

24 May 2024

Global Economics & Market Strategy

FOMC Minutes: FFR Hike Whispers Are Getting Louder

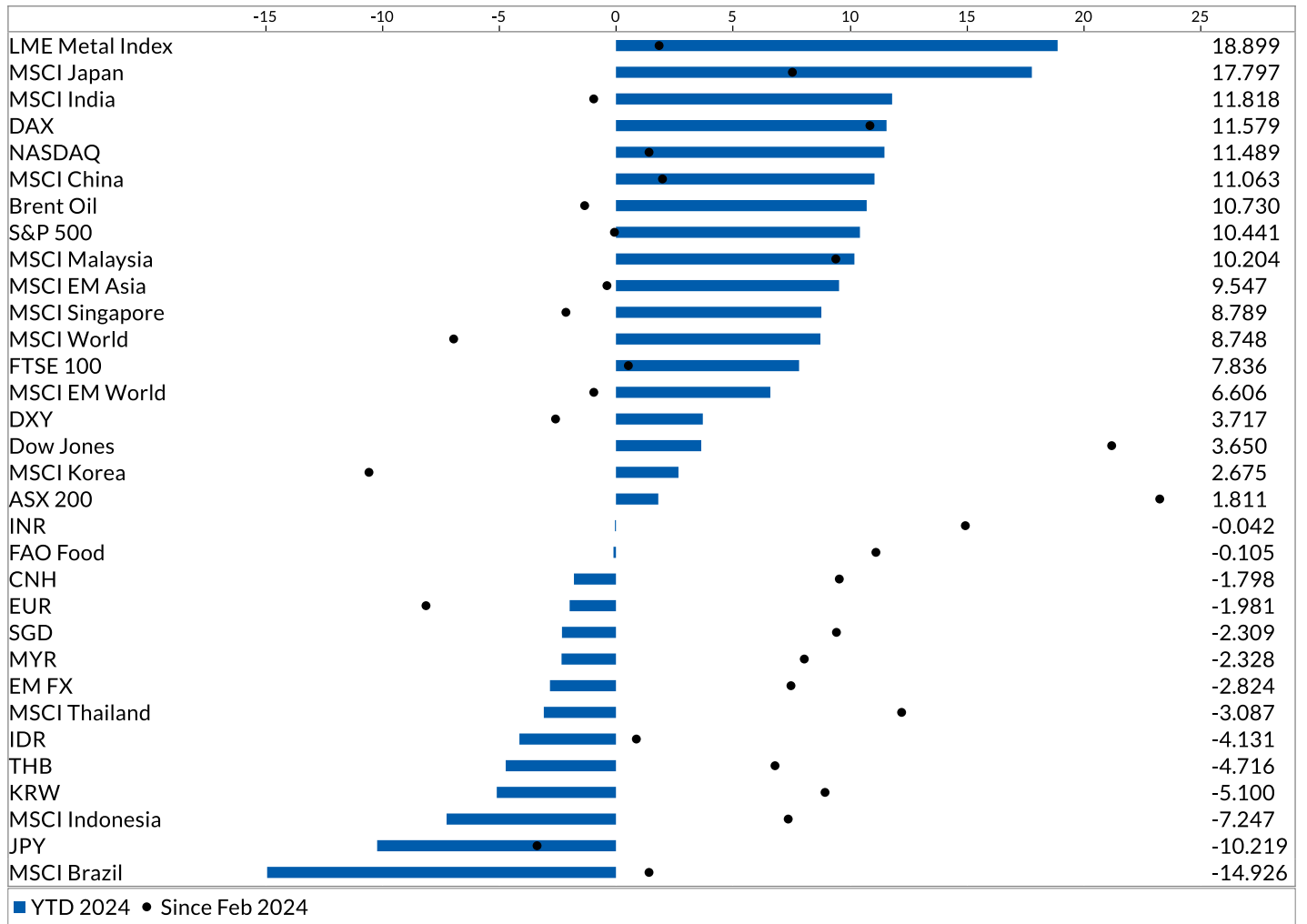
- ◆ **Are we moving from high, to higher-for-longer FFR environment?** We note that the latest FOMC meeting minutes cited “various participants mentioned a willingness to tighten policy further should risks to inflation materialise in a way that such an action became appropriate”. To us, it is clear that there is a severe lack of progress towards the US Fed committee’s 2.0% inflation objective, with Kashkari previously commenting on the need for higher FFR rates should inflation get entrenched at its 3.0% handle for the year ahead. The FOMC minutes suggested that members have questioned the efficacy of the current FFR level to control inflation, with some suggesting that rates were not restrictive enough. The minutes showed “that it would take longer than previously anticipated for them to gain greater confidence that inflation was moving sustainably toward 2.0%”.
- ◆ **Market swap pricing may indicate two FFR cuts this year, but the truth is that the reality is likely one to zero cuts for the rest of this year.** High(er)-for-longer rates will mean global interest rates will stay elevated into the rest of this year, with clear implications for average mortgage rates in the US and selected ASEAN. Global economies may also be forced to keep their benchmark rates high, with the risk of moving even higher, as seen in Japan, Taiwan, and Indonesia. More importantly, traders were quick to engage in short-covering behaviours for the DXY and see UST 10Y yields higher in reaction to last night’s FOMC minutes, thus reinforcing our view that fundamentals will still favour the DXY and UST yields should markets eventually price out FFR cuts into 2H24. As such, we expect the DXY to rally further into the next week, with the dollar index possibly crossing the 105 handle with UST 10Y yields moving towards 4.5 – 4.8% in the quarter ahead.
- ◆ **The factors for FFR to see one to zero cuts this year are three-fold:** (1) US headline inflation, while within market consensus, is still too high for comfort and threatens a year-end price pressure of above 3.0%. Furthermore, (2) the US labour market remains resilient despite the blip in unemployment and nonfarm payrolls, as seen in the recent decline in initial jobless claims for the week ending 11 May 2024, while (3) we recognise the risk for higher Fed Funds Rate is magnified considering yesterday’s FOMC minutes with Fed officials citing the lack of confidence for stable prices. Incoming data (tonight’s U. of Mich Sentiment index, 29 May mortgage applications and 30 May 1Q24 GDP) may give further clarity on how US economic momentum is likely resilient into 2Q24.
- ◆ **Singapore joins Malaysia and Indonesia in seeing 1Q24 GDP growth exceeding market consensus.** Singapore’s GDP expanded 2.7% YoY (+0.1% QoQ SA), surprising our forecasts for a milder 2.2% YoY growth and market’s of 2.5% YoY expansion. We maintain that Singapore’s growth momentum will accelerate in 2H24, translating into a full-year GDP growth of 2.5% in 2024. Lastly, the delay in global disinflation momentum and a resilient economic backdrop will likely persuade the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in 2024.

