



# Weekly Macro Views (WMV)

Treasury Research & Strategy (8 June 2021)

# Weekly Macro Update

## Key Global Events for this week:

7 <sup>th</sup> June	8 <sup>th</sup> June	9 <sup>th</sup> June	10 <sup>th</sup> June	11 <sup>th</sup> June
<ul style="list-style-type: none"> <li>- GE Factory Orders</li> <li>- CH Trade Balance</li> <li>- CH Exports</li> <li>- CH Imports</li> <li>- CH Foreign Reserves</li> <li>- HK Foreign Reserves</li> <li>- JN Leading Index</li> <li>- SG Foreign Reserves</li> </ul>	<ul style="list-style-type: none"> <li>- JN 1Q F GDP SA</li> <li>- JN BoP Current Account Balance</li> <li>- GE ZEW Survey Expectations</li> <li>- GE Industrial Production</li> <li>- EC 1Q F GDP SA</li> </ul>	<ul style="list-style-type: none"> <li>- CA Bank of Canada Rate Decision</li> <li>- CH PPI</li> <li>- CH CPI</li> <li>- SK 1Q F GDP</li> <li>- US MBA Mortgage Applications</li> </ul>	<ul style="list-style-type: none"> <li>- US Initial Jobless Claims</li> <li>- US CPI</li> <li>- EC ECB Main Refinancing Rate</li> <li>- EC ECB Deposit Facility Rate</li> <li>- JN PPI</li> </ul>	<ul style="list-style-type: none"> <li>- US U. of Mich. Sentiment</li> <li>- US Monthly Budget Statement</li> <li>- UK Industrial Production</li> <li>- TH Foreign Reserves</li> <li>- MA Industrial Production</li> </ul>

## Summary of Macro Views:

<b>Global</b>	<ul style="list-style-type: none"> <li>• <b>Global:</b> Soft nonfarms did not douse market hopes</li> <li>• <b>Global:</b> Central banks</li> <li>• <b>Global:</b> US nonfarm payrolls disappoint in May</li> <li>• <b>Global:</b> G-7 nations reached a deal on global tax</li> </ul>
<b>Asia</b>	<ul style="list-style-type: none"> <li>• <b>SG:</b> Recovery to stabilize in 2H21</li> <li>• <b>SG:</b> Retail sales softened in April on a m/m basis</li> <li>• <b>HK:</b> Gradual economic recovery and HKD rally</li> <li>• <b>HK:</b> Housing price only 1.5% away from record high</li> </ul>

<b>Asia</b>	<ul style="list-style-type: none"> <li>• <b>Macau:</b> Gaming revenue hit highest level since last Jan</li> <li>• <b>CH:</b> The expansion of US investment blacklist</li> <li>• <b>CH:</b> Outbreak of Covid-19 in Guangdong</li> <li>• <b>MY:</b> Fingers crossed</li> <li>• <b>ID:</b> At the Margin</li> </ul>
<b>Asset Class</b>	<ul style="list-style-type: none"> <li>• <b>Commodities:</b> The week ahead</li> <li>• <b>Oil:</b> Brent makes a clean break above \$70</li> <li>• <b>Gold:</b> Back below \$1900</li> <li>• <b>FX &amp; Rates:</b> Await June FOMC and ECB</li> </ul>
<b>Asset Flows</b>	<ul style="list-style-type: none"> <li>• <b>Asset Flows</b></li> </ul>

# Global: Soft nonfarms did not douse market hopes

- News that G7 finance ministers had agreed to the US proposal of a global minimum tax of at least 15% did not douse market hopes that the latest disappointing nonfarm payroll which printed at 559k in May would keep the FOMC from any premature taper. US Treasury Secretary Yellen also opined that even if President Biden's US\$4tn spending plans trigger higher inflation and interest rates, "it would actually be a plus for society's point of view and the Fed's point of view".
- **Other key developments:**
  - The reverse repo facility usage surged to US\$483.3bn, just shy of the record US\$485.3bn reached on 27 May. The US Treasury Department will sell US\$120bn of 3-, 10- and 30-year bonds starting 8 June.
- **Key data release are as follows:**
  - 7<sup>th</sup> June: GE Factory Orders, CH Exports, CH Imports, CH Trade Balance, JN Leading Index, SG Foreign Reserves
  - 8<sup>th</sup> June: JN 1Q F GDP SA, JN BoP Current Account Balance, GE ZEW Survey Expectations, GE Industrial Production
  - 9<sup>th</sup> June: CA Bank of Canada Rate Decision, CH CPI, CH PPI, US MBA Mortgage Applications
  - 10<sup>th</sup> June: EC ECB Main Refinancing Rate, EC ECB Deposit Facility Rate, US Initial Jobless Claims, US CPI
  - 11<sup>th</sup> June: US U. of Mich. Sentiment, US Monthly Budget Statement, MA Industrial Production

# Global: Central Banks

## Forecast – Key Rates

Bank of Canada (BoC)



Wednesday, 09 June

*Policy Interest Rate*

Likely **hold** at **0.25%**

European Central Bank (ECB)



