



Weekly Macro Views (WMV)

Treasury Research & Strategy (14th September 2021)

Weekly Macro Update

Key Global Events for this week:

13 th September	14 th September	15 th September	16 th September	17 th September
<ul style="list-style-type: none"> - JN PPI YoY - JN BSI All Industry - PH Foreign Reserves - HK Industrial Production YoY - HK PPI YoY - NZ Food Prices MoM - GE Wholesale Prices - ANZ Business Confidence 	<ul style="list-style-type: none"> - US CPI - JN Industrial Production MoM - UK Jobless Claims Change - UK ILO Unemployment Rate - PH Overseas Cash Remittances YoY - CA Manufacturing Sales 	<ul style="list-style-type: none"> - CA CPI YoY - US MBA Mortgage Applications - US Industrial Production MoM - UK CPI Core - UK Retail Price - CH Industrial Production YoY - CA CPI NSA MoM - EC Industrial Prod. 	<ul style="list-style-type: none"> - US Initial Jobless Claims - US Retail Sales Advance MoM - CA Housing Starts - US Philadelphia Fed Business Outlook - HK Unemployment Rate SA - NZ GDP YoY - JN Trade Balance 	<ul style="list-style-type: none"> - EC CPI YoY - EC CPI MoM - US U. of Mich. Sentiment - SI Non-oil Domestic Exports YoY - NZ Manufacturing PMI - TH Foreign Reserves - UK Retail Sales Inc Auto Fuel MoM - UK Retail Sales

Summary of Macro Views:

Global	<ul style="list-style-type: none"> • Global: ECB maintains rates, to slow PEPP • Global: BOC gives guidance on monetary policy • Global: US job openings rise to a record • Global: US house Democrats proposes tax hikes
Asia	<ul style="list-style-type: none"> • SG: ASEAN discuss regional digital economy • HK: Hong Kong & Macau to loosen border control • HK: Integration of the Greater Bay Area

Asia	<ul style="list-style-type: none"> • CH: Three factors supporting RMB • CH: Muted transmission from PPI to CPI • CH: Still sluggish credit growth
Asset Class	<ul style="list-style-type: none"> • Oil: China imports more in August • Gold: Continues to trade within neutral range • FX & Rates: FX and USTs increasingly risk-off • Credit Research
Asset Flows	<ul style="list-style-type: none"> • Asset Flows

Global: US-China tensions continue

- Despite news of the US-China call between Biden and Xi, news that the Biden administration is considering investigating Chinese subsidies under Section 301 of US trade law suggests that tensions are unlikely to fade anytime soon.
- **Other key developments:**
 - House Democrats are proposing to hike the corporate tax rate from 21% to 26.5% and to impose a 3% surtax on individual income tax above \$5m. The capital gains tax may also rise from 20% to 25%, short of the 39.6% initially proposed.

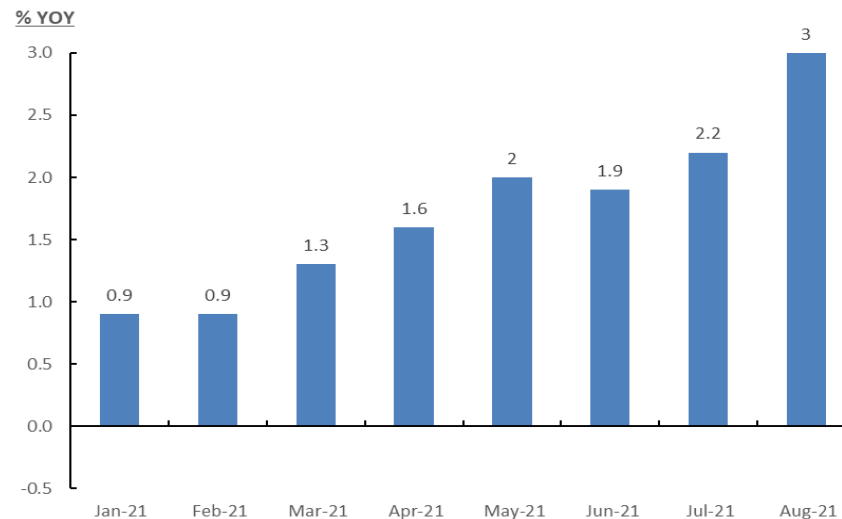
Key data release are as follows:

