Weekly Macro Views (WMV)

Treasury Research & Strategy

6th June 2023

Weekly Macro Update

Key Global Data for this week:

5th June	6th June	7th June	8th June	9th June
- ID CPI YoY - US Durable Goods Orders - ID S&P Global PMI Mfg - SI Retail Sales YoY	- TH CPI YoY - TA CPI YoY - GE Factory Orders MoM - PH CPI YoY 2018=100	- AU GDP SA QoQ - US MBA Mortgage Applications - GE Industrial Production	- US Initial Jobless Claims - JN GDP SA QoQ - JN BoP Current Account Balance	- CH CPI YoY - CA Unemployment Rate - CH PPI YoY - TH Foreign Reserves

Summary of Macro Views:

Global	• **Global:** Central Banks • **Global:** US debt ceiling deal passed before X-date • **Global:** US job data in a mixed bag
Asia	• **SG:** Retail sales rose in April but momentum likely peaked • **CN:** Hopes for more property stimulus • **CN:** Inventory cycle – End of active destocking • **HK:** Fading reopening boost • **HK:** Sentiment in housing market stayed positive

Asia	• **MO:** Gaming revenue returned to half of pre-Covid level • **ID:** Back within range • **TH:** BOT delivers another 25bp hike
Asset Class	• **Oil:** Saudi Arabia to unilaterally cut output by 1 million bbl/d in July • **ESG:** Malaysia aviation group’s initiatives in sustainable aviation fuel • **FX & Rates:** Overshoot
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: Central Banks

Forecast – Key Rates

Reserve Bank of Australia (RBA)	Bank of Canada (BoC)	Reserve Bank of India (RBI)
Tuesday, 6th June	**Wednesday, 7th June**	**Thursday, 8th June**

House Views

Cash Rate Target	*Policy Interest Rate*	*Repurchase Rate*
Likely hold at 3.85%	**Likely hold at 4.50%**	**Likely hold at 6.50%**

OCBC Bank

Source: OCBC, Bloomberg

Global: US debt ceiling deal passed before X-date

- President Joe Biden signed into law a bill on 3 June, to suspend the nation’s debt limit through 1 January 2025, to avert a first-ever US default. The legislation suspends the nation’s US$31.4tn the debt limit through early 2025, taking the threat of default off the table until after next year’s presidential election. After FY2025, there are no budget caps, just non-enforceable appropriation targets.

Main Items	Current	After the Bill	Notes
Spending cap	-	Non-defense Spending Cap: - FY2024: US$704bn - FY2025: ~US$711bn (1% increase)	The legislation will maintain full funding for veteran’s health care
Expand work requirements (Supplemental Nutrition Assistance Program – SNAP)	Childless, able-bodied adults **ages 18 to 49** are only able to get food stamps for three months out of every three years unless they are employed at least 20 hours a week or meet other criteria.	The number of people subject to the mandate will be broadened in phases so that by 2025, it will apply to those between the **ages of 18 and 54**.	Exempted for homeless, veterans, and people who are former foster youth in SNAP
Claws back some Covid-19 relief funds	Congress approved roughly US$4.6tn in Covid-19 relief funds since the pandemic began in early 2020.	Will **rescind ~US28bn** in unobligated funds from the Covid-19 relief packages	
Terminate the suspension of student loan repayments	Pause in student loan repayments since the Covid-19 pandemic started.	The repayment will resume at the end of the summer.	Some of that money will be repurposed to boost non-defense spending.

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Source: OCBC, Bloomberg, White House

Global: US debt ceiling deal passed before X-date

Main Items	Current	After the Bill	Notes
Cuts internal revenue service (IRS) funding	Biden and Democrats secured US$80bn for a decade in new funding to help the IRS enforce the tax code for companies and wealthy individuals in last year's Inflation Reduction Act (IRA).	The debt limit agreement will **rescind US$1.38bn** from the IRS and **repurpose another US$20bn** from the US$80bn it received through the IRA, in each of FY2024 and FY2025.	
Energy permitting	-	The agreement includes new measures to get energy projects approved more quickly by creating a lead agency to oversee reviews and require that they are completed in one to two years.	The requests for the Mountain Valley Pipeline, a US$6.6bn natural gas project in West Virginia, were approved.
Maintain climate and clean energy measures	House Republicans had sought to repeal the hundreds of billions of dollars in clean energy tax credits and subsidies, which are to incentivise transition to lower-emission energy sources and fight climate change. → However, the legislation on final agreement **will not make any changes to the IRA's climate and clean energy provisions.**		

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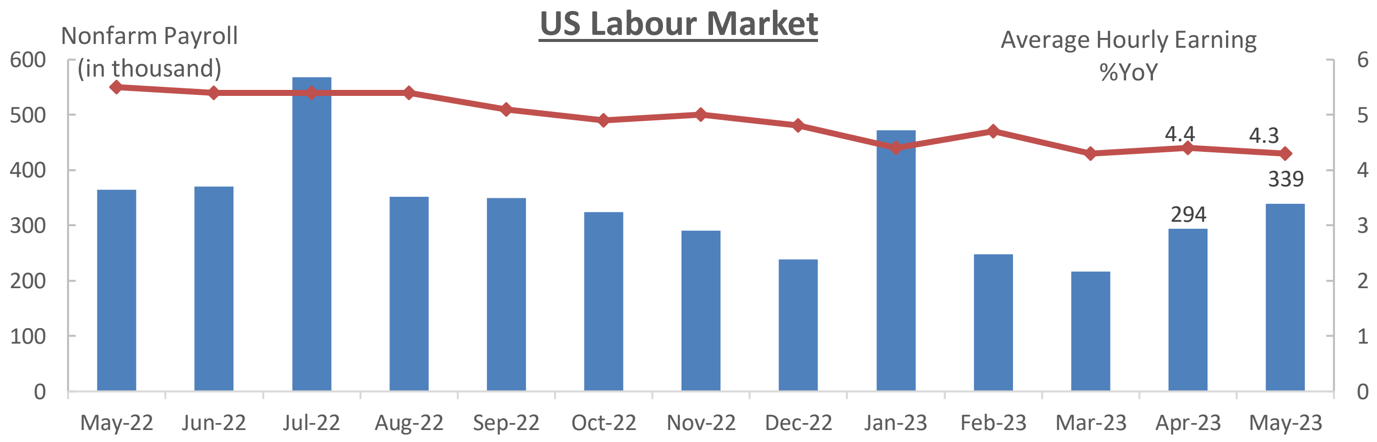
Source: OCBC, Bloomberg, White House

