

03 May 2024

Global Economics & Market Strategy

US FOMC's QT Taper is Likely Inflationary

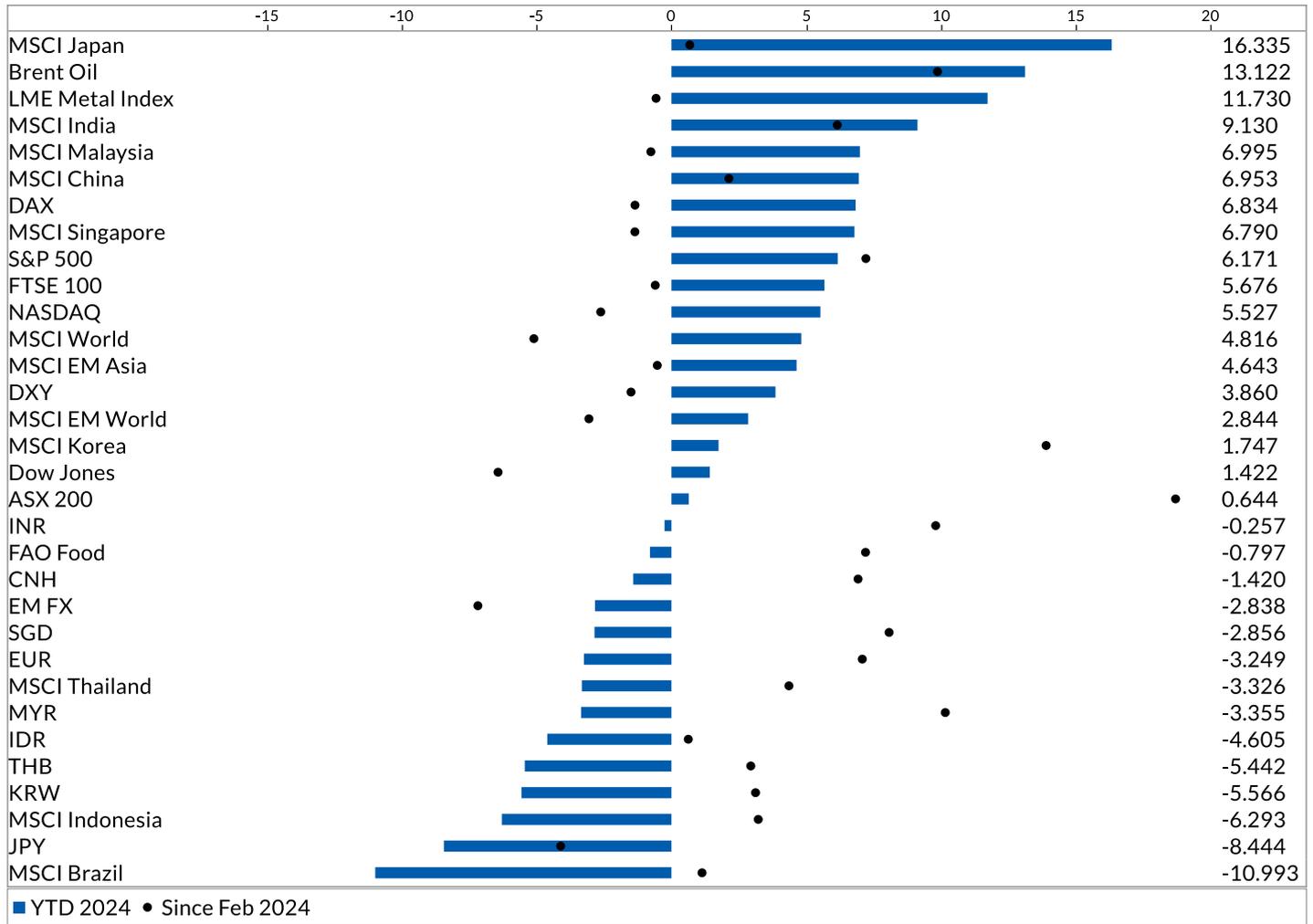
- ◆ **We look for further global inflationary pressures in 2H24**, whereby upside in price pressures will likely be exacerbated by the US FOMC's decision to shrink its balance sheet at a slower pace starting in June. The shrinking, also known as Quantitative Tightening (QT) Taper, will reduce the monthly cap on Treasuries to mature without being reinvested to US\$25 billion (from US\$60 billion) while keeping the cap on mortgage-backed securities unchanged at US\$35 billion. We see three key observations: (1) the lower amount of Fed Treasury holdings to mature may cushion the negative growth impact on the US money supply, (2) whereby the US M2 money supply leads US core CPI by around 18 months (See Figures 39 and 40), and (3) the decision to taper the QT may be viewed to be less restrictive on policy by allowing more maturing USTs to be invested.
- ◆ **We keep our forecast for one FFR cut by December 2024 to 5.0 – 5.25%, with the risks for no rate cuts increasingly magnified at this juncture.** With the US FOMC opting for a less restrictive open market operation (OMO) approach, as aforementioned, we see little risk of a counter-productive rate hike decision this year. US March's core PCE inflation persisted at 0.3% MoM, thus reinforcing our forecast for year-end print to surpass its 3.0% handle. Suffice it to say, US prices are not on the path towards 2.0% in 2024, and ongoing US labour market strength (note tonight's nonfarm payrolls) will further persuade market pricing out effects of FFR cuts towards end-year and 2025 instead. The current market pricing of the first FFR cut is on November 2024, which will likely be adjusted towards December in the coming weeks.
- ◆ **The caveat to an earlier-than-expected rate cut must be met with several essential conditions.** First, with inflation being the fundamental argument here, FFR cuts may materialise should overall US inflation slow materially to around 0.0 – 0.1% MoM (the case will be strengthened if MoM turns negative). Second, even if inflation stays elevated, a sudden deterioration of US labour conditions and potential global recessionary cues could persuade the Fed to pursue maximum employment instead of price stability. Third, from an exogenous perspective, protracted geopolitical tensions (see our [thematic report](#)) that may derail the current global economic growth trend may also give reason for accommodative policies.
- ◆ **Fundamentally, we continue to like the DXY, albeit we recognise technical indicators that may inject interim weakness.** The continued pricing out of FFR cuts (or should market voices centring on rate hikes intensify) will continue to support the DXY. In the following weeks, the downside in RSI at neutral levels, with MACD extending its bearish divergence, could persuade short-term profit-taking until indicators signal otherwise. We think fundamentals will eventually prevail, with the DXY approaching 110 in 2Q24 while the UST 10YR yields a trend towards 5.0% in the same period.
- ◆ **Next week's key data include Malaysia's BNM meeting, whereby we expect policymakers to leave its benchmark rate unchanged at 3.0%.** We are also closely eyeing Indonesia's 1Q24 GDP print, where we are pencilling 5.07% YoY (-0.87% QoQ). Separately, we published a [thematic report](#) on the IDR, whereby we expect USD/IDR to remain elevated above 16,000 throughout 2024, reaching its peak in 2Q24 before stabilising on a flat trajectory towards the year-end.

