Weekly Macro Views (WMV)

Treasury Research & Strategy (4th October 2022)

OCBC Bank

Weekly Macro Update

Key Global Events for this week:

3rd October	4th October	5th October	6th October	7th October
- US ISM Manufacturing - EC S&P Global Eurozone Manufacturing PMI - ID CPI YoY	- AU Building Approvals MoM - US Durable Goods Orders - US Factory Orders	- TH CPI YoY - SK CPI YoY - US MBA Mortgage Applications	- US Initial Jobless Claims - TA CPI YoY - GE Factory Orders MoM - AU Trade Balance	- US Change in Nonfarm Payrolls - US Unemployment Rate - GE Industrial Production SA

Summary of Macro Views:

Global	• **Global:** Central Banks • **Global:** Bank of England's temporary bond-buying measure • **Global:** Manufacturing PMI of key economies • **Global:** 3Q22 GDP forecasts for key markets • **Global:** Central banks 2022 YTD cumulative rate hikes
Asia	• **SG:** Residential property market performance and cooling measures • **CN:** Green shoots • **CN:** Stable investment returns to foreigners

Asia	• **HK:** Largest year-on-year decline in exports since the pandemic • **HK:** Housing price index fell back to levels last seen in 2019 • **MO:** Positive catalysts ahead for the gaming sector • **MY:** Higher levels • **ID:** High inflation
Asset Class	• **ESG:** Developments in nuclear energy • **FX & Rates:** No fresh catalyst
Asset Flows	• **Asset Flows**

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Source: OCBC, Bloomberg

Global: Central Banks

Forecast – Key Rates

Reserve Bank of Australia (RBA)	Reserve Bank of New Zealand (RBNZ)
Tuesday, 4th October	**Wednesday, 5th October**

House Views

Cash Rate Target	*Cash Rate*
Likely *hike* by *50bps* from *2.35%* to *2.85%*	**Likely *hike* by *50bps* from *3.00%* to *3.50%***

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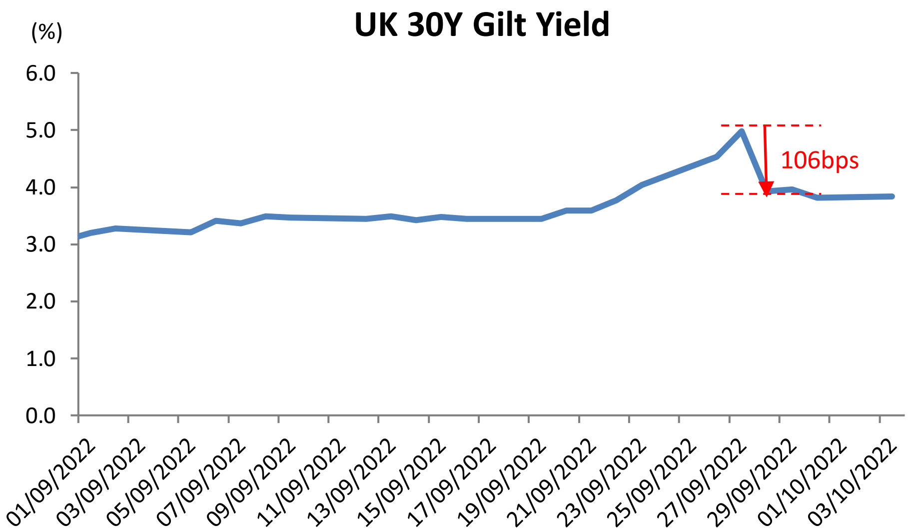
Source: OCBC, Bloomberg

Global: Bank of England's temporary bond-buying measure

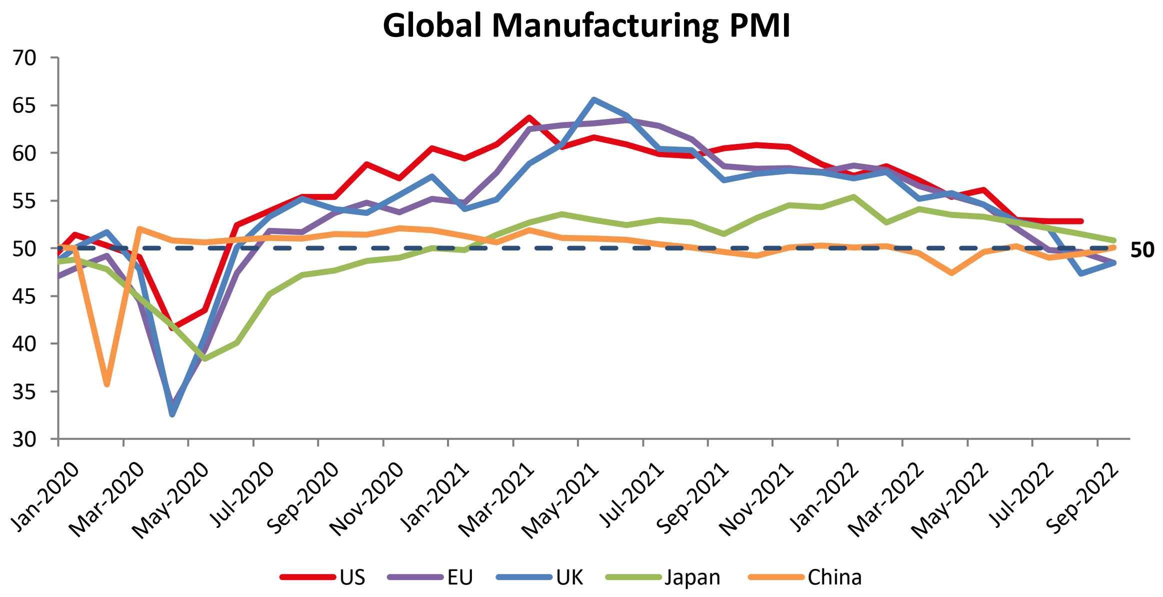
- The new government's recently announced tax cutting measures two weeks ago sent bond yields soaring.
- In a bid to stabilize the market and avert a potential deleveraging crisis by pension funds, Bank of England (BoE) pledged to buy up to GBP65bn in long-dated gilts.
- BoE also delayed the commencement of the sales of GBP838bn government bond holdings that was supposed to start this week, to 31 October, while keeping its target to reduce GBP80bn of bond holdings annually unchanged.
- This is a short-term, temporary measure that will occur between 28 September and 14 October.
- On the day of the announcement, the 30Y UK government bond plunged by around 106bps to 3.92% as BoE's announcement helped to shore up risk sentiments.