Global: US job data in a mixed bag

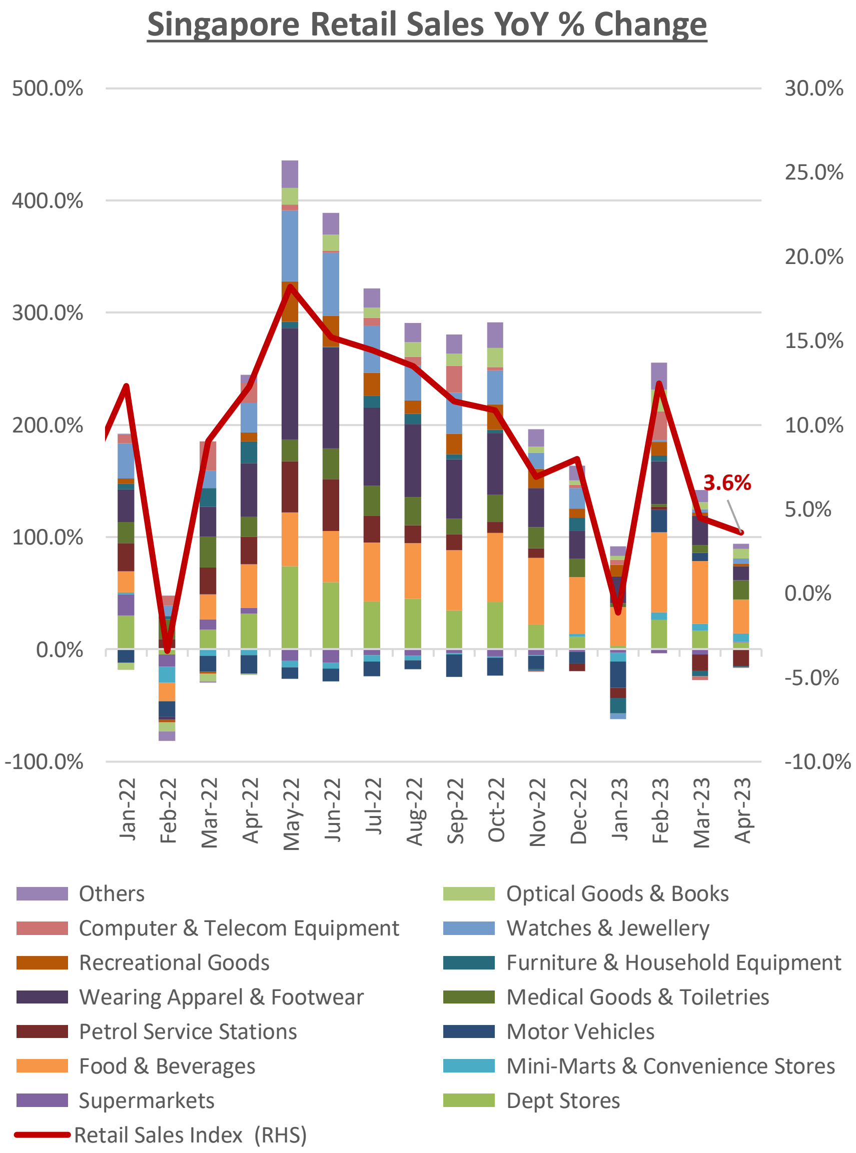
- US job growth accelerated in May, with total nonfarm payroll employment increased more than expected by 339K in May (vs. 195K as consensus). Meanwhile, the nonfarm payroll employment for March and April are both revised upwards, by 52K and 41K, respectively. In May, the job gains mainly occurred in professional and business services (+64K), government (+56K), health care (+52K), leisure and hospitality (+48K), construction (+25K) and transportation and warehousing (+24K).
- However, the surge in the unemployment rate to a seven-month high of 3.7% in May (vs. expectation of 3.5%), despite the labour force participation rate remained unchanged at 62.6%, due in large part to a sharp decline of 369K in self-employment. This suggested that the labour market conditions were easing, although the jobless rate is still near the lowest since 1969.
- In May, average hourly earnings rose by 0.3% MoM (4.3% YoY), after rising 0.4% MoM (4.4% YoY) in April. The workweek dropped to a three-year low of 34.3 hours from 34.4 hours, suggesting some businesses were cutting hours rather than laying off workers.
- In general, US labour market remains resilient, despite showing some easing signals, which could pave the road for the soft-landing scenario.



