



Weekly Macro Views (WMV)

Treasury Research & Strategy (12th October 2021)

Weekly Macro Update

Key Global Events for this week:

11 th October	12 th October	13 th October	14 th October	15 th October
<ul style="list-style-type: none"> - UK Industrial Production MoM - UK Manufacturing Production MoM - UK Trade Balance GBP/Mn - JN Machine Tool Orders YoY 	<ul style="list-style-type: none"> - SK BoK 7-Day Repo Rate - GE ZEW Survey Expectations - UK Jobless Claims Change - UK ILO Unemployment Rate 3Mths - UK Claimant Count - JN PPI YoY 	<ul style="list-style-type: none"> - US CPI MoM - JN Core Machine Orders MoM - US MBA Mortgage Applications - GE CPI YoY - SK Unemployment rate SA - NZ Food Prices MoM - AU Westpac Consumer confidence 	<ul style="list-style-type: none"> - SG GDP YoY - MAS Policy Statement - JN Industrial Production MoM - US Initial Jobless Claims - US PPI Final - AU Unemployment Rate - CH PPI YoY 	<ul style="list-style-type: none"> - US U. of Mich. Sentiment - US Retail Sales Advance MoM - NZ Manufacturing PMI - US Empire Manufacturing - US Import Price Index MoM - TH Foreign Reserves - FR CPI YoY

Summary of Macro Views:

Global	<ul style="list-style-type: none"> • Global: Central banks • Global: BOE reiterates hawkish stance • Global: RBNZ raises rates and provides guidance • Global: US NFP disappoints on low job growth • Global: German industrial production slumps
Asia	<ul style="list-style-type: none"> • SG: Spore's Mfg and Electronics PMIs diverge • SG: Singapore's retail sales disappoint in August • HK: Policy Address 2021: two key areas to focus • HK: Key target and development plan • HK: Sustainability in focus

Asia	<ul style="list-style-type: none"> • Macau: Tourist arrivals drop 94% yoy in golden week • Indonesia: Tax Reforms • Malaysia: Turning a corner • CH: More measures to solve power shortage
Asset Class	<ul style="list-style-type: none"> • Oil: No justification for \$100 oil • Natural gas: European gas price down 30% • Gold: Gold bulls lack conviction • FX & Rates: UST yields firmer despite NFP miss • Credit Research
Asset Flows	<ul style="list-style-type: none"> • Global Fund Flows Update

Global: Central banks

Forecast – Key Rates

Bank of Korea (BoK)