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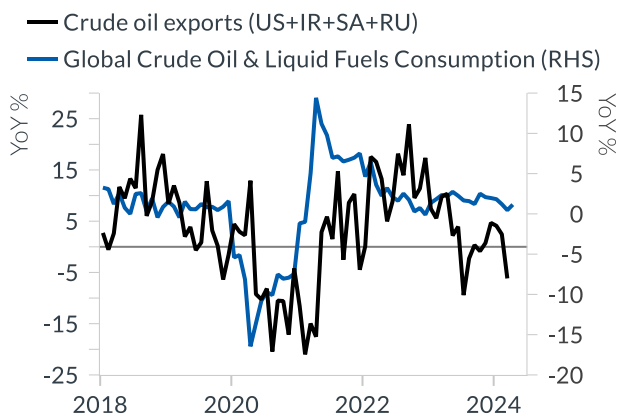
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Figure 1: YTD 2024 total return – Watch LME’s advance, which is likely a function of China’s economic recovery; rally momentum in global equities appear resilient



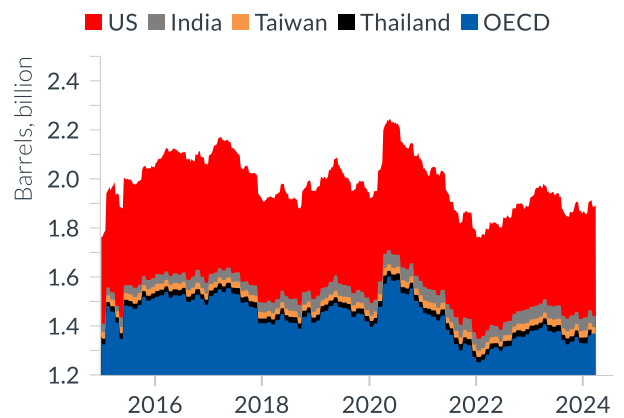
Source: Macrobond, RHB Economics & Market Strategy

Figure 2: Crude oil exports by key producers turned negative on a YoY basis...



Source: Macrobond, RHB Economics & Market Strategy

Figure 3: ... while global inventories decline further, suggesting further downside in crude prices is limited



Source: Macrobond, RHB Economics & Market Strategy

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Figure 4: Interim DXY weakness is likely temporal, we keep our forecast for DXY to rally towards 110 in 2Q24

FX Rates % Change						
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	11.38	8.66	3.86	157.072	151.647	127.516
CHF per USD	8.47	2.15	1.34	0.914	0.941	0.837
KRW per USD	5.37	3.73	1.57	1366.465	1361.825	1222.444
TWD per USD	5.16	3.45	0.90	32.243	32.479	29.668
PHP per USD	5.15	5.32	3.72	58.254	57.146	53.946
THB per USD	4.95	3.67	0.79	36.629	37.069	32.704
IDR per USD	4.31	6.94	1.30	16075.150	15946.000	14652.765
DXY	3.63	2.09	0.54	105.060	107.000	99.770
AUD per USD	2.83	0.45	-1.59	1.509	1.590	1.408
MYR per USD	2.38	0.77	-0.42	4.705	4.793	4.245
SGD per USD	2.36	-0.18	0.23	1.351	1.374	1.308
EUR per USD	2.02	0.76	-0.35	0.924	0.955	0.890
CNH per USD	1.83	-0.21	0.07	7.260	7.342	6.713
GBP per USD	0.25	0.03	-0.59	0.787	0.845	0.762
INR per USD	0.04	1.49	-0.12	83.284	83.439	80.988

Source: Macrobond, RHB Economics & Market Strategy

Figure 5: DM govt 2Y yields continued to climb YTD...

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Germany	68.5	23.1	3.08	3.33	2.34
United States	67.2	30.2	4.92	5.22	3.77
United Kingdom	56.6	35.7	4.52	5.48	3.17
Indonesia	32.9	40.1	6.71	6.91	5.62
S. Korea*	27.4	10.7	3.42	4.14	3.12
Singapore	18.5	-2.1	3.44	3.73	2.87
Malaysia*	11.2	8.5	3.58	3.69	3.31
Thailand	6.7	23.1	2.40	2.62	1.53
India	-3.7	0.8	7.03	7.39	6.80
China	-38.4	-10.3	1.80	2.47	2.07

