



Weekly Macro Views (WMV)

Treasury Research & Strategy (4th January 2023)

Weekly Macro Update

Key Global Events for this week:

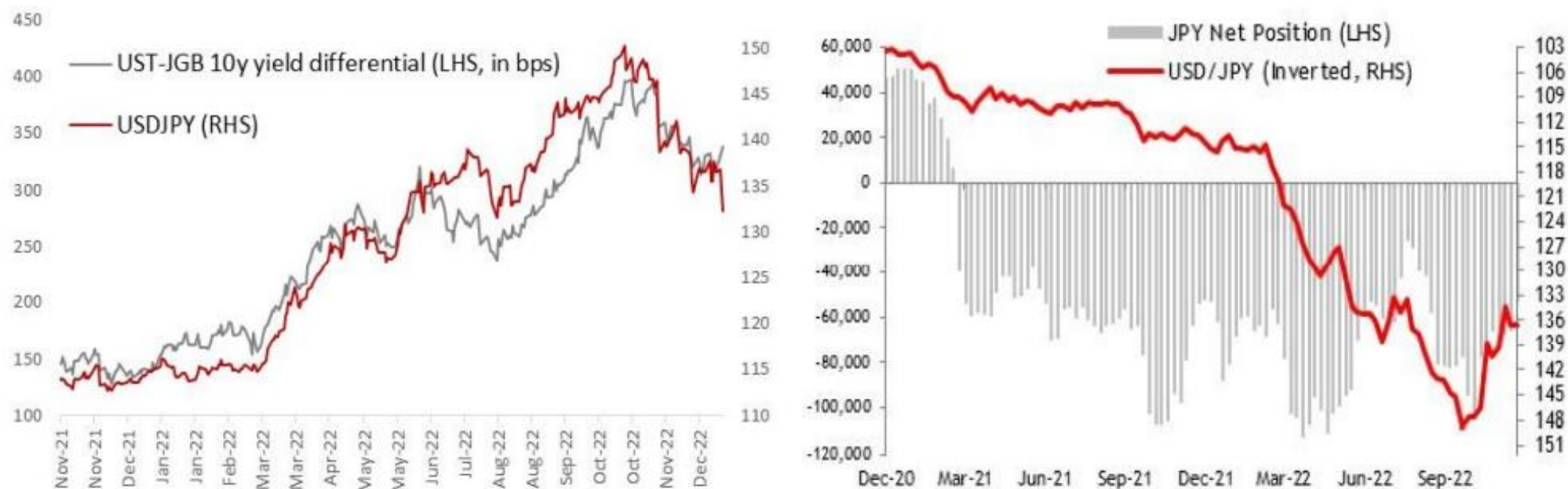
2 nd January	3 rd January	4 th January	5 th January	6 th January
<ul style="list-style-type: none"> - EC S&P Global Eurozone Manufacturing PMI - SK Manufacturing PMI - ID Manufacturing PMI 	<ul style="list-style-type: none"> - GE CPI YoY - CH Caixin China PMI Mfg - US Manufacturing PMI - UK Manufacturing PMI 	<ul style="list-style-type: none"> - US ISM Manufacturing - HK Retail Sales Value YoY - UK Mortgage Approvals - GE Services PMI 	<ul style="list-style-type: none"> - US Initial Jobless Claims - TH CPI YoY - US ADP Employment Change 	<ul style="list-style-type: none"> - US Change in Nonfarm Payrolls - CA Unemployment Rate - US Unemployment Rate

Summary of Macro Views:

Global	<ul style="list-style-type: none"> • Global: BoJ widened the target range for 10Y JGB yield
Asia	<ul style="list-style-type: none"> • CN: China reopening leads to sooner-than-expected normalization
Asia	<ul style="list-style-type: none"> • HK: Reopening the border with Mainland by phases • HK: Housing price fell further
Asset Class	<ul style="list-style-type: none"> • FX & Rates: Risk Appetite Improves
Asset Flows	<ul style="list-style-type: none"> • Asset Flows

