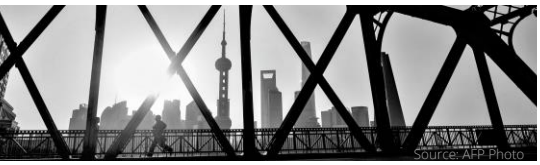

Source: AFP Photo

CIO Weekly

13 April 2021

Key Points

- **Equities:** Invest in Japanese companies with secular growth prospects and near-term earnings momentum
- **FX:** USD to resume its rise with US 10Y yield; Higher US yield to pressurise negative yielding currencies like JPY, CHF, and EUR
- **Rates:** Global interest rates consolidating; Investors to gravitate towards watching inflation risks in coming months
- **Thematics:** Higher dividends from Singapore banks on the cards
- **The Week Ahead:** Keep a lookout for US Change in Initial Jobless Claims; Japanese Industrial Production Numbers

Equities: I.D.E.A. for Japan

Since the 20th century, the Japanese have made contributions across many scientific and technological fields. Japanese inventors and entrepreneurs introduced many modern revolutionary and widely used technologies in fields such as electronics and robotics, which are pioneers of digitalisation. For example, the Walkman, handheld game sets, karaoke, and the use of lithium-ion batteries to the first robot in the world, were all pioneered by the Japanese. In this new Internet era, I.D.E.A. (Innovators, Disruptors, Enablers, and Adapters) stocks are also well represented in Japan.

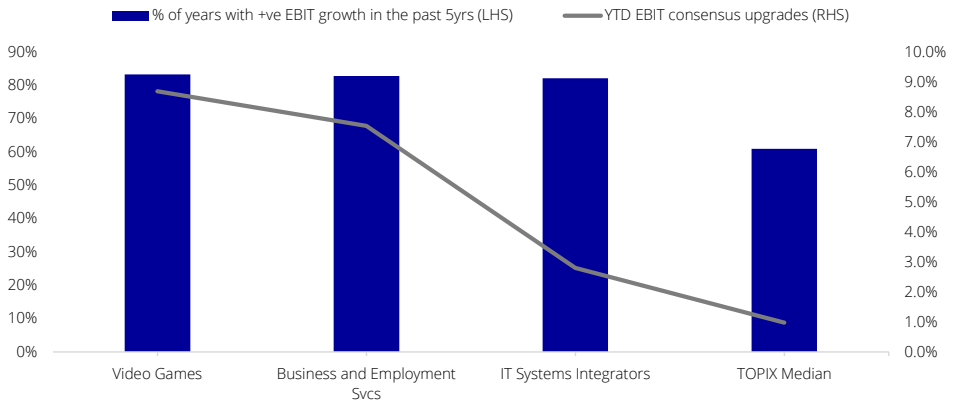
The video gaming sector falls under the category of Adapters because it has embraced the shift towards more effective monetisation methods such as free-to-play and in-game purchases, as well as digital purchases (CD sales are still relatively popular in Japan). While the outlook differs among developers/publishers depending on the game pipeline or hardware cycle, in general, we have seen much of the strong demand from the peak COVID period in 2020 carry through to 2021.

Strong enablers include the IT systems integrators sector, which helps to upgrade corporate Japan's digital capabilities. The demand for digitalisation is more acute and urgent in Japan given the labour shortage brought about by an ageing population. Opportunities which have arisen from Prime Minister Suga's more proactive stance toward accelerating digitalisation compared to his predecessor is positive for the sector.

Enablers such as the business and employment services sector help to ease the chronic labour shortage in Japan. This sector largely comprises the recruitment/placement companies, which enables the efficient matching of employers to jobseekers – an important task given the labour shortage. Secular trends such as rising wage growth since the Abenomics era (barring the impact from COVID), millennials who are job hopping more, and consolidation in the sector augur well for larger players in the space.

