

28 June 2024

## Global Economics & Market Strategy

### Watch for Election Noise, Expect Short-Term Pull Back in Risk Appetite

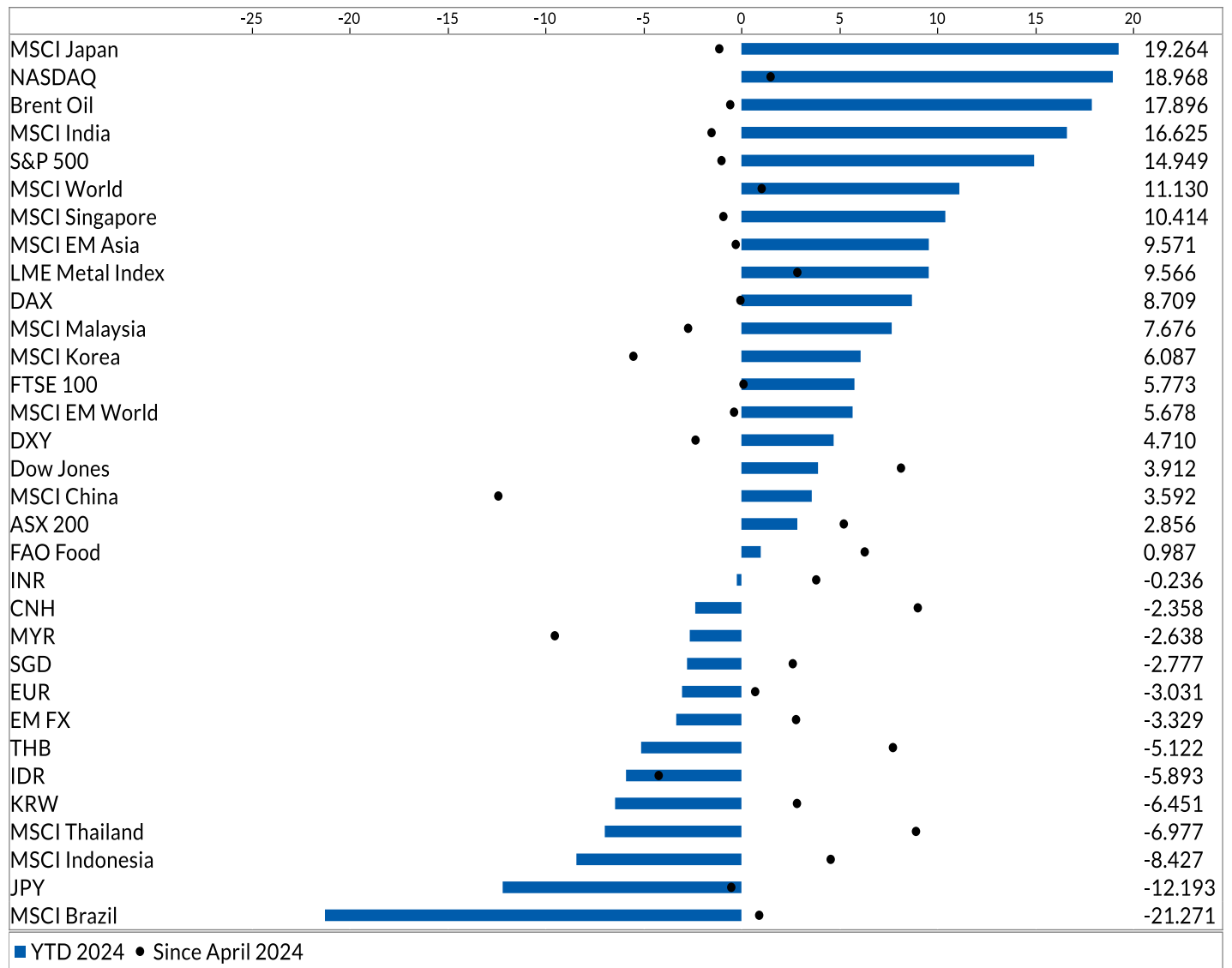
- ◆ **Risk-taking appetite continued to see signs of rally fatigue in the recent weeks, reinforcing our view for some short-term pull-back in risk taking appetite in the week ahead.** Our RHB risk sentiment index (Figure 9) continues to show relatively choppy behaviour, and any decline to below 1.0 in the following weeks will suggest a material deterioration of risk appetite. Per our latest Pathfinder 3Q24 [report](#), we are arguably less optimistic than how we started in 2Q24, even as we stay above consensus for US and China GDP growth of 2.5% and 5.0%, respectively, in 2024. As such, we expect some profit-taking behaviour to persist in US-centric equities in 3Q24, especially should (1) US inflation pressures stay elevated and (2) market watchers gradually price out US Fed Funds Rate cut probability to one or zero in 3Q24. The caveat will be tonight's US core PCE inflation print, where any faster-than-expected dissipation of inflation pressures may continue to raise an earlier FFR cut in September 2024.
- ◆ **Some risk-off behaviour may be exacerbated by brewing US election-centric noise, albeit last night's US presidential debate may have little market impact.** DXY likely saw safe haven flows overnight, with the index rising above its 106 handle in today's intra-day trading, while UST10Y yields declined to its 4.28% handle before returning to its 4.32% levels. US fund flows (Figure 30) continue to stay high and have supported DXY strength, where we think more upside bias towards 107, with the balance of risks, tilted towards 108, may be on the cards in the following weeks should market watchers gradually digest the high-for-longer US rate trajectory. What is clear is that odds by PredictIt suggest that Donald Trump's popularity is up to 60%, from pre-debate of 53%. Overall, the market reaction is one of mild, yet temporal, risk-off behaviour.
- ◆ **Beyond the US election, Europe-centric political noise may be worth watching, which is a crucial determinant of global risk-taking behaviour.** France is gearing up to cast its first-round ballots this Sunday, with the Bank of England warning that "policy uncertainty associated with upcoming elections globally has increased". Elsewhere, UK polls indicate a potential landslide win for the Labour Party, with its leader Starmer targeting an ambitious annual growth of at least 2.5% should he move into 10 Downing Street. We think political noise may be hard to determine, albeit unless there is a threat to (1) policy continuity and/or (2) escalation of geopolitical frictions, the path of least resistance is for political noise to be temporal and market reaction likely short-lived and muted.
- ◆ **Our broad global economic views remain unchanged – we expect one 25bps US Fed Funds Rate (FFR) cut in December 2024 against the current swap pricing of two cuts.** We do not expect more ECB rate cuts in 2024, while BOJ rate hikes may be less probable than it looks despite the latest uptick in Japan's inflation pressures, as higher prices appear to be more supply-led than demand-driven. Inflation pressures in ASEAN continue to climb, with [Singapore's headline and core CPI](#) rising 3.1% YoY in May 2024. Closer to home, we revise [Malaysia's headline inflation projection](#) to 2.6% in 2024, from our prior forecast of 3.3%, given (1) limited impact on overall prices from higher diesel prices, while (2) we expect RON95 rationalisation only to take place towards the end of this year.

