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Global Economics & Market Strategy

Whispers of FFR Hike Can be Heard

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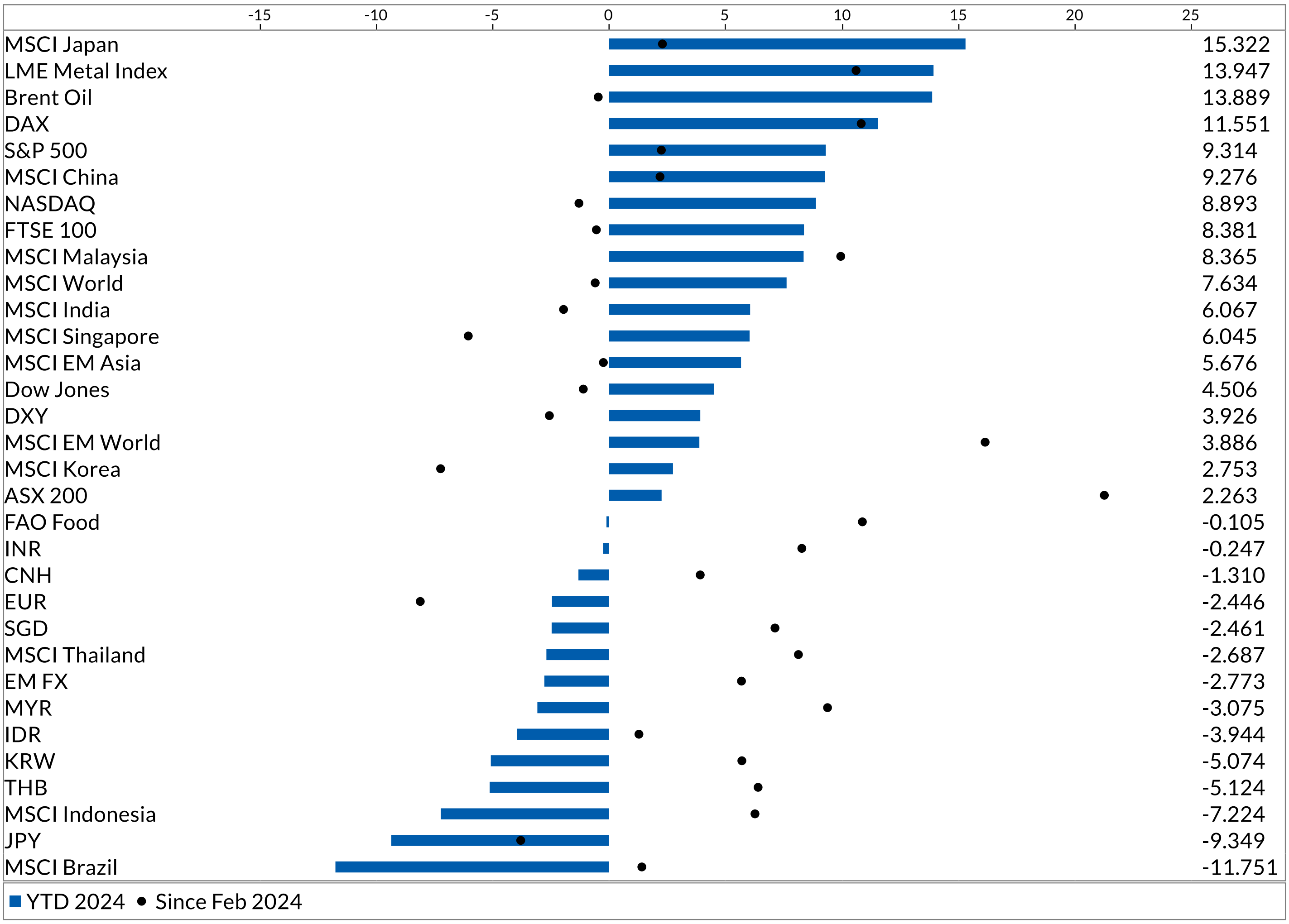
- **We are one month away from 11 – 12 June's US FOMC meeting, where the committee members are expected to release economic projections and a revised dot-plot chart.** What we are hearing from the Fedspeak may be disconcerting to dovish-tinted investors, whereby official rhetoric has recently been mentioned potential FFR hikes should inflation stay elevated. According to Minneapolis Fed Chair Neel Kashkari, "We need (rates) to go higher… (should) inflation be embedded or entrenched at 3.0%". Other members, including Boston Fed Chair Susan Collins & San Francisco Fed Chair Mary Daly, commented that "more time (needed)" to return inflation to the central bank's 2.0% goal, with the latter adding that the US economy is normalising but is far from weak. The sudden visit to rate hike possibilities and louder calls for the FFR to stay unchanged could mean a material shift in the upcoming FOMC dot plot.

- **Our view for only one FFR cut by end-year remains unchanged, with the balance of risks magnified towards no rate cuts.** We think that market pricing return to two rate cuts is too myopic and likely to be repriced back to one-to-zero rate cuts by the end of the year when the market realises that global inflation is here to stay. Energy prices may trend higher despite the recent decline in crude oil prices – Brent is currently trading around US$85 per barrel on falling risk premiums. Still, we expect (1) continued global economic recovery and (2) extended OPEC+ supply to linger and bring Brent crude price back to US$90 per barrel in 2H24. We continue to see evidence of higher food and base metal prices, poor weather conditions and a rosier China-centric economic environment to support key commodity prices. Our US inflation model suggests the risk of core PCE inflation to stay entrenched around the 3.0% handle in 2H24, and in the words of Kashkari, suggesting that rate hikes may not be impossible should core PCE momentum stay elevated at >0.3% MoM (see Figure 27).

