RHB

PathFinder

SEPARATE THE NOISE FROM REALITY

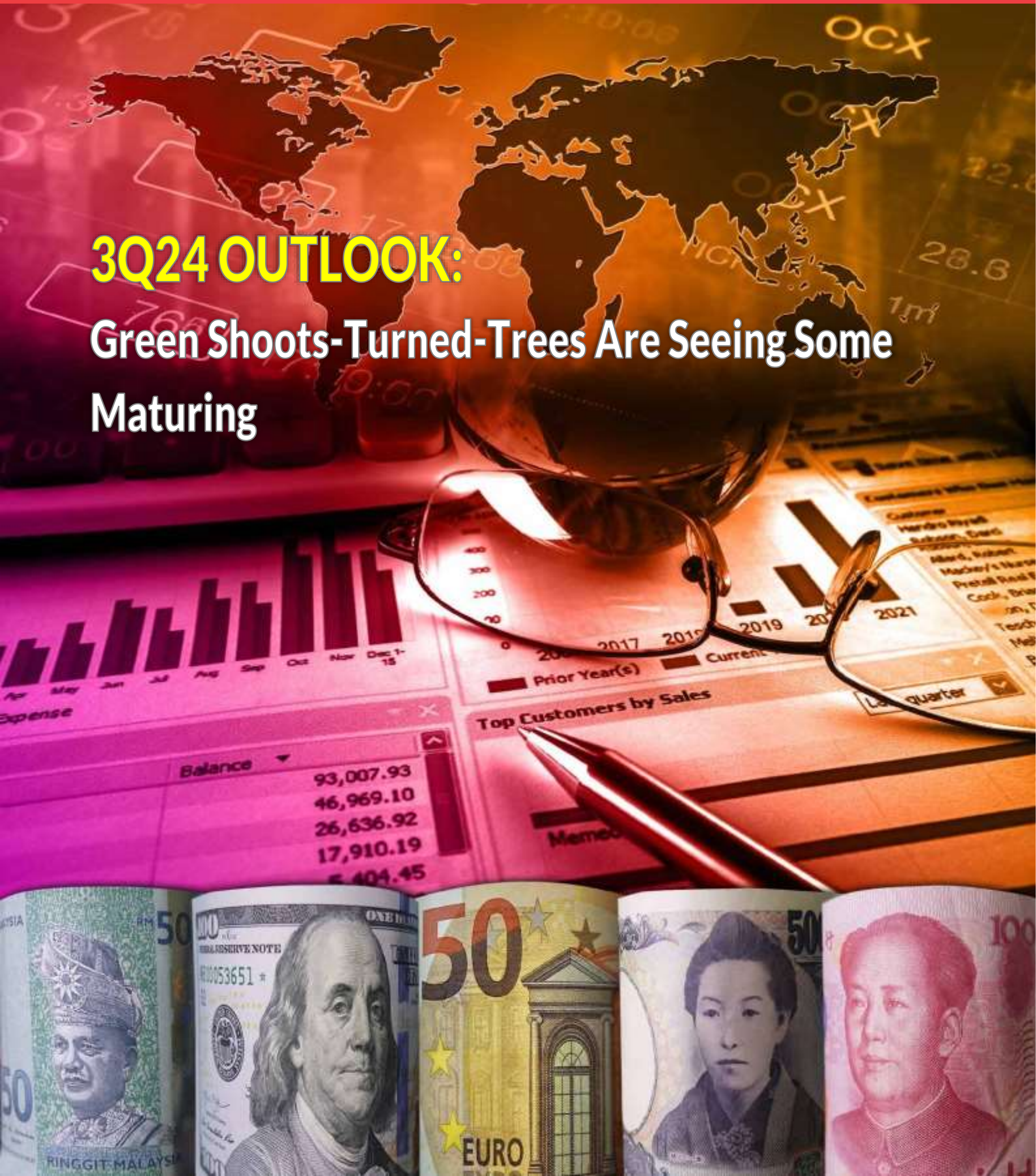
June 2024

Global Economics & Market Strategy

Market Dateline / PP19489/05/2019 (035080)

3Q24 OUTLOOK:

Green Shoots-Turned-Trees Are Seeing Some Maturing



26 June 2024

Path Finder – Separate the Noise from Reality

Green Shoots-Turned-Trees Are Seeing Some Maturing

- **The five themes global investors will focus on in 3Q24 are (1) the continued economic recovery momentum in US and China, albeit (2) with pockets of risk in ASEAN following idiosyncratic factors surrounding specific economies. We also maintain our view for (3) the persistence of global inflation pressures, (4) high-for-longer global rates and (5) USD strength to be on the path of least resistance.**

- **We are arguably less positive against how we started in 2Q24. We are seeing early signs of plateauing trade conditions in ASEAN, while US labour recovery conditions may be normalising on the back of the sustained pickup since the pandemic. Our RHB Global Risk Sentiment Index suggests risk appetite to stay supported into early July, but softer-than-expected global data may well be on the cards.**

- **Fixed income: For 3Q24, continue to pay in UST10YR swaps and sell UST10YR bonds on rallies – we forecast UST10YR yields to rise to its 4.5% handle. In the US and Southeast Asia, we prefer credit relative to local currency government bonds. Foreign exchange: we forecast DXY to rally further to 105 - 110 in 3Q24, before trending to 100 in 4Q24.**

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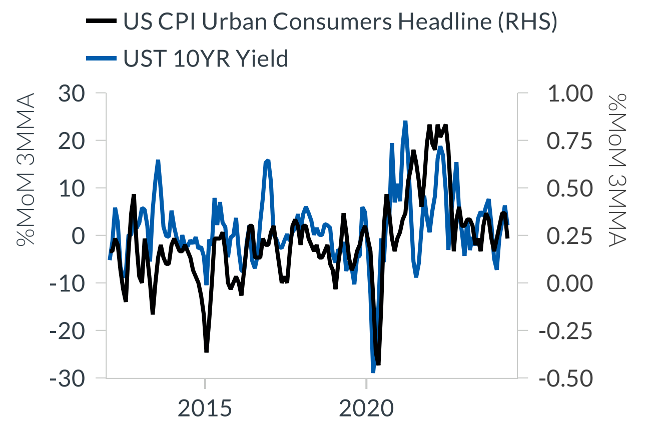
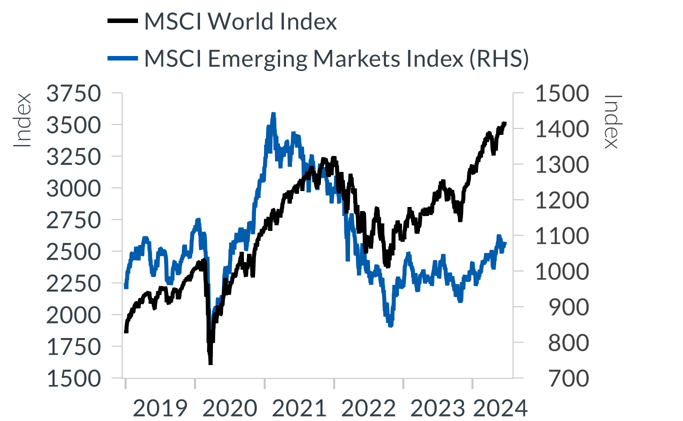
Figure 1: US inflation will re-accelerate into 3Q24, UST10YR headed to 4.5 – 4.8% in 3Q24



Source: Macrobond, RHB Economics and Market Strategy

Figure 2: Investors will still prefer DM equities for now, but China's return will help MSCI EM in 2H24



Source: Macrobond, RHB Economics and Market Strategy

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Figure 3: RHB government bond yield forecasts versus Bloomberg consensus forecasts

RHB Government Bond Yield Forecasts					Bloomberg Consensus				
10YR Government Bond	3Q24	4Q24	1H25	2H25	10YR Government Bond	3Q24	4Q24	1H25	2H25
United States	4.5 - 4.8	4.2 - 4.5	4.0 - 4.2	3.8 - 4.0	United States	4.10	3.96	3.89	3.7 - 3.8
Malaysia	3.85	3.80	3.75	3.65-3.85	Malaysia	3.84	3.76	3.72	3.6 - 3.7
Singapore	3.30	3.10	3.00	2.50-2.70	Singapore	3.24	3.12	2.96	2.4 - 2.9
Indonesia	6.80	6.75	6.50	6.20-6.40	Indonesia	6.99	6.94	6.78	6.5 - 6.7
Thailand	2.70	2.65	2.60	2.45-2.65	Thailand	2.63	2.57	2.53	2.5 – 2.6

Source: Bloomberg, RHB Economics & Market Strategy
Note: Above forecasts are on a quarterly average basis

Figure 4: RHB USD/Asia forecasts versus Bloomberg consensus forecasts

RHB FX Forecasts					Bloomberg Consensus				
G10FX	3Q24	4Q24	1H25	2H25	G10FX	3Q24	4Q24	1H25	2H25
DXY	106.00	104.00	101.00	98.00	**DXY**	104.75	103.70	102.05	100.50
EURUSD	1.070	1.103	1.145	1.203	**EURUSD**	1.080	1.090	1.110	1.120
USDJPY	161.74	160.33	155.08	152.08	**USDJPY**	152.00	149.50	145.00	140.00
GBPUSD	1.230	1.255	1.278	1.367	**GBPUSD**	1.270	1.270	1.290	1.300
AUDUSD	0.67	0.69	0.71	0.72	**AUDUSD**	0.67	0.68	0.69	0.70
NZDUSD	0.619	0.623	0.651	0.660	**NZDUSD**	0.620	0.620	0.640	0.650
AxJ FX	3Q24	4Q24	1H25	2H25	AxJ FX	3Q24	4Q24	1H25	2H25
USDCNH	7.404	7.215	7.100	7.000	**USDCNH**	7.260	7.220	7.200	7.150
USDIDR	16,850	16200	15,600	15200	**USDIDR**	16,000	15,900	15,600	15,150
USDMYR	4.781	4.650	4.500	4.400	**USDMYR**	4.670	4.640	4.600	4.450
USDSGD	1.370	1.343	1.288	1.251	**USDSGD**	1.350	1.340	1.330	1.300
USDTHB	36.83	36.44	35.49	34.47	**USDTHB**	36.40	36.00	35.10	34.30
USDVND	26,248	26,102	25,323	25,456	**USDVND**	25,200	25,100	24,700	24,250

Source: Bloomberg, RHB Economics & Market Strategy
Note: The above forecasts are trading ranges for end of the quarter

Figure 5: RHB real GDP growth forecasts versus Bloomberg consensus forecasts

RHB Real GDP Growth Forecasts					Bloomberg Consensus				
% YoY	2022	2023	2024F	2025F	% YoY	2022	2023	2024F	2025F
US	1.9	2.5	2.5	2.7	US	1.9	2.5	2.4	1.8
Western Europe	3.5	0.5	1.0	1.5	Western Europe	3.5	0.5	0.8	1.4
Japan	1.0	1.9	1.0	1.2	Japan	1.0	1.9	0.3	1.1
China	3.0	5.2	5.0	5.0	China	3.0	5.2	4.9	4.5
ASEAN					**ASEAN**				
Indonesia	5.3	5.1	5.0	5.3	Indonesia	5.3	5.1	5.0	5.1
Malaysia	8.7	3.7	4.6	4.7	Malaysia	8.7	3.7	4.4	4.6
Singapore	3.9	1.1	2.5	3.0	Singapore	3.9	1.1	2.5	2.6
Thailand	2.5	1.9	2.4	3.0	Thailand	2.5	1.9	2.6	3.2
Vietnam	8.0	5.1	6.0	6.5	Vietnam	8.0	5.1	5.9	6.5

Source: Bloomberg, RHB Economics & Market Strategy

Figure 6: RHB CPI inflation forecasts versus Bloomberg consensus forecasts

RHB CPI Inflation Forecasts					Bloomberg Consensus				
% YoY	2022	2023	2024F	2025F	% YoY	2022	2023	2024F	2025F
US	8.0	4.1	3.5	2.5	US	8.0	4.1	3.2	2.4
Western Europe	8.1	5.7	2.8	2.4	Western Europe	8.1	5.7	2.5	2.1
Japan	2.5	3.3	2.4	1.5	Japan	2.5	3.3	2.4	1.9
China	2.0	0.2	1.5	2.0	China	2.0	0.2	0.7	1.5
ASEAN					ASEAN				
Indonesia	4.2	3.7	3.3	3.0	Indonesia	4.2	3.7	2.9	3.0
Malaysia	3.4	2.5	2.6	2.9	Malaysia	3.4	2.5	2.5	2.5
Singapore	6.1	4.8	3.5	3.5	Singapore	6.1	4.8	2.8	2.0
Thailand	6.1	1.3	1.0	2.5	Thailand	6.1	1.3	0.8	1.7
Vietnam	3.2	3.3	3.9	3.2	Vietnam	3.2	3.3	3.8	3.2

Source: Bloomberg, RHB Economics & Market Strategy

Figure 7: RHB policy interest rate forecasts versus Bloomberg consensus forecasts

RHB Policy Rate Forecasts					Bloomberg Consensus				
%	2022	2023	2024F	2025F	%	2022	2023	2024F	2025F
US	4.50	5.50	5.0 - 5.25	4.25 - 4.50	US	4.50	5.50	5.00	4.00
Western Europe	2.60	4.48	4.25	3.50	Western Europe	2.60	4.48	3.25	2.49
Japan	0.00	0.00	0.10	0.20	Japan	0.00	0.00	0.30	0.50
China	3.65	3.45	3.35	3.00	China	3.65	3.45	N/A	N/A
ASEAN					**ASEAN**				
Indonesia	5.50	6.00	6.25	5.50	Indonesia	5.50	6.00	6.05	5.30
Malaysia	2.75	3.00	3.00	3.00	Malaysia	2.75	3.00	2.95	2.90
Thailand	1.25	2.50	2.50	2.50	Thailand	1.25	2.50	2.30	2.05
Vietnam	6.00	4.50	4.60	4.60	Vietnam	6.00	4.50	4.60	4.60

Source: Bloomberg, RHB Economics & Market Strategy

26 June 2024

A Cautiously Optimistic Approach May Be Prudent in 3Q24

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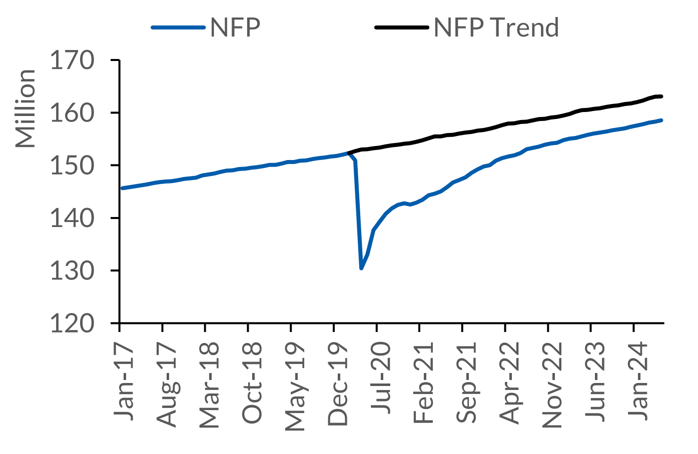
The five themes global investors will focus on in 3Q24 are:

1) **The continued economic recovery in the US and China;**
2) **ASEAN's idiosyncratic risk factors;**
3) **Persistance of global inflation;**
4) **High-for-longer global rates; and**
5) **USD strength on the path of least resistance**

We continue to adopt an optimistic outlook for the global economy in 3Q24, whereby we expect a continued economic recovery momentum in key markets such as the US, China and selected ASEAN economies. Our views have materialised nicely in 1H24; we advocated overweight (OW) on equities, market weight (MW) fixed income, and underweight (UW) cash. First, we expected US and China to see above-consensus GDP growth rates at 2.5% and 5.0%, respectively, whereby market forecasts are gradually moving towards our expectations. Second, we were guided by our global inflation trackers and were convinced that inflation would persist in 2024. Third, based on our global economic assumptions, we had been telegraphing since early this year that the US Fed Fund Rate (FFR) will only see one rate cut by year-end, with the balance of risks tilted towards no rate cuts.

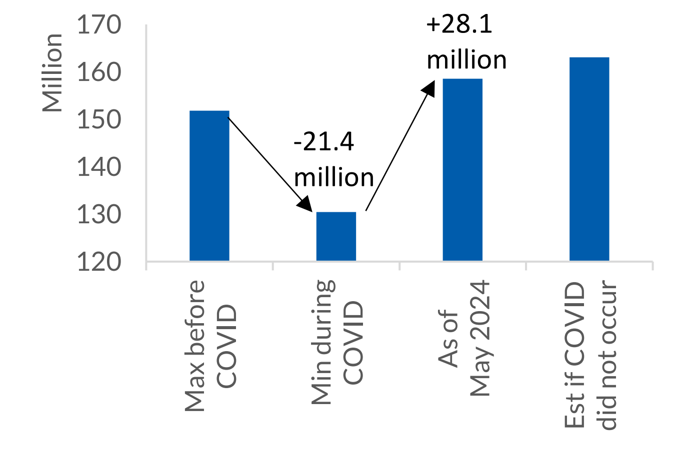
Notwithstanding the relative optimism, we now advocate some degree of caution on risk appetite, following evidence of growth normalisation in key global economies and the slowdown of external indicators in the ASEAN region. We note that the recovery in key US labour indicators are approaching long-term average growth rates (2011 – 2018), suggesting that the softening in US labour momentum is part of the normalisation process in the post-COVID environment. Specifically, long-term (2011 – 2018) averages of US non-farm payroll gains were around 1.6% on an annual basis, against 2023's average gain of 2.3% and 2024 year-to-date average gain of 1.8%. Importantly, US non-farm payrolls have added 28.1 million jobs since the COVID-19 trough, against the loss of 21.4 million jobs during the pandemic.

Figure 8: US NFP annual growth is approaching long-term trend growth...



Source: Bloomberg, RHB Economics & Market Strategy

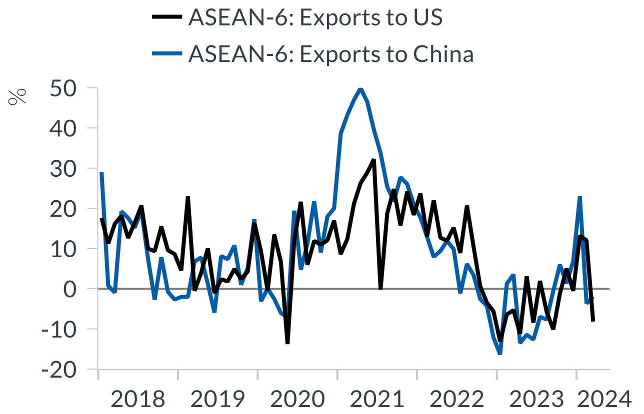
Figure 9: ... with job gains already outnumbering jobs that were lost during the pandemic



Source: Bloomberg, RHB Economics & Market Strategy

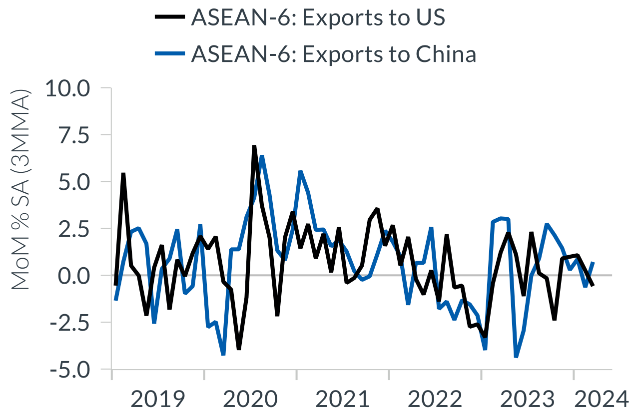
In ASEAN, we are observing some slowdown in its externally-facing backdrop, albeit we think it may be temporal as we had seen similar downside in momentum in the past years over the same period. Across ASEAN-6, we are observing a decline in trade numbers on both annual and momentum basis year-to-date, led primarily by a slowdown in outbound shipments to the US (while exports to China still appear supported), whereby the slowdown in exports is further reinforced by our aforementioned paragraph regarding the normalisation of US growth year-to-date. Still, we remain optimistic on specific ASEAN economies, especially Malaysia and Singapore, given their strong semiconductor and manufacturing sectors, while our leading indicators for Thailand and Indonesia are pointing to a slowdown in growth momentum in 2H24.

Figure 10: ASEAN exports to US has declined on an annual basis…



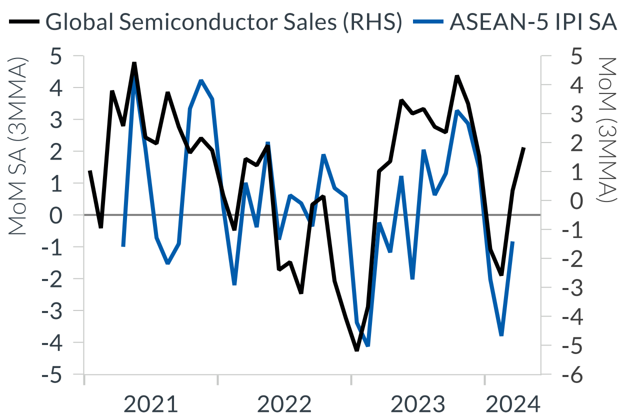
Source: Macrobond, RHB Economics & Market Strategy

Figure 11: … and momentum basis, but exports to China appears supported…



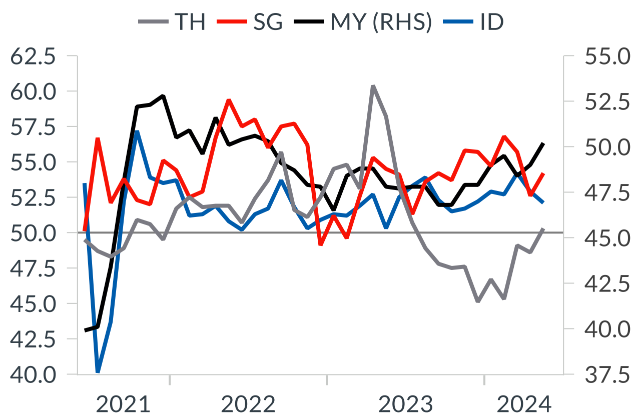
Source: Macrobond, RHB Economics & Market Strategy

Figure 12: … thus likely to underpin ASEAN's industrial production backdrop…



Source: Macrobond, RHB Economics & Market Strategy

Figure 13: … with manufacturing PMI numbers recovering to expansion zones in most economies



Source: Macrobond, RHB Economics & Market Strategy

We continue to see persistant global inflation, on the back of of food, oil, and metal prices. Our proprietary indicators for food inflation continue to suggest higher prices, at least into end-2024. Separately, China's recovery has supported base metal prices, with London Metal Exchange base metal prices rising over 11% year-to-date. Meanwhile, oil prices will be underpinned by an optimistic forecast for demand growth by the Organisation of the Petroleum Exporting Countries (OPEC), whereby the organisation said world oil demand will rise by 2.25 million barrels per day (bpd) in 2024 and by 1.85 million bpd in 2025. Our inflation trackers suggest US core personal core expenses (PCE) inflation is on a path towards 3.0% by end-year, on the assumption that MoM % trends realistically around current levels. Thus, the inflation trend seen from now to year-end suggests that US prices are growing towards 3.0%, rather than the Fed's objective of 2.0%.

We maintain our view that global rates should be high for longer. We keep our forecast for the US Federal Open Market Committee (FOMC) to cut its FFR by only one time in 2024, specifically in December, with the balance of risks magnified towards no cut. Current swap pricing is indicating two rate cuts as of mid-June 2024, which we think will be gradually priced out into the end of 2H24. The catalysts for our forecast are: (1) high-frequency US-centric economic data continue to suggest an improving growth momentum backdrop, as seen from the resilient labour, consumer confidence and retail sales, while (2) inflation risks remain elevated in 2Q24 with US core PCE inflation likely to accelerate to its 3.0% handle on an annual basis. We do not think the European Central Bank (ECB) will cut its policy rates in 2H24, following its rate reduction to 4.25% on 6 June 2024, as (1) inflation risk will likely persist, while (2) the rate cut was one likely made in view of the widely telegraphed guidance seen as early as March 2024.

The implications to our global macroeconomic views are as follows: We continue to expect a stronger DXY and sticky UST yields into 3Q24. Our forecasts for a stronger DXY and higher UST10YR yields materialised in the first eight weeks of 2Q24, before levels declined against our forecast. We attribute the recent decline in DXY and UST10YR yields on softer-than-expected US-centric labour numbers, albeit data was likely merely normalising towards long-term averages. Swap pricing, which indicates two FFR cuts by year-end, is a reflection of how yields and currencies are trending, which in turn suggests that further pricing-out of rate cut expectations towards one (or potentially zero) reductions into 4Q24 would mean a rally in DXY and sell-off in US Treasuries. As such, we expect the DXY to rally to 105 – 107, with UST10YR yields approaching 4.5% in 3Q24. For Asia FX, our view is for the MYR to weaken towards 4.8 per USD again in 3Q24, and potentially stage a rally towards 4.65 per USD in 4Q24. MYR's appreciation to below 4.7 per USD being short-lived has materialised, and coupled with technical indicators, we think MYR weakness will resume in 3Q24.

We remain positive on China, with our base case GDP growth forecast at 5.0% in 2024. We remain above-consensus for its GDP growth, with market consensus moving gradually towards our full-year forecast. China's growth engines continue to be a steady demand recovery, resilient exports and a relatively low base year. Separately, we are seeing subtle signs of recovery in the housing market, with new and used home prices seeing some signs of bottoming from a momentum perspective, albeit the recovery still remains in its early stages and is subject to uncertainties at this juncture. Notwithstanding the risks, we view that China's policies are made in the appropriate direction in regards to dealing with its property-related risks, with efforts likely still needed to address the idiosyncratic risks.

China's recent high-frequency data has been positive on its growth, suggesting that the economic outlook in 2H24 remains positive. Overall, China's economy exhibited signs of stabilisation in May 2024, led by strong policy stimulus and the recovery in its real economy. These include retail sales (May: +3.7% YoY), industrial output (May: +5.6% YoY) and fixed asset investment (Jan – May: +4.0% YoY). We continue to monitor the property risks, owing to the continued decline in property investment (Jan – May: -10.1% YoY), while sales area of new properties declined (Jan – May: -20.3% YoY). Real urban disposable income per capita continued to advance, while overall investor sentiment is supported as seen from the rally in its equity market year-to-date.

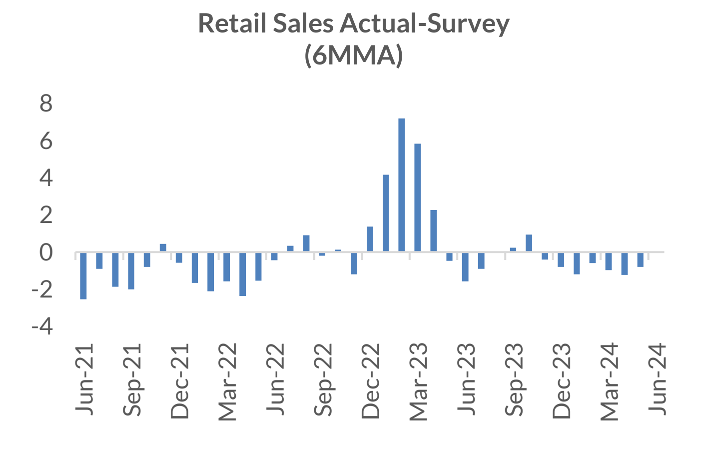
The balance of risks and caveats against our base case are as follows: (1) the US Federal Reserve engineers its first rate cut in September 2024, (2) China's economic growth slows drastically to below 4.0% in 2024, and/or (3) geopolitical tensions intensify. These caveats were adapted from our Pathfinder 2Q24 report, whereby they remain relevant to-date.

US FFR first cut in September 2024: We note that current swap pricing is pencilling a 25bps FFR rate cut as early as September 2024. Albeit not our base case, the risk of seeing an earlier-than-expected rate cut (against our forecast for the first rate cut in December 2024) will be based on (1) a faster-than-anticipated slowdown in inflation, and (2) a significant weakening in US economic data, especially the labour market. Our in-house proprietary model for US core PCE inflation suggests prices to rise towards 3.0% on an annual basis. Our view for the US labour market to stay resilient in 2024 is on track. Our preferred US labour data proxies are (1) nonfarm payrolls; and (2) jobless claims, whereby any unexpected softening of these indicators may persuade a rate cut in 1H24, while (3) higher US unemployment rate is a function of more job seekers, rather than a softening of labour conditions.

China's economic growth slows drastically to below 4.0% in 2024: We maintain our GDP growth forecast for China at 5.0% for 2024. High-frequency data support a growth acceleration backdrop, as seen in China's PMI, yuan loans, and trade and retail sales. Importantly, China's exports continue to surprise market expectation on the upside, with outbound shipments rising 7.6% YoY in May (against Bloomberg's consensus of +5.7% YoY). Meanwhile, the Caixin manufacturing PMI rose to 51.7 in May, the highest since June 2022. However, we note that China's property prices continue to decline, while recent industrial production and retail sales growth have disappointed market estimates.

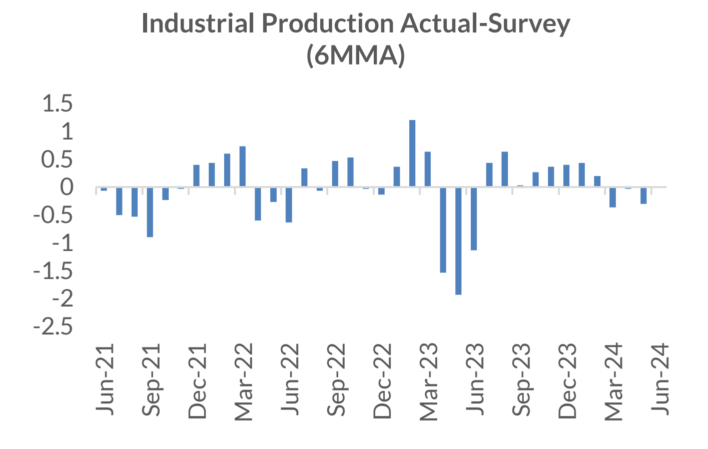
Geopolitical tensions intensify: Geopolitical tensions remain black-swan and wild card events and may span from tensions surrounding Russia-Ukraine, Israel-Palestine, North-South Korea, or US-China conflicts. These tensions, should they exacerbate, may disrupt supply chain conditions and deteriorate market confidence and risk-taking behaviour. Empirical evidence from past tensions suggests the revisit of higher commodity prices, with short-to-medium-term corrections in global equity markets. The subsequent spillover effects from these tensions could resurface stagflation risks (low growth + high inflation), whereby global central banks may experience a conundrum in policymaking. Suffice to say the occurrence of these risks will likely dent our optimistic view on the global economy, especially on ASEAN and China.

Figure 14: China's retail sales growth has disappointed consensus since 2H23…



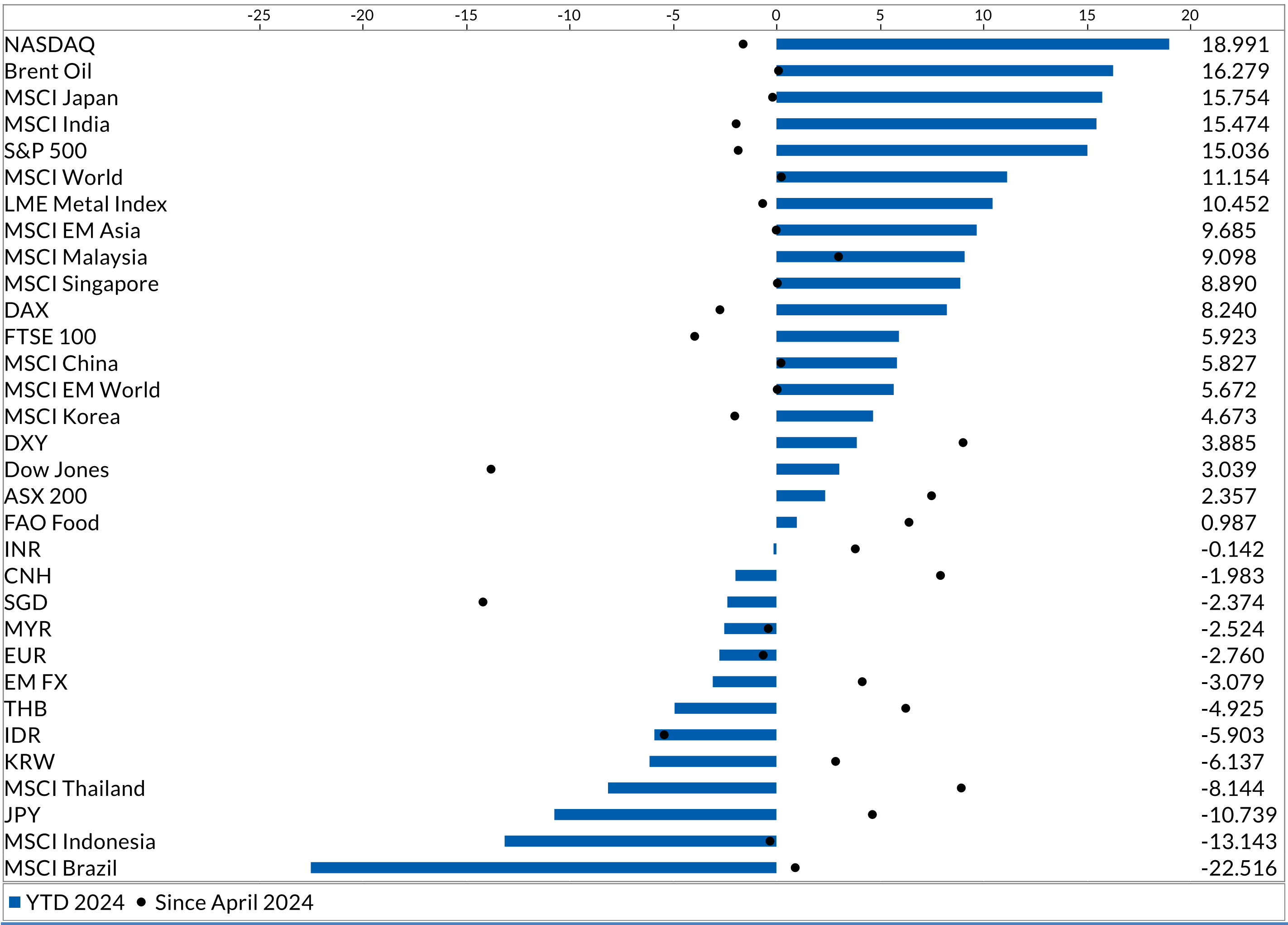
Source: Macrobond, RHB Economics & Market Strategy

Figure 15: … similar to industrial production growth, which has also expanded below consensus



Source: Macrobond, RHB Economics & Market Strategy

Figure 16: YTD 2024 total return – RHB Asset Allocation Stratey of Overweight Equities materialised nicely; note year-to-date rallies in key equity markets, amid higher commodity prices which will feed into global inflationary pressures



Source: Bloomberg, RHB Economics & Market Strategy

Figure 17: DXY has rallied year-to-date as markets gradually price out FFR cuts; more dollar strength is on the cards

FX Rates % Change	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	12.03	9.30	4.46	157.988	151.647	127.516
KRW per USD	6.54	4.87	2.69	1381.570	1361.825	1222.444
IDR per USD	6.27	8.95	3.21	16377.850	15946.000	14652.765
PHP per USD	5.89	6.06	4.45	58.664	57.146	53.946
TWD per USD	5.65	3.93	1.37	32.394	32.479	29.668
THB per USD	5.18	3.90	1.02	36.709	37.069	32.704
CHF per USD	5.02	-1.11	-1.88	0.885	0.941	0.837
DXY	3.83	2.28	0.73	105.260	107.000	99.770
EUR per USD	2.84	1.57	0.45	0.931	0.955	0.890
MYR per USD	2.59	0.97	-0.22	4.714	4.793	4.245
AUD per USD	2.56	0.19	-1.85	1.505	1.590	1.408
SGD per USD	2.43	-0.11	0.30	1.352	1.374	1.308
CNH per USD	2.02	-0.02	0.26	7.273	7.342	6.713
GBP per USD	0.41	0.18	-0.44	0.788	0.845	0.762
INR per USD	0.14	1.59	-0.02	83.367	83.439	80.988

Source: Bloomberg, RHB Economics & Market Strategy

Figure 18: Government 2YR yields have risen year-to-date mostly, although short-covering ensued QTD…

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United States	46.2	9.2	4.71	5.22	3.77
Germany	40.4	-5.0	2.80	3.33	2.34
Indonesia	32.0	39.2	6.70	6.91	5.62
United Kingdom	21.2	0.4	4.17	5.48	3.17
Singapore	7.0	-13.6	3.33	3.73	2.87
Malaysia*	6.8	4.1	3.53	3.69	3.31
Thailand	2.7	19.1	2.36	2.62	1.53
S. Korea*	2.1	-14.6	3.17	4.14	3.12
India	-10.3	-5.8	6.97	7.39	6.80
China	-46.1	-18.0	1.72	2.47	2.07

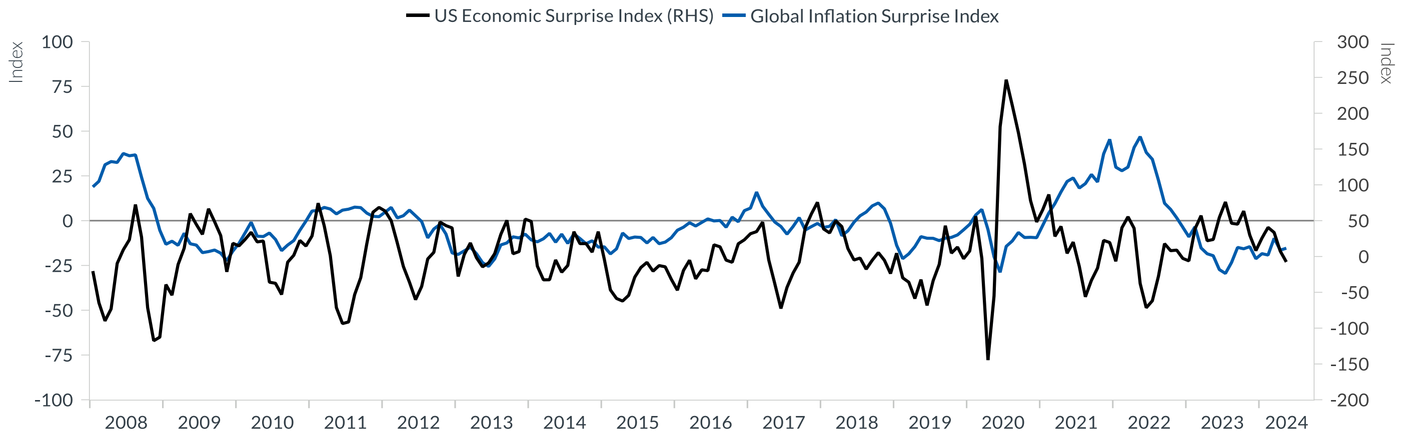
Source: Bloomberg, RHB Economics & Market Strategy

Figure 19: … while 10YR yields rose faster, with yield curves normalising higher year-to-date

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Indonesia	68.0	44.10	7.13	7.22	6.16
United Kingdom	53.9	13.68	4.07	4.74	3.00
Singapore	44.3	4.40	3.13	3.50	2.66
Germany	36.1	8.50	2.38	2.97	1.89
United States	34.4	2.24	4.22	4.99	3.31
Malaysia	14.3	1.90	3.87	4.16	3.65
Thailand	7.2	24.60	2.75	3.35	2.26
S. Korea	6.6	-16.20	3.24	4.40	3.16
India	-21.3	-8.10	6.97	7.44	6.96
China	-30.8	-4.00	2.25	2.92	2.54

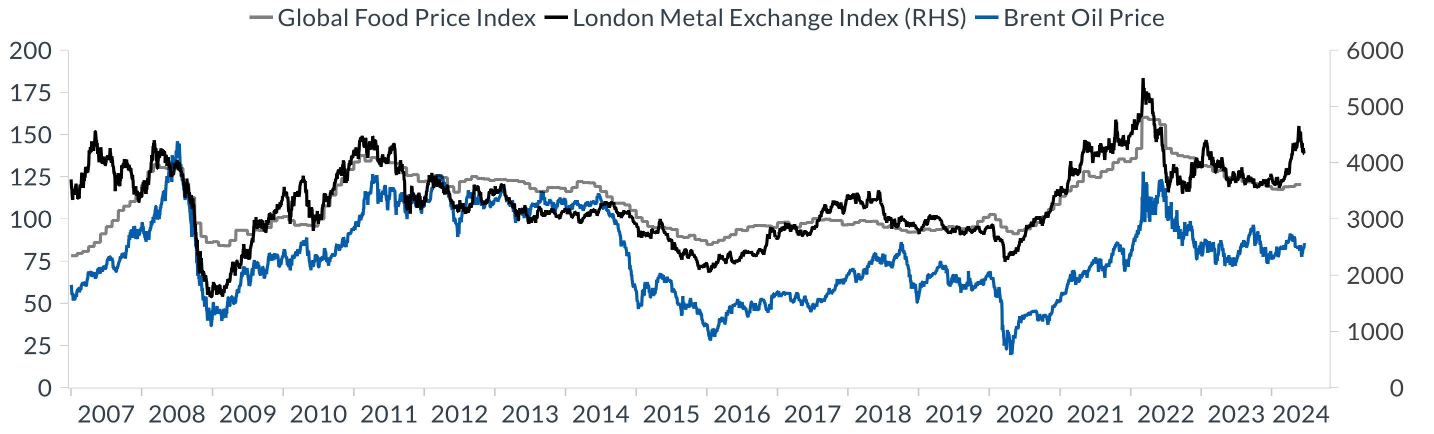
Source: Bloomberg, RHB Economics & Market Strategy

Figure 20: US growth data surprising on the downside recently (should not persist), while inflation is surprising higher



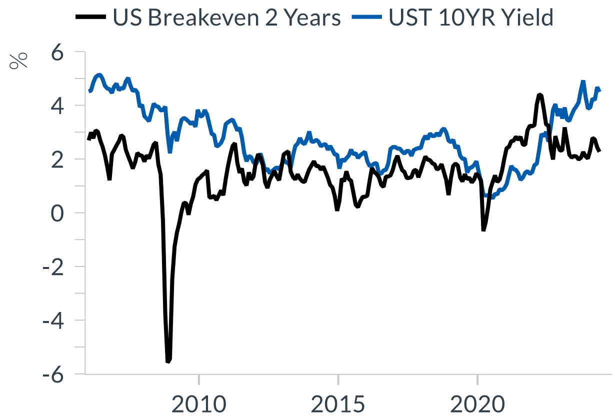
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: Global commodity prices stay supported, which may rise on the back of Global+China growth in 2024



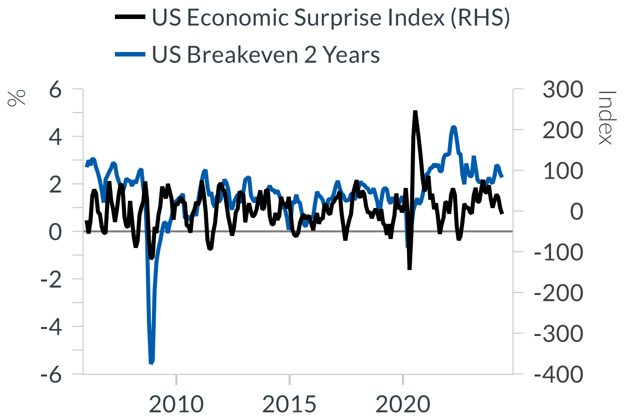
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: US short-term inflation expectations will rise…



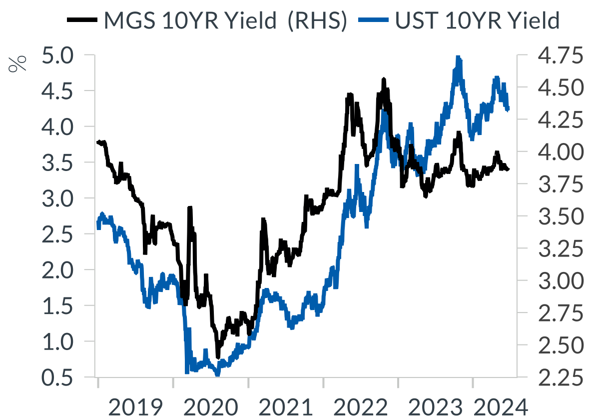
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: … thus suggesting sticky inflation into 3Q24



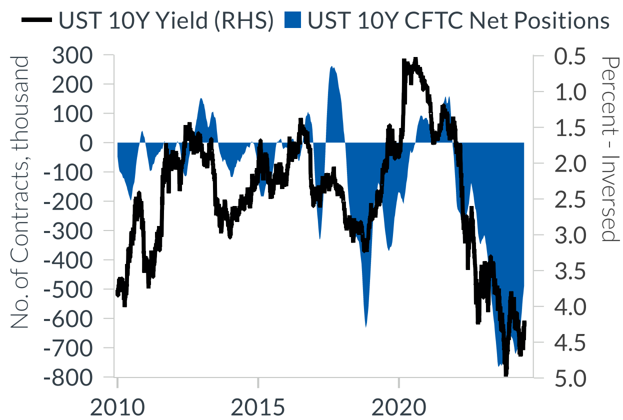
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: MGS10YR following UST10YR yields to some extent



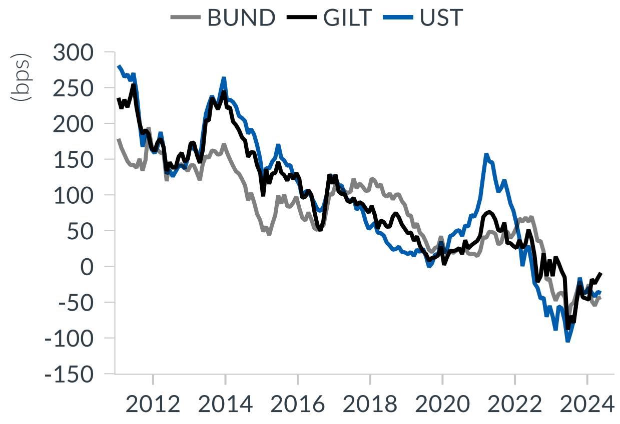
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: Real money accounts positioning in US long-term sovereign bonds down, which suggests yields to go up



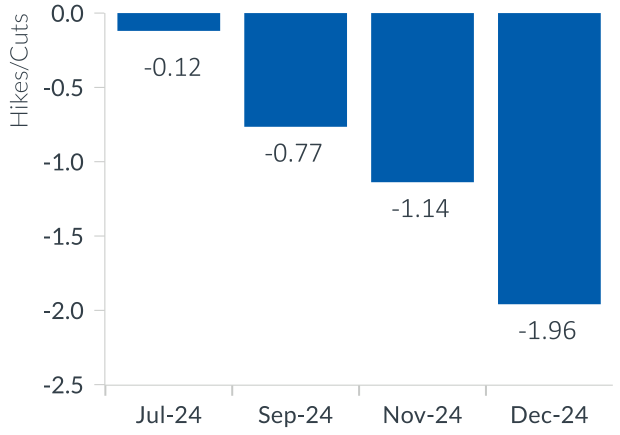
Source: Macrobond, RHB Economics & Market Strategy

Figure 26: Negative 2-10YR yield curves are normalising higher across DM



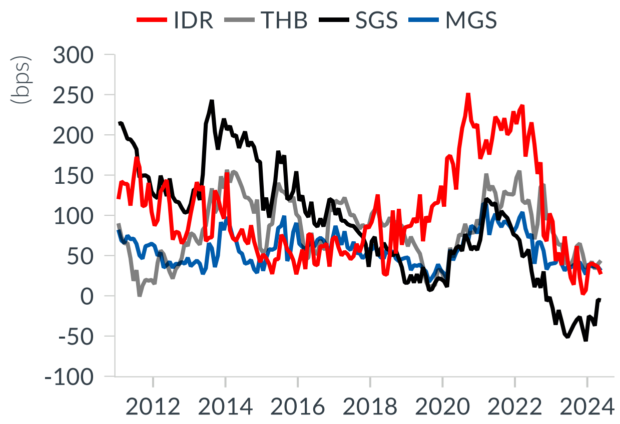
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: Market pricing of two cuts in 2H24 may not come to pass as inflation stays supported



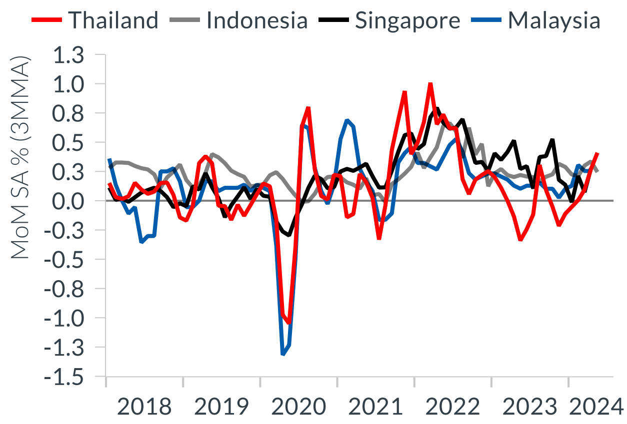
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: ASEAN 2-10YR yield curves are also normalising higher year-to-date…



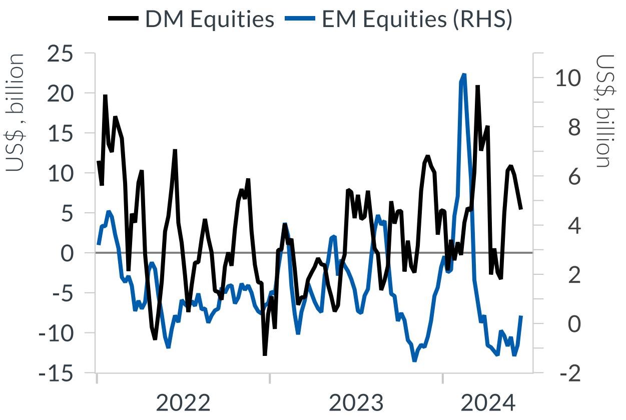
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: … while headline inflation accerelated across key ASEAN economies



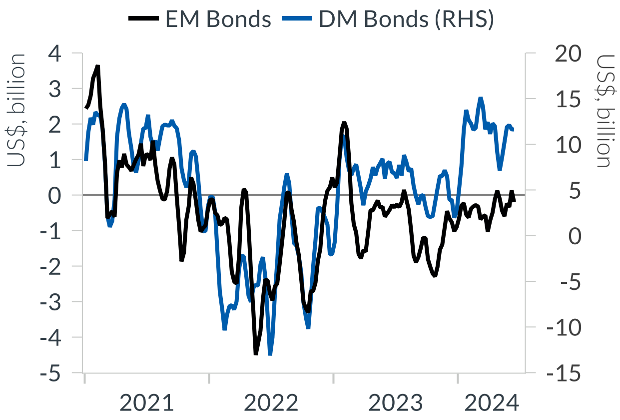
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: Investors continue to prefer DM equities…



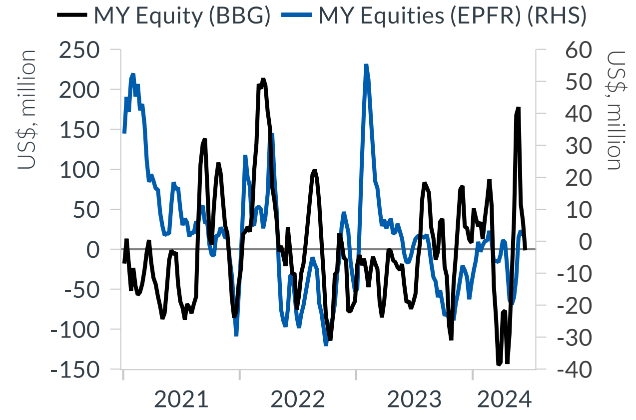
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 31: … and DM bonds year-to-date



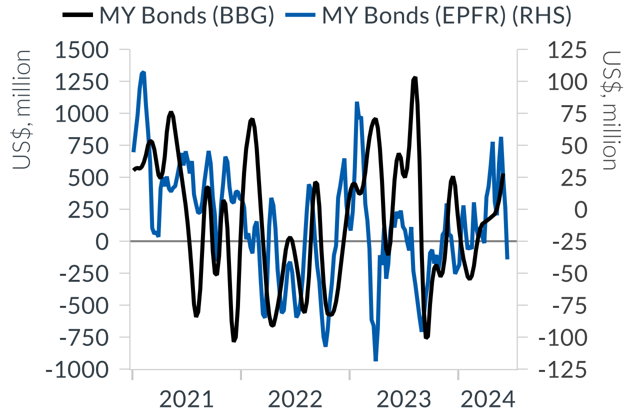
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 32: Malaysia's net equity flows have moved higher year-to-date...



