

26 April 2024

Global Economics & Market Strategy

Continued Revision of Market Pricing of FFR Cuts Is Expected

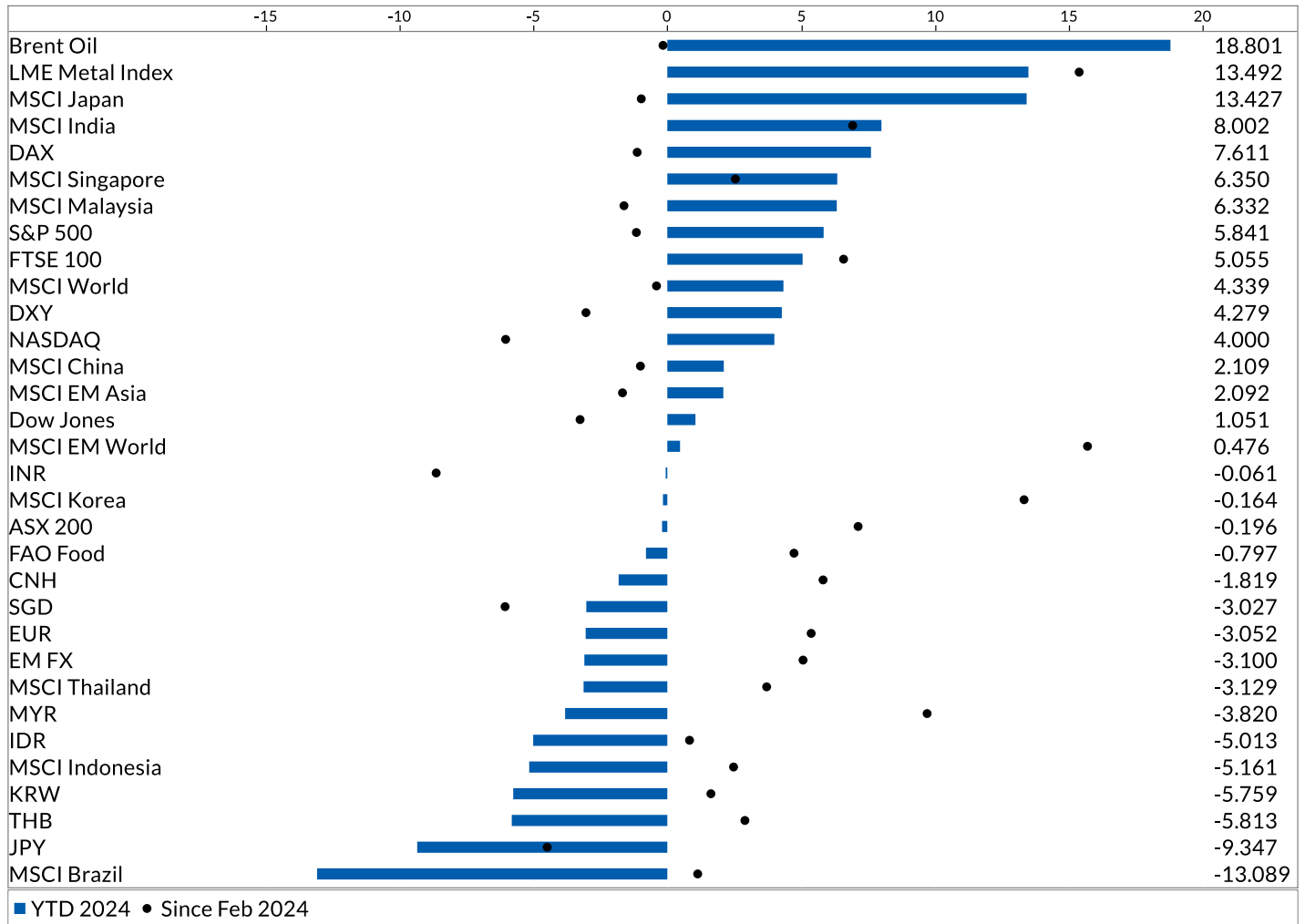
- ◆ **As we approach the end of April, we are reminded of recent exogenous events in the backdrop, and how global economic sentiment remains relatively undented.** The quick dissipation of geopolitical tensions has led market watchers to turn back to risky assets in the last week, while Taiwan's earthquake has quickly proved to be a non-event. Year-to-date, the S&P 500 rose 5.84%, with Nasdaq (+4.0%) and Dow Jones (+1.05%) following suit. In other markets, we note relatively supported risk appetite, with Euro Stoxx 50 (YTD: +9.98%), Nikkei (YTD: +13.4%), Hang Seng (YTD: +6.5%) and CSI 300 (YTD: +5.5%). Our global growth assumptions remain sanguine, whereby our asset allocation strategy for overweight (OW) equities has materialised nicely.
- ◆ **We expect one US Fed Funds Rate cut by the end of this year, with the balance of risks magnified towards no cut.** Tonight's US core PCE inflation will likely be a tipping point for us to revise our FFR cut assumptions – our US core PCE model suggests that a persistent 0.3% MoM print from now to year-end suggests year-end core PCE inflation at above 3.0%. In comparison, any acceleration to 0.4% MoM may lift year-end core PCE inflation to above 4.0%. Suffice it to say, we think US inflation is not on the path towards the 2.0% handle. Thus, despite elevated inflation, any cuts this year must be met by a sudden deterioration of US labour conditions, which is not our base case. The quick revision of market pricing of FFR cuts, now at a mere 1.3 at year-end, has likely sent ripples across both global policymakers and investors - Bank Indonesia has bucked the trend with a [rate hike](#),
- ◆ **The implications for our global views remain firm:** We continue to see DXY strength towards 110 in 2Q24, with the UST 10Y yields approaching 5.0%. We think that the market pricing out of FFR cuts, although materialising nicely to our view, is not done yet; we think market pricing will gradually move towards one cut, and should US inflation stay elevated, to adjust towards no FFR cuts for 2024.
- ◆ **Regarding the Bank of Japan, we keep our full-year policy rate at 0.0 to 0.1%, with the balance of risks tilted towards a rate hike to 0.1 – 0.2% in 2H24.** In the latest BOJ meeting, Chief Kazuo Ueda commented that the price trend is “still below 2.0%”, suggesting that further tightening at this juncture is not yet warranted. With BOJ keeping its rate unchanged the JPY fell to its multi-decade low of around 156 per USD, against our view for JPY to average 156.68 in 2Q24 ([report](#) – page 7). More importantly, Ueda commented that BOJ's monetary policy is not aimed at controlling FX rates directly, thus suggesting that further weakness in the JPY, if any, may not move the needle regarding BOJ's future moves.
- ◆ **Closer to home, Malaysia's March CPI inflation sustained at 1.8% YoY** compared to a similar reading in the previous month. The Overnight Policy Rate (OPR) will likely be kept at 3.0% for 2024. A wide official inflation range of 2.0% to 3.5% should provide sufficient room against future price movements. We maintain our 2024 headline inflation projection at 3.3% YoY. We remain cautious about the potential inflation upside amid fiscal consolidation measures and elevated commodities prices. ([Report](#)).

