Turning up the heat

2018 Outlook
Table of contents

1 WELCOME
  05 Welcome to 2018 outlook
  06 Our diversity-driven, adaptive approach to investment decisions

2 STRATEGY
  12 Turning up the heat
  14 Investment implications and key themes

3 MACRO OVERVIEW
  16 Macro overview – At a glance
  17 A subtle shift towards reflation
Welcome to 2018 Outlook

2017 surprised on the upside and was a great year for investors. Global equities rallied over 20%, while commodities, bonds and alternative strategies also generated positive returns.

Our recommended gradual pivot towards more growth areas of the equity market – away from high dividend yielding equities and corporate bonds – paid off. As an example, our Asia-focused tactical asset allocation model for a moderate risk investor rose 14.2% since our Outlook 2017 publication, significantly outperforming its strategic benchmark. Meanwhile, our preferred multi-asset income allocation still rose a very healthy 11.4% over the same period. Of course, not all our views worked as we expected, but even where our relative preferences did not play out, they generally delivered positive returns for investors.

So, what about the outlook for 2018? Investors are understandably concerned about high valuations in both equity and bond markets, including corporate bonds.

In the Goldilocks (“not too hot, not too cold”) economic environment we have been experiencing, where global growth has become more synchronised, inflation pressures are still muted and central banks have remained accommodative, one can find solid arguments to justify the high levels of valuation. However, we are cognisant that such an environment cannot go on forever.

In 2017, we predicted a pivot to a more reflationary outcome combining stronger economic growth with rising inflation. Growth accelerated in 2017, but inflation did not. We believe this process is still under way and that a gradual ‘heating up’ of the global economy is likely in 2018.

Global growth is expected to remain relatively strong, weakening somewhat in China, but accelerating in the US and in Emerging Markets excluding China. Meanwhile, rising commodity prices and declining slack in the global economy, whether it be in labour markets or product markets, are likely to be tailwinds for inflation.

Rising inflation is likely to put upward pressure on interest rates and bond yields. Our core scenario is this happens gradually, but even then, it will be increasingly difficult for investors relying predominantly on bonds to generate the level of total returns witnessed in the recent past, even on a leveraged basis, as rising yields will lead to lower prices.

Against this backdrop of waning support for income assets, we have two overarching suggestions for investors. First, we believe investors should continue pivoting towards pro-growth areas of the markets as we recommended in 2017. Despite elevated valuations, we believe equity markets will continue to do well. Still-strong growth and relatively modest increase in inflation are likely to support global corporate earnings growth of 10% in 2018.

Second, as we move even more clearly into the late stage of the global economic cycle, we believe it is time to start thinking about protecting against sharp drawdowns once the cycle turns. Our central scenario is that a recession is unlikely in 2018 given significant excess capacity in many major economies (eg. southern Europe, China, India, Brazil and Russia) and very well-anchored inflation expectations after years of low inflation. However, we are also cognisant that predicting recessions is incredibly difficult and, by the time a recession becomes apparent, the damage to investment portfolios is already severe.

Against this backdrop, in addition to pivoting to pro-growth assets, we would consider increasing, as the year progresses, our allocation to less volatile, less correlated and relative investment strategies. In particular, a diversified allocation to alternative strategies can help improve the risk-reward profile of investment allocations over the long run and can be particularly valuable in times of stress. For now, given our constructive view on global equities, we would continue to have a tilt to Equity Hedge strategies, but this should not be at the expense of a more diversified approach, including Global Macro strategies, which can offer insurance-like characteristics in times of severe risk-off environments.

Alexis Calla
Global Head Investment Advisory and Strategy &
Chief Investment Officer
When meeting our clients, we are often asked how we come up with our investment views and what makes us different. We thought this annual Outlook publication was a good opportunity to share our approach to investment decision-making with a wider audience.

Our current process originated in 2011, when we started researching the theoretical challenges and behavioural biases both individuals and committees face when making decisions in an environment of significant complexity and uncertainty. This included extensive research of academic behavioural finance literature, but also included non-finance areas such as decision-making cognitive psychology, the intelligence field and studies into how superior forecasters operate.

Of course, theory is fine in theory, but the key was to turn these insights into practical processes which lead to superior outcomes.

Here are some of the concepts that over the years have become absolutely key to our decision-making process. On the following two pages, we discuss some of our core beliefs that differentiate us from most other investment advisory firms.

**Human Diversity**

Building on the unique footprint of Standard Chartered Bank, we have deliberately formed an investment committee that is very diverse in terms of expertise, geographic experience and, more importantly, ways of thinking, as well as legacy diversity such as gender, race and nationality. This helps to ensure the discussions uncover many different perspectives.

**Open Source**

There is a plethora of data, views, research, analysis, and information that we have access to. We scout and scour an immense amount of material constantly to identify different ways of looking at the key questions faced by our clients and uncover valuable insights. This ‘open source’ approach means we are agnostic as to the source of insight (academia, institutional research, independent research, fund manager views, magazines and newspapers). All we care about is whether it helps to enrich the investment committee’s discussions.

**Open Mindedness**

We actively seek various sources of diversity, but require that all our investment committee members understand that nobody (including themselves) knows with certainty what is going to happen in the future, are always trying to learn and are open to different perspectives and sources of input. This sounds obvious, but it is not actually a natural characteristic within the research/analyst universe where it is taught very early that having high conviction in your views is a positive attribute.
Outside View vs Inside View

This is a key distinction to make. The Outside View can be thought of as a helicopter view that helps provide a probabilistic perspective on different outcomes based on past or related information from a class of events similar to the one being analysed. This often involves a quantitative approach. For example, one of the Outside Views generated for this publication was looking at the historical probability distribution for equity returns taking into account valuations similar to current levels. We are constantly scouring research for potential areas where we can refine the Outside View. Of course, the Outside View is only a starting point. The Inside View, which is like the view from the ground and is often more qualitative in nature, then tries to understand what are the current or unique factors that might skew the likelihood of an event or outcome one way or another.

Dialectic Debate

This is the core of our investment process. It drives our Inside View. We actively seek and discuss different views in order to understand different perspectives and arguments. This not only makes sure that we consider alternative views to our own individual and collective view, but also encourages us to keep an eye on arguments that we initially disagree with.

No Hierarchy, Full Anonymity

In the investment committee, hierarchy does not matter. What is important is how each member contributes their knowledge, diversity and perspectives to the process, irrespective of seniority. Importantly, each member’s vote is cast anonymously the day after the committee concludes, to allow individuals to make up their own mind without external interference and to give members time to reflect on the information presented and debated.

Not Seeking Consensus

The above process is all about uncovering very diverse sources of information and analytical frameworks, but is not about producing a consensus. It helps feed everybody’s analytical framework with the information they require to come up with a view. This helps reduce both the individual error while also reducing the collective error through embracing diversity of input, debate and cognitive frameworks. This also helps ensure that we can adapt quickly and methodically to changing market conditions and drivers.
Our core investment beliefs

Alexis Calla

Adaptive markets require an adaptive process

We believe markets are a complex ecosystem that cannot be entirely modelled as relationships are not always stable and linear. In an ecosystem, complexity arises as many agents interact and adapt to one another and their environments. These interactions and adaptations result in evolutionary processes and often surprising ‘emergent’ behaviours at the macro level.¹ This presents opportunities for investors who can adapt to the current and future market conditions, rather than relying solely on quantitative models or on the opinions of overly specialised individual experts. This is not to say that quantitative models cannot add value. However, we believe we need to keep an eye out for potential changes in well-established relationships.

Collective diversity more important than individual expertise

This is probably one of the more controversial beliefs. We have been brought up to believe that if you have a problem to solve you should seek expert advice. If your chest hurts, you see a doctor (preferably quickly). If your car breaks down, you consult a mechanic. Assuming you can trust them to give you an unbiased opinion, this is rational.

However, as the complexity and uncertainty surrounding a problem we are trying to solve increases, evidence suggests the value of an individual expert diminishes. There are several reasons for this, but a key one is the ability to digest the copious amount of information in a way that is as free from cognitive biases².

A growing number of recent academic studies have highlighted that a diverse set of individuals is likely to think about the problem in different ways, seek out different types of information and reduce the risk of collective error. Our investment process aims to reduce both individual errors as well as the collective error by maximising diversity.

¹ Santa Fe Institute
² “Cognitive biases are tendencies to think in certain ways that can lead to systematic deviations from a standard of rationality or good judgment, and are often studied in psychology and behavioural economics,” Wikipedia.
Collective error =
individual error – prediction diversity

Decision making more important than information gathering

In the Information Age, a key challenge is how to manage the volume of information that is available. Just to try to put this in context, every day we put together a summary of research that our team members found interesting. In October alone, these summaries totalled over 500 pages. While not all these reports are widely available to individual investors, investment practitioners generally have access to a lot of this material. In themselves, they are unlikely to be a source of competitive advantage. We believe the true potential source of differentiation is how to incorporate available information into the decision-making process.

Diversity of perspectives key

How do we try to reduce ‘individual errors’? One of the key biases when it comes to individual decision-making is confirmation bias. We all have views on different topics, either consciously or sub-consciously. Meanwhile, we tend to place excessive weight on information that reaffirms these views.

To address these biases, we run a thorough “dialectic” debate of the pros and cons so that everyone in our committee is forced to consider an alternative outcome to their current outlook. This is achieved by actively seeking the rationale for views on both sides of any question we are asking ourselves.

Debiasing critical to success

Our decision making process is also aimed at addressing Committee biases, which can be dominated by the most senior or last or most vocal speaker in the room.

To address these biases, our Investment Committee members vote anonymously the day after the discussions take place to give them time to process the huge volume of information they have digested and to limit the influence of any individual. Meanwhile, our process is aimed at ensuring diversity of input so members are not unaware of the opposite point of view and can incorporate it into their decision-making process.
STRATEGY
2017 proved to be a very positive year for financial markets against a Goldilocks (i.e. not too hot, not too cold) economic backdrop. The strong performance of equities and corporate bonds was led by earnings growth across major regions, range-bound government bond yields and rising valuations. The fact that inflation in the US and Euro area has remained contained meant that worries over excessive monetary policy tightening and a turn in direction towards unwinding monetary stimulus failed to derail markets. Emerging Market assets fared very well amid this environment of optimism, especially as the US Dollar softened.

