Weekly Macro Views (WMV)

Treasury Research & Strategy (24th May 2022)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

23th May	24th May	25th May	26th May	27th May
- GE IFO Business Climate - SI CPI YoY - GE IFO Expectations - HK CPI Composite YoY - GE IFO Current Assessment - SI CPI NSA MoM - TA Industrial Production YoY	- US New Home Sales - JN Jibun Bank Japan PMI Mfg - GE S&P Global/BME Germany Manufacturing PMI - EC S&P Global Eurozone Manufacturing PMI - UK PSNB ex Banking Groups	- US Durable Goods Orders - US MBA Mortgage Applications - VN CPI YoY - SI GDP YoY - GE GDP SA QoQ - MA CPI YoY - US Durables Ex Transportation - GE GDP NSA YoY	- US Initial Jobless Claims - US GDP Annualized QoQ - SI Industrial Production YoY - HK Exports YoY - CA Retail Sales MoM - US GDP Price Index - US Pending Home Sales MoM	- NZ ANZ Consumer Confidence Index - US U. of Mich. Sentiment - JN Tokyo CPI Ex-Fresh Food YoY - AU Retail Sales MoM - US Personal Income - US Personal Spending - TA GDP YoY

Summary of Macro Views:

Global	• **Global:** Central Banks • **Global:** US retail sales remained resilient • **Global:** US initial jobless claims rose for the third straight week • **Global:** UK inflation soared to a 40-year high • **Global:** Eurozone's record-high inflation prompts ECB's upcoming July rate hike
Asia	• **SG:** Visitor arrivals gradually back on track • **SG:** Inflation surges, but more upside lies ahead • **HK:** Unemployment rate rose further • **MO:** Visitor arrivals saw moderated decline

Asia	• **CN:** Coordinated fiscal/monetary policies • **CN:** Property remains a wild card • **CN:** Moving to tail risk management • **ID:** Time for a hike • **MA:** Trade is still supportive
Asset Class	• **ESG:** Tackling plastic waste in Malaysia • **FX & Rates:** Curve flatten on growth concerns
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: Central Banks

Forecast – Key Rates

Bank Indonesia (BI)	Reserve Bank of New Zealand (RBNZ)	Bank of Korea (BoK)
Tuesday, 24 May	**Wednesday, 25 May**	**Thursday, 26 May**

House Views

7D Reverse Repo	*Cash Rate*	*7D Repo Rates*
Likely hike by 25bps from 3.50% to 3.75%	**Likely hike by 25bps from 1.50% to 1.75%**	**Likely hike by 25bps from 1.50% to 1.75%**

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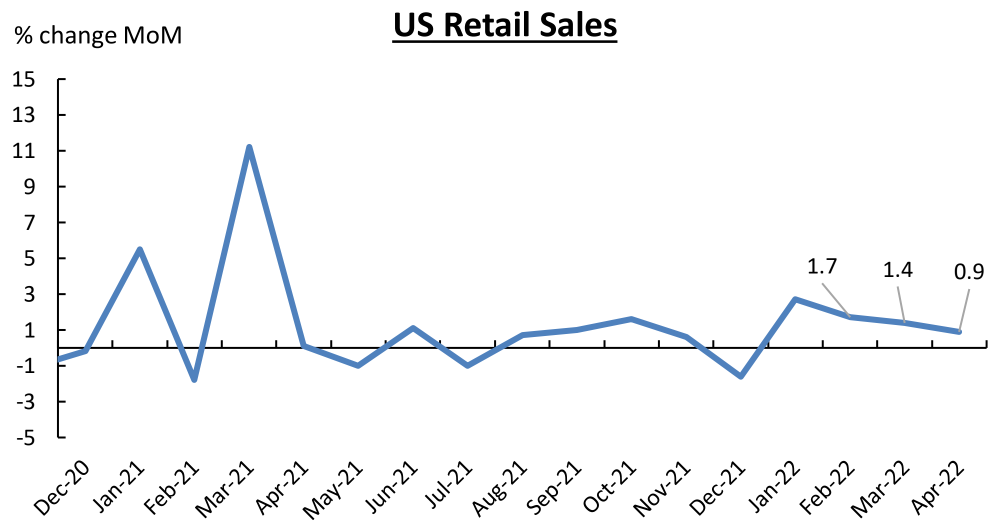
Source: OCBC, Bloomberg

Global: US retail sales remained resilient

- US retail sales rose 0.9% MoM in April, suggesting strong consumer demand despite the 40-year high inflation.
- According to the U.S. Department of Commerce, the increase in sales was driven by a rise in cars, electronics, pharmaceuticals and restaurant sales.



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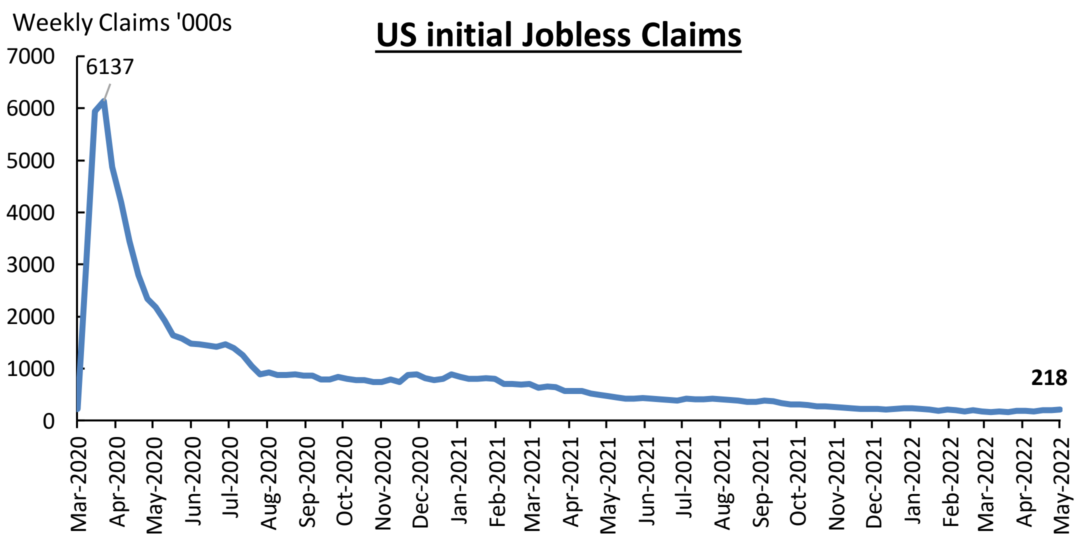
Source: OCBC, Bloomberg, U.S. Census Bureau

