Weekly Macro Views (WMV)

Treasury Research & Strategy (22 June 2021)

Weekly Macro Update

Key Global Events for this week:

21st June	22nd June	23rd June	24th June	25th June
- TA Export Orders - NZ Credit Card Spending - PH Budget Balance - PH BoP Overall - SK PPI - US Chicago Fed Nat Activity Index	- JN Jibun Bank Japan PMI - US Existing Home Sales - HK CPI Composite - EC Consumer Confidence - TA Unemployment Rate	- SG CPI - TH BoT Benchmark Interest Rate - US MBA Mortgage Applications - US Markit Mfg PMI - US New Home Sales - CA Retail Sales - EC Composite PMI	- US Initial Jobless Claims - US Annualized 1Q GDP - UK BoE Bank Rate - PH BSP Overnight Borrowing Rate - GE IFO Business Climate	- US Uni of Michigan Sentiment - US Core PCE Deflator - US Personal Spending - VN CPI - SG Industrial Production - TH Foreign Reserves - MA CPI

Summary of Macro Views:

Global	• **Global:** Fed officials in focus this week • **Global:** Central banks • **Global:** US May retail sales suffers decline • **Global:** UK May inflation causes worry • **Global:** FOMC hawkish surprise
Asia	• **SG:** NODX continues surge in May • **SG:** MAS SPF shows positive outlook for S'pore • **HK:** Unemployment rate dropped rapidly • **Macau:** Holidays helped to revive inbound tourism

Asia	• **CH:** PBoC in full control • **CH:** Growth momentum may have peaked • **MY:** Shots needed • **ID:** The Covid-19 wave hits again • **ID:** The impact remains uncertain
Asset Class	• **Commodities:** The week ahead • **Oil:** US, China demand remain strong • **Gold:** Heavy selling after FOMC • **FX & Rates:** USD (finally) back in favour
Asset Flows	• **Asset Flows**

OCBC Bank

Source: OCBC, Bloomberg

Global: Fed officials in focus this week

- Markets continue their post-FOMC slump as prospects of an impending rate normalisation cycle continues to keep a lid on risk sentiment. A busy week of Fed talk lies ahead, with the key speech being Fed Chair Powell's testimony before Congress tomorrow. Other Fed speakers include Bullard, Kaplan, Williams, Mester, Daly, Bowman, Bostic, Rosengren and Harker – the latter two of which are among the most hawkish in the current FOMC. Further hints of hawkishness may further dampen risk appetite.
- **Other key developments:**
  - Dining in will resume today in Singapore, though the maximum group size has been reduced from 5 to 2 due to the emergence of new clusters.
- **Key data release are as follows:**
  - 21st June: TA Export Orders, NZ Credit Card Spending, PH Budget Balance, PH BoP Overall, SK PPI, US Chicago Fed Nat Activity Index
  - 22nd June: JN Jibun Bank Japan PMI, US Existing Home Sales, HK CPI Composite, EC Consumer Confidence, TA Unemployment Rate
  - 23rd June: SG CPI, TH BoT Benchmark Interest Rate, US MBA Mortgage Applications, US Markit Mfg PMI, US New Home Sales, CA Retail Sales, EC Composite PMI
  - 24th June: US Initial Jobless Claims, US Annualized 1Q GDP, UK BoE Bank Rate, PH BSP Overnight Borrowing Rate, GE IFO Business Climate
  - 25th June: US Uni of Michigan Sentiment, US Core PCE Deflator, US Personal Spending, VN CPI, SG Industrial Production, TH Foreign Reserves, MA CPI

Global: Central Banks

Forecast – Key Rates

Bank of Thailand (BoT)	Central Bank of Philippines (BSP)	Bank of England (BoE)
Wednesday, 23 June	**Thursday, 24 June**	**Thursday, 24 June**

House Views

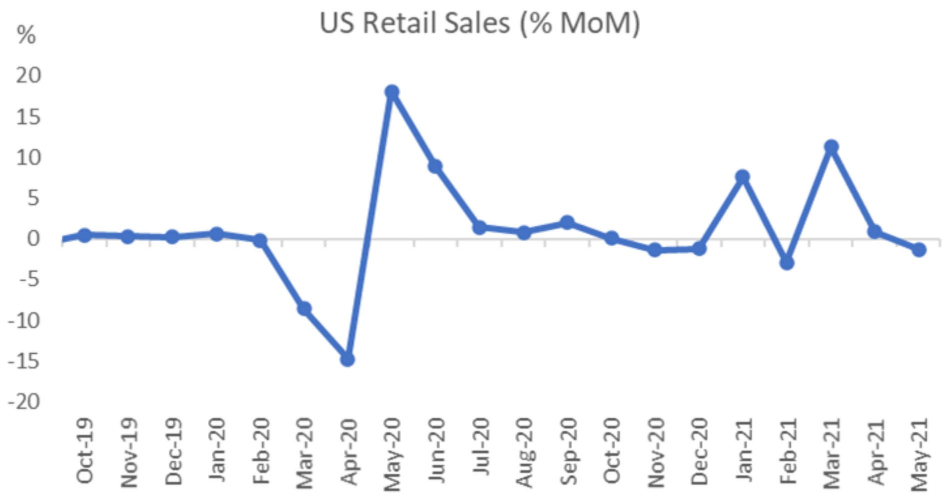
Benchmark Interest Rate	*Overnight Borrowing Rate*	*Bank Rate*
Likely hold at 0.50%	**Likely hold at 2.00%**	**Likely hold at 0.10%**

OCBC Bank

Source: OCBC, Bloomberg

Global: US May retail sales suffers decline

- Retail sales in May declined 1.3% mom, lower than expectations of a 0.8% mom dip. Excluding auto sales, retail sales fell 0.7% mom vs expectations of a 0.4% mom gain.
- The fall in spending was largely attributed to a decline in auto dealerships which fell 3.7% mom, along with a 5.9% mom decrease in building materials.
- Meanwhile, increased spending on services were noted where spending at restaurants and bars rose 1.8% mom.
- and will likely rise in the coming months as the hospitality sector resume their operations.

