Weekly Macro Views (WMV)

Treasury Research & Strategy (7th September 2021)

Weekly Macro Update

Key Global Events for this week:

6th September	7th September	8th September	9th September	10th September
- TH CPI YoY - GE Factory Orders MoM - AU Melbourne Institute Inflation MoM - VN Domestic Vehicle Sales YoY - UK Markit/CIPS UK Construction PMI - NZ ANZ Commodity Price	- AU RBA Cash Rate Target - GE ZEW Survey Expectations - NE CPI YoY - GE Industrial Production SA MoM - EC GDP SA QoQ - PH CPI YoY - CH Trade Balance - CH Exports YoY	- CA Bank of Canada Rate Decision - JN GDP SA QoQ - JN BoP Current Account Balance - JN GDP Deflator YoY - JN BOP - LN CPI YoY - LN CPI MoM - US MBA Mortgage Applications	- US Initial Jobless Claims - EC ECB Main Refinancing Rate - EC ECB Deposit Facility Rate - CH CPI YoY - CH Money Supply M2 - JN Money Stock M2 YoY	- UK Industrial Production MoM - UK Manufacturing Production MoM - CA Unemployment Rate - CA Net Change in Employment - GE CPI YoY - US PPI Final Demand MoM

Summary of Macro Views:

Global	• **Global:** Central banks • **Global:** US job growth miss expectations • **Global:** US consumer confidence hits 6 month low • **Global:** US house prices rise at record pace in June • **Global:** EU CPI surprises on the upside
Asia	• **SG:** Muted uplift to 2021 consensus GDP forecast • **SG:** Retail sales see slight increase mom in July **HK:** Retail sales surprised on the downside • **HK:** HKD Loan to deposit ratio retreated to 83.7% • **Macau:** Gaming revenue plunged 47.4% mom

Asia	• **CH:** Strong foreign demand for Chinese bonds
Asset Class	• **Oil:** Saudi Arabia cuts Arab Light pricing • **Gold:** New life from poor US jobs report • **FX & Rates:** Expectations for Fed taper still intact • **Credit Research**
Asset Flows	• **Global Fund Flows Update**

OCBC Bank

Source: OCBC, Bloomberg

Global: US PMI data slows

- The US labour participation rate was unchanged at 61.7% amid persistent childcare challenges and virus concerns. The services ISM retreated from July's 64.1 to 61.7 in August, while the Markit services and composite PMIs also printed at 55.1 and 55.4 respectively for August.
- **Other key developments:**
  - PM Johnson is facing Parliament this week amid his plans to raise GDP10b increase in national insurance tax. This follows Chancellor Sunak's expected removal of the "triple lock" pledge to raise pensions by the highest of inflation, wages or 2.5%.
- **Key data release are as follows:**
  - 6th September: TH CPI YoY, GE Factory Orders MoM, AU Melbourne Institute Inflation MoM, VN Domestic Vehicle Sales YoY, UK Markit/CIPS UK Construction PMI, NZ ANZ Commodity Price
  - 7th September: AU RBA Cash Rate Target, GE ZEW Survey Expectations, NE CPI YoY, GE Industrial Production SA MoM, EC GDP SA QoQ, PH CPI YoY , CH Trade Balance, CH Exports YoY
  - 8th September: CA Bank of Canada Rate Decision, JN GDP SA QoQ, JN BoP Current Account Balance, JN GDP Deflator YoY, JN BOP, LN CPI YoY, LN CPI MoM, US MBA Mortgage Applications
  - 9th September: US Initial Jobless Claims, EC ECB Main Refinancing Rate, EC ECB Deposit Facility Rate, CH CPI YoY, CH Money Supply M2, JN Money Stock M2 YoY
  - 10th September: UK Industrial Production, UK Manufacturing Production, CA Unemployment Rate, CA Net Change in Employment, GE CPI YoY, US PPI Final

OCBC Bank

Global: Central banks

Forecast – Key Rates

Reserve Bank of Australia (RBA)	Bank of Canada (BoC)	European Central Bank (ECB)	Bank Negara Malaysia (BNM)
Tuesday, 7 September	**Wednesday, 8 September**	**Thursday, 9 September**	**Thursday, 9 September**