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Figure 1: YTD 2024 total return – Equities continue to surge in the developed markets, but technical analysis and recent choppy behaviour in RHB Risk Sentiment Index suggest some short-term pull back in risk appetite in the following weeks



Source: Macrobond, RHB Economics & Market Strategy

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

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United States	47.5	10.4	4.72	5.22	3.77
Germany	41.2	-4.2	2.80	3.33	2.34
Indonesia	29.0	36.2	6.67	6.91	5.62
United Kingdom	28.8	8.0	4.24	5.48	3.17
Singapore	8.8	-11.8	3.34	3.73	2.87
S. Korea*	7.0	-9.7	3.22	4.14	3.12
Malaysia*	6.6	3.9	3.53	3.69	3.31
Thailand	1.4	17.8	2.35	2.62	1.53
India	-10.0	-5.5	6.97	7.39	6.80
China	-53.4	-25.3	1.65	2.47	2.07

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

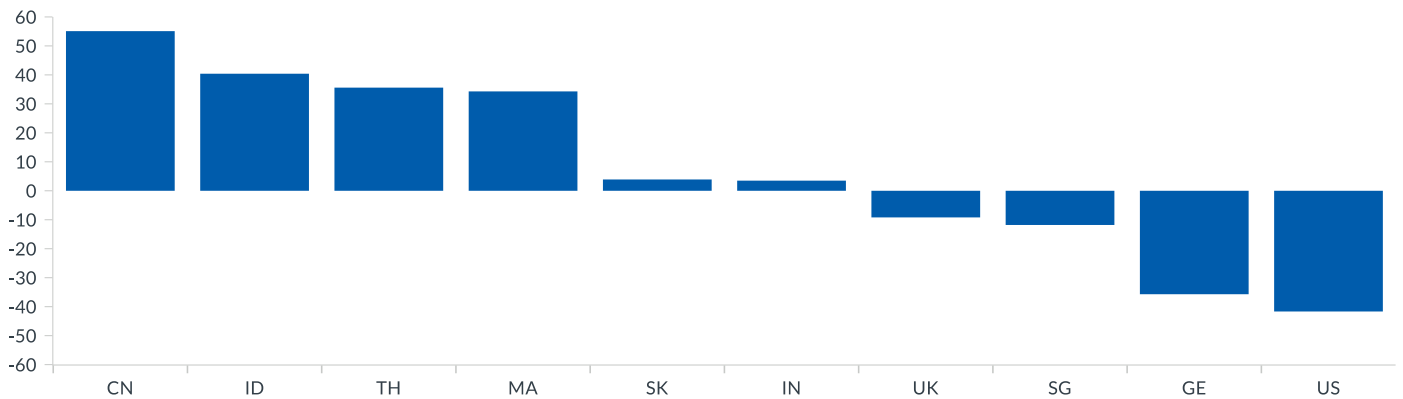
Figure 3: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Indonesia	62.6	38.7	7.08	7.22	6.16
United Kingdom	60.0	19.8	4.13	4.74	3.00
Singapore	54.1	14.2	3.23	3.50	2.66
United States	43.7	11.5	4.32	4.99	3.31
Germany	42.6	15.0	2.45	2.97	1.89
Malaysia	13.1	0.7	3.86	4.16	3.65
S. Korea	12.5	-10.3	3.30	4.40	3.16
Thailand	2.3	19.7	2.70	3.35	2.26
India	-18.6	-5.4	7.00	7.44	6.96
China	-35.2	-8.4	2.21	2.92	2.54

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

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



Source: Macrobond, RHB Economics & Market Strategy

Figure 5: ... with UK seeing some bull-steepening behaviour in the recent week...

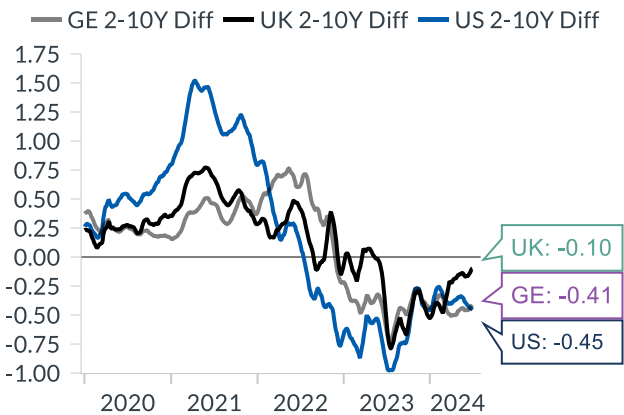
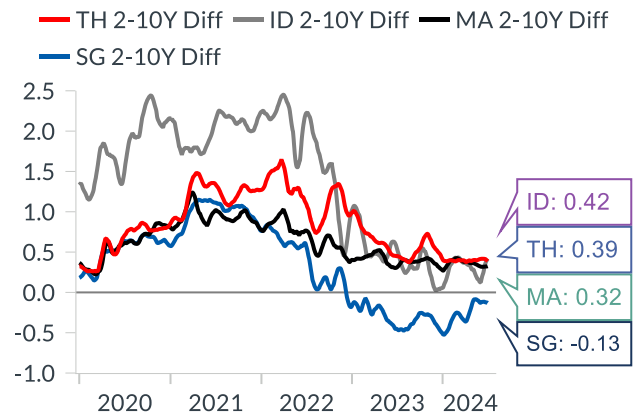


Figure 6: ... but ASEAN's yield curve largely unchanged, except for SG's narrower negative yield spread



Source: Macrobond, RHB Economics & Market Strategy

Source: Macrobond, RHB Economics & Market Strategy

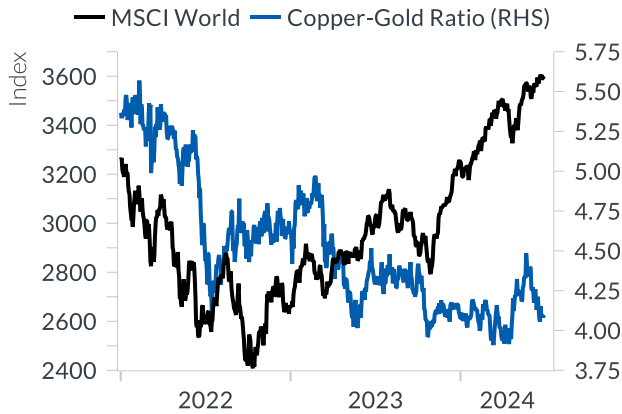
Figure 7: DXY strength should persist. We keep our forecast for DXY to rally towards 107 in 3Q24

