



# Weekly Macro Views (WMV)

Treasury Research & Strategy (19th October 2021)

# Weekly Macro Update

## Key Global Events for this week:

18 <sup>th</sup> October	19 <sup>th</sup> October	20 <sup>th</sup> October	21 <sup>th</sup> October	22 <sup>th</sup> October
<ul style="list-style-type: none"> <li>- CH GDP YoY</li> <li>- NZ CPI QoQ</li> <li>- SI Non-oil Domestic Exports YoY</li> <li>- US Industrial Production MoM</li> <li>- CH Industrial Production YoY</li> <li>- CH Retail Sales YoY</li> <li>- CA Housing Starts</li> <li>- NZ CPI YoY</li> </ul>	<ul style="list-style-type: none"> <li>- ID Bank Indonesia 7D Reverse Repo</li> <li>- US Housing Starts</li> <li>- US Net Long-term TIC Flows</li> <li>- EC Construction Output</li> <li>- US Total Net TIC Flows</li> <li>- US Building Permits</li> </ul>	<ul style="list-style-type: none"> <li>- UK CPI YoY</li> <li>- UK RPI MoM</li> <li>- CA CPI YoY</li> <li>- EC CPI YoY</li> <li>- US MBA Mortgage Applications</li> <li>- TA Export Orders YoY</li> <li>- PH BoP Overall</li> <li>- JN Trade Balance</li> <li>- US Monthly Budget Statement</li> </ul>	<ul style="list-style-type: none"> <li>- US Initial Jobless Claims</li> <li>- US Existing Home Sales</li> <li>- US Leading Index</li> <li>- HK Unemployment Rate SA</li> <li>- EC Consumer Confidence</li> <li>- SK PPI YoY</li> </ul>	<ul style="list-style-type: none"> <li>- JN PMI Mfg</li> <li>- GE Markit Manufacturing PMI</li> <li>- EC Markit Manufacturing PMI</li> <li>- UK Markit PMI Manufacturing SA</li> <li>- JN Natl CPI YoY</li> <li>- HK CPI Composite YoY</li> <li>- TH Foreign Reserves</li> </ul>

## Summary of Macro Views:

<b>Global</b>	<ul style="list-style-type: none"> <li>• <b>Global:</b> Central banks</li> <li>• <b>Global:</b> New Zealand inflation at decade high</li> <li>• <b>Global:</b> Sep FOMC minutes affirm tapering timeline</li> <li>• <b>Global:</b> US August CPI slightly above expectations</li> <li>• <b>Global:</b> US jobless claims falls below 300k</li> <li>• <b>Global:</b> US Retail sales rise unexpectedly in Sep</li> </ul>
<b>Asia</b>	<ul style="list-style-type: none"> <li>• <b>SG:</b> GDP growth in line with estimates</li> <li>• <b>SG:</b> MAS surprises with slight slope steepening</li> <li>• <b>SG:</b> NODX rises despite supply chain issues</li> <li>• <b>HK:</b> HK remains to be the key offshore RMB center</li> <li>• <b>HK:</b> SZ issues the first local government in HK</li> </ul>

<b>Asia</b>	<ul style="list-style-type: none"> <li>• <b>Indonesia:</b> Comforted by Commodities</li> <li>• <b>Malaysia:</b> Where's the Money?</li> <li>• <b>CH:</b> Back to consumption</li> <li>• <b>CH:</b> Falling expectations on RRR cut</li> </ul>
<b>Asset Class</b>	<ul style="list-style-type: none"> <li>• <b>Oil:</b> Crack margins continue to soar</li> <li>• <b>Natural gas:</b> Gas prices stay elevated</li> <li>• <b>Gold:</b> Trading above model fair value</li> <li>• <b>FX &amp; Rates:</b> An inflation story for bond</li> </ul>
<b>Asset Flows</b>	<ul style="list-style-type: none"> <li>• <b>Asset Flows</b></li> </ul>

# Global: Central banks

## Forecast – Key Rates

Bank Indonesia (BI)



