



Weekly Macro Views (WMV)

Treasury Research & Strategy (17th May 2022)

Weekly Macro Update

Key Global Events for this week:

16 th May	17 th May	18 th May	19 th May	20 th May
<ul style="list-style-type: none"> - JN PPI YoY - CH Industrial Production YoY - CH Retail Sales YoY - US Empire Manufacturing - PH Overseas Cash Remittances YoY - CA Housing Starts - JN Machine Tool Orders YoY 	<ul style="list-style-type: none"> - US Retail Sales Advance MoM - SI Non-oil Domestic Exports YoY - UK Jobless Claims Change - EC GDP SA QoQ - US Industrial Production MoM - JN Tertiary Industry Index MoM 	<ul style="list-style-type: none"> - JN GDP Annualized SA QoQ - JN GDP SA QoQ - UK CPI YoY - JN Industrial Production MoM - CA CPI YoY - EC CPI YoY - UK CPI MoM - US MBA Mortgage Applications 	<ul style="list-style-type: none"> - US Initial Jobless Claims - AU Unemployment Rate - AU Employment Change - JN Core Machine Orders MoM - SI GDP YoY - US Existing Home Sales 	<ul style="list-style-type: none"> - NZ Trade Balance NZD - JN Natl CPI YoY - UK Retail Sales Inc Auto Fuel MoM - TH Foreign Reserves - UK Retail Sales Ex Auto Fuel MoM - UK Retail Sales Inc Auto Fuel YoY - TA Export Orders YoY

Summary of Macro Views:

Global	<ul style="list-style-type: none"> • Global: Central Banks • Global: US inflation remains persistently high
Asia	<ul style="list-style-type: none"> • SG: NODX growth slowdown continued in April • HK: Weak-side convertibility undertaking triggered • MO: New proposed changes to gaming law

Asia	<ul style="list-style-type: none"> • CN: Downbeat growth in April • CN: Household deleverage continues • CN: The weakest link • CN: More policy supports • MA: BNM hike
Asset Class	<ul style="list-style-type: none"> • ESG: Strong growth in climate funds in China • Agri: Food supply still tight, if not tightening • FX & Rates: Yields edged down on growth concerns
Asset Flows	<ul style="list-style-type: none"> • Asset Flows

Global: Central Banks

Forecast – Key Rates

Central Bank of Philippines (BSP)



Thursday, 19th May

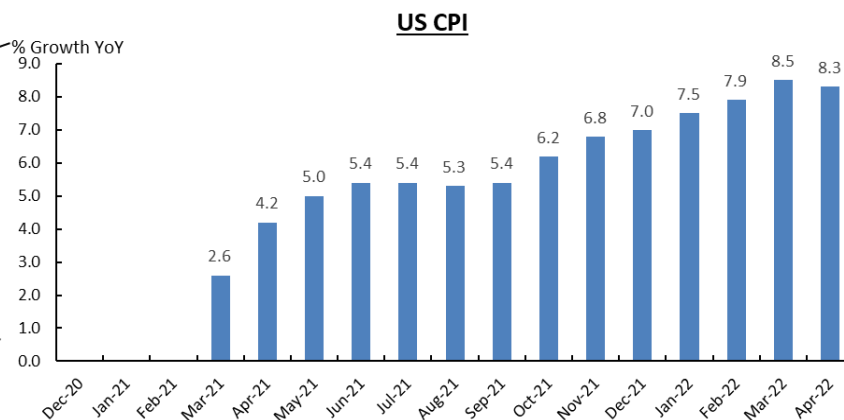
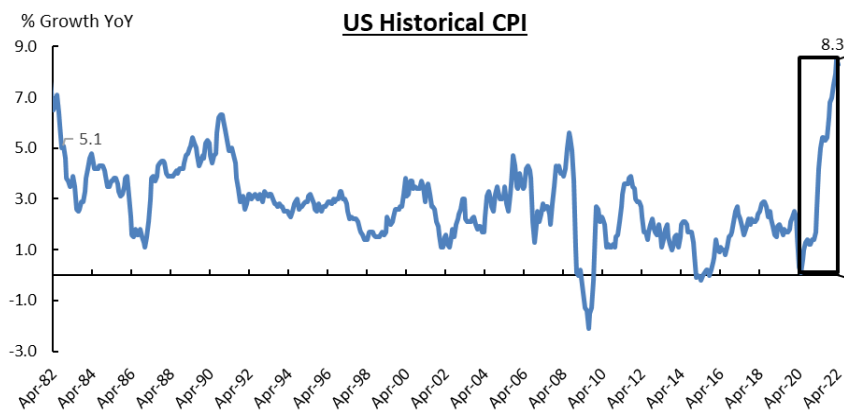
House Views