Source: OCBC, Bloomberg, The Federal Reserve

Singapore: Retail sales rose in April but momentum likely peaked

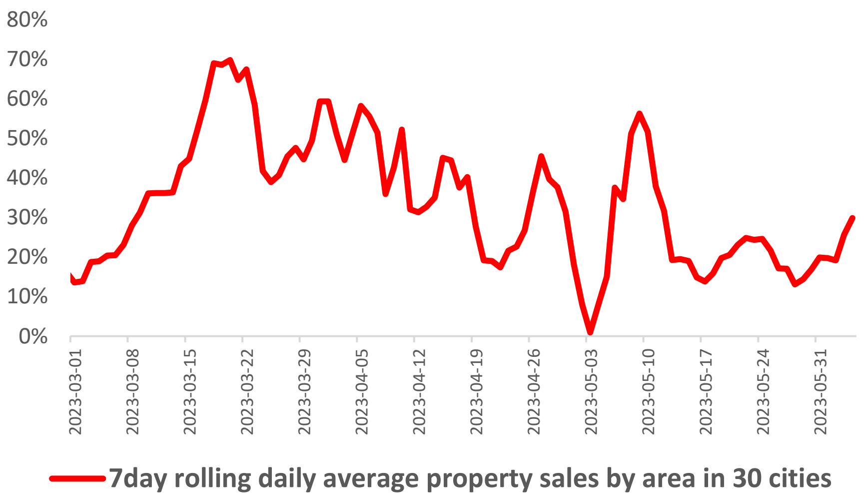
- Retail sales rose 3.6% YoY (0.3% MoM sa) in April, which beat Bloomberg market consensus forecast of -1.9% YoY but is close to our forecast of 3.0% YoY. This is a moderation from the March reading of 4.5% YoY (2.2% MoM sa) but marked the third straight month of expansion in both on-year and on-month terms. Excluding motor vehicles, retail sales also climbed 4.2% YoY (1.5% MoM sa) in April, clocking its 14th consecutive month of on-year growth. This suggests that domestic demand conditions remained healthy, aided by the robust local labour market and notwithstanding the 1% point GST hike in January 2023.
- Sales were strong for key retail segments like Food & Alcohol and Cosmetics (30.5% YoY), Toiletries & Medical Goods (16.8% YoY), and Wearing Apparel & Footwear (13.0% YoY), despite the growing momentum is easing.
- In contrast, sales weakness were noticeable in April for the petrol service stations, Furniture & Household Equipment and Computer & Telecommunications Equipment, due to rising car prices and COE premiums, worker returning to work in office and also the ongoing downturn in the global electronics industry.
- With the sustained pickup in visitor arrivals since March 2023, the hospitality-related industries should stay resilient in 2H23 despite China's pace of re-opening which has been disappointing of late. While retail sales in the coming months may come under some pressure if the external economic environment does not improve and/or the domestic labour market softens more than expected, we are comfortable in retaining our full-year 2023 retail sales growth forecast of 4% YoY, with 2Q23 retail sales tipped at 3.7% YoY.

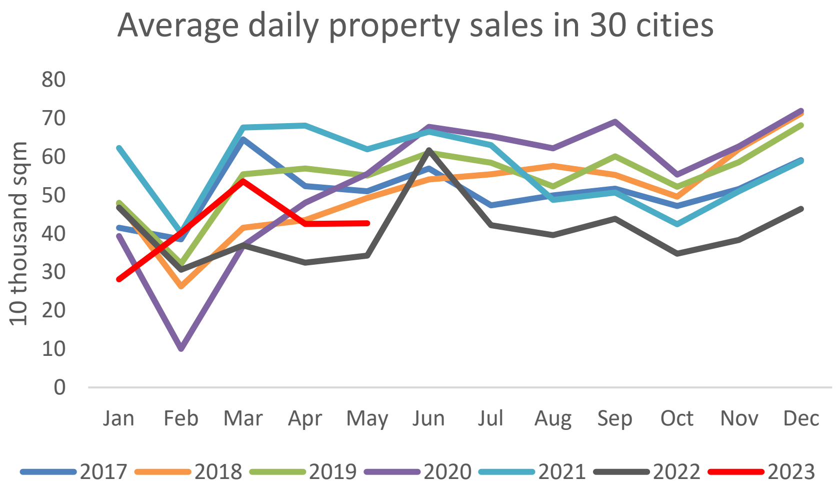


Source: OCBC, CEIC

China: Hopes for more property stimulus

- Although China's property sales recorded a double digit growth this year against the backdrop of low base, the absolute level of property sales in 30 major cities still fell short of the pre-pandemic level.
- Chinese stocks experienced a significant rally last Friday in response to rumours of more stimulus following the downgrade. Bloomberg reported that China is devising measures to bolster the property market, a sentiment that was echoed when Qingdao city in Shandong Province announced a new round of property easing measures, such as lowering the downpayment ratio and supporting real demand and upgrades. This sparked hopes of further property easing, igniting a risk-on sentiment.
- However, last Friday's State Council meeting made no mention of the property market, focusing primarily on new energy vehicles (NEVs). China will continue to leverage on NEVs to stimulate growth and deliver the high-quality growth.

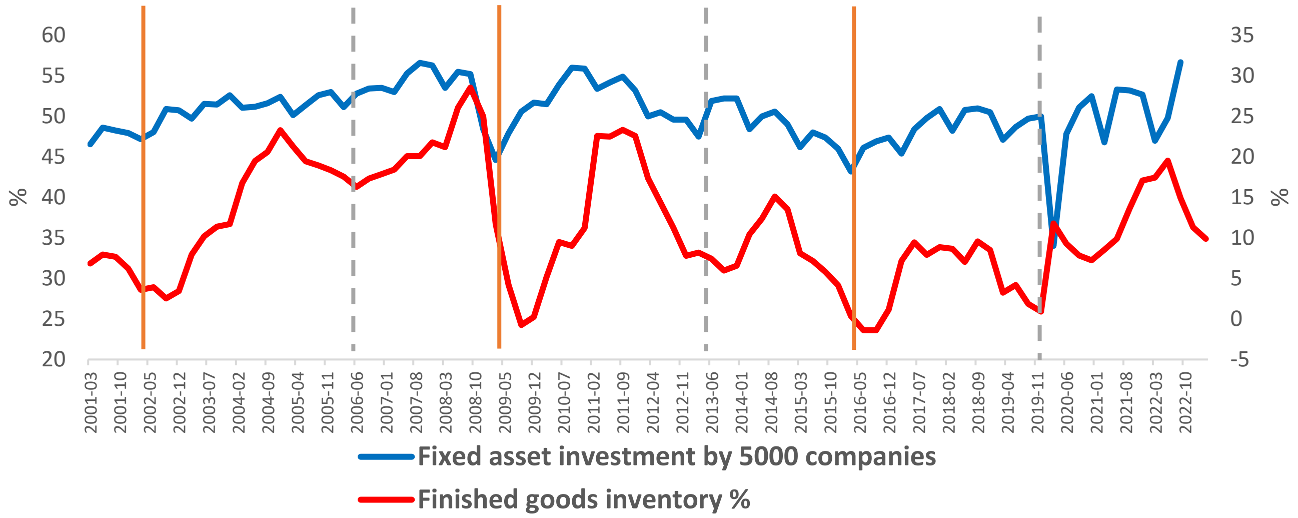




Source: Wind, CEIC, OCBC

China: Inventory cycle – End of active destocking

- The 0.5 sequential decline in finished goods inventory indicates that Chinese manufacturers are in the midst of a destocking phase, which has been ongoing for a year since the inventory cycle peaked in April 2022. Yet, we believe this inventory cycle may be transitioning from an "active destocking" to a "passive destocking" phase.
- Considering the average destocking phase duration is usually less than 20 months, this phase might be nearing its end. Insufficient demand may slow the recovery pace, but it's unlikely to deviate from the path of recovery, especially if we consider the historical patterns of China's inventory cycle. Guided by history, we can anticipate the road to recovery, albeit potentially lengthier, will persist in its course.



