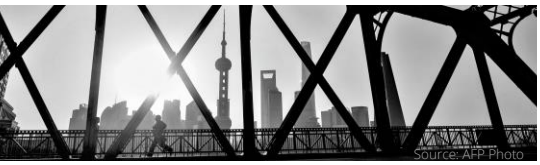


CIO Weekly

2 August 2022

Key Points

- **Equities:** Safe haven amid global growth slowdown fears; S-REITs to resume its pre-Covid climb after strong results
- **FX:** USD/JPY hit our forecast of 132 for 3Q22 as investors cut short JPY bets; USD/JPY's next major test is at 130.2 and our year-end target is 129
- **Rates:** Investors getting more comfortable with duration risks; time to add receive positions (across USD, SGD, and HKD rates) when yields bounce
- **Thematics:** China brokerage sector – private pensions to drive multi-year growth
- **The Week Ahead:** Keep a lookout for US Change in Nonfarm Payrolls; Japan Current Account Balance

GLOBAL CROSS ASSETS

Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	32,798.40	-0.1%	-9.7%
S&P 500	4,118.63	-0.3%	-13.6%
NASDAQ	12,368.98	-0.2%	-20.9%
Stoxx Europe 600	437.46	-0.2%	-10.3%
DAX	13,479.63	0.0%	-15.1%
CAC 40	6,436.86	-0.2%	-10.0%
FTSE 100	7,413.42	-0.1%	0.4%
MSCI AxJ	641.95	0.0%	-18.7%
Nikkei 225	27,993.35	0.7%	-2.8%
SHCOMP	3,259.96	0.2%	-10.4%
Hang Seng	20,165.84	0.0%	-13.8%
MSCI EM	995.04	0.1%	-19.2%
UST10-yr yield*	2.57	-7.5	106.3
JGB 10-yr yield*	0.18	0.1	11.4
Bund 10-yr yield*	0.78	-3.8	95.8
US HY spread*	4.65	-4.0	182.0
EM spread*	445.77	-30.0	115.5
WTI (USD)	93.89	-4.8%	24.8%
LMEX	3,808.80	-1.1%	-15.4%
Gold (USD)	1,772.17	0.4%	-3.1%

Source: Bloomberg

* Changes in basis points

Equities: Hospitality REITs ride on global travel recovery

We believe Singapore real estate investment trusts (REITs) could weather the global growth slowdown, as Singapore's services sector gains speed from economic reopening. Although cost pressures such as utility bills and financing costs are rising, the financial matrix of the sector is sound enough to absorb such cost pressures. For example, the gearing cap of 60% imposed on this sector would reduce risk to rising interest rates, and most REITs are at just about 45% gearing.

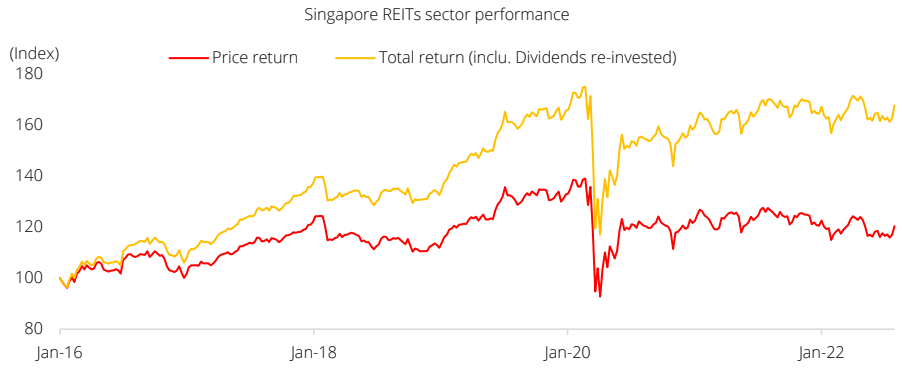
Upward rental revisions, however, may face some resistance as tenants are already feeling the heat from higher costs, especially in the industrials and retail space, whereas hotels can charge higher room rates due to rising demand. As financing costs rise, it has become more challenging to make yield-accretive acquisitions. In this respect, look out for REITs which can mitigate higher interest costs with lower gearing, high hedge ratio, minimal debt expiry, and those which can tap on their sponsors' large pipeline, as well as strong pricing power to pass on costs.

