CIO Weekly

31 August 2021

Key Points

- Equities: Videogaming is no child's play
- Fixed Income: Asia BB is the sweet spot
- FX: MYR overbought with 14-day RSI readings above 70
- Rates: India government bonds could underperform IndoGB amid policy divergence between RBI and Bank Indonesia
- Thematics: China Auto – buy EV-related plays on dips
- The Week Ahead: Keep a lookout for US change in nonfarm payrolls; China inflation numbers

GLOBAL CROSS ASSETS
Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	35399.84	-0.16%	15.66%
S&P 500	4528.79	0.43%	20.57%
NASDAQ	15265.89	0.90%	18.45%
Stoxx Europe 600	472.68	0.07%	18.46%
DAX	15887.31	0.22%	15.81%
CAC 40	6687.30	0.08%	20.46%
FTSE 100	7148.01	0.00%	10.64%
MSCI AxJ	823.03	1.05%	-2.36%
Nikkei 225	27789.29	0.54%	1.26%
SHCOMP	3528.15	0.17%	1.59%
Hang Seng	25539.54	0.52%	-6.21%
MSCI EM	17396.52	1.08%	18.08%
UST 10-yr yield*	3144.19	0.33%	9.42%
JGB 10-yr yield*	6144.90	1.71%	2.77%
Bund 10-yr yield*	1601.38	0.71%	-1.59%
US HY spread*	3102.11	0.69%	9.08%
EM spread*	56889.76	1.36%	19.14%
WTI (USD)	1285.39	1.00%	-0.45%
LMEX	35399.84	-0.16%	15.66%
Gold (USD)	4528.79	0.43%	20.57%

Source: Bloomberg
* Changes in basis points

Equities: Barbell growth theme – Videogaming is no child's play

Global videogaming market – No child's play. The global videogaming market is growing from strength to strength. According to Newzoo, there is an estimated 2.7b gamers worldwide and this is expected to grow to 3.1b by 2023. Today, gamers are no longer regarded as the "minorities" in the global cyber community as more than half of Internet users worldwide are on their side.

Videogaming revenue – Bigger than global film and North American sports combined. With majority of the world's population in lockdown during the peak of the pandemic, the videogaming industry grew by more than 20% in 2020, bringing in USD180b in revenue (according to IDC). This puts the global videogame industry well ahead of the global filming industry and North American sports in terms of revenue generated.

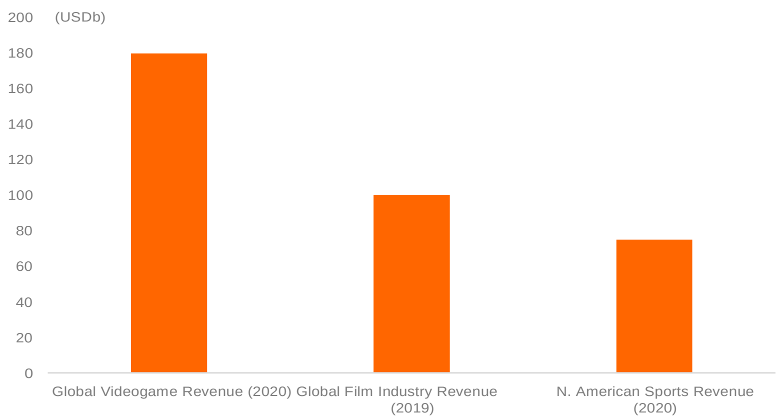
Beneficiaries of videogaming's rising popularity. The main beneficiaries of this growing trend would be (1) Game publishers and (2) Hardware manufacturers.

1) Game publishers: As game publishers control both the upstream (game developers) and downstream (distributors), they are able to create powerful feedback loops that allow them to generate higher levels of user engagement, retention, and most importantly, monetisation. For instance, game publishers like Activision Blizzard (ATVI US) have been reporting double digit revenue growth. In the past five years, Activision Blizzard reported revenue growth of 11.6% on average (vs 7.8% for S&P 500).

