CIO Weekly

7 September 2021

Key Points

- **Equities:** Hedges are open for QE taper, Delta variant, and inflation risks. Include gold to diversify risks
- **Fixed Income:** Treasuries beat TIPS most of the time
- **FX:** AUD near the top of 0.70-0.75 range; SGD appreciation limited to the floor of pre-Covid range
- **Rates:** USD rates too pessimistic on global growth outlook; US 10Y yield to hit 1.60% when Delta worries ease
- **Thematics:** Opportunity to re-enter S-REITs
- **The Week Ahead:** Keep a lookout for US Change in Initial Jobless Claims; China Inflation Numbers

GLOBAL CROSS ASSETS
Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	35369.09	0.00%	15.56%
S&P 500	4535.43	0.00%	20.75%
NASDAQ	15363.52	0.00%	19.21%
Stoxx Europe 600	475.19	0.69%	19.09%
DAX	15932.12	0.96%	16.13%
CAC 40	6743.50	0.80%	21.47%
FTSE 100	7187.18	0.68%	11.25%
MSCI AxJ	849.80	0.71%	0.82%
Nikkei 225	29659.89	1.83%	8.07%
SHCOMP	3621.86	1.12%	4.28%
Hang Seng	26163.63	1.01%	-3.92%
MSCI EM	17495.30	-0.12%	18.75%
UST 10-yr yield*	3203.33	0.07%	11.48%
JGB 10-yr yield*	6126.94	0.00%	2.47%
Bund 10-yr yield*	1581.59	-0.48%	-2.80%
US HY spread*	3101.08	0.56%	9.05%
EM spread*	58296.91	0.29%	22.08%
WTI (USD)	1324.37	0.64%	2.56%
LMEX	35369.09	0.00%	15.56%
Gold (USD)	4535.43	0.00%	20.75%

Source: Bloomberg
* Changes in basis points

Equities: Gold should perform in most macro scenarios

Gold is currently trading at below fair value vis-à-vis the dollar, yields, and inflation, based on our quant model. At current prices, gold is attractive to long-term buyers looking to hedge their portfolio against risks from dollar weakness, negative interest rates, high inflation, and exogenous risk events. We see the following four scenarios as probable, and the overall pattern is for gold price to rise in most scenarios.

One scenario would be when the market renews its focus on US inflation risks, amid an improving labour market and supply-side disruption. This could set the stage for a "risk-off" event. This scenario played out in 2003 when gold reacted strongly to inflation fears on the back of strong oil price.

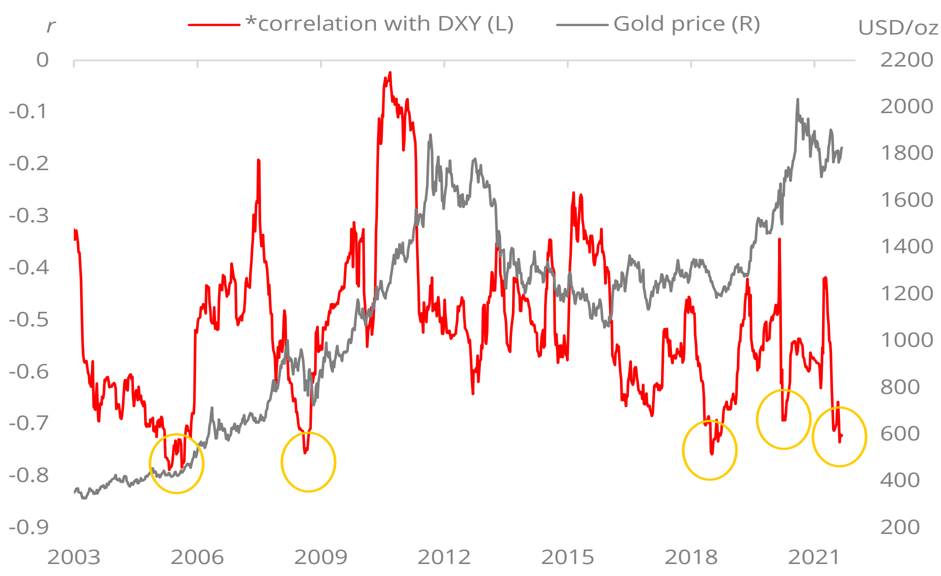
Another scenario could be escalating virus cases as vaccine efficacy fades. This could lead to a downgrade in growth for 2022 and a delay in the quantitative easing (QE) taper timeline, which will then be a positive for gold. The US stock climb would probably come to a halt, and gold will serve its role as a hedge for volatility.

