Quarterly Market Outlook 3Q2022

Global Markets

July 2022

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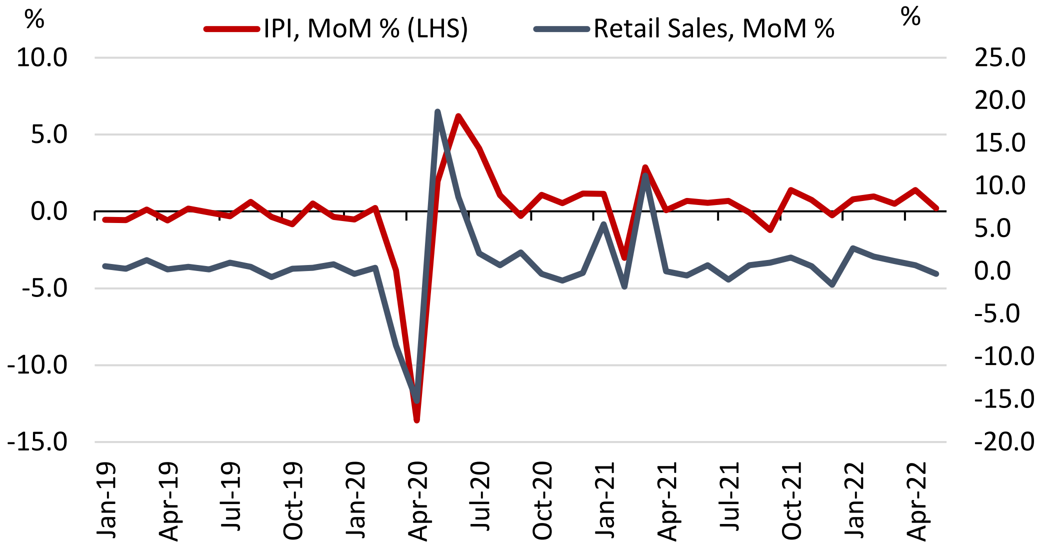
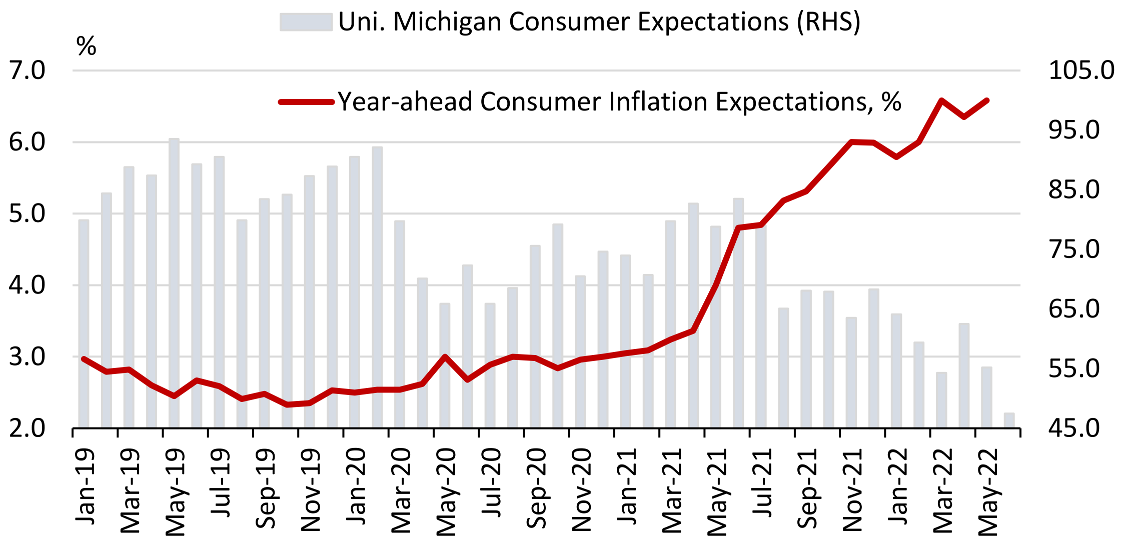
Global Central Banks Policy Rates Outlook

	Current	3Q22	4Q22	1Q23	2Q23	Remarks
United States Federal Reserve *Fed Funds Rate*	**1.50-1.75**	2.50-2.75	3.00-3.25	3.00-3.25	3.00-3.25	**+150bps by year end**
Eurozone European Central Bank *Deposit Rate*	**-0.50**	0.25	0.50	0.50	0.50	**+100bps by year end**
United Kingdom Bank of England *Bank Rate*	**1.25**	1.75	2.00	2.00	2.00	**+75bps by year end**
Japan Bank of Japan *Policy Balance Rate*	**-0.10**	-0.10	-0.10	-0.10	-0.10	**No change**
Australia Reserve Bank of Australia *Cash Rate*	**1.35**	1.60	1.85	1.85	1.85	**+50bps by year end**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**2.00**	3.00	3.50	3.50	3.50	**+150bps by year end**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**2.25**	2.50	2.75	2.75	2.75	**+50bps by year end**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**0.50**	0.50	0.75	1.00	1.00	**+25bps by year end**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**3.50**	3.50	3.75	3.75	3.75	**+25bps by year end**

Source: Bloomberg, Global Markets Research

Inflation & higher rates spurred a collapse in US sentiment as recession looms



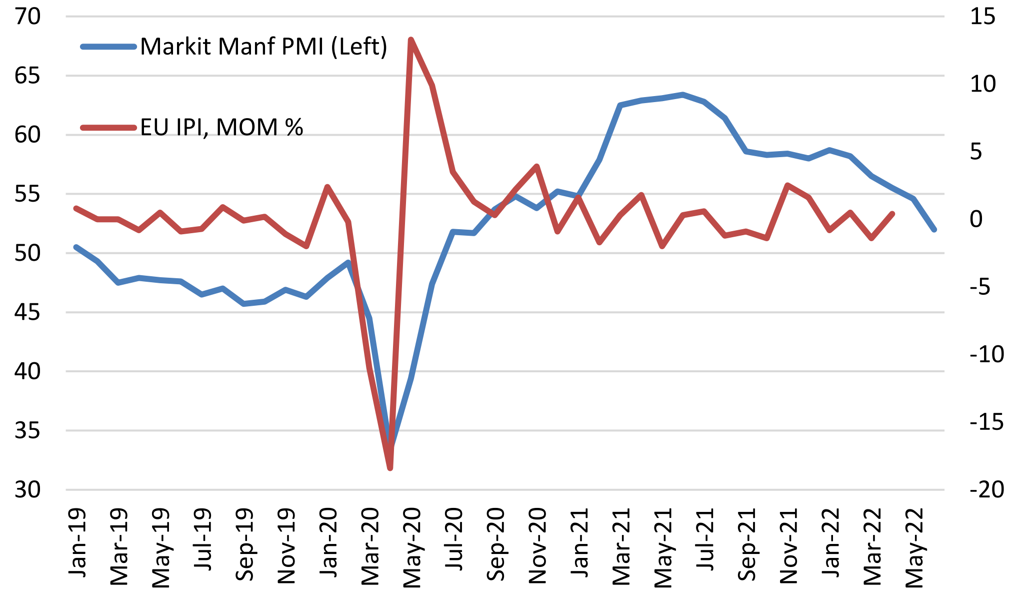


	2020	2021	2022F
GDP (%)	-3.4	5.7	1.7
Core PCE Inflation (%)	1.4	3.3	4.3
Fed Funds Rate (%)	0-0.25	0-0.25	3.00-3.25
Dollar Index (End of period)	89.94	95.67	105.00

Source: Fed, Bloomberg, HLBB Global Markets Research

- Inflation and higher interest rates (as a result of Fed's aggressive rate hikes) stirred talks of recession in the US as economic activity slowed.
- Job market remains resilient but showing signs of weaker hiring pace.
- Fed maneuvers tough situation – between containing inflation & slowing growth too much as to cause a recession
- Fed expected to prioritise fighting inflation, ensuring credibility is intact

