Weekly Macro Views (WMV)

Treasury Research & Strategy (17th August 2021)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

16th August	17th August	18th August	19th August	20th August
- JN GDP - JN Industrial Production - CH Industrial Production - CH Retail Sales - TH GDP - US Empire Manufacturing - CA Manufacturing Sales	- SG NODX - UK Jobless Claims - UK ILO - EC GDP - EC Employment - US Retail Sales - US Industrial Production - US NAHB Housing Market Index	- NZ RBNZ Official Cash Rate - UK CPI - CA CPI - EC CPI - JN Core Machine Orders - JN Trade Balance - HK Unemployment Rate	- US Initial Jobless Claims - US Leading Index - US Philadelphia Fed Business Outlook - AU Unemployment Rate - ID Bank Indonesia 7D Reverse Repo - HK CPI Composite	- JN Natl CPI - TH Foreign Reserves - TA Export Orders - CA Retail Sales - MA Foreign Reserves - SK PPI - GE PPI - NZ Credit Card Spending - UK Retail Sales

Summary of Macro Views:

Global	• **Global:** Lower sentiment amid surge in Delta cases • **Global:** Central banks • **Global:** US consumer inflation starts to cool • **Global:** US Senate passes $1.2tn infrastructure bill • **Global:** US jobless claims falls again
Asia	• **SG:** MTI upgrades 2021 growth forecast • **SG:** Upgrading our 2021 NODX growth to 8.0% • **HK:** Government revised 2021 GDP growth forecast • **HK:** Emigration and ageing population • **Macau:** Housing transaction dropped by 23.6% yoy

Asia	• **CH:** Weaker than expected July data • **CH:** New blueprint towards a rule of law gov • **MY:** Better Q2 GDP, but 2021 forecast down • **MY:** PM Muhyiddin quit, but then what? • **ID:** Pillars of Stability
Asset Class	• **Oil:** Price rout likely over • **Gold:** Expect tough resistance on gold at $1800 • **FX & Rates:** UST yields dipped on Friday
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: Lower sentiment amid surge in Delta cases

- University of Michigan sentiment index plunged from 81.2 in July to 70.2 in August, the lowest in nearly a decade amid the recent surge in Delta cases. Both the current conditions and expectations gauges slipped to 77.9 and 65.2 respectively, down from 84.5 and 79.0 previously.
- **Other key developments:**
  - Malaysia's Prime Minister Muhyiddin Yassin and his cabinet have submitted their resignation to the king on Monday, 16th August 2021.
- **Key data release are as follows:**
  - 16th August: JN GDP, JN Industrial Production, CH Industrial Production, CH Retail Sales, TH GDP, US Empire Manufacturing, CA Manufacturing Sales
  - 17th August: SG NODX, UK Jobless Claims, UK ILO, EC GDP, EC Employment, US Retail Sales, US Industrial Production, US NAHB Housing Market Index
  - 18th August: NZ RBNZ Official Cash Rate, UK CPI, CA CPI, EC CPI, JN Core Machine Orders, JN Trade Balance, HK Unemployment Rate
  - 19th August: US Initial Jobless Claims, US Leading Index, US Philadelphia Fed Business Outlook, AU Unemployment Rate, ID Bank Indonesia 7D Reverse Repo, HK CPI Composite
  - 20th August: JN Natl CPI, TH Foreign Reserves, TA Export Orders, CA Retail Sales, MA Foreign Reserves, SK PPI , GE PPI , NZ Credit Card Spending , UK Retail Sales

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Global: Central banks

Forecast – Key Rates

Reserve Bank of New Zealand (RBNZ)	Bank Indonesia (BI)
Wednesday, 18 August	**Thursday, 19 August**

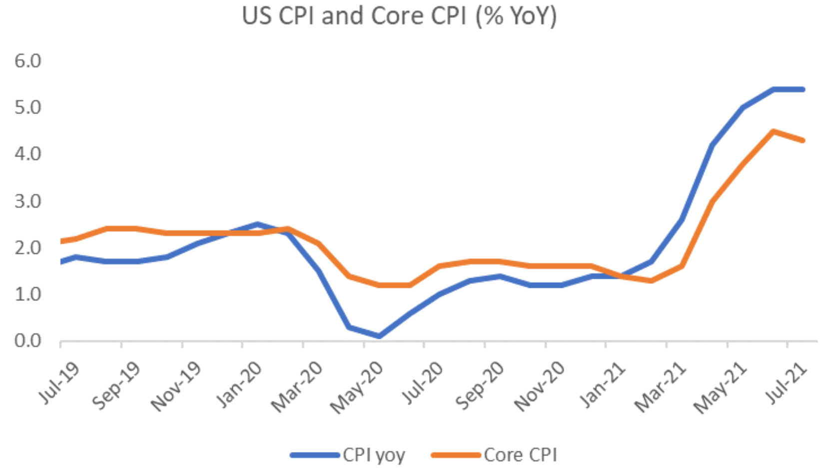
House Views

Official Cash Rate	*7D Reverse Repo*
Likely hold at 0.25%	**Likely hold at 3.50%**

Source: OCBC, Bloomberg

Global: US consumer inflation starts to cool

- US CPI rose 5.4% yoy in July, matching the largest increase since August 2008. On a m/m basis, CPI rose 0.5%.
- Core inflation failed to beat expectations for the first time since Feb’21, rising 0.3% m/m.
- The used vehicles segment showed the largest decline in inflationary pressure, rising only 0.2% m/m in July after adding 10.5% and 7.3% m/m in June and May respectively.
- Transportation services declined into negative territory after adding 1.5% m/m each in May and June.
- The softening CPI print is consistent with the Fed’s views that current consumer inflationary pressures may be transitory.