- **The implications to our view are as follows: First, we continue to see upside risks for DXY to move towards 110 in 2Q24, assuming that FFR cuts continue** to be priced out and recent labour weakness is a blip. The DXY momentum has turned flat this week as US-centric indicators were of mixed signals (high US inflation but a relatively weaker labour market) on how rates may move. For short-term movements, we think the DXY will likely range trade between 104.8 and 106.2 in the coming week, with technical indicators for DXY lacking key turning signals such as Bollinger band, RSI and MACD. Second, market pricing out of FFR cuts into 2Q24 should mean that the decline of US10Y yields below 4.5% is temporal, with the recent fall also likely a function of lower risk premiums. We forecast US 10Y yields to rally back above 4.5% and potentially move higher towards 4.8% in 2Q24. Third, a stronger DXY into 2Q24 should mean a generally softer ASEAN FX spectrum, where we think MYR may move higher back to its 4.8 per USD handle. Our caveats to our forecasts have been discussed in our prior weekly report, specifically (1) lower-than-expected global inflation, (2) unexpected deterioration of US labour conditions and (3) unanticipated uptick in exogenous risks such as geopolitical tensions.

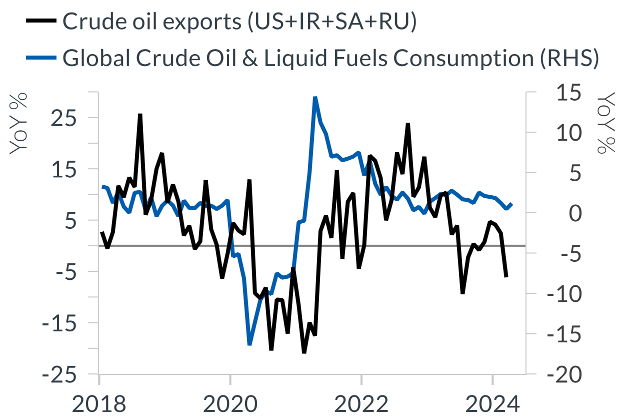
- **Closer to home, we keep our forecast for Malaysia's policy rate at 3.0% for the year.** We see no reason for Bank Negara Malaysia (BNM) to tweak its rate this year on the back of a rosier GDP backdrop of 4.6%, tame headline inflation of 3.3%, and a relatively stable MYR quarter-to-date. (report)

Figure 1: YTD 2024 total return – Metal prices rising with a vengeance, while Brent's recent decline may be temporal. We remain overweight on US equities, marketweight fixed income and underweight cash



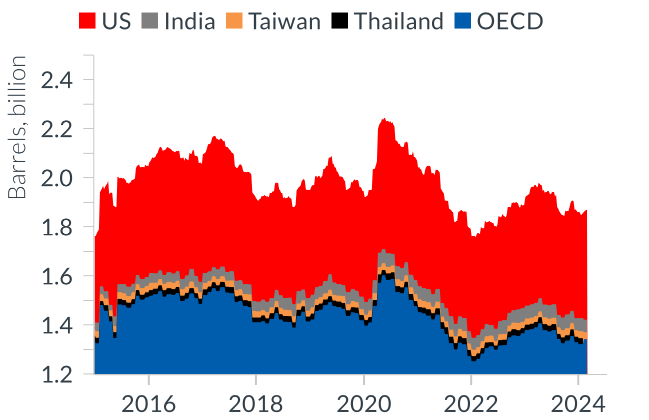
Source: Macrobond, RHB Economics & Market Strategy

Figure 2: Crude oil exports by key producers turned negative on a YoY basis…



Source: Macrobond, RHB Economics & Market Strategy

Figure 3: … global inventories remain ample, although lower exports may mean that oil prices may stay strong



Source: Macrobond, RHB Economics & Market Strategy

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	10.31	7.62	2.86	155.565	151.647	127.516
CHF per USD	7.61	1.33	0.53	0.907	0.941	0.837
TWD per USD	5.69	3.98	1.42	32.408	32.479	29.668
THB per USD	5.40	4.12	1.23	36.786	37.069	32.704
KRW per USD	5.35	3.70	1.54	1366.100	1361.825	1222.444
IDR per USD	4.11	6.73	1.10	16043.750	15946.000	14652.765
DXY	3.79	2.24	0.69	105.220	107.000	99.770
PHP per USD	3.41	3.58	2.00	57.289	57.146	53.946
MYR per USD	3.17	1.55	0.35	4.741	4.793	4.245
AUD per USD	3.14	0.75	-1.29	1.514	1.590	1.408
SGD per USD	2.52	-0.02	0.39	1.353	1.374	1.308
EUR per USD	2.51	1.24	0.13	0.928	0.955	0.890
GBP per USD	1.83	1.60	0.97	0.799	0.845	0.762
CNH per USD	1.33	-0.70	-0.43	7.224	7.342	6.713
INR per USD	0.25	1.70	0.09	83.455	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	56.8	19.8	4.82	5.22	3.77
Germany	54.0	8.6	2.93	3.33	2.34
Indonesia	47.3	54.5	6.86	6.91	5.62
United Kingdom	30.1	9.3	4.26	5.48	3.17
S. Korea*	29.7	13.0	3.44	4.14	3.12
Singapore	15.0	-5.6	3.41	3.73	2.87
Malaysia*	14.7	12.0	3.61	3.69	3.31
India	1.8	6.3	7.09	7.39	6.80
Thailand	1.1	17.5	2.34	2.62	1.53
China	-31.7	-3.6	1.87	2.47	2.07

