Weekly Macro Views (WMV)

Global Markets Research & Strategy

10 June 2024

Weekly Macro Update

Key Global Data for this week:

10 June	11 June	12 June	13 June	14 June
• **JN** GDP SA QoQ • **JN** Inventory Contribution % GDP • **CH** Money Supply M2 YoY • **MA** Industrial Production YoY	• **UK** Payrolled Employees Monthly Change • **UK** ILO Unemployment Rate 3Mths • **PH** Exports YoY • **SK** BoP Current Account Balance	• **CH** CPI YoY • **US** CPI MoM • **TH** BoT Benchmark Interest Rate • **JN** PPI YoY • **GE** CPI YoY • **UK** Industrial Production MoM	• **US** Initial Jobless Claims • **US** FOMC Rate Decision (Upper Bound) • **AU** Unemployment Rate • **TA** CBC Benchmark Interest Rate • **US** PPI Final Demand MoM	• **JN** BOJ Target Rate • **JN** Industrial Production MoM • **US** U. of Mich. Sentiment • **US** Import Price Index ex Petroleum MoM

Summary of Macro Views:

Global	• **Global:** Central Banks • **Global:** US NFPs Beat Estimates, But Signs of Cooling Observed • **Global:** Euro Area Recovery Underway • **Global:** South Korea GDP Rebounds, Inflation Eased • **Global:** Japan GDP Revised Up, Remains in Contraction
Asia	• **SG:** Retail Sales Disappointed In April • **CN:** External Demand Remains Supportive • **MO:** Housing Price Dropped Further • **IN:** Modi 3.0: The Going Will Be Tougher

Asia	• **ID:** An Eye on IDR • **MY:** Diesel Subsidy Rationalization In Effect • **MY:** Mixed April Industrial Production • **PH:** Inflation Ticked Higher in May • **TH:** Headline CPI Back Within BOT's Target
Asset Class	• **Crude Oil:** Oil Prices Under Pressure • **ESG:** China's upcoming carbon footprint management system for products • **FX & Rates:** Payrolls Surprise; Election Jitters • **Global Asset Flows**

OCBC

Global: Central Banks

Forecast – Key Rates

Bank of Thailand (BOT)	Federal Open Market Committee (FOMC)	Central Bank of the Republic of China (Taiwan)(CBC)	Bank of Japan (BOJ)
Wednesday, 12th June	**Wednesday, 12th June**	**Thursday, 13th June**	**Friday, 14th June**

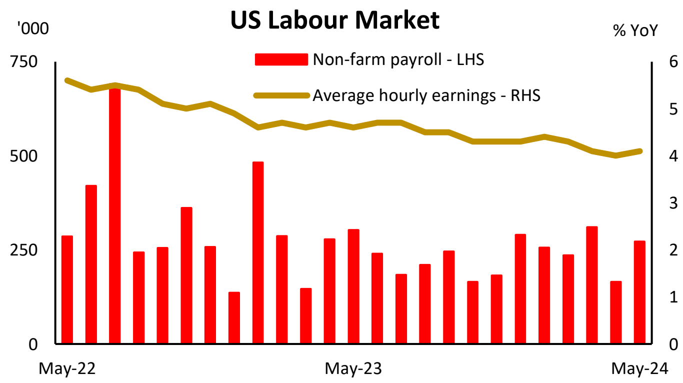
House Views

Benchmark Interest Rate	*Fed Funds Target Rate*	*Rediscount Rate*	*Target Rate (Upper Bound)*
Likely *hold* by *2.50%*	**Likely *hold* at *5.25%* to *5.50%***	**Likely hold at 2.00%**	**Likely *hike* by *10bps* from 0.10% to 0.20%**

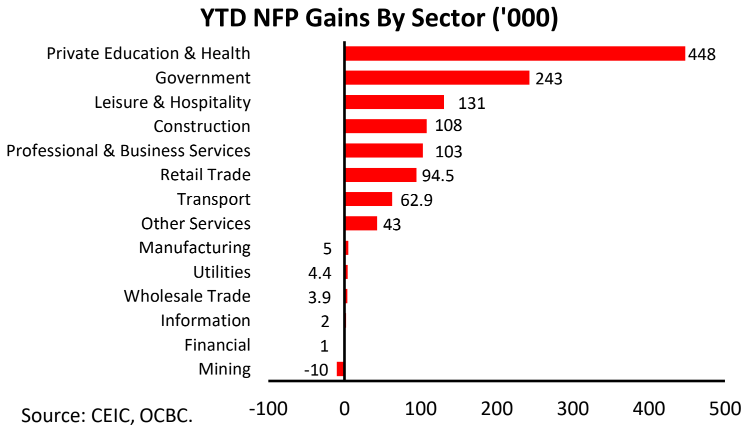
Source: OCBC, Bloomberg.

Global: US NFPs Beat Estimates, But Signs of Cooling Observed

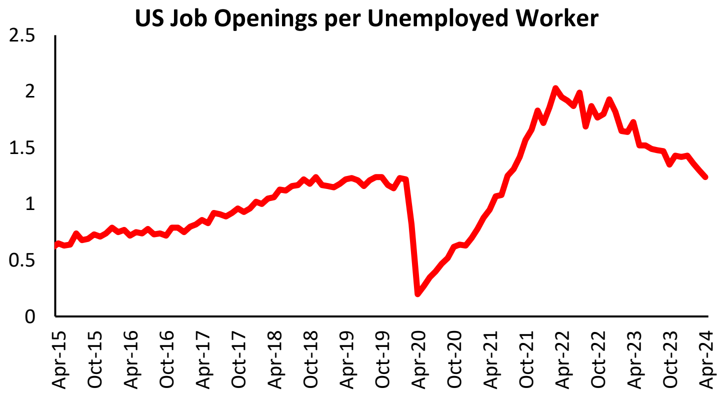
- Another blockbuster nonfarm payrolls print was reported in May with 272k new jobs added from 165k in Apr, exceeding consensus expectations of a 180k increase. Average hourly wage had also risen slightly to 4.1% (Apr: 4.0%). Downward revisions were made to prior data, with a total -15k shaved off past 2 months of headline NFP gains.
- Gains were once more concentrated in acyclical sectors, namely health services (83.5k), government (43k) and leisure and hospitality (42k) – a trend we have observed repeatedly year-to-date.
- The BLS’ household survey, meanwhile, showed signs of labour market cooling. Full time jobs fell back into contraction to -625k, reversing the 949k gain in Apr. The unemployment rate ticked up to 4.0% from 3.9% prior.
- Continuous downward revisions and mixed signals between NFP strength in the establishment survey and softer employment in the household surveys may mean underlying job growth is weaker than what headline payrolls suggest. Our take is that the labour market is heading towards rebalancing, with the vacancies to unemployed worker ratio moving back to 2019 levels.



Source: CEIC, OCBC.



Source: CEIC, OCBC.

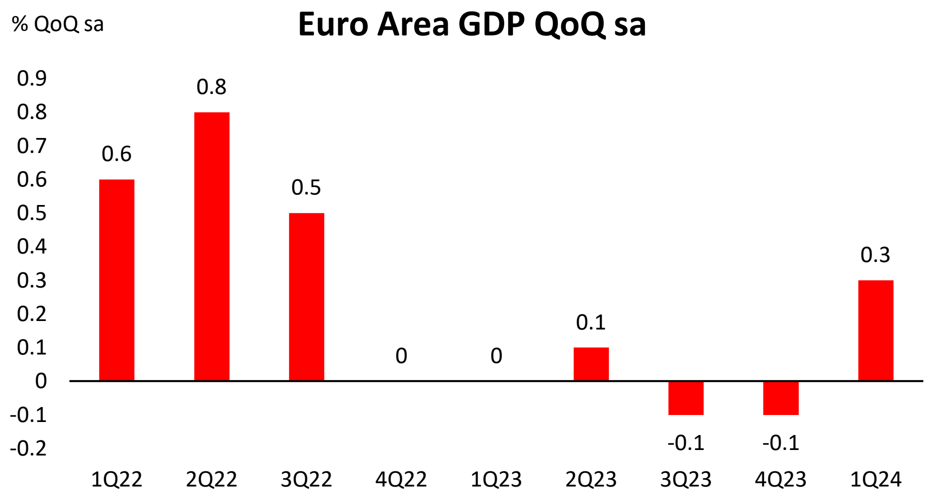


Source: BLS, OCBC.