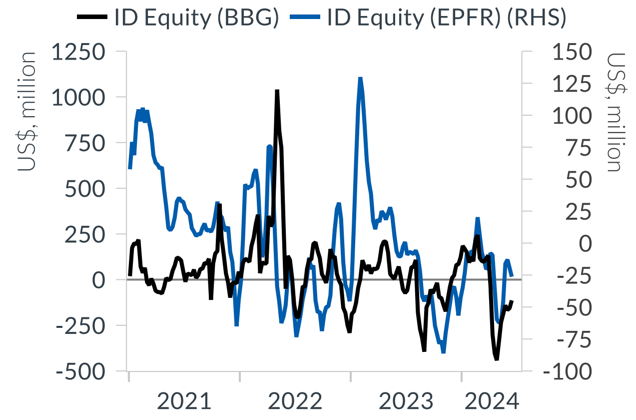
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: ... ditto for net bond flows as macroeconomic backdrop improved in 1H24



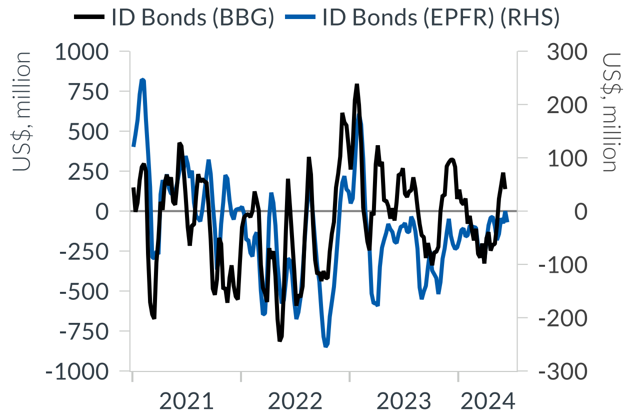
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: Indonesia equity inflows have picked up, but are seeing some retracement at this juncture...



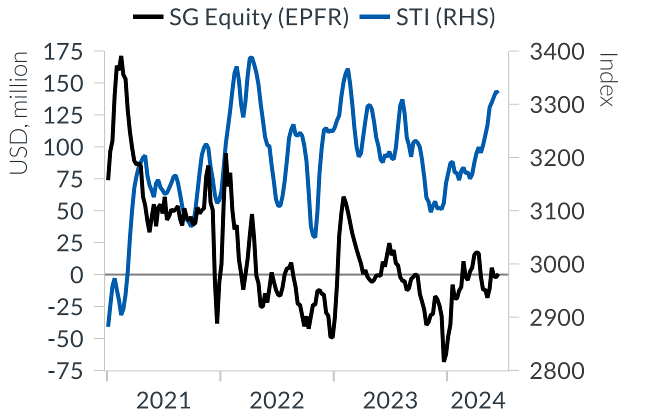
Source: Macrobond, RHB Economics & Market Strategy

Figure 35: ... while bonds flows stay in net outflows zone as US-ID yields near parity



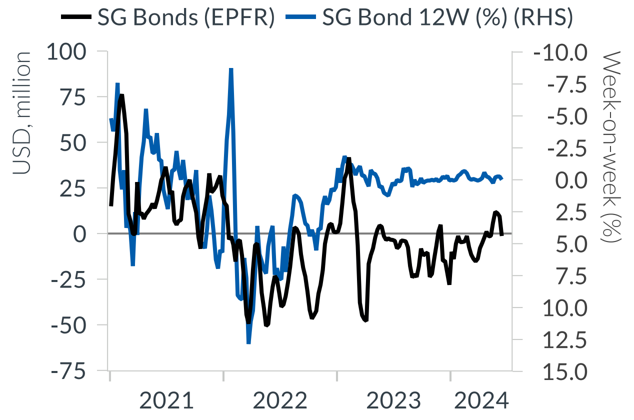
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: Singapore equity inflows turn north as investors account for a favourable economic backdrop...



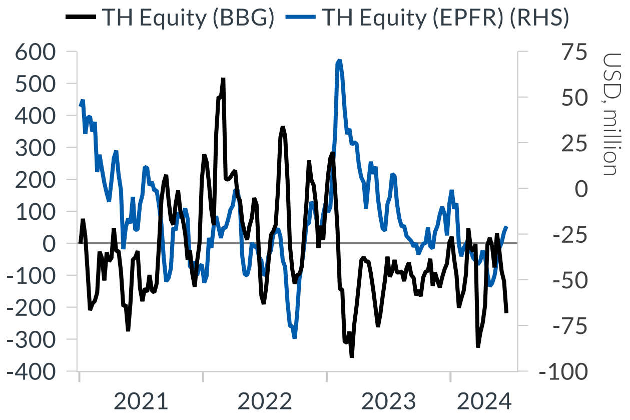
Source: Macrobond, RHB Economics & Market Strategy

Figure 37: ... but bonds remain unattractive



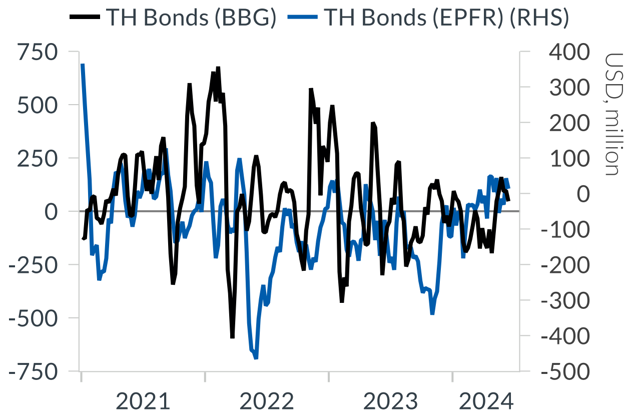
Source: Macrobond, RHB Economics & Market Strategy

Figure 38: Investors still stay relatively bearish on Thai equities



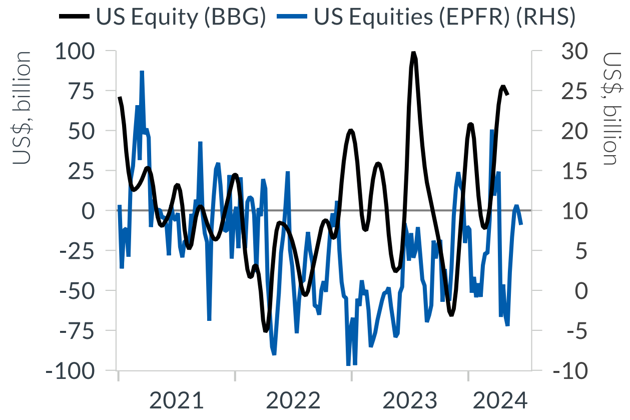
Source: Macrobond, RHB Economics & Market Strategy

Figure 39: Thailand bond flows seeing some support as interest in equities fade



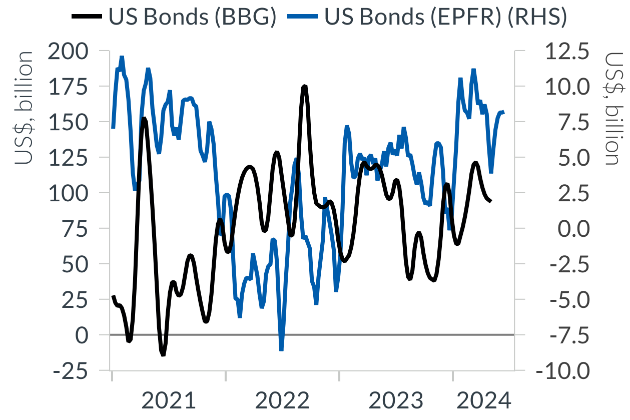
Source: Macrobond, RHB Economics & Market Strategy

Figure 40: US equities continue to see strong inflows…



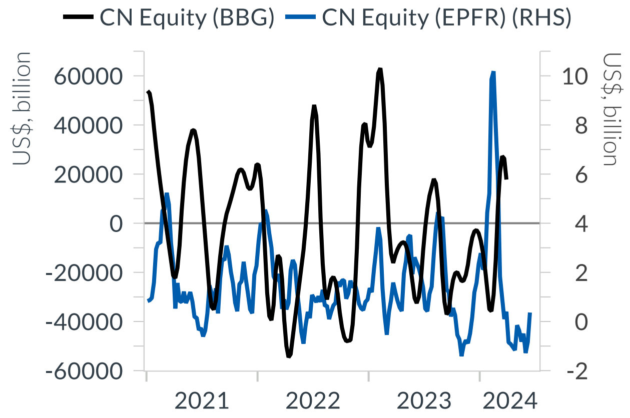
Source: Macrobond, RHB Economics & Market Strategy

Figure 41: … similar to bonds, as yields may stay high



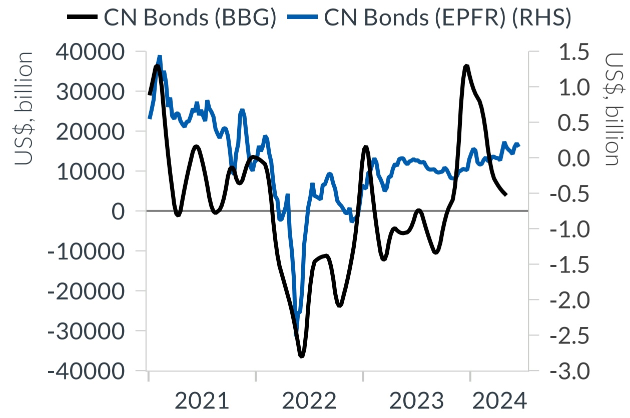
Source: Macrobond, RHB Economics & Market Strategy

Figure 42: Equity net flows turn south for China, but likely on profit-taking behaviour considering the huge uptick



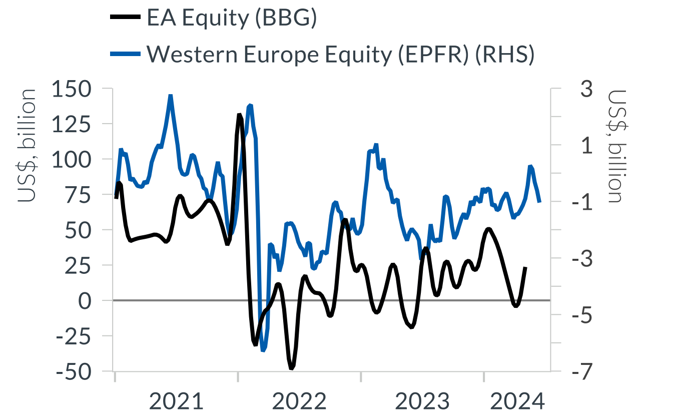
Source: Macrobond, RHB Economics & Market Strategy

Figure 43: China bond flows are up, reinforcing little risk on a potential hard landing



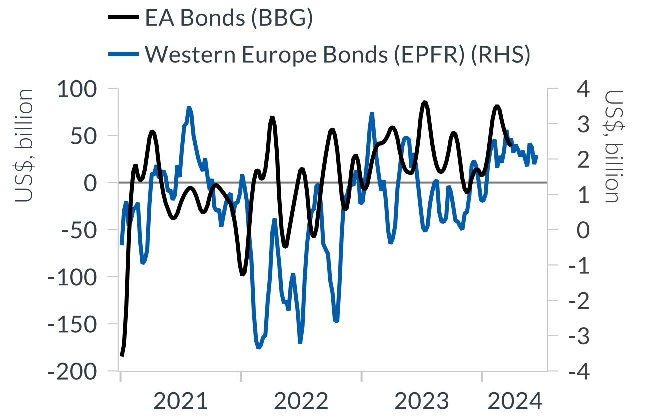
Source: Macrobond, RHB Economics & Market Strategy

Figure 44: Euro Area equity flows have slowed in recent months as political uncertainties brew…



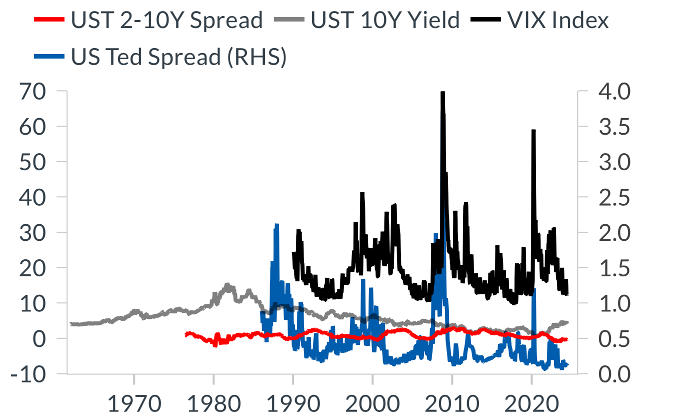
Source: Macrobond, RHB Economics & Market Strategy

Figure 45: … while bonds stay relatively supported, albeit flows may slow with ECB's recent rate cut



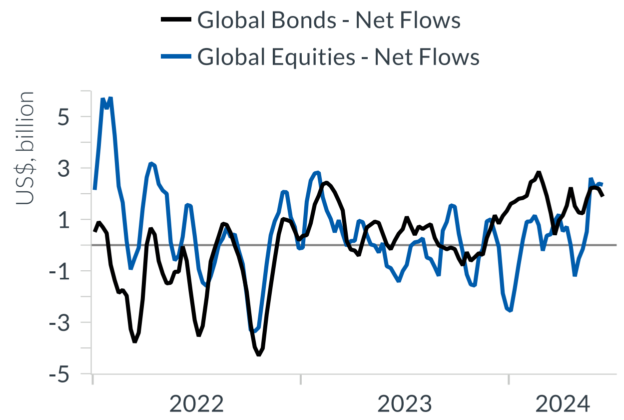
Source: Macrobond, RHB Economics & Market Strategy

Figure 46: Risk indicators are declining year-to-date…



Source: Macrobond, RHB Economics and Market Strategy

Figure 47: … while global fund flows are up



Source: Macrobond, RHB Economics and Market Strategy

ASEAN GDP Leading Indicators Are a Mixed Bag

Highlights

- We maintain our positive view on Malaysia and Singapore, on the back of their sizeable manufacturing and semiconductor industries.
- We turn cautious on Indonesia and Thailand, with specific idiosyncratic issues which may drag growth in 2H24.
- Inflation remains the chief concern for most economies, probably except for Malaysia and Thailand.

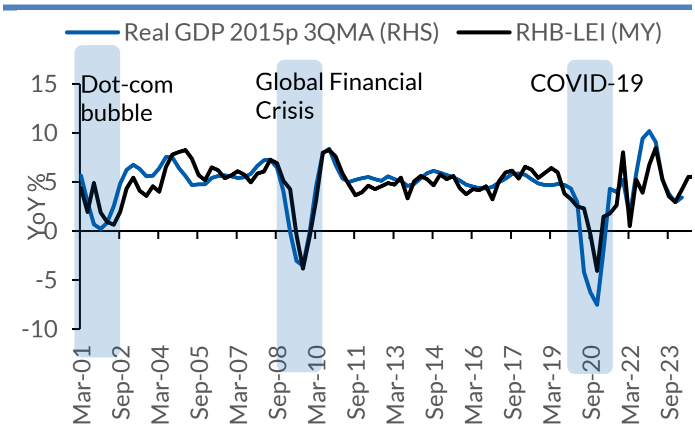
Our prior discussion on global economic trends highlighted the slowdown in the ASEAN externally-facing backdrop, albeit we think it may be temporal as we had seen a similar downside in momentum in the past years over the same period. Across ASEAN-6, we are observing a decline in trade numbers on both annual and momentum basis year-to-date, led primarily by a slowdown in outbound shipments to the US (while exports to China still appear supported). The slowdown in exports, however, is accompanied by an acceleration in manufacturing momentum across key ASEAN economies, suggesting that China's demand has been sufficient to buoy production appetite. We are seeing critical E&E shipments still supported year-to-date, while manufacturing PMI data has been recovering towards expansionary territories for most economies.

Indeed, recent ASEAN-centric data is a mixed bag. The evidence across the region is broadly similar with shipments slowing, although manufacturing and consumer appetite remaining relatively buoyant. Key data is centred on (1) Malaysia's upward revision of its 1Q24 GDP growth to 4.2% YoY (4Q23: +3.0% YoY), matching our house view for growth to expand beyond 4.0%, and (2) Singapore's 1Q24 GDP growth at 2.7% YoY (+0.1% QoQ SA), whereby we think the services sector will underpin growth in 2H24, while Singapore's electronics, precision engineering, machinery, and wholesale trade are key support pillars for Singapore's growth. However, our thematic studies suggest that Indonesia's retail outlook will see a potential V-shaped trend, amid our meetings with Indonesian policymakers and industry players suggesting that our full-year growth forecast of 5.0% faces downside risks. Separately, Thailand's 1Q24 GDP may had surprised on the upside, but business sentiment in pessimistic range (below 50.0) and the deterioration of consumer sentiment at 60.5 points in May (lowest since October 2023) suggest potential growth headwinds for the tourism-dependent economy.

Inflation remains the chief concern for most economies, probably except for Malaysia and Thailand. We think Malaysia's diesel subsidy rationalisation will have limited direct impact on the headline inflation, with a slightly positive impact on the fiscal position and MYR, while Thailand's inflation pressures has been tapered by previous energy subsidies for the most part of 1Q24. Singapore, being ASEAN's most import-dependent economy, is seeing subtle signs of higher import prices, while the higher GST rate to 9.0% effective 1 January 2024 will lift overall inflation perspective on a YoY basis. Elsewhere, Indonesia's surprise rate hike to 6.25% may have further limited the economy's demand-pull inflation, albeit higher food prices (especially rice and chilli) may continue to support overall consumer prices. Separately, our US PCE core inflation model suggests a potential acceleration towards 3.0% by year-end.

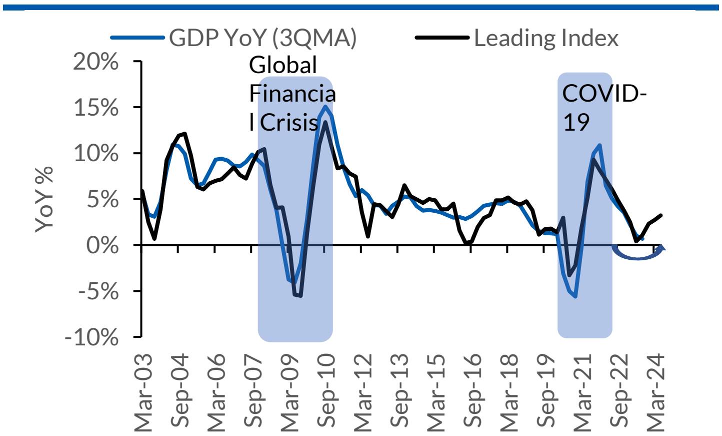
Our ASEAN proprietary GDP leading indicators, which leads GDP by two quarters, have been relatively accurate year-to-date. These indicators now suggest a tale of two cities for specific ASEAN economies – the data suggests Malaysia and Singapore growth rates to stage a bottom in 2Q24 (pencilling a V-shaped recovery), while a slowdown is expected for Indonesia and Thailand. As such, while we stay positive on Malaysia and Singapore, we turn cautious on Indonesia and Thailand, with specific idiosyncratic issues which may drag growth in 2H24.

Figure 48: Malaysia's leading GDP indicator…



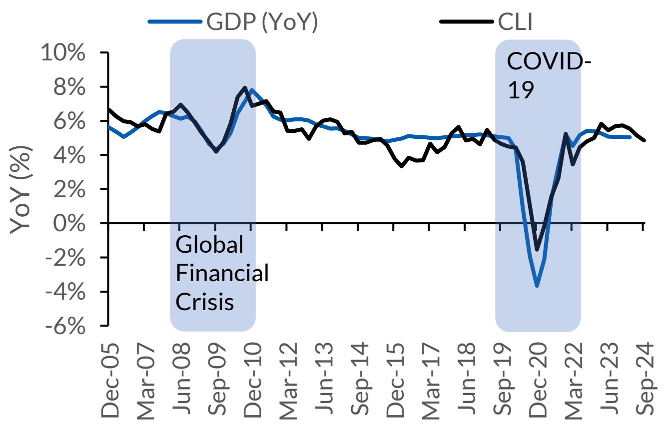
Source: Macrobond, RHB Economics & Market Strategy

Figure 49: … and Singapore's suggest a V-shaped recovery



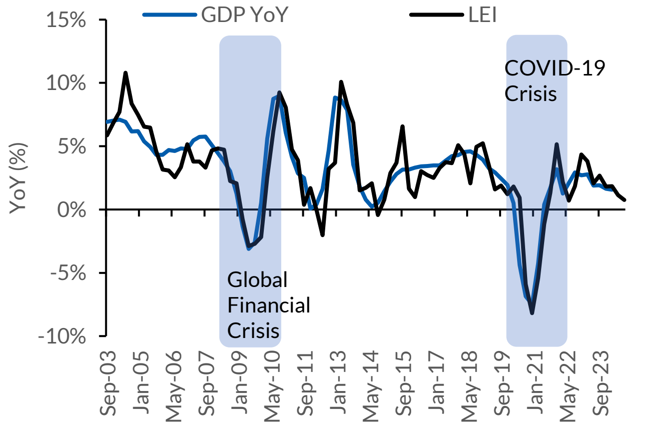
Source: Macrobond, RHB Economics & Market Strategy

Figure 50: However, Indonesia's GDP indicator…



Source: Macrobond, RHB Economics & Market Strategy

Figure 51: … and Thailand's may see further downside



Source: Macrobond, RHB Economics & Market Strategy

We maintain our Malaysia GDP forecast at 4.6% YoY in 2024 (2023: 3.7% YoY) versus the official projected range of 4.0 – 5.0%. Our composite leading indicators – RHB-LEI (MY) – suggest that Malaysia's economic growth will accelerate to 5% YoY in 2Q24 and is likely persist into 3Q24. The economic growth momentum is envisaged to remain resilient, driven by both external and internal drivers. We expect further acceleration in trade and manufacturing activities, coupled with continued resilience in domestic demand from increased consumer and investment spending. The unfolding developments, ie upbeat trade and industrial production data as well as acceleration in investment activities, have further reinforced our rosy view. Domestic confidence has shown signs of improvement. Three key proxies, specifically (1) higher manufacturing PMI; (2) increased imports of capital and intermediate goods; and (3) rising business confidence, suggest that manufacturers' and businesses' optimism is up. On the external front, trade performance is envisaged to be lifted by positive spill-over effects from the global economy as well as uptrend in global technology cycle.

We revise our 2024 headline inflation projection to 2.6% YoY versus our former forecast of 3.3% YoY. The projected range is revised to 2.5 -2.8% YoY, versus our former estimate of 3.2 -3.6% YoY. Our revision is founded on (1) marginal direct impact of diesel subsidy rationalisation on headline inflation and (2) delay in the implementation of RON95 petrol subsidy to end-2024 (at the earliest), with more details might be released during the tabling of Budget 2025. The direct impact of diesel subsidy float in Peninsular Malaysia would be marginal, with potential upside on the headline inflation less than 0.1%. The subsidies will continue for most of the diesel-powered commercial vehicles and for public transportation. The inflation trajectory going forward would hinge on: (1) lagged impact from services tax revision and implementation of Low Value Goods Tax (LVGT), (2) impact from RON95 subsidy rationalisation, (3) potential demand upsides from partial pension fund withdrawals, and (4) spill-over impact from higher global commodity and food prices.

Accounting for the above-mentioned views, we think the Overnight Policy Rate (OPR) will remain at 3.00% for 2024. We see the lack of impetus for the central bank to tweak its policy rate level in 2024, considering the rosier domestic economy prospects amid uncertainties in the inflationary trajectory. A wide official inflation range of 2.0% to 3.5% should provide sufficient room against future price movements. The central bank might hold its benchmark rate while accessing the lagged impact of the fiscal policy adjustments on overall inflationary trajectory and economic momentum.

Elsewhere, Singapore's growth momentum will accelerate in 2H24, translating into a full-year GDP growth of 2.5% in 2024. Singapore, likely ASEAN's most trade-dependent economy based on total trade as a percentage of GDP, will benefit from the improving economic conditions in the US and China in 2024, supporting its manufacturing and trade-related sectors. Singapore's services sector is expected to underpin growth in 2024. We maintain that Singapore's electronics, precision engineering, machinery, and wholesale trade are key support pillars for Singapore's GDP. Overall, our NODX and IP full-year forecasts of 0.5% and 1.0%, respectively suggest that growth for these indicators will likely see positive YoY prints in 2024 on the back of recovering global external demand.

We maintain our forecasts on Singapore's headline and core inflation at 3.5% and 2.8% in 2024. As an import-dependent economy, Singapore is susceptible to imported inflation. Hence, domestic inflation will be affected by both external and internal factors, suggesting that persistent inflation is likely to continue. Higher import prices are set to elevate consumer prices in Singapore in the upcoming quarter due to the country's significant reliance on imported goods, including essentials like food and energy. The Monetary Authority of Singapore (MAS) is expected to keep its policy parameters unchanged for 2024. We expect MAS to maintain its stance this year unless there is an unexpected surge in global inflation, which could lead to a policy tightening in the coming quarters.

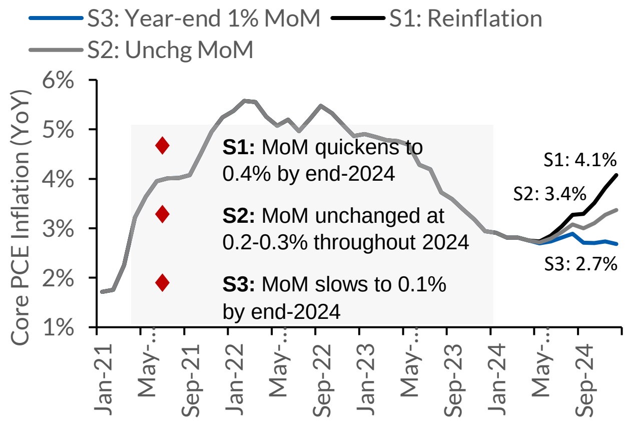
For Thailand, our GDP growth forecast is at 2.4% for 2024, as we pencil a slowing growth momentum in 3Q24. We keep our optimistic view on private consumption to continue recovering in the upcoming quarters ahead, thus making it a dominant contributor to overall growth. We forecast GDP growth to slow to 2.0% YoY in 3Q24, from an estimated 2.3% YoY in 2Q24. We expect further acceleration in tourism and services activities, coupled with continued recovery in domestic demand from increased consumer spending. Thailand's economy might stay underpinned by softer private consumption and investment recovery later in 2H24. Exports in 2024 are projected to rise, driven by ongoing improvements in key export products, including those in manufacturing and agriculture.

We maintain our forecast for headline and core CPI to grow at 1.0% and 0.7%, respectively for 2024. Thailand's CPI is expected to continue its upward momentum into 2H24, driven by elevated food and energy prices. Thailand's CPI is expected to gradually increase momentum throughout 2024, with the expectations of higher global food and oil prices on the horizon. Higher inflation is anticipated, particularly due to the removal of diesel subsidies and the ongoing increase in energy prices throughout the year. Despite the upward momentum in price pressures in 2H24, full-year inflation will likely remain within the central bank's inflation target of 1 – 3% in 2024. Hence, we keep our forecast for the Bank of Thailand (BoT) to maintain its benchmark rate at 2.50% in 2024.

We maintain our forecast for Indonesia's annual GDP growth at 5.00%, and expect the growth momentum to remain robust in 1H24, followed by a potential weakening in household consumption in 2H24. We expect the growth momentum to persist into 2Q24, supported by the seasonal surge in household consumption during the *Lebaran* celebration. However, in 2H24, we are adopting a more cautious stance, foreseeing a downside risk to GDP growth stemming from a potential flat or even declining trajectory in retail spending. On the external front, we are optimistic that Indonesia's exports will continue to recover, supported by a rosier global economic outlook, heightened commodity demand from China, and elevated commodity prices.

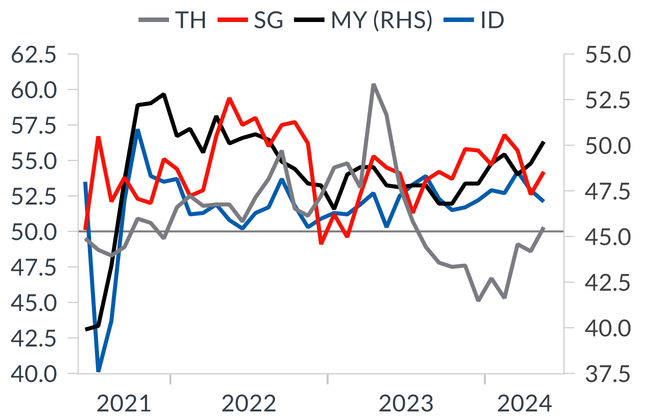
We keep our Indonesia headline and core inflation forecasts at 3.3% YoY and 2.2% YoY, respectively. We anticipate that headline inflation will likely align with the official target, at the upper bound of the 2.5% ± 1% YoY range, as the three key determinants of the inflation trajectory remain on track. These include: (1) the upside risk on food price, (2) the potential impact of exchange rate pass-through due to the weakening of the IDR, and (3) steady and manageable core inflation momentum. Given that demand-pull inflation remains subdued, we maintain our forecast for Bank Indonesia to keep the benchmark policy rate unchanged at 6.25% for 2024 and anticipate three 25 bps cuts in 2025, reducing it to 5.50%.

Figure 52: US inflation will likely accelerate, with core PCE inflation moving higher into the 3.0% region...



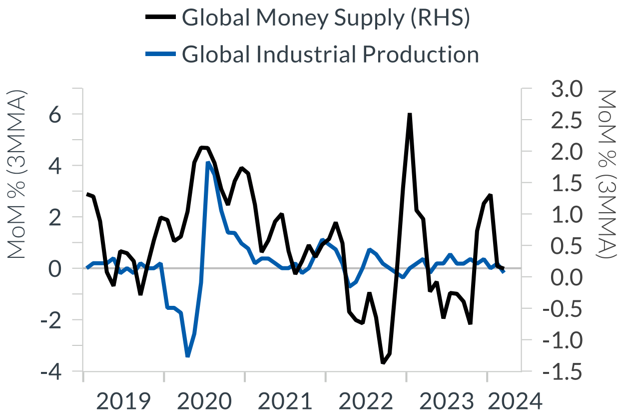
Source: Macrobond, RHB Economics & Market Strategy

Figure 53: ... while ASEAN MFG PMI are mostly up, suggesting stronger IP momentum



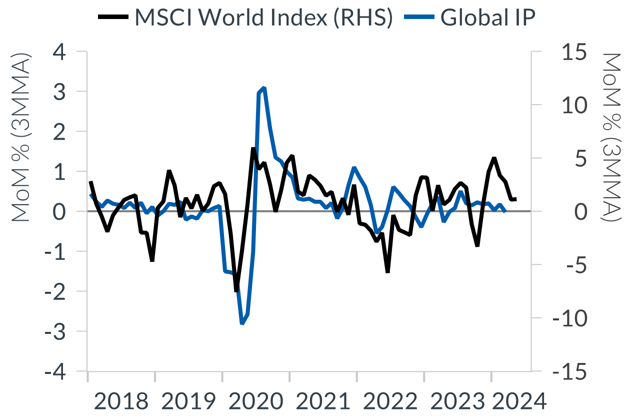
Source: Macrobond, RHB Economics & Market Strategy

Figure 54: Global financial conditions see some tightening bias as BI, BOJ, CBRC hiked rates...



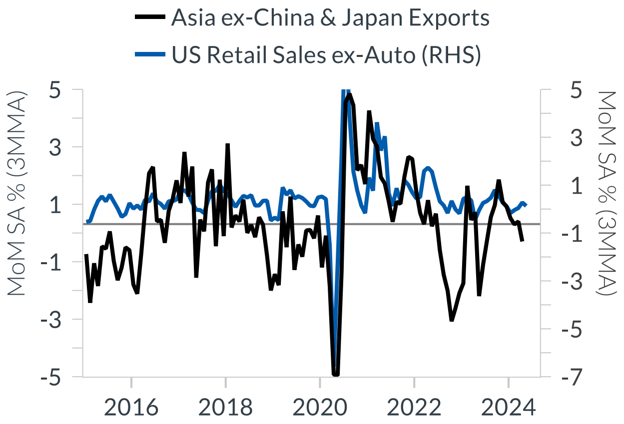
Source: Macrobond, RHB Economics & Market Strategy

Figure 55: ... but 2H24 outlook remains supported on the back of China's recovery which will support ASEAN's IP



Source: Macrobond, RHB Economics & Market Strategy

Figure 56: Acceleration in US retail sales ex-autos rose year-to-date and should help APXJ exports

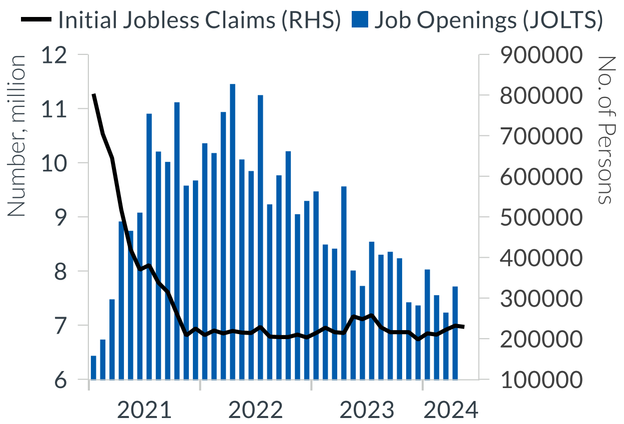


Source: Macrobond, RHB Economics & Market Strategy

Figure 57: China's exports, which are shown to lead US retail sales by two months, will help buoy demand

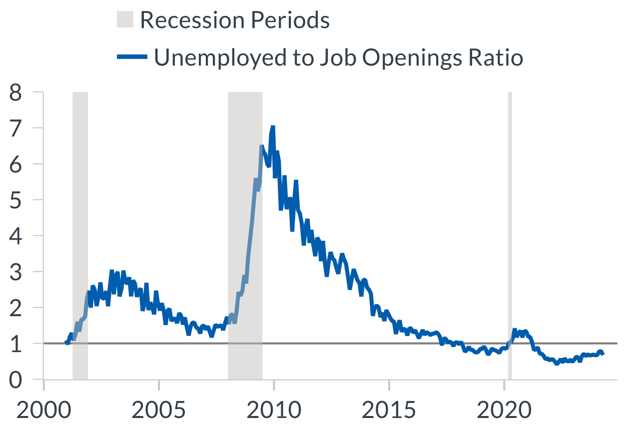
Source: Macrobond, RHB Economics & Market Strategy

Figure 58: US labour conditions appear healthy, seen in lower jobless claims and higher job openings...



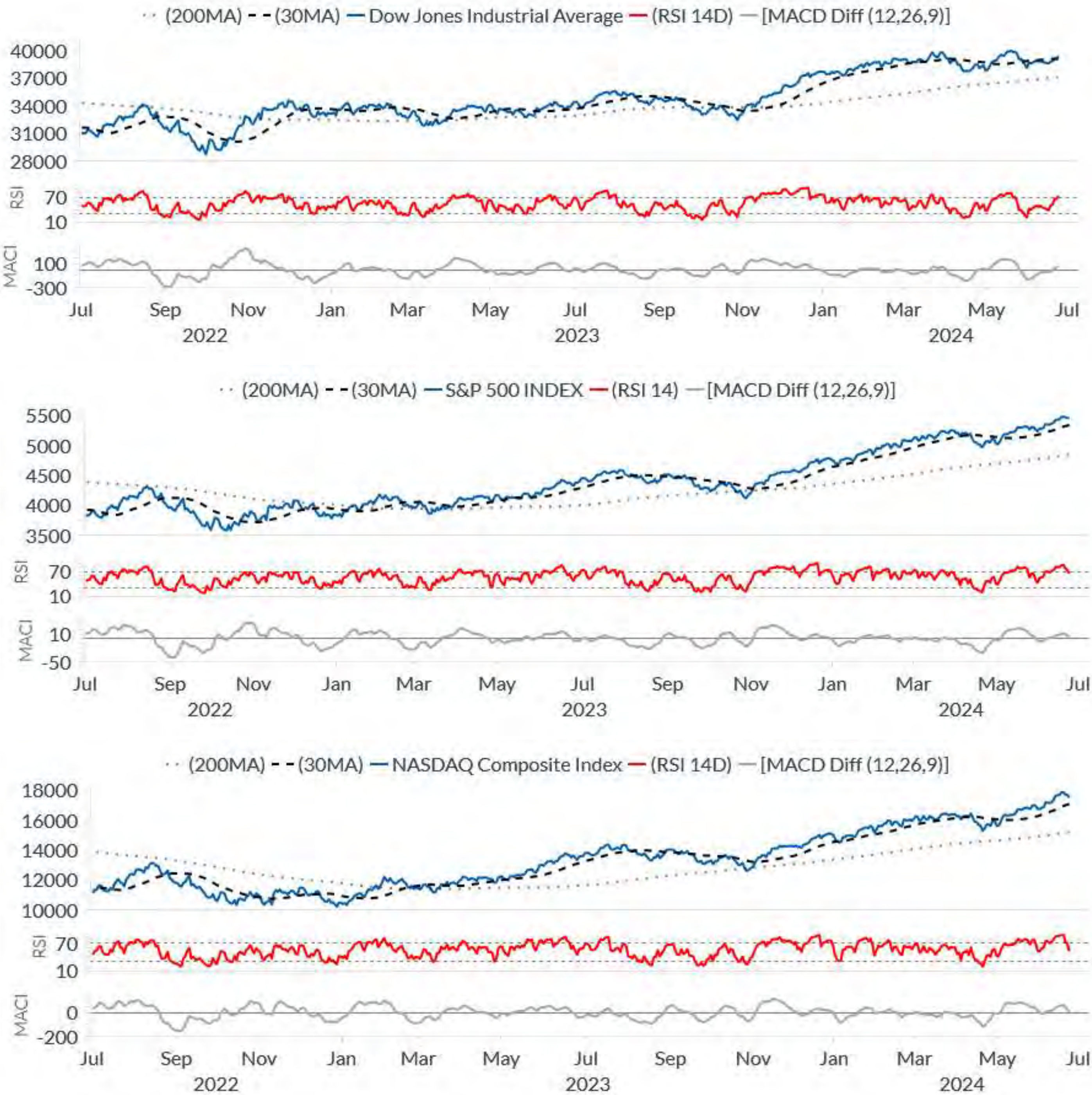
Source: Macrobond, RHB Economics & Market Strategy

Figure 59: ... while number of job openings exceed unemployed persons



Source: Macrobond, RHB Economics & Market Strategy

Figure 60: Risk-taking appetite remains supported, US equities continue to stage an upside



Source: Macrobond, RHB Economics & Market Strategy

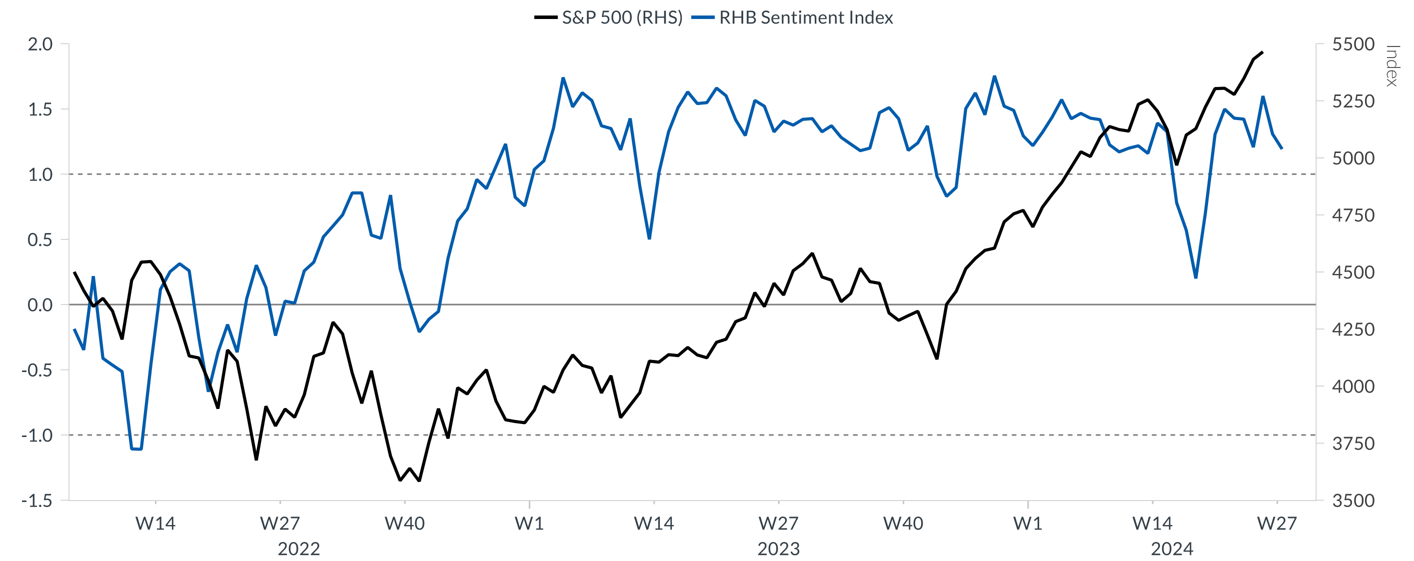
RHB Sentiment Index Suggests Uptick In Global Risk-Taking Behaviour

Highlights

- RHB Sentiment Index continues to point higher, suggesting market discounting of risks pertaining to geopolitical tensions, below-consensus US centric data, and inflation.
- Geopolitical risks have largely dissipated for now, but brewing US-China trade tensions must be accounted for in determining longer-term risk appetite.
- Noteworthy geopolitical tensions include US-China, China-Taiwan, North-South Korea, Ukraine-Russia, and the Middle East. We are most concerned over potential escalations in US-China trade tensions, owing to the sizeable exposure of US & China trade to the region

RHB Sentiment Index (RHB-SI) continues to point higher, suggesting market discounting of risks pertaining to geopolitical tensions, below-consensus US centric data, and inflation. Since the index's introduction in the previous Pathfinder 2Q24, the RHB-SI has been accurately indicative of market confidence and, in turn, highlights how US equities may move as a proxy for risk-taking behaviour. US equities have trended in line with the predictive element of the RHB-SI, reinforcing our asset allocation strategy for overweight equities, market weight fixed income, and underweight cash – a strategy we continue to adopt into 3Q24.