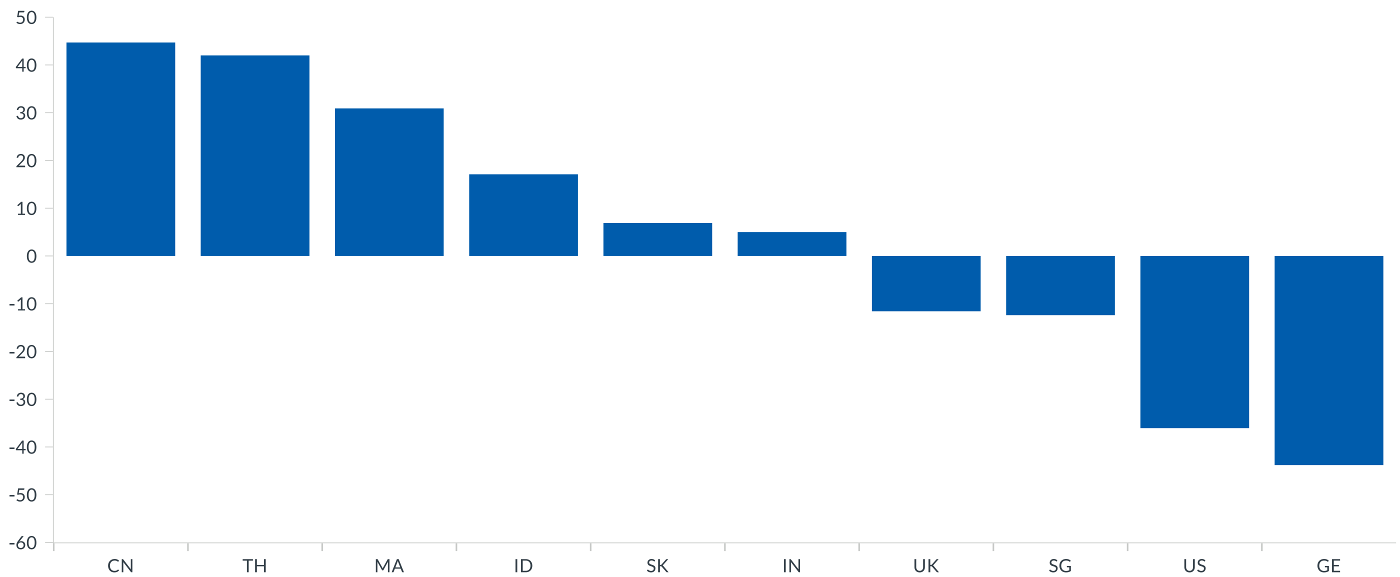
*Source: Macrobond, RHB Economics & Market Strategy *Malaysia * Korea 3Y Bonds, YTD & QTD figures are in bps*

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

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	61.1	20.9	4.14	4.74	3.00
Singapore	59.0	19.1	3.28	3.50	2.66
United States	57.8	25.7	4.46	4.99	3.31
Indonesia	49.2	25.3	6.95	7.22	6.16
Germany	47.3	19.7	2.49	2.97	1.89
S. Korea	36.1	13.3	3.54	4.40	3.16
Malaysia	19.0	6.6	3.92	4.16	3.65
Thailand	8.7	26.1	2.76	3.35	2.26
India	-5.1	8.1	7.13	7.44	6.96
China	-24.3	2.5	2.31	2.92	2.54

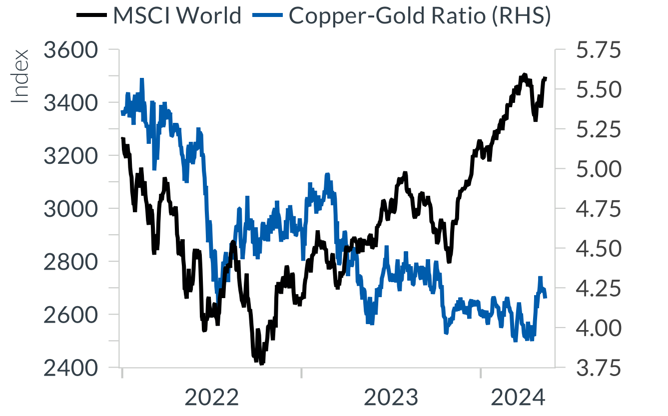
Source: Macrobond, RHB Economics & Market Strategy, YTD and QTD figures are in bps

Figure 7: Recent decline in US 10Y yields magnified US 2-10Y negative spread towards 40bps (from prior 30bps at start of May)



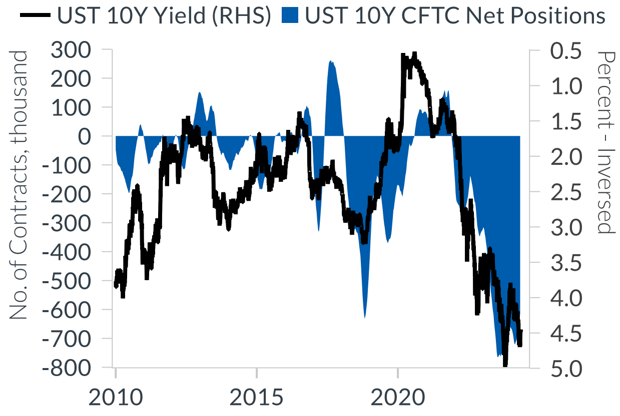
Source: Macrobond, RHB Economics & Market Strategy

Figure 8: Short-covering quickly ensued after the profit-taking in April



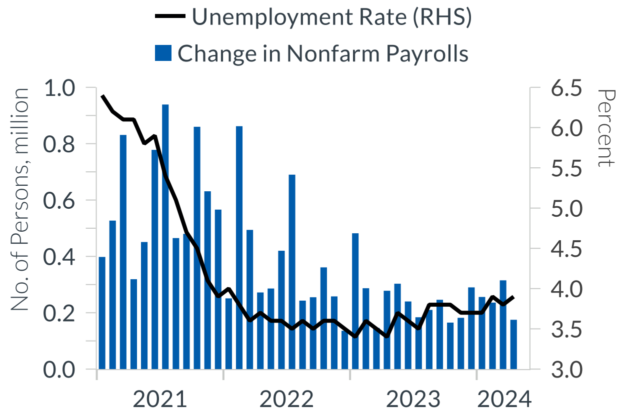
Source: Macrobond, RHB Economics & Market Strategy