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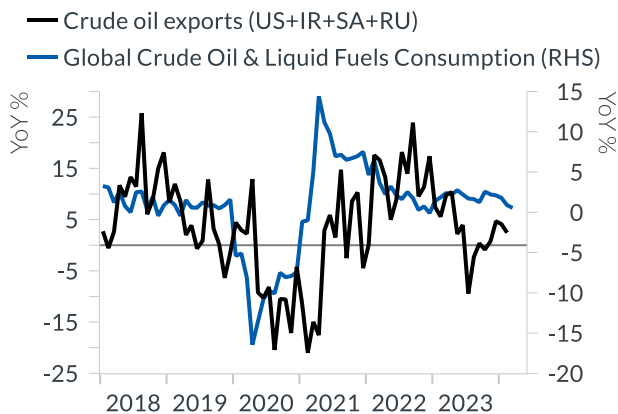
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Figure 1: YTD 2024 total return – Brent, Metals, and Food prices are on the rise, risk appetite should recover into May



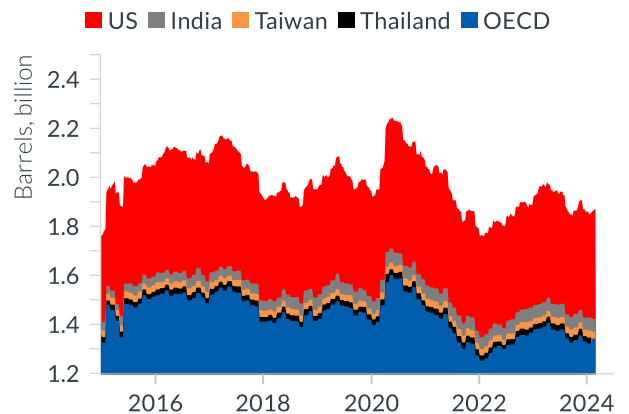
Source: Macrobond, RHB Economics & Market Strategy

Figure 2: Crude oil demand has slowed into latest print, while dissipation of tensions led prices lower



Source: Macrobond, RHB Economics & Market Strategy

Figure 3: Global oil inventories were also higher as well, reinforcing the downward move for oil prices



Source: Macrobond, RHB Economics & Market Strategy

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Figure 4: We think DXY could head towards 105 – 110 in 2Q24, with the USD being a clear winner amongst the FX space

FX Rates % Change						
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	10.31	7.62	2.86	155.562	151.647	127.516
CHF per USD	8.45	2.12	1.32	0.914	0.941	0.837
TWD per USD	6.36	4.64	2.06	32.613	32.479	29.668
THB per USD	6.17	4.88	1.97	37.055	37.069	32.704
KRW per USD	6.11	4.45	2.28	1376.020	1361.825	1222.444
IDR per USD	5.28	7.93	2.24	16224.350	15946.000	14652.765
AUD per USD	4.82	2.40	0.32	1.539	1.590	1.408
PHP per USD	4.28	4.45	2.86	57.774	57.146	53.946
DXY	4.16	2.61	1.06	105.600	107.000	99.770
MYR per USD	3.97	2.33	1.12	4.778	4.793	4.245
EUR per USD	3.15	1.88	0.76	0.934	0.955	0.890
SGD per USD	3.12	0.56	0.97	1.361	1.374	1.308
GBP per USD	2.06	1.83	1.20	0.801	0.845	0.762
CNH per USD	1.85	-0.19	0.09	7.261	7.342	6.713
INR per USD	0.06	1.51	-0.10	83.300	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
United States	73.1	36.1	4.98	5.22	3.77
Germany	60.8	15.4	3.00	3.33	2.34
United Kingdom	49.4	28.6	4.45	5.48	3.17
Indonesia	47.3	54.5	6.86	6.91	5.62
S. Korea*	38.8	22.1	3.53	4.14	3.12
Singapore	24.2	3.6	3.50	3.73	2.87
Malaysia*	17.3	14.6	3.64	3.69	3.31
India	6.7	11.2	7.14	7.39	6.80
Thailand	4.9	21.3	2.38	2.62	1.53
China	-34.5	-6.4	1.84	2.47	2.07

