

01 August 2024

## Global Economics & Market Strategy

### DXY Weakness = Revising FX Forecasts

- ◆ We revise our FX forecasts for 2H24 – 2025 in view of the recent DXY weakness. Specifically, for the DXY, key revisions are broadly seen in the nearer-term forecasts, while longer-end forecasts are left unchanged.
- ◆ We now forecast MYR to move towards 4.70 per USD in 3Q24 while keeping our outlook for 4.65 per USD in 4Q24. This is against our prior outlook of 4.781 per USD in 3Q24.
- ◆ The latest FOMC statement did little to sway our base case assumptions for an FFR cut only in 4Q24 rather than swap pricing for a Sept cut. Notwithstanding, any unexpected material decline in US labour conditions and/or inflation pressures will inject a risk for a Sept cut.

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Figure 1: RHB FX Forecast 2H24 - 2025

| G10 FX | RHB Forecasts |        |        |        | Bloomberg Consensus |        |        |        |
|--------|---------------|--------|--------|--------|---------------------|--------|--------|--------|
|        | 3Q24          | 4Q24   | 1H25   | 2H25   | 3Q24                | 4Q24   | 1H25   | 2H25   |
| DXY    | 105.0         | 104.0  | 101.0  | 98.0   | 104.95              | 104.10 | 102.20 | 100.90 |
| EURUSD | 1.085         | 1.102  | 1.149  | 1.193  | 1.080               | 1.090  | 1.110  | 1.120  |
| USDJPY | 158.62        | 157.17 | 147.89 | 142.05 | 157.00              | 155.00 | 148.00 | 145.00 |
| GBPUSD | 1.275         | 1.282  | 1.301  | 1.359  | 1.270               | 1.280  | 1.300  | 1.300  |
| AUDUSD | 0.66          | 0.68   | 0.71   | 0.73   | 0.67                | 0.68   | 0.69   | 0.70   |
| NZDUSD | 0.615         | 0.629  | 0.653  | 0.665  | 0.610               | 0.620  | 0.630  | 0.640  |
| AXJFX  | 3Q24          | 4Q24   | 1H25   | 2H25   | 3Q24                | 4Q24   | 1H25   | 2H25   |
| USDCNH | 7.271         | 7.202  | 7.150  | 7.100  | 7.300               | 7.200  | 7.160  | 7.140  |
| USDIDR | 16,502        | 16,350 | 15,715 | 15,269 | 16,200              | 16,100 | 15,800 | 15,400 |
| USDMYR | 4.696         | 4.651  | 4.517  | 4.383  | 4.710               | 4.660  | 4.600  | 4.530  |
| USDSGD | 1.349         | 1.337  | 1.288  | 1.265  | 1.350               | 1.340  | 1.320  | 1.310  |
| USDTHB | 36.58         | 36.10  | 35.20  | 35.00  | 36.50               | 36.00  | 35.25  | 35.00  |
| USDVND | 25,727        | 25,963 | 25,200 | 24,900 | 25,200              | 25,000 | 24,800 | 24,400 |

Source: Bloomberg, RHB Economics & Market Strategy.

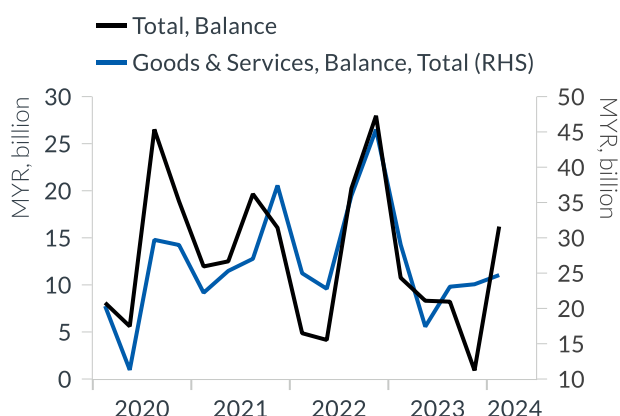
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## Revision of RHB FX Forecasts 2H24 - 2025

**We revise our FX forecasts for 2H24 – 2025 in view of the recent DXY weakness.** Specifically, for the DXY, key revisions are broadly seen in the nearer-term forecasts, while longer-end forecasts are left unchanged. We pencil DXY at 105.0 in 3Q24 and 104.0 in 4Q24 while keeping our 1H25 and 2H25 forecasts unchanged at 101.0 and 98.0, respectively. The revision is against the prior estimates for DXY to rally towards 106.0 in 3Q24 before slowing to 104.0 in 4Q24. Notwithstanding that the revision is a minor one, it holds significant collateral effects on global FX pairs – the depreciation bias on non-USD currencies in 3Q24 is now milder, coupled with idiosyncratic factors that have led especially the JPY and MYR trending significantly different from our forecasts pencilled in [the Pathfinder 3Q24 report](#).