The latest earnings results from hotel REITs reflected the strength in Singapore's travel recovery, with most hoteliers reporting stronger portfolio RevPAR (revenue per available room) of up to 80% of pre-Covid levels, which is ahead of our initial expectations. There is also overall optimism that occupancy levels will rise as global travel resumes, with more tourist arrivals, conferences, exhibitions, and events taking place in Singapore.

Following the peaking of the US bond yields, valuations for Singapore REITs in terms of yield spread (dividend yield minus US 10Y bond yields) have hit a floor and set the stage for widening. At absolute yields of around 4-7%, we believe S-REITs is a sector which can consistently provide strong returns over the years, considering its stable growth profile and its leverage to the Singapore economy.

Joanne Goh | Strategist

Figure 1: S-REITs to resume its pre-Covid climb

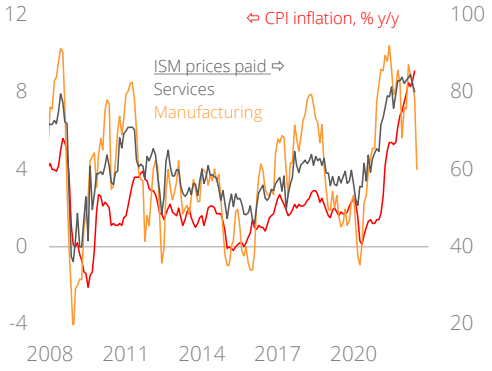


Source: Bloomberg, DBS

DBS

FX: Watching US data and Fed, JPY shorts unwind, AUD looking forward to RBA

Figure 2: Pay attention to prices paid in the US ISM surveys



Source: Bloomberg, DBS

USD started August on a weak note. DXY depreciated 0.4% to 105.5, following through on the 0.4% sell-off last Friday (29 July). Markets continue to scale back Fed hike expectations on US recession fears. The US Treasury 10Y yield fell 7.6 bps to 2.573%, close to the 2.5% Fed Funds Rate (FFR). The 2Y yield fell less by 1.4 bps to 2.87% and further inverted the yield curve to -29.7 bps, its deepest since September 2000. In the ISM manufacturing purchasing managers' index (PMI) survey, prices paid fell sharply from 78.5 in June to 60 in July, its lowest level since August 2020. However, prices paid in Wednesday's ISM services PMI have a higher correlation with the US consumer price index (CPI) inflation. So, pay attention to that number on Wednesday.

Meanwhile, Chicago Fed President Charles Evans will host reporters for a breakfast conversation Tuesday. With the FFR at neutral, let us see if Evans signals a shallower hike in September to provide time for the Fed to assess the impact of the frontloaded hikes on inflation, jobs, and the economy. Consensus expects today's JOLTS jobs openings to fall to 11,000k in June from 11,254k in May. Despite the labour shortages, more US companies have, during the earnings season, provided guidance to slow hiring, with some looking to shrink staff. Markets are bracing for Friday's US nonfarm payrolls to add 250k jobs in July, fewer than the 372k in June.

