

GLOBAL MARKET OUTLOOK

August 2013

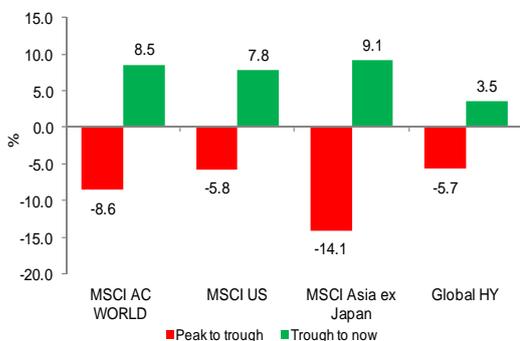
This reflects the views of the Wealth Management Group

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Equities quickly recoup losses

Peak to trough asset class TR performance for the period 1 May 2013 to 25 July 2013



Source: MSCI, Barclays capital, Bloomberg, Standard Chartered

Asset allocation summary

August 2013	12-mth
Cash	UW
Fixed Income	UW
Equity	OW
Commodities	UW
Alternatives	OW

Note: OW = Overweight, N = Neutral, UW = Underweight.
Source: Standard Chartered

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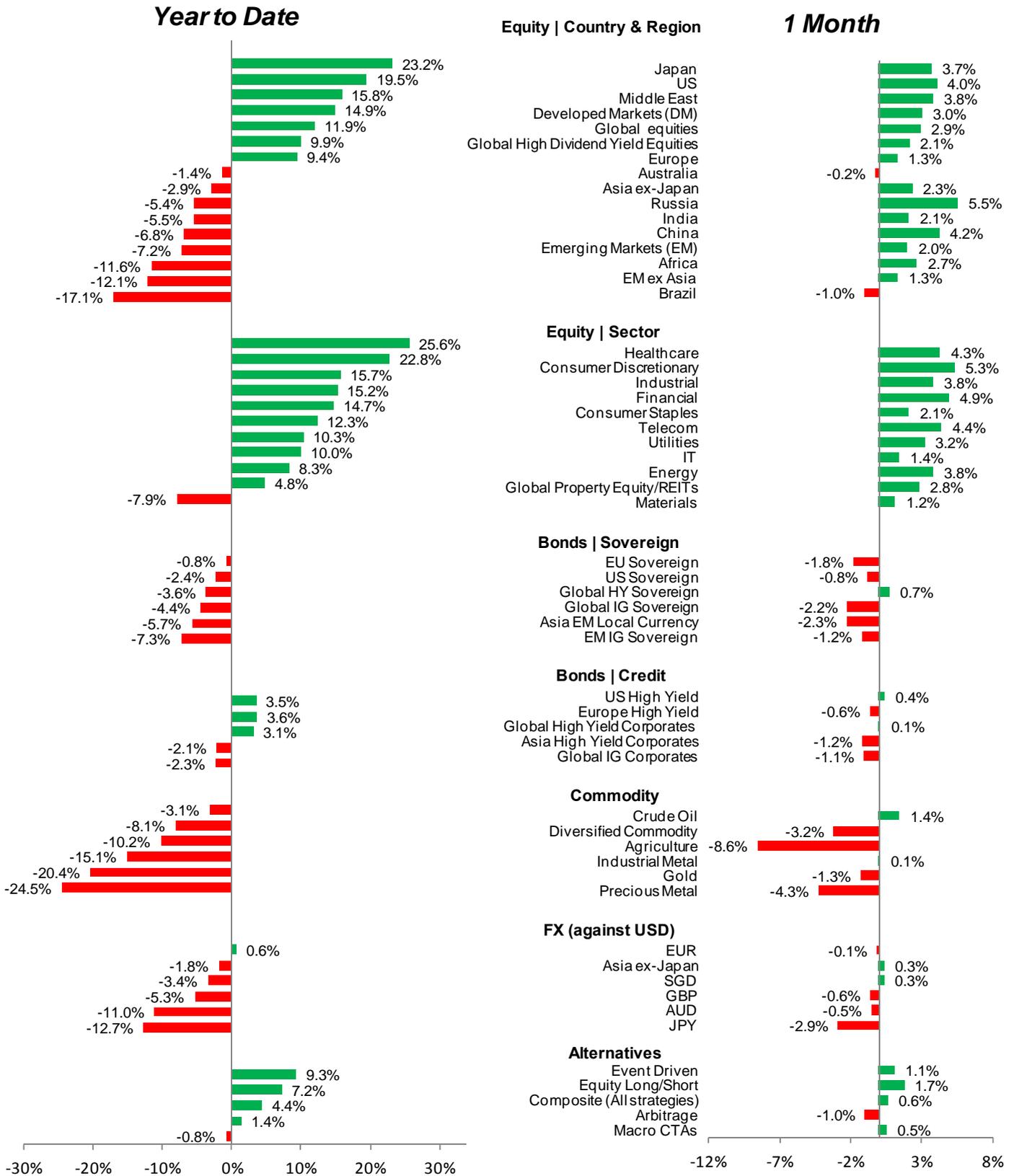
DM vs. EM

- The past month saw continued speculation on Fed tapering but Bernanke mitigated fears, presenting a more balanced picture. Our view that the sell-off in equity and fixed income markets was overdone has been validated as equities rebounded strongly
- Gap between Emerging market (EM) and Developed market (DM) economic growth rates is expected to narrow further as DM growth accelerates into 2014 while EM growth remains sluggish. China's recent mini-stimulus is unlikely to support growth significantly
- Fed tapering is on the way, but we expect it only much later in the year, as inflation expectations remain benign and macro data mixed. The Fed will also likely observe the impact of the recent rise in long term rates on the US housing market before acting
- We expect equities' outperformance to extend into 2014. Our preference for DM equity over EM remains and we have raised European equities to Overweight this month
- We still struggle to find value in global bond markets, with US HY preferred. Widening spreads in US HY opened an opportunity for underweight investors to gain exposure at more attractive yields, though returns are still expected to be moderate

Investment strategy implications

- **Cash: Retain 12m Underweight**
Expected to lose purchasing power
- **Bonds: Retain 12m Underweight**
US Treasury yields likely to move higher long-term
Favour corporate credit. Recent weakness still offers opportunity for underweight investors to add to US HY
Favour CNH bonds within Asia local currency markets
- **Equities: Retain 12m Overweight**
Expected to continue outperforming
Developed markets preferred over Emerging markets
Europe upgraded to Overweight
- **Commodities: Retain 12m Underweight**
USD appreciation, weak EM demand to weigh on commodities
We remain Underweight and bearish gold
- **Alternatives: Retain 12m Overweight**
Equity long-short favoured given risk-reward characteristics
Macro-CTA favoured insurance policy against rising yields
- **Currencies: US Fed outlook remains key for currencies**
We see further gradual downside to Asia ex-Japan currencies
Renminbi (RMB) expected to remain stable
We remain bearish on the AUD, preferring the NZD

Market Performance Summary (Year to date & 1 Month)*

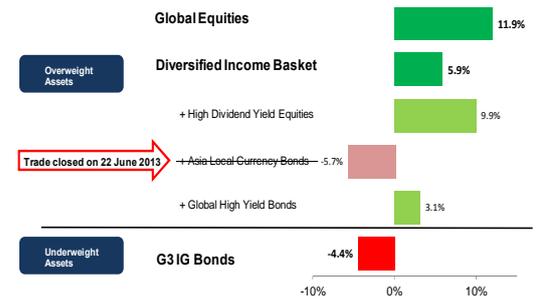


* All performance shown in USD terms unless otherwise stated.

