

12 July 2024

## Global Economics & Market Strategy

### The Key is For Inflation To Move Down “Sustainably”, Too Early to Tell

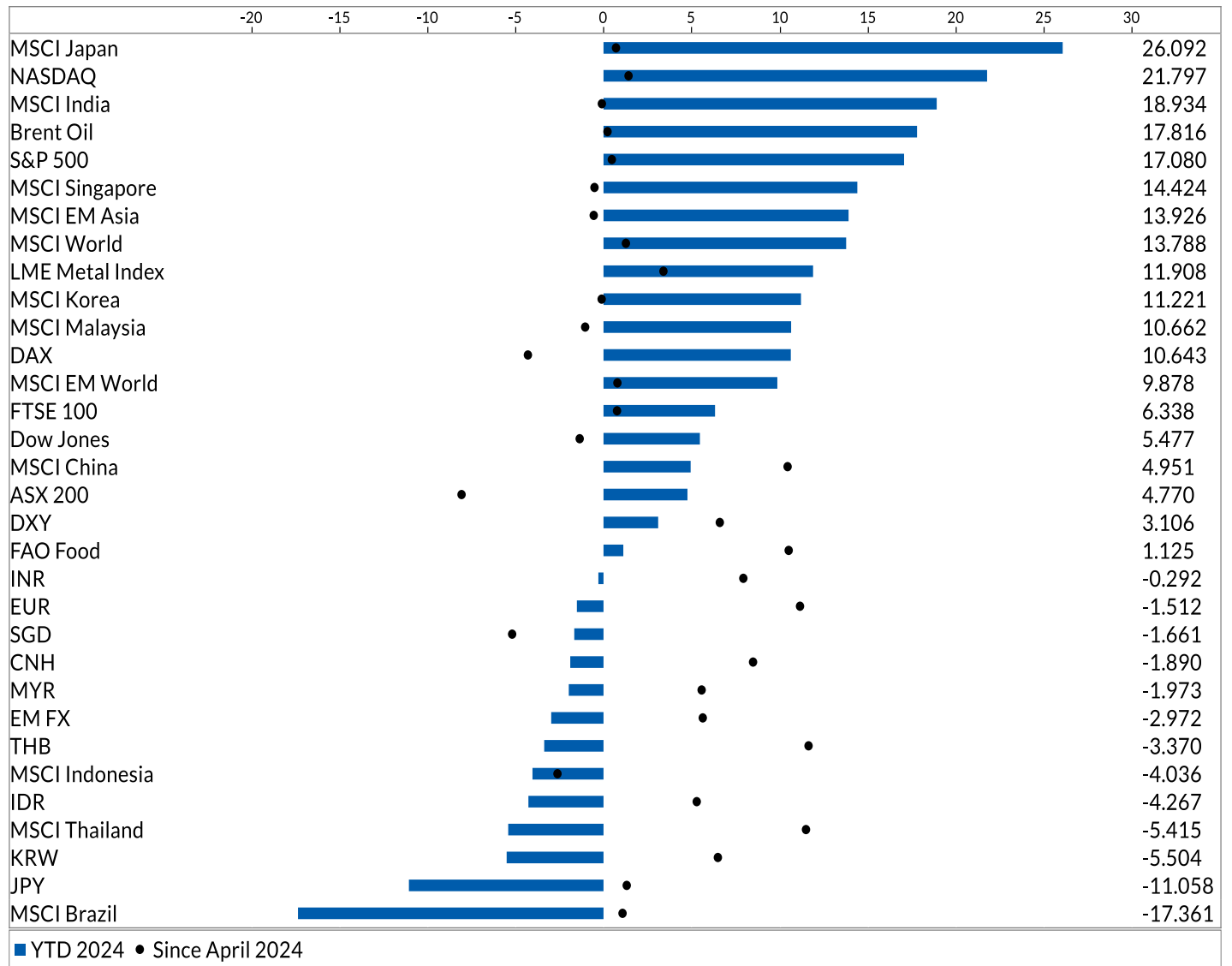
- ◆ **We are heartened by the early signs of slower US inflation.** On the assumption that US CPI (ex-food & ex-energy) trends largely in line with US core PCE inflation, last night’s US inflation print does give rise for the latter to trend towards 2.0%. Our US inflation updated model is now pencilling a year-end core PCE YoY print of 2.0%, on assumption that sequential price growth averages around 0.1% MoM for the rest of this year. This is an important data point, as (1) FOMC guidance has been very clear that the move towards the 2.0% inflation objective is a “sacred vow”, albeit (2) there must be confidence for prices to move sustainably towards the said objective before rates will be reduced. In the same vein, our view for a short-term pull back in risk appetite in the last two weeks did not materialise, given the faster-than-expected slowdown in US-centric consumer prices.
- ◆ **We think it is still too early to tell if US inflation is moving “sustainably” towards 2.0%**, and neither should one isolated data point in June be relied on to conclude an earlier-than-expected US Funds Rate (FFR) cut. Other data does not support a sustainable decline in US inflation, owing to (1) the acceleration in US real average earnings in June, amid (2) the continued resiliency in US labour data. We note that US wages are an important driver for overall demand-led inflation, thus the acceleration of US real average hourly wages to June’s +0.8% YoY from May’s +0.7% YoY is seen in tandem with the above-consensus print in US nonfarm payrolls (June: +206K, consensus: +190K) and lower jobless claims for the week ending 6 June (222K persons, against previous week 239K). Suffice it to say, we need US core PCE inflation to move sustainably towards 2.0%, and thus, further slowdown of US price momentum to around 0.1% MoM is required especially in July to September, before we are convinced for a September FFR cut.
- ◆ **Our base case is still for one rate cut by December 2024**, considering that (1) other indicators still reflect a relatively elevated inflation prognosis while (2) time is needed before we can conclude that the current price downtick is a sustainable one. We think that the balance of risks is magnified more towards a November rate cut instead; a September rate cut may only occur if US core PCE inflation prints between 0.0 – 0.1% MoM in July to September. A November cut (instead of a September should inflation slow as discussed above) should we take a leaf from Fed Chair Powell’s recent comment for “taking our time to get it right” (see our [FX report](#) – 3 July 2024). We admit that things are appearing slightly more fluid now, and thus, DXY may continue to trend below 104 while UST 10Y yields to stay below 4.5% may persist till further clarity on the US-centric trajectory is observed. Note that the market cheered on the recent slowdown in US inflation. Swap pricing is now pencilling a 93.5% probability for a September FFR cut, and a 58.5% and 82.4% chance for a November and December FFR cut, respectively. DXY softened to below 105 as per our expectations cited in our [previous weekly report](#), whereby we think it may now persist below the aforementioned 105 level as long as the market is pricing in the September FFR cut. Meanwhile, UST 10Y yields also dived 4.2% before recovering to current 4.21% at the time of writing.
- ◆ **In other ASEAN-centric news**, Singapore’s GDP printed in line with our forecast (above market consensus) at 2.9% YoY (+0.04% QoQ SA), as indicated by our proprietary GDP leading index model which leads SG GDP by two quarters. Closer to home, we maintain our [view](#) that the Overnight Policy Rate (OPR) to remain unchanged at 3.00% for 2024, whereby we think policymakers might hold the OPR rate while assessing the lagged impact of fiscal policy changes on the overall inflationary trajectory and economic momentum. With Malaysia assuming ASEAN’s chairmanship in 2025, we pen our thoughts and potential policy implications in our recent [thematic report](#).

