

14 June 2024

Global Economics & Market Strategy

Markets Will Be Disappointed When September Comes

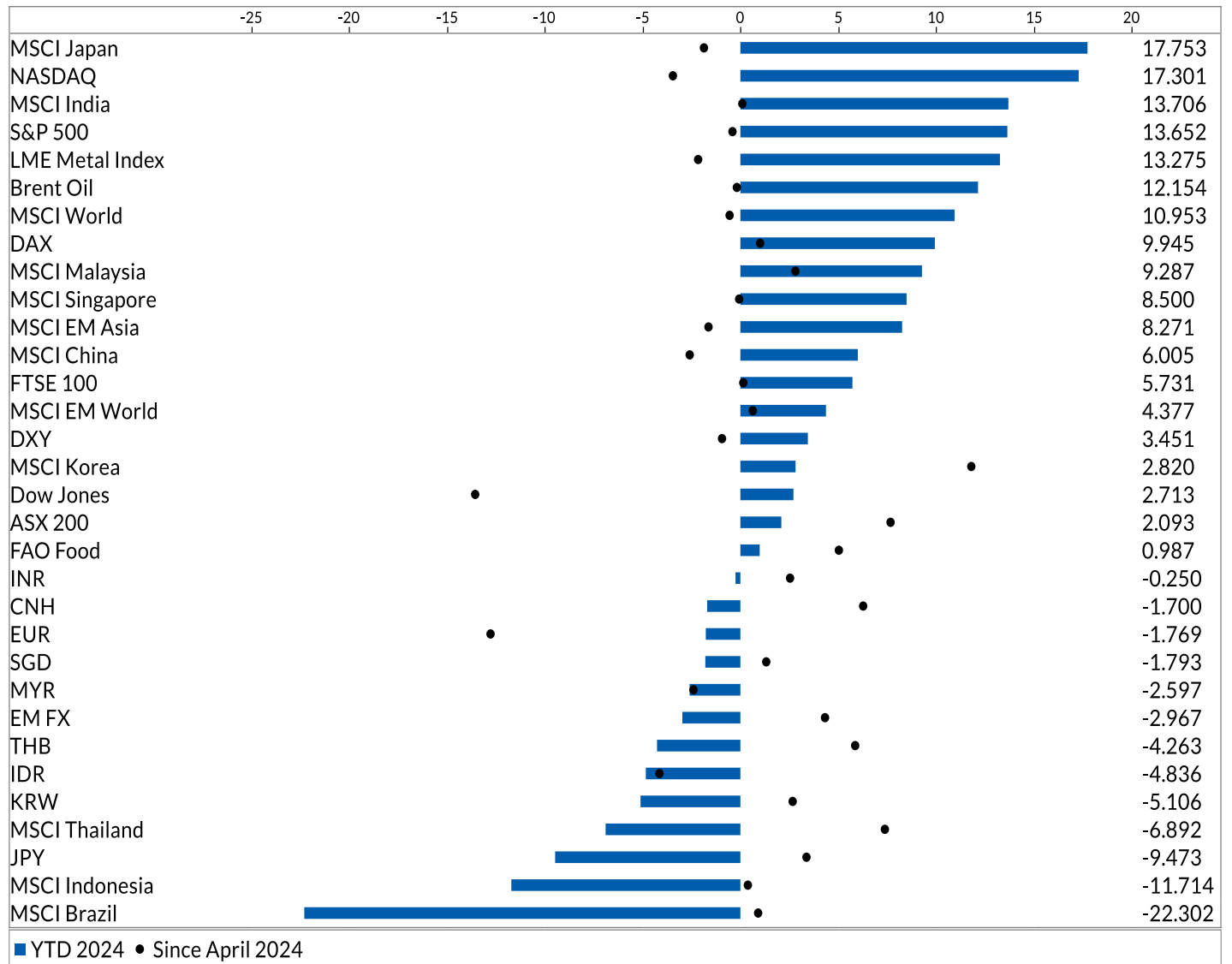
- ◆ **We believe the market is still mispricing the extent of US Fed Funds Rate cuts in 2H24.** Swap pricing, at the time of writing, is still pencilling a >50% FFR cut in September, an expectation we think the market will be sorely disappointed towards the end of Summer. Our global macroeconomic views, so far, have materialised very well. 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. Meanwhile, we were [guided by our global inflation trackers](#) and were convinced that inflation would persist in 2024. More pertinently, based on our global economic assumptions, we had been telegraphing since early this year, we telegraphed that the US FFR will only see one rate cut by end-year, with the balance of risks tilted towards no rate cuts.
- ◆ **Our inflation trackers suggest US core PCE inflation is on a path towards 3.0% by end-year**, on the assumption that MoM % trends realistically around current levels. We believe the inflation trend seen from now to end-year is for US prices to move towards 3.0%, rather than the Fed's objective of 2.0%. What this means to us is that (1) there is a real and rising possibility for the US Federal Reserve to leave its FFR unchanged for the whole year at 5.25 – 5.50%, while (2) high interest rates even at these levels, have not materially dented consumer appetite and labour conditions and (3) and suggest that inflation will likely stay high on the back of a tight US labour market and resilient consumer demand. We observe the slowdown in May's inflation pressures to 3.3% YoY (from the prior 3.4% YoY) is not accompanied by a similar decline in real average hourly earnings, which accelerated to 0.8% YoY (from the prior 0.5% YoY), suggesting that US consumer spending may continue to be a key driver for demand-pull inflation.
- ◆ **We hear three things have meant in its latest statement.** First, policymakers have implicitly raised its nominal GDP forecasts by keeping its real GDP projections at 2.0 – 2.1% in 2024 – 2025 and increasing their PCE inflation targets to 2.3 – 2.6% (from 2.2 – 2.4%) over the same period. Second, Fed officials are relatively more hawkish than before, with FOMC chair Powell citing “the (inflation) data have not given us that greater confidence” while four members, as reflected in the latest dot-plot chart, signalled for no change in FFR (versus the prior two). Third, US policymakers, in citing core PCE inflation to average at 2.8% in 2024, suggest that the Fed's preferred inflation indicator has to slow towards 0.1% MoM % from the current 0.25% MoM in April, albeit this is a view that we do not subscribe to as aforementioned discussed – we think US core PCE inflation will accelerate towards 3.0% YoY towards end-year.
- ◆ **With the latest FOMC statement and dot-plot chart, we continue to expect DXY to rally towards 107 in 3Q24 while we continue to see upside bias for US 10Y bond yields over the same period.** Current UST 10Y yields at around 4.3% is likely a function of the swap (mis)pricing of two FFR cuts, underlining upside bias of around 25 – 50bps when market players eventually price out FFR cuts towards year-end. Importantly, market risk appetite did not slow despite the Fed's revised dot-plot chart, thus reinforcing our overweight view for equities, market-weight bonds and underweight cash. We remain bullish on ASEAN's external environment in 3Q24, on assumptions for US and China growth to accelerate further in the same period.
- ◆ **The latest ASEAN data has been relatively positive** - we maintain our optimistic view of [Malaysia's manufacturing sector](#), underpinned by (1) a rosier global and domestic economic landscape, (2) a global technology upcycle and (3) an improvement in investment appetite. Elsewhere, on the back of a relatively supported consumer demand and a gradual uptick in inflation, we keep our [forecast for the Bank of Thailand \(BoT\)](#) to maintain its benchmark rate at 2.50% for 2024.