Source: OCBC, Bloomberg

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Global: US Senate passes $1.2tn infrastructure bill

- The Senate passed a $1.2tn bipartisan infrastructure bill as Democrats move ahead with their economic agenda.
- The Infrastructure Investment and Jobs Act features $550bn in new federal spending over five years.
- Some noteworthy investments include $110bn in roads, bridges and major projects; $66bn in passenger and freight rail; $65bn to expand broadband internet access and $55bn for water infrastructure.
- A second $3.5tn spending plan is also under approval from the house of representatives.

Source: Bloomberg

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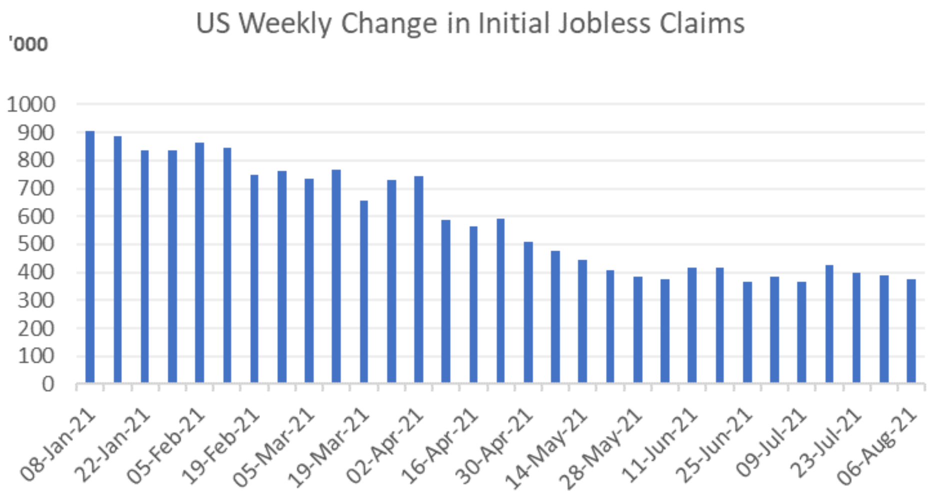
Global: US jobless claims falls again

- Initial unemployment claims totaled 375k in the week ending 7th Aug, in line with estimates, and a decline of 12k from the prior week.
- Jobless claims have been largely decreasing this year in line with higher economic activity and improving business conditions leading to a record number of job openings.
- The latest jobs report showed nonfarm payrolls increasing 943k in July, the biggest increase in nearly a year, while the unemployment rate dropped to a pandemic low of 5.4%.
- US employment growth may slow in the months ahead as the Delta variant creates further friction in matching jobseekers and hirers.



Source: Bloomberg, OCBC

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SG: MTI upgrades 2021 growth forecast

- 2Q21 GDP growth was revised up to 14.7% yoy (-1.8% qoq sa), up from the initial flash estimate of 14.3% yoy (-2.0% qoq sa) and compared to 1Q21 readings of 1.5% yoy (3.3% qoq sa).
- MTI upgraded the full-year growth forecast from 4-6% yoy to 6-7% yoy, citing a gradual recovery in the second half of the year, supported in large part by outwards-oriented sectors and the progressing easing of domestic and border restrictions.
- Outward-oriented sectors like manufacturing, wholesale trade, finance & insurance and infocomms are expected to remain robust, whereas aviation and tourism-related sectors may remain sluggish amid unpredictable Delta variants.
- Our 2021 GDP growth forecast remains around 6.7% yoy, followed by a more normalised growth of 2-4% for 2022.

