RHB

PathFinder

SEPARATE THE NOISE FROM REALITY

December 2023 | Global Economics & Market Strategy

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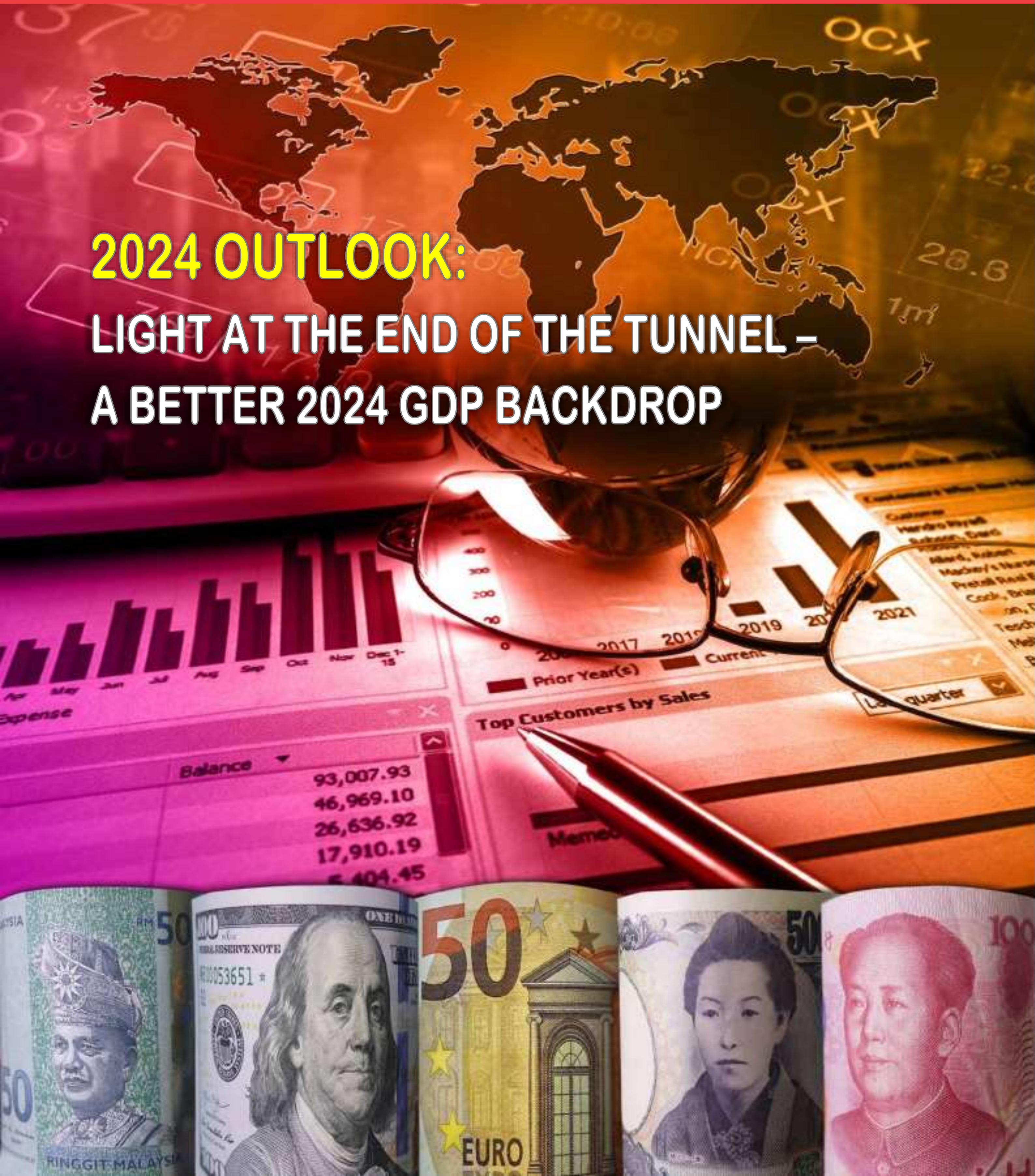
2024 OUTLOOK:

LIGHT AT THE END OF THE TUNNEL – A BETTER 2024 GDP BACKDROP



08 December 2023

Path Finder – Separate the Noise from Reality

Light at The End of the Tunnel – A Better 2024 GDP Backdrop

- **We expect global growth to accelerate in 2024. The catalysts for our views are threefold: (1) rate normalisation may materialise in 2H24; (2) dissipation of inflation risks over the same period towards key central banks' objectives; and (3) China's potential economic recovery in 2024.**
- **We keep our global asset allocation strategy as overweight (OW) Equities, market weight (MW) Fixed Income and underweight (UW) Cash. For Malaysia, we change our asset allocation strategy to OW Equities, MW Fixed Income, UW Cash.**
- **In fixed income: In 1Q24, pay in UST10YR swaps and sell UST10YR bonds on rallies. In the US and Southeast Asia, we prefer credit relative to local currency government bonds. In foreign exchange, we forecast the DXY to weaken post 1Q24, while SGD will remain the outperformer across ASEAN.**