*YTD performance data from 31 Dec 2012 – 25 July 2013 and 1 Month performance from 19 June – 25 July 2013

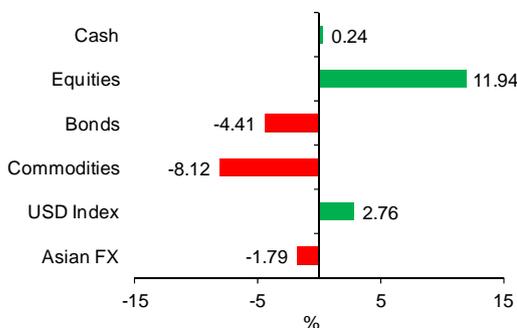
Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

B.R.I.D.G.E. themes performing well so far
 B.R.I.D.G.E. performance YTD (USD)*



* For the period 31 Dec 2012 to 25 July 2013
 Source: Bloomberg, Standard Chartered
 * Income basket is equally weighted performance of global high dividend yielding equities (MSCI ACWI High Dividend Yield USD), Global HY bonds (BarCap Global HY TR USD) and Asian local currency bonds (BarCap Asia Local Net TR USD, until 20 June)

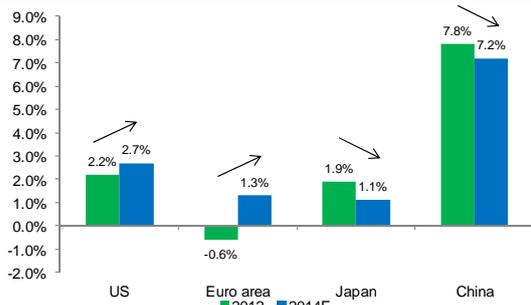
Asset Performance (USD)*



* For the period 20 May to 25 July 2013
 Source: Bloomberg, Standard Chartered
 Indices are JP Morgan US 3M Cash Index, MSCI AC World TR Net, CITI World BIG, DJ-UBS Commodities, DXY and ADXY

Outside of EM, Year of Transition to stronger growth intact

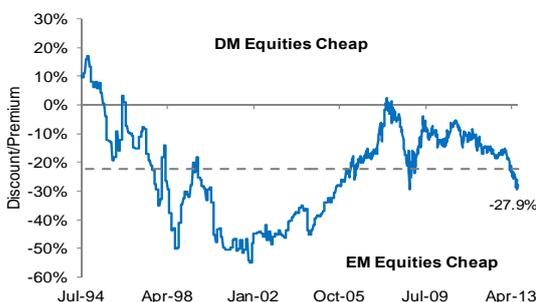
SCB 2014 GDP growth forecasts versus 2012 outcome



Source: Standard Chartered

EM underperformance expected to continue near term

Valuation discount of Emerging vs. Developed markets



Source: Datastream, Standard Chartered
 *MSCI World/MSCI Emerging markets

Investment Strategy: DM vs. EM

Our view that 2013 is a Year of Transition towards stronger growth is coming under scrutiny as indicators remain relatively weak. However, we are still confident that growth is set to accelerate in the Developed world from currently sluggish levels. This reinforces our preference for global equities and for DM over EM. The search for yield is likely to continue with Fed tapering already priced in for Sept/Oct; this is likely to be pushed out, in our opinion.

EM relative underperformance expected to continue

EM's relative outperformance in the 2000s has reversed dramatically since late 2010. Over the past 18 months, the focus has been on the fragility of EM's strong economic performance. In a repeat of 2012, this year is seeing growth disappoint with current full year GDP forecasts around 7.6%, down from 8.1% in January. Given the importance of China in EM trade flows, this has clearly undermined sentiment in the rest of the EM world.

Asian currency weakness starting to place central banks in a quandary.

Concerns over growth are leading to investment outflows, putting downward pressure on currencies and upside pressure on local inflation. This naturally inhibits the ability of central banks to loosen policy. Central banks generally started the year with a clear easing bias, but two – India and Indonesia – have already tightened policy. Notably, these two countries have current account deficits, making them more susceptible to capital outflows. However, the risk is EM outflows become large enough to overpower current account surpluses in other countries, which have fallen in recent years.

Strong preference for DM equities over EM equities, valuations notwithstanding.

Against this backdrop, we have a strong preference for DM equities over EM equities as risks in the developed world appear to be receding while growth is expected to strengthen. This preference is despite EM growth remaining higher than in the Developed world and EM equities increasingly cheap from both a price-earnings and price-book perspective. The downside risk to earnings, however, remains too high to warrant a near-term reversal of this under-performance, in our opinion. The preference for DM over EM also extends to the credit space where we have a strong preference for US high yield (HY) over EM/Asia HY.

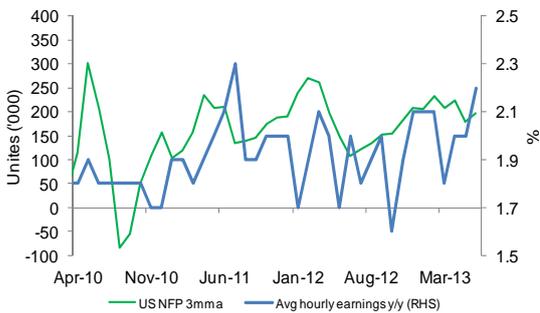
We continue to see global equities as the favoured asset class over the course of the next 12 months. As expected, markets quickly recouped their losses on the back of easing fears of the Fed tapering and look set to make new highs in the coming months.

Economic and policy outlook

Data has remained mixed in recent months. In Developed markets, there are good reasons for optimism. The US economy has continued to grow despite tightening fiscal conditions. As these pressures fade, growth is likely to accelerate. Policies in Japan are supporting growth expectations with the reform agenda a key focus. In Europe, there are signs of light, not just for the core countries, but also for the periphery. The main area of concern is China, where data continues to disappoint. We doubt a sizeable policy stimulus is imminent and therefore downward growth revisions may continue.