Thursday, 10 June

*Deposit Facility Rate*

Likely **hold** at **-0.50%**

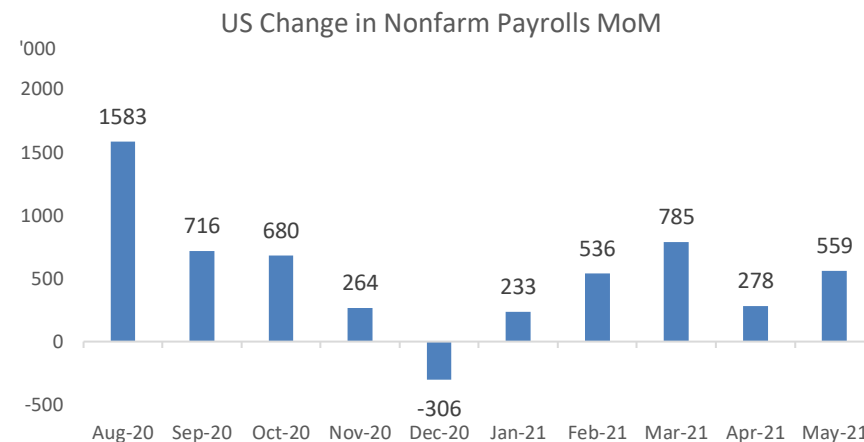
*Main Refinancing Rate*

Likely **hold** at **0.00%**

### House Views

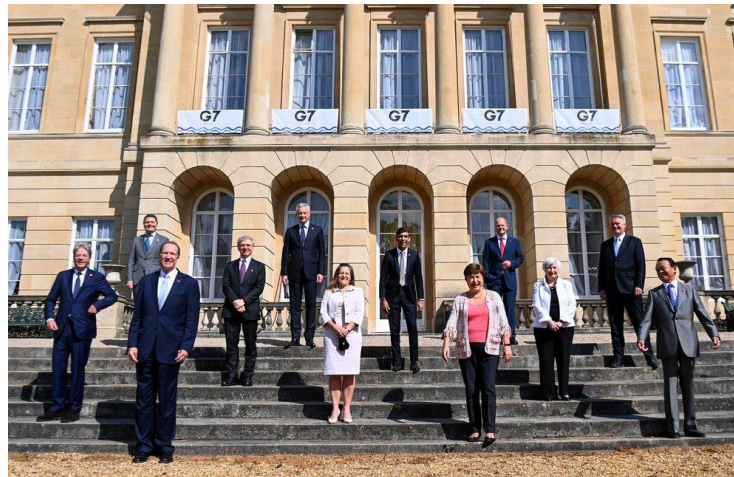
# Global: US nonfarm payrolls disappoint in May

- US nonfarm payrolls came in lesser than expected at 559k jobs in May, but marked an improvement from the upward revised 278k in the previous month.
- Unemployment fell from 6.1% to a lower than expected 14-month low of 5.8% while average hourly earnings rose more than expected by 2.0% yoy (0.5% mom).
- The biggest bulk of the jobs gain stemmed from leisure and hospitality which added 292k jobs, followed by public and private education (+144k) and health care & social assistance (+46k).
- The softer job print is likely due to labour supply shortages where difficulties in hiring were noted among businesses as highlighted in the latest NFIB survey.
- The ongoing labour crunch is likely to continue in the near future where higher wages may be needed to encourage workers to go back to work.



# Global: G-7 nations reached a deal on global tax

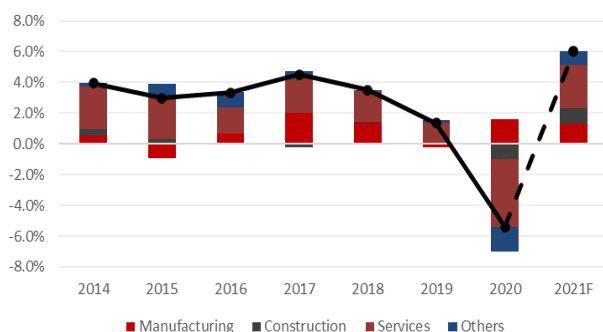
- The G-7 nations reached a deal on the global tax reform and has backed a global minimum corporate tax of at least 15%.
- The tax will apply to the largest global companies with profit margins of at least 10%, paving the way for levies on where these firms are operating in instead of just where they are headquartered at.
- The agreement will also lay the groundwork for a wider push at the upcoming G20 forum and Paris Talks later this year where the latter involves 135 countries.
- Getting all countries on board and aligned on the same page, however, will likely be a tall task given the disparity in corporate tax rates across nations where an attractive tax rate is vital for some countries to encourage foreign investments.



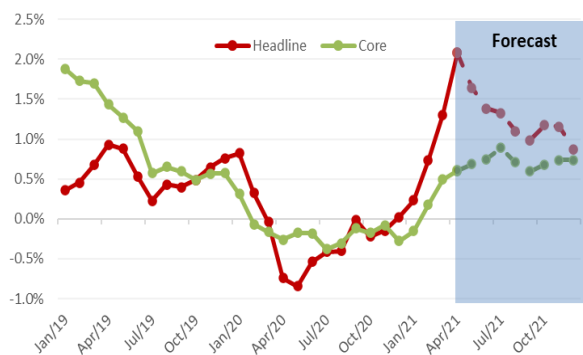
# SG: Recovery to stabilize in 2H21

- Despite the imposition of Phase 2 (HA) measures, S'pore's firm economic recovery remains intact and we expect 2021 GDP to grow around 6.0% yoy.
- On inflation, we expect headline and core CPI to accelerate to 1.2% yoy and 0.7% yoy respectively aided by domestic growth recovery and higher commodity costs.
- Meanwhile, the labour market recovery will likely extend into the 2H, aided by the latest \$800mn support package and other relief measures to help business affected by the tightened Covid measures.
- For monetary policy, we think there is no rush for the MAS to recalibrate the current policy settings at the October MPS since core CPI still remains comfortably within the 0-1% official forecast range.

