OCBC TREASURY RESEARCH

Research Monitor (January)

5 January 2023

Treasury Research & Strategy
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Key Themes

1. **Still hawkish messaging from the US Federal Reserve, but the tussle of wills with the markets continues as to where the peak rate lies**. The December FOMC cautioned against an unwarranted easing of financial conditions and no members tipped a rate cut this year as they agreed that inflation was still unacceptably high. However, the futures market pricing is still for the Fed to stop shy of the 5% handle and to cut rate by end-2022. So will key question remains if the recession or recovery theme will dominate in 2023. Our base case remains that there will be short-term pain in the form of recession (or technical recessions) in many economies accompanied by heightened market volatility in 1H23 before a stronger growth trajectory and risk appetite recovery in 2H23.

2. **The familiar bugbears of recession and inflation fears have not fully subsided** at this juncture. The IMF reiterates that up to a third of the global economies will be in recession as the US, EU and China are slowing simultaneously. The silver lining is China's Covid policy pivot which came a bit earlier than expected. Still, China's near-term growth prospects will be weighed down by an accelerated post-reopening Covid infection wave before paving the way for a stronger growth recovery. Nevertheless, China's policy developments, including fresh property market support, discussions to end Australian coal import ban and progress to lighten up on the regulatory crackdowns, are also supportive.

3. **Growth prospects in ASEAN remain resilient for now**. The Singapore economy grew 2.2% YoY (0.2% QoQ sa) in 4Q22, bringing full-year 2022 growth to 3.8% which is at the higher end of the official 3-4% forecast range. However, the manufacturing and some of the key events to watch for include Singapore's Budget on 14 February, Malaysia's Budget on 24 February (with most of the proposals tabled in October 2022 likely to remain untouched).

4. **China's zero-Covid exit wave in December was unprecedented, our own sampling and ground feedback suggested that China may reach the herd immunity very soon.** On a micro level, the resource run is real and elderly death rates is likely to surge. On a macro level, the synchronized infections in the urban areas indicated that a return to normalcy is likely to be soon. China's growth should reaccelerate to 5.3% in 2023, bucking the trend of a global slowdown. The latest annual Central Economic Working Conference has set the tone that restoring confidence will be the key theme for 2023 and boosting domestic demand will be one of the most important tools to support growth. PBoC deputy Governor Liu Guoqiang said in December that the monetary easing intensity will be at least equal or more in 2023. This implies that there is still room to roll out monetary easing via either quantity or price measures.

5. **Flash estimates* indicate that the OCBC SME Index is forecasted to be at 47.8 in Dec 2022**, falling into contractionary territory from 50.4 in November. Uncertainties in the macroeconomic environment coupled with outbound travel and consumer demand that is tilted towards overseas spending during the holiday season might have weighed down on the performance of domestic SMEs.

6. **Souring global growth prospects have weighed on oil demand and prices of late.** Brent tumbled more than 9% in the first two trading days of 2023 to below the US$80 per barrel handle amid demand concerns from China (amid the recent Covid surge) and the US. Oil spreads also suggest sufficient supply in the near-term notwithstanding the Russian oil price and sanctions.

**Using data until 21st December*

Asset Class Views

	House View	Trading Views
FX	**G-10 FX:** The long USD trade is no longer a consensus view. We attribute the sharp turn lower (>8% from peak in Nov) to 2 main drivers: 1/ decline in inflation in recent months (in particular core goods inflation continued to display a disinflation trend, consistent with easing supply chain pressure) and 2/ Fed guiding for slower pace of hikes. At the last FOMC meeting of the year (15 Dec), Fed slowed the pace of hike to 50bps, as widely expected. Fed fund rate is now at 4.5% (upper bound). Dot plot median was revised higher at 5.125%, in line with our caution. FOMC leans towards a slight hawkish tilt with another 75bps of hike pencilled in for 2023 and no cut projected. But markets do not seem to buy Fed's dot plot as 30D Fed fund futures are pricing a peak of 5% (median) by Mar-2023 and then ~50bps rate cut thereafter for the rest of 2023 (as of 26 Dec). Looking beyond 2023, dot plot is looking for a full percentage point cut for 2024 and 2025 before settling into 2.5% in the longer term. Fed speaks post-FOMC also reinforced there is no let-up in Fed tightening: 1/ Williams said tight labour market and other developments are likely to keep price pressures elevated and warrant high interest rates for some time; 2/ Daly said she doesn't get market optimism on inflation and Fed still has a 'long way' to go to defeat inflation while 3/ Mester said her rate forecast is a little higher than median dot and the need to keep rates above 5% in 2023 to curb prices. We retain the view that the upside for USD may be limited as pace of Fed tightening slows and goes into late cycle. Broad trend of USD for 2023 remains skewed to the downside. On risk sentiments, we are slightly more optimistic as a case of slower pace of tightening seen across most central banks and China reopening, support measures should help to partially mitigate against global growth concerns. A less severe global growth slowdown can also be supportive of cyclical FX, including AXJs while counter-cyclical USD stays on the back foot. That said, it is not a one-way street for the USD. There will be instances of intermittent and sporadic USD upticks as USD still retain a yield advantage and the Fed is still tightening (but at slower pace). Bear in mind that Jan is seasonally a strong month for DXY (based on monthly calendar returns since 2000, USD rose on 14 Januarys out of 22 and was on average +0.58%, the highest amongst the 12 calendar months).	A moderate to soft dollar profile. Expect range of 104.10 – 106 within wider range of 102 - 107.80.
	We are neutral-to-mild-constructive on EUR's outlook. Recession fears in Euro-area, energy woes and geopolitical concerns remain. Further deterioration would warrant a downward revision in forecasts but, for now we believe the bulk of the risks have been baked into the price (i.e. mild recession priced). Hawkish ECB rhetoric mitigates against further worsening in EU-UST yield differentials and should continue to provide some support for EUR. But on the other hand, an overly hawkish ECB risks spooking equity markets, of which EUR has a strong correlation to (coefficient of 0.88). Key risks to watch that may drag on EUR include (1) how severe EU recession turns out to be; (2) whether there will be further escalation in Russia-Ukraine tensions – poses risks to energy and inflation or would there be a ceasefire scenario; (3) if USD strength returns with a vengeance (i.e. global risk-off or Fed resumes aggressive tightening). At the last ECB meeting on 15 Dec, ECB stepped down its pace of hike to 50bps (from 75bps) but the meeting can be characterised as a hawkish hike (in line with our expectations as CPI was still at 10% in Nov while PPI was at over 30%). Decision to hike 50bps was not unanimous as 1/3 of policymakers favoured 75bps (in line with our caution for hawkish hike) and Lagarde's speech post-decision contained a hawkish tilt: - On growth and inflation, she emphasized 1/ that recession would be "shallow, short-lived" in 4Q 2022 and 1st trimester of 2023 and "recovery will pick up"; 2/ inflation would remain above ECB's 2% target till 2025 (an extension). In particular, for 2023 at 6.3%; 2024 forecast raised to 3.4%, up from 2.3% and for 2025 at 2.3%. - On monetary policy, there were a few key highlights: 1/ though pace of hike was dropped to 50bps (from 75bps previously in Sep and Oct), ECB said it would need to raise rates significantly further to tame inflation and she elaborated that this means "raising rates at 50bps for a period of time"; 2/ Lagarde emphasized that **ECB is "not pivoting, not wavering" … and "if you compare with the Fed, we have more ground to cover… we have**	EUR to trade range-bound in 1.05 – 1.0750 within wider perimeters of 1.0330 – 1.0820.