US: Average job creation has strengthened in 2013

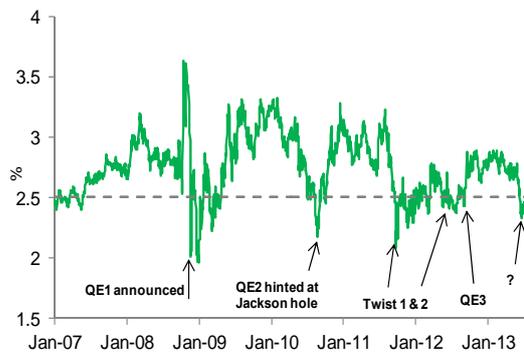
US Nonfarm payrolls (3mma) and US average hourly earnings, % y/y



Source: Bloomberg, Standard Chartered

US: Benign inflation expectations should buy the Fed time

Fed 5y forward breakeven inflation rate



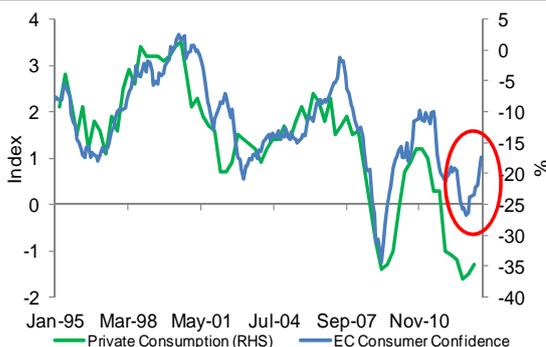
Source: GaveKal, Bloomberg, Standard Chartered

“Fed Tapering”:

Market terminology for the reduction of US Fed financial asset purchases from the current level of USD 85bn a month

Europe: Consumer confidence bounces, suggesting a recovery ahead

EC Consumer Confidence & Consumer Consumption



Source: Bloomberg, Standard Chartered

US: Resilience to fiscal tightening impressive

The positives:

- **Growth likely to accelerate in H2.** After downward revisions to Q1 GDP, consensus Q2 growth forecasts have fallen markedly in recent times on the back of weak economic data. The consensus Q2 forecast is now 1.6% and the full year forecast has fallen to 1.8% from mid-May. However, the good news is that growth is still expected to accelerate to around 2.5% in H2.
- **Labour market strengthens further.** Net job creation averaged over 200k a month in H1 while wages have accelerated modestly. Some are concerned that most jobs being created are part-time in nature, but overall the picture is for a recovering labour market. This is supported by the rising confidence of small businesses which is close to the highest level seen since the global financial crisis, aided by loosening bank lending standards to small businesses.
- **Housing market recovery continues.** While there are concerns that rising funding costs will undermine the recovery, the reality is that yields are still very low in a historical context. We believe, therefore, that this is unlikely to cause weakness in the housing market. While it may lead to a short term reduction in mortgage refinancing, the fact that rates now appear to have bottomed, and the fact that bank lending conditions continue to loosen suggest that refinancing may pick up sharply on any short term decline in long term yields.
- **Fiscal tightening to wane.** The final factor likely to support growth in H2 is the impact of higher taxes and reduced government spending are likely to depress growth less over time. Key to sentiment will be the debt ceiling and fiscal talks later this year.

The concerns:

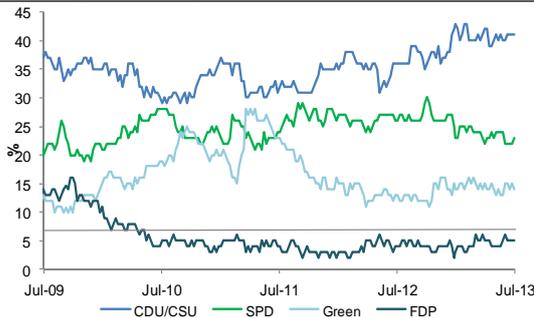
- **Manufacturing still weak.** The manufacturing ISM business confidence and new orders indices remain around the 50 level that separates expansion and contraction. This is clearly a concern and we would like to see this data improve in the coming months.
- **Inflation still subdued.** Inflation remains very low and well below the Fed’s inferred 2% target. While this may be partially due to temporary factors, 5-year inflation expectations remain below the 2% level as well, despite rising recently.

On the basis of the above two concerns we believe the Fed is likely to be patient. Overall, this suggests the Fed has the flexibility to be patient about reducing the pace on monetary stimulus – widely known as tapering. Strong employment data clearly has bolstered expectations the Fed will taper later this year, but we believe this is likely to occur only by the end of the year or early 2014.

Europe: Turning the corner?

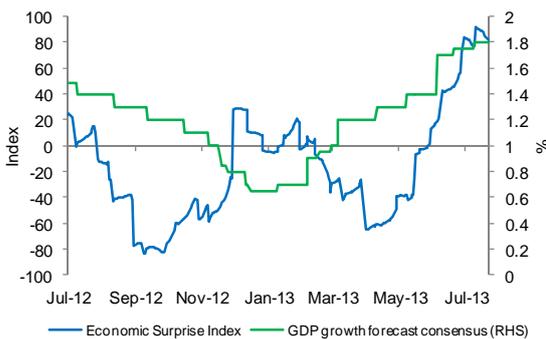
- **Economy still weak, but bottoming.** While the European economy remains weak, there are signs it may be bottoming out. This is not related solely to core countries, as has been the case in previous upticks. Industrial production and business confidence is also starting to pick up in the periphery as well. The labour market remains in a dire situation in many countries, but a gradual recovery

German grand coalition the most likely outcome
German pre-election poll



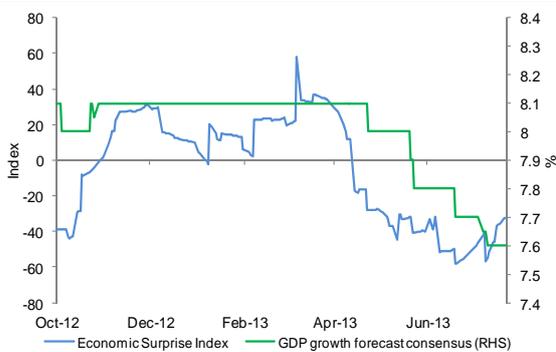
Source: Forsa, Standard Chartered

Japan: Economic surprises hit an all time high
Japan 2013 Consensus GDP forecast and economic surprise index



Source: Bloomberg, Citigroup, Standard Chartered

China: Economic surprises may have troughed
China 2013 Consensus GDP forecast and economic surprise index



Source: Bloomberg, Citigroup, Standard Chartered

may allow for a modest improvement in the coming months. Consumer confidence also hints at a brighter outlook.

- **All eyes on the German election.** Polls suggest a grand coalition between the CDU and SPD is increasingly likely. On paper, this is a positive scenario with the SPD seen as more supportive of policies aimed at helping periphery countries. However, this is widely expected and the risk may be that periphery countries test Germany's perceived increased willingness to offer support in times of pressure. While we expect the single currency to remain intact, one cannot rule out the possibility of periodic rises in financial market tensions.
- **ECB easing bias, but no move likely medium term.** The ECB is talking more dovishly, but we doubt that this will result in any significant policy easing absent a sharp deterioration in economic outlook or increased financial market stress (neither of which we expect).

