

06 October 2023

Global Economics & Market Strategy

US 10Y Bond Yields Approaching 5.0% by End 2023

- ◆ **Our 2023 global asset allocation remains unchanged at Overweight (OW) equities, Market Weight (MW) fixed income and Underweight (UW) cash, and this may likely persist into 2024.** Global recessionary cues still evade us; US high-frequency momentum (including factory orders, labour, and consumer confidence) continues to point north. As such, we view the selloff in US equity markets as merely a reaction to the recent US government shutdown risk, albeit political noise remains given the ousting of Kevin McCarthy as the US House speaker. Still, we do not discount further profit-taking in US & global equities at around 5 – 10% in 4Q23; we remain negative on China given its property market woes and its recovery (if any) appears precarious, while global investors weigh on higher global inflation and a tighter US monetary policy approach.
- ◆ **Our end-2023 UST10YR yield forecast remains unchanged at around 5.0%** as investors digest the higher-for-longer US Fed Fund Rates into end 2023. In 1H24, we do not discount the possibility for the UST10YR yield to rise further to 5.5%, with the balance of risks tilted towards 6.0%.
- ◆ **Our catalysts for higher UST10YR yields are:** (1) US core PCE inflation remains elevated and is unlikely to touch 2.0% YoY in 1H24. Core inflation momentum will likely heat up into year-end, following the gradual rise in global oil and food prices. Our scenario analysis (Figure 1) suggests that US Core PCE inflation may only see core inflation at around 2.0% in 2H24, and (2) thus reinforcing our view for the Fed Fund Rates (FFR) to see further hikes into the end of 2023 and possibly into 1Q24. We keep to our forecasts for the FFR to rise to 5.5 – 5.75% in 4Q23, with the balance of risks tilted towards 5.75 – 6.0% in 1Q24. (3) The risk-to-reward ratio for UST10YR is hinged upon the widening US federal budget (expected to balloon further vs. 2022's US\$996bn deficit).
- ◆ **In foreign exchange, we keep our view for the DXY to remain strong into 1Q24 on the back of a hawkish Fed.** We expect the DXY index to trade in the 105-109 range in 4Q23, followed by 108 – 112 in 1Q24, translating to broadly higher US-Asia pairs in the same period. Across Asia, we remain positive on the SGD, neutral on IDR and THB, and negative on the CNH and MYR, and this view will likely persist into 1Q24. Based on US-Asia rate differentials, should our view for US FFR to peak in 1H24 and cut in 2H24 come to pass, US-Asia may gradually decline into 2H24 as investors' price in US rate cuts then. We think the US FFR may be cut to 4.75 – 5.25% in 2H24.
- ◆ **Notes: UST10YR scenario analysis refers to a projected MoM trajectory.** This means that even if US Core PCE inflation trends at long-term averages of between 0.1 – 0.2% MoM, Core PCE inflation will only see a 2.0% handle in 2H24. S1: MoM slows to 0.1% till end-2024, S2: MoM accelerates to 0.2% in 1H24, and slows to 0.1% into end-2024. S3: MoM accelerates strongly to 0.3% in 1H24, slows to 0.2% into end-2024.

