Quarterly Market Outlook 4Q2022

Global Markets

October 2022

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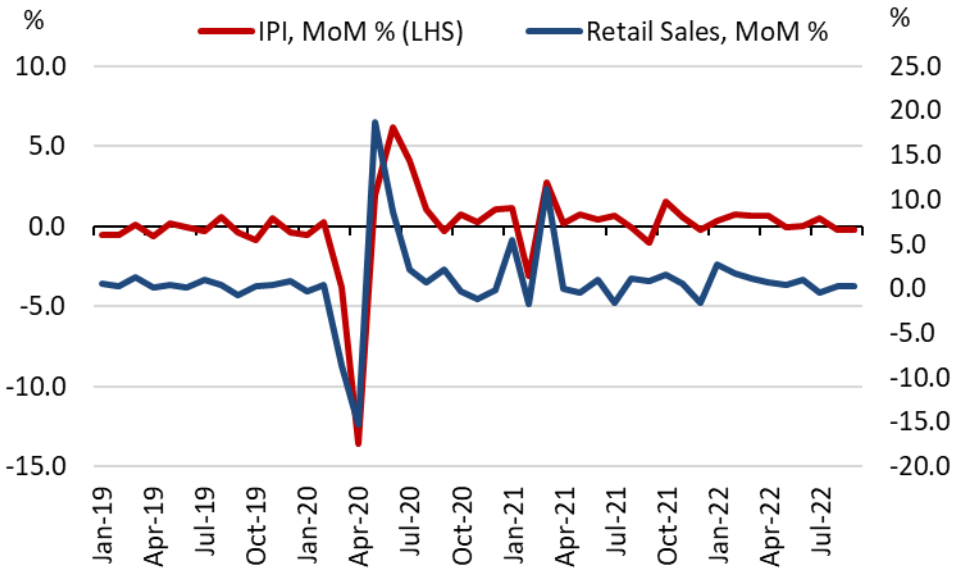
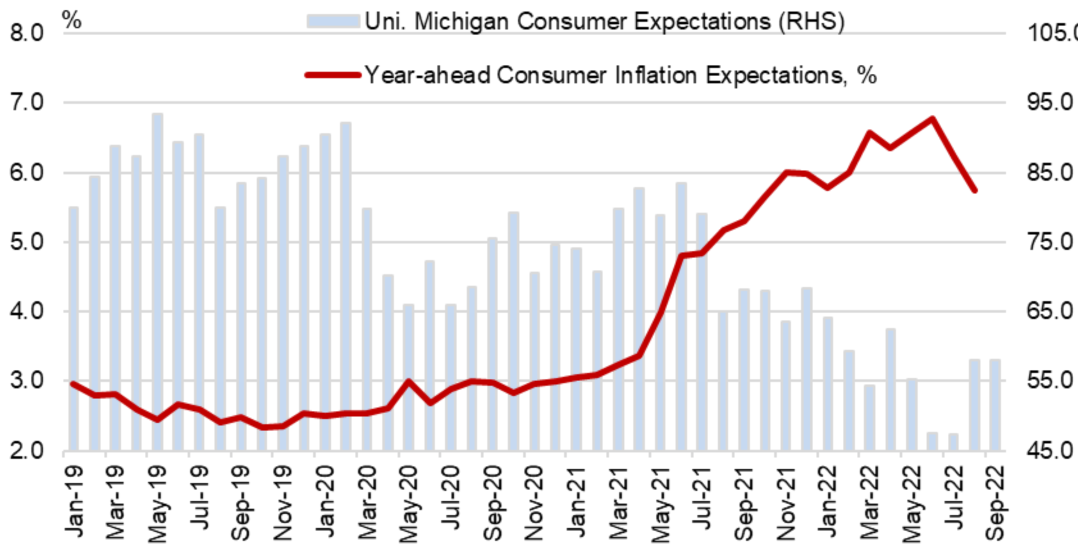
Global Central Banks Policy Rates Outlook

	Current	4Q22	1Q23	2Q23	3Q23	Remarks
United States Federal Reserve *Fed Funds Rate*	**3.00-3.25**	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	**+125bps by end 2022; risk of rate cut in 3Q23**
Eurozone European Central Bank *Deposit Rate*	**1.25**	2.75	2.75	2.75	2.75	**+150bps by end 2022**
United Kingdom Bank of England *Bank Rate*	**2.25**	3.25	3.25	3.25	3.25	**+100bps by end 2022**
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*	**2.60**	3.10	3.10	3.10	3.10	**+50bps by end 2022**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**3.50**	3.75	3.75	3.75	3.75	**+25bps by end 2022**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**2.50**	2.75	3.00	3.00	3.00	**+25bps by end 2022**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**1.00**	1.50	1.75	1.75	1.75	**+50bps by end 2022**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**4.25**	4.75	5.00	5.00	5.00	**+50bps by end 2022**

Source: Bloomberg, Global Markets Research

US - Fears of recession abated somewhat; inflation has eased but remained high



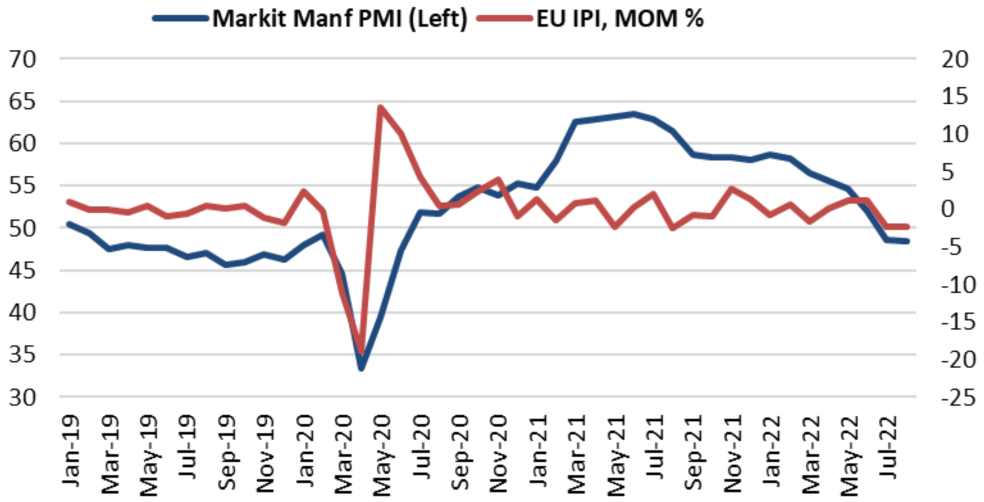


	2021	2022F	2023F
GDP (%)	5.7	0.2	1.2
Core PCE Inflation (%)	3.3	4.5	3.1
Fed Funds Rate (%)	0-0.25	4.25-4.50	4.25-4.50*
Dollar Index (End of period)	95.67	115.00	110.00*

Source: Fed, Bloomberg, HLBB Global Markets Research
**end 3Q2023*

- Some resiliency in the US economy; labour market and consumer sector holding up relatively well
- "Fear" of a recession abated somewhat, although probability of a recession remained at 50%
- Inflation rate has eased but remained high, with the University of Michigan survey's reading of one-year inflation expectations tapered off to 4.6%; five-year inflation outlook at 2.8%
- Fed officials remained hawkish, suggesting no plans for any dialing back in aggressive tightening policies yet

Eurozone – ECB navigates inflationary risk amidst lingering geopolitical tensions

