# Weekly Macro Views (WMV)

Treasury Research & Strategy (6th September 2022)

OCBC Bank

# Weekly Macro Update

## Key Global Events for this week:

| 5th September | 6th September | 7th September | 8th September | 9th September |
|---|---|---|---|---|
| - TH CPI YoY<br>- VN S&P Global Vietnam PMI Mfg<br>- SI Retail Sales YoY | - TA CPI YoY<br>- GE Factory Orders MoM<br>- PH CPI YoY 2018=100<br>- US ISM Services Index | - AU GDP SA QoQ<br>- EC GDP SA QoQ<br>- US MBA Mortgage Applications | - US Initial Jobless Claims<br>- JN GDP SA QoQ<br>- JN BoP Current Account Balance | - CH CPI YoY<br>- CA Unemployment Rate<br>- CH PPI YoY<br>- CH Money Supply M2 YoY |

## Summary of Macro Views:

| | |
|---|---|
| **Global** | • **Global:** Central Bank<br>• **Global:** European Central Bank policy rate meeting this Thursday<br>• **Global:** Reserve Bank of Australia likely to hike by 50bps<br>• **Global:** Nonfarm payrolls eased from the previous month<br>• **Global:** Russian oil price cap |
| **Asia** | • **SG:** Latest MAS Survey of Professional Forecasters Results<br>• **SG:** Retail sales stayed lifted in July<br>• **SG:** August PMI slipped to 50.0<br>• **CN:** More determined to slow down RMB depreciation |

| | |
|---|---|
| **Asia** | • **HK:** Pressure to relax border measures mounted<br>• **HK:** Retail sales resumed moderate year-on-year growth<br>• **MO:** Gaming revenue down by 50.7% YoY in August<br>• **MY:** Higher inflation<br>• **ID:** Fuel price hikes |
| **Asset Class** | • **ESG:** Criteria for carbon credits to offset carbon tax liability in Singapore<br>• **FX & Rates:** Cautious risk appetite as energy woes deepen |
| **Asset Flows** | • **Asset Flows** |

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Source: OCBC, Bloomberg

# Global: Central Banks

## Forecast – Key Rates

| Reserve Bank of Australia (RBA) | Bank of Canada (BoC) | Bank Negara Malaysia (BNM) | European Central Bank (ECB) |
|---|---|---|---|
| **Tuesday, 6th September** | **Wednesday, 7th September** | **Thursday, 8th September** | **Thursday, 8th September** |

### House Views

| | | | |
|---|---|---|---|
| *Cash Rate Target* | *Policy Interest Rate* | *Overnight Policy Rate* | *Deposit Facility Rate* |
| **Likely *hike* by *50bps* from *1.85%* to *2.35%*** | **Likely *hike* by *75bps* from *2.50%* to *3.25%*** | **Likely *hike* by *25bps* from *2.25%* to *2.50%*** | **Likely *hike* by *50bps* from *0.00%* to *0.50%*** |
| | | | *Main Refinancing Rate* |
| | | | **Likely *hike* by *50bps* from *0.50%* to *1.00%*** |

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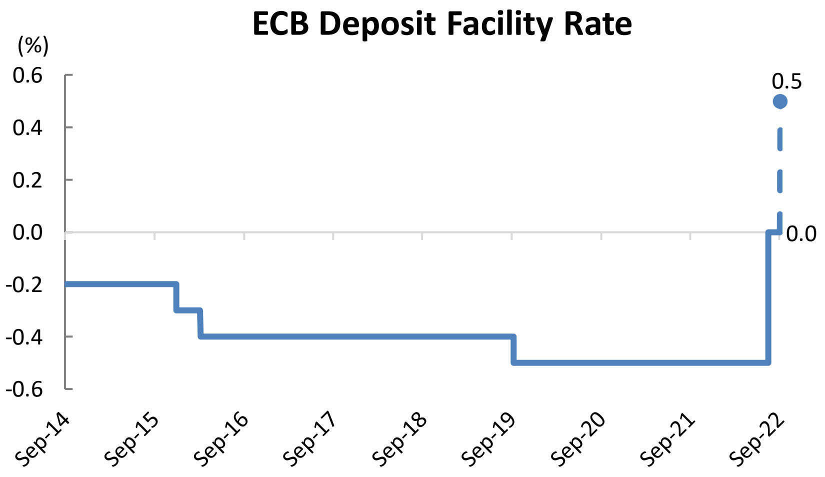
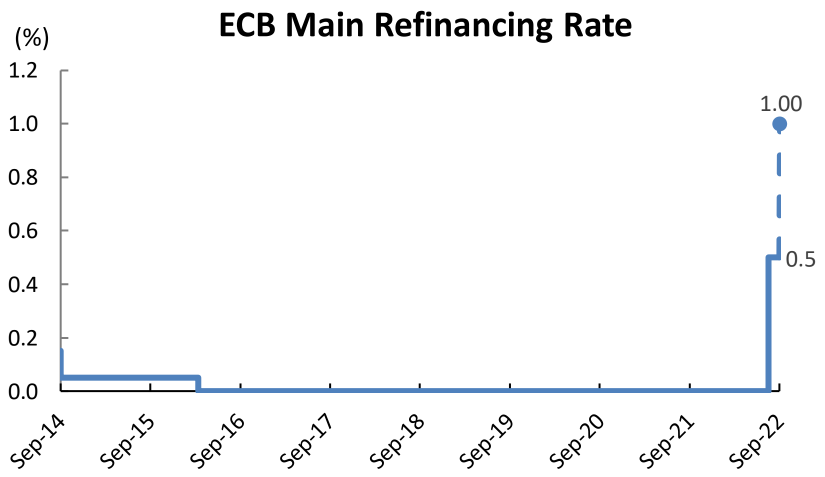
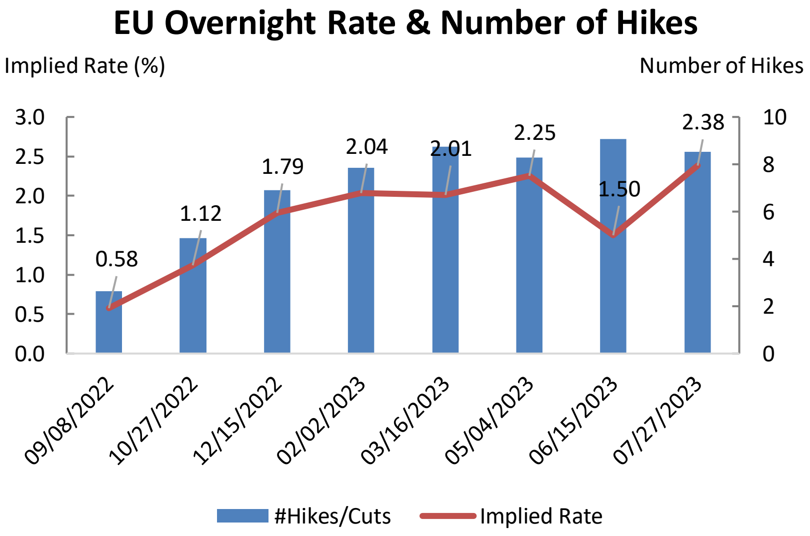
Source: OCBC

