OCBC TREASURY RESEARCH

Research Monitor (September)

1 September 2022

Treasury Research & Strategy
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Key Themes

1. **No dovish pivot from Fed Chair Powell.** At the recent Jackson Hole symposium, Powell reiterated the "unconditional" commitment to contain inflation, and that rates would stay higher for longer as longer-run interest rate estimates are not the place to stop or pause rate hikes. Nevertheless, this did not deter the market pricing of terminal rates around April-May 2023 and at least a 25bps rate cut before the end of 2023. In summary, Powell-induced market indigestion has temporarily dampened risk appetite near-term, but the test of the pudding will be the upcoming US labour market report and the August inflation reading due on 2 and 13 September ahead of the 22 September FOMC policy decision. In fact, Fed's Mester explicitly opined that "even if the economy were to go into a recession we have to get inflation down" and supports lifting the policy rate to above 4% with no anticipated rate cuts in 2023. The other shoe to drop may be the ramp up in the Fed's monthly cap for its Quantitative Tightening to US$90b from September, comprising of US$60b UST bonds and US$35b MBS.

2. **While the debate about whether we have seen the inflation peak continues, the energy crisis in Europe continues.** Oil prices are supported amid potential supply disruptions in Libya and the possibility of OPEC+ output cut. With the 3-day maintenance shutdown of the Nordstream pipeline supply, Germany has approved a set of energy-saving measures for the winter and boosted storage capacity. The EU is also planning an emergency intervention in the power market including possibly capping gas prices or a short-term tax on excessive profits by energy companies. Meanwhile, the ECB looks primed to hike 75bps rate hike on 8 September after the Eurozone's inflation hit a fresh record high of 9.1%.

3. **China stepped up its stimulus in August.** PBoC unexpectedly cut its 1-year MLF and 7-day reverse repo in the middle of August sending the 10-year government bond yield down by about 10bps. PBoC also delivered its second asymmetric loan prime rate cut with a larger than expected 15 bps cut on the 5-year LPR to stabilize the property market. Nevertheless, China's short end money market rate rebounded as PBoC lowered the size of MLF offerings in August. We expect PBoC to continue to guide DR007 higher to 1.7-1.8% range in the coming months with partial MLF rollovers. The State Council announced additional 19 measures to support growth on top of 33 measures rolled out in May to resolve fiscal constraints while tackling emerging new challenges, which may yield an additional CNY1.5 trillion in funding support this year to boost infrastructure investments. However, the domestic equity market failed to outperform in August due to the uncertain outlook arising from its zero COVID strategy and the weak property market. US-listed Chinese stocks rose after the US and China reached an agreement on the audit issue for Chinese companies. Market will continue to watch the property market developments in the coming months.

4. **Flash estimates* indicate that the OCBC SME Index (SMEI) is expected to reaccelerate to 51.8 in August after slowing to 50.8 in July.** The high interest rate environment and persistent inflation may continue to drag on SMEs.

5. **Brent has traded largely below the US$100/bbl handle for most of August and may test lower for now amid global slowdown concerns.** Markets will be watching out for the upcoming OPEC meeting on 5 September for news on the oil supply outlook. OPEC+ now tips its 2022 surplus of 400bpd to flip to a 300bpd deficit in 2023, thus endorsing Saudi Arabia's pledge to curtail supply.

**Using data until 21st August*

Asset Class Views

	House View	Trading Views
FX	**G-10 FX:** On a month-to-date (MTD) basis, DXY has appreciated 2.8% on the back of better US data (ISM mfg, services, NFP, durable goods report, etc.), hawkish Fed and growing fears of global recession. At the Jackson Hole Symposium (26 August), Fed Chair Powell drew reference to the early-1980 episode when a lengthy period of very restrictive monetary policy was needed to combat inflation and that Fed's immediate objective is to avoid that outcome by acting with resolve now. He also said that the Fed will "use our tools forcefully" to fight inflation that is still running near its highest level in more than 40 years. On net, we can sum up his speech in 4 points: (1) pause in tightening is not on the table; (2) dovish pivot maybe overly hopeful at this point; (3) instead, rates are expected to be higher, for some time; (4) economy may have to bear the brunt of Fed's monetary policy action. Tighter monetary conditions, risk of another sharp pullback in equities and/or intensification of recession fears may keep USD broadly supported on dips in the interim. That said, we continue to look for signs of slowing pace of USD gains in coming months. We believe 3 factors need to play out: (1) US data, in particular when US price pressures will ease more decisively. ISM manufacturing prices, PCE core and average hourly earnings are already showing tentative signs of upward price pressures slowing. Further pullback in US data may suggest that Fed may not need to tighten as aggressively and that can weigh on USD; (2) Fed signalling – so far Fed has attempted to out-hawk itself on every occasion. FOMC decision (22 September) will be key – if another 75bps will be delivered or if Fed steps down its pace of tightening. A more measured pace of tightening may slow USD pace of appreciation; (3) how the EUR copes also matters. Recent Euro depreciation looks to have been largely driven by the market reassessing the potential for a more significant growth downturn in the Euro area, amplified by energy woes, war dragging on longer than expected. Stabilisation in EUR would help to limit DXY upside. On net, we expect DXY to stay supported on dips but topside could still be constrained. DXY ref range of 107.50 – 109.30 within wider range of 106 – 110. The mild bearish bias on EUR remains amid recession fears in Euro-area, energy woes and geopolitical concerns. Persisting energy woes look set to weigh further on growth in the Euro-area, for longer. Russia halting its gas supplies to Europe via its Nord Stream 1 pipeline and the risks of escalating conflict in Ukraine may suggest that energy disruptions look set to last longer. Quarter-to-date (QTD), European gas futures were already up >80%. In coming weeks, we keep a look out on ECB meeting on 8 September. A 50bps hike is likely but focus is on guidance. Recent comments from ECB officials have turned more hawkish. For instance, Holzmann, Knot, Kazak are calling for at least a 50bps hike and they want 75bps hike to be considered at 8 September meeting. Knot even went as far to call for rate hike every 6 weeks until inflation is at 2%. Schnabel said the forceful action needed to prove ECB determination and that ECB should stay on normalisation path even into a recession. Rehn spoke about the recent slump in EUR exacerbating the high inflation. ECB is monitoring the exchange rate as it feeds through to inflation and the officials are looking at it as one indicator. Some ECB officials also wanted to begin a debate by year-end on when and how to start QT. A more hawkish ECB may help to mitigate EUR's decline. We also keep in view the extraordinary meeting of EU energy ministers (9 September) and Ursula's state of the union address to EU parliament (14 September) on potential structural reform of the electricity market as European Commission President Ursula said that an "emergency intervention" is required to bring down rising energy prices. A favourable outcome may help to ease price pressures overall and could mitigate recession fears in Euro-area. This can be supportive of EUR. Elsewhere, a snap election is due to be held in Italy on 25 Sep. Any fresh emergence of political uncertainty on that front can heighten EUR's volatility and pose 2-way risks to EUR. On net, we do not rule out some unwinding of EUR shorts, and that could point to near term bounce ahead. We look for EUR to trade 0.99 – 1.01, within wider range of 0.98 – 1.02 in coming weeks.	Dollar may still find support on dips but topside faces constraints. Risk-reward may favor leaning against strength. Unwinding of EUR shorts not ruled out in the near term.