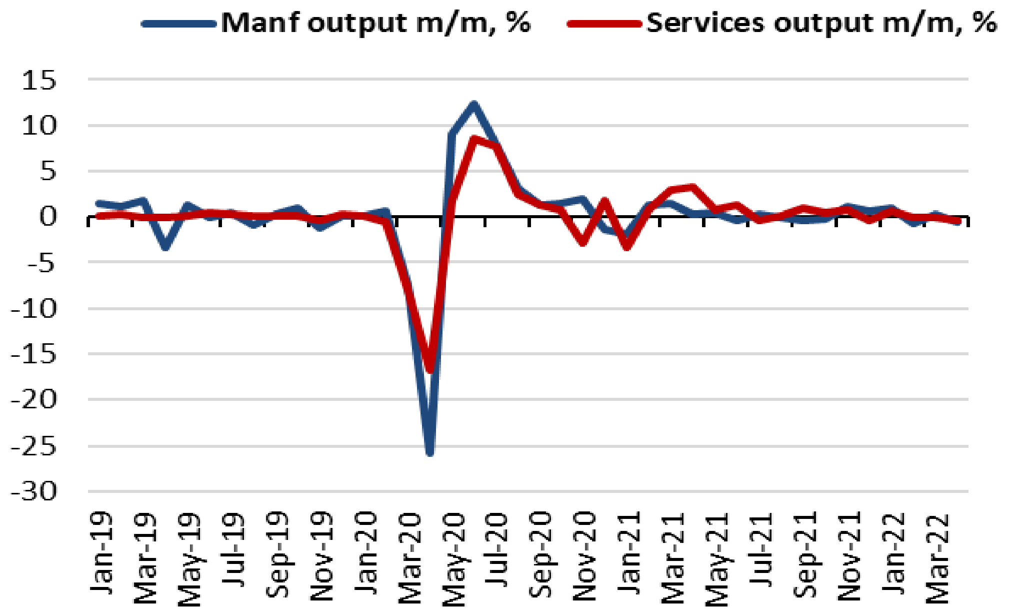


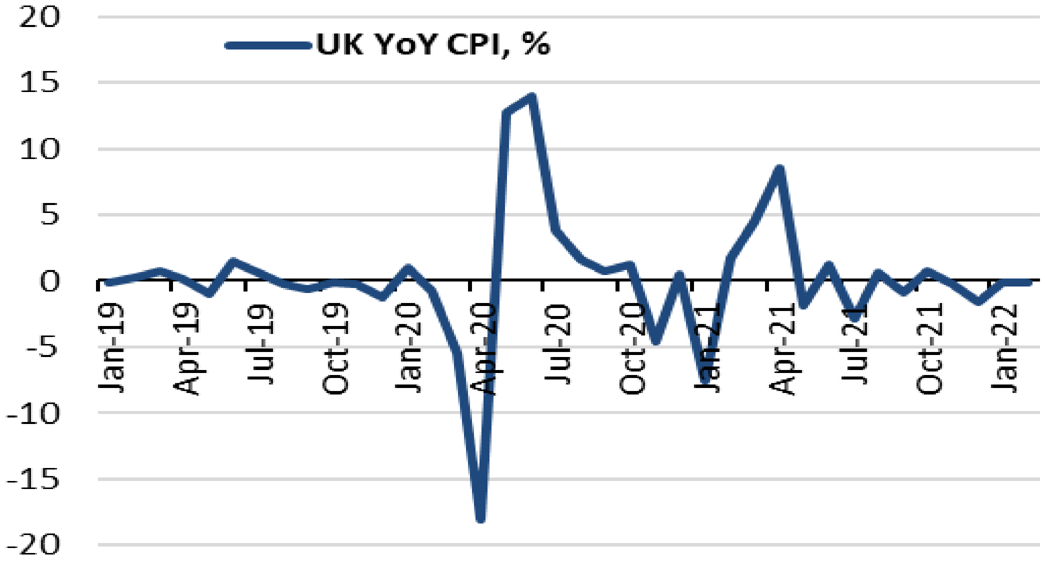
	2021	2022F	2023F
GDP (%)	5.2	3.0	0.2
Inflation (%)	2.6	8.2	5.2
Deposit Facility Rate (%)	-0.5	2.75	2.75*
EUR/USD (End of period)	1.1370	0.95	0.98*

Source: Bloomberg, HLBB Global Markets Research
**end 3Q2023*

- Subdued 4Q outlook amid Russia-Ukraine tension and shortages of refining capacity/ energy crisis
- Plagued by weakness in manufacturing/ industrial production and weakening economic sentiment
- Nevertheless, growth will be supported by high saving rate and a firm labor market.
- Persistent inflationary pressures driven by high energy and food prices

UK – Looking out for fiscal and BOE stop-gap measures



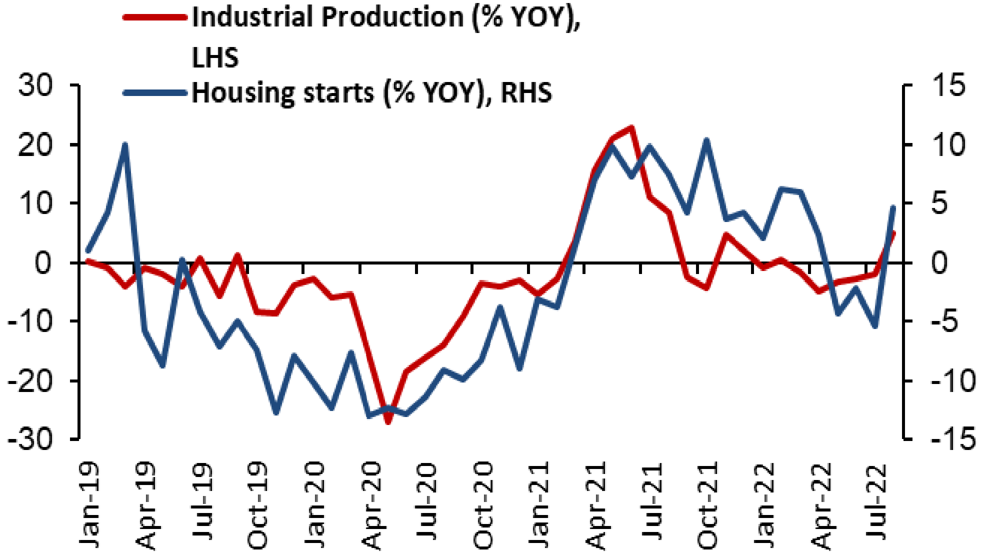


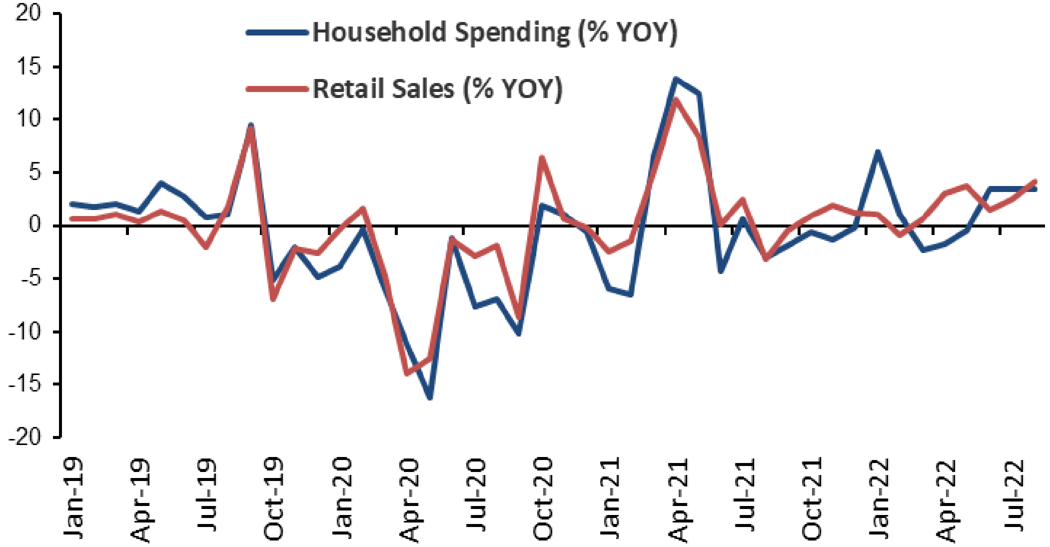
	2021	2022F	2023F
GDP (%)	5.9	1.6	0.7
Inflation (%)	4.7	8.0	3.8
Bank Rate (%)	0.25	3.25	3.25*
GBP/USD (End of Period)	1.3532	1.10	1.12*

