Weekly Macro Views (WMV)

Treasury Research & Strategy (2nd August 2022)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

1st August	2nd August	3rd August	4th August	5th August
- US ISM Manufacturing - SK Exports YoY - CH Caixin China PMI Mfg - HK GDP YoY	- HK Retail Sales Value YoY - AU Building Approvals MoM - SK CPI YoY	- US Durable Goods Orders - NZ Unemployment Rate - US MBA Mortgage Applications	- US Initial Jobless Claims - GE Factory Orders MoM - AU Trade Balance - US Trade Balance	- US Change in Nonfarm Payrolls - ID GDP YoY - CA Unemployment Rate

Summary of Macro Views:

Global	• **Global:** Central Banks • **Global:** FOMC stuck to 75bps hike as expected • **Global:** US GDP contracted for the second straight quarter • **Global:** 2Q GDP results • **Global:** Upcoming 2Q GDP results release • **Global:** Earnings results for the past week • **Global:** Earnings calendar and expectations for the week ahead • **Global:** IMF growth forecasts downgrade
Asia	• **SG:** Labour market is going from strength to strength • **SG:** Manufacturing took a backseat to services • **SG:** Overall resident bank loans improved slightly in June • **HK:** External headwinds dragged on trade performance

Asia	• **HK:** Decline in housing price more entrenched • **MO:** Public tendering of gaming concession started • **CN:** No new stimulus measures • **CN:** Limited room for monetary easing • **CN:** Addressing the risk • **MY:** Stable Sentiment • **ID:** Another inflation uptick
Asset Class	• **ESG:** MAS' new guidelines for ESG funds to tackle greenwashing • **FX & Rates:** Retracement in US yields amid soft growth prospect
Asset Flows	• **Asset Flows**

OCBC Bank

Source: OCBC, Bloomberg

Global: Central Banks

Forecast – Key Rates

Reserve Bank of Australia (RBA)	Bank of England (BoE)	Reserve Bank of India (RBI)
Tuesday, 2nd August	Thursday, 4th August	Friday, 5th August

House Views

Reserve Bank of Australia (RBA)	Bank of England (BoE)	Reserve Bank of India (RBI)
Cash Rate	*Bank rate*	*Repurchase Rate*
Likely *hike* by *50bps* from *1.35%* to *1.85%*	**Likely *hike* by *50bps* from *1.25%* to *1.75%***	**Likely *hike* by *50bps* from *4.90%* to *5.40%***

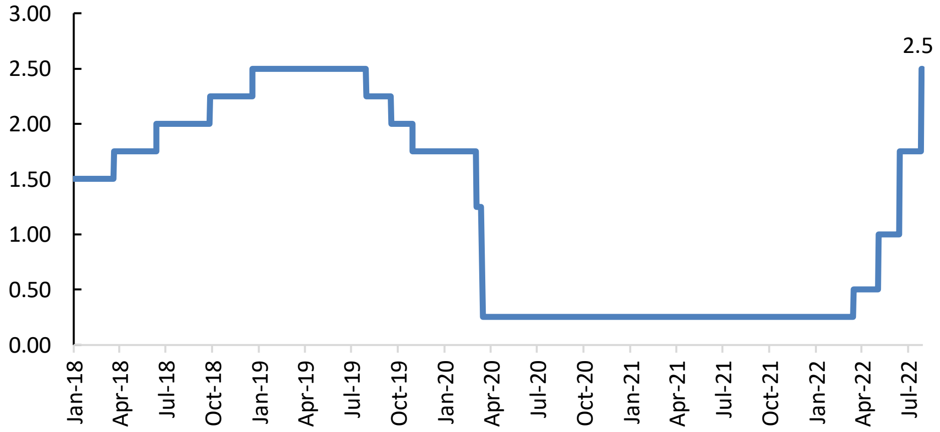
OCBC Bank

Source: OCBC, Bloomberg

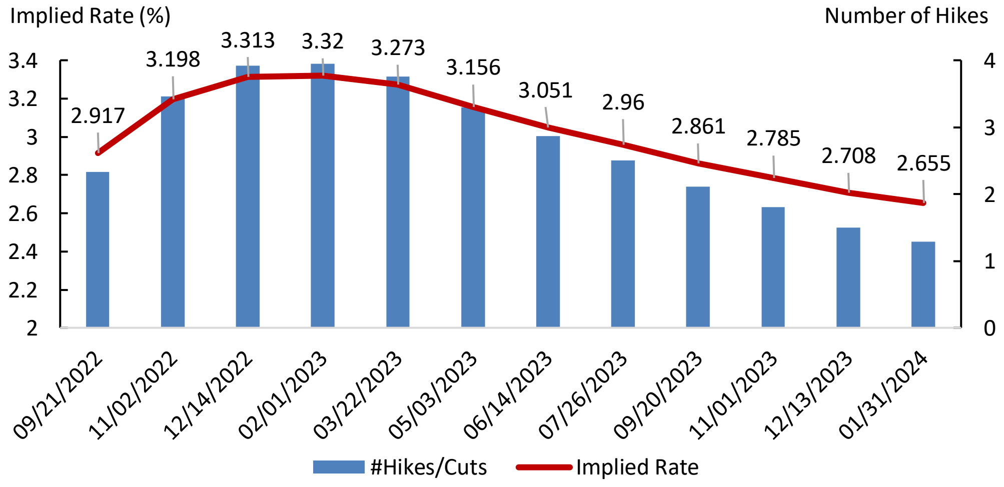
Global: FOMC stuck to 75bps hike as expected

- The Fed hiked its Fed funds rate by 75bps unanimously, in line with market expectation, bringing its benchmark rate to 2.25-2.5%. This is the largest cumulative back-to-back hike of 150bps since the early 1980s.
- Fed Chair Powell opined that the US is not currently in a recession and “while another unusually large increase could be appropriate at our next meeting” on 20-21 September, future rate decisions would be data dependent.
- US stock markets went into a celebratory rally after Powell’s commented that the Fed will eventually slow its rate hike pace at some point. However, it remains to be seen if the risk rally can sustain as market players may have under-estimated the Fed’s resolve to tackle inflation and anchor inflationary expectations in the short-term.
- Markets are now pricing in a deceleration in the expected pace of Fed rate hikes, with a lower 50bps hike expected in September before tapering to 25bps each in the November and December meeting. Markets are also expecting rate cuts to happen as early as next year on the back of recession concerns.

