Weekly Macro Views (WMV)

Global Markets Research & Strategy

15 July 2024

Weekly Macro Update

Key Global Data for this week:

15 July	16 July	17 July	18 July	19 July
• **CN** GDP YoY • **CN** Industrial Production YoY • **CN** Retail Sales YoY • **IN** Exports YoY	• **CA** CPI YoY • **GE** ZEW Survey Expectations • **US** Retail Sales Advance MoM • **JP** Tertiary Industry Index MoM	• **US** Industrial Production MoM • **UK** CPI YoY • **EA** CPI YoY • **ID** BI Rate • **SG** NODX YoY	• **US** Initial Jobless Claims • **EA** ECB Deposit Facility Rate • **AU** Unemployment Rate • **UK** Jobless Claims Change	• **JP** CPI YoY • **MY** GDP YoY • **UK** Retail Sales MoM • **PH** BOP Overall

Summary of Macro Views:

Global	• **Global:** Central Banks • **Global:** Cooler Than Expected US CPI Raise Rate Cut Expectations • **Global:** Strong May GDP Gives BOE Thinking Space • **Global:** Japan Industrial Production Revised Upwards, PPI Continues Rise
Asia	• **SG:** Revising Forecasts Upwards for Full-Year 2024 GDP Growth • **CN:** Growth Disappointed in 2Q • **CN:** Domestic Demand Remains Weak • **CN:** Entrenched Disinflation • **MO:** Decline in Housing Price Slowed

Asia	• **ID:** Mixed Data in June • **MY:** BNM Steady, IP Eased • **PH:** Weaker Exports in May
Asset Class	• **FX & Rates:** Rangy US Yields Near-Term • **ESG:** Singapore and Laos Begin Carbon Credits Cooperation • **Global Asset Flows**

OCBC

Global: Central Banks

Forecast – Key Rates

Bank Indonesia (BI)	**European Central Bank (ECB)**
Wednesday, 17th July	**Thursday, 18th July**

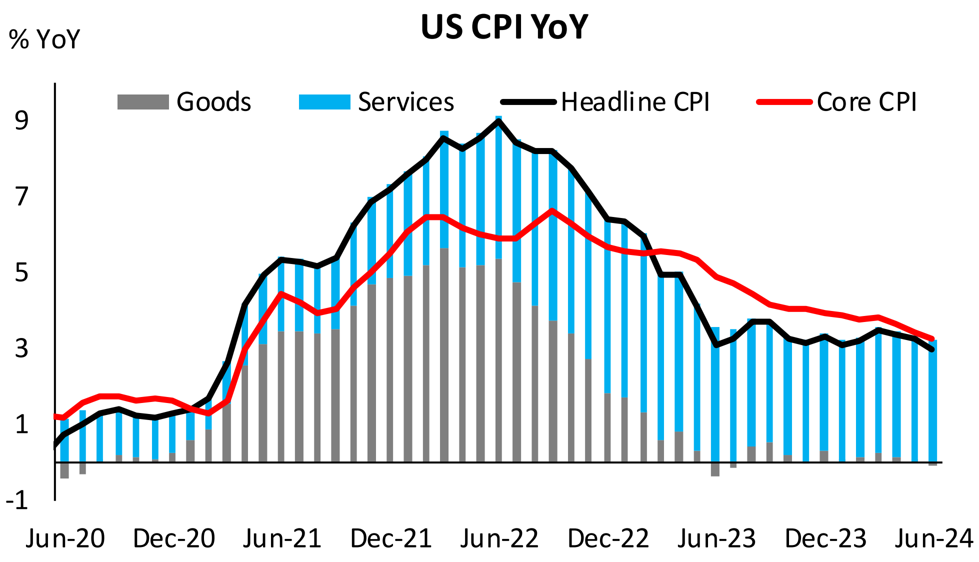
House Views

7D Reverse Repo **Likely hold at 6.25%**	*Deposit Facility Rate* **Likely hold at 3.75%** *Main Refinancing Rate* **Likely hold at 4.25%**

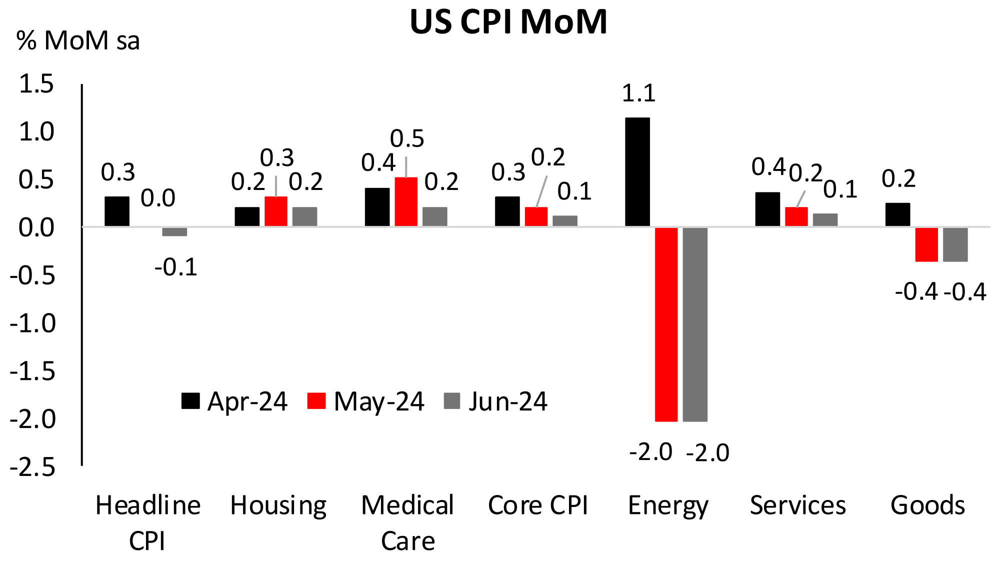
Source: OCBC, Bloomberg

Global: Cooler Than Expected US CPI Raise Rate Cut Expectations

- Headline CPI dropped 0.1% MoM in June, below estimates of a 0.1% increase and lower than May's flat reading. On a yearly basis, headline CPI was 3.0% YoY, down from 3.3% in May and below estimates of 3.1%. Core CPI came in at 3.3% YoY, below 3.4% in May.
- Headline CPI's -0.1% MoM reading was the first negative MoM growth since May 2020, while core CPI also posted its smallest monthly change since August 2021.
- Sticky services inflation showed signs of moderation, as June marked the lowest MoM change since May 2020. Housing, a key source of sticky inflation, continued to show signs of moderation, increasing by 0.2% MoM. On a YoY basis, housing inflation printed at 4.4% YoY, down from 4.6% in May and the lowest since September 2021.
- The Fed has increasingly focused on the two-sided risks of inflation and the labour market. With recent labour market data showing cooling and a strong disinflationary trend, the race is on for the Fed to loosen monetary policy in the upcoming meetings.
- Markets are now pricing in 62.5 bps of rate cuts this year, up from 50.6 bps the week prior. Our base case remains for two 25bps rate cuts in 2H24.



