Quarterly Market Outlook 1Q2022

Global Markets

January 2022

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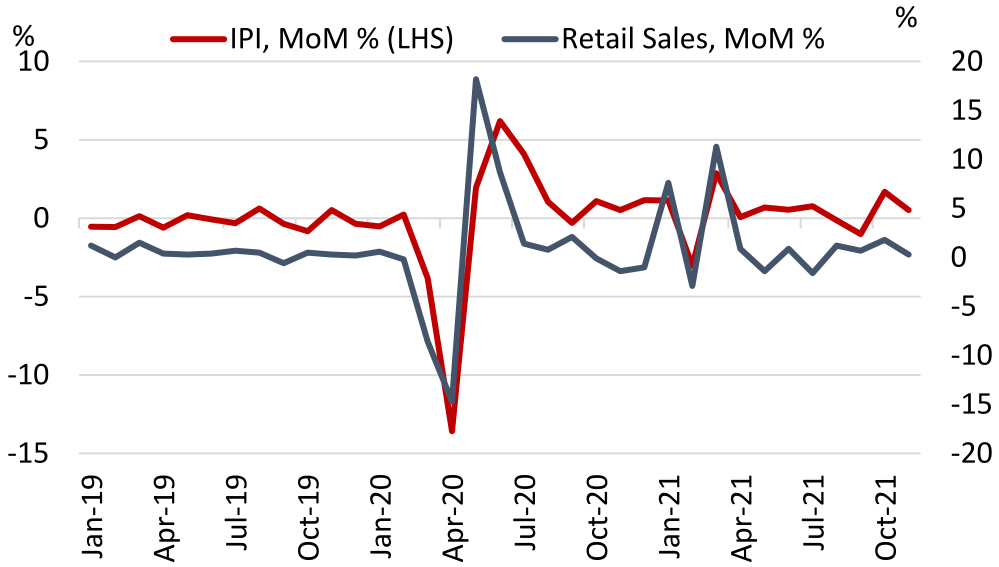
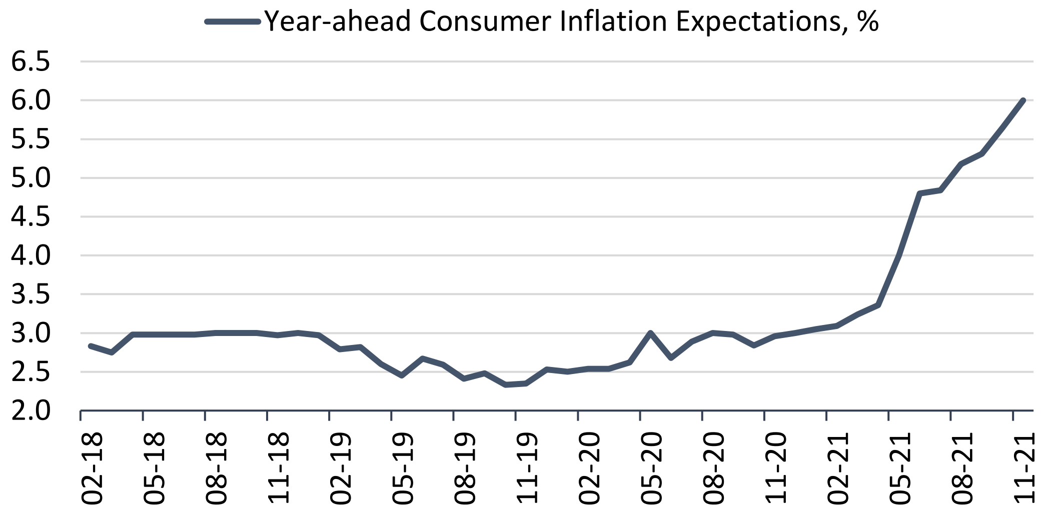
Global Central Banks Policy Rates Outlook

	Current	1Q22	2Q22	3Q22	4Q22	Remarks
United States Federal Reserve *Fed Funds Rate*	**0-0.25**	0-0.25	0.25-0.50	0.50-0.75	0.75-1.00	**Three Hikes**
Eurozone European Central Bank *Deposit Rate*	**-0.50**	-0.50	-0.50	-0.50	-0.50	**No Change**
United Kingdom Bank of England *Bank Rate*	**0.25**	0.25	0.50	0.50	0.75	**Two Hikes**
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	0.10	0.10	0.25	**One Hike**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**0.75**	1.00	1.25	1.25	1.25	**Two Hikes**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**1.75**	1.75	1.75	1.75	2.00	**One Hike**
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	3.50	3.50	3.50	**No Change**

Source: Bloomberg, Global Markets Research

US – Fed's policy normalization remains under spotlight in 1Q



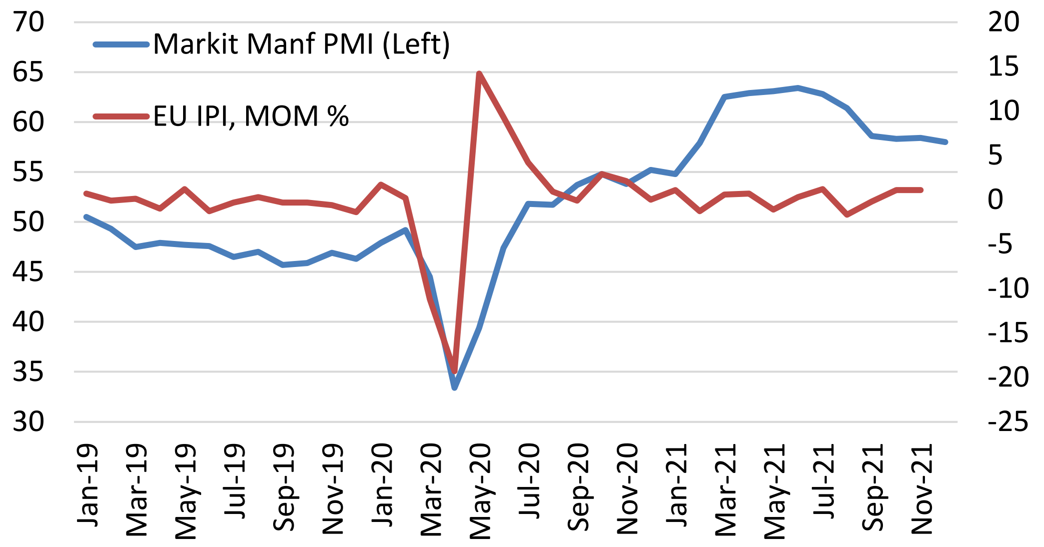


Forecasts	2020	2021	2022f
GDP (%)	-3.4	5.5	4.0
Core PCE Inflation (%)	1.4	4.4	2.7
Fed Funds Rate (%)	0-0.25	0-0.25	0.75-1.00
Dollar Index (End of period)	89.94	95.67	96.30

Source: Bloomberg, HLBB Global Markets Research

- US economic growth retained momentum towards the end of 2021; some softening is expected in 1Q22, reflecting fading festivity-related demand and spread of Omicron variant.
- Strengthening labour market conditions to support overall consumer spending; the consistent trend in durable goods suggests that manufacturing sector will hold up well.
- Fed is expected to conclude QE tapering in 1Q22 and hike rate in 2Q22.