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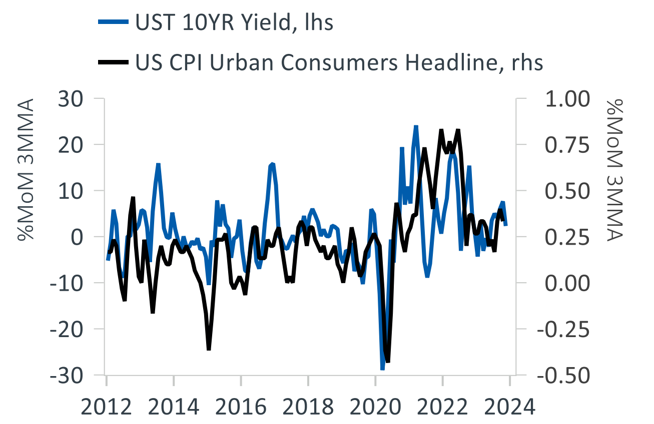
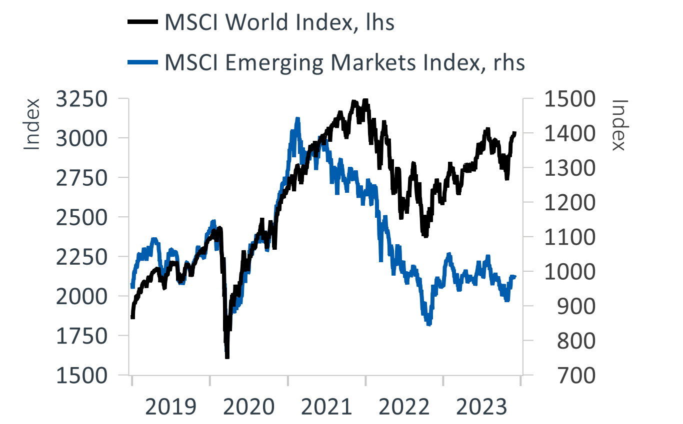
Figure 1: US inflation will re-accelerate into 1Q24, UST10YR headed to 4.3 – 4.5% in 1Q24



Source: Macrobond, RHB Economics and Market Strategy

Figure 2: Emerging markets underperformance likely to continue in 4Q23, but may turn north in 2024



Source: Macrobond, RHB Economics and Market Strategy

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Figure 3: RHB government bond yield forecasts versus Bloomberg consensus forecasts

RHB Government Bond Yield Forecasts					Bloomberg Consensus				
10YR Government Bond	1Q24	2Q24	2H24	2025	10YR Government Bond	1Q24	2Q24	2H24	2025
United States	4.3 - 4.5	4.0 - 4.3	3.5 - 4.0	3.5 - 4.0	United States	4.33	4.19	3.91 – 4.03	3.76 – 3.83
Malaysia	3.80	3.75	3.75	3.65- 3.85	Malaysia	3.81	3.71	3.59 - 3.65	3.25 – 3.55
Singapore	3.10	3.10	3.00	2.50- 2.70	Singapore	2.70	2.70	2.55 – 2.70	2.70 – 2.85
Indonesia	6.60	6.50	6.20	6.10- 6.30	Indonesia	6.92	6.90	6.52 – 6.72	6.42 – 6.54
Thailand	2.65	2.65	2.55	2.45- 2.65	Thailand	3.05	3.15	3.01 – 3.15	2.53 – 3.03

Source: Bloomberg, RHB Economics & Market Strategy
Note: Above forecasts are on a quarterly average basis

Figure 4: RHB USD/Asia forecasts versus Bloomberg consensus forecasts

RHB FX Forecasts					Bloomberg Consensus				
G10FX	1Q24	2Q24	2H24	2025	G10FX	1Q24	2Q24	2H24	2025
EUR	1.03 - 1.07	1.06 - 1.1	1.07 - 1.16	1.12 - 1.18	**EUR**	1.0800	1.1000	1.1150	1.1500
JPY	147 - 153	143 - 149	137 - 148	126 - 134	**JPY**	145.00	141.00	138.00	130.00
GBP	1.19 - 1.24	1.22 - 1.27	1.24 - 1.34	1.23 - 1.31	**GBP**	1.2400	1.2600	1.2800	1.3200
AUD	0.64 - 0.66	0.66 - 0.69	0.67 - 0.73	0.70 - 0.74	**AUD**	0.6600	0.6800	0.6950	0.7200
NZD	0.59 - 0.61	0.61 - 0.63	0.62 - 0.68	0.65 - 0.69	**NZD**	0.6100	0.6200	0.6350	0.6400
AxJ FX	**1Q24**	**2Q24**	**2H24**	**2025**	**AxJ FX**	**1Q24**	**2Q24**	**2H24**	**2025**
CNH	7.2 - 7.5	7.0 - 7.3	6.7 – 7.1	6.5 - 6.9	**CNH**	7.1500	7.1400	7.0100	6.7000
IDR	15,500 - 16,200	15,300 – 16,000	15,000 – 15,600	14,100 – 15,000	**IDR**	15,350	15,200	15,050	14,900
MYR	4.6 - 4.9	4.5 - 4.8	4.3 - 4.6	4.2 - 4.5	**MYR**	4.6000	4.5500	4.4750	4.3000
SGD	1.35 - 1.40	1.30 - 1.35	1.25 - 1.31	1.25 - 1.35	**SGD**	1.3400	1.3200	1.3100	1.3200
THB	35.5 - 37.0	34.5 - 36.0	33.5 - 35.0	32.0 - 34.0	**THB**	34.70	34.30	33.90	32.50
VND	24,100 – 25,100	23,400 – 24,350	22,600 – 23,500	21,800 – 23,200	**VND**	24,000	23,900	23,625	N/A