Source: BLS, CEIC, OCBC

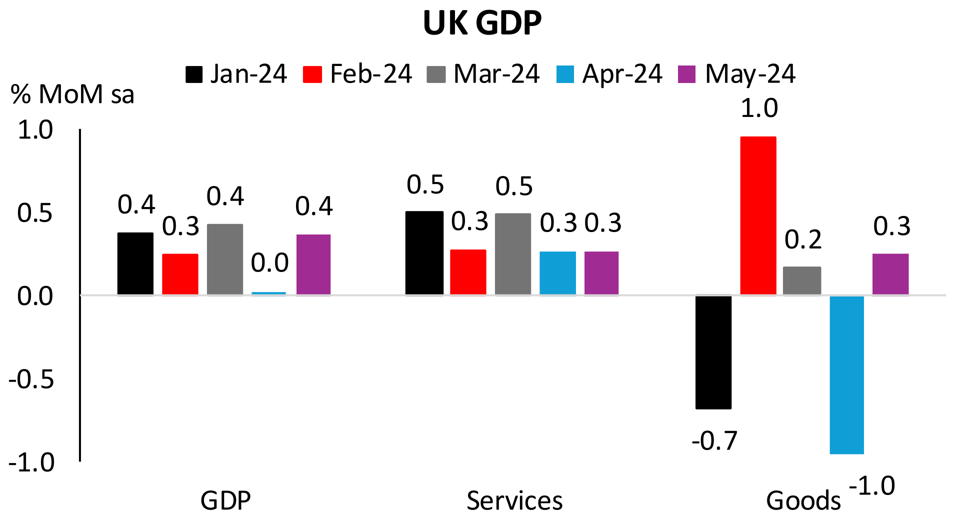


Source: BLS, CEIC, OCBC

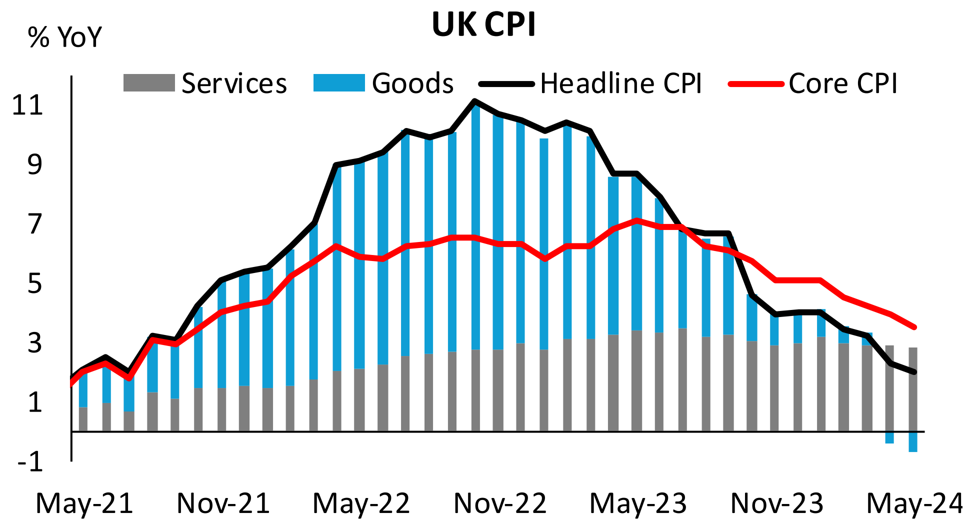
Source: BLS, CEIC, OCBC.

Global: Strong May GDP Gives BOE Thinking Space

- The UK economy grew 0.4% MoM sa in May, double the expected 0.2% MoM increase and the 0.0% growth in April. This comes after stronger than expected growth of 0.7% QoQ in 1Q24, boosting hope for a sustained rebound in 2Q24.
- This was driven by continued expansion in the services sector, which recorded 0.3% MoM growth in May, the same figure as April. Manufacturing was strong as well, posting 0.4% MoM growth in May.
- This comes amidst a backdrop of falling inflation, as headline inflation figures recently hit the 2% YoY target in May from 2.3% in April. However, core inflation remains high at 3.5% YoY.
- The strong services consumption seen in the past few months remains a risk to services inflation, which remains concerning at 5.7% YoY in May. Housing and healthcare costs remain at elevated levels, with rents at 7.0% YoY and healthcare at 6.2% in May.
- Stronger than expected GDP growth thus gives the BOE further time to wait for elevated services inflation to cool down. Our base case remains for two 25 bps cuts in 2H24.



Source: Office for National Statistics, OCBC

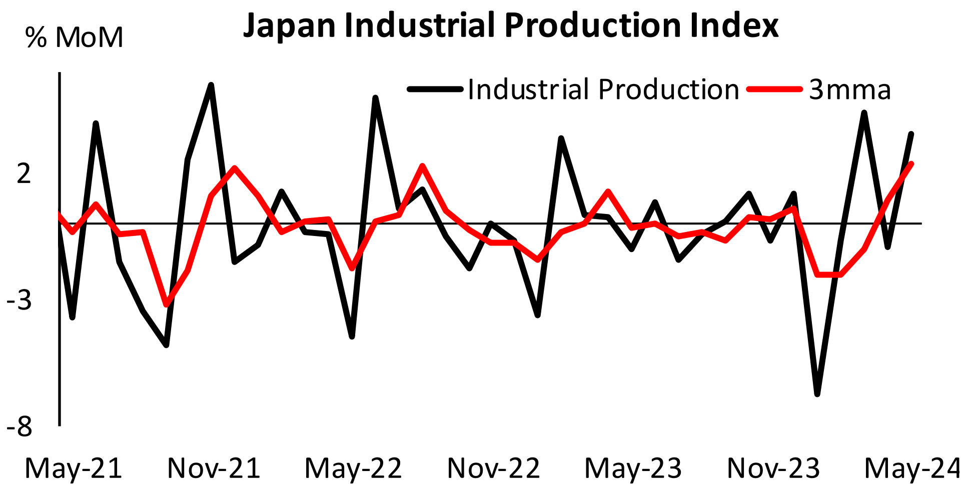


Source: Office of National Statistics, CEIC, OCBC

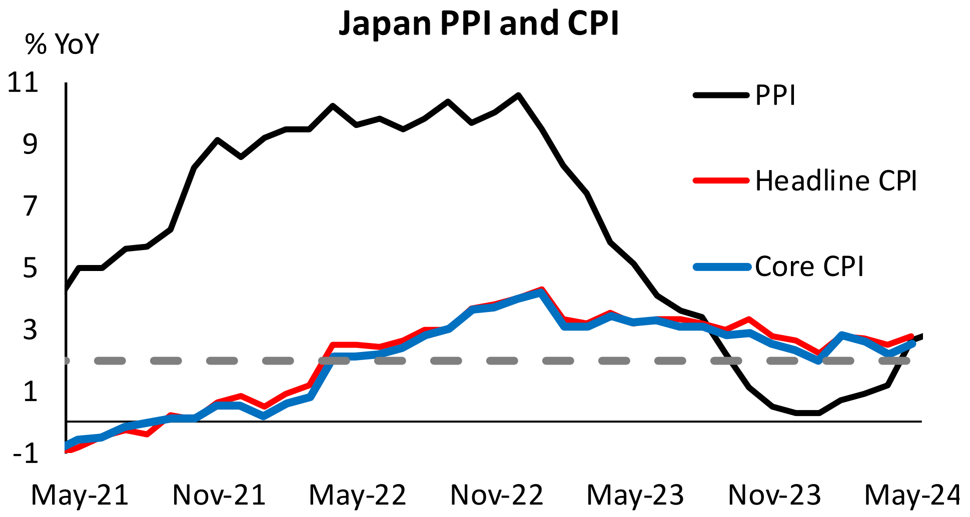
Source: Office for National Statistics, CEIC, OCBC.