FX	BoE's gloomy economic projection that UK growth will stagnate, alongside double-digit inflation makes a strong case for stagflation in UK and underscores our bias for short GBP as a stagflation proxy play. Elsewhere, political uncertainties, including risk of EU-UK trade war due to parts of Northern Ireland protocol being scraped, risk of Scottish referendum should intermittently weigh on GBP. Looking ahead, 5 September will see UK unveil who the next PM will be. Several surveys indicated that Truss is leading former Chancellor Sunak by more than 30 points. She is likely to trigger Article 16 if she wins (GBP-negative). We will also be keeping a look out if BoE can out-hawk markets expectations (currently 50bps fully priced at September 15 MPC). At the last MPC (4 August), MPC voted 8-1 to raise rates by 50bps to bring policy rate to 1.75%. Governor Bailey then said that policy is not on a pre-set path and all options are on the table. He also reiterates that BoE will act forcefully to curb inflation. Economic projections were downgraded: UK economy is likely to enter recession from 4Q 2022, lasting 5 quarters and BoE sees inflation very elevated through 2023, with a projection to peak at 13.3% in October. In the interim, a faster BoE may marginally be supportive of GBP upside but stagflation concerns, energy woes and political noises may limit GBP's recovery. We look for GBP to trade in 1.15 – 1.18 range within wider range of 1.1410 – 1.19. USDJPY rose over 4.2% MTD amid growing Fed-BoJ policy divergence. While Fed Chair Powell's remarks at Jackson Hole was perceived to be hawkish, BoJ Governor Kuroda's comments were in stark contrast. He said that inflation is now at 2.4% but is wholly caused by international commodity price hike, energy and food. He expects inflation to approach 2% or 3% by end of this year but inflation may again decelerate towards 1.5% next year. As such, the BoJ will continue to stick to its easing stance until wages and prices rise in a stable and sustainable manner. 2Y UST-JGB yield differentials widened to multi-year high of 357bps, up from 297bps end-July. Further widening of yield differentials can underpin JPY weakness. A turn-around in USDJPY would require UST yields to come off more significantly. A play-up of global recession fears could catalyst. With BoJ's accommodative policy stance expected to stay intact, then UST-JGB yield differentials can narrow, hence helping JPY to recover. Risk-reward favours selling USDJPY on rally. Near term range of 137.80 – 140 within wider range of 137 – 142.	GBP short as proxy play to stagflation and political risk premium. Upside risk but bias to sell rallies.
	Asian FX and SGD: USDCNH traded 2.3% higher MTD amid USD strength and China rate cuts. 1Y and 5Y LPRs were lowered by 5bps and 15bps, respectively to 3.65% and 4.3%. Widening of UST-CGB yield differentials (10Y at +42bps vs. 0 at start of August) also underpinned the run-up in USDCNH. That said, stronger CNY fix for 6th consecutive sessions and earlier Reuters report (saying that China FX regulator called up several bank to warn against aggressively RMB) are helping to anchor relative stability in the RMB. CNH/CNY basis has also somewhat narrowed to +100pips from +230pips (26 August) – a tentative sign that depreciation pressure may have momentarily eased for now. Looking on, we expect CNH to take cues from broader USD moves, CNY daily fixing and China's macro outlook. Bias may still be skewed towards gradual softening in CNH, within 6.8560 – 6.9860 range within wider range of 6.80 – 7.00. MAS's tightening bias, including the off-cycle move to re-center midpoint (14 Jul) as well as resilient macro fundamentals (i.e. fiscal space, current account surplus) continue to support the case for long S$NEER. Over the past few weeks, S$NEER has continued to trade higher, last seen at about 1% above the model-implied mid. We expect SGD's appeal to stay intact for now however SGD is not immune to global downturn. it is also key to note that Singapore economy and SGD can be affected during episodes of global downturns, including US recession and deep equity sell-off. There may even be a risk that MAS could shift into reduction of policy slope in 2023 if tighter policy stance thus far proves to have a restraining effect on the economy (not a base case scenario at this stage). For coming weeks, we expect USDSGD to take cues from broader USD and RMB moves. We are biased to lean against strength in USDSGD, looking for a move towards 1.39, 1.3840 and 1.3750 levels. Resistance at 1.4060, 1.41 levels.	USD/CNH in range of 6.8560 – 6.9860, within wider range of 6.80 – 7.00. Bias to sell rallies. Range of 1.3840 – 1.4010, within wider range of 1.3750 – 1.41.