	longer to go"; 3/ begin QT – starting with a reduction of EUR15bn per month on average at the start of Mar-2023 until end-2Q. Post-ECB meeting, more ECB officials took to the wires to reinforce the hawkish bias. To some extent, it appeared as if ECB was trying to out-hawk Fed. For instance, 1/ Muller said ECB needs to raise rates further in the future and likely to rise more than markets expect; 2/ Rehn said ECB likely to hike by 50bps in both Fed and Mar meetings; 3/ Villeroy said that ECB will review QT in Jun and probably increase pace of QT from Jul-2023; 4/ Holzmann said he cannot predict terminal rate just yet but guidance on pace and extent of hike give good approximation. GBP continued to drift lower, in line with our caution for pullback play in the near term. Softer 3Q GDP and dovish BoE were the main catalysts. We retained our slight cautious outlook on GBP amid stagflation concerns. Autumn statement on 17 Nov shows UK will undergo a painful but necessary phase of fiscal consolidation, that included GBP30bn of spending cuts and GBP25bn of tax increases. A credible fiscal plan underscores policymakers' resolve to fiscal discipline. This also helped to patch back the confidence crisis caused by former PM Liz Truss and former Chancellor Kwarteng. In addition, a moderate-to-soft USD profile allows for GBP to recover but weaker domestic fundamentals (stagflation, consumer squeeze, etc.), less-hawkish BoE could still restraint the extent of GBP's recovery. The last BoE meeting on 15 Dec can be characterised as a dovish hike. MPC raised rate by 50bps, for the 9th consecutive session in what was seemed as a 3-way split among the 9-member MPC – a sign of less hawkish stance. 2 members voted for no change while 1 voted for 75bps hike and the remainder 6 members went with 50bps hike. Accompanying statement noted that "The labour market remains tight and there has been evidence of inflationary pressures in domestic prices and wages that could indicate greater persistence and thus justifies a further forceful monetary policy response". BoE Governor Bailey said he wouldn't speculate what the BoE would do next. Next MPC is in Feb and BoE will release new growth and inflation forecasts by then We expect the moderate-to-soft USD profile (on the back of Fed policy calibration thematic), recent BoJ tweak and expectation for further BoJ shift to underpin the medium-term downside bias for USDJPY. BoJ made a surprise tweak to its yield curve control (YCC) parameters in widening the 10Y JGB band to ± 0.5%, from ± 0.25% at the last MPC meeting on 20-Dec 2022. The timing of the YCC tweak came as a surprise as we were expecting the move to come in 1H 2023. Nonetheless, we opined the YCC tweak could just be the beginning of more to come. The past few sessions have seen markets testing the new upper bound and the BoJ coming in to do more unscheduled bond purchases. It is probably a matter of time the BoJ surprises again. Even though BoJ Governor Kuroda has emphasized that the recent move was not a step towards policy normalisation, recent comments from other BoJ officials seem to suggest rising likelihood of policy shift especially if trend inflation overshoots expectations and stay above its 2% target. Japan's "shunto" wage negotiations between labour unions and employers between Mar and Apr should provide an indication of wage increase. Potentially, some options that the BoJ may consider could be a removal of YCC regime and/or even exit from NIRP. Anticipation of further BoJ moves could see further unwinding of JPY-shorts in due course. But we would have to watch out for any disorderly unwinding of JPY-shorts as it may have repercussion on global markets given that JPY is a funding currency. In addition, the broad rise in global yields, including JGBs yields add to concerns of tighter financial conditions and the risk of equities sell-off is not ruled out. This could undermine risk sentiments and keep gains in risk-proxy AXJs restraint in the interim.	Medium term caution remains. We look for GBP to trade in 1.18 – 1.22 range within wider range of 1.1500 – 1.2400 Bias to sell rallies. 129.50 – 133 range within wider range of 127.30 – 135.50.
FX	**Asian FX and SGD:** China's easing quarantine rules, more economic support measures and potentially, slower pace of Fed rate hikes/late cycle should continue to provide support for RMB, RMB-linked assets. Foreign flows could return. But we reckon caution is still warranted. Rapid pace of reopening can be a double-edged sword. On one hand, it can bring growth hopes but on the other hand, there is risks of renewed Covid concerns especially when Covid infection is expected to reach fresh peak this month and the associated risks of Covid spill over (or Covid exports). A scenario of fresh Covid wave in other countries or emergence of new variant could end up weighing on sentiments. China announced that it no longer requires inbound travellers to quarantine starting 8	Cautious Optimism