Global: Japan Industrial Production Revised Upwards, PPI Continues Rise

- May Final industrial production was revised upwards from 2.8% MoM to 3.6%, higher than -0.9% MoM in May. A 3-month moving average of the index shows industrial production on an upward trend, with June's 2.4% MoM, 3mma growth the highest since October 2020. On a YoY basis, industrial production was revised from 0.3% YoY to 1.1%, higher than -1.8% in May.
- Key drivers included motor vehicle production (18.1% MoM, 3.4% YoY), transport equipment (15.5% MoM, 20.2% YoY), electronics (2.3% MoM, 13.2% YoY) and chemicals excluding inorganic and organic chemicals (12.3% MoM, 13.0% YoY).
- June's PPI showed a 2.9% YoY increase, matching consensus and higher than the upwardly revised 2.6% in May. This was accompanied by June import prices rising 9.5% YoY, up from 7.1% in May, a sign that the weakening Yen was beginning to weigh on inflation.
- BOJ Governor Kazuo Ueda has said that the BOJ will raise interest rates if it becomes more convinced Japan is on track to hit its 2% inflation target. Headline and core inflation has remained above the 2% target since March 2022. Our base view remains for 20bps worth of hikes in 3Q24 as inflation continues to return to the 2% target.



Source: METI, Bloomberg, OCBC

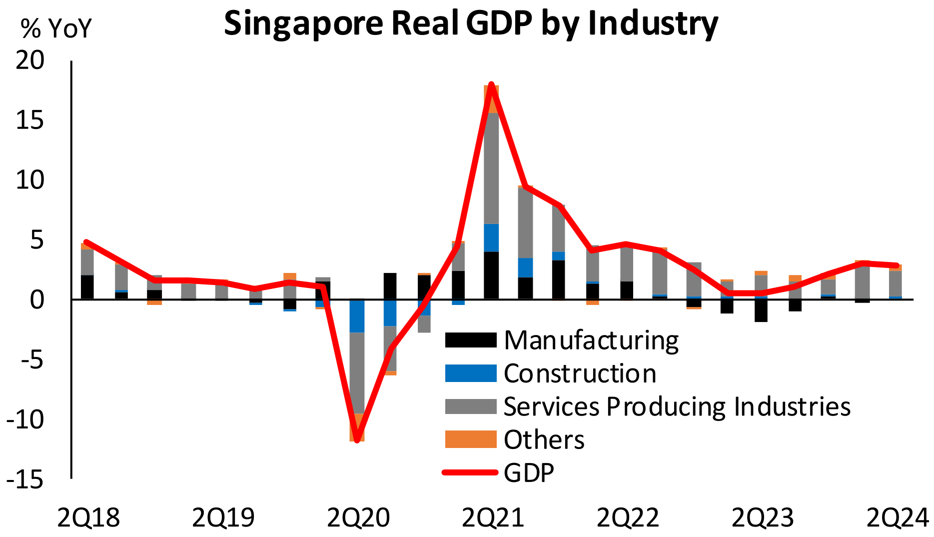


Source: BOJ, Bloomberg, OCBC

Source: BOJ, METI, Bloomberg, OCBC.

Singapore: Revising Forecasts Upwards for Full-Year 2024 GDP Growth

- 2Q24 GDP growth showed a 2.9% YoY increase, higher than forecasted (consensus and OCBC: 2.7%). This was lower than the upwardly revised 3.0% YoY growth in 1Q24, up from 2.7% prior. 2Q24 saw strong growth in the goods producing sector, growing 1.3% YoY compared to -0.7% contraction in 1Q24.
- This strong rebound was led by a reversal of manufacturing's fortunes as the sector grew 0.5% YoY in 2Q24, reversing 1Q24's -1.7% contraction. This was supported by output growth in all manufacturing clusters apart from biomedical and precision engineering. Recent NODX and Industrial Production data had showed a strong rebound in the manufacturing sector and this reading only further increases our optimism.
- The services sector also experience strong growth of 3.3% YoY in 2Q24, albeit moderating from 4.3% in 1Q24. This was caused by a broad-based decline among all sectors from 1Q24. Strong growth was seen in the infocomms, finance & insurance and professional services sector, which grew 5.6% YoY in 2Q24, a touch down from 5.7% in 2Q24.
- With manufacturing continuing its strong rebound and the services sector continuing to show resilient growth, we upgrade our full-year GDP growth forecast from 2.3% YoY to 2.6% YoY to account for the better-than-expected 1H24 growth.



Source: CEIC, OCBC

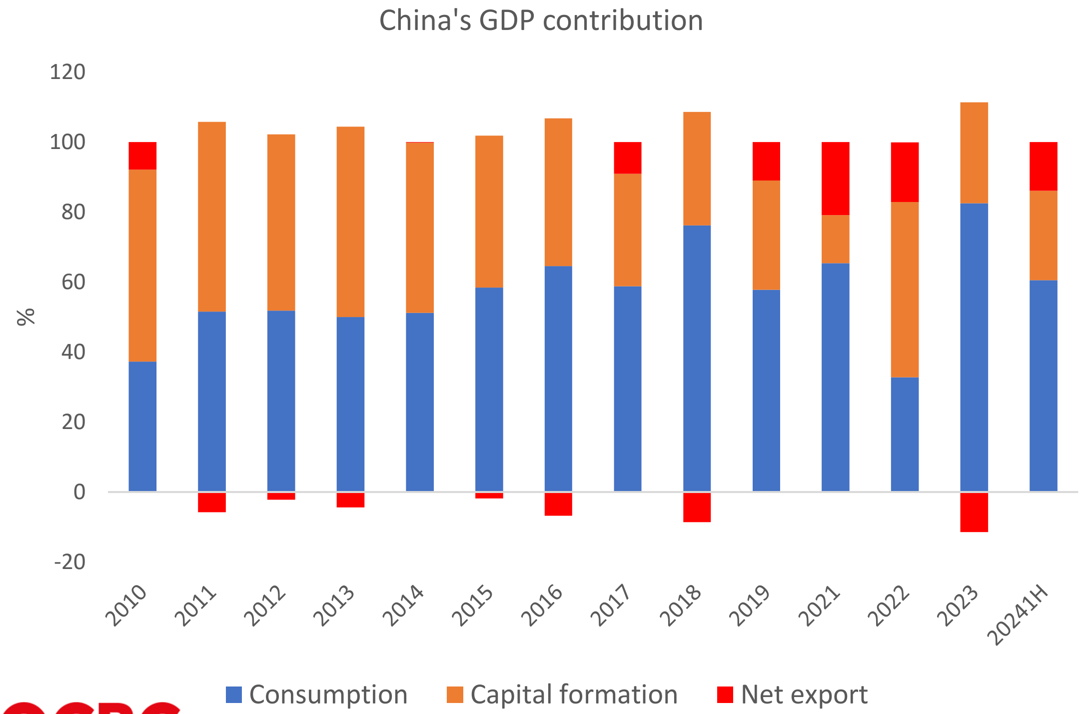
Gross Domestic Product in Chained (2015) Dollars

	2Q23	3Q23	4Q23	2023	1Q24	2Q24*
Percentage change over corresponding period of previous year						
Overall GDP	0.5	1.0	2.2	1.1	3.0	**2.9**
Goods Producing Industries	-6.1	-3.5	1.9	-2.9	-0.7	**1.3**
Manufacturing	-8.2	-4.9	1.4	-4.3	-1.7	**0.5**
Construction	6.4	3.7	5.2	5.2	4.1	**4.3**
Services Producing Industries	2.9	2.3	2.0	2.3	4.3	**3.3**
Wholesale & Retail Trade and Transportation & Storage	3.3	1.2	1.0	1.4	3.9	**2.5**
Information & Communications, Finance & Insurance and Professional Services	0.6	3.0	3.6	2.2	5.7	**5.6**
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	5.4	3.7	2.0	4.3	3.0	**1.9**

Source: MTI, CEIC OCBC.