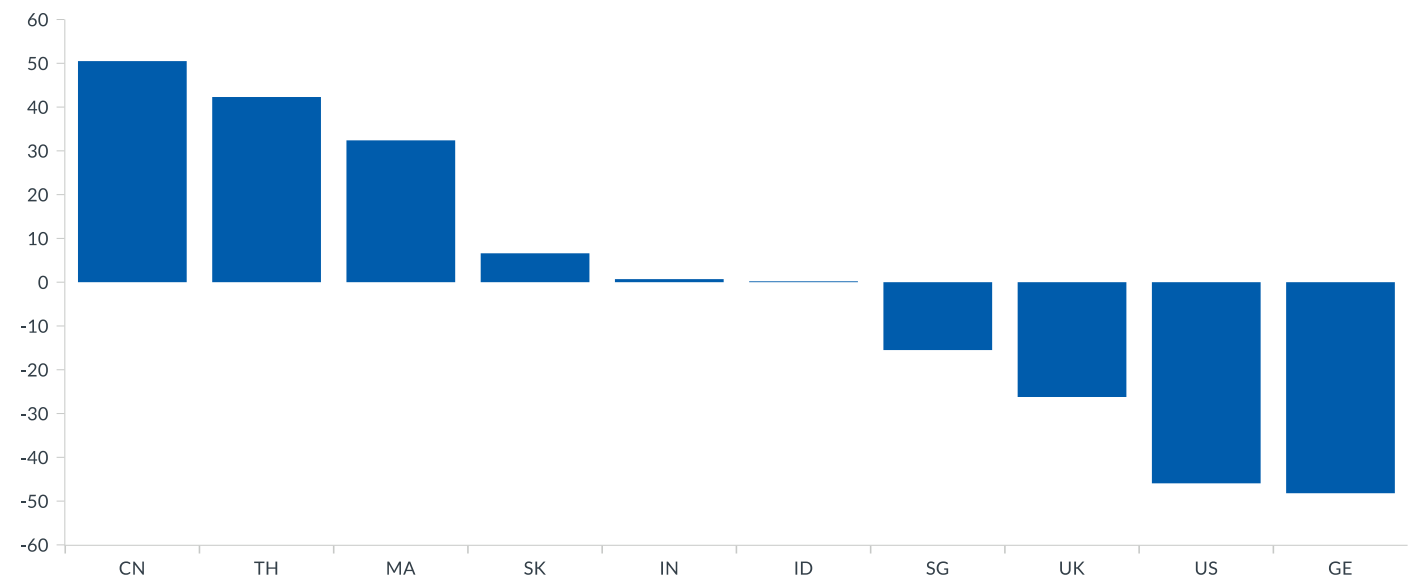
Source: Macrobond, RHB Economics & Market Strategy *Malaysia * Korea 3Y Bonds, YTD & QTD figures are in bps

Figure 6: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	72.9	32.7	4.26	4.74	3.00
Singapore	59.5	19.6	3.29	3.50	2.66
United States	58.4	26.3	4.46	4.99	3.31
Germany	57.4	29.8	2.60	2.97	1.89
Indonesia	40.4	16.5	6.86	7.22	6.16
S. Korea	33.1	10.3	3.51	4.40	3.16
Malaysia	17.0	4.6	3.90	4.16	3.65
Thailand	14.6	32.0	2.82	3.35	2.26
India	-14.5	-1.3	7.04	7.44	6.96
China	-25.2	1.6	2.31	2.92	2.54

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

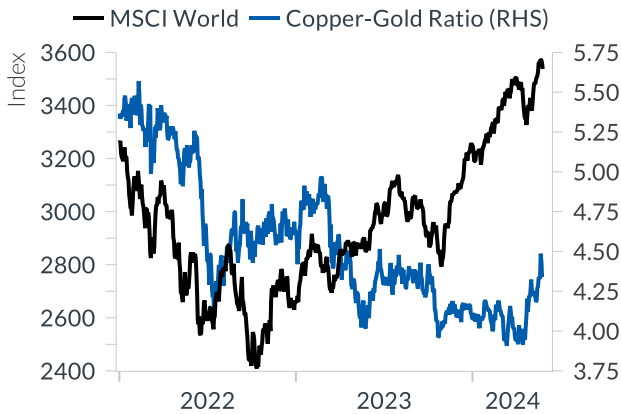
Figure 7: Negative 2-10Y yield spread persist for developed economies, recent decline in UST yields have invariably widened the negative spread



Source: Macrobond, RHB Economics & Market Strategy

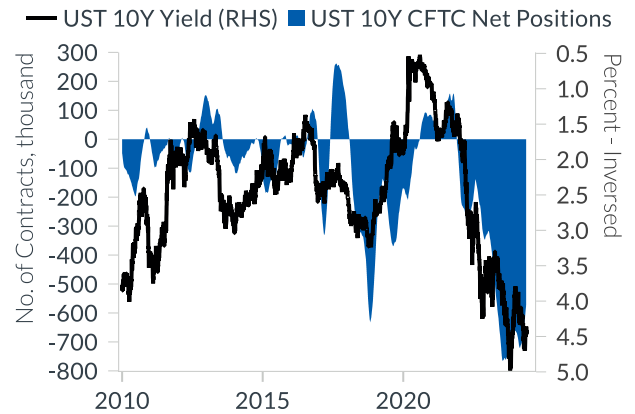
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Figure 8: Global risk appetite has recovered strongly after the blip in 1Q24



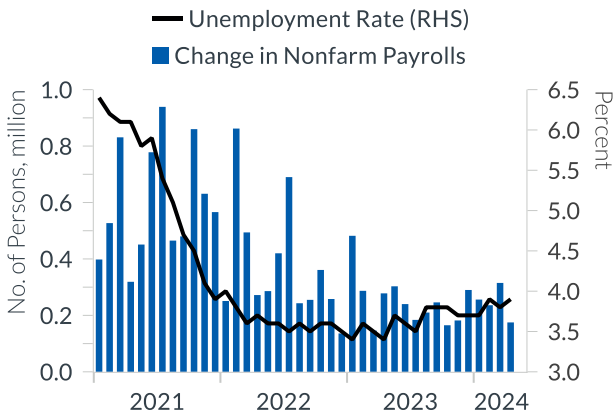
Source: Macrobond, RHB Economics & Market Strategy

Figure 9: Speculative net-shorts in UST 10Y persist, suggesting stickiness in UST 10Y yields



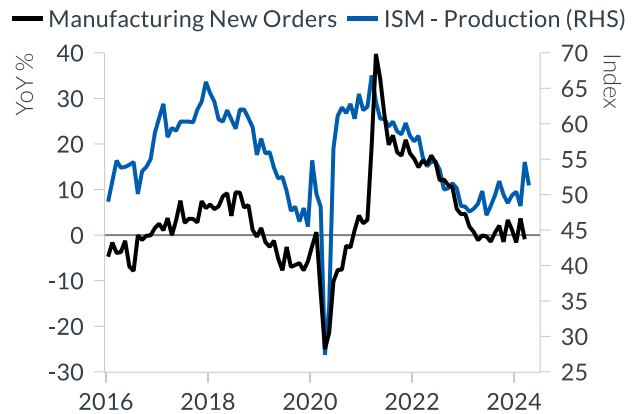
Source: Macrobond, RHB Economics & Market Strategy

Figure 10: US NFP has recently softened with higher unemployment rates...