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Figure 1: YTD 2024 total return – Equities continue to surge in the developed markets, risk appetite may stay supported given recent slowdown in US-centric inflation, which translates into a stronger probability for an early FFR cut



Source: Macrobond, RHB Economics & Market Strategy

Figure 2: DM yields declined quarter-to-date...

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Germany	39.5	-4.1	2.79	3.33	2.34
Indonesia	29.7	0.5	6.68	6.91	5.62
United States	27.6	-22.8	4.53	5.22	3.77
United Kingdom	11.5	-12.7	4.07	5.48	3.17
Malaysia*	2.1	-3.8	3.49	3.69	3.31
Thailand	-0.4	-1.5	2.33	2.62	1.53
Singapore	-0.5	-7.2	3.25	3.73	2.87
S. Korea*	-1.3	-5.9	3.13	4.14	3.12
India	-15.1	-5.7	6.92	7.39	6.80
China	-57.3	-3.3	1.61	2.47	2.07

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

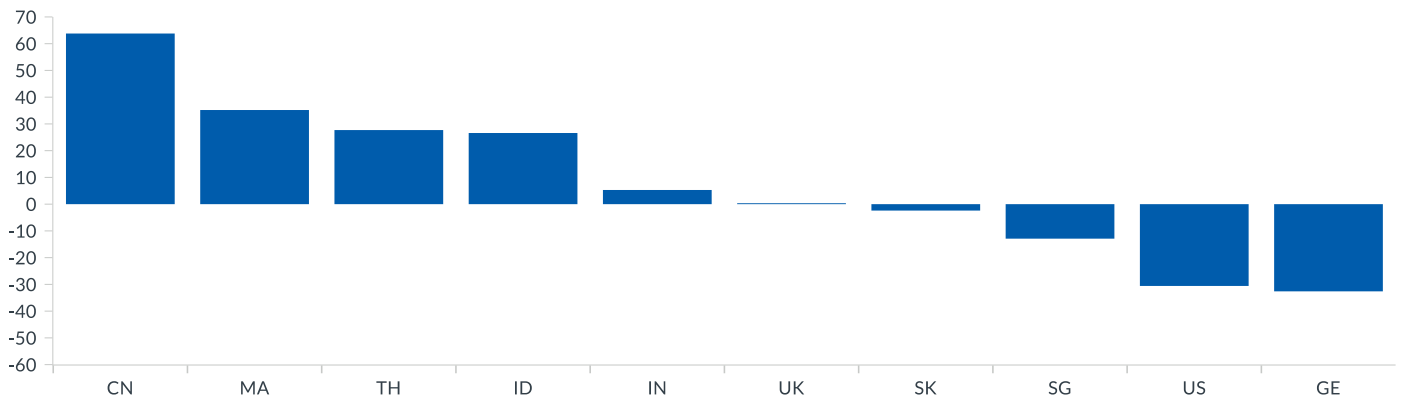
Figure 3: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	54.3	-9.9	4.07	4.74	3.00
Indonesia	49.2	-9.9	6.95	7.22	6.16
Germany	44.0	-3.6	2.46	2.97	1.89
Singapore	43.1	-7.3	3.12	3.50	2.66
United States	34.1	-17.6	4.22	4.99	3.31
Malaysia	10.7	-3.3	3.84	4.16	3.65
S. Korea	3.5	-5.6	3.21	4.40	3.16
Thailand	-7.1	-6.7	2.61	3.35	2.26
India	-21.3	-3.4	6.97	7.44	6.96
China	-30.8	4.5	2.25	2.92	2.54

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

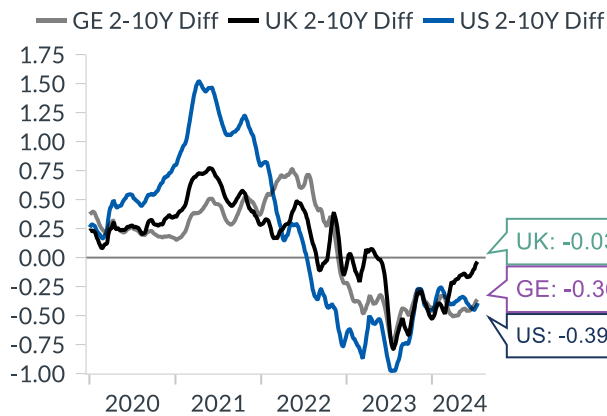
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Figure 4: China's 2-10Y yield spread remains wide against developed economies and Asia...



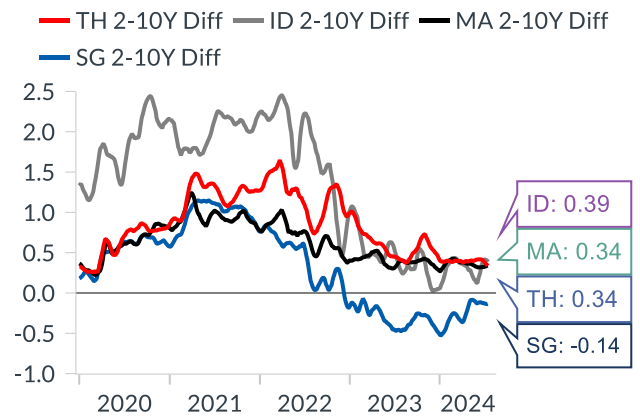
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: ... with UK yield curve moving towards the zero handle...