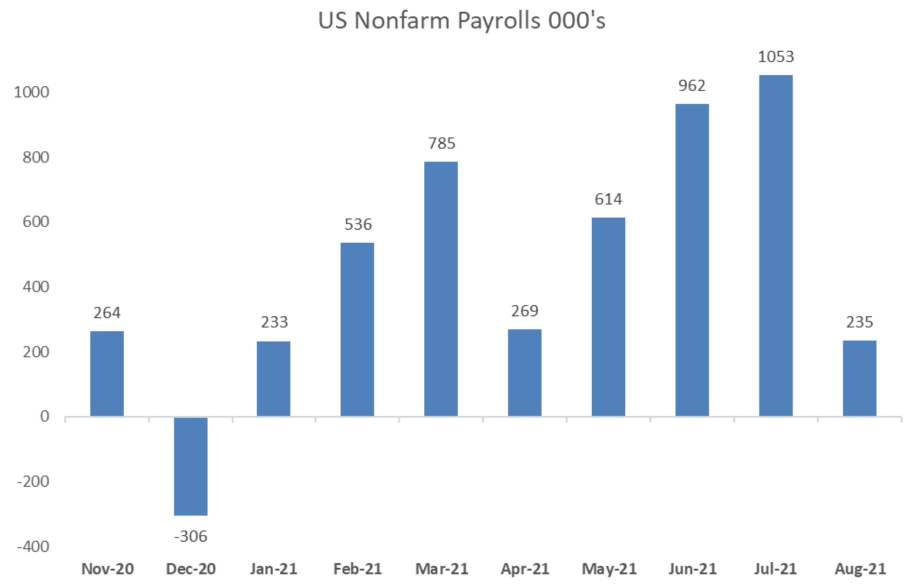
House Views

Cash Rate Target **Likely hold at 0.10%**	*Rate Decision* **Likely hold at 0.25%**	*Deposit Facility Rate* **Likely hold at - 0.50%** *Main Financing Rate* **Likely hold at 0.00%**	*Overnight Policy Rate* **Likely cut 25 bps to 1.50%**

Source: OCBC, Bloomberg

Global: US job growth miss expectations

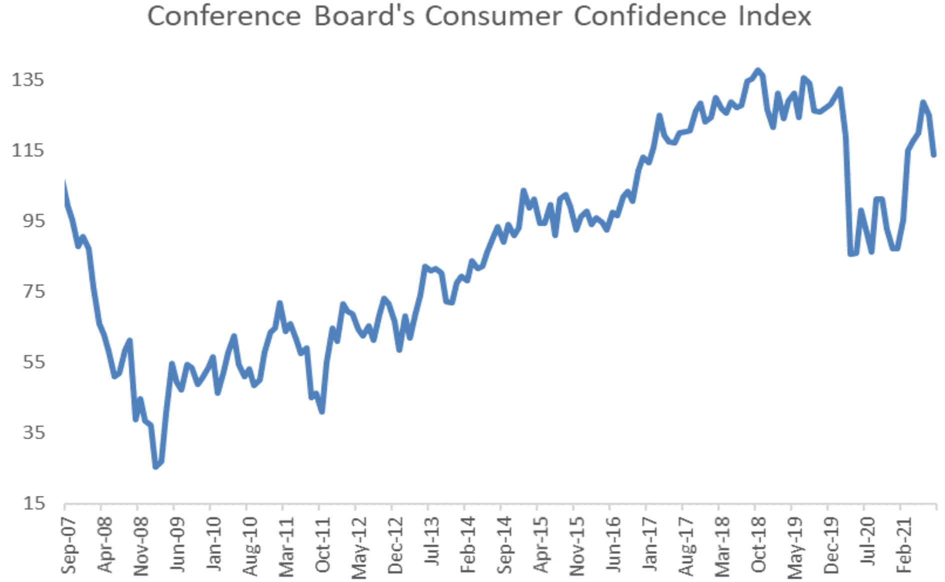
- The US economy added jobs at a slower pace in August as hiring waned on concerns over the Delta variant.
- Change in nonfarm payrolls added a mere 235k jobs mom in August vs the 733k consensus, failing to meet expectations by about 500k. This was in stark comparison to the 1,053k jobs added in July.
- Unemployment in August fell to 5.2% from 5.4% in July
- Average hourly earnings increased slightly to 0.6% mom vs the 0.3% expected print from 0.4% in July.



