Weekly Macro Views (WMV)

Treasury Research & Strategy (04 May 2021)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

3rd May	4th May	5th May	6th May	7th May
- US ISM Manufacturing - US Markit PMI Mfg - HK 1Q A GDP - SG Purchasing Managers Index - SK Markit PMI Mfg - ID Markit PMI Mfg - EC Markit PMI Mfg	- AU RBA Cash Rate Target - HK Retail Sales - US Durable Goods Orders - US Factory Orders - UK Markit PMI Mfg - SK CPI	- TH BoT Benchmark Interest Rate - TH CPI - ID 1Q GDP - US MBA Mortgage Applications - US ADP Employment Change - SG Retail Sales	- UK Bank of England Bank Rate - MA BNM Overnight Policy Rate - MA Industrial Production - US Initial Jobless Claims	- US Change in Nonfarm Payrolls - US Unemployment Rate - US Wholesale Inventories - GE Industrial Production - CH Trade Balance

Summary of Macro Views:

Global	• **Global:** Tapering on the Fed's cards? • **Global:** Central banks • **Global:** US economic rebound gains momentum • **Global:** Fed sees faster growth and higher inflation • **Global:** Biden's first 100 days— A recap
Asia	• **SG:** MAS macroeconomic review • **SG:** Firm recovery momentum in the labour market • **SG:** Milder contractions in bank loans in March • **SG:** Near-term business expectations look upbeat • **HK:** 1Q GDP is expected to grow by over 3% yoy • **Macau:** Gaming revenue missed expectations

Asia	• **CH:** Easing money but tighter credit • **MY:** BNM Week • **ID:** Ruminating on Research
Asset Class	• **Commodities:** Risk-on lifting commodities • **Oil:** India the wild card • **Gold:** Selling pressure on risk-on return • **Rates:** Watch for tapering talks
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: Tapering on the Fed's cards?

- Fed's Kaplan (non-voter) had noted that "we're now at a point where I'm observing excesses and imbalances in financial markets", suggesting it may be appropriate to start talking about tapering the asset purchases. This weighed on risk sentiments which lead the S&P 500 to decline 0.72%, dragged down by tech shares, but still capped the third straight month of gains. VIX was higher at 18.61. UST bond closed on a strong note due to month-end rebalancing flows with the 10-year yield at 1.63%.
- **Other key developments:**
  - China's Caixin manufacturing PMI rose from 50.6 in March to 51.9 in April. Separately, Taiwan's 1Q GDP grew 8.2% yoy (-1.7% qoq sa).
- **Key data release are as follows:**
  - 3rd May: SG Purchasing Managers Index, HK 1Q A GDP, US Markit PMI Mfg, US ISM Manufacturing
  - 4th May: AU RBA Cash Rate Target, US Factory Orders, US Durable Goods Orders, HK Retail Sales
  - 5th May: TH BoT Benchmark Interest Rate, ID 1Q GDP, SG Retail Sales, US MBA Mortgage Applications, US ADP Employment Change
  - 6th May: UK Bank of England Bank Rate, MA BNM Overnight Policy Rate, MA Industrial Production, US Initial Jobless Claims
  - 7th May: US Change in Nonfarm Payrolls, US Unemployment Rate, US Wholesale Inventories, CH Trade Balance

Global: Central Banks

Forecast – Key Rates

Reserve Bank of Australia (RBA)	Bank of Thailand (BoT)	Bank Negara Malaysia (BNM)	Bank of England (BoE)
Tuesday, 04 May	**Wednesday, 05 May**	**Thursday, 06 May**	**Thursday, 06 May**

House Views

Cash Rate	*Benchmark Interest Rate*	*Overnight Policy Rate*	*Bank rate*
Likely hold at 0.10%	**Likely hold at 0.50%**	**Likely hold at 1.75%**	**Likely hold at 0.10%**

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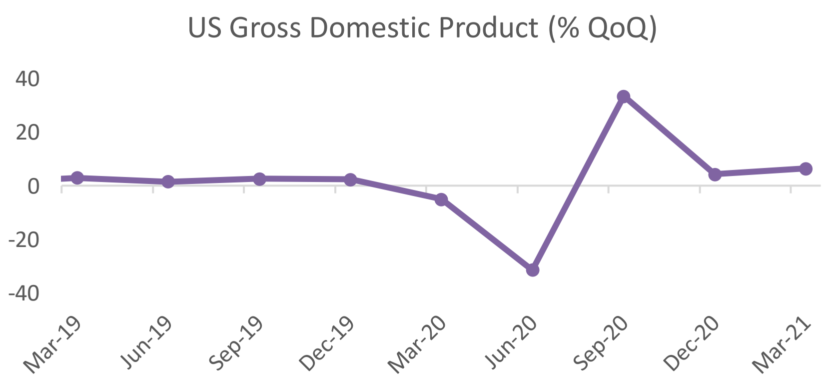
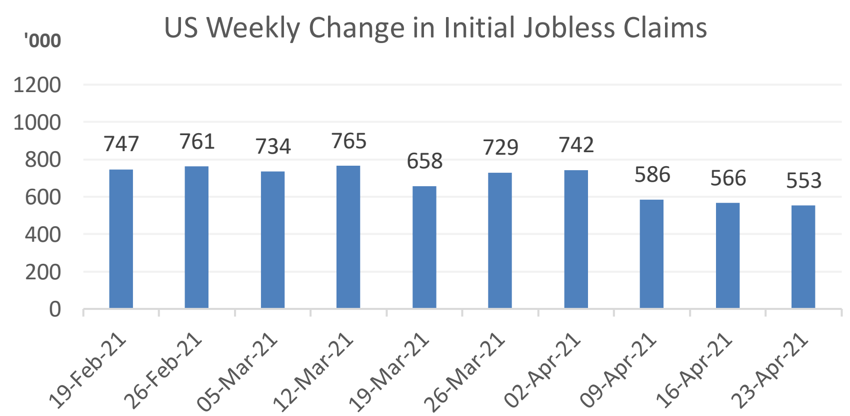
Source: OCBC, Bloomberg