Recent strong economic data suggests this “Goldilocks” environment can spill over at least into the start of 2018. Having said that, we are cognizant that Goldilocks environments cannot carry on forever. Our Group Investment Committee continues to be of the view that we are at a fairly late stage in the business cycle, with the US further along than the Euro area or Asia ex-Japan. The historical perspective that equities tend to see some of the strongest gains in the final stages of the business cycle is one key factor behind our preference for equity markets. This largely holds true for other pro-cyclical assets like corporate bonds as well.

However, it is extremely difficult to time the end of the cycle. The fact that US equities and high yield bond markets have historically peaked six to nine months ahead of a US recession makes the investment decision even harder. Therefore, we believe there is value in starting the year continuing to favour equities, while also starting to think about managing downside risks by allocating to alternative strategies which have lower drawdown risks and correlations with traditional asset classes.

- **Economic growth continues to simmer:** The “Goldilocks” environment (i.e. not too hot, not too cold) of strong growth and limited inflation is likely to extend into the early part of 2018. Continued earnings growth means equities and corporate bonds have room to extend gains going into 2018, in our view.

- **Turning up the heat on inflation:** Inflation is the main risk to this “Goldilocks” scenario, especially further into 2018. A larger-than-expected rise in inflation would mean the environment could turn too hot, forcing central banks to slam on the brakes.

- **Investment implications:** Our view is that we are at a mature stage in the US business cycle. Equities tend to do very well late in the cycle, a trend which is behind our preference for equities. Our view that the US Dollar will weaken modestly supports our preference for bonds in Emerging Markets – specifically USD sovereign and Asia corporate bonds. However, we believe there is value in staying nimble as we go through 2018. An allocation towards Alternative Strategies is likely to help maintain exposure to our preferred asset classes while starting to contain potential downside risks, in our view.
**Late stage business cycle**
- Equities tend to outperform in the late cycle. Valuations not yet a constraint
- US economy likely at a later stage than the Euro area or Asia ex-Japan
- However, need to stay nimble as we could reach a turning point in 2018

**Inflation**
- Modest, continued reflation likely to extend Goldilocks environment near term
- Faster-than-expected inflation creates risk of accelerated monetary policy tightening

**Policy shifts**
- QE withdrawal, higher US and potentially Euro area interest rates could pose a headwind
- Magnitude of China deleveraging efforts key to its market impact
  - US fiscal stimulus could offer a positive offset

**External risks**
- Number of geopolitical flashpoints exist (Korea, Middle-East)
  - Trade policy an ongoing risk
Investment implications and key themes

CURRENCIES

Modest USD weakness to drive FX markets

Key themes

- US Dollar to weaken modestly
- EM currencies to gain against the USD
- EUR, KRW to strengthen against the USD
- JPY to weaken against the USD

We believe the USD is likely to continue to weaken modestly in 2018, short-term reversals notwithstanding. A greater room for monetary policy surprises in Europe is largely responsible for this view given further Fed rate hikes are unlikely to dramatically surprise the market, while the start of European Central Bank (ECB) rate hikes would likely be a surprise.

The context of this US Dollar view means that we expect the EUR to extend gains, especially if the ECB remains on the path of gradually removing monetary policy accommodation. The JPY, though, is unlikely to benefit from this support given what appears to be a continued lack of domestic inflation.

A softer US Dollar is also likely to be beneficial for the broad Emerging Market currency universe. Within this, though, we believe the KRW is likely to be one of the biggest beneficiaries as the Korean economy benefits from continued improvement in US growth via exports.
Global growth is expected to accelerate in 2018 for the second straight year, led by the US and Latin America, while China, Japan and the Euro area stabilise after a strong pick-up in 2017. We expect the ongoing synchronised economic expansion across regions to continue, on the back of still-easy financial conditions and robust consumer and business confidence.

We expect a modest upturn in core inflation worldwide, especially in the US, as tightening labour markets fuel wage pressures and spare productive capacity narrows.

Monetary policy outlook is turning less accommodative. We expect the Fed and some Asian central banks to raise rates at a gradual pace over the coming year. However, inflation-adjusted policy rates are likely to remain negative in major economies, including the Euro area and Japan.

The key risk scenarios, we believe, are two-fold: 1. Inflationary downside, or a sharp upturn in inflation, eventually leading to tighter monetary policies and a growth downturn (15% probability). 2. Return to deflation, likely caused by a hard-landing in China or a too-early/too-fast pace of Fed rate hikes (10% probability).

Figure 1
Monetary policy is likely to tighten gradually worldwide; this is likely to be offset by less stringent fiscal policies

Source: Bloomberg, Fitch Ratings, Standard Chartered

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth</th>
<th>Inflation</th>
<th>Benchmark Rates</th>
<th>Fiscal Deficit</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>Growth to accelerate for second year. Fed to stick to gradual rate hikes under Powell amid muted inflation. Risk of overheating from tax cut</td>
</tr>
<tr>
<td>Euro Area</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>Synchronised expansion to continue. Inflation to remain tepid amid slack in southern Europe. ECB to withdraw stimulus, but rate hikes unlikely</td>
</tr>
<tr>
<td>UK</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>Brexit uncertainty remains key risk. Purchasing power further hit by rising inflation, slowing wages. BoE likely guided by Brexit talk outcome</td>
</tr>
<tr>
<td>Japan</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>Abe’s re-election positive for stimulus, growth. BoJ to maintain easy monetary policy as inflation remains well below target, despite recent uptick</td>
</tr>
<tr>
<td>Asia ex-Japan</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>President Xi to focus on quality of growth, while ensuring financial stability. India’s growth to recover. South Korea expected to hike rates</td>
</tr>
<tr>
<td>Emerging Markets ex-Asia</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>Brazil and Russia rate cutting cycle coming to a close as inflation rebounds. Mexico to cut rates</td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Legend: ☐ Supportive of risk assets | ☐ Neutral | ☐ Not supportive of risk assets
A subtle shift towards reflation

A year ago, we noted subtle shifts in the world economy which promised to lift growth and inflation gradually above the lacklustre levels seen since the Global Financial Crisis. We expect the process to continue in 2018.

Core scenarios (75% probability)
While world economic activity has indeed picked up almost in sync across most regions, making 2017 the strongest year for global growth since 2014, inflation has largely remained subdued. The continued lack of widespread inflationary pressures leaves our Global Investment Committee split between envisioning ‘muddle-through’ (mediocre growth, low inflation) and ‘reflation’ (accelerating growth, rising inflation) as the dominant theme for the global economy in 2018. We assign a combined 75% probability to the two scenarios unfolding over the coming year, with a GROWING bias towards ‘reflation’ (40% vs 35% a year ago and 15% in early 2016).

So, what would move the needle towards an outright reflationary environment? For one, the US would need to see a modest pick-up in inflation in 2018, while sustaining this year’s above-trend growth. This is possible, especially if the proposed tax cuts fuel consumer demand and business spending at a time when the economy is arguably running above its potential and is at the late stage of its expansion cycle. For now, we expect any such fiscal stimulus to be modest. Such a controlled-reflationary environment is likely to allow the Federal Reserve (Fed) to raise interest rates gradually (two-to-three times) over the course of 2018.

The other route to global reflation could be a pick-up in inflation in the Euro area and Japan due to the whittling away of excess productive capacity and tightening labour markets. This is possible, especially if the two regions continue to grow above their potential for a second straight year, aided by extremely accommodative monetary policies, less restrictive fiscal policies and still-robust outlook for global trade (albeit growing at a slower pace than in 2017). A global economy increasingly powered by the Euro area would make the ongoing global expansion more sustainable given that the region is in an earlier stage of its business cycle compared with the US or China.

While we expect the Euro area to continue growing above potential for a second year, we see inflation pressures rising only modestly, given the still-substantial under-employment across southern European economies such as Italy, Spain and Portugal.

Meanwhile, in Japan, although excess productive capacities have disappeared and labour markets are tight, structural issues, such as aging demographics as well as the controlled process of wage negotiations in the manufacturing sector, are likely to keep wage growth subdued.

In many ways, China holds the key to whether the world economy decisively shifts from years of muddle-through to a reflationary regime, or falls back towards deflation. China, and more broadly Asia, has been a key driver of global growth since the Global Financial Crisis. China’s credit-fuelled, investment-led growth helped offset the substantial slack in the developed economies after the crisis, keeping global growth humming along, albeit at a slower pace than
before the financial crisis. However, this growth model has resulted in a surge in China’s corporate sector leverage, which is clearly unsustainable. With growth in the rest of the world picking up, there is a window for China to once again focus on rebalancing its economy from investment towards domestic consumption. We believe President Xi Jinping’s consolidation of power at the recent Chinese Communist Party Congress will provide his administration the necessary political influence to renew its efforts to deleverage the economy.

We, however, expect this process to be gradual and well-controlled, with China’s economic growth settling in the 6.0-6.5% range over the next two years, from 6.5-7.0% range over the past couple of years. This cautiously constructive outlook for China, which should also be moderately positive for Asia, commodity prices, as well as the major commodity-producing Emerging Markets such as Brazil and Russia, informs our view that the world economy will continue to slowly pivot towards reflation.

**Inflationary downside risk (15% probability)**

However, there is an outside risk that US income tax cuts stoke consumption and wage pressures to such an extent that the Fed needs to raise interest rates at a much faster pace than currently forecast. This would eventually cause a sharp slowdown in the US economy, with the inevitable impact on the rest of the world.

The other source of inflationary risk could be a flare-up in geopolitical tensions, whether around North Korea or South China Sea, leading to a trade war between the US and China. Such an outcome would disrupt global supply chains, causing shortages in some markets (especially in the US) and excess productive capacities in others (especially in Asia). For now, we assign a low (15%) probability for this extreme risk scenario.

**Deflationary downside risk (10% probability)**

The other downside risk to our constructive scenario is a sharp slowdown in growth in China, in the event it struggles to manage a gradual economic deceleration. Such an outcome would be deflationary for the world. The other likely sources of deflationary risks would be a policy mistake by the Fed or the ECB in the event they raise rates too quickly, causing a downturn in their economies. Alternatively, a political crisis in Italy, Spain, the UK or Germany, which renews concerns about the stability of the Euro area, could revive deflationary pressures. For now, we assign a low (10%) probability to this extreme outcome.

---

**Figure 2**

The world’s major economies are transitioning between Muddle-through and Reflation scenarios, with China and US in an advanced stage of their business cycles.

The percentages refer to Global Investment Committee’s assigned probability on each of the scenarios for the global economy in 2018.

