Weekly Macro Views (WMV)

Treasury Research & Strategy (27th September 2022)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

26th September	27th September	28th September	29th September	30th September
- GE IFO Business Climate - JN Jibun Bank Japan PMI Mfg - SI Industrial Production	- US Conf. Board Consumer Confidence - US Durable Goods Orders - US New Home Sales	- US MBA Mortgage Applications - AU Retail Sales MoM - UK Nationwide House PX	- US Initial Jobless Claims - US GDP Annualized QoQ - GE CPI YoY - CA GDP MoM	- JN Industrial Production MoM - JN Jobless Rate - UK GDP QoQ

Summary of Macro Views:

Global	• **Global:** Central Banks • **Global:** Third consecutive 75bps hike by the Federal Reserve • **Global:** Bank of England hiked its bank rate by 50bps • **Global:** No change to Bank of Japan's yield curve control policy • **Global:** Surprise 50bps move by Bank Indonesia • **Global:** UK's new economic plan to boost growth • **Global:** OECD Economic Outlook Interim Report
Asia	• **SG:** Inflation surprised on the upside • **SG:** Industrial production continues to see more downside • **CN:** More RMB counter cyclical measures • **CN:** Pressure for RMB weakness remains

Asia	• **HK:** Switched to "0+3" model • **HK:** Prime rate raised for the first time since 2018 • **HK:** Broad based improvement in labour market
Asset Class	• **ESG:** COP27 expectations • **FX & Rates:** Thin liquidity exacerbates
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: Central Banks

Forecast – Key Rates

Bank of Thailand (BoT)	Reserve Bank of India (RBI)
Wednesday, 28th September	**Friday, 30th September**
House Views	
Benchmark Interest Rate	*Repurchase Rate*
Likely *hike* by *25bps* from *0.75%* to *1.00%*	**Likely *hike* by *50bps* from *5.40%* to *5.90%***

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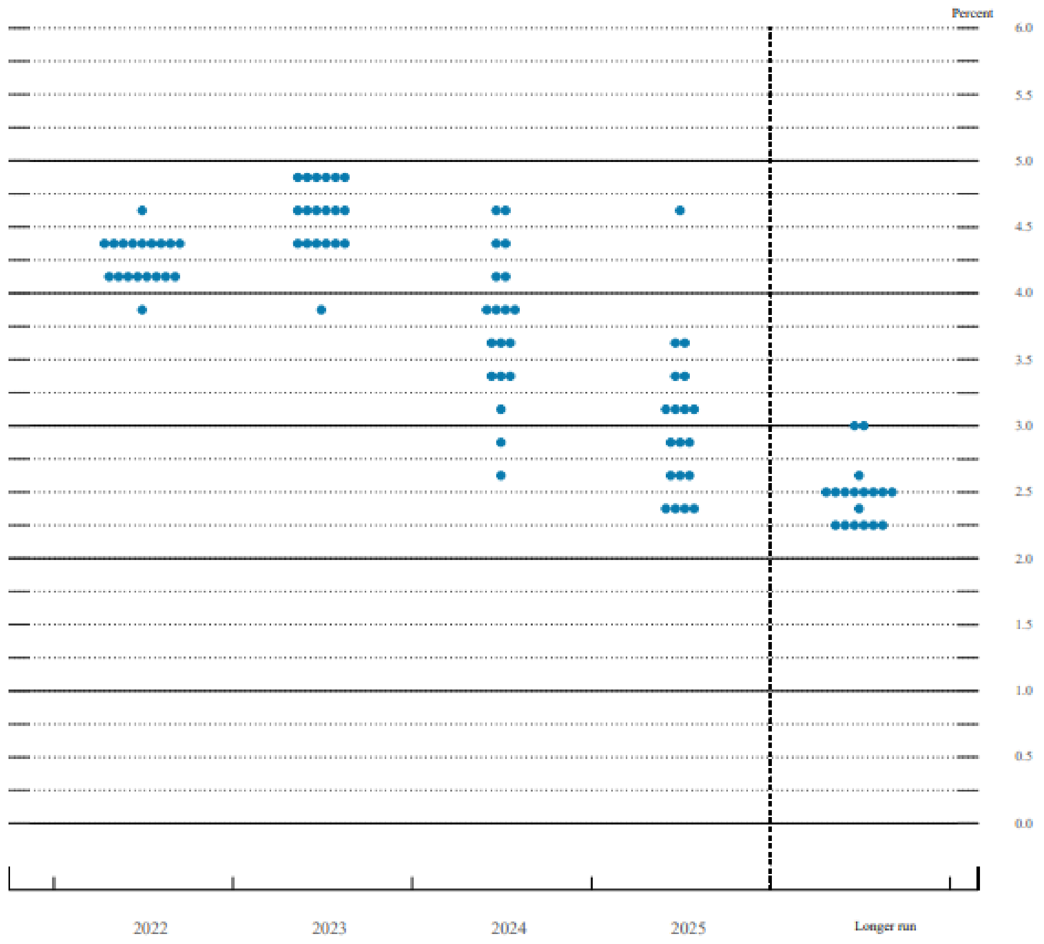
Source: OCBC, Bloomberg

Global: Third consecutive 75bps hike by the Federal Reserve

- In a widely expected move last week, the Federal Reserve (Fed) hiked its Fed funds rate by 75bps, bringing it to 3.00-3.25%. This marks the third straight meeting that the Fed has delivered a 75bps hike.
- The Fed's dot plot released also suggested a total of 125bps more hikes by the end of the year to around 4.4% and to reach 4.6% in 2023 before moderating to 3.9% in 2024.
- Markets are currently pricing in a terminal rate of about 4.75% in 2023.
- Fed forecasts tip unemployment rising from the current 3.7% to 4.4% by end-2023 and remaining there until end-2024, up from 3.9% and 4.1% previously.

