

05 July 2024

Global Economics & Market Strategy

Watch for Potential DXY Weakness and Lower UST 10Y Yields

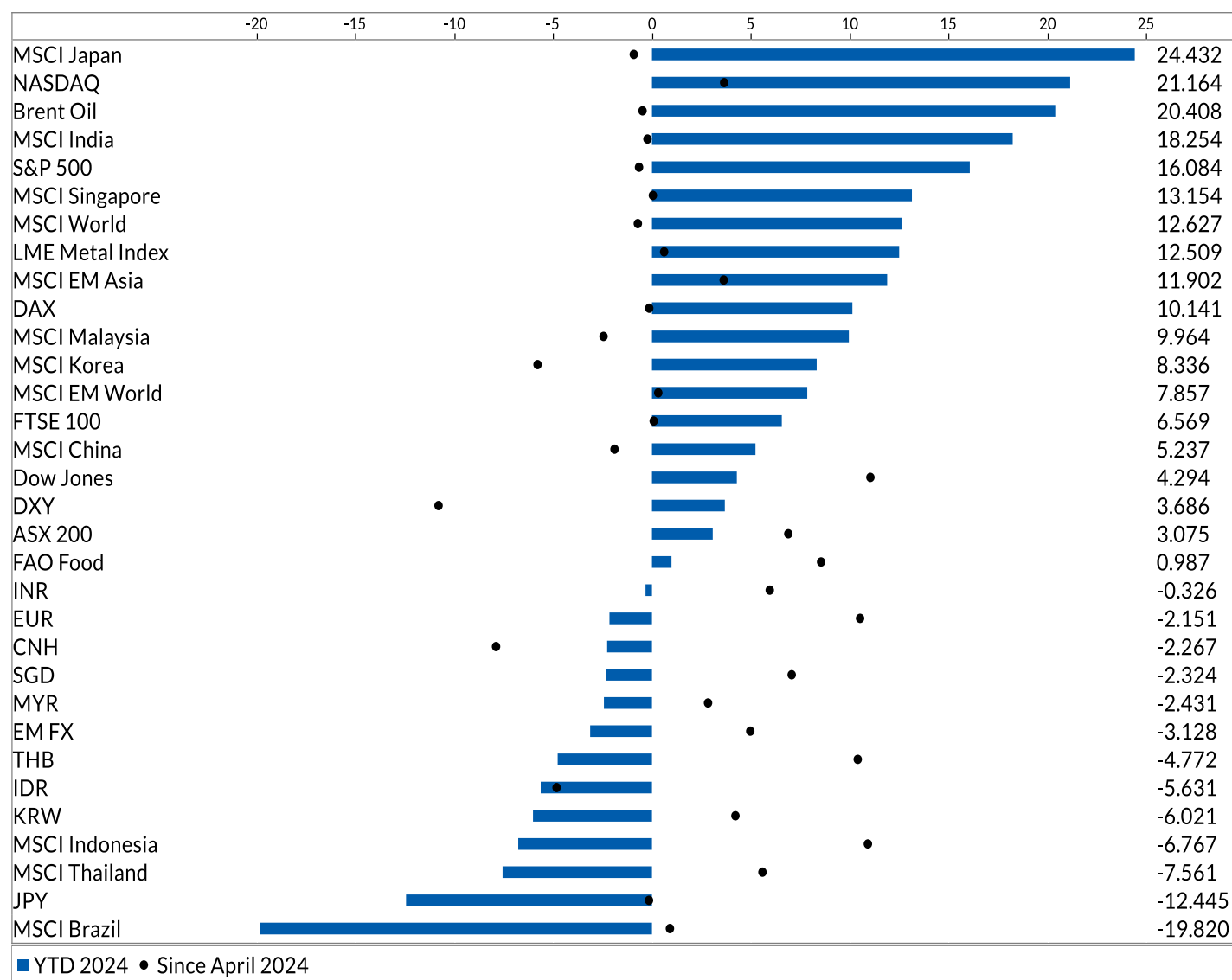
- ◆ **We continue to advocate caution in further risk-taking behaviour in the short term.** We turn neutral on developed market equities and prefer to long quality assets such as USTs. Our view for risk-taking appetite to see rally fatigue remains on the table – the RHB Risk Sentiment index remains choppy and, given its two-week predictive element, suggests some short-term profit-taking in US equities in the near future. Separately, the rallies in key US equities have reached their overbought zones according to the RSI indicators, suggesting that some consolidation must materialise. Notably, the neutral view we are adopting is a short-term one, and it is by no means a shift in our structural view of the global economy – key global growth indicators, including the US labour market, copper-gold ratio, and selected external data, have primarily remained resilient. We remain optimistic on global growth, with the US and China GDP to expand by 2.5% and 5.0% in 2024.
- ◆ **Implications are for the DXY to stage a decline below its critical 105 support handle in the coming week, while UST 10Y yields could edge towards 4.2% over the same period.** We expect short-term weakness in the DXY (owing to the normalisation of US-centric data amid higher pricing for a Sept FFR cut) and lower UST 10Y on the back of potential buying into quality assets. Our longer-term view, however, is unchanged for only one FFR cut in December 2024, and the return to higher DXY towards 107 and UST10Y yields above 4.5% towards the end of 3Q24. Our aforementioned view is predicated on our expectations for swap pricing to gradually price out a Sept FFR cut against the high-for-longer US rate backdrop. The caveat for this view may stem from significantly stronger nonfarm payroll (NFP) data and a faster-than-expected acceleration in US wages out tonight.
- ◆ **Further normalisation of US NFP data is expected into the remainder of 2024.** We expect around +200K of nonfarm payrolls in June, against the consensus of +190K and May's 272K, assuming the aforementioned normalisation trend to the long-term average growth. We see no change to the unemployment rate of 4.0%, albeit the recent pickup is a symptom of more job-seekers rather than a softening of US labour conditions. Note that the recovery in crucial US labour indicators is 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. Long-term (2011 – 2018) averages of US NFP gains were around 1.6% annually, against 2023's average gain of 2.3% and 2024 year-to-date average gain of 1.8%. US nonfarm payrolls have added 28.1 million jobs since the COVID-19 trough, against the loss of 21.4 million jobs during the pandemic.
- ◆ **The normalisation in selected US data is not accompanied by Asia-centric ones, specifically China.** China's high-frequency growth numbers have been moving from strength to strength since 2023 – Caixin PMI composite and services remained above the expansionary 50.0 line in June. May's exports surged 7.6% YoY against a consensus of 5.7%, while retail sales growth accelerated to 3.7% YoY (from the prior 2.3% YoY) in the same month. The only concern, perhaps, is the persistent decline in property valuations, whereby new and home prices have clocked -0.7% and -1.0% in May, respectively. In the coming week, critical ASEAN data, including ID and TH's consumer confidence, SG's 2Q24 Advance GDP, and MA's industrial production, could continue to support positive investor sentiment in Asia.
- ◆ **Global inflation concerns will continue to rear its ugly head.** Brent prices have rallied to near its US\$88.0/bbl handle due to the warning on Hurricane Beryl and shrinking US crude stockpiles. Copper prices also staged a substantial uptick last week to US\$4.57/lb, the highest in a month. Consensus is pencilling US average hourly wages to rise 0.3% MoM despite an expected higher labour participation rate in June. Similarly, Fed minutes cited that policymakers need more evidence for inflation to be sustainably cooling before cutting its benchmark rate.