China: Growth Disappointed in 2Q

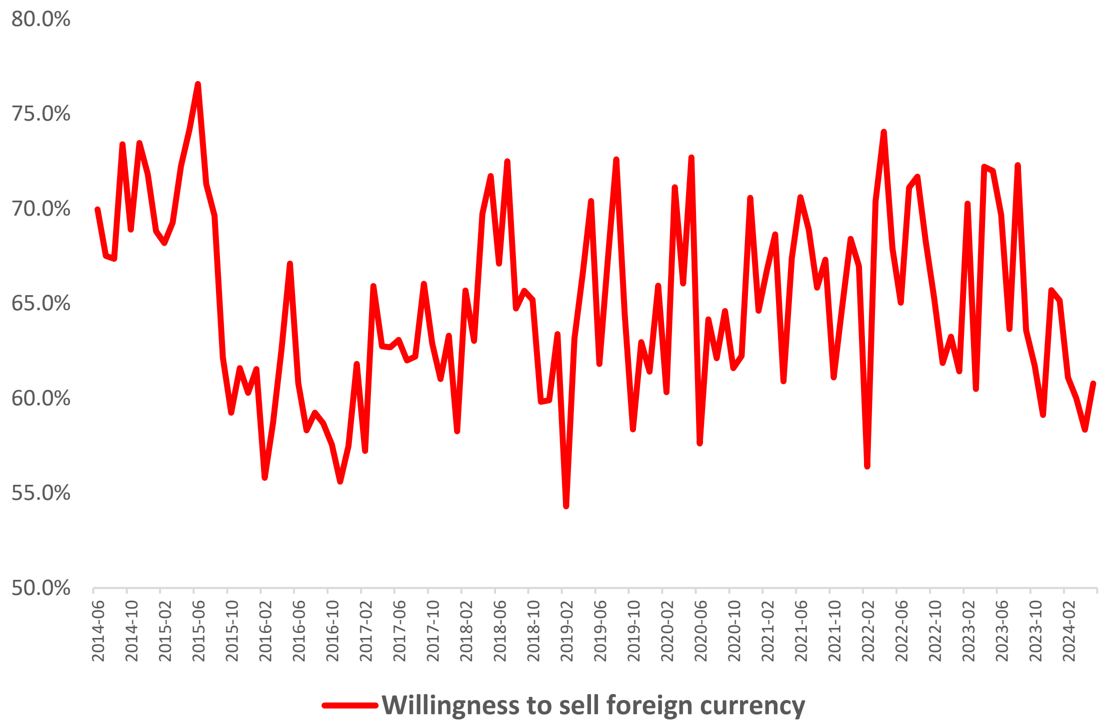
- The Chinese economy decelerated more than expected to 4.7% year-on-year (YoY) in the second quarter from 5.3% YoY in the first quarter. On a sequential basis, the economy grew by only 0.7% quarter-on-quarter (QoQ) after seasonal adjustment, slowing notably from 1.5% QoQ SA in the first quarter. For the first half of this year, the economy grew by 5% YoY, aligning with the government's target of "around 5%" growth. External demand played an important role in driving China's growth in the first half, with net exports contributing 13.9% of China's growth after dragging the economy down by 11.4% in 2023.

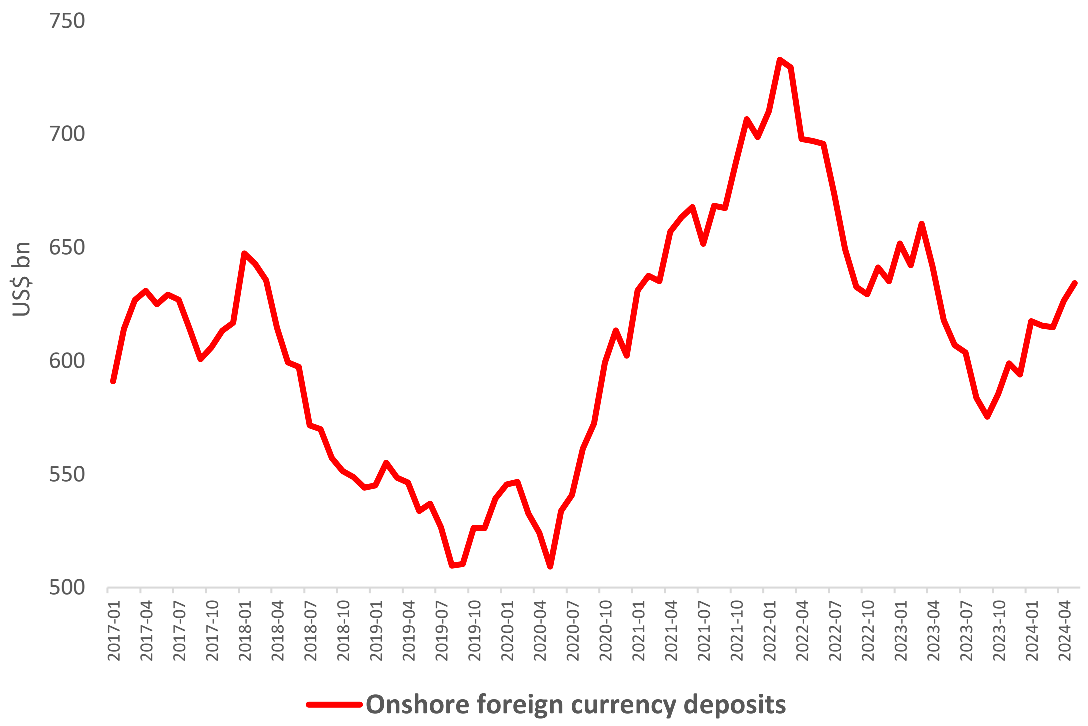


Source: Wind, OCBC.

China: Domestic Demand Remains Weak

- Despite resilient external demand, the deceleration of growth in the second quarter was mainly attributed to three reasons including weak domestic demand, poor transmission from resilient external demand to domestic demand and a drag from the property investment.





