

17 May 2024

Global Economics & Market Strategy

Three Reasons Why Being On FFR Cut Wagon Is A Bad Idea

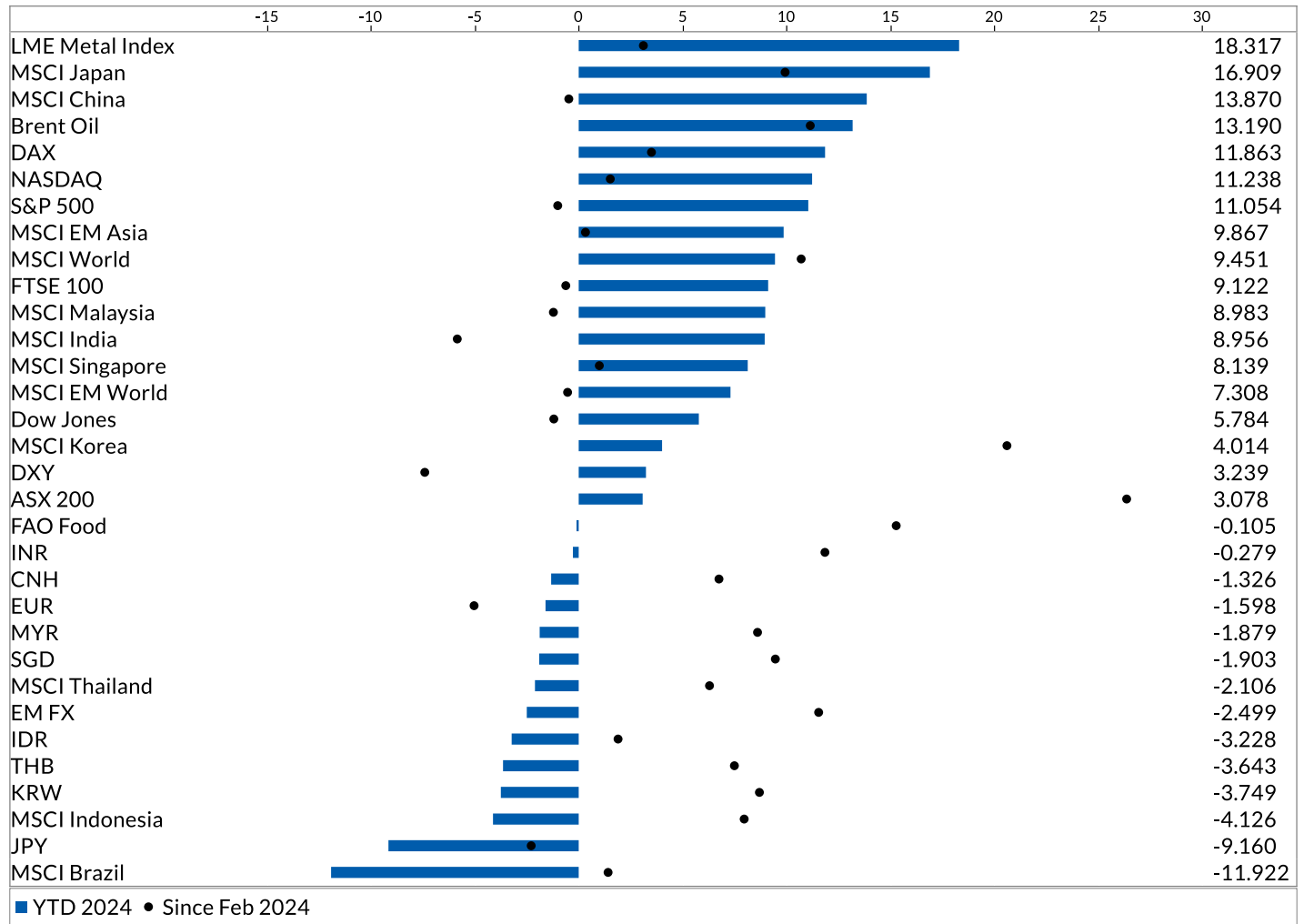
- ◆ **We recognise three factors that suggest market watchers may have been too quick to jump on the FFR cut wagon.** Recent data indicates that US inflation stays sticky for the remainder of 2Q24, which could persist into 2H24. We see no impetus for the US Federal Reserve to surprise with an earlier-than-expected cut against our Dec FFR cut base case assumption; (1) US headline inflation, while it has been within market consensus, is still too high for comfort and threatens a year-end price pressure of above 3.0%. Furthermore, (2) US core PCE inflation may see upside bias, especially from last night's unexpected surge in US import prices. US import prices traditionally lead US core PCE inflation by two to three months (see Figures 39 & 40) surged 1.1% YoY in April, against market consensus of 0.4% YoY, with sequential growth coming in hot at +0.9% MoM. Lastly, (3) recent Fedspeak continues its high-for-longer rhetoric - Cleveland Fed President Loretta Mester, New York Fed President John Williams and Richmond Fed President Thomas Barkin argued it may take longer for inflation to reach the Fed's 2% target.
- ◆ **Regarding the aforementioned three reasons, our view for only one FFR cut by end-year remains unchanged,** with the balance of risks magnified towards no rate cuts. We continue to think that market pricing return to two rate cuts is too myopic and likely to be repriced back to one-to-zero rate cuts by the end of the year when the market realises that global inflation is here to stay. We remain of the view for US core PCE inflation to see a risk of being entrenched around the 3.0% handle in 2H24, on the assumption that inflation momentum continues to trend at current levels in the year ahead, with higher commodity prices (energy, food, metals) to materialise (See Figure 27).
- ◆ **On the implications on DXY and UST 10Y yields, however, we recognise that technical indicators dominate for now,** with market watchers likely to dwell on recent tame US inflation prints. DXY will likely range trade around 103 - 105 in the coming week, although our quarter-end target for DXY to approach 110 remains intact. For our technical views on the DXY, please read our [FX daily report](#) (17 May 2024). Market watchers quickly returned to being indecisive over Sept FFR cuts, with swap pricing pencilling only a 54% chance for a 25bps reduction, likely as a reaction to the recent Fedspeak and higher-than-expected US import prices. For UST 10Y yields, further pricing in FFR cuts in September will continue to depress yields. Still, we note that CFTC net-short positions (Figure 9) remain very elevated, suggesting that some yield stickiness may play out in the immediate term ahead, with our end-2Q24 forecast to see 10Y yields at 4.5 - 4.8%.
- ◆ **On China, we see further signs of economic strength in April, after the initial softness in 1Q24, given seasonal factors (see Figures 29 - 33).** China's externally-facing industries have continued to recover further, with IPI and manufacturing PMI readings turning north after the initial softness in early 1Q24. Consumer confidence has remained relatively unchanged, but real urban disposable income per capita has continued to climb in 1Q24, suggesting that improved domestic indicators have primarily benefited the real economy. Similarly, commodity consumption has been supported, a leading sign that China's growth patterns remain resilient, albeit likely to also inject global price inflation. We are also seeing very early signs that property price momentum will bottom, albeit we think it is too early to tell if this will persist.

