Quarterly Market Outlook 2Q2022

Global Markets

April 2022

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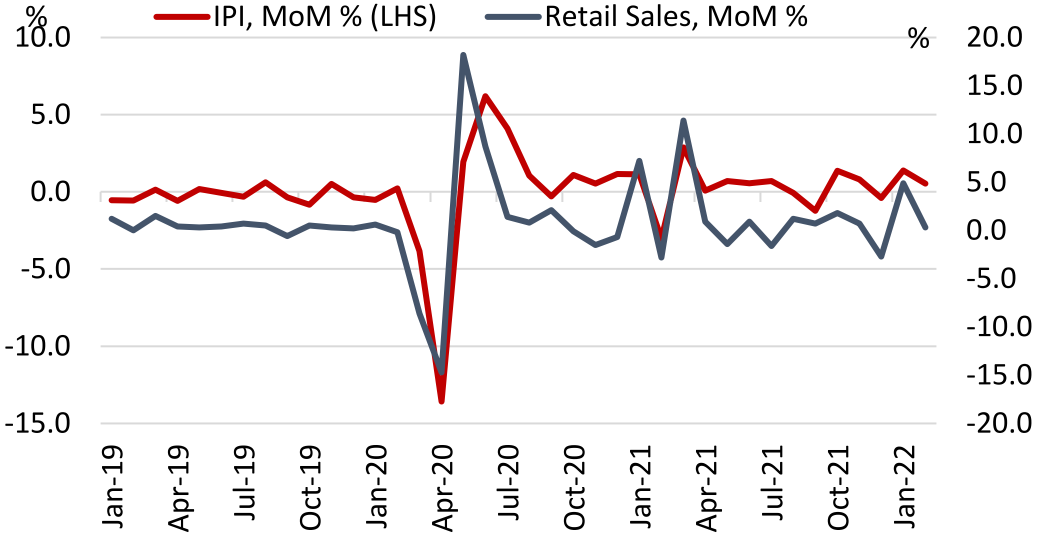
HongLeong Bank

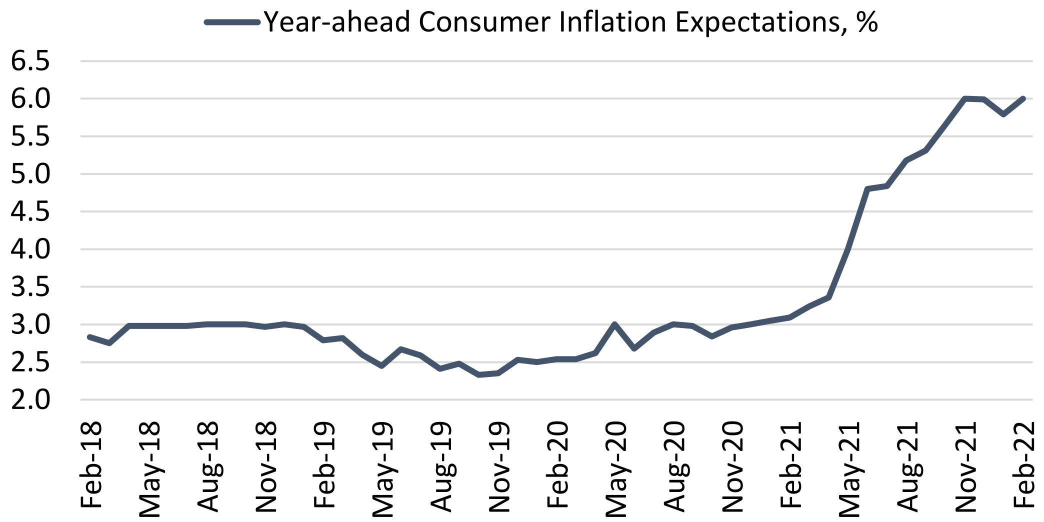
Global Central Banks Policy Rates Outlook

	Current	2Q22	3Q22	4Q22	1Q23	Remarks
United States Federal Reserve *Fed Funds Rate*	**0.25-0.50**	1.25-1.50	1.75-2.00	2.00-2.25	2.00-2.25	Faster hikes in 2Q and slow down in 3Q, 4Q
Eurozone European Central Bank *Deposit Rate*	**-0.50**	-0.50	-0.50	-0.25	-0.25	1 hike at year-end after APP ends in 3Q
United Kingdom Bank of England *Bank Rate*	**0.75%**	1.25	1.25	1.25	1.25	2 hikes in 2Q
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*	**0.10**	0.10	0.75	1.00	1.25	4 hikes in 2022
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**1.00**	1.50	1.75	2.00	2.00	4 hikes
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**1.75**	1.75	2.00	2.00	2.25	1 hike in 2H22
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**0.50**	0.50	0.50	0.50	0.50	No Change
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**3.50**	3.50	3.75	4.00	4.00	2 hikes

Source: Bloomberg, Global Markets Research

US – Fed to take more aggressive approach to tighten policy



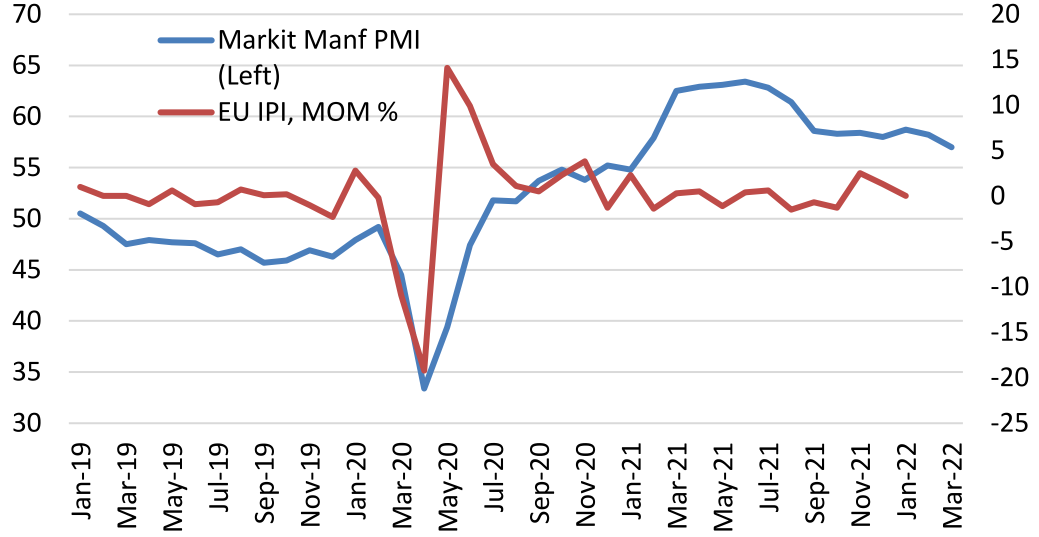


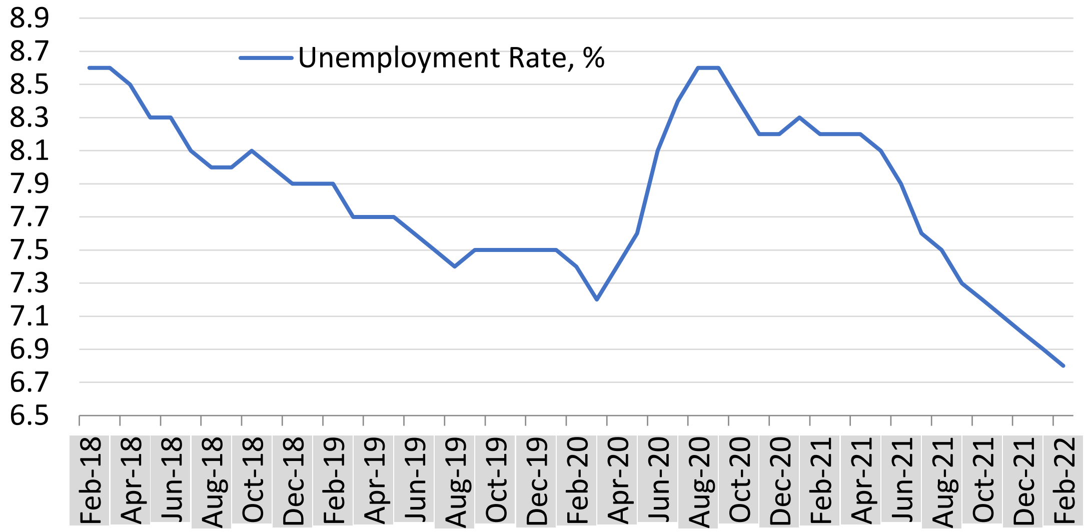
	2020	2021	2022F
GDP (%)	-3.4	5.7	2.8
Core PCE Inflation (%)	1.4	3.3	4.1
Fed Funds Rate (%)	0-0.25	0-0.25	2.00-2.25
Dollar Index (End of period)	89.94	95.67	98.00

