Weekly Macro Views (WMV)

Treasury Research & Strategy (10th May 2022)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

9th May	10th May	11th May	12th May	13th May
- ID GDP YoY - ID CPI YoY - CH Money Supply M2 YoY - VN Domestic Vehicle Sales YoY - CH Trade Balance - US Wholesale Inventories MoM - CH Exports YoY - CH Imports YoY	- ID Foreign Reserves - SK BoP Current Account Balance - AU NAB Business Confidence - AU NAB Business Conditions - MA Industrial Production YoY - US NFIB Small Business Optimism	- CH CPI YoY - US CPI MoM - US MBA Mortgage Applications - CH PPI YoY - SK Unemployment rate SA - AU Westpac Consumer Conf SA MoM - US CPI YoY	- US Initial Jobless Claims - UK GDP QoQ - UK GDP YoY - JN BoP Current Account Balance - UK Industrial Production MoM - PH GDP YoY - IN Industrial Production YoY	- US U. of Mich. Sentiment - HK GDP YoY - MA GDP YoY - TH Foreign Reserves - JN Money Stock M2 YoY - IN Exports YoY - JN Money Stock M3 YoY - IN Imports YoY

Summary of Macro Views:

Global	• **Global:** Central Banks • **Global:** US FOMC hikes Fed fund rate by 50bps • **Global:** US to start quantitative tightening • **Global:** BoE raises benchmark rate again • **Global:** RBI hikes benchmark rate by 40bps • **Global:** RBA's first rate hike in 12 years • **Global:** US labour market strengthens
Asia	• **SG:** PMI rose by 56.7 in April • **SG:** Business expectations survey • **HK:** Hong Kong's economy plunged into contraction in 1Q

Asia	• **HK:** John Lee confirmed as the next Chief Executive • **MO:** Labour market showed further sign of weakness • **MA:** BNM hold • **ID:** Time for a hike
Asset Class	• **ESG:** EV developments in Asia and globally • **Commodities:** Oil supply squeeze intensifies • **FX & Rates:** Post FOMC relief short-lived
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: Central Banks

Forecast – Key Rates

Bank Negara Malaysia (BNM)

Wednesday, 11th May

House Views

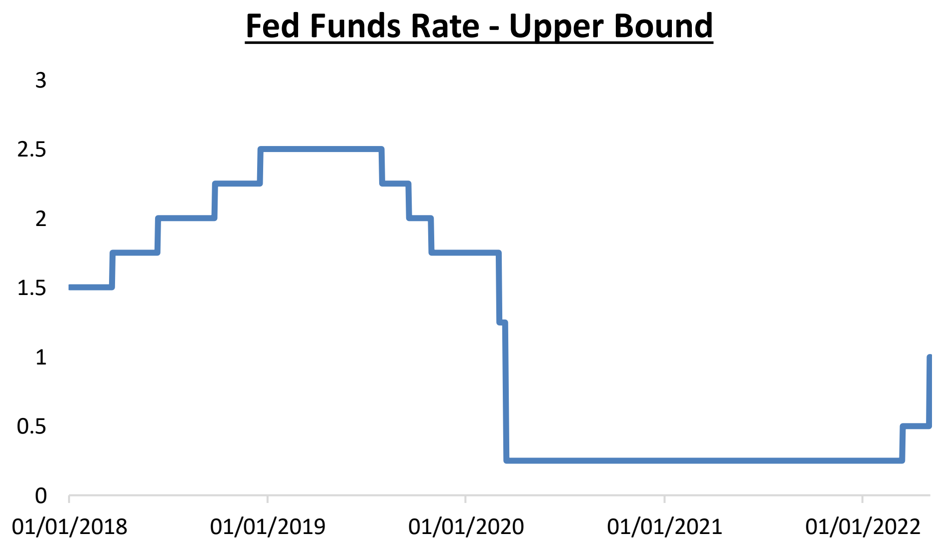
Overnight Policy Rate

Likely hold at 1.75%

Source: OCBC, Bloomberg

Global: US FOMC hikes Fed fund rate by 50bps

- The FOMC announced the biggest rate hike of 50bps in over 20 years, to a target range of 0.75%-1.00% last Wednesday.
- Fed Chair Powell noted that 50bps hikes "should be on the table at the next couple of meetings", although "75bps (rate hike) is not something the committee is actively considering" at present.



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Source: OCBC, Bloomberg

Global: US to start quantitative tightening

- Balance sheet reduction is expected to roll out in phases, with the Fed placing a limit on the amount of proceeds from maturing bonds to be rolled over per month.
- The Fed is intending to roll over $30 billion of Treasuries and $17.5 billion of mortgage-backed securities from June 1 onwards. After 3 months, the cap will increase to $60 billion for Treasuries and $35 billion for mortgages.