Source: OCBC, Bloomberg

Global: US consumer confidence hits 6 month low

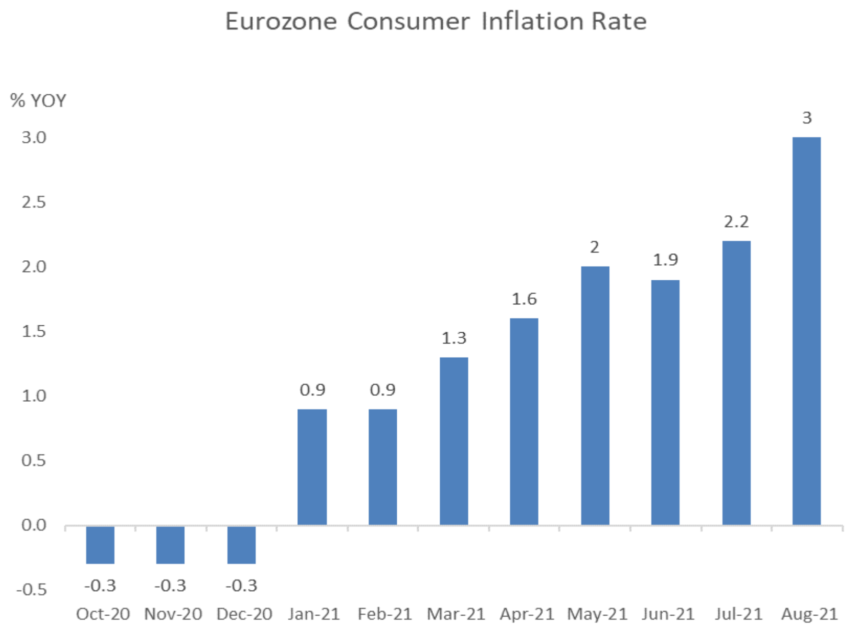
- The Conference Board's Consumer Confidence Index fell to 113.8 points in August, down from July's print of 125.1.
- The Present Situation Index based on consumers' assessment of current business and labor market conditions fell to 147.3 in August from 157.2 in July.
- The Expectations Index based on consumers' short-term outlook for income, business, and labor market conditions fell to 91.4 in August from 103.8 in July.
- This is similar to the University of Michigan's consumer sentiment report which tumbled to 70.2 in August from 81.2 in July, further hinting a slowdown in US consumption.



Source: OCBC, Bloomberg

Global: EU CPI surprises on the upside

- Inflation in the Eurozone rose again in August, ahead of the closely-watched European Central Bank meeting on 9th September.
- Eurozone consumer prices increased by 3.0% yoy in August after rising by 2.2% yoy in July.
- This was above expectations of 2.7% yoy and the ECB's 2.0% inflation target. The increase was led by energy costs and food prices.
- This came after Germany reported a headline inflation rate of 3.4% yoy in August compared with 3.1% yoy in July.



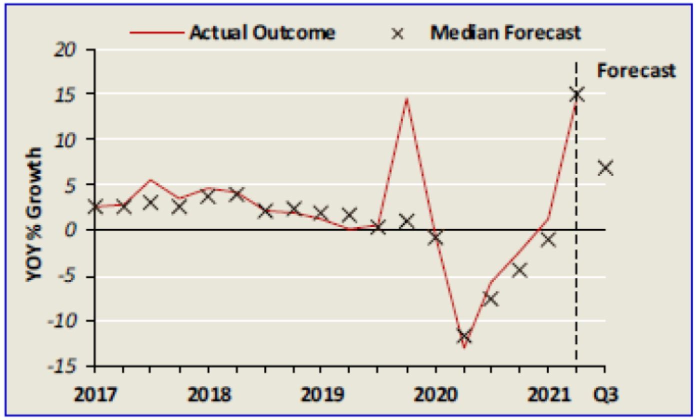
OCBC Bank

Source: OCBC, Bloomberg

SG: Muted uplift to 2021 consensus GDP forecast

- The latest MAS survey of professional forecasters revealed that consensus 2021 GDP growth forecast had been marginally upgraded to 6.6% yoy in August, up from 6.5% from a quarter ago mainly due to improved expectations for manufacturing, finance & insurance, private consumption and NODX.
- This is close to our house forecast of 6.7% yoy, likely reflecting the progress made in global and domestic vaccination rates and the recent re-opening of more major economies.
- However, the optimism was not unbridled across the sectors. There were downgrades to 2021 growth forecasts for construction (16.6% versus 19.3%), wholesale & retail trade (4.1% versus 4.4%) and accommodation & food services (5.9% versus 6.5%).
- This rollback in sentiments could probably be attributed to the border closures affecting foreign manpower inflows as well as the concerns over the Delta variants which saw the return to P2(HA).