The inverse correlation with the USD index (DXY) has intensified in 3Q21. Indeed, the US dollar recovered in 2021 and remains well-bid for its safe haven status as well as the Federal Reserve's monetary policy that has diverged from other central banks. Nevertheless, with negative correlation at a high, a reversal in the dollar's strength could see a strong reversal rally in gold. Our DEER FX model indicates that the dollar is overvalued on a long-term basis. However, the dollar could stay firm into 1Q22, depending on the US's QE taper timeline.

In a goldilocks scenario with moderate growth and mild inflation, there will be no rush for the Fed to hike interest rates, and bond yields will likely stay at low levels. We believe gold will still be supported in this environment as central banks around the world continue to accumulate gold as a risk diversifier.

Joanne Goh | Strategist

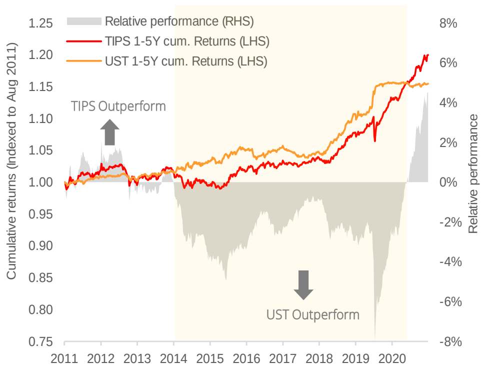
Figure 1: Gold's extreme correlation with the dollar portends upside should dollar turn weak



*Calculated based on 6-month rolling correlation of weekly returns
Source: Bloomberg, DBS

Fixed Income: Treasuries beat TIPS most of the time

Figure 2: USTs beats TIPS most of the time



Source: Bloomberg, DBS

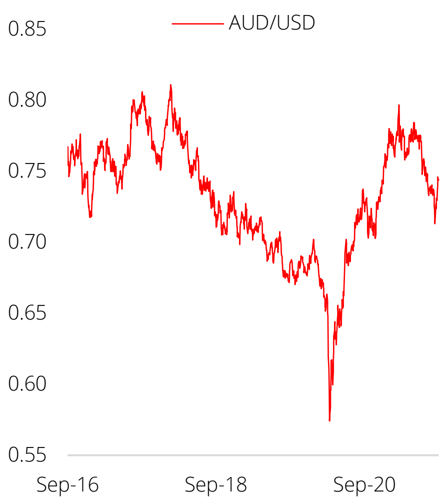
While the demand for inflation protection has caused a surge in TIPS (Treasury Inflation Protected Securities) of late, it may not naturally occur to many that fixed-rate treasuries accord a certain degree of inflation insulation as well – due to the fact that the latter still pays a positive nominal yield. On balance, US Treasuries (UST) have outperformed TIPS for much of the last decade (please refer to "Fixed Income: Getting on top of TIPS", 17 Aug 2021) (Figure 2), as inflation had persistently undershot central bank targets of 2%. The only exceptions where TIPS had outperformed came in (a) the period from 2011-2013 in the thick of the European sovereign debt crisis where the region went into negative rates, as well as (b) in this latest post-crisis recovery period in 2020-2021 with interest rates near the zero bound and inflation spiking off low base effects – both periods where real rates turned deeply negative.

Looking ahead, the secular disinflationary trends that were present before the viral crisis remain at large – excessive debt burdens, ageing demographics, technological disruption, and inadequate wealth distribution; forces that would likely prevail in the post-virus world. As such, insofar as TIPS prices have risen due to supply-side inflation, temporal labour scarcity and the like, it would ultimately require more sticky demand-driven forces (lower unemployment, persistent wage increments) for aggregate prices to adjust to permanently higher levels – levels that justify the outperformance of TIPS over treasuries. Ultimately, we believe investors would still be better off with income generating assets to beat inflation – especially in credit markets where risk premia continue to provide returns in excess of inflation expectations.