# Global: European Central Bank policy rate meeting this Thursday

- We expect the European Central Bank (ECB) to hike by 50bps this Thursday, bringing its deposit facility rate and main refinancing rate to 0.50% and 1.00% respectively.
- Markets are currently spilt between a 50bps and 75bps hike by the ECB. Bets of a 75bps hike in the September have increased since the hawkish comments made by several ECB members at the Jackson Hole symposium.
- In particular, ECB Executive Board member Isabel Schnabel commented that "central banks need to act forcefully" as "the cost of current high inflation becoming entrenched in expectations are uncomfortably high". Meanwhile, ECB's Villeroy also highlighted the need to deliver another "significant" rate hike in September at the Jackson Hole symposium.
- This comes as the latest inflation print in the Euro area came in at yet another record-high of 8.9% YoY in July and as the gas crisis in the EU deteriorates on the back of extended gas supply cut from Russia.

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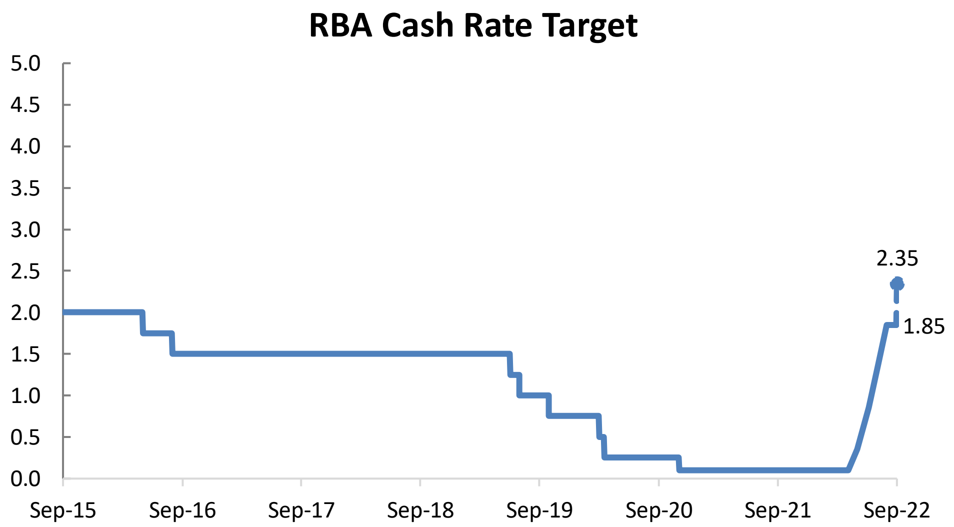
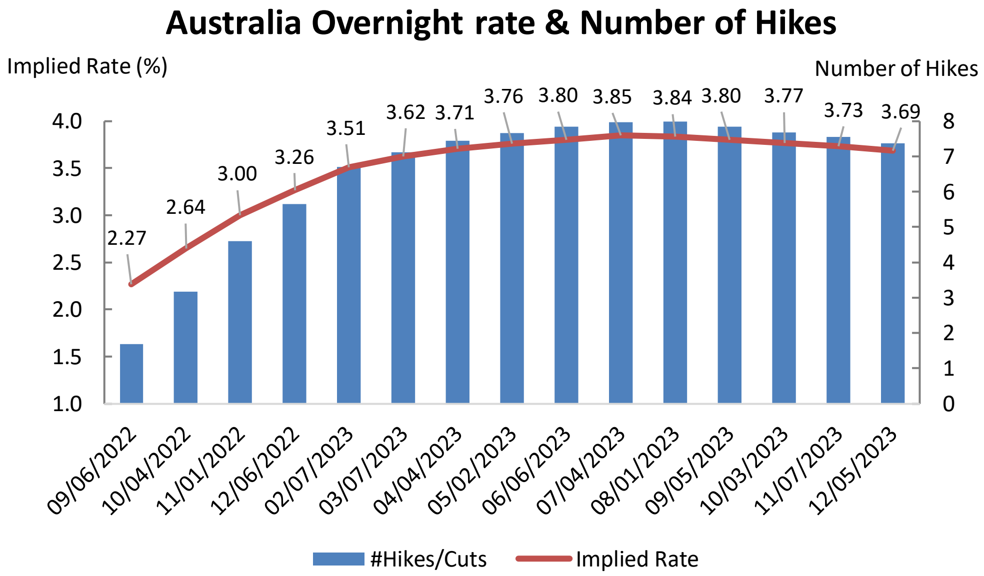
Source: OCBC, Bloomberg

# Global: Reserve Bank of Australia likely to hike by 50bps

- The Reserve Bank of Australia (RBA) is expected to hike its cash rate by 50bps this week, bringing its benchmark rate from 1.85% to 2.35%, in order to tame soaring inflation.
- Markets are currently pricing in a cash rate of 3.26% by the end of 2022, and for further rate hikes to continue into 2023 until the terminal rate is hit in mid-2023.