Global: US economic rebound gains momentum

- US GDP grew 6.4% qoq in the first quarter this year, following the 4.3% qoq rebound in the previous quarter.
- The improvement was largely driven by personal consumption which jumped 10.7% qoq as expenditure on goods surged 23.6% qoq due to a 41.6% qoq increase in durable goods. Other expenditure categories such as residential fixed investments, non-residential fixed investments and government spending also rose 10.8% qoq, 9.9% qoq and 6.3% qoq respectively.
- Inventories and net exports declined, however, shaving 2.64 percentage points and 0.9 percentage points respectively from GDP growth.
- With the stimulus checks fueling consumer spending amid stronger jobs growth (initial jobless claims fell to a new pandemic low of 553k) and vaccination progress, recovery momentum going into the second quarter is likely to remain firm.





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Sources: Bloomberg, OCBC

Global: Fed sees faster growth and higher inflation

- The latest FOMC meeting saw the Fed sticking to their script on inflation being transitory and no plans to taper or hike interest rates at this juncture. The Fed Funds Rate was kept static at 0.00-0.25% as widely expected.
- The macro-outlook assessment was also more upbeat, with Fed Chair Powell noting of the improvement and strength in domestic economic conditions which was reinforced by a solid 1Q21 GDP growth of 6.4% yoy.
- Growing optimism within the FOMC, spurred by strengthening economic conditions, could continue to fan market speculation of an earlier-than-expected tapering of asset purchases.
- Looking ahead, the June FOMC will be key to watch for future policy direction given that improving economic conditions will likely pose a greater challenge for the Fed to remain committed to a dovish stance in the coming months.

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Sources: Bloomberg, CNBC, OCBC

Global: Biden's first 100 days— A recap

- Now that President Biden has passed his 100th day mark, he has managed to secure an average approval rating of 53.8% compared to President Trump's 42.0% in the same period according to FiveThirtyEight.
- To date, President Biden has signed 10 bills into law and issued 41 executive orders, with the bulk of the latter focused on revocations of prior orders issued by President Trump.
- In addition to the $1.9tn American Rescue Plan centered on pandemic response, he has also unveiled the proposed American Jobs and the American Family Plan to spur medium to long-term economic growth.
- Overall, Biden's first 100 days has been largely successful. Covid infection levels have declined amid firm vaccination progress and economic rebound is likely to gain further steam going into the second quarter.

Plan	Focus
American Jobs Plan	• To improve America's roadways, railways and bridges with a focus on clean energy • $174bn (~28%) to build a network of 500,000 electric vehicles stations, using electric vehicles in bus fleets to replace existing diesel transit vehicles • To improve American homes, school buildings, underground water infrastructure and broadband expansion • Improve access to quality, affordable homes or community-based care for elderly and people with disabilities • $300bn in manufacturing, including support for domestic production of technologies and critical goods • $180bn on new research and development with a focus on clean energy
American Families Plan	• Add at least four years of free education: 2 years of pre-school for all three- and four-year-old ; 2 years of free community college for all Americans • Direct support for children and families via a national comprehensive paid family and medical leave program • Extend tax cuts for families with children and American workers

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Sources: Politico, OCBC

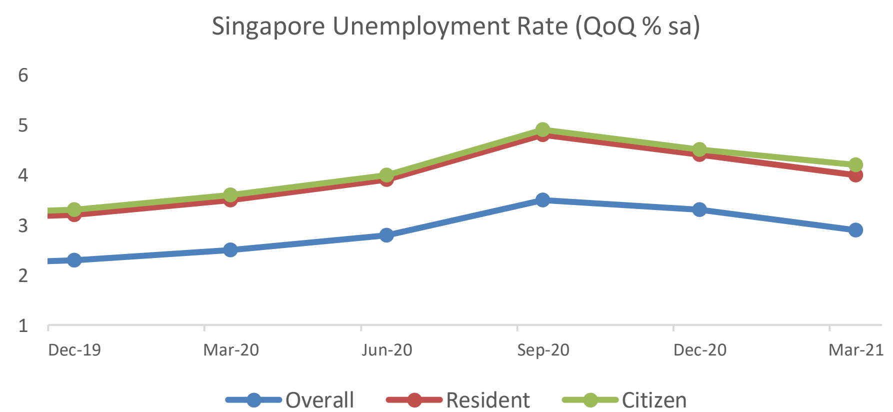
SG: MAS macroeconomic review

- The 2021 growth outlook has improved for the S'pore economy, but the recovery remains uneven. Notably, sectoral discrepancies remain, especially for the persistent underperformers like air transport, F&B, accommodation, recreation, arts and entertainment etc.
- The turnaround in inflation will be tolerated in the interim as there are no signs of accelerating price pressures developing into 2H21 given the still persistent slack in the economy.
- The labor market picture is clearly improving but not quite back to pre-COVID business-as-usual. While business optimism is picking up, it may still take a bit more time for confidence to fully normalize and firms to ramp up their hiring again. Near-term wage growth is also likely to remain muted.
- Going forward, consideration to withdraw any monetary policy accommodation at the next MPS meeting in October would very much depend on the official view of the growth and inflation dynamics going out into 2022-2023.