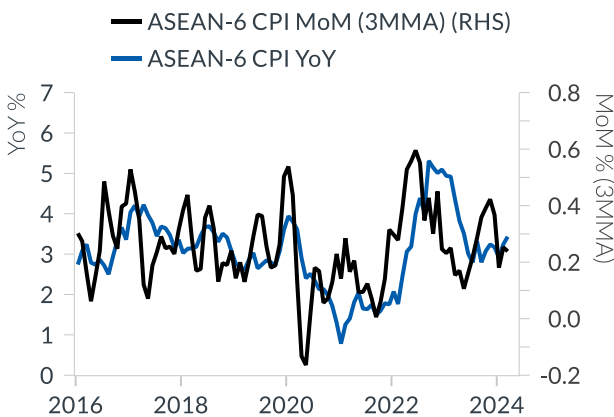
Source: Macrobond, RHB Economics & Market Strategy

Figure 11: ... but US manufacturing activities stayed strong, suggesting little economic downside risks



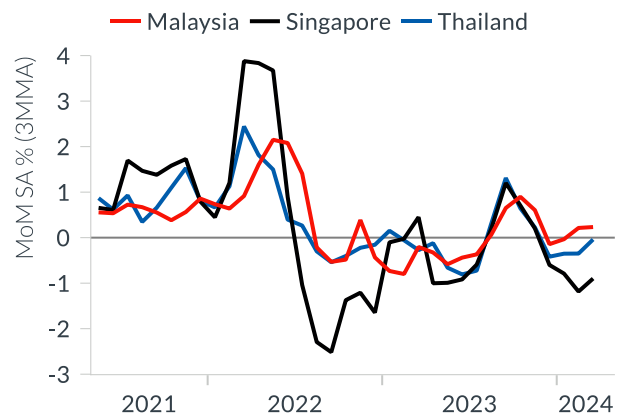
Source: Macrobond, RHB Economics & Market Strategy

Figure 12: ASEAN-6 GDP-Weighted CPI momentum is heating up



Source: Macrobond, RHB Economics & Market Strategy

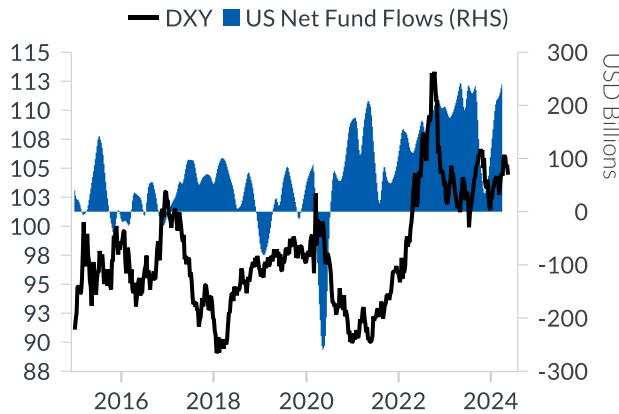
Figure 13: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

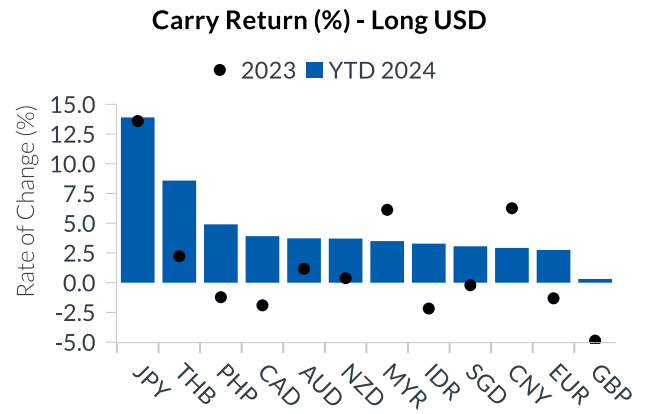
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Figure 14: High for longer rates likely led to more fund inflows into the US, thus supporting DXY...



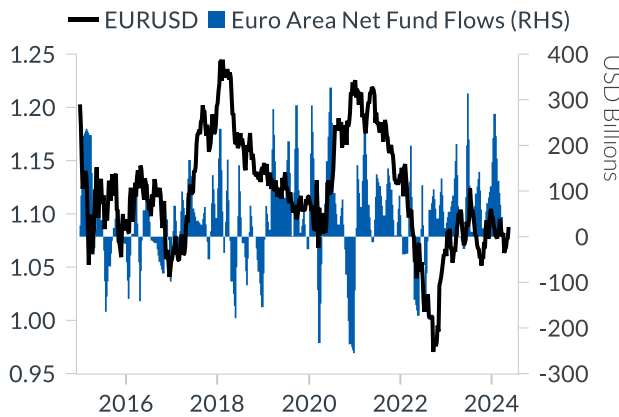
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 15: ... while USD carry stays positive year-to-date



