



# CIO Weekly

7 June 2022

## Key Points

- **Equities:** Gold's upside underpinned by peaking dollar and negative real rates; Gold miners to outperform general equities
- **FX:** DXY yet to break out of 101.3-102.7 range; EUR in consolidation mode ahead of ECB meeting
- **Rates:** Upcoming ECB policy meeting to drive DM rates higher; USTs to outperform EGBs as Fed is more advance in its tightening cycle
- **Thematics:** US office S-REITs' yield spread remains attractive, despite near-term share price overhang from macroeconomic uncertainty
- **The Week Ahead:** Keep a lookout for US Change in Initial Jobless Claims; China Inflation Numbers

## GLOBAL CROSS ASSETS

Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	32,915.78	0.0%	-9.4%
S&P 500	4,121.43	0.3%	-13.5%
NASDAQ	12,061.37	0.4%	-22.9%
Stoxx Europe 600	444.12	0.9%	-9.0%
DAX	14,653.81	1.3%	-7.7%
CAC 40	6,548.78	1.0%	-8.4%
FTSE 100	7,608.22	1.0%	3.0%
MSCIAXJ	686.24	1.2%	-13.1%
Nikkei 225	27,915.89	0.6%	-3.0%
SHCOMP	3,236.37	1.3%	-11.1%
Hang Seng	21,653.90	2.7%	-7.5%
MSCIEM	1,071.33	1.0%	-13.0%
UST 10-yr yield*	3.04	3.6%	153.0
JGB 10-yr yield*	0.24	3.5%	17.4
Bund 10-yr yield*	1.32	3.9%	150.1
US HY spread*	4.06	-0.5%	123.0
EM spread*	379.28	-0.9%	49.0
WTI (USD)	118.50	-0.3%	57.6%
LMEX	4,631.80	2.5%	2.9%
Gold (USD)	1,841.43	-0.5%	0.7%

Source: Bloomberg

\* Changes in basis points

## Equities: Gold upside underpinned by peaking dollar and negative real rates

Given the negative relationship between DXY and bond yields vs gold, the outlook for gold is thus underpinned by the movements in dollar and bond yields. Our gold price of USD2,200 by year end is supported by our view that:

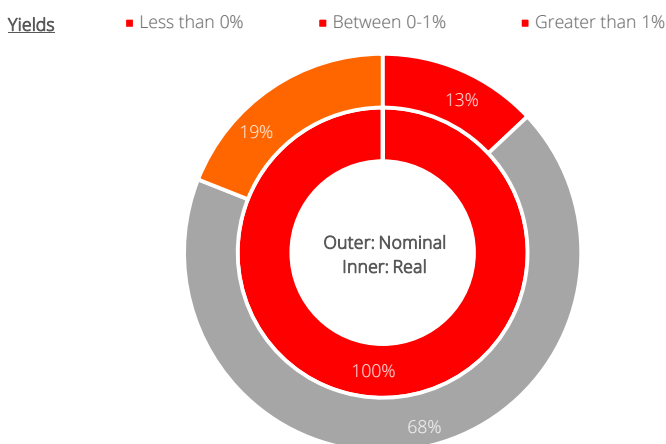
- the dollar has traded past its peak in 2Q
- real rates remain deeply in the negative territory
- the Russia-Ukraine crisis could drag, driving demand for gold as portfolio hedges

**Bond market volatility supports gold.** Gold has benefited from the increased volatility in stocks and bonds as a risk diversifier. Understandably, the fear is that once the bond market stabilised at higher yield levels, bonds could be considered more competitive and attractive as they can now earn a higher coupon on average. This could lead to a rotation towards bonds, at the expense of gold, which is a non-interest bearing asset. That being said, it is important to note that nominal yields remain historically low, and that outstanding negative yielding debt, while down sharply to 13% in nominal terms, is effectively entirely negative yielding in real terms, given that inflation has more than offset any upward movement in nominal rates. This suggests that the current environment may not trigger the same demand for bonds as has been seen with these spreads in the past. In addition, given the unprecedented level of inflation, there is a risk that the bond market volatility does not stop here.

