Weekly Macro Views (WMV)

Treasury Research & Strategy (15 June 2021)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

14th June	15th June	16th June	17th June	18th June
- JN Industrial Production - IN CPI - NZ Food Prices - CA Manufacturing Sales - EC Industrial Production	- JN Core Machine Orders - UK Jobless Claims Change - UK ILO Unemployment Rate - US Retail Sales - US Industrial Production	- US FOMC Fed Funds Rate - TA CBC Benchmark Interest Rate - AU Unemployment Rate - SG Non-oil Domestic Exports	- US Initial Jobless Claims - EC CPI - ID Bank Indonesia 7D Reverse Repo - JN BOJ Policy Balance Rate - US Leading Index	- TH Foreign Reserves - TH Forward Contracts - UK Retail Sales - GE PPI - EC ECB Current Account - FR Wages QoQ

Summary of Macro Views:

Global	• **Global:** All eyes on the FOMC meeting • **Global:** Central banks • **Global:** US CPI accelerated to 5.0% yoy in May • **Global:** ECB revises up its economic forecasts
Asia	• **SG:** May NODX to print on the upside • **SG:** Gradual relaxation of Covid measures • **HK:** Fintech 2025 & e-HKD • **HK:** FY2021 deficit may be narrower than expected

Asia	• **Macau:** Housing market's rebound continued • **CH:** Sword and shield • **CH:** Inflation is not a major concern • **CH:** Tighter credit • **MY:** MCO Extension • **ID:** Already Low
Asset Class	• **Oil:** Oil may peak at $80 by end 2021 • **Gold:** Rising real rates to push gold lower • **Rates:** Awaiting FOMC
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: All eyes on the FOMC meeting

- The Fed will most likely stick to its accommodative monetary policy stance in this month's meeting, but the markets will be keenly watching out for hints of tapering or a shift in dovish tone from FOMC officials, especially with regards to the number of dissents. There are also expectations that the 2023 dot-plot in this month's projections will reflect a lift-off in the key benchmark rate (vs static in the March projection). Fed Chair Powell will also likely continue reiterating the committee's stance that inflationary pressures are likely "transitory".
- **Other key developments:**
  - G7 meeting over the weekend saw US President Biden pushing his allies to counter China's influence, including the proposal of an infrastructure program to counter China's Belt and Road initiative, but that was pushed back by Germany and France.
- **Key data release are as follows:**
  - 14th June: JN Industrial Production, EC Industrial Production, CA Manufacturing Sales, IN CPI
  - 15th June: US Retail Sales, US Industrial Production, UK ILO Unemployment Rate, JN Core Machine Orders
  - 16th June: US FOMC Fed Funds Rate, TA CBC Benchmark Interest Rate, SG Non-oil Domestic Exports
  - 17th June: JN BOJ Policy Balance Rate, ID Bank Indonesia 7D Reverse Repo, US Initial Jobless Claims
  - 18th June: TH Foreign Reserves, UK Retail Sales, GE PPI, EC ECB Current Account

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Global: Central Banks

Forecast – Key Rates

Central Bank of the Republic of China (Taiwan)(CBC)	Federal Open Market Committee (FOMC)	Bank Indonesia (BI)	Bank of Japan (BoJ)
Wednesday, 16 June	Wednesday, 16 June	Thursday, 17 June	Thursday, 17 June

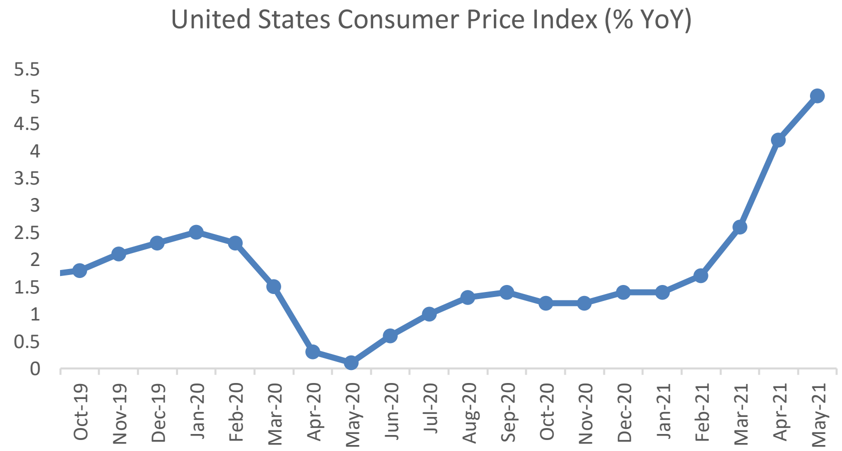
House Views

Discount Rate	*Fed Funds Target Rate*	*7D Reverse Repo*	*Policy Balance Rate*
Likely hold at 1.125%	**Likely hold at 0.00 - 0.25%**	**Likely cut by 3.50%**	**Likely hold at -0.10%**

Source: OCBC, Bloomberg

Global: US CPI accelerated to 5.0% yoy in May

- US May CPI data firmly beat expectations, coming in at 5.0% yoy (0.6% mom) vs 4.7% yoy (0.5% mom) expected, highest level since August 2008. Core CPI also came in higher than expected at 3.8% yoy (0.7% mom).
- The jump came largely from used cars which rose 29.7% yoy, followed by energy prices (28.5% yoy) due to a sharp uptick in gasoline prices (+56.2% yoy) and fuel costs (+50.8% yoy).
- While the Fed has downplayed inflation concerns, the solid inflation print is likely to heighten market expectations that the Fed may be on an accelerated pace to begin its tapering plans.
- The US inflation print is likely to continue to be firm in the coming months until "transitionary" and "one-off" factors in addition to low base effects fades out.



