



# Weekly Macro Views (WMV)

Treasury Research & Strategy (20<sup>th</sup> September 2022)

# Weekly Macro Update

## Key Global Events for this week:

19 <sup>th</sup> September	20 <sup>th</sup> September	21 <sup>st</sup> September	22 <sup>nd</sup> September	23 <sup>rd</sup> September
<ul style="list-style-type: none"> <li>- HK Unemployment Rate SA</li> <li>- CA Industrial Product Price MoM</li> </ul>	<ul style="list-style-type: none"> <li>- CA CPI YoY</li> <li>- US Housing Starts</li> <li>- CA CPI NSA MoM</li> <li>- JN Natl CPI YoY</li> </ul>	<ul style="list-style-type: none"> <li>- US MBA Mortgage Applications</li> <li>- US Existing Home Sales</li> <li>- NZ Credit Card Spending</li> </ul>	<ul style="list-style-type: none"> <li>- US Initial Jobless Claims</li> <li>- NZ Trade Balance NZD</li> <li>- HK CPI Composite YoY</li> <li>- US Leading Index</li> </ul>	<ul style="list-style-type: none"> <li>- SI CPI YoY</li> <li>- GE S&amp;P Global/BME Germany Manufacturing PMI</li> </ul>

## Summary of Macro Views:

<b>Global</b>	<ul style="list-style-type: none"> <li>• <b>Global:</b> Central Banks</li> <li>• <b>Global:</b> Hotter-than-expected US CPI print in August</li> <li>• <b>Global:</b> Federal Reserve policy meeting in focus this week</li> <li>• <b>Global:</b> Bank of England likely to deliver another 50bps hike</li> <li>• <b>Global:</b> Bank of Japan likely to maintain yield curve control policy</li> <li>• <b>Global:</b> EU energy crisis measures</li> </ul>	<b>Asia</b>	<ul style="list-style-type: none"> <li>• <b>HK:</b> Considering scrapping the hotel quarantine requirement</li> <li>• <b>HK:</b> Fiscal deficit may exceed HK\$100 billion</li> <li>• <b>MA:</b> Higher levels</li> <li>• <b>ID:</b> Coal comfort</li> <li>• <b>ID:</b> Currency stability</li> </ul>
<b>Asia</b>	<ul style="list-style-type: none"> <li>• <b>SG:</b> Upside NODX surprise</li> <li>• <b>CN:</b> Slew of August data beat market expectations</li> <li>• <b>CN:</b> Property market remains the weakest link</li> <li>• <b>CN:</b> Cause of this year's RMB depreciation</li> </ul>	<b>Asset Class</b>	<ul style="list-style-type: none"> <li>• <b>ESG:</b> SG's Financial Services Industry Transformation Map 2025</li> <li>• <b>FX &amp; Rates:</b> Central banks in focus</li> </ul>
		<b>Asset Flows</b>	<ul style="list-style-type: none"> <li>• <b>Asset Flows</b></li> </ul>

# Global: Central Banks

## Forecast – Key Rates

People's Bank of China  
(PBoC)



Tuesday,  
20<sup>th</sup> September

Bank of Japan (BoJ)



Thursday,  
22<sup>nd</sup> September

Bank Indonesia (BI)



Thursday,  
22<sup>nd</sup> September

Bangko Sentral ng  
Pilipinas (BSP)



Thursday,  
22<sup>nd</sup> September

### House Views

1-year Loan Prime Rate

Likely **hold** at **3.65%**

5-year Loan Prime Rate

Likely **hold** at **4.30%**

Policy Balance Rate

Likely **hold** at **-0.10%**

7D Reverse Repo

Likely **hike** by **25bps**  
from **3.75%** to **4.00%**

Overnight Borrowing Rate

Likely **hike** by **50bps**  
from **3.75%** to **4.25%**

# Global: Central Banks

## Forecast – Key Rates

Federal Open Market Committee  
(FOMC)



Thursday, 22<sup>nd</sup> September

Bank of England (BoE)



Thursday, 22<sup>nd</sup> September

Central Bank of the Republic of  
China (Taiwan)(CBC)



Thursday, 22<sup>nd</sup> September

### House Views

*Fed Funds Target Rate*

Likely **hike** by **75bps**  
from **2.25%-2.50%** to **3.00%-3.25%**

*Bank Rate*

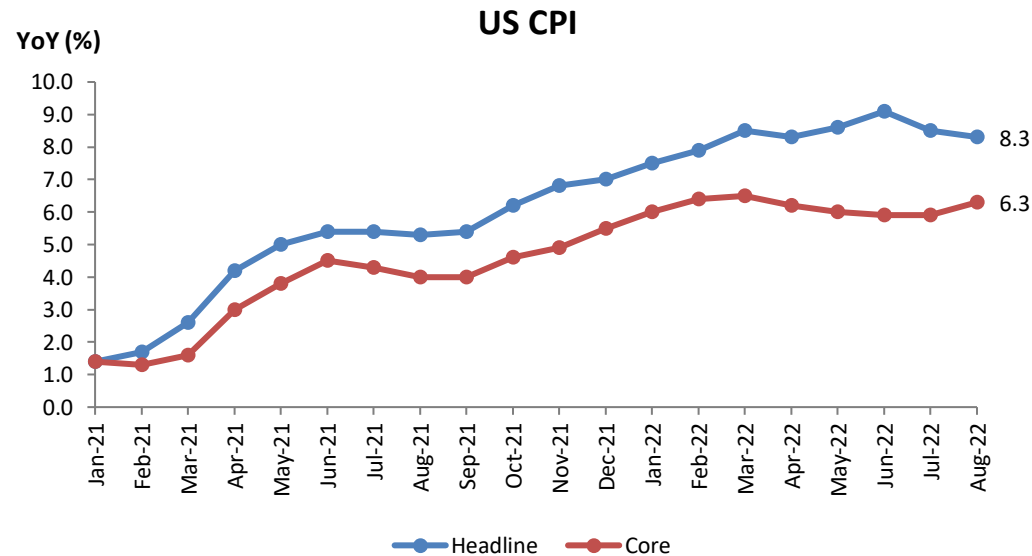
Likely **hike** by **50bps**  
from **1.75%** to **2.25%**

*Discount Rate*

Likely **hike** by **12.5bps**  
from **1.50%** to **1.625%**

# Global: Hotter-than-expected US CPI print in August

- The US headline CPI slowed from 8.5% to 8.3% YoY (0.1% MoM sa) in August but missed consensus forecast of 8.1%, while the core CPI accelerated more than expected from 5.9% to 6.3% YoY (0.6% MoM sa). The higher-than-expected inflation print came albeit energy prices declined (-5.0% MoM; due to a fall in gasoline prices (-10.6% MoM) and fuel oil (-5.9% MoM), despite the rise in electricity (+1.5% MoM) and utility gas (+3.5% MoM) prices.
- Key drivers arose from rental inflation that saw its biggest monthly surge as well as food, transportation, medical care and recreation services.
- Meanwhile, core inflation also came in higher-than-expected at 6.3% YoY (0.6% MoM), an uptick from the previous month's 5.9% YoY (0.3% MoM).



