

GLOBAL MARKET OUTLOOK

July 2013

This reflects the views of the Wealth Management Group

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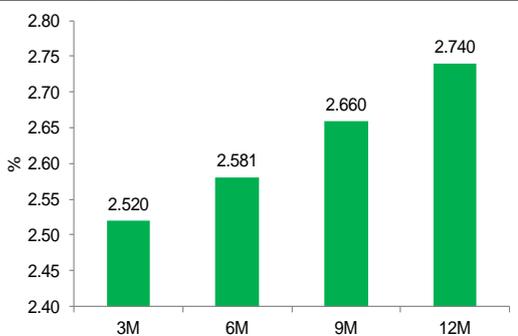
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Tweaking B.R.I.D.G.E.

H2 2013 Outlook

- We continue to see 2013 as a 'Year of Transition' towards broadening economic growth with receding tail risks. However, we believe these themes will be dominated by Developed markets (DM) with Emerging markets (EM) lagging
- We expect equities' outperformance to extend into 2014. Investors who are underweight equities should consider taking a time-bound approach to raising equity allocations. Our preference for DM equity over EM is growing
- We struggle to find value in global bond markets. Within corporate credit, we remain comfortable with US HY on a relative basis. We have closed our Asian local currency bond trade on the expectation for Asian currency weakness
- Recent US Fed comments notwithstanding, we believe the benign inflation environment will allow the Fed to be more patient than the market is expecting, especially if the labour market softens even temporarily. We expect the Fed to continue expanding its balance sheet well into 2014

Treasury futures pricing in higher yields ahead
US Treasury 10y forward yields



Source: Bloomberg, Standard Chartered

Asset allocation summary

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

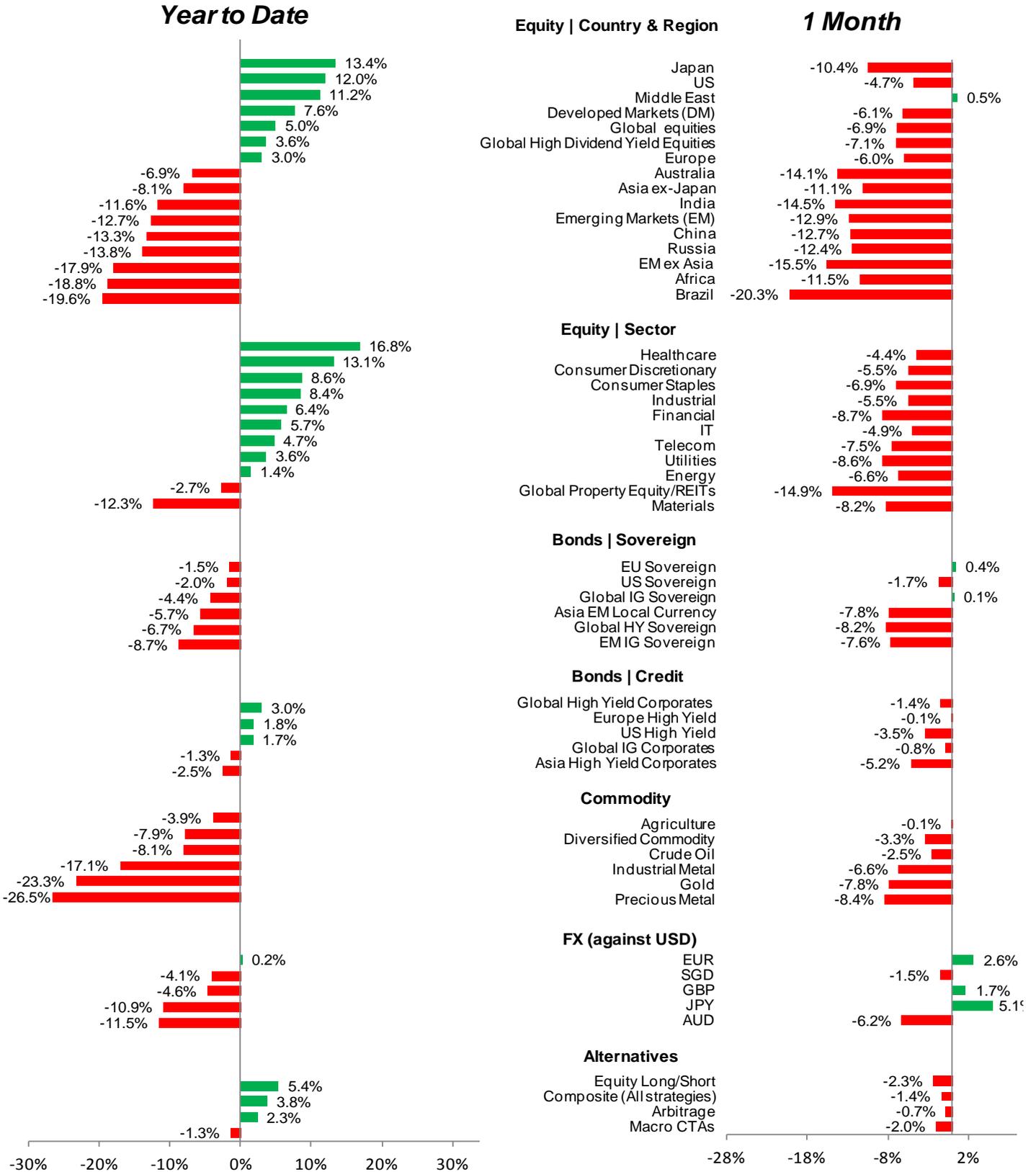
Note: OW = Overweight, N = Neutral, UW = Underweight.
Source: Standard Chartered

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Investment strategy implications

- **Cash: Retain 12m Underweight**
Expected to lose purchasing power
- **Bonds: Retain 12m Underweight**
Recent rise in USD yields likely a sign of things to come, but rise looks over-extended short term, FOMC statement notwithstanding
Higher yields increase expected returns, US high yield favoured
We suggest taking profit on Asian local currency bonds
- **Equities: Retain 12m Overweight**
Still the best investment option in our opinion
Developed markets strongly preferred over Emerging markets
Valuations unlikely to stop the US making new highs
- **Commodities: Cut to 12m Underweight**
Remain Underweight gold
- **Alternatives: Raise to 12m Overweight**
Alternative strategies offer better risk-reward than bonds
Equity long-short favoured given risk-reward characteristics
Macro-CTA favoured insurance policy against rising yields
- **Currencies: Turning bearish on Asia ex-Japan and AUD**
Strong USD outlook intact despite recent weakness
Asia ex-Japan currencies likely to remain under pressure

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



* All performance shown in USD terms unless otherwise stated.
 *YTD performance data from 31 Dec 2012 – 20 June 2013 and 1 Month performance from 20 May – 20 June 2013
 Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered



Tweaking B.R.I.D.G.E.

