

07 June 2024

Global Economics & Market Strategy

Disappointing US-centric Data is Temporal, Risk Appetite Will Improve

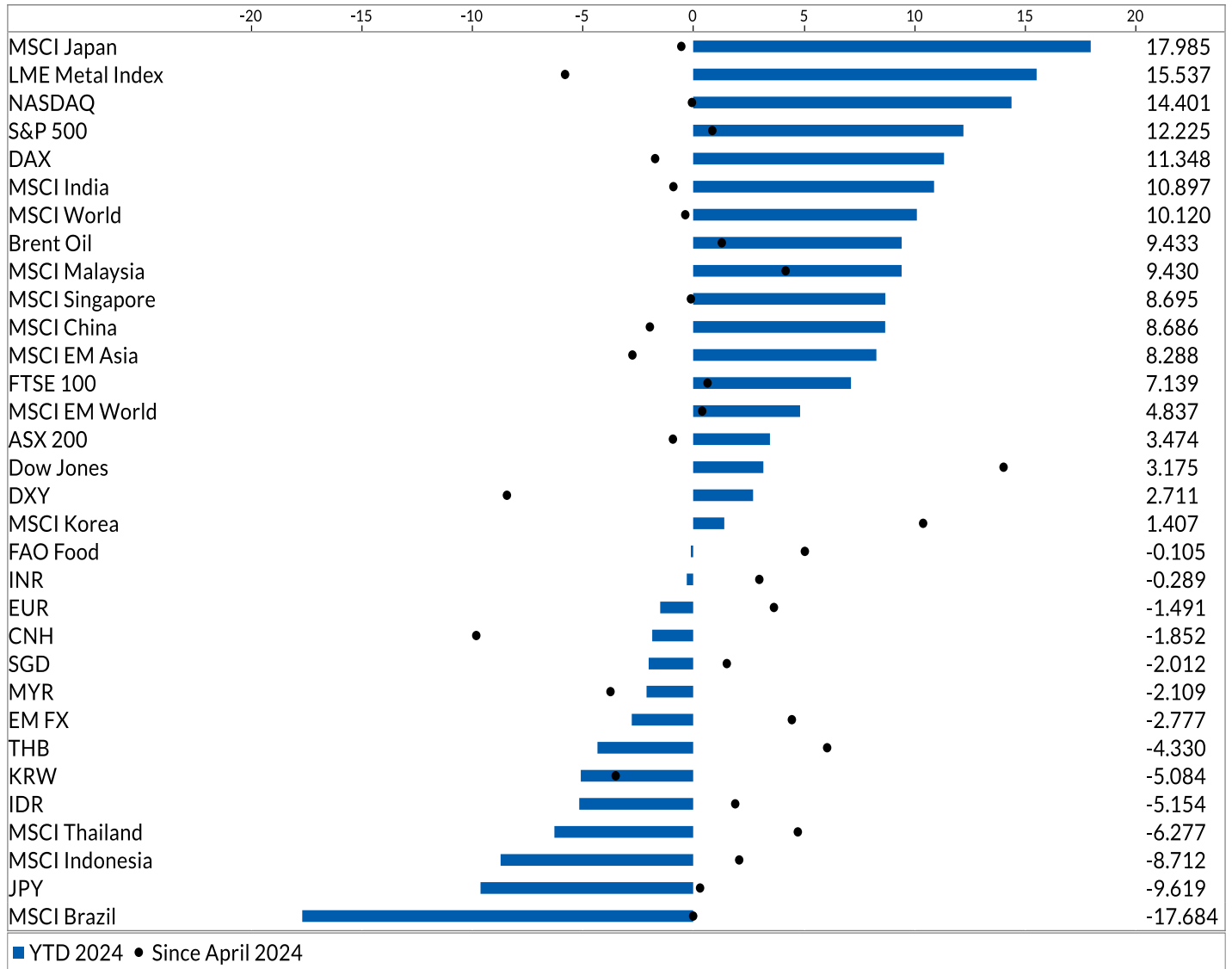
- ◆ **Our [view](#) on short-term risk-taking consolidation materialised well.** US high-frequency data have disappointed at the start of June, starting with ISM Manufacturing (May: 48.7, consensus: 49.5), ADP employment change (May: +152K, consensus: +175K) and initial jobless claims (1 June: 229K, consensus: 220K). RHB risk sentiment index (Figure 7) continued to slide further, albeit no signs of market risk sell-off. Note some moderation in equity rallies in the S&P 500 and Nasdaq since 1 April (Figure 1), reinforcing the “Sell in May and Go Away” syndrome. We observe that (1) the softer US-centric data is isolated in May, typically evident from the start of the US summer holidays, while (2) other indicators such as US factory orders, services PMI, and China-centric data still suggest a relatively resilient 3Q24.
- ◆ **We keep our base case view for the US FFR to see a cut only in December 2024, with the balance of risks tilted towards no cuts for the year.** Recent FOMC minutes suggest some subtle calls for FFR hikes, given the lack of confidence for inflation to move towards the Fed’s 2.0% objective. Our revised US inflation model (Figure 21) now suggests that even assuming core PCE inflation MoM to slow to 0.1% by the end of this year, the annual rate will only slow to a year-end level of 2.7% (April: 2.8%). Separately, given the sell-in-May syndrome, we are not steered from the recent slowdown in US macroeconomic numbers. Lastly, some market talks are centred on US FOMC, likely taking cues from yesterday’s ECB rate cut, a view we do not subscribe to.
- ◆ **ECB’s June rate cut is likely made in view of the widely telegraphed guidance seen as early as March 2024.** Back then, ECB President Christine Lagarde indicated that policymakers may be able to lower rates in their June meeting, citing a “definite slowdown in consumer prices” then. The rhetoric changed significantly yesterday, with the ECB performing a potential policy anomaly move of cutting rates and hiking inflation forecasts. All three key rates (refinancing rate, marginal lending facility and deposit facility) are down by 25bps. However, the ECB warns of “elevated” wage growth and upgrades its full-year annual inflation to 2.5% from 2.3%. In a nutshell, we think that the ECB’s rate cut is done due to its earlier guidance, but the recent uptick in inflation pressures will prevent subsequent cuts for the year ahead.
- ◆ **Implications for ASEAN for the immediate term are as follows:** We stay bullish on ASEAN’s external environment in 3Q24, on assumptions for US and China growth to accelerate further in the same period. The recent downturn in trade has shown to be temporal, while leading GDP indices for Singapore and Malaysia pointing higher for 3Q24, against a flattish Indonesia’s and downside trend for Thailand’s GDP. Global inflation will likely persist in 3Q24. China’s recovery will help base metal prices, while poor harvesting conditions will support food prices. ASEAN (especially Malaysia, Indonesia, and Thailand) rates will stay in tune with the US FFR and potentially stay where they are at current levels until we see further clarity on FFR moves.
- ◆ **For the week ahead, we are seeing a heavier ASEAN docket.** The data include Malaysia’s April industrial production (RHB forecast: +3.8% YoY, BBG consensus: +6.9% YoY) and manufacturing sales. The Bank of Thailand is to meet on 12 June, where we think policymakers will keep its rate unchanged at 2.5% and release its consumer confidence data for May. In the US, we are also closely watching its May inflation data and FOMC decision on 13 June. [SG retail sales](#) were disappointing, albeit we stayed positive on its outlook for 2H24, while Thailand’s inflation rose sharply to 1.5% YoY in May 2024 (April: 0.19% YoY). In China, further strengthening is seen from its May export growth of 7.6% YoY (April: +1.5% YoY).

