

21 June 2024

## Global Economics & Market Strategy

### Staying Sanguine on Global Growth, But Note Signs of Normalisation

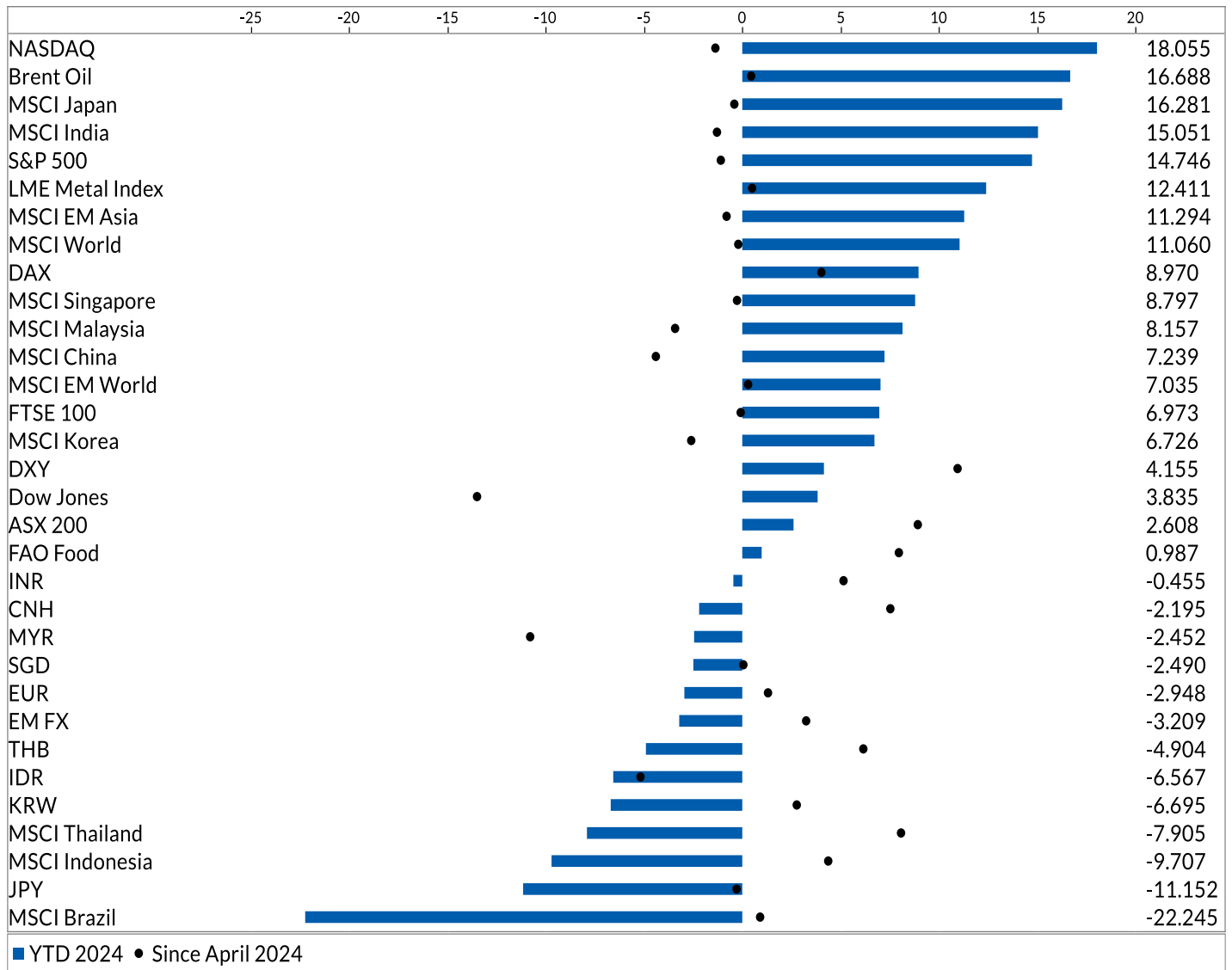
- ◆ **Based on recent incoming data from US, China, and ASEAN, our views for a relatively sanguine global economic backdrop in 2024 continue to materialise.** We remain above consensus for US and China GDP growth at 2.5% and 5.0%, respectively. We maintain our view for the US Fed Funds Rate (FFR) to see only one 25bps cut in 2H24, specifically in December. Recent weaker-than-expected US-centric data is not expected to persist, owing to (1) improving externally-oriented numbers in selected ASEAN economies and (2) relatively positive rhetoric by policymakers. In our view, the US remains the final destination of ASEAN exports, thus suggesting that the improvement in ASEAN's trade seen quarter-to-date is a testament to the US' economic resiliency over the same period.
- ◆ **Recent Fed speak suggests US FFR cuts to be slow and gradual.** Minneapolis President Neel Kashkari highlighted the need to return inflation to the Fed's 2.0% target, with Chicago President Austan Goolsbee citing the said target akin to a "sacred vow" and the path of which consumer prices to return will take "a year or two to do so". Richmond President Thomas Barkin added that more clarity is needed on the path of inflation before lowering interest rates. We view US core PCE inflation to return to its 3.0% target in 2H24, assuming that inflation momentum persists at the current rate till year-end. We think that the Fed's economic projection for US core PCE to slow to an average of 2.8% in 2024 may be too ambitious as this requires sequential price growth to decelerate to 0.1% MoM % by year-end.
- ◆ **Our global indicators suggest signs of normalisation** amid plateauing (but likely temporal) trade conditions in ASEAN in 1Q24. In contrast, US labour recovery conditions normalise further against the prior pickup since the pandemic. Specifically, long-term (2011 – 2018) averages of US nonfarm payroll gains were around 1.6% annually, against 2023's average gain of 2.3% and 2024 year-to-date average gain of 1.8%. Significantly, US nonfarm payrolls have added 28.1 million jobs since the COVID-19 trough, against the loss of 21.4 million jobs during the pandemic. Despite our relatively cautious tone, it is by no means that we are pencilling any economic landing for the US and Asia – we remain optimistic on the overall global economic outlook, whereby the normalisation of US labour data is perceived as a natural move towards the long-term trend.
- ◆ **We continue to stay positive on the DXY, whereby dovish market participants in pencilling two FFR cuts to be disappointed when September comes.** We prefer to buy on dips for the dollar index, a strategy that may continue to play out, especially on the back of the surprise cut by the Swiss National Bank to 1.25% (from 1.50%) coupled with JPY's purported weakness following its acceleration in inflation pressures. We do not subscribe to further ECB cuts or BOJ hikes in 2024 – ECB's recent rate cut in early June was likely a response to its prior telegraph, and inflation risks into 2H24 will likely keep policy parameters unchanged. Meanwhile, BOJ's higher inflation was led by cost-push rather than demand-led, as services and non-fresh food prices decelerated in the latest print.
- ◆ **In the prior week, we recently held [discussions](#) with policymakers and several medium-to-large firms in Thailand, and attended [BNM's Sasana Symposium 2024](#).** Elsewhere, [Singapore](#) and [Malaysia](#) trade momentum has improved in recent prints, suggesting that ASEAN's externally-facing industries will continue to be beneficiaries of the overall favourable global trade winds. On ASEAN central banks, we continue to see BNM, BOT and BI likely to keep policy parameters unchanged, with [BI recently maintaining](#) its rate at 6.25%.