Source: Standard Chartered Global Investment Committee
Late cycle, but some room to grow

- US growth to accelerate for second year on the back of consumer and business spending, making it the second-longest expansion in modern history
- We expect the Fed to stick to its gradual pace of rate hikes (2-3 25bps hikes in 2018) under Chair Jerome Powell, in line with a gradual pick-up in inflation
- There is a risk of the economy overheating because of potential tax cuts, forcing the Fed to hike rates at a faster pace
- USD expected to weaken modestly as policy divergence comes to an end

The US economy is expected to grow 2.5% in 2018, accelerating for the second straight year and up from 2.2% growth in 2017. This is well above the economy’s 1.6% potential growth rate estimated by the Congressional Budget Office and suggests a step-up in the pace after mediocre 2% trend growth since the financial crisis. Part of the acceleration over the past year has been due to a boost to business investment, mainly in the energy sector, which added to continued robust consumer spending on the back of the strongest job market in a decade.

Business investment and consumer spending are likely to remain strong over the coming year. This is especially so if the Republicans succeed in enacting personal income and corporate tax cuts over the coming months. Although the fiscal boost is likely to be modest and temporary, given the limitations of sticking to the government debt ceiling, it is likely to stimulate wages and corporate spending, lifting growth at the margin.

Housing investment, which has slowed lately, is also likely to get a boost over the next few quarters from rebuilding and renovation activity following the recent hurricanes, adding another leg to growth. Finally, government spending is expected to contribute positively in 2018, after being a drag in 2017, especially if the Trump administration increases spending on defence and infrastructure as promised (although this is likely to be partly offset by cuts in other government departments).

The continued growth of the US economy above its potential rate points to a gradual pick-up in inflation over the course of 2018, especially if tax cuts are enacted. Although inflation has underwhelmed this year, most of the drag came from a temporary softness in telecom and medicine prices. We expect these factors to fall away, helping revive underlying inflationary pressures at some point over the coming year. The USD’s weakness and the recovery in oil prices over the past year are also likely to help revive price pressures, with a 6-12-month lag. The latest data suggests core inflation has started to turn higher on a quarter-on-quarter basis. Wage pressures are also likely to build up as unemployment falls below the equilibrium level.

Figure 3
US business confidence indicators are close to their highest in more than a decade
US manufacturing and services sector business confidence
Monetary policy in the US is set to turn less accommodative for the first time since the financial crisis as the Fed’s policy rate rises above inflation

US core inflation, unemployment rate and Fed policy rate under various Fed Chairs over the past 40 years

Source: Bloomberg, Standard Chartered

Late-cycle dynamics

There is a risk that continued above-potential economic growth could stoke price and wage pressures. This is especially so as the US is at a late stage of its business cycle (If the current cycle extends to Q2 of 2018, it would make it the US’s second-longest modern history expansion. If it stretches until Q2 of 2019, it would be the longest in modern history). This is where the Fed’s policy reaction is likely to be a key determinant for the sustainability of the US economic expansion. The Fed will need to tighten policy just enough to prevent the economy and the job market from overheating and financial imbalances from developing, without choking the underlying growth drivers. We expect this balancing act to become more challenging over the coming 12-18 months.

The nomination of Jerome Powell as the next Fed Chair replacing Janet Yellen suggests the Trump administration favours policy continuity at the central bank. This, we believe, points to 2-3 more 25bps rate hikes in 2018. To put this in context, the Fed raised rates by an average 225 bps a year in the past four rate hiking cycles. This hints at the risk of a faster pace of Fed rate hikes if growth and/or inflation surprise on the upside and unemployment continues to decline.

For now, we expect the Fed to err on the side of caution and act only when it is more confident of inflation sustainably picking up. This is especially so, given that financial conditions are likely to start tightening somewhat by the middle of 2018 as the Fed gradually reduces the size of its bond holdings accumulated through its quantitative easing programme following the financial crisis.

Apart from sharp monetary policy tightening, economic cycles could also end due to severe imbalances. We see little sign of such imbalances in the US economy for now. Overall borrowing by households has been restrained since the financial crisis. While corporate leverage has risen, this is against the backdrop of rising profitability and very low interest rates, which have helped keep debt servicing ratios at sustainable levels. Meanwhile, the US current account deficit has halved from pre-crisis levels and has remained stable in recent years. Against this backdrop, we assign a 25% probability to a US recession in the next 12 months, same as a year ago.

US domestic politics or external shocks are the other possible sources of risk for the US economy. President Trump has so far struggled to implement some of his key political and economic agenda through the US Congress, despite a Republican majority in both houses. Any shift in control of the US House or the Senate towards Democrats after the mid-term elections in Q4 2018 could lead to legislative logjams, reducing the chances of any economic or regulatory reform.

An electoral setback in Congress or further escalation in the Federal investigation on Russia’s alleged meddling in the last US elections could encourage the administration to step up trade disputes with US neighbours (NAFTA) or with Asian trade partners. This could hurt global trade at a time when the economic expansion is already mature. For now, we assign a low probability to this outcome.
Euro area

Growing above potential

- The Euro area’s synchronised expansion is likely to continue for a second year amid easy monetary and financial conditions
- Inflation is likely to remain tepid because of substantial slack across southern Europe
- The ECB is likely to withdraw stimulus gradually, as planned, but rate hikes are unlikely at least until 2019
- The main risk to the region is political, with upcoming elections in Italy potentially causing short-term uncertainty
- The EUR is likely to extend gains on the back of strong growth and contained political risks

The Euro area provided one of the biggest positive surprises to global growth in 2017, expanding at an above-potential 2.2% (based on consensus estimates), aided by extremely easy monetary and financial conditions. A strong pick-up in domestic consumer spending emerged as a key driver of growth as job markets continued to improve, leading to a synchronised expansion across southern and northern Europe for the first time since the financial crisis. While a rebound in the EUR in the first half of the year provided a limited headwind, continued strength in global demand helped support exports. Meanwhile, fiscal policy remained less restrictive across the region, providing additional support.

Consensus estimates suggest the Euro area, like the US, will continue to grow above its potential for the second straight year in 2018, albeit at a slightly slower pace (of 1.9%) compared with 2017. Consumer confidence is currently at its strongest level since 2001, despite the recent recovery in oil prices and political uncertainty in Spain, Italy and Germany. This points to another robust year for consumption. Strong and synchronised global growth is likely to keep supporting exports. Meanwhile, there are growing expectations of fiscal easing, albeit on the margin, across major economies, including possible tax cuts in Germany, France, the Netherlands and Austria.

We expect Euro area monetary policy to remain extremely accommodative over the next 12 months, with inflation remaining well below the ECB’s 2% target despite picking up from very low levels in recent months. Although Germany and other northern European economies have substantially narrowed excess productive capacities, labour markets in Italy, Spain and other major economies in southern Europe are still saddled with significant levels of under-employment. This leads us to believe that the ECB is unlikely to raise rates at least until 2019, despite announcing further cuts to its bond-buying programme over the coming year. Given this, inflation-adjusted interest rates are likely to stay negative over the coming quarters, providing a significant boost to economic activity.

We expect the EUR to extend gains over the coming year on the back of the region’s improving growth, which is boosting demand for the region’s assets, and contained political risks following the defeat of Eurosceptic parties in the elections in France and the Netherlands earlier this year. However, broadening and deepening domestic growth is likely to offset the impact of a stronger currency.

Political risks

The main risks to this constructive outlook are political. The recent election in Catalonia (Spain) and Germany point to the challenges facing centrist parties across the region. We are less concerned about Spain as the issue is likely to be eventually resolved with a greater transfer of fiscal powers from the federal
to the provincial governments. The possibility of a minority government in Germany, while unprecedented, is unlikely to lead to any significant changes in economic policy.

However, the upcoming elections in Italy – which must be held by May – could potentially lead to uncertainty, albeit for the short term. The bar for Eurosceptic parties to win in Italy is high, given their lack of agreement on a common agenda. Most Eurosceptic parties have backed away from their demand for a referendum on whether to remain in the Euro area. Even if they come to power and still want Italy to leave the Euro area, they will need to change the constitution to allow for such a binding referendum. Meanwhile, the ongoing economic recovery in Italy, enabled by the recapitalisation and aggressive bad loan write-offs at some of its weakest banks earlier this year, is likely to provide support for more moderate and centrist political parties at the polls. Thus, we continue to believe that political risks are likely to be contained in Italy as well as the Euro area over the coming year.

Figure 5
The Euro area has seen broad-based growth upgrades across the region
Consensus 2018 growth estimates for Euro area economies

Figure 6
Job markets have improved across the Euro area, especially in southern Europe, as business confidence recovered
Euro area unemployment rate and PMI

Source: Bloomberg, Standard Chartered
Brexit woes

- The UK continues to face uncertainty around the terms of Brexit, undermining its growth outlook
- Purchasing power is likely to be further hit by rising inflation caused by the GBP’s earlier weakness and slowing wages
- The BoE has raised rates for the first time since the financial crisis, but is likely to be guided by the outcome of Brexit talks going forward
- The GBP is unlikely to extend gains into 2018, unless Brexit issues are resolved

The UK economy is an exception to our overall positive economic outlook for the major regions. With the outcome for Brexit talks still uncertain, the economy faces a double-whammy from high inflation, caused by the earlier depreciation of the GBP, and falling real incomes, as wages fail to keep up with inflation. The resulting decline in purchasing power has already led to a slowdown in consumption, previously the main driver of the economy. Continued Brexit uncertainty could encourage more companies to shift their operations to the Euro area, dealing a blow to already-weak business sentiment.

The outcome of Brexit talks is likely to be a key determinant for the outlook. For now, consensus estimates point to a slowdown in growth to around 1.4% in 2018, from 1.5% in 2017 and 1.8% in 2016. Any agreement that would allow an extension of the UK’s existing trade and financial transaction arrangements with the European Union beyond the 2019 deadline (the UK has sought a two-year extension until 2021), would help significantly reduce business uncertainty. However, there is a risk of further instability in the current minority UK government, given deep divisions within the cabinet, which could hamper the UK’s ability to negotiate a favourable agreement. The UK’s opposition to the free movement of labour among European Union members is likely to be a key sticking point. The status of the existing ‘soft’ border between the Republic of Ireland and the UK territory of Northern Ireland following Brexit is another potentially vexing issue.