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Tuesday, 19 October

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House Views

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*7D Reverse Repo*

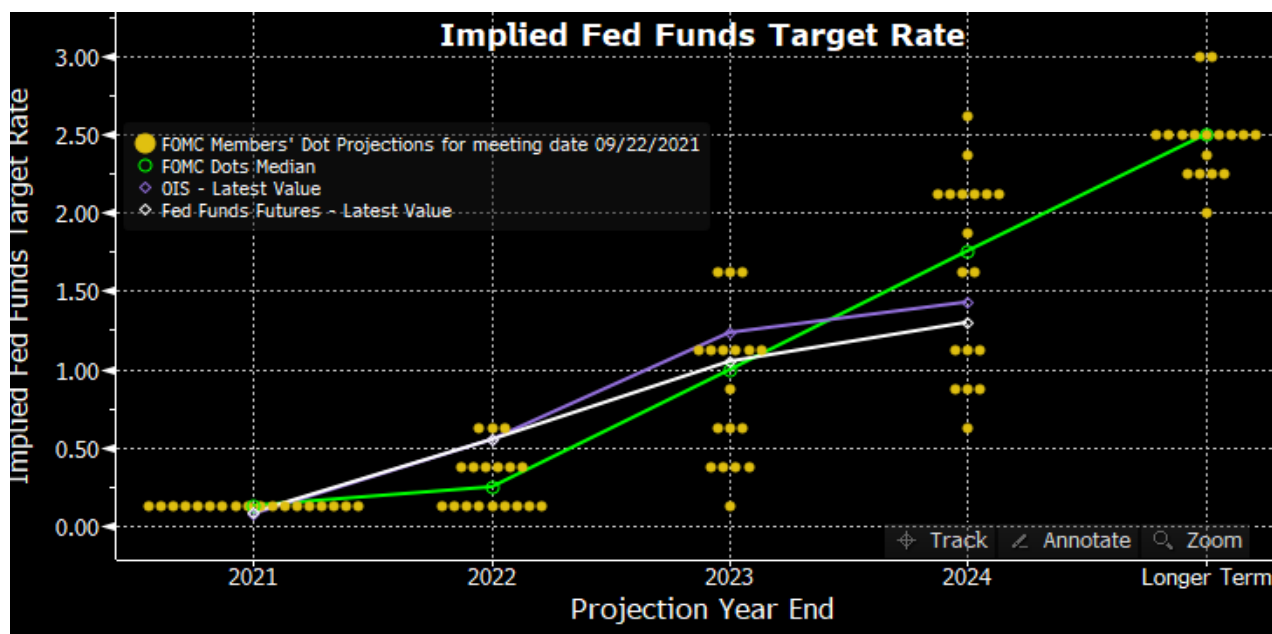
Likely **hold at 3.50%**

# Global: New Zealand inflation at decade high

- New Zealand's inflation jumped to a decade high of 4.9% in 2Q21, reinforcing hawkish RBNZ expectations for the November meeting.
- **Other key developments:** The University of Michigan consumer sentiment slipped from 72.8 in September to 71.4 in October due to the Delta variant, supply-chain shortages and reduced labour force participation rates.
- **Key data release are as follows:**
  - 18<sup>th</sup> October: CH GDP YoY, NZ CPI QoQ, SI Non-oil Domestic Exports YoY, US Industrial Production MoM, CH Industrial Production YoY, CH Retail Sales YoY, CA Housing Starts, NZ CPI YoY.
  - 19<sup>th</sup> October: ID Bank Indonesia 7D Reverse Repo, US Housing Starts, US Net Long-term TIC Flows, EC Construction Output, US Total Net TIC Flows, US Building Permits.
  - 20<sup>th</sup> October: UK CPI YoY, CA CPI YoY, EC CPI YoY, UK CPI MoM, US MBA Mortgage Applications, TA Export Orders YoY, PH BoP Overall, JN Trade Balance, UK RPI MoM.
  - 21<sup>st</sup> October: US Initial Jobless Claims, US Existing Home Sales, US Leading Index, HK Unemployment Rate SA, EC Consumer Confidence, SK PPI YoY.
  - 22<sup>nd</sup> October: JN PMI Mfg, GE Markit Manufacturing PMI, EC Markit Manufacturing PMI, UK Markit PMI Manufacturing SA, JN Natl CPI YoY, HK CPI Composite YoY, TH Foreign Reserves

# Global: Sep FOMC minutes affirm tapering timeline

- Fed officials broadly agreed that tapering of emergency pandemic support should begin in mid-November or mid-December due to inflation concerns and would be concluded mid-2022.
- Members also iterated fears over prolonged and elevated inflation levels: “longer-run inflation expectations would move appreciably higher and lead to persistently elevated inflation.”
- The Fed dot plot showed that 9 of 18 members forecast a rate hike in 2022, this is up from 7 in June.

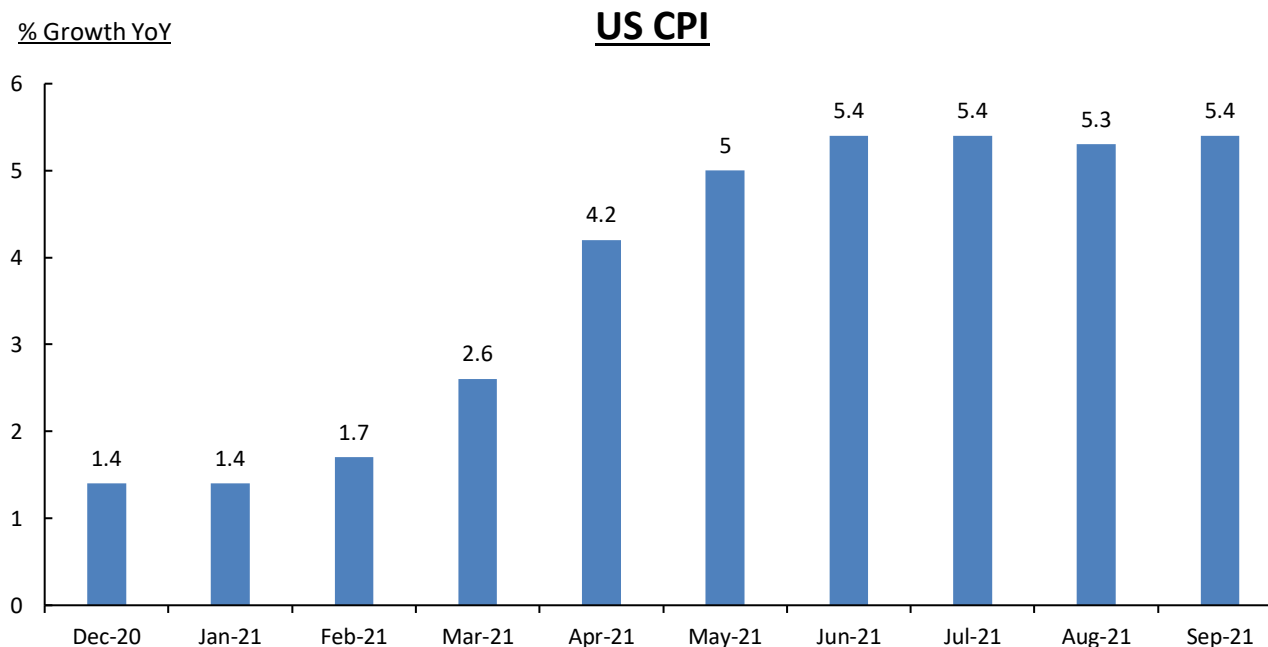


**OCBC Bank**

Source: OCBC, Bloomberg

# Global: US Aug CPI slightly above expectations

- Prices paid by US consumers rose higher than expected in August, illustrating the prevalence of inflationary pressures in the economy.
- CPI increased 0.4% mom and 5.4% yoy in August vs consensus estimates of 0.3% mom and 5.3% yoy respectively.
- Energy and food prices increased, while used car prices declined.
- Excluding volatile food and energy prices, core inflation increased 0.2% mom and 4.0% yoy in August.