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21 June 2024

Figure 1: YTD 2024 total return – US equities continue to see further rallies with Nasdaq now the top performer. Inflation risks still on the cards on the back of higher FAO Food, Brent oil and LME metal prices.



Source: Macrobond, RHB Economics & Market Strategy

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

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United States	48.9	11.9	4.74	5.22	3.77
Germany	43.3	-2.1	2.83	3.33	2.34
Indonesia	35.0	42.2	6.73	6.91	5.62
United Kingdom	18.5	-2.3	4.14	5.48	3.17
Singapore	10.2	-10.4	3.36	3.73	2.87
Malaysia*	6.9	4.2	3.53	3.69	3.31
S. Korea*	3.6	-13.1	3.18	4.14	3.12
Thailand	2.6	19.0	2.36	2.62	1.53
India	-10.8	-6.3	6.96	7.39	6.80
China	-46.9	-18.8	1.72	2.47	2.07

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

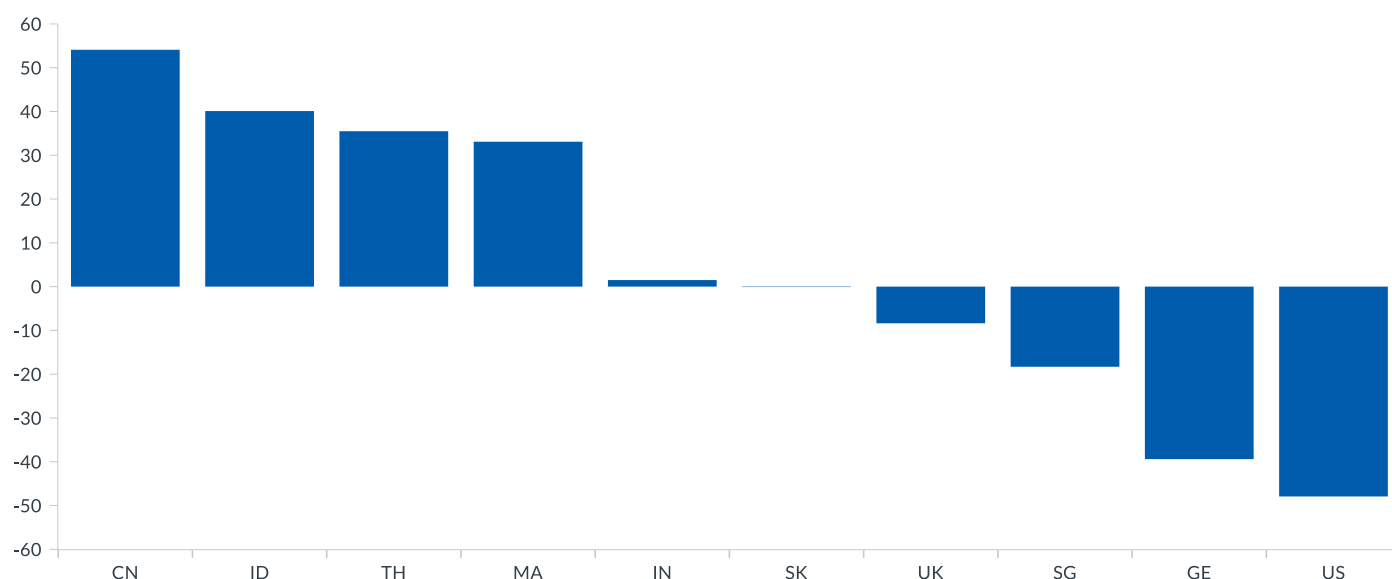
Figure 3: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Indonesia	68.0	44.100	7.13	7.22	6.16
United Kingdom	52.6	12.440	4.06	4.74	3.00
Singapore	48.4	8.500	3.18	3.50	2.66
Germany	41.0	13.400	2.43	2.97	1.89
United States	38.0	5.900	4.26	4.99	3.31
Malaysia	13.4	1.000	3.86	4.16	3.65
S. Korea	8.4	-14.400	3.26	4.40	3.16
Thailand	3.7	21.100	2.71	3.35	2.26
India	-20.8	-7.600	6.98	7.44	6.96
China	-30.1	-3.300	2.26	2.92	2.54

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

21 June 2024

Figure 4: China's 2-10Y yield spread widens as market sees more confidence in its 2H24 growth momentum



Source: Macrobond, RHB Economics &amp; Market Strategy

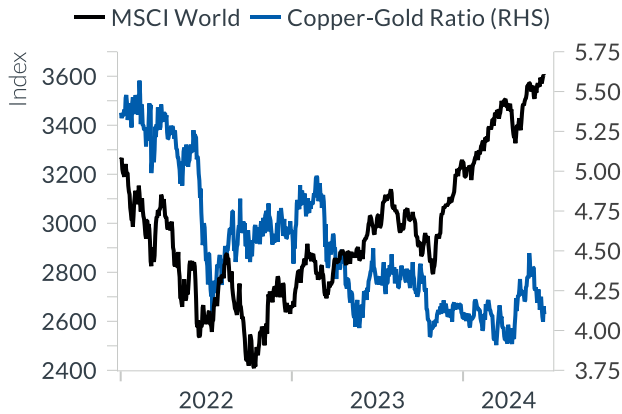
Figure 5: Interim DXY weakness is likely temporal, we keep our forecast for DXY to rally towards 107 in 3Q24

FX Rates % Change	YTD 2024 (%)			Close (2024)	High 2023	Low 2023
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)			
JPY per USD	12.55	9.81	4.95	158.723	151.647	127.516
KRW per USD	7.18	5.50	3.31	1389.830	1361.825	1222.444
IDR per USD	7.03	9.72	3.94	16494.150	15946.000	14652.765
PHP per USD	6.24	6.41	4.79	58.856	57.146	53.946
CHF per USD	5.70	-0.47	-1.25	0.891	0.941	0.837
TWD per USD	5.54	3.83	1.27	32.360	32.479	29.668
THB per USD	5.16	3.88	0.99	36.701	37.069	32.704
DXY	4.20	2.65	1.09	105.640	107.000	99.770
EUR per USD	3.04	1.77	0.65	0.933	0.955	0.890
SGD per USD	2.55	0.01	0.42	1.354	1.374	1.308
MYR per USD	2.51	0.90	-0.30	4.711	4.793	4.245
CNH per USD	2.24	0.20	0.48	7.289	7.342	6.713
AUD per USD	2.18	-0.19	-2.21	1.500	1.590	1.408
INR per USD	0.46	1.91	0.29	83.629	83.439	80.988
GBP per USD	0.45	0.22	-0.40	0.788	0.845	0.762