Source: Bloomberg, RHB Economics & Market Strategy
Note: The above forecasts are trading ranges for end of the quarter

Figure 5: RHB real GDP growth forecasts versus Bloomberg consensus forecasts

RHB Real GDP Growth Forecasts					Bloomberg Consensus				
% YoY	2021	2022	2023F	2024F	% YoY	2021	2022	2023F	2024F
US	5.9	2.1	2.5	2.2	US	5.9	2.1	2.4	1.2
Western Europe	5.8	3.6	0.6	1.7	Western Europe	5.8	3.6	0.6	0.7
Japan	2.1	1.0	1.9	1.5	Japan	2.1	1.0	1.7	0.9
China	8.4	3.0	5.0	5.0	China	8.4	3.0	5.2	4.5
ASEAN					**ASEAN**				
Indonesia	3.7	5.3	5.1	5.0	Indonesia	3.7	5.3	5.0	5.0
Malaysia	3.1	8.7	4.1	4.6	Malaysia	3.1	8.7	4.0	4.5
Singapore	8.9	3.6	1.5	3.0	Singapore	8.9	3.6	0.9	2.3
Thailand	1.6	2.6	2.5	4.0	Thailand	1.6	2.6	2.5	3.5
Vietnam	2.6	8.0	4.7	6.4	Vietnam	2.6	8.0	4.7	6.2

Source: Bloomberg, RHB Economics & Market Strategy

Figure 6: RHB CPI inflation forecasts versus Bloomberg consensus forecasts

RHB CPI Inflation Forecasts					Bloomberg Consensus				
% YoY	2021	2022	2023F	2024F	% YoY	2021	2022	2023F	2024F
US	4.7	8.0	4.2	2.8	US	4.7	8.0	4.1	2.7
Western Europe	2.5	8.1	5.7	2.5	Western Europe	2.5	8.1	5.7	2.7
Japan	-0.2	2.4	3.1	2.0	Japan	-0.2	2.4	3.2	2.2
China	0.9	2.0	0.5	2.2	China	0.9	2.0	0.4	1.5
ASEAN					ASEAN				
Indonesia	1.6	4.2	3.8	3.3	Indonesia	1.6	4.2	3.7	3.0
Malaysia	2.5	3.3	2.6	3.3	Malaysia	2.5	3.3	2.6	2.5
Singapore	2.3	6.1	4.9	3.5	Singapore	2.3	6.1	4.8	3.1
Thailand	1.2	6.1	1.0	2.0	Thailand	1.2	6.1	1.4	1.9
Vietnam	1.8	3.2	3.4	3.8	Vietnam	1.8	3.2	3.1	3.2

Source: Bloomberg, RHB Economics & Market Strategy

Figure 7: RHB policy interest rate forecasts versus Bloomberg consensus forecasts

RHB Policy Rate Forecasts					Bloomberg Consensus				
%	2021	2022	2023F	2024F	%	2021	2022	2023F	2024F
US	0.25	4.50	5.25 - 5.50	5.00-5.25	US	0.25	4.50	5.50	4.45
Western Europe	0.02	2.60	4.50	3.75	Western Europe	0.02	2.60	4.47	3.74
Japan	0.00	0.00	0.00	0.00	Japan	0.00	0.00	0.00	0.10
China	3.80	3.65	4.30	4.30	China	3.80	3.65	4.30	N/A
ASEAN					**ASEAN**				
Indonesia	3.50	5.50	6.00	5.50	Indonesia	3.50	5.50	6.05	5.40
Malaysia	1.75	2.75	3.00	3.00	Malaysia	1.75	2.75	3.00	2.95
Thailand	0.50	1.25	2.50	2.50	Thailand	0.50	1.25	2.50	2.40
Vietnam	4.00	6.00	4.50	4.00	Vietnam	4.00	6.00	4.40	4.20

Source: Bloomberg, RHB Economics & Market Strategy

Fields of Green and Red Roses – Looking Forward to a Better 2024

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The five themes global investors will focus on in 2024 are:

1) **We keep our global asset allocation strategy as overweight (OW) Equities, market weight (MW) Fixed Income and underweight (UW) Cash. For Malaysia, we revise our asset allocation strategy to OW Equities, MW Fixed Income, and UW Cash, from our previous view of OW Fixed Income, MW Cash and UW Equities.**

2) **We expect global growth to accelerate in 2024. We maintain our above-consensus forecast for the US and China economies to expand by 2.2% and 5.0% in 2024, respectively.**

3) **Watch out for potential re-acceleration of global inflation rates on the back of higher commodity prices and global demand-pull inflation drivers in 2024. We continue to see an upside bias for crude oil and food prices.**

4) **Our base case is for peak US Fed Fund Rate (FFR) at 5.50 – 5.75%, with the balance of risk for the FFR already peaked at 5.25 – 5.50%. The peak rate is expected to materialise by 1Q24 before normalisation to 5.0 – 5.25% by 2H24.**

5) **Potential higher US FFR rates in 1Q24 will likely refuel dollar strength then. We stay positive on the DXY and forecast it at an average range of 105 – 110 in 1Q24, while rate normalisation may translate into a potential weakening to below 100 in 2H24.**

We keep our global asset allocation strategy as OW Equities, MW Fixed Income and UW Cash. However, for 1Q24, we expect some consolidation in US equities by 5 – 10% as higher global yields resurface on the back of a potential FFR hike over the same period. Year-to-date, US equities have rallied further in 4Q23 as market expectations fade for an FFR hike in its upcoming December Federal Open Market Committee (FOMC) meeting. At this juncture, we pencil a 30% probability for a December FFR hike, and should the US Federal Reserve (Fed) pause, a hike to a peak FFR rate of 5.50 – 5.75% will take place in 1Q24. In the US and Southeast Asia, we prefer credit relative to local currency government bonds.