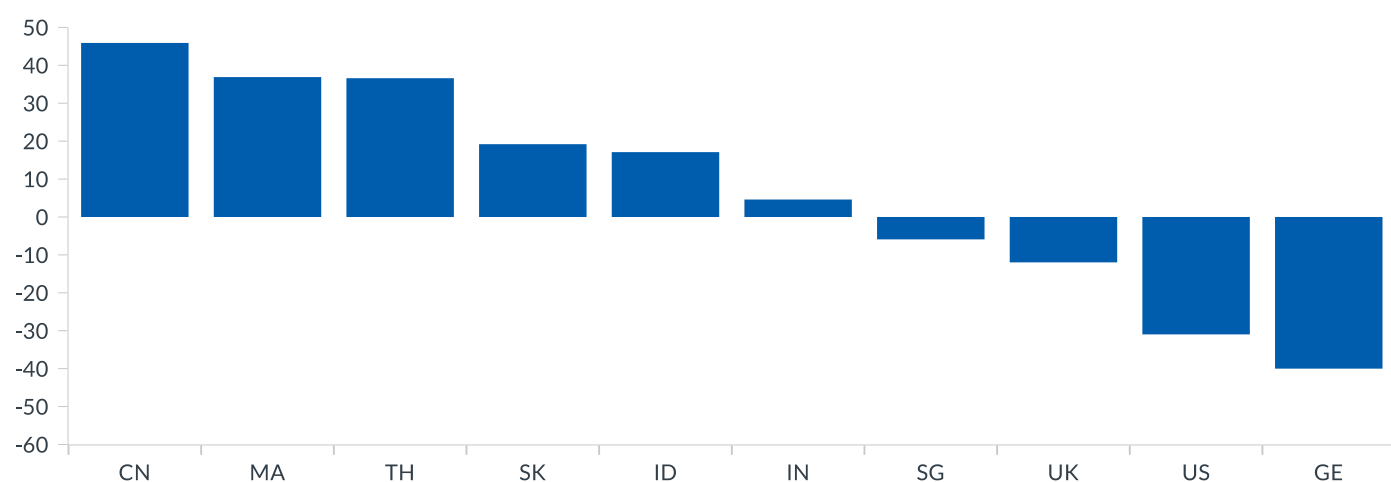
Source: Macrobond, RHB Economics & Market Strategy *Malaysia * Korea 3Y Bonds, YTD & QTD figures are in bps

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

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	79.9	39.7	4.33	4.74	3.00
United States	79.4	47.3	4.67	4.99	3.31
Singapore	71.0	31.1	3.40	3.50	2.66
Indonesia	68.0	44.1	7.13	7.22	6.16
Germany	57.8	30.2	2.60	2.97	1.89
S. Korea	52.2	29.4	3.70	4.40	3.16
Malaysia	27.6	15.2	4.01	4.16	3.65
Thailand	7.1	24.5	2.75	3.35	2.26
India	1.2	14.4	7.20	7.44	6.96
China	-25.9	0.9	2.30	2.92	2.54

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

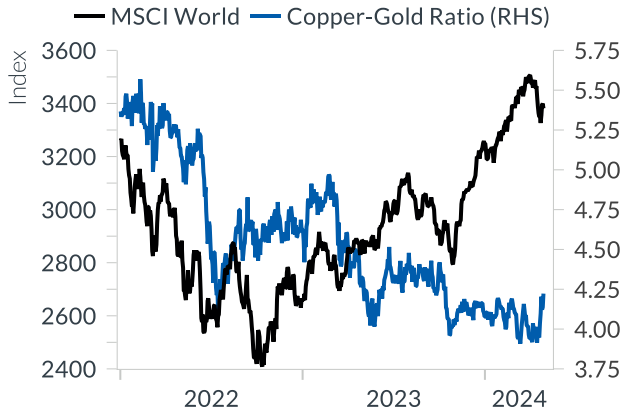
Figure 7: UST 2-10Y spread inversion stay wide in the coming weeks should market participants continue to price out FFR cuts



Source: Macrobond, RHB Economics & Market Strategy

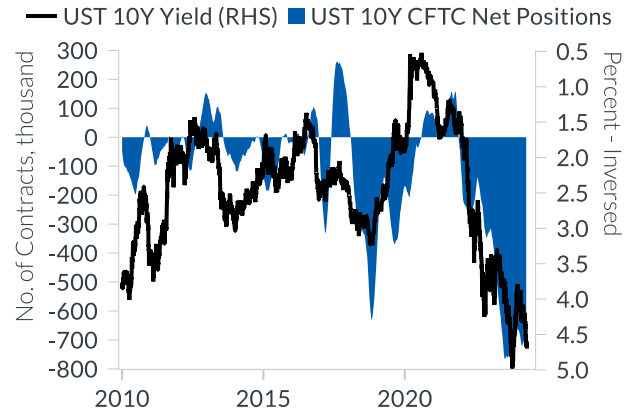
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Figure 8: Short-covering quickly ensued after the profit-taking in April