Fed Funds Rate - Upper Bound



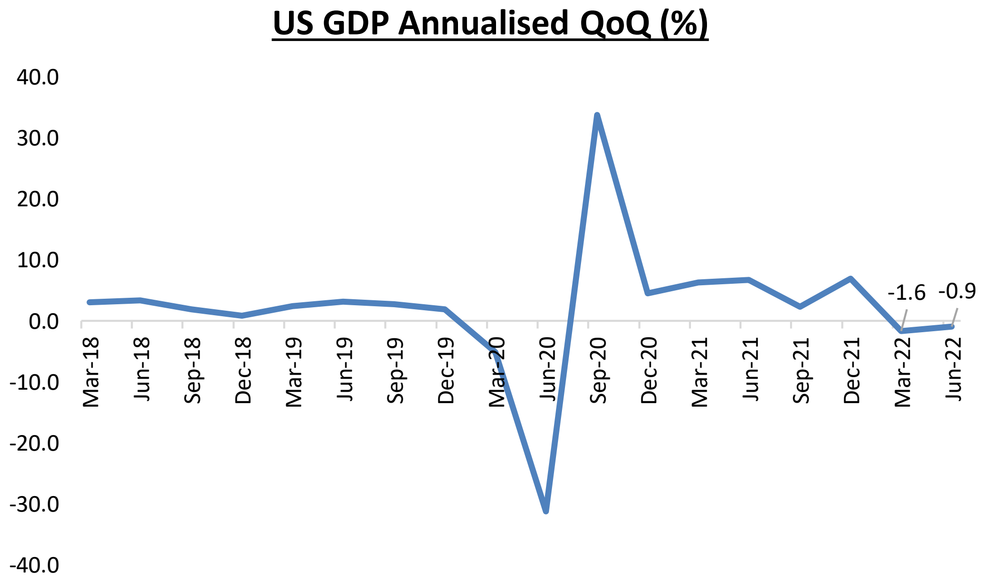
US Implied Overnight Rate & Number of Hikes



Source: OCBC, Bloomberg

Global: US GDP contracted for the second straight quarter

- The US economy shrank 0.9% annualised QoQ in 2Q, lower than the consensus forecast of a 0.4% expansion. This comes after the economy contracted 1.6% in 1Q22, signifying that it has entered a technical recession.
- This fuelled market speculation that the Fed would slow its rate hike pace and possibly unwind some of its rate hikes next year.
- However, US Treasury Secretary Yellen emphasised that the economy is not in a recession yet but rather "a period of transition to slowing growth" as the labour market remains "extremely strong".



Source: OCBC, Bloomberg

Global: 2Q GDP results

	GDP QoQ (%)			GDP YoY (%)		
	1Q Actual Estimate	2Q Actual Advance Estimate	2Q Market Estimate	1Q Actual Estimate	2Q Actual Advance Estimate	2Q Market Estimate
US	-1.6	-0.9↑	0.4	-	-	-
EU	0.6	0.7↑	0.2	5.4	4.0↓	3.4
Italy	0.1	1.0↑	0.3	6.2	4.6↓	3.7
Germany	0.2	0.0↓	0.1	3.6	1.4↓	1.7
Taiwan	-	-	-	3.14	3.08↓	3.15
South Korea	0.6	0.7↑	0.4	3.0	2.9↓	2.6
Hong Kong	-3.0	0.9↑	3.0	-4.0	-1.4↓	-0.2
Singapore	0.7	0.0↓	1.0	3.7	4.8↑	5.4

Source: OCBC, Bloomberg

Global: Upcoming 2Q GDP results release

	Date of Release	GDP QoQ (%)		GDP YoY (%)	
		1Q22 Actual	2Q22 Market Estimate	1Q22 Actual	2Q22 Market Estimate
Indonesia	05/08/2022	-0.96	3.47	5.01	5.20
Philippines	09/08/2022	1.9	-	8.3	7.3
Malaysia	12/08/2022	3.9	-	5.0	-
UK	12/08/2022	0.8	-	8.7	-
Thailand	15/08/2022	1.1	-	2.2	-
India	31/08/2022	-	-	4.1	-
Australia	07/09/2022	0.8	-	3.3	-
New Zealand	15/09/2022	-0.2	-	1.2	-

OCBC Bank

Source: OCBC, Bloomberg

Global: Earnings results for the past week

Company	1Q Actual Earnings	2Q Actual Earnings	2Q Earnings Estimate
Apple	34.6B	25.0B	23.4B
Alphabet	16.4B	16.0B	19.1B
Amazon	1.6B	1.0B	1.4B
Microsoft	16.7B	16.7B	17.3B
McDonald’s	1.1B	1.2B	1.8B
Coca-Cola	2.8B	3.1B	2.9B
Pfizer	7.9B	10.0B	9.6B
P&G	4.1B	4.2B	4.2B
Ford	1.6B	2.7B	1.8B

Source: Bloomberg

Global: Earnings calendar and expectations for the week ahead

Date of release	Company	1Q Actual Earnings	2Q Earnings Estimate
02/08/2022	AMD	1.6B	1.7B (+6.3%)
02/08/2022	Zoom	73.8M	72.0M (-2.4%)
02/08/2022	Caterpillar	1.6B	1.6B (+0.0%)
02/08/2022	Paypal	1.0B	1.0B (+0.0%)
03/08/2022	eBay	625.0M	493.2M (-21.1%)
03/08/2022	Moderna	3.7B	1.9B (-48.6%)
03/08/2022	OCBC	1.4B	1.3B (-7.1%)
03/08/2022	Yum!	399.0M	321.8M (-19.4%)
03/08/2022	Alibaba	43.4B	33.3B (-23.3%)
04/08/2022	Adidas	302.0M	332.2M (+10.0%)

OCBC Bank

Source: OCBC, Bloomberg

Global: IMF growth forecasts downgrade

- IMF lowered its global growth forecast for 2022 and 2023 to 3.2% and 2.9%, down from its previous April forecast of 3.6% in both 2022 and 2023.
- This comes as a series of market headwinds – Russia-Ukraine war, high inflationary environment and China's slow recovery – remain unresolved, pushing the major economies into the risk of slowing growth as manufacturing and consumer activity are expected to slow.
- IMF also revised downward its 2022 Asia growth forecast to 4.2%, down from its previous April forecast of 0.7% and lower than the region's growth of 6.5% in 2021.

(real GDP, annual percent change)	2021	PROJECTIONS 2022	2023
World Output	6.1	3.2	2.9
Advanced Economies	5.2	2.5	1.4
United States	5.7	2.3	1.0
Euro Area	5.4	2.6	1.2
Germany	2.9	1.2	0.8
France	6.8	2.3	1.0
Italy	6.6	3.0	0.7
Spain	5.1	4.0	2.0
Japan	1.7	1.7	1.7
United Kingdom	7.4	3.2	0.5
Canada	4.5	3.4	1.8
Other Advanced Economies	5.1	2.9	2.7

