Global Market Outlook

A wave of rotations

Important disclosures can be found in the Disclosures Appendix.
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A wave of rotations

- The market narrative is shifting towards questions about ‘too much’ stimulus and a risk of inflation. We see this environment as supportive of a broadening equity market rally, albeit with significant rotations across sectors, regions and themes.

- In equities, we see room for our rotation-to-Value theme - Ready, Steady, Rotate, to extend. We add the UK to our regional preferences alongside the US, Japan and Asia ex-Japan.

- Rising bond yields are a short-term headwind for multi-asset income strategies as the journey to higher yields runs through initially lower bond prices. However, we see this as a temporary challenge.

Equity rally broadens, with rotation into Value

The market narrative slowly, but surely, appears to be rotating. From worrying about COVID-19 lockdowns and growth risks, the source of worry has increasingly shifted to whether there is ‘too much’ stimulus that could end in sustained high inflation. This follows the US stimulus package and accelerating COVID-19 vaccinations.

The rising US 10-year government bond yield has been one illustration of this ‘worry rotation’. In the short term, this could test the Fed’s tolerance limit. In equities, the rotation has played out through the outperformance of Value vs Growth stocks.

With the Fed committed to staying on hold amid this backdrop, we view this rotation as positive for risk assets and continue to favour equities over bonds and cash. Rising US government bond yields have historically been consistent with rising equity markets, while the style of rotation illustrates a broadening of the equity market recovery. The rapid vaccination pace (especially in the US, UK and some EMs), the ongoing growth recovery and supportive central banks back our view.

Higher yields are a near-term challenge for income investors

An environment of rising bond yields is a challenge for income assets as the journey to higher yields runs through initially lower bond prices. For income investors, though, we see this as a temporary challenge as the higher entry yields and gains from equity and non-core income assets gradually offset this.
Rotating through equity regions

Regionally, we maintain our preference for the US, Japan and Asia ex-Japan. The US is likely to benefit from what is turning out to be significant fiscal stimulus, a supportive Fed and a faster-than-expected COVID-19 vaccination process. Japan has benefitted from recent JPY weakness. A sustained improvement in earnings estimates and the market’s Value-style characteristics are likely to be supportive. Asia ex-Japan should additionally benefit from long-term USD weakness.

We raise the UK to a preferred region. While a stronger GBP could work against overseas earnings, we believe inexpensive valuations and earnings support from rising commodity prices are likely to more than offset this headwind. We reduce Euro area equities to least preferred. While the ECB has announced increased bond purchases, the region’s slow vaccination process risks delaying the growth and earnings recovery.

Scaling back on the US technology sector

From a sector perspective, we believe the rotation to Value-style sectors (Ready, Steady, Rotate theme) has further to run. In the US, this means we are making two changes. First, we raise energy to a preferred sector, alongside our existing preference for materials, financials and industrials, supported by our modestly bullish view on oil prices as global demand recovers.

Second, we reduce the US technology sector to a core holding. The sector has high sensitivity to the risk of higher US Treasury yields. While we remain bullish on the sector, there is a risk that it underperforms the broader market if yields rise further.

USD outlook remains key for EMs

Rising US Treasury yields make it increasingly likely that the USD rebound extends further on a 1-3 month horizon, particularly against the EUR as the ECB appears most likely to lean against any rise in regional bond yields.

A USD rebound represents a double whammy for EM USD government bonds given they are also highly sensitive to US Treasury yields. However, credit quality remains largely consistent with market expectations. Recent events in Turkey appear unlikely to spark a wider contagion and the yield on EM USD government bonds has risen to over 5%. We believe this has created an attractive entry opportunity.