Asia: All eyes on Japan and China

- **Japan: Economic surprises (over-)extended.** The Japan economic surprises index – which measures the degree to which data is surprising on the upside or downside – recently hit a new all-time high (since its introduction in 2003). While to some extent this may be justified due to the much more proactive Bank of Japan and government policy response, it does suggest that upside surprises are getting harder and harder to achieve.
- **China: Economy remains weak.** Economic data has remained weak and continues to disappoint, although there are signs that growth expectations have already moderated significantly. Consensus growth forecasts for this year and next have both fallen to 7.6% (versus our colleagues' current forecasts of 7.5% and 7.2%, respectively), although we believe economic growth may feel a lot weaker than the reported numbers suggest.

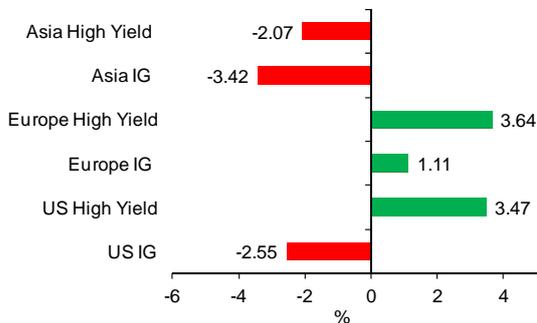
Authorities likely to remain reactive. While the authorities have been keen to stress that growth will not be allowed to fall below 7%, we doubt that they are that worried about the situation yet. Indeed, they may be comfortable with some degree of economic and financial stress as they try to deal with the credit boom. Only if the labour market situation deteriorates markedly do we expect the authorities to act to significantly boost the economy.

- **Asia ex-Japan/China economies under pressure while central banks move away from easing.** We entered 2013 with central banks having a clear easing bias. However, central banks are increasingly finding it difficult to ease policy, despite weaker than expected economic data, against the backdrop of weaker local currencies which increase inflation and, in some cases, fiscal risks. India and Indonesia have already tightened policy and should the USD gradually strengthen as we expect then the tightening bias is likely to spread.

Overall, we continue to view 2013 as a Year of Transition towards stronger economic growth. However, we expect this to be increasingly led by a modest acceleration in DM growth while the EM growth outlook may continue to be de-rated.

Fixed Income – Underweight

Performance of Fixed income YTD* (USD)

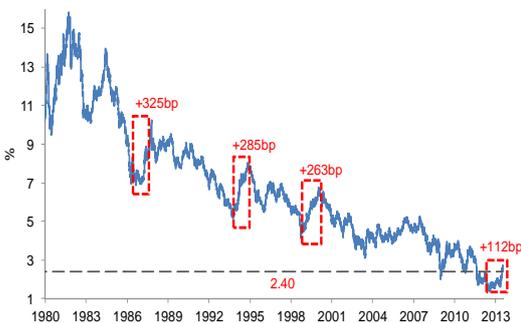


* For the period 31 Dec 2012 to 25 July 2013

Source: Barclays Capital, JPMorgan, Bloomberg, Standard Chartered. Indices are Barclays Capital US Agg, US High Yield, Euro Agg, Pan-Euro High Yield, JPMorgan Asia Credit Index

Recent rise in USD yields only about half of previous gains, suggesting room for further rises ahead

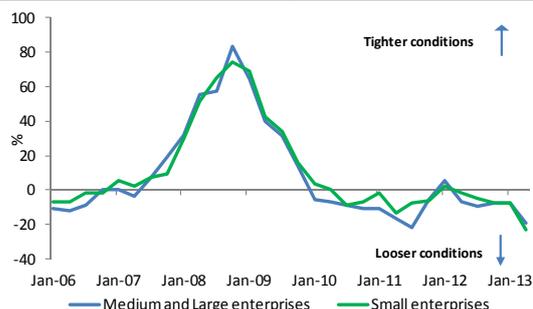
US 10y Treasury yields (%)



Source: Bloomberg, Standard Chartered

US lending conditions remain supportive for HY

Net respondents tightening loan standards (%)
Fed Senior Loan Officer Survey



Source: Bloomberg, Standard Chartered

We remain Underweight G3 (US, Europe, Japan) government bonds. We expect the 10-year US Treasury yield to move higher long-term.

Maintain preference for corporate credit. Recent weakness offers opportunity to add to US HY for underweight investors, but window is closing rapidly.

CNH bonds likely best opportunity within Asia local currency markets, but investors need to be selective in the face of rising credit risks.

- G3 sovereign bonds: US Treasury yields likely to continue trending higher long-term.** We continue to expect the Fed to begin tapering its asset purchase program only in late 2013 or early 2014. This causes us to believe 10-year Treasury yields are likely to continue trending higher long-term – to just below 3% in six months and well above 3% in twelve months. While yields may remain range-bound in the short term, we do not expect 10-year yields to drop below 2.4%. In our view, therefore, investors should use the current lull in Treasury yields to shorten the maturity profile of their USD-denominated bond and corporate credit portfolios, if they have not done so already.

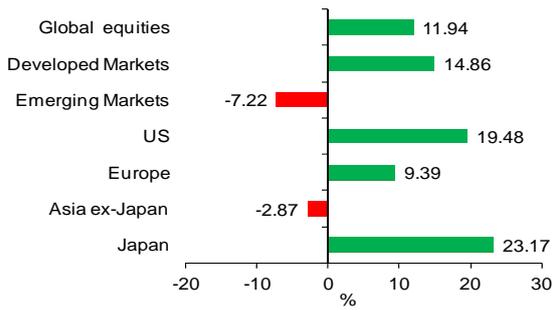
- Corporate credit (USD): Recent weakness offers attractive levels to add to US high yield for underweight investors, but the window of opportunity is closing rapidly.** We maintain our view that recent spread widening in US HY was unjustified as little had changed from a credit quality perspective. Default rates in US HY remain largely close to historical lows and we see few reasons for this to tick higher – aggregate credit quality continues to improve while lending conditions (as measured by the Fed Senior Officers Loan Survey) continue to remain highly accommodative. We've pointed out before that a tightening in lending conditions can be a lead indicator of weakness in high yield, but we believe lending conditions will remain accommodative within the currency US macroeconomic context. Overall, this leads us to the conclusion that (a) we remain comfortable with our Overweight on US HY, and (b) recent weakness is an opportunity to add to this asset class, though the window is closing rapidly. We reiterate, however, that total returns are likely to remain moderate.

Our regional preference for US HY stems from somewhat less supportive conditions elsewhere. Asian HY also offers select opportunities following the May-June sell-off, but tightening credit conditions in many countries and China-related macro risks mean we favour a relatively smaller portfolio allocation (we hold a Neutral view). Similarly, in Europe, we remain concerned about credit quality, improving macro indicators notwithstanding.