Eurozone – ECB navigates potential bond crisis as policy tightening begins

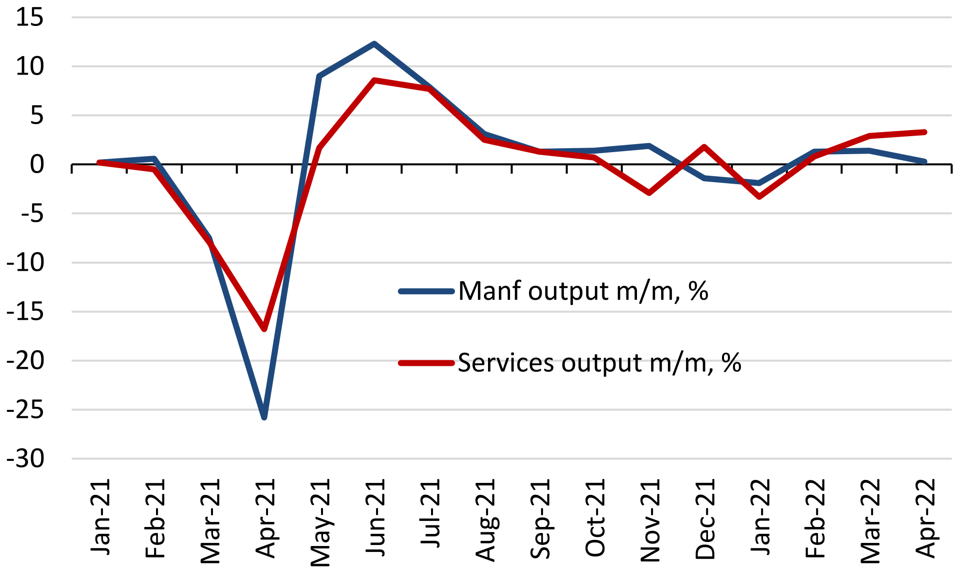


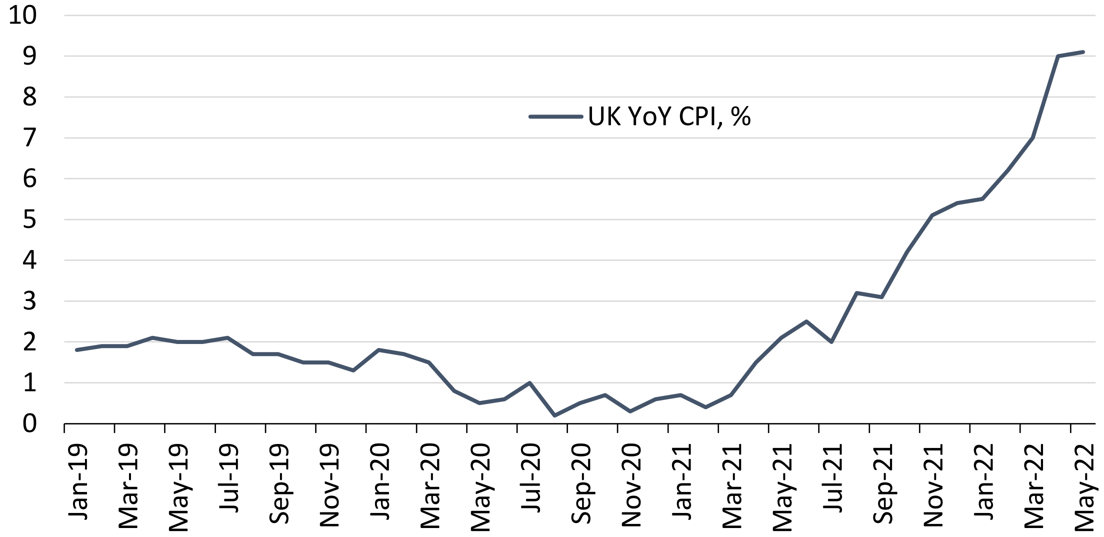
	2020	2021	2022F
GDP (%)	-6.5	5.4	2.8
Inflation (%)	0.3	2.6	6.8
Deposit Facility Rate (%)	-0.5	-0.5	0.50
EUR/USD (End of period)	1.2216	1.1370	1.03

Source: Bloomberg, HLBB Global Markets Research

- Inflation outlook deteriorates due to disruption of energy supply stemming from the Ukraine-Russia war.
- ECB wants to catch up with tightening policy but the belated actions relative to Fed means limited upside in the EUR.
- Market overpriced ECB rate hikes by too much as ECB constrained to do more as recession and bond crisis risks mount.

UK – BOE expected to wrap up tightening in 3Q



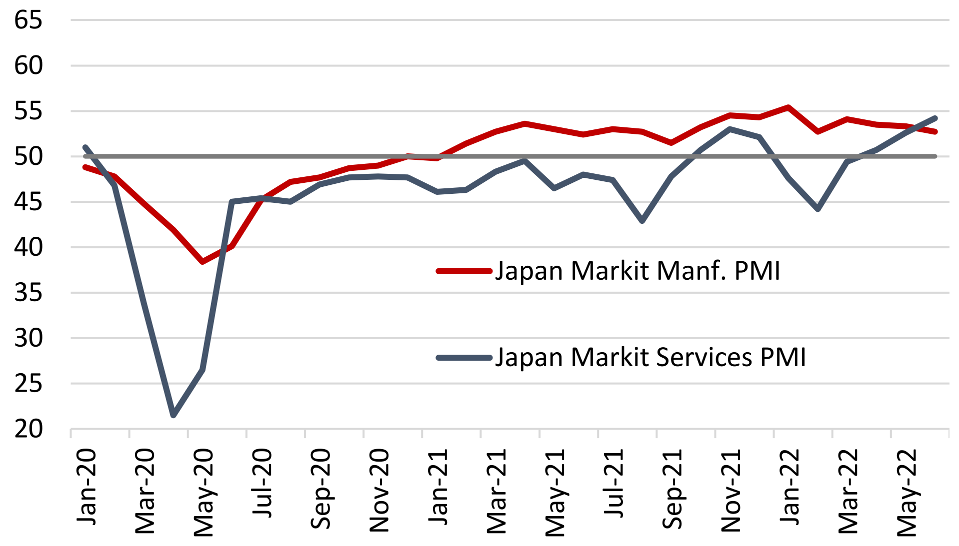


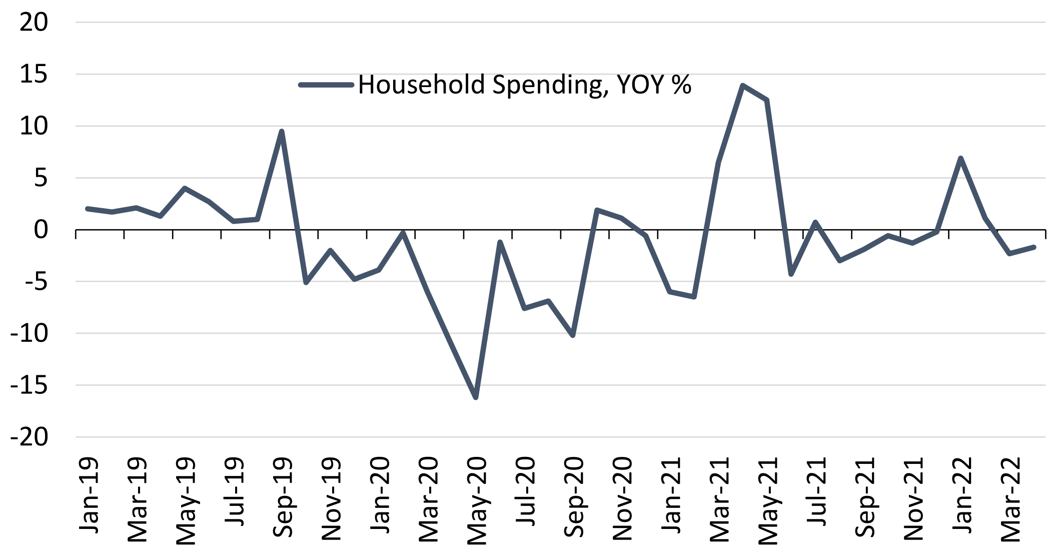
	2020	2021	2022F
GDP (%)	-9.4	7.3	3.8
Inflation (%)	0.9	2.6	10.3
Bank Rate (%)	0.1	0.25	2.00
GBP/USD (End of Period)	1.3670	1.3532	1.22

Source: Bloomberg, HLBB Global Markets Research

- Manufacturing activity showed weakness but services remained supported by solid labour market conditions.
- There is still room for CPI rate to move higher past the current 9.0% mark, but BOE is determined to do more than previously expected to rein in inflation, but likely at less aggressive pace relative to Fed.

