Quarterly Market Outlook 1Q2023

Global Markets

January 2023

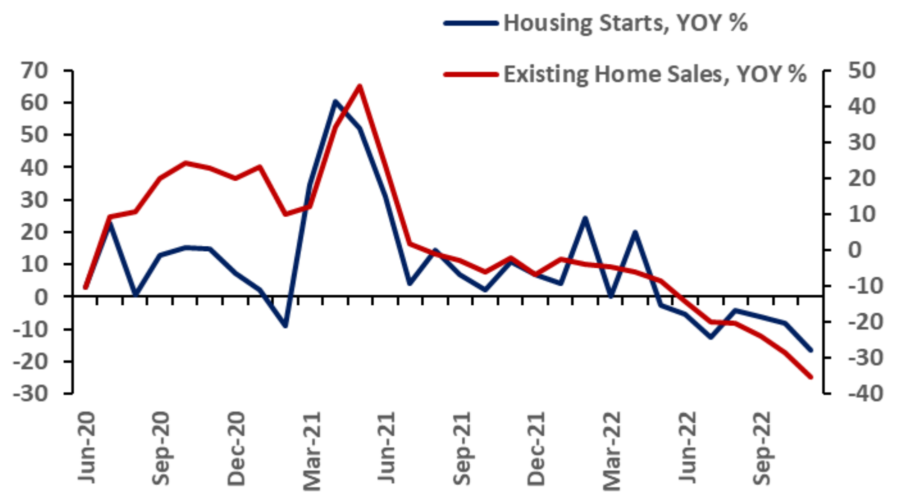
Content

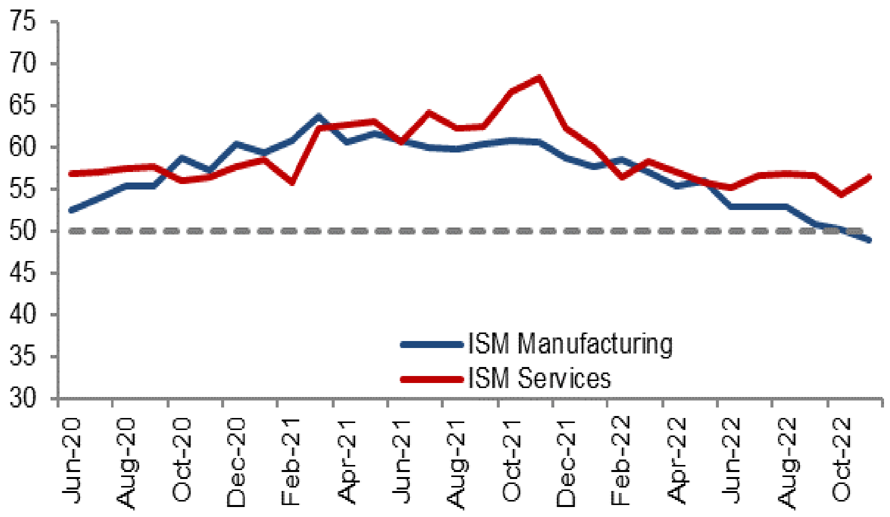
Global Central Banks Policy Rates Outlook

	Current	1Q23	2Q23	3Q23	4Q23	Remarks
United States Federal Reserve *Fed Funds Rate*	4.25-4.50	4.75-5.00	4.75-5.00	4.75-5.00	4.75-5.00	**+50bps by year end**
Eurozone European Central Bank *Deposit Rate*	2.50	3.00	3.00	3.00	3.00	**+50bps by year end**
United Kingdom Bank of England *Bank Rate*	3.50	4.00	4.00	4.00	4.00	**+50bps 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*	3.10	3.35	3.35	3.35	3.35	**+25bps by year end**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	4.25	4.50	4.50	4.50	4.50	**+25bps by year end**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	2.75	3.00	3.00	3.00	3.00	**+25bps by year end**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	1.25	1.50	1.75	1.75	1.75	**+50bps by year end**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	5.50	5.75	5.75	5.75	5.75	**+25bps by year end**

Source: Bloomberg, Global Markets Research

US - Increasing signs of recession risk



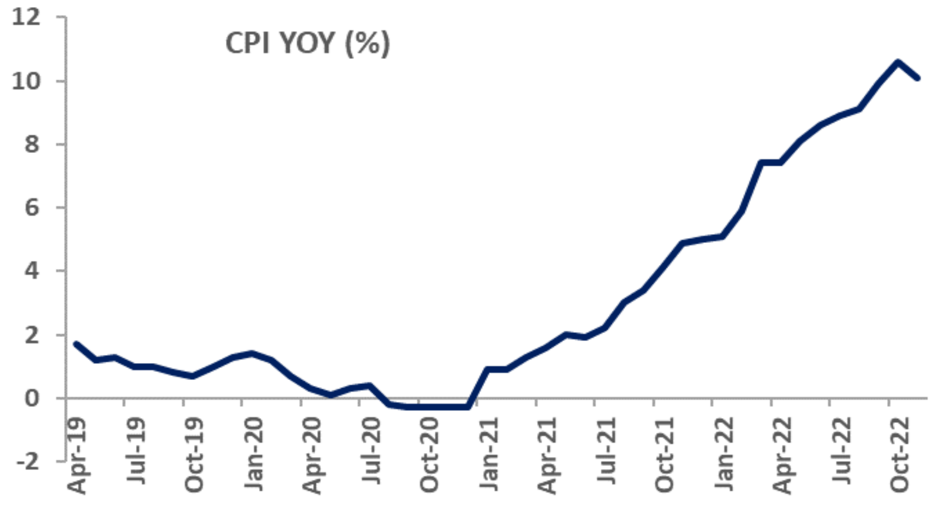


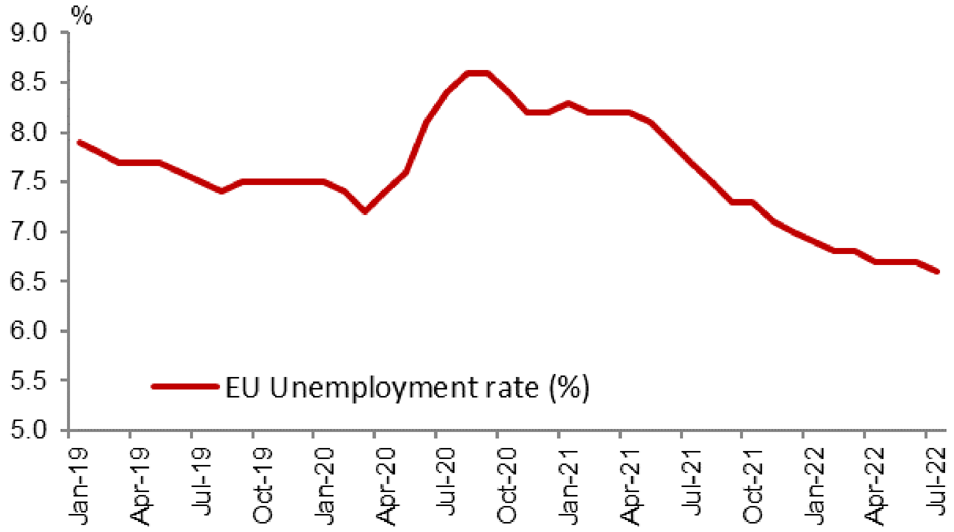
	2021	2022F	2023F
GDP (%)	5.9	0.5	0.5
Core PCE Inflation (%)	3.5	4.8	3.5
Fed Funds Rate (%)	0-0.25	4.25-4.50	4.75-5.00
Dollar Index (End of period)	95.67	103.49	98.90