Figure 61: RHB Sentiment Index (RHB-SI) suggests global markets in a strong risk-taking mode



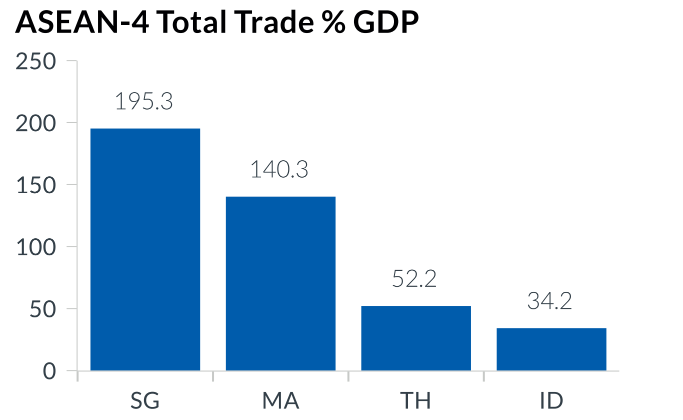
Source: Macrobond, RHB Economics & Market Strategy

Special mention must be given to geopolitical risks, which are black swan events in nature. These risks have largely dissipated for now, but brewing US-China trade tensions must be accounted for in determining longer-term risk appetite. Geopolitical tensions can disrupt trade relations and investment flows within ASEAN and with external partners. Countries may face challenges in maintaining stable economic growth if trade routes are affected or there is a decline in foreign investment due to uncertainty. In a nutshell, geopolitical tensions are black swan events, suggesting that one should look at how significant tensions have affected ASEAN recently.

Noteworthy geopolitical tensions include US-China, China-Taiwan, North-South Korea, Ukraine-Russia, and the Middle East. Based on trade exposures, the severe US-China and China-Taiwan-Hong Kong tensions will most negatively impact ASEAN. However, across economies, we see differing trade exposures. For example, Singapore sees a higher trade exposure to China, Taiwan and Hong Kong, rather than the US & China, suggesting differing impacts against specific economies across ASEAN. Notwithstanding, any form of trade tension, assuming all things are constant, will negatively impact Singapore the most, followed by Malaysia, Thailand, and Indonesia, based on their total trade as a percentage of GDP.

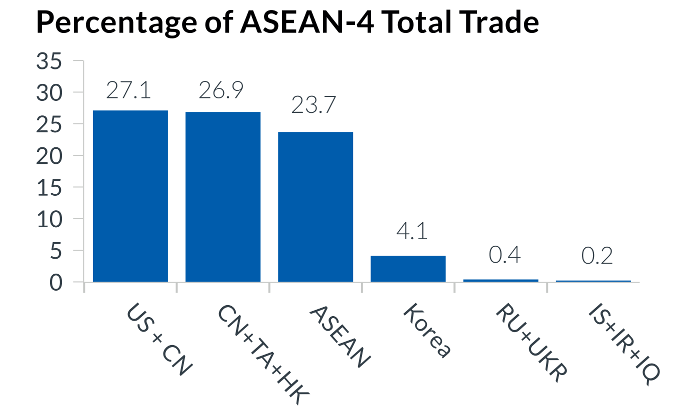
Overall, we are most concerned over potential escalations in US-China trade tensions, owing to the sizeable exposure of US & China trade to the region, followed by China-Taiwan tensions. We do not discount the possibility of collateral spill-over effects from other tensions, such as in Russia-Ukraine or the Middle East. Across ASEAN, we see strong negative impact on Singapore, given the sizeable trade exposure as a percentage of GDP, followed by Malaysia, Thailand, and Indonesia in descending order.

Figure 62: Across ASEAN-4, Singapore remains the most trade dependent



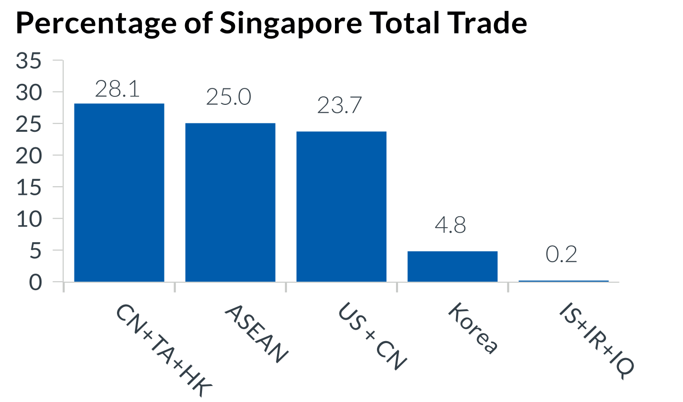
Source: Macrobond, RHB Economics and Market Strategy

Figure 63: Trade exposure analysis suggests US-China tensions to have a significant impact on ASEAN's trade



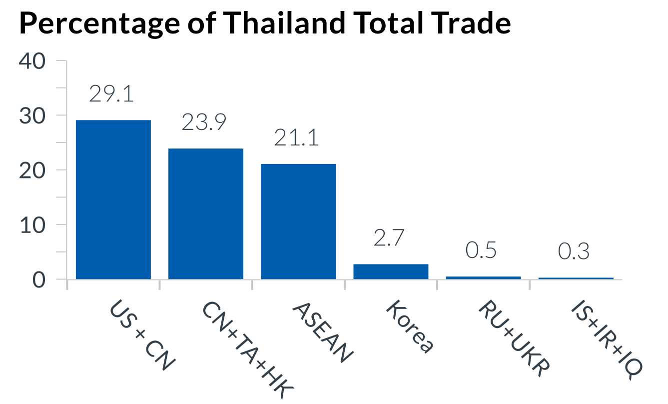
Source: Macrobond, RHB Economics and Market Strategy

Figure 64: Singapore is most vulnerable to China-centric risks…



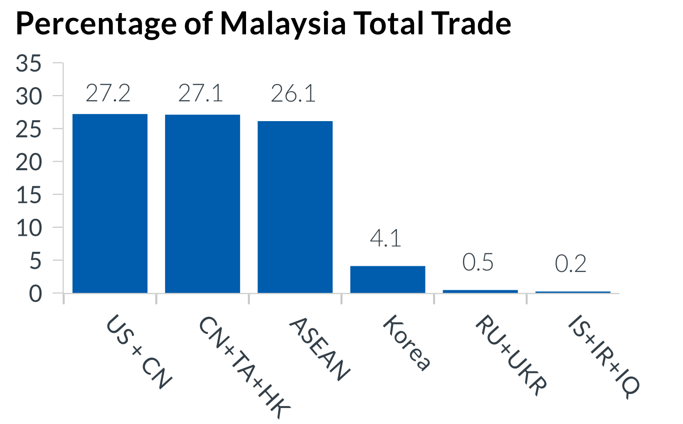
Source: Macrobond, RHB Economics & Market Strategy

Figure 65: … while Thailand's…



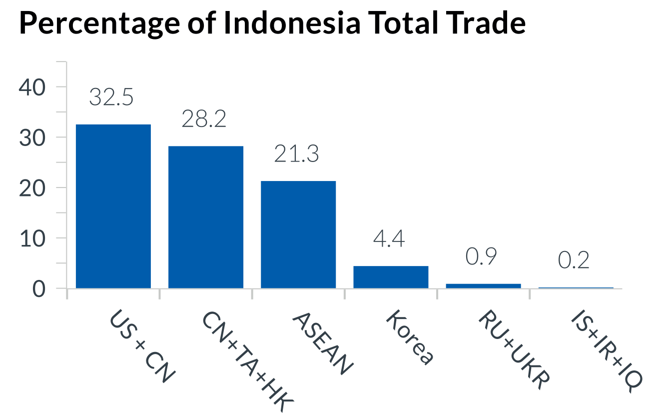
Source: Macrobond, RHB Economics & Market Strategy

Figure 66: … Malaysia's …



Source: Macrobond, RHB Economics & Market Strategy

Figure 67: …and Indonesia's trade will see most negative impact from US and China trade tensions

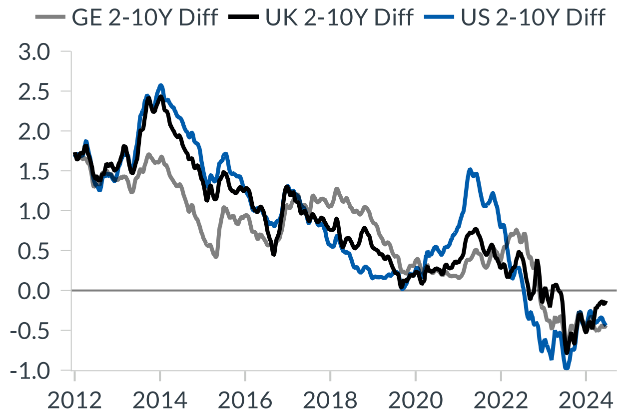


Source: Macrobond, RHB Economics & Market Strategy

Figure 68: Our leading global growth indicator is suggesting an imminent uptick

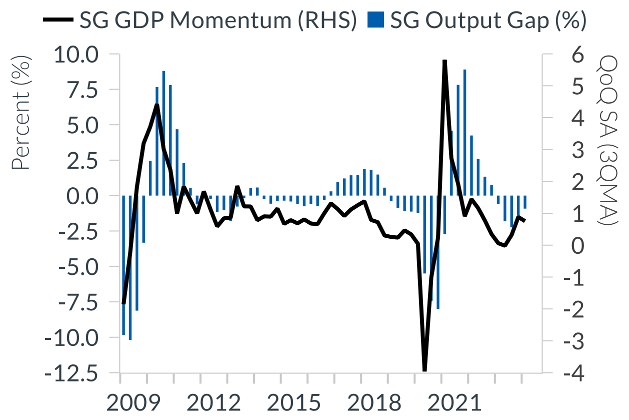
Source: Macrobond, RHB Economics & Market Strategy

Figure 69: DM 2-10YR bond yield differential is getting less inverted



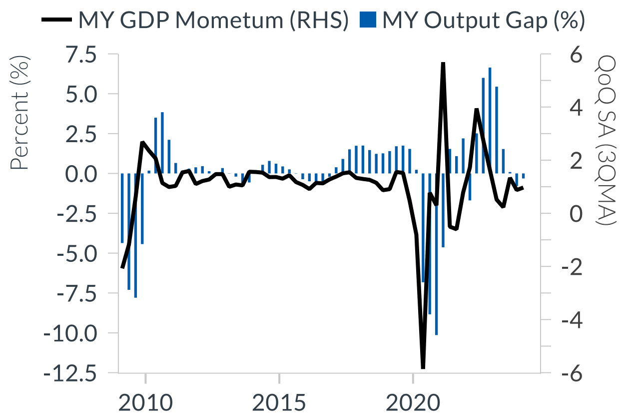
Source: Macrobond, RHB Economics & Market Strategy

Figure 70: Economies with negative (but improving) output gaps see the potential for growth acceleration in 2H24…



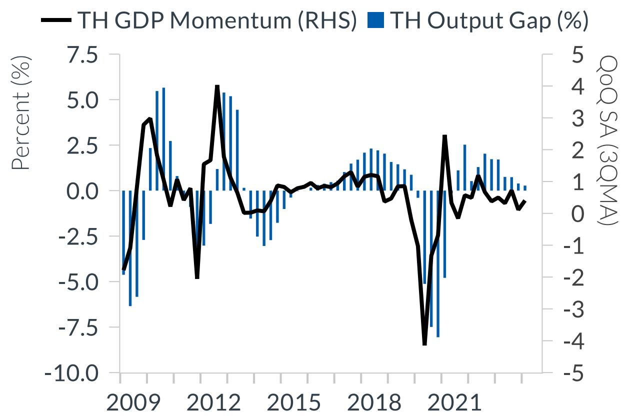
Source: Macrobond, RHB Economics & Market Strategy

Figure 71: … whereby we observe Singapore and Malaysia's growth gap to fit this phenomenon



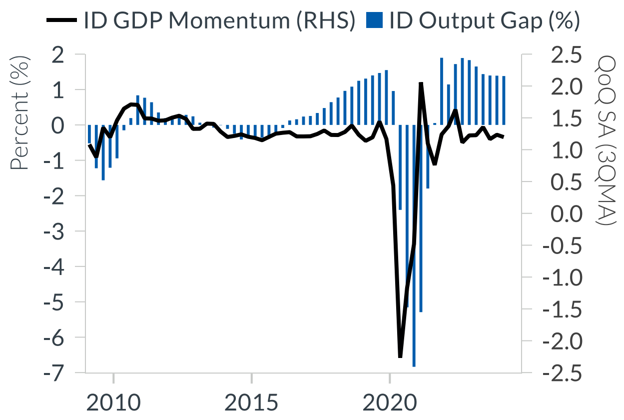
Source: Macrobond, RHB Economics & Market Strategy

Figure 72: Thailand's growth momentum slowed into year-end, suggests a negative output gap in the near future



Source: Macrobond, RHB Economics & Market Strategy

Figure 73: Indonesia's positive output gap persisted, but we note the slowing trend year-to-date



Source: Macrobond, RHB Economics & Market Strategy

Fixed Income Outlook

Fixed Income To Perform Better in 2H24

3Q24 Fixed Income Outlook

Fixed Income To Perform Better in 2H24

- **We expect ASEAN fixed income to perform better in 2H24 after a sluggish 1H24. Fixed income should perform better as bonds tend to move ahead of potential US Fed Funds Rate (FFR) cut announcements. The jump in foreign bond buying in May across ASEAN markets may had been underpinned by gradual pricing out of FFR cuts, which typically drives increased reallocation into higher-yielding emerging market assets. ASEAN rates volatility should remain muted in 3Q24 as the Federal Reserve weighs the timing of cuts.**
- **From a regional perspective, we remain Overweight Indonesia, Market Weight Malaysia and Singapore and Underweight Thailand. We believe the recent rise in IndoGB yields are policy driven and bonds should outperform once the Fed locks in its first rate cut by December.**
- **We remain Overweight on corporate bonds versus government bonds in2H24 (except for Indonesia) given the healthy yield pickup together with the limited room for sovereign yield compression. The outlook for ASEAN corporate bonds appears healthy as corporate earnings are expected to register an average growth of 17% in 2024 and 9% in 2025.**

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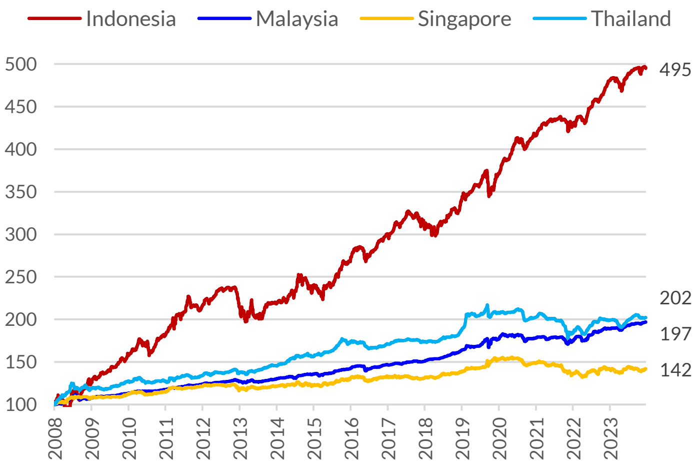
Figure 1: Our regional strategy

Regional View	Duration View				Corporate Bonds
	Short (0-7)	Mid (8-14)	Long (15-21)	Ultra Long (22-30)	Top Picks
Indonesia (OW)	Overweight	Market Weight	Market Weight	Overweight	Telkom, SMAR, Indah Kiat, Telkom, PLN, Merdeka Copper
Malaysia (MW)	Market Weight	Market Weight	Market Weight	Market Weight	UEMS, SDPL, AMBK, MSGB, GGR, KESTURI, MPower, MRCB
Singapore (MW)	Overweight	Market Weight	Market Weight	Market Weight	Singtel, NUS, NTU, Keppel, SIA, CLAS, CLAR, LTA, SGX
Thailand (UW)	Market Weight	Market Weight	Market Weight	Market Weight	THBEV, PTTGC, CP ALL, PTT
USD Asia Corporate Bonds	-	-	-	-	RWLV, TNBGV, IOI Corp, MISC, PTT, PLN

Source: RHB Economics & Market Strategy

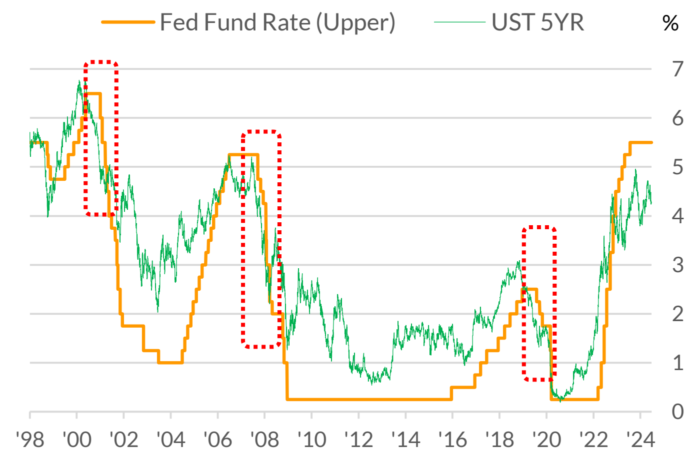
- **Recent market movement suggests US Treasuries (UST) are becoming desensitised to US economic data strength as markets approaches the Fed's maiden rate cut in December (Figure 5).** Despite no particular weakness in the May US inflation and labour market data, USTs rallied in June as: 1) markets are nearer to the Fed's first cut in 4Q24, and 2) the Fed begins to lower its cap on its monthly bond holdings reduction from USD60bn to USD25bn, which means reinvesting an additional USD35 billion monthly into Treasuries form its maturities; this effectively adds USD35bn of liquidty monthly into Treasuries.
- **There is more clarity on interest rates as market and the Fed's forecasts are now more aligned.** After swinging from six FFR cuts by 1H24 earlier this year to around two cuts by 4Q24 currently, the market's implied FFR views are now in closer agreement with the Fed which is one cut in 4Q24. This clarity could mean a less volatile and more predictable market moving into 2025. As the markets have realised in the past 12 months, disinflation is not always a smooth path down. Despite US economic numbers coming in strongly, USTs have resisted major selloffs as markets are leaning towards a Goldilocks narrative of robust growth and moderating inflation.
- **Aggressive FFR cuts could drive secular foreign inflow.** MGS saw strong secular non-resident (NR) inflows in the years where the FFR was at near zero (2008 to 2016 and 2020 to 2021). Although a near-zero US interest rate regime is not our base case in the near term, the initial FFR cut could be a catalyst for increased foreign allocation into emerging market (EM) fixed income assets.
- **Despite our base case of 4.50% 10YR UST yield in 3Q24, ASEAN rates (ex-Singapore) should see muted volatility and upside yield risk.** Although the Fed's road to a 2% inflation will likely be a bumpy one as US economy remains solid, we expect rate volatility to remain low (Figure 9). As such, rates should remain steadily anchored at current levels given that markets are anticipating a Fed rate cut rather than a hike. In addition, regional rates should have room to ease further in 2H24 as the first FFR cuts could come in as early as September.
- **From a regional government bonds perspective, we remain Overweight Indonesia as we expect a total return of 7.0% in 2024.** We remain **Market Weight** for **Malaysia** as we expect a total return of 4.00% in 2024 as the current yield curve is close to its historical trend relative to the Overnight Policy Rate (OPR). We are also **Market Weight Singapore** given our expectations of a total return of **3.4%** in 2024. For **Thailand, we remain Underweight** given our 2024 target return of 3.0%.
- **We remain Overweight corporate bonds versus government bonds given the healthy yield pickup together with the limited room for sovereign yield compression.** The outlook for ASEAN corporate bonds appears healthy as corporate earnings are expected to register moderate to strong growth this year. Bloomberg consensus shows index-level corporate earnings for Indonesia (MSCI Indonesia), Malaysia (FBM100), Singapore (MSCI Singapore), and Thailand (SET100) to grow by 22%, 28%, 2% and 17% respectively in 2024. Index-level data also showed improved gearing ratios (debt-to-equity) in 2023 versus 2022 for Indonesia (51% versus 53%), Singapore (94% versus 99%) and Thailand (93% versus 98%), while Malaysia FBM100 saw a higher gearing ratio of 95% at end-2023 versus 91% in the previous year.

Figure 2: Regional government bond returns (since July 2008)



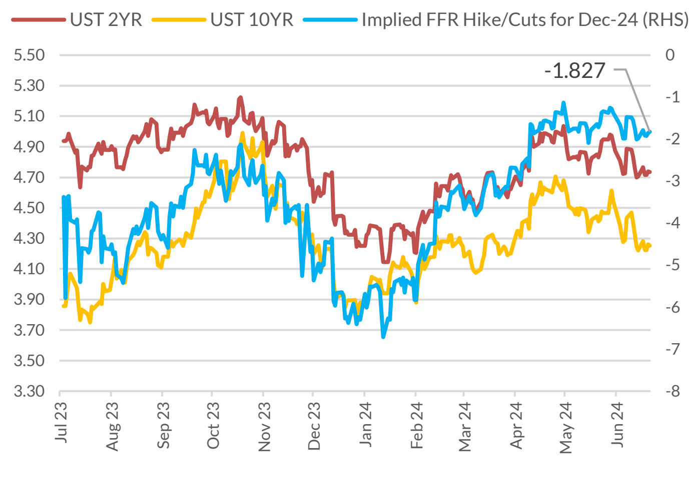
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 June 2024

Figure 3: Yields typically fall ahead of actual FFR cuts as markets attempt to front-run each other



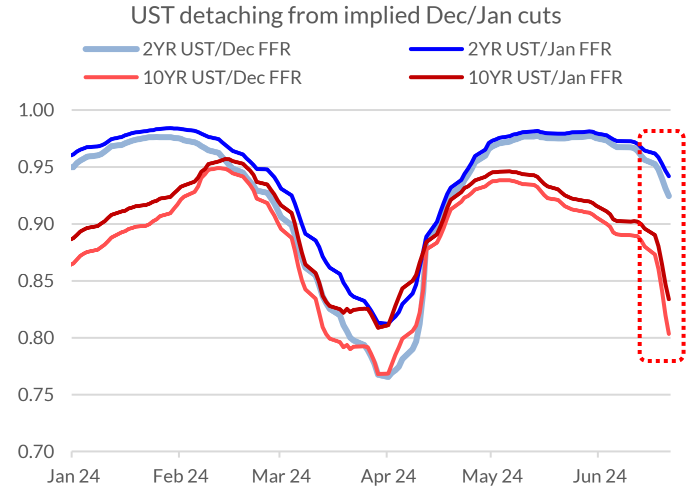
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 June 2024

Figure 4: Treasuries are highly correlated to the Dec-24 rate outlook. Swaps are currently pricing in 1.8 cuts



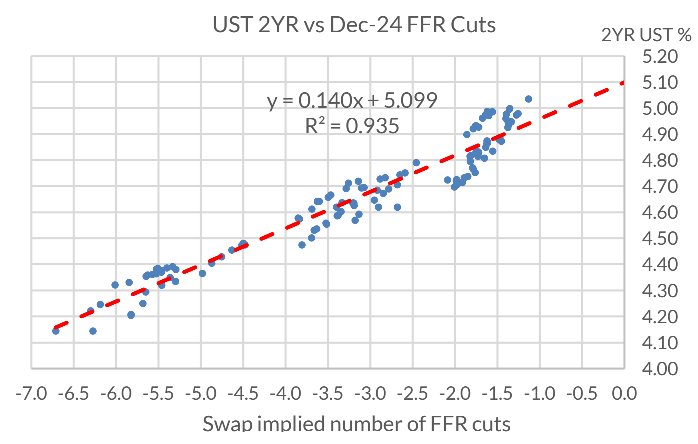
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 June 2024

Figure 5: Neverthless, 100-day regression has seen a sharp detachment after the May US CPI print



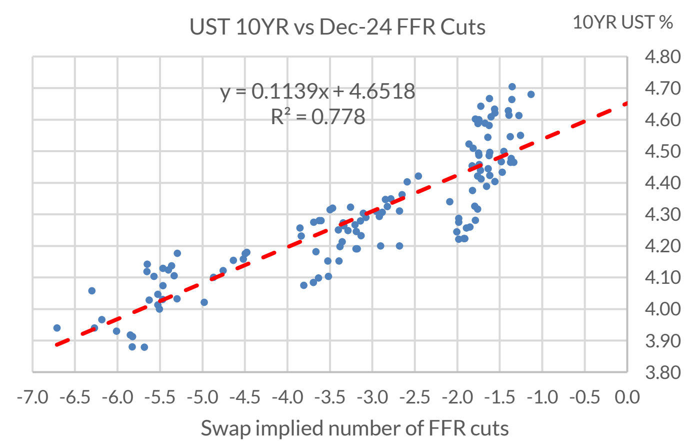
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 6: FFR-sensitive 2YR UST is highly correlated (0.93) with Dec-24's FFR cut outlook (YTD data)



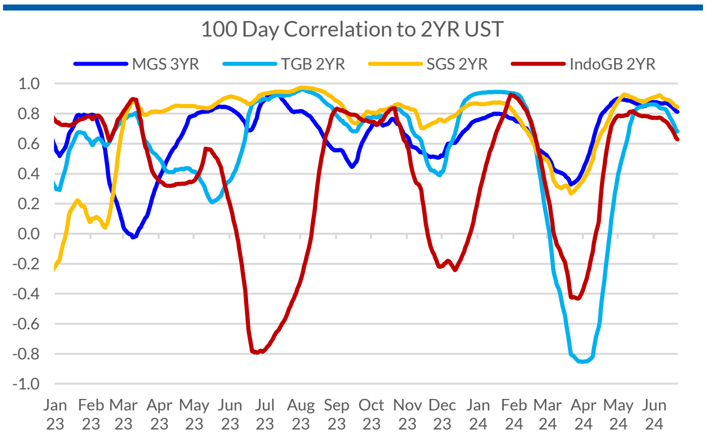
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 7: The longer-end 10YR UST has a weaker correlation (0.78) compared to the 2YR (YTD data)



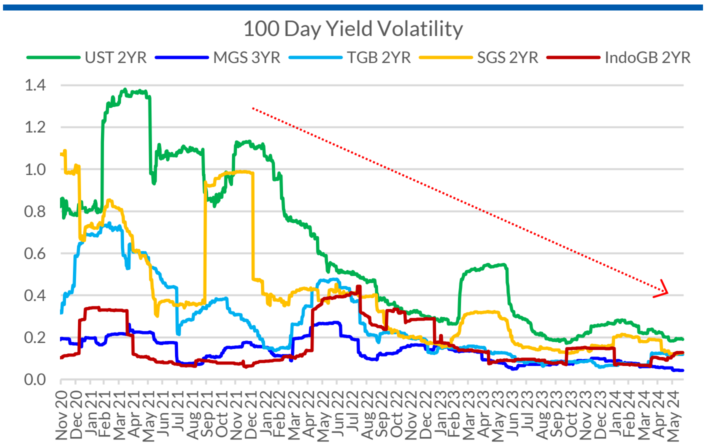
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 8: 100-day moving correlation against UST has weakened in 1Q24, measured using policy rate-sensitive front-end rates



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 June 2024

Figure 9: Yield volatility of policy rate-sensitive yield volatility should remain low post peak FFR cycle



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 June 2024

ASEAN Bond Review

Index Performance

- **Global fixed income recorded a slight loss of 0.69% in 2Q24 QTD.** Treasuries were sold-off in April due to the reacceleration of headline US inflation, but markets quickly rallied in May after labour market data surprised on the downside. In June, Treasuries further rallied as markets became increasingly desensitised with sturdy US economic data as the Fed approaches its first rate cut which we expect in December; as such, Treasuries should end June deep in green if the current momentum persists. The US high yield positive momentum persisted in 2Q but Treasuries and investment grade bonds took the lead in June. Emerging market (EM) high yields (which includes AxJ, China and EM) remained the global top performers YTD, boosted by upward assessments on the Chinese economy's growth prospects and its economic stimulus measures.
- **In ASEAN 2Q24 QTD, Malaysia stands out as the only government index with positive returns, with a total return of 0.69%.** This is followed by Indonesia and Singapore with QTD returns of -0.18% and -0.06% while Thailand was the bottom performer with a loss of 1.55%, reversing its top performing result in 1Q24.
- **The YTD returns were generally below our annualised targets, which is within our expectations given our outlook for a turbulent 1H24**. In Malaysia, YTD yields rose across the curve in single digits except for the 10YR which rose by 14bps, recording a total return of 1.85%. Thailand came in second with a return of 1.44% as YTD yields were barely changed in the low single digits; its 10YR TGB yields were unchanged YTD. In Indonesia, global events drove yields higher, particularly at the belly with the 10YR rising by 67bps, bringing its YTD return to 1.09%. Singapore was the only index with negative YTD performance with returns of -1.76% as the yield curve moved higher alongside UST with the 10YR SGS rising by 46bps.

Figure 10: Bond Index Performance - Total Return

	YTD	QTD	MTD	May '24	Apr '24	Mar '24	Feb '24	Jan '24	Dec '23
Global Bond	-2.76%	-0.69%	0.56%	1.31%	-2.52%	0.55%	-1.26%	-1.38%	4.16%
US Government Bond	-0.31%	0.65%	1.57%	1.46%	-2.33%	0.64%	-1.31%	-0.28%	3.37%
US IG Bond	0.17%	0.57%	1.30%	1.87%	-2.54%	1.29%	-1.50%	-0.17%	4.34%
US HY Bond	2.54%	1.05%	0.90%	1.10%	-0.94%	1.18%	0.29%	0.00%	3.73%
Emerging Market IG Bond	0.51%	0.82%	1.29%	1.86%	-2.29%	1.09%	-0.61%	-0.77%	4.09%
Emerging Market HY Bond	6.20%	1.41%	0.49%	1.49%	-0.56%	2.79%	2.10%	-0.22%	4.39%
Asia ex-Japan IG Bond	1.40%	1.12%	1.16%	1.56%	-1.57%	0.81%	-0.52%	0.00%	3.13%
Asia ex-Japan HY Bond	9.90%	3.06%	1.00%	2.67%	-0.61%	1.95%	1.85%	2.70%	2.32%
China HY	9.78%	4.53%	0.68%	3.56%	0.26%	0.85%	1.17%	2.92%	1.10%
Indonesia Govt Bond	1.09%	-0.18%	-0.36%	1.64%	-1.43%	0.17%	0.57%	0.52%	1.26%
Malaysia Govt Bond	1.85%	0.69%	0.37%	0.83%	-0.51%	0.45%	0.12%	0.58%	0.92%
Malaysia Govt Bond (USD-H)	3.02%	1.24%	0.50%	1.05%	-0.30%	0.64%	0.30%	0.80%	1.13%
Singapore Govt Bond	-1.76%	-0.06%	1.22%	1.01%	-2.25%	0.26%	-1.19%	-0.77%	2.14%
Thailand Govt Bond	1.44%	-1.55%	0.36%	0.01%	-1.92%	0.61%	1.18%	1.21%	2.10%

Source: Bloomberg, RHB Economics & Market Strategy. Heatmap is vertically ranked, green is higher, red is lower
Note 1: As of 21 June 2024, total return in LCY
Note 2: IG - Investment Grade, HY - High Yield

Figure 11: Yield change (bps)

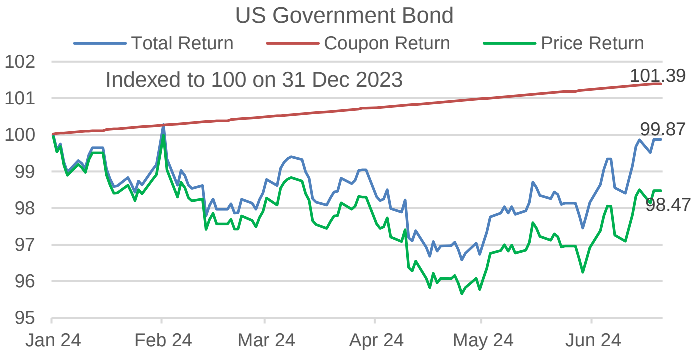
	YTD	MTD	Mar '24	Feb '24	Jan '24	Dec '23	Nov '23	Oct '23	Sep '23
Global Yield	33	-14	-6	21	8	-42	-42	13	31
UST 2YR	48	-14	0	41	-4	-43	-41	4	18
UST 5YR	42	-24	-3	41	-1	-42	-59	24	36
UST 10YR	38	-24	-5	34	3	-45	-61	36	46
UST 20YR	31	-22	-6	25	7	-49	-61	39	49
UST 30YR	37	-25	-4	21	14	-47	-60	39	49
IndoGB 2YR	34	8	12	0	-19	-21	-27	59	5
IndoGB 5YR	61	15	11	-1	8	-23	-37	47	37
IndoGB 10YR	67	22	10	2	12	-15	-48	20	53
IndoGB 15YR	55	21	11	4	13	-19	-34	12	53
IndoGB 20YR	39	17	10	0	7	-12	-26	12	41
IndoGB 30YR	29	12	5	0	2	-7	-21	16	26
MGS 2YR	5	-4	0	5	-4	0	-11	8	5
MGS 3YR	6	-5	0	10	-8	0	-19	9	12
MGS 5YR	7	-5	4	5	-3	-5	-23	13	14
MGS 7YR	7	-5	-1	6	0	-11	-24	18	14
MGS 10YR	14	-2	-1	8	5	-9	-27	11	14
MGS 15YR	2	-2	-2	4	-3	-3	-23	10	11
MGS 20YR	3	0	-2	0	-1	-9	-23	14	12
MGS 30YR	-2	1	-1	-1	-4	-6	-23	9	17
SGS 2YR	10	-7	9	11	-10	-11	-27	-6	22
SGS 5YR	50	-17	1	21	15	-24	-37	-6	23
SGS 10YR	46	-20	1	19	20	-26	-41	-3	26
SGS 15YR	43	-15	-1	18	15	-23	-32	4	16
SGS 20YR	37	-15	0	13	15	-25	-28	6	13
SGS 30YR	42	-11	2	18	10	-28	-15	4	3
TGB 2YR	3	-2	0	-11	-5	-11	-14	2	27
TGB 5YR	1	-4	-1	-12	-9	-17	-24	4	35
TGB 10YR	0	-8	-4	-10	-9	-22	-31	7	46
TGB 15YR	-2	-5	-8	-6	-11	-23	-32	11	49
TGB 20YR	3	0	-5	-7	-12	-22	-26	10	46
TGB 30YR	-2	0	-7	-11	-11	-21	-10	18	34

Source: Bloomberg, RHB Economics & Market Strategy. Heatmap is vertically ranked, green is lower, red is higher
Note: As of 20 June 2024

Government Index Return Component – Coupon Returns Carried Total Returns

- **We expect better price return performance in 2H24 as bond prices will be boosted by bonds front running the first FFR cut.** On a YTD basis, coupon returns remain the main contributor to US and ASEAN bond returns as price returns suffered due to rising global yields in 2Q24. Malaysia and Thailand managed to avoid significant bond price losses as the MGS/GII and TGB curve remained flattish. Indonesia and Singapore bonds fell as Bank Indonesia (BI) unexpectedly raised its policy rate while SGS tracked the momentum of the US Treasury market.

Figure 12: UST: Total YTD returns (-0.13%) were dragged by price returns (-1.53%), but is off the bottom as at end-April

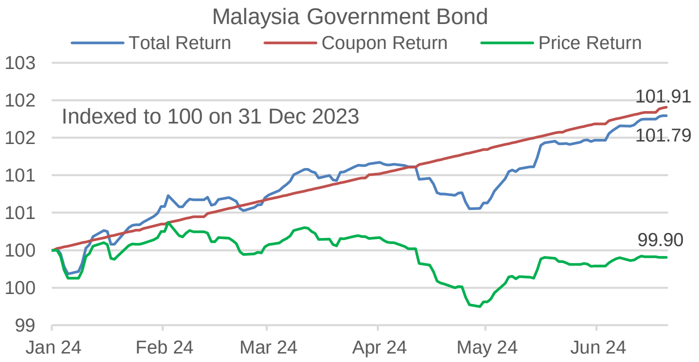


Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 19 June 2024

Figure 13: IndoGB: Coupon return (3.39%) contributed to YTD total returns (1.19%) while price return (-2.25%) detracted

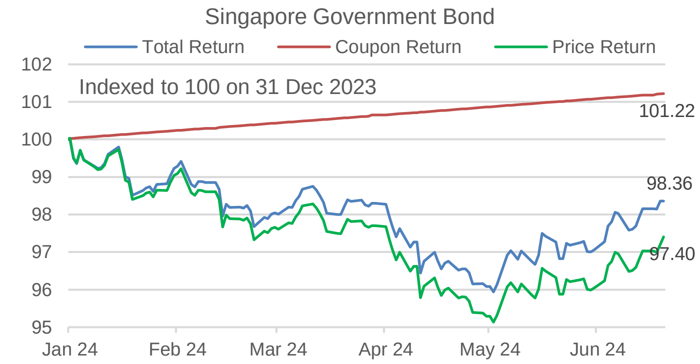
Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 19 June 2024

Figure 14: MGS/GII: Coupon return (1.91%) was main contributor to YTD total returns (1.79%) while price returns were slightly flat



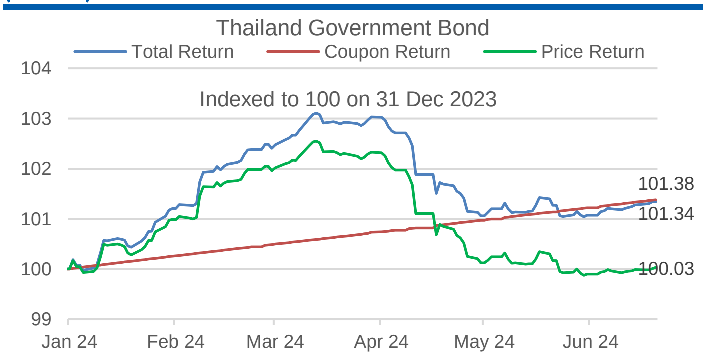
Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 19 June 2024

Figure 15: SGS: Coupon return (1.22%) contributed to returns YTD total returns (-1.64%) while price return (-2.6%) detracted



Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 19 June 2024

Figure 16: TGB: Coupon return (1.38%) was key contributor to YTD total returns (1.34%) while price return was flat (0.03%)

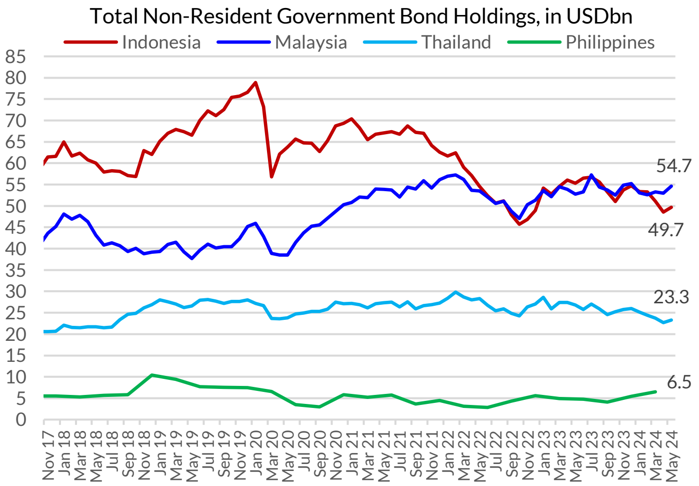


Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 19 June 2024

Regional Non-Resident Government Bond Holdings

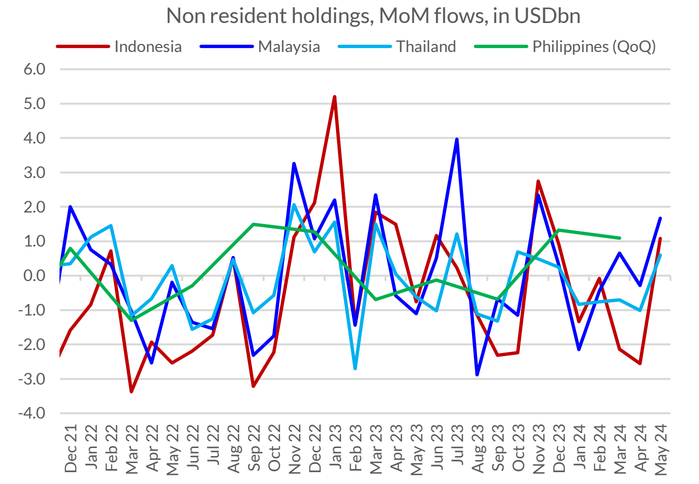
- **Despite fiscal uncertainty in Indonesia and Thailand, regional non-resident (NR) inflows turned positive in May 2024, driven by the UST rally as the April US labour market data surprised on the downside.** However, for 2024 YTD, the three ASEAN countries remain in net outflow with Malaysia faring the best with the smallest outflow of –USD0.5bn, followed by Thailand at –USD2.7bn and with Indonesia the worst at -USD5bn.
- As of end-May 2024, Malaysia has the highest NR holdings as a percentage of total outstanding bonds (21.7%), followed by South Korea (December 2023: 19.7%), Indonesia (14.1%), Thailand (10.1%) and Philippines (March 2024: 2.5%).

Figure 17: Malaysia is top destination for foreign bond investors (translated to USD)



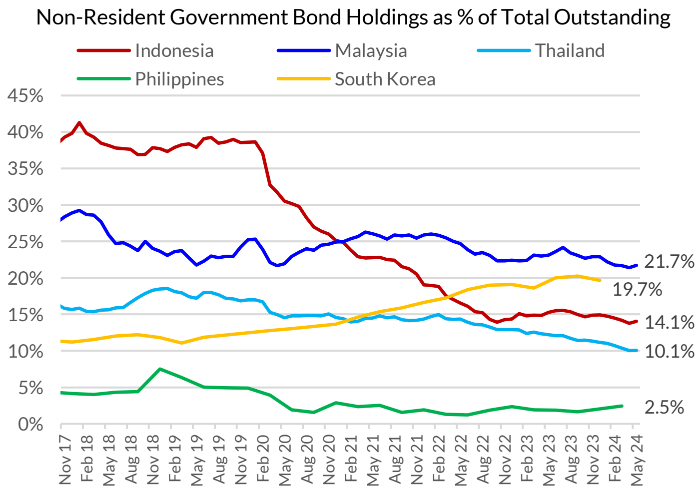
Source: Bloomberg, RHB Economics & Market Strategy
Note: From November 2017 to May 2024. Philippines – Mar 2024

Figure 18: ASEAN sovereigns saw collective inflows in May 2024 (translated to USD)



Source: Bloomberg, RHB Economics & Market Strategy
Note: From November 2017 to May 2024. Philippines – Mar 2024

Figure 19: As a % of total outstanding, Malaysia leads the region followed by Korea, Indonesia, Thailand and Philippines



Source: Bloomberg, RHB Economics & Market Strategy
Note: From November 2017 to May 2024. Korea – Dec 2024, Philippines – Mar 2024

Government Bonds Outlook

Indonesia

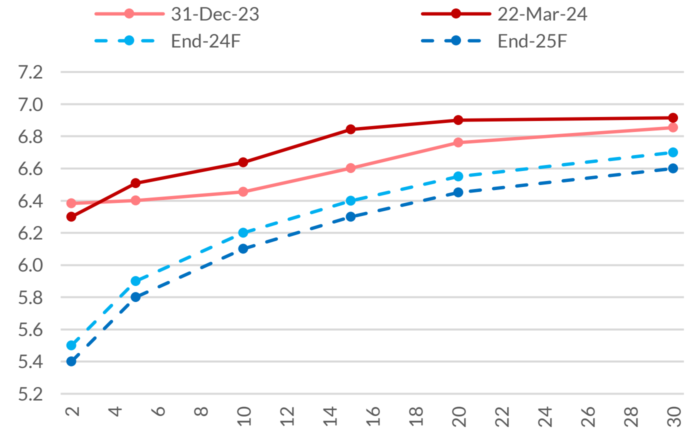
- **We keep the regional outperform call as the recent rise in yield elevates the attractiveness of IndoGBs.** We think the recent upward repricing of yields is over and the stage is set for a rally in 2H24 for three reasons: (1) US FFR cuts by year-end will open the door for BI to target lower bond rates, (2) low treasury yields could catalyse NR inflows into EM and IndoGBs, (3) the higher planned deficit spending remains well within investors' comfort levels. IndoGBs remain attractive across the tenures, and so far in 2024, its high coupon returns helped against yield expansion at the belly of the curve. Nevertheless, we continue to expect full-year total returns of 7%. The current IndoGB index yield to maturity (YTM) has risen to 7.00% (21 June 2024) from 6.61% (31 December 2024) previously.
- **Our call to underweight the belly performed well, with the yields of the 10YR to 15YR part of the curve rising since end-2023.** Also, we think a structural downward movement for the IndoGB curve could materialise in the next three to five years on the back of a maturing financial system and economy. Foreign inflows could also return given the low NR holdings relative to pre-pandemic levels.
- **Withholding tax premium and Operation Twist.** From a balance of risk perspective, we think the bond withholding tax could be reformed in order to attract foreign flows which will help stabilise its bond yields and currency. Two benefits of a stable currency are (1) the removal of Operation Twist, which was put in place to raise short-end bond prices to attract non-resident investors; and (2) structural interest rates in Indonesia can be lowered, benefitting the economy and bond investors.