# Global: Federal Reserve policy meeting in focus this week

- We expect the Fed to hike its Fed funds rate by 75bps this Thursday, which will bring it to 3.00-3.25%.
- Following the higher-than-expected August CPI release, markets have already fully priced in a 75bps hike in the meeting this week, with 20% chance for a 100bps hike. The terminal rate is currently priced at around 4.50%.
- Markets will be anticipating the possible forward guidance going out into early 2023 through the September dot plot and Fed Chair Powell's press conference. The Fed dot plot released previously in June showed that FOMC members expected the Fed funds rate to end 2022 at 3.25-3.50%.

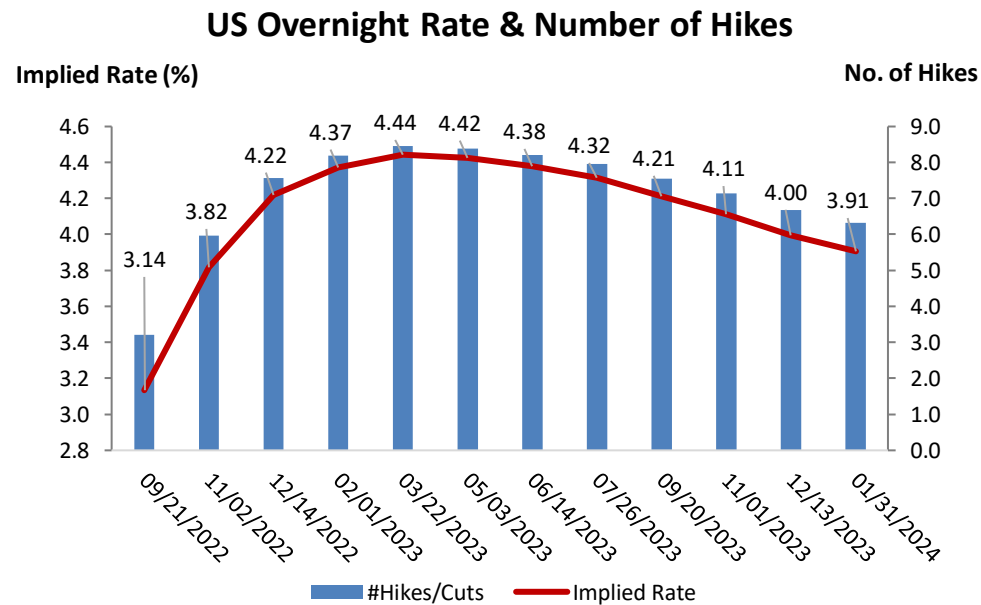
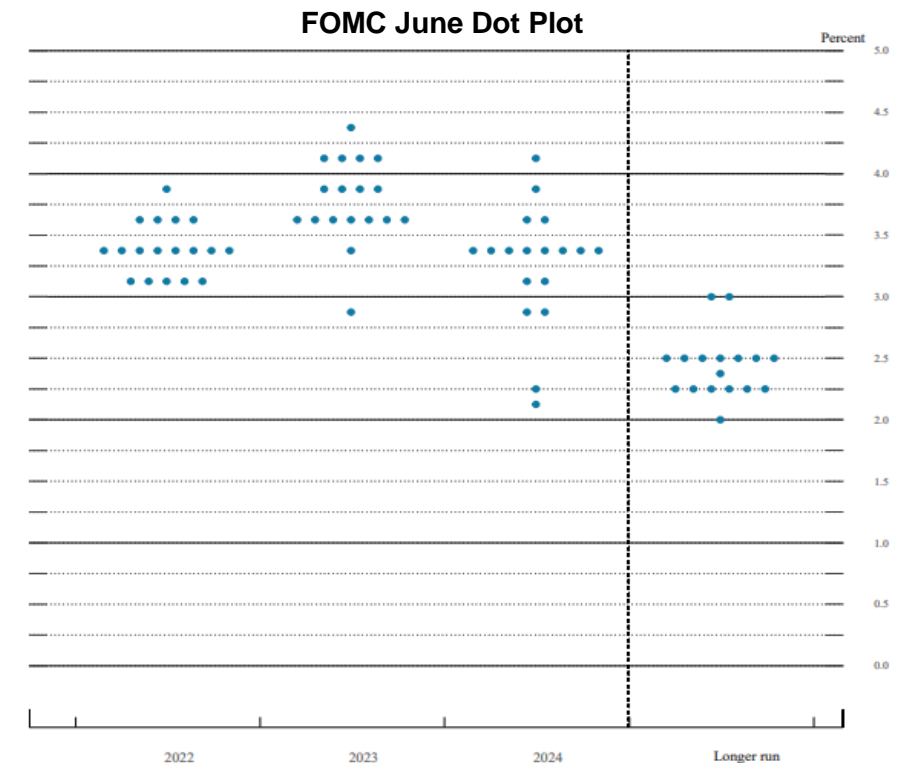


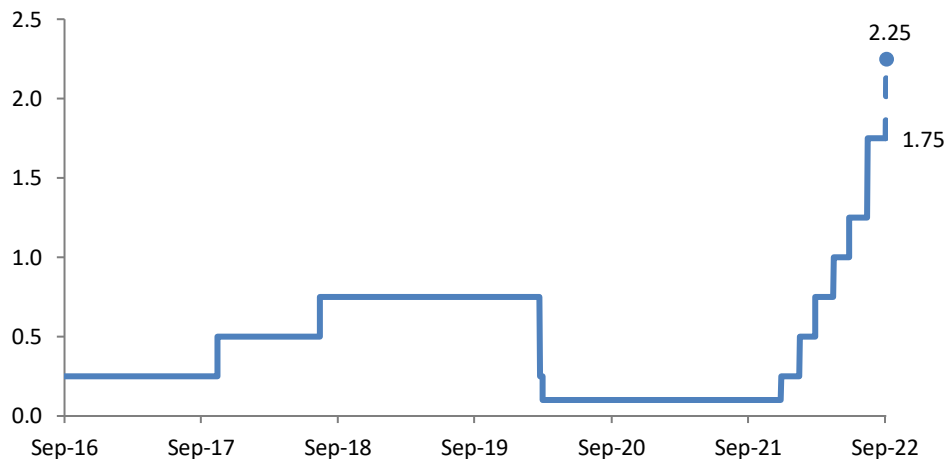
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



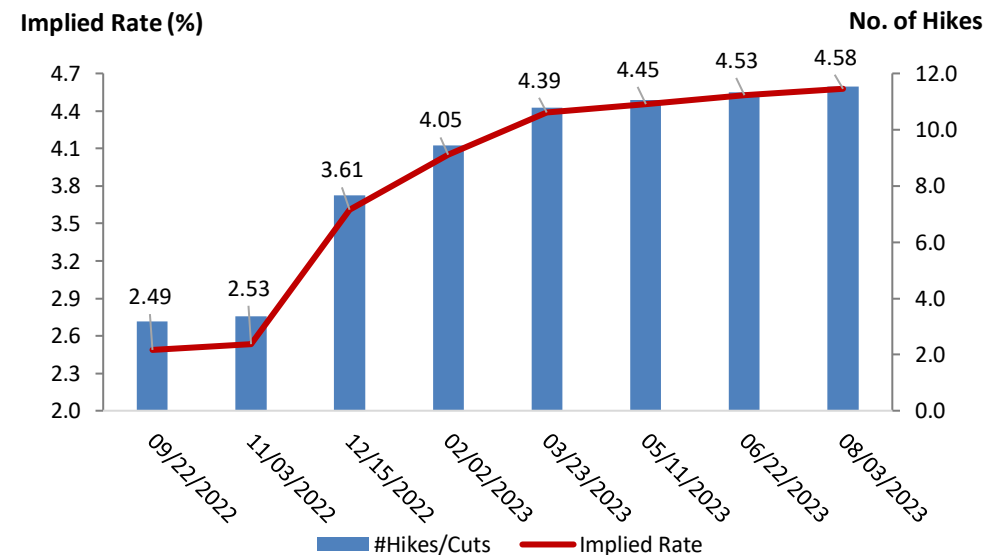
# Global: Bank of England likely to deliver another 50bps hike

- Bank of England (BoE) is set to hike its bank rate by 50bps for the second straight meeting, bringing its benchmark rate from 1.75% to 2.25%.
- A survey that was held by BoE from 5-8 August, just after its August meeting and before the release of the July inflation print of 10.1%, showed that even though public inflation expectations for 2022 rose from 4.6% (in the previous May survey) to 4.9%, expectations for 2023 fell from 3.4% (in the previous May survey) to 3.2% and long-term inflation expectations fell from 3.5% (in the previous May survey) to 3.1%.
- Markets are currently expecting the bank rate to hit 3.6% by the end of this year.