Eurozone – Easing growth momentum

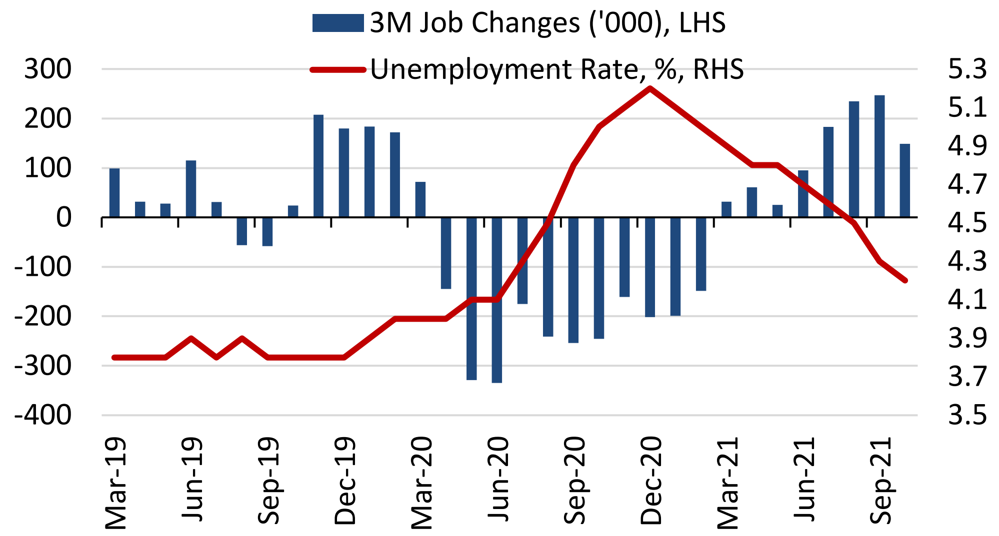


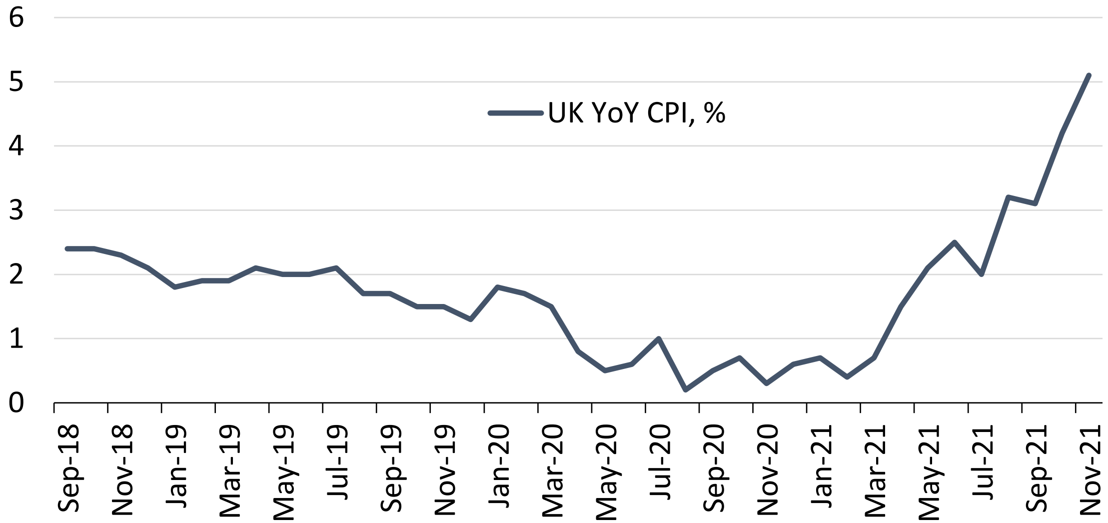
Forecasts	2020	2021	2022
GDP (%)	-6.5	5.0	4.2
Inflation (%)	0.3	2.6	3.2
Deposit Facility Rate (%)	-0.5	-0.5	-0.5
EUR/USD (End of period)	1.2216	1.1370	1.1300

- Slower growth expected, to be supported by strong manufacturing order book and regional/domestic services activity such as tourism, barring from Omicron-induced lockdowns.
- Hiring expectations climbed further in November, falling unemployment positive for household spending.
- ECB is expected to keep the deposit rate at -0.5% and end PEPP from end-March onwards.

**ECB's Forecast*
Source: Bloomberg, HLBB Global Markets Research

UK – Potential setback in BOE



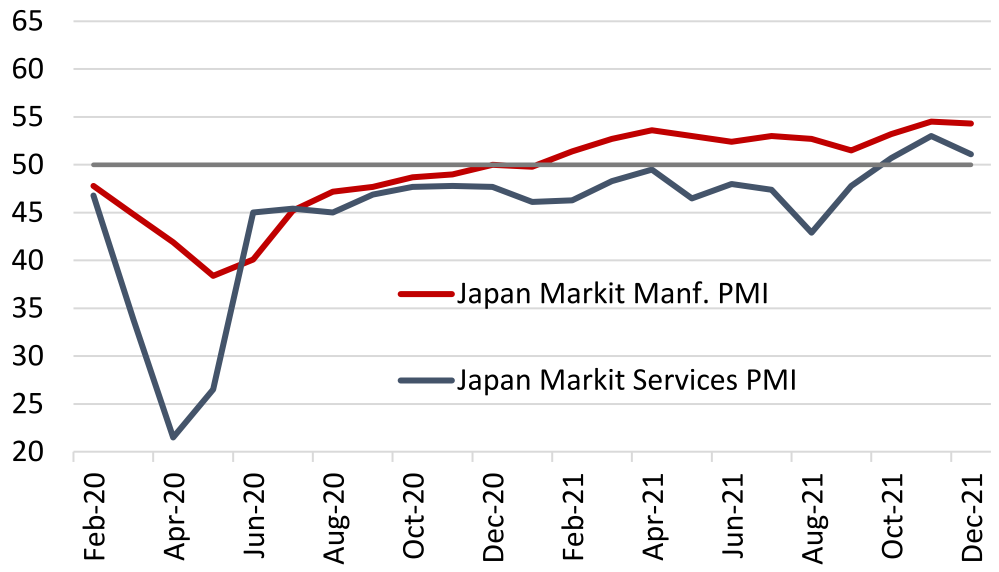


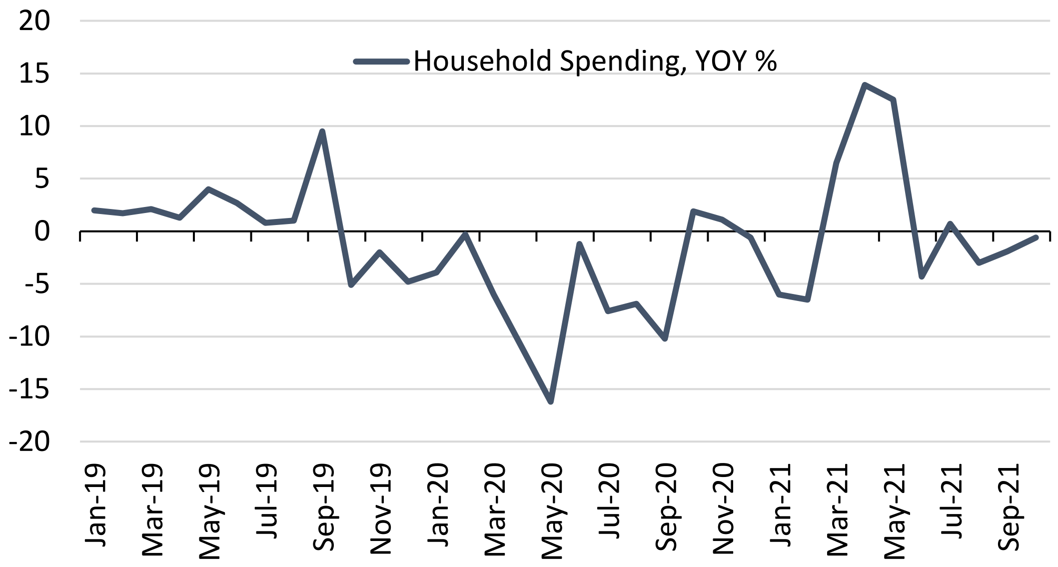
Forecasts	2020	2021	2022
GDP (%)	-9.4	7.0	5.0
Inflation (%)	0.9	4.3	3.5
Bank Rate (%)	0.1	0.25	0.75
GBP/USD (End of Period)	1.3670	1.3532	1.3600