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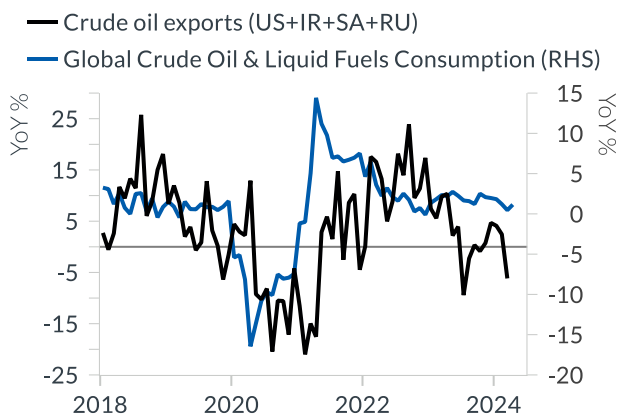
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Figure 1: YTD 2024 total return – Metal prices rising with a vengeance, while Brent’s recent decline may be temporal. We remain overweight on US equities, marketweight fixed income and underweight cash



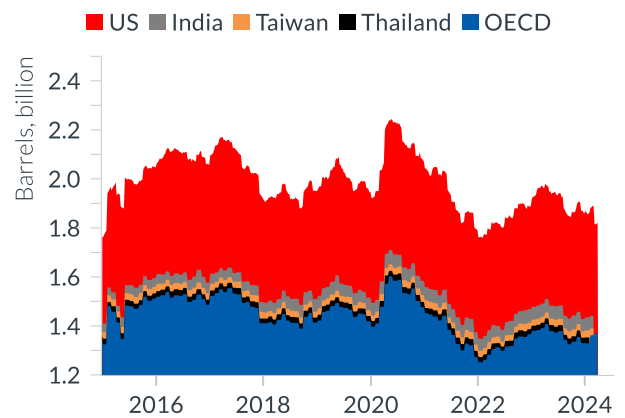
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

Figure 3: ... global inventories remain ample, although lower exports may mean that oil prices may stay strong



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	10.08	7.40	2.65	155.242	151.647	127.516
CHF per USD	7.31	1.05	0.26	0.904	0.941	0.837
TWD per USD	4.84	3.14	0.60	32.147	32.479	29.668
KRW per USD	3.90	2.27	0.14	1347.290	1361.825	1222.444
PHP per USD	3.86	4.03	2.44	57.537	57.146	53.946
THB per USD	3.78	2.52	-0.33	36.221	37.069	32.704
IDR per USD	3.34	5.94	0.36	15925.050	15946.000	14652.765
DXY	3.08	1.55	0.00	104.500	107.000	99.770
AUD per USD	2.04	-0.33	-2.35	1.498	1.590	1.408
SGD per USD	1.94	-0.59	-0.19	1.346	1.374	1.308
MYR per USD	1.92	0.31	-0.88	4.683	4.793	4.245
EUR per USD	1.62	0.37	-0.73	0.920	0.955	0.890
CNH per USD	1.34	-0.69	-0.41	7.225	7.342	6.713
GBP per USD	0.56	0.33	-0.29	0.789	0.845	0.762
INR per USD	0.28	1.73	0.12	83.482	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	53.1	7.7	2.92	3.33	2.34
United States	52.2	15.2	4.77	5.22	3.77
Indonesia	47.3	54.5	6.86	6.91	5.62
United Kingdom	31.1	10.2	4.27	5.48	3.17
S. Korea*	22.8	6.1	3.37	4.14	3.12
Singapore	8.9	-11.7	3.35	3.73	2.87
Malaysia*	7.9	5.2	3.54	3.69	3.31
Thailand	0.1	16.5	2.33	2.62	1.53
India	-1.7	2.8	7.05	7.39	6.80
China	-36.9	-8.8	1.82	2.47	2.07

