CIO Weekly

21 September 2021

Key Points

- **Equities:** Focus on digitalisation and semiconductor capex in Japan, and not the new PM
- **Credit:** Muted signs of Asia Credit contagion
- **FX:** Market sought safety in CHF and JPY amid risk aversion on Evergrande-led selloff
- **Rates:** Contagion fears over China Evergrande reflect in lower DM yields; PBOC to take only measured easing steps to offset macro challenges
- **Thematics:** Who will win Asia's e-grocery race?
- **The Week Ahead:** Keep a lookout for US Change in initial jobless claims; Singapore inflation numbers

GLOBAL CROSS ASSETS

Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	33,970.47	-1.78%	10.99%
S&P 500	4,357.73	-1.70%	16.02%
NASDAQ	14,713.90	-2.19%	14.16%
Stoxx Europe 600	454.12	-1.67%	13.81%
DAX	15,132.06	-2.31%	10.30%
CAC 40	6,455.81	-1.74%	16.29%
FTSE 100	6,903.91	-0.86%	6.86%
MSCI AxJ	805.70	-1.69%	-4.42%
Nikkei 225	30,500.05	0.00%	11.13%
SHCOMP	3,613.97	0.00%	4.06%
Hang Seng	24,099.14	-3.30%	-11.50%
MSCI EM	17,276.79	0.00%	17.27%
UST 10-yr yield*	3,140.51	0.00%	9.29%
JGB 10-yr yield*	6,076.32	-0.93%	1.63%
Bund 10-yr yield*	1,527.89	-1.33%	-6.10%
US HY spread*	3,041.73	-0.96%	6.96%
EM spread*	58,490.93	-0.89%	22.49%
WTI (USD)	1,258.23	-1.65%	-2.56%
LMEX	33,970.47	-1.78%	10.99%
Gold (USD)	4,357.73	-1.70%	16.02%

Source: Bloomberg
* Changes in basis points

Equities: Nikkei @30,000 – Will it be a flash in the pan?

After a very strong start to the year, which saw the Nikkei regain to 30,000 in 1Q21, Japan equities failed to sustain their strength as the economy grappled with many uncertainties. Consumer and business confidence were affected by the Olympics, delta variant, China slowdown, and Japan leadership transition.

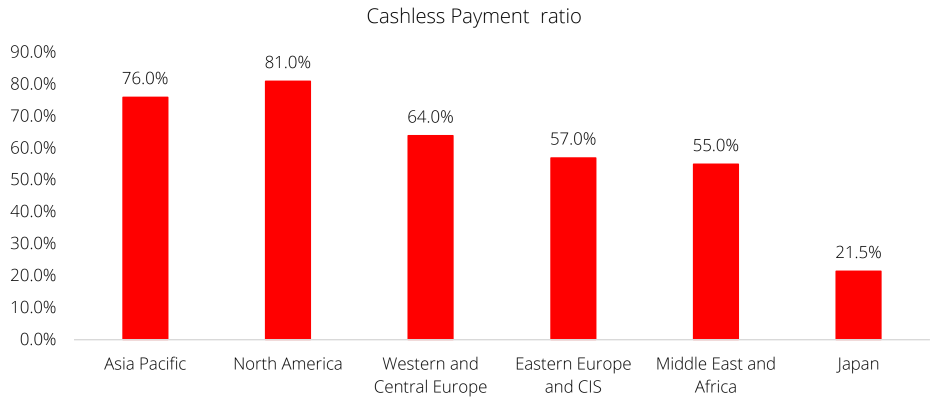
With the resignation of Japan's current Prime Minister (PM) Yoshihide Suga, elections (to be held by the end of November) remain closely watched as investors await to see if the new prime minister would have a different approach to cope with Japan's short-term woes and long-term structural headwinds of an ageing population and a rigid labour market. Since Abenomics' three arrows – large-scale monetary easing, fiscal spending, and structural reforms – were introduced nine years ago to combat Japan's deflationary forces, structural reforms remain very challenging to implement. Whether or not there will be bold reforms is something that remains to be seen.