Joanne Goh | Strategist

Figure 1: Japan I.D.E.A. companies showing consistent growth and momentum



Source: Bloomberg, DBS

Global cross assets

Returns of cross assets around the world

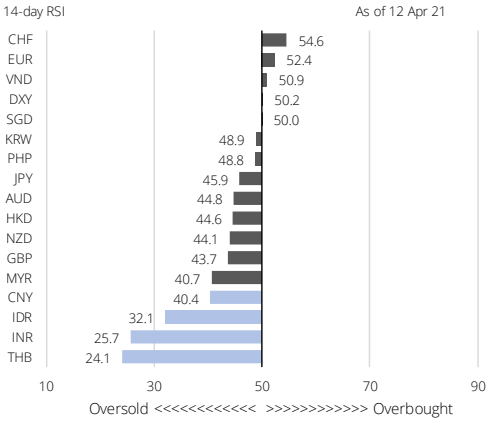
Index	Close	Overnight	YTD
DJIA	33,745.40	-0.2%	10.3%
S&P 500	4,127.99	0.0%	9.9%
NASDAQ	13,850.00	-0.4%	7.5%
Stoxx Europe 600	435.24	-0.5%	9.1%
DAX	15,215.00	-0.1%	10.9%
CAC 40	6,161.68	-0.1%	11.0%
FTSE 100	6,889.12	-0.4%	6.6%
MSCI AxJ	867.68	-0.7%	2.9%
Nikkei 225	29,538.73	-0.8%	7.6%
SHCOMP	3,412.95	-1.1%	-1.7%
Hang Seng	28,453.28	-0.9%	4.5%
MSCI EM	1,322.32	-0.6%	2.4%
UST 10-yr yield*	1.67	0.4%	75.3
JGB 10-yr yield*	0.10	-1.0%	8.6
Bund 10-yr yield*	-0.30	-3.0%	27.7
US HY spread*	2.92	0.0%	-68.0
EM spread*	315.87	-1.1%	-7.1
WTI (USD)	59.70	0.6%	23.0%
LMEX	3,812.40	-1.0%	11.7%
Gold (USD)	1,732.76	-0.6%	-8.7%

Source: Bloomberg
* Changes in basis points

DBS Live more, Bank less

FX: Bracing for a higher US inflation

Figure 2: Most currencies are not oversold or overbought



Source: Bloomberg, DBS

Wall Street was flat to weaker ahead of today's US Consumer Price Index (CPI) report. The US 10-year treasury yield, which has been capped at 1.7% or the last inflation reading in February, could resume its rise if CPI inflation comes in as expected at 2.5% y/y in March, its first reading above 2% since February 2020.

USD has scope to resume its rise together with the US 10-year yield after its correction last week. USD index or DXY is now neutral at 50 and no longer overbought as per its 14-day relative strength index. Most currencies, except for THB and INR, are no longer considered oversold. Many currency pairs have been in a holding pattern with the US long bond yield in the past few weeks. Downside risks will increase for the AUD, NZD, and GBP when their respective key support levels at 0.76, 0.70, and 1.3670 give way. A higher US yield should pressurise the negative yielding currencies such as JPY, CHF, and EUR. Renewed selling the developed market currencies should spill over into their emerging market peers.

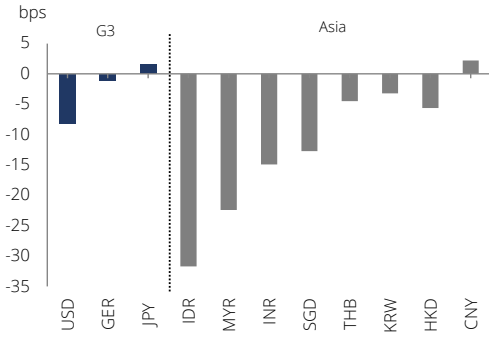
Meanwhile, St Louis Fed President James Bullard flagged 75% vaccinations as a precondition for the Federal Reserve to consider tapering its asset purchases. The share of Americans with at least one dose of the COVID-19 reached 35.2% last Sunday (11 April). US President Joe Biden is scheduled to announce today that all adults will be eligible for vaccinations from 19 April, a deadline brought forward from 1 May.

Investors have not panicked from the new wave of infections in some US states. The record 4.6m vaccine doses administered in America last Saturday was well above the 70,000 new cases daily in the US. The Centers for Disease Control and Prevention has warned that the B.1.1.7 variant has become the more dominant strain of the virus. This has posed a challenge to reopening the US economy as evidenced by the surge in infections in Michigan. The top four US states with most cases of the variant are Florida, Michigan, Minnesota, and Massachusetts. Fed chair Jerome Powell has urged Americans to guard against complacency and keep to the practices of wearing masks and social distancing.