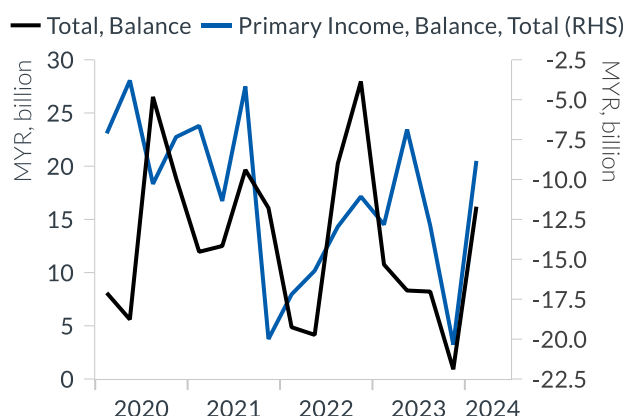
**We now forecast MYR to move towards 4.70 per USD in 3Q24 while keeping our outlook for 4.65 per USD in 4Q24.** This is against our prior outlook of 4.781 per USD in 3Q24. Notably, our [MYR leading index model](#) results have materialised nicely at 4.6 – 4.7 per USD in early 2024, albeit with an upside bias towards 4.8 per USD in April 2024. Based squarely on the regression results, the model indicates a forecast of 4.78 per USD in 3Q24, thus explaining why our prior MYR FX forecast was 4.781 per USD in the aforementioned report. Since then, we noticed that Malaysia's current account balance has improved materially and was led by a stronger trade balance and primary income balance. Meanwhile, the (1) official encouragement for government-linked companies and government-linked investment companies to repatriate their foreign earnings while (2) the record net shorts in Bank Negara Malaysia's foreign FX positions at US\$27.7 billion in April<sup>1</sup> have likely helped support the MYR beyond what our leading index model is suggesting.

**Figure 2: Malaysia's current account balance has been supported by stronger trade balance...**



Source: Macrobond, RHB Economics & Market Strategy

**Figure 3: ... and higher primary income, with the latter correlating stronger with the recent uptick**



Source: Macrobond, RHB Economics & Market Strategy

**With our MYR forecast at 4.70 per USD in 3Q24 compared to the current 4.56 per USD, it's pertinent to explain why MYR's strength will likely not persist in 3Q24.** Suffice it to say, we still think the MYR is overbought at this juncture. As discussed in our FX daily report today, the MYR has moved significantly into overbought zones, with RSI at 14.2, the lowest since Jan 2018. Meanwhile, Bollinger Band analysis shows the MYR moving below the bottom band. Importantly, despite improving Malaysia's current account, we also accounted for the relative softness in Brent prices and higher US-MY real rates. We found them counteracting the aforementioned regression model even with an R-square of 0.751. As such, the evidence presented to us suggests that (1) MYR is overbought and has defied what fundamentals have told us, (2) there are other forces at play, whereby in our view are (i) current pricing-in effects of a weaker dollar from a potential Sept Fed Funds Rate (FFR) cut and (ii) the increased likelihood of a [Trump 2.0 scenario](#), and (3) BNM's move to support the MYR via repatriation of funds and net-shorts in its foreign FX positions may have helped, but it brings into question if it persists.

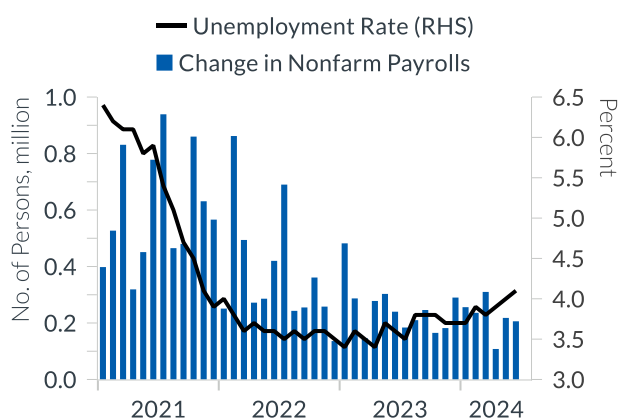
**We do not discount downside bias for USD-MYR, given that the ongoing fiscal reforms are essential for supporting the MYR.** We opine that the government is on course to meet this year's 4.3% fiscal deficit target, supported by an expanded tax revenue base and additional savings from adjustments in utility tariffs and diesel subsidies. The anticipated improvement in the fiscal position relative to 2023 should keep the MYR supported. However, we remain vigilant regarding the government's debt level, which is projected to reach 64% of GDP by 2024, approaching the statutory limit of 65%. Our MYR model suggests that the government debt level may constrain the strength of the MYR. As our [recent thematic report](#) highlighted, the gradual and measured implementation of RON95 subsidy rationalisation would positively impact fiscal position and MYR.