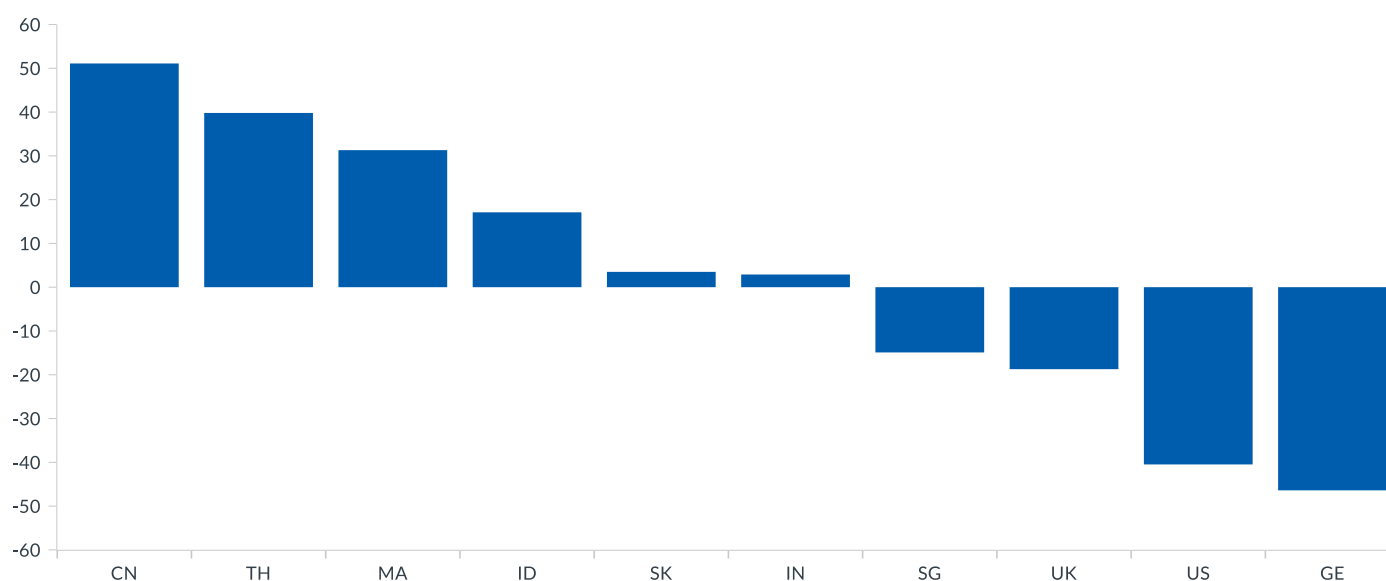
Source: Macrobond, RHB Economics & Market Strategy *Malaysia * Korea 3Y Bonds, YTD & QTD figures are in bps

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

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	54.8	14.6	4.08	4.74	3.00
Singapore	50.5	10.6	3.20	3.50	2.66
United States	48.8	16.7	4.37	4.99	3.31
Germany	43.8	16.2	2.46	2.97	1.89
Indonesia	40.4	16.5	6.86	7.22	6.16
S. Korea	27.0	4.2	3.45	4.40	3.16
Malaysia	12.6	0.2	3.86	4.16	3.65
Thailand	5.5	22.9	2.73	3.35	2.26
India	-10.3	2.9	7.08	7.44	6.96
China	-23.1	3.7	2.33	2.92	2.54

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

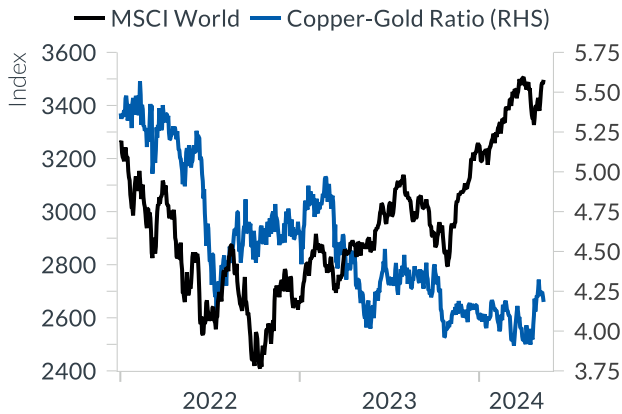
Figure 7: Recent decline in US 10Y yields magnified US 2-10Y negative spread towards 40bps (from prior 30bps at start of May)



Source: Macrobond, RHB Economics & Market Strategy

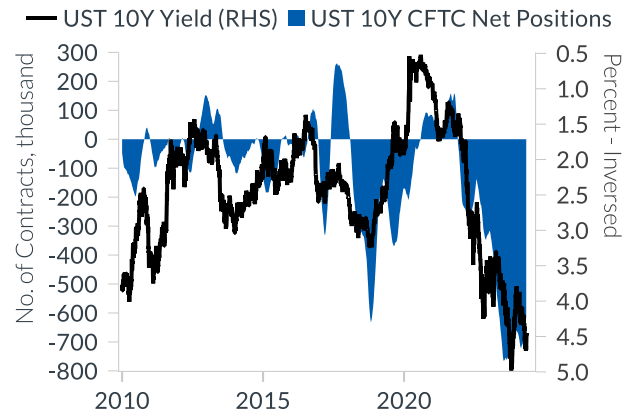
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Figure 8: Short-covering quickly ensued after the profit-taking in April



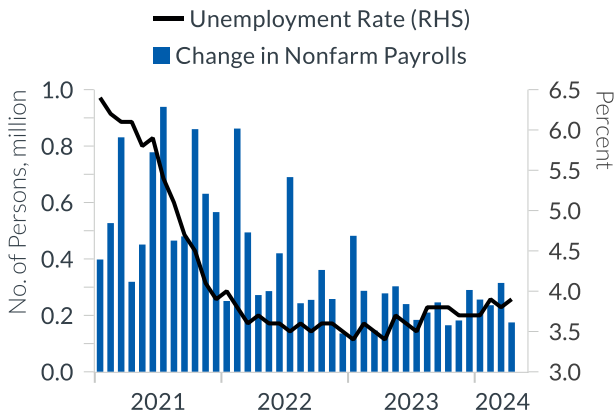
Source: Macrobond, RHB Economics & Market Strategy

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



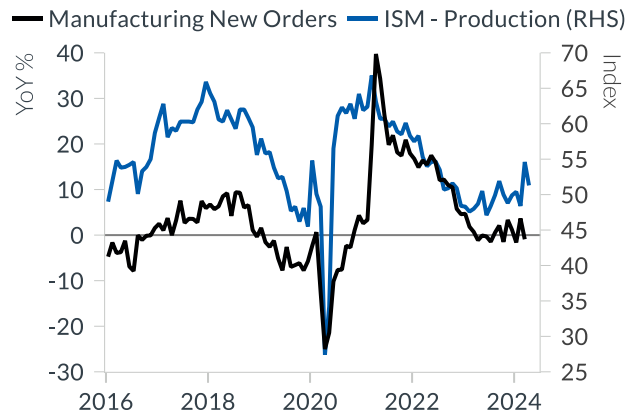
Source: Macrobond, RHB Economics & Market Strategy