Tuesday, 12 October

House Views

7D Repo Rates

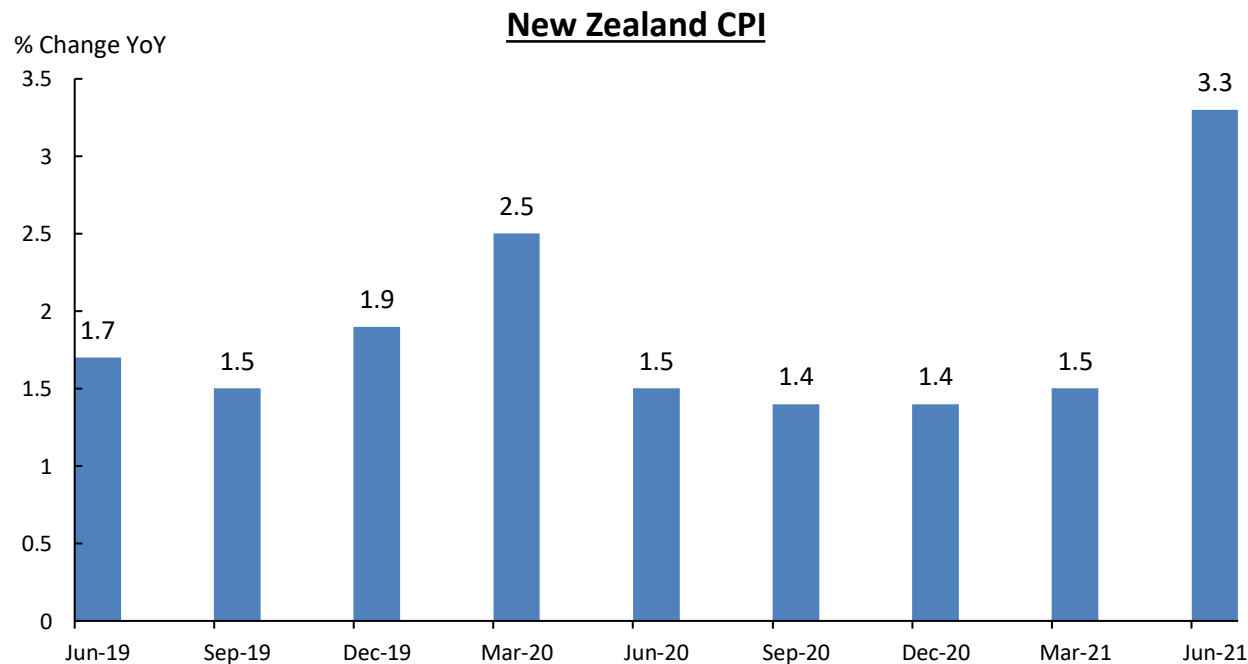
Likely hold at 0.75%

Global: BOE reiterates hawkish stance

- BOE's Saunders opined that market players were right to expect “significantly earlier” rate hike expectations, reinforcing that the coming policy meetings from November were in play.
- **Other key developments:** Taiwan president Tsai noted “unprecedented challenges” amid a complex regional landscape following Chinese leader Xi's comments about reunification.
- **Key data release are as follows:**
 - 11th October: ES Unemployment Rate, UK Industrial Production MoM, UK Manufacturing Production MoM, UK Trade Balance GBP/Mn, JN Machine Tool Orders YoY
 - 12th October: SK BoK 7-Day Repo Rate, GE ZEW Survey Expectations, UK Jobless Claims Change, UK ILO Unemployment Rate 3Mths, UK Claimant Count, JN PPI YoY
 - 13th October: US CPI MoM, JN Core Machine Orders MoM, US MBA Mortgage Applications, GE CPI YoY, SK Unemployment rate SA, NZ Food Prices MoM, AU Westpac Consumer confidence
 - 14th October: JN Industrial Production MoM, US Initial Jobless Claims, US PPI Final , AU Unemployment Rate, CH CPI YoY, CH PPI YoY, AU Employment Change
 - 15th October: US U. of Mich. Sentiment, US Retail Sales Advance MoM, NZ Manufacturing PMI, US Empire Manufacturing, US Import Price Index MoM, TH Foreign Reserves, FR CPI YoY

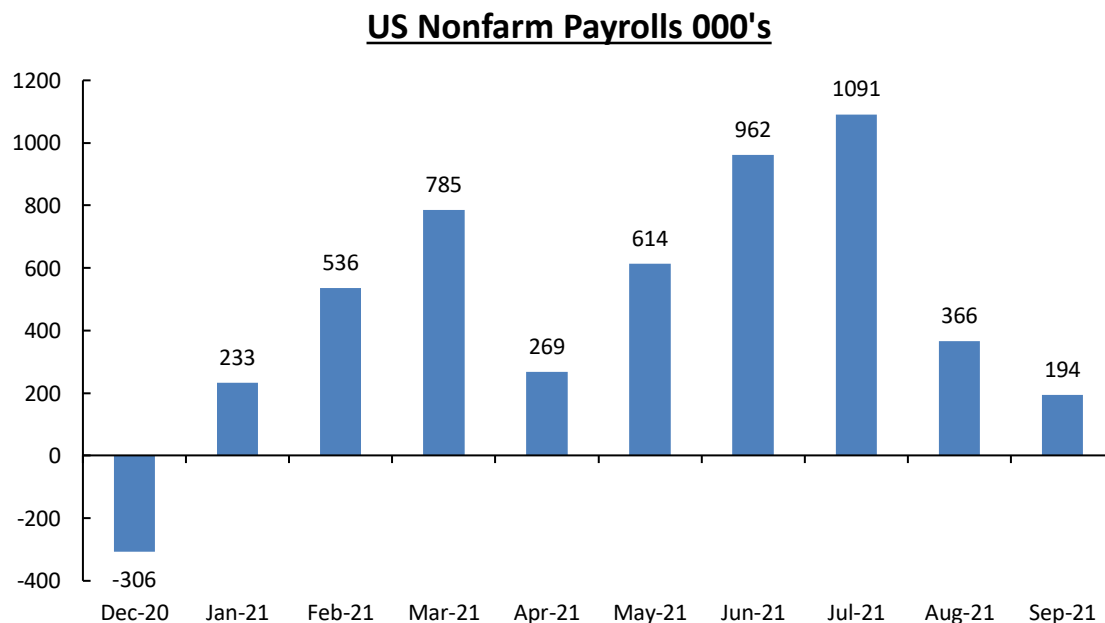
Global: RBNZ raises rates and provides guidance

- The RBNZ hiked interest rates for the first time in 7 years on 6th October 2021.
- The last time the RBNZ raised the cost of borrowing was July 2014.
- The RBNZ cash rate was increased by 25 bps from 0.25% to 0.50%, marking the start of the rate hike cycle.
- The committee noted that further removal of monetary policy stimulus is expected over time, contingent on the medium-term outlook for inflation and employment.



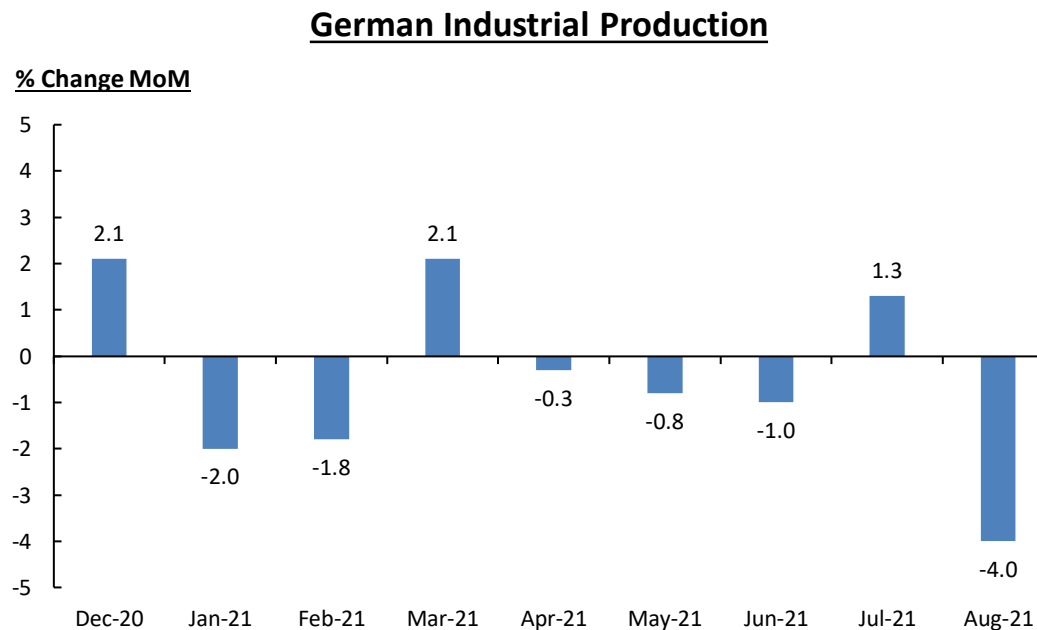
Global: US NFP disappoints

- U.S. employers hired at a slower pace than expected in September, with labour supply shortages putting pressure on economic recovery.
- Change in non-farm payrolls increased 194k mom in September vs the consensus estimate of 500k mom and down from the print of 366k mom in August.
- The unemployment rate fell from 5.2% in August to 4.8% in September.
- The US civilian labor force is still down by about 3.1 million individuals compared to February 2020 as of September 2021.



