



Weekly Macro Views (WMV)

Treasury Research & Strategy (21st September 2021)

Weekly Macro Update

Key Global Events for this week:

20 th September	21 st September	22 nd September	23 rd September	24 th September
<ul style="list-style-type: none"> - HK CPI Composite YoY - GE PPI - PH BoP Overall - UK Rightmove House Prices MoM - US NAHB Housing Market Index - CA Teranet/National Bank HPI MoM 	<ul style="list-style-type: none"> - US Housing Starts - ID Bank Indonesia 7D Reverse Repo - US Current Account Balance - JN Machine Tool Orders YoY - UK PSNB ex Banking Groups - NZ Credit Card Spending YoY 	<ul style="list-style-type: none"> - JN BOJ Policy Balance Rate - US MBA Mortgage Applications - US Existing Home Sales - EC Consumer Confidence - SI Automobile COE Open Bid Cat A 	<ul style="list-style-type: none"> - UK Bank of England Bank Rate - US FOMC Rate Decision (Upper Bound) - US Initial Jobless Claims - SI CPI YoY - GE Markit/BME Germany Manufacturing PMI 	<ul style="list-style-type: none"> - GE IFO Business Climate - US New Home Sales - JN Jibun Bank Japan PMI Mfg - NZ Trade Balance NZD - JN Natl CPI YoY - SI Industrial Production YoY - GE IFO Expectations - TH Foreign Reserves

Summary of Macro Views:

Global	<ul style="list-style-type: none"> • Global: Central banks • Global: US industrial production slows • Global: US CPI under expectations in Aug • Global: US retail sales surprise on the upside • Global: EU invests in blockchain technology
Asia	<ul style="list-style-type: none"> • SG: Job vacancies hit record high in June • SG: NODX slowed more than expected in Aug • HK: Set to launch southbound bond connect • Macau: Consultation on revising the gambling law

Asia	<ul style="list-style-type: none"> • CH: No change of narratives • CH: Softening property market • CH: Evergrande - Things to watch out for
Asset Class	<ul style="list-style-type: none"> • FX & Rates: USD and UST yields slightly higher
Asset Flows	<ul style="list-style-type: none"> • Asset Flows

Global: US debt ceiling a continuing concern

- US Treasury Secretary Yellen also warned that Congressional failure to raise the federal debt ceiling would trigger a default that could roil the US economy into a recession and could emerge permanently weaker.
- **Other key developments:** The development of Evergrande debt crisis is expected to continue to dominate China headline. From macro perspective, two things we pay more attention to include company's off-balance sheet liability as well as possible contagion via its related financial institutions as well as suppliers.
- **Key data release are as follows:**
 - 20th September: HK CPI Composite YoY, GE PPI, PH BoP Overall, UK Rightmove House Prices MoM, US NAHB Housing Market Index, CA Teranet/National Bank HPI MoM
 - 21st September: US Housing Starts, ID Bank Indonesia 7D Reverse Repo, US Current Account Balance, JN Machine Tool Orders YoY, UK PSNB ex Banking Groups, NZ Credit Card Spending YoY
 - 22nd September: US MBA Mortgage Applications, US Existing Home Sales, JN BOJ Policy Balance Rate, EC Consumer Confidence, SI Automobile COE Open Bid Cat A
 - 23rd September: UK Bank of England Bank Rate, US Initial Jobless Claims, US FOMC Rate Decision (Upper Bound), SI CPI YoY, GE Markit/BME Germany Manufacturing PMI
 - 24th September: GE IFO Business Climate, US New Home Sales, JN Jibun Bank Japan PMI Mfg, NZ Trade Balance NZD, JN Natl CPI YoY, SI Industrial Production YoY, GE IFO Expectations, TH Foreign Reserves

Global: Central Banks

Forecast – Key Rates

Bank
Indonesia (BI)



Tuesday,
21 September

Bank of Japan
(BoJ)



Wednesday,
22 September

Federal Open
Market Committee
(FOMC)



Thursday,
23 September

Bank of England
(BoE)