Source: Macrobond, RHB Economics &amp; Market Strategy

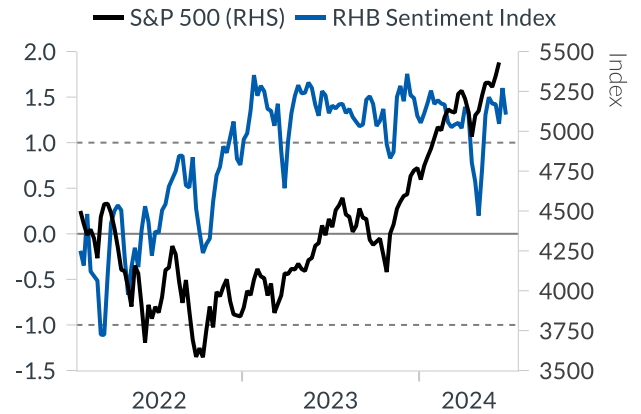
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**Figure 6: Global risk appetite continued to advance, with higher MSCI World and Copper/Gold Ratio...**



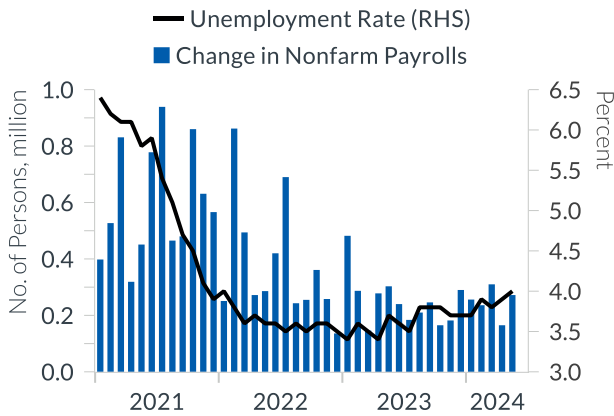
Source: Macrobond, RHB Economics & Market Strategy

**Figure 7: ... while RHB sentiment index remains supported, no signs of landing expectations**



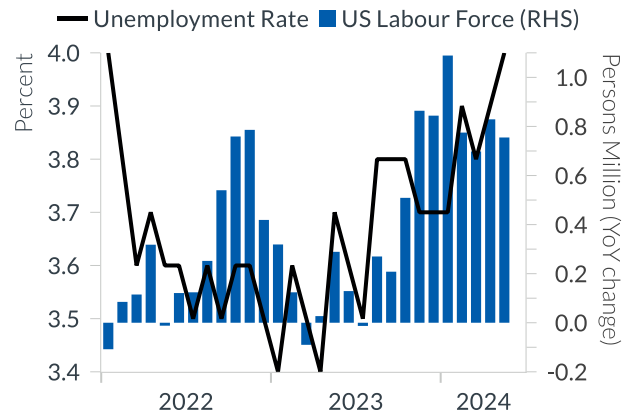
Source: Macrobond, RHB Economics & Market Strategy

**Figure 8: US NFP surprised higher at the recent data, suggesting rosy labour conditions...**



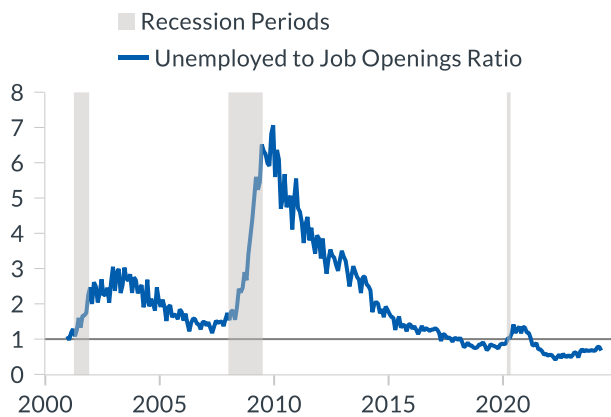
Source: Macrobond, RHB Economics & Market Strategy

**Figure 9: ... while higher jobless rate is a function of more job seekers**



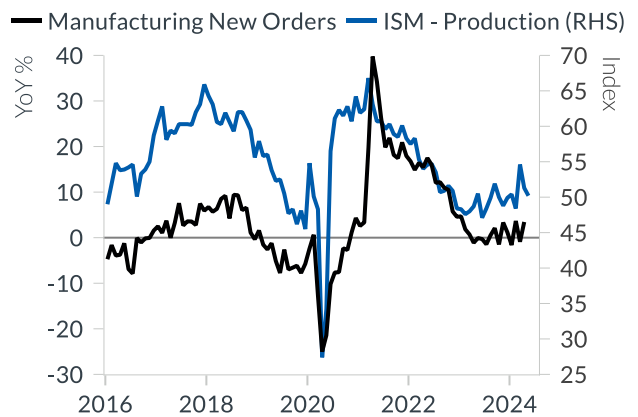
Source: Macrobond, RHB Economics & Market Strategy

**Figure 10: ... with overall US labour conditions still tight, as job openings still outnumber unemployed persons**



Source: Macrobond, RHB Economics & Market Strategy

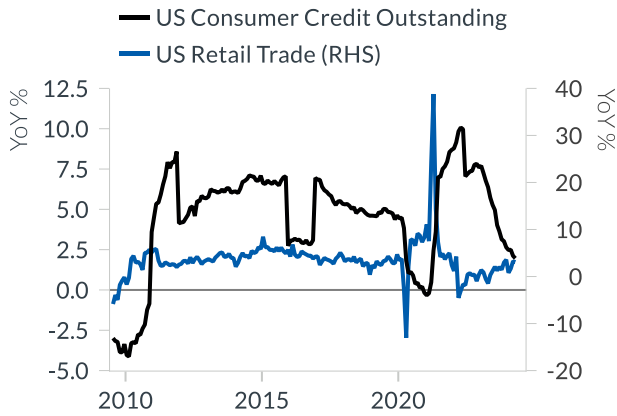
**Figure 11: US production activities are supported, seen in its new orders and ISM...**



Source: Macrobond, RHB Economics & Market Strategy

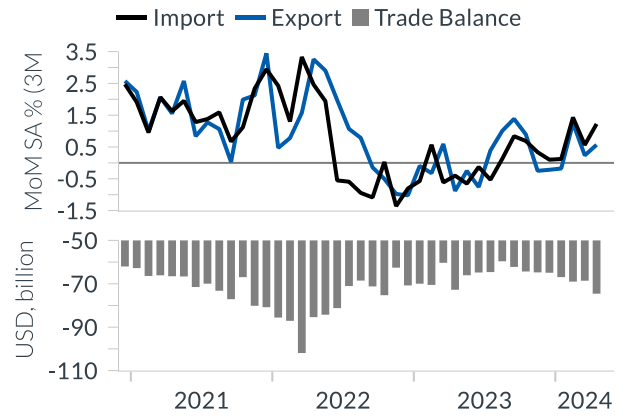
21 June 2024

Figure 12: ... with improvements in job market and the real economy supporting retail trade, rather than debt