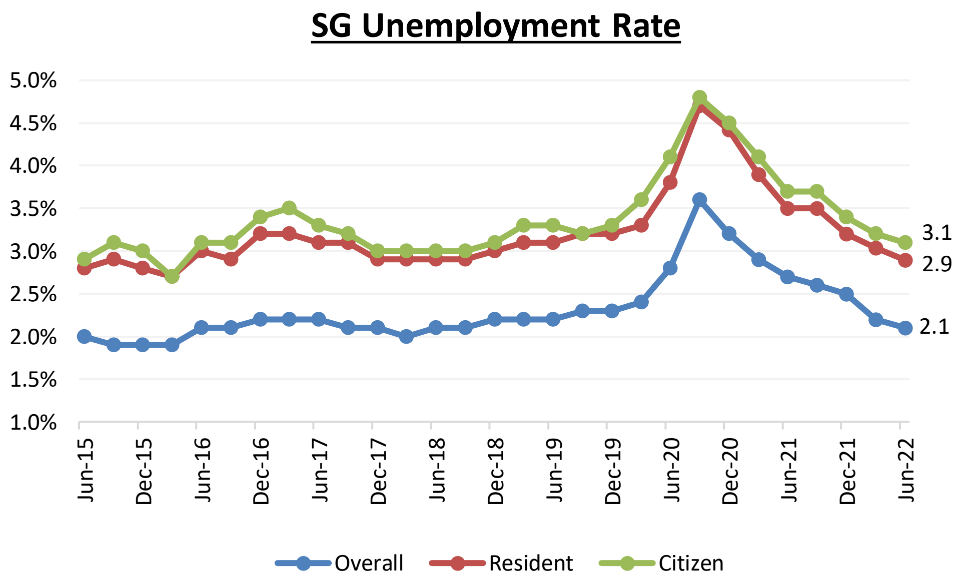
Emerging Market and Developing Economies	6.8	3.6	3.9
Emerging and Developing Asia	7.3	4.6	5.0
China	8.1	3.3	4.6
India	8.7	7.4	6.1
ASEAN-5	3.4	5.3	5.1
Emerging and Developing Europe	6.7	-1.4	0.9
Russia	4.7	-6.0	-3.5
Latin America and the Caribbean	6.9	3.0	2.0
Brazil	4.6	1.7	1.1
Mexico	4.8	2.4	1.2
Middle East and Central Asia	5.8	4.8	3.5
Saudi Arabia	3.2	7.6	3.7
Sub-Saharan Africa	4.6	3.8	4.0
Nigeria	3.6	3.4	3.2
South Africa	4.9	2.3	1.4
Memorandum			
Emerging Market and Middle-Income Economies	7.0	3.5	3.8
Low-Income Developing Countries	4.5	5.0	5.2

OCBC Bank

Source: OCBC, Bloomberg, IMF

SG: Labour market is going from strength to strength

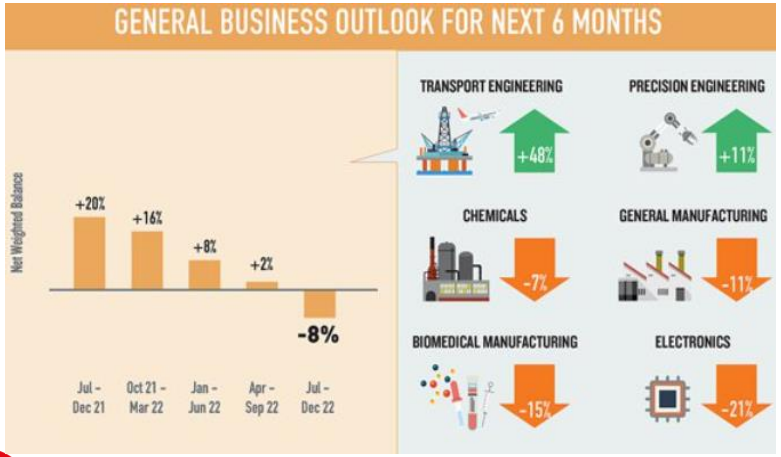
- The domestic market continues to improve. Total employment excluding foreign domestic workers rose 64.4k in 2Q22, the fastest in 14 years, but was largely driven by non-resident employment namely in construction and manufacturing.
- As of June, the overall, resident and citizen unemployment rates stood at 2.1%, 2.9% and 3.1% respectively after peaking in October 2020, with the number of unemployed residents also declining from 73.9k in March to 71.1k in June.
- Looking ahead, the local job market is likely to remain tight with 69% of firms planning to increase hiring in the next three months, up slightly from 68% in March, but wage pressures could be stabilising with a marginal pullback to 28% of firms indicating wage increases for their employees versus 31% three months ago.

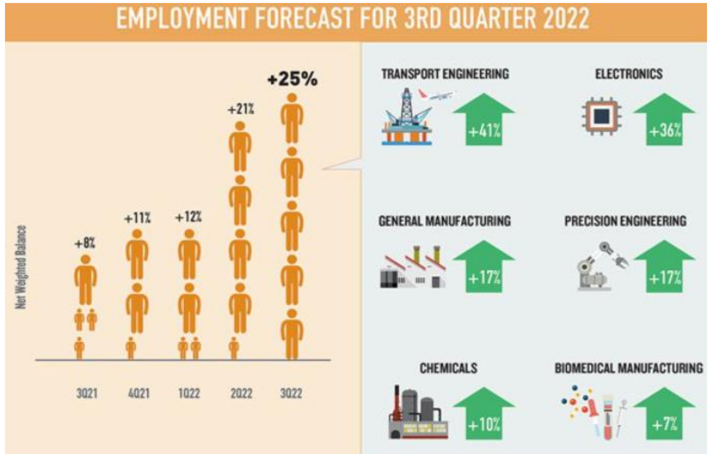


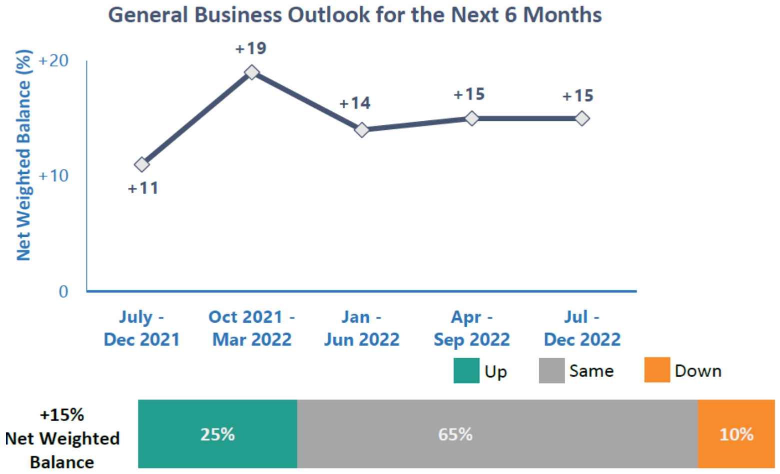
Source: OCBC

SG: Manufacturing took a backseat to services

- The 2H22 business expectations survey showed services sector having a more favourable outlook than manufacturing.
- Business expectations for the services sector was steady for 2H22 with a net 25% anticipating a more favourable business outlook. This is not unexpected given that the most upbeat services industries are those in accommodation (+62%), F&B (+55%), and transportation & storage (+32%) with the return of international visitors and resilient private consumption (with a tight labour market and healthy wage growth) going out to the seasonal peak periods towards the year-end holidays, as well as the return of more large-scale events such as F1 amongst others.
- Meanwhile, manufacturing business confidence took a big step back with a net 8% tipping a less conducive 2H outlook compared to +2% three months ago. This is probably a reflection of how the global growth prospects have deteriorated given heightened recession fears for the US, EU, UK and China amid the aggressive monetary tightening, softening in global/regional manufacturing PMIs amid the elevated input cost inflation and supply chain bottlenecks, and moderation in orderbook and growth momentum in the domestic electronics (especially semiconductor) and pharmaceutical clusters.