As a leverage play on gold prices, the gold mining sector is favoured and has outperformed the S&P 500 in this rout of volatility. Miners' earnings are sufficiently well protected at gold price of USD1,800 per oz with an all-in sustaining cash cost of average USD1,200, given rising costs. We believe that with higher gold prices and strong cash flow, the hunt for growth options through mergers and acquisitions will be back in focus, thus driving the outperformance in that sector.

Joanne Goh | Strategist

Figure 1: Negative nominal yielding debt has fallen sharply, but all DM debt remain negative in real terms



Source: World Gold Council, Bloomberg, DBS

## FX: Rattled by a higher US bond yield but still in a range except JPY

Figure 2: Higher



DXY appreciated 0.3% to 102.14 but has yet to break out of its 101.3 to 102.7 range set on 24 May. CHF and JPY depreciated most by 0.9% and 0.8% respectively, from the US Treasury 10Y yield firming above 3% for the first time since 9 May. The higher yield also trimmed the initial 1.4% gain in the S&P 500 to 0.3% by the end of the session. USD/JPY finally closed above 131 on Monday (6 June), and unless the Japanese government steps up intervention threats, it might push towards the 135 high in January 2002. Although USD/CHF bounced from 0.96 to 0.97, it was still below the parity level it fell from in the later half of May. To fend off the renewed depreciation pressures, JPY and CHF will need this Friday's US Consumer Price Index inflation to disappoint.

EUR also depreciated 0.2% to slightly below 1.07 for the first time in three sessions. Resembling the DXY, EUR has been consolidating between 1.0620 and 1.0790 since 24 May, ahead of the European Central Bank (ECB) meeting on 9 June. The governing council will announce the end of net asset purchases and terminate negative rates in September. The doves led by ECB President Christine Lagarde favour two 25 bps hikes in July and September to lift the deposit facility rate from -0.50% to 0%. To return rates to neutral or 1-2% this year, the hawkish ECB members should be clamouring for 50 bps hikes at the last two meetings in October and December. Meanwhile, today, consensus expects a rise in the Sentix Investor Confidence index to -21.2 in June from -22.6 in May, its first improvement since Russia invaded Ukraine in February.

Ironically, GBP appreciated most by 0.4% to 1.2532. Although British Prime Minister Boris Johnson survived the no-confidence vote from his Conservative Party, he was weakened by the narrow victory of 211 to 148 votes. On 23 June, he is set to suffer another blow at the Wakefield by-election, a Red Wall constituency. The Sunday Times poll sees the opposition Labour Party leading Tories 48% to 28%. With the next general election due in May 2024, another leadership challenge cannot be dismissed. All said, GBP has been range-trading between 1.2460 and 1.2670 since 23 May. The 10Y Gilt yield surpassed 2% on 31 May and rose to 2.25% yesterday. The markets believe that the Bank of England will need to hike at the remaining five meetings, including the one next week, to bring the bank rate from 1% to above the 2% inflation target.

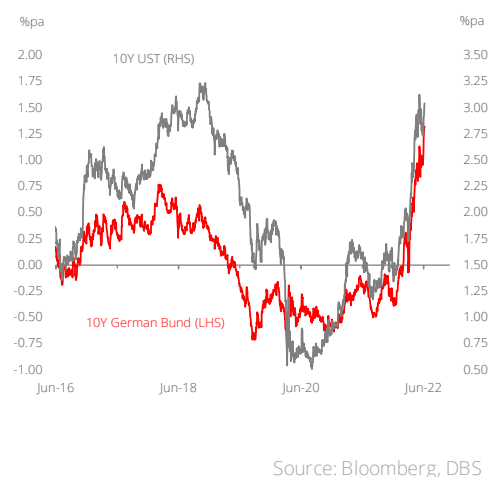
Philip Wee | FX Strategist

## Rates: Another hawkish ECB shift?

The upcoming European Central Bank (ECB) policy meeting on 9 June could drive Developed Markets (DM) rates another leg higher. The ECB holds significant clout in the DM space and the pivot earlier this year was already sufficient to send 10Y German yields above 1.20%. We think that the risks of an incrementally hawkish pivot could take place this week (ending 10 June) as President Lagarde sets the stage for rate hikes in the immediate few months. We note that that hawkishness in DM central banks and the assessment from the market tend to evolve. Initially, this entails a bringing forward of hike expectations followed by a pricing in of a more rapid pace of tightening. This was seen in USD rates over the past few months as the Fed put a moderate pace of tightening in the dotplot and eventually opened the door for Jumbo hikes. We think that EUR rates are entering this phase now.