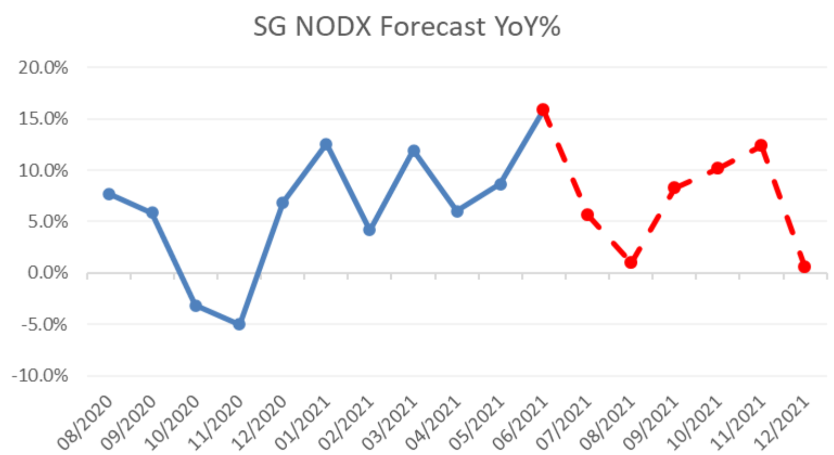
Sectoral Growth Rates

	2Q20	3Q20	4Q20	2020	1Q21	2Q21
	Year-on-Year % Change					
Total	-13.3	-5.8	-2.4	-5.4	1.5	14.7
Goods Producing Industries	-10.0	1.1	3.9	0.3	6.0	21.9
Manufacturing	-0.4	11.0	10.3	7.3	11.4	17.7
Construction	-65.6	-52.5	-27.4	-35.9	-23.2	106.2
Services Producing Industries	-12.7	-8.3	-4.7	-6.9	-0.3	10.3
Wholesale Trade	-3.0	-5.0	1.8	-2.4	3.5	2.9
Retail Trade	-41.3	-8.6	-4.7	-16.0	1.6	50.7
Transportation & Storage	-37.5	-29.0	-27.4	-25.4	-15.8	20.9
Accommodation	-35.5	-20.5	-19.7	-28.7	16.3	13.2
Food & Beverage Services	-45.9	-24.1	-19.0	-25.1	-9.2	36.7
Information & Communications	-0.8	1.4	2.6	2.1	6.8	9.6
Finance & Insurance	3.1	4.2	4.9	5.0	5.7	9.1
Real Estate	-26.4	-17.7	-10.8	-14.2	-3.1	25.8
Professional Services	-16.8	-10.7	-7.5	-9.7	-4.5	9.4
Administrative & Support Services	-20.7	-19.4	-14.9	-15.1	-15.1	-1.3
Other Services Industries	-18.0	-8.7	-5.7	-8.9	0.5	15.8

Source: MTI Singapore

SG: Upgrading our 2021 NODX growth to 8.0%

- Enterprise Singapore upgraded its 2021 NODX growth forecast for Singapore to 7-8% yoy from 1-3% yoy.
- The ongoing semiconductor shortage, improved external demand for specialized machinery and petrochemicals, as well as improved oil prices have spurred export demand.
- Among the top 10 NODX markets, key contributors remain China, Hong Kong and Taiwan, whereas NODX to the US, Japan and EU27 declined in 2Q21, largely reflecting the divergences in the Delta upticks and vaccination progress then.
- We upgrade our 2021 NODX growth forecast from 4% to 8% yoy.



Source: OCBC, Enterprise Singapore

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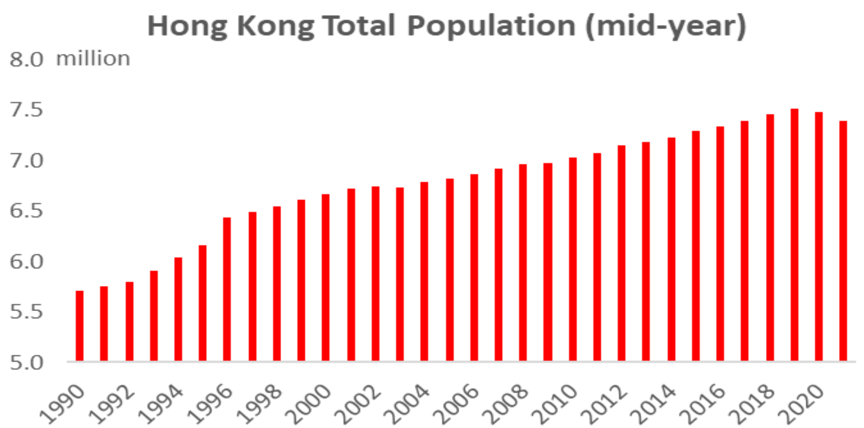
HK: Government revised 2021 GDP growth forecast

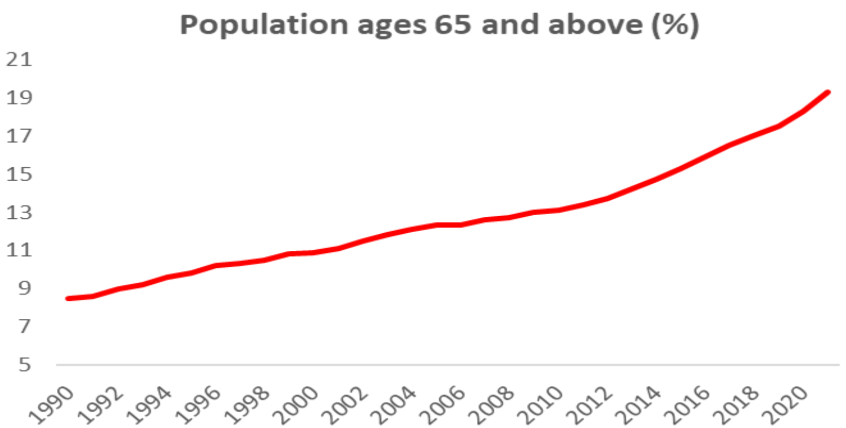
- The final reading of Hong Kong 2Q21 GDP growth was revised higher to 7.6% yoy from the initial reading of 7.5% yoy. Moving into 2H21, the main economic growth drivers may shift to local consumption and fixed investments as the local epidemic remains well contained while the e-consumption vouchers together with the faster-than-expected decrease in unemployment rate may help to restore consumer/business sentiments. Still, stronger economic recovery would require full and safe border reopening and further relaxation of social distancing measures. However, the Delta variant outbreaks in both China and Macau may make Hong Kong government more cautious about loosening the containment measures. In a nutshell, we tip a 6% GDP growth for 2021, assuming partial border reopening in 4Q21. The government also revised up 2021 GDP growth forecast from 3.5%-5.5% to 5.5%-6.5%. Downside risks include lingering pandemic uncertainty, US-China tensions, China's regulatory risk, faster-than-expected tightening of the Fed and slower-than-expected vaccination across Asian countries.