Thursday,
23 September

House Views

7D Reverse Repo
Likely **hold** at
3.50%

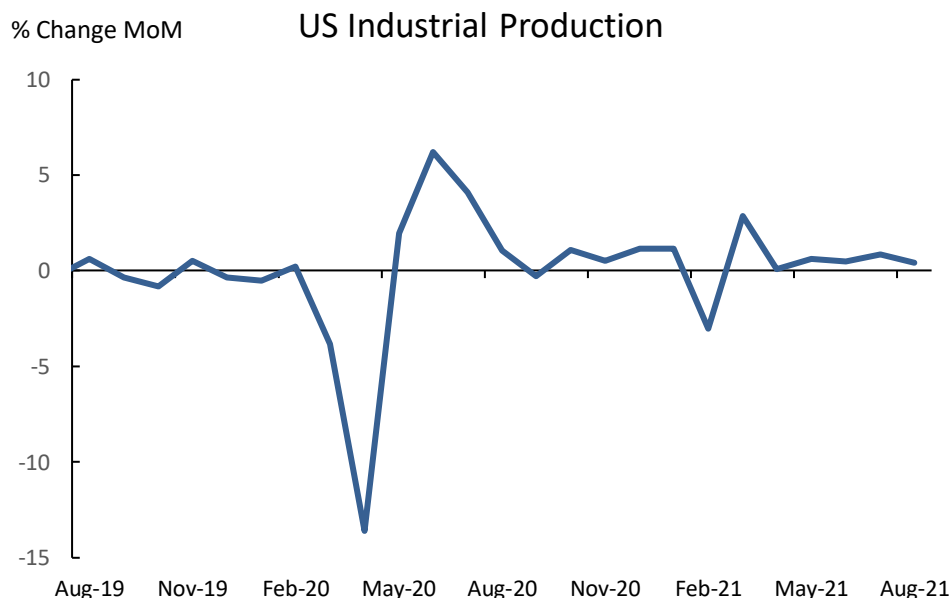
Policy Balance Rate
Likely **hold** at
-0.10%

Policy Interest Rate
Likely **hold** at
0.25%

Bank Rate
Likely **hold** at
0.10%

Global: US industrial production slows

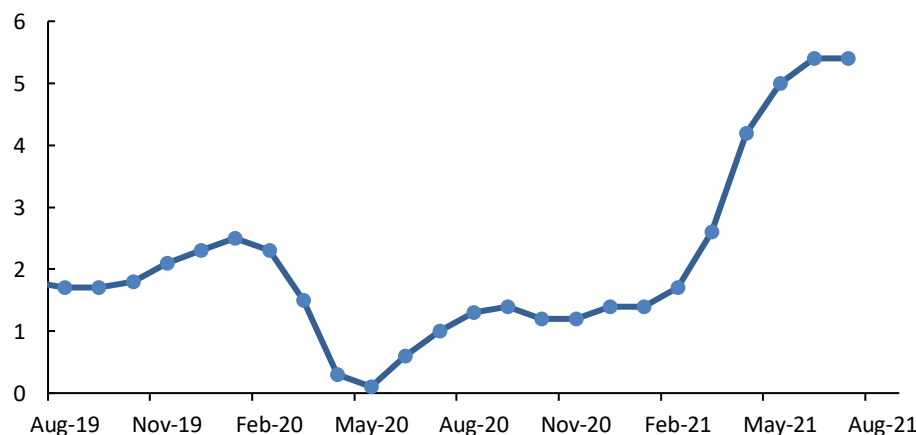
- U.S. industrial production rose 0.4% mom in August after a 0.8% mom gain in July. The increase was below consensus estimates of a 0.5% mom gain.
- This is the sixth straight gain in industrial output. Production, however, has not surpassed its pre-COVID peak.
- The Fed expressed that late month shutdowns relating to Hurricane Ida held down production by about 0.3% mom.
- Capacity utilization rose to 76.4% in August, the highest rate since December 2019.