OCBC Bank

Source: OCBC, SingStat

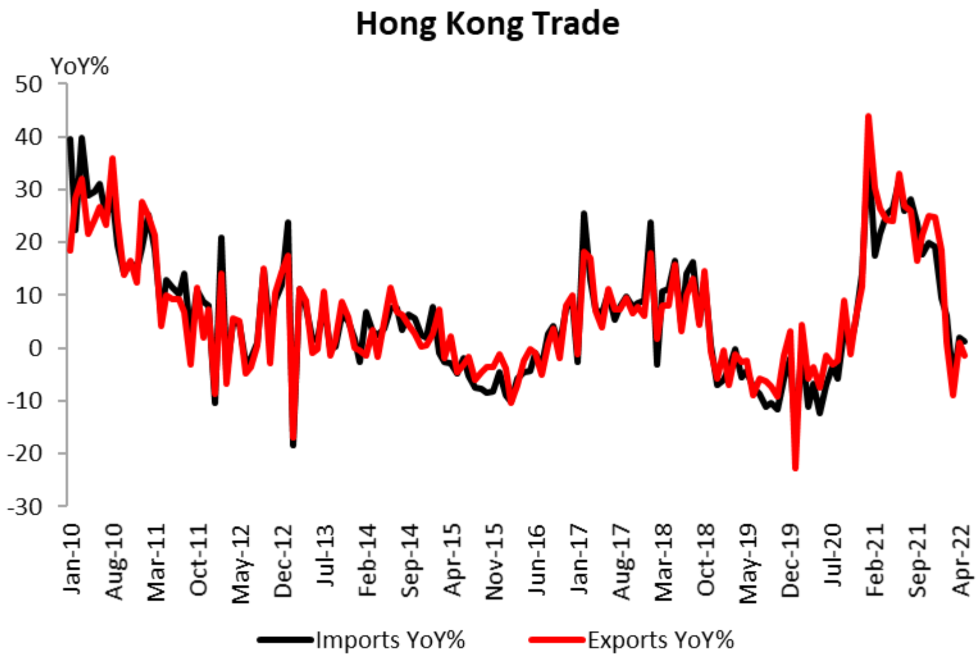
SG: Overall resident bank loans improved slightly in June

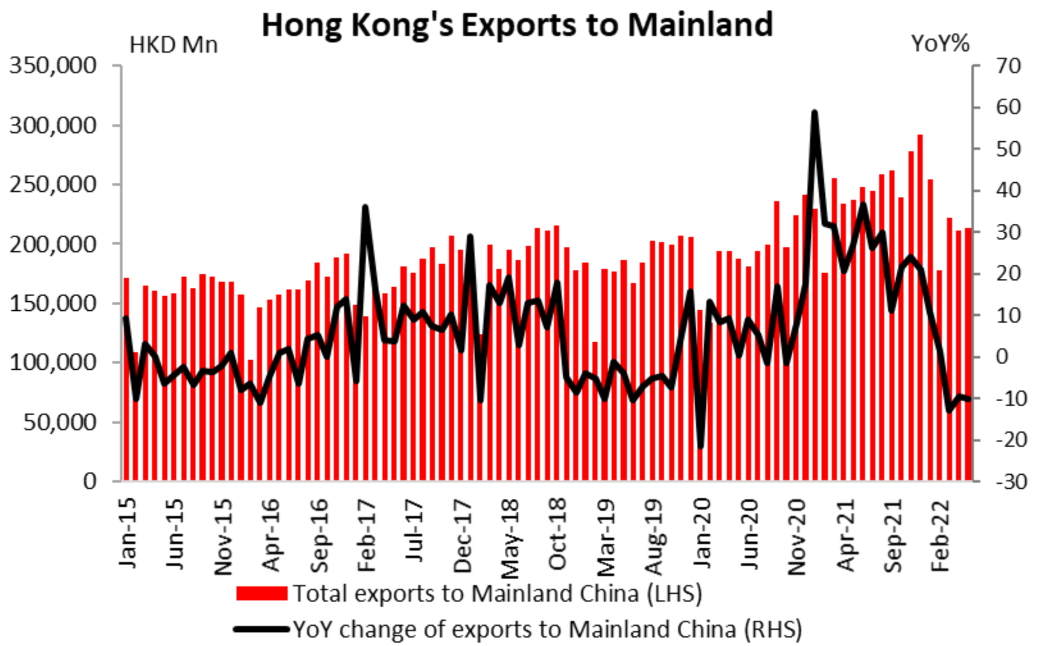
- From the loan demand side, overall resident bank loans improved slightly in June despite rising short-term interest rates.
- Total resident loans rose 0.2% MoM in June which is encouraging, especially with the recovery in the business loan segment.
- However, market sentiment has softened of late with heightened recession fears for the major economies like the US, Eurozone and also potentially a hard landing for China. Given these are Singapore’s key trading partners, there are heightened concerns that the external growth environment is deteriorating and industries that may be more exposed to global demand may be turning more cautious about capex and hiring.
- On the other hand, for industries focused more domestically and/or ASEAN markets, there has actually been some tailwind from the re-opening of the travel and hospitality-related services sectors.
- Given the Fed’s aggressive interest rate hike trajectory, there will be some pass-through to SGD short-term interest rates too which would affect the financing costs for all borrowers whether corporates or individuals.

Source: OCBC, Bloomberg

HK: External headwinds dragged on trade performance

- The drop in values of merchandise exports in Hong Kong deepened to 6.4% YoY in June, surprising markets to the downside. Meanwhile, the values of imports rose further by 0.5% in June. During the month, trade deficit widened notably to HK$68.5 billion, as compared to HK$36.7 billion in the previous month.
- Zooming in, Hong Kong's exports to most major trading partners either slowed or turned to decline in June, except for Vietnam. In particular, exports to Mainland China fell for the fourth consecutive month, by 10.4% YoY. Meanwhile, exports to US turned to a year-on-year decline of 6.1% in June (17.4% YoY in May).