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Figure 1: YTD 2024 total return – Some consolidation in risk appetite is seen April – June (watch black dots in chart), in line with our leading RHB risk sentiment index. We regard this phenomenon to be a temporal one.



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	62.2	16.8	3.01	3.33	2.34
United States	49.0	12.0	4.74	5.22	3.77
United Kingdom	35.3	14.5	4.31	5.48	3.17
S. Korea*	30.0	13.3	3.45	4.14	3.12
Indonesia	8.6	15.8	6.47	6.91	5.62
Malaysia*	8.6	5.9	3.55	3.69	3.31
Singapore	6.6	-14.0	3.32	3.73	2.87
Thailand	4.2	20.6	2.37	2.62	1.53
India	-4.5	0.0	7.03	7.39	6.80
China	-44.6	-16.5	1.74	2.47	2.07

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

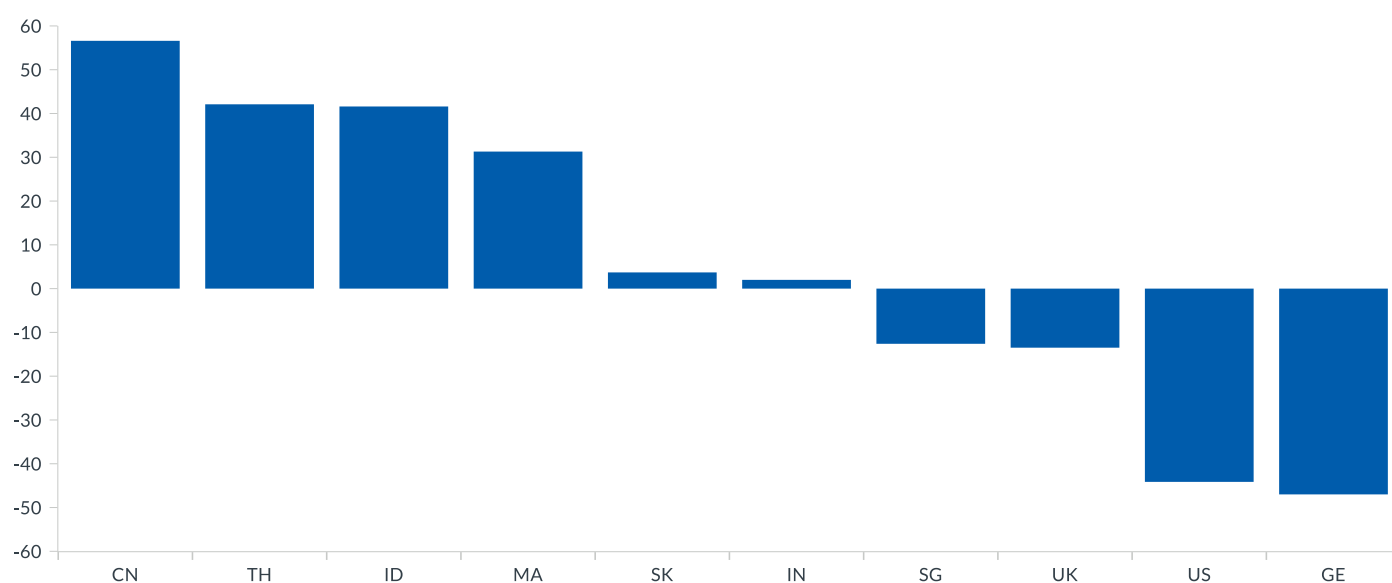
Figure 3: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	64.3	24.15	4.17	4.74	3.00
Germany	52.7	25.10	2.55	2.97	1.89
Singapore	50.7	10.80	3.20	3.50	2.66
Indonesia	44.0	20.10	6.89	7.22	6.16
United States	42.0	9.83	4.30	4.99	3.31
S. Korea	19.7	-3.10	3.37	4.40	3.16
Malaysia	13.2	0.80	3.86	4.16	3.65
Thailand	11.7	29.10	2.79	3.35	2.26
India	-16.3	-3.10	7.02	7.44	6.96
China	-25.2	1.60	2.31	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 widens as market sees more confidence in its 2H24 growth momentum



Source: Macrobond, RHB Economics & Market Strategy

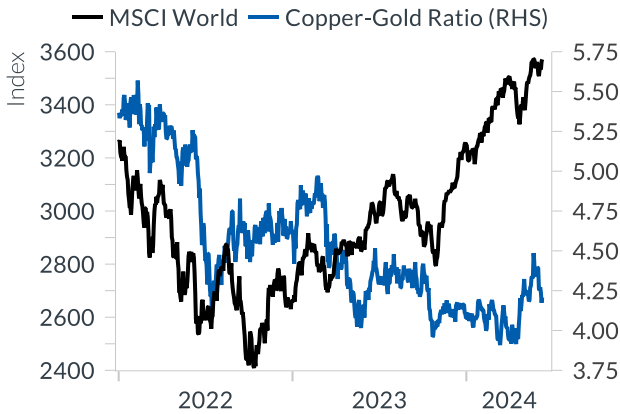
Figure 5: Interim DXY weakness is likely temporal, we keep our forecast for DXY to rally towards 107 in 2Q24

FX Rates % Change						
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	10.64	7.94	3.17	156.030	151.647	127.516
CHF per USD	5.85	-0.32	-1.11	0.892	0.941	0.837
PHP per USD	5.78	5.96	4.34	58.604	57.146	53.946
IDR per USD	5.43	8.09	2.39	16248.500	15946.000	14652.765
TWD per USD	5.37	3.66	1.11	32.309	32.479	29.668
KRW per USD	5.36	3.71	1.55	1366.235	1361.825	1222.444
THB per USD	4.53	3.25	0.39	36.481	37.069	32.704
DXY	2.69	1.17	-0.37	104.110	107.000	99.770
AUD per USD	2.40	0.03	-2.00	1.503	1.590	1.408
MYR per USD	2.15	0.54	-0.65	4.694	4.793	4.245
SGD per USD	2.05	-0.48	-0.07	1.347	1.374	1.308
CNH per USD	1.89	-0.16	0.12	7.264	7.342	6.713
EUR per USD	1.51	0.26	-0.84	0.919	0.955	0.890
INR per USD	0.29	1.74	0.13	83.490	83.439	80.988
GBP per USD	-0.29	-0.52	-1.14	0.783	0.845	0.762