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05 July 2024

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
Germany	54.7	11.1	2.94	3.33	2.34
United States	45.4	-5.0	4.70	5.22	3.77
Indonesia	29.7	0.5	6.68	6.91	5.62
United Kingdom	24.6	0.4	4.20	5.48	3.17
Singapore	9.4	2.7	3.35	3.73	2.87
Malaysia*	4.3	-1.6	3.51	3.69	3.31
Thailand	1.8	0.7	2.35	2.62	1.53
S. Korea*	0.5	-4.1	3.15	4.14	3.12
India	-11.3	-1.9	6.96	7.39	6.80
China	-54.6	-0.6	1.64	2.47	2.07

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

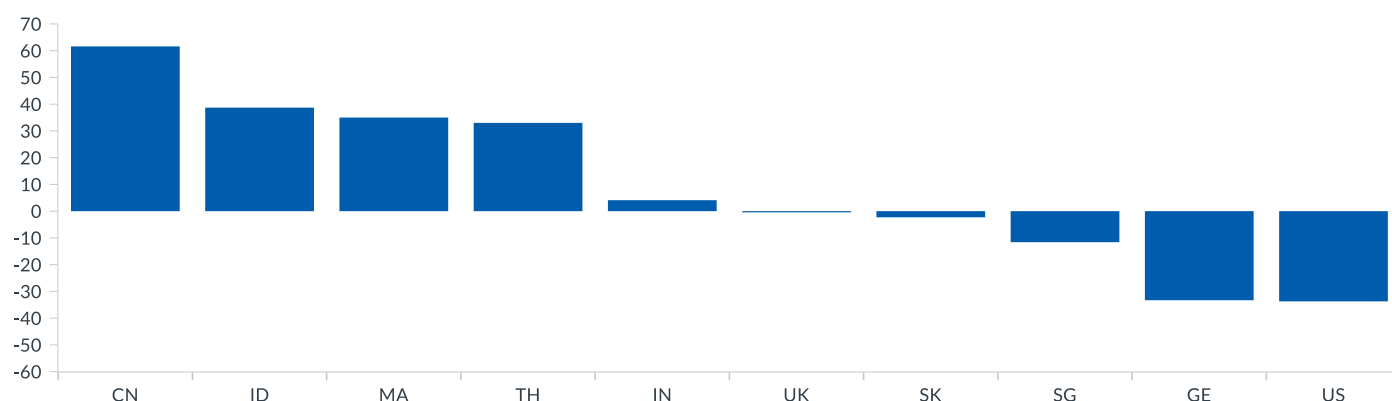
Figure 3: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	66.6	2.43	4.20	4.74	3.00
Indonesia	61.3	2.20	7.07	7.22	6.16
Germany	58.5	10.90	2.61	2.97	1.89
Singapore	54.3	3.90	3.23	3.50	2.66
United States	48.7	-2.96	4.37	4.99	3.31
Malaysia	12.7	-1.30	3.86	4.16	3.65
S. Korea	6.5	-2.60	3.24	4.40	3.16
Thailand	0.4	0.80	2.68	3.35	2.26
India	-18.7	-0.80	7.00	7.44	6.96
China	-30.3	5.00	2.25	2.92	2.54

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

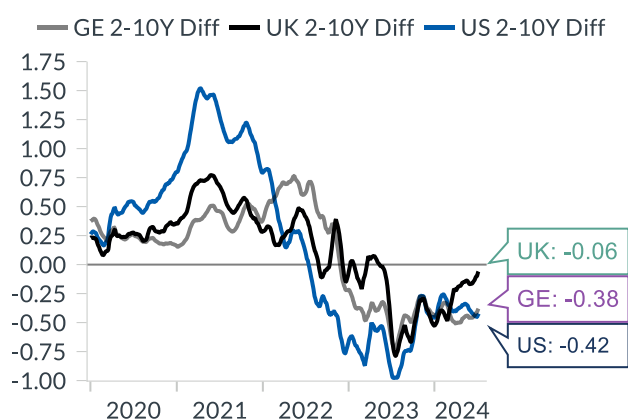
05 July 2024

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



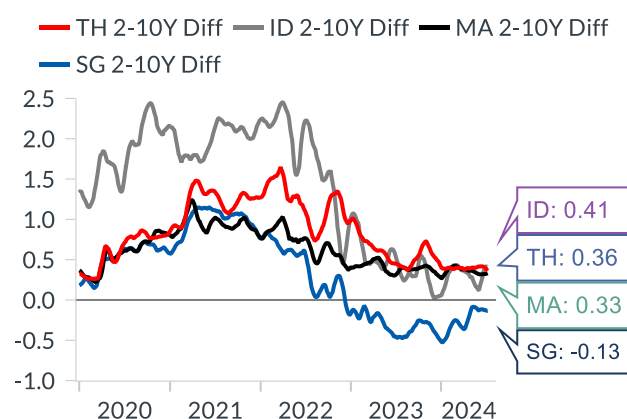
Source: Macrobond, RHB Economics & Market Strategy

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



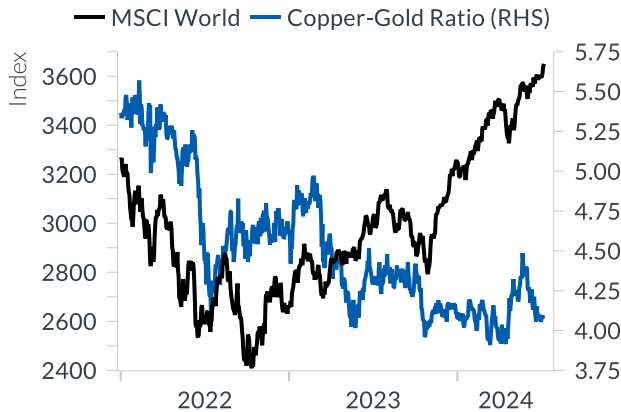
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Expect short-term DXY weakness, but 3Q24 view of higher DXY to 107 remains intact