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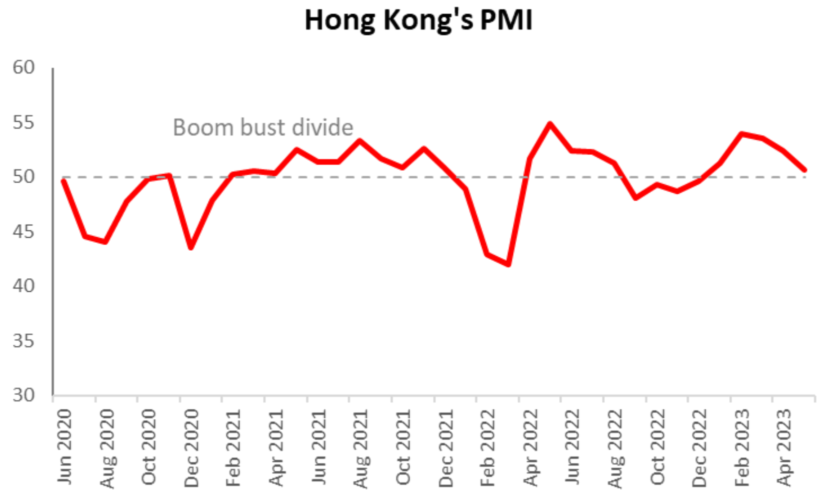
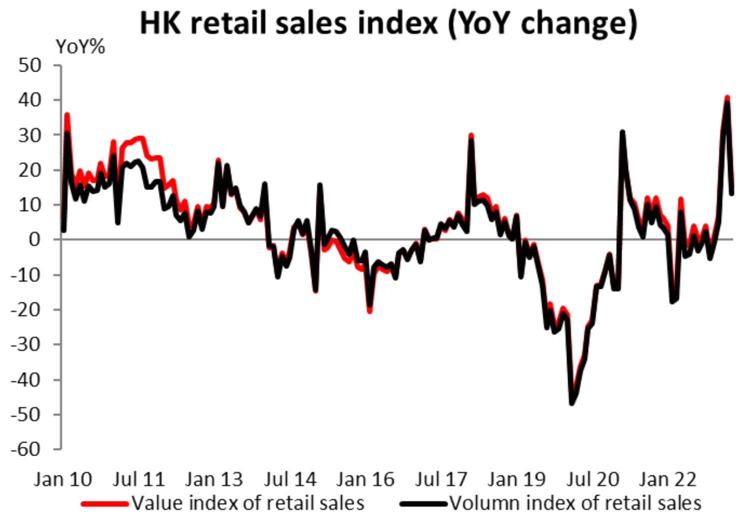
Source: Wind, CEIC, OCBC

Hong Kong: Fading reopening boost

- Further signs of softening growth momentum emerged after the sharp rebound in the first quarter, with May's economic activities expanding at the slowest pace this year. Hong Kong's PMI in May fell to 50.6, the third consecutive month of decline, amid fading reopening boost.
- Retail sector performance in Hong Kong continued to improve, alongside the distribution of consumption voucher and rebound in visitor spendings. The value and volume of total retail sales rose by 15.0% YoY and 13.3% YoY respectively in April. Breaking down by component, jewellery and watches (+75.2% YoY), clothing and footwear (+36.7% YoY), and other consumer goods (+23.0% YoY) rose the most. Meanwhile, retail sales of fuel (-10.2% YoY), consumer durable (-9.0% YoY) and supermarket (-7.9% YoY) fell.





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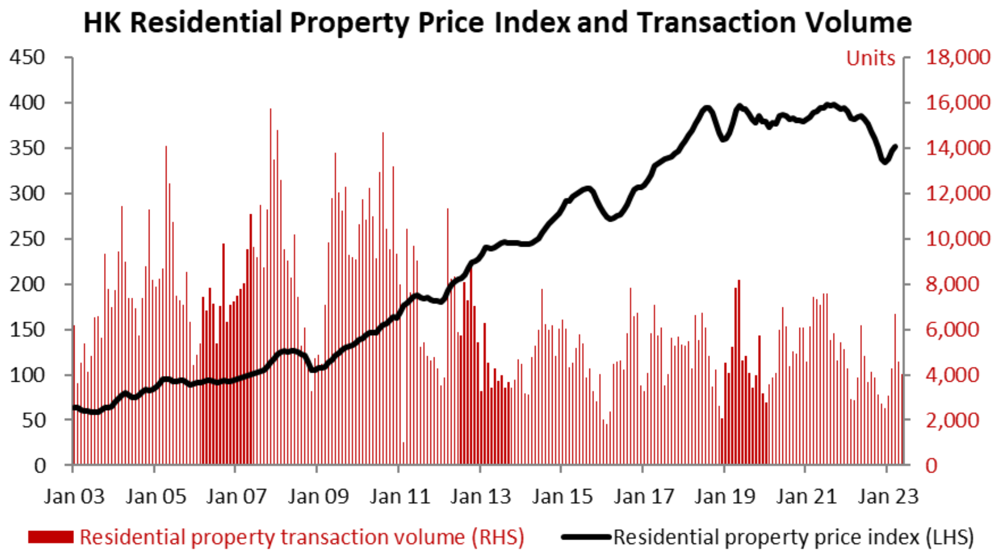
Source: HK Census & Statistics Department, S&P, OCBC