Despite having price pressures as acute as the US (Eurozone's Consumer Price Index (CPI) touched 8.1% y/y in May), the ECB has not stopped quantitative easing or hiked rates yet. It can be argued that the ECB is even further behind the curve. Note that EUR swaps are not taking any chances and have factored in over 120 bps of tightening by the end of the year, taking the deposit rates above 0.5%. One way to frame EUR rates would be the inflation angle where Eurozone CPI hit 8.1% y/y in May. Consensus is gravitating towards a July move, but if the ECB opens up to a 50 bps hike (or even make a move this week), it would be viewed as a hawkish surprise.

Figure 3: EUR rates catching up to SGD rates



We think that risks to EUR and DM rates in general may be skewed to the upside this week as the market builds concessions into the ECB meeting and US CPI release. In relative value terms, we think that US Treasuries might outperform European Government Bonds in general, given that the Fed is more advanced in its tightening cycle and USD rates are probably better priced for tightening.

**Eugene Leow** | Rates Strategist

## Thematics: US Office S-REITs – The US office reboot

- US office on a firmer footing for recovery in 2022, albeit uneven
- Indicators show more than 35% of US office S-REITs' submarkets have turned positive
- US office S-REITs offer an attractive c.9% yield and yield spread of c.6% vs S-REITs' c.3%

**US office on a firmer footing for recovery in 2022, albeit uneven.** After two years of a pandemic-driven correction, the US office market is finally showing positive signs of recovery in 2H21. Key optimistic datapoints include i) 4Q21 seeing a second consecutive quarter of positive net absorption, with 61% of the submarkets recording positive absorption in 4Q21; ii) the first decline in the vacancy rate since the pandemic; and iii) construction and sublease activities declining. The positive momentum continues into 1Q22, but recovery appears uneven across the submarkets.

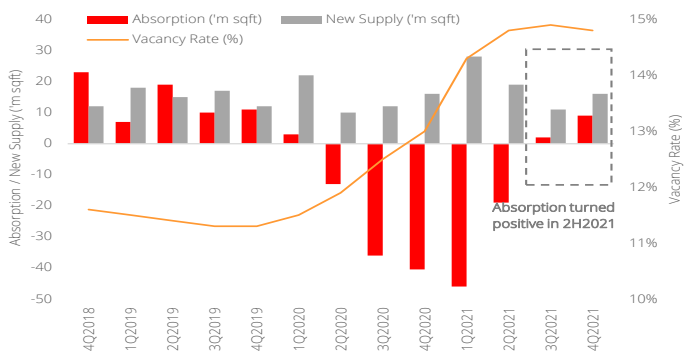
**US office S-REIT submarkets with optimistic outlook contribute more than 35% of net property income (NPI) /cash rental income (CRI).** Based on JLL's 1Q22 US office market insights, US office S-REITs' submarkets that are showing positive signs of recovery contribute more than 35% of NPI/CRI.

**US office S-REITs' yield spread remains attractive, despite near-term share price overhang from macroeconomic uncertainty.** DBS Group Research maintains our positive stance on US office S-REITs but lower our target prices by an average of c.12% to incorporate a higher risk-free rate of 3.5% and roll forward the discounted cash flow valuation to FY23F. Despite a distribution per unit revision of c. -4%/c. -6% for FY22F/23F, US office S-REITs are currently trading at a c.9.2% yield, offering an attractive yield spread of c.6.2%, vs S-REITs at c.3.3%, especially in a rising interest rate environment.