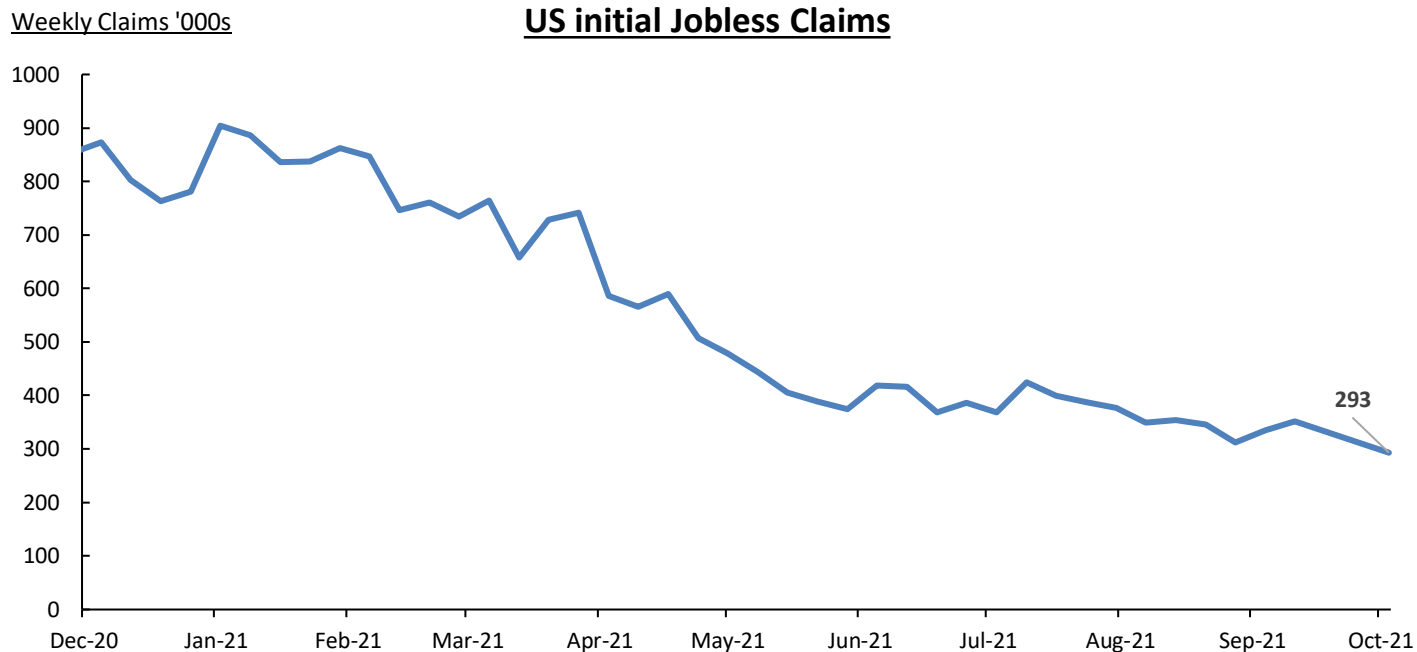


**OCBC Bank**

Source: OCBC, Bloomberg

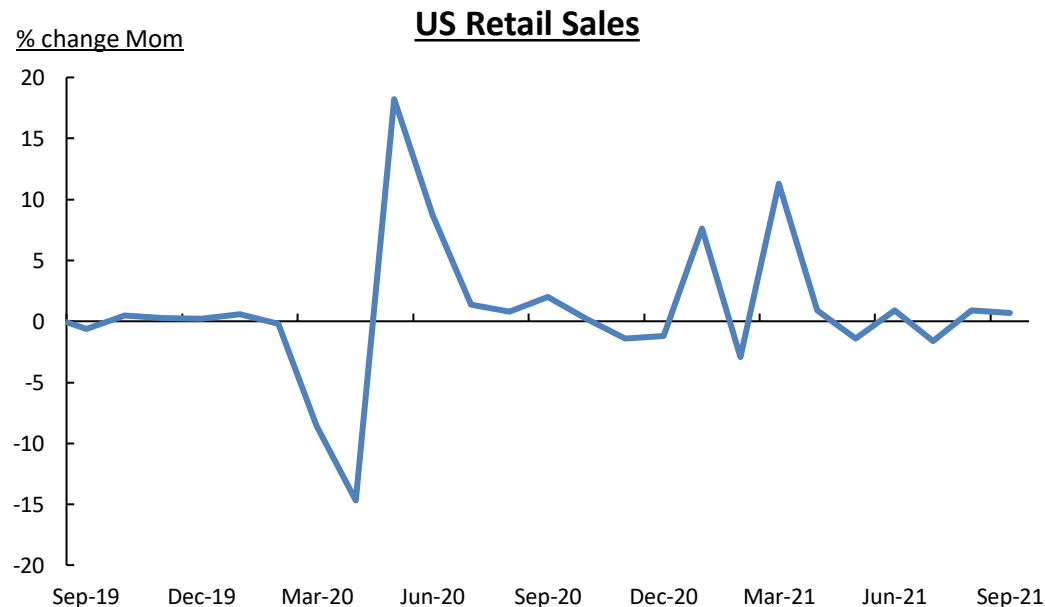
# Global: US jobless claims falls below 300k

- US jobless claims totaled 293k for the week ended 9th October, falling below 300k for the first time since the pandemic began and below the 318k estimate.
- The last time jobless claims fell below 300k was on March 14th 2020 which registered 256k claims just before the Covid-19 spread intensified.
- Continuing claims for unemployment insurance fell 134k to 2.59 million, another pandemic era low.



# Global: US Retail sales rise unexpectedly in Sep

- Retail sales increased 0.7% mom in September, beating forecasts of a 0.2% mom fall.
- Excluding auto sales, sales rose 0.8% mom, better than the 0.5% consensus forecast.
- As gas prices pushed higher, spending at fuel stations jumped 1.8% cumulating into a 38.2% increase from last year.
- On a year-on-year basis, retail sales were up 13.9% and 15.6% excluding auto sales in September.
- The print shows signs of resilience in consumer spending despite supply constraints.