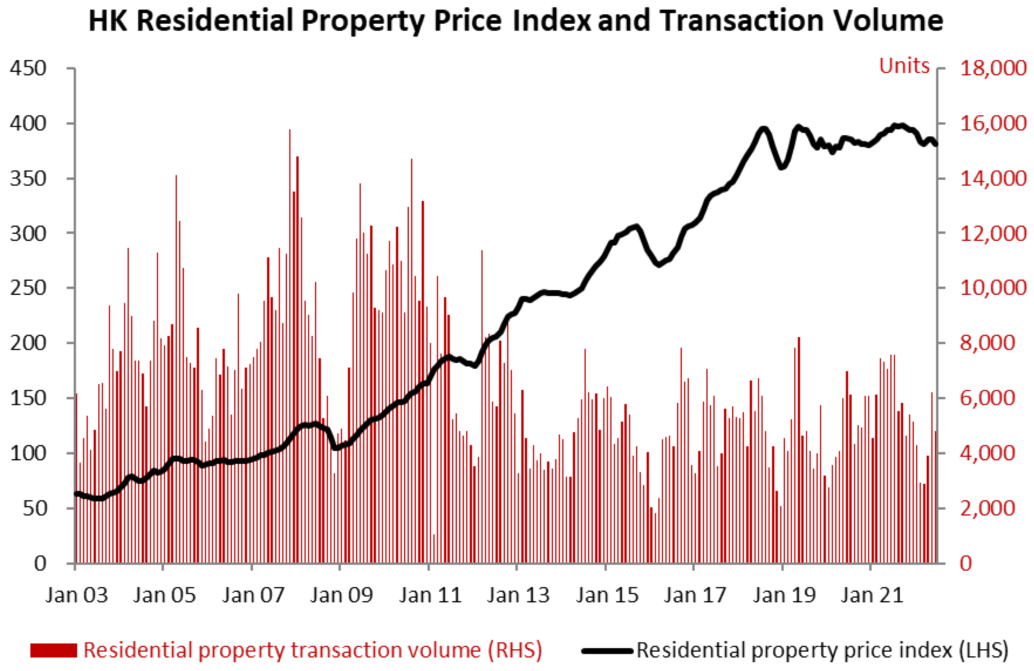


OCBC Bank

Source: HK Census and Statistics Department, OCBCWH

HK: Decline in housing price more entrenched

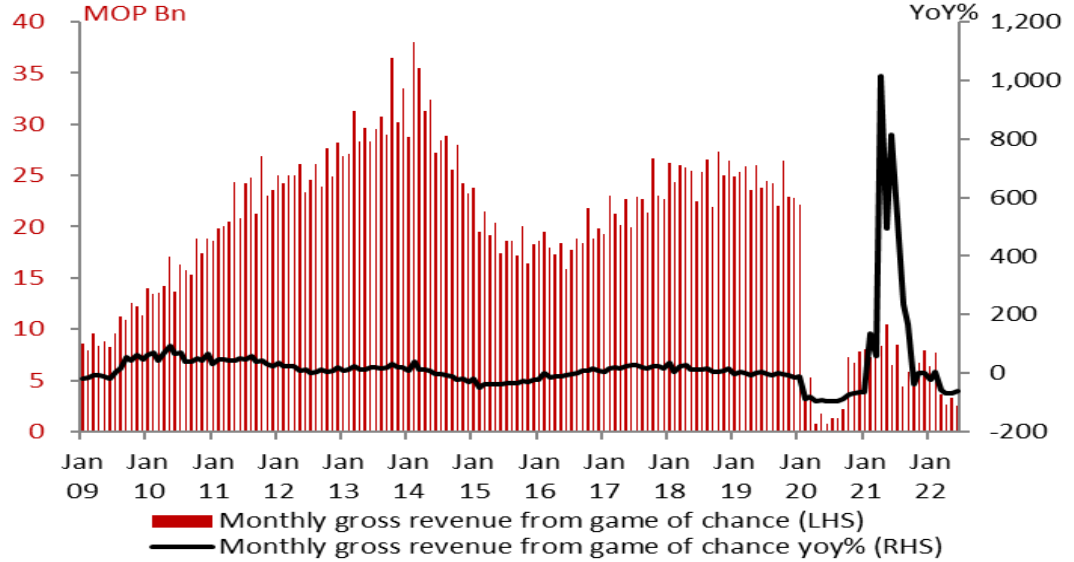
- According to the preliminary figures, the year-on-year fall in residential property price index widened further to 3.4% in June. Compared to the recent peak in September 2021, housing prices fell cumulatively by 4.4%. On the trading front, the number of sales and purchase agreement of residential properties also plunged by 36% year-on-year in June.
- The current price correction trend is in line with our conviction that the property market in Hong Kong will undergo a mild price correction in 2022. Yet, it should be noted that the systematic risks remained subdued on the back of strong household balance sheet. According to the latest survey, the number of mortgage loans in negative equity fell to 55 cases at end-June, from 104 at end-March.



Source: HK Rating and Valuation Department, OCBCWH

MO: Public tendering of gaming concession started

- The much-anticipated public retendering of gaming concession was started last week. Bidders can submit their proposal from 29 July to 14 September. The tendering process is expected to complete within this year, according to the Committee for Public Tendering of Concessions for the Operation of Casino Games of Fortune.
- According to the public tender document, bidders' proposals will be evaluated based on plans to boost foreign visitor arrivals, size of investment commitment, experience in operating casinos, effort in curbing illegal activities, and commitment on social responsibility.
- Meanwhile, Macau extended its "consolidation phase" until 2 August. Most non-essential businesses, including casinos, were allowed to operate with a cap on operation capacity. During this phase, the border control, mask mandate and ban on provision of dine-in services remained in force.