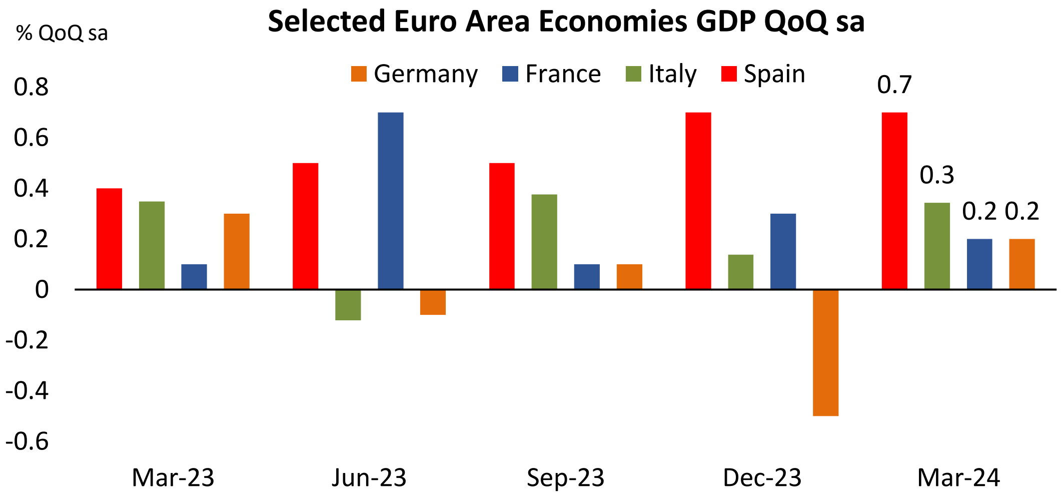
Source: CEIC, BLS, OCBC.

Global: Euro Area Recovery Underway

- Real GDP growth picked up 0.3% QoQ sa in 1Q24 from -0.1% in 4Q23, beating market expectations of 0.2% and the fastest quarterly expansion since 3Q22. This marked an exit from a technical recession amid a challenging 2023, where activity was weak, and consumption restrained by the outpacing of inflation vis-à-vis labour income gains. The outlook has turned slightly more positive, with Germany (0.2% QoQ sa) and France (0.2% QoQ sa) recording firmer-than-expected expansions and southern Europe, namely Italy (0.3%) and Spain (0.7%) leading the bloc on stronger growth.
- Exports improved sharply by 1.4% QoQ sa from 0.2% recorded in 4Q23 but household spending growth remained stagnant at 0.2%. Gross fixed capital formation fell -1.5%, to reverse the 0.8% rise in 4Q23.
- The EU Commission in its Spring Economic Forecast expects the outpacing of growth in southern Europe is likely to continue for the rest of 2024, aided by the post-pandemic tourism recovery and faster export expansion.



Source: Eurostat, OCBC.

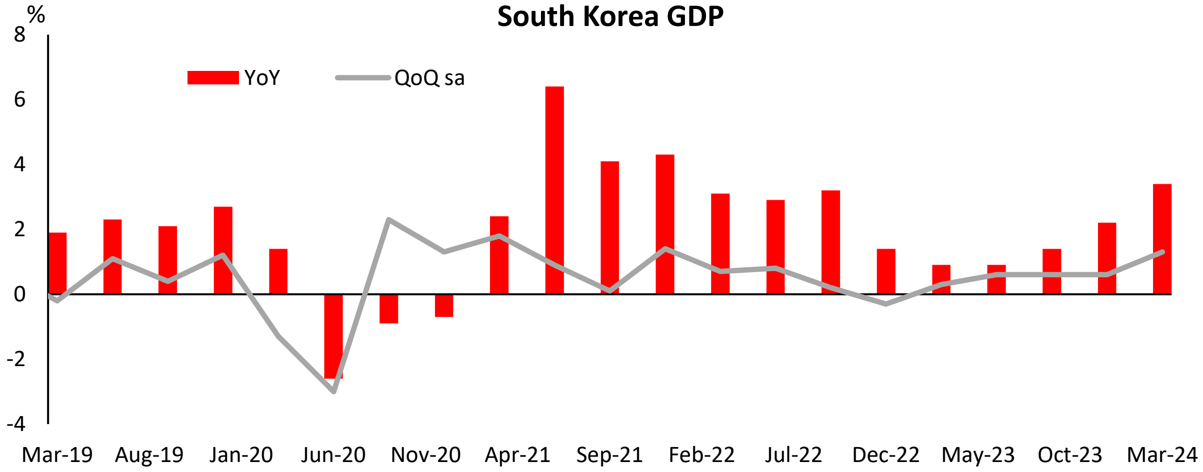


Source: Eurostat, OCBC.

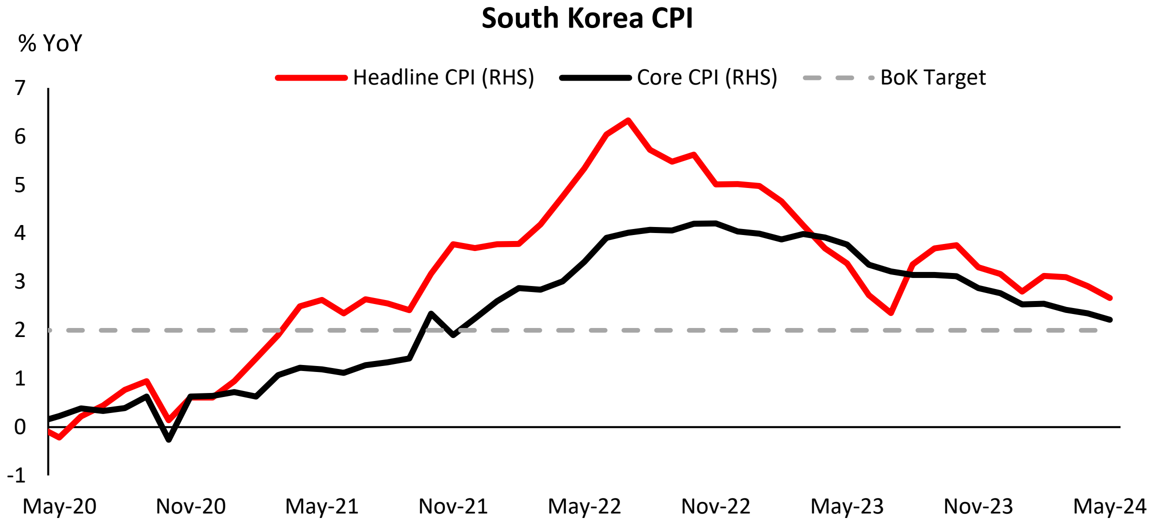
Source: Eurostat, OCBC.

Global: South Korea GDP Rebounds, Inflation Eased

- The final reading for real GDP showed an expansion of 1.3% QoQ sa in 1Q24, in line with the advance estimate and confirming a rebound from 0.5% recorded in 4Q23. This marked the largest expansion since December 2021 and beat consensus expectations of a 0.6% rise.
- Growth was buoyed by construction investment which rose solidly at 3.3% QoQ, while private consumption and government spending both expanded at a 0.8% pace. Main drags came from facilities investment, which fell 2% QoQ due to lower investment in transportation equipment. Further signs of the electronics recovery was evident with exports expanding 1.8% driven by higher IT and electronics shipments.
- Headline inflation eased to 2.7% YoY (0.1% MoM) from 2.9% YoY (0.0% MoM) prior, below expectations of 2.8% YoY (0.2% MoM). This marked the lowest reading since July 2023, with softness coming mainly from food & non-alcoholic beverages (May: 5.1%; Apr: 5.9%), housing and utilities (May: 1.4%; Apr: 1.8%). Pickups mainly came from transport prices which rose 3.8% from 2.9% prior.



Source: CEIC, OCBC.

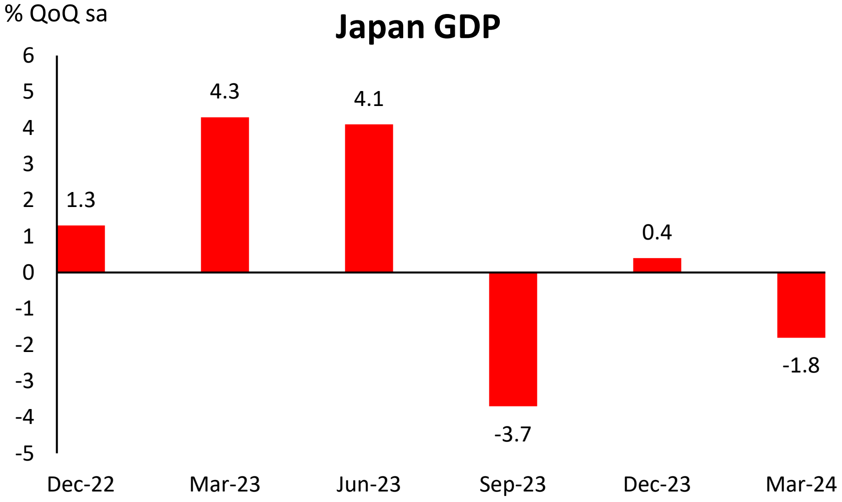


Source: CEIC, OCBC.