	五月十四日所作預測 Forecasts as released on 14 May	最新預測 Latest forecasts
經濟增長率 Real GDP growth	3.5-5.5%	5.5-6.5%
基本通脹率 Underlying inflation	1%	1%
整體通脹率 Headline inflation	1.6%	1.6%

HK: Emigration and ageing population

- Last week, Hong Kong's latest population statistics were in the spotlight. Specifically, the city recorded a net outflow of 89,200 other Hong Kong residents during mid-2020 to mid-2021. The decline in population may be attributable to migration of local residents and the border controls which impeded inflows of One-way Permit holders, foreign domestic helpers/workers/students. Given the record high CCL index, the decade low HIBOR, a relatively strong HKD, steady growth of total deposits and the gradual economic recovery, the impact of the recent wave of emigration on Hong Kong's economy, housing market and HKD liquidity appeared to have been limited. Once the border reopens fully and safely, we may even see a rebound in flows of immigrants. Compared to emigration, ageing population (population ages 65 and above took up 19.3% of total population as of mid-2021, up from 15.9% as of mid-2016) may be a bigger concern for Hong Kong's long-term development as it would increase the burden on public finance which has already weakened amid the launch of several rounds of anti-epidemic funds.

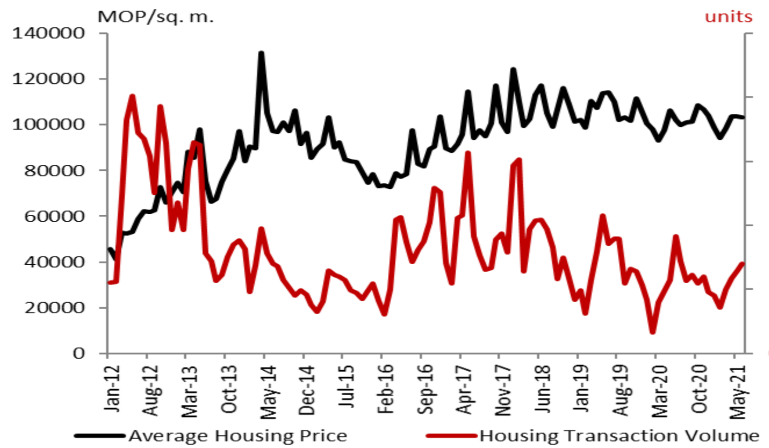




Source: HK Census and Statistics Department, OCBCWH

Macau: Housing transaction dropped by 23.6% yoy

- Housing transaction volume reached the highest level since last July at 700 deals in June. During the same month, average housing price rose by 1.2% yoy to MOP103,238/square meter while approved new residential mortgage loans rose by 26.8% mom to MOP3.85 billion, the strongest since last September, probably due to the resilient stock market and low local rates. However, housing transaction volume dropped by 23.6% yoy while average housing price fell by 0.5% mom in June. Meanwhile, approved new residential mortgage loans decreased by 16.7% yoy. This indicates that the housing market has not yet returned to the pre-pandemic levels.
- Going forward, we expect the housing market's upside to remain capped. First, the purchasing power of local first-homer buyers, the main players in the housing market, may have waned since supportive measures were rolled out more than 3 years ago. Second, stock market correction in July may have hurt investor sentiments. Third, cooling measures and the subdued housing rentals remain a drag.
- Fourth, Covid-19 resurgence at home and in China may have slowed down Macau's economic growth. Lastly, private home demand may be diverted given the upcoming public housing launches. In conclusion, we expect average housing price to rise by up to 3% yoy by end of this year.



Source: DSEC, Macau Financial Services Bureau, OCBCWH

China: Weaker than expected July data

- The Chinese economy slowed by more than expected pace in July due to stacked effects from floods in Central China, outbreak of delta variant, chip shortage and weaker fiscal expenditure.
- Although manufacturing sector remained the bright spot, it may not be enough to lift China out of downward slope of economic cycle.
- The recent weakness justified increasing expectation on more monetary easing policy.

Table 1: China's growth adjusting for base effect

	Jul-21	Two-year average in 1Q	Two-year average in 1H	Two-year average Jan-July
GDP	N.A	5%	5.30%	N.A
Industrial production	6.40%	6.80%	7.00%	6.70%
Retail sales	8.50%	4.20%	4.40%	4.30%
Fixed asset investment (ytd)	10.30%	2.90%	4.40%	4.30%
Manufacturing investment (ytd)	17.30%	-2.00%	2.00%	3.10%
High tech manufacturing investment (ytd)	20.70%	9.90%	14.60%	14.20%
Infrastructure investment (ytd)	4.60%	2.30%	2.40%	0.90%
Property investment (ytd)	12.70%	7.60%	8.20%	8.00%

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Source: Bloomberg, Wind, OCBC

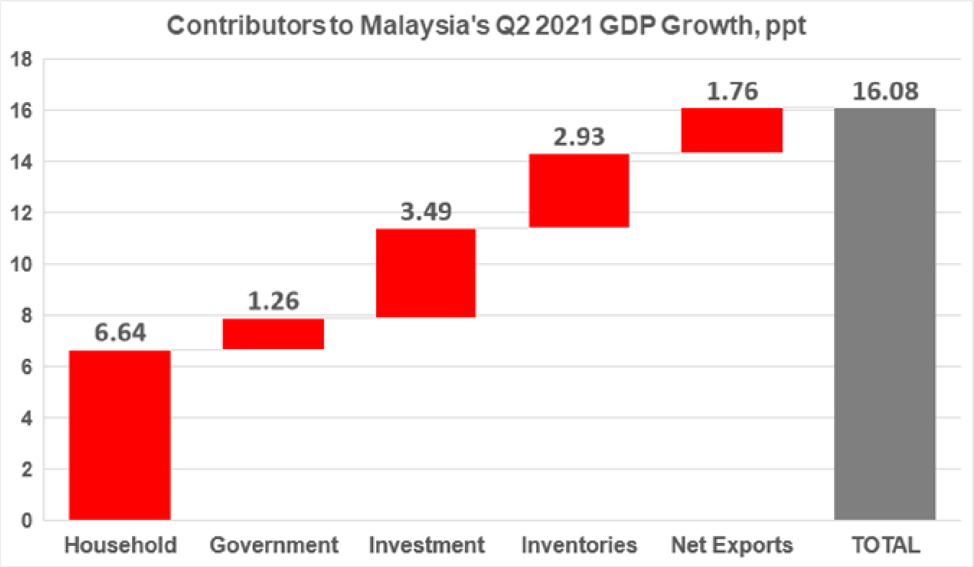
China: New blueprint towards a rule of law gov