2) Hardware manufacturers: Mobile continues to dominate the videogaming landscape with nearly 50% of gamers on a mobile platform. This could be attributed to low barriers of entry as c.50% of the world's population own a smartphone. All it takes is an Internet connection for one to start gaming. In 2020, mobile revenues increased by 26%, console by 21%, and PC by 6% (according to Newzoo).

Video gaming and e-Sports equities – Powering ahead. Since its inception, the MVIS Global Video Gaming & eSports Index has consistently outperformed the S&P 500 Index. As of end August 2021, the index has outperformed the S&P 500 by 227%. Investors are advised to gain exposure to the e-Sports/videogaming industries as "growth" exposure in their investment portfolios.

Figure 1: Global videogaming revenue outpacing global film and North American sports



Source: IDC, Motion Picture Association, PWC, DBS

Tighter controls for Chinese minors. China recently announced further steps to curb video game addition among minors. Under the new rules, minors would only be allowed one hour of gaming a day (8-9pm) on Fridays, Saturdays, and Sundays. We believe that this new ruling will have limited impact on the videogaming industry.

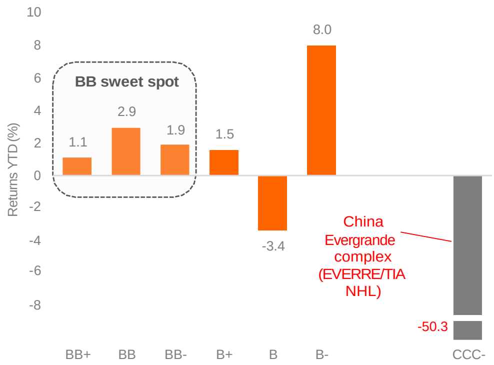
For reference, there is an estimated 110m minors in China who play video games daily. In Tencent's (700 HK) (world's largest gaming company) 2Q21 earnings report, the company reported that under 16-year-olds only accounted for 2.6% of gross game receipt in China while under 12-year-olds account for only 0.3%.

The new ruling will, therefore, unlikely inflict any lasting impact on game publishers in China; we remain optimistic of these China Technology companies.

Benjamin Goh | Analyst

Fixed Income: Asia BB is the sweet spot

Figure 2: Asia BB is the sweet spot



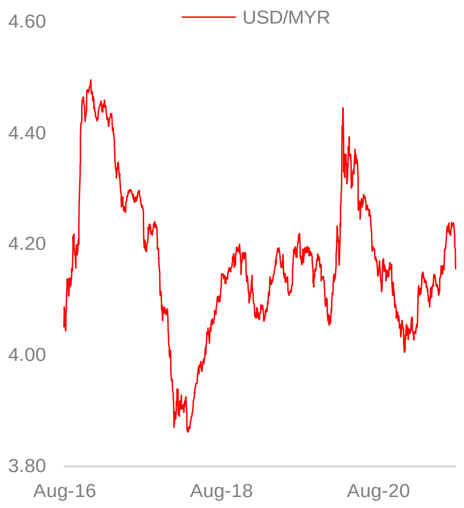
Source: Bloomberg, DBS

We had previously highlighted the divergent performances of HY credit in the US vs Asia, with the former seeing the low rates environment and favourable weightings in the energy sector drive year-to-date returns to an impressive 4.47%, while the latter languished under China's regulatory tightening of leveraged financial and property companies with a YTD loss of -1.28% by the end of August. This divergence has resulted in yields between Asia HY and US HY moving to three-year wides, with Asia yielding close to 5 %pts higher than the US based on the Bloomberg Barclays indices. However, looking under the hood in Asia's underperformance sees that the stresses are not broad-based.

Dissecting the performance of Asia HY by credit rating buckets affirms that the above sectoral risks are more idiosyncratic than systemic. The largest underperformers were the CCC bucket which constitutes the bonds from the China Evergrande (3333 HK) complex (downgraded from B-). While the performances of the single-B bucket had been volatile, it was the BB bucket that showed the most resilience with 2.2% returns on average with comparatively low volatility. This affirms our stance that BB remains the sweet spot, and continue to recommend that investors maintain a posture of loss-avoidance by staying away from the riskiest credits while uncertainty remains.