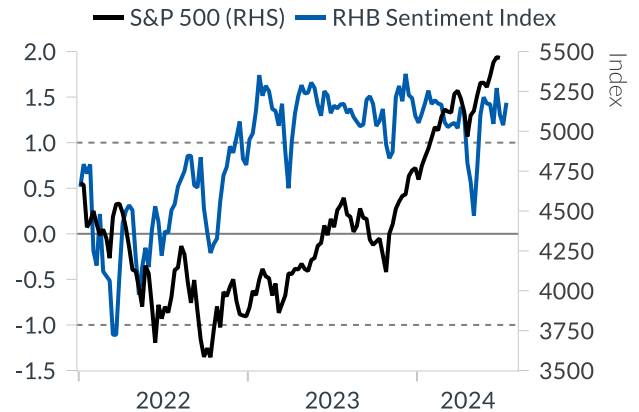
FX Rates % Change						
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	14.21	11.43	0.14	161.067	151.647	127.516
CHF per USD	6.80	0.57	0.16	0.900	0.941	0.837
KRW per USD	6.41	4.74	0.07	1379.860	1361.825	1222.444
IDR per USD	5.97	8.64	-0.14	16330.550	15946.000	14652.765
TWD per USD	5.84	4.12	-0.06	32.453	32.479	29.668
PHP per USD	5.65	5.82	0.20	58.528	57.146	53.946
THB per USD	5.01	3.73	-0.24	36.650	37.069	32.704
DXY	3.73	2.19	-0.67	105.160	107.000	99.770
MYR per USD	2.49	0.88	-0.17	4.710	4.793	4.245
SGD per USD	2.38	-0.16	-0.31	1.351	1.374	1.308
CNH per USD	2.32	0.27	-0.06	7.295	7.342	6.713
EUR per USD	2.20	0.94	-0.89	0.925	0.955	0.890
AUD per USD	1.29	-1.05	-0.60	1.487	1.590	1.408
INR per USD	0.33	1.78	0.19	83.522	83.439	80.988
GBP per USD	-0.15	-0.38	-0.95	0.784	0.845	0.762

Source: Macrobond, RHB Economics & Market Strategy

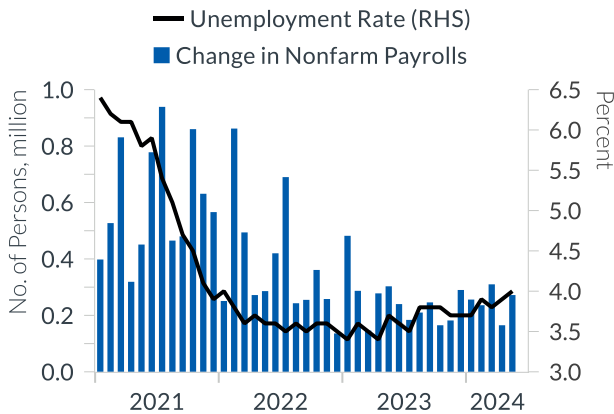
05 July 2024

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

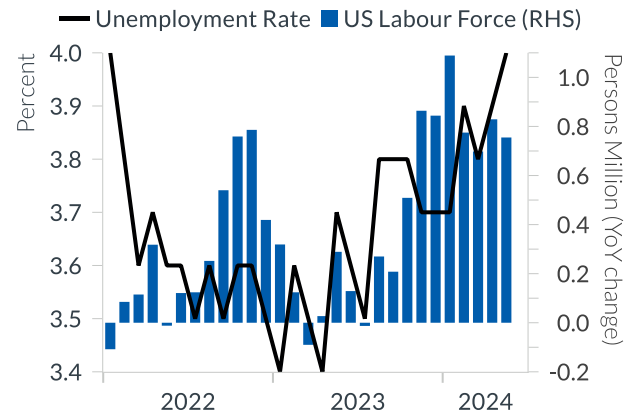
Source: Macrobond, RHB Economics & Market Strategy

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

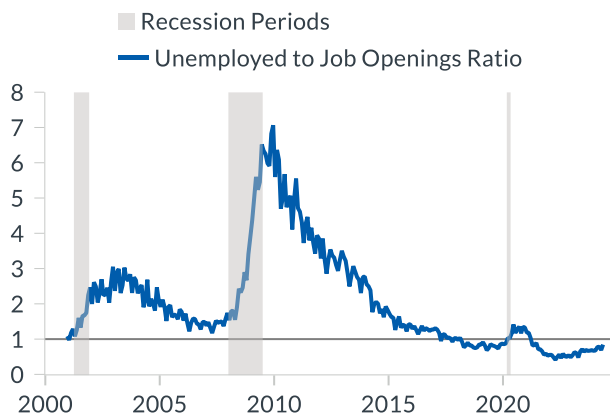
Source: Macrobond, RHB Economics & Market Strategy

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

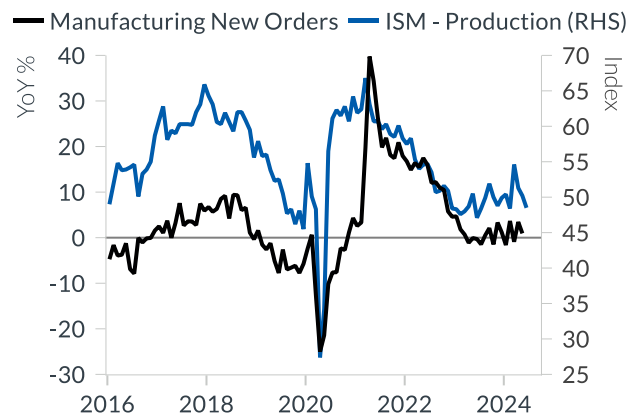
Source: Macrobond, RHB Economics & Market Strategy

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

Source: Macrobond, RHB Economics & Market Strategy

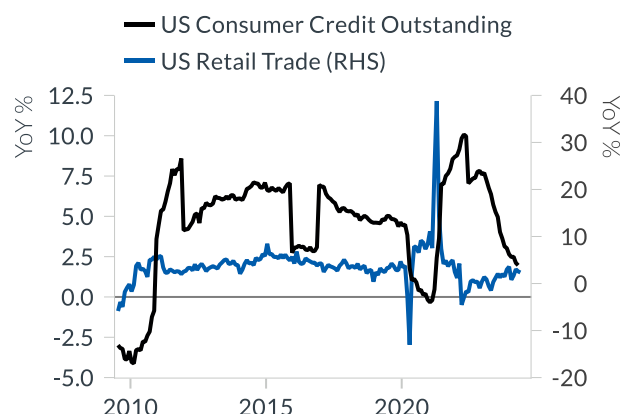
Figure 12: ... with overall US labour conditions still tight, as job openings still outnumber unemployed persons

Source: Macrobond, RHB Economics & Market Strategy

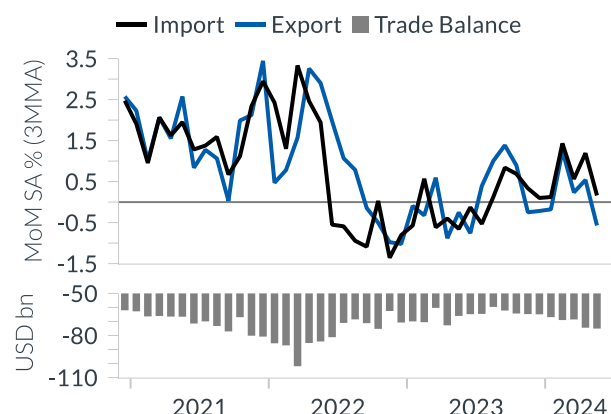
Figure 13: US production activities are supported, seen in its new orders and ISM...