Philip Wee | FX Strategist

Rates: Awaiting a new catalyst

Figure 3: Change in 10Y Government Bond Yields since end-March



Source: Bloomberg, DBS

Global interest rates have been consolidating with 10Y US Treasury yields closing last week (ended 9 April) at 1.66% (about 10 bps below the recent peak). This respite is much welcome across the Emerging Markets (EM) govvie space. Across Asia, 10Y yields are now lower than where they were at the end of March. Indo Government Bonds (GB) is the best performer, with yields dropping by over 30 bps, followed by MGS, at -22 bps. We think that EM rates may have grown accustomed to the current US yield trading range. Fear, as measured by implied volatilities in equities and rates, has come off and is encouraging a tentative reach for yield. Interestingly, China GB was the only one in Asia (amongst those we track) that registered a modest yield increase. We think that the firm Chinese Producer Price Index (PPI) numbers (4.4% y/y in March) may be why investors are a tad cautious.

We think that **investors will gravitate towards watching inflation risks in the coming few months** (as the Developed Markets economies normalise) and leading indicators for price increases will be closely watched. China's rising PPI is another sign that price pressures are building. The correlation with US Consumer Price Index (CPI) (of the same month) is around 0.67. US CPI data (due 13 April) is expected to touch 2.5% y/y (Bloomberg consensus). With base effects likely to distort pressures to the upside, we would also be watching the sequential figures (consensus: 0.5% m/m sa). We suspect that a clearer picture on inflation (especially on services) would only emerge in 3Q21 when economies reopen further. Likely firm US data and inflation worries will keep USD rates buoyant.

Eugene Leow | Rates Strategist
Duncan Tan | Rates Strategist

Thematics: What is next for Singapore banks' dividends?

- MAS likely to ease stance on dividend cap imposed as Singapore banks have preserved enough capital
- Expect higher dividends for FY21F on gradual relaxation of dividend caps; two-stage relaxation likely
- Banks may adjust high capital buffers through some special dividends from FY22F, subject to asset quality and corporate actions

The Monetary Authority of Singapore (MAS) is likely to ease stance on dividend cap imposed on FY20 dividends as Singapore banks have preserved sufficient capital. In July 2020, the MAS called on Singapore banks to cap their total dividends per share at 60% of FY19 levels, for FY20, while offering the scrip dividend option. This has allowed Singapore banks to preserve sufficient capital to ride through macroeconomic uncertainties. Following the relaxation of dividend restrictions by various central banks going into FY21 on the back of improved visibility for an economic recovery, DBS Group Research expects MAS to also ease its stance for Singapore banks.

We expect higher dividends for FY21F on gradual relaxation of dividend caps; a two-stage relaxation seems to be a more likely scenario. As the targeted loan moratorium under the Extended Support Scheme – Standardised rolls off after June 2021, we expect MAS to progressively relax its dividend restrictions for banks. A two-stage relaxation, where Singapore banks would initially be allowed to pay out up to a percentage of their FY21F net profit prior to the complete removal of restrictions, seems to be a more likely scenario. We believe higher dividends are on the horizon as the managements of banks have signalled their willingness and ability to commit to higher dividends in FY21F, subject to MAS guidelines.

Banks may adjust high capital buffers through some special dividends from FY22F, subject to asset quality and corporate actions. As of end-4Q20, Singapore banks' CET1 ratios (which compares a bank's capital against its risk-weighted assets to determine its ability to withstand financial distress) of 13.9-15.2% were well above their comfortable operating range of ~13% +/-0.5%. Mathematically, the banks can revert to FY19's dividend policy/payout levels and will still have ample capital buffers within their comfortable range. We believe banks may adjust their high capital buffers via special dividends from FY22F, subject to asset quality and corporate actions at that juncture, as they navigate through a COVID-19 recovery. Should provisions come within managements' current expectations, we believe there is a case for some special dividends from FY22F. Besides that, OCBC Bank (OCBC SP) and UOB (UOB SP) are good recovery plays as we look towards an earnings recovery led by more stable net interest margins, higher loan growth, and lower credit costs alongside an uptick in long-end yields.