Global: US initial jobless claims rose for the third straight week

- Initial jobless claims unexpectedly rose 21k to 218k – the highest level since January – for the week ended 14th May.
- This marks the third straight week of increase, hinting at a possible easing of labour demand. Nonetheless, the labour market remains tight, with jobless claims still at a historically low level.
- Meanwhile, continuing claims fell 25k to 1.32 million, further feeding the rhetoric of a tight labour market that is driving wages and hence inflation up.



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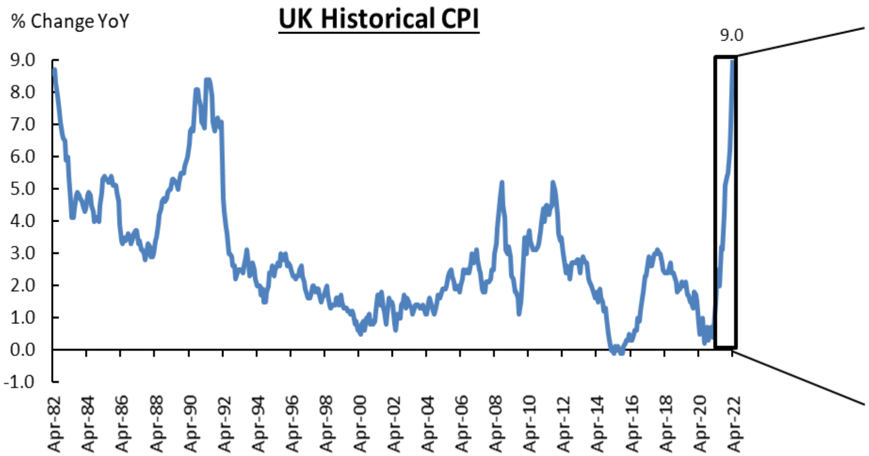
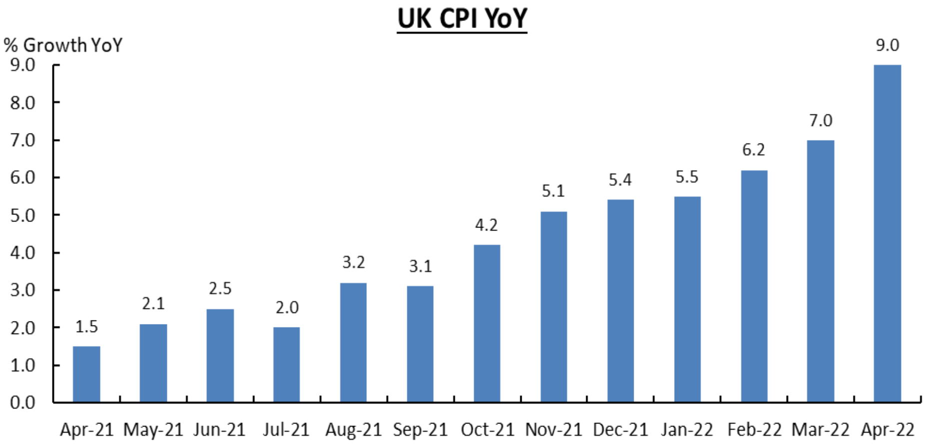
Source: OCBC, Bloomberg

Global: UK inflation soared to a 40-year high

- UK Inflation hits a 40-year high of 9% YoY in April, up from 7% YoY in March. This is in line with BoE's estimate that inflation is likely to hit 10% within this year.
- The biggest inflation driver comes from rising household energy bills as a result of the surge in energy costs for gas and electricity. This reflects the rapidly accelerating costs of living in UK.
- Economic shocks are hitting UK harder than other developed economies, with UK facing the highest inflation among the G7 members.





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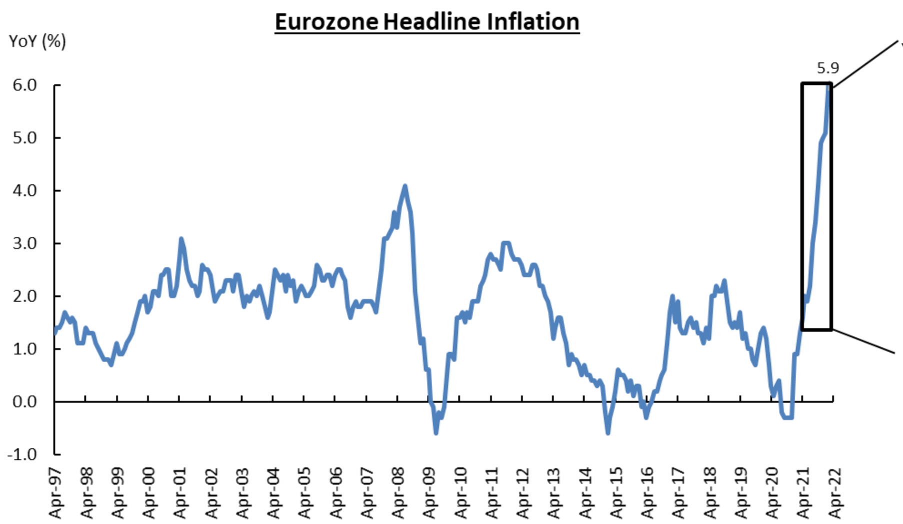
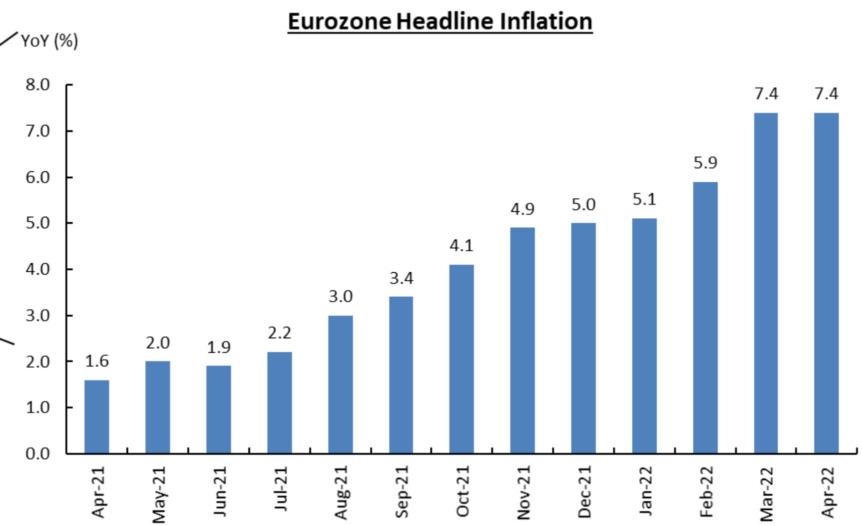
Source: OCBC, Bloomberg, UK Office for National Statistics

