

19 April 2024

## Global Economics & Market Strategy

### Black Swans-led Uncertainties May Mean Short-Term Risk Off

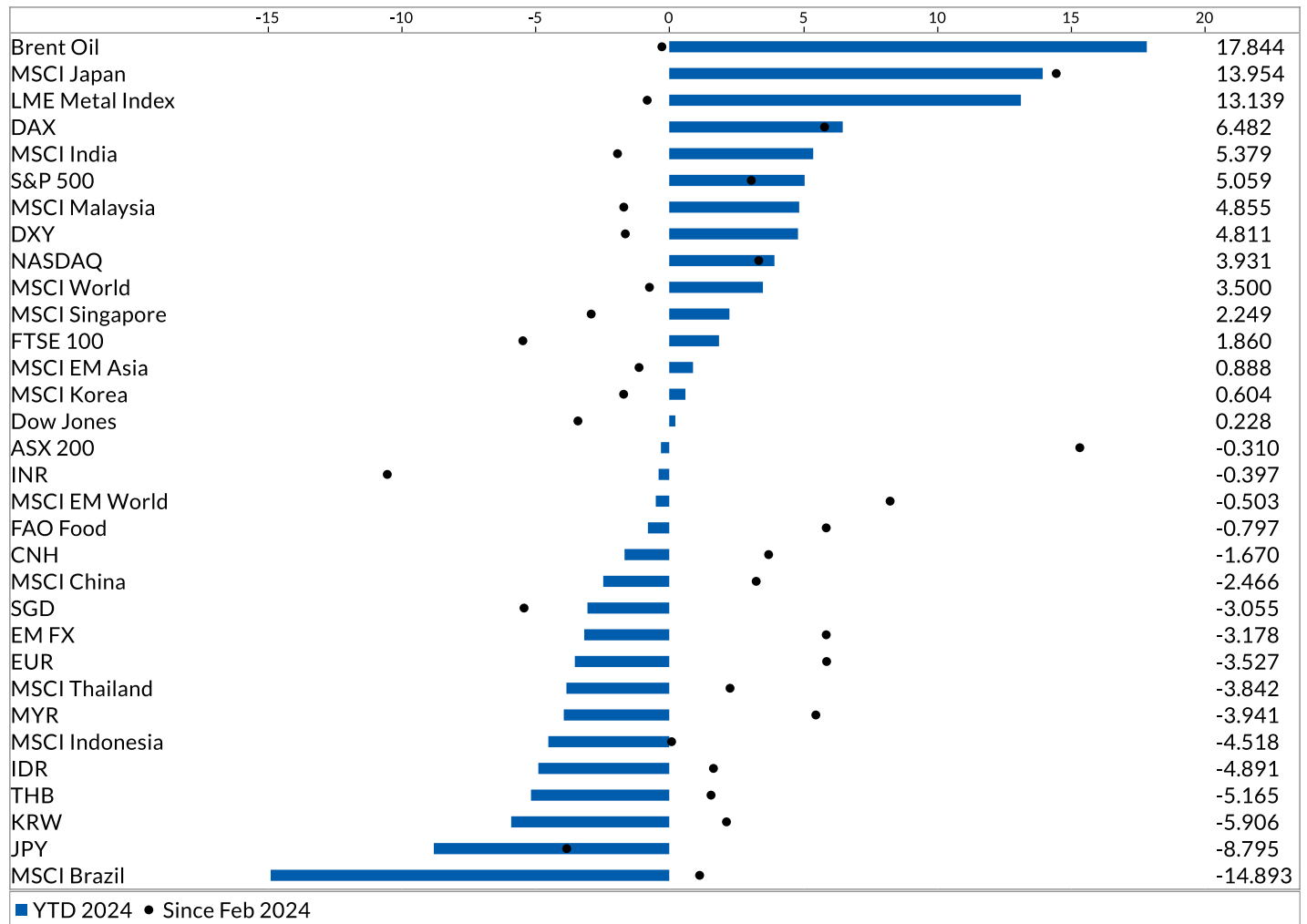
- ◆ **Despite the ongoing Middle East tensions, our full-year global growth assumptions are for risk appetite to remain in risk-on mode.** We keep our global growth assumptions for a rosier 2024 backdrop in view for tensions to stay isolated with selected members of the Middle East region. However, black swan-led uncertainties could mean a short-term return to risk-off mode; we advocate some asset allocation into quality assets and safe havens, such as gold and US treasuries. Recent escalations have led to higher gold prices and lower UST yields, with crude oil prices rallying back to their US\$90 per barrel handle.
- ◆ **Our recent [thematic report](#) suggests two probable scenarios:** (1) base case is for tensions to stay isolated within selected members of the Middle East, thus suggesting that the collateral damage may be limited to the broader region and the Group of Seven (G7) members, while the (2) worst case is for military intervention by further escalation of current tensions – to be a tail-end risk at this point, defined as tensions spreading into the broader Middle East region coupled with a military move by selected G7 economies. Our base case supports our global growth assumptions, as mentioned. In the worst-case scenario, we see a negative impact on about 40% of global GDP, 50% of global total trade, and 30% of international investments, while Brent crude may rally to its US\$140 per barrel handle.
- ◆ **The renewed Middle East tensions reinforce our view that global inflation will persist.** As cited in our [previous weekly report](#), we view US core PCE inflation to trend higher than the 2.0% handle by the end of 2024, suggesting that core prices are not trending towards the path of 2.0% in 2024. Higher crude oil prices seen in the past two weeks, coupled with further upside in global food and base metal prices, all suggest a period of elevated inflation for the year ahead. The implications are (1) we recently downgraded our outlook for the US Fed Funds Rate to see only one cut towards 4Q24, with the balance of risks magnified towards no cut for the whole year, (2) DXY will continue to trend higher towards the 110 handle, thus putting pressure of broad ASEAN FX pairs, and (3) UST 10Y yields, which may see a knee-jerk fall due to tensions, may head towards 5.0% as market participants gradually price out FFR cuts in 2024.
- ◆ **Latest Fedspeak has seen a dramatic shift in rhetoric, with officials now turning relatively hawkish.** Fed chair Jerome Powell commented, "It is appropriate to allow restrictive policy further time to work". Fed Bank of New York President John Williams said that FFR hikes may be possible, albeit it is not his baseline expectation. Meanwhile, Atlanta Fed president Raphael Bostic noted he doesn't think it will be appropriate to ease until the end of 2024. At the same time, Minneapolis President Neel Kashkari said the Fed could "potentially" hold rates steady for this year. Overall, we do not think the market is done pricing out FFR cuts for this year; further revision of rate cuts towards one, or potentially zero, will likely persist into 2H24.
- ◆ **Closer to home, Malaysia's [1Q24 advance GDP](#) saw a respectable 3.9% YoY growth, accounting for only January and February's data releases.** We pencil upside bias towards 4.2% YoY for the final GDP print scheduled to be released on 17 May 2024. Based on the seasonal adjustment (X-13 ARIMA), Malaysia's GDP growth momentum has accelerated to +0.9% QoQ (3QMA) in 1Q24, against +0.7% QoQ (3QMA) in 4Q23. We keep our full-year GDP forecast at 4.6%.