Acting Group Chief Economist &
Head, Market Research

Barnabas Gan
(SG) +65 6320 0804
(MY) +603 9280 8880
barnabas.gan@rhbgroup.com

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Figure 1: YTD 2024 total return – FAO food prices eventually turn positive YTD, decline momentum in US-centric equities is dissipating, while MSCI Malaysia is the top performer across ASEAN



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
Germany	58.2	12.8	2.97	3.33	2.34
United States	50.0	13.0	4.75	5.22	3.77
United Kingdom	29.5	8.6	4.25	5.48	3.17
Indonesia	20.2	27.4	6.59	6.91	5.62
S. Korea*	13.5	-3.2	3.28	4.14	3.12
Malaysia*	7.9	5.2	3.54	3.69	3.31
Singapore	7.8	-12.8	3.33	3.73	2.87
Thailand	3.4	19.8	2.37	2.62	1.53
India	-9.2	-4.7	6.98	7.39	6.80
China	-43.6	-15.5	1.75	2.47	2.07

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

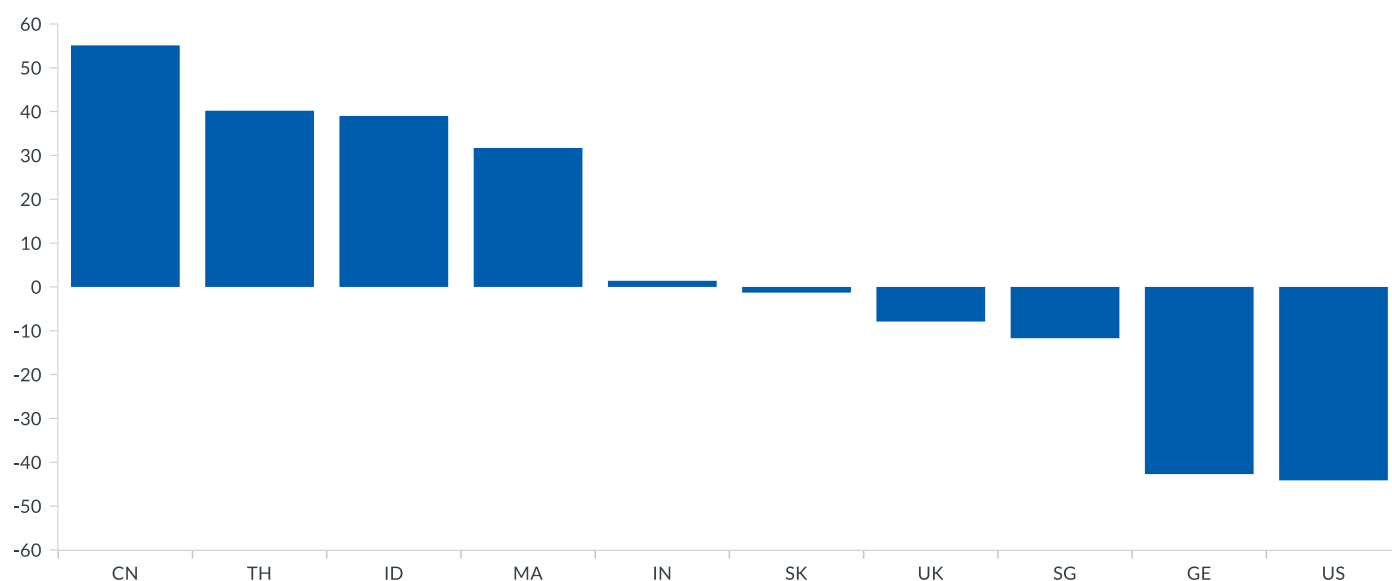
Figure 3: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	64.1	23.880	4.17	4.74	3.00
Germany	52.6	25.000	2.55	2.97	1.89
Singapore	52.6	12.700	3.22	3.50	2.66
Indonesia	52.1	28.200	6.98	7.22	6.16
United States	42.9	10.790	4.31	4.99	3.31
S. Korea	17.1	-5.700	3.35	4.40	3.16
Malaysia	13.0	0.600	3.86	4.16	3.65
Thailand	9.2	26.600	2.77	3.35	2.26
India	-19.3	-6.100	6.99	7.44	6.96
China	-25.8	1.000	2.30	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 stays high as market sees confidence in its 2H24 growth momentum



Source: Macrobond, RHB Economics & Market Strategy

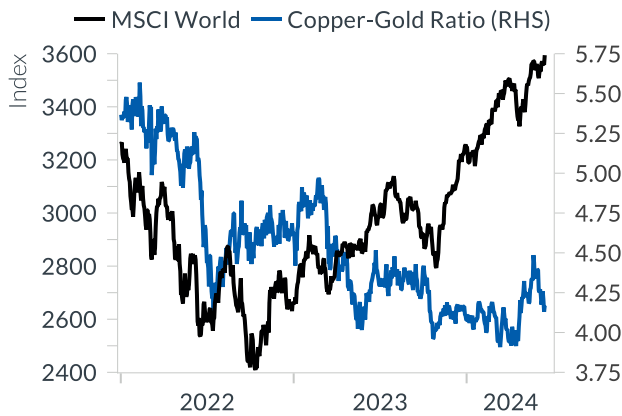
Figure 5: Interim DXY weakness is likely temporal, we keep our forecast for DXY to rally towards 107 in 3Q24

FX Rates % Change						
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	10.46	7.77	3.00	155.778	151.647	127.516
CHF per USD	5.71	-0.46	-1.24	0.891	0.941	0.837
KRW per USD	5.38	3.73	1.58	1366.560	1361.825	1222.444
PHP per USD	5.36	5.53	3.93	58.371	57.146	53.946
TWD per USD	5.09	3.39	0.84	32.223	32.479	29.668
IDR per USD	5.08	7.73	2.05	16194.250	15946.000	14652.765
THB per USD	4.45	3.18	0.32	36.455	37.069	32.704
DXY	3.27	1.74	0.19	104.700	107.000	99.770
MYR per USD	2.67	1.05	-0.15	4.718	4.793	4.245
SGD per USD	1.83	-0.70	-0.30	1.344	1.374	1.308
EUR per USD	1.80	0.55	-0.56	0.922	0.955	0.890
CNH per USD	1.73	-0.31	-0.03	7.252	7.342	6.713
AUD per USD	1.72	-0.64	-2.65	1.493	1.590	1.408
INR per USD	0.25	1.70	0.09	83.457	83.439	80.988
GBP per USD	-0.84	-1.07	-1.68	0.778	0.845	0.762