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Sources: Bloomberg, OCBC

Global: ECB revises up its economic forecasts

- The ECB kept its benchmark rates and other policy tools static in the latest central bank meeting.
- Growth forecasts were revised higher to 4.6% yoy in 2021 and 4.7% yoy in 2022 from 4.0% yoy and 4.0% yoy previously.
- Inflation estimates also saw an upward revision to 1.9% yoy in 2021, 1.5% yoy in 2022 and 1.4% yoy in 2023, but remained below the 2.0% target.
- The ECB remained steadfast in its commitment to accelerate bond buying in the coming quarter, with ECB Chief Lagarde acknowledging for the first time since 2018 that risks to the Eurozone's economic growth are "broadly balanced".

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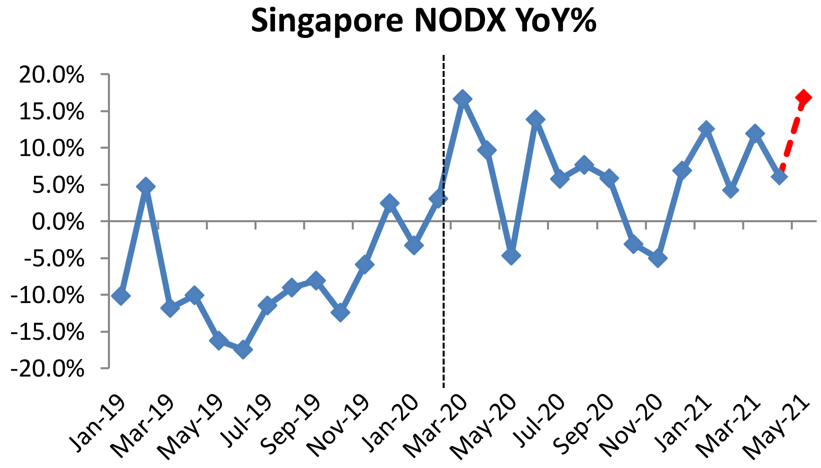
Sources: Bloomberg, OCBC

SG: May NODX to print on the upside

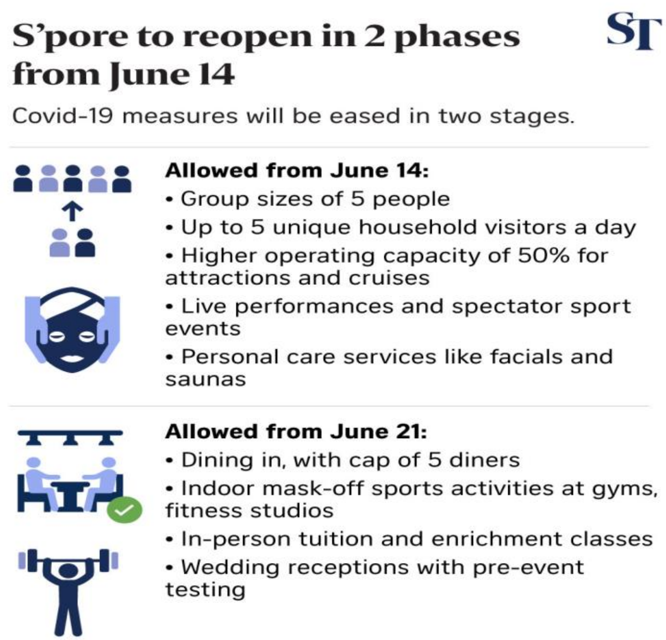
- We expect S'pore NODX in May to post a 16.8% yoy (0.3% mom), due to be released on Wednesday.
- This will mark the sixth straight month of expansion, following the 6.0% yoy growth in April.
- The higher print is likely to be attributed to strong export demand for electronics and biomedical products.
- Our full-year 2021 NODX growth forecast remains at 4.0% yoy.



Sources: Bloomberg, CEIC, OCBC

SG: Gradual relaxation of Covid measures

- Singapore has eased its Phase 2(HA) restriction measures and has laid out plans for further relaxation in two phases.
- From this week, permissible group sizes will be raised to five from the current two, while operating capacities of selected attractions will be raised to 50% from 25%.
- From 21 June, dining in at restaurants can resume, as well as live performances and gym classes.
- Work from home remains the default working arrangement.