FX Rates % Change	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	13.89	11.11	6.19	160.603	151.647	127.516
KRW per USD	6.90	5.22	3.04	1386.205	1361.825	1222.444
CHF per USD	6.47	0.26	-0.53	0.897	0.941	0.837
IDR per USD	6.26	8.94	3.20	16376.050	15946.000	14652.765
TWD per USD	6.15	4.43	1.86	32.549	32.479	29.668
PHP per USD	5.76	5.93	4.32	58.589	57.146	53.946
THB per USD	5.40	4.11	1.22	36.785	37.069	32.704
DXY	4.46	2.91	1.34	105.900	107.000	99.770
EUR per USD	3.13	1.85	0.73	0.934	0.955	0.890
SGD per USD	2.86	0.30	0.71	1.358	1.374	1.308
MYR per USD	2.71	1.09	-0.11	4.720	4.793	4.245
CNH per USD	2.42	0.36	0.64	7.301	7.342	6.713
AUD per USD	2.38	0.01	-2.01	1.503	1.590	1.408
GBP per USD	0.73	0.50	-0.13	0.791	0.845	0.762
INR per USD	0.24	1.69	0.07	83.446	83.439	80.988

Source: Macrobond, RHB Economics & Market Strategy

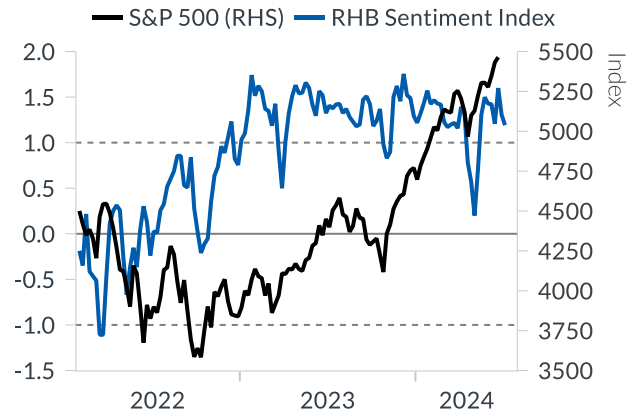
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**Figure 8: Global risk appetite continued to advance, with higher MSCI World and Copper/Gold Ratio...**



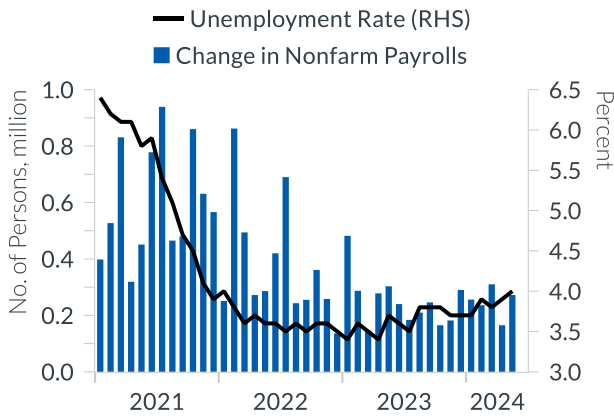
Source: Macrobond, RHB Economics & Market Strategy

**Figure 9: ... but RHB Risk Sentiment Index choppy, as rally fatigue may be on the cards**



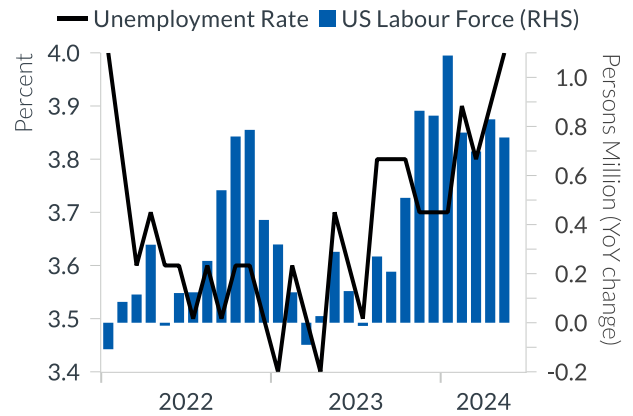
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

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



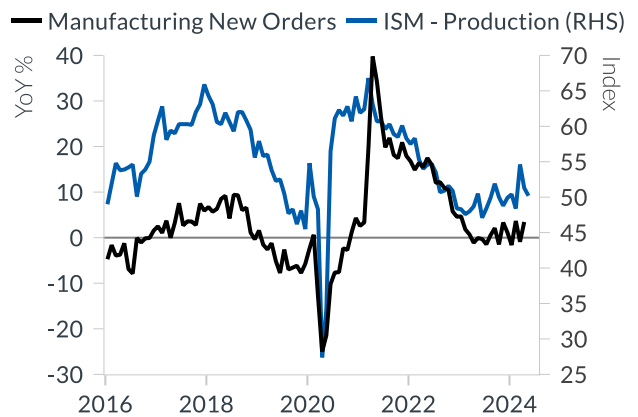
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

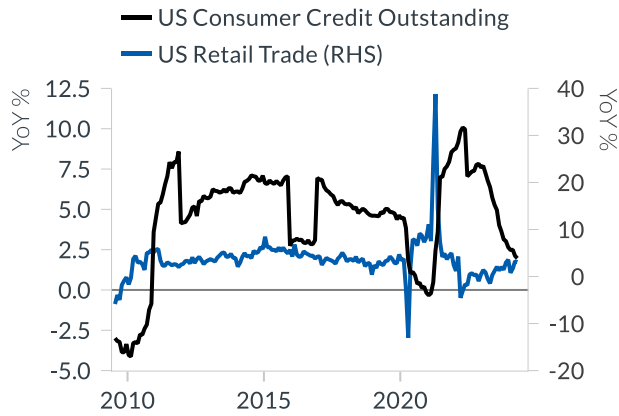
**Figure 13: US production activities are supported, seen in its new orders and ISM...**