BoE Bank Rate

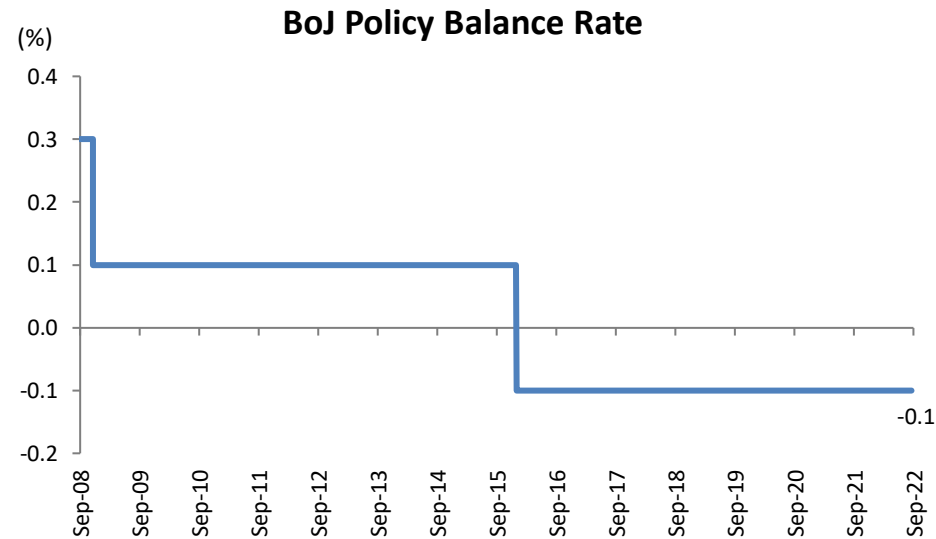


UK Overnight Rate & Number of Hikes



# Global: Bank of Japan likely to maintain yield curve control policy

- Bank of Japan (BoJ) is set to continue keeping its rates unchanged, with the policy balance rate likely to remain at -0.10%.
- This is the first MPC meeting since the Jackson Hole symposium back in August when BoJ's governor Kuroda reiterated the importance for BoJ to maintain its monetary easing stance in order to ensure “stable and sustainable” increases in wages and prices.
- However, the weakening of the Japanese yen has been an increasing concern as BoJ's widening policy rate differential with other hawkish central banks such as the Fed, has caused the yen to plunge almost 20% against the USD this year.



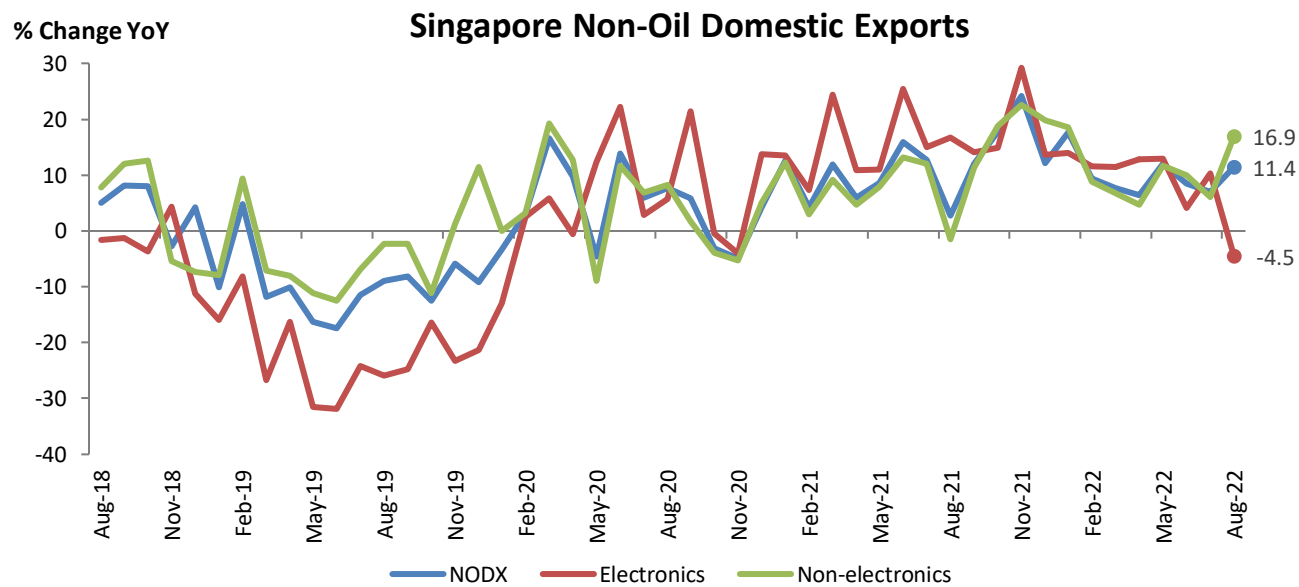


# Global: EU energy crisis measures

- After Russia has cut off its natural gas supply to Europe via the shutdown of the Nord Stream pipeline, the EU Commission has proposed a **five-point plan** to mitigate the energy crisis:
  1. Impose a price cap on Russian gas imports
  2. Impose windfall tax on fossil fuel producers
  3. Limit peak-hour energy usage by businesses by 5%
  4. Limit the price of electricity generated by clean energy companies
  5. Provide emergency liquidity measures to energy producers who are facing high collateral demand
- Individual countries within the EU have also imposed additional measures to tackle rising energy prices. Some examples are:
  1. **Germany:** 3 different aid packages worth €125bn for citizens to handle rising energy prices, fuel tax reduction, conserve heating and lighting of public buildings and facilities, energy payment support to financially-strapped individuals/households, one-time payment support to retirees (€300), students (€200), employees (€300) and families (€100 per child)
  2. **France:** Freeze natural gas prices as Oct 2021 levels and limit electricity price increase by 4% till end-2022, energy payment support of €100 to needy households, limit heating and cooling of public buildings, shops are to turn off lights from 1AM-6AM
  3. **Italy:** Reduce fuel taxes, energy support payment package of €200 to needy households, subsidies for solar energy investments, new natural gas supply agreements signed with Algeria
  4. **Spain:** Thermostat temperature is limited to 19 degree Celsius during winter, reduce VAT on natural gas from 21% to 5% from October 2022 onwards, impose ceiling price on natural gas used to generate electricity