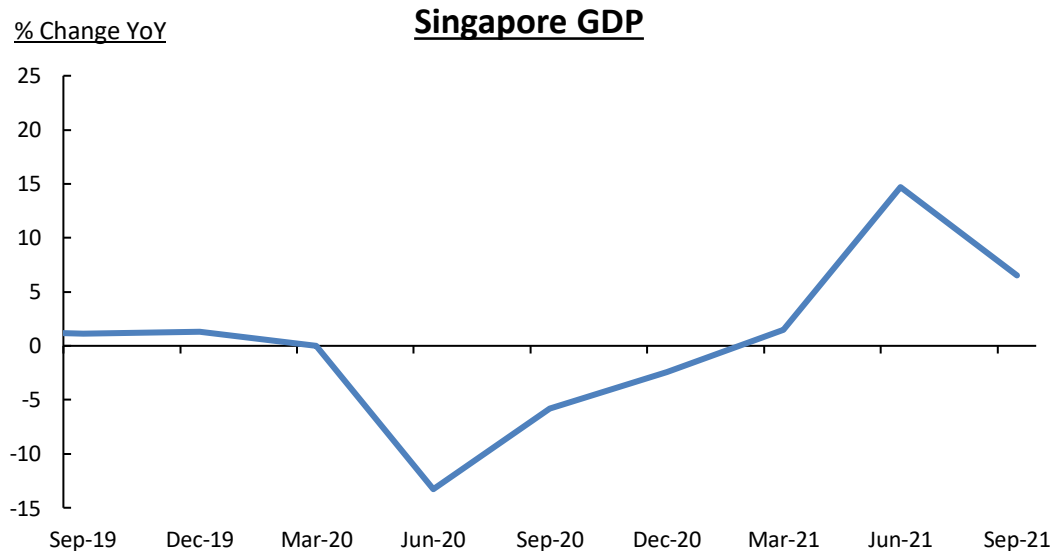


**OCBC Bank**

Source: OCBC, Bloomberg

# SG: GDP growth in line with estimates

- Singapore's 3Q21 GDP growth estimate came in at 6.5% yoy (0.8% qoq sa), close to our forecast of 6.4% yoy (1.1% qoq sa).
- The growth moderation was expected, given the return to the Phase 2 (Heightened Alert) and tightened Covid restrictions in July.
- GDP growth was largely driven by manufacturing (7.5% yoy), while both services and construction sectors saw their second consecutive quarter of expansion at 5.5% yoy and 57.9% yoy (due to low base last year).
- No change in the official 2021 GDP growth forecast of 6-7% yoy and we maintain our 6.7% yoy forecast as well.



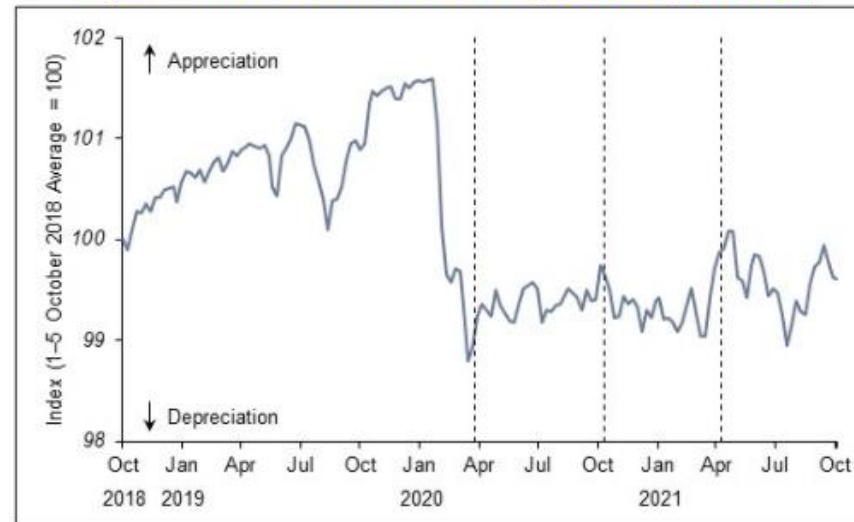
**OCBC Bank**

Source: OCBC, Bloomberg

# SG: MAS surprises with slight slope steepening

- MAS was unexpectedly hawkish and slightly steepened the S\$NEER slope from its previous level of zero percent, with no change in the policy band width or level at which it is centered.
- This is the first slope steepening since October 2018 when MAS moved from +0.5% pa to +1.0% pa.
- MAS cited a broadening of cost pressures, both external and domestic, as global demand normalizes amid ongoing supply chain problems.
- MAS tipped headline and core inflation to rise to 1.5-2.5% and 1-2% respectively in 2022, with the latter expected to close in on 2% in the medium term.

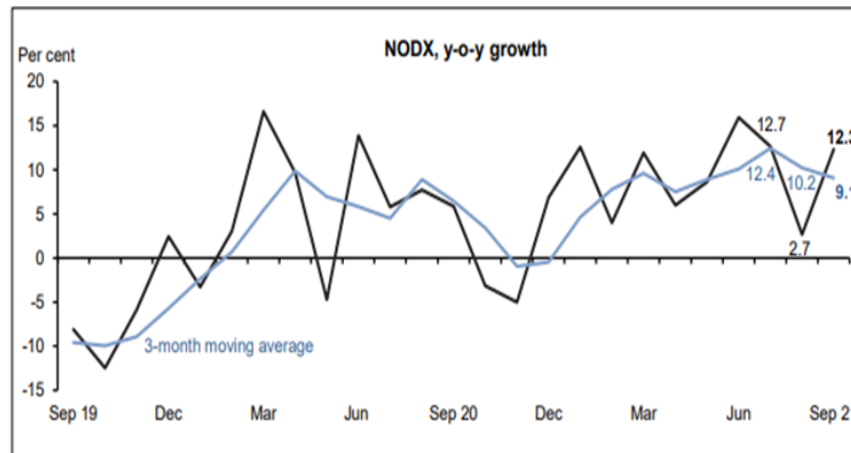
**S\$ Nominal Effective Exchange Rate (S\$NEER)**



----- indicates last three releases of Monetary Policy Statement

# SG: NODX rises despite supply chain issues

- Singapore's NODX expanded 12.3% yoy (1.2% mom sa) in September, supported by continued robust demand for electronics especially integrated circuits.
- China's power crisis has sent the demand for Singapore's petrochemical exports higher. With power and fuel sources being conserved in China for the coming winter, demand for petrochemicals are likely to shift towards Singapore's oil refinery hubs.
- 7 of the top 10 NODX markets rose in September, led by China, US and South Korea, whereas NODX to EU27, Thailand and Malaysia contracted. NODX to EU27 shrank for the second consecutive month by 37.4% yoy.
- Singapore's NODX has already risen 10.8% yoy on a year-to-date basis for the first 9 months of 2021, but we shade down our full-year 2021 NODX growth to finish 10.5-11.0% yoy in anticipation of the supply chain disruptions.