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



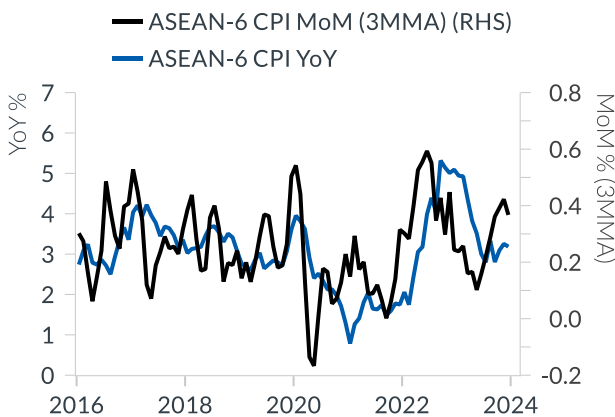
Source: Macrobond, RHB Economics & Market Strategy

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



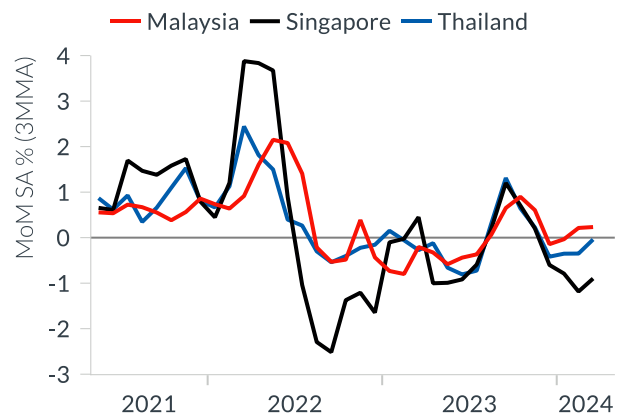
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

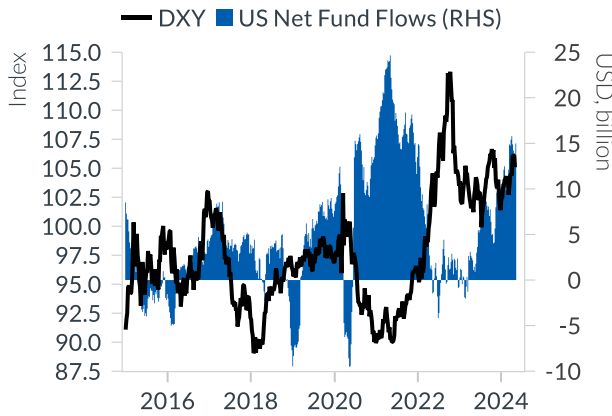
Figure 13: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

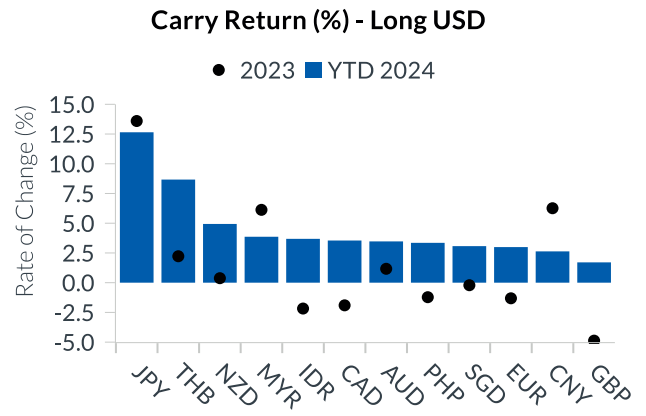
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Figure 14: High for longer rates likely led to more fund inflows into the US, thus supporting DXY...



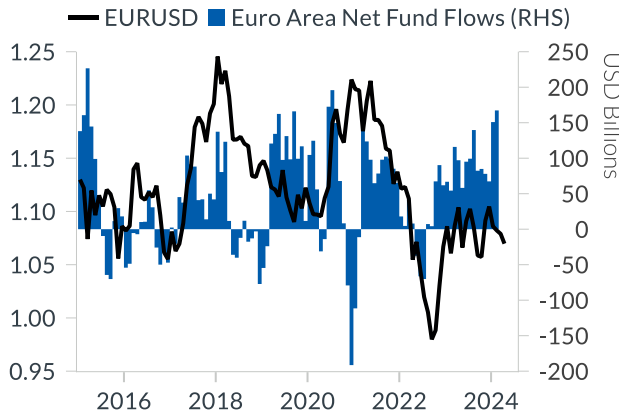
Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



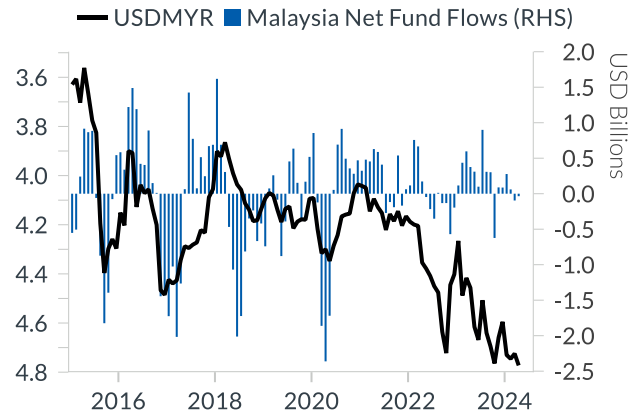
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



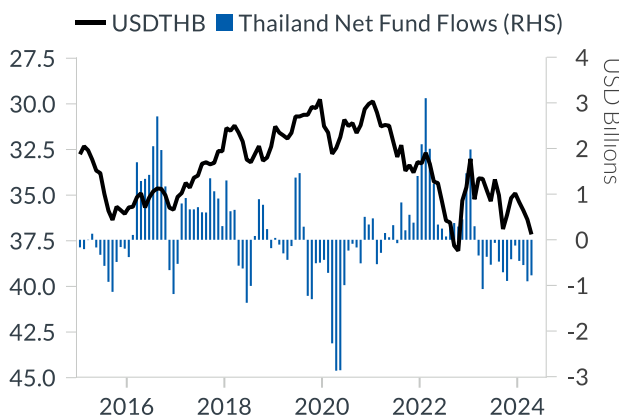
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