Daryl Ho | Strategist

FX: AUD, THB, and SGD near resistance levels

Figure 3: Toppish



Source: Bloomberg, DBS

AUD is near the top of its 0.70-0.75 range. According to our model, AUD is likely to be capped around 0.7510 or two standard deviation from its mean trend value. The Reserve Bank of Australia might, at its meeting today, defer its decision to taper asset purchases to AUD4b/month from AUD5b. The Australian economy is expected to contract in 3Q21 from strict lockdowns to contain its most serious wave of infections. A double-dip recession is possible if 70% of the population are not fully inoculated by late October or early November, a condition for reopening the economy.

THB depreciated to 32.5 per USD after its two-week rally petered out at 32.2. The Bank of Thailand (BOT) is another step closer to lowering its policy rate at its upcoming meeting on 29 September. At its last meeting on 4 August, two out of the 6 committee members voted to lower the target rate by 25 bps from 0.50%. The BOT also downgraded its 2021 gross domestic product forecast to 0.7% from 1.8% previously. Yesterday, the Ministry of Commerce (MOC) was less confident about its 2021 inflation forecast of 0.7% to 1.7%. For the first time in five months, CPI inflation turned negative at -0.02% y/y in August from government subsidies in tuition fees, utility bills, and selected food items. Having averaged 0.7% in the first eight months, the MOC expects monthly inflation to stay negative for the rest of the year.

SGD appreciation is limited to the floor of its pre-Covid range of 1.34-1.39 per USD. According to our model, the rise in the SGD NEER stalled around 0.7% above the mid-point of its policy band. Singapore might hold off returning the policy band to an appreciation path. The Ministry of Health warned that new daily Covid cases in Singapore could reach 2000 in October; cases doubled to more than 1200 cases last week. For now, the government is advising the public to reduce social interactions over the next fortnight and to step up regular testing. The government did not rule out returning to a heightened alert phase or imposing a circuit breaker on a sharp increase in Covid cases ending up in intensive care units as a last resort.

Today's resistance & support levels for currency pairs — Last updated: Sep 7, 9:00 AM SGT

DM	DXY	EUR/USD	GBP/USD	USD/JPY	USD/CHF	AUD/USD	NZD/USD	USD/CAD
+2 std dev	93.33	1.1951	1.3911	110.45	0.9231	0.7512	0.7228	1.2787
			1.3848			0.7450	0.7150	
+1 std dev	92.90	1.1891	1.3833	110.13	0.9190	0.7425	0.7141	1.2701
		1.1879						
Mean Trend Value	92.48	1.1830	1.3755	109.82	0.9149	0.7338	0.7053	1.2615
	92.13			109.78	0.9142			
-1 std dev	92.06	1.1770	1.3677	109.50	0.9108	0.7251	0.6965	1.2529
								1.2528
-2 std dev	91.64	1.1709	1.3599	109.19	0.9068	0.7164	0.6878	1.2443

Em Asia	USD/CNH	USD/TWD	USD/KRW	USD/SGD	USD/MYR	USD/THB	USD/IDR	USD/INR
+2 std dev	6.4887	27.979	1190	1.3589	4.2270	33.222	14437	74.314
+1 std dev	6.4722	27.861	1179	1.3518	4.1912	32.800	14380	73.796
						32.450		
Mean Trend Value	6.4557	27.744	1168	1.3447	4.1554	32.377	14323	73.278
	6.4503		1159	1.3417	4.1465			73.108
-1 std dev	6.4392	27.626	1157	1.3375	4.1196	31.955	14266	72.760
		27.591					14223	
-2 std dev	6.4227	27.509	1147	1.3304	4.0838	31.532	14209	72.242