Figure 20: Forecasts

	IndoGB 2YR	IndoGB 5YR	IndoGB 10YR	IndoGB 15YR	IndoGB 20YR	IndoGB 30YR
31-Dec-23	6.38	6.40	6.45	6.60	6.76	6.85
21-Jun-24	6.72	7.01	7.12	7.16	7.15	7.14
End-24F	6.00	6.15	6.30	6.40	6.55	6.70
End-25F	5.70	5.90	6.10	6.30	6.45	6.60

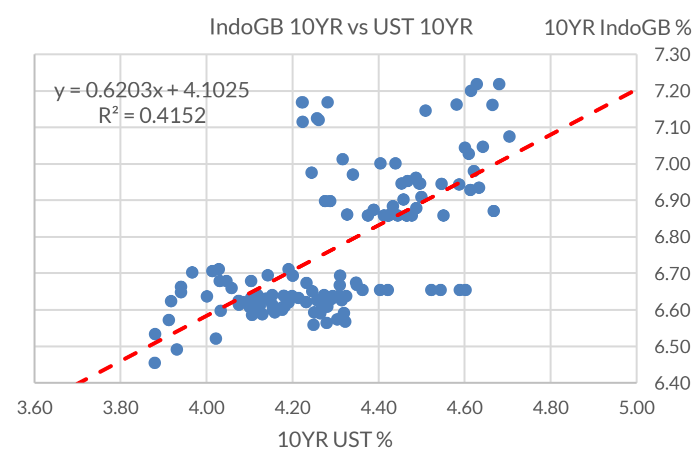
Source: Bloomberg, RHB Economics & Market Strategy

Figure 21: Our 2024 and 2025 IndoGB forecasts



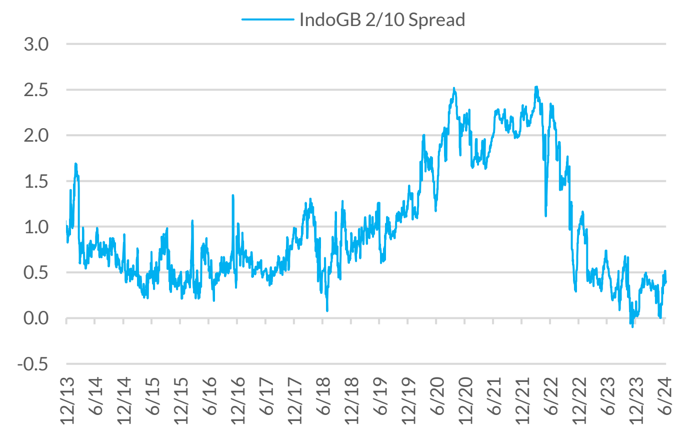
Source: Bloomberg, RHB Economics & Market Strategy

Figure 22: 10YR IndoGB has a moderate correlation (0.41) but high beta (0.62) relation with 10YR UST (YTD data)



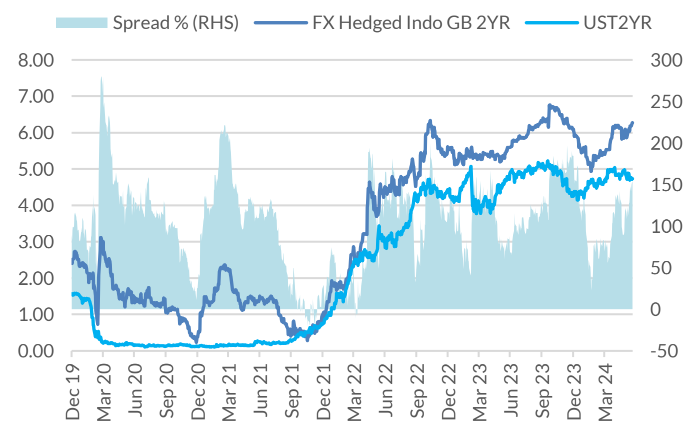
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 23: IndoGB 2/10 curve remains relatively flat



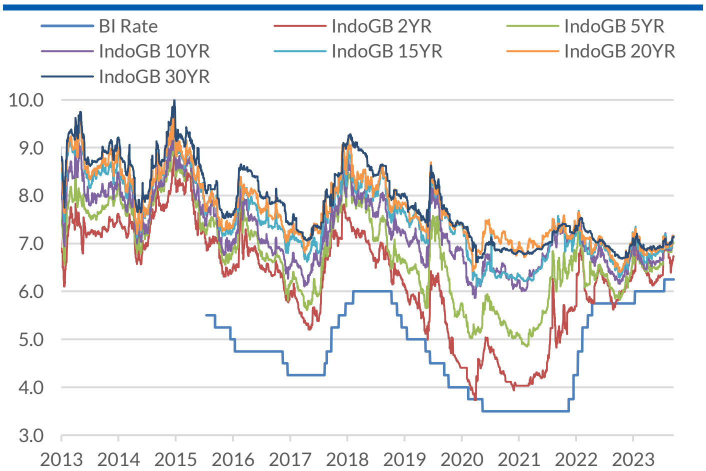
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 24: 2YR IndoGB maintains its hedged returns relative to 2YR UST



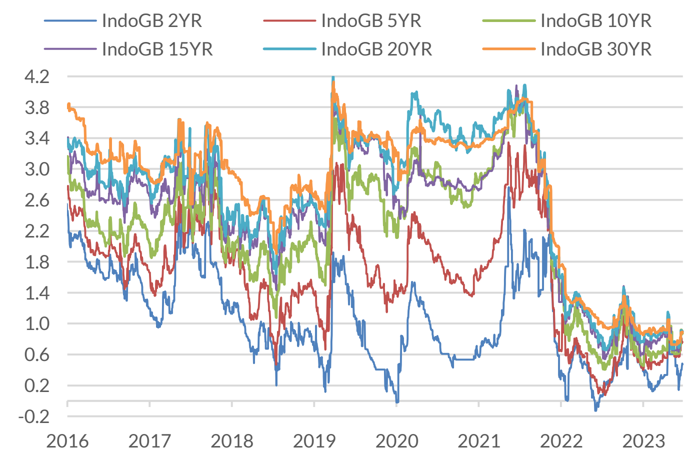
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 25: IndoGB yield curve is relatively flat



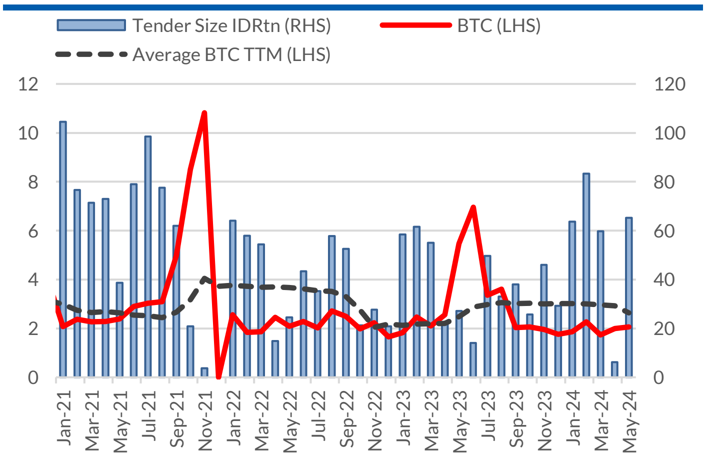
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 26: IndoGB spread against policy rate remains tight



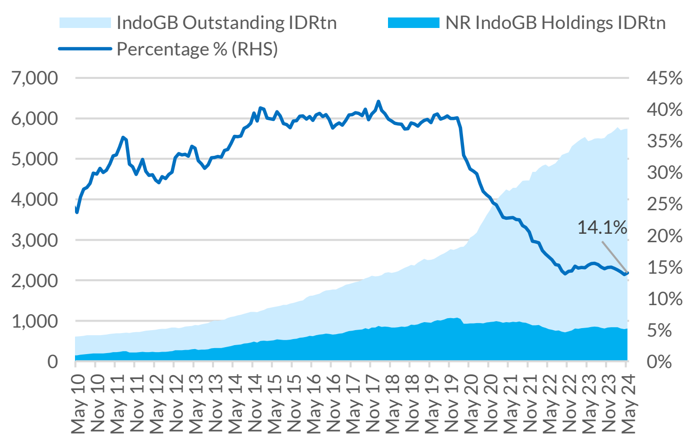
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 27: BTC ratio remains at trend in Jan-May 2024



Source: Bloomberg, RHB Economics & Market Strategy

Figure 28: NR holders of IndoGB rebounded in IDR terms and in percentage terms remain significantly below pre-pandemic levels



Source: Bloomberg, RHB Economics & Market Strategy

Malaysia

- **Regionally, we are Market Weight MGS/GII as we do not expect significant price return for the remaining of 2024**. Our full-year total return target of 4.0% remains on track with YTD return of 1.79% and we expect some yield compression in the front-to-belly on account of one FFR cut in the fourth quarter. As at 21 June 2024, the index YTM is 3.81%, while the current index coupon return is 4.15%. We maintain an agnostic view on duration but expect the longer end to outperform given the positive sloping curve. We see value in GII given its liquidity premium over MGS. However, if the supply of GIIs increases as planned this year, liquidity could improve and the yield gap between the two equally ranked government securities could narrow. Nonetheless, in terms NR buyers, MGS remains the preferred instrument as foreign holdings are still significantly skewed towards MGS compared to GII.

- **Aggressive FFR cuts could drive secular foreign inflow.** MGS saw strong secular NR holdings inflow in the periods where the FFR was at near zero (2008 to 2016 and 2020 to 2021). Although a near-zero US interest rate regime is not our base case in the current cycle, the initial FFR cut could be a catalyst for increased foreign allocation into EM fixed income.

- **We see 3Q24 10YR MGS to range around 3.80 to 3.90%, compared to the Bloomberg consensus of 3.76%,** and we will not be surprised if US data surprises pushes the trading range beyond our targets given the still fragile disinflation environment in the US. The 10YR MGS movements remain a high correlation (0.816) but low beta (0.235) versus the 10YR UST (Figure 33x). Meanwhile, our end-2024 target is reassessed slightly higher to 3.80% from 3.78% as our FFR cut projection is reduced from two times to one time.

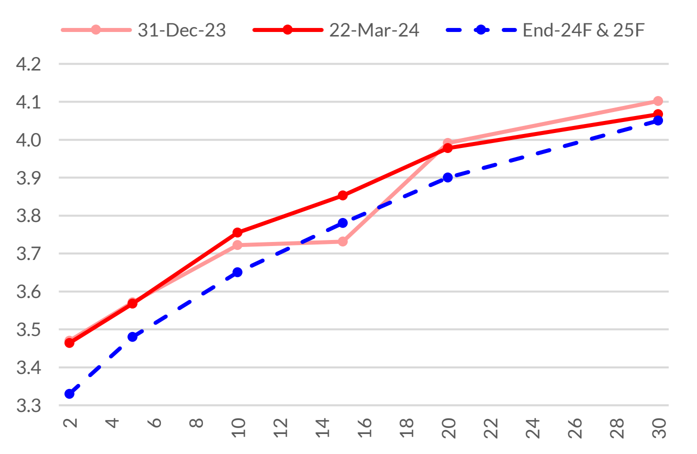
- **Demand for fixed income should be healthy in 2024; our thematic report discussed the demand and supply for fixed income in 2024**. Ample liquidity has contributed to the robust demand for fixed income assets in recent years; we discuss the dynamics shaping fixed income demand for 2024 in the aforementioned report.

Figure 29: Forecasts

	MGS 3YR	MGS 5YR	MGS 7YR	MGS 10YR	MGS 15YR	MGS 20YR	MGS 30YR	KLIBOR 1M	KLIBOR 3M
31-Dec-23	3.47	3.57	3.72	3.73	3.99	4.10	4.25	3.37	3.77
21-Jun-24	3.53	3.64	3.79	3.87	4.01	4.13	4.22	3.29	3.57
End-24F	3.38	3.52	3.67	3.80	3.95	4.05	4.15	3.33	3.65
End-25F	3.33	3.48	3.65	3.75	3.90	4.05	4.10	-	-

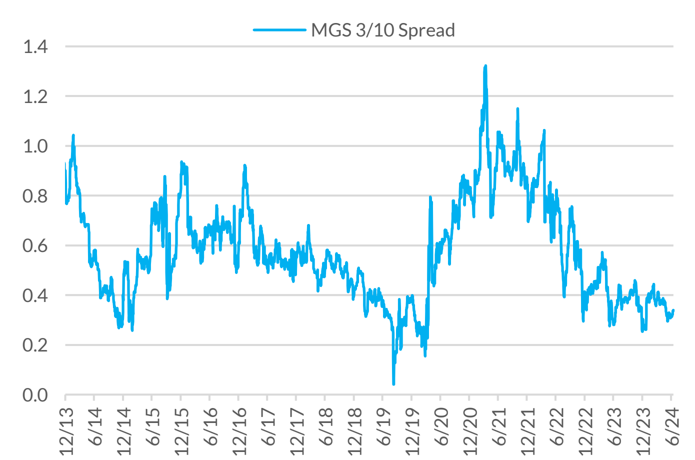
Source: RHB Economics & Market Strategy

Figure 30: MGS is close to our end-2024 targeted yields; maintain Market Weight



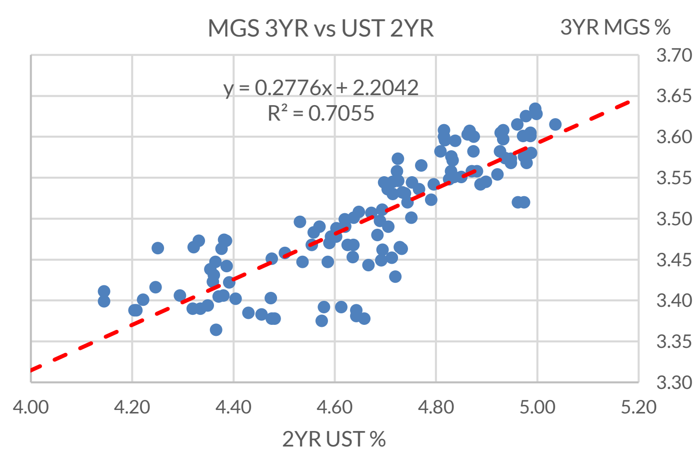
Source: Bloomberg, RHB Economics & Market Strategy

Figure 31: 2/10 MGS spread



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

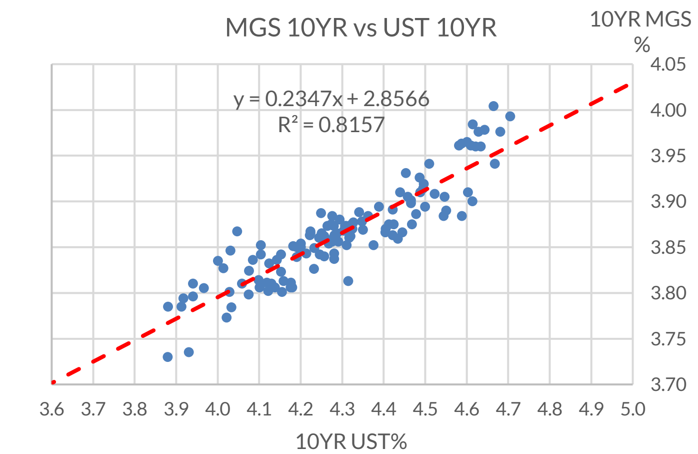
Figure 32: YTD MGS and UST regression. 3YR MGS remains correlated (0.706) with low beta (0.278) to 2YR UST



Source: Bloomberg, RHB Economics & Market Strategy

Note: Last data point at 21 June 2024

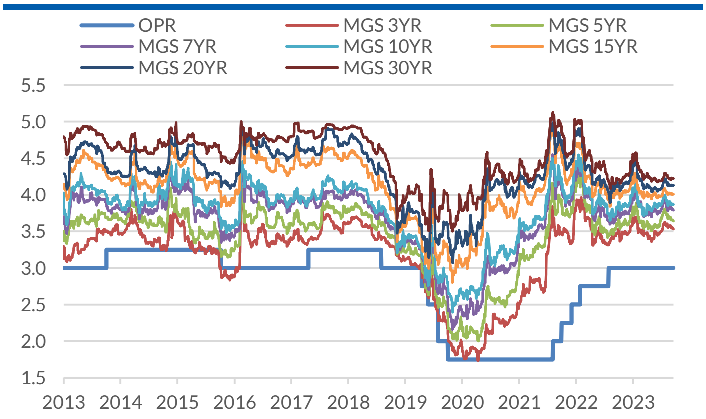
Figure 33: YTD MGS and UST regression. 10YR MGS remains highly correlated (0.816) with low beta (0.235) to 10YR UST



Source: Bloomberg, RHB Economics & Market Strategy

Note: Last data point at 21 June 2024

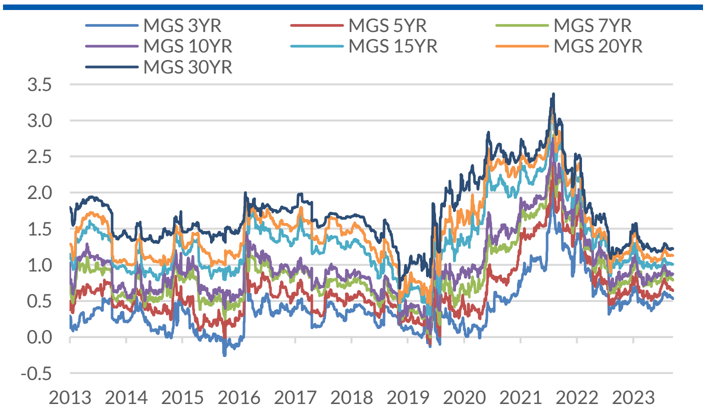
Figure 34: MGS yields and OPR



Source: Bloomberg, RHB Economics & Market Strategy

Note: Last data point at 21 June 2024

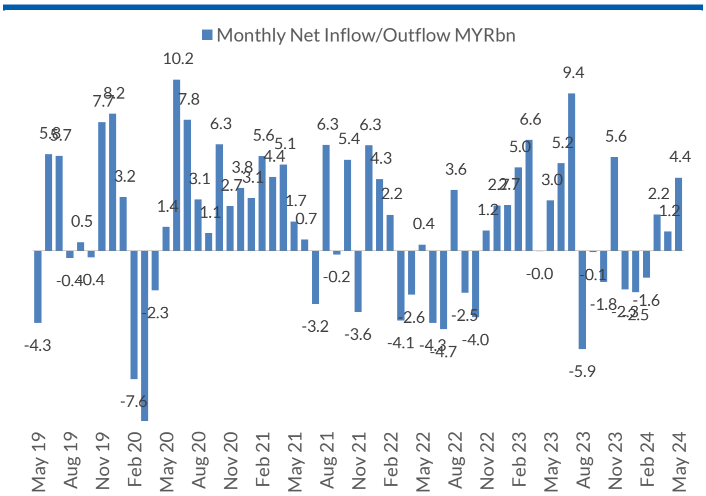
Figure 35: MGS spread over OPR



Source: Bloomberg, RHB Economics & Market Strategy

Note: Last data point at 21 June 2024

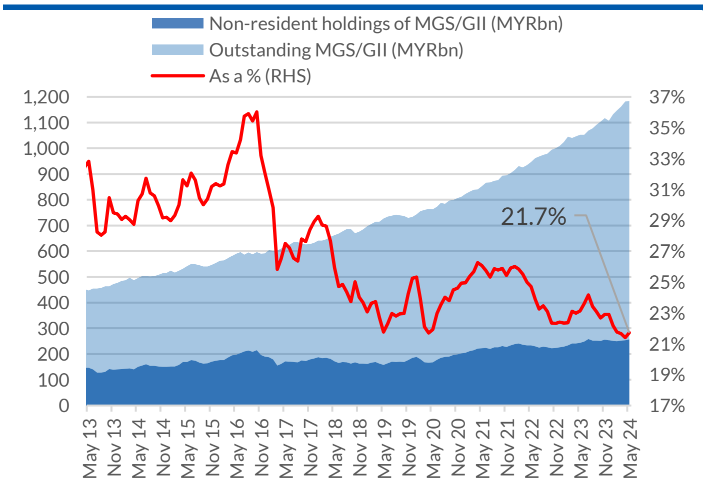
Figure 36: NR holdings saw three consecutive months of inflow in May 2024



Source: BNM, RHB Economics & Market Strategy

Note: Last data point at May 2024

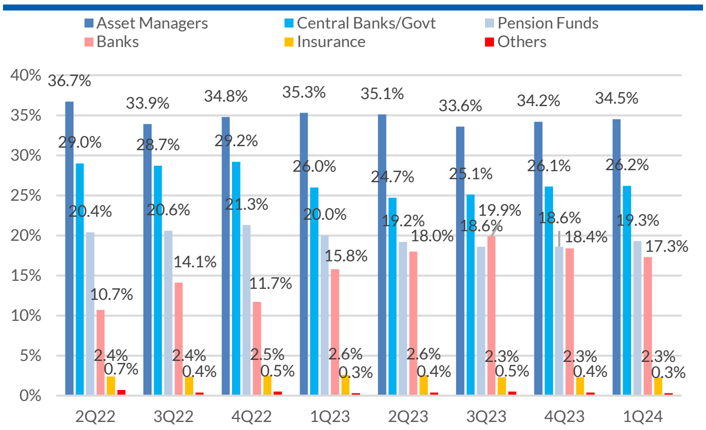
Figure 37: February NR holders stood at 21.7%



Source: BNM, RHB Economics & Market Strategy

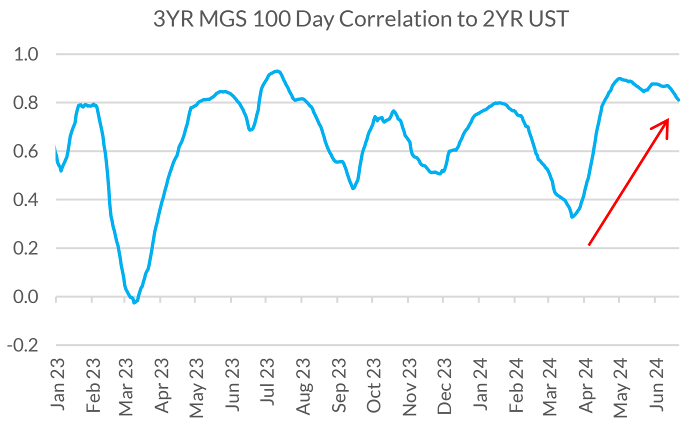
Note: Last data point at May 2024

Figure 38: In 1Q24, foreign pension funds increased MGS/GII holdings the most (+MYR1.4bn)



Source: BNM, RHB Economics & Market Strategy

Figure 39: 100D correlation between UST/MGS rose in 2Q24



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 40: MGS/GII quarterly change in holdings, internal calculations

	EPF	KWAP	Insurance	BNM	Banks	DFI	Non-bank FIs	Non-resident	Others	Total
1Q16	2,904	-48	-562	-763	3,832	631	-50	13,013	-458	18,500
2Q16	10,899	-375	592	561	3,930	-214	30	17,186	-9,281	23,328
3Q16	-5,493	519	-462	-1,700	-8,048	-632	-130	5,436	2,541	-7,969
4Q16	3,128	2,851	2,145	4,758	5,377	-2,001	0	-18,271	6,013	4,000
1Q17	14,573	-522	459	3,472	24,719	1,096	160	-34,318	1,611	11,250
2Q17	14,816	-2,153	-2,199	-3,763	5,903	-1,175	-30	14,185	-4,302	21,281
3Q17	5,704	-1,023	317	-584	-2,728	-1,015	28	5,299	-58	5,940
4Q17	4,117	164	-61	3,465	-15,729	-14	162	7,701	2,515	2,319
1Q18	13,647	307	-108	-2,003	2,389	611	-50	1,824	-3,479	13,139
2Q18	8,265	107	1,480	-348	30,632	164	290	-19,726	1,487	22,350
3Q18	2,961	1,688	2,382	-2,250	6,385	278	-160	-2,390	-3,250	5,644
4Q18	-2,119	-467	321	6,230	7,903	-363	60	-4,157	3,392	10,800
1Q19	12,321	-258	-1,169	-455	10,368	321	-50	8,205	40	29,322
2Q19	2,911	2,538	-230	-2,560	15,527	-2,145	120	-2,855	7,195	20,500
3Q19	-3,569	-1,836	425	-1,370	-2,757	737	-50	5,745	7,360	4,684
4Q19	2,817	45	820	-1,670	-16,696	-48	70	12,650	-4,208	-6,219
1Q20	9,182	187	-2,460	7,280	22,488	-385	140	-16,839	8,207	27,800
2Q20	-12,297	-860	3,404	482	16,045	-2,589	30	10,689	-2,904	12,000
3Q20	-8,370	1,451	2,701	1,313	7,838	260	-40	11,044	7,330	23,527
4Q20	-749	-620	1,791	5,357	-6,851	755	-10	13,014	2,071	14,758
1Q21	3,065	1,223	1,580	-2,430	10,164	1,048	120	12,575	154	27,500
2Q21	7,964	1,321	1,583	996	12,250	-1	-20	7,897	-4,489	27,500
3Q21	-1,758	233	2,375	-960	1,838	560	80	3,410	4,523	10,300
4Q21	10,735	1,770	-234	8,346	495	30	-310	8,568	-2,400	27,000
1Q22	9,176	157	683	-6,604	14,513	1,334	70	2,857	835	23,021
2Q22	7,250	793	1,564	8,750	16,040	2,016	-270	-6,122	5,980	36,000
3Q22	11,355	-40	1,150	14,955	-7,750	710	-270	-3,532	560	17,139
4Q22	5,927	-584	3,272	24,030	-2,832	-28	150	365	-301	30,000
1Q23	11,909	1,998	2,576	-4,185	1,587	2,794	670	14,395	-664	31,080
2Q23	6,591	2,013	1,480	-11,609	13,590	21	-220	8,116	3,118	23,100
3Q23	15,908	640	2,063	2,389	8,855	-1,279	-210	3,447	-3,813	28,000
4Q23	12,767	-540	1,002	1,730	23,648	-13,359	50	515	-314	25,500
1Q24	9,950	280	3,560	7,676	6,846	15,454	-39	-2,987	4,259	45,000

Source: BNM, RHB Economics & Market Strategy. Internal calculations.

Singapore

- **Regionally, we are Market Weight SGS given the less attractive YTM and our expectations of a local currency total return of 3.4% in 2024.** We are Overweight the front end of the curve due to the higher YTM from the inverted curve. Our forecast of a higher SGS curve in 1H24 has largely materialised given our expectation of higher UST yields. After rising around 42bps from 2.70% at December 2023 to 3.12% currently, we think the 30YR is attractive for long-end buyers to lock in yields.
- **We now see one FFR cut instead of two in 2024, which we expect to materialise in December**. As such, our forecasts reflect a tightening of yields by end-2024, particularly at the front end.

Figure 41: 2023 to 2025 SGS forecasts

	SGS 2YR	SGS 5YR	SGS 10YR	SGS 15YR	SGS 20YR	SGS 30YR
31-Dec-23	3.26	2.68	2.71	2.77	2.76	2.70
21-Jun-24	3.35	3.17	3.16	3.19	3.14	3.12
End-24F	3.11	3.06	3.10	2.97	2.95	2.92
End-25F	2.49	2.55	2.60	2.62	2.65	2.67

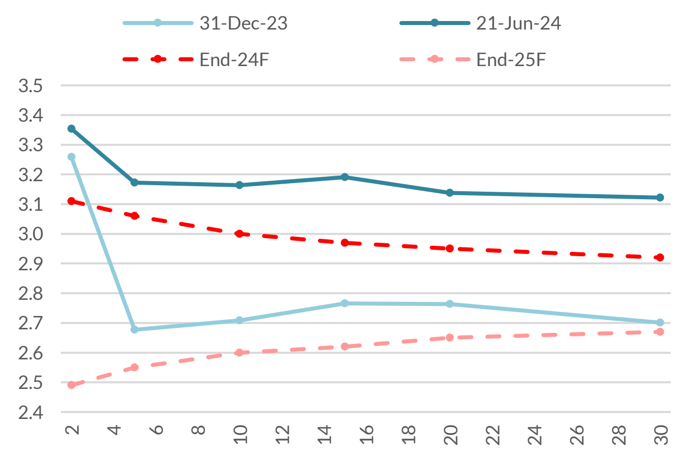
Source: RHB Economics & Market Strategy

Figure 42: SORA forecasts

	SORA 1M	SORA 3M	SORA 6M
22-Mar-24	3.693	3.628	3.700
2Q24	3.72	3.72	3.72
3Q24	3.65	3.70	3.71
4Q24	3.38	3.45	3.57
1Q25	3.00	3.25	3.35
2Q25	2.40	2.40	2.82
3Q25	2.40	2.40	2.40
4Q25	2.40	2.40	2.40

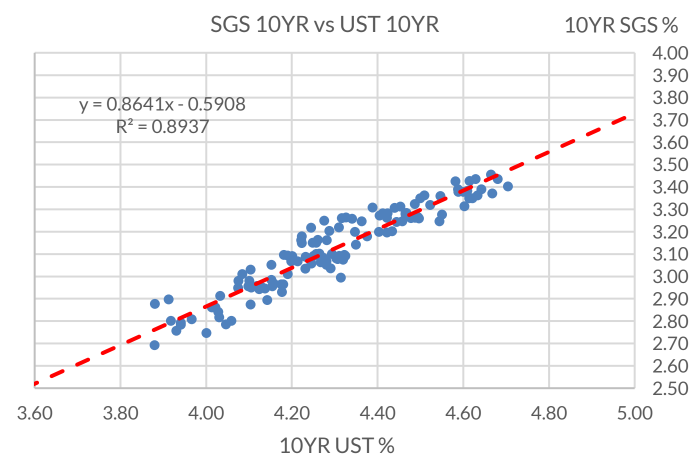
Source: RHB Economics & Market Strategy

Figure 43: SGS Targets



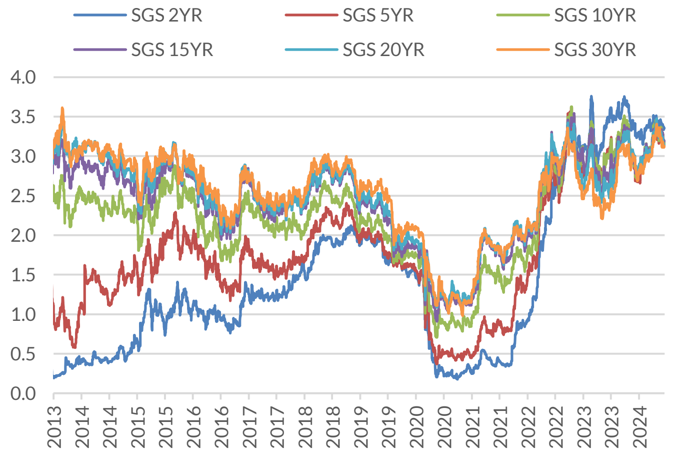
Source: Bloomberg, RHB Economics & Market Strategy

Figure 44: 10YR SGS has a high correlation (0.89), high beta (0.86) relation with 10YR UST (YTD data)



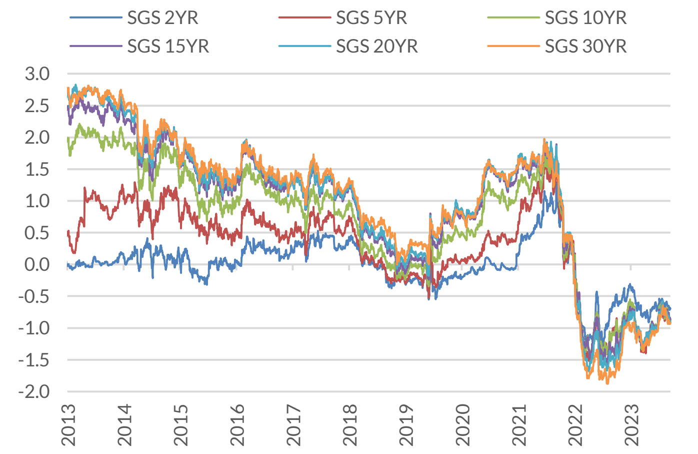
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 45: SGS yields



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 46: SGS spread against 3M SIBOR



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Thailand

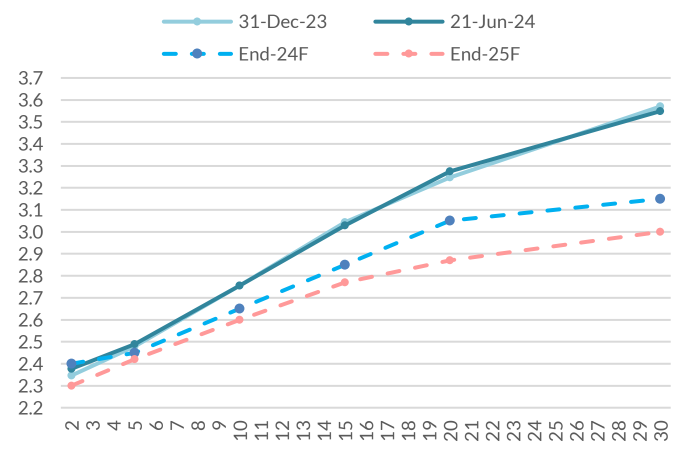
- **Regionally, we continue to Underweight TGBs given our total return expectations of 3.0% in 2024.** Our call to take profit on the TGB rally in 1Q24 performed well as yields rebounded and TGB became the bottom performer in 2Q24 with total returns of -1.55% compared to 3.0% in 1Q24. Retrospectively, the late 2023 rally was locally driven rather than foreign given that NR holdings remain stable.
- **The jump in May NR holdings could signal a return of global EM allocation as global investors prepare for the first FFR cut; however, the low absolute yields could limit inflows.** Although the political uncertainty has subsided, now investors could turn to fiscal uncertainty given the plans to expand fiscal spending. Domestic banks' participation in TGBs should remain robust given the moderating growth and relatively low inflationary environment.

Figure 47: Forecasts

	TGB 2YR	TGB 7YR	TGB 10YR	TGB 15YR	TGB 20YR	TGB 30YR
31-Dec-23	2.35	2.48	2.75	3.04	3.25	3.57
21-Jun-24	2.38	2.49	2.75	3.03	3.28	3.55
End-24F	2.40	2.45	2.65	2.85	3.05	3.15
End-25F	2.30	2.42	2.60	2.77	2.87	3.00

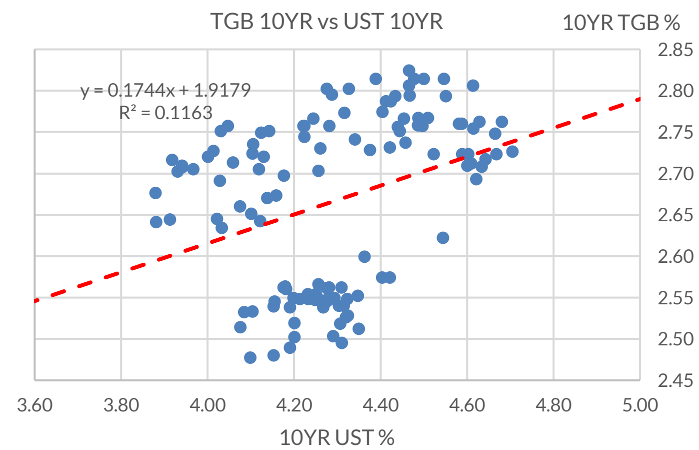
Source: Bloomberg, RHB Economics & Market Strategy

Figure 48: TGB Targets



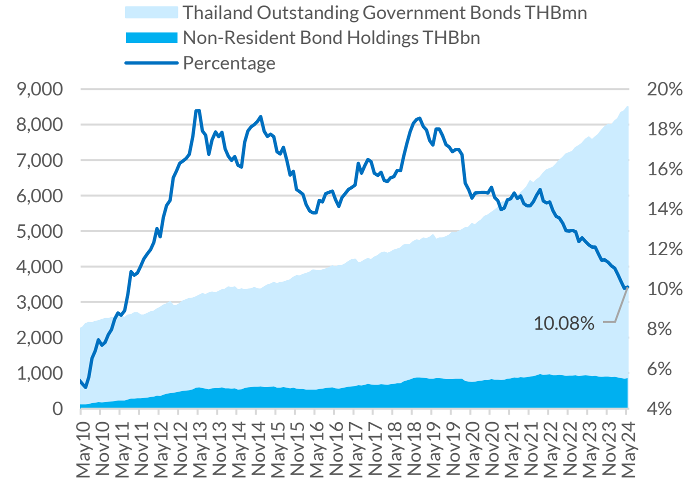
Source: Bloomberg, RHB Economics & Market Strategy

Figure 49: 10YR TGB has a low correlation (0.116), low beta (0.174) relation with 10YR UST (YTD data)



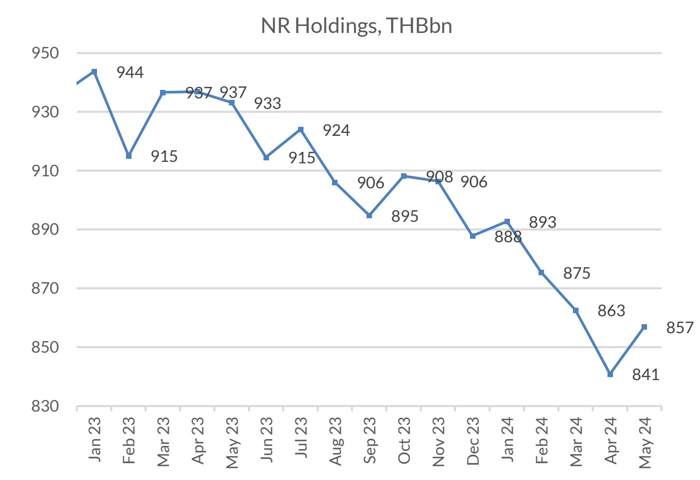
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 50: NR inflows in May bumped holdings slightly higher to 10.08%



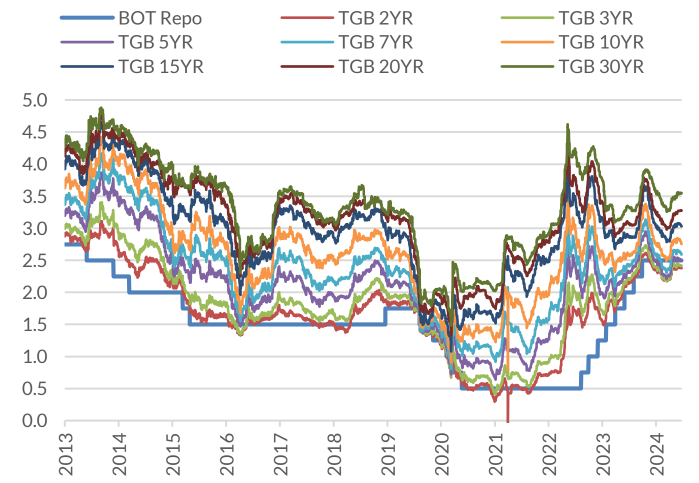
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at May 2024

Figure 51: NR could see inflow in 2H24 as Fed approaches its first FFR cut



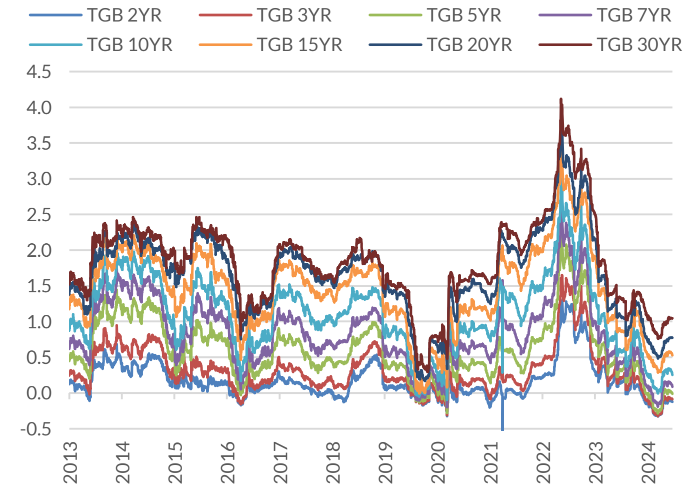
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at May 2024

Figure 52: TGB yields



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Figure 53: TGB spread versus BoT policy rate



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 21 June 2024

Corporate Bonds

Asia USD Bonds

- **ASEAN corporate earnings per share, as represented by MSCI ASEAN, are expected to grow at a healthy 13.8% in 2024, after declining by 2.4% in 2023**. Meanwhile, the debt-to-equity ratio stood at 87.3% at end-2023, an improvement from 91.2% at end-2022.
- The Asia USD corporate bond issuers we like are **TNB Global Ventures Capital, IOI Corp, MISC, Keppel Corporation, PTT PCL, Perusahaan Listrik Negara Persero and PT Freeport Indonesia and GENM Capital Labuan.**