	The >1% rise in USDMYR since mid-Aug is showing tentative signs of slowing amid oil price gains and broad pullback in USD. Stronger CNY fix for 5 consecutive sessions helping to slow CNH depreciation is also somewhat providing an anchor to AXJ complex, including MYR. On data, Malaysia headline CPI rose 4.4% in Jul (vs. prior 3.4% vs. Bloomberg consensus 4.4%). Food and non-alcoholic beverages were the main drivers. Higher inflation reinforces expectations for 25bps hike at upcoming BNM meeting (8 September). MTD, foreigners net bought $411mil of domestic equities. For the month, BNM meeting will be closely monitored for guidance and rate hike trajectory while USDMYR should take cues from broader USD, CNY moves and oil prices. We see some room for USDMYR to correct lower in 4.46 – 4.49 range, within wider range of 4.4450 – 4.50.	Look for corrective pullback. 4.46 – 4.49 range, within wider range of 4.4450 – 4.50.
	Quarter-to-date, the IDR has been one of the better performers in AXJ space, owing to stronger macro, including improvement in current account surplus, continuous FDI inflow, strength in private consumption and BI's surprise rate hike. With foreign positioning in IDR bonds relatively light at this point, fresh inflow should be supportive of IDR. We expect IDR to stay resilient, with bias to strengthen. Range of 14,700 – 14,900 within wider range of 14,500 – 15,000.	IDR likely to maintain resilience.
	High-beta KRW is the top underperformer in the AXJ space, having depreciated >4% (vs. USD). While KRW may stay under pressure on global growth concerns, tighter financial condition, USD strength and recent surge in covid infection in Korea (7d average of 99k cases per day) that may pose risks to activity momentum, we expect losses in KRW to moderate or even partially recover from stretched levels. Potentially, an extended BoK hiking cycle, continued return of net foreign inflow into domestic equities at $3.7bn (first QTD net positive inflow this year) and potential peak in Fed hawkishness could see USDKRW turn lower. At the last BoK meeting (25 August), MPC raised policy rate by 25bps to 2.5%. GDP forecast for 2022 was lowered to 2.6% from 2.7%; but more importantly, the sharper upward adjustment in inflation forecast suggests that BoK's rate hike cycle could extend into early 2023. inflation forecast for 2022 was raised to 5.2%, from 4.5% while 2023 inflation forecast was raised to 3.7%, from 2.9%. Earlier, BoK Governor Rhee had indicated that it is reasonable for markets to see rates at 2.75% - 3% by year end. There are 2 more BoK meetings scheduled for this year (14 October and 24 November). We look for the pair to correct lower. Range of 1,325 – 1,360 range within wider range of 1,310 – 1,380.	USDKRW may correct lower from stretch levels. Range of 1,325 – 1,350 range within wider range of 1,310 – 1,380.

OCBC Bank

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	House View	Trading Views[1]	
Rates	Global yields jumped over the past month on increased central bank hawkishness, with Bunds and Gilts underperforming as investors added more to rate hike prospects at the ECB and the BoE. Powell tried to give a forward guidance for 2023, but "for some time" is a vague guidance. Market continues to sail through the uncertainties on the Fed's hiking path, gauging the magnitude of rate hike running into each FOMC meeting. That said, comments that rates will stay high for some time shall allow the **2Y UST yield** to be pushed higher as more Fed rate hikes materialise, better aligning itself to the expected terminal rate. After the move over the recent sessions, the 2Y UST yield is now between one and two meetings ahead of the curve; some consolidation or a mild retracement lower in yields near-term is likely running into the September FOMC, before yields go higher afterwards. What Jackson Hole did to market pricing are higher expectation for a 75bps hike at the September FOMC, a higher expected terminal rate, and reduced rate cut pricing in 2023. Despite all these, the pricing in the USD market is not the most hawkish and looks reasonably fair. In comparison, **EUR OIS and GBP OIS** are pricing in additional rate hikes of more than 200bps for the rest of the hiking cycle. Risks are for both the ECB and the BoE to under-deliver. Gilts are less hawkish than GBP OIS, with the 2Y bond/swap spread at a negative 91bps; any lower-rate view is better reflected in GBP OIS than in Gilts.	**USD rates:** The UST curve bearish flattened over the past month, as market added to rate hike expectations while recession fears lingered. Market pricing of the terminal Fed fund rate went higher to 3.75-4.00%. After the September rate hike is delivered, the 2Y UST yield is likely to move forward to incorporate more expected rate hikes, and grind towards 3.60% by year-end with an upside risk. Upside to long-end yield remains constrained by long term inflation expectation and/or growth prospects, and as such the UST curve is likely to stay inverted across the 2s10s segment.	↑
		Asian rates: SGD rates have closely followed USD rates higher in the latest bout of upticks, failing to outperform amid the broad dollar strength. With higher than usual passthrough from USD rates onto SGD rates already, we expect any further upward move in SGD rates to be much less rapid than what has been observed YTD. On **SGS**, the last auction in the year is scheduled on 28 September with the 30Y re-opening. With supply well manageable, a lack of direct QT impact on the SGD market, and the recent underperformance, we expect SGS outperformance over USTs through to year-end.	→
		The **IndoGB** curve flattened as BI started its rate hiking cycle, and as it has been selling front-end bonds it said it would buy some long-end bonds. The operational-twist together with the 2023 budget, if the numbers pan out, shall be constructive for long-end bonds. The 10Y IndoGB yield is likely to trade in a range of 7.0-7.20% despite expectedly higher US yields.	↑
		MGS outperformed USTs over the past month, with the 3Y MGS yield having fallen by almost 20bps during the month. Despite the high print of July CPI at 4.4%, BNM is still very likely to move on a gradual tightening path. Comparing to OPR prospects, the 3Y MGS is still ahead of the curve, though not as much ahead as a month ago. On balance, any upside to MGS yields shall be mild.	↑
		In **China**, CNY IRS have been trading on the soft side after the rate cuts on MLF, OMO reverse repo and LPRs. Still, market is reluctant to price in further rate cuts given the possibility of different combinations of policies. The 10Y CGB yield is likely to trade in a lower range of 2.6-2.7% with difficult to break much lower amid supply risk.	→