Source: Bloomberg, HLBB Global Markets Research
**end 3Q2023*

- Services was the only main sector contributing to GDP growth, while manufacturing and construction activities showed weakness.
- Inflation may peak at 11% in October as energy prices are capped.
- Policy uncertainties from new PM to cloud near term growth prospects, adding more pressure on BOE.

Japan – Manufacturers less upbeat; tourism to support growth



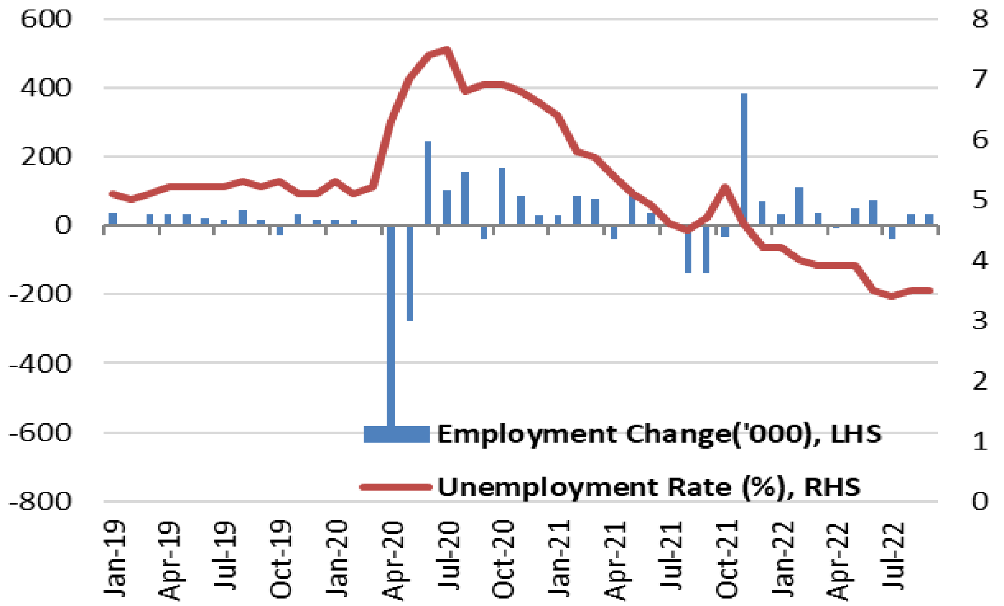


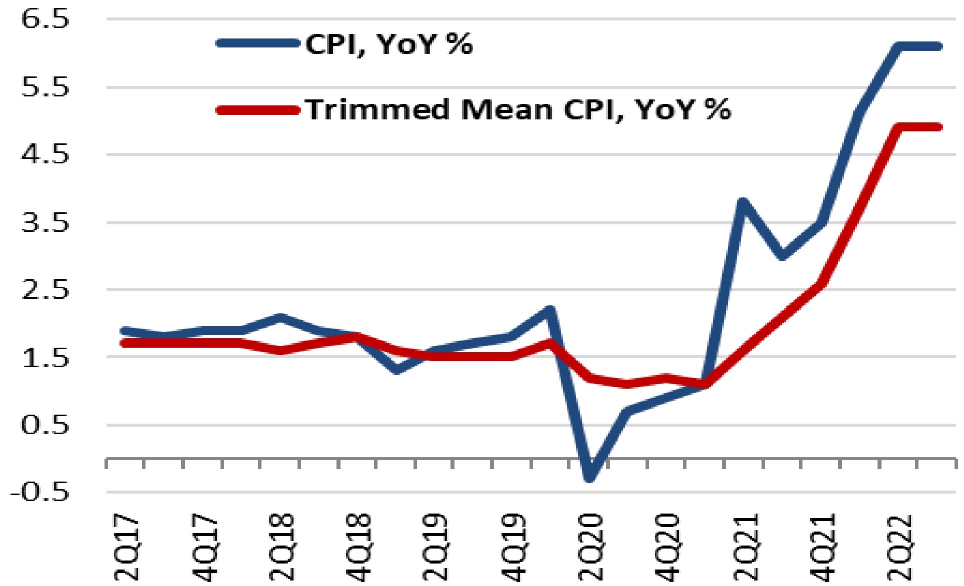
	2022F	2022F	2023F
GDP (%)	1.6	1.6	1.5
Core Inflation (%)	-0.2	2.0	1.6
Policy Balance Rate	-0.1	-0.1	-0.1*
USD/JPY	135.00	147.00	144.00*

Source: Bloomberg, HLBB Global Markets Research
**end 3Q2023*

- Japanese manufacturers turned slightly less optimistic, with the Tankan slipped slightly but survey pointed to further strengthening of capital spending
- Exports and productions will continue to be supported by the automobile and digital-related goods
- Growth will be supported by the services sector, especially in view of tourism demand
- BOJ's accommodative policy will stay; an outlier among major economies

Australia – Labour market remains tight; RBA the first to pivot





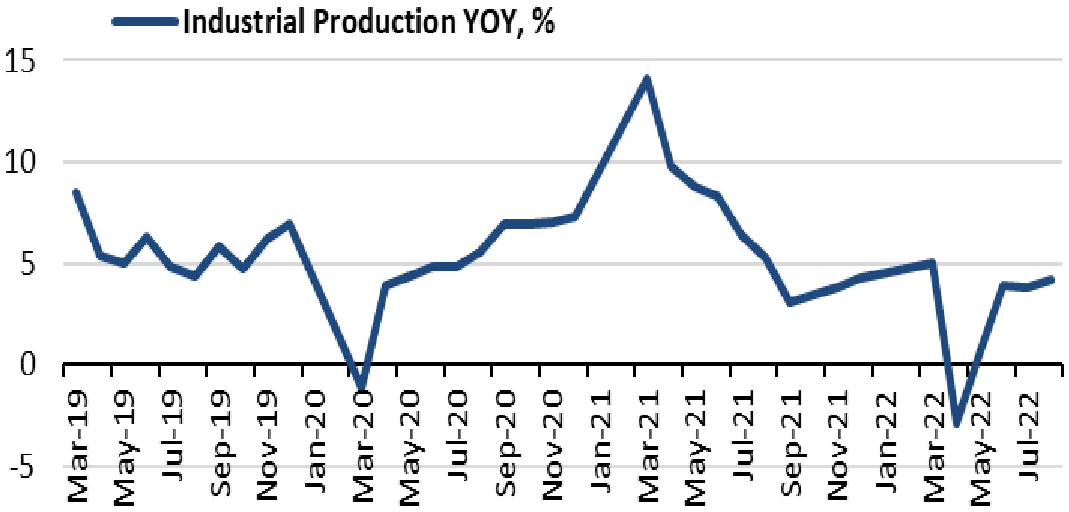
	2021	2022F	2023F
GDP (%)	5.9	3.9	2.0
Inflation (%)	2.9	6.4	4.5
Cash Rate (%)	0.10	3.10	3.10*
AUD/USD	0.7263	0.62	0.64*

Source: Bloomberg, HLBB Global Markets Research
**end 3Q2023*

- Mixed macro indicators - labour market remains tight, and wage growth is picking up; consumer confidence has fallen; house prices are falling.