We believe Japan's market performance will be led by related stocks benefiting from the following two sector themes:

1. **Digital government agency sets milestone**. The setting up of a digital government agency on 1 September is a milestone in Japan's digitalisation and productivity push. This has come about one year after PM Suga's push to accelerate the digitalisation of government agencies. Poor government digital capabilities were costly and exposed during the Covid-19 crisis with delays in tracking, tracing, and handing out cash payouts. We believe the government's proactive stance towards accelerating digitisation will ratchet up the incentive for the private sector to go digital as well. The IT Systems Integrators sector is a key beneficiary of the strong sentiment towards digital investment and the digitalisation effort.
2. **Semiconductor capex.** Semiconductor manufacturers are ramping up their capex plans as semiconductor demand keeps growing – a result of accelerated digitalisation driven by the pandemic. Japan, the US, and Europe are incentivising high tech semiconductor plants to their countries for the pursuit of self-reliance in key technologies. These have resulted in higher demand for semiconductor production equipment (SPE). Japanese manufacturers of SPE, like their western counterparts, have reported robust earnings for April-June 2021 and order books are at new highs. Companies in the sector have also guided for further growth in 2022 after record high earnings in 2021.

Joanne Goh | Strategist

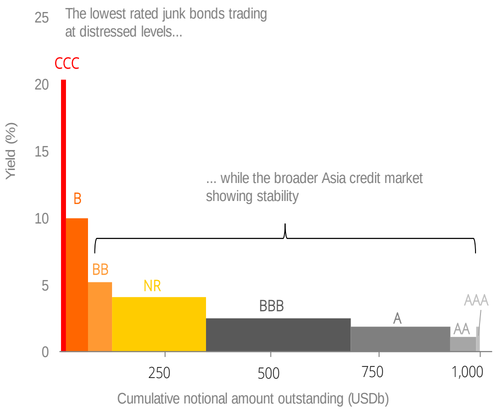
Figure 1: Digital payment solutions demand to accelerate in Japan given low cashless payment ratio



Source: eMarketer (Japan), Merchant Machine (rest of world), DBS

Credit: Muted signs of Asia Credit contagion

Figure 2: Muted signs of Asia credit contagion



Source: Bloomberg, DBS

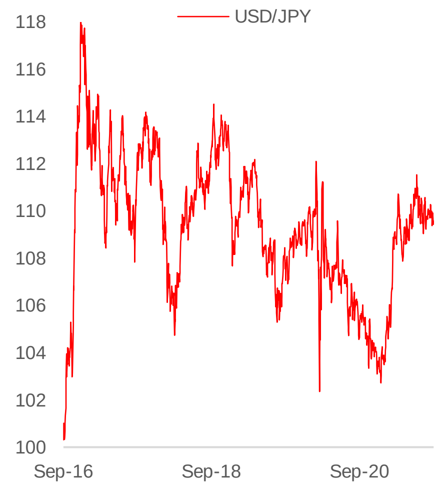
Credit markets in Asia have been spooked by the impending default of China Evergrande (3333 HK), one of China's most indebted property companies. The company's next liability payment is due on Thursday – a USD83.5m interest payment on the EVERRE 8¼ 03/23/22 bond – which the markets are anticipating would not be made despite having a 30-day period before a missed payment is considered a default. Indeed, the EVERRE/TIANHL USD complex of bonds are trading around 25%/15% of face value – pricing in a high probability of a default and restructuring scenario. Asia property spreads responded in sympathy, with the single Bs widening to reflect the regulatory uncertainty on the onshore property markets.