<sup>1</sup> The Business Times, [Forwards become Malaysia's favoured tool for boosting the ringgit](#), 20 June 2024

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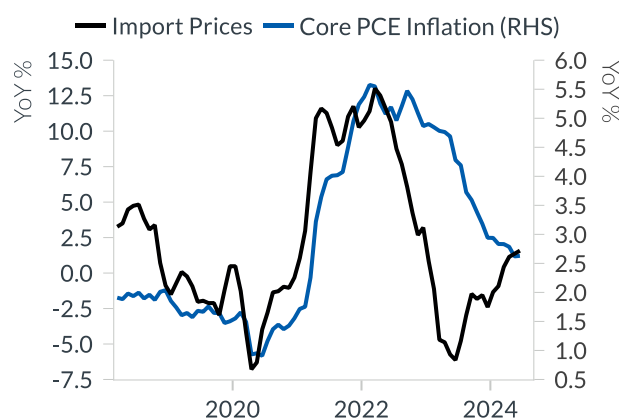
Elsewhere, the latest FOMC statement did little to sway our base case assumptions for an FFR cut only in 4Q24 rather than swap pricing for a Sept cut. Notwithstanding, any unexpected material decline in US labour conditions and/or inflation pressures will inject a risk for a Sept cut. We had been vocal that fundamentals continue to argue for higher DXY and higher UST10YR yields, as (1) market expectations for a September FFR cut are likely mispriced, (2) amid persistent evidence for US-centric inflation in the months ahead, thus (3) suggesting that the recent dollar weakness and narrower UST10YR shorts in CFTC positions are probably temporal. US core PCE inflation, the preferred price measure adopted by the US Federal Reserve, has accelerated to 0.2% MoM from the previous 0.1% MoM. Fed Chair Powell, in his statement, was quick to mention that US “economic activity has continued to expand at a solid pace”. Bottomline, we should digest Powell’s statement in totality, whereby he noted that a cut could be “as soon as the next meeting in September” only if the “balance of risks is consistent with rising confidence on inflation and maintaining a solid labour market”. We still maintain that the current economic numbers mean that the Fed will not rush to cut rates, and the need for more restrictive rates is necessary to cement further the “confidence” the Fed is speaking about seeing inflation towards their objective of 2.0%.

**Figure 4: The US labour market has moved into a better balance, still resilient**



Source: Macrobond, RHB Economics & Market Strategy

**Figure 5: US core PCE inflation is at risk of picking up in the immediate months on the back of rising import prices**



Source: Macrobond, RHB Economics & Market Strategy

We expect higher USD-SGD, USD-THB, and USD-IDR, albeit a revision lower than the [Pathfinder 3Q24 forecasts](#). We expect USD-SGD to move towards 1.35 per USD (from the current 1.33 per USD) in 3Q24 and 1.337 per USD in 4Q24. We continue to see USD-SGD likely break lower 1.30 per USD in 2025 on the back of our forecasts for three FFR cuts in 2025 and with it, for DXY to trend below 100 in 4Q25. We look for IDR to depreciate to 16,502 per USD in 3Q24 and an average of 16,350 per USD in 4Q24. In 2025, on the back of an identical backdrop for three FFR cuts and a potential uptick in growth momentum, we see IDR break below 16,000 per USD. Lastly, for THB, we still pencil a potential weakening towards 36.58 per USD in 3Q24, from the current 35.65 per USD, and then average back to current levels around 35.60 per USD in 4Q24. For 2025, we see THB breaking below 35 per USD as tourism levels have recovered YTD 2024 and are slated to move back to pre-COVID levels in 4Q24.