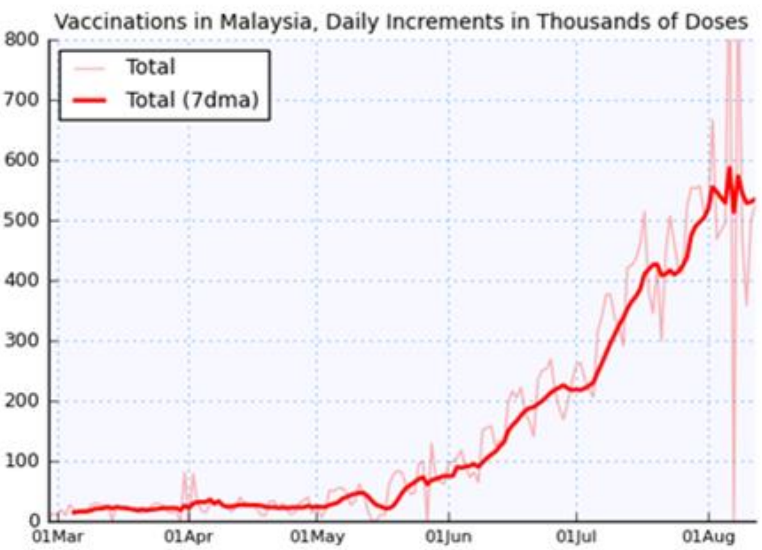
- Against the backdrop of recent regulatory clampdown on tech sectors, China's latest five-year blueprint to build a rule of law government jointly issued by the Central Committee of the Communist Party of China and the State Council has caught market attention.
- The new five-year plan shows that the government function will be improved in various fields including economic adjustment, market supervision, social management, public service, and environmental protection. In addition, China will also bring forward legislation in key areas such as national security, technological innovation, public health, culture and education, religious, biosecurity, risk prevention, anti-trust etc.
- Nevertheless, Chinese government's commitment to foreign investment remains intact. It pledges improvements in the system of pre-establishment national treatment plus a negative list for foreign investment. Foreign investors remained confident in China's business environment with China's utilized foreign direct investment in the first seven months rose by 25.5% yoy to CNY672.19 billion. China's service sector drew the most inflows of FDIs which accounted for 79.7% of total FDI.

Source: Bloomberg, Wind, OCBC

Malaysia: Better Q2 GDP, but 2021 forecast down

- While its Q2 GDP was better than expectations at 16.1% yoy, Malaysia's economy has become so impacted by the ongoing resurgence fight that BNM has essentially cut its full-year 2021 growth forecast in half, from 6.0-7.5% before to now 3.0-4.0%.
- To us, the severe slashing of growth outlook may be a prelude to a potential cut in the policy rate when the BNM meets next on Sep 9. Even as it pointed out a gradual recovery to come in Q4 and growth acceleration into next year, the bodily blows that the economy is suffering through now, as reflected in the new downbeat forecast, necessitates a response in the form of easing.

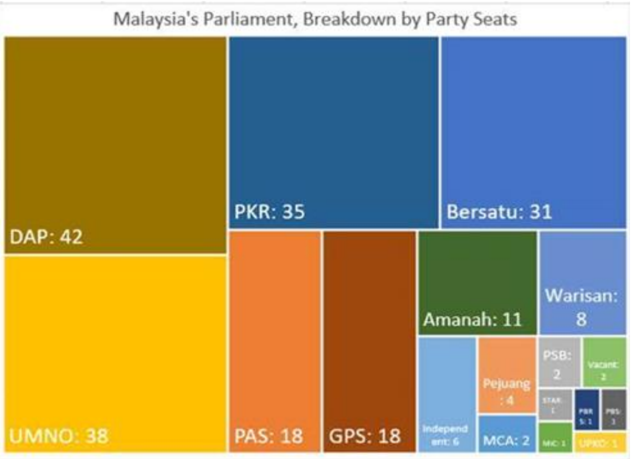




Sources: OCBC, Bloomberg.

Malaysia: PM Muhyiddin quit, but then what?

- PM Muhyiddin quit on Monday, marking the second time that a sitting PM has done so in less than two years and leaves him to go down in history as the shortest-serving PM thus far. His departure may not offer a decisive break from the drama, however.
- In normal times, the PM's departure would bring an election within 60 days. But that is untenable given the virus resurgence. That leaves anything from the ideas of a minority government, or a grand unity administration involving all major political parties, or a technocratic government helmed by non-politicians on the table. UMNO stalwart might find a way to form a new government too – if it heals its internal rift before.
- The situation remains extremely fluid and subjected to the moves and countermoves by a multitude of players in a fractured landscape. So far, while there have been some market movements, including MYR weakening, the degree remains small and discreet, fortunately.