1 Arrows point to direction of interest rates and bond yields

	House View	Trading Views	
Credit	UST 10Y yields rose by **54bps** overall MoM and peaked at **3.19%** as at 31 August amidst strong labour market data, market assessment of peak inflation and Federal Reserve ("Fed") Chairman Jerome Powell realigning monetary policy expectations at the Fed's annual Jackson Hole economic symposium. Starting off the month, UST 10Y dropped to **2.57%** on 1 August, its lowest point in August, as risk off sentiments increased following the Fed's second consecutive 75bps rate hike on July 28. Subsequently, strong employment data for July was observed with a decades-low unemployment rate at 3.5% and strong Nonfarm payrolls figures that widely beat market expectations, further highlighting the strength of the underlying economy despite increasing interest rates. The highlight of the month was the release of Consumer Price Index ("CPI") figures for July which saw both headline and core inflation coming in lower than consensus estimates and June's numbers on the backdrop of a steep drop in energy prices. This quickly fuelled beliefs that inflation might have peaked although Fed officials were consistent and swift to point out that the battle against inflation was far from over. On 26 August, speaking at the Fed's annual economic symposium, Powell reinforced the Fed's resolve on prioritizing price stability over economic stability given that "failure to restore price stability would mean far greater pain." In the US market, US investment grade issuances rose to ~**USD117bn**, increasing by **~22%** MoM and up **~25%** YoY**.** Issuances were largely favourable for the US high yield market as well, rising to ~**USD8.7bn**, up **~223%** MoM and up **~76%** YoY as issuers tapped on renewed investor interest to boost sales. Notably, the largest issuer of the month was American automobile manufacturer Ford Motor Company which priced more than USD2.4bn in total, including a USD1.75bn 10-year senior unsecured green bond at 6.1%. The Asiadollar space recorded lower issuances again at ~**USD4.7bn** in August, which is **~54%** lower MoM and **~68%** lower YoY. Excluding the USD1bn bond issuance from the Korea Development Bank, the largest deal of the month was priced by South Korean telecommunications company KT Corp, which priced a 3-year USD500mn senior unsecured bond at T+125bps, tightening from an IPT of T+155bps area. Net proceeds of the issuance will be used to refinance KT Corp's existing debt. The SGD space recorded relatively higher issuances at **~SGD3.1bn** in August, which is **~62%** higher MoM and ~**11%** higher YoY. Issuance volume was boosted by the Public Utilities Board's SGD800mn inaugural green bond issuance as well as bank capital instruments (including from banks that are infrequent issuers in SGD). In the sovereign space, Singapore issued its inaugural green bond issuance, raising SGD2.4bn where proceeds will go towards funding infrastructure development. Moving forward into September, the focus will likely be on the jobs report and price index figures for August to assess labour market strength and inflation rates as markets continue to speculate on the magnitude of September's rate hike. Additionally, the Fed's balance sheet unwinding will be ramping up in September as it increases the monthly maturity caps for treasuries and mortgage-backed securities, potentially adding to volatility. That said, in the SGD market, we expect secondary market stability to continue after the deluge of new supply in the middle of the year which repriced yields higher. This should encourage picking up of risk at the short end and in selected bank capital instruments.	• **METRO 4.3% '24s:** Despite its smaller scale, high proportion of joint venture and associates and exposure to China property, the METRO 4.3% '24s provide an interesting yield of 3.6% for a short dated bond with 19 months to maturity. As at 31 March 2022, METRO has SGD331.4mn of cash which sufficiently covers short term debt (including lease liabilities) of SGD146.5mn.	↑
		• **KITSP 3.0% '26s:** Whilst Keppel Infrastructure Trust ("KIT") has announced significant expansions in recent months, the business trust has also embarked on a sale process of its key asset Ixom which may rebalance its credit metrics overtime. There is no certainty of a sale yet, but the possible net proceeds are expected to be sizeable at ~AUD2.0bn. The KITSP 3.0% '26s provide a pick-up against similar tenor bullets issued by Keppel Corporation Limited, the parent company of KIT's Sponsor.	↑

Macroeconomic Views

	House View	Key Themes
US	The Fed reiterated its unconditional commitment to bringing inflation back down to its 2% target. This suggests a higher for longer approach to the terminal rate and may disappoint market speculation of a dovish pivot and potential rate cuts in 2H23. Further out, there are the mid-term elections.	Resilient consumer demand and a healthy labour market are likely to underpin the Fed's resolve to unconditionally tighten monetary policy and anchor inflationary expectations. The consumer confidence index rebounded in August after falling for three straight months, while the JOLTS openings also rose to 11.2 million in July. While economic activity may continue to slow ahead, this is unlikely to deter the Fed from continuing to hike. Moreover, Quantitative Tightening has ramped up to US$90b per month from September.
EU	ECB's Schnabel emphasized the need to tighten its monetary policy for an extended period of time during her Jackson Hole speech even if "the costs may be substantial". Given the Eurozone is already facing strong downside growth risks, high inflation, dampened consumer and business sentiment and Russian gas supply cuts, aggressive interest rate hikes will further weaken its growth momentum for the rest of 2022. This puts the EU in a precarious situation of a higher recession risk.	Inflation in the Eurozone continued to climb to yet another record-high of 8.9% YoY in July, driven once again by soaring energy and food prices. This is unsurprising since natural gas prices have surged by about 25% in August. After Russia announced a 3-day closure of the Nord Stream pipeline in Germany from 31 August to 2 September, markets are now bracing for a further spike in gas prices if this may not mean the end to the gas supply cuts by Russia. However, a silver lining ahead of winter could be seen from the European Commission President Ursula's recent announcement that the EU has met its gas storage goals ahead of its target, with gas reserves already hitting an average of 80%. That being said, a looming recession may still be on the cards for Europe as inflationary pressures remain elevated, which will likely dampen consumer spending. Economic activities have also started to feel the pinch with the August preliminary S&P composite PMI data contracting at 49.0.
Japan	BoJ Kuroda reiterated that inflation is externally driven and likely to be only temporary. He tips inflation to "approach 2 or 3%" by end-2022 before dropping toward 1.5% in 2023. In order to ensure that "wages and prices rise in a stable and sustainable manner", he emphasised the importance of maintaining BoJ's monetary easing stance despite the backdrop of other global hawkish central banks. As such, we expect BoJ to continue to keep its benchmark rate steady in the near-term. However, the weak JPY also exacerbates the import costs, adding to the pressure on PM Kishida to address the cost-of-living challenges for households.	Japan's economy rebounded to 2.2% YoY (0.5% QoQ) growth in 2Q, as compared to -0.5% YoY (-0.1% QoQ) in 1Q22. This was mainly driven by robust domestic consumption which expanded by 1.1%, following the lifting of COVID restriction measures in March. The labour market also improved - while the jobless rate remained unchanged at 2.6% in July, the job-availability ratio inched higher from 1.27 in June to 1.29 in July as economic activity recovers. Despite the positive growth momentum in 2Q, Japan is expected to face growth headwinds, exacerbated by the weakening of the yen due to widening interest rate differentials as other major central banks continue to hike rates, a gloomy global economic outlook which could hurt external demand and resurgence of COVID cases in Japan. The announcement to allow non-guided package tours from 7 September and to raise the daily entry cap to 50,000 people (from 20,000 currently) may spur tourism amid the yen weakness, but entry visas remain a hurdle.