Source: Fed, Bloomberg, HLBB Global Markets Research

- Recent data remains resilient thus far, although there are tentative signs of softening in the housing and labor market. Manufacturing sector is contractionary , while services is mixed
- Inflation and inflationary expectations are softening despite the slight uptick in commodity price index and elevated service inflation
- Fed speaks remain hawkish and still suggest more rate hikes ahead, though at more measured pace of 25-50bps going forward, marking the beginning of policy pivot

Eurozone – Inflation remains far too high



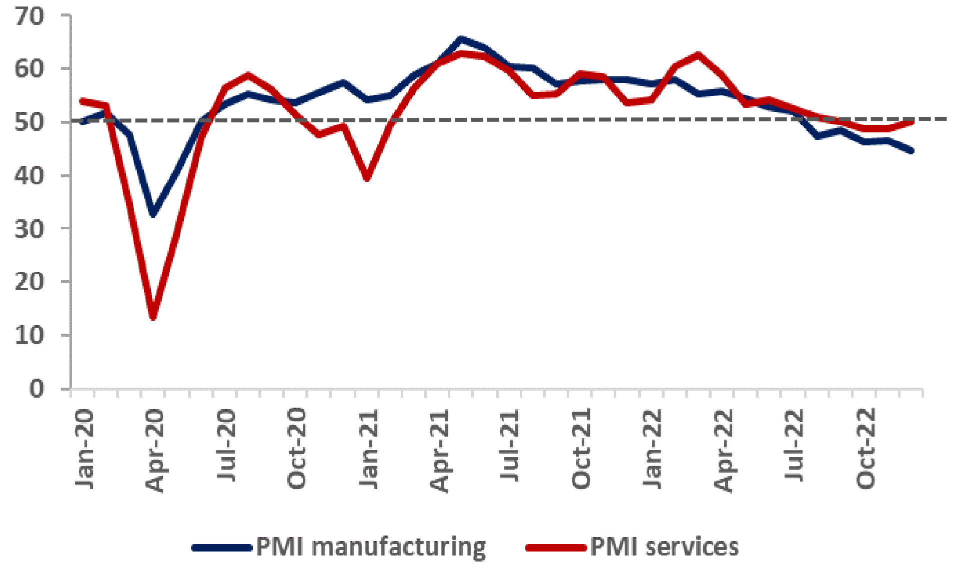


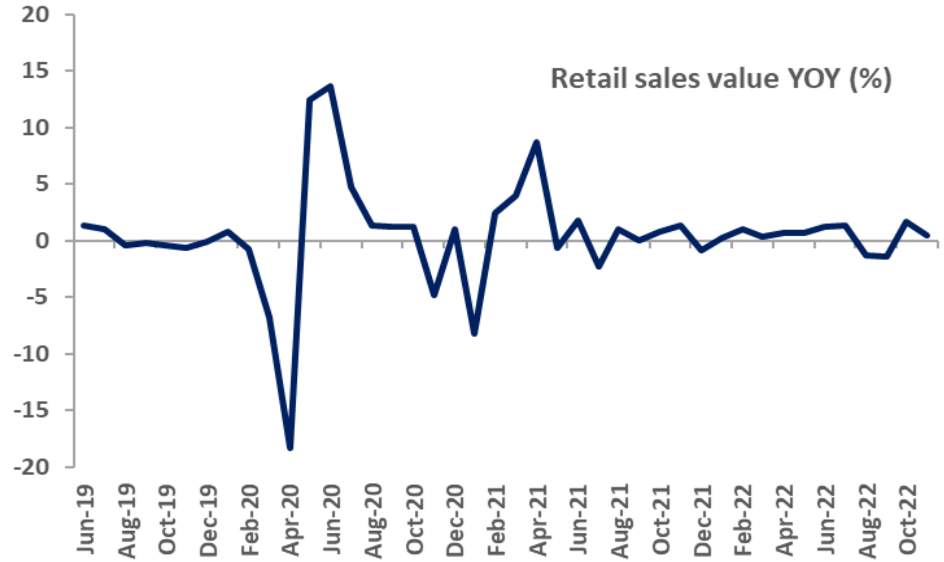
	2021	2022F	2023F
GDP (%)	5.3	3.4	0.5
Inflation (%)	2.6	8.4	6.3
Deposit Facility Rate (%)	-0.5	2.50	3.00
EUR/USD (End of period)	1.1370	1.0705	1.10

Source: ECB, Bloomberg, HLBB Global Markets Research

- Higher inflation dampened spending and production. Severe disruptions in gas supply worsened the situation. Confidence fell as a result
- Labor market continues to perform well, with PMI employment indicator pointing to robust growth in services and manufacturing while construction is showing signs of decelerating
- Persistent but peaked inflationary pressures driven by high energy and food prices. Supply bottlenecks are easing, though lagged impact still felt. Impact from pent-up demand still felt in the services sector

UK – Recession since 3Q 2022





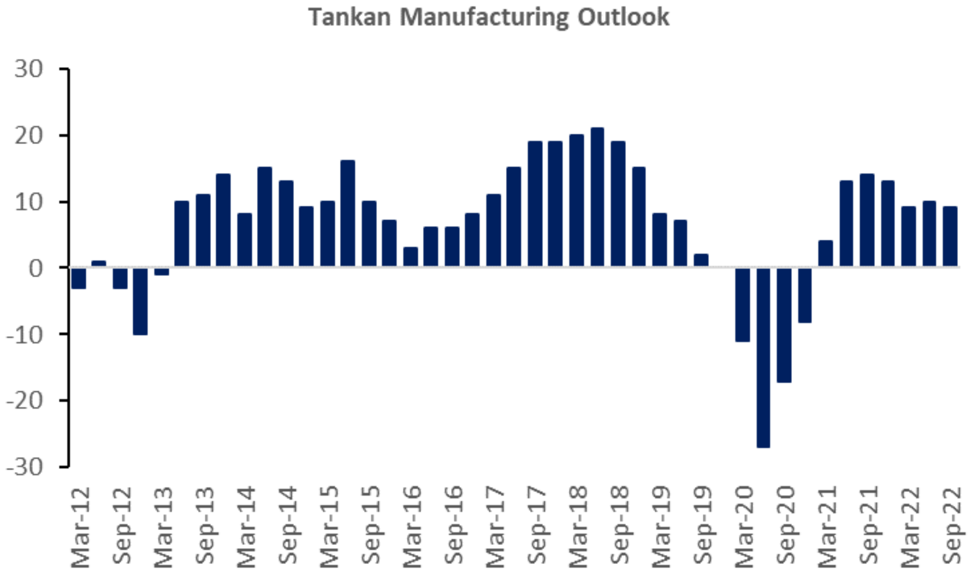
	2021	2022F	2023F
GDP (%)	8.5	4.3	--1.5
Inflation (%)	2.6	10.8	5.3
Bank Rate (%)	0.25	3.50	4.00
GBP/USD (End of Period)	1.3532	1.2083	1.23

