

19 July 2024

Global Economics & Market Strategy

Staying True to Fundamentals - Looking Past US Election Noise

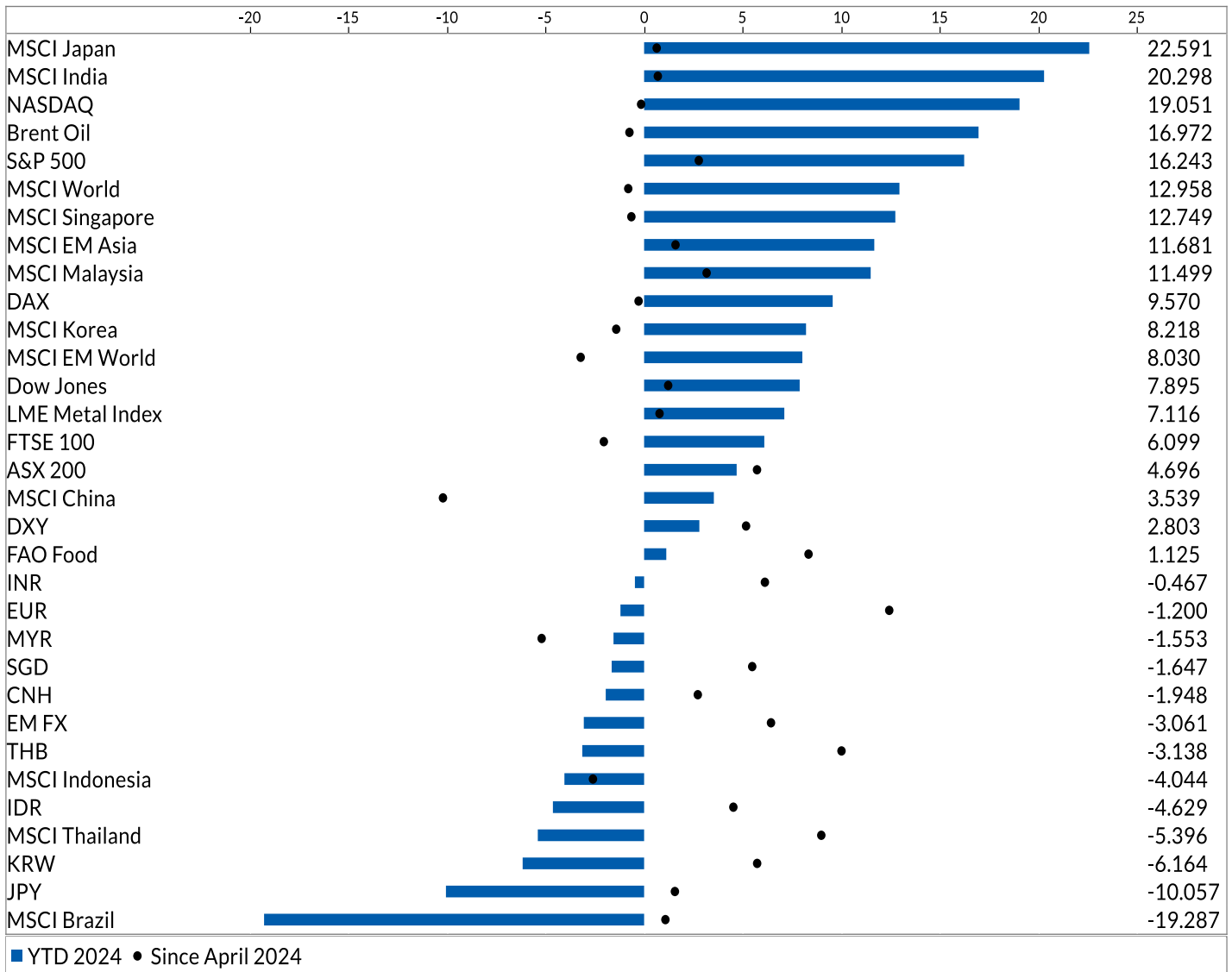
- ◆ **Last week's market movement was an ideal example of how market movements can deviate from fundamentals.** Market watchers were fixated on the rising Trump 2.0 probability, one single print of unexpectedly low US CPI, and a relative neglect of other indicators that may mean higher prices are still on the cards. [Swap prices have already fully priced in a quarter-point rate cut at the policymakers' 18 September meeting, a view we continue not to subscribe to.](#) Consequently, DXY has fallen below 104, as we have accurately forecasted in our previous weekly report, albeit the index quickly returned to above its 104 handle. UST 10Y yields have shown relative resilience with its return to its 4.2% handle at the time of writing. But should fundamentals prevail (they usually do), the persistent inflation signs we are seeing may mean that [bets for Fed Funds Rate \(FFR\) cuts in September are a losing one.](#)
- ◆ **Three key signs that US inflation will stay supported in 2H24** - Drivers of inflation are centred on rising crude oil prices (Figure 27), food prices (Figure 28), and base metals (Figure 29). We had been concerned about inflation since the year started, and with good reasons - we cited [OPEC's optimistic view](#) of oil demand in 2024 and 2025, with our proprietary indicators suggesting food prices are still climbing. Meanwhile, China's growth recovery in 2024 has already led base metal prices higher. Separately, oil prices have reacted higher to wildfires in Canada, the largest provider of US oil imports, which may threaten more than 400 thousand bpd of production capacity. [As such, we see three signs that US inflation will stay supported in 2H24](#) - (1) US ex-food & ex-energy producer prices (Figure 22) surged 0.4% MoM, at a faster pace vs year-to-date average of 0.3% MoM, (2) recent US CPI, although showing slower prints, still saw higher momentum in F&B, recreation, and other G/S, while (3) demand-led inflation may persist on the back of strong June's US economic-centric data, with industrial production coming in above expectations, higher non-farm payroll numbers, and an acceleration in retail sales ex-auto & gas.
- ◆ **If we stick to fundamentals, the aforementioned discussion will mean that market bets for a September rate cut are mispriced, and the recent decline in DXY and UST 10Y yields will be temporal.** Already, we are seeing some subtle signs of short-covering behaviour in the DXY and a short-term bottom in UST 10Y yields, as discussed in our first paragraph. However, we cannot discount US election noise and its impact on the global economy. In our latest [Chief Economist Insights Report](#), we penned five scenarios we think will happen in a Trump 2.0 world. The implications for a Trump win will mean (1) a weaker dollar, (2) stronger US-centric equities, and (3) higher global inflation pressures. The rising popularity of Trump to win the 60th US Presidential Elections has already led market watchers to price in, at the very least, a weaker DXY and stronger US-centric equities. As such, while we think fundamental drivers should champion over noise, the political haze may mean DXY and UST 10Y yields stay soft with downside bias in the next week. At the same time, any disappointment in the US core PCE print may further reinforce the said trend.
- ◆ **In Asia,** we penned a [thematic report](#) on Thailand's tourism industry, downgraded Thailand's tourism arrivals to 35.5 million persons in 2024, and kept our outlook for 41.5 million persons in 2025. Separately, Bank Indonesia kept its policy rate unchanged, as we expected. We [maintain our forecast](#) for Bank Indonesia to keep the rate unchanged at 6.25% for 2024 and anticipate three 25 bps cuts in 2025, reducing it to 5.50%. Lastly, [Malaysia's export data](#) continue to support its growth dynamics, with June's exports increased by 1.7% YoY (May: 7.3% YoY), versus market consensus of 3.3% YoY and our in-house projection of 6.5% YoY.

