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Monday, February 6, 2023

MARKETS

	Weekly	Change
STI	3,384.29	-9.92
KL COMP	1,490.47	-7.08
NIKKEI 225	27,509.46	+126.90
HANG SENG	21,660.47	-1,028.43
SHENZHEN B	1,226.60	+4.82
DOW	33,926.01	-52.07

MIND THE GAP

Bonds are back, but how attractive is the risk-reward proposition?

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TOPLINE

SingPost on expansion track in fast-growing Australian market with latest acquisition

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CARBON CAPTURE

Technology, economies raising doubts about its promise in Asia

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Fed's inflation fight making painless headway, but investors should not quickly jump into stocks

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DAILY DEBRIEF

The STI

OCBC leads net fund inflows
OCBC has booked the highest net institutional inflows across the Singapore stock market in 2023 through to Feb 2. CEO Helen Wong notes that while subdued customer investment activity impacted wealth fees in Q3 FY2022, the bank continued to attract net new money inflows into its wealth management franchise. **COMPANIES / 9**

Aspen Glove to fight gas supply deal termination and RM306.4m claim
Aspen Group says that the termination notice from Gas Malaysia Energy and Services is "invalid and/or without basis" as there is no outstanding payment as at the date of the notice. **COMPANIES / 5**

Adani bondholders turn to advisers as crisis engulfs Indian firm
Bondholders of Adani Group firms are holding initial conversations with financial advisers and lawyers to weigh their options after the unfolding crisis at the Indian conglomerate sent several dollar obligations into distressed territory. They seek guidance about how the sprawling group's debt structure would be impacted under various scenarios. **COMPANIES / 6**

Oil's new map: How India turns Russian crude into the West's fuel
As India buys more and more cheap Russian oil and refines it into fuel for Europe and the US, it's meeting the West's twin goals of crimping Moscow's energy revenue while preventing an oil supply shock. **INTERNATIONAL / 13**

Property stamp duty collection falls 15.7% to S\$4.4b in first 9 months of FY2022

But property tax takings up 5% year on year

By Corinne Kerk
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PROPERTY stamp duty collected in the first nine months of the government's current fiscal year fell 15.7 per cent year on year, and is expected to finish FY2022 (ending March 2023) lower than in FY2021.

Stamp duty collections for the first three quarters of FY2022 – which covers the period from April to December 2022 – stands at S\$4.43 billion.

It is down from the S\$5.26 billion collected in the corresponding period in FY21, based on data from the Accountant-General's Department available online at the Singapore Department of Statistics.

The fall reflects a slowdown in total property transaction volumes in 2022 amid economic uncertainty due to rising borrowing costs and higher inflation, said Wong Xian Yang, head of research at Cushman & Wakefield.

As property prices largely continued to rise, some buyers adopted a wait-and-see stance, which also led to lower volumes.

In the fourth quarter of 2022, property price growth slowed, with private residential and resale Housing and Development Board (HDB) flat prices rising 0.4 per cent and 2.3 per cent quarter on quarter, respectively.

In the private residential market, year-on-year sales volume dipped 35 per cent in 9M FY2022 while HDB resale volume eased 10.6 per cent, said Huttons Asia's senior director of research, Lee Sze Teck.

Similarly, private home and HDB rental volumes have fallen by 10 per cent and 18.7 per cent, respectively.

"In the private market, there were fewer launches which led to lower new sales, while the resale market saw lower volume due to rising interest rates and cooling

Stamp duty falls as property transaction volumes drop

	STAMP DUTY (S\$M)	PRIVATE SALE VOLUME	HDB SALE VOLUME	PRIVATE RENTAL VOLUME	HDB SUBLET VOLUME	COMMERCIAL VOLUME	INDUSTRIAL VOLUME
Apr to Dec 2022	4,432	16,547	20,962	68,659	25,977	584	1,532
Apr to Dec 2021	5,259	25,457	23,436	76,310	31,947	683	1,481
Change	-15.7%	-35.0%	-10.6%	-10.0%	-18.7%	-14.5%	3.4%