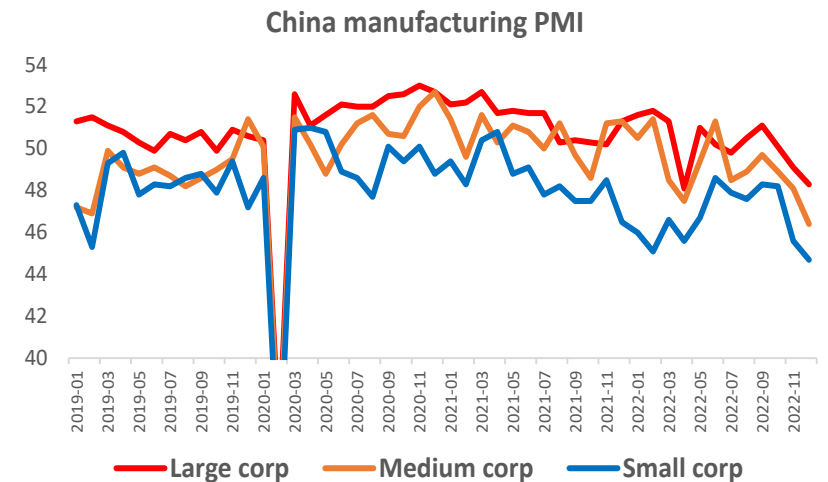
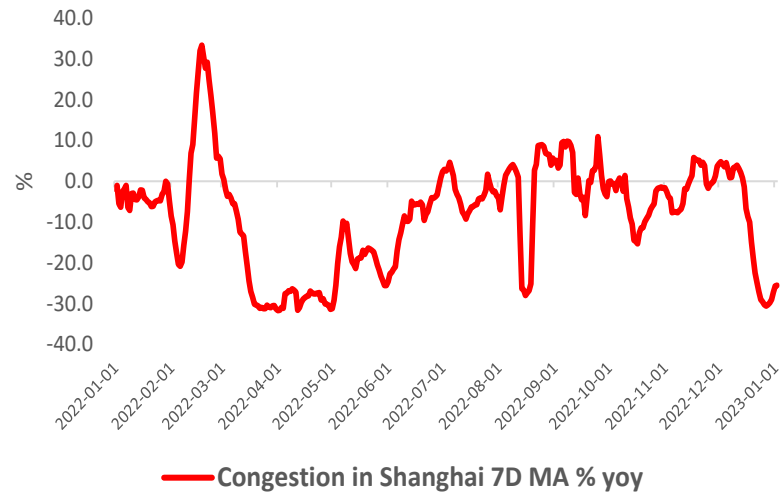
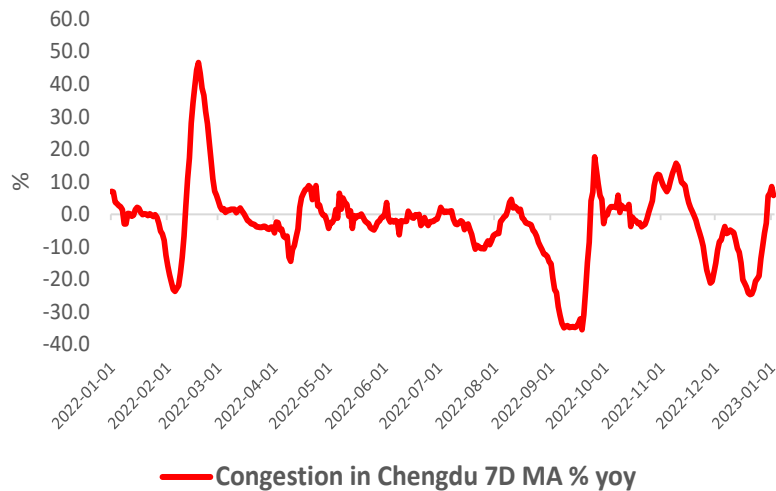
Global: BoJ widened the target range for 10Y JGB yield

- The BoJ made a surprise tweak to its yield curve control (YCC) policy by widening the target range for 10Y JGB yield to $\pm 0.5\%$, from $\pm 0.25\%$, in its final BoJ MPC meeting for 2022.
- However, BoJ highlighted that the adjustment to its yield target aimed at enhancing the effect of its ultra-easy policy, rather than a first step toward withdrawing its massive stimulus program.
- BoJ also announced an increase in the amount of JGBs it buys in competitive auctions to JPY9 trillion a month for the first quarter of 2023, up from the current ~JPY7.3 trillion. All other policy parameters, including 10Y JGB yield target and policy balance rate, remained unchanged.



