PRIORITY Banking

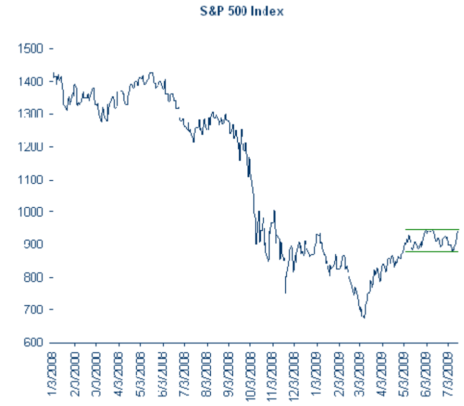
Standard Chartered

Weekly Market View

20 July 2009

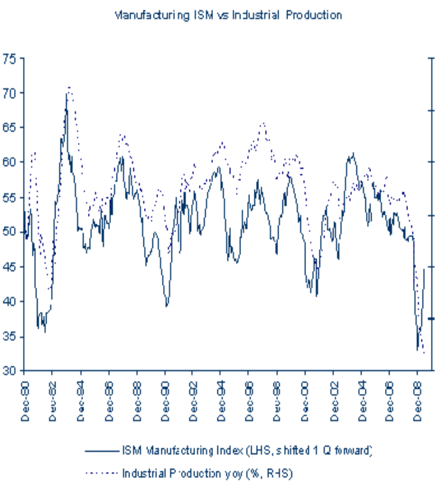
Contents

CHART 1: A SIDEWAYS CORRECTION TO DATE



Source: Bloomberg

CHART 2: INDUSTRIAL PRODUCTION STILL CONTRACTING



Source: Bloomberg

Economic & Market Trends

Liquidity versus data. The economic data continues to be mixed. They continue to speak of an unfolding cyclical rebound – one driven by the inventory cycle. But beyond the expected inventory restocking, there is still little evidence that this is the start of a strong, sustainable economic revival. On the earnings front, the equities markets cheered better than expected results at Goldman Sachs and J.P. Morgan. There is a huge ongoing struggle between liquidity and a murky longer-term outlook for both the economy and earnings. And over the past week, liquidity was dominant, driving prices for risky assets back up. Many stock market indices – the S&P500 and the MSCI Emerging Markets being two notable examples – rebounded around their May lows. (Chart 1) And in the case of oil, the rebound came ahead of its May low.

Important to differentiate between the cyclical and the secular. The economic data continue to pose worrying questions about the sustainability of the economic, earnings and market rebounds. But the market, flush with sidelined liquidity, appears more focused, at least for now, on the cyclical. And the balance of data on that front suggests a robust cyclical recovery is in the making.

US housing data suggest a bottoming process has started. June housing starts came out at 582,000 against 530,000 expected. The May figure was revised up from 532,000 to 562,000. Building permits also came out strong at 563,000 against expectations for 524,000. The good news is that it appears the housing market may be bottoming. The bad news is that both starts and permits are still in deep year-on-year (y/y) contractions. And with a substantial inventory overhang and rising mortgage delinquencies, the market is likely to at best grind along at the bottom for some months to come rather than to show sharp, sustained improvements.

Mixed signals from other data. For US retail sales, the June figures showed continued contraction at 9% y/y. At the margins, it was better than the 9.8% y/y decline in May. On a month-on-month (m/m) basis, June headline retail sales surprised on the upside at +0.6% m/m against +0.4% m/m expected. But much of the rise was supported by higher fuel prices, and core sales (excluding autos) fell short of expectations.

…continued on next page

CHART 3: CHINA'S STRONG GROWTH ON FALLING PRICES

Source: Bloomberg

Despite the rising ISM Manufacturing Index, m/m figures for industrial production have yet to go into positive territory although losses narrowed from -1.2% m/m in May to -0.4%m/m in June (-0.6% consensus). (Chart 1)

More robust signals from Asia ex-Japan. China last week reported Q2-09 GDP growth at 7.9%, in line with its 8% target. Meanwhile, Singapore posted a stunning 20.4% q/q (seasonally adjusted annualised rate) growth figure for Q2-09. But it has to be remembered that this was a rebound off low levels after four consecutive quarters of contraction. And the y/y figure was still -3.7%. Even China's apparently impressive GDP growth rate was accompanied by disturbing deflation, suggesting that perhaps the growth had been achieved by slashing prices. (Chart 3)

For now, the markets remain resilient. The focus remains on better than expected data and the return from recession around the world. But the longer-term fundamentals – beyond the cyclical rebound – suggest structurally lower economic and earnings growth than what we have seen over the last cycle. And the markets would have to account for that at some stage. But for now, the markets for stocks, commodities and commodity currencies are resisting a deeper correction. Indeed, they could trade even higher before a more sizable correction.