Source: Macrobond, RHB Economics & Market Strategy

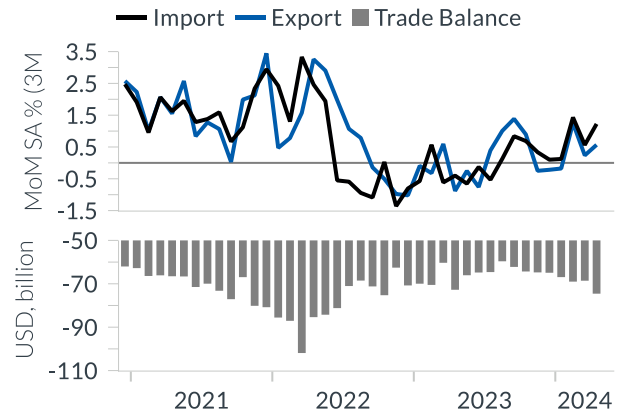
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Figure 14: ... with improvements in job market and the real economy supporting retail trade, rather than debt



Source: Macrobond, RHB Economics & Market Strategy

Figure 15: US trade momentum improves, suggesting continued global growth resilience



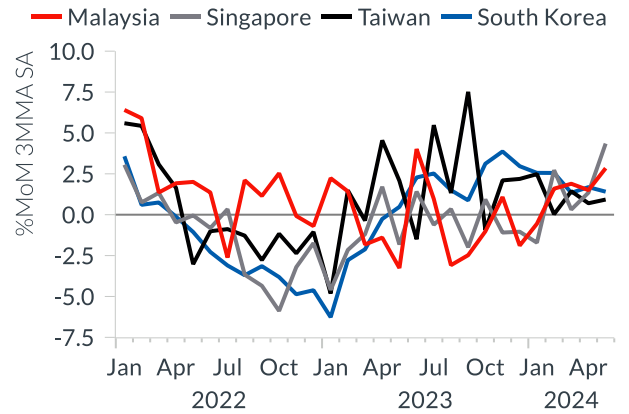
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: ... with ASEAN-6 exports to China recovering...



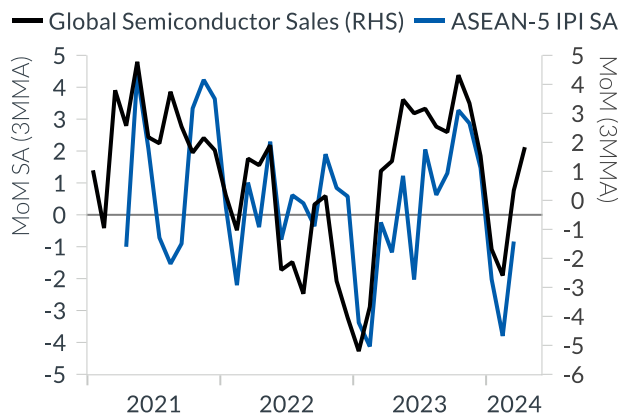
Source: Macrobond, RHB Economics & Market Strategy

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



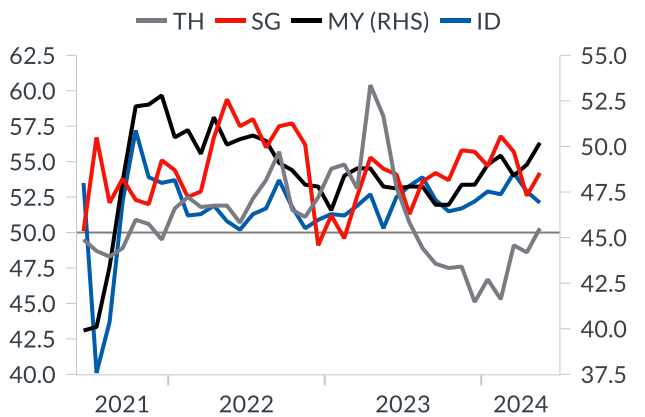
Source: Macrobond, RHB Economics & Market Strategy

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



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

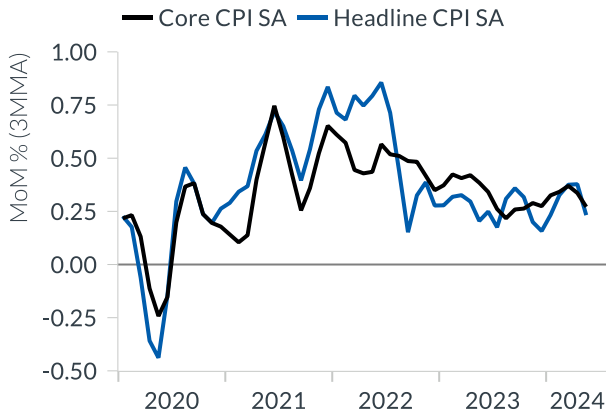
Figure 19: ... with PMI (whole economy) numbers in ASEAN seeing some consolidation



Source: Macrobond, RHB Economics & Market Strategy

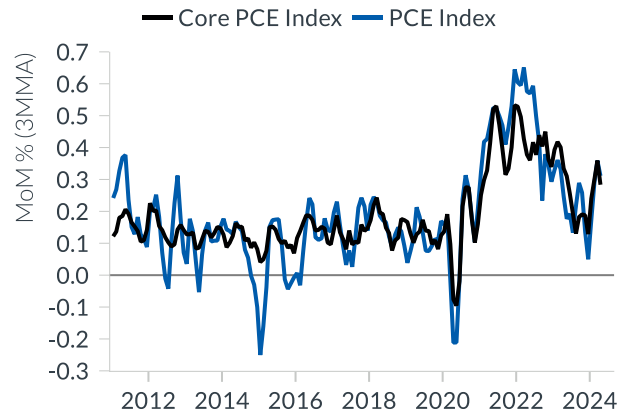
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**Figure 20: US core inflation momentum has slowed, albeit we need more data to turn confident...**



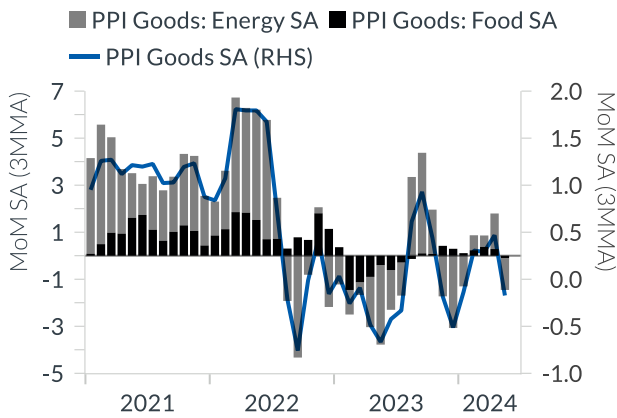
Source: Macrobond, RHB Economics & Market Strategy