**Singapore’s economic outlook in 2H24 may paint a weakening bias for the SGD in the short term.** The relatively slower inflation pressures in June (+2.4% YoY, the lowest level since August 2021 and compared to a 3.1% YoY handle in May), which lifted SG’s real interest rates, may have already been priced in at current levels. Further out, we expect Singapore’s 2Q24 GDP to disappoint at 2.6% YoY, from MTI’s advance GDP estimates of 2.9% YoY, with full-year SG GDP to see a downside risk from our base case forecast of 2.5%. Our SGD model, which incorporates variables such as industrial production, is also a proxy to the economy’s external environment, whereby we are also experiencing a slowdown in June’s NODX of -8.7% YoY. Notwithstanding the economic cues, SGD is still supported by its S\$NEER policy, where we estimate it at +1.5% appreciation with a +/-2.0% band - we do not expect the Monetary Authority of Singapore to tweak its policy parameters in 2024, and that could limit SGD’s weakness in 2H24. The caveat to our expectations for MAS to stay on its hand this year will centre on an unexpected surge in global inflation, whereby should that scenario occur, we think the balance of risk is tilted towards a policy tightening by MAS in the quarters ahead.

**Separately on the THB, we think investors’ confidence is key in determining how THB may trend in 2H24.** We continue to see net fund outflows from Thailand’s cumulative equity and bond space, which may limit THB’s strength in the medium term. In our [thematic report](#), we recently downgraded Thailand’s tourism arrival forecast from 38 million to 35.5 million persons in 2024, which is likely THB-negative for 2H24. Moreover, we think official comments for cutting BoT rates, notwithstanding BoT’s view that 2.0 – 2.5% is likely a neutral rate<sup>[1]</sup>, will cap THB potential strength. We think the impact

<sup>[1]</sup> RHB Global Economics & Market Strategy, [Meetings with Thailand Policy Makers & Corporates: Key Findings](#), 21 June 2024

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from We see the Thai government's digital wallet disbursement in 4Q24 may be mildly negative on THB – higher disbursement will likely lift private consumption patterns albeit likely limited given the projected marginal propensity to consume at 0.5, while higher fiscal burden may further weaken the THB. However, a return of tourism activities to pre-pandemic levels in 4Q24 will likely cushion the downside. Inflation has remained tame, suggesting that the Bank of Thailand will not cut rates this year, suggesting that any THB movement in 2H24 could be led by the change in USD rates instead.

**Delving onto the IDR, the upward revision in the 3Q24 forecast is attributed to the easing of Indonesian equity sell-off pressure since July and the shift in market expectations towards earlier-than-expected FFR cuts.** Despite elevated downside risks, we maintain a bearish view on the IDR, projecting depreciation from 16,250 to 16,502 per USD. This is driven by persistent fiscal risks in Indonesia's government finances, with foreign investors expressing concerns about the new government's focus on social welfare initiatives (such as free school lunches and a milk programme) on fiscal prudence, as outlined in the 2003 State Finance Law, which caps the fiscal deficit at 3% of nominal GDP. For 4Q24, we expect a marginal strengthening of the IDR, as the rate cut cycle of Bank Indonesia (BI) will likely lag the FOMC by one month. Consequently, the delay in the timing of BI rate cuts could widen the ID-US yield differential, providing support for the currency's appreciation through capital inflows into the bond market.