At the end of 2012, we outlined our **BRIDGE investment framework for 2013**

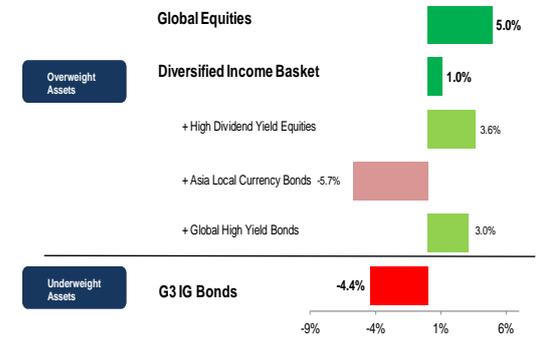
Generally we remain comfortable with this framework, although we believe it warrants some tweaking as we move into 2H 2013

		What remains	What has changed
B	Broadening Global recovery	<ul style="list-style-type: none"> • Still in a year of transition • Still expect stronger DM economic growth 	<ul style="list-style-type: none"> • EM growth below our previous expectations
R	Receding tail-risks	<ul style="list-style-type: none"> • 2013 is a year of reduced uncertainty • US and Europe political/policy risk is receding • New priorities of Chinese leadership emerging • Lower volatility and normalising correlations between asset classes 	<ul style="list-style-type: none"> • Aggressive monetary policy easing in Japan • Fed tapering impact on world economies and yield-seeking strategies • Increased focus on challenges created by EM credit growth since 2008
I	Income generation still relevant	<ul style="list-style-type: none"> • Yield still important in an ultra-low interest rate environment 	<ul style="list-style-type: none"> • Rising bond yields and higher valuations mean asset selection is increasingly important for income focused investments
D	Diversification remains key	<ul style="list-style-type: none"> • Maintain a balanced portfolio • Gradually rising USD bond yields expected • Within bonds, credit offers best protection against rising rates 	<ul style="list-style-type: none"> • Huge inflows into Multi-income products pushing yields down • Gold a very costly source of diversification • Cyclical commodities facing headwinds
G	Go local (bond) and Go global (equity)	<ul style="list-style-type: none"> • Preference for DM over EM equity • CNH positive bias 	<ul style="list-style-type: none"> • Preference has increased for DM equity • Asian currencies, other than CNH, no longer seen as outperforming • Close Asian Local Currency Bond trade
E	Equity offers the best value	<ul style="list-style-type: none"> • Equities still cheap on a relative basis 	<ul style="list-style-type: none"> • US valuations at fair level, but unlikely to prevent US equities making new highs

Source: Standard Chartered

B.R.I.D.G.E. themes performing well so far

B.R.I.D.G.E. performance YTD (USD)*

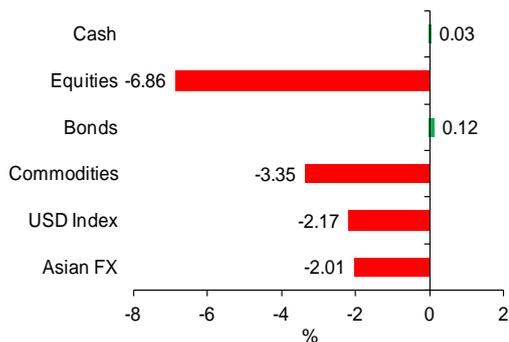


* For the period 31 Dec 2012 to 20 June 2013

Source: Bloomberg, Standard Chartered

* Income basket represents equally weighted performance of global high dividend yielding equities (MSCI ACWI High Dividend Yield USD), Asia local currency bonds (BarCap Asia Local Net TR USD) and Global high yield bonds (BarCap Global HY TR USD)

Asset Performance (USD)*

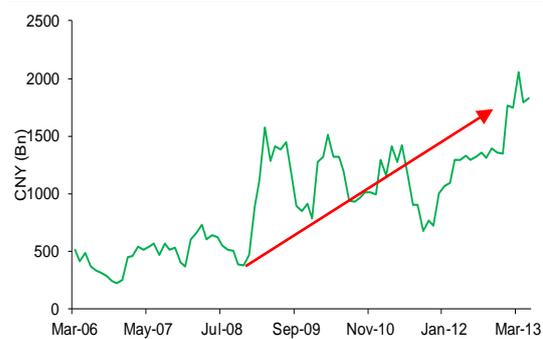


* For the period 20 May to 20 June 2013 Indices are JP Morgan US 3M Cash Index, MSCI AC World TR Net, CITI World BIG, DJ-UBS Commodities, DXY and ADXY

Source: Bloomberg, Standard Chartered

China faces headwinds from dramatic increase in credit

China total social financing



Source: Bloomberg, Standard Chartered

Tweaking B.R.I.D.G.E.

In our Outlook 2013 report, we argued that 2013 would be a 'Year of Transition', moving gradually towards stronger growth, less policy-driven economic cycles' (*Outlook 2013: A Year of Transition – From V.I.P. to B.R.I.D.G.E.*, December 2012). We believe significant progress has been made along these lines, but there is still work to do. We are increasingly worried about the outlook for Emerging markets (EM).

We view recent market volatility as being an indicator of this transition, as market specific factors start to wrestle back control from pure monetary stimulus. This is likely a multi-month battle with sizeable central bank liquidity injections expected in the coming 6-12 months.

B.R.I.D.G.E. investment framework tweaked

At the end of 2012, we outlined our BRIDGE investment framework for 2013. Generally, we remain comfortable with this framework, although we believe it warrants some tweaking as we move into the 2nd half of the year.

Broadening global growth

MAINTAIN: US resilient, Europe to exit recession. The US economy has continued to perform reasonably well despite a larger than expected tightening in fiscal policy. **Europe** appears poised to come out of recession in late H2.

NEW: Japan exceeds expectations, China disappoints. Aggressive monetary policies in **Japan** are raising hopes of a recovery. The main area of disappointment has come from the Emerging world, specifically **China**. Authorities are increasingly focused on the sustainability of growth. This is positive from a long term perspective, but the adjustment process will likely be a multi-year one and may involve a prolonged period of slower growth.

Receding tail risks (DM)

MAINTAIN: Risks have continued to recede in Developed markets. In the **US**, the fiscal cliff was a non-event and the improvement in fiscal deficit may make debt ceiling talks less confrontational. In **Europe**, we navigated our way through Cyprus with limited volatility. This does not preclude the possibility of short term turbulence, but the trend towards more pro-growth policies is positive.

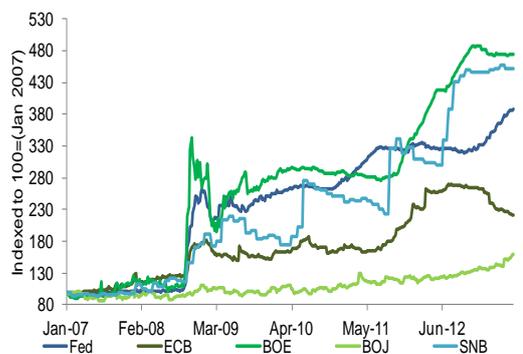
NEW: EM risks rising. We believe risks are rising in EM. We have seen a significant expansion in credit in recent years, led by (but not limited to) China. In addition, a strengthening USD on a multi-year basis on the back of tighter monetary and fiscal policies in the US raises risks further. **Asia** is generally protected by significant current account surpluses. **Latin America and Emerging Europe** do not have the benefit of such buffers. This clearly has negative connotations for **commodities**, especially against the backdrop of strong supply growth.

MAINTAIN: Liquidity expansion expected to continue. While a theme we had was the economy's reduced reliance on central bank policies, we expect monetary policy in aggregate to remain very loose over the next 6-12 months.