- RBA is pivoting and will continue to pay close attention to both the evolution of labour costs and the price-setting behaviour of firms, and is committed to returning inflation back to the 2% to 3% range.

China – Rising downside risk to growth

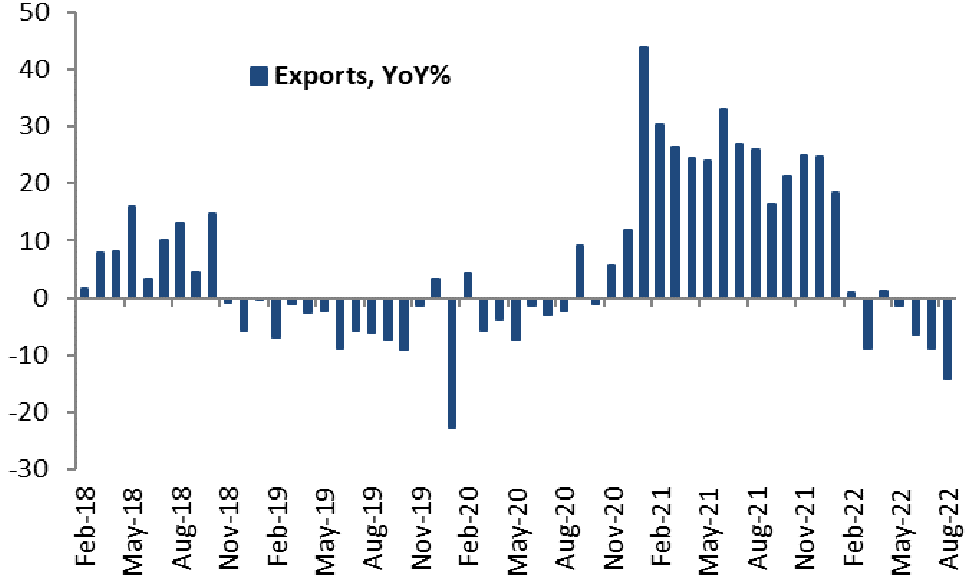


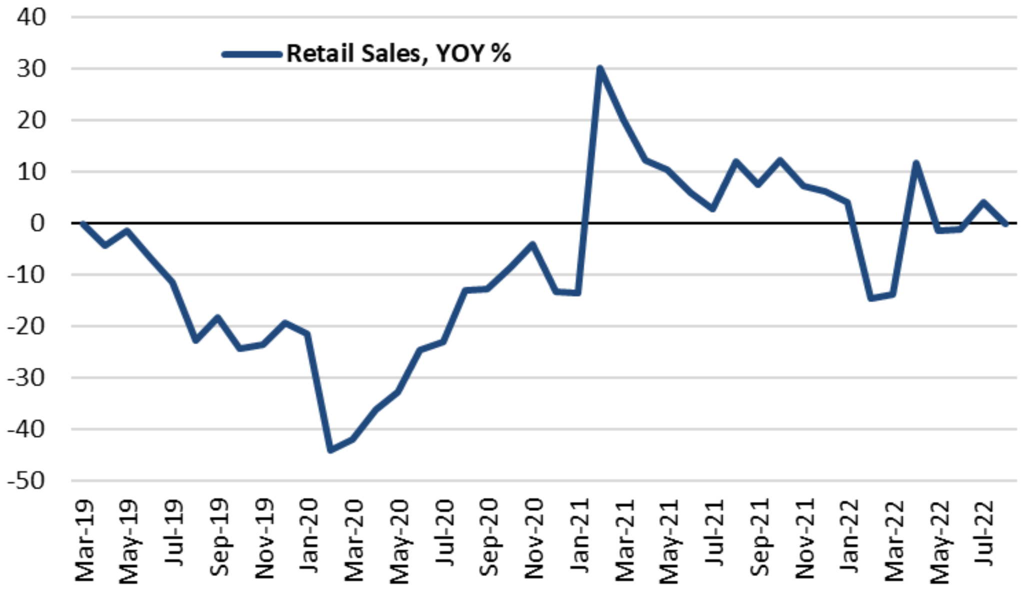
	2021	2022F	2023F
GDP (%)	8.1	3.3	5.0
Inflation (%)	0.9	2.2	2.3
1Y LPR (%)	4.35	4.30	4.30*
USD/CNY	6.3561	7.15	7.15*

Source: Bloomberg, HLBB Global Markets Research
**end 3Q2023*

- Recovery post-Shanghai lockdown may be challenging as external conditions weakened and domestic consumer consumption slowed.
- Heightening risk of a housing and property market crisis, plagued by concerns over bad debts as well as falling home prices
- Consequently, World Bank slashed 2022 GDP growth forecast to just 2.8%
- All eyes on the China's Annual Congress in October; for policy directions and new macro guidance (previous growth target 5.5%)