Source: Macrobond, RHB Economics & Market Strategy

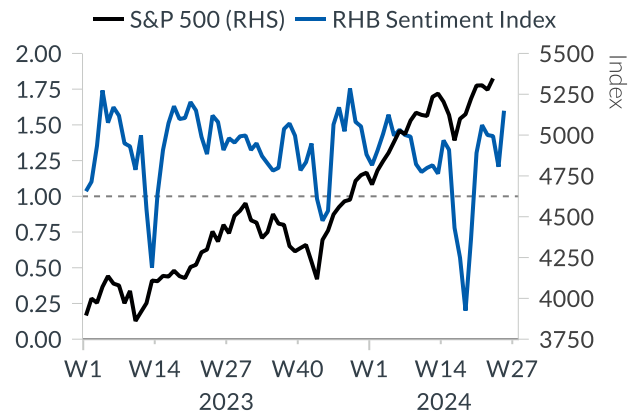
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Figure 6: Global risk appetite continued to advance, with higher MSCI World and Copper/Gold Ratio...



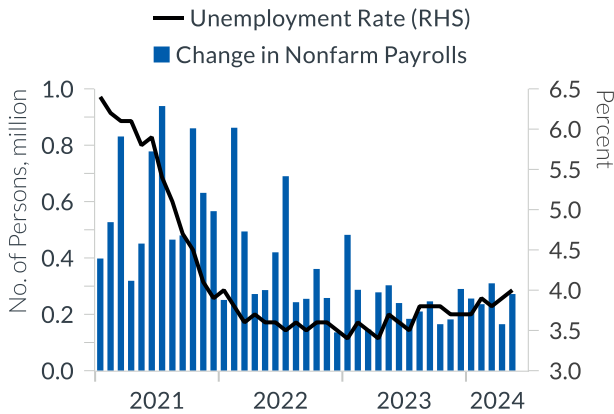
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: ... while RHB sentiment index soared, suggesting further upside in equity valuations



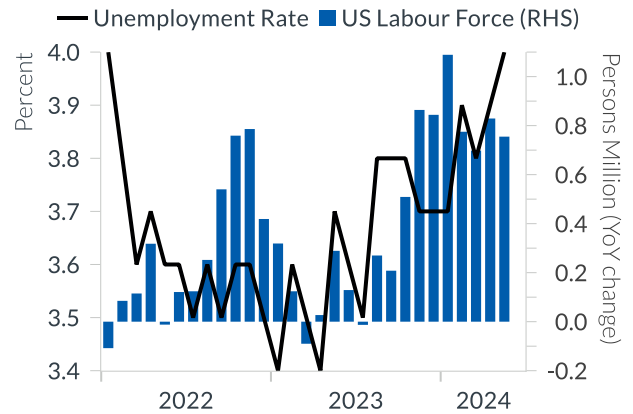
Source: Macrobond, RHB Economics & Market Strategy

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



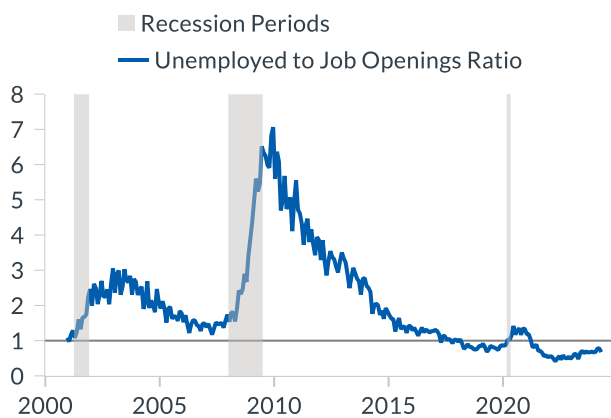
Source: Macrobond, RHB Economics & Market Strategy

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



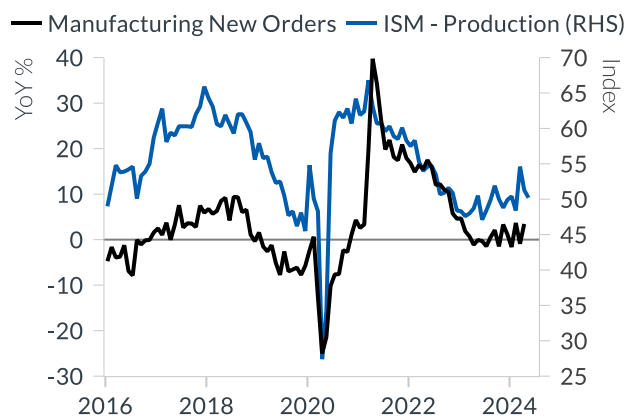
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

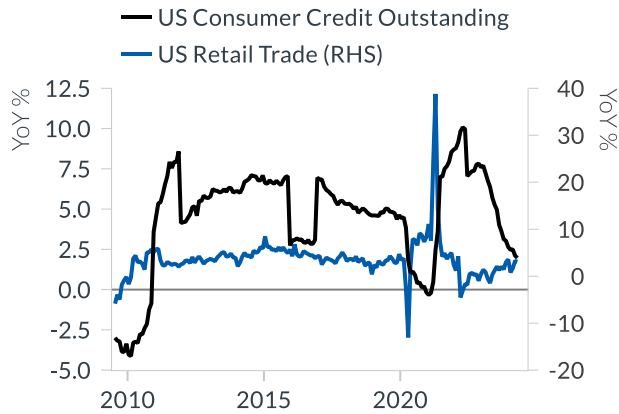
Figure 11: US production activities sees no sign of contraction, suggesting a potential bottom...