Monetary policy remains accommodative, but has turned less supportive lately. The Bank of England raised interest rates for the first time since the financial crisis in response to rising inflation, which has stayed well above its 2% target for almost a year. Although the GBP has gained in 2017, we do not expect the gains to extend into 2018 as the outlook for monetary policy remains uncertain and is likely to be data-driven, given the ambiguity around Brexit talks.
Japan

Abenomics 2.0

- Japan’s economy is expected to continue growing above trend, making it the longest expansion in recent history
- Prime Minister Abe’s re-election is positive for the continuation of monetary and fiscal stimulus and structural reform
- The BoJ is likely to maintain easy monetary policy as inflation remains well below target, despite the recent uptick
- We expect the JPY to weaken as the BoJ’s extremely easy monetary policy contrasts with less accommodative policies elsewhere

As in the US and Euro area, Japan’s economy expanded above its potential in 2017, growing an estimated 1.5%. Barring external shocks caused by geopolitics or any slump in global trade, growth is likely to remain above potential at around 1.2% in 2018, based on consensus, which would make the current expansion the longest in Japan’s post World War II history. An extremely easy monetary policy, the JPY’s prior weakness and robust global demand is helping support exports. Meanwhile, multi-decade low unemployment rates have helped revive domestic consumption and modest inflation pressures. The combination of strong external and domestic demand has helped close the excess productive capacities, encouraging companies to boost investment to expand.

Prime Minister Abe’s recent victory at the snap general elections should give him the political backing to continue with his policy of aggressive monetary easing, supportive fiscal policies and structural reform to boost productivity and encourage wider labour participation. This implies BoJ Governor Haruhiko Kuroda is likely to get an extension after his current term expires in April, enabling him to continue with the BoJ’s easy monetary policy. As a result, we expect the JPY to weaken against the backdrop of less accommodative central banks elsewhere. A weaker JPY is likely to keep supporting exports.

The key question is whether Japan’s economy has reached ‘escape velocity’. The pick-up in inflation this year suggests a reversal in trend, although inflation is likely to stay well below the BoJ’s medium-term target of 2% for the foreseeable future. Any upside surprise to inflation, given the tight productive capacities and labour markets, could lead the BoJ to turn less accommodative. For now, we assign a low probability to such an outcome, but would remain watchful of evolving inflation trends.

Record low unemployment rates have helped revive domestic consumption and modest inflation pressures.

Figure 7
Japan and other major export-oriented economies in Asia are benefitting from a robust lift to global trade
Export growth in key Asian economies, rolling 3-month moving average

Source: Bloomberg, Standard Chartered
Asia ex-Japan remained the biggest regional contributor to global growth in 2017, powered by a stronger-than-expected expansion in China and a pick-up in global trade. We expect China’s growth to slow modestly in 2018, but remain strong enough to keep supporting global demand. This, in turn, is likely to be supportive for the more open Asian economies such as South Korea, Taiwan, Malaysia and Singapore. Meanwhile, the more domestic-oriented economies such as India, Indonesia and the Philippines are likely to benefit from a mix of increased government spending and a revival in bank lending.

China’s outlook remains critical for the region. We believe China’s economy will slow modestly from the 6.5-7.0% growth rates seen over the past couple of years to a more sustainable 6.0-6.5% rate as President Xi Jinping, following his recent consolidation of power, renews the focus on the quality of growth. This necessarily means a moderate slowdown in property investment, with the slack taken over by continued strong growth in services and consumption.

China’s reforms would entail cuts to excess industrial capacities, more stringent environmental regulations and tighter credit to certain sectors (reflected in the recent rise in bond yields). However, we note that a key fallout of shuttering of excess capacities has been a strong pick-up in producer prices over the past couple of years, after a period of deflation, which has boosted industrial profit margins. Sustained strong corporate earnings should help support business investment. Meanwhile, the ‘new economy’ areas are benefitting from strong domestic consumption, driven by continued urbanisation and expansion of the middle class. Additionally, China’s One-Belt-One-Road initiative to revive ancient trade routes across Asia is likely positive for infrastructure investment in the broader region over the coming years, especially across Southeast Asia. Fixed asset investment across Asia is likely to help offset slowing investment growth in China as it deleverages.

China’s high, and rising debt levels, remains a key risk to the global outlook, with the IMF forecasting non-financial debt to rise to 298% of GDP by 2022 from 236% in 2016. However, we note that most of the leverage is in the corporate sector, while government debt remains relatively low. This means the government has the room to write-off bad debts to underperforming state-linked companies and entities, should it choose to do so, shielding the overall economy from excessive stress.

Figure 8
China’s domestic consumption growth has remained robust, while investment growth has slowed
China’s growth in retail sales and fixed asset investment

Source: Bloomberg, Standard Chartered
Outlook improving for rest of Asia

In India, there are signs of a revival in the economy after the twin shocks of demonetisation and implementation of GST slowed growth to multi-year lows earlier this year. The government’s reform efforts are helping ease some structural bottlenecks, as seen from the latest rise in India’s ranking in the World Bank’s ‘Ease of Doing Business’. The recent move to recapitalise banks and unveil a highway construction programme are positive for bank lending and economic growth in the coming quarters, especially in the run-up to the general elections in 2019.

South Korea’s growth outlook has improved since the formation of the new government earlier in 2017, with consensus estimates pointing to around 3% GDP growth for 2017 and 2018. The growth pick-up has been driven by supportive fiscal policies, a rise in minimum wages and improved relations with China (following the temporary impasse around the US’s deployment of the THAAD missile defence system earlier in 2017), which has helped revive tourist inflows from China. The improved outlook has led the Bank of Korea to raise rates for the first time since 2011. We expect future rate hikes to be limited, given still subdued inflation and high household debt levels. Policymakers will also be restrained, lest higher rates lead to further strength in the KRW, hurting export competitiveness.

Overall, Asia ex-Japan is likely to grow 5.8% in 2018, vs 6.0% in 2017, per consensus estimates. Continued strong growth is likely to lift inflation moderately, especially with the recent recovery in oil prices. Meanwhile, a weaker USD is helping sustain capital flows to the region. Hence, there are growing expectations of a likely turn in monetary policy trends, with most central banks across the region shifting to a tightening bias for the first time in years. Consensus forecasts point to 25-50 bps rate hikes by Asian central banks over the next 12 months, led by 2-3 hikes in South Korea. In India, the window for further rate cuts has likely closed, although it would take a sustained rise in inflation for the central bank to raise rates.

Figure 9
The growth differential between EM and DM is expected to widen gradually as the global expansion broadens and becomes more synchronised

Growth in Emerging Markets and Developed Markets and their differential

Source: Bloomberg, Standard Chartered
Emerging Markets ex-Asia

Recovery aided by modest gains in commodity prices, weak USD

- Emerging Market growth likely to be supported by strong global trade environment, modest gains in commodity prices and weak USD
- Brazil’s and Russia are likely getting close to the end of their easing cycles as inflation rebounds, although Mexico is likely to cut rates as inflation peaks
- The main risk to the region is political, given upcoming elections in Mexico, Brazil and South Africa

Emerging Markets outside Asia posted a turnaround in 2017, with major commodity-producing economies such as Brazil and Russia returning to growth after two years of contraction. The positive surprise in China’s growth, driven by continued strength in the construction sector, helped sustain demand for raw materials. The agreement between OPEC and Russia to curtail crude oil production helped revive oil prices, benefitting Russia and other major oil producers. Meanwhile, the USD’s weakness through 2017 has helped keep financial conditions easy across Emerging Markets. We expect the growth differential between EM and DM to widen gradually as the global expansion broadens and becomes more synchronised.

Consensus estimates point to a continued recovery in Latin America over the coming year on the back of constructive global growth and supportive commodity prices. All major economies, except for Venezuela, are likely to see acceleration in growth, although the region is likely to continue underperforming other major Emerging Markets.

Inflation appears to have bottomed in most markets (except in Mexico, Argentina and Venezuela), which is likely to constrain central banks from cutting interest rates significantly. However, monetary policy is likely to remain broadly accommodative, given substantial economic slack, stable currencies and improved external balances. In Mexico, inflation appears to have peaked, which should enable the central bank to cut rates.

Politics remains a key risk across Latin America, with upcoming elections in Mexico (July) and Brazil (October). In Mexico, the front-runner Andres Manuel Lopez Obrador has promised to unwind key structural reforms and review some state contracts, increasing investor uncertainty. Any decision by the US to pull out of NAFTA would deal a blow to Mexico’s nascent recovery. In Brazil, populist candidates are rising in the polls, putting at risk further fiscal consolidation which is critical for the economy’s medium-term sustainability.

In Eastern Europe, Russia’s growth is likely to plateau at around 1.8% in 2018, after a sharp recovery this year from two years of recession. Oil prices are likely to remain supportive. A key focus would be the direction of economic reform after the March elections when President Putin is expected to return for another term in office. A fall in inflation has enabled the central bank to cut rates in 2017; the window for further rate cuts has narrowed, although the market still expects 1-2 more cuts.

Among Emerging Markets, Turkey and South Africa remain the most vulnerable to any significant rise in global interest rates, given their negative external imbalances. In South Africa, the outcome of the ANC presidential election will be closely watched for the path of future policy and economic reform after President Jacob Zuma steps down from power.

Figure 10
Rate cuts in Brazil and Russia may be coming to a close as inflation bottoms

Central bank benchmark rates

Source: Bloomberg, Standard Chartered
The key risks

US monetary policy mistake
For now, this is primarily centred around the Fed and how it reacts to evolving inflation. There are two potential pitfalls:

- **The Fed raises rates too early/too fast:** The US economy is at the late stage of its business cycle after expanding for 8 years. However, inflation has remained subdued. There is a risk the Fed raises rates at a much faster pace than current market estimates to stay ahead of the curve (financial markets point to 1-2, 25bps Fed rate hikes, while the Fed expects 75bps increase in 2018), causing a sharp economic slowdown.

- **The Fed is too slow to react to inflation:** There is the counter-risk that the Fed waits too long to raise rates, even as a tightening job market builds up wage pressures, leading to a significant surge in inflation. Alternatively, the Trump administration’s proposed tax cuts could lead to an overheating of the economy. In these cases, the Fed may be forced to accelerate the pace of rate hikes, potentially causing a sharp slowdown in the economy.

We expect the Fed under new Chair Jerome Powell to continue erring on the side of caution and stick with the current pace of gradual rate hikes until policymakers are convinced of a sustainable upturn in inflation.

US domestic policies and trade protectionism
President Trump’s administration has had little success so far in terms of legislative wins, despite the Republican party’s majority in both houses of Congress. There is risk that the Republicans lose control of one or both Houses of Congress following the mid-term elections late in 2018, scuppering the President’s economic reform agenda. Alternatively, the investigations on Russia’s alleged interference in US elections could implicate senior US administration officials.