Source: Macrobond, RHB Economics & Market Strategy

Figure 13: US trade momentum improves, suggesting continued global growth resilience



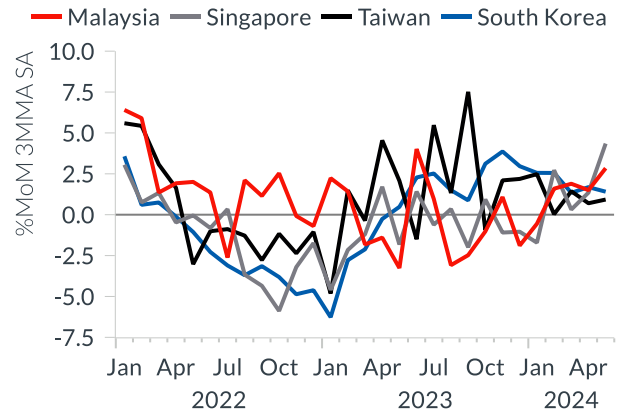
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: ... with ASEAN-6 exports to China recovering...



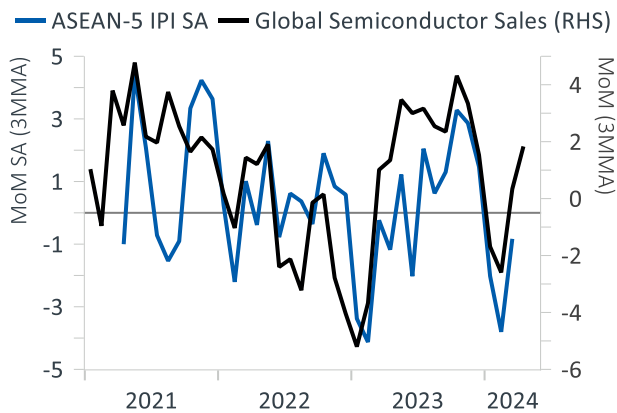
Source: Macrobond, RHB Economics & Market Strategy

Figure 15: ... with critical E&E outbound shipments from key exporting economies supported



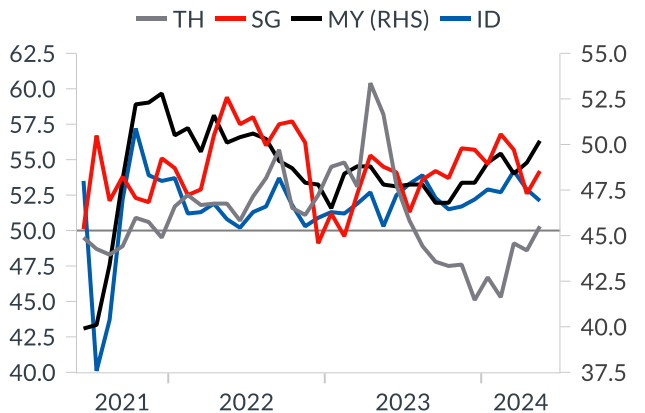
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: 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

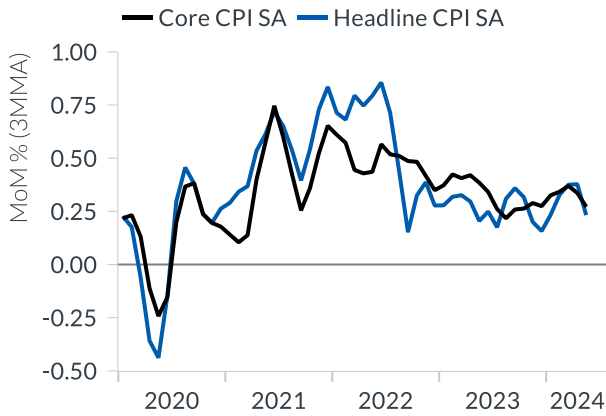
Figure 17: ... with PMI (whole economy) numbers in ASEAN seeing some consolidation



Source: Macrobond, RHB Economics & Market Strategy

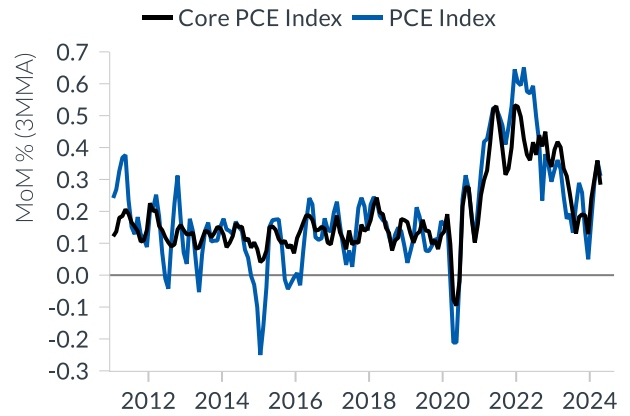
21 June 2024

Figure 18: US core inflation momentum has slowed, albeit we need more data to turn confident...



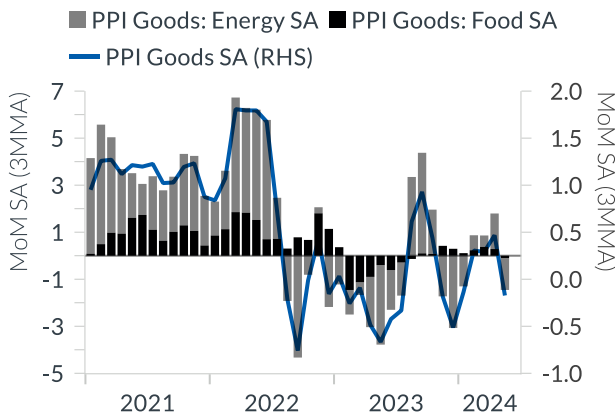
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: ... that US core PCE inflation is on a path towards 2.0%, which we think it is not



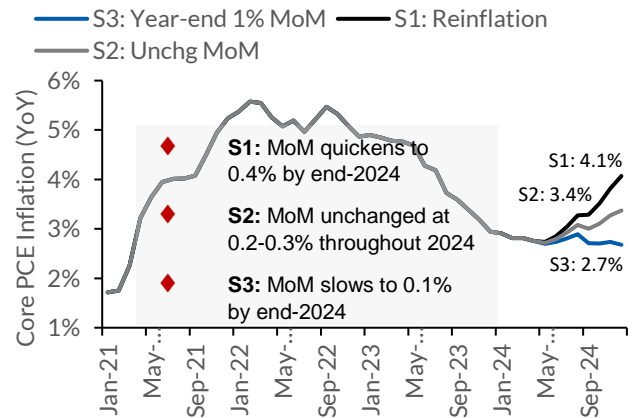
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: US producer price index may have slowed, but this is just a single print...