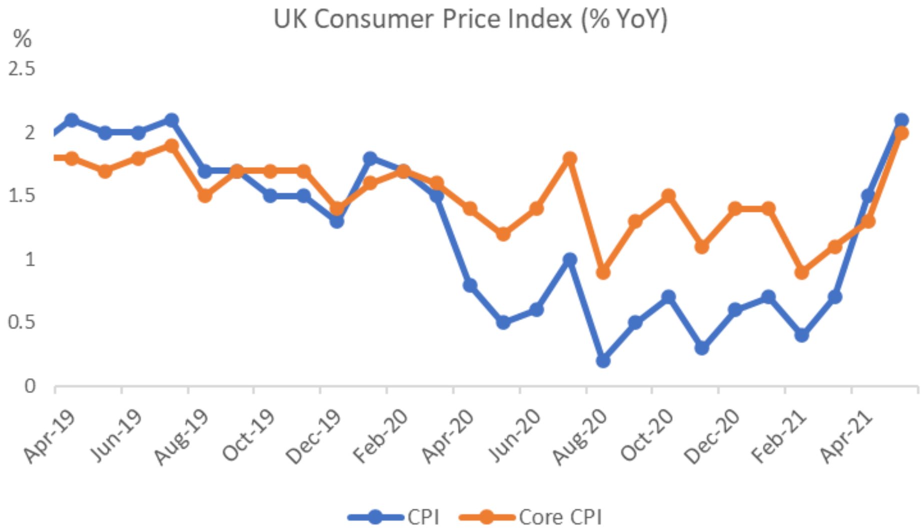


OCBC Bank

Sources: Bloomberg, OCBC

Global: UK May inflation causes worry

- UK CPI surged more than expected to 2.1% yoy in May. Core inflation also rose to 2.0% yoy, the highest since Aug 2018.
- The jump came stemmed largely from higher fuel prices which rose 18.0% yoy, followed by a 2.1% yoy increase in clothing and footwear as more shoppers return to high streets following the relaxation of lockdown measures.
- Echoing the Fed, BoE officials have largely deemed the firm print as “transitory” and is unlikely to move the needle in their policy stance in the central bank meeting this week.



OCBC Bank

Sources: Bloomberg, OCBC

Global: FOMC hawkish surprise

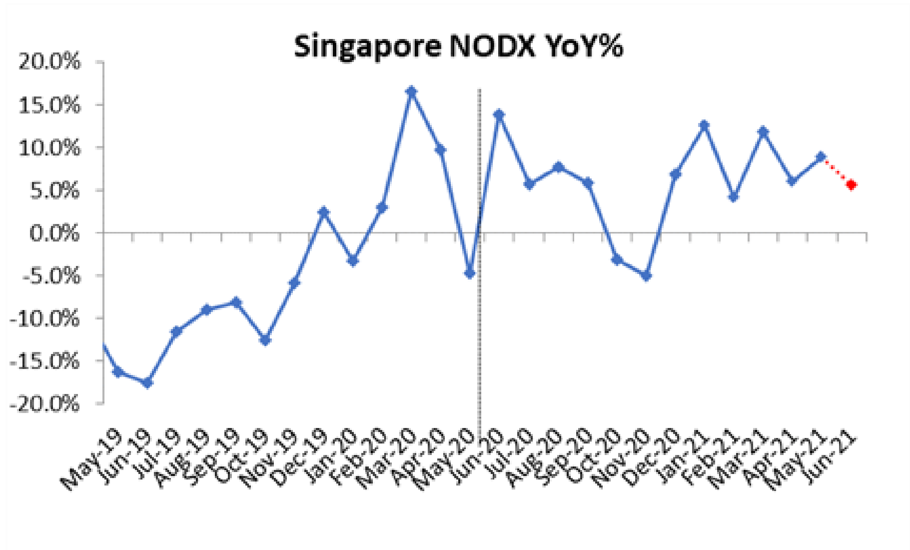
- The Fed left interest rates unchanged at 0.00-0.25% and other policy tools static.
- Dots plot now points to 7 and 13 Fed members in favour of a rate hike in 2022 and 2023 respectively (up from 1 and 4 previously).
- The Fed will also continue to purchase assets at USD120bn per month until “substantial progress has been made” on employment and inflation numbers.
- The median GDP forecast for the year was elevated to 7.0% yoy from 6.5% yoy and the PCE inflation estimate rose from 2.4% yoy to 3.4% yoy.
- This week’s slew of Fed speak will be closely watched by markets as investors will be on the lookout for greater clarity on the Fed’s future policy direction.

OCBC Bank

Sources: Bloomberg, OCBC

SG: NODX continues surge in May

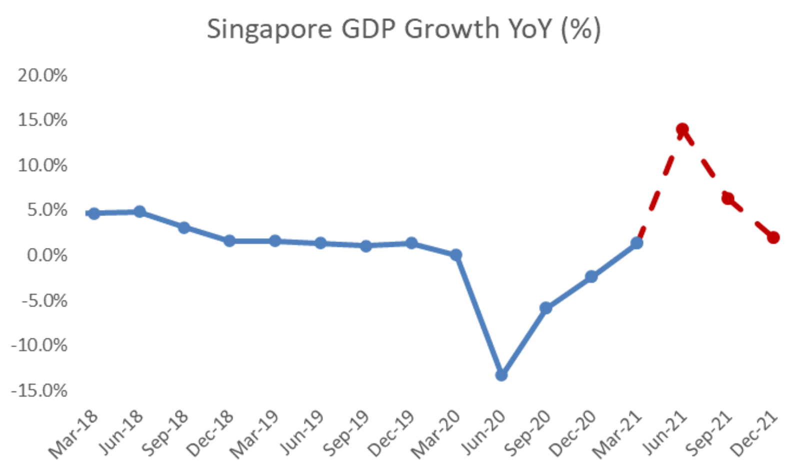
- S’pore NODX continued its rally increasing 8.8% yoy in May but fell short of our estimates of 16.8% yoy.
- Electronic exports remained strong with a double-digit clip of 11.0%. As the chip shortage and the work-from-home trend continues to persist, S’pore exports stands to gain in the short term.
- We expect S’pore NODX to contract 2.5% yoy in 3Q21 due to high base, but expand 1.1% yoy in 4Q21.