**Figure 21: ... that US core PCE inflation is on a path towards 2.0%, which we think it is not**



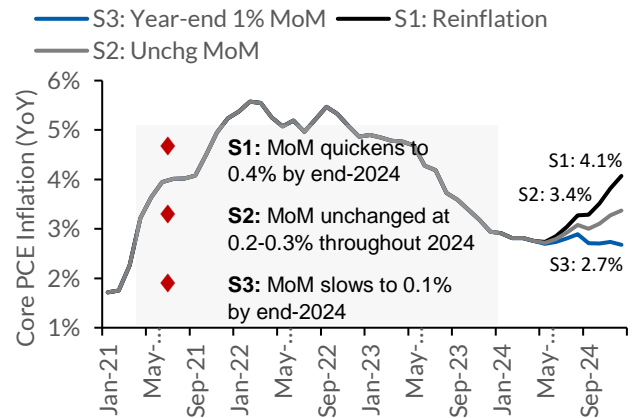
Source: Macrobond, RHB Economics & Market Strategy

**Figure 22: US producer price index may have slowed, but this is just a single print...**



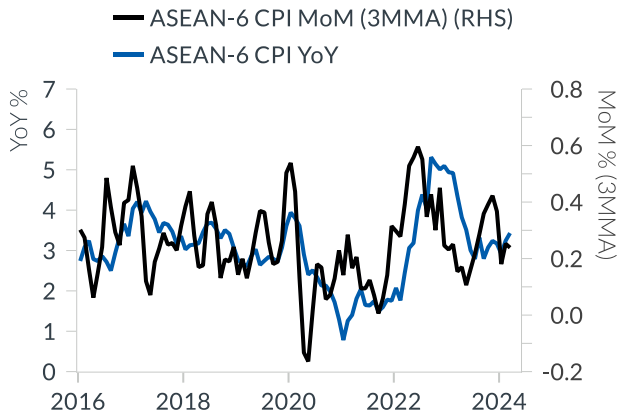
Source: Macrobond, RHB Economics & Market Strategy

**Figure 23: ... with our models suggesting that US core PCE inflation to move into the 3.0% handle really soon**



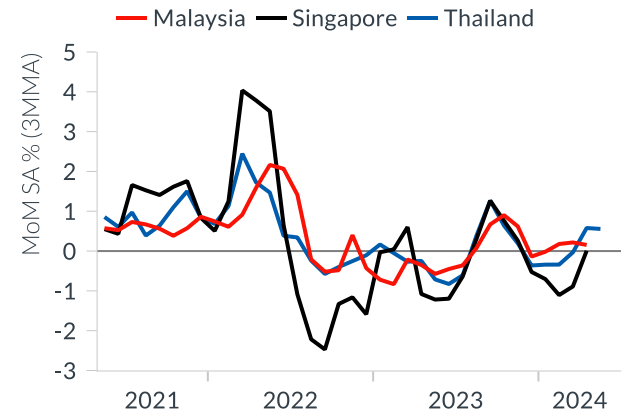
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

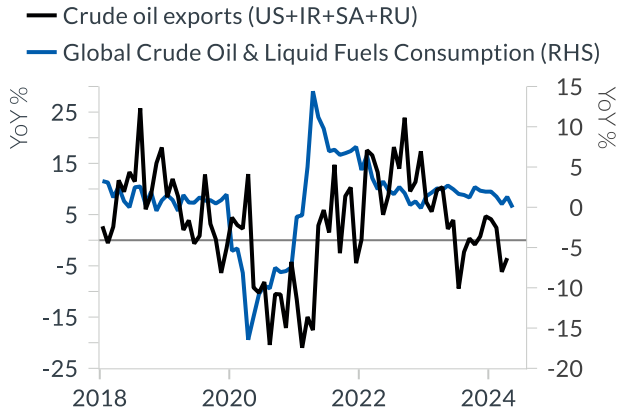
**Figure 25: ... while import price momentums have picked up for key markets**



Source: Macrobond, RHB Economics & Market Strategy

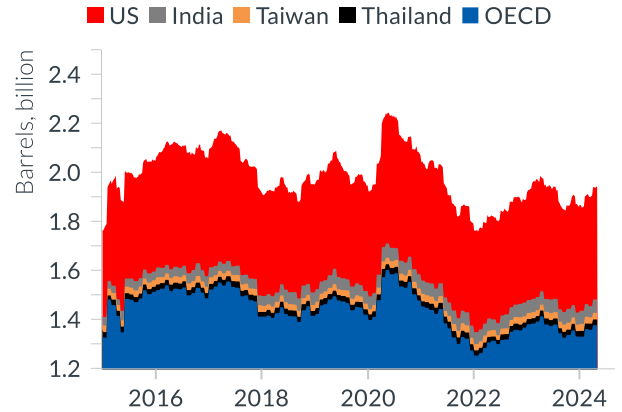
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**Figure 26: Crude prices are slated to point higher, as global supplies decline...**



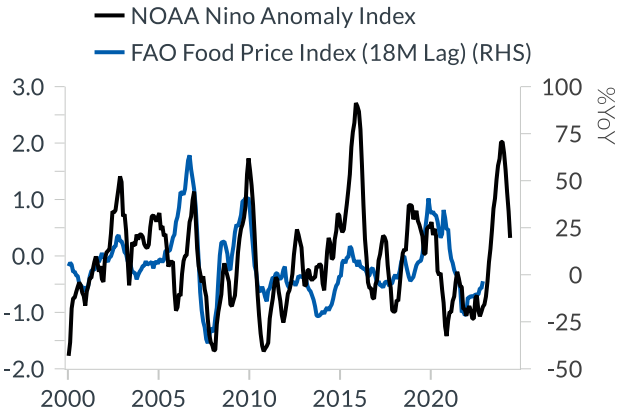
Source: Macrobond, RHB Economics & Market Strategy

**Figure 27: ... even as global oil inventories climbed in the recent months**



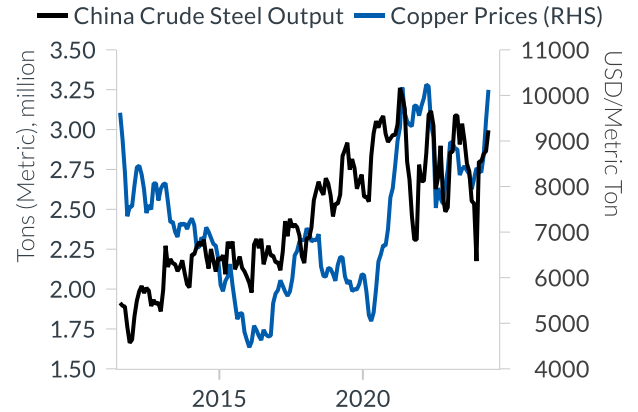
Source: Macrobond, RHB Economics & Market Strategy