Note: Excludes commercial and industrial rental transactions

Source: URA, HDB, IRAS, Huttons Research (data downloaded on Feb 3 2023)

Private home purchases by residential status

RESIDENTIAL STATUS	APR-DEC 2021	APR-DEC 2022	DIFFERENCE	% DIFFERENCE
Foreigner (NPR)	833	789	-44	-5.3%
PR	3,820	2,992	-828	-21.7%
Singaporean	23,391	15,411	-7,980	-34.1%
Company	160	87	-73	-45.6%
NA	3	0	-3	-100.0%
Total	28,207	19,279	-8,928	-31.7%

Note: Excludes collective sales

Source: URA Realis (downloaded on Feb 3 2023), OrangeTee & Tie Research & Analytics

measures," said Lee.

He said the impact of the September 2022 cooling measures, which include a 15-month wait-out period for private property sellers

downgrading to an HDB resale flat, was felt immediately on the ground, as "quite a number" of homeowners were not able to obtain a waiver from the HDB and had to

cancel their purchase.

"According to HDB figures up to Nov 30, 2022, there were 902 appeals; and about 38 per cent of them were successful," Lee noted.

"The cooling measures took some wind out of the sail for the HDB resale market, with transactions falling by more than 10 per cent to 6,474 in Q4 2022 from 7,546 in Q3 2022."

As for the rental market, fewer private homes were leased due to displacements to the HDB market and more tenants choosing co-living spaces.

Meanwhile, fewer HDB flats

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ASEAN BUSINESS

Malaysia to refresh appeal of Iskandar southern growth corridor to Singapore

By Anita Gabriel
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MALAYSIA's southern growth corridor Iskandar Malaysia, which was once bustling but post mid-2010s turned tired, is set to be re-energised. The new administration led by Prime Minister Anwar Ibrahim is considering jumpstarting derailed connectivity plans – among others – to woo more investments from across the Causeway, said a key minister.

"The Johor side is in the midst of

proposing an 'economic corridor' between Iskandar Malaysia and Singapore to stimulate the synergies for businesses in Singapore to have part of their operations in Iskandar – you can call it sort of 'twinning' – and this is targeted at certain sectors," said Tengku Zafrul Aziz, Malaysia's newly-appointed Minister of International Trade and Industry (Miti).

The key sectors that Malaysia aims to draw more "high-value investments" from Singapore to revitalise the southern tip's growth

agenda range from electrical and engineering, chemicals and chemical products, fabricated metal products, machinery and equipment and transport equipment to services, Zafrul told *The Business Times* in a recent interview.

This is in line with positioning Malaysia as an "alternative supply chain hub in Asia", said Zafrul, who has also been recently appointed to the board of Iskandar Regional Development Authority – a statute-



Singapore is a key part of the plan for Iskandar Malaysia to realise its full potential, says Tengku Zafrul Aziz, Malaysia's Minister of International Trade and Industry. PHOTO: YEN MENG JIIN, BT

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MARK TO MARKET

Fed’s inflation fight making painless headway, but investors should not quickly jump into stocks

An early loosening of monetary policy is only likely in the event of economic and financial sector turmoil that risks unemployment overshooting



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IT FELT like stocks were heading for a euphoric melt-up this past week, even as the major central banks pushed interest rates higher and United States employment data came in stronger than expected. The reason? US inflation now appears to be subsiding without much economic fallout.

“We can now say, I think for the first time, that the disinflationary process has started,” said US Federal Reserve chairman Jerome Powell, during a press conference on Wednesday (Feb 1), after announcing a 25-basis-point hike in the federal funds rate to 4.5-4.75 per cent.

Powell said much of the disinflation so far has been driven by lower goods prices, as a result of softer demand and easing supply chain bottlenecks. He also expressed confidence that inflation in the housing sector will come down in the months ahead.

Disinflation in the broader services sector is not yet evident, though. Powell said reduced tightness in the labour market will probably be necessary to achieve this, but many other factors matter too. “Take restaurants, right? So, clearly, labour is important for restaurants, but so are food prices.”