Acting Group Chief Economist

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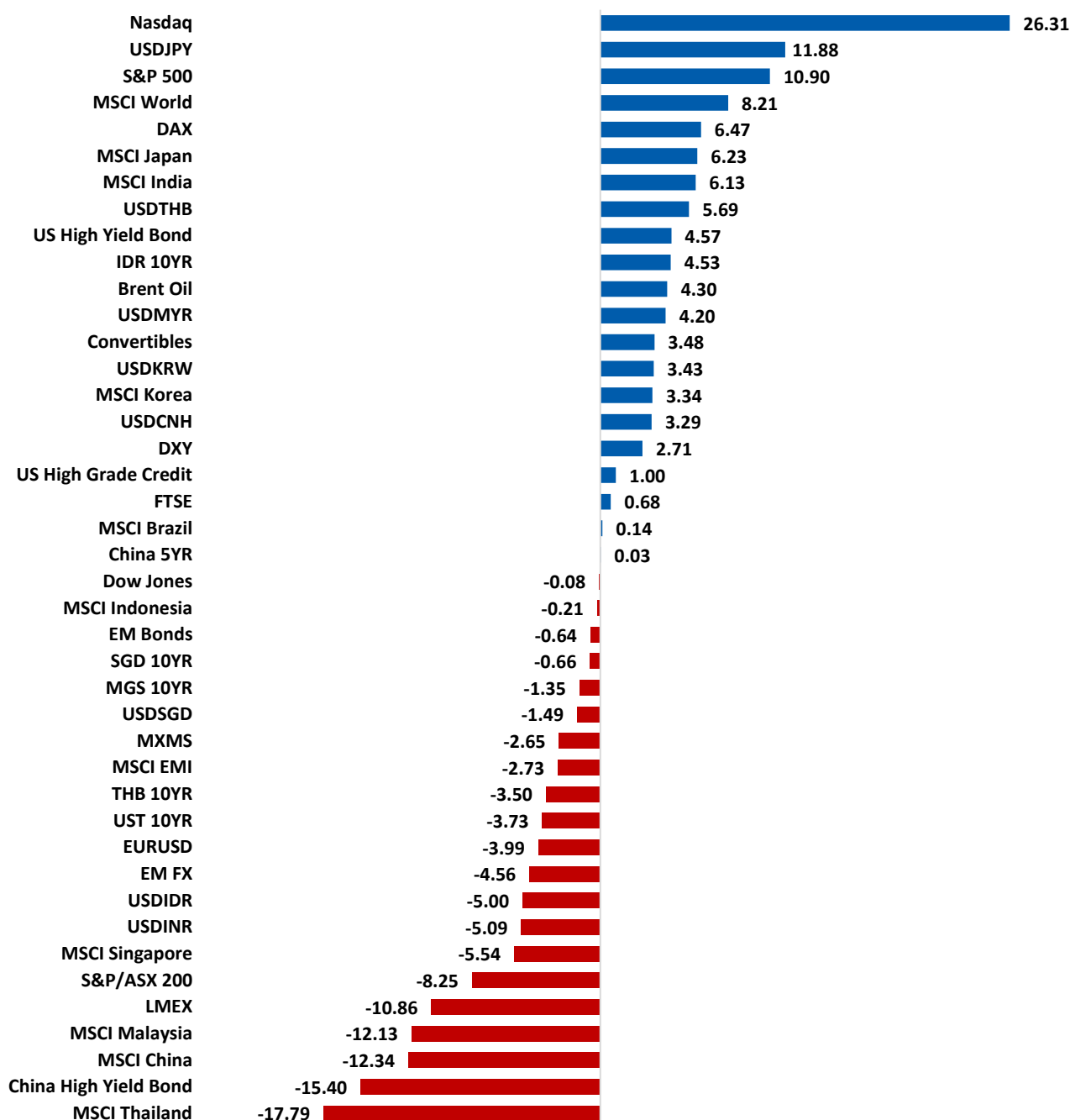
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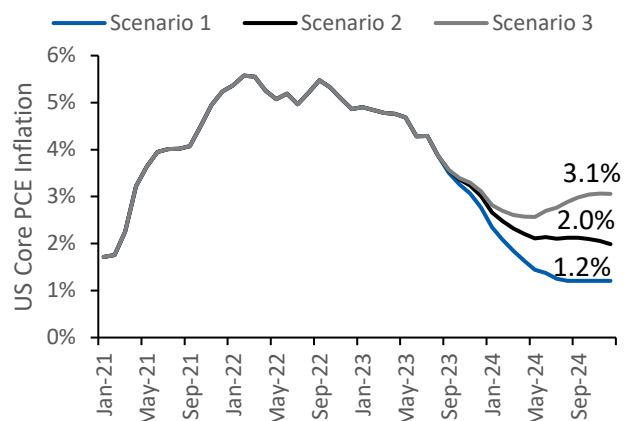
Figure 1: YTD 2023 total return – Global equities will take a breather in 4Q23 and will correct 5-10% as UST10YR yields hit 5.0% at end-2023