Source: Macrobond, RHB Economics & Market Strategy

05 July 2024

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

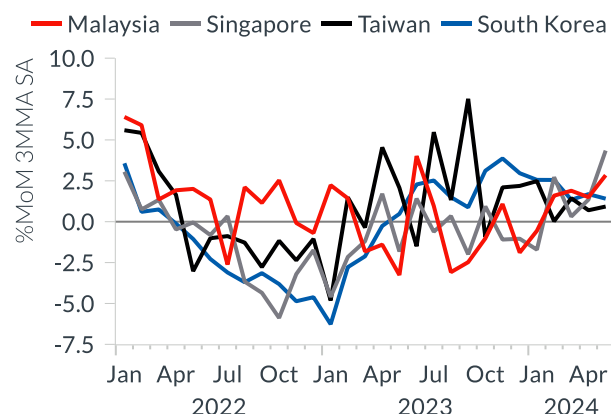
Source: Macrobond, RHB Economics & Market Strategy

Figure 15: US trade momentum slowed in the recent reading, but...

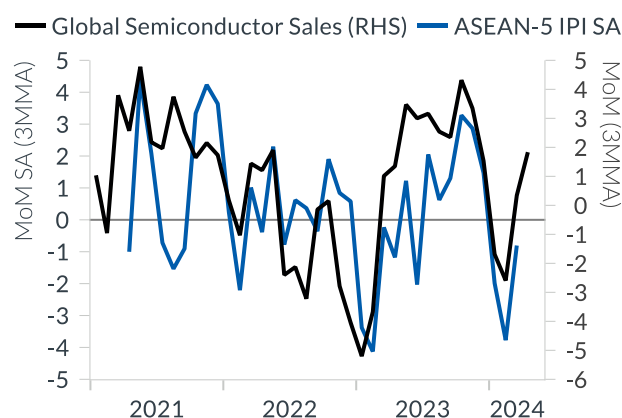
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: ... ASEAN's external environment stays supported amid higher shipments to China...

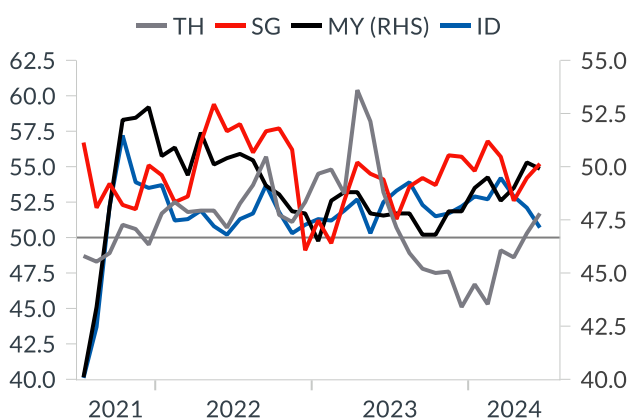
Source: Macrobond, RHB Economics & Market Strategy

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

Source: Macrobond, RHB Economics & Market Strategy

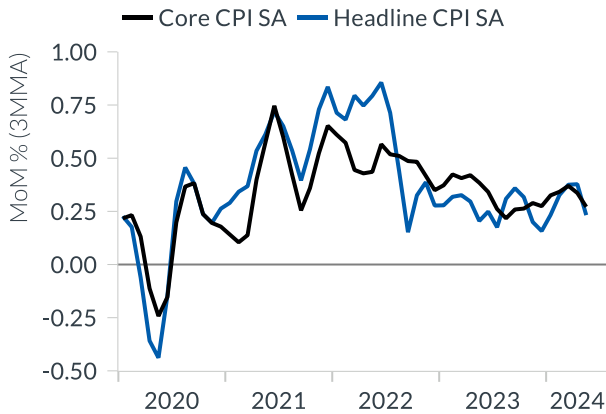
Figure 18: Despite softer trade, ASEAN's manufacturing activities remain supported over the same period...

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

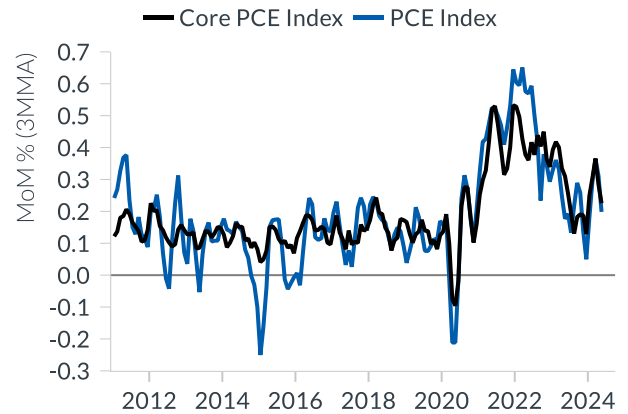
Figure 19: ... with PMI (whole economy) numbers in ASEAN seeing some consolidation

Source: Macrobond, RHB Economics & Market Strategy

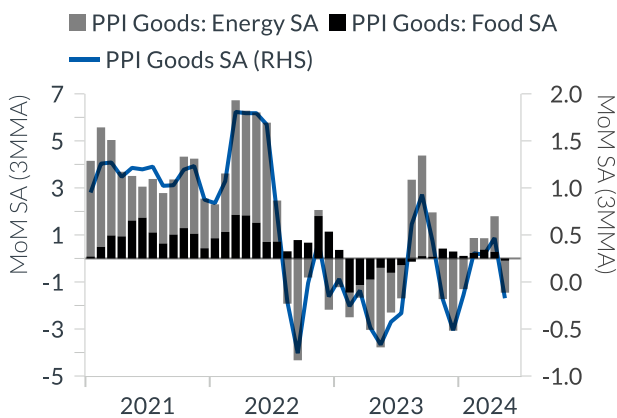
05 July 2024

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

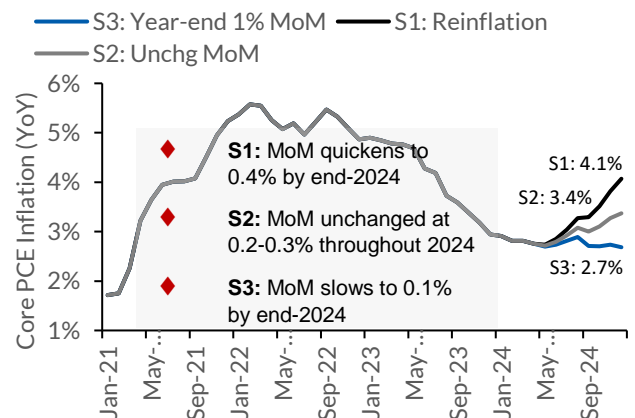
Source: Macrobond, RHB Economics & Market Strategy