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



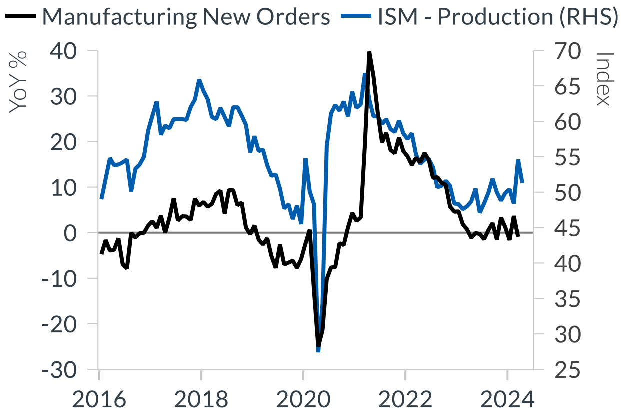
Source: Macrobond, RHB Economics & Market Strategy

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



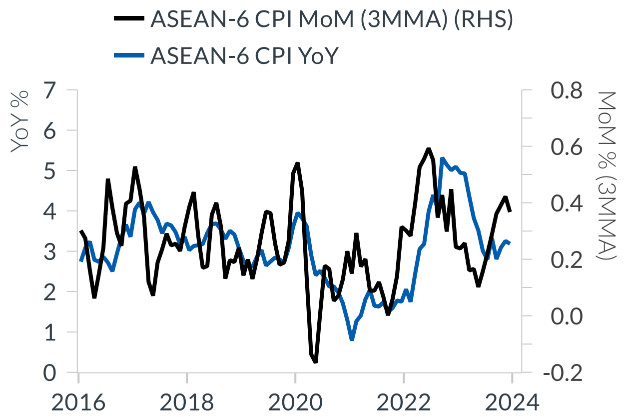
Source: Macrobond, RHB Economics & Market Strategy

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



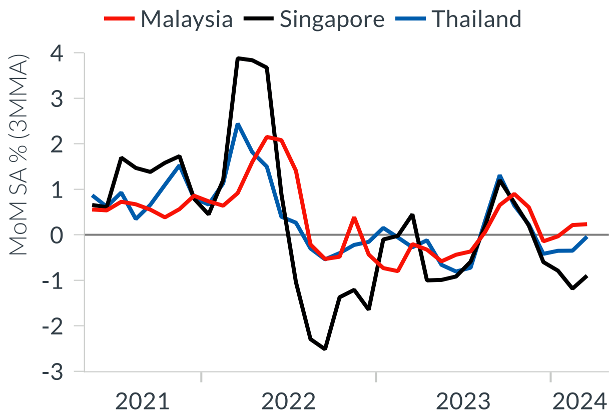
Source: Macrobond, RHB Economics & Market Strategy

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



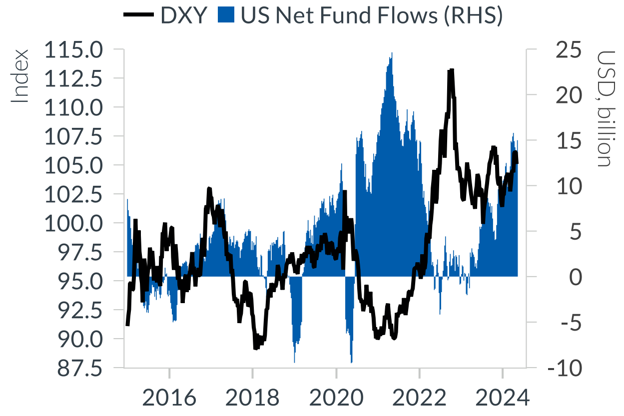
Source: Macrobond, RHB Economics & Market Strategy

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



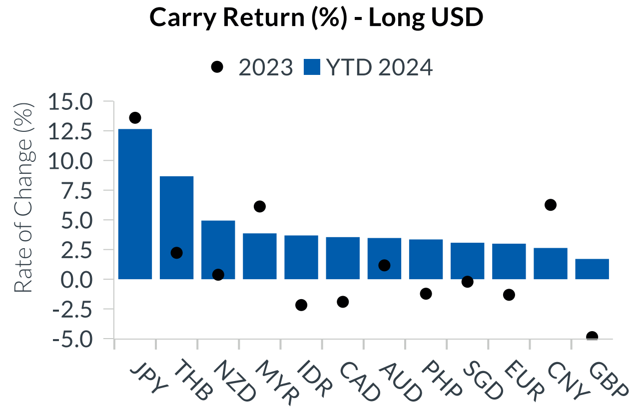
Source: Macrobond, RHB Economics & Market Strategy

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



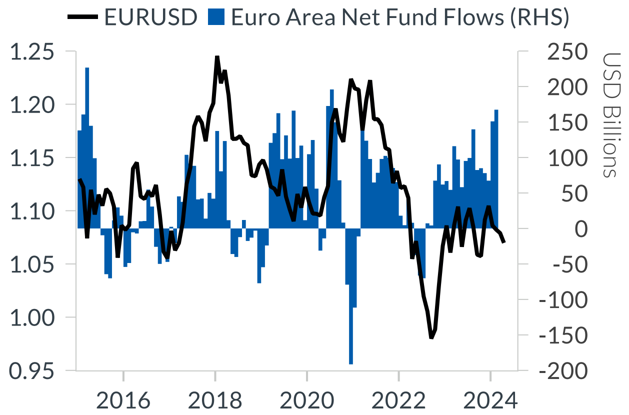
Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



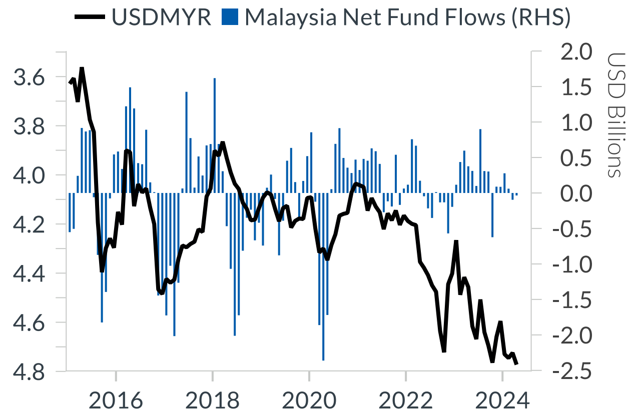
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 16: Fund flows into Euro Area accelerated further, but EUR flat-lined…