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Sources: Straits Time, OCBC

HK: Fintech 2025 & e-HKD

- The HKMA launched “Fintech 2025”, a new strategy to promote Hong Kong’s fintech development. This reinforces that Hong Kong has prioritized the development of Fintech in an effort to promote financial inclusion and support banks to provide tailor-made services based on the digital footprints.
- Among the five key areas of the strategy, what caught the market’s attention the most has been the study of e-HKD. In addition to supporting the technical testing of e-CNY in HK and working on other digital currency projects, the HKMA has set up a working group to study the technology and regulatory issues related to an e-HKD and will have a conclusion in about 12 months. However, given the complexity of issuing digital currency, the idea may take some time to materialize.
- Some may have been worried that the study of e-HKD is to pave way for changes in the linked exchange rate system. HKMA’s Deputy CE clarified that e-HKD will just be an electronic version of banknote and will not have any implication on the linked exchange rate system. In our view, until RMB is fully convertible and China’s capital account is totally opened up, e-RMB is unlikely to accelerate RMB internationalization while HKD is also unlikely to be re-pegged to the RMB.

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HK: FY2021 deficit may be narrower than expected

- A secondary home price tracker CCL index rose by 0.28% on weekly basis as of 6 June, only 2.52% away from historical high. Owing to the strong rebound of the housing market, Hong Kong's stamp duty collections for property surged by about 62% mom to HK$1.41 billion in May, reaching the strongest in six months.
- The government expects the stamp duty hike on stock trading effective from 1 Aug to result in an HK$8 billion increase in government revenue for FY2021. Meanwhile, according to Budget 2021-22, the government merely estimates an HK$3 billion increase in stamp duties for FY2021 from the preceding fiscal year. As such, should stamp duty collections for property increase notably this year, we may see a narrower than expected fiscal deficit for the current fiscal year.

Fiscal Year	Profits Tax ($ billion)	Salaries Tax ($ billion)	Land Premium ($ billion)	Stamp Duties ($ billion)	YoY%	Investment Income ($ billion)	Other Incomes ($ billion)	Total Government Revenue ($ billion)	Surplus / (Deficit) ($ billion)
2021-22 (OE)	126.7	64.4	97.6	92.0	3.3%	84.6	125.9	591.1	(101.6)
2020-21	135.5	75.0	88.7	89.0	32.5%	52.4	123.5	564.2	(232.5)
2019-20	155.9	50.4	141.7	67.2	-16.0%	48.4	127.3	590.9	(10.6)
2018-19	166.6	60.1	116.9	80.0	-16.0%	40.3	135.8	599.8	67.9
2017-18	139.1	60.8	164.8	95.2	53.8%	21.4	138.5	619.8	149.0

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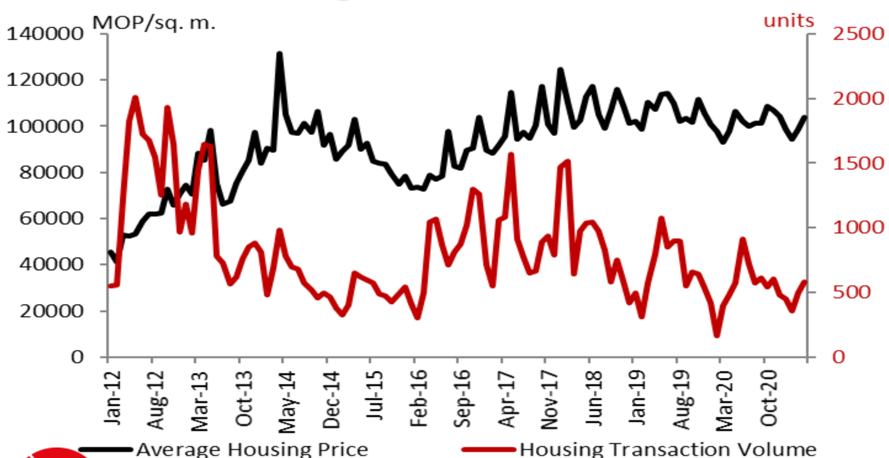
Source: Financial Services and the Treasury Bureau, OCBCWH

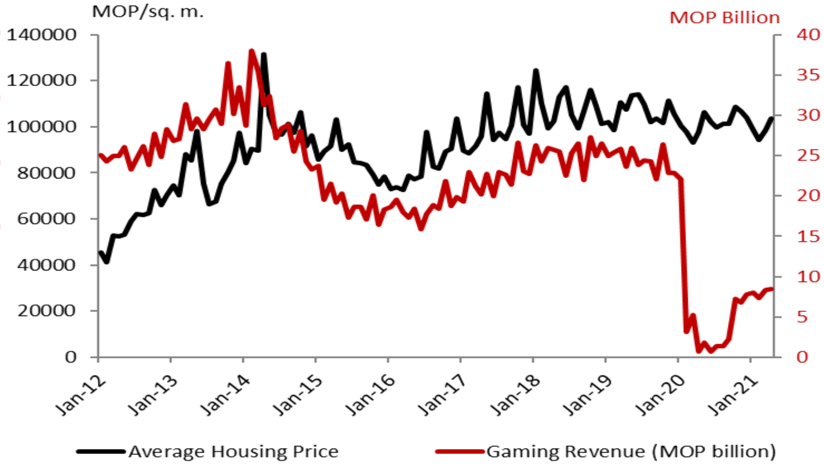
Macau: Housing market's rebound continued

- Average housing price rose 5.2% mom or 6% yoy to MOP103,653/square meter in April. During the same month, housing transaction volume grew for the fourth consecutive month and was up by 20.7% yoy to 584 deals. As the two pillar industries including gaming and tourism continued to regain momentum, the housing market also gained further steam.
- However, recent virus resurgence in China in particular Guangdong province may have slowed down the recovery of Macau's two crucial industries and therefore hit housing market demand. Besides, since the government plans to divide the residential market into five tiers, including social housing, economic housing, "sandwich class" housing, elderly housing and private housing, the demand for private homes may be diverted in the longer term. In conclusion, we hold onto our view that average housing price may grow by up to 5% yoy as of end-2021 depending on the economic recovery pace.

