



Weekly Macro Views (WMV)

Treasury Research & Strategy (2nd November 2021)

Weekly Macro Update

Key Global Events for this week:

1 st November	2 nd November	3 rd November	4 th November	5 th November
<ul style="list-style-type: none"> - US ISM Manufacturing - SK Exports YoY - HK GDP YoY - CH Markit PMI Mfg - SK Markit PMI Mfg - VN Markit PMI Mfg - ID Markit PMI Mfg - JP Markit PMI Mfg - GE Markit PMI Mfg - EC Markit PMI Mfg 	<ul style="list-style-type: none"> - RBA Cash Rate Target - HK Retail Sales Value YoY - SK CPI YoY - NZ Building Permits MoM - JN Monetary Base YoY - SI Purchasing Managers Index 	<ul style="list-style-type: none"> - BNM Overnight Policy Rate - AU Building Approvals MoM - US MBA Mortgage Applications - US Durable Goods Orders - NZ Unemployment Rate - UK Housing Prices 	<ul style="list-style-type: none"> - Bank of England Bank Rate - US FOMC Rate Decision (Upper Bound) - US Initial Jobless Claims - NE CPI YoY - GE Factory Orders MoM - AU Trade Balance 	<ul style="list-style-type: none"> - US Change in Nonfarm Payrolls - ID GDP YoY - GE Industrial Production SA MoM - TH CPI YoY - CA Unemployment Rate - US Unemployment Rate - PH CPI YoY

Summary of Macro Views:

Global	<ul style="list-style-type: none"> • Global: Central banks • Global: US PCE inflation accelerates • Global: Bank of Canada surprises with end of QE • Global: RBA relents, lets key bond yields rise • Global: US Q3 GDP falls below expectations • Global: Bank of England rate hike timing
Asia	<ul style="list-style-type: none"> • SG: Singapore manufacturing confidence dips • SG: MAS Singapore macroeconomic review • HK: RMB deposits rose to the highest since 2015 • HK: Trade data stayed positive in the near term

Asia	<ul style="list-style-type: none"> • CH: Ways to support SMEs • CH: US-China relationship back to spotlight
Asset Class	<ul style="list-style-type: none"> • Oil: \$85 resistance proves too strong • Natural gas: European prices collapse • Gold: Trading above model fair value • FX & Rates: Watch for Central Banks
Asset Flows	<ul style="list-style-type: none"> • Asset Flows

Global: Central banks

Forecast – Key Rates

Reserve Bank of
Australia (RBA)



Tuesday,
2nd November

Bank Negara
Malaysia (BNM)



Wednesday,
3rd November

Federal Open
Market Committee
(FOMC)



Thursday,
4th November

Bank of England
(BoE)