Source: OCBC, Bloomberg

Global: Manufacturing PMI of key economies

- Manufacturing activity has generally slowed in most major economies, with factory activity in the EU and UK remaining in the contractionary territory in September. Meanwhile, while Japan's manufacturing activity expanded in September, it marked a drop in activity from the previous month, suggesting that factory production may be moderating as global demand wanes.
- The only exception was China, which saw manufacturing PMI rebounding from the contractionary territory (49.4) in August to the expansionary territory (50.1) in September, possibly helped by recent easing measures.



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Source: OCBC, Bloomberg

Global: 3Q22 GDP forecasts for key markets

	Release Date	3Q22 Market YoY% Change Forecast
Singapore	10 October 2022	3.2%
China	18 October 2022	3.3%
US	27 October 2022	1.5%
South Korea	27 October 2022	2.8%
France	28 October 2022	1.0%
EU	31 October 2022	1.7%
Germany	31 October 2022	0.7%
Italy	31 October 2022	1.8%
Hong Kong	31 October 2022	1.6%
Indonesia	07 November 2022	4.8%
Philippines	10 November 2022	6.3%
UK	11 November 2022	2.1%
Malaysia	11 November 2022	12.5%
Japan	15 November 2022	2.2%
Thailand	21 November 2022	4.7%

Source: OCBC, Bloomberg

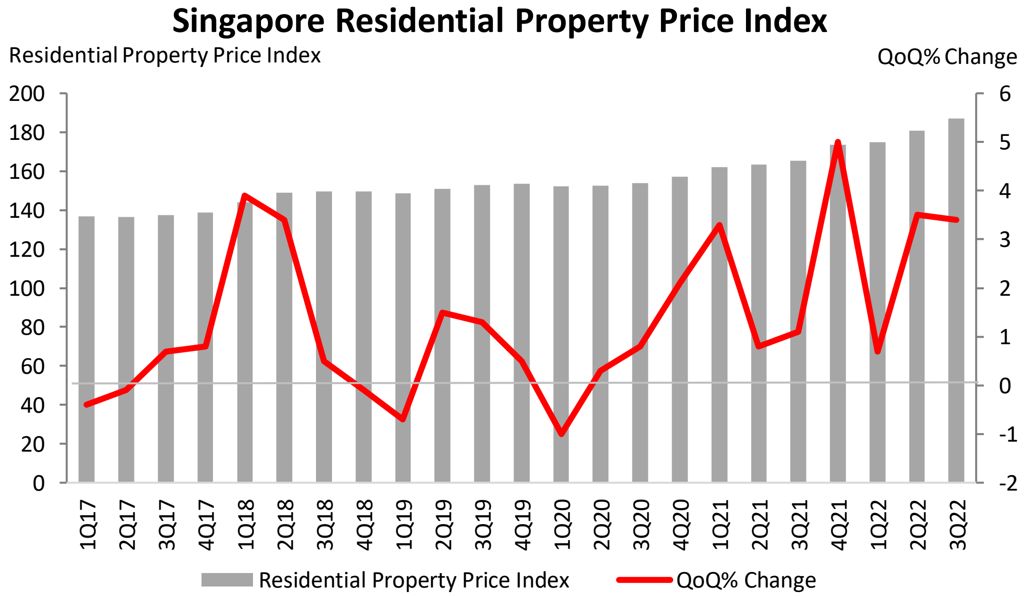
Global: Central banks 2022 YTD cumulative rate hikes

Central Bank	2022 YTD Cumulative Rate Hike	Current Rate	Market pricing of peak terminal rate*
Federal Reserve (Fed)	300bps	3.00-3.25%	~4.46%
European Central Bank (ECB)	125bps	0.75%	~2.85%
Bank of England (BoE)	200bps	2.25%	~5.60%
Bank of Canada (BoC)	300bps	3.25%	~4.05%
Reserve Bank of Australia (RBA)	225bps	2.35%	~4.15%
Reserve Bank of New Zealand (RBNZ)	225bps	3.00%	~5.15%
Bank Negara Malaysia (BNM)	75bps	2.50%	~3.10%
Bank Indonesia (BI)	75bps	4.25%	~5.10%
Bank of Japan (BoJ)	0bps	-0.10%	-
Bank of Korea (BoK)	75bps	2.50%	~3.00%
Bank of Thailand (BoT)	50bps	1.00%	~1.90%
Bangko Sentral ng Pilipinas (BSP)	225bps	4.25%	~4.70%