OCBC Bank

Sources: DICJ, OCBCWH

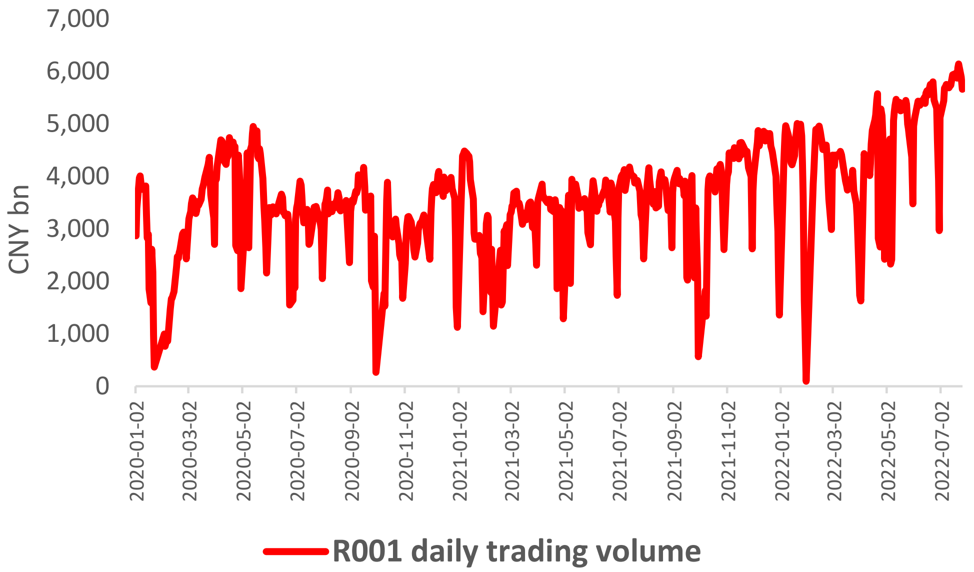
China: No new stimulus measures

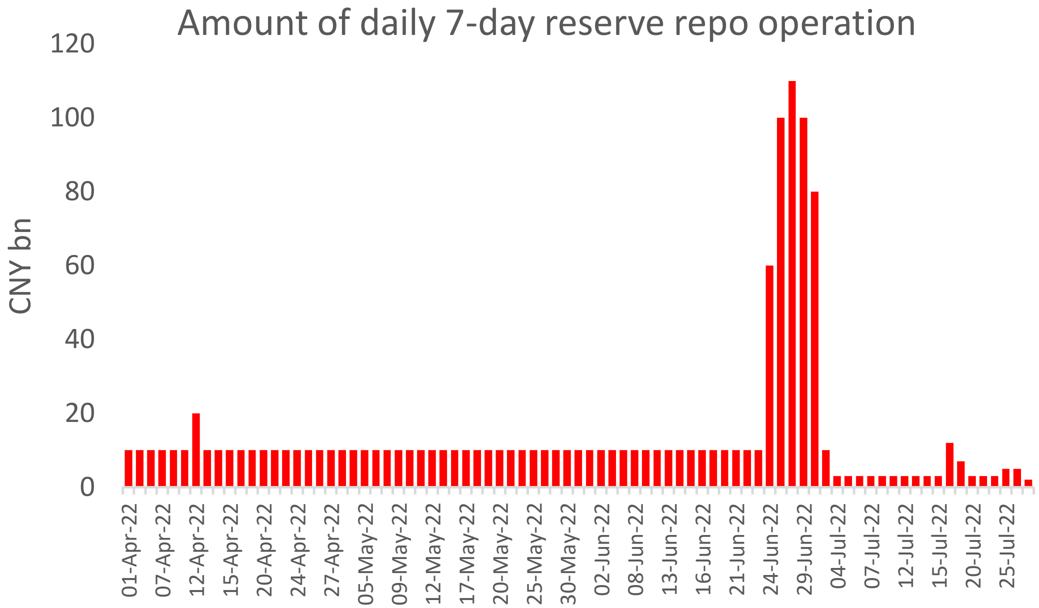
- Although China did not downgrade its growth target in its July politburo meeting, China's top leadership deemphasized its ambitious "around 5.5%" growth target for this year as China plans to continue to stick to its zero covid policy.
- China is shifting its focus to job stability and price stability. As long as China is able to keep its unemployment rate below 5.5%, China will have a higher tolerance for slower growth. Nevertheless, this does not mean give up the growth. As mentioned by the meeting, China will still strive for the best possible outcome.
- Fiscal policy will play a leading role in the second half. Although China did not announce any new stimulus in the meeting such as the special government bond, China will support the economy via fuller utilization of existing resource such as the local government special bond limit. This implies additional issuance of up to CNY1.47 trillion local government special bond in the second half of 2022

Source: Bloomberg, Wind, OCBC

China: Limited room for monetary easing

- The emphasis of price stability may limit the room for more aggressive monetary easing. Meanwhile, the persistent low interbank funding costs have fuelled the return of financial leverage with the daily 1-day repo trading volume hit a record high of more than CNY6 trillion in the second half of July. The increasing irregularity of size of daily OMO may be a warning signal from the central bank to keep the leverage in check.

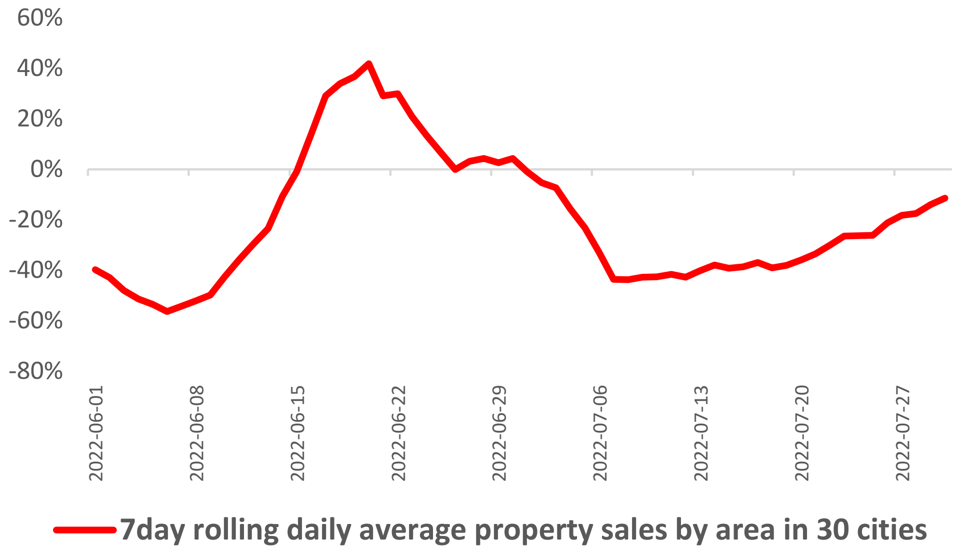


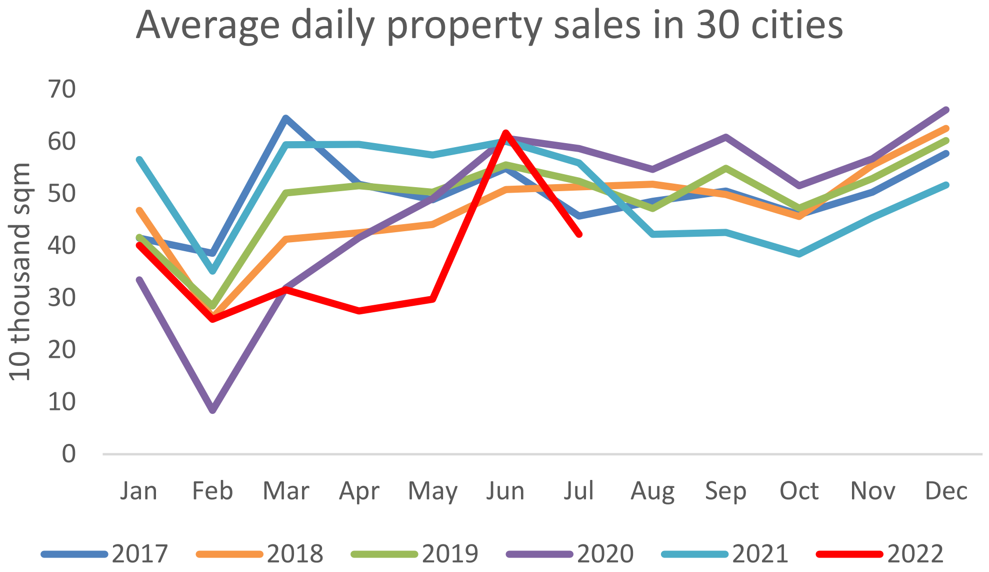


Source: Bloomberg, Wind, OCBC

China: Addressing the risk

- On the property front, China's top leaders include "ensuring housing delivery" in its statement and ranked "stabilize real estate industry" ahead of the usual slogan of "housing for living, not for speculation." This shows that China will continue to manage its property risk carefully. On a positive note, the daily average property sales in 30 major cities in China improved in the last week of July.