**BOE's Forecast*
Source: Bloomberg, HLBB Global Markets Research

- Slower growth momentum heading into the first quarter of 2022 as 2021 reopening effect faded.
- Spending may be supported by further reduction in unemployment, but weighed by higher inflation.
- BOE may pause in 1Q 2022 after December hike, set back by surging infections

Japan – Reopening effect to peak soon



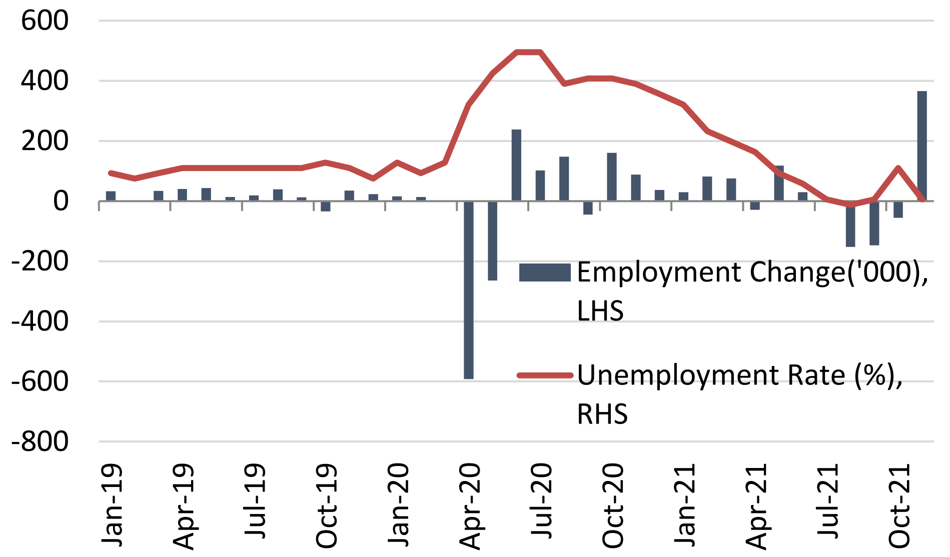


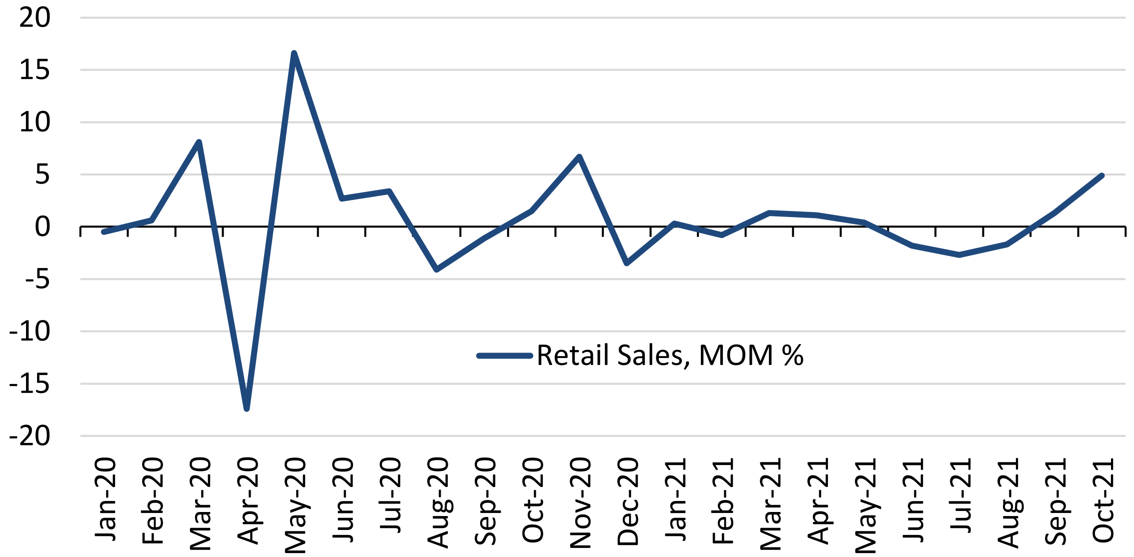
Forecasts	2020	2021	2022
GDP (%)	-4.6	3.4	2.9
Core Inflation (%)	-0.4	0.0	0.9
Policy Balance Rate	-0.1	-0.1	-0.1
USD/JPY	103.25	115.08	114.00

- Weaker economic momentum in Japan’s key trading partner may weigh on Japan’s trade sector and thus
- Domestically, growth may peak soon as the reopening effect fades.
- BOJ to maintain its ultraloose monetary policy, with no change to its policy balance rate.