On the back of our expectations, our end-2023 UST10YR yield forecast is revised to around 4.0 – 4.5% (against our previous outlook of 5.0%). However, the quarter-to-date average is at 4.69%, in line with our forecast of 4.70% cited in our 4Q23 Path Finder report. We look for higher UST10YR yields to 4.3 – 4.5% in 1Q24 based on three catalysts: (1) FFR hike by 25bps in 1Q24, which should lift in tandem US government yields; (2) continued reduction of the Fed's balance sheet size in the next year; while (3) auctions of longer-dated debt will continue to increase, albeit at a more "moderate rate"[1]. As such, for the same period in 1Q24, we maintain our view to pay in UST10YR swaps and sell UST10YR bonds on rallies.

For Malaysia, we revise our asset allocation strategy to OW Equities, MW Fixed Income, and UW Cash, from our previous view of OW Fixed Income, MW Cash and UW Equities. We regard Malaysia's Budget 2024 to be positive for Malaysia's equities in the coming year. Budget 2024 is considered mildly expansionary, with a substantial allocation for the development budget with support to the priority sectors and targeted groups. Out of the total allocation of RM398.8bn, the development budget allocation stood at RM90bn, higher than the RM83bn allocated for 2023. As such, we are positive on the Kuala Lumpur Composite Index in 2024, whereas for fixed income, we see nominal returns of around 4.1% as we expect bond yields to remain stable on the back of a stationary policy rate.

Separately, we see early signs of China's economic recovery; we still advocate a cautiously optimistic approach amid China's real estate headwinds and the continued risks of corporate defaults. Our high-conviction trade ideas, on the back of China's economic recovery in 2024, are for (1) USD-CNH to stage a recovery as early as 2Q24 and range 6.7 – 7.1 per USD in 2H24 and (2) Shanghai Stock Exchange Composite Index (SSE) to rally by early 2024 and gradually tilt towards the 3,300 handle. We expect ASEAN to be a beneficiary of China's return, on the back of a stronger trade and tourism prognosis. On top of positive spillovers to ASEAN's services industries, we also like the electronic, transport, and chemicals industries, given China's empirical demand in the last decade.

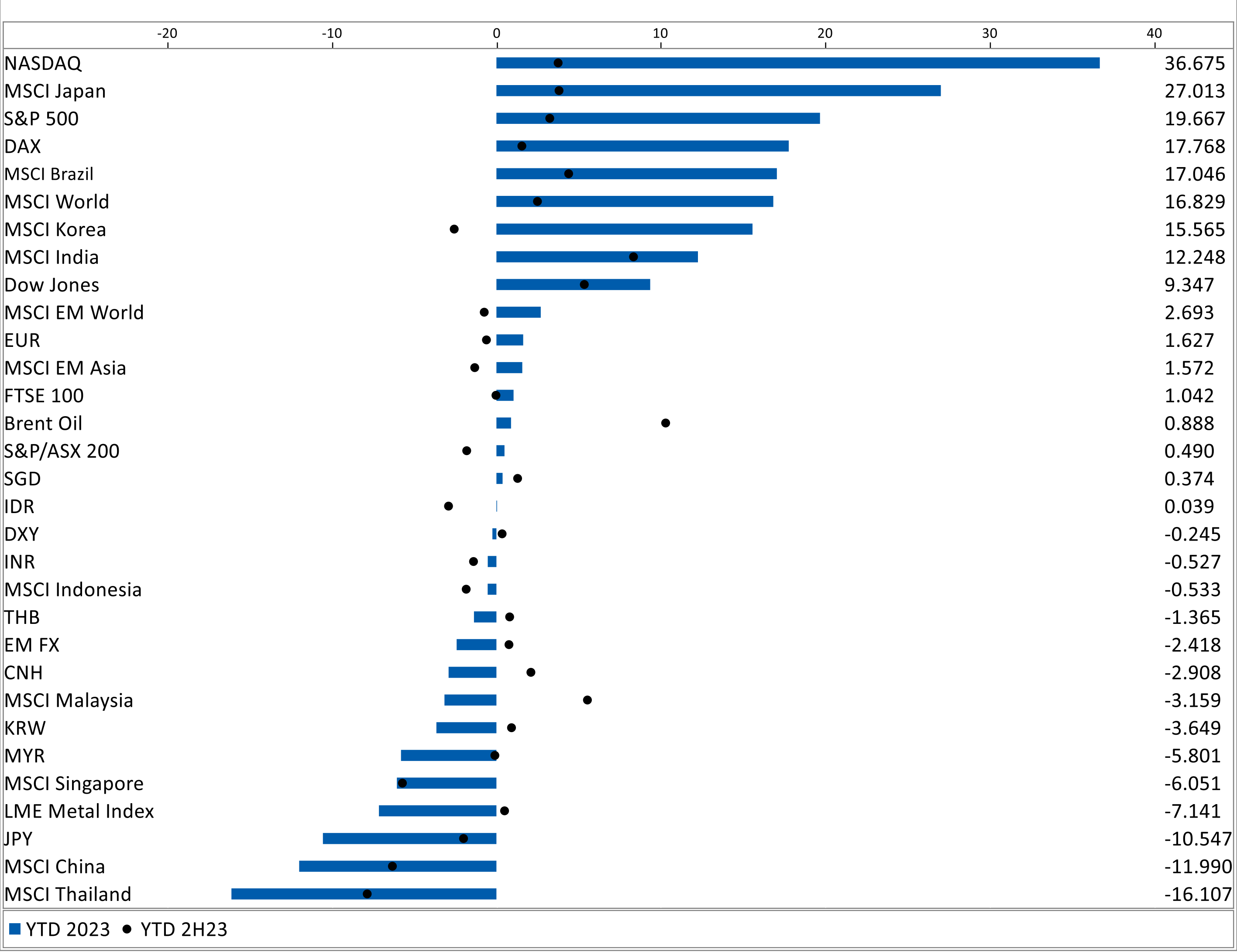
[1] US Department of the Treasury, Remarks at the 2023 Treasury Market Conference, 16 November 2023