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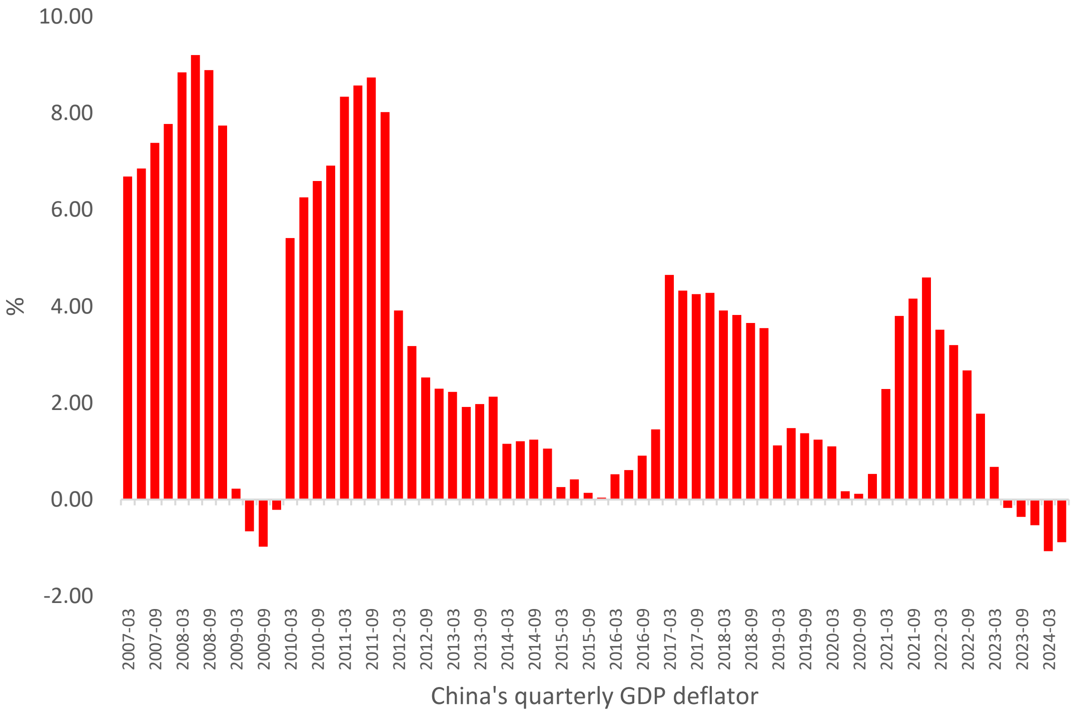
Source: Wind, OCBC.

China: Entrenched Disinflation

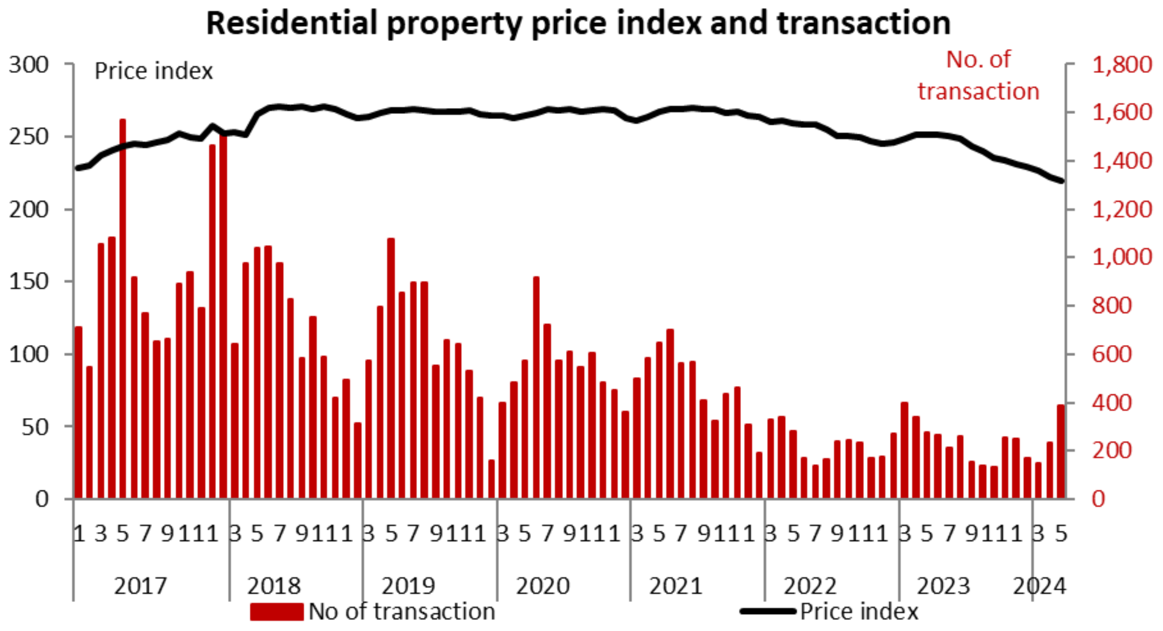
- Concern arising from the latest growth data is not whether China can achieve its growth target, but rather the danger of entrenched disinflation. China's nominal growth also decelerated to 4% in Q2 from 4.2% in Q1. Nominal GDP growth has been below real GDP growth for five consecutive quarters.
- The delay in the CPI rebound underscores the increasing urgency for more decisive policy support from China to avoid entrenched disinflation expectations.



Source: Wind, OCBC.

MO: Decline in Housing Price Slowed

- Macau's housing price fell by a slower pace, at 0.9% MoM in the three-month ending May 2024 (Feb-Apr 2024: -2.0% MoM). On year-to-year basis, the residential property price index dropped further by 12.5%. Comparing with the high in 2018, the housing price fell cumulatively by 18.8%.
- Trading activities rebounded to the highest level since early 2023, to 385 cases, following the removal of all cooling measure on property market. We suspect that the sentiment in the local housing market will remain fragile despite more favourable development in the regulatory setting. Buyers generally prefer to stay on sideline before any rate cuts materalise. We now tip the year-on-year decline in housing price at 4-8% for 2024.