Global: US CPI under expectations in Aug

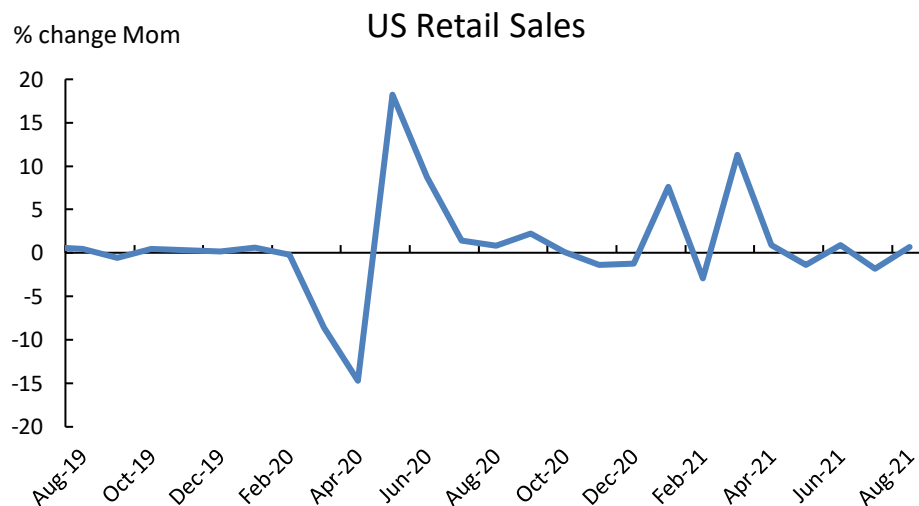
- Consumer prices increased 5.3% yoy and 0.3% mom in August. Both prints were slightly below market consensus of 5.4% yoy and 0.4% mom respectively.
- Excluding volatile food and energy prices, the CPI rose 0.1% mom vs the 0.3% mom estimate, and 4% yoy vs the expectation of 4.2% yoy.
- Energy prices accounted for much of the inflation increase for the month, with the broad index up 2% mom and gasoline prices rising 2.8% mom.
- Food prices increased 0.4% yoy while energy is up 25% from a year ago and gasoline has surged 42% during the same period.
- Used car and truck prices, which was a major feeder of the headline inflation, fell 1.5% mom in August but are still up 31.9% yoy.

United States Consumer Price Index (% YoY)



Global: US retail sales surprise on the upside

- Retail sales rose 0.7% mom in August, a surprise from consensus estimates of a 0.7% mom drop. The print was up from a decrease of 1.8% mom in July.
- The surprising improvement in sales, likely boosted by back-to-school shopping and payments for families with children. The report showed increase of receipts at online retailers, general merchandise stores, furniture outlets and grocery stores.
- According to the US Commerce Department, 10 of 13 categories registered sales increases. Sales decreased at car dealers, electronics and appliances outlets and sporting goods and hobby stores.
- Receipts at restaurants and bars stagnated in August while grocery-store receipts climbed 2.1% mom. Motor vehicle and parts sales fell 3.6% mom in August after a 4.6% mom fall in July.



Global: AUKUS security alliance

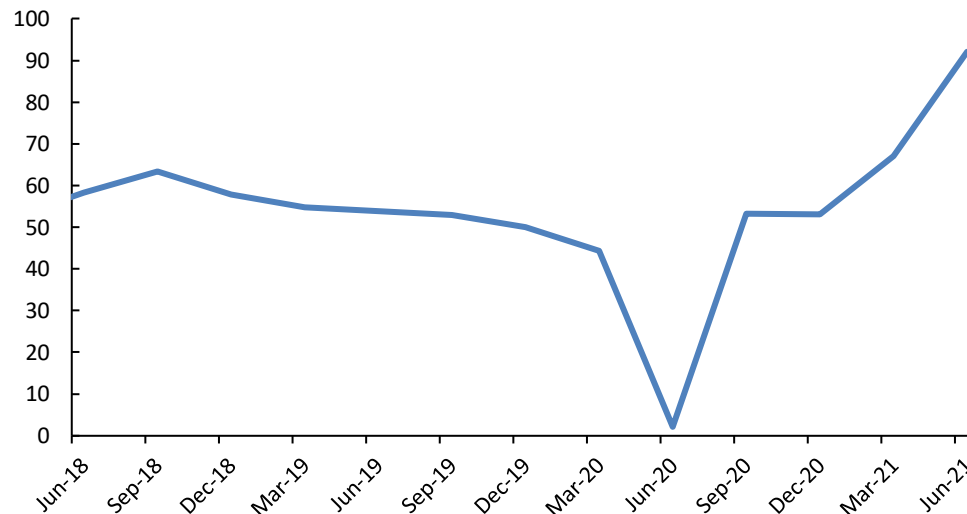
- The UK, US and Australia have announced a historic security pact in the Asia-Pacific
- The pact will allow Australia to build nuclear-powered submarines using technology provided by the US. While Australia's submarines is the big-ticket item, AUKUS will also involve the sharing of cyber capabilities and other undersea technologies.
- The new partnership was announced in a joint virtual press conference between US President Joe Biden, UK Prime Minister Boris Johnson and his Australian counterpart Scott Morrison on 15th September.
- Chinese Foreign Ministry spokesman Zhao Lijian mentioned the alliance "seriously undermines regional peace and stability and intensifies the arms race".



