



CIO Weekly

3 February 2021

Equities: S&P 500 momentum underpinned by positive vaccination rollout and corporate earnings

Key Points

- **Equities:** S&P 500 momentum underpinned by positive vaccination rollout and corporate earnings
- **Credit:** Stability prevails through market volatility
- **FX:** More correction in commodity currencies; AUD to fall to 0.73 in 1Q21
- **Rates:** UST yields broadly stable despite volatility in equities; 1-1.2% range for 10Y yields stay intact
- **Thematics:** Transformation in China home appliance sector
- **The Week Ahead:** Keep a lookout for US change in nonfarm payrolls; Japan Current Account balance

From rhetoric to reality: US vaccination rollout finally cruising ahead. After a slow start, the vaccination programme for COVID-19 in the US is finally taking off. From 1-11 January, the number of vaccine doses administered daily averaged 0.4m. Since 12 January, the average daily dose shot to 1.1m, an improvement of 170%. US President Joe Biden is targeting 100m doses of vaccination in his first 100 days in office – a target which will be achieved based on current vaccination rate.

Figure 1 shows that the daily vaccination rate has far superseded daily new coronavirus cases in the US and this is a positive development in our view. According to the World Health Organization, 60-70% of a population has to be vaccinated in order for “herd immunity” to be achieved. A positive vaccination programme will accelerate the return to normalcy for Corporate America.

Biden's economic rescue package – A major boon for the economy. US President Biden has unveiled a massive USD1.9t economic rescue package to support households and businesses in the ongoing pandemic. The rescue plan will include the following measures:

- Additional USD1,400 worth of direct payments to Americans (this is in addition to the USD600 payment approved in December)
- Increasing unemployment aid from USD300 per week to USD400
- Providing USD25b in rental assistance for eligible households
- Providing USD15b in assistance to small businesses

Should the rescue package gain passage, its impact on the US economy will be substantial. We expect the US economy to grow 5.5% this year.

US earnings season: Technology and Financials leading the way. The US earnings season is in progress and of the companies which have announced their results, 81.4% reported positive earnings surprises, with the best performers being Technology (96.6%), Financials (92.9%), and Materials (90%).

Global cross assets

Returns of cross assets around the world

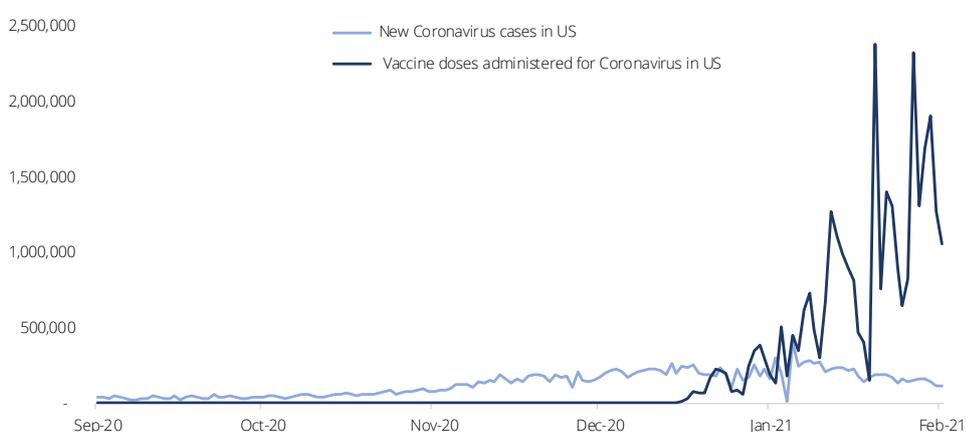
Index	Close	Overnight	YTD
DJIA	30,211.91	0.8%	-1.3%
S&P 500	3,773.86	1.6%	0.5%
NASDAQ	13,403.40	2.5%	4.0%
Stoxx Europe 600	400.77	1.2%	0.4%
DAX	13,622.02	1.4%	-0.7%
CAC 40	5,461.68	1.2%	-1.6%
FTSE 100	6,466.42	0.9%	0.1%
MSCI Axj	900.12	2.7%	6.8%
Nikkei 225	28,091.05	1.5%	2.4%
SHCOMP	3,505.28	0.6%	0.9%
Hang Seng	28,892.86	2.2%	6.1%
MSCI EM	1,361.09	2.4%	5.4%
UST 10-yr yield*	1.08	1.3%	16.6
JGB 10-yr yield*	0.06	12.2%	3.8
Bund 10-yr yield*	-0.52	-0.4%	5.5
US HY spread*	3.56	-1.7%	-4.0
EM spread*	325.23	0.3%	2.3
WTI (USD)	53.55	2.6%	10.4%
LMEX	3,445.70	-0.3%	0.9%
Gold (USD)	1,860.78	0.7%	-2.0%