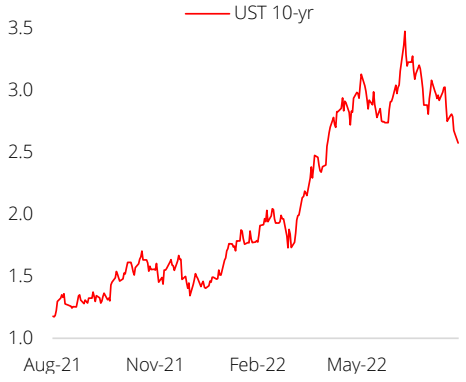
USD/JPY hit our forecast of 132 for 3Q22. Within the DXY basket, JPY benefitted most from receding odds for more outsized Fed hikes. Over the fortnight, USD/JPY fell to 131.6 from its peak of 139.4. Apart from cutting short JPY bets, speculators backed off from attacking the Bank of Japan's (BOJ) (8301 JP) loose monetary policy stance. The 10Y JGB yield retreated to 0.18% after 3-4 months of pressure to push it above 0.25%, the ceiling under the BOJ's yield curve control framework. Having broken below the 50-day moving average (dma) last Friday, USD/JPY's next major test is at 130.2, the support level marked by the 100-day moving average. Our end-year target is 129.

AUD closed above 0.70 for the first time since 16 June. Unlike the last time, the Oz is above and not below its 50-dma. AUD should benefit from the Reserve Bank of Australia's (RBA) 50 bps hike (to 1.85%) expected today without worrying about an outsized Fed hike later. According to the Melbourne Institute of Applied Economic and Social Research, prices of utilities and rent drove inflation to 5.4% y/y in July from 4.7% in June, its fastest on record. With the Treasury predicting no recession for Australia and looking for CPI inflation to peak in 4Q22 and staying above the 2-3% target until 2024, the RBA will follow through with more hikes to bring the cash rate target to the estimated 2.5% neutral rate. For now, AUD's goal is to head towards 0.7120 or its 100-day moving average, a hurdle it must clear before it can contemplate returning to June's high near 0.73.

Philip Wee | FX Strategist

Rates: Cooling off the growth outlook

Figure 3: Cooling off



Source: Bloomberg, DBS

We have toned down our USD/SGD/HKD yield forecasts amidst a weaker growth outlook. The new numbers are more in line with lower US/global growth and our expectations that we are already cresting the three peaks – peak inflation, peak Fed action, and peak Fed rhetoric. Note that our US gross domestic product growth forecast has been revised lower to 2% for 2022 and is slowing further to 1.3% in 2023. Policy rates will likely be held steady after peaking at 3.5% as the Fed balances slowing growth and somewhat elevated inflation relative to their 2% target.

With Fed Chair Powell opening the door for a slower pace of tightening and the US in technical recession, the market has begun unwinding much of the trades that were popular in 1H22.

We think a nuanced view is needed. Our breakdown of USD rates and our 10Y yield model both reflect a weaker growth and weaker inflation backdrop. However, it is far from clear that the US is in for a deep recession especially when the labour market is still so tight. While headline inflation is likely to cool on the back of lower commodity and food prices, it is probably too early to declare the victory over sticky inflation won. US yields are probably reflecting a too pessimistic outlook for the coming few quarters. The shift lower in yields over the past month can probably be attributed to position adjustments, rather than a big fundamental change.

That said, we think that investors are probably getting more comfortable with duration risks. And we think it makes sense to add receive positions (across USD, SGD, and HKD rates) when yields bounce somewhat. There are nuances between the tenors and currencies. On balance, we think that receive on spikes makes more sense in the longer tenors (5Y and 10Y). for shorter tenors, we are somewhat wary of the 18M tenor for USD rates, which have priced in Fed cuts in 2023 (something we do not agree with). SGD rates of that tenor look like a more attractive receive.

Eugene Leow | Rates Strategist

Duncan Tan | Rates Strategist

Thematics: China brokerage sector – private pensions to drive multi-year growth

- New rules for private pensions to invest in pension-purposed mutual funds may lead to multi-year growth opportunity
- Our blue-sky scenario suggests pension-purposed mutual fund AUM may reach CNY11t in the next 10 years
- Market activities recovered strongly in June; with liquidity remaining accommodative, we expect a positive outlook in 2H22

Private pensions the multi-year catalyst. The China Securities Regulatory Commission (CSRC) has released new rules for private pensions to invest in pension-purposed mutual funds. With the scheme providing a tax incentive, the setup of a personal account system to allow full discretion, and low pension coverage, we believe it will spark a multi-year growth opportunity for China's mutual fund market.