- Local currency bonds: CNH bonds offer the best risk/reward characteristics within Asian local currency bond markets.** Our expectation of relative CNH currency stability and increasingly attractive yields in the market following the May-June sell-off mean we view it as offering the best risk/reward trade-off within the Asia local currency bond market at this time. We believe, however, that credit quality is likely to become increasingly important.

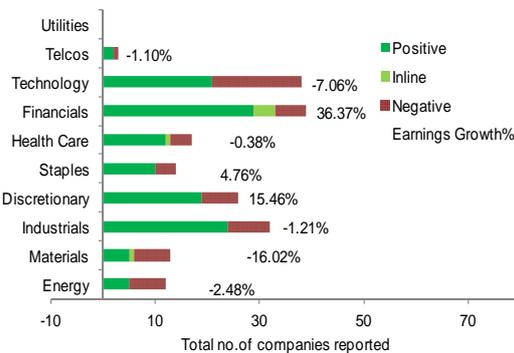
Conclusion: Overweight US High Yield - Underweight investors may use current weakness to add. Favour corporates over sovereigns. Stay Underweight G3 sovereigns and maintain short maturity profiles.

Performance of Equity markets YTD* (USD)



* For the period 31 Dec 2012 to 25 July 2013
 Source: Bloomberg, Standard Chartered. Indices are MSCI World TR, MSCI Emerging Markets TR, MSCI USA TR, MSCI Europe TR USD, MSCI Asia ex-Japan TR USD, MSCI Japan TR USD

US earnings have surprised on the upside
 S&P 500 2Q Earnings reporting by sectors*



Source: Bloomberg, Standard Chartered
 *194 companies reported as of 24 July 2013

EM underperformance expected to continue near term

Equity valuation discount of Emerging market vs developed market (12m forward P/E)



Source: Datastream, Standard Chartered

We expect DM outperformance to continue
 YTD Performance of Global, Developed market and Emerging market equities(indexed)



Source: MSCI, Bloomberg, Standard Chartered
 *MSCI AC World TR, MSCI World TR, MSCI Emerging markets TR

Equity – Overweight

Global equities remain our preferred asset class. They remain cheap compared to bonds and, with fears of tapering near term having subsided, we think will remain well supported.

- We favour an allocation to a global diversified equity portfolio preferring the Developed markets over Emerging markets.
- We have increased our relative preference for the Developed markets over Emerging and have increased Europe to an Overweight (from neutral).
- The US remains our preferred market, but we expect European equities to perform well as the economy emerges from recession in the second half, lacklustre earnings notwithstanding.

Near term, investors will be focussed on the quarterly earnings season. While still less than half way through, US companies have so far surprised to the upside with earnings growth coming in c.6%. Europe is so far in-line, but less than a third of companies have already reported. For both markets, growth expectations have been pushed out into the later quarters so we don't expect any major negative surprises near term.

We expect the equity market's momentum to continue upward in the short term, particularly in the Developed markets.

Regional and Country allocations:

DM vs. EM: Diverging DM and EM economic fundamentals and a strengthening USD mean we continue to have a preference for DM over EM. Emerging markets have underperformed significantly year to date and we feel this has further to go. We do note, though, that EM equities are becoming increasingly attractively valued. With earnings expectations still too high in our opinion and likely to be revised down, however, we believe it is too early to see a sustained reversal in the trend for EM underperformance. It would not, however, surprise us to see a number of the Emerging markets performing strongly in the near term as many are oversold following the recent correction.

Our two preferred themes are 'High yielding & high quality' equities and defensive & early cyclicals:

High yielding & high quality: As we expect yields to rise only gradually over the next 6m, we are still comfortable with the high dividend yielding equities theme. We prefer those securities with a track record of consistent and sustainable payouts as well as certain 'quality factors' including a high return on equity, stable earnings, low debt-to-equity and price momentum.

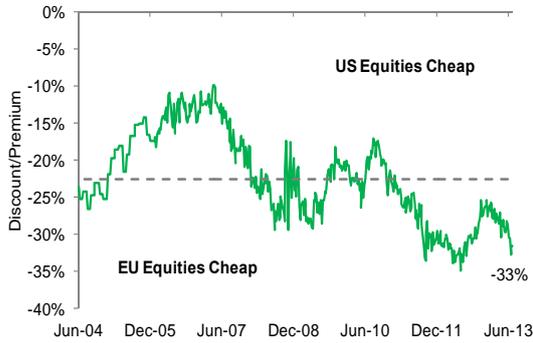
Defensive & early cyclicals: We expect a gradual rotation into defensive/early cyclicals. This would include Technology and parts of the Consumer Discretionary and Financials sectors. This is more relevant to US.

Country allocation:

US (OW): With earnings likely to come in above albeit downwardly-revised expectations and diminished fears of tapering near term, we expect the US

European equities increasingly attractive relative to US

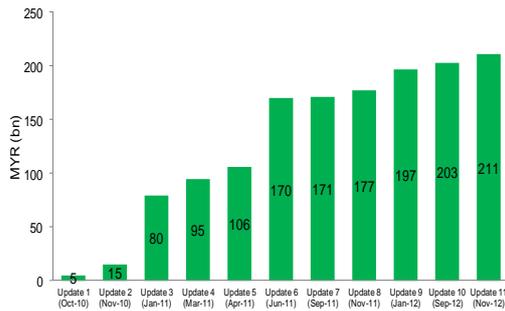
Valuation discount of Europe vs. US equities*



Source: Datastream, Standard Chartered
*12m forward P/B of MSCI Europe/US

Malaysia Overweight. Increased investment to drive domestic demand

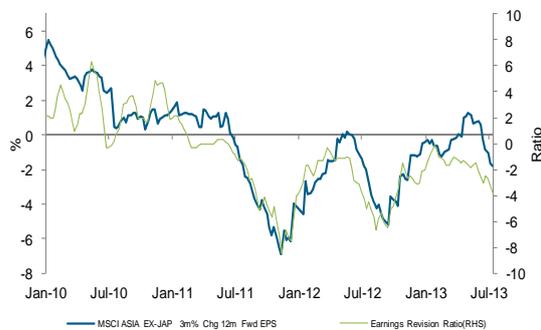
Value of investments under Malaysia's Economic Transformation Plan since Oct 2010



Source: PEMANDU, Standard Chartered

Earnings revisions continue on a downtrend

Msci Asia ex-Japan earnings revision ratio (6wma)*



Source: MSCI, Datastream, Standard Chartered
*Earnings revision= Net revisions/Total revisions(Upgrades+downgrades)

market to be well supported and make new highs in the coming months. Within the US, our preferred sectors remain **IT** and **Energy** and we are constructive on **Healthcare**. We are Underweight the defensive areas of the market (**Telecoms** and **Utilities**).