	House View	Key Themes
Singapore	MTI narrowed the official 2022 GDP growth forecast from 3-5% to 3-4%, citing the deterioration in the global economic environment since May, China slowdown, as well as the persistent inflationary pressures and more aggressive monetary policy tightening as key risks. As manufacturing momentum has softened significantly, growth may slow further. At this juncture, we maintain our full-year 2022 GDP growth forecast at 3.5-4% YoY, albeit it may come in closer to the 3.5% region if manufacturing remains tepid. More monetary policy tightening is likely at the October MPS as headline and core CPI have not peaked yet.	Singapore's 2Q22 GDP growth came in at 4.4% YoY (-0.2% QoQ sa), up from 3.8% in 1Q22. This could be attributed to the slower momentum in manufacturing (5.7% YoY) and construction (3.3% YoY), which more than offset the improved services performance (4.8% YoY). Industrial production grew by a tepid 0.6% YoY in July, while contracting for the second straight month by 2.3% MoM sa. Since manufacturing accounts for around a quarter of Singapore's GDP, the sharper than expected easing in July's growth momentum suggests there is some downside risk ahead for the remainder of the year, and a technical recession in 3Q remains a possibility. However, there is no respite on the inflation front - headline inflation hit 7% YoY (0.2% MoM nsa) in July, the highest since June 2008. MAS is still expected to tighten monetary policy in October. Meanwhile, the new Overseas Networks & Expertise Pass (One Pass) aims to strengthen Singapore's position as a global talent hub by attracting higher earning talent in specialised areas.
Indonesia	BI surprised the market with a rate hike of 25bps on August 23rd, bringing its policy rate up from the historic low of 3.5% to 3.75%. BI called it a pre-emptive move to head off inflation, having revised up its core inflation expectation to 4.15% from a range of 2-4% previously. Separately, it has begun its own version of Operation Twist, by selling the short-tenor holdings of government bonds while buying the longer end. Overall, with the risk of further uptick in inflation, we see BI hiking rate by at least 50bps more for the remainder of the year.	Indonesia's Finance Minister Sri Mulyani said that the government is building the case for an imminent hike in fuel prices, saying that the IDR502tn (~USD34bn) that they have allocated for energy subsidies this year is set to be depleted by October. She noted that the usage of Pertaline-grade gasoline will exceed estimates by 26%, adding that weakened rupiah and elevated oil prices also bloated the subsidy bill. Overall, depending on the magnitude of the fuel price increase – with press reports suggesting a likelihood of a 30% increase to IDR10,000/litre – we see the risk of Indonesia's headline inflation breaching above 7% in the coming months. Hence, with the fiscal buffer actively getting more depleted due to the ballooning subsidy bills, Indonesia will have to transition away from its dependence on fiscal measures to curb inflation. In its stead, monetary policy tightening has to be ramped up.
China	China deemphasized its growth target in the July politburo meeting although it did not downgrade its growth target explicitly. We think China will have a higher tolerance for slower growth as long as job stability and price stability are not compromised. We cut China's GDP forecast to about 4% for 2022.	China stepped up its stimulus in August. PBoC unexpectedly cut its 1-year MLF and 7-day reverse repo in the middle of August, sending the 10-year government bond yield down by about 10bps. Nevertheless, due to concerns about rising financial leverage, the monetary easing in August was delivered in a more calibrated way. PBoC lowered the volume of MLF offerings in August while delivering an asymmetric loan prime rate cut. The 5bps cut of 1-year LPR was lower than market expectation while the 15bps cut of 5-year LPR was higher than market expectation. The asymmetric interest rate cuts showed that PBoC has stepped up its efforts to contain the tail risk in property sector given that China's mortgage rate is pegged to 5-year LPR. As a result of the calibrated policy move, China's short end money market rate rebounded despite benchmark interest rate cut. We expect PBoC to continue to guide DR007 higher to 1.7-1.8% range in the coming months with partial MLF rollover. Elsewhere, China's State Council announced additional 19 measures to support growth on top of 33 measures rolled out in May to solve the problem of the fiscal constraints while tackling the emerging new challenges. The new 19 measures may yield additional CNY1.5 trillion funding supports this year to boost infrastructure investment.