Japan – Inflation climbed but not enough to shift BOJ's stance



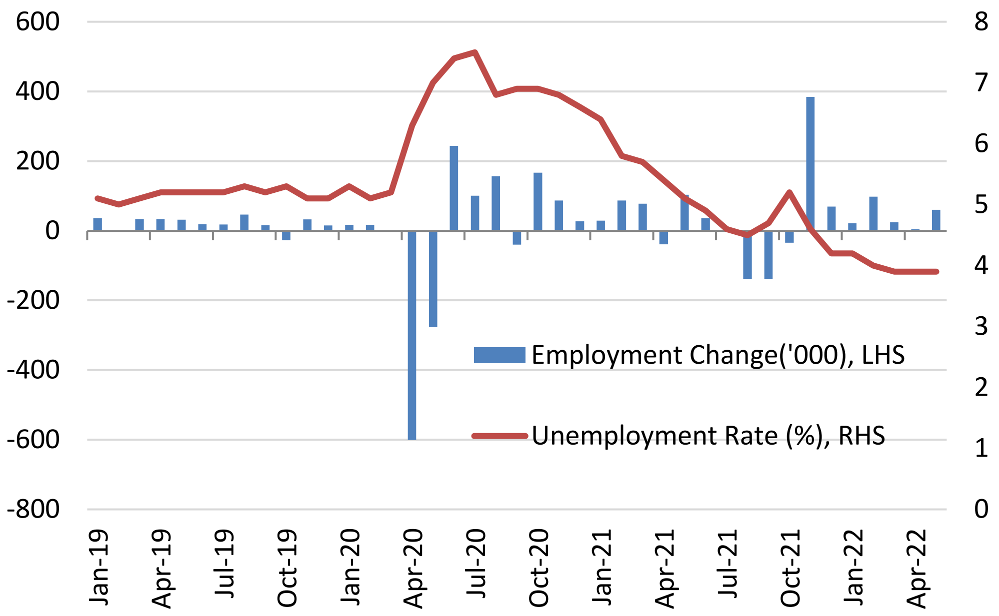


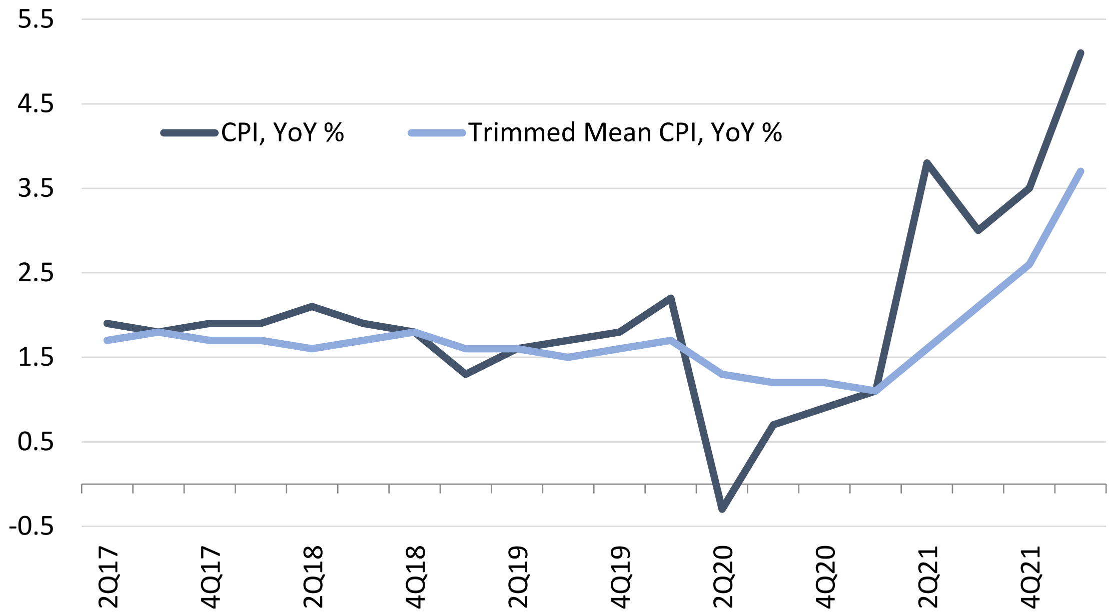
	2020	2021	2022F
GDP (%)	-4.6	1.8	2.9
Core Inflation (%)	-0.4	0.0	1.9
Policy Balance Rate	-0.1	-0.1	-0.1
USD/JPY	103.25	115.08	135.00

Source: Bloomberg, HLBB Global Markets Research

- Inflation climbed but remained comparatively lower than major economy and is supply driven.
- The negative real wage growth in April suggests growth in spending may be short-lived as pent-up demand will fade while short-term inflation expectations rise.
- BOJ's accommodative policy will remain an outlier among major economies

Australia – More flexibility for RBA



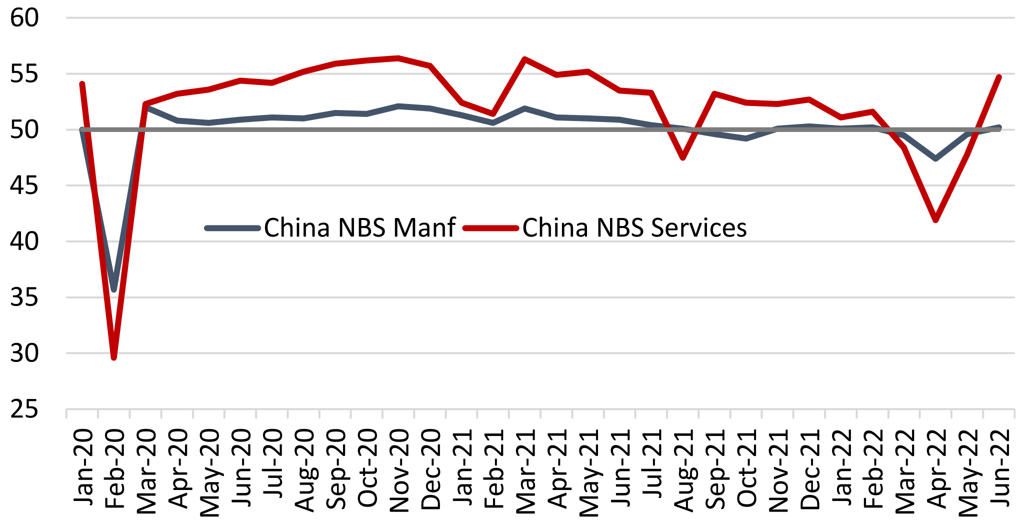


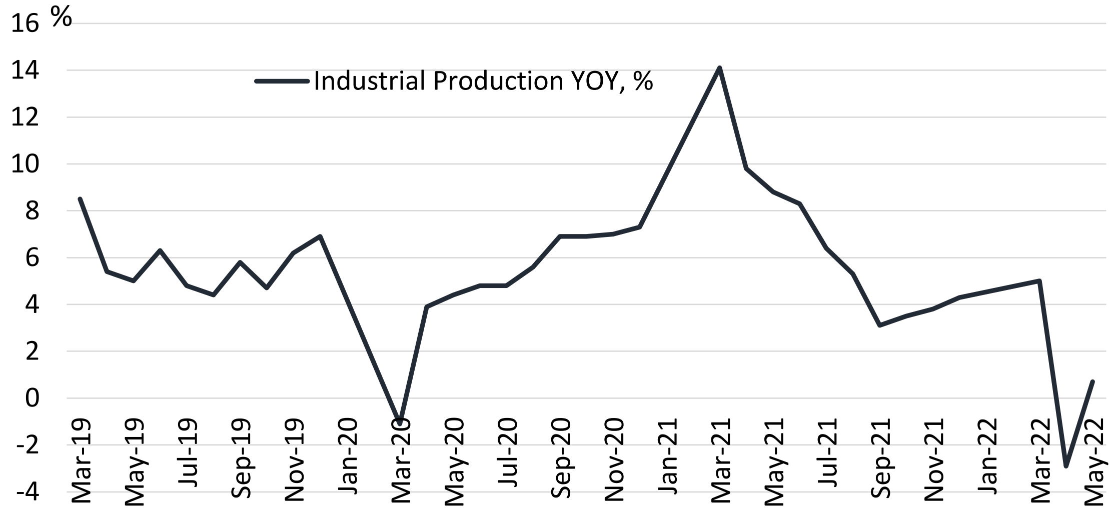
	2020	2021	2022F
GDP (%)	-2.2	4.9	5.5
Inflation (%)	0.9	2.9	3.3
Cash Rate (%)	0.10	0.10	1.85
AUD/USD	0.7694	0.7263	0.69

Source: Bloomberg, HLBB Global Markets Research

- Low frequency of inflation and wages data means RBA may rely more on labour data such as job gains and unemployment rate.
- RBA's hawkish stance suggests it could turn more aggressive but monthly meeting also allows RBA more flexibility.
- It might ramp up rate hikes in June-July and switch to smaller increases thereafter.