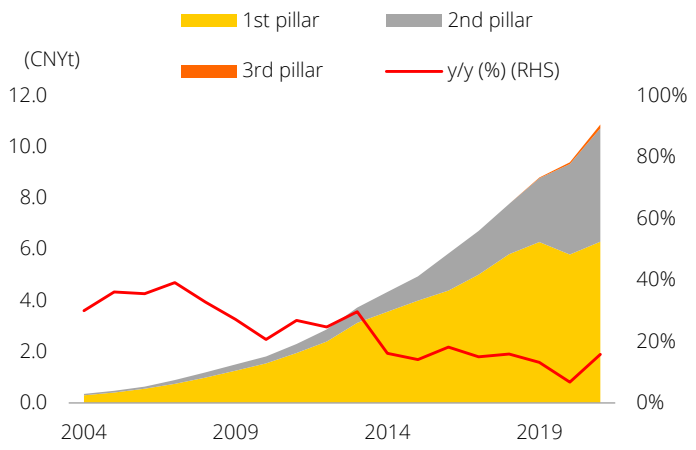
Private pension mutual funds to reach CNY11t by FY32F. The scheme allows eligible citizens to contribute up to CNY12k per annum to a private pension account. Our blue-sky scenario suggests the total value of private pension funds may reach CNY11.1t by FY32F, or 42% of existing mutual funds' assets under management (AUM). With China's pension assets accounting for only 4% of gross domestic product vs the average of 50% among the Organization for Economic Cooperation and Development countries, the growth in China's private pension mutual fund market remains phenomenal.

Negatives in 2Q22F likely priced in; suggest positioning for 2H recovery. With robust total social financing in June and a stabilising A-share market, market activities including average daily turnover, margin finance, and mutual fund AUM all rebounded in June, and we expect the trend to continue given that liquidity remains accommodative. Brokers are likely to see a q/q improvement in their 2Q22 result, but this will remain on a decline y/y, dragged by weak investment income. Nonetheless, negatives are likely priced in, and investors should position for the 2H recovery ahead.

China brokers under DBS coverage are expected to see a positive outlook in 2H. DBS Group Research prefers brokers with a strong investment banking/asset management franchise.

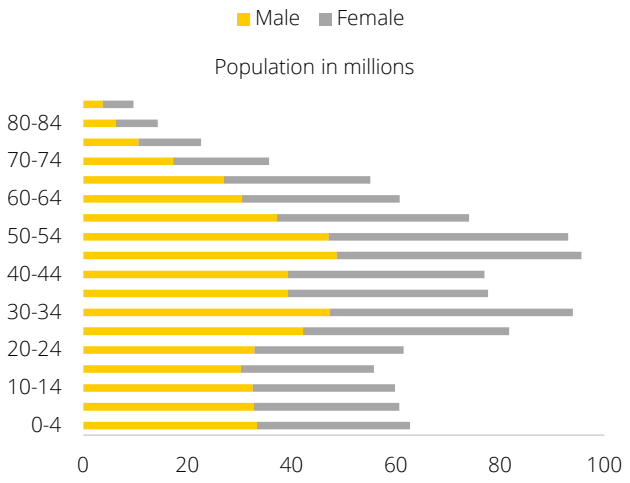
Ken Shih | Analyst

Figure 4: China pension asset growth



Source: MOHRSS, DBS HK

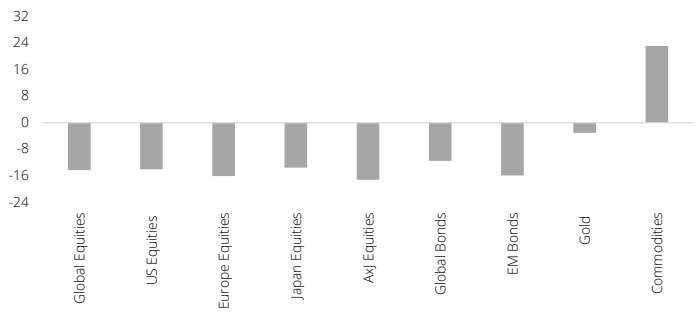
Figure 5: China population by age group – FY20