Global: German industrial production slumps

- German industrial output suffered its steepest drop in August 2021 since April 2020 last year, due to supply chain disruptions.
- Industrial output fell by 4.0% mom in August after an increase of 1.3% in July. Consensus estimates expected a fall of 0.4% mom in August.
- German car companies are still grappling to meet the increase in demand and resolving the lack of microchips and other intermediate products.
- Production of cars and parts fell by 17.5% mom.

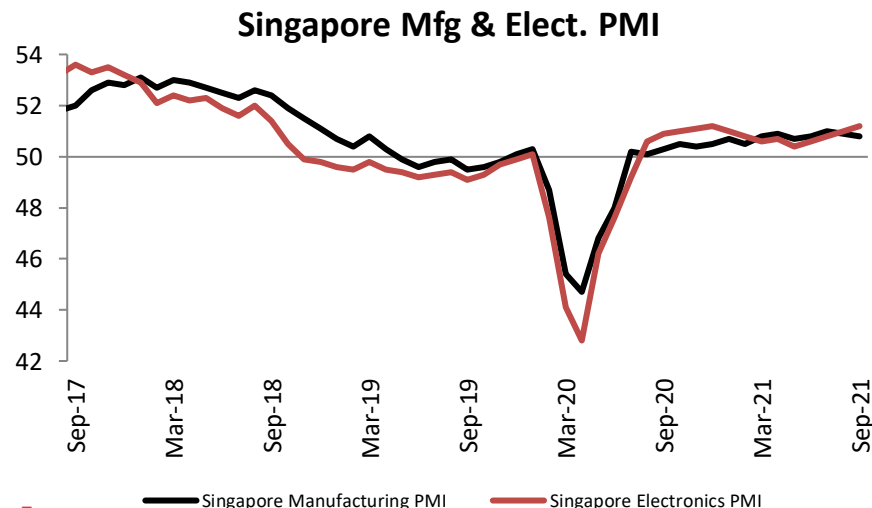


OCBC Bank

Source: OCBC, Bloomberg

SG: Spore's mfg and electronics PMIs diverge

- Singapore's manufacturing PMI eased slightly by 0.1 points to 50.8 in September, marking its 15th straight month in expansion territory.
- Fears of supply chain disruptions and component shortages interrupting the manufacturing momentum within Asia appear to pose potential headwinds ahead for regional manufacturing centres including Singapore.
- While Singapore's manufacturing momentum may sustain around 7% yoy in 2H21, and our full-year manufacturing growth forecast of 10.6% yoy remains intact, we would expect that momentum will taper off into 1H22.
- As the current situation is more a supply-side rather than a demand-side problem, we expect no change to S\$NEER policy parameters for the upcoming MAS monetary policy review.

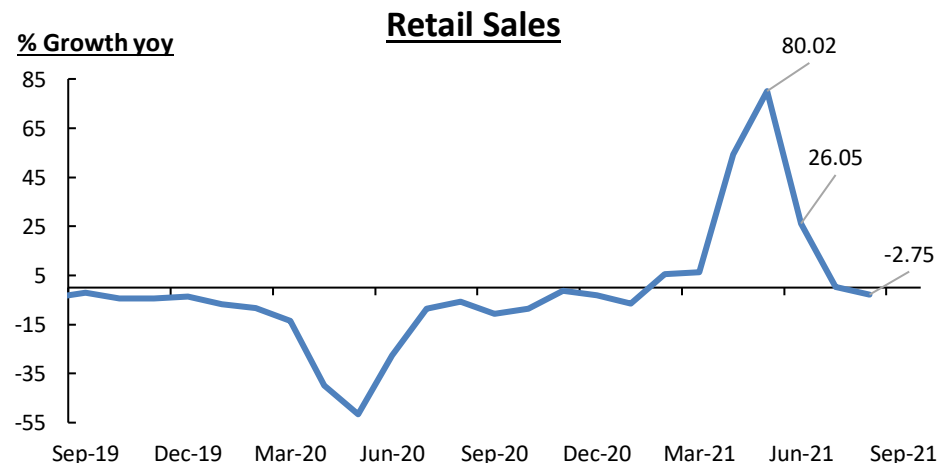


OCBC Bank

Source: OCBC, Bloomberg

SG: Singapore's retail sales disappoint in August

- Singapore's retail sales unexpectedly declined 2.8% yoy (-0.6% mom sa) in August, which is a reversal from the 0.2% yoy growth in July and the first decrease since January 2021.
- Excluding auto sales, retail sales would have been flat yoy (-1.2% mom sa) in August. Outside of motor vehicles, notable weakness was spotted in optical goods & books which also fell for the second consecutive month by 9.6% yoy, department stores (also down again by 8.5% yoy), furniture & household equipment (-5.9% yoy), mini marts & convenience stores (-5.8% yoy) and recreational goods (-5.8% yoy).
- One bugbear to watch would be the rising crude oil prices – August sales of petrol service stations continued to jump by 23.7% yoy (1.5% mom sa) and may stay buoyant in the coming months given the energy crisis in Europe and China.
- Despite the latest data disappointment, retail sales are still likely to expand by around 9.6% yoy in 2021.