	Jan 2023. At the same time, Beijing downgraded regulations for managing Covid cases to the less-strict Cat-B from top-level cat-A and changed the Chinese name of Covid to "new coronavirus infections" from "new coronavirus pneumonia". This is in line with our expectations that China is nearing its endgame of zero-Covid policy and underscores Chinese policymakers' resolve to full reopening soon. In addition, there was local news of China potentially taking extraordinary measures to support growth. The Securities Times reported that China may sell special sovereign bonds in 2023 as part of efforts to boost economic growth. Last Fri, it was confirmed that trading hours in onshore RMB will be extended to 3am local time as government pushes ahead with plans to internationalise the currency. This is effective 3 Jan 2023. China reopening (if it proves to be orderly) and property/economic support measures should benefit RMB and broad sentiments in the region. In particular, commodity-linked FX (i.e. AUD) and tourism-linked FX (i.e. THB) risk-proxy (i.e. KRW) should benefit. Recent development that includes the refinement of Covid measures, surprise property support measures suggest there is room for cautious optimism. On 11 Nov, China National Health Commission (NHC) took steps to relax Covid restrictions, including the reduction of quarantine period for inbound travelers, cutting back on testing requirement and the removal or circuit breaker for inbound flights. We acknowledged there were concerns with the weekend protests across various Chinese cities and college campuses amid recent Covid spread in China, suspension in Honda production in Wuhan. These are temporary stumbling blocks to China's reopening story and may keep risk appetite leashed for now. But we see these as "noises" in the short term and opine that negative spill-over should be contained unless we get further ramp up in social unrest. Going forward, we expect markets will continue to assess how policymakers manage the balance between lockdown and Covid spread. We are cautiously optimistic that China is on a path towards gradual relaxation of Covid restrictions and economy reopening instead of backpedaling on recently announced policies. Chinese local governments still require some time to implement the 20 measures of Covid policy announced by China central government. In fact, there were some recent updates (30 Nov) that several easing measures have been announced in Guangzhou, including the lifting of lockdown in Panyu and Haizhu districts. Anticipation for China's reopening and recently announced property support measures should benefit RMB and broad sentiments in the region. In particular, commodity-linked FX (i.e. AUD) and tourism-linked FX (i.e. THB) risk-proxy (i.e. KRW) should benefit. Near term, 7.05 – 7.25 range should hold. We continue to monitor 1/ how local governments implement central government's 20-point measures on Covid policy; 2/ Fed policy and USD moves and 3/ geopolitical development between US and China, in particular on US restrictions on tech exports to China.	
	We retain a slight bullish outlook on SGD due to resilient macro-fundamentals and China's reopening optimism (supportive of sentiments and regional growth). The case for further tightening via slope steepening (possibly) is still plausible if inflationary pressures in Singapore continue. SGD was relatively more resilient than its peers for most of the first 9-10 months of 2022 where risk aversion was at its fore. But going forward, with USD on a more moderate-to-soft profile and risk aversion taking a backseat, we see room for Asian FX, including A$, THB, KRW, JPY that have been oversold to play catch-up to S$ strength – in a way short S$ vs. long A$, KRW, JPY and THB.	Bias to sell rallies. Range of 1.3360 – 1.3510, within wider range of 1.3200 – 1.3700.
	Ringgit has seen a sharp appreciation of over 7% (vs. USD) for Nov- Dec as election uncertainty faded. 10th Prime Minister was sworn in (24 Nov), ushering some stability for domestic sentiments. Focus now on the budget in Jan. Uncertainties on this front could slow MYR's appreciation. Looking ahead, we are constructive of MYR's outlook on resilient domestic factors - recovery momentum in Malaysia, driven by domestic demand amid reopening of Malaysia economy and its current account surplus remain intact while trade picture remains promising trade with both exports and imports sustaining double-digit growth so far in 2022. Potentially, a more conducive external environment, premised on our base line assumption for moderate-to-soft USD profile, that comes on the back on Fed policy calibration and China reopening hopes should further reinforced the constructive outlook on MYR.	Constructive outlook. 4.36 – 4.45 range within wider perimeters of 4.30 – 4.50.

Research Monitor (January)

5 January 2023

<table>
<tr><th></th><th>House View</th><th colspan="2">Trading Views[1]</th></tr>
<tr><td rowspan="5">Rates</td><td rowspan="5">December was a month of two halves for USTs, with yields having rebounded from the lows seen in mid-December. The median dot on the Fed's dot-plot has been pushed higher to 5.125% corresponding to a target range of 5.00-5.25%. Note the dot-plot is skewed upward with only two dots below the median one. Market is more dovish than the dot-plot, pricing in a terminal rate of 5.10% to be followed by some 40bps of rate cuts. We see peak Fed funds rate at 5.00% (upper end) and chance for a rate cut this year as slim. Meanwhile, the December FOMC revised upward inflation forecasts and downward growth forecasts for 2023 and 2024.

The BoJ widened the YCC target for the 10Y JGB yield to +/- 50bp from +/- 25bp around zero, effectively meaning defending an upper target of 0.5%. The tweak came earlier than we had expected for the latter part of H1-23. Pressure to the 10Y yield is to the upside, given relatively wide spreads across the 10s20s and 10s30s segments; further widening in – or even a removal of - YCC this year cannot be ruled out.