Overnight Borrowing Rate

**Likely hike by 25bps from
2.00% to 2.25%**

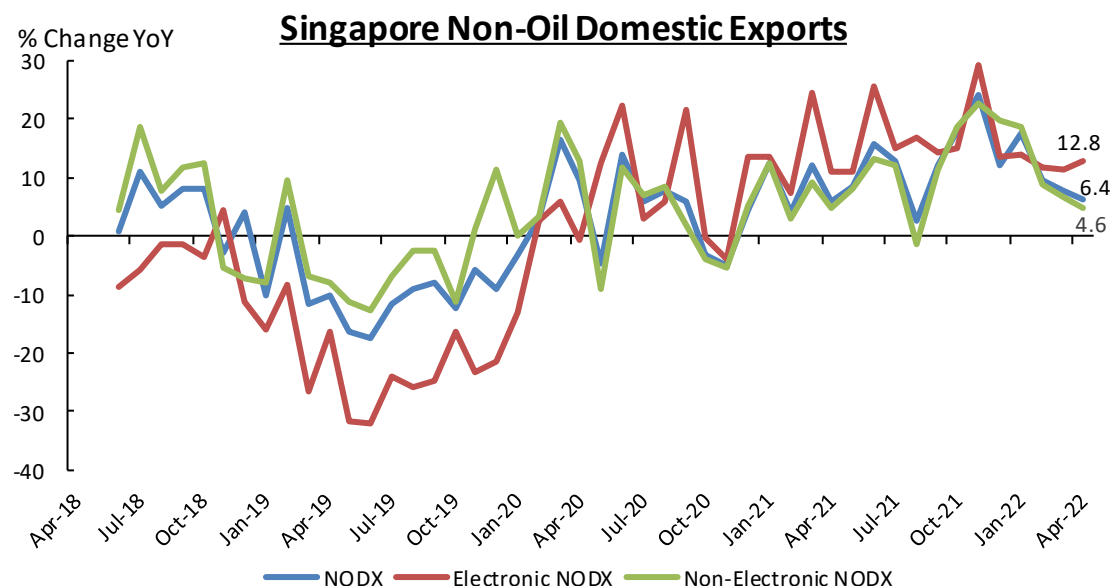
Global: US inflation remains persistently high

- US inflation remains high – coming in at 8.3% YoY in April – higher than market expectations of 8.1% YoY.
- This was a slight drop from 8.5% YoY in March, marking the first drop in eight months.
- A slight decline in gasoline prices in April contributed to the overall drop in inflation.