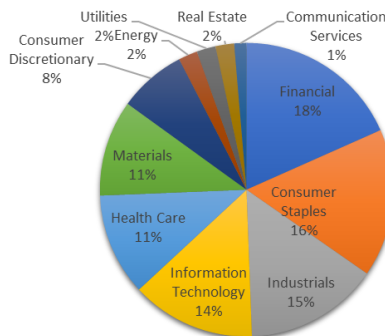


# HK: HK remains to be the key offshore RMB center

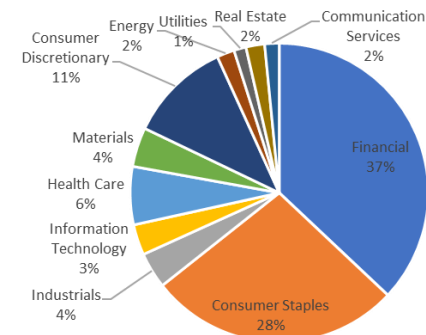
- The Hong Kong Exchange announced the MSCI China A50 connect (USD) Index futures, a broad-based benchmark index capturing mid and large cap China A share, has been approved by the CFTC in the United States and it will commence trading on 18 Oct. This marks a milestone of HKEX's establishment to its China offshore equity derivatives business in Hong Kong.
- With the increasing demand for investors to build their portfolio in onshore equities, while Beijing crack down on private companies, from technology to private education, there will be increasing needs for hedging risk. Taken together, this will bring China closer to expand inclusion in major global indexes.

	MSCI China A50 connect (USD) Index-Index Characteristics	FTSE China A50 Index - Index Characteristics
Number of constituents	50	50
Weight (%)		
Largest	8.37%	11.89%
Smallest	0.36%	2.00%
Average	2%	1.99%
Median	1.49%	1.34%

MSCI China A50 connect (USD) Index-Sector Weights



FTSE China A50 Index - Sector Weights

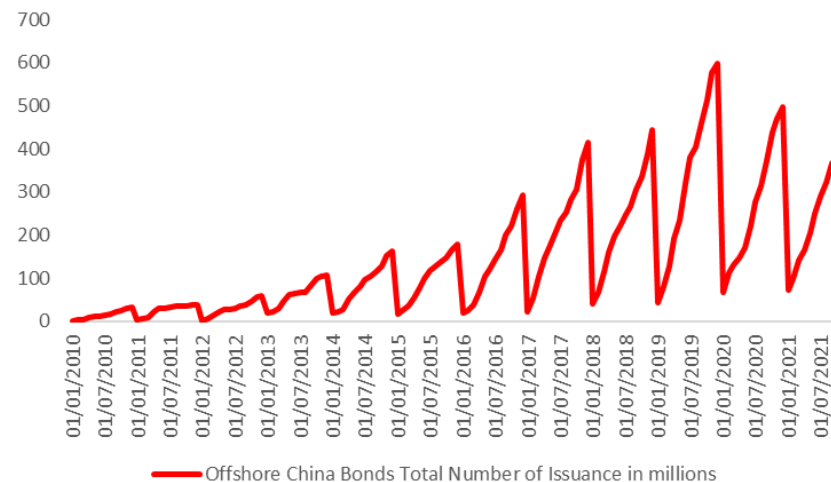
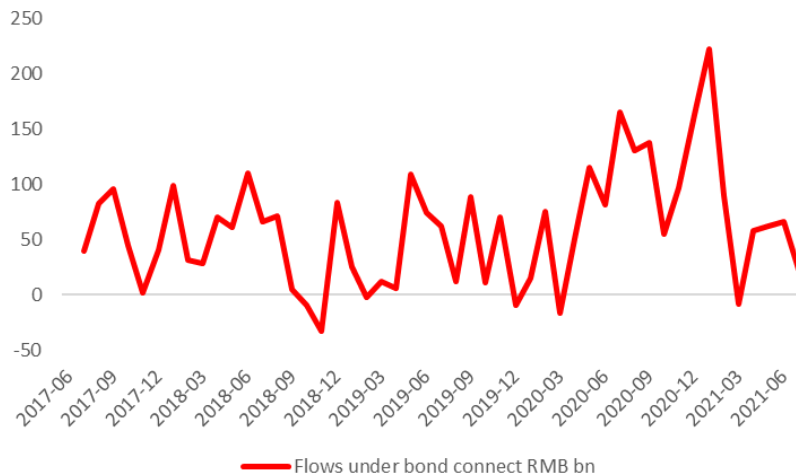


**OCBC Bank**

Source: MSCI, FTSE Russell, OCBCWH

# HK: SZ issues the first local government in HK

- The Shenzhen government has completed its roadshow to issue up to RMB 5 billion municipal government bond in Hong Kong on Oct 12. This marks as the first direct offshore debt sales by the domestic local government. Among the 3- and 5-year bonds, both of which are expected to finance the sustainability project “Sponge City” and water treatment project in accordance with the Green Finance Framework.
- As per market reaction, those bonds have been oversubscribed by 3.48 times, reaching a total of 19.03 billion yuan. It was also reported that institutional investors including asset management, insurance, and others corporate accounts represented more than 34.18% with 1.709 billion yuan. That said, considering part of the bonds were issued the categories of green development, Hong Kong may continue to maintain its status to support local government financing and fill up the needs from international investors.