Macau Housing Transaction Volume & Price



Macau Housing Price & Gaming Revenue



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Source: DSEC, Macau Financial Services Bureau, DICJ, OCBCWH

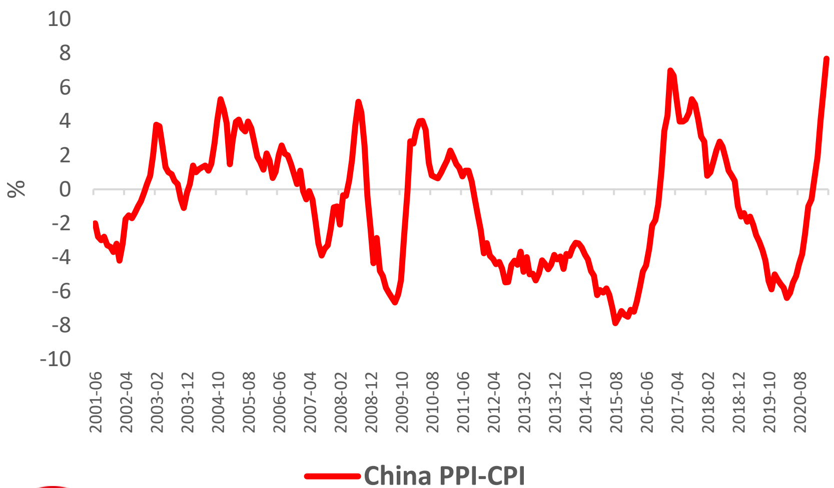
China: Sword and shield

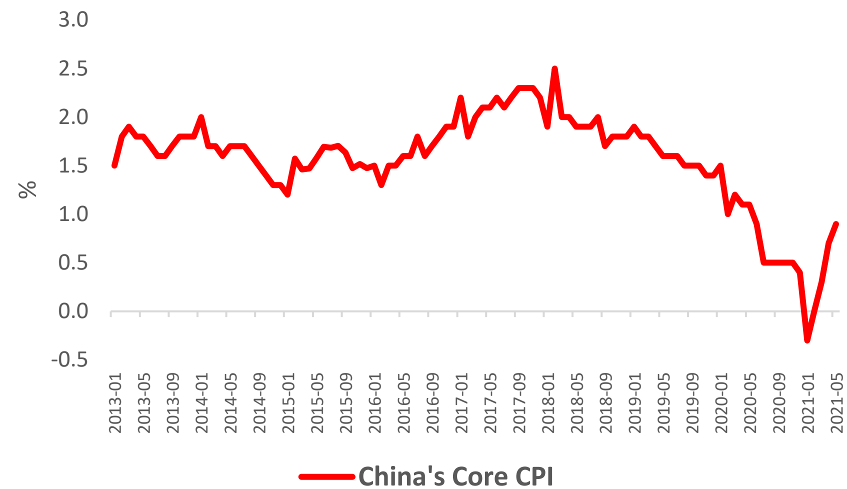
- Despite being the center of G7 meeting last week, the communication between China and US seems to have improved.
- The most notable event last week was China's enactment of the new anti-foreign sanction law, which showed that China has stepped up its efforts to deter increasing foreign sanctions after China's Ministry of Commerce issued the rules on China's blocking statute on 9 Jan 2021.
- China borrowed the concept of blocking statue from the EU which created it to protect EU operators from extra territory application of third country law as the EU considers such effect to be contrary to international law.
- Although China's blocking statute showed that China has taken a more proactive approach to deal with the foreign sanctions, the rule is considered as departmental rule, which is at a relatively low-level in the Chinese legal system according to law experts in China. As such, the latest anti foreign sanction law is a higher-level legislation. This new national law, which may be one of the most important shields to protect Chinese operator's interests, may be the catalyst for China and US to restart negotiation.

Source: Bloomberg, Wind, OCBC

China: Inflation is not a major concern

- China's PPI surged to 9% yoy in May, highest since August 2008, due to rising commodity prices. The gap between PPI and CPI hit a record high. Given there is no signs of peaking of commodity prices, PPI may face pressure to test higher again.
- However, China's CPI remained soft up by 1.3% yoy in May. Although base effect is in favor of further rebound of CPI, the persistent downward pressure on pork prices is likely to keep China's CPI well below government target this year. As such, we expect limited impact of inflation on monetary policy setting for now.