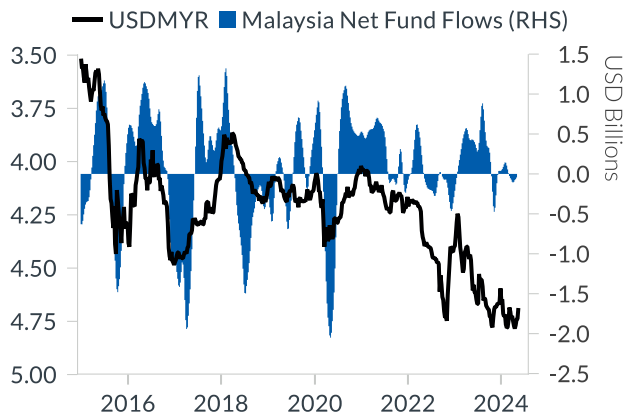
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 16: Fund flows into Euro Area accelerated further, but EUR flat-lined



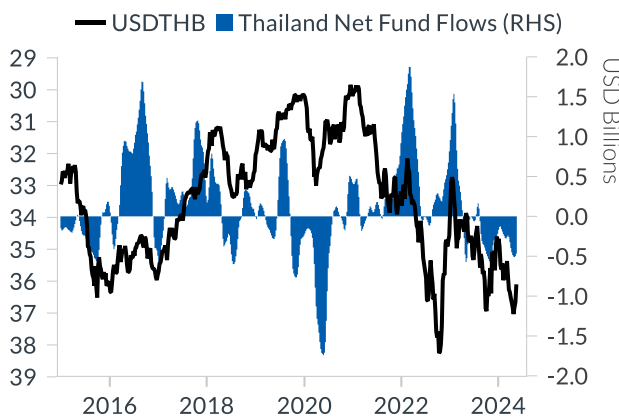
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 17: Malaysia's net fund flows are gradually turning positive, which is MYR-positive



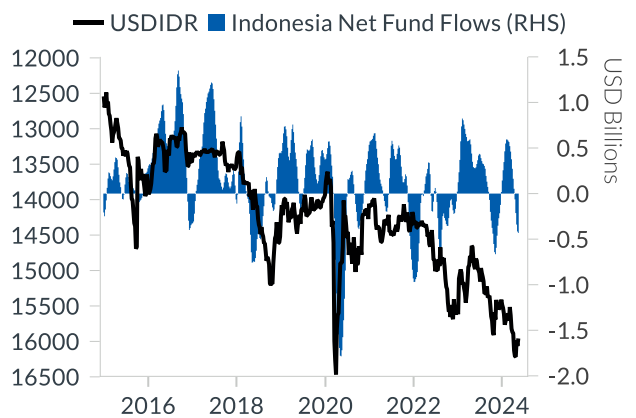
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 18: No reprieve for Thailand's net outflows, suggesting further weakness in THB...



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

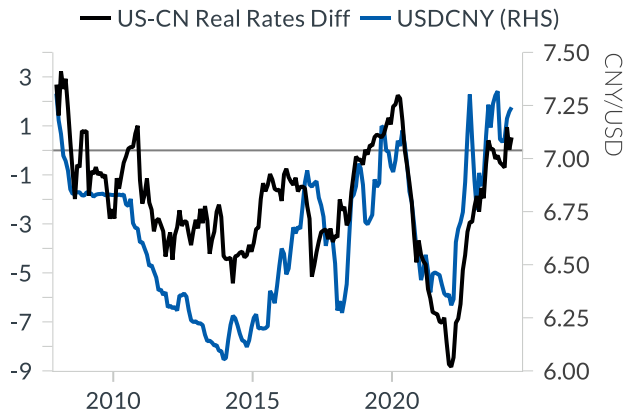
Figure 19: ... while investors continuing to pull funds out of Indonesia



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

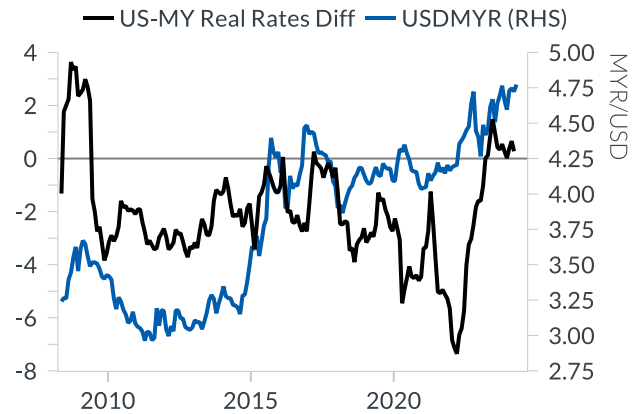
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Figure 20: US-CN real rates differential is behaving well with USD-CNY,



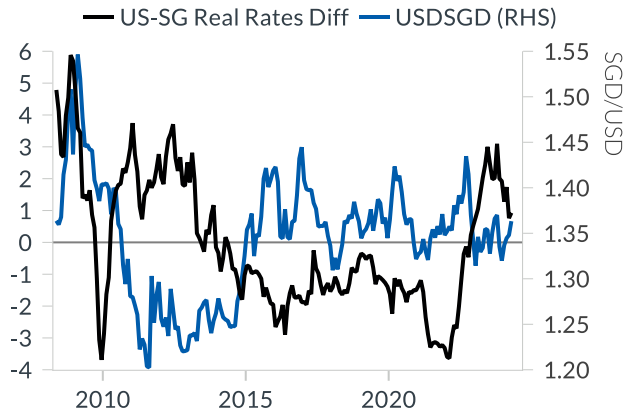
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: US-MY real rates narrowed recently, in tandem with the recent MYR strength



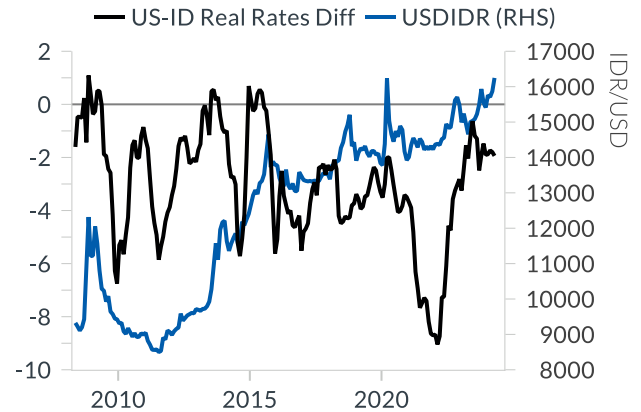
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: Singapore remains less susceptible to rate differentials given its S\$NEER appreciation policy