China- Challenging recovery ahead



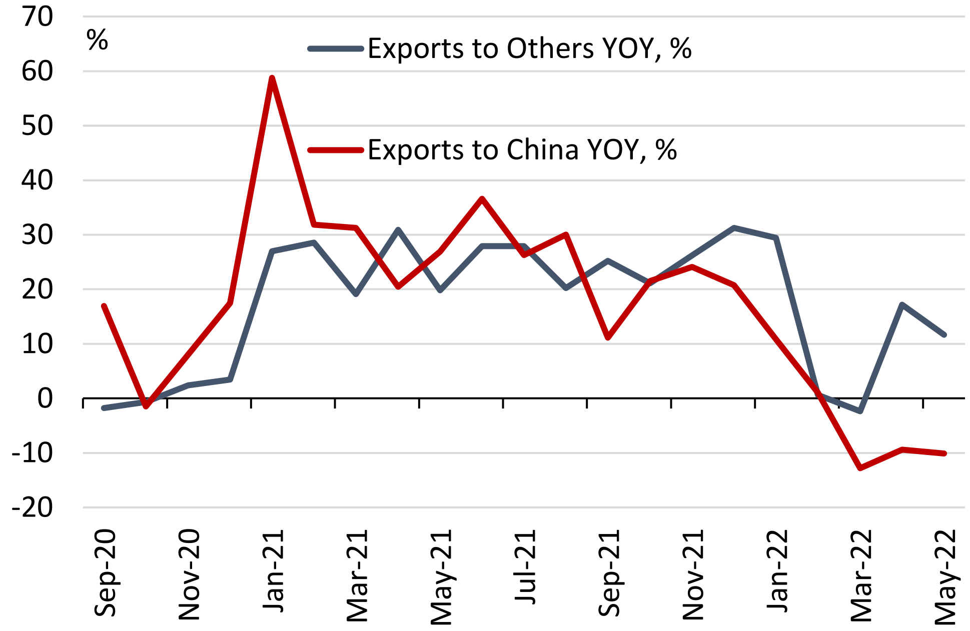


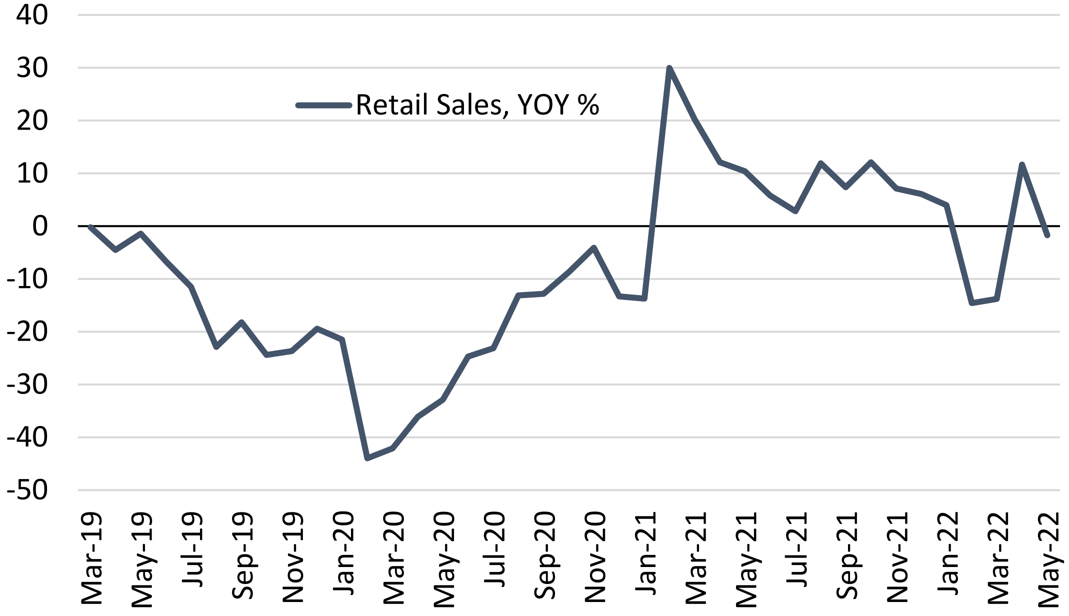
	2020	2021	2022F
GDP (%)	2.2	8.1	5.5
Inflation (%)	2.5	0.9	2.2
1Y LPR (%)	3.85	3.80	3.60
USD/CNY	6.5272	6.3561	6.70

Source: Bloomberg, HLBB Global Markets Research

- Recovery post-Shanghai lockdown may be challenging as external conditions weakened and domestic consumer consumption slowed.
- Government set lower GDP target 5.5% for 2022, lowest in decades and seems hard to achieve.
- Additional easing by the PBOC may be needed to support recovery.

Hong Kong – Boost from pent-up demand





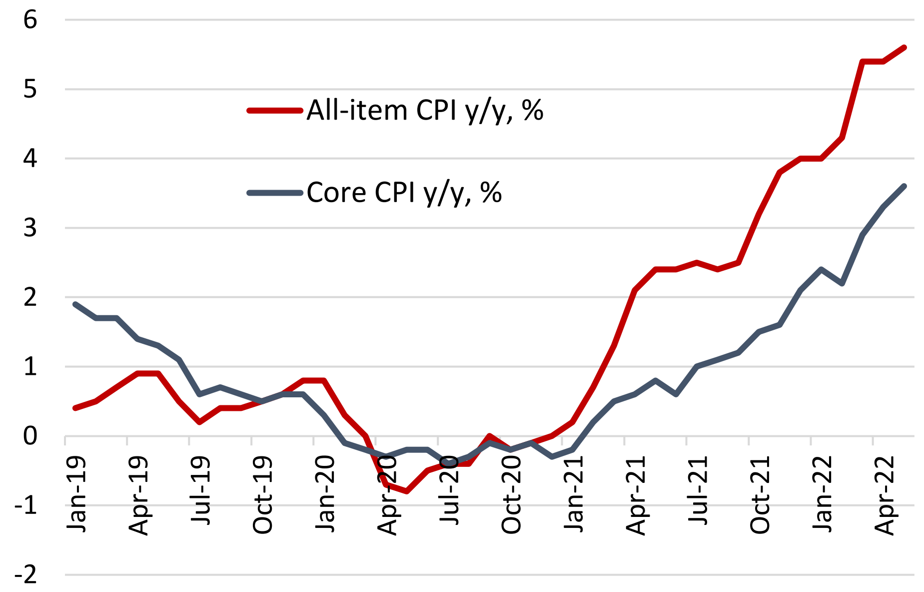
	2020	2021	2022F
GDP (%)	-6.1	6.4	1.5
Inflation (%)	0.3	1.6	2.1
Base Rate	0.50	0.50	3.50
USD/HKD	7.7531	7.7966	7.85