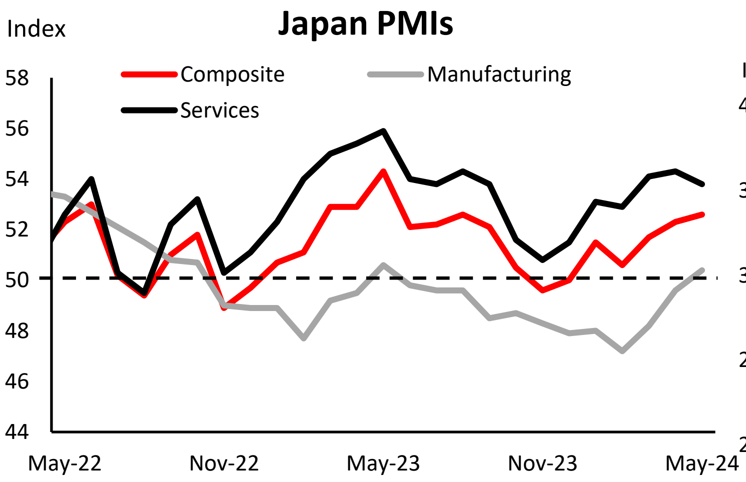
Source: CEIC, OCBC.

Global: Japan GDP Revised Up, Remains in Contraction

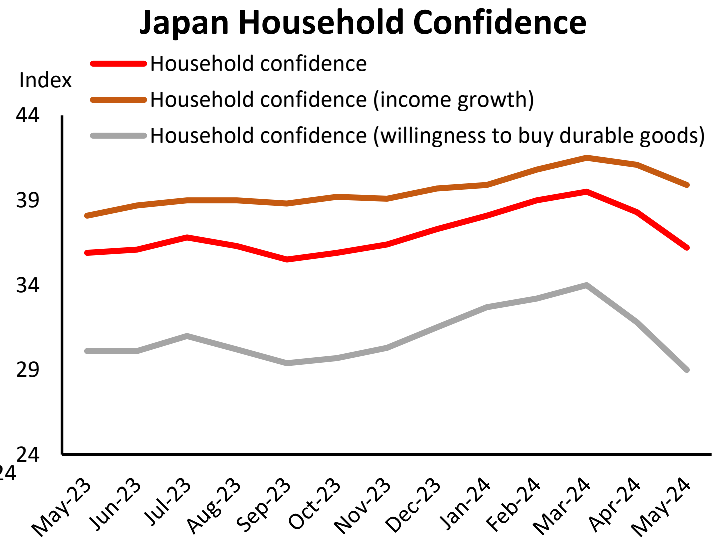
- Final readings showed real GDP contracting at -1.8% QoQ sa annualized in 1Q24, a softer slowdown that the 2.0% recorded in the preliminary reading and following an upwardly revised 0.4% expansion in 4Q23. The final reading was also slightly higher than consensus expectations of -1.9%.
- The main upside came from an upwards revision in capital expenditure, which posted -0.4% QoQ from -0.8% in the initial estimate. Private consumption still showed subdued domestic demand as it remained unchanged from the initial estimate at -0.7%.
- Leading indicators show a pickup in manufacturing activity given improvements in new orders and production, likely due to improved external demand for autos and semiconductor machinery. Consumption may remain the biggest drag on growth, with consumer confidence falling sharply to 36.2 in May (Apr: 38.3), the lowest level since November 2023.



Source: Cabinet Office, OCBC.



Source: Bloomberg, OCBC.



Source: ESRI Japan, Bloomberg, OCBC.

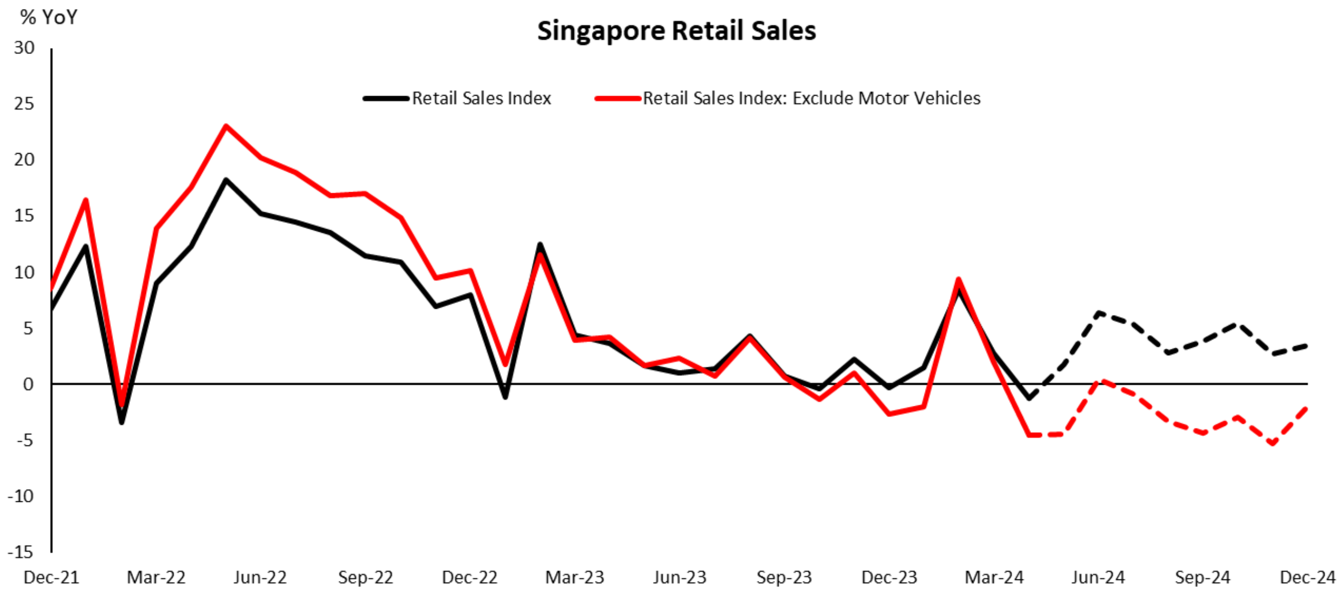
OCBC

Source: Cabinet Office, ESRI Japan, Bloomberg, OCBC.

Singapore: Retail Sales Disappointed In April

- April retail sales slipped 1.2% YoY (-2.7% MoM sa), marking the worst performance since December 2023 (-0.5% YoY). Auto sales soared 25.0% YoY in April, the strongest pickup since January (37.3% YoY), likely attributable to the healthy demand at the Car Expo on 13-14 April but was not sufficient to pull overall retail sales out from contraction territory. Consequently, retail sales excluding autos slumped 4.5% YoY in April, also registering the weakest performance since January 2021 (-8.8% YoY).

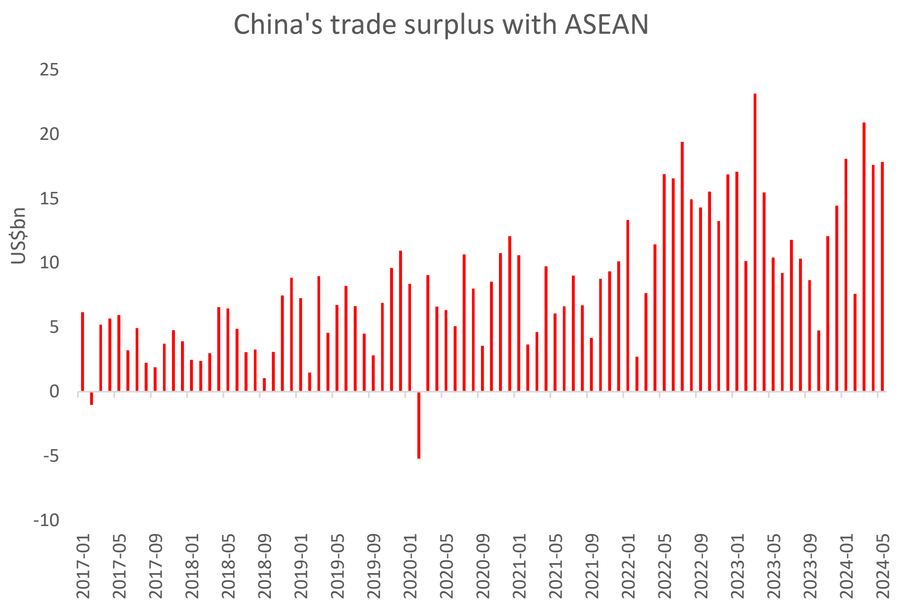
- For the first four months of 2024, retail sales expanded 2.7% YoY. Despite still healthy visitor arrivals, the ongoing strength of the SGD and the absence of key tourist promotion events in 2Q24 as well as the June school holidays when many Singaporean families travel overseas may mean that 2Q24 retail sales could stay muted in 2Q24, before picking up momentum in 2H24 with F1 and the seasonal year-end peak holiday season.