Our preferences for Asia USD and DM HY corporate bonds remain unchanged. Within HY, though, a widening yield gap between US and Asian HY bonds means we would consider deploying any additional exposure to Asian HY bonds.
## Our investment themes – an update

<table>
<thead>
<tr>
<th>Key themes</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vaccinating against valuations</td>
<td>Equities outperformed bonds and cash since our <em>Outlook</em> 2021 publication as rapid vaccine deployment in most regions and policy stimulus improved the global growth outlook. We expect this trend to continue, with equities likely to be the biggest beneficiary from here.</td>
</tr>
<tr>
<td>Ready, steady, rotate</td>
<td>Value-style equities have outperformed Growth-style equities at a faster pace than we expected at the start of the year, following the rapid rise in US Treasury yields. We see room for this rotation to continue as growth recovers and bond yields rise.</td>
</tr>
<tr>
<td>USD to slump in 2021</td>
<td>This theme has been challenged by the recent rebound in the USD, which accompanied rising US Treasury yields. We expect this rebound to be temporary as the initial surge in inflation-adjusted US bond yields is matched by gains elsewhere as the global recovery broadens. This should ultimately benefit EM assets.</td>
</tr>
<tr>
<td>Race for Income</td>
<td>Multi-asset income strategies remain relevant for income-oriented investors, in our assessment, especially following rising yields in many bond markets. Race for Income has delivered positive returns, although the headline yield temporarily dipped below 4% earlier in the year.</td>
</tr>
<tr>
<td>Golden equity themes for 2020s</td>
<td>The next wave of innovation is expected to be driven by permanent changes brought about by COVID-19 in medical tech (med-tech), Internet-of-Things (IoT) and e-vehicle technology breakthroughs. Our Golden equities for 2020s theme is experiencing a short-term consolidation phase after a strong performance since our <em>Outlook</em> 2021. Valuations are repricing from overstretched levels offering opportunities to gain exposure or average in.</td>
</tr>
<tr>
<td>The time for climate investing</td>
<td>Many factors support the current momentum behind climate investing. Within this space, we focus on energy transition, a circular economy and sustainable food and water. See the sustainability section this month for more on energy transition.</td>
</tr>
<tr>
<td>In a world of yield-free risk</td>
<td>Generating returns and ensuring downside protection is becoming more challenging. We believe investors will need to take additional risks and/or become more innovative. Rising bond yields have helped mitigate this slightly, but the move is small in the larger context. Little has changed in terms of multi-year expected equity returns.</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered; Tick/Cross captures theme performance vs. benchmark since Outlook 2021.
Q Can Value equities continue to outperform Growth?

We believe the paradigm shift in fiscal policy in response to the COVID-19 crisis will further support Value equities to continue to outperform Growth over the next 12 months.

The ratio of global Value equity returns vs Growth peers has broken above the 1y moving average, while the gap relative to the 3y moving remains significant.

Value-style equities have gained 7.7% YTD and outperformed Growth equities globally by 9.4%, despite a brief pause in late January due to concerns over vaccination rollouts and possible economic recovery delays.

The current reflationary environment will likely underpin the ongoing “reversion to the mean” after Value’s largest one-year period of underperformance since 2000 (-34% vs Growth in 2020). While Value started to outperform more prominently in recent weeks, data shows this move represents only a small uptick on long-term charts. Even if Value were to merely return to its previous downtrend levels vs Growth, there is a significant space for catch-up. Furthermore, valuations also point to further relative upside for Value equities.

Valuations remain supportive for Value equities despite the recent uptrend

<table>
<thead>
<tr>
<th>Value vs Growth</th>
<th>Percentile</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/B</td>
<td>14.0%</td>
<td></td>
</tr>
<tr>
<td>P/E</td>
<td>51.5%</td>
<td></td>
</tr>
<tr>
<td>EV to EBITDA</td>
<td>57.0%</td>
<td></td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0.5%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered
Valuation ranges from 2005 to present
What data are you monitoring to track this reflationary rotation towards Value?

In our view, the key drivers for the ongoing rotation centre on 1) the pace of economic recovery (largely dependent on policy actions and vaccine rollouts) and 2) the direction of real yields (ie. net of inflation bond yields).

On the economic front, the rapid pace of vaccinations (especially in the US and UK) and ongoing accommodative policies have lifted global economic recovery expectations. In the US, consensus growth forecasts for 2021 have been revised sharply upwards. The Fed, too, revised its 2021 growth forecast to 6.5% from 4.1%. This shift has led to a surge in nominal and real (net of inflation) bond yields (reflecting the higher real growth expectations). In other words, investors have started betting on a broad-based recovery, and are therefore reducing exposure to safe-haven bonds, taking profits in pandemic-resistant technology and Growth sectors, and rotating to cheaper Value sectors.