Source: OCBC, Bloomberg
*As of 3 October 2022

SG: Residential property market performance and cooling measures

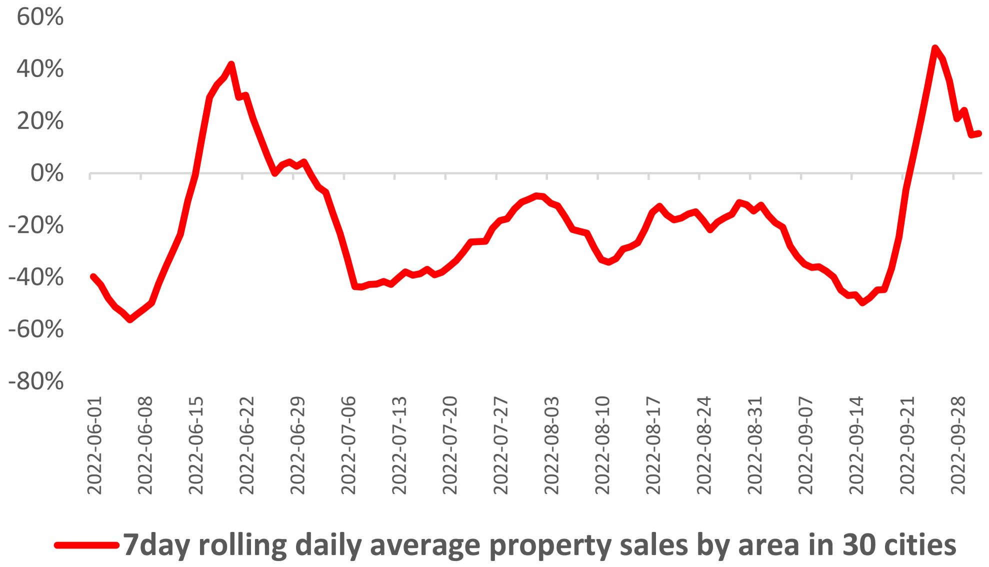
- Flash estimates of the private residential property price index showed Singapore's private property prices jumping by 3.4% QoQ in 3Q, compared to the previous 3.5% increase in 2Q. This was led by a 7.0% jump in prices of non-landed property in the Outside Central Region (OCR).
- In order to cool demand amidst rising property prices, the government has introduced a few property cooling measures, which took effect from September 30:
  - ➢ The medium-term interest rate floor to compute the total debt servicing ratio (TDSR) and mortgage servicing ratio (MSR) for loans issued by private financial institutions was raised 50bps to 4% and 5% for residential and non-residential properties respectively.
  - ➢ HDB MSR will also be raised from 2.6% to 3.0% with a loan to value (LTV) cut from 85% to 80%.
  - ➢ Private property owner/ex-owner will have to wait 15 months to be granted an option to purchase a resale flat.

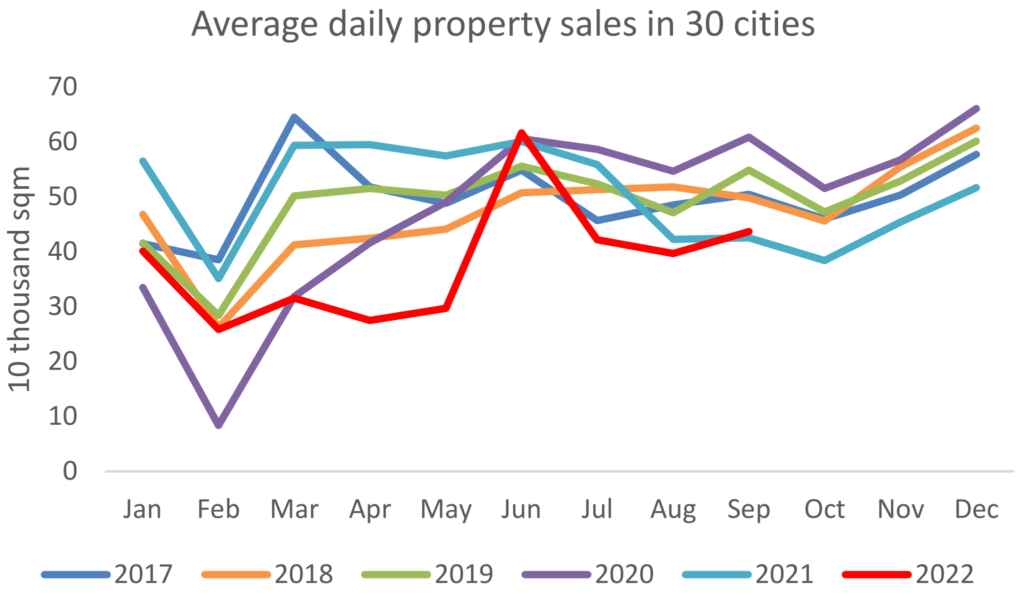


Source: OCBC, Bloomberg, URA

China: Green shoots

- On the property market front, the tone has been more supportive. Premier Li reiterated to facilitate the delivery of pre-sold housing projects. Meanwhile, PBoC announced to grant the green light for eligible local governments to remove the floor for mortgage rates for first time home buyers.
- Property sales in 30 major cities rebounded sharply in the last 10 days of September.