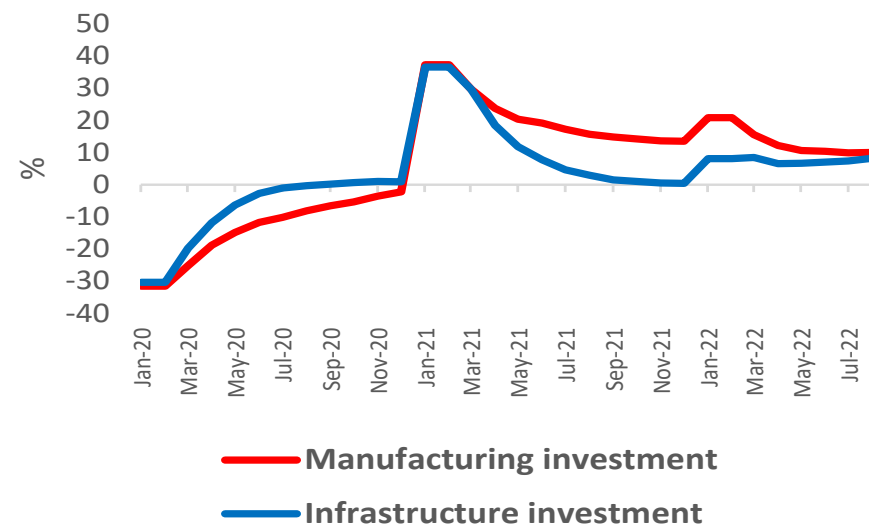
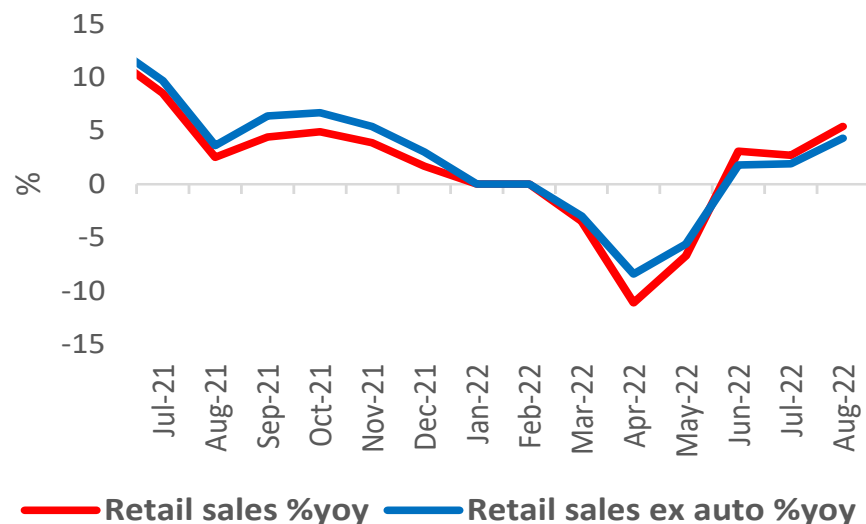
# SG: Upside NODX surprise

- August NODX accelerated from 7.0% YoY (1.4% MoM sa) in July to 11.4% YoY (-3.9% MoM sa). This marked the 21st straight month of NODX growth.
- In absolute level terms, the August NODX is the lowest since May 2022, while NODX to China is the softest since February 2022.
- The upside arose mainly from the surge in pharmaceuticals (+68.8% YoY and -7.9% MoM sa), offsetting the weakness in electronics exports which shrank 4.5% YoY in August (the worst in 31 months due to the high base in 2021).
- For electronics, the drags came from parts of PCs, disk media products and ICs, whereas non-electronics exports (+16.9% YoY) were aided by structures of ships & boats, pharmaceuticals and food preparations.



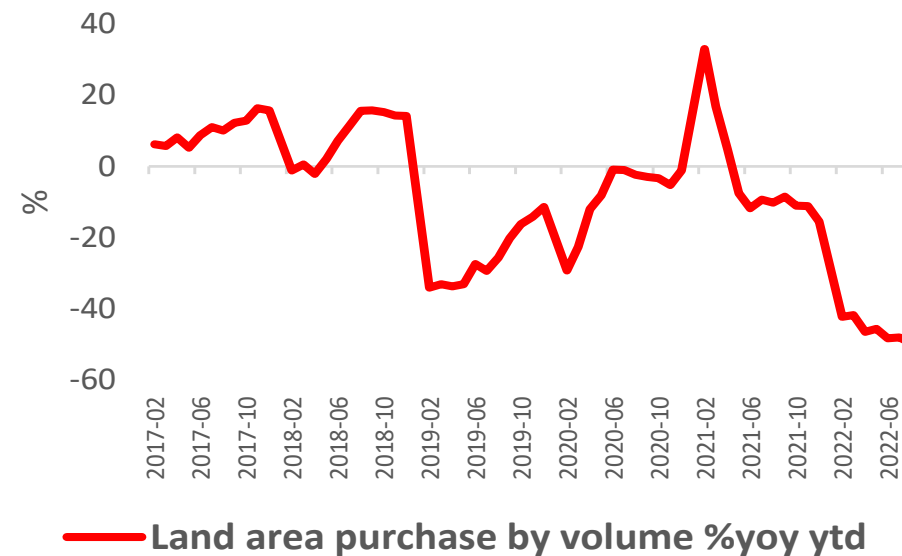
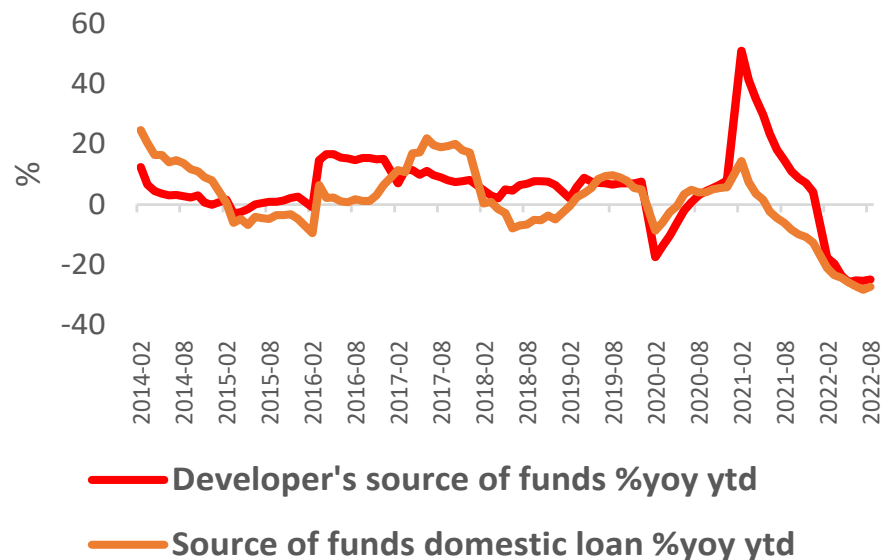
# China: Slew of August data beat market expectations

- China's recovery was led by the auto sector.
- Infrastructure investment is doing the heavy lifting, reversing the declining trend of overall fixed asset investment for the first time in 2022.
- Manufacturing activity remains resilient.
- The property sector will remain China's weakest link for a while.
- Weak sentiment in the household sector remains a key challenge.