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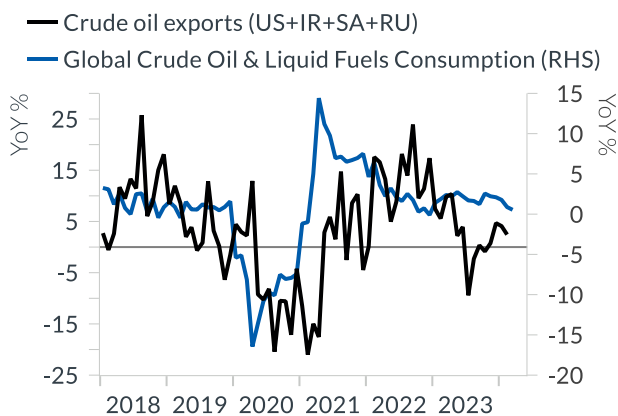
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Figure 1: YTD 2024 total return – Brent, Metals, and Food prices are on the rise; risk sentiment may soften in the coming weeks



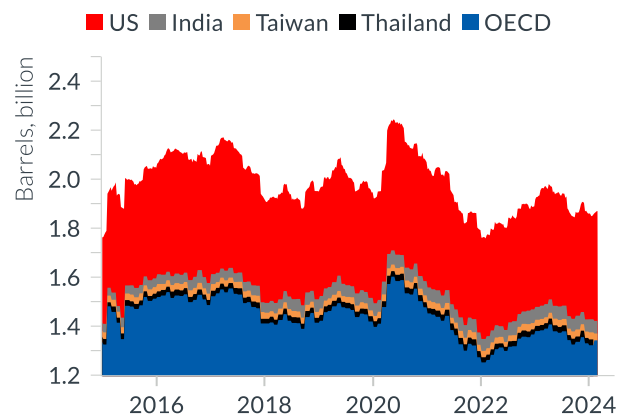
Source: Macrobond, RHB Economics & Market Strategy

Figure 2: Crude oil fundamentals are in focus, with Iran and Iraq commanding over 8.0 mbpd of oil production



Source: Macrobond, RHB Economics & Market Strategy

Figure 3: Global oil inventories continue to fade lower, with fundamentals clearly suggesting higher oil prices



Source: Macrobond, RHB Economics & Market Strategy

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Figure 4: We think DXY could head towards 105 – 110 in 2Q24, with the USD being a clear winner amongst the FX space

FX Rates % Change						
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	9.64	6.97	2.24	154.621	151.647	127.516
CHF per USD	8.25	1.93	1.13	0.912	0.941	0.837
KRW per USD	6.28	4.61	2.44	1378.170	1361.825	1222.444
AUD per USD	5.92	3.47	1.37	1.555	1.590	1.408
TWD per USD	5.89	4.18	1.61	32.470	32.479	29.668
THB per USD	5.45	4.16	1.27	36.802	37.069	32.704
IDR per USD	5.14	7.79	2.11	16203.600	15946.000	14652.765
DXY	4.73	3.18	1.62	106.180	107.000	99.770
MYR per USD	4.10	2.46	1.25	4.784	4.793	4.245
EUR per USD	3.66	2.38	1.25	0.938	0.955	0.890
PHP per USD	3.38	3.55	1.97	57.271	57.146	53.946
SGD per USD	3.15	0.59	1.00	1.362	1.374	1.308
GBP per USD	2.38	2.15	1.52	0.804	0.845	0.762
CNH per USD	1.70	-0.34	-0.06	7.250	7.342	6.713
INR per USD	0.40	1.85	0.24	83.581	83.439	80.988

Source: Macrobond, RHB Economics & Market Strategy

Figure 5: DM govt 2Y yields continued to climb YTD...

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United States	69.5	32.5	4.95	5.22	3.77
Germany	55.6	10.2	2.95	3.33	2.34
United Kingdom	50.8	29.9	4.46	5.48	3.17
Indonesia	41.8	49.0	6.80	6.91	5.62
S. Korea*	30.8	14.1	3.45	4.14	3.12
Singapore	16.2	-4.4	3.42	3.73	2.87
Malaysia*	14.0	11.3	3.60	3.69	3.31
India	4.0	8.5	7.11	7.39	6.80
Thailand	-0.8	15.6	2.32	2.62	1.53
China	-34.5	-6.4	1.84	2.47	2.07