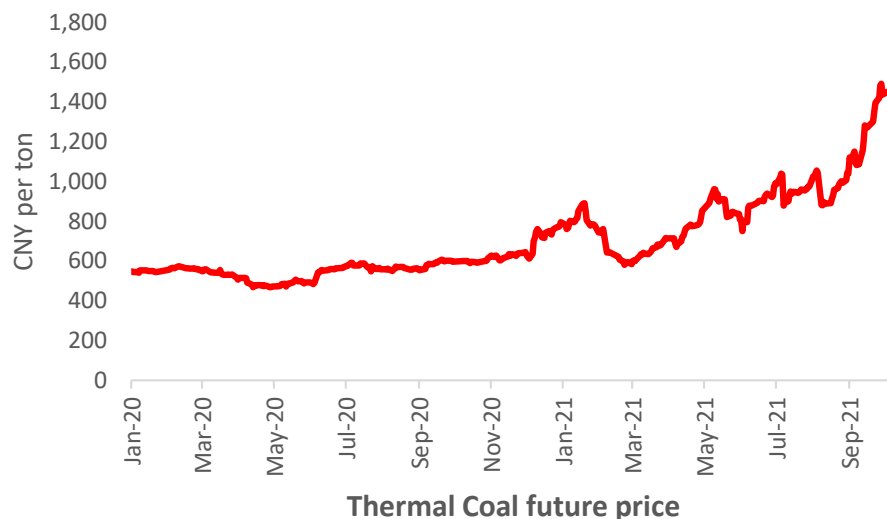


OCBC Bank

Source: OCBC, Bloomberg

China: More measures to solve power shortage

- China's State Council announced more measures to ease pressure on coal production and electricity supply.
- On coal production, China granted the green light to coal mines to boost coal production. Authorities from Inner Mongolia has urged 72 coal mines to increase production capacity by 98.35 million tons last week. Nevertheless, **the recent heavy rainfall in one of China's major coal production provinces Shanxi Province may prolong the supply constraint.**
- On electricity supply, the fluctuation range for market-based electricity prices will be allowed to expand to 20% from the benchmark price from previously 10% ceiling and 15% floor. In addition, for energy intensive industries, the 20% fluctuation cap will be removed. The reform of electricity pricing mechanism could be inflationary.



HK: Policy Address 2021: two key areas to focus

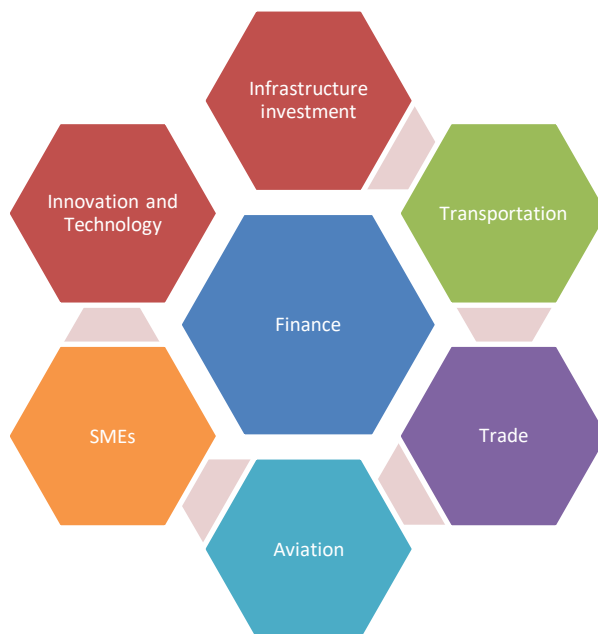
- **Promoting the integration among the Greater Bay Area.** The development plan of Northern Metropolis will aim to facilitate close collaboration between Hong Kong and Shenzhen on infrastructure, people's livelihood, ecological environment as well as high-tech development which will support China's industrial upgrade, Hong Kong's re-industrialization and economic diversification.
- **Tackling the persistent housing supply issue.** In terms of home supply, the government will strive to provide about 430,000 public and private units in the coming ten years and increase the provision of transitional housing units from 15,000 to 20,000. To increase land supply, the government will explore new ways including the development plan of Northern Metropolis. This coupled with old methods may ensure new home supply of around 600,000 units in the period of 10 to 15 years after 2031-32. However, the plans stated above will take some time to materialize given the complicated process. As such, we expect that any downward pressure on housing prices may be limited in the near term. We hold onto our view that home price index will grow by 5% yoy as of end-2021 and about 2% yoy in 2022.



HK: Key target and development plan

- **Finance:** Promote and develop Hong Kong as the key hub of green finance centre in the GBA and further strengthen its position as building offshore RMB business and asset management
- **Transportation:** Further enhance the status as an international transportation centre with a target plan of “Smart Port” and value-added logistics

- **Trade:** Foster closer commercial, trade and investment relations with ASEAN, with the action plan of creating more favorable conditions under CEPA and dedicate more resources on the convention and exhibition industry
- **Aviation:** The key project of the Third Runway(expected to be completed in 2024) will definitely help to improve its status as an international aviation hub



- **Innovation and Technology:** Build landmark I&T facilities with a scale comparable to Cyberport at a location facing Shenzhen
- **SMEs:** Better improve bank financing solution to enterprises
- **Infrastructure investment:** use it as aa key measure to stimulate the economy during the pandemic, with the annual amount to reach HK\$100 bn in coming years

Hong Kong: Sustainability in focus

Sustainability	Plan
Green energy	<ol style="list-style-type: none">1) Cease using coal and replace with natural gas and renewable energy for daily electricity generation by 2035.2) Reduce the electricity consumption of commercial buildings by 30% to 40% and that of residential buildings by 20% to 30% from the 2015 level by 2050. The government hopes to achieve half of the above targets by 2035.
Green transport	<ol style="list-style-type: none">1) Cease new registration of fuel-propelled and hybrid private cars in 2035 or earlier and announcing the strategies for and targets of installing charging facilities.2) Promote the development of electric and other new energy public transport and commercial vehicles. Formulating a specific roadmap and timetable for the use of new energy public transport in 2025.
Waste management	Mobilise the entire community to practise waste reduction, developing waste-to-energy facilities and supporting the circular economy in accordance with the Waste Blueprint for Hong Kong 2035.
Green finance	<ol style="list-style-type: none">1) In the next 15 to 20 years, devote about HK\$240 billion to take forward various measures on climate change mitigation and adaptation.2) Develop the city into the regional green finance hub.3) Co-operate with Guangzhou in terms of carbon emission trading.4) Assess the feasibility of developing Hong Kong into a regional carbon trading centre.