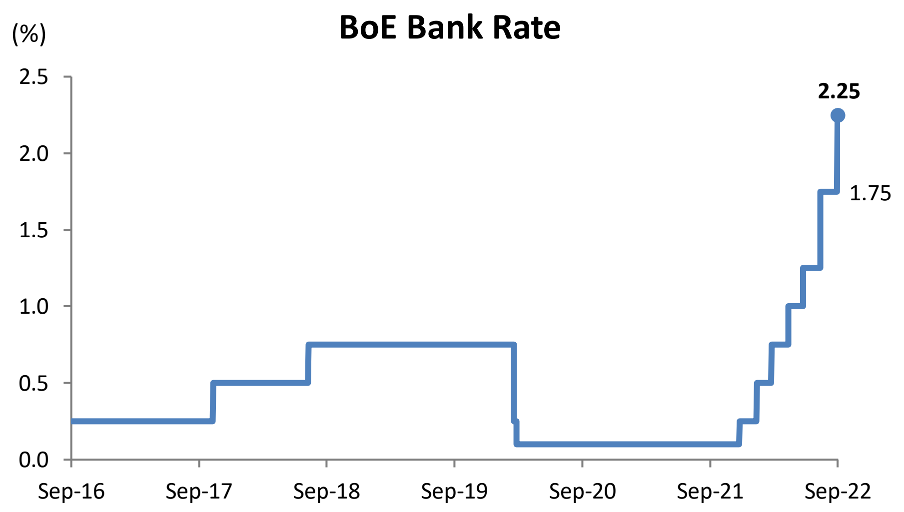
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

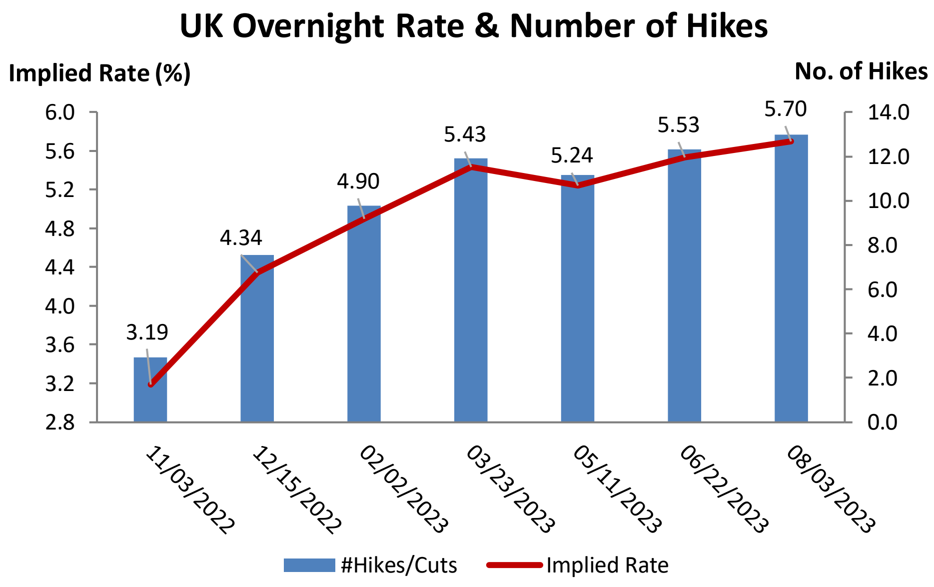


Source: OCBC, Bloomberg

Global: Bank of England hiked its bank rate by 50bps

- The Bank of England (BoE) raised its benchmark rate by 50bps to 2.25% last Thursday, marking its 7th consecutive rate hike. During the meeting, five members voted for a 50bps hike while three members voted for a 75bps hike.
- This comes as the August inflation print rose 9.9% YoY, which remained well above the BoE's target of 2%.
- The MPC also unanimously agreed to reduce its UK government bond holdings by around £80bn over the next twelve months, to a total of £758bn, and voted to begin the sale of gilts held in the Asset Purchase Facility shortly after this meeting.