Red: last spot value

DBS Currency Forecasts

Ccy pair	6 Sep	Q3 21	Q4 21	Q1 22	Q2 22
USDCNY	6.4582	6.50	6.60	6.70	6.60
USDHKD	7.7735	7.80	7.82	7.82	7.80
USDINR	73.108	75.0	76.0	77.0	76.5
USDIDR	14223	14400	14600	14800	14700
USDMYR	4.1477	4.26	4.32	4.36	4.34
USDPHP	49.944	51.0	51.5	52.0	51.5
USDSGD	1.3426	1.37	1.38	1.39	1.38
USDKRW	1156.4	1180	1190	1200	1180
USDTHB	32.487	33.8	34.7	35.5	35.0
USDVND	22771	22920	22870	22820	22770
AUDUSD	0.7439	0.72	0.71	0.70	0.71
USD/CAD	1.2534	1.29	1.31	1.33	1.32
EURUSD	1.1870	1.16	1.15	1.14	1.15
USDJPY	109.86	111	113	115	114
NZDUSD	0.7136	0.68	0.67	0.65	0.66
USDCHF	0.9151	0.93	0.94	0.95	0.94
GBPUSD	1.3837	1.36	1.34	1.33	1.34
DXY Index	92.035	94.0	95.0	96.0	95.0

Australia, Eurozone, and United Kingdom are direct quotes

% change vs USD*

FX	1D	MTD	YTD
CNY	0.0	0.0	1.1
HKD	0.0	0.0	-0.3
INR	-0.1	-0.1	-0.1
IDR	0.3	0.3	-1.2
MYR	0.0	0.2	-3.1
PHP	-0.2	-0.4	-3.8
SGD	-0.1	0.2	-1.5
KRW	0.0	0.3	-6.0
THB	0.0	-0.8	-7.8
VND	0.0	0.1	1.4
AUD	-0.3	1.7	-3.3
CAD	-0.1	0.5	-2.8
EUR	-0.1	0.5	-2.8
JPY	-0.1	0.1	-6.0
NZD	-0.3	1.3	-0.7
CHF	-0.2	0.0	-3.3
GBP	-0.2	0.6	1.2
DXY	0.0	-0.6	2.3

* except DXY

Philip Wee | FX Strategist

DBS

Rates: Watch for peak Delta

Figure 4: Bottomed

Source: Bloomberg, DBS

We see USD rates as being too pessimistic about the global growth outlook. To be sure, the bond market's dialling down of growth expectations (flattening in the yield curve) in mid-2021 proved to be prescient. While Covid appeared to be well contained in late June, cases have exploded in the subsequent two months, prompting restrictions across multiple countries, denting the global growth outlook. In the US, some caution appears to have set in after dismal August payrolls (235k vs consensus of 733k).

While we recognise that there are downside risks to the US recovery, we would also note that USD rates appear to have largely priced in the slowdown. Our view that USD rates having likely bottomed weeks ago (10Y at 1.12%) has not changed. Globally, we still expect central banks to withdraw exceedingly loose monetary policy and see the Fed as on track to taper by the end of the year (even as the prospect of a September announcement has dimmed).

Globally, we think that the ongoing delta wave may be close to the peak. Global daily cases appear to be cresting. Moreover, across Emerging Markets (including Asia), cases have started falling. In the US, the rate of change in daily cases has slowed and there is a decent probability that cases would start to decline in the coming few weeks. As delta fears start to ease, we expect 10Y yields to climb towards fair value of around 1.6%.

Eugene Leow | Rates Strategist

- A more patient Fed is conducive for S-REITs to re-rate with rate hikes still a while away
- Upcoming index reviews in September 2021 to be a net positive for the overall S-REITs visibility in the international arena
- Growth momentum to accelerate in 2H21 as the Singapore economy re-opens
- Optimistic on selected retail, office, and industrial S-REITs to ride on the re-opening economy