Figure 6: FX Foreign Exchange Movements

| Foreign Exchange Table Movements           |            |                        |      |      |      |     |           |                 |                        |   |   |   |   |   |   |   |  |        |
|--|------------|------------------------|------|------|------|-----|-----------|-----------------|------------------------|---|---|---|---|---|---|---|--|--------|
| Last update: 1/8/2024 10:19:31 am (GMT +8) |            |                        |      |      |      |     |           |                 |                        |   |   |   |   |   |   |   |  |        |
|  | Last Close | 1D Change %            |      |      |      |     | 30D Chg % | 2024 YTD Change |                        |   |   |   |   |   |   |   |  |        |
|  |            | -2.0                   | -1.5 | -1.0 | -0.5 | 0.0 |           | -1              | 0                      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |  |        |
| USD-JPY                                    | 149.98     | <div><div></div></div> |      |      |      |     | -1.83%    | -7.11%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 6.34%  |
| USD-KRW                                    | 1,371      | <div><div></div></div> |      |      |      |     | -0.96%    | -0.91%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 6.45%  |
| USD-THB                                    | 35.65      | <div><div></div></div> |      |      |      |     | -0.93%    | -2.90%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 4.42%  |
| USD-MYR                                    | 4.5905     | <div><div></div></div> |      |      |      |     | -0.68%    | -2.61%          | <div><div></div></div> |   |   |   |   |   |   |   |  | -0.08% |
| USD-CHF                                    | 0.8780     | <div><div></div></div> |      |      |      |     | -0.53%    | -2.74%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 4.35%  |
| USD-PHP                                    | 58.37      | <div><div></div></div> |      |      |      |     | -0.48%    | -0.48%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 5.38%  |
| USD-SGD                                    | 1.3360     | <div><div></div></div> |      |      |      |     | -0.46%    | -1.59%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 1.19%  |
| DXY  | 104.10     | <div><div></div></div> |      |      |      |     | -0.44%    | -1.70%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 2.73%  |
| USD-CAD                                    | 1.3808     | <div><div></div></div> |      |      |      |     | -0.30%    | 0.52%           | <div><div></div></div> |   |   |   |   |   |   |   |  | 4.27%  |
| USD-IDR                                    | 16,260     | <div><div></div></div> |      |      |      |     | -0.25%    | -0.38%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 5.60%  |
| USD-CNH                                    | 7.2270     | <div><div></div></div> |      |      |      |     | -0.23%    | -1.07%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 1.42%  |
| USD-VND                                    | 25,264     | <div><div></div></div> |      |      |      |     | -0.08%    | -0.75%          | <div><div></div></div> |   |   |   |   |   |   |   |  | 4.10%  |
| USD-TWD                                    | 32.84      | <div><div></div></div> |      |      |      |     | -0.03%    | 0.90%           | <div><div></div></div> |   |   |   |   |   |   |   |  | 6.95%  |
| USD-HKD                                    | 7.8125     | <div><div></div></div> |      |      |      |     | -0.01%    | 0.00%           | <div><div></div></div> |   |   |   |   |   |   |   |  | 0.01%  |
| USD-INR                                    | 83.73      | <div><div></div></div> |      |      |      |     | 0.00%     | 0.34%           | <div><div></div></div> |   |   |   |   |   |   |   |  | 0.62%  |

Source: Macrobond, RHB Economics &amp; Market Strategy

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## Market Data

## Foreign Exchange

|                | Day Close | % Change | 30D High | 30D Low | 50D MA | 200D MA |
|----------------|-----------|----------|----------|---------|--------|---------|
| DXY            | 104.10    | -0.44%   | 106.13   | 103.65  | 104.85 | 104.30  |
| EUR-USD        | 1.0826    | 0.10%    | 1.0948   | 1.0666  | 1.0811 | 1.0825  |
| USD-JPY        | 149.98    | -1.83%   | 161.95   | 148.51  | 157.53 | 151.6   |
| AUD-USD        | 0.6542    | 0.06%    | 0.6799   | 0.648   | 0.6654 | 0.6594  |
| GBP-USD        | 1.2856    | 0.16%    | 1.3044   | 1.2613  | 1.2789 | 1.2647  |
| USD-SGD        | 1.3360    | -0.46%   | 1.3597   | 1.3344  | 1.3488 | 1.3458  |
| USD-THB        | 35.650    | -0.93%   | 36.985   | 35.423  | 36.479 | 36.008  |
| USD-CNH        | 7.227     | -0.23%   | 7.3114   | 7.2032  | 7.2743 | 7.2292  |
| USD-IDR        | 16,260    | -0.25%   | 16,478   | 16,097  | 16,251 | 15,849  |
| USD-MYR        | 4.591     | -0.68%   | 4.723    | 4.546   | 4.691  | 4.712   |
| EUR-MYR        | 4.970     | -0.73%   | 5.129    | 4.923   | 5.074  | 5.095   |
| JPY-MYR        | 3.061     | 1.49%    | 3.070    | 2.898   | 2.979  | 3.110   |
| AUD-MYR        | 2.983     | -1.41%   | 3.191    | 2.972   | 3.122  | 3.104   |
| GBP-MYR        | 5.891     | -0.91%   | 6.084    | 5.843   | 5.998  | 5.948   |
| SGD-MYR        | 3.429     | -0.28%   | 3.510    | 3.405   | 3.478  | 3.500   |
| THB-MYR        | 12.87     | 0.27%    | 13.03    | 12.76   | 12.87  | 13.10   |
| CNH-MYR (x10)  | 6.350     | -0.36%   | 6.505    | 6.295   | 6.449  | 6.516   |
| IDR-MYR (x100) | 2.823     | -0.42%   | 2.916    | 2.796   | 2.886  | 2.971   |