YTD 2023 Total return (%) across major indices and securities



Source: Bloomberg, RHB Economics & Market Strategy. Above figures are on year-to-date total return from 3 Jan 2023 to 5 Oct 2023

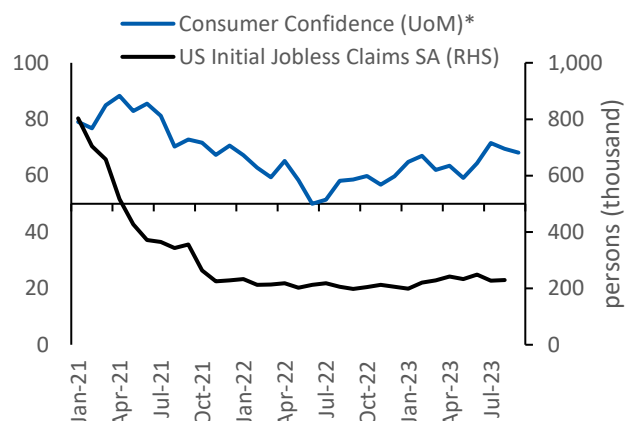
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Figure 2: US Core PCE inflation may only see a 2.0% handle towards 2H24

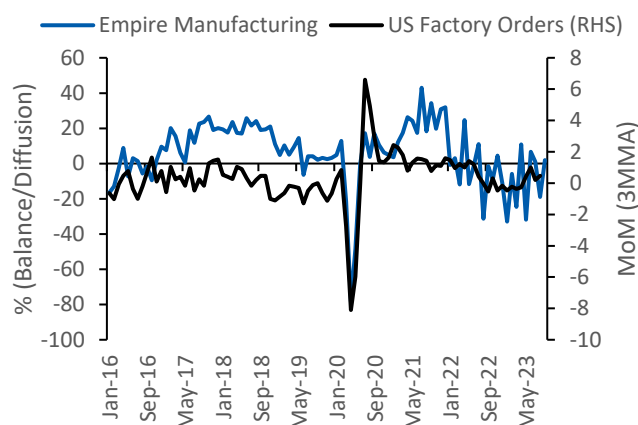
Source: CEIC, RHB Economics & Market Strategy

Figure 3: US 10Y yields are edging higher, to touch 5.0% in 2023

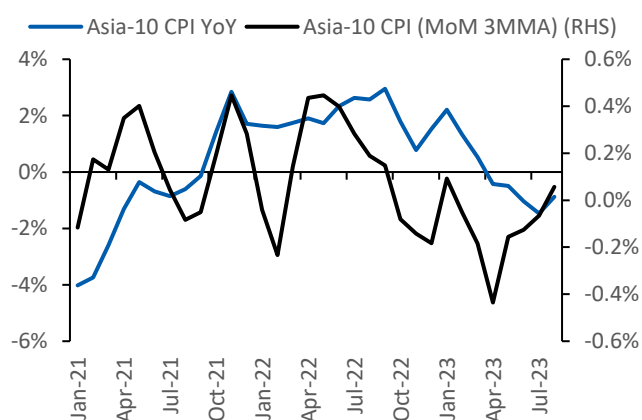
Source: CEIC, RHB Economics & Market Strategy

Figure 4: Recessionary cues evade us - US labour and consumer confidence are getting better...

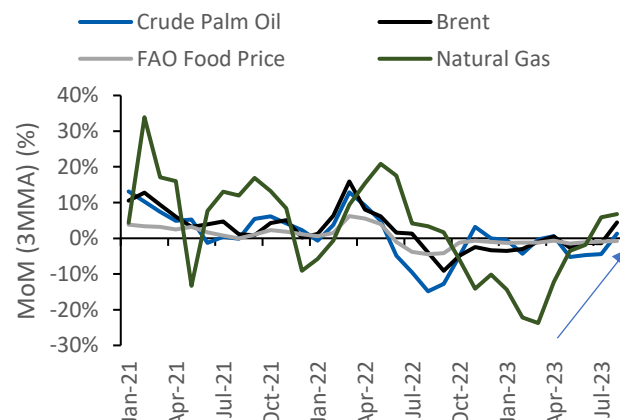
Source: CEIC, RHB Economics & Market Strategy, UoM = University of Michigan