Thematics: Opportunity to re-enter S-REITs

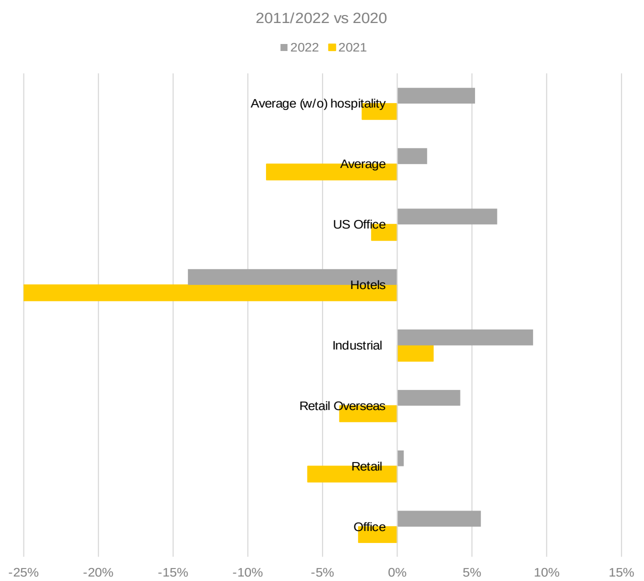
A more "patient" Fed is conducive for S-REITs. We see positives from Federal Reserve chair Jeremy Powell's broad messaging that the US central bank will "stay the course" rather than "be early" in its expected taper programme in 2H21. Based on the 1.5-year difference between the "taper signal" to the first rate hike in the 2H13-2018 rate hike normalisation, the first hike this time round will likely be in 2023. In our view, S-REITs would have sufficient buffer to find its ground post-pandemic before addressing interest rate risks. We thus see an opportunity to add amid the recent share price weakness. S-REITs FY21/22F yields are attractive at 5.5%/6.0%, implying that yield spreads against the SG 10Y bond are close to -1 standard deviation (SD) at 4-4.5%.

Turnaround in sentiment to boost S-REITs prices; index review update for EPRA NAREIT to bring more visibility for the sector. It has been a mixed performance between large cap and mid-cap S-REITs in the past two months. Larger-cap peers have been underperforming in anticipation of SEA Limited's increased weightage in the MSCI Singapore Index. Meanwhile, selected mid-cap S-REITs have attracted incremental inflows due to possible inclusion into EPRA NAREIT Developed Asia (ENDA) Index at its upcoming September review. We expect the overall sector to build its base from now on. In addition, the wider representation of Singapore in major property indices (especially ENDA) will boost visibility for S-REITs on the back of more fund flows into the sector.

Reiterate growth names as economic growth normalises. DBS Group Research remains optimistic that S-REITs can continue to ride on the gradual re-opening of the Singapore economy. We also maintain our view that robust earnings growth projections in 2H21-2022 should drive a re-rating for S-REITs. We like selected retail and office S-REITs such as MCT (MCT SP), SUN (SUN SP), FCT (FCT SP), and LREIT (LREIT SP). We also favour industrial S-REITs like MLT (MLT SP), MINT (MINT SP), FLT (FLT SP), ALOG (ALLT SP), and ESR (1821 HK) for their robust growth trajectories. Among hotels, we prefer global diversified names like CDLHT (CDREIT SP).

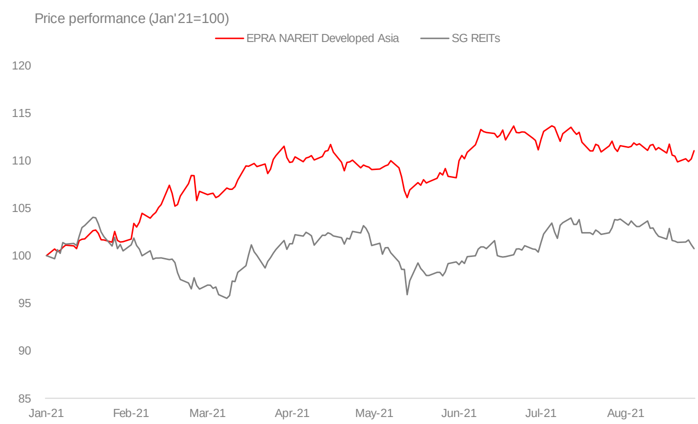
Derek Tan | Analyst
Dale Lai | Analyst
Rachel Tan | Analyst
Geraldine Wong | Analyst

Figure 5: FY21/22F DPUs over pre-Covid DPU (FY19)



Source: DBS

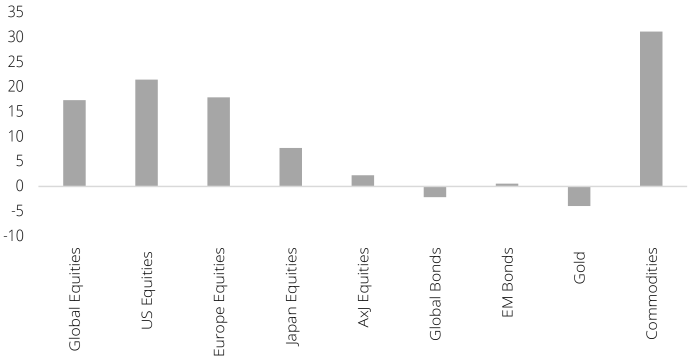
Figure 6: EPRA NREIT Developed Asia Index vs S-REITs