Acting Group Chief Economist & Head, Market Research

Barnabas Gan
 (SG) +65 6320 0804
 (MY) +603 9280 8880
barnabas.gan@rhbgroupp.com

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Figure 1: YTD 2024 total return – Continue to stay OW equities, especially DM. Watch out for inflation.



Source: Macrobond, RHB Economics & Market Strategy

Figure 2: DM yields declined quarter-to-date...

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Germany	36.9	-6.7	2.76	3.33	2.34
Indonesia	26.1	-3.1	6.64	6.91	5.62
United States	21.1	-29.3	4.46	5.22	3.77
United Kingdom	3.0	-21.1	3.99	5.48	3.17
Malaysia*	-0.1	-6.0	3.46	3.69	3.31
Thailand	-0.2	-1.3	2.33	2.62	1.53
S. Korea*	-6.1	-10.7	3.08	4.14	3.12
Singapore	-11.3	-18.0	3.14	3.73	2.87
India	-16.5	-7.1	6.91	7.39	6.80
China	-57.6	-3.6	1.61	2.47	2.07

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

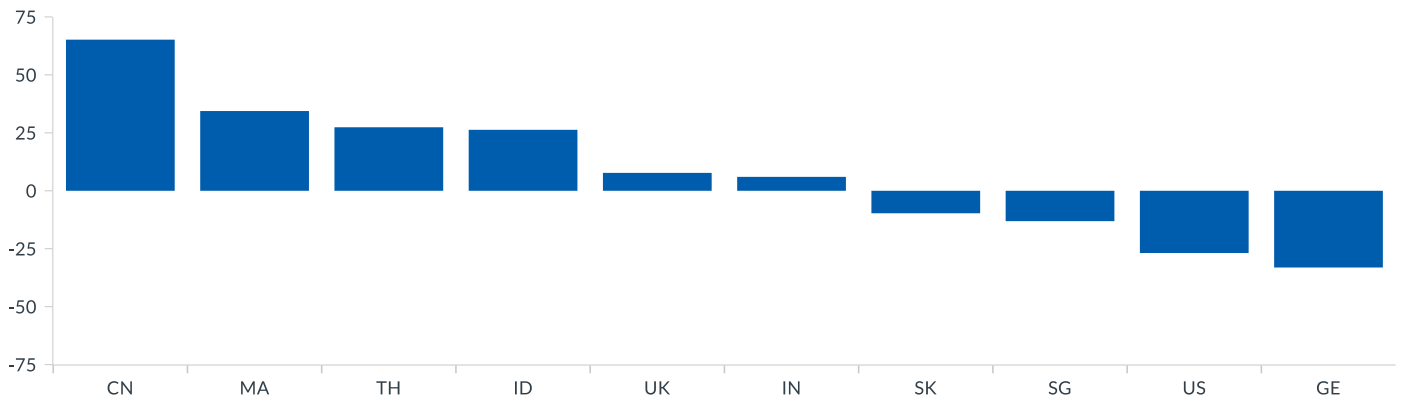
Figure 3: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	53.3	-10.9	4.06	4.74	3.00
Indonesia	45.3	-13.8	6.91	7.22	6.16
Germany	40.9	-6.7	2.43	2.97	1.89
Singapore	32.1	-18.3	3.01	3.50	2.66
United States	31.3	-20.4	4.19	4.99	3.31
Malaysia	7.7	-6.3	3.81	4.16	3.65
S. Korea	-2.1	-11.2	3.15	4.40	3.16
Thailand	-7.2	-6.8	2.60	3.35	2.26
India	-22.0	-4.1	6.97	7.44	6.96
China	-29.7	5.6	2.26	2.92	2.54

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

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Figure 4: China's 2-10Y yield spread remains wide against developed economies and Asia...



Source: Macrobond, RHB Economics & Market Strategy

Figure 5: ... with UK yield spread in positive zone, others following suit

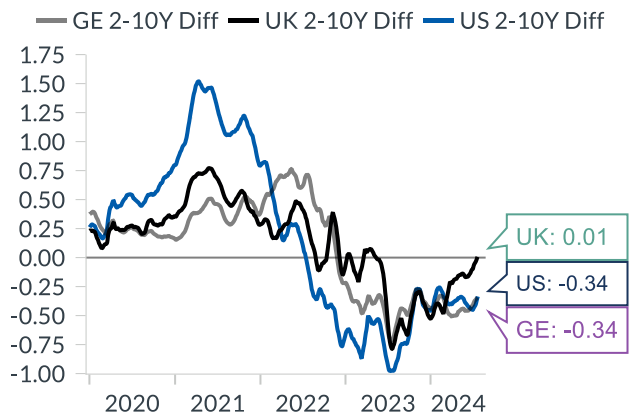
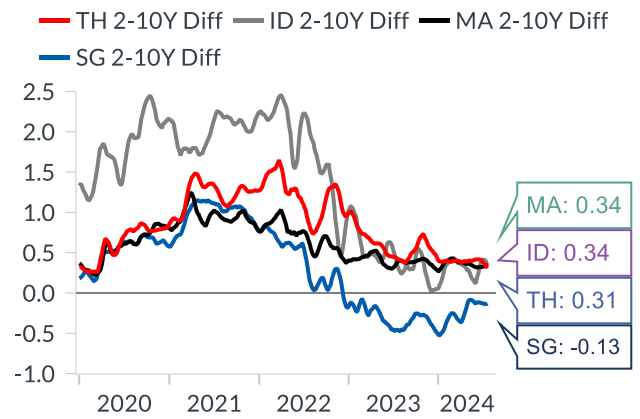


Figure 6: ... but ASEAN's yield curve largely unchanged



Source: Macrobond, RHB Economics & Market Strategy

Source: Macrobond, RHB Economics & Market Strategy

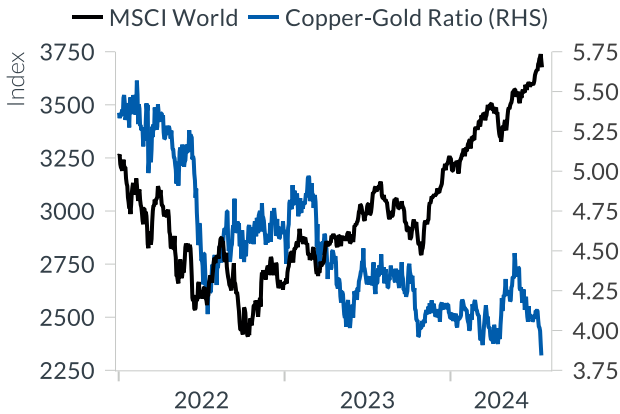
Figure 7: Expect DXY weakness below the 104 handle in the quarter ahead, especially markets pricing in a Sept FFR cut