Global: Eurozone's record-high inflation prompts ECB's upcoming July rate hike

- EU CPI remains elevated at 7.4% YoY in April – nearly quadruple the ECB's inflation target of 2.0%.
- Rising energy prices (+3.70%) is the largest contributor of the high inflation – as expected from tight energy supply due to the ongoing Russia-Ukraine war, followed by services (+1.38%), food, alcohol & tobacco (+1.35%) and non-energy industrial goods (+1.02%).
- This has cemented ECB's decision to hike its benchmark rate in the upcoming July meeting. ECB's president, Lagarde, hinted that the first rate hike in more than a decade is likely to start in July, and is expected to exit the negative interest rate territory by the end of September. However, Lagarde has reiterated that the rate hikes will be a gradual one.

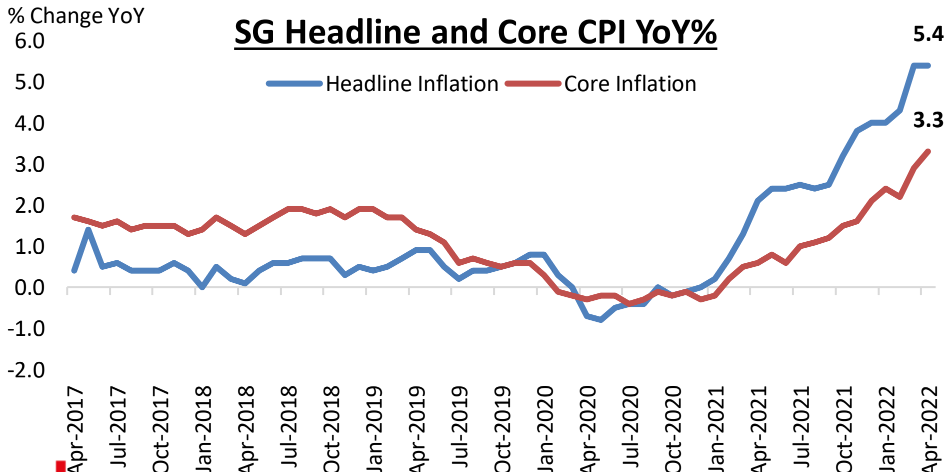




Source: OCBC, Bloomberg, Eurostat

SG: Inflation surges, but more upside lies ahead

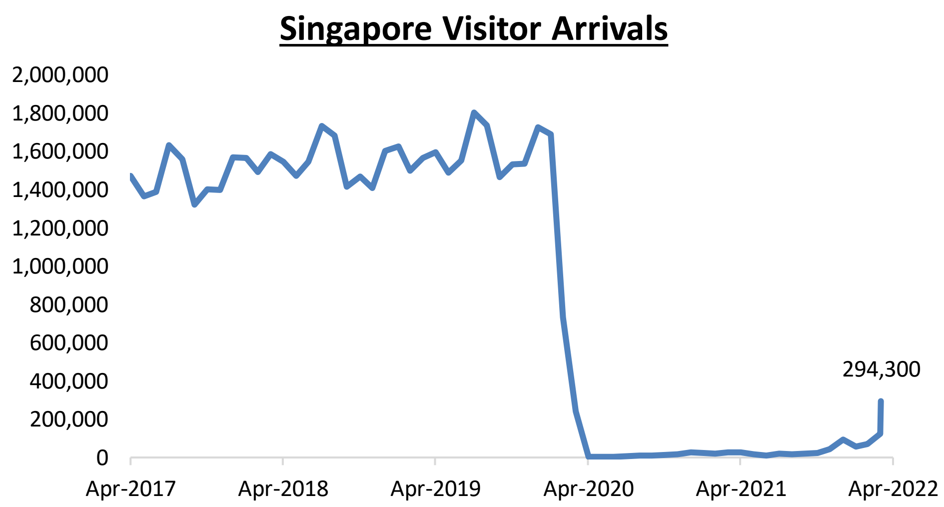
- Singapore's headline and core CPI printed at 5.4% YoY (-0.1% MoM) and 3.3% YoY (0.4% MoM) in April, but more upside lies ahead.
- We believe that there may still be little respite in the coming months due to the persistent global supply chain issues and elevated food and energy prices. Moreover, domestic cost pressures like wages due to the tight labour market conditions may prompt more businesses to pass on the cumulated cost increases to end-consumers, ultimately fueling further inflationary pressures.
- Looking ahead, core CPI is likely to breach the 4% YoY handle from June onwards while headline CPI will also hover above the 5% YoY handle for the foreseeable future.
- Our revised headline CPI forecast stands at 5.5% (previously 5.0% YoY) and core CPI may surpass the upper bound of the 2.5-3.5% official forecast to come in closer to the 4.0% YoY handle (previously 3.5% YoY). This reinforces our expectation that the window is still open for another monetary policy tightening at the October MPS.