Quarterly GDP Growth



Source: MAS SPF Report

SG: Retail sales see slight increase mom in July

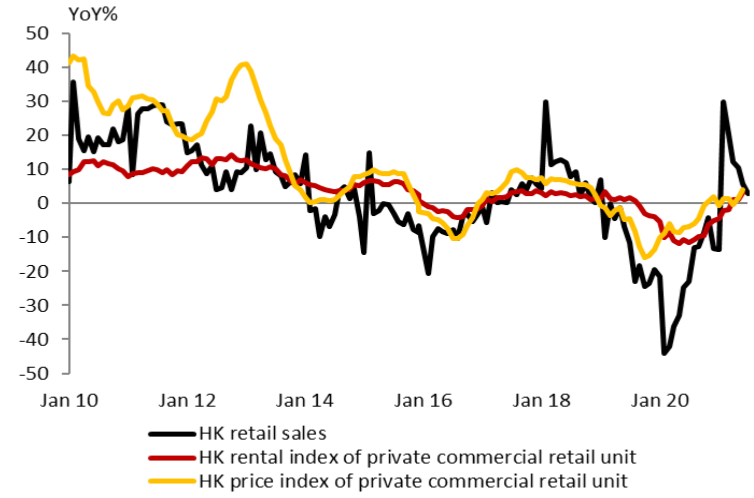
- Retail sales in Singapore saw minor increases in July, with F&B services taking a hit due to curbs on dining in.
- The 0.2% print growth yoy in July was lower than the 0.3% rise consensus forecast. Excluding motor vehicles, retail sales rose 2% in July.
- The yoy print was much lower than the 26% yoy rise in June, which was boosted by a low base last year when retail stores were closed until 18 June 2020 under Singapore's Covid-19 lockdown measures.
- On a mom seasonally adjusted basis, retail sales rose 0.8% in July over the previous month, compared with the 1.9% increase in June. Total retail sales value was at $3.4 billion in July , which is still below pre Covid-19 levels.

Source: OCBC, Bloomberg

HK: Retail sales surprised on the downside

- Retail sales increased by 2.9% yoy in July, far below expectations and 20.8% lower compared to July 2019. This reinforces the fact that the frozen inbound tourism and the ongoing social distancing measures have together kept the retail sector far away from the pre-pandemic levels. However, the muted growth may be partially attributable to the households' preference to delay spending in the run-up to the launch of e-consumption vouchers from 1 August. If this is the case, retail sales may have rebounded in August. The faster-than-expected decline in unemployment rate may have lent some support as well. Still, since border reopening looks unlikely in 3Q while the latest retail sales have surprised to the downside during June and July, we cut our retail sales growth forecast in 2021 from about 15% yoy to about 10% yoy, assuming partial border reopening in 4Q 2021. Should border remains closed, retail sales growth may only print around 6% yoy for 2021.

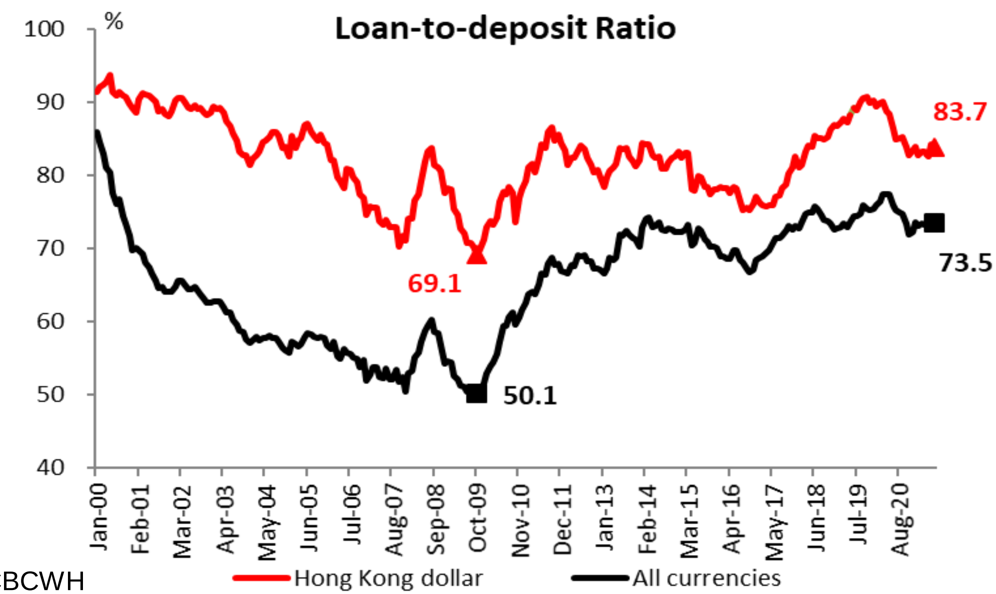
Retail outlet	Compared to 2Q20	Compared to 2Q19
Retail sales	2.9%	-20.8%
Food, alcoholic drinks and tobacco	-5.7%	-18.1%
Supermarkets	-19.4%	-1.4%
Clothing, footwear and allied products	30.6%	-27.0%
Consumer durable goods	5.5%	-1.9%
Department stores	-9.6%	-28.7%
Jewellery, watches and clocks, and valuable gifts	27.1%	-41.9%
Medicines and cosmetics	0.5%	-52.6%