- 13th September: JN PPI, JN BSI All Industry , PH Foreign Reserves, HK Industrial Production YoY, HK PPI YoY, NZ Food Prices MoM, GE Wholesale Prices, ANZ Business Confidence
- 14th September: JN Industrial Production MoM, US CPI, UK Jobless Claims Change, UK ILO Unemployment Rate, PH Overseas Cash Remittances YoY, CA Manufacturing Sales
- 15th September: CA CPI YoY, US MBA Mortgage Applications, US Industrial Production MoM, UK CPI Core, UK Retail Price, CH Industrial Production YoY, CA CPI NSA MoM, EC Industrial Prod.
- 16th September: US Initial Jobless Claims, US Retail Sales Advance MoM, CA Housing Starts, US Philadelphia Fed Business Outlook, HK Unemployment Rate, NZ GDP.
- 17th September: EC CPI YoY, EC CPI MoM, US U. of Mich. Sentiment, SI Non-oil Domestic Exports YoY, NZ Manufacturing PMI, TH Foreign Reserves, UK Retail Sales Inc Auto Fuel MoM, UK Retail Sales

Global: ECB maintains rates, to slow PEPP

- The ECB left its main refinancing rate, marginal lending facility and deposit facility rate unchanged at 0.00%, 0.25% and -0.50% respectively.
- The committee is also set to slow its pace of PEPP asset purchases beginning Q4.
- “Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council judges that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the (PEPP) than in the previous two quarters,” the ECB said in a statement.
- These decisions were to ensure the ECB’s goal of a symmetric 2.00 % inflation target and was in response to Eurozone’s inflation reaching to a decade high of 3% yoy in August.

Eurozone Consumer Inflation Rate

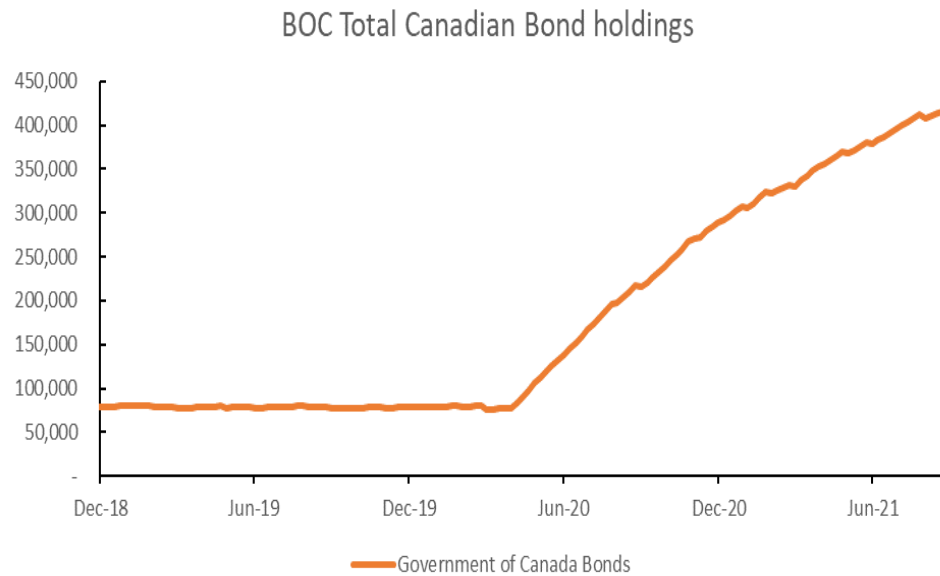


OCBC Bank

Source: OCBC, Bloomberg

Global: BOC gives guidance on monetary policy

- The Bank of Canada released guidance on how it plans to reduce monetary stimulus
- Governor Macklem reiterated that the BOC would bring bond purchases to a neutral place before withdrawing extraordinary support. She added that after stimulus is parred back, the first move will be to increase interest rates rather than to reduce bond holdings.
- The central bank bought C\$336 billion (\$266 billion) in Canadian government bonds under its asset purchase program.
- The BOC will continue purchasing assets at a rate of C\$2bn a week.
- The benchmark rate will be maintained at 0.25% until inflation returns to 2%.