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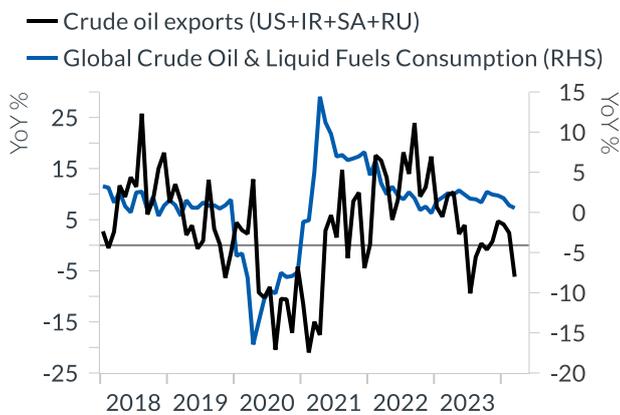
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Figure 1: YTD 2024 total return – Brent and metal prices continue to stay elevated, Food prices are edging higher, while China MSCI is making a strong comeback



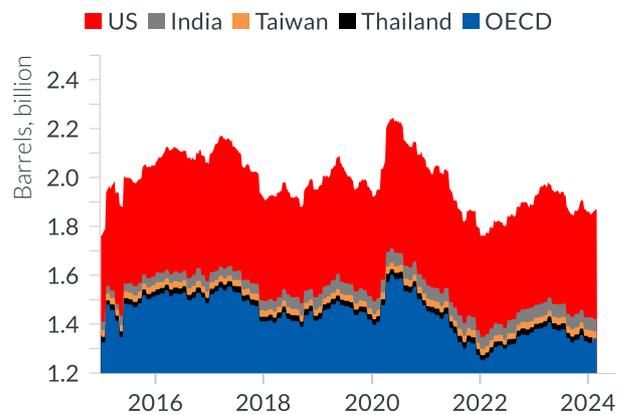
Source: Macrobond, RHB Economics & Market Strategy

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

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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	9.22	6.56	1.84	154.028	151.647	127.516
CHF per USD	8.45	2.12	1.32	0.914	0.941	0.837
TWD per USD	5.94	4.22	1.65	32.482	32.479	29.668
KRW per USD	5.89	4.24	2.07	1373.220	1361.825	1222.444
THB per USD	5.75	4.47	1.57	36.910	37.069	32.704
IDR per USD	4.83	7.47	1.81	16155.050	15946.000	14652.765
AUD per USD	4.25	1.84	-0.23	1.530	1.590	1.408
PHP per USD	3.94	4.11	2.52	57.582	57.146	53.946
DXY	3.88	2.33	0.78	105.310	107.000	99.770
MYR per USD	3.47	1.84	0.63	4.755	4.793	4.245
EUR per USD	3.36	2.08	0.96	0.936	0.955	0.890
SGD per USD	2.94	0.38	0.79	1.359	1.374	1.308
GBP per USD	2.05	1.82	1.19	0.801	0.845	0.762
CNH per USD	1.44	-0.59	-0.31	7.232	7.342	6.713
INR per USD	0.26	1.71	0.10	83.464	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	62.3	25.3	4.87	5.22	3.77
Germany	59.3	13.9	2.99	3.33	2.34
Indonesia	47.3	54.5	6.86	6.91	5.62
United Kingdom	46.3	25.5	4.42	5.48	3.17
S. Korea*	34.6	17.9	3.49	4.14	3.12
Singapore	19.6	-1.0	3.45	3.73	2.87
Malaysia*	13.0	10.3	3.59	3.69	3.31
India	4.7	9.2	7.12	7.39	6.80
Thailand	1.2	17.6	2.34	2.62	1.53
China	-29.6	-1.5	1.89	2.47	2.07

