fear and necessity have been significant drivers of USD strength against a growing array of currencies. With global growth and earnings falling on widening national and regional lockdowns, demand for USD borrowing in the short term has likely risen dramatically, both because of demand for cash (as investors feel the impact of wealth destruction and margin calls) or due to precautionary reasons (companies drawing down credit lines, for example).

Supply, meanwhile, may be diminishing. Offshore USD supply usually comes from three sources – current account surpluses, sovereign reserves and borrowings from the Fed. With global trade falling, the first is not a reliable near-term source. The second – reserves – are a precious commodity and countries are likely to utilise them carefully.

Therefore, the Fed has become key to alleviating the immediate USD liquidity squeeze. Last Sunday, the Fed announced improved access to USD swap lines for five central banks – the ECB, BoJ, BoE, Swiss National Bank and Bank of Canada – and recently included more countries including Brazil, Mexico, Australia and South Korea.

Despite the availability of these swap lines, there seem to be potential bottlenecks in the transmission of these USD funding mechanisms through financial intermediaries, particularly to non-financial entities.

What can alleviate the fear driving the USD higher? In our assessment, on the dollar supply side (i) If the Fed were to further expand international access to USD borrowing and recipient central banks provide an effective transmission mechanism for dollars to reach where they are needed. We could then expect the USD to consolidate or reverse its sharp uptrend given today's extreme technicals and valuations. (ii) US or coordinated currency intervention would also push dollars into the market if the USD rally becomes more extreme. (iii) Finally, on the demand side, delivery of substantial and effective global fiscal stimulus would potentially alleviate the critical need for dollars.

### Q What are the equity sectors to avoid and which sectors are turning attractive?

Long-term investors may be interested in searching for the most beaten up sectors in an expectation of the highest returns when the market recovers. While this may work, we suggest investors also consider these factors: (1) It may get significantly worse before it gets better; and (2) Certain sectors facing a liquidity crunch may need government support to survive.

In a liquidity crunch, a company has unavoidable cash outflows and it simply has no funds available to meet those outflows at that specific point in time. In the current environment, the airlines sector is one which is clearly in stress. With high fixed costs, but huge uncertainty on when they can operate again, government support may be required to bail out weaker players in the sector. The stress from airlines can extend vertically into the aerospace sector involved in the supply chain as well as related financing and support services sectors.

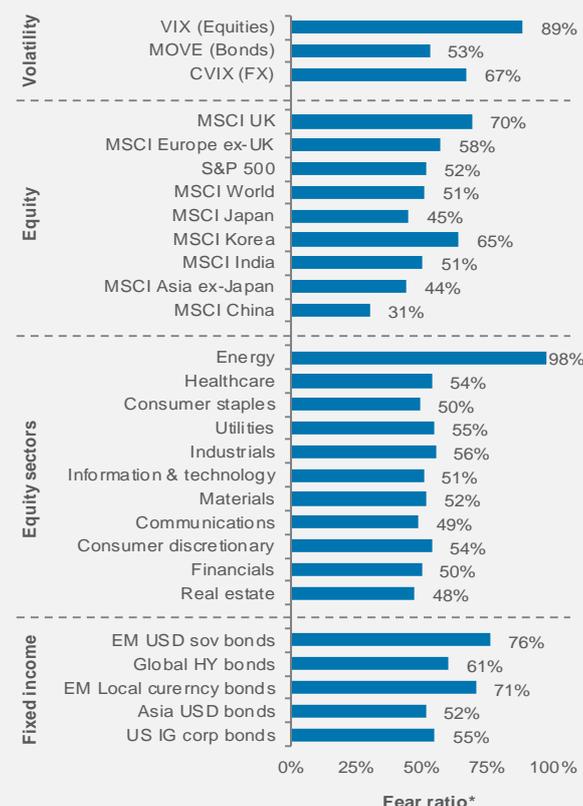
The USD's surge this week was driven by a global funding squeeze, which could be alleviated after the Fed expanded USD swap lines with major central banks



Source: The Center for Systems Science and Engineering (CSSE) at Johns Hopkins University; Standard Chartered

The energy sector has seen the largest drawdown when compared with the 2008 crisis, while the defensive sectors such as consumer staples and healthcare have been relatively resilient

Recent market moves across asset classes compared with the height of the Global Financial crisis



Source: Bloomberg; Standard Chartered

For equity indices, sectors and EM local currency bonds, Fear Ratio has been computed by comparing the magnitude of the index recent moves with its magnitude during the Great Financial Crisis. For the remaining bond markets and volatility indices it compares the current level versus the peak level during the Great Financial Crisis

Where a government bailout is required, the type of bailout offered would be crucial: a simple loan would be benign to equity investors, but an equity injection that heavily dilutes existing shareholders could lead to significant losses for a prolonged period. It would be best for investors to avoid sectors with severe stress where government bailouts may be necessary.

Once a bottom is found, clearly the cyclical sectors would bounce more strongly from the bottom. However, this can only be seen in hindsight and pinning down the bottom is tricky. As such, defensive sectors, including consumer staples and healthcare, are attractive since they can be expected to outperform as the market continues to make new lows; and if the market recovers, they can still be expected to give a positive absolute return, even if they underperform their cyclical peers in the bounce.

### Q What is the outlook for oil after its latest plunge?

WTI crude oil prices have plunged in recent weeks on the back of unfavourable supply and demand dynamics, breaking below 2016's lows of USD 26/bbl. Against the backdrop of a demand slump due to COVID-19, losses have accelerated after OPEC and Russia failed to agree on extending and deepening production cuts. This has implications for oil prices, given Saudi Arabia's subsequent decision to ramp up supply from around ~9mbd to 12mbd and offer discounts to customers in Asia. With OPEC moving away from supply discipline to a battle for market share, we see three scenarios on how oil prices could evolve over the coming months:

#### 1. A near-term tactical price war

- More short-term pain is likely, but Saudi Arabia and Russia remain highly sensitive to oil prices
- Saudi's recent retaliation increases the probability of Russia coming back to the discussion table (likely in June)
- A truce in which both parties return to targeted production levels is likely, which could see WTI oil prices rally back to around USD 40/bbl

#### 2. A protracted battle for market share

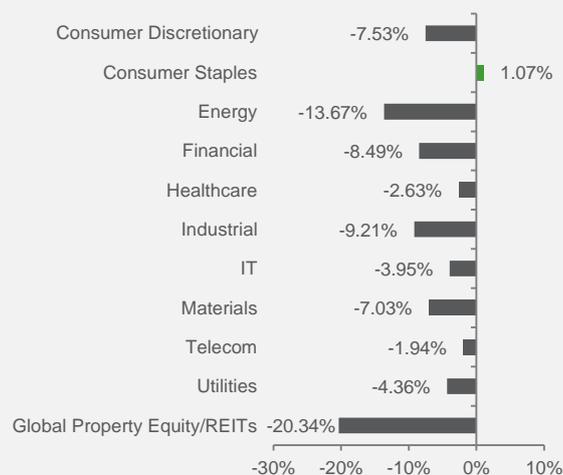
- Russia's ambitions to constrain US shale production coupled with Saudi Arabia's unwillingness to bear the burden of further cuts drags this out
- The fall in US shale production growth may be slower-than-expected given hedges put in place and the lagged impact on rig utilisation
- If Saudi Arabia follows through on its promises to ramp up output, the additional supply coming through to an already oversupplied market could push prices even lower.

#### 3. A proactive OPEC

- Reports suggest US President Trump is seeking a truce between Saudi Arabia and Russia, with an aim to curb output. There's also pressure on Saudi Arabia take unilateral action to reduce output.
- This is still a low probability scenario, in our assessment, but any success on this front could lead to a rebound in oil prices.

### Consumer staples continued to outperform over the past week, underscoring their defensive properties

Relative performance of various US sectors from 12 March 2020 to 19 March 2020



Source: Bloomberg, Standard Chartered

### This week's plunge in oil prices has taken it below 2016 low of USD 26/bbl; a truce between Saudi Arabia and Russia could take prices back to around USD 40

WTI crude oil price



Source: Bloomberg, Standard Chartered

## What are the technical charts indicating about major equity, bond, FX and commodity markets?

The MSCI All Country World Index has fallen below key support at the December low of 435. Unless it is able to close above the support this month, chances are rising that the medium-term upward pressure is fading. Subsequent support is at the 2016 low of 351 (13% from Thursday's close), roughly coinciding with the 200-month moving average (now at 368). On the upside, the index needs to rise above immediate resistance on the 10-day moving average (DMA; now at 444; 10% from Thursday's close) for a sustained stabilization.

The S&P 500 index is now testing strong support at the December 2018 low of 2,347. A decisive hold above the support is vital for the broader uptrend to remain intact. Positive Relative Strength Index divergence on the daily charts (declining index Vs. ascending RSI readings) indicates that the slide is losing steam. However, the index needs to stop making new lows and, at the very least, clear immediate resistance on the 10-DMA (now at 2611; 8% from Thursday's close) for the short-term downward pressure to fade. Until a break above resistance, the path of least resistance remains down.

The US Treasury 10-year yield is holding above support on the lower edge of a key downtrend channel from 2014 (now at about 0.5%). Positive Relative Strength Index divergence on the weekly charts indicates that the slide is losing steam. If the yield was to break decisively above immediate resistance at the July 2016 low of 1.32%, it would indicate that the short-term downward pressure had faded.

On continuous contract charts, WTI crude oil is looking very oversold, both on shorter- and longer-term charts, as it tests crucial long-term support on a slightly downward-sloping trendline from 2009 (now at about USD22). While some consolidation/minor rebound cannot be ruled out, for a sustained rebound, at minimum, oil would need to close the bearish 6-9 March gap (the upper edge of the gap is at USD41.05).

EUR/USD's 'A-shaped' move since February (the near-straight-line rise and the subsequent similar decline) reflects the heightened volatility in recent weeks. The single currency is testing immediate support at the February low of 1.0775. This week's close below the support could expose downside risks toward the 2017 low of 1.0339. On the upside, EUR/USD needs to regain, at minimum, the 200-DMA (now at about 1.0890) for the medium-term outlook to turn constructive.

### The S&P500 index has a strong support at the December 2018 low of 2,347

S&P500 index and the 10-day exponential moving average



Source: Bloomberg, Standard Chartered

**Governments and central bank policymakers in the West have announced support measures to cushion the impact of COVID-19**

Major fiscal and monetary responses from developed countries (new/expanded measures in the past 7 days in **bold**)

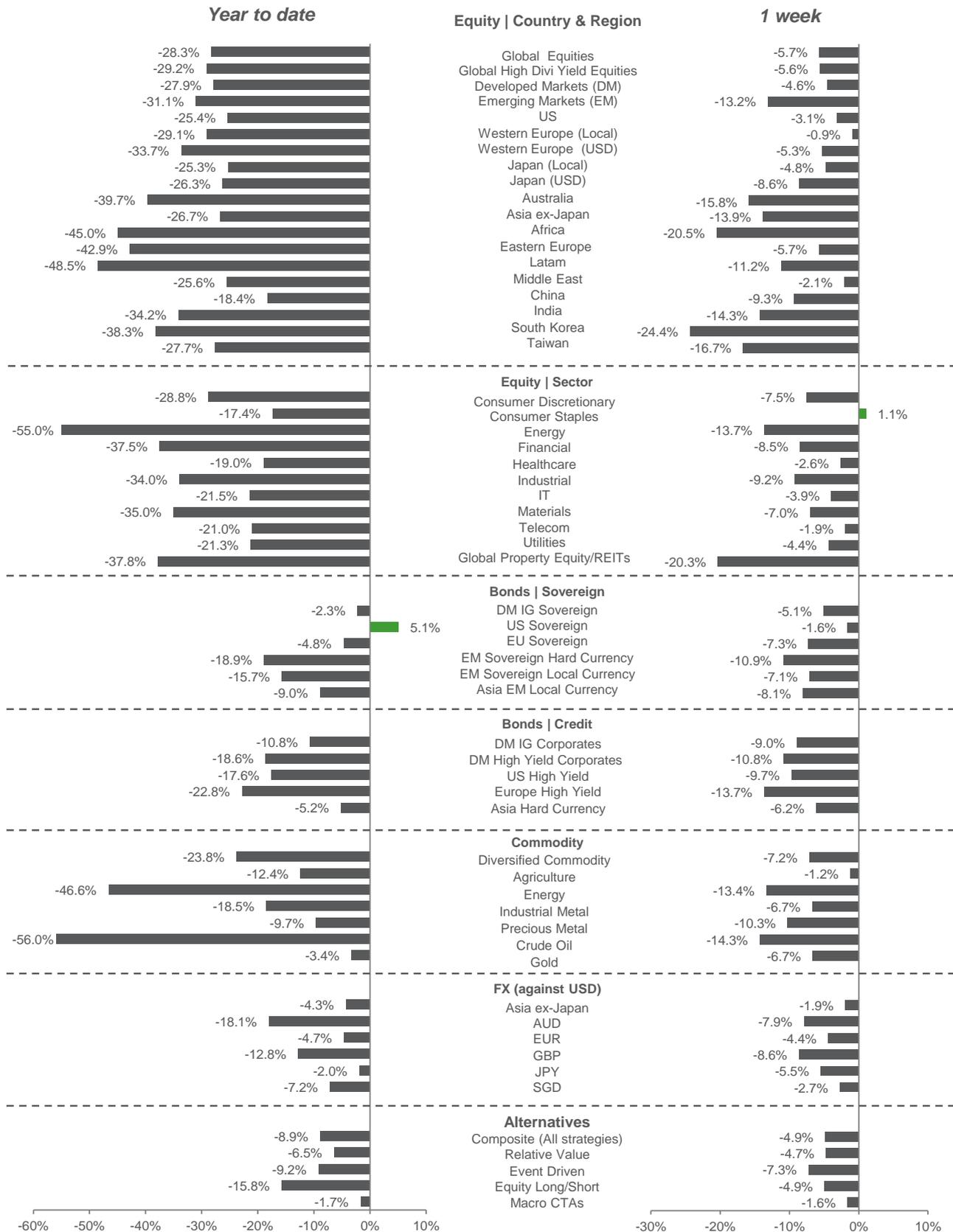
	Europe	US
<b>Monetary policy</b>	<p><b>ECB:</b></p> <ul style="list-style-type: none"> <li>Lenient requirements for targeted long-term refinancing operations (TLTRO III)</li> <li>Additional LTROs to support liquidity conditions and the money markets</li> <li>Easing regulations for banks' capital and liquidity requirements</li> <li>Additional EUR 120bn of asset purchases until the end of the year</li> <li><b>EUR 750bn QE Programme until "at least" the end of 2020</b></li> <li><b>Asset purchases under QE to be conducted in a "flexible" manner. (Expands scope to Greek debt and non-financial Commercial Paper)</b></li> </ul> <p><b>BOE:</b></p> <ul style="list-style-type: none"> <li><b>Benchmark rate cuts of 65bps (down to 0.10%) (unscheduled)</b></li> <li>Funding scheme for SMEs impacted by Covid-19</li> <li>Bank's capital requirements lowered</li> </ul>	<p><b>Federal Reserve:</b></p> <ul style="list-style-type: none"> <li>50bps Fed Funds rate cut on 3 March (unscheduled)</li> <li><b>Further 100 bps of rate cuts delivered on 15 March</b> (Target Rate range at 0.0-0.25%)</li> <li><b>Resumption of Quantitative Easing (QE). Fed to increase the size its balance sheet via the purchase of USD 500bn in Treasury securities and USD 200bn in Mortgage Back Securities (MBS)</b></li> <li>Expansion of overnight liquidity operations up to USD 1 trillion for short-term funding</li> <li><b>Opened FX swap lines with G7 and further 9 countries to ease the global US Dollar shortage</b></li> <li>Additional liquidity measures</li> </ul>
<b>Fiscal policy</b>	<p><b>Italy:</b></p> <ul style="list-style-type: none"> <li>Earmarking of EUR 25bn (corresponding to 1.1% of GDP)</li> <li>Suspension of municipal/utility bills</li> <li>Moratorium on repayments on mortgage and bank loans</li> <li>Government to pay freelancers and parents staying home</li> <li><b>Healthcare and civil protection funding bills</b></li> </ul> <p><b>Germany:</b></p> <ul style="list-style-type: none"> <li>Small increase in investments over the next four years</li> <li>Restrictions eased for firms to subsidise the decrease in working hours for employees</li> <li><b>Unlimited business credit via state (KfW) bank</b></li> <li><b>Increase in investment and expansion of tax deferrals</b></li> </ul> <p><b>France:</b></p> <ul style="list-style-type: none"> <li>EUR 300bn of guarantees for business loans</li> <li>Government ready to nationalise firms if necessary</li> <li><b>Subsidized working hours</b></li> <li><b>Energy bills and social charges suspended for SMEs</b></li> <li><b>Tax deferrals and rebates (for specific cases)</b></li> </ul>	<ul style="list-style-type: none"> <li><b>USD 8.3bn package aimed at medical and healthcare response has passed</b></li> <li>A further USD 1 trillion stimulus package is under discussion (comprises payroll taxes reduction, and relief measures for small medium enterprises and for industries hardest hit by Covid-19 impact)</li> </ul>

**Our assessment of where policy measures stand in various countries (1 – Inadequate , 5 – Adequate)**



Source: 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 19 March 2020, 1 week period: 12 March 2020 to 19 March 2020

## Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	EC	Consumer Confidence	23-Mar-2020	Mar A	–	-6.6
TUE	GE	Markit/BME Germany Composite PMI	24-Mar-2020	Mar P	–	50.7
	EC	Markit Eurozone Composite PMI	24-Mar-2020	Mar P	–	51.6
	UK	Markit/CIPS UK Composite PMI	24-Mar-2020	Mar P	–	53
	US	Markit US Composite PMI	24-Mar-2020	Mar P	–	49.6
	US	New Home Sales	24-Mar-2020	Feb	755k	764k
WED	UK	CPI Core y/y	25-Mar-2020	Feb	–	1.6%
	US	Cap Goods Orders Nondef Ex Air	25-Mar-2020	Feb P	–	1.1%
	US	Durable Goods Orders	25-Mar-2020	Feb P	-0.9%	-0.2%
THUR	EC	M3 Money Supply y/y	26-Mar-2020	Feb	–	5.2%
	UK	Bank of England Bank Rate	26-Mar-2020	26-Mar	0.2%	0.3%
	US	Initial Jobless Claims	26-Mar-2020	21-Mar	–	–
FRI/ SAT	US	Personal Income	27-Mar-2020	Feb	0.4%	0.6%

	Event	This Week	Date	Period	Actual	Prior
MON	JN	BOJ Policy Balance Rate	16-Mar-2020	19-Mar	-0.1%	-0.1%
	CH	Fixed Assets Ex Rural YTD y/y	16-Mar-2020	Feb	-24.5%	–
TUE	US	Retail Sales Ex Auto and Gas	17-Mar-2020	Feb	-0.2%	0.7%
	US	Industrial Production m/m	17-Mar-2020	Feb	0.6%	-0.5%
WED	JN	Exports y/y	18-Mar-2020	Feb	-1.0%	-2.6%
	CA	CPI y/y	18-Mar-2020	Feb	2.2%	2.4%
	US	Building Permits	18-Mar-2020	Feb	1464k	1550k
	US	Housing Starts	18-Mar-2020	Feb	1599k	1624k
THUR	BZ	Selic Rate	19-Mar-2020	18-Mar	3.75%	4.25%
	US	Initial Jobless Claims	19-Mar-2020	14-Mar	281k	211k
	JN	Natl CPI Ex Fresh Food, Energy y/y	19-Mar-2020	Feb	0.6%	0.8%
	UK	Bank of England Bank Rate	19-Mar-2020	19-Mar	0.1%	0.25%
FRI/ SAT	EC	ECB Current Account SA	20-Mar-2020	Jan		32.6b
	US	Existing Home Sales	20-Mar-2020	Feb		5.46m

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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