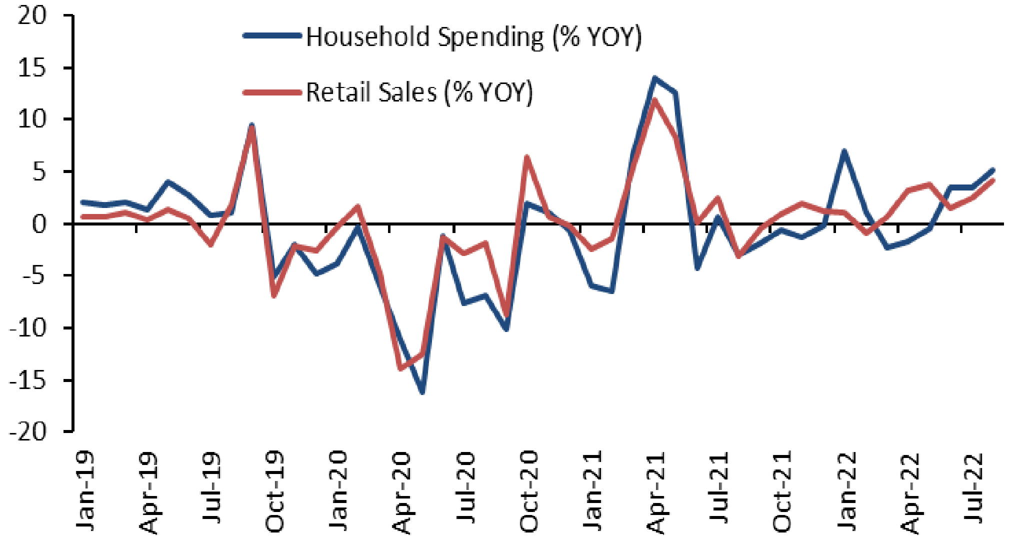
Source: HM Treasury, Bloomberg, HLBB Global Markets Research

- UK has been in recession since 3Q 2022 and is expected to last for just over a year to 3Q 2023
- Services and manufacturing PMIs are contractionary; Retail sales are weak. However, we also note domestic wage pressure and elevated savings (7.5% to 9.0%) to support spending
- Household budgets are being squeezed by rising inflation which reached 11.1% in October 2022; expect inflation to see sharper pullback in 2H of 2023

HongLeong Bank

Japan – Manufacturers less upbeat; consumer spending supported by travel resumption



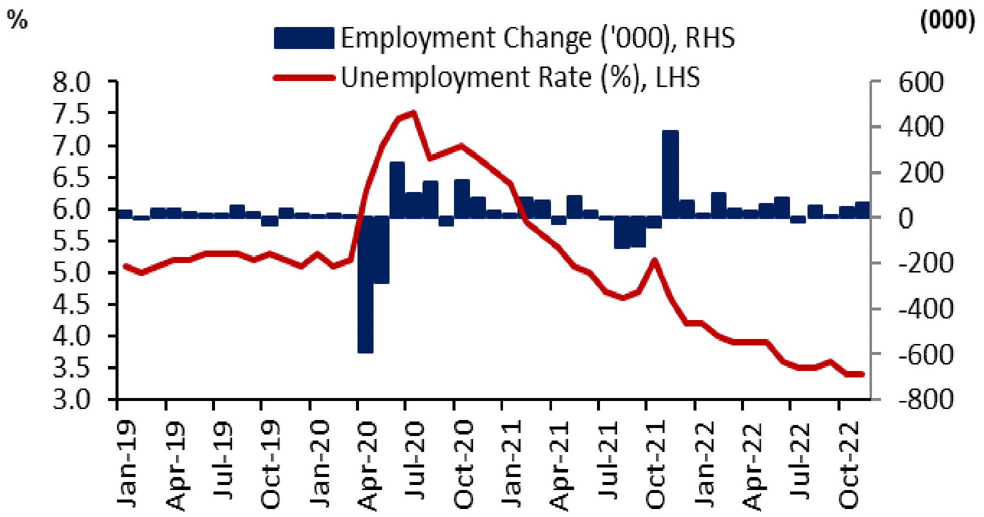


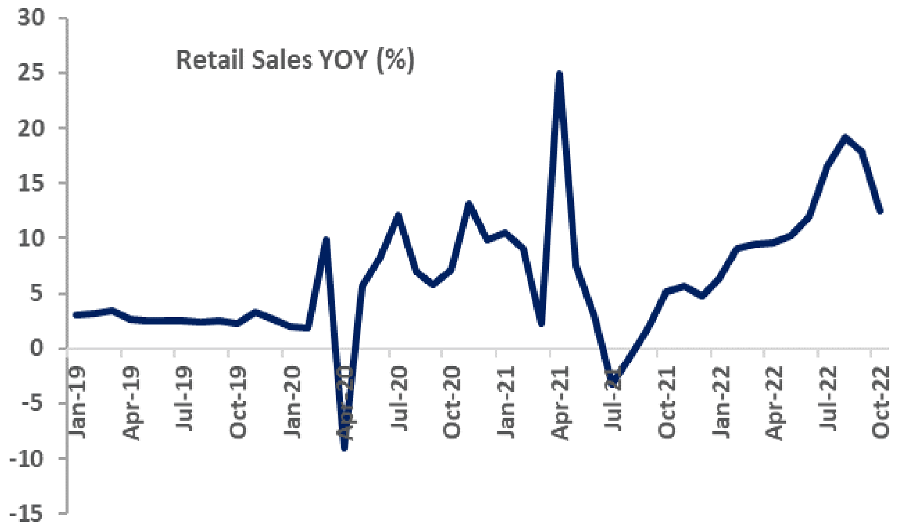
	2021	2022F	2023F
GDP (%)	2.3	2.0	1..9
Core Inflation (%)	0.0	2.9	1.6
Policy Balance Rate	0.0	-0.1	-0.1
USD/JPY	115.08	131.12	126.00

Source: BOJ, Bloomberg, HLBB Global Markets Research

- Tankan survey showed that business confidence among big Japanese manufacturers slipped slightly and that big firms plan to raise their capital spending by 19.2%, downward revision from 21.5% previously
- Consumer spending has increased moderately, on the resumption of consumption activities in the services sector as well as employment and income situation
- BOJ's dovish outlook will stay as an outlier among major economies

Australia – Labor market remains tight



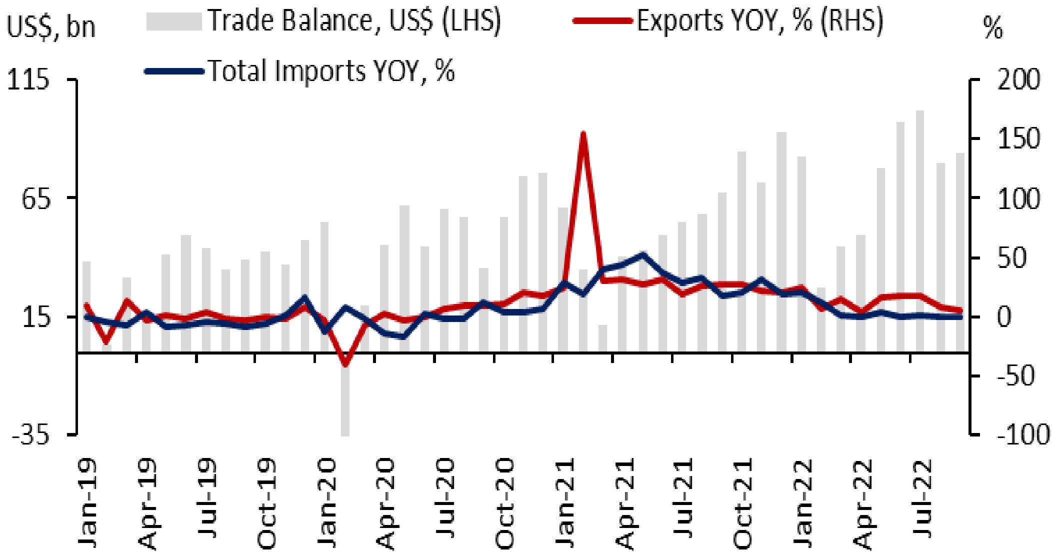


	2021	2022F	2023F
GDP (%)	5.3	4.0	2.0
Inflation (%)	2.9	8.0	4.8
Cash Rate (%)	0.10	3.10	3.35
AUD/USD	0.7263	0.6813	0.71

- Labor market remains tight, with firms having difficulty hiring, further pick up in wages on account of this and higher inflation
- Nevertheless, tighter financial conditions would translate into slower consumer spending and housing market
- RBA will continue to pay close attention to both the evolution of labour costs and inflation, and is committed to returning the latter back to the 2% to 3% range.