Source: Macrobond, RHB Economics & Market Strategy

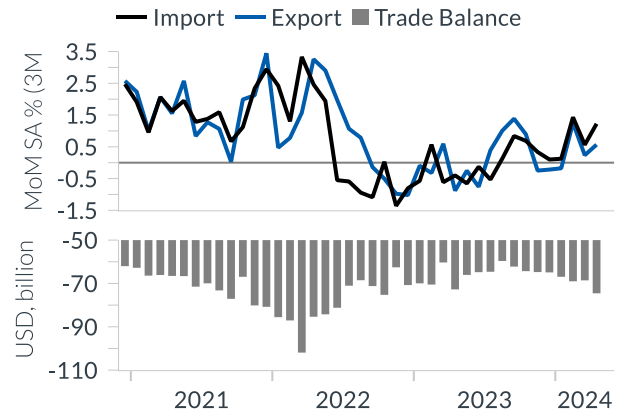
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Figure 12: ... with improvements in job market and the real economy supporting retail trade, rather than debt



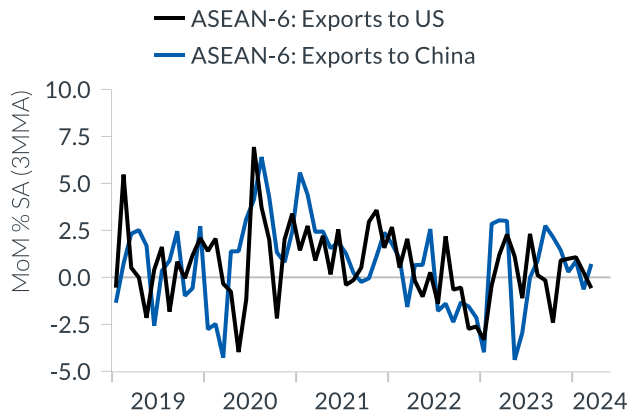
Source: Macrobond, RHB Economics & Market Strategy

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



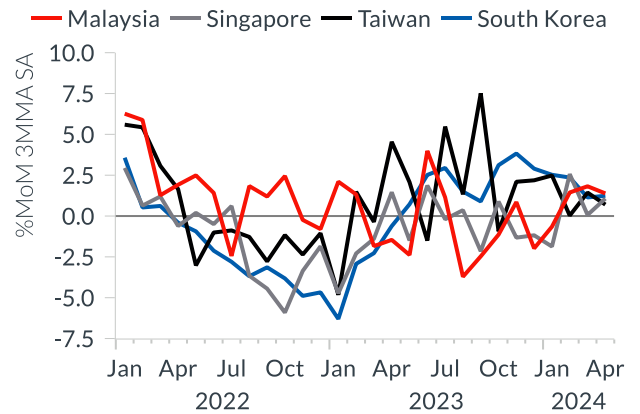
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: ... with ASEAN-6 exports to China recovering, with shipments to US likely to recover henceforth...



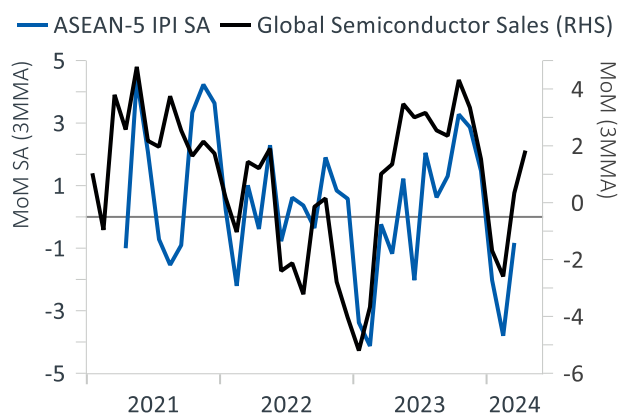
Source: Macrobond, RHB Economics & Market Strategy

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



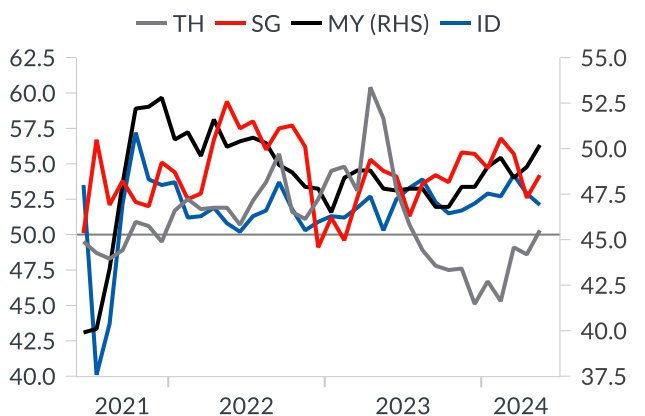
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: Despite softer trade, ASEAN's manufacturing activities remain supported over the same period...



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

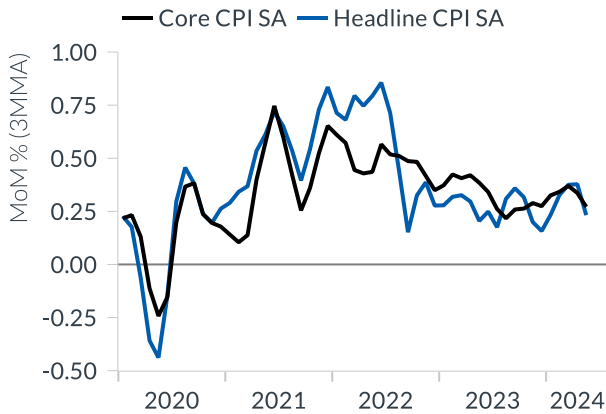
Figure 17: ... with PMI (whole economy) numbers in ASEAN seeing some consolidation



Source: Macrobond, RHB Economics & Market Strategy

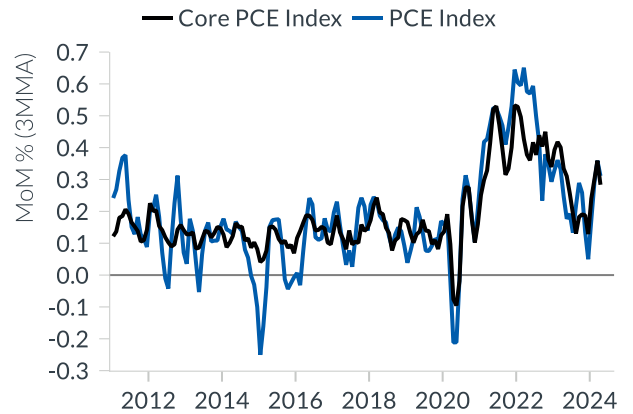
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Figure 18: US core inflation momentum has slowed, albeit we need more data to turn confident...



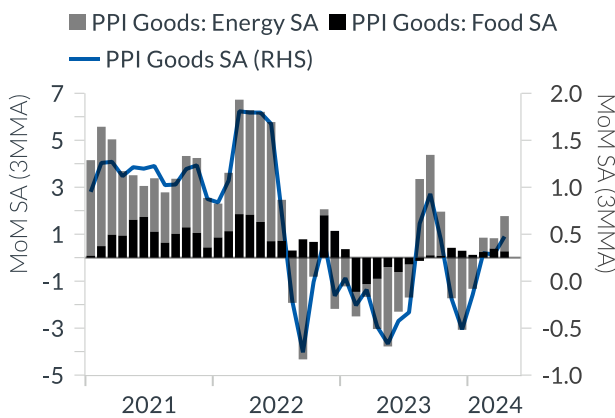
Source: Macrobond, RHB Economics & Market Strategy

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



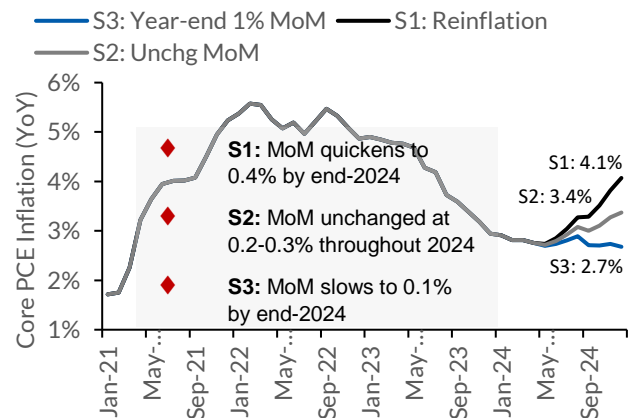
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: ... while US producer price indices are elevated, which should support consumer prices...