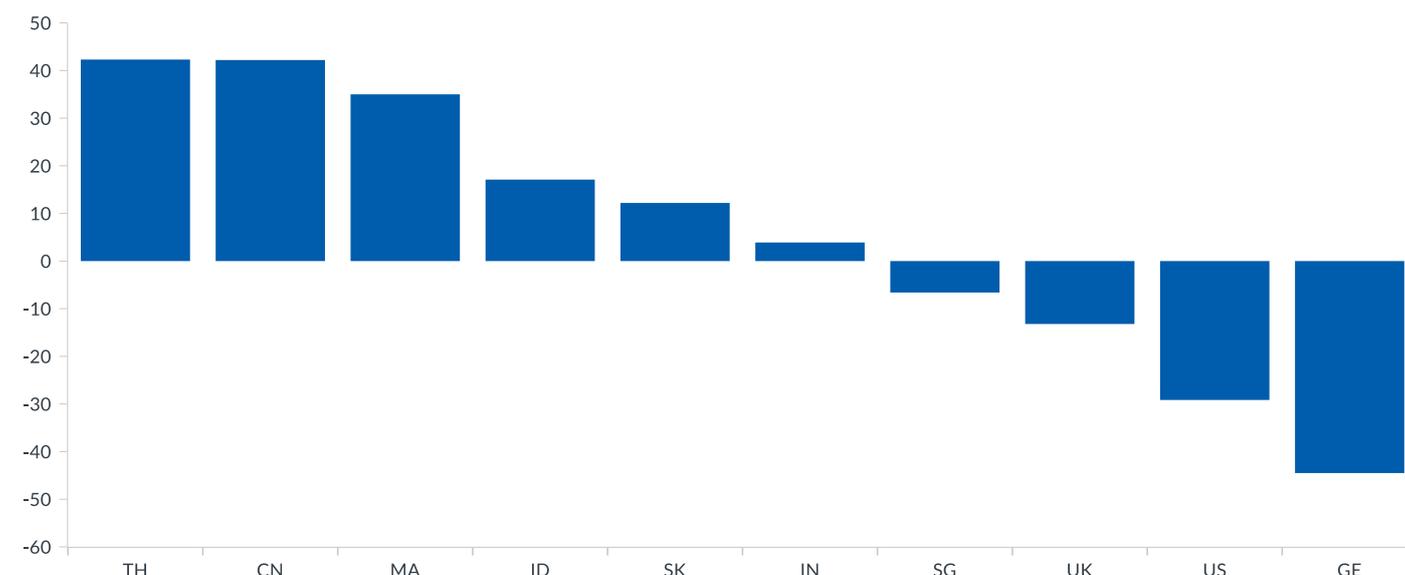
Source: Macrobond, RHB Economics & Market Strategy *Malaysia * Korea 3Y Bonds, YTD & QTD figures are in bps

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

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	75.6	35.4	4.29	4.74	3.00
United States	70.2	38.1	4.58	4.99	3.31
Singapore	69.9	30.0	3.39	3.50	2.66
Indonesia	69.1	45.2	7.15	7.22	6.16
Germany	51.9	24.3	2.54	2.97	1.89
S. Korea	44.4	21.6	3.62	4.40	3.16
Malaysia	21.4	9.0	3.94	4.16	3.65
Thailand	9.1	26.5	2.77	3.35	2.26
India	-2.3	10.9	7.16	7.44	6.96
China	-24.7	2.1	2.31	2.92	2.54

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

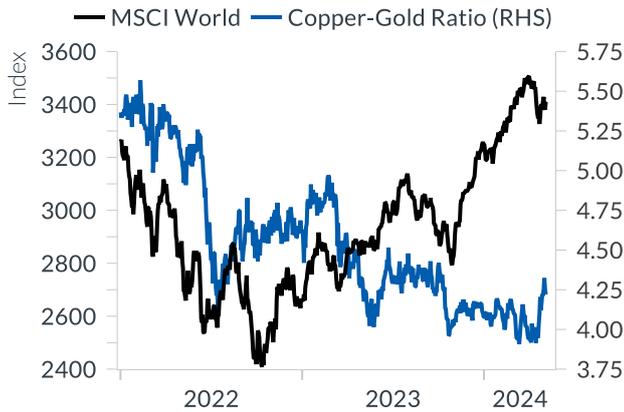
Figure 7: Note US & SG 2-10YR spread narrowed materially in the latest week, with SG inversion approaching neutrality



Source: Macrobond, RHB Economics & Market Strategy

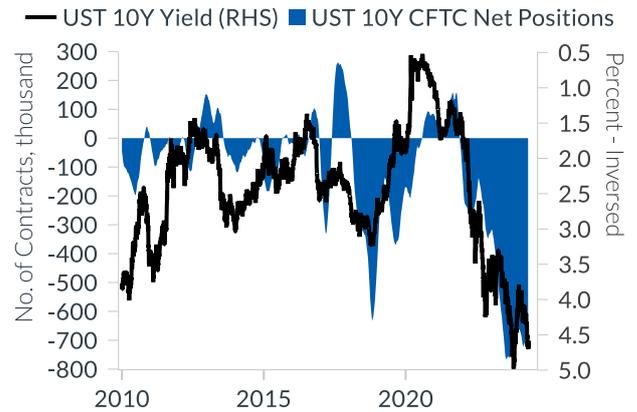
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Figure 8: Short-covering quickly ensued after the profit-taking in April



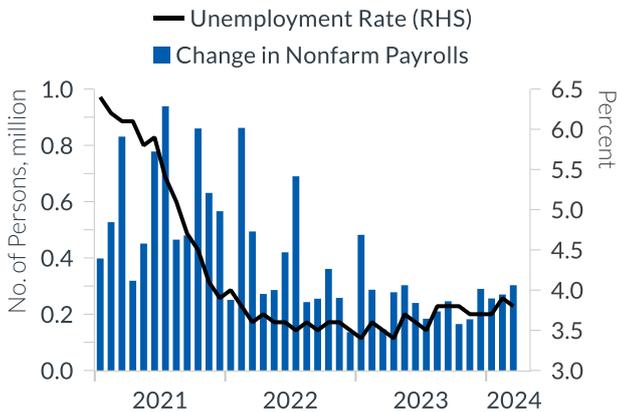
Source: Macrobond, RHB Economics & Market Strategy