**BOJ’s Forecast*
Source: Bloomberg, HLBB Global Markets Research

Australia – Reopening effect kicking in 1Q



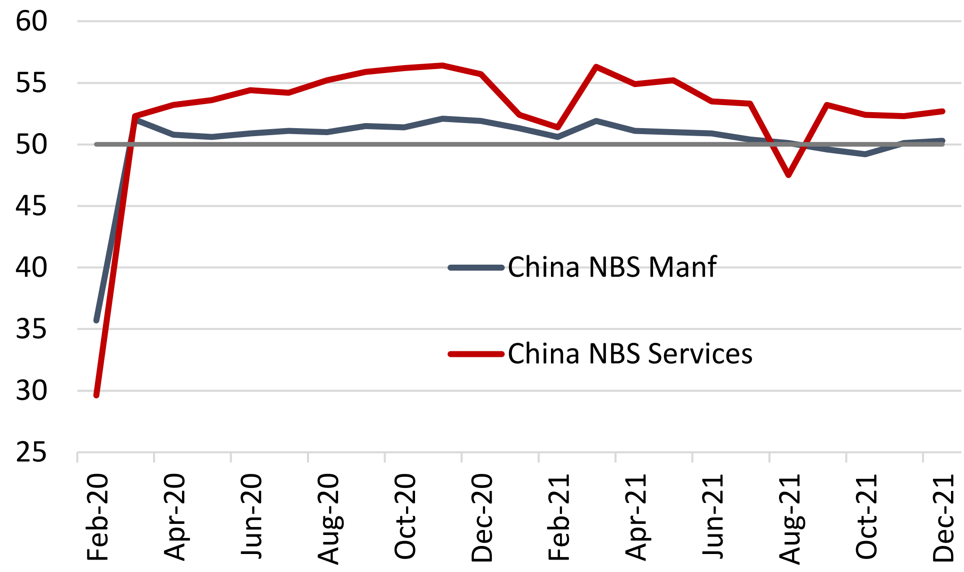


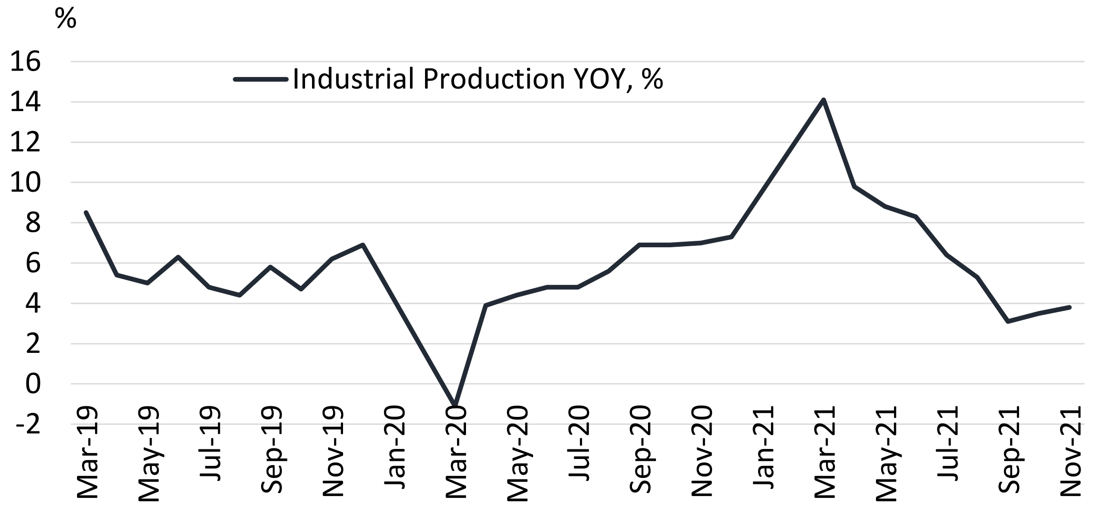
Forecasts	2020	2021	2022
GDP (%)	-2.2	4.8	5.0
Inflation (%)	0.9	2.5	1.8
Cash Rate (%)	0.10	0.10	0.25
AUD/USD	0.7694	0.7263	0.7500

**RBA's Forecast*
Source: Bloomberg, HLBB Global Markets Research

- Expect growth momentum to accelerate as the reopening effect kicks in, especially in Victoria and NSW.
- Weaker China's growth may weigh on trade sector.
- RBA to end QE in mid-February but will likely be cautious with its rate hike path

China- Government policy to cushion easing growth



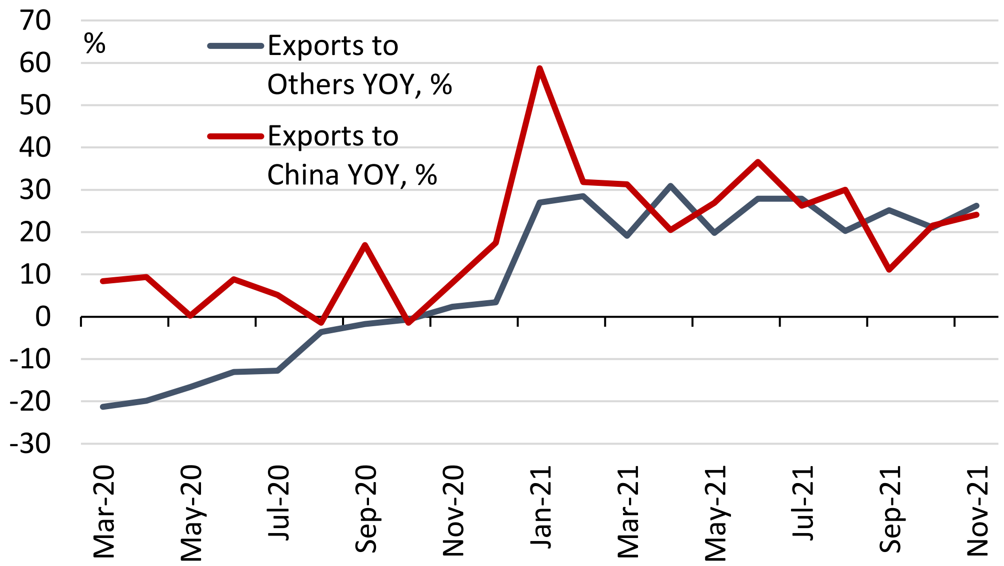


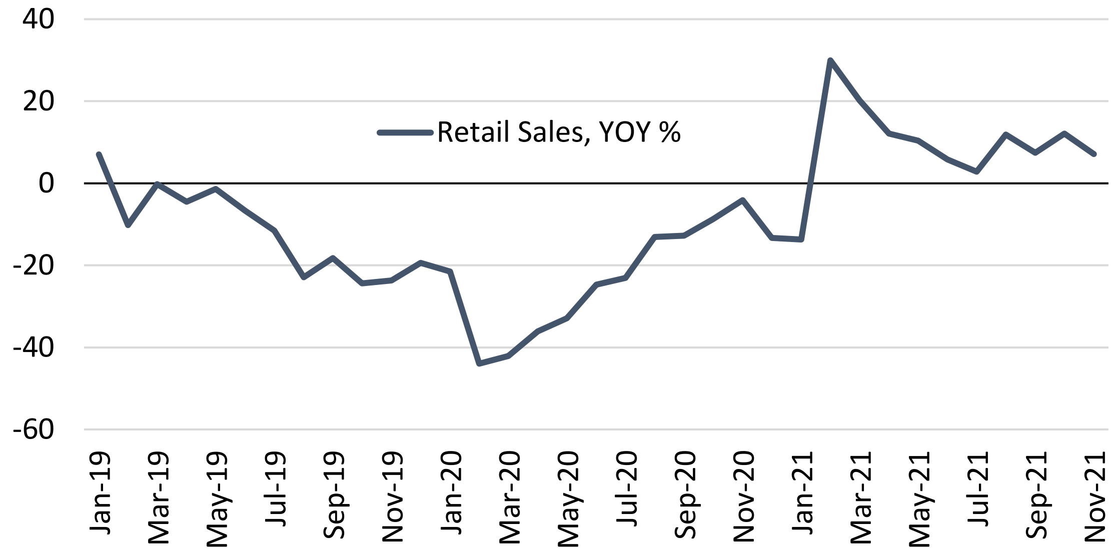
Forecasts	2020	2021	2022
GDP (%)	2.2	8.0	5.2
Inflation (%)	2.5	1.0	2.2
1Y LPR (%)	3.85	3.80	3.80
USD/CNY	6.5272	6.3561	6.3600

Source: Bloomberg, HLBB Global Markets Research

- China's latest indicators confirm slowing momentum in 2022.
- But this may be offset by the government's support; government shifting from aggressive reform to preaching stability may also drive growth.
- Central banks biased towards dovishness.
- Uncertainties surrounding China's zero Covid strategy posts downside risk.