As we highlighted in our previous Global Market Outlook (Time to rebalance? – Feb 2021), US equities and Value sectors tend to outperform during periods of rising yields, except during periods of monetary policy tightening or recessionary periods.

Upside bias to bond yields to favour Value

The key learning from the March US Fed meeting is that the central bank is comfortable with the recent rise in long-term bond yields as it sees the gains reflecting the improvement in the growth outlook.

This leaves scope for the 10-year US Treasury yield to prod higher, testing the Fed’s tolerance. We see increased chances that the Fed could stay on the sidelines as long as the 10-year yield remains below 2% and financial conditions do not tighten via an equity/corporate bond market sell-off or a USD surge. Technical charts point to strong resistance around 1.95%-1.98% for US Treasury yields.

While the Fed could ultimately stand in the way of higher bond yields, a steeper yield curve (the difference between long-dated and short-dated yields), due to higher growth prospects, should continue to support value sectors (eg, financials) in our view.
What is the outlook for inflation?

Inflation expectations are an important element of asset allocation decisions, together with nominal bond yields. However, inflation is notoriously difficult to predict (or influence – just ask any central banker).

The unique backdrop stemming from the COVID-19 pandemic has intensified the debate around the short- and long-term path of inflation.

We expect consumer inflation to rise across most economies in the coming months, primarily because of statistical effects when prices are compared with last year’s pandemic-driven plunge in goods and services costs. The US is likely to be a key driver of this inflation upsurge, given the economy’s tighter spare capacity compared with other major economies. The table below shows the competing arguments for and against a US inflation upswing.

Our net assessment: We expect any near-term inflationary pressures to be temporary, given still-high jobless rates and structural deflationary forces. The main risk to this view is a prolonged and coordinated global fiscal spending campaign, which tightens global spare capacity.

If history is any guide, when inflation is rising, equities tend to outperform other asset classes, Value sectors outperform other sectors, commodities (especially energy) provide positive real returns, while the USD and government bonds typically underperform.

Fig. 6 Will an economic upswing spur inflation?

Gauge of US economic activity vs realised inflation 24m later

Fig. 7 US inflation expectations – Analysis of competing hypotheses

<table>
<thead>
<tr>
<th>Factors driving inflation higher</th>
<th>Factors keeping inflation subdued</th>
</tr>
</thead>
<tbody>
<tr>
<td>New US fiscal stimulus to tighten spare capacity</td>
<td>High joblessness means spare capacity to last longer</td>
</tr>
<tr>
<td>Service sector inflation (~2/3 of inflation basket) to accelerate as economies reopen with vaccinations</td>
<td>Virus is endemic; service sector deflation is long-lasting, with some service sector jobs lost permanently</td>
</tr>
<tr>
<td>Statistical effects from last year’s price drop to boost inflation in the coming months</td>
<td>Statistical effect over-rated; price impact to play out in the reverse from late Q3 as prices peaked in Q3 2020</td>
</tr>
<tr>
<td>Rising oil, metal and food prices and USD’s y/y weakness to boost inflation in the coming months</td>
<td>US big-city rents (~2/5 of core CPI basket) still falling as work-from-home encourages people to move out of big cities; this year’s USD bounce to subdue inflation</td>
</tr>
<tr>
<td>Factory capacity utilisation above pre-pandemic levels and inventory tightening amid rising goods demand</td>
<td>Broad money supply weak (despite a surge in narrow money measures); bank lending trending lower</td>
</tr>
<tr>
<td>China’s rising producer price inflation and stronger CNY is likely to boost US inflation with a lag</td>
<td>China’s policy tightening means slower growth, reduced chances of exporting inflation overseas</td>
</tr>
<tr>
<td>Deglobalisation is structurally inflationary as supply chains move closer to demand, despite higher costs</td>
<td>Structural disinflationary trends from automation, global excess capacity and high debt levels are long-lasting</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered.

Source: Bloomberg, Standard Chartered. Inflation represented by the US core consumer price index lagged by 24 months.

Source: Standard Chartered.
Sustainability

Energy transition

“A transition to clean energy is about making an investment in our future.” – Gloria Reuben, special adviser on climate change for the Climate Reality Project

The energy transition is often referred to as the next industrial revolution. It refers to the global economy’s shift from a fossil fuels-based system of energy production, distribution and consumption to more sustainable sources of energy as the world moves to a ‘net-zero’ economy.