Hong Kong: Sentiment in housing market stayed positive

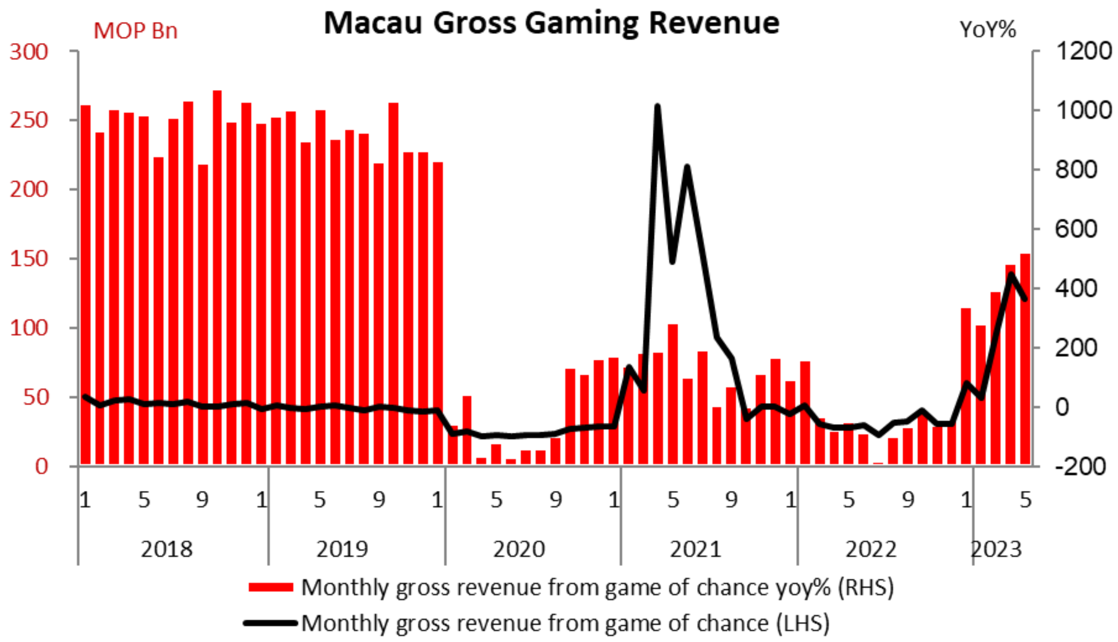
- Sentiment in Hong Kong's housing stayed generally positive. On month-on-month basis, the residential property price index rose further, albeit by a moderated pace of 0.5% in April. Compared with the level at end-2022, the housing price rose by 5.8% cumulatively. Rental index also rose further by 1.4% in April over the previous month. On trading side, in the first five months, the number of transactions of residential properties rebounded by 12.2% YoY.
- Earlier this year, the market was hopeful that influx of foreign talents and return of mainland buyers will further boost home demand. So far, its impact had only been felt in the rental market. While we have seen an increase in non-local buyers, their share remained insignificant at 0.7% of total transactions in the first quarter.



Source: HK Rating and Valuation Department, OCBC

Macau: Gaming revenue returned to half of pre-Covid level

- Macau's casino gross gaming revenue soared 5.7% MoM and 365.9% YoY to MOP15.656 billion in May, the highest level in three years.
- While many had foreseen the sharp inflex of tourists and gamblers after the full-fledged reopening of Macau, the pace and magnitude of recovery still overwhelmingly surprised to the upside. In cumulative term, the total gross revenue surged by 172.9% YoY in the first five months this year, reaching 51.7% of the pre-pandemic level (the same period in 2019). We expect the gross gaming revenue to return to around 60-70% of the pre-pandemic level this year, paving way for a strong comeback of Macau economy.



Source: DSEC, DICJ, OCBC

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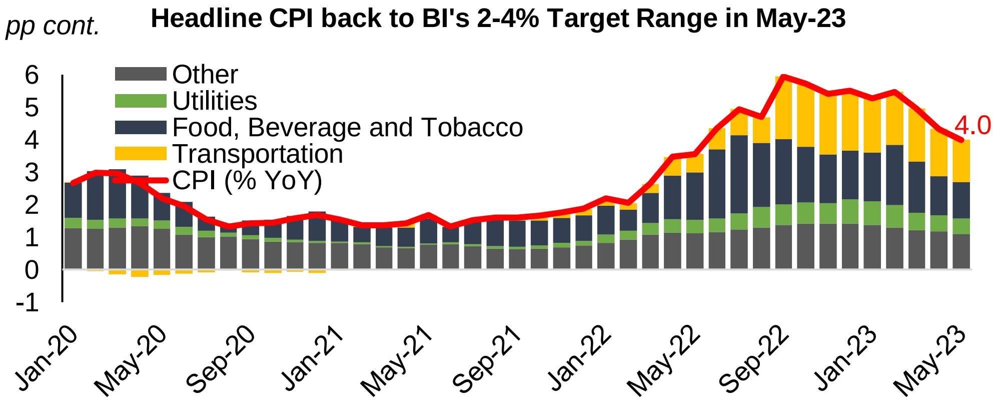
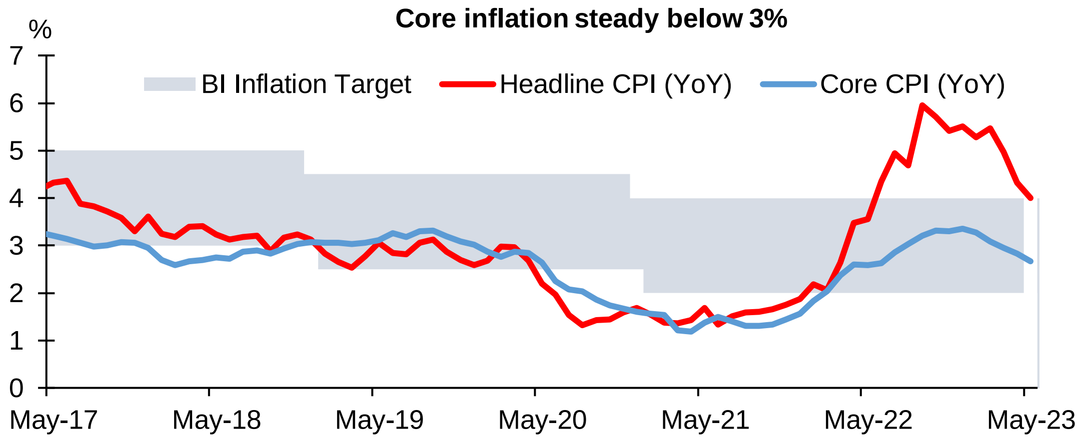
Indonesia: Back within range