Watch out for potential re-acceleration of global inflation rates on the back of higher commodity prices and global demand-pull inflation drivers in 2024. We continue to see an upside bias for crude oil and food prices. At the time of writing, we see stronger demand momentum for crude oil, while global supply remains tight as export momentum slows. On the back of Global+ASEAN economic growth, demand-pull inflation drivers may continue to materialise into the following year. Separately, our proprietary *El Nino*-Food model is pencilling in a strong uptick in global food prices in the next 6 – 12 months, suggesting an upside bias for global inflation in 2024. Should China's economic recovery take form in 2024, it will also mean higher commodity demand, especially for base metals, which may lift import prices for ASEAN's manufacturing-reliant economies.

Our base case is for peak US FFR at 5.50 – 5.75%. We expect the peak rate to materialise by 1Q24, before rate normalisation to 5.0 – 5.25% by 2H24, while the European Central Bank (ECB) refinancing rate will be shaded down to 3.75% (from the current 4.50%). Given our global inflation assumptions, we see three critical implications for the US-centric macroeconomic backdrop: (1) we expect US personal core expenditure (PCE) inflation to re-accelerate into 1Q24, thus suggesting that the US is still not on the path towards the Fed's 2.0% inflation objective; (2) the path of least resistance is still for the US FOMC to raise its FFR by 25bps in 1Q24; and (3) a relatively stronger DXY may be seen given the widening US-ASEAN rate spreads, which have been one of the key driving factors for the dollar in 2023. <u>We stay positive on the DXY and forecast it at an average range of 105 – 110 in 1Q24, while rate normalisation in 2H24 may translate to a weakening bias of 100 – 105 in 3Q24, and 95 – 100 in 4Q24.</u>

We are positive on the MYR outlook for 2024, where the USD/MYR is expected to hover in the 4.3-4.6 range in 2H24 against 4.60 – 4.80 projected in 4Q23. The USD/MYR may see some consolidation as early as 2Q24 on the back of peak FFR by 1Q24, where the positive carry seen in the greenback is expected to dissipate gradually. On the domestic front, improving the Malaysia-centric macroeconomic backdrop coupled with phased fiscal consolidation would provide additional support to the USD/MYR in 2024.

Figure 8: 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



Source: Bloomberg, RHB Economics & Market Strategy

Figure 9: MYR the worst performing currency in Asia ex-Japan YTD against USD, but some reprieve is seen QTD

	YTD 2023 (%)	YTD 2H23 (%)	QTD 2023 (%)	Close	High 2023	Low 2023
JPY per USD	11.79	2.04	-1.26	147.499	151.647	127.516
MYR per USD	6.16	0.09	-0.47	4.673	4.793	4.245
KRW per USD	3.79	-0.91	-3.51	1305.430	1361.825	1222.444
CNH per USD	2.99	-2.05	-2.22	7.126	7.342	6.713
TWD per USD	2.13	0.81	-2.56	31.420	32.479	29.668
AUD per USD	1.74	-0.18	-3.59	1.500	1.590	1.408
THB per USD	1.38	-0.80	-4.90	35.050	37.069	32.704
INR per USD	0.53	1.41	0.22	83.219	83.414	80.988
IDR per USD	-0.04	3.00	-0.06	15483.400	15946.000	14652.765
DXY	-0.21	0.35	-2.78	103.270	107.000	99.770
SGD per USD	-0.37	-1.27	-2.18	1.336	1.374	1.308
PHP per USD	-0.58	0.07	-2.30	55.350	57.146	53.946
EUR per USD	-1.60	0.61	-2.37	0.922	0.955	0.890
GBP per USD	-4.85	0.56	-3.52	0.791	0.845	0.762
CHF per USD	-5.75	-2.56	-4.77	0.872	0.941	0.858

Source: Bloomberg, RHB Economics & Market Strategy

Figure 10: Government 2YR yields have risen year-to-date mostly, although short-covering ensued QTD…