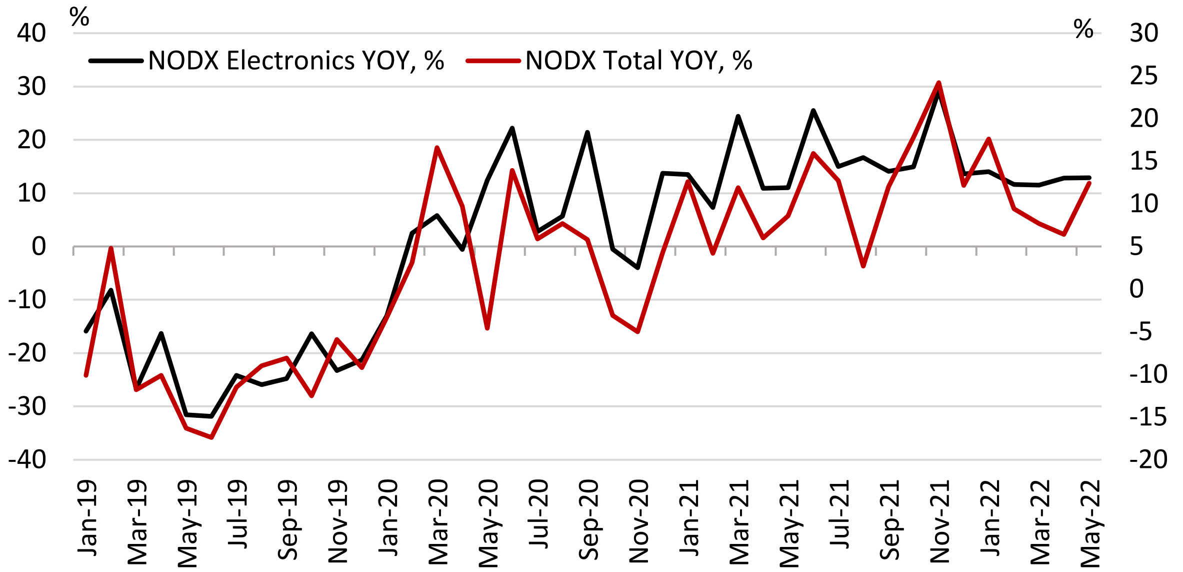
Source: Bloomberg, HLBB Global Markets Research

- Pent-up demand after the easing of Covid rules to support domestic activity.
- Quarantine rules (although shortened) still deter international visitors.
- Stringent Covid management, weaker China's growth pose downside risks to growth.

Hong Leong Bank

Singapore – Sustained inflation bolster case for MAS tightening



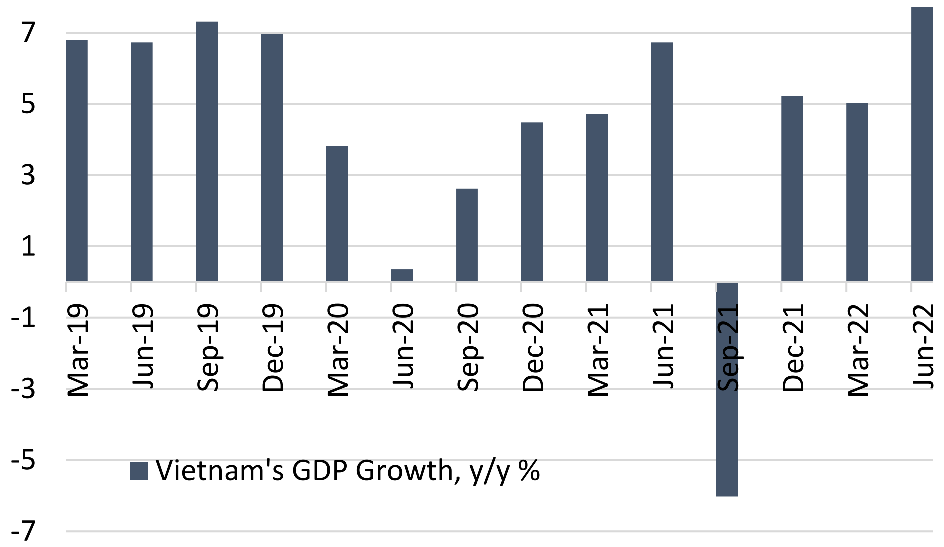


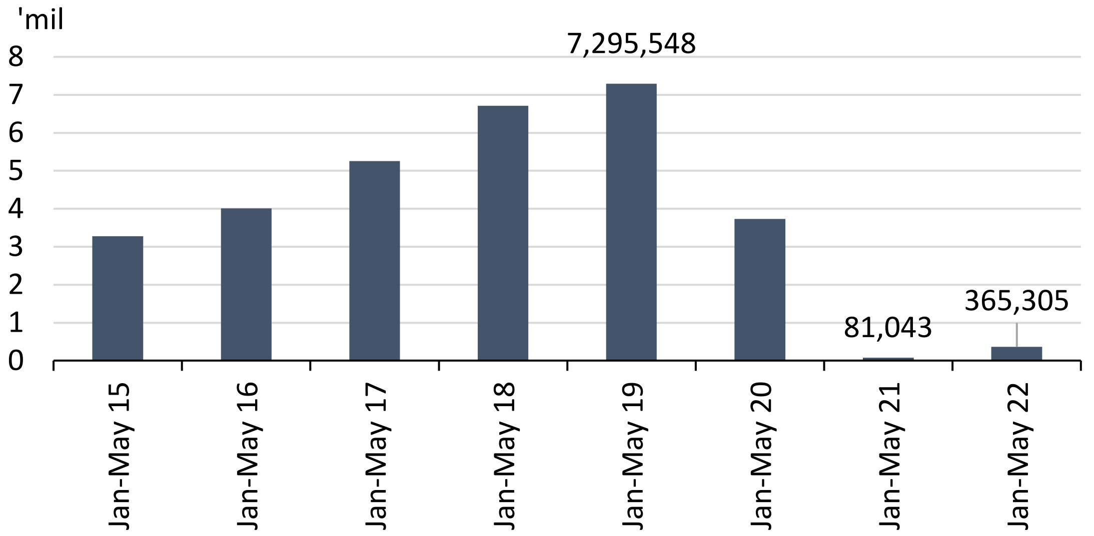
	2020	2021	2022
GDP (%)	-5.4	7.9	3.0-5.0
Inflation (%)	-0.2	2.3	4.5-5.5
3m SIBOR (%)	0.41	0.44	2.06
USD/SGD	1.3221	1.3490	1.38

Source: MAS, Bloomberg, HLBB Global Markets Research

- Growth signals weakened in Singapore but may be supported by sustained demand (albeit softer) manufacturing demand.
- Headline inflation stayed elevated and core inflation picked up further, bolstering the case for further MAS tightening.
- The MAS may also need to keep up with the more aggressive Fed moves.