Figure 9: Speculative net-shorts in UST 10Y 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



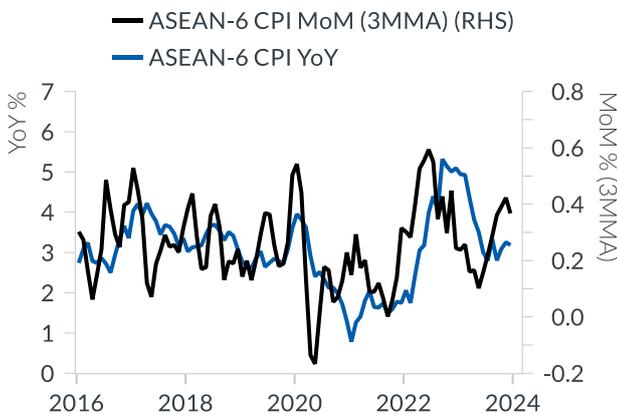
Source: Macrobond, RHB Economics & Market Strategy

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



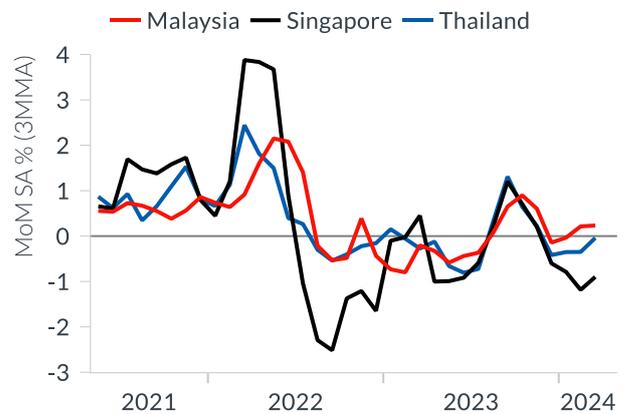
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

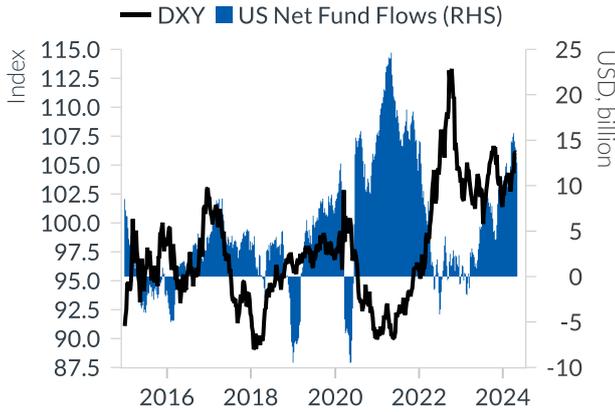
Figure 13: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

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



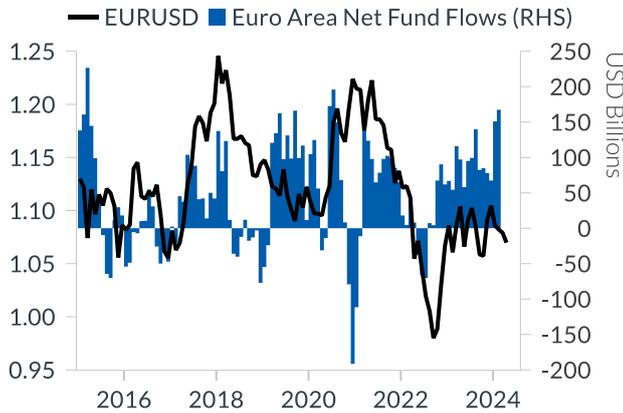
Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



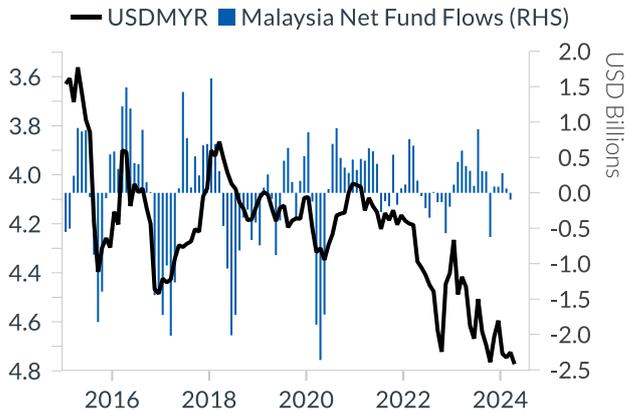
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



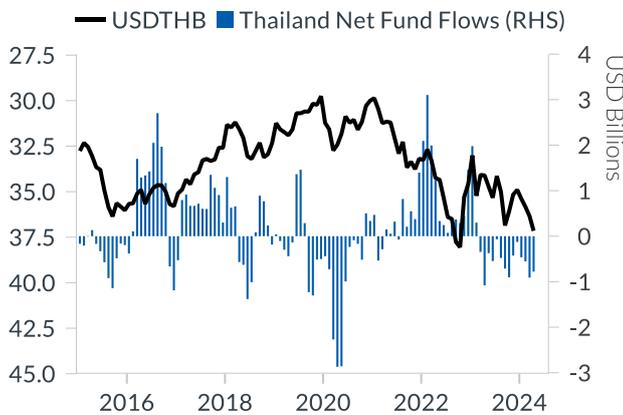
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