Govt 2Y Yields	YTD 2023	QTD 2023	Last	High 2023	Low 2023
United Kingdom	97.9	-37.3	4.51	5.48	3.17
Thailand	80.9	-9.0	2.44	2.62	1.53
Indonesia	67.0	28.7	6.56	6.91	5.62
India	31.1	13.4	7.27	7.39	6.80
Singapore	28.4	-30.6	3.38	3.73	2.87
S. Korea	26.6	8.6	3.97	4.08	3.38
United States	11.3	-50.5	4.54	5.22	3.77
China	7.4	17.8	2.40	2.47	2.07
Germany	-6.2	-52.2	2.68	3.33	2.34
Malaysia*	-16.8	-8.3	3.48	3.69	3.31

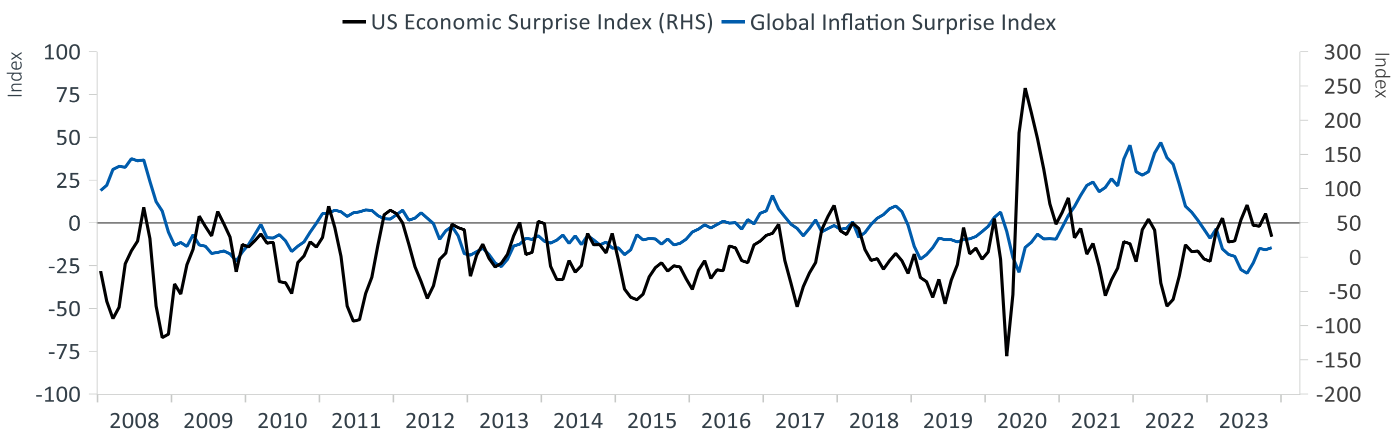
Source: Bloomberg, RHB Economics & Market Strategy

Figure 11: … as global rates near peak, suggesting that 10YR yields may be pressured lower into 2024

Govt 10Y Yields	YTD 2023	QTD 2023	Last	High 2023	Low 2023
S. Korea	54.6	7.0	4.10	4.39	3.17
United Kingdom	47.2	-30.0	4.14	4.74	3.00
United States	32.1	-37.6	4.20	4.99	3.31
Thailand	31.7	-18.8	2.95	3.35	2.26
India	-4.0	7.3	7.29	7.44	6.96
Singapore	-10.5	-41.3	2.97	3.50	2.66
China	-15.6	0.6	2.68	2.92	2.54
Germany	-20.5	-47.8	2.36	2.97	2.02
Malaysia	-22.2	-15.4	3.82	4.16	3.65
Indonesia	-31.7	-29.6	6.60	7.22	6.16

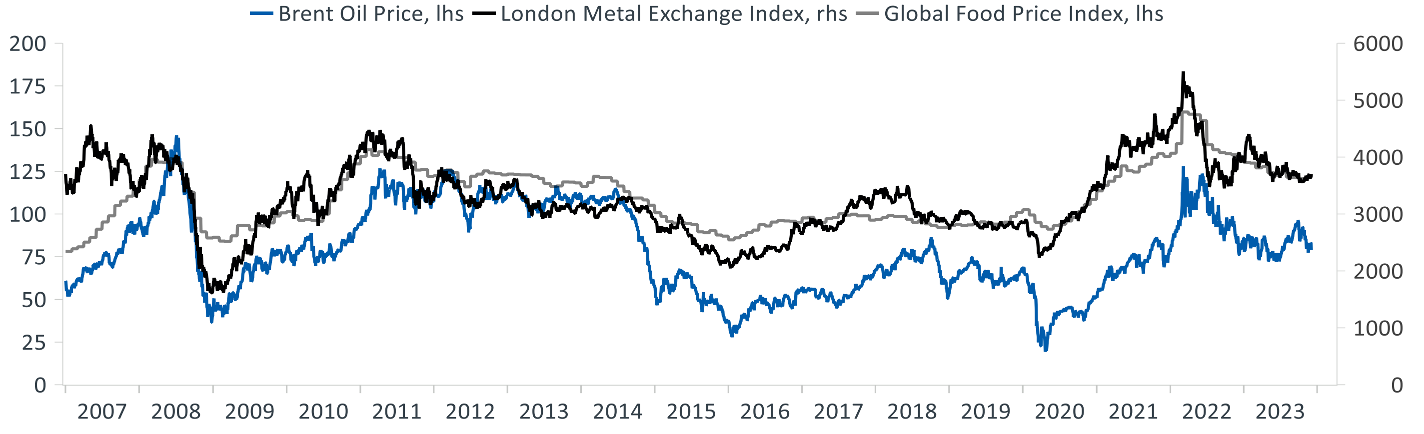
Source: Bloomberg, RHB Economics & Market Strategy