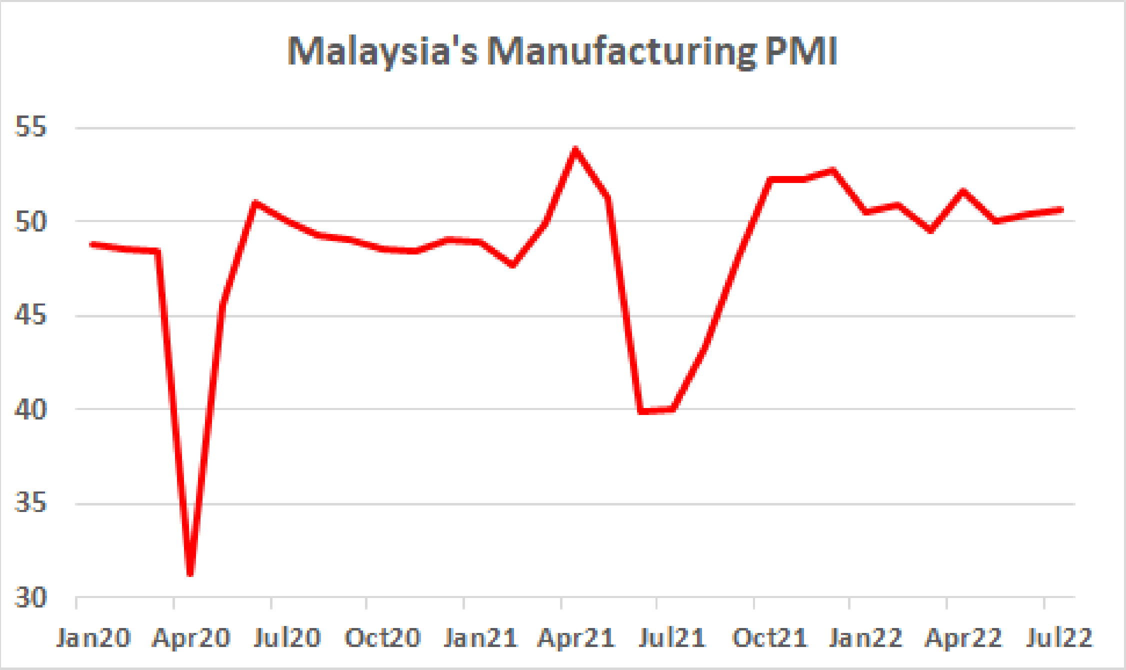




Source: Bloomberg, Wind, OCBC

Malaysia: Stable Sentiment

- Malaysia's Manufacturing PMI for July came in at 50.6, vs 50.4 in June. It marks the highest reading since April this year and the fourth consecutive month of expansion.
- The output reading rose to 50.4 vs 50.0 in June, the highest reading since December last year. New orders also rose compared to the prior month.



Source: OCBC, Bloomberg

Indonesia: Another inflation uptick

- Indonesia saw yet another month of increase in its inflation rate, with the July CPI coming in at 4.94% YoY, higher than the 4.9% and 4.8% that we and the market expected, respectively. Food prices remained on the high side, with 9.35% YoY increase in July versus 8.26% before.
- Core inflation has picked up too, to 2.86% YoY from 2.63% before. Overall, we see a strong case for BI to start hiking its policy rate this month, even as it may remain reluctant on account on sub 3% core inflation print.

Source: OCBC, Bloomberg

ESG

ESG: MAS' new guidelines for ESG funds to tackle greenwashing

- Starting Jan 2023, fund managers in Singapore will be required to disclose the investment strategies, metrics and criteria of retail funds sold with the ESG label, under the MAS' efforts to tackle greenwashing.

- Disclosure requirements include providing the following information: (i) investment focus (e.g. climate change, low carbon footprint), (ii) investment strategy (e.g. description of sustainable investing strategy to achieve ESG focus), (iii) reference benchmark (to measure attainment of ESG focus), and (iv) risks associated with the ESG focus and investment strategy (e.g. lack of universal ESG standards or taxonomy).

- Fund managers are also required to produce an annual report to detail how the scheme's ESG focus has been met, proportion of investments that meet the scheme's ESG focus and actions taken to attain the scheme's ESG focus.

- The MAS also said it will shift its equities investments towards exposures that are less carbon-intensive and more aligned with a low-carbon transition.
    i. Companies' equities and corporate bonds that derive >10% of their revenues from thermal coal mining and oil sands activities will be gradually excluded from MAS' portfolio.
    ii. The exclusion will minimise portfolio exposures to companies with the largest risk of asset stranding.

Source: MAS, The Straits Times, Reuters

FX & Rates

FX & Rates: Retracement in US yields amid soft growth prospect

- UST yields rebounded from intraday low on Friday as PCE deflator printed in line to a tad higher than expected, confirming the acceleration in inflation. USD OIS pricing did not change further, continuing to price in additional rate hikes of around 100bp for the remainder of this cycle, when Fed comments reiterated the commitment to fight against inflation. As more Fed rate hikes materialise, the 2Y UST yield is likely to converge to the terminal rate.
- IndoGBs stayed supported on Friday amid the global bond rally. Tuesday brings the conventional bond auction with an indicative target of IDR15trn which can be upsized to IDR22.5trn. Demand may turn stronger especially towards the 10Y tenor given the inverted 10s15s segment; awarded amount is closely watched. The global bond rally and the lowered NDF implied rates might have attracted some foreign inflows back into bonds of late.
- In China, onshore liquidity appears to have stayed flush, while the recent net OMO amounts have been negligible. On the swap point curve, we prefer not to chase back-end points higher. First, the retracement lower in US yields may be overdone. Second, domestically, monetary policy is likely to stay supportive amid the soft growth prospect. July manufacturing PMI printed weaker-than-expected at 49 points. Although the MLF maturity profile is turning heavier starting this month, any liquidity need will be easily addressed via rollover.
- SGD NEER was trading lower at 0.8804% above mid-point on Monday morning, as the SGD underperformed the JPY while being fairly stable against most other trading currencies. The next support for USD/SGD is not far away at 1.3789 which if broken then the next target is 1.3752; topside is at 1.3875. On bond side, there will be an announcement on the size of the mini-auction on Monday. Front-end SGD-USD OIS spreads narrowed back in recent sessions, alongside a stabilization in the forward points.