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

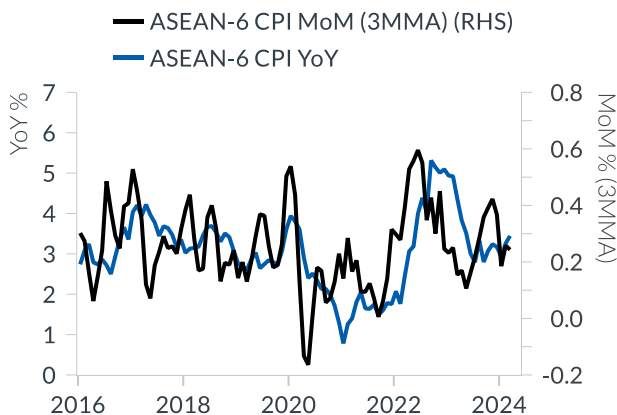
Source: Macrobond, RHB Economics & Market Strategy

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

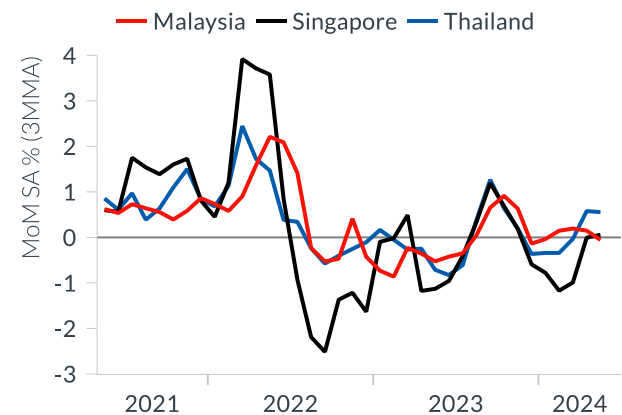
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: ... with our models suggesting that US core PCE inflation could flat line at around 2.7% by end-year if MoM slows to 0.1%

Source: Macrobond, RHB Economics & Market Strategy

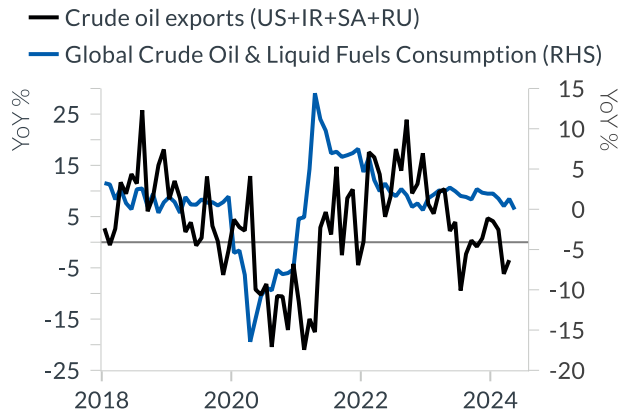
Figure 24: ASEAN-6 GDP-Weighted CPI momentum is heating up...

Source: Macrobond, RHB Economics & Market Strategy

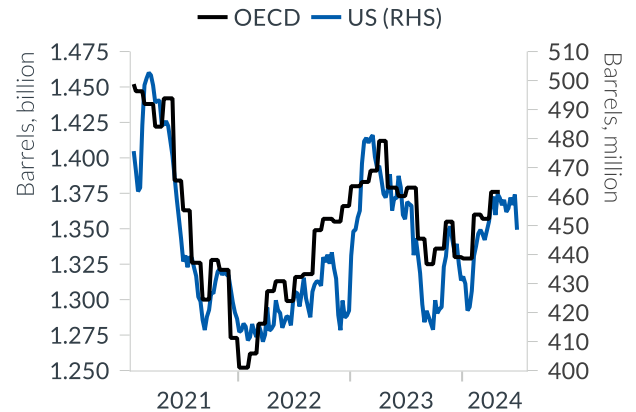
Figure 25: ... while import price momentums have picked up for key markets

Source: Macrobond, RHB Economics & Market Strategy

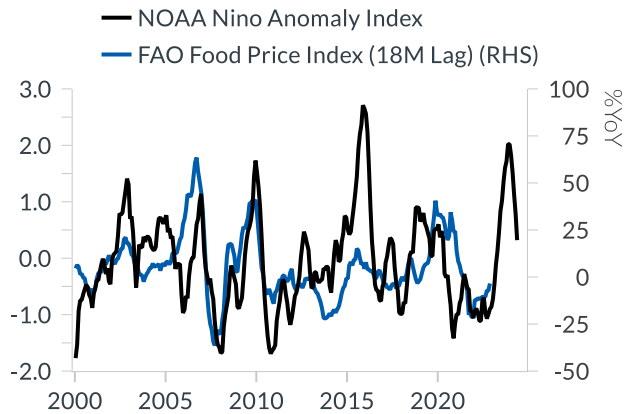
05 July 2024

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

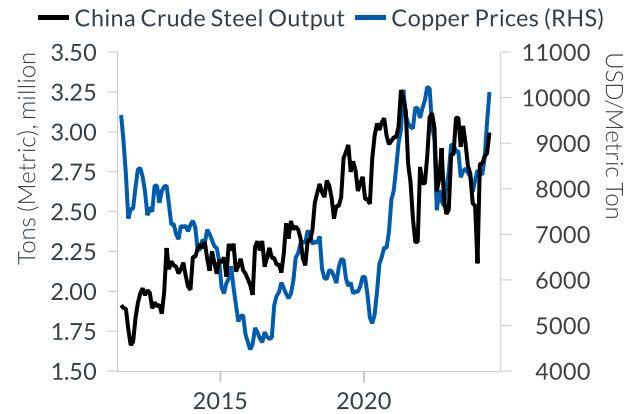
Source: Macrobond, RHB Economics & Market Strategy