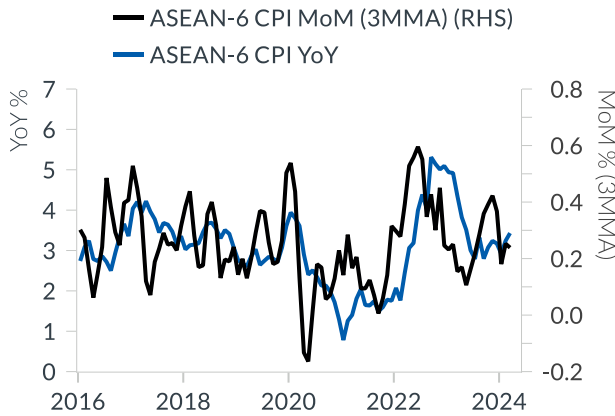
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: ... with our models suggesting that US core PCE inflation to move into the 3.0% handle really soon



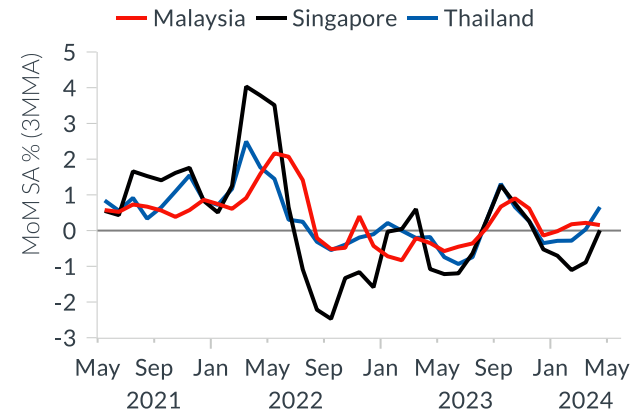
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: ASEAN-6 GDP-Weighted CPI momentum is heating up...



Source: Macrobond, RHB Economics & Market Strategy

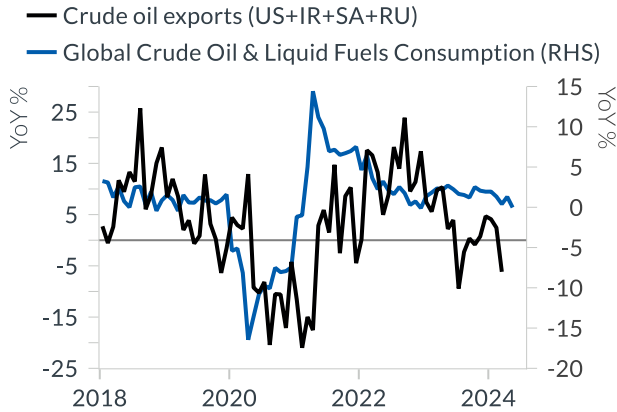
Figure 23: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

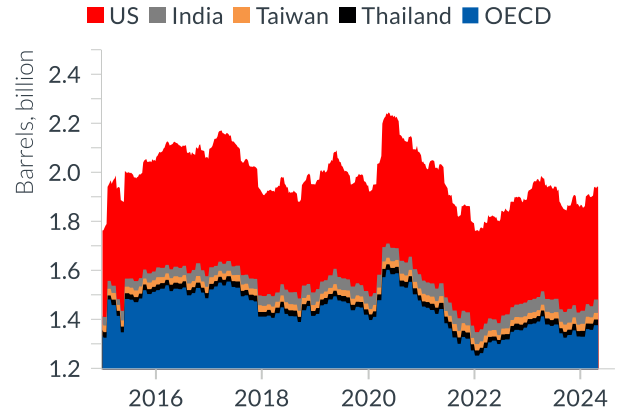
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**Figure 24: Crude prices are slated to point higher, as global supplies decline...**



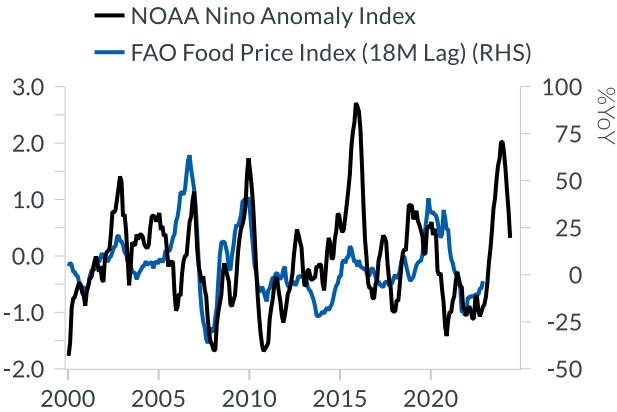
Source: Macrobond, RHB Economics & Market Strategy

**Figure 25: ... even as global oil inventories climbed in the recent months**



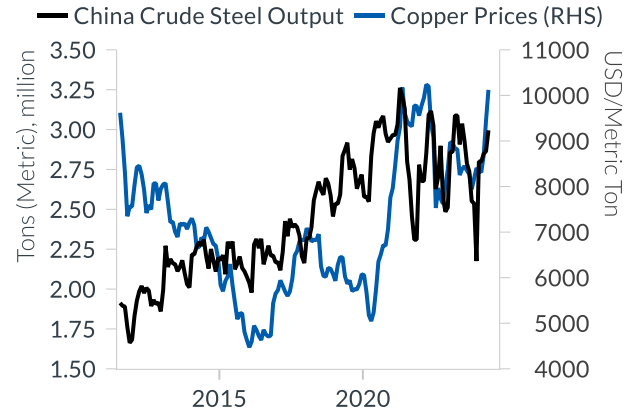
Source: Macrobond, RHB Economics & Market Strategy

**Figure 26: Higher global food prices may be evident from the El Nino condition, but conditions are easing**



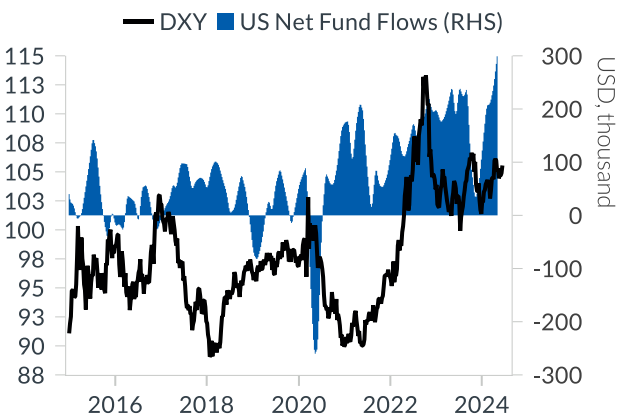
Source: Macrobond, RHB Economics & Market Strategy