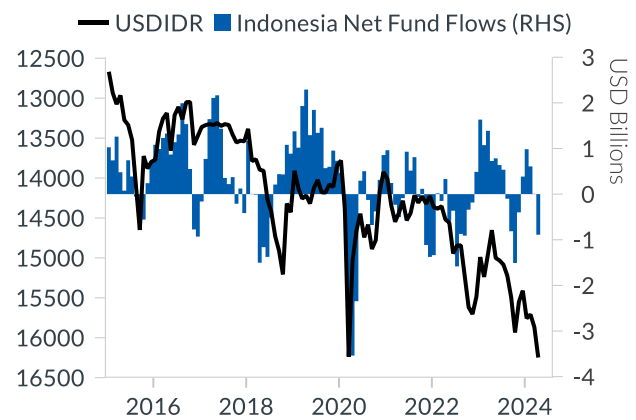
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

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



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

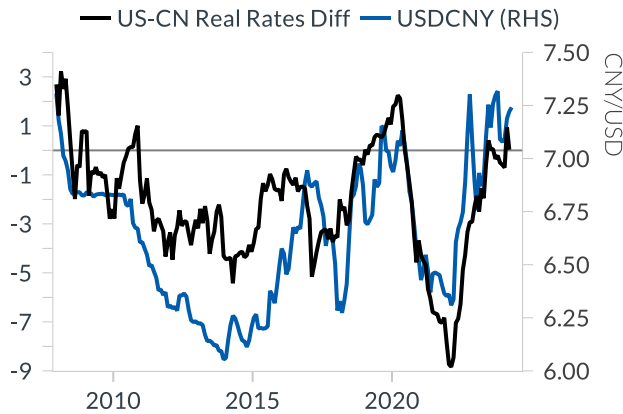
Figure 19: ... while BI's rate hike may not mean higher fund inflows



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

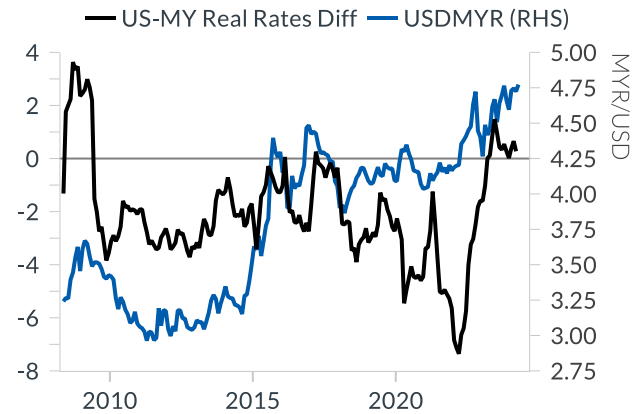
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Figure 20: US-CN real rates differentials suggest USDCNY to move towards 7.0 by end 2024



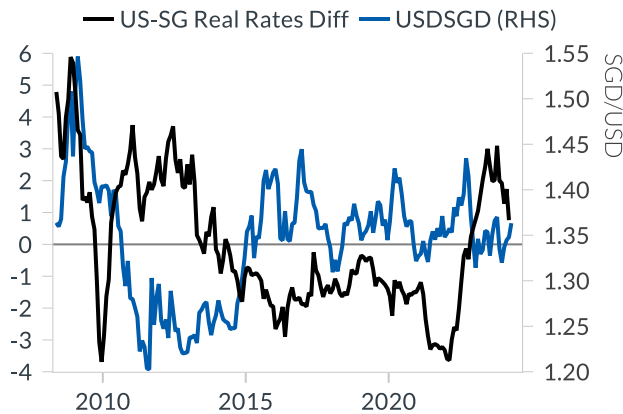
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: US-MY real rates is elevated on higher Malaysia's inflation



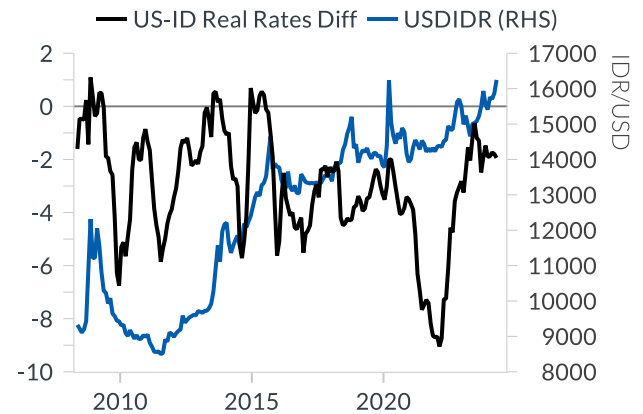
Source: Macrobond, RHB Economics & Market Strategy

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



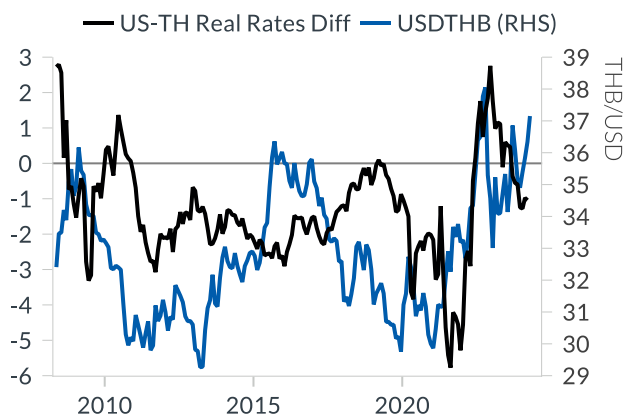
Source: Macrobond, RHB Economics & Market Strategy