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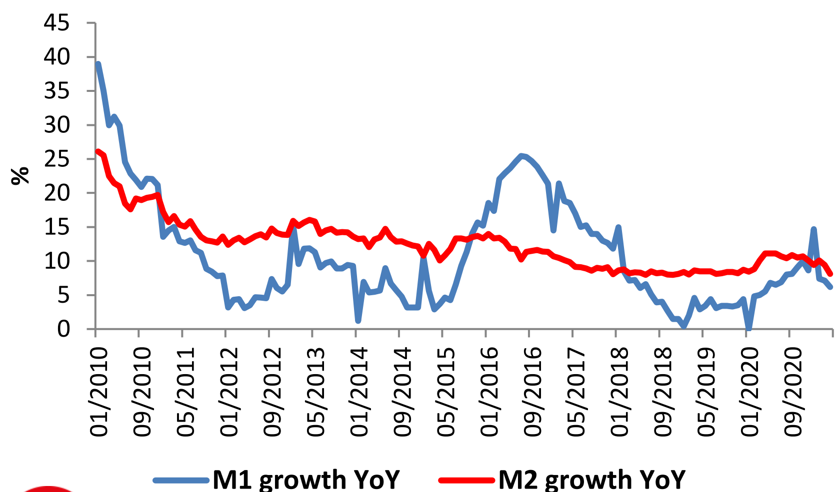
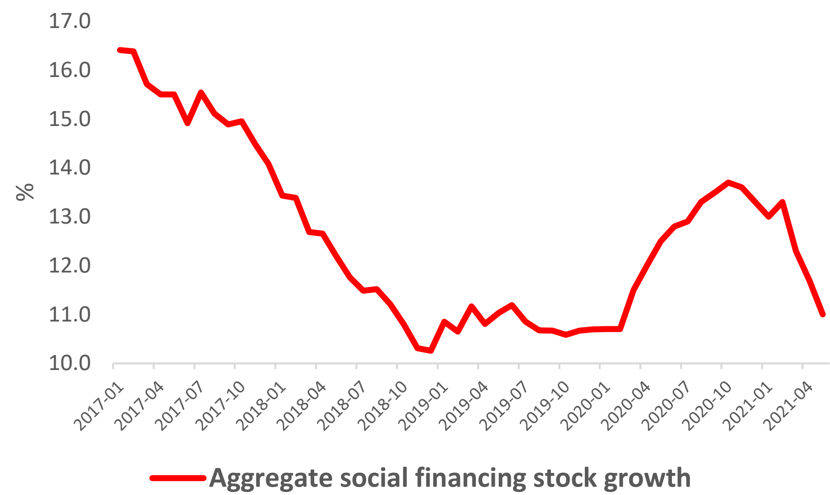
Source: Bloomberg, Wind, OCBC

China: Tighter credit

- China's credit expansion continued to moderate in May. Aggregate social financing increased by CNY1.92 trillion, short of market expectation. The growth of stock of social financing decelerated to 11% from 11.7% in April, lowest since February 2020. This indicated that China is exiting pandemic era credit stimulus.
- Broad money supply M2 accelerated slightly to 8.3% from 8.1% although M1 slowed further to 6.1% from 6.2%.
- Balance sheet lending remained resilient on the back of medium to long term loan growth. This showed that demand for credit remained strong. The outlook of China's credit growth will still largely hinge on government policy, which will adjust the supply side factors.





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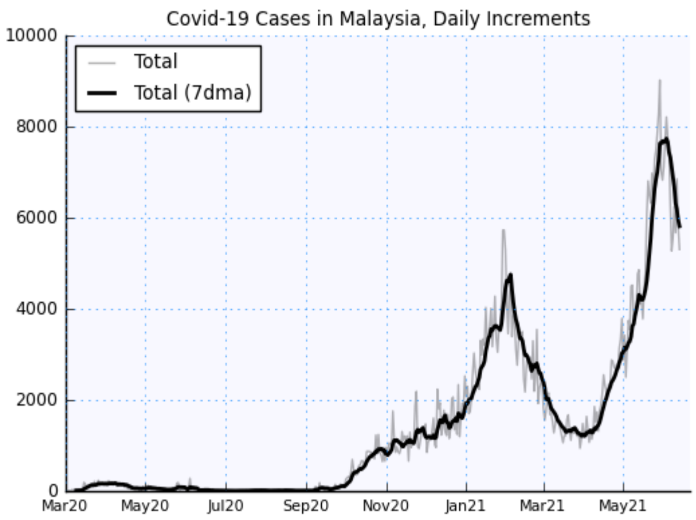
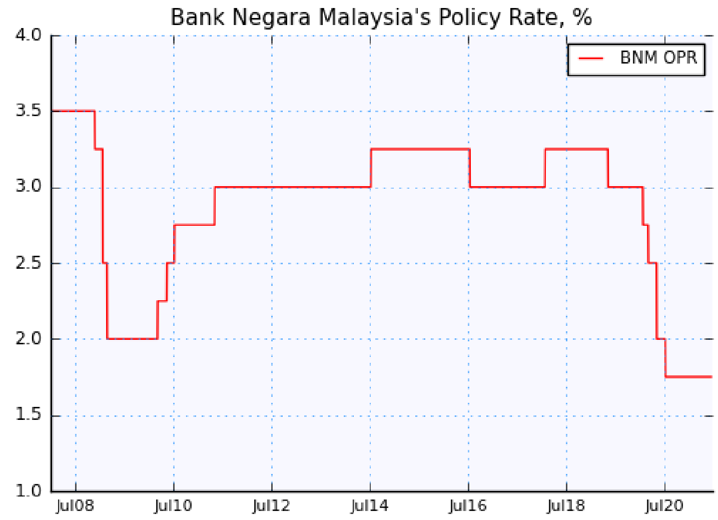
Source: Bloomberg, Wind, OCBC