Figure 54: Issuer description and outlook

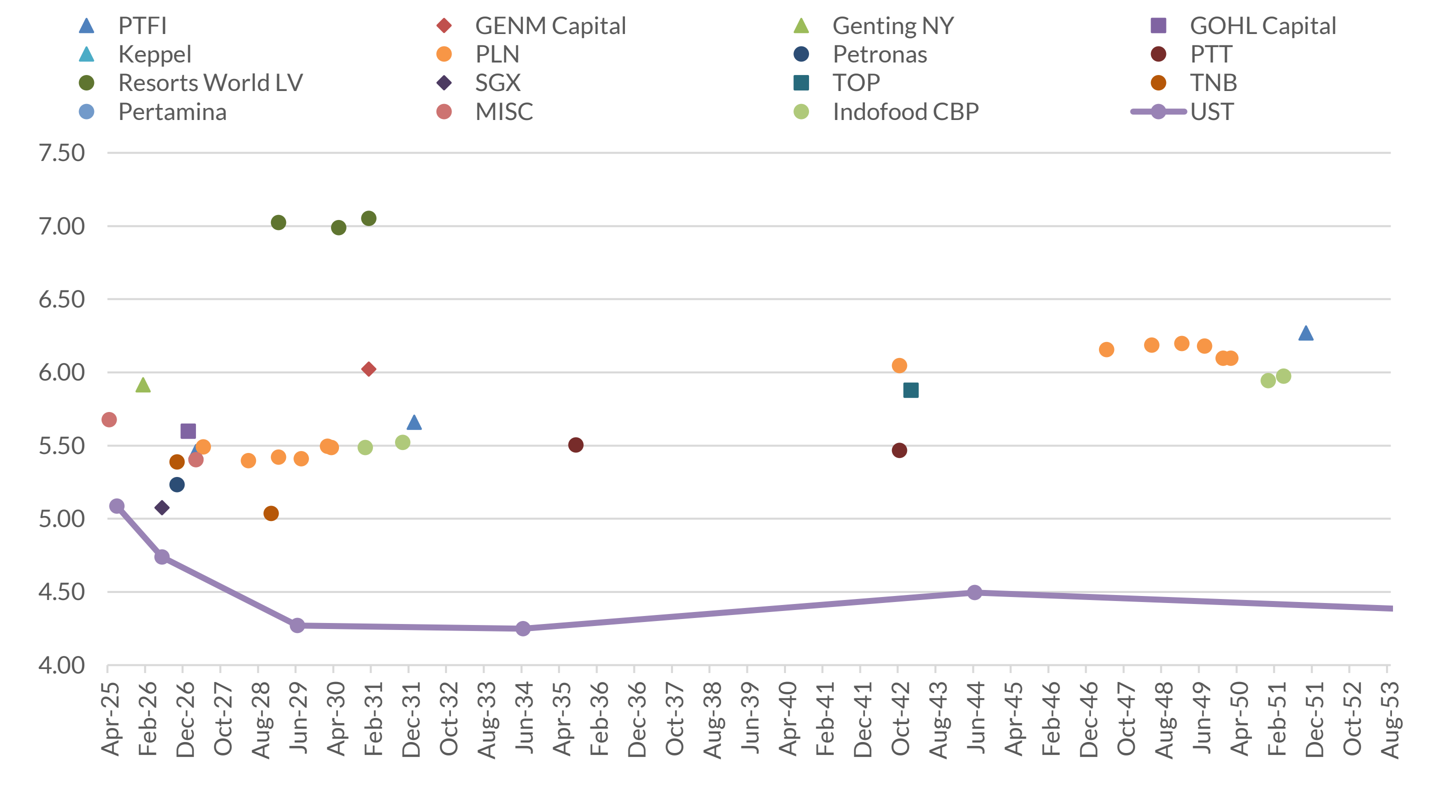
Issuer	Description & Outlook
Resorts World Las Vegas LLC (RWLV)	**We are keeping our Outperform call on Resorts World Las Vegas LLC (RWLV, BB+, S&P) given the still-attractive c.74bps spread against the BB+ benchmark**. Meanwhile, we downgrade Genting New York (GENNY, BB+, S&P) to Market Perform, as we think valuations are fair post rally. Since our Overweight call on RWLV and GENNY in August 2023, both names benefitted from the spread tightening due to the US HY rally as well as idiosyncratic factors. RWLV generated total returns of between 12.6% to 14.5%, while GENNY recorded returns of between 8.5% to 9.1%; both significantly outperformed the Bloomberg USD HY index return of 6.61%. In FY23, Genting Bhd's US and Bahamas operations (which includes RWLV) reported a jump in revenue and earnings, recording a higher 16% YoY revenue to MYR5.97bn and higher 46% YoY adjusted EBITDA to MYR1.4bn. **Meanwhile, we downgrade GENNY's to Market Perform as spreads are now at fair levels post the recent rally;** in addition, uncertainty could surround the credit profile of the company as there could be potential for new major capex as GENNY is among the few favoured for a new casino license in New York, although financial support from the parent company is expected. In FY23, Genting Malaysia Bhd's US and Bahamas operations (which includes GENNY) reported improved revenue and earnings, reporting a higher 13% YoY revenue to MYR1.88bn and higher 15% YoY adjusted EBITDA to MYR550m. We think Fitch's negative rating watch on GENNY is immaterial as their rationale is due to potential change in implied financial support from its parent entity.
TNB Global Ventures Capital Berhad (TNBGV)	**Market Perform TNB Global Ventures Capital Berhad (TNBGV) (BBB+, S&P).** We like TNBGV's strong balance sheet and the 10/26 bond over the 11/28, given the higher spread at the front end. Tenaga Nasional Berhad (TNB) is the obligor of the TNBGV SPV that issues USD bonds. TNB is Malaysia's largest vertically integrated electric utility in Malaysia and produces most of the power in Peninsular Malaysia. Its generation mix is mostly made up of coal (56%) and gas (38%) as of September 2023. The Malaysian Government is highly likely to support TNB as the company plays a core role in the country's power utility. **In FY23, net profit fell 20% YoY due to a weaker domestic generation arm that turned to loss of MYR527m, larger general expenses and fuel margin losses.** This is despite the higher electricity sales and lower tax from the absence of prosperity tax. In 4Q23, net profit fell 32% QoQ due to increased opex, offsetting its positive fuel margins and lower finance costs. Electricity demand in FY23 rose 3.6% YoY mainly due to stronger commercial (+7.6% YoY) and domestic (+6.7% YoY) segments, while the industrial segment fell -2.6% YoY. TNB's strong balance sheet is supported by its high cash holdings of MYR21bn, while its cash flow from operations interest coverage ratio is high at 6.9x in FY23. The company's debt-to-equity ratio is at 1.52x due to drawdown of additional borrowings for working capital and capex needs. Due to the business' capital-intensive nature, there is risk that TNB's gearing will increase as it plans to venture into the overseas markets such as South Korea, Taiwan and Australia.
Pertamina Geothermal Energy Tbk (PGEO)	**We are Market Perform on Pertamina Geothermal Energy Tbk (PGEO) (Baa3) as its strong credit metrics are reflected in its bond yield return. PGEO is one of Indonesia's top geothermal independent power producers (IPP) with total installed capacity of 1,877MW.** It is indirectly 75% owned by Pertamina (Persero), a state-owned entity, while Moody's view is that its ultimate parent will provide the energy company support in times of stress due to strong operational linkages and its strategic importance. **In 9M23, net profit rose by 20% YoY to USD134m due to a 34% YoY increase in foreign exchange gains, while the blended average selling price increased by 1.6% YoY to USD8.16 cents/kWh.** Blended cost of production rose by 5.4% to USD4.10 cents/kWh. The outage rate fell to 0.44% from 1.06% in 9M22. The debt-to-equity ratio improved to 0.38x due to a large increase in cash. PGEO's capex is expected to rise as it plans to increase its geothermal capacity by 600MW by 2027; this will be mainly funded by additional debt.
Perusahaan Gas Negara PT (PGAS)	**We are Underperform on Perusahaan Gas Negara PT (PGAS) (Baa2) given the compressed 5/24 yields.** PGAS is a gas transmission & distribution company with over 90% market share in Indonesia. The company has around 5.8k km of pipelines with gas distribution volume of 900bn British thermal units per day. An international rating agency assigned a one-notch rating uplift based on the high likelihood of support from the Government through PGAS's parent, Pertamina Persero PT, due to PGAS' strategic role in the sector and Indonesia. Moreover, the Government owns a golden share in the company. **In 9M23, net profit dwindled to 57% YoY to USD198m due to higher gas costs and lower distribution margins.** The company faces challenges in passing on costs to protect its margins due to the law enacted in 2017 which gives the Ministry of Energy and Mineral Resources the power to determine the gas price based on a formula that caps PGAS's returns. In late 2023, PGAS' proposal to raise industrial gas pricing for unregulated gas users was rejected by the Government. The company's CFO/debt service is strong at 4.6x, while the debt-to-equity ratio is low at 0.32x.
Indofood CBP Sukses Makmur Tbk PT (ICBP)	**We are on Market Perform on Indofood CBP Sukses Makmur Tbk PT (ICBP) (Baa3) as the bond yield returns are similar to its peers, while there is risk that its high USD debt service would affect its earnings.** ICBP is based in Indonesia and is a packed food products manufacturer. Products that it manufactures include instant noodles, snacks, dairy products, seasonings and beverages. The manufacturer has a production capacity of 35bn packs of instant noodles per year, with 80 factories across Indonesia, Malaysia, South Eastern Europe, Middle East and Africa. Around 70% of its revenue is from Indonesia and from its instant noodles product segment. **In 9M23, net income surged 113% YoY to IDR7.1bn as sales of its noodles (+5% YoY) and snack food (+17% YoY) segments jumped.** The manufacturer's revenue in Indonesia fell 1.5% YoY but was offset by its 15% YoY increase sales in other countries. Pinehill, which was acquired by ICBP in 2020 for IDR43.5trn, saw strong growth of 11% YoY. The movement of USD/IDR would impact the

	company's performance as 95% of the acquisition of Pinehill was funded by USD debt borrowings. ICBP's debt-to-equity ratio remains stable at 0.7x, while its CFO/interest is strong at 14.3x.
IOI Corporation Berhad (IOI Corp)	**We maintain Outperform on IOI Corporation Berhad (IOI) (Baa2, Moody's) given the 5/31's attractive spread over the Asian BBB curve.** The company issues its bond through its SPV, IOI Investment L Berhad. IOI is one of Malaysia's biggest palm oil companies with a total oil palm area of around 174k hectares, with an average age of 14 years as at June 2023. The company also has downstream manufacturing facilities like refineries, oleochemical, and specialty fats manufacturing plants. Moreover, IOI owns 32% of Bumitama Agri (AA2), a pure upstream player in Indonesia. **In 1Q23, net profit rose 77% YoY to MYR304m and attained a CPO price of MYR3,789/tonne (-16% YoY), FFB production rose to 734k MT (+10% YoY), while CPO production increased to 165k MT (+13% YoY).** Credit metrics remain strong with a low debt-to-equity ratio of 0.32x. With the confirmation of *El Nino* that is expected to last through 1H24, pure planters such as IOI are expected to benefit from the CPO price upcycle. We expect to see the impact of price upcycle from *El Nino* in late 2Q24 and we project CPO prices to reach MYR3,900/tonne for FY24F.
Thai Oil PCL (TOP)	**We maintain Market Perform on Thai Oil PCL (TOP) (BBB-) and Thaioil Treasury Center Company Ltd (TTCC) as their pickup is low compared to their USD US Energy BBB- peers.** TTCC bonds are guaranteed by TOP. TOP is Thailand's largest oil refiner with capacity of 275k barrels per day (bpd) and has long-term feedstock supply and product off-take agreements with subsidiaries of PTT PCL. As TOP is strategically important to its parent PTT's (48% stake) downstream oil business, it is likely to receive extraordinary support from PTT, which is 51% owned by the Thai Government. **In 3Q23, net profit rose by 869% QoQ to THB10.8bn as its oil refinery business contributed higher due to the gross refining margin increasing 176% QoQ to USD12.4/bbl.** The debt-to-equity ratio was little changed at 1.18x. Performance in 4Q23 is expected to be weaker as the gasoline crack spread in October fell 51% MoM to about USD6/bbl due to soft gasoline demand following the end of the US driving season, which is peak demand season for gasoline.
Pertamina Persero PT (Pertamina)	**We are Market Perform on Pertamina Persero PT (Pertamina) (BBB) as its yields provide little pickup compared to the US Energy AAA curve.** Pertamina is the largest integrated oil and gas player in Indonesia and is state-owned with 100% ownership by the Indonesian Government. This reflects the high likelihood of extraordinary support from the Government. Pertamina is strategic to Indonesia as it produces c.45% of the country's fuel requirements, and the fuel that it sells is at a subsidised priced mandated by the Government while receiving subsidy reimbursement. Pertamina produces an average of 967 thousand barrels of oil equivalent per day (kboepd) and to plans achieve 1,000 kboepd per day by 2030. To achieve this, it plans to drill more than 800 development wells and 29 exploration wells in 2023. The higher kboepd will contribute to higher revenue over the years. **In FY22, revenue rose 48% YoY to USD3.8bn as oil prices were strong, product prices increased and both upstream and downstream businesses improved.** Furthermore, oil production increased 8% YoY, while sales volume increased 5% YoY. FY22 capex of USD4.5bn is mainly due to upstream investment and refinery investment. Pertamina plans to spend USD65bn from 2023-2027 to expand its drilling production and refinery capacity. Historically, the company's capex is lower than the budgeted amount.
MISC Berhad (MISC)	**We are Outperform on MISC Berhad's (MISC) (BBB) USD bonds that it issues through its SPV MISC Capital Two (Labuan) Ltd and guarantees**. The yield returns are good as it is above the USD US Corporate BBB curve. MISC is an international energy shipping company with business activities in liquefied natural gas & petroleum shipping and offshore & heavy engineering, and is 51% owned by Petroliam Nasional Berhad, a state-owned integrated energy entity. The company operates 12 offshore floating facilities and 97 chartered-in vessels, and has a combined capacity of more than 13m dead weight tonnage. International rating agencies view that the parent will provide extraordinary support to MISC due to the close integration between them. The Mero 3 project is at 89% completion as at end-2Q23, and upon commissioning in 2Q24 will provide growth to its charter revenue, improve FCF and provide stable cash flow for the next 22 years. CFO rose to MYR3.1bn mainly due to a one-off prepayment received from a charterer within the gas assets and solutions business. Meanwhile, the debt-to-equity ratio remains low and improved to 0.45x in 1H23 due to debt repayments made. MISC's performance is significantly exposed to the volatility of freight indexes as most of its contracts are linked to it.
Keppel Corporation Ltd (Keppel)	**We are Outperform on Keppel Corporation Ltd (Keppel) (Unrated) as the 6/25 bond yield of 5.87% is above the USD Corporate A curve. Keppel is 21% owned by Temasek and has segments in energy & environment, urban development, connectivity and asset management which made up 63%, 14%, 20% and 3% of 2022 revenue respectively.** In 1H23, net profit excluding a one-off divestment gain of SGD3.3bn grew 2.5% YoY to SGD445m mainly due to better performance in infrastructure from an integrated power business. Keppel gained SGD3.3bn from disposal of its offshore & marine business as it is shifting to remove its conglomerate structure and become a global alternative real asset manager with deep operating capabilities in infrastructure, real estate and connectivity. Its CFO/interest weakened to -1.6 as interest expense rose to SGD148m with an average interest cost of 3.53%.
Singapore Exchange Ltd (SGX)	**We are Outperform on Singapore Exchange Ltd (SGX) (AA) as the SGXSP 9/26 gives an additional 30 plus bps above similar rated bonds. SGX enjoys a monopoly in Singapore as it is the sole equities exchange, equities clearinghouse and central depositor, while it has 18 offices globally apart from Singapore.** International rating agencies view the exchange to have a high probability of support from the Singapore Government due to its strategic and systematic importance in the country. FY23 revenue rose 8.7% YoY mainly due to the fixed income, currencies and commodities (FICC) business that grew 30.6% YoY. The company's debt-to-equity ratio improved to 0.43x while capex is expected to increase to SGD75-80m in FY24 due to a SGD8m deferment in FY23.
PTT PCL	**We are Outperform on PTT PCL (PTT) as its 12YR bond yields give an additional pickup of 20bps against its USD US Energy BBB+ peers.** In 1H23, its net profit fell -48% YoY to THB47.96bn mainly due to higher stock losses and lower gross margin. Meanwhile, the net debt-to-equity ratio improved to 0.48x in 2H23. The recent jump in crude oil prices could support PTT's earnings in the short to medium term as earnings from upstream oil & gas production will increase while downstream activities will record inventory gains. The group enjoys credit uplift due to its strategic importance to the energy sector and close link to the Government of Thailand. **PTT operates as an oil, gas and petrochemical company based in Thailand.** The company produces, transports, and sells natural gas, crude oil, lubricants, aviation and marine, and petrochemical products. PTT's strategic importance to Thailand's energy sector and 63.3% state ownership indicates a high likelihood of extraordinary support from the Thai Government.
Perusahaan Listrik Negara Persero (PLN)	**We are Outperform on Perusahaan Listrik Negara Persero (PLN) (BBB) as its USD bond offers pickups of 5.5% to 6.6 % that are above its corporate peers, especially at the long end.** International rating agencies view the company's credit as equal to that of Indonesia due to its importance in providing a key public service, its strong linkage to the state and expectations of likelihood of sovereign support. PLN is a 100% government-owned integrated electricity utility company, with a monopoly position in Indonesia's

	electricity transmission and distribution, and dominant position in power generation. In return for meeting the country's public-service obligation, PLN receives support from the Indonesian Government through electricity subsidies payments. However, there is an average gap of 17% in actual and budgeted subsidy paid, while there have been delays in the actual payment of the subsidies in recent years. The irregularity of the timing of payment could strain the company's credit profile. PLN's credit metrics may strain as large capital expenditure is required for its plans to increase to a 14.3-gigawatt capacity over the next 10 years. In 1H23, its debt-to-equity ratio improved to 0.37x from 0.41x in 2022, while EBIT fell to IDR32.3tn from IDR36.2tn in 1H22 over the same period due to a lower EBIT margin of 13.8%.
PT Freeport Indonesia (PTFI)	**We are Outperform on PT Freeport Indonesia (PTFI) (BBB-) as its bond yields are well above the USD Indonesia Corporate curve.** PTFI has exclusive rights to mine and operate the Grasberg mine in Indonesia, which is the largest gold and copper mining deposits globally in terms of production and reserves. The Indonesian Government owns 52% of the company, while the remaining 48% is owned by an American mining company, Freeport-McMoRan Inc. The copper and gold reserves at Grasberg mines are estimated to have a reserve life up to 2041 if PTFI mines within its planned production of 1.6bn pounds of copper annually. PTFI's performance is exposed to metal prices as its revenue is mostly from copper, followed by gold sales. Copper and gold prices remained well above its pre-pandemic levels at c.USD374/lb and USD1,900/oz respectively. PTFI's EBIT margin is high at 54% in FY22 due to its low production cost. Its low debt/EBIT of 0.5x gives it room to take up more capex and build more smelters.
Petroliam Nasional Berhad (Petronas)	**Petroliam Nasional Berhad** (Petronas) (A2, Moody's) is a leading multinational, integrated energy company with global presence in over 50 countries, and a strategic to Malaysia state-owned entity. International rating agency Fitch assesses Petronas' standalone credit profile to be stronger than that of its shareholder, **meaning its implied rating is at least A1**. The company benefits from exclusive rights to Malaysia's oil and gas reserves by law. As of 1 January 2023, Petronas' entitlement to proven oil and gas reserves was 6.78bn barrels of oil equivalent, with around 53% located in Malaysia. The company's strong financial metrics and robust liquidity as of 1Q23 are supported by a sturdy balance sheet profile with a robust net cash position of MYR110bn and stable debt-to-equity ratio of 0.29x. Petronas' CFO/debt-service ratio is at 4.5x. In 1H22, the company reported higher EBITDA of 80% to MYR82bn due to high oil prices. The company's bonds are trading well above USTs but tighter than the Bloomberg USD Asia materials curve with average ratings of A2; as such, we are **Market Perform** on Petronas USD bonds.
GENM Capital Labuan	We are **Outperform on GENM Capital Labuan** (BBB- S&P), given the meaningful 80 bps spread over the USD BBB- curve. We are also **Outperform the speculative grade Genting New York LLC** (GENTNY) (BB+, S&P), and **Resorts World Las Vegas LLC** (RWLV) (BB+, S&P) given the attractive spread of around 140bps over the USD BB+ curve. We are **Market Perform on GOHL Capital Ltd** (BBB, Fitch) given that yields are near the BBB- curve.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 55: Relative value – Our recommended Asia USD corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Prices as of 21 June 2024

Indonesia – IDR bonds

- **Corporate profits are expected to be robust in 2024, according to Bloomberg estimates. Corporate earnings per share, as represented by MSCI Indonesia, are expected to grow by 22% YoY in 2024 after falling by 15% in 2023.** Meanwhile, debt-to-equity stood at 51% at end-2023, an improvement from 53% at end-2022.
- Outstanding corporate bond issuers are distributed widely in many sectors, with financial constituting the largest share (43%), followed by materials (21%) and industrials (14%).

Figure 56: Domestic outstanding IDR corporate bonds, as a % of total outstanding

Sector	IDRmn	%
Financials	204,509,011	43.03%
Materials	98,230,093	20.67%
Industrials	66,639,444	14.02%
Utilities	28,731,685	6.05%
Communications	20,396,280	4.29%
Consumer Discretionary	17,977,266	3.78%
Consumer Staples	13,247,323	2.79%
Energy	22,973,360	4.83%
Health Care	2,571,000	0.54%

Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 21 June 2024

- Indonesian corporate bonds offer the highest absolute yields under our regional coverage. **Our strategy for Indonesian corporate bonds is to focus on strategically important government-related entities (GRE), as they offer sovereign support together with some pickup over IndoGBs**. Operation Twist by BI lifted front-end yields and offers attractive short-term yields, helping to reduce duration risk.
- The corporate bond issuers we like are **Indah Kiat Pulp & Paper, Bank Rakyat Indonesia, Telkom Indonesia, Perusahaan Listrik Negara, PT Chandra Asri, Wijaya Karya and Merdeka Copper and Gold**.

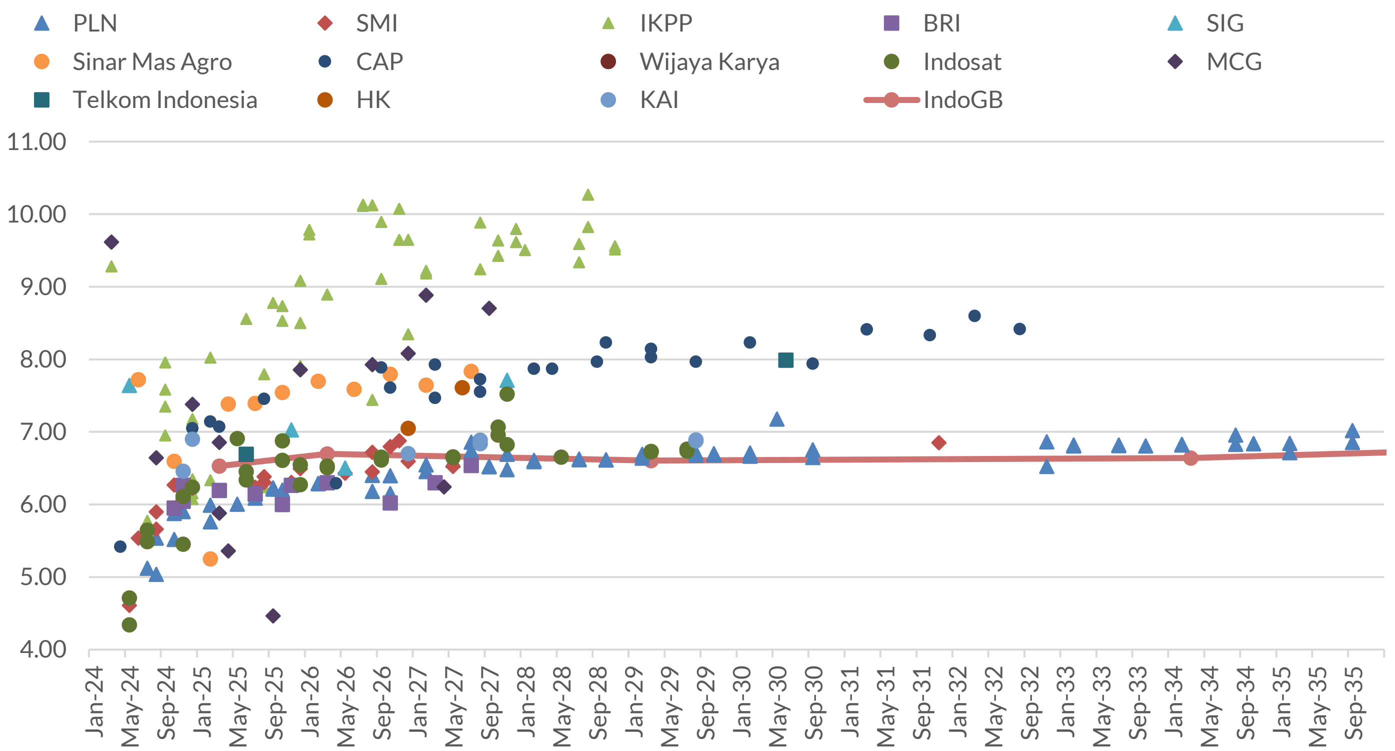
Figure 57: Issuer description and outlook

Issuer	Description & Outlook
Telkom Indonesia (Telkom)	**We like Telkom Indonesia (AAA, PEFINDO) (TLKM) longer end bonds, 6/30 and 6/45 bonds given the additional c.70-100bps pickup compared to IndoGBs.** TLKM is a good entry to the high-quality IDR space with 52% of the company owned by the Government of Indonesia. The telco is the largest and most dominant integrated telecommunications company in the country. The company also holds 72% of Dayamitra Telekomunikasi, which is Indonesia's largest tower company with over 35k towers (around 36% market share). **In 1Q24, net profit fell 19% QoQ and rose 6% YoY. Total revenue for the quarter fell 1.4% as better revenue in its legacy (50% QoQ) and interconnection (6% QoQ) segments were offset by its other segments.** Average revenue per user (ARPU) fell QoQ across all its segments – cellular (-2.9%), data (-12.2%) and IndiHome (-4.4%), resulting in ARPU contracting 12.2% QoQ (6% YoY). IndiHome's ARPU is expected to continue to fall in anticipation of another series of promotions and discounts to expand market share. TLKM's credit metrics remain strong with high cash holdings of IDR31trn and stable debt-to-equity ratio of 0.4x, while cash from operations interest coverage is high at 13.2x.
Perusahaan Listrik Negara Persero (PLN)	**We recommend to tactically overweight IndoGBs versus Perusahaan Listrik Negara Persero (PLN, Baa2) given the recent spike in Indonesia sovereign yields.** Markets have moved against IndoGB due to the recent rally in USD rates. Meanwhile, corporate IDR bonds have yet to catch up with the rising IndoGB yields given its relatively lower liquidity and sensitivity to global rates. PLN is a 100% government-owned integrated electricity utility company, with a monopoly position in Indonesia's electricity transmission and distribution, and dominant position in power generation. International rating agencies view PLN's credit as equal to that of Indonesia due to its importance in providing a key public service, its strong linkage to the state and expectations of a likelihood of sovereign support. **In 9M23, its debt-to-equity ratio improved to 0.37x from 0.41x in 2022, while net profit rose 63% YoY to IDR25.99trn.** PLN's credit metrics may strain as large capital expenditure is required for its plans to increase 14.3-gigawatt capacity over the next 10 years. In return for meeting the country's public-service obligation, PLN receives support from the Indonesian government through electricity subsidies payments. The average gap of actual and budgeted subsidy paid in the past five years is at 11%, down from the recent high of 17% in 2020, while there have been delays in the actual payment of the subsidies in recent years. The irregularity of the timing of payment could strain the company's credit profile.
Sinar Mas Agro Resources & Technology (SMAR)	**Outperform on Sinar Mas Agro Resources & Technology (SMAR, AA-, Stable, PEFINDO); we prefer 2026 and beyond given the higher pickup against IndoGBs.** Closely owned by Golden Agri Resources, SMAR and its subsidiaries develop oil palm and tea plantations. The company produces and trades crude palm oil, palm kernel oil, tea, and refined palm products such as cooking oil and margarine. Sinar Mas also manufactures packaging products such as bottles and caps as well as provide management services. A strong cash flow coverage ratio and improving debt ratios underpin its credit profile. **In FY23, revenue normalised (IDR66.5trn vs IDR75trn in FY22, -11%) from a bumper year in FY22 but the refiner's margins (10.2% vs 17.7% in FY22) were impacted by rising CPO acquisition cost due to competition from low seasonal supply**; the group is highly

	dependent on palm oil sourced from external parties. Net income fell to IDR0.91trn from IDR5.5trn (-83% YoY). Nevertheless, key credit metrics improved YoY with net debt-to-equity trending lower to 0.76x from 0.82 previously, and CFO/debt service improved from 1.4x to 1.5x. PEFINDO highlights that the rating could be lifted if its conservative capital structure is sustained and revenue and EBITDA continue to exceed targets.
Merdeka Copper Gold Tbk PT (MCG)	**Market Perform on Merdeka Copper Gold Tbk PT (MDKA) as the front-end yields are compressed while the longer end offers better pick-up against IndoGB.** The company mines gold, copper, minerals and metals. PEFINDO withdrew its rating on MDKA in March 2024 following the repayment of Continuous Bond IV Merdeka Copper Gold Phase II Year 2023. Before the rating withdrawal, MDKA was assigned A+ by PEFINDO. **In FY23, revenue jumped 96.2% to USD1.7bn due to strong gold performance and reflection of a full year of nickel operations.** MDKA turned to net loss of USD21m as cost of revenue cost rose 121% YoY following the acquisition of a 60% interest in the HNMI nickel matte converter and successful commissioning of the ZHN smelter. Its average realised price of gold rose 7.5% YoY to USD1,939/oz, while copper and NPI decreased 2.8% and 19.1% YoY to USD8,578/tonne and USD13,536/tone, respectively. Nickel matte and limonite is at USD15,592/tonne and USD17/wmt, respectively. Debt-to-equity improved to 0.4x.
Indosat TBK PT (ISAT)	**We are Market Perform on Indosat TBK PT (ISAT) (AAA, PEFINDO) and we prefer 2026 and above given the better pickup over IndoGBs.** ISAT is among the top telecommunication companies in Indonesia, providing cellular, multimedia, internet, and telecommunication services. **In 9M23, ISAT's normalised net profit, excluding its one-off gain from tower sale, jumped 254.8% YoY to IDR2,215bn as all its businesses performed well.** Its cellular, MIDI and fixed telecom business revenue increased 7.8%, 10.8% and 26.8% YoY, respectively. Normalised EBITDA margin grew 5.1bps YoY to 46.7%, average revenue per user (ARPU) grew 2.5% YoY, while data traffic rose 16.5% YoY. Its net debt-to-equity ratio is at 1.46x, while its EBITDA-to-debt service ratio is at 1.4x.
Indah Kiat Pulp & Paper Tbk (IKPP)	**We maintain Outperform on Indah Kiat Pulp & Paper TBK (IKPP) (A+, PEFINDO) due to its strong credit metrics, while its medium-duration bonds are attractive.** IKPP is a leading pulp and paper manufacturer globally that produces pulp, tissue, cultural & industrial paper and packaging. It has mills in Sumatra and West Java of Indonesia. **In 9M23, its net profit fell significantly by 50% YoY to USD321m as cultural paper & pulp and industrial paper, tissue & others segments' gross profits fell 18% and 54% YoY, respectively.** This was mainly due to the 10% and 27% YoY decline in average selling price (ASP) of pulp and industrial paper & tissue. The lower ASP was primarily due to a dip in export sales, pulp and wood prices. The company has stable credit metrics with a debt-to-equity ratio of 0.53x and high cash balance of USD2.69bn. IKPP plans to increase its total production capacity by 3.9m tonnes/year by building a new factory in Karawang, West Java.
Hutama Karya Persero PT (HK)	**We are Market Weight on Hutama Karya Persero PT (HK) (AA-, PEFINDO) as the yield returns are relatively on par with IndoGB.** However, the yield returns of the three 2025-2027 secured bonds are above 7.50%. HK is a state-owned construction company and toll road operator. There is high likelihood of government support due to the importance of HK's role in constructing the Trans-Sumatra toll road. This is evident with the Government injecting capital of IDR83.7trn since 2015 and IDR31.4trn in 2022. Under the presidential decrees, the Government is to provide an unconditional and irrevocable guarantee for loans used to finance the Trans-Sumatra project and it states that HK is the sole developer and operator of the 2,749km long Trans-Sumatra toll road project. The toll will be the longest toll road in Indonesia upon completion. The Trans-Sumatra toll road project consists of four stages and the first stage is expected to be completed by 2024. As at end-2022, 596km of the Trans-Sumatra project are in operation. **The Trans-Sumatra toll road made up 54% of HK's revenue in FY22 and is expected to continue being the major contributor to its earnings for the next few years.** The company's CFO/interest ratio remains low at 0.2x, while the debt-to-equity ratio is at 0.58x. HK is expected to rely on government support as internally generated funds are insufficient to fund the construction of the Trans-Sumatra project. However, credit risk is mitigated as 87% of HK's debt in FY22 is related to the Trans-Sumatra project that is government guaranteed.
Kereta Api Indonesia PT (KAI)	**We are Underperform on Kereta Api Indonesia PT (KAI) (AAA, PEFINDO) as its yields are unattractive with yields below the IndoGB.** KAI provides, regulates and manages rail transportation services in Indonesia and is wholly owned by the Indonesian Government. KAI is highly likely to receive extraordinary government support as its role is important to the Indonesia's railway system. Furthermore, its importance is reflected in a presidential decree that states KAI is to operate the Greater Jakarta Light Rail Transit (LRT) and Jakarta-Bandung High-Speed Rail (HSR) projects. Government support was evident in the past as the railway received a series of state capital injections of IDR17.7trn in 2015-2022. **In FY22, KAI turned to net profit as ridership rose 84% YoY to 284.6m following the easing of COVID-19 restrictions, while its freight transportation rose by an average 22% in 2022.** Despite the change in commuting patterns such as hybrid work arrangements, ridership is expected to improve as there are no longer any travel restrictions. The railway's freight transport will continue to be supported by the long-term contract to transport coal production from mining sites with Bukit Asam Tbk PT. The company's debt-to-equity is at 1.01x and is expected to continue to be highly leveraged as it takes more debt for several capacity expansion projects. 48% of KAI's total debt in FY22 is made up of syndicated loans on the Greater Jakarta LRT and they are government guaranteed. Any additional loans under the Greater Jakarta LRT would be automatically government guaranteed.
Semen Indonesia Group (SIG)	**We are giving an Underperform rating to Semen Indonesia Group (SIG) (rated AA+ by domestic rating agency) as its bond yields are lower than IndoGB.** The company mainly manufactures cement and its derivatives with a market share of c.50% in the domestic cement market. Its largest shareholder at 51% is the Government of of Indonesia, through the Ministry of State-owned Enterprises. SIG's net profit increased 11.1% QoQ as they managed to control costs despite a continued trend of slowing demand and high coal prices in 1Q23. In 1Q23, debt-to-equity remained low at 0.3x, while CFO/interest deteriorated to 1.6x.
PT Chandra Asri Petrochemical Tbk (CAP)	**PT Chandra Asri Petrochemical Tbk (CAP) (rated AA- by domestic rating agency) is an integrated petrochemical producer. It is a regional market leader in its sector, and serves both the domestic downstream industries and regional export markets in Indonesia.** Credit metrics for CAP are healthy with 0.0 net gearing and gross gearing of 0.5x at December FY22. Nevertheless, the company suffered losses in FY22 due to high input costs from volatile oil prices. However, yields are attractive as it offers between 6.0% to 8.5% for tenures from one year to nine years.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 58: Relative value – IDR corporate bonds

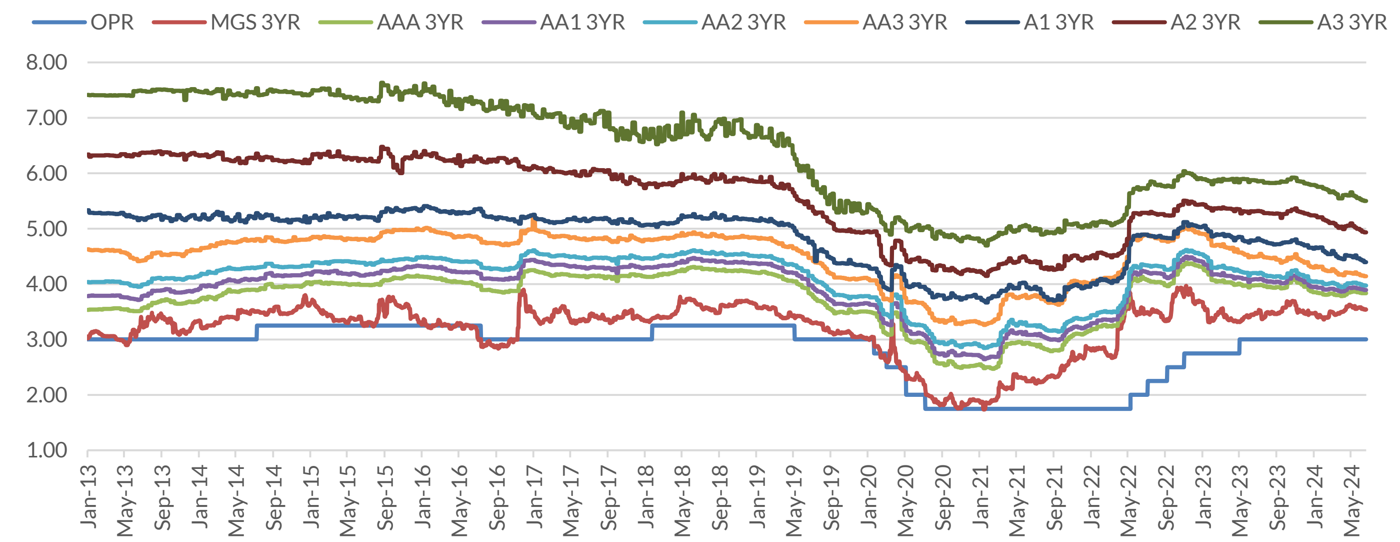


Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 21 June 2024

Malaysia – MYR bonds

- Corporate bond yields continued to tighten in 2024, in line with our expectations that demand for fixed income assets will outgrow net corporate bond issuance.

Figure 59: We think corporate bond yields have stabilised



Source: BNM, Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 June 2024

- **Corporate bonds' financial performance is expected to remain robust in 2024 with the broader FBM100 index forecasted to see normalised earnings growth of 28% in 2024, according to Bloomberg consensus.** Meanwhile, 1Q24 debt-to-equity stood at 93.9%, a slight improvement from 95.35% at end-2023.
- Malaysia's outstanding corporate bonds are concentrated in financial-related issuers (financial services, public administration and transportation and storage).

Figure 60: Domestic outstanding MYR corporate bonds, as % of total outstanding

Sector	MYRmn	%
Financial	210,976	29.74%
Public Administration	145,470	20.51%
Transportation and Storage	126,095	17.78%
Energy and Utilities	129,183	18.21%
Real Estate	39,435	5.56%
Consumer Discretionary	18,665	2.63%
Consumer Staples	12,680	1.79%
Communications Services	11,010	1.55%
Industrials	9,824	1.38%
Basic Materials	2,800	0.39%
Health Care and Social Work	1,605	0.23%
Information Technology	1,390	0.20%
Professional Services	250	0.04%

Source: BPAM, RHB Economics & Market Strategy
Note: Data as at 19 June 2024

- Our top picks are **UEM Sunrise, Golden Agri Resources, Malakoff Power, Malaysian Resources Corporation, PASB and IGB REIT Capital**
- Please refer to our commentary below and the relative value chart.

Figure 61: Issuer description and outlook

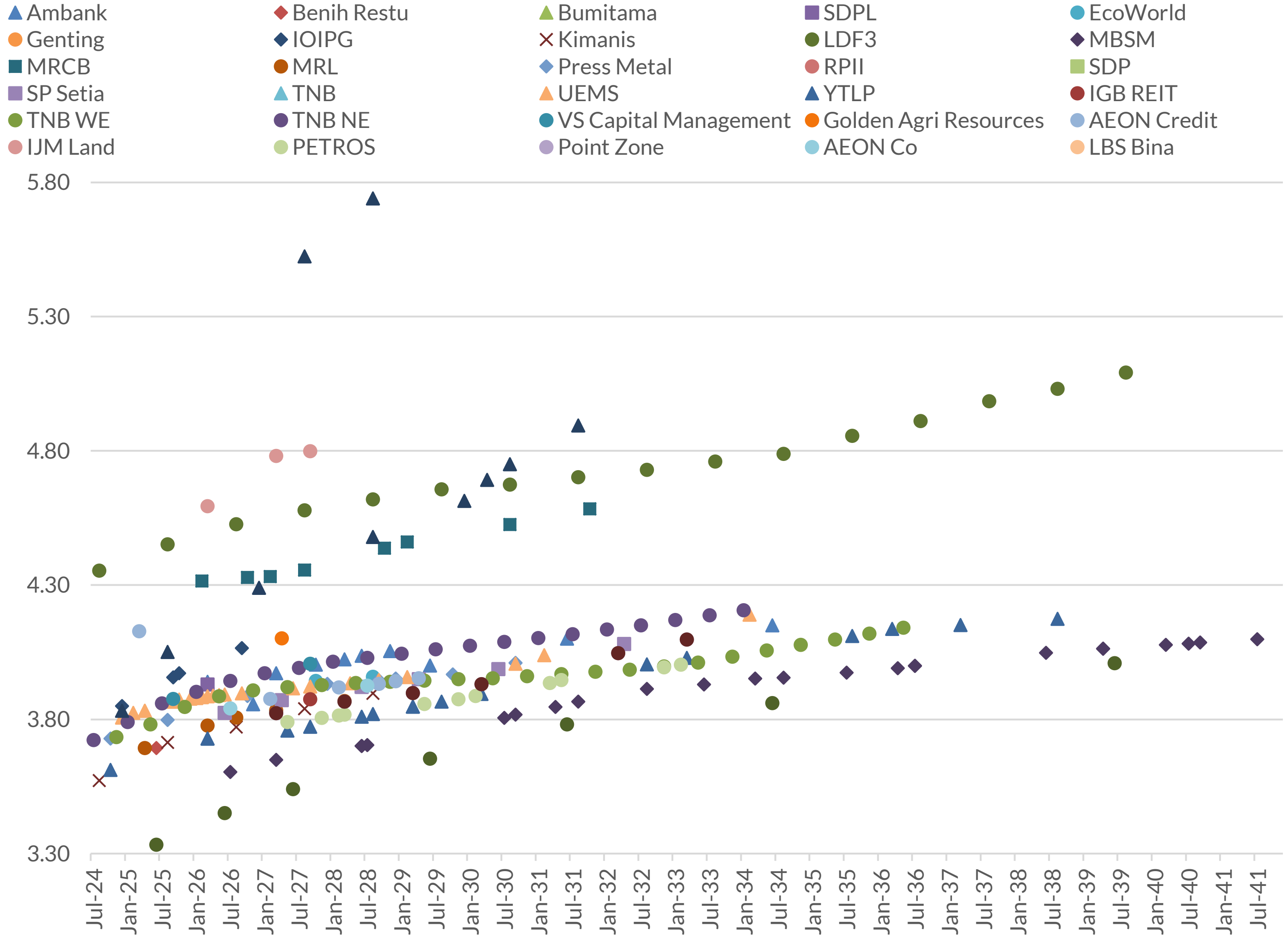
Issuer	Description & Outlook
Sime Darby Plantation (SDPL)	**We are Outperform on Sime Darby Plantation's (SDPL) (AA) callable 3/26 bond as its yield return of 3.94% gives good pick-up against its AA peers.** Recently, SDPL officially changed its name to Sime Darby Guthrie as a tribute to its founder Alexander Guthrie. SDPL is one of the largest integrated plantation companies in the world with both upstream and downstream activities and total planted area of 577,344 ha across Malaysia, Indonesia and Papua New Guinea/Solomon Islands as at end-June 2023. MARC gave SDPL a one-notch rating uplift on implicit support from parent Permodalan Nasional Berhad. **In 1Q24, net profit rose 6% QoQ and jumped 206% YoY to MYR211m. Downstream EBIT fell 26% QoQ as its margin fell to 3.4% from 3.9% in 4Q24.** FFB production rose 9% YoY, average CPO selling price was little changed YoY at MYR3,880/tonne, while average PK selling price increased 8% YoY to MYR1,940/tonne. Debt-to-equity ratio remains low at 0.30x, while cash flow remains healthy with high cash balance of MYR715m.
DRB-Hicom Bhd (DRB)	**MYR Bond: (5/6/24) We are Market perform DRB-Hicom Bhd (DRB), A+, perpetual A-, MARC), and we prefer the longer-end tenures as well as the perpetual given the attractive pick-up.** We think current yields reflect the improvements in its business and financial performance as well as the potential rating upgrade. The strong improvement in the automotive segment (Proton, Honda, Mitsubishi and Isuzu) has prompted its rating agency to upgrade its outlook to positive late last year. The postal division is expected to see improvements in FY24 after poor performance in recent years. The jump in the group's CFO in FY23 should be one-off, which was contributed by the aggressive expansion on term deposits from its banking division. DRB continued to moderate its borrowings, with the debt-to-equity ratio falling from 0.92x in FY22 to 0.77x in 1Q23 while net debt-to-equity also fell from 0.39x in FY22 to 0.19x in 1Q23.
Point Zone (M) Sdn Bhd (PZSB)	**We maintain Market Perform on Point Zone (M) Sdn Bhd (PZSB, AA-, MARC). PZSB's valuation near AA1 levels suggests markets have priced in the potential rating upgrade by MARC.** The funding vehicle for KPJ Healthcare Bhd (KPJ) saw strong earnings expansion in FY23 and is on track to achieve another record-high revenue and earnings this year; in addition, the ongoing asset recycling will lower leverage and offers new capex opportunities. In FY23, full-year revenue grew 19% to MYR3.42bn and net income grew 58% to MYR263bn. Meanwhile, capex remained flat at MYR237m on account of limited headroom for additional leverage. As of March 2023, net gearing stood at 1.19x, an improvement over 1.39x in end-2022.
AmBank Bhd (AMBK)	**We are Outperform on AmBank Bhd Tier-2 while reassigning its Senior sukuk to Market Perform given its relative outperformance.** AMMB Holdings Bhd (AMMB, Senior AA2, Tier-2 AA3) reported FY23/24 full-year results with a flat net revenue of MYR4.5bn (-0.0% YoY) and net income of MYR 1.87bn (+7.7% YoY). Capital ratios strengthened with CET-1 at 13.7% versus 12.8% in FY23/24 and total capital ratio at 16.9% versus 16.0% previously. Our analysts project loan growth to accelerate in FY25 as management targets loan growth of 1 – 1.5x of Malaysia GDP while has plans to beef up its net interest margin (NIM), which saw a 28bps compression in FY23/24. The group's GIL ratio trended higher to 1.7% from 1.5% a year ago largely due to a single corporate account.
Mah Sing Group Bhd (MSGB)	**We maintain Outperform on Mah Sing (MSGB, non-rated) given the attractive relative YTM together with the strong credit metrics versus its peers.** Although unrated, we assess MSGB's rating to be equivalent to be AA2 on account of its healthy credit metrics. The company is an established property developer with projects in Klang Valley, Johor and Penang, which provides sufficient headroom for debt expansion if required to fund land acquisitions, capital expenditures and investments to drive business growth. **In 4Q23, revenue rose 4.2% QoQ on the back of stronger sales from completed and nearly completed projects.** Unbilled sales mildly decreased to MYR2.33bn from MYR2.42bn as at 3Q23. Unsold completed inventory decreased to MYR529.7m versus MYR537.1m in the previous quarter. Net debt-to-equity ratio improved to 0.08x from 0.13x in 3Q23 due to better cash balances and cash flows from completion of numerous projects. MSGB's high cash balance, strong cash flow and low gearing ratio gives it sufficient headroom for debt expansion if required to fund land acquisitions, projects, capital expenditures and investments to drive business growth.
SP Setia Bhd (SPSB)	**Market Perform on SP Setia Berhad (SPSB) (AA) based on its tight yield spread from its AA peers and strong balance sheet.** SPSB is the largest developer by revenue in Malaysia with a sizeable landbank of 7,022 acres (63% in Klang Valley). Most of its projects that are priced below MYR1m recorded take-up rates of above 90%. The company also has strong notable shareholders, namely Permodalan Nasional Berhad (26.0%), Amanah Saham Bumiputera (24.7%), Kumpulan Wang Persaraan (8.8%) and EPF (5.8%). **In FY23, SPSB's revenue fell slightly by 2% YoY due to the completion of its Daintree Residence project in Singapore in FY22, while it saw better sales for its Malaysia and Australia operations.** In 4Q23, revenue grew 28% QoQ due to the handover of its UNO Melbourne project, while EBIT margin rose 26.5% from 15.4% in 4Q22, driven by land sales and cost savings from project accounts finalisation. Unsold inventory rose 2.9% QoQ to MYR1.77bn, while unbilled sales fell 16.6% QoQ to MYR5.64bn. The debt-to-equity ratio improved to 0.49x, while net interest expense fell 13% QoQ as SPSB plans to lower its borrowings to MYR9.4bn in FY24 from MYR10.2bn in FY23, through land sales. Debt could ease further as SPSB is looking to expand its industrial developments that could drive land disposals or JVs.
UEM Sunrise Bhd (UEMS)	**We maintain Outperform on UEM Sunrise Bhd (UEMS) (AA-) due to its attractive YTM and our stable view on the property sector.** In addition, the recovery in the Johor property sector will bode well for the company, although gearing could rise in the near term to fund developments. UEMS is the property development arm of UEM Group Bhd that is 100% owned by Khazanah. MARC Ratings assigns a one-notch rating uplift based on Khazanah's ownership and implicit parental support. **In FY23, UEMS's net profit fell 5.9% YoY due to lower development revenue and higher land sales in FY22.** In 4Q23, net profit shot up by 228% QoQ, while developed land sales jumped 249% QoQ. EBIT margin rose to 22.9% from 13.6% in the previous quarter. Unsold properties fell by MYR8m for the quarter to MYR217m, while unbilled sales was little changed for the quarter at MYR2.65bn, which would provide earnings visibility over the next two years. The debt-to equity ratio remains stable at 0.60x. As of August 2023, its existing projects have a combined GDV of MYR4.6bn, while the landbank is at 8,440 acres with 92% in Johor. The majority of its current and upcoming projects are in Johor and will benefit from the revival of Iskandar Puteri, Johor and the KL-Singapore High-speed Rail.