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



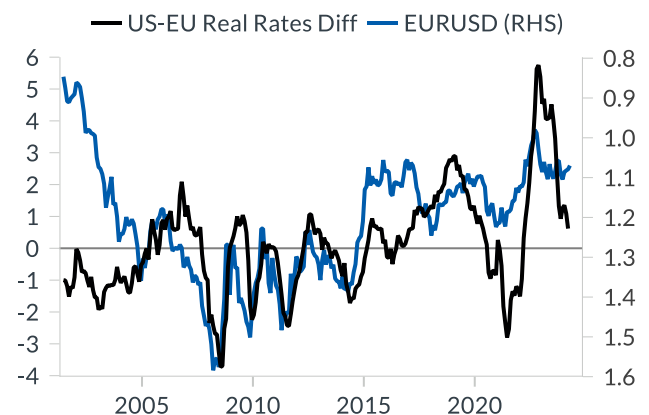
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

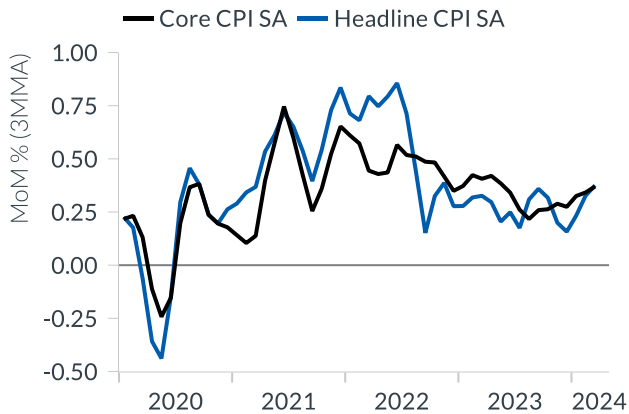
Figure 25: EURUSD remains well-behaved against US-EU 3M rate spread



Source: Macrobond, RHB Economics & Market Strategy

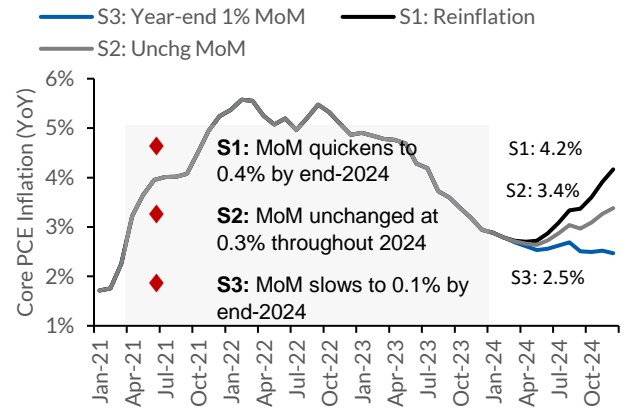
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Figure 26: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...



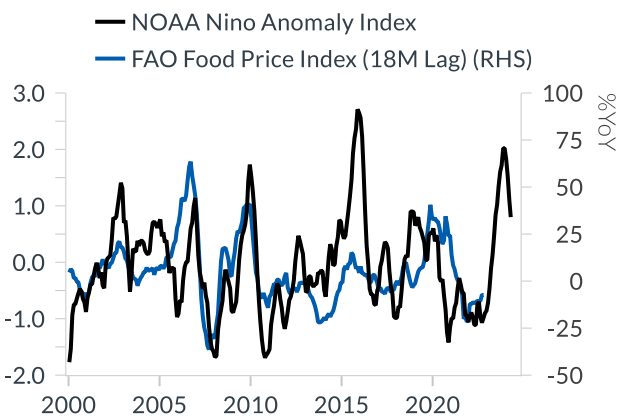
Source: Macrobond, RHB Economics & Market Strategy

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



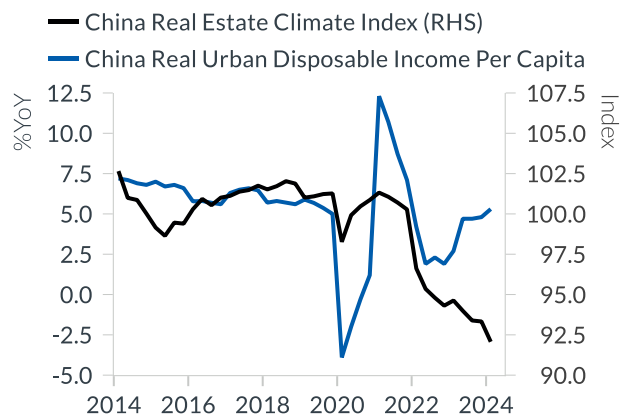
Source: Macrobond, RHB Economics & Market Strategy

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



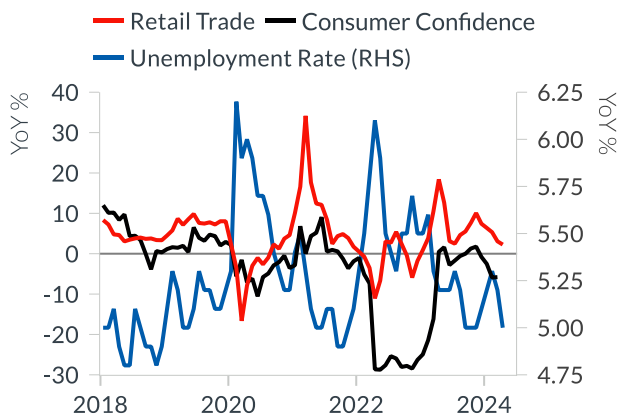
Source: Macrobond, RHB Economics & Market Strategy

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



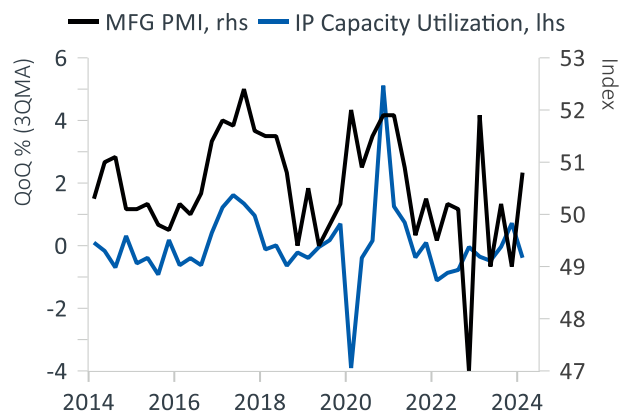
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: Chinese-centric high-frequency data has weakened in Feb...