MAINTAIN: The US Fed has signalled a possible tapering of QE later this year. However, we believe the benign inflation environment will allow the Fed to be more patient than the market expects, especially if the labour market

Trend for central bank liquidity injections to continue into 2014, outside of Europe

Global central bank balance sheets (Indexed, Jan-2007=110)



Source: Bloomberg, Standard Chartered

Long term Treasury yields likely to rise gradually ahead of short term rates hikes

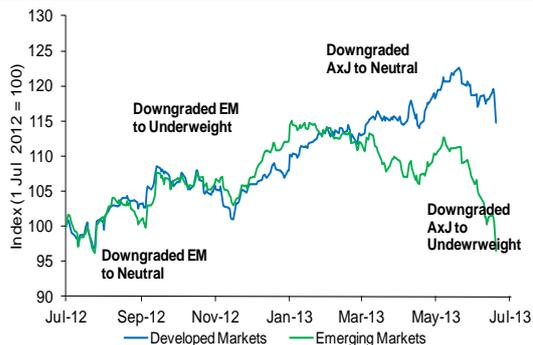
US 10-year Treasury yield versus Fed funds rate



Source: Bloomberg, Standard Chartered

Our preference for DM over EM is increasing

MSCI World and MSCI Emerging Market



Source: Bloomberg, Standard Chartered

softens even temporarily. **We expect the Fed to continue expanding its balance sheet well into 2014.**

NEW: In **Japan**, we expect significant quantitative easing on a multi-year basis and a rise in JGB yields would put pressure on the Bank of Japan to accelerate QE even further.

NEW: In **China**, we started the year focused on when policy would be tightened. The focus is increasingly switching to whether authorities will ease policy further in the coming months. At the very least, it looks as though the tightening cycle has been pushed into 2014. Actual financial conditions are likely already quite restrictive. Broader policy uncertainty also remains high.

MAINTAIN: Income generation still important

From here, we expect US Treasury yield increases to be relatively benign, which would be supportive for the search for yield theme. However, longer term, higher bond yields and the fact that many higher yielding assets are moving into overvalued territory mean that asset selection is becoming increasingly important. One theme we like here is our concept of defensive cyclicals such as technology (see pages 9-10).

MAINTAIN: Diversification remains key

We continue to believe in diversified portfolios. That said investors should be conscious of the risk-return profile of individual asset classes. For instance, while US Treasuries have historically given an investor good protection from downside economic risks, with yields still low, this may offer less insurance than has been the case in the past. Therefore, we would advocate looking at other areas as well. Alternative strategies, where accessible, offer some interesting opportunities, in our opinion (see page 11).

NEW: ~~Go Local bonds and~~ Go Global equities

After signalling our preference for taking partial profit on Asian local currency bonds three weeks ago (*Cautious on Asian local currency bonds, Weekly Market View, 31 May 2013*), we have decided to remove this as a theme given rising risks to Asian currencies. Returns have been over 6% since we started highlighting this opportunity a year ago (*All Eyes on Greece, Global Market Outlook, June 2012*), though year-to-date performance is negative.

MAINTAIN: Equity offers the best value

Against this backdrop, global equities are still our favoured asset class. We maintain our preference for Developed markets over Emerging markets. These themes have worked well so far this year. Looking forward, in addition to the above macro factors, global equities are cheap versus other asset classes. While US equities are looking less cheap on a historical basis than they were at the start of the year, **we believe a prolonged period of low interest rates should allow them to reach new highs.**

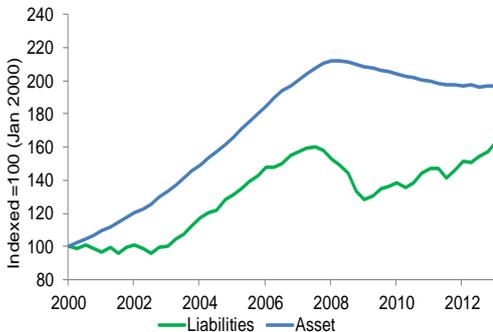
This will not necessarily be a smooth process. Recent volatility – as markets digest the potential for a reduced pace of US monetary easing – illustrates that markets rarely go in a straight line. However, we view this as consistent with our view of a transition of market behaviour away from a purely monetary policy driven environment.

Conclusion – We continue to advocate the benefits of a balanced portfolio. Meanwhile, we recommend underweight investors consider taking a time-bound, dollar cost averaging approach to raising equity allocations, with a strong preference for DM equities, using any weakness to accelerate purchases.

Economic and policy outlook

US consumer balance sheets improve significantly

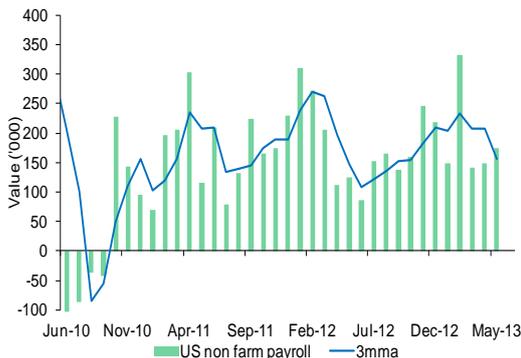
US household balance sheet (Indexed)



Source: Bloomberg, Standard Chartered

US economy still generating jobs, although the pace has eased slightly

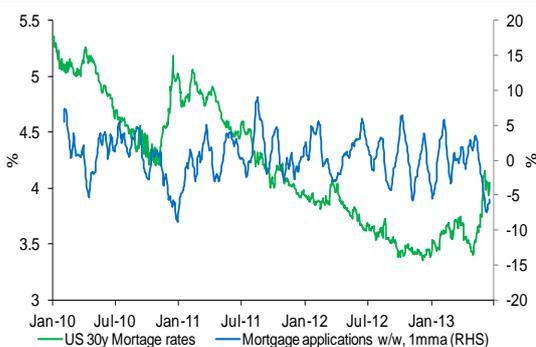
US non-farm payroll (3mma)



Source: Bloomberg, Standard Chartered

Spike in mortgage borrowing costs leads to a drop in mortgage applications

US 30y mortgage rates and applications w/w (1mma)



Source: Bloomberg, Standard Chartered

Over the past three months, data has been mixed. However, there are still good reasons for optimism. The **US** economy has dealt with tightening fiscal policy remarkably well and as these pressures fade, growth is likely to accelerate. Policies in **Japan** are supporting growth expectations. Even in **Europe**, there are signs of light at the end of the tunnel, not just for the core countries, but also for the periphery. The main area of concern is **China**, where growth is unlikely to be as high as previously envisaged.

US: Resilience to fiscal tightening impressive

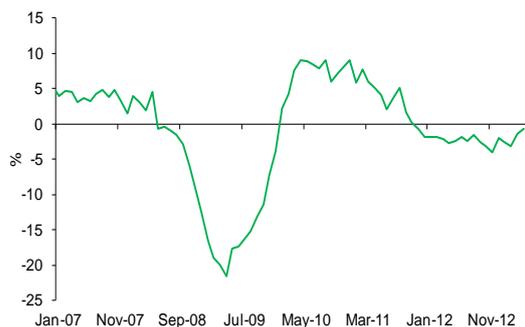
- **Household balance sheets strengthen.** While consumers have been hit with higher tax liabilities, the strength of the labour market and improvement in balance sheets has more than offset this.
- **Labour market still generally strong.** The economy is still generating jobs, but the pace has slowed somewhat recently. It is important to note wages have not been rising significantly.
- **Small business confidence improves.** Small businesses appear less concerned about the economic and policy outlook with the latest NFIB confidence index rising to a one year high.
- **Housing market recovery continues, but rising mortgage yields present a headwind.** Most housing data continues to improve. Price gains accelerated in February according to the latest Case-Shiller data, as did home sales. Construction (housing starts) also rebounded in May, although they did not fully recover April's lost ground. We have seen a sharp increase in mortgage rates over the past two months and mortgage applications have fallen significantly. While this is something to watch, we do not believe this will lead to a reversal of the housing market recovery.
- **Manufacturing still weak.** One area that is continuing to disappoint has been manufacturing. The ISM business confidence index fell below 50 once again, particularly worrying given a sharp decline in the new orders index. Therefore, this bears close monitoring in the next month or so. The good news is that inventory indices are very low which could boost production going forward.
- **Fed to be patient.** We believe the benign inflation environment and some short term weakness will allow the Fed to be more patient. Therefore, we expect the Fed to continue expanding its balance sheet well into 2014.