Aeon Credit Service (M) Bhd (ACSB)	**We are Market Perform on Aeon Credit Service (M) Bhd's (ACSB)(AA3/A1, Stable) Senior and Subordinated sukuk.** ACSB's sukuk yields are tight against similarly rated peers in the financial sector, signifying investors' confidence in the lending company. The leading consumer financier boasts industry-leading net interest margins in relation to its exposure to its higher-risk lending profile. Expectations of extraordinary support from its ultimate parent, AEON Co., Ltd, also underpins the financial flexibility attributed to ACSB. **Its recent third financial quarter ended November 2023 saw mixed results with revenue rising by 3.1% QoQ to MYR486m while profit before tax fell by 30% QoQ to MYR111.4m.** Impairment losses crept higher by 51.6% QoQ to MYR182.8m. Gearing improved to 3.3x from 3.4x in FYE2/22, while NPLs saw an uptick to 2.73% from 1.75% from a year ago.
Golden Agri Resources (GGR)	**We maintain our Outperform call on Golden Agri Resources 4/27 (GGR) (AA2) issued under Golden Assets International Finance Ltd).** We think yields are attractive given the company's status as the largest plantation company in Indonesia. While GGR is based in Singapore, it operates mainly in Indonesia. The company is involved in the cultivation and harvesting of palm oil, as well as in refining, processing, and marketing palm oil products. **In FY23, net profit normalised 73% YoY to USD198m from a bumper year in FY22, while core net profit fell 72% YoY to USD284.3m.** This was mainly driven by the higher effective tax rates of 31% in 2H23 and higher unit costs that rose 0.6% YoY to USD325/tonne. GGR guided that unit costs will fall 3-5% YoY to around USD310/tonne in 2024. Its fresh fruit bunches (FFB), crude palm oil (CPO) and palm kernel (PK) production all fell by 4.5%, 4.1% and 3.6% YoY, respectively. Meanwhile, its FFB and CPO yield per hectare fell 3.0% and 1.9% YoY. The debt-to equity ratio remains healthy at 0.59x, while cash from operation interest coverage is at 2.5x.
IJM Land Bhd (IJML)	**We are Market Perform on IJM Land's (IJML) perpetual sukuk (A2). Although yields are below-benchmark, the credit quality is underpinned by a subordinated guarantee by IJM Corporation (IJMC, AA3).** IJMC extends an unconditional and irrevocable subordinated guarantee to IJML. IJML was previously listed on the Main Market of Bursa Malaysia before becoming a wholly-owned subsidiary property arm of IJMC through the privatisation which was completed in March 2015. Constructions activities are taken by IJMC, while its property developments are mostly under IJML. **IJMC's 9MFY24 net profit rose 118% YoY, while core net profit increased 34% YoY.** This was mainly due to better-than-expected performance in the property division that saw its profit before tax (PBT) rise 97% YoY as its work in progress for ongoing projects with higher profit margins were good. PBT of its industrial segment increased 17% YoY due to higher deliveries of piles and ready-mixed concrete. The construction arm's PBT fell 27% YoY as its new projects have yet to pick up pace. Meanwhile, its orderbook rose to 43% YoY to MYR6.6bn. Unbilled sales dropped 26% YoY to MYR2.5bn. Credit metrics remain healthy with the debt-to-equity ratio at 0.51x, while CFO interest coverage ratio is at 3.7x.
Press Metal Aluminium Holdings Bhd (PMAH)	**We are changing Press Metal Aluminium Holdings Berhad (PMAH) (AA2) to Market Perform from Outperform as yields have compressed considerably since our initial coverage in May 2023.** PMAH is in the business of extrusion and smelting aluminium, and has a total annual extrusion capacity of 370k MT in Malaysia and China. **In FY23, net profit fell 13.7% YoY as the average market price for aluminium declined. LME aluminium in 2023 fell 16% YoY to an average of USD2,261/MT, while alumina prices fell 5% to USD344/MT.** In 4Q23, revenue rose 2.7% QoQ, while core net profit rose 8% QoQ due to better contributions from associates (+8% QoQ, +78% YoY) and lower costs in raw material (alumina and carbon anode). FY23 debt-to-equity ratio improved to 0.55x from 0.64x in FY22 as its cash balances and CFO rose to MYR1.23bn and MYR2.57bn from MYR604m and MYR1.83bn, respectively.
Sime Darby Property Bhd (SDP)	**Maintain Market Perform on Sime Darby Property Berhad (SDP) (AA+) as its strong credit metrics are reflected in its tight pick-up against its peers.** SDP is a property developer with decades of experience in developing townships. The property developer has an ample landbank at over 13k acres, mainly in Klang Valley and Negeri Sembilan. Currently, it has over 20 developments and active townships. PNB is SDP's largest shareholder with 58% holdings, followed by EPF and Kumpulan Wang Persaraan at 7.1% and 6.5% holdings respectively. **In FY23, net profit rose 29% YoY mainly due to strong sales seen in both its industrial and residential sectors.** Better efficiency in marketing, sales and steady expenses contributed to better margins. Revenue increased 25% YoY due to one-off land sales in Kedah and Negeri Sembilan. Unbilled sales were little changed at MYR3.6bn versus MYR3.7bn in FY22. In 4Q23, unsold inventory decreased to MYR243.4m from MYR283.3m in 3Q23, while the take-up rate of its properties rose to 80% from 4Q23 vs 70% in 3Q23. SDP's net debt-to-equity ratio remains stable at 0.23x. We expect the company's property sales to remain encouraging.
YTL Power International Bhd (YTLP)	**We are Market Perform on YTL Power International Berhad (YTLP) (AA1) given the tight spread over the AA1 curve. The company's earnings are anchored by its solid concession business, which also mitigates execution risks from expansion into new businesses.** YTLP is an utilities company that is 56% owned by YTL Corporation Berhad. YTLP is an investment-holding company that relies on its investee companies to support its operations. YTLP's operating entities are in the business of providing power generation, electricity transmission, water supply, communications services and data centres. Its power generation segment contributes most to its revenue at around 70%, followed by its water and sewerage segment at around 20%. **In 1HFY24, YTLP's net profit jumped 355% to MYR1,693bn as contributions from its Singaporean power generation, PowerSeraya, rose, while the non-household retail market improved.** The debt-to-equity improved to 1.78x from 1.94x in FY23, albeit still highly geared. Total debt stood at MYR31.86bn. CFO interest coverage ratio improved to 2.8x from 2.4x in FY23. The majority of its debt at its investee companies are ring-fenced, concession-related and have no recourse to the holding company.

Malakoff Power Bhd (MPower)	**Based on its high yield returns, we are Outperform on Malakoff Power Bhd (MPower) (AA-), a wholly-owned subsidiary, financing conduit and independent power plants (IPP) operations & maintenance (O&M) operator of Malakoff Corporation Bhd (MLK).** MLK guarantees that it will provide for any liquidity shortfalls of MPower through inter-company loan advances and repayments. Hence, the credit profile of MPower is hinged on MLK. MLK is an independent power company that owns, constructs, operates and maintains its IPPs with a total generation capacity of 5,342MW in Malaysia. **In 9M23, MLK recorded net loss of MYR480m from profit of MYR260m in 9M22 mainly due to the loss of GB3 power plant revenue as the power purchase agreement (PPA) expired in December 2022, and it received lower energy payments from its Tanjung Bin Power plant.** Nevertheless, CFO turned positive to MYR733m as PPA payment receipts rose. MLK expects capex of MYR2.7-3.0bn in the next few years to fund its renewable energy projects which will replace two of its IPPs that are expiring in 2024 and 2027. Two PPAs of its IPPs with a total capacity of 1,653MW will expire in the next four years which will result in lower cashflows. The debt-to-equity ratio rose slightly to 1.51x as total debt rose due to consolidation of its plant RP Hydro's outstanding project financing of RM955.2m. In 1H23, all of its domestic IPP unplanned outage rates (UOR) and heat rates were within PPA-stipulated limits, except its Tanjung Bin Energy IPP due to damage to its turbine blades that resulted in higher UOR.
Petroleum Sarawak Exploration & Production Sdn Bhd (PSEP)	**We are Market Perform on Petroleum Sarawak Exploration & Production Sdn Bhd (PSEP) (AAA) as PSEP's yields are tightly compressed against its AAA peers. PSEP is Petroleum Sarawak Berhad's (PETROS) wholly-owned upstream oil & gas (O&G) arm that accounts for the majority of PETROS's profit and cash flow.** PETROS is a Sarawak state-owned O&G company that is authorised to plan and develop the O&G sector in Sarawak under the Ministers of the State Government Order. In addition, the company has received an injection of MYR520m of cash and MYR35m worth of land from the state, signifying its strategic importance to Sarawak's O&G development. As such, we view the company's financial strength to be aligned with the state and believe the company will be able to derive substantial financial flexibility from this alignment. **In 1H23, revenue rose 121% YoY to MYR2.1bn due to strong performance in its farm production sharing contracts (PSC).** Operating cash flow in 1H23 was strong at MYR1.2bn, while its operating cash flow debt coverage ratio is at 0.5x. The gearing ratio increased to 2.6x due the issuance of MYR3.0bn sukuk to fund its addition of three new PSCs. Its expansion in the next few years could see its gearing and debt level increase due to the capex-intensive nature of the upstream O&G business.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 62: Relative value - MYR corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 20 June 2024

Singapore – SGD bonds

- **We expect a moderation in earnings growth in 2024 as corporate earnings per share, as represented by MSCI Singapore, are expected to grow by 2% YoY in 2024 after growing by 4% in 2023, according to Bloomberg.** Meanwhile, debt-to-equity stood at 94% at end-2023, an improvement from 99% at end-2022.
- Financials have the most outstanding bonds with a share of more than half (65%), followed by consumer discretionary (14%) and industrials (10%).

Figure 63: Domestic outstanding SGD corporate bonds, as % of total outstanding

Sector	SGDmn	%
Financials	48,304	65.48%
Consumer Discretionary	9,977	13.52%
Industrials	7,328	9.93%
Communications	2,825	3.83%
Consumer Staples	1,920	2.60%
Energy	1,335	1.81%
Utilities	1,400	1.90%
Health Care	480	0.65%
Materials	195	0.26%
Technology	5	0.01%

Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 20 June 2024

- **Our corporate bond top picks are Singtel Telecommunications, Nanyang Technological University, National University of Singapore, Keppel Corporation Limited, Singapore Airlines, CapitaLand Ascott, and CapitaLand Ascendas.**
- We are recommending a 6-12 month tactical strategy of playing into reversal of the inverted SGD yield curve, which we think will happen by end-2024. We think state-owned entities (SOE) are good options as they offer some premium over SGS. SOEs we picked are **Public Utilities Board, National Environment Agency, Land Transport Authority and Housing Development Board.**

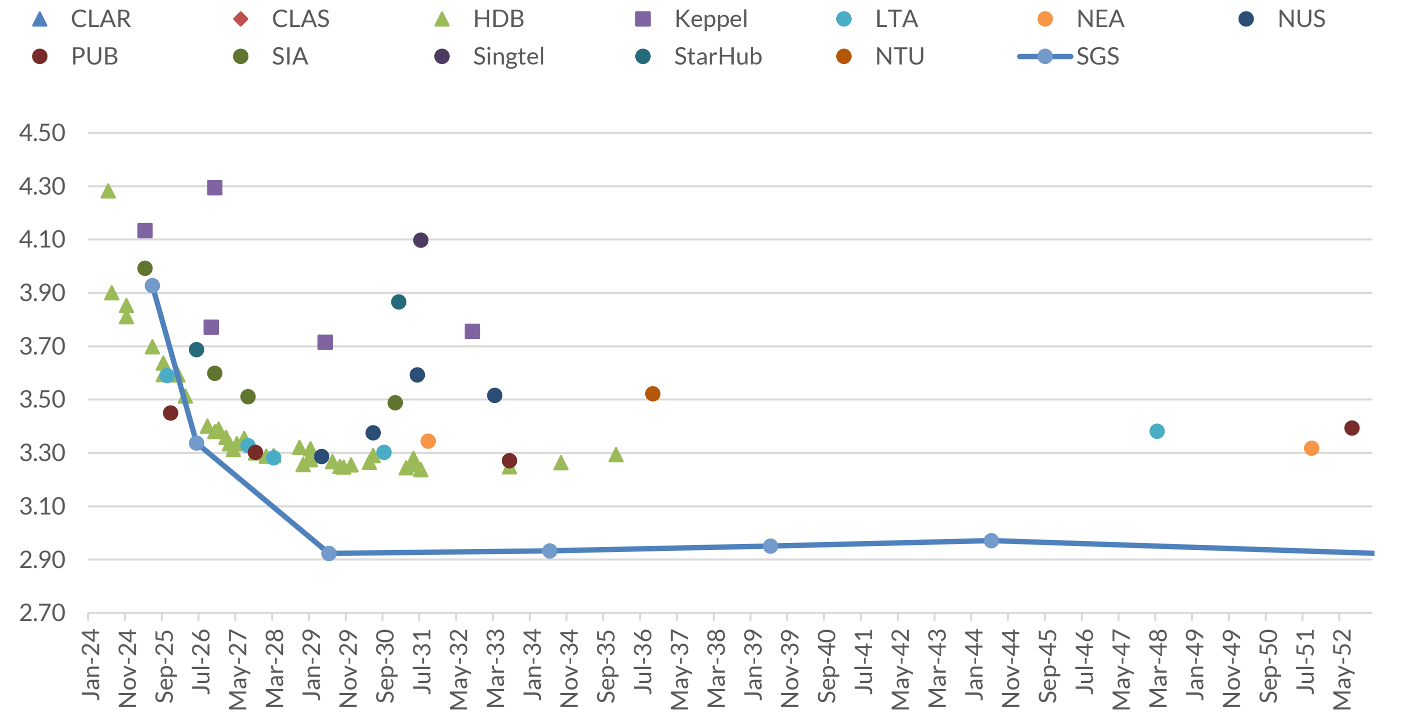
Figure 64: Issuer description and outlook

Issuer	Description & Outlook
Nanyang Technological University (NTU)	**We are Outperform on Nanyang Technological University (NTU) (Aaa) given the better relative value (vs National University of Singapore), prudent financial management and the expected extraordinary financial support from the state due to their strong operational and policy interlinkages.** NTU is one of Singapore's largest universities that is highly ranked worldwide with over 34k undergraduate and postgraduate students. The university has strong linkages to the Government as the Board of Trustees also have positions in the public sector and government-linked entities. Moreover, the members of the Board of Trustees can be removed and appointed by the Minister of Education under the Nanyang Technological University (Corporatisation) Act of 2005. The Government is NTU's important source of funding received through three main grants programmes – operating grants, research grants and development grants. **In FY23, the state-owned university recorded net loss of SGD20m mainly due to higher expenditure from manpower expenditure and other expenses that grew 6.0% and 23.6% YoY, respectively**. Meanwhile, tuition & other student-related income rose and research & grants rose 5.4% and 35% YoY, respectively. Undergraduate and post-graduate students continued to grow at 0.8% and 14.1%, respectively. Debt-to-equity remains low at 0.13x, while its total cash and investments remain high at SGD4,280m, which will provide sufficient buffer for its substantial debt coverage and operations. NTU 10/36 also offers a slightly better 7bps pickup compared to NUS 3/33, albeit at a longer duration.
Housing & Development Board (HDB)	We remain **Market Perform on Housing & Development Board** (AAA) (HDB) given the close spreads over SGS. HDB is the Singapore Government's arm that mainly deals with primary public housing and related social policy. HDB has high likelihood of support from the Government due to its strong linkages and its special status as a key statutory board under the Fifth Schedule of the Constitution of Republic of Singapore and incorporation under the Housing Development Act 1959 which does not allow it enter bankruptcy. **In FY23, its deficit rose to SGD5.36bn (57.4% of revenue) from SGD4.34bn (55.4% of revenue) in FY22 as construction costs rose, while construction activities increased following the slowdown during the pandemic.** However, the Government provided grants to preserve HDB's capital and deficits. HDB's total debt stood at SGD65.73bn (FY22 SGD65.65bn), while 57% of its debts are owed to the Government.
Singtel Telecommunications Ltd (Singtel)	**We maintain Outperform on Singtel Telecommunications Ltd (A3) (Singtel) as we think the 7/31 is attractive with a MTM of 4.73%.** Singtel is an integrated telecommunications service provider that is 52% owned by Temasek and has strong market positions in Singapore and Australia (Optus). The group's 1HFY23 revenue fell 3.2% YoY to SGD7.03bn due to translation losses from its Australian operations and weaker Singapore operations, which fell 3.4% YoY. The balance sheet remains strong with a low debt-to-equity ratio of 0.41x and high CFO-to-interest ratio of 18.0x. Singtel plans to reduce core costs by SGD200m annually until FY26 by decreasing operational complexity, increasing digitalisation & automation and decommissioning legacy systems.

StarHub Ltd (Unrated)	**We are Market Perform on StarHub Ltd (Unrated) and prefer the 1/31 over the 6/26 given the shorter-end bond's deep negative spread over the SGD Corporate curve.** The fully integrated info-communication company offers communications, entertainment and digital services for both corporates and consumers in Singapore, and is 56.2% indirectly owned by Temasek Holdings Pte Ltd through Singapore Technologies Telemedia Pte Ltd. Its 1H23 revenue mainly came from its enterprise business (37.6%) and mobile segments (27.4%). In 1H23, Starhub's total number of subscribers was relatively stable with around 3.1m subscribers – 2.2m mobile (1.6m post-paid, 0.6m prepaid), 342m entertainment and 576m broadband subscribers. Meanwhile, the average revenue per user was mostly stable in 1H23 for its post-paid, prepaid, entertainment and broadband segments at SGD32 (1H22: SGD 29), SGD7 (1H22: SGD8), SGD45 (1H22: SGD20) and SGD34 (1H22: SGD34) respectively. Its net debt-to-equity ratio is at 1.08x, while its EBITDA-to-interest ratio is at 5.4x. Our equity analyst expects the company's FY23-25 core earnings to improve by 3-11% mainly due to stronger opex efficiencies.
Changi Airport Group (Singapore) Pte Ltd (CAG)	**We are Market Perform on Changi Airport Group (Singapore) Pte Ltd (CAG) (Aaa) as its yields are slightly below the SGD Corporate curve, while giving additional pickup of about 60bps from SGS.** The Ministry of Finance owns 100% of CAG, the sole airport operator in Singapore, and it owns and operates Singapore Airport (Changi Airport), the dominant international airport in the country. The top rating of Aaa given by Moody's reflects its strategically important role in providing a key infrastructure service and implied support from the state. CAG's credit metrics and traffic are on track to recover to pre-pandemic levels following the removal of COVID-19 restrictions. Passenger movements rose to 42.6m in FY23 (FY22: 5.2m, FY19: 66.3m) and commercial aircraft movements rose to 257m in FY23 (FY22: 123m, FY19: 386m). Capex is expected to pick up as there are plans to increase capacity of total passengers with the resumption of Terminal 5 construction at Changi Airport in 2024. Terminal 5 targets to operate by the mid-2030s and is expected to handle around 50m passengers per annum. Its financial profile is strong with CFO/debt service of 2.0x in FY23 and debt/equity of 0.49x.
National University of Singapore (NUS)	**We are Outperform National University of Singapore (NUS), rated Aaa by Moody's, as its yields are above SGS at c.3.55-3.72%.** As at end-FY22, NUS has a high endowment balance, reflected by its total cash and investments of USD10.4bn, while its liquidity is strong with total cash and investments to operating expenditures at 5.3x. Total undergraduate and postgraduate enrolments for academic year ending July from 2018 to 2021 were c.35-40k with a total enrolment growth rate of c.3-5%. NUS has a close relationship with the Singapore Government and has historically received government grants that amount to 40-50% of its total adjusted operating revenue. The university is Singapore's top higher education provider that has a strong global presence and enjoys implied extraordinary support from the Government due to its importance in Singapore's university system.
Keppel Corporation Limited (Keppel)	**We are Outperform Keppel Corporation Limited's (Keppel) 2026-2030 bonds as the spreads are 60-80bps higher than SGS. Keppel is 21%-owned by Temasek and has segments in energy & environment, urban development, connectivity and asset management which made up 63%, 14%, 20% and 3% of 2022 revenue respectively.** In 1H23, net profit excluding one-off divestment gain of SGD3.3bn grew 2.5% YoY to SGD445m, mainly due to better performance in infrastructure from an improved integrated power business. Keppel gained SGD3.3bn from disposal of its offshore & marine business as it is shifting to remove its conglomerate structure and become a global alternative real asset manager with deep operating capabilities in infrastructure, real estate and connectivity. Its CFO/interest weakened to -1.6% as interest expense rose to SGD148m with average interest cost of 3.53%.
Singapore Airlines (SIA)	**We reiterate our Outperform call for Singapore Airlines (SIA).** As travel recovered, SIA's revenue for its full-year FY23-March more than doubled by 133% from SGD7,614.8m in FY22 to SGD17,774.8m in FY23, while net income turned from a loss of SGD992m in FY22 to SGD2,121.7m in FY23. While the reopening demand boosted short-term profitability and credit metrics, the long-term outlook is supported by its majority shareholding by Singapore's sovereign wealth fund and the airline's status as the country's national carrier. Yields for SIA bonds have tightened considerably year to date, benefitting bondholders. SIA provides air transportation, engineering, pilot training, air charter, and tour wholesaling services. The company's airline operation covers Asia, Europe, the Americas, South West Pacific, and Africa.
CapitaLand Ascendas REIT (CLAR)	**CapitaLand Ascendas REIT (CLAR).** CLAR is an industrial REIT which invests in business and science park properties, integrated development, amenities, and retail (IDAR) properties, high-specifications industrial properties and data centers, light industrial and flatted factories, and logistics and distribution centers. It has assets globally and generates 80% of revenue from Singapore. CLAR, similar to CLAS, is part of the real estate conglomerate CapitaLand, and is expected to generate better income due to higher rents (+8%) and good occupancy (94.6%). Credit health is underpinned by conservative leverage and healthy credit metrics.
Land Transport Authority (LTA)	**We are Outperform on the Land Transport Authority** (LTA), as we think the LTA 3/48 offers attractive pickup over SGS. LTA is involved in the planning, operation, and maintainence of land transport infrastructure and systems. The state-owned entity manages, assesses, collects, and enforces various taxes, fees, charges, and other services relating to land transport.
Public Utilities Board (PUB)	The **Public Utilities Board (Market Perform)** (PUB) administers the water supply system. The board manages water supply, water catchment, desalination and used water throughout Singapore. In the quasi-government space, we like government-owned PUB, which is an important state agency and offers yield premium versus government benchmark yields.
National Environment Agency (NEA)	The **National Environment Agency (Market Perform)** (NEA) provides environmental engineering solutions. The company offers pollution control, hawker management, pest control, radiation safety, smoking prohibition, and waste management services. NEA serves clients in Singapore. In the quasi-government space, we like government-owned NEA, which is an important state agency and offers yield premium versus government benchmark yields.
CapitaLand Ascott Trust (CLAS)	**CapitaLand Ascott Trust (Outperform)** (CLAS) is a REIT primarily invested in income-producing real estate and real estate-related assets which are serviced residences, hotels, rental housing properties, and other hospitality assets. CLAS serves customers worldwide. Hospitality REITs are primary beneficiaries of the rising rental rates and healthy employment environment in Singapore. CLAS has seen revenue growth from higher occupancy rates, and has had stable to improving credit metrics in the past two years.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 65: Relative value - SGD corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 21 June 2024

Thailand – TGB bonds

- **Corporate financial performance is expected to remain robust in 2024 with the broad SET100 index forecast to see earnings per share growth of 17% in 2024 after falling by 26% in 2023, according to Bloomberg.** Meanwhile, debt-to-equity stood at 93% at end-2023, an improvement from 98% at end-2022.
- Thailand outstanding corporate bonds are led by financials (29%) followed by consumer staples (17%) and consumer discretionary (11%).

Figure 66: Domestic outstanding THB corporate bonds, as % of total outstanding

Sector	THBmn	%
Financials	1,319,638	29.44%
Consumer Staples	776,900	17.33%
Consumer Discretionary	478,942	10.68%
Utilities	450,697	10.05%
Materials	469,782	10.48%
Energy	418,638	9.34%
Communications	350,718	7.82%
Industrials	204,938	4.57%
Health Care	7,000	0.16%
Technology	5,259	0.12%

Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 20 June 2024

- Thailand corporate: Our top picks are **Thai Beverage, PTT Global Chemical, CP All, and PTT**, which are leading names in their sectors, and we expect their credit profiles to improve or remain stable in the near future. The companies' description and outlook are listed below.

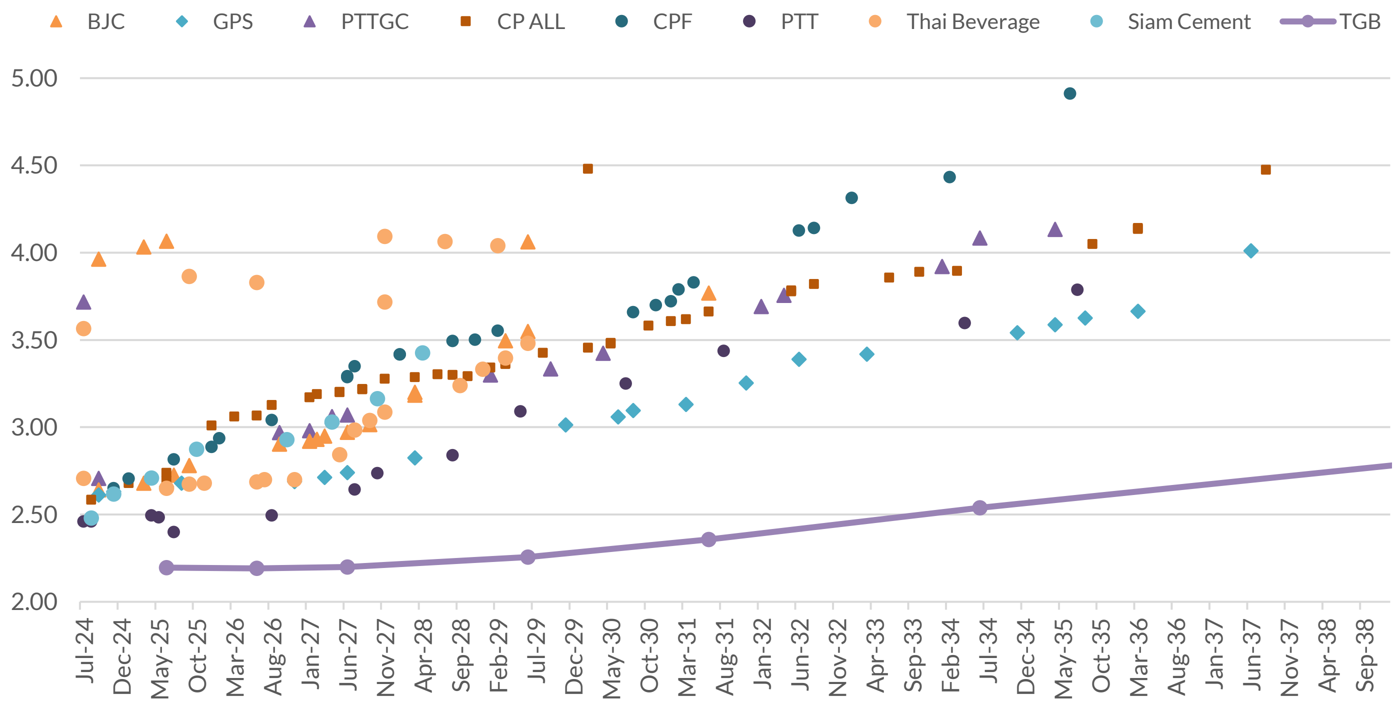
Figure 67: Issuer description and outlook

Issuer	Description & Outlook
Siam Cement PCL (SCC)	**We are Underperform on Siam Cement PCL (SCC) (A, Fitch) as its bond yields returns are below its A rated peers, while we expect SCC's 4Q23 financial performance results to disappoint given the weak demand seen in its business segments.** SCC is a diversified industrial company that manufactures cement, petrochemicals, paper and building materials. The company has about 9k dealers in Thailand and 57% of its revenue comes from Thailand. Its main divisions are cement & building materials, petrochemicals and packaging businesses. **In 9M23, SCC's net profit was little changed on a YoY basis but it fell significantly by 70% QoQ.** This is mainly due to weak performance in all three of its business division, especially the petrochemicals segment which was affected by lower polyolefin spreads that fell USD50-70/MT QoQ. There was a THB176m asset impairment in the cement & building materials segment, while the packaging segment saw lower sales volume and pulp & paper prices. SCC's net debt-to-equity ratio remains stable at 0.62x.
Charoen Pokphand Foods (CPF)	**We are downgrading Charoen Pokphand Foods (CPF) (A+ Neg, TRIS) to Underperform from Market Perform as we are turning negative on the group's credit outlook on the back of deteriorating credit metrics as the company has been experiencing increasing debt levels and widening debt service deficits on the back of persistently weak post-CAPEX cash flow turnaround.** Although we see the 9M23 net losses as transitory, the company will likely face hurdles to bring gearing and debt service to sustainable levels. **In 9M23, CPF made net loss of THB5.5bn from profit of THB12.2bn in 9M22 as broiler, swine and shrimp prices fell 8%, 28% and 13% YoY, respectively.** Its net debt-to-equity ratio rose to 1.82x as the interest-payment burden rose 30% YoY to THB18.6bn in tandem with the higher FFR as 85% of its total long-term debt is USD denominated as at end-2022. CPF is a Thailand-based integrated food and agro-industrial company that produces and distributes a wide range of food products. Its products include animal feed, pet snacks, ready-to-eat meals, meat and food products. The company operates in 17 countries and exports products to over 40 countries globally.
Thai Beverage PCL (THBEV)	**We maintain Outperform on Thai Beverage PCL (THBEV) (Baa3) as its yields are attractive in comparison with its BBB- peers.** THBEV produces a wide range of branded beer and spirits in Thailand and Vietnam. The company has 27 distilleries, 20 manufacturing facilities and three local breweries. **Its FY23 net profit fell mainly due to higher investment and marketing costs. Revenue of its spirits, non-alcoholic beverages and food divisions grew 3%, 12% and 16% YoY, respectively, while its beer business fell 1% YoY due to lower sales volume.** Its EBITDA margin decreased to 17.3% from 18.2% in FY mainly due to lower margins in beer and food. Meanwhile, its spirits maintained a stable EBITDA margin of around 25% since 2020 and make up 80% of its net profit. THBEV credit metrics remains stable with debt-to-equity ratio at 0.68x, while CFO-to-interest ratio remains high at 4.4x.
Berli Jucker PCL (BJC)	**We maintain Market Perform on Berli Jucker PCL (BJC) (A+, TRIS) as BJC's yields are on par with its A+ peers.** BJC owns the retailer Big C, manufactures, distributes consumer products and operates online and physical retail stores. **In 9M23, BJS's net profit fell 6.6% YoY to THB3,157mn mainly due to increased finance and electricity costs, while the opex-to-sales ratio increased 0.6% YoY on the back of higher opex from the opening of new stores.** Credit metrics remain decent with the debt-to-equity ratio and EBITDA/interest ratio at 1.34x and 2.1x, respectively. Net margins have been low but stable at 3%. We believe that the company's performance is bottoming out and will improve along with better tourism activities in Thailand.

Global Power Synergy (GPS)	**We are Underperform Global Power Synergy (GPS) as its bond yields are below the indicative yield of its A+ peers.** The company is rated A+ by an international rating agency with a two-notch uplift from its parent PTT PCL with 47% stake, as there are strategic and operational benefits for the parent to support GPS. GPS generates 10% of Thailand's power with predictable cash flow from its power-generation assets. Around 43% of the company's revenue is contracted under long-term take-or-pay power purchase agreements with state-owned Electricity Generating Authority of Thailand and an additional 31% comes from PTT group. In 1Q23, its debt-to-equity ratio is high at 1.16x given its large capex and investment plans.
PTT Global Chemical (PTTGC)	**We are Outperform PTT Global Chemical (PTTGC) (AA+) as its bonds give attractive yields at c.2.07-4.06%, versus TGB.** The petrochemical company produces, refines and distribute olefins and aromatics products globally with Thailand being its largest market. PTTGC's largest shareholder is PTT, which owns 45%, and it has long-term feedstock supply and product off-take agreements with PTT as it plays a key role in its parent's energy value chain. PTTGC's earnings are vulnerable to volatility as shown in the past few years, while weak petrochemical margins remain a pressure. The company's EBITDA/interest is low at 0.6x as at end-March 2023 as EBITDA did not climb significantly, while borrowings remain elevated with its acquisition of Allnex, a global resin producer, in 2021. PTTGC enjoys implied credit rating support from rating agencies' view.
CP ALL PCL (CP ALL)	**We recommend THB bond CP ALL PCL, as the group will benefit from the economic recovery and return of foreign travellers.** The company operates convenience store chains in Thailand and China. Recent Dec-FY22 full-year revenue grew 46% YoY while EBITDA grew by 92%, gearing remained stretched while other credit metrics remained stable. The restructuring in 2021 has enlarged the group's footprint and moderated its gearing to a certain extent.
PTT PCL (PTT)	**PTT PCL (PTT) operates as an oil, gas and petrochemical company based in Thailand.** The company produces, transports, and sells natural gas, crude oil, lubricants, aviation and marine, and petrochemical products. PTT's strategic importance to Thailand's energy sector and 63.3% state ownership indicates a high likelihood of extraordinary support from the Thai Government. **In 1H23, its net profit fell -48% YoY to THB47.96bn mainly due to higher stock losses and lower gross margin.** Meanwhile, the net debt-to-equity ratio improved to 0.48x in 2H23. The recent jump in crude oil prices could support PTT's earnings in the short to medium term as earnings from upstream oil & gas production will increase while downstream activities will record inventory gains. The group enjoys credit uplift due to its strategic importance to the energy sector and close link to the Government of Thailand.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 68: Relative value –THB corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 21 June 2024

Figure 69: RHB Credit Strategy Rating Definitions

Recommendation	Time Horizon	Definition
Outperform	6 to 12 months	A corporate bond's expected relative performance versus a defined reference (i.e. AA3 peers or a corporate bond index)
Market perform	6 to 12 months	
Underperform	6 to 12 months	
Speculative	Indefinitely	The bond's repayment ability is highly uncertain
Not Rated (NR)	Indefinitely	Not under coverage

Foreign Exchange Outlook

DXY Strength Should Persist in 3Q24 Amid Varying Implications for ASEAN

Foreign Exchange Outlook

DXY Strength Should Persist in 3Q24 Amid Varying Implications for ASEAN

- **We forecast the DXY to strengthen marginally to an average of 106 in 3Q24, before weakening to 104 in 4Q24. The catalysts are (1) markets will continue to price out Fed Funds Rate (FFR) cuts towards our view for one reduction by year-end, (2) US growth momentum will continue to stay supported, and (3) risk-taking behaviour will likely benefit high-beta currencies such as AUD and NZD.**
- **We do not subscribe to more rate reductions by the European Central Bank (ECB), nor more rate hikes by the Bank of Japan (BOJ), in 2024. This view has implications for EUR and JPY, whereby we see EUR/USD to be higher vs market consensus, while JPY's weakness will persist.**
- **In ASEAN, we see more strengthening bias for the MYR given the improving current account surplus seen YTD amid ongoing fiscal consolidation efforts. We also like the SGD on the back of the S$NEER policy framework. We are neutral on the THB and bearish on IDR.**

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Figure 1: RHB FX forecasts vs Bloomberg consensus

	RHB Forecasts				Bloomberg Consensus			
G10 FX	3Q24	4Q24	1H25	2H25	3Q24	4Q24	1H25	2H25
DXY	106.00	104.00	101.00	98.00	104.75	103.70	102.05	100.50
EURUSD	1.070	1.103	1.145	1.203	1.080	1.090	1.110	1.120
USDJPY	161.74	160.33	155.08	152.08	152.00	149.50	145.00	140.00
GBPUSD	1.230	1.255	1.278	1.367	1.270	1.270	1.290	1.300
AUDUSD	0.67	0.69	0.71	0.72	0.67	0.68	0.69	0.70
NZDUSD	0.619	0.623	0.651	0.660	0.620	0.620	0.640	0.650
AXJ FX	3Q24	4Q24	1H25	2H25	3Q24	4Q24	1H25	2H25
USDCNH	7.404	7.215	7.100	7.000	7.260	7.220	7.200	7.150
USDIDR	16,850	16,200	15,600	15,200	16,000	15,900	15,600	15,150
USDMYR	4.781	4.650	4.500	4.400	4.670	4.640	4.600	4.450
USDSGD	1.370	1.343	1.288	1.251	1.350	1.340	1.330	1.300
USDTHB	36.83	36.44	35.49	34.47	36.40	36.00	35.10	34.30
USDVND	26,248	26,102	25,323	25,456	25,200	25,100	24,700	24,250

Source: Macrobond, RHB Economics & Market Strategy

An Inverted V-shaped DXY Curve Will Likely Materialise in 2H24

We forecast the DXY to strengthen marginally to an average of 106 in 3Q24, before weakening to 104 in 4Q24. The catalysts are (1) markets will continue to price out US Fed Funds Rate (FFR) cuts towards our view for one reduction by year-end, (2) US growth momentum will continue to stay supported, and (3) risk-taking behaviour will likely benefit high-beta currencies such as AUD and NZD. Our base case is for the FFR to be cut in December (-25bps) in 2024, with the balance of risk highly magnified towards no cuts for this year. In 2025, we look for one rate cut per quarter in 1Q – 3Q25, totalling three rate cuts of a cumulative 75bps reduction. At least for the rest of this year, the high-for-longer FFR suggests that flows will likely continue into the dollar on the back of yield-chasing behaviour and positive carry already seen since 2023.

Across developed economies, we see idiosyncratic issues within the G7 space which could have implications on how foreign exchange rates may trend. Specifically, we do not subscribe to more rate reductions by the ECB, nor more rate hikes by the BOJ, in 2024. This view has implications for EUR and JPY, whereby we see EUR/USD to be higher vs market consensus, while JPY's weakness will persist. As per Figure 1, we look for EUR/USD to rally 1.10 per USD in 4Q24, on the assumption that there are no more rate cuts by the ECB. ECB's recent rate cut in early June was likely a response to its telegraph in March, 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 factors, as services and non-fresh food prices decelerated in the latest print. Separately, UK's slip in its high-frequency data, specifically the global composite Purchasing Managers' Index (PMI), coupled with higher wage-driven inflation, suggests that a rate cut could materialise in the August meeting, thus explaining the relative softness of the GBP against its G7 peers.

In ASEAN, we see more strengthening bias for the MYR given the improving current account surplus seen YTD amid ongoing fiscal consolidation efforts. We also like the SGD on the back of the S$NEER policy framework. We are neutral on the THB and bearish on IDR. For MYR, our view has materialised in 1H24 for MYR to stay relatively soft against the USD. However, we are revising our year-end MYR view to 4.65 per USD, against our prior 4.70 per USD outlook. The revision is underpinned by our upward revision of Malaysia's current account surplus to 2.9% of GDP in 2024, from our previous expectations of 2.3% – we maintain our positive view for Malaysia's trade outlook in 2024. Our view is founded on (1) resilient economic growth momentum in major economies, (2) upsides in commodity prices, and (3) re-acceleration in the global technology cycle. This is coupled with Malaysia's rise in manufacturing PMI to its expansionary zone in May, the first above-50 print since August 2022.

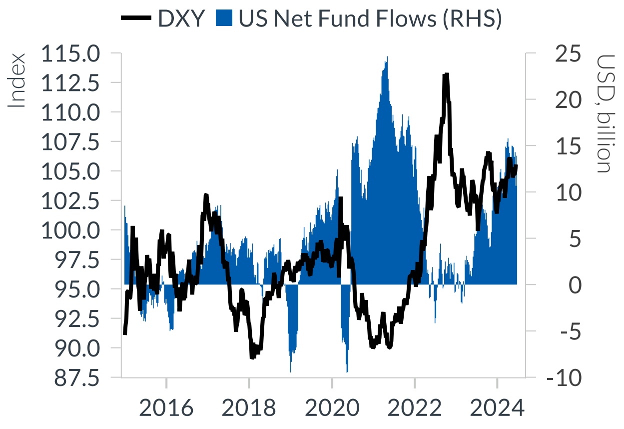
We stay positive on the SGD, and we remain neutral on the THB and turn bearish on the IDR. We continue to like the SGD as an outperformer on the back of the S$NEER policy framework. The S$NEER is currently trading at 1.6% above the midpoint at the time of writing. We perceive the S$NEER appreciation at +1.5% per annum with a +/- 2.0% band. Fund flows analysis suggests that the SGD (and MYR for that matter) will continue to be outperformers on the back of cumulative equity and bond inflows. The same, however, cannot be said for the IDR and THB, whereby fund flows remain in net outflows. THB may see conflicting drivers in 2H24 – the fiscal deficit may widen on the back of the digital wallet programme, albeit higher consumption-led GDP may well support growth momentum. Separately, the IDR is seeing a further softening bias towards 16,850 per USD, dragged by the plummeting of the Jakarta Composite Index (JCI) amid a relative slowdown in domestic consumption patterns in 2H24.

We continue to stay positive on the CNH on the back of our assumptions for China to stage an economic recovery in 2024. Our quantitative analysis of the CNH suggests a 7.0 per USD prognosis into 2H24. Our Ordinary Least Square Estimation (OLS) suggests that US-CN nominal rate differentials are the key determinant of USD-CNH movements. Across other independent variables, US-CN nominal rate differentials have the highest absolute value, thus explaining the depreciation in CNH on the back of higher US rates year-to-date. However, we note that our initial hopes for a bottoming of China's property sector have dissipated given the continued decline in real estate prices, while brewing US-China trade tensions may serve to weaken investor sentiments in the Middle Kingdom. Nonetheless, improving China-centric data such as (1) foreign direct investment and (2) semiconductor trade will likely be mainstay supports for the CNH.

We continue to like the commodity exporters. Risk-taking behaviour will likely benefit high-beta currencies such as AUD and NZD. Our assumptions for China's economic recovery will benefit growth-related commodity prices, including energy and base metals. Amongst the G10, we are most positive on AUD and NZD in terms of further nominal export recovery. We forecast Brent to average USD85 – 95 per barrel in 2H24, while London Metal Exchange (LME) base metals have already rallied markedly since February 2024. Higher food prices, especially rice and agricultural products, may marginally help major food exports such as China and the US, albeit these economies may also need to contend with higher consumer prices and narrower real interest rates as a consequence.

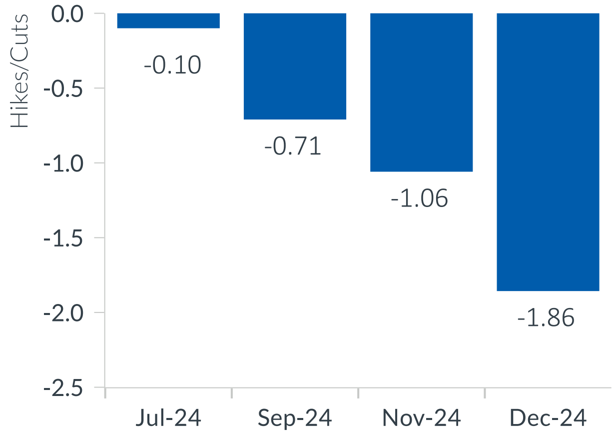
Overall, domestic factors driving local currency markets will vary across Southeast Asia. Countries with weak domestic fundamentals, heightened political risk premiums, and existing negative carry against the USD will be impacted relatively more by interest rate differentials with the US and the momentum of USD/CNH. As cited above, we think the IDR will likely be one of the weakest in the ASEAN pack despite its estimated appreciation against the USD. The catalysts are (1) the ongoing slide in the JCI, (2) unfavourable trade structure as compared to its ASEAN peers, and (3) an assumed flat GDP growth trend into 2024 at 5.0% (from 2023's assumed 5.1%). Indonesia also has one of the highest policy rates (currently at 6.25%) in Asia, suggesting that there is relatively limited policy room to raise rates to stabilise its FX backdrop.