Europe (upgraded to OW): We are upgrading Europe on the expectation that the market will start to play 'catch up' as underlying economy emerges from recession in the second half of the year. Earnings growth continues to come in weak, but we expect the market to 're-rate', driving it higher. Our two preferred sectors are **Healthcare** and **Energy**. **We have a preference for France, followed by other core markets.** We still find the periphery too 'risky' at this time, to advocate taking local exposure.

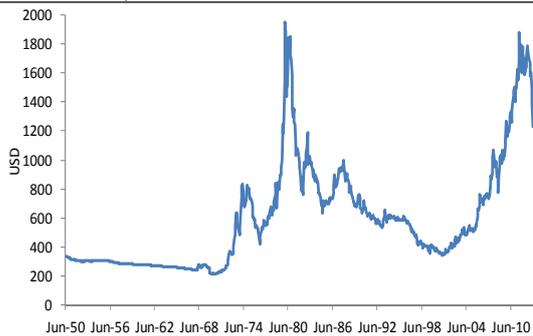
Japan (N): We continue to expect the market to perform well (in nominal terms) driven by continued QE. Investors should use caution, applying a stop loss to their exposure, given how policy-driven the environment is.

Asia ex-Japan (UW): While pockets of value are starting to emerge, the combination of tighter monetary policy, weaker growth outlook and downward earnings revisions, suggest returns will be subdued. We continue to have a marginal preference for the more domestically focused ASEAN markets. **The challenges in North Asia (especially China) – on policy reforms and weaker growth – are becoming somewhat consensus, suggesting limited downside.** However, to drive the market higher, we need a positive catalyst, which is not visible currently.

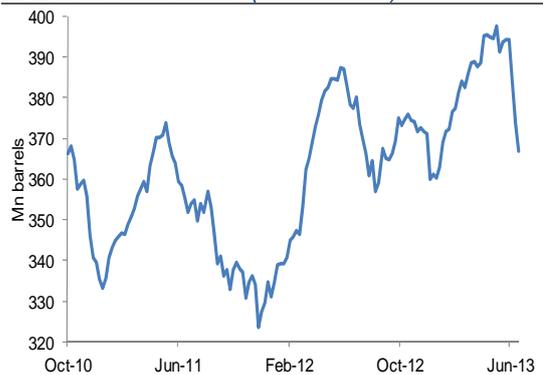
Within Asia ex-Japan, we have made the following changes:

- **Malaysia (upgrade to OW)** – Malaysia is the least vulnerable to Fed tapering given a sizeable current account surplus. Furthermore, initiatives under the Economic Transformation Plan are driving domestic demand, helping to offset weakness in the export sector. We prefer sectors which are domestically focused, with good dividend support and potential for earnings upgrades. This includes banking, property, and selected construction and oil and gas companies.
- **Indonesia (downgraded to UW)** – A weaker rupiah and higher inflation from the recent fuel price hikes, is making it difficult for policymakers to support growth. Indonesia also has a current account deficit, which makes it more vulnerable to capital outflows. **Local bond yields are now marginally higher than the equity earnings yield, reducing the attractiveness of Indonesian equities for onshore investors.**
- **China (N)** – While valuations are becoming increasingly attractive, with the market trading near its 2008 crisis valuations, we remain cautious. **With the new leaders more focused on reforms, and growth momentum yet to show signs of stabilisation, we would take only selective exposure,** expecting the overall market to stay in a wide trading range. The upcoming 1H earnings season will be key to assessing any profit recovery. Similarly the Third Plenary session in October will provide greater policy clarity. **We are Overweight Hong Kong as this is our preferred way to gain exposure to China.**

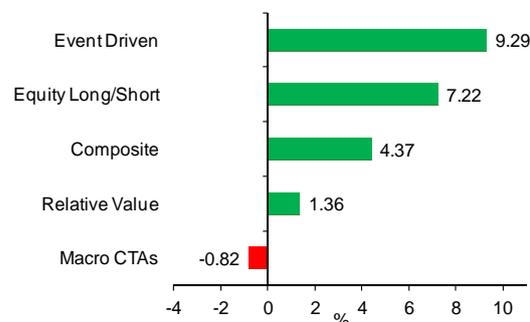
Conclusion: With global equities having rebounded c.8% off June lows, we would suggest underweight investors average into equities, with a focus on Developed markets.

Gold likely to have already peaked*Gold in 2013 prices*

Source: Bloomberg, Standard Chartered

Sharp fall in oil inventories have pushed WTI prices higher*DOE crude oil inventories (Million barrels)*

Source: Bloomberg, Standard Chartered

Performance of Alternative Strategies YTD* (USD)

* For the period 31 Dec 2012 25 July 2013

Source: HFRX, Bloomberg, Standard Chartered

HFRX global hedge, HFRX equity hedge, HFRX event driven, HFRX relative value, HFRX macro/CTA

Commodity – Underweight

We are Underweight commodities as they are likely to remain in excess supply as global demand softens in the face of EM economic weakness. In addition, we see a stronger US dollar placing some downward pressure on prices.

We remain Underweight gold. The high opportunity costs of holding gold, an expected USD appreciation and reduced safe-haven demand continues to be a drag on gold prices. However, we believe any downside to gold prices from here is likely to be gradual given sustained retail demand and early signs of a pick-up in inflation expectations. We would use the current rebound in gold prices to reduce remaining exposure.

We remain Neutral on industrial metals. Policy uncertainty in China, prospects of new supply and elevated levels of inventory are key factors continuing to weigh on industrial metal prices.

We remain Overweight oil. We believe oil prices will likely be supported due to greater discipline by the Organisation of Petroleum Exporting Countries (OPEC) and minor geo-political risks. We reiterate that increased supply from the US should occur at a gradual pace over the longer term and is unlikely to have a significant near-term impact on oil prices.

Conclusion: A gradual global recovery is likely to support oil prices. We see early signs of a pick-up in inflation expectations that may ultimately provide some support for gold prices. We remain Underweight gold and Overweight oil.

Alternative Strategies – Overweight

We remain Overweight Alternative Strategies. In our view, this asset class offers exposure to our preferred asset classes, but with the possibility of lower volatility and lower sensitivity to rising yields. Within the asset class, we favour a barbell approach, preferring equity long/short as an alternative way of gaining equity exposure and Macro/CTA strategies as a way to reduce portfolio volatility.

Equity long/short strategies can be attractive for investors uncomfortable with accepting volatility associated with long-only exposure. We favour equity long-short strategies for their high correlation with equities, our preferred asset class. Long/short strategies can make sense for investors wanting to raise equities exposure, but are uncomfortable with the inescapable volatility associated with a long-only position.