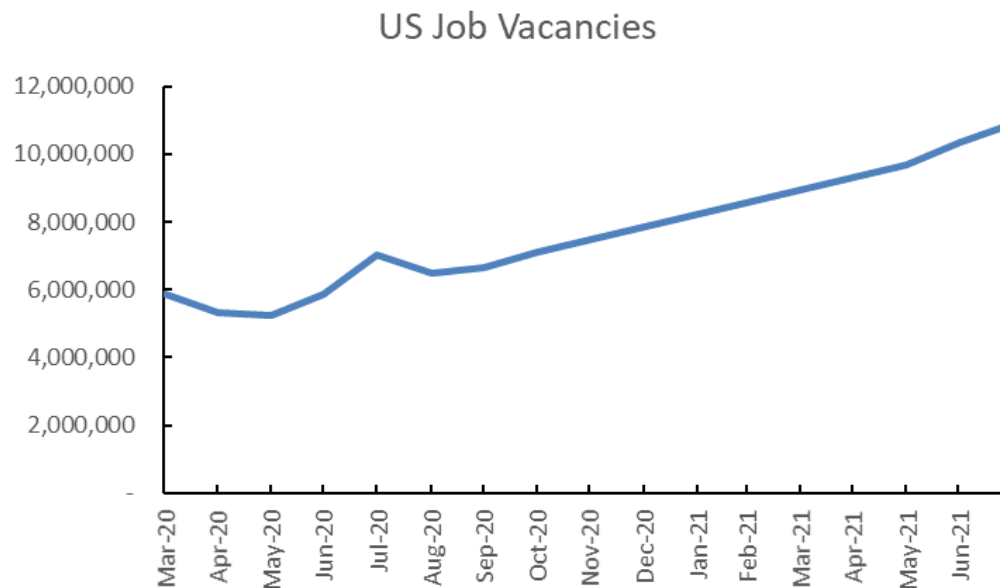


OCBC Bank

Source: OCBC, Bank of Canada

Global: US job openings rise to a record

- US job openings rose to a record high in July due to staffing shortages.
- The number of available positions rose to 10.9 million during July from 10.1 million in June.
- After shedding millions of workers from payrolls last year, the rapid snapback in economic activity has left many businesses severely short-staffed.
- Total hires eased to 6.7 million in July while non-farm payrolls rose by just 235,000 in August down from 1.1 million in July.



Global: US House Democrats proposes tax hikes

- House Democrats are looking to new taxes to help pay for Biden's \$3.5 tn economic plan.
- The proposal highlights a hike on the corporate tax rate from 21% to 26.5% and to impose a 3% surtax on individual income tax above \$5m.
- A change of the capital gains tax from 20% to 25% was also suggested, short of the 39.6% initially proposed. Cryptocurrency may also be regulated to be the same as other financial instruments, raising an estimated \$16 bn.
- A further \$96 bn would be created by higher taxes on tobacco and nicotine products, including e-cigarettes.



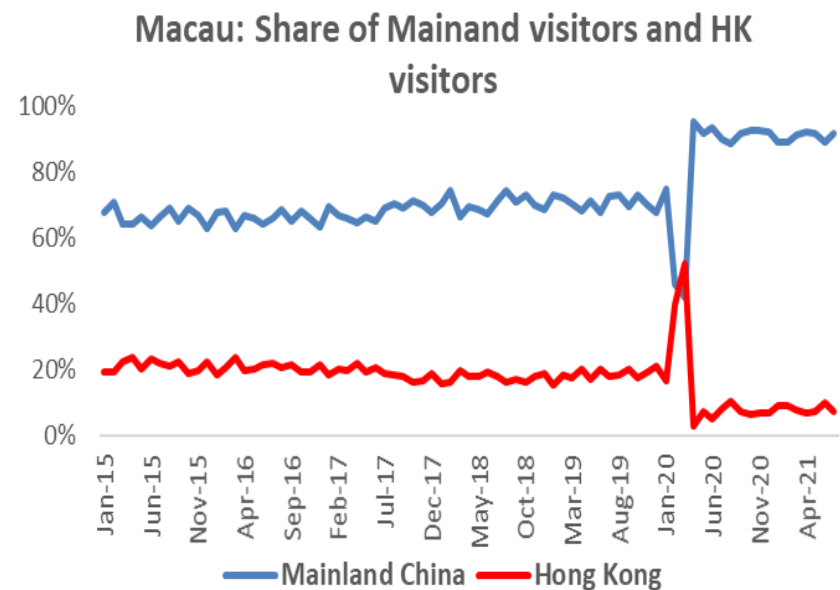
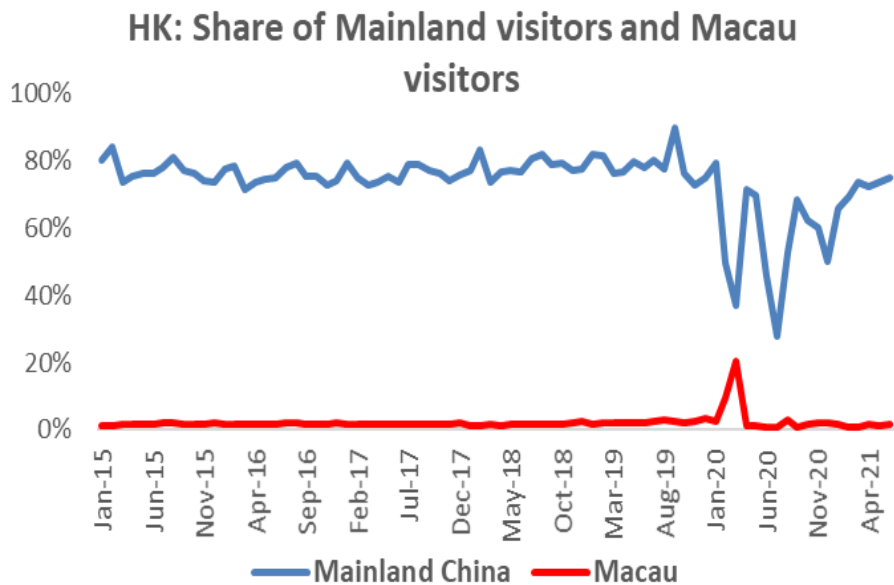
SG: ASEAN members discuss digital economy