At this moment, credit stresses have not spread significantly to the broader higher grade credit markets, evidenced by the BB and above rating buckets still trading at relatively stable yields vis-à-vis their lower-rated counterparts. We continue to reiterate our preference to remain up-in-quality with the BBB/BB bucket while regulatory risk remains in the forefront. However, we do not anticipate a quick resolution in the near term; clearer communications on policy implementation by the central government would be necessary before the markets can crystallise any potential valuation upside.

Daryl Ho | Strategist

FX: Risk aversion on Evergrande-led selloff

Figure 3: Risk aversion

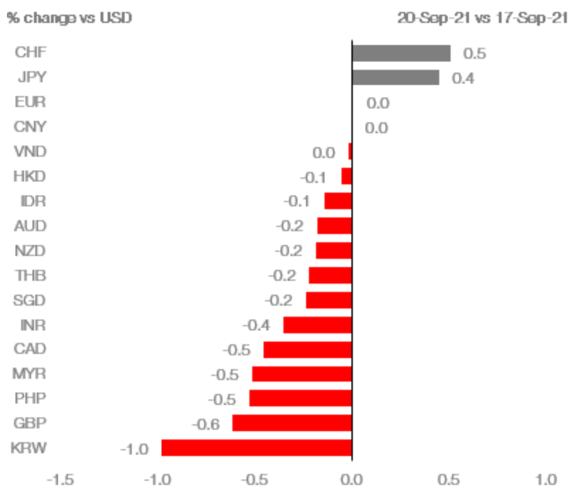


Source: Bloomberg, DBS

The market sought safety in the CHF and JPY, which appreciated 0.5% each. The Evergrande-led global stock market selloff eclipsed Fed taper worries at the FOMC meeting on 22 September. The US 10Y Treasury yield eased to 1.311% from 1.362% as the Dow, S&P 500, and Nasdaq Composite fell 1.8%, 1.7%, and 2.2%, respectively. The fall in the S&P 500 was the largest since May and it might not rebound this time around. The index traded below its 100-day moving average during the session for the first time since early November. The VIX volatility index is signalling more pain ahead with the 50-day moving average looking to cross above its 100-day counterpart.

DXY rose modestly to 93.28 from 93.20, driven mostly by GBP and CAD which depreciated 0.6% and 0.5%, respectively. Both were pulled lower by crude oil prices; Brent fell to USD73.90/bbl from USD75.35 while WTI fell to USD70.30 from USD72. GBP depreciated below 1.37 when FTSE 100 extended its fall below 7000. **GBP could test the 1.36 support if FTSE falls below 6800.** In Canada, **CAD is weak above 1.28 per USD again,** nervous that the tight race at the snap election would result in a weak minority government. AUD depreciated 0.4% from iron ore hitting a new year's low of CNY645 per metric tonne. However, EUR was supported at its psychological 1.17 level despite the harder 2.1% selloff in European stocks.

Figure 4: Overnight performance of currencies



Chinese markets were closed for the Mid-Autumn Festival. The Hang Seng Index, which fell as much as 4.2% at one point, ended the session 3.3% lower. **CNH bore the depreciation to 6.4830 per USD from 6.4713 last Friday,** 0.3% weaker than the CNY's close of 6.4661 last Friday. In Southeast Asia, **THB extended its depreciation for a third session above 33 per USD,** closing in on the year's weakest level around 33.5. Thailand lifted its public debt ceiling from 60% to 70% of GDP to help its Covid-stricken economy. The Philippines is also approaching its 60% threshold. **PHP also depreciated above its psychological level of 50** per USD, eyeing the year's weakest level above 50.5. **MYR could be next to test its 4.20** psychological level; Malaysia has proposed to raise its ceiling to 65%. Dragged by a stronger USD and weaker regional peers, the price-taker **SGD depreciated above 1.35 for the first time since 26 August.** The SGD NEER, as per our model, retreated to 0.7% from 1.0% above the mid-point of its policy band this morning.