Source: RBA, Bloomberg, HLBB Global Markets Research

China – Government is targeting 5% growth in 2023



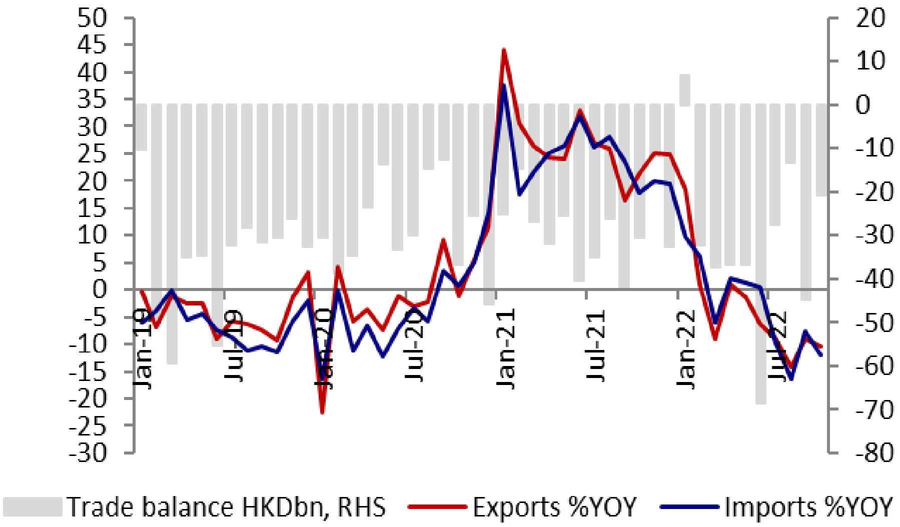
	2021	2022F	2023F
GDP (%)	8.4	3.0	5.0
Inflation (%)	0.9	2.1	2.3
1Y LPR (%)	3.80	4.30	4.30
USD/CNY	6.3561	6.9220	6.83

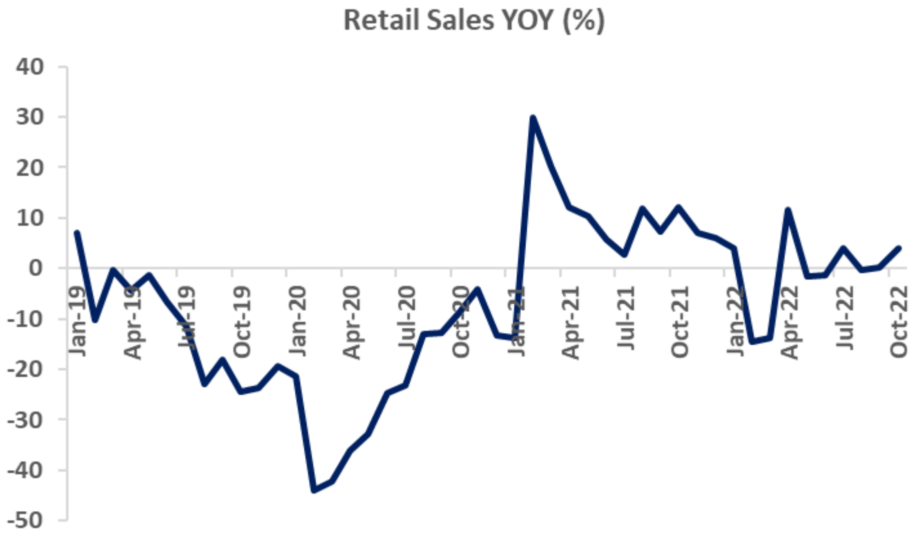
Source: PBOC, Bloomberg, HLBB Global Markets Research

- Recovery post-reopening may be challenging as external conditions weakened. Recovery in domestic consumption will be focused in services sector
- Party Congress reinforced the inner circle of President Xi; offered little change in medium to longer term policy direction
- Expect more stimulus from the PBOC to support recovery, especially in the property sector
- Heightened geo-political tension (especially with the US) remains a wild card