Source: Macrobond, RHB Economics & Market Strategy

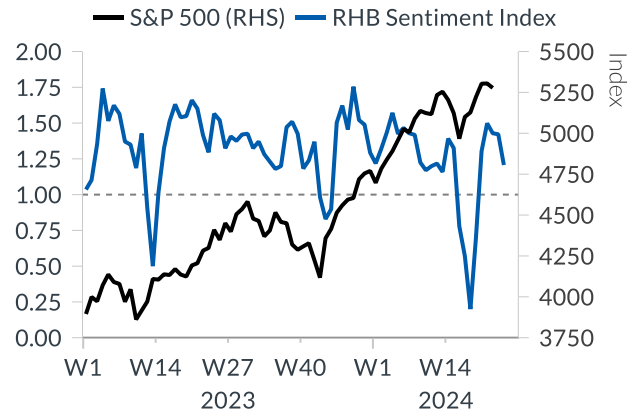
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Figure 6: Global risk appetite continued to advance, with higher MSCI World and Copper/Gold Ratio...



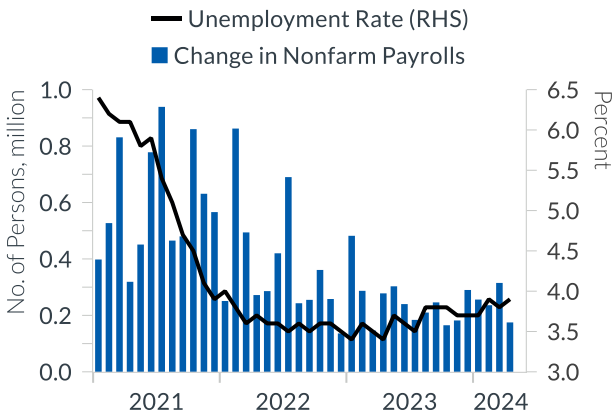
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: ... albeit we are seeing some tapering in risk appetite in the latest week



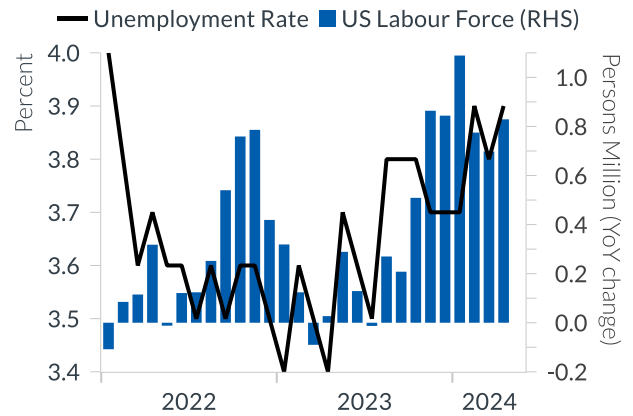
Source: Macrobond, RHB Economics & Market Strategy

Figure 8: US NFP has recently softened with higher unemployment rates...



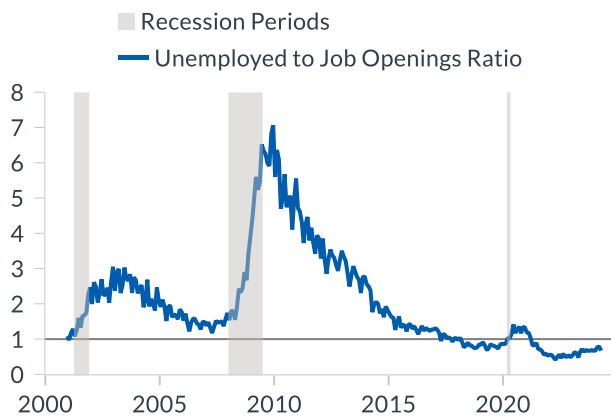
Source: Macrobond, RHB Economics & Market Strategy

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



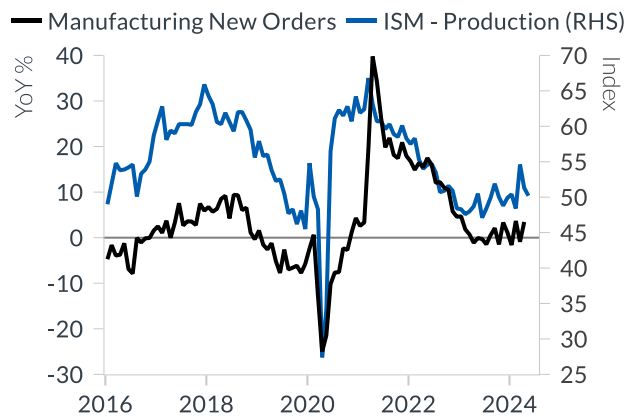
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

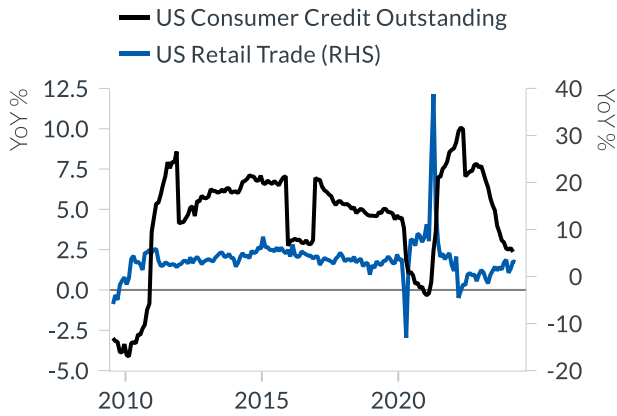
Figure 11: US production activities continue to advance...