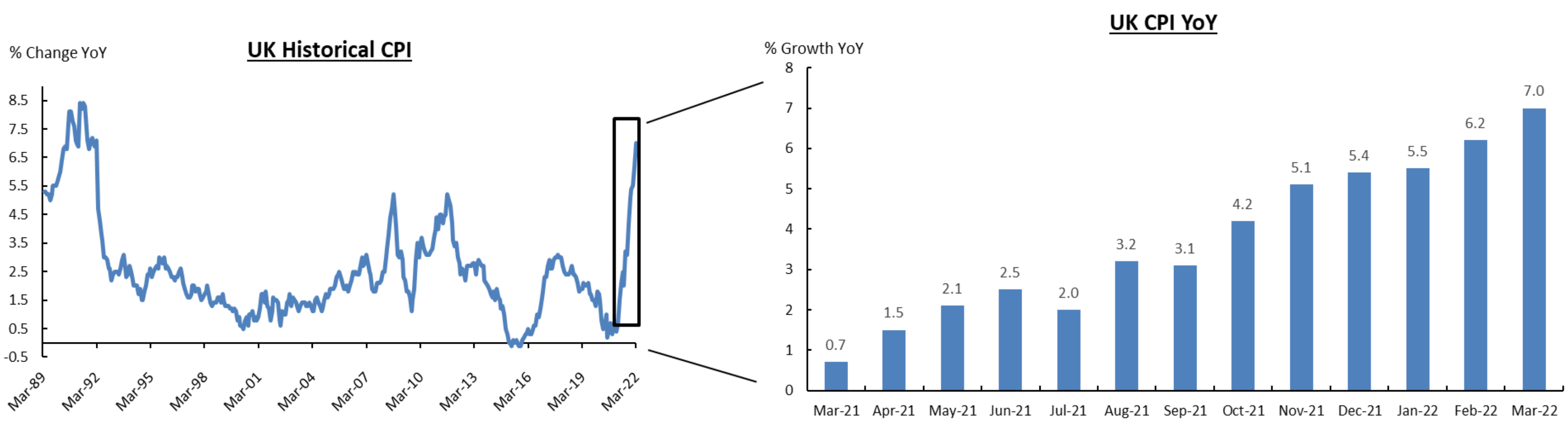
TOTAL MONTHLY CAPS ON SOMA SECURITIES REDUCTIONS		
	Treasury Securities	Agency Debt and Agency MBS
Jun-Aug 2022	$30 billion	$17.5 billion
From Sep 2022*	$60 billion	$35 billion

*Once caps reach these amounts, they are expected to remain in effect until otherwise directed by the FOMC.

Source: OCBC, Federal Reserve Bank of New York

Global: BoE raises benchmark rate again

- BoE announced another 25bps rate hike to 1.00%, which is the highest level since the last rate hike in 2009. This marks the fourth straight meeting that the BoE has raised rates.
- This move comes after inflation rate has reached a 30-year high of 7.0% in March and is expected to reach 10% this year, according to the BoE. Soaring food, energy and consumer goods prices are the main driving forces behind the seemingly persistent inflationary pressures.
- The central bank noted that the increased cost of living is expected to slow economic growth as “prices are likely to rise faster than income for many people.”



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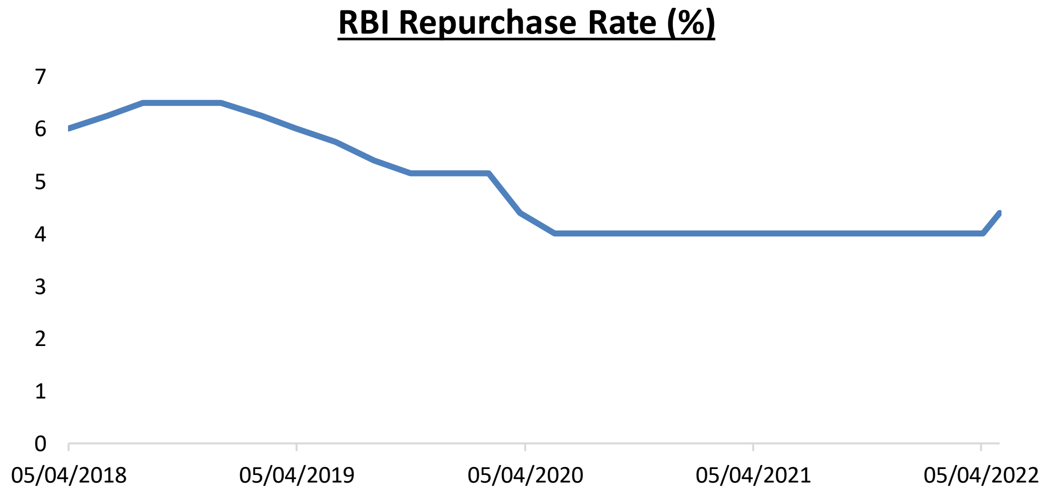
Source: OCBC, Bloomberg, Bank of England

Global: RBI hikes benchmark rate by 40bps

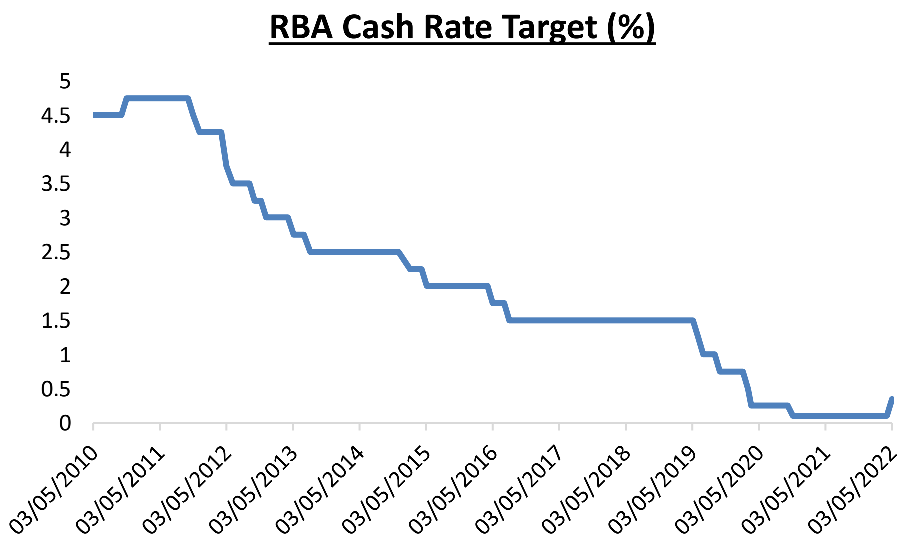
- RBI raised its rates by 40bps to 4.40% - the first rate hike in nearly 4 years as the central bank seeks to tame rising inflationary pressures.
- This comes as India's consumer inflation rate hit an 18-month high of 7% in March.
- The RBI also hiked its cash reserve ratio by 50bps.