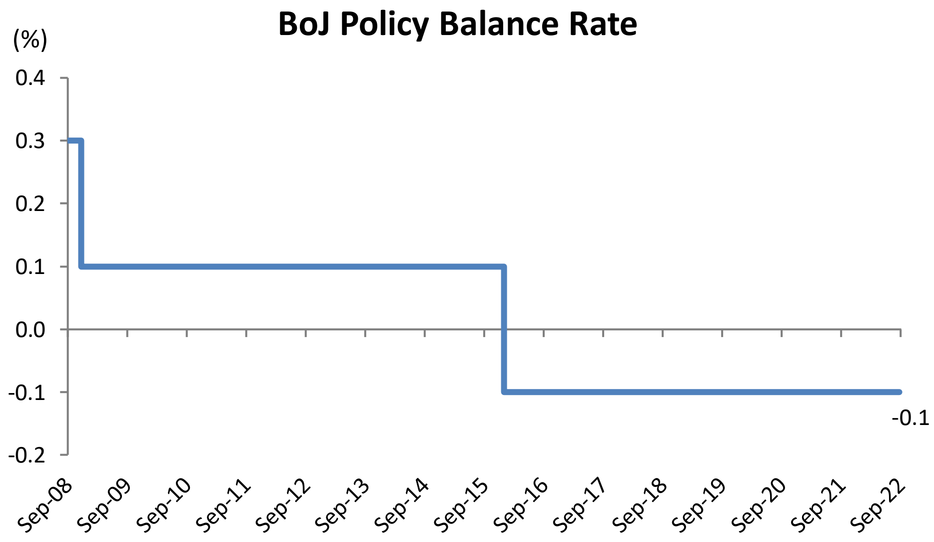




Source: OCBC, Bloomberg

Global: No change to Bank of Japan’s yield curve control policy

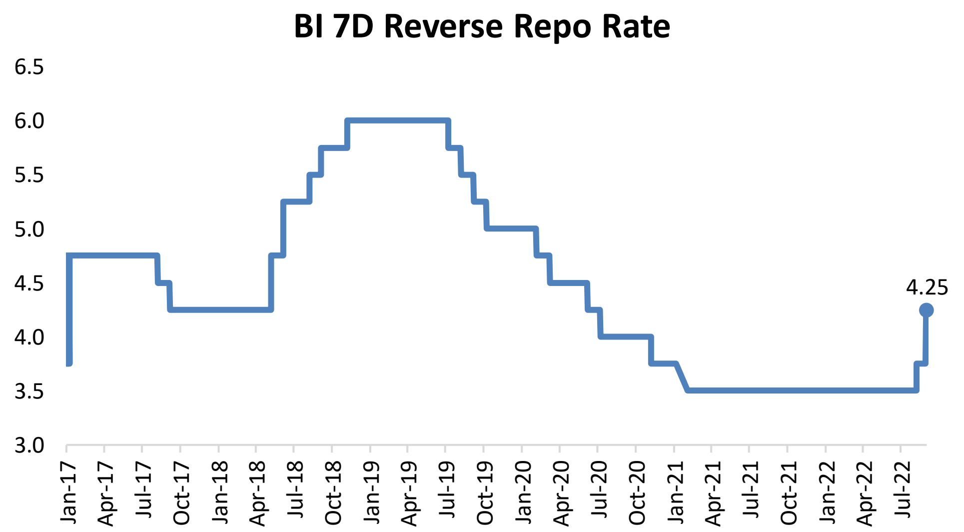
- Bank of Japan (BoJ) kept its policy settings unchanged during its meeting last Thursday – policy balance rate unchanged at -0.10% and 10Y long-term yield maintained at around 0%.
- However, the Ministry of Finance opted to intervene in the FX market to buy yen for the first time since 1998, in what appeared to be a unilateral move. This comes as the widening interest rate differentials between the BoJ and other hawkish central banks have weakened the yen by around 25% year-to-date.
- The yen strengthened by 1.2% against the greenback on the day of FX intervention (22 August).



Source: OCBC, Bloomberg

Global: Surprise 50bps move by Bank Indonesia

- Bank Indonesia (BI) opted to hike its rates by 50bps from 3.75% to 4.25%, compared to the broader market expectation, including ours, for a more traditional 25bps move.
- The bigger-than-expected move was likely due to the hawkish Fed meeting last week - which portrayed an overall sense that the Fed funds rate will not only go up further but stay there for longer, and the threat of inflation - BI has shifted up its forecast for the core inflation to 4.6% YoY by year-end, compared to 4.15% before, signalling a broadening of price pressures in the economy as the effect from the fuel price hike continues to percolate through the system.
- We see BI hiking the policy rate by an aggregate of 75bps more in the remaining months of 2022, to end the year at 5.0%.



Source: OCBC, Bloomberg

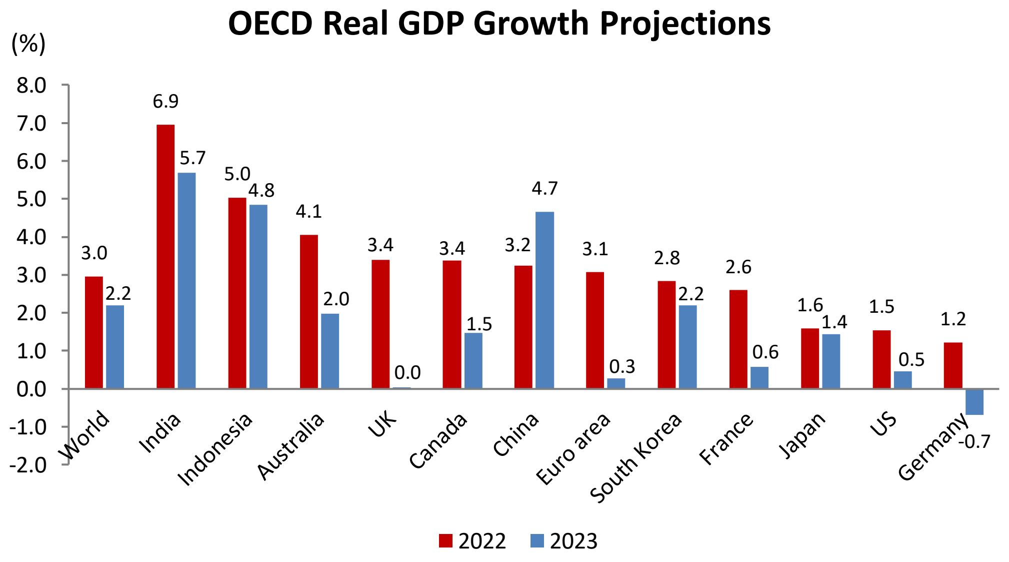
Global: UK's new economic plan to boost growth

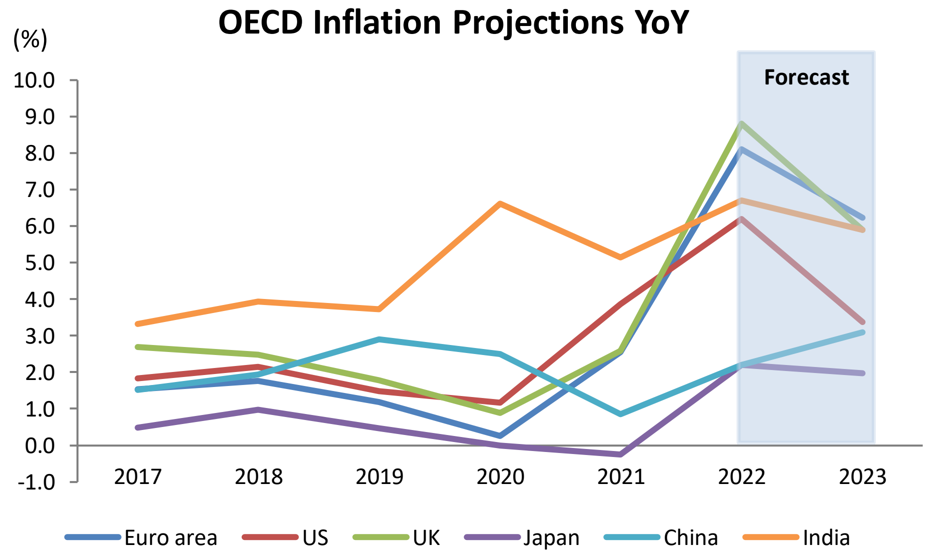
- In order to achieve its short-term growth target trend rate of 2.5%, the UK government has introduced several new measures which include:
  - Removal of the top 45% income tax bracket on income above £150k
  - Reduce basic rate of income tax by 1ppt from 20% to 19%, from Apr 2023 onwards
  - Cancellation of a planned increase in corporate tax to 25%; maintain it at 19%
  - Increase support to UK businesses through business investments, by making the Annual Investment Allowance of £1m permanent, instead of its initial plan of reducing it to £200k after 31 Mar 2023.
  - Implement "Investment Zones" where businesses can get tax incentives and liberalized planning rules
  - Reduce tax paid on home purchases
  - Scrap bankers' bonus cap which currently limits bankers' bonuses to 100% of their fixed pay (or 200% with shareholder approval)
  - Freeze duty rates for all alcohol categories from 1 Feb 2023 onwards
- The release of the growth plan triggered market concerns about how the UK government would pay for the largest tax cuts since 1972, which would cost GBP161bn over the next five years.
  - 2-year gilt sell-off saw the yield jumped as much as 57bps last Friday.
  - Sterling hit a new 37-year low against the dollar, down by 3.6% last Friday after the announcement.