Figure 12: US growth data surprising on the downside recently (should not persist), while inflation is surprising higher



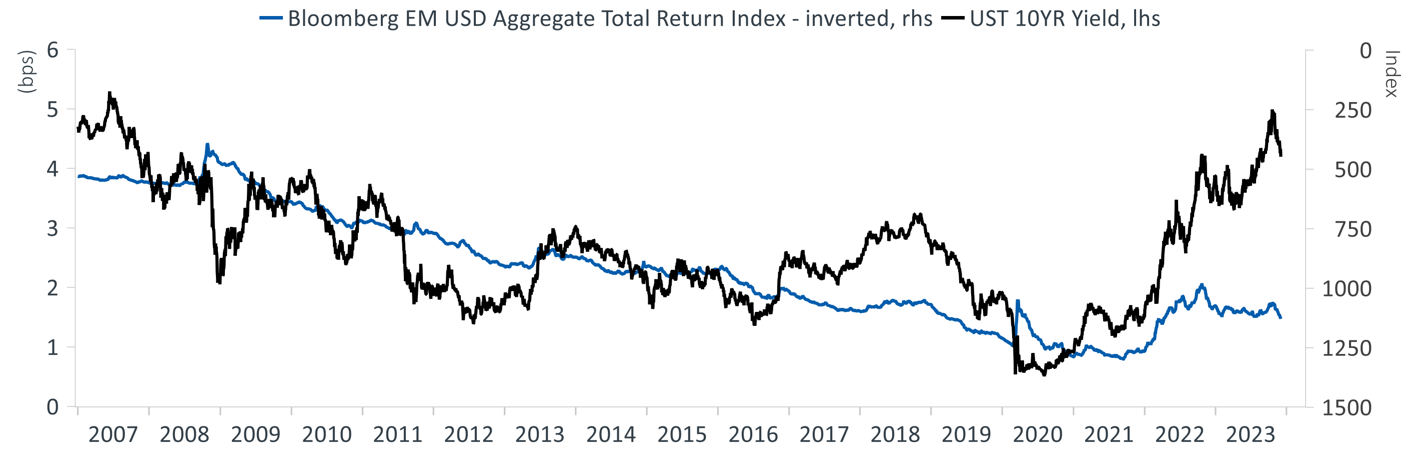
Source: Macrobond, RHB Economics & Market Strategy

Figure 13: Global commodity prices stay supported, which may rise on the back of global+China growth in 2024



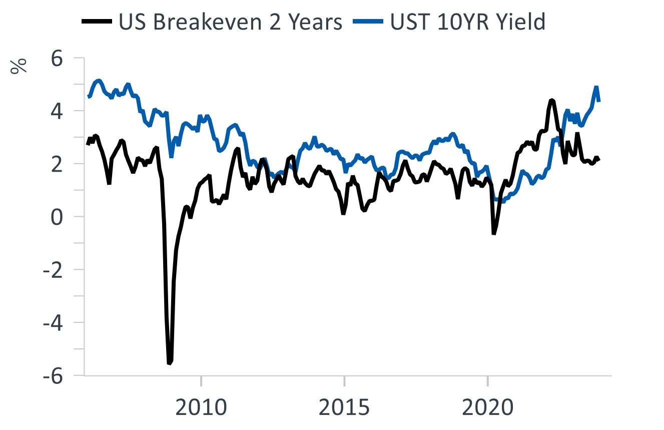
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: EM bond stress is diminishing year-to-date, UST 10YR yields remain elevated



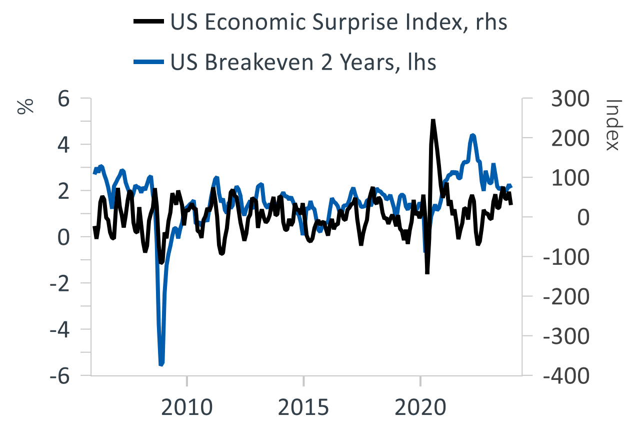
Source: Macrobond, RHB Economics & Market Strategy

Figure 15: US short-term inflation expectations will rise…



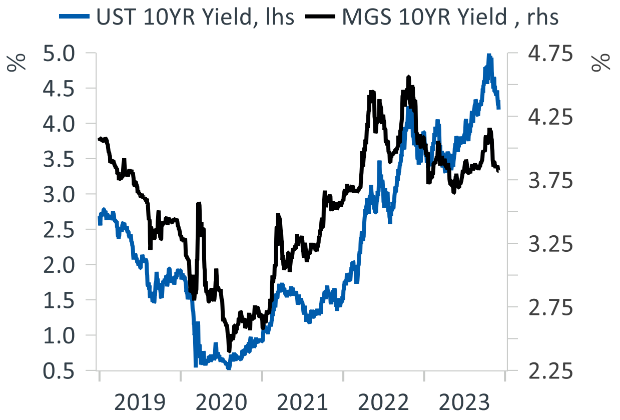
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: …thus suggesting sticky inflation into 1Q24