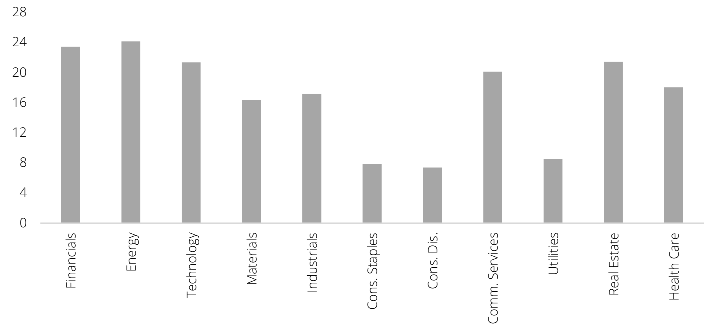
Source: Bloomberg, DBS

CIO Markets Watch

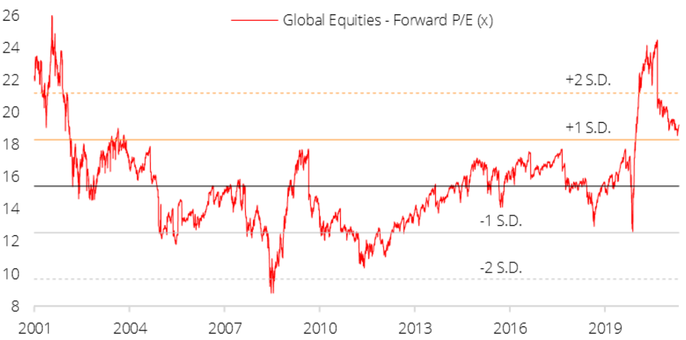
Global Cross Assets YTD Returns



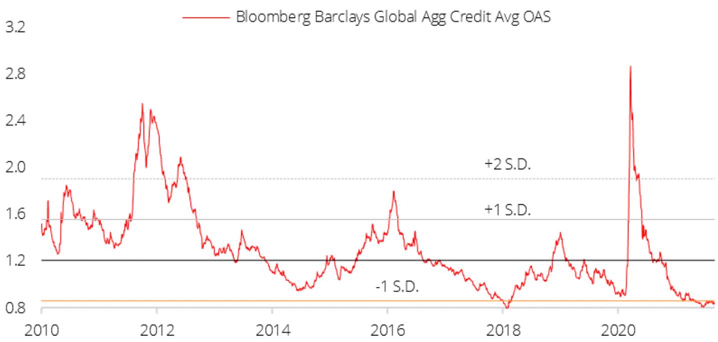
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