**Figure 27: Higher base metal prices will be supported from China's return, as commodity consumption rise**



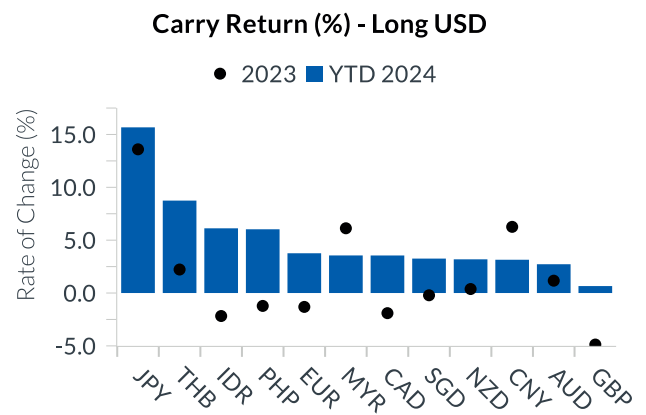
Source: Macrobond, RHB Economics & Market Strategy

**Figure 28: High for longer rates likely led to more fund inflows into the US, thus supporting DXY...**



Source: Macrobond, EPFR, RHB Economics & Market Strategy

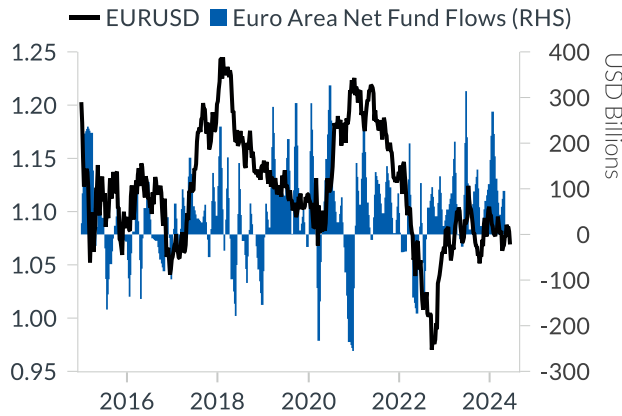
**Figure 29: ... while USD carry stays positive year-to-date**



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

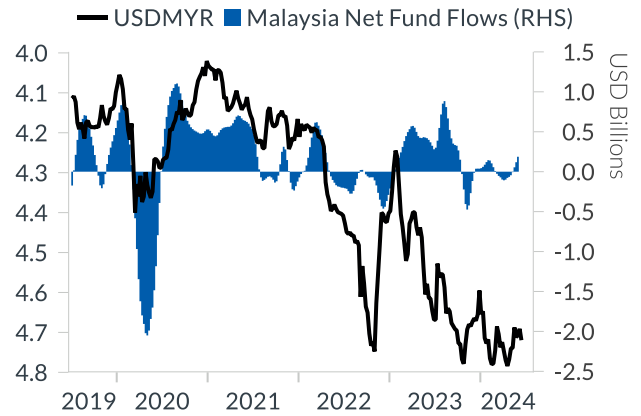
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**Figure 30: Fund flows into Euro Area slowed as investors priced in a ECB rate cut, which materialised**



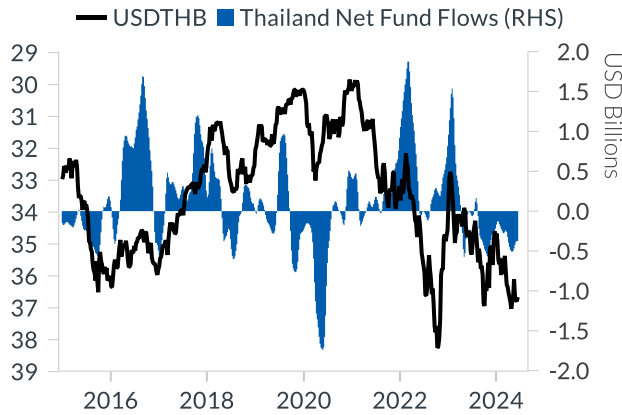
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 31: Malaysia's net fund flows are gradually turning positive, which is MYR-positive**



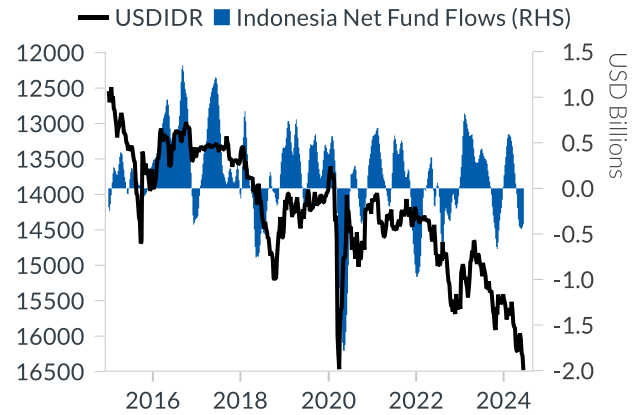
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 32: No reprieve for Thailand's net outflows, suggesting further weakness in THB...**



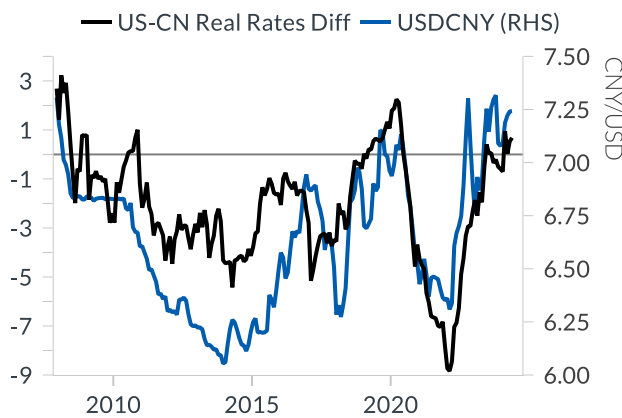
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 33: ... while investors continuing to pull funds out of Indonesia**



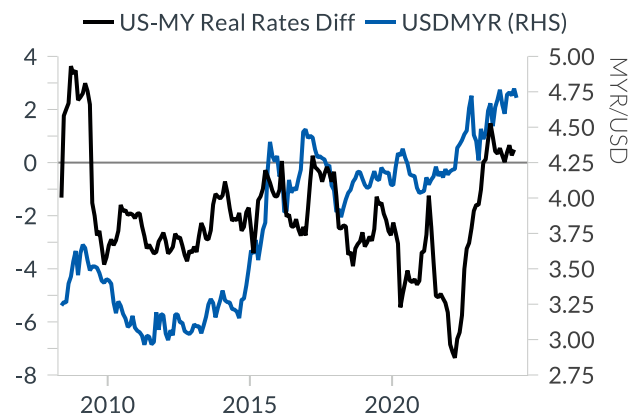
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 34: US-CN real rates differential is behaving well with USD-CNY,**