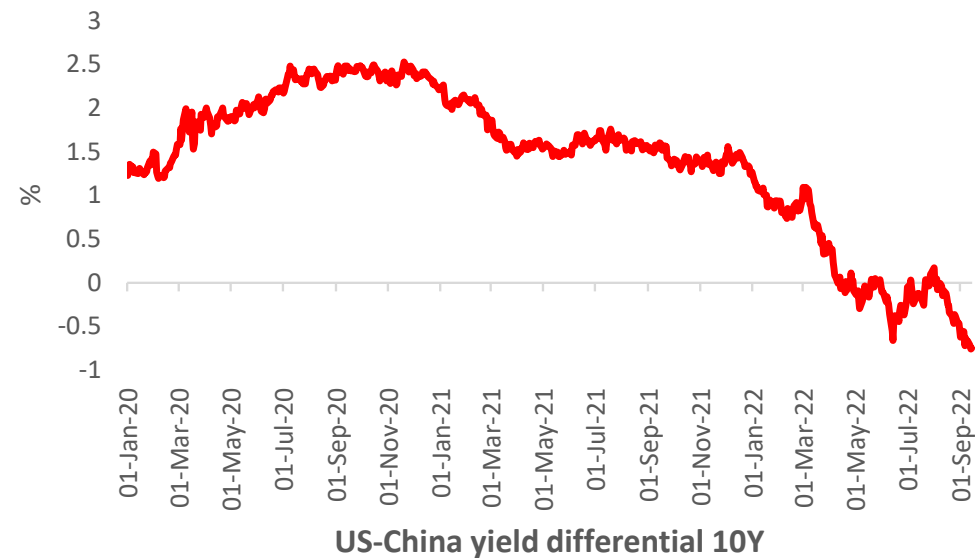
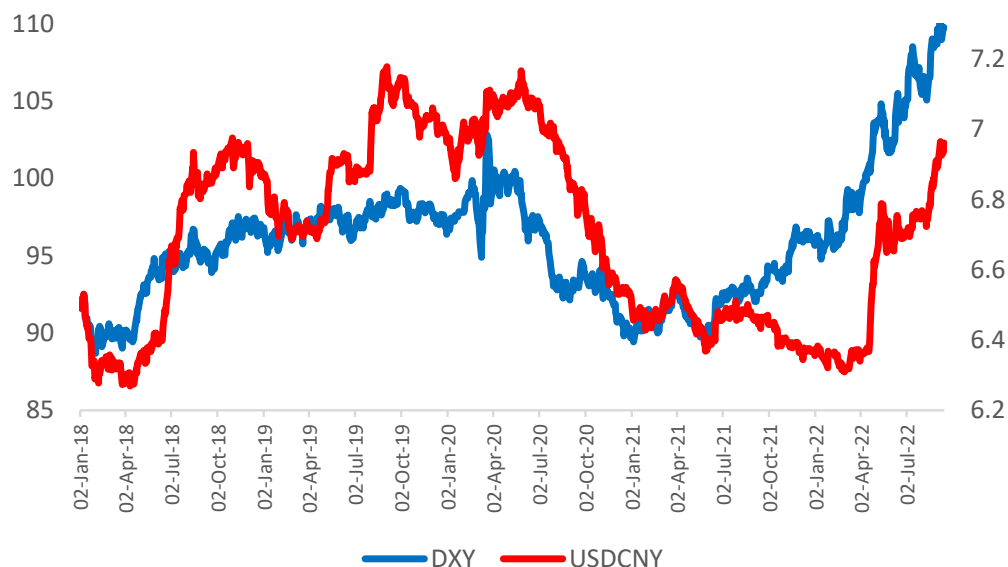
# China: Property market remains the weakest link

- There is still no signs of improvement in the property market. The high frequency data still showed close to 30% YoY decline in property sales in 30 major cities in the first of September. In addition, the weak property market sentiment also showed profound impact on China's fiscal position.



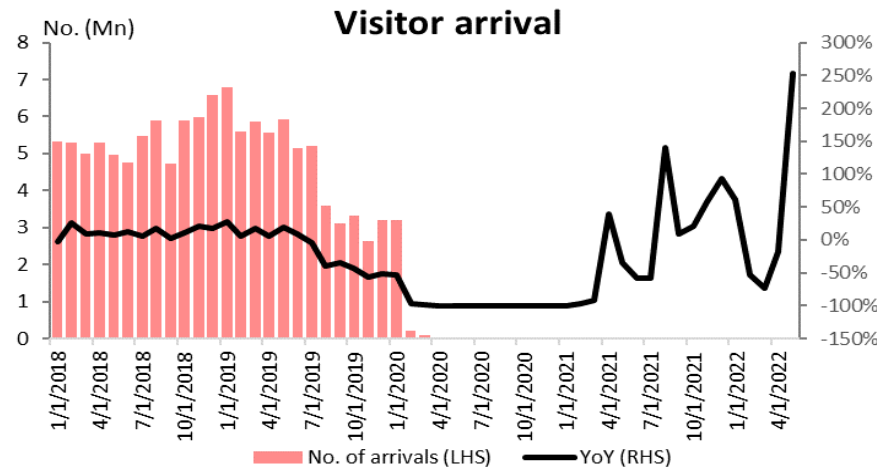
# China: Cause of this year's RMB depreciation

- We think the recent RMB depreciation can be mainly attributed to two reasons including the broad dollar rally and deteriorating expectation.
- Souring sentiment towards the RMB was mainly due to three factors including the widening US-China rate differential, diminishing recovery hope due to the zero-COVID strategy and deteriorating trade outlook.



# HK: Considering scrapping the hotel quarantine requirement

- Hong Kong government is reportedly considering cutting the hotel quarantine and switching to a “0+7” arrangement as daily Covid caseloads show signs of stabilization.
- Currently, arriving visitors are required to undergo three days of quarantine in designated hotels followed by four days of health monitoring, the so-called “3+4” arrangement. Reportedly, the government is actively considering scrapping the hotel quarantine requirement, hence removing the largest obstacle for holding the international banking summit and the Rugby Sevens in coming November.
- The pressure to further ease the border control measures mounted, as economic pain caused by the strict antivirus measures deepened. Over the last two year or so, Hong Kong’s inbound tourism was brought to a standstill and its role as a regional hub was challenged, as a result of the quarantine requirement and shut border. We expect more easing of antivirus measures and border control ahead, though in a gradual and cautious manner.