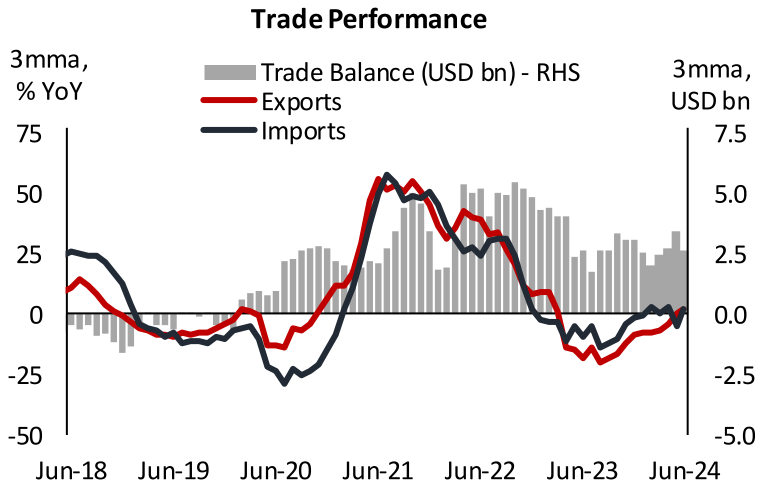


Source: DSEC, OCBC

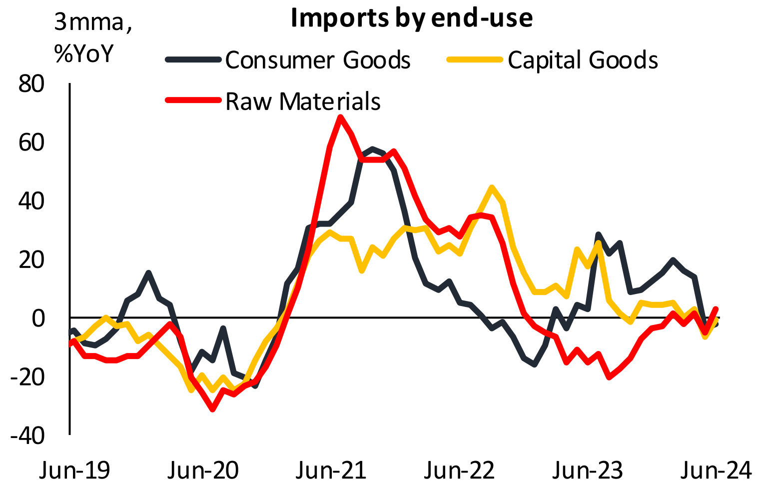
Indonesia: Mixed Data in June

- June trade data underperformed expectations. Export growth slowed to 1.2% YoY from 2.9% in May (consensus: 4.8%; OCBC: 3.3%), while imports improved by 7.6% following an 8.8% contraction in May (consensus: 8.2%; OCBC: 7.6%). As a result, the trade surplus narrowed to USD2.4bn in June from USD2.9bn in May. Specifically for imports based on end-use, capital goods remained weak (-6.3% YoY in June from -10.1% in May), while consumer (12.0% from -16.2%) and raw materials goods (10.6% vs -7.5%) reaccelerated.

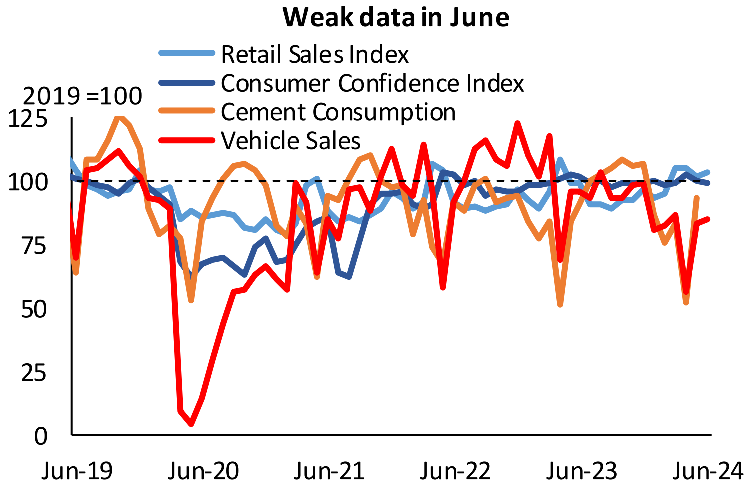
- Activity data continues to paint a mixed picture in June. The survey-based consumer confidence index remained above 100, with a reading of 123.3 compared to 125.2 in May. Retail sales survey estimates indicate higher sales, with a year-on-year growth of 4.4% in June compared to 2.1% in May. Consumers also expect milder price pressures in the next three months (August) before intensifying in the next six months (November). However, car sales remained weak, contracting 11.8% YoY in June. On the other hand, cement consumption increased by 11.5% in May. Both car sales and cement consumption year-to-date values remained below pre-pandemic levels.



Source: Statistics Indonesia (BPS), CEIC, OCBC.



Source: Statistics Indonesia (BPS), CEIC, OCBC.



Source: Bank Indonesia, GAIKINDO, CEIC, OCBC.

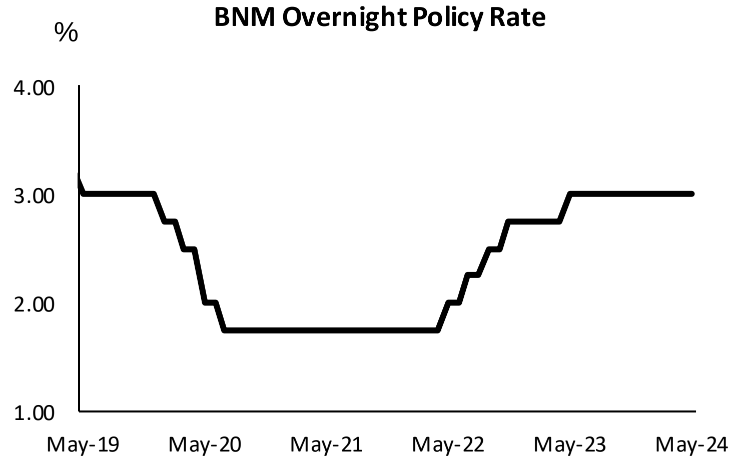
OCBC

Source: Statistics Indonesia, GAIKINDO, Indonesia Cement Association, CEIC, OCBC.

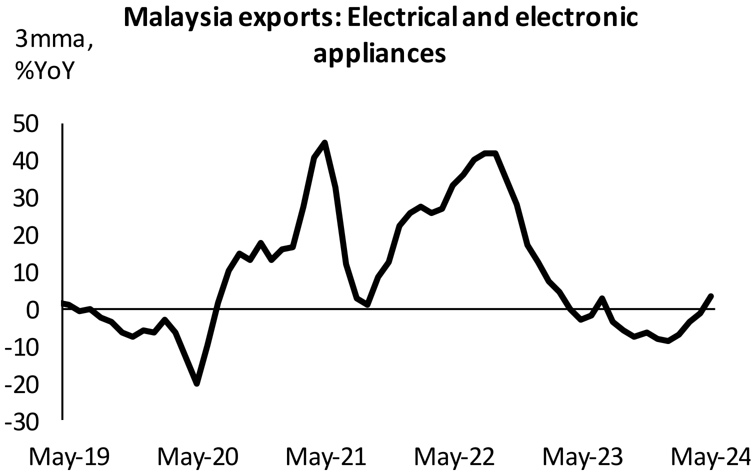
Malaysia: BNM Steady, IP Eased

- The industrial production index rose by 2.4% YoY in May versus 6.1% in April, below expectations (Consensus: 3.6%; OCBC: 5.0%). IP growth, however, picked up in sequential terms rising 1.7% MoM sa versus -0.3% in April. By-orientation, export-oriented IP growth picked up to 3.7% YoY versus 2.6% in April while domestic oriented IP growth slowed to 6.4% YoY versus 9.5%. Our GDP tracking estimates show higher GDP growth of 4.9% YoY in 2Q24 versus 4.2% in 1Q24.