Source: Macrobond, RHB Economics & Market Strategy

Figure 6: ... but ASEAN's yield curve largely unchanged



Source: Macrobond, RHB Economics & Market Strategy

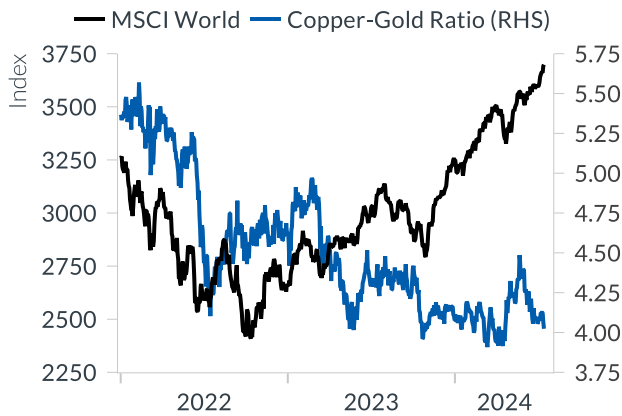
Figure 7: Expect DXY weakness below the 105 handle in the quarter ahead, especially markets pricing in a Sept FFR cut

FX Rates % Change	YTD 2024 (%) Since 2H23 (%) QTD 2024 (%)			Close (2024)	High 2023	Low 2023
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)			
JPY per USD	12.43	9.69	-1.43	158.554	151.647	127.516
CHF per USD	6.04	-0.15	-0.56	0.894	0.941	0.837
KRW per USD	5.82	4.17	-0.48	1372.305	1361.825	1222.444
TWD per USD	5.76	4.04	-0.14	32.427	32.479	29.668
PHP per USD	5.10	5.27	-0.32	58.224	57.146	53.946
IDR per USD	4.46	7.09	-1.57	16098.000	15946.000	14652.765
THB per USD	3.49	2.23	-1.69	36.118	37.069	32.704
DXY	2.93	1.40	-1.44	104.350	107.000	99.770
MYR per USD	2.01	0.40	-0.64	4.688	4.793	4.245
CNH per USD	1.93	-0.12	-0.44	7.266	7.342	6.713
SGD per USD	1.69	-0.83	-0.98	1.342	1.374	1.308
EUR per USD	1.54	0.28	-1.53	0.919	0.955	0.890
AUD per USD	0.50	-1.83	-1.38	1.475	1.590	1.408
INR per USD	0.29	1.75	0.15	83.493	83.439	80.988
GBP per USD	-1.43	-1.65	-2.21	0.774	0.845	0.762

Source: Macrobond, RHB Economics & Market Strategy

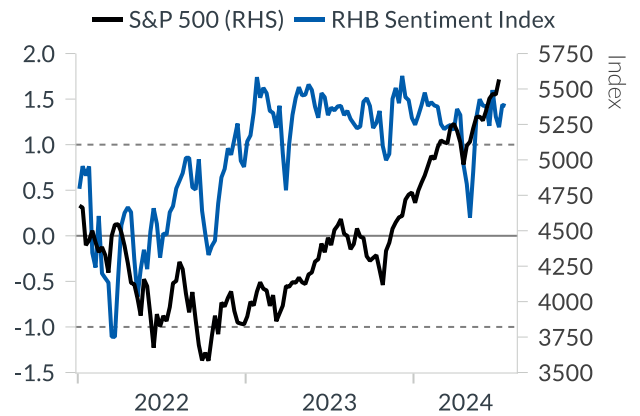
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**Figure 8: Global risk appetite continued to advance, but copper-gold ratio has softened amid higher gold prices...**



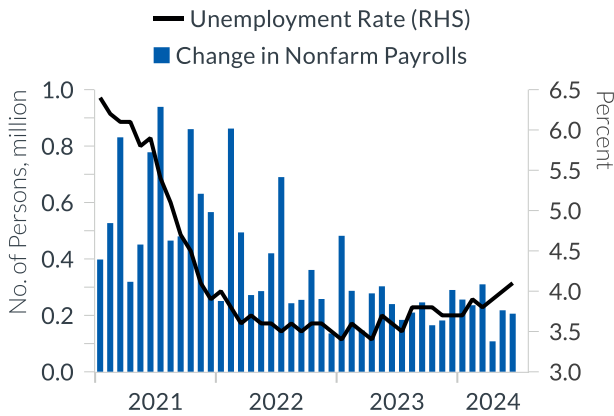
Source: Macrobond, RHB Economics & Market Strategy

**Figure 9: ... RHB Risk Sentiment Index recovered, suggesting that the earlier “choppiness” is short-lived**



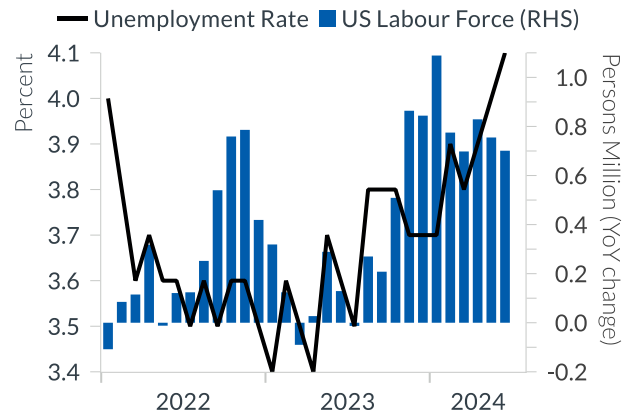
Source: Macrobond, RHB Economics & Market Strategy

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



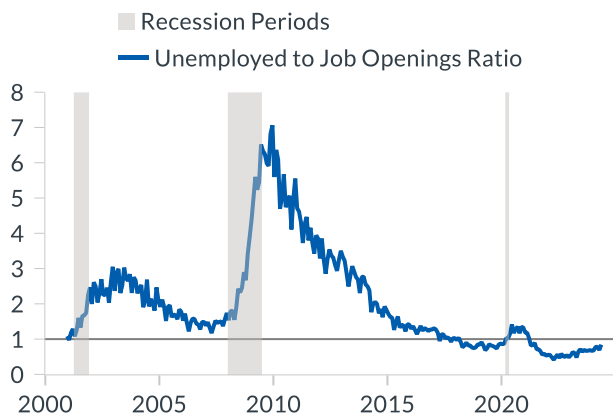
Source: Macrobond, RHB Economics & Market Strategy

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



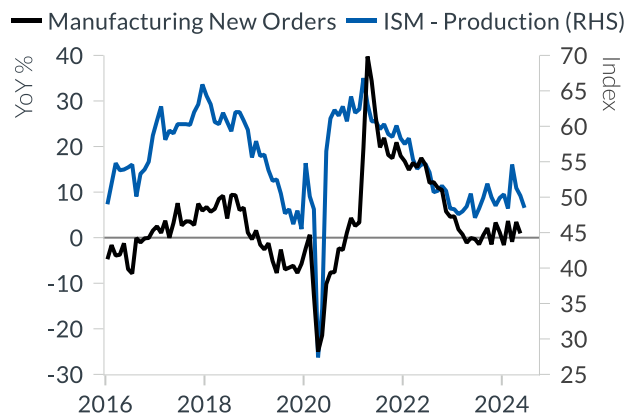
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

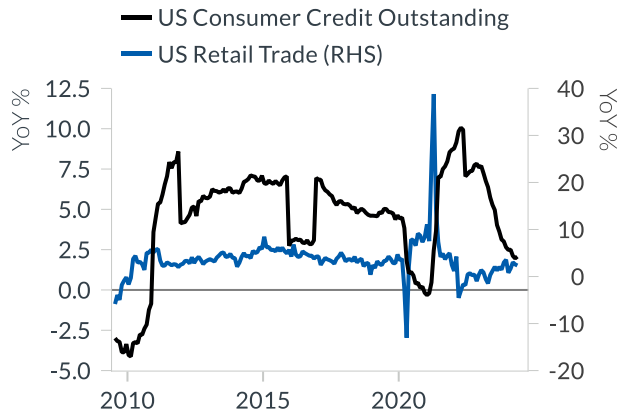
**Figure 13: US production activities are supported, seen in its new orders and ISM...**