SG: Job vacancies hit record high in June

- The job vacancy hit a record high of 92.1k in June, there were 163 openings per 100 unemployed persons in June.
- The ratio of job vacancies to unemployed person increased to more than 1 for the first time since March 2019.
- Resident unemployment continued to ease for Q2 2021 with seasonally adjusted unemployment at 2.7% in June.
- MOM noted that the labour market performance remains uneven across sectors, with some sector such as F&B experiencing temporary easing of demand. This led to an overall rise in employees who were placed on temporary layoffs.

Singapore job Vacancies '000s

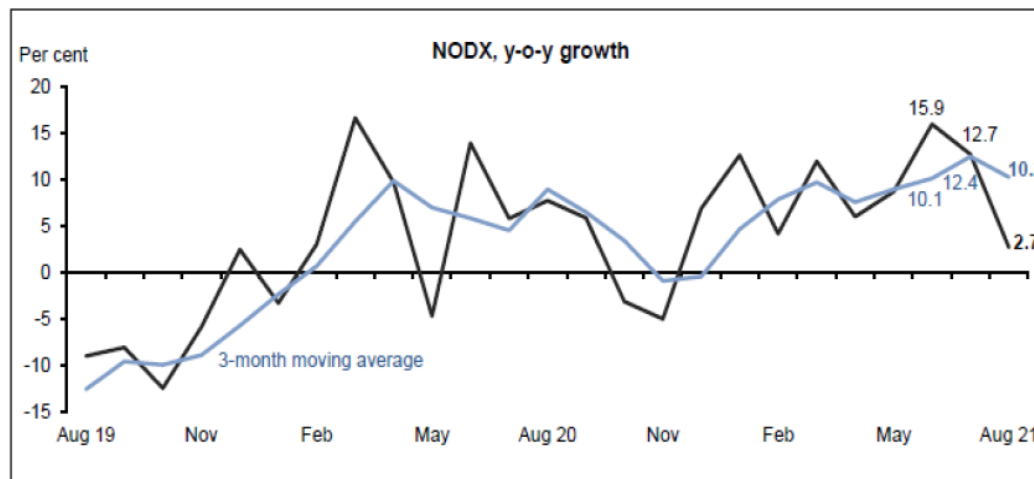


OCBC Bank

Source: OCBC, Bloomberg

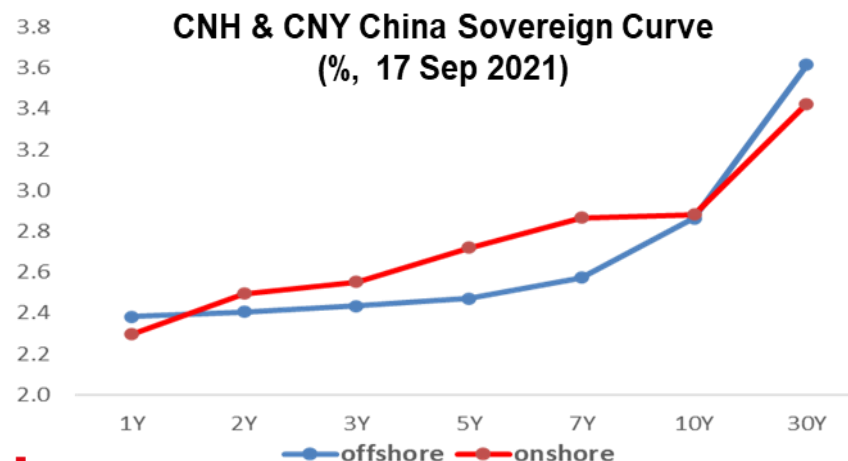
SG: NODX slowed more than expected in Aug

- August NODX moderated more than expected from 12.7% yoy (-0.9% mom sa) in July to just 2.7% yoy (-3.6% mom sa) in August, the slowest since November 2020. Consensus estimates were expecting 2.4% mom in August.
- Electronics exports improved from 15.0% yoy to 16.7% yoy in August.
- Eight of the top ten NODX markets saw positive NODX growth in August, led by Taiwan (+50.6% yoy), Hong Kong (+22.8% yoy) and Malaysia (+17.9% yoy).
- With the gradual relaxation of Covid restrictions in regional economies who are Singapore's key trading partners as vaccination rates improve, and a less challenging base for the remaining months of the year, our 8% yoy NDOX forecast remains intact.