Figure 2: Fund inflows continue into US shores on the back of high-for-longer FFR…



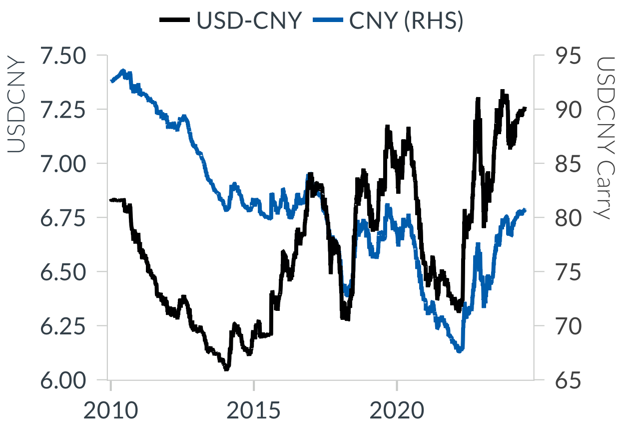
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: …with market participants pricing out six rate cuts (to the current two cuts) in 2H24



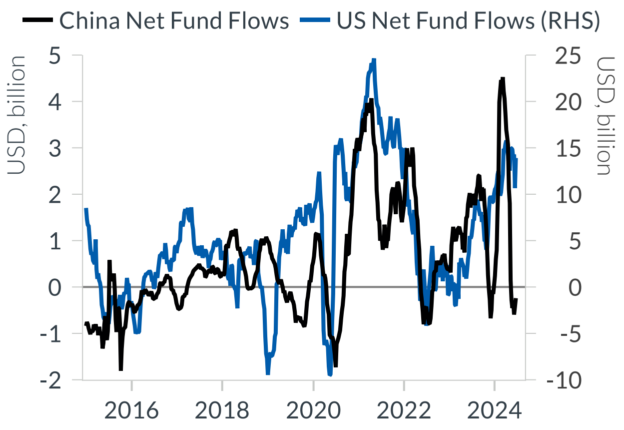
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: USD carry over CNY may fade, especially when FFR cuts commence in December 2024…



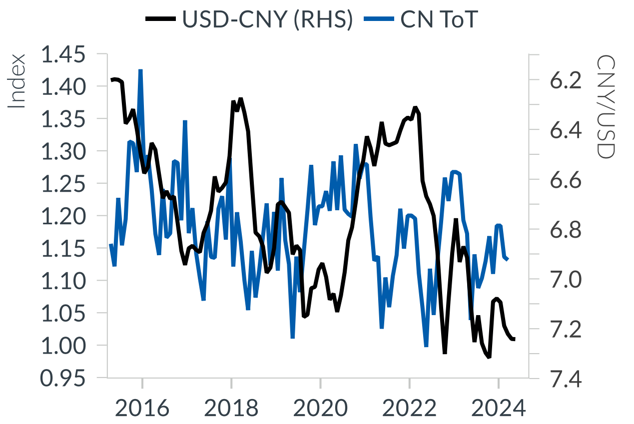
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: …while fund outflows from China may be bottoming and thus support CNH…



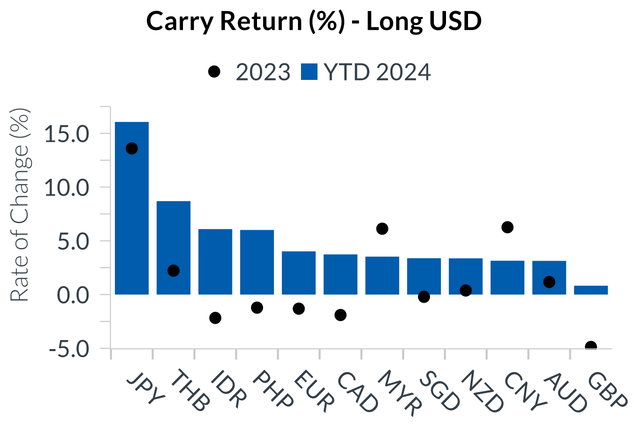
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: … and China's recovering terms of trade should help CNH to its 7.0 per USD handle



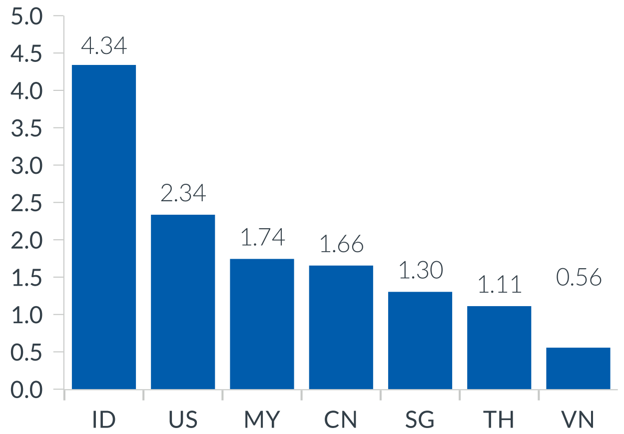
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Dollar carry against other currencies remains positive, suggesting further DXY strength in 3Q24



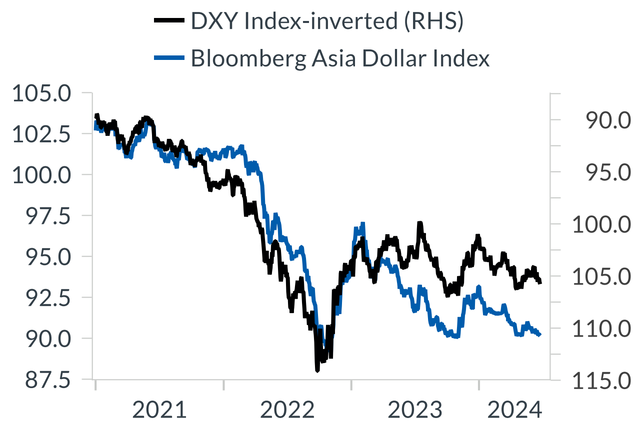
Source: Macrobond, RHB Economics & Market Strategy

Figure 8: Real rates across key economies are broadly positive (ex-VN), with ID running ahead of the pack



Source: Macrobond, RHB Economics & Market Strategy

Figure 9: DXY to move towards 105 – 110 in 3Q24, thus suggesting a weaker Asia FX backdrop



Source: Macrobond, RHB Economics & Market Strategy

Figure 10: We think DXY could head towards 105 – 110 in 3Q24, with the USD being a clear winner in the FX space

FX Rates % Change

	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
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 & Market Strategy

USD/IDR: Sustained Weakening Driven by Equity Risk-off Sentiment

- **Our previous forecast for the IDR in the context of the Middle East geopolitical crisis study in April, which predicted a level of 16,423, has materialised well, with the IDR continuing to weaken past the 16,400 level in recent prints.** Our analysis suggests that the primary cause of IDR weakening has shifted from the interest differential between the US and Indonesia to other idiosyncratic factors. The risk-off sentiment from the geopolitical crisis in April and the potential increase in fiscal risk following the recent announcement by the newly elected President Prabowo Subianto to raise Indonesia's debt-to-GDP ratio to 50% over the next five years have led investors to sell off Indonesian equities, consequently diminishing the support from equity inflows toward the IDR. This shift in investor behavior underscores the increased sensitivity of the IDR to geopolitical and fiscal policy developments rather than traditional interest rate differentials, rendering the policy rate intervention less effective.

- **Looking forward to year-end, we maintain our bearish stance on the IDR and expect it to remain elevated above 16,000 throughout 2024.** We anticipate further weakening in 3Q24 to the 16,850 level before marginally strengthening towards our 4Q24 forecast of 16,200. This view is primarily attributed to two key factors:

  - **First, we expect the Indonesian equity sell-off pressure to continue in 3Q23 given the projected budget announcement in August.** Foreign investors remain concerned about the impact of the new government's emphasis 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.

  - **Second, we keep our view for interest rates to remain high for longer, and only see one FFR cut expected by the end of the year, with the balance of risk magnified towards no cut.** This explains the marginal strengthening that we expect for the IDR in 4Q24, as the cut cycle of Bank Indonesia (BI) is likely to lag the Federal Open Market Committee (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.

- **Our quantitative model (Figure 11) reaffirms our bearish stance on the IDR, with key coefficient variables maintaining the balance of internal and external economic and financial conditions in Indonesia.** The recent downward pressure on the IDR is primarily driven by massive and continuous equity outflows due to risk-off sentiment among foreign investors in the Jakarta Stock Exchange. This is further exacerbated by the robust performance of developed economies' equity markets, where high returns outweigh the attractiveness of Indonesian equities (with a YTD return of 14.7% for the S&P 500 versus -9.7% for MSCI Indonesia). We expect the support for the IDR from real interest differentials to remain relatively stable, as we foresee no policy rate intervention from BI in 2024, in line with moderate growth momentum in 2H24 and stabilised inflation. However, we anticipate foreign exchange market interventions focusing on spot and Domestic Non-Deliverable Forward (DNDF) transactions, as well as government securities (SBN) in the secondary market.

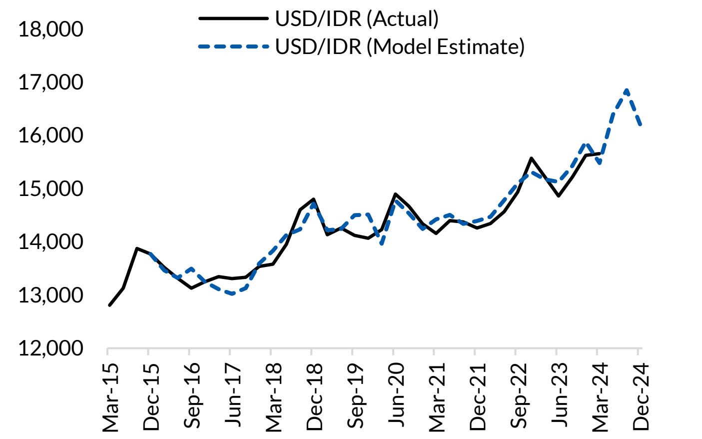
- **3Q24: 16,850: We expect further weakening of the IDR driven by Indonesian equity sell-offs due to risk-off sentiment arising from potential increases in fiscal risk.** Uncertainty surrounding the new government cabinet member selection and the projected budget announcement will further exacerbate investor sentiment, leading to a cautious approach to capital and portfolio investment into the economy.

- **4Q24: 16,200: The IDR appreciates marginally as the initial FFR cuts widen the ID-US yield differential and reduce the positive carry of the USD.** We anticipate stronger foreign inflows into debt instruments, complemented by increased foreign direct investment and a more robust current account following the recovery in exports. These factors are expected to offset the decline in equity portfolio investments. Consequently, the overall basic balance turns more positive, further supporting the IDR.

- **1H25: 15,600: The IDR is expected to strengthen further with subsequent FFR rates cuts to the range of 4.50–4.75%.** Investor yield-chasing behavior is expected to favour IDR bond instruments as the yield differential widens with the onset of the FOMC rate cut cycle, coupled with the delayed timing of BI rate cuts.

- **2H25: 15,200: IDR is expected to revert to its long-term trends in 2H25, as global policy rates consolidate and the interest rate differential between Indonesia and the US normalises to pre-pandemic levels.** The ongoing global economic recovery, including in Indonesia, continues its upward trajectory amid a significant reduction in geopolitical risks.

Figure 11: We maintain our bearish stance on the IDR and expect it to remain elevated above 16,000 throughout 2024…



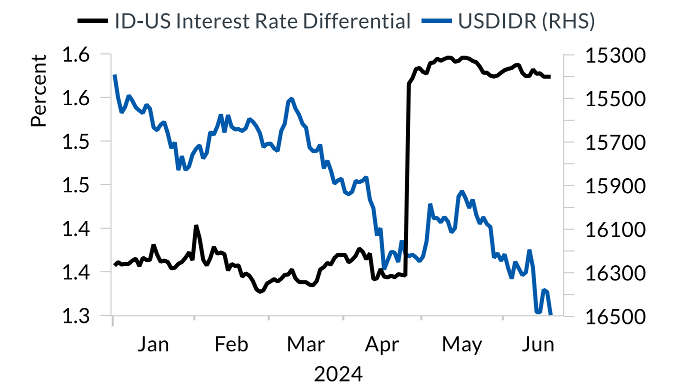
Source: RHB Economics & Market Strategy

Figure 12: … driven by the equity sell-off prompted by risk-off sentiment arising from potential increases in fiscal risk

Dependent Variable	USD/IDR			
Independent Variables	Coefficient	Std. Error	t-Statistic	P-value
ID-US Real Interest Rate Differential (-1)	-0.657	0.144	-4.560	0.000
Foreign Currency Reserve (-1)	-0.278	0.046	-6.037	0.000
Foreign Equity Capital Flow (-1)	-0.008	0.002	-4.658	0.000
S&P 500 Index (-3)	0.148	0.034	4.334	0.000
Constant	1.300	0.503	2.582	0.015
R-Square	0.821			
Adjusted R-Square	0.796			
Standard Error	1.878			
Observation (quarters)	34			

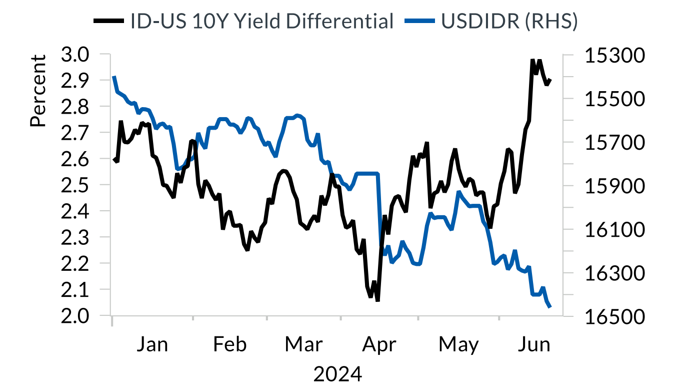
Source: RHB Economics & Market Strategy

Figure 13: We maintain our view for no change in BI rate for the rest of 2024 given that downward pressure on the IDR by other idiosyncratic factors has outweighed the support from…



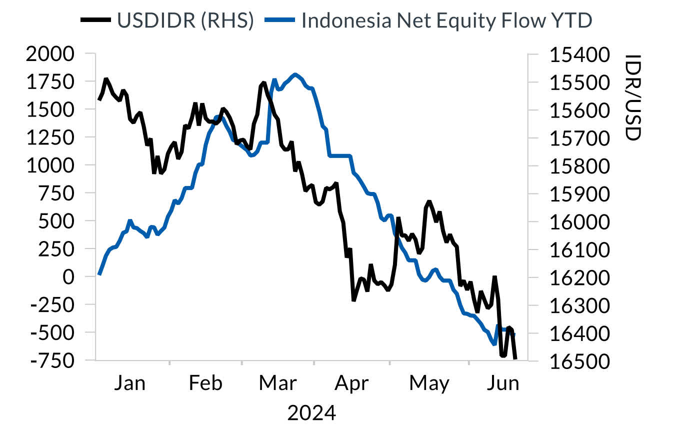
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: …the interest differential as the interest rate hike in April has proved limited support on IDR level, while there is a clear divergence among yield differential and IDR level…



Source: Macrobond, RHB Economics & Market Strategy

Figure 15: …in which the negative impact on IDR from JCI equity sell-off is larger than the…



Source: Macrobond, RHB Economics & Market Strategy

Figure 16: …improvement in net bond outflow

Source: Macrobond, RHB Economics & Market Strategy

USD/MYR: Cautious Outlook for MYR in 3Q24 with Optimism for 4Q24

- **In 2Q24, MYR remains under pressure amid persistence in the US-MY rates differential and financial market expectations on the US monetary policy outlook.** Integrated and coordinated action has been taken to stabilise the MYR in 2Q24. For instance, officials have encouraged repatriation and conversion of foreign investment income by government-linked companies and government-linked investment companies. In addition, there has been active engagement with resident exporters and monitoring of the conversion of export proceeds to MYR. Our view for MYR to weaken to 4.8 per USD in 2Q24 as cited in our thematic report materialised in the early weeks of the quarter, before the strengthening bias to 4.71 per USD as of 25 June 2024.
- **Looking forward, we maintain our view that the MYR is a function of US-Malaysia interest rate differentials as well as the fiscal and current account balances.** Our quantitative analysis suggests that the MYR will benefit from improved Malaysia-centric interest rate, trade and fiscal matrices while dragged by potentially lower oil prices and higher public debt. In the near term, the positive carry in holding USD over MYR over would remain rich as the US FFR may remain elevated for longer. Nevertheless, the improvement in the domestic macroeconomic backdrop, ie the fiscal and current account position, is expected to keep the MYR stable, following greater clarity on the fuel subsidy rationalisation measures.
- **We maintain our in-house view that the US FFR will only see rate cuts by end-2024, with the balance of risk tilted towards no rate cuts.** The latest FOMC statement and dot-plot chart has further reaffirmed our expectation, where the dot-plot chart envisioned only one rate cut this year. Fed officials are relatively more hawkish than before, with four members signalling for no change in the FFR (versus the prior two). Gradual pricing out of rate cuts is likely to be extended to our one FFR cut expectation (which is anticipated by 4Q24). Thus, the DXY to is envisaged to rally towards 107 in 3Q24.
- **On the fiscal front, we opine that Malaysia is on track to achieve its fiscal balance deficit target of 4.3% of GDP in 2024 (against 5.0% of GDP in 2023), in line with the Government's commitment to fiscal strengthening and consolidation.** The recent implementation of a diesel price float in Peninsular Malaysia would supplement other existing fiscal consolidation measures, ie revision in services tax and utilities tariffs, which is expected to improve the fiscal position relative to 2023.
- **We revised our current account balance projection to 2.9% of GDP versus our former projection of 2.3% of GDP (1.2% of GDP in 2023).** The goods surplus is envisaged to be supported by higher exports receipt, in tandem with strengthening external demand. Meanwhile, the services account is expected to be buoyed by higher tourism arrivals and receipts. The current account surplus gained pace to 3.5% of GDP in 1Q24 (exceeding our in-house projection of 1.3% of GDP) versus the 4Q23 print of 0.1%, on broad-based improvement across the income, goods & services account balance.
- **Meanwhile, we continue to see upside bias for crude oil for 2024 amid higher global demand coupled with policy-induced supply constraints given production cuts by global oil producers.** The Brent oil price is projected to stay strong at a range of USD85-95 per barrel.
- **On the flip side, headwinds to the MYR could emanate from Malaysia's elevated public debt in 2024.** Malaysia sees its federal government debt to sustain at 64.0% of GDP by the end of 2024 versus 64.3% as of December 2023, which will likely cap MYR strength in 2024.

3Q24: 4.78. MYR to remain under pressure amid the persistence in US-MY interest rates differentials. As the market is anticipated to gradually price out FFR, USD carry against MYR is likely to remain rich, suggesting MYR weakness may persist in the near term.

4Q24: 4.65. USD/MYR to consolidate amid anticipated FFR cut in the quarter. On the domestic front, the MYR would be supported by an improved fiscal position (should the subsidy rationalisation plan pan out nicely). Separately, the CA balance would be bolstered by improvement in exports performance and tourism receipts.

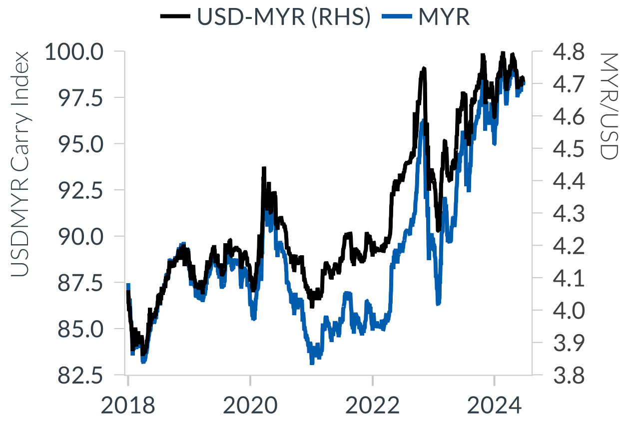
2025: 4.40. A stronger MYR is anticipated following the strengthening of fiscal and balance of payments position coupled with a diminishing US-MY rate spread (where our in-house estimates pencil in three FFR cuts in 2025).

Figure 17: USD-MYR is driven by six key variables

Dependent Variable:	*USD-MYR*			
	Coeff	*Std Err*	*t Stat*	*P-value*
Intercept	6.96	0.40	17.38	0.00
Current Account % GDP (-1)	-0.10	0.02	-6.40	0.00
Fiscal Account % GDP (-4)	-0.07	0.04	-1.89	0.05
Public Debt YoY (3QMA)(-2)	-0.04	0.01	-2.81	0.01
KLCI (x100)(-1)	-0.13	0.00	-5.72	0.00
Brent (x100)(-1)	-0.48	0.00	-2.82	0.01
US-MY Real Rates (-4)	0.02	0.03	0.91	0.36
R-Square	0.75			

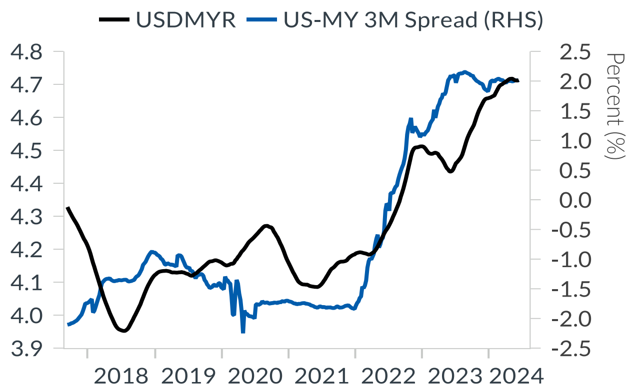
Source: RHB Economics & Market Strategy
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents magnification of coefficients

Figure 18: USD carry against MYR remains rich as the market would gradually price out FFR cuts, suggesting MYR weakness may persist…



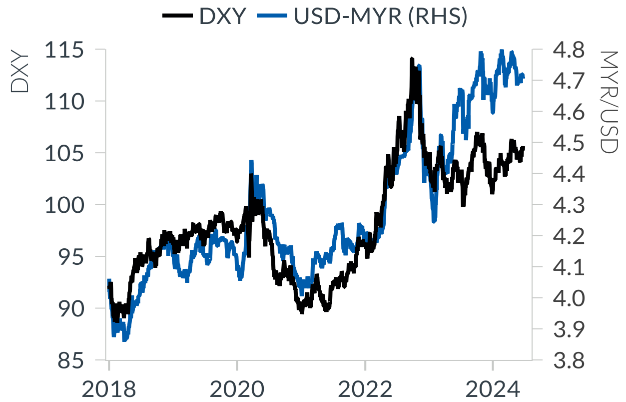
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: … but FFR cuts in 4Q24 may narrow the US-MY spread and lead MYR towards 4.65 per USD



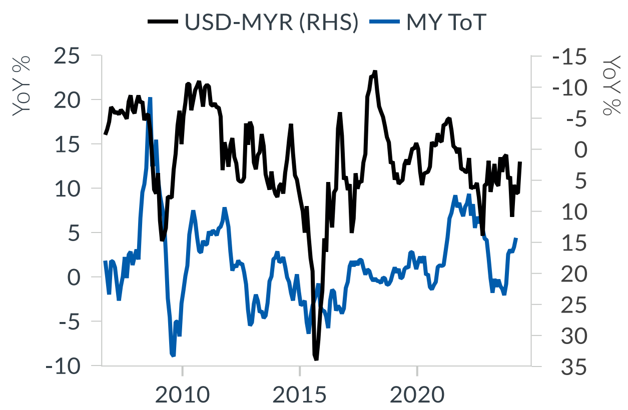
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: Correlation between DXY and MYR resumed



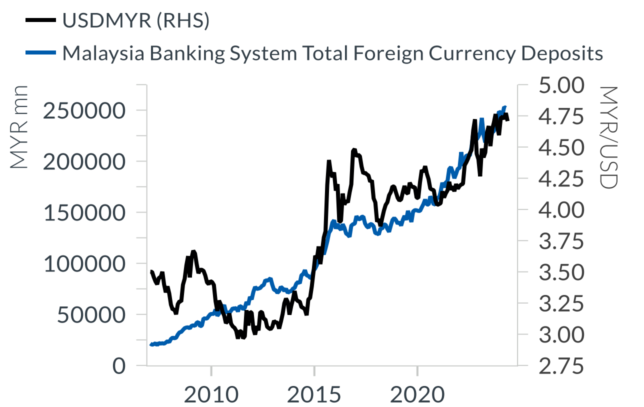
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: Malaysia's terms of trade to strengthen in 2024, which is MYR supportive



Source: Macrobond, RHB Economics & Market Strategy

Figure 22: USD hoarding onshore in Malaysia is still elevated and reflects weak domestic sentiment



Source: Macrobond, RHB Economics & Market Strategy

USD/SGD: Stellar in ASEAN

- **We anticipate the SGD to appreciate to around 1.34 by the end of 2024, with the S$NEER projected to be at a +1.5% appreciation gradient, with a +/-2.0% band.** Our optimistic view on the SGD is primarily based on our expectation that the Monetary Authority of Singapore (MAS) will maintain its current policy settings throughout 2024. The delay in global disinflation momentum and a resilient economic backdrop will likely persuade MAS to keep its policy parameters unchanged in 2024. As an economy heavily reliant on imports, Singapore is vulnerable to imported inflation, especially with the expected rise in food and energy prices. We predict headline and core inflation in Singapore to be 3.5% and 2.8% in 2024, with a potential upward trend for food and energy costs.
- **We foresee that Singapore's manufacturing and trade-related sectors will support the overall growth in 2H24,** driven by a recovery in global trade and a positive outlook on China's economy. However, the country's terms of trade do not trend with S$NEER, given it is a managed float.
- **We favour the SGD for 2024.** Singapore, one of the few Asian economies utilising the Nominal Effective Exchange Rate (S$NEER) as a monetary policy tool, is projected to have a 1.5% appreciation gradient following MAS maintaining the prevailing rate of appreciation of the S$NEER policy parameters at the April Monetary Policy Committee (MPC) meeting. Along with this built-in appreciation mechanism, Singapore's strong economic outlook, combined with anticipated FFR cut in the second half of 2024, suggests that the SGD will be a leading currency among its ASEAN counterparts.
- **Our USD/SGD leading model incorporates seven independent variables, all with p-values below 0.05 and an R-square of 0.86.** Key factors influencing SGD levels include Singapore's industrial production, labour market, and money supply. Additionally, foreign direct investment (FDI) differentials between the US and Singapore show a positive relationship with the USD/SGD exchange rate. These OLS findings are crucial to our perspective on the SGD. However, it is important to note that Singapore is highly vulnerable to global trade disruptions, which poses a risk to a strong SGD if unexpected negative global growth shocks occur in 2024.
- **3Q24: 1.37. The weakness of the SGD may be constrained due to Singapore's S$NEER policy, which provides flexibility in influencing the country's interest rates.** Consequently, the rate differentials between the US and Singapore have shown a relatively low sensitivity to the empirical trends of the USD/SGD exchange rate.
- **4Q24: 1.34. We anticipate the USD/SGD exchange rate to decline as the interest rate differentials between the US and Singapore narrow.** Based on the expectation that market participants will begin pricing in FFR cuts during this period, the SGD could experience a rally reminiscent of the growth years following the Global Financial Crisis (2011-2014: USD/SGD ranged from a low of 1.20 to a high of 1.34), supported by our global economic assumptions.
- **2025: 1.25. We expect the SGD to exhibit lower range-trading behavior in 2025 as the interest rate differentials between the US and Singapore decrease.** Overall, Singapore's economic fundamentals are expected to revert to long-term trends in 2025 as geopolitical and pandemic-related risks significantly diminish.

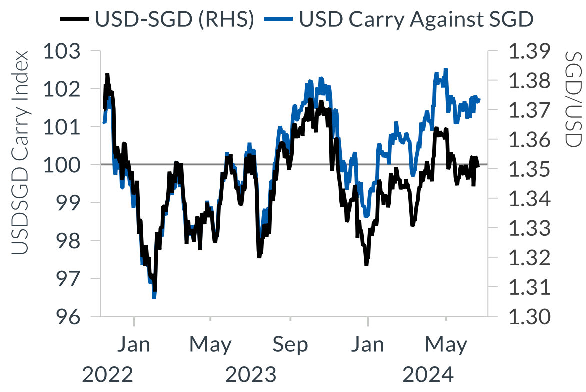
Figure 23: SGD will trade up in 2024 on the back of…

Dependent Variable:	*USD - SGD*			
	Coeff	*Std Err*	*t Stat*	*P-value*
Intercept	2.31	0.14	16.16	0.00
US-SG FDI Differentials (x100K) (t-3)	0.03	0.00	2.37	0.02
Industrial Production Index (x1K) (t-2)	-3.43	0.00	-3.01	0.00
Total Employment (x1K) (t-2)	-0.34	0.00	-6.37	0.00
M2 Money Supply (x100K) (t-4)	-0.14	0.00	-3.68	0.00
Foreign Reserves (x100K) (t-4)	0.12	0.00	3.98	0.00
Non-Performaning Loans: Overall (t-4)	0.03	0.01	3.09	0.00
Bank Loans (x100K) (t-4)	0.07	0.00	9.22	0.00
R-Square	0.86			

Source: RHB Economics & Market Strategy

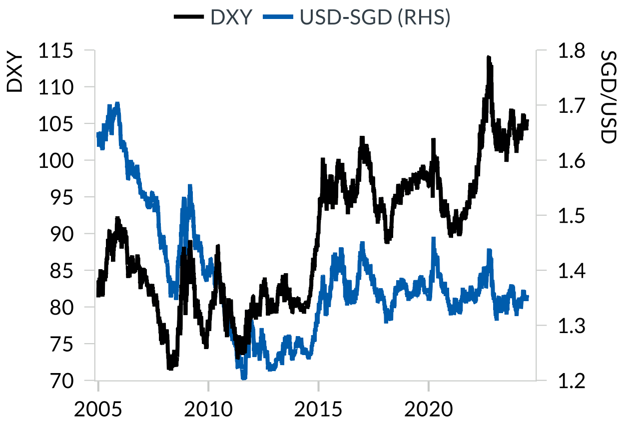
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents a magnification of coefficients

Figure 24: …the negative carry on holding SGD



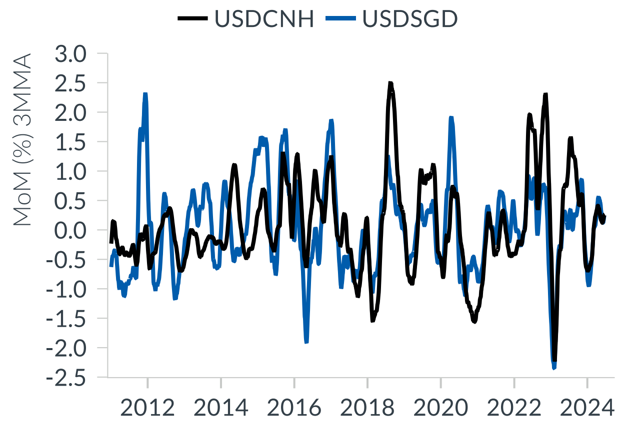
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: USD/SGD will continue to trade with limited correlation with the USD and will be relatively more…



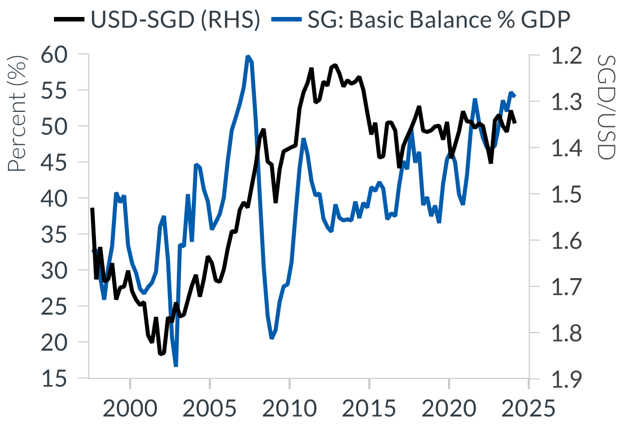
Source: Macrobond, RHB Economics & Market Strategy

Figure 26: …impacted by the momentum of USD/CNH in 2024



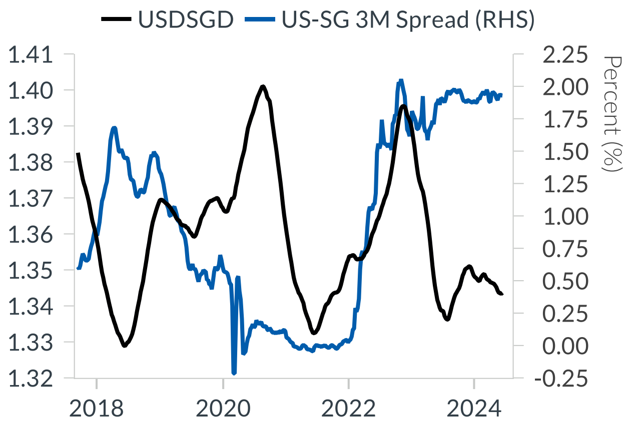
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: SG basic balance is rich, thus supporting SGD



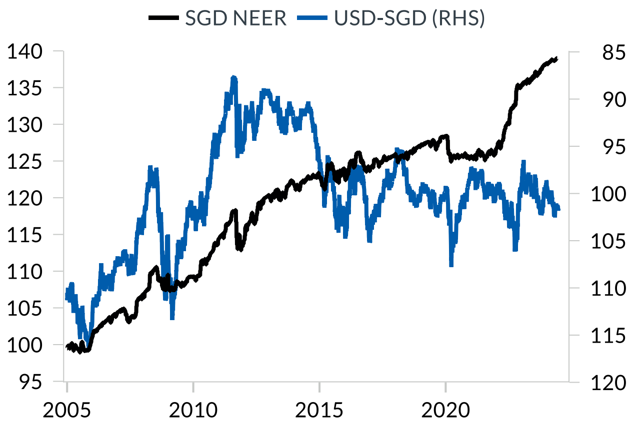
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: SGD not influenced by US-SG spread on the back of its S$NEER policy



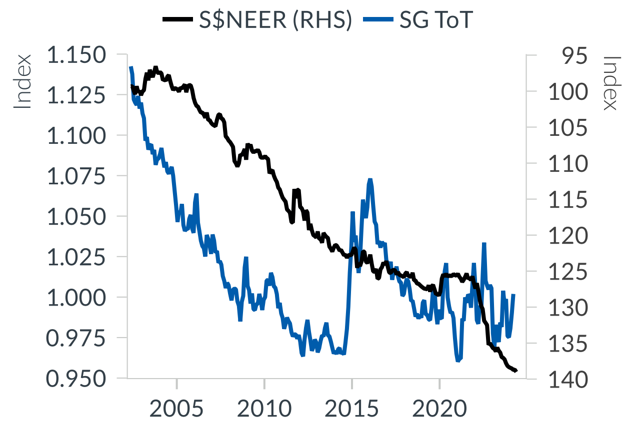
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: S$NEER is rich, symbolic of MAS' managed float tool



Source: Macrobond, RHB Economics & Market Strategy

Figure 30: SG terms of trade do not trend with S$NEER



Source: Macrobond, RHB Economics & Market Strategy

USD/THB: Neutral Amid Increase in Global Growth

- **We remain neutral, THB to head towards 36.44 in 2024.** THB could remain supported by (1) narrower carry seen in the USD-TH 3M spread amid policy normalisation by the Fed in 2H24, (2) short-covering behaviour may ensue given the expiry of energy subsidies in 2Q24 amid (3) the hope for tourism to recover to pre-COVID levels in 2024. Meanwhile, THB's positive real return would come under pressure as we anticipate the CPI to gain momentum throughout 2024. The CPI is expected to continue its upward momentum into 2H24; we expect headline inflation at 1.0% in 2024, driven by elevated food and energy prices. Amid its relatively tame inflation, Thailand's real interest rates have remained high compared to its peers, indicating that the Bank of Thailand (BoT) will likely keep its benchmark rates unchanged for the year.
- **Regarding growth, Thailand's export-oriented economy is set to benefit from the global GDP increase in 2024.** Improvement in the country's exports will lead to better terms of trade that will be supportive of the THB. We estimate Thailand's GDP to grow by 2.4% in 2024, with the balance of risk tilted to the upside, driven by acceleration in tourism and services activities coupled with continued recovery in domestic demand from increased consumer spending.
- **Thailand's CA surplus is expected to increase significantly to 2.4% of GDP in 2024.** However, THB's strength may be capped by the widening fiscal deficit, where we forecast it rise to 3.7% of GDP in 2024, from a 3.5% handle in 2023. Notwithstanding, THB strength is also determined by tourism and retail sales as per our quantitative model in Figure 31, suggesting that the higher tourism activities in 2024 will help.
- **Interest rate differentials between US-TH is one of the key determinants of THB due to its strong correlation.** It is quite clear that THB is trading in tandem with the interest rate as seen in 1H24; we expect this trend to continue. With the expectations of FFR cuts this year, THB would benefit from the narrowing of differentials. That said, the USD would remain a more attractive carry trade against the THB.
- **BoT is expected to maintain its benchmark rate at 2.50% throughout 2024.** Drivers of our view are: (1) inflation pressures are likely to rise as the year progresses, (2) the positive outlook on Thailand's economic growth on the back of a continued recovery in private consumption, and (3) rate cuts are not a macro prudent move given elevated global inflation.
- **Policy-related noise is likely to weigh on investor sentiment against THB and the economy.** We stay cognizant on the potential downside risks to THB strength, investor confidence, and consumer confidence, should policy uncertainties and its related noise exacerbate in 2H24.
- **Our USD/THB leading model indicates that higher foreign reserves, tourism, and consumer confidence are key determinants of the currency pair.** The model supports our view of the THB's resilience in 2024, bolstered by positive spillover effects from consumer spending and confidence, which we believe will increase alongside the ongoing recovery seen this year.
- **3Q24: 36.83. We anticipate the USD/THB to be resilient with an upward bias.** We expect the market to start pricing out multiple FFR cuts, including cuts in 3Q. Thus, the yield differential between US-TH will remain high, while pressuring the THB.
- **4Q24: 34.44. We forecast the USD/THB to trend lower as the interest rate differentials between the US and Thailand narrow, assuming market participants start pricing in a FFR cut during this period.** By the second half of 2024, we should also see clearer signs of China's economic recovery, which would positively impact Thailand's manufacturing and tourism sectors. Overall, we expect the THB to be neutral, returning to levels similar to those at the beginning of 2024.
- **2025: 34.47. We expect the THB to return to a lower range-trading behaviour amid narrowing US-TH rate spreads.** By 2025, Thailand's tourism sector should have returned to pre-pandemic levels, and significant reductions in geopolitical and pandemic-related risks are likely to be seen.

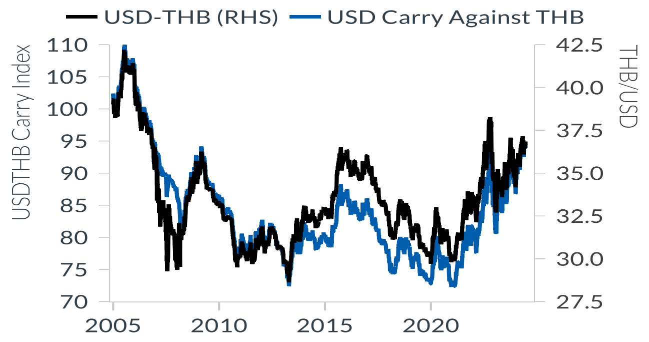
Figure 31: Tourism economic activities are key drivers of THB

Dependent Variable:	USD - THB			
	Coeff	*Std Error*	*t Stat*	*P-value*
Intercept	39.09	1.60	24.39	0.00
M2 Money Supply (x100K) (t-2)	0.08	0.00	7.42	0.00
Foreign Reserve (x100K) (t-3)	-8.13	0.00	-8.41	0.00
Accommodation Occupancy Rate (t-4)	-0.05	0.01	-4.97	0.00
Consumer Confidence Index (t-2)	-0.09	0.03	-2.79	0.01
Motor Vehicle Sales (YoY) (t-2)	-0.01	0.00	-2.81	0.01
Credit Card Spending Value (YoY) (t-2)	0.07	0.01	4.74	0.00
R-Square	0.789			

Source: RHB Economics & Market Strategy

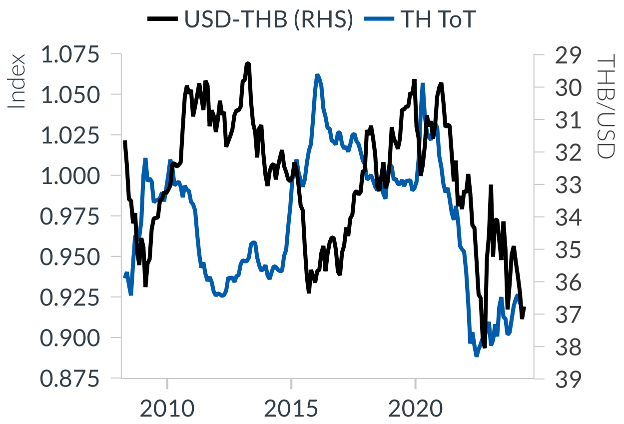
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents a magnification of coefficients

Figure 32: Negative carry will propel USD/THB higher in 2024



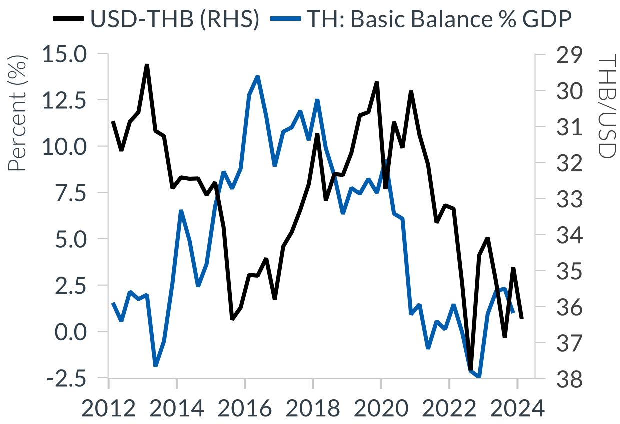
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: THB trends well against its terms of trade



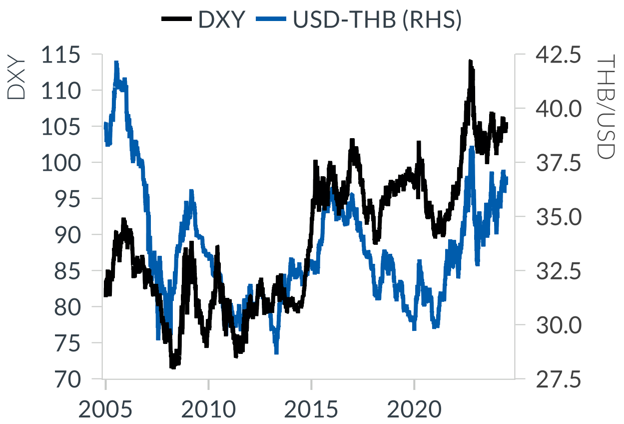
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: TH's Basic Balance slows in 1H23, but a better economic prognosis will help THB in 2024



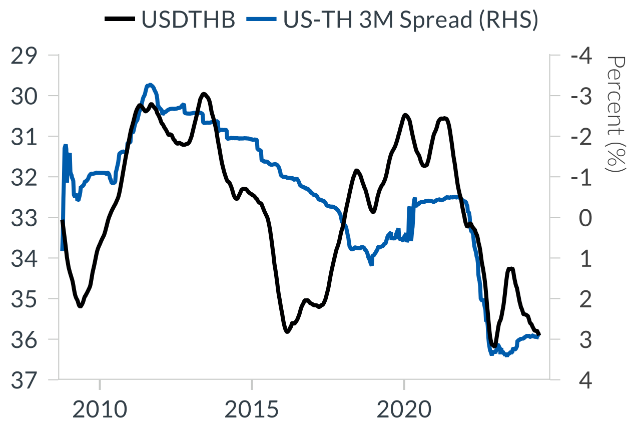
Source: Macrobond, RHB Economics & Market Strategy

Figure 35: THB resumes its trend with USD...



Source: Macrobond, RHB Economics & Market Strategy

Figure 36: ... while a narrower US-TH rate spread will help THB



Source: Macrobond, RHB Economics & Market Strategy

Economic Outlook

Indonesia

Moderation of GDP Growth Momentum in 2H24

- **We maintain our forecast for Indonesia's annual GDP growth at 5.00% in 2024 and expect the growth momentum to remain robust in 1H24, followed by a potential weakening in household consumption in 2H24.**
- **We keep our 2024 headline and core inflation forecasts at 3.3% YoY and 2.2% YoY, respectively.**
- **We maintain our forecast for Bank Indonesia to keep the benchmark policy rate at 6.25% for 2024 and anticipate three 25bps cuts in 2025, reducing it to 5.50%.**

Associate Economist

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Figure 1: Key Economic Forecasts

	2023	2024F	2025F	1H24F	2H24F	1H25	2H25
Real GDP Growth (% YoY)	**5.0**	**5.0**	**5.3**	**5.1**	**4.9**	**5.2**	**5.4**
Contribution to real GDP Growth (%)							
Private Consumption	2.5	2.5	2.7	2.5	2.3	2.6	2.8
Investment	1.4	2.0	1.9	2.0	1.9	1.8	2.1
Government Consumption	0.2	0.7	0.4	0.5	0.9	0.3	0.4
Net Exports	0.7	-0.1	0.2	-0.1	-0.2	0.2	0.1
CPI	**3.7**	**3.3**	**3.0**	**2.9**	**3.6**	**3.2**	**2.8**
Policy Interest Rate	**6.00**	**6.25**	**5.50**	**6.25**	**6.25**	**5.75**	**5.50**
Current Account Balance (% of GDP)	**0.1**	**-0.8**	**-1.0**	**-0.6**	**-1.0**	**-0.8**	**-1.2**
Fiscal Balance (% of GDP)	**-1.7**	**-2.5**	**-3.0**	**1.6**	**-6.6**	**1.5**	**-7.5**

Source: CEIC, RHB Economics & Market Strategy

We maintain our forecast for Indonesia's annual GDP growth at 5.00% in 2024 and expect the growth momentum to remain robust in 1H24, followed by a potential weakening in household consumption in 2H24. Our view for Indonesia's growth trajectory is driven by three primary factors: (1) the strength in consumer demand, (2) the resurgence of global trade activities and (3) the growth in foreign direct investment**.** On the domestic front, household consumption expenditure remains the primary contributor to Indonesia's GDP growth; we expect growth momentum to remain resilient in 2Q24, supported by the seasonal surge in retail spending during the *Lebaran* celebration. However, in 2H24, we are adopting a more cautious stance, foreseeing a downside risk to GDP growth stemming from a potential flat or even declining trajectory in retail spending. As outlined in our thematic report, retail spending in 2H24 is expected to decelerate due to diminished sentiment post-*Lebaran*, deterioration of purchasing power in the low-income segment, and stagnant long-term income growth expectations.