ECB rhetoric has been on the hawkish side these days, having revised inflation upward substantially. The MPC opined that "interest rate will still have to rise significantly at a steady pace". These comments render our core scenario for further hikes totalling 100bp within H1 not particularly hawkish. The ECB also said the APP portfolio will decline by EUR15bn per month from the start of March till end of June; the subsequent pace of reduction will be determined over time. The monthly pace of EUR15bn came in line with our expectation for binding caps compared to matured amounts; still, the cap is on the low side.</td><td>USD rates: The uptick in the 10Y UST yield since mid-December was mainly driven by higher real yield although breakeven also went up. We have had a steepening bias to the 2s10s segment since late November and it came more quickly than we expected. Now the 10Y yield is trading around our expected range of 3.85-3.95% for Q1, while the 2Y yield appears a tad too dovish. Since the market is happy to price in some rate cuts, we expect the 2Y UST yield to peak somewhere below our expected peak effective Fed funds rate; still, further Fed rate hikes mean upward bias to the 2Y yield (we maintain forecast at 4.60%). As such, we do not prefer to add onto steepening positions.</td><td>↑ / →</td></tr>
<tr><td>Asian rates: SGD rates outperformed USD rates further over the past month. As rates are peaking, we expect SGD-USD rate differentials to turn less negative over the course of this year. Impact of MAS policy on SGD rates may be small, as spot will probably reflect most of the reaction. On bond side, the 2023 issuance calendar is broadly similar to the 2022 calendar in terms of numbers of auctions and the tenors; net issuances shall come in mildly smaller as the MAS look to grow outstanding SGS at a "healthy, albeit slower pace than in 2022". Our initial estimates for gross SGS issuance are SGD27-30bn.</td><td>↑</td></tr>
<tr><td>IndoGBs saw some outflows during the last few days of 2022; nevertheless, foreign holdings have recovered from the low reached in November. Q1 gross issuance is planned at IDR245trn versus 2023 budget deficit at IDR598trn. MoF has a surplus financing of IDR203trn which will serve as a buffer when BI is no longer buying bonds directly. Despite the sanguine supply outlook, we have an upward bias for IndoGB yields alongside our neutral to upward bias to UST yields when yields differentials are already narrow.</td><td>↑</td></tr>
<tr><td>MGS outperformed USTs over the past month. The MGS curve bullish steepened. We have had a steepening bias to the MGS curve since early December: the curve had flattened substantially compared to own history and volatility; front-end MGS yields have stayed well ahead of the policy curve; there is a mild supply risk as we await 2023 Budget. These factors appear valid still.</td><td>↑ / →</td></tr>
<tr><td>In China, IRS retraced from recent highs upon the latest Covid outbreaks. Rates face resistance to the upside near-term as uncertainty is high regarding the domestic situation which may continue to weigh on risk sentiment. On a multi-month horizon, we expect the CGB curve to bear steepen - front-end yields may be better anchored amid the prospect for some mild monetary easing. Some upward adjustment in CGB yields shall be welcome as it improves yield differentials and shall ultimately attract some foreign flows back. Onshore bonds saw outflows of CNY43.8bn in November.</td><td>→</td></tr>
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[1] Arrows point to direction of interest rates and bond yields

	House View	Trading Views	
Credit	2022 marked one of the most challenging years for markets with 2H2022 panning out largely in-line with most of the key themes we presented in our Singapore Mid-Year 2022 Credit Outlook publication, which called for slowing economic growth, higher borrowing costs and prolonged geopolitical risks. While the worst has been deemed to be over (with YoY inflation growth rates tapering due to the higher base effect) and as calls for peak inflation solidify, we remain mindful that corporate credit profiles could face pressure in 2023. While earnings remained largely resilient in 2022 due to the tight labour market, supportive pricing, and excessive savings from the pandemic, there is the possibility moving forward of the lagged effects of restrictive monetary policy, evaporating consumer savings and elevated geopolitical risks, which will lead to more visible margin compression. The weaker growth expectations for the global economy and realisation of such negative sentiments in 1H2023 earnings could lead to credit spread widening should corporate earnings falter and impact debt financing ability. In terms of issuance volumes, a reduction in investments from a weaker growth outlook could delay issuers' need to come to the market, with issuers opting to wait out towards the end of 2023/start of 2024 in hopes of a Fed pivot that could lead to marginally lower borrowing costs again. As we enter 2023, we appear to be approaching the end of the most aggressive hiking cycle in decades and moving towards stabilisation of global borrowing rates, albeit at elevated levels compared to the last few decades and with continued bias towards rates rising in 1H2023. This is happening at a time of looming uncertainty over how things progress and with the spectre of Covid rising again as China reopens. In our view, there are a range of possible scenarios that could play out in the year ahead including greater near-term pain from possible frontloading of rate hikes by the Fed, rate hikes resuming after a pause should inflation continue to be untamed through the lens of the Fed, and a soft landing in a more optimistic outlook, where disinflation occurs without a severe recession. In all scenarios, interest rates are likely to be elevated Translating the above points and macroeconomic outlooks into consequences for the Singapore corporate credit market, we expect 2023 issuance volumes to remain robust. The amount of SGD bonds maturing or becoming callable in 2023 remains elevated. While 2022 bond maturities were not all refinanced in the Singapore credit market due to both fundamental and technical considerations (in particular for high yield issuers) with higher base rates and wider credit spreads, we expect government investment programs that are increasingly angled towards sustainability to support issuance volumes in 2023 as net zero plans progress and climate concerns rise. The Singapore credit market also remains as a safe haven for investors based on the credit quality of issuers and the resilient performance of issuances in 2022 against the challenging backdrop. We don't expect significant defaults in the Singapore credit market in 2023 although certain issuers are still vulnerable including those focusing on the construction sector as well as those within travel, hospitality and retail where a full recovery from the pandemic is yet to happen. We may also see a possible backloading of issuances towards the end of 2023 when visibility in rates become more certain.	• For bank capital instruments, the focus on structural risk is less so although we remain mindful of heightened non-call risk above distribution risk and write-down risk. That said, there remains selective value in SGD bank capital instruments given the solid underlying fundamentals and regulated nature of the issuers. We are broadly overweight those with higher reset spreads including recently issued Tier 2s as well as near term AT1s where call risk is mitigated by solid capital positions. • These include the ABNANV 5.5% '32c27s, BNP 5.25% '32c27s, ACAFP 3.8% '31c26s and HSBC 5.0% 'PERPc23s.	↑

Research Monitor (January)