HK: Set to launch southbound bond connect

- The long-awaited Southbound Bond Connect will be launched this Friday (24th Sep) with annual aggregate quota of RMB500 billion and daily quota of RMB20 billion.
- Since onshore bonds may be sufficiently attractive at this juncture while only 41 banks, QDII and RQDII are allowed to participate in the new connect scheme, net inflows under the new connect scheme may not be so strong.
- Having said that, China's onshore investors may try to diversify the portfolio with offshore assets. As such, we expect some interests in the southbound bond connect. If offshore bonds can be used as collateral in onshore repo market, the new connect scheme may be more appealing.
- Going forward, the new connect scheme will become a new source of offshore RMB liquidity, bring in new participants to Hong Kong's bond market, provide a new channel to digest the abundant onshore USD liquidity, and promote RMB internationalization in the longer term.



OCBC Bank

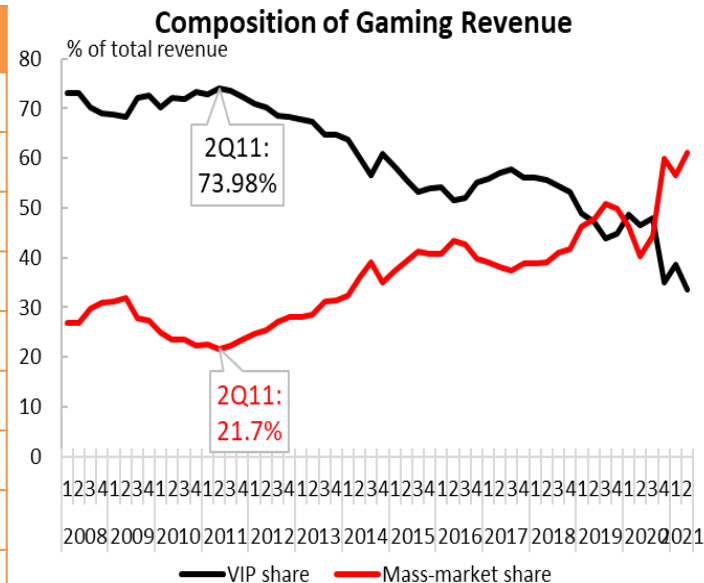
Source: Bloomberg, OCBCWH

Macau: Consultation on revising the gambling law

- As six casino licenses will expire next June, Macau government will kick start a 45-day public consultation on 15th September regarding the revision to Macau's gambling laws.
- The upcoming revamp of gambling laws indicates that China will tighten the grip on the sector in order to crack down on money laundering, illegal capital outflows and overseas gambling trips organized by junket operators. Since gaming sector contributes largely to both GDP (over 50%) and the government's tax revenue (up to 80%) while economic diversification takes some time, Macau's economy and labour market may not easily return to the pre-pandemic level in the near term should gaming sector face mounting pressure.

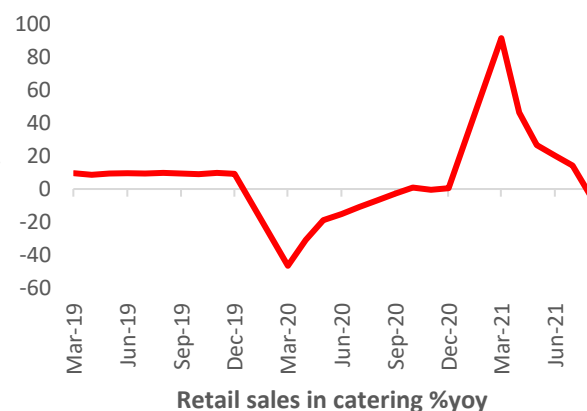
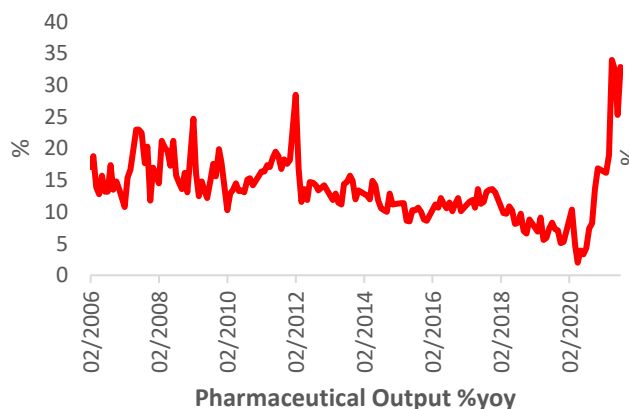
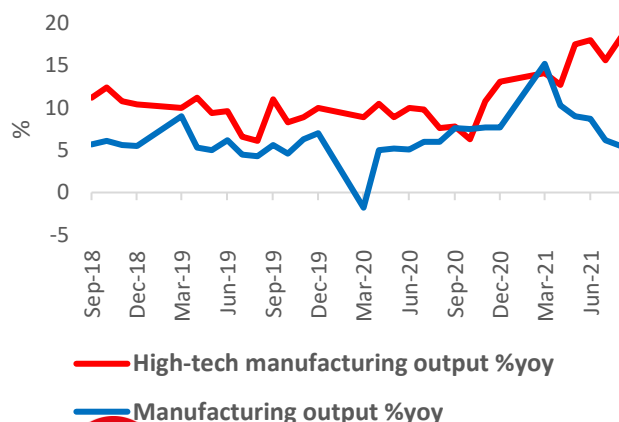
Topics of the Consultation