Figure 5: ... while US manufacturing backdrop are seeing a bottom

Source: CEIC, RHB Economics & Market Strategy

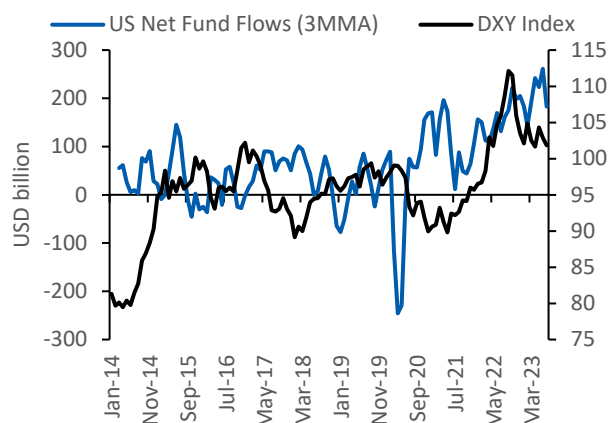
Figure 6: Asia-10 GDP-Weighted CPI momentum is heating up...

Source: CEIC, RHB Economics & Market Strategy

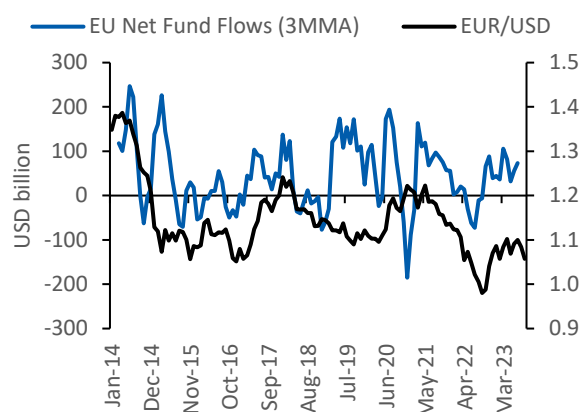
Figure 7: ... on the back of higher commodity prices, especially food and energy

Source: CEIC, RHB Economics & Market Strategy

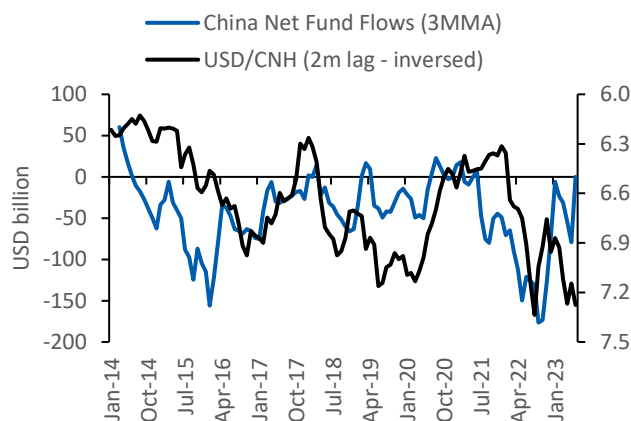
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Figure 8: Dollar strength should persist as US investors favour US assets...

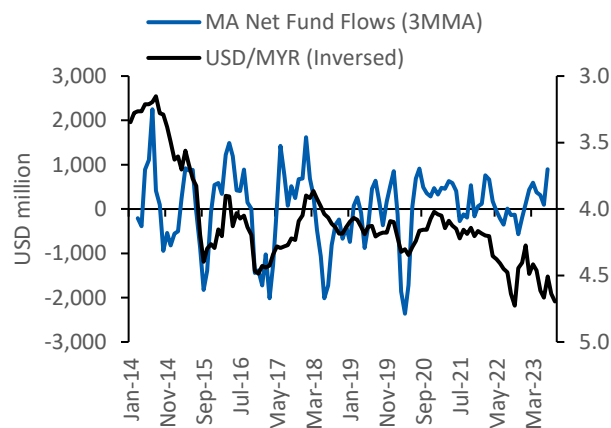
Source: Bloomberg, RHB Economics & Market Strategy

Figure 9: ... and EU assets as global recession fears fade...