Europe: Turning the corner?

- **Economy still weak.** The weakness of Europe's economy has been due to significant fiscal austerity, a general unwillingness of banks to lend and the weakness of the global economy, particularly Asia.
- **Light at the end of the tunnel.** However, there are finally signs the European economy may be bottoming out. Even more encouraging is the fact that this improvement is not limited to core countries with industrial production and business confidence starting to pick up in the periphery as well. Naturally, the labour market remains in a dire situation in many countries, but a gradual recovery hints at potential improvement in the months ahead.

Europe's economy starting to turn the corner

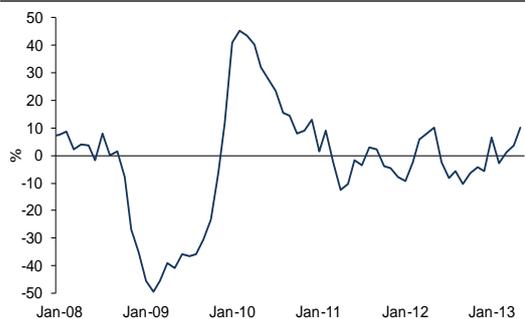
Euro industrial production, % y/y



Source: Bloomberg, Standard Chartered

Japan export sector showing signs of life

Japan exports growth, % y/y



Source: Bloomberg, Standard Chartered

Asian growth has been de-rated for past two years

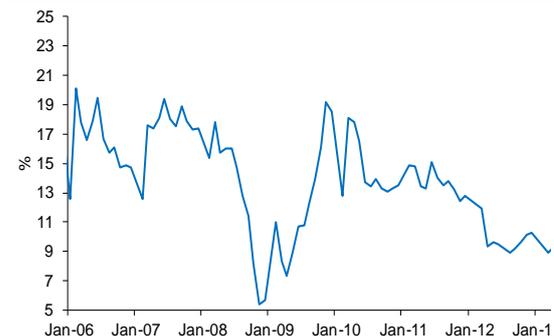
Asia-Pacific Economic Surprise Index



Source: Citigroup, Bloomberg, Standard Chartered

China's economy continues to disappoint

China value added industrial growth, % y/y



Source: Bloomberg, Standard Chartered

- **All eyes on the German election.** Polls suggest a grand coalition between the CDU and SPD is increasingly likely. This could be a positive outcome for the periphery as the SPD is more flexible when it comes to austerity policies outside of Germany.
- **ECB easing bias, but no move likely.** The ECB is starting to talk more dovishly. However, we expect the economic recovery to reduce the likelihood of this leading to much looser policy settings.

Asia: All eyes on Japan and China

- **Japan: Economic surprises firmly positive.** The data has started to surprise on the upside despite rising growth expectations. Exports are strengthening significantly, growing at the fastest pace since Dec 2010 according to May data. We expect upside surprises to continue in the coming months as policies filter through into industrial production and retail sales data, which have remained lacklustre so far.
- **China: Losing momentum.** The momentum seen in Q4 2012 has waned so far this year on the back of weaker consumption, investment and export growth. We believe the authorities' commitment to sustainable and inclusive growth means that reform is likely to rise on the agenda. While positive from a long term perspective, this adjustment process is likely to be multi-year in nature and may lead to continued growth disappointments.

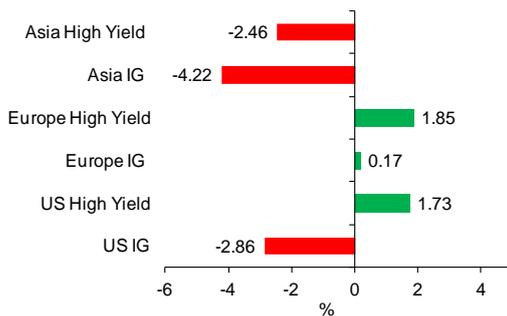
Managing the credit boom is key. Outside of the reform agenda, one concern we have is the massive increase in borrowing since 2008. The Chinese authorities' ability to remain in control of the boom in credit and prevent a sharp rise in non-performing loans is critical to the medium term outlook.

In China, we started the year focused on **when policy would be tightened.** We have seen some micro policies aimed at the property sector and the wealth management product funding channel. However, the focus is increasingly switching to whether the authorities may ease policy further in the coming months, a view supported by a weakening flash PMI. At the very least, it looks as though the tightening cycle has been pushed into 2014 at the earliest. However, the authorities will also be keen to avoid any policies that could reignite the credit bubble.

- **India data remains relatively weak.** Business confidence surveys fell as did export data. Industrial production data continues to expand, but at a very modest pace. The good news is that inflation remains in a downtrend, which should give the Reserve Bank greater scope to ease monetary policy in the coming months. However, the rupee's weakness may constrain the willingness for rate cuts in the near term. Key to sentiment will be whether the government implements further reform measures.

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

Performance of Fixed income YTD* (USD)



* For the period 31 Dec 2012 to 20 June 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

Short duration outperformance clear during recent rise in Treasuries

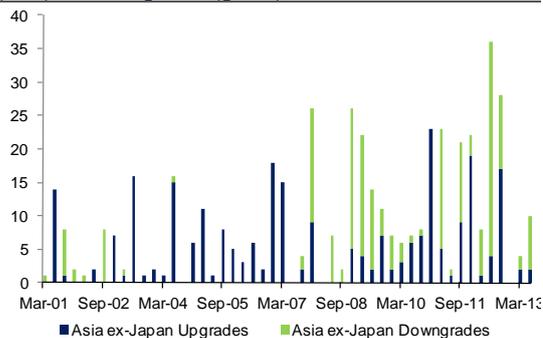
BarCap Treasuries Total Return Indices – 1-3yrs vs. 7-10yrs



Source: Barclays Capital, Bloomberg, Standard Chartered

Asian corporate credit facing some credit quality pressure

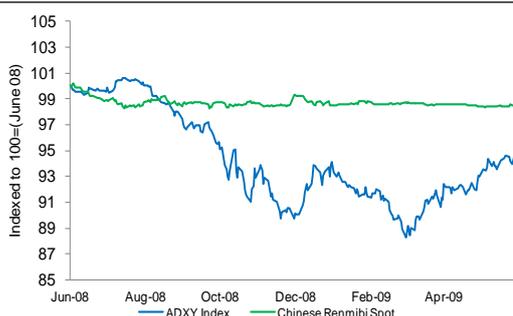
S&P Asia-Pacific number of credit ratings upgrades (blue) vs. downgrades (green)



Source: Bloomberg, Standard Chartered

Renminbi remained almost flat during the last period of significant Asian FX weakness

USD-CNY vs. ADXY



Source: Bloomberg, Standard Chartered

Fixed Income – Underweight

We remain Underweight G3 government bonds. Recent experience illustrated outperformance of short duration strategy when yields rise.

Maintain preference for corporate credit over sovereigns. US HY still offers best risk/reward tradeoff within corporate credit.

Take profit on Asia local currency bonds due to rising currency risks. CNH bonds offer an alternative.

• **G3 sovereign bonds: Experience of last two months dramatically illustrated benefit of short maturity profiles.** Since the end of April, a short duration strategy (holding 1-3 year USD bonds, for example) would have significantly outperformed a long duration strategy (holding 7-10 year bonds). 10-year US Treasury yields moved only 70bps over this period, but we believe a more clear-cut end to the Fed's current asset purchase program could lead to a substantially larger move in Treasury yields (the order of 60-80bps higher from current levels). Under such a scenario, USD-denominated bond investors should keep portfolio maturity profiles short.