Source: OCBC, Bloomberg

Global: RBA's first rate hike in 12 years

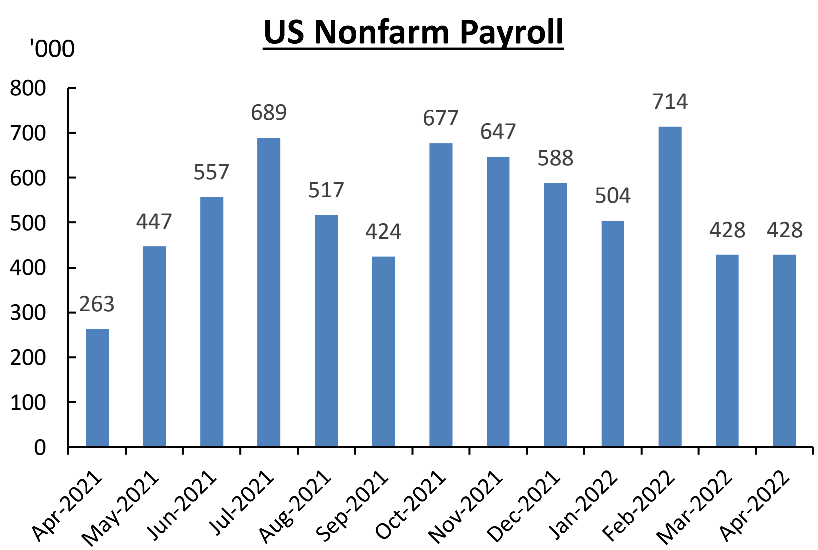
- Reserve Bank of Australia (RBA) imposed a rate hike of 25bps to 0.35% – a first in 12 years – last Tuesday.
- The RBA decided it was the right time to begin withdrawing some of the monetary support that was previously implemented during the pandemic.
- RBA governor Philip Lowe also hinted in a statement that further rate hikes are to be expected over the period ahead in order to "ensure that inflation in Australia returns to target over time".

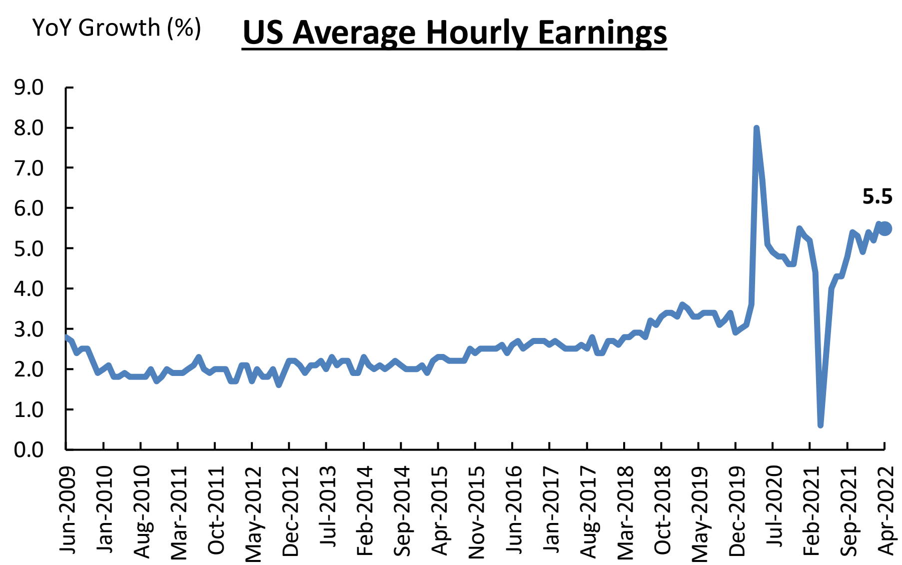


Source: OCBC, Bloomberg, Reserve Bank of Australia

Global: US labour market strengthens

- US nonfarm payrolls increased by a robust 428k in April, beating market expectations of 400k. This suggests that labour demand remains robust in the US.
- US average hourly earnings also continued to grow and were up 5.5% YoY.
- However, average hourly earnings grew by 0.3% MoM in April, which was slightly below market estimates of 0.4% MoM.