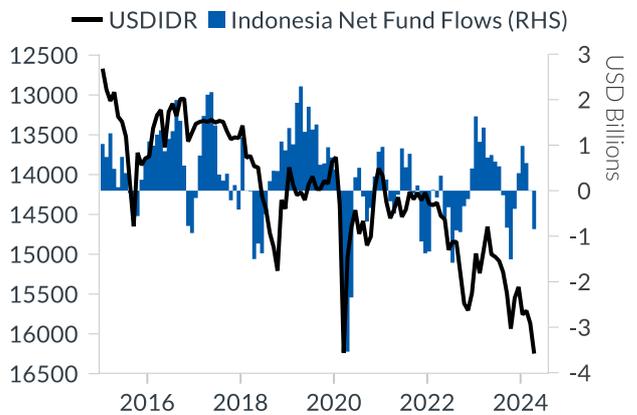
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

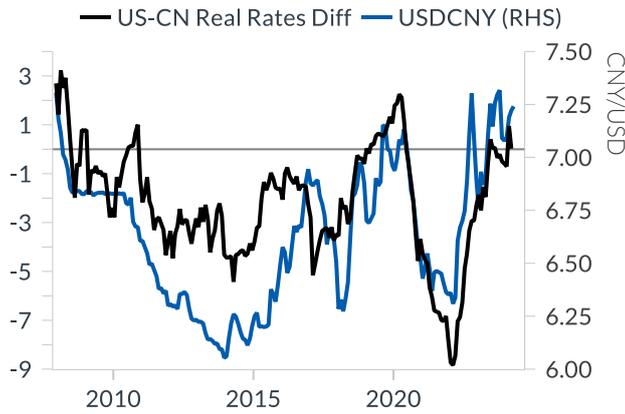
Figure 19: ... while BI's rate hike may not mean higher fund inflows



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

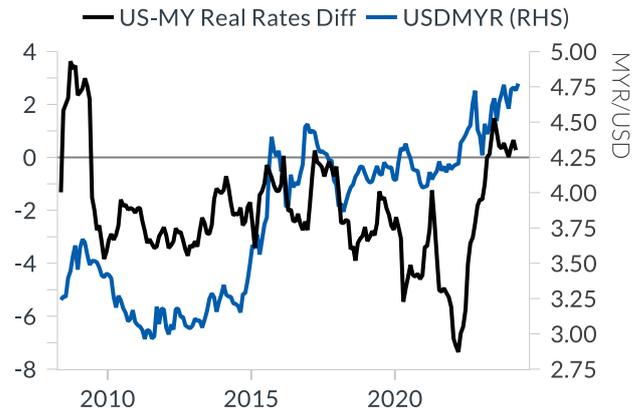
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Figure 20: US-CN real rates differentials suggest USDCNY to move towards 7.0 by end 2024



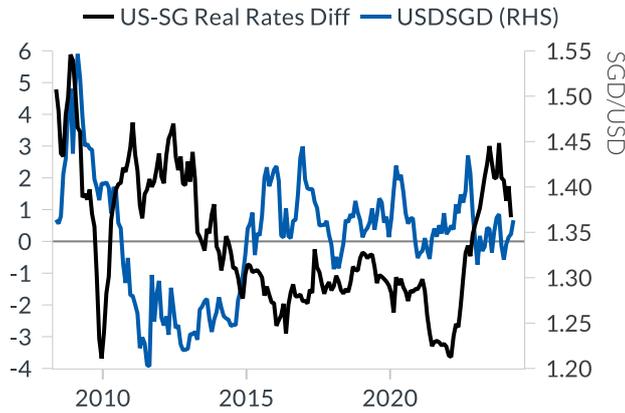
Source: Macrobond, RHB Economics & Market Strategy

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



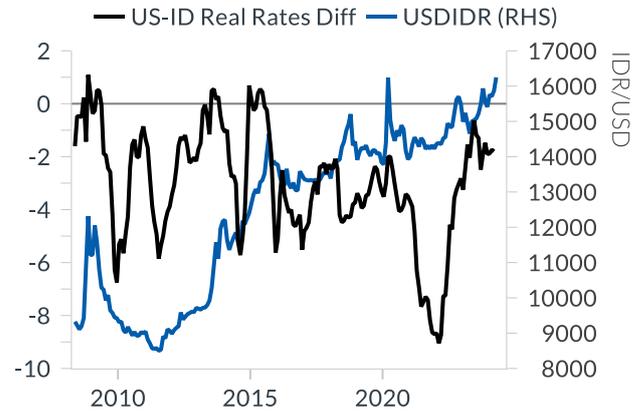
Source: Macrobond, RHB Economics & Market Strategy

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



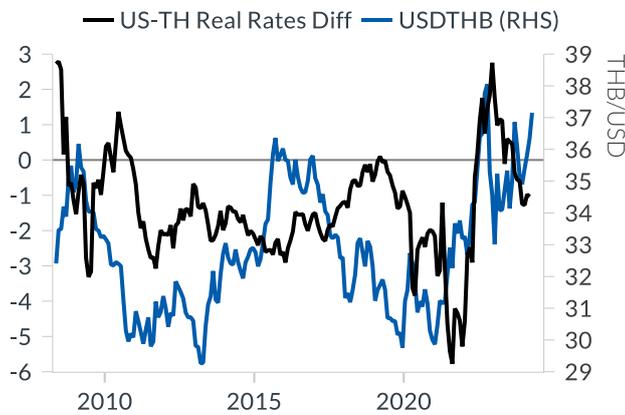
Source: Macrobond, RHB Economics & Market Strategy