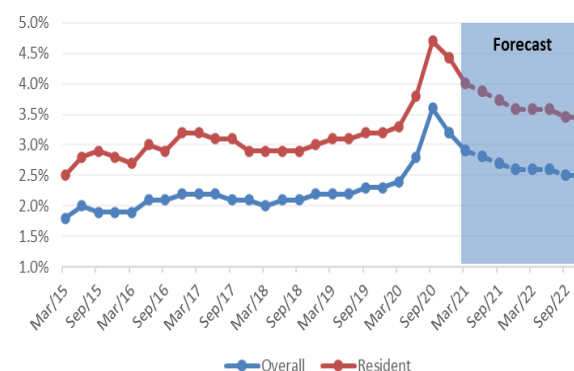
Sector Pct Point Contribution to GDP Growth



SG Headline and Core CPI Forecast



SG Unemployment Rate Forecast



# SG: Retail sales softened in April on a m/m basis

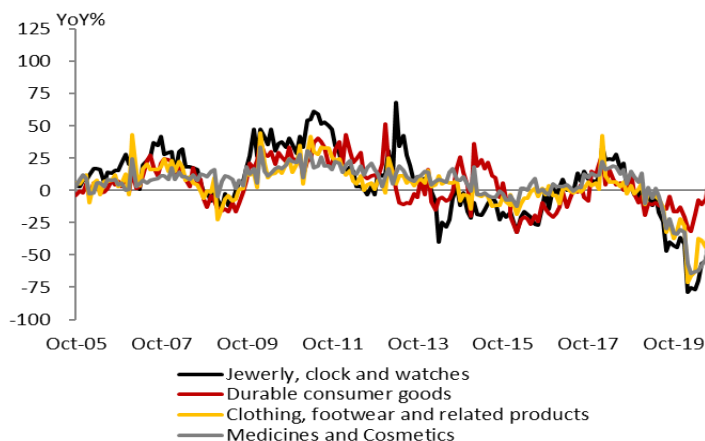
- S'pore's retail sales posted a staggering 54.0% yoy growth in April due to low base effects, but actually contracted 1.3% on a mom seasonally adjusted basis.
- Departmental stores (actual 280% yoy; OCBC est 265% yoy) and recreational goods (actual 175% yoy; OCBC est 140% yoy), for example, have beaten our estimates by a reasonably big margin; the food and beverage sector (actual 33%; OCBC est 57%), however, have continued its lacklustre pace of recovery.
- The imposition of Phase 2 (HA) means that we expect retail sales to post m/m contractions on a seasonal adjusted basis with F&B and recreation likely to be the hardest hit sectors.
- We revised down our Q2 and full year retail sales forecasts to 49.3% yoy and 10.5% yoy respectively from 54.0% yoy and 12.5% yoy previously.





# HK: Gradual economic recovery and HKD rally

- PMI for the private sector reached the highest since February 2014 at 52.5 in May, indicating that 1Q's strong GDP growth may sustain into 2Q. However, the frozen inbound tourism continues to weigh as April's retail sales missed estimates. As a relatively high vaccination rate would be a pre-condition for safe border reopening, the public and private sectors have been active in incentivizing inoculation. We will closely monitor whether the vaccination program will pick up pace in the coming months.
- Elsewhere, Angelalign Technology's public offering has received stronger response than JD Logistics. This coupled with strong response to iBond and HK-listed Chinese companies' preparation for dividend payments has boosted HKD demand. As a result, USDHKD spot dropped below 7.7600 to three-month low. Having said that, HKD rates have barely moved, probably due to the flush HKD liquidity and the lowered HKD loan-to-deposit ratio. As such, even though HKD demand may remain strong amid short-term liquidity draining events, the possibility of USDHKD spot retesting 7.75 is low.

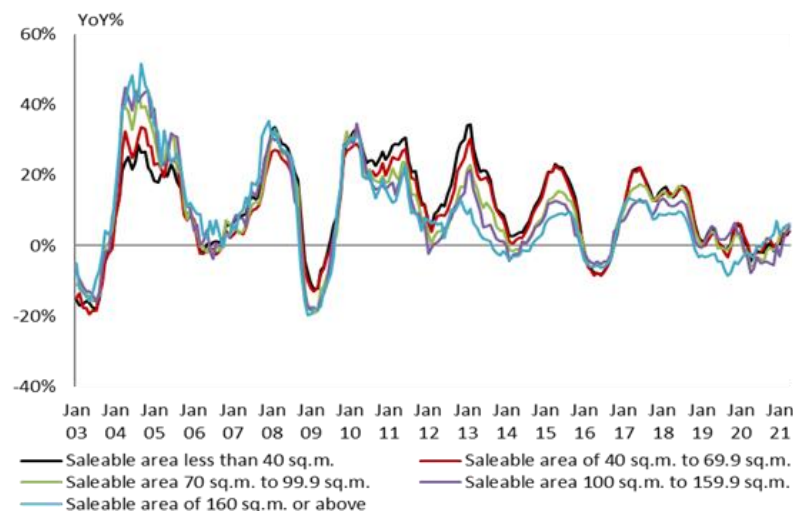
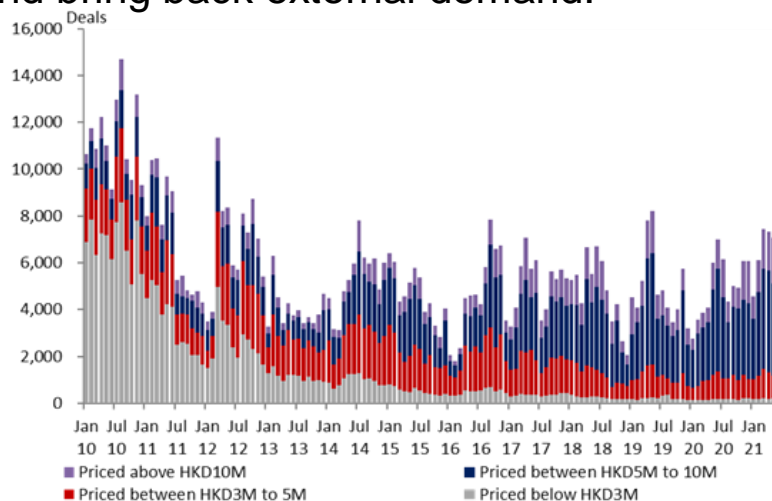