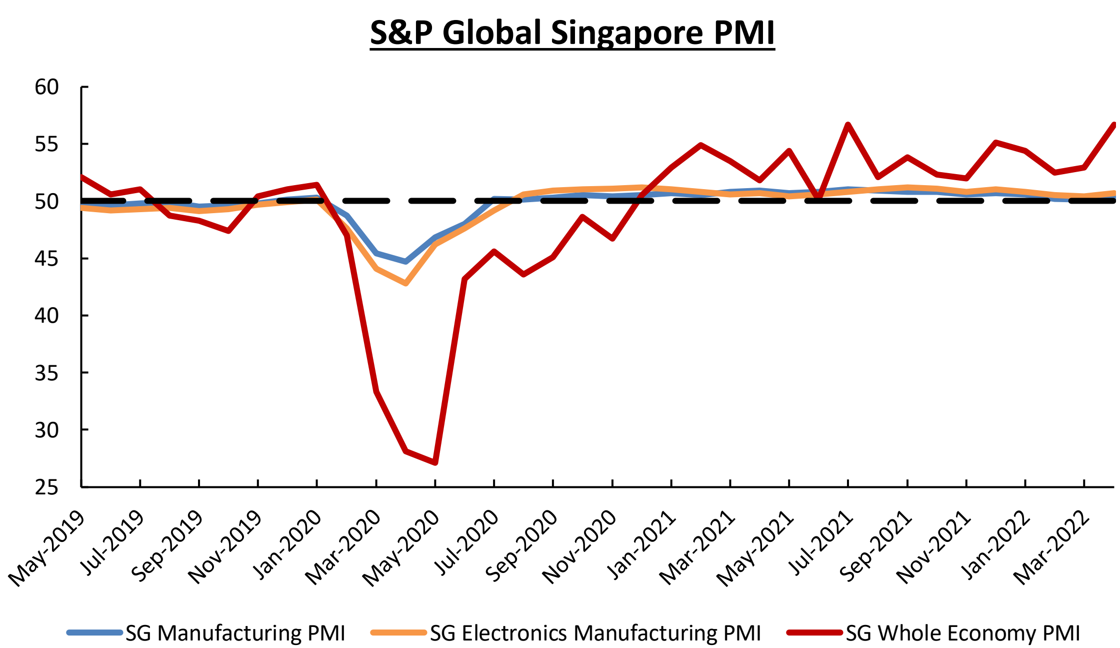




Source: OCBC, Bloomberg

Singapore: PMI rose by 56.7 in April

- The S&P global S'pore PMI rose further from 52.9 in March to 56.7 in April. This marks the seventeenth straight month where the PMI is in the expansionary zone.
- Meanwhile, according to the SIPMM, the S'pore manufacturing PMI rose from 50.1 in March to 50.3 in April. The electronics manufacturing PMI rose from 50.4 in March to 50.7 in April.



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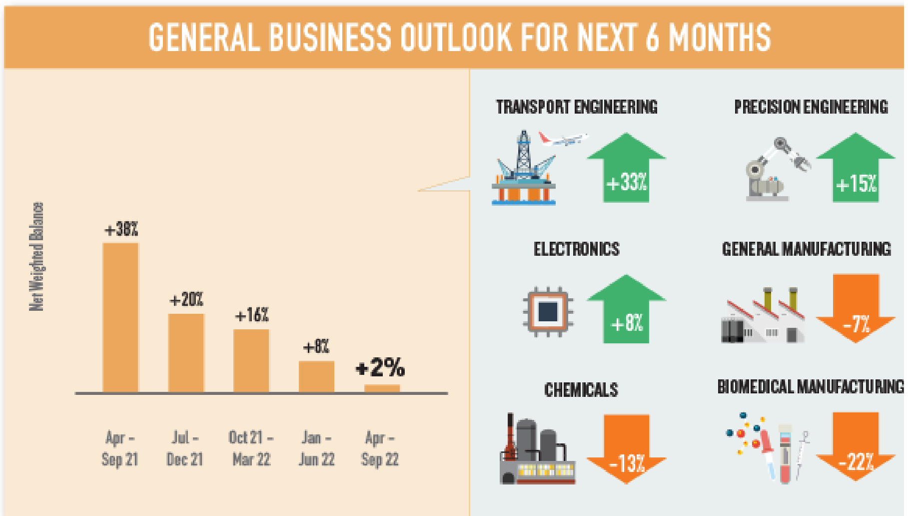
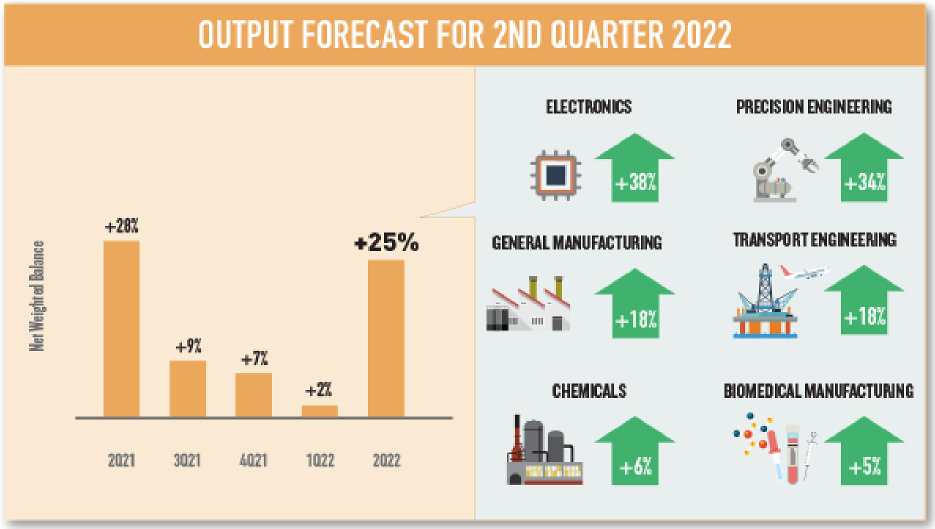
Source: OCBC, Bloomberg

Singapore: Business expectations survey

- The general business outlook has continued to decline in the latest business expectations survey, falling from +8% in the January report to +2% in the latest April report.
- Most sectors still expect output to increase in Q2, with the biggest gains expected from the electronics and precision engineering sectors.