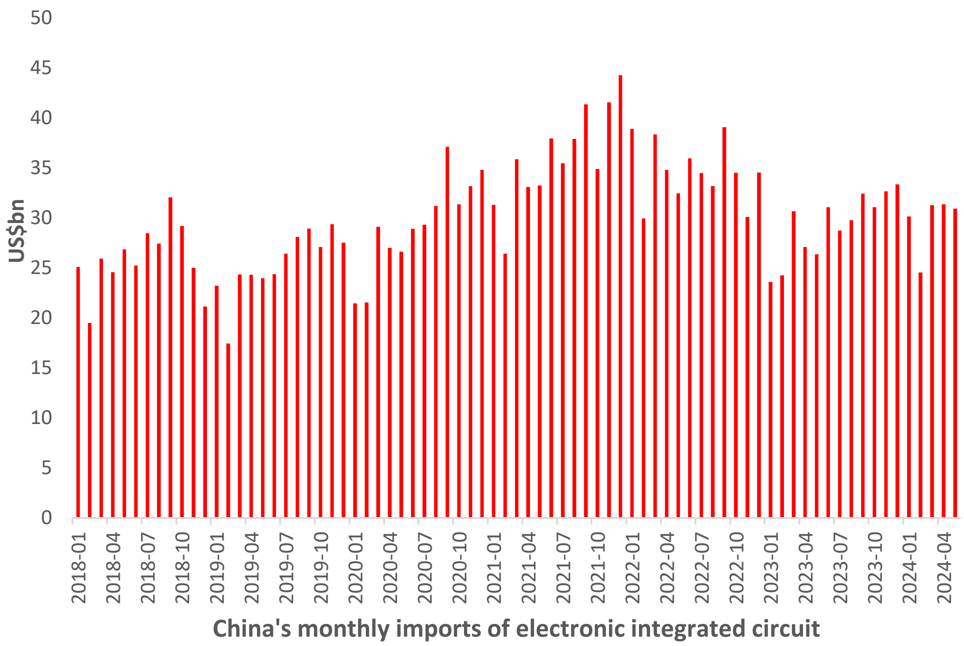


Source: CEIC, OCBC. Note: Dashed lines denote OCBC forecasts.

China: External Demand Remains Supportive

- Exports grew by 7.6% YoY in May, surpassing market expectations, while imports increased by a slower-than-expected 1.8% YoY. The stronger-than-expected export growth aligned with resilient global manufacturing activities, as demand from China's main trading partners improved across the board.
- Notably, exports to ASEAN accelerated to 22.51% YoY in May. Despite this, demand for key commodities remained subdued, with imports of crude oil and iron ore by value falling by 1.9% YoY and 4% YoY, respectively. Nevertheless, imports of integrated circuits by value jumped by 17.3% YoY in May, indicating an ongoing firming up in the tech cycle.



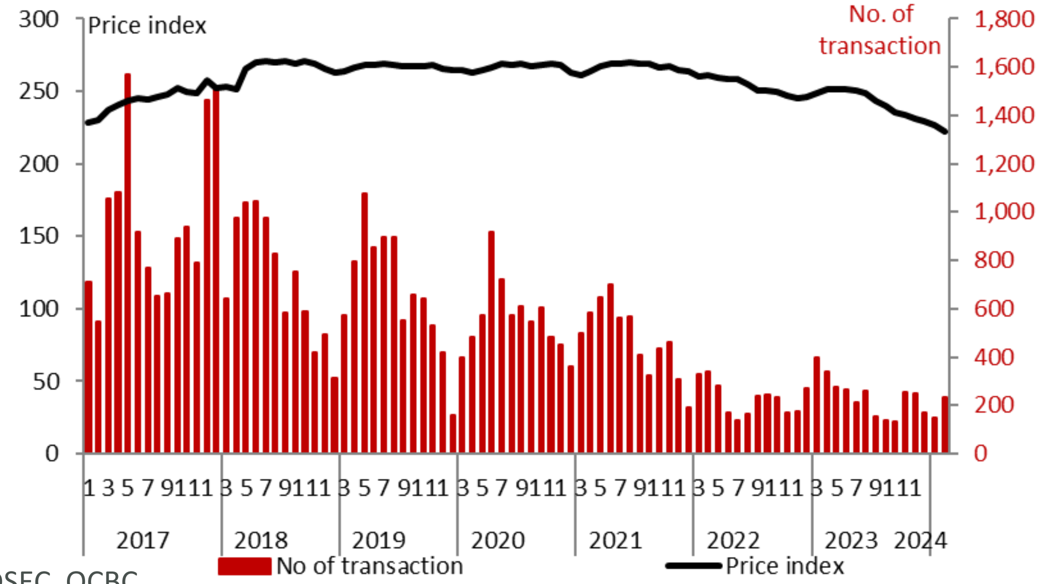


Source: Wind, CEIC, OCBC

MO: Housing Price Dropped Further

- Decline in Macau's home price fell by a faster pace despite the removal of housing cooling measures in April. On year-to-year basis, Macau's residential property price index dropped by 11.6% (-2.0% month-to-month) in three-month ending April 2024. Comparing with the high in 2018, the housing price was down by 18.0%. Meanwhile, trading activities stayed at a subdued level as buyers stayed on the sideline.
- Macau's government removed all housing cooling measures in April this year. These measures include special stamp duties (for all non-resident buyers, properties resold within 24 months and buyers with at least two properties), stress test requirement and upper limit on mortgage-to-value ratio. By the removal of cooling measures, the Macau government hopes to rejuvenate the housing market.
- Yet, local housing market sentiment remained fragile in the face of high mortgage rate, as Fed was likely to delay rate cut to September this year. We now tip the year-on-year decline in housing price at 4-8% for 2024.

Residential property price index and transaction

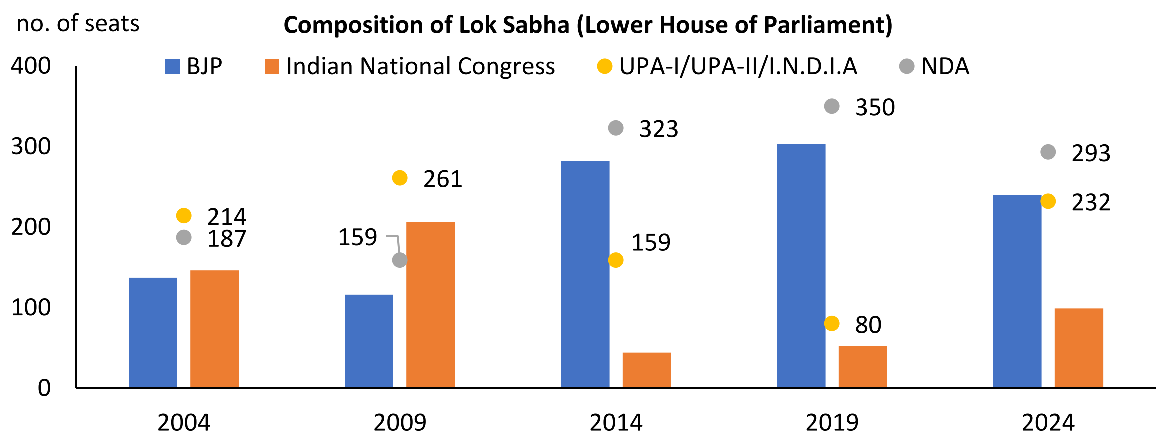


Source: DSEC, OCBC

India: Modi 3.0: The Going Will Be Tougher

Coalition politics is back and PM Modi's third term will be tougher than his previous two

- PM Narendra Modi will get a third term in office, but not without a reality check. The BJP won its lowest number of seats in the Lower House at 240, falling short of the single party majority of a minimum of 272 seats, that it had claimed in the 2014 & 2019 elections. The National Democratic Alliance (NDA), of which the BJP is the biggest party, will remain in power for third term with support from its regional allies with a total of 53 seats.
- The return of coalition politics will rein in the BJP's economic reform agenda. We expect the incoming government will stick to low hanging fruit such as a focus on infrastructure spending and digitalisation. Our GDP growth forecasts for FY25, FY26 and FY27 are 7.2%, 6.2% and 6.0%, respectively versus 8.2% in FY24.
- We expect RBI to cut its policy rate by a cumulative 75bp, in gradual, calibrated cuts from CY4Q24 through to CY2Q25.