Malaysia: MCO Extension

- Malaysia's government has extended its MCO 3.0 lockdown by another two weeks to June 28, as new Covid-19 cases do not appear to come down sustainably just yet. The most stringent part of the lockdown, called Phase 1 which sees most business activities banned, was originally scheduled to end on June 14.
- The announcement came after 6849 new cases were reported on Friday, higher than the 4000 daily cases that the Defense Minister said was the threshold for reopening.
- We had recently downgraded our 2021 GDP growth forecast to 4.0% yoy. With the continued uncertainty surrounding the timing of economic reopening, that conservative outlook looks to be remain appropriate at this stage. The risk of BNM rate cut on July 8th meeting will edge up if the virus cases remain elevated towards the end of June.





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Sources: OCBC, Bloomberg.

Indonesia: Already Low

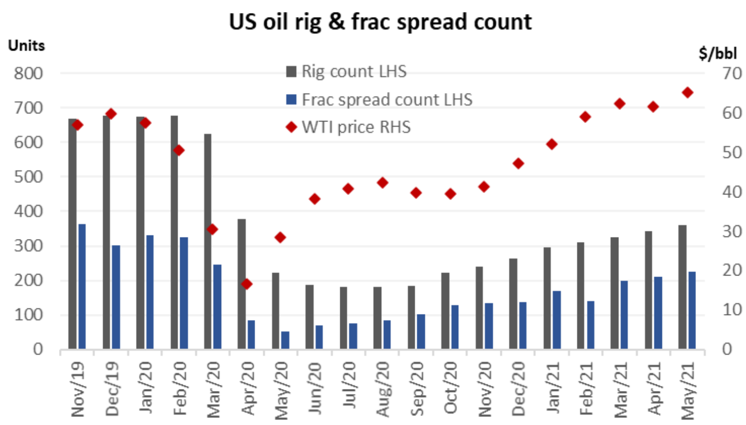
- Bank Indonesia is due to announce its MPC decision on Thursday. We expect it to keep its policy rate on hold at 3.5%. Governor Perry Warjiyo has hinted as much, telling the parliament that BI rate is "already low" after six rate cuts.
- The focus will likely remain on pushing down bank lending rates for new loans. He noted that interest on loans has only eased 59bps yoy as of March, compared to 174bps drop in bank's deposit rates, in the parliamentary hearing.
- The decision comes as the country is seeing some signs of a surge in coronavirus pandemic, with daily cases inching up to 9868 cases per day on Sunday, the highest since February. Of notable concern is the uptick in populous areas such as capital city Jakarta, which is witnessing a considerable surge.

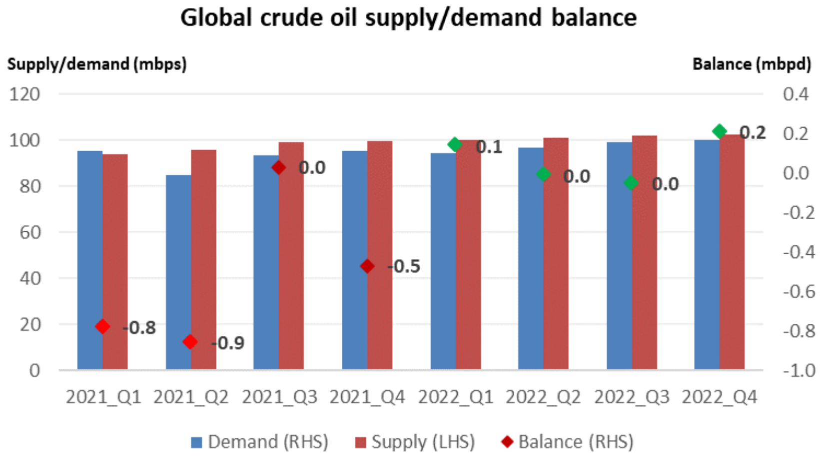
Sources: OCBC, Bloomberg, Komite Penanganan Covid-19 dan Pemulihan Ekonomi Nasional.

Commodities

Oil: Oil may peak at $80 by end 2021

- While we expect the global supply balance to remain in deficit through 2021, we see it flipping back into a mild surplus by 2022.
- Biden's push for clean energy has a negative impact on oil in the long-run; presently, however, environmental restrictions have capped US shale production and kept prices supported.
- While we expect investment in O&G explorations to begin shrinking, this is unlikely to decline to zero beginning next year – contrary to the US IEA's 2050 net-zero report.