the number of concessions
the terms of the concession
tightening the restrictions on the casino companies
safeguarding employees
strengthen the scrutiny scheme for casino companies, junket operators and co-operators
appointing government representatives to directly oversee the casino operators
promoting non-gaming projects
social responsibility
clarifying new criminal responsibility and administrative punishment system



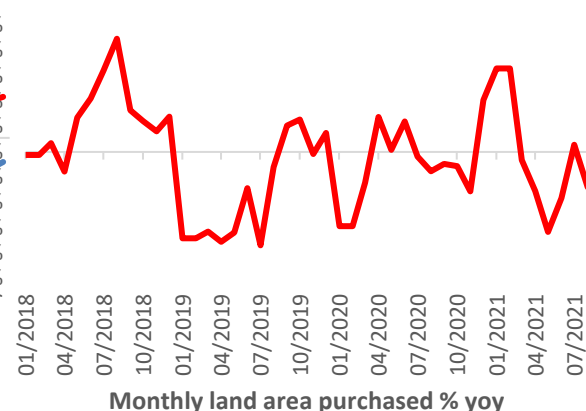
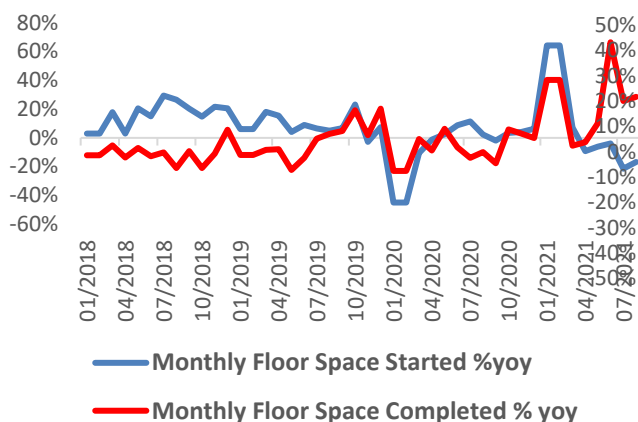
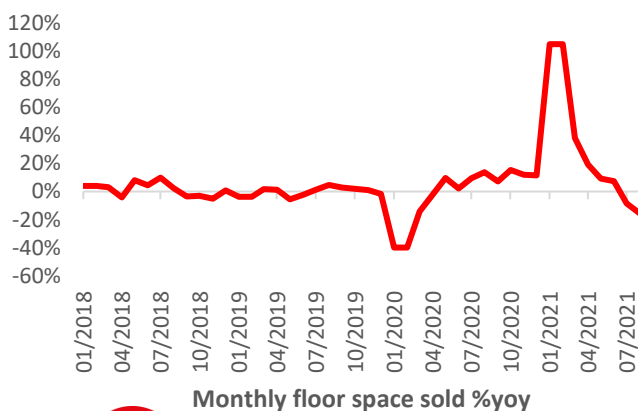
China: No change of narratives

- China's August economic indicators certainly disappointed with consumption missed the forecast by a big margin. Nevertheless, after looking at the industrial and sectoral breakdowns of those major indicators in details. Those numbers have not changed the narratives about China's economic fundamental though two new challenges have been confirmed.
- First, China's zero tolerance approach towards Covid-19 means more short-term disruption to economic activities. Second, China's road to technology self-sufficiency means more investment in high-tech industries. Third, the recent outbreak of delta variants in ASEAN may prolong China's first in first out benefit with the pause of supply chain shift. Fourth, infrastructure investment is likely to be one of the main drivers to Chinese growth in 2022.



