

Market Watch

11 August 2011

Charting a path for the coming weeks

Intra-day price action

Hang Seng Index



Eurostoxx50 index



S&P500 index



Source: ThomsonReuters, Standard Chartered

SUMMARY

Market plunged again overnight on the back of escalating concerns in Europe

The focus has shifted to the core (in particular France) and the banking sector, despite rating agencies reaffirming France's AAA sovereign credit rating

The S&P500 erased Tuesday's gains with 1115-1120 providing strong support

NEGATIVE NEWS COULD STILL COME FROM...

There are still concerns surrounding both the economic profile and the generally reactive nature of policy action

Europe remains behind the curve. Implementation and expansion of the policies announced following the EU summit are key; markets are prone to rumours

In the US, while the Fed stressed it will do whatever is required to get the economy back on track, we are concerned over QE3's timing and long term efficacy

We note that US stock market technicals have become more constructive and suggest a near-term bounce

We believe our current asset allocation is a good balance to navigate current conditions

We will cover our views in more detail in the Weekly Market View to be released tomorrow

Three unanswered questions

The MSCI World index is now down almost 19% from the May 2nd high. In Europe yesterday, we saw a significant deterioration in sentiment as markets ignored credit rating agencies' reaffirmation of France's AAA sovereign credit rating as worries over banking sector stability escalated.

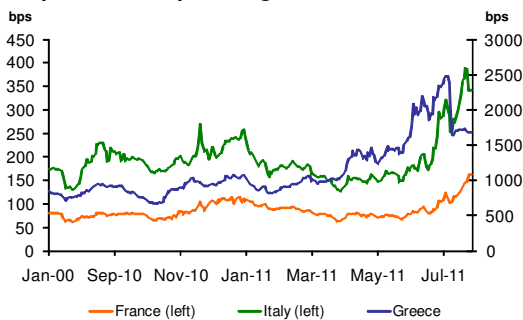
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US growth forecasts revised lower, but still pointing to an H2 recovery

	Q3-11	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12
GDP (% q/q, SAAR)	2.4	3.3	1.8	1.8	2.0	2.4
Core CPI (% y/y, qtr. avg.)	1.7	1.9	1.8	1.6	1.5	1.5

Source: Standard Chartered

European crisis spreading to the core



Source: Bloomberg, Standard Chartered

Looking forward, three key factors are expected to dominate market sentiment: the global economic outlook, further developments in Europe and the possibility of the Fed easing policy further.

Where could we be surprised?

- Overall, we see the **growth outlook as being a source of a potential positive surprise in the coming months**, although most of the indicators outside of Japan are pointing down at the moment. The timing of any rebound is thus uncertain.
- **The European crisis looks likely to be a source of negative surprises in the short-term.** European policymakers are still behind the curve. The spreading of concerns to the banking sector is worrying, although it may help focus policymakers' minds.

It is critical that governments adopt the measures announced at the EU summit quickly to increase the EFSF's flexibility. Meanwhile, the size of the facility needs to be increased dramatically.

Other positives

- **Policy:** The FOMC statement made it very clear that the Fed is concerned about growth, not inflation – the Bank of England has made a similar statement yesterday despite inflation being above target. We now forecast US QE3 in Q1 2012. **While this may ultimately prove a positive for equity markets, we believe there may be disappointment from 1) the timing of such a move and ultimately 2) its effectiveness.**
- **Valuation:** Equities still look cheap on a historical and relative (to bonds) basis. Historically, of course, such disparities can last for a long time, but do normalise over time which reinforces our view that equities should still be favoured to bonds.
- **Technicals:** Technically, the US stock market looks set to rally. The S&P 500 is extremely oversold – both momentum-wise and sentiment-wise. A composite put-call ratio of 0.85 shows there is now enough fear in the market for the markets to experience a relief rally on any positive news. This said, any corrective rally that fails to close above 1260 with good volume would likely be followed by another leg of selling.

This fits in with a couple of themes that the GIC has been stressing for several months now, namely:

- 1) The environment is likely to remain volatile for the foreseeable future
- 2) An increased allocation to alternatives and gold are great way to hedge against excessive portfolio volatility while also generating positive returns.

Disclosure Appendix

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