Vietnam – Tourism revival & sustained manufacturing demand support recovery



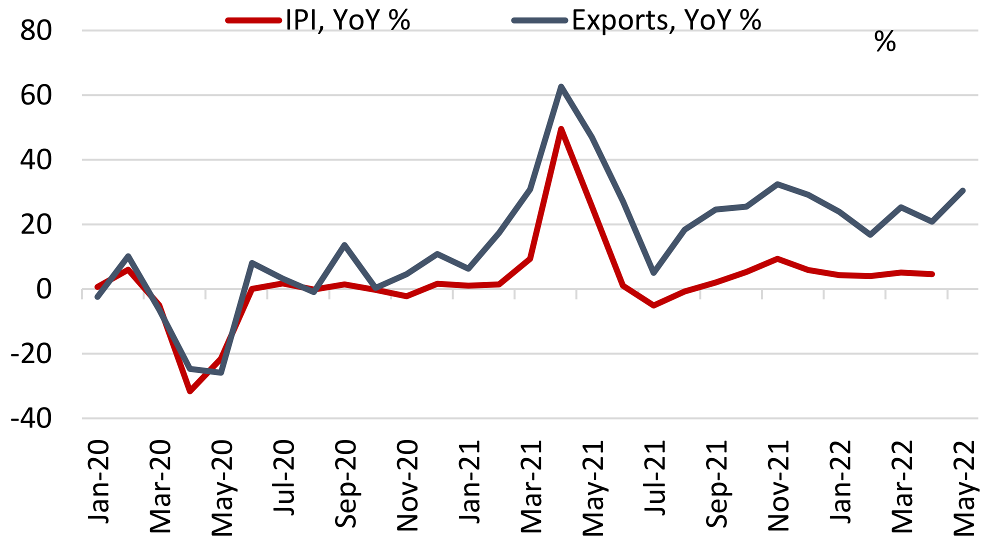


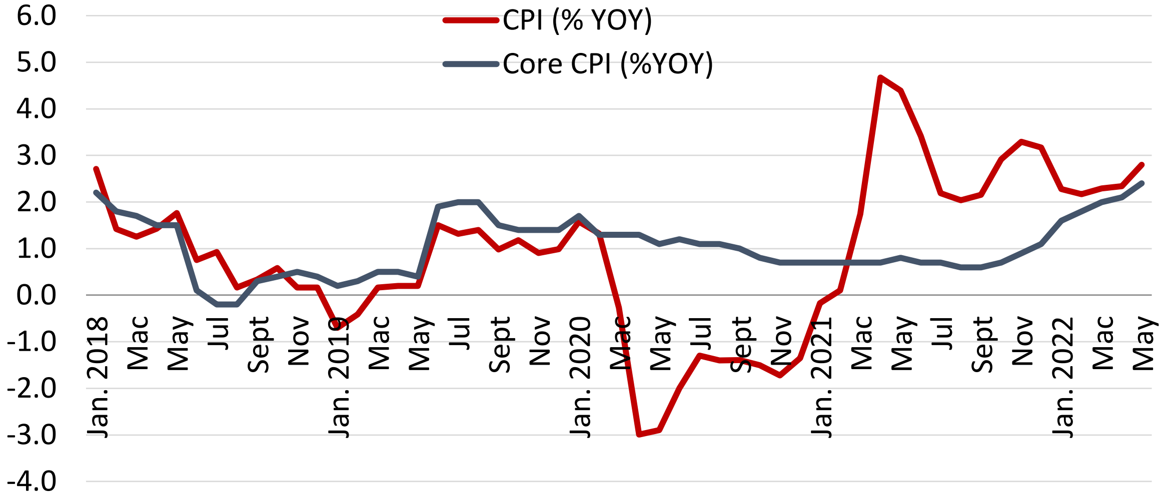
	2020	2021	2022
GDP (%)	2.9	2.6	6.5
Inflation (%)	3.2	2.2	3.8
SBV Refinancing Rate (%)	4.00	4.00	4.25
USD/VND	23,098	22826	22975

Source: Bloomberg, HLBB Global Markets Research

- Economy may remain supported by sustained (albeit slower) manufacturing demand worldwide.
- Tourism activity saw revival in 2Q but government may have difficulties to reach its 5million tourist arrivals goal as Covid effect lingers.
- Domestic price pressures continue to pick up but still off the early 2020 peak of above 6.0%, implying that SBV may refrain from raising rates for now.

Malaysia – Recovery intact but inflation posing risk to consumption





Forecasts	2020	2021	2022
GDP (%)	-5.6	3.1	7.4
Inflation (%)	-1.1	2.5	2.7
OPR (%)	1.75	1.75	2.75
USD/MYR	4.0205	4.20	4.40

Source: Bloomberg, HLBB Global Markets Research

- Domestic economic recovery supported by economic reopening, firmer employment situation.
- Inflation climbed further in May; higher inflationary risks could also arise from other potential policy adjustment on utilities and fuel mechanism.
- Expect BNM to maintain a steady rate hike path, raising OPR by a further 25-50bps by end-2022 over two meetings.

Markets Outlook - FX

FX – Hinges on geopolitical development, inflation and growth risks

	12-month Outlook
+	**EUR**: To recoup lost ground in 4Q22 and 1Q23 amid ECB's hawkish shift; offsetting weaknesses caused by growth concerns in 2Q and 3Q **GBP:** BOE nearing end of tightening cycle **AUD, NZD, CAD**: Influenced by commodity price movement, China growth story, and respective policy expectations **JPY:** Fed-BOJ policy divergence weighing on JPY, countered by safe haven bids **MYR**: Sustained growth outlook which offer room for further policy normalization **SGD**: Supported by positive growth outlook and expectations for MAS gradual appreciation policy **CNY**: Slight positive as the economy shrugs off Covid uncertainties and recovers from slowdown concerns
-	**USD:** USD to lose its luster towards end-2022 as the Fed's policy normalizing cycle draws to a close; risks of economic fallout from earlier rapid policy moves

FX Forecasts

	30-Jun	Q3-22	Q4-22	Q1-23	Q2-23
DXY	104.69	106.00	105.00	103.00	102.00
USD/CAD	1.29	1.31	1.30	1.28	1.28
EUR/USD	1.05	1.02	1.03	1.05	1.04
GBP/USD	1.22	1.21	1.22	1.24	1.23
USD/CHF	0.96	0.98	0.97	0.96	0.95
AUD/USD	0.69	0.67	0.69	0.70	0.70
NZD/USD	0.62	0.67	0.68	0.69	0.69
USD/JPY	136	138	135	133	132
USD/MYR	4.41	4.42	4.40	4.38	4.35
USD/SGD	1.39	1.40	1.38	1.37	1.36
USD/CNY	6.70	6.72	6.70	6.68	6.67

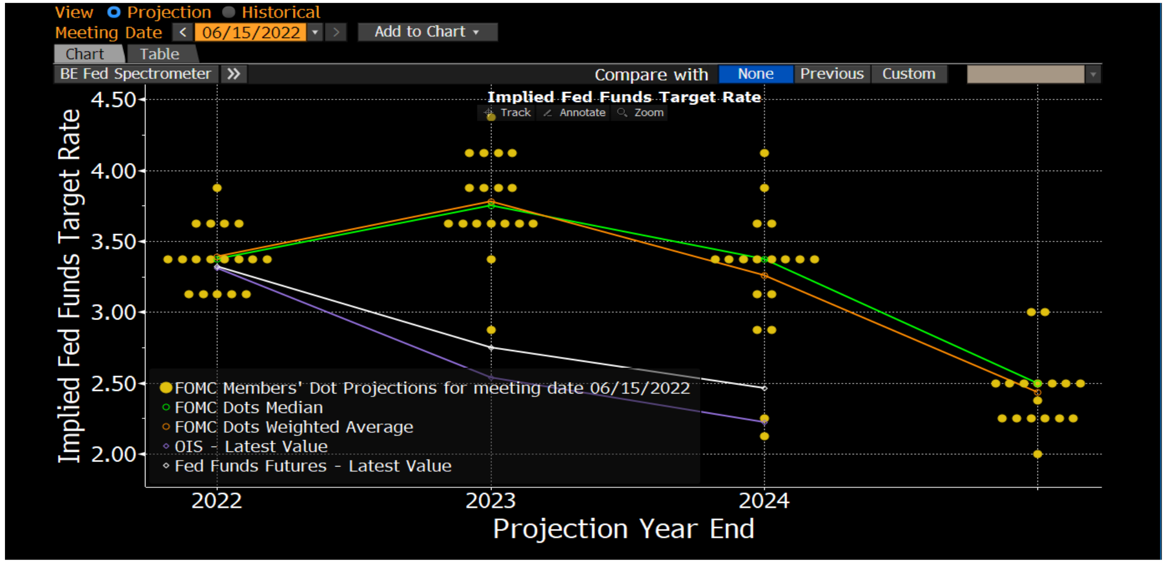
Markets Outlook – Fixed Income

Sovereigns – uncertainty surrounding the impact of QT, impact of aggressive rate hike exercise on the economy

UST	Yields to resume upward trajectory in view of Fed's rate normalization exercise (50-75bps hike each in Jul/ Sept) Risk – softer inflation, manufacturing and job numbers
MGS	Slight correlation to USTs Higher OPR projection Support from depth and demand from local investment institutions
SGS	Higher yields in view of prominent inflation that may prompt further policy tightening by MAS

	CURRENT	3Q2022
UST 10Y	2.93%	2.95-3.15%
MGS 10Y	4.13%	4.30-4.50%
SGS 10Y	2.83%	2.85-3.05%

US Fixed Income – Concerns over economic slowdown amid hawkish interest rate-cycle