Source: Macrobond, RHB Economics & Market Strategy

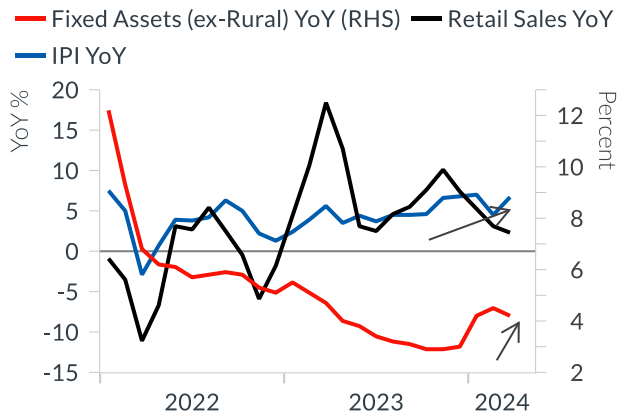
Figure 31: ... but externally-facing industries have improved, with MFG PMI surging at its latest data...



Source: Macrobond, RHB Economics & Market Strategy

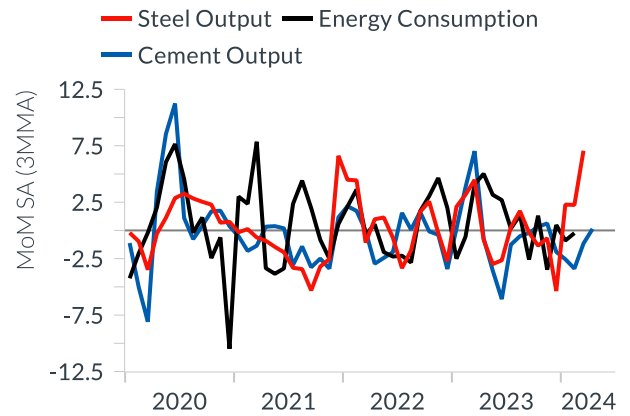
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Figure 32: ... while industrial production (IPI) growth rising to close to new highs



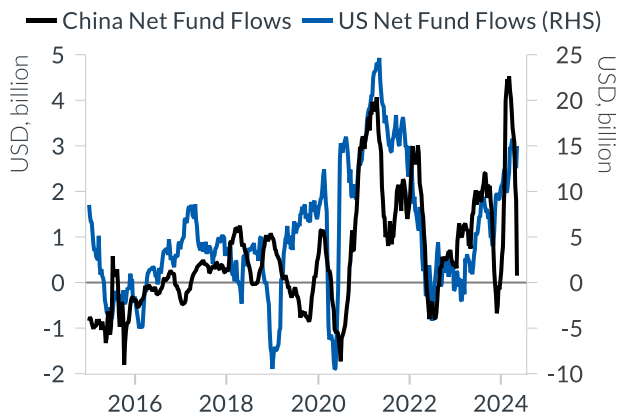
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: China commodity consumption has picked up very strongly, a sign of a recovering economy



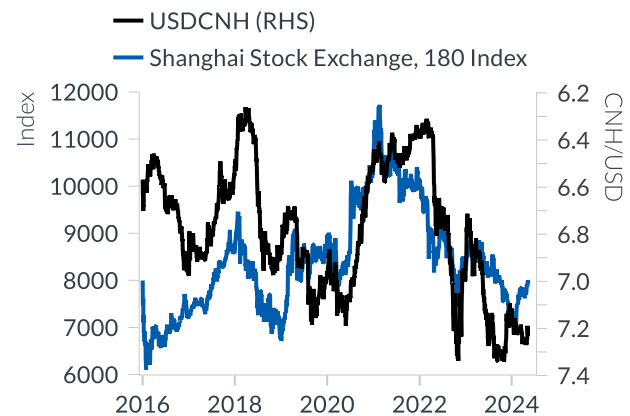
Source: Macrobond, RHB Economics & Market Strategy

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



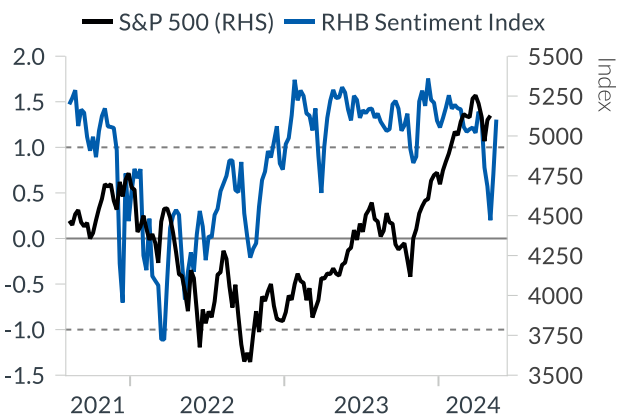
Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



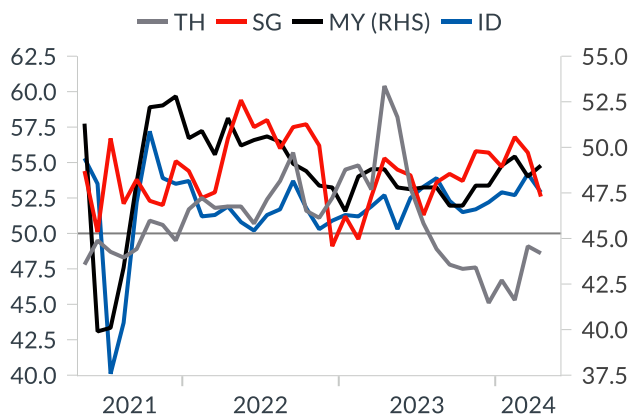
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