Source: Macrobond, RHB Economics & Market Strategy

**Figure 35: US-MY real rates narrowed recently, in tandem with the recent MYR strength**

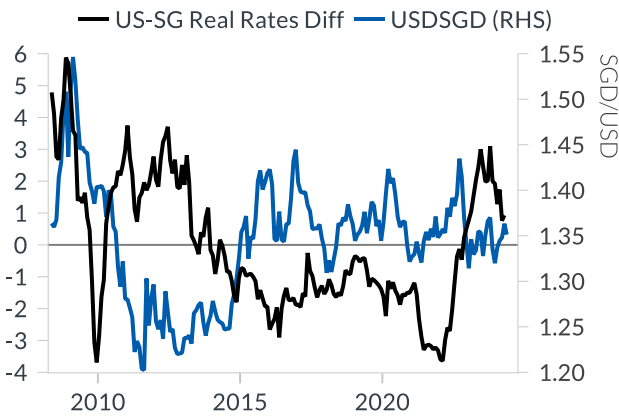


Source: Macrobond, RHB Economics & Market Strategy



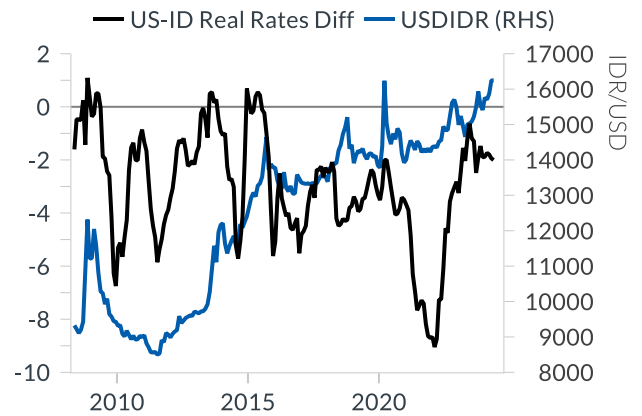
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**Figure 36: Singapore remains less susceptible to rate differentials given its S\$NEER appreciation policy**



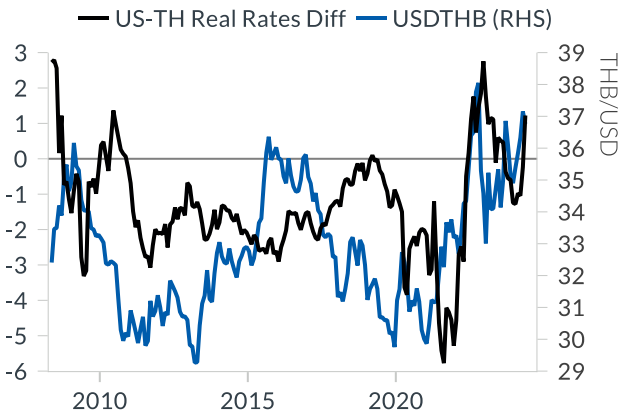
Source: Macrobond, RHB Economics & Market Strategy

**Figure 37: US-ID real rates remain flat, USD-IDR moved back up above 16,000**



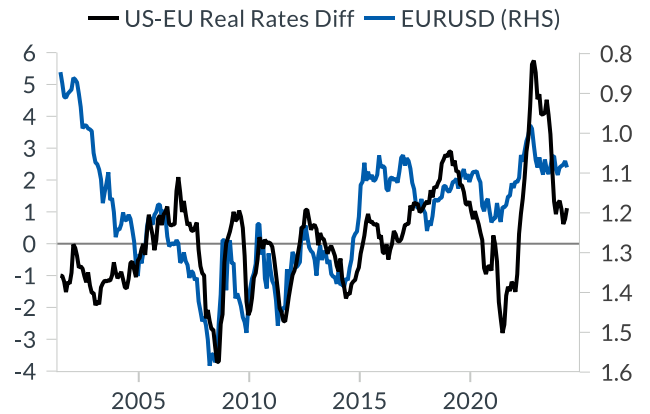
Source: Macrobond, RHB Economics & Market Strategy

**Figure 38: We still remain bearish on THB, as the hike in retail diesel prices will narrow TH real rates**



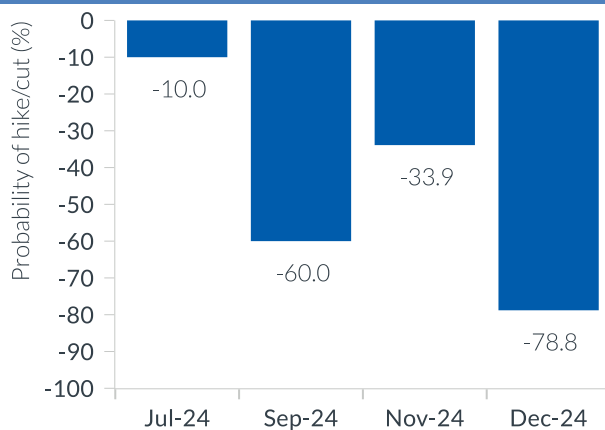
Source: Macrobond, RHB Economics & Market Strategy

**Figure 39: EURUSD remains well-behaved against US-EU 3M rate spread**



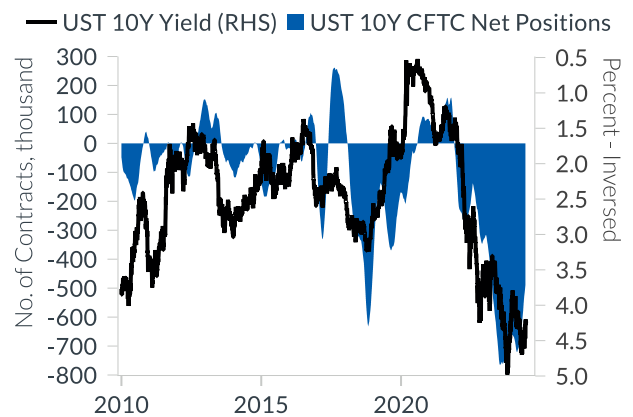
Source: Macrobond, RHB Economics & Market Strategy

**Figure 40: Markets only pricing in a potential US FFR cuts in Sept and Dec 24...**



Source: Macrobond, RHB Economics & Market Strategy

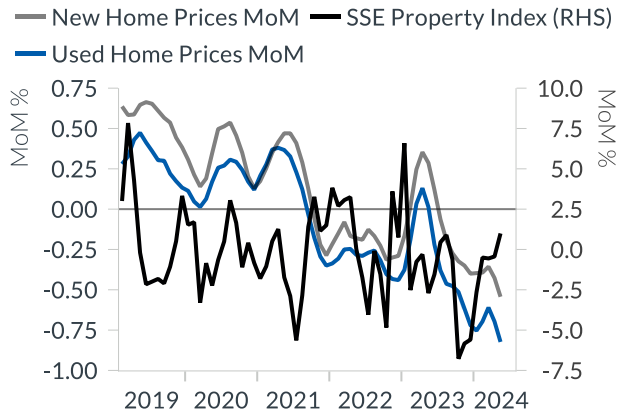
**Figure 41: ... with UST 10Y yields likely to stay elevated as rates stay high-for-longer**