Source: Inter-Parliamentary Union; OCBC.

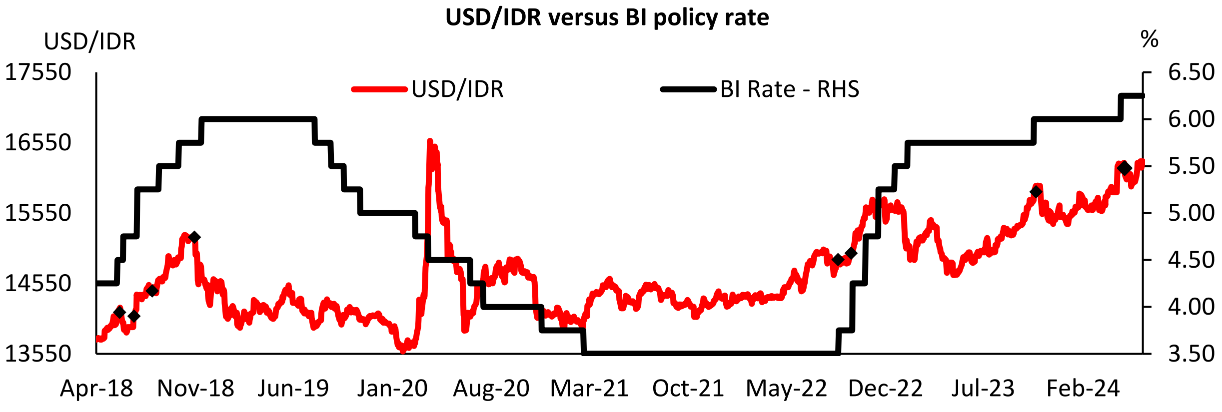
Key reforms undertaken by the PM (2014- March 2024)	
Goods & Services Tax	2016
Insolvency and Bankruptcy Code	2016
National Identity (ADHAR) Cards	2016
Labour reforms	2019-2020
Infrastructure development	2014-2024
Production-Linked Incentives Scheme (manufacturing sector)	2020
Digital India	2015
Economic Missteps	
Demonetisation	2016
Protectionism in the agriculture sector	2022-23
Withdrawal of 2020 agriculture sector reforms	Nov 2021

Source: OCBC.

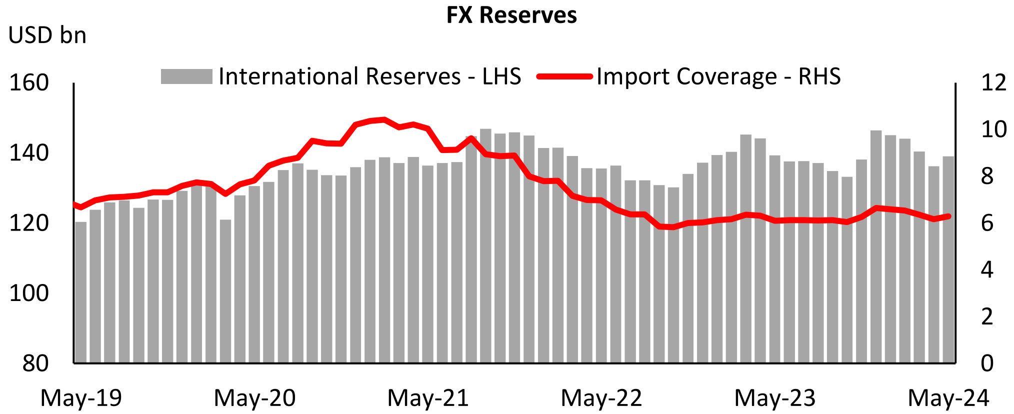
OCBC

Indonesia: An Eye On IDR

- USD/IDR is hitting up against 16,300 – close to levels that prompted Bank Indonesia (BI) to hike its policy rate at its 24 April meeting. Expectations are building for another 25bp hike from BI at its upcoming 20 June meeting.
- We cannot rule it out and assign a 35% probability to the outcome. The reason it is not our base case is a) the pace of IDR depreciation versus USD has been more contained since BI's 22 May meeting (1.4%) compared to between its 20 March -24 April meeting (2.7%); b) FX reserves are higher at USD139.0bn as of the end of May 2024, up from USD136.2mn in April, allowing BI more wiggle room to smooth out IDR volatility.
- The higher reserves in May were due to, among other factors, "tax and services receipts as well as government bonds issuance" according to Bank Indonesia. The current reserves position is equivalent to 6.3 months of imports or 6.1 months of imports and servicing the government's external debt, still well above the international adequacy of three months of imports.



Source: Bloomberg; OCBC.



Source: Bank Indonesia, CEIC, OCBC.

OCBC

Source: Ministry of Finance, CEIC, OCBC.

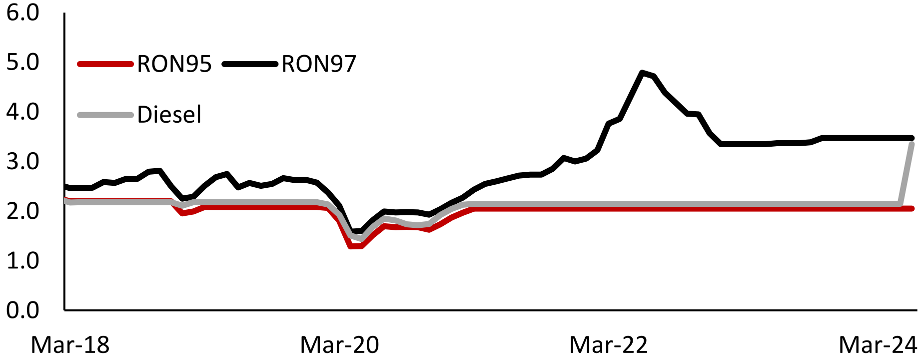
Malaysia: Diesel Subsidy Rationalization In Effect

- Retail diesel prices will be increased by 55.8%, to MYR3.35/liter, starting 10 June 2024 for Peninsular Malaysia. Diesel will be sold at market prices that will be set weekly in Peninsular Malaysia. Prices in Sabah and Sarawak will remain unchanged at MYR2.15/liter. RON95 prices will remain unchanged at MYR2.05/liter.

- The government estimates annual savings of MYR4bn, which is pro-rated to MYR2.5bn for this year. Taken together with the other fiscal measures, we see fiscal savings of 0.5% of GDP. Mandatory e-invoicing from August 2024 onwards can improve tax administration and reduce leakages. As such, the 2024 fiscal deficit target of 4.3% of GDP (2023: 5.0%) looks on track.

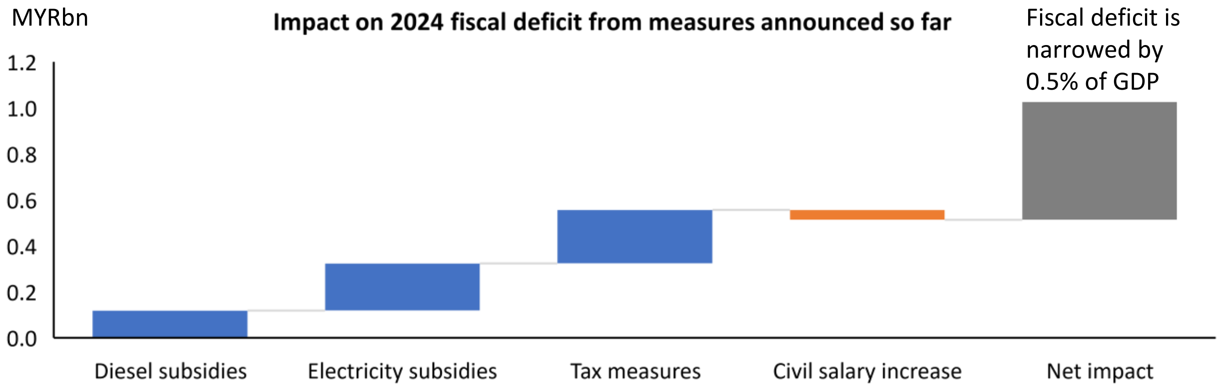
- We estimate that headline inflation will rise to 2.2% YoY in June versus 1.9% in May (OCBC est.). For 2024, our headline inflation forecast is 2.5% YoY, within Bank Negara Malaysia's 2-3.5% forecast range, up from 1.7% year-to-April. We expect BNM to keep its policy rate unchanged but will closely monitor incoming data and watch its rhetoric at its 11 July meeting.