Source: Macrobond, RHB Economics & Market Strategy

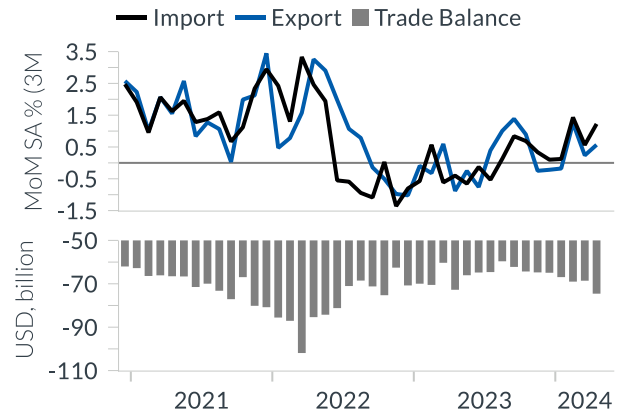
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Figure 12: ... with improvements in job market and the real economy supporting retail trade, rather than debt



Source: Macrobond, RHB Economics & Market Strategy

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



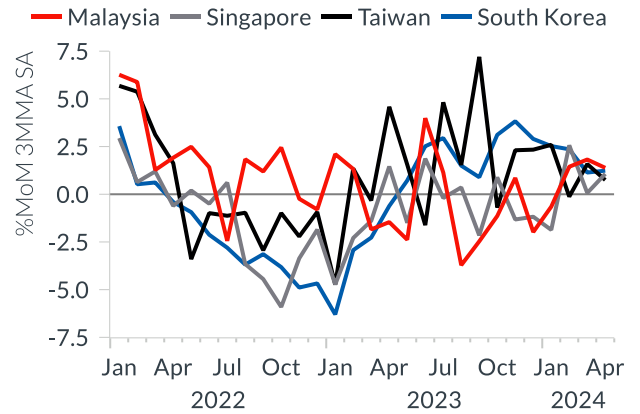
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: ... with ASEAN-6 exports to China recovering as we speak...



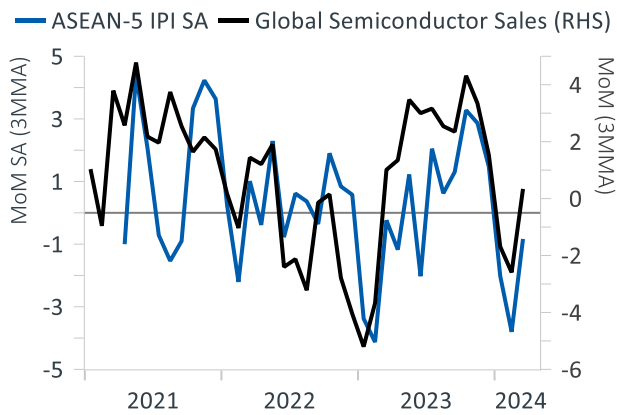
Source: Macrobond, RHB Economics & Market Strategy

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



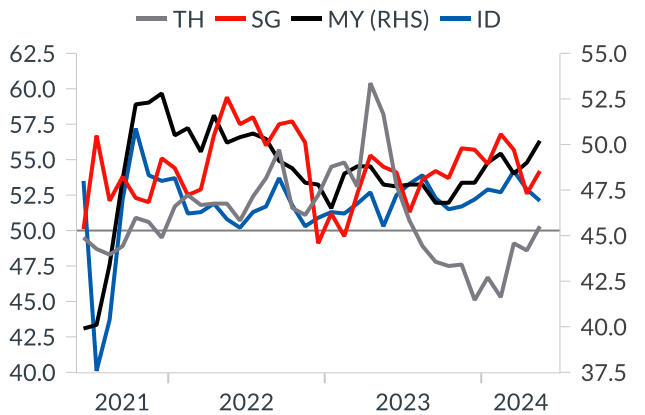
Source: Macrobond, RHB Economics & Market Strategy

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

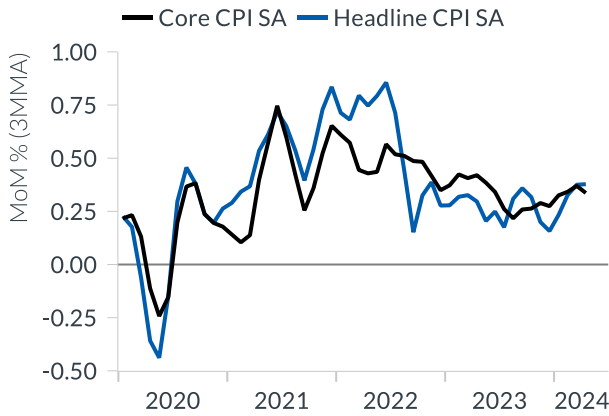
Figure 17: ... with PMI (whole economy) numbers in ASEAN seeing some consolidation



Source: Macrobond, RHB Economics & Market Strategy

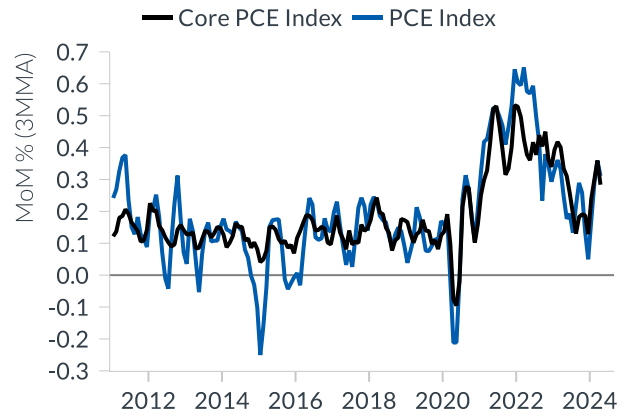
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Figure 18: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...



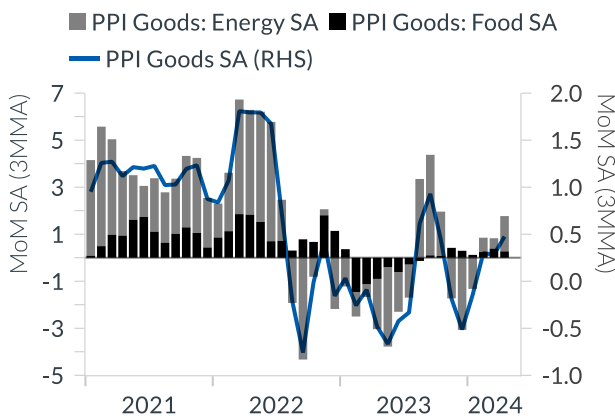
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: ... with core PCE inflation momentum surging in the latest prints...