**OCBC Bank**

Source: HK Census and Statistics Department, Bloomberg, OCBCWH

# HK: Housing price only 1.5% away from record high

- Housing price index increased by 3.5% yoy in April to the highest since July 2019, just 1.5% away from all-time high. Housing transaction volume also grew consecutively for one year and was up by 18% yoy to 7084 deals in May. More notably, new home launch in Tai Wai has been oversubscribed by 80.6 times lately.
- Taken all together, it points to solid local demand probably due to the well-contained local epidemic, the improvement in labor market, a low-rate environment, the narrowed decline of housing rent and the eased cash flow pressure of small businessmen. On the supply side, the supply crunch remains intact as housing completions and housing starts decreased by 36.2% yoy and 88.8% yoy respectively during 1Q. Moving into the rest of this year, we do not rule out the possibility of housing price refreshing record high should any further relaxation of containment measures allow local housing demand to strength and bring back external demand.

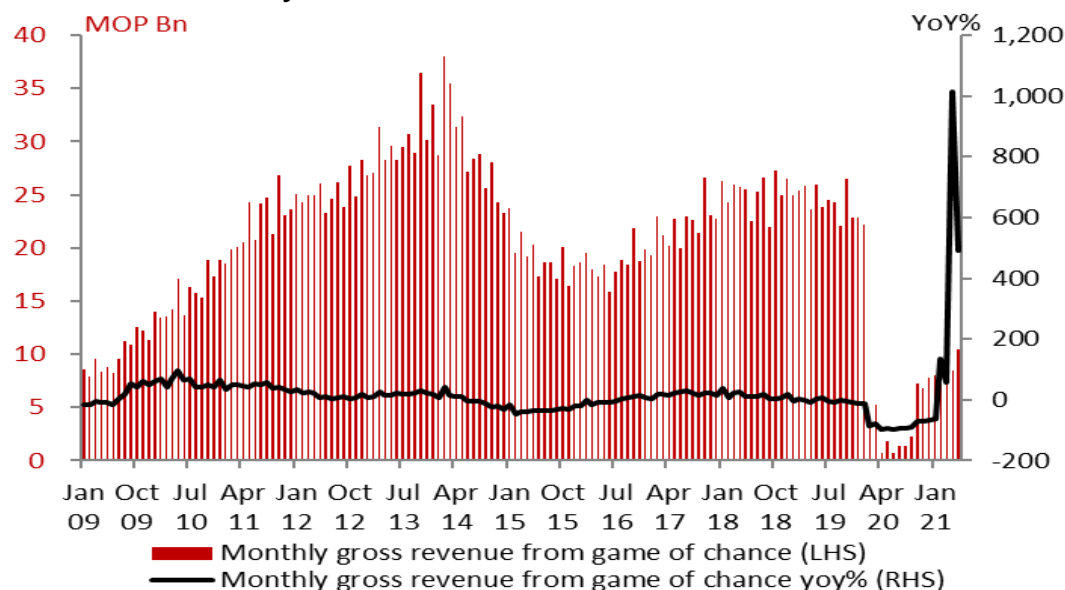


**OCBC Bank**

Source: HK Rating and Valuation Department, HK Land Registry, OCBCWH

# MO: Gaming revenue hit highest level since last Jan

- Gross gaming revenue grew by 492.1% yoy to MOP10.4 billion in May, beating market expectations and reaching the highest since pandemic started.
- However, Macau has tightened travel restrictions on tourists from some parts of China where mini lockdowns have been imposed amid virus resurgence. Worse still, the relatively slow vaccination rate across Asia including Macau itself means that further border reopening is unlikely in the near term.
- In a nutshell, we expect the year-on-year growth of gaming revenue to be remarkable amid low base effect with the full-year growth likely printing over 100%. However, the recovery itself looks likely to remain moderate and may not bring the gaming sector back to the pre-pandemic levels anytime soon.