5 January 2023

Macroeconomic Views

	House View	Key Themes
US	The Fed slowed its pace of rate hike in December to 50bps, bringing the Fed funds rate to 4.25%-4.50%. However, Fed Chair Powell signalled that more rate hikes may come as "substantially" more evidence is necessary to confirm that the price pressures are indeed ebbing. Additionally, the dots plot projected a higher 2023 peak rate of 5.1% and the 2024 rate is seen peaking at 4.1%. Our house view is that the Fed will hike a total of 50bps more in 1Q23, which will bring the Fed funds rate up to 4.75%-5.00%.	US headline CPI for November continued to ease more than expected to 7.1% YoY, down from 7.7% in October. This was the smallest 12-month increase since December 2021 and was mainly due to the falling energy prices. Meanwhile, the 3Q22 GDP growth was revised up from 2.9% to 3.2% QoQ and consumer confidence rose to an eight-month high of 108.3 in December as inflation retreated. US labour market remained robust, with November nonfarm payrolls up by 263k (October: 284k), but the manufacturing ISM contracted to 49.0 in November as new orders and ISM prices paid also shrank. The December FOMC minutes reiterated a hawkish message that inflation remained unacceptably high, a taper from 75bps to 50bps was not an indication of a weakening of its resolve to combat inflation, and no FOMC members tip a rate cut in 2023.
EU	The ECB pared down its rate hike to 50bps in December, bringing its deposit facility rate to 2.00%. However, the ECB president Lagarde remained hawkish and signalled that the pace of rate hikes will not slow down so market players should expect the rate to rise significantly at a steady pace and persist for a long time. Hence, we would expect a few more 50bps hikes to come, bringing the deposit facility rate to a terminal rate of 3.00% in 2023.	The Eurozone manufacturing PMI contracted for the sixth consecutive month in December at 47.8, albeit this was a small improvement from November's 47.1 which suggested the bottom was in October (46.4). Inflation for Euro area in November was revised to 10.1% YoY, slightly up from a preliminary estimate of 10.0% and down from 10.6% in the previous month. Energy prices rose at a softer 34.9% (vs 41.5% in October) but remained the largest contributor to the overall price increase. However, inflation may step down in December after Germany extended a gas subsidy in December. Meanwhile, the ECB laid out plans to trim its holding of bonds bought under its Asset Purchase Program by EUR15bn per month in order to further quell inflation, starting from March 2023 through June, with the subsequent pace to be determined over time.
Japan	The BoJ made a surprise tweak to its yield curve control (YCC) policy by widening the target range for 10Y JGB yield to ±0.5%, from ±0.25%, in its final BoJ MPC meeting for 2022. However, BoJ highlighted that the adjustment to its yield target was aimed at enhancing the effect of its ultra-easy policy, rather than a first step toward withdrawing its massive stimulus programme. BoJ also announced an increase in the amount of JGBs it buys in competitive auctions to JPY9 tn a month for the first quarter of 2023, up from the current ~JPY7.3 trillion. All other policy parameters, including 10Y JGB yield target and policy balance rate, remained unchanged.	Japan's CPI increased by 3.8% YoY in November, higher than 3.7% YoY in October. Industrial production declined by 1.2% YoY sa in November and -0.1% MoM sa (vs -3.2% MoM sa in October), recording a third consecutive monthly drop. Visitor arrivals to Japan jumped to nearly 1 million in November, the first full month after the country scrapped Covid curbs that effectively halted tourism for more than two years. However, retail sales dropped by 1.1% MoM sa in November (vs a gain of 0.3% MoM sa in October), down for the first time in five months. The Jibun Bank manufacturing PMI also softened further from 49 to 48.9 in December, marking two straight months of contraction and the worst print since October 2020. Meanwhile, the government revised up its growth forecast for the next fiscal year to 1.5%, from an earlier July forecast for 1.1%. PM Kishida also called on firms to give wage hikes that exceed the inflation rate. Market speculation is that further BOJ policy tweaks could come with a potentially more hawkish BOJ governor in April.

	House View	Key Themes
Singapore	Our full-year 2023 growth forecast currently stands at 2% YoY, with immediate growth/recession downside risks for the major economies partially offset by the China's earlier-than-expected Covid policy pivot story. Our 2023 headline and core CPI forecasts stand at 5.5-6.5% and 3.5-4.5% YoY respectively. For policy, key to watch will be the upcoming Budget announcement on 14 February where a mildly supportive fiscal stance is likely. With S$NEER still trading on the stronger side of its parity band (+1.3%), the key to watch will still be the CPI, especially core CPI, readings in the run-up to the April MPS.	4Q22 GDP growth flash estimates came in at 2.2% YoY (0.2% QoQ sa), bringing full year to 3.8% YoY in 2022 – this was within the official 3-4% growth forecast but half of the 2021 growth of 7.6%. Notably, the manufacturing sector contracted 3.0% YoY in 4Q22, marking the first contraction since 4Q20 (-3.4% YoY), but was offset by better-than-expected services growth of 4.1% YoY, especially due to accommodation & food services, real estate, administrative & support services, which grew 8.2% YoY in 4Q22. Construction also clocked in a healthy 10.4% YoY in 4Q22. 2023 growth momentum is likely to moderate to below the 2% YoY handle in 1Q23 as manufacturing sector continues to remain lacklustre in the near-term amid pullback in global demand conditions and the global electronics industry slowdown. Budget 2023 may offer more cost-of-living relief, but medium-term planning for the ageing population and rising expenditure needs and the need for less cyclical revenue sources are key to watch as well.
Indonesia	Bank Indonesia has slowed its pace of rate hike to 'just' 25bps in December, bringing the benchmark 7DRRR to 5.50%. Depending on how the Fed's rate trajectory will turn out to be, we see a scenario whereby Bank Indonesia might well have the space to keep its policy rate unchanged at the 5.5% level for 2023. Nonetheless, the latest inflation uptick which saw December's print rose to 5.51% YoY from 5.42% in the previous month – still above BI's 2-4% inflation target – suggested that the possibility of a least 25bps rate hike in 1Q2023 cannot be ruled out, while supportive balance of payment dynamics is expected to limit the need for a more aggressive hike.	Indonesia's inflation rose 5.51% YoY in December, higher than the market anticipation of 5.39%. Food prices, utility, and transportation costs were the most significant contributors. Core inflation remains stable at 3.36%, in line with the 3.39% market consensus. While market consensus has it that inflation will fall back within BI's 2-4% target range this year, December's upside surprise has certainly challenged the central bank and the market's view that price pressures were to wane smoothly. Yet, it is important to note that the overall impact of the fuel price hike was surprisingly more benign than previously anticipated thus far. Indonesia's growth story is expected to remain intact this year despite a challenging external outlook. Domestic consumption is anticipated to be the key driver, supported by a normalizing inflation outlook, higher mobility, and improving labour market conditions.
China	We expect China's growth to slow down to about 2.5% YoY in 4Q22 due to the unexpected disruptions to economic activities from the Covid tsunami in December, as a result of the earlier-than-expected reopening. China's growth is expected to accelerate to 5.3% in 2023 as China finally put pandemic disruptions behind.	Shortly after China unveiled the 20 measures to optimize the Covid prevention measures in November, China followed up with additional 10 measures on 7 December, officially marking the end of the zero-Covid policy. China's zero-Covid exit wave was unprecedented, our own samples and ground feedback showed that China will reach the herd immunity very soon. China may have already passed the peak of the current infection wave. China's December PMI confirmed the disruption from the Covid tsunami to the economic activities in the near term. 56.3% manufacturing companies were affected by Covid in December, up by 15.5%. Meanwhile, 61.3% service companies reported the negative impact from the Covid, up by 10%. The earlier-than-expected reopening is negative for growth in 2022 but positive for growth in 2023. China's top leadership set its tone for China's economic policymaking in 2023 in the latest Annual Central Economic Working Conference (CEWC) on 15 and 16 December, where restoring the confidence will be the key theme for 2023 and boosting domestic demand will be one of the most important tools to boost growth.