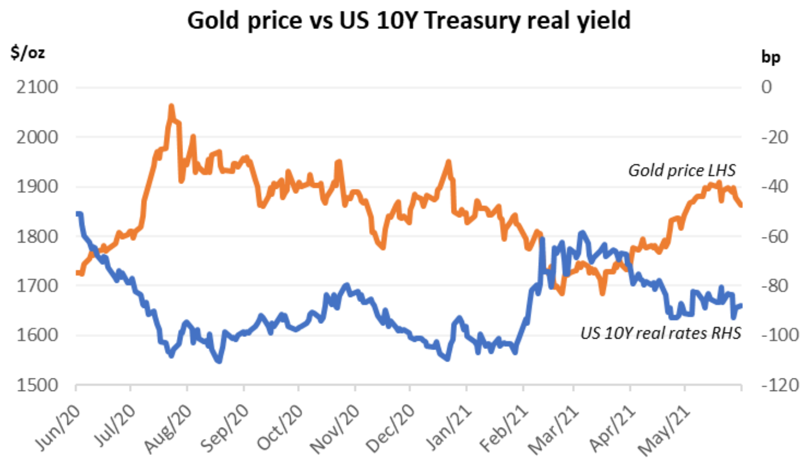


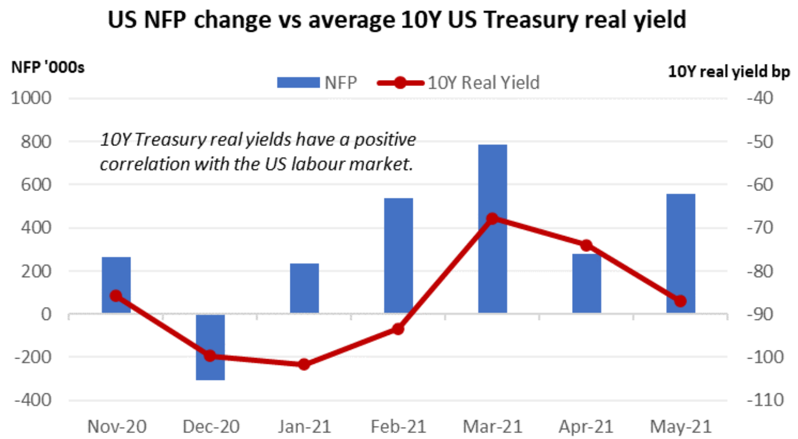


Sources: Bloomberg, OCBC

Gold: Rising real rates to push gold lower

- Gold is in a state of flux, having declined in Q1 to $1700, only to recover all its losses in April and May.
- Gold ETFs recorded its first meaningful fund inflows in May, but this is not likely to persist beyond Q2.
- As real rates continue to rise, that is likely to pressure gold prices lower.
- We remain bearish on gold through this year.





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Sources: Bloomberg, OCBC

Interest Rates & Bond Yields

Rates: Awaiting FOMC

- Treasury yields ended Friday higher, paring some of the aggressive move earlier last week, but stayed at relatively low levels. Given how the market reacted to the CPI release last week, PPI tomorrow is likely to be shrugged off as reflecting transitory inflation pressure. Treasury yields are likely to trade in ranges in the absence of catalyst before FOMC.

- In Asia, foreign interest into IndoGBs is likely to be sustained given favourable real yield differentials over USTs. Front-end MYR rates shall stay better anchored on monetary policy expectation, while the extended lockdown shall keep investors cautious towards duration.