Such events could encourage the President to focus on external issues, including renegotiating, or even abandoning, existing trade agreements with major trade partners such as Mexico and economies across Asia. Such an outcome would hurt global trade, clouding the outlook for Emerging Markets and the export-oriented economies of Europe.

Hard-landing in China
China’s debt levels, especially in the corporate sector, have continued to rise significantly, increasing financial stability risks. Rising bond yields could pose additional challenges for overleveraged companies.

However, policymakers have been reasonably successful in recent years in gradually rebalancing the economy from investment to domestic consumption. We believe President Xi Jinping’s administration now has the political might to tackle the debt problem head-on. The administration’s record of maintaining a stable growth environment, even as it pursues structural reform, gives us confidence that it is likely to succeed in stabilising the economy at a slightly slower rate of growth.

Global politics/geopolitics

- **Multi-polar world:** Geopolitical risks have increased over the past year. We believe this is part of an evolving structural trend as the world becomes increasingly multi-polar, whereby multiple countries are competing for international influence. The US’s economic and military power, unchallenged since the end of the cold war, is likely to be gradually eroded as China’s economic and military strength increases. The US withdrawal from the Trans-Pacific Partnership and the Paris Climate Accord offers further opportunity for China and the European Union to expand their sphere of influence. History teaches us multi-polarity can often lead to extreme ‘black swan’ events.

- **North Korea:** More immediately, North Korea’s increased belligerence could lead to a flare-up in tensions in North Asia, including direct confrontation between the US and China.

- **Middle East:** The domestic and regional fallout of the recent political changes in Saudi Arabia remains uncertain. A region-wide conflagration involving other Middle East economies could lead to further rise in oil prices, causing a significant tightening of global financial conditions.

- **Italy:** The upcoming general election in Italy could yet lead to short-term uncertainty if Eurosceptic parties win. So far, most parties have stepped back from their earlier calls for a referendum. The ongoing upturn in Italy’s economy and success of pro-European parties in elections in France and the Netherlands earlier this year is likely to dampen the Euroscepticism of Italian voters.
**FX at a glance**

*Tariq Ali, CFA  |  Manpreet Gill*

**Key themes**

We expect a modest decline in the USD index, mostly as a result of a stronger EUR and marginally offset by a weaker JPY.

GBP and AUD likely to trade in a broad range as risks remain balanced.

EM currencies likely to strengthen further on a widening EM-DM growth differential, higher commodity prices and a modestly weaker USD.

**Key chart**

**Figure 1**

End of a bullish USD super cycle?

USD real effective exchange rate

![Graph showing USD real effective exchange rate](image)

Source: Bloomberg, Standard Chartered

**Key drivers**

<table>
<thead>
<tr>
<th>Currency</th>
<th>Outlook</th>
<th>Real Interest Rate Differentials</th>
<th>Risk Sentiment</th>
<th>Commodity Prices</th>
<th>Broad USD Strength</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>▼</td>
<td>●</td>
<td>●</td>
<td>n/a</td>
<td>n/a</td>
<td>US monetary policy divergence with the rest of the world likely peaking, interest rate differentials to narrow</td>
</tr>
<tr>
<td>EUR</td>
<td>▲</td>
<td>●</td>
<td>●</td>
<td>n/a</td>
<td>n/a</td>
<td>Increasing likelihood of an earlier ECB stimulus withdrawal to support EUR. Political risks contained</td>
</tr>
<tr>
<td>JPY</td>
<td>▼</td>
<td>●</td>
<td>●</td>
<td>n/a</td>
<td>n/a</td>
<td>BoJ likely to maintain easing policy, further widening of interest rate differentials to weaken JPY</td>
</tr>
<tr>
<td>GBP</td>
<td>◆</td>
<td>●</td>
<td>●</td>
<td>n/a</td>
<td>n/a</td>
<td>Further BoE rate hikes remain at risk from Brexit-related uncertainty and its potential impact on growth</td>
</tr>
<tr>
<td>AUD</td>
<td>◆</td>
<td>●</td>
<td>●</td>
<td>○</td>
<td>○</td>
<td>Supportive risk environment balanced by likely status quo in monetary policy</td>
</tr>
<tr>
<td>EM FX</td>
<td>▲</td>
<td>n/a</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>A weaker USD, moderately higher commodity prices and positive risk sentiment to support EM FX</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered

Legend: ▲ Bullish  | ▼ Bearish  | ◆ Neutral  | ● Not Supportive  | ○ Neutral  | ● Supportive
No longer just about the Fed

In our view, the USD is likely to weaken modestly in 2018 as we believe the possibility of the Fed hiking interest rates faster than market expectations is remote given the current US inflation backdrop. On the other hand, there is greater potential for other central banks, including the European Central Bank, to withdraw stimulus faster than consensus expectations.
The USD index extended its weakness in 2017, despite the fact that the Fed hiked interest rates three times during the year. This may imply that expectations of policy elsewhere in the world are now dominating the USD outlook. With robust economic momentum and a significant reduction in perceived political risk in Europe, the European Central Bank (ECB) now appears more confident in contemplating stimulus withdrawal. Elsewhere, the Bank of England (BoE) and the Bank of Canada (BoC) hiked interest rates in 2017 after further improvements in their respective labour markets. The only exception among the major central banks here is the Bank of Japan (BoJ), which continues to communicate status quo for the foreseeable future.

In our view, the USD is likely to weaken modestly in 2018 as we believe the possibility of the Fed hiking interest rates faster than market expectations is remote given the current US inflation backdrop. On the other hand, there is greater potential for other central banks, including the European Central Bank, to withdraw stimulus faster than consensus expectations. Hence, we expect narrowing real interest rate differentials between the US and major peers, which is likely to be moderately negative for the USD. From a long term perspective, the USD trade weighted index, adjusted for inflation, is still near its peak levels.

Risks to our USD outlook include the realisation of the two extreme scenarios highlighted in the Macro overview section. A surge in US inflation expectations might compel the Fed to hike interest rates more aggressively. Similarly, a return to a deflationary scenario would likely increase flight to safety from risk assets and increase demand for the USD. Outside of these scenarios, major developments on tax reform that lead to a repatriation of capital back into the US could drive short term USD gains.

We expect the EUR to extend gains in 2018, albeit more moderately than in 2017. We believe cyclical and political factors are likely to impact the outlook for the EUR.

With respect to cyclical factors, we believe the EUR has room to extend gains as the economy gathers pace, resulting in further clarity with respect to ECB stimulus withdrawal and potential rate hikes. We believe the initiation of ECB’s Quantitative Easing (QE) had excessively weakened the EUR through 2015-2016. This can be gauged from the fact that interest rate differentials with the US still remain close to historical lows. Hence, any withdrawal of QE is likely to reverse these trends to some extent.

Global investors and central banks further re-allocating capital towards Euro area assets should once again become a source of EUR support. With greater confidence in the Euro area economy and potential ECB stimulus withdrawal, we are likely to see an improving net balance of payments, which is fundamentally positive for the EUR.

Finally, political risks are still important, even though these have diminished significantly over the past year. Elections in Italy H1 2018 could cause short term volatility, although as of now, the possibility on non-mainstream party gaining significant ground remains low.
We expect the JPY to weaken in 2018. Both internal and external factors influence our thinking regarding the JPY outlook.

With respect to internal factors, a continuation of the Bank of Japan’s Yield Curve Control (YCC) policy of keeping Japan 10 year yield close to zero is critical, as it can potentially lead to a further widening of real interest rate differentials in favour of a weaker JPY. This year, the BoJ has reiterated its commitment to maintaining the current policy with no guidance on a potential exit strategy. While PM Abe’s re-election has diminished challenges to ‘Abenomics’ and the continuation of excessive easing policy, any significant shift here remains the main domestic risk to our weaker JPY view.

Among external factors, our view of a modest rise in US long-end yields is likely to further weaken the JPY. With yields in Japan on hold, US 10-year yields have been the most significant variable affecting the real interest rate differential between the US and Japan. Other than this, a low volatility environment similar to 2017 is supportive of continued capital outflows from Japan towards risky assets and the continued use of JPY as a funding currency. Conversely, a rise in volatility or increased deflationary concerns pose a risk to our weaker JPY outlook.

While the GBP has recovered from its post ‘Brexit’ lows, we doubt these gains can extend much further into 2018. Key issues include the lack of a transitional trade agreement with the EU and a weak balance of payments profile.

In 2017, market expectations for modest Bank of England (BoE) rate hikes in 2018 have supported the GBP. Nevertheless, we believe the BoE’s approach is likely to remain fluid in view of the evolving Brexit-related and economic risks. In this regard, a transitional agreement ahead of the March 2019 deadline is critical. Should an agreement be reached, we are likely to see reduced uncertainty, leading to further GBP gains. Although an agreement is ultimately our base-case scenario, the possibility of a ‘no deal’ prompts a more cautious approach.

The UK’s balance of payments’ position remains challenging, especially as the weaker GBP has not resulted in a significant improvement in export growth. Furthermore, the current account deficit remains close to record levels and hence any significant capital outflows are likely to weigh on the exchange rate. In this context, we believe the GBP’s ‘undervaluation’ is justified once the impact of this notably weaker balance of payment profile is incorporated.
While the AUD trended modestly higher in 2017, it traded in one of its tightest ranges relative to the last two decades. Looking ahead into 2018, we see little reason for the AUD to rally strongly as risks remain balanced. The outlook for the AUD remains dependent upon three key factors: Reserve Bank of Australia’s (RBA) policy and real interest rate differentials, the outlook for iron ore prices and global financial market volatility.

The RBA has continued to highlight its preference for steady monetary policy settings. However, it has left room open for rate hikes should the economy gain further ground and inflationary pressures rise. Overall, the case for a rate hike looks balanced. Business confidence is improving and the labour market is tightening, which argues for a less accommodative policy, whereas high household leverage coupled with flat wage growth suggests rates should not go higher.

Higher iron ore prices have been a source of support for the AUD since bottoming in 2016. However, we expect this to fade as we go into 2018. Supply side issues in the iron-ore market as well as a modest slowdown in China’s growth suggest consolidation.

The excessively low volatility environment has also been a major source of support for the AUD in 2017. In general, we remain constructive on risk assets in 2018 and this factor is likely to be limit downside for the pro-cyclical AUD.