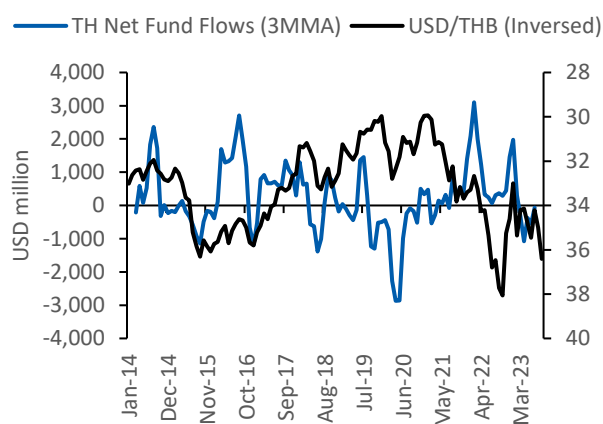
Source: Bloomberg, RHB Economics & Market Strategy

Figure 10: ... even as investors flee China-centric assets on the back of economic woes

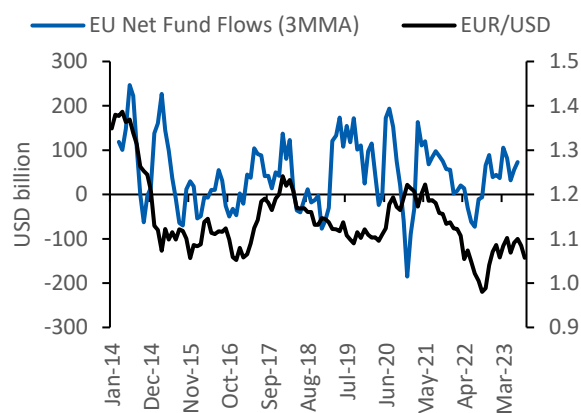
Source: Bloomberg, RHB Economics & Market Strategy

Figure 11: Malaysia net fund flows are positive, albeit investors stay negative on MYR...

Source: Bloomberg, RHB Economics & Market Strategy

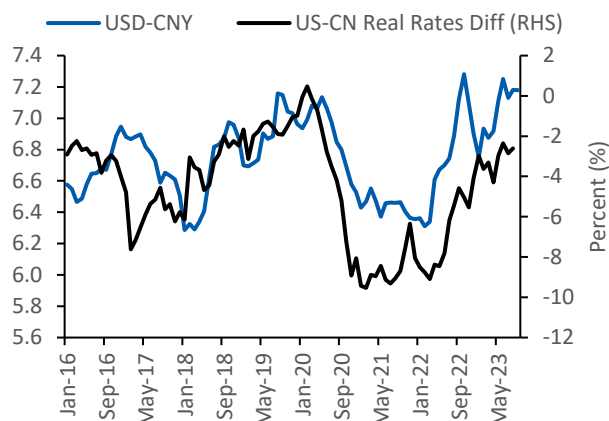
Figure 12: ... investors flee Thai-centric assets as fears of fiscal deficit mounts amid new subsidies introduced

Source: Bloomberg, RHB Economics & Market Strategy

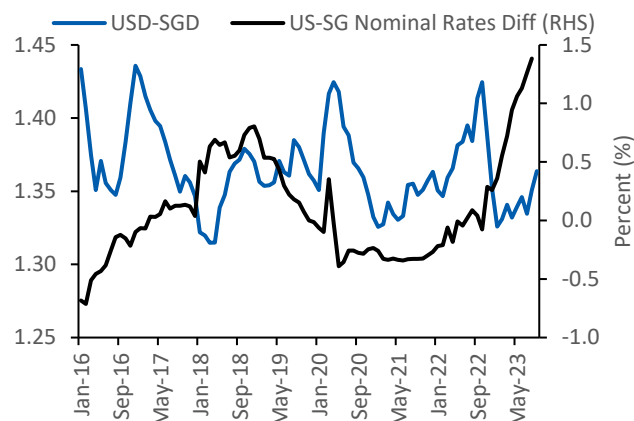
Figure 13: ... and IDR appears on a neutral stance, with the balance of risks tilted to a weakening bias