Source: OCBC, Bloomberg

Global: OECD Economic Outlook Interim Report

- With key global growth headwinds which include the Russia-Ukraine war, China's zero COVID lockdown measures and property market weakness, and global tightening conditions lingering, OECD expects global growth for 2H22 to remain low, before slowing further in 2023 to 2.2%.
- On the back of central bank tightening, OECD expects the headline inflation for most G20 economies to peak in 3Q22 and ease in 4Q22. Additionally, while annual inflation is projected to fall slowly in 2023, it is still likely to remain well above most central bank targets. It also sees the US having a higher chance in reining in inflation back to its target as compared to the EU or UK due to the EU's energy crisis and later start to monetary policy tightening.

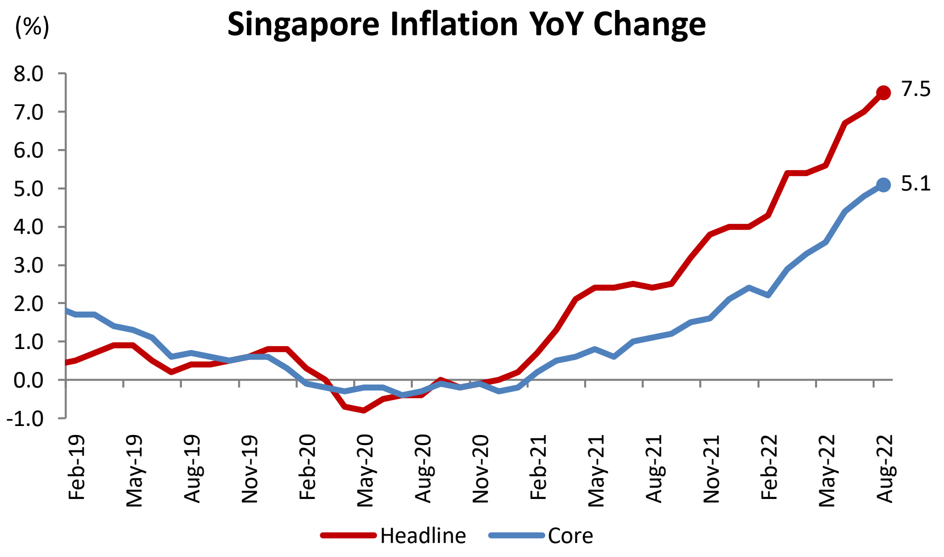




Source: OECD

Singapore: Inflation surprised on the upside

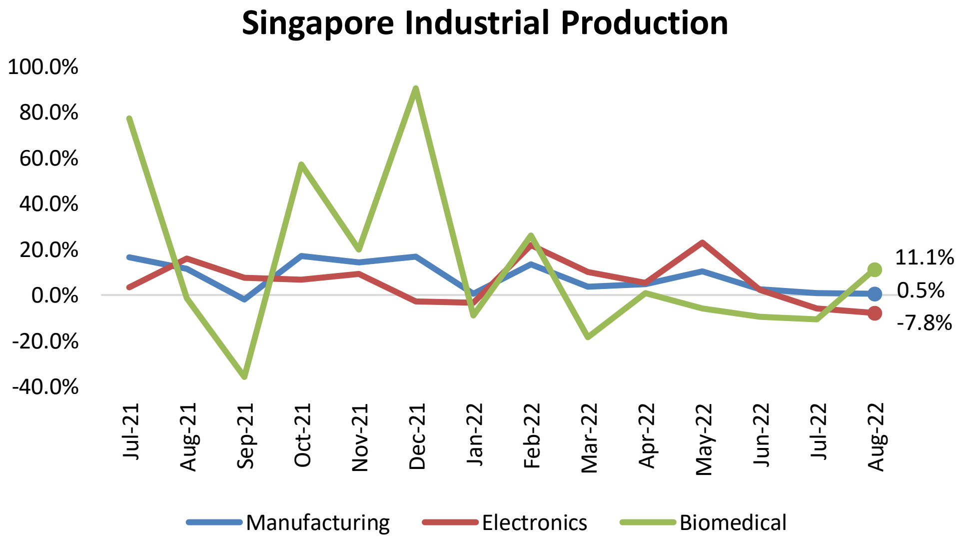
- Headline CPI surprised on the upside at 7.5% YoY (0.9% MoM) in August, a jump from the July print of 7.0% YoY. This brought inflation for the first eight months of this year to 5.7% YoY, which is near the upper end of the official headline CPI forecast of 5-6% YoY for 2022.
- The uptick arose from broad-based price pressures stretching from transport (20.2%), food (6.2%), clothing & footwear (8.7%), housing & utilities (6.0%, mainly from utilities at 16.2%) and recreation & culture (5.9%).
- Core inflation also jumped from 4.8% to 5.1% YoY (0.5% MoM) over the same periods, reflecting stronger pickup of prices for services and food. This underpins our belief that core inflation may not have peaked yet for the Singapore economy as domestic drivers for inflation are becoming more prominent.