Source: Fed, Bloomberg, HLBB Global Markets Research

- US growth was revised downwards to reflect the impact of higher inflation.
- Solid job market conditions are expected to support consumer demand but inflation poses downside risks. Persistent supply chain bottlenecks weigh on manufacturing outlook.
- Fed promulgated aggressive policy tightening, likely materialize in 2Q-3Q.

Eurozone – Eurozone facing stagflation risk



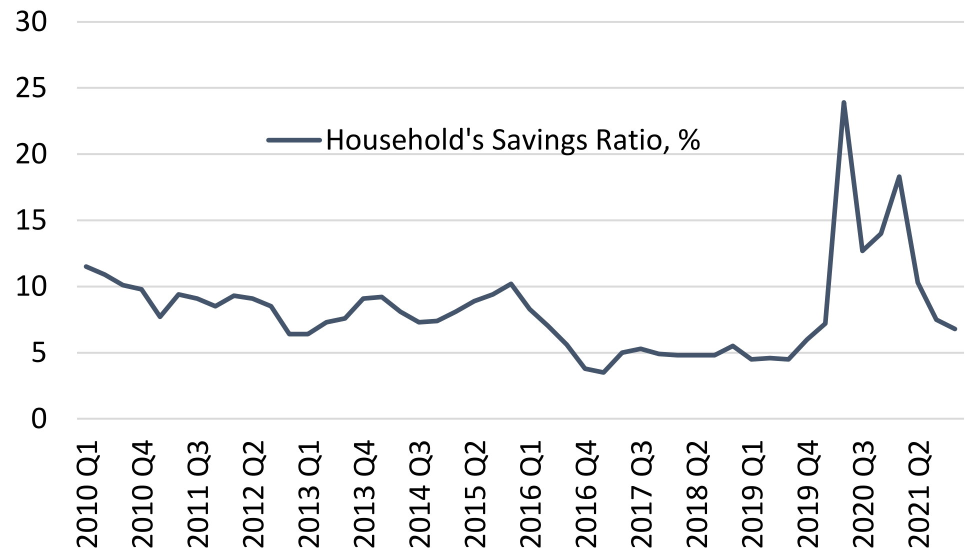


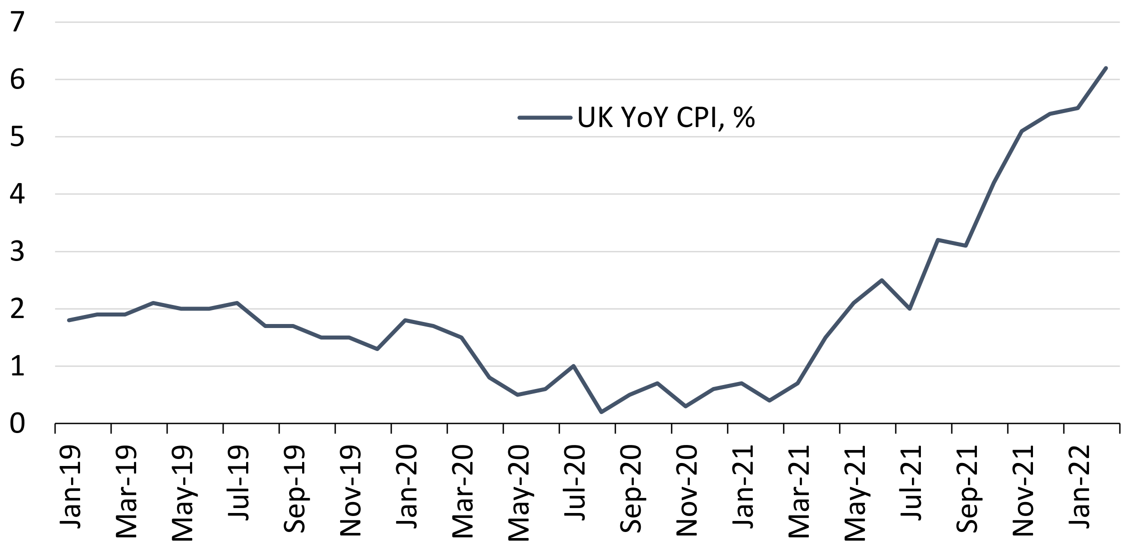
	2020	2021	2022F
GDP (%)	-6.5	5.3	3.3
Inflation (%)	0.3	2.6	5.1
Deposit Facility Rate (%)	-0.5	-0.5	-0.25
EUR/USD (End of period)	1.2216	1.1370	1.1000

Source: Bloomberg, HLBB Global Markets Research

- Outlook for Eurozone changed dramatically compared to early 2022; Russia-Ukraine war poses significant upside risks to commodity prices and inflation, threatening consumer spending.
- War related uncertainties a dampener on investment outlook. Renewed supply chain disruption may weigh on manufacturing production.
- ECB is set to tighten policy in 2Q; facing dilemma on the timing on DFR adjustment.