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



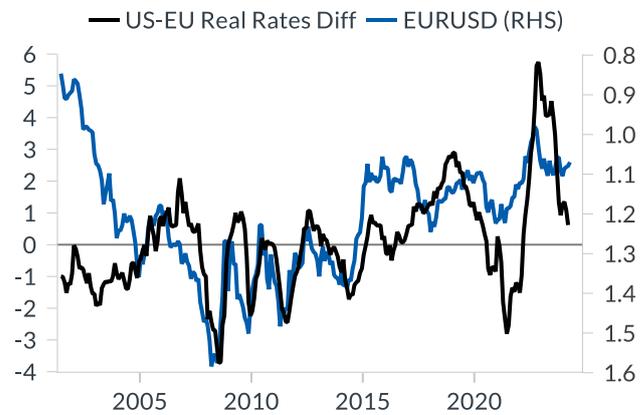
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

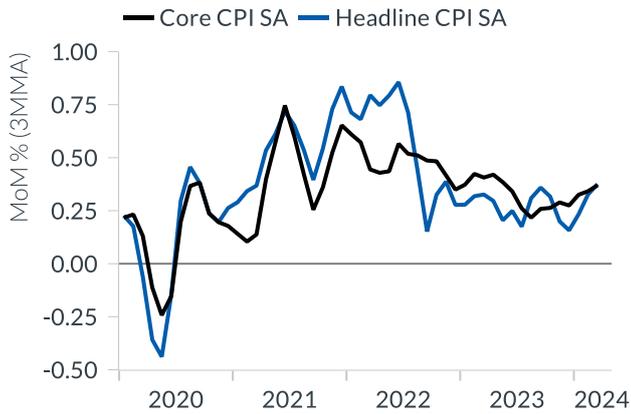
Figure 25: EURUSD remains well-behaved against US-EU 3M rate spread



Source: Macrobond, RHB Economics & Market Strategy

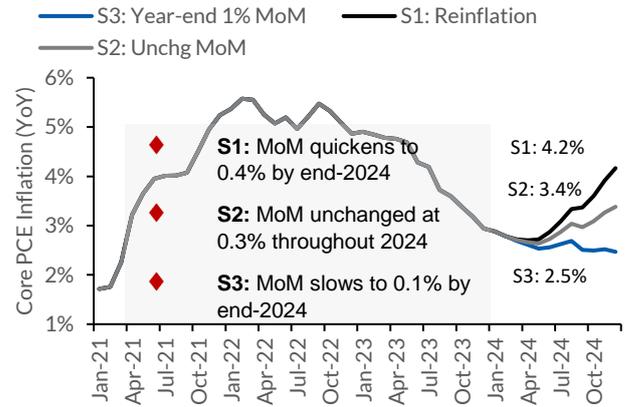
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Figure 26: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...



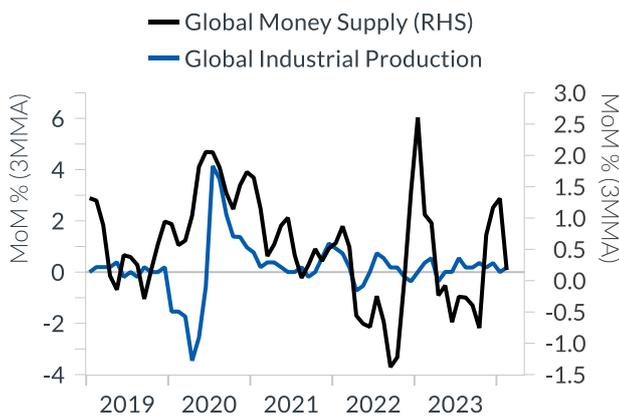
Source: Macrobond, RHB Economics & Market Strategy

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



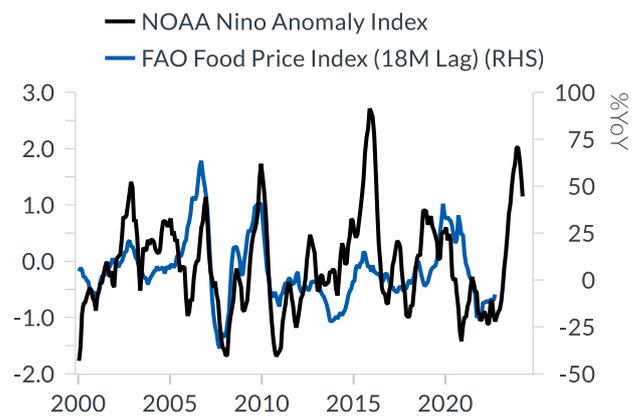
Source: Macrobond, RHB Economics & Market Strategy

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



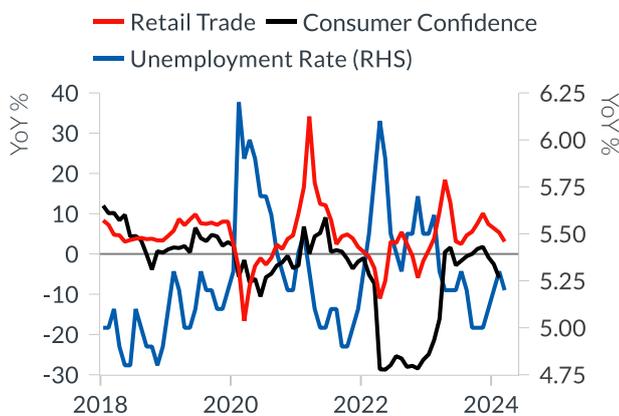
Source: Macrobond, RHB Economics & Market Strategy