- ASEAN economic ministers are shifting focus to digital transformation aimed at enabling smooth flow of goods, services and data to aid the region in drawing global trade and investments, and to better position the region for future growth.
- The ministers have agreed to commit to conduct a study on a regional digital economy pact by 2023.
- Negotiations on the ASEAN Digital Economy Framework Agreement were also to be finalized by 2025.
- Thus far, Singapore has negotiated two agreements: the Digital Economy Partnership Agreement with Chile and New Zealand, and the Singapore-Australia Digital Economy Agreement, both signed in 2020.
- These agreements establish digital trade rules and digital economy collaborations between two or more economies



HK: Hong Kong & Macau to loosen border control

- Both Hong Kong and Macau are set to loosen the travel restriction measures. Hong Kong will allow local residents from Mainland China and Macau as well as non-local residents from these two places to enter without being subject to mandatory quarantine.
- Meanwhile, Macau will allow Hong Kong's non-local residents who have got permits to stay, work or study in Macau to enter, subject to 14-day quarantine.
- These measures may not be a game changer but may pave way for further border reopening between the two cities.



OCBC Bank

Source: DSEC, HK Census and Statistics Department, OCBCWH

HK: Integration of the Greater Bay Area

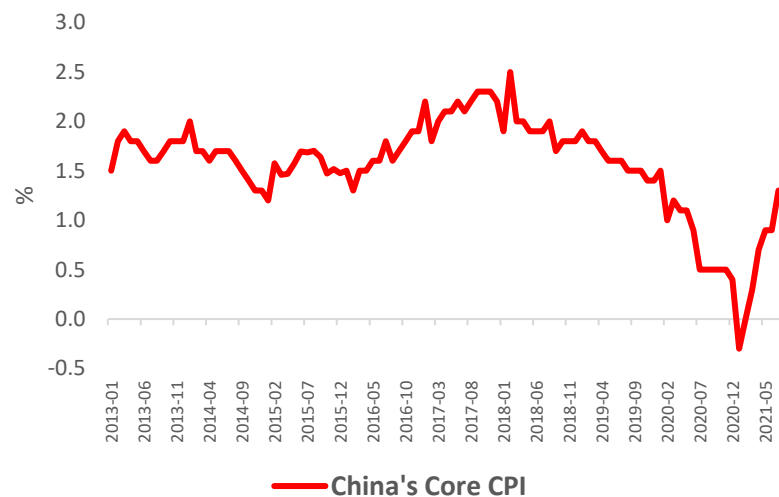
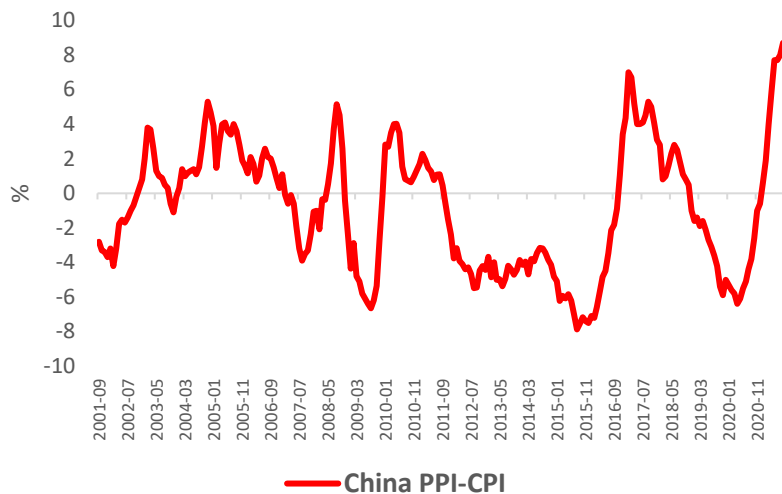
- China announced the plan to build a Guangdong-Macau in-depth cooperation zone in Hengqin and the new development plan for Qianhai. It shows that the central government strives to promote further integration among the Greater Bay Area (GBA).
- Specifically, the corporation zone in Hengqin will be built with an aim to support Macau's economic diversification, facilitate Macau residents' life and employment, enrich the practice of "one country, two systems" and connect Macau and Zhuhai to promote the development of the Greater Bay Area.