Daryl Ho | Strategist

Figure 3: Overbought



Source: Bloomberg, DB S

FX: Ending August on a high note

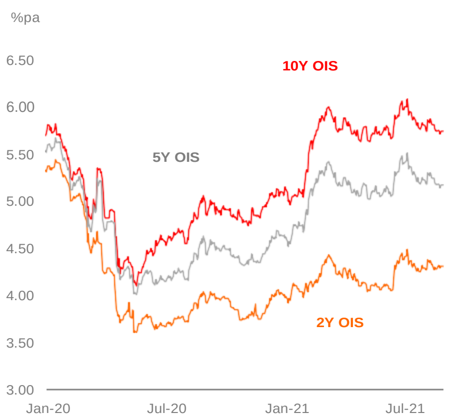
DXY was barely changed around 92.7. The Conference Board consumer confidence index is expected to slow to 123.0 (consensus) in August from 129.1 in July, in line with the fall in the University of Michigan consumer sentiment survey to 70.3 from 81.2. The US jobs report on Friday (3 September) is the still most important event this week. Markets expect nonfarm payrolls to moderate from 943k in July to 750k in August, a level that will keep the Fed on track to taper asset purchases in late 2021.

Focus on Eurozone inflation today. EUCPI estimate is expected to come in at 2.7% y/y (consensus) in August from 2.2% in July. Core inflation will double to 1.5% from 0.7% but remain below the new symmetric 2% target. European Central Bank (ECB) governing council member Robert Holzmann expects inflation to fall again next year. Germany reported that wage growth lagged inflation in 2Q21. Speaking at an Organisation for Economic Co-operation and Development event today, ECB Chief Economist Philip Lane will discuss how the new policy guidance can boost inflation expectations. Dr Lane believed it is too early to discuss the end of the pandemic emergency purchase programme at the ECB meeting on 9 September. For a second time this month, EUR tried to appreciate above 1.18 but met resistance at its 50-day moving average.

MYR is overbought according to its 14-day RSI readings above 70. Malaysian stocks rallied after Mr Ismail Sabri Yaakob was sworn in as Malaysia's prime minister on 21 August. Cheering the temporary truce with the opposition, the FTSE Bursa KLCI Index closed above 1600 yesterday for the first time since 30 April. USD/MYR fell back from just below 4.25 towards 4.15 during the same period. The new prime minister wants to boost adult vaccination rates to at least 50% in six Malaysian states over the coming month. Support from the opposition will be important for the 12th Malaysian Plan and Budget 2022 which will be tabled in parliament on 20 September and 29 October.

Philip Wee | FX Strategist

Figure 4: 2Y, 5Y & 10Y OIS



Source: Bloomberg, DBS

Rates: India rates – Inflation worries

Indian government bond pricing is now assigning a greater weight towards inflation worries. We think that this makes sense given that growth risks have receded since the Delta variant wave appears to have peaked. Daily Covid cases have dipped below 50k, from over 400k at the peak of the crisis in May. With reports indicating that two-thirds of the population may already have antibodies against the coronavirus and the daily vaccination drive picking up, we argue that India may be one of the best placed in Emerging Markets (EM) to recover.

Notwithstanding risks of another Covid wave, we think that the bond market will increasingly focus on inflation risks. India's headline Consumer Price Index has nudged above 6% for two consecutive months before easing in July. While base effects would turn more favourable out to December (pushing down headline figures), market participants and policymakers are unlikely to be able to shake off their discomfort with rising prices. At the last Reserve Bank of India (RBI) meeting, one dissent on the stance and upward revision is the inflation forecast which is expected to spur an internal debate over the policy direction.

Compared to the largest EM economies, the RBI appears slightly behind on normalisation plans. Brazil has hiked rates by 325bps since the start of the year. Note that the policy rate is already above pre-pandemic levels (which we peg at the start of 2020). Similarly, Russia has hiked rates by 225bps this year and the policy rate is also above pre-pandemic levels. Lastly, China normalised back in mid-2020. The INR Rates space has already factored in an increase in the interbank rate back above pre-crisis levels in two years. Having factored in 50bps worth of hikes in 2H22, we think that this pricing is reasonable, but risks are probably skewed to the upside. On a relative basis, we think that India government bonds could underperform IndoGB, playing on a likely policy divergence between the RBI and Bank Indonesia (more focused on growth).