We believe the overall macroeconomic environment in 2018 remains supportive for EM currencies, although we do not expect the same magnitude of gains as in 2017. Broadly, three factors drive our positive view on EM currencies; a modestly weaker USD, higher commodity prices and a bottoming of the EM-DM growth differential. Our view on individual currency pairs is as follows:

- We expect the KRW to strengthen further amid further recovery in the global economy, a hawkish shift by the Korean central bank and a weaker USD.
- We expect modest gains in the SGD and MYR, in line with our view of a weaker USD, a pick-up in global growth and supportive domestic monetary policies.
- We expect the CNY and INR to trade largely range-bound. Policy bias to favour exchange rate stability in China while a slower pace of capital inflows into India to limit INR gains.

We believe there are three factors that will likely drive further KRW gains. First, through the export channel, the KRW is heavily exposed to global growth. With a strong synchronised pick-up in global growth indicators and PMI’s near cyclical highs, we believe there is potential for further KRW appreciation.

Second, the hawkish turn by the Bank of Korea (BoK) amid strong domestic consumption and export growth is likely to improve the currently thin interest rate differential with the US.

Finally, the modest weakening trend in the USD is likely to allow further room for appreciation.

We believe policymakers in Korea are likely to tolerate further KRW strength as long as the balance of payments situation continues to improve. Tensions with North Korea remain a potential risk, although similar to this year, we do not think investors will pay much attention to this outside of an extreme scenario.
We believe the outlook for commodity prices and the USD are the most significant driver of the MYR. Given our view of modest USD weakness and higher commodity prices, we expect modest MYR appreciation to continue into 2018. Furthermore, we believe significant undervaluation and possible increase in investor allocation to Malaysian debt is likely to be a further tailwind. Arguably, sentiment towards the MYR and local assets is likely to improve following a continued improvement in the country’s balance of payments and a gradual build-up of FX reserves.

As a risk, a hard landing in China and/or a marked slowdown in global growth would likely result in MYR underperformance with respect to regional currencies. Among major Asian economies, Malaysia has one the lowest FX reserves to protect against a potential EM crisis.

The outlook for the SGD is likely to be shaped by the Monetary Authority of Singapore’s (MAS) policy bias as well as the USD trend. On the first point, we believe there is a reasonable probability of the MAS modifying its policy to support a slight appreciation in the Singapore trade-weighted exchange rate basket. In our view, the more balanced outlook on growth and core inflation suggested in the last policy review, paves the way for this adjustment in 2018. Furthermore, with a shift towards a less accommodative policy in many key trade partners it is natural for a small open economy like Singapore to follow suit.

SGD strength has been strongly correlated with USD weakness and we expect this to continue in 2018. Our expectations for further gains in the EUR and MYR, which likely account for approximately 30% of Singapore’s trade-weighted exchange rate basket, is likely to support further modest SGD appreciation.
The CNY stabilised in 2017 amid a stabilisation in China’s growth and capital outflows and a weaker USD. Since the introduction of the China Foreign Exchange Trading System’s trade-weighted policy basket, we observe that the correlation between the USD/CNY and the USD index has improved significantly. Hence, in our view, in addition to PBoC’s policy bias, the outlook for the USD is now key.

We expect policy makers to prefer a broadly stable CNY relative to trade partner currencies. This is due to the profound impact of the exchange rate on China’s domestic monetary conditions. We expect authorities to favour a balance between reform and growth which does not favour significant monetary tightening from current levels. Against the backdrop of a stable exchange rate policy, we expect the USD to be the main driver of the CNY. An outlook for a modestly weaker USD is also likely to discourage further capital outflows with the potential for some repatriation going forward.

The INR gained strongly in 2017. This has been mainly due to strong capital inflows amid a stellar performance in the local equity and bond markets. However, going forward, we expect the INR to be range-bound as some of these factors are likely to turn less supportive in 2018.

High valuations in the domestic equity market coupled with foreign debt ownership quotas are likely to limit additional capital inflows. In addition, some deterioration in the current account can be expected amid recent gains in oil prices. Nevertheless, a still relatively healthy balance of payments position is likely to limit significant INR weakness. We also expect the Reserve Bank of India (RBI) to continue to manage volatility resulting in a fairly stable INR in 2018. A significant surge in oil prices remains the main downside risk, in our view.
COMMODITIES
Commodities at a glance

Tariq Ali, CFA  |  Manpreet Gill

Key themes

We expect commodity prices to rise modestly in 2018, amid a moderately positive demand environment, but still elevated supply levels in many cases.

Gold prices to rise modestly, most likely trading in the USD 1250–1350 per ounce range amid a slightly weaker USD, balanced with largely range-bound real yields.

Oil prices likely to remain broadly range-bound, most likely trading in the USD55–65 per barrel range.

Key chart

Figure 1
Outlook for China growth still a key driver of commodity prices
China leading indicator and Bloomberg commodity index

Source: Bloomberg, Standard Chartered

Key drivers

<table>
<thead>
<tr>
<th>Commodity</th>
<th>View</th>
<th>Inventory</th>
<th>Production</th>
<th>Demand</th>
<th>Real Interest Rates</th>
<th>USD</th>
<th>Risk Sentiment</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>n/a</td>
<td>◆</td>
<td>◆</td>
<td>OPEC cut backs likely to be offset by US production increase. Inventories remain elevated</td>
</tr>
<tr>
<td>Gold</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>US rate increases expected to be in-line with inflation</td>
</tr>
<tr>
<td>Metals</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>n/a</td>
<td>◆</td>
<td>◆</td>
<td>China demand a support; market still over supplied</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered

Legend:  ◆ Neutral |  ◆ Not supportive |  ◆ Neutral |  ◆ Supportive
China growth still key

In a typical late-cycle environment, commodities tend to deliver strong performance as capital expenditure accelerates and the economy performs above its potential. However, we believe a number of factors could contain commodity price gains in 2018. Chief among these is China’s likely focus on deleveraging and reform as opposed to supporting growth alone.

A late cycle approach

Compliance with agreed crude oil production cuts among OPEC and some non-OPEC members has resulted in higher oil prices. Gold has delivered positive returns against the backdrop of declining US long-end Treasury yields.

In a typical late-cycle environment, commodities tend to deliver a strong performance as capital expenditure accelerates and the economy performs above its potential. However, we believe a number of factors could contain commodity price gains in 2018. Chief among these is China’s likely focus on deleveraging and reform as opposed to supporting growth alone. In addition, the likely response by US shale oil producers to prices in excess of USD 60 per barrel creates headwinds for oil prices. Finally, our expectations of range-bound real yields globally place a limit on sustained gains in gold.

Gold

- We believe there is some room for gold to rise modestly in 2018, with the highest probability of it trading in the USD 1250 – 1350 per ounce range.
- We believe real yields (proxied by the US 5 year TIPS yields), the USD and safe-haven demand due to geopolitical concerns remain the main drivers of gold prices.

In 2017, the relationship with the USD has been stronger and with real yields weaker, than historically has been the case. On the same note, limited concerns of a spillover in key geopolitical flashpoints have created little safe-haven demand for gold.

Figure 2

A modestly weaker USD in 2018 to be supportive for gold prices

USD Index and gold price (inverse scale)

Source: Bloomberg, Standard Chartered
Moving into 2018, we believe modest USD weakness is likely to provide support to gold prices. However, real yields are likely to remain range-bound; hence we do not see strong gains in gold prices. For real yields to rise substantially, central banks would have to hike rates ahead of inflation, which we do not think is likely as data so far has been disappointing. For real yields to fall substantially, we would need to see central banks letting inflation get ahead before raising rates; we also doubt is likely at this stage of the business cycle. As a result, real yields are likely to remain largely range-bound.

With a number of potential flashpoints, geopolitics remains an area which we would monitor closely in 2018. Hence, we would not discount gold’s role as a hedge against uncertainty but would limit any allocation to 2-5%.

Figure 3
Real yields to remain range-bound in 2018
US 5-year TIPS yield (inverse scale) and gold

Source: Bloomberg, Standard Chartered
Oil

- We expect oil prices to be generally capped at USD65 per barrel in 2018.
- We believe the outlook for oil prices is likely to be determined mainly by supply-side factors; the extension of OPEC cuts and compliance and the response of US shale oil producers to higher oil prices.

Oil prices recovered in 2017, amid a narrowing of the supply-demand imbalance. We believe two main factors have contributed to this. First, in a break from the past, compliance with OPEC cuts has been in excess of 90%. Second, US shale oil production growth has slowed, owing to a decline in productivity from wells. Finally, weather-related disruption in the Gulf of Mexico also contributed to curtailing supply growth in the short term.

In the year ahead, we believe OPEC producers as well as some non-OPEC members, including Russia, are likely to follow through with their commitment to cap production. In 2017, Saudi Arabia took the leadership role, delivering output cutbacks well in excess of its quota. In 2018, compliance is likely to remain firm, as gradually rising oil prices appear consistent with a number of goals of the Saudi leadership. Nevertheless, there are risks to compliance. For example, it may be difficult to hold back Russian firms should they feel their market share is being threatened.

Increasing output by US shale producers could dampen the impact of the OPEC cut extension. We believe US crude production is likely to increase further as many firms are able to produce profitably at above USD60 per barrel. Nevertheless, we also highlight declining well productivity amid rising costs to extract more geologically challenging assets will eventually put a cap on US production growth.

We believe demand growth is likely to be supportive in 2018, though this will likely have a modest impact. In our view, higher growth in Developed Markets could be offset by slightly slower growth in China.

Finally, while geopolitics has not played a very significant role in 2017, this should not be ignored going into 2018. A number of key geopolitical flashpoints including Saudi-Iran tensions and its manifestations through the region remain a source of upside risk to our view in 2018.

Figure 4
US production growth to remain healthy while inventories still remain elevated
US total crude oil production (top); US total inventories and 5 year ranges (bottom)

Source: Bloomberg, Standard Chartered

Increasing output by shale producers could dampen the impact of OPEC cut extension.
Industrial metals

- We expect industrial metal prices to consolidate in 2018, following strong gains in 2017, amid moderating China fixed asset investment indicators.
- Most major industrial metal markets including copper, aluminium and iron ore are still experiencing excess supply, which is likely to limit further price gains.

Industrial metals have outperformed commodities in general this year, rising over 15%. However, we doubt such a stellar performance can continue in 2018. One of the biggest supportive factors has been China’s growth surprises in 2017 and we expect these to moderate in 2018. In particular, data related to fixed asset investment, credit growth and the property sector, which has a strong relationship with industrial metals, has been deteriorating. Hence, we believe some of the gains in industrial metals may have an element of speculation and other short term factors.