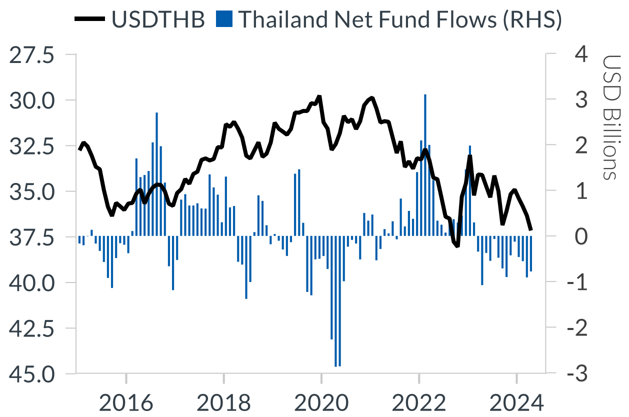
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



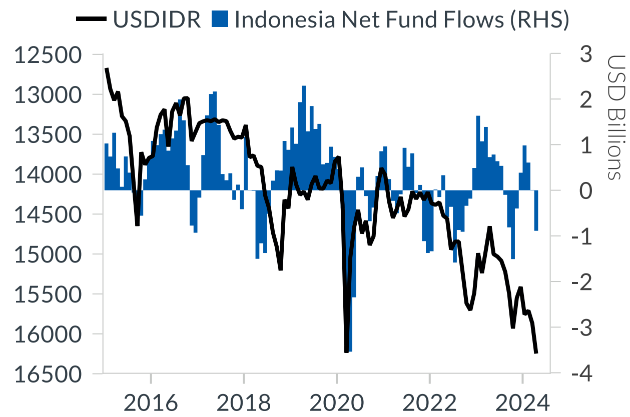
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



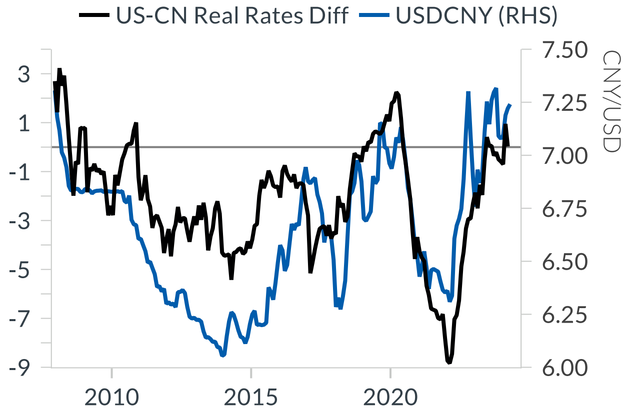
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 19: … while BI's rate hike may not mean higher fund inflows



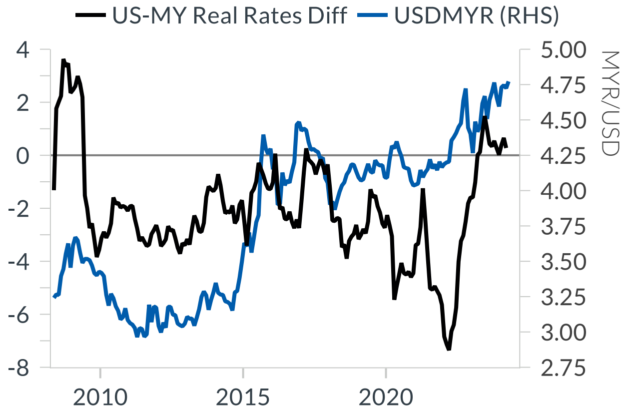
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



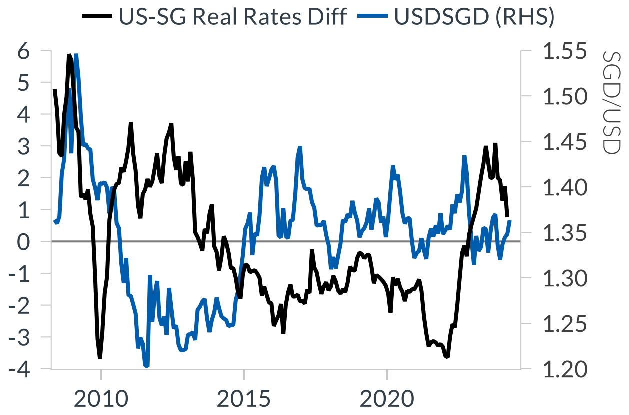
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: US-MY real rates is elevated on higher Malaysia's inflation



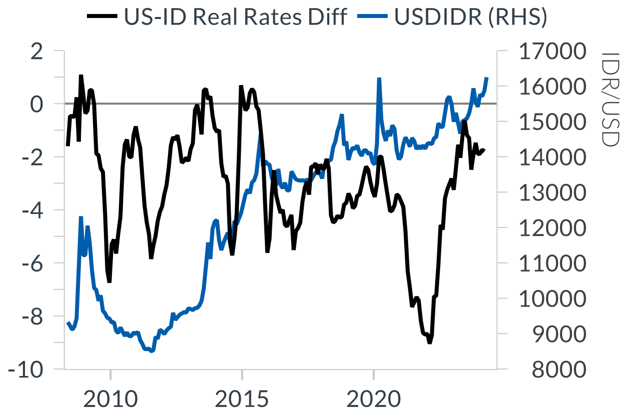
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: Singapore remains less susceptible to rate differentials given its S$NEER appreciation policy