Source: Bloomberg, OCBC

Singapore: Industrial production continues to see more downside

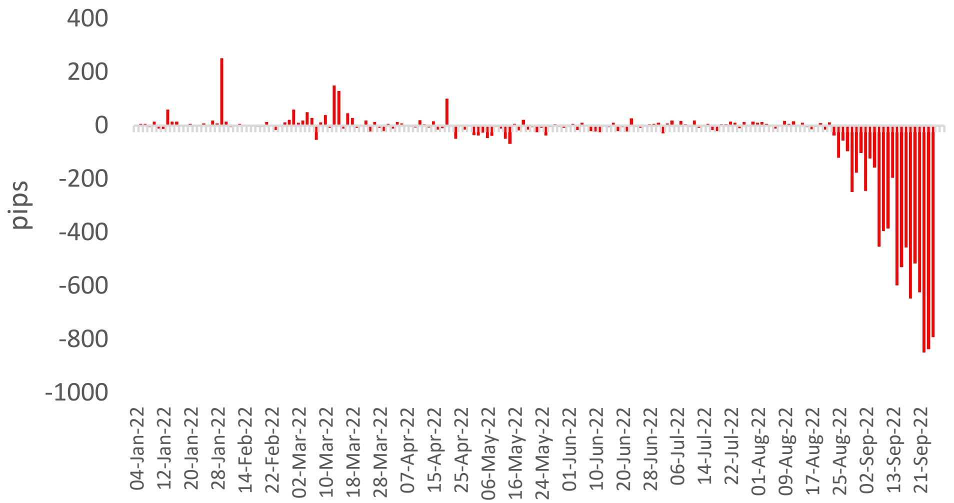
- Gravity pulls Singapore's industrial production lower to just 0.5% YoY (2.0% MoM sa) in August, down from the upwardly revised 0.8% YoY (-2.1% MoM sa) print in July. This marked the slowest on-year growth since September 2021, but was an improvement in on-month terms after two straight months of contraction.
- Electronics is clearly losing steam – August output slumped for the second consecutive month by 7.8% YoY with broad-based weakness across computer peripherals & data storage (-5.3%), semiconductors (-6.6%), infocomms & consumer electronics (-11.7%) and other electronics modules & components (-19.3%).
- The best performer was the transport engineering cluster which expanded 32.8% YoY, aided by the marine & offshore engineering segment (42.8%) due to more work on ship-repair and offshore projects, and was closely followed by the aerospace segment (42.3%) boosted by more maintenance, repair and overhaul jobs due to commercial airlines resuming more flights amid the current "revenge travel" boom.



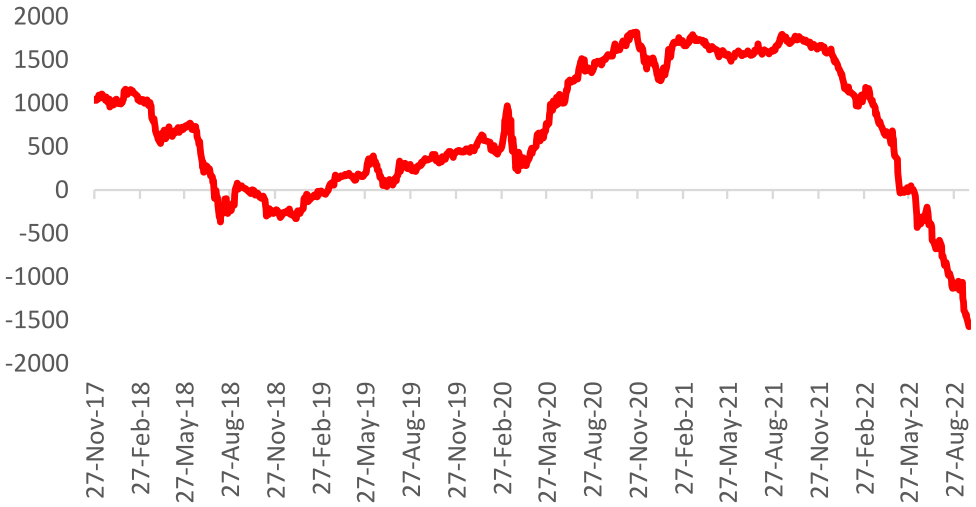
Source: OCBC, Bloomberg

China: More RMB counter cyclical measures

- China re-imposed the 20% reserve requirement ratio for FX derivative sales to clients effective from 28 September, the third time since 2015. This will increase the cost of shorting RMB in the derivative market.
- However, in contrast with the previous two episodes, we think those counter cyclical measures are likely to be less effective due to the collapse of RMB forward points which make short RMB easy to hold.