Hong Kong – Major indicators still show softening outlook



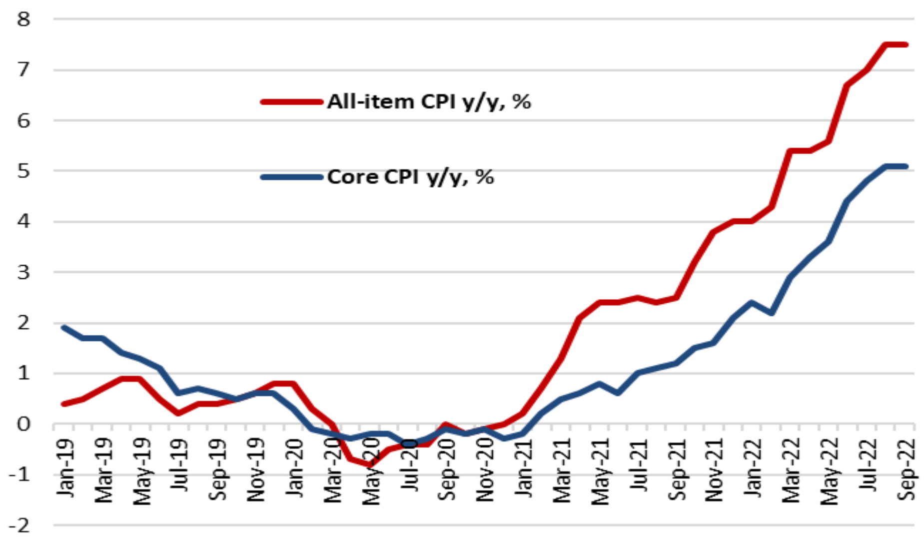


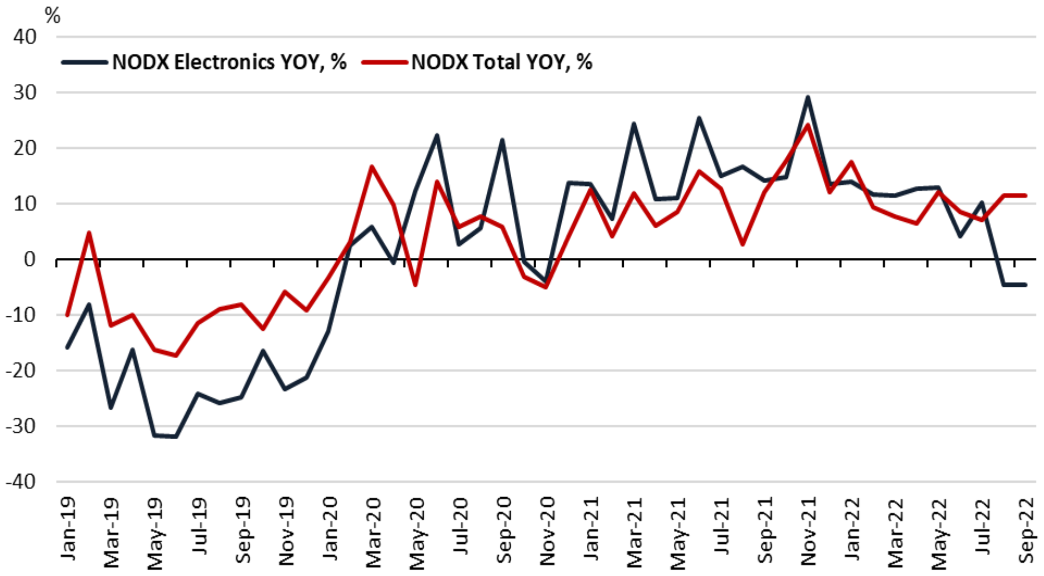
	2021	2022F	2023F
GDP (%)	6.4	-0.4	3.5
Inflation (%)	1.6	2.0	2.1
Base Rate	0.50	3.50	3.50*
USD/HKD	7.7966	7.85	7.82*

Source: Bloomberg, HLBB Global Markets Research
**end 3Q2023*

- Easing of cross-boundary disruption between Mainland China and Hong Kong and pent-up demand after the easing of Covid rules will support trade and domestic activities.
- Quarantine rules (although shortened) still deter international visitors while asset prices has remained weak.
- Stringent Covid management and weaker growth prospects in China pose downside risks to growth.

Singapore – Upside risks to inflation bolsters the case for MAS tightening



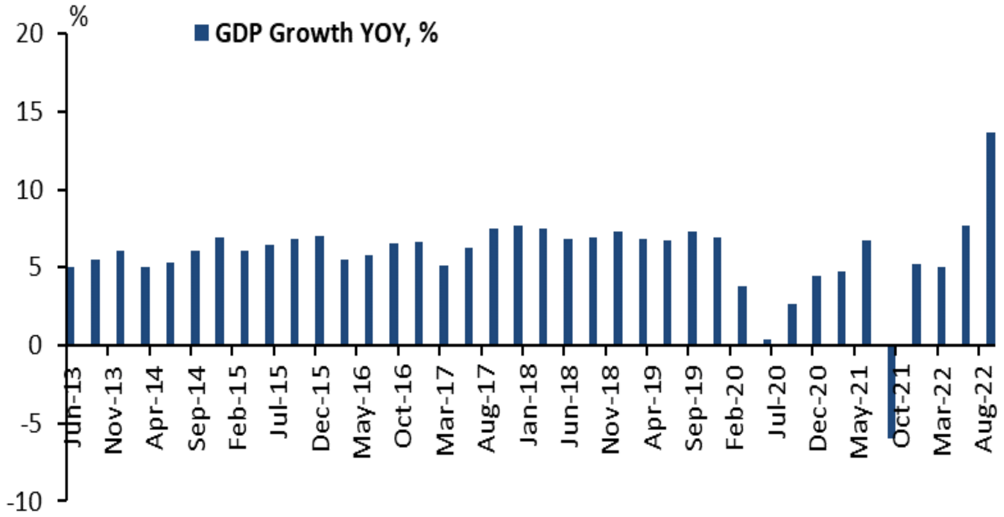


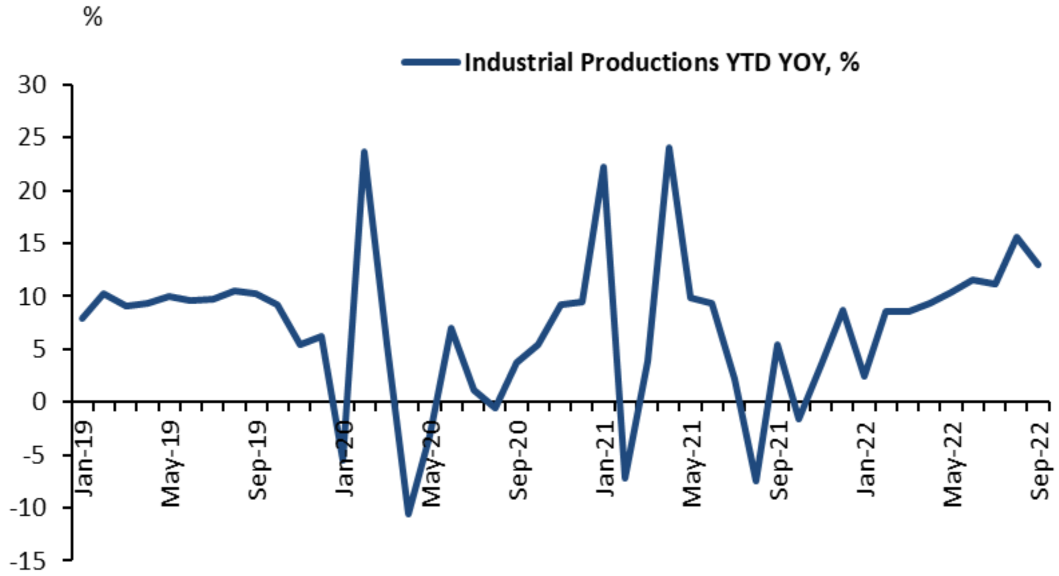
	2021	2022F	2023F
GDP (%)	7.9	3.0-4.0	2.8
Inflation (%)	2.3	5.0-6.0	3.7
3m SIBOR (%)	0.44	2.86	2.79*
USD/SGD	1.3490	1.45	1.40*

- Moderating growth outlook amid a weaker manufacturing sector, but still supported by sustained demand (albeit softer) in exports.
- Softening global semiconductor sales poses a challenge ahead
- Elevated headline inflation and pick-up in core inflation bolstered the case for further MAS tightening.