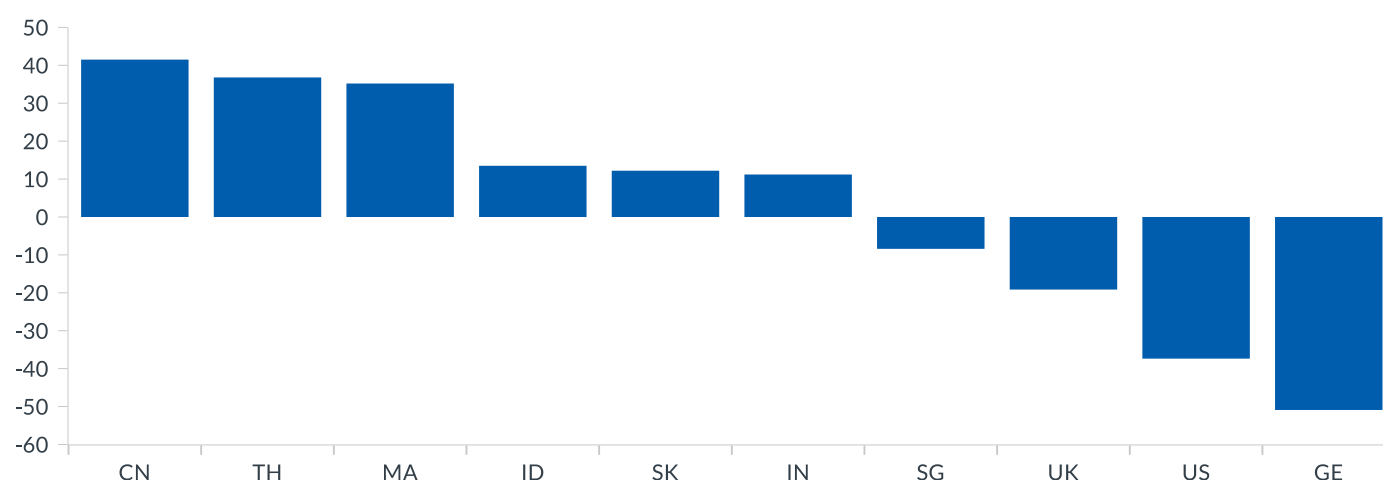
Source: Macrobond, RHB Economics & Market Strategy \*Malaysia \* Korea 3Y Bonds, YTD & QTD figures are in bps

Figure 6: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	74.1	33.9	4.27	4.74	3.00
United States	69.2	37.1	4.57	4.99	3.31
Singapore	64.3	24.4	3.33	3.50	2.66
Indonesia	48.2	24.3	6.94	7.22	6.16
Germany	41.8	14.2	2.44	2.97	1.89
S. Korea	40.5	17.7	3.58	4.40	3.16
Malaysia	22.6	10.2	3.96	4.16	3.65
India	3.7	16.9	7.22	7.44	6.96
Thailand	1.6	19.0	2.69	3.35	2.26
China	-30.3	-3.5	2.25	2.92	2.54

Source: Macrobond, RHB Economics & Market Strategy, YTD and QTD figures are in bps

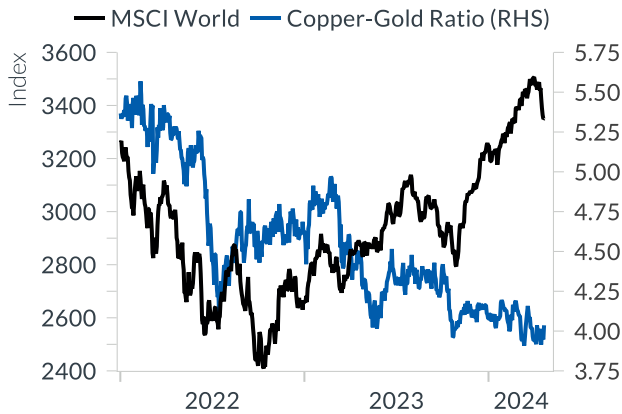
Figure 7: UST 2-10Y spread inversion may widen in the coming weeks should market participants continue to price out FFR cuts



Source: Macrobond, RHB Economics & Market Strategy

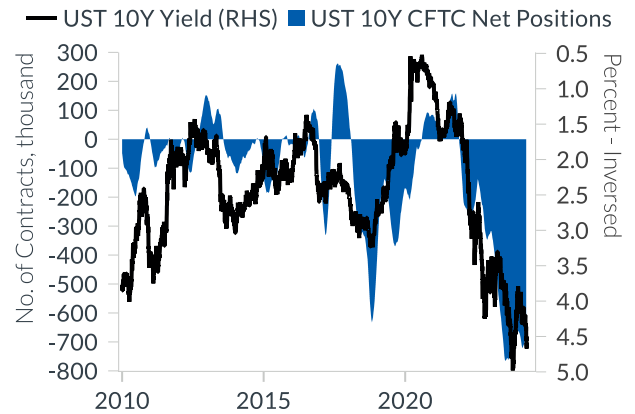
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**Figure 8: Some profit-taking ensued in MSCI world, as investors price in two or less FFR cuts**



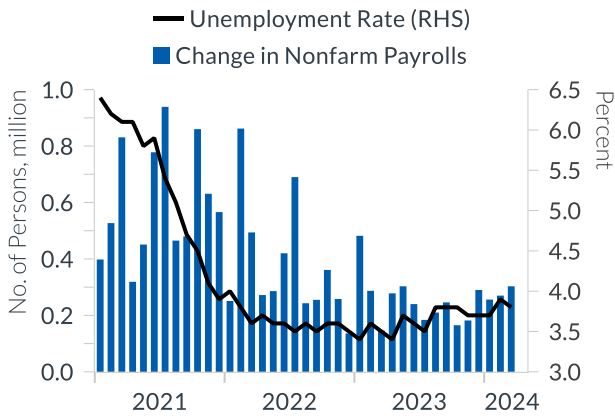
Source: Macrobond, RHB Economics & Market Strategy