Rachel TAN | Analyst

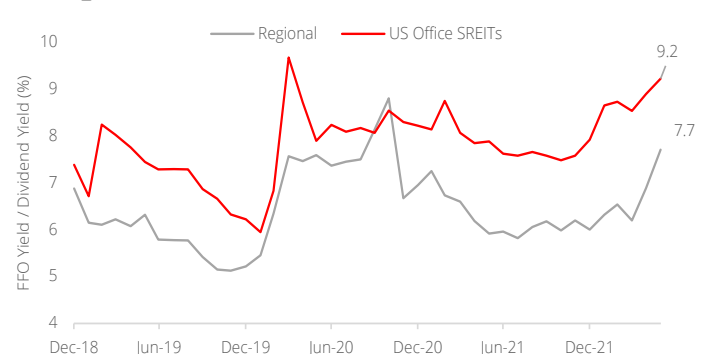
Derek TAN | Analyst

Figure 4: US office market recorded second consecutive positive net absorption in 4Q21



Source: DBS, Colliers, Thomson Reuters

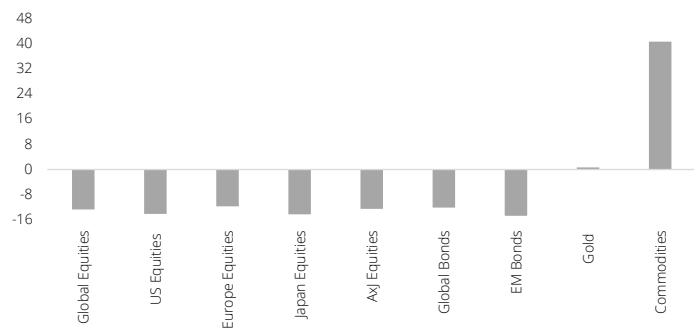
Figure 5: Yield spread between US office S-REITs vs US office REITs' regional offices remains attractive



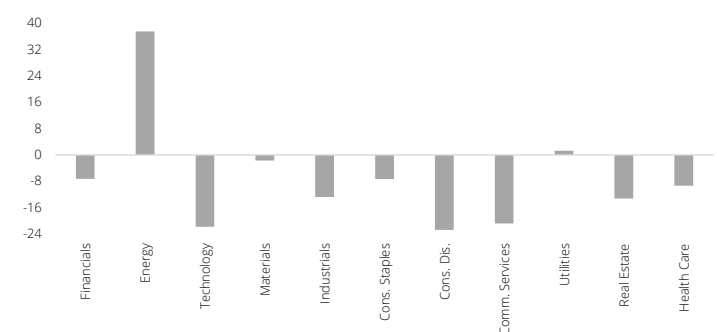
Source: DBS, Colliers, Thomson Reuters

# CIO Markets Watch

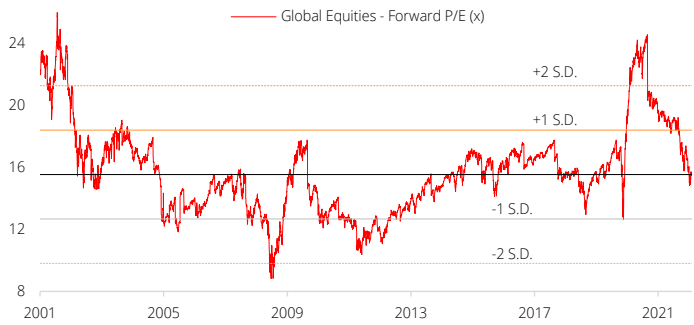
Global Cross Assets YTD Returns



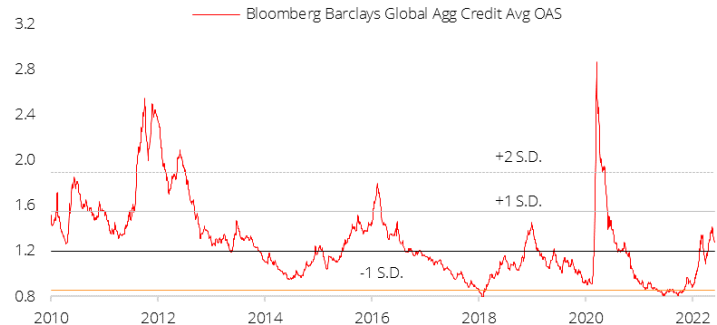
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