We do not, however, expect yields to go up in a straight line. Yields are likely to soften somewhat over the next 1-2 months as we do not believe Fed purchase tapering is imminent. Such a temporary pullback is likely to offer good opportunities for investors to shorten duration further. Yields are likely to rise more strongly as we approach year-end and early 2014, in our view.

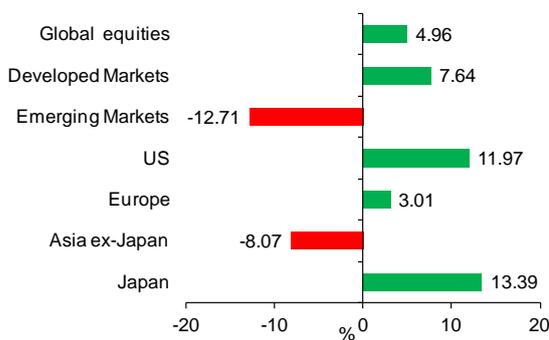
• **Corporate credit (USD): Within credit, we maintain our US HY Overweight, but recognise total returns are likely to be low despite recent weakness.** US high yield lost just over 1.5% since end-April, illustrating the risk from higher interest rates despite the sizeable carry. We believe US HY offers the best risk/reward trade-off within the fixed income asset class at this time. However, the asset class will still be prone to weakness from any rise in Treasury yields. This means total returns are likely to be lower than the yield (currently just over 6%) over a 12-month horizon. It is useful to understand that yields on the HY asset class would need to rise over 150bps from current levels before total returns turn negative. Our preference for US HY remains in place – while Asia now offers a slightly higher yield, credit downgrades are outnumbering credit upgrades, causing us some concern that credit quality may be weakening.

• **Local currency bonds: We take profit on our Asia local currency bonds Overweight. Consider rotating into CNH bonds.** The closure of our call on Asian local currency bonds stems primarily from a deterioration in the FX outlook. This may also shift central banks to a more neutral monetary policy stance. The asset class is up since we went overweight in May 2012 and we follow up our suggestion to take partial profits on May 31 ('*Cautious on local currency bonds*', Weekly Market View) by fully closing the trade.

CNH offers some safe-haven characteristics (the currency stayed flat during the last episode of significant Asian FX weakness) while the bond market still offers reasonably attractive yields (averaging 3.95%). Understanding credit quality is key due to the large number of unrated firms.

Conclusion: Overweight US High Yield. Take profit on Asia local currency bonds. Stay Underweight G3 sovereigns and maintain a short portfolio maturity profile. Favour corporates over sovereigns.

Performance of Equity markets YTD* (USD)

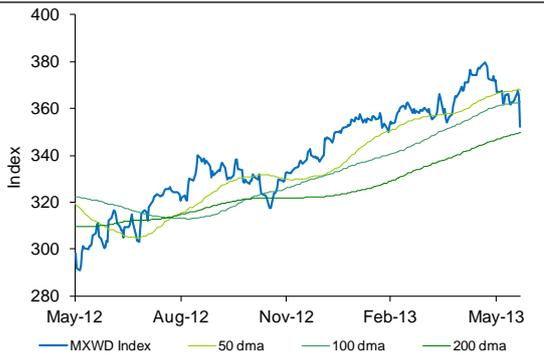


* For the period 31 Dec 2012 to 20 June 2013

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

Buying on dips has worked in the past

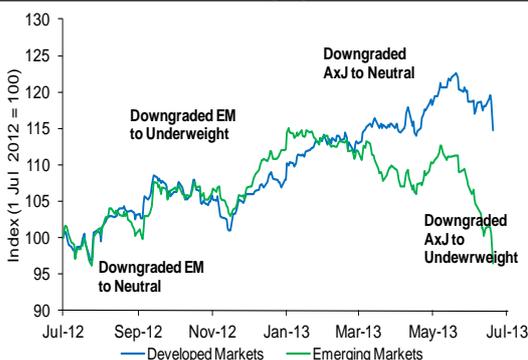
MSCI AC World Index



Source: Bloomberg, Standard Chartered

Developed markets continue to lead global markets

MSCI World and MSCI Emerging markets indices



Source: Bloomberg, Standard Chartered

Equity – Overweight

Global equities remain our preferred asset class:

- They remain cheap compared to bonds
- Offer reasonable value against history
- Provide a yield and exposure to longer term growth
- Should perform well as the equity risk premium starts to decline

We favour Developed market equities to Emerging market equities. We advocate underweight equity investors consider using a time-bound approach for rotating out of bonds or cash into DM equities and, given the recent market pullback, believe current levels look attractive.

We are increasingly positive on the developed markets, expecting them to continue outperforming the Emerging markets. This is reflected by our upgrade of Europe to a Neutral, from Underweight, and our downgrade of Asia ex-Japan to Underweight, from Neutral. We continue to be Underweight Other EM. We are Overweight the US, which is relatively well positioned given the strengthening housing market and improving employment outlook.

With the broader market (MSCI AC World) having sold down c.-7% (peak to trough) from its recent high, we think the market may find support at current levels and move higher. In our opinion, fears of tapering in Q3'13 are overdone as inflation and employment data are still not strong enough and are well below the Fed's longer term target. Talk of tapering may be a headwind in the medium term, but we would use any resultant equity market volatility to continue shifting away from cash/bonds into equities.

As we expect yields to only rise gradually over the next 6m, we are still comfortable with high dividend yielding equities. This includes 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 recent positive momentum. Before year-end, though, given our expectations for yields on a 12m basis, we expect this theme to be increasingly less relevant and for investors to shift into defensive/early cyclicals, such as Technology.

Regional and Country allocations:

We remain positive on developed market equities and advocate underweight investors add exposure.

DM vs. EM: With improving fundamentals and a strengthening USD we continue to have a preference for DM over EM. Emerging markets have underperformed significantly year to date and we feel this divergence has further to go. We have turned bearish on Asia local currency bonds (closing our tactical trade) and expect downside in Asian currencies vs. the USD. Earnings expectations for EM are also too high in our view, and are likely to be cut back, acting as a further headwind.

US (OW): 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**) and, as we had expected, have started to see some rotation away from these overvalued areas into the more 'early-

Europe expected to re-rate higher

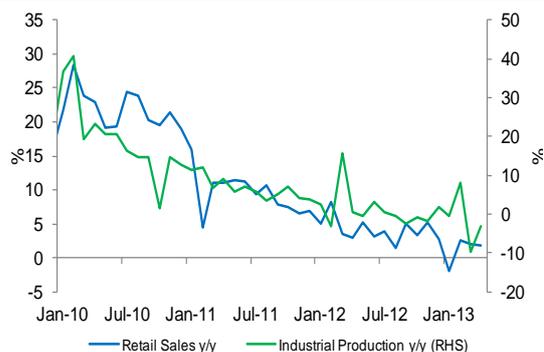
MSCI Europe 12m forward P/B



Source: Datastream, Standard Chartered

Downgraded Korea to Underweight

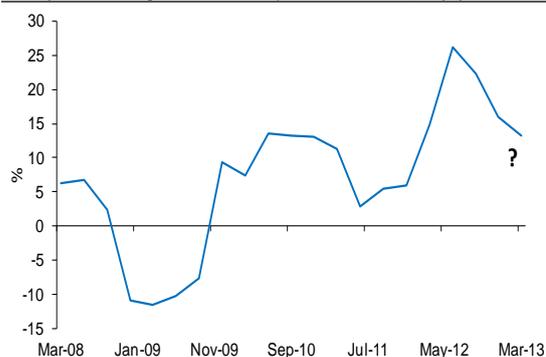
Korea domestic retail sales and Industrial production y/y



Source: Bloomberg, Standard Chartered

Increased fixed investment will offset weakness in the external sector

Malaysia GDP gross fixed capital formation, %y/y



Source: Bloomberg, Standard Chartered

cycle' areas, such as **Technology** and **Consumer Discretionary**. We expect this trend to continue and favour **Technology** for its high quality balance sheet, return on equity and attractive valuations. **Energy** is more 'late-cycle', but the sector is attractively valued while **Healthcare** is likely to continue to benefit from investors looking for safe and stable earnings.