**OCBC Bank**

Source: Bloomberg, OCBCWH

# Indonesia: Comforted by Commodities

- Indonesia's exports print for September rose 47.6% yoy vs. expectation of 51.3%. However, the degree of miss is not big, and it came after last month's handy exports beat of 64.1% yoy growth. Imports rose by 40.31% yoy overall, while those of consumer goods grew 59.7%yoy, portending a recovery in consumer sentiment.
- Altogether, the trade balance came in at USD4.37bn, better than the 3.87bn that market had in mind. While it was slimmer than the record-high 4.74bn in Aug, it still marks a healthy trade outturn that should continue to offer support to market sentiment.
- The broadly strong exports print is helped by still-strong performance from mining and oil-related exports. Mining sector exports grew by a whopping 183.6% yoy during the period, for instance, likely reflecting the help presented by upticks in both volumes and prices.

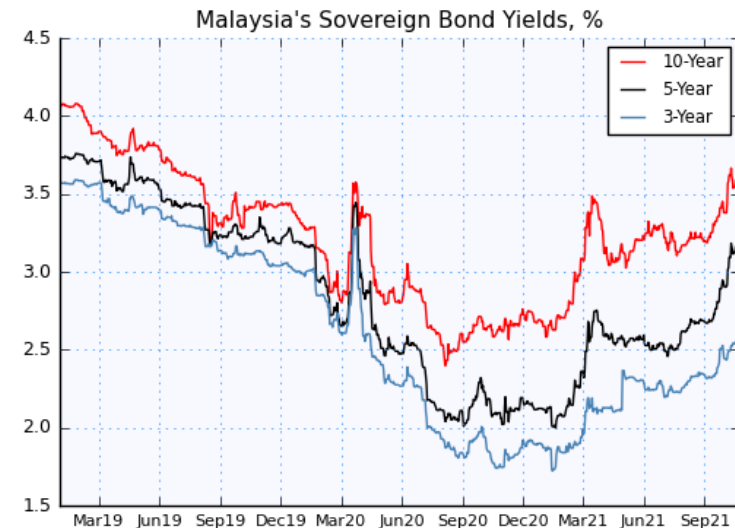
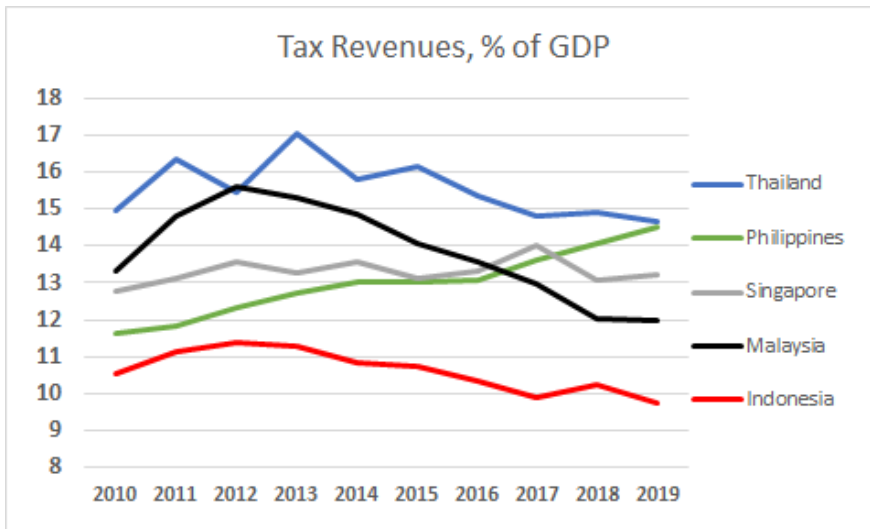


**OCBC Bank**

Source: OCBC, Bloomberg

# Malaysia: Where's the Money?

- Malaysia is gearing up for Budget 2022 announcement on Oct 29<sup>th</sup>. Given the need to juice up growth, there is every anticipation that it would remain a fairly “fat” budget, especially with the government raising its debt ceiling from 60% to 65% of GDP.
- From our end, we expect deficit to remain relatively hefty at 5.0-5.5% of GDP, even if it will be nominally lower than what is likely to be as high as 7.0% of GDP this year.
- Still, while much focus will be on where the government's spending lays – with the 12MP as broad guidelines in place – market remains queasy about MGS supply risks, especially when there is unlikely to be any concrete plans to raise revenues sustainably in the near term given the politically unpalatable nature of GST. Malaysia's Tax/GDP ratio is likely to remain among the lowest in the region until it has a broader revenue pipeline.