**Figure 9: Speculative net-shorts in UST persist, suggesting stickiness in UST 10YR yields**



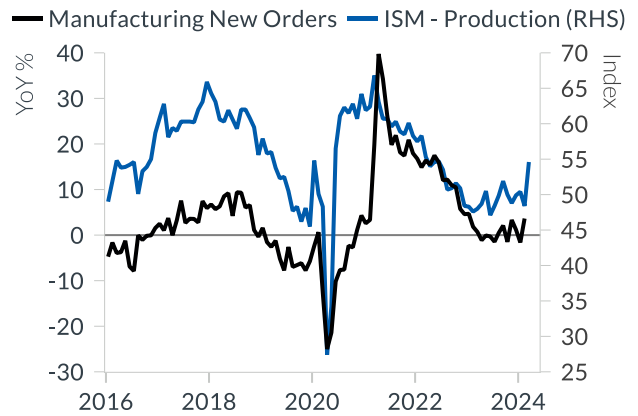
Source: Macrobond, RHB Economics & Market Strategy

**Figure 10: US non-farm is (very) strong, higher unemployment rates a function of more job seekers**



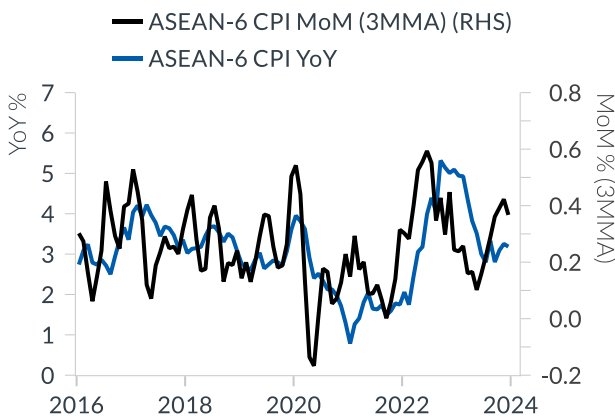
Source: Macrobond, RHB Economics & Market Strategy

**Figure 11: US manufacturing activities accelerated in the latest prints, suggesting the bottom is found**



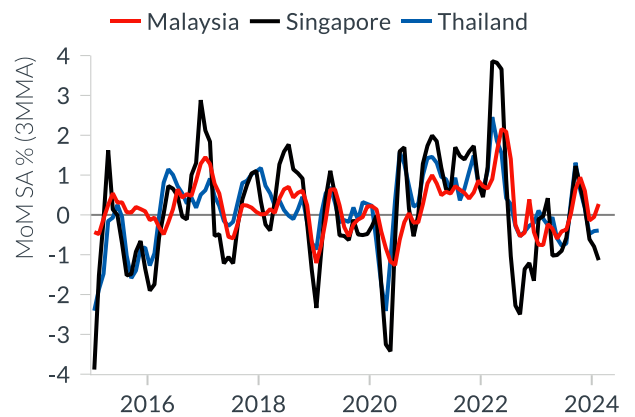
Source: Macrobond, RHB Economics & Market Strategy

**Figure 12: ASEAN-6 GDP-Weighted CPI momentum is heating up**



Source: Macrobond, RHB Economics & Market Strategy

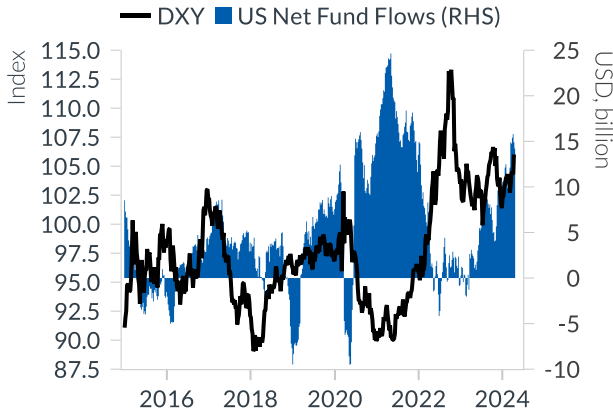
**Figure 13: ... while import price momentums have picked up for key markets**



Source: Macrobond, RHB Economics & Market Strategy

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**Figure 14: High for longer rates likely led to more fund inflows into the US, thus supporting DXY...**



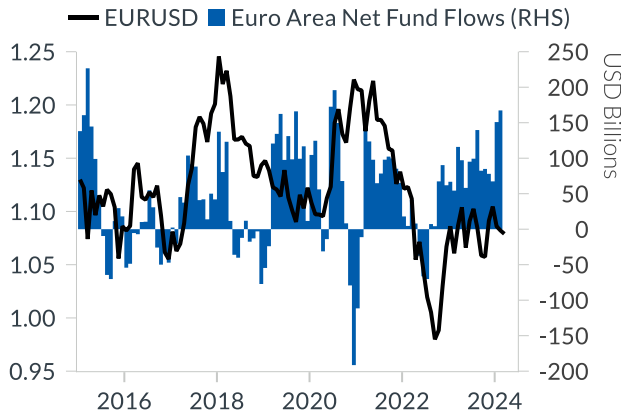
Source: Macrobond, EPFR, RHB Economics & Market Strategy

**Figure 15: ... while USD carry stays positive year-to-date**



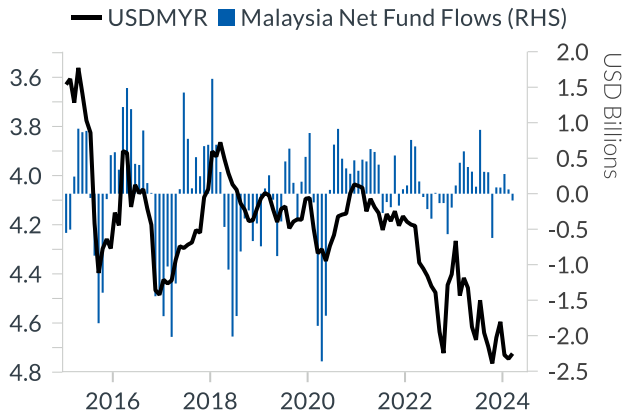
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 16: Fund flows into Euro Area accelerated in the latest week, but EUR flat-lined...**