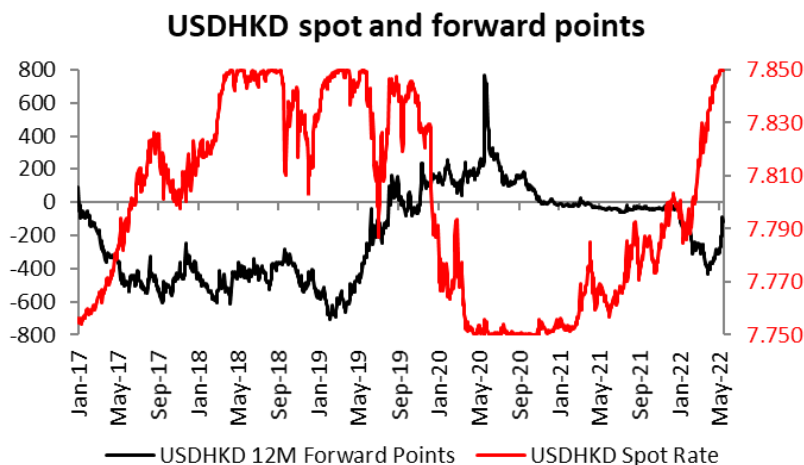
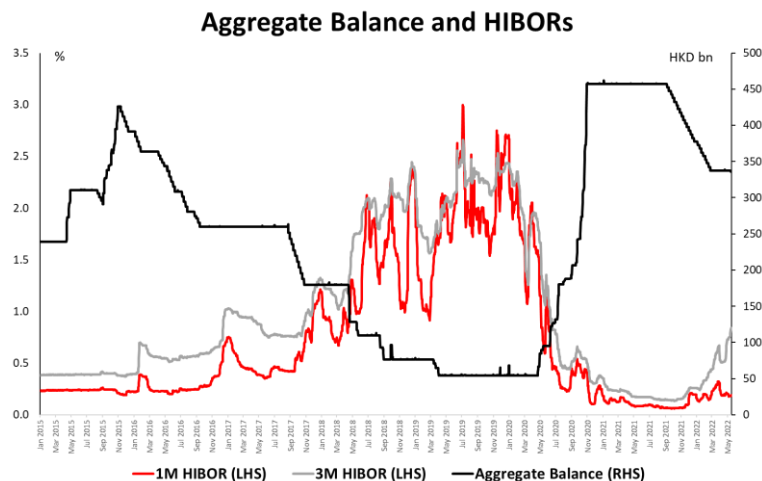
SG: NODX growth slowdown continued in April

- NODX growth slowed from 7.7% YoY in March to 6.4% YoY in April, but shrank sequentially for the third straight month by 3.3% MoM sa. This is slightly below the Bloomberg consensus forecast of 6.5% YoY (-2.1% MoM sa) but ahead of our expectations for 5.6% YoY (-5.0% MoM sa).
- Electronics exports accelerated to 12.8% YoY, marking the 17th consecutive month of YoY growth and also the 14th straight month of double-digit YoY expansion.
- Meanwhile, non-electronics exports grew 4.6% in April, also marking an easing from the 6.8% YoY growth in March.



HK: Weak-side convertibility undertaking triggered

- The spot USDHKD breached above 7.8500 last week, the first time since 2019, triggering the weak-side convertibility undertaking. The HKMA intervened and bought a total of HK\$17.585 billion to defend the currency peg.
- When weak side convertibility undertaking is triggered, the HKMA will defend the currency peg by buying HKD and selling USD, effectively draining HKD liquidity from the interbank market. These operations have started to have an impact, with HKD IRS being paid up. While reaction in HKD rates may still not be big enough, as the Aggregate Balance (interbank liquidity) edges down to a still thick HKD320bn. The 1M/3M HIBOR-LIBOR spreads currently stay at around 60-70 bps.
- We expect the currency pair to stay close to the weak side convertibility undertaking for multi-month horizon, and more intervention will come on the back of broad dollar strength. Meanwhile reaction in HKD rates may still not be big enough to reverse the pressure on in spot t/t at this stage.



Macau: New proposed changes to gaming law

- The Macau government is reportedly mulling a series of significant changes to its proposed gaming law amendment bill, in an attempt to throw a lifeline to the local gaming industry which was hit hard by the border control and visitor drop. The government plans to allow satellite casino to operate outside the venues of the respective gaming concessionaires. Another proposal under consideration is gaming tax cut, by as much as 5 percentage points, if operators can bring in foreign players.
- The government's plan scraping the proposal requiring satellite casino operators to tie the ownership of their respective gaming floors to the gaming concessionaires, will alleviate the financial burden faced by the cash-strapped casino operators. Macau government also intends to drop a proposal that any corporate entity holding a gaming concession will need to be dissolved if failed to gain fresh gaming rights after the expiry of the current concessions.
- In addition, the gaming tax cut (currently set at 40%, above other rivaling gaming hubs) seeks to attract more foreign bettors and reduce reliance on the Chinese market. While these proposals are positive signals for the gaming sector in Macau, the path of recovery still relies heavily on the reopening of border and containing the Covid-19 outbreak in the Mainland China.