Source: Bloomberg, HLBB Global Markets Research
**end 3Q2023*

Vietnam – Continued outperforming its peers in the region



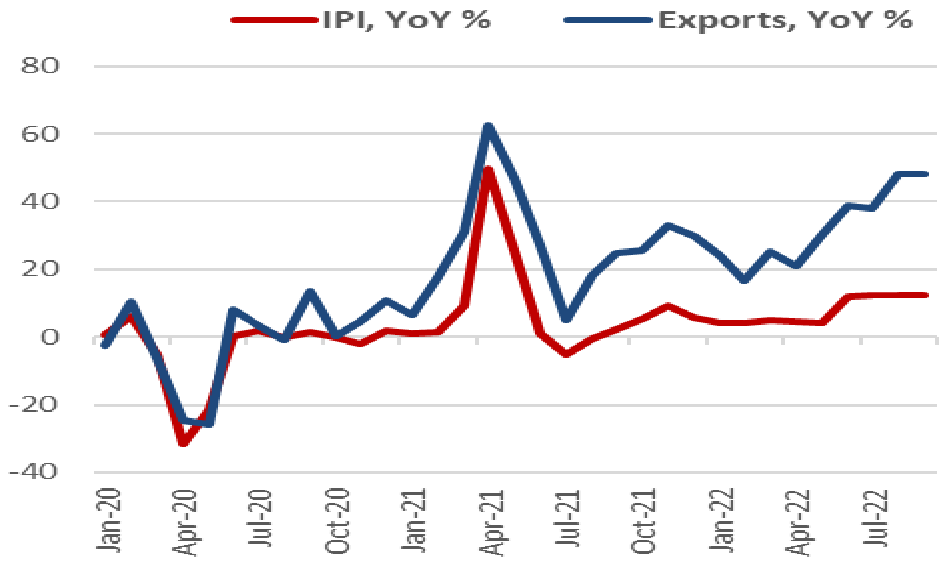


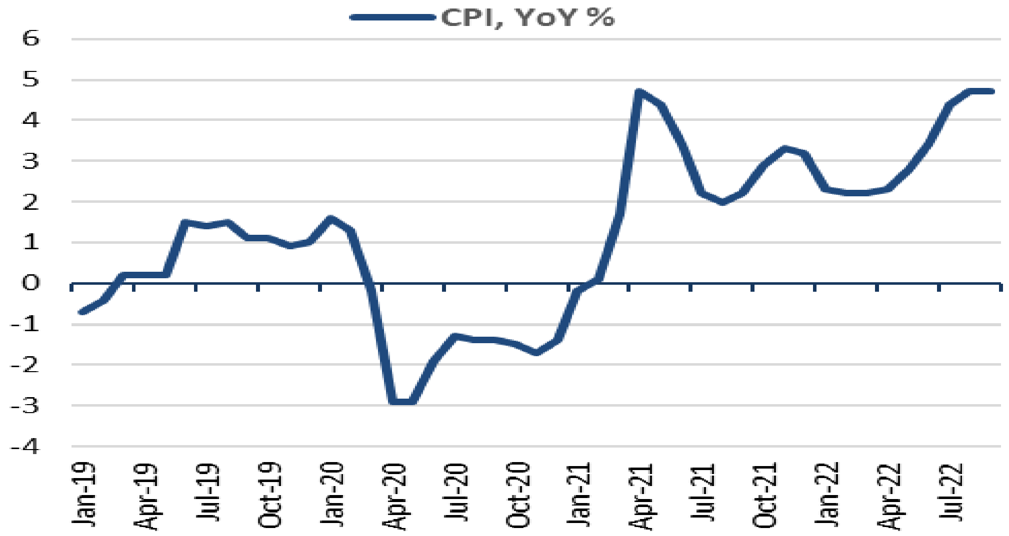
	2021	2022F	2023F
GDP (%)	2.6	7.2	6.5
Inflation (%)	2.2	3.5	3.7
SBV Refinancing Rate (%)	4.00	4.70	5.35*
USD/VND	22826	23,700	23,400*

Source: Bloomberg, HLBB Global Markets Research
**end 3Q2023*

- Low interest rates, strong credit growth, and the government's Program for Socioeconomic Recovery and Development have been accompanied by strong manufacturing output and a recovery in retail and tourism activity.
- Tourism activity saw revival in the first 8 months, but still significantly lower below the 5 million tourist arrivals goal.
- Inflation to remain below the government's target of 4%, due to relatively subdued inflationary pressure.

Malaysia – Recovery intact but inflation posing risk to consumption





Forecasts	2021	2022F	2023F
GDP (%)	3.1	7.4	4.2
Inflation (%)	2.5	3.4	2.7
OPR (%)	1.75	2.75	3.00*
USD/MYR	4.20	4.68	4.60*

Source: Bloomberg, HLBB Global Markets Research
**As at end 3Q2023*

- Continuous recovery in the labour market and ongoing policy support to underpin growth ahead; cushioning the moderation in external demand.
- Signs of price stickiness/ second round price effects. Upside to inflation outlook from potential policy adjustment on utilities and fuel mechanism.
- Expect BNM to maintain a steady rate hike path, raising OPR by a further 50bps by 1Q2023 over two meetings.

Markets Outlook - FX

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

	12-month Outlook
+	**EUR**: To recoup lost ground in 1Q23 as markets repricing for rates begin to gain traction **GBP:** recovery could lag its peers due to weaker growth prospects **AUD, NZD, CAD**: Influenced by commodity price movement, China growth story, and respective policy expectations **JPY:** Fed-BOJ policy divergence will continue to weigh on JPY, countered by safe haven bids and imminent narrowing in yield premium should the Fed begin cutting rates in 2H2023 **MYR**: tandem recovery in line with regional currencies on expectations of a retreat in the USD
-	**USD:** USD to loose its luster from 1Q23 amid expectations of policy pivot by the Fed especially if risks of economic fallout from earlier rapid policy moves materialize **CNY**: Hampered by slowdown concerns amid Covid uncertainties

FX Forecasts

	30-Sept	Q4-22	Q1-23	Q2-23	Q3-23
DXY	112.17	115.00	112.70	110.45	110.00
USD/CAD	1.38	1.40	1.39	1.36	1.37
EUR/USD	0.98	0.95	0.97	0.98	0.98
GBP/USD	1.12	1.10	1.10	1.11	1.12
USD/CHF	0.99	1.00	0.99	0.98	0.98
AUD/USD	0.64	0.62	0.63	0.64	0.64
NZD/USD	0.56	0.55	0.56	0.57	0.57
USD/JPY	145	147	146	145	144
USD/MYR	4.64	4.68	4.64	4.62	4.60
USD/SGD	1.44	1.45	1.44	1.42	1.40
USD/CNY	7.12	7.15	7.22	7.18	7.15

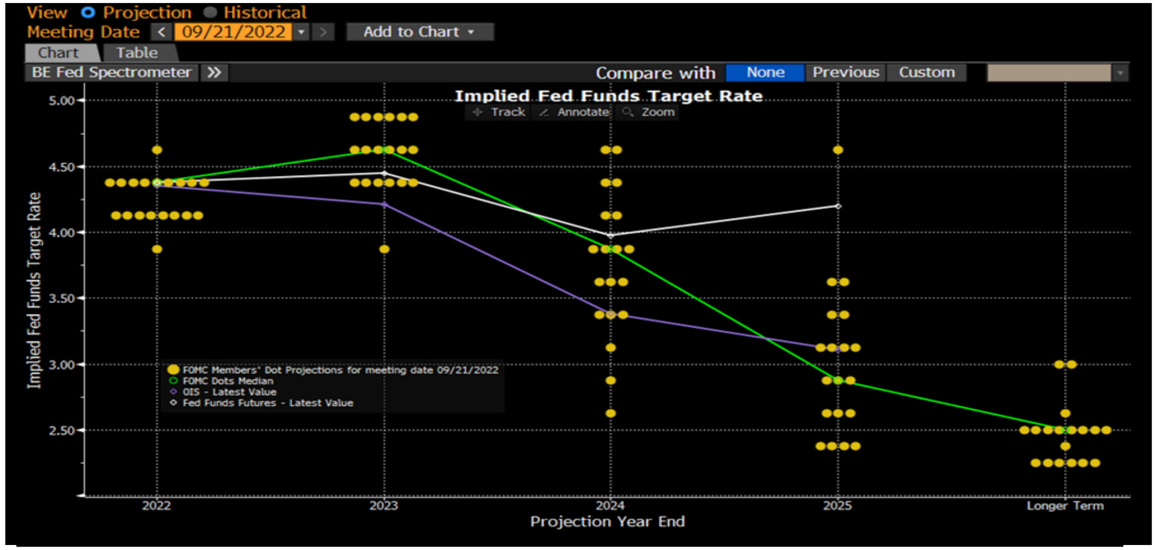
Markets Outlook – Fixed Income

	Current	4Q2022	1Q2023	2Q2023	3Q2023
UST 10Y	3.95%	3.80-4.00%	3.70-3.90%	3.80-4.00%	3.70-3.90%
MGS10Y	4.43%	4.30-4.50%	4.20-4.40%	4.30-4.50%	4.20-4.40%
SGS 10Y	3.52%	3.30-3.50%	3.20-3.40%	3.30-3.50%	3.40-3.50%