	House View	Key Themes
Hong Kong	We expect to see rebounds in exports of services and domestic consumption as the border reopened and most of the antivirus measures were lifted. Hence, we have revised our GDP forecast for 2023 upwards to 3.6%, from previous forecast of 3.3%. At the same time, inflation is likely to pick up going forward, while labour market should tighten further. Moreover, sentiment in the housing market should stage a mild recovery in 2023, after falling cumulatively by 13.8% in the first eleven months of 2022.	Hong Kong announced to scrap most of the social distancing measures except the mask mandate, while reopening its border and resuming quarantine-free travels between Hong Kong and Mainland China by phases, starting from early January. In the last quarter of 2022, economic momentum remained generally weak in Hong Kong. Merchandise exports in Hong Kong plunged by 24.1% YoY in November 2022, while retail sales rose by 3.9% YoY in October due to the disbursement of a new batch of consumption vouchers. On interest rate front, domestic liquidity has turned somewhat less tight, with HIBORs being fixed lower across curve. The HIBORs are likely to fall in periods ahead as year-end effect wanes, before rising further as Fed is set to deliver more hikes. Meanwhile, we are of the view that the USDHKD will climb close to the upper limit of the 7.75-7.85 trading band.
Macau	The risks facing Macau's economy are more balanced, as China exited from the zero-Covid policy and Macau lifted most of the restriction measures. Upon the stabilisation of local and regional epidemic situation, we expect to see sharp rebounds in visitor arrivals and gaming revenues.	Alongside with China's policy pivot, Macau announced that international arrivals are no longer required to undergo hotel quarantine and can enter casino and restaurants without movement restrictions, in the biggest steps yet to relax stringent Covid measures. Since the reopening, Macau has witnessed a widespread Covid wave, overwhelming the city's healthcare system. There has been no sizable uptick in visitor arrivals so far, while gaming revenue was down by 56% YoY in December 2022.
Malaysia	The upside surprises thus far in GDP prints in 2022 suggested that we have been too bearish, compelling us to upgrade our 2022 growth outlook from 5.7% to 6.9%. Going forward, however, the consumption support might not be as robust in part due to how the manufacturing sector will be weighed down by a downturn in global exports, especially in the semiconductor space. We see growth coming in at 4.4% in 2023.	Malaysia ended 2022 with a new unity federal government. While the new government is in place, the specifics of the fiscal policy remain an unknown although the broad contour of it is likely to remain expansionary. Malaysia's new government will present its budget for 2023 on 24 Feb. On the expenditure front, we are likely to see a suite of budget measures aiming to relieve the population of cost-of-living upticks, including via cash handouts. The prospect of subsidy cuts for fuel and food purchases looks to be dim as well, at least in the near term. On the monetary policy side, concerns about inflation are likely to persist going into 2023, we expect Bank Negara to hike by 25bps each in the Jan and Mar 2023 meetings due to lingering inflation pressure, but to pause thereafter due to the slower growth outturn.
Thailand	BoT has highlighted Thailand's key interest rate will continue to rise until the economy grows at its full potential and inflation returns to target, which is expected to happen in the second half of 2023. Thus, we expect it to deliver another 25bps hike in its January meeting next year and a total of 3 more 25bps hikes in 2023 to 2.00%.	Thailand's inflation fell further to 5.55% YoY in November from 5.98% YoY in October, marking the lowest figure since April 2022. Trade deficit in November posted at USD1.34 billion, the largest trade shortfall since August, as exports dropped by 6.0% YoY in November and imports unexpectedly rose by 5.6% YoY. However, the tourist arrivals increased for ninth straight month by 12.7% MoM in December, and it is expected to rise at a faster pace as China reopens and fuel the GDP growth in 2023.
South Korea	Inflation eased by 0.7% to 5% YoY in November, at the slowest pace since April, against 5.7% YoY in October, as global energy prices trended lower and the economy slowed. Hence, we expect one more 25bps hike in 1Q23.	Industrial production declined by 3.7% YoY sa in November, the greatest decline since August 2020, compared to -2.6% YoY sa the month prior. Imports rose by 2.7% YoY in November, down from a 9.9% YoY gain in the previous month, due to persistent won weakness. Exports plunged by 14.0% YoY in November, which is the steepest fall in exports since May 2020, as sales continued to fall for chips, petrochemicals and steel products.