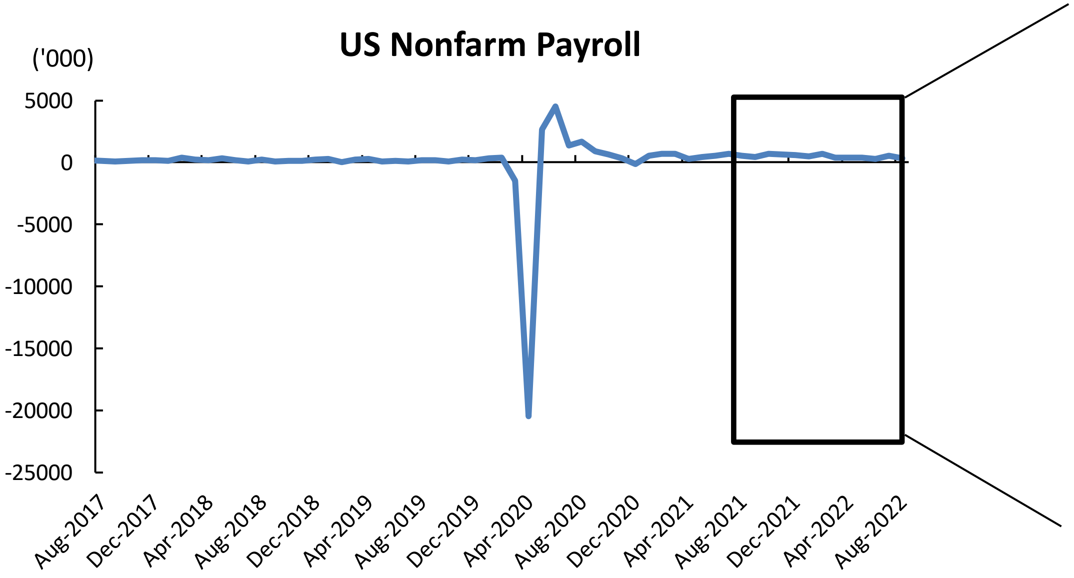


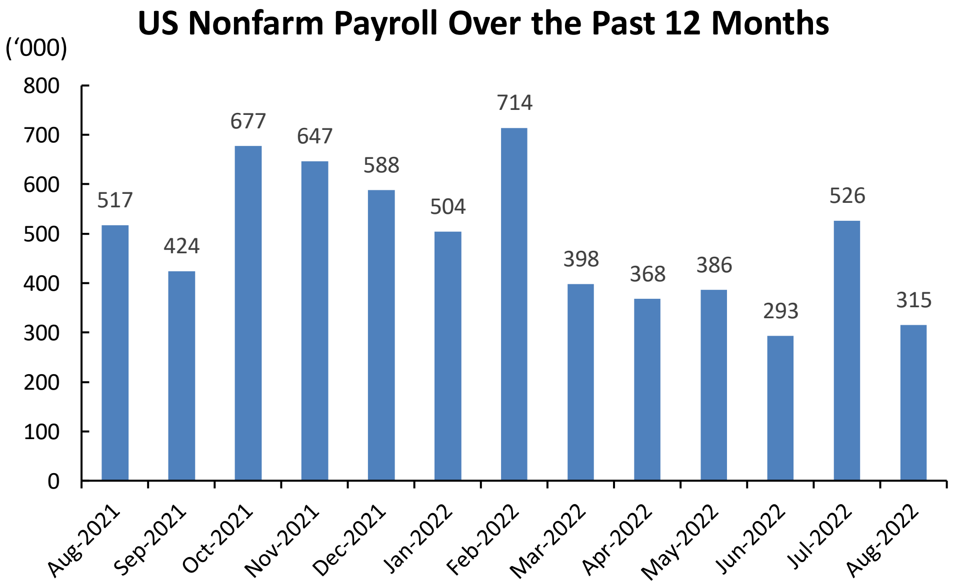




Source: OCBC, Bloomberg

# Global: Nonfarm payrolls eased from the previous month

- US nonfarm payrolls eased from the revised 526k in July to 315k in August, although higher-than-expected.
- On the other hand, unemployment rate jumped unexpectedly from 3.5% to 3.7%, the highest in six months and higher than expected. A higher labour force participation rate appeared to be the culprit, whereby the share of the population that is either working or looking for work advanced to 62.4%, the highest since March 2020.
- The average hourly earnings also eased to 5.2% YoY.

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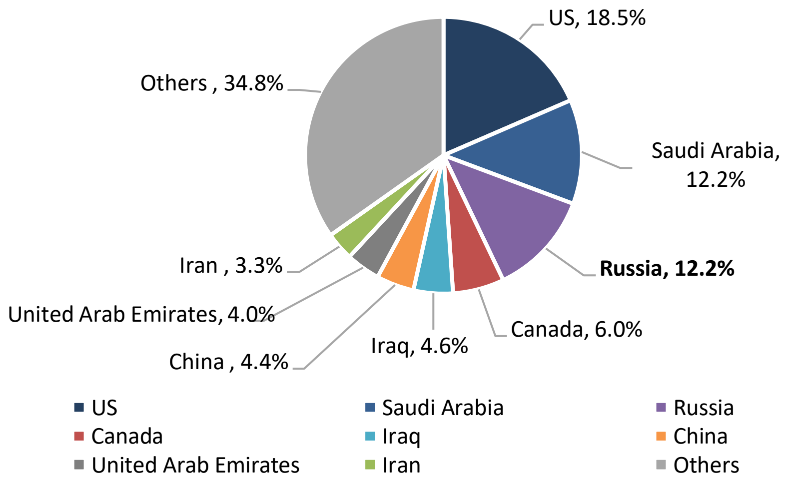
Source: OCBC, Bloomberg, U.S. Bureau of Labor Statistics

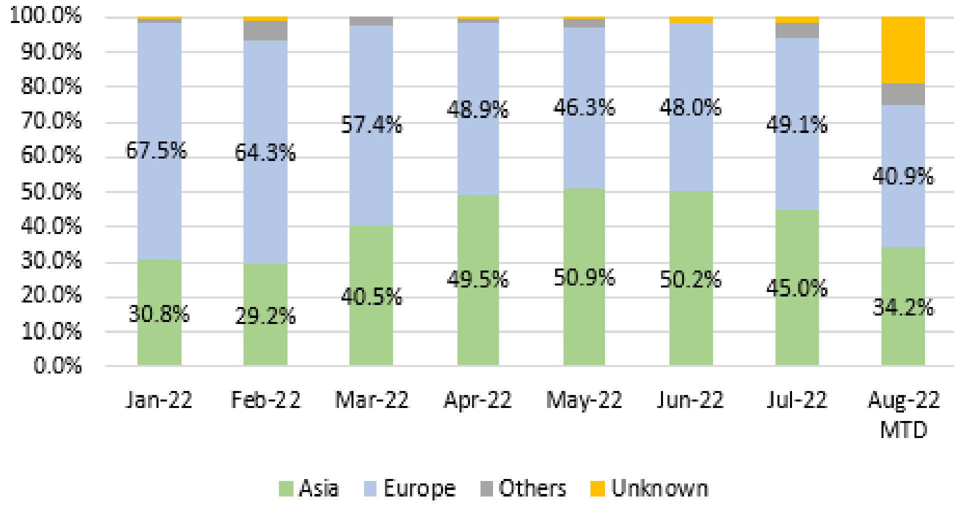
# Global: Russian oil price cap

- The G7 nations have agreed to impose a price cap on Russian oil supplies in a bid to reduce Russia's revenue. This policy restricts countries which have agreed to participate in it, to purchase Russian oil and petroleum products transported by sea only if they are sold at or below the price cap. Details of the price cap have yet to be finalized.
- In response, Russia has announced that it will be halting oil supplies to countries that agree to impose the oil price caps.
- Russia's Gazprom has also extended the gas supply cut via the Nord Stream pipeline (which was supposed to reopen on Saturday after a 3-day maintenance period), intensifying market sentiments of a worsening energy crisis in the Europe.

**Distribution of Global Crude Oil Production in 2021**




**Russian Oil Exports Flows from 01 Jan 2022 to 05 Aug 2022**




Source: OCBC, Statista, Vortexa, Eurostat

# Singapore: Latest MAS Survey of Professional Forecasters Results

- The latest MAS survey of professional forecasters show a downgrade in 2022 GDP growth forecast from 3.8% three months ago to 3.5%, with an upgrade to headline and core inflation forecasts to 5.7% and 3.8% respectively (from 5.0% and 3.4% previously).
- The July industrial production data was clearly disappointing, suggesting that manufacturing momentum is losing steam rapidly. The external growth environment has also turned more cautious for the US, Eurozone and UK due to aggressive policy tightening and inflation fears, while China may also face a hard landing due to property market turmoil and COVID-related lockdowns.
- Market consensus expectations for 2023 is interesting – the 2023 growth and inflation forecasts stand at 2.8% and 3.5%, both more muted compared to the 2022 forecasts, but the key risk of course is for a further paring back of growth into 2023, which would largely depend on external risk factors.
- At this juncture, the lower bound of the official 3-4% growth forecast should still hold for 2022, but it may be prudent to shade down our full-year growth forecast from 3.5-4.0% to around the 3.5% handle. Moreover, given the persistent acceleration in inflationary pressures for most of this year, we also see 2022 headline and core inflation forecasts at 5.9% and 4.2% respectively.