Hong Kong – Spending to be supported by better labour conditions



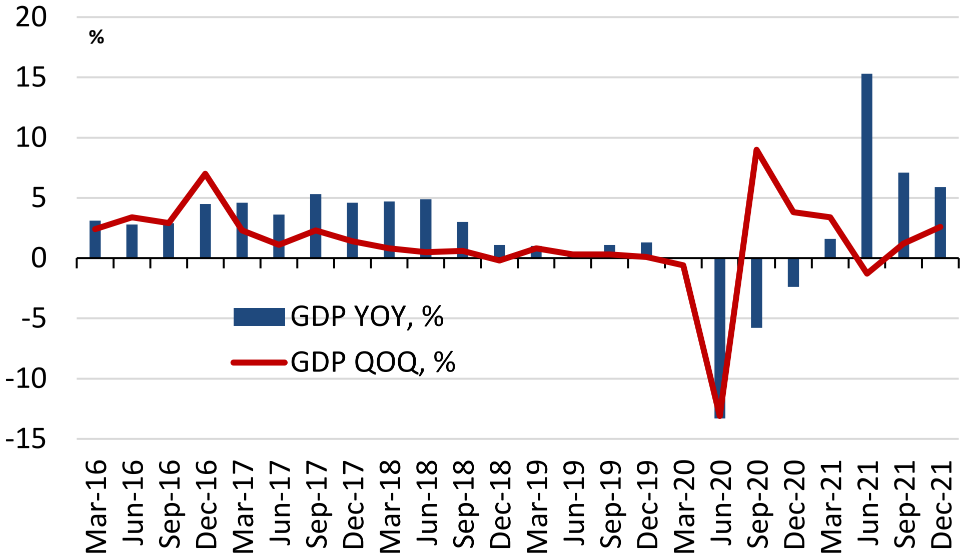


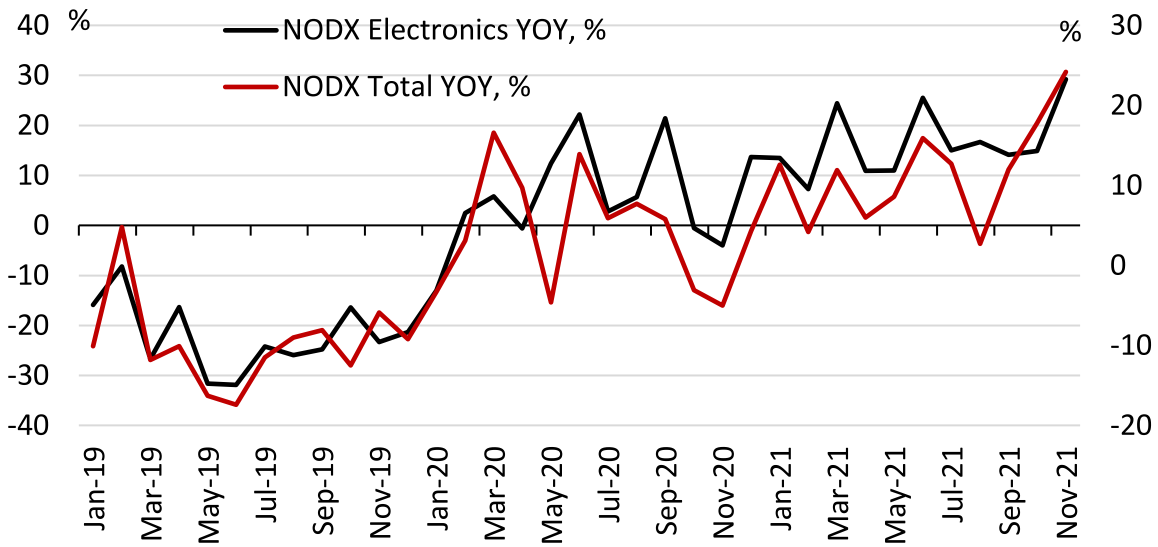
Forecasts	2020	2021	2022
GDP (%)	-6.1	6.5	3.0
Inflation (%)	0.3	1.6	2.0
Base Rate	0.50	0.50	1.25
USD/HKD	7.7531	7.7966	7.7800

**HK Government's Forecast*
*** Bloomberg's Consensus Forecast*
Source: Bloomberg, HLBB Global Markets Research

- Household spending supported by further improvement in labour market condition.
- Government expected to pare back on its fiscal stimulus in 2022.
- Slowdown in China does not bode well for Hong Kong's external trade prospects.

Singapore – Economy to remain resilient in 2022



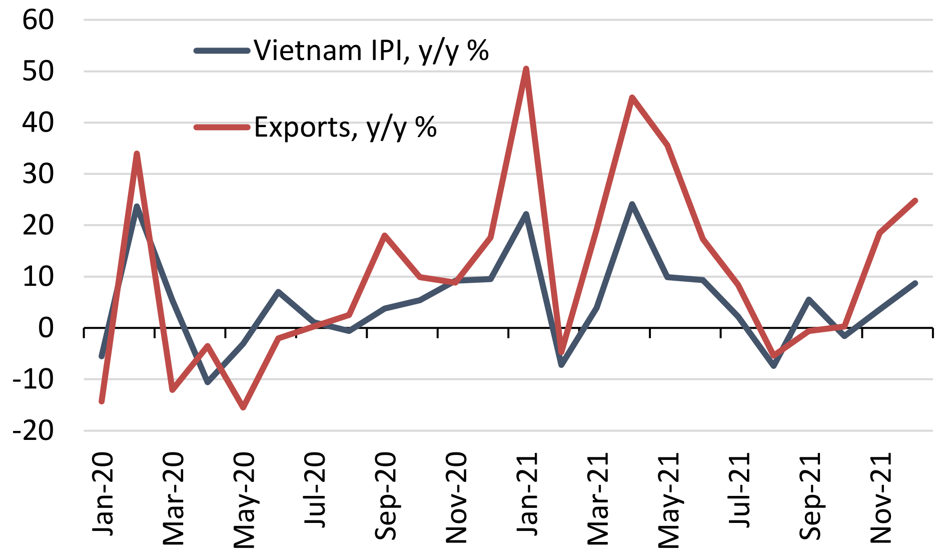


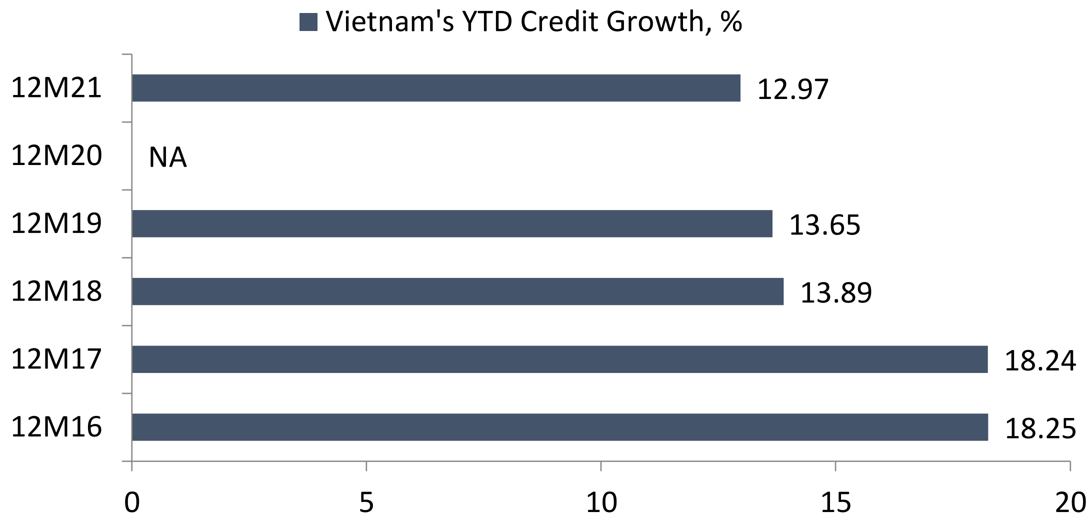
Forecasts	2020	2021	2022
GDP (%)	-5.4	7.5	4.1
Inflation (%)	-0.2	2.0	1.4
3m SIBOR (%)	0.41	0.44	0.72
USD/SGD	1.3221	1.3490	1.3300

Source: Bloomberg, HLBB Global Markets Research

- Growth may moderate into 1Q, but remained buoyed by solid domestic demand, firm manufacturing outlook. Rollout of booster shots offers extra confidence.
- Slowdown in China may be a risk to trade sector.
- MAS may move to SGD appreciation if inflation turns higher.