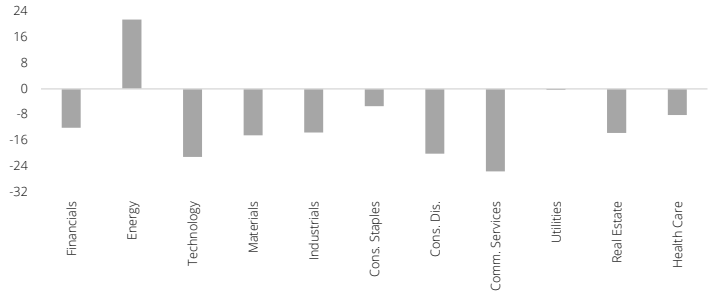
Source: National Bureau of Statistics of China, DBS HK

CIO Markets Watch

Global Cross Assets YTD Returns

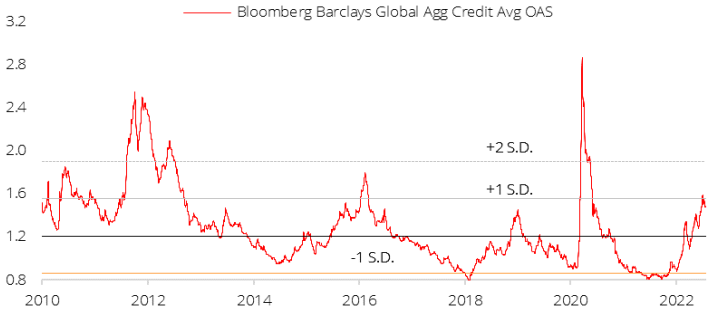


Global Sector YTD Returns



Global Equity Valuation

US Corporate Spreads



INDEX RETURNS

	1 week	MTD	QTD	YTD
Equities				
S&P 500	3.8%	-0.3%	8.8%	-13.6%
NASDAQ	5.0%	-0.2%	12.2%	-20.9%
Russell 2000	3.6%	-0.1%	10.3%	-16.1%
Euro Stoxx 600	2.6%	-0.2%	7.4%	-10.3%
Nikkei-225	1.1%	0.7%	6.1%	-2.8%
MSCI WORLD	3.7%	0.1%	8.0%	-14.9%
MSCI ACWI	3.4%	0.1%	7.0%	-15.4%
MSCI Asia ex-Japan	0.0%	0.0%	-1.7%	-18.7%
MSCI EM	0.8%	0.1%	-0.6%	-19.2%
HSCEI	-2.8%	-0.1%	-10.3%	-16.5%
SHCOMP	0.3%	0.2%	-4.1%	-10.4%
Hang Seng	-1.9%	0.0%	-7.7%	-13.8%
STI Index	1.8%	0.8%	4.4%	3.7%
Fixed Income				
Barclays Global Aggregate	2.0%	0.7%	2.9%	-11.4%
Barclays US Aggregate	1.4%	0.5%	2.9%	-7.7%
Barclays US High Yield	1.7%	0.3%	6.2%	-8.8%
Barclays Euro Aggregate	2.0%	0.4%	4.6%	-8.1%
Barclays Euro High Yield	1.1%	0.3%	5.5%	-9.6%
JPM EMBI Global	2.5%	0.5%	3.7%	-15.8%
JPM EMBI Global Diversified	2.6%	0.0%	3.2%	-18.6%