Sources: Bloomberg, CEIC, OCBC

SG: MAS SPF shows positive outlook for S'pore

- The latest MAS SPF showed analysts raising estimates that S'pore's GDP will grow by 6.5% yoy in FY2021, up from the previous 5.8% yoy forecasted.
- Further breakdown shows that analysts expect the growth to be led by sectors such as construction(19.3% yoy), manufacturing(8.3% yoy), accommodation & food services (6.5% yoy).
- Expectations are also for the economy to grow 15.0% yoy in Q2 due to the low base last year, where GDP growth dropped by 20.2% yoy due to the circuit breaker.

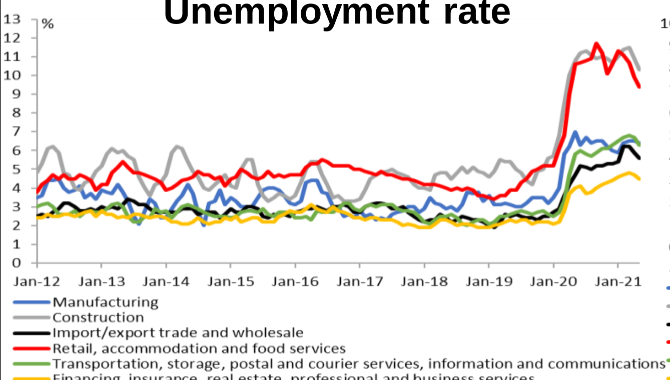


Sources: Bloomberg, OCBC

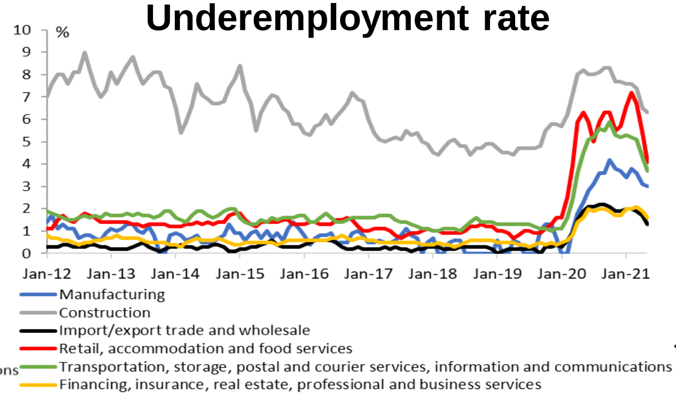
HK: Unemployment rate dropped rapidly

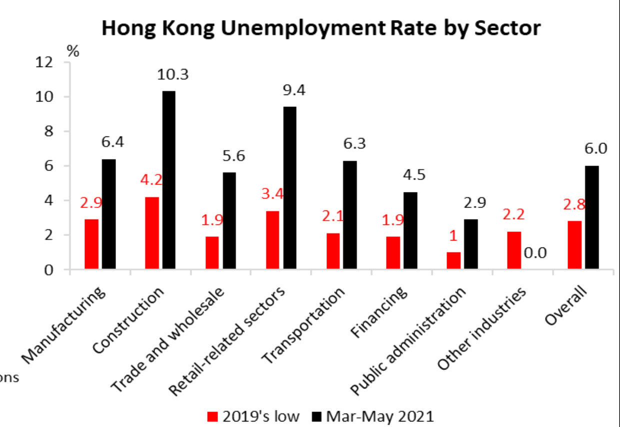
- Unemployment rate dropped further from 6.4% during February-April to 6.0% during three months to May, reaching a one-year low and beating the market expectations. During the same period, underemployment rate fell notably by 5 percentage point to 2.8%, owing to the gradual economic recovery and the well-contained local epidemic.
- On a positive note, Hong Kong's vaccination rate has been picking up. Meanwhile, the Consumption Voucher Scheme will be open for registration from 4 July with the first instalment to be distributed as early as 1 August. More notably, the government reportedly will shorten the hotel quarantine requirement to 7 days for travelers who have been fully vaccinated and passed an antibody test. All of these combined may further support economic recovery and in turn boost hiring sentiments. However, some sectors that rely heavily on tourists may not see any strong recovery until the border reopens. As such, though we expect overall jobless rate to fall towards 5% or even below this level in 2H, it may remain far away from the pre-pandemic level of sub-3%.