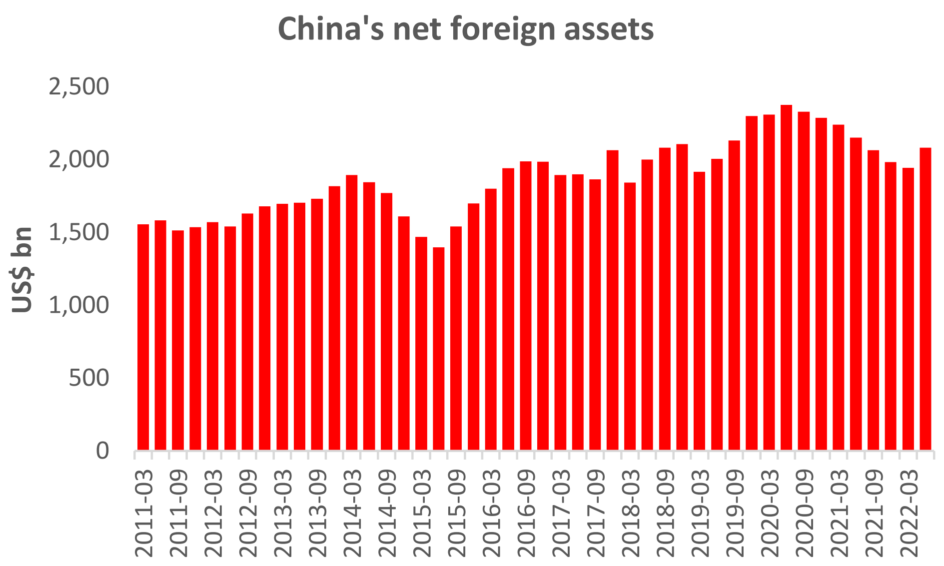


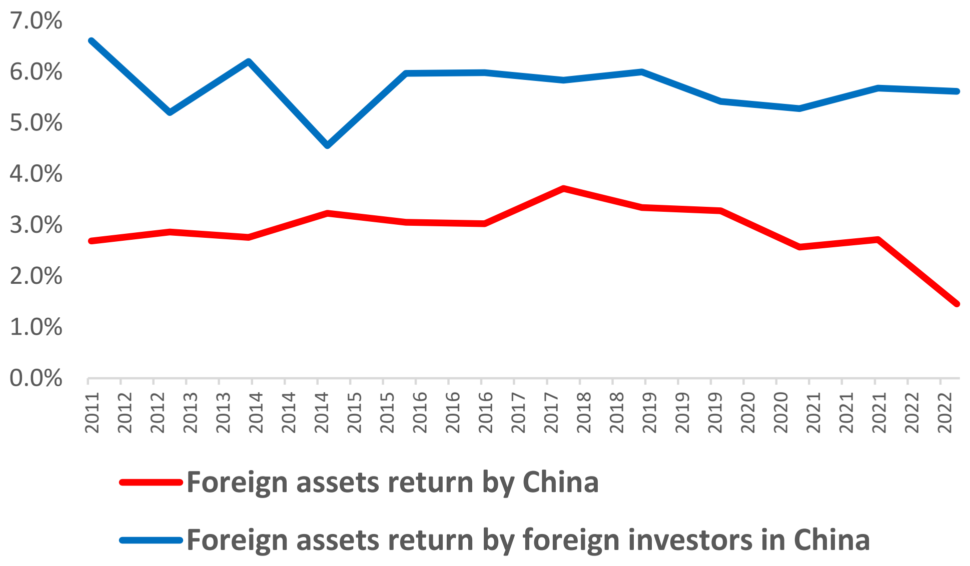


Source: Bloomberg, Wind, OCBC

China: Stable investment returns to foreigners

- China remains one of the largest net creditors in the world with total net foreign assets increased to US$2.08 trillion as of end of June 2022.
- China's investment return from its foreign assets fell significantly to about annualized 1.5% in the first half of 2022. Nevertheless, China continued to provide stable returns to foreign investors with foreign investors earned about annualized 5.5% return from their US$7 trillion total investment in China.