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



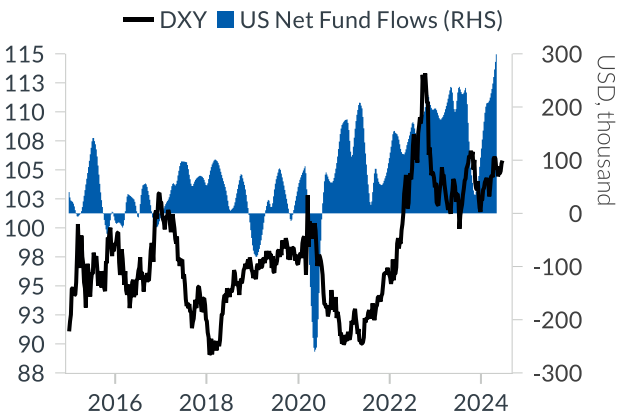
Source: Macrobond, RHB Economics & Market Strategy

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



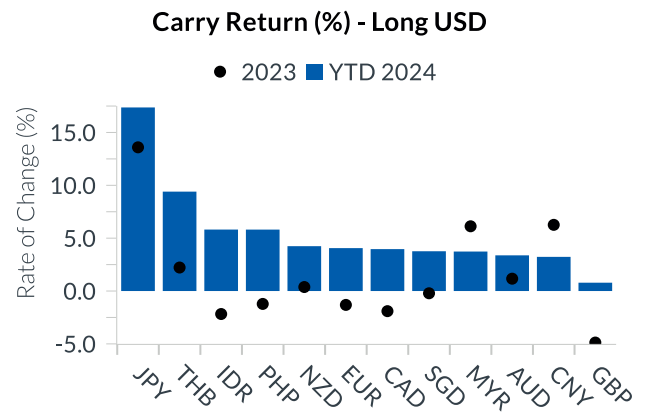
Source: Macrobond, RHB Economics & Market Strategy

**Figure 30: High for longer rates likely led to more fund inflows into the US, thus supporting DXY...**



Source: Macrobond, EPFR, RHB Economics & Market Strategy

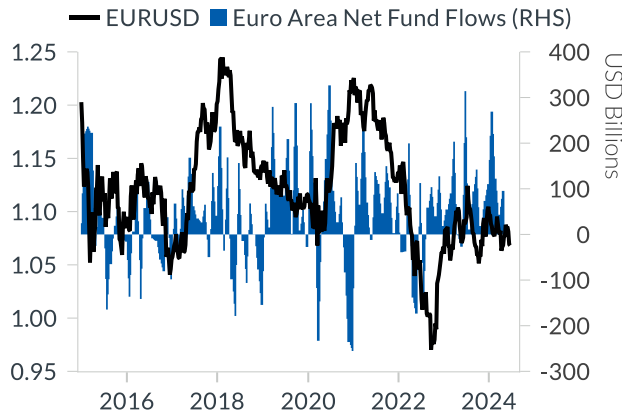
**Figure 31: ... while USD carry stays positive year-to-date**



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

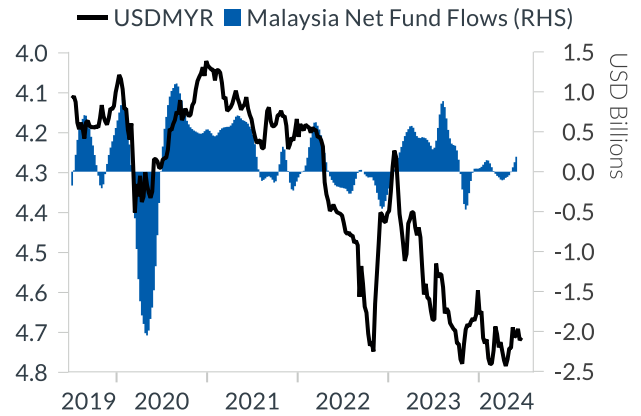
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**Figure 32: Fund flows into Euro Area slowed as investors priced in a ECB rate cut, which materialised**



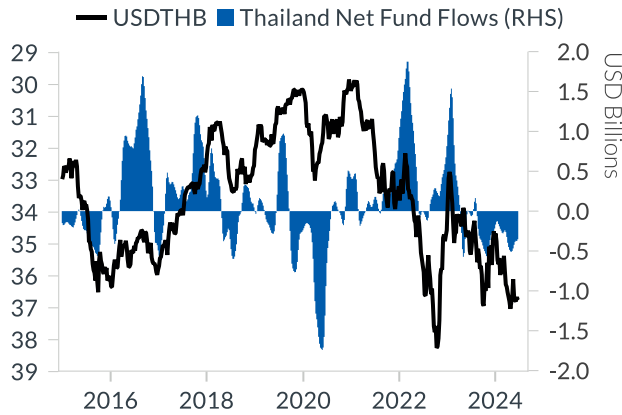
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



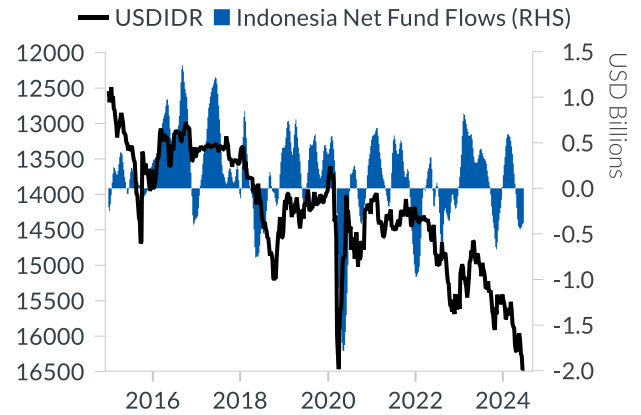
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



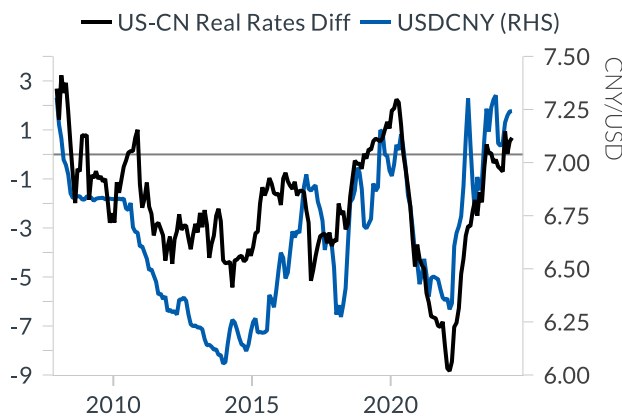
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