UK – Household savings may offer limited buffer in face of inflation



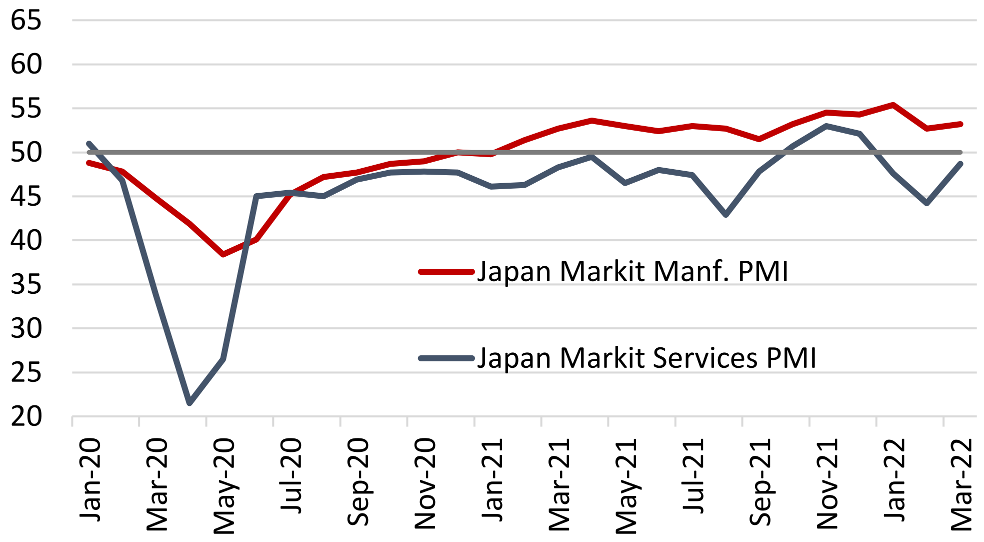


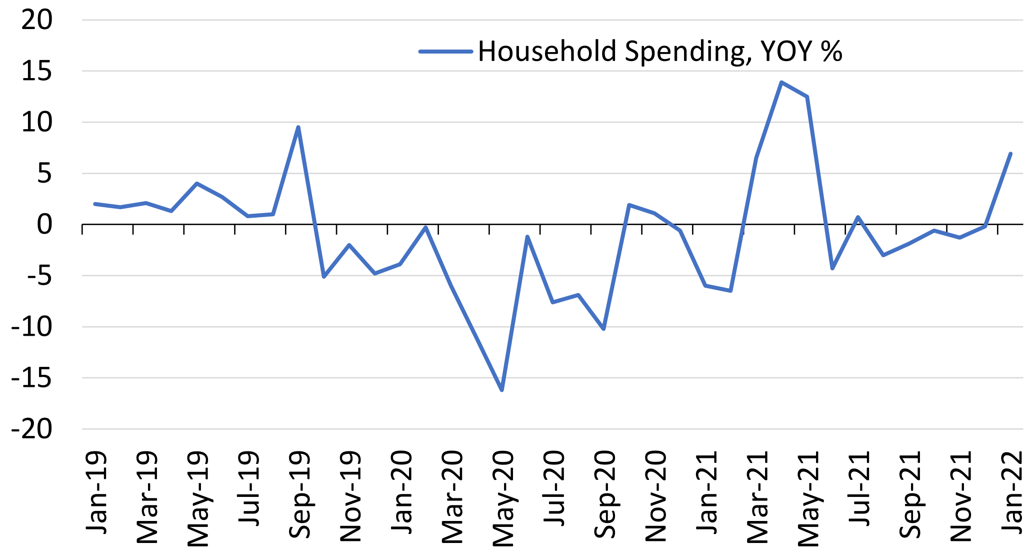
	2020	2021	2022F
GDP (%)	-9.4	7.3	3.8
Inflation (%)	0.9	2.6	5.8
Bank Rate (%)	0.1	0.25	1.25
GBP/USD (End of Period)	1.3670	1.3532	1.3000

Source: Bloomberg, HLBB Global Markets Research

- Similar to Europe, high inflation weighs on consumer spending.
- Household savings could offer some buffer but the post-lockdown reduction in savings alongside lower disposable income may limit the effect.
- BOE is expected to pause its rate hike cycle, after delivering 3 hikes in Dec-Mar, followed potentially by 1 or 2 hikes in 2Q (May-June)

Japan – Policy Divergence with West to remain



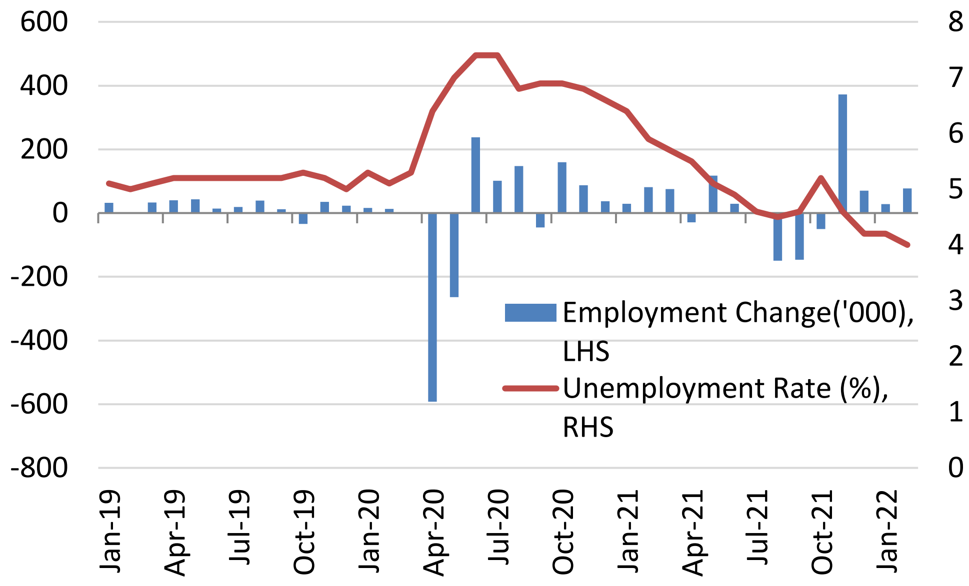


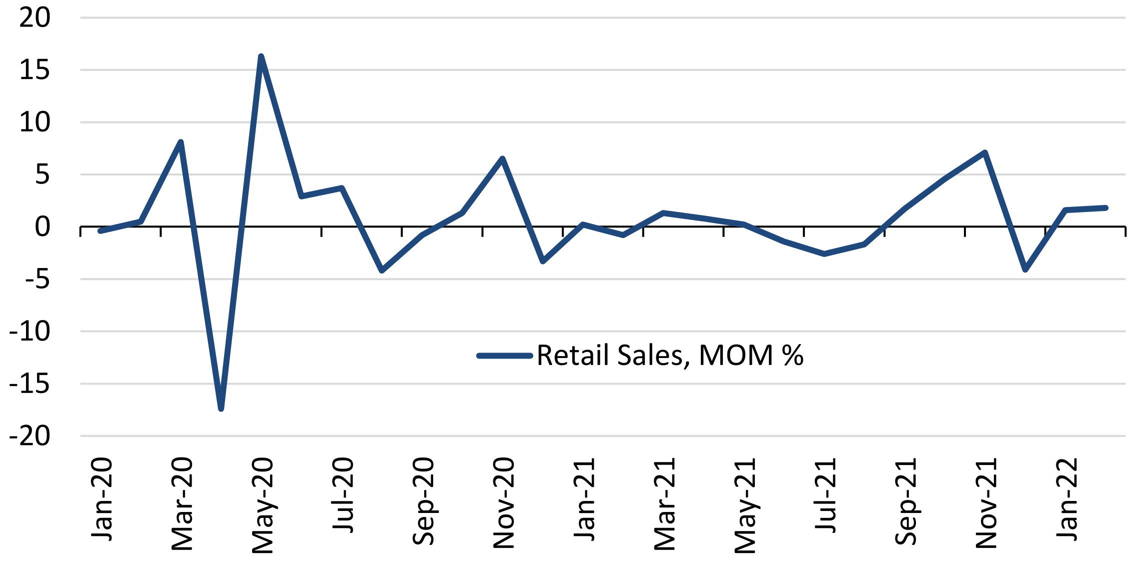
	2020	2021	2022F
GDP (%)	-4.6	1.8	3.8
Core Inflation (%)	-0.4	0.0	1.1
Policy Balance Rate	-0.1	-0.1	-0.1
USD/JPY	103.25	115.08	120

Source: Bloomberg, HLBB Global Markets Research

- Household spending and business capex growth expected to be lacklustre.
- Recent increase in inflation, helped by low base still relatively lower in terms of global trend may not last long.
- Policy divergence with the West- BOJ reaffirms accommodative stance by defending yield cap.