China: Downbeat growth in April

- The Chinese economy weakened significantly in April due to Covid lockdowns in some parts of China. Both industrial production and retail sales were weaker than expected. Investment was the only data registering growth.
- Industrial productions in Covid hit the Yangtze River delta region and the North-eastern region fell by 14.1% YoY and 16.9% YoY respectively while industrial production in the less affected central and western China regions rose by 4.6% YoY and 5.6% YoY. With China gradually reopening its economy this month, we expect China's industrial production to bottom out soon.
- However, despite the improving situation on Covid lockdowns, consumption outlook remains weak probably due to three factors including concerns about job security, weak property market and negative wealth effect amid equity sell-offs. China's surveyed jobless rate rose to 6.1% in April, close to the 6.2% peak observed in February 2020 during the first wave of Covid outbreak.

China: Household deleverage continues

- Short term loan to household sector fell by CNY217 billion while medium to long term loan to household sector shrank by CNY31.3 billion in April. This was the second decline of medium to long term loan to household sector this year. The deleverage in household sector reflected the weak sentiment in the property market and weak job prospects.

China: The weakest link

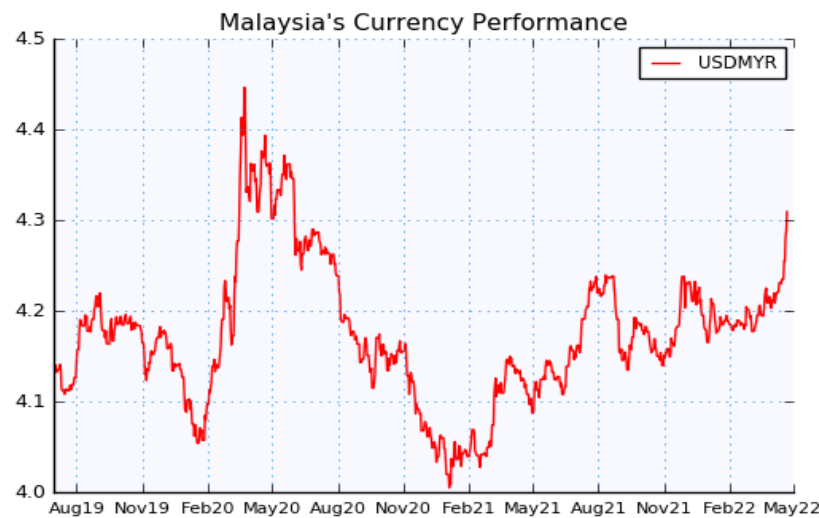
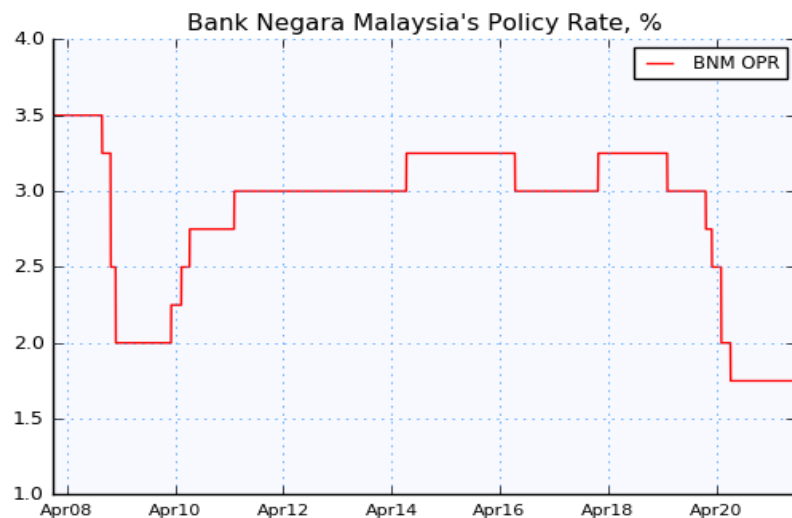
- The deterioration of the property market was worse than expected. Property sales by value and volume in the first four month fell by 29.5% YoY and 20.9% YoY respectively. Property investment growth turned negative in the first four months. Land acquisition year to date fell by 46.5% YoY, signalling more downside risks for property investment.