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Source: OCBC, EDB

HK: Hong Kong's economy plunged into contraction in 1Q

- Amid weak domestic and external demand during the fifth wave of COVID-19 outbreak, Hong Kong's economy plunged into contraction in the first quarter of 2022. According to the preliminary reading, Hong Kong's GDP missed market expectations by a large margin and shrank by 4.0% YoY in real term in 1Q 2022, as compared to the 4.7% expansion in the previous quarter. On seasonally adjusted basis, GDP contracted by 2.9% QoQ, after staying virtually unchanged in 4Q 2021.

- Private consumption expenditure, gross domestic fixed capital formation and exports of goods turned to notable year-on-year declines of 5.4%, 8.3 and 4.5% respectively (+5.3%, -0.6% and +13.5% yoy respectively in 4Q 2021). Meanwhile, on the back of massive COVID-19 spending, government consumption expenditure expanded further by 5.9% YoY.

- **We revise downward our GDP growth forecast to 1.2% in 2022**, taking into account the weakened external demand, China's slowing growth prospect and the Fed's aggressive monetary tightening. The balance of risks facing Hong Kong's economy continued to tilt to the downside, amid global growth concerns.

GDP components	2021	4Q 2021 (YoY)	1Q 2022 (YoY)
GDP	6.3%	4.7%	-4.0% ↓
Private consumption expenditure	5.4%	5.3%	-5.4% ↓
Government consumption expenditure	4.6%	4.1%	5.9% ↑
Gross domestic fixed capital formation	9.8%	-0.6%	-8.3% ↓
Exports of goods	18.9%	13.5%	-4.5% ↓
Imports of goods	17.4%	9.9%	-5.9% ↓
Exports of services	1.5%	6.9%	-2.8% ↓
Imports of services	1.7%	4.5%	-2.8% ↓

Source: HK Census and Statistics Department, OCBCWH

HK: John Lee confirmed as the next Chief Executive

- **John Lee was formally confirmed as Hong Kong's next Chief Executive**, after receiving 1,416 votes from the election committee. His term would start on 1 July 2022.

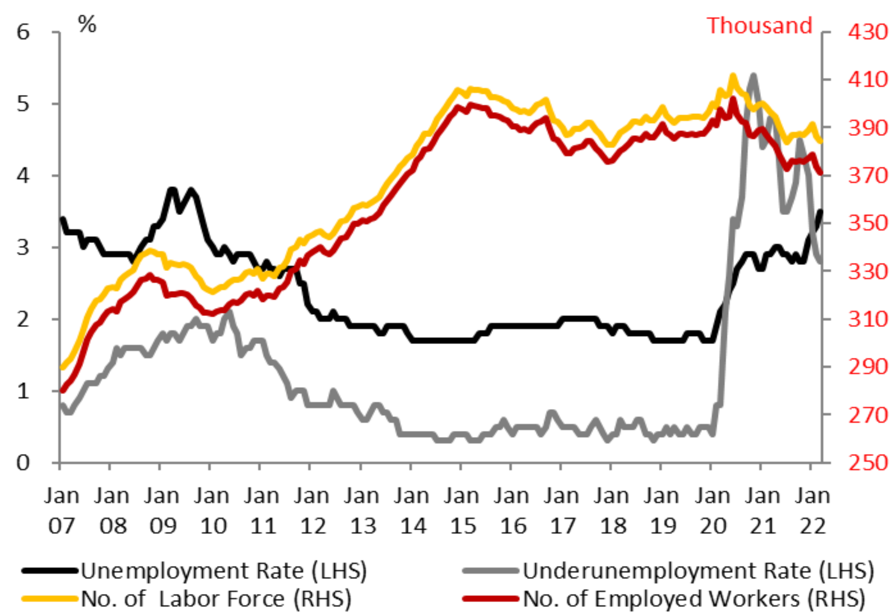
- John Lee said that **his top priority would be solving the housing problem** after assuming office, as the housing predicament remained unresolved for the past two decades and were seen as one of the deep-rooted social issues in Hong Kong. In his manifesto, Lee stated that he would streamline procedures to expedite land and housing development and keep home prices steady.

- Lee also outlined plans to improve governance, enhance Hong Kong's competitiveness and build an inclusive society with focus on upward social mobility in his election manifesto . Overall speaking, the proposed policy direction are within market expectation, and some are inherited from the current term government. We remain to see what concrete measures will be put forward by his government in the upcoming term.

- On economic front, the Financial Secretary announced to cut economic growth forecast for Hong Kong this year, citing unfavourable factors such as the Fed's aggressive tightening, geopolitical tensions and elevated global inflation. The previous economic growth forecast was set at 2%-3.5%, and revised figure will be announced this week. Earlier on, we have also revised downward our GDP growth forecast to 1.2% in 2022.

MO: Labour market showed further sign of weakness

- Unemployment rate in Macau rose further to 3.5%% while underemployment rate dropped to 2.8% during the three months to March. Besides, labour force participation rate declined by 0.2 percentage point to 68.8%, as compared to 4Q 2021. During the same period, total labour force and employed population went down by 1.2% and 1.6% respectively.
- The latest data showed that Macau's labour market continued to weaken, with little hope of reviving soon in the wake of weak domestic demand, ongoing border restriction and large-scale COVID-19 outbreak in China. The overall unemployment rate may stay above 3.5% in coming months as border re-opening looks unlikely until the second half of 2022.