Australia – RBA faces additional pressure to tighten policy



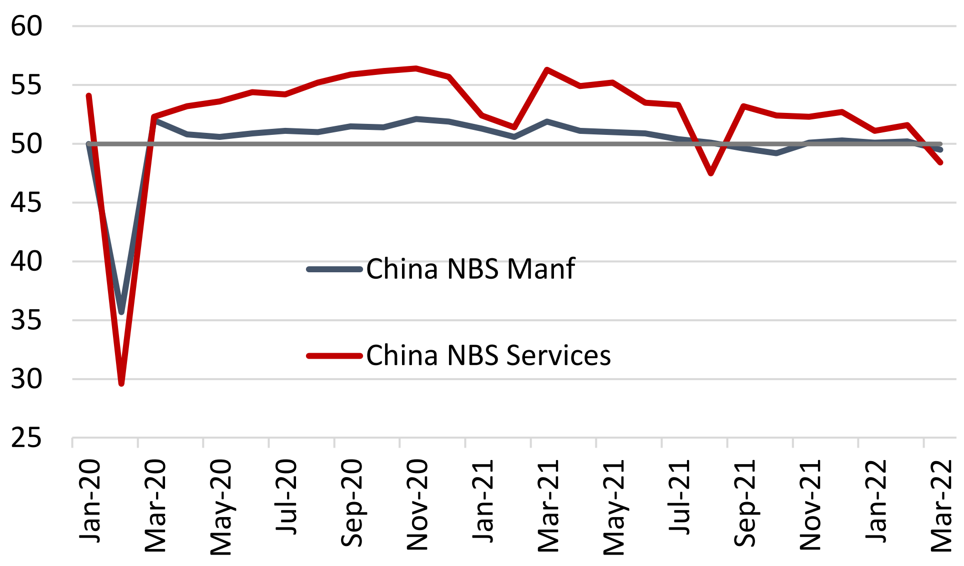


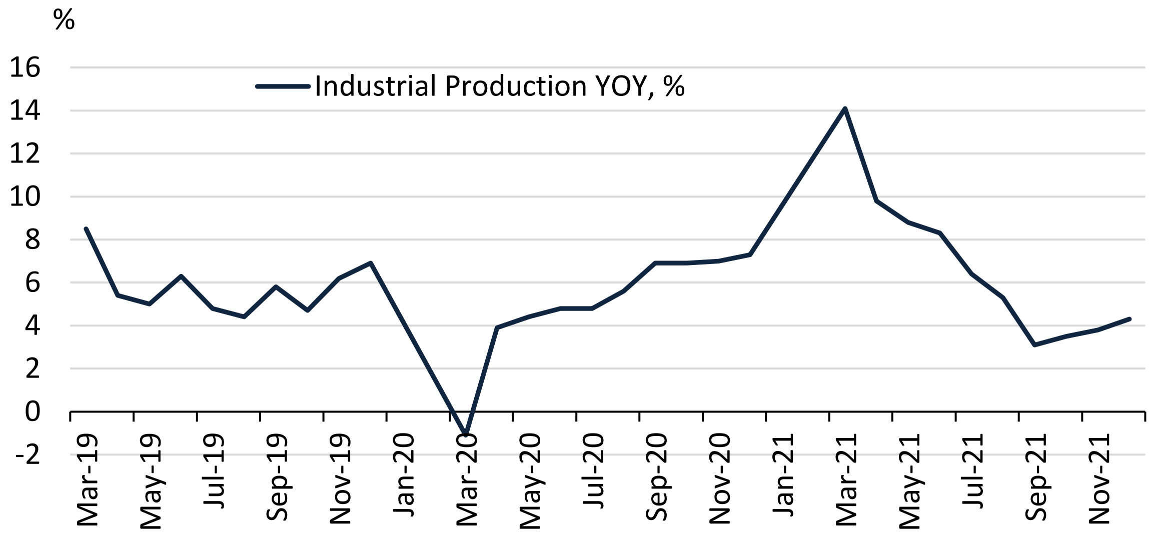
	2020	2021	2022F
GDP (%)	-2.2	4.8	5.5
Inflation (%)	0.9	2.9	3.3
Cash Rate (%)	0.10	0.10	1.00
AUD/USD	0.7694	0.7263	0.7600

Source: Bloomberg, HLBB Global Markets Research

- Domestic economy, labour market weather the Omicron wave well.
- Growth setback in China poses threat to Australia's exports, but offset partially by higher commodity prices.
- RBA facing dilemma of sub-3% wage growth despite higher inflation and additional pressures to track global central banks' policy trajectory.

China- Government policy to cushion easing growth



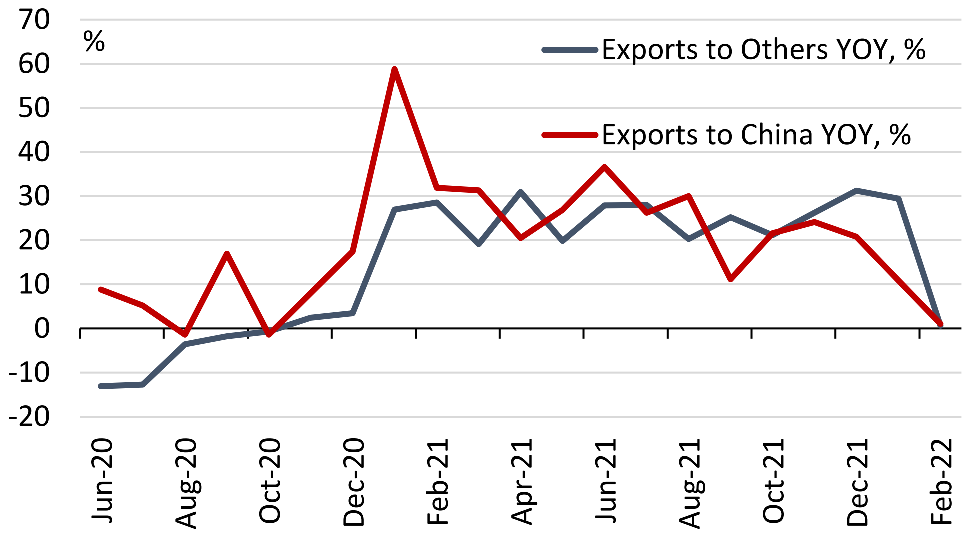


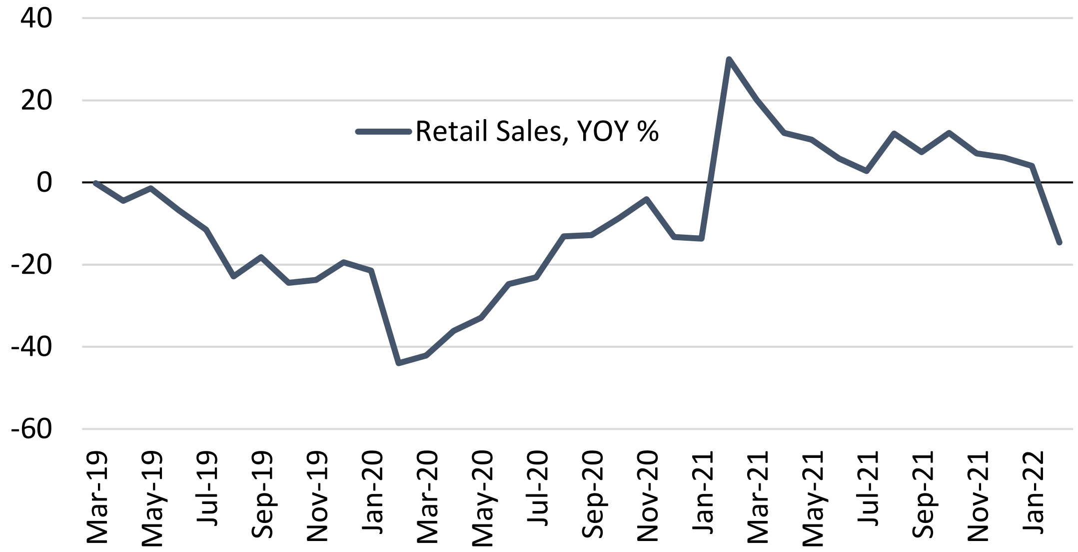
	2020	2021	2022F
GDP (%)	2.2	8.1	5.5
Inflation (%)	2.5	0.9	2.2
1Y LPR (%)	3.85	3.80	3.60
USD/CNY	6.5272	6.3561	6.3600

Source: Bloomberg, HLBB Global Markets Research

- Future successive Covid outbreak opens up the road for more policy support to keep monetary conditions accommodative.
- China’s adherence to zero Covid policy still a great uncertainty for outlook.
- Government set lower GDP target 5.5% for 2022, lowest in decades.