	House View	Key Themes
Hong Kong	Given that the external headwinds are likely to persist into the end of 2022, the growth outlook has deteriorated. We revised downward our growth forecast to -0.4% YoY for 2022. We expect that there will not be any meaningful return of visitors even with the relaxed border measures, unless the quarantine requirement is completely scrapped. On top of that, we see risks of social distancing measures tightening in the near term on the back of resurgence in COVID cases. Our view remains that the residential property market will undergo a mild price adjustment this year. Meanwhile, inflation will pick up in 2H22, due to higher energy and food costs.	Hong Kong's real GDP contracted by 1.3% YoY in the second quarter, extending the decline registered in the previous quarter (1Q: -3.9% YoY). External demand shrank notably on the back of multiple headwinds, including worsened global economic outlook, lingering geopolitical tensions, aggressive interest rate hikes by major central banks and COVID uncertainties in Mainland China, while domestic demand largely held up. On a seasonally adjusted basis, GDP expanded by 1.0% QoQ (1Q: -2.9% QoQ), as COVID disruptions subsided. The Hong Kong government's growth forecast for 2022 was revised downward to -0.5% to 0.5%, from its previous estimate of 1-2%, taking into account the worse-than-expected economic performance in the first half of 2022 and the sharp deterioration in global economic prospects. With regards to the border control measures, the government announced to cut the mandatory hotel quarantine for inbound travellers from 7 days to 3 days, followed by 4 days of health monitoring, effective from 12 August.
Macau	Macau's GDP fell by 24.5% in the first half of 2022, setting a rather gloomy tone for the economy this year. Economic activities in Macau fell further in July due to the partial lockdown measures, but saw some revivals in August after reopening the border shared with Mainland China. With the city's overall unemployment rate soaring to 4.1% in the three months ending July, we suspect that the government will be reluctant to tighten the antivirus measures for the remainder of the year. We expect the full year growth figure to come in at around -18% YoY.	Macau's GDP in the second quarter of 2022 plunged by 39.3% YoY, a steeper fall as compared to that of -8.9% in 1Q. Economic contraction was mostly due to a 48.6% fall in exports of services in 2Q, as exports of gaming services and tourism services plummeted by 69.6% YoY and 41.4% YoY respectively. On the back of COVID restrictions and crackdown on cross-border gambling activities, the number of visitor arrivals dropped sharply by 27.5% YoY in the second quarter. Decline in domestic demand (-12.2% YoY) also contributed to the economic contraction. Private and public consumption recorded year-on-year declines of 6.6% and 6.5% respectively in 2Q. The authority pointed to dampened consumer sentiment, in the face of economic downturn and local coronavirus infections in late June, for the considerable fall in consumption. As for investment, gross capital formation also saw a notable decline of 29.4% YoY in the second quarter.
Malaysia	Malaysia's headline inflation was 4.4% YoY in July, in line with market expectations but marking another month of considerable uptick in prices. Food and fuel price upticks continued to be the major drivers of headline inflation. However, the fact that core inflation has also been on the rise will receive increasing attention. It came in at 3.4% YoY, vs. 3.0% of the prior month, signalling a potential broadening of price pressures. Overall, set against the inflation uptick – at a time when growth appears to be holding up well – we see Bank Negara tightening its monetary policy stance further by raising the OPR by 25bps on 8 September.	Malaysia's political development might receive greater attention in the coming months with the spectre of a general election hanging on the horizon. While the election is not due until September 2023, there has been increasing pressure within the ruling party of UMNO for one to be called since the beginning of the year, due to the party's outperformance in some of the state-level elections, including in Johor and Malacca. Thus far, PM Ismail Sabri has appeared to prefer staying in power by holding off the elections, arguing that the country is facing a multitude of challenges, including high inflation prints. The issue of the general election is unlikely to ebb away, especially after the recent ruling by the Federal Court to uphold previous judgements on former PM Najib Razak's corruption case, which sent him to jail for a purported 12 years' sentence. Overall, even as there may be political news flow, the thinking of the market appears to be that the economic picture remains relatively bright and unlikely to be rocked too much by politics, with the key working assumption that a new government will be relatively more stable.

	House View	Key Themes
Thailand	BoT kept its 2022 GDP forecast unchanged at 3.3% on the back of strong economic recovery momentum. It also maintained its 2022 inflation forecast at 6.2% before easing to its 1-3% target range in 2023.	BoT initiated its first rate hike in nearly 4 years during its August MPC meeting, raising its benchmark rate by 25bps to 0.75%, and signalled for more rate hikes to be delivered in a gradual pace for the rest of 2022.
South Korea	BoK downgraded its GDP forecast for 2022 from the previous 2.7% to 2.6% while upgrading its 2022 inflation forecast from 4.5% previously to 5.2%.	The BoK has resumed its normal pace of 25bps rate hike after July's 50bps hike, as it lifted its benchmark rate from 2.25% to 2.50% in August. The monetary policy committee continues to see the need to hike further as inflation remains well above its target level of 2%.
Philippines	BSP governor Medalla commented that the BSP will take the Fed's policy rate moves into consideration when making future rate decisions to mitigate the impact of aggressive Fed rate hikes on the weakening Peso. As such, we expect the BSP to continue raising rates at least for the rest of the year. Meanwhile, the BSP has also raised its CPI forecast to 5.4% in 2022 (vs. 5.0% previously), while downgrading its forecasts to 4.0% in 2023 (vs. 4.2% previously) and 3.2% in 2024 (vs. 3.3% previously).	BSP lifted its overnight borrowing rate by 50bps to 3.75% in its August meeting, after an off-cycle hike of 75bps back in July. This comes as the BSP sought to quell inflation which continues to be on an uptrend, hitting 6.4% YoY in July from 6.1% in June. Trade deficit continued to widen sharply in June to the biggest monthly gap of -$5.84b as imports surged by 26.0% YoY while exports rose by a meagre 1.0%. Socioeconomic Planning Secretary Arsenio Balisacan noted that the trade deficit is expected to widen further. While the Philippines economy grew by 7.4% YoY, this was the lowest growth in three quarters, suggesting some moderation in growth which is expected to continue into the rest of the year given rising global headwinds as demand wanes on the back of rising recession risks in the major economies – US, EU and China.