Unemployment rate



Underemployment rate

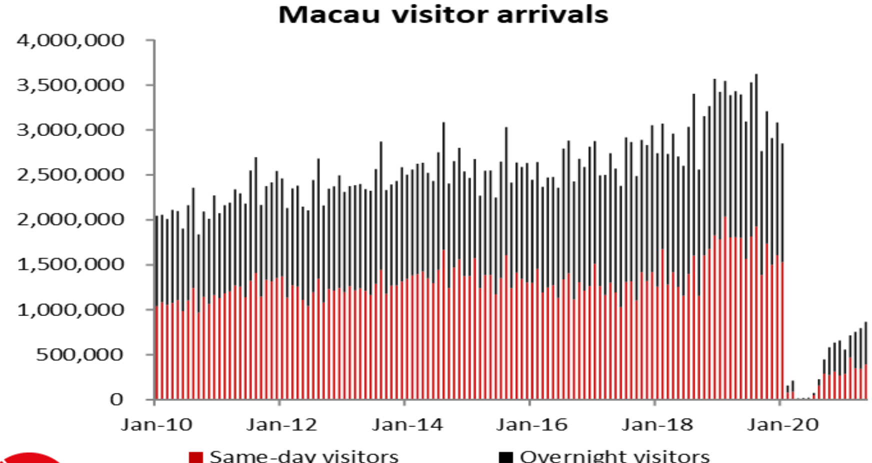


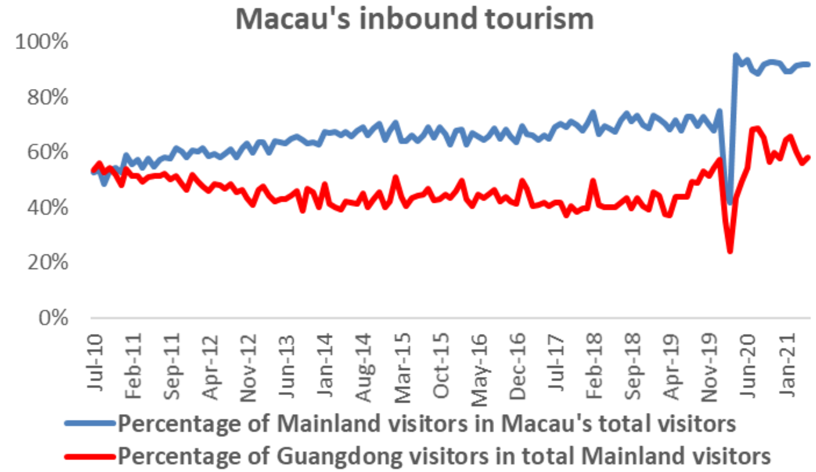


Source: HK Census and Statistics Department, OCBCWH

Macau: Holidays helped to revive inbound tourism

- Visitor arrivals increased by 5268.3% yoy and 9.0% mom to 866,063 in May. The strong rebound of the tourism sector was in line with the notable growth of gaming revenue in May, mainly attributable to the Labor Day holiday.
- However, total visitor arrivals were still 74.5% down from May 2019. Moving into June, the recovery may have slowed down amid the virus resurgence in some parts of China including Guangdong province which resulted in a tightening of Macau's travel restrictions on tourists from these places. Notably, visitors from Guangdong province took up 58.0% of Macau's total Mainland visitors in May.
- On a positive note, owing to the mass testing and rapid vaccination rate, China's Covid-19 infections have subsided. As such, the impact on Macau's tourism and gaming sectors may be transitory. That said, unless the border fully and safely reopens, we may not see the number of visitor arrivals returning to the pre-pandemic levels.

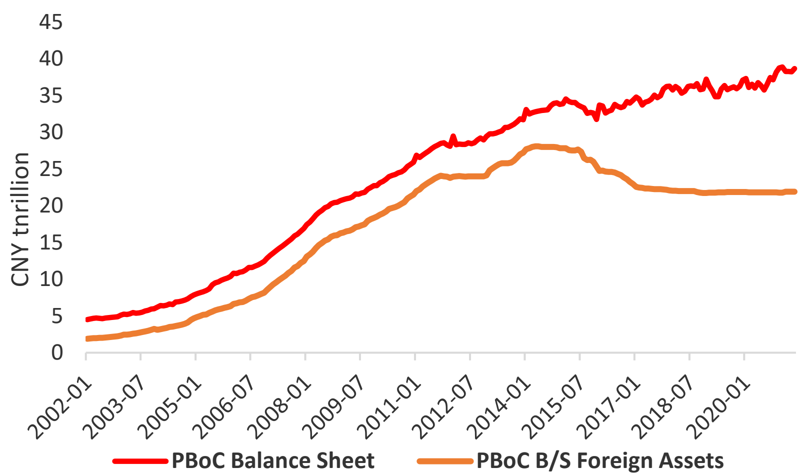


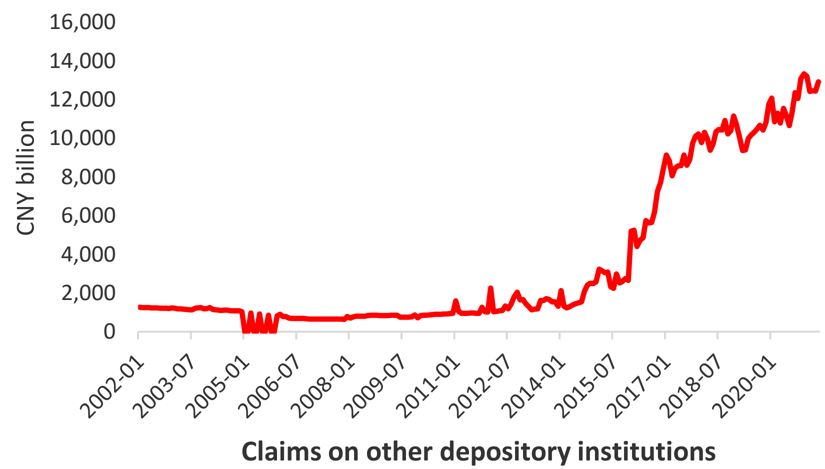


OCBC Bank Source: DSEC, OCBCWH

China: PBoC in full control

- The data from central bank balance sheet showed that the expectation on the falling excessive reserve in May was wrong. PBoC balance sheet expanded by CNY460 billion to CNY32.69 trillion, first expansion since January 2021.
- It was mainly supported by the increase of claims on other depository institutions, which increased by CNY469.7 billion unexpectedly despite PBoC's cautious open market operation. This indicates that PBoC may provide the funding support to the real economy via relending.
- From liquidity perspective, the unexpected rapid expansion of PBoC's claims on other depository institutions helped alleviate the concern about the falling excessive reserve in China's banking system.