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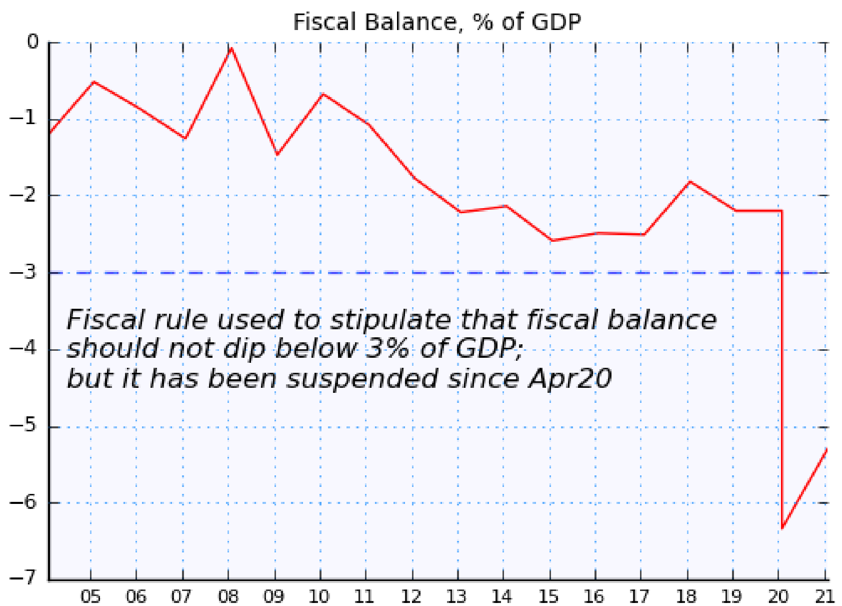
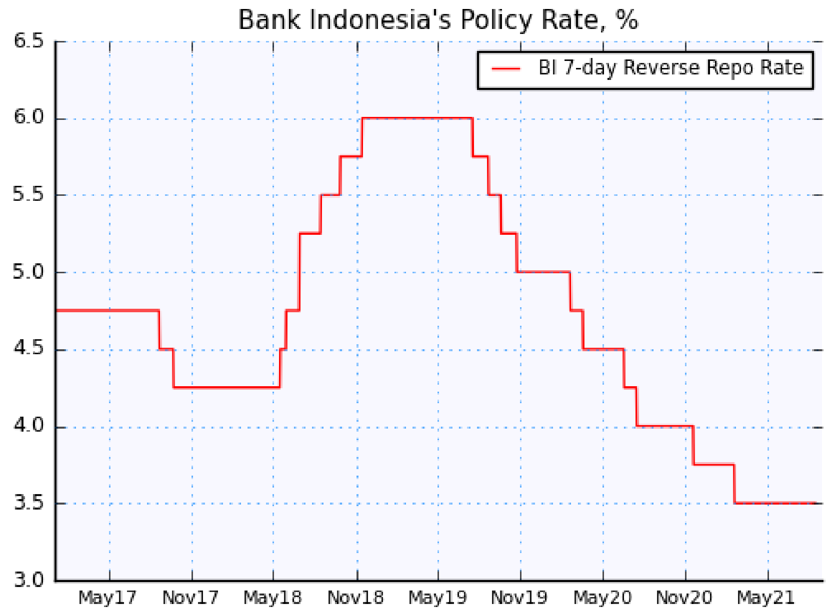
Sources: OCBC, Bloomberg.

Indonesia: Pillars of Stability

- President Jokowi delivered his state of the nation speech on Monday, ahead of Indonesia's 76th birthday. In it, he noted that the government is projecting a fiscal deficit of 4.85% of GDP. He reiterated the government's goal of returning to the fiscal rule of below 3% of GDP by 2023.
- Together with Bank Indonesia's prudent stance of keeping its policy rate stable – most likely including in this week's MPC meeting – the fiscal consolidation forms the pillars of stability that allow Indonesia to ride out some periods of market concern, despite the challenges posed by the economic slowdown and ongoing pandemic resurgence.