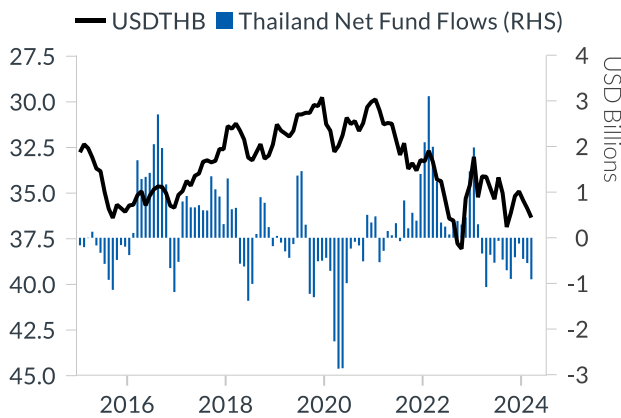
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 17: ... while the MYR is likely headed towards 4.8 per USD amid relatively tepid fund flows**



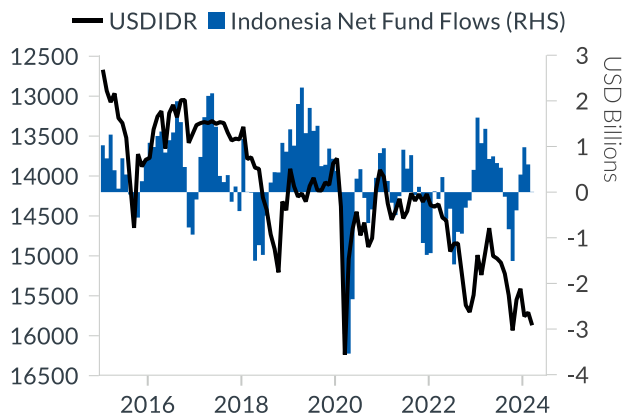
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 18: No reprieve for Thailand's net outflows, suggesting further weakness in THB...**



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

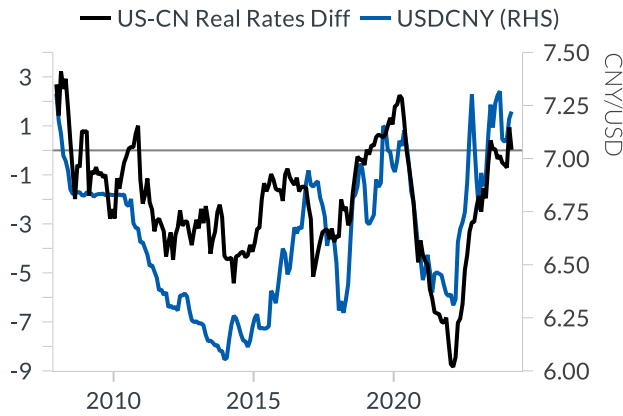
**Figure 19: ... while fund inflows slowed into Indonesia, underlining some further IDR weakness**



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

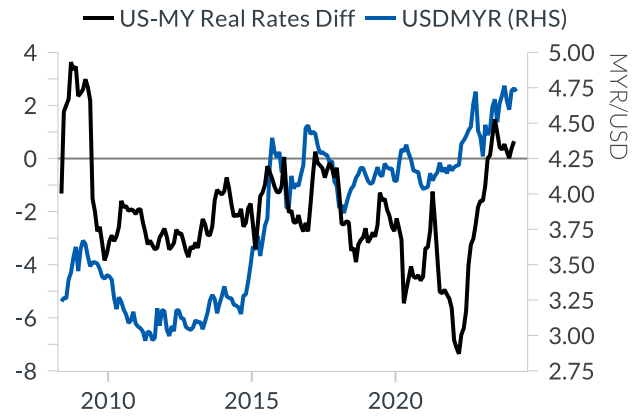
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**Figure 20: US-CN real rates differentials suggest USDCNY to move towards 7.0 by end 2024**



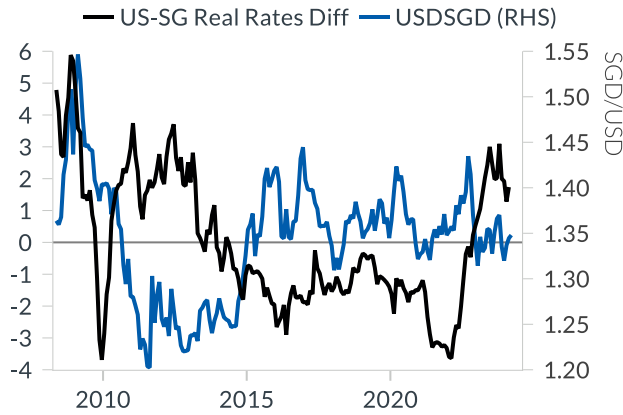
Source: Macrobond, RHB Economics & Market Strategy

**Figure 21: US-MY real rates is elevated on higher Malaysia's inflation, MYR may test 4.8 per USD...**



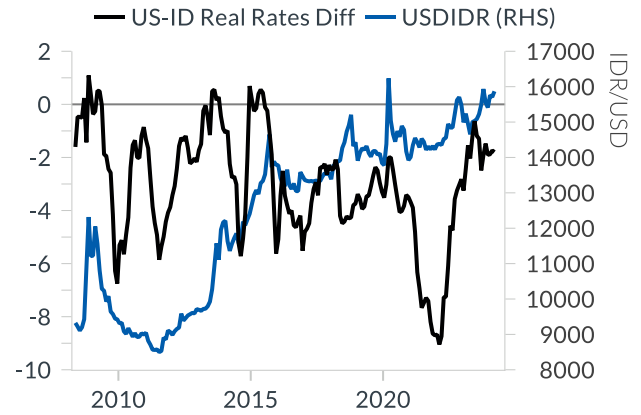
Source: Macrobond, RHB Economics & Market Strategy