Europe (N): We are upgrading Europe on relatively attractive valuations and an improving outlook, expecting policy makers to make a gradual shift towards more growth orientated policy. 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**.

Japan (N): With the market falling below our technical support and given the substantial rise in volatility, we have closed our tactical trade. We continue to advocate that investors who can hold through the current, more volatile environment, should do so. We expect a stronger market (in nominal terms) in the medium term driven by continued QE, but would suggest investors tread cautiously given how policy driven the environment is.

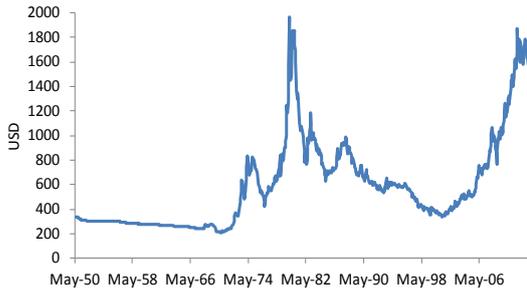
Asia ex-Japan (UW): We have downgraded our outlook for Asia ex-Japan on concerns of slower growth and weaker Asian currencies. Under this backdrop, parts of Asia including Indonesia and Thailand may be more vulnerable to fund outflows.

Within the context of our Asia ex-Japan Underweight, we are cautious on **China (N)** due to a deteriorating growth outlook, with valuations unlikely to drive upside. **Hong Kong (OW)** remains our preferred way to capture exposure to China.

- **South Korea (UW)** – We have downgraded South Korea as economic data continues to deteriorate. Trade data has been especially weak and industrial production is already contracting. We see increased headwinds from renewed weakness in the Yen. This has pressured prices (sharp decline in PPI) as domestic consumption continues to stagnate. Valuations look cheap, but consensus earnings look high (in excess of 20%), which in our opinion, look likely to be cut.
- **Malaysia (N)** – We have upgraded Malaysia given its more defensive nature. It is the only market within ASEAN which has not cut interest rates since 2011 and the government remains in a position to stimulate the domestic economy. The ongoing investment spending, via its Economic Transformation Plan, will be key to help offset the weakness in the external sectors. The market is not cheap at 16x 12m forward P/E, but relative to ASEAN peers, offers more value. Potential risks include weakness in the ringgit and potential outflows of foreign capital.
- **India (OW)** – Remain OW India. The government is accelerating the reform implementation to drive longer term development and the moderation in interest rates should be a positive. Fund outflows, though, remain a near term risk.

Conclusion: We advocate underweight investors consider using a time-bound approach for rotating out of bonds or cash into global equities, accelerating purchase on any weakness. Current levels look attractive.

Gold likely to have already peaked
Gold in 2013 prices



Source: Bloomberg, Standard Chartered

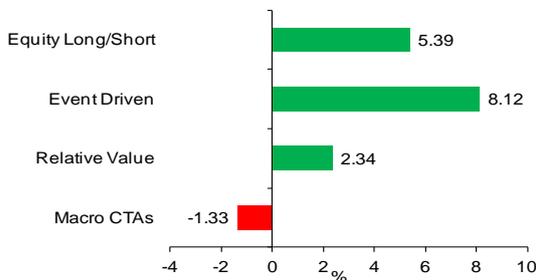
Soft patch in global growth weighed on commodity prices

DJ-UBS Industrial Metals Price Index vs China PMI Manufacturing Index



Source: Dow Jones UBS, Bloomberg, Standard Chartered

Performance of Alternative Strategies YTD* (USD)



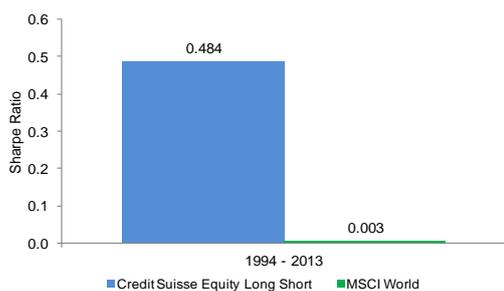
* For the period 31 Dec 2012 to 20 June 2013

Source: HFRX, Bloomberg, Standard Chartered

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

Equity long-short strategies offer better risk-adjusted returns than global equities

Sharpe ratio, global equities vs. equity long/short strategies



Source: Credit Suisse, Bloomberg, Standard Chartered

*Indices used: Credit Suisse equity long/short, MSCI AC world

Commodity – Underweight

We are Underweight commodities due to our assessment of softer growth in China. We remain Underweight gold and believe broad USD strength and lower inflation expectations are likely to lead to further weakness.

We remain Underweight gold. Gold prices are likely to continue declining given the high opportunity costs of holding gold, the broad strength in the USD and falling inflation expectations. Silver prices remain in sync with gold prices, albeit with higher levels of volatility and greater downside risks.

We turn Neutral on industrial metals from being Overweight. Softer demand from China is likely to weigh on industrial metal prices that are struggling to recover from high inventory levels.

We remain Overweight oil. We believe oil prices will likely be supported by seasonal demand and the Organisation of Petroleum Exporting Countries (OPEC) price objectives. 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: Softer growth in China is likely to weigh on commodity prices. As such, we are now Neutral on industrial metals. We remain Underweight gold and Overweight oil.

Alternative Strategies – Overweight

We raise Alternative Strategies to Overweight, from Neutral earlier. In our view, this asset class offers an opportunity to gain exposure to our preferred asset classes, but with the possibility of a lower level of volatility. Some alternative strategies also stand out for their low sensitivity to rising yields.

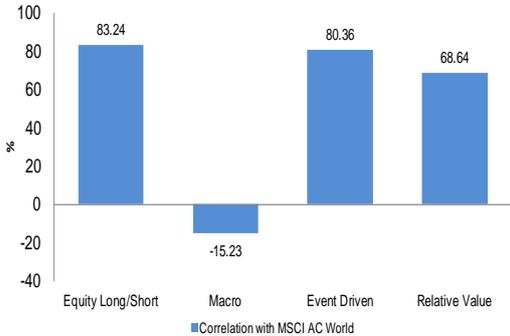
While we maintain our preference for a diversified basket of alternative strategies, we specifically favour a barbell approach: (1) equity long/short strategies, on one hand, as an alternative way of gaining equity exposure, and (2) Macro/CTA strategies, on the other, as a way of reducing portfolio volatility and benefiting from clearer market trends.

Equity long/short strategies offer a lower volatility alternative to gaining equity exposure. Equity long-short strategies remain highly correlated with equities, our preferred asset class. However, equities rarely go up in a straight line and a long-only position involves taking on some volatility. Equity long-short strategies rarely outperform a simple long-only approach during strong bull markets, but they offer the advantage of lower risk when equity markets are volatile. We, therefore, see equity long-short strategies as an alternative way for investors to gain exposure to our preferred asset class, especially when they would prefer to build in some level of insurance against downside risks.