In addition to this, we believe supply side factors are likely to be less supportive heading into 2018. Copper and aluminium prices have been the main contributors to the rally in metal prices. With respect to copper, a temporary disruption of supplies and low inventories in China has supported the exceptionally strong performance. However, in the year ahead, we see a high probability of the copper market returning to surplus. Aluminium has been boosted by the unprecedented production caps on production by China which could continue into 2018. However, despite this, the market is in surplus as a result of high inventory levels so any further gains are likely to be modest.

With respect to nickel, stainless steel production comprises of the majority of demand. In this regard, a cut-back in China’s steel capacity is likely to reduce demand. While nickel is also the main beneficiary with respect to rising demand for electric cars, as of now, the battery sector accounts for only a small section of the global nickel demand with. On the same note, iron ore prices are unlikely to recover substantially in 2018 with China inventories swelling with record supply levels, while steel demand is likely to cool.

Figure 5
Industrial metal prices diverging from fundamentals
Bloomberg industrial metals sub-index and China fixed asset investment – real estate

Source: Bloomberg, Standard Chartered
2018 key events

23 BoJ Policy decision
25 ECB Policy decision

X Italy elections likely
X PBoC Governor Zhou’s term ends

08 ECB Policy decision
09 BoJ Policy decision
18 Russia Presidential elections
22 FOMC Policy Decision

03 FOMC Policy Decision
01 Mexico Presidential and Parliamentary elections
26 ECB Policy decision
31 BoJ Policy decision

X Taiwan central bank Governor Perng’s term ends
01 FOMC Policy Decision
08 BoJ Governor Kuroda’s current term ends; he may get another term
26 ECB Policy decision
27 BoJ Policy decision

14 FOMC Policy Decision
14 ECB Policy decision
15 BoJ Policy decision

02 FOMC Policy Decision
24 Malaysia elections due

13 ECB Policy decision
19 BoJ Policy decision
27 FOMC Policy decision

25 ECB policy decision
28 Brazil elections – 2nd round
31 BoJ policy decision

X Thailand elections due
06 US House (all 435 seats) and Senate (33 out of 100 seats) elections

09 FOMC policy decision
12-18 APEC Summit

07 Brazil elections – 1st round
25 ECB policy decision
28 Brazil elections – 2nd round
31 BoJ policy decision

Legend: X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan
# Meet the team

<table>
<thead>
<tr>
<th>Name</th>
<th>Title and Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexis Calla</td>
<td>Chief Investment Officer</td>
</tr>
<tr>
<td>Steve Brice</td>
<td>Chief Investment Strategist</td>
</tr>
<tr>
<td>Clive McDonnell</td>
<td>Head, Equity Investment Strategy</td>
</tr>
<tr>
<td>Aditya Monappa, CFA</td>
<td>Head, Asset Allocation and Portfolio Solutions</td>
</tr>
<tr>
<td>Christian Abuide</td>
<td>Head, Discretionary Portfolio Management</td>
</tr>
<tr>
<td>Manpreet Gill</td>
<td>Head, FICC Investment Strategy</td>
</tr>
<tr>
<td>Arun Kelshiker, CFA</td>
<td>Senior Investment Strategist, Asset Allocation and Portfolio Solutions</td>
</tr>
<tr>
<td>Daniel Lam, CFA</td>
<td>Senior Investment Strategist, Asset Allocation and Portfolio Solutions</td>
</tr>
<tr>
<td>Belle Chan</td>
<td>Senior Investment Strategist</td>
</tr>
<tr>
<td>Rajat Bhattacharya</td>
<td>Senior Investment Strategist</td>
</tr>
<tr>
<td>Ajay Saratchandran</td>
<td>Discretionary Portfolio Manager</td>
</tr>
<tr>
<td>Samuel Seah, CFA</td>
<td>Discretionary Portfolio Manager</td>
</tr>
<tr>
<td>Audrey Goh, CFA</td>
<td>Senior Investment Strategist, Asset Allocation and Portfolio Solutions</td>
</tr>
<tr>
<td>Tariq Ali, CFA</td>
<td>Investment Strategist</td>
</tr>
<tr>
<td>Francis Lim</td>
<td>Quantitative Investment Strategist</td>
</tr>
<tr>
<td>Jill Yip, CFA</td>
<td>Senior Investment Strategist</td>
</tr>
<tr>
<td>Abhilash Narayan</td>
<td>Investment Strategist</td>
</tr>
<tr>
<td>Cedric Lam</td>
<td>Investment Strategist</td>
</tr>
<tr>
<td>Trang Nguyen</td>
<td>Analyst, Asset Allocation and Portfolio Solutions</td>
</tr>
<tr>
<td>Jeff Chen</td>
<td>Analyst, Asset Allocation and Portfolio Solutions</td>
</tr>
<tr>
<td>DJ Cheong</td>
<td>Investment Strategist</td>
</tr>
</tbody>
</table>
Contacts Information
Wealth Management, Vietnam

Do Lan Anh
Head of Wealth Management
LanAnh.Do@sc.com

Nguyen Anh Tuan
Associate Director,
WMPS, WM
AnhTuanWMPS.Nguyen@sc.com

Chu Thi Minh Anh
WMPS Dealer
Anh-Thi-Minh-Chu@sc.com

Mach Khoi Tin, CFA
WMPS Dealer
Tin.MachKhoi@sc.com

Nguyen Thanh Tung, CFA
Treasury Specialist
Tung.Nguyenthanh@sc.com

Tran Quyen Bieu
Treasury Specialist
Bieu.Tranquyen@sc.com
We have a robust advisory process ensuring we deliver high-quality insights and solutions to our clients.

1. **OPEN-PLATFORM INPUTS**
   - Third party views as diverse as possible are curated from leading research boutiques, banks and asset management companies to harness the collective intelligence of our network.

2. **DISCUSS & DEBATE**
   - Once a month, these curated questions, insights and analysis are shared and digested by the GIC members through a rigorous debating process to ensure full consideration is given to the diverse perspectives.

3. **INVESTMENT STRATEGY DECISIONS**
   - Decisions are not a consensus. Global Investment Committee (GIC) members vote anonymously on key questions and decisions to form final house views. Voting process involves a detailed questionnaire and all individual results are tracked to identify key trends associated with house views.

4. **ADVISORY COMMUNICATION**
   - The results of the vote are organised to form our “House Views” and articulated by our Investment Strategists through investment publications; they are communicated immediately to all our global and local product teams.

5. **RELEVANT & ACTIONABLE CONVICTIONS**
   - GIC ideas and themes are discussed with product and country teams to formulate conviction lists of relevant investment opportunities for our clients.

6. **COMMUNICATION TO CLIENTS**
   - Our “House views” and conviction-based investment opportunities reach our clients through our various publications, relationship managers and investment advisors.

7. **THOROUGH REVIEW**
   - Investment results of our house views and conviction-based opportunities are thoroughly reviewed together with all the quantitative data collected during the voting process.
Important information

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT.

This document is not research material and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. This document does not necessarily represent the views of every function within Standard Chartered Bank, particularly those of the Global Research function.

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD. Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively “SCB”) according to local regulatory requirements. With respect to any jurisdiction in which there is a SCB entity, this document is distributed in such jurisdiction by, and is attributable to, such local SCB entity. Recipients in any jurisdiction should contact the local SCB entity in relation to any matters arising from, or in connection with, this document. Not all products and services are provided by all SCB entities.

This document is being distributed for general information only and it does not constitute an offer, recommendation or solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments. This document is for general evaluation only, it does not take into account the specific investment objectives, financial situation or particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons.

Investment involves risks. The prices of investment products fluctuate, sometimes dramatically. The price of investment products may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling investment products. You should not rely on any contents of this document in making any investment decisions. Before making any investment, you should carefully read the relevant offering documents and seek independent legal, tax and regulatory advice. In particular, we recommend you to seek advice regarding the suitability of the investment product, taking into account your specific investment objectives, financial situation or particular needs, before you make a commitment to purchase the investment product.

Opinions, projections and estimates are solely those of SCB at the date of this document and subject to change without notice. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. Any forecast contained herein as to likely future movements in rates or prices or likely future events or occurrences constitutes an opinion only and is not indicative of actual future movements in rates or prices or actual future events or occurrences (as the case may be). This document has not been and will not be registered as a prospectus in any jurisdiction and it is not authorised by any regulatory authority under any regulations.

SCB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by us. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.

SCB, and/or a connected company, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities, currencies or financial instruments referred to on this document or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. Accordingly, SCB, its affiliates and/or subsidiaries may have a conflict of interest that could affect the objectivity of this document. This document must not be reproduced, forwarded or otherwise made available to any other person without the express written consent of SCB, nor should it be distributed into any other jurisdiction unless permitted by the local laws and regulations of that jurisdiction. Neither SCB nor any of its directors, employees or agents accept any liability whatsoever for the actions of third parties in this respect.

Copyright: Standard Chartered Bank 2017. Copyright in all materials, text, articles and information contained herein is the property of, and may only be reproduced with permission of an authorised signatory of, Standard Chartered Bank. Copyright in materials created by third parties and the rights under copyright of such parties are hereby acknowledged. Copyright in all other materials not belonging to third parties and copyright in these materials as a compilation vests and shall remain at all times copyright of Standard Chartered Bank and should not be reproduced or used except for business purposes on behalf of Standard Chartered Bank or save with the express prior written consent of an authorised signatory of Standard Chartered Bank. All rights reserved. © Standard Chartered Bank 2017.
Standard Chartered Private Bank is the private banking division of SCB. Private banking activities may be carried out internationally by different SCB legal entities and affiliates according to local regulatory requirements. Not all products and services are provided by all SCB branches, subsidiaries and affiliates. Some of the SCB entities and affiliates only act as representatives of the Standard Chartered Private Bank, and may not be able to offer products and services, or offer advice to clients. They serve as points of contact only.

Country Specific Disclosures

Botswana: This document is being distributed in Botswana by, and is attributable to, Standard Chartered Bank Botswana Limited which is a financial institution licensed under the Section 6 of the Banking Act CAP 46.04 and is listed in the Botswana Stock Exchange.

China: This document is being distributed in China by, and is attributable to, Standard Chartered Bank (China) Limited which is mainly regulated by China Banking Regulatory Commission (CBRC), State Administration of Foreign Exchange (SAFE), and People’s Bank of China (PBOC).