Source: Macrobond, RHB Economics & Market Strategy

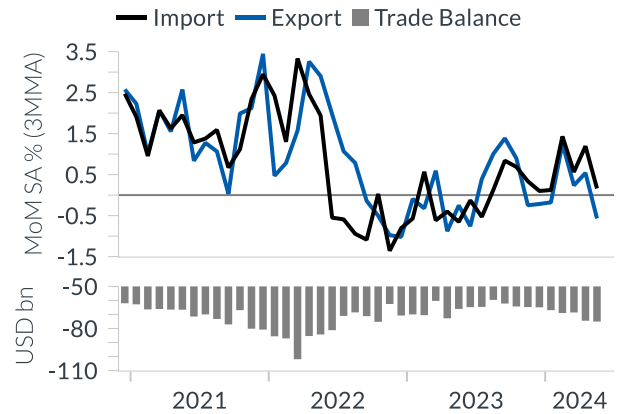
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Figure 14: ... with improvements in job market and the real economy supporting retail trade, rather than debt



Source: Macrobond, RHB Economics & Market Strategy

Figure 15: US trade momentum slowed in the recent reading, but ASEAN shipments are supported



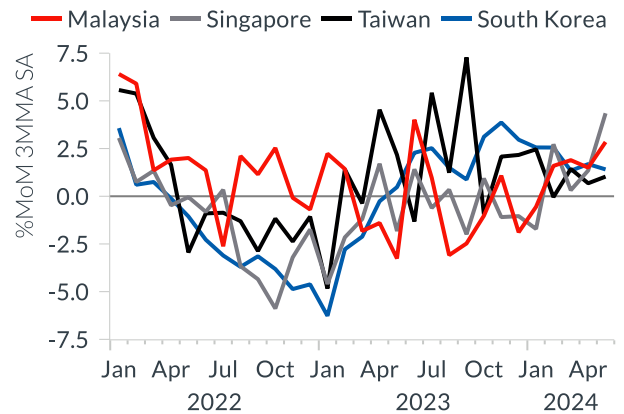
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: ASEAN's external environment is showing some slowdown in momentum, but is likely temporal...



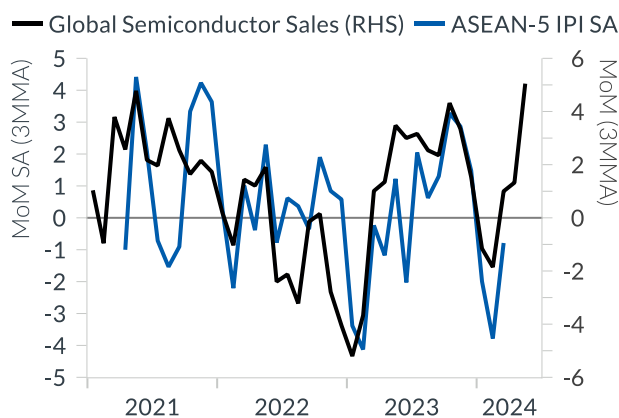
Source: Macrobond, RHB Economics & Market Strategy

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



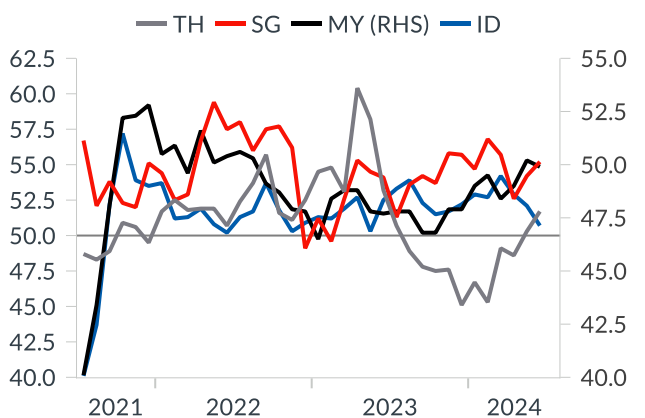
Source: Macrobond, RHB Economics & Market Strategy

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

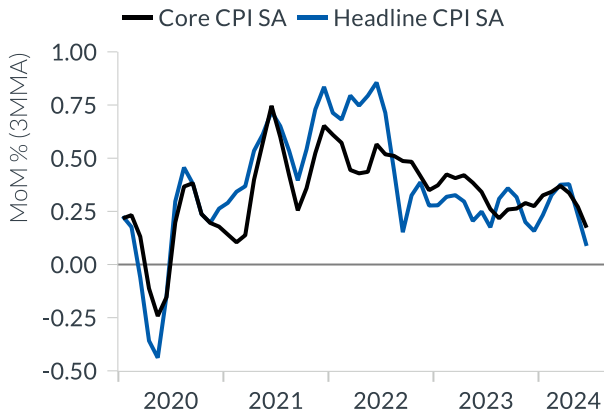
Figure 19: ... with PMI (whole economy) numbers in ASEAN seeing some consolidation



Source: Macrobond, RHB Economics & Market Strategy

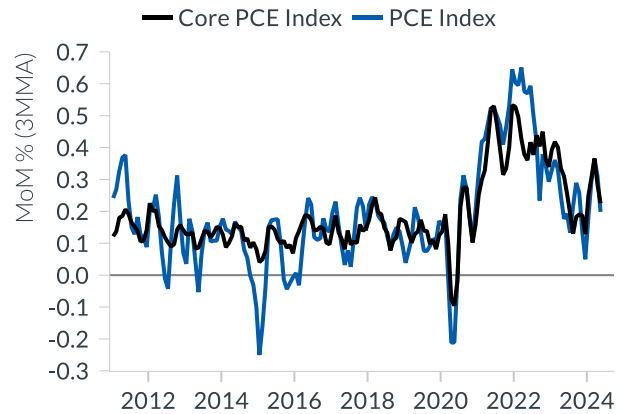
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Figure 20: US core inflation momentum has slowed, albeit we need July – Sept prints...