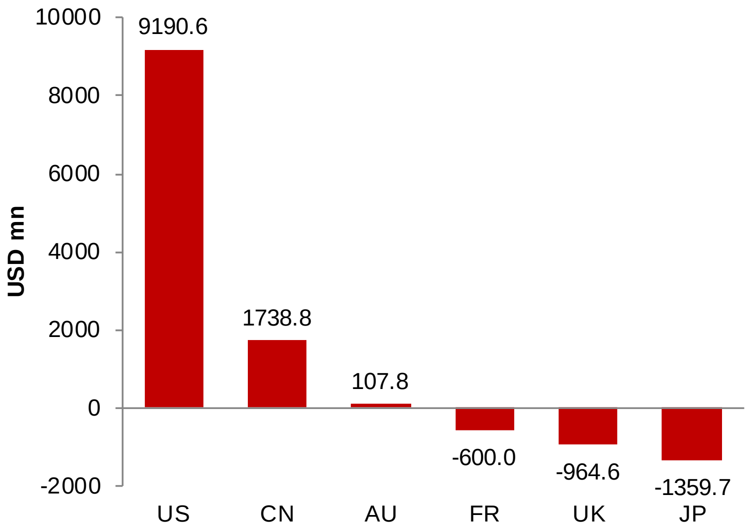
Source: OCBC, Bloomberg

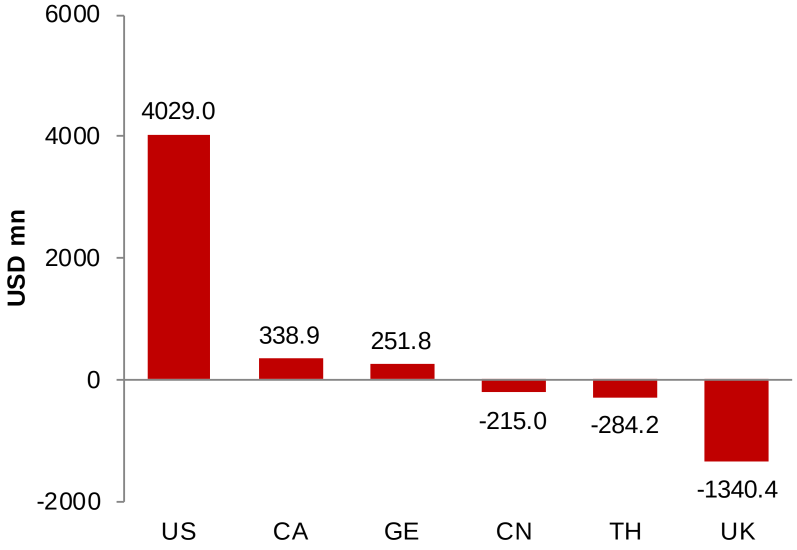
Asset Flows

Global Equity & Bond Flows

- Global equity markets saw net inflows of $5.6bn for the week ending 27th July, an increase from the outflow of -$4.4bn last week. ▪ Global bond market reported net inflows of $3.5bn, an increase from last week's outflows of -$8.0bn.

Equity top gainers & losers	Bonds top gainers & losers

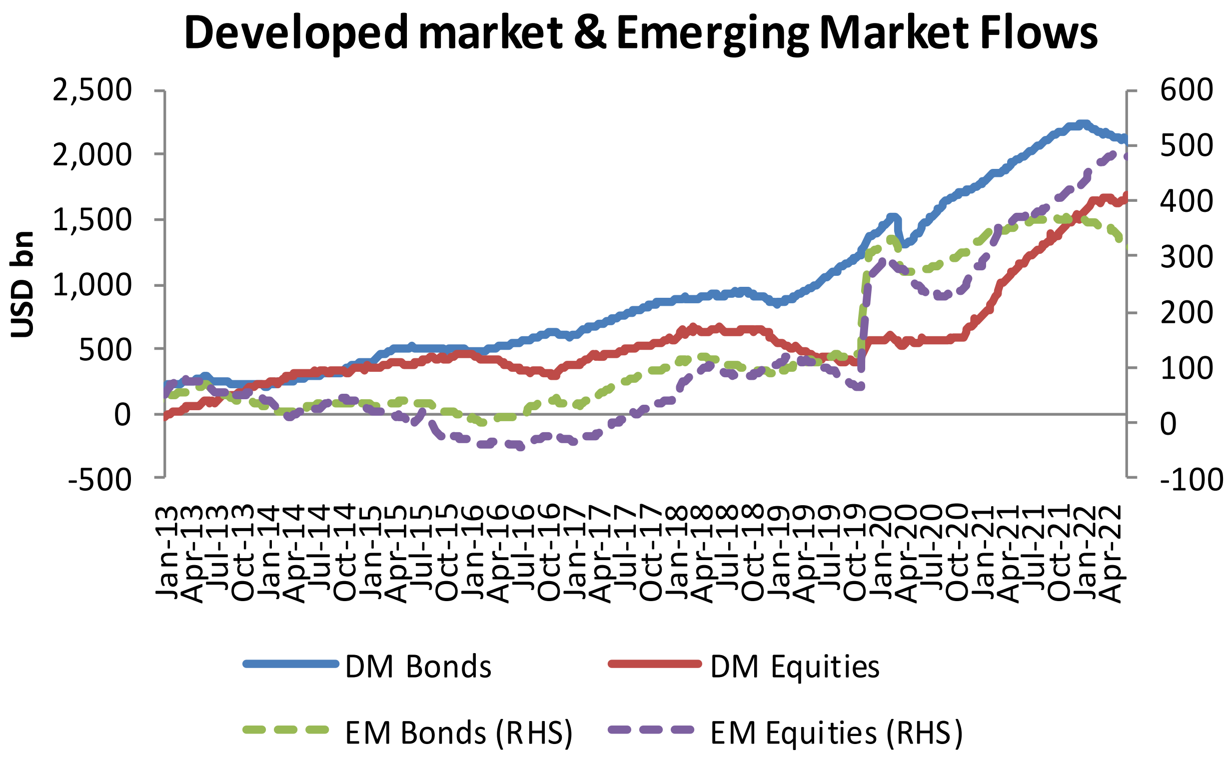




Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $4.9bn worth of inflows while the EM-space registered $0.8bn worth of inflows.
- Elsewhere, the DM bond space posted inflows of $4.1bn, while EM bonds registered outflows of -$0.6bn.



OCBC Bank

Source: OCBC Bank, EPFR

Thank you

OCBC Bank

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

Ong Shu Yi
ESG
ShuyiOng1@ocbc.com

FX/Rates Research

Frances Cheung
Rates Strategist
FrancesCheung@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Toh Su-N
Credit Research Analyst
Tohsn@ocbc.com

OCBC Bank