**Median Forecasts of Other Economic Indicators for 2022**

| Indicators | June Survey | Current Survey |
|---|---|---|
| CPI-All Items (year-on-year % change) | 5.0 | 5.7 |
| MAS Core Inflation (year-on-year % change) | 3.4 | 3.8 |
| Overall Unemployment Rate (end-period, SA %) | 2.1 | 2.0 |
| Exchange Rate (end-period, S$ per US$) | 1.360 | 1.375 |
| 3-month S$ SIBOR (end-period, percent per annum) | 2.30 | 3.18 |
| Bank Loans (end-period, % growth) | 5.5 | 4.3 |

**Forecasts of GDP Growth and CPI-All Items Inflation for 2023**

| Key Macroeconomic Indicators | Median | Mean | Min | Max |
|---|---|---|---|---|
| | Year-on-Year % Change | | | |
| GDP | 2.8 | 2.5 | 1.1 | 3.5 |
| CPI-All Items | 3.5 | 3.7 | 2.7 | 5.2 |
| MAS Core Inflation | 3.1 | 3.3 | 2.1 | 4.4 |

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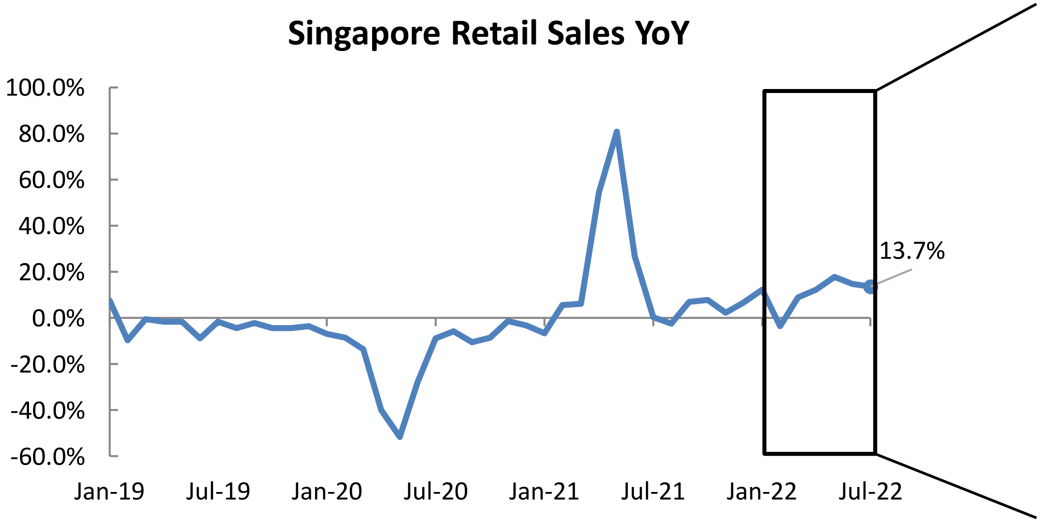
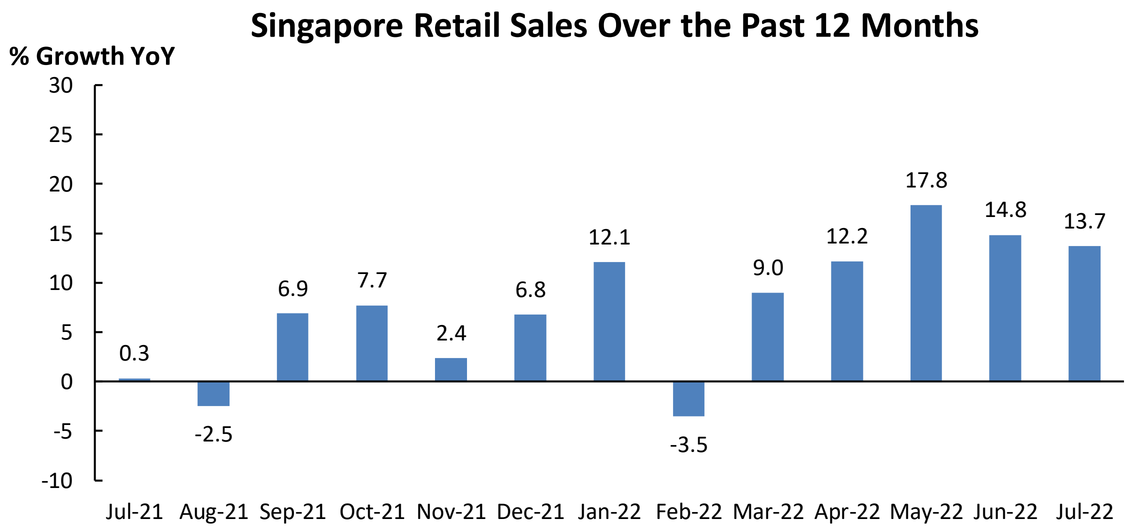
Source: OCBC, MAS SPF (Sep22)

# Singapore: Retail sales stayed lifted in July

- Singapore's retail sales rose by 13.7% YoY (0.6% MoM sa) in July, albeit lower than 14.9% in June.
- A broad increase was seen across almost all categories as visitor arrivals continue to pick up. The biggest increase came from wearing apparel and footwear (+68.3% YoY), F&B (+53.1% YoY), department stores (+42.9% YoY) and watches and jewellery (+41.7% YoY).
- The only components which saw a year-on-year decrease were motor vehicles (-13.3% YoY) due to the lower COE premiums last year, supermarkets and hypermarkets (-5.8% YoY) and mini-marts and convenience stores (-5.3% YoY) due to higher demand for groceries during the Heightened Alert stay-home period in July 2021.

