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This is SAC's weekly newsletter for 13 July 2022. Thank you for reading.

Market Moves

Singapore's 2Q22 GDP (advance estimates) rose by 4.8% yoy, but output was flat compared with 1Q22. The advance estimates take into account data for April and May. At the same time, 1Q22 GDP was raised to 4.0%, from 3.7%.

Construction (+3.8% yoy) and accommodation and food services (+8.2%) benefitted from the removal of nearly all COVID restrictions from end April. Manufacturing (+8.0% yoy, +0.3% qoq sa) was led by strong semiconductor output. Major chip makers, such as Samsung Electronics, have asked suppliers to delay or reduce shipments of components from June. Hence, we think the sector might book lower qoq growth when the actual data are out in August.

US' June CPI of 9.1% yoy and 1.3% mom sa, reeling under higher cost for energy (+41.6% yoy), food (+10.4%), shelter (5.6%), new vehicle (+11.4%) and transportation (+8.8%). The possibility of CPI easing in the coming months is dimmed by sticky food prices and with no resolution of the Russia/Ukraine conflict in sight.

MAS unexpectedly increased the rate of appreciation of S$ nominal effective exchange rate to counter a potential pick-up in inflation. This is also in response to the Fed rate hikes, which have led to very strong US$ viz-a-viz global currencies. Stronger S$ and higher interest rates have greatest impact on REITs with overseas assets. MAS also guided 2022 GDP to land at the lower end of the 3-5%, and raised core inflation by 0.5bp to 3-4% and CPI to 5-6%. Higher commodity and wage costs would exert margin risks. We expect more earnings downgrade after 2Q reporting season.

UOB will kick off the banks' 2Q earnings release on 29 Jul. We expect the banks to report higher net interest income, offset by lower trading income and wealth management fee given lower market volume and weak investor sentiment. With deteriorating macro environment, we also expect credit provisions to return to normalize level of 20-30bp. More cautious capex spend could slow drawdown in corporate loans. Consumer loans growth (mainly mortgage loans) would be underpinned by progressive drawdown of existing loans from project completions, but new loans are likely to fall with lower property transaction volume after Dec 16 cooling measures.

GYP Properties <Privatisation Offer> | Rumah & Co. Pte Ltd (controlled by some existing shareholders) is offering to take the company private at S$0.168/share. The offer is conditional on the consortium gaining more than 75% stake, which looks likely to be achieved as 66.79% of the issued shares have given their irrevocable undertakings to accept the offer. The offer price is 35.1% below book value of S$0.26/sh.

Though the company began to recognize revenue from property development in New Zealand in FY21, development costs are substantial, and GYP booked a net loss of S$0.087m for 1HFY22. Rising construction costs - in particular wages and building material costs - are headwinds for the property development business that could erode margins. *(Christopher Ong)*

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