A net-zero economy is one where there is a balance between the greenhouse gas emissions produced and the emissions taken out of the atmosphere.

While renewable energy sources such as wind and solar, alongside electrified energy-powered systems such as electric vehicles (EVs), typically come to an investor’s mind when thinking about energy transition, it encompasses a much wider ecosystem of industries.

For example, steel and cement production accounts for 7-9% of all global greenhouse emissions and there is pressure mounting on manufacturing and construction industries to decarbonise. Agriculture, forestry and land use is another big sector contributor facing significant disruption in the move towards net-zero.

Bill Gates, in his latest book How to Avoid a Climate Disaster, provides a breakdown of human activities that produce greenhouse gases. Supplementing this with an overview of global greenhouse gases by sector, investors can identify industries that are at the greatest risk of an energy transition and those that offer significant opportunities.

Government commitments and regulatory developments

According to the UN, around 110 countries, responsible for more than 65% of global carbon dioxide emissions, have made ambitious net-zero commitments to date. Many have pledged carbon neutrality by 2050, while China says it will do so before 2060. We provide a snapshot of the ambitions, commitments and focus areas of key markets.

Fig. 8 Many human activities produce pollution

Details of greenhouse gases emitted by “things we do”

Source: "How to avoid a climate disaster" by Bill Gates, Standard Chartered

Fig. 9 Energy-focused industries offer the largest opportunities for disruption

% of total greenhouse emissions by industry sector

Source: Our World in Data, Standard Chartered

Risks and opportunities of energy transition across four key sectors

The risks of energy transition impact companies in all sectors to varying degrees. There are two main types of risks – physical risks and transition risks.

Physical risks include increased business interruptions and damage to operations and physical assets (eg, factories and offices) as a result of extreme weather events such as floods. Central banks across the world have warned that global GDP could fall 25%
below the expected level by 2100, largely due to extreme weather events caused by maintaining current levels of global greenhouse gas emissions.

Transition risks are risks that occur when moving towards a greener economy, where some sectors of the economy face either higher costs of doing business or a significant depreciation in their assets. Stranded assets resulting from transition risks are expected to pose significant costs across all sectors – in oil and gas, International Renewable Energy Agency estimates this at about USD 900bn, while in the buildings sector, it estimates this to range between USD 5.4tn and USD 10.8tn given the low turnover rate of buildings.

Beyond managing risks, the energy transition is also opening up opportunities for investors across various sectors. This goes beyond just EVs and renewables to green buildings, low-carbon materials, precision agriculture and expansion of railways.

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**Potential opportunities in energy transition**

<table>
<thead>
<tr>
<th>Energy</th>
<th>Transport</th>
<th>Buildings</th>
<th>Agriculture</th>
</tr>
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<tbody>
<tr>
<td><strong>Incumbents staying ahead of the curve:</strong> Oil companies are shifting a greater proportion of investments into utilities, renewable energy and electric vehicles</td>
<td><strong>Growth of rail:</strong> Global rail transport market is expected to grow by about 10.9% CAGR to USD 519bn in 2021. Railways is seen as the most efficient and lowest emitting mode of transport; urban and high-speed rail in focus</td>
<td><strong>Green buildings:</strong> Buildings comprise the largest segment of the USD 231bn energy efficiency market. Shift to greener buildings is an opportunity. Retail buildings will be a particular focus given it is one of the most energy intensive building sectors</td>
<td><strong>Precision agriculture:</strong> Digital farming tools and agriculture is a growing area of interest, as innovation pours into developing hardware, software and services to increase yields at lower costs. The global precision farming market is estimated to reach USD 16.35bn by 2028, a CAGR of 13.1% from 2021 to 2028</td>
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<tr>
<td><strong>Renewables:</strong> Asia remains the world’s largest market for renewables, with an EY report ranking seven Asian markets among the most attractive markets for wind power, hydropower and solar. PWC estimates Asia Pacific to see up to USD 250bn in new renewable investments by 2025</td>
<td><strong>Electrification:</strong> Tax incentives, improved technologies, declining battery costs and awareness continue to drive the growth of EVs. The global EV market is estimated to reach USD 700bn by 2026, a 22% CAGR from 2019 to 2026</td>
<td></td>
<td><strong>Plant-based meat and dairy alternatives:</strong> The market has been fuelled further by the COVID-19 pandemic and is expected to reach USD 23.2bn by 2024</td>
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<tr>
<td><strong>Green hydrogen:</strong> Commercial viability for green hydrogen is likely at least a decade away even with rapid cost reductions, increasing policy support and infrastructure investments. However, its potential means this, together with batteries, is the cleantech market to watch in coming years</td>
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</table>