Sources: Bloomberg, OCBC

SG: Firm recovery momentum in the labour market

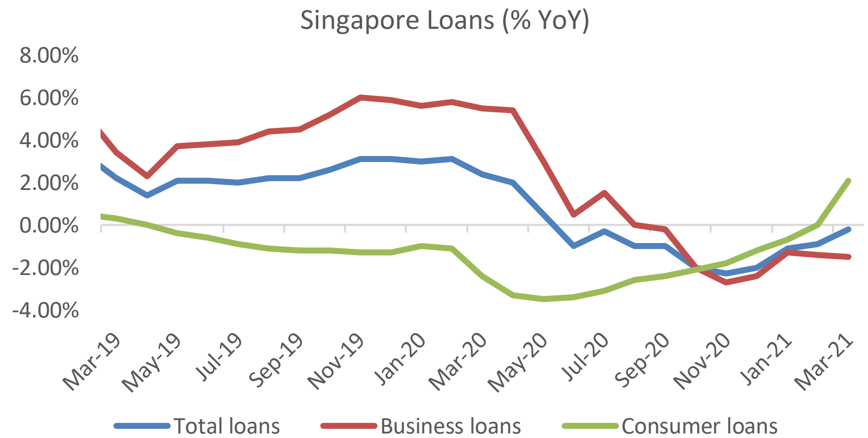
- Total employment (excluding migrant domestic workers) rose for the first time by 4.8k in 1Q21 after contracting since 4Q19.
- The increase in resident employment (especially in ICT, financial and professional services) outweighed the decline in non-resident employment, which contributed to unemployment rates falling further to 2.9% (overall), 4.0% (resident) and 4.2% (citizen) respectively.
- 1Q21 retrenchments also declined for the second straight quarter to 2.1k while company intentions to hire have risen to 72% of those polled in March 2021, up from 65% in December 2020.
- While sectors that are leading the recovery may be more confident about fresh hiring, SMEs may still be somewhat cautious as policy support measures such as the Job Support Scheme will expire in 3Q21.
- Looking ahead, risk has tilted to firmer growth, albeit with remaining pockets of weakness. Targeted fiscal and manpower-related policies may continue to do the near-term policy lifting for as long as the recovery story is still uneven.



Sources: Bloomberg, OCBC

SG: Milder contractions in bank loans in March

- Bank loans growth fell for the 10th straight month by 0.2% yoy in March, the smallest decline since bank loans growth turned negative in June last year.
- Business loans continued to decline for the 7th consecutive month by 1.5% yoy. Within the business loans segments, building & construction (+5.5% yoy) and business services (+3.7% yoy) fared better, but was unable to compensate for the weakness in general commerce (-4.1% yoy), financial institutions (-6.4% yoy) and manufacturing (-4.2% yoy).
- On a sequential basis, total bank loans growth actually expanded for the 5th consecutive month by 0.7% mom, aided by healthy business and consumer loans which both grew 0.7% yoy in March. Consumer loans also grew by 2.1% yoy in March.
- Latest bank loans data reinforces Singapore's firm economic recovery and it is likely that overall bank loans may revert to modest positive on-year growth in the coming months. Our full year 2021 bank loans growth forecast is 0.3% yoy.



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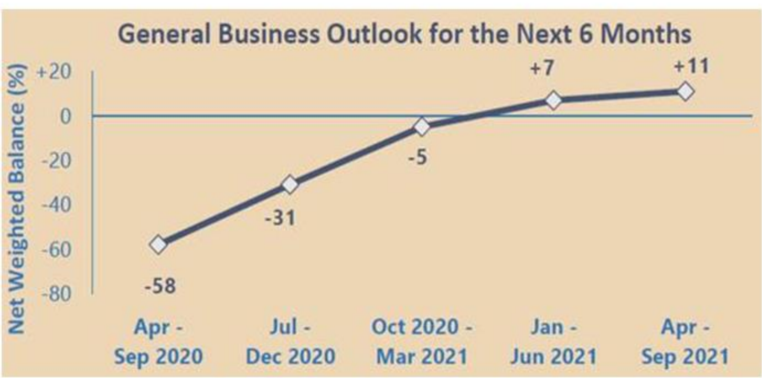
Sources: Bloomberg, OCBC

SG: Near-term business expectations look upbeat

- Latest business expectations survey for manufacturers showed further optimism, with a net 38% expressing upbeat sentiments about the April-September period. Electronics were noted to be the most optimistic industry.
- A majority (72%) of the manufacturing firms reported no limiting factors to obtain export orders for 2Q21, but for those that anticipate challenges, the top two limiting factors are the Covid-19 pandemic and overseas price competition.
- Services firms were also more upbeat for the second quarter, with a net 11% anticipating a more favourable outlook for the April-September period. At the industry level, the most optimistic were the information & communications, finance & insurance and wholesale trade.
- Looking ahead, domestic business sentiments is likely to improving further going into 2H21 amid the vaccination progress and talk of more travel bubbles opening up.

Services Sector



Manufacturing Sector

(per cent)

Industry	General Business Outlook for April – September 2021 compared with January – March 2021				Forecast for April – June 2021	
	Net Weighted Balance	Up	Same	Down	Output	Numbers Employed
Electronics	+66	66	34	0	+35	+14
Semiconductors	+78	78	22	0	+40	+19
Computer Peripherals & Data Storage	0	0	100	0	0	+7
Infocomms & Consumer Electronics	+8	8	92	0	+8	0
Other Electronic Modules & Components	+50	50	50	0	+52	+20
Chemicals	+1	5	91	4	+2	+2
Petroleum	-17	25	33	42	-17	0
Petrochemicals	-1	0	99	1	-4	0
Specialties	+1	4	93	3	+12	+4
Other Chemicals	+10	11	88	1	+1	+5
Biomedical Manufacturing	+32	32	68	0	+53	+27
Pharmaceuticals	+45	45	55	0	+80	+36
Medical Technology	+19	19	81	0	+26	+22
Precision Engineering	+19	29	61	10	+37	+14
Machinery & Systems	+27	30	67	3	+54	+24
Precision Modules & Components	+2	26	50	24	+7	+5
Transport Engineering	+18	24	70	6	+18	+2
Marine & Offshore Engineering	-7	9	75	16	+4	0
Aerospace	+25	25	75	0	+19	+7
Land	+55	64	27	9	+56	0
General Manufacturing Industries	+16	26	64	10	-5	+5
Food, Beverages & Tobacco	-5	11	73	16	-29	-8
Printing	-1	10	79	11	-8	-7
Miscellaneous	+51	52	47	1	+32	+18
Total All Industries	+38	41	56	3	+28	+9