Vietnam – Flexible Covid strategy a positive for growth



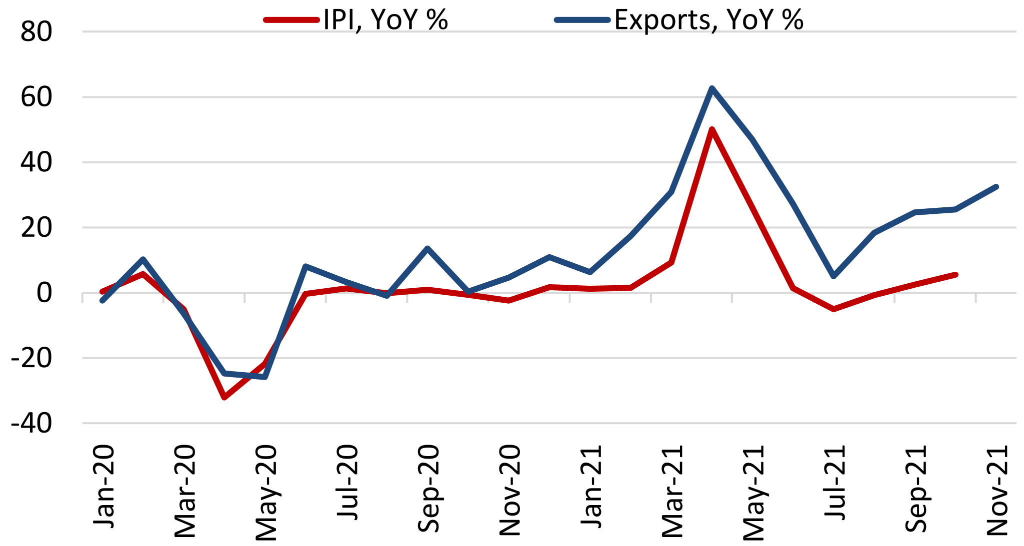


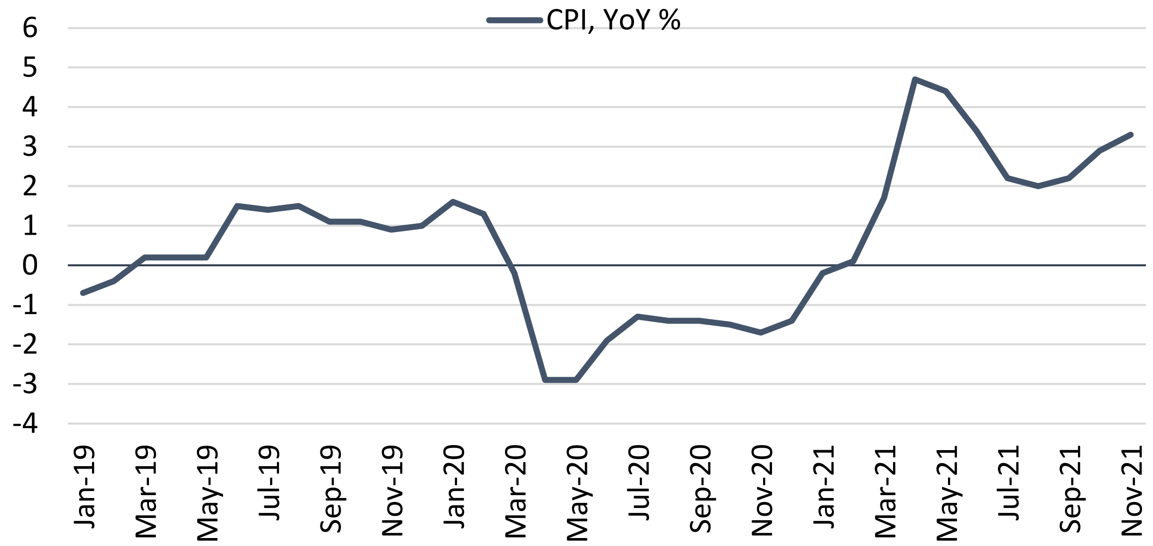
Forecasts	2020	2021	2022
GDP (%)	2.9	2.3	7.2
Inflation (%)	3.2	2.1	3.5
SBV Refinancing Rate (%)	4.0	4.0	4.0
USD/VND	23,098	22826	22500

Source: Bloomberg, HLBB Global Markets Research

- Government's more flexible pandemic management is expected to open up more upside for consumer spending, but services industry remains affected by weak tourism activity.
- Manufacturing sector supported by still solid, albeit moderating global demand.
- SBV may not raise rate, taking more targeted approach to curb credit growth instead.

Malaysia – Further recovery in 2022





Forecasts	2020	2021	2022
GDP (%)	-5.6	3.1	6.1
Inflation (%)	-1.1	2.5	1.8
OPR (%)	1.75	1.75	2.00
USD/MYR	4.0205	4.17	4.10

Source: Bloomberg, HLBB Global Markets Research

- Recovery continues to pick up steam following the economic reopening in October.
- Uncertainties surrounding Omicron outbreak suggest that hefty rebound is unlikely.
- BNM to maintain OPR at 1.75% in 1H2022; expect a 25bps potential hike in 2H2022.