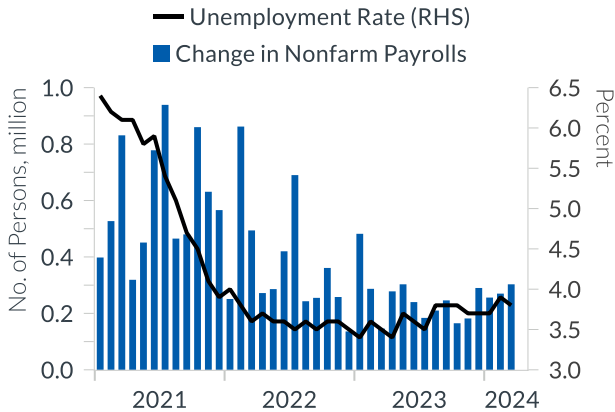
Source: Macrobond, RHB Economics & Market Strategy

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



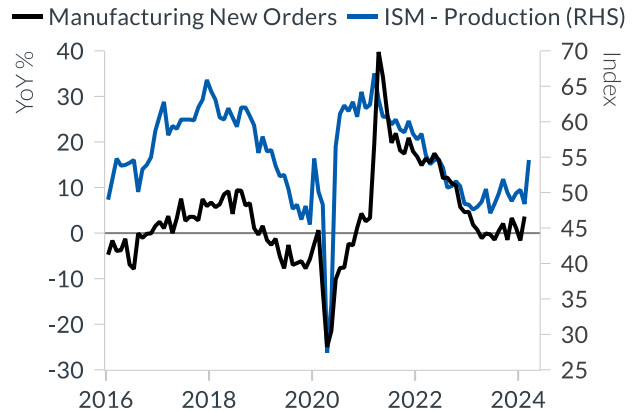
Source: Macrobond, RHB Economics & Market Strategy

Figure 10: US non-farm is (very) strong, higher unemployment rates a function of more job seekers



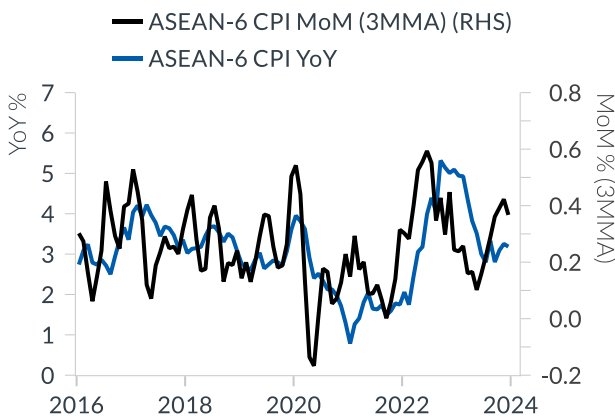
Source: Macrobond, RHB Economics & Market Strategy

Figure 11: US manufacturing activities accelerated in the latest prints, suggesting the bottom is found



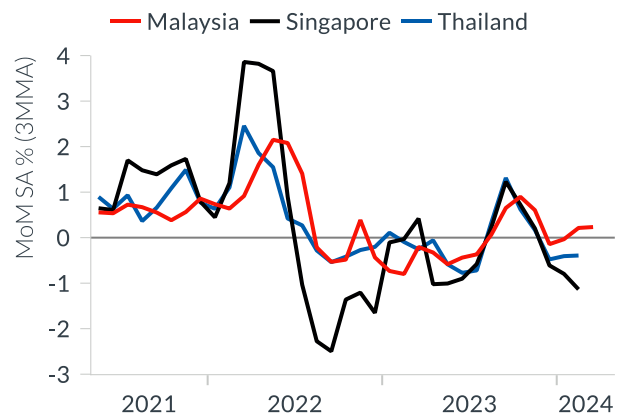
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

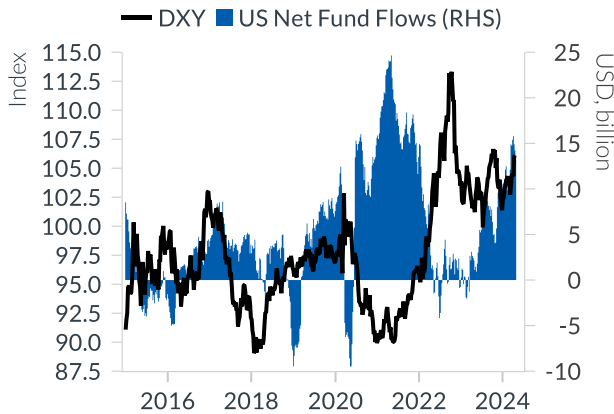
Figure 13: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

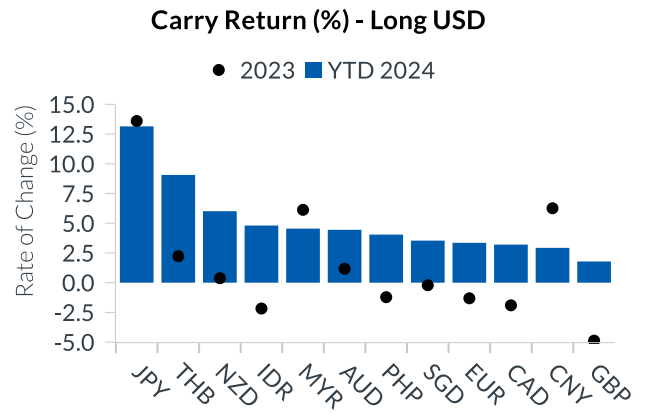
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Figure 14: High for longer rates likely led to more fund inflows into the US, thus supporting DXY...