China: More policy supports

- PBoC announced on 15 May to allow commercial banks to lower its floor of mortgage rate for first-time home buyers. This is the first easing policy to support property market on the national level. The quasi-targeted interest rate cut showed that China has reckoned that property market is the weakest link in the Chinese economy.
- We expect China to roll out more supports in the upcoming meetings. Although PBoC kept its MLF rate unchanged in May, we expect China to lower its LPR fixing this week due to falling banks' funding costs.
- Since banks are allowed to adjust their deposit rate setting with reference to the 10-year gov bond yield and 1-year LPR from April, the weighted average deposit rate for financial institutions declined by 10bps in the last week of April according to PBoC. The recent deposit rate reform cleared the obstacle that interest rate cuts may hurt banks' profitability.

Malaysia: BNM hike

- Bank Negara Malaysia raised its Overnight Policy Rate by 25bps to 2.0% this week, in a move that surprised the market consensus and us. Although we pencilled in a hike, we had thought that inflation rate that remains relatively tame would allow the central bank to wait until the July meeting to act.
- Alas, the stickiness of global inflationary pressures – which have “increased sharply” in its view – together with its confidence in the “firmer footing” of the domestic economy, cemented the decision to start withdrawing the monetary accommodation that was put in place because of the pandemic.
- Going forward, more rate hikes are to come. Still, we see “a measured and gradual manner” as BNM itself pointed out. Our central scenario is for the next hike to come in September, allowing it the space to gauge whether upside risk to inflation or downside risk to growth will be the greater foe, before deciding on whether to hike further from there.



ESG

ESG: Strong growth in climate funds in China

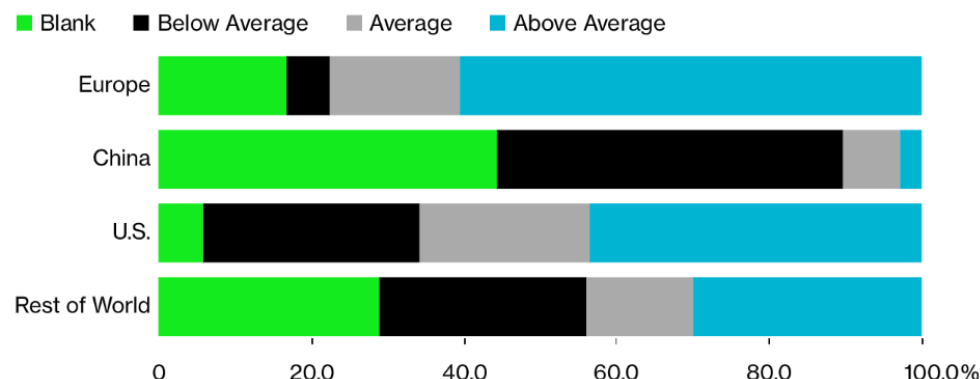
- Climate-focused funds in China more than doubled their assets last year, surpassing the US as the second-largest global market behind Europe (Figure 1).
- Strong growth is largely driven by climate policy with the official approval of China's carbon neutrality and net-zero target, and outperformance of the domestic clean energy sector.
- However, Chinese climate funds are lagging behind in sustainability ratings with ~10% having ratings of average or higher. In comparison, Europe's climate funds have ~80% with a rating of average or higher.
- With the lockdowns in China, investor enthusiasm may level off and asset managers may postpone investments and plans to launch new climate funds until the lockdowns ease.

Figure 1: Size of climate-focused funds (USD\$), 2021

Europe	325 bil
China	47 bil
US	31 bil

ESG Laggard

Chinese climate funds are trailing behind in sustainability ratings



Source: Morningstar Direct

Note: "Below Average" includes funds rated "low" and "below average" by Morningstar while "Above Average" includes funds rated "above average" and "high"

Commodities

Agri: Food supply still tight, if not tightening

- USDA released its first estimate of 2022/23 numbers last Thursday (May WASDE report).
- On soybeans, unsurprisingly the increase in production outweighs that of demand (export +crush) increase in US+Brazil.
- If US+Brazil even loses a combined 10mil (~3.5%) tons of production from the current estimates, the stock-to-use ratio will be even tighter than last year's record low.
- We still expect record high soybean prices in the coming year (>\$643/mt).
- India's sudden halt of wheat exports over the weekend was surprising but given the recent wave of crop protectionism policies (Indo palm oil, for e.g.), this shouldn't be a surprise.
- More crop protectionism policies are expected going forward, which will continue to drive food prices and hence core CPI levels higher.