INDEX RETURNS

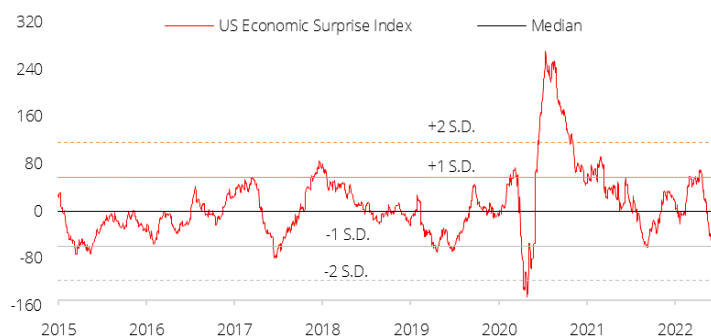
	1 week	MTD	QTD	YTD
<b>Equities</b>				
S&P 500	-0.9%	-0.3%	-9.0%	-13.5%
NASDAQ	-0.6%	-0.2%	-15.2%	-22.9%
Russell 2000	0.1%	1.4%	-8.7%	-15.8%
Stoxx Europe 600	-0.5%	0.2%	-2.6%	-9.0%
Nikkei-225	2.0%	2.3%	0.3%	-3.0%
MSCI WORLD	-0.9%	0.0%	-8.6%	-13.7%
MSCI ACWI	-0.7%	-0.1%	-8.4%	-13.6%
MSCI Asia ex-Japan	1.1%	-0.2%	-5.3%	-13.1%
MSCI EM	0.6%	-0.6%	-6.2%	-13.0%
HSCEI	3.4%	1.1%	-0.3%	-8.9%
SHCOMP	2.8%	1.6%	-0.5%	-11.1%
Hang Seng	2.5%	1.1%	-1.6%	-7.5%
STI Index	-0.4%	-0.2%	-5.3%	3.3%
<b>Fixed Income</b>				
Barclays Global Aggregate	-1.8%	-1.1%	-6.3%	-12.0%
Barclays US Aggregate	-1.5%	-1.0%	-4.2%	-9.8%
Barclays US High Yield	-0.6%	-0.6%	-3.9%	-8.6%
Barclays Euro Aggregate	-2.0%	-1.4%	-6.2%	-11.3%
Barclays Euro High Yield	-0.1%	-0.1%	-4.2%	-8.2%
JPM EMBI Global	-1.1%	-0.7%	-6.0%	-14.7%
JPM EMBI Global Diversified	-0.6%	-0.6%	-5.9%	-16.2%

PRICES & SPREADS

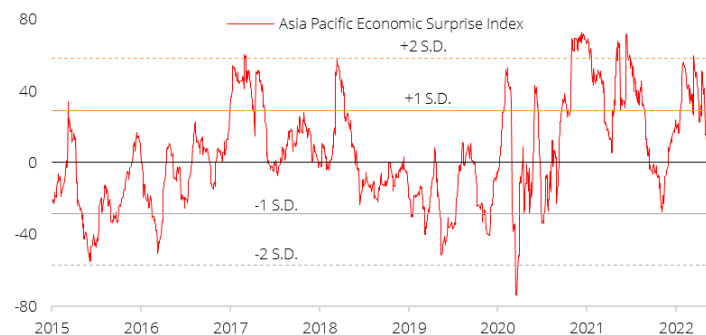
	Spot	4Q21	3Q21	2Q21
<b>Rates</b>				
Fed Funds Target	1.00	0.50	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	3.04	2.34	1.51	1.49
Japanese Govt Bond 10-yr	0.24	0.21	0.07	0.07
German Bunds 10-yr	1.32	0.55	-0.18	-0.20
<b>Spreads</b>				
US Agg Corporate Spread	1.30	1.16	0.92	0.84
US Corporate HY Spread	4.06	3.25	2.83	2.89
Euro Agg Corporate Spread	1.62	1.31	0.97	0.87
EM USD Agg Spread	3.34	3.13	2.85	2.87
<b>Currencies</b>				
US Dollar Index (DXY)	102.4	98.3	95.7	94.2
EUR/USD	1.07	1.11	1.14	1.16
USD/JPY	131.9	121.7	115.1	111.3
USD/CNY	6.7	6.3	6.4	6.4
<b>Commodities</b>				
WTI Oil	119	100	75	75
London Metal Exchange (LMEX)	4632	5174	4502	4161
TR/CC CRB Commodity	327	295	232	229
Gold	1841	1937	1829	1757