On the external front, we maintain our positive view for Indonesia's trade to continue recover in 2024. The exports trajectory is supported by a rosier global economic outlook, heightened commodity demand from China, and elevated commodity prices. We maintain our optimistic global growth projection for 2024, driven by heightened economic momentum in major economies. Our confidence in global economic growth in 2024 remains strong, with above-consensus forecasts for the US and China to expand by 2.5% and 5.0% respectively. The positive trajectory in the global economic landscape is further supported by the Sentix Global Economic Sentiment Index (Figure 4) which reflects improved global business sentiment over the next six months. Simultaneously, the Global Industrial Production Index, which measures global economic activity, indicates recovering momentum in global production.

Our expectation of a potential weakening in GDP growth momentum in 2H24 is further supported by our proprietary Composite Leading Index (CLI) model, which leads empirical GDP data by two quarters. Our CLI has accurately captured the GDP trend in 1H24. The CLI model, which takes on six independent variables, suggested persistent strength in GDP growth in 1Q24 which has also materialised nicely. Looking forward to 2H24, the CLI points to a probable slowdown in growth momentum, projecting a downward trajectory that suggests economic momentum in 3Q24 could fall below 5% YoY. Notably, high-frequency data such as consumer sentiment and the retail sales index (Figure 3) have shown a declining momentum. Typically, these indicators peak during *Ramadan* and *Lebaran* before gradually moderating and trending downwards until the festivities in December.

We keep our 2024 headline and core inflation forecasts at 3.3% YoY and 2.2% YoY, respectively. While we anticipate that headline inflation will likely align with the official target at the upper bound of the 2.5% ± 1% YoY range, we remain watchful of the inflation momentum and have identified several key determinants of its trajectory. These include (1) the impact of adverse weather conditions on food prices, (2) the potential impact from exchange rate pass-through due to the weakening of the IDR, and (3) muted demand-side pressure in 2H24. **Food inflation remains the primary contributor to the inflation momentum.** According to Indonesia's Minister of Agriculture Andi Amran Sulaiman[1], domestic rice production is estimated to decline by 2.47 million tonnes during the January-July 2024 period compared to the same period in 2023. This is primarily due to a decrease in the rice planting area by 36.90%, down to 6.55 million hectares during the October 2023-April 2024 planting period from an average of 10.39 million hectares for the same period in 2015-2019. The decline in rice production was caused by the *El Niño* climate anomaly which led to extreme drought in Indonesia, while the upcoming long dry season from June to September 2024 could further exacerbate the situation.

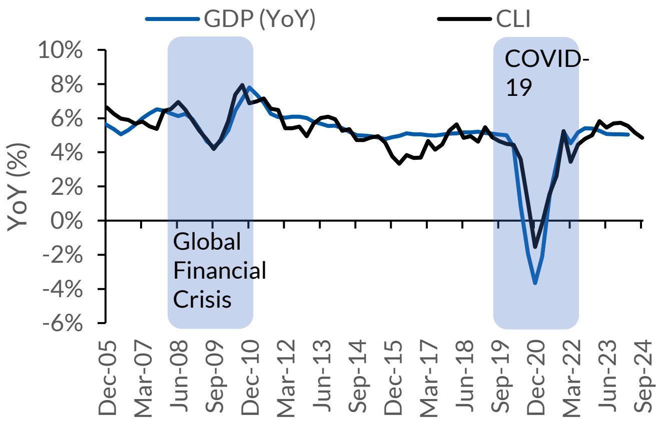
We maintain our forecast for Bank Indonesia (BI) to keep the benchmark policy rate at 6.25% for 2024 and anticipate three 25 bps cuts in 2025, reducing it to 5.50%. At this juncture, we do not see a need for interest rate intervention from BI, as the interest rate differential between Indonesia and global economies has limited influence on the recent weakening and volatility in the IDR. We observe that the primary cause of IDR weakening has shifted from the interest differential between the US and Indonesia to other idiosyncratic factors. Additionally, higher interest rates may dampen consumer sentiment and further slow household consumption expenditure growth. Therefore, there is no incentive for BI to hike interest rates further to contain inflation, given the core inflation, as the gauge of demand-pull inflation, remains subdued.

We keep our 2024 current account (CA) balance forecast unchanged at -0.8%. We foresee stabilisation and slight improvement in the trade balance with recovery in both exports and imports in the next quarter. Several domestically focused commodities, such as coal, palm oil, and nickel, have shown signs of picking up since the beginning of the year. Our 2024 commodity forecasts for Brent are held steady at USD85 - USD95/barrel (2023 YTD average: USD82/barrel) while the average for crude palm oil is projected at MYR3,900/MT (2023: MYR3,700 - MYR3,800/MT)[2].

We maintain our fiscal deficit projection at 2.5% of GDP for 2024, with a upward revision to 3% of GDP for 2025. This adjustment follows President-elect Prabowo Subianto's recent announcement to increase the debt-to-GDP ratio by two percentage points annually, aiming to raise it from 39% YTD to 50% over the next five years. We anticipate that Indonesian government spending will rise in line with initiatives such as the free lunch and milk programme, as well as other key measures aimed at stimulating growth to achieve the long-term goal of Indonesia becoming a high-income country by 2045, which necessitates accelerating GDP growth to 6 - 8% from the current average of 5%.

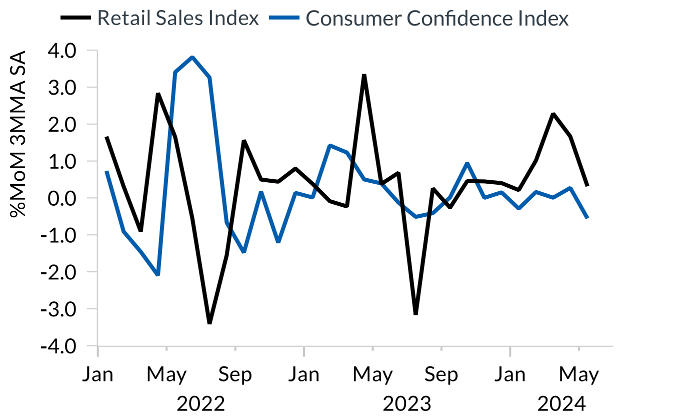
[1] Nusa Bali, Indonesia is starting to be hit by a drought, rice production is threatened with a decline, 21 June 2024
[2] RHB Research, 1Q24 Earnings Missed, But Fundamentals Improving, 11 June 2024

Figure 2: We see a potential weakening in household consumption in 2H24…



Source: CEIC, RHB Economics & Market Research

Figure 3: …led by a moderation in retail spending post-*Lebaran* celebration

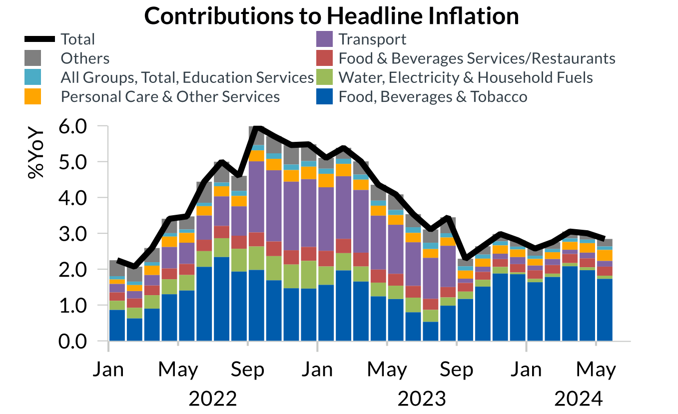


Source: Macrobond, RHB Economics & Market Research

Figure 4: We anticipate the exports recovery trajectory to sustain on the back of global economic recovery

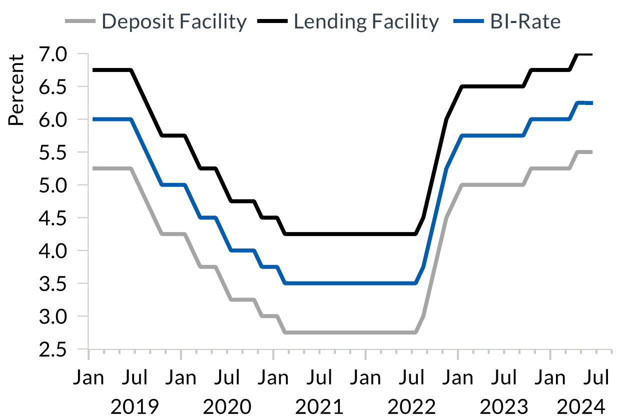
Source: Macrobond, RHB Economics & Market Research

Figure 5: Food inflation driven by adverse weather conditions remain a key contributor to headline inflation



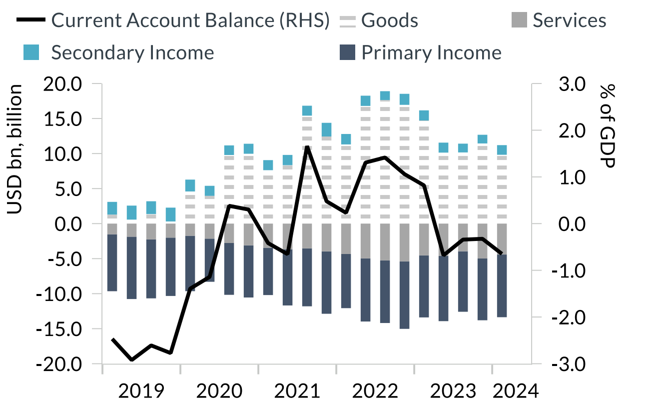
Source: Macrobond, RHB Economics & Market Research

Figure 6: We see no incentive for Bank Indonesia to hike interest rates further



Source: Macrobond, RHB Economics & Market Research

Figure 7: Current account deficits will normalise with the moderation in commodity prices



Source: Macrobond, RHB Economics & Market Research

Malaysia

Increasing Signs of Rosy Economic Prospects

- **We maintain our Malaysia GDP forecast at 4.6% YoY in 2024 (2023: 3.7% YoY) versus the official projected range of 4.0 – 5.0%. Our composite leading indicators – RHB-LEI (MY) – suggest that Malaysia's economic growth will accelerate to 5% YoY in 2Q24 and likely persist into 3Q24.**

- **We revise our 2024 headline inflation projection to 2.6% YoY versus our former forecast of 3.3% YoY. Our revision is founded on (1) marginal direct impact of diesel subsidy rationalisation on headline inflation and (2) delay in the implementation of RON95 petrol subsidy to end-2024 (at the earliest).**

- **On the policy front, the Overnight Policy Rate is likely to be maintained at 3.00% amid uncertainties on the inflationary trajectory. On the fiscal front, we keep our 2024 fiscal deficit projection at 4.3% of GDP.**

Economist

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Figure 1: Key Economic Forecasts

	2023	2024F	2025F	1H24F	2H24F	1H25F	2H25F
Real GDP Growth (% YoY)	**3.7**	**4.6**	**4.7**	**4.6**	**4.6**	**4.8**	**4.7**
Contribution to real GDP Growth (%)							
Private Consumption	2.8	3.5	3.5	3.3	3.7	3.5	3.5
Investment	1.1	1.4	0.6	1.6	1.2	0.6	0.6
Government Consumption	0.5	0.6	0.4	0.6	0.5	0.5	0.3
Net Exports	-0.6	0.2	0.3	-0.2	0.7	0.5	0.1
CPI	**2.5**	**2.6**	**2.9**	**1.8**	**3.4**	**3.0**	**2.8**
Policy Interest Rate	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**
Current Account Balance (% of GDP)	**1.2**	**2.9**	**3.0**	**3.3**	**2.6**	**2.9**	**3.1**
Fiscal Balance (% of GDP)	**-5.0**	**-4.3**	**-3.8**	**-4.1**	**-4.5**	**-3.7**	**-3.9**

Source: CEIC, RHB Economics & Market Strategy

We maintain our Malaysia GDP forecast at 4.6% YoY in 2024 (2023: 3.7% YoY) versus the official projected range of 4.0 – 5.0%. Our composite leading indicators – RHB-LEI (MY) – suggest that Malaysia's economic growth will accelerate to 5% YoY in 2Q24 and likely persist into 3Q24. The economic growth momentum is envisaged to remain resilient, driven by both external and internal drivers. Domestic confidence has shown signs of improvement. Three key proxies, specifically (1) a rebound in the manufacturing Purchasing Managers' Index, (2) increased imports of capital and intermediate goods, and (3) rising business confidence, suggest that manufacturers' and businesses' optimism is up. Investment spending is projected to remain robust in 2024, supported by capacity expansion and business-friendly policies. Public investment and construction sector activities have picked up in recent quarters amid accelerated progress of selected civil engineering projects coupled with support from special trade and residential activities. Further upsides on investments would emanate from the implementation of catalytic initiatives under the national master plan.

On the downside risk, we recognise opposing factors where dampening effects may emanate from reduced subsidies and revision in consumption tax measures, which will cap consumer expenditure and disposable income from a wealth effect perspective. However, the impact would be cushioned by (1) healthy labour demand conditions, (2) continuation of social assistance to targeted groups, and (3) differing impacts across income groups where the higher income group has relatively inelastic demand.

Malaysia's trade performance would be buoyed by (1) resilient economic growth prospects in major economies, (2) upsides in commodity prices, and (3) re-acceleration in the global technology cycle. The upturn in the technology cycle is indicated by the uptrend in E&E exports by regional economies and the projected strong rebound in global semiconductor sales. Our positive view is further reinforced by recent developments such as upbeat trade performance in the past data releases, coupled with improvement in the manufacturing sector sentiment and investment appetite.

We revise our 2024 headline inflation projection to 2.6% YoY versus our former forecast of 3.3% YoY. The projected range is revised to 2.5 -2.8% YoY, versus our prior estimate of 3.2 -3.6% YoY. Our revision is founded on (1) marginal direct impact of diesel subsidy rationalisation on headline inflation and (2) delay in the implementation of RON95 petrol subsidy to end-2024 (at the earliest), with more details might be released during the tabling of Budget 2025. The direct impact of diesel subsidy float in Peninsular Malaysia would be marginal, with potential upside on the headline inflation less than 0.1%. The subsidies will continue for most of the diesel-powered commercial vehicles and for public transportation.

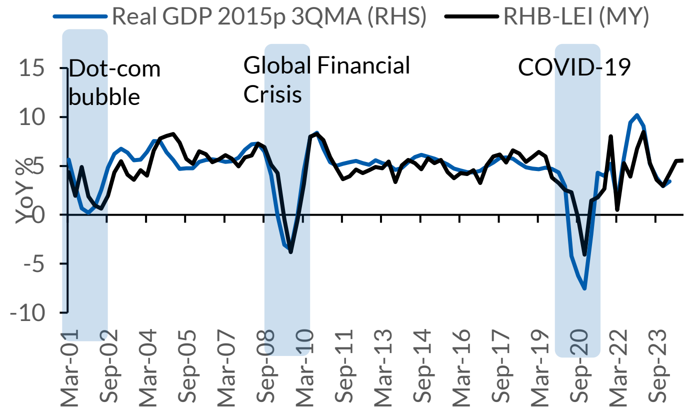
Based on our quantitative analysis, every 1% increase in RON95 retail price would have 0.05% upside in headline inflation, implies that the free float of RON95 petrol might have potential upside on inflation by 3.05% (based on the unsubsidised RON95 petrol price of RM3.30/litre as at 19 June versus the current retail price of RM2.05/litre). The retargeting of the RON95 subsidy rationalisation might take form in a more gradual approach, as it involves a larger consumer base with a significant weightage of 5.5% in the CPI basket (versus diesel at 0.2%). The inflation trajectory going forward would hinge on: (1) lagged impact from services tax revision and implementation of Low Value Goods Tax (LVGT), (2) impact from RON95 subsidy rationalisation, (3) potential demand upsides from partial pension fund withdrawals, and (4) spill-over impact from higher global commodity and food prices.

We revise our current account balance projection to 2.9% of GDP versus our former projection of 2.3% of GDP (1.2% of GDP in 2023). The current account surplus gained pace to 3.5% of GDP in 1Q24 (exceeding our in-house projection of 1.3%of GDP), on broad-based improvement across the income, goods & services account balance. Going forward, the goods surplus would be buoyed by higher exports receipts, in tandem with strengthening external demand. Meanwhile, the services account would be supported by higher tourism arrivals and receipts. Tourism activities are expected to be boosted by government measures, ie tourism promotion activities abroad and the 30-day visa-free travel for nationals from China and India.

We maintain our 2024 fiscal deficit projection at 4.3% of GDP. We opine that Malaysia is on track to achieve its fiscal deficit target of 4.3% of GDP in 2024 (against 5.0% of GDP in 2023), in line with the Government's commitment to fiscal strengthening and consolidation. With the operating expenditure (OE) accounting for more than 95% of central government revenue, the adoption of a two-pronged fiscal consolidation strategy, ie revenue diversification and OE rationalisation, is necessary to contain the fiscal deficit. The recent implementation of a diesel price float in Peninsular Malaysia would supplement other existing fiscal consolidation measures, ie revision in services tax and utilities tariffs, which is expected to improve the fiscal position relative to 2023. We view that higher revenue collection would be achievable for 2024, supported by higher proceeds of company and individual tax collection amid improved economic prospects and a broader tax base coupled with enhancement of tax collection efficiency.

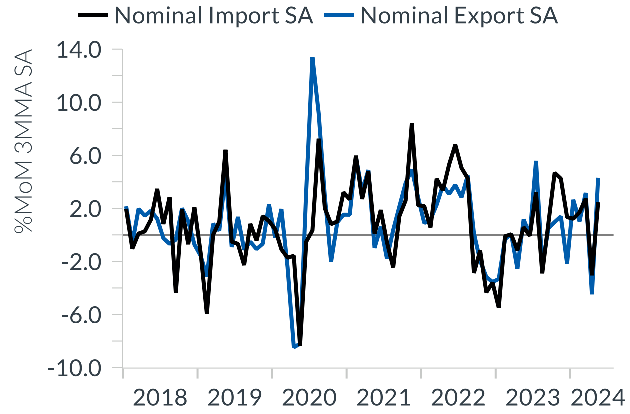
On the policy front, the Overnight Policy Rate (OPR) is likely to be maintained at 3.00% for 2024. We see a lack of impetus for Bank Negara Malaysia to tweak its policy rate level in 2024, considering the rosier domestic economic prospects amid uncertainties in the inflationary trajectory. The wide official inflation range of 2.0% to 3.5% should provide sufficient room against future price movements. The policymakers might hold the OPR rate while assessing the lagged impact of fiscal policy changes on the overall inflationary trajectory and economic momentum.

Figure 2: RHB-LEI (MY) suggesting an acceleration in economic momentum for upcoming quarters



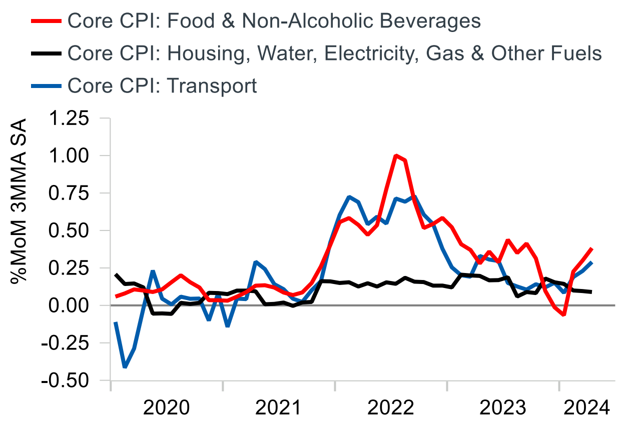
Source: CEIC, RHB Economics & Market Strategy

Figure 3: Trade momentum is picking up



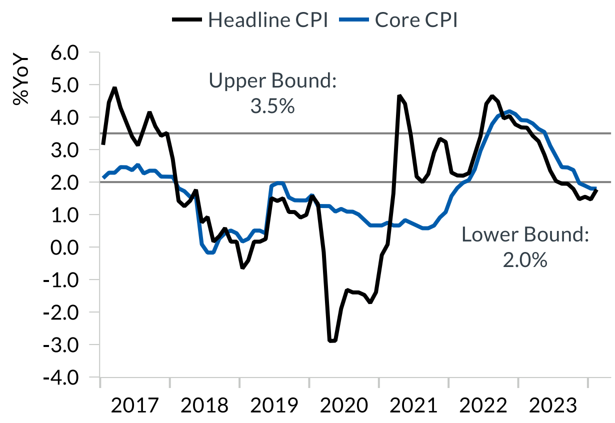
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Core inflation is lifted by higher momentum of food and transportation inflation



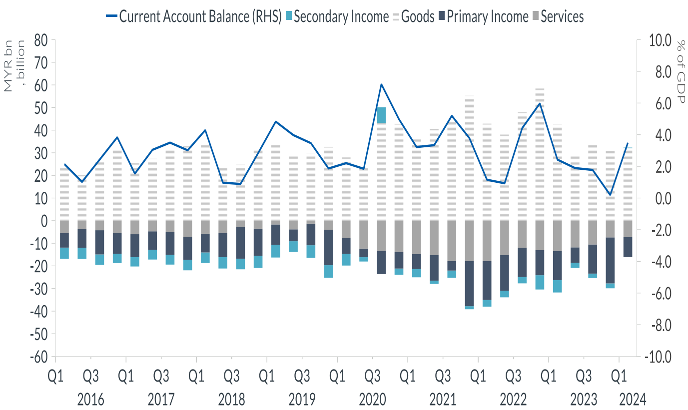
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: BNM is likely to stay pat at 3.0% if the headline inflation falls within the projected range



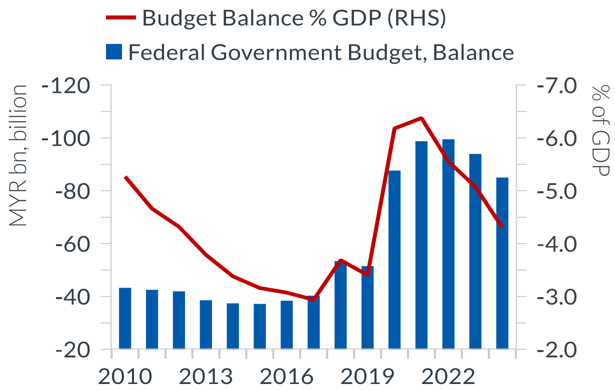
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: The current account balance projection to improve to 2.9% of GDP for 2024



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Our 2024 fiscal deficit projection is 4.3% of GDP



Source: MOF, RHB Economics & Market Strategy

Singapore

Services and Retail Trade to Continuously Bolster GDP Growth in 2H24

- **We anticipate that Singapore's growth momentum will accelerate in the second half of 2024, leading to a full-year GDP growth rate of 2.5% YoY.**
- **Our Singapore headline and core inflation forecasts remain unchanged at 3.5% and 2.8% in 2024.**
- **We expect the Monetary Authority of Singapore to keep its monetary policy parameters unchanged in 2024.**

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Figure 1: Key Economic Forecasts

	2023	2024	2025F	1H24F	2H24F	1H25F	2H25F
Real GDP Growth (% YoY)	**1.1**	**2.5**	**3.0**	**2.4**	**2.6**	**3.5**	**2.5**
Contribution to real GDP Growth (%)							
Private Consumption	1.3	2.5	2.8	1.6	3.4	3.4	2.1
Government Consumption	0.3	1.0	0.2	1.0	1.0	0.2	0.2
Gross Fixed Capital Formation	-0.1	-0.5	1.9	-0.8	-0.3	2.2	1.7
Net Exports	2.9	0.1	1.8	-0.3	0.5	2.1	1.5
CPI	**4.8**	**3.5**	**3.5**	**3.0**	**3.8**	**4.2**	**2.9**
Current Account Balance (% of GDP)	**19.8**	**16.7**	**17.2**	**16.6**	**16.8**	**17.0**	**17.3**
Fiscal Balance (% of GDP)	**-0.5**	**0.1**	**0.1**	**1.2**	**-2.1**	**0.1**	**0.1**

Source: Bloomberg & CEIC, RHB Economics & Market Strategy

We anticipate that Singapore's growth momentum will accelerate in the second half of 2024, leading to a full-year GDP growth rate of 2.5% YoY. The RHB Singapore GDP leading index model, which incorporates high-frequency indicators, has performed well, indicating a 2.7% YoY increase for Singapore's GDP in the first quarter of 2024. The same model suggests that economic growth will show a slight acceleration of 2.9% in 2Q24. Our model also suggests that further GDP growth acceleration is expected in the second half of 2024.

Singapore's service sector is expected to drive growth in 2024. We are seeing full-year growth at 2.0% YoY for the wholesale and retail sector, and we anticipate retail will continue to be a strong growth pillar in 2H24. Our positive outlook is supported by three main factors: First, a favourable global environment will boost tourism arrivals in ASEAN. We maintain our positive outlook on China's economy as stated in our previous thematic paper, which primarily indicates that inbound tourism demand from China to ASEAN-6 will increase in 2024. Second, significant international events in 2Q24 – 3Q24 offer an optimistic outlook for the retail sector, as the anticipated rise in tourist arrivals is expected to boost consumer spending and drive retail sales. Third, the implementation of Singapore's Budget Assurance Package via Community Development Council (CDC) voucher distribution is expected to stimulate local spending.

We anticipate that Singapore's manufacturing and trade-related sectors will contribute to overall growth in 2H24. Notably, the global external economic environment has been resilient thus far, which supports our above-consensus GDP growth forecasts for the US (2.5%) and China (5.0%) in 2024. We see strong growth potential, especially for Singapore's electronic sector in 2H24 as this sector is expected to benefit from the current upswing in the global tech cycle, which will bolster electronic production in the coming quarters. We project non-oil domestic exports (NODX) and industrial production (IP) full-year growth at 0.5% and 1.0% respectively in 2024. Despite the recent negative annual figures in Singapore's IP and NODX, we remain optimistic about global external demand for the coming year. Overall, we assert that electronics, precision engineering, machinery, and wholesale trade are fundamental pillars supporting Singapore's GDP.

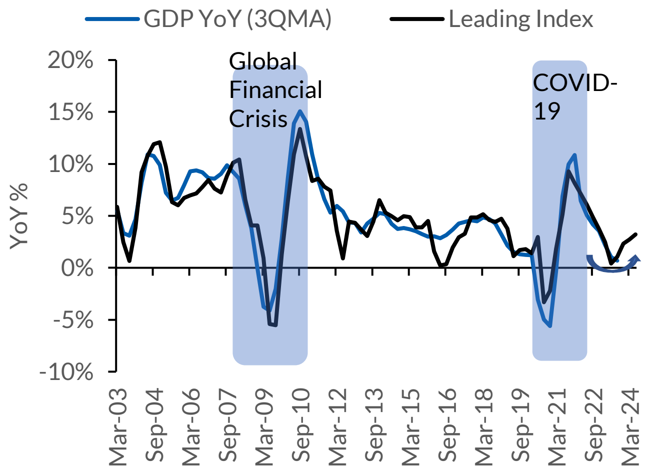
We maintain our projection on Singapore's headline and core inflation at 3.5% and 2.8% in 2024. Given Singapore's heavy reliance on imported goods, including essentials such as food and energy, higher import prices are expected to drive up consumer prices in the coming quarters. We maintain the view that Singapore's imported inflation will continuously pick up in 3Q24 on the back of higher commodity prices in the months ahead. We are already witnessing higher prices for food, energy, and metals in 2Q24, which may pose upside risks to Singapore's imported inflation. Staples like rice and palm oil are experiencing accelerated price momentum, with further price increases likely due to ongoing *El Niño* weather conditions. Besides, higher retail prices, driven by concerts and international events attracting inbound tourists, are likely to persist in 1H24. Strong consumer spending from these events contributes to inflationary pressures, as increased aggregate demand can exceed supply.

We expect the Monetary Authority of Singapore (MAS) to keep its monetary policy parameters unchanged in 2024 due to the delay in global disinflation momentum and a resilient economic backdrop. Our S$NEER assumptions are unchanged as the S$NEER appreciation is perceived at +1.5%, with a +/-2.0% band, whereby the S$NEER is at +1.5% above the midpoint at the time of writing as discussed in our latest 1Q24 GDP report. The caveat to our expectations for MAS to stay its hand this year will center 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.

We expect a fiscal surplus of 0.1% of GDP in 2024, against the empirical deficit of 0.5% in 2023. The FY2024 budget, announced on 16 February 2024, has successfully aligned with our internal projections for a fiscal surplus of 0.1% of GDP. Budget FY2024 outlines a total expenditure of SGD111.8 billion, focusing on significant investments in transport, healthcare, and education. Notably, the GST rate increase from 8% to 9% is expected to generate SGD19.4 billion in revenue for FY2024. The overall fiscal position is balanced, with a modest surplus of SGD777.5 million for FY2024, compared to the previous year's revised deficit of SGD3.57 billion.

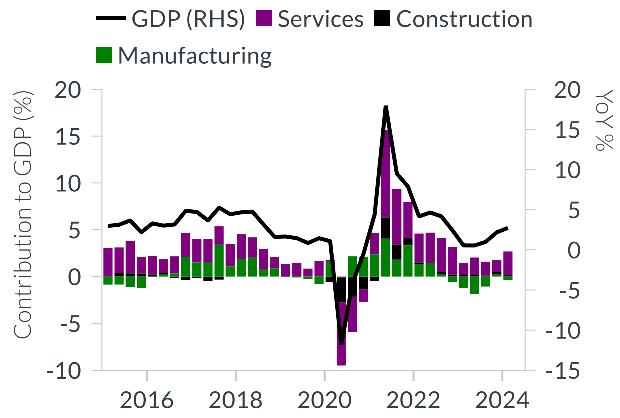
We forecast Singapore's current account surplus at 16.7% in 2024, from the empirical of 19.8% in 2023. The lower surplus ratio is underpinned by our optimistic GDP forecast of 2.5% in 2024. Despite the decline from the previous year, the current account balance will likely benefit from China's anticipated economic recovery, and the services trade is expected to contribute positively in 2024. However, a potential risk to this outlook is a further slowdown in global trade flows, which could impact Singapore's trade dynamics in 2024.

Figure 2: RHB SG GDP-LEI suggests a continuous uptick in momentum into 2H24



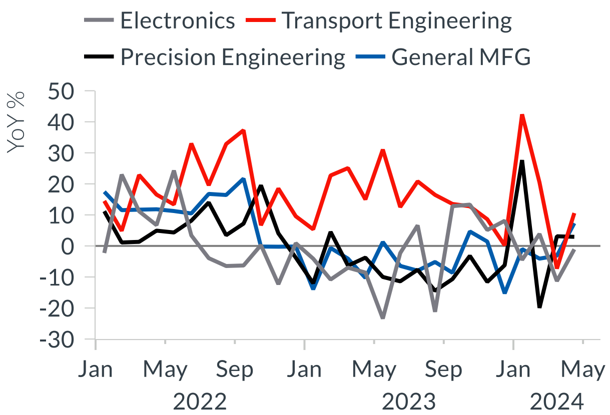
Source: CEIC, RHB Economics & Market Strategy

Figure 3: Further recovery in services and manufacturing to spur Singapore's GDP growth in 2024



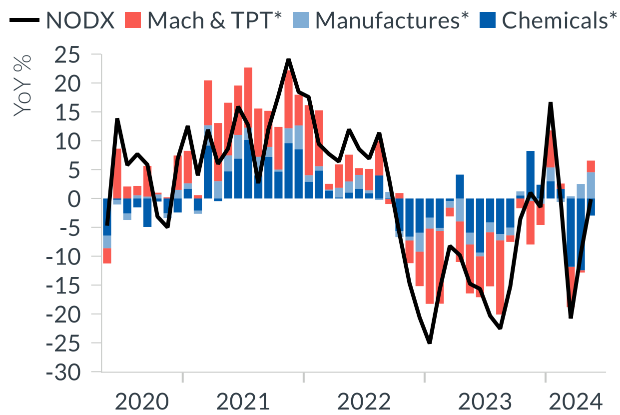
Source: CEIC, RHB Economics & Market Strategy

Figure 4: Key manufacturing clusters may continue to show upward trajectory in 3Q24



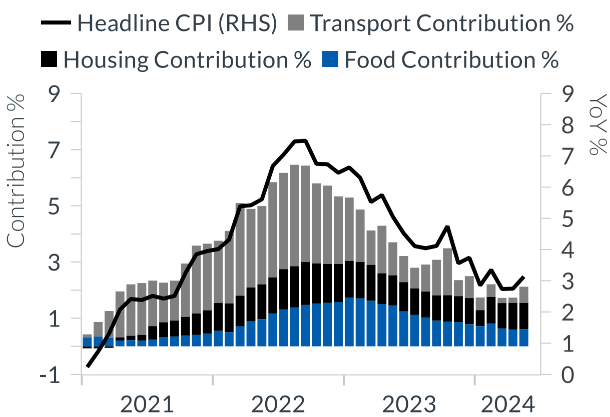
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Externally-facing industries like NODX are projected to rebound in 2024



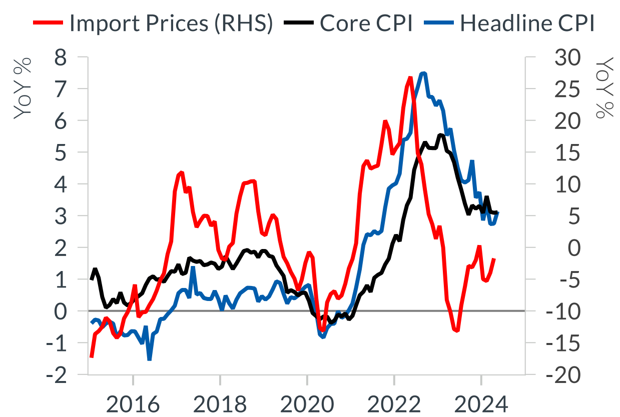
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: Food and housing CPI remains elevated in recent months…



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: …while sticky inflationary pressure is expected to persist in 1H24 due to accelerating import prices



Source: Macrobond, RHB Economics & Market Strategy

Thailand

Healthy Consumption Environment to Spur GDP Growth in 2H24

- **We keep Thailand's full-year GDP growth at 2.4% YoY in 2024, marking an acceleration from 2023's 1.9% YoY print.**
- **We maintain our forecast for Thailand's headline and core inflation at 1.0% and 0.7%, respectively, in 2024.**
- **We keep our expectation for the Bank of Thailand to maintain its benchmark rate at 2.50% for the year ahead.**

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Figure 1: Key Economic Forecasts

	2023	2024F	2025F	1H24F	2H24F	1H25F	2H25F
Real GDP Growth (% YoY)	**1.9**	**2.4**	**3.0**	**1.9**	**2.9**	**3.5**	**2.6**
Contribution to real GDP Growth (%)							
Private Consumption	4.0	2.5	2.8	2.2	2.7	2.9	2.7
Government Consumption	-0.7	0.1	0.2	-0.2	0.3	0.2	0.2
Gross Fixed Capital Formation	0.3	-0.5	0.4	-0.6	-0.4	0.5	0.4
Net Exports	3.0	-1.4	1.5	-1.4	-1.3	1.3	1.7
CPI	**1.3**	**1.0**	**2.5**	**-0.1**	**2.1**	**3.0**	**2.0**
Policy Interest Rate	**2.50**	**2.50**	**2.50**	**2.50**	**2.50**	**2.50**	**2.50**
Current Account Balance (% of GDP)	**1.1**	**2.4**	**3.5**	**1.7**	**3.1**	**3.5**	**3.6**
Fiscal Balance (% of GDP)	**-3.4**	**-3.7**	**-4.4**	**-3.6**	**-3.8**	**-4.4**	**-4.3**

Source: Bloomberg & CEIC, RHB Economics & Market Strategy

We keep Thailand's full-year GDP growth at 2.4% YoY in 2024, marking an acceleration from 2023's 1.9% YoY print. Our outlook is guided by the Auto-Regression model, which is hinting at a slight economic slowdown to 2.0% YoY in 3Q24, from 2.3% YoY in 2Q24, thus translating to 1H24 GDP growth of 1.9% YoY (against market expectations of 1.8% YoY in 1H24). Nonetheless, we expect private consumption to slowly recover in 2H24; as it accounts for around 60% of GDP, this makes it a dominant contributor to overall growth. We anticipate further acceleration in tourism and services activities, along with a continued recovery in domestic demand driven by increased consumer spending.

We keep our optimistic view for private consumption to continue to recover in 2H24, thus making it a dominant contributor to overall growth. We expect private consumption and tourism to remain favourable in 2024, while the rebound in investment and public consumption will take time to recover. With accelerating inbound tourism growth, Thailand's tourism outlook appears promising. The better-than-expected tourism arrivals so far suggest that the services sector may outperform in 2024. Additionally, there are potential upside risks to our 2.4% YoY full-year growth forecast if the Government's THB500 billion household stimulus plan is launched in the final quarter as planned, as this stimulus is expected to boost consumption spending and elevate GDP growth.

We expect full-year tourism arrivals between 38 – 40 million in Thailand, generating significant tourism revenue for the year ahead. We view that the economic prospects for Thailand are buoyant, primarily driven by the robust performance of its tourism sector, and supplemented by anticipated government stimulus initiatives poised to offer additional momentum. Concurrently, the Government's proactive strategies, including visa extensions for targeted demographics and simplification of visa procedures for key tourist markets, are anticipated to fortify Thailand's tourism framework. Statistics from the Ministry of Tourism and Sports unveil compelling insights from 1 January – 2 June 2024, showcasing Chinese tourists as the dominant group with nearly over 2.9 million visits, followed by Malaysians, Indians, Russians, and South Koreans, amounting to 15.0 million thus far.

We maintain our forecast for Thailand's headline and core inflation at 1.0% and 0.7%, respectively, in 2024. Thailand's CPI is anticipated to maintain its upward trajectory into the second half of 2024, driven by rising food and energy prices. We expect the CPI to gain momentum gradually throughout the year, influenced by anticipated higher global food and oil prices. Additionally, the increase in diesel prices is likely to further exacerbate Thailand's inflation throughout 2024 as the diesel subsidies have been already removed. We also think that the Thai Government's USD14.0 billion cash handout programme that is projected to be distributed in 4Q24 will likely continue to drive inflation in 2024 - 2025 through the demand transmission mechanism. Recipients of cash handouts will have more disposable income, which will boost their spending on goods and services, thereby elevating demand-pull inflation. We believe that this increased consumption-led GDP growth will inherently drive inflation higher.

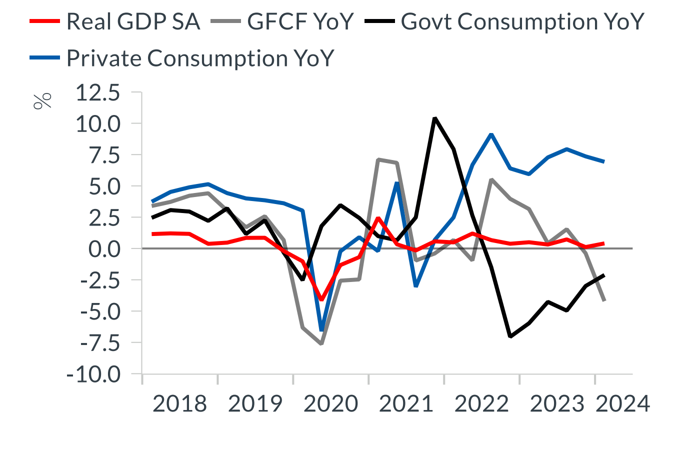
We keep our expectation for the Bank of Thailand (BoT) to maintain its benchmark rate at 2.50% for the year ahead. Our view is supported by three key factors: (1) inflation pressures are likely to rise as the year progresses, (2) the positive outlook on Thailand's economic growth on the back of a continued recovery in private consumption in 2H24, and (3) rate cuts are not a macro prudent move given elevated global inflation. Lower interest rates will reduce the return on investments in Thailand, making it less attractive to investors and dampening capital formation. The decrease in demand for THB may depress THB strength, and may translate to softer investor confidence in the year ahead. We perceive the current rate in neutral gear and is appropriate given upside inflation risks amid high commodity prices and global demand-pull price pressures.

Note that our recent engagements with Thai policymakers and businesses reinforce our abovementioned views. Our impressions from the meetings in terms of our forecasts are: (1) Thailand's GDP growth remains resilient, but risks remain, (2) CPI remains elevated in 2H24, and (3) the BoT will likely keep its benchmark rate unchanged for the year ahead. Officials were relatively cautious over Thailand's growth prognosis in 2H24, citing the ongoing policy noise, slowdown in exports and US-China trade tensions that might impede economic growth. Besides, the officials cited Thailand's CPI is expected to grow at 0.6% in 2024 and 1.3% in 2025, respectively, and there is limited policy impetus to cut interest rates in 2024.

We maintain our projection of a current account surplus of 2.4% of GDP for 2024, aligning with Bloomberg's consensus forecast. The recovery of China's economy is anticipated to boost the tourism sector across ASEAN, including Thailand, thereby strengthening the services sector this year. For 2025, we expect a more favourable trade environment, supporting our view of a current account surplus increasing to 3.5% of GDP.

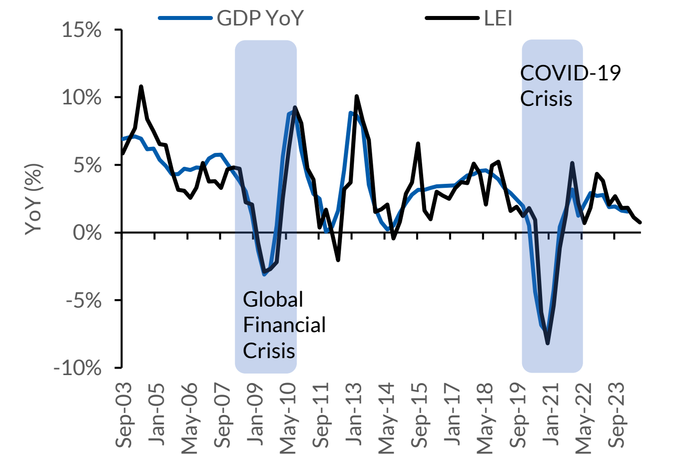
Thailand's fiscal balance is projected to face a potentially wider deficit in 2024, estimated at -3.7% of GDP. This increased deficit is likely due to higher government expenditures aimed at controlling the cost of living. In 2025, we expect the fiscal deficit to expand further to 4.4% of GDP, following the cabinet's recent approval to widen the deficit target for FY2025 by approximately USD4.2 billion.

Figure 2: Continued rebound in private consumption expected to support GDP growth in 2H24



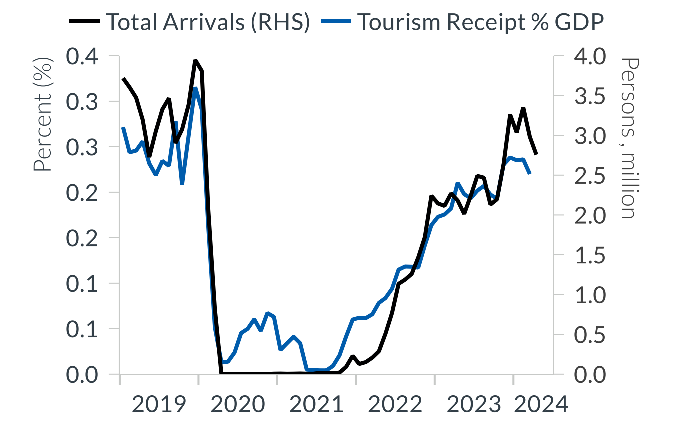
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: RHB-LEI (TH) suggesting a slight GDP deceleration in 3Q24



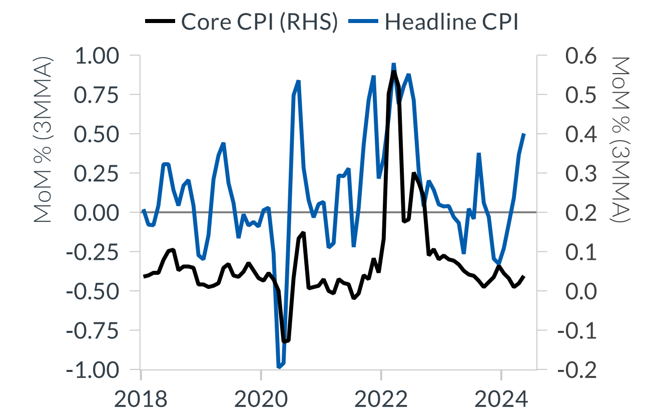
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Tourism-led GDP growth expected to increase throughout the year



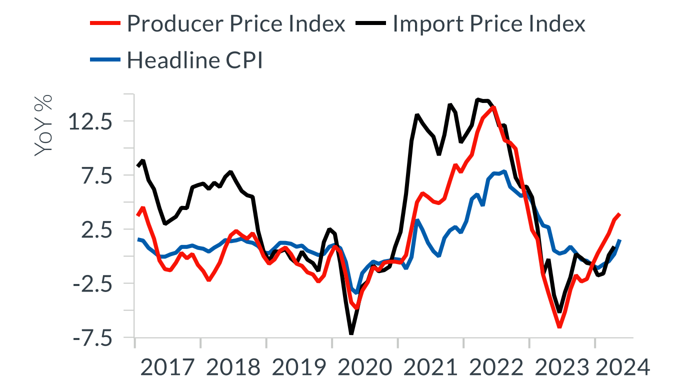
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Headline CPI might continue to elevate in the upcoming months, aligning with our assumptions…



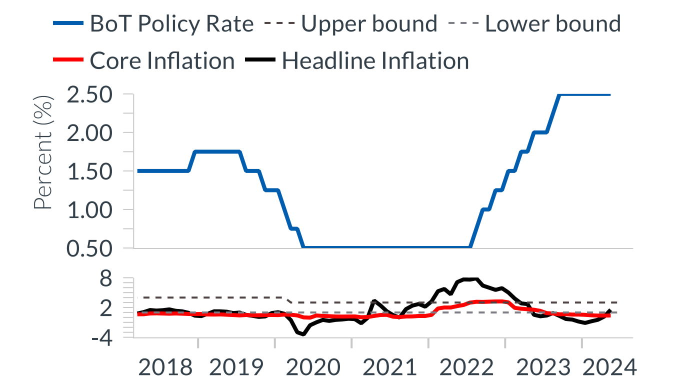
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: …while import and producer prices are showing increasing momentum



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Thailand's headline inflation is still soft and remains within the official guidance



Source: Macrobond, RHB Economics & Market Strategy

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