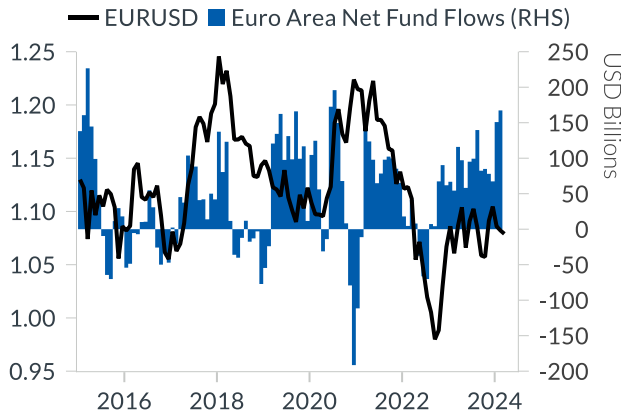
Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



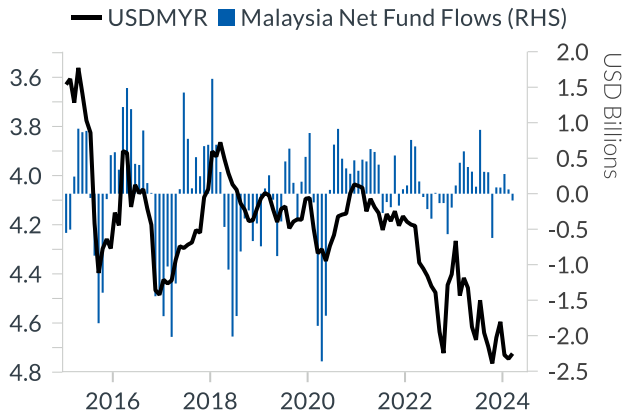
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



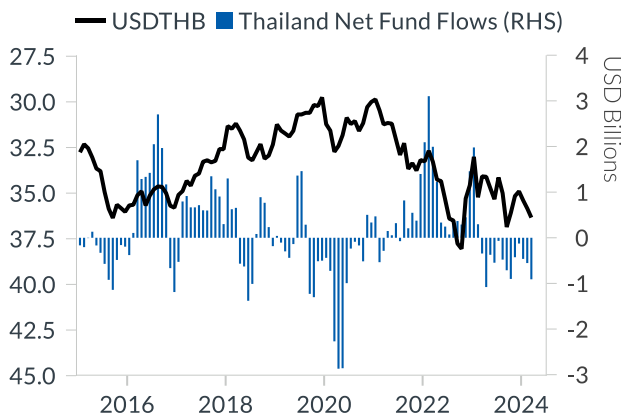
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 17: ... while the MYR is likely headed towards 4.8 per USD amid relatively tepid fund flows



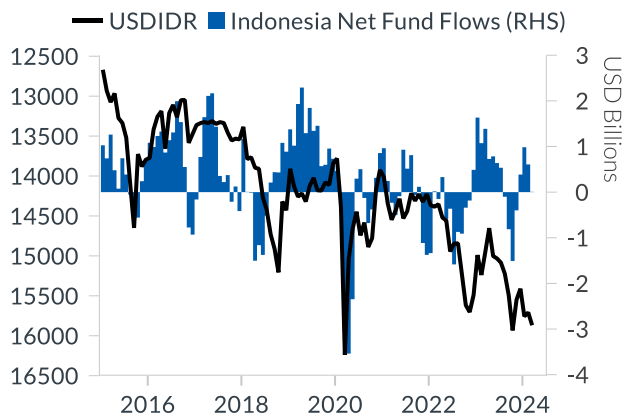
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

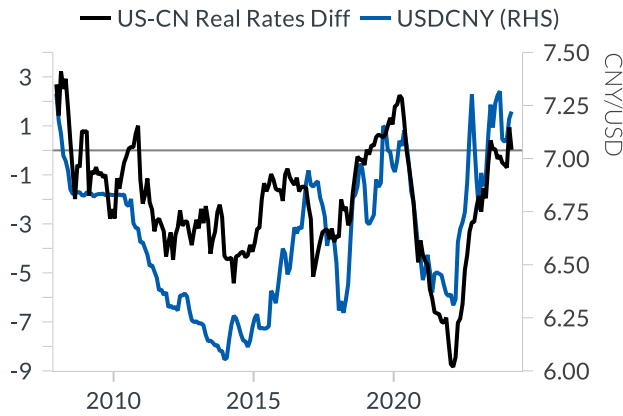
Figure 19: ... while BI's rate hike may not mean higher fund inflows