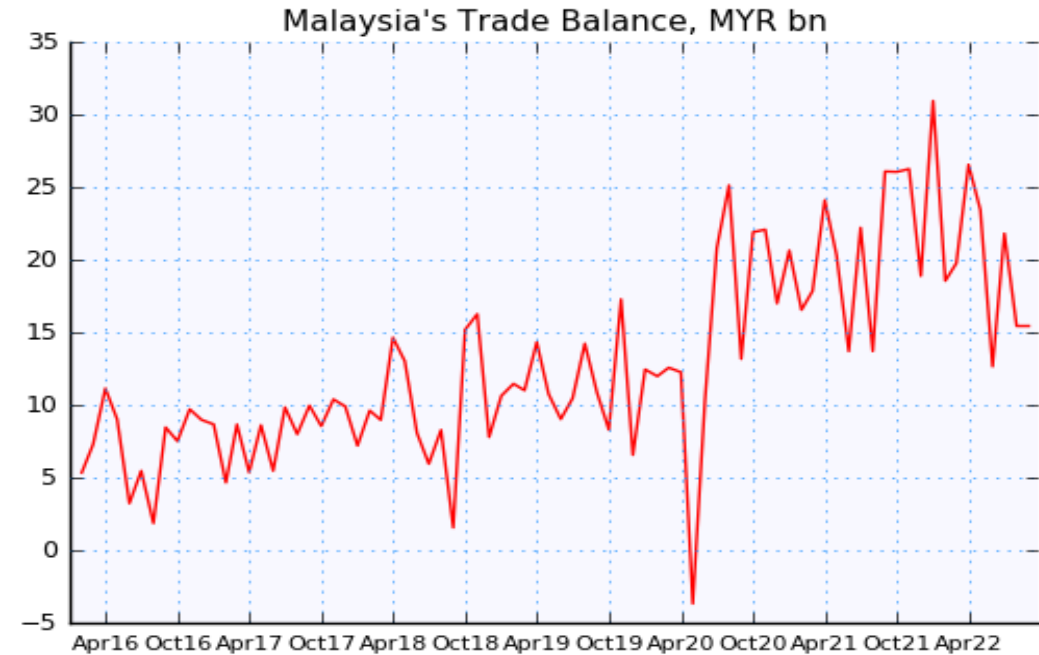
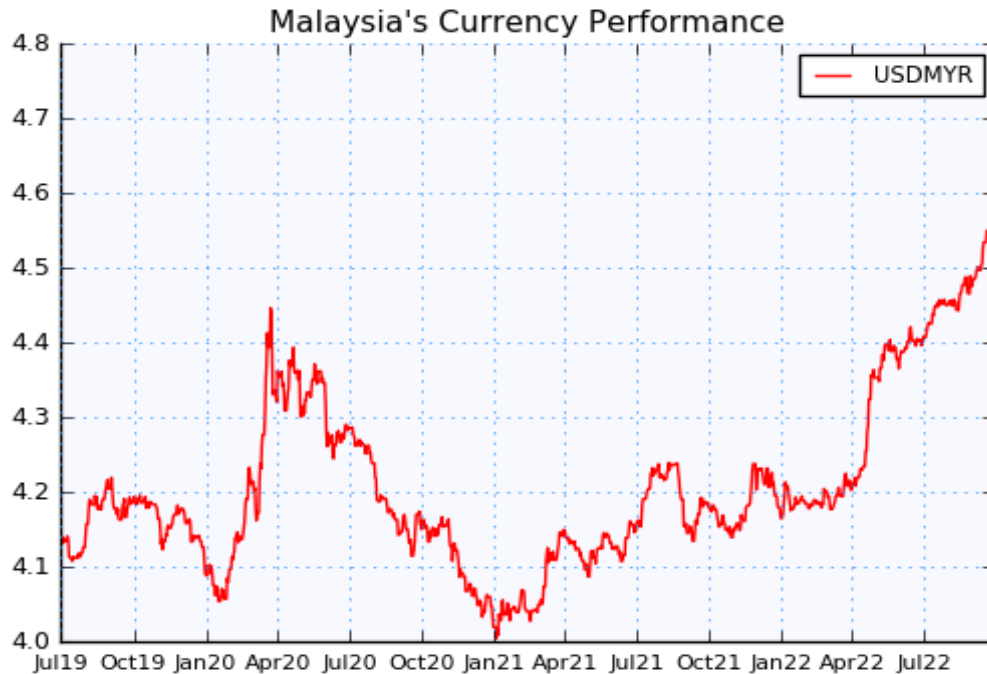


# HK: Fiscal deficit may exceed HK\$100 billion

- According to the Financial Secretary Paul Chan, Hong Kong government's fiscal deficit is expected to grow to over HK\$100 billion in the current fiscal year, the second highest in history (second to that of HK\$232.5 billion in FY2020-21), as tax revenue fell short of expectations. Without the issue of government green bonds totalling HK\$35 billion, the deficit number may look even worse. As a result, government's fiscal reserves may fall further to HK\$800 billion by the end of this fiscal year.
- The weaker-than-expected economic performance weighed on profits and salaries tax revenue. Aside from the decrease in taxable profits and incomes, we also noticed the decline in the number of taxpayers. In June, 2.47 million tax returns were sent to taxpayers, down from that of 2.77 million and 2.62 million in the previous two years.
- Other than the profits and salaries tax revenue, the stamp duty revenue could also fall short of expectation as turnover of stocks and transactions of residential properties declined significantly. The average daily turnover of Hong Kong stocks in the first five month of this fiscal year (April to August 2022) was 26% lower than that of last year, while total transactions of residential properties also fell by more than one third. Added to that, given the ongoing consolidation in the local property market, the land premium income should come in markedly below that of estimates.

# Malaysia: Higher levels

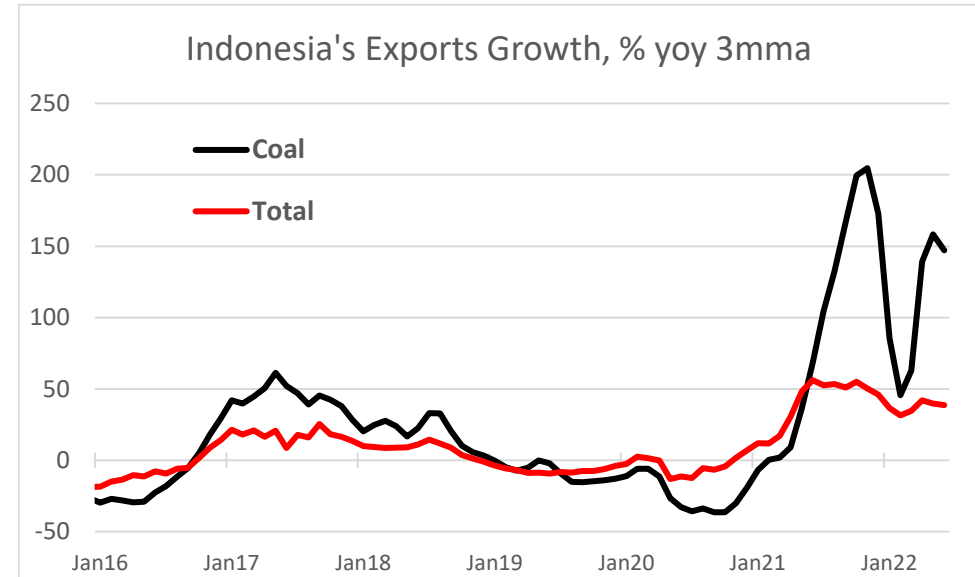
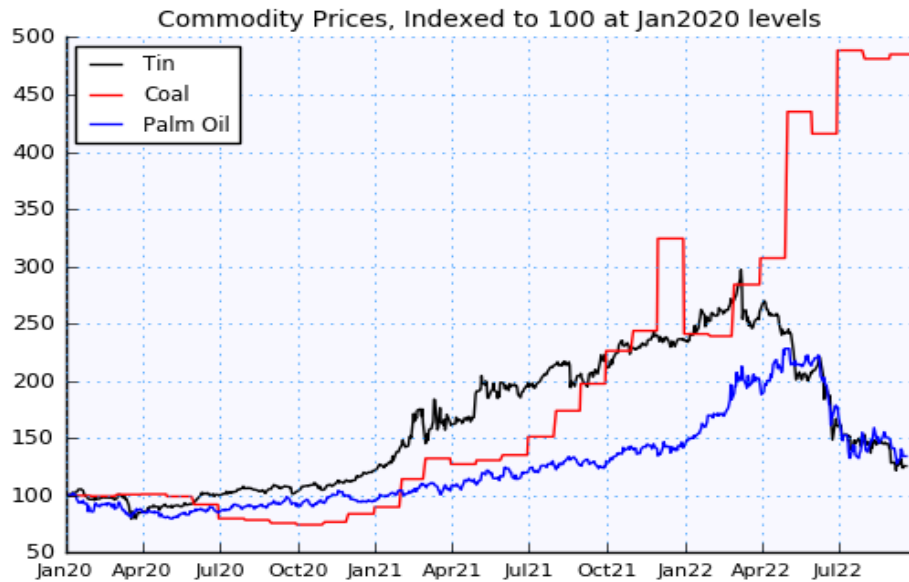
- Malaysian ringgit continued to trek new levels against the greenback in recent weeks, breaching 4.50% level, for instance. On a trade-weighted basis, the currency has not fared as badly, however, given that other major regional currencies have also weakened against the USD.
- Still, in the coming months, there might be concerns that Malaysia's export receipts – which have bolstered the country's external balances and currency – may start to become less supportive due to a turn in the global semiconductor cycle.