Source: Ernst & Young, Robeco, World Green Building Council, Grand View Research, WBCSD, media reports, Standard Chartered
Macro overview – at a glance

Rajat Bhattacharya
Senior Investment Strategist

Sean Pang
Investment Strategist

Key themes

The global economic recovery from the pandemic is seeing increased divergence, with China emerging as the first major economy to return to its pre-pandemic growth trajectory, followed by the US, which is likely to return to trend growth by H2. The Euro area and EMs, excluding China, are likely to take longer to recover due to slower pace of vaccinations and a revival of infections. We have turned more constructive on the US and now see an above-consensus 6.3% growth in 2021 as faster pace of vaccinations enables the country to achieve the so-called ‘herd immunity’ by early Q3. The US is also leading in fiscal policy after its latest USD 1.9trn stimulus. Biden’s plans of spending at least USD 2trn on infrastructure over a decade could potentially lift long-term growth, but will involve higher taxes. Nevertheless, we expect monetary policy to stay extremely loose across major economies, except for China which has started to moderate credit growth. Central banks are likely to look through a near-term jump in inflation pressures due to base effects from last year’s price drop, given high unemployment rates worldwide.

Key chart

The US’ faster pace of vaccinations and more aggressive fiscal policy explain the divergence in its growth and inflation expectations vs other major economies this year.

Fig. 11 The US’ economic outlook has diverged from other major economies
Economic activity indices (PMIs) and consensus 2021 consumer inflation estimates

Source: Bloomberg, Standard Chartered

Macro outlook positive for risk assets

US
− Bigger-than-expected fiscal stimulus
− Faster vaccinations; herd immunity by H2
− Excess savings to boost consumption
− Fed to remain supportive for a long time

Europe area
− Pace of vaccinations to rise from Q2
− Strong manufacturing sector recovery
− European Recovery Fund & easier ECB

China
− Pandemic control to help services revival
− Government policy to boost consumption
− Robust manufacturing and exports

Japan
− Strong export growth, pent-up demand
− Prospect of additional fiscal stimulus
− New COVID-19 cases declining

UK
− Extension of pandemic support schemes
− Vaccines to lead to herd immunity by H2
− Infrastructure spending boost

Macro outlook negative for risk assets

− Tax hikes, negative fiscal impact from ‘22
− COVID-19 is endemic; mutations a risk
− Goods demand to slow; cautionary saving
− Weak credit demand; slow global rebound

Confidence

EU  ▼ ▽ △
China ▼ ▽ △
US  ▼ ▽ △
Japan ▼ ▽ △
UK  ▼ ▽ △

Source: Standard Chartered Global Investment Committee

Legend: ▲ Tighter policy | ▼ Easier policy | ◆ Neutral policy
FX – at a glance

Manpreet Gill
Head, FICC Investment Strategy

Dj Cheong, CFA
Investment Strategist

Key themes

We are mildly bullish towards the USD on a 1-3 month horizon. US fiscal stimulus and relative vaccine progress and growth rates should be USD supportive. Interest rate differentials may favour the USD in the near term, but we do not expect this to last. Our 12-month view remains USD bearish as we expect faster global vaccinations to support global growth outperformance. Global investors may also turn cautious towards US investments in the face of surging US budget and trade deficits. An extended global growth dislocation is a key risk to our 12-month view.