Thursday,
4th November

House Views

Cash Rate Target
Likely **hold** at **0.10%**

Overnight Policy Rate
Likely **hold** at
to **1.75%**

Fed Funds Target Rate
Likely **hold** at
0.00 - 0.25%

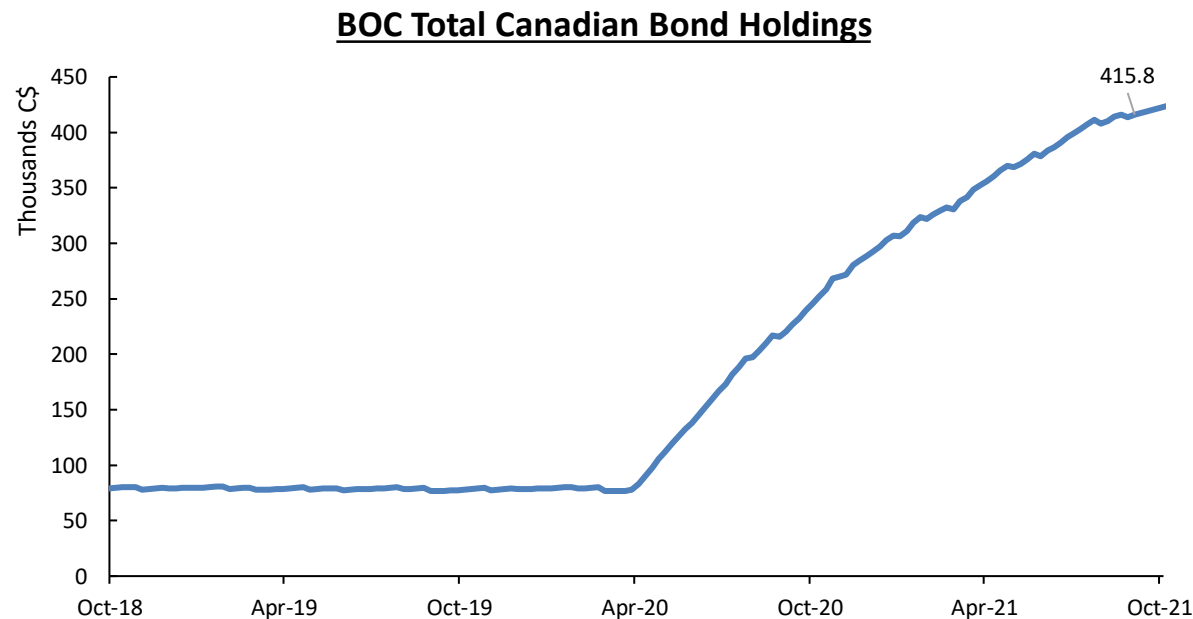
Bank rate
Likely **hold**
at **0.100%**

Global: US PCE inflation accelerates

- US PCE inflation accelerated from 4.2% to 4.4%, while core PCE was steady at 3.6%.
- **Other key developments:** China's manufacturing PMI moderated further to 49.2 in October from 49.6 in September.
- **Key data release are as follows:**
 - 1st November: US ISM Manufacturing, SK Exports YoY, HK GDP YoY, CH Markit PMI Mfg, SK Markit PMI Mfg, VN Markit PMI Mfg, ID Markit PMI Mfg, JP Markit PMI Mfg, GE Markit PMI Mfg, EC Markit PMI Mfg.
 - 2nd November: RBA Cash Rate Target, HK Retail Sales Value YoY, SK CPI YoY, NZ Building Permits MoM, JN Monetary Base YoY, SI Purchasing Managers Index.
 - 3rd November: AU Building Approvals MoM, MA BNM Overnight Policy Rate, US MBA Mortgage Applications, US Durable Goods Orders, NZ Unemployment Rate, UK Housing Prices.
 - 4th November: UK Bank of England Bank Rate, US Initial Jobless Claims, US FOMC Rate Decision (Upper Bound), NE CPI YoY, GE Factory Orders MoM, AU Trade Balance
 - 5th November: US Change in Nonfarm Payrolls, ID GDP YoY, GE Industrial Production SA MoM, TH CPI YoY, CA Unemployment Rate, US Unemployment Rate, PH CPI YoY

Global: Bank of Canada surprises with end of QE

- In a surprise announcement, the Bank of Canada put an end to its quantitative easing program on 27th October.
- The BOC also signaled that a hike in borrowing cost was likely to occur as early as April, during the middle quarters of 2022 rather than the second half as previously mentioned.
- The benchmark interest rate was left unchanged at 0.25% on 27th October and total bond holdings has grown by about C\$350 billion since the start of the pandemic.