# CIO Economics Watch

## US Economic Surprise Index



## Asia Pacific Economic Surprise Index



### MACRO CALENDAR

	Date	Period	Survey	Prior
<b>United States &amp; Eurozone</b>				
Initial Jobless Claims (US)	09-Jun	04-Jun	207k	200k
ECB Main Refinancing Rate (EU)	09-Jun	09-Jun	0.00%	0.00%
CPI m/m (US)	10-Jun	May	0.70%	0.30%
U. of Mich. Sentiment (US)	10-Jun	Jun	58.2	58.4
GDP SA q/q (EU)	08-Jun	1Q	0.30%	0.30%
MBA Mortgage Applications (US)	08-Jun	03-Jun	--	-2.30%
ECB Deposit Facility Rate (EU)	09-Jun	09-Jun	-0.50%	-0.50%
Trade Balance (US)	07-Jun	Apr	-\$89.5b	-\$89.5b

### MACRO CALENDAR

	Date	Period	Survey	Prior
<b>Asia</b>				
CPI y/y (CN)	09-Jun	May	2.20%	2.10%
GDP SA q/q (JP)	07-Jun	1Q	-0.30%	-0.20%
BoP Current Account Balance (JP)	07-Jun	Apr	¥513.2b	¥2549.3b
PPI y/y (JP)	09-Jun	May	9.90%	10.00%
PPI y/y (CN)	09-Jun	May	6.50%	8.00%
GDP Deflator y/y (JP)	07-Jun	1Q	-0.40%	-0.40%
Money Supply M2 y/y (CN)	08-Jun	May	10.30%	10.50%
Trade Balance (CN)	08-Jun	May	\$57.55b	\$51.12b

### Disclaimers and Important Notes

This information herein is published by DBS Bank Ltd. ("DBS Bank") and is for information only. This publication is intended for DBS Bank and its subsidiaries or affiliates (collectively "DBS") and clients to whom it has been delivered and may not be reproduced, transmitted or communicated to any other person without the prior written permission of DBS Bank.

This publication is not and does not constitute or form part of any offer, recommendation, invitation or solicitation to you to subscribe to or to enter into any transaction as described nor is it calculated to invite or permit the making of offers to the public to subscribe to or enter into any transaction for cash or other consideration and should not be viewed as such.

The information herein may be incomplete or condensed and it may not include a number of terms and provisions nor does it identify or define all or any of the risks associated to any actual transaction. Any terms, conditions and opinions contained herein may have been obtained from various sources and neither DBS nor any of their respective directors or employees (collectively the "DBS Group") make any warranty, expressed or implied, as to its accuracy or completeness and thus assume no responsibility of it. The information herein may be subject to further revision, verification and updating and DBS Group undertakes no responsibility thereof.

All figures and amounts stated are for illustration purposes only and shall not bind DBS Group. This publication does not have regard to the specific investment objectives, financial situation or particular needs of any specific person. Before entering into any transaction to purchase any product mentioned in this publication, you should take steps to ensure that you understand the transaction and has made an independent assessment of the appropriateness of the transaction in light of your own objectives and circumstances. In particular, you should read all the relevant documentation pertaining to the product and may wish to seek advice from a financial or other professional adviser or make such independent investigations as you consider necessary or appropriate for such purposes. If you choose not to do so, you should consider carefully whether any product mentioned in this publication is suitable for you. DBS Group does not act as an adviser and assumes no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from any arrangement or entrance into any transaction in reliance on the information contained herein. In order to build your own independent analysis of any transaction and its consequences, you should consult your own independent financial, accounting, tax, legal or other competent professional advisors as you deem appropriate to ensure that any assessment you make is suitable for you in light of your own financial, accounting, tax, and legal constraints and objectives without relying in any way on DBS Group or any position which DBS Group might have expressed in this document or orally to you in the discussion.