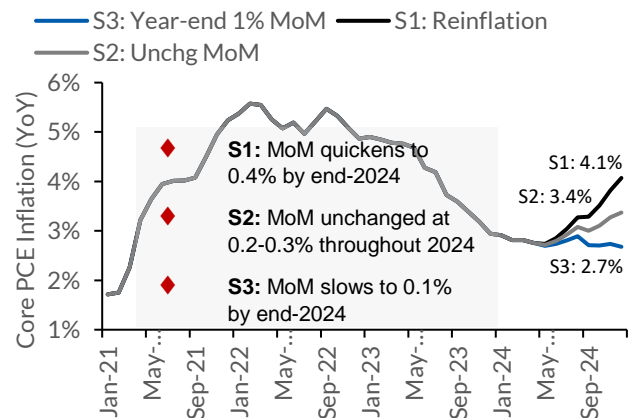
Source: Macrobond, RHB Economics & Market Strategy

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



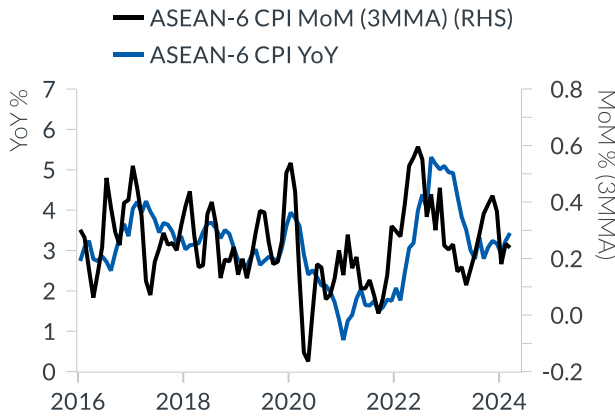
Source: Macrobond, RHB Economics & Market Strategy

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



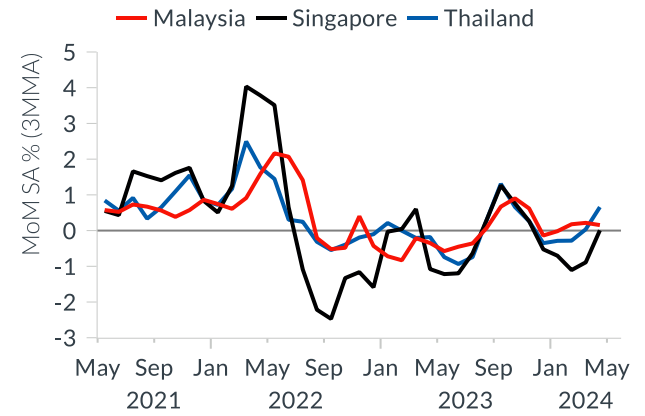
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

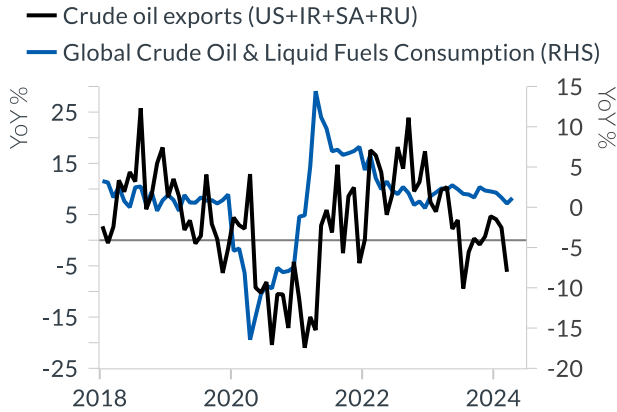
Figure 23: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

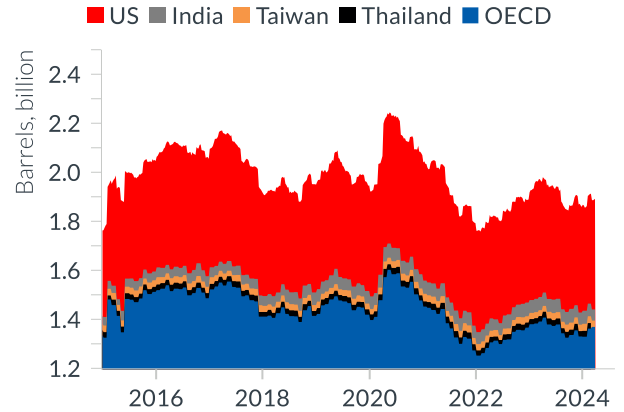
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Figure 24: Crude prices are slated to point higher, as global supplies decline...



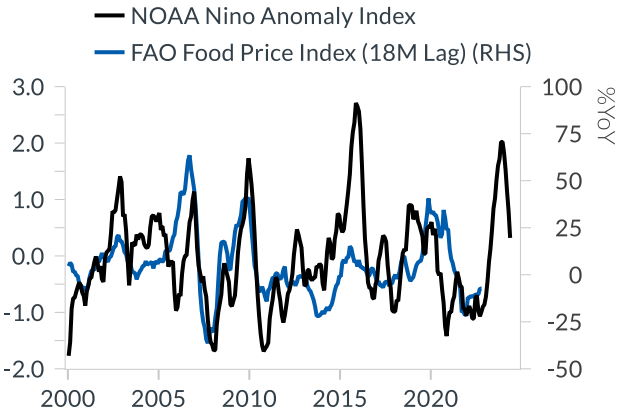
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: ... while global inventories see little direction after decline from its 2020's high



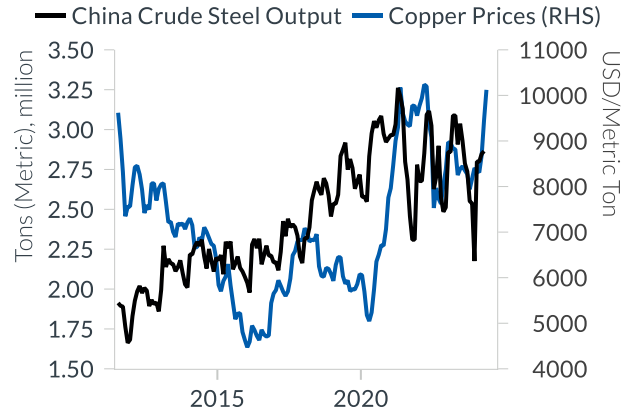
Source: Macrobond, RHB Economics & Market Strategy

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



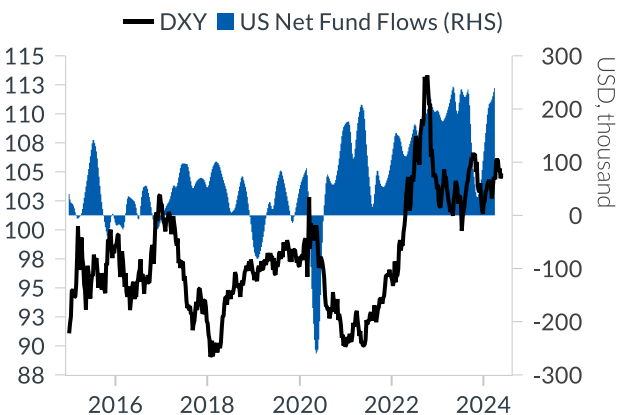
Source: Macrobond, RHB Economics & Market Strategy