China reopening: sooner than expected normalization

- China's Zero Covid exit wave was unprecedented, our own samples and ground feedback showed that China will reach the herd immunity very soon. China may have already passed the peak of the current infection wave.
- Although we are not even one month from China's pivot away from its Zero Covid strategy, some parts of China have returned to normalcy and the New Year celebration was crowded with young people who have recovered from the Covid infections. Mobility in Beijing and Sichuan have recovered based on the first-in-first-out principle.
- China's December PMI confirmed the disruption from the Covid tsunami to the economic activities in the near term. 56.3% manufacturing companies were affected by Covid in December, up by 15.5% while 61.3% service companies reported the negative impact from the covid up by 10%.
- The earlier than expected reopening is negative for growth in 2022 but positive for growth 2023.

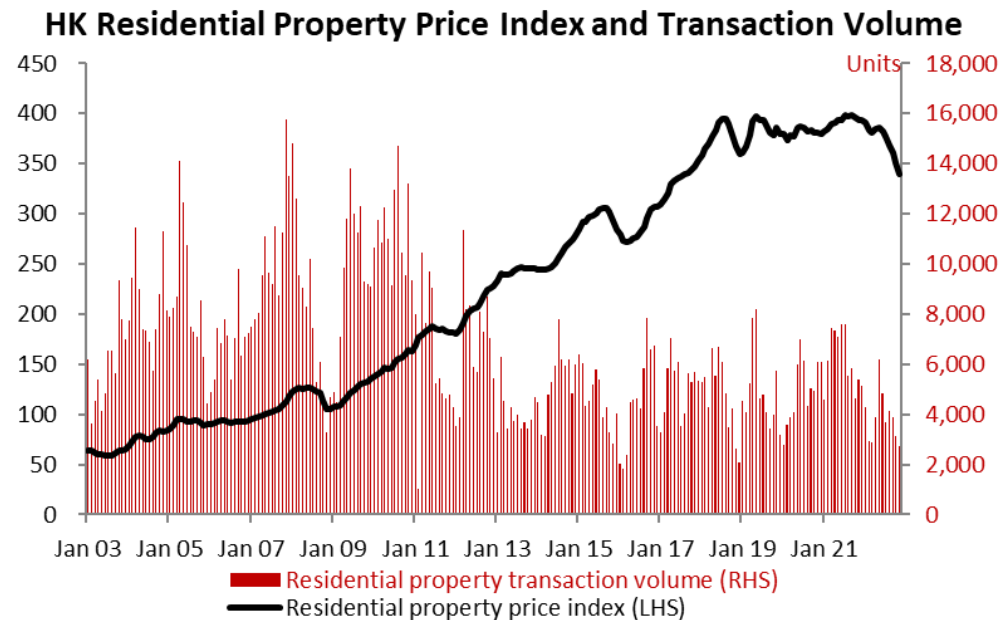


HK: Reopening the border with Mainland by phases

- Hong Kong announced to scrap most of the social distancing measures except the mask mandate, while reopen its border and resume quarantine-free travels between Hong Kong and Mainland China by phases starting from 8th January.
- Reportedly, daily quota will be set for travellers using the land border check points, while capacity limit will not be imposed for visitors travelling by high-speed rail, flights and shuttle buses.
- We expect to see rebounds in exports of services and domestic consumption as the border reopens and most of the restrictions are lifted. Hence, we have revised upward our GDP forecast for 2023 to 3.6%, from that of 3.3%.

HK: Housing price fell further

- The YoY decline of Hong Kong's property price index widened further to 13.8% in November. Meanwhile, trading activities turned even quieter, recording only 2731 housing transactions during the month, the lowest figure since 2018. In the first eleven months of 2022, the number of residential properties transactions plummeted by 38.5% YoY.
- While the rising interest rate still poses pressure on the housing market, market sentiment should stage a mild recovery in 2023, after the border reopening and resumption of quarantine free travels between Hong Kong and the Mainland.
- On interest rate front, domestic liquidity has turned somewhat less tight, with HIBORs being fixed lower across curve. The HIBORs are likely to fall in periods ahead as year-end effect wanes, before rising further as Fed is set to deliver more hikes.