Source: Bloomberg, HLBB Global Markets Research

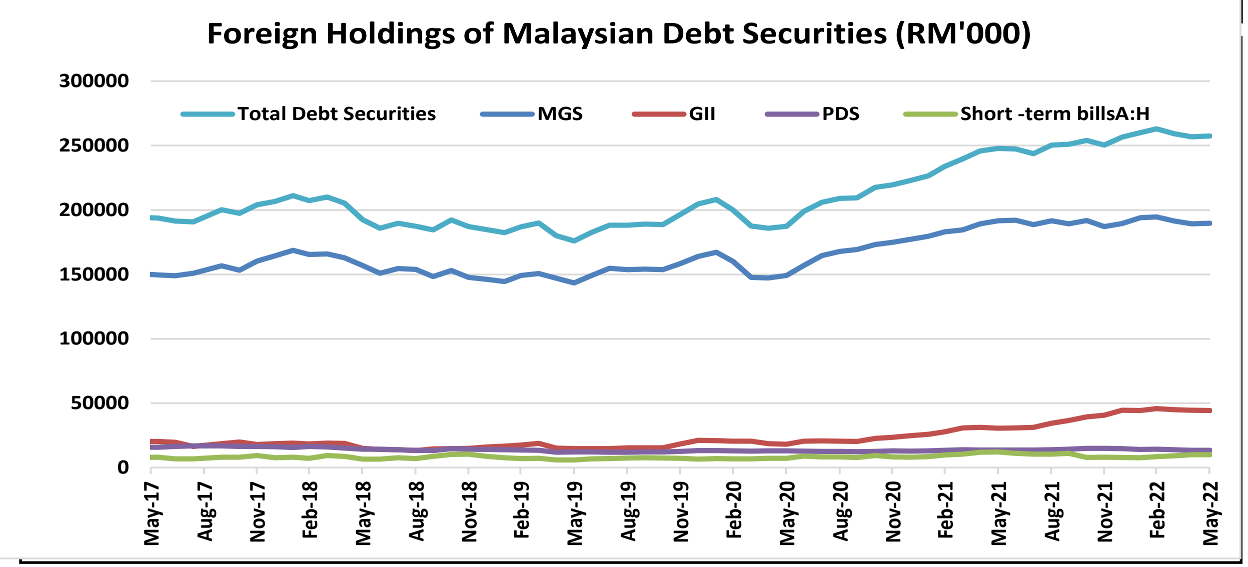
- **UST** -- UST's performed weakly for the quarter under review, as the Fed's aggressive rate-hike exercise comprising of two(2) consecutive rate hikes totaling 125bps in May and June. The curve shifted higher as overall benchmark yields spiked between 58-71bps across. However, the yield curve remained in positive territory as both the UST 2Y and 10Y yields spiked 61-67bps to 2.95% and 3.01% each. Fed chair Powell said the Fed's commitment to rein in 40-year high inflation was unconditional but comes with the risk of higher unemployment. Volatility is expected to remain elevated until further evidence of moderating inflation (which is seen rising faster than wages). Key areas to watch include risk-on, risk-off mode due to alternating views between inflation vs growth, supply chains bottlenecks, energy price movements and outlook from key central banks. **Expect UST10Y to range higher between 2.95-3.15% for 3Q2022** due to further rate hikes and also the Fed's tapering of its massive~$8.9 trillion balance-sheet. On the flipside, demand for bonds may be triggered by a potentially softer economy going forward due to the drag-on effects of Russia-Ukraine war and protectionism. Strong foreign institutional bids from Europe, China and Japan may also turn out to be positive for bonds.

- **Corporates** – Investment-grade corporate bonds rubbed-off from UST movements with yields spreads wider with investors mainly sidelined or in selling mode. The Bloomberg Barclays US Corporate Bond Index continued to bleed on a loss of 7.2% for 2Q2022 (1Q2021: -7.7%) whilst spreads have widened further from 115bps in March to about 155bps as at June due to tighter monetary policy. We are mindful of a dent in macroeconomic outlook and the surge in trading of CDS markets but still mildly positive on high quality and shorter-duration (<5Y) bonds in technology and financials.

Malaysia Fixed Income – OPR hikes to weigh on the curve

MGS/GII issuance pipeline in 2022

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Actual Private Placement	Total Issuance YTD	BTC (times)	Low	Average	High	Cut-off
1	5-yr reopening of MGS (Mat on 11/26)	5	Jan	Q1	6/1/2022	5,000	5,000		5,000	2.329	3.235	3.273	3.290	39.4%
2	10.5-yr new Issue of MGS (Mat on 7/32)	10	Jan	Q1	13/1/2022	4,500	4,500		9,500	2.044	2.615	3.582	3.598	51.6%
3	15-yr Reopening of GII (Mat on 07/36)	15	Jan	Q1	28/1/2022	4,500	3,000		12,500	2.574	4.147	4.161	4.180	30.0%
4	5-yr Reopening of GII (Mat on 09/27)	5	Feb	Q1	7/2/2022	4,500	5,000		17,500	1.733	3.470	3.495	3.512	47.6%
5	30-yr Reopening of MGS (Mat on 06/50)	30	Feb	Q1	14/2/2022	4,500	2,500	2,500	22,500	2.423	4.488	4.505	4.520	34.1%
6	7-yr Reopening of GII (Mat on 10/28)	7	Feb	Q1	21/2/2022	4,500	4,500		27,000	1.750	3.587	3.612	3.629	50.0%
7	15-yr Reopening of MGS 04/37	15	Mar	Q1	4/3/2022	4,500	3,000		30,000	1.986	4.048	4.064	4.078	87.6%
8	20-yr Reopening of MGII 09/41	20	Mar	Q1	17/3/2022	4,500	2,500	2,500	35,000	1.884	4.375	4.401	4.427	88.0%
9	3-yr Reopening of MGS 03/25	3	Mar	Q1	30/3/2022	5,000	5,500		40,500	1.666	3.210	3.239	3.255	69.2%
10	10.5-yr New Issue of MGII (Mat on 10/32)	10	Apr	Q2	6/4/2022	4,000	4,500		45,000	2.503	4.165	4.193	4.203	30.7%
11	20.5-yr New Issue of MGS (Mat on 10/42)	20	Apr	Q2	12/4/2022	5,000	2,500	2,500	50,000	1.918	4.653	4.696	4.730	32.0%
12	15-yr Reopening of MGII 07/36	15	Apr	Q2	21/4/2022	4,000	2,500	2,500	55,000	1.879	4.750	4.826	4.869	50.0%
13	7-yr New Issue of MGS (Mat on 04/29)	7	Apr	Q2	28/4/2022	4,500	5,000		60,000	2.196	4.470	4.504	4.520	96.8%
14	30-yr New Issue of MGII (Mat on 05/52)	30	May	Q2	12/5/2022	5,000	2,500	500	63,000	2.570	5.255	5.357	5.400	49.0%
15	10-yr Reopening of MGS (Mat on 07/32)	10	May	Q2	23/5/2022	5,000	4,500		67,500	2.598	4.243	4.294	4.310	10.0%
16	3-yr Reissuance of MGII 10/25	3	May	Q2	30/5/2022	4,500	5,000		72,500	3.632	3.511	3.539	3.550	100.0%
17	15-yr Reopening of MGS 04/37	15	Jun	Q2	8/6/2022	4,000	3,000	2,500	78,000	2.211	4.565	4.599	4.618	4.6%
18	5-yr Reopening of MGII 09/27	5	Jun	Q2	22/6/2022	4,000	4,500		82,500	3.133	4.135	4.155	4.167	100.0%
19	30-yr Reopening of MGS 06/50	30	Jun	Q2	29/6/2022	4,000	2,500	2,500	87,500	2.459	4.930	4.959	4.974	30.0%
20	10-yr Reopening of MGII (Mat on 10/32)	10	Jul	Q3		5,000		x						
21	20-yr Reopening of MGS (Mat on 10/42)	20	Jul	Q3		5,000		x						
22	7-yr Reopening of MGII 07/29	7	Jul	Q3		5,000								
23	5-yr Reopening of MGS 11/27	5	Aug	Q3		5,000								
24	20-yr Reopening of MGII 09/41	20	Aug	Q3		5,000		x						
25	15-yr Reopening of MGS 04/37	15	Aug	Q3		5,000		x						
26	3-yr Reopening of MGII 10/25	3	Sep	Q3		4,500								
27	7-yr Reopening of MGS (Mat on 04/29)	7	Sep	Q3		5,000								
28	15.5-yr New Issue of MGII (Mat on 03/38)	15	Sep	Q3		5,000								
29	3-yr Reopening of MGS 03/25	3	Oct	Q4		5,000								
30	10-yr Reopening of MGII (Mat on 10/32)	10	Oct	Q4		5,000		x						
31	20-yr Reopening of MGS (Mat on 10/42)	20	Oct	Q4		5,000		x						
32	7-yr Reopening of MGII 07/29	7	Nov	Q4		4,500								
33	5-yr Reopening of MGS 11/27	5	Nov	Q4		4,500								
34	30-yr Reopening of MGII (Mat on 05/52)	30	Nov	Q4		4,000		x						
35	10-yr Reopening of MGS (Mat on 07/32)	10	Dec	Q4		4,500								
36	3-yr Reopening of MGII 10/25	3	Dec	Q4		4,500								
	Gross MGS/GII supply in 2022					167,000	72,000	15,500	87,500	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