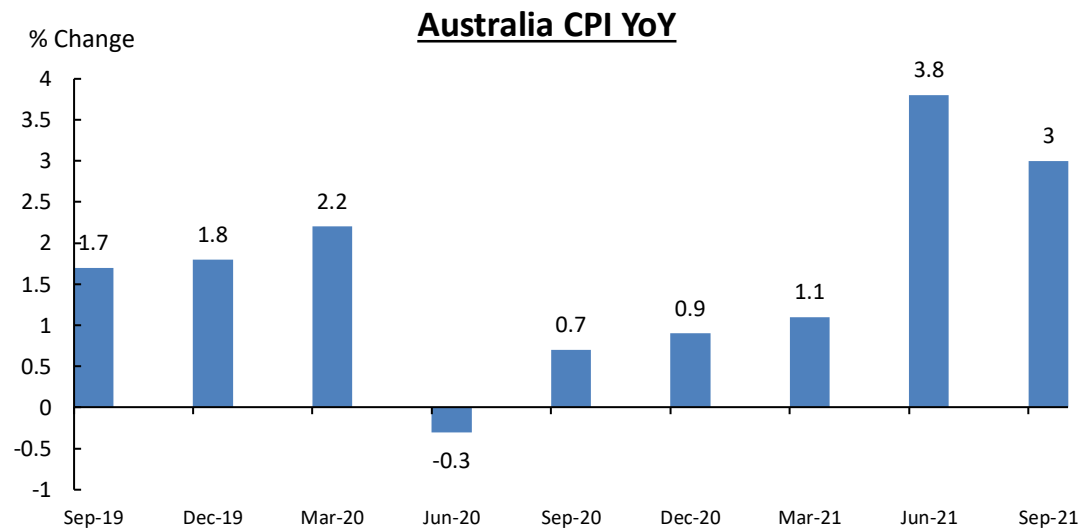


OCBC Bank

Source: OCBC, Bloomberg

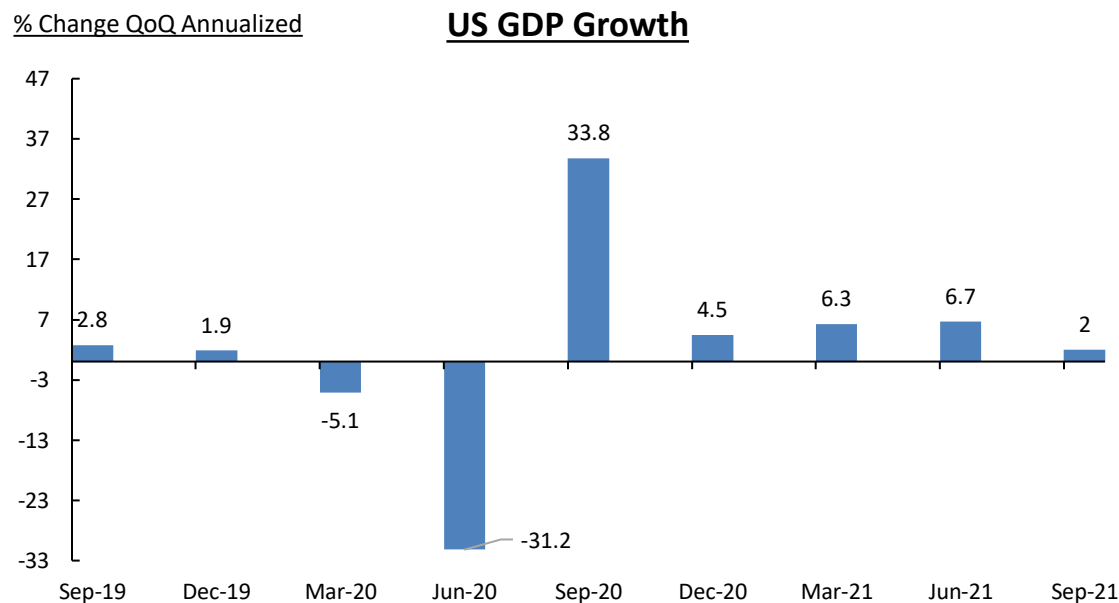
Global: RBA relents, lets key bond yields rise

- The Reserve Bank of Australia has relented on defending its yield target for its April 2024 maturity government bond. Yields increased as high as 0.75% on Friday 29th October.
- Previously the RBA had kept a 0.10% yield target on the Commonwealth debt that matures on April 2024.
- Markets are hawkish as well, with futures pricing in a hike of the 0.10% cash rate to 0.25% by 2022 April.
- All eyes are on the RBA's policy meeting on 2nd of November where guidance will be given on its current policy of no rate hikes until 2024.



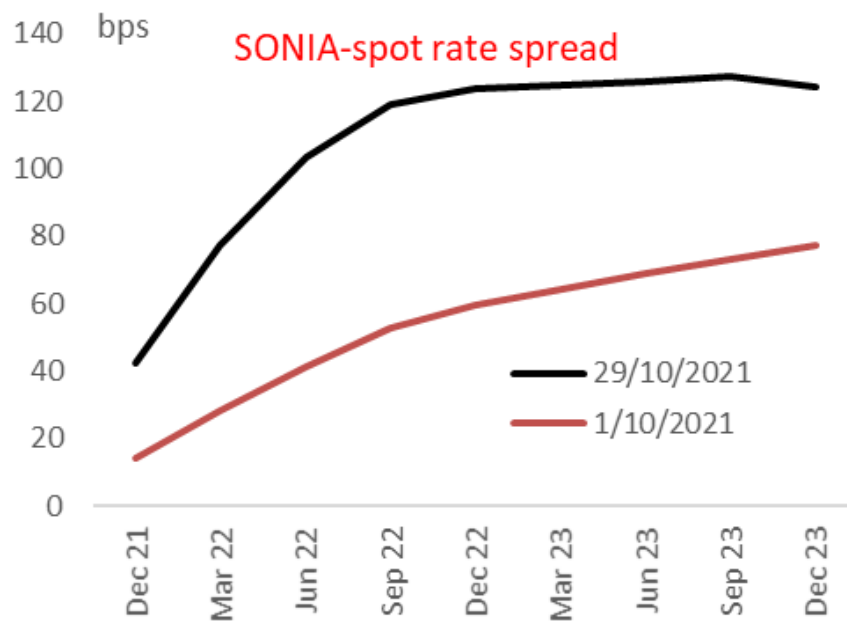
Global: US Q3 GDP falls below expectations

- The U.S. economy grew at a slightly slower than expected pace in the third quarter.
- US Q3 GDP came in at 2.0% qoq annualized vs expectations of a 2.6% qoq annualized print.
- The rate of growth has been much slower this quarter compared to the 6.3% qoq and 6.7% qoq prints in Q1 and Q2 2021.
- Growth was slowed due to lower personal consumption as well as lower motor vehicle production which fell 41.6% qoq in Q3 due to the ongoing semi-conductor shortage.



Global: Bank of England rate hike timing

- Market expectations are hawkish upon high inflation expectations and some recent hawkish remarks from the BoE. Notably, Governor Bailey said the central bank would “have to act”.
- BoE Chief Economist Pill said this upcoming November MPC meeting is “live” and the debate on whether to raise interest rate is “finely balanced”.
- The chance is for the Bank Rate to be hiked at either the November or the December MPC meeting. We are more inclined to see it at the December meeting allowing time for the doves to be convinced, when “finely balanced” means it is not a done deal yet.



OCBC Bank

Source: Bloomberg, OCBC

SG: Singapore manufacturing confidence dips

- Despite renewed confidence from Singapore businesses in the service sector, surveys showed that manufacturers were more pessimistic going into the final quarters of the year.
- A net weighted balance of 22% of manufacturers expected better conditions from now till March 2022 according to the EDB's survey conducted on the 29th of Oct. This was significantly lower than the 26% from mid-2021.
- 19% of businesses that provide services expected a more favorable business outlook in comparison to 11% previously, from a similar survey conducted by SingStat.
- Overall, a net weighted balance of 16% of services firms expect a qoq increase in revenue in the 4th quarter up from 9% in Q3.



SG: MAS Singapore macroeconomic review

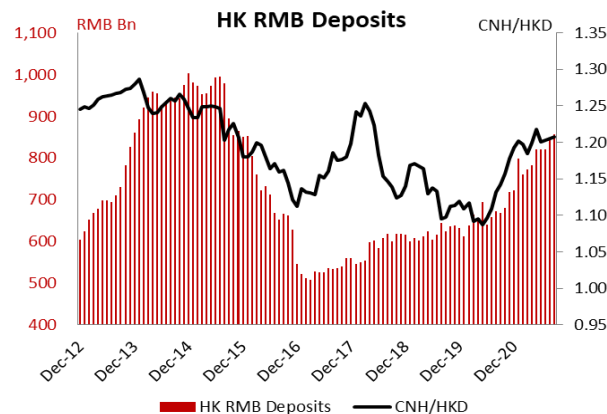
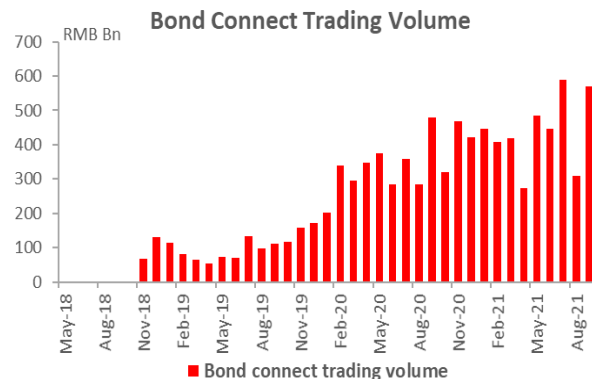
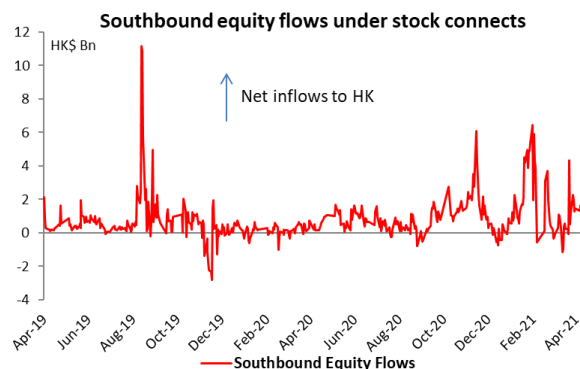
- The MAS conducted its biannual macroeconomic review on the 29th of October, key highlights and points mentioned are below.

Key Highlights:

- Singapore's economic recovery experienced a setback in Q2 and early Q3 2021 as GDP contracted by 1.4% qoq SA in Q2 2021 before a slight growth of 0.8% qoq SA in Q3.
- The Singapore economy is expected to continue growing at an above-trend pace in 2022.
- Singapore's trade in goods was supported by strong global demand for electronics.
- In 2022, resident unemployment rate should come in close to historical level and wage growth should rise.
- Inflationary pressures rose and broadened in Q3. Core inflation rose to 1.1% yoy in Q3, from 0.7% yoy in Q2. The step-up was mainly driven by the increase in electricity & gas costs, reflecting higher global oil prices.
- Inflation is also projected to rise next year, on the back of strengthening domestic and imported costs.

HK: RMB deposits rose to the highest since 2015

- Supported by the yield differentials, RMB appreciation and the continuous deepening connections in Stock and Bond connects, Hong Kong's RMB deposits rose to the highest since November 2015.
- As of September 30, the average daily turnover in northbound stock connect reached to 123.2bn yuan, while the southbound also reached 46.2bn in HKD, showing a 37% yoy and 99% yoy growth respectively. Moreover, the average daily turnover in the northbound bond connect for the first three quarters reached to 26.2 bn yuan, a 33% yoy growth in 2021.
- Looking ahead, we expect RMB deposits may increase further supported by the recent launched wealth management connect schemes and prompt net inflows from China to Hong Kong.

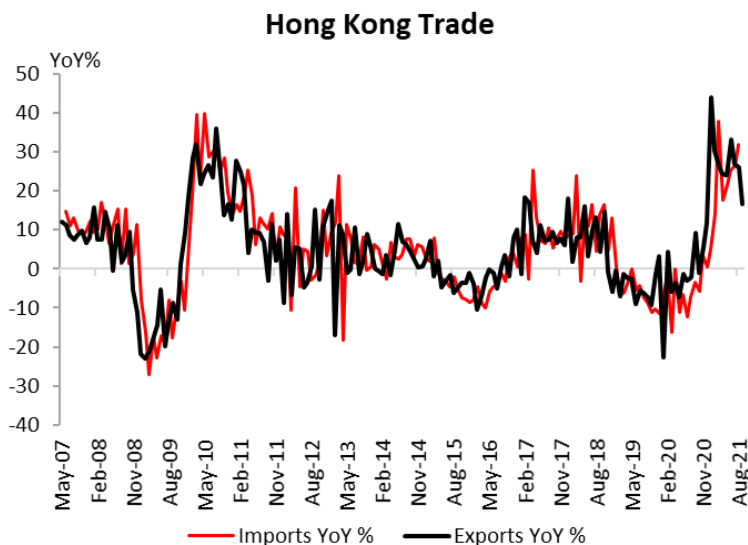


OCBC Bank

Source: Bloomberg, OCBCWH

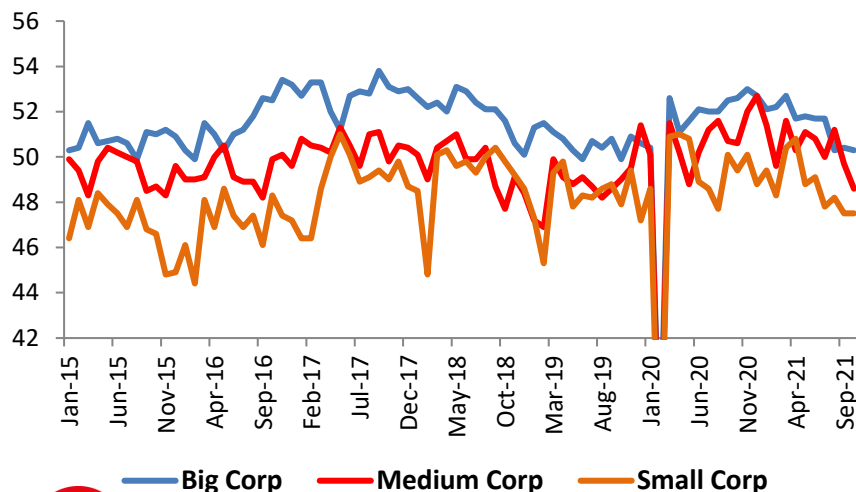
HK: Trade data stayed positive in the near term

- Hong Kong's exports and imports growth both decelerated to 16.5% yoy and 21.9% yoy respectively in September. Still, the total trade in value term during the first nine month of 2021 was 9% higher compared to the same period of 2019. In particular, total exports to Asia as a whole grew by 16.5% yoy with those to all major Asian trading partners seeing double-digit growth. Likewise, imports from all other eight major partners all showed double digit growth as well expect Malaysia and Thailand. Overall, this indicates that external demand has remained resilient.
- Moving ahead, we see the growth in exports and imports may continue to climb, but at a slower pace, likely due to the combination of supply chain bottlenecks and the threat of the more infectious variants, which may partially offsetting the upside growth from the external demand from global economic recovery. As such, we remain our views that exports and imports may grow by about 20% this year.



China: Ways to support SMEs

- China's manufacturing PMI moderated further to 49.2 in October from 49.6 in September. Both supply and demand softened in October. The decline of production was mainly the result of recent power shortage.
- Uneven recovery remains the key challenge for China which calls for more policy supports to SMEs.
- All those data called for more policy supports to SMEs. China has relied on alternative monetary supports such as relending and fiscal support. Just last week, China's State Council announced to defer tax payment for SMEs in the manufacturing sector. As such, with fiscal policy in place, it seems that China is in no urgency to repeat what it did in early July to support the SMEs via RRR cut.



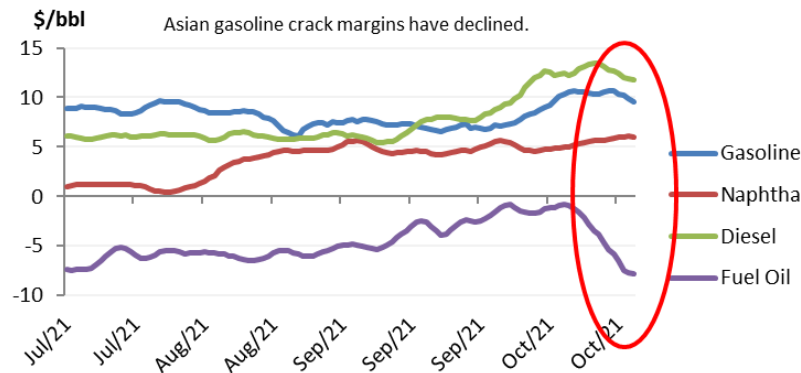
China: US-China relationship back to spotlight

- The US-China relationship returned to the spotlight as a result of overwhelming headline news about Taiwan and the US Federal Communication Commission's decision to revoke the license for China Telecom America's Authority to provide telecom services, overshadowing the positive development from the video call between Vice Premier Liu He and Treasury Secretary Yellen.
- Nevertheless, we still think Biden Administration knows where the bottom line is for the bilateral relationship, which will cap the further escalation of the tension ahead of the virtual summit between two leaders this year. We continue to expect the partial removal of tariff by the US side.

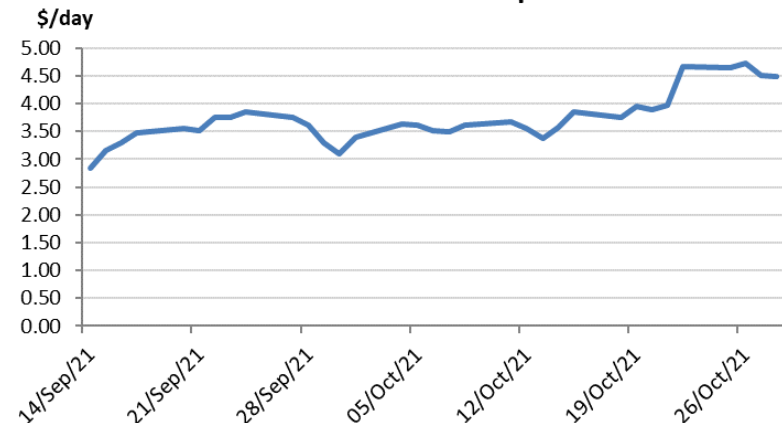
Oil: \$85 resistance proves too strong

- Oil stock-to-consumption ratios in the US and OECD remain tight but still not at levels seen in pre-shale era.
- Calendar spreads have started to plateau since late October while crack margins have begun declining.
- Additionally, based on shipping data from Bloomberg, crude berth visits to China may not have exceeded 250 in October – excluding May'21, that would be the lowest since the pandemic started.
- We expect Brent to range trade \$80-\$85 for now.

Asia Crack Margins

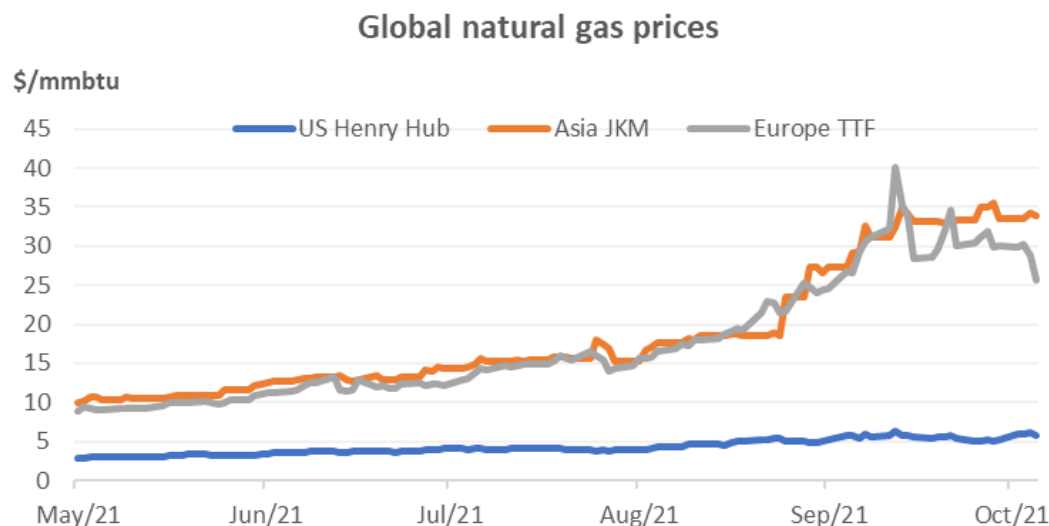


1-6m Brent Calendar Spread



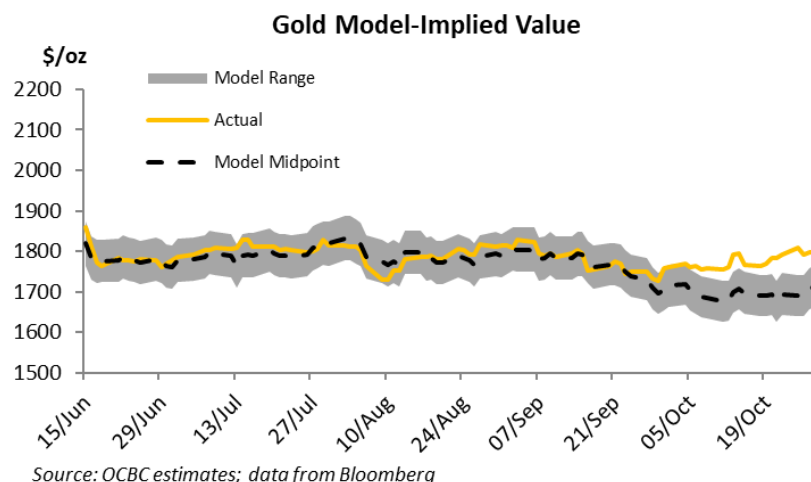
Natural gas: European prices collapse

- Prospects of increased gas supply from Russia sent front-month Dutch TTF gas prices falling 11% on Friday.
- European gas prices closed at around \$22/mmbtu last Friday, almost half the peak of \$40/mmbtu recorded earlier this month.
- Asian LNG prices remain heavily elevated at \$32/mmbtu, near its record high of \$35/mmbtu.



Gold: Trading above model fair value

- Our model suggests gold's fair value at present in the range of \$1645-\$1745.
- Gold is currently trading at \$1784.
- Given the recent tailing off in oil prices as well as chart action, we recommend going short gold at \$1800.





Foreign Exchange & Interest Rates

FX & Rates: Watch for Central Banks

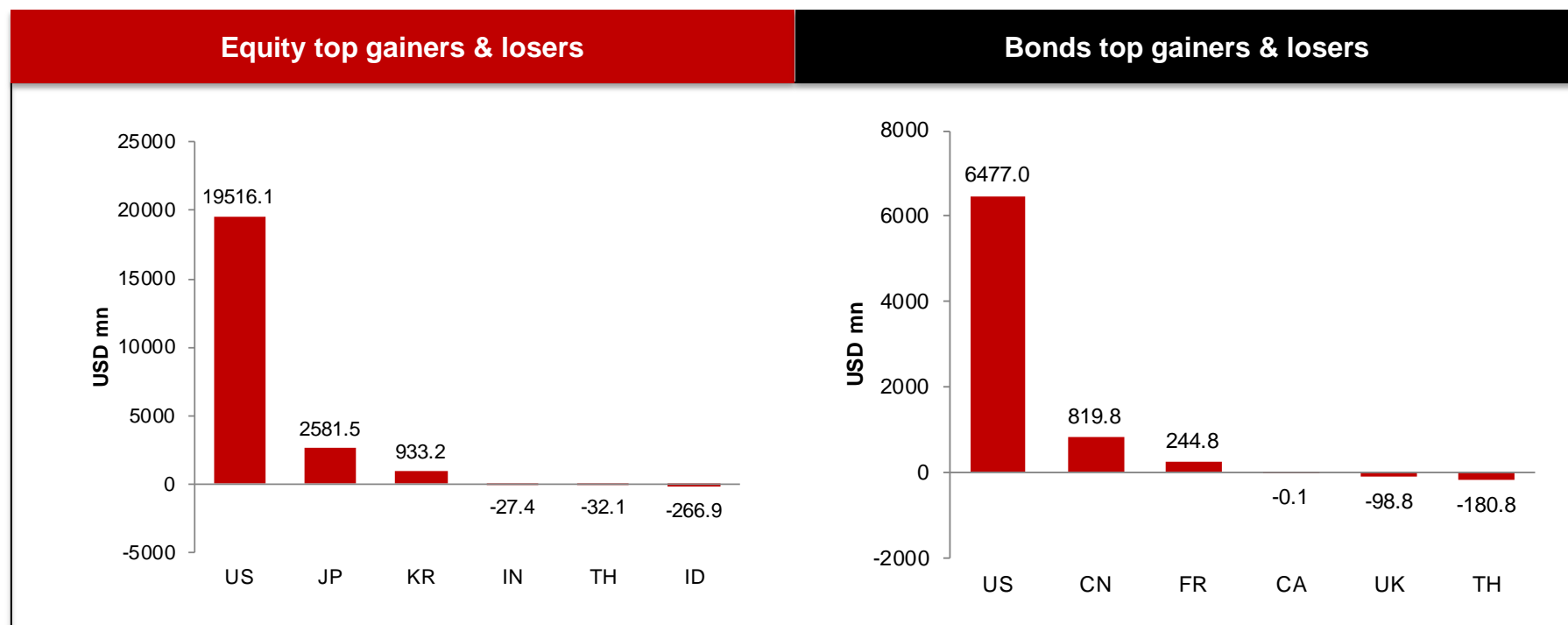
- **FX Sentiment Index (FXSI)** starts the week in Risk-Neutral zone, but showed the first decline in sentiment after a three consecutive sessions of improvement. The broad USD was firmer against all G-10 counterparts on Fri.
- The **CFTC** release showed that leveraged accounts added to their net implied USD longs marginally, but that was attributed to a large increase in JPY shorts. EUR and AUD shorts were reduced in the latest reading.
- This week, watch for a potential hawkish surprise from the **RBA** (Tue). It did not pursue its yield target last week, and that may be a precursor to a shift in forward guidance. The **FOMC** (Wed) is the least exciting one, with the taper effectively pre-announced. The **BOE** (Thu) is a knife-edge. Governor Bailey has made hawkish comments, but it may come down to a very close split among the MPC members.
- Among the major CB meetings this week, FOMC may be the least exciting, where an announcement of taper is expected. The last FOMC minutes already revealed an “illustrative path” which features a monthly reduction of USD10bn in purchases of Treasury securities and of USD5bn in purchases of agency MBS, meaning taper will complete around mid-2022. Market waits to hear how Powell pushes back on linking the taper timeline to the rate hike timeline.
- On USTs, we continue to hold the view that the resistance is strong for the 10Y bond to rally below 1.55% sustainably.
- While chance is for a Bank Rate hike at either the November or December MPC meeting, SONIA pricing looks overly hawkish. Some dovish correction is due.



Asset Flows

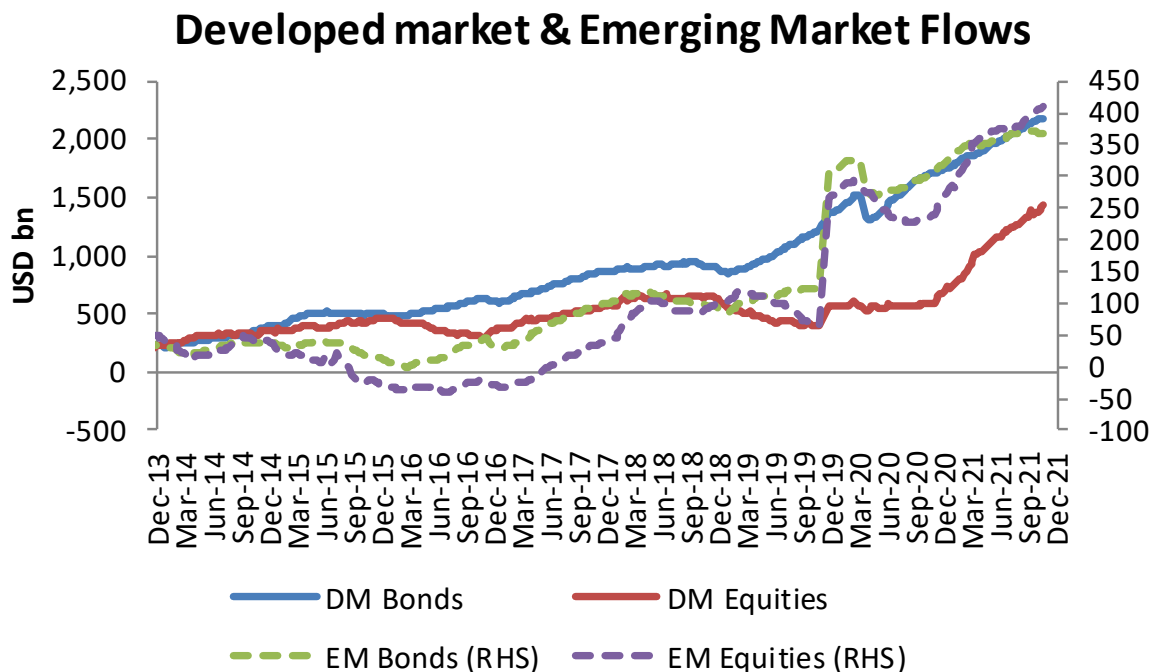
Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 27th October amounted to \$28.0bn, a slight increase from the inflow of \$24.3bn last week. Global bond market saw inflows amounting to \$8.7bn, an increase from last week's inflows of \$5.8bn.



DM & EM Flows

- DM equities saw \$25.9bn worth of inflows while the EM-space registered \$2.1bn worth of inflows.
- Elsewhere, the DM bond space posted inflows of 7.6bn, while EM bonds registered outflows of \$1.0bn.



 Thank You

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