CNY daily forecast error



1Y CNY swap point

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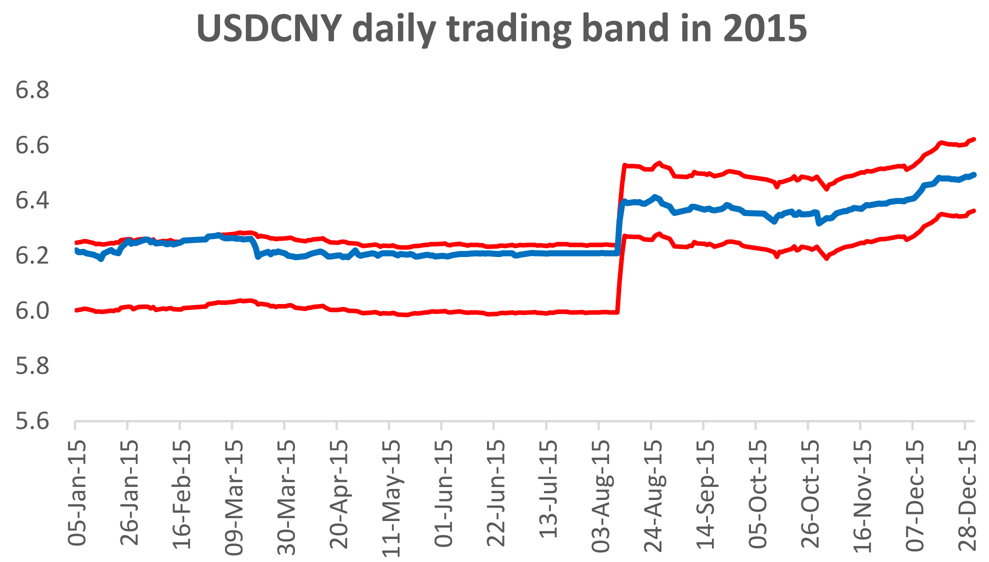
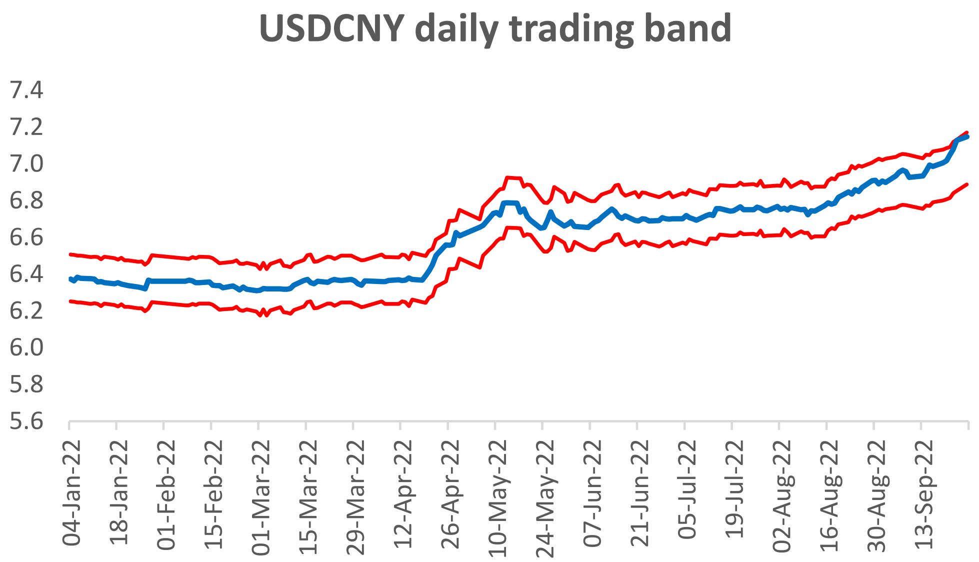
Source: Bloomberg, Wind, OCBC

China: Pressure for RMB weakness remains

- The USDCNY's fall closer to the 2% daily trading limit since last Friday injects fresh enthusiasm for market to watch out for the daily fixing this week.
- Given that the USDCNY was fixed above the 7- handle on 26 Sep, we think there is still room for RMB to track the weakness of global major currencies.





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Source: Bloomberg, Wind, OCBC

Hong Kong: Switched to “0+3” model

- Starting from 26 September, Hong Kong would switch to a “0+3” model, imposing only movement restrictions for incoming travellers during the first three days after arrival. Travellers would be banned from visiting bar and dining in the restaurant during three-day health surveillance period. In addition, all incoming visitors will only be required to take a rapid test before departure, PCR test upon arrival and three more PCR tests for every other day.
- Despite the eased border measures, Hong Kong still imposed movement restrictions for arriving visitors. Meanwhile, the “7+3” quarantine requirement for entry into the Mainland also stayed put, keeping Mainland tourists from visiting Hong Kong. Hence many suspected that the new arrangement would only help outbound tourism but would do little to the inbound tourism.
- In contrast to the eased border measures in Hong Kong, there were currently no plans to lift travel restrictions to Macau applicable to people from overseas or travelling from Hong Kong (7 days of hotel quarantine and 3 days of health monitoring), according to Macau’s official.
- Nonetheless, Chief Executive Ho Iat Seng said package tours for Mainland residents and electronic issuance of visas allowing residents of mainland China to visit Macau on an individual capacity (including visas issued under the Individual Visit Scheme) would be resumed soon. We are of the view that such resumption could be a catalyst for boosting tourist arrivals to Macau in coming months, though its impact will be restricted by the antivirus measures.

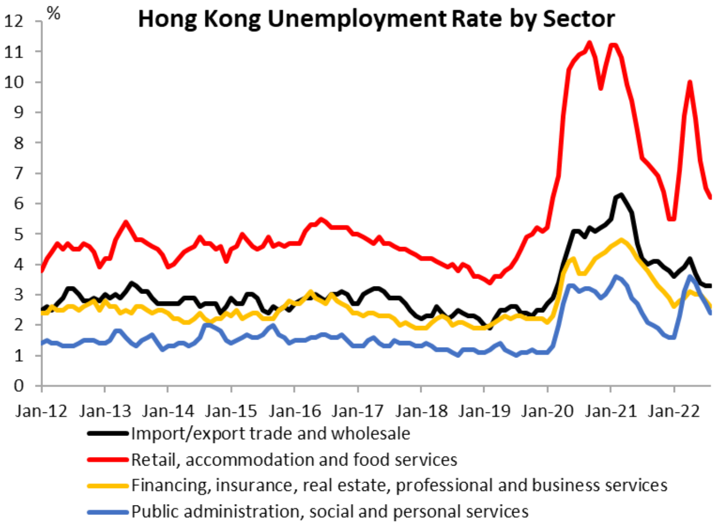
Hong Kong: Prime rate raised for the first time since 2018