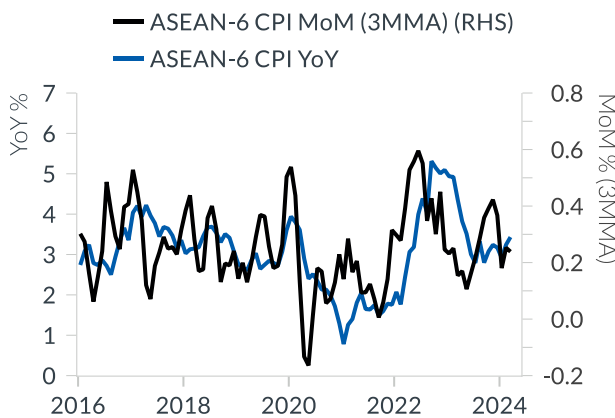
Source: Macrobond, RHB Economics & Market Strategy

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



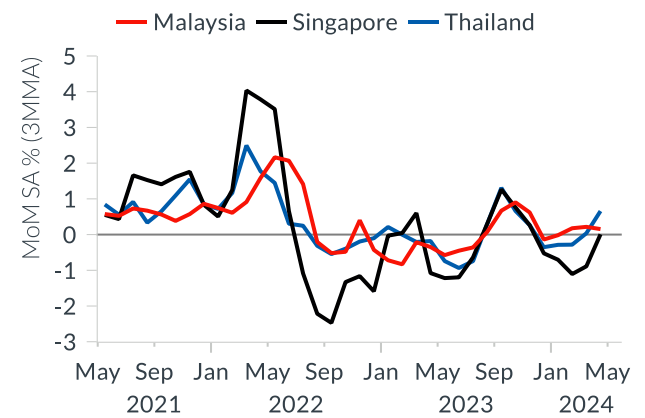
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

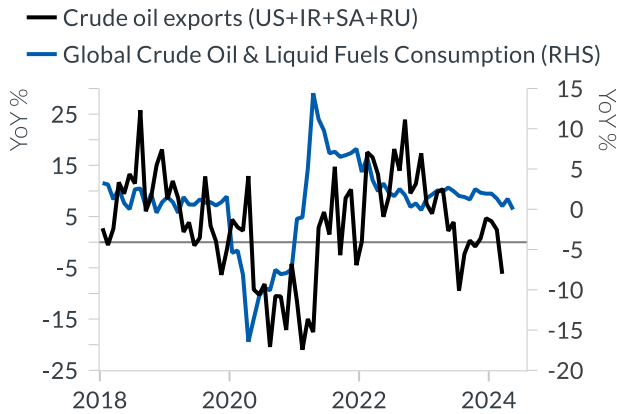
Figure 23: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

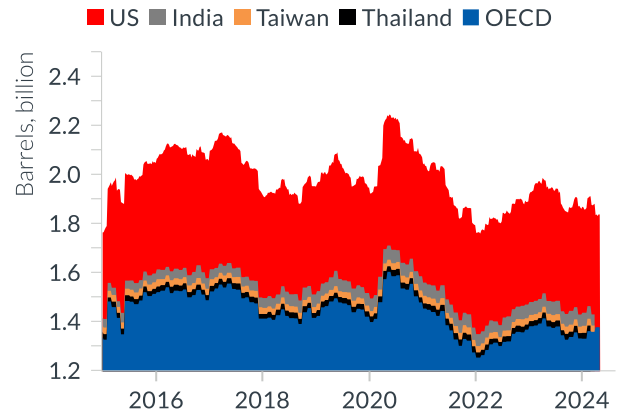
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Figure 24: Crude prices are slated to point higher, as global supplies decline...



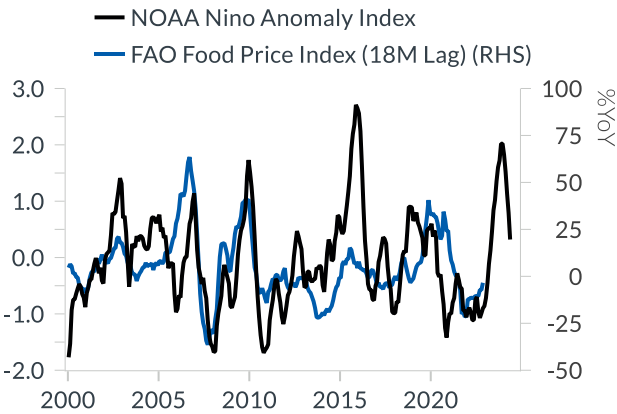
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: ... while global inventories is declined again (naturally) given the slowdown in oil supplies



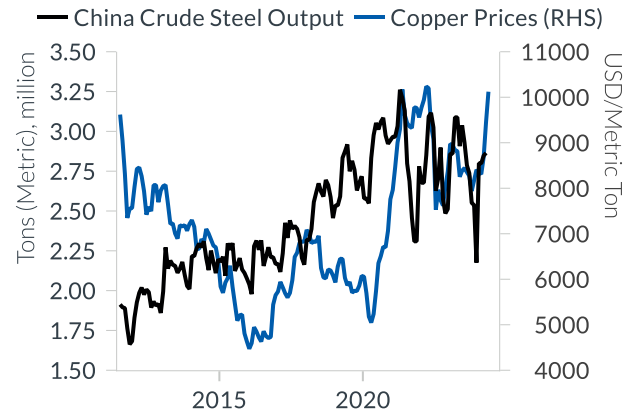
Source: Macrobond, RHB Economics & Market Strategy