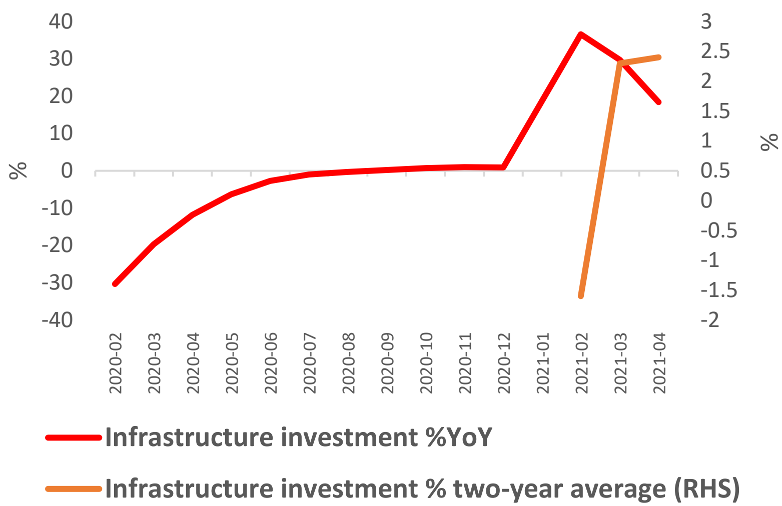


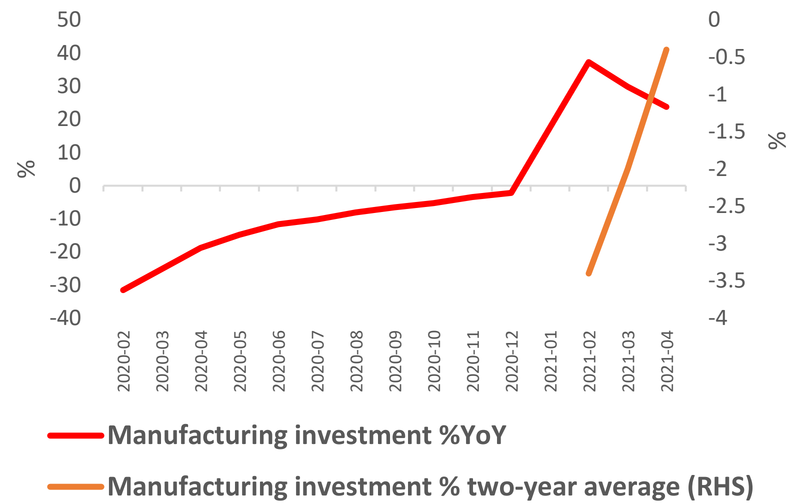
OCBC Bank

Source: Bloomberg, Wind, OCBC

China: Growth momentum may have peaked

- The deceleration of industry production on two-year average basis showed that China's recovery momentum may have peaked as support from external demand may have peaked due to gradual reopening of global economy.
- The bright spot came from the rebound of manufacturing investment, which rose by 0.6% yoy on two-year average in the first five months.
- This is the first time that manufacturing investment has returned to pre-pandemic level since the outbreak of Covid-19. The recovery of manufacturing investment will help China reduce its reliance on infrastructure investment.





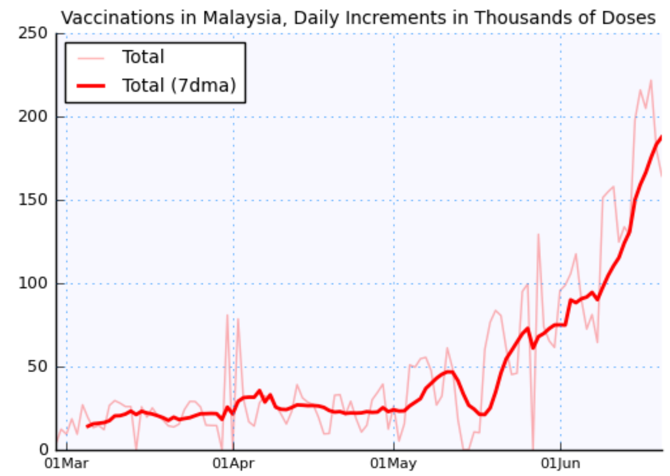
Source: Bloomberg, Wind, OCBC

Malaysia: Shots needed

- Malaysia's PM Muhyiddin Yassin announced what he calls the "National Recovery Plan". It is a roadmap showing how Malaysia can embark on a gradual easing of restrictions in the coming months, leading up to the grand destination of a full reopening by early November.
- This comes after his Jul 11th's announcement of a two-week extension of the Phase 1 restrictions, which impose a strict ban on most business activities, to June 28th because cases remained elevated. While cases have come down to around 5000 since then, it remains above the 4000-threshold that is seen essential for easing measures.
- Another stated criterion for moving to Phase 2 is that at least 10% of Malaysia's population of around 33mn have to be fully vaccinated by then. Even though inoculation rate has accelerated – with ~200k shots earlier this week – <5% are now fully vaccinated. To hit the 10% threshold, the remainder 1.89mn people have to receive their second jabs very soon.

Malaysia's National Recovery Plan

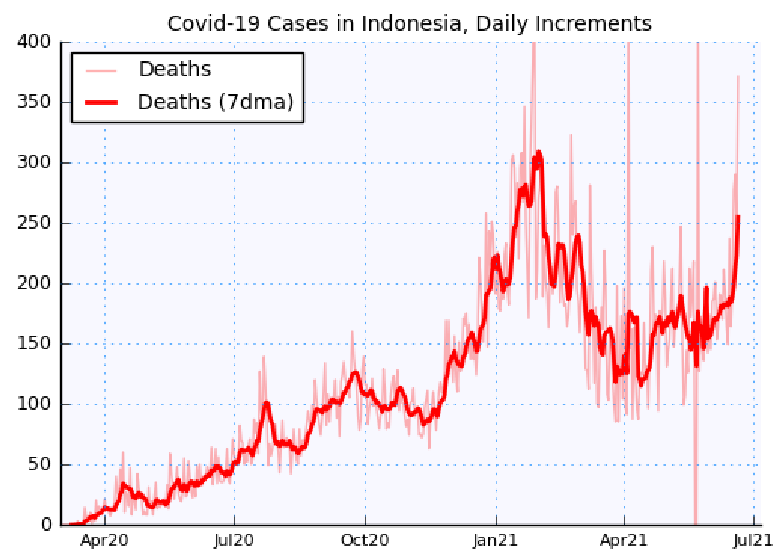
Dates		Jun 2021	Jul - Aug	Sep - Oct	Nov - Dec
Phases		Phase 1	Phase 2	Phase 3	Phase 4
		Essential Services Only	More businesses to open, interstate travel and social activities remain banned	All business activities, except those involving close contact and crowded spaces, to reopen.	Full reopening
Key Criteria to Move into the Phase	Average Daily Covid-19 Cases	>4000	<4000	<2000	<500
	ICU capacity	"Critical"	No longer "critical"	"Comfortable"	"Comfortable"
	% Population who are fully vaccinated	<10%	10%	40%	60%



Sources: OCBC, Bloomberg.