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



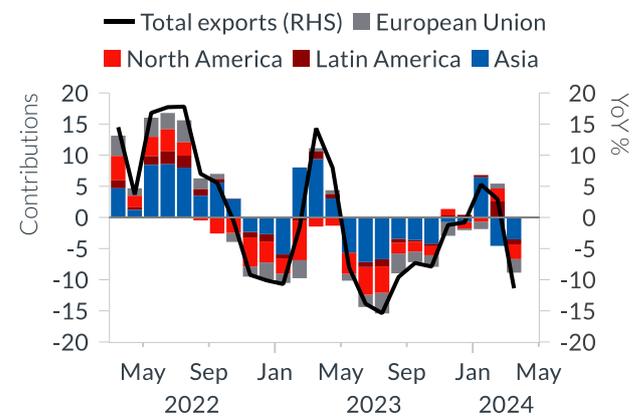
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

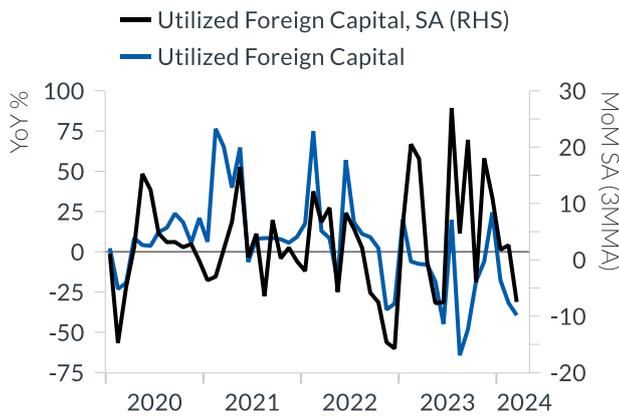
Figure 31: ... similar for exports, whereby momentum has softened...



Source: Macrobond, RHB Economics & Market Strategy

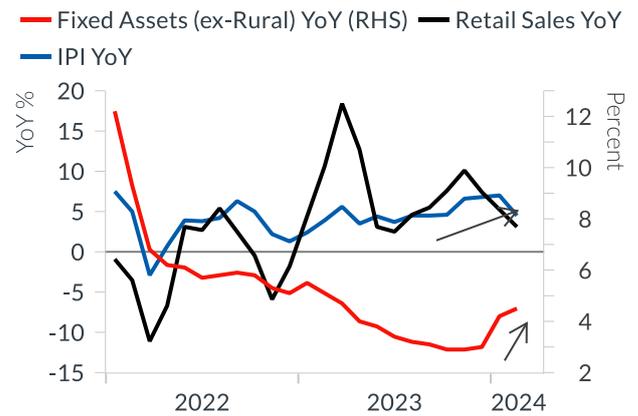
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Figure 32: China's utilisation of foreign capital declined in 1Q24 on the back of high base in 2023...



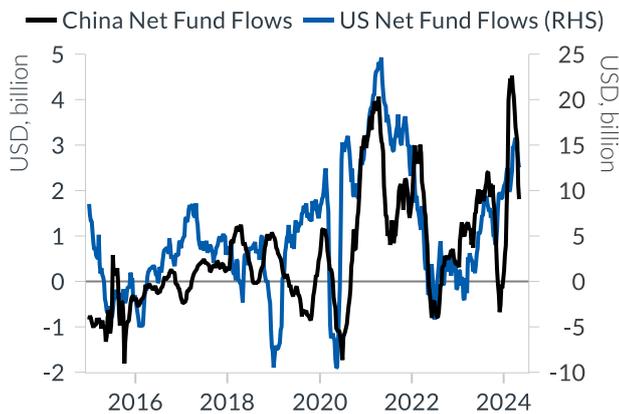
Source: Macrobond, RHB Economics & Market Strategy

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...



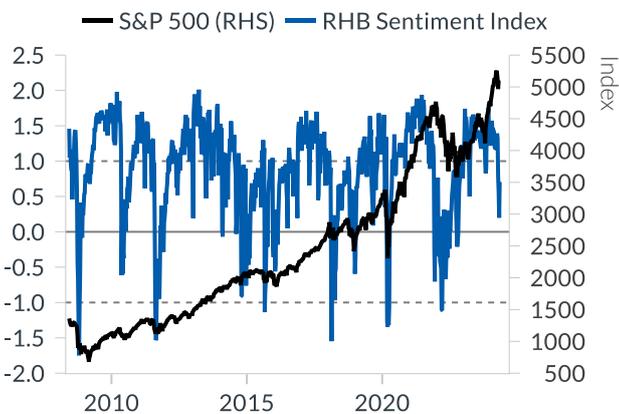
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 35: ... whereby CNY has weakened with SSE rally stalling at latest data



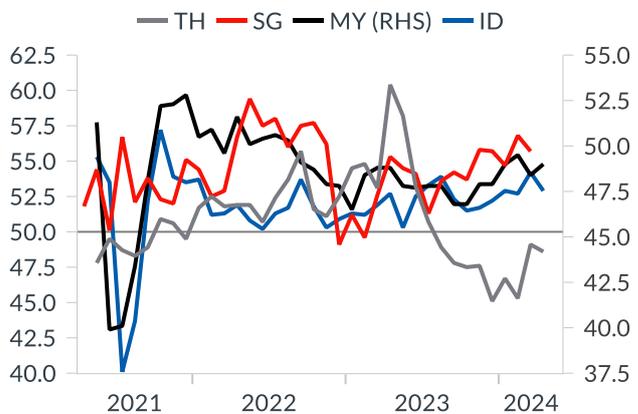
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