Figure 26: Higher global food prices may be evident from the El Nino condition



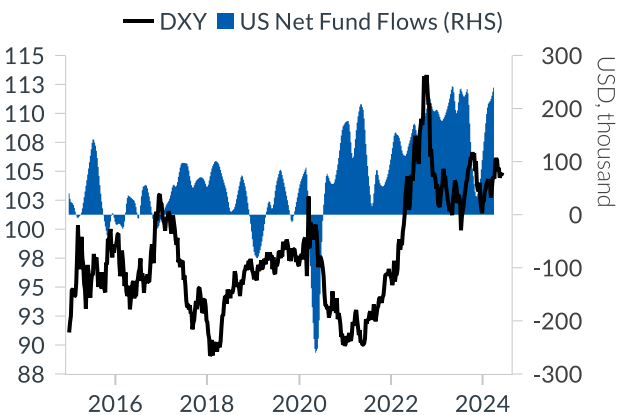
Source: Macrobond, RHB Economics & Market Strategy

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



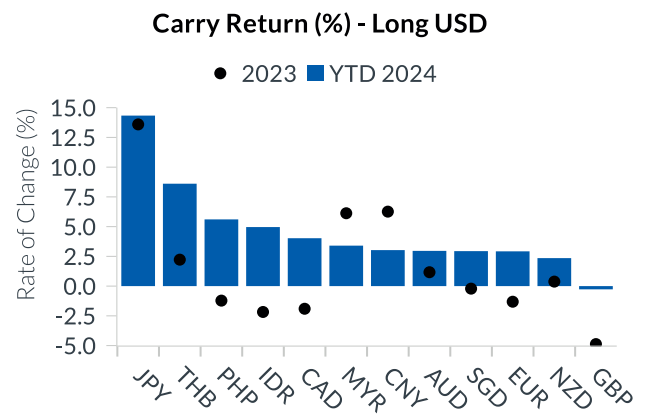
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, EPFR, RHB Economics & Market Strategy

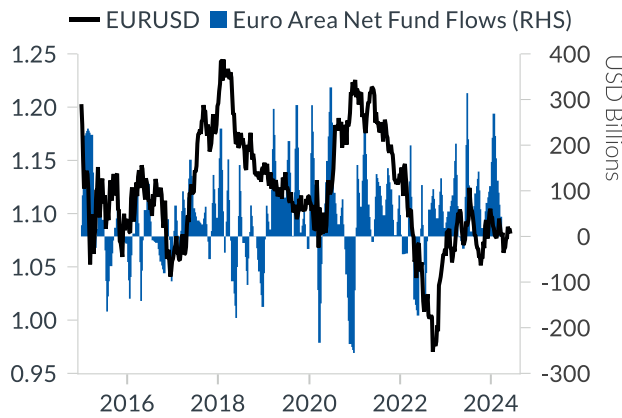
Figure 29: ... while USD carry stays positive year-to-date



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

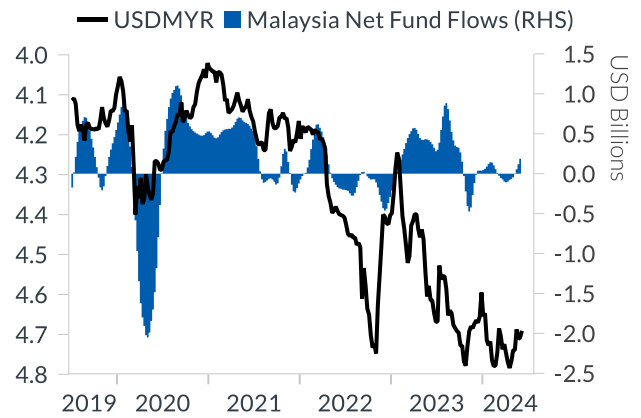
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Figure 30: Fund flows into Euro Area slowed as investors priced in a ECB rate cut, which materialised



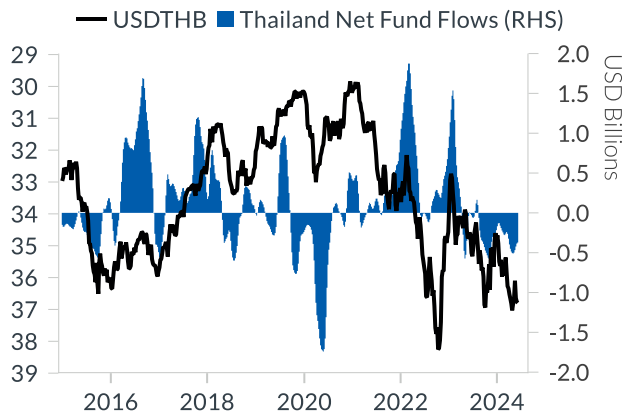
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



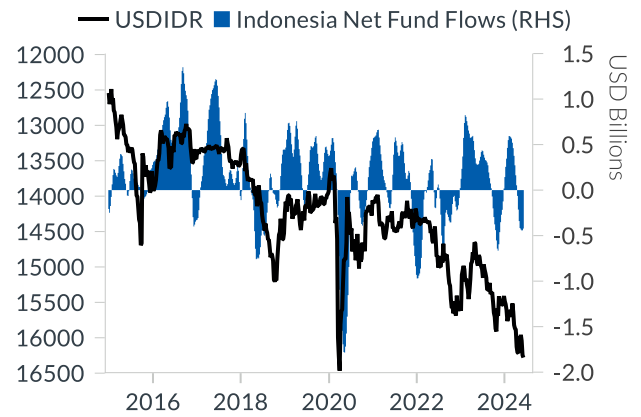
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



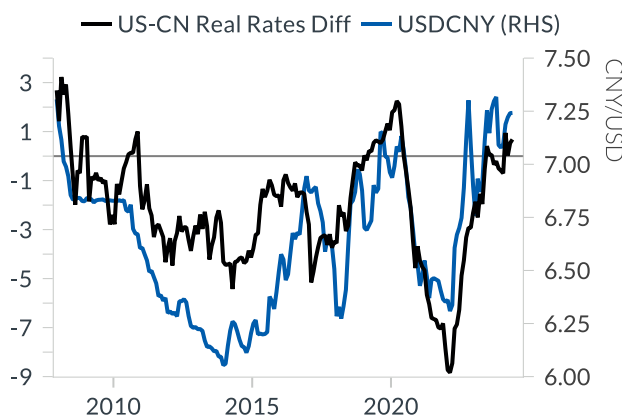
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



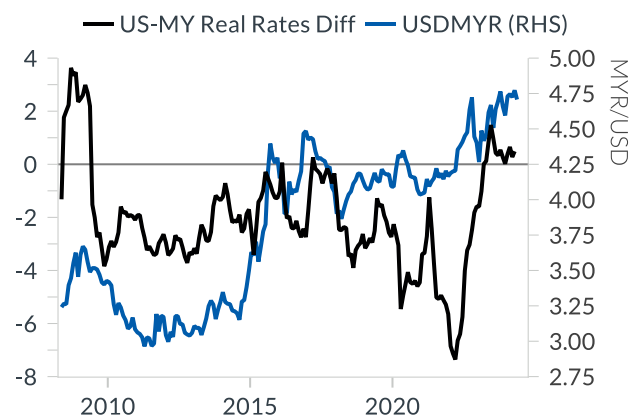
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