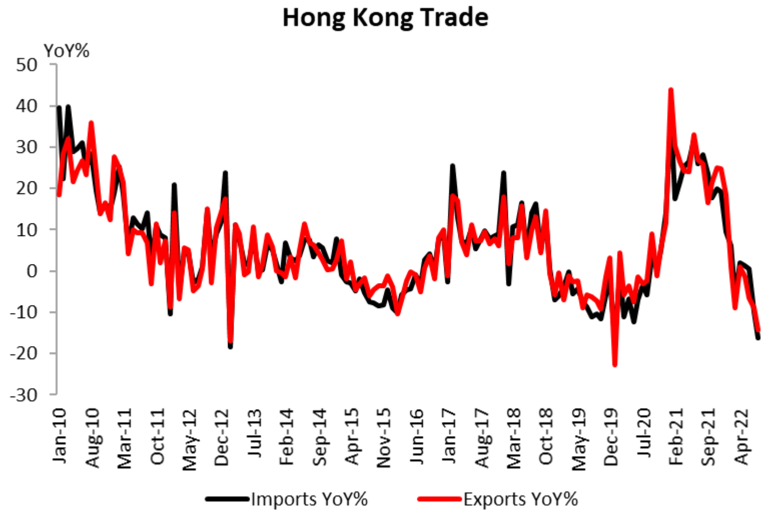


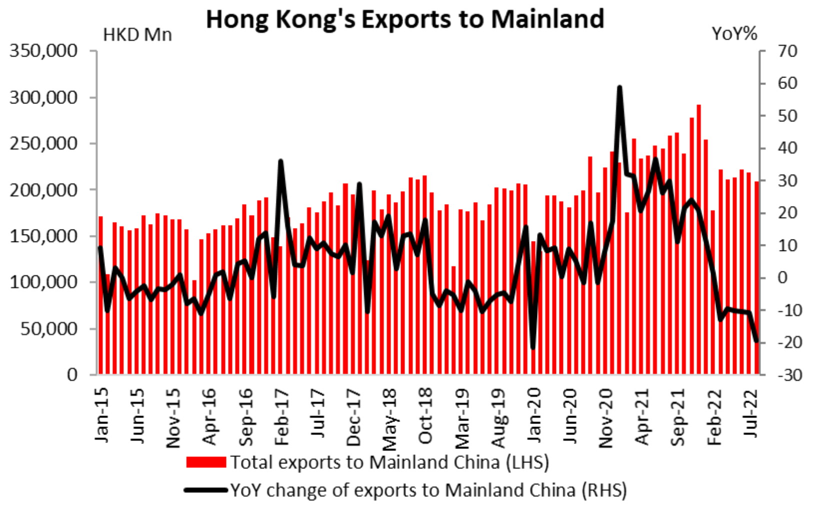


Source: Bloomberg, Wind, OCBC

HK: Largest year-on-year decline in exports since the pandemic

- The drop in values of merchandise exports in Hong Kong deepened to 14.3% YoY in August, the largest year-on-year decline since the start of the pandemic, surprising the market to the downside. Meanwhile, the values of imports also plunged by 16.3% in August. During the month, trade deficit narrowed somewhat to HK$13.3 billion, as compared to HK$27.6 billion in the previous month.
- The deepened decline in exports was largely due to the sharper fall in exports to Mainland China, by 19.4% YoY in August (-10.7% in July). Meanwhile, exports to US and EU also continued to fall. In the first eight months of 2022, the total exports of goods dropped by 2.9% over the same period last year.
- The export outlook for Hong Kong remained challenging for the remaining of the year, as global economy weakened and financial condition tightened. We expect single-digit decline for Hong Kong's total goods exports in 2022, after seeing a whopping 26.3% year-on-year growth last year.





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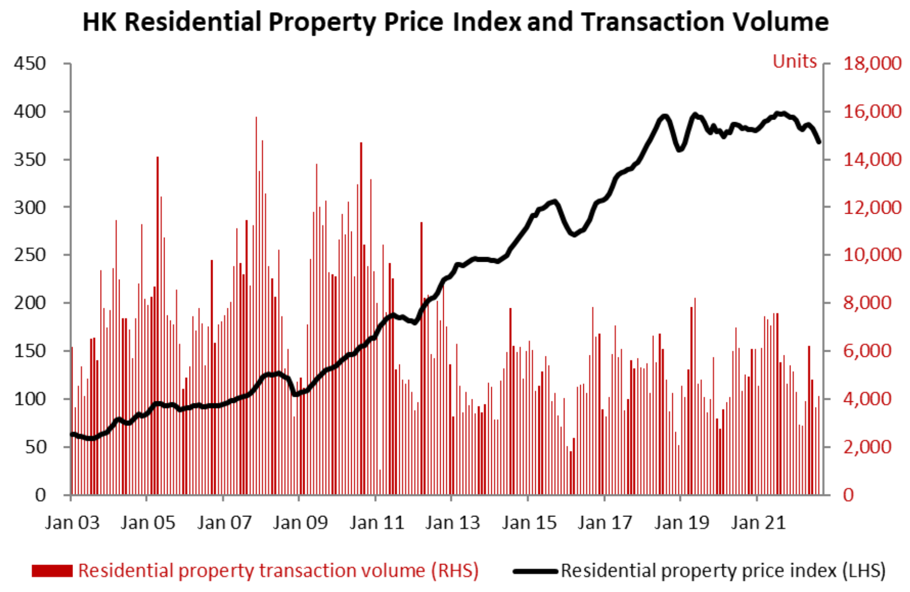
Source: HK Census and Statistics Department, OCBCWH

HK: Housing price index fell back to levels last seen in 2019

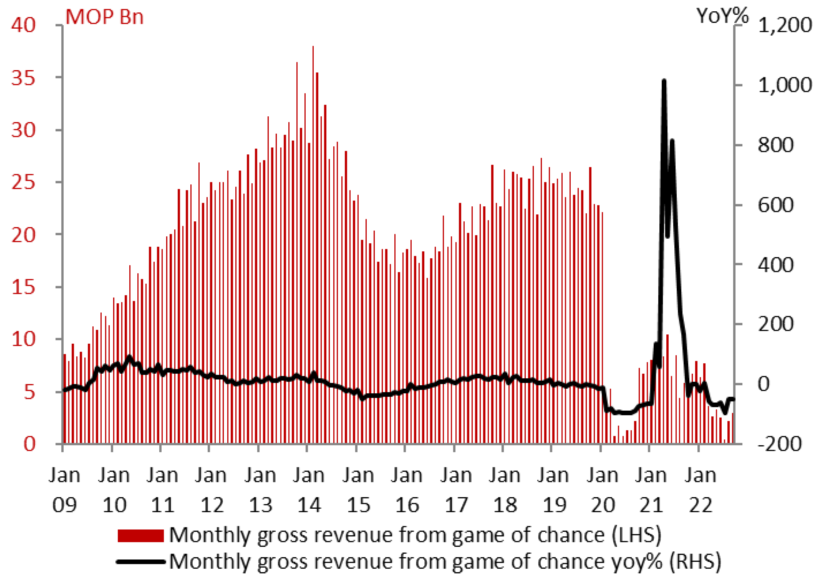
- Housing market downturn in Hong Kong showed signs of worsening lately, with the year-on-year decline in property price widened further to 7.4% in August (-5.4% in July). The private residential property price index in August fell back to the levels last seen in 2019.
- Market sentiment in the property market deteriorated further, alongside the tighter financial condition and slower-than-expected global economic momentum. Reportedly, the room for price negotiation in second-hand property market widened. Trading activities remained subdued. In the first eight months of 2022, the number of residential properties transactions plummeted by 38.4% YoY. As the housing market downturn showed clear signs of worsening. We revised downward our forecast this year, and expected the overall residential price to fall by 10% during the year.