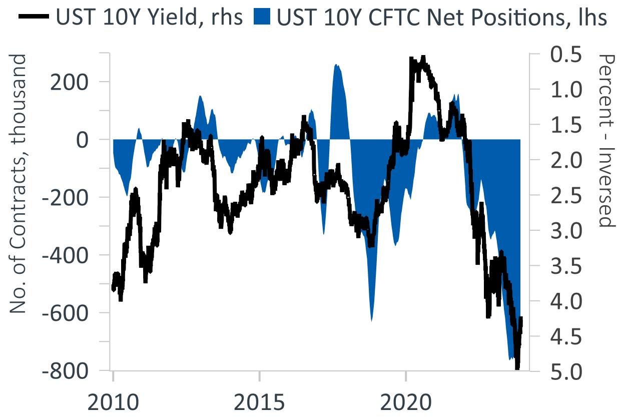
Source: Macrobond, RHB Economics & Market Strategy

Figure 17: MGS10YR following UST10YR yields to some extent



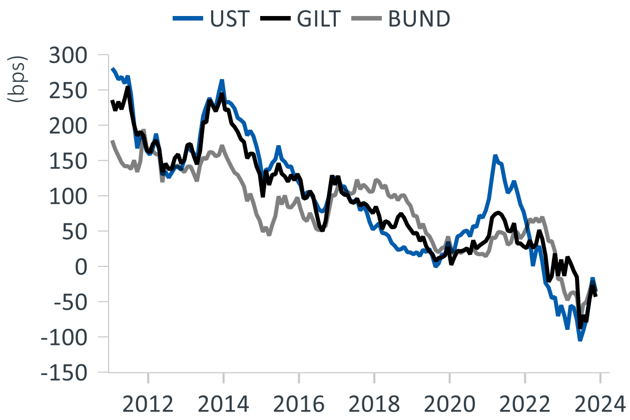
Source: Macrobond, RHB Economics & Market Strategy

Figure 18: Real money accounts positioning in US long-term sovereign bonds down, which suggests yields to go up



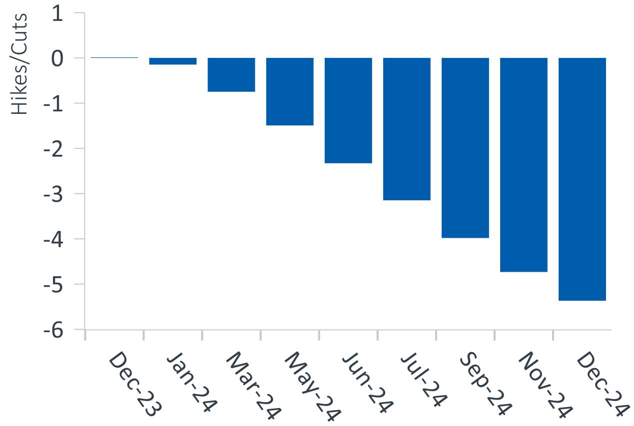
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: Negative 2-10YR yield curves are normalising higher across DM



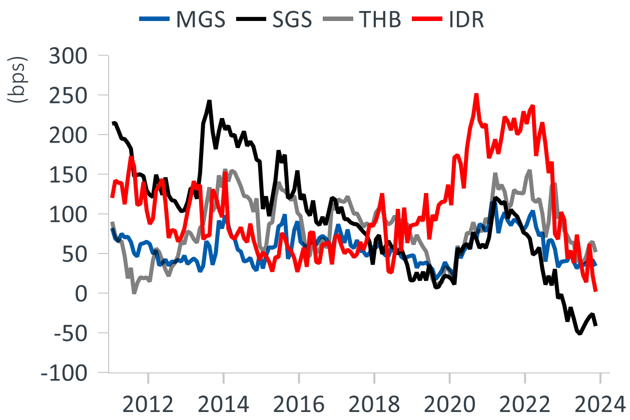
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: Market pricing of no hikes in January 2024 may not materialise as inflation risks are still high



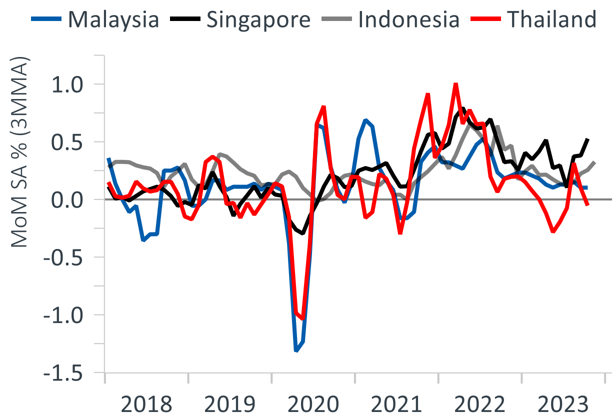
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: ASEAN 2-10YR yield curves are also normalising higher year-to-date, which should persist into 2024…