Hong Kong – Low vaccination rate, China slowdown a bane to short-term outlook





	2020	2021	2022F
GDP (%)	-6.1	6.4	2.8
Inflation (%)	0.3	1.6	2.1
Base Rate	0.50	0.50	0.50
USD/HKD	7.7531	7.7966	7.8400

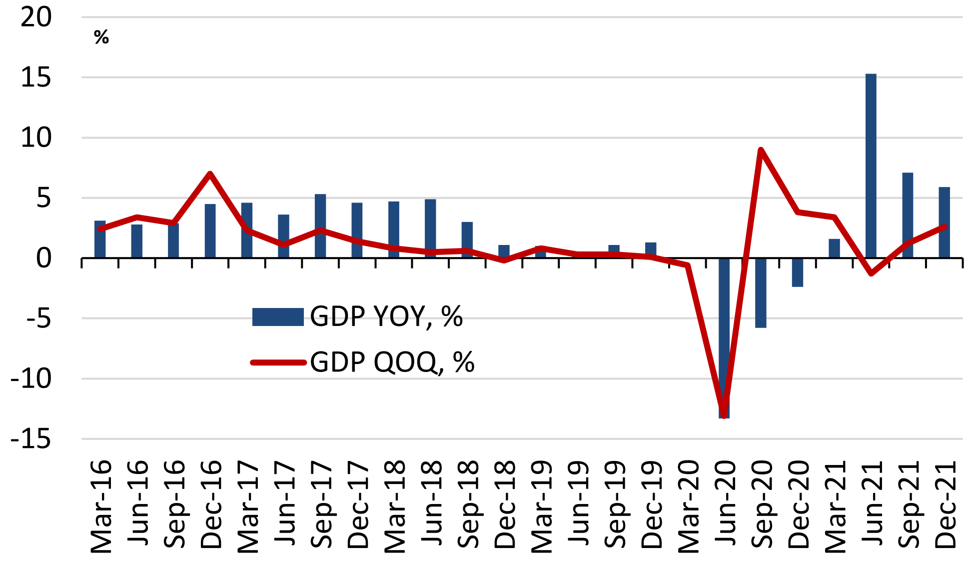
Source: Bloomberg, HLBB Global Markets Research

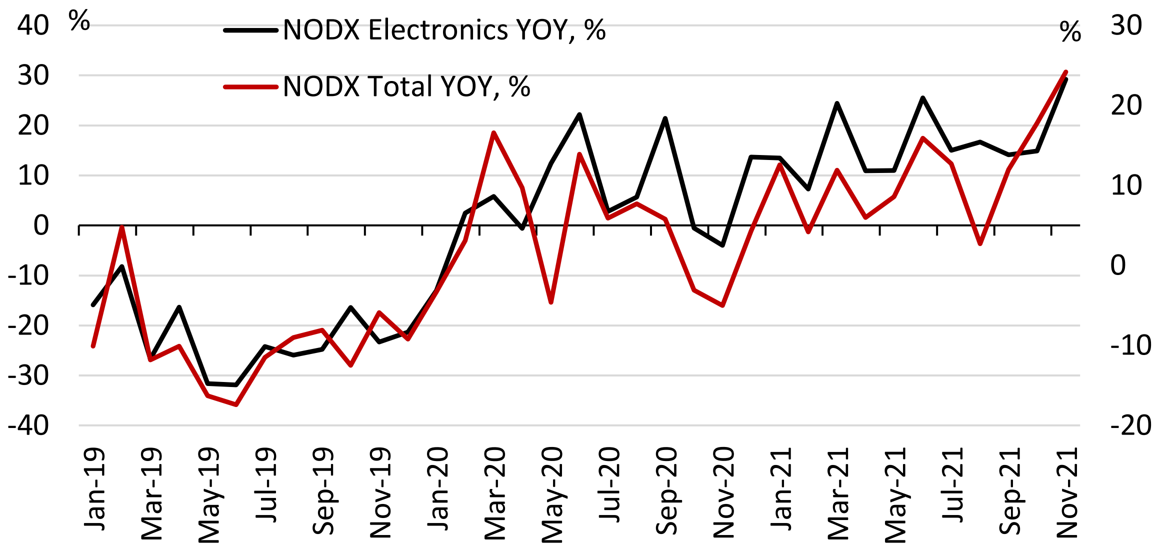
- Economic recovery may recover slightly from the recent Omicron but impact of recent restrictions (e.g. loss of jobs) may spill over to 2Q, affecting spending.

- Pick up in vaccination rate (soon) is positive but expect government to maintain the practice of tightening restrictions on-and-off in response to outbreaks.

- An imminent China's slowdown a bane for Hong Kong's trade sector.

Singapore – Softer external sector offset by robust domestic demand



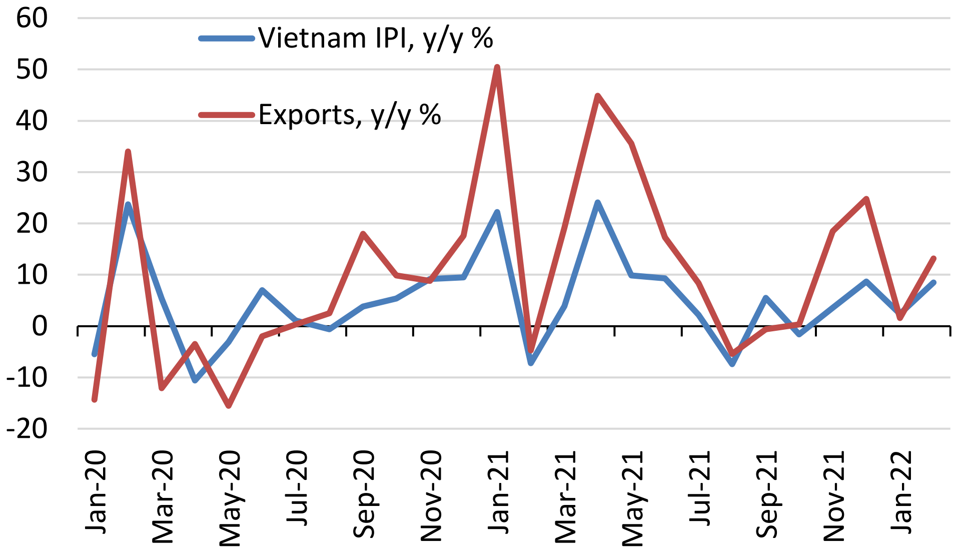


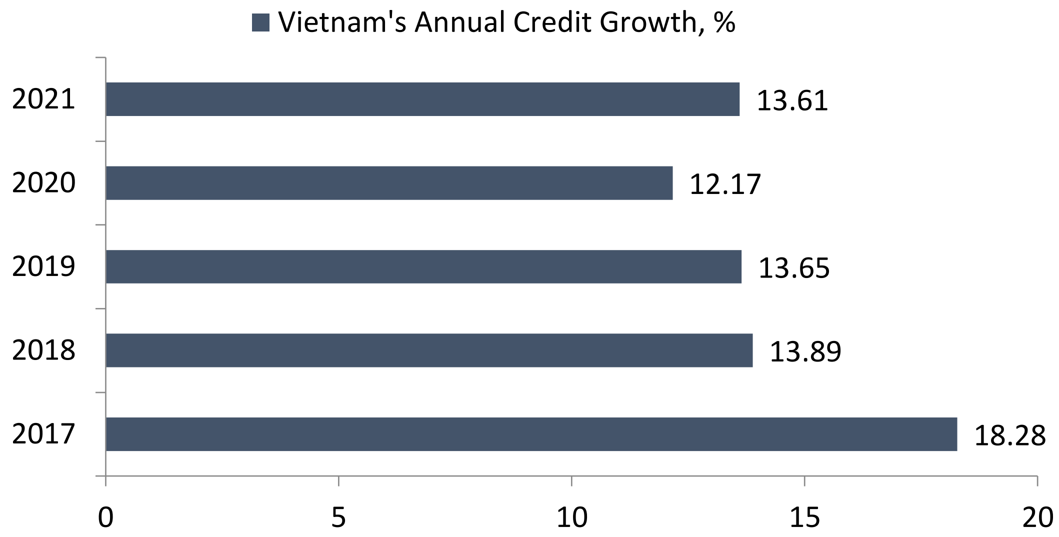
	2020	2021	2022
GDP (%)	-5.4	7.9	3.0-5.0
Inflation (%)	-0.2	2.3	2.5-3.5
3m SIBOR (%)	0.41	0.44	1.09
USD/SGD	1.3221	1.3490	1.3400

Source: MAS, Bloomberg, HLBB Global Markets Research

- Economy’s transition to endemicity to support domestic spending.
- NODX remains positive but softer global demand/supply chain bottlenecks may lead to slower local manufacturing and external trade sectors.
- Surging inflation points to MAS tightening in mid-April.