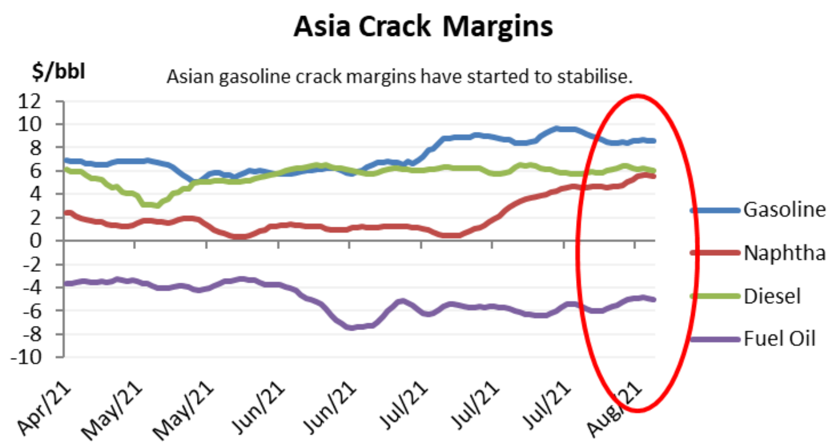


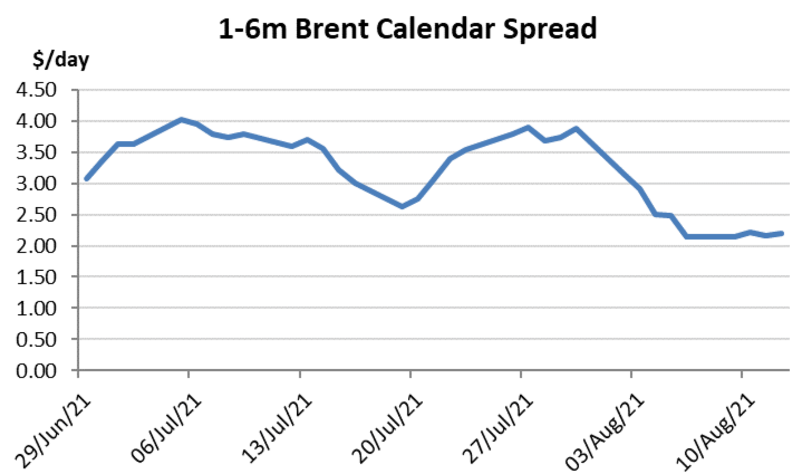
Sources: OCBC, Bloomberg.

Commodities

Oil: Price rout likely over

- Asian crack spreads have stayed stable since Tuesday while the 1-6m Brent calendar spread appears to have found a bottom at around 85 cents.
- Given the stabilisation of these two key spreads, it suggests the impetus for oil prices to further decline may have largely diminished.
- We see strong buying interest for crude oil at $70.
- We continue to adopt a bullish tilt to the energy complex.





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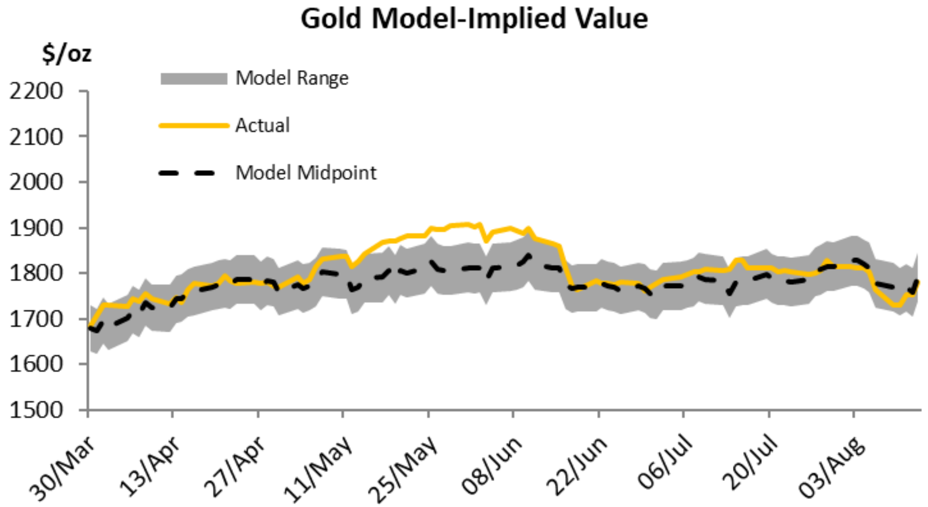
Source: OCBC, Bloomberg

Gold: Expect tough resistance on gold at $1800

- The two-day decline in gold prices post US NFP may have looked a tad excessive vis-à-vis the movements in Treasury yields and the dollar.
- Our model sees a fair value range for gold from $1735 to $1845, so at the current level of $1780, gold is somewhere near the middle of this range.
- The FOMC minutes is likely to determine gold's next near-term direction, where a hawkish report may send gold tumbling once more.
- From now till the report, however, we expect the upward momentum in gold to carry it towards the $1800 resistance.



Source: OCBC estimates; data from Bloomberg

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Foreign Exchange & Interest Rates

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FX & Rates: UST yields dipped on Friday

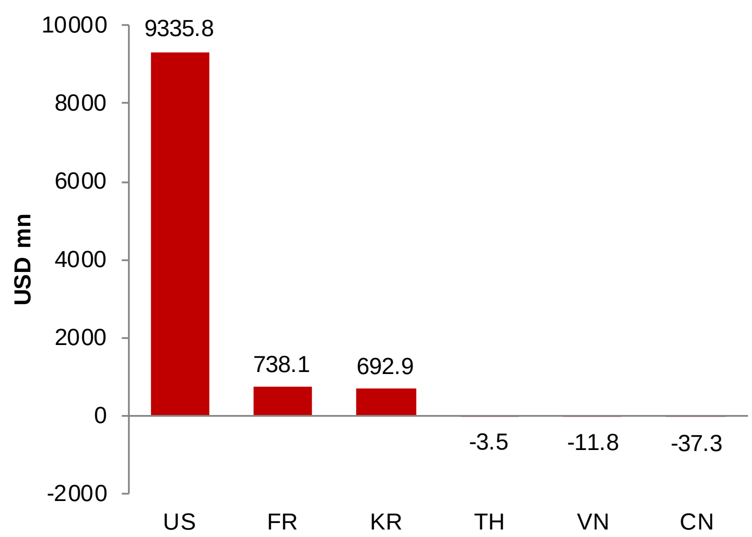
- Big miss on the UMich consumer sentiment set the tone on Friday. Back-end UST yields dipped by 6-8 bps in response. The broad USD was already heavy on Fri before the NY session and the UMich data release. The data just gave it another leg lower.
- Treasury yields slid on Friday upon the weak US consumer sentiment survey, while delta virus concern lingered. The 10Y nominal yield is back to below the key 1.288% level, with the next resistance for the bond at 1.14% while support is at 1.36%. This week brings long-end supply of the 20Y coupon bond on Thursday and 30Y TIPS on Friday.
- Headline risks will be dominated by the central banks again this week.. Eyes will be on Powell (Tue) and Fed minutes (Wed). RBA minutes (Tue) and decisions at RBNZ (Wed) and BI (Thu) are also scheduled.
- In China, the PBoC rolled over CNY600bn of the maturing CNY700bn of MLF, while saying the liquidity released from the July RRR cut can be used to cover the remaining. The amount of roll-over is larger than expected; but the reliance on liquidity on the earlier RRR cut to cover the balance is a mild disappointment to the market, as not even the short-term OMOs are used. Our expected range for the 10Y CGB yield stays at 2.80-3.00%.