- On the other hand, the expansion of the Qianhai economic zone may bolster the cooperation between Hong Kong and Shenzhen in terms of education, finance, high tech, medical services, legal services etc. We will monitor the upcoming 2021 Policy Address to see if there are details of Hong Kong's plan to promote the GBA's integration.
- On top of these, financial integration among the Greater Bay Area also sees new progress as southbound bond connect, wealth management connect and Shenzhen government's first offshore bond issue will come soon. Furthermore, HK Green Finance Association hinted that they are studying the feasibility of building a united carbon market for the Greater Bay Area.

China: Three factors supporting RMB

- RMB gained with the USDCNY ended the week below 6.45 on the back of three factors including hawkish message from PBoC official, resumption of US-China dialogue and resilient trade data.
- In the press conference last week, PBoC's director of monetary policy said effective expectation management has reduced the pre-emptive demand for liquidity. As such, liquidity needed to keep money market stable has been lower than before. As long as DR007 remains stable, PBoC is comfortable with overall liquidity situation. His comment dialled back market expectations on imminent easing.
- The 90-minutes phone call which was initiated by President Biden showed the change of approach by the US administration. President Xi's comments that "getting the relationship right is not optional, but something we must do and must do well" also sent a clear message about China's commitment to repair the bilateral relationship. The call also showed that President Biden has a non-binary view of the US-China relationship. The communication on the ground level after the call is likely to improve.
- China's goods trade continued to surprise on the upside in August with total trade hit a record high of US\$530.3 billion. The recent outbreak of delta variants in ASEAN may prolong China's first in first out benefit as a result of pause of supply chain shift.

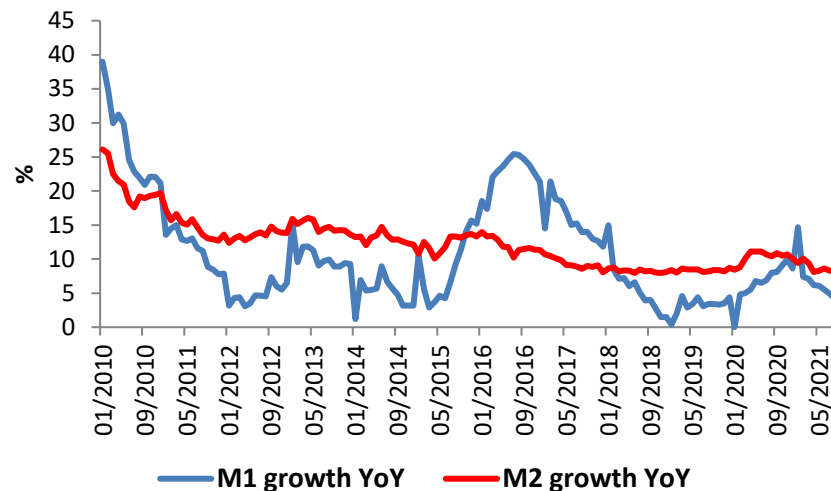
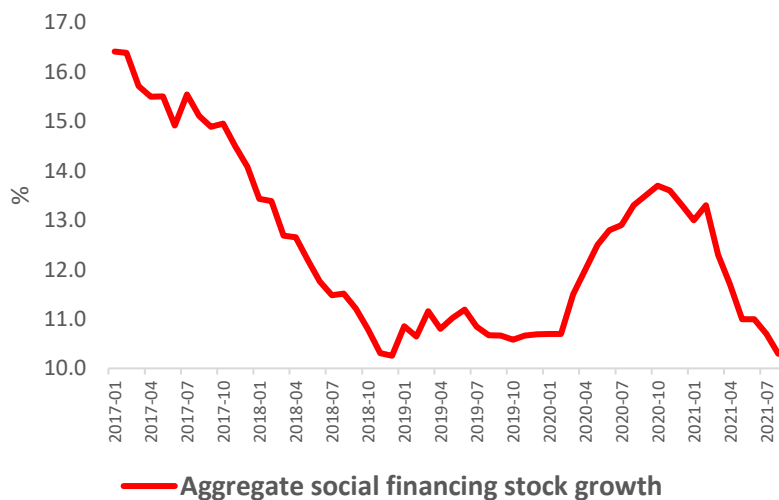
China: Muted transmission from PPI to CPI