Philip Wee | FX Strategist

Rates: Contagion fears reflect in lower DM yields

Figure 5: No signs of stress

Source: Bloomberg, DBS

Worries about real estate developer China Evergrande Group's resulted in a risk-off start to the week with global stock markets down sharply. In the rates space, moves were arguably more muted. While the S&P 500 fell by 1.7%, 10Y US Treasury yields fell by 5 bps (to 1.31%). This development was also echoed in Europe where stocks appear to be much harder hit than govvies. Some contagion appears to be happening as weakness spreads from Evergrande to regions (and assets) beyond China. The VIX rose above 25, touching levels not seen since May. We think that the outsized reaction in global markets may be a function of having too many uncertainties bunched into this period (Evergrande's woes, Fed taper, US fiscal bills, US debt ceiling). It probably does not help that risk taking (especially in equities) has gone on for an extended period and may be vulnerable to a correction. Clarity on how the authorities intend to manage the restructuring is probably needed to calm jittery markets. That said, Developed Market yields appear to be holding well within recent ranges. Even as this bout of uncertainty persists, government bonds still must keep one eye on the FOMC meeting outcome this Thursday (2am, SGT).

Despite the surge in volatility (regulatory crackdowns and slowing economic growth also added to worries), **CNY interest rates have been generally calm. There are two angles to view rates/yields – liquidity stress and anticipated policy response to current conditions.** On the former, there has been no obvious stresses in money market rates (caveating that onshore markets are closed for Monday and Tuesday). The 7D repo rate has been generally holding in the 2-2.5% range while the 3M SHIBOR is still hovering around 2.4%. We note that **CNY NDIRS rates (which have been trading) have held steady.** Taken together, these suggest that the rates space does not seem overly concerned with the declines in equities or credits over the past few weeks (for now). The overall response from rates is muted compared to the period of 2015/16 when there were China hard-landing fears.

We reiterate that the authorities are likely to only take measured easing steps to offset these challenges. The People's Bank of China (PBOC) has already cut RRR (and will probably cut another round in the coming weeks) and injected liquidity to ensure that risks of a disorderly spike in short-term rates is minimised. However, to expect a sizable move lower in short-term rates below 2% appears premature. Similarly, 10Y CGB yields appear resistant to head below 2.8%. While slowing economic growth does suggest that further easing is likely, the magnitude of easing may not be that large. In any case, the authorities appear to be focused on other priorities including containing property prices and to perhaps instill discipline into selected sectors of the economy. With these in mind, overly low interest rates will not be appropriate. **The upshot is that there are no obvious signs of stress in the rates space. 10Y CGB yields also appear to be in the 2.8-3.0% range as market participants realise that the PBOC is likely to only allow a modest loosening of monetary policy. All eyes will be on how the market reacts when it reopens onshore on Wednesday.**

Eugene Leow | Rates Strategist

Thematics: Who will win Asia's e-grocery race?

- E-Commerce and food delivery players are battling for the next leg of growth in e-grocery
- Take rate and cost synergies favour food delivery platforms; first party (1P) e-commerce players and grocery chains going online also stand a chance
- Sea Ltd (SE US), JD.com (9618 HK), and HKTV (1137 HK) are well positioned for growth

Many new entrants in food delivery sector, while food delivery players are expanding into e-groceries. On one hand, e-Commerce players like Shopee and others such as Traveloka and Air Asia (CMPP IJ) are entering the food delivery sector. On the other hand, food delivery players like Meituan (3690 HK) and Grab are increasingly getting into e-grocery services. It seems to us that food delivery, coupled with e-wallet, is a path to evolve into (i) an everyday app, and (ii) to capture high growth in the food delivery segment. But DBS Group Research believes e-groceries offer even higher growth than food delivery.