FX/Rates Forecast

USD Interest Rates	Current	3Q22	4Q22	1Q23	2023
FFTR upper	2.50%	3.00%	3.75%	4.00%	4.00%
SOFR	2.28%	2.78%	3.53%	3.78%	3.78%
1M USD LIBOR	2.52%	2.88%	3.63%	3.88%	3.88%
3M USD LIBOR	3.07%	3.35%	3.95%	4.10%	4.05%
6M USD LIBOR	3.57%	3.75%	4.15%	4.30%	4.25%
12M USD LIBOR	4.12%	4.25%	4.40%	4.50%	4.45%
1Y USD IRS	3.91%	4.00%	4.20%	4.30%	4.25%
1Y SOFR OIS	3.65%	3.70%	3.90%	4.00%	4.03%
2Y USD IRS	3.84%	3.90%	4.15%	4.30%	4.30%
2Y SOFR OIS	3.56%	3.62%	3.87%	4.08%	4.08%
5Y USD IRS	3.38%	3.65%	3.95%	4.15%	4.25%
5Y SOFR OIS	3.10%	3.35%	3.67%	3.87%	4.00%
10Y USD IRS	3.22%	3.55%	3.85%	4.15%	4.25%
10Y SOFR OIS	2.94%	3.27%	3.57%	3.90%	4.00%
15Y USD IRS	3.24%	3.60%	3.90%	4.20%	4.30%
20Y USD IRS	3.18%	3.57%	3.90%	4.20%	4.35%
30Y USD IRS	2.97%	3.42%	3.75%	4.05%	4.25%
SGD Interest Rates	**Current**	**3Q22**	**4Q22**	**1Q23**	**2023**
SORA	2.34%	2.58%	3.03%	3.28%	3.23%
1M SIBOR	2.33%	2.58%	3.18%	3.23%	3.23%
1M SOR	2.40%	2.50%	2.88%	2.97%	3.10%
3M SIBOR	2.67%	2.85%	3.30%	3.35%	3.30%
3M SOR	2.81%	2.90%	3.18%	3.27%	3.30%
6M SOR	3.13%	3.20%	3.38%	3.47%	3.50%
1Y SGD IRS	3.29%	3.20%	3.34%	3.44%	3.55%
1Y SGD OIS	3.07%	3.00%	3.19%	3.29%	3.40%
2Y SGD IRS	3.35%	3.37%	3.52%	3.73%	3.73%
2Y SGD OIS	3.11%	3.12%	3.27%	3.48%	3.48%
5Y SGD IRS	3.20%	3.35%	3.52%	3.77%	3.90%
5Y SGD OIS	2.95%	3.10%	3.27%	3.52%	3.65%
10Y SGD IRS	3.14%	3.32%	3.52%	3.85%	3.95%
10Y SGD OIS	2.87%	3.07%	3.27%	3.60%	3.70%
15Y SGD IRS	3.20%	3.32%	3.52%	3.85%	3.97%
20Y SGD IRS	3.22%	3.34%	3.56%	3.89%	4.01%
30Y SGD IRS	3.22%	3.36%	3.58%	3.91%	4.03%
MYR Interest Rates	**Current**	**3Q22**	**4Q22**	**1Q23**	**2023**
OPR	2.25%	2.50%	2.50%	2.75%	3.00%
1M MYR KLIBOR	2.43%	2.65%	2.65%	2.90%	3.15%
3M MYR KLIBOR	2.73%	2.80%	2.80%	3.05%	3.30%
6M MYR KLIBOR	2.85%	2.95%	2.95%	3.20%	3.45%
12M MYR KLIBOR	2.94%	3.10%	3.10%	3.25%	3.45%
1Y MYR IRS	3.24%	3.25%	3.30%	3.35%	3.45%
2Y MYR IRS	3.49%	3.60%	3.70%	3.90%	4.00%
3Y MYR IRS	3.55%	3.70%	3.80%	3.95%	4.00%
5Y MYR IRS	3.67%	3.80%	3.95%	4.15%	4.30%
10Y MYR IRS	3.94%	4.20%	4.40%	4.45%	4.45%
15Y MYR IRS	4.31%	4.50%	4.60%	4.75%	4.75%
20Y MYR IRS	4.47%	4.75%	4.85%	4.90%	4.92%

HKD Interest Rates	Current	3Q22	4Q22	1Q23	2023
1M HKD HIBOR	1.87%	1.80%	2.35%	2.45%	2.45%
3M HKD HIBOR	2.65%	2.53%	3.08%	3.13%	3.08%
2Y HKD IRS	3.65%	3.60%	3.65%	3.75%	3.80%
5Y HKD IRS	3.43%	3.55%	3.80%	3.95%	4.05%
10Y HKD IRS	3.33%	3.50%	3.75%	3.97%	4.07%

UST bond yields	Current	3Q22	4Q22	1Q23	2023
2Y UST	3.48%	3.55%	3.70%	3.90%	3.80%
5Y UST	3.29%	3.30%	3.45%	3.60%	3.80%
10Y UST	3.13%	3.10%	3.35%	3.50%	3.60%
30Y UST	3.24%	3.15%	3.40%	3.60%	3.70%
SGS bond yields	**Current**	**3Q22**	**4Q22**	**1Q23**	**2023**
2Y SGS	2.76%	2.80%	2.90%	3.10%	3.10%
5Y SGS	2.86%	2.85%	2.95%	3.10%	3.20%
10Y SGS	2.96%	2.90%	3.10%	3.20%	3.25%
15Y SGS	2.99%	3.00%	3.16%	3.26%	3.31%
20Y SGS	3.09%	3.05%	3.21%	3.31%	3.36%
30Y SGS	3.05%	3.01%	3.17%	3.27%	3.32%
MGS forecast	**Current**	**3Q22**	**4Q22**	**1Q23**	**2023**
3Y MGS	3.34%	3.45%	3.55%	3.60%	3.65%
5Y MGS	3.73%	3.80%	3.90%	4.00%	4.10%
10Y MGS	3.99%	4.15%	4.35%	4.40%	4.50%
IndoGB forecast	**Current**	**3Q22**	**4Q22**	**1Q23**	**2023**
2Y IndoGB	5.60%	5.70%	5.85%	6.00%	6.10%
5Y IndoGB	6.59%	6.60%	6.70%	6.75%	6.80%
10Y IndoGB	7.11%	7.15%	7.20%	7.30%	7.35%