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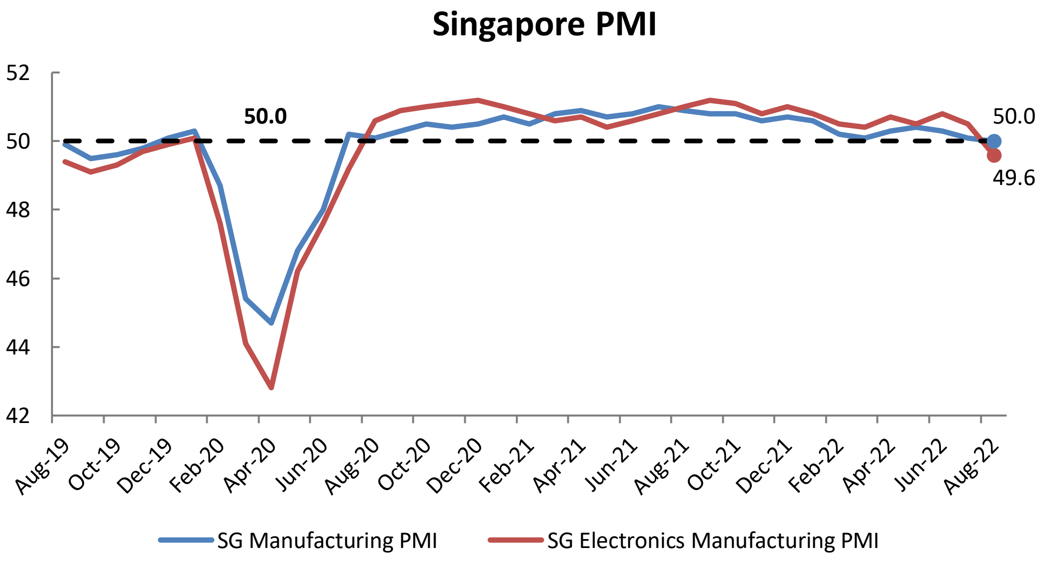
Source: OCBC, Singstat

# Singapore: August PMI slipped to 50.0

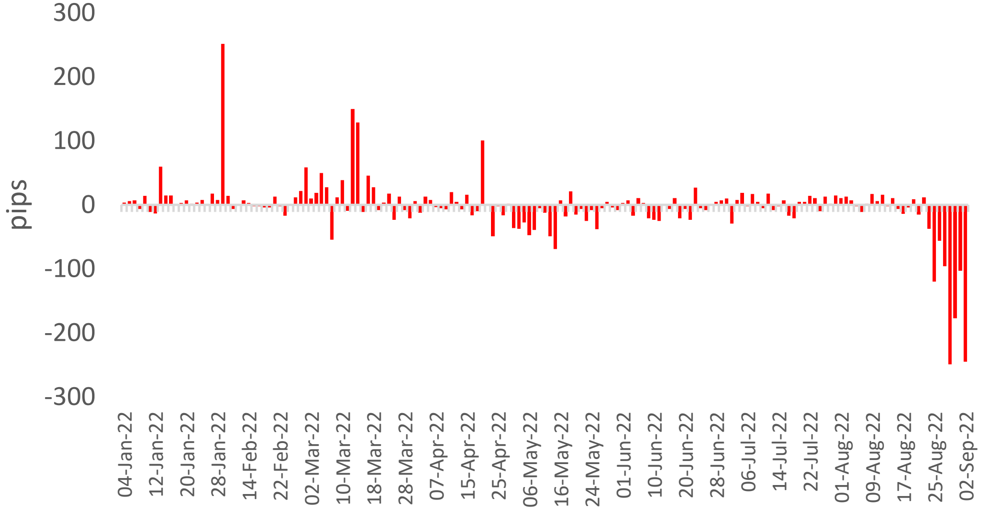
- The August PMI slipped 0.1 point from 50.1 in July to 50.0 in August. While this still signified an expansion in manufacturing activity, the manufacturing outlook has weakened as a result of deteriorating electronics sector outlook.
- The electronics PMI weakened by 0.9 point from 50.5 in July to 49.6 in August, marking the first contraction in 2 years. This comes as the external global demand outlook deteriorates on the back of recession fears and high inflation in the US, UK and EU. Demand recovery concerns from China has also resurfaced as more COVID-related lockdowns resumes. Global semiconductor demand has also pulled back sharply, with Gartner revising down its forecasts significantly recently.



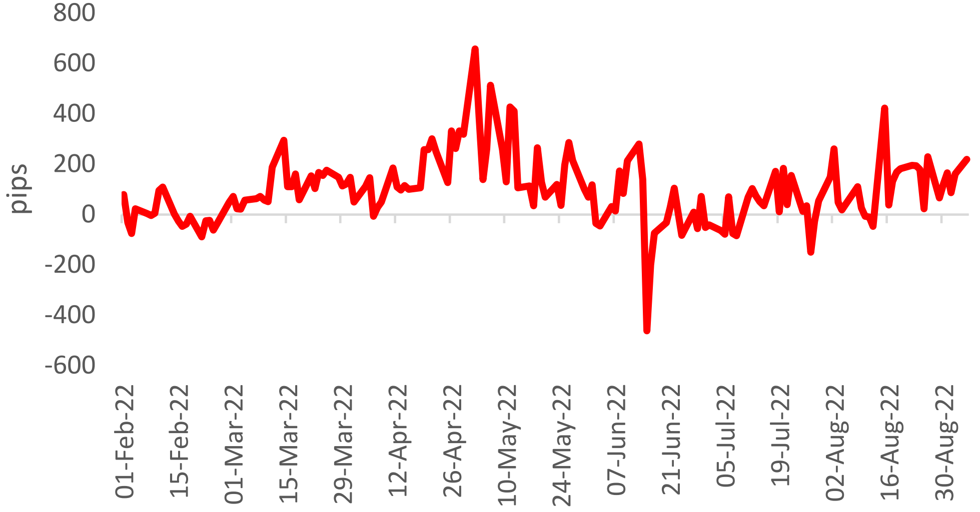

Source: OCBC, Bloomberg, SIPMM

# China: More determined to slow down RMB depreciation

- The persistent widening gap between daily RMB fixing and consensus forecast fuelled speculation that some of the fixing submitting banks may have restarted the counter cyclical factor (CCF) in their fixing submissions. Regardless of the CCF, the widening gap last week reinforced the view that China has a strong incentive to slow down the pace of RMB depreciation as part of sentiment management amid the rising uncertainty from the property mess and COVID situation.