Ghana: Standard Chartered Bank Ghana Limited accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of these documents. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. You should seek advice from a financial adviser on the suitability of an investment for you, taking into account these factors before making a commitment to invest in an investment. Please do not reply to this email. Call our Priority Banking on 0302610750 for any questions or service queries. You are advised not to send any confidential and/or important information to the Bank via e-mail, as the Bank makes no representations or warranties as to the security or accuracy of any information transmitted via e-mail. The Bank shall not be responsible for any loss or damage suffered by you arising from your decision to use e-mail to communicate with the Bank.

Hong Kong: In Hong Kong, this document, except for any portion advising on or facilitating any decision on futures contracts trading, is distributed by Standard Chartered Bank (Hong Kong) Limited ("SCBHK"), a subsidiary of Standard Chartered Bank. SCBHK has its registered address at 32/F, Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong and is regulated by the Hong Kong Monetary Authority and registered with the Securities and Futures Commission ("SFC") to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activity under the Securities and Futures Ordinance (Cap. 571) ("SFO") (CE No. AJE814). The contents of this document have not been reviewed by any regulatory authority in Hong Kong and you are advised to exercise caution in relation to any offer set out herein. If you are in doubt about any of the contents of this document, you should obtain independent professional advice. Any product named herein may not be offered or sold in Hong Kong by means of any document at any time other than to “professional investors” as defined in the SFO and any rules made under that ordinance. In addition, this document may not be issued or possessed for the purposes of, whether in Hong Kong or elsewhere, or any interests may not be disposed of, to any person unless such person is outside Hong Kong or is a “professional investor” as defined in the SFO and any rules made under that ordinance, or as otherwise may be permitted by that ordinance. In Hong Kong, Standard Chartered Private Bank is the private banking division of Standard Chartered Bank (Hong Kong) Limited.

India: Standard Chartered Bank is registered with Securities and Exchange Board of India as an Investment Advisor (Registration Number: INA0000002249) under the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013. You can avail of investment advisory services of Standard Chartered Bank only upon (i) executing separate documents with the Investment Advisory Group of Standard Chartered Bank for availing ‘Investment Advice’ (as defined in the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013); and (ii) paying specific fees (if applied by Standard Chartered Bank) for such ‘Investment Advice’. Standard Chartered Bank acts as a distributor of mutual funds and referrer of other third party financial products, for which Standard Chartered Bank receives commission / referral fees from the product provider.

Jersey: In Jersey, Standard Chartered Private Bank is the Registered Business Name of the Jersey Branch of Standard Chartered Bank. The Jersey Branch of Standard Chartered Bank is regulated by the Jersey Financial Services Commission. Copies of the latest audited accounts of Standard Chartered Bank are available from its principal place of business in Jersey: PO Box 80, 15 Castle Street, St Helier, Jersey JE4 8PT. Standard Chartered Bank is incorporated in England with limited liability by Royal Charter in 1853 Reference Number ZC 18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD. Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Jersey Branch of Standard Chartered Bank is also an authorised financial services provider under licence number 44946 issued by the Financial Services Board of the Republic of South Africa. Jersey is not part of the United Kingdom and all business transacted with Standard Chartered Bank, Jersey Branch and other Standard Chartered Group Offices outside of the United Kingdom, are not subject to some or any of the investor protection and compensation schemes available under United Kingdom law.

Kenya: Investment Products and Services are distributed by Standard Chartered Investment Services Limited, a wholly owned subsidiary of Standard Chartered Bank Kenya Limited (Standard Chartered Bank/the Bank) that is licensed by the Capital Markets Authority as a Fund Manager. Standard Chartered Bank Kenya Limited is regulated by the Central Bank of Kenya.

Singapore SCBSL: This document is being distributed in Singapore by, and is attributable to, Standard Chartered Bank (Singapore) Limited ("SCBSL"). Recipients in Singapore should contact SCBSL in relation to any matters arising from, or in connection with, this document. SCBSL is an indirect wholly-owned subsidiary of Standard Chartered Bank and is licensed to conduct banking business in Singapore under the Singapore Banking Act, Chapter 19. IN RELATION TO ANY FIXED INCOME AND STRUCTURED SECURITIES REFERRED TO IN THIS DOCUMENT (IF ANY), THIS DOCUMENT TOGETHER WITH THE ISSUER DOCUMENTATION SHALL BE DEEMED AN INFORMATION MEMORANDUM (AS DEFINED IN SECTION 275 OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 ("SFA"). IT IS INTENDED FOR DISTRIBUTION TO ACCREDITED INVESTORS, AS DEFINED IN SECTION 4A OF THE SFA, OR ON TERMS THAT THE SECURITIES MAY ONLY BE ACQUIRED AT A CONSIDERATION OF NOT LESS THAN S$200,000 (OR ITS EQUIVALENT IN A FOREIGN CURRENCY) FOR EACH TRANSACTION. Further, in relation to fixed income and structured securities mentioned (if any), neither this document nor the Issuer Documentation have been, and will not be, registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons other than a relevant person pursuant to section 275(1) of the SFA, or any person pursuant to section 275(1A) of the SFA, and in accordance with the conditions, specified in section 275 of the SFA, or pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Singapore dollar deposits of non-bank depositors are insured by the Singapore Deposit Insurance Corporation, for up to $500,000 in aggregate per depositor per Scheme member by law. Foreign currency deposits, dual currency investments, structured deposits and other investment products are not insured.
Singapore SCB, Singapore Branch: This document is being distributed in Singapore by SCB, Singapore branch only to accredited investors, expert investors or institutional investors, as defined in the Securities and Futures Act, Chapter 289 of Singapore. Recipients in Singapore should contact SCB, Singapore branch in relation to any matters arising from, or in connection with, this document. In Singapore, Standard Chartered Private Bank is the Private Banking division of SCB, Singapore branch. SCB, Singapore branch (Registration No. S16FC0027L) (GST Registration No.: MR-8500033-0) is licensed to conduct banking business under the Banking Act, Chapter 19 of Singapore. IN RELATION TO ANY FIXED INCOME AND STRUCTURED SECURITIES REFERRED TO IN THIS DOCUMENT (IF ANY), THIS DOCUMENT TOGETHER WITH THE ISSUER DOCUMENTATION SHALL BE DEEMED AN INFORMATION MEMORANDUM (AS DEFINED IN SECTION 275 OF THE SFA). IT IS INTENDED FOR DISTRIBUTION TO ACCREDITED INVESTORS, AS DEFINED IN SECTION 4A OF THE SFA. Further, in relation to fixed income and structured securities mentioned (if any), neither this document nor the Issuer Documentation have been, and will not be, registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons other than a relevant person pursuant to section 275(1) of the SFA, and in accordance with the conditions, specified in section 275 of the SFA, or pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Singapore dollar deposits of non-bank depositors are insured by the Singapore Deposit Insurance Corporation, for up to S$50,000 in aggregate per depositor per Scheme member by law. Foreign currency deposits, dual currency investments, structured deposits and other investment products are not insured. In relation to any collective investment schemes referred to in this document (if any), this document is for general information purposes only and is not an offering document or prospectus (as defined in the SFA). This document is not, nor is it intended to be (i) an offer or solicitation of an offer to buy or sell any financial product; or (ii) an advertisement of an offer or intended offer of any financial product.

Thailand: Please study the Scheme Information Documents carefully e.g. investment policy, risks, fund performance before investing.

UAE: DIFC – Standard Chartered Bank, Dubai International Financial Centre (SCB DIFC) having its offices at Dubai International Financial Centre, Building 1, Gate Precinct, P.O. Box 999, Dubai. UAE is a branch of Standard Chartered Bank and is regulated by the Dubai Financial Services Authority (“DFSA”). This document is intended for use only by Professional Clients and is not directed at Retail Clients as defined by the DFSA Rulebook. In the DIFC we are authorized to provide financial services only to clients who qualify as Professional Clients and Market Counterparts and not to Retail Clients. As a Professional Client you will not be given the higher retail client protection and compensation rights and if you use your right to be classified as a Retail Client we will be unable to provide financial services and products to you as we do not hold the required license to undertake such activities. For Islamic transactions, we are acting under the supervision of our Shariah Supervisory Committee. Relevant information on our Shariah Supervisory Committee is currently available on the Standard Chartered Bank website in the Islamic banking section here.

UAE: For residents of the UAE – Standard Chartered Bank UAE does not provide financial analysis or consultation services in or into the UAE within the meaning of UAE Securities and Commodities Authority Decision No. 48/r of 2008 concerning financial consultation and financial analysis.

Uganda: Our Investment products and services are distributed by Standard Chartered Bank Uganda Limited, which is licensed by the Capital Markets Authority as an investment adviser.

United Kingdom: Standard Chartered Bank (trading as Standard Chartered Private Bank) is an authorised financial services provider (licence number 45747) in terms of the South African Financial Advisory and Intermediary Services Act, 2002.

Zambia: This document is distributed by Standard Chartered Bank Zambia Plc, a company incorporated in Zambia and registered as a commercial bank and licensed by the Bank of Zambia under the Banking and Financial Services Act Chapter 387 of the Laws of Zambia.

Market Abuse Regulation (MAR) Disclaimer

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD. Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively “SCB”) according to local regulatory requirements. Opinions may contain outright “buy”, “sell”, “hold” or other opinions. The time horizon of this opinion is dependent on prevailing market conditions and there is no planned frequency for updates to the opinion.

This opinion is not independent of SCB’s own trading strategies or positions. SCB and/or its affiliates or its respective officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document or have material interest in any such securities or related investments. Therefore, it is possible, and you should assume, that SCB has a material interest in one or more of the financial instruments mentioned herein. If specific companies are mentioned in this communication, please note that SCB may at times do business or seek to do business with the companies covered in this communication; hold a position in, or have economic exposure to, such companies; and/or invest in the financial products issued by these companies. Further, SCB may be involved in activities such as dealing in, holding, acting as market makers or liquidity providers, or performing financial or advisory services including but not limited to, lead manager or co-lead manager in relation to any of the products referred to in this communication. SCB may have received compensation for these services and activities. Accordingly, SCB may have a conflict of interest that could affect the objectivity of this communication.

SCB has in place policies and procedures, logical access controls and physical information walls to help ensure confidential information, including material non-public or inside information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Please refer to https://www.sc.com/en/banking-services/market-disclaimer.html for more detailed disclosures, including past opinions in the last 12 months and conflict of interests, as well as disclaimers. This document must not be forwarded or otherwise made available to any other person without the express written consent of SCB.

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT.