Weekly Macro Views (WMV)

Treasury Research & Strategy (20 April 2021)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

19th April	20th April	21st April	22nd April	23rd April
- JN Industrial Production - JN Trade Balance - JN Capacity Utilization - JN Exports - UK Rightmove House Prices	- UK Jobless Claims Change - UK ILO Unemployment Rate - JN Tertiary Industry Index - ID BI 7D Reverse Repo	- CA Bank of Canada Rate Decision - CA CPI - UK CPI - US MBA Mortgage Applications - AU Retail Sales - AU Westpac Leading Index	- US Initial Jobless Claims - US Leading Index - EC ECB Main Refinancing Rate & Deposit Facility Rate - HK Unemployment Rate	- SG CPI - MA CPI - US New Home Sales - JN Jibun PMI Mfg - GE Manufacturing PMI - EC Manufacturing PMI - US Manufacturing PMI - HK CPI Composite

Summary of Macro Views:

Global	• **Global:** US market ended last week on a firm note • **Global:** Central banks • **Global:** US CPI jumps on gasoline prices in March • **Global:** US retail sales post largest gain since May • **Global:** Earnings season kicks off to a strong start
Asia	• **SG:** 1Q21 GDP returns to positive growth • **SG:** MAS maintains accommodative stance • **SG:** NODX reports strong growth in March • **HK:** Forming the vaccination bubbles • **Macau:** Digital currency & gaming outlook

Asia	• **MY:** Fourth Wave? • **ID:** Trade uptick • **ID:** Staying Put • **CH:** 1Q21 Growth not as exceptional as 4Q20 • **CH:** Fears over tightening eased
Asset Class	• **Commodities:** Rising with risk rally • **Oil:** Break to the upside • **Gold:** Falling yields and dollar supporting gold • **FX & Rates:** Still positive-USD in the mid-term
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: US market ended last week on a firm note

- Another strong market session on Friday as the S&P 500 rose 0.36% to hit a fresh record to post its 22nd record close this year amid the US crossing the 200 million vaccination target. VIX also dipped to 16.25. The 10-year UST bond yield closed at 1.58% amid the flurry of corporate bond issuance with Bank of America tapping a record US$15bn following JPMorgan's US$13bn offering. There is a 20-year UST bond re-opening on Wednesday.
- **Other key developments:**
  - China said it has no plans to replace the USD with the digital yuan, while official comments stating that China Huarong Asset Management has ample liquidity calmed markets slightly.
- **Key data release are as follows:**
  - 19th April: JN Industrial Production, JN Trade Balance, JN Exports, UK Rightmove House Prices
  - 20th April: ID BI 7D Reverse Repo, UK ILO Unemployment Rate, UK Jobless Claims Change
  - 21st April: CA Bank of Canada Rate Decision, CA CPI, UK CPI, US MBA Mortgage Applications, AU Retail Sales
  - 22nd April: EC ECB Main Refinancing Rate & Deposit Facility Rate, US Initial Jobless Claims, US Leading Index
  - 23rd April: SG CPI, MA CPI, US New Home Sales, US Manufacturing PMI, HK CPI Composite

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Global: Central Banks

Forecast – Key Rates

People's Bank of China (PBoC)	Bank Indonesia (BI)	Bank of Canada (BoC)	European Central Bank (ECB)
Tuesday, 20 April	**Tuesday, 20 April**	**Wednesday, 21 April**	**Thursday, 22 April**

House Views

1-year Prime Loan Rate	*7D Reverse Repo*	*Policy Interest Rate*	*Main Refinancing Rate*
Likely hold at 3.85%	**Likely hold at 3.50%**	**Likely hold at 0.25%**	**Likely hold at 0.00%**
5-year Prime Loan Rate			*Deposit Facility Rate*
Likely hold at 4.65%			**Likely hold at -0.50%**

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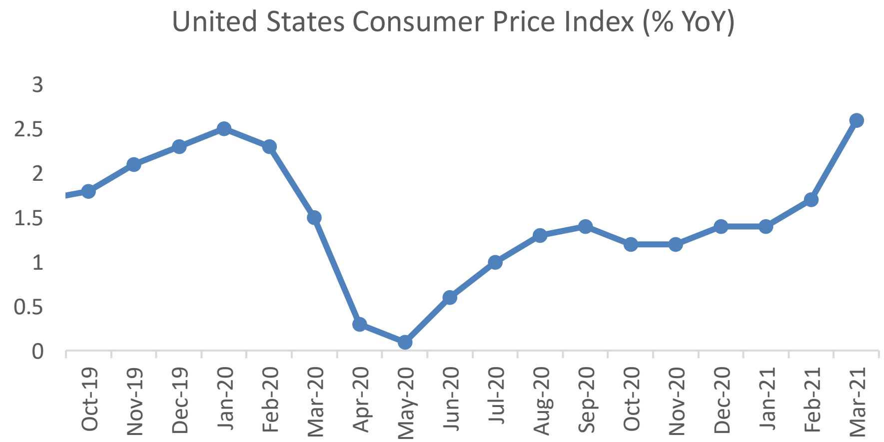
Source: OCBC, Bloomberg

Global: US CPI jumps on gasoline prices in March

- US CPI rose more than expected by 2.6% yoy (0.6% mom sa), highest level since August 2018 and significantly stronger than the 1.7% yoy recorded in the previous month. Core CPI also rose 1.6% yoy (0.3% mom sa).
- Similar to the March US PPI report, the improvement stemmed largely from a 9.1% mom jump in gasoline due to supply constraints as production was disrupted by the cold weather.
- Recovering demand from the easing of restrictions also drove services prices higher across the board with prices for hotel, car rentals and airfare rising in March.
- Looking ahead, US CPI could print higher as ample consumer savings and the reopening of states may spur consumer expenditure in the coming months.



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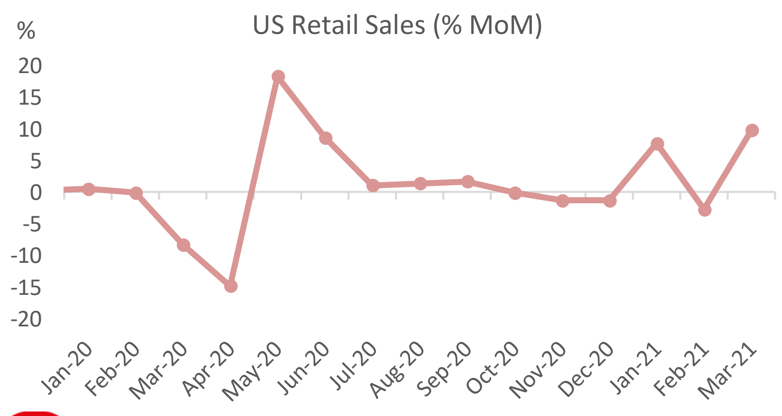
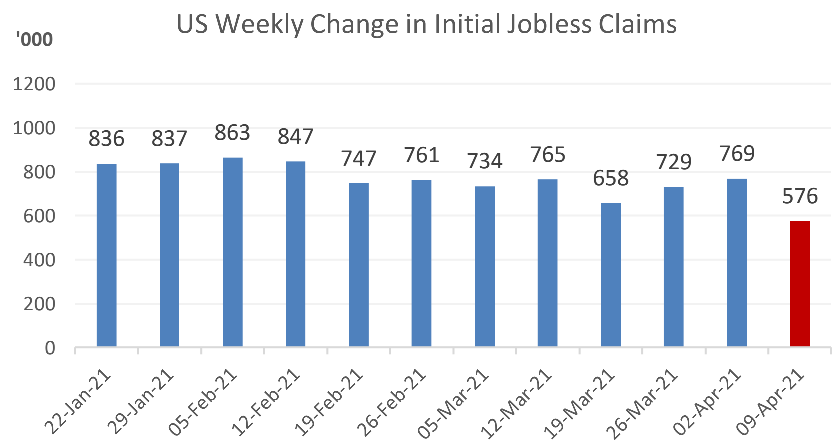
Sources: Bloomberg, OCBC

Global: US retail sales post largest gain since May

- US retail sales reported a better than expected 9.8% mom increase in March, the largest increase since May last year and marked a strong rebound from the 2.7% mom decline in the previous month.
- The improvement appeared to be a combination of better weather, reopening of business as well as the latest round of stimulus payments.
- Strength in sales were reported across all categories with double-digits gain recorded for sporting goods (23.5%), clothing (18.3%), motor-vehicles (15.1%), food services and drinking places (13.4%), building materials (12.1%), gasoline stations (10.9%), electronics and appliances (10.5%).
- Looking ahead, the $1400 stimulus check payment, coupled with the improving domestic labour conditions, will likely keep the spending momentum supported through April where retail sales may see another firm print.





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Sources: Bloomberg, OCBC

Global: Earnings season kicks off to a strong start

- This week's earnings will feature nearly a quarter of the S&P 500 companies with IBM, Netflix, Intel and American Express in focus.
- Currently, 9% of the companies in the S&P 500 index have announced their Q1 corporate earnings, of which 81% have reported actual EPS that were above estimates.
- On aggregate, this means that the reported earnings released so far has exceeded estimates by 30.3%, led largely by financials (JPMorgan Chase, Goldman Sachs, Citigroup, Bank of America and Wells Fargo).
- With the US earnings season kicking off to a strong start, the upcoming earnings reports may post a firmer growth from the previous quarter, underpinned by the pickup in business activity as restriction measures were eased.

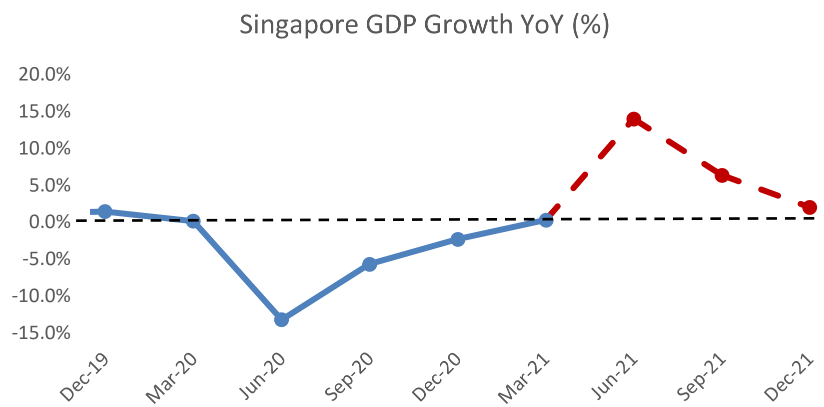
Sources: Earnings Whisper, Factset, OCBC

SG: 1Q21 GDP returns to positive growth

- The S'pore economy returned to positive GDP growth of 0.2% yoy (2.0% qoq sa) after three consecutive quarters of contraction, driven largely by the 7.5% yoy growth in the manufacturing sector.
- While services eked out a 0.4% qoq sa gain, it still shrank 1.2% yoy weighed down by the wholesale & retail trade and transportation & storage (-4.1% yoy) and accommodation & food services, real estate, administrative & support services and other services (-3.9% yoy).
- Construction sector remained the laggard at -20.2% yoy (+8.4% qoq sa), but was still better than the house estimate of -28.3% yoy, amid the pickup in both public and private sector construction activities.
- An outsized GDP rebound of around 15% yoy may materialise next quarter due to the low base last year during the Circuit Breaker period, with manufacturing, services and construction sectors all likely to register double-digit yoy growth as well.

Gross Domestic Product in Chained (2015) Dollars

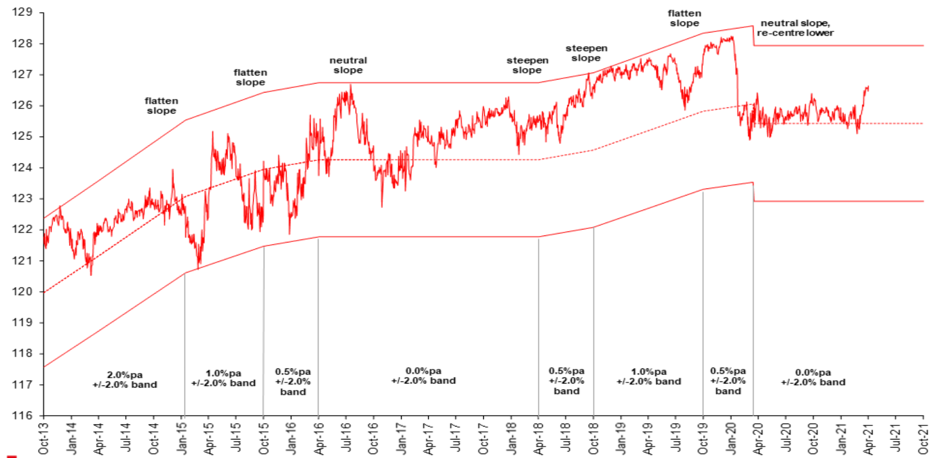
	1Q20	2Q20	3Q20	4Q20	2020	1Q21*
Percentage change over corresponding period of previous year						
Overall GDP	0.0	-13.3	-5.8	-2.4	-5.4	0.2
Goods Producing Industries	6.7	-10.0	1.1	3.9	0.3	3.3
Manufacturing	8.3	-0.4	11.0	10.3	7.3	7.5
Construction	-0.3	-65.6	-52.5	-27.4	-35.9	-20.2
Services Producing Industries	-1.9	-12.7	-8.3	-4.7	-6.9	-1.2
Wholesale & Retail Trade and Transportation & Storage	-5.2	-14.7	-11.7	-6.4	-9.5	-4.1
Information & Communications, Finance & Insurance and Professional Services	4.7	-2.4	0.1	1.4	0.9	3.7
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	-5.3	-22.2	-14.0	-9.9	-12.8	-3.9



Sources: Bloomberg, MTI, OCBC

SG: MAS maintains accommodative stance

- Despite the upgrade in 2021 GDP growth and headline inflation, MAS continues to maintain a zero percent per annum rate of appreciation of the policy band, with no change to the band width and perceived parity level.
- The open-ended statement about how 2021 GDP growth will likely exceed the upper end of the official 4-6% forecast range, without citing a revised range and a “significant uncertainties” caveat, could potentially be implied to rein in any potential runaway economic optimism and premature monetary policy tightening expectations.
- Policy statement was also cautiously nuanced to tilt away from the previously dovish bias to one that is more upbeat and watchful, but probably falls short of outright hawkishness that would suggest a tightening at the October policy meeting is imminent.
- In light of this, an upgrade to the official 2021 GDP growth forecast range would likely only come earliest after the 2Q21 GDP growth data is released in our view.



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Sources: Bloomberg, OCBC

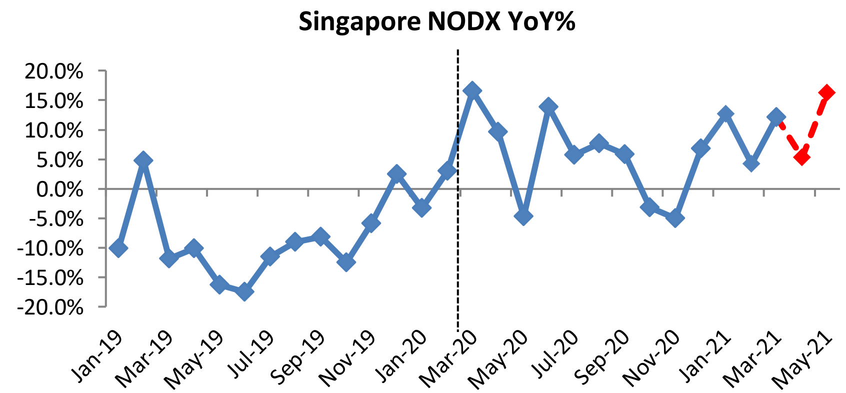
SG: NODX reports strong growth in March

- NODX surged 12.1% yoy in March, despite the relatively high base in March 2020 (+16.6% yoy), which brings the 1Q21 NODX growth to a stellar 9.7% yoy.
- The outperformance was driven by electronics which jumped 24.4% yoy (+7.7% mom) with PCs, diodes and transistors, parts of PCs, and ICs seeing strong double-digit growth on the back of the ongoing global chip shortage.
- Non-electronics exports also accelerated to 9.4% yoy, driven by the chemicals cluster (+36.3% yoy), especially pharmaceuticals that rebounded 25.5% yoy (previously -33.4% yoy), petrochemicals (+51.4% yoy) and specialised machinery (+35.1% yoy).
- NODX to S’pore’s top 10 markets saw 6 of it expand in March, with the exception of US (-19.8% yoy), Japan (-28.7% yoy), Hong Kong (-13.1% yoy) and Thailand (-50.7% yoy).
- With a firm March NODX print, we are now looking at a 2-4% yoy forecast for the year assuming the vaccine aided recovery extends into 2H21.

Non-oil Domestic Exports to Top Markets (% Y-O-Y Growth)

Top Market^	NODX		Electronic NODX		Non-Electronic NODX	
	Feb 2021	Mar 2021	Feb 2021	Mar 2021	Feb 2021	Mar 2021
China	17.3	46.4	14.4	12.5	17.9	53.9
EU 27	-34.7	31.6	-30.0	39.1	-35.3	30.8
Malaysia	-7.8	47.0	-12.7	29.4	-5.2	57.2
Taiwan	16.5	24.0	10.6	16.7	22.3	30.1
Indonesia	-0.6	25.4	20.4	86.9	-2.9	19.7
South Korea	29.6	17.3	103.3	27.0	19.8	15.4
Hong Kong	10.7	-13.1	13.6	47.9	1.8	-49.1
Japan	-18.0	-28.7	18.2	8.8	-24.5	-32.9
US	-5.3	-19.8	1.2	-1.3	-6.9	-22.7
Thailand	-9.2	-50.7	-4.9	16.6	-11.4	-62.0

^: Ranked by contribution to the yoy change in NODX levels over the year.



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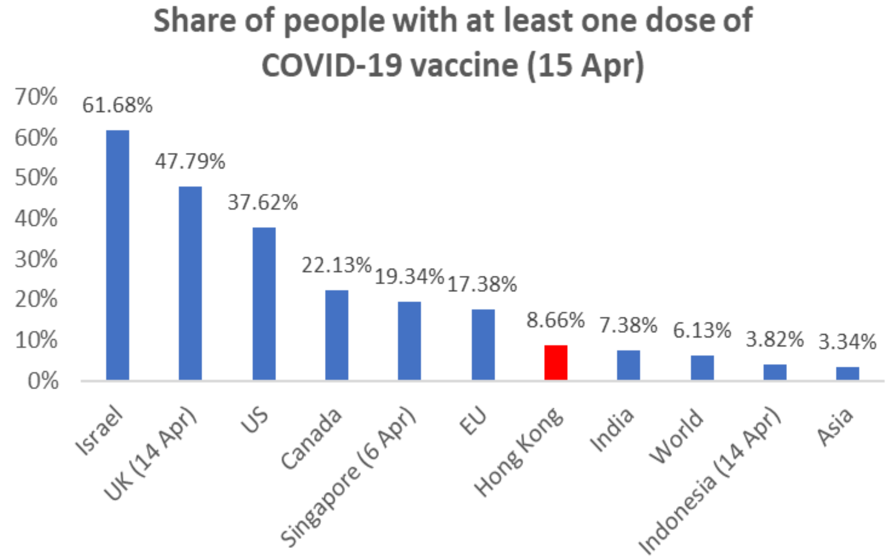
Sources: Enterprise SG, OCBC

HK: Forming the vaccination bubbles

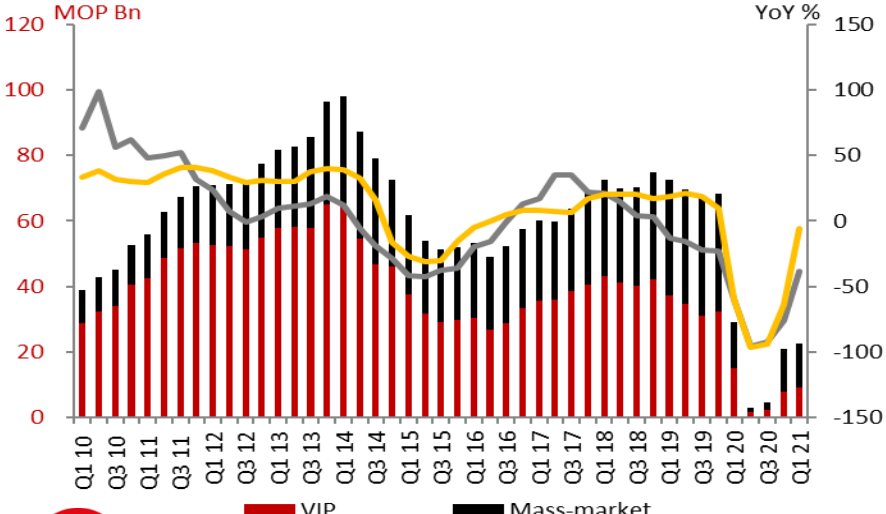
- The government announced to extend the social distancing measures for another two weeks till 28 April while hinting about the forming of "vaccination bubbles" as local infections subsided further recently.
- Specifically, if more people get vaccinated, the businesses that have been forced to close including bars and night clubs will be allowed to reopen with conditions while the restriction on restaurants including the maximum number of diners per table and the dine-in hours will be relaxed. For inbound tourism, the mandatory quarantine may be shortened to no more than 7 days for low-risk areas like Singapore should the arrivals have received two jabs. From mid-May, mandatory quarantine will be exempted for Mainland tourists. From end-April, the return2hk scheme will be extended to HK residents returning from Chinese provinces other than Guangdong.
- Should local pandemic remain well contained, the government may gradually ease the containment measures. This will pave way for further economic recovery in 1H. Still, significant relaxation and stronger recovery may require faster vaccination rate which reached merely 8.66% as of 15 April.

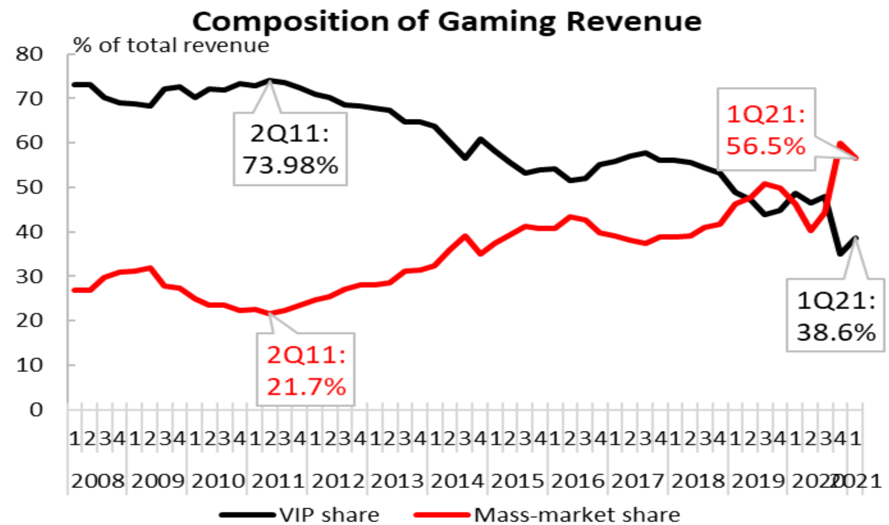


Source: Our World in Data, OCBCWH

Macau: Digital currency & gaming outlook

- Macau's Chief Executive Ho Iat Seng stated that the government will work with the PBoC to study the feasibility of issuing a digital currency. Ho said the introduction of a digital currency aims to improve the effectiveness in curbing money laundering, tax evasion and terrorism financing.
- The move sparks concern that Macau's gaming sector in particular the high-stakes gambling which has been crippled by Covid-19 and the China's tightened grip on cross-border gambling will take a further hit. Notably, the share of VIP revenue in total gaming revenue hovered around record low and printed 38.6% in 1Q 2021. On a positive note, it may facilitate cross-border payments including tourist spending and casual gambling.
- Still, details about the plan need to be closely monitored to evaluate the impact on Macau's gaming sector, tourism sector and the whole economy.





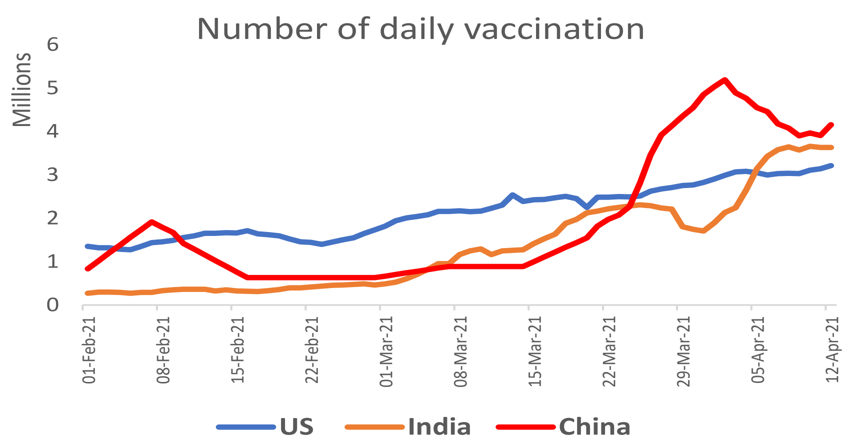
Source: DICJ, OCBCWH

China: 1Q21 Growth not as exceptional as 4Q20

- Despite the record 18.3% yoy growth in 1Q, China's economy only grew by 5% yoy on a two-year average after adjusting for base effect, still below potential growth.
- Improvement in domestic demand is encouraging thanks to the recovery of offline activities. For example, revenue for catering and restaurant returned to positive growth for the first time since pandemic. This will further underpin growth in the coming quarters.
- The slower than expected vaccination rollout may also cap PBoC's room to remove prior easing policies. We think China will not hike interest rate in the next two quarters.

Table 1: China's growth adjusting for base effect

	1Q 2021	Two-year average
GDP	18.3%	5%
Industrial production	24.5%	6.8%
High-tech industrial production	31.2%	12.3%
Retail sales	33.9%	4.2%
Fixed asset investment	25.6%	2.9%
Manufacturing investment	29.8%	-2%



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Source: Bloomberg, Wind, OCBC

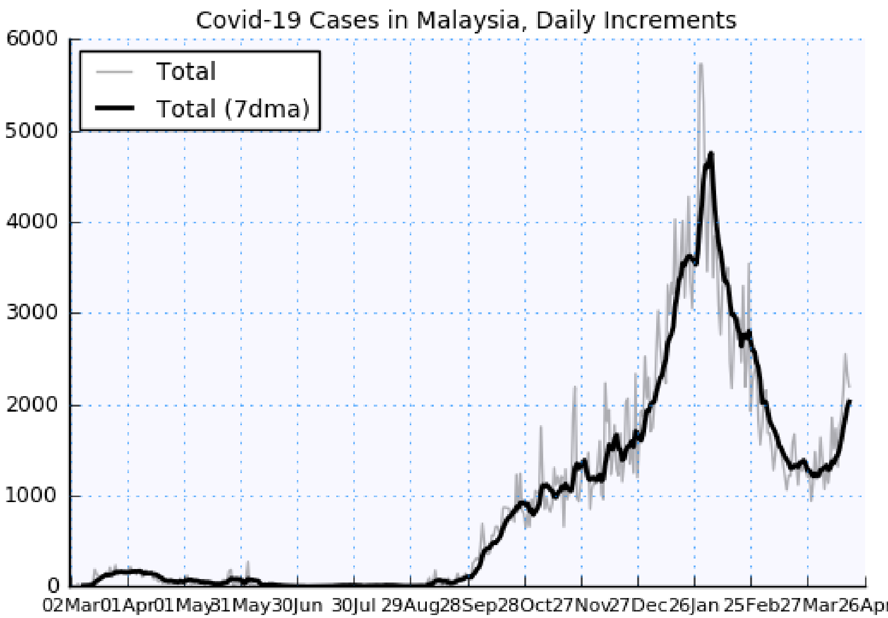
China: Fears over tightening eased

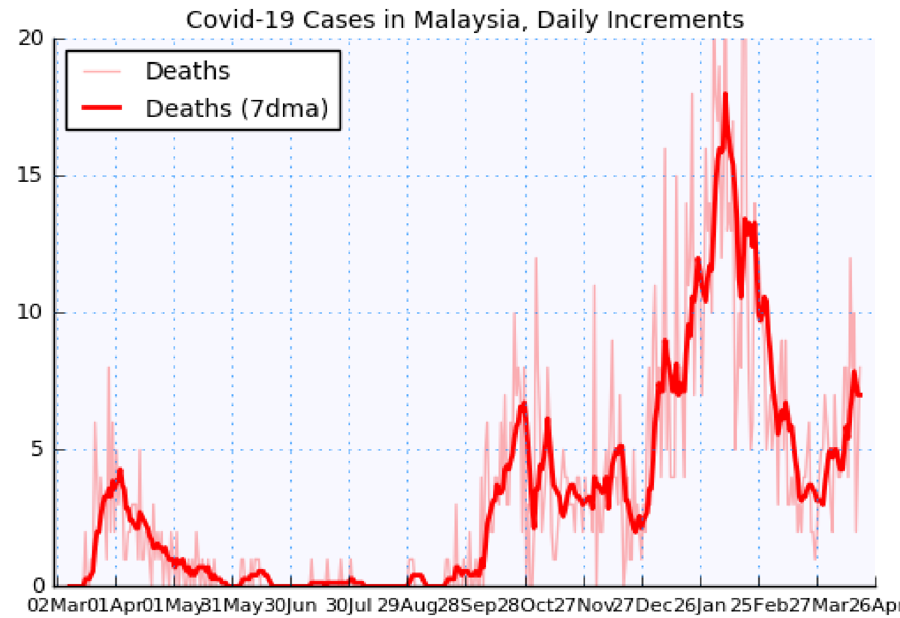
- Fears over pre-maturing tightening of monetary policy eased last week following the dovish comments from the PBoC and slightly weaker than expected 1Q economic data.
- China's government bonds outperformed in April despite the first outflow by foreign investors in two-year in March. 10-year yield fell to 3.16% from 3.23% in the beginning of April.
- In the press conference last week, the head of PBoC monetary policy department reckoned the possible impact of tax payment and local government bond issuance on domestic liquidity in April. PBoC will continue to ensure interbank liquidity remain appropriate abundant to create favorable environment for the issuance of local government bond.
- Meanwhile, PBoC injected CNY150 billion medium term liquidity via MLF ahead of maturing CNY100 billion MLF and CNY56.1 billion TMLF. It looks like PBOC is phasing out TMLF as they rely more on re-lending and re-discount to support the demand from smaller companies. Nevertheless, MLF rollover is actually higher.

Source: Bloomberg, Wind, OCBC

Malaysia: Fourth Wave?

- Malaysia is staring at the potential of a fourth wave of Covid-19 infections. With daily cases picking up to above 2000 for the fourth day running most recently, there are concerns that the ongoing festive period might add to the tally in the coming weeks.
- Similarly, fatalities have gone up in recent days, even if it has remained contained on a relative basis thus far.
- While the government had said that it will no longer apply blanket nationwide MCO restriction orders, more districts may come under targeted restrictions together with a ban of interstate travel. If prolonged, it could deliver a dent to the nascent economic recovery.





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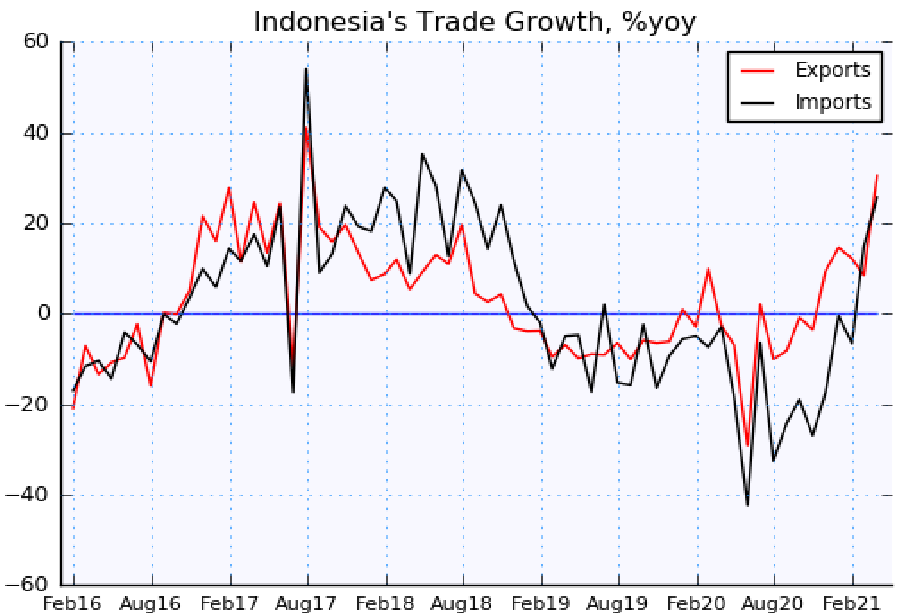
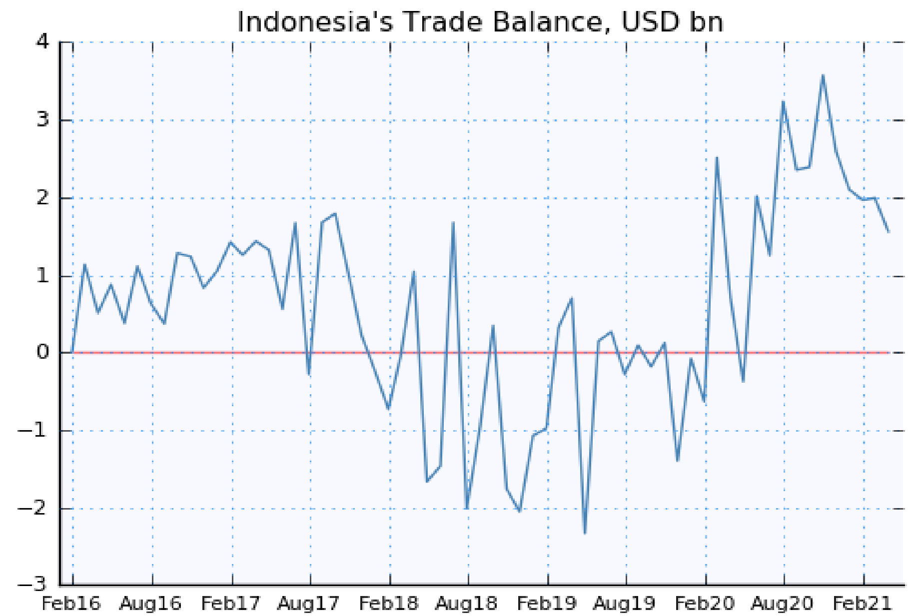
Sources: OCBC, Bloomberg.

Indonesia: Trade uptick

- Indonesia reported March trade numbers which came considerably better than expected. Exports grew by 30.5% yoy against expectation of just 12.2%, on the back of higher oil prices and an uptick in demand from markets such as the US and China.
- In terms of products, a recovery can be seen in the demand for manufactured, agricultural and mining goods.
- Imports saw a sharp increase as well, to 25.7% yoy compared to expectation of 7.16%, pointing towards a recovery in domestic demand for consumer goods and capital goods.





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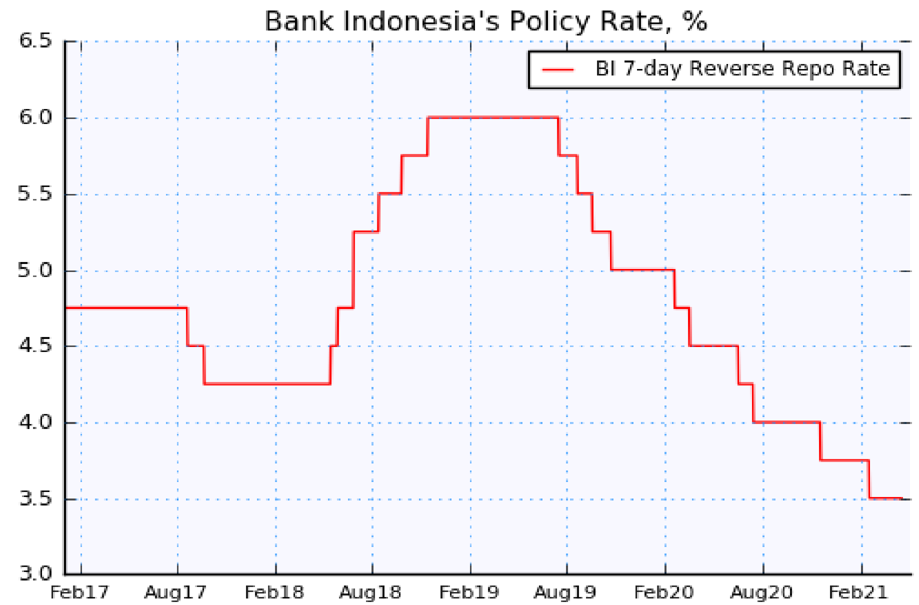
Sources: OCBC, Bloomberg.

Indonesia: Staying Put

- Despite a relatively calm period of global bond market and broad market sentiment, Rupiah has weakened somewhat in recent weeks, with USDIDR breaching above the 14500 level.
- While we do not foresee a protracted period of weakness – with USDIDR still projected to remain well below the 15000 level for the year, for instance – the unsettled FX environment would nonetheless feature in Bank Indonesia’s rate decision.
- To us, it does not look like BI would be keen to take the risk of another rate cut anytime soon. It will likely continue to push for the transmission of its existing round of rate cuts by the banks, rather than undertake fresh new easing.



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Sources: OCBC, Bloomberg.

Commodities

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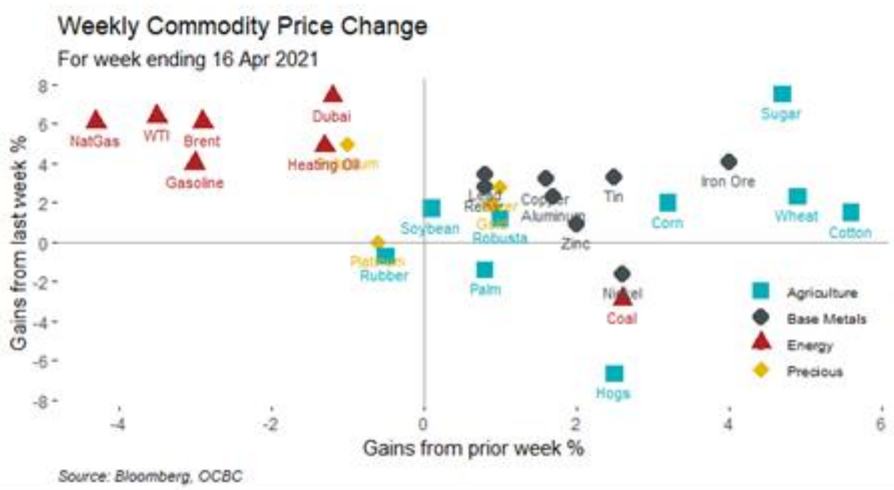
Commodities: Rising with risk rally

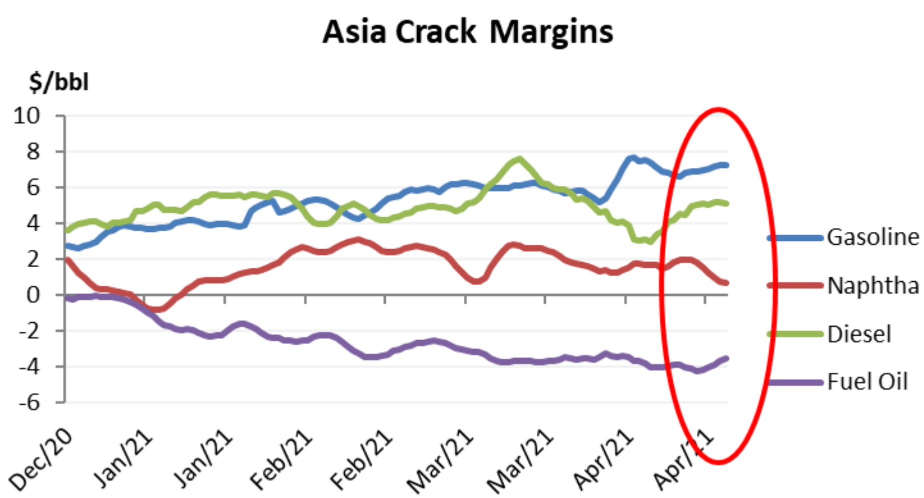
- Commodities mostly gained last week, with the broad energy and metal complexes having rallied.
- Crude oil broke out of its broad trading range and looks set to resume its upward climb.
- For the week ahead, watch for a further drawdown in US crude oil stocks. A further depletion suggests that supply is unable to keep up with demand, which on a net gasoline basis is currently already below the 5-year average.



Sources: OCBC, Bloomberg.

Oil: Break to the upside

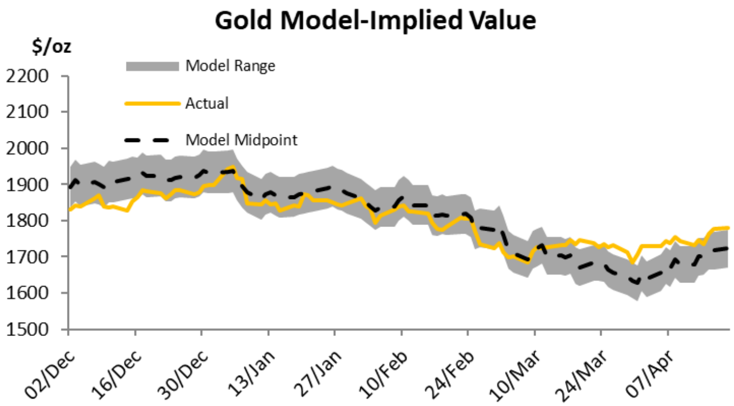
- Brent broke through the $65 handle last week after a larger-than-expected drawdown in US crude oil inventories proved the catalyst for oil's rally.
- Brent for June delivery rose to as high as $67.38 last Friday and has so far found decent support at around the $66 handle in the past two sessions.
- Crack spreads, especially that on gasoline, have also risen higher.
- Specs are also the least long on NYMEX on a ytd basis as of last Tuesday and that presents an opportunity for longs to start building their positions again.
- We maintain our view that oil will likely continue to climb through the rest of 2021.



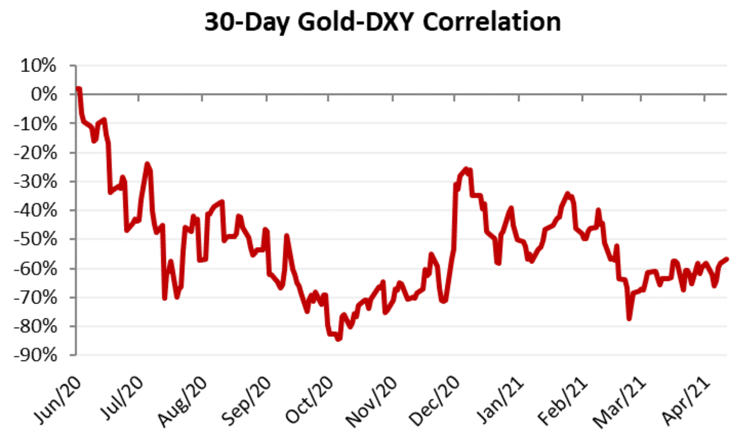
Sources: OCBC, Bloomberg.

Gold: Falling yields and dollar supporting gold

- The fall in US Treasury yields and the DXY index have supported gold's elevated level.
- Our model suggests a fair-value range of $1671-$1775/oz for gold at current inputs, which means at current levels gold is not too far off its fair value estimation.
- We close our tactical recommendation of short gold and stay neutral on the precious metal in the short term.
- Longer term, we expect the possible resumption of rising Treasury yields to pressure gold down once more.



Source: OCBC estimates; data from Bloomberg



Sources: OCBC, Bloomberg.

Foreign Exchange & Interest Rates

FX & Rates: Still positive-USD in the mid-term

- **FX:** Back-end UST yields still leans heavy, but USD appears more supported at 91.50 on the DXY index. US data has outpaced both China and EZ in April – the USD has not reacting to that thus far, but eventually it has to come around. Beyond the immediate term, we are still constructive on the USD. In the immediate term, look for the USD-JPY to turn sideways between 108.30 and 109.00, while the EUR upside may lose steam if it continues to be capped under 1.2000.

- **Rates:** Treasury yields edged down while inflation expectations have been stable, and as such real yields have turned more negative to -80/-85bp, at odds with the upbeat economic data. This week brings the USD24bn of 20Y bond auction, which presents another test to demand. Meanwhile, excess front-end liquidity keeps the possibility alive that the Fed may make technical adjustments to the IOER and/or o/n RRP rate. CNY money market liquidity shall stay supported; we expect further downward adjustment in back-end CNY points.

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Source: Bloomberg, OCBC

Asset Flows

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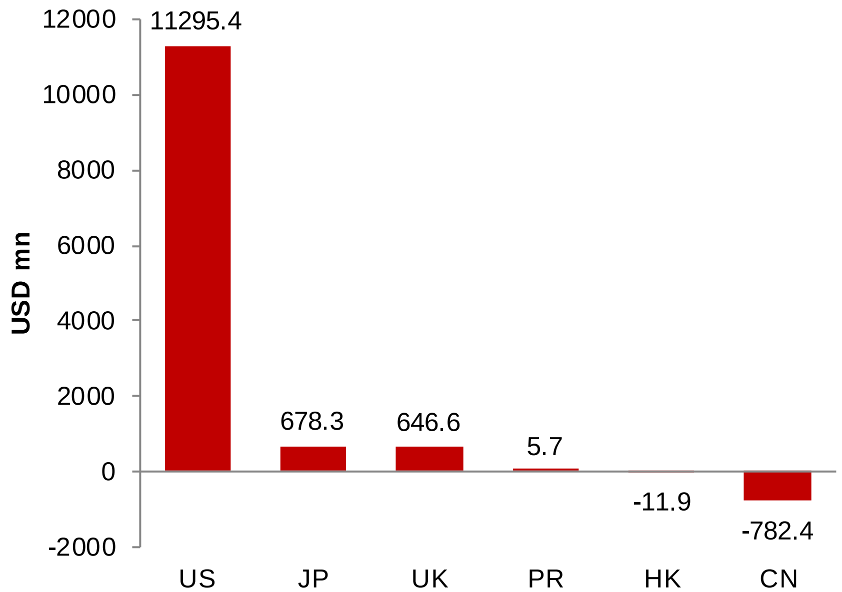
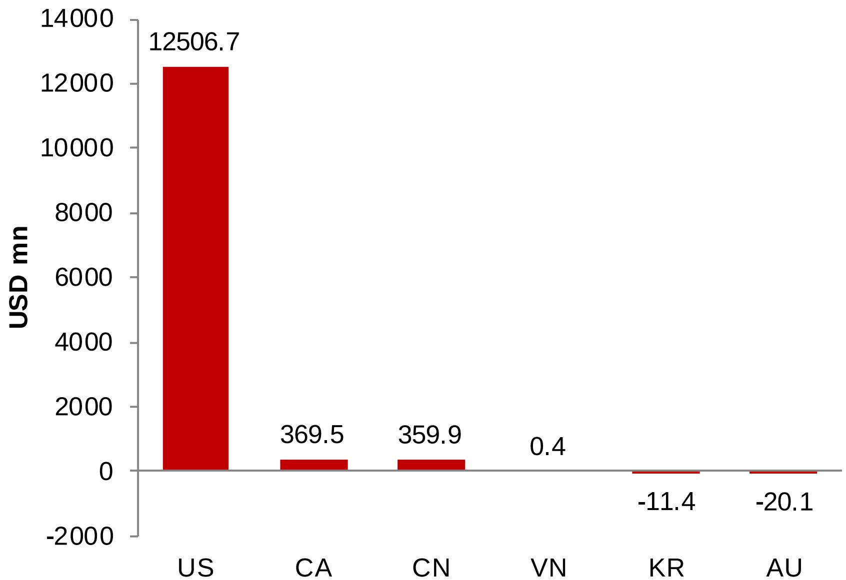
Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 14 April amounted to $25.4bn, an increase from the inflow of $15.4bn last week. Global bond market saw inflows amounting to $17.7bn, an increase from last week's inflows of $16.9bn.

Equity top gainers & losers



Bonds top gainers & losers



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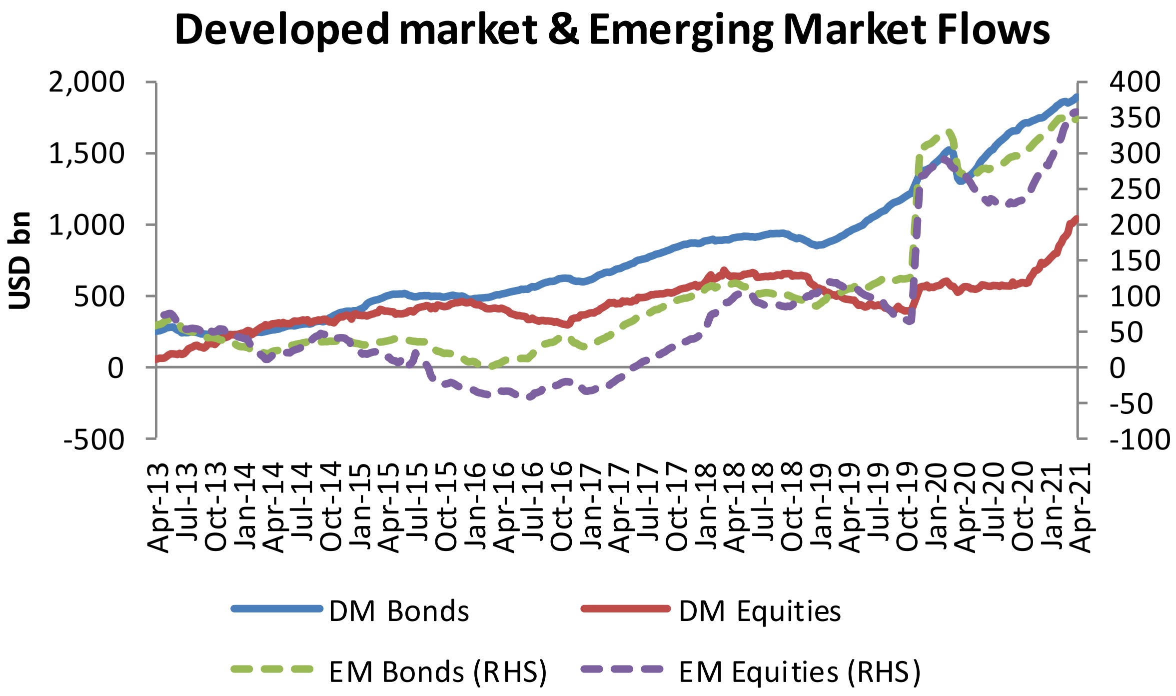
Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $19.4bn worth of inflows while the EM-space registered $5.8bn worth of inflows. Elsewhere, the DM bond space posted inflows of $15.6bn, while EM bonds registered outflows of $2.0bn.



Source: OCBC Bank, EPFR

Thank You

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