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

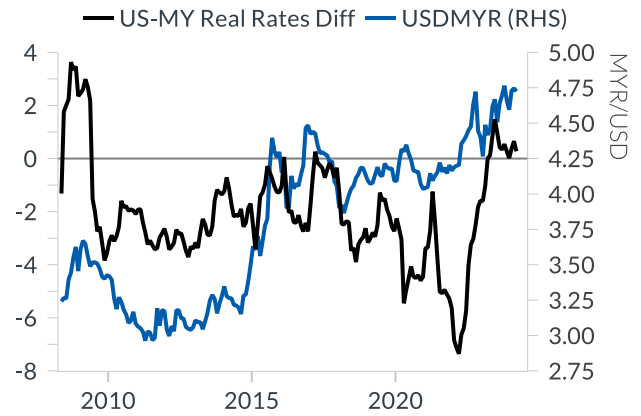
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Figure 20: US-CN real rates differentials suggest USDCNY to move towards 7.0 by end 2024



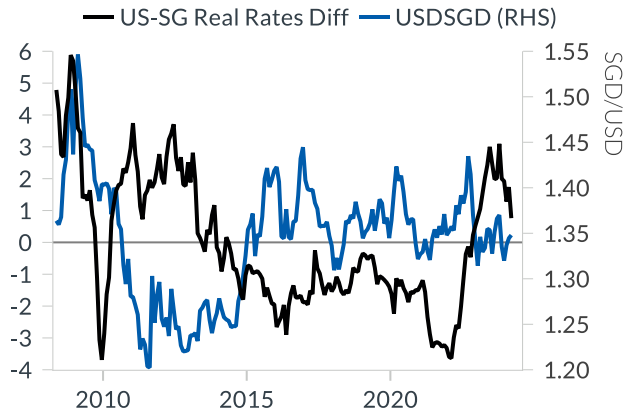
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: US-MY real rates is elevated on higher Malaysia's inflation, MYR may test 4.8 per USD...



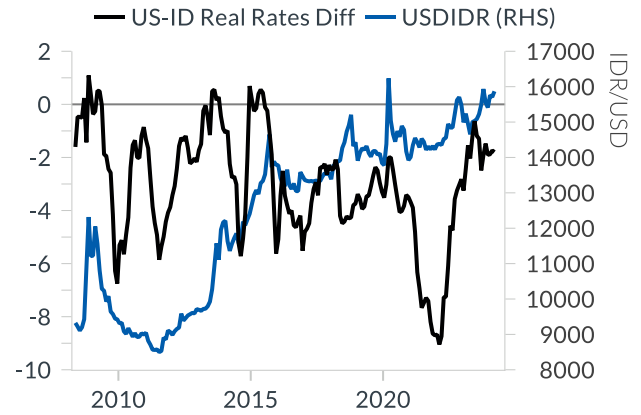
Source: Macrobond, RHB Economics & Market Strategy

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



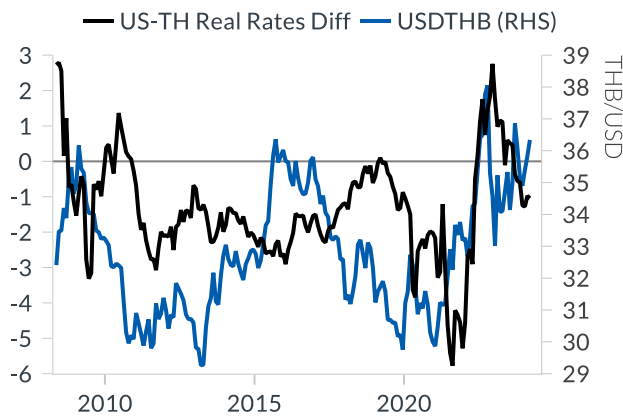
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: US-ID real rates remain flat despite the BI surprise hike, with IDR likely to stay soft



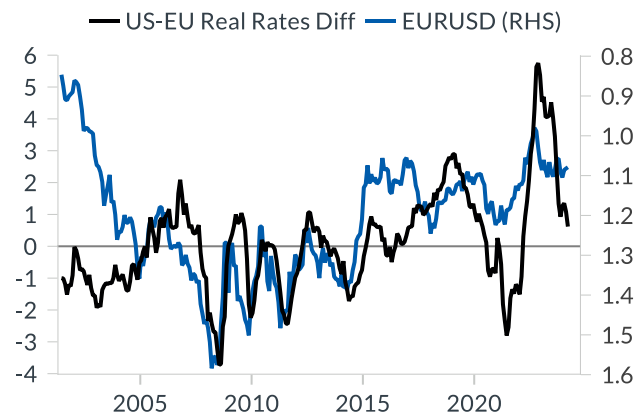
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: Thailand's real rates will likely narrow as subsidies expire, THB may depreciate in 1H24



Source: Macrobond, RHB Economics & Market Strategy

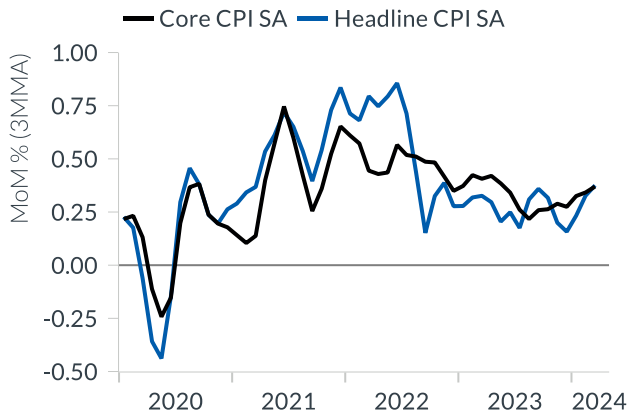
Figure 25: EURUSD remains well-behaved against US-EU 3M rate spread