Hong Leong Bank

Hong Kong – Reopening a much needed economic booster



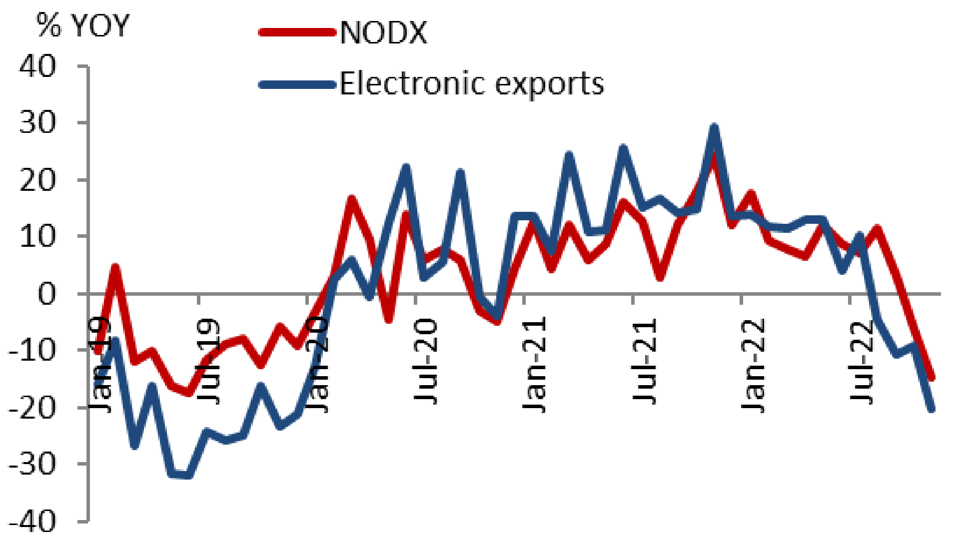


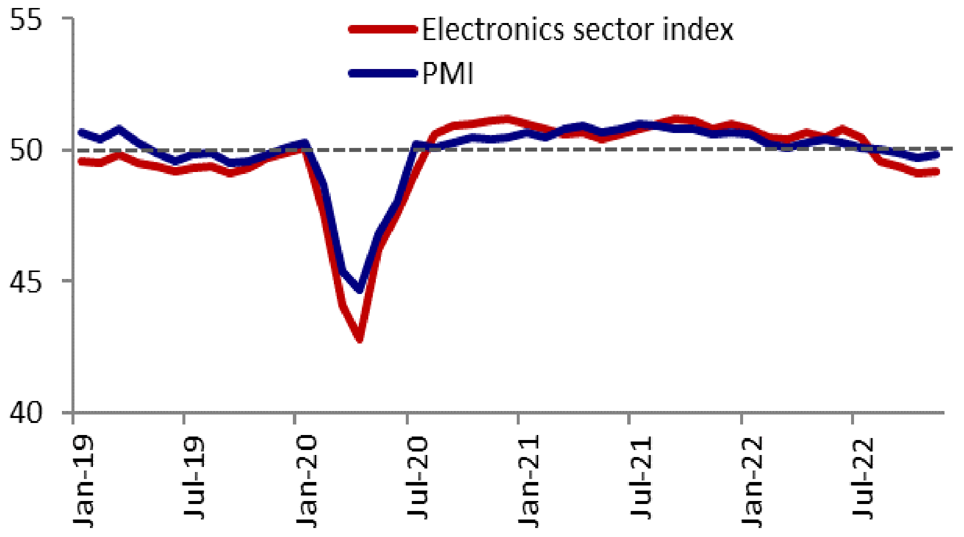
	2021	2022F	2023F
GDP (%)	6.4	-3.2	3.3
Inflation (%)	1.6	1.9	2.1
Base Rate	0.50	4.75	5.25
USD/HKD	7.7966	7.8016	7.79

Source: HK Economy, Bloomberg, HLBB Global Markets Research

- Deteriorating external environment will continue to pose immense pressure on Hong Kong's export performance, but a successful opening should provide some support for the services sector
- Improved labour market conditions and the Consumption Voucher Scheme will continue to support consumption demand in the near term, but this will be offset by tightened financial conditions and weak asset prices will partly offset the positive effects.
- Prices may ease for food prices as cross-border truck drivers given green light for direct pickups in mainland China

Singapore – At risk of a slowdown



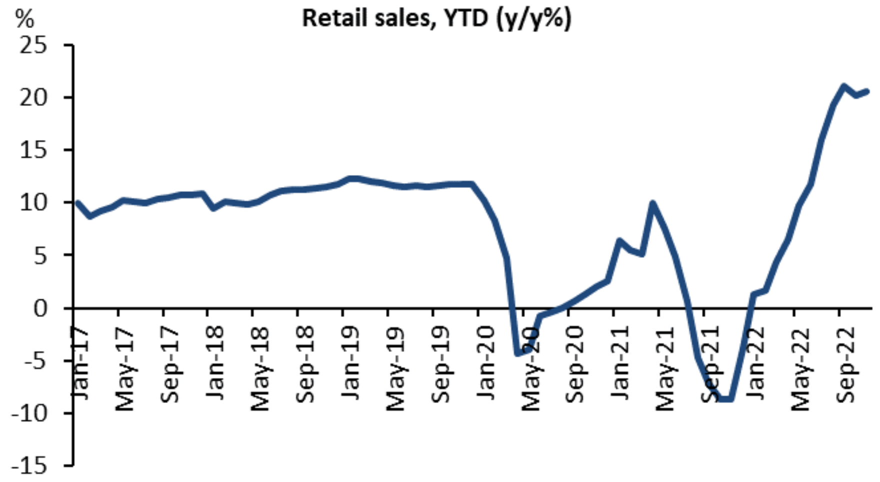


	2021	2022F	2023F
GDP (%)	7.9	3..5	0.5-2.5
Inflation (%)	2.3	6.0	5.5-6.5
3m SIBOR (%)	0.44	4.25	3.97
USD/SGD	1.35	1.3395	1.26

Source: MTI, Bloomberg, HLBB Global Markets Research

- EnterpriseSG is expecting merchandise trade growth to slow to -2% to 0% in 2023 after a high base of 19.5%-20.0% in 2022. NODX has fallen for 2 consecutive months
- The opening of the economy continued to benefit tourism-related sectors like air transport, accommodation and arts, entertainment & recreation, accommodation and arts, entertainment & recreation.
- There will be a transitory impact from GST hike, both in terms of consumer spending and prices in 1Q

Vietnam – Domestic demand were resilient, but exports has faltered

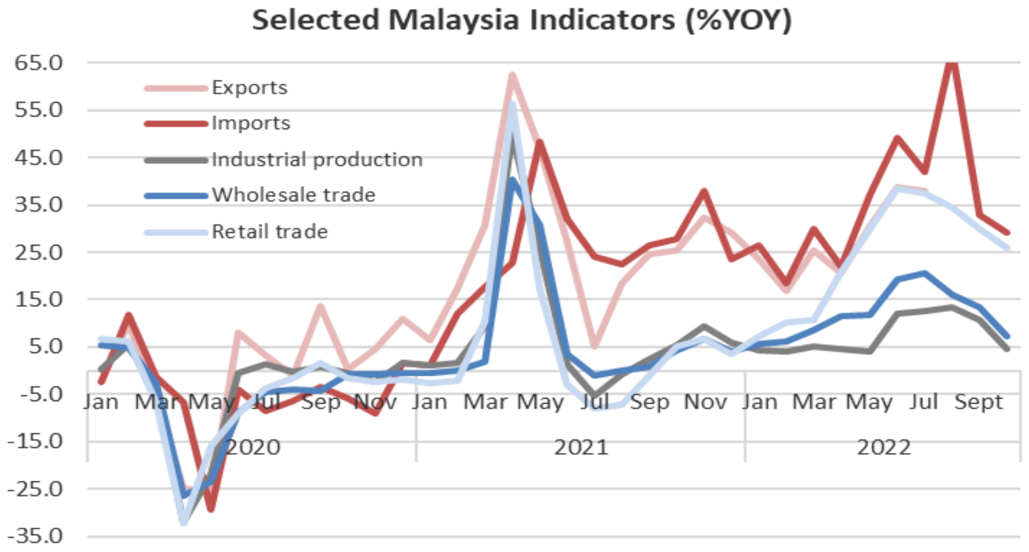


	2021	2022F	2023F
GDP (%)	2.6	7.4	6.2
Inflation (%)	2.0	3.4	4.1
SBV Refinancing Rate (%)	4.00	6.00	6.00
USD/VND	22,826	23,633	24,000

Source: Bloomberg, HLBB Global Markets Research

- Low interest rates, strong credit growth, and the government's Program for Socioeconomic Recovery and Development have been accompanied by a recovery in retail and tourism activity. This has supported domestic consumption
- Headwinds from the external sector as seen in exports contracting in Nov-Dec
- Inflation has crept up above Government's target of 4%, but headwinds suggests SBV will maintain rates at 6.00%

Malaysia – Expect the economy to normalize



	2021	2022F	2023F
GDP (%)	3.1	8.2	4.2
Inflation (%)	2.5	3.3	2.1
OPR (%)	1.75	2.75	3.00
USD/MYR	4.20	4.4040	4.27

Source: Bloomberg, HLBB Global Markets Research

- Softer and uncertain trade outlook amid weakening global demand and protracted inflationary pressure
- Mixed signals in consumer spending despite improvement in sentiments. Some bright spots in private investment
- Malaysia headline and core CPI converged; concerns over demand-pull inflation and spill-over effects leave the door open for further 25bps OPR hike to 3.00% in January

Markets Outlook - FX

FX – Hinges on inflation outlook and policy pivot expectations

	12-month Outlook
+	**EUR**: To exhibit a bullish bias as the USD retreats; shrugging off higher recession risks in the euro region vis-à-vis the US **GBP:** recovery could lag its peers due to weaker growth prospects **AUD, NZD, CAD**: Likely beneficiaries of China reopening story; on expectations of improving demand for commodities from China **JPY:** BOJ's policy pivot away from its decades long ultra-loose monetary policy will be positive for the JPY given narrowing yield discounts with the US, more so if and when the Fed begins cutting rates **MYR**: tandem recovery in line with regional currencies on expectations of a retreat in the USD **CNY**: Recover along with regional economies but potential outflows from China economic reopening may limit its gains
-	**USD:** Expect further pullback in the USD back below the 100 handle by end-2023. Expectations for slower pace of interest rate increases/ peak in the current rate hike cycle likely in 1H2023 will dampen USD outlook; but sticky inflationary outlook is expected to restrain the extent of interest rate cuts as downside growth risks materialize.