Source: Bloomberg

* Changes in basis points

Dylan Cheang | Strategist

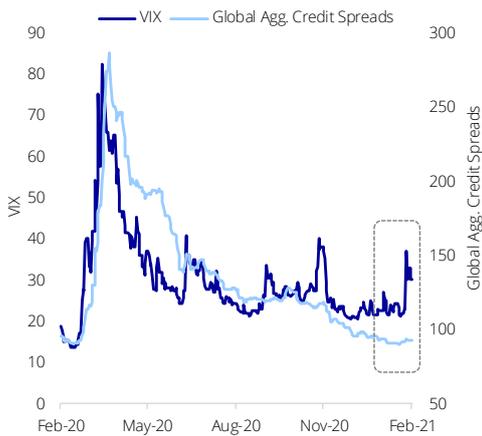
Figure 1: Vaccination doses administered in US far supersedes daily new coronavirus cases



Source: Bloomberg, DBS

Credit: Stability prevails through market volatility

Figure 2: Credit spreads unaffected by higher equity volatility



Source: Bloomberg, DBS

The building narrative of the war of positions between Wall Street's hedge funds and an emerging coordinated group of retail investors – fuelled by ideation on Reddit's WallStreetBets forums – has introduced a new avenue of volatility that markets have had to adjust to in the turn of the new year. While some might argue against small time investors having any significant impact on markets on aggregate, they might yet have some part to play in the VIX – a measure of S&P volatility – rising to highs not seen since the pre-election uncertainties in November 2020.

While global aggregate credit spreads have in the past shown strong correlations with the VIX (higher volatility in equity markets introduces uncertainty leading to wider credit spreads), these have conversely seen remarkable stability despite the latest episode of volatility. Aside from being outside the realm of retail investor focus, we believe that spread stability has been a reflection of the implicit support from central banks (please refer to “Explicit support recedes, implicit support remains”, 23 Nov 2020) – despite the Federal Reserve's credit facilities having already expired at the end of 2020. This continues to validate the case for credit to be the new safe play for the new decade (please refer to “The new safe play”, 18 Dec 2020).

Daryl Ho | Strategist

FX: More correction in commodity currencies

Figure 3: Depreciation on the cards



Source: Bloomberg, DBS

Among the commodity currencies, **the rise in the US Dollar Index (DXY) to 91.0 was best reflected by the break in USD/CAD above 1.2790** or its 50-day moving average. CAD is part of the DXY and accounts for 9.1% of its weight. In line with the global slowdown in the short term, Canada's manufacturing purchasing managers' index retreated to 54.4 in January from 57.9 a month earlier. Consensus expects this Friday's (5 February) unemployment rate to rise to 8.9% in January; December was revised up to 8.8% from 8.6% previously. **As key beneficiaries of the stimulus-led pandemic market rally, commodity currencies do not like higher inflation to temper monetary stimulus expectations** or the latest push by US Republicans to water down President Joe Biden's USD1.9t stimulus proposal to USD618b.

AUD to fall to 0.73 in 1Q21. The Reserve Bank of Australia (RBA) meets today after its break in January. No changes are expected to its cash rate and 3-year yield targets which were lowered to 0.10% last November. Despite a better growth and inflation outlook expected in its Statement on Monetary Policy this Friday, the RBA is unlikely to abandon its pledge to keep rates unchanged into 2023. However, close attention will be on its six-month AUD100b bond buying programme announced last November.

RBA Governor Philip Lowe's scheduled appearance before the House of Representatives will probably be more important than today's monetary policy meeting. The RBA's economic forecast for the pandemic has turned out to be overly pessimistic. The central bank also released a study that house prices may rise 30% on a permanent 1% fall in the cash rate. Governor Lowe faces a tough balancing act on monetary stimulus especially after Treasurer Josh Frydenberg ruled out extending the JobKeeper programme beyond March.