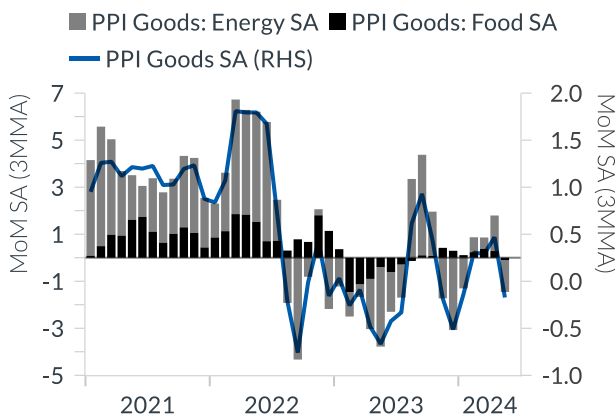
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: to persist at between 0.0 – 0.1% to convince a sustainable downtick towards the 2.0% print



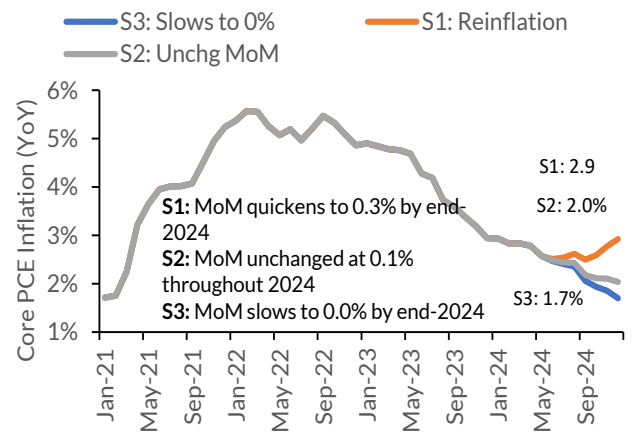
Source: Macrobond, RHB Economics & Market Strategy

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



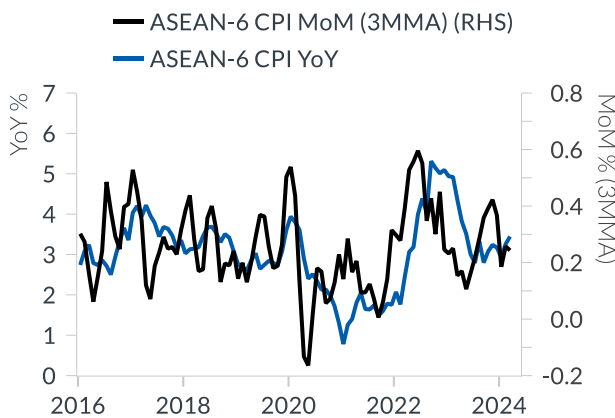
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: ... with our revised US inflation model suggesting a S2 year-end 2.0% core PCE print



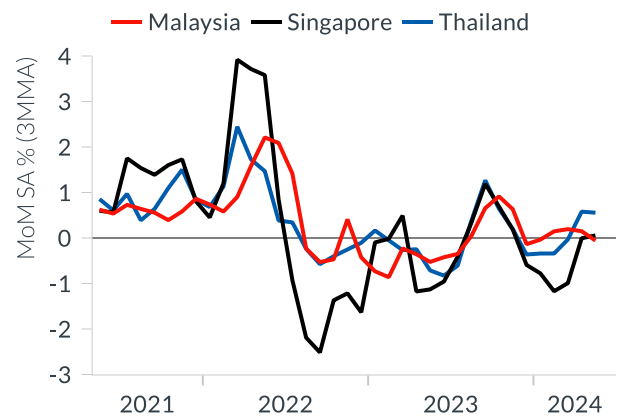
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

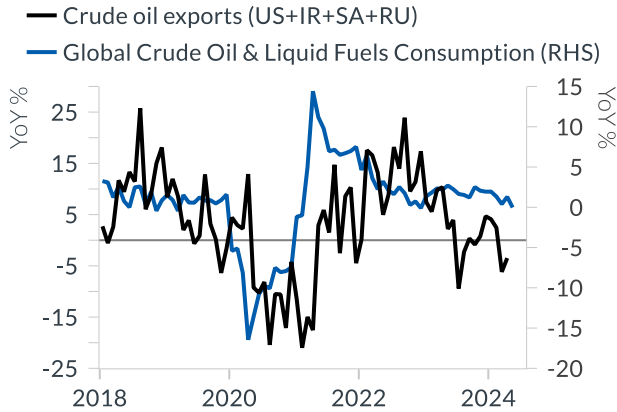
Figure 25: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

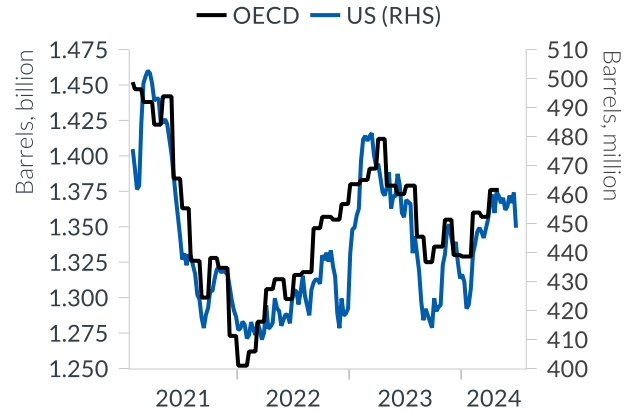
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**Figure 26: Crude prices are slated to point higher, as global supplies decline...**



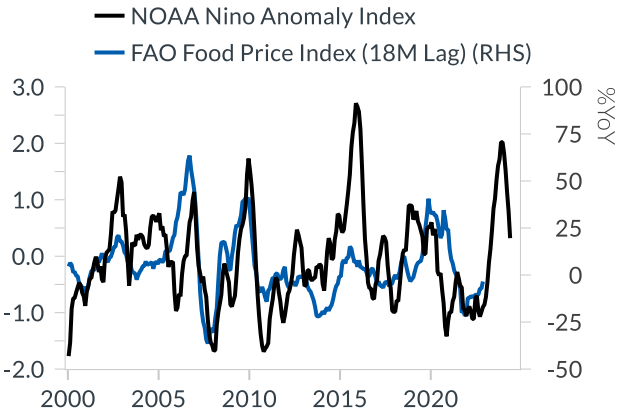
Source: Macrobond, RHB Economics & Market Strategy

**Figure 27: ... with recent US inventories falling in the latest week as demand conditions stay supported**



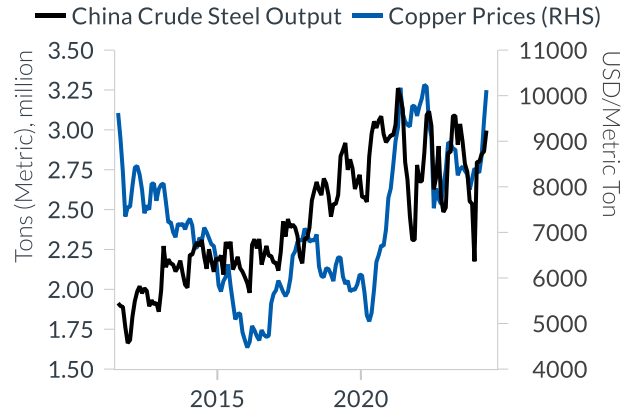
Source: Macrobond, RHB Economics & Market Strategy