Source: OCBC, Bloomberg

SG: Visitor arrivals gradually back on track

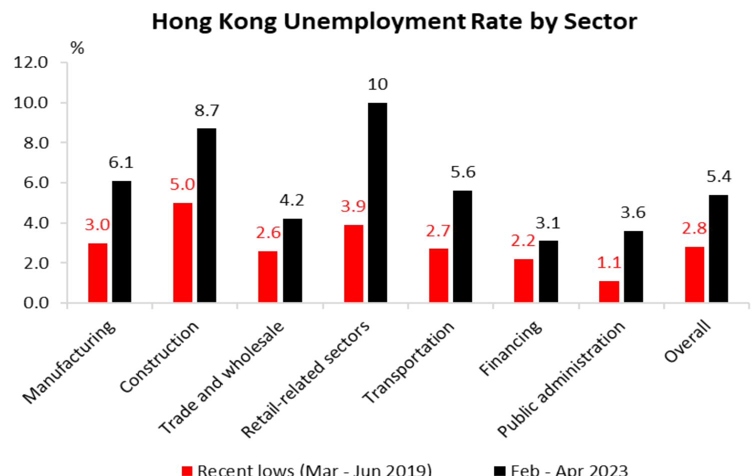
- Singapore visitor arrivals rose for the third straight month to 294,300 in April – the highest level since the onset of the Covid pandemic
- This comes as Singapore reopened its borders to all travelers who are fully vaccinated and removed all vaccinated travel lanes (VTLs) in April.
- Whilst visitor arrivals are still far from pre-pandemic levels, international visitor arrival numbers are expected to pick up speed as international travel gradually resumes.

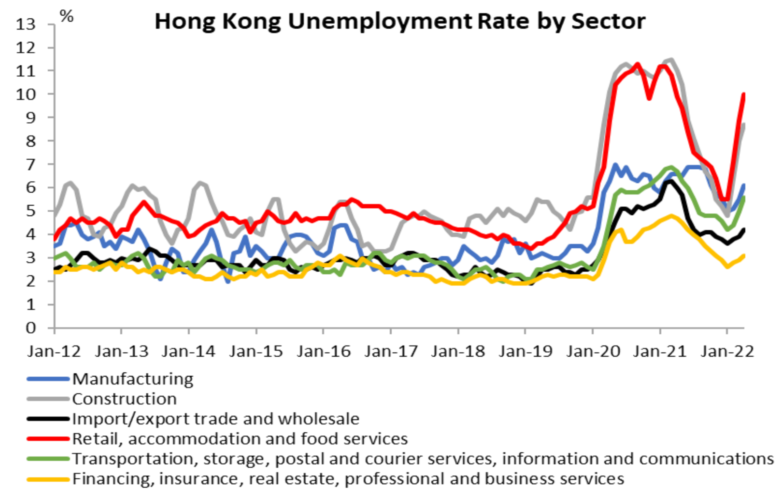


Source: OCBC, Bloomberg

HK: Unemployment rate rose further

- The labour market situation in Hong Kong remained dire, with unemployment and underemployment rate rising further by 0.4 and 0.7 percentage point, to 5.4% and 3.8% respectively in February– April 2022. All the major economic sectors recorded higher unemployment and underemployment rates, the third month in a row.
- The surge in jobless rate can be largely attributed to Omicron outbreak since January this year. Unemployment rate rose notably from 3.9% in November 2021 – January 2022 to 5.4% in February – April 2022. During the same period, the unemployment rate in retail, accommodation and food sectors rose from 5.5% to 10.0%, as the consumption-related activities were disrupted by social distancing measures.
- The labour market should see improvement in the coming months, in tandem with the stabilized epidemic situation, phase two reopening measures, rollout of consumption voucher scheme, and the job support measures.





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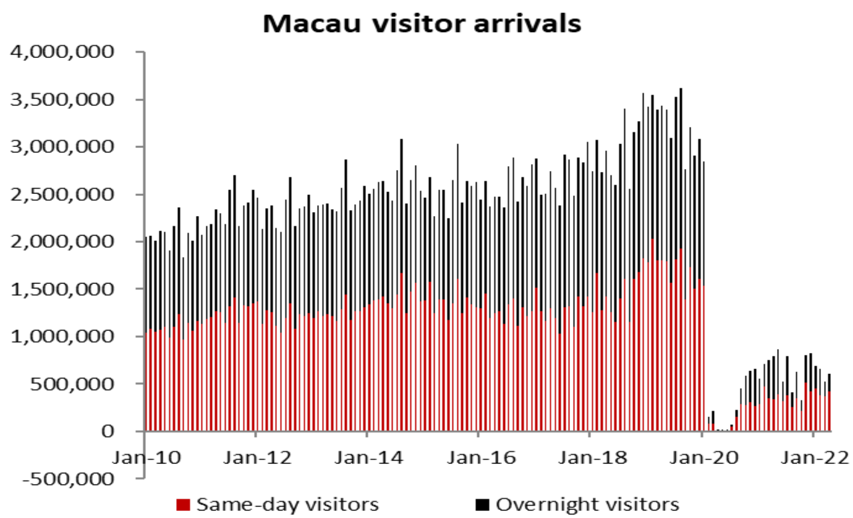
Source: HK Census and Statistics Department, OCBCWH

Macau: Visitor arrivals saw moderated decline

- Macau's visitor arrivals saw further year-on-year decline, albeit by a moderated pace, at 23.7% in April, largely due to the antivirus restrictions and border control in the region. On top of that, the slowing growth in Mainland China, may further weigh on inbound tourism sector in Macau.
- The number of visitor arrivals grew by 15.2% in April compared to the prior month as major cities in the Guangdong province reopened in late March after lockdown (Shenzhen) and eased some restrictive measures. The number of overnight visitors fell sharply by 59.8% YoY, while that for same-day visitors rose further by 23.7% YoY.
- As major Chinese cities moved closer to gradual resumption of businesses and productions, we expect the visitor number crunch may be eased in periods ahead. Nonetheless, as the growth momentum slowed in Mainland China, the number of inbound visitors may still stay at a relatively low level, stalling the pace of economic recovery in Macau.