Retail fuel prices: Diesel prices have been adjusted 55.8% higher to reflect market prices from 10 June 2024



Source: CEIC; OCBC

Impact on 2024 fiscal deficit from measures announced so far



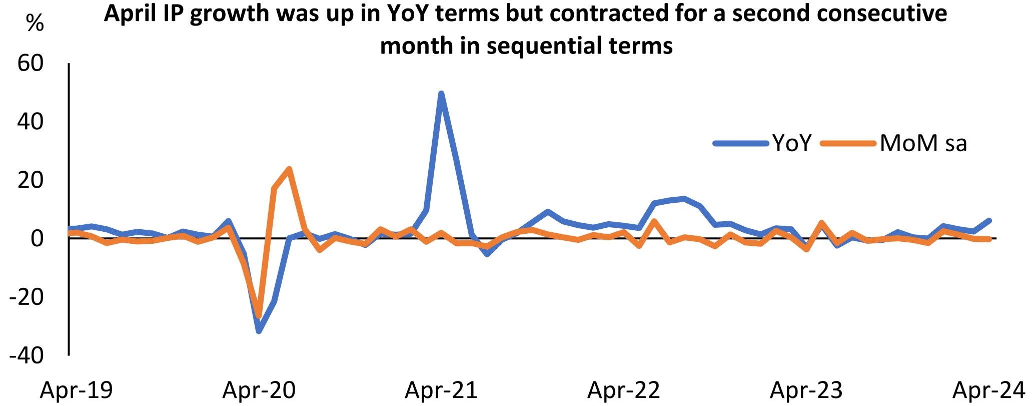
Malaysia: Mixed April Industrial Production

- April IP rose by 6.1% YoY versus 2.4% in March (1Q24: 3.3%) suggesting better growth momentum to start 2Q24. Mining IP growth jumped to 10% YoY while manufacturing growth was up 4.9% YoY, both sectors faring better than in March. Electricity IP growth slowed to 7.6% YoY versus 8.5% in March.

- There was a positive base effect in play. IP contracted by 0.3% MoM sa in April from -0.1% in March, led by the manufacturing and electricity sectors. Mining sector growth improved on a sequential basis to 2.1% MoM sa from -1.8% in March.

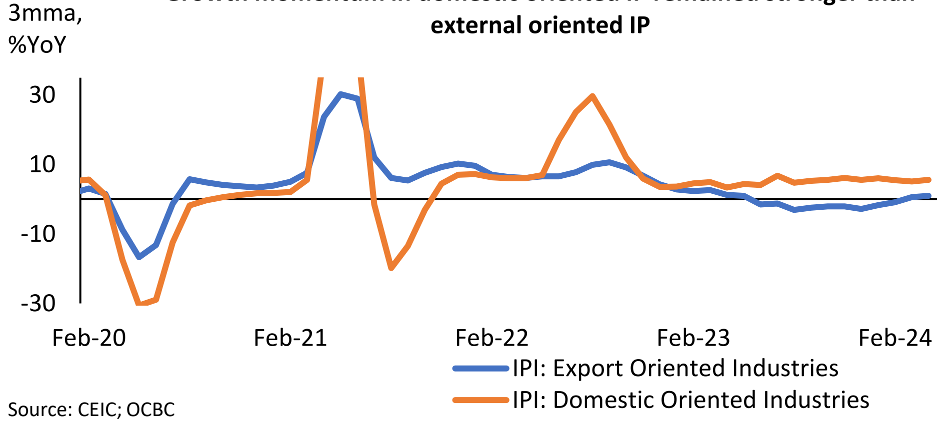
- The print was overall mixed, and it remains to be seen if manufacturing IP momentum can improve in May. Nonetheless, by orientation is still clear that domestic oriented IP is still the main driver, underscoring still resilient domestic demand conditions.

April IP growth was up in YoY terms but contracted for a second consecutive month in sequential terms



Source: CEIC; OCBC Bank

Growth momentum in domestic oriented IP remained stronger than external oriented IP



Source: CEIC; OCBC

OCBC

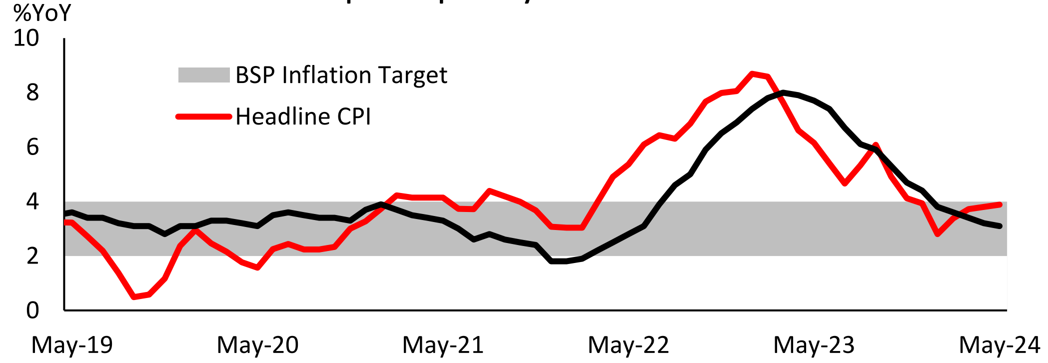
Philippines: Inflation Ticked Higher in May

- Headline CPI surprised to the downside at 3.9% YoY in May (Consensus: 4.0%, OCBC: 3.9%), but still higher, versus 3.8% YoY in April. Meanwhile, core inflation eased modestly to 3.1% YoY in May versus 3.2% in April. Looking at the drivers, higher utilities (0.9% YoY versus 0.4% in April) and transportation (3.5% YoY versus 2.6%) inflation more than offset food (5.8% YoY versus 6.0% in April), and alcoholic beverages (4.2% YoY versus 4.9%) inflation. Rice inflation finally started to ease in May, a testament to the authorities' efforts.

- The May headline CPI print brings the year-to-date inflation to 3.5% YoY, within Bangko Sentral ng Pilpinas 2-4% inflation target range. Looking ahead, we maintain our 2024 average headline CPI at 3.9% YoY, implying higher inflation in the coming months.

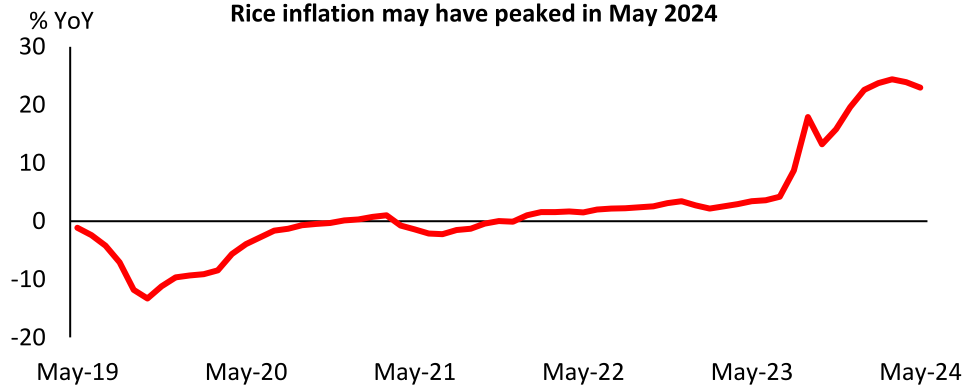
- BSP Governor Eli Remolona retained his dovish bias, implying that the BSP may be the first ASEAN central bank to bit the bullet on lower rates. Our baseline forecast is for the BSP to cut its policy rate by a cumulative 50bp starting in 4Q24, followed by a cumulative 100bp in 2025.