- The gap between PPI and CPI widened to a record high of 8.7%, signalling mounting pressures for profit margins for the downstream companies.
- Although elevated PPI argues for limited room for further easing, the mounting pressures faced by SMEs in the downstream may be the catalyst for Chinese central bank to cut RRR to support the real economy against the backdrop of muted transmission from PPI to CPI.



China: Still sluggish credit growth

- China's credit growth in August remained sluggish. Stock of aggregate social financing growth decelerated further to 10.3% from 10.7% in July.
- The gap between M2 and M1 widened further to 4% from 3.4% in July, a sign that corporate is cautious about future outlook. Meanwhile, the faster than expected deceleration of M1 growth was also the result of weaker property market.

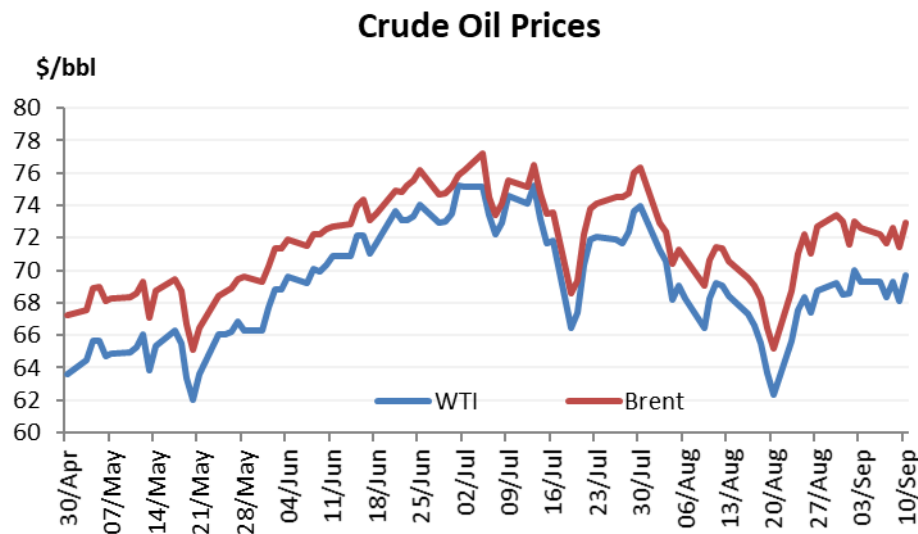




Commodities

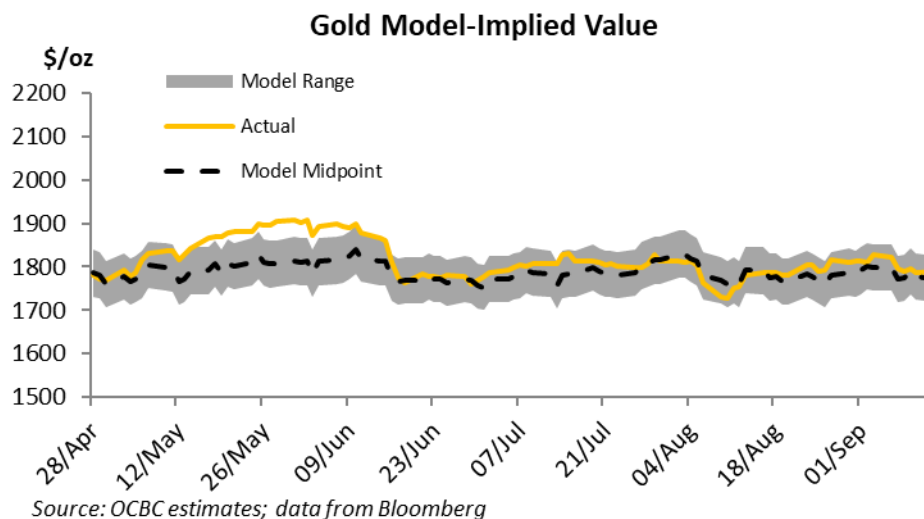
Oil: China imports more in August

- WTI and Brent prices continue to consolidate, as has been the past three weeks.
- Brent has found a cap at \$73 and is probably awaiting further cues to rise further.
- There are reports that China has been releasing oil barrels from its SPR, dampening oil prices.
- China's oil imports improved in August at 44.5mil tons, the highest since March.
- This has been a result of increased oil quota limits from China, possibly due to reserve rotation.



Gold: Continues to trade within neutral range

- Gold fell unexpectedly last week, despite the poor NFP report from the prior Friday.