FX Rates % Change	YTD 2024 (%)			Close (2024)	High 2023	Low 2023
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)			
JPY per USD	11.18	8.47	-2.52	156.790	151.647	127.516
KRW per USD	6.57	4.90	0.22	1381.970	1361.825	1222.444
TWD per USD	6.50	4.78	0.57	32.656	32.479	29.668
PHP per USD	5.23	5.41	-0.19	58.299	57.146	53.946
CHF per USD	4.97	-1.15	-1.56	0.885	0.941	0.837
IDR per USD	4.85	7.49	-1.19	16159.000	15946.000	14652.765
THB per USD	3.24	1.98	-1.93	36.032	37.069	32.704
DXY	2.72	1.20	-1.63	104.140	107.000	99.770
CNH per USD	1.99	-0.06	-0.38	7.271	7.342	6.713
SGD per USD	1.67	-0.85	-1.00	1.342	1.374	1.308
MYR per USD	1.58	-0.02	-1.06	4.668	4.793	4.245
EUR per USD	1.22	-0.03	-1.84	0.916	0.955	0.890
AUD per USD	1.20	-1.14	-0.69	1.485	1.590	1.408
INR per USD	0.47	1.93	0.33	83.640	83.439	80.988
GBP per USD	-1.81	-2.03	-2.59	0.771	0.845	0.762

Source: Macrobond, RHB Economics & Market Strategy

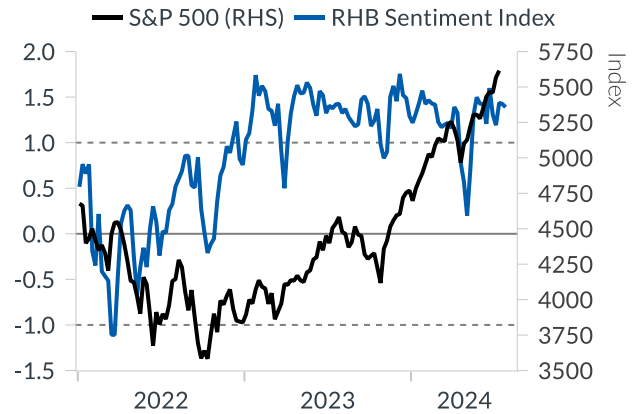
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Figure 8: Global risk appetite continued to advance, but copper-gold ratio has softened amid higher gold prices...



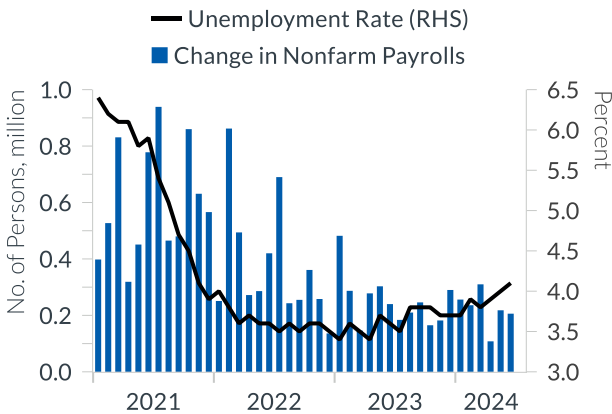
Source: Macrobond, RHB Economics & Market Strategy

Figure 9: ... RHB Risk Sentiment Index recovered, suggesting that the earlier “choppiness” is short-lived



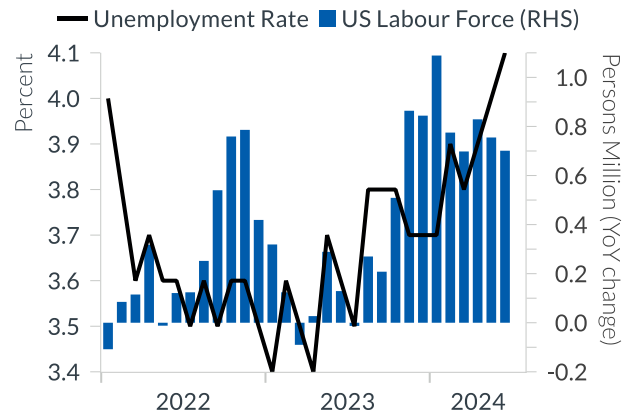
Source: Macrobond, RHB Economics & Market Strategy

Figure 10: US NFP surprised higher at the recent data, suggesting rosy labour conditions...



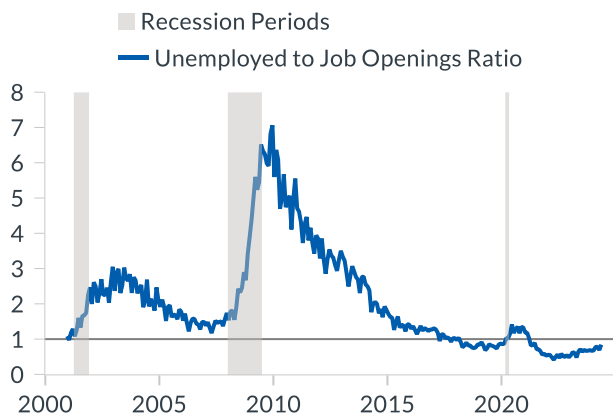
Source: Macrobond, RHB Economics & Market Strategy

Figure 11: ... while higher jobless rate is a function of more job seekers



Source: Macrobond, RHB Economics & Market Strategy

Figure 12: ... with overall US labour conditions still tight, as job openings still outnumber unemployed persons



Source: Macrobond, RHB Economics & Market Strategy

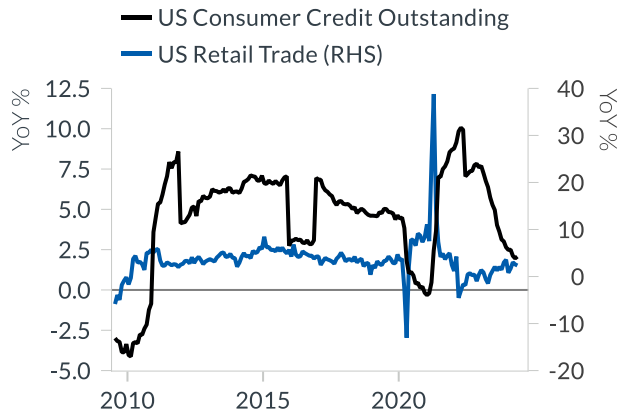
Figure 13: US production activities are supported, seen in its new orders and ISM...