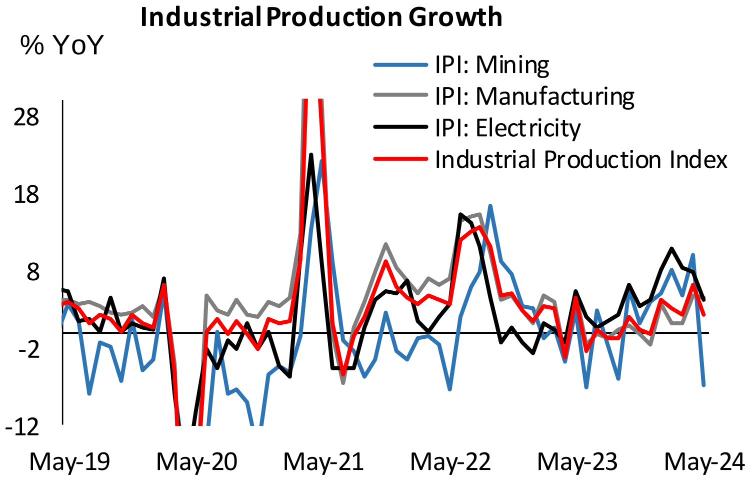
- BNM kept its policy rate unchanged at 3.00%, in line with expectations. BNM's tone remained sanguine around global growth prospects, with its assessment of the Malaysian economy broadly similar to its previous meeting on 9 May. Specifically, BNM expects that domestic GDP growth will be supported by exports (electronics and non-electronics), tourism, household consumption and investment spending. On inflation, BNM deemed higher inflation in 2H24 to be "manageable" following upward adjustments to retail diesel prices, in line with our expectations. Looking ahead, we maintain our forecast for BNM to keep its policy rate unchanged for the rest of 2024.



Source: CEIC, OCBC



Source: CEIC, OCBC



Source: CEIC, OCBC

Source: Bank Negara Malaysia, DOSM, CEIC, OCBC.

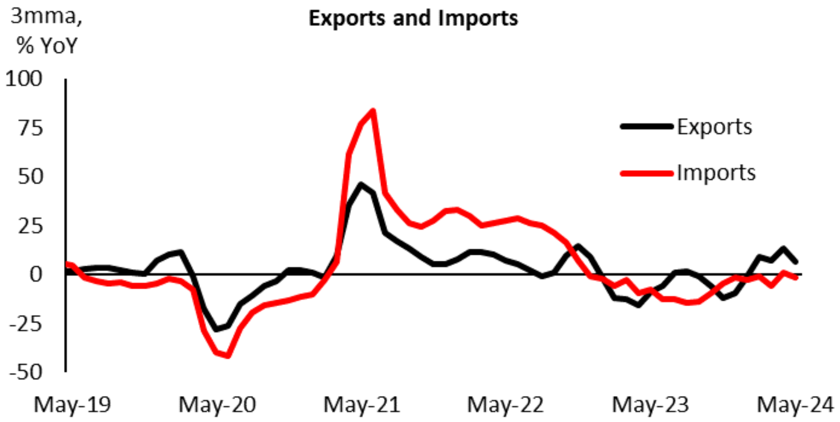
Philippines: Weaker Exports in May

- May exports declined by 3.1% YoY versus an upwardly revised +27.9% in April while import growth was flat (April: upwardly revised +13.0%). Consequently, the trade deficit narrowed to USD4.6bn compared to USD4.7bn in April.

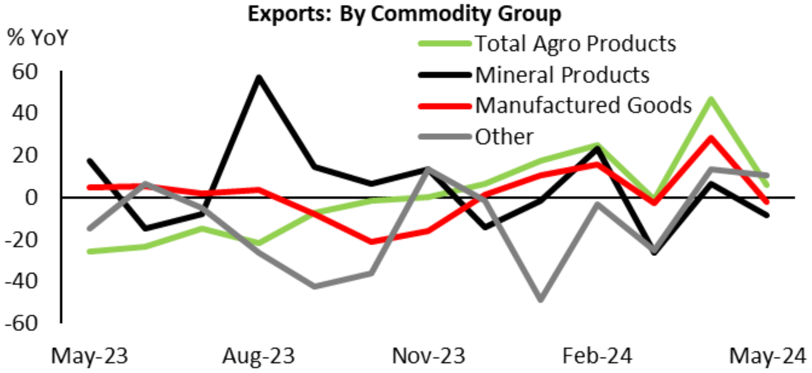
- On the exports front, lower shipments in 'manufactures' (-3.5% YoY versus +27.7% in April), 'mineral products' (-8.4% YoY versus +6.7%), and 'forest products' (-24.0% YoY versus -35.0%) more than offset higher shipments in ‘total agro products’, ‘petroleum products’, and ‘special transactions’. By commodity group, exports of electronic products declined by 5.1% YoY versus +33.3% in April.

- By end-use, lower imports in ‘capital goods’ (-11.5% YoY versus +10.5% in April) were offset by higher imports in ‘raw materials and intermediate goods’, ‘mineral fuels, lubricants and related materials’, ‘consumer goods’, and ‘special transactions’.

- For 2024, we expect GDP growth of 6.0% YoY (2023: 5.5%), implying growth momentum of 6.0% in 2Q-4Q24 GDP growth versus 5.7% in 1Q24. The main drivers of growth, in our view, will be from better investment and export growth.



Source: Philippine Statistics Authority, CEIC, OCBC



Note: Our classification for Other includes 'forest products, 'petroleum products', 'special transactions', 'others'

Source: Philippine Statistics Authority, CEIC, OCBC

Source: Philippine Statistics Authority, CEIC, OCBC.

FX & Rates

FX & Rates: Rangy US Yields Near-Term

- **USD Rates.** Our view is that wide fiscal deficits are here to stay, regardless of which candidate wins. For the next couple of quarters, we assume additional funding needs to come mainly from bill issuances which shall be manageable (next quarterly update by US Treasury is scheduled for 29 July). That said, we see long-end UST yield as sticky downward. For this week ahead, there are releases of second-tier data, including retail sales, housing starts and jobless claims, among others. At the short end, given the recent dovish adjustment, yields may also trade in ranges this week before the next trigger.
- **CNY Rates.** While the MLF rate has become increasingly irrelevant, outstanding MLF may decline only gradually over time with still some market demand for the facility. The maturity amounts are relatively high in some of the months ahead; unless the liquidity is replaced by one that is released by an RRR cut, some partial rollover will likely be needed.
- **IndoGBs.** Bank Indonesia is expected to keep its key BI Rate unchanged at 6.25% this week; the mild easing in SRBI rates of late may add to the view that peak rate has been reached and the next move is more likely to be a rate cut rather than a rate hike. Again, the dilemma is that domestic demand is capping domestic yields, resulting in a lack of material improvement in IndoGB-UST yield differentials.

Source: Bloomberg, European Commission, The Straits Times

ESG

ESG: Singapore and Laos Begin Carbon Credits Cooperation

- Singapore is collaborating with 19 countries on carbon credits cooperation, to enable Singapore-based companies to buy carbon credits from projects in those countries to offset up to 5% of their taxable emissions.
- Singapore has finalised implementation agreements with two countries – Ghana and Papua New Guinea (PNG). The majority of deals are at the beginning stages of cooperation.
- Verra approved the first cookstove carbon project in PNG on June 20, expected to deliver 299,206tCO_2e of annual emission reductions. The project will distribute over 100,000 improved cookstoves to communities in PNG that still rely on indoor open-fire cooking. The project's developer, Tasman Environmental Markets, is working with Singapore and PNG to finalise the approval of the project under the PNG-Singapore Implementation Agreement.
- Integrity issues remain a problem in the market. In July, Verra suspended 27 cookstove projects over allegations of the over-issuance of millions of carbon credits.
- Lead negotiators laying the ground for COP29 are more optimistic about Article 6 texts on carbon crediting methodologies and international trade than in the run up to previous climate summits.