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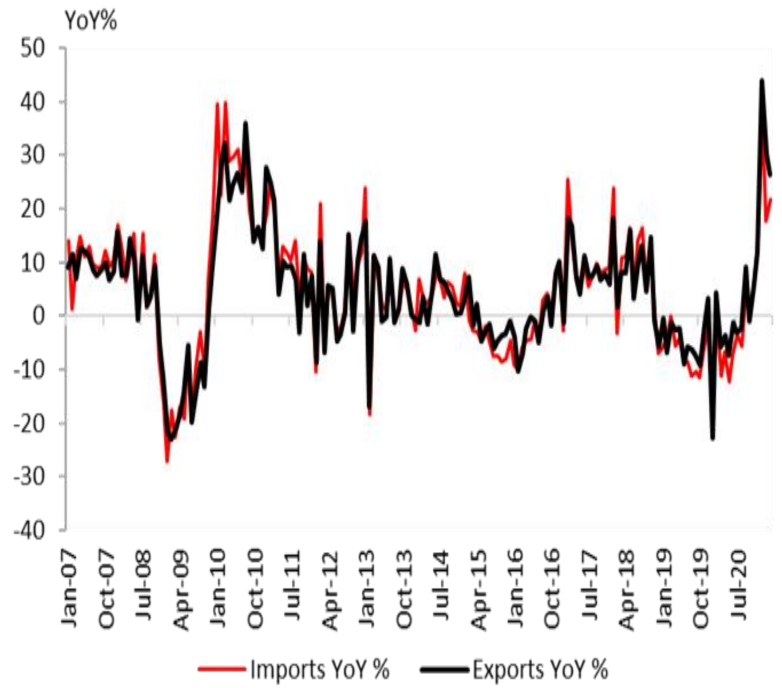
Sources: MAS, EDB, OCBC

HK: 1Q GDP is expected to grow by over 3% yoy

- 1Q GDP is due to be released today and is expected to grow by over 3% yoy, mainly driven by the external demand revival and improvement of local consumption amid receded infections. Specifically, owing to the rebounding external demand, low base effect and soaring commodity prices, trade data continued to surprise to the upside with exports and imports surging by another 26.4% yoy and 21.7% yoy respectively in March. Going forward, economic recovery may gain further steam as internal and external demand is set to grow amid the gradual relaxation of containment measures and the extension of fiscal stimulus.
- Domestically, last week, the government announced that air travel bubble between Hong Kong and Singapore will kick start on May 26. Meanwhile, the government announced vaccination bubbles which could allow further relaxation of social distancing measures on condition that more people get vaccinated, effective 29 April. Should vaccination program pick up pace, we could expect further loosening of containment measures. On relief measures, HKMC Insurance Limited announced to start receiving applications for the 100% Personal Loan Guarantee Scheme from 28 April for six months.



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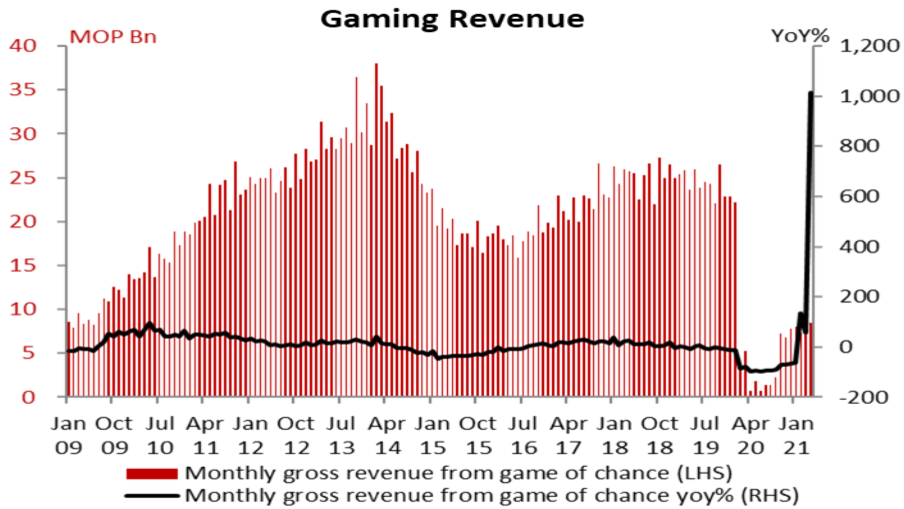
Source: HK Census and Statistics Department, OCBCWH

Macau: Gaming revenue missed expectations

- Gaming revenue surged by 1014.4% yoy but grew only 1.1% mom to MOP8.4 billion in April. If taking the average of the gaming revenue for last April and this April to net out the base effect, it was still 80.6% lower than the gaming revenue for April 2019.
- This indicates that the gaming sector is still far from full recovery amid the ongoing border control measures. Another factor hindering the sector's recovery has been China's tightened grip on cross-border gambling as the PBoC held a working conference on cracking down on the governance of cross-border gambling "fund chain". On a positive note, the gaming sector and inbound tourism may benefit from the Mainlanders' strong travel demand during Labor Day Holiday while regaining further steam on vaccine-induced reopening in the medium term. In a nutshell, we hold onto our view that gaming revenue will grow by about 150% yoy this year.