Sovereigns – Continuing uncertainty surrounding impact of central bank rate hikes

UST	• Yields can range sideways-to-lower instead as aggressive rate hikes and ongoing QE already built-in; Fed's rate normalization exercise of 75bps hike expected for Nov and Dec FOMC • Risk – persistent inflation, continuing solid manufacturing, service and job numbers
MGS	• Lower correlation to USTs • Higher OPR projection in 4Q2022 • Depth of support from well-diversified local investment institutions
SGS	• Higher correlation with USTs • Yields can be impacted by elevated inflation; prompting policy tightening by MAS • Comfort derived from AAA-rated sovereign status

US Fixed Income – Aggressive rate hikes may take a toll with peak rates seen in 4Q2022



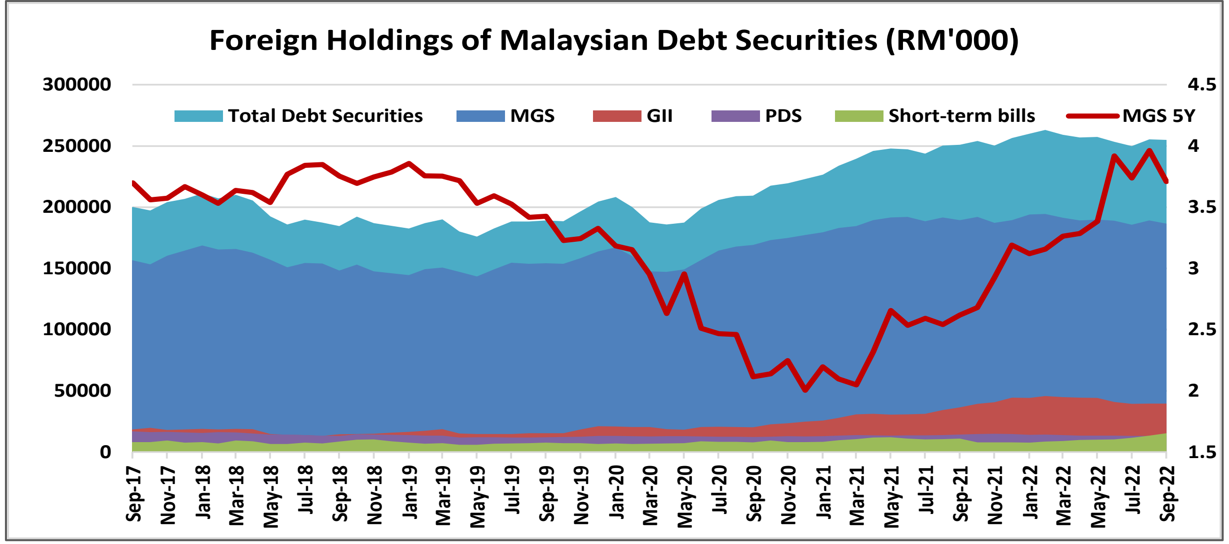
- **UST** -- UST's sold-off sharply for the quarter under review, as the Fed aggressively embarked on two(2) further consecutive rate hikes totaling 150bps in July and Sep. The curve bear-flattened as overall benchmark yields spiked between 60-133bps across led by the front ends. However, the yield curve shifted deep into inversion since early July as both the UST 2Y and 10Y yields spiked 133bps and 83bps each to 4.28% and 3.83% respectively. Despite the smaller increase in nonfarm payrolls, the jobs market continued to be robust with employment at 50-year low of 3.5%, as the USD surged against most currencies. Mortgage rates too have climbed to almost 7.0%, stunting demand for homes. **Nevertheless, we expect UST10Y to range slightly lower between 3.80-4.00% for 4Q2022** as the impact of the last three (3) aggressive rate hikes of 75bps transcends into the economy, financial markets and livelihood of Americans and potentially reflect a slowdown going forward as depicted by the yield curve inversion. Key areas to watch include flipping views between inflation vs growth with focus on key central bank interest rate decisions. On the flipside, demand for bonds and money market funds may improve due to foreign institutional flows from Europe, China and Japan arising from positive interest rate differential and strong dollar.
- **Corporates** – Investment-grade corporate bonds mirrored the brunt of sell-off in USTs but yields spreads were surprisingly less impacted. The Bloomberg Barclays US Corporate Bond Index continued to bleed albeit by a smaller loss of 5.1% for 3Q2022 (2Q2021: -7.2%) whilst spreads have only marginally widened from 155bps in June to about 159bps as at Sep despite tighter monetary policy. Stronger balance sheets and higher yields allow favoring IG credits (with mid-duration i.e.5-10Y especially in capital goods, energy and financials) which are better placed than equities to weather recession.

Source: Bloomberg, HLBB Global Markets Research

Malaysia Fixed Income – Mulling higher issuances in 2023 given lingering deficit and funding needs

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 Re-issuance 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	14/7/2022	5,000	3,500	2,500	93,500	3.105	4.090	4.117	4.129	58.3%
21	20-yr Reopening of MGS (Mat on 10/42)	20	Jul	Q3	21/7/2022	5,000	2,500	2,500	98,500	2.656	4.585	4.598	4.607	37.0%
22	7-yr Re-issuance of MGII 07/29	7	Jul	Q3	28/7/2022	5,000	4,500		103,000	2.403	3.900	3.917	3.927	43.3%
23	5-yr Re-issuance of MGS 11/27	5	Aug	Q3	4/8/2022	5,000	5,000		108,000	2.044	3.770	3.798	3.808	38.3%
24	20-yr Reopening of MGII 09/41	20	Aug	Q3	12/8/2022	5,000	3,000	2,500	113,500	2.742	4.383	4.410	4.435	81.4%
25	15-yr Reopening of MGS 04/37	15	Aug	Q3	29/8/2022	5,000	2,500	2,500	118,500	2.244	4.210	4.249	4.272	85.0%
26	3-yr Reopening of MGII 10/25	3	Sep	Q3	14/9/2022	4,500	5,000		123,500	1.836	3.450	3.474	3.483	66.4%
27	7-yr Reopening of MGS (Mat on 04/29)	7	Sep	Q3	22/9/2022	5,000	5,000		128,500	1.662	4.190	4.232	4.275	37.5%
28	15.5-yr New Issue of MGII (Mat on 03/38)	15	Sep	Q3	29/9/2022	5,000	4,500		133,000	2.383	4.600	4.662	4.690	80.3%
29	3-yr Reopening of MGS 03/25	3	Oct	Q4	6/10/2022	5,000	5,000		138,000	1.920	3.800	3.823	3.837	5.7%
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	112,500	25,500	138,000	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