Source: S&P, The Straits Times

Trading carbon for climate

Singapore is collaborating with 19 countries on the bilateral trade of carbon credits. This will pave the way for companies in the Republic to buy carbon credits from projects in those countries to offset part of their carbon tax. **The Straits Times** highlights the countries involved and the status of each partnership.

Memorandum of understanding
It is the first stage of working towards a bilateral carbon credit agreement. The countries will also exchange knowledge on best practices and carbon market mechanisms.

Substantive conclusion of negotiations
Both countries have ironed out the nuts and bolts of the bilateral agreement, and are close to signing a pact.

Implementation agreement
Singapore and the country formally sign a carbon credit trading pact, based on principles laid out in the Paris Agreement on climate change. Carbon credit projects authorised under the agreement can promote sustainable development and benefit locals.

*Carbon credit buyer

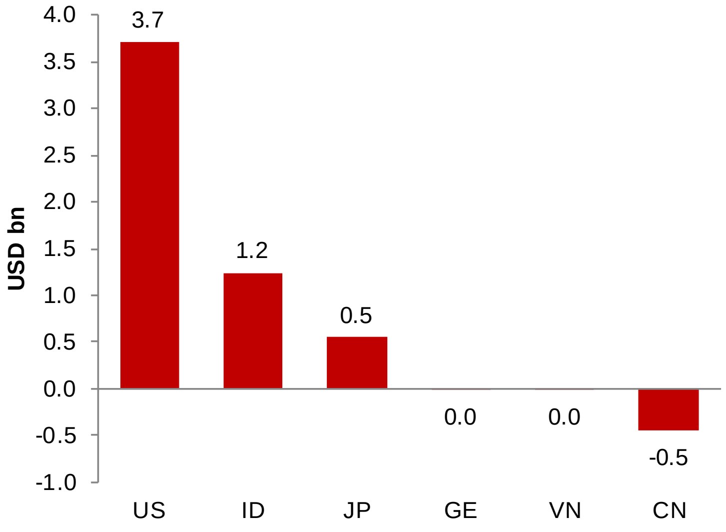
Sources: NATIONAL CLIMATE CHANGE SECRETARIAT, SINGAPORE'S CARBON MARKETS COOPERATION WEBSITE STRAITS TIMES GRAPHICS

Asset Flows

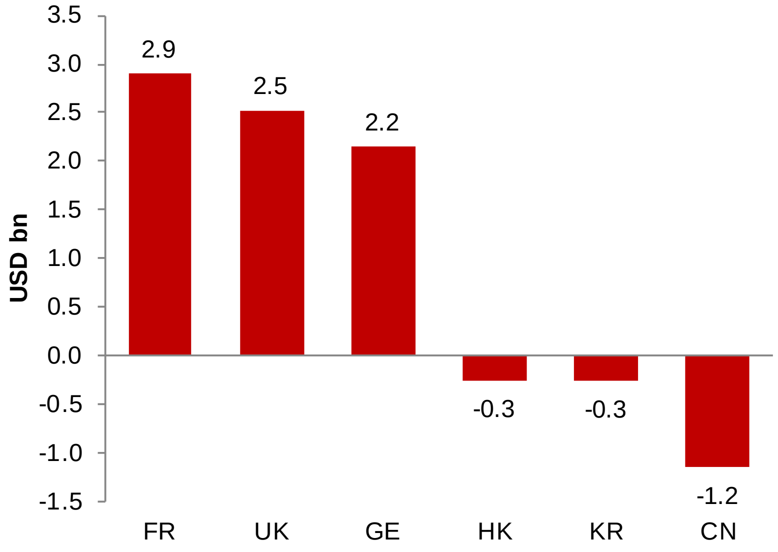
Global Equity & Bond Flows

- Global equity markets saw net inflows of $10.2bn for the week ending 10 July, a decrease from the inflows of $10.8bn last week.
- Global bond markets reported net inflows of 12.3bn, a decrease from last week's inflows of $19.0bn.

Equity top gainers & losers



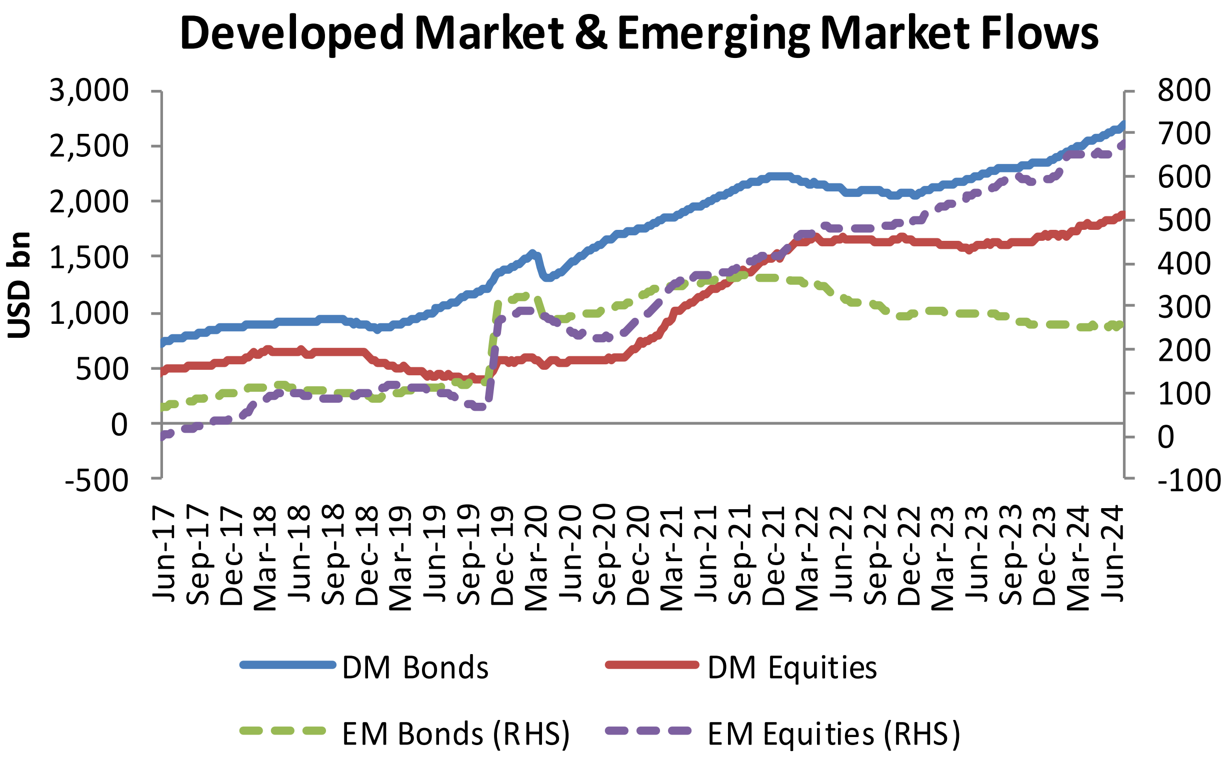
Bonds top gainers & losers



Source: OCBC, EPFR

DM & EM Flows

- Developed Market Equities ($4.8bn) and Emerging Market Equities ($5.4bn) saw inflows.
- Developed Market Bond ($12.3bn) and Emerging Market Bond ($749.50mn) saw inflows.



Source: OCBC, EPFR

Thank you

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