Key chart

The Fed’s global USD liquidity provision may cap USD strength when risk-off sentiment rises

The Fed’s Average Inflation Targeting (AIT) policy can limit USD strength during US economic outperformance if real yields rise more slowly

Source: Standard Chartered

<table>
<thead>
<tr>
<th>12-month outlook</th>
<th>The bullish case</th>
<th>The bearish case</th>
<th>12-month outlook</th>
<th>The bullish case</th>
<th>The bearish case</th>
</tr>
</thead>
</table>
| USD (DXY) ▼      | + Rising nominal & real yields  
+ Greater fiscal stimulus boost | – Fed’s AIT policy & liquidity provision  
+ US twin deficits & global growth | + Well-established growth recovery  
+ Global trade rise supports exports | – Potential slower credit impulse  
– Geopolitical tensions |
| EUR/USD ▲        | + Better vaccination & growth recovery  
+ A stronger shift to fiscal stimulus | – Pandemic issues continue to weigh  
+ Failure to deploy fiscal stimulus | + Global growth & trade rebound  
+ Non-monetisation of fiscal stimulus | – Slow global travel & leisure rebound  
– Slower China growth impulse |
| GBP/USD ▲        | + Vaccination-led growth recovery  
+ Reduced risk of negative rates | – Brexit deal impact on services  
– Threat of move to fiscal austerity | + Global growth & trade recovery  
+ Strong commodity price correlation | – Slower China trade  
– Surge in impact of pandemic |
| AUD/USD ▲        | + Global growth & commodity prices  
+ Domestic house price rebound | – RBA may lean against AUD rise  
– China impulse may weaken | + Inflows for bonds & equity yields  
+ Recovery budget supports economy | – High oil price may hit current account  
– RBI may lean against INR rise |
| USD/JPY ▼        | + Rising nominal yield differentials  
+ Weak safe-haven demand for JPY | – Narrowing real yield differentials  
– Currency hedging offshore assets | + Strong exports & Terms of Trade  
+ Expected inflows for investments | – Slower China trade  
– Geopolitical tensions |

Source: Standard Chartered Global Investment Committee

Legend: ▲ Bullish | ▼ Bearish | ◆ Range-bound
Drivers suggest currency selection is key
Within our overall USD assessment, we expect currency moves to diverge over 3 and 12 months.

EUR/USD could slide towards 1.16 in the near term. Rising real interest rate differentials are likely to benefit the USD, especially versus the low-yielding EUR and JPY. USD/JPY may pivot around 110, and our view is for this range-trading to continue over a 12-month horizon. Ample USD liquidity and the Fed capping yields should limit EUR weakness. As vaccination rates catch up, Euro area growth should improve. Capital inflows could support a EUR/USD rise towards 1.24 over 12 months.

Fig. 13 Yield surge has supported the USD recently, though this is likely to be short-lived
USD index (DXY) vs index-weighted real (net of inflation) 10y yield differentials vs. major economies*

GBP/USD may benefit from successful vaccination effects in the near term and push above 1.40. The BoE may remain supportive, but negative rates look unlikely now. Hence, relative rates favour the GBP over the EUR. Despite possible speed bumps from post-Brexit negotiations on financial services, the UK economy should be positioned to leverage improved global growth and trade, and we expect GBP/USD to challenge the 1.50 level in the coming year.

Fig. 14 GBP should remain attractive as its aggressive vaccination strategy promotes activity
Vaccination rates across multiple economies

AUD/USD could consolidate around 0.76-0.77 in the near term as the RBA keeps policy easy and leans against further AUD appreciation. We expect Australia’s Terms of Trade to be supported by strong price trends for iron ore and liquefied natural gas. Commodity prices should also help other currencies such as the CAD, which can also benefit from US stimulus-driven demand. There may be some geopolitical concerns that weigh on the AUD as US-China tensions are likely to continue, but we expect global and domestic growth to push AUD/USD through 0.81 in 12 months.