NZD to fall towards 0.70 in 1Q21. NZD/USD fell 0.5% to 0.7158 on Monday, below 0.7184 or its end-2020 level for a fourth straight session. Technically, NZD/USD has been capped at 0.72 but needs to take out its 0.7130 support (50-day moving average) before it can test 0.71 or January's lows again. Ironically, NZD's rally stalled after expectations increased for inflation to rise towards the official 2% target by mid-year. The Reserve Bank of New Zealand may, at its meeting on 24 February, rule out more rate cuts. The Ministry of Health meanwhile, is concerned that the new European Union controls on COVID-19 vaccine exports could slow New Zealand's pandemic response.

Figure 4: DBS currency forecasts

Ccy pair, eop	1 Feb	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
USD/CNY	6.4679	6.70	6.67	6.64	6.61	6.59	6.56	6.53	6.50
USD/HKD	7.7529	7.76	7.76	7.77	7.77	7.78	7.79	7.79	7.80
USD/INR	73.028	74.8	74.7	74.6	74.5	74.4	74.3	74.2	74.1
USD/IDR	14,023	14,500	14,430	14,360	14,290	14,210	14,140	14,070	14,000
USD/MYR	4.0400	4.11	4.09	4.08	4.06	4.05	4.03	4.02	4.00
USD/PHP	48.067	48.5	48.3	48.2	48.0	47.8	47.7	47.5	47.3
USD/SGD	1.3329	1.35	1.34	1.34	1.33	1.33	1.32	1.32	1.31
USD/KRW	1,116.22	1,140	1,135	1,130	1,125	1,120	1,115	1,110	1,105
USD/THB	29.993	31.0	30.8	30.6	30.4	30.2	30.0	29.8	29.6
USD/VND	23,041	23,160	23,100	23,050	22,990	22,940	22,890	22,840	22,780
AUD/USD	0.7621	0.73	0.73	0.74	0.75	0.75	0.76	0.77	0.77
EUR/USD	1.2060	1.18	1.19	1.20	1.21	1.22	1.23	1.24	1.25
USD/JPY	104.93	106	106	106	106	105	105	105	105
NZD/USD	0.7158	0.69	0.70	0.70	0.71	0.72	0.73	0.73	0.74
USD/CHF	0.8970	0.91	0.91	0.91	0.91	0.90	0.90	0.90	0.90
GBP/USD	1.3663	1.30	1.31	1.32	1.33	1.34	1.35	1.36	1.37
DXY Index	90.980	93.0	92.4	91.7	91.1	90.4	89.8	89.1	88.5

Australia, Eurozone, and United Kingdom are direct quotes

Philip Wee | FX Strategist

Rates: Dancing to a different beat

Figure 5: Broadly stable



Source: Bloomberg, DBS

Last week's gyrations in the equity markets captured attention. In the rates space, we note that US Treasury (UST) yields have been broadly stable despite volatility in the equities space. Part of this may be because longer-term yields have already pulled back due to dampened expectations of upcoming US fiscal stimulus. It probably does not help that many parts of the world are undergoing another wave of COVID-19, constraining economic activity in the process. During the worst of the rout, 10Y US yields briefly broke below 1% but has since rebounded. While economic recovery has stalled in the US, the labour market surprised on the upside, with continuing claims dipping to 4,771k (against consensus estimates of 5,088k). We would also note that USD rates could be dancing to a different beat as they have arguably been the least optimistic amongst asset classes. Rates are probably focusing on encouraging results from Johnson and Johnson's (JNJ US) vaccine (which requires just one shot, less onerous storage, and has displayed effectiveness to COVID-19 variants).

Positioning wise, we think that the market is wrong footed. Overall, net speculative futures positioning is neutral on UST. However, the market is heavily net short the 2Y tenor and net long the 10Y tenor, pointing to a flattening stance. We reckon that steepening trades make more sense where we are in the economic cycle. As vaccinations pick up pace across the world, yields at these levels do not accurately capture the extent of normalisation that could take place in 2H21. Technically, the 1-1.2% range for 10Y yields is still intact and we remain in the pay on dips camp.