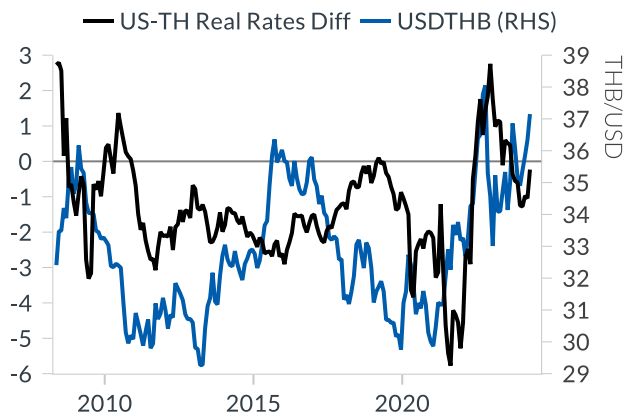
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: US-ID real rates remain flat, USD-IDR has already moved below 16,000



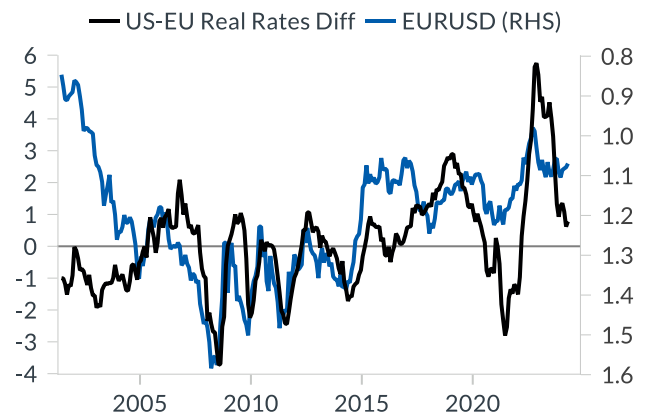
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: We still remain bearish on THB, as the hike in retail diesel prices will narrow TH real rates



Source: Macrobond, RHB Economics & Market Strategy

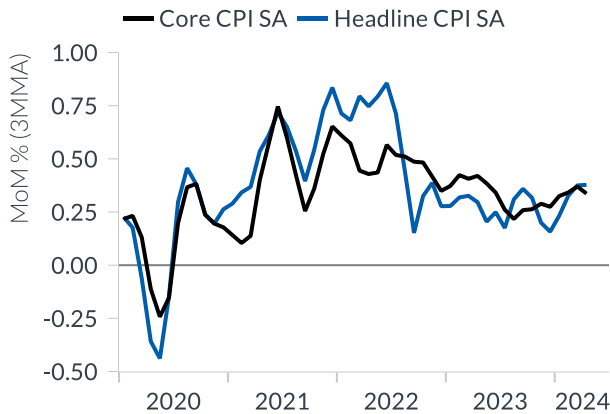
Figure 25: EURUSD remains well-behaved against US-EU 3M rate spread



Source: Macrobond, RHB Economics & Market Strategy

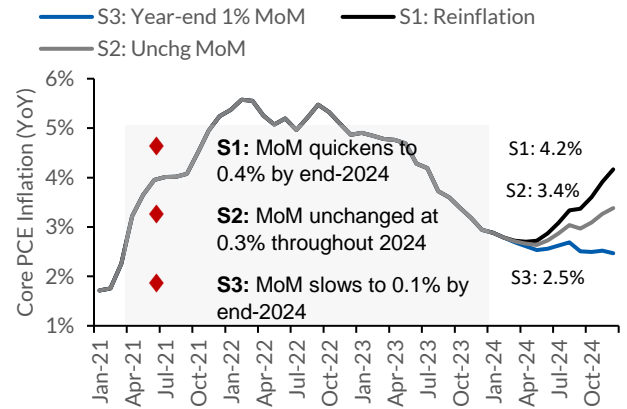
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Figure 26: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...



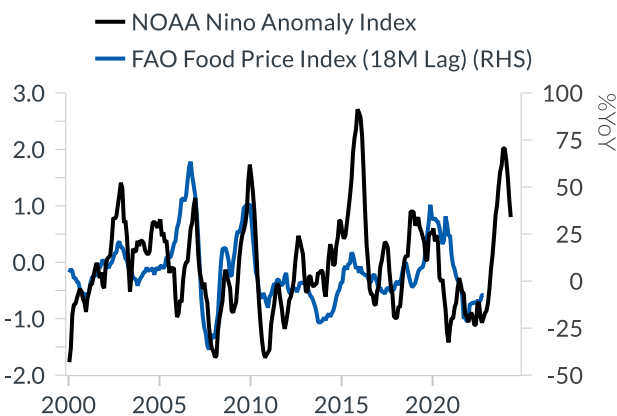
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: ... and year-end PCE core inflation will be flat at around 2.5% even if MoM decelerates to 0.1%



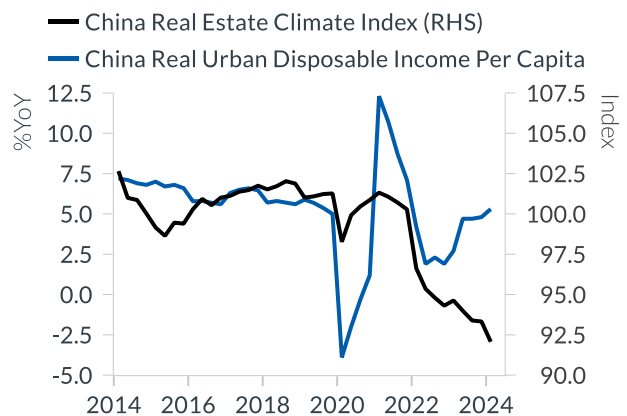
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: Higher global food prices may be evident from the El Nino condition