Source: HK Rating and Valuation Department, OCBCWH

Macau: Positive catalysts ahead for the gaming sector

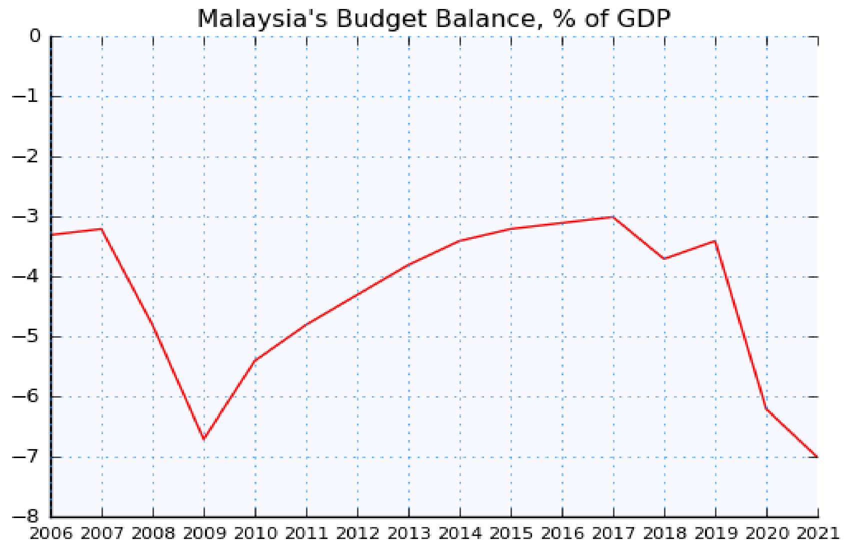
- Macau's gross gaming revenue in September recorded a notable rebound from that of August, as border controls continued to ease. Nonetheless, the figure was still down by 49.6% compared to a year ago, at MOP2,962 million. In the first nine months of 2022, the gaming revenue fell by 53.1% YoY.
- In the third quarter of 2022, the gross gaming revenue plummeted by 70.4% as compared to last year, due to imposition of lockdown measures, as well as tightened border controls during the local Covid outbreak. While we saw some rebound in September, the figure was still 32.3% lower than the average in the first half of 2022 at MOP4,378 million.
- We are looking at a few positive catalysts in the coming months, including resumption of e-visa and packaged tours for Mainland visitors. The gaming revenue might see further notable improvement in the fourth quarter due to the low base a year ago.



Source: DICJ, OCBCWH

Malaysia: Higher levels

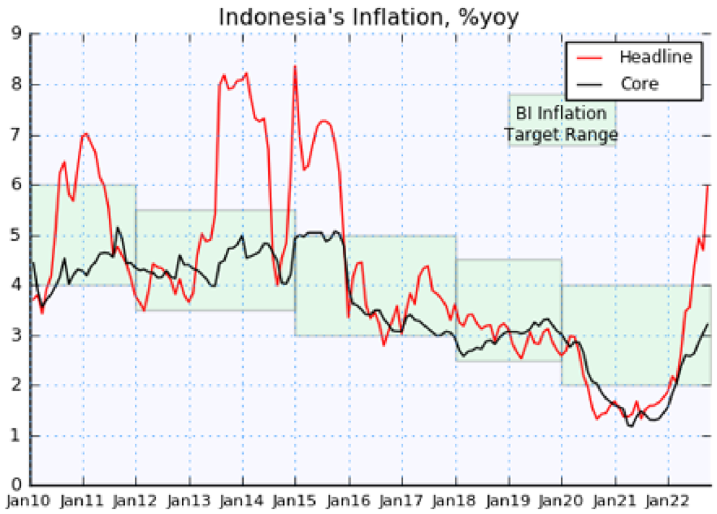
- Malaysia is due to announce its 2023 budget on 7th Oct. We see the likelihood of supportive measures still being adopted to boost growth, especially initiatives to bolster its attractiveness in attracting investment in the high-tech sector.
- Given the political cycle and the backdrop of high inflation, we expect further rollout of handouts and cost-of-living defraying measures in the budget, especially for the B40 population that need more help. Still, the degree to which the government can tune up its expenditure for these considerations is limited, given the fiscal constraints imposed by its relatively high level of indebtedness.
- Moreover, it is probably prudent to leave considerable "spare capacity" on the fiscal front too, given how exposed the Malaysian economy may be to the global slowdown risks.