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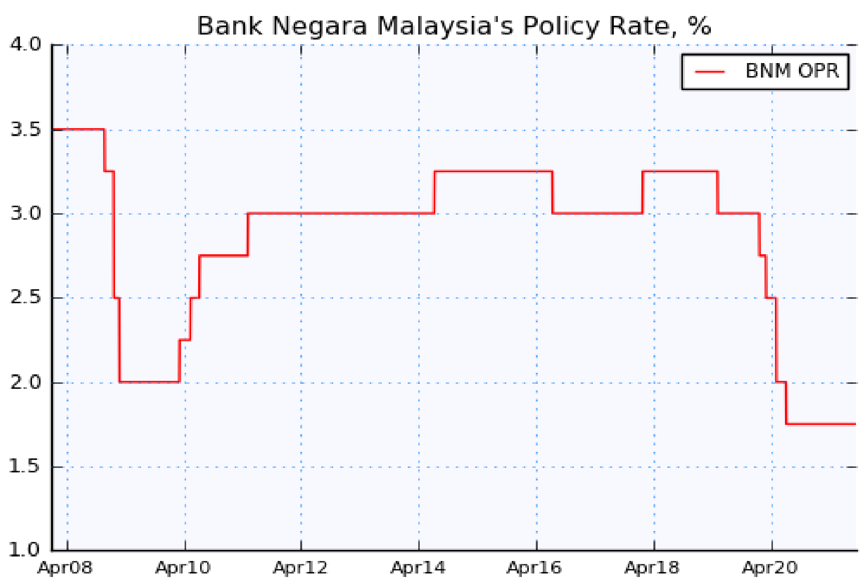
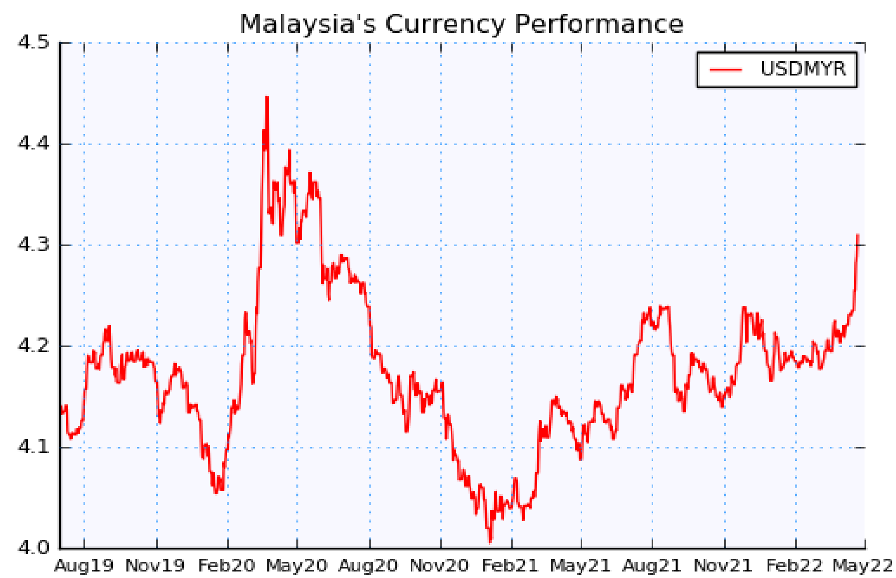
Source: HK Census and Statistics Department, OCBCWH

Malaysia: BNM hold

- Our central view is that BNM can afford to wait a little while more and only start to hike rate in Q3. For the year, we are of the view that it might be able to get away with just one hike.
- The gap between OPR and Fed funds rate may thus widen, leading to some reactions in the currency market. However, in and of itself, it is unlikely that BNM will be compelled to hike its OPR just to counter currency depreciation risk alone, particularly set against the backdrop of broader regional currency weakness and exports competitiveness.
- On a comparative basis, given Malaysia's current account surplus status, BNM has relatively more room to hold out than others.





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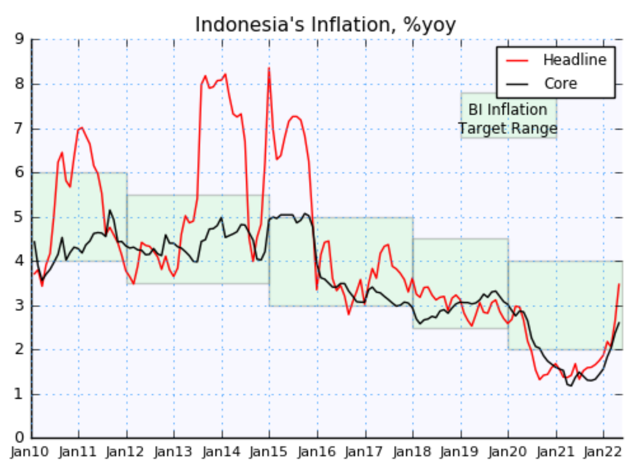
Source: OCBC, Bloomberg

Indonesia: Time for a hike

- Indonesia is back from a long holiday this week, with much awaiting market players and policymakers as they catch up on news. Out of the gate was the release of GDP data, which showed that the economy grew at a rather middling 5.01% in Q1, with some support from exports and consumption.
- More noteworthy was the upside surprise in April CPI data, with headline inflation at 3.47% YoY, the highest since December 2017. Coinciding with the Ramadan fasting month, the seasonal effect played a role in boosting prices. The uptick in fuel prices did not help too, but the fact that core prices have started to move up markedly to 2.6% YoY should warrant attention.
- Specifically, if Bank Indonesia is inclined to signal its seriousness about tackling the inflation risks head-on in the most prudent and pre-emptive way, it could start to hike its policy rate sooner rather than later. We continue to see a good chance of the first salvo coming in the next meeting on May 24th.