China: Softening property market

- All property related data in August pointed towards further slowdown in the coming months. Property sales fell by 15.5% yoy in the month of August probably due to tightening mortgage standard. Floor space started in August fell by 16.8% yoy while floor space completed rose by 28.4% yoy in August. The divergence between floor space started and completed showed the increasing funding pressures for developers. Therefore, developers have to accelerate the completion and slow down the new projects to recycle their capitals. As such, it is not surprising to see land purchased by developers in August fell by 13.9% yoy.
- Despite the drag on China's growth, Chinese government is unlikely to roll back its curb in property market. This may create downside risk to China's growth. But we are in no rush to revise our GDP forecast.



China: Evergrande - Things to watch out for

- Total market cap of Evergrande has been less than one tenth of more than CNY300 billion net assets in company's balance sheet.
- Evergrande has pledged to assure buyers the delivery of uncompleted projects as well as repaying all matured wealth management products. But those two pledges look increasingly contradictory given a more hostile market environment with situation deteriorated day by day.
- We are not in any position to speculate the future path of the indebted company. It remains to be seen whether the current crisis is a liquidity crunch or a straw breaking camel's back which will lead to eventual insolvency of the company.
- From macro perspective, two things we pay more attention to include company's off-balance sheet liability as well as possible contagion via its related financial institutions as well as suppliers. With more focus shifting to Evergrande, the size of off-balance sheet liability is likely to be uncovered gradually. Whether it will exceed the net assets of more than CNY300 billion in its balance sheet will be the key.
- In addition, although Evergrande started to reduce its equity stakes in Shengjing bank, the largest city commercial bank in Northeast China, the previous tie-up may return to the spotlight during the debt restructuring process.



Foreign Exchange & Interest Rates

FX & Rates: USD and UST yields slightly higher

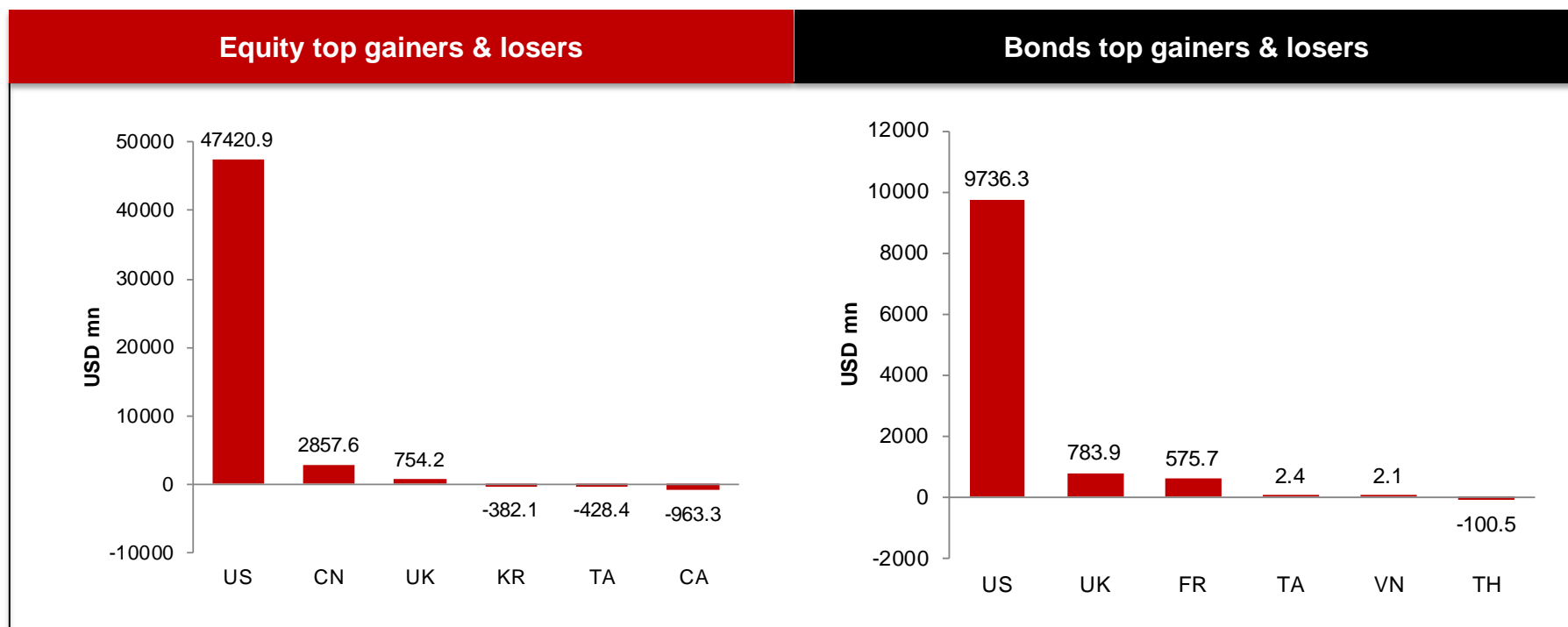
- With US equities and US Treasuries selling off on Friday, this gave a rather risk-off start to the week. The FX Sentiment Index (FXSI) is nearer Risk-Off. The broad USD ended the past week on a strong note, with the DXY Index back above the 93.00 handle. USD gains were broad-based.
- Overall, near term technicals favour the USD. Short AUD is still our main expression of USD strength, though we are wary of a short-squeeze should the Fed be less hawkish than expected.
- UST yields have edged higher running into the September FOMC. Apart from the message on tapering, the market also watch if the Fed's median dot is brought forward to 2022. If that happens then Eurodollar futures may turn more hawkish in line with the tendency to be ahead of the dot-plot. Having broken the 200DMA, the 10Y yield's next key level is at 1.42%, while the downside sits at 1.29%.
- Treasury Yellen again warned of the ramifications if the debt ceiling is not raised or suspended. Treasury's bill paydown is set to accelerate further this week, to USD116bn. Meanwhile, usage at the Fed's o/n reverse repo reached a fresh high of USD1.218trn on Friday.