Eugene Leow | Rates Strategist

Duncan Tan | Rates Strategist

Thematics: China's home appliance sector undergoing transformation

- China's home appliance sector has been recovering since 2Q20
- We believe China's home appliance retail market could grow 6.4% y/y in FY21F to CNY896b, at a scale on par with pre-COVID level
- e-Commerce supported by rising penetration in the counties
- Production evolution from better supply chains and leaner distribution networks should improve business sustainability

The industry has been recovering since 2Q20. Despite the 36% y/y decline in retail sales in 1Q20, China's home appliance sector has recovered well, boosted by pent up demand and stringent pandemic controls implemented in 2Q20 and 3Q20. As COVID-19 cases were contained in 4Q20 and with decent e-Commerce sales in November and December 2020 thanks to promotion campaigns, we expect retail sales growth in 4Q20F to be modest.

Bright outlook as new retail model kicks in. In DBS Group Research's base case, we believe China's home appliance retail market could grow by 6.4% y/y in FY21F to CNY896b, at a scale on par with pre-COVID level. Upcoming trends could include: 1) strong online sales complemented by a meaningful FY21F offline recovery; 2) robust growth in live broadcast sales despite small contributions now; and 3) lower tier counties as the next growth engines. Being industry leaders, both Haier (600690 CH) and Midea (000333 CH) should stand out as they leverage stronger online-to-offline (O2O) transition, smart production advantages, and better product responsibility to efficiently tap into lower tier counties.

Streamlining supply chain is a key focus. Amongst the pioneers in utilising industrial Internet of Things platforms to lift productivity, both Haier and Midea made good progress in coordinating supply chains and undertaking flexible production strategies. Aside from strong brand awareness, these market leaders have sound logistics capacities to facilitate ongoing channel reforms, (e.g. transformation to reduce distribution layers), making product deliveries and fulfilment more affordable, even at the county level.

Mavis HUI | Analyst

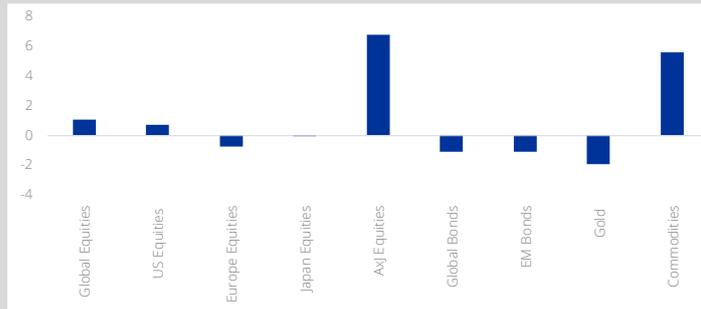
Figure 6: Home appliance retail sales in China (base case vs worst case)

CNYb	2018	2019	9M 20	4Q20F	2020F	2021F	
						Base Case	Worst Case
Offline	580	524	283	126	409	420	367
y/y growth	-16.4%	-9.6%			-2.19%	13.0%	0.0%
% of retail sales		58.8%			48.6%	46.9%	45.5%
Online	329	367	296	134	432	475	439
y/y growth	31.5%	11.6%			17.9%	8.0%	5.0%
% of retail sales		41.2%			51.4%	53.1%	54.5%
Total	909	891	579	260	842	896	805
y/y growth	-3.7%	-1.9%	-8.6%	0.8%	-5.6%	6.4%	-4.3%

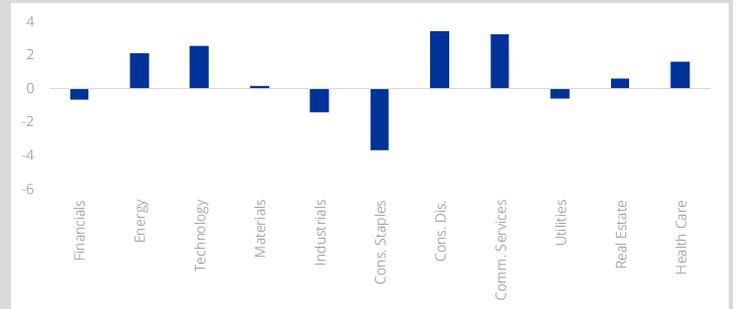
Source: China Electronics Information Industry Development Academe, DBS HK