	House View	Key Themes
Philippines	BSP lifted its overnight borrowing rate by another 50bps to 5.50% in its final meeting of the year. We expect the BSP to deliver its final rate hike of 25bps in 1Q23 to 5.75%.	Inflation continued to increase to 8.0% YoY in November from 7.7% YoY in October, higher than what market expected. Food prices increased the most since March 2009 (10.0% vs 9.4% in October), which served as one of the main sources of price pressures. At the same time, the labour market has tightened even further, as the unemployment rate fell sharply to 4.5% in October, which marked the lowest since 1986. Meanwhile, the BSP has also raised its current account deficit forecast to $20.5 billion (or 5.1 % of GDP in 2022), compared with its previous projection of $20.6 billion (or 5.0% of GDP).

FX/Rates Forecast

USD Interest Rates	Current	Q123	Q223	Q323	Q423
FFTR upper	4.50	5.00	5.00	5.00	5.00
SOFR	4.30	4.78	4.78	4.78	4.78
1M USD LIBOR	4.39	4.88	4.88	4.88	4.88
3M USD LIBOR	4.77	5.15	5.15	5.15	5.05
6M USD LIBOR	5.14	5.35	5.35	5.35	5.25
12M USD LIBOR	5.48	5.60	5.60	5.60	5.50
1Y USD IRS	5.10	5.25	5.25	5.25	5.15
1Y SOFR OIS	4.87	5.05	5.05	5.05	4.95
2Y USD IRS	4.63	4.95	4.95	4.95	4.95
2Y SOFR OIS	4.37	4.67	4.67	4.67	4.67
5Y USD IRS	3.85	4.35	4.40	4.40	4.40
5Y SOFR OIS	3.57	4.00	4.15	4.15	4.15
10Y USD IRS	3.64	4.05	4.15	4.15	4.25
10Y SOFR OIS	3.36	3.75	3.85	3.85	3.95
15Y USD IRS	3.62	4.05	4.15	4.15	4.25
20Y USD IRS	3.56	3.95	4.05	4.05	4.15
30Y USD IRS	3.32	3.70	3.80	3.80	3.90
SGD Interest Rates	**Current**	**Q123**	**Q223**	**Q323**	**Q423**
SORA	2.16	3.58	3.78	3.78	3.78
1M SIBOR	4.03	4.18	4.18	4.18	4.18
1M SOR	3.90	4.30	4.45	4.45	4.35
3M SIBOR	4.25	4.35	4.35	4.35	4.25
3M SOR	4.21	4.45	4.60	4.60	4.50
6M SOR	4.43	4.65	4.80	4.80	4.70
1Y SGD OIS	3.69	4.15	4.25	4.35	4.25
2Y SGD OIS	3.33	3.82	3.97	4.07	4.07
3Y SGD OIS	3.16	3.69	3.86	3.96	3.96
5Y SGD OIS	3.00	3.55	3.75	3.85	3.85
10Y SGD OIS	2.90	3.40	3.55	3.65	3.75
15Y SGD OIS	2.89	3.42	3.57	3.67	3.77
20Y SGD OIS	2.91	3.44	3.59	3.69	3.79
MYR Interest Rates	**Current**	**Q123**	**Q223**	**Q323**	**Q423**
OPR	2.75	3.25	3.25	3.25	3.25
1M MYR KLIBOR	2.98	3.40	3.40	3.40	3.40
3M MYR KLIBOR	3.68	3.65	3.65	3.65	3.65
6M MYR KLIBOR	3.74	3.75	3.75	3.75	3.65
12M MYR KLIBOR	3.79	3.75	3.75	3.75	3.75
1Y MYR IRS	3.63	3.85	3.85	3.85	3.80
2Y MYR IRS	3.60	3.85	3.85	3.85	3.85
3Y MYR IRS	3.61	3.90	3.90	3.90	3.95
5Y MYR IRS	3.66	4.00	4.10	4.10	4.15
10Y MYR IRS	3.90	4.25	4.35	4.40	4.45
15Y MYR IRS	4.13	4.45	4.60	4.65	4.65
20Y MYR IRS	4.29	4.60	4.70	4.75	4.75

HKD Interest Rates	Current	Q123	Q223	Q323	Q423
1M HKD HIBOR	3.86	4.70	4.70	4.70	4.70
3M HKD HIBOR	4.65	5.15	5.15	5.15	5.15
2Y HKD IRS	4.42	4.80	4.80	4.80	4.80
5Y HKD IRS	3.91	4.35	4.40	4.40	4.40
10Y HKD IRS	3.82	4.20	4.35	4.35	4.45
UST bond yields	**Current**	**Q123**	**Q223**	**Q323**	**Q423**
2Y UST	4.34	4.60	4.60	4.60	4.50
5Y UST	3.85	4.20	4.20	4.20	4.20
10Y UST	3.70	3.95	4.00	4.05	4.05
30Y UST	3.81	4.00	4.10	4.10	4.10
SGS bond yields	**Current**	**Q123**	**Q223**	**Q323**	**Q423**
2Y SGS	3.07	3.30	3.35	3.35	3.35
5Y SGS	2.80	3.15	3.40	3.40	3.45
10Y SGS	3.04	3.30	3.35	3.40	3.45
15Y SGS	3.03	3.30	3.45	3.45	3.50
20Y SGS	2.65	3.00	3.20	3.30	3.40
30Y SGS	2.50	2.75	3.10	3.20	3.30
MGS forecast	**Current**	**Q123**	**Q223**	**Q323**	**Q423**
3Y MGS	3.61	3.80	3.85	3.85	3.80
5Y MGS	3.78	4.05	4.10	4.10	4.10
10Y MGS	4.02	4.25	4.30	4.35	4.40
IndoGB forecast	**Current**	**Q123**	**Q223**	**Q323**	**Q423**
2Y IndoGB	5.85	6.20	6.35	6.35	6.35
5Y IndoGB	6.63	6.70	6.80	6.80	6.80
10Y IndoGB	7.03	7.20	7.35	7.35	7.40

Research Monitor (January)