Macro/CTA strategies remain a key source of portfolio diversification. Correlations between various alternative strategies and global equities show macro/CTA strategies remain the only alternative sub-asset class that offers some level of portfolio diversification. In addition, this strategy can also benefit from trending markets, suggesting it is likely to do well in an environment of rising yields. Both are attractive qualities in today's markets.

A combined basket of alternative strategies remains a preferred implementation approach as well. The key attractions of such a basket are

lower volatility (relative to equities) and relatively limited sensitivity to interest rate risk.

Conclusion: Maintain Alternative Strategies Overweight. Favour equity long-short strategies as a lower-volatility alternative to gaining equity exposure. Favour macro/CTA and a diversified basket of alternative strategies as a portfolio diversifier and alternative to unattractive fixed income valuations.

Foreign Exchange

US Fed outlook remains key



Source: Bloomberg, Standard Chartered

USD – We are medium term bullish on the USD

We remain bullish on the USD given our expectations that the US Fed will begin tapering its quantitative easing program by late 2013 or early 2014. The US current account balance also continues to show improvement. Any strength in the USD is, however, likely to be gradual. Shifting market expectations on US Fed tapering are likely to lead to increased volatility in the currency markets.

EUR – We are medium-term bearish

We are bearish on the EUR from a relative perspective as USD yields may rise at a faster pace than European yields given growing expectations of the US Fed tapering its quantitative easing program. However, the ECB's contracting balance sheet and stronger current account balance, attributed mainly to Germany, is likely to provide some support in the meantime.

GBP – We are medium-term bearish

The Bank of England's (BoE) monetary policy strategy under the new Governor, Mark Carney, is key for the GBP. However, following the unanimous decision (compared to three members calling for further quantitative easing at the previous meeting) by the committee to refrain from expanding the asset purchase program, we see growing policy uncertainty. We prefer to stay bearish on GBP as we believe further monetary stimulus is needed to support the weak domestic economy.

JPY – We are medium-term bearish

We remain bearish on JPY as the Bank of Japan (BoJ) continues to implement aggressive quantitative easing. The resulting higher inflation expectations and crowding out of private investors from the Japanese Government Bond (JGB) market will likely lead to greater portfolio outflows and carry trade activity. Following the victory in the Upper House elections, we see Japanese Prime Minister Shinzo Abe having stronger support to implement policy reform. However, we see growing risks of market disappointment relative to very strong current expectations of bolder reform measures. We also see risks to carry strategies amidst high levels of JPY volatility. We continue to recommend a hedged exposure to Japanese assets.

EUR supported by positive surprises

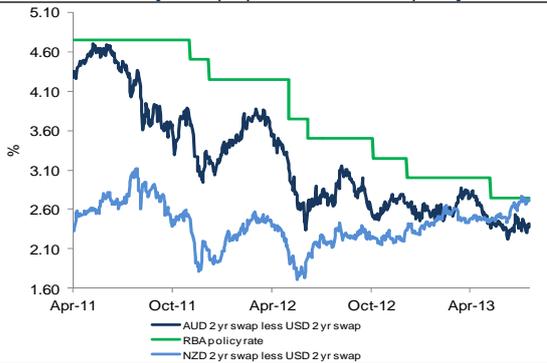
EUR-USD vs. Eurozone Economic Surprise Index



Source: Bloomberg, Standard Chartered

We prefer NZD relative to AUD

AUD and NZD 2 yr swap spreads with RBA policy rate



Source: Bloomberg, Standard Chartered

AUD – We are medium-term bearish

We remain bearish as lower commodity prices and weaker domestic growth are likely to trigger a further rate cut by the Reserve Bank of Australia (RBA) in H2 2013. Record net short AUD positioning is likely to trigger a short-term rebound as extreme short positioning rarely normalises without one. **We would use any bounce in the AUD to reduce exposure.** Given the more positive outlook on the New Zealand economy and with the Reserve Bank of New Zealand’s (RBNZ) increasingly likely to raise its policy rate next year, we believe the NZD is likely to outperform the AUD.

CNY – We are medium-term neutral

We continue to believe China will keep the Renminbi stable in the midst of ongoing policy reforms and development of the offshore Renminbi market. Any liberalisation and deregulation measures are likely to be orderly.

We are medium-term bearish on Asia ex-Japan currencies

Potential tapering of US Fed’s quantitative easing program is expected to add further downward pressure on Asia ex-Japan currencies. Some downside risks to economic growth also remain. However, any weakness is likely to be gradual given ample flexibility by authorities to manage orderly conditions.

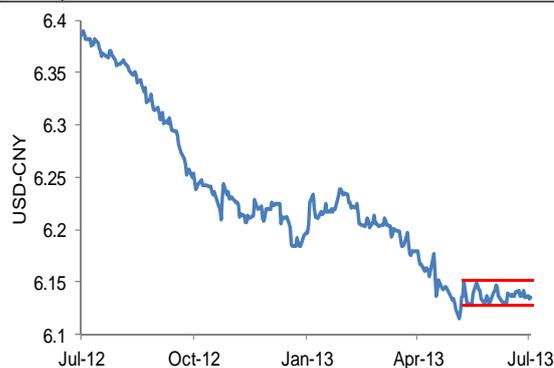
SGD – We are medium-term neutral

We believe the SGD is likely to remain stable with the currency trading in the lower half of the Monetary Authority of Singapore’s (MAS) trade-weighted exchange rate policy band. We see concerns of slower growth outweighing inflation, which has softened over the last few months. MAS will likely announce its next monetary policy decision in October.

Conclusion: We continue to expect the USD to appreciate at a gradual pace albeit with greater volatility due to shifting market expectations of the US Fed tapering. This, in turn, is likely to weigh on Asian currencies, which are also suffering from economic weakness. However, intervention by domestic authorities is likely to moderate any weakness in the currencies. We remain bearish on the AUD and will look for any bounce to reduce exposure.

Stability in Renminbi likely to remain

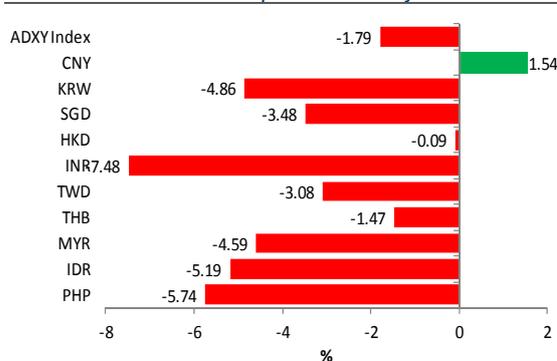
CNY spot rate



Source: Bloomberg, Standard Chartered

Asian currencies likely to see further downside

Performance of ADXY component currency



Source: Bloomberg, Standard Chartered
* For the period 31 Dec 2012 25 July 2013

Conclusion

We believe 2013 remains a Year of Transition towards stronger growth with signs that growth in the US and Europe is likely to accelerate. However, the story in Emerging markets is less positive with Chinese policy makers less than convincing in their support for the economy.