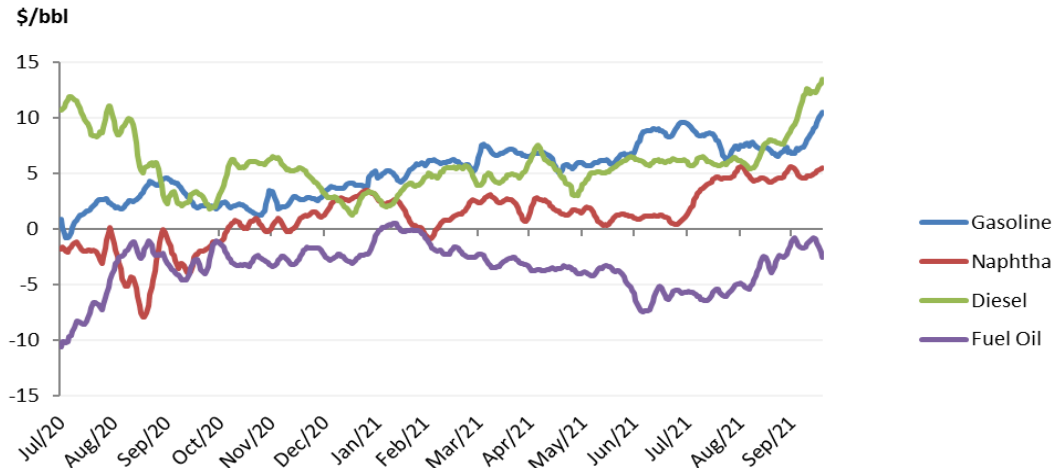
**OCBC Bank**

Source: OCBC, World Bank, Bloomberg

# Oil: Crack margins continue to soar

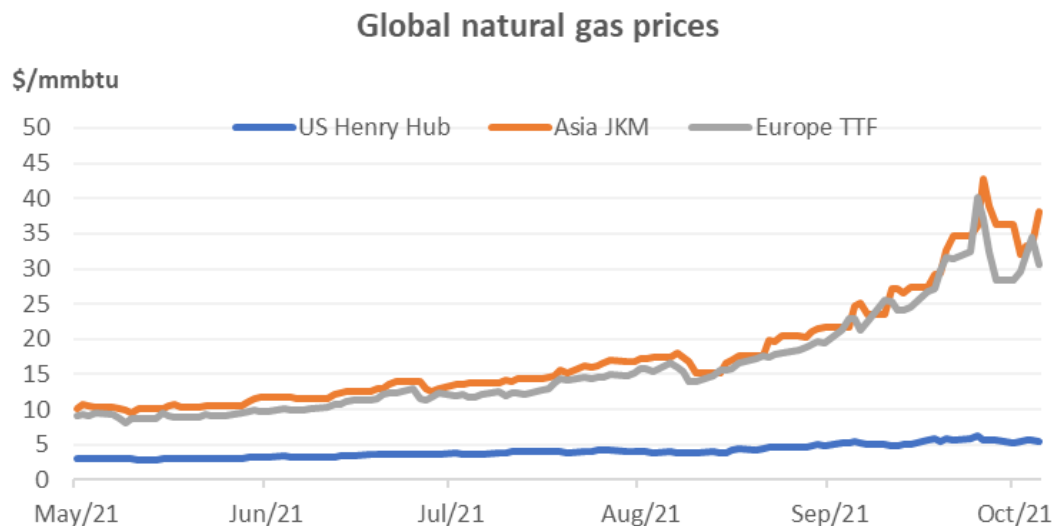
- Asian diesel crack margins are now at \$14/bbl while that of gasoline is \$10/bbl.
- For diesel, this would be the highest since June 2020, while for gasoline it would be the record high since our data started in Nov'18.
- The rising crack margins are possibly a result of lower industrial output from China due to the power crunch, resulting in a lack of supply within Asia.
- This is supportive of crude oil prices.

Asia Crack Margins



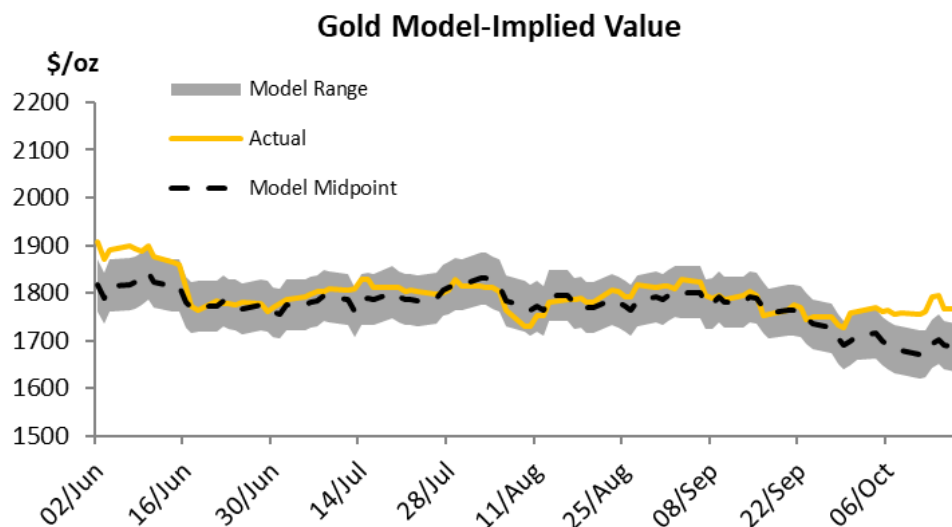
# Natural gas: Gas prices stay elevated

- Gas prices in Asia continue to stay elevated, with JKM prices rising to \$38/mmbtu last Friday.
- European LNG briefly traded at a premium to Asian cargoes in mid-week, but was quickly reversed – highlighting the elevated price volatility in this market.
- Separately, Singapore LNG Corporation reportedly attempted to buy LNG cargoes in the spot market last week – a rare move for the country's LNG operator.



# Gold: Trading above model fair value

- Our model suggests gold's fair value at present in the range of \$1630-\$1730.
- Gold is currently trading at \$1765.
- The precious metal has traded above the fair value range for two weeks and counting.
- Some support to prices are stemming from inflation concerns, but we think that is unlikely to last.
- We remain bearish on gold.