Date	The average of 2020-21 versus 2019
Jan-21	-39.6%
Feb-21	-79.5%
Mar-21	-73.8%
Apr-21	-80.6%

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Source: DICJ, OCBCWH

China: Easing money but tighter credit

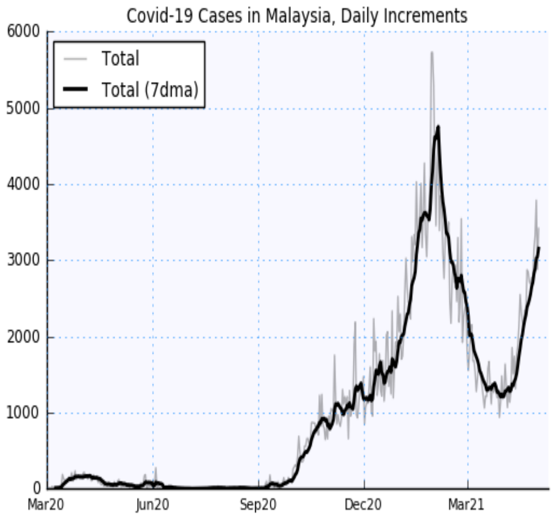
- Here are some of the takeaways from China's April Politburo meeting:

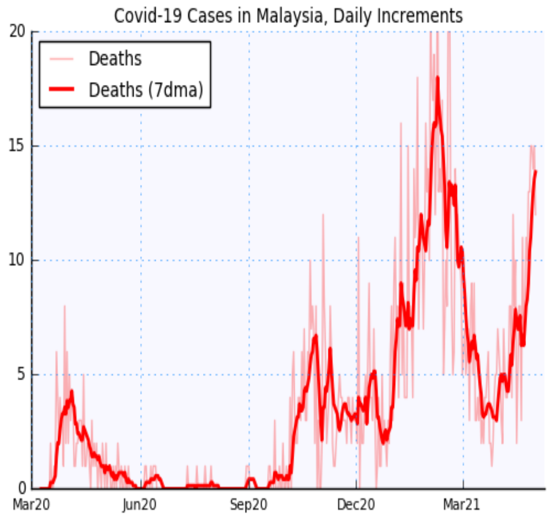
  - Although China's top leadership said China's recovery remained uneven, they also agreed that pressure to stabilize growth has been falling. This showed that China will use this window to push ahead with more structural reform to aim a more sustainable long-term growth.
  - As such, China's infrastructure investment is expected to take a backseat. This was also confirmed by the decline of construction PMI in April, which fell to 57.4 from 62.3. Nevertheless, we think manufacturing investment will offset the weak infrastructure investment as China's policy makers shift their focus to revive manufacturing investment and private investment.
  - On policy, we might see a combination of easing monetary policy but tighter credit policy. China reiterated no u-turn of macro policy last week. This reinforced our view that China is unlikely to tighten its monetary policy in the second quarter. We expect China's liquidity to remain relatively stable in the money market.
  - However, China's highlight of responsibility of local government leadership to deal with financial risk and ongoing target at property market including the school district housing for the first time showed that China is likely to tighten its grip on credit policy.

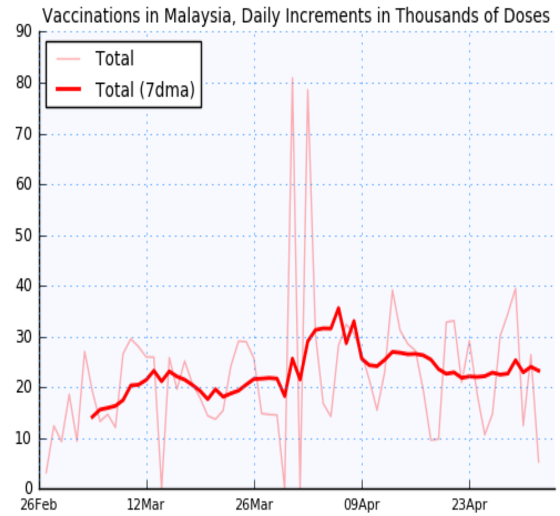
Source: Bloomberg, Wind, OCBC

Malaysia: BNM Week

- Malaysia's latest virus resurgence shows little signs of abating thus far, with cases creeping up to around 3000 per day. Hospitals in the populous Klang Valley have started to report ICU bed shortages and death rate may be creeping up. The news that the virus variant from India has been detected onshore adds to the general sense of unease.
- News reports also suggest that the government may be weighing targeted MCO in major areas such as Selangor, KL, Penang and Johor. While unconfirmed, the evolving situation deserves a close watch, especially when less than 2% of population fully inoculated so far.
- While there is hope that any MCO will leave business activities largely untouched, the hit to confidence will remain palpable. Our baseline remains for BNM to hold its OPR unchanged on May 6th, even as there is now some small tail risk it might just cut out of abundance of caution.