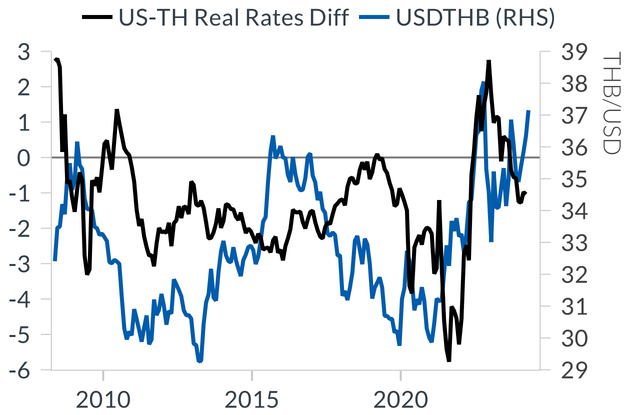
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: US-ID real rates remain flat despite the BI surprise hike, with IDR likely to stay soft



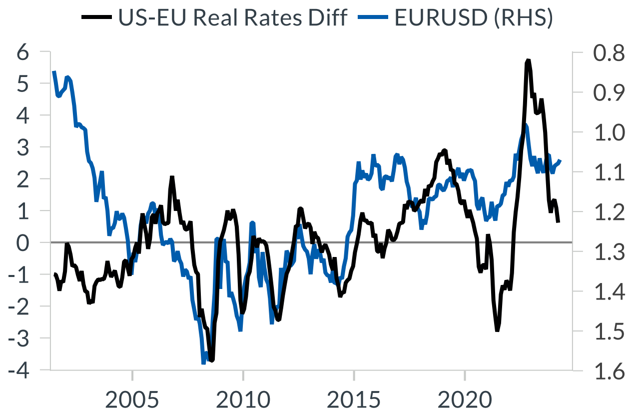
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: Thailand's real rates will likely narrow as subsidies expire, THB is likely to breach 37 per USD



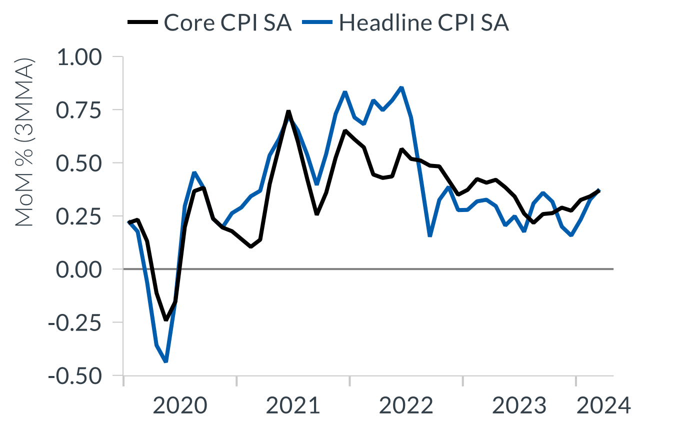
Source: Macrobond, RHB Economics & Market Strategy

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



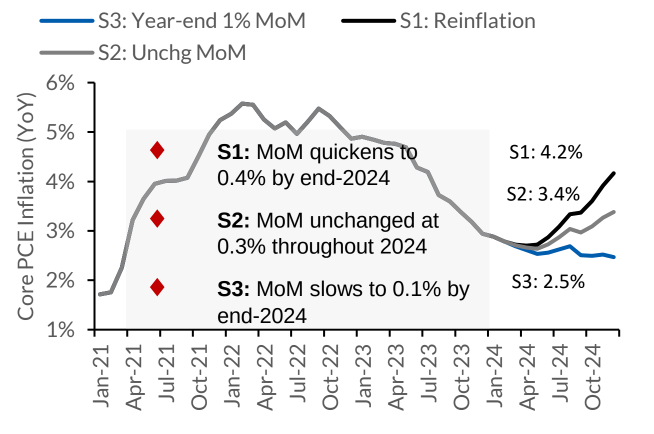
Source: Macrobond, RHB Economics & Market Strategy

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



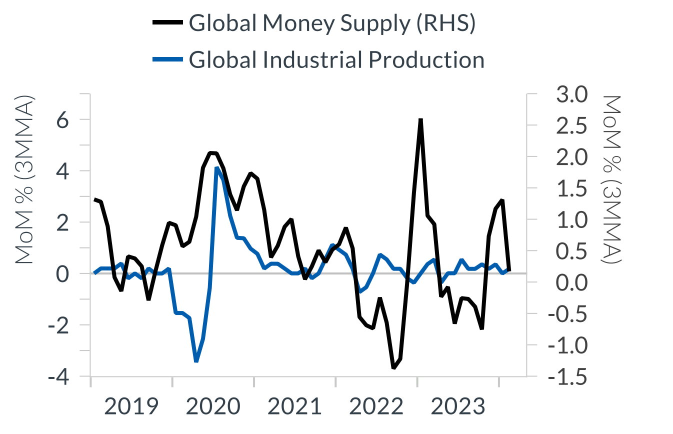
Source: Macrobond, RHB Economics & Market Strategy

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



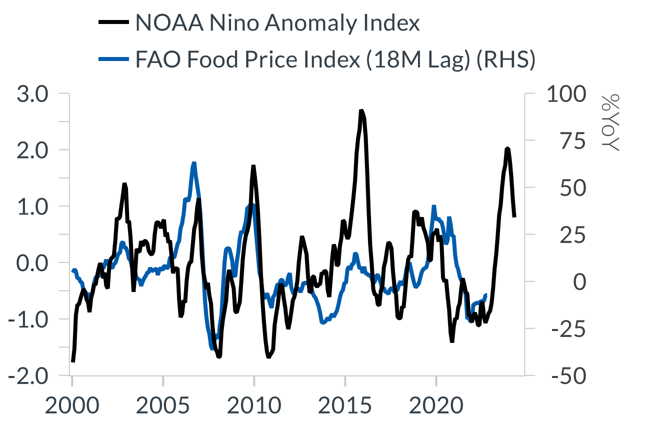
Source: Macrobond, RHB Economics & Market Strategy