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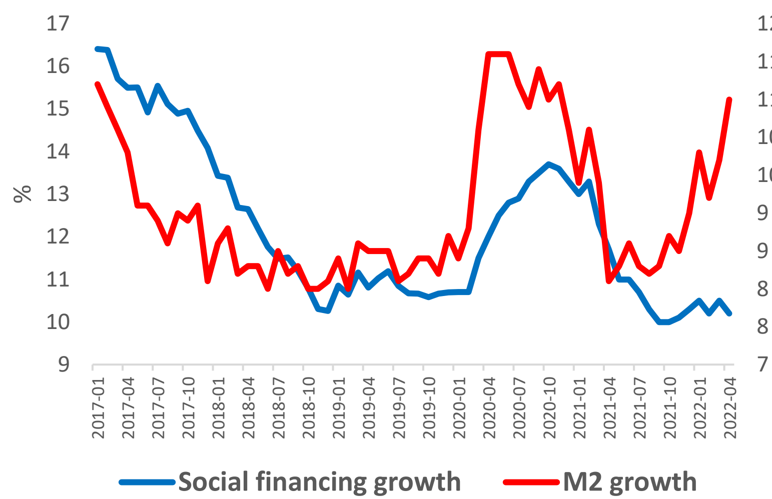
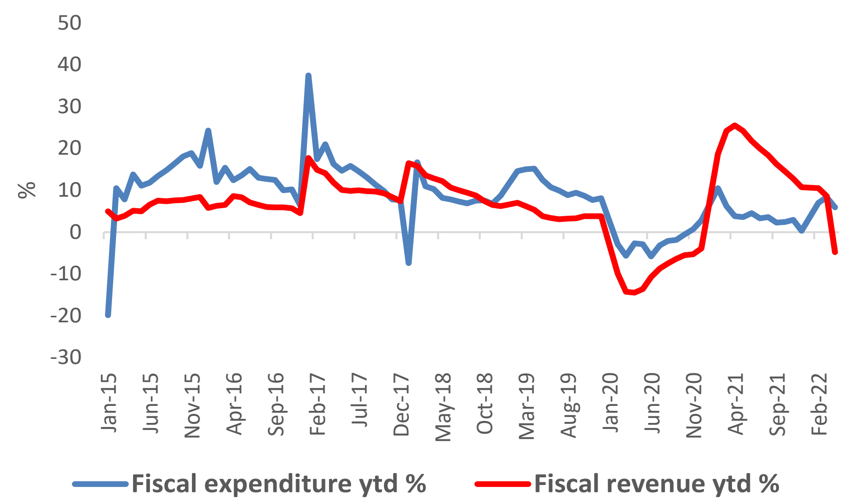
Source: DSEC, OCBCWH

China: Coordinated fiscal/monetary policies

- The divergence between M2 growth and aggregate social financing growth this year showed weak demand for credit.
- But it was also partially due to front loaded fiscal policy. For example, the CNY800 bn VAT tax refund was mainly financed by PBoC profit transfer.
- The coordinated fiscal and monetary policies are positive for sentiment.





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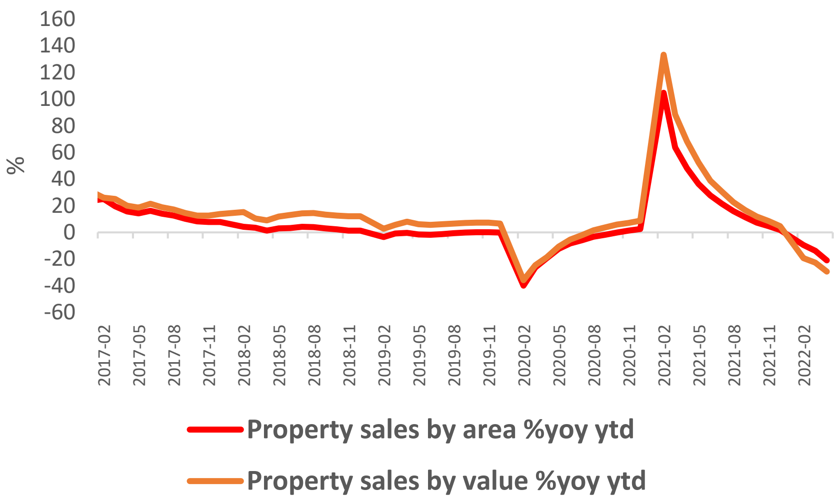
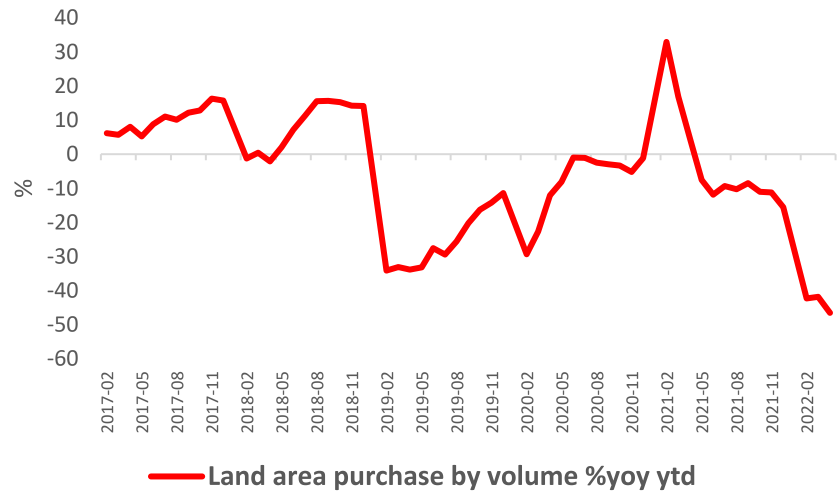
Source: OCBC, Bloomberg, Wind

China: Property remains a wild card

- Despite falling mortgage rates, China's property sales by both value and volume continued to fall.
- Property investment remained positive in 1Q, but this is mainly because of land acquisition last year, even though the land area purchase by volume has dropped significantly this year.