FX Forecasts

	30-Dec	Q1-23	Q2-23	Q3-23	Q4-23
DXY	103.49	101.42	100.91	99.90	98.90
USD/CAD	1.36	1.35	1.34	1.32	1.32
EUR/USD	1.07	1.09	1.10	1.10	1.10
GBP/USD	1.21	1.22	1.23	1.23	1.23
USD/CHF	0.92	0.92	0.91	0.91	0.91
AUD/USD	0.68	0.69	0.69	0.70	0.71
NZD/USD	0.64	0.65	0.66	0.67	0.69
USD/JPY	131	128	127	127	126
USD/MYR	4.40	4.38	4.36	4.32	4.27
USD/SGD	1.34	1.32	1.30	1.28	1.26
USD/CNY	6.90	6.93	6.93	6.90	6.83

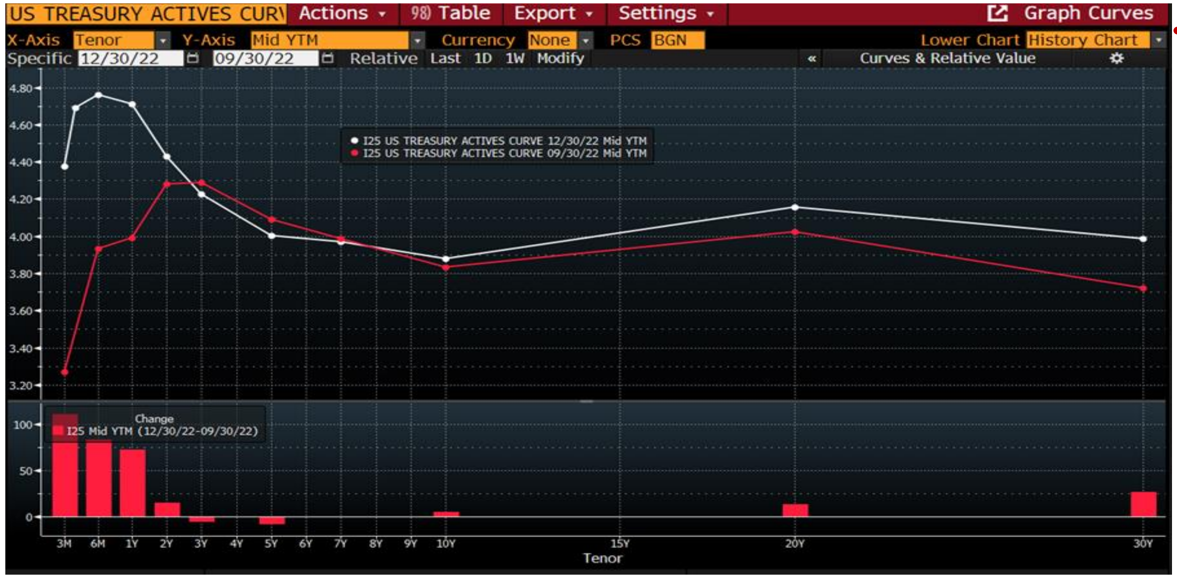
Markets Outlook – Fixed Income

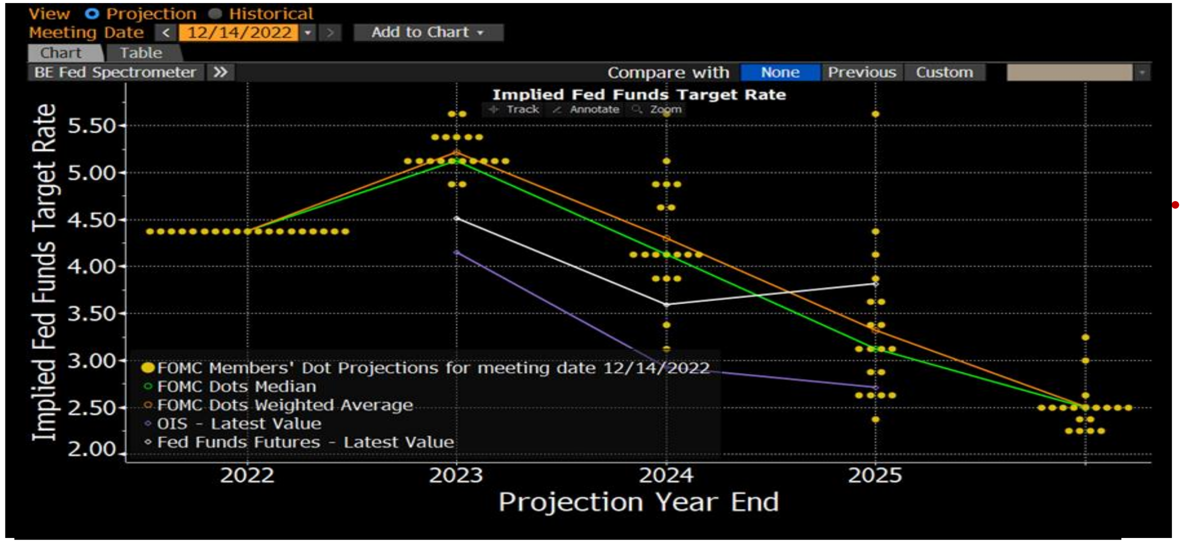
	Current	1Q2023	2Q2023	3Q2023	4Q2023
UST 10Y	3.72%	3.50-3.70%	3.40-3.60%	3.20-3.40%	3.10-3.30%
MGS10Y	3.99%	4.00-4.20%	3.90-4.10%	3.70-3.90%	3.60-3.80%
SGS 10Y	3.04%	2.90-3.10%	2.80-2.90%	2.80-2.90%	2.70-2.90%

Sovereigns – global economic slowdown or recessionary fears, ongoing QT, extended geopolitical conflicts and impact of newer COVID variants to spur safe-haven allure for bonds

UST	• Easing inflationary conditions and weaker peripheral data expected to drive yields lower • Risks to the above – strong inflation, steady manufacturing & services along with jobs data
MGS	• Tradionally lower correlation to USTs compared to SGS • Expectations for OPR hike to taper off • Support forthcoming from myriad of local investment institutions
SGS	• Correlation with USTs may take a breather considering sharp rally • Inflation factor may weigh especially when China opens its borders; prompting MAS policy tightening • AAA-rated sovereign status to provide adequate investor interest and support

US Fixed Income – Easing inflationary expectations to drive bond yields lower in 1Q2023





- **UST** -- UST's ended weaker (save for the 5Y notes) for the quarter under review, as the Fed embarked on two further consecutive rate hikes totaling 125bps in Nov and Dec. Overall benchmark yields closed mostly mixed-to-higher between -9 to +27bps across. The yield curve remained deeply inverted at -55bps. Despite the smaller incremental rise in NFP for 4Q2022, the jobs market continued to be robust with employment flirting at 3.7% (near the 50-year low of 3.5%). The Fed's dot plot reflects cumulative rate hikes of 75bps for 2023; bringing the Fed Funds Rate to between 5.00-5.25%. **Nevertheless, we expect UST10Y to range slightly lower between 3.60-3.80% for 1Q2023 in view of expectations that inflation may have reached its peak** and potential worries over the economy; as depicted by the persistent inversion of yield curve. Areas to watch include key central bank interest rate decisions which will be weighed by the constant flux between inflation and economic growth, geopolitical situation i.e. the ongoing Russia-Ukraine war and the opening up of China's borders which may be a double-edged sword. On the flipside, expect decent demand for safety of bond asset class and strong foreign institutional flows and holdings of UST's due to the continued positive interest rate differential.