Headline inflation picked up in May while core inflation eased lower



Source: Philippine Statistics Authority, CEIC, OCBC

Rice inflation may have peaked in May 2024



Source: Philippine Statistics Authority, CEIC, OCBC

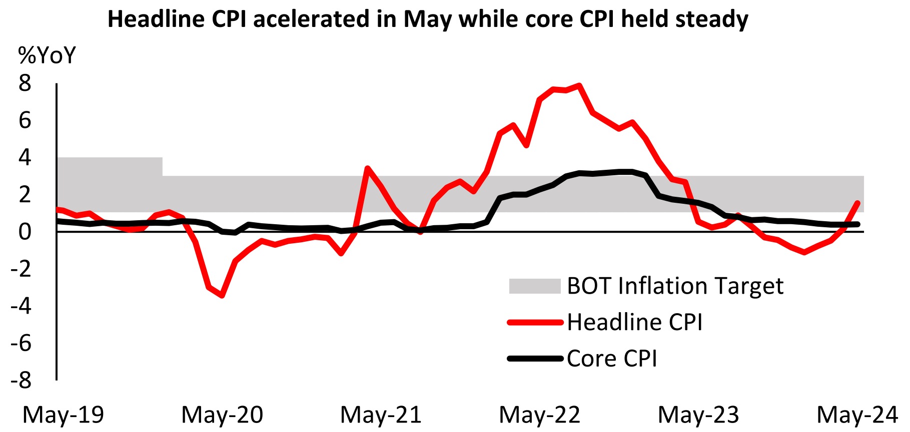
Source: Philippine Statistics Authority, CEIC, OCBC.

Thailand: Headline CPI Back Within BOT's Target

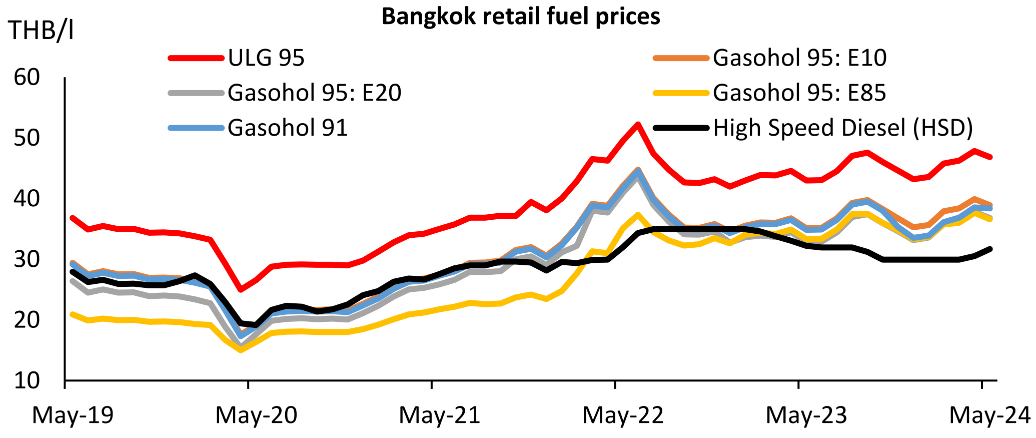
- Headline CPI surprised to the upside at 1.5% YoY in May (Consensus: 1.2%, OCBC: 1.3%) versus 0.2% in April. Meanwhile, the core inflation print held steady for the fourth consecutive month at 0.4% YoY.

- Looking at the drivers, this was mainly reflected in higher transportation inflation (2.4% YoY versus 0.9% in April) as the government adjusted retail fuel prices higher in May. Food inflation (1.1% YoY versus 0.3% in April) was also higher on higher vegetables & fruits prices. The Ministry of Commerce expects inflation to ease lower to between 1.0% and 1.1% in June. Looking ahead, we maintain our 2024 average headline inflation at 1.2% YoY, implying a pickup to an average 2.1% YoY for the rest of the year (Jan-May average: -0.1%). Nonetheless, this will still be within Bank of Thailand's (BOT) 1-3% headline inflation target range.

- We expect BOT to keep its policy rate on hold at 2.50%, during its 12 June meeting. The voting pattern within the monetary policy committee (MPC) will be watched closely for any changes in BOT's bias.



Source: Bureau of Trade and Economic Indices, CEIC, OCBC



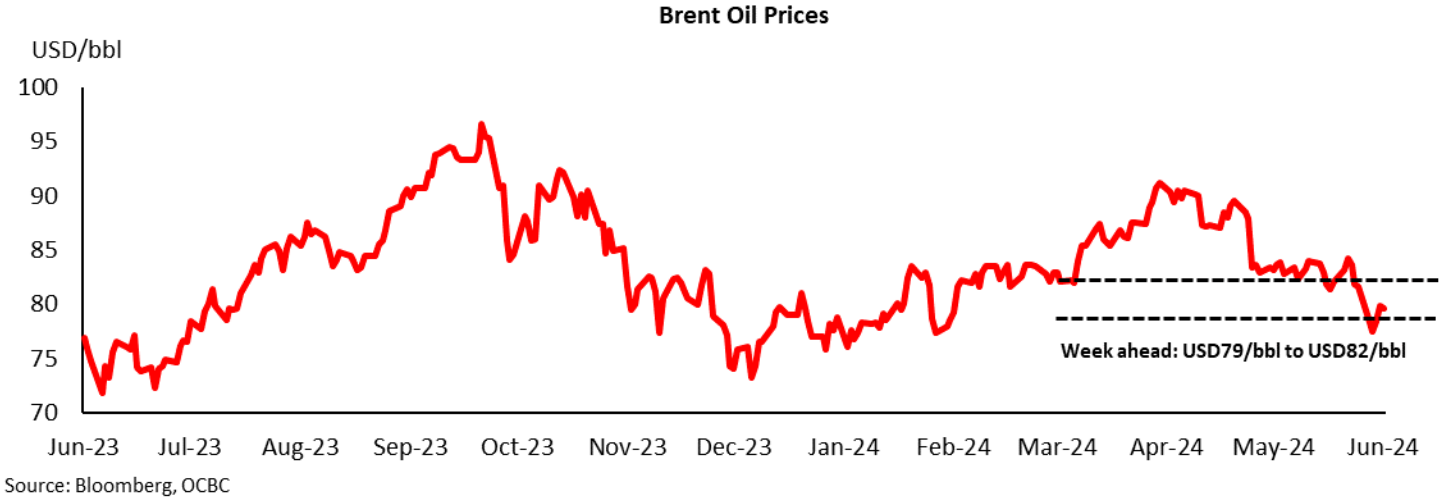
Source: CEIC; OCBC.

Source: Bureau of Trade and Economic Indices, CEIC, OCBC.

Commodities

Crude Oil: Oil Prices Under Pressure

- Crude oil benchmarks declined for a third consecutive week. WTI and Brent declined by 1.9% and 2.5%, week-on-week, to close lower at USD75.5/bbl and USD79.6/bbl respectively.
- Oil prices traded lower last week following strong selling pressure on 3 June. This was driven by concerns that global oil inventories may buildup in 4Q24 following the announcement from OPEC+ to gradually unwind its November 2023 output cuts (2.2mbpd) from October 2024 until end of September 2025. Nevertheless, some of the losses were pared back after assurances from OPEC+ ministers that the output agreement for the eight member countries to gradually unwind is dependent on conditions in the oil market.
- Looking ahead, we expect oil prices to trade modestly higher, between USD79/bbl and USD82/bbl. Oil prices should continue to edge higher on expectations that the oil balance is set to remain tight for the coming quarters. For the week, we have monthly releases from EIA, IEA, OPEC. These reports are important as they provide an updated outlook of the oil market which follows after the 2 June OPEC+ meeting. Other key data releases that could provide direction to the oil market include FOMC outcome.



Source: Bloomberg, Reuters, OCBC

ESG

OCBC Bank

ESG: China’s upcoming carbon footprint management system for products

- China’s Ministry of Ecology and Environment will be publishing a plan on a unified carbon footprint management system that aims to better measure the carbon content of its products, by setting standards for measuring carbon emissions for about 100 key products throughout the Chinese economy.
- The plan will contain an array of specific measures, including measures to rally efforts from various parties, promote the international alignment of related rules, strengthen the calculation of product carbon footprints and improve the protection of property rights.
- The system will go into effect in 2027 and will apply to high-emitting products such as coal, natural gas and export products like steel, aluminium, lithium batteries and electric vehicles as a start. This is with the aim of expanding the guidance to 200 products by 2030.
- This can facilitate China in achieving its climate goals (peak carbon dioxide emissions by 2030 and carbon neutrality by 2060) and reducing tariffs associated with increasingly tougher international carbon standards e.g. EU’s Carbon Border Adjustment Mechanism that will be operational from 2026 till 2034 covering emissions-intensive sectors with high risk of carbon leakage in the initial phase:
    1. Iron and steel
    2. Cement
    3. Fertilisers
    4. Aluminium
    5. Hydrogen
    6. Electricity