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

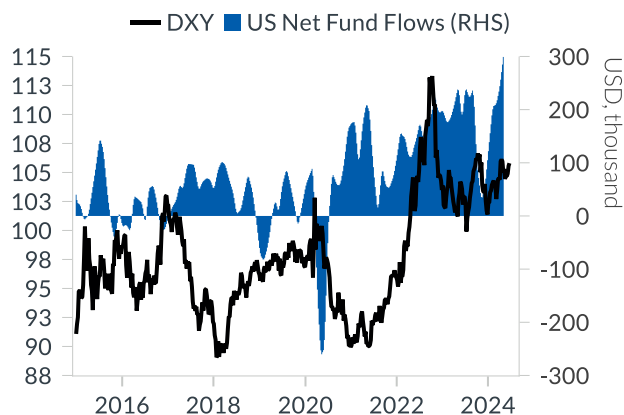
Source: Macrobond, RHB Economics & Market Strategy

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

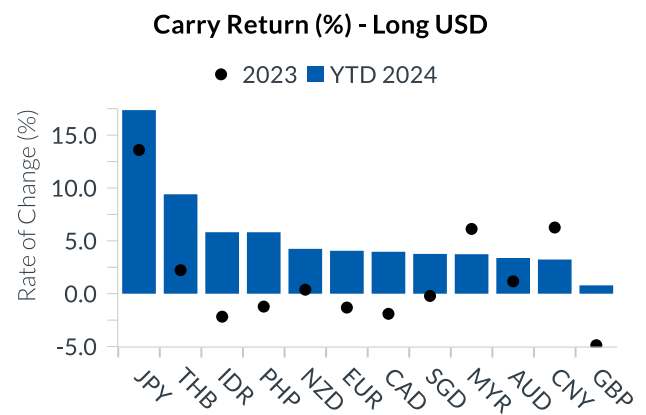
Source: Macrobond, RHB Economics & Market Strategy

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

Source: Macrobond, RHB Economics & Market Strategy

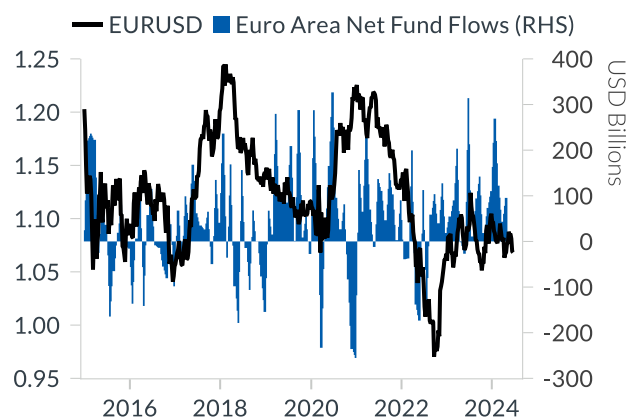
Figure 30: High for longer rates likely led to more fund inflows into the US, thus supporting DXY in 3Q24...

Source: Macrobond, EPFR, RHB Economics & Market Strategy

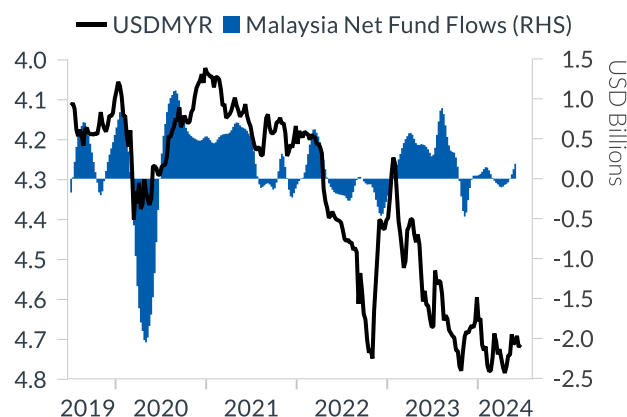
Figure 31: ... while USD carry stays positive year-to-date

Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

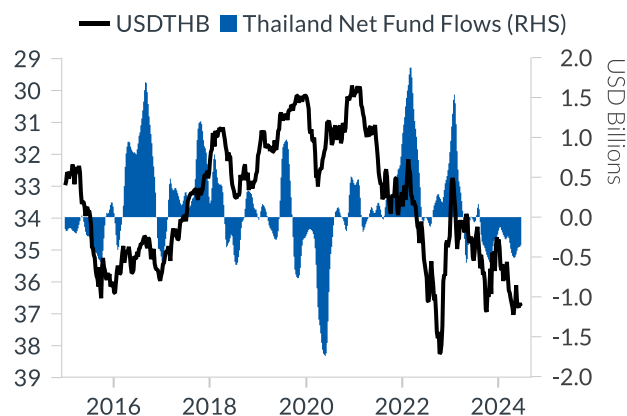
05 July 2024

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

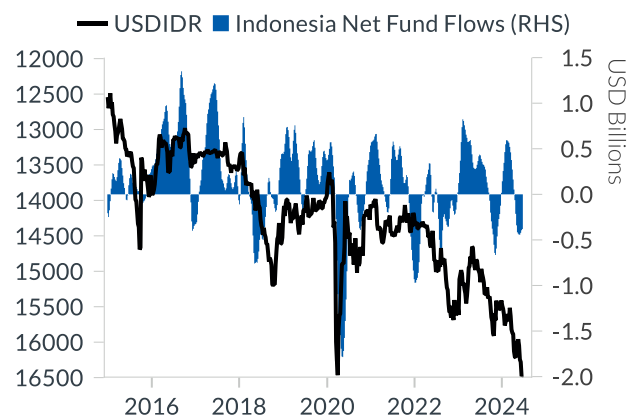
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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

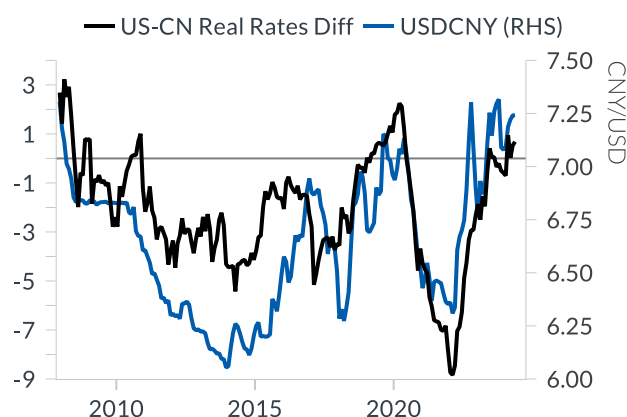
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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

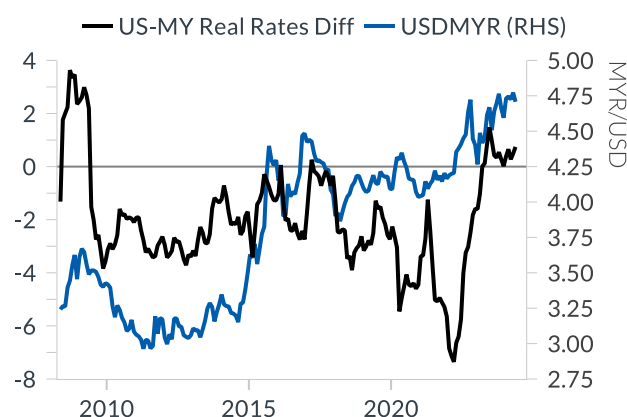
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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

Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

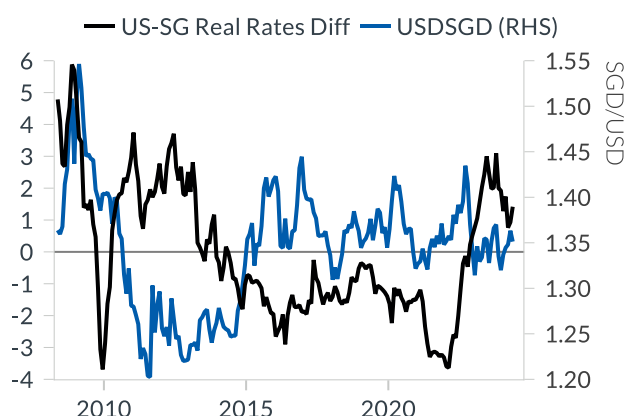
Figure 36: US-CN real rates differential is behaving well with USD-CNY

Source: Macrobond, RHB Economics & Market Strategy

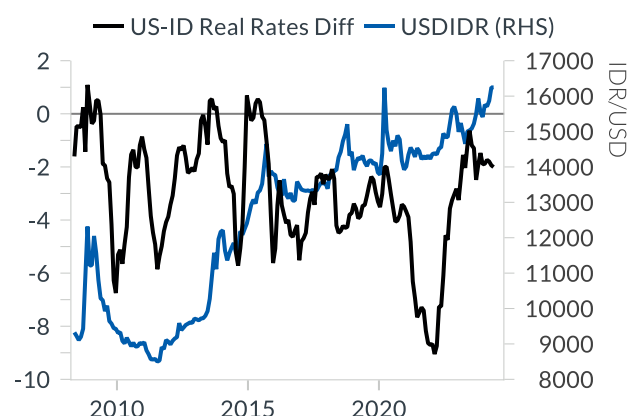
Figure 37: US-MY real rates widened recently, which is an early proxy for higher USD-MYR

Source: Macrobond, RHB Economics & Market Strategy

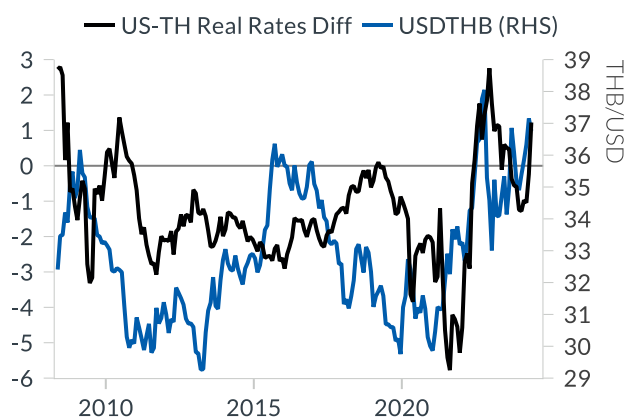
05 July 2024

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

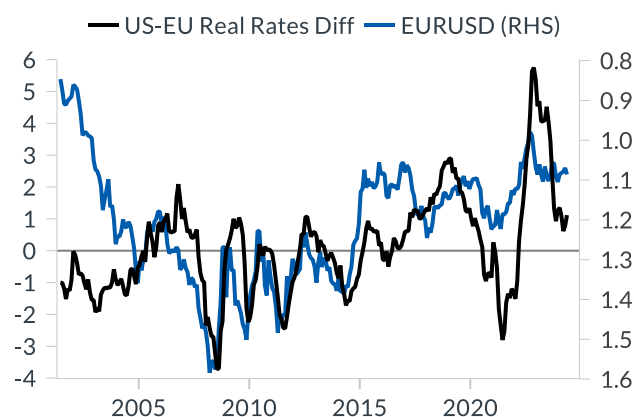
Source: Macrobond, RHB Economics & Market Strategy

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

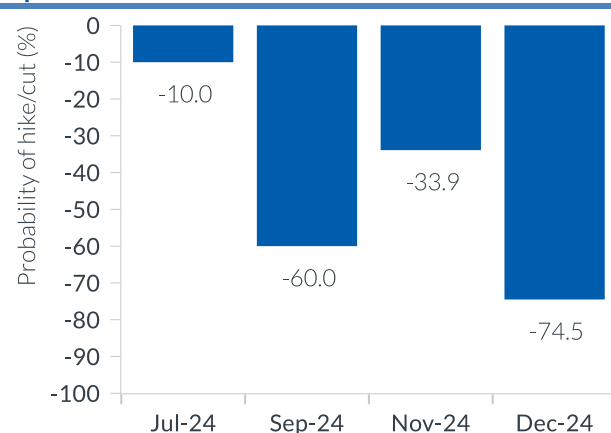
Source: Macrobond, RHB Economics & Market Strategy

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

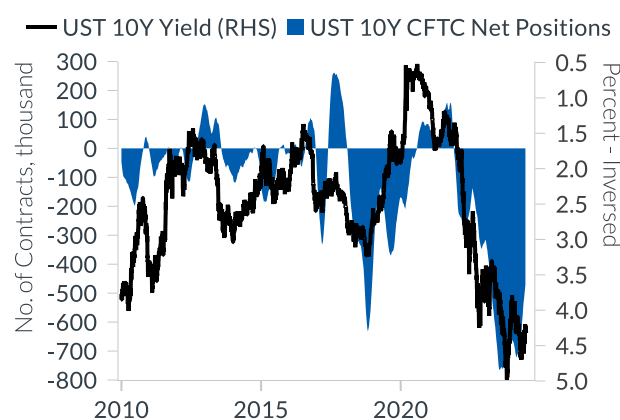
Source: Macrobond, RHB Economics & Market Strategy

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

Source: Macrobond, RHB Economics & Market Strategy

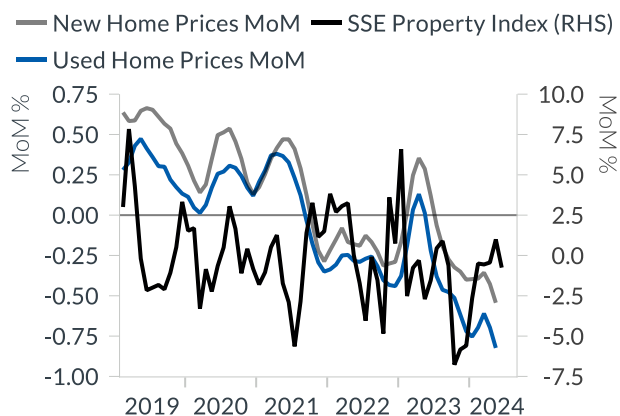
Figure 42: Markets pricing in a potential US FFR cuts in Sept and Dec 2024...