Powell went on to say, “I continue to think that there’s a path to getting inflation back down to 2 per cent without a really significant economic decline or a significant increase in unemployment.”

Powell’s comments last week – and his repeated use of the word “disinflation” – would have been music to the ears of investors who have been wading into the market in recent months in anticipation of the Fed pausing its aggressive monetary policy tightening.

On Feb 1, in the wake of Powell’s

comments, the S&P 500 index surged to a close of 4,119.21 – up more than 1 per cent for the day. The technology-oriented Nasdaq 100 index closed Feb 1 at 12,363.1, up almost 2.2 per cent.

A strong US jobs report on Friday seemed to temper this bullish sentiment. Non-farm payroll employment in January rose by 517,000, compared with an average monthly gain of 401,000 in 2022. The unemployment rate sank to 3.4 per cent in January, versus 3.5 per cent in December and 3.6 per cent in November.

Nevertheless, the S&P 500 closed Friday at 4,136.48 – up 1.6 per cent for the week and 7.7 per cent since the beginning of the year.

The Nasdaq 100 closed at 12,573.36 – up 3.3 per cent for the week and 14.9 per cent since the beginning of the year.

Are we on the cusp of a new bull market fuelled by robust economic activity and loosening monetary policy? Or, is the prospect of disinflation already baked into stock prices?

Cautious Fed

Despite Powell’s acknowledgement that the process of disinflation has started, further rate hikes still appear likely.

The Federal Open Market Committee (FOMC) said on Feb 1 it anticipates “ongoing increases in the target range will be appropriate” to return inflation to the 2 per cent target over time. In December, the median projection by FOMC meeting participants put the midpoint of the federal funds rate at 5.125 per cent by end-2023.

Raghuram Rajan, a former governor of the Reserve Bank of India who is now a professor at the University of Chicago Booth School of Business, said in a column last month that the Fed is likely to err on the side of doing too much in getting inflation under control.

“It fears that until some slack emerges in America’s red-hot labour market, wages could still catch up with inflation and then push it higher. The last thing the Fed wants is to hit pause and then



Fed chairman Jerome Powell said last week, “We can now say, I think for the first time, that the disinflationary process has started.” PHOTO: BLOOMBERG

see inflation ramp up again as financial markets celebrate and financial asset prices rise, reigniting demand,” he said.

But things may go awry. One risk is that the Fed pushes the US economy into recession while inflation remains stubbornly above its 2 per cent target. “It is here that the Fed’s inflation-fighting zeal, and its ability to withstand political pressure, would be truly tested,” Rajan said.

An even more difficult scenario is that inflation abates but with a sharper-than-expected rise in unemployment. With the very tight labour market since the pandemic, many small businesses have been holding on to their employees even as some large firms have been laying off workers. But as slack builds in the labour market, Rajan warned, “the stream of lay-offs that we are already seeing may become a flood”.

Rajan also pointed out that many weak companies have been

propped up by access to cheap debt during the pandemic. “If that debt has to be rolled over in an environment of increasing economic gloom, it is a fair bet that many will not be able to refinance, and corporate bankruptcies will increase significantly.”

Reits rebounding

For now, the market is evidently unconcerned about these risks.

Even the Straits Times Index (STI), which held up well in the face of synchronised monetary policy tightening in 2022, has started off 2023 on a strong note. The local benchmark index ended Friday at 3,384.29 – up nearly 4.1 per cent since the beginning of the year.

Reflecting anticipation that the global monetary policy tightening cycle might be coming to an end, many of the best performing components of the STI so far this year have been real estate investment trusts (Reits).

Notably, Keppel DC Reit has bounced 20.3 per cent this year. Last year, the market value of KDC’s units tumbled 28.3 per cent.

Fraser’s Logistics & Commercial Trust has rallied 17.2 per cent this year, after sinking 23.7 per cent last year. Mapletree Industrial Trust is up 8.6 per cent so far this year, after falling 18.1 per cent in 2022.

On the other hand, the three local banks are widely seen to be beneficiaries of rising interest rates, and suffered a sell-off immediately after Powell’s comments about disinflation last week.