Indonesia: The Covid-19 wave hits again

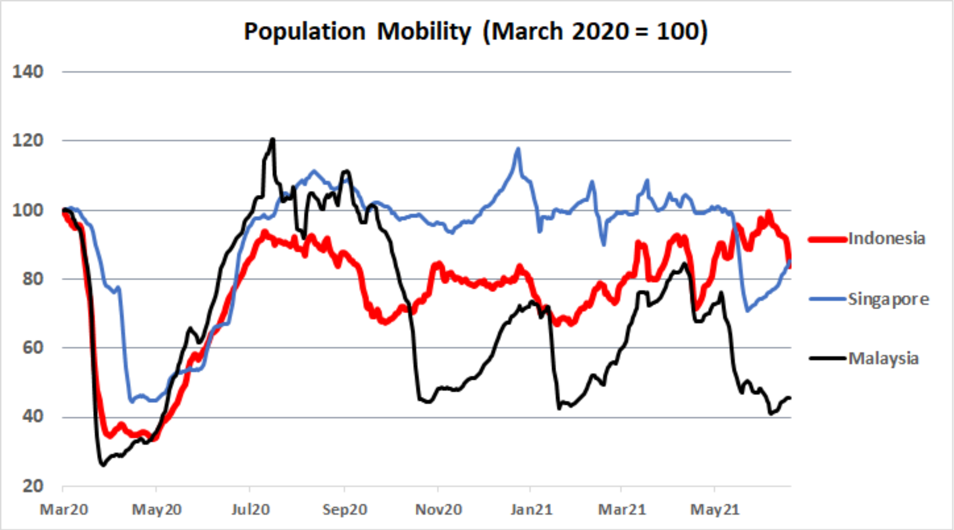
- However, the ongoing Covid-19 development is presenting the Indonesian economic recovery momentum with a fresh and formidable challenger. The new variant has appeared to become the driver of the latest surge in the outbreak across Indonesia.
- At first, it was the border provinces receiving returning migrant workers, but now, the more populous areas in Java including Jakarta are now seeing more upticks.
- No less concerning is the sense that the healthcare system is becoming more strained, with reports that Jakarta's hospital capacity is becoming scarce for instance, amid a pick-up in fatality rate.

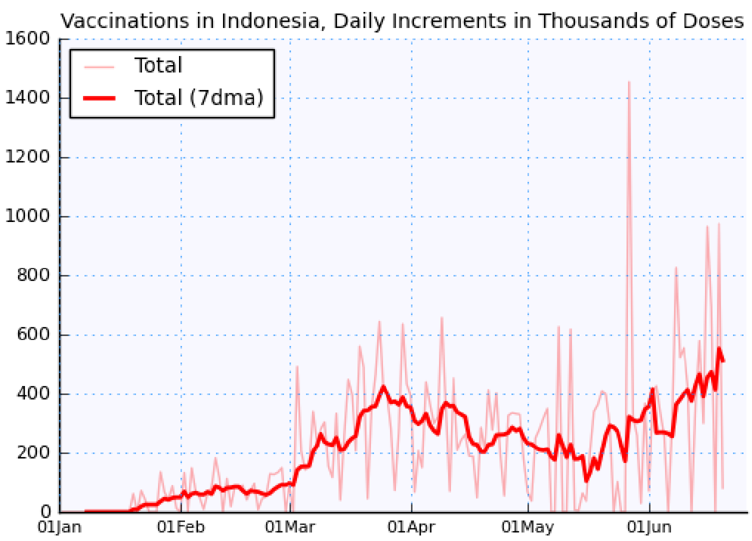


Sources: OCBC, Bloomberg.

Indonesia: The impact remains uncertain

- Given the fluid situation, it might remain too early to gauge the full impact on the economy in the near term. However, looking at the Apple Mobility Index, it appears that irrespective of the different degree of severity in the official restriction orders, Indonesians may have started to be more cautious about going out and about – relatively speaking.
- Judging from the post-Christmas outbreak, the current virus resurgence might still take 4-6 weeks to play out before peaking – and potentially longer given the more serious variant. Hence, we may see the economy losing further momentum in the near term.
- Going forward, the pace of vaccination in Indonesia will become increasingly important. Despite President Jokowi's urging for 1mn doses per day, the running average remains lower than that. With more supplies projected to come in, the pace may quicken hopefully.



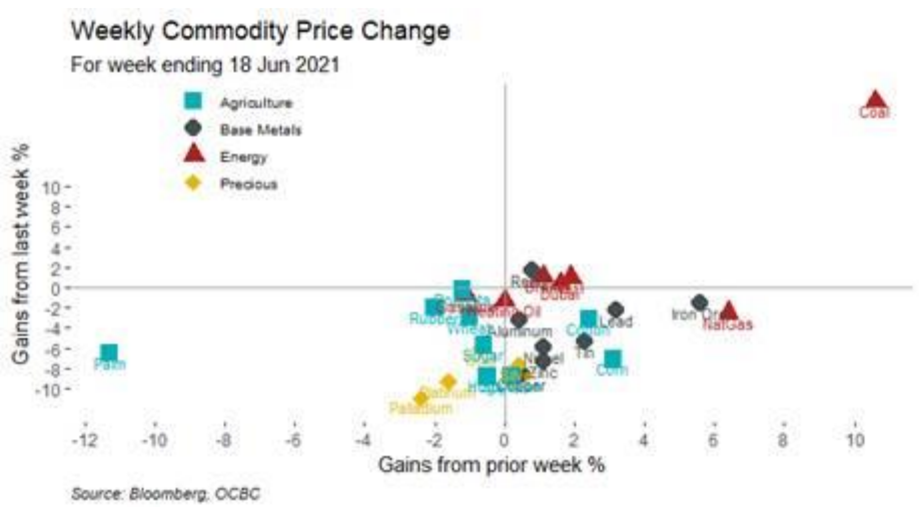


Sources: OCBC, Bloomberg.