Source: OCBC, Bloomberg

Indonesia: High inflation

- In YoY terms, Indonesia's headline inflation managed to stay below 6% expected, coming at 5.95% YoY. Meanwhile, core inflation rose by 3.21% YoY in September, softer than the 3.5% that was expected, though higher than 3.04% before.
- Despite the misses, the data nevertheless continue to point to the underlying inflation challenges facing Indonesia in the coming months. For one, the headline inflation is the highest that the country has experienced in seven years. The effects of fuel price increase on other goods may yet percolate further in the coming months to push the core prints up further.
- We see a central bank that is rightly going to continue donning the hawkish mantle for a while. Already, it had hiked more forthrightly than expected at 50bps move in the previous meeting. While we do not think that it will move by similarly big increments in the coming meetings – especially if the currency volatility stays relatively contained – we do think that more tightening is to come. We expect a total of 100bps more hikes to come, in 25bps increments each into Jan 2023.



Source: OCBC, Bloomberg

ESG

ESG: Developments in nuclear energy

- Amidst countries' race to net-zero alongside energy security concerns and soaring fuel prices, there has been increasing interest in harnessing nuclear energy as an alternative low-emission electricity source:
    - Japan revealed a plan to bring idle reactors back into service and invest in developing next-generation reactors → major policy shift on nuclear energy a decade after the 2011 Fukushima nuclear accident.
    - China approved the construction of a pulsed-power plant and aims to generate nuclear fusion energy by 2028.
    - Singapore identified nuclear energy as a potential low-carbon power source for the country alongside hydrogen and geothermal energy. A Singapore-based think tank will be carrying out a study on potential benefits of nuclear technology (e.g. floating nuclear power plants) in SEA.
- Greater confidence in nuclear energy deployment with technological advancements that has made deployment safer. The feasibility of nuclear energy deployment would depend on extensive efforts in feasibility studies to ensure the economic, regulatory, social and environmental aspects have been considered.
- Opportunities for investments include (i) supporting the development and deployment of advanced nuclear technologies (e.g. small modular reactors (SMRs)) and (ii) strengthening supply chains and managing risks (e.g. radioactive waste management, capability development).

Source: International Energy Agency, SCMP, Bloomberg, The Straits Times

FX & Rates

FX & Rates: No fresh catalyst

- UST yields closed around intra-day highs on Friday in NY session but softened at Asia open Monday morning. We remain of the view that the 10Y UST yield is likely to be capped at 3.90-3.95% on a multi-month horizon constrained by inflation expectation and/or real yield, while the 2Y UST yield has potential to move towards 4.50-4.60% to better align itself with the expected peak (effective) Fed funds rate; i.e. we see potential for the 2s10s segment of the UST curve to become more inverted at the -60/-65bp area. US PCE deflator came in higher than expected, with core PCE deflator rebounding to 4.9% YoY after one month's moderation.
- GBP started the week, holding on to last week's gains. BoE's intervention to buy longer-dated gilts on whatever scale is necessary and emergency meeting last Fri between OBR, PM Truss and Chancellor Kwarteng managed to restore some calm and brought GBP back to levels before the plunge last Monday. OBR has been tasked to produce its first draft of economic forecast to the Chancellor by 7th Oct and will set out a full timetable up to 23rd Nov. Late Fri, S&P just lowered its rating outlook to negative, from stable, in line with our caution for potential downgrade on UK sovereign rating due to unfunded tax cuts. Moody's has earlier commented that the tax cuts were 'credit negative'. Moody's will complete rating review by 21st Oct – we keep in view if any downgrade is on the way. Markets will scrutinise on what more the Truss-Kwarteng team can do in terms of budget. So far the U-turn in 45% tax bracket, OBR meeting and BoE action to buy longer-dated gilts have brought time and hopes (resulting in GBP rally), we caution that the effect can fade very quickly if issues relating to budget is not sorted out before strong USD trend re-asserts
- USDSGD fell in later part of last week, taking cues from DXY turn lower and sharp gains in CNH ahead of golden week holidays. Sharp rebound in CNH vs USD was likely attributable to China's pledge of support for China property and Reuters report of China asking major state-owned banks to be prepared to sell USD – basically the threat of intervention in FX markets. USDSGD was last at 1.4340 levels. Bullish momentum on daily chart shows signs of fading while RSI turned lower from overbought conditions. There is room for downside play especially if USD decline momentum continues. Support at 1.4295 (76.4% fibo retracement of 2020 high to 2021 low), 1.42 levels. Resistance at 1.4360, 1.44 levels. S$NEER is trading ~1.4% above model-implied mid-point.