Fig. 15 Strong commodity prices should be a pillar of AUD/USD support
AUD/USD, Australia Terms of Trade*

USD/CNY is likely to consolidate in the near term before pressing lower towards 6.45 in the medium term. Capital inflows taking advantage of attractive nominal and real yields have supported the CNY, and this trend should continue. China’s monetary and fiscal policy is likely to be less stimulative as global growth accelerates, but this should be offset by strong exports and domestic demand. US-China tensions remain a risk to the outlook. A stable to stronger CNY will likely anchor other Asian currencies such as SGD, KRW and MYR, though we expect USD/INR to pivot around 72 over 12 months as higher oil prices weigh on the current account and the RBI leans against INR strength.
Gold, crude oil – at a glance

DJ Cheong, CFA
Investment Strategist

Key themes

How will gold fare for the rest of 2021? Our bullish bias over the next 12 months is led by expectations of cyclical USD weakness amid a backdrop of contained real (net of inflation) yields. Although real yields have risen recently, markets have historically been premature in predicting the start of tightening cycles. While inflation will likely recover, nominal bond yields are expected to be largely anchored by the Fed’s AIT framework, in turn capping real yields. Further USD weakness is a tailwind, especially as the physical market gradually recovers.

Are we entering a commodity super-cycle? We remain constructive on oil prices in the medium term as restrained supply, along with rising demand, should bring global oil inventories down. While the outlook for commodities is bright, another super-cycle looks unlikely. Varying supply-demand drivers in oil and base metals could see separate cyclical bull markets – each driven by different fundamentals. The OPEC+ policy is a key driver of our positive outlook. Separately, US shale oil production will unlikely rebound significantly given the emphasis on capital discipline. Vaccines have been the game changer for oil demand as they pave the way for the transportation industry to recover.

Key chart

Gold has historically had an inconsistent relationship with inflation. Real bond yields remain the key driver

Vaccines will likely reduce infections and increase mobility, lifting global oil demand

Fig. 17 Real bond yields (not inflation) drive gold; vaccines can break the link between infections and mobility

Source: Bloomberg, Google Mobility Data, Standard Chartered

Gold (USD/oz) vs 10y US net-of-inflation bond yields* (%), RHS, inverted; Google Mobility data (retail and recreation**)

Source: Bloomberg, Google Mobility Data, Standard Chartered

Legend: ▲ Bullish | ▼ Bearish | ◆ Range-bound

The bullish case
- Fed to likely cap real bond yields
- USD weakness via denomination effects
- Physical market improving; central bank demand to rebound
- Low-cost portfolio hedge

The bearish case
- Markets may be complacent about a dovish Fed
- ‘Risk on’ rotation could reduce its allure as a safe-haven
- An uptick in inflation expectations or USD weakness may not offset the rise in nominal yields

The bullish case
- Supply-led rebalancing by OPEC+; cautious approach in tapering cuts
- Vaccines to break link between infection, mobility
- Further inventory drawdowns
- Supply outages

The bearish case
- Falling OPEC+ compliance
- Return of Iranian oil
- US shale oil production surprises to the upside
- Uneven global oil demand recovery

Source: Standard Chartered Global Investment Committee
# 2021 key events

## APRIL 2021
- **22** ECB policy decision
- **27** BoJ policy decision
- **28** FOMC policy decision

## MAY 2021
- **06** BoE policy decision
- **06** Scottish parliament elections

## JUNE 2021
- **06** ECB policy decision
- **10** BoE policy decision
- **16** FOMC policy decision
- **18** BoJ policy decision
- **18** Iran presidential elections
- **24** BoE policy decision

## JULY 2021
- **01** 100th anniversary of the Chinese Communist Party
- **16** BoJ policy decision
- **22** ECB policy decision
- **28** FOMC policy decision

## AUGUST 2021
- **05** BoE policy decision
- **17** World Economic Forum annual meeting in Singapore

## SEPTEMBER 2021
- **09** ECB policy decision
- **22** FOMC policy decision
- **22** BoJ policy decision
- **23** BoE policy decision
- **26** Federal elections in Germany

## OCTOBER 2021
- **22** Deadline for Japan General Elections
- **28** BoJ policy decision
- **28** ECB policy decision

## NOVEMBER 2021
- **03** FOMC policy decision
- **04** BoE policy decision

## DECEMBER 2021
- **15** FOMC policy decision
- **16** BoE policy decision
- **16** ECB policy decision
- **17** BoJ policy decision

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**Legend:**
- **■** Central bank policy
- **●** Geopolitics
- **Δ** EU politics

**Dates:**
- **X** Date not confirmed
- **ECB** – European Central Bank
- **FOMC** – Federal Open Market Committee (US)
- **BoJ** – Bank of Japan
- **BoE** – Bank of England
- **RBA** – Reserve Bank of Australia
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