Standard Chartered Private Bank

weekly **market view**

macro strategy | 23 November 2018

This reflects the views of the Wealth Management Group

Editorial

Oil, technology sector woes drag equities

- **An output cut decision at the upcoming OPEC meeting could support oil and the energy sector. Technology sector concerns about peak pricing power are likely overblown.**
- **Equities:** We believe US technology sector pricing power remains intact, underpinning our preference for the sector. We see improving risk-reward for China equities (see page 3).
- **Bonds:** EM USD government bonds now offer higher yields than EM local currency bonds, providing an opportunity to switch away from local currency towards USD bonds.
- **FX:** The USD/SGD rally is showing signs of fatigue; a break below key support at 1.3679 could open further downside. GBP/USD jumped after UK-EU agreed on a draft agreement setting out future ties. The pair faces key resistance at 1.3300.

What's new?

- **US oil, technology sector woes drag equities.** The S&P500 has declined 10% from its 21 September peak. While the energy and technology sectors led the latest selloff, 8 out of 11 sectors are down this quarter. The technology sector has been under pressure due to concerns of slowing demand. This has been compounded by concerns pricing power has peaked for some sector leaders, which could be a drag on future earnings growth. We believe pricing power remains intact based on recent trends. Nevertheless, we will watch the next results for a confirmation of our view. The energy sector has fallen 16% since its October peak amid higher-than-expected oil supply. The OPEC meeting on 6 December is the next event to watch. Any cuts in supply may provide a lift to oil prices and energy sector equities. US equities and the US technology sector remain preferred; US energy sector equities are a core holding.
- **Opportunity to switch to EM USD government bonds.** EM USD government bonds sold off on broad market weakness and lower oil prices. These bonds now offer an attractive yield of over 7% – the highest since 2010. Conversely, EM local currency bonds rallied over 1% last week as a weaker USD and a decline in local bond yields helped the asset class. However, with local currency bonds offering lower yields than USD-denominated bonds, we would use the recent EM USD bond selloff as an opportunity to rotate towards the asset class.
- **Fed rate expectations pared on weak data.** Markets have pared US rate hike expectations to less than two hikes in 2019 after recently weak US data. US pre-owned home sales posted their largest annual decline since 2014 amid rising mortgage rates; durable goods orders fell for the third time in four months and consumer sentiment weakened. Comments from some Fed officials also suggest increased caution among policymakers as US and global growth slows. A slower pace of US rate hikes would be positive for EM and Asian risk assets.

What we are watching

- **Trump-Xi meeting.** The proposed G20 meeting in Argentina on 30 November will offer a chance to assess whether Trump will ease his stance on trade before US import tariffs rise in January.

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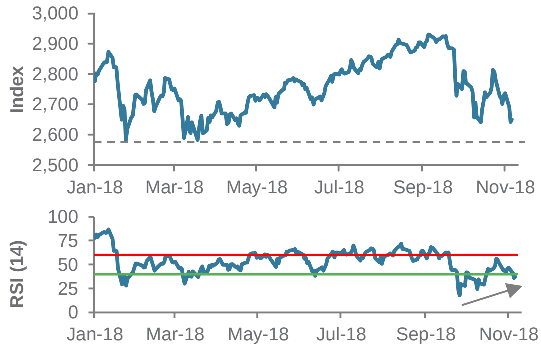
The S&P500 holding above its 29 October lows and other technical indicators suggest the latest pullback is a correction, not the start of a downturn

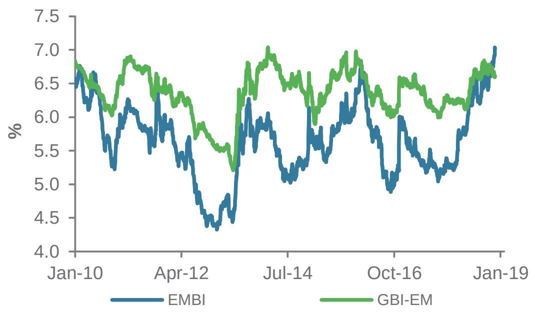
S&P500 and Relative Strength indices (levels below green line suggest oversold conditions)



Source: Bloomberg, Standard Chartered

EM USD government bonds now offer a higher yield than the more volatile EM local currency bonds

Yields on EM USD government bonds (EMBI) and EM local currency bonds (GBI-EM)



Source: Bloomberg, Standard Chartered

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What does this mean for investors?

Global equities extended declines, led by the US technology sector on concerns about slowing earnings growth. Government bonds outperformed corporate debt. Oil extended its slump.

Equities: Asian markets focused on Trump-Xi meeting

- **Hong Kong, China stocks seem oversold.** Hong Kong and China markets remained volatile ahead of the planned meeting between President Donald Trump and President Xi Jinping at the G20 summit later this month. Although the correction in the US technology sector has affected sentiment towards parts of the technology sector in Asia, reports of increased mortgage lending in China have lifted the country's property sector. We see good technical support for Hong Kong and China equities. The Hang Seng index appears to be stabilising at current levels (see page 3), offering an increasingly attractive risk-reward. China remains our preferred equity market in Asia ex-Japan.
- **Japan equities under pressure.** The global sell-off in equities and the sudden departure of the head of a leading global automaker have hurt Japanese equities. Management changes at the automaker is a potential setback for investors who have increased exposure to Japan on optimism about increased corporate reform. There is a risk of Japan's equity market being de-rated if investors believe the ability to push ahead with corporate reforms will be constrained. Euro area equities and Japan are core holdings.

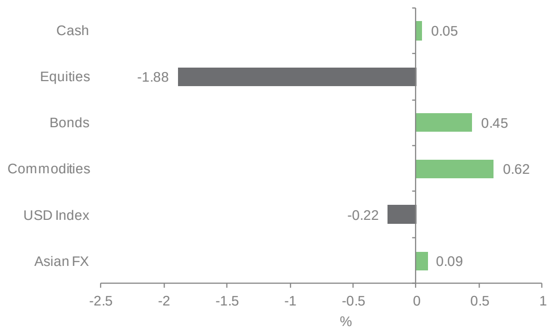
Bonds: HY bond premiums rise

- **US Treasuries gain.** Weak equity market sentiment and the decline in oil prices led to renewed demand for US Treasuries, driving the 10-year Treasury yield near the lower end of our 3.00-3.25% expected range for the next 12 months. Technically, the 10-year Treasury yield is testing crucial support at the end-October low of 3.06%. A break below the support is a risk and could trigger a move towards 2.98%, followed by 2.90%.
- **US HY bond yield premiums rose sharply,** led by lower oil prices. Following this week's move, US High Yield (HY) yield premiums have increased over 100bps since their lows in October. Although a recovery in oil prices could lead to a bounce in US HY bonds near-term, we would use that as an opportunity to partially rebalance into EM USD government bonds.

FX: USD/SGD rally showing signs of fatigue

- **USD/SGD rally stalls.** The pair has followed a choppy but gradual uptrend since mid-2018. Singapore's core inflation is rising and is expected to hit 2.0% in the coming months, keeping the door open for further tightening by the Monetary Authority of Singapore (MAS) in 2019. The MAS expects core inflation to be within 1.5-2.5% in 2019. USD/SGD is testing support at the early November low of 1.3679, a break below which could open the way to the late September low of just above 1.36.
- **GBP/USD eyes weekend Brexit meet.** UK Prime Minister Theresa May is due to meet EU leaders over the weekend to seal the Brexit deal. However, EU leaders appear reluctant to make any further concession that would help May get enough support in the UK parliament to approve the deal. GBP/USD is settling around the lower end of the last three months' range. Immediate supports are at 1.2660, followed by 1.2550. The pair faces a crucial resistance at 1.3300.

Benchmark (USD) performance w/w*



**Week of 15 November 2018 to 22 November 2018*

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)

US equity market technicals have turned negative

Technical levels of key market indicators as on 22 Nov

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,650	2,600	2,715	↘
STOXX 50	3,127	3,090	3,190	↘
FTSE 100	6,960	6,851	7,092	↘
Nikkei 225	21,647	20,970	22,000	↓
Shanghai Comp	2,645	2,585	2,745	↗
Hang Seng	26,019	25,000	26,600	↗
MSCI Asia ex-Japan	600	583	615	↗
MSCI EM	976	955	1,007	↗
Brent (ICE)	63	59	69	↓
Gold	1,227	1,196	1,240	↓
UST 10Y Yield	3.06	2.93	3.17	↘

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

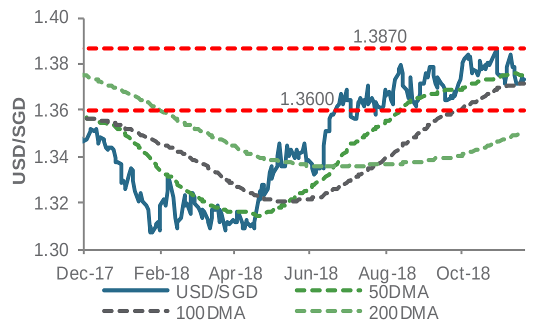
US 10-year Treasury yields have a key support at the end-October low of 3.06%

US 10-year Treasury yields

Source: Bloomberg, Standard Chartered

USD/SGD rally is showing signs of fatigue

USD/SGD



Source: Bloomberg, Standard Chartered

Top client questions

Q1. What are technical indicators telling us about the outlook for key equity and commodity markets?

Technical indicators suggest (i) the recent US equity market pullback is only a correction rather than the start of a new downturn, (ii) Hong Kong stocks may be stabilising, and that (iii) oil prices may consolidate in the near term.

S&P500: Probably 'noise' rather than a 'trend'

This week's slide appears more 'noise' than 'trend'. That is because although the index closed around the the 29 October low (the low for last month), the 14-day RSI (Relative Strength Index) did not make a new low, while the VIX (volatility) index was well below its October peak. Given the 'unsynchronised' nature of the week's price action, we are reluctant to conclude this is the start of another leg lower. The lack of follow-through price action on Wednesday and resilience in Asian markets are other points supporting this view. Instead, we see a range scenario (2,600-2,850) playing out, as we highlighted recently. The February low of 2,533 remains strong support for the index.

Hang Seng index: Tentative signs of an interim low

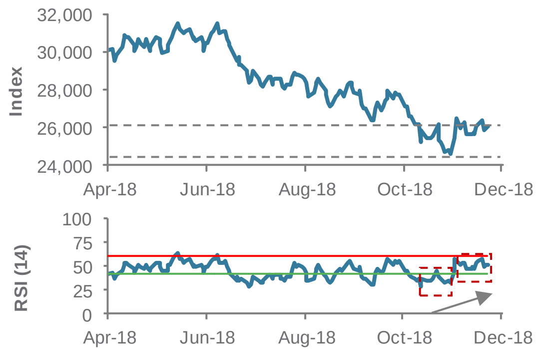
Developments on the daily charts in recent weeks suggest the Hang Seng index could be in the process of forming an interim low. Firstly, the index is holding above strong support on the 200-week moving average. Secondly, the recent 14-day RSI range seems to have stabilised within 45-50. For an uptrend to ensue, the RSI needs to form a base above 40. Finally, the index formed an island reversal pattern (a pattern with two gaps with price action in between the gaps) at the end of October. However, there is no confirmation yet. Any break above a horizontal trendline resistance at about 26,220 would indicate that the downward pressure had eased, opening the way toward the September high of 28,000.

Brent oil: Slide is losing steam

A positive divergence (of the 14-day RSI with price) on the daily charts of Brent oil indicates that the six-week long slide is losing steam as it tests fairly strong support at the February low of 61.77. Oil prices could consolidate in the near term below resistance at the mid-November high of 68.38. This resistance is key – at the very least, oil needs to clear this barrier for the short-term downward pressure to ease.

Technical indicators suggest Hong Kong stocks may be forming an interim low; a break above 26,220 in the Hang Seng index would indicate the downtrend has eased

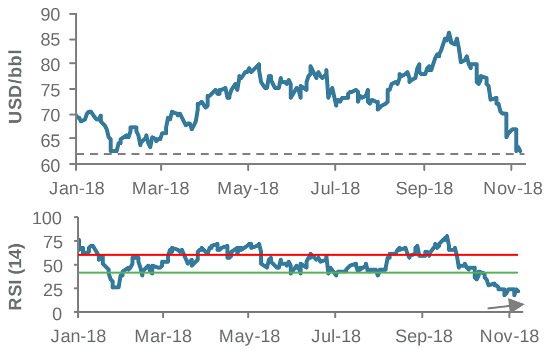
Hang Seng index and Relative Strength index (levels below 30 indicate oversold conditions)



Source: Bloomberg, Standard Chartered

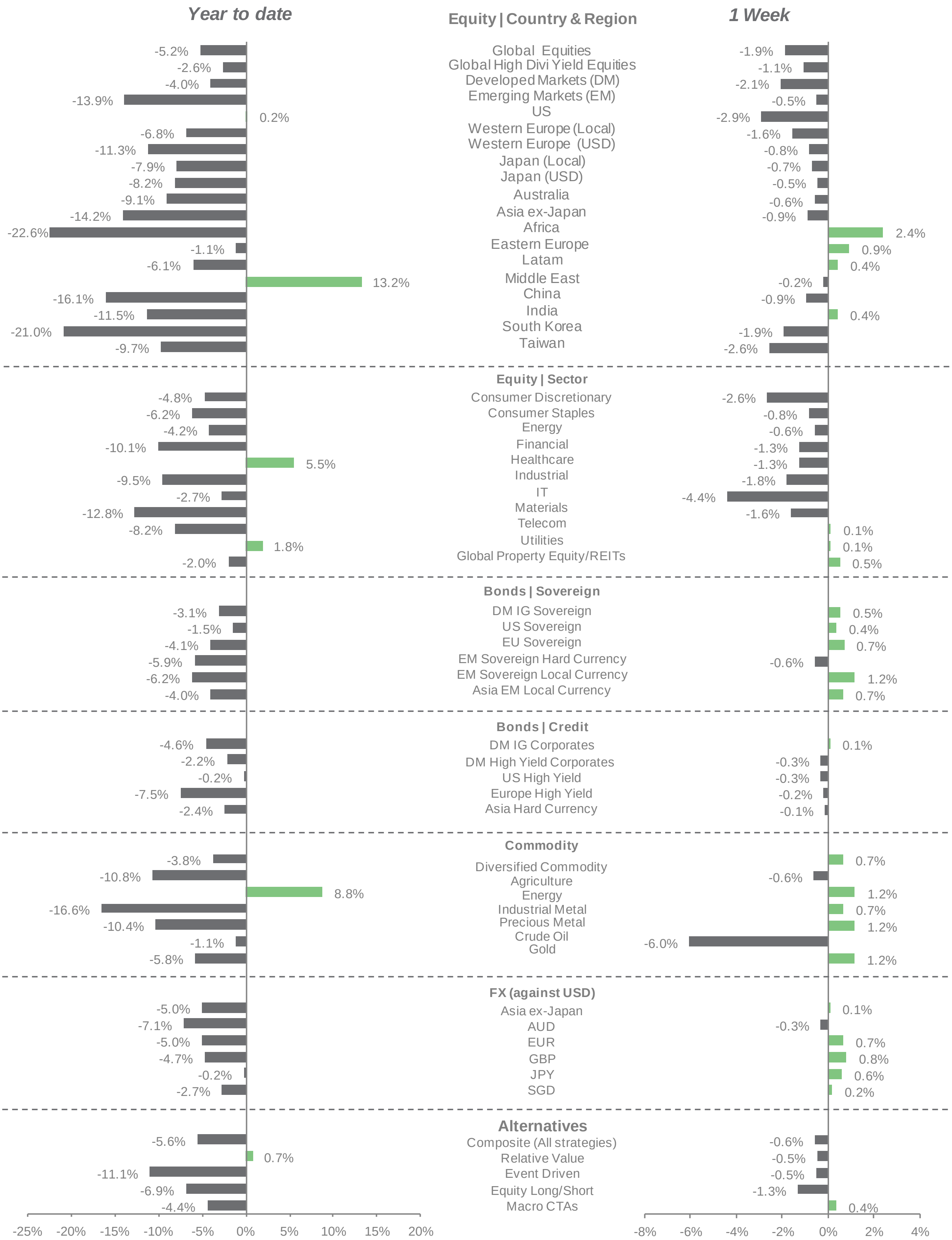
Oil's six-week slide appears to be losing steam as it tests a crucial support just below USD62/bbl

Brent crude oil



Source: Bloomberg, Standard Chartered

Market performance summary*



**Performance in USD terms unless otherwise stated, YTD period from 31 December 2017 to 22 November 2018, 1 week period: 15 November 2018 to 22 November 2018*

Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

Economic & Market Calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	JN	Nikkei Japan PMI Mfg	26-Nov-18	Nov P	–	52.9
TUE	CH	Industrial Profits y/y	27-Nov-18	Oct	–	4.1%
	GE	Retail Sales y/y	27-Nov-18	Oct	–	-2.6%
	US	Conf. Board Consumer Confidence	27-Nov-18	Nov	136	137.9
WED	EC	M3 Money Supply y/y	28-Nov-18	Oct	–	3.5%
	US	Core PCE q/q	28-Nov-18	3Q S	–	1.6%
	US	GDP Annualized q/q	28-Nov-18	3Q S	3.6%	3.5%
THUR	EC	Economic Confidence	29-Nov-18	Nov	–	109.8
	GE	CPI EU Harmonized MoM	29-Nov-18	Nov P	-0.1%	0.1%
	US	Personal Income	29-Nov-18	Oct	0.4%	0.2%
	US	Real Personal Spending	29-Nov-18	Oct	0.2%	0.3%
FRI/SAT	JN	Industrial Production y/y	30-Nov-18	Oct P	2.5%	-2.5%
	CH	Manufacturing PMI	30-Nov-18	Nov	–	50.2
	EC	Unemployment Rate	30-Nov-18	Oct	–	8.1%
	US	Chicago Purchasing Manager	30-Nov-18	Nov	58.5	58.4

	Event	This Week	Date	Period	Actual	Prior
MON	JN	Exports y/y	19-Nov-18	Oct	8.2%	-1.3%
	EC	ECB Current Account SA	19-Nov-18	Sep	16.9b	24.3b
TUE	US	Building Permits	20-Nov-18	Oct	1263k	1270k
	US	Housing Starts	20-Nov-18	Oct	1228k	1210k
WED	US	Capital Goods Orders	21-Nov-18	Oct P	-4.4%	-0.1%
	US	Leading Index	21-Nov-18	Oct	0.1%	0.6%
THUR	JN	Natl CPI y/y	22-Nov-18	Oct	1.4%	1.2%
	EC	Consumer Confidence	22-Nov-18	Nov A	-3.9	-2.7
FRI/SAT	GE	Exports q/q	23-Nov-18	3Q	–	0.7%
	GE	Markit/BME Germany Manufacturing PMI	23-Nov-18	Nov P	–	52.2
	EC	Markit Eurozone Composite PMI	23-Nov-18	Nov P	–	53.1
	EC	Markit Eurozone Manufacturing PMI	23-Nov-18	Nov P	–	52.0
	EC	Markit Eurozone Services PMI	23-Nov-18	Nov P	–	53.7
	US	Markit US Composite PMI	23-Nov-18	Nov P	–	54.9

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

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue

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