**OCBC Bank**

Source: DICJ, OCBCWH

# China: The expansion of US investment blacklist

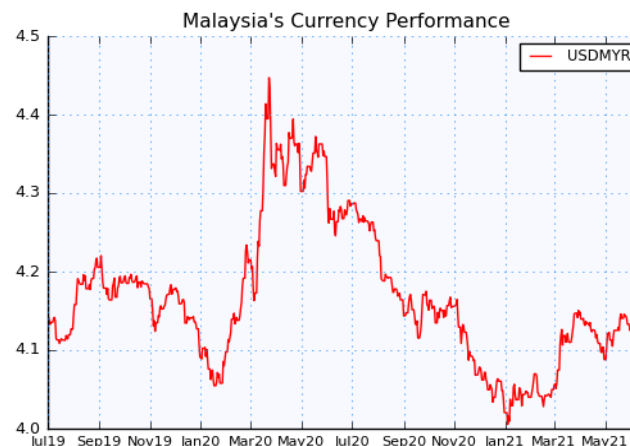
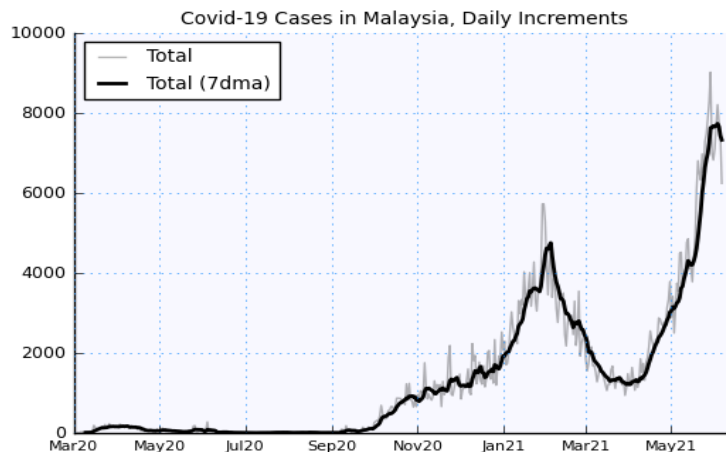
- Soon after China and US restarted their more regular communications on economic and trade issues following the virtual meeting between Vice Premier Liu He and US Treasury Secretary Janet Yellen, President Biden signed an executive order on 3 June to update an investment blacklist which bans US entities from investing in Chinese companies with ties to defense or surveillance technology.
- The number of Chinese companies in the blacklist was expanded to 59 from previously 48 identified by Trump Administration in 2020. The expansion of the list was mainly due to the official inclusion of subsidiaries or related companies of blacklist companies.
- In addition, the expansion of the scope of targeted companies beyond those with military ties to those in the surveillance technology sector indicated that the list may grow longer in future.
- Nevertheless, the new blacklist will be created and maintained by the US Treasury Department instead of Department of Defense. This gives market hopes that the list could be more rational due to Treasury team's closer linkage with financial market.

# China: Outbreak of Covid-19 in Guangdong

- The recent Covid-19 outbreak in Guangzhou, capital city of Guangdong Province, has caught attention given Guangdong's role as China's major economic and transportation hub. Guangdong's GDP has crossed CNY11 trillion in 2020, on par with that of South Korea for the first time. In addition, Guangzhou's Baiyun airport was ranked as the world's busiest airport during the pandemic in 2020.
- Guangzhou tightened travel restriction further. Passengers leaving the city are required to present negative nucleic acid test results within the last 48 hours and most people are suggested not to leave the city or province on non-essential trip.
- In the first week of June, Guangzhou's mobility has slowed down significantly. According to the City's transportation bureau, the number of passengers in railway hubs and highway fell by 61.7% and 78.4% respectively while passengers in Baiyun Airport also fell by 64 percent.
- Nevertheless, given the city has rolled out massive testing and China's rapid vaccine inoculation pace with total 763 million doses have been administrated as of 5 June, we see low risk of any shock to our growth forecast though we will continue to monitor whether there is any spillover effect to global supply chain due to Guangdong's role as major trading hub.

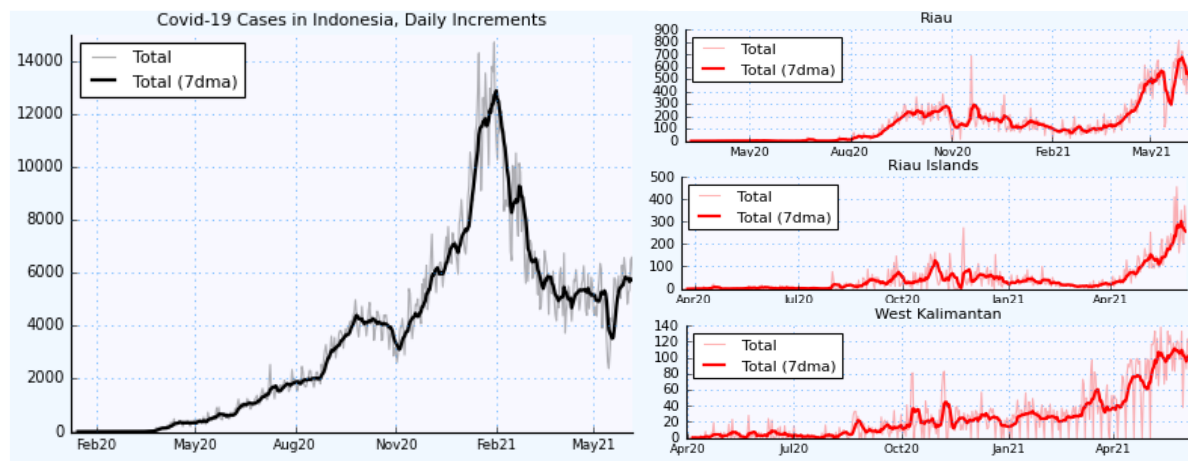
# Malaysia: Fingers crossed

- About one week into the implementation of the full-scale nationwide MCO restriction orders, which see not just social activities but most economic operations banned, Malaysia may have started to see the number of Covid-19 cases starting to come down, however slightly. Compared to the peak of 9020 in late May, the latest tally stood at 6241.
- However, it remains to be seen whether the downdraft can persist and the upcoming week remains crucial in determining whether the so-called Phase 1 of the most stringent lockdown will be extended beyond the June 14<sup>th</sup> timeline.
- Overall, however, the market appears to have been largely sanguine about the potential damage. Perhaps as a mark of confidence that the ongoing measures can flatten the pandemic curve, the USDMYR has stayed broadly stable, for instance.