FX & Rates

FX & Rates: Risk Appetite Improves

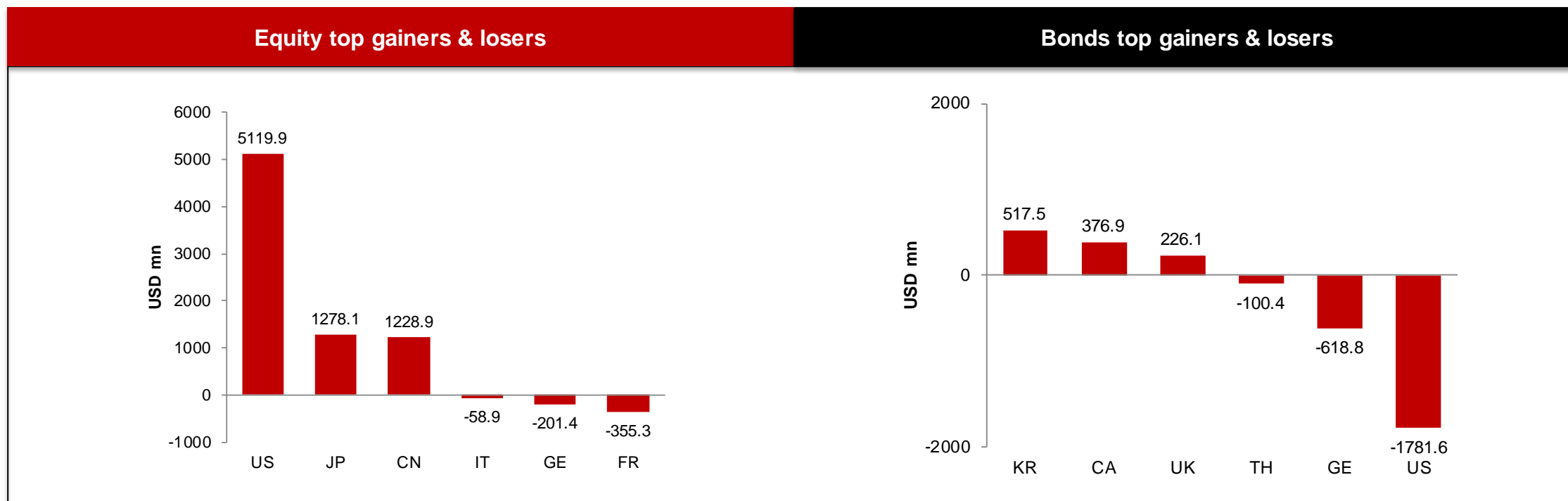
- USD started the week on a firmer footing but we refrained from over-interpreting price action as market liquidity remains relatively poor. We should expect to see market activity pick up as the week progresses on. Barring near term noises, we retain the view that the upside for USD may be limited as pace of Fed tightening slows and goes into late cycle. Broad trend of USD for 2023 remains skewed to the downside. On risk sentiments, we are slightly more optimistic as a case of slower pace of tightening seen across most central banks and China reopening, support measures should help to partially mitigate against global growth concerns. A less severe global growth slowdown can support counter-cyclical USD. That said, it is not a one-way street for the USD. There will be instances of intermittent and sporadic USD upticks as USD still retain a yield advantage and the Fed is still tightening (but at slower pace). Bear in mind that Jan is seasonally a strong month for DXY (based on monthly calendar returns since 2000, USD rose on 14 Januarys out of 22 and was on average +0.58%, the highest amongst the 12 calendar months)
- BoJ made a surprise tweak to its yield curve control (YCC) parameters in widening the 10Y JGB band to $\pm 0.5\%$, from $\pm 0.25\%$ at the last MPC meeting on 20-Dec 2022. The timing of the YCC tweak came as a surprise as we were expecting the move to come in 1H 2023. Nonetheless, we opined the YCC tweak could just be the beginning of more to come. The past few sessions have seen markets testing the new upper bound and the BoJ coming in to do more unscheduled bond purchases. It is probably a matter of time the BoJ surprises again.
- USDJPY: We expect the moderate-to-soft USD profile (on the back of Fed policy calibration thematic), recent BoJ tweak and expectation for further BoJ shift to underpin the medium-term downside bias for USDJPY. But we would have to watch out for any disorderly unwinding of JPY-shorts as it may have repercussion on global markets given that JPY is a funding currency. In addition, the broad rise in global yields, including JGBs yields add to concerns of tighter financial conditions and the risk of equities sell-off is not ruled out. This could undermine risk sentiments and keep gains in risk-proxy AxJs restraint in the interim.
- The PBoC net withdrew CNY534bn of liquidity from the market via OMOs on Tuesday, which represents the usual practice of taking back the liquidity provided to cover year-end. Expect further net withdrawals as the reverse repo maturity profile stays heavy on Wednesday through Friday totaling CNY1.074trn. Nevertheless, before long, there is likely another bout of liquidity provisions as the Chinese New Year is coming while CNY700bn of MLF matures on 17 January. A full roll-over of MLF, or even a combination of partial MLF rollover and another RRR cut, can be potential policy actions. CNY rates face resistance to the upside near-term as uncertainty is high regarding the domestic situation which may continue to weigh on the risk sentiment.
- For global markets this week, focus on US mfg PMI (tonight); ISM mfg, prices (Wed); ADP employment, services PMI, FoMC minutes (Thu). On Fri, US payrolls report, ISM services, factory orders as well as Europe CPI estimates.