Rui Wen LIM | Analyst

Table 1: Singapore Banks – Theoretical dividend payouts

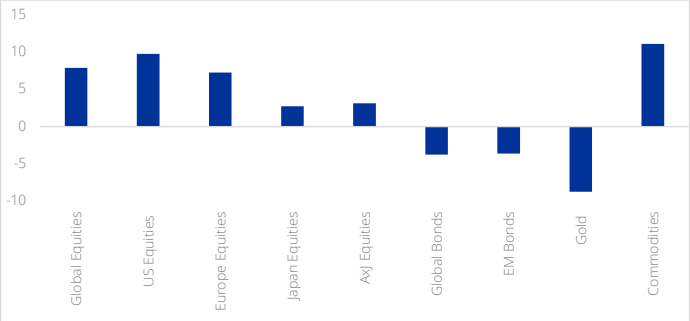
	FY21F net profit (USDm)	FY21F RWA (USDm)	FY20A CET1 ratio	Excess capital (SGDm)*	Excess capital (SGD per share)	Assume 50% dividend payout ratio for FY21F (S$	Implied dividend yield (FY21F)**	Excess capital for FY22F (SGD per share)
OCBC	4,303	235,597	15.20%	4,992	1.12	0.48	4.00%	0.63
UOB	3,655	243,476	14.70%	3,364	2.01	1.09	4.20%	0.92

* excess capital above CET1 ratio assumed to be 13.5% in FY21
** dividend yield calculated as of 1 April 2021