CNY daily forecast error



CNY CNH spread



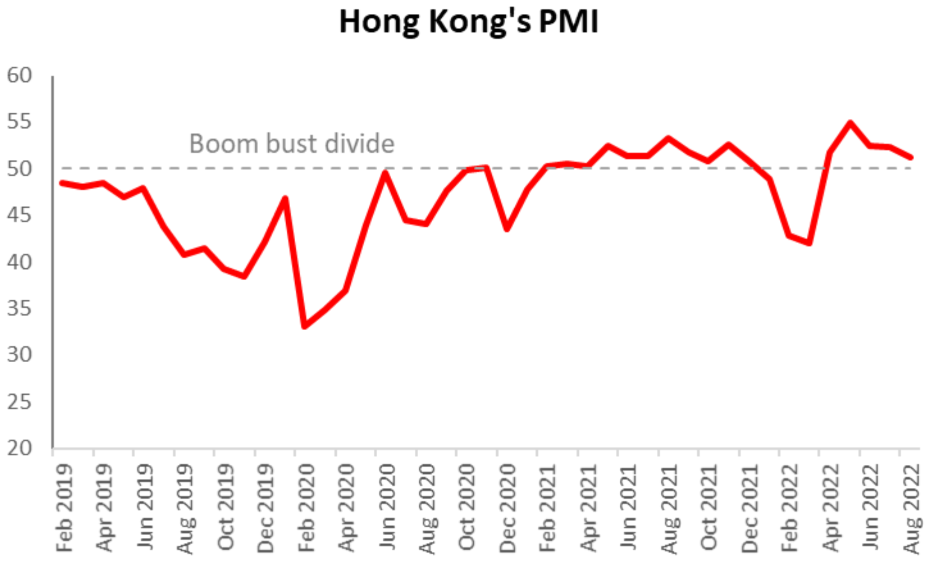
Source: Bloomberg, Wind, OCBC

# Hong Kong: Pressure to relax border measures mounted

- The pressure on governments to further relax the border measures mounted in Hong Kong and Macau as the economic pain from restricting inbound tourism became more noticeable. Hong Kong government has secured preliminary support from China on the reverse quarantine arrangement for travellers visiting Mainland China from Hong Kong. Meanwhile, Macau government announced to allow entry of foreign nationals from 41 designated countries (including US, UK, Canada, Japan, Korea, Singapore, Malaysia and Thailand etc.) after serving 7 days of hotel quarantine and 3 days of health monitoring.
- Under the proposed reverse quarantine arrangement, visitors will be able to serve their quarantine requirement in Hong Kong, and can travel to Mainland China in a closed-loop path. According to Hong Kong officials, the details to the arrangement and date of commencement still need to be worked out between the two sides.
- Reportedly, the Hong Kong government is also looking into ending the hotel quarantine in November, though health officials dismissed the report. The recent surge in COVID cases (Hong Kong recorded the highest caseload in more than five months on Sunday) had prompted health officials to push back plans to relax border control. We expect the road to reopening to remain bumpy ahead.
- On Macau front, while we do not expect the eased measures to bring a meaningful number of visitors back to the gambling hub, this marked a significant step towards reopening since Macau shut its border to most foreign nationals in early 2020. The pressure to reopen its border mounted lately as the labour market weakened notably. The unemployment rate surged to 4.1% for three-months ending July, the highest since 2005.

# Hong Kong: Retail sales resumed moderate year-on-year growth

- The largely stabilized epidemic situation and improved job market were supportive of the consumer sentiment in Hong Kong in July. The value of total retail sales resumed moderate year-on-year growth at 4.1% during the month. Looking ahead, with the distribution of more consumption vouchers and eased border measures, we should see further increase in retail sales. Yet we remain cautious to the risks posed by the external headwinds and tighter financial conditions.
- In parallel, Hong Kong's private sector expanded for the fifth straight month in a row in August, albeit at a slower pace. PMI fell to 51.2 in August, from that of 52.3 in July, with both output and new order growth softening.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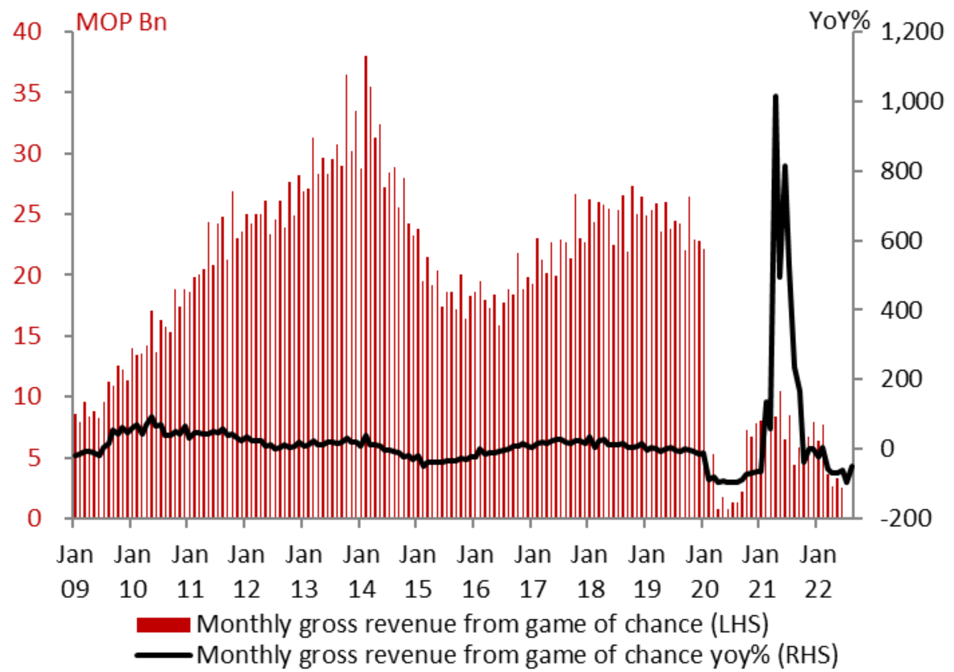
Source: HK Rating and Valuation Department, S&P Global, OCBCWH

# Macau: Gaming revenue down by 50.7% YoY in August

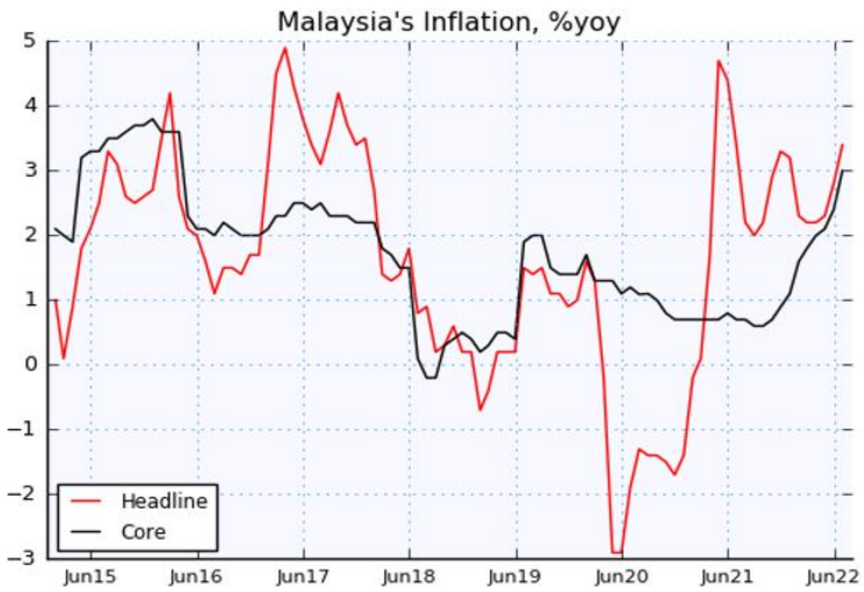
- Macau's gross gaming revenue in August staged a strong rebound from that of July, as lockdown measures and strict border controls were scrapped in early August. Nonetheless, the figure was down by 50.7% compared to a year ago, at MOP2,189 million. In the first eight months of 2022, gaming revenue fell by 53.4% YoY.
- Despite the resumption of quarantine free travel between Zhuhai and Macau, gross gaming revenue remained below the monthly average of MOP4,378 million in the first half of 2022. We believe the COVID uncertainties and fear of government imposing sudden lockdown orders will continue to restrict inbound tourism in the near future.