Markets Outlook – FX

FX –Policy Normalization Expectations Remain the Key Influence

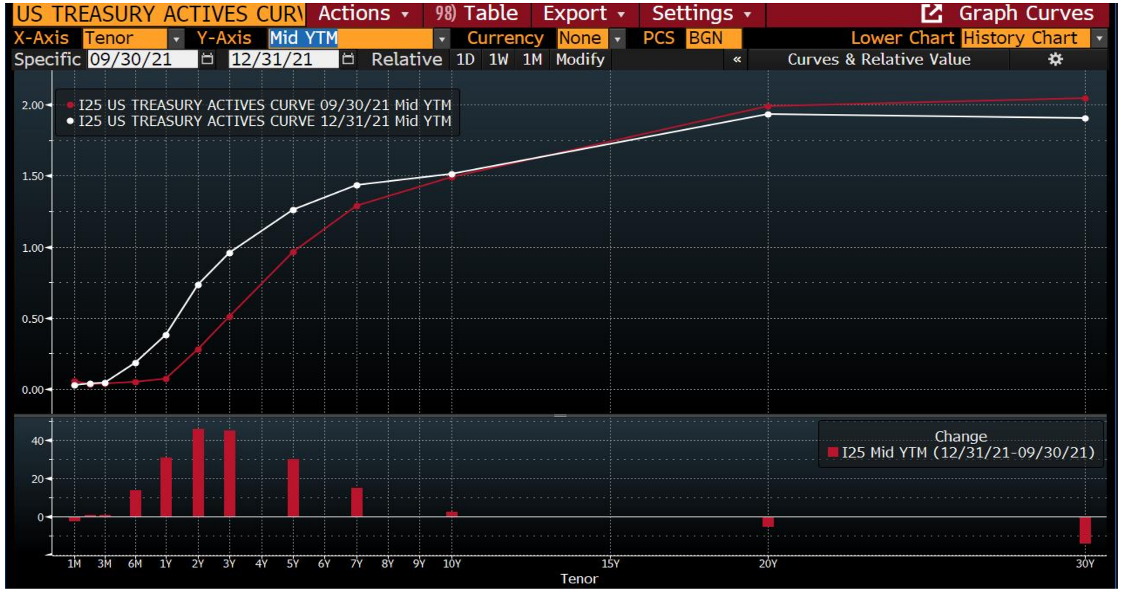
	12-month Outlook
+	**USD:** Fed rate hike expectations to drive dollar strength in 1H2022 before some repositioning in 2H2022 **MYR**: Recovery story but gains likely capped by possible election risks **SGD**: Supported by expectations for MAS gradual appreciation policy
=	**EUR**: To weaken somewhat from dollar strength. **CNY**: Capped by dovish PBoC and slowdown concerns aggravated by China's continuous zero-Covid strategy
?	**AUD, NZD, CAD, GBP**: Susceptible to big swings/ disappointment, given aggressive market pricing for rate hikes

FX Forecasts

	31-Dec	Q1-22	Q2-22	Q3-22	Q4-22
DXY	95.67	96.15	96.40	96.30	96.30
USD/CAD	1.26	1.28	1.29	1.27	1.25
EUR/USD	1.14	1.13	1.12	1.12	1.13
GBP/USD	1.35	1.34	1.33	1.35	1.36
AUD/USD	0.73	0.72	0.72	0.74	0.75
NZD/USD	0.68	0.68	0.67	0.68	0.68
USD/JPY	115	115	116	115	114
USD/MYR	4.17	4.17	4.15	4.15	4.10
USD/SGD	1.35	1.35	1.34	1.34	1.33
USD/CNY	6.36	6.37	6.39	6.38	6.36

Source: Bloomberg, HLBB Global Markets Research

US Fixed Income – hawkish dot plot amid elevated inflation



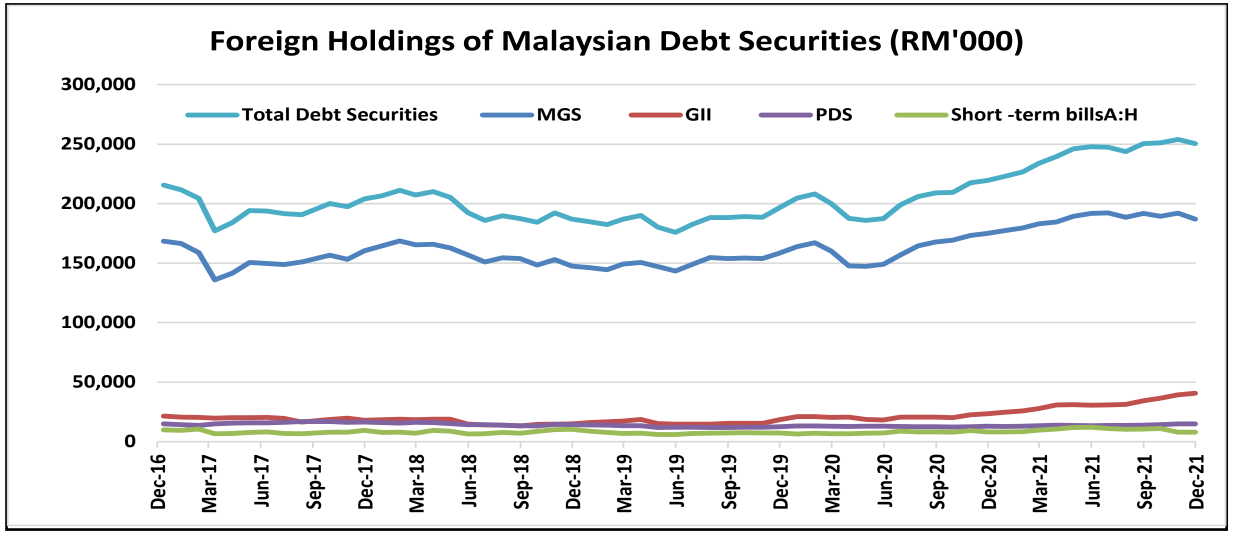
- **UST** -- UST's closing levels were weak for the quarter under review, reflecting overwhelming expectations that inflation plus QE exercise had the upper hand over the Omicron factor. The curve ended sharply flatter as overall benchmark yields spiked between 3-45bps across, save for the long bond whilst the front-ends and belly were more pressured. The UST 2Y yield spiked 45bps to 0.73% whilst the much-watched UST 10Y settled 3bps up at 1.51%. The latest asset-tapering exercise involves the winding-down of bond purchases from $15b in November to $30b per month in December, January, February and finally ending with $15b in March from the original $120b monthly purchases of both USTs and MBS. Elevated inflation, strong jobs market and decent economic growth sets the stage for a higher interest rate regime as laid out by the Fed Dot plot and traders pricing expectations. **Expect UST10Y to range higher between 1.70-1.90% for 1Q2022** due to the Fed's ongoing taper tantrum and tighter monetary policy but the Omicron variant and foreign institutional support from China, Japan and Europe may provide support going forward.

- **Corporates** – Investment-grade corporate bonds were not spared either as spreads widened q/q but support was evident in view of decent yield-carry requirements. The Bloomberg Barclays US Corporate Bond Index was literally unchanged with a meagre 0.2% returns for 4Q2021 (3Q2021: parrish) whilst spreads have widened only slightly from 84bps in Sep to about 93bps currently due to influence from rising USTs. Issuances are expected to retrace by 10% to ~$300b for 1Q2022 as corporates mull issuances in a rising interest rate environment (4Q2021: $330b, 3Q2021: $352b). We are mildly positive on technology, communications, namely cable satellite, media entertainment along with transportation sectors within a shorter duration i.e. 5Y sector.