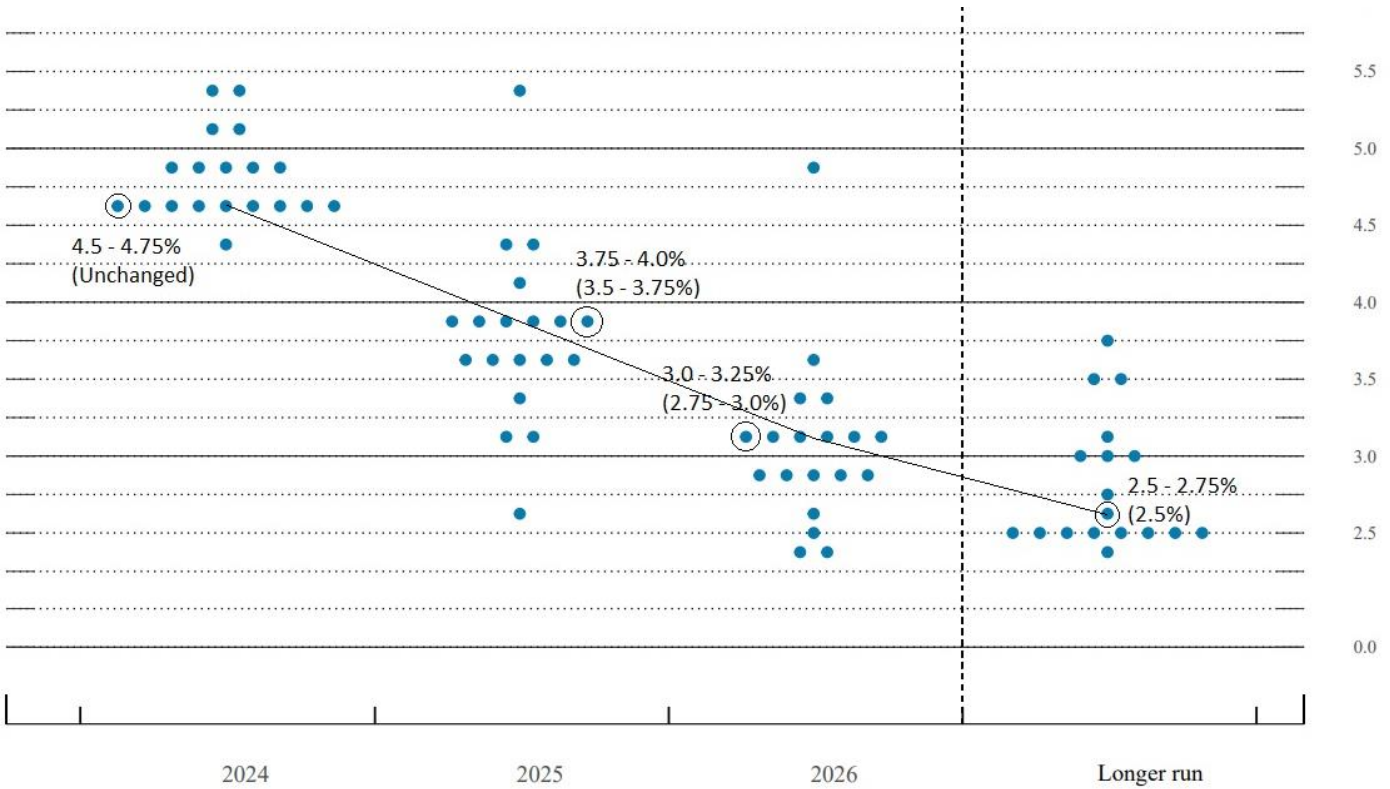
Figure 37: PMI (whole economy) numbers in Malaysia is up, against a broader slowdown in ASEAN



Source: Macrobond, RHB Economics & Market Strategy

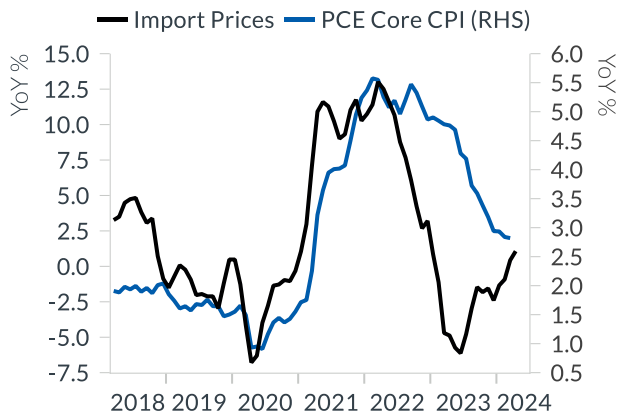
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Figure 38: March median dot-plot chart signalled 3 cuts in 2024, but revised rates higher in 2025 - 2026



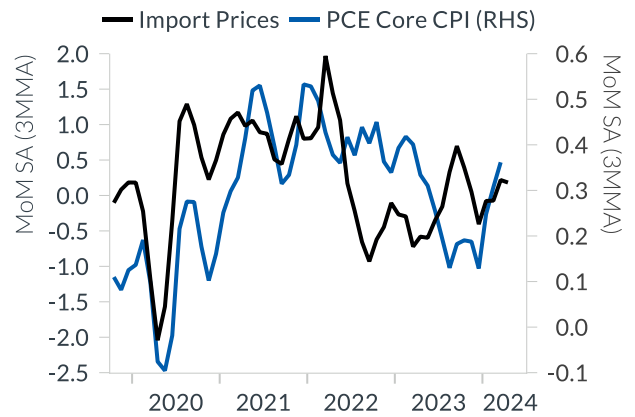
Source: US Federal Reserve, RHB Economics & Market Strategy

Figure 39: US core PCE inflation appears to lag import prices by 2 - 3 months...



Source: Macrobond, RHB Economics & Market Strategy

Figure 40: ... suggesting that higher price momentum is to be expected into the coming months



Source: Macrobond, RHB Economics & Market Strategy

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