Source: HK Census and Statistics Department, OCBCWH

HK: HKD Loan to deposit ratio retreated to 83.7%

- Total loans (+0.7% yoy in July) may see low single digit growth in 2021. First, trade finance (+17.7% yoy in July) rose for the third consecutive month and may remain resilient amid strong trade activities. Second, loans for use in HK (excluding trade finance) grew by 0.5% yoy despite the subsided base effect.
- Total deposits continued to see steady growth of 3.1% yoy in July. Two implications behind the solid growth. First, local loan demand may have rebounded amid gradual economic recovery. Second, owing to the flush global liquidity, risk of capital outflows remains manageable despite the new wave of emigration. However, due to the high base effect and the cautiousness about Hong Kong equity amid China's regulatory risks, we expect total deposits to see low single-digit growth by end of 2021.
- In conclusion, until loan growth picks up pace and deposits drop amid Fed's tightening, HKD loan-to-deposit ratio may remain relatively low and in turn cap the upside of HKD rates despite the HKMA's additional bills sales.

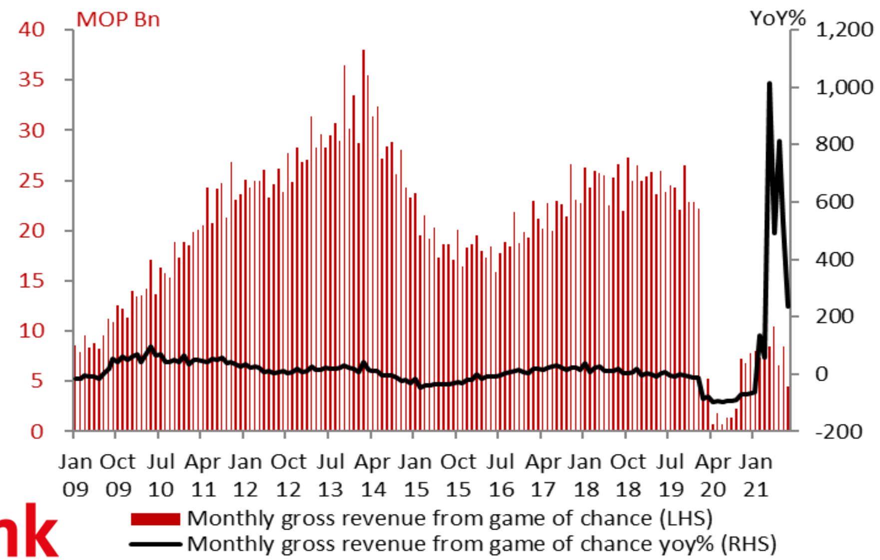


OCBC Bank

Source: HKMA, OCBCWH

Macau: Gaming revenue plunged 47.4% mom

- Gaming revenue grew by 234% yoy but plunged by 47.4% mom to MOP4.44 billion in August, the weakest since last September when the border with Mainland China reopened. The plunge in gaming revenue was mainly attributable to the rebound in local Covid-19 cases and China's Delta variant outbreaks.
- On a positive note, both local and Chinese epidemic has been brought under control and the travel restrictions on Mainland visitors have been relaxed gradually. This may support a rebound in the gaming sector. However, given the lingering pandemic uncertainty and China's crackdown on overseas gambling (such as clamping down the overseas gambling trips), the road to recovery may remain bumpy for the gaming sector. Due to the very slow recovery of the gaming sector, we further cut our 2021 gaming revenue growth forecast from about 90% yoy to about 70% yoy.