Source: Macrobond, RHB Economics & Market Strategy

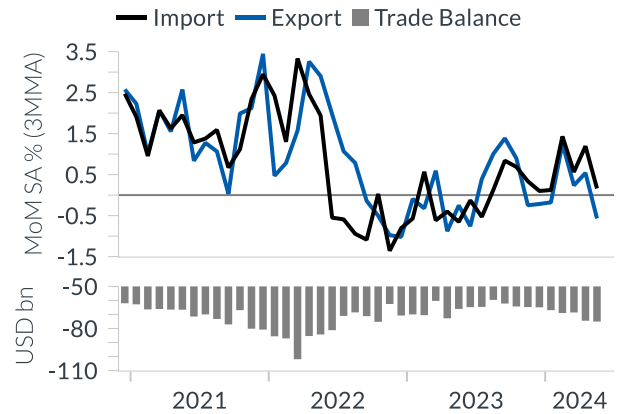
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Figure 14: ... with improvements in job market and the real economy supporting retail trade, rather than debt



Source: Macrobond, RHB Economics & Market Strategy

Figure 15: US trade momentum slowed in the recent reading...



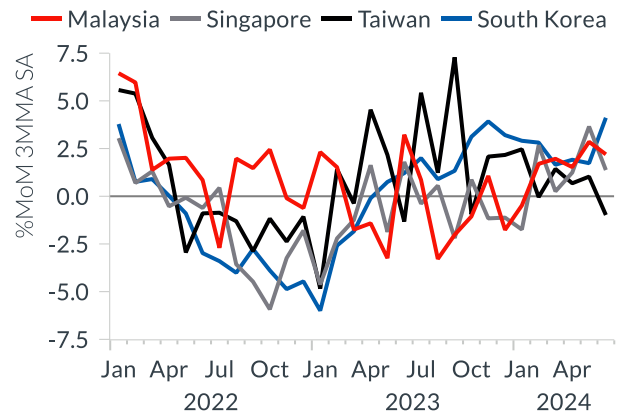
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: ... similar to ASEAN-6 export momentum, albeit it could be temporal...



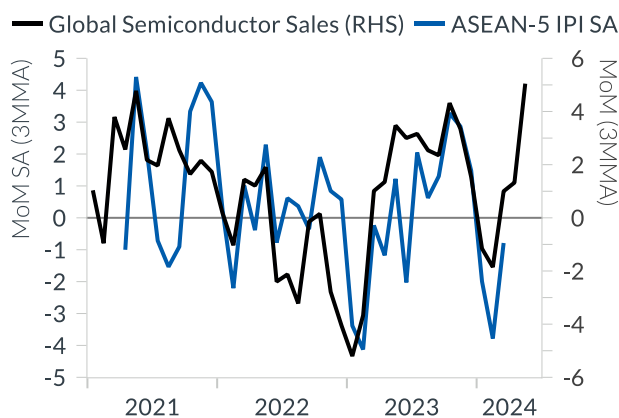
Source: Macrobond, RHB Economics & Market Strategy

Figure 17: ... as critical E&E outbound shipments from key exporting economies supported



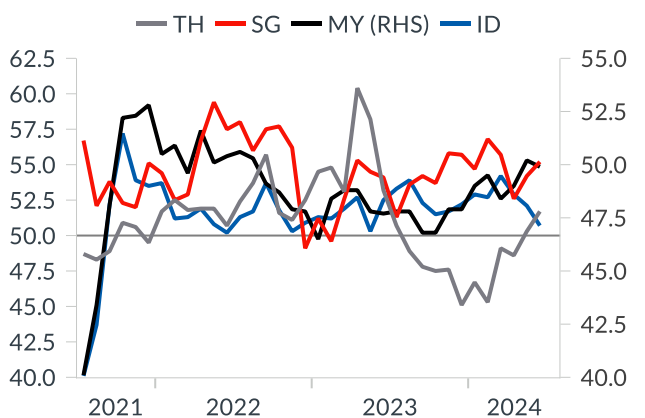
Source: Macrobond, RHB Economics & Market Strategy

Figure 18: Despite softer trade, ASEAN's manufacturing activities remain supported over the same period...



Source: Macrobond, RHB Economics & Market Strategy, Includes SG, MY, TH, PH, VN

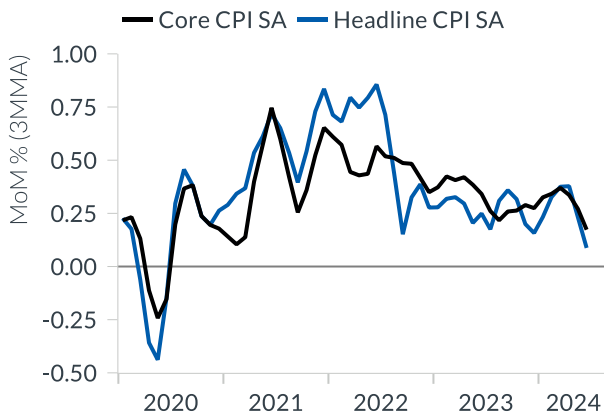
Figure 19: ... with PMI (whole economy) numbers in ASEAN seeing some consolidation



Source: Macrobond, RHB Economics & Market Strategy

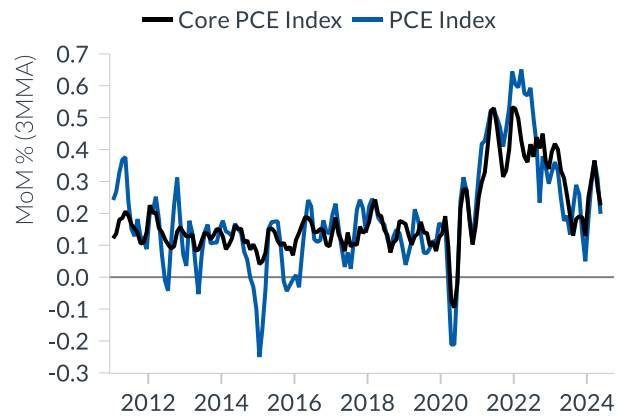
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Figure 20: US core inflation momentum has slowed, albeit we need July – Sept prints...



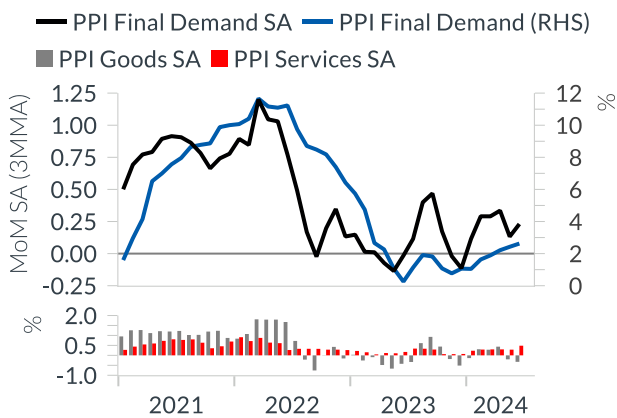
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: to persist at between 0.0 – 0.1% to convince a sustainable downtick towards the 2.0% print