Macau: Tourist arrivals drop 94% yoy in golden week

- The city cancelled its plan to reopen the border with Zhuhai and announced a third round of mass Covid-19 testing as a series of new local Covid-19 confirmed case, causing a sharp drop in the China's National Golden week.
- According to the Macau Tourism Office, there were only 8,159 visitors during the period of October 1-7. Comparing to the same "Golden Week" in 2019 and 2020, the total visitor arrivals were down by 99% and 94% respectively.
- We expect this sluggish China's golden week data set may translate into poor retail sales growth and employment data in October.

2020	Mainland Visitor Arrivals	Total Visitor Arrivals
1ST Day	14295	15254
01/10/2020		
2ND Day	20610	21782
02/10/2020		
3RD Day	19076	20182
03/10/2020		
4TH Day	17103	18246
04/10/2020		
5TH Day	18883	20458
05/10/2020		
6TH Day	18467	19958
06/10/2020		
7TH Day	16138	17571
07/10/2020		
8TH Day	14281	15678
08/10/2020		
TOTAL	138853	149129
Daily Average	17357	18641

	Mainland Visitor Arrivals	yoy % change	Total Visitor Arrivals	yoy % change
1ST DAY	1618	-	1749	-
01/10/2021				
2ND DAY	1290	-	1373	-
02/10/2021				
3RD DAY	1615	-	1784	-
03/10/2021				
4TH DAY	1446	-	1668	-
04/10/2021				
5TH DAY	603	-	669	-
05/10/2021				
6TH DAY	441	-	498	-
06/10/2021				
7TH DAY	380	-	418	-
07/10/2021				
TOTAL	7393	-	8159	-
Daily Average	1056	-93.90%	1166	-93.70%

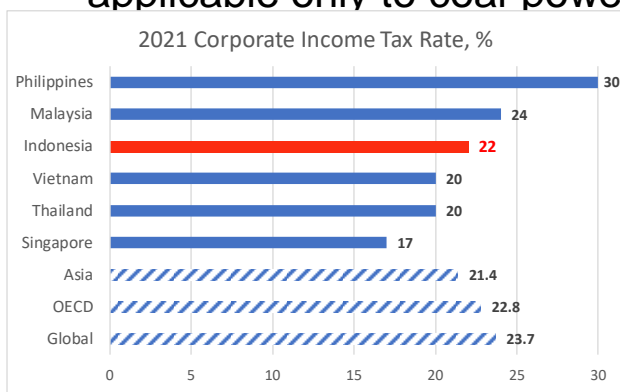


OCBC Bank

Source: Gov.mo, OCBCWH

Indonesia: Tax Reforms

- Indonesia's parliament has approved a tax reform bill. Overall, it shows a focus on further fiscal consolidation, with a walk-back of an earlier plan to cut the corporate income tax rate further to 20% in 2022. Instead, it will stay at the current rate of 22%, with little said about whether further cuts will come later. There had been anticipation that bringing it to 20% would put Indonesia on par with regional FDI competitors such as Vietnam.
- The individual income tax regime has been changed too, with the first layer of taxable income increased from IDR50mn to IDR60mn at a rate of 5%. At the other end, a new tax bracket has been created, for those earning over IDR5bn a year, with a rate of 35%.
- Somewhat curiously, another round of tax amnesty is also introduced, perhaps with the view towards delivering a one-off boost to government revenue next year. Unless it comes together with a greater enforcement and audits, however, it may receive lukewarm response. Separately, a carbon tax of IDR30k/kgCO₂e has also been introduced, but applicable only to coal-powered electricity generators.