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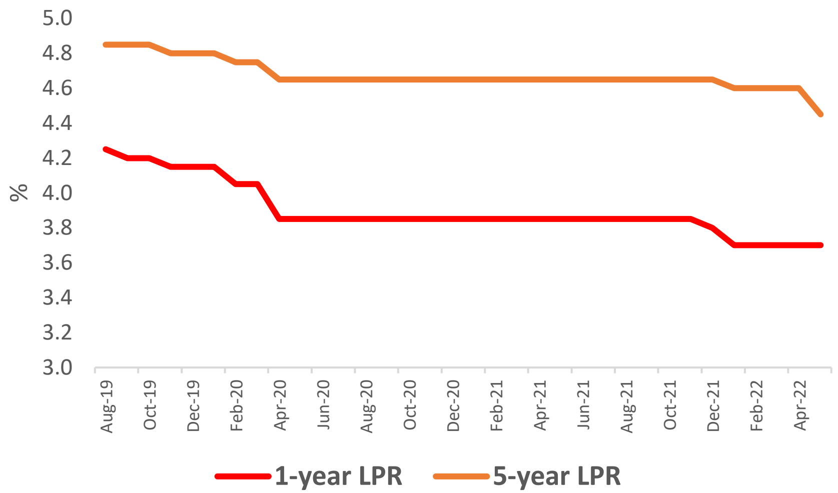
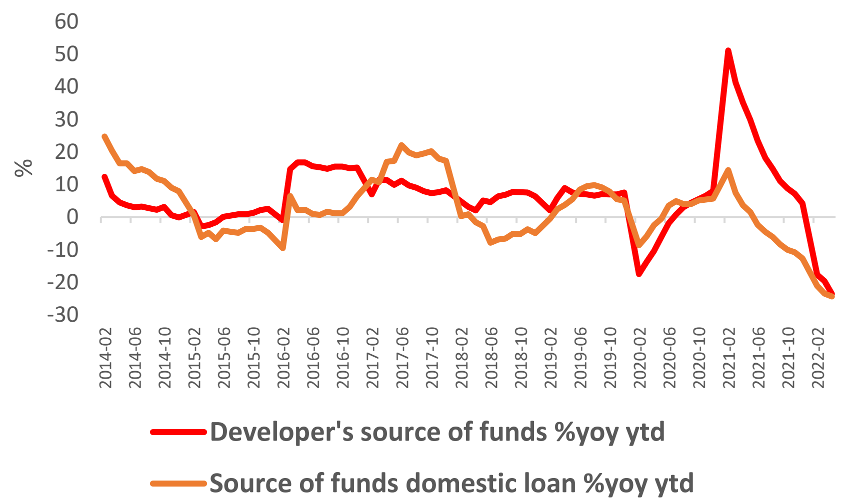
Source: OCBC, Bloomberg, Wind

China: Moving to tail risk management

- China lowered the 5-year LPR by 15bps in May. In addition, China also allowed the banks to lower its floor of mortgage rate for first-time buyers by 20bps. This is the first property easing measure on a national level.
- Watch out for developers' funding situation going forward.





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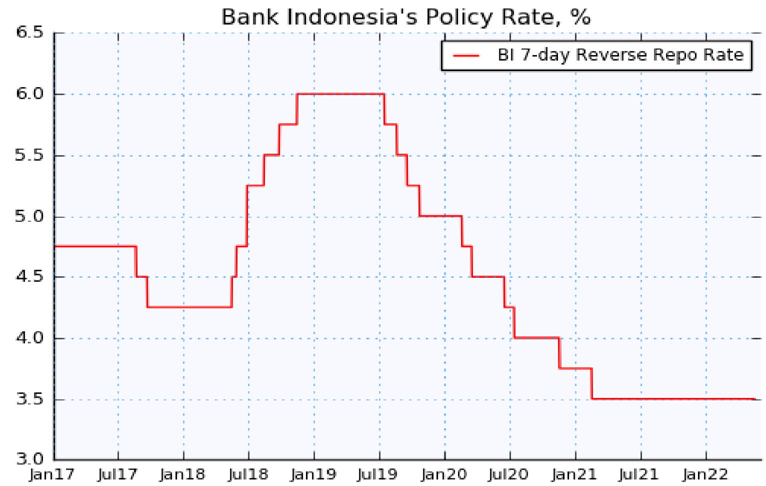
Source: OCBC, Bloomberg, Wind

Indonesia: Time for a hike

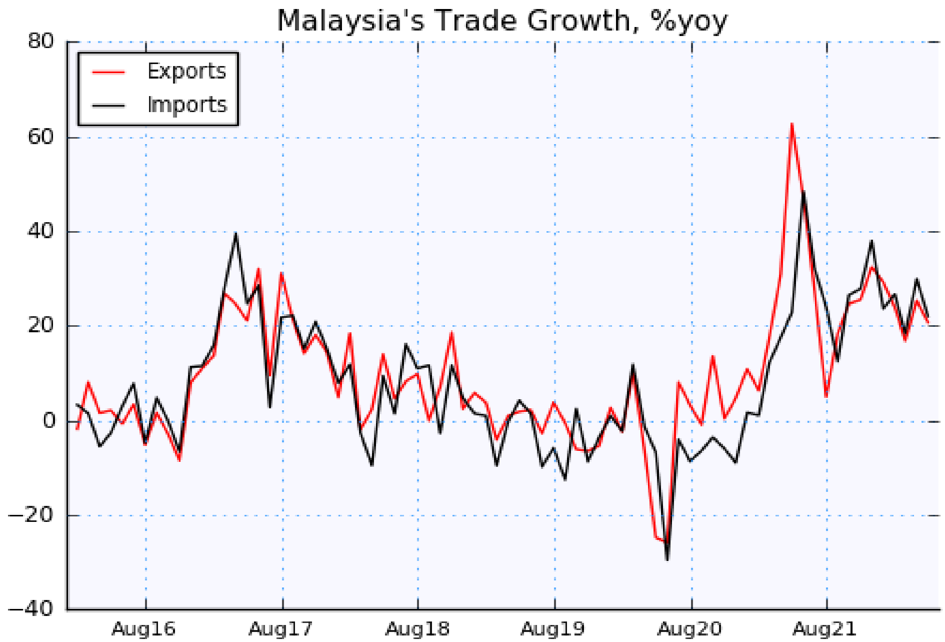
- Overall, Bank Indonesia has continued to note that it is not in a big hurry to respond to the inflation risk because core inflation remains relatively contained. However, with every gyration in market sentiment – especially on Rupiah – there is a risk of being perceived to be behind the curve on inflation, given how the other central banks have tightened already.
- 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. For the year as a whole, we see 100bps rate increase.