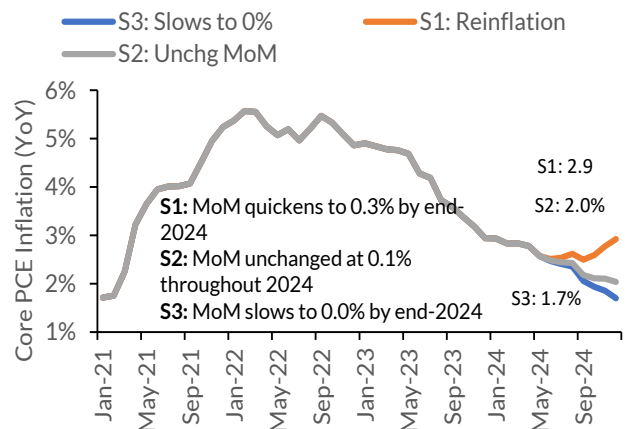
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: US producer price index rebounded after the initial hiatus, highlighting elevated inflation backdrop



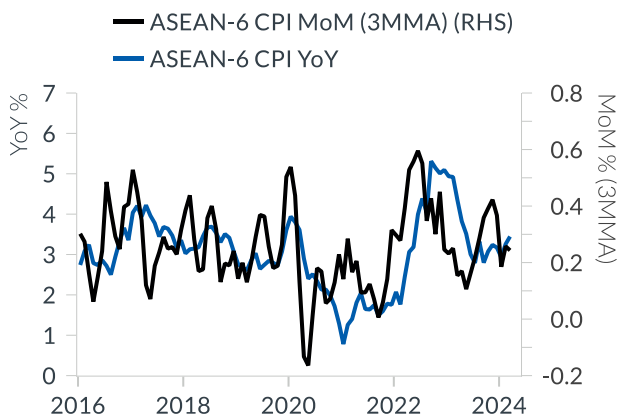
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: ... with our revised US inflation model suggesting a S2 year-end 2.0% core PCE print



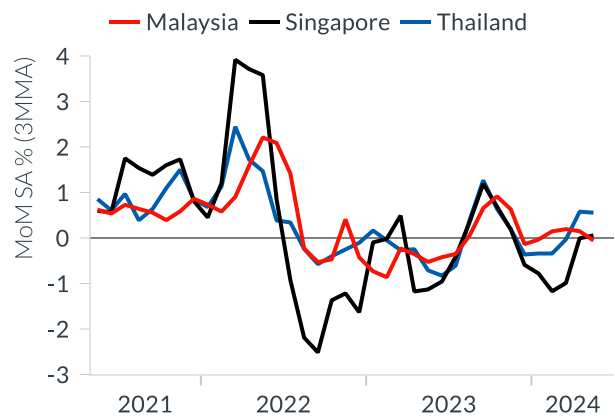
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: ASEAN-6 GDP-Weighted CPI momentum is heating up...



Source: Macrobond, RHB Economics & Market Strategy

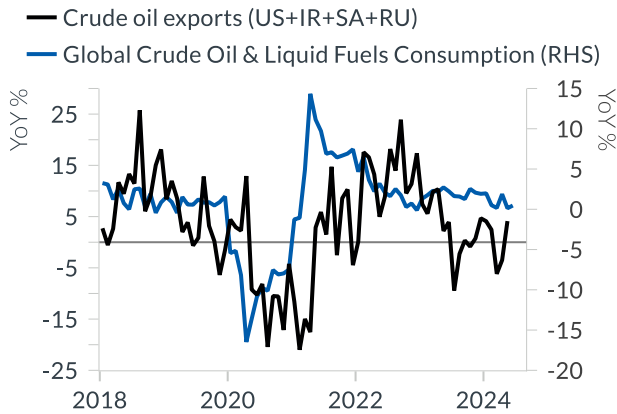
Figure 25: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

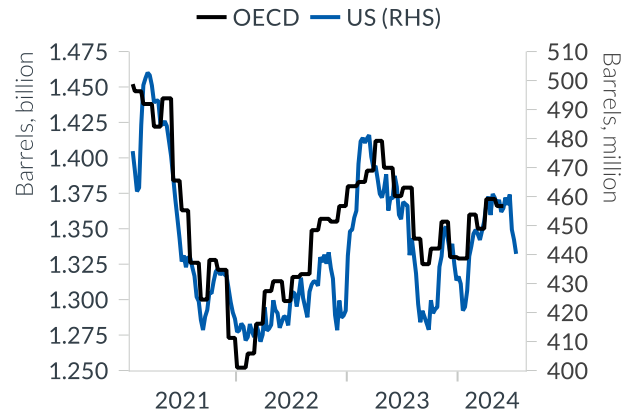
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Figure 26: Crude prices are slated to point higher, as global supplies decline...



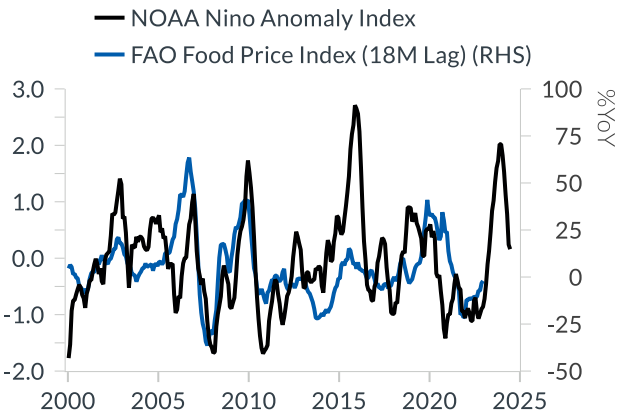
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: ... with recent US inventories falling in the latest week as demand conditions stay supported



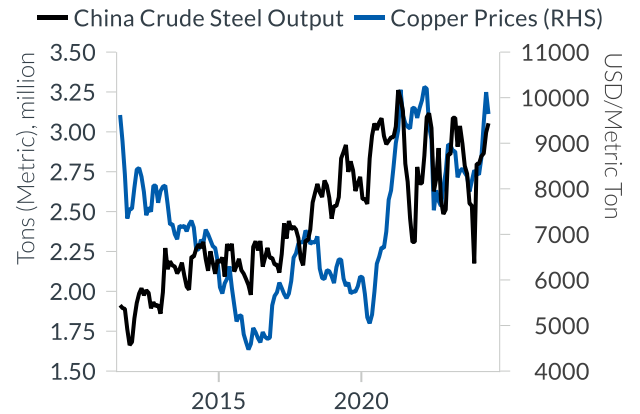
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: Higher global food prices may be evident from the El Nino condition, but conditions are easing



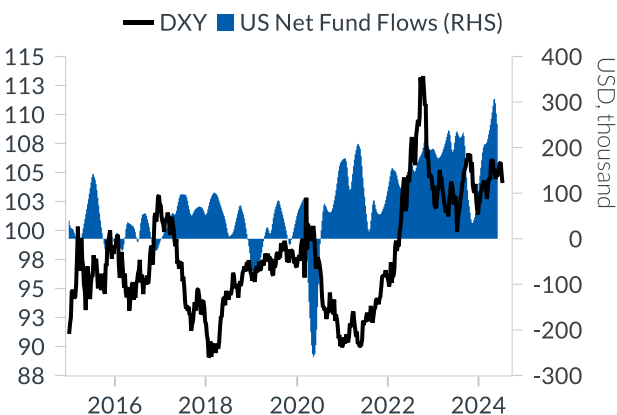
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: Higher base metal prices will be supported from China's return, as commodity consumption rise