Any information relating to past performance, or any future forecast based on past performance or other assumptions, is not necessarily a reliable indicator of future results.

If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of the Information, which may arise as a result of electronic transmission. If verification is required, please request for a hard-copy version.

This publication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

If you have received this communication by email, please do not distribute or copy this email. If you believe that you have received this e-mail in error, please inform the sender or contact us immediately. DBS Group reserves the right to monitor and record electronic and telephone communications made by or to its personnel for regulatory or operational purposes. The security, accuracy and timeliness of electronic communications cannot be assured.

**Dubai International Financial Centre:** This communication is provided to you as a Professional Client or Market Counterparty as defined in the DFSA Rulebook Conduct of Business Module (the "COB Module"), and should not be relied upon or acted on by any person which does not meet the criteria to be classified as a Professional Client or Market Counterparty under the DFSA rules.

This communication is from the branch of DBS Bank Ltd operating in the Dubai International Financial Centre (the "DIFC") under the trading name "DBS Bank Ltd. (DIFC Branch)" ("DBS DIFC"), registered with the DIFC Registrar of Companies under number 156 and having its registered office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates.

DBS DIFC is regulated by the Dubai Financial Services Authority (the "DFSA") with a DFSA reference number F000164. For more information on DBS DIFC and its affiliates, please see <http://www.dbs.com/ae/our-network/default.page>.

Where this communication contains a research report, this research report is prepared by the entity referred to therein, which may be DBS Bank Ltd or a third party, and is provided to you by DBS DIFC. The research report has not been reviewed or authorised by the DFSA. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBS DIFC.

Unless otherwise indicated, this communication does not constitute an "Offer of Securities to the Public" as defined under Article 12 of the Markets Law (DIFC Law No.1 of 2012) or an "Offer of a Unit of a Fund" as defined under Article 19(2) of the Collective Investment Law (DIFC Law No.2 of 2010).

The DFSA has no responsibility for reviewing or verifying this communication or any associated documents in connection with this investment and it is not subject to any form of regulation or approval by the DFSA. Accordingly, the DFSA has not approved this communication or any other associated documents in connection with this investment nor taken any steps to verify the information set out in this communication or any associated documents, and has no responsibility for them. The DFSA has not assessed the suitability of any investments to which the communication relates and, in respect of any Islamic investments (or other investments identified to be Shari'a compliant), neither we nor the DFSA has determined whether they are Shari'a compliant in any way.

Any investments which this communication relates to may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on any investments. If you do not understand the contents of this document you should consult an authorised financial adviser.

**Hong Kong:** This publication is distributed by DBS Bank (Hong Kong) Limited (CE Number: AAL664) ("DBSHK") which is regulated by the Hong Kong Monetary Authority (the "HKMA") and the Securities and Futures Commission. In Hong Kong, DBS Private Bank is the private banking division of DBS Bank (Hong Kong) Limited.

DBSHK is not the issuer of the research report unless otherwise stated therein. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBSHK.

DBSHK is not the issuer of the research report unless otherwise stated therein. Such research report is distributed on the express understanding that, whilst the information contained within is believed to be reliable, the information has not been independently verified by DBSHK.

**Singapore:** This publication is distributed by DBS Bank Ltd (Company Regn. No. 196800306E) ("DBS") which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore (the "MAS").

**Thailand:** This publication is distributed by DBS Vickers Securities (Thailand) Co., Ltd. ("DBSVT").

**United Kingdom:** This communication is from DBS Bank Ltd., London Branch located at 9th Floor, One London Wall, London EC2Y 5EA. DBS Bank Ltd. is regulated by the Monetary Authority of Singapore and is authorised and regulated by the Prudential Regulation Authority. DBS Bank Ltd. is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of DBS Bank Ltd., London Branch's regulation by the Prudential Regulation Authority are available upon request.