Source: Macrobond, RHB Economics & Market Strategy

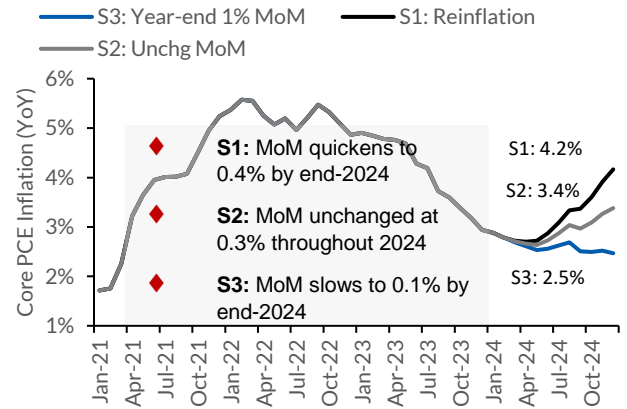
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Figure 26: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...



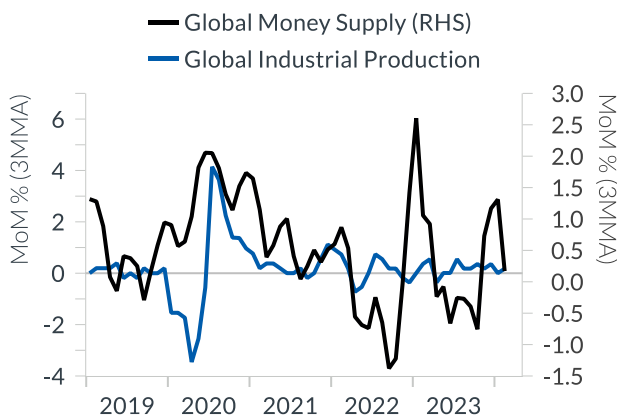
Source: Macrobond, RHB Economics & Market Strategy

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



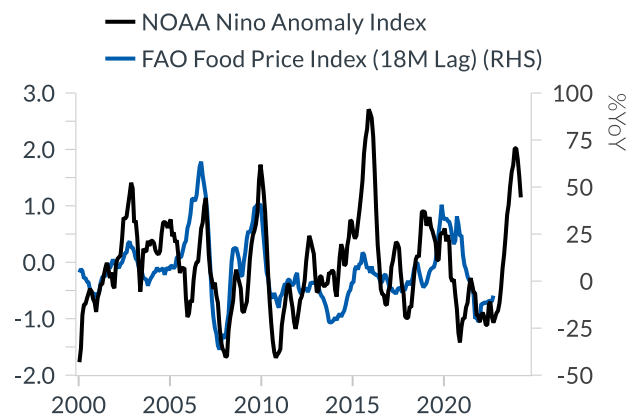
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: Loosening global financial conditions led by China could mean support for global manufacturing



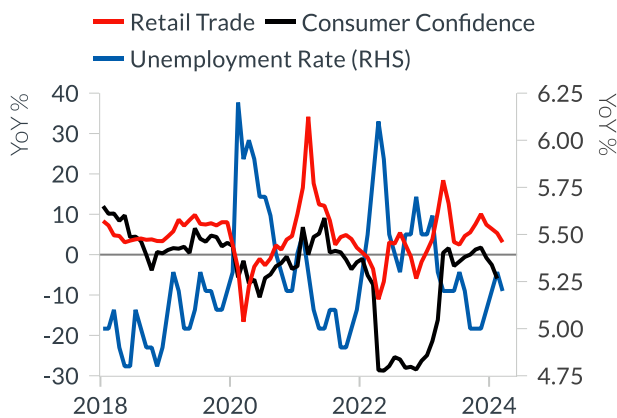
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: Higher global food prices may be evident from the El Nino condition



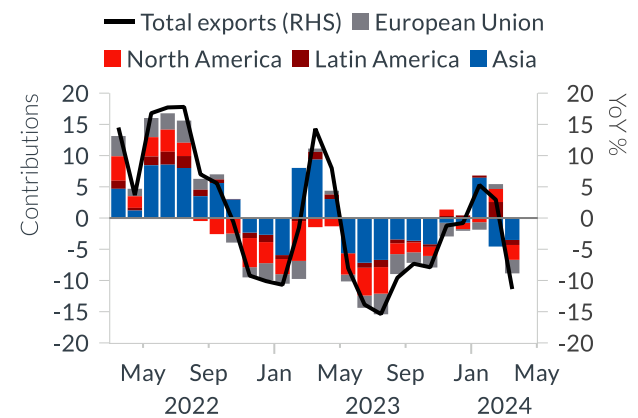
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: Chinese-centric high-frequency data has weakened in Feb, likely due to CNY...



Source: Macrobond, RHB Economics & Market Strategy

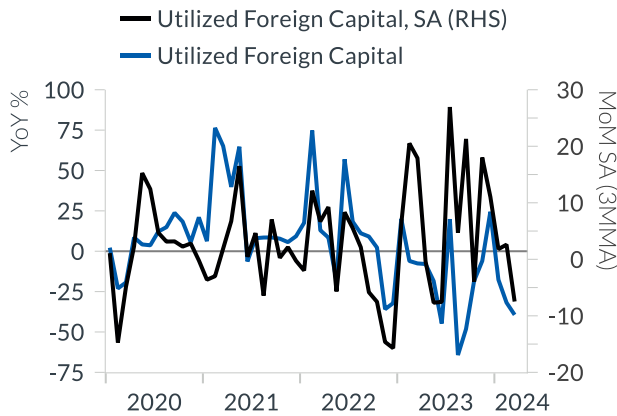
Figure 31: ... similar for exports, whereby momentum has softened...