Sources: DICJ, OCBCWH

# Malaysia: Higher inflation

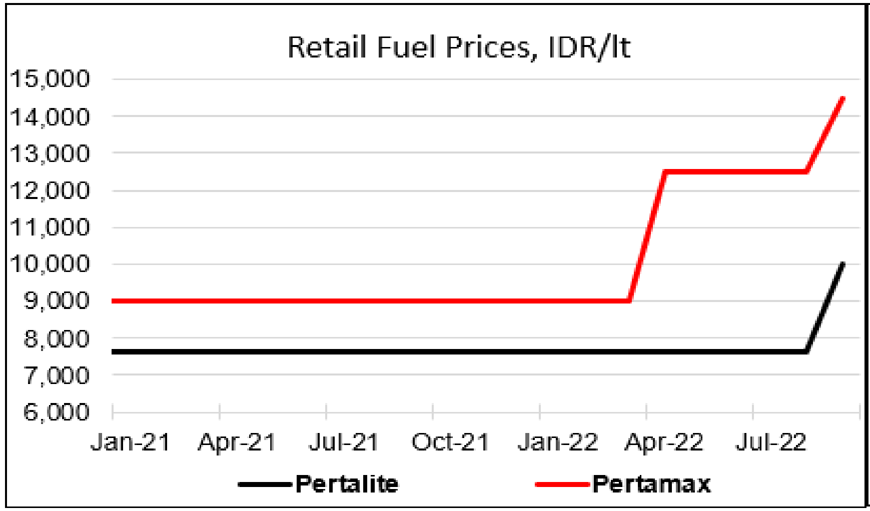
- Malaysia's headline inflation was 4.4% YoY in July, in line with expectations but marking another month of considerable uptick in prices. Food and fuel price upticks continued to be the drivers of headline inflation.
- However, the fact that core inflation has also been on the rise will receive increasing attention. It came in at 3.4% YoY, vs. 3.0% of the prior month, signalling a potential broadening of price pressures.
- We see Bank Negara hiking its policy rate by another 25bps to 2.50% on Sep 8, the third move this year. Market will be looking out for any sign that it will continue to pursue further tightening in the months ahead.

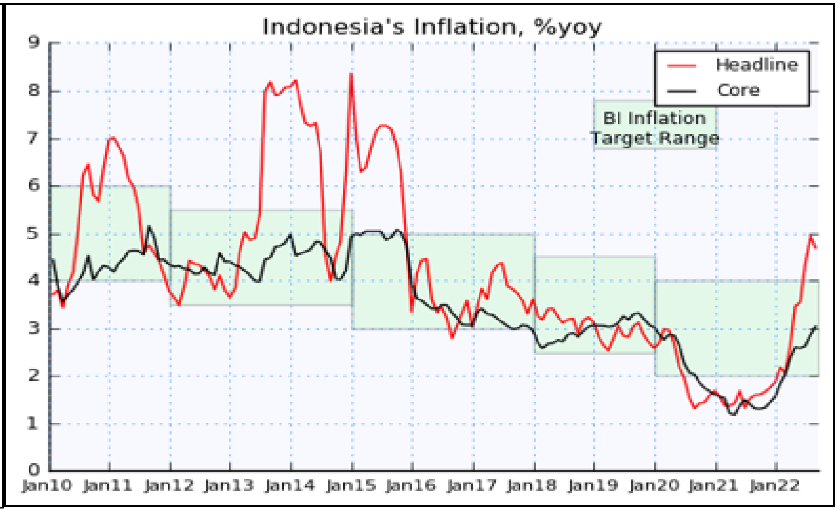



Source: OCBC, Bloomberg

# Indonesia: Fuel price hikes

- After weeks of deliberation, the Indonesian government has finally pulled the trigger. Over the weekend, it raised the price of the subsidized fuel grade of Pertalite (RON 90) by 30.7%, from IDR7650/lt to IDR10000/lt. The non-subsidized grade of Pertamax (RON 92) will be dearer too, by around 20%.
- The fuel price jumps are bound to push up the inflation further, and we are likely to see headline inflation crossing above 7% YoY in the coming months. Meanwhile, there is a risk that the core inflation – which had already been creeping up, to 3.04% YoY as of July – will be above 4% by year-end.
- For Bank Indonesia, the fuel price adjustment is a considerable game changer, given that the fiscal inflation shield is no more. Even as it had already broken the dovish inertia by hiking its rate on August 23rd, we see more to come, with at least 50bps more of tightening for the rest of the year.

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Source: OCBC, Bloomberg

# ESG

# ESG: Criteria for carbon credits to offset carbon tax liability in Singapore

- Announced at Budget 2022, facilities that have to pay a carbon tax can buy high-quality international carbon credits from 2024, to offset up to 5% of taxable emissions in lieu of paying the tax.
- The National Environmental Agency, regulator for the Carbon Pricing Act, signed two MoUs separately with Gold Standard and Verra, to facilitate companies in acquiring high-quality carbon credits issued by the two programmes.
- Companies can buy eligible high-quality carbon credits issued by Gold Standard and Verra, and surrender them to the Government, subject to the prescribed criteria for carbon credits set by the Singapore Government. The full criteria is being worked out and consultations between the Government and industry players are ongoing.
- The collaboration can contribute to the mobilisation of the supply of high-quality carbon credits internationally, to support companies in emissions-intensive sectors to reduce their carbon footprint in the short term. However, companies would also need to transform their operations in the long term towards a low-carbon future.



Source: The Straits Times, Verra, National Environmental Agency

# FX & Rates

# FX & Rates: Cautious Risk Appetite as Energy Woes Deepen

- The UST curve bullish steepened on Friday, as market pared back expectation for rate hikes after the payroll report. The 10Y nominal yield fell on the back of lower real yield, in line with our view that the rapid uptick in real yield would face some resistance. Yields may continue to trade in relatively wide ranges as rate hike expectations fluctuate, with the 2Y UST yield likely capped at 3.50% before the materialization of the September Fed rate hike with some easing in 2023 still in the price. This week brings US PMI, ISM, and jobless claims.
- A combination of risk-off sentiments and stronger US data saw demand for USD spilling over to Asia open this week. Energy woes in EU worsened as Russia said it will indefinitely suspend natural gas flow to Europe. A growing number of firms in energy-intensive sectors such as fertilizer, chemical production and steel making are already slowing production in the face of surging energy costs. Slower output could pose further drags on EU and global economy. Risk proxy FX including KRW, EUR, AUD are at risk of further sell-off if sentiment does not improve.
- In Indonesia, some fuel price hikes were announced over the weekend. While the hikes had been expected, they do add to inflation. Our economist sees inflation crossing above 7% YoY in the coming months, and a risk that core inflation will be above 4% by year-end. Inflation pressure and the subsequent policy rate hike prospects, together with BI's operation twist, are likely to keep the IndoGB curve flat. We continue to see the 10Y IndoGB yield within a 7.0-7.20% range near-term.
- S$NEER was trading 1.13% above the midpoint this Monday. Pair was last at 1.4035 levels. Bullish momentum remains intact while RSI is rising towards near overbought conditions. Bias to fade upticks. Immediate resistance at 1.4060 and 1.41 levels (Jul high). Support at 1.40, 1.3935 (23.6% fibo retracement of 2022 low to high). USDSGD likely to continue taking cues from broader USD moves this week.