Macro/CTA strategies remain the only real portfolio diversifier, but may also benefit during periods of rising interest rates. Correlations between various alternative strategies and global equities show macro/CTA strategies

Macro/CTA strategies remain the only strategy with lower correlations to global equities

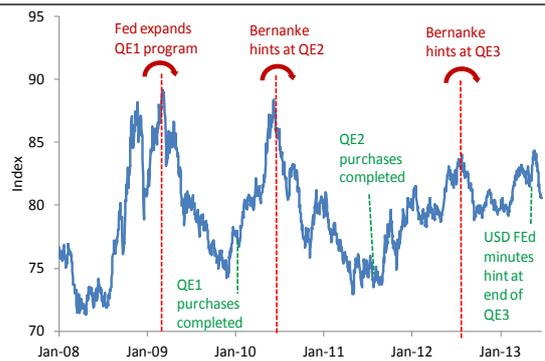
Correlations of Alternative Strategies with MSCI AC World, 2000 to date



Source: HFRX, Bloomberg, Standard Chartered

Outlook of QE program is key for USD

DXY Index



Source: Bloomberg, Standard Chartered

Note: DXY Index comprises of the weighted performance of the USD against the EUR, JPY, GBP, CAD, SEK and CHF.

remain the only alternative sub-asset class that offers some level of portfolio diversification. Given the number of uncertainties that exist in the investment climate, incorporating a portfolio hedge remains a relevant risk management tool.

This strategy also tends to benefit from trending markets, suggesting it is likely to do well in an environment of rising yields. This makes the strategy attractive for investors looking for an alternative to unattractive valuations in the fixed income asset class, in our opinion.

A combined basket of alternative strategies remains a preferred implementation approach as well. The key attractions of such a basket are a lower level of volatility (relative to equities) and relatively limited sensitivity to interest rate risk.

Conclusion: Raise Alternative Strategies to 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

USD – We are medium term bullish on the USD

We remain bullish on the USD given the strong likelihood the US Fed will begin unwinding its quantitative easing program by early 2014 and improving US current account balances. However, given the US Fed will likely continue expanding its balance sheet, albeit at a lower pace, well into 2014, the pace of USD appreciation is likely to be gradual. We believe the recent weakness in the USD against major currencies is temporary as excessive speculative long USD positions correct.

EUR – We are medium-term bearish

We believe the European Central Bank’s policies are tighter than the economic situation warrants. As such, the ECB’s contracting balance sheet and the positive current account balance, attributed mainly to Germany, is likely to provide some support in the meantime. However, given our expectations of a bullish USD, we are bearish on the EUR from a relative perspective as USD yields may rise at a faster pace than European yields.

JPY – We are medium-term bearish

We remain bearish on JPY as the Bank of Japan (BoJ) continues to implement aggressive monetary easing. The recent policy uncertainty, arising from rising government bond yields and disappointing reform measures is likely to diminish as we move past the Upper House elections on July 21. Given the high likelihood of Japanese Prime Minister Shinzo Abe gaining further support, we believe stronger reform measures are likely to be announced after July 21. The recent policy uncertainty has highlighted risks to carry strategies amidst high levels of JPY volatility. We continue to recommend a hedged exposure to Japanese assets.

AUD – We are medium-term bearish

We turn bearish from being neutral with a negative bias previously as China’s growth is likely to soften further. Previous factors weighing on the AUD such as lower commodity prices, weaker domestic growth and a stronger USD remain. In addition, expectations of further rate cuts by the

NZD more attractive than AUD now

AUD and NZD 2yr swap spreads against USD



Source: Bloomberg, Standard Chartered

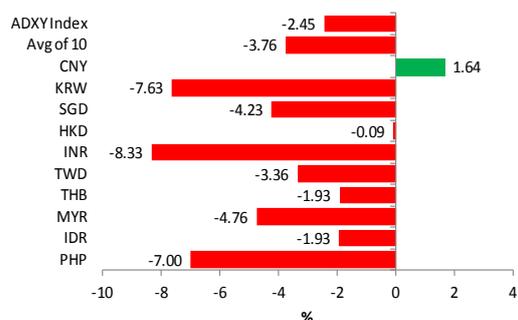
CNY close to fair value

CNY Nominal Effective Exchange Rate (NEER)



Source: Bank of International Settlements, Bloomberg, Standard Chartered

Performance of selected currencies (YTD)*



* For the period 31 Dec 2012 to 20 June 2013
Source: Bloomberg, Standard Chartered.

SGD still within appreciation band

Standard Chartered SGD NEER policy band



Source: Bloomberg, Standard Chartered

Reserve Bank of Australia (RBA) this year is likely to make the NZD more attractive on a relative basis. **In the interim, we would use any bounce in the AUD to reduce exposure.**

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. We believe the monetary policy statement on July 4 will most likely involve significant monetary easing, which is likely to be bearish on the GBP in the medium term.

CNY – We are medium term neutral

Ongoing policy reform and initiatives by China's policymakers to achieve sustainable growth are likely to keep the Renminbi stabilised around current levels. We note that the development of the offshore Renminbi market remains a priority for Chinese authorities and any liberalisation and deregulation measures are likely to be orderly. From a valuation perspective, we believe the Renminbi is closer to fair value.

We are medium term bearish on Asia-ex Japan currencies

We turn bearish on Asia ex-Japan currencies due to growing downside risks to regional economic growth and less support from the Renminbi given our neutral view. In addition, tapering of US Fed's quantitative easing program will likely add downward pressure on Asia ex-Japan currencies. However, possible intervention by authorities is likely to moderate any weakness in the currencies.

SGD – We are medium term neutral

Given the growing risks to economic growth in the Asia ex-Japan region and our neutral view on the Renminbi, we believe the SGD is likely to remain stable. As inflation eases, we do not rule out the possibility of the currency trading at the lower half of the Monetary Authority of Singapore's (MAS) trade weighted exchange rate policy band. MAS will likely announce its next monetary policy decision in October.

Conclusion: We remain bullish on the USD, but the pace of appreciation is likely to be gradual. We turn bearish on Asia ex-Japan currencies due to growing downside risks to regional economic growth and less support from the Renminbi. However, intervention by authorities is likely to moderate any weakness in the currencies. Volatility in foreign exchange markets is likely to remain elevated.

Conclusion

We believe our B.R.I.D.G.E. framework is still appropriate. 2013 is viewed as a Year of Transition from a shorter-cycle, policy-driven economic environment to one that is stronger and more sustainable. Naturally, this will not be a smooth process as the past month's events attest. However, we believe the economy will be much more stable by the end of the year than in 2012, led by improvements in Developed markets.

Against this backdrop, global equities are our preferred asset class. We believe underweight investors should consider taking a time-bound approach to increasing their allocation to Developed market equity where appropriate.