Source: Reuters, State Council of the People’s Republic of China

FX & Rates

FX & Rates: Payrolls Surprise; Election Jitters

- USD rates. UST yield rebounded by more than 15bps at most tenors upon the strong prints of non-farm payrolls. Fed funds futures pushed back interest rate cut expectation, to a total of 36bps of cuts this year, from 50bps priced before payroll. This week's focus is June CPI/PPI and FOMC outcome. The bar is low for the median dot on the dot-plot to move from implying three rate cuts to two rate cuts this year, which is a likely scenario judging from recent Fed official commentaries. The bar is a lot higher for the median dot to shift to reflect one cut – precisely because of this, a one-cut median dot will be seen as a fairly hawkish outcome. Again, the driver for long end yields was real yield; 10Y real yield was up by 13bps on Friday while 10Y breakeven was up by 2bps; unless CPI surprises a lot, the 10Y breakeven is likely to stay around the 2.3% level which looks fair, and any downside to 10Y UST yield would rely on real yield contribution.
- JPY Rates. We expect a 10-15bp policy rate hike by the BoJ this week, which is not priced in by the market. To recap, *Shunto* results showed average wage increase at 5.17%, and that for small companies (with <300 employees) was also high at 4.66% which may be seen as meeting the BoJ's criteria for delivering a second policy rate hike. As for balance sheet policy, we remain of the view that passive QT can start as soon as sometime this month while a pre-announcement may not be necessary although the BoJ may still want to adjust their "about 6 trillion yen" guidance. Next support for the 10Y JGB is at 1.15-1.25% in terms of yield.
- DXY. While Fed is not expected to cut, the dot plot and press conference will be closely scrutinised for further clues with regards to when the Fed may move. A much hawkish adjustment of dot plot to 1 cut may see USD strength persist for a longer while.
- EURUSD. The worry of the surge in support for far right somewhat materialised over the weekend. On net, election risk remains fluid and deserves a close watch as the past decade has shown that rise in far-right sentiments in Europe can undermine EUR. What may be less damaging this time is that the far right wants to remain in EU and do not want to leave the EUR, unlike the past. So in a way, election uncertainty may affect policies (climate, immigration, etc.) and sentiments more than it does to EUR directly. Near term outlook for EUR still hinges on US CPI data and Fed policy this week.

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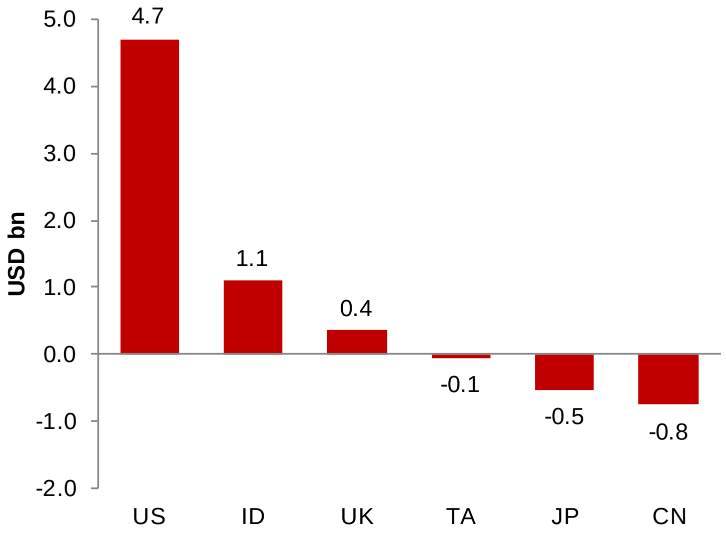
Source: Cabinet Office, ESRI Japan, Bloomberg, OCBC.

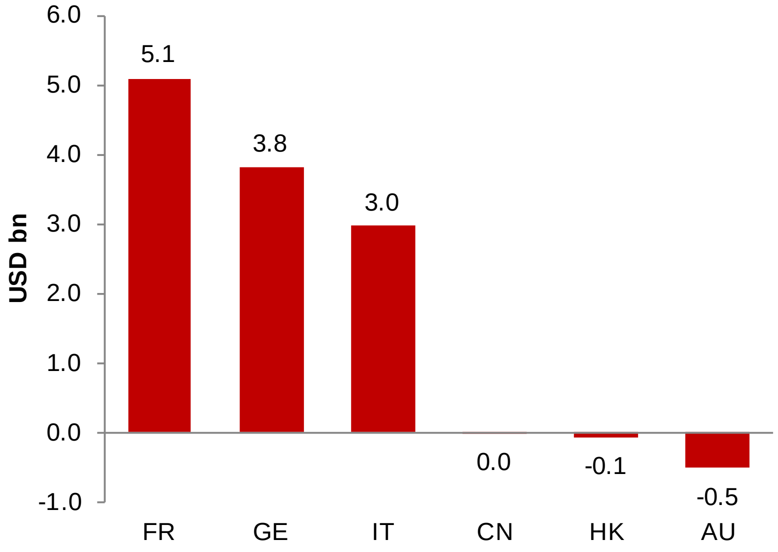
Asset Flows

Global Equity & Bond Flows

- Global equity markets saw net inflows of $10.7bn for the week ending 5 June, an increase from the inflows of $1.8bn last week.
- Global bond markets reported net inflows of $17.7bn, an increase from last week's inflows of $5.1bn.

Equity top gainers & losers	Bonds top gainers & losers

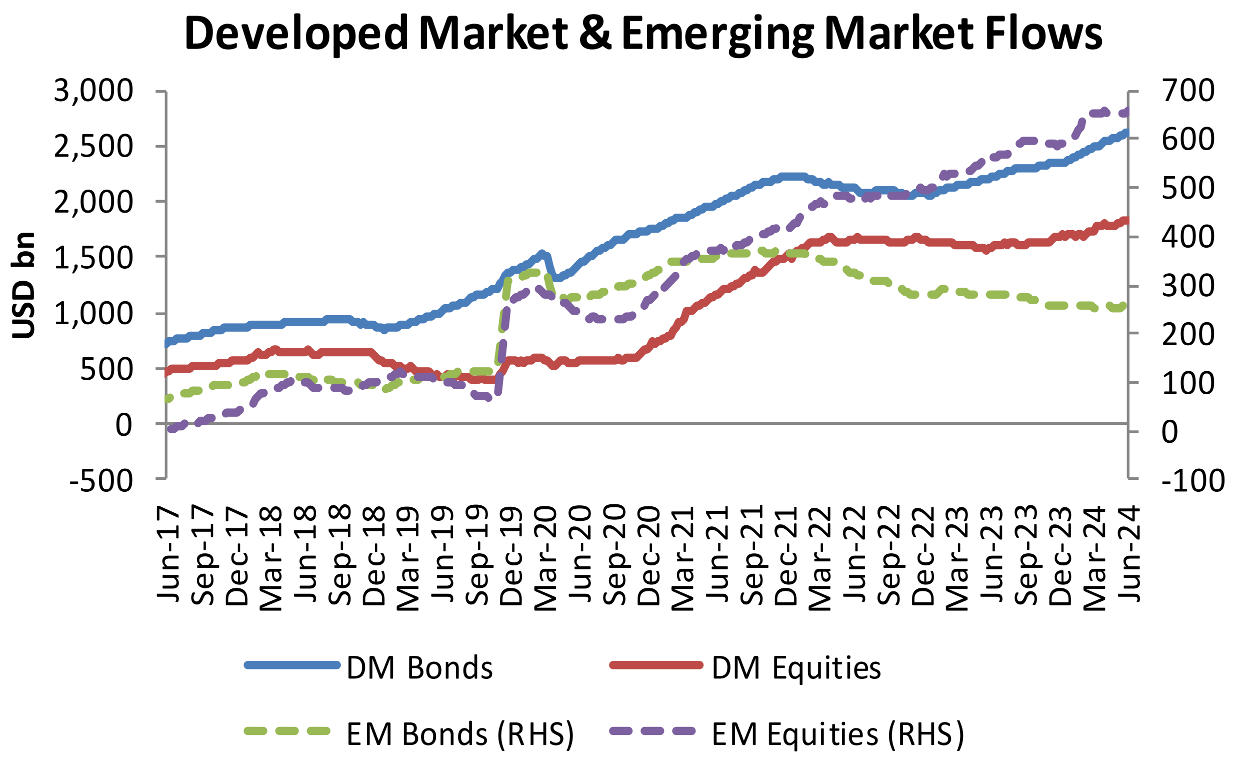




Source: OCBC, EPFR

DM & EM Flows

- Developed Market Equities ($6.5bn) and Emerging Market Equities ($4.1bn) saw inflows.
- Developed Market Bond ($16.3bn) saw inflows while Emerging Market Bond ($1.4bn) saw outflows.



Source: OCBC, EPFR

Thank you

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