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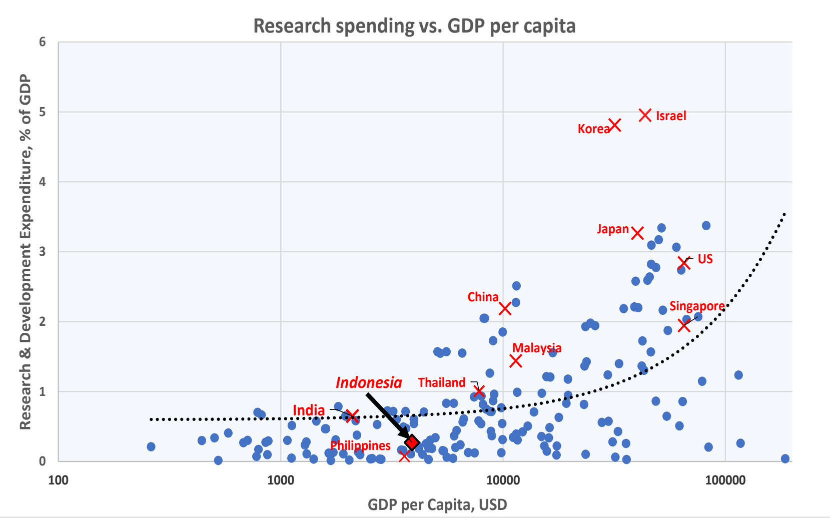
Sources: OCBC, Bloomberg.

Indonesia: Ruminating on Research

- President Jokowi undertook a minor cabinet reshuffle earlier. The elevation of the investment board's chief, Bahlil Lahadalia, into the newly created role of Minister of Investment is a clear signal of the government's seriousness in pulling in more FDI to resuscitate economic growth, especially after last year's omnibus law passage.
- The Research ministry is to be subsumed into a rather unwieldy Ministry of Education, Culture, Research and Technology. Nadiem Makarim, who was the Education Minister before, will assume that new portfolio. Overseeing such a disparate portfolio will force the founder of ride-hailing giant, Gojek, to shuttle around town a lot more now.
- The National Research Agency is to coordinate research efforts now, reporting directly to the president, who has publicly rued that Indonesia spends ~$2bn on R&D with little results. Still, on a comparative basis, that is just 0.2% of GDP, and much lower than regional peers. The gap is something that needs to be remedied for it to catch up on growth in the medium term.



Sources: OCBC, Bloomberg, World Bank. Note: X-axis is plotted on a log scale.

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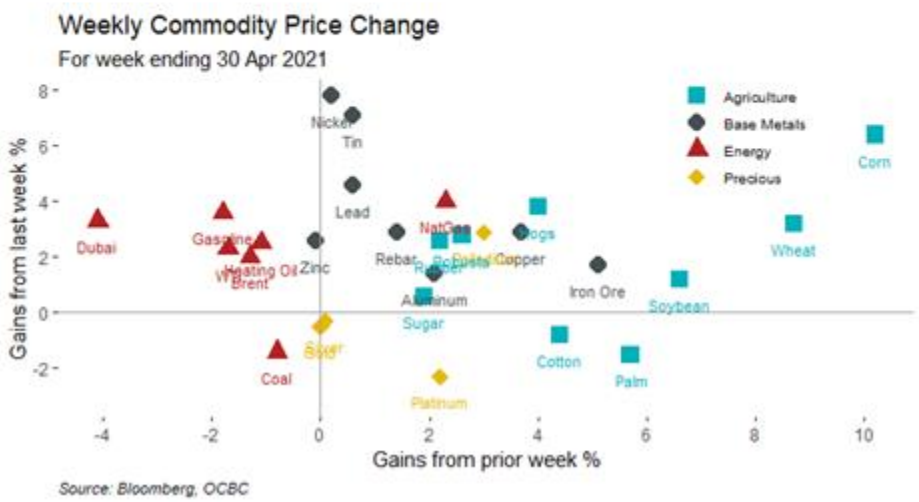
Commodities

Commodities: Risk-on lifting commodities

- Commodities broadly gained as the broad risk-on sentiment in the past three weeks continue to lift asset prices.
- Precious metals lost ground, while copper topped $10,000/mt and is within 5% of a new record high.
- A strong nonfarm payroll figure (>1 million) will probably solidify the risk-on sentiment and sent commodities soaring. Gold will likely dip in that scenario.
- Strong Chinese commodity import numbers on Friday, especially crude oil, copper and iron ore, are likely to support the theory that last month's strong industrial output could continue in the near term.



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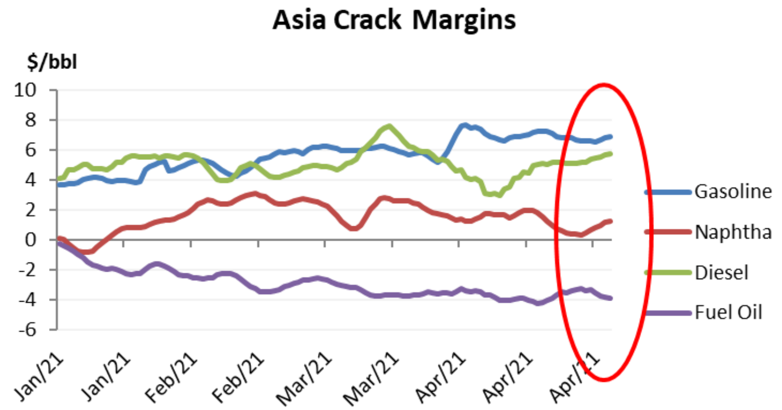
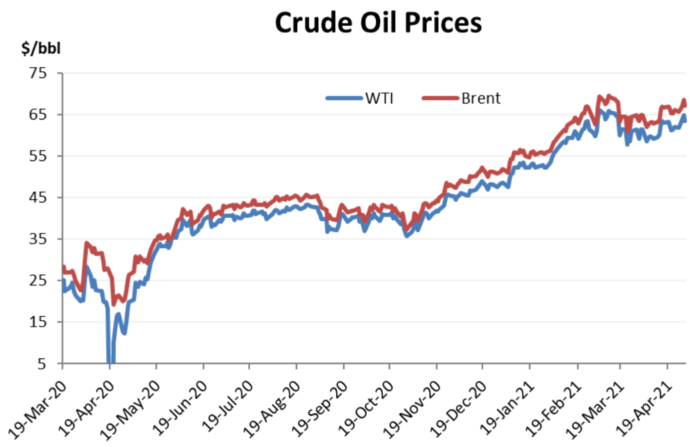
Sources: Bloomberg, OCBC

Oil: India the wild card

- The uncontrolled coronavirus outbreak in India will continue to pose the biggest downside risk to oil prices for now.
- Bloomberg reported in April, gasoline consumption in India probably fell 6% and diesel about 2%. T
- This consumption weakness is likely to continue into this month, given the ever-worsening daily cases in India.
- As such, we see selling pressure starting to build each time Brent attempts a break above $68. Our bias, however, is for oil to continue breaking to the upside.