Economic & Market Calendar

Prepared on 20 July 2009

This Week: July 20th - July 27th

			Expected	Previous
Mon	US	Leading Indicators (Jun)	0.5%	1.2%
	Canada	Wholesale Sales MoM (May)	-2.1%	-0.6%
		Int'l Securities Transactions (May)	7.0B	9.0B
	UK	Rightmove House Prices (MoM) (Jul)	--	-0.4%
	Germany	Producer Prices (YoY) (Jun P)	-4.1%	-3.6%
	Australia	Producer Price Indx (YoY) (Q2)	2.9%	4.0%
	New Zealand	Visitor Arrivals (Jun)	--	0.2%
Tues	Canada	Bank of Canada Rate	0.25%	0.25%
	UK	Public Sctr Net Borrowing(Jun)	15.5B	19.9B
	Japan	Tokyo Dept. Store Sales (YoY) (Jun)	--	-14.0%
		Nationwide Dept. Sales (YoY) (Jun)	--	-12.3%
		BoJ Monetary Policy Meeting Minutes for May		
	Australia	Reserve Bank's Board July Minutes		
		New Motor Vehicle Sales MoM (Jun)	--	-12.6%
	New Zealand	Credit Card Spending (YoY) (Jun)	--	-2.4%
Wed	US	House Price Index MoM (May)	-0.2%	-0.1%
	Canada	Retail Sales MoM (May)	0.6%	-0.8%
		Retail Sales Less Autos MoM (May)	0.5%	-0.5%
	UK	Bank of England Minutes		
	Euro zone	Industrial New Orders SA (May)	1.9%	-1.0%
	Japan	Supermarket Sales (YoY) (Jun)	--	-2.0%
	Australia	RBA Weighted Median (YoY) (Q2)	4.1%	4.4%
		RBA Trimmed Mean (YoY) (Q2)	3.5%	3.9%
		Consumer Prices (YoY) (Q2)	1.5%	2.5%
		DEWR Skilled Vacancies MoM (Jul)	--	-3.7%
Thurs	US	Initial Jobless Claims (Jul-18)	560K	522K
		Continuing Claims (Jul-11)	6390K	6273K
		Existing Home Sales (Jun)	4.83M	4.77M
	Canada	Bank of Canada Monetary Policy Report		
	UK	Retail Sales (MoM) (Jun)	0.3%	-0.6%
	Eur zone	Current Account SA (May)	--	-5.9B
	Japan	Adjusted Merchnds Trade Bal. (Jun)	¥513.9B	¥222.4B
		Merchnds Trade Exports YoY (Jun)	-35%	-40.9%
		Merchnds Trade Imports YoY (Jun)	-42%	-42.4%
Fri	US	U. of Michigan Confidnc (Jul F)	65	64.6
	Japan	All Industry Activity Indx (MoM)	0.9%	2.6%
	UK	GDP (QoQ) (Q2 A)	-0.3%	-2.4%
	Euro zone	PMI Manufacturing (Jul A)	43.5	42.6
		PMI Services (Jul)	45.2	44.7
		PMI Composite (Jul)	45.3	44.6
	Germany	IFO - Business Climate (Jul)	86.5	85.9
		IFO - Current Assessment (Jul)	82.8	82.4
		IFO – Expectations (Jul)	90.1	89.5
		PMI Services (Jul A)	42	40.9
		PMI Manufacturing (Jul A)	46	45.2