# Indonesia: At the margin

- Even as Indonesia's Covid-19 cases have stayed contained, there are indications that some provinces have seen sizable upticks of late. In fact, as Indonesia's Health Minister noted, Covid-19 cases have picked in bordering Malaysia.
- Sumatra's Riau and Riau Islands provinces, which are linked to Malaysia via multiple ferry routes, as well as West Kalimantan, which shares a land border with Malaysia's Sarawak state, have seen their worst outbreaks yet. These areas have been transit points for Indonesian workers who are returning from Malaysia. Faced with more uncertain prospects there, many have returned home – and many more might yet make that trip.
- How these border provinces cope with the latest Covid-19 surge and whether there might be considerable internal transmissions to other parts of the country would be crucial in determining whether Indonesia can continue to fly under the radar of the new, more transmissible variants. Our view that Indonesia might be able to grow by 4.6% yoy this year hinges very much on the country's Covid-19 case staying controllable.



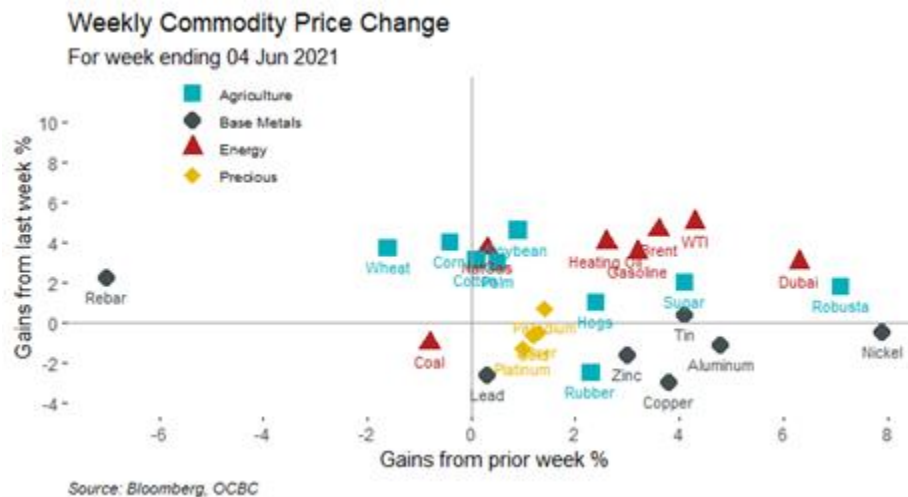


# Commodities



# Commodities: The week ahead

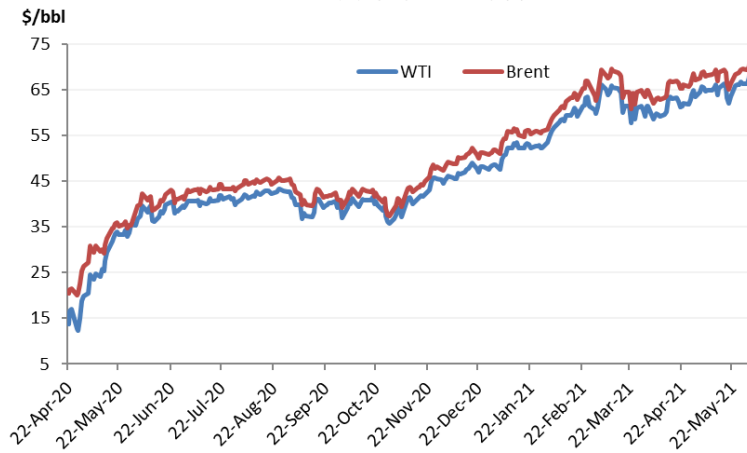
- Commodities mostly gained for a second straight week. Brent broke above the \$70 handle. Agricultural commodities resumed their upward trend. Base metals lost ground, while gold fell below \$1900.
- Weak US nonfarm payrolls last Friday may dent risk sentiment this week, but we still expect commodities to end the coming week higher.
- China's export numbers on Monday and US CPI numbers on Wednesday are the key macro indicators to watch.
- Thursday's USDA WASDE may also see some production upgrades to soybeans and cotton.