Asset Allocation Summary

Tactical Asset Allocation - July 2013

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	62	86
Commodities	UW	5	9	9	4
Alternatives	OW	12	13	12	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	7	6	2
	HY Emerging World	N	4	4	8	2
Developed Market Equity	North America	OW	9	14	20	27
	Europe	N	7	10	14	20
	Japan	N	1	3	4	6
Emerging Market Equity	Asia ex-Japan	UW	8	13	20	26
	Other EM	UW	2	3	4	7
Commodities	Commodities	UW	5	9	9	4
Hedge FoF/CTAs		OW	12	13	12	6

Source: Standard Chartered

Economic & Market Calendar

	Next Week: June 24 - June 28				Last Week: June 17- June 21			
	Event	Period	Expected	Prior	Event	Period	Actual	Prior
MON	GE IFO - Business Climate	Jun	--	105.7	EC Euro-Zone Labour Costs (YoY)	1Q	1.60%	1.30%
	GE IFO - Expectations	Jun	--	101.6	US Empire Manufacturing	Jun	7.84	-1.43
	US Chicago Fed Nat Activity Index	May	--	-53.00%	US NAHB Housing Market Index	Jun	52	44
	US Dallas Fed Manf. Activity	Jun	-5	-10.5	IN Exports YoY%	May	1.10%	1.70%
	UK Nat'wide House prices nsa(YoY)	Jun	--	1.10%	CH Actual FDI (YoY)	May	0.30%	0.40%
	TA Unemployment Rate - sa	May	4.17%	4.19%	SI Electronic Exports (YoY)	May	13.20%	-9.00%
	SI CPI (YoY)	May	1.20%	1.50%	SI Non-oil Domestic Exports (YoY)	May	-4.60%	-1.00%
	TA Industrial Production (YoY)	May	-1.46%	-0.88%	IN Cash Reserve Ratio	17-Jun	4.00%	4.00%
					IN India REPO Cutoff Yld	17-Jun	7.25%	7.25%
				IN Reverse Repo Rate	17-Jun	6.25%	6.25%	
TUE	US Durable Goods Orders	May	2.60%	3.50%	JN Industrial Production YOY%	Apr F	-3.40%	-2.30%
	US Cap Goods Orders Nondef Ex Air	May	--	1.20%	JN Machine Tool Orders (YoY)	May F	-7.40%	-7.40%
	US S&P/CS Composite-20 YoY	Apr	10.40%	10.87%	UK CPI (YoY)	May	2.70%	2.40%
	US Richmond Fed Manufact. Index	Jun	--	-2	UK Core CPI YOY	May	2.20%	2.00%
	US New Home Sales MoM	May	1.30%	2.30%	EC ZEW Survey (Econ. Sentiment)	Jun	30.6	27.6
	HK Exports YoY%	May	--	9.00%	GE Zew Survey (Current Situation)	Jun	8.6	8.9
	HK Imports YoY%	May	--	7.70%	GE ZEW Survey (Econ. Sentiment)	Jun	38.5	36.4
	HK Trade Balance	May	--	-42.7B	US Consumer Price Index (YoY)	May	1.40%	1.10%
					US CPI Ex Food & Energy (YoY)	May	1.70%	1.70%
				AU RBA Policy Meeting - June Minutes		--	--	
				HK Unemployment Rate SA	May	3.40%	3.50%	
WED	US MBA Mortgage Applications	21-Jun	--	--	UK Bank of England Minutes		--	--
	US GDP QoQ (Annualized)	1Q T	2.40%	2.40%	MA CPI YoY	May	1.80%	1.70%
	US Core PCE QoQ	1Q T	--	1.30%				
	SI Industrial Production YoY	May	0.10%	4.70%				
THUR	GE Unemployment Rate (s.a)	Jun	--	6.90%	US FOMC Rate Decision	19-Jun	0.25%	0.25%
	UK GDP (YoY)	1Q F	--	0.60%	EC PMI Manufacturing	Jun A	48.7	48.3
	US Initial Jobless Claims	21-Jun	--	--	EC PMI Services	Jun A	48.6	47.2
	US PCE Core (YoY)	May	--	1.10%	EC PMI Composite	Jun A	48.9	47.7
	US Pending Home Sales YoY	May	--	13.90%	US Initial Jobless Claims	14-Jun	354000	334000
	US Kansas City Fed Manf. Activity	Jun	--	2	US Philadelphia Fed.	Jun	12.5	-5.2
	NZ ANZ Business Confidence	Jun	--	41.8	US Existing Home Sales MoM	May	4.20%	0.60%
	CH Industrial Profits YTD YoY	May	--	11.40%	NZ GDP YoY	1Q	2.40%	3.00%
	TA Benchmark Interest Rate	20-Jun	1.88%	1.88%	CH HSBC Flash Manufacturing PMI	Jun	48.3	49.2
				TA Export Orders (YoY)	May	-0.40%	-1.10%	
				HK CPI - Composite Index (YoY)	May	3.90%	4.00%	
FRI	UK GfK Consumer Confidence Survey	Jun	--	-22	CN MNI Flash Business Sentiment Indicator	Jun	--	--
	JN Markit/JMMA Manufacturing PMI	Jun	--	51.5				
	JN Jobless Rate	May	--	4.10%				
	JN Natl CPI YoY	May	--	-0.70%				
	JN Natl CPI Ex Food, Energy YoY	May	--	-0.60%				
	JN Industrial Production YOY%	May P	--	-3.40%				
	JN Vehicle Production (YoY)	May	--	-6.50%				
	JN Housing Starts (YoY)	May	--	5.80%				
	US Chicago Purchasing Manager	Jun	55	58.7				
	US U. of Michigan Confidence	Jun F	83	82.7				
	SK Industrial Production (YoY)	May	--	1.70%				
	AU Private Sector Credit YoY%	May	--	3.10%				
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				

3-12 Month Market Outlook

	Spot	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
US	0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25
Europe	0.50	0.50	0.50	0.50	0.50	0.50
UK	0.50	0.50	0.50	0.50	0.50	0.50
Australia	2.75	2.75	2.50	2.50	3.00	3.25
China	6.00	6.00	6.00	6.00	6.25	6.75
Taiwan	1.88	1.88	1.88	1.88	2.00	2.13
Malaysia	3.00	3.00	3.00	3.25	3.25	3.25
Indonesia	6.00	6.00	6.50	6.50	6.50	6.50
South Korea	2.50	2.50	2.00	2.00	2.00	2.00
India	7.25	7.25	7.25	7.00	7.00	7.00
Philippines	3.50	3.50	3.50	4.00	4.00	4.00
Thailand	2.50	2.50	2.50	2.50	2.50	2.50

	Spot	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
EUR/USD	1.32	1.29	1.32	1.29	1.30	1.27
GBP/USD	1.55	1.48	1.52	1.46	1.48	1.47
USD/JPY	97.22	98.00	96.00	97.00	102.00	102.00
USD/CAD	1.04	1.05	1.03	1.03	1.04	1.02
USD/CHF	0.93	0.97	0.95	0.98	0.98	1.03
AUD/USD	0.92	0.96	0.98	0.98	0.96	0.94
NZD/USD	0.78	0.82	0.85	0.86	0.91	0.89
USD/CNY	6.13	6.18	6.15	6.13	6.10	6.07
USD/SGD	1.28	1.27	1.26	1.25	1.24	1.26
USD/MYR	3.21	3.12	3.10	3.07	3.00	3.08
USD/IDR	9982	9,950	9,900	9,800	9,700	9,800
USD/KRW	1159	1,130	1,100	1,110	1,080	1,080
USD/INR	59.58	54.50	53.50	53.00	52.00	53.00
USD/THB	31.18	30.50	30.25	30.25	30.00	30.50
USD/PHP	43.88	42.00	41.50	41.25	41.00	41.75

	Spot	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Brent Oil	102	106	110	108	105	-
WTI Oil	95	93	98	98	98	-
Copper	6,770	7,250	7,500	7,750	8,500	-
Aluminium	1,798	1,900	2,000	2,100	2,200	-
Corn	558	660	650	625	660	-
Soybeans	1,283	1,460	1,450	1,400	1,350	-
Wheat	706	700	725	730	740	-

Source: Bloomberg, Standard Chartered Research (21 June 2013 Economics Weekly)
* Period averages for each quarter.

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