## Support &amp; Resistance

|                | R2     | R1     | S1     | S2     |
|----------------|--------|--------|--------|--------|
| DXY            | 105.14 | 104.70 | 103.99 | 103.28 |
| EUR-USD        | 1.0908 | 1.0861 | 1.0786 | 1.0711 |
| USD-JPY        | 153.74 | 151.29 | 148.84 | 147.32 |
| AUD-USD        | 0.6637 | 0.6572 | 0.6506 | 0.6466 |
| GBP-USD        | 1.3009 | 1.2899 | 1.2831 | 1.2776 |
| USD-SGD        | 1.3403 | 1.3364 | 1.3333 | 1.3301 |
| USD-THB        | 36.189 | 35.972 | 35.623 | 35.273 |
| USD-CNH        | 7.2706 | 7.2415 | 7.2124 | 7.1944 |
| USD-IDR        | 16,450 | 16,299 | 16,206 | 16,130 |
| USD-MYR        | 4.607  | 4.591  | 4.573  | 4.543  |
| EUR-MYR        | 4.997  | 4.982  | 4.964  | 4.935  |
| JPY-MYR        | 3.146  | 3.100  | 3.054  | 3.026  |
| AUD-MYR        | 3.012  | 2.998  | 2.974  | 2.951  |
| GBP-MYR        | 5.940  | 5.895  | 5.851  | 5.823  |
| SGD-MYR        | 3.446  | 3.435  | 3.425  | 3.412  |
| THB-MYR        | 12.92  | 12.88  | 12.83  | 12.74  |
| CNH-MYR (x10)  | 6.390  | 6.369  | 6.342  | 6.299  |
| IDR-MYR (x100) | 2.855  | 2.836  | 2.805  | 2.774  |

## Fed Rate Hike Probability

| Meeting   | # of Hikes/Cuts | % Chance | Implied Rate Change | Implied Rate |
|-----------|-----------------|----------|---------------------|--------------|
| 18-Sep-24 | -1.136          | -113.6%  | -0.284              | 5.042        |
| 7-Nov-24  | -1.892          | -75.5%   | -0.473              | 4.853        |
| 18-Dec-24 | -2.913          | -102.1%  | -0.728              | 4.598        |
| 29-Jan-25 | -3.705          | -79.2%   | -0.926              | 4.400        |

## Equities

|        | Day Close | % Change | Net Chg |
|--------|-----------|----------|---------|
| DJIA   | 40,842.8  | 0.24%    | 99.46   |
| SPX500 | 5,522.3   | 1.58%    | 85.86   |
| Nasdaq | 17,599.4  | 2.64%    | 451.98  |
| KLCI   | 1,625.6   | 0.85%    | 13.63   |
| STI    | 3,455.9   | 0.41%    | 14.17   |
| SHCOMP | 2,938.7   | 2.06%    | 59.45   |

## Commodities

|                | Day Close | % Change | 30D High | 30D Low | 50D MA  | 200D MA |
|----------------|-----------|----------|----------|---------|---------|---------|
| WTI (barrel)   | 77.91     | 4.26%    | 84.52    | 74.59   | 79.39   | 78.58   |
| Brent (barrel) | 80.72     | 2.66%    | 87.95    | 78.43   | 83.34   | 82.85   |
| Copper (lb)    | 4.177     | 2.26%    | 4.680    | 4.030   | 4.478   | 4.101   |
| Gold (oz)      | 2,426.5   | 0.89%    | 2,488.4  | 2,298.0 | 2,365.9 | 2,176.0 |
| Silver (oz)    | 28.94     | 1.45%    | 31.71    | 27.55   | 29.95   | 25.90   |
| CPO (MYR/MT)   | 4,028.0   | -0.30%   | 4,155.0  | 3,879.0 | 3,974.3 | 3,916.6 |

## Rates

|           | Day Close | Chg (bps) | YTD Δ (bps) |
|-----------|-----------|-----------|-------------|
| UST 2Y    | 4.258     | -10.10    | 0.8         |
| UST 10Y   | 4.030     | -10.98    | 15.1        |
| 3M LIBOR  | 5.503     | -0.66     | -9.0        |
| MA 3Y     | 3.364     | -2.80     | -10.0       |
| MA 10Y    | 3.719     | -3.00     | -1.1        |
| 3M KLIBOR | 3.570     | 0.00      | -20.0       |

Source: Bloomberg, RHB Economics &amp; Market Strategy

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