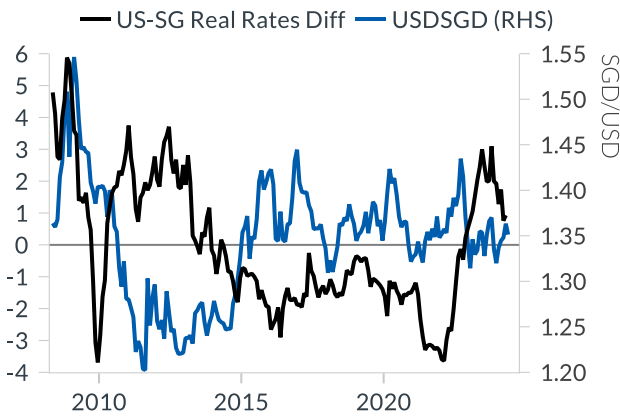
Figure 35: US-MY real rates narrowed recently, in tandem with the recent MYR strength



Source: Macrobond, RHB Economics & Market Strategy

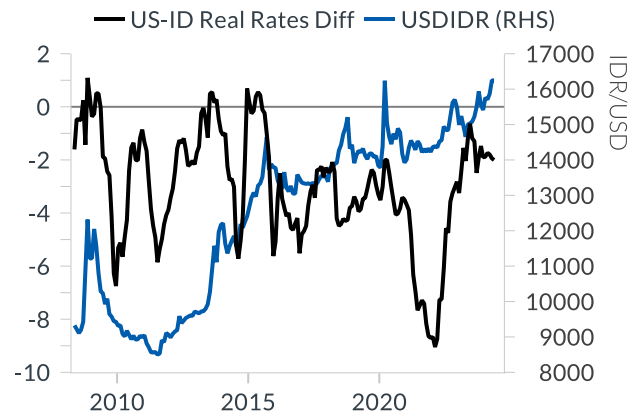
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Figure 36: Singapore remains less susceptible to rate differentials given its S\$NEER appreciation policy



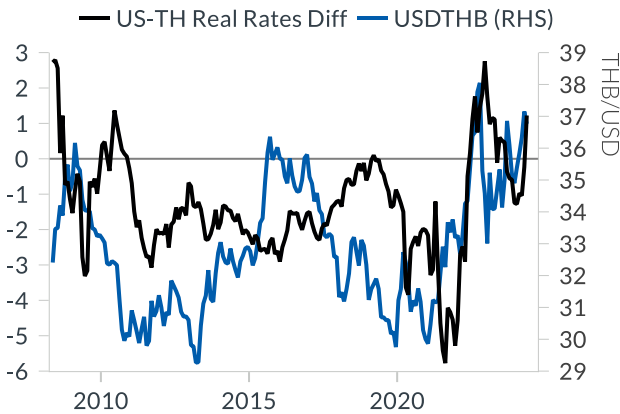
Source: Macrobond, RHB Economics & Market Strategy

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



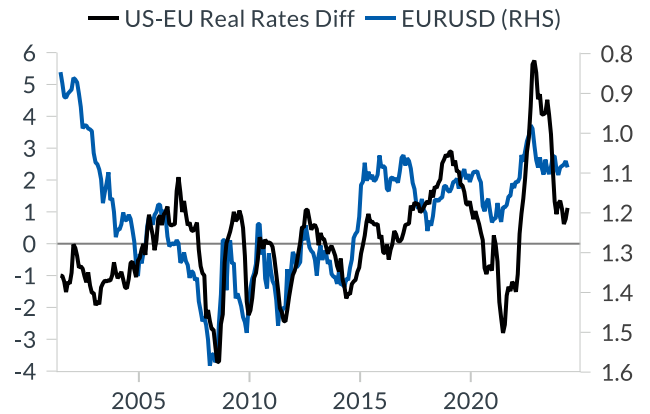
Source: Macrobond, RHB Economics & Market Strategy

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



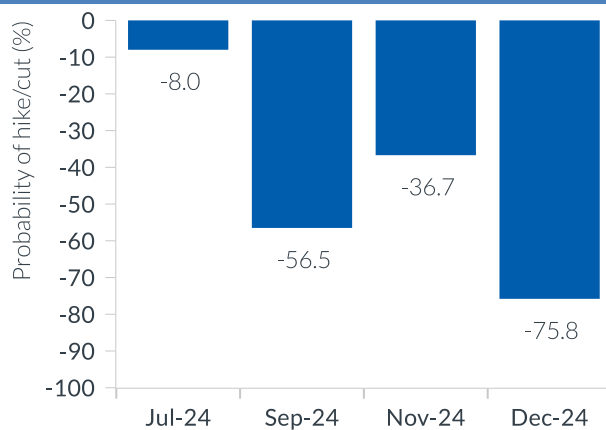
Source: Macrobond, RHB Economics & Market Strategy

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



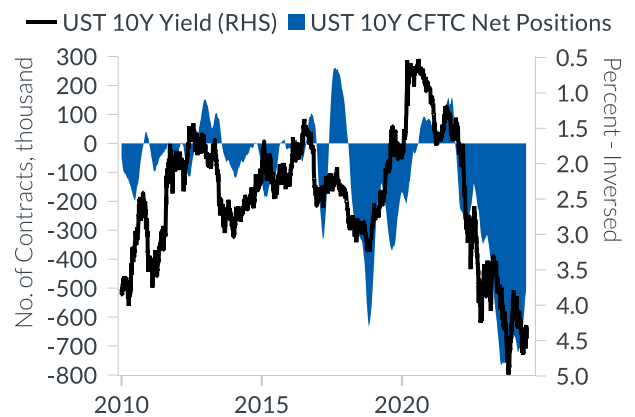
Source: Macrobond, RHB Economics & Market Strategy

Figure 40: Markets is pricing in US FFR cuts in Sept and Dec 2024...