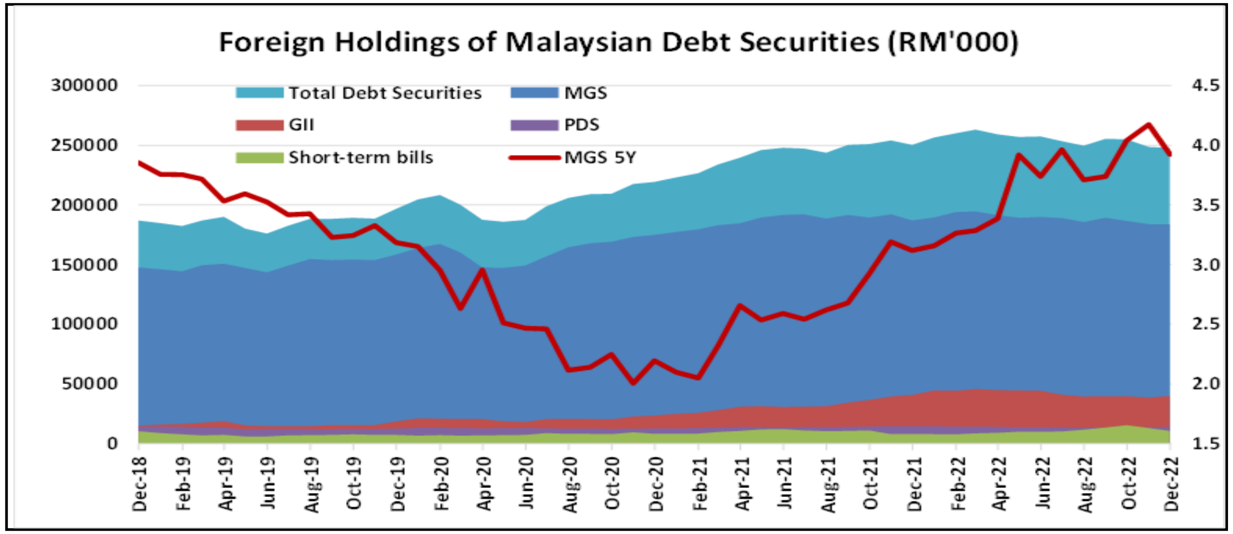
- **Corporates** – Credit especially, Investment-grade corporate bonds saw appetite improve as the severe UST bond-sell-off seen during the Oct-Nov period eased. The Bloomberg Barclays US Corporate Bond Index posted a gain of 3.6% compared to the loss of 5.1% for 3Q2022, whilst spreads have only narrowed from 158bps as end-Sep to about 130bps as at end-Dec despite tighter monetary policy. **We are mildly positive on IG in sectors such as Basic Industry, Communications, Energy and Financials; whilst extending duration to 5-10Y as they can hold-up in a mild recession,** with corporate balance sheets fortified by refinancing debts at lower rates.

Source: Bloomberg, HLBB Global Markets Research

Malaysia Fixed Income – No prominent increase seen in gross issuances for 2023

MGS/GII issuance pipeline in 2023

No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement
1	10-yr reopening of MGII (Mat on 10/32)	10	Jan	Q1	4,500	
2	15-yr Reopening of MGS (Mat on 6/38)	15	Jan	Q1	4,500	
3	5.5-yr New Issue of MGII (Mat on 07/28)	5	Jan	Q1	5,000	
4	7-yr Reopening of MGS (Mat on 04/30)	7	Feb	Q1	4,500	
5	20.5-yr New Issue of MGII (Mat on 08/43)	20	Feb	Q1	5,000	
6	3-yr Reopening of MGS (Mat on 07/26)	3	Feb	Q1	4,500	
7	15-yr Reopening of MGII 03/38	15	Feb	Q1	5,000	
8	10-yr Reopening of MGS 07/32	10	Mar	Q1	4,500	
9	7-yr Reopening of MGII 09/30	7	Mar	Q1	4,500	
10	30-yr New Issue of MGS 03/53	30	Mar	Q1	5,000	
11	10-yr Reopening of MGII (Mat on 10/32)	10	Apr	Q2	4,500	
12	5-yr New Issue of MGS (Mat on 04/28)	5	Apr	Q2	5,000	
13	30-yr Reopening of MGII 05/52	30	Apr	Q2	4,500	
14	7-yr Reopening of MGS (Mat on 04/30)	7	May	Q2	4,500	
15	20-yr Reopening of MGII (Mat on 08/43)	20	May	Q2	5,000	
16	15-yr Reopening of MGS (Mat on 06/38)	15	May	Q2	4,500	
17	3-yr Reopening of MGII 09/26	3	Jun	Q2	4,500	
18	20-yr Reopening of MGS 10/42	20	Jun	Q2	4,500	
19	5-yr Reopening of MGII 07/28	5	Jun	Q2	5,000	
20	10-yr Reopening of MGS 11/33	10	Jul	Q2	4,500	
21	7-yr Reopening of MGII (Mat on 07/30)	7	Jul	Q3	4,500	
22	3-yr Reopening of MGS (Mat on 07/26)	3	Jul	Q3	4,500	
23	30-yr Reopening of MGII 05/52	30	Aug	Q3	4,500	
24	5-yr Reopening of MGS 04/28	5	Aug	Q3	5,000	
25	20-yr Reopening of MGII 08/43	20	Aug	Q3	5,000	
26	15-yr Reopening of MGS 06/38	15	Aug	Q3	4,500	
27	3-yr Reopening of MGII 09/26	3	Sep	Q3	4,500	
28	30-yr Reopening of MGS (Mat on 03/53)	30	Sep	Q3	5,000	
29	5-yr Reopening of MGII (Mat on 07/28)	5	Sep	Q3	5,000	
30	20-yr Reopening of MGS 10/42	20	Oct	Q4	4,500	
31	10-yr Reopening of MGII (Mat on 08/33)	10	Oct	Q4	4,500	
32	7-yr Reopening of MGS (Mat on 04/30)	7	Oct	Q4	5,000	
33	30-yr Reopening of MGII 05/52	30	Nov	Q4	4,500	
34	5-yr Reopening of MGS 04/28	5	Nov	Q4	5,000	
35	7-yr Reopening of MGII (Mat on 09/30)	7	Nov	Q4	4,500	
36	3-yr Reopening of GII (Mat on 09/26)	3	Dec	Q4	4,000	
37	10-yr Reopening of MGS 11/33	10	Dec	Q4	4,000	
	Gross MGS/GII supply in 2022				172,000	TBA