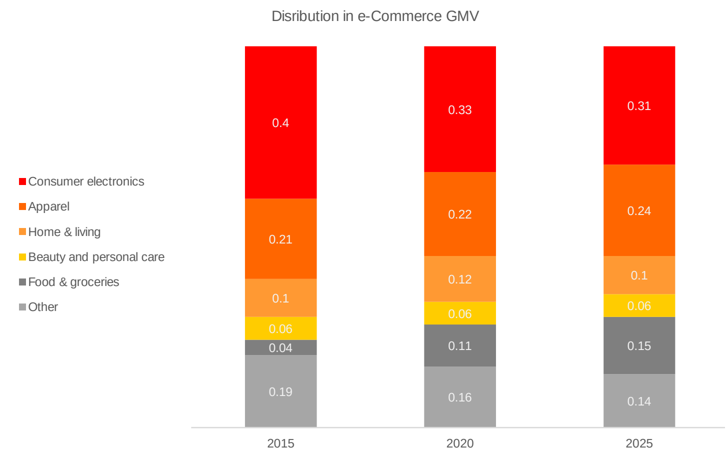
Our analysis indicates food delivery players are poised to capture not just food delivery but also e-grocery growth. Food delivery platforms (i) generate higher take rate (15-16%) which can be used to subsidise lower take rate in e-groceries, and (ii) also reap cost synergies by utilising their delivery personnel to deliver groceries during non-peak hours. But e-Commerce players following the third party (3P) model might find it challenging to do e-grocery due to their relatively lower take rate (average of 8.5- 9.0%) and their lack of cost synergies in the delivery process. e-Commerce players following the first party (1P) model for e-groceries are likely better off meeting customer expectations of short delivery time.

Selected players are well positioned for growth in Asia. Sea Ltd is the largest e-Commerce platform in Southeast Asia. It recently launched ShopeeFood in Indonesia and Malaysia in 1H21 and rebranded DeliveryNow in Vietnam. In China, we like JD.com and believe its e-grocery will have cost, supply chain, and infrastructure synergies with its existing logistics network. In Hong Kong, we like HKTV as it transformed from a 3P model into a 1P model for e-grocery after investing in a fully automated warehouse, truck fleet, and delivery infrastructure. It benefits from repeat purchase and traffic from its 1P strategy and has started making stable profit in FY20.

Sachin MITTAL | Analyst

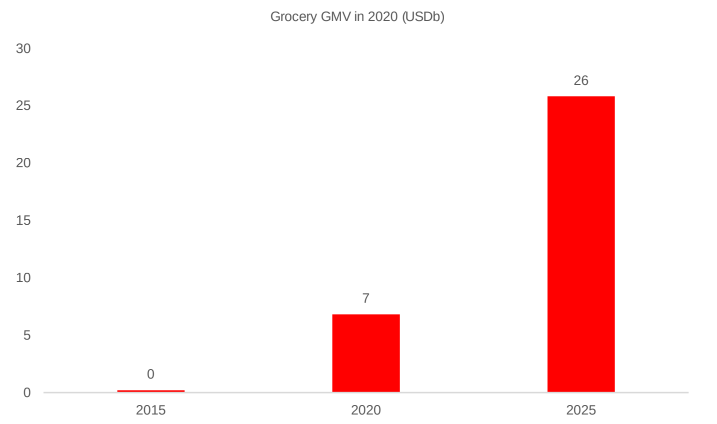
Tsz-Wang TAM | Analyst

Figure 6: e-Commerce GMV to see rising contributions from groceries



Source: Google Temasek and Bain, DBS

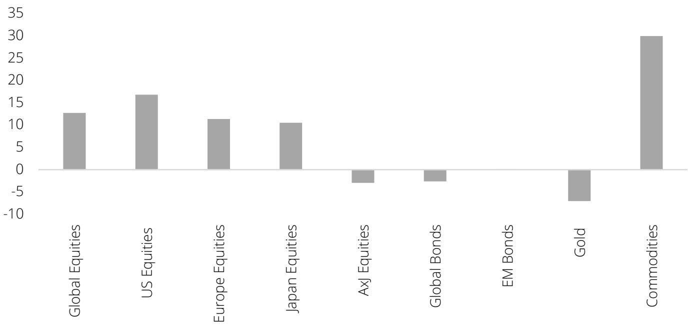
Figure 7: Online grocery GMV to rise at a CAGR of 30% over 2020-25