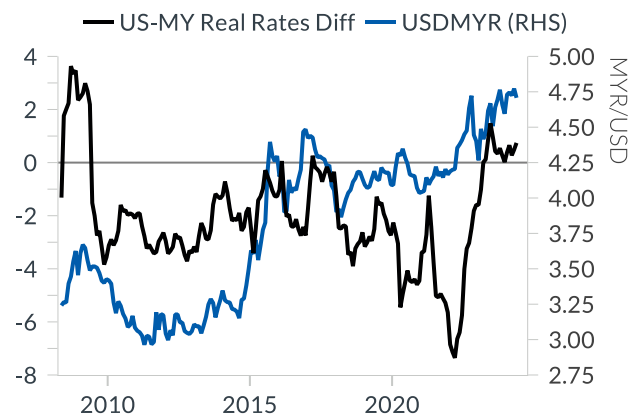
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

**Figure 37: US-MY real rates narrowed recently, in tandem with the recent MYR strength**

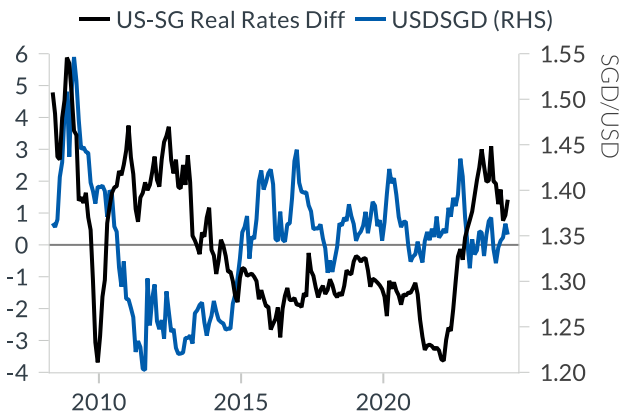


Source: Macrobond, RHB Economics & Market Strategy



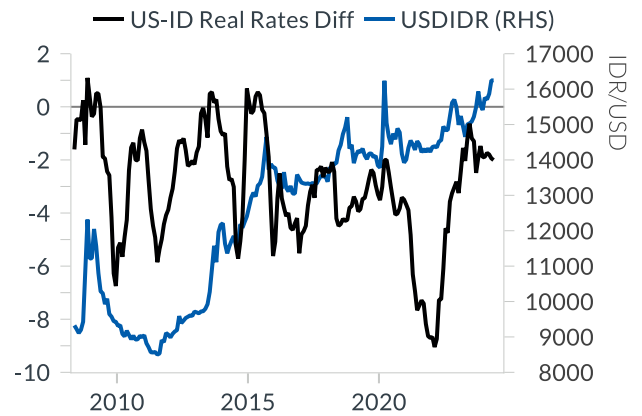
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**Figure 38: Singapore remains less susceptible to rate differentials given its S\$NEER appreciation policy**



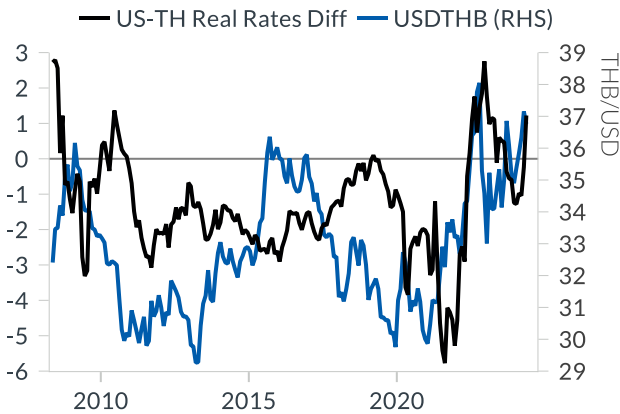
Source: Macrobond, RHB Economics & Market Strategy

**Figure 39: US-ID real rates remain flat, USD-IDR moved back up above 16,000**



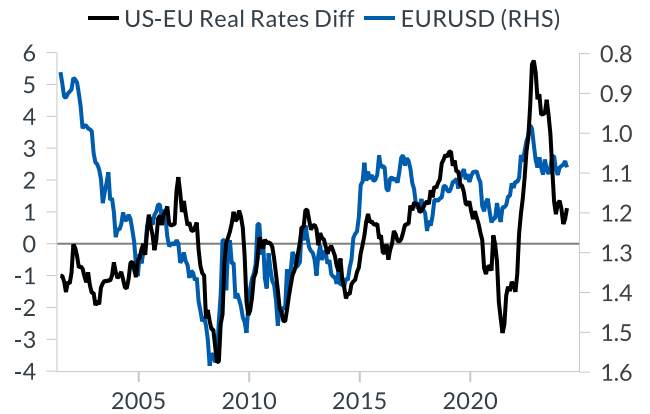
Source: Macrobond, RHB Economics & Market Strategy

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



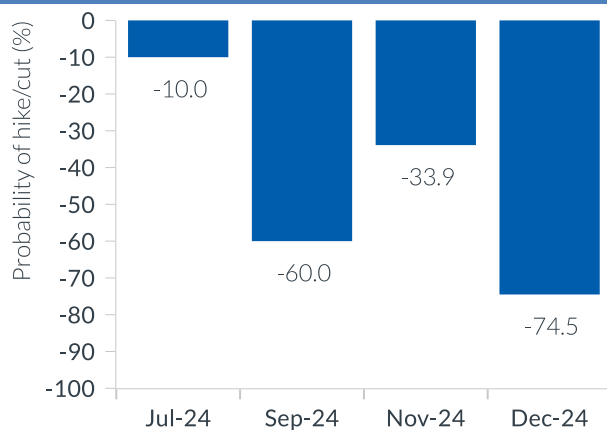
Source: Macrobond, RHB Economics & Market Strategy

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



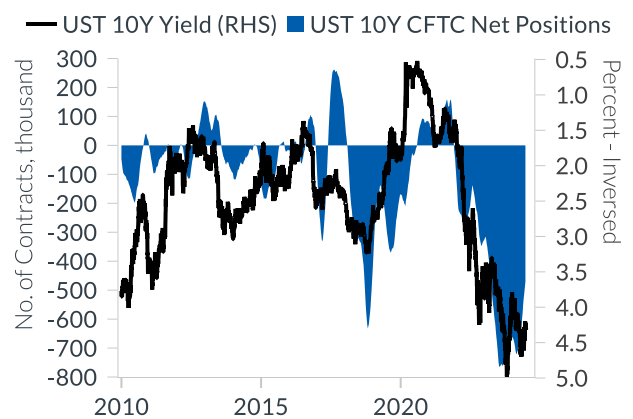
Source: Macrobond, RHB Economics & Market Strategy