Source: Macrobond, RHB Economics & Market Strategy

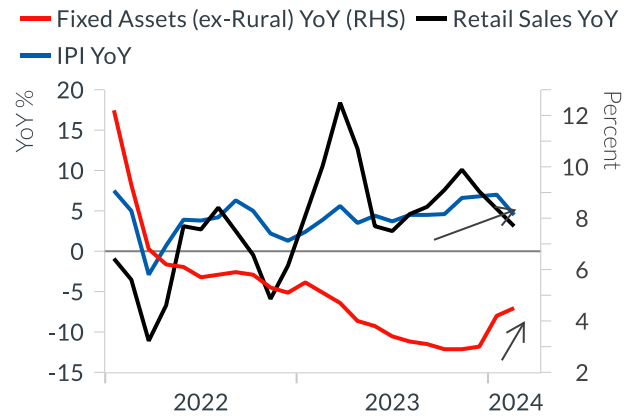
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Figure 32: China's utilisation of foreign capital declined in January, potentially because of the Lunar New Year...



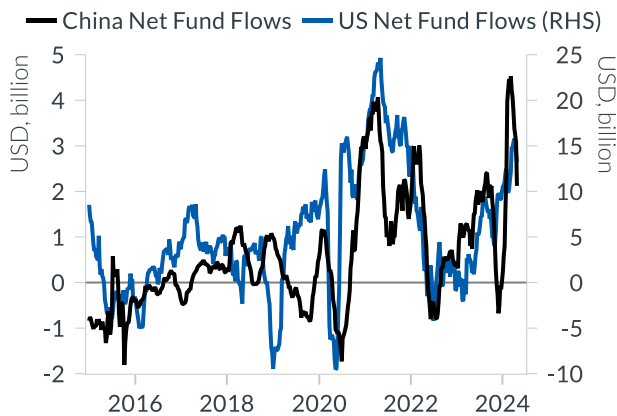
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: ... which is not a concern as the recovery in China's IPI and consumer spending are still seen



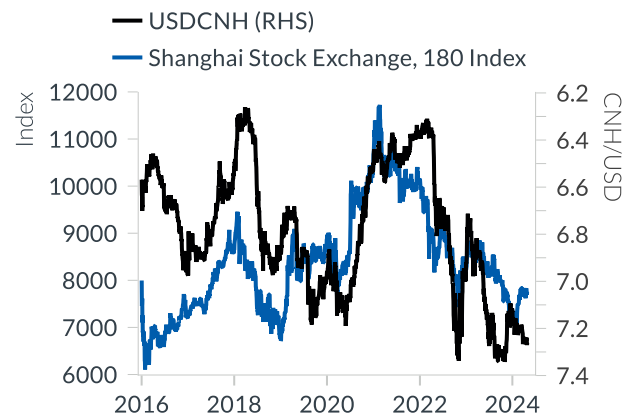
Source: Macrobond, RHB Economics & Market Strategy

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



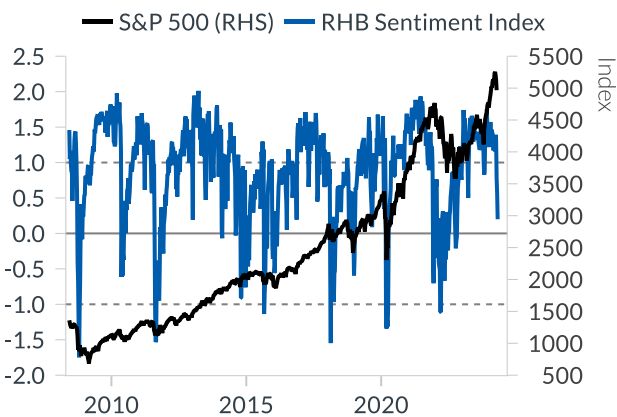
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 35: ... whereby CNY has weakened with SSE rally stalling at latest data



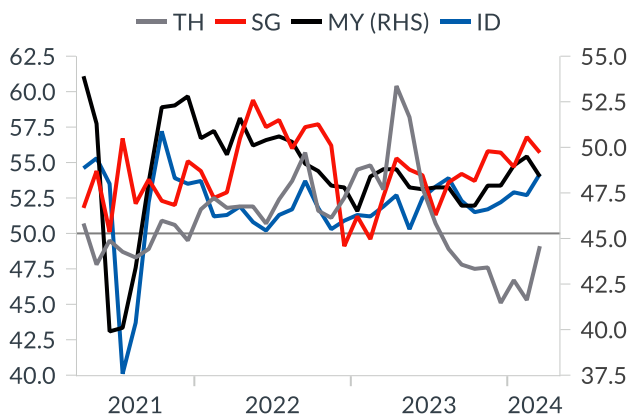
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: RHB risk sentiment index turn less positive as investors price out FFR cuts amid Middle East tensions



Source: Macrobond, RHB Economics & Market Strategy

Figure 37: PMI (whole economy) numbers in most ASEAN economies are up



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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