Vietnam – Flexible Covid strategy a positive for growth



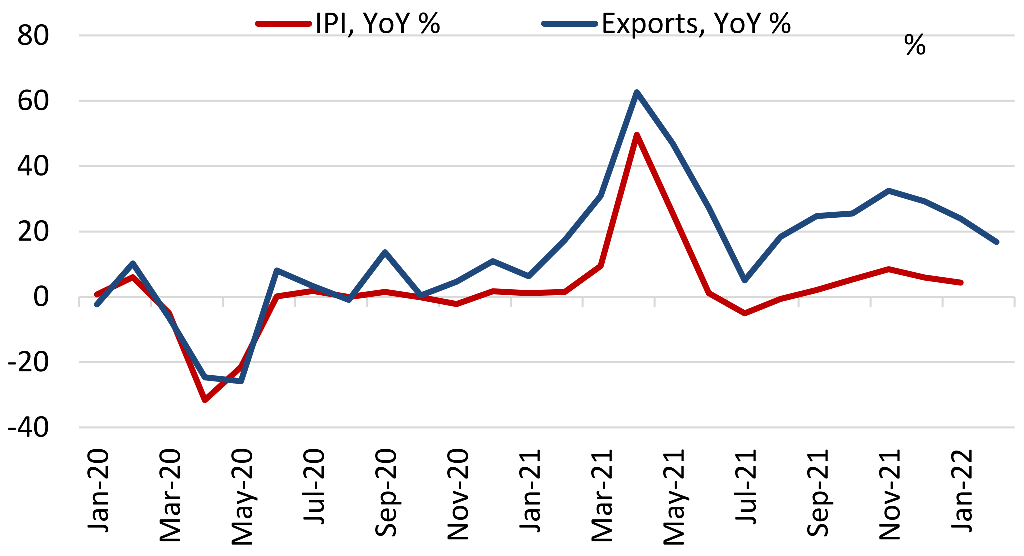


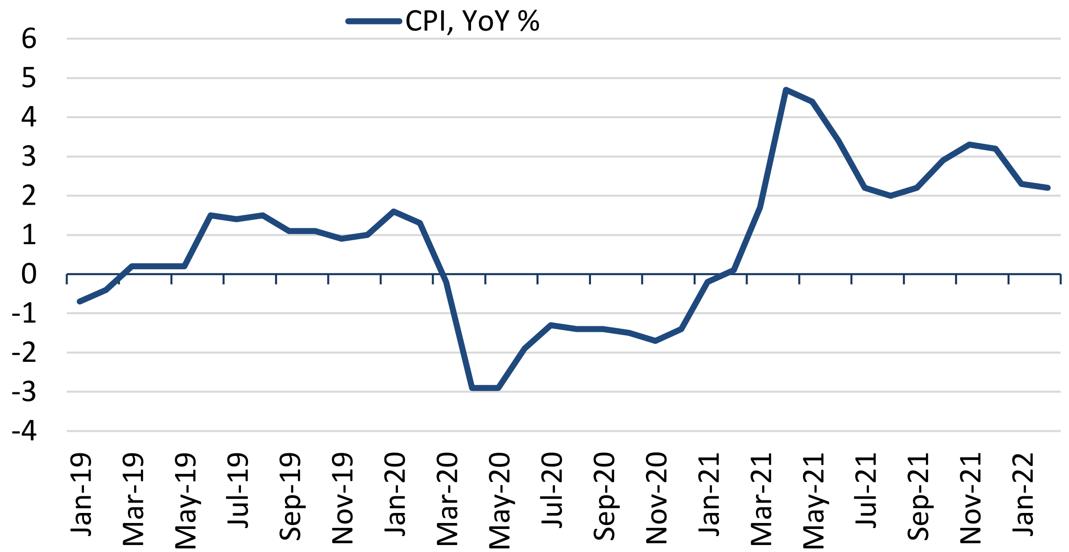
	2020	2021	2022
GDP (%)	2.9	2.6	6.5
Inflation (%)	3.2	2.2	3.8
SBV Refinancing Rate (%)	4.00	4.00	4.40
USD/VND	23,098	22826	22700

Source: Bloomberg, HLBB Global Markets Research

- Economy to pick up after Omicron outbreak fades, led by exports and domestic demand.
- Reopening of border may have minimal impact as aversion to travel remains.
- Manufacturers may benefit from global companies' production shift from China.

Malaysia – Services-led recovery amid transition to endemicity





Forecasts	2020	2021	2022
GDP (%)	-5.6	3.1	5.8
Inflation (%)	-1.1	2.5	2.7
OPR (%)	1.75	1.75	2.00
USD/MYR	4.0205	4.20	4.16

Source: Bloomberg, HLBB Global Markets Research

- Domestic economic recovery to be led by services-led demand amid improvement in labour market.
- Manufacturing is expected to moderate, net exports to rebound.
- Maintain view of a 25bp OPR hike in 2H, earliest in September

Markets Outlook - FX

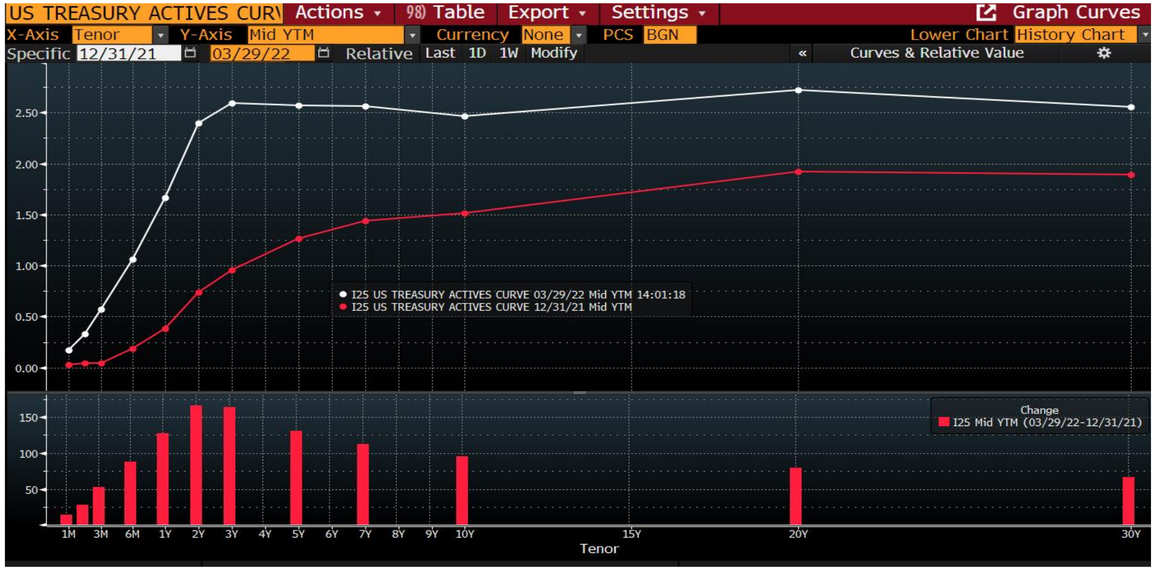
FX – Hinges on geopolitical development, inflation and policy normalization expectations