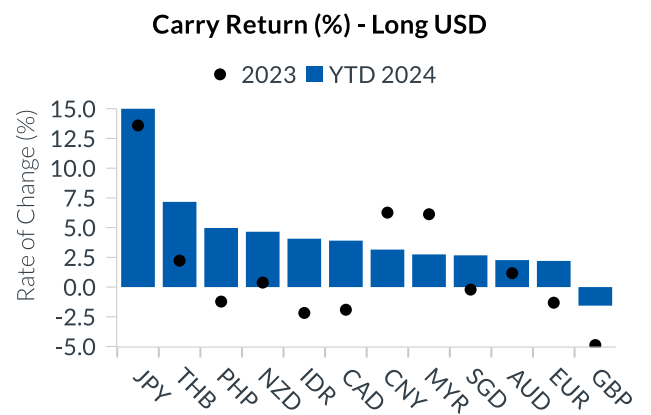
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: US net fund flows remain in strong inflow territories, which may cushion DXY's weakness...



Source: Macrobond, EPFR, RHB Economics & Market Strategy

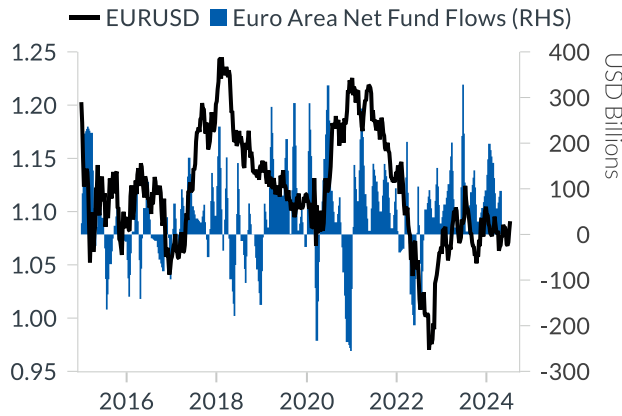
Figure 31: ... while USD carry stays positive year-to-date



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

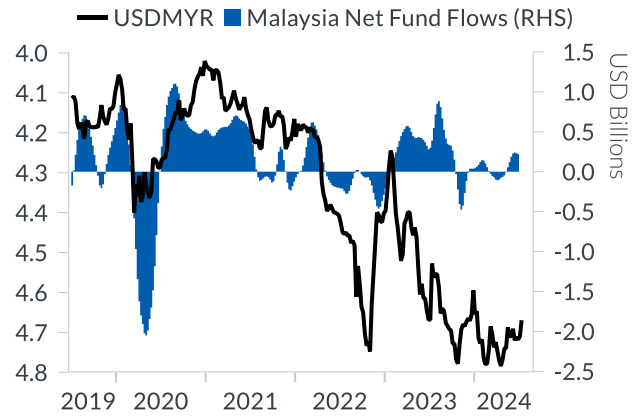
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Figure 32: Fund flows into Euro Area slowed but no signs of material outflows



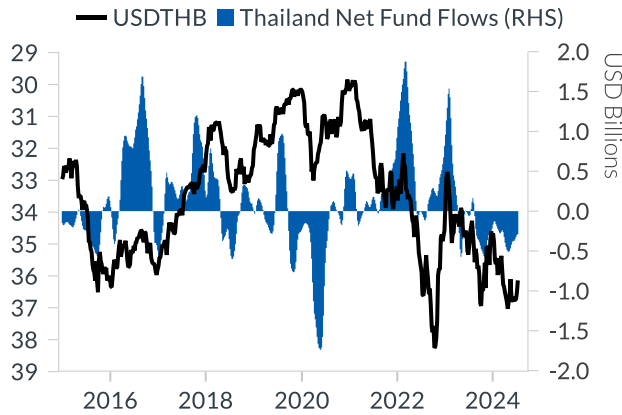
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 33: Malaysia's net fund flows are gradually turning positive, which is MYR-positive



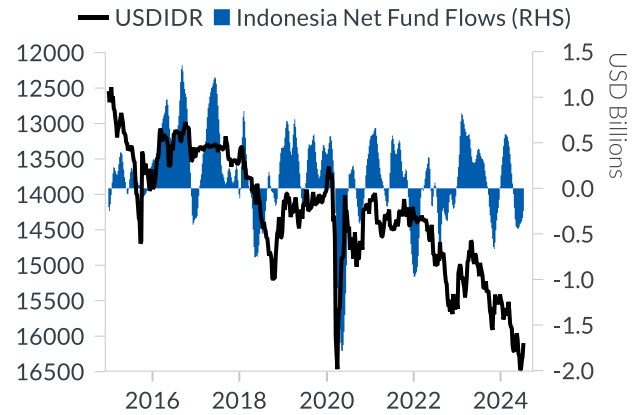
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 34: No reprieve for Thailand's net outflows, suggesting further weakness in THB...



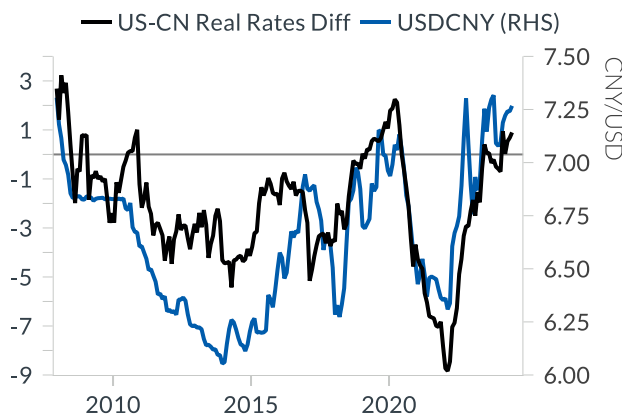
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 35: ... while investors continue to pull funds out of Indonesia



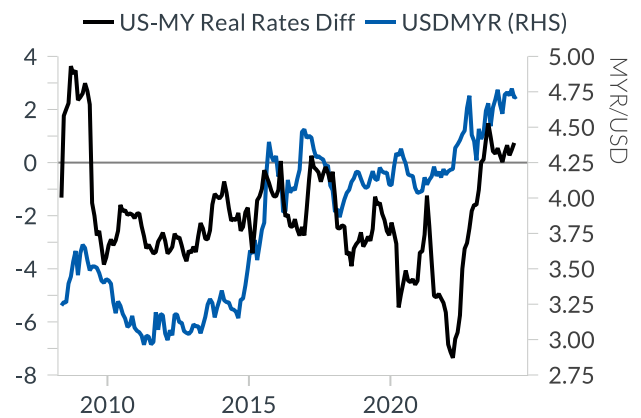
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 36: US-CN real rates differential is behaving well with USD-CNY