Malaysia Fixed Income – Higher gross issuances and rising global yields a challenge

MGS/GII issuance pipeline in 2022

No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement X
1	5-yr reopening of MGS (Mat on 11/26)	5	Jan	Q1	5,000	
2	10.5-yr new Issue of MGS (Mat on 7/32)	10	Jan	Q1	4,500	
3	15-yr Reopening of GII (Mat on 07/36)	15	Jan	Q1	4,500	
4	5-yr Reopening of GII (Mat on 09/27)	5	Feb	Q1	4,500	
5	30-yr Reopening of MGS (Mat on 06/50)	30	Feb	Q1	4,500	X
6	7-yr Reopening of GII (Mat on 10/28)	7	Feb	Q1	4,500	
7	15-yr Reopening of MGS 04/37	15	Mar	Q1	4,500	
8	20-yr Reopening of MGII 09/41	20	Mar	Q1	4,500	X
9	3-yr Reopening of MGS 03/25	3	Mar	Q1	5,000	
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	

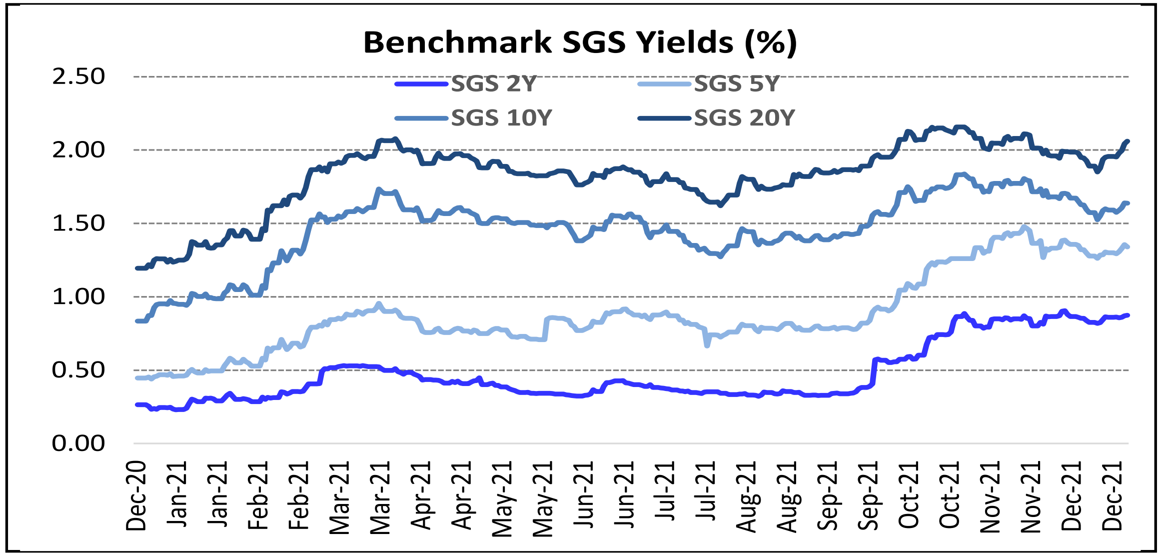


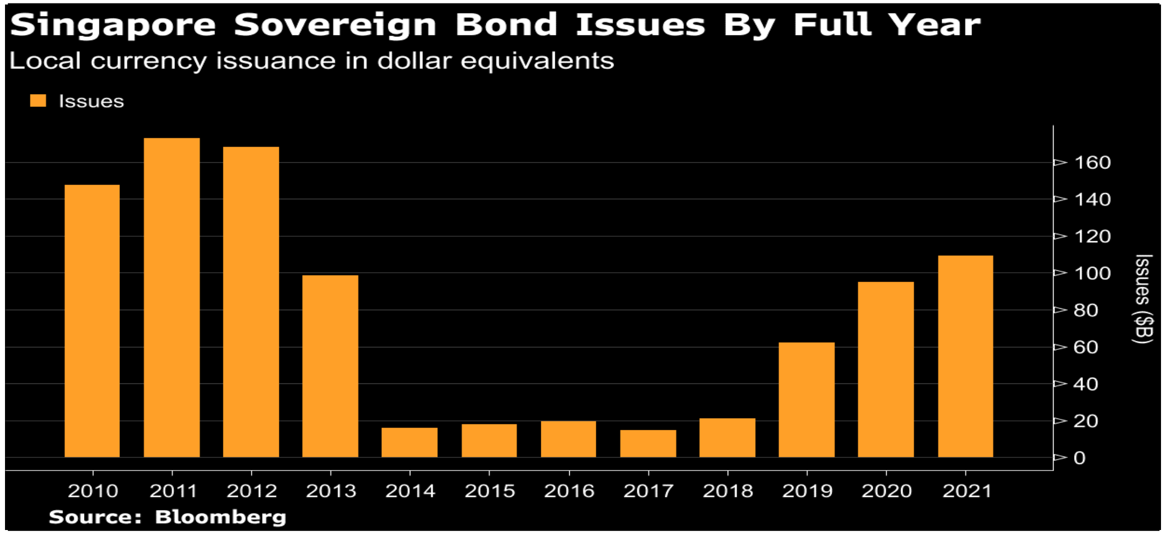
Source: HLBB Global Markets Research

- **Government Bonds** –Overall benchmark yields mostly spiked between 3-37bps (save for the longer-ends) with the front-ends mostly pressured. We expect local govvies to be pressured in line with rising global bond yields. Foreign holdings of overall MYR bonds rose by RM1.8b from RM225.9b in Sep 2021 before ending at RM227.7b as at end-Nov 2021. Despite our higher projected gross supply of government bonds projected @ RM167.0b, expect decent support for primary tenders from well-diversified base, consisting of investment institutions and inter-bank participants. The near-completion of earlier withdrawal schemes from EPF should augur well for both the primary and secondary market in 2022. We maintain our view for BNM to leave OPR unchanged in 1H2022 with a potential 25bps hike in 2H2022. Whilst the short-end may have priced in earlier rate adjustments and seem steadier, we opine that the local govvies curve may steepen. **Our 10Y MGS yield target is now revised higher to 3.70-90% levels.**

- **Corporate Bonds/Sukuk** --Corporate bonds/sukuk issuances (including GG-bonds) declined to RM26.7b (3Q2021: RM31.1b) and ended RM116b i.e. slightly higher than our projected gross issuances of between RM90-110b for 2021. Demand was robust but yields ended mostly mixed-to-higher q/q. As for corporate bond/Sukuk issuances, we expect potential gross issuances of RM100-120b for 2021 with ~30% to be issued earlier in 1Q2022. We favour the 5-10Y GG bonds (25-30bps), 7-10Y AAA bonds (45-48bps) and also 7-10Y AA bonds (58-76bps) within sectors comprising telco, tolling/highway and logistics sector (spreads in parentheses).

Singapore Fixed Income – Neutral on SGS, positive on IG corporates





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 6-30bps with the front-end and belly underperforming the most. The Bloomberg Global Singapore Bond Total Index lost a meagre 0.87% for 4Q21 (3Q2021: parrish). Meanwhile, rising UST and global bond yields due to QE tapering arising from heightened US inflationary pressures may dent SGS despite the republic's AAA-rated status. MAS has issued ~S$149b of bonds; up 15% to-date compared to prior year and since 2013. We expect no change in expectations to the SGD's NEER, which is expected to inch higher above mid-point of the existing band based on favorable domestic economy and firmer inflation. The government announced plans to borrow up to S$90b in the next 15 years via SINGA green bonds for infrastructure projects; with the 1st maiden issuance of S$2.6b issued at a yield of 1.875%. Overall, we are neutral in 1Q2022 as although SGS tend to track USTs rather closely; the well-spaced out auctions coupled with a mini-auction expected in March may ensure healthy supply-demand metrics.

- **Corporate** –Singapore's corporates are expected to take advantage of current tight credit spreads and the possible "end of low interest rate environment to issue unrated perpetual bonds. Expect bond pipeline supply in 2022 to rise by 25% to ~S$31b against corporate bond maturities of SGD~10b. Demand for credits by affluent Singaporean investors may sustain yields despite rising bond yields in the US. We are positive on semi quasi and corporate issuances by conglomerates like SIA, HDB, Keppel Corp, Temasek, Singtel and Frasers property group on shorter duration ~5Y sectors. We view the SGD corporates as an avenue to seek quality assets with a steady stream of positive cashflows.

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