INDEX RETURNS

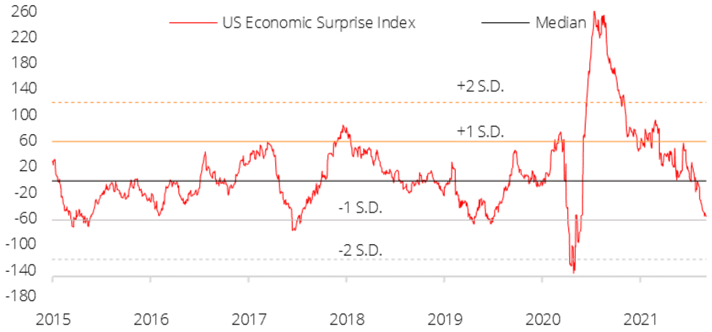
	1 week	MTD	QTD	YTD
Equities				
S&P 500	0.1%	0.3%	5.5%	20.7%
NASDAQ	0.6%	0.7%	5.9%	19.2%
Russell 2000	1.1%	0.8%	-0.8%	16.1%
Stoxx Europe 600	0.5%	0.9%	4.9%	19.1%
Nikkei-225	6.7%	5.6%	3.0%	8.1%
MSCI WORLD	0.7%	0.9%	5.1%	17.8%
MSCI ACWI	1.0%	0.9%	3.9%	15.8%
MSCI Asia ex-Japan	3.3%	1.5%	-4.5%	0.8%
MSCI EM	3.0%	1.2%	-3.7%	2.6%
HSCEI	4.2%	2.0%	-12.1%	-12.7%
SHCOMP	2.7%	2.2%	0.9%	4.3%
Hang Seng	2.4%	1.1%	-9.2%	-3.9%
STI Index	0.0%	1.5%	-0.9%	9.0%
Fixed Income				
Barclays Global Aggregate	0.1%	0.2%	1.1%	-2.2%
Barclays US Aggregate	-0.2%	-0.1%	0.9%	-0.8%
Barclays US High Yield	0.3%	0.2%	1.1%	4.7%
Barclays Euro Aggregate	-0.3%	0.0%	1.0%	-1.3%
Barclays Euro High Yield	0.2%	0.1%	0.9%	4.5%
JPM EMBI Global	0.3%	0.1%	1.6%	0.6%
JPM EMBI Global Diversified	0.5%	0.1%	1.6%	0.5%

PRICES & SPREADS

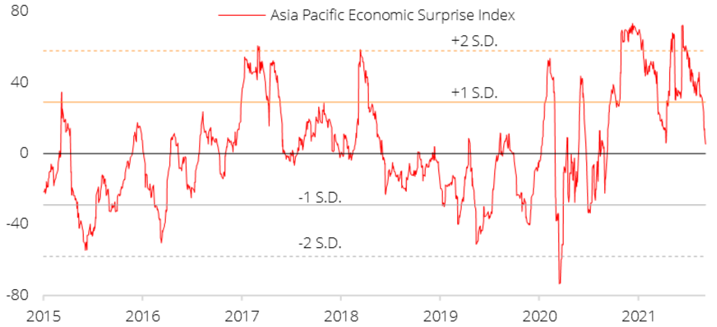
	Spot	2Q21	1Q21	4Q20
Rates				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	1.32	1.47	1.74	0.92
Japanese Govt Bond 10-yr	0.05	0.05	0.09	0.02
German Bunds 10-yr	-0.37	-0.21	-0.29	-0.57
Spreads				
US Agg Corporate Spread	0.88	0.80	0.91	0.96
US Corporate HY Spread	2.79	2.68	3.10	3.60
Euro Agg Corporate Spread	0.87	0.86	0.94	0.95
EM USD Agg Spread	2.69	2.57	2.67	2.68
Currencies				
US Dollar Index (DXY)	92.0	92.4	93.2	89.9
EUR/USD	1.19	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)	4285	4152	3787	3415
TR/CC CRB Commodity	220	213	185	168
Gold	1823	1770	1708	1898

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)	09-Sep	04-Sep	335k	340k
ECB Main Refinancing Rate (EU)	09-Sep	09-Sep	0.00%	0.00%
MBA Mortgage Applications (US)	08-Sep	03-Sep	--	-2.40%
GDP SA y/y (EU)	07-Sep	2Q	13.60%	13.60%
PPI Final Demand m/m (US)	10-Sep	Aug	0.60%	1.00%
ECB Deposit Facility Rate (EU)	09-Sep	09-Sep	-0.50%	-0.50%
Wholesale Inventories m/m (US)	10-Sep	Jul	0.60%	0.60%
ECB Marginal Lending Facility (EU)	09-Sep	09-Sep	0.25%	0.25%

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
CPI y/y (CN)	08-Sep	Aug	1.00%	1.00%
GDP Annualized SA q/q (JP)	07-Sep	2Q	1.60%	1.30%
BoP Current Account Balance (JP)	07-Sep	Jul	¥2288.2b	¥905.1b
PPI y/y (JP)	12-Sep	Aug	--	5.60%
PPI y/y (CN)	08-Sep	Aug	9.00%	9.00%
Money Supply M2 y/y (CN)	08-Sep	Aug	8.40%	8.30%
Trade Balance (CN)	07-Sep	Aug	$53.20b	$56.58b
Exports YoY (CN)	07-Sep	Aug	17.30%	19.30%