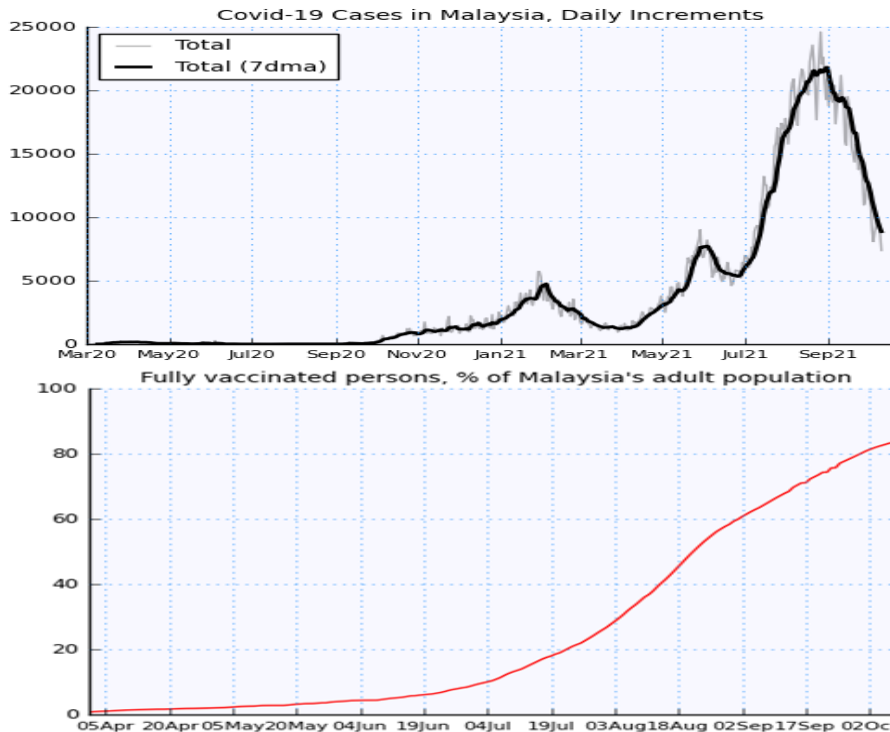


Indonesia's Individual Income Tax Brackets			
Current		New	
Annual Income in IDR	Tax Rate	Annual Income in IDR	Tax Rate
Up to 50mn	5%	Up to 60mn (~USD4200)	5%
50mn - 250mn	15%	60mn - 250mn	15%
250mn - 500mn	25%	250mn - 500mn	25%
Over 500mn	30%	500mn - 5bn	30%
		Over 5bn (~USD350k)	35%

Indonesia's Tax Amnesty II: Tax Tariffs			
Asset Status	Invested in sovereign bonds, natural resources processing, or renewable energy sector?	Assets acquired in 1985-2015	Assets acquired in 2016-2020
Onshore or offshore assets that are repatriated	Yes	6%	12%
	No	8%	14%
Offshore assets that will not be repatriated		11%	18%

Malaysia: Turning a corner

- Malaysia's Covid-19 situation continues to be on the mend. The latest figure came well below 10k a day, at just 6790 new cases reported, the lowest daily figure since early July.
- Meanwhile, with the vaccination rate picking up apace – going by government's count, it has exceeded 90% of the total adult population – the government announced that interstate and international travels have reopened. For the latter, however, quarantine will still be applicable upon return to Malaysia.
- Separately, the government has formally tabled a request to raise its debt ceiling from 60% to 65% of GDP and is likely to receive widespread support in the parliament including the opposition camp for the initiative. Overall, it continues to signal a fairly expansive fiscal stance that pose headwinds to the sovereign bonds, especially after the big 12MP plan and the likely elevated fiscal deficit target for next year's budget that is due out on October 29th.

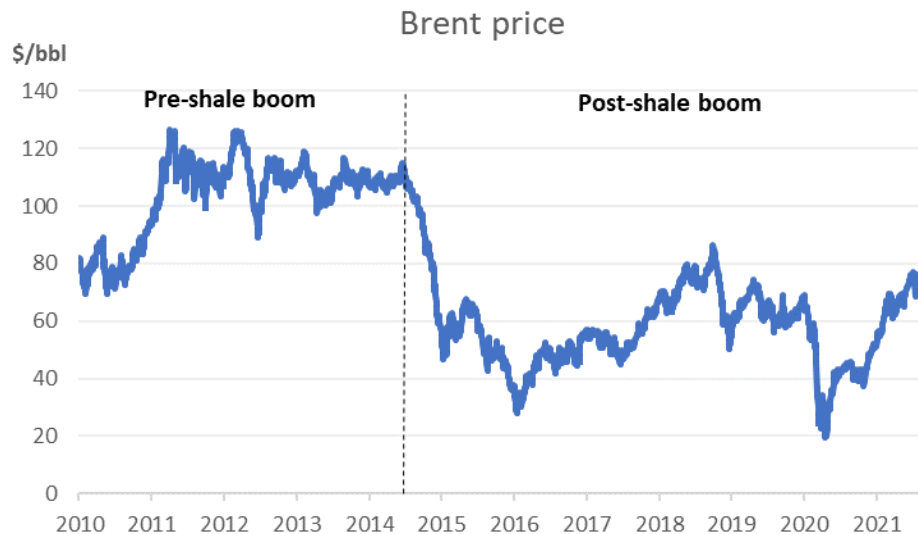


Indicators	11MP Performance (2016-2020)	12MP Targets (2021-2025)
GDP growth, per annum	2.70%	4.5%-5.5%
Development Expenditure	RM248bn	RM400bn (+53.8%)
GNI per capita, end period	RM42,503	RM57,882 (+36.2%)
Labour productivity growth, per annum	1.10%	3.60%
Compensation of employees, end period (% of GDP)	37.20%	40%
Average monthly household income, end period	RM7,160	RM10,065 (+40.6%)
Malaysian Wellbeing Index growth, per annum	0.50%	1.20%

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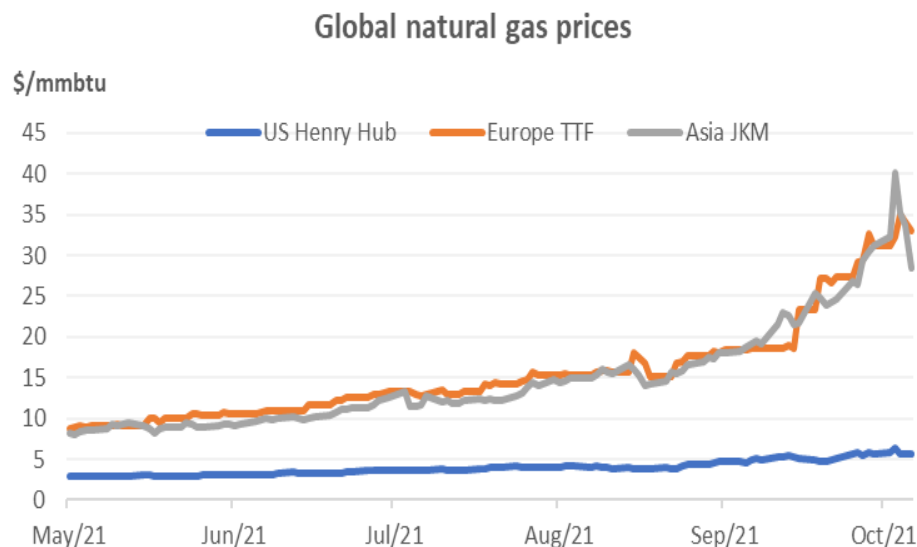
Oil: No justification for \$100 oil