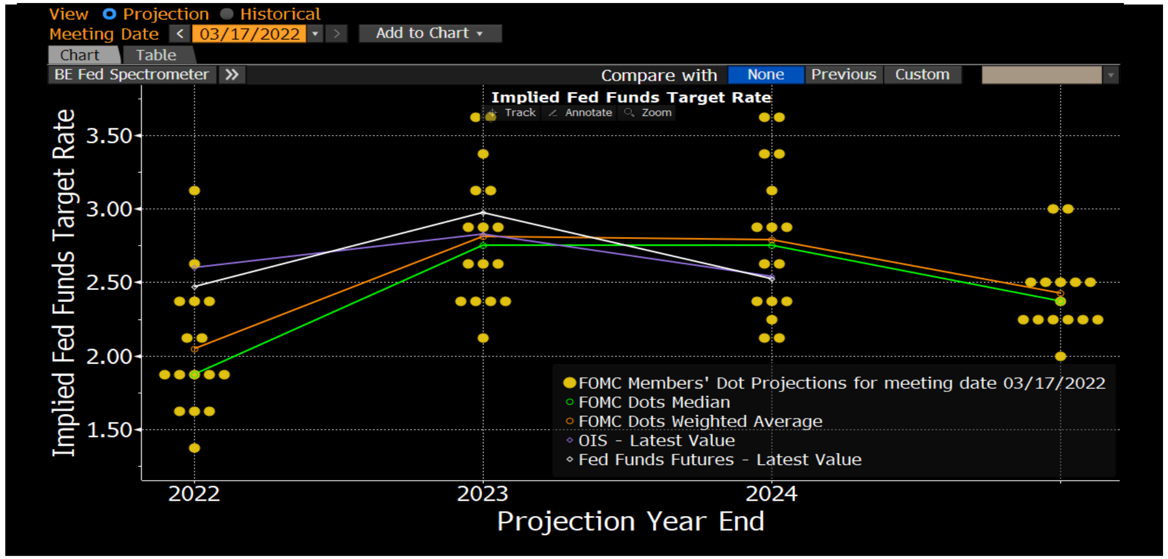
	12-month Outlook
+	**EUR**: To recoup lost ground in 4Q22 amid ECB's hawkish shift; offsetting weaknesses caused by growth concerns in 2Q and 3Q **AUD, NZD, CAD**: Influenced by commodity price movement, China growth story, and respective policy expectations **JPY:** Supported by haven appeal **MYR**: More sanguine growth outlook **SGD**: Supported by expectations for MAS gradual appreciation policy **CNY**: Slight positive in tandem with recovering EM Asian currencies
=	**GBP:** Upside curtailed by limited odds for further policy normalization (pause from 3Q22 onwards)
-	**USD:** USD to lose its luster towards end-2022 as the Fed's policy normalizing cycle draws to a close

FX Forecasts

	31-Mar	Q2-22	Q3-22	Q4-22	Q1-23
DXY	98.63	98.50	99.00	98.00	97.50
USD/CAD	1.25	1.24	1.24	1.23	1.22
EUR/USD	1.10	1.10	1.09	1.10	1.12
GBP/USD	1.31	1.29	1.28	1.30	1.31
USD/CHF	0.92	0.93	0.92	0.92	0.91
AUD/USD	0.75	0.76	0.77	0.76	0.76
NZD/USD	0.69	0.71	0.71	0.70	0.70
USD/JPY	123	121	120	120	120
USD/MYR	4.21	4.20	4.18	4.16	4.16
USD/SGD	1.36	1.36	1.35	1.34	1.33
USD/CNY	6.37	6.37	6.37	6.36	6.36

US Fixed Income – Hawkish Fed to overshadow Ukraine war and COVID-19 factors





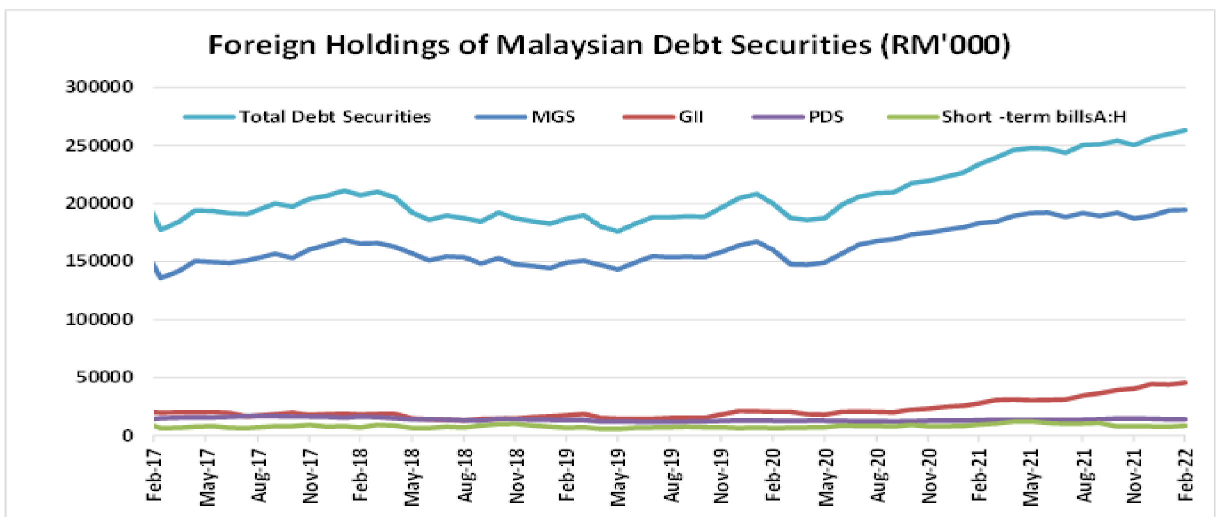
Source: Bloomberg, HLBB Global Markets Research

- **UST** -- UST's weakened for the quarter under review, as the Fed commenced tightening its monetary policy with the first hike of 25bps delivered on 16th March. The persistently high inflation seen in both the US PCE and CPI data of between 6.4-7.9% in February is a partly reflective of the spike in commodity prices namely oil and food products due to supply chain disruptions from the ongoing Russia-Ukraine war and Omicron infections. The curve shifted sharply higher as overall benchmark yields spiked between 43-120bps across, with parts of the curve, namely the 5s10s and the 5s30s spreads being inverted. The UST 2Y yield spiked 49bps to 2.34% whilst the much-watched UST 10Y ballooned the most by 120bps up to also 2.34%. Elevated inflation, strong jobs market and other economic data light the stage for a higher interest rate regime as laid out by the Fed Dot plot and traders pricing expectations. **Expect UST 10Y to range higher between 2.60-2.80% for 2Q2022** due to further rate hikes and also the Fed's intention to reduce its massive~$8.9 trillion balance-sheet. Mitigating factors that may lend a bid for bonds include the re-emergence of COVID-19 infections and strong foreign institutional and sovereign bids especially from China, Japan and Europe.
- **Corporates** – Investment-grade corporate bonds took cue from UST movements with yields spreads widening as investors either reduced some holdings or stayed on the sideline. The Bloomberg Barclays US Corporate Bond Index was literally down with a substantial loss of 7.7% returns for 1Q2022 (4Q2021: +0.2%) whilst spreads have widened further from 93bps in Jan to about 115bps as at end-March due to elevated inflation and a pivot toward tighter monetary policy. Issuances are expected to retrace by 20% to ~$360b for 2Q2022 as corporates mull issuances in a rising interest rate environment (1Q2021: $450b).We are mildly positive on sectors encompassing materials, energy and financials in the 5Y sector.