5 January 2023

FX	Spot	Mar-23	Jun-23	Sep-23	Dec-23
USD-JPY	138.07	130.00	127.00	125.00	124.00
EUR-USD	1.0406	1.0600	1.0800	1.0800	1.1000
GBP-USD	1.2058	1.2200	1.2300	1.2400	1.2600
AUD-USD	0.6788	0.6900	0.7000	0.7100	0.7200
NZD-USD	0.6297	0.6500	0.6600	0.6600	0.6700
USD-CAD	1.3412	1.3200	1.3100	1.3000	1.3000
USD-CHF	0.9457	0.9300	0.9200	0.9200	0.9100
USD-SEK	10.498	10.400	10.200	10.200	10.000
DXY	105.95	103.61	101.89	101.50	100.01
USD-SGD	1.3614	1.3400	1.3350	1.3350	1.3300
USD-CNY	7.0924	6.9000	6.8500	6.8000	6.7500
USD-CNH	7.0457	6.9000	6.8500	6.8000	6.7500
USD-THB	35.26	33.600	33.400	33.200	33.000
USD-IDR	15732	15500	15500	15400	15400
USD-MYR	4.4445	4.3500	4.3000	4.2800	4.2600
USD-KRW	1318.4	1265.0	1250.0	1240.0	1230.0
USD-TWD	30.895	30.500	30.500	30.500	30.200
USD-HKD	7.8098	7.8100	7.8000	7.8000	7.7800
USD-PHP	56.575	55.600	55.300	55.500	55.200
USD-INR	81.429	83.000	82.900	82.500	82.000
USD-VND	24702	23400	23300	22900	22800
EUR-JPY	143.68	137.80	137.16	135.00	136.40
EUR-GBP	0.8630	0.8689	0.8780	0.8710	0.8730
EUR-CHF	0.9841	0.9858	0.9936	0.9936	1.0010
EUR-SGD	1.4167	1.4204	1.4418	1.4418	1.4630
GBP-SGD	1.6417	1.6348	1.6421	1.6554	1.6758
AUD-SGD	0.9241	0.9246	0.9345	0.9479	0.9576
NZD-SGD	0.8570	0.8710	0.8811	0.8811	0.8911
CHF-SGD	1.4400	1.4409	1.4511	1.4511	1.4615
JPY-SGD	0.9858	1.0308	1.0512	1.0680	1.0726
SGD-MYR	3.2515	3.2463	3.2210	3.2060	3.2030
SGD-CNY	5.1789	5.1493	5.1311	5.0936	5.0752
SGD-IDR	11495	11567	11610	11536	11579
SGD-THB	25.788	25.075	25.019	24.869	24.812
SGD-PHP	41.196	41.493	41.423	41.573	41.504
SGD-CNH	5.1753	5.1493	5.1311	5.0936	5.0752
SGD-TWD	22.639	22.761	22.846	22.846	22.707
SGD-KRW	957.79	944.03	936.33	928.84	924.81
SGD-HKD	5.7361	5.8284	5.8427	5.8427	5.8496
SGD-JPY	101.42	97.015	95.131	93.633	93.233

**Spot refers to 30th December close*

Research Monitor (January)

5 January 2023

Macroeconomic Calendar

Date Time	C	Event	Period	Surv(M)	Actual	Prior
03/01 21:00	GE	CPI YoY	Dec P	9.20%	--	10.00%
05/01 11:30	TH	CPI YoY	Dec	5.95%	--	5.55%
05/01 13:00	SI	Retail Sales YoY	Nov	--	--	10.40%
06/01 16:00	TA	CPI YoY	Dec	2.56%	--	2.35%
06/01 20:00	IN	GDP Annual Estimate YoY	2023	6.80%	--	8.70%
06/01 21:30	US	Change in Nonfarm Payrolls	Dec	208k	--	263k
09/01 09:00	CH	CPI YoY	Dec	--	--	1.60%
09/01 09:00	CH	GDP YoY	4Q	--	--	3.90%
09/01 09:00	SI	GDP YoY	4Q A	--	--	4.10%
09/01 09:00	SI	GDP Annual YoY	2022	--	--	7.60%
11/01 08:30	AU	CPI YoY	Nov	--	--	6.90%
12/01 20:00	IN	CPI YoY	Dec	--	--	5.88%
12/01 21:30	US	CPI YoY	Dec	--	--	7.10%
13/01 17:00	GE	GDP NSA YoY	2022	--	--	2.60%
17/01 08:30	SI	Non-oil Domestic Exports YoY	Dec	--	--	-14.60%
17/01 15:00	GE	CPI YoY	Dec F	--	--	--
17/01 21:30	CA	CPI YoY	Dec	--	--	--
18/01 15:00	UK	CPI YoY	Dec	--	--	10.70%
18/01 18:00	EC	CPI YoY	Dec F	--	--	10.10%
20/01 12:00	MA	CPI YoY	Dec	--	--	--
20/01 16:30	HK	CPI Composite YoY	Dec	--	--	--
25/01 05:45	NZ	CPI YoY	4Q	--	--	7.20%
25/01 08:30	AU	CPI YoY	Dec	--	--	--
25/01 10:00	VN	CPI YoY	Jan	--	--	--
25/01 13:00	SI	CPI YoY	Dec	--	--	--
26/01 07:00	SK	GDP YoY	4Q P	--	--	3.10%
26/01 13:00	SI	Industrial Production YoY	Dec	--	--	--
31/01 17:00	GE	GDP NSA YoY	4Q P	--	--	1.20%
31/01 18:00	EC	GDP SA YoY	4Q A --	--	--	2.30%
31/01 21:30	CA	GDP YoY	Nov --	--	--	--

Central Bank Interest Rate Decisions

Date Time	C	Event	Period	Surv(M)	Actual	Prior
18/01 08:00	JN	BOJ Policy Balance Rate	Jan-18	--	--	-0.10%
18/01 08:00	JN	BOJ 10-Yr Yield Target	Jan-18	--	--	0.00%
19/01 15:00	MA	BNM Overnight Policy Rate	Jan-19	--	--	2.75%
20/01 09:30	CH	1-Year Loan Prime Rate	Jan-20	--	--	3.65%
20/01 09:30	CH	5-Year Loan Prime Rate	Jan-20	--	--	4.30%
25/01 15:00	TH	BoT Benchmark Interest Rate	Jan-25	--	--	1.25%
25/01 23:00	CA	Bank of Canada Rate Decision	Jan-25	4.25%	--	4.25%

Source: Bloomberg

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