**Figure 42: Markets only pricing in a potential US FFR cuts in Sept and Dec 24...**



Source: Macrobond, RHB Economics & Market Strategy

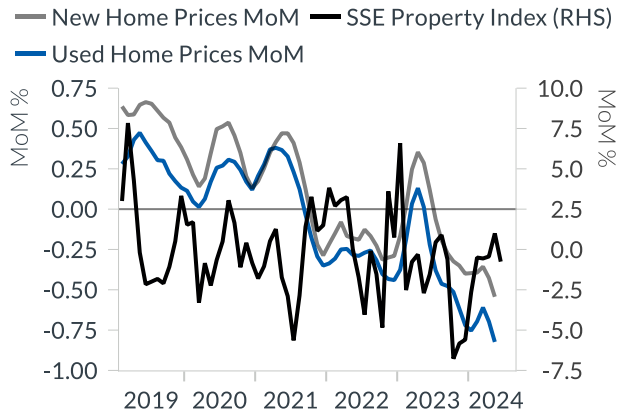
**Figure 43: ... with UST 10Y yields likely to stay elevated as rates stay high-for-longer**



Source: Macrobond, RHB Economics & Market Strategy

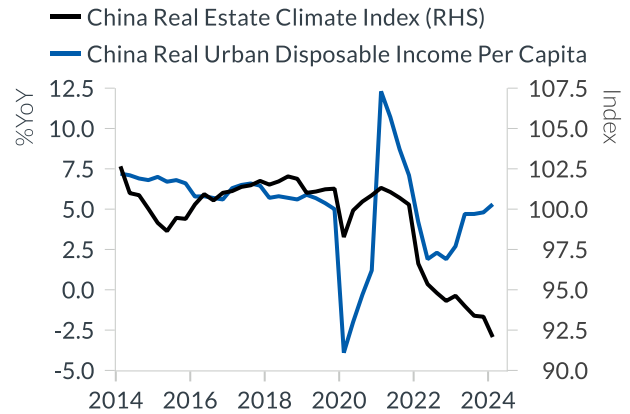
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**Figure 44: China new home price momentum revert to decline trends, probably the bottom is not found (yet)**



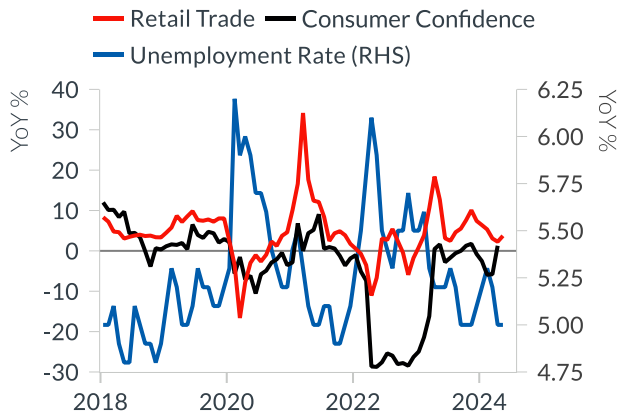
Source: Macrobond, RHB Economics & Market Strategy

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



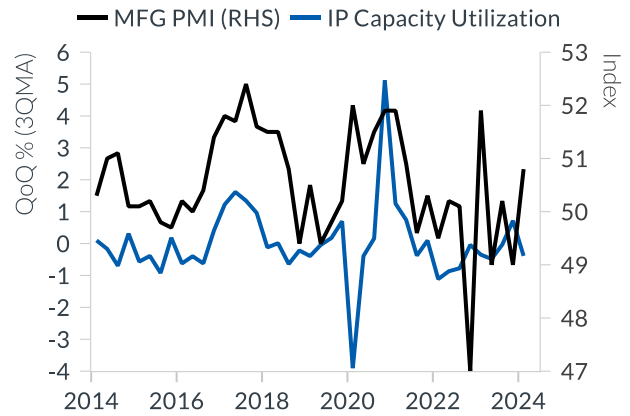
Source: Macrobond, RHB Economics & Market Strategy

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



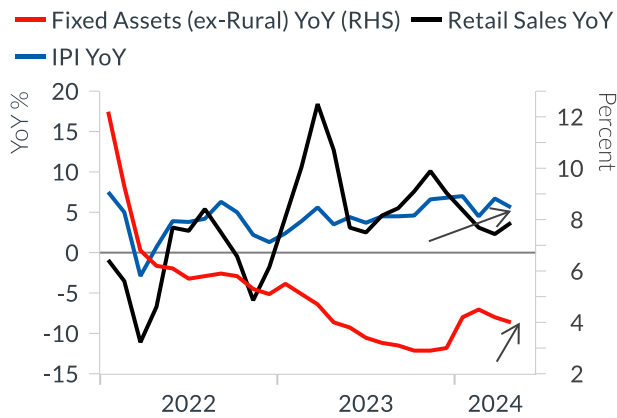
Source: Macrobond, RHB Economics & Market Strategy

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



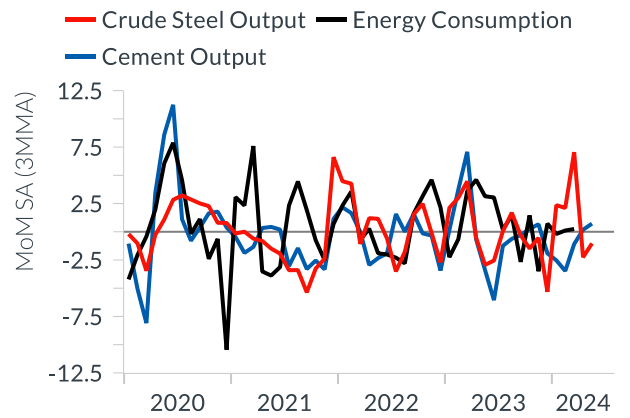
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

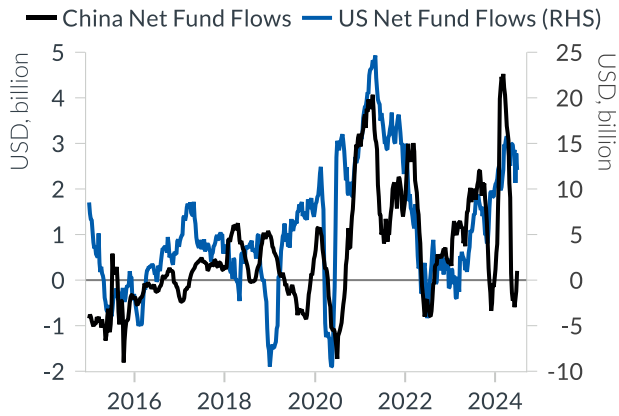
**Figure 49: ... with commodity consumption supported on the back of its recovery**



Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

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