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



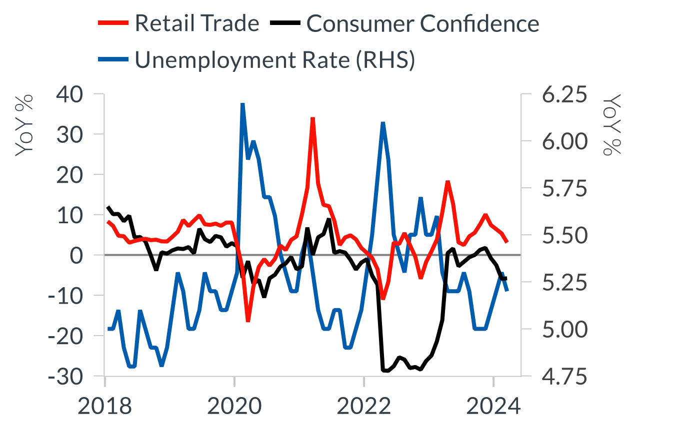
Source: Macrobond, RHB Economics & Market Strategy

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



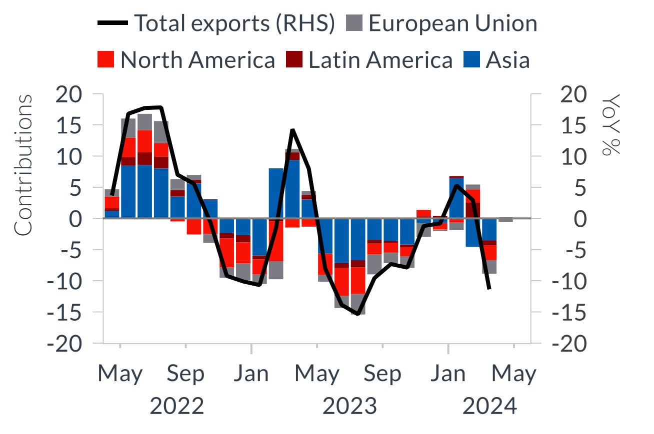
Source: Macrobond, RHB Economics & Market Strategy

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



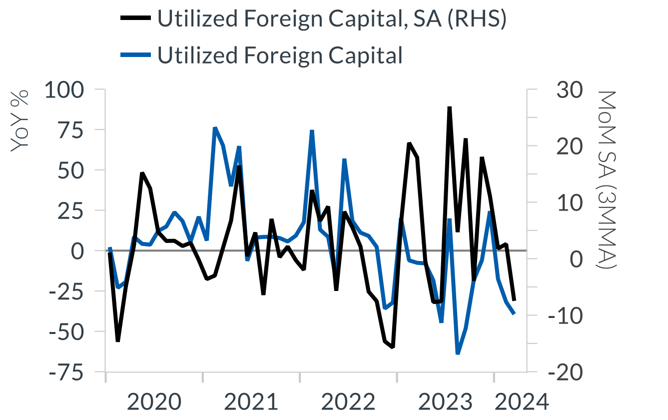
Source: Macrobond, RHB Economics & Market Strategy

Figure 31: … similar for exports, whereby momentum has softened…



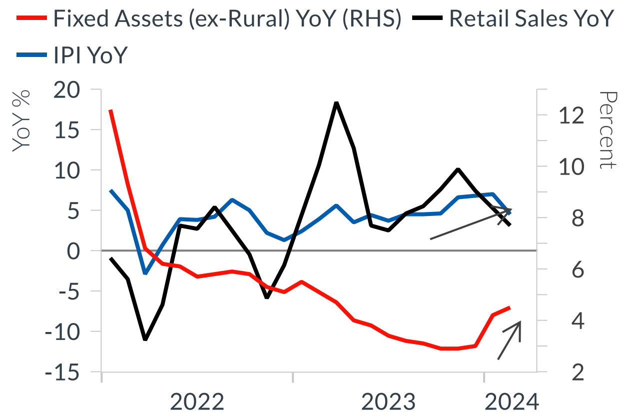
Source: Macrobond, RHB Economics & Market Strategy

Figure 32: China's utilisation of foreign capital declined in 1Q24 on the back of high base in 2023…



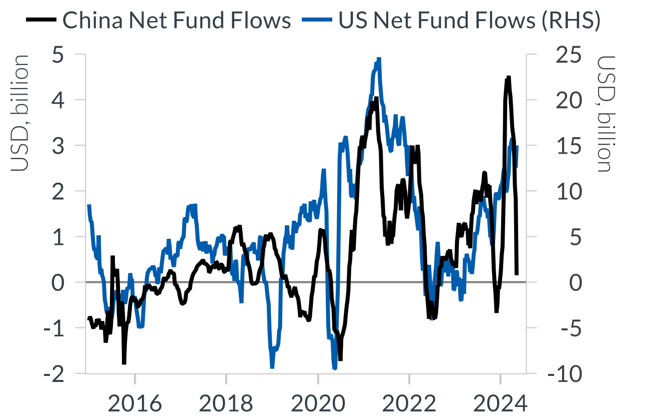
Source: Macrobond, RHB Economics & Market Strategy

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



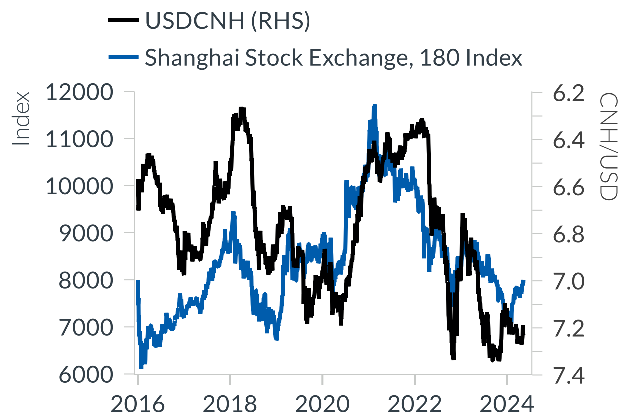
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: Investors' interest in US funds remain healthy, some redemption of Chinese funds is ongoing…