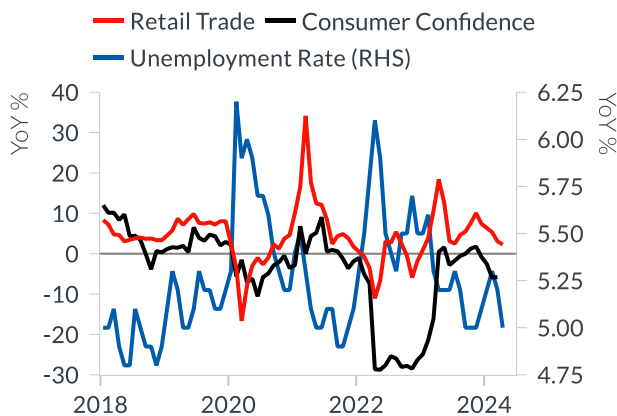
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: China's real urban disposable income continue to rise, trending away from its real estate risk



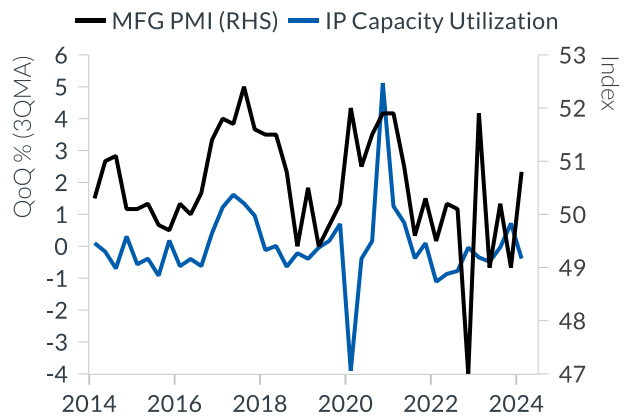
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: Chinese unemployment levels continue to fade lower, but retail trade and confidence are muted...



Source: Macrobond, RHB Economics & Market Strategy

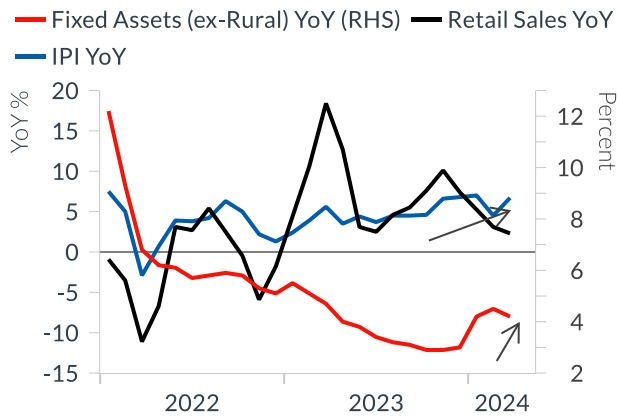
Figure 31: ... although externally-facing industries have improved, with MFG PMI surging at its latest data...



Source: Macrobond, RHB Economics & Market Strategy

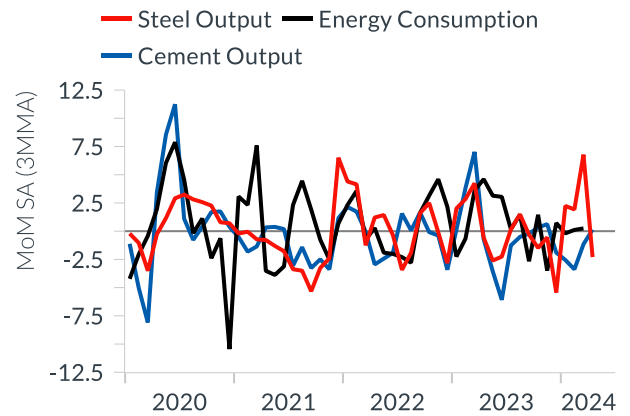
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Figure 32: ... while industrial production (IPI) growth rising to close to new highs



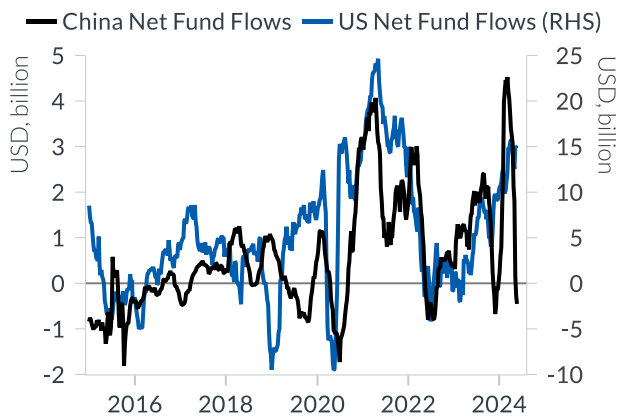
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: China commodity output and consumption mostly up, except steel which is likely normalising as compared to the previous uptick



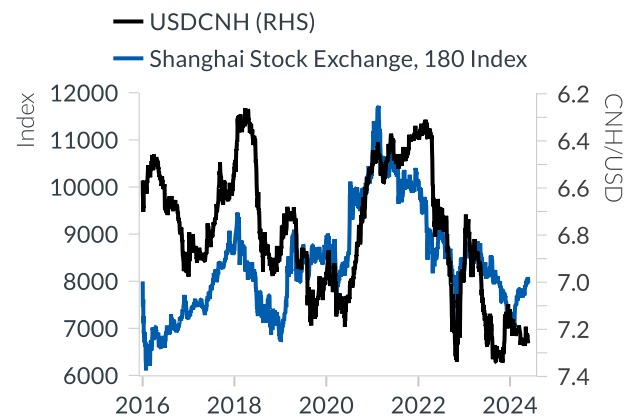
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: Investors' interest in US funds remain healthy, some redemption of Chinese funds is ongoing...