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



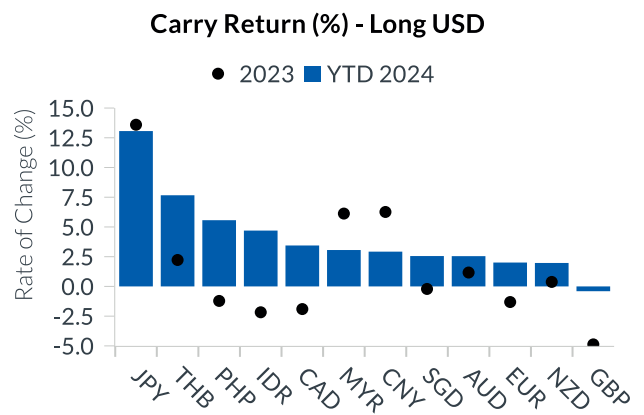
Source: Macrobond, RHB Economics & Market Strategy

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

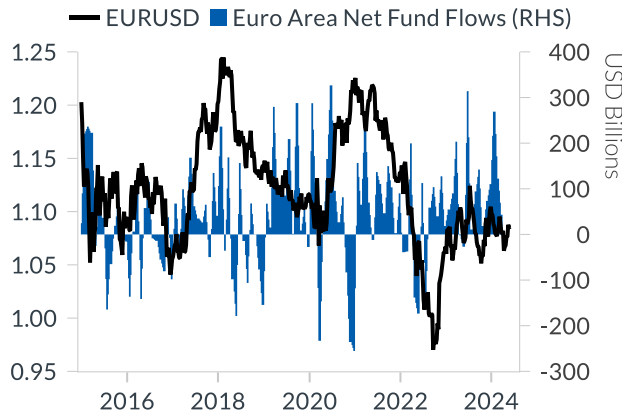
Figure 29: ... while USD carry stays positive year-to-date



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

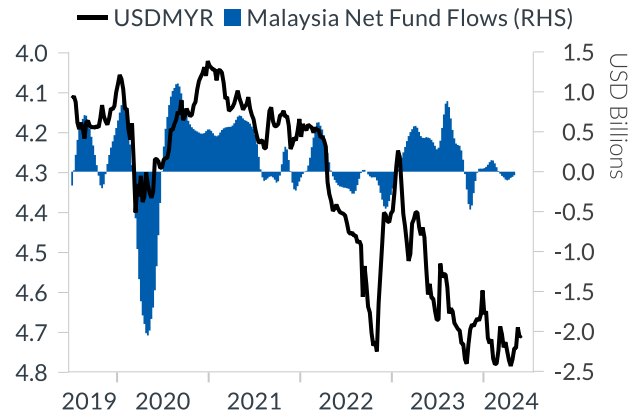
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Figure 30: Fund flows into Euro Area slowed as investors priced in a ECB rate cut, which materialised



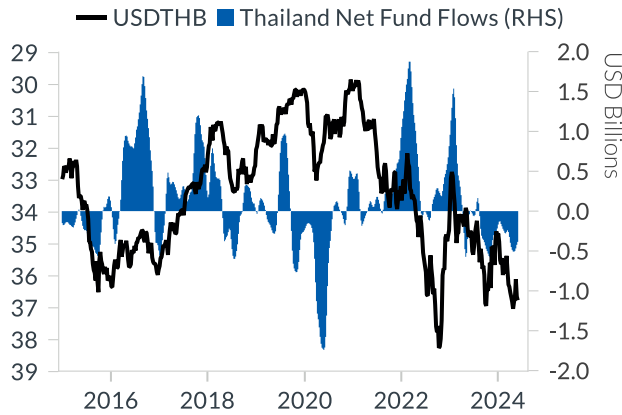
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



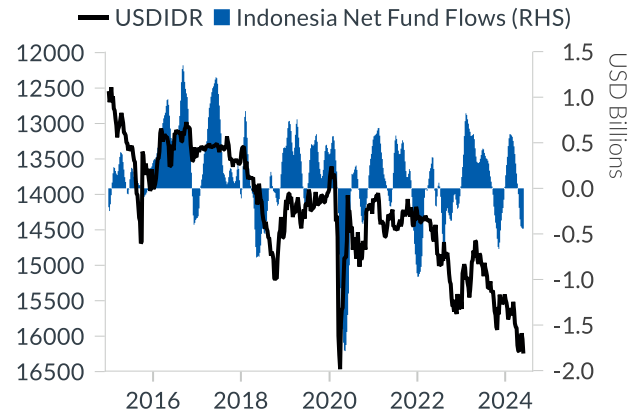
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



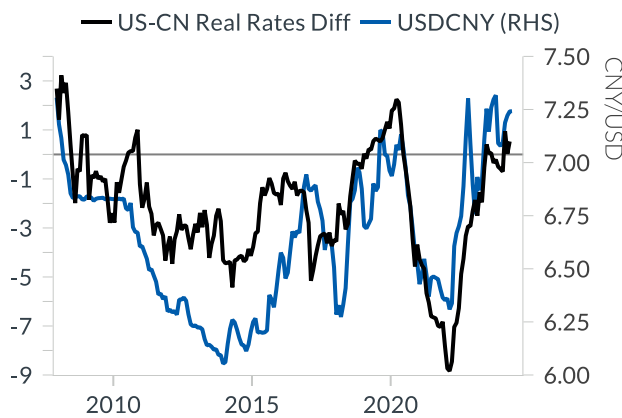
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



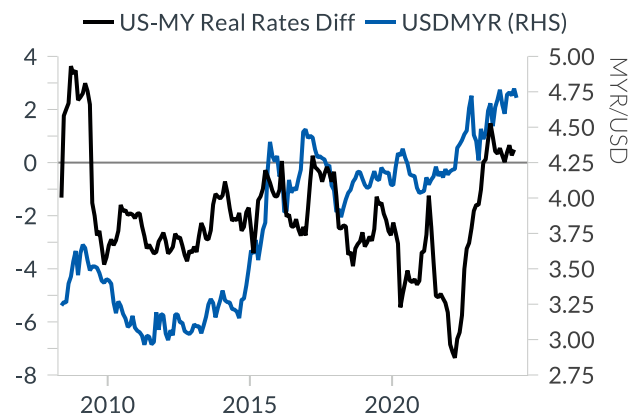
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