**Figure 22: ... while Singapore appears less susceptible to rate differentials given its S\$NEER appreciation policy**



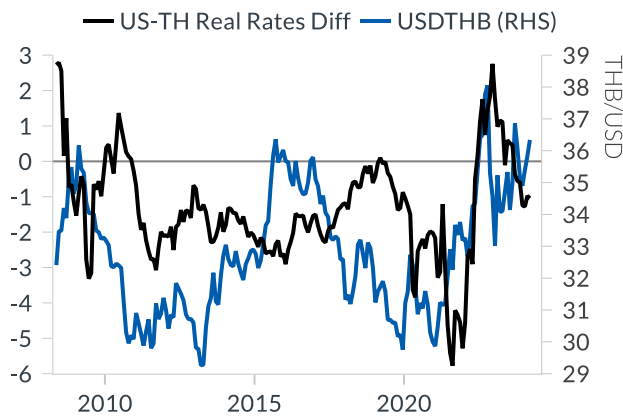
Source: Macrobond, RHB Economics & Market Strategy

**Figure 23: US-ID real rates remain flat, suggesting BI rate will likely move in tandem with FFR in 2024**



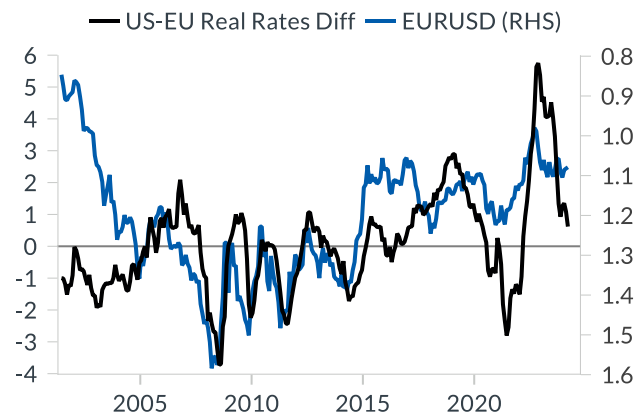
Source: Macrobond, RHB Economics & Market Strategy

**Figure 24: Thailand's real rates will likely narrow as subsidies expire, THB continue to depreciate in 1H24**



Source: Macrobond, RHB Economics & Market Strategy

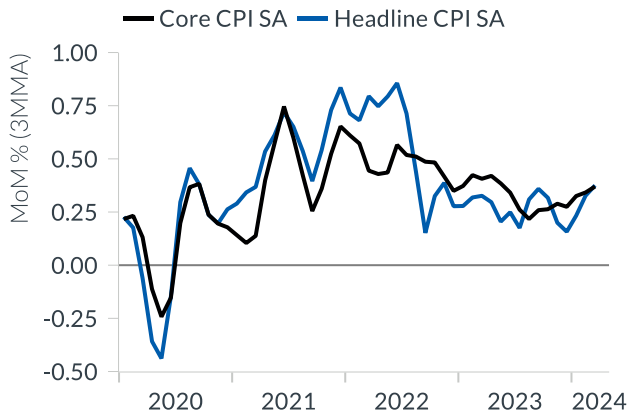
**Figure 25: EURUSD remains well-behaved against US-EU 3M rate spread**



Source: Macrobond, RHB Economics & Market Strategy

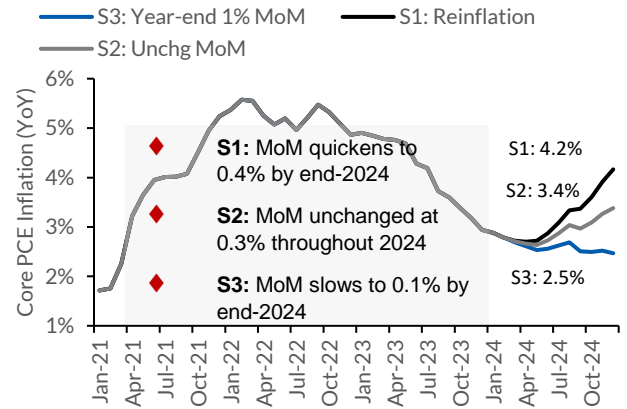
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**Figure 26: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...**



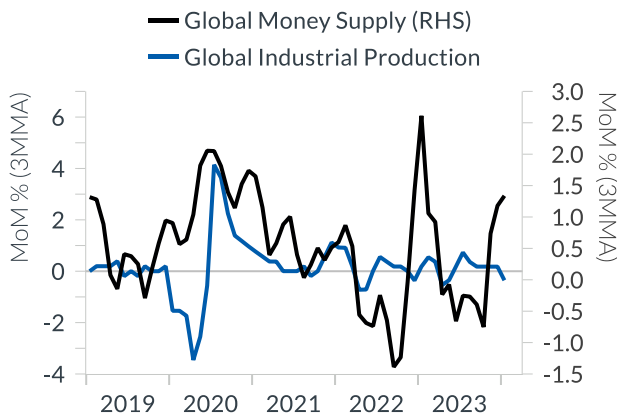
Source: Macrobond, RHB Economics & Market Strategy

**Figure 27: ... and year-end PCE core inflation will be flat at around 2.5% even if MoM decelerates to 0.1%**



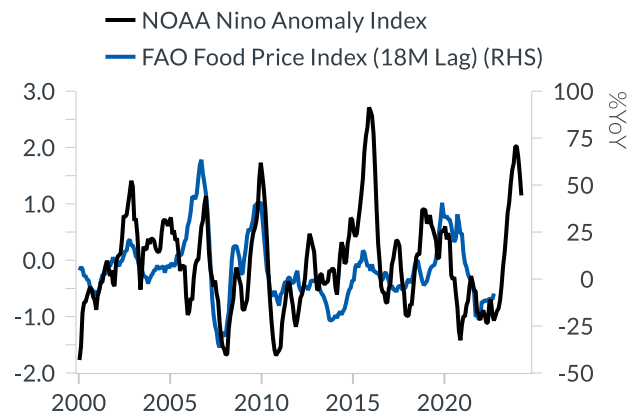
Source: Macrobond, RHB Economics & Market Strategy