- Inflation eased 4.0% YoY in May, lower than April's figure and our forecast of 4.3%. This also means that headline inflation has successfully returned to Bank Indonesia's 2-4% target range earlier than expected. During BI 25 May meeting, headline inflation is projected to ease into its target range in 3Q23, while the projections for core inflation remained unchanged. Core inflation also eased 2.7%, lower than April's figure and the consensus expectations of 2.8%.
- The lower inflation was mainly driven by an easing in the transportation CPI, which slowed to 10.6% YoY from 12.0% in the previous month. This was followed by a decrease in the food component, which also eased to 3.4% from 3.8%. In terms of percentage point contribution (ppc) to the headline figure, the Transportation CPI led with 1.3ppc, followed by the Food, Beverage & Tobacco components with 1.1ppc. However, these figures are lower by 16bps and 8bps, respectively, compared to April's figures.
- With the stability of the Rupiah remaining a key concern, amidst uncertainty in markets and recent strength in the USD, we expect Bank Indonesia to maintain the benchmark policy rates at 5.75% in the coming months.



Note: Other = Combined value or of Clothing and Footwear, Household Equipment & Routine Maintenance, Health, Information, Comm & Financial Service, Recreation, Sports, and Culture, Education, Food and Beverage Provision/Restaurant, & Personal Care and Other Services.



Source: Statistics Indonesia (BPS), Bank Indonesia, CEIC, OCBC.

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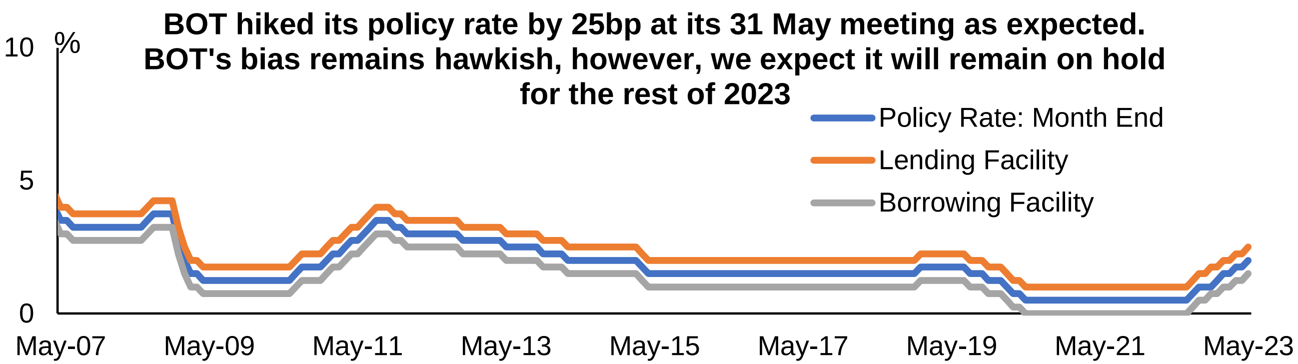
Source: Bank Indonesia, Statistics Indonesia (BPS), CEIC, Bloomberg, OCBC.

Thailand: BOT delivers another 25bp hike

- Bank of Thailand (BOT) raised its policy rate by 25bp to 2.00%, in line with market and our expectations.
- Despite lowering its 2023 headline and core inflation forecasts, BOT cautioned against "upside risks from greater demand pressures and high cost pass-through from supply pressures" to core inflation.
- On growth, BOT maintained its GDP growth projections for 2023 and 2024 at 3.6% YoY and 3.8% YoY. Nevertheless, they assessed that there contains potential "upside risks to domestic growth, in part owing to forthcoming government economic policies", following 14 May elections.
- Given its risk assessment on growth and core inflation, BOT does not appear to have closed the door on further hikes. In particular, it has concluded its statement in a similar manner to their previous one on 29 March by stating that it is "prepared to adjust the size and timing of policy normalization should the evolving growth and inflation outlook differ from the current assessment."
- On BOT's growth assessment, we are less optimistic with their view and expect the country's GDP growth to average 3.0% YoY in 2023. Taken together with our expectations of headline inflation easing 2.1% YoY, we no longer expect further rate hikes from BOT and expect it to remain on hold for the rest of this year.

Date of MPC Decision	GDP (%YoY)		Headline Inflation (%YoY)		Core Inflation (%YoY)	
	2023F	2024F	2023F	2024F	2023F	2024F
Mar-23	3.6	3.8	2.9	2.4	2.4	2.0
May-23	3.6	3.8	2.5	2.4	2.0	2.0

Source: Bank of Thailand



Source: CEIC; OCBC Bank

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Commodities

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Oil: Saudi Arabia to unilaterally cut output by 1 million bbl/d in July

- Saudi Arabia has voluntarily reduced its crude oil output by an additional 1 million bbl/d starting in July, for a month and can be extended beyond July, if needed.
- The immediate reaction was for Brent to open 2% higher from its previous closing price.
- Last night's meeting also revealed a downward revision of the group's required baseline production level for 2024 by 1.4 million bbl/d, and an extension of the voluntary cuts through 2024. Besides UAE, half of the members would see a downward revision of their required production level.
- Given the fragile health of the global economy, there contain downside risk to oil prices. The voluntary cut has offered some downside protection to oil prices, but any rally to prices would require both strong macro and fundamental factors.