CIO Markets Watch

Global Cross Assets YTD Returns



Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



Index Returns

	1 week	MTD	QTD	YTD
Equities				
S&P 500	-2.1%	1.6%	0.5%	0.5%
NASDAQ	-1.7%	2.5%	4.0%	4.0%
Russell 2000	-1.7%	2.5%	7.7%	7.7%
Stoxx Europe 600	-1.1%	1.2%	0.4%	0.4%
Nikkei-225	-2.5%	1.5%	2.4%	2.4%
MSCI WORLD	-2.1%	1.4%	0.3%	0.3%
MSCI ACWI	-2.3%	1.5%	1.0%	1.0%
MSCI Asia ex-Japan	-3.8%	2.7%	6.8%	6.8%
MSCI EM	-3.5%	2.4%	5.4%	5.4%
HSCEI	-4.2%	2.2%	6.7%	6.7%
SHCOMP	-3.3%	0.6%	0.9%	0.9%
Hang Seng	-4.2%	2.2%	6.1%	6.1%
STI Index	-2.6%	-0.2%	1.8%	1.8%
Fixed Income				
Barclays Global Aggregate	-0.5%	-0.2%	-1.1%	-1.1%
Barclays US Aggregate	-0.1%	0.0%	-0.7%	-0.7%
Barclays US High Yield	-0.1%	0.1%	0.4%	0.4%
Barclays Euro Aggregate	-0.2%	0.0%	-0.4%	-0.4%
Barclays Euro High Yield	0.0%	0.1%	0.7%	0.7%
JPM EMBI Global	0.0%	0.1%	-1.1%	-1.1%
JPM EMBI Global Diversified	0.2%	0.0%	-1.3%	-1.3%

Prices & Spreads

	Spot	4Q20	3Q20	2Q20
Rates				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	1.08	0.92	0.69	0.66
Japanese Govt Bond 10-yr	0.06	0.02	0.01	0.02
German Bunds 10-yr	-0.52	-0.57	-0.52	-0.46
Spreads				
US Agg Corporate Spread	0.97	0.96	1.36	1.50
US Corporate HY Spread	3.56	3.60	5.17	6.26
Euro Agg Corporate Spread	0.96	0.95	1.23	1.53
EM USD Agg Spread	2.68	2.68	3.34	3.93
Currencies				
US Dollar Index (DXY)	91.0	89.9	93.9	97.4
EUR/USD	1.21	1.22	1.17	1.12
USD/JPY	104.9	103.3	105.5	107.9
USD/CNY	6.5	6.5	6.8	7.1
Commodities				
WTI Oil	54	49	40	39
London Metal Exchange (LMEX)	3446	3415	2968	2682
TR/CC CRB Commodity	177	168	149	138
Gold	1861	1898	1886	1781

CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index



Macro Calendar

	Date	Period	Survey	Prior
United States & Eurozone				
Change in Nonfarm Payrolls (US)	05-Feb	Jan	60k	-140k
Initial Jobless Claims (US)	04-Feb	30-Jan	830k	847k
Durable Goods Orders (US)	04-Feb	Dec	0.20%	0.20%
GDP SA q/q (EU)	02-Feb	4Q	-0.90%	12.50%
MBA Mortgage Applications (US)	03-Feb	29-Jan	--	-4.10%
GDP SA y/y (EU)	02-Feb	4Q	-5.30%	-4.30%
Unemployment Rate (US)	05-Feb	Jan	6.70%	6.70%
ADP Employment Change (US)	03-Feb	Jan	50k	-123k

Macro Calendar

	Date	Period	Survey	Prior
Asia				
BoP Current Account Balance (JP)	07-Feb	Dec	--	¥1878.4b
Retail Sales y/y (SG)	05-Feb	Dec	-2.40%	-1.90%
Money Stock M2 y/y (JP)	08-Feb	Jan	--	9.20%
Money Stock M3 y/y (JP)	08-Feb	Jan	--	7.60%
Purchasing Managers Index (SG)	02-Feb	Jan	50.9	50.5
Caixin China PMI Services (CN)	02-Feb	Jan	55.5	56.3
Jibun Bank Japan PMI Composite (JP)	02-Feb	Jan	--	46.7
Caixin China PMI Composite (CN)	02-Feb	Jan	--	55.8

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