Source: Bloomberg, RHB Economics & Market Strategy

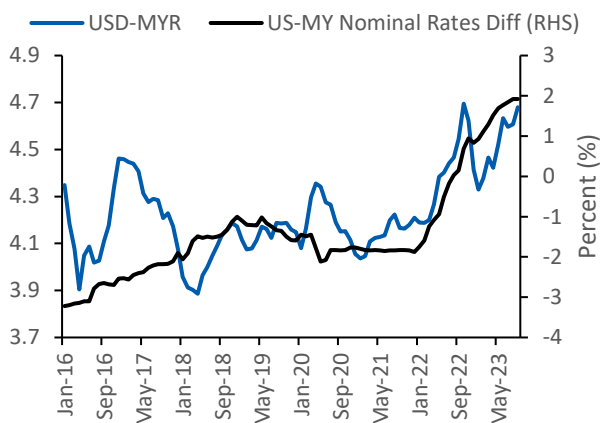
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Figure 14: US real rates continue to climb against CN and fuelling a weaker CNY...

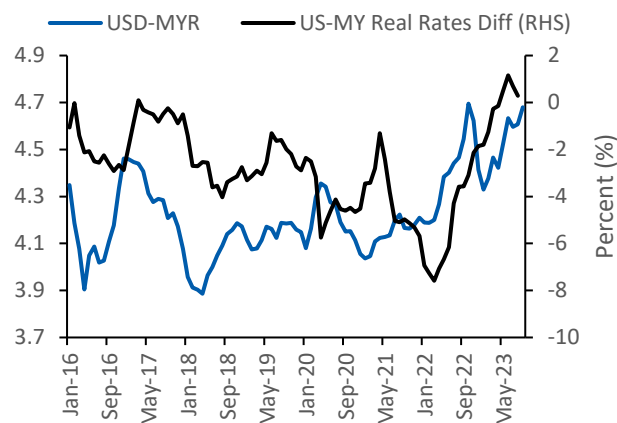
Source: CEIC, RHB Economics & Market Strategy

Figure 15: ... even as the FFR may increase into end 2023 and thus widening the yield differentials in SG...

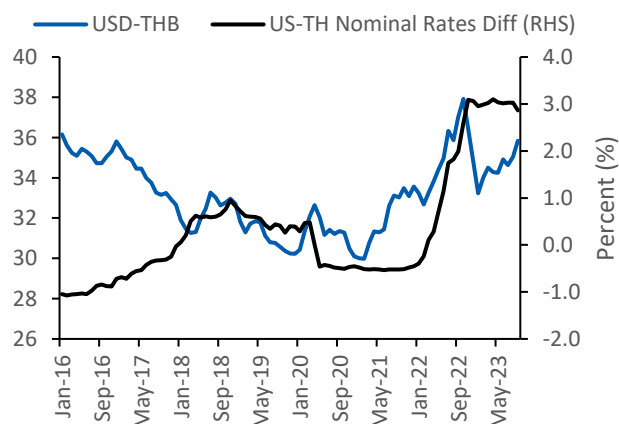
Source: CEIC, RHB Economics & Market Strategy

Figure 16: ... similar to Malaysia in nominal rates...