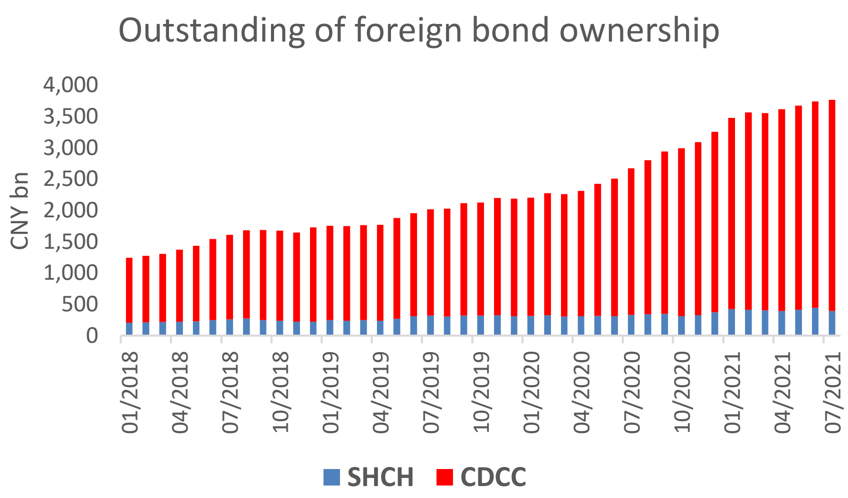


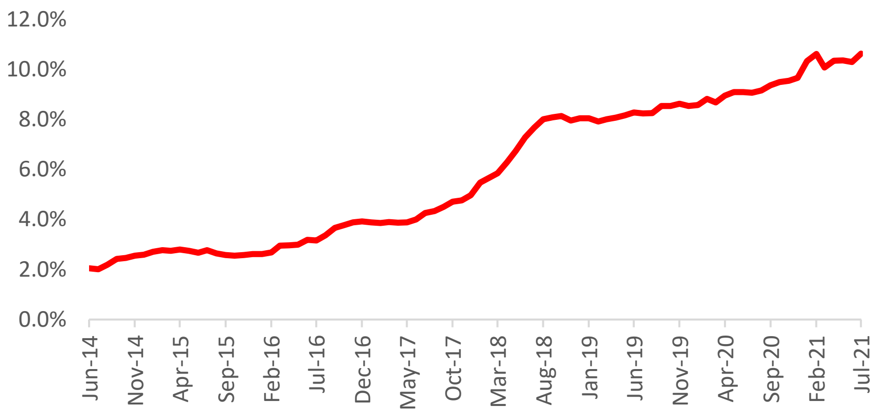
Source: DICJ, OCBCWH

OCBC Bank

China: Strong foreign demand for Chinese bonds

- Foreign ownership of China's RMB bond continued to go up in July despite increasing market volatility.
- Despite CNY47.5 billion outflows from negotiable certificate of deposits, the aggregate CNY75.7 billion inflows to China's government bonds and policy bank bonds showed the demand for RMB bond remained strong.





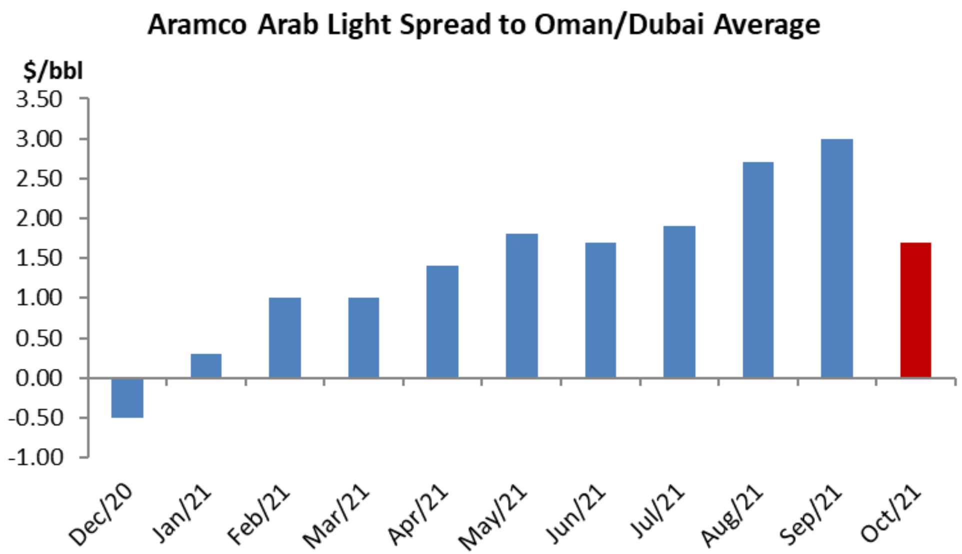
Percentage of Chinese government bond owned by foreign investors