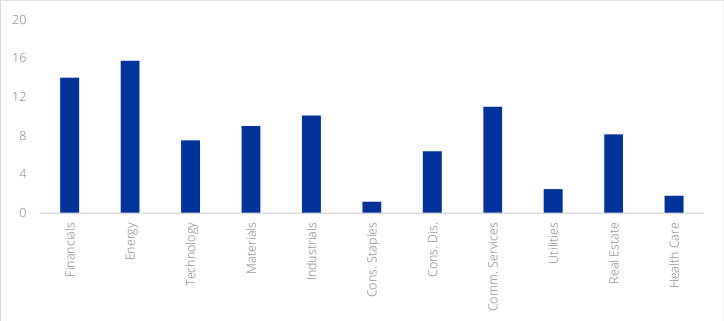
Source: Bloomberg, DBS

CIO Markets Watch

Global Cross Assets YTD Returns

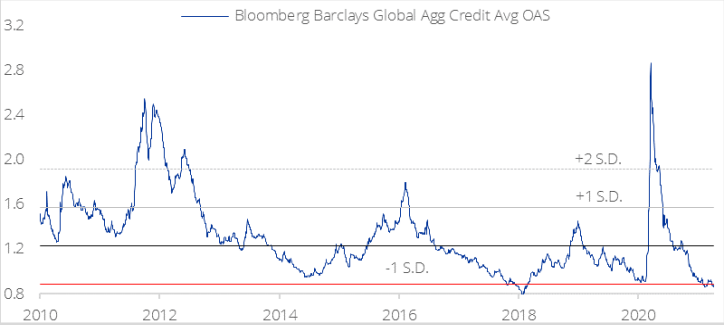


Global Sector YTD Returns



Global Equity Valuation

US Corporate Spreads



Index Returns

	1 week	MTD	QTD	YTD
Equities				
S&P 500	1.2%	3.9%	3.9%	9.9%
NASDAQ	1.1%	4.6%	4.6%	7.5%
Russell 2000	-1.4%	0.6%	0.6%	13.1%
Stoxx Europe 600	0.7%	1.3%	1.3%	9.1%
Nikkei-225	-1.8%	1.2%	1.2%	7.6%
MSCI WORLD	1.2%	3.4%	3.4%	8.1%
MSCI ACWI	0.9%	3.0%	3.0%	7.3%
MSCI Asia ex-Japan	-1.2%	0.5%	0.5%	2.9%
MSCI EM	-1.2%	0.4%	0.4%	2.4%
HSCEI	-3.1%	-0.9%	-0.9%	1.3%
SHCOMP	-2.1%	-0.8%	-0.8%	-1.7%
Hang Seng	-1.7%	0.3%	0.3%	4.5%
STI Index	-1.1%	0.3%	0.3%	11.6%
Fixed Income				
Barclays Global Aggregate	0.5%	0.7%	0.7%	-3.8%
Barclays US Aggregate	0.3%	0.5%	0.5%	-2.9%
Barclays US High Yield	0.3%	0.7%	0.7%	1.5%
Barclays Euro Aggregate	-0.3%	-0.1%	-0.1%	-2.0%
Barclays Euro High Yield	0.1%	0.3%	0.3%	2.5%
JPM EMBI Global	0.8%	1.2%	1.2%	-3.6%
JPM EMBI Global Diversified	0.5%	0.9%	0.9%	-4.1%

Prices & Spreads

	Spot	1Q21	4Q20	3Q20
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	1.67	1.74	0.92	0.69
Japanese Govt Bond 10-yr	0.10	0.09	0.02	0.01
German Bunds 10-yr	-0.30	-0.29	-0.57	-0.52
Spreads				
US Agg Corporate Spread	0.88	0.91	0.96	1.36
US Corporate HY Spread	2.92	3.10	3.60	5.17
Euro Agg Corporate Spread	0.90	0.94	0.95	1.23
EM USD Agg Spread	2.63	2.67	2.68	3.34
Currencies				
US Dollar Index (DXY)	92.1	93.2	89.9	93.9
EUR/USD	1.19	1.17	1.22	1.17
USD/JPY	109.4	110.7	103.3	105.5
USD/CNY	6.5	6.6	6.5	6.8
Commodities				
WTI Oil	60	59	49	40
London Metal Exchange (LMEX)	3812	3787	3415	2968
TR/CC CRB Commodity	186	185	168	149
Gold	1733	1708	1898	1886

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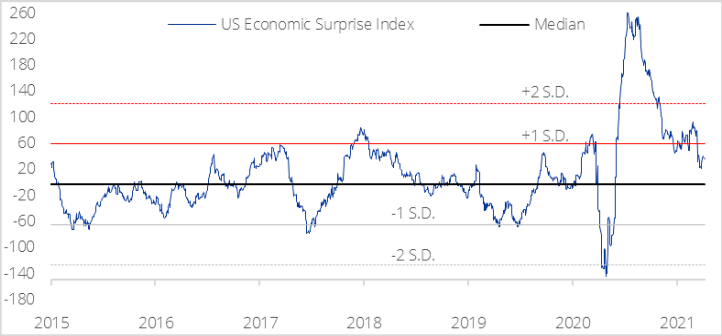
CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index

Macro Calendar

	Date	Period	Survey	Prior
United States & Eurozone				
Initial Jobless Claims (US)	15-Apr	10-Apr	700k	744k
CPI m/m (US)	13-Apr	Mar	0.50%	0.40%
CPI y/y (EU)	16-Apr	Mar	1.30%	0.90%
U. of Mich. Sentiment (US)	16-Apr	Apr	89	84.9
Retail Sales Advance m/m (US)	15-Apr	Mar	5.70%	-3.00%
MBA Mortgage Applications (US)	14-Apr	09-Apr	--	-5.10%
Industrial Production m/m (US)	05-Apr	Mar	2.50%	-2.20%
Housing Starts (US)	16-Apr	Mar	1611k	1421k

Macro Calendar

	Date	Period	Survey	Prior
Asia				
Industrial Production m/m (JP)	19-Apr	Feb	--	-2.10%
GDP y/y (CN)	15-Apr	1Q	18.50%	6.50%
Core Machine Orders m/m (JP)	13-Apr	Feb	2.50%	-4.50%
Non-oil Domestic Exports y/y (SG)	15-Apr	Mar	2.60%	4.20%
GDP y/y (SG)	13-Apr	1Q	-0.50%	-2.40%
Industrial Production y/y (CN)	15-Apr	Mar	18.00%	--
Trade Balance (CN)	12-Apr	Mar	$52.00	$78.17b
Retail Sales y/y (CN)	15-Apr	Mar	28.00%	--

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