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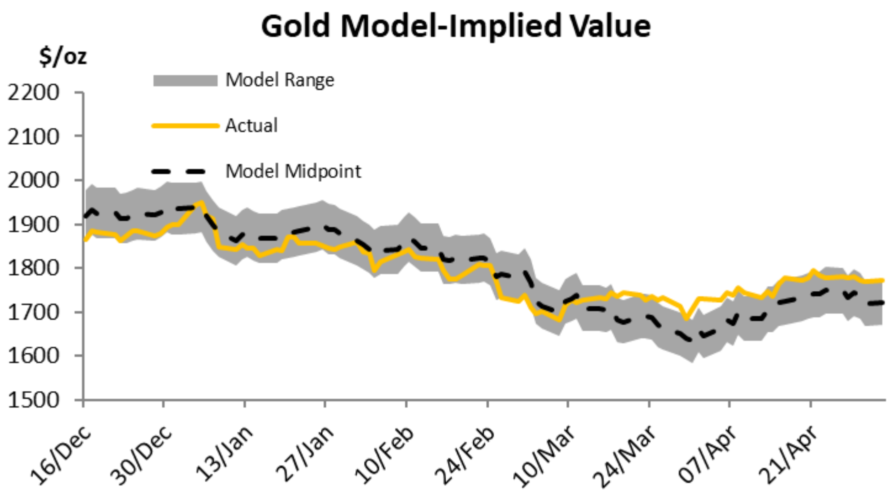
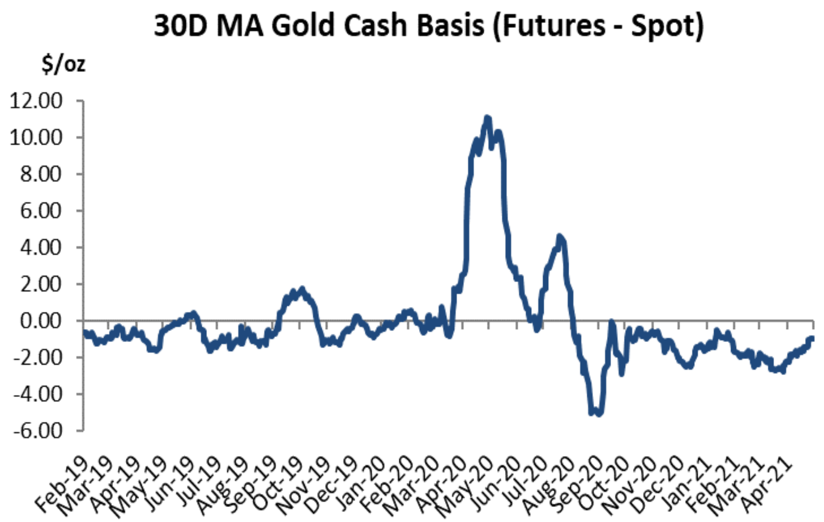
Sources: Bloomberg, OCBC

Gold: Selling pressure on risk-on return

- The recent rise in US Treasury yields and firming of asset prices globally (commodities included) have started to manifest in gold prices, which is starting to look lofty based on current inputs.
- Our model suggests gold currently has a fair value of $1670-$1770/oz, which may continue falling if Treasury yields continue to climb.



Source: OCBC estimates; data from Bloomberg



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Sources: Bloomberg, OCBC

Interest Rates & Bond Yields

Rates: Watch for tapering talks

- Treasuries traded within ranges on Friday, with PCE deflator coming in as expected which did not push inflation expectations higher. Front-end liquidity is likely to stay flush, as the Fed asset purchase and reduction in Treasury's cash balance continue. Market watches for hint of tapering at the BoE MPC later this week, while SONIA pricing has already become more hawkish.
- The external environment is becoming less constructive for the LCY bond markets in Asia. As yields are still adjusting, investors are unlikely to focus on real yield differentials – which stay supportive of a number of Asian markets. The MGS and IndoGB curves are flat on a historical bases vis-à-vis their regional peers; investors may be tempted to shorten duration there. In China, the market braces for pick-up in LGB supply.