Commodities

Commodities: The week ahead

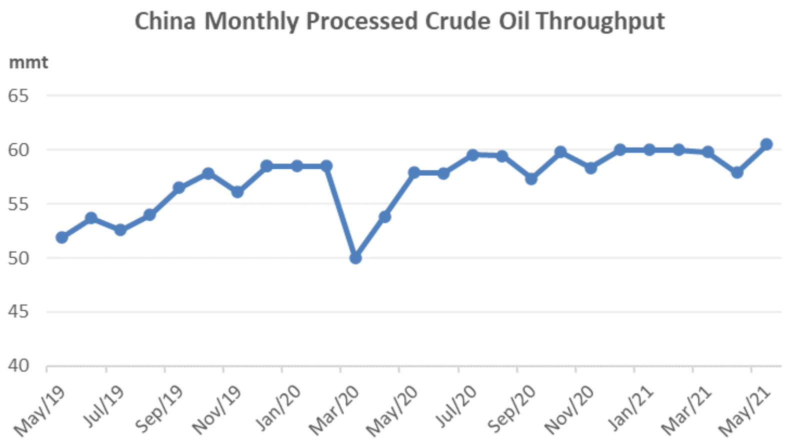
- With the broad exception of crude oil, commodities sunk across the board. Brent was up 1.1% on the week. Gold lost 6.0% on a hawkish FOMC.
- The slew of Fed speaking this week may further hurt global risk sentiment if officials continue to sound more hawkish than the market expects.
- US EIA weekly crude stocks on Thursday to ascertain the continued drawdown in US crude oil inventories.

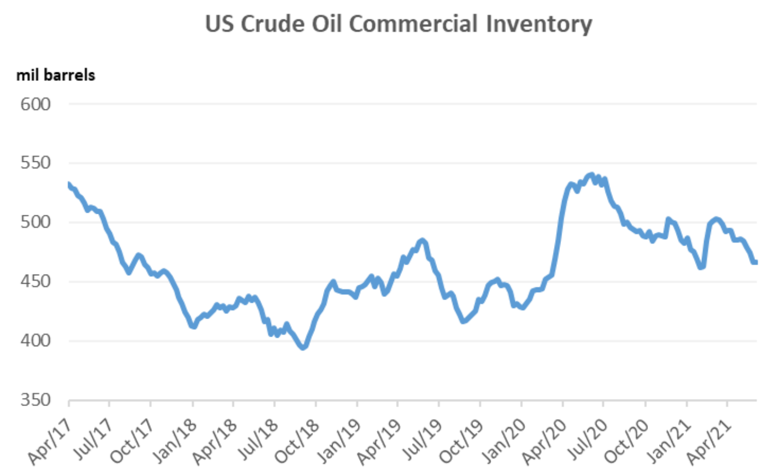


Sources: Bloomberg, CEIC, OCBC

Oil: US, China demand remain strong

- Industrial data from China last week showed crude oil demand (throughput) at a record high 60.5 million tons in May.
- Similar to crude steel, it further ascertains our hypothesis that while Chinese commodity imports may look weak, domestic demand in China for raw materials continue to remain strong.
- Two, US crude oil stocks have fallen to 466.7mil barrels, the lowest since the pandemic. It is premature to suggest oil demand has peaked and we see prices continuing higher.



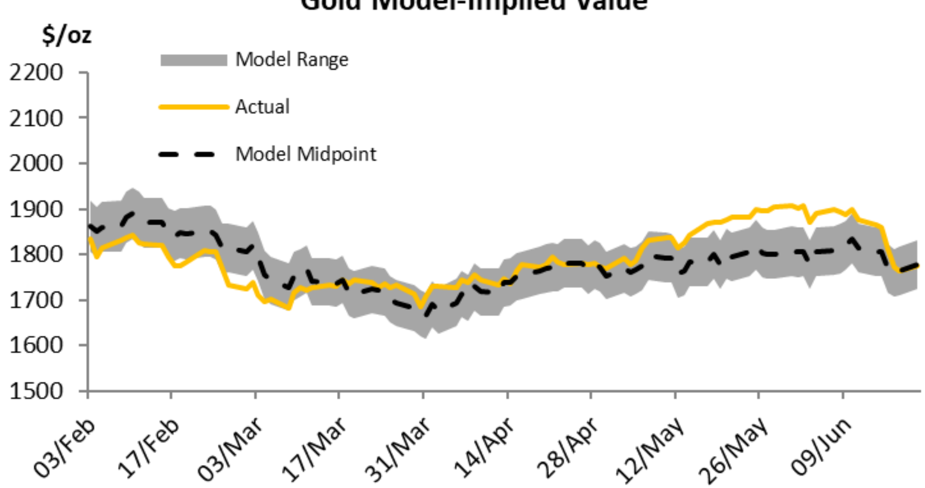


OCBC Bank

Sources: Bloomberg, CEIC, OCBC

Gold: Heavy selling after FOMC

- Bearish pressure may ebb this week – not because we favour the precious metal, but our valuation model suggests gold is currently trading in the middle of its fair-value range after last week's sharp selloff.
- Global assets now look like they are beginning to move in tandem – the decline in Treasury breakeven yields and gold price reinforce the "transitory" inflation idea, while prospects of rate normalisation have dampened riskier assets like equities and commodities.
- We see gold likely to trade range bound in the short term but stay bearish longer term.



Source: OCBC estimates; data from Bloomberg

Sources: Bloomberg, CEIC, OCBC

Foreign Exchange & Interest Rates

OCBC Bank

FX & Rates: USD (finally) back in favour

- **FX:** The softening back-end UST yields leads us to reassess the long USD-JPY view, but firming real yields and the decisive pricing-in of rate hike expectations should still support the USD within the broader G-10 space. In addition, risk-off sentiment from the softening US equities and commodities should add another layer of near-term USD positive. On net, continue to favour the greenback, although the pace of ascent may slow on the back of stretched technicals.