Malaysia Fixed Income – Rising global rates 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		4,000								
11	20.5-yr New Issue of MGS (Mat on 10/42)	20	Apr	Q2		5,000		X						
12	15-yr Reopening of MGII 07/36	15	Apr	Q2		4,000		X						
13	7-yr New Issue of MGS (Mat on 04/29)	7	Apr	Q2		4,500								
14	30-yr New Issue of MGII (Mat on 05/52)	30	May	Q2		5,000		X						
15	10-yr Reopening of MGS (Mat on 07/32)	10	May	Q2		5,000								
16	3-yr Reopening of MGII 10/25	3	May	Q2		4,500								
17	15-yr Reopening of MGS 04/37	15	Jun	Q2		4,000		X						
18	5-yr Reopening of MGII 09/27	5	Jun	Q2		4,000								
19	30-yr Reopening of MGS 06/50	30	Jun	Q2		4,000		X						
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	35,500	5,000	40,500	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

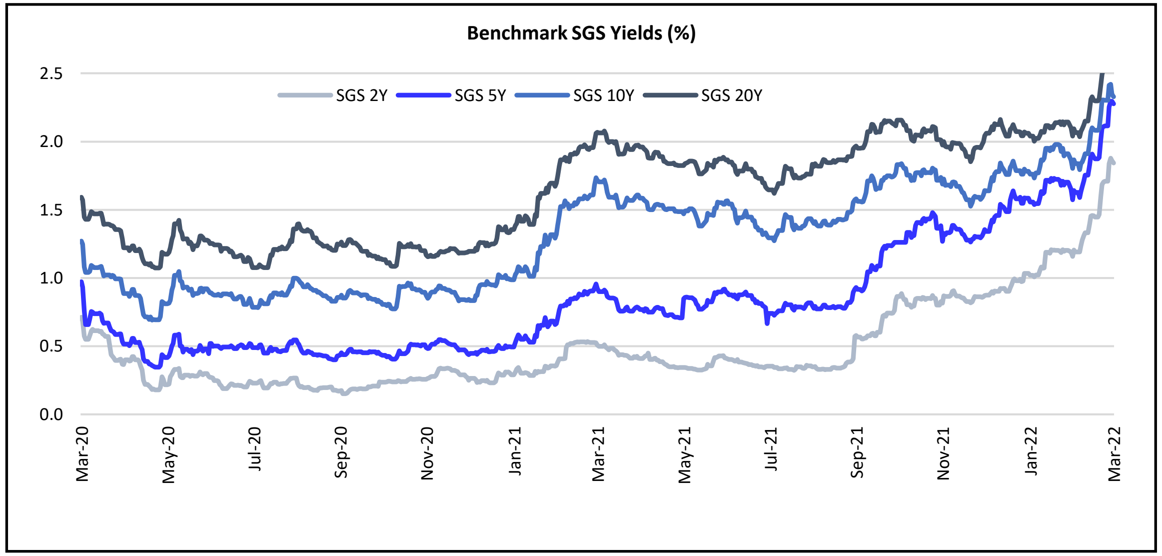


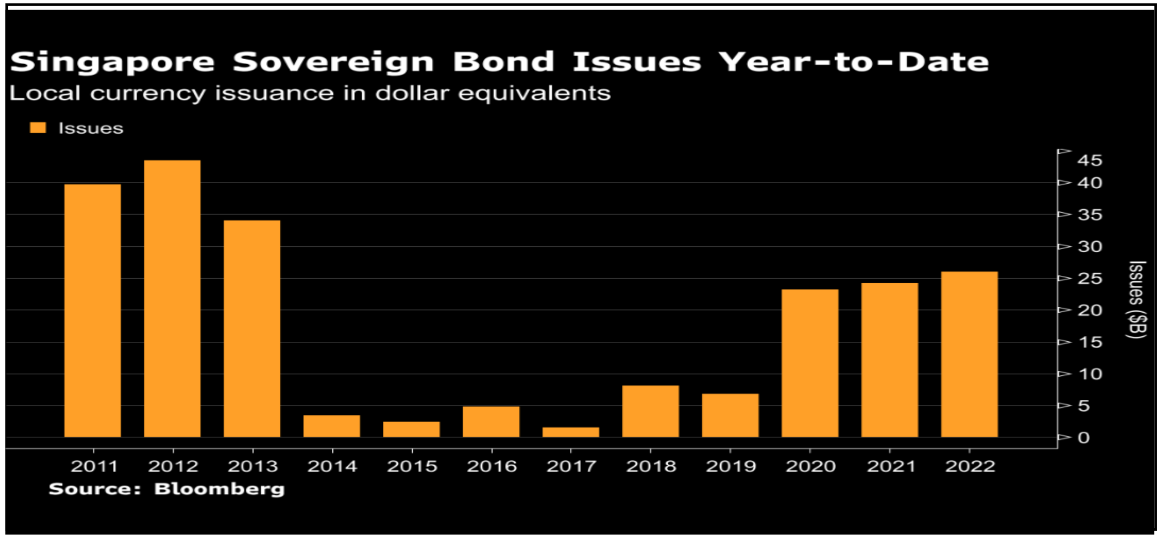
- **Government Bonds** –Overall benchmark yields saw MGS spike between 22-39bps whilst GII saw lower volatility with yields rising between 5-30bps instead. This was in reaction to the twin effects of earlier global bond sell-off over concerns over the Fed's aggressive quantum and frequency of rate-hiking exercises coupled with initial reaction to the additional EPF withdrawal stimulus. Foreign holdings of overall MYR bonds rose sharply by RM5.6b from RM227.7b in Nov 2021 to RM240.4b as at end-Feb 2022. Decent support was seen for govt auctions with YTD bidding metrics of ~2.0x for all 9 auctions whilst total issuance of RM39.5b is currently only RM1.0b below our projection (Note: gross supply of government bonds projected @ RM167.0b for 2022). The fresh EPF withdrawal eligibility estimated between RM25-30b is expected to see minimal impact on both its primary participation and also secondary market-making activities. We maintain our view for OPR to stay pat in 1H2022 with a potential 25bps hike to 2.00% in 2H2022. **Our 10Y MGS yield target for 3Q2022 is revised higher to 3.80-4.00%.**

- **Corporate Bonds/Sukuk** --Corporate bonds/sukuk issuances (including GG-bonds) fell to RM20.2b (4Q2021: RM26.7b) but is in line with our projected gross issuances of between RM100-120b for 2022. Demand was robust but yields ended mostly mixed-to-higher q/q influenced by govvies. We favour the 5-10Y GG bonds (18-30bps), AAA bonds (32-54bps) and also AA bonds (44-90bps) within sectors comprising highway/toll, logistics sector and also utilities..

Source: HLBB Global Markets Research

Singapore Fixed Income – Slight negative bias on SGS, positive on IG corporate/ perps





Source: Bloomberg, HLBB Global Markets Research

- **SGS** – SGS ended weak q/q, in tandem with weaker USTs as the curve bear-flattened with overall benchmark yields rising between 4-13bps with the front-end and belly underperforming the most. The Bloomberg Global Singapore Bond Total Index lost 4.4% for 1Q2022 (4Q2021: -0.87%). Meanwhile, rising UST yields due to heightened US inflationary pressures are expected to dent SGS despite the republic's AAA-rated status. YTD sovereign bond issuances totaled $35.3b to-date; about 7% higher compared to the same period last year. Elsewhere, the SGD's NEER is approaching the peak of the policy band with the possibility that MAS may re-center the currency policy band and increase its slope. Overall, we may adopt a slightly negative bias in 2Q2022 as outright yield increases have been prominent with the belief that policy hawks are in the limelight this year.

- **Corporate** –Singapore's corporates are expected to hold back fresh issuances in 2Q2022 due to the end of low interest rate environment save for unrated perpetual bonds. Demand for credits by investors are likely to be sustained due to lower supply/issuances amid rising borrowing costs especially form the rub-off by higher rates environment in the US. We continue to be positive on shorter-tenured bonds in the 3-5Y sector within industries like food, real estate and banks. Names like Olam International and also REITS like AIMS PAC, Starhill Global, 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 .

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