Source: Bloomberg, Wind, OCBC

Commodities

Oil: Saudi Arabia cuts Arab Light pricing

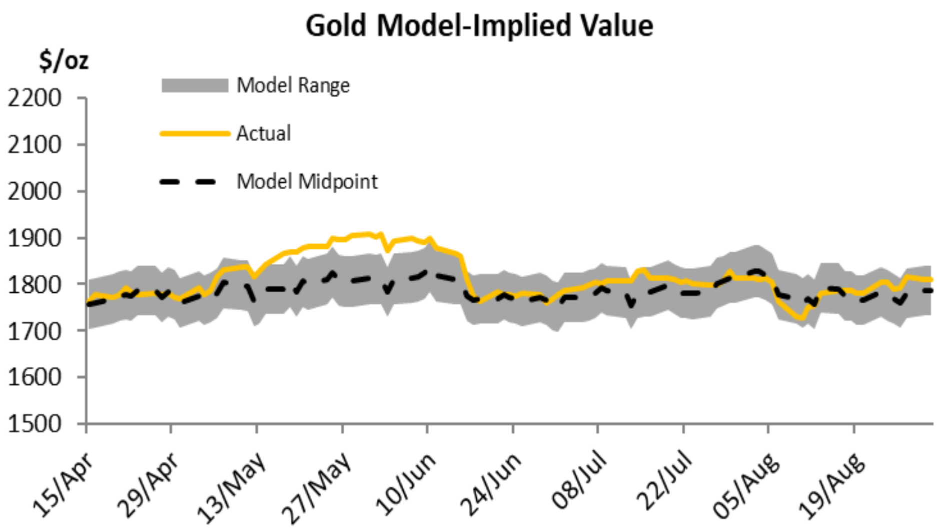
- Saudi Arabia cuts Arab Light premium (to the Oman/Dubai price average) by $1.30/bbl vs $0.60/bbl expected.
- The Arab Light premium was $3.00/bbl a month ago.
- This is the first cut in premium pricing since June and the lowest in as many months.
- The cut in its Arab Light basis should help to stabilise demand, supporting prices in the interim.



OCBC Bank Source: OCBC, Bloomberg

Gold: New life from poor US jobs report

- Gold rose after the poor US jobs data on Friday.
- A push back in Fed rate normalisation expectations plus a possible slower pace of tapering following the poor nonfarm payroll numbers on Friday sent gold prices higher on Friday.
- We expect this upward momentum for gold to continue, which has already been rallying prior to this poor jobs print.
- Target for gold expected at $1900/oz in the near term.



Source: OCBC estimates; data from Bloomberg

OCBC Bank Source: OCBC, Bloomberg

Foreign Exchange & Interest Rates

FX & Rates: Expectations for Fed taper still intact

- UST reaction to the weak headline NFP suggests that the bond market related the weak payroll to supply-side issues, especially with the growth in the average hourly earnings. Market consensus for taper to start by year-end appears intact, which is also our base-case scenario
- Hawkish remarks from ECB officials have sparked debate on the potential scaling back of pandemic era stimulus. The run-rate for the PEPP to end in March 2022 is around EUR20bn per week, higher than the average net weekly purchases of EUR17bn so far in Q3. The net purchased amounts in August were smaller than those in July
- In China, after increasing the quota of relending facilities, the market seems to have scaled back expectations for an imminent RRR cut. Liquidity pressure remains however, with CNY600bn of MLF maturing on 15 September. China is to issue a total of 20bn of offshore CGBs during the rest of this year, in three tranches. The amount is higher than in 2019 and 2020 each, and on top of it some offshore LGBs are coming as well