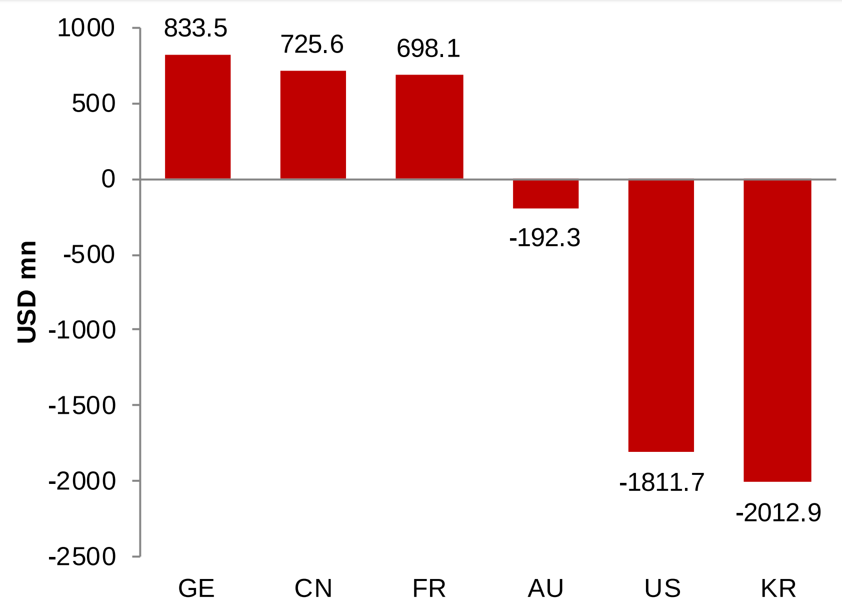
Source: Bloomberg, OCBC

Asset Flows

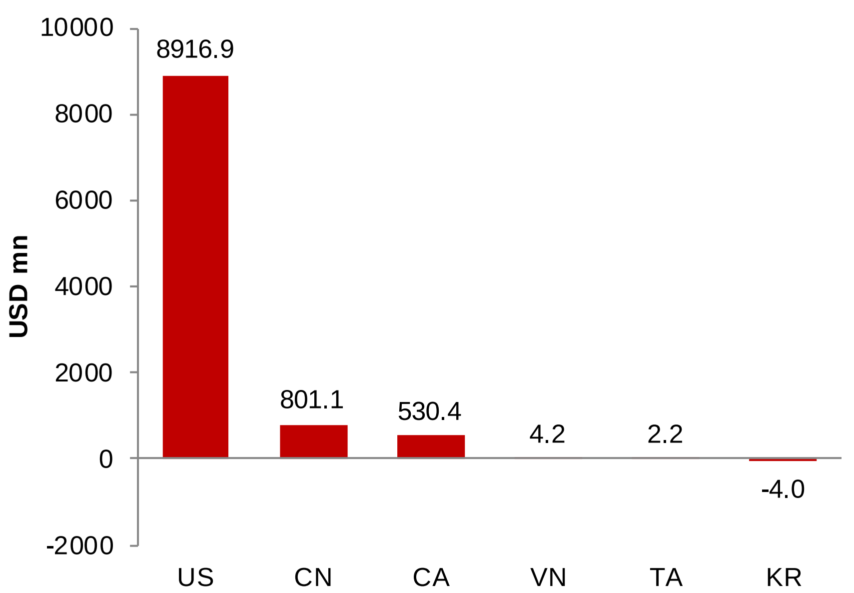
Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 9 June amounted to $1.4bn, a decrease from the inflow of $14.5bn last week. Global bond market saw inflows amounting to $12.4bn, an increase from last week's inflows of $11.6bn.

Equity top gainers & losers



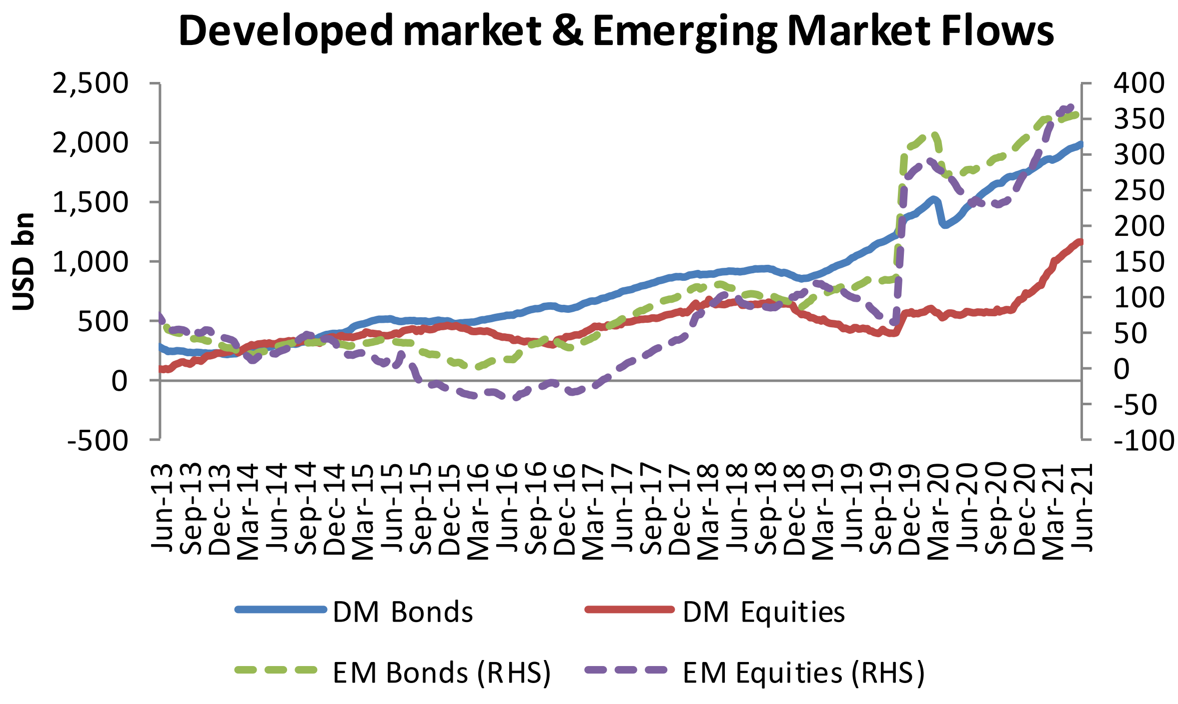
Bonds top gainers & losers



Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $1.6bn worth of inflows while the EM-space registered $261.1mn worth of inflows. Elsewhere, the DM bond space posted inflows of $10.5bn, while EM bonds registered inflows of $1.9bn.



Source: OCBC Bank, EPFR

Thank You

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