Eugene Leow | Rates Strategist

- Global EV sales outperform PV market despite chip shortage
- EV sector offers better sales outlook; we expect auto parts sector to benefit from this trend
- Potential sharp restocking could boost medium-term outlook despite short-term overhang from supply chain disruption
- Opportunity to accumulate preferred EV-related picks on dips

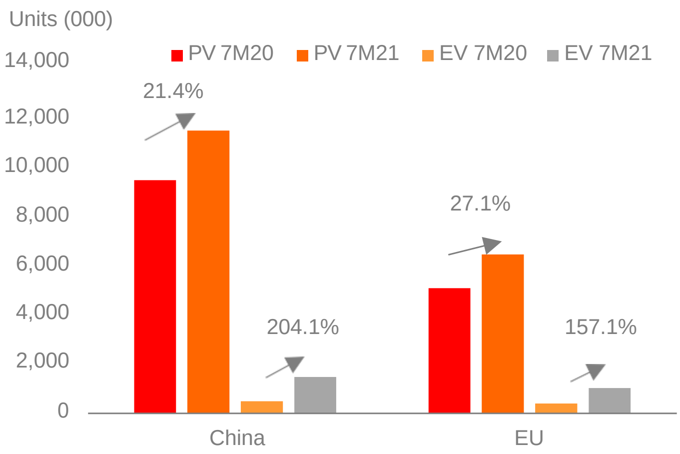
Global EV sales have outperformed PV segment despite auto chip shortage. Electric vehicle (EV) sales growth in major auto markets were 6-10x higher than overall passenger vehicle (PV) sales in 7M21, despite the chip supply shortage. Financial incentives and stringent emissions controls are factors supporting the robust global EV market. New measures and policies are expected to drive the global EV market, further boosting sales growth compared to the traditional internal-combustion-engine vehicle market. For example, 50% of vehicle sales in the US are to be from zero-emission vehicles by 2030, all new vehicle sales in Europe to be zero emissions by 2035, and various incentives and support have been announced by the Chinese government.

Demand for parts & components to rise on robust global EV outlook. The acceleration of vehicle electrification in the major auto markets is expected to benefit Chinese auto parts and components players, especially those with EV-related products and overseas exposure. We prefer Minth (425 HK) for its strong growth in EV-related products (>60% of new business intake related to EV), and wide customer reach across major markets. These are catalysts for margins expansion as production increases, taking advantage of new facilities overseas to support growing demand. While supply chain disruption could be a short-term overhang, DBS Group Research believes the medium-term outlook remains intact on potential sharp restocking.

Weakness in China's July PV sales expected; prefer EV automakers. PV sales weakness was expected given the high base and tight chip supply. Since car inventory is running lean, we foresee automakers accelerating production ahead of the peak sales season. BYD (1211 HK) and Geely (175 HK) stand out in the EV-related space. The share prices of auto names have corrected, providing an attractive entry point to accumulate these two names. BYD's ability to produce EV batteries and auto chips are the two differentiating factors to support its share price performance. Geely's EV sales should strengthen after acquisitions of certain critical business units to rapidly broaden its operating scale.