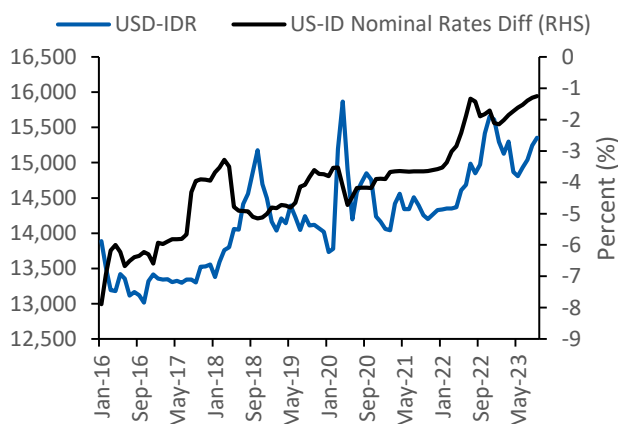
Source: CEIC, RHB Economics & Market Strategy

Figure 17: ... and real rates (adjusted for inflation)...

Source: CEIC, RHB Economics & Market Strategy

Figure 18: ... while THB faces a weakening bias as rate US-TH differentials stay elevated...

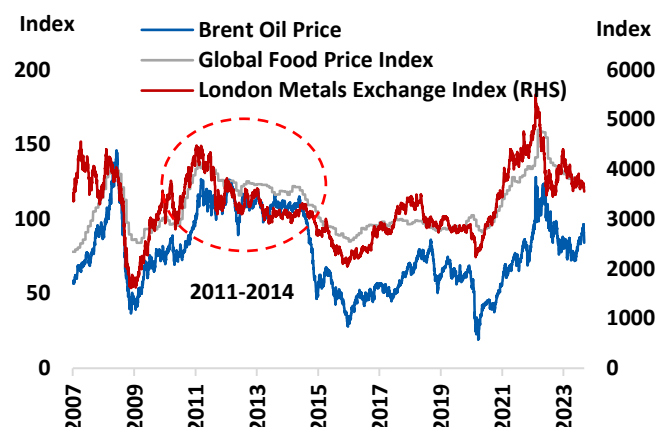
Source: CEIC, RHB Economics & Market Strategy

Figure 19: ... similar to IDR where US-ID rates are approaching parity

Source: CEIC, RHB Economics & Market Strategy

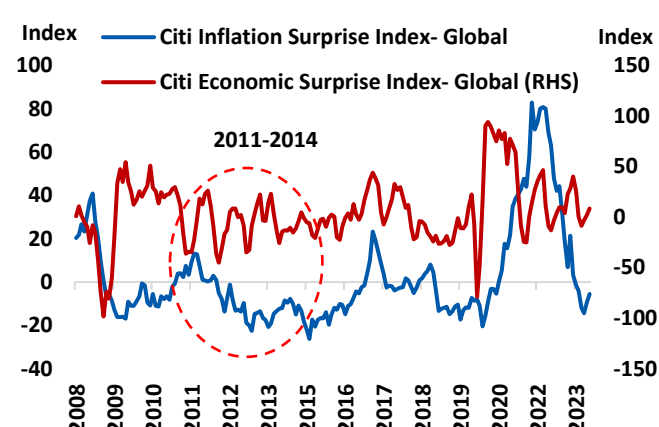
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Figure 20: Brent oil price range in 2011-2014 was 100-126.65, GFC peak was 146.08 (but short lived)



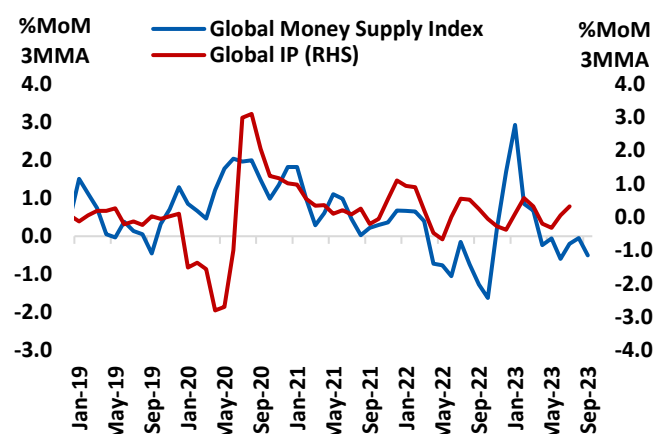
Source: Bloomberg, RHB Economics & Market Strategy. Last data point as Oct 5