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



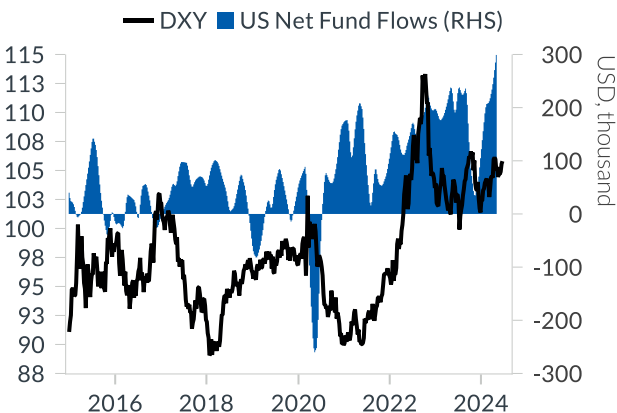
Source: Macrobond, RHB Economics & Market Strategy

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



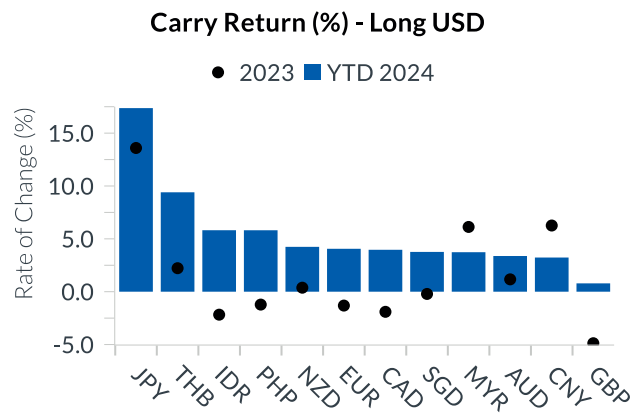
Source: Macrobond, RHB Economics & Market Strategy

**Figure 30: US net fund flows remain in strong inflow territories, which may cushion DXY's weakness...**



Source: Macrobond, EPFR, RHB Economics & Market Strategy

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

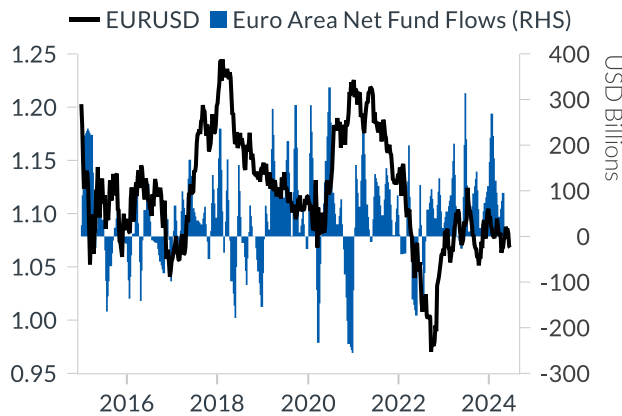


Source: Macrobond, Bloomberg, RHB Economics & Market Strategy



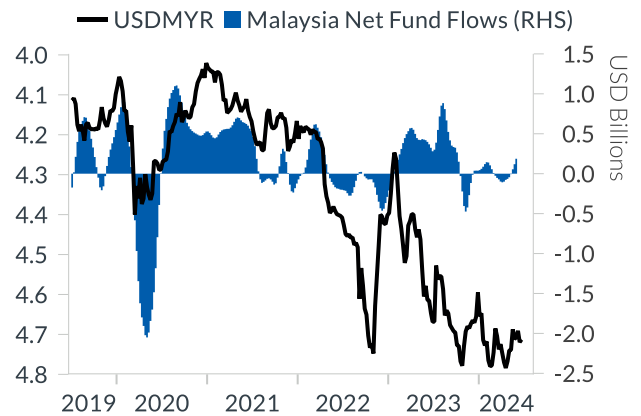
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**Figure 32: Fund flows into Euro Area slowed but no signs of material outflows despite recent political noise**



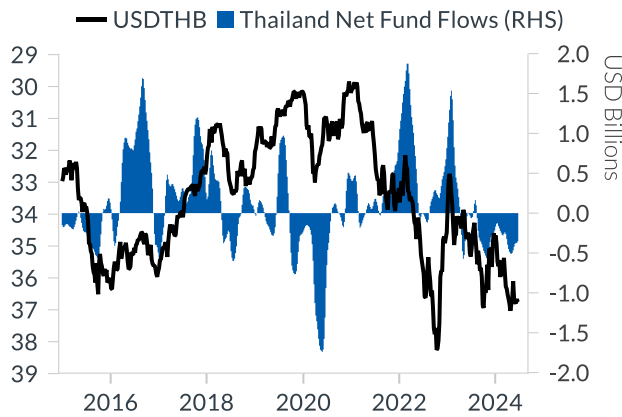
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



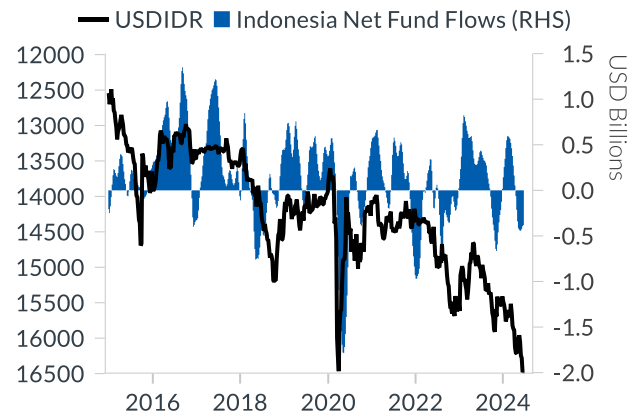
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



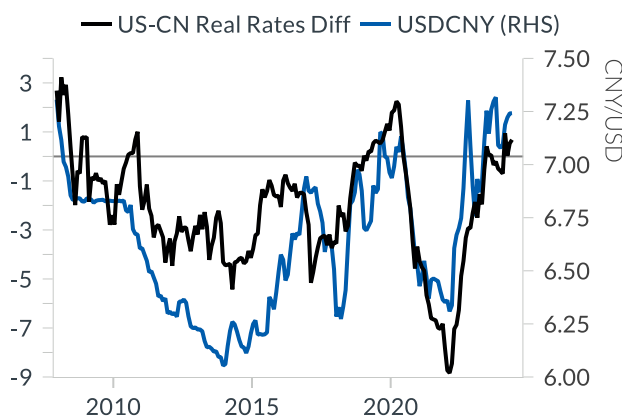
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



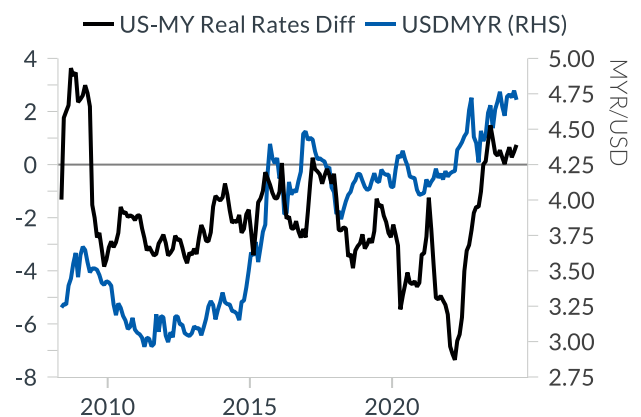
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**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 widened recently, which is an early proxy for higher USD-MYR**