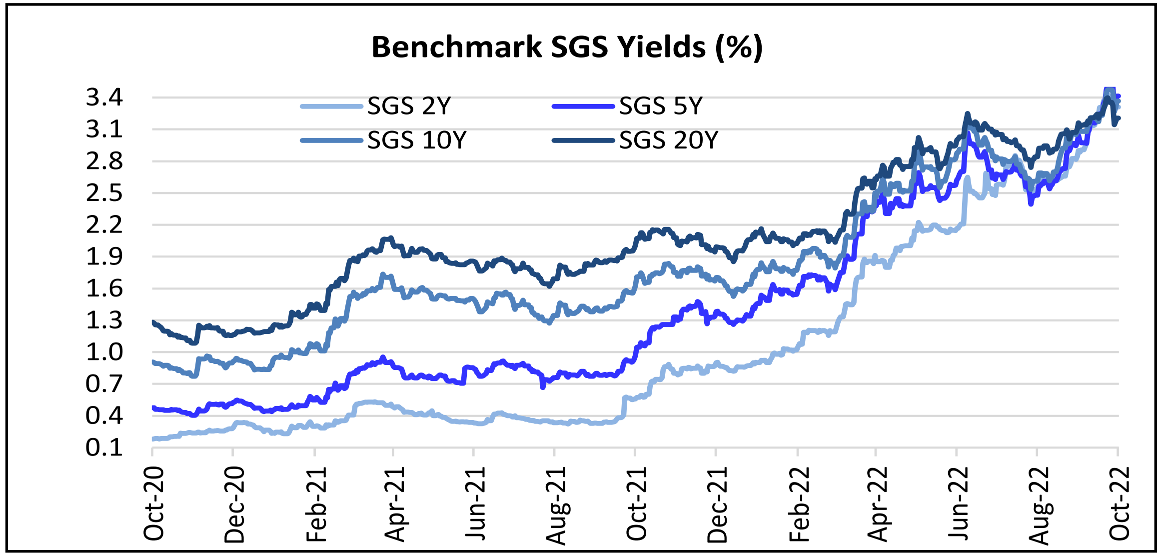


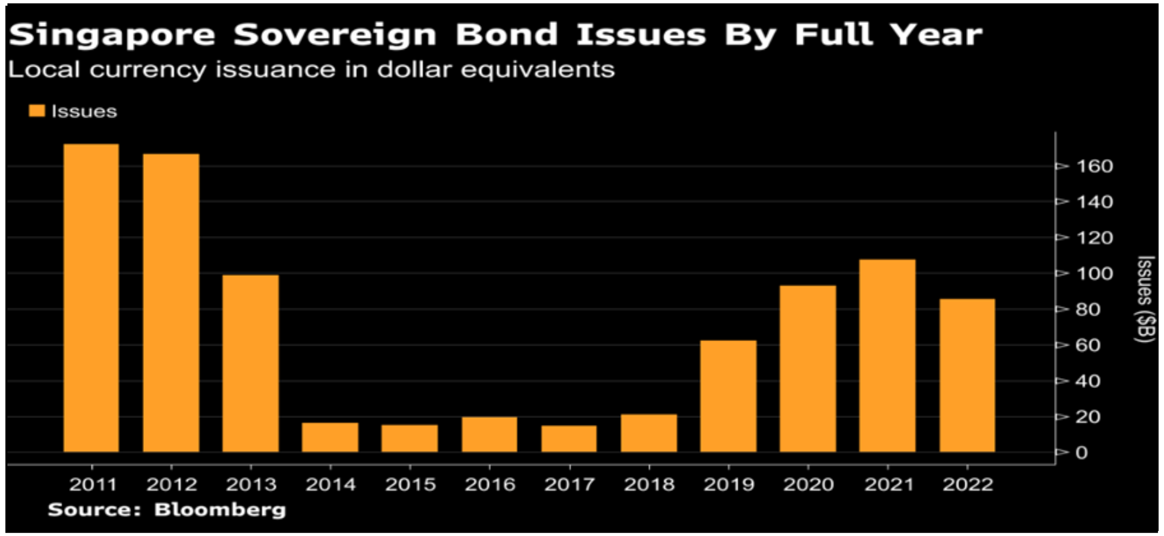
Source: HLBB Global Markets Research

- **Government Bonds** –Overall benchmark yields saw MGS close between 0-26bps higher whilst GII closed mixed; with the 5Y and long-ends actually ending lower between 2-9bps across. MGS movements were in tandem with the spike in global bond yields especially in September. Foreign-led news on US inflation and Fed's ongoing balance sheet runoff plus aggressive tightening move dominated local sentiment, Foreign holdings of overall MYR bonds rose by RM1.6b from RM253.3b in June 2022 to RM254.9b as at end-Sep 2022. Support was decent for government auctions in 3Q2022 with bidding metrics of ~2.23x for all 9 auctions despite higher total issuances of RM50.5b (2Q2022: RM47.0b). We note the positive, forthcoming impact on both primary participation and also secondary market-making activities by the 13th largest global pension fund i.e. EPF. We expect another measured OPR rate hike of 25bps in 4Q2022; bringing the OPR level to 2.75% by year end. Meanwhile we expect sentiment to be dictated by the upcoming GE15 and fiscal deficit to be funded by potentially larger issuances next year. **Our 10Y MGS yield target range for 4Q2022 is revised slightly lower to 4.20-4.40% from support provided by well-diversified investment institutions.**

- **Corporate Bonds/Sukuk** --Corporate bonds/sukuk issuances (including GG-bonds) eased to RM31.1b (2Q2021: RM34.2b) and in line with our projected gross issuances of between RM100-120b for 2022. Demand for primary issuance in 4Q is expected to be comparable to secondary market which saw yields end mostly mixed-to-higher q/q. We favour the 5-7Y AAA (35-51bps) and 20Y AA (55-85bps) AAA-rated bonds, within sectors comprising utilities, logistics, power/energy, highway/toll sectors.

Singapore Fixed Income – Neutral bias on SGS, still positive on corporate credits





- **SGS** – SGS ended weak q/q, as overall benchmark yields spiked between 23-73bps; somewhat mirroring the weak performance of USTs. The Bloomberg Global Singapore Bond Total Return Index lost 2.8% for 3Q2022 (2Q2022: -3.3%). Whilst yields have punched higher, any further signs of persistent inflation in US and/or Singapore will impinge on SGS yields. The republic's economy continued to expand albeit likely in a slower pace in 3Q (following the easing of COVID related restriction). Sovereign bond issuances totaled ~$S123b to-date; a mere 0.4% higher compared to the same period last year. **Overall, we continue to adopt a neutral bias in 4Q2022** as the MAS may announce tightening measures via its S$NEER policy band on 14th October, considering that pricing pressures may weaken the republic's private-sector economy. **We expect SGS 10Y to range slightly lower between 3.30%-3.50% levels.**

- **Corporate** – No letup in demand for credits by investors as Singapore Savings Bonds are seen to compete considering the dearth of supply as issuers are reluctant to engage in higher coupon payments for fresh issuances for 4Q2022. due to tightening and higher borrowing costs. A slowdown in growth could cause Singapore bond issuers to face deterioration in earnings which may add pressure on their bonds. We prefer large corporate issuers such as CapitaLand, Keppel Corp, DBS Group and Temasek Financial /Ltd and UOB within the 2-5 year term sector. SGD perpetuals are also favored with reset coupon structures to take advantage of the rising interest rate environment.

Source: Bloomberg, HLBB Global Markets Research

Hong Leong Bank

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