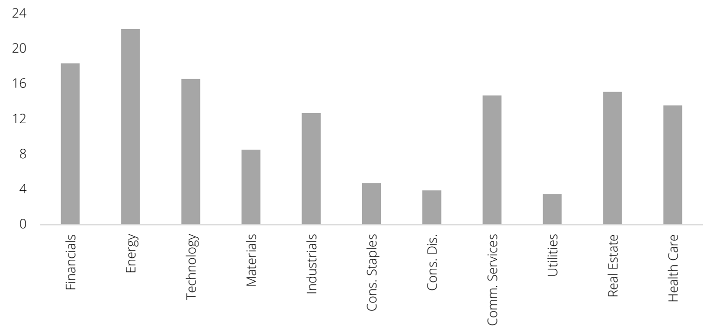
Source: Google Temasek and Bain, DBS

CIO Markets Watch

Global Cross Assets YTD Returns

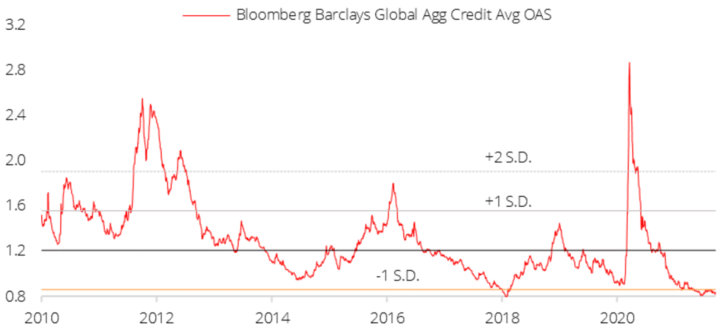


Global Sector YTD Returns



Global Equity Valuation

US Corporate Spreads



INDEX RETURNS

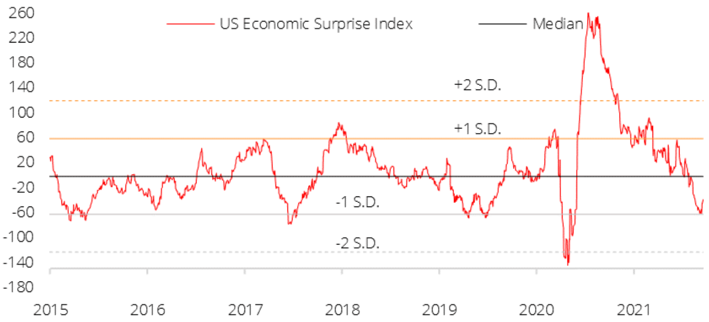
	1 week	MTD	QTD	YTD
Equities				
S&P 500	-2.5%	-3.6%	1.4%	16.0%
NASDAQ	-2.6%	-3.6%	1.4%	14.2%
Russell 2000	-2.6%	-4.0%	-5.6%	10.5%
Stoxx Europe 600	-2.9%	-3.6%	0.3%	13.8%
Nikkei-225	0.2%	8.6%	5.9%	11.1%
MSCI WORLD	-2.6%	-3.0%	1.0%	13.2%
MSCI ACWI	-2.6%	-3.1%	-0.3%	11.1%
MSCI Asia ex-Japan	-3.4%	-3.8%	-9.4%	-4.4%
MSCI EM	-3.3%	-3.9%	-8.5%	-2.6%
HSCEI	-6.5%	-5.9%	-19.0%	-19.6%
SHCOMP	-2.7%	2.0%	0.6%	4.1%
Hang Seng	-6.6%	-6.9%	-16.4%	-11.5%
STI Index	-1.1%	-0.4%	-2.8%	7.0%
Fixed Income				
Barclays Global Aggregate	-0.3%	-0.3%	0.6%	-2.6%
Barclays US Aggregate	0.1%	0.2%	1.1%	-0.5%
Barclays US High Yield	-0.3%	0.1%	1.0%	4.7%
Barclays Euro Aggregate	-0.1%	-0.3%	0.7%	-1.6%
Barclays Euro High Yield	0.0%	0.3%	1.0%	4.6%
JPM EMBI Global	-0.5%	-0.3%	1.1%	0.1%
JPM EMBI Global Diversified	-0.2%	-0.2%	1.3%	0.2%