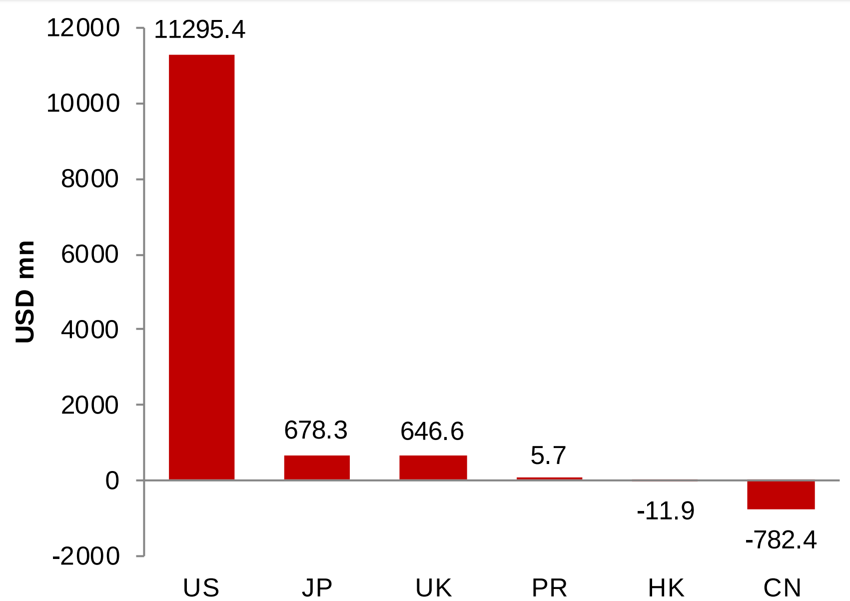
Source: Bloomberg, OCBC

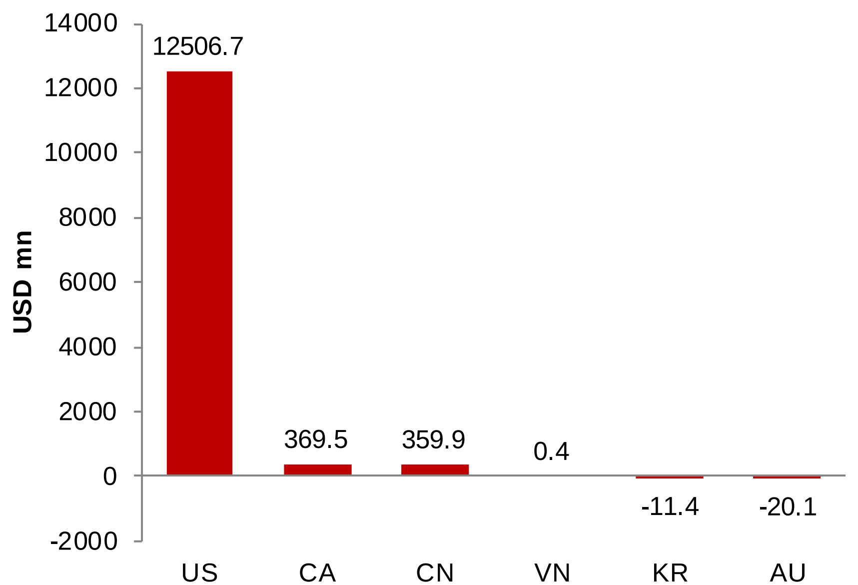
Asset Flows

Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 28 April amounted to $10.4bn, a decrease from the inflow of $14.4bn last week. Global bond market saw inflows amounting to $13.6bn, a slight dip from last week's inflows of $13.7bn.

Equity top gainers & losers	Bonds top gainers & losers

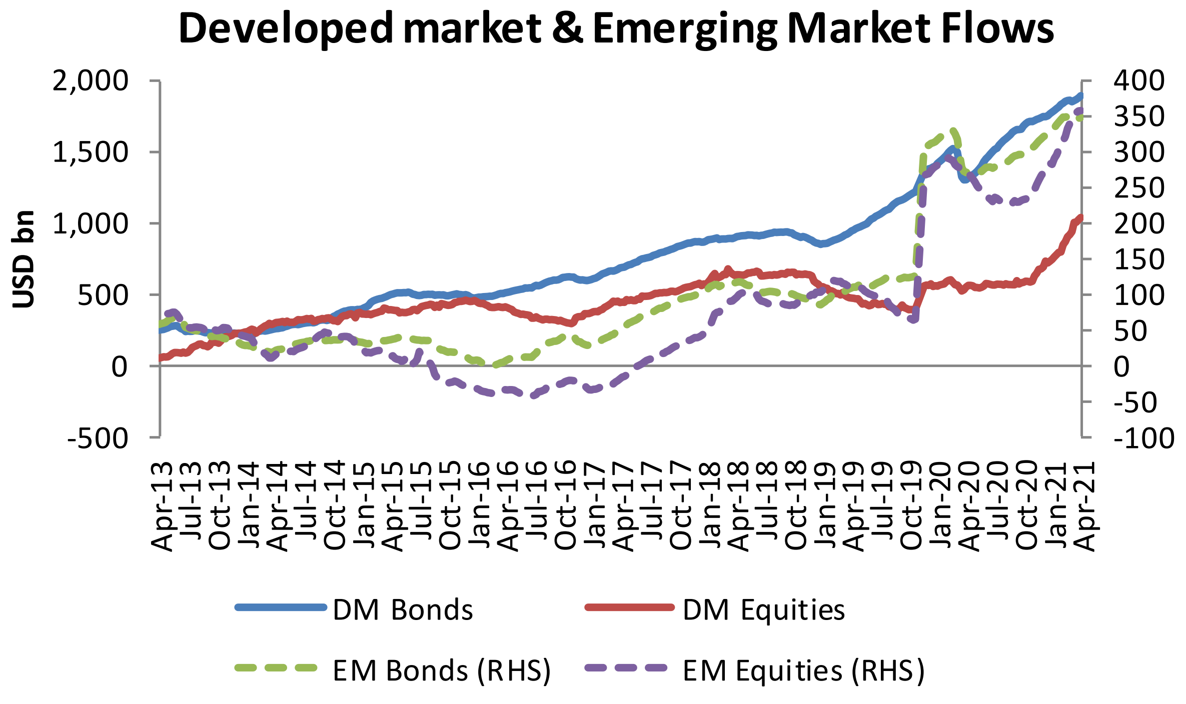




Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $10.8bn worth of inflows while the EM-space registered $588.6mn worth of outflows. Elsewhere, the DM bond space posted inflows of $12.6bn, while EM bonds registered inflows of $936.1mn.



Source: OCBC Bank, EPFR

Thank You

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