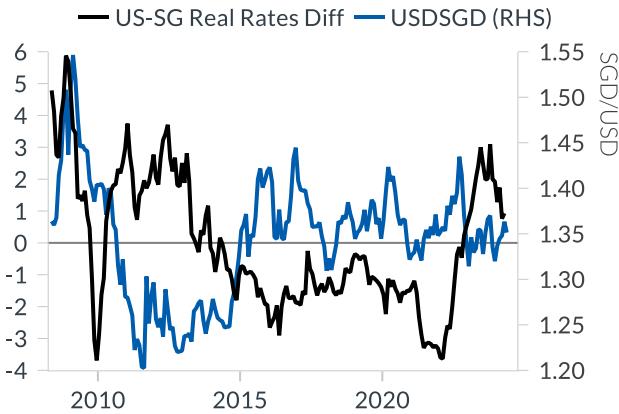
Figure 35: US-MY real rates narrowed recently, in tandem with the recent MYR strength



Source: Macrobond, RHB Economics & Market Strategy

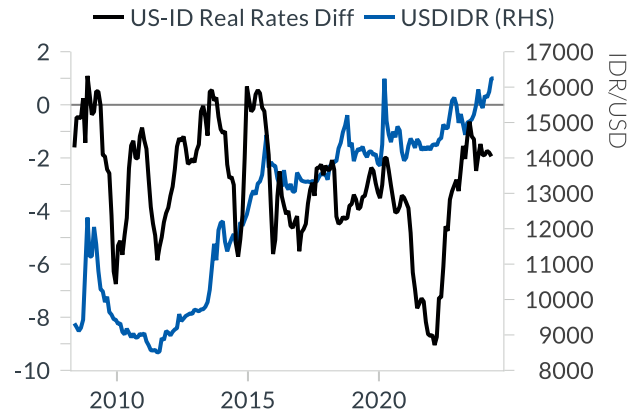
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Figure 36: Singapore remains less susceptible to rate differentials given its S\$NEER appreciation policy



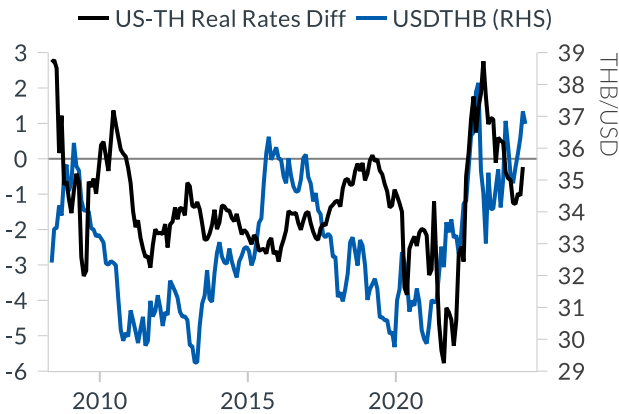
Source: Macrobond, RHB Economics & Market Strategy

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



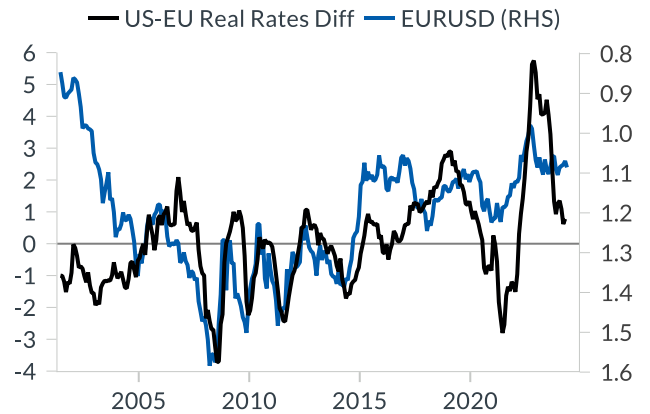
Source: Macrobond, RHB Economics & Market Strategy

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



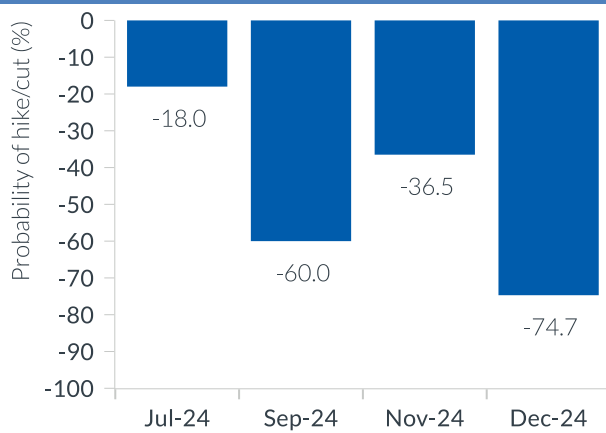
Source: Macrobond, RHB Economics & Market Strategy

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



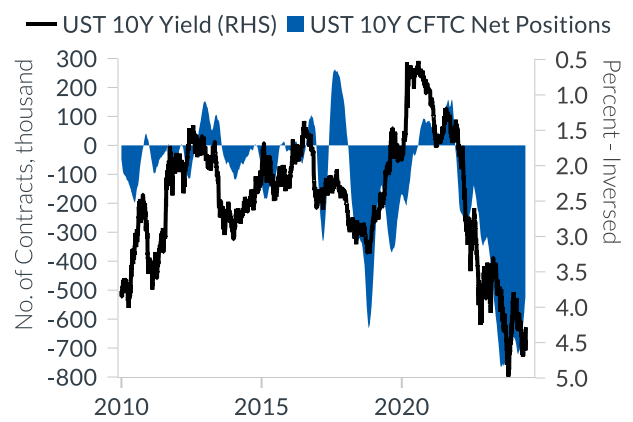
Source: Macrobond, RHB Economics & Market Strategy

Figure 40: Markets only pricing in a potential US FFR cut at year-end...



Source: Macrobond, RHB Economics & Market Strategy

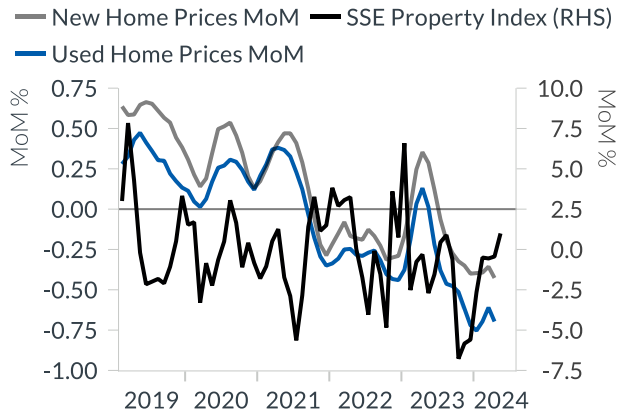
Figure 41: ... with UST 10Y yields likely to stay elevated as rates stay high-for-longer