**Figure 28: Loosening global financial conditions led by China could mean support for global manufacturing**



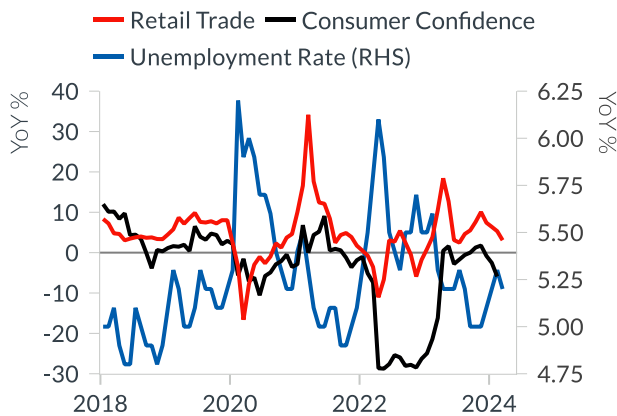
Source: Macrobond, RHB Economics & Market Strategy

**Figure 29: Higher global food prices may be evident from the El Nino condition**



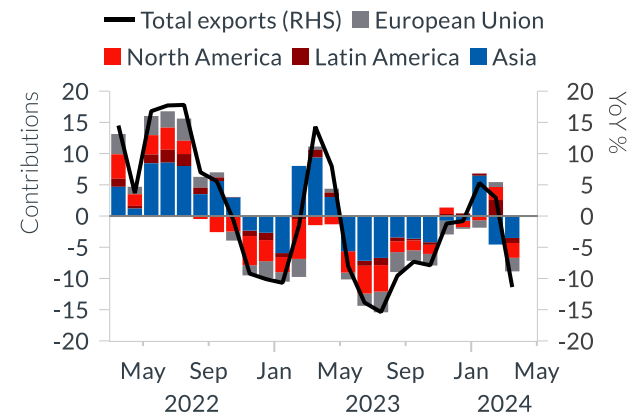
Source: Macrobond, RHB Economics & Market Strategy

**Figure 30: Chinese-centric high-frequency data has weakened in Feb, likely due to CNY...**



Source: Macrobond, RHB Economics & Market Strategy

**Figure 31: ... similar for exports, whereby momentum has softened...**

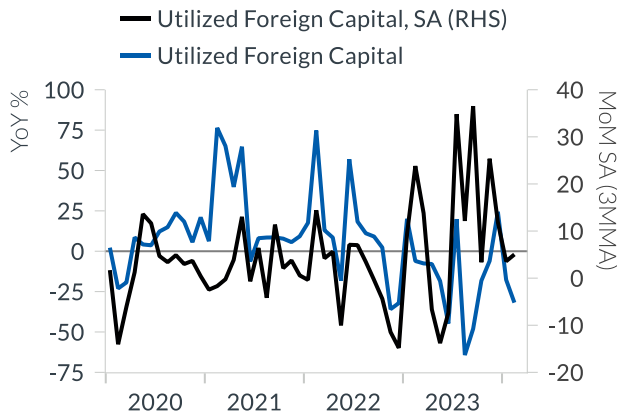


Source: Macrobond, RHB Economics & Market Strategy



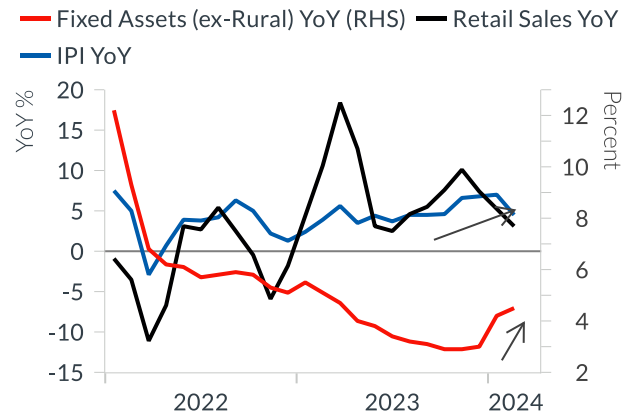
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Figure 32: China's utilisation of foreign capital declined in January, potentially because of the Lunar New Year...



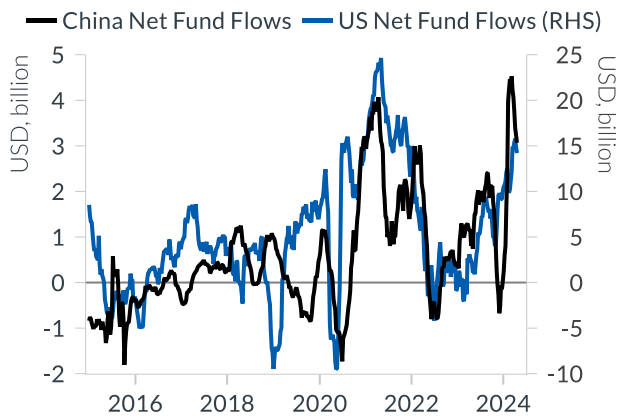
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: ... which is not a concern as the recovery in China's IPI and consumer spending are still seen



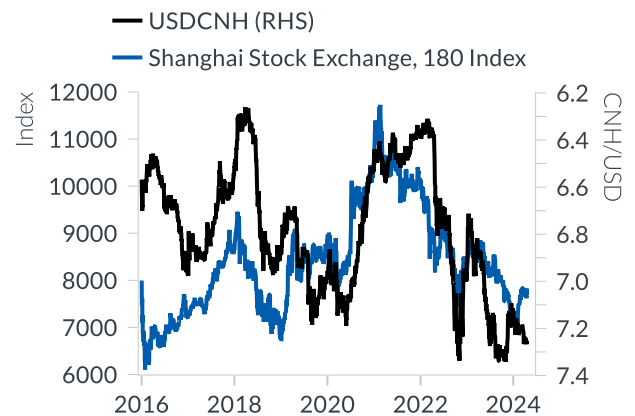
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: Investors' interest in US funds remain healthy, but note the return of investment into China...