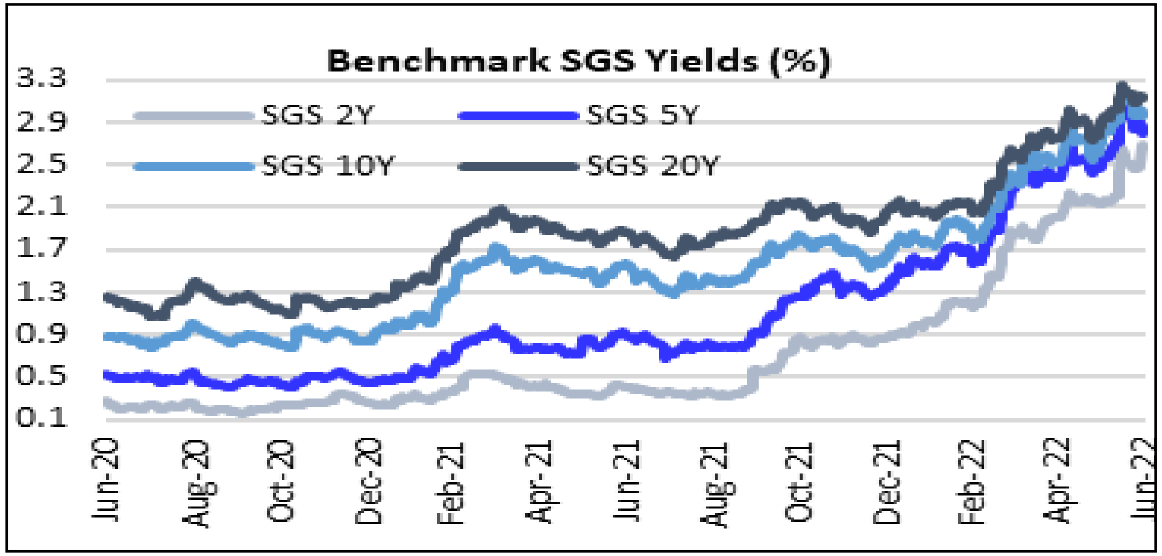


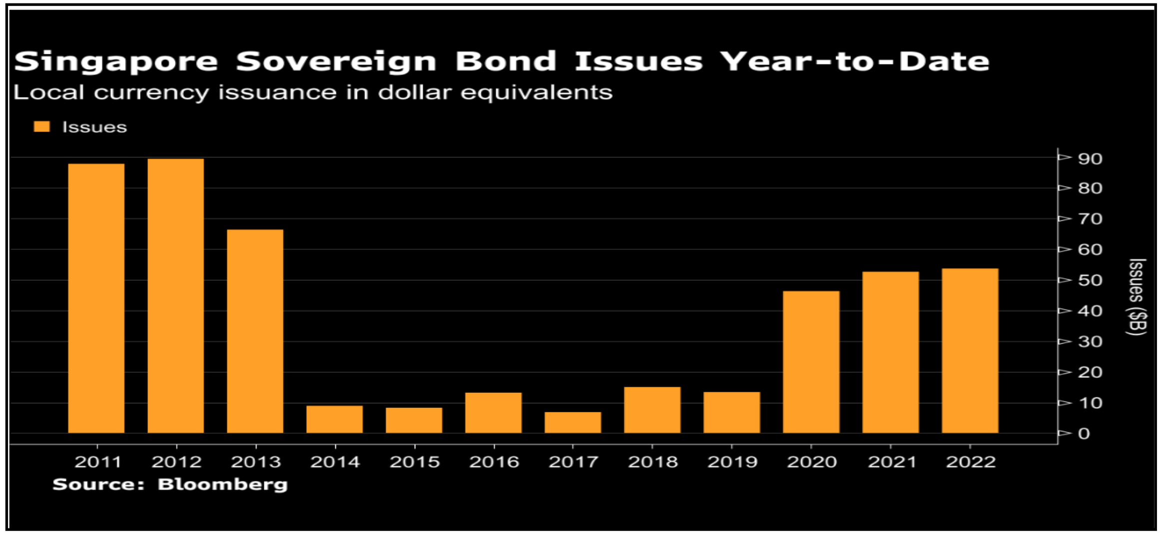
- **Government Bonds** –Overall benchmark yields saw MGS spike between 33-57bps whilst GII saw sharper rise between 34-64bps, in tandem with the spike in global bond yields. Foreign-led news especially on inflation in the US, Fed;s balance sheet runoff and Russia-Ukraine war were main factors dictating MYR bonds for the quarter under review. Foreign holdings of overall MYR bonds fell substantially by RM5.7b from RM263.2b in Feb 2022 to RM257.5b as at end-May 2022. Nevertheless, strong support was seen for government auctions in 2Q2022 with bidding metrics of ~2.60x for all 10 auctions. Total issuance of RM47.0b (1Q2022: RM40.5b) was slightly higher than our projection (Note: gross supply of government bonds for 2022 projected @ RM167.0b). With the last round of special withdrawal facilities estimated at ~RM40b by EPF members seen nearing the end, we expect to see minimal impact on both its primary participation and also secondary market-making activities. We revised our view for OPR to rise 50bps for 3Q2022 followed by a 25bps increase in 4Q2022, bringing the OPR level to 2.75% by year end. **Our 10Y MGS yield target for 3Q2022 is revised higher to 4.30-4.50%.**

- **Corporate Bonds/Sukuk** --Corporate bonds/sukuk issuances (including GG-bonds) jumped to RM34.2b (1Q2021: RM20.2b) but is in line with our projected gross issuances of between RM100-120b for 2022. Demand for primary issuance was more robust than secondary market which saw yields ended mostly mixed-to-higher q/q influenced by weaker govvies movements. We favour the 3Y AAA (47bps) and 7-10Y (52-62bps) AAA-rated bonds, within sectors comprising utilities, commodities, highway/toll and logistics sector.

Source: HLBB Global Markets Research

Singapore Fixed Income – Neutral-negative bias on SGS, positive on corporates





- **SGS** – SGS ended weak q/q, in tandem with the weak performance of USTs as overall benchmark yields rose between 49-68bps. The Bloomberg Global Singapore Bond Total Return Index lost 3.3% for 2Q2022 (1Q2022: -4.4%). Whilst yields have seen a retreat of late, any talk-up of inflation which will impinge on UST yields is expected to cause SGD to be pressured. The republic's resilient PMI data which has seen the SGD appreciate meanwhile may be impacted by looming risks in developed economies along with further potential covid breakouts in China going forward. YTD sovereign bond issuances totaled $S53.6b to-date; a mere 2% higher compared to the same period last year. Overall, we continue to adopt a neutral-to-negative bias in 3Q2022 as outright yield increases are still believed to be on the cards. **Expect SGS to range higher between 2.85-3.05% for 3Q2022.**

- **Corporate** –Demand for credits by investors are unlikely to be sustained by supply in 3Q2022 due to tightening and higher borrowing costs (compare 2Q2022's surprise issuance of S$8.3b versus 1Q2022's S$3.4b). We are positive on industries like agri-commodities (Olam International Ltd), real estate (Oxley Holdings Ltd), food and beverages (Fraser and Neave Ltd) and banks (DBS Group Holdings Ltd) within the 2-5year bucket. Elsewhere, REITS like Capital Land Integrated Commercial Trust, Ascendas REIT, and Mapletree Industrial Trust are some favourable picks. We also like SGD perpetuals as they are also generally structured with resets which helps holders of perpetuals to take advantage of the rising interest rate environment and often carry larger spread and carry over plain-vanilla bonds.

Source: Bloomberg, HLBB Global Markets Research