Source: Macrobond, RHB Economics & Market Strategy

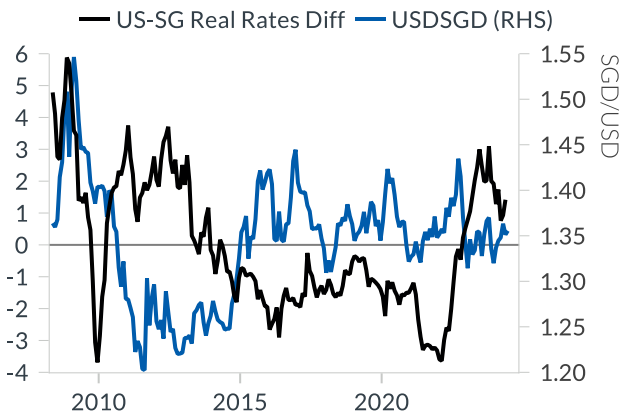
Figure 37: US-MY real rates widened recently, which is an early proxy for higher USD-MYR



Source: Macrobond, RHB Economics & Market Strategy

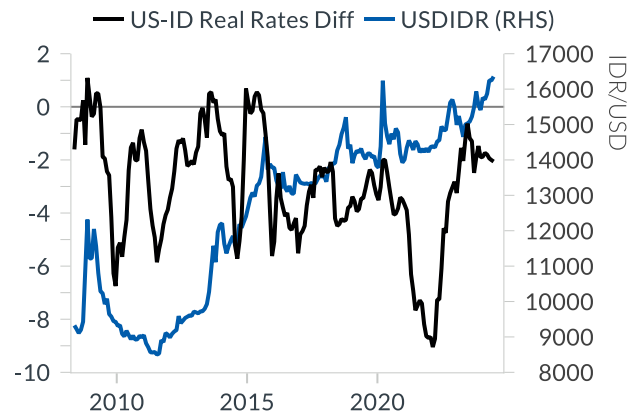
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Figure 38: Singapore remains less susceptible to rate differentials given its S\$NEER appreciation policy



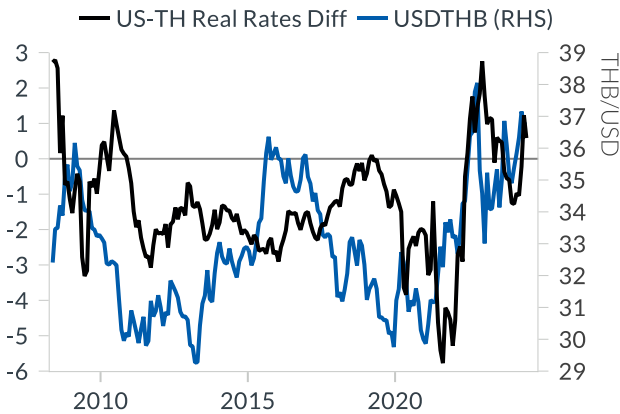
Source: Macrobond, RHB Economics & Market Strategy

Figure 39: US-ID real rates remain flat, but lower USD-IDR of late was led by a softer DXY



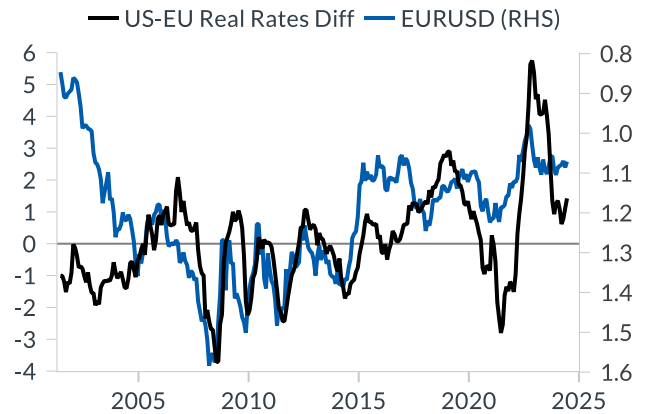
Source: Macrobond, RHB Economics & Market Strategy

Figure 40: We still remain bearish on THB, as the hike in retail diesel prices will narrow TH real rates



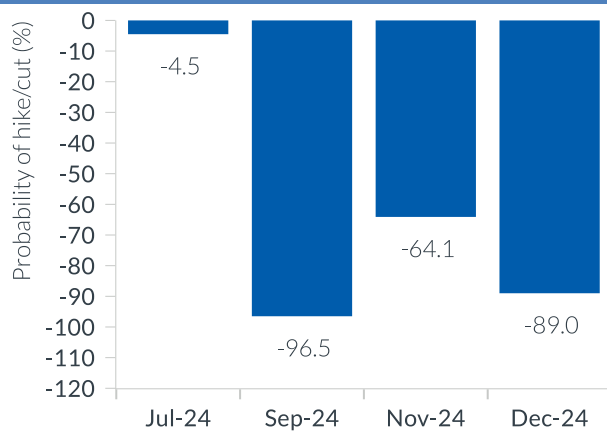
Source: Macrobond, RHB Economics & Market Strategy

Figure 41: EURUSD remains well-behaved against US-EU 3M rate spread



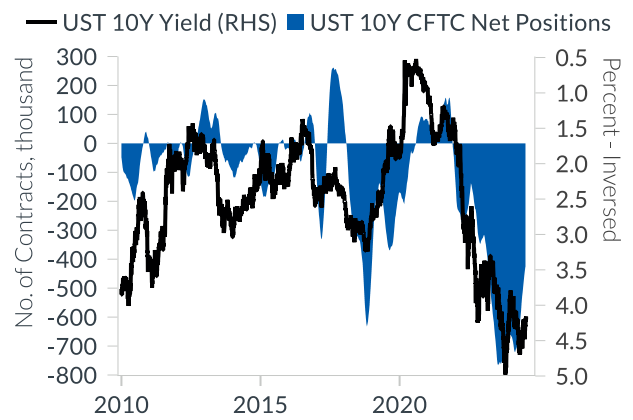
Source: Macrobond, RHB Economics & Market Strategy

Figure 42: Markets pricing in a potential US FFR cuts in Sept, Nov and Dec 2024...



Source: Macrobond, RHB Economics & Market Strategy

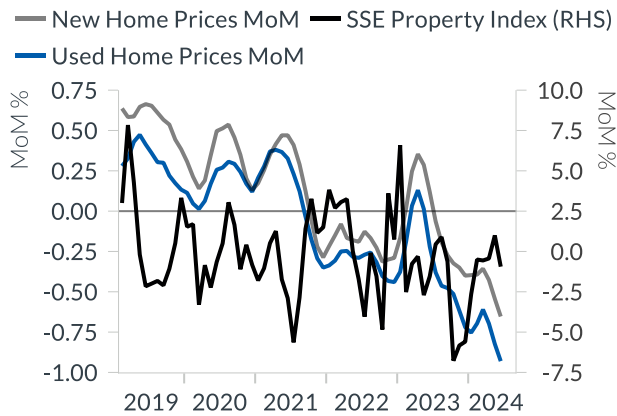
Figure 43: ... note short UST positions are narrowing, a sign that UST 10Y yields are heading lower