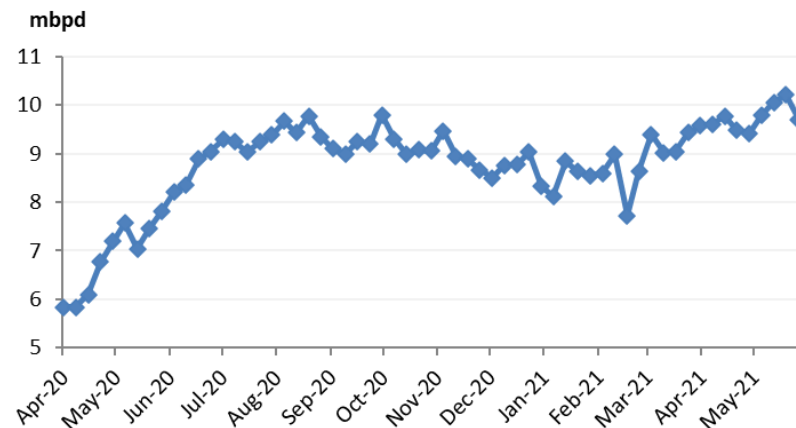
# Oil: Brent makes a clean break above \$70

- Brent has cleanly broke above the \$70 threshold last week, with a series of higher highs and higher lows set from the get-go last Monday.
- Since breaking above \$70 on Tuesday, it has not come close to testing said level, entrenching the firmness of its new support level.
- WTI is also testing the \$70 handle and may likely break above this resistance in the coming week.
- Fundamental setup remains bullish and we expect prices to continue climbing this week.

Crude Oil Prices

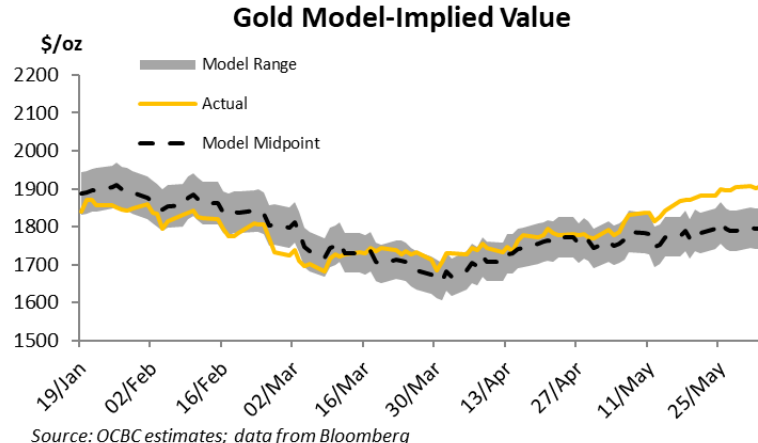
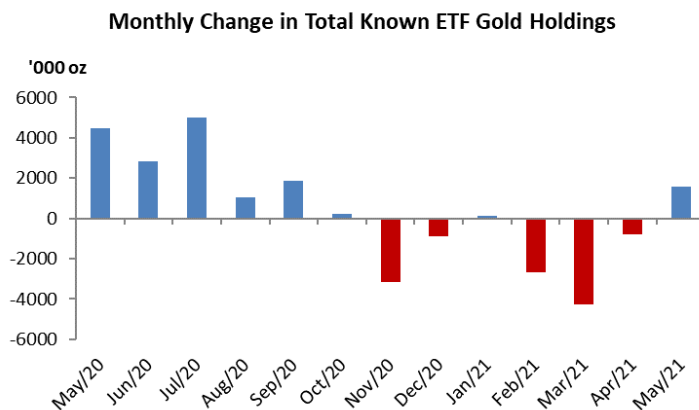


US Gasoline Implied Demand



# Gold: Back below \$1900

- Gold recorded its first positive inflows into gold ETFs last month. Total known gold ETF holdings rose 1.58mil oz in May, the first positive inflow into this space in three months.
- Unsurprisingly, gold recorded its best monthly price gain ytd in May, rising 7.8% last month to close above \$1900 on 31 May.
- The first few days of June, however, has been less encouraging, with gold falling back below the \$1900 level.
- With breakeven yields staying stagnant, we continue to see gold as trading too rich and expect it to continue correcting in the coming week.