Source: OCBC estimates; data from Bloomberg



# **Foreign Exchange & Interest Rates**

# FX & Rates: An inflation story for bonds

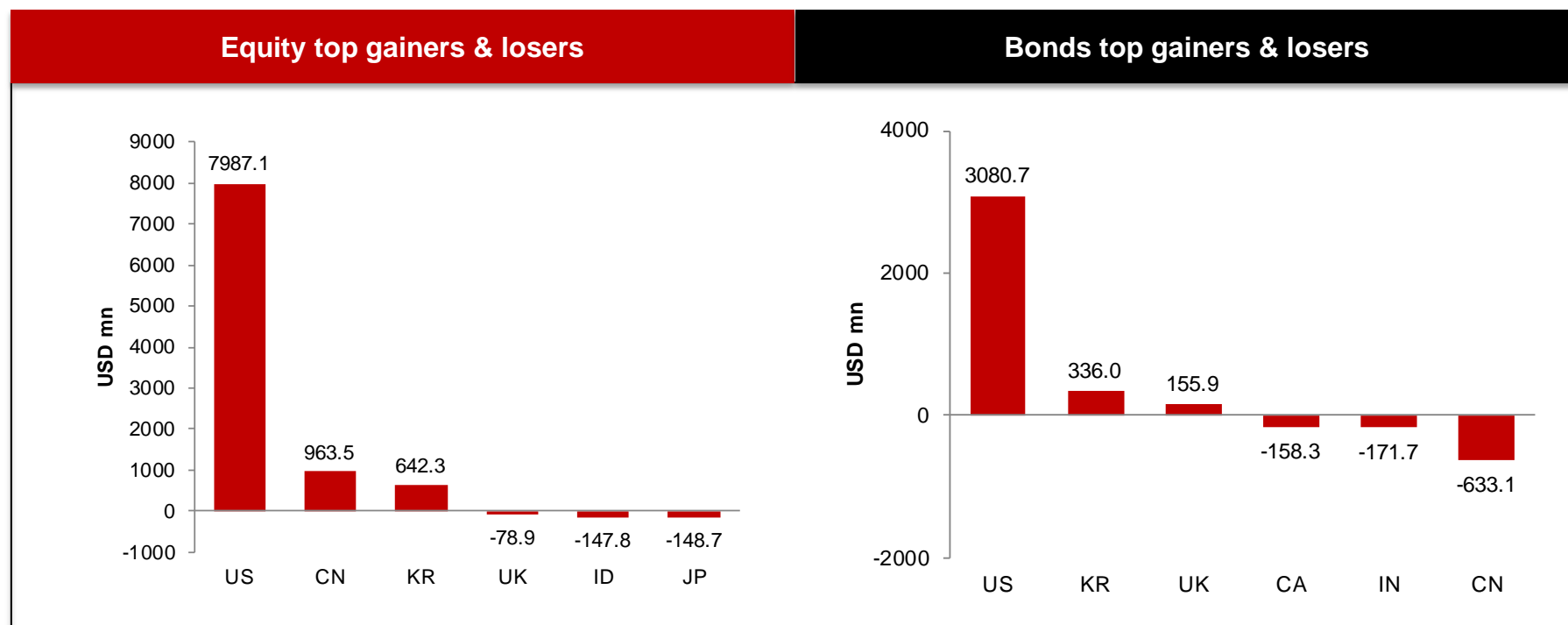
- Treasury yields rose on Friday with the belly underperforming, as market brought forward expectations on tightening. 2s5s10s fly rose to the highest in more than 4 years; Eurodollar futures increased rate hike pricing further by 2-3bp across contracts and are pricing in the first rate hike between the June 2022 and September 2022 contracts.
- Supply is not particularly big, with USD24bn of 20Y coupon and USD19bn of 5Y TIPS this week. The 10Y nominal yield is likely to trade in range of 1.47%/1.63%.
- Usage at the Fed's o/n reverse repo facilities edged up to USD1.462trn on Friday, the second highest on record. Treasury's cash balance with the Fed fell further to USD46.5bn as of 14 October.
- The onshore CNY DF curve retraced lower upon the full rollover of MLF on Friday as that addressed the worries over the short-term liquidity situation. However, the full rollover, together with the latest PBoC messages, dent hope for an imminent RRR cut when liquidity provision is still needed with the chunks of MLF maturity coming up in November and December, at CNY1trn and CNY950bn respectively .
- In the offshore market, the CNH DF curve also retraced mildly lower but there is unlikely to be much follow-through. The upcoming CNY6bn of offshore CGB supply on 20 October will exert a marginal pressure on CNH liquidity, when the liquidity situation is already tight.



# Asset Flows

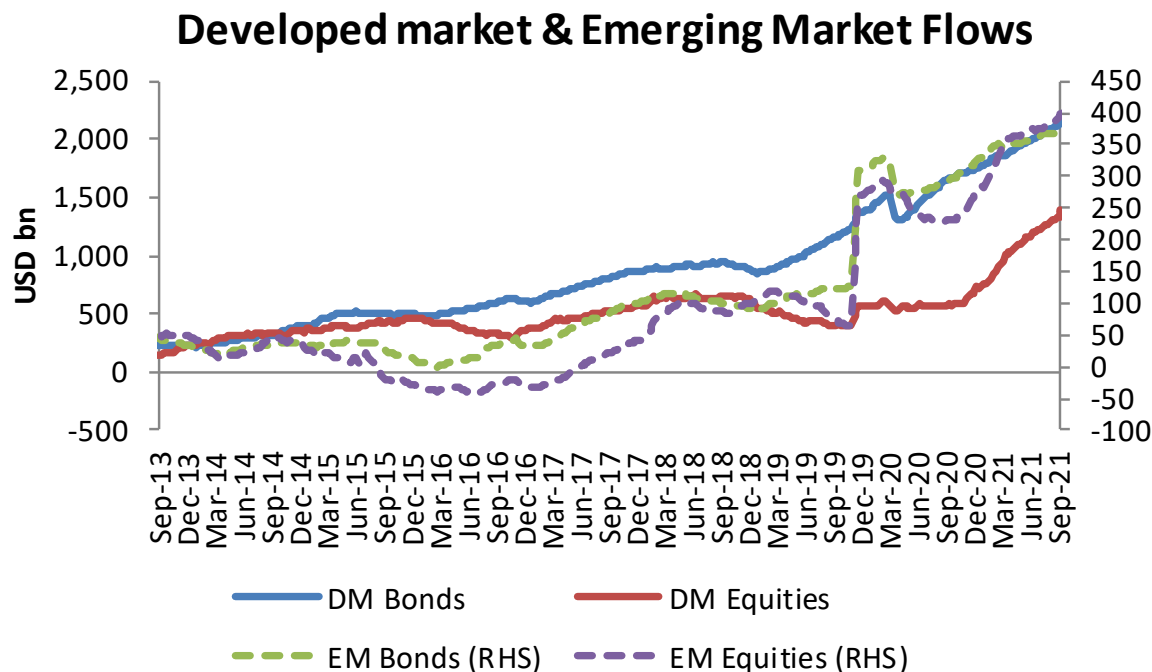
# Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 13<sup>th</sup> October amounted to \$11.7bn, a slight decrease from the inflow of \$12.9bn last week. Global bond market saw inflows amounting to \$0.2bn, a decrease from last week's inflows of \$4.0bn.



# DM & EM Flows

- DM equities saw \$10.3bn worth of inflows while the EM-space registered \$1.4bn worth of inflows.
- Elsewhere, the DM bond space posted inflows of 2.6bn, while EM bonds registered outflows of \$2.4bn.





Thank You

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