Figure 21: Stagflation risks limited in 2024, unless Brent Oil trades above 130 USD/ bbl on a sustained basis



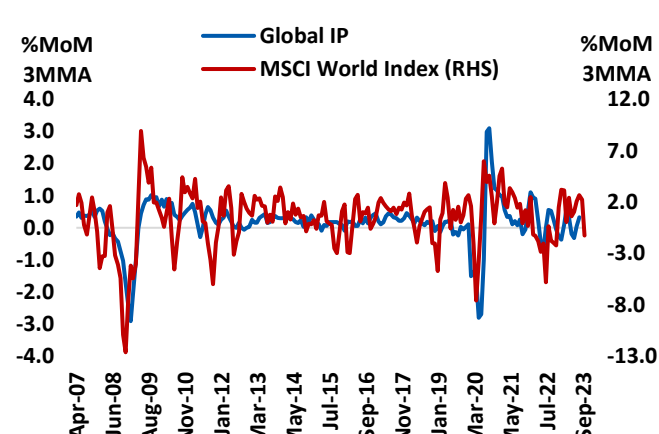
Source: Bloomberg, RHB Economics & Market Strategy. Monthly data with last data point as Sep 2023

Figure 22: Global financial conditions starting to loosen hence outlook for global IP is positive in the next 3 months



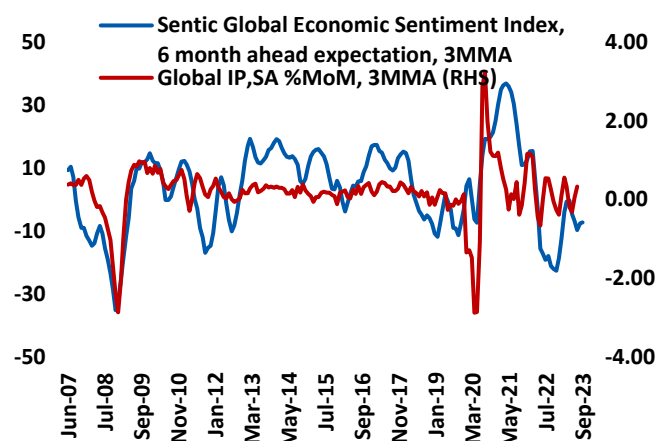
Source: Bloomberg, RHB Economics & Market Strategy. Monthly data with last data points as of Sep 2023 for Global Money Supply Index and Jul 2023 for Global IP

Figure 23: Global equity markets are signalling global IP recovery in the near-term



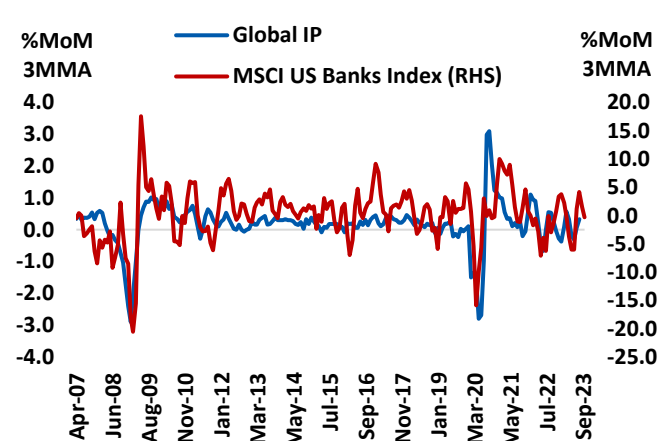
Source: Bloomberg, RHB Economics & Market Strategy. Monthly data with last data points as of Sep 2023 for MSCI World Index and Jul 2023 for Global IP

Figure 24: Our leading indicator suggests 2H23 recovery in global growth



Source: CEIC, RHB Economics & Market Strategy. Last data point is Aug 2023 for Sentic Global Economic Sentiment Index and Jun 2023 for Global IP

Figure 25: US banking sector and global IP are highly correlated and there is a feedback loop



Source: Bloomberg, RHB Economics & Market Strategy. Last data point is Sep 2023 for MSCI US Banks Index and Jul 2023 for Global IP

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