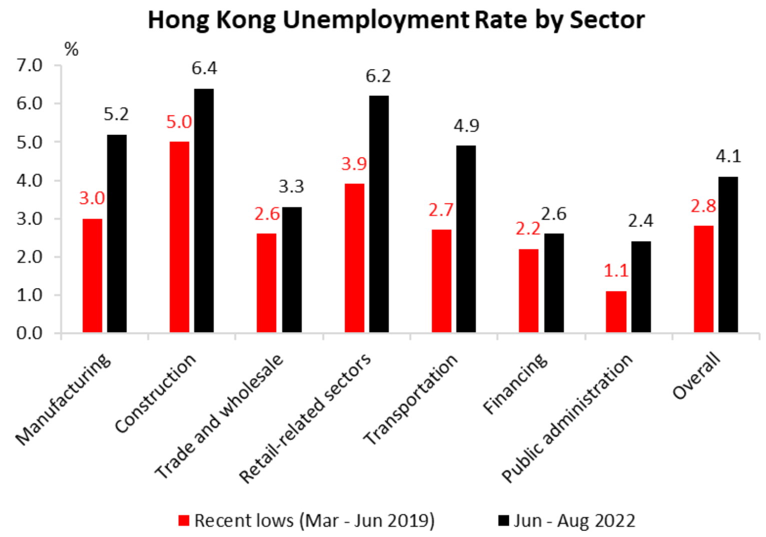
- A number of major banks announced to raise their best lending rates (main lending rate in Hong Kong) by 12.5bps following the Fed's 75bps hike, the first time since 2018.
- While HIBORs rose to multi-year high, the prime rates (benchmark rates for mortgage loans and other customer loans in Hong Kong) have only been raised by 12.5bps so far, standing in stark contrast to the soaring interbank rates. Currently, the commercial banks are resisting pressure to hike the prime rates by a larger magnitude due to still-ample Hong Kong dollar liquidity (combing aggregate balance and exchange fund bills) and weak economic momentum. Yet, as HKD rates rises further alongside the soaring LIBORs, commercial banks will have no choice but lift the prime rate. We expect further prime rate hikes (25bps to 50 bps) in the coming two quarters.
- The higher borrowing cost will likely pile further weight on the growth outlook, given that the economy is still struggling to heal from the aftermaths of Covid fallout and the deteriorating external headwinds. We expect Hong Kong economy to see a mild recession this year, while the property market in Hong Kong will undergo a 6-8% price correction.

Source: HK Census and Statistics Department, OCBCWH

Hong Kong: Broad based improvement in labour market

- Further broad-based improvement was seen in Hong Kong’s labour market. Unemployment and underemployment rate declined to 4.1% and 2.0% respectively in June-August 2022, both down by 0.2 percentage point compared to that of May-July 2022. Other than the import/export trade and wholesale sector, all the major economic sectors saw lower unemployment and underemployment rates.
- The labour market continued to see improvement alongside the rollout of stimulus measures and easing of border controls. The unemployment rate in June-August 2022 fell further to the lowest level since December 2021- February 2022. During the same period, the unemployment rate in most economic sectors declined. More distinct decreases were observed in the decoration, repair and maintenance for buildings sector; and arts, entertainment and recreation sector. We expect the unemployment rate to stay in a relatively low level for the rest of 2022, barring escalation of external headwinds.





Source: HK Census and Statistics Department, OCBCWH

ESG

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ESG: COP27 expectations

- COP27 will be held in Egypt (6 to 18 Nov 2022), with key targets including shifting from pledging to implementation based on workstreams agreed upon at COP26.
- Amid geopolitical tensions, COP27 discussions are not expected to be easy alongside the energy crisis and inflation.
- Key things to note:
  - ➢ Greater scrutiny on China-US progress on collaborative mitigation measures, after China suspended military dialogues and climate cooperation with the US → May be temporary as China and the US have weathered years of changing and complex relations
  - ➢ Some countries that are experiencing worsening drought or flooding may be more determined to seek help from other countries or accelerate their ambitions

Source: The Straits Times

FX & Rates

FX & Rates: Thin liquidity exacerbates

- FX markets had a wild ride on Monday (26 August) morning, with GBP taking a plunge from just above 1.08 to intra-day low of 1.0350 while most other AxJs, including KRW extended their weakness after RMB fix came in above 7-handle. PBoC has also just imposed a 20% risk reserve requirement (up from zero) on FX forward sales while BoJ ramped up its operations (to buy JPY550bn of JGBs maturing in 5-10y vs JPY150bn in previous operation). Market volatility remains elevated and we do not rule out further responses from regional policymakers to calm sentiments.
- The DMO (Debt Management Office) revise upward net financing requirement by GBP72.4bn, of which GBP62.4bn would be via additional Gilt issuances, and GBP10bn via bill issuances. Most (half) of the additional Gilt issuances will be at the short end (GBP31.2bn), followed by medium tenors (GBP17.5bn). The Gilt yield curve bearish flattened accordingly. The total cost needed to fund the Growth Plan was estimated by the Resolution Foundation at GBP400bn over the next five years.
- USD dominance reigns supreme, with thin market liquidity exacerbating the moves Monday morning. US futures extended its decline while most Asian equities are in the red Monday morning. 2y UST yield topped 4.24%. The toxic combination of tighter financial conditions, persisting USD strength, global growth concerns driven by slowdown in China and Europe, and sustained weakening in RMB past 7 per dollar sets up a challenging stage for pro-cyclical FX, including KRW. We expect the environment of higher UST yields and soggy risk sentiments to keep USD broadly bid. DXY was last at 113.73 levels. Bullish momentum on daily chart intact while RSI rose into overbought conditions. Support at 113.20, 112.40 levels. Resistance at 114.20, 114.50 levels.
- USDSGD remains better bid, tracking USD strength amid poor market liquidity conditions Monday morning while continued weakening in RMB and sell-off in regional equities further weighed on sentiments. Pair was last at 1.4340 levels. Bullish momentum on daily chart intact while RSI rose into overbought conditions. Risks are to the upside. Resistance at 1.4360/70 levels (around intra-day high). Support at 1.4295 (76.4% fibo retracement of 2020 high to 2021 low), 1.4220 levels. S$NEER is trading ~1.4% above mid-point.