Asset Flows

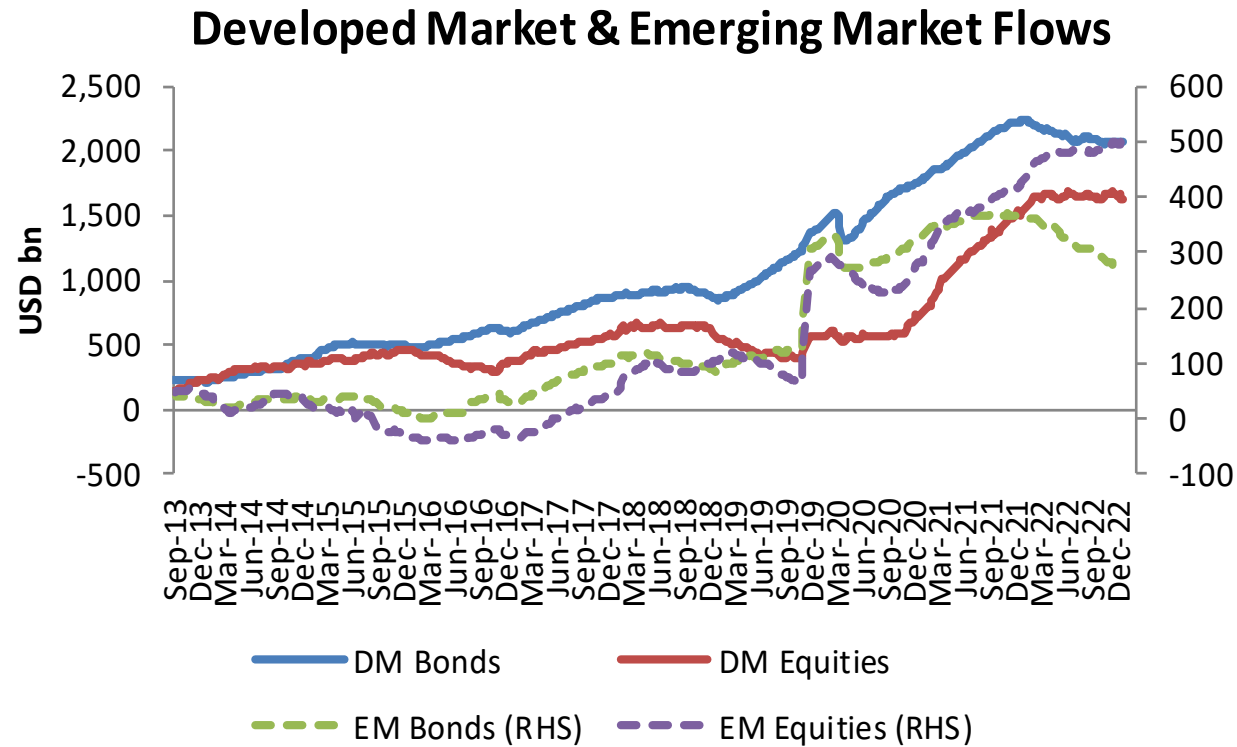
Global Equity & Bond Flows

- Global equity markets saw net inflows of \$8.0bn for the week ending 28th December, an increase from the outflows of \$41.7bn last week.
- Global bond market reported net outflows of \$1.0bn, a decrease from last week's outflows of \$9.9bn.



DM & EM Flows

- DM equities saw \$6.7bn worth of inflows while the EM-space registered \$1.3bn worth of inflows.
- Elsewhere, the DM bond space posted outflows of \$1.5bn, EM bonds also registered inflows of \$0.5bn.



 Thank you

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