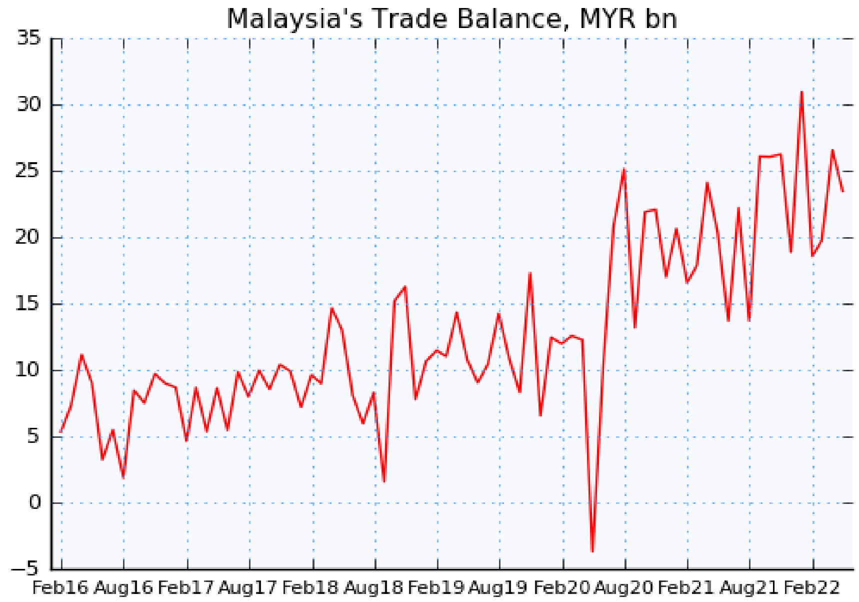


Source: OCBC, Bloomberg

Malaysia: Trade is still supportive

- Malaysia reported its exports data for the month of April. At 20.7% YoY, it came broadly in line with the market expectation of 19.9% YoY. The mainstay of electrical and electronics shipments continued to support the bulk of the exports strength.
- Imports did come in softer, at 22% YoY growth compared to over 23% expected. Trade surplus clocked MYR23.55bn, a tad higher than expected.





Source: OCBC, Bloomberg

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ESG

ESG: Tackling plastic waste in Malaysia

- In Malaysia, all state governments have agreed to implement a pollution charge on plastic bags used with a minimum value of 20 sen for each plastic bag through the 'No Plastic Bag' campaign that has already been carried out in Penang, Selangor and Johor.

- The Selangor government has set five policies regarding the operation of factories and premises processing recycled plastic waste in the state to prevent pollution, including:

    1. The ban on imports of recycled plastic waste by all factories in Selangor that conduct plastic recycling;

    2. New business licenses for recycled plastic factories will not be considered and approved by the state authorities and local authorities;

    3. Existing factories with legitimate business licenses can continue to operate, subject to the conditions of the Environmental Impact Assessment technical committee and additional conditions.

- This is to reduce plastic pollution as a result of poor waste management from imports of plastic waste, leading to complaints from residents and detrimental impact on the environmental and public health.