- **Rates:** The UST curve continued to flatten on Friday with the 2Y bond underperforming, upon expectedly sooner rate hikes which may curb inflation following the FOMC and Bullard's hawkish remarks. Breakevens moved further lower with the 10Y breakeven at 2.243%, having retraced by 32bp from the high during mid-May. While the move reflected changing inflation expectation, it also came with higher real yields.

OCBC Bank

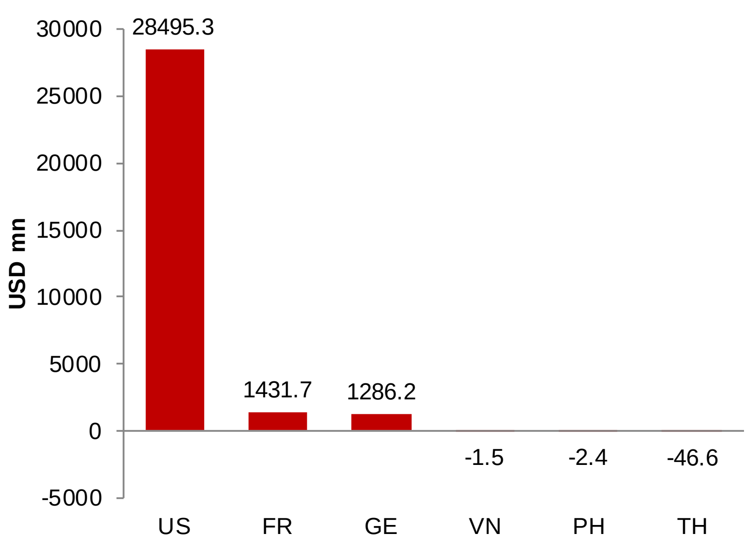
Source: Bloomberg, OCBC

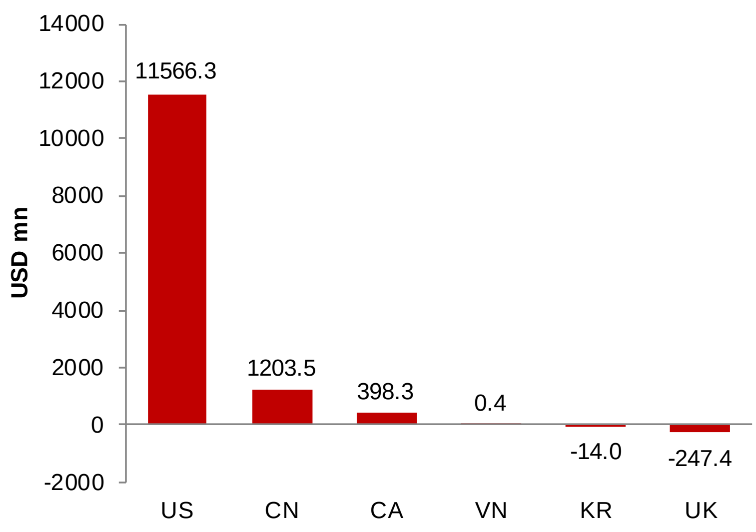
Asset Flows

Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 22 June amounted to $38.7bn, an increase from the inflow of $1.4bn last week. Global bond market saw inflows amounting to $15.9bn, an increase from last week's inflows of $12.4bn.

Equity top gainers & losers	Bonds top gainers & losers



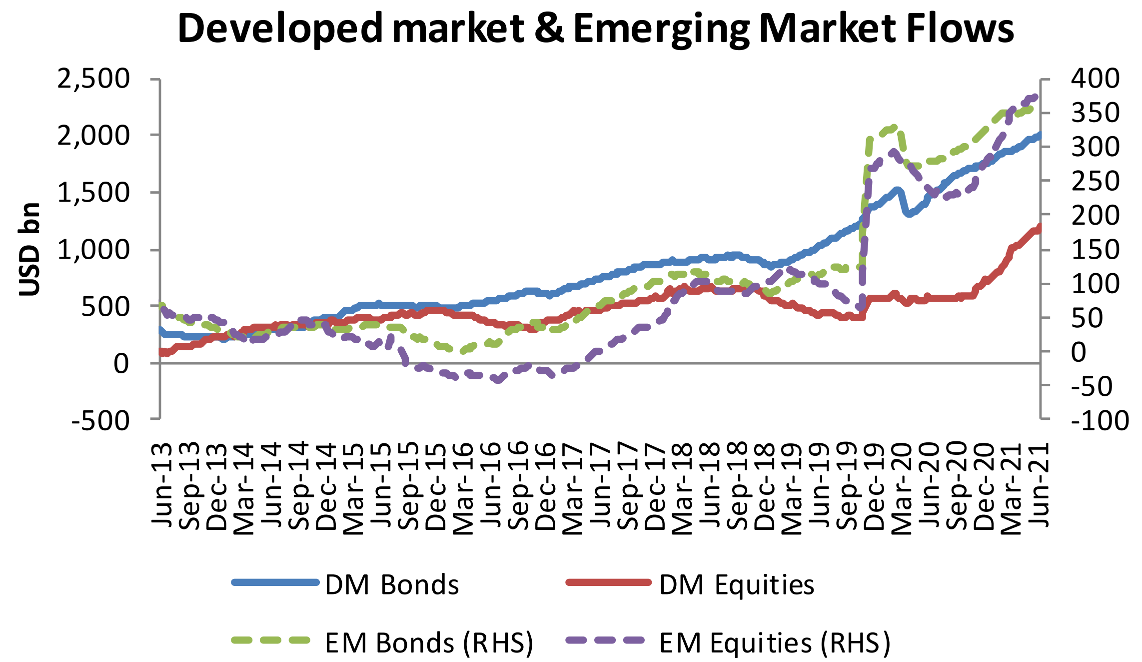


OCBC Bank

Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $37.6bn worth of inflows while the EM-space registered $927.2mn worth of inflows.
- Elsewhere, the DM bond space posted inflows of $14.0bn, while EM bonds registered inflows of $1.6bn.



Source: OCBC Bank, EPFR

Thank You

OCBC Bank

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Disclaimer

Co.Reg.no.:193200032W

OCBC Bank