Source: Macrobond, RHB Economics & Market Strategy

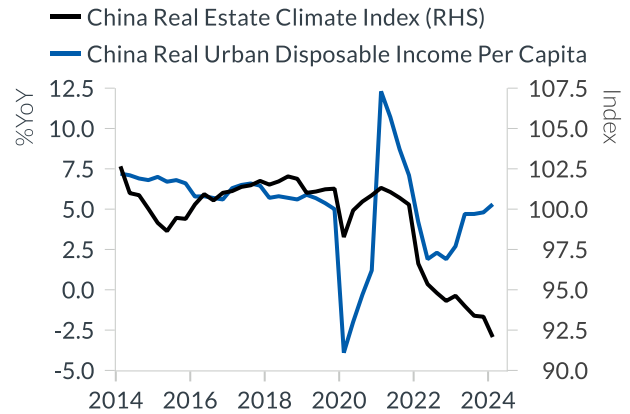
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Figure 42: China new home price momentum continue to recover in the latest months



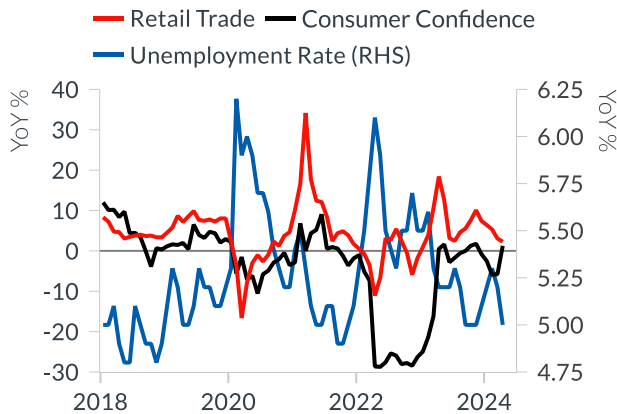
Source: Macrobond, RHB Economics & Market Strategy

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



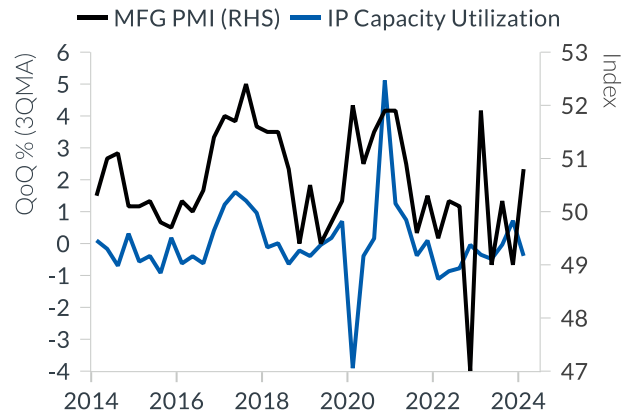
Source: Macrobond, RHB Economics & Market Strategy

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



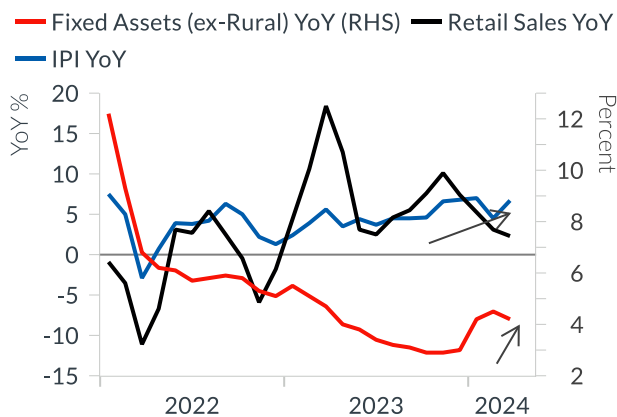
Source: Macrobond, RHB Economics & Market Strategy

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



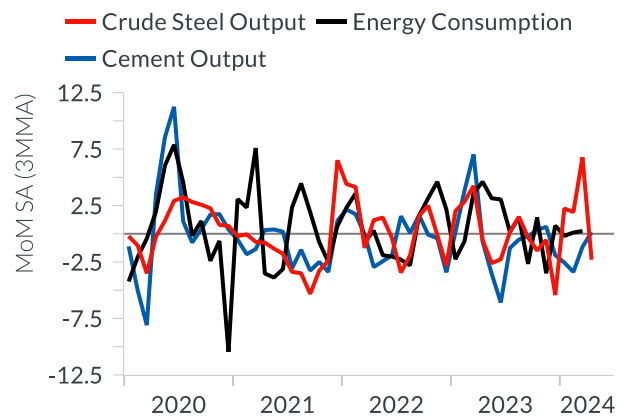
Source: Macrobond, RHB Economics & Market Strategy

Figure 46: ... while industrial production (IPI) growth rising to close to new highs ...



Source: Macrobond, RHB Economics & Market Strategy

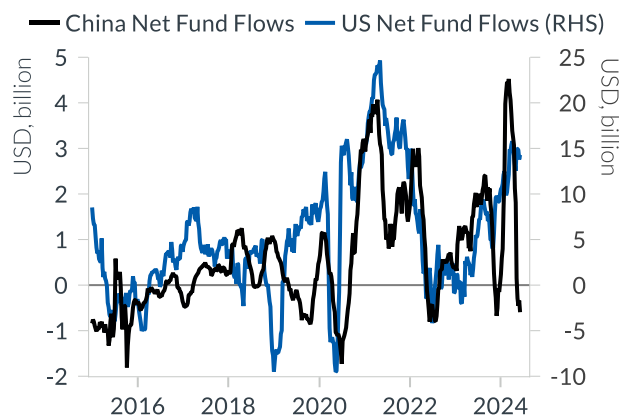
Figure 47: ... with commodity consumption supported on the back of its recovery



Source: Macrobond, RHB Economics & Market Strategy

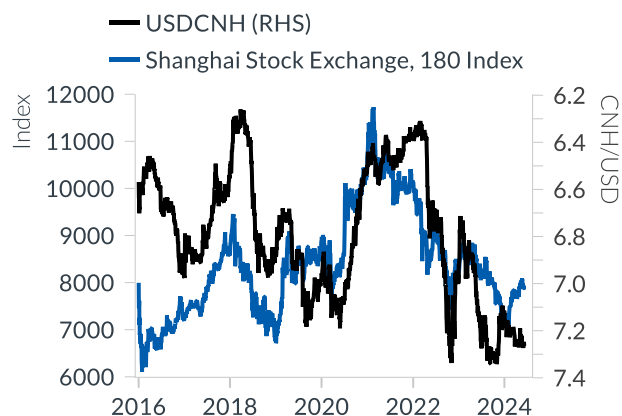
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Figure 48: Investors' interest in US funds remain healthy, some redemption of Chinese funds is ongoing...



Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

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