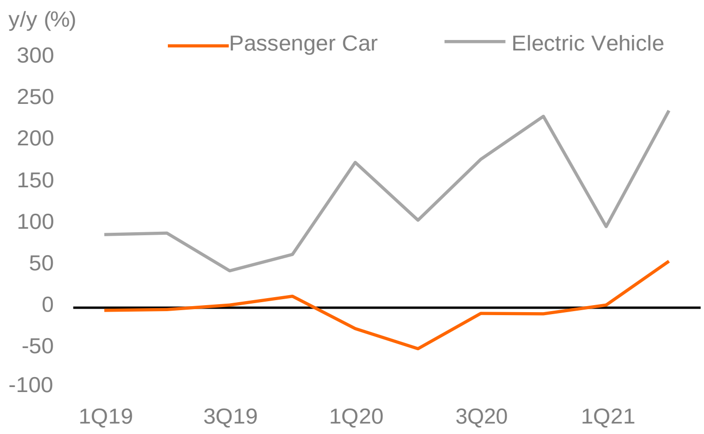
Rachel MIU | Analyst

Figure 5: Green vehicle/EV sales surging in China & Europe



Source: CEIC, ACEA
Note: EU sales data are based on 1H satistics

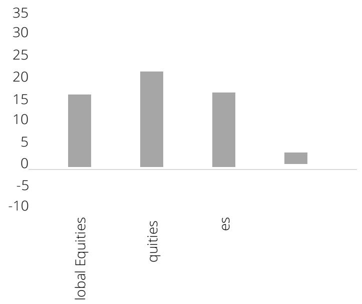
Figure 6: EU EV rapid sales growth vs passenger car performance



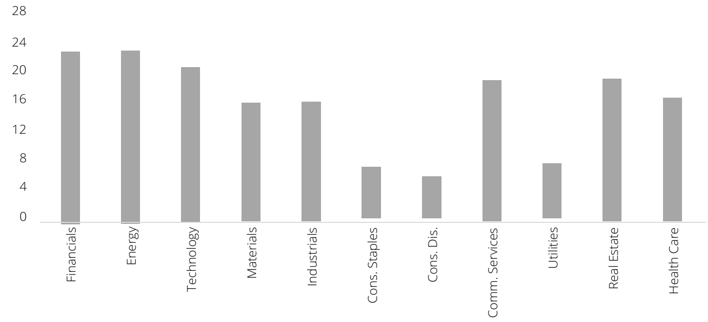
Source: CEIC

CIO Markets Watch

Global Cross Assets YTD Returns

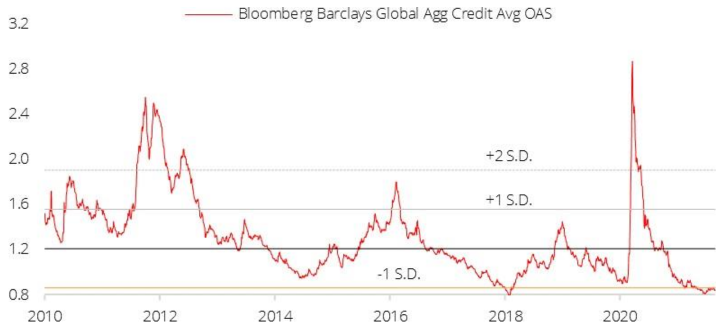


Global Sector YTD Returns



Global Equity Valuation

US Corporate Spreads



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INDEX RETURNS

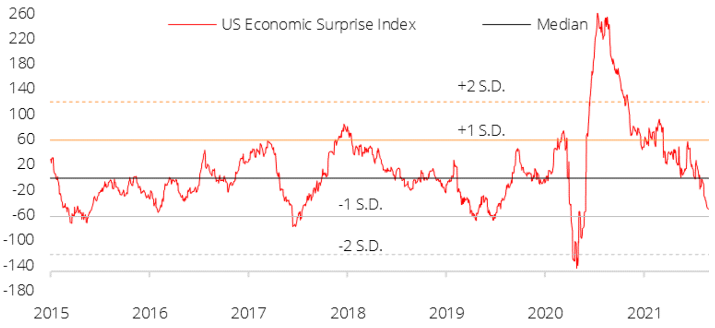
	1 week	MTD	QTD	YTD
Equities				
S&P 500	1.1%	3.0%	5.4%	20.6%
NASDAQ	2.2%	4.0%	5.3%	18.4%
Russell 2000	2.6%	1.8%	-1.9%	14.7%
Stoxx Europe 600	0.2%	2.4%	4.4%	18.5%
Nikkei-225	1.1%	1.9%	-3.5%	1.3%
MSCI WORLD	1.1%	2.5%	4.3%	17.0%
MSCI ACWI	1.4%	2.3%	2.9%	14.6%
MSCI Asia ex-Japan	3.7%	0.3%	-7.5%	-2.4%
MSCI EM	3.9%	0.6%	-6.5%	-0.5%
HSCEI	2.0%	-2.6%	-15.6%	-16.2%
SHCOMP	1.5%	3.8%	-1.8%	1.6%
Hang Seng	1.7%	-1.6%	-11.4%	-6.2%
STI Index	0.5%	-2.0%	-0.9%	9.1%
Fixed Income				
Barclays Global Aggregate	0.1%	-0.3%	1.0%	-2.3%
Barclays US Aggregate	0.0%	-0.1%	1.1%	-0.6%
Barclays US High Yield	0.7%	0.4%	0.8%	4.5%
Barclays Euro Aggregate	-0.5%	-0.2%	1.3%	-1.0%
Barclays Euro High Yield	0.0%	0.2%	0.7%	4.3%
JPM EMBI Global	0.4%	0.7%	1.3%	0.3%
JPM EMBI Global Diversified	0.4%	0.6%	1.1%	0.0%