Fed tapering is expected to proceed only towards the end of the year as the economic picture becomes clearer and inflation expectations shift even higher.

Against this backdrop, global equities are our preferred asset class and suggest underweight investors average into this asset class with a focus on Developed markets.

Asset Allocation Summary

Tactical Asset Allocation - August 2013 (12M)

All figures are in percentages

Currency : USD

Summary	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	UW	21	0	0	0
Fixed Income	UW	35	35	17	4
Equity	OW	27	43	61	86
Commodities	UW	5	9	9	4
Alternatives	OW	12	13	13	6

Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	UW	21	0	0	0
Investment Grade	IG Developed World	UW	24	15	0	0
	IG Emerging World	N	4	9	3	0
High Yield	HY Developed World	OW	3	6	6	2
	HY Emerging World	N	4	5	8	2
Developed Market Equity	North America	OW	9	14	20	27
	Europe	OW	8	11	15	21
	Japan	N	1	3	3	5
Emerging Market Equity	Asia ex-Japan	UW	7	12	19	26
	Other EM	UW	2	3	4	7
Commodities	Commodities	UW	5	9	9	4
Hedge FoF/CTAs		OW	12	13	13	6

Source: Standard Chartered

Economic & Market Calendar

	Next Week: July 29 - August 2					This Week: July 22 - July 26				
	Event	Period	Expected	Prior		Event	Period	Actual	Prior	
MON	US Dallas Fed Manf. Activity	Jul	--	6.5		US Chicago Fed Nat Activity Index	Jun	-0.13	-0.29	
						TA Unemployment Rate - sa	Jun	4.17%	4.19%	
TUE	JN Jobless Rate	Jun	--	4.10%		TA Export Orders (YoY)	Jun	-3.50%	-0.40%	
	JN Industrial Production YoY	Jun P	--	-1.10%		HK CPI - Composite Index (YoY)	Jun	4.10%	3.90%	
	JN Small Business Confidence	Jul	--	49.6		US Existing Home Sales	Jun	5.08M	5.14M	
	US S&P/CS Composite-20 YoY	May	--	12.05%		JN Cabinet Office Monthly Economic Report for July		--	--	
	SK Industrial Production YoY	Jun	-0.50%	-1.40%		SI CPI YoY	Jun	1.80%	1.60%	
	IN Cash Reserve Ratio	Jul-13	4.00%	4.00%		TA Industrial Production (YoY)	Jun	-0.43%	-0.27%	
	IN India REPO Cutoff Yld	Jul-13	7.25%	7.25%						
	IN Reverse Repo Rate	Jul-13	6.25%	6.25%						
WED	JN Markit/JMMA Manufacturing PMI	Jul	--	52.3		EC PMI Manufacturing	Jul A	50.1	48.8	
	JN Construction Orders YoY	Jun	--	26.00%		EC PMI Services	Jul A	49.6	48.3	
	EC Euro-Zone Unemployment Rate	Jun	--	12.20%		US New Home Sales	Jun	497K	459K	
	EC Euro-Zone CPI - Core (YoY)	Jul A	--	1.20%		AU CPI YoY	2Q	2.40%	2.50%	
	US MBA Mortgage Applications	Jul-13	--	--		CH HSBC Flash Manufacturing PMI	Jul	47.7	48.2	
	CA GDP YoY	May	--	1.40%		US MBA Mortgage Applications	Jul-13	-1.20%	-2.60%	
	US ISM Milwaukee	Jul	--	51.55						
	TA GDP YoY	2Q P	2.00%	1.67%						
	SI Unemployment Rate	2Q P	--	1.90%						
	TH Exports YoY	Jun	--	-5.10%						
THUR	US FOMC Rate Decision	Jul-13	0.25%	0.25%		GE IFO - Business Climate	Jul	106.2	105.9	
	JN Vehicle Sales YoY	Jul	--	-15.80%		GE IFO - Current Assessment	Jul	110.1	109.4	
	EC PMI Manufacturing	Jul F	--	50.1		GE IFO - Expectations	Jul	102.4	102.5	
	UK PMI Manufacturing	Jul	--	52.5		EC Euro-Zone M3 s.a. (YoY)	Jun	2.80%	2.90%	
	UK Bank of England Bank Rate	Aug-13	0.50%	0.50%		UK GDP YoY	2Q A	1.40%	0.30%	
	EC ECB Announces Interest Rates	Aug-13	0.50%	0.50%		US Initial Jobless Claims	19-Jul	343K	336K	
	US Initial Jobless Claims	Jul-13	--	--		US Durable Goods Orders	Jun	4.20%	5.20%	
	US ISM Manufacturing	Jul	51.7	50.9		US Durables Ex Transportation	Jun	0.00%	1.00%	
	SK CPI YoY	Jul	1.50%	1.00%		US Cap Goods Orders Nondef Ex Air	Jun	0.70%	2.20%	
	SK HSBC Manufacturing PMI	Jul	--	49.4		US Cap Goods Ship Nondef Ex Air	Jun	-0.90%	1.90%	
	CH Manufacturing PMI	Jul	--	50.1		US Kansas City Fed Manf. Activity	Jul	6	-5.0	
	CH HSBC Manufacturing PMI	Jul	--	48.2		NZ RBNZ Official Cash Rate	25-Jul	2.50%	2.50%	
	TA HSBC Manufacturing PMI	Jul	--	49.5		SK GDP YoY	2Q P	2.30%	1.50%	
	ID HSBC-Markit Manufacturing PMI	Jul	--	51		PH Overnight Borrowing Rate	25-Jul	3.50%	3.50%	
	ID CPI YoY	Jul	--	5.90%						
	ID Exports YoY	Jun	--	-4.50%						
	IN HSBC-Markit Manufacturing PMI	Jul	--	50.3						
	TH CPI YoY	Jul	--	2.25%						
	FRI	UK PMI Construction	Jul	--	51		JN Natl CPI YoY	Jun	--	-0.30%
		US Change in Nonfarm Payrolls	Jul	179K	195K		US U. of Michigan Confidence	Jul F	--	83.9
US Unemployment Rate		Jul	7.50%	7.60%		SK SK Consumer Confidence	Jul	105	105	
US PCE Core (YoY)		Jun	--	1.10%		SI Industrial Production YoY	Jun	--	2.10%	
US ISM New York		Jul	--	47		TH Mfg. Production Index ISIC NSA (YoY)	Jun	--	-7.8	
ID GDP YoY		2Q	--	6.02%						
Previous data are for the preceding period unless otherwise indicated Data are % change on previous period unless otherwise indicated P - preliminary data, F - final data, sa - seasonally adjusted YoY - year on year, MoM - month-on-month					Previous data are for the preceding period unless otherwise indicated Data are % change on previous period unless otherwise indicated P - preliminary data, F - final data, sa - seasonally adjusted YoY - year on year, MoM - month-on-month					

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