- Gold closed below the \$1800 for four consecutive days beginning last Tuesday.
- Our fair model range suggests gold's fair value range given current inputs is between \$1720 to \$1820.
- At \$1790, gold is trading just slightly above the midpoint of this range.





Foreign Exchange & Interest Rates

FX & Rates: FX and USTs increasingly risk-off

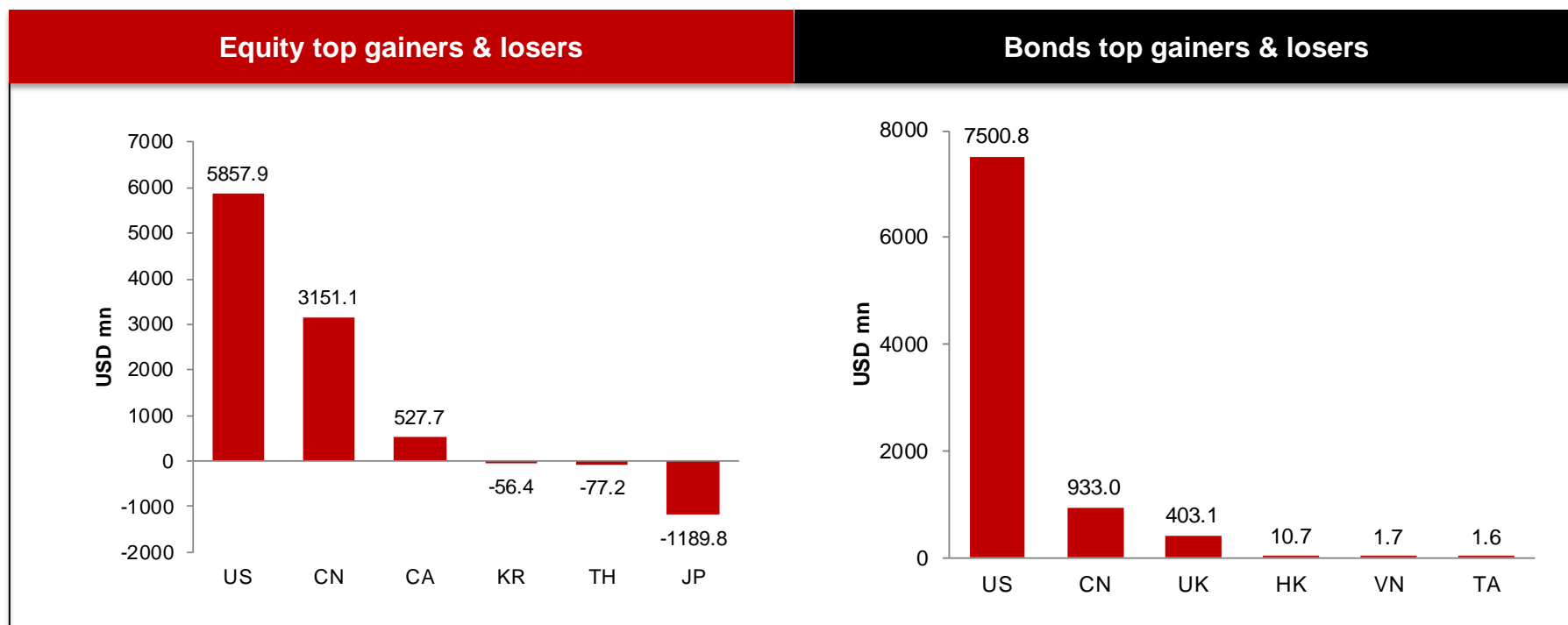
- US equities slumped, while back-end UST yields lifted. The FX Sentiment Index (FXSI) edged towards Risk-Off on Friday, and the FXSI is on a clear climb towards Risk-Off since mid-June.
- USD closed the week supported, with the EUR-USD and AUD-USD both testing supports at 1.1800 and 0.7350 respectively. The market will be eyeing the US CPI (1230 GMT) on Tuesday for another signal on the Fed trajectory.
- UST yields rose in a steepening manner on Friday, characterized by higher real yields while inflation expectation beyond the short-term was little changed. Treasuries are likely to trade in ranges in the coming sessions amid a lack of trigger for directional move. The 1.288% handle continues to serve as a strong resistance for the 10Y bond, while upside to the 10Y yield is at 1.40%/1.43%.
- In offshore CNH, HKMA announced details on the Wealth Management Connect (WMC) on Friday, with the scheme to be launched in about a month's time. If the offshore exchange is the only channel, then all Northbound WMC flows will translate into a tightening in CNH liquidity