FX & Rates

FX & Rates: Yields edged down on growth concerns

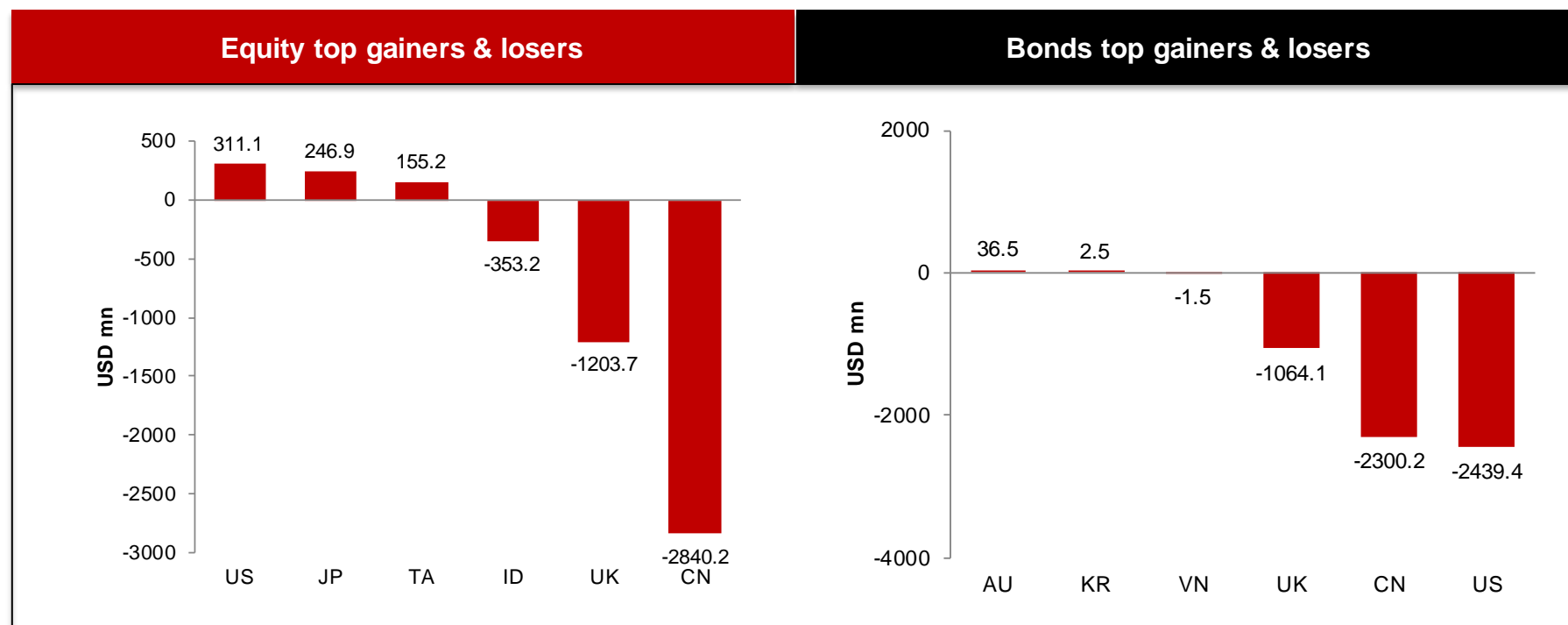
- UST yields edged down on growth concerns, with the 10Y yield trading in a range of 2.85-2.95% over the past two sessions. USD OIS is pricing in additional hikes of 192bp between now and year-end; this pricing has been fluctuating between 180bp and 200bp plus over the past days. Fed funds rate is seen plateauing during H2-2023 by the Fed funds futures. We continue to see the 10Y UST to trade in a range with a mild upside only, as there seems to be no strong upward momentum in the breakeven or real yield at the moment.
- SGD NEER has moved onto a higher range of 1.26-1.29% above mid-point since Friday, upon a mild reversal in the broad dollar strength, while the SGD has continued to outperform the JPY and the MYR. The upper end and 1% above mid-point of the SGD NEER band at current levels correspond to 1.3815/1.3952 for USD/SGD.
- The PBoC announced on Sunday that it would cut the floor to mortgage rate for first-time homebuyers to 4.4% from 4.6% (to LPR -20bp from LPR) but kept the MLF rates unchanged on Monday against some hope for a modest cut. On balance, CNY IRS ended Monday a tad softer. MLF cuts are not a prerequisite for an LPR rate cut and we still see room for an LPR rate given the lowered funding costs. Nevertheless, MLF or LPR decisions may not be the most important factor driving market rates which have been trading on the mostly flush liquidity conditions, while overall CNY rates trade on the soft side on lingering growth concerns. Back-end CNH point is a function of interest rate differentials and FX view – while the stabilising RMB sentiment may remove some upward pressure on the curve, the lower USD yields probably mean any downward move on back-end points will be mild.