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Source: OCBC, Bloomberg

ESG

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ESG: EV developments in Asia and globally

China

- Local governments may grant cash subsidies to EV buyers to bolster the impact of COVID-19 lockdowns on the EV sector.
- Lockdowns in Shanghai, mainland China's motor industry hub, and Changchun, exacerbated automotive supply chain bottlenecks and deterred consumers from buying EVs e.g. Tesla's Gigafactory 3 in Shanghai lost about 50,000 EVs in production as the assembly line sat idle between March 28 and April 18.

Indonesia

- Hyundai launched its all-electric car model IONIQ 5 in Indonesia, the first EV produced in the ASEAN region. Its volume production began at Hyundai Motor's Indonesia plant that was completed in March.
- There was a surge in IONIQ 5 purchase orders in Indonesia since its release in end April and the amount of orders doubled the number of EVs sold in Indonesia for all of last year.

US

- The US will allocate more than US$3 billion in infrastructure funding to finance EV battery manufacturing, including to help establish and retrofit battery factories.

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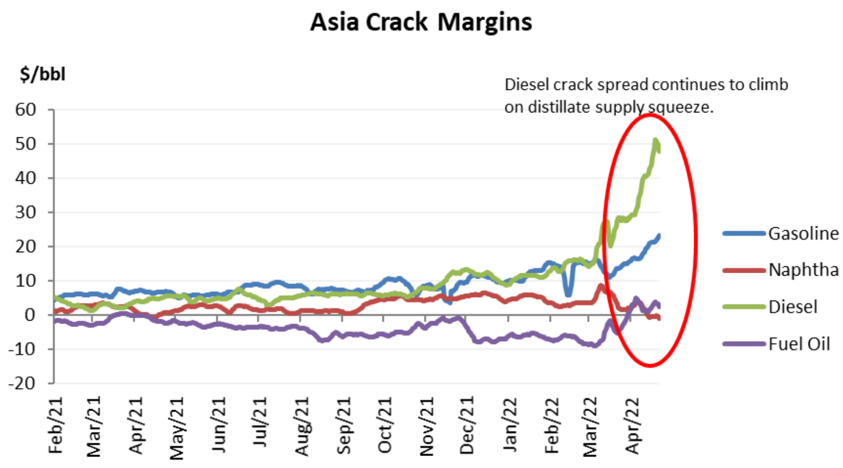
Source: SCMP, Reuters

Commodities

Oil: Supply squeeze intensifies

- The Russia-Ukraine conflict has already resulted in companies adopting a “soft” embargo on Russian oil over concerns of future stranded assets.
- China’s recent lockdown, although has resulted in demand loss, has also caused independent refinery rate to plummet from 80% to 50%.
- Recent data from OPEC+ also revealed members failing to hit their production quota, despite the monthly scheduled increase of 430kbpd.
- Together with the possibility of the EU announcing plans on decoupling from Russian energy, the supply squeeze on oil has continued to intensify.



Source: OCBC, Bloomberg

FX & Rates

FX & Rates: Post FOMC relief short-lived

- The post-FOMC relief was short-lived, with the UST curve having bearish steepened since after the initial reactions. The dollar may continue to benefit from a combination of a hawkish monetary policy outlook along with higher US yields, and growth concerns mostly outside the US.
- SGD NEER has been trading in a range of 0.98%-1.3% above mid-point over the past days, as the SGD outperformed some regional peers, offsetting the dollar strength. We expect the SGD NEER to trade around 1% above mid-point for most of the time in the coming weeks.
- Front-end SGD rates underperformed USD rates over the past sessions, on relatively tight liquidity while the forward points were also paid up amid the broad dollar strength; there might also have been some unwinding of the receive SGD rates pay USD rates trades. While we still expect front-end SGD rates to outperform USD rates over the cycle of rising rates, we prefer to stay on the sideline for now given the broad dollar strength, and that front-end SORA has already adjusted towards implied rates from the SOFR curve which is lower than the USD LIBOR curve
- MGS yields and MYR IRS have surged over the past days, amid rising global yields while the domestic market has been preparing for a hawkish surprise from BNM this week; the RBI inter-meeting hike has probably propelled some hawkishness in the MYR as well. The 3M3M MYR rate is trading at 110bps higher than the spot 3M rate; and the 3Y MGS yield has front-run the OPR a lot pricing in a terminal rate of 3%-plus already. Our base-case is no change in the OPR on Wednesday, but BNM may start to prepare the market for a hike down the road. We suspect there is room for a retracement lower in MGS yields if the MPC decision is in line with our expectation, although MYR IRS may be able to sustain the hawkish pricing.