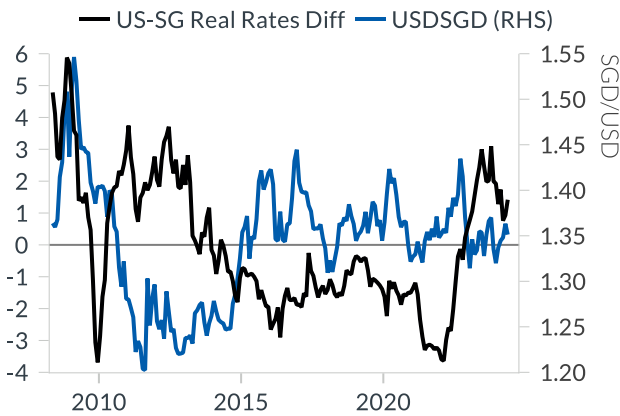


Source: Macrobond, RHB Economics & Market Strategy



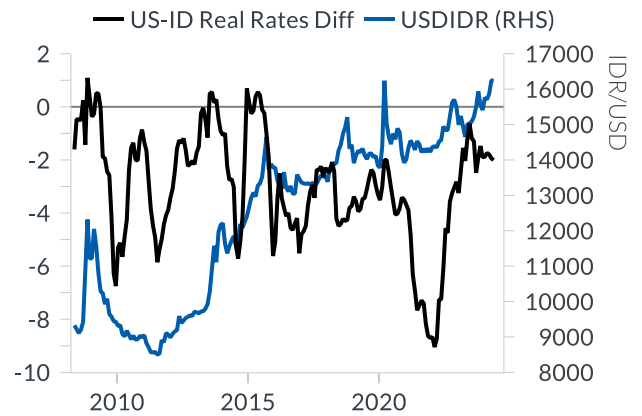
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**Figure 38: Singapore remains less susceptible to rate differentials given its S\$NEER appreciation policy**



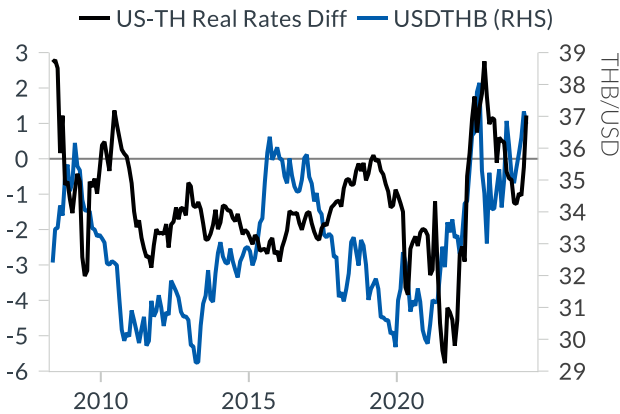
Source: Macrobond, RHB Economics & Market Strategy

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



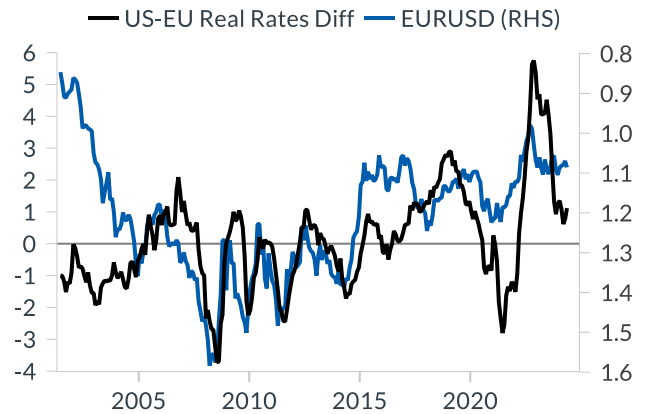
Source: Macrobond, RHB Economics & Market Strategy

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



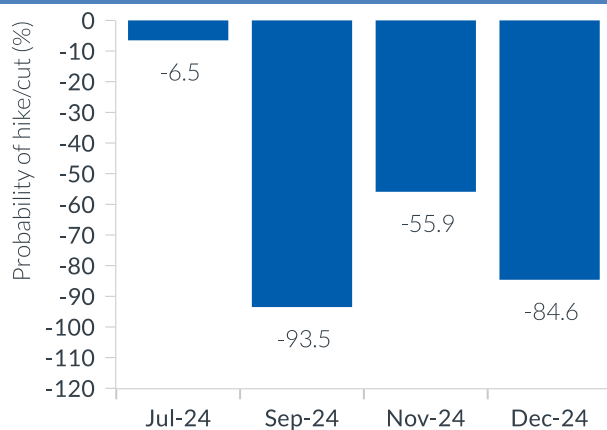
Source: Macrobond, RHB Economics & Market Strategy

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



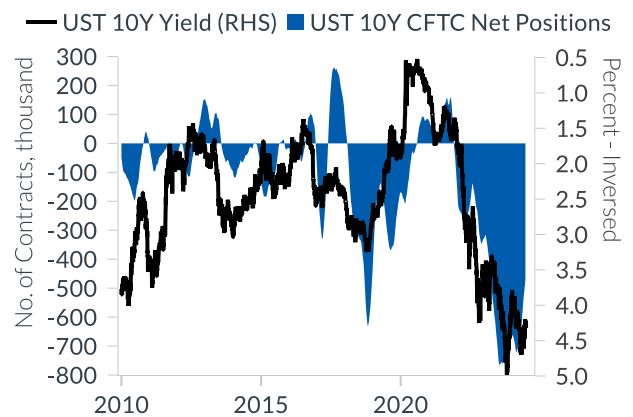
Source: Macrobond, RHB Economics & Market Strategy

**Figure 42: Markets pricing in a potential US FFR cuts in Sept and Dec 2024...**



Source: Macrobond, RHB Economics & Market Strategy

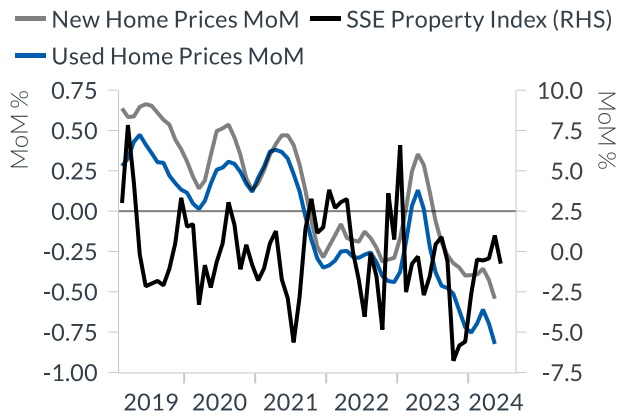
**Figure 43: ... although UST 10Y yields may stay below 4.5% as long as swap pricing eyes on a Sept FFR cut**