PRICES & SPREADS

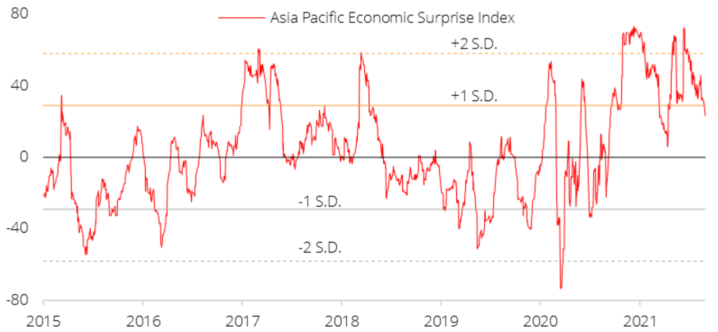
	Spot	2Q21	1Q21	4Q20
Rates				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	1.28	1.47	1.74	0.92
Japanese Govt Bond 10-yr	0.02	0.05	0.09	0.02
German Bunds 10-yr	-0.44	-0.21	-0.29	-0.57
Spreads				
US Agg Corporate Spread	0.88	0.80	0.91	0.96
US Corporate HY Spread	2.88	2.68	3.10	3.60
Euro Agg Corporate Spread	0.88	0.86	0.94	0.95
EM USD Agg Spread	2.71	2.57	2.67	2.68
Currencies				
US Dollar Index (DXY)	92.7	92.4	93.2	89.9
EUR/USD	1.18	1.19	1.17	1.22
USD/JPY	109.9	111.1	110.7	103.3
USD/CNY	6.5	6.5	6.6	6.5
Commodities				
WTI Oil	69	73	59	49
London Metal Exchange (LMEX)	4233	4152	3787	3415
TR/CC CRB Commodity	220	213	185	168
Gold	1810	1770	1708	1898

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)	03-Sep	Aug	750k	943k
Initial Jobless Claims (US)	02-Sep	28-Sep	345k	353k
ISM Manufacturing (US)	01-Sep	Aug	58.5	59.5
Conf. Board Consumer Confidence (US)	31-Aug	Aug	123	129.1
MBA Mortgage Applications (US)	01-Sep	27-Aug	--	1.60%
Durable Goods Orders (US)	02-Sep	Jul	-0.10%	-0.10%
Markit US Manufacturing PMI (US)	01-Sep	Aug	61.2	61.2
Markit Eurozone Manufacturing PMI (EU)	01-Sep	Aug	61.5	61.5

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
Caixin China PMI Mfg (CN)	31-Aug	Aug	50.1	50.3
Jibun Bank Japan PMI Mfg (JP)	31-Aug	Aug	--	52.4
Capital Spending y/y (JP)	31-Aug	2Q	3.50%	-7.80%
Retail Sales y/y (SG)	03-Sep	Jul	0.30%	25.80%
Monetary Base y/y (JP)	01-Sep	Aug	--	15.40%
Purchasing Managers Index (SG)	02-Sep	Aug	50.9	51
Caixin China PMI Services (CN)	02-Sep	Aug	52	54.9
Jibun Bank Japan PMI Services (JP)	02-Sep	Aug	--	43.5