Asset Flows

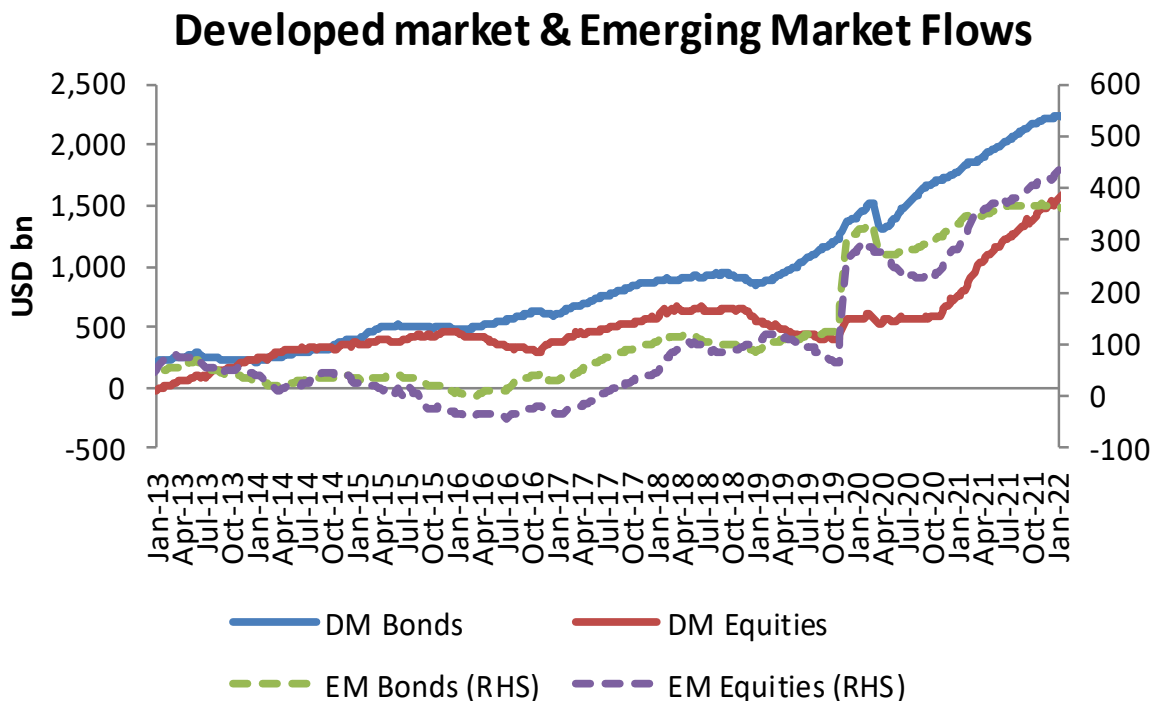
Global Equity & Bond Flows

- Global equity markets saw net outflows of -\$6.2bn for the week ending 11th May, a decrease from the outflow of -\$3.3bn last week. Global bond market reported net outflows of -\$11.1bn, a decrease from last week's outflows of -\$8.9bn.



DM & EM Flows

- DM equities saw \$1.8bn worth of outflows while the EM-space registered \$4.4bn worth of outflows.
- Elsewhere, the DM bond space posted outflows of \$5.8bn, while EM bonds registered outflows of \$5.2bn.



 Thank you

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