Country	May 2023 to December 2023	May 2023 to December 2023 with Voluntary Cuts (incl. of Russia's voluntary adjustment)	January 2024 to December 2024	April's production (Per Platts Survey)	
Algeria	1.01	0.96	1.01	1.00	
Angola	1.46	1.46	1.28	1.09	Underproducing relative to 2024 baseline production
Congo-Brazzaville	0.31	0.31	0.28	0.28	
Equatorial Guinea	0.12	0.12	0.07	0.06	Underproducing relative to 2024 baseline production
Gabon	0.18	0.17	0.18	0.20	
Iraq	4.43	4.22	4.43	4.10	
Kuwait	2.68	2.55	2.68	2.68	
Nigeria	1.74	1.74	1.38	1.18	Underproducing relative to 2024 baseline production
Saudi Arabia	10.48	9.98	10.48	10.50	
UAE	3.02	2.88	3.22	3.04	
Required Production: OPEC-10	25.42	24.38	24.99	24.13	
Azerbaijan	0.68	0.68	0.55	0.51	Underproducing relative to 2024 baseline production
Bahrain	0.20	0.20	0.20	0.19	
Brunei	0.10	0.10	0.08	0.07	Underproducing relative to 2024 baseline production
Kazakhstan	1.63	1.55	1.63	1.60	
Malaysia	0.57	0.57	0.40	0.39	Underproducing relative to 2024 baseline production
Oman	0.84	0.80	0.84	0.84	
Russia	10.48	9.98	9.83	9.60	Underproducing relative to 2024 baseline production
Sudan	0.07	0.07	0.06	0.05	Underproducing relative to 2024 baseline production
South Sudan	0.12	0.12	0.12	0.14	
Required Production: Non-OPEC	14.69	14.07	13.72	13.39	
Required Production: OPEC+: OPEC-10 + Non-OPEC	40.10	38.45	38.71	37.52	

Source: Bloomberg, OPEC, Platts, OCBC Bank

Note for 2024 required production level:
1. The required production levels for Angola, Congo and Nigera are subject to independent assessment. The outcome of the assessment may lead to possible revision.
2. Russia's required production level was for the month of February 2023, as assessed by the average of the secondary sources, and is subject to revision by June 2023 as Russia is currently working with the secondary sources to update production figures.
3. Iran, Libya and Venezuela are omited as they do not have production targets.

ESG

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ESG: Malaysia aviation group's initiatives in sustainable aviation fuel

Plans to use SAF for some flights from 2027, but no regulations to mandate SAF adoption yet

- Malaysia Aviation Group (MAG) signed a sustainable aviation fuel (SAF) offtake agreement with Petronas Dagangan Bhd (PDB), in efforts to develop SAF on a commercial scale in Malaysia.
- It targets to introduce SAF on selected scheduled services from 2027 onwards. The first offtake agreement will entail PDB supplying over 230,000 tonnes of SAF to MAG's airlines with the first delivery expected from 2027 at the Kuala Lumpur International Airport (KLIA). The SAF will be produced at Petronas' co-processing plant in Melaka.
- Similar to Singapore and the rest of Asia, there are no regulations that mandate SAF adoption in Malaysia. This is unlike the EU and US where there are regulatory initiatives aimed at increasing SAF adoption amongst airlines.
- With the lack of a regulatory push, SAF uptake may be minimal due to the higher costs of the fuel compared to traditional jet fuel. For example, Shell was exploring a project since 2021 at Bukom Island in Singapore to produce renewable diesel and bionaphtha feedstock for petrochemicals, as well as supply sustainable aviation fuel to supply to major Asian hubs like Hong Kong and Singapore. It decided not to go ahead with the project this year, citing that customers are not willing to accept the higher costs for the fuel and there is no mandate for airlines to use SAF in Asia.

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Source: Reuters

FX & Rates

OCBC Bank

FX & Rates: Overshoot

- **UST** yields jumped on Friday upon US labour market reports, with 2-5Y bonds underperforming. There may also be some spill-over impact on short-end bonds from expectedly heavy T-bill supply. Meanwhile, Fed funds futures pricing was little changed, still seeing an 80% chance of a 25bp hike by the July FOMC. From now till year-end, market is pricing an 8bp increase in the Fed funds rate, while 150bps+ of rate cuts are priced for 2024. Our base case is for the Fed funds rate target range to stay at current levels through to year-end and for 150bps of rate cuts in 2024. This expected Fed funds rate profile shall be consistent with a 2Y UST yield at around 4.30%-4.40% with potential for some term premium. We see a trading range for the 2Y yield mostly at 4.20-4.50%; while market tends to overshoot/undershoot, we do not prefer to chase the yield higher from here. Market awaits US PMIs and ISM tonight.

- **DXY.** USD rebounded sharply on bumper US payrolls report (+339k vs. +195k expected). Strength was largely more pronounced against lower/zero yielders such as JPY, CHF and gold. But USD strength was not broad based. Risk-proxy FX such as KRW, AUD held on to gains as details of US jobs report hinted at signs of soft landing. Unemployment rose to 7-month high of 3.7% while wage growth slowed (4.3% y/y vs. 4.4% exp and prior). That said, unexpected rebound in CPI, upward revision to 1Q GDP and somewhat resilient labour market still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun). Not forgetting the deluge of bill/Treasury auctions ahead that may keep yields broadly higher.

- **Bill supply.** Net bill supply has been planned at USD89bn (on settlement basis) this week, as US Treasury gears up issuances to replenish its cash position after the debt ceiling bill has been signed. Treasury's quarterly refunding plan has an estimate of its cash balance at USD550bn by end-Q2 and USD600bn by end-Q3. Net bill issuance this quarter to 2 June was USD14.2bn versus target of USD478.6bn hence there is a catch-up of USD464.4bn to play. We however do not expect substantial impact on bill yields: 1/ these issuances shall not be seen as entirely "extra"; they represent delayed supply – there have been hundreds of billions of supply each quarter (net bill supply has been planned at USD554.6bn for Q4), although there will be some implication on liquidity as supply concentrates over a shorter period of time; 2/ on this, we suspect the rebuilding of cash will be paced out through to end Q3, and the cash target may be adjusted lower; 3/ with bill yields at above 5% now, there is a fair chance that some funds will be mobilized from the Fed's reverse repos mitigating the impact on liquidity, assuming the FOMC does not hike this administered rate this month.