Asset Flows

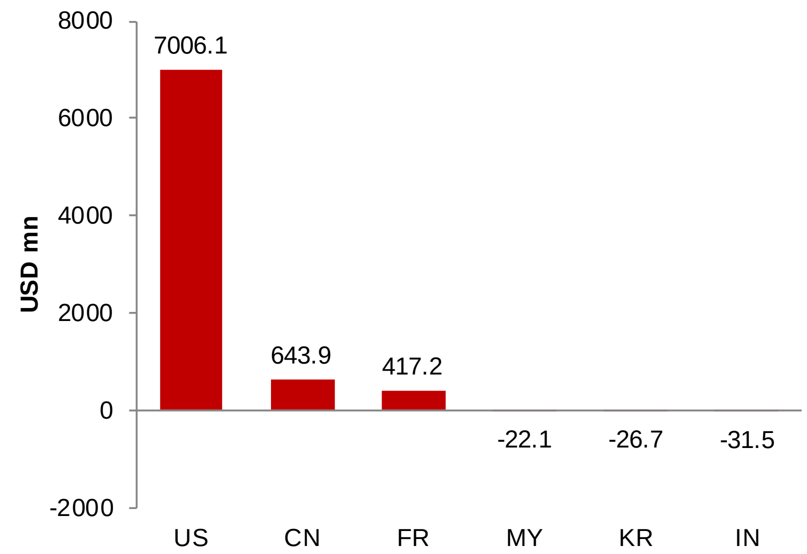
Global Equity & Bond Flows

- Inflows in the global equity market for the week ended 11 August amounted to $15.5bn, an increase from the inflow of $4.7bn last week. Global bond market saw inflows amounting to $10.1bn, a decrease from last week's inflows of $12.0bn.

Equity top gainers & losers



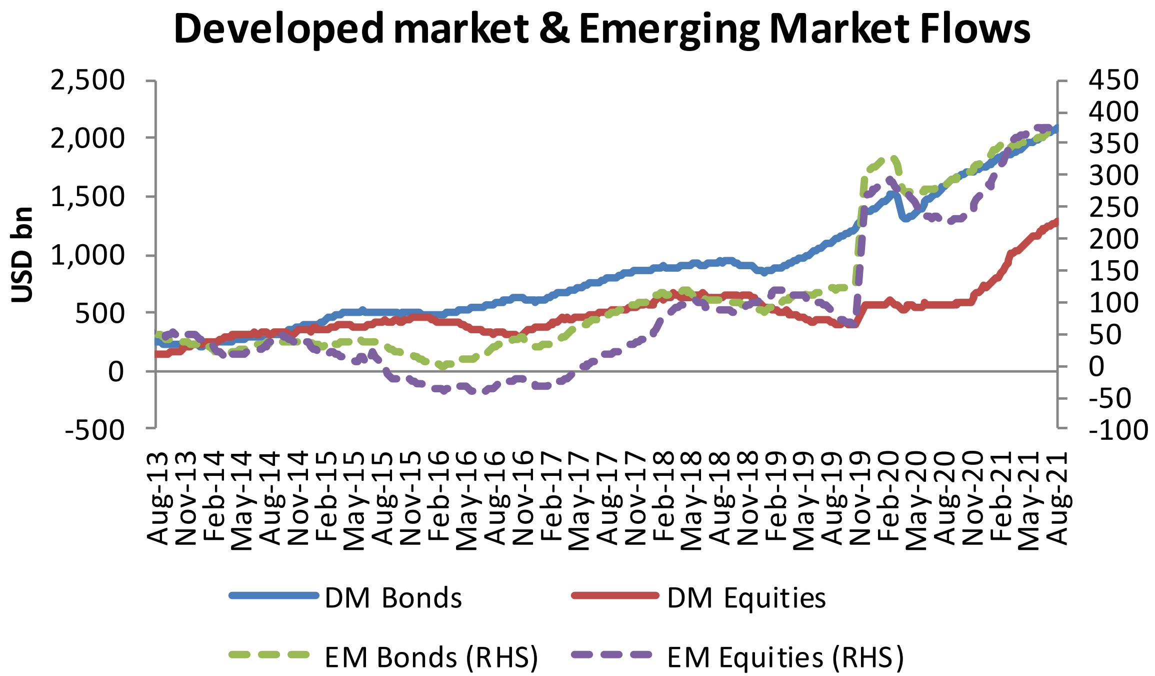
Bonds top gainers & losers



Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $14.3bn worth of inflows while the EM-space registered $1.1bn worth of inflows.
- Elsewhere, the DM bond space posted inflows of $9.9bn, while EM bonds registered inflows of $85.9mn.



Source: OCBC Bank, EPFR

Thank You

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