Source: Macrobond, RHB Economics & Market Strategy

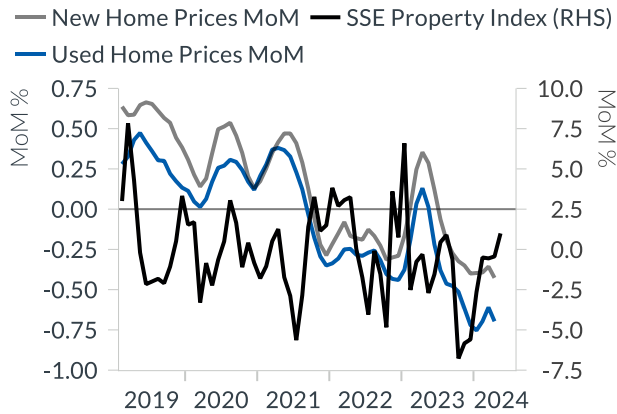
Figure 41: ... with UST 10Y yields likely to stay elevated as rates stay high-for-longer



Source: Macrobond, RHB Economics & Market Strategy

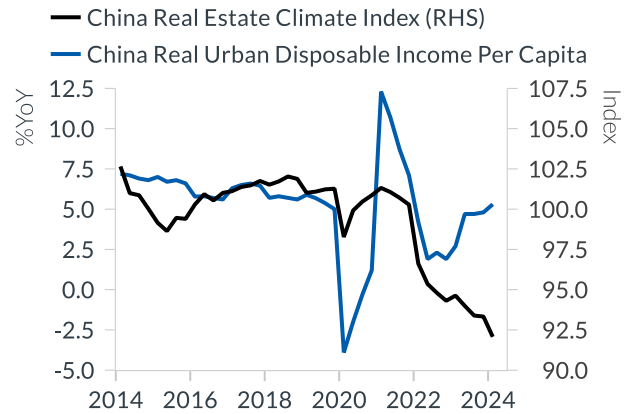
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Figure 42: China new home price momentum continue to recover in the latest months



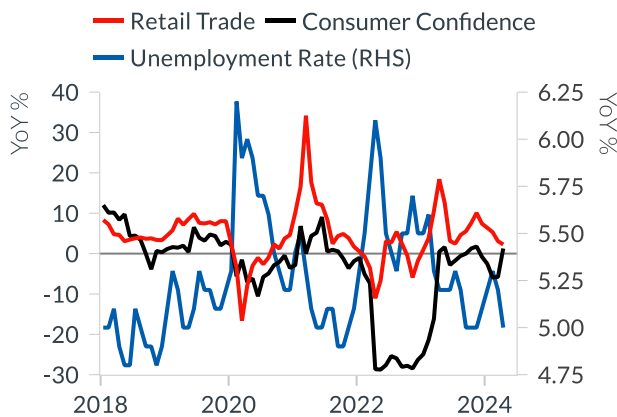
Source: Macrobond, RHB Economics & Market Strategy

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



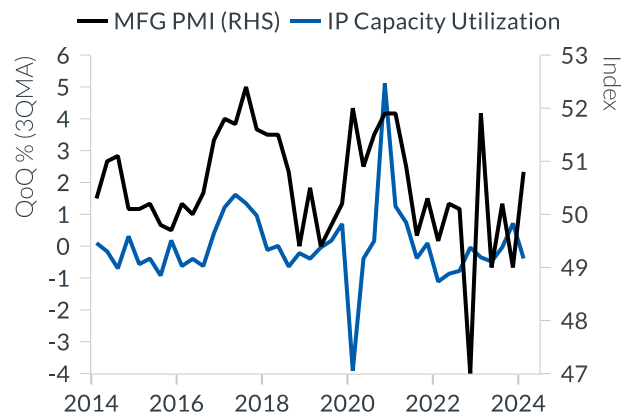
Source: Macrobond, RHB Economics & Market Strategy

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



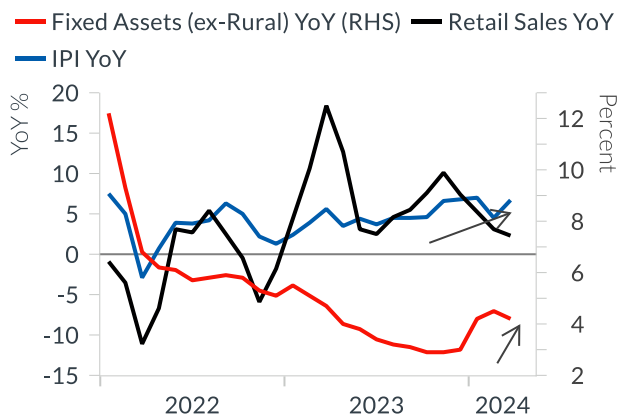
Source: Macrobond, RHB Economics & Market Strategy

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



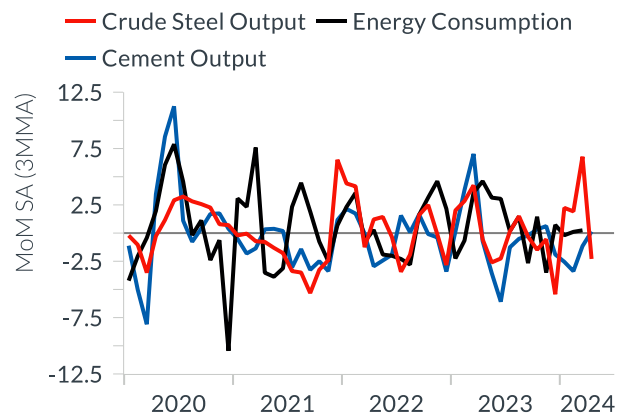
Source: Macrobond, RHB Economics & Market Strategy

Figure 46: ... while industrial production continues to accelerate...



Source: Macrobond, RHB Economics & Market Strategy

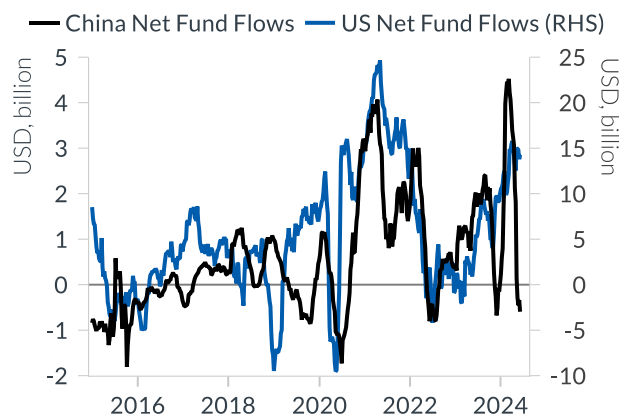
Figure 47: ... with commodity consumption supported on the back of its recovery



Source: Macrobond, RHB Economics & Market Strategy

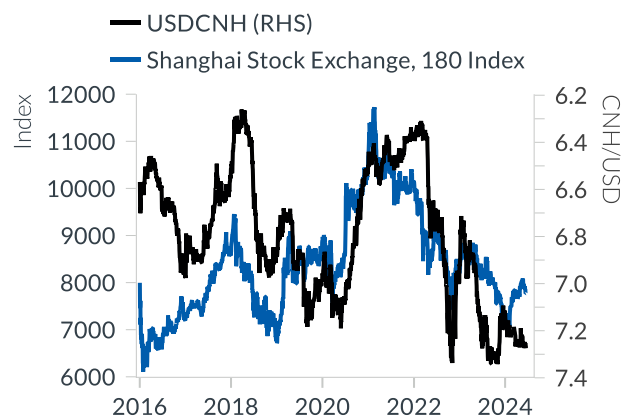
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Figure 48: Investors' interest in US funds remain healthy, some redemption of Chinese funds is ongoing...



Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799