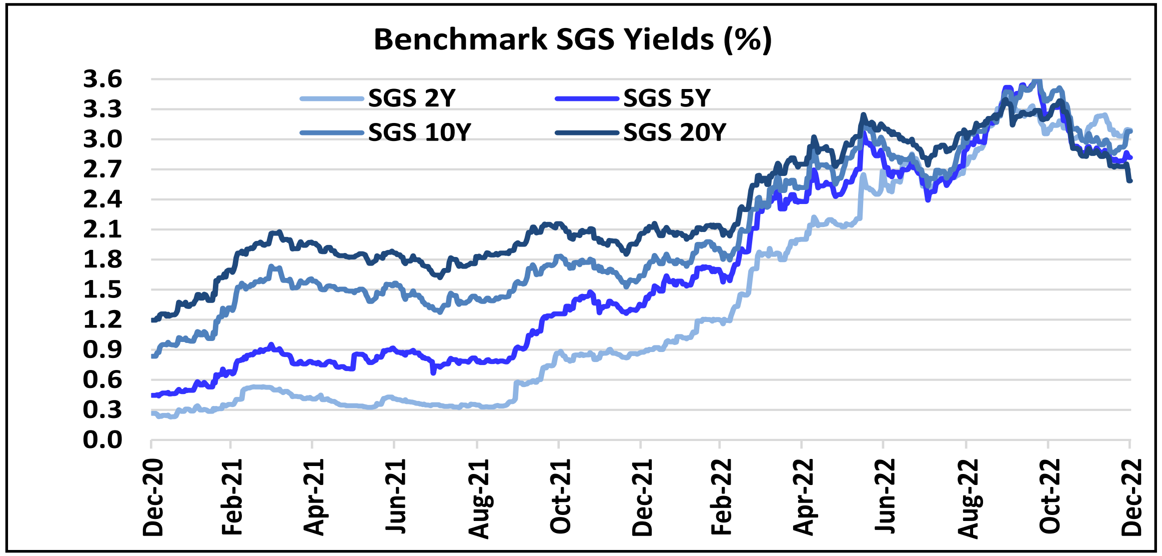


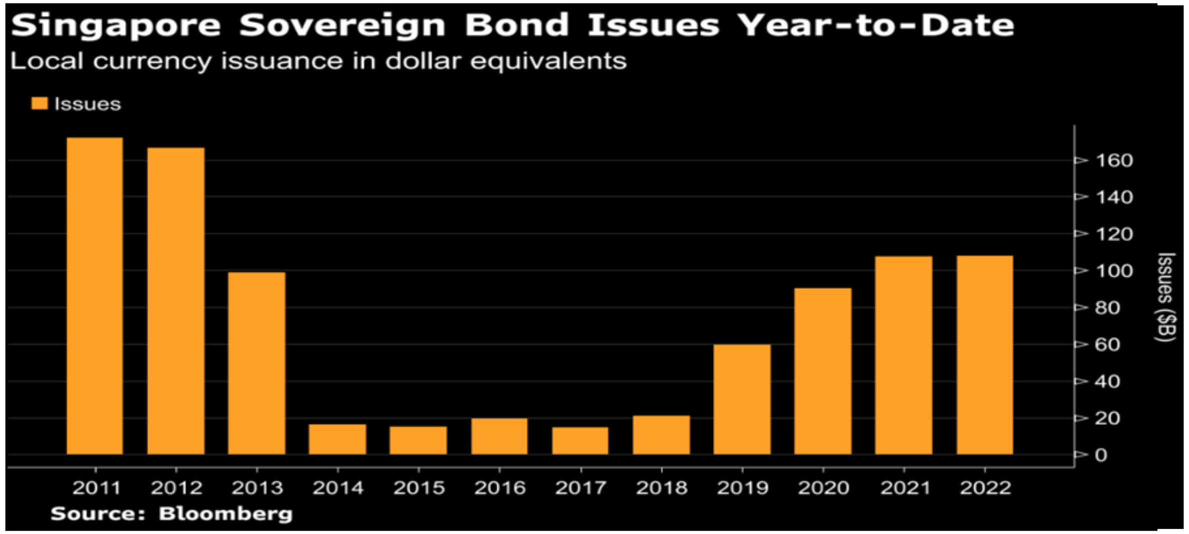
Source: Bloomberg, BNM, HLBB Global Markets Research

- **Government Bonds** –Both MGS and GII rallied q/q as overall benchmark yields declined between 4-53bps with the former seeing larger deviation. Yields declined as investors confidence in the new government's ability to maneuver both fiscal and monetary policies. Easing inflationary expectations in US and muted supply concerns going forward also lent a bid. Foreign holdings of overall MYR bonds fell by RM7.3b to RM247.6b as at end-Nov 2022. Nevertheless, participation was decent for government auctions in 4Q2022 with bidding metrics circa ~2.06x for all 8 auctions despite lower total issuances of RM32.0b (3Q2022: RM35.5b). Potential easing inflationary conditions coupled with strong anticipated support from diversified investment institutions may benefit both primary participation and also secondary market-making activities. We expect another measured OPR rate hike of 25bps in 1Q2023; bringing the OPR level to 3.00%. Meanwhile, expect positive sentiment due to diminishing political risk premium and projected reduction of fiscal deficit from 5.8% in 2022 to 5.5% in 2023; which could contain gross issuances next year. **Our 10Y MGS yield target range for 1Q2023 is revised lower to 4.00-4.20%.**

- **Corporate Bonds/Sukuk** --Corporate bonds/sukuk issuances (including GG-bonds) doubled to RM63.7b in 4Q2022 (3Q2022: RM31.1b). However, we project gross issuances of ~RM30-35b in 1Q2023 based on lower total gross issuances of between RM110-130b for 2023. Demand for primary issuance in 1Q is expected to be comparable to secondary market as due to attractive yield spreads. We favour the 5-7Y GG (25-28 bps), 5-7Y AAA (48-53bps) and 20Y AAA (60bps) and 20Y AA-rated bonds (100bps) in utilities (i.e. sewerage, telco), logistics, energy and highway/toll sectors.

Singapore Fixed Income – Neutral on SGS, short duration preferred for corporates





- **SGS** – SGS outperformed q/q, as overall benchmark yields ended lower between 28-77bps; overshadowing positive movements seen in MYR govvies and USTs. The Bloomberg Global Singapore Bond Total Return Index gained 5.7% for 4Q2022 (3Q2022: -2.8%). As the SGS bond yield curve was inverted extending out until 5-year tenure, the republic's Issuance of Singapore Savings Bond (SSB) has been adjusted lower with average yield of 2.97% on the 10Y bond serving as the ceiling. Despite visible signs that inflation has peaked in US, there are still possible headwinds that could alter such a path leading to Fed frontloading the hikes in the earlier meeting within 1Q2023, pushing the US economy into recession. 2022 sovereign bond issuances totaled $S108.1b; up 0.7% compared to 2021. **Overall, we continue to adopt a neutral bias for SGS in 1Q2023** as the recent rally may run out of steam whilst MAS may resort to tightening measures via its policy band in March in the event inflation strongly persists

- **Corporate** – Total issuance was commendable at ~S$22b for 2022; just off the highest ~S$25b seen in 2021 with financials and statutory bodies making up almost 20% of issuances. No letup in demand seen for credits by investors. However, the slowdown in growth could cause Singapore bond issuers to face deterioration in earnings; hence our preference to stay short on duration. We note recent non-calls of six (6) SGD perpetuals. We like bonds issued by large govt-linked entities and also SGD bank issuances like AT1 and also Tier 2s which are backed by sound capital within the shorter 2-5Y sectors and would be risk-averse to entities in the construction and hospitality sector for now.

Source: Bloomberg, HLBB Global Markets Research

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