Source: The Star

FX & Rates

FX & Rates: Curve flatten on growth concerns

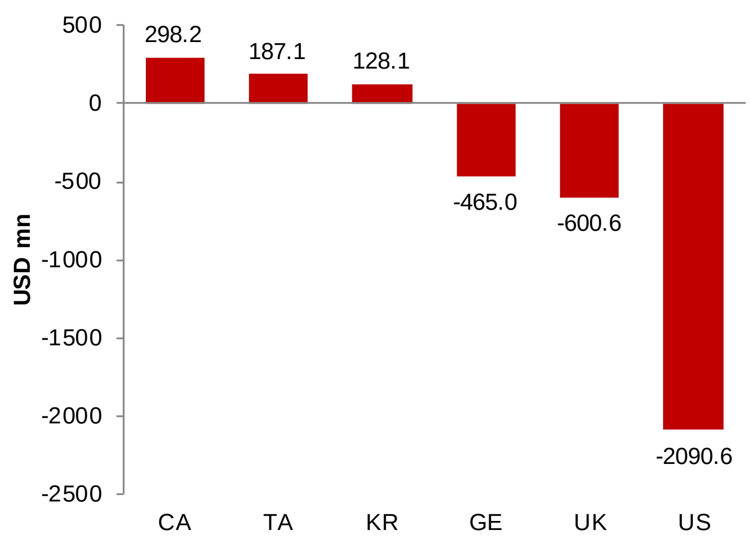
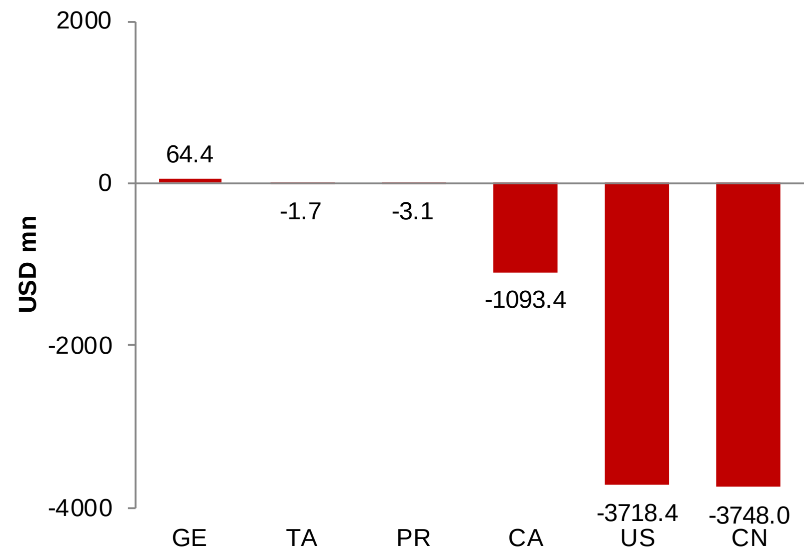
- The UST curve bullish flattened on Friday amid growth concerns, while market held onto rate hike expectations especially still seeing a 50bps Fed rate hike each at the June and July FOMC. As the 10Y yield retraced by 20bps over the past four sessions, there appears to be no first-tier economic data material enough to alter the Fed's rate hike trajectory at least for the next couple of meetings, we maintain our range-trading view and expect the 10Y UST yield to be capped at around 2.95% on a multi-week horizon, with a lack of impetus for a strong directional move in either the 10Y breakeven or the real yield.
- SGD NEER did a round trip and is trading at around 1.50% above mid-point on Monday, similar to the level on Thursday close. The broad dollar has stayed soft while the SGD did not outperform the CNY or the MYR further. The next support for USD/SGD is at the 50DMA of 1.3705, which would require other major trading currency pairs to recover given the already high position of the SGD NEER; upside is at 1.3866.
- CNY IRS did not react much to the LPR decision on Friday, where the 5Y LPR was lowered by 15bps and the 1Y LPR was unchanged. Front-end rates were paid up by 1-2bps as an instant response to the unchanged 1Y LPR, but they ended the day mostly flat. The reaction was in line with our view that MLF/LPR rate decisions are probably not an important driver at the moment. NCD rates have been trading below MLF rate and market repo rates below OMO rate. On the FX curve, back-end CNH points rose on the back of lower US yields while Northbound Stock Connect flows were relatively big at RMB18.225bn on Friday which might have tightened the CNH liquidity. With RMB sentiment appearing to be stabilizing and the absence of material downside to RMB rates, back-end points shall trade mainly on US rates movement.

Source: OCBC, Bloomberg

Asset Flows

Global Equity & Bond Flows

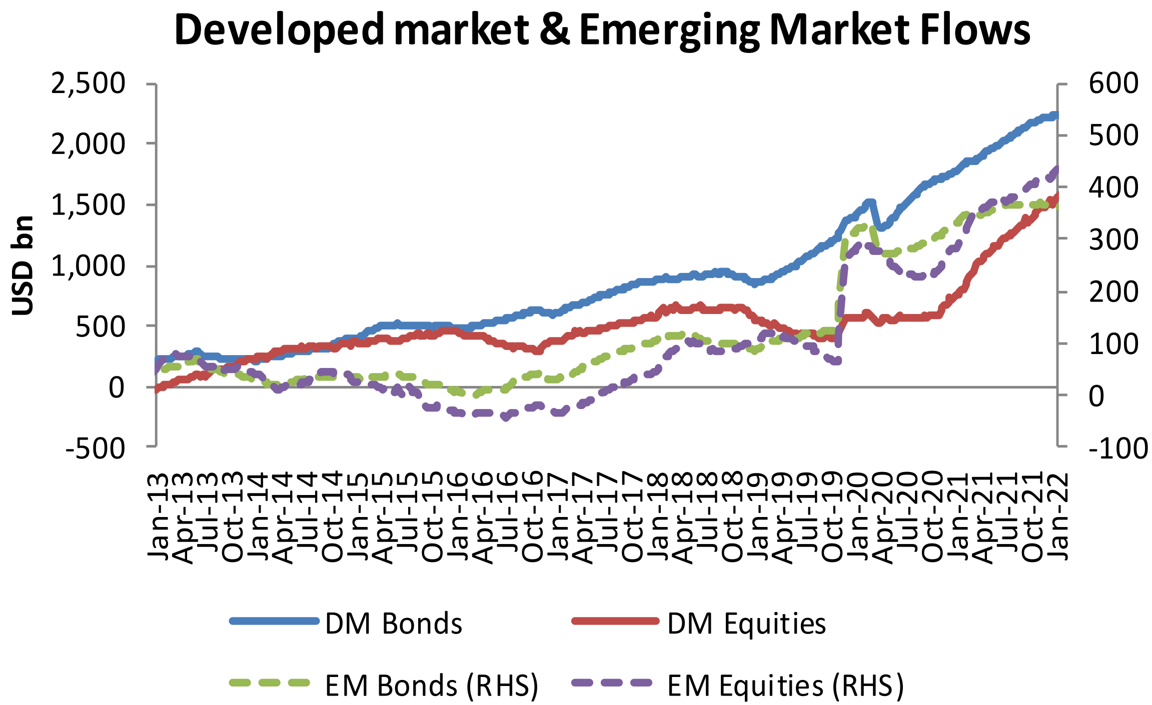
- Global equity markets saw net outflows of -$5.1bn for the week ending 18th May, an increase from the outflow of -$6.2bn last week. Global bond market reported net outflows of -$12.2bn, a decrease from last week's outflows of -$11.1bn.

Equity top gainers & losers	Bonds top gainers & losers
	

Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw -$4.2bn worth of outflows while the EM-space registered -$0.8bn worth of outflows.
- Elsewhere, the DM bond space posted outflows of -$5.8bn, while EM bonds registered outflows of -$6.0bn.



Source: OCBC Bank, EPFR

Thank you

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