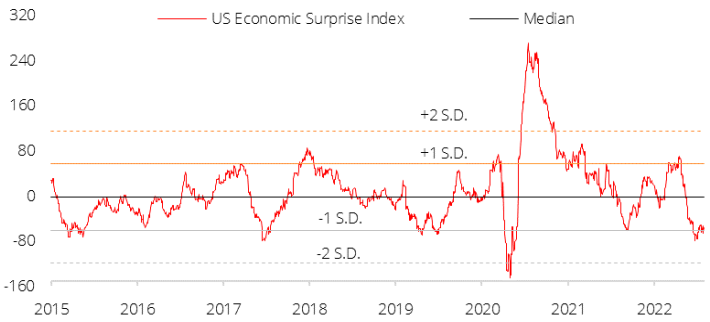
PRICES & SPREADS

	Spot	2Q22	1Q22	4Q21
Rates				
Fed Funds Target	2.50	1.75	0.50	0.25
ECB Main Refinancing Rate	0.50	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	2.58	3.02	2.34	1.51
Japanese Govt. Bond 10-yr	0.18	0.23	0.21	0.07
German Bunds 10-yr	0.78	1.33	0.55	-0.18
Spreads				
US Agg Corporate Spread	1.43	1.55	1.16	0.92
US Corporate HY Spead	4.65	5.69	3.25	2.83
Euro Agg Corporate Spread	1.86	2.15	1.31	0.97
EM USD Agg Spread	4.01	4.04	3.13	2.85
Currencies				
US Dollar Index (DXY)	105.5	104.7	98.3	95.7
EUR/USD	1.03	1.05	1.11	1.14
USD/JPY	131.6	135.7	121.7	115.1
USD/CNY	6.8	6.7	6.3	6.4
Commodities				
WTI Oil	94	106	100	75
London Metal Exchange (LMEX)	3809	3879	5174	4502
TR/CC CRB Commodity	286	291	295	232
Gold	1772	1807	1937	1829

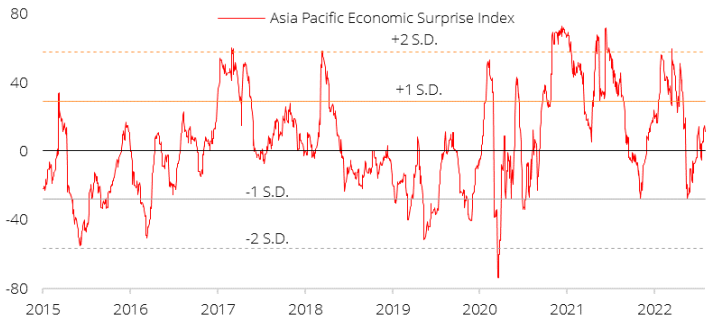
DBS

CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index



MACRO CALENDAR

	Date	Period	Survey	Prior
United States & Eurozone				
Change in Nonfarm Payrolls (US)	05-Aug	Jul	250k	372k
Initial Jobless Claims (US)	04-Aug	30-Jul	260k	256k
Durable Goods Orders (US)	03-Aug	Jun	1.90%	1.90%
MBA Mortgage Applications (US)	03-Aug	29-Jul	--	-1.80%
Unemployment Rate (US)	05-Aug	Jul	3.60%	3.60%
Factory Orders (US)	03-Aug	Jun	1.20%	1.60%
Trade Balance (US)	04-Aug	Jun	-$80.0b	-$85.5b
ISM Services Index (US)	03-Aug	Jul	53.5	55.3

MACRO CALENDAR

	Date	Period	Survey	Prior
Asia				
BoP Current Account Balance (JP)	08-Aug	Jun	--	¥128.4b
Retail Sales y/y (SG)	05-Aug	Jun	18.20%	17.80%
Trade Balance (CN)	07-Aug	Jul	$82.20b	$97.94b
Exports y/y (CN)	07-Aug	Jul	14.10%	17.90%
Purchasing Managers Index (SG)	02-Aug	Jul	50.1	50.3
Imports y/y (CN)	07-Aug	Jul	5.00%	1.00%
Monetary Base y/y (JP)	02-Aug	Jul	--	3.90%
Caixin China PMI Services (CN)	03-Aug	Jul	53.9	54.5

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.

DBS

Funds