Asset Flows

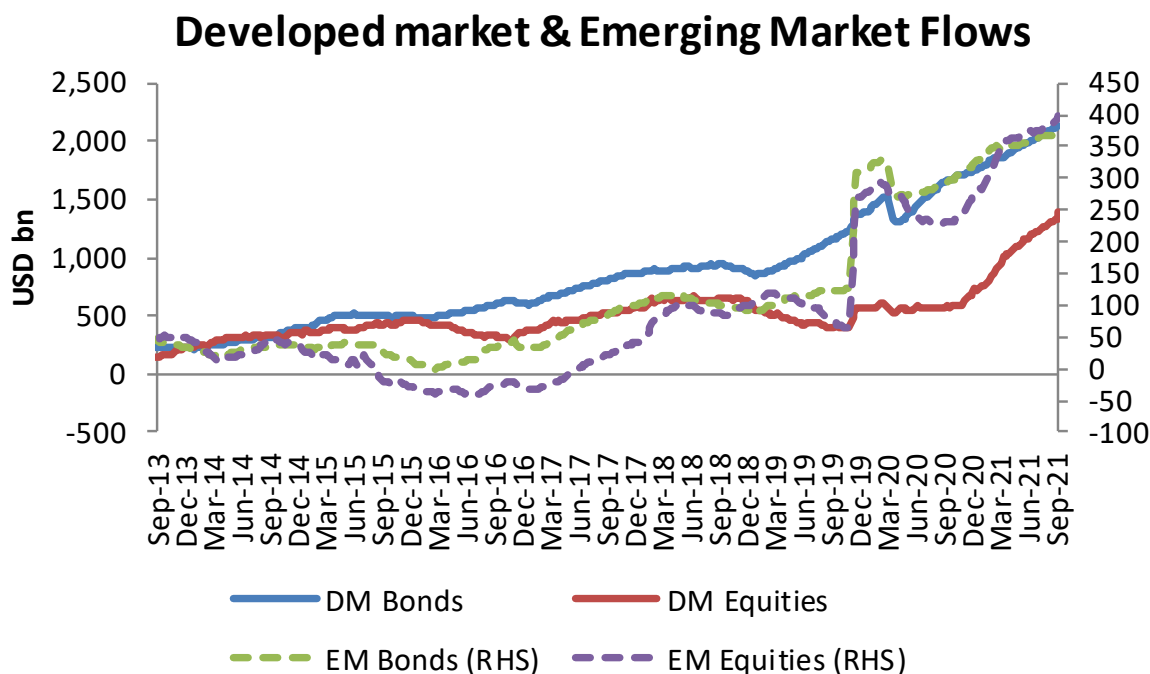
Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 15th August amounted to \$51.1bn, an increase from the inflow of \$12.6bn last week. Global bond market saw inflows amounting to \$16.0bn, an increase from last week's inflows of \$12.4bn.



DM & EM Flows

- DM equities saw \$18.9bn worth of inflows while the EM-space registered \$4.8bn worth of inflows.
- Elsewhere, the DM bond space posted inflows of \$12.0bn, while EM bonds registered inflows of \$470.6mn.



 Thank You

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