Source: Macrobond, RHB Economics & Market Strategy

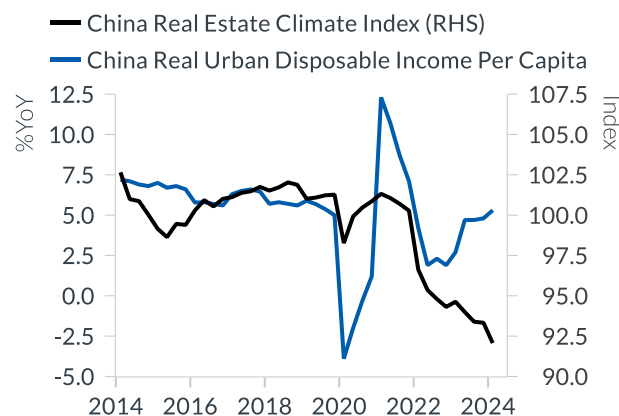
Figure 43: ... with UST 10Y yields likely to stay elevated as rates stay high-for-longer

Source: Macrobond, RHB Economics & Market Strategy

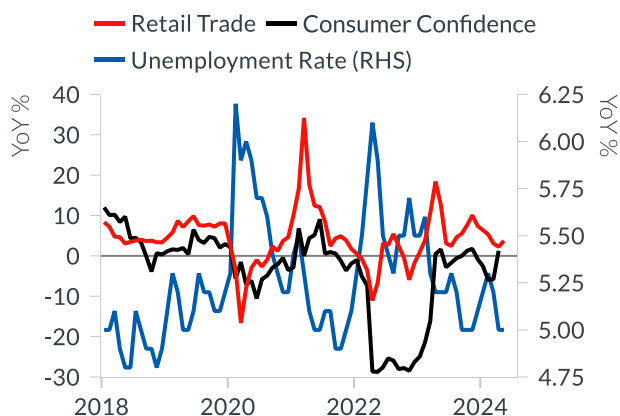
05 July 2024

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

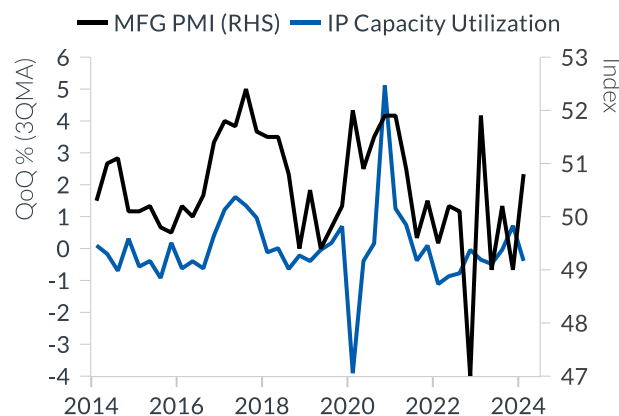
Source: Macrobond, RHB Economics & Market Strategy

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

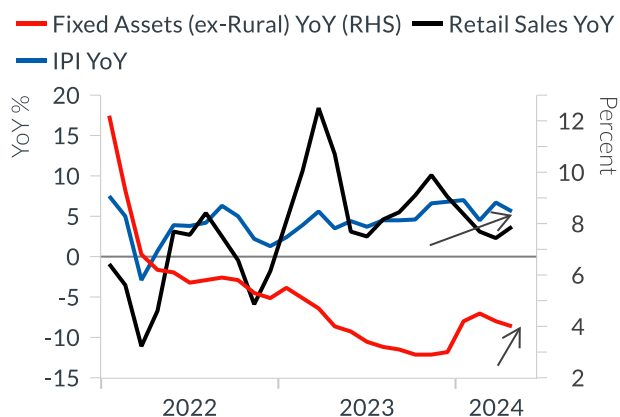
Source: Macrobond, RHB Economics & Market Strategy

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

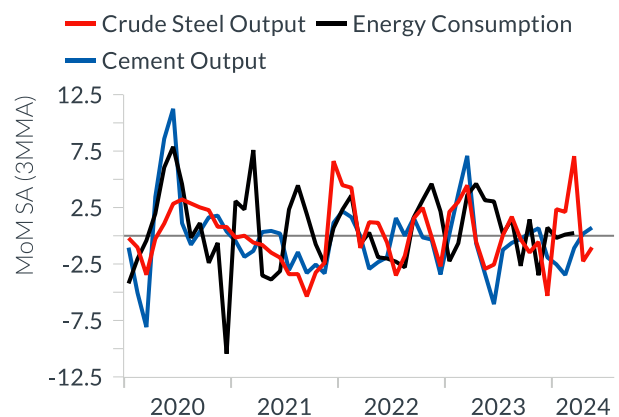
Source: Macrobond, RHB Economics & Market Strategy

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...

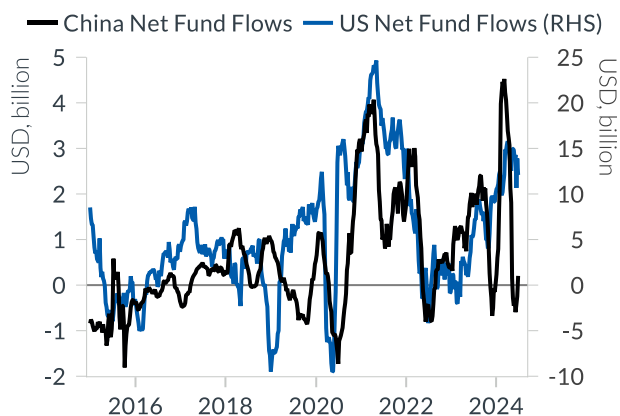
Source: Macrobond, RHB Economics & Market Strategy

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

Source: Macrobond, RHB Economics & Market Strategy

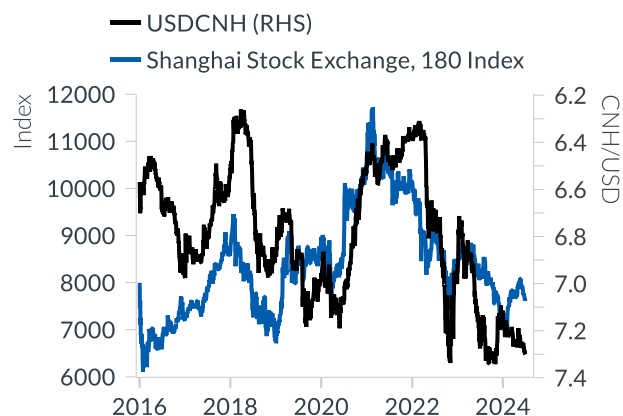
05 July 2024

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

05 July 2024

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