FX	Spot	Sep-22	Dec-22	Mar-23	Jun-23
USD-JPY	138.96	138.50	136.00	132.00	130.00
EUR-USD	1.0054	1.0100	1.0200	1.0300	1.0450
GBP-USD	1.1622	1.1600	1.1900	1.2200	1.2400
AUD-USD	0.6842	0.6900	0.7000	0.7100	0.7200
NZD-USD	0.6119	0.6200	0.6300	0.6500	0.6600
USD-CAD	1.3130	1.3000	1.2900	1.2600	1.2500
USD-CHF	0.9775	0.9700	0.9600	0.9200	0.9000
USD-SEK	10.6597	10.4000	10.1000	9.9000	9.6500
DXY	108.7000	108.1185	106.6692	104.8548	103.3009
USD-SGD	1.3971	1.3800	1.3670	1.3600	1.3500
USD-CNY	6.8904	6.8500	6.8000	6.7500	6.7000
USD-THB	36.46	35.80	35.00	34.80	34.20
USD-IDR	14843	14750	14600	14500	14350
USD-MYR	4.4760	4.4500	4.4200	4.4000	4.3500
USD-KRW	1338.10	1330.00	1300.00	1280.00	1265.00
USD-TWD	30.441	30.300	30.000	29.800	29.700
USD-HKD	7.8493	7.8400	7.8300	7.8200	7.8000
USD-PHP	56.16	56.00	55.50	55.00	54.50
USD-INR	79.46	79.50	79.20	78.50	78.00
USD-VND	23421	23400	23300	23250	23200
EUR-JPY	139.70	139.89	138.72	135.96	135.85
EUR-GBP	0.8651	0.8707	0.8571	0.8443	0.8427
EUR-CHF	0.9829	0.9797	0.9792	0.9476	0.9405
EUR-SGD	1.4048	1.3938	1.3943	1.4008	1.4108
GBP-SGD	1.6239	1.6008	1.6267	1.6592	1.6740
AUD-SGD	0.9561	0.9522	0.9569	0.9656	0.9720
NZD-SGD	0.8550	0.8556	0.8612	0.8840	0.8910
CHF-SGD	1.4294	1.4227	1.4240	1.4783	1.5000
JPY-SGD	1.0055	0.9964	1.0051	1.0303	1.0385
SGD-MYR	3.1996	3.2246	3.2334	3.2353	3.2222
SGD-CNY	4.9380	4.9638	4.9744	4.9632	4.9630
SGD-IDR	10610	10688	10680	10662	10630
SGD-THB	26.17	25.94	25.60	25.59	25.33
SGD-PHP	40.18	40.58	40.60	40.44	40.37
SGD-CNH	4.94	4.96	4.97	4.96	4.96
SGD-TWD	21.78	21.96	21.95	21.91	22.00
SGD-KRW	960.08	963.77	950.99	941.18	937.04
SGD-HKD	5.6179	5.6812	5.7279	5.7500	5.7778
SGD-JPY	99.45	100.36	99.49	97.06	96.30

Research Monitor (September)

1 September 2022

Macroeconomic Calendar

Date Time	C	Event	Period	Surv(M)	Actual	Prior
01/09 07:00	SK	GDP YoY	2Q P	2.90%	--	2.90%
01/09 12:00	ID	CPI YoY	Aug	5.20%	--	4.94%
02/09 07:00	SK	CPI YoY	Aug	6.40%	--	6.30%
02/09 20:30	US	Change in Nonfarm Payrolls	Aug	300k	--	528k
05/09 11:30	TH	CPI YoY	Aug	--	--	7.61%
05/09 13:00	SI	Retail Sales YoY	Jul	--	--	14.80%
06/09 09:00	PH	CPI YoY 2018=100	Aug	--	--	6.40%
06/09 16:00	TA	CPI YoY	Aug	--	--	3.36%
07/09 09:30	AU	GDP YoY	2Q	--	--	3.30%
07/09 17:00	EC	GDP SA YoY	2Q F	--	--	3.90%
08/09 07:50	JN	GDP Annualized SA QoQ	2Q F	--	--	2.20%
09/09 09:30	CH	CPI YoY	Aug	--	--	2.70%
12/09 20:00	IN	CPI YoY	Aug	--	--	6.71%
13/09 14:00	GE	CPI YoY	Aug F	--	--	--
13/09 20:30	US	CPI YoY	Aug	--	--	8.50%
14/09 14:00	UK	CPI YoY	Aug	--	--	10.10%
15/09 06:45	NZ	GDP YoY	2Q	--	--	1.20%
16/09 08:30	SI	Non-oil Domestic Exports YoY	Aug	--	--	7.00%
16/09 17:00	EC	CPI YoY	Aug F	--	--	8.90%
20/09 07:30	JN	Natl CPI YoY	Aug	--	--	2.60%
23/09 12:00	MA	CPI YoY	Aug	--	--	--
25/09 10:00	VN	CPI YoY	Sep	--	--	--
25/09 10:00	VN	GDP YoY	3Q	--	--	7.72%
26/09 13:00	SI	Industrial Production YoY	Aug	--	--	--
29/09 20:00	GE	CPI YoY	Sep P	--	--	--
29/09 20:30	CA	GDP YoY	Jul	--	--	--
30/09 14:00	UK	GDP YoY	2Q F	--	--	2.90%

Central Bank Interest Rate Decisions

Date Time	C	Event	Period	Surv(M)	Actual	Prior
06/09 12:30	AU	RBA Cash Rate Target	Sep-06	--	--	1.85%
07/09 22:00	CA	Bank of Canada Rate Decision	Sep-07	3.25%	--	2.50%
08/09 15:00	MA	BNM Overnight Policy Rate	Sep-08	--	--	2.25%
08/09 20:15	EC	ECB Deposit Facility Rate	Sep-08	--	--	0.00%
08/09 20:15	EC	ECB Main Refinancing Rate	Sep-08	--	--	0.50%
08/09 20:15	EC	ECB Marginal Lending Facility	Sep-08	--	--	0.75%
15/09 19:00	UK	Bank of England Bank Rate	Sep-15	--	--	1.75%
20/09 09:15	CH	1-Year Loan Prime Rate	Sep-20	--	--	3.65%
20/09 09:15	CH	5-Year Loan Prime Rate	Sep-20	--	--	4.30%
22/09 02:00	US	FOMC Rate Decision (Lower Bound)	Sep-21	2.75%	--	2.25%
22/09 02:00	US	FOMC Rate Decision (Upper Bound)	Sep-21	3.00%	--	2.50%
22/09 08:00	JN	BOJ Policy Balance Rate	Sep-22	--	--	-0.10%
22/09 09:00	TA	CBC Benchmark Interest Rate	Sep-22	--	--	1.50%
22/09 15:00	PH	BSP Overnight Borrowing Rate	Sep-22	--	--	3.75%
22/09 15:20	ID	Bank Indonesia 7D Reverse Repo	Sep-22	--	--	3.75%
28/09 15:00	TH	BoT Benchmark Interest Rate	Sep-28	--	--	0.75%
30/09 12:30	IN	RBI Repurchase Rate	Sep-30	--	--	5.40%

Source: Bloomberg

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