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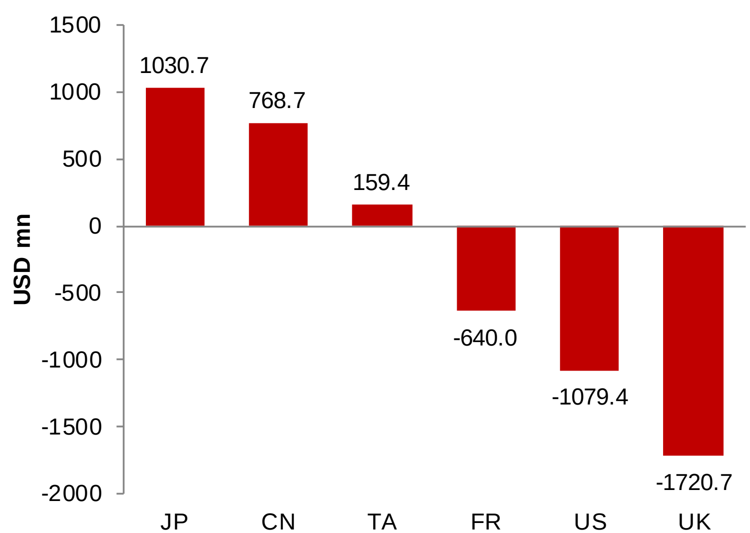
Source: OCBC, Bloomberg

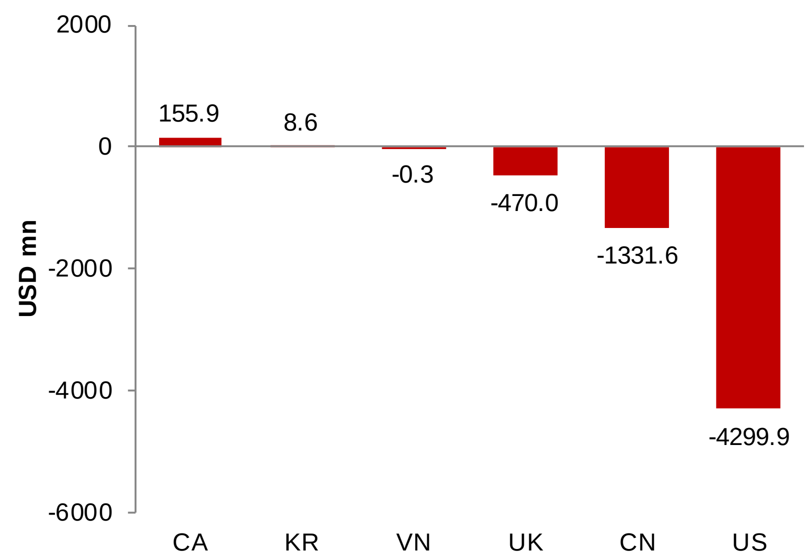
Asset Flows

Global Equity & Bond Flows

- Global equity markets saw net outflows of $3.3bn for the week ending 4th May, a decrease from the outflow of $1.2bn last week. Global bond market reported net outflows of $8.9bn, a decrease from last week's outflows of $6.5bn.

Equity top gainers & losers	Bonds top gainers & losers

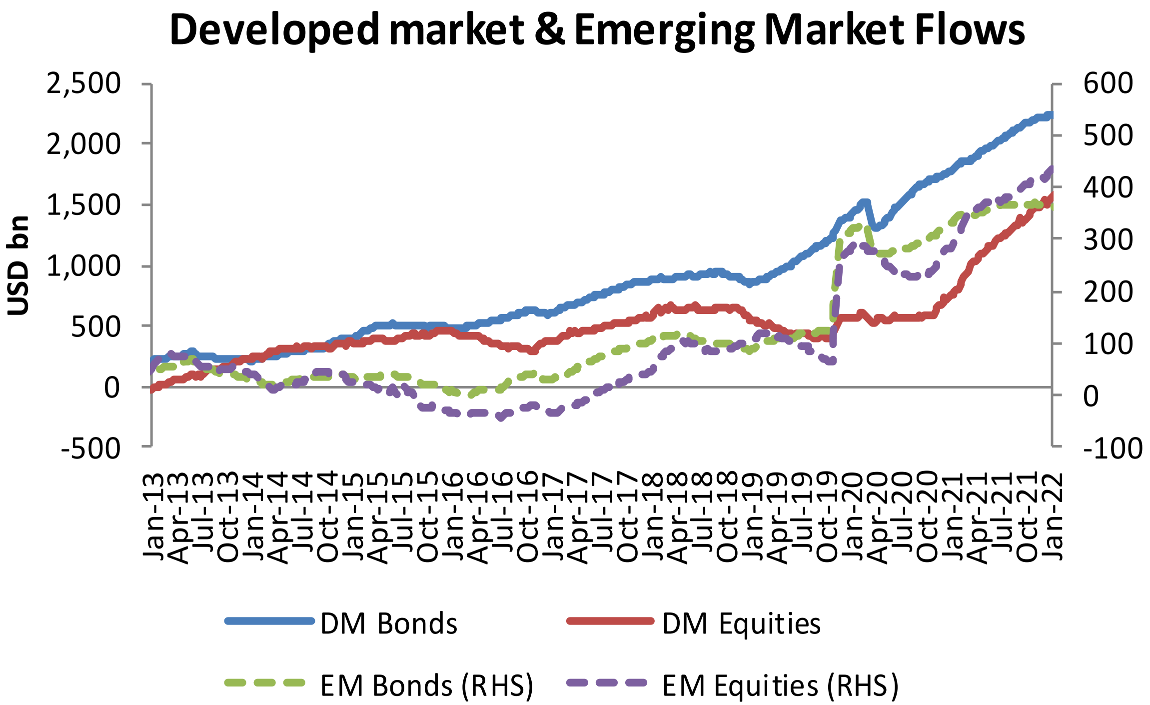




Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $3.7bn worth of outflows while the EM-space registered $0.3bn worth of inflows.
- Elsewhere, the DM bond space posted outflows of $6.1bn, while EM bonds registered outflows of $2.8bn.



Source: OCBC Bank, EPFR

Thank you

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