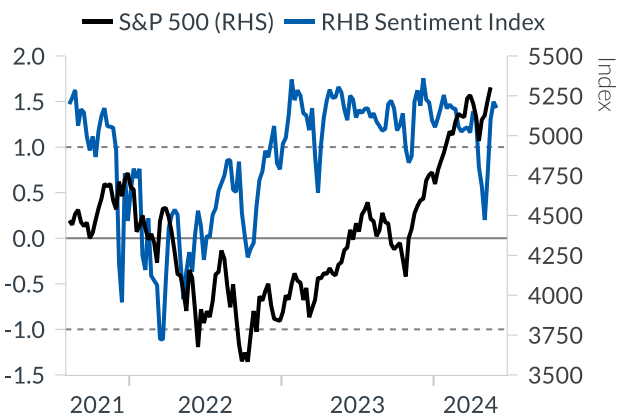
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 35: ... but SSE remains on the climb as risk appetite stays rosy



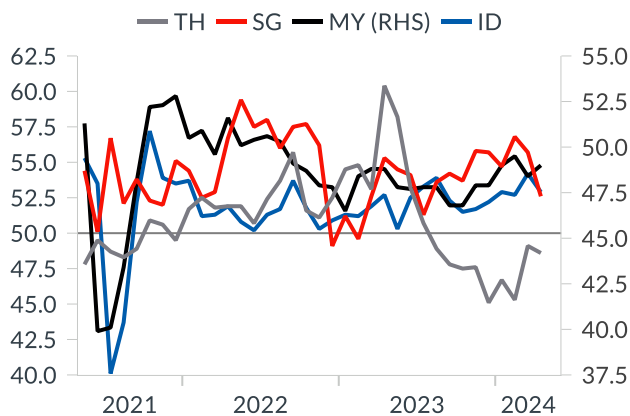
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: RHB risk sentiment index recovers towards 1.0 as risk-taking appetite ensues



Source: Macrobond, RHB Economics & Market Strategy

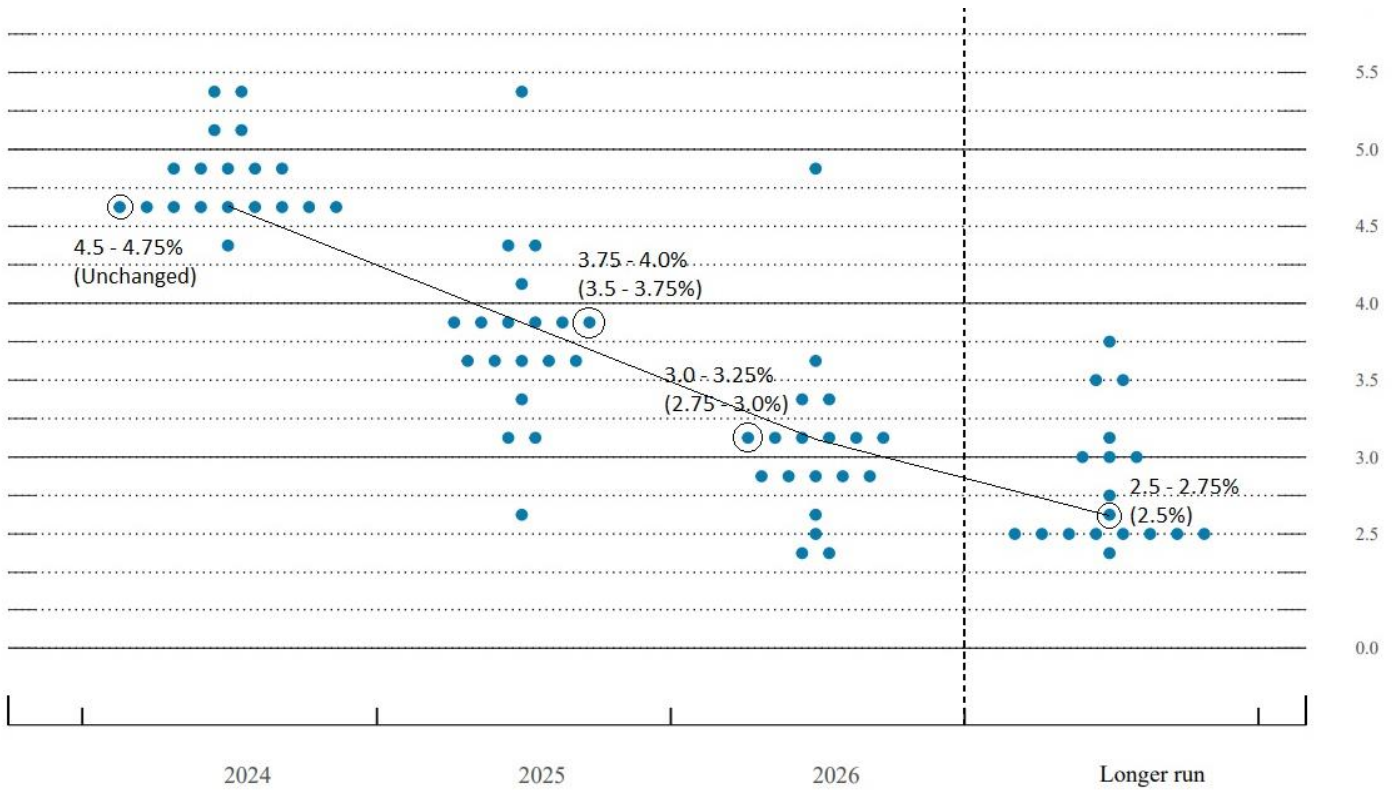
Figure 37: PMI (whole economy) numbers in Malaysia is up, against a broader slowdown in ASEAN



Source: Macrobond, RHB Economics & Market Strategy

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Figure 38: March median dot-plot chart signalled 3 cuts in 2024, but revised rates higher in 2025 - 2026



Source: US Federal Reserve, RHB Economics & Market Strategy

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