OCBC Bank

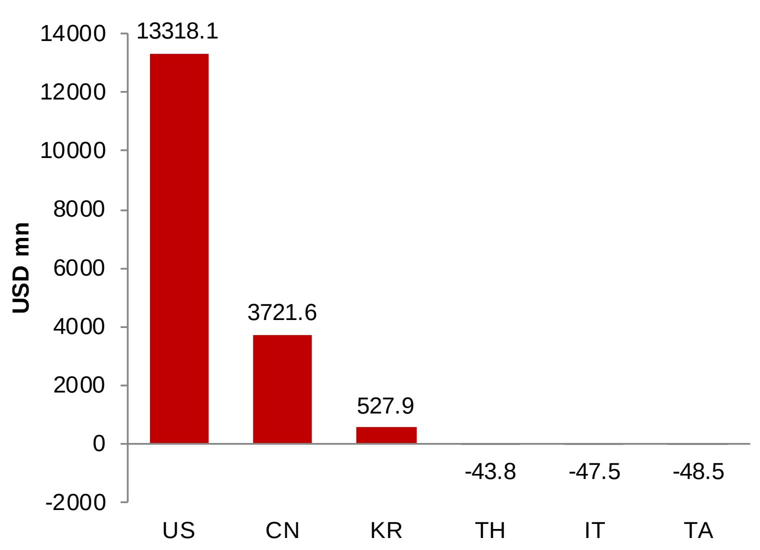
Source: Bloomberg, OCBC

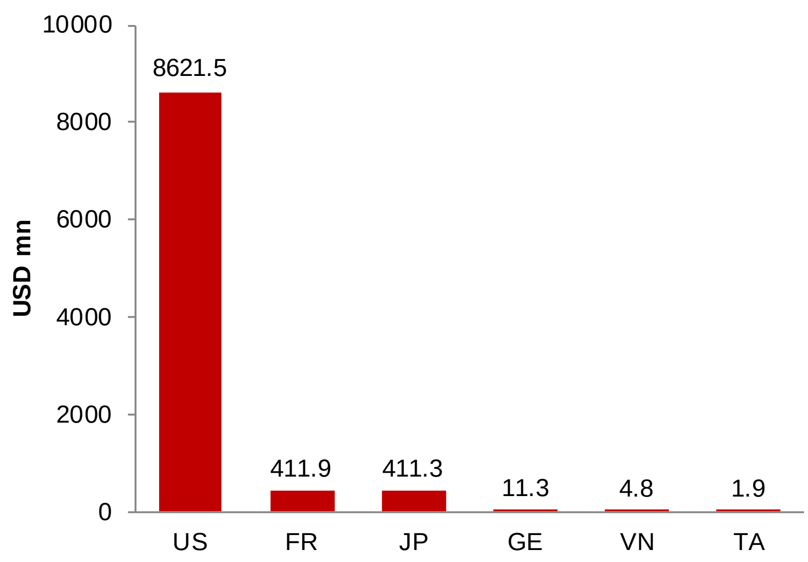
Asset Flows

Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 3rd September amounted to $19.1bn , an increase from the inflow of $12.5bn last week. Global bond market saw inflows amounting $12.6bn, an increase from last week's inflows of $13.2bn.

Equity top gainers & losers	Bonds top gainers & losers



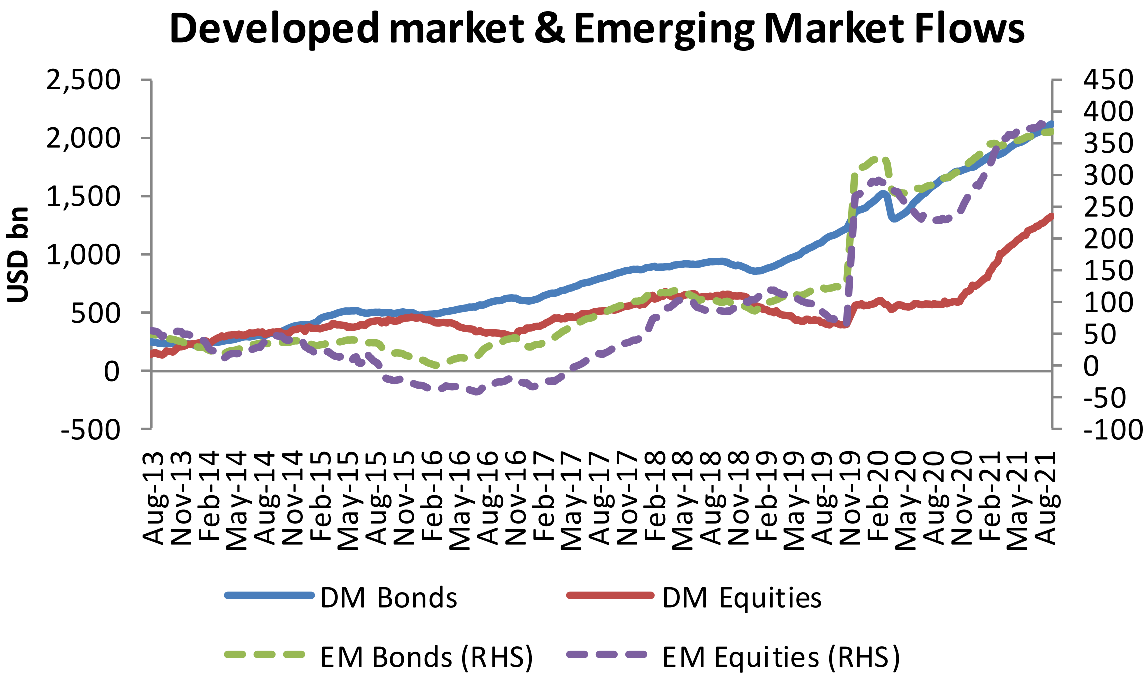


OCBC Bank

Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $14.5bn worth of inflows while the EM-space registered $4.6bn worth of inflows.
- Elsewhere, the DM bond space posted inflows of $11.4bn, while EM bonds registered inflows of $1.1bn.



OCBC Bank

Source: OCBC Bank, EPFR

Thank You

OCBC Bank

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Research

Frances Cheung
Rates Strategist
FrancesCheung@ocbcwh.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Disclaimer

Co.Reg.no.:193200032W

OCBC Bank