DBS and OCBC are up 4.7 per cent and 6.7 per cent, respectively, since the beginning of this year. UOB has slipped 1.8 per cent. Last year, DBS was up 3.9 per cent, OCBC 6.8 per cent and UOB 14.1 per cent.

So, what should investors do? Even though inflation is showing signs of abating, I am inclined to re-

sist the urge to jump into the market in anticipation of an early cut in interest rates. The Fed and other major central banks are only likely to loosen monetary policy quickly in the face of economic and financial sector turmoil that risks unemployment overshooting – which would probably be accompanied by a slump in stocks.

In any case, a possible cessation of the global monetary policy tightening cycle is not the only likely driver of the market going forward. China’s post-pandemic re-opening, shifting geopolitics and even breakthroughs in fields such as artificial intelligence are all potentially potent investment themes in the months ahead.

The strong gains that markets have charted in the first few weeks of 2023 might just be the beginning of another bout of volatility rather than the start of a new bull run fuelled by loosening monetary policy.

OCBC unit files police report against Gudang Garam owner

THE Indonesian arm of OCBC Bank filed a police report against a billionaire owner of cigarette-maker PT Gudang Garam.

PT Bank OCBC NISP filed the report against Susilo Wonowidjojo, an owner and president director of Gudang Garam, on fraud allegations relating to some 232 billion rupiah (\$20 million) in troubled loans, the lender’s lawyer Hasbi Setiawan said in a statement on Friday (Feb 3).

The bank disbursed the loan in 2016 to a wig-making company owned by Wonowidjojo’s family, Setiawan added. The case involves a total of one trillion rupiah of funds when including loans from other lenders, he said.

A representative for Gudang Garam didn’t immediately respond to requests for comment and calls to the company’s office were not answered. Gudang Garam shares fell 5.7 per cent on Friday in their biggest drop since Jan 5, ending a four-day gain of nearly 16 per cent. OCBC NISP shares gained 1.3 per cent. BLOOMBERG

Property stamp duty collection falls 15.7% to S\$4.4b in first 9 months of FY2022

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were leased due to a large volume of Malaysians not renewing their leases and a lower number of new private homes sold, he said.

At the same time, there was a fall in the number of permanent residents (PRs), foreigners and companies buying residential property, which may have also played a part in the lower stamp duty collected since they pay higher stamp duties than Singapore citizens.

Still, Nicholas Mak, ERA’s head of research and consultancy, believes the reopening of China’s border could lead to more Chinese

buyers purchasing properties here and increasing the percentage of foreign buyers.

Huttons’ Lee concurs. He believes a higher number of buyers from China and other countries may push the percentage of foreign buyers of Singapore homes to 5 per cent from the estimated 4.1 per cent for 9M FY2022.

Christine Sun, OrangeTee & Tie’s senior vice-president (research and analytics), noted that more transactions are expected in the first three months of 2023 – which is also the last quarter of FY2022.

However, since the total number of transactions in 9M FY2022 has

already dropped substantially versus the year-ago period, she reckons the total stamp duty collected for FY2022 may be slightly less than in FY2021.

Cushman & Wakefield’s Wong shares a similar view. “Though we anticipate stronger property transaction volumes in Q1 2023 compared to Q4 2022, current market headwinds such as a cooling measures overhang, heightened interest rates and economic uncertainty continue to persist.”

Huttons’ Lee estimates stamp duty to be 25 per cent lower year on year for FY2022.

But since the number of residen-

tial projects expected to be launched in 2023 could be double that of 2022, the number of residential units sold this year could also be higher than last year’s, noted ERA’s Mak.

“As a result, the government could potentially collect more property stamp duty in 2023,” he said.

Meanwhile, property tax collection grew 5 per cent to S\$3.02 billion in 9M FY2022 from S\$2.87 billion in the year-ago period, and is expected to finish higher in FY2022 than in FY2021.

Property tax revenue depends on the property tax rate, the

number of properties to be taxed and the annual value of each property.