PRICES & SPREADS

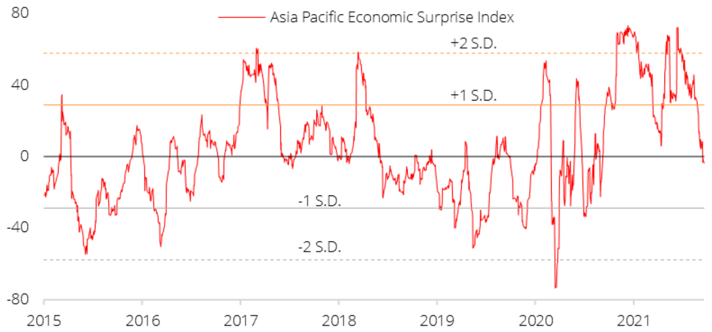
	Spot	2Q21	1Q21	4Q20
Rates				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	1.31	1.47	1.74	0.92
Japanese Govt Bond 10-yr	0.05	0.05	0.09	0.02
German Bunds 10-yr	-0.32	-0.21	-0.29	-0.57
Spreads				
US Agg Corporate Spread	0.87	0.80	0.91	0.96
US Corporate HY Spread	2.90	2.68	3.10	3.60
Euro Agg Corporate Spread	0.87	0.86	0.94	0.95
EM USD Agg Spread	2.81	2.57	2.67	2.68
Currencies				
US Dollar Index (DXY)	93.3	92.4	93.2	89.9
EUR/USD	1.17	1.19	1.17	1.22
USD/JPY	109.4	111.1	110.7	103.3
USD/CNY	6.5	6.5	6.6	6.5
Commodities				
WTI Oil	70	73	59	49
London Metal Exchange (LMEX)	4210	4152	3787	3415
TR/CC CRB Commodity	218	213	185	168
Gold	1764	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)	23-Sep	18-Sep	320k	332k
FOMC Rate Decision (Upper Bound) (US)	22-Sep	22-Sep	0.25%	0.25%
MBA Mortgage Applications (US)	22-Sep	17-Sep	--	0.30%
Durable Goods Orders (US)	27-Sep	Aug	0.60%	-0.10%
New Home Sales (US)	24-Sep	Aug	711k	708k
Markit Eurozone Manufacturing PMI (EU)	23-Sep	Sep	60.3	61.4
Markit US Manufacturing PMI (US)	23-Sep	Sep	60.8	61.1
Housing Starts (US)	21-Sep	Aug	1550k	1534k

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
CPI y/y (SG)	23-Sep	Aug	2.40%	2.50%
Jibun Bank Japan PMI Mfg (JP)	23-Sep	Sep	--	52.7
Natl CPI y/y (JP)	23-Sep	Aug	-0.30%	-0.30%
Industrial Production y/y (SG)	24-Sep	Aug	8.20%	16.30%
BOJ Policy Balance Rate (JP)	21-Sep	22-Sep	-0.10%	-0.10%
Natl CPI Ex Fresh Food y/y (JP)	23-Sep	Aug	0.00%	-0.20%
Machine Tool Orders y/y (JP)	21-Sep	Aug	--	86.20%
Jibun Bank Japan PMI Composite (JP)	23-Sep	Sep	--	45.5