Source: Macrobond, RHB Economics & Market Strategy

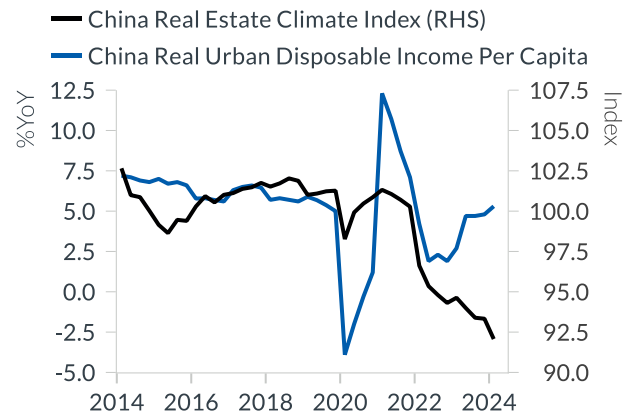
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**Figure 44: China new home price momentum revert to decline trends, probably the bottom is not found (yet)**



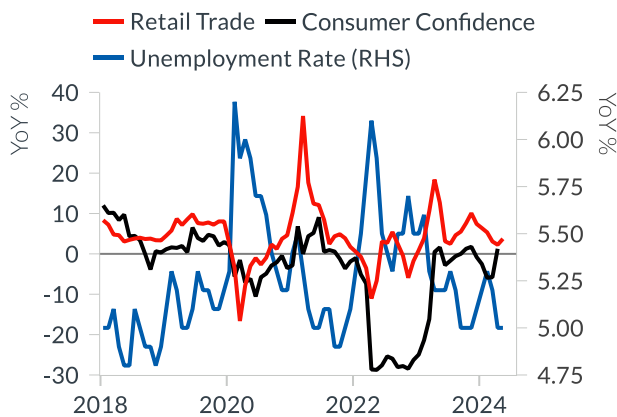
Source: Macrobond, RHB Economics & Market Strategy

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



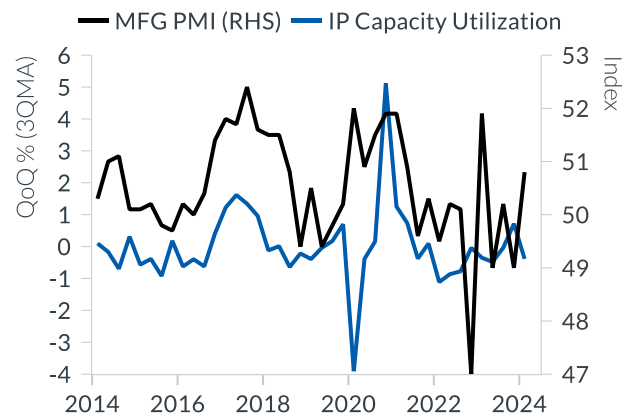
Source: Macrobond, RHB Economics & Market Strategy

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



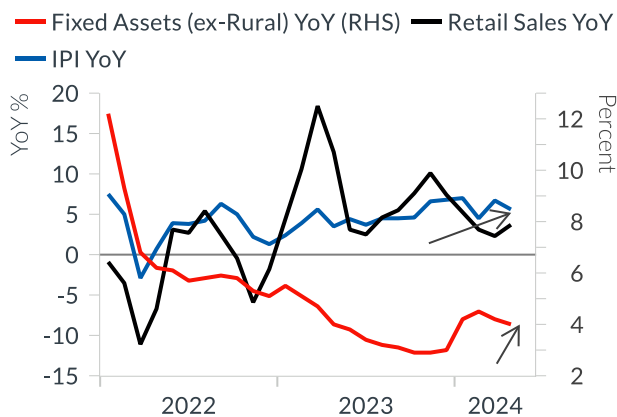
Source: Macrobond, RHB Economics & Market Strategy

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



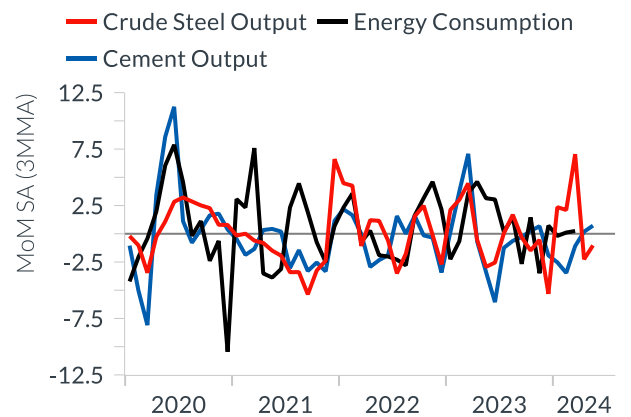
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

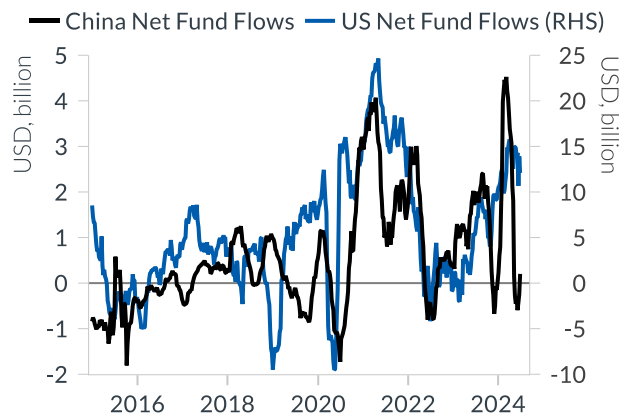
**Figure 49: ... with commodity consumption supported on the back of its recovery**



Source: Macrobond, RHB Economics & Market Strategy

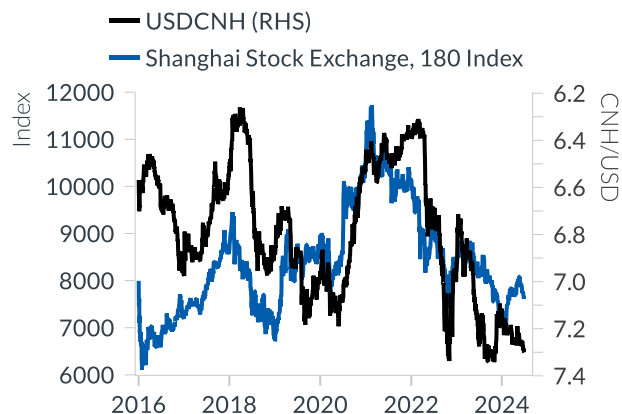
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**Figure 50: Investors' interest in US funds remain healthy, return of money into China is on its way**



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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