Source: Macrobond, RHB Economics & Market Strategy

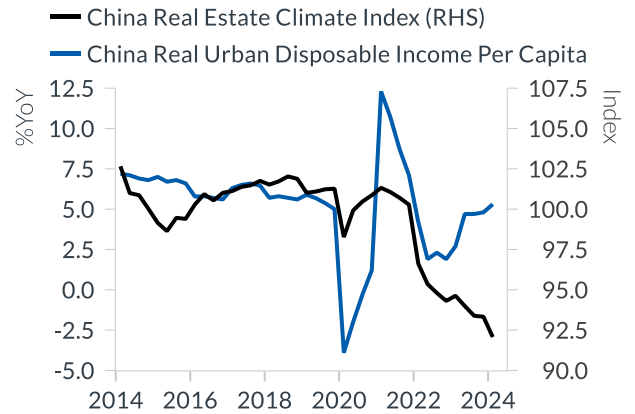
21 June 2024

**Figure 42: China new home price momentum revert to decline trends, probably the bottom is not found (yet)**



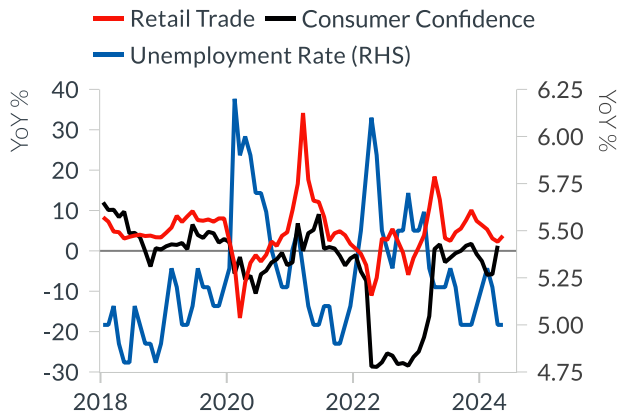
Source: Macrobond, RHB Economics & Market Strategy

**Figure 43: Real urban disposable income continues to rise, de-risking away from the real estate backdrop**



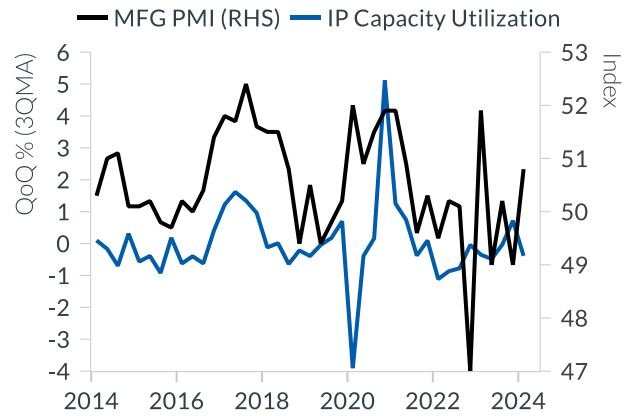
Source: Macrobond, RHB Economics & Market Strategy

**Figure 44: Chinese unemployment levels continue to fade lower as consumer confidence improves...**



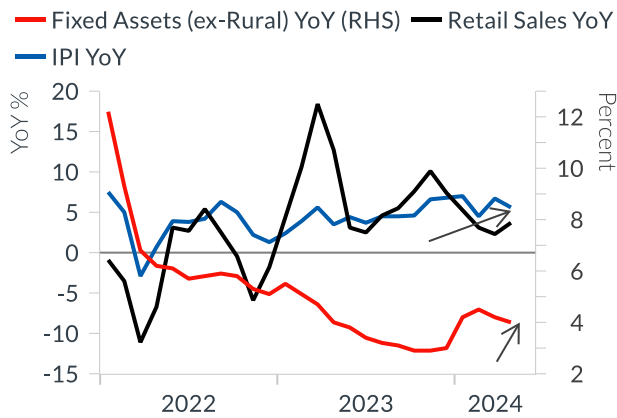
Source: Macrobond, RHB Economics & Market Strategy

**Figure 45: ... with externally-facing industries seeing improvement; MFG PMI surging at its latest data...**



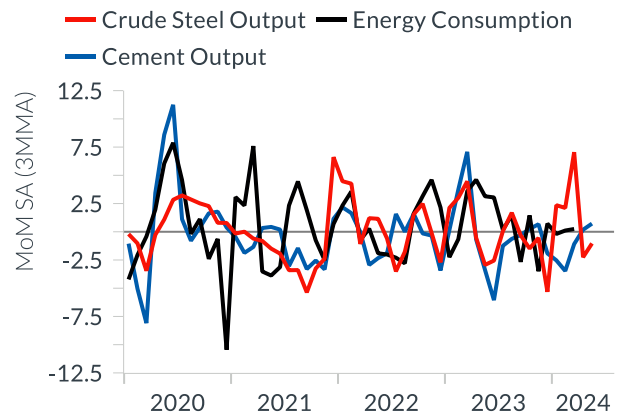
Source: Macrobond, RHB Economics & Market Strategy

**Figure 46: ... while industrial production continue to accelerate...**



Source: Macrobond, RHB Economics & Market Strategy

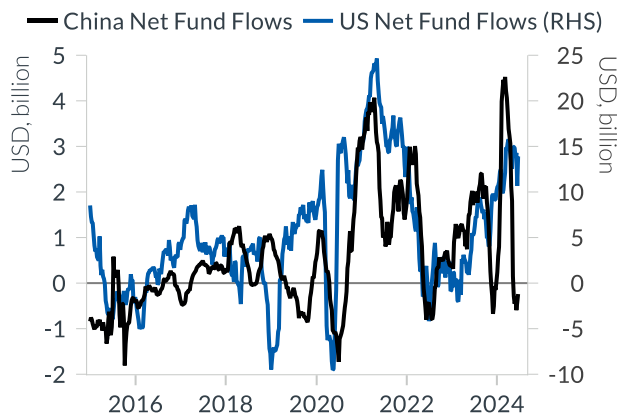
**Figure 47: ... with commodity consumption supported on the back of its recovery**



Source: Macrobond, RHB Economics & Market Strategy

21 June 2024

**Figure 48: Investors' interest in US funds remain healthy, some redemption of Chinese funds is ongoing...**



Source: Macrobond, EPFR, RHB Economics & Market Strategy

**Figure 49: ... but SSE remains on the climb as risk appetite stays rosy**



Source: Macrobond, RHB Economics & Market Strategy

21 June 2024

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