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Source: OCBC, Bloomberg

Asset Flows

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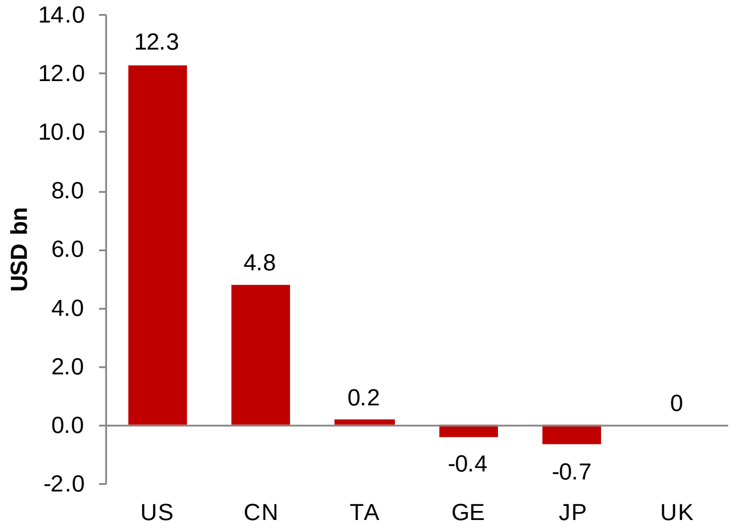
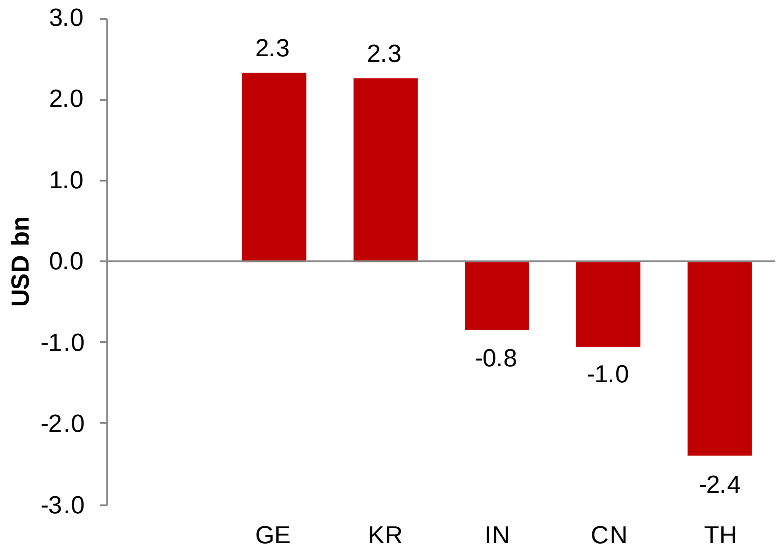
Global Equity & Bond Flows

- Global Equity Market saw an inflow of $14.8bn for the week ending 31st May, an increase from the outflow of $4.0bn last week.
- Global Bond Market reported net inflows of $1.2bn, a decrease from last week's inflows of $9.5bn

Equity top gainers & losers	Bonds top gainers & losers

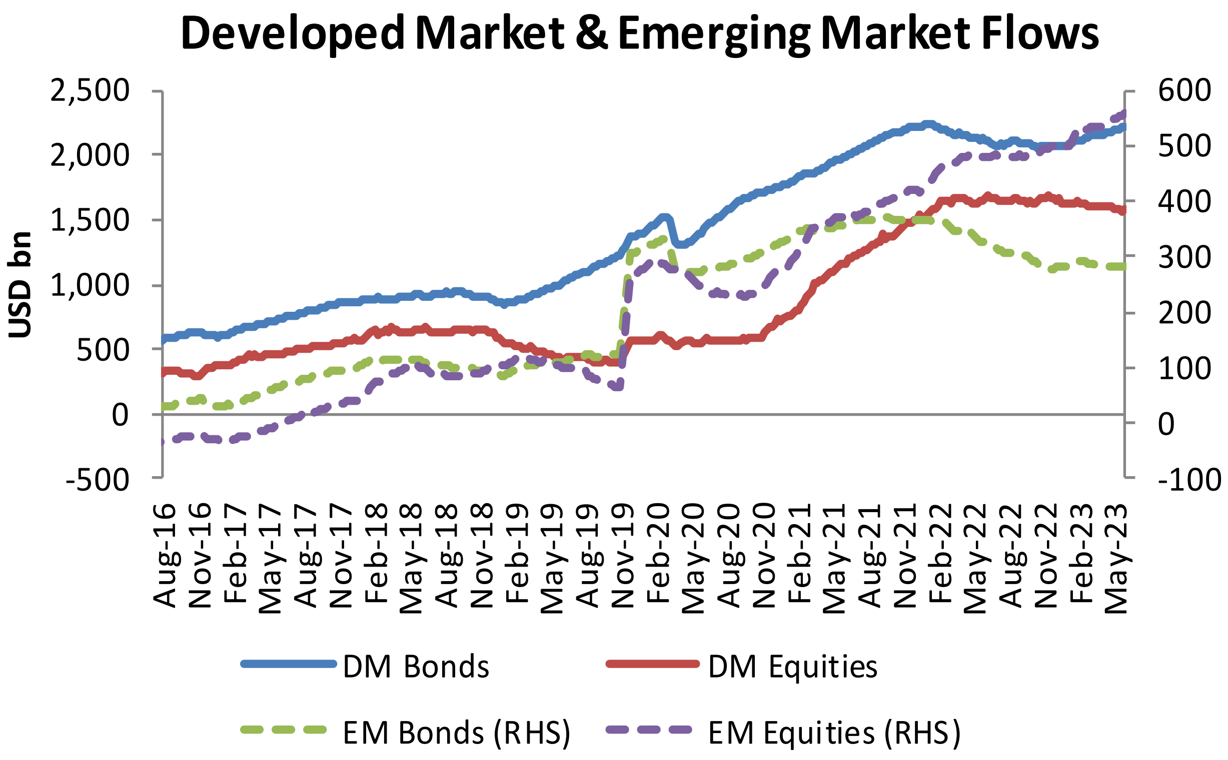




Source: OCBC, EPFR

DM & EM Flows

- Both Developed Market Equities ($10.0bn) and Emerging Market Equities ($4.8bn) saw inflows.
- Developed Market Bonds ($2.0bn) saw inflows this week while Emerging Markets Bonds ($0.8bn) saw outflows.



Source: OCBC, EPFR

Thank you

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