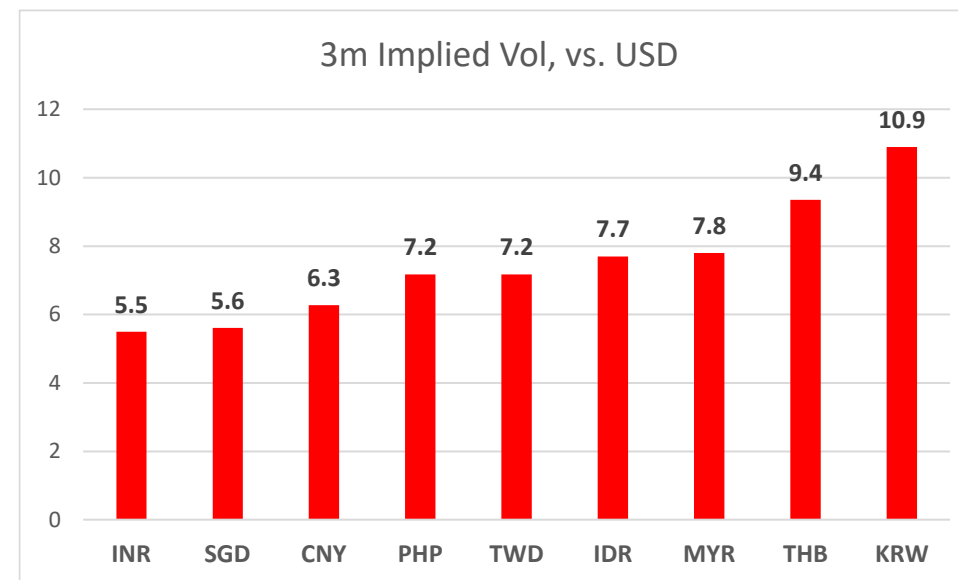
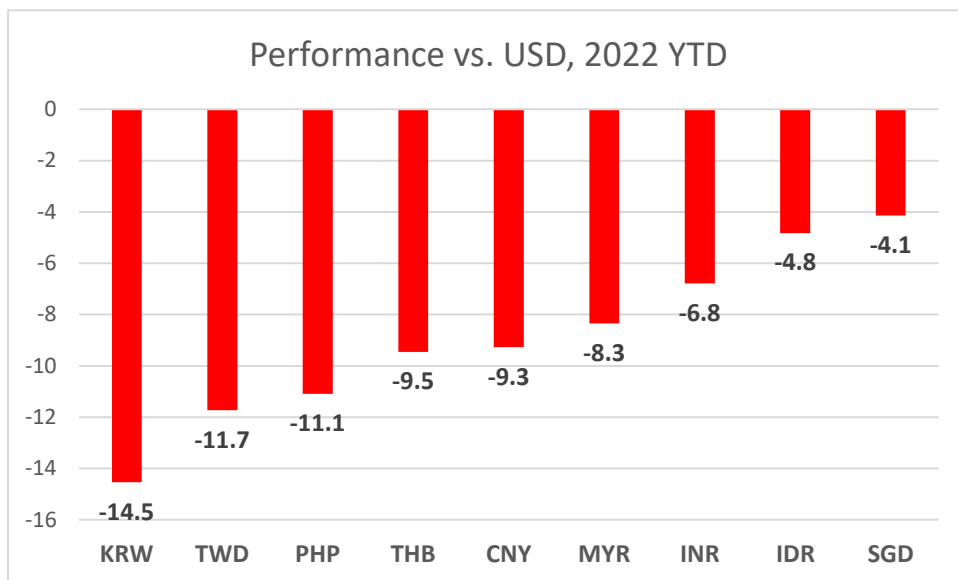
# Indonesia: Coal comfort

- While there have been some considerable pullback in commodity prices globally, Indonesia has been lucky in that its main commodity exports – that of coal – have been largely unencumbered.
- Indeed, the coal prices continues to skyrocket, unlike other commodities which have softened. This has been driven in part by continued demand from power plants that are gearing up for shortages of other fuel such as gas from Russia.
- At least in the near term, the popularity of coal has helped to power Indonesia's exports and protect its current account balance.



# Indonesia: Currency stability

- Helped by the current account stability due to coal-related receipts, the Indonesian rupiah has stayed remarkably resilient, even in the face of renewed USD strength.
- Such an environment cannot be taken for granted, especially if the central bank were to somehow dismiss the need to hike policy rate further to fight against the fuel-driven inflation risk.
- Hence, we see BI hiking rate by 25bps in the upcoming meeting on 22 Sept.





**ESG**

# ESG: SG's Financial Services Industry Transformation Map 2025

- MAS launched the Financial Services Industry Transformation Map (ITM) 2025 comprising 5 key strategies:
  - Enhance asset class strengths
  - Digitalise financial infrastructure
  - Catalyse Asia's net-zero transition\*
  - Shape the future of financial networks; and
  - Foster a skilled and adaptable workforce

## \*Catalyse Asia's net-zero transition

- MAS is working with the industry to **provide greater clarity on transition activities** through the development of an industry-led taxonomy for priority sectors, **facilitate decarbonisation of real economy sectors** through financing solutions, **enhance sustainability disclosures and build data utilities** e.g. Project GreenPrint, to facilitate investors' access to companies' ESG data, and **provide S\$100mil grant funding over 2021-2025** for capability building, green FinTech, climate risk and reinsurance, and solutions for sustainable and transition finance.