# Foreign Exchange & Interest Rates

# FX & Rates: Await June FOMC and ECB

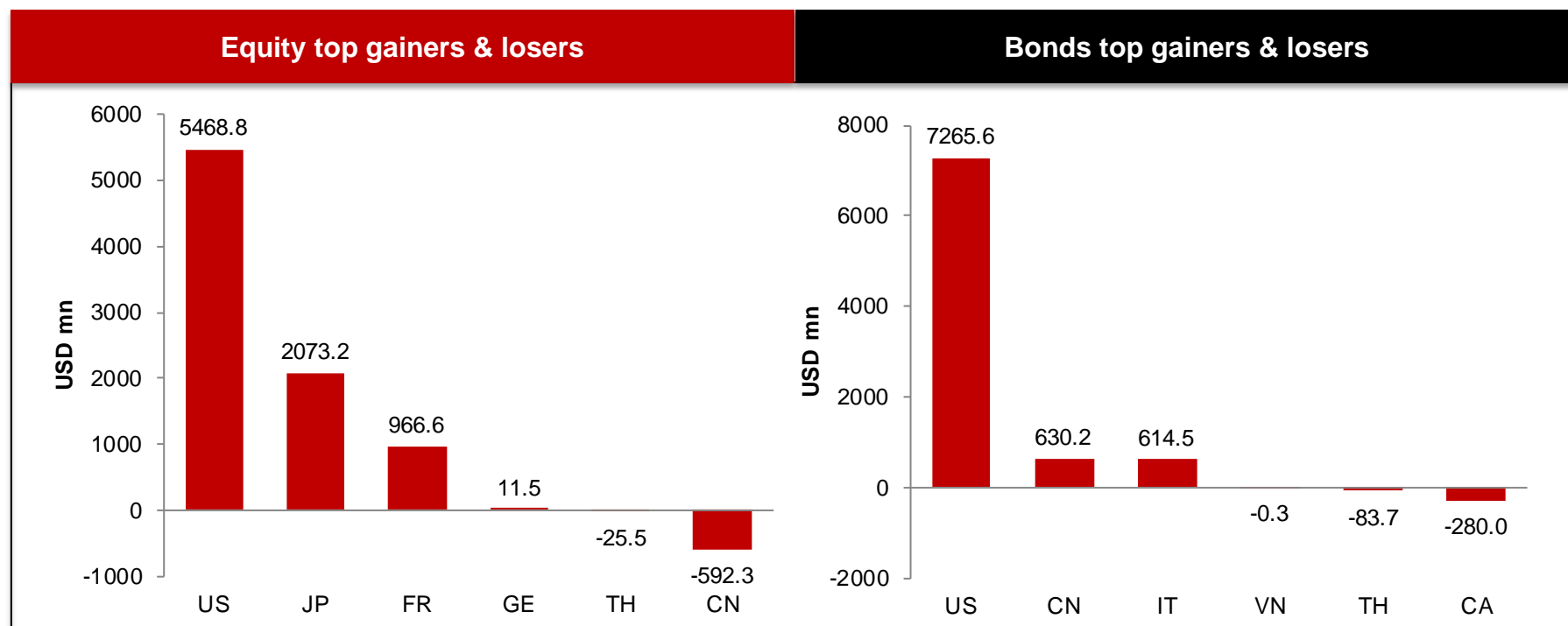
- **FX:** After two knee jerk moves after the ADP and NFP last week, the question is whether there is to be further fading of Fed expectations compared to the pre-ADP status quo. We expect not. Thus, the range-y, consolidative action is likely to extend until the next event risk. How the USD performs today may set the tone into the June Fed meeting next week. Our bias is for the floor under the USD to hold out for now, at least until the ECB and US CPI on Thu.
- **Rates:** Treasury yields fell across the curve, with bonds of tenor 7Y and beyond underperforming. US NFP was solid at 559K while the jobless rate edged down; however, the outcome was probably seen as not enough to challenge Fed's patience with its accommodative stance. While UST-Bund yields narrowed on Friday, the move was primarily driven by Treasuries; we do not expect meaningful narrowing in spreads in the run-up to the ECB meeting. The MGS curve widened further across the 3s10s segment on Friday and broken the upper end of our near-term expected range; the steepening momentum may be coming to a pause for now.



# Asset Flows

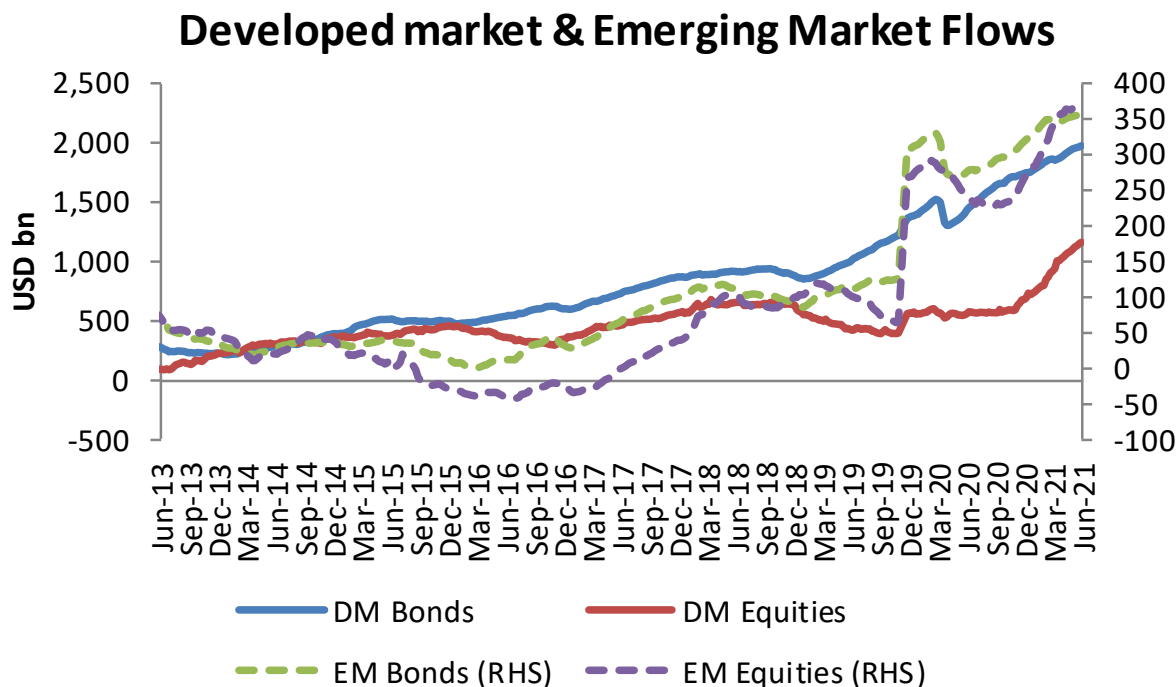
# Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 2 June amounted to \$14.5bn, a decrease from the inflow of \$17.7bn last week. Global bond market saw inflows amounting to \$11.6bn, a slight dip from last week's inflows of \$6.0bn.



# DM & EM Flows

- DM equities saw \$13.0bn worth of inflows while the EM-space registered \$1.3bn worth of inflows. Elsewhere, the DM bond space posted inflows of \$10.2bn, while EM bonds registered inflows of \$1.4bn.







Thank You

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