Property tax rates will go up in two rounds, the first already effective since Jan 1, 2023, and the second on Jan 1, 2024.

“Since more new homes will be completed in 2023 and 2024; and with the higher property tax rates, it’s only natural that the property tax revenue will rise,” noted Mak, adding that the annual value for most residential properties – as appraised by valuers in the Inland Revenue Authority of Singapore based on rental rates – will also be adjusted in 2023.

Malaysia to refresh appeal of Iskandar southern growth corridor to Singapore

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ry body under the federal government whose key task is to plan policies and strategies and promote and facilitate investments in the southern corridor.

One key aspect is to improve connectivity. This includes, for example, a ferry service that links Puteri Harbour International Terminal to Singapore, said Zafrul. The Puteri Harbour ferry terminal is located in the south-west of the state, within a 10-minute drive to tourist attractions such as Legoland Malaysia. It is also a 30-minute drive to Johor Baru town centre.

Johor Chief Minister Onn Hafiz Ghazi said recently the terminal is a key international entry point and that the state is exploring ways to enable transportation for this ferry terminal to Singapore. Even so, the plan to link Puteri Harbour to Singapore is not new but instead has been banded about for years.

“These are the low hanging fruits – trade and investments to drive growth. We realise that it’s key that Singapore is part of the Iskandar Malaysia plan,” Zafrul said.

“I can’t share too much now because we are still at the concept stage. Some of the ideas are not new and it’s about how to refresh the ideas and make it more relevant to today’s situation. We should just get on with it... we already have the infrastructure,” he admitted.

Noteworthy is that Onn Hafiz was part of the delegation led by Anwar recently in his first official visit to Singapore as Malaysia’s Prime Minister.

The connectivity between Johor Baru or Iskandar Malaysia and Singapore relates mainly to the physical transportation connectivity of people and ground transport.

“The congestion problem is dire,” remarked Sulaiman Saheh, research director of real estate con-

sultancy Rahim & Co International. He was referring to the hundreds of thousands of commuters who travel daily between Johor and Singapore, which is also one of the world’s busiest land crossings.

“One can take up to two to three hours to cross the Causeway, and that’s one-way. For Singaporeans to realise their dream of, say, sending their children to an internationally-renowned college or university at a much cheaper tuition fee, or have a business meeting at their manufacturing facility or satellite office in Johor Baru, and having to be on the road for three to five hours a day, is an inconvenience.

“This discourages to some degree the movement of investments to Iskandar Malaysia, which has seen a plateau since its hype in the mid-2010s,” he added.

Since its incorporation in 2006 until June 2022, Iskandar Malaysia has recorded total investments of RM367.8 billion (\$114 billion). Of

that amount, RM148.1 billion constituted foreign investments. For the same period, Singapore was the second top investor in Iskandar Malaysia with an investment value of RM25.3 billion.

For the period of January to June 2022, Iskandar Malaysia registered RM13.2 billion in committed investments, whereby RM5.9 billion had been realised, according to data provided by Miti.

Following Miti’s recent investment mission to Singapore, Malaysia drew an additional RM13 billion of committed foreign direct investment from three investors – Sea Ltd, the parent company of e-commerce platform Shopee; UK-based data centre development and operation company Yondr Group; and Singapore-based alternative protein company Insect. These investments are largely focused in Johor.

Previndran Singhe, managing director and chief executive of Ze-

rin Properties, a Malaysia-based real estate services company, said the expansion of various industries will drive demand for real estate play with healthcare, wellness, education, tourism and leisure, workers’ accommodation and agro-based industries becoming key beneficiaries.

“The intentions stated are commendable and well-supported but then again are not really ‘brand new,’” said Sulaiman when asked to comment on Malaysia’s goal to revitalise Iskandar Malaysia.

“The key now is implementation. Plans are only as good as their actual execution, and this is where it gets tricky,” Sulaiman added. “Under the new government, we hope that a comprehensive strategy with an executable plan will be formulated. The challenge is to make financial sense and be sustainable, as well as to maintain focus with the ultimate beneficiaries in mind.”

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