# FX & Rates

# FX & Rates: Central banks in focus

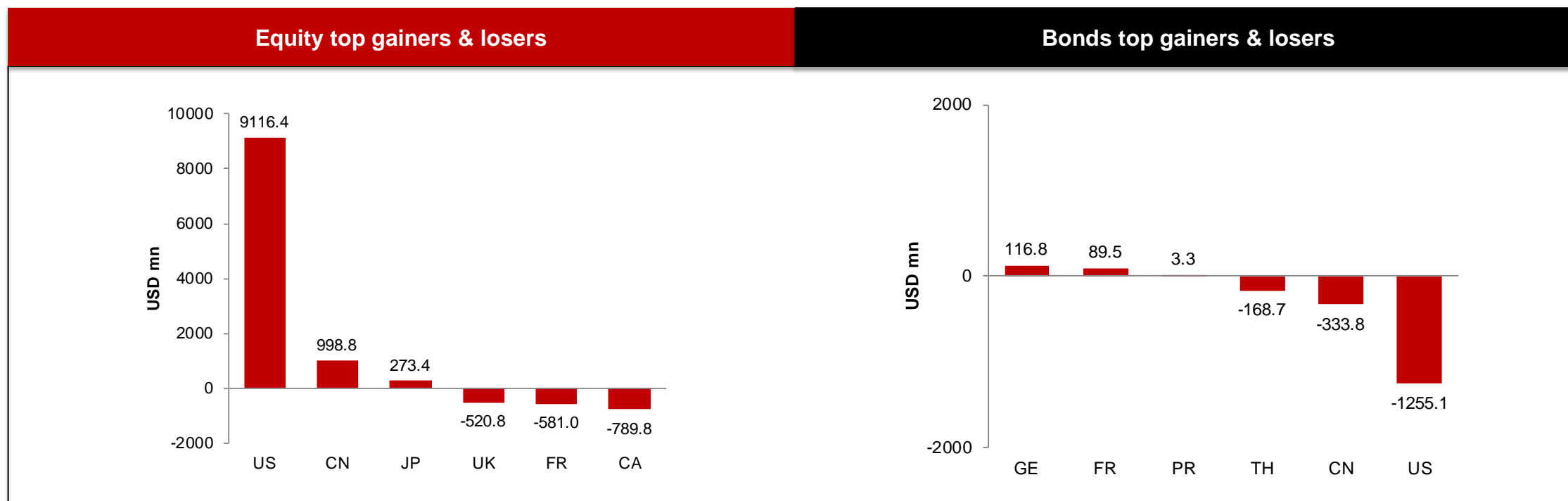
- USD OIS pared back rate hike expectation slightly, mostly expecting a 75bps hike at this week's FOMC meeting, with a 20% chance seen for a 100bps hike; terminal rate is priced at 4.5% from above 4.6% prior. Market will also eagerly watch the median dot for 2023, which was 3.75% (corresponding to a range of 3.625-3.875%) at the last update; the bar is not high for the peak Fed funds rate to be plotted at 4.00-4.25% - i.e. for the median dot to be pushed to 4.125% with 5 dots at or above such level at the last update already. We have also pushed up our expected Fed funds terminal rate to 4.00-4.25%, from 3.75-4.00% as we originally expected. This terminal rate can be achieved by a 75bps-50bps-25bps-25bps hiking schedule; risk is our expected final 25bps hike would also be delivered within this year if USD core CPI refused to moderate.
- DXY's rebound last week lacks follow-through as DXY is caught in a holding pattern ahead of key event risk - FOMC on Thu (2am SG time). To recap, the hotter than expected core CPI saw a hawkish re-pricing of Fed rate expectations. A 75bps hike at the upcoming FOMC remains our house view. Though core inflation proves stickier than earlier expected, we do not expect a shift to 100bps hike as the "totality" of the inflation picture may perhaps be more encouraging than the core CPI print. Other measures of price pressures (headline CPI, wage growth, ISM prices, etc.) have been slowing, albeit still at elevated levels while inflation expectations (both NY Fed and Uni of Michigan 1Y ahead inflation) are heading lower. While a hawkish Fed is now the base line scenario, we caution that a Fed that is perceived as less hawkish could see DXY ease lower post-decision. Meantime, in the lead-up to FOMC, expect caution to keep USD broadly supported on dips.
- Rise in USDSGD stalled near its double/triple-top resistance. Pair was last at 1.4075 levels. Mild bullish momentum on daily chart intact while RSI rose. Risks skewed to the upside especially if USDCNH continued to push higher. A rapid CNH depreciation could drag more on AxJs including MYR, SGD THB, KRW. Resistance here at 1.4090, 1.4110 levels (double, triple-top resistance). Support at 1.4010 (21 DMA), 1.3920 (50DMA). S\$NEER is trading ~1.50% above mid-point.



# Asset Flows

# Global Equity & Bond Flows

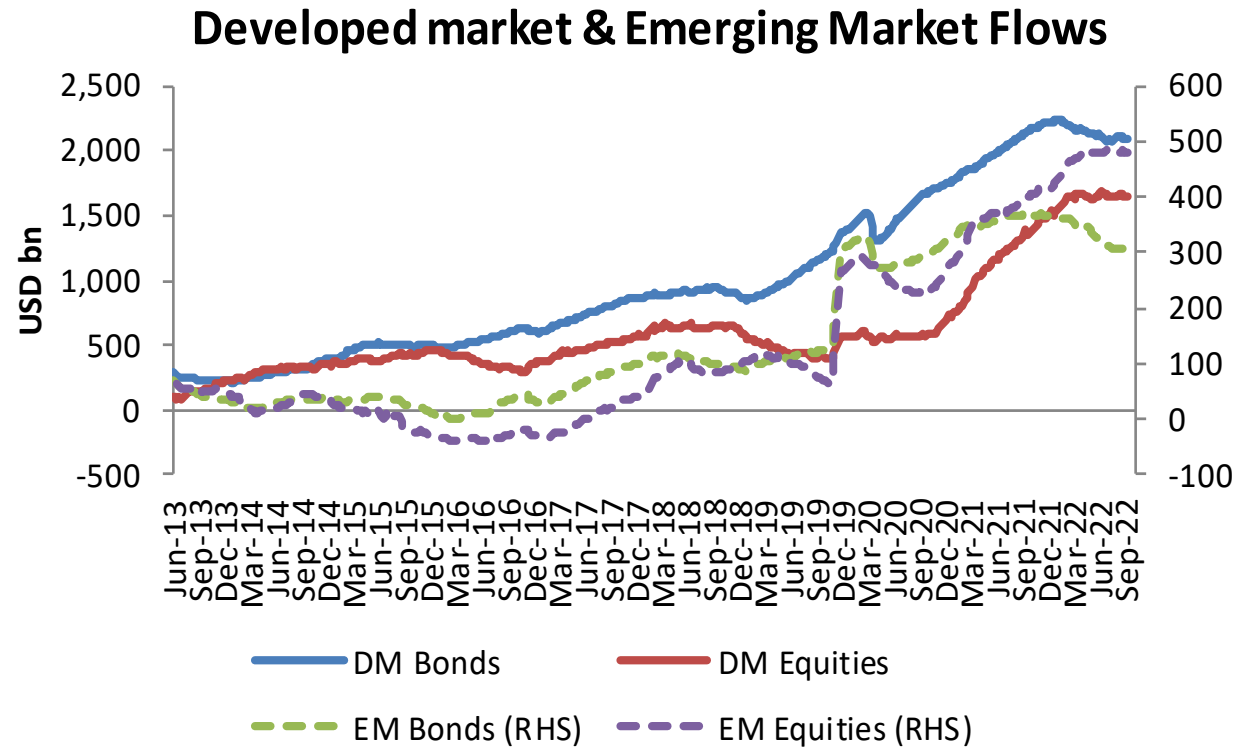
- Global equity markets saw net inflows of \$6.4bn for the week ending 14<sup>th</sup> September, an increase from the outflows of \$14.5bn last week.
- Global bond market reported net outflows of \$2.7bn, an increase from last week's outflows of \$1.8bn.





# DM & EM Flows

- DM equities saw \$6.1bn worth of inflows while the EM-space registered \$0.3bn worth of inflows.
- Elsewhere, the DM bond space posted outflows of \$1.1bn, and EM bonds registered outflows of \$1.5bn.



 Thank you

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