Source: Macrobond, RHB Economics & Market Strategy

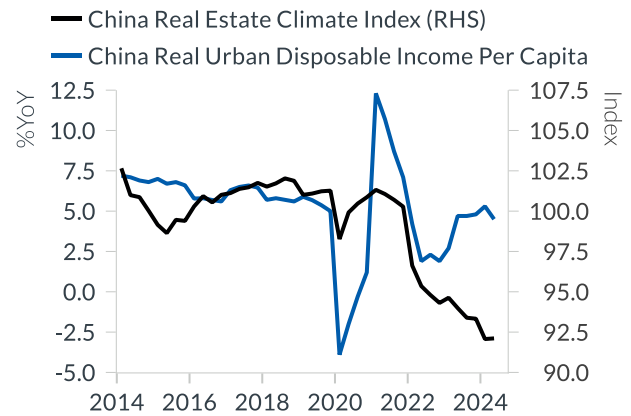
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Figure 44: China new home price momentum revert to decline trends, probably the bottom is not found (yet)



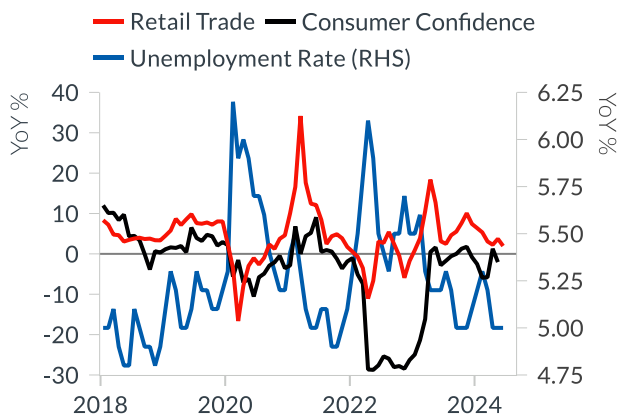
Source: Macrobond, RHB Economics & Market Strategy

Figure 45: Real urban disposable income continues to rise, de-risking away from the real estate backdrop



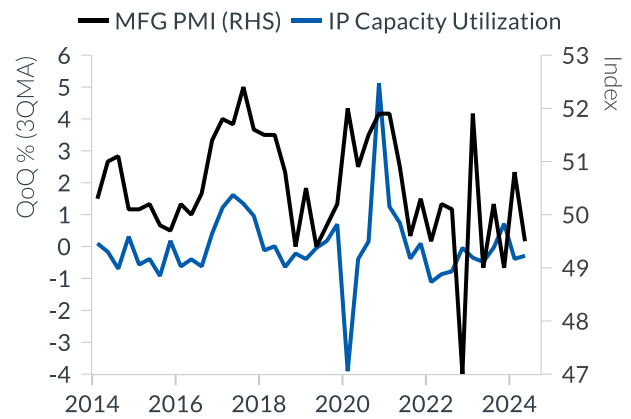
Source: Macrobond, RHB Economics & Market Strategy

Figure 46: Chinese unemployment levels continue to fade lower as consumer confidence improves...



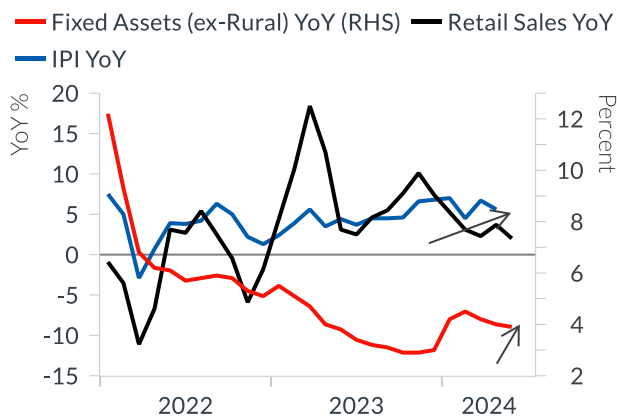
Source: Macrobond, RHB Economics & Market Strategy

Figure 47: ... with externally-facing industries seeing improvement; MFG PMI surging at its latest data...



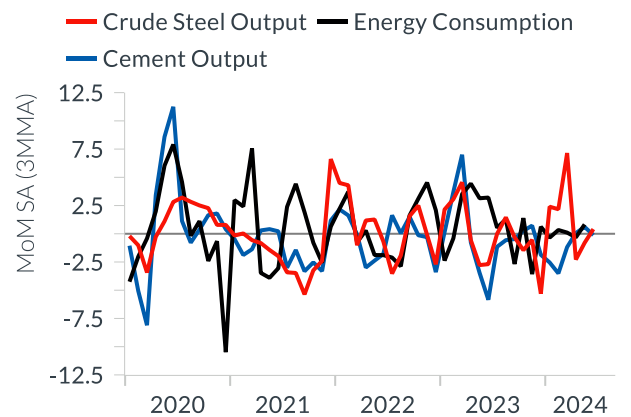
Source: Macrobond, RHB Economics & Market Strategy

Figure 48: ... while industrial production continues to accelerate...



Source: Macrobond, RHB Economics & Market Strategy

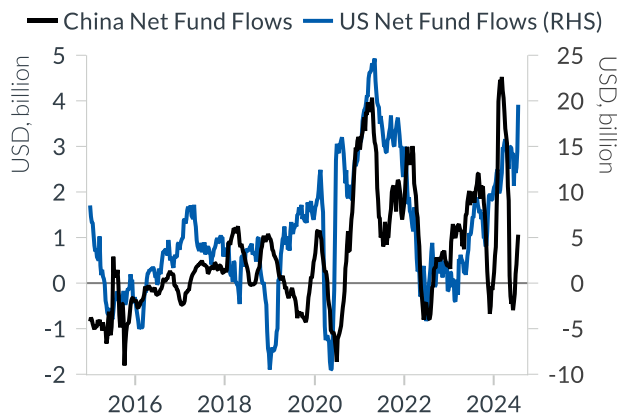
Figure 49: ... with commodity consumption supported on the back of its recovery



Source: Macrobond, RHB Economics & Market Strategy

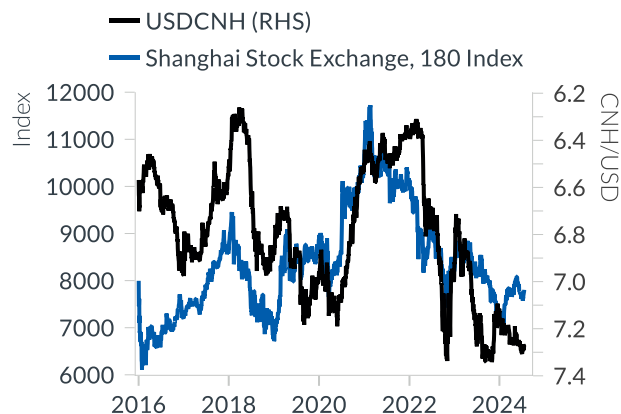
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Figure 50: Investors' interest in US funds remain healthy, return of money into China is on its way



Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 51: ... with SSE remains on the climb as risk appetite stays rosy



Source: Macrobond, RHB Economics & Market Strategy

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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax: +66 2088 9799