- We remain skeptical about the prospects of \$100 oil.
- The era of \$100 oil was before the US shale boom and stocks were way tighter than what they are now.
- For example, in the US, the current implied gasoline stock-to-use in the US is about 42.5 days. Pre-shale days, this ratio easily clocked 38-39 days.
- In other words, despite the current stock tightness, stocks are still not as tight as the pre-shale era – hence, it does seem ambitious to suggest prices return to pre-shale days.



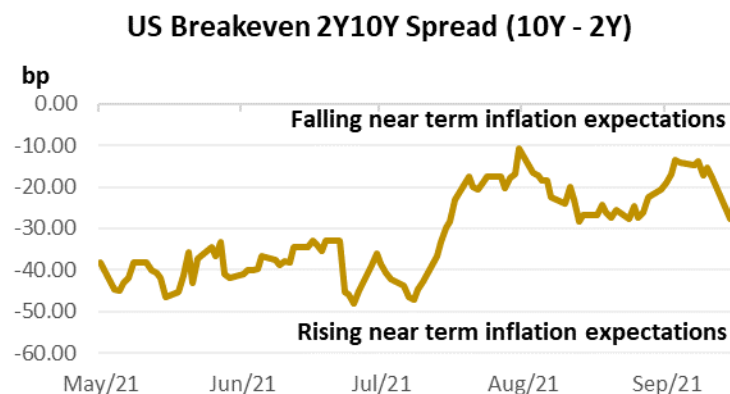
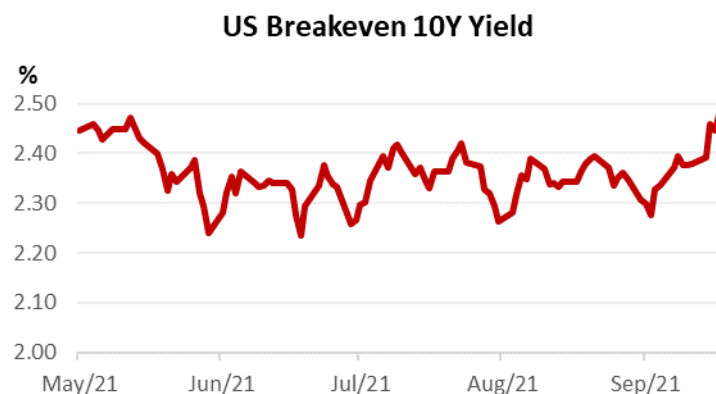
Natural gas: European gas price down 30%

- What is stopping the gas arb from closing? In two simple words – infrastructure limitations.
- The US may have plenty of gas and is a net exporter, but about 55% of its gas exports are via pipelines to Mexico and Canada. Its ability to move gas across oceans via LNGs are more limited due to years of underinvestment in liquefaction facilities.
- European gas prices, meanwhile, have collapsed 30% in a week after Russia said it will increase its gas supply to Europe.
- This leaves Asian JKM gas as the price is at \$33/mmbtu.



Gold: Gold bulls lack conviction

- Gas and oil prices are way higher than they were in May, yet 10Y US breakeven yield have barely breached the high set in Q2.
- Similarly, the 2y10y breakeven spread is currently trading 30bp inverted (i.e 2Y inflation expectations are 30bp higher than the 10Y expectations) – this traded 50bp inverted in Q2.
- In face of this energy crisis and the poor Sep NFP, gold still traded below \$1800.
- There is little conviction among gold bulls and we stick to our bearish gold view.