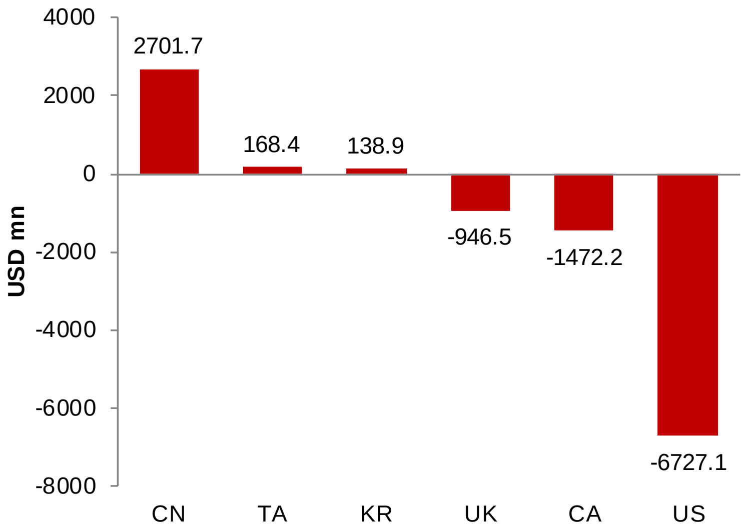
Source: OCBC, Bloomberg

# Asset Flows

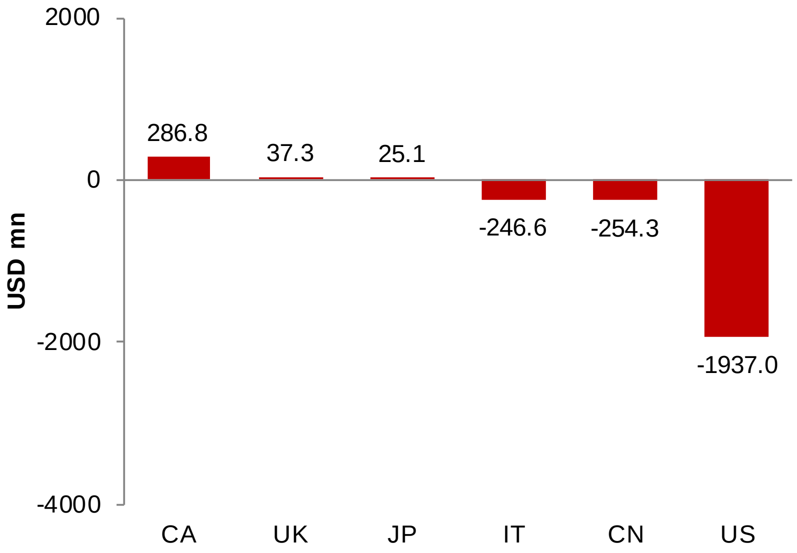
# Global Equity & Bond Flows

- Global equity markets saw net outflows of -$9.4bn for the week ending 31st August, a decrease from the outflow of -$5.1bn last week.
- Global bond market reported net outflows of -$4.1bn, a decrease from last week's outflows of -$0.7bn.

**Equity top gainers & losers**



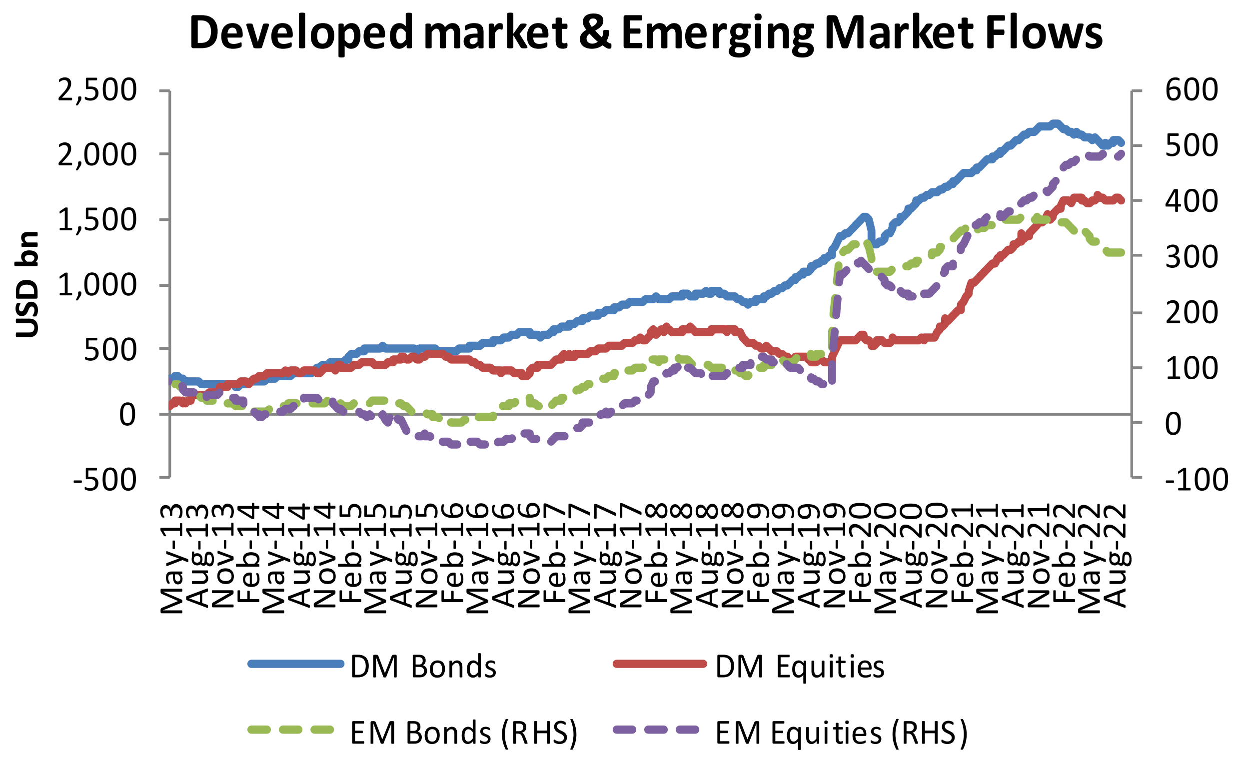

**Bonds top gainers & losers**




Source: OCBC Bank, EPFR

# DM & EM Flows

- DM equities saw -$11.9bn worth of outflows while the EM-space registered $2.5bn worth of inflows.
- Elsewhere, the DM bond space posted outflows of -$2.4bn, and EM bonds registered outflows of -$1.6bn.




Source: OCBC Bank, EPFR

# Thank you

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