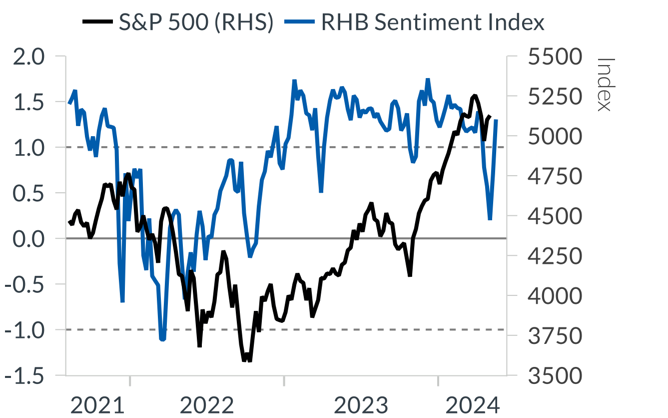
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 35: … but SSE remains on the climb as risk appetite stays rosy



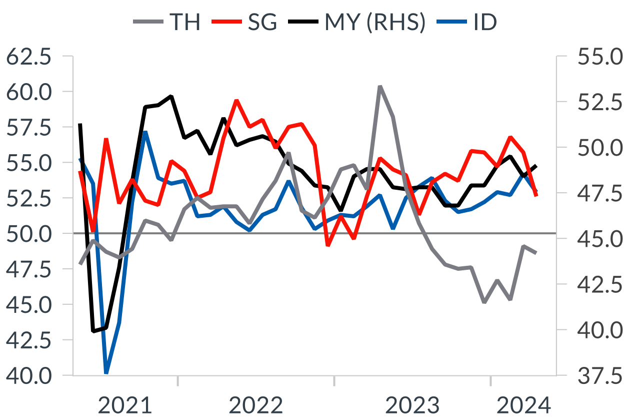
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: RHB risk sentiment index recovers towards 1.0 as risk-taking appetite ensues



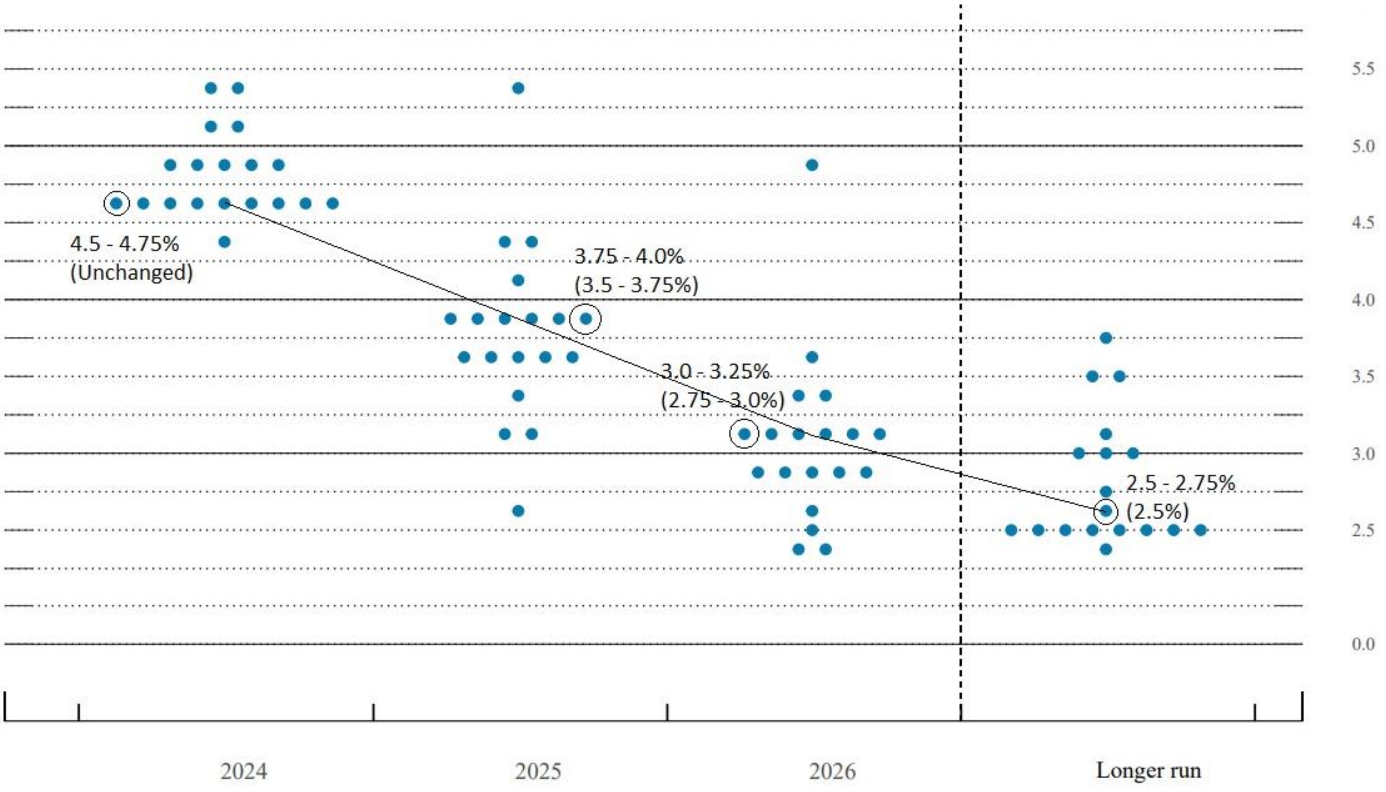
Source: Macrobond, RHB Economics & Market Strategy

Figure 37: PMI (whole economy) numbers in Malaysia is up, against a broader slowdown in ASEAN



Source: Macrobond, RHB Economics & Market Strategy

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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