Foreign Exchange & Interest Rates

FX & Rates: UST yields firmer despite NFP miss

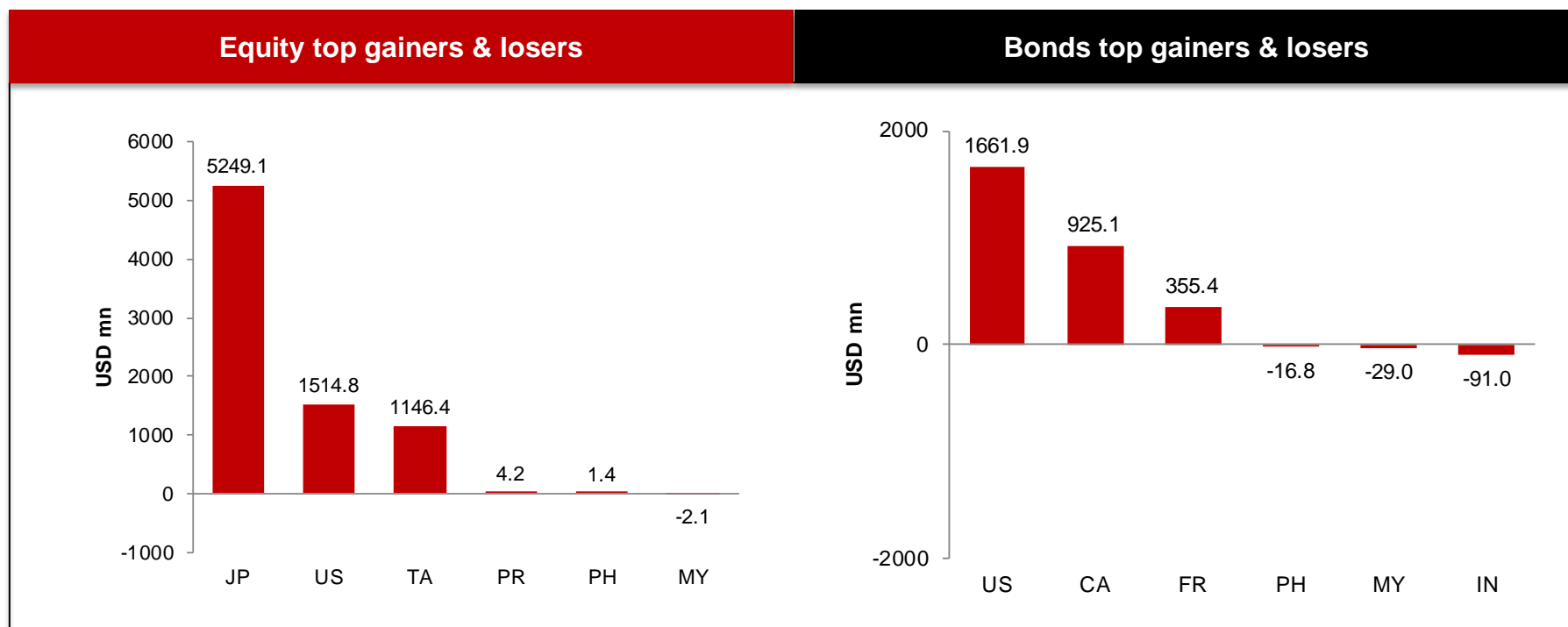
- Despite the big miss in Sep NFP of 194k compared to market expectations of 500k, the drop in unemployment rate and strong hourly wages suggest that the overall jobs market remains relatively healthy. UST yields were firmer and steeper across the curve. The **FX Sentiment Index (FXSI)** was lower within the risk neutral zone
- The **broad USD** closed weaker, but most of the post-NFP declines were pared as UST yields extended higher. **CFTC** shows that the investment community's commitment to the long-USD view is still unwavering. Both the non-commercial and leveraged accounts added to their net implied USD longs.
- Our view on the Fed remains unchanged post-NFP. ED futures pricing suggest as much. Front- and back-end yield differentials also extended in favour of the USD. The NFP miss deprived the USD of another clear upside catalyst, but it does not constitute a USD-negative.
- UST yields ended Friday higher across the curve, after some initial reactions lower upon a weaker-than-expected NFP. Near-term range for the 10Y UST yield is likely at 1.55-1.65%.
- While our base case scenario is for the MAS to keep its SGD policy unchanged at the upcoming October meeting, MAS may deliver a more positive statement, potentially sending a strong signal towards a tightening move at the April 2022 meeting. MAS policy shall affect SORA in the same direction as it did to SOR.



Asset Flows

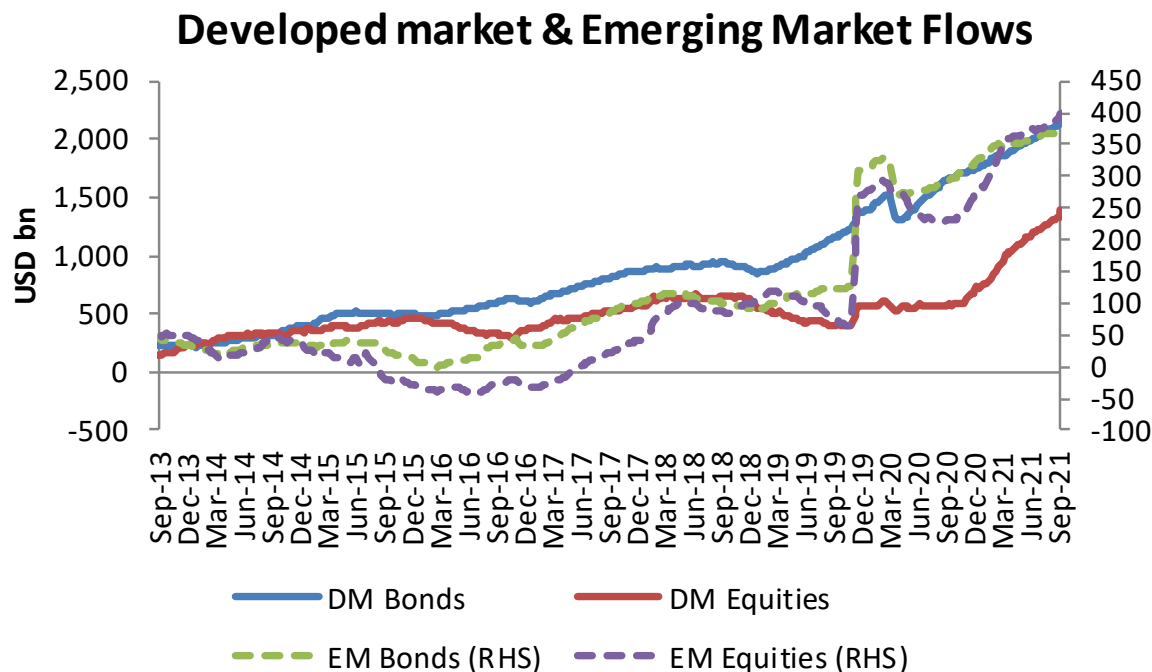
Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 6th October amounted to \$12.9bn, an increase from the outflow of \$9.1bn last week. Global bond market saw inflows amounting to \$4.0bn, a decrease from last week's inflows of \$8.1bn.



DM & EM Flows

- DM equities saw \$10.2bn worth of inflows while the EM-space registered \$2.6bn worth of inflows.
- Elsewhere, the DM bond space posted inflows of 4.9bn, while EM bonds registered outflows of \$0.9bn.





Thank You

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