Source: OCBC, Bloomberg

Asset Flows

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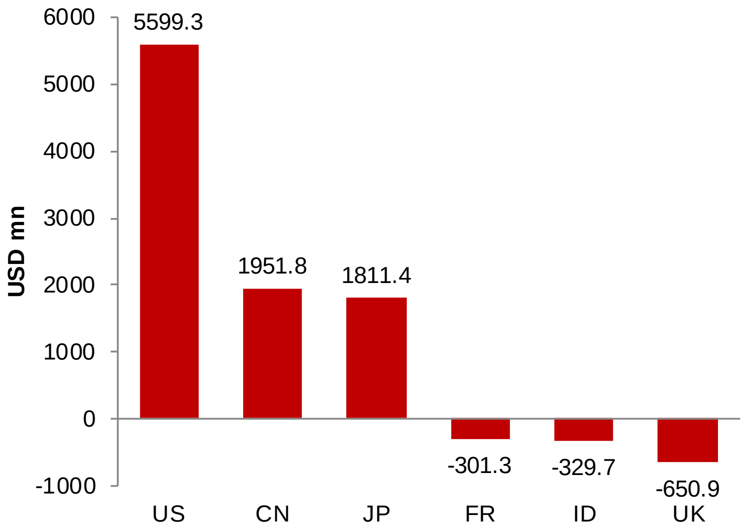
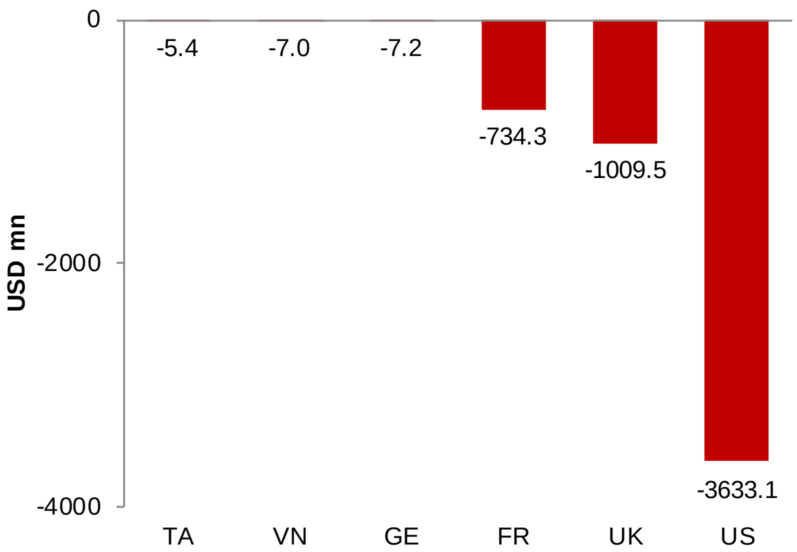
Global Equity & Bond Flows

- Global equity markets saw net inflows of $7.7bn for the week ending 28th September, an increase from the outflows of $7.7bn last week.
- Global bond market reported net outflows of $13.4bn, an increase from last week's outflows of $6.7bn.

Equity top gainers & losers	Bonds top gainers & losers





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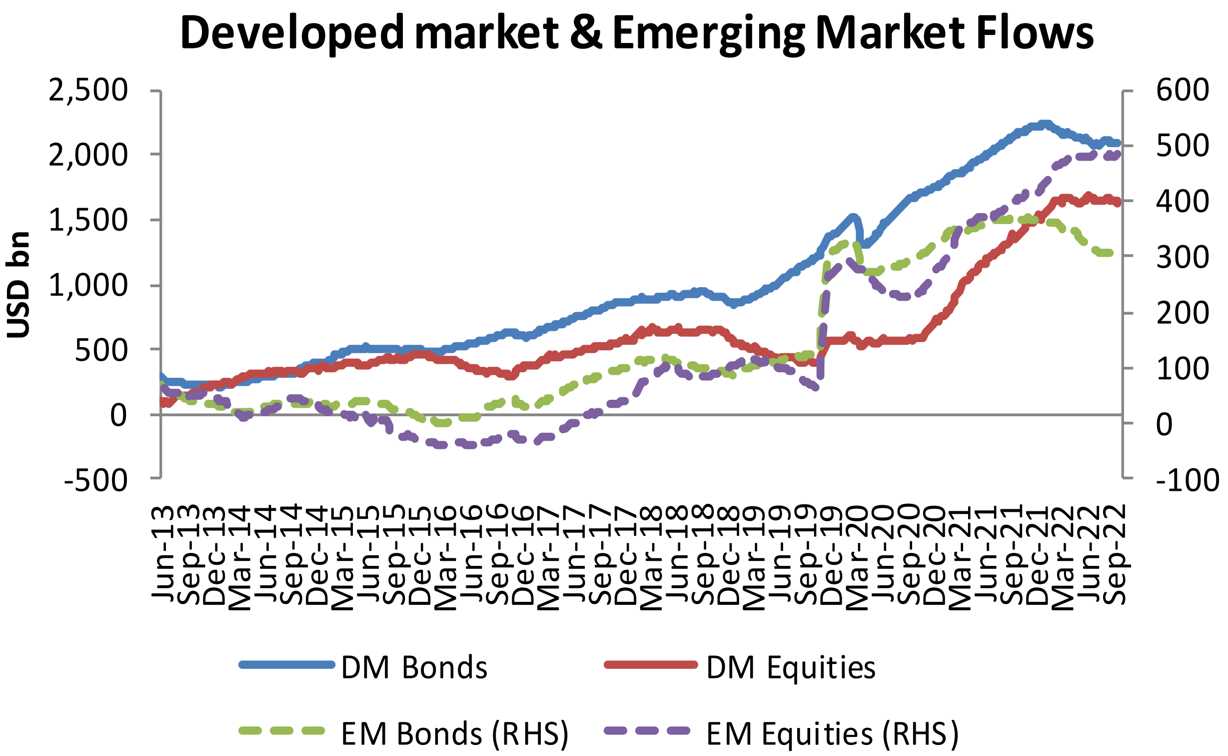
Source: OCBC Bank, EPFR

DM & EM Flows

- DM equities saw $6.1bn worth of inflows while the EM-space registered $1.7bn worth of inflows.
- Elsewhere, the DM bond space posted outflows of $8.7bn, and EM bonds also registered outflows of $4.5bn.



Source: OCBC Bank, EPFR

Thank you

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