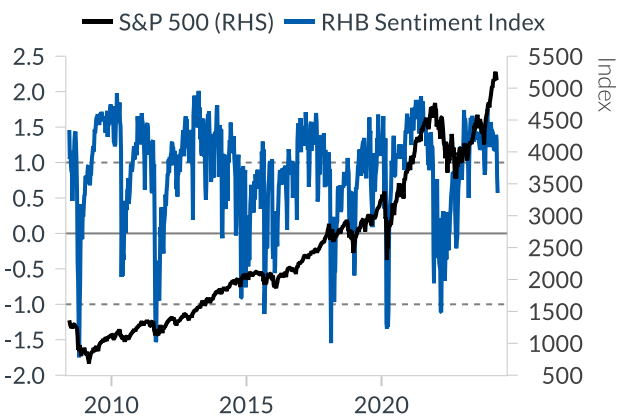
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 35: ... thus suggesting a likely bottoming of SSE and CNH



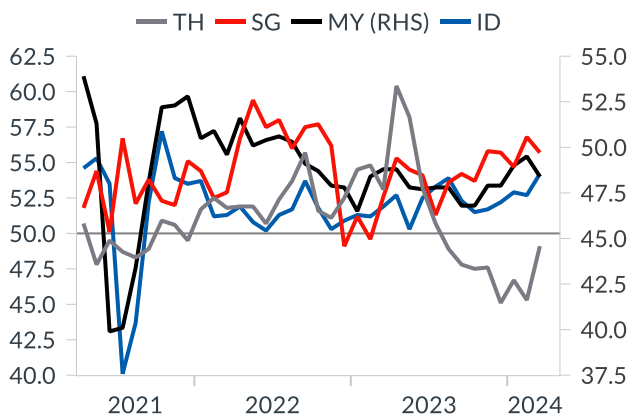
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: RHB risk sentiment index turn less positive as investors price out FFR cuts amid Middle East tensions



Source: Macrobond, RHB Economics & Market Strategy

Figure 37: PMI (whole economy) numbers in most ASEAN economies are up

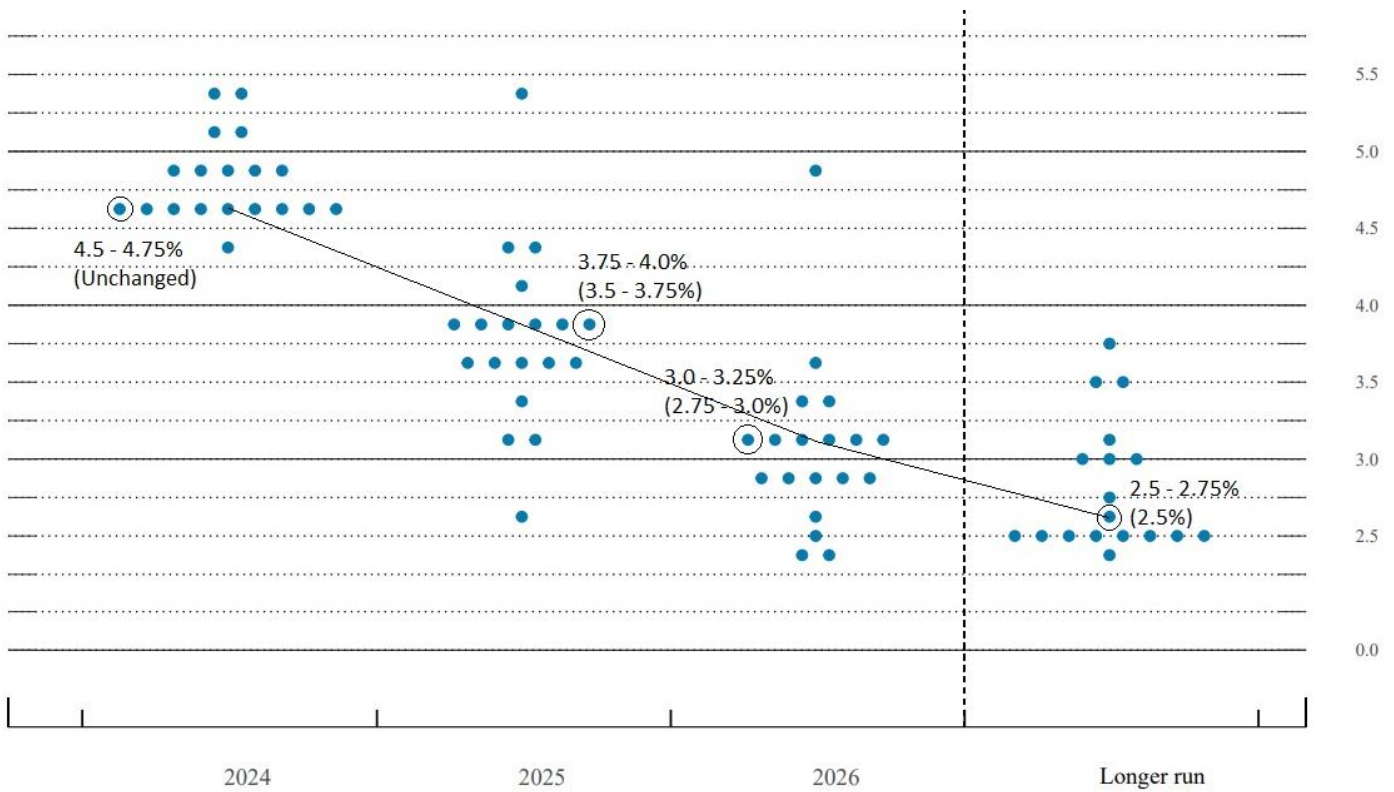


Source: Macrobond, RHB Economics & Market Strategy



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Figure 38: March median dot-plot chart signalled 3 cuts in 2024, but revised rates higher in 2025 - 2026



Source: US Federal Reserve, RHB Economics & Market Strategy

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