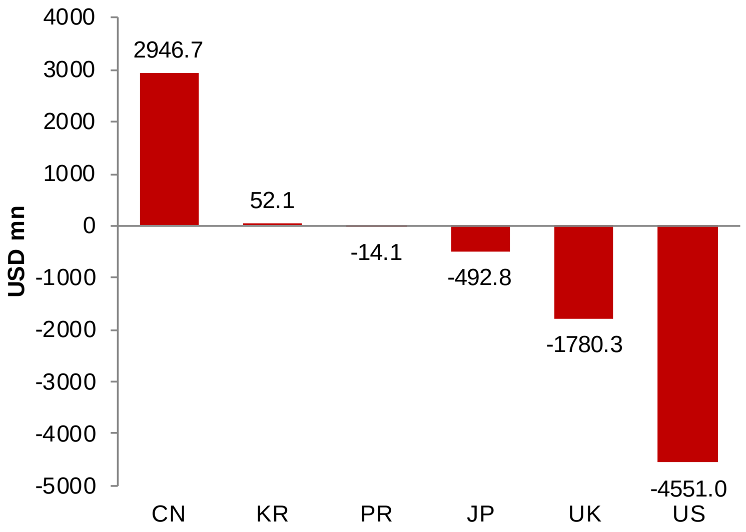
Source: OCBC, Bloomberg

Asset Flows

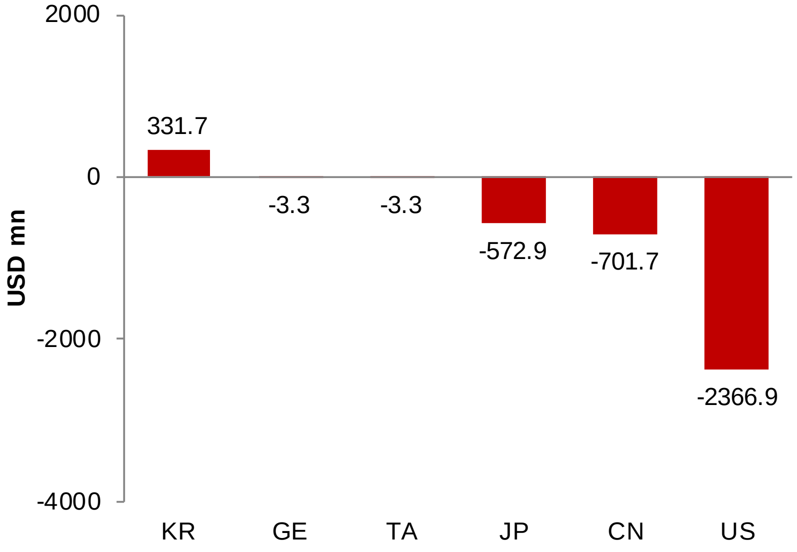
Global Equity & Bond Flows

- Global equity markets saw net outflows of $7.7bn for the week ending 21st September, a decrease from the inflows of $6.4bn last week.
- Global bond market reported net outflows of $6.7bn, an increase from last week's outflows of $2.7bn.

Equity top gainers & losers



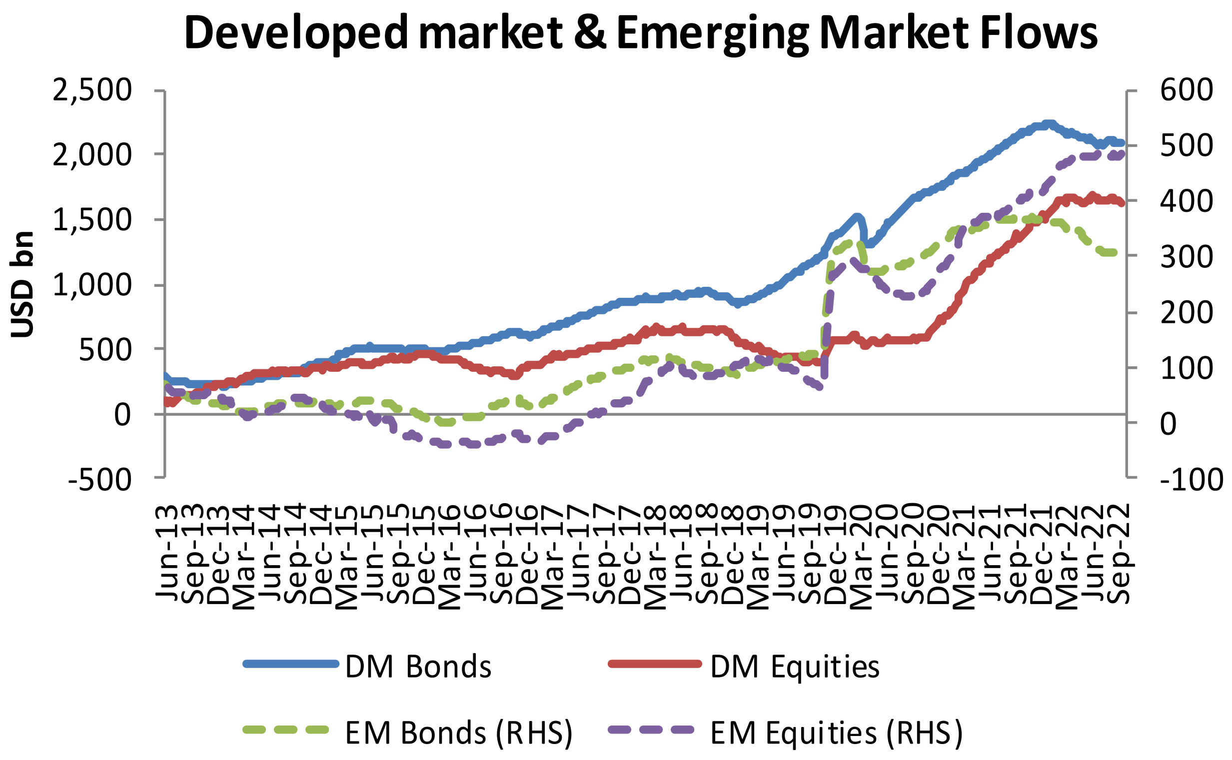
Bonds top gainers & losers



Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $8.7bn worth of outflows while the EM-space registered $1.1bn worth of inflows.
- Elsewhere, the DM bond space posted outflows of $4.4bn, and EM bonds also registered outflows of $2.2bn.



Source: OCBC Bank, EPFR

Thank you

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