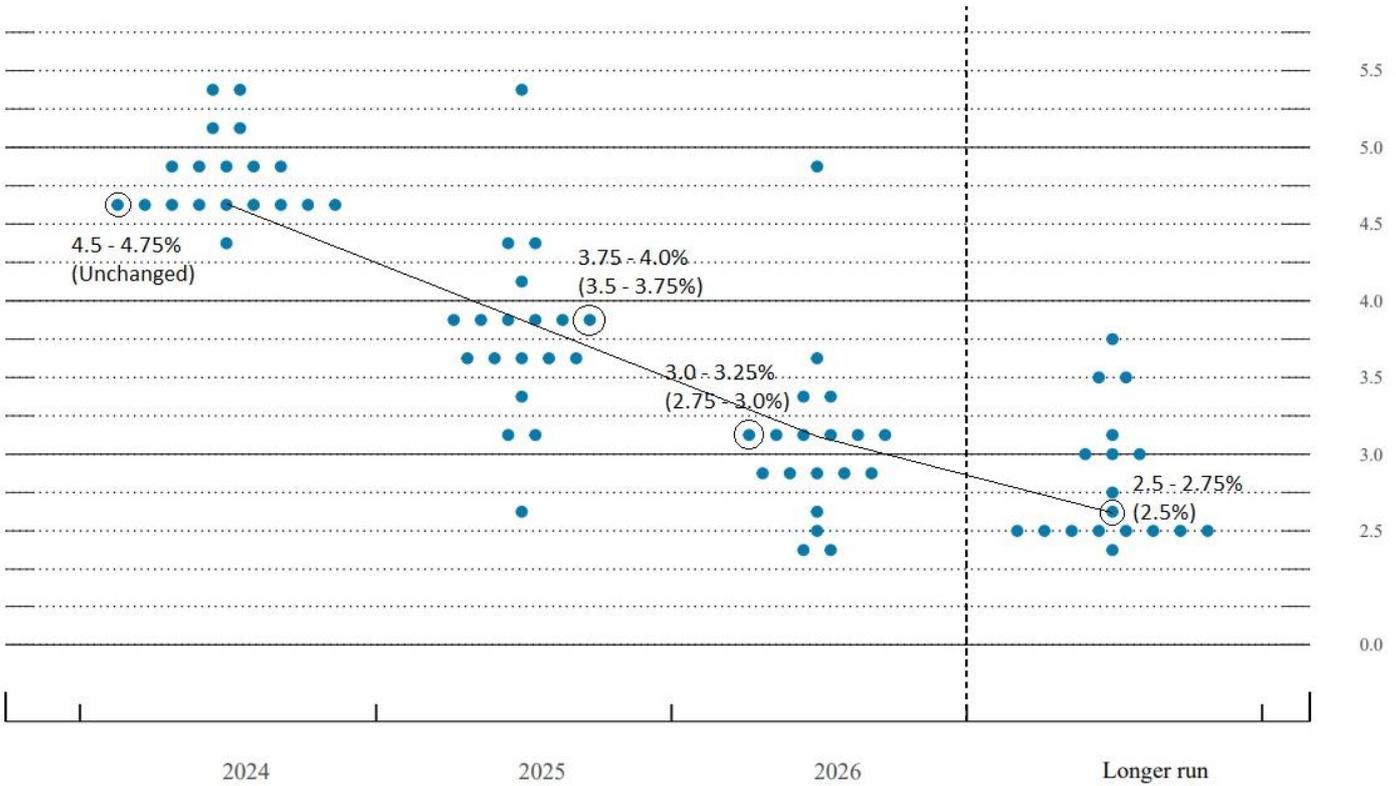
Figure 37: PMI (whole economy) numbers in most ASEAN economies are up



Source: Macrobond, RHB Economics & Market Strategy

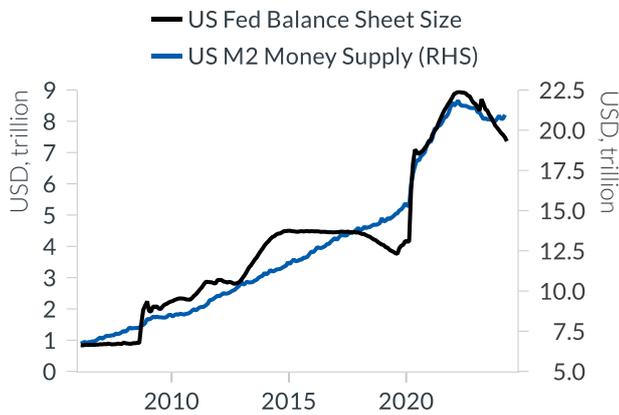
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Figure 38: March median dot-plot chart signalled 3 cuts in 2024, but revised rates higher in 2025 - 2026



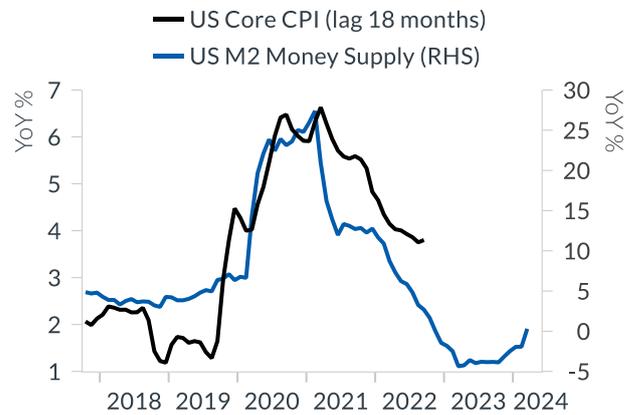
Source: US Federal Reserve, RHB Economics & Market Strategy

Figure 39: US QT taper will mean a increasingly gradual reduction of Fed's balance sheet...



Source: Macrobond, RHB Economics & Market Strategy

Figure 40: ... whereby money supply may stay supported and support US core CPI



Source: Macrobond, RHB Economics & Market Strategy

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