Asset Flows

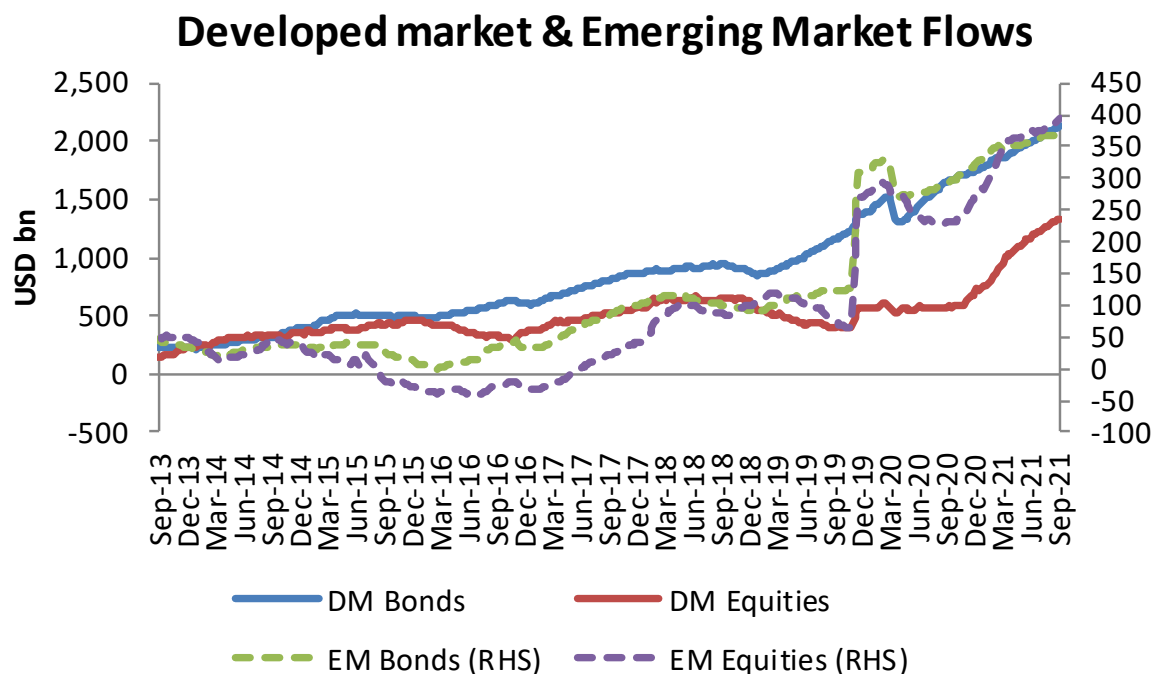
Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 8th September amounted to \$12.6bn , a decrease from the inflow of \$19.1bn last week. Global bond market reported net inflows of \$12.4bn, a slight decrease from last week's net inflows of \$12.6bn.



DM & EM Flows

- DM equities saw \$8.7bn worth of inflows while the EM-space registered \$3.7bn worth of inflows.
- Elsewhere, the DM bond space posted inflows of \$9.96bn, while EM bonds registered inflows of \$2.38bn.





Thank You

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