Last Week: July 13th - July 20th

			Actual	Previous
Mon	US	Monthly Budget Statement (Jun)	-$94B	$34B
	Canada	BoC Senior Loan Officer Survey (Q2)	33.4	60.3
	Japan	Industrial Production (MoM) (May F)	5.7%	5.9%
		Capacity Utilization (MoM) (May F)	8.0%	10.2%
		Consumer Confidence (Jun)	38.1	36.3
		Consumr Confid Hsehlds(Jun)	37.6	35.7
Tues	US	PPI (YoY) (Jun)	-4.6%	-5.0%
		Core PPI (YoY) (Jun)	3.3%	3.0%
		Advance Retail Sales (Jun)	0.6%	0.5%
		Retail Sales Less Autos (Jun)	0.3%	0.4%
		Business Inventories (May)	-1.0%	-1.3%
	Germany	ZEW (Econ. Sentiment) (Jul)	39.5	44.8
		Zew (Current Situation) (Jul)	-89.3	-89.7
	Euro zone	ZEW (Econ. Sentiment) Jun)	39.5	42.7
		Industl Productn (MoM) (May)	0.5%	-1.4%
	UK	CPI (YoY) (Jun)	1.8%	2.2%
		Core CPI (YoY) (Jun)	1.6%	1.6%
		RICS House Price Bal. (Jun)	-18.1%	-43.8%
	Australia	NAB Business Condition (Jun)	-2	-14
		NAB Business Confidnc (Jun)	4	-2
Wed	US	Industrial Production (Jun)	-0.4%	-1.2%
		Capacity Utilization (Jun)	68.0%	68.2%
		CPI (Jun)	-1.4%	-1.3%
		Core CPI (Jun)	1.7%	1.8%
	Canada	Manufact Shipmnts MoM (May)	-6.0%	-0.2%
	Japan	BOJ Target Rate	0.1%	0.1%
	Euro zone	CPI (YoY) (Jun)	-0.1%	0.0%
		Core CPI (YoY) (Jun)	1.4%	1.5%
	UK	Jobless Claims Change (Jun)	23.8K	30.8K
		ILO Unemployment Rate (3mths) (May)	7.6%	7.2%
	Australia	Westpac Lead. Indx (May)	-0.2%	0.5%
	New Zealand	Business NZ PMI (Jun)	46.2	43.1
		Consumer Prices (YoY) (Q2)	1.9%	3.0%
Thurs	US	Initial Jobless Claims (Jul-11)	522K	569K
		Continuing Claims (Jul-04)	6273K	6915K
		Philadelphia Fed. (Jul)	-75	-2.2
	Canada	NAHB Housing Index (Jul)	17	15
	Japan	Tertiary Industry Index (MoM) (May)	-0.1%	2.2%
Fri	US	Housing Starts (Jun)	582K	562K
		Building Permits (Jun)	563K	518K
	Canada	CPI (YoY) (Jun)	-0.3%	0.1%
		Core CPI (YoY) (Jun)	1.9%	2.0%
		Leading Indicators MoM (Jun)	-0.1%	-0.1%
	Japan	Coincident Index CI (May F)	87.1	86.9
		Leading Index CI (May F)	76.9	77
	Euro zone	Trade Balance (May)	1.9B	2.7B

Previous data are for the preceding period unless otherwise indicated
Data are % change on previous period unless otherwise indicated
p – preliminary data, *f* – final data, *saar* – seasonally adjusted annualised rate, y/y – year on year
GMT – Greenwich Mean Time / Universal Standard Time

Date of next meeting of…	
Fed Board	12 Aug/23 Sep
BoE MPC	06 Aug/10 Sep
ECB Council	06 Aug/03 Sep

12 Month Outlook

FX Outlook	Spot (20/07)	End Q3 2009f	End Q4 2009f	End Q2 2010f
USD 3-mth rates (%)	0.5	0.5	0.5	0.5
EUR 3-mth rates (%)	0.9	1.0	0.9	0.9
GBP 3-mth rates (%)	1.0	1.0	1.0	1.0
USD 10-yr bond yield (%)	3.7	3.4	3.5	3.25
EUR/USD	1.42	1.50	1.55	1.46
USD/JPY	94.7	92	88	101
EUR/JPY	134	138	136	147
GBP/USD	1.64	1.66	1.70	1.66
EUR/GBP	0.86	0.90	0.91	0.88
USD/CHF	1.07	1.03	1.00	1.08
AUD/USD	0.809	0.85	0.89	0.82
USD/INR	48.4	46.5	45.5	44.0
Oil Price (ICE Brent)	65.9	67*	74*	79*
Gold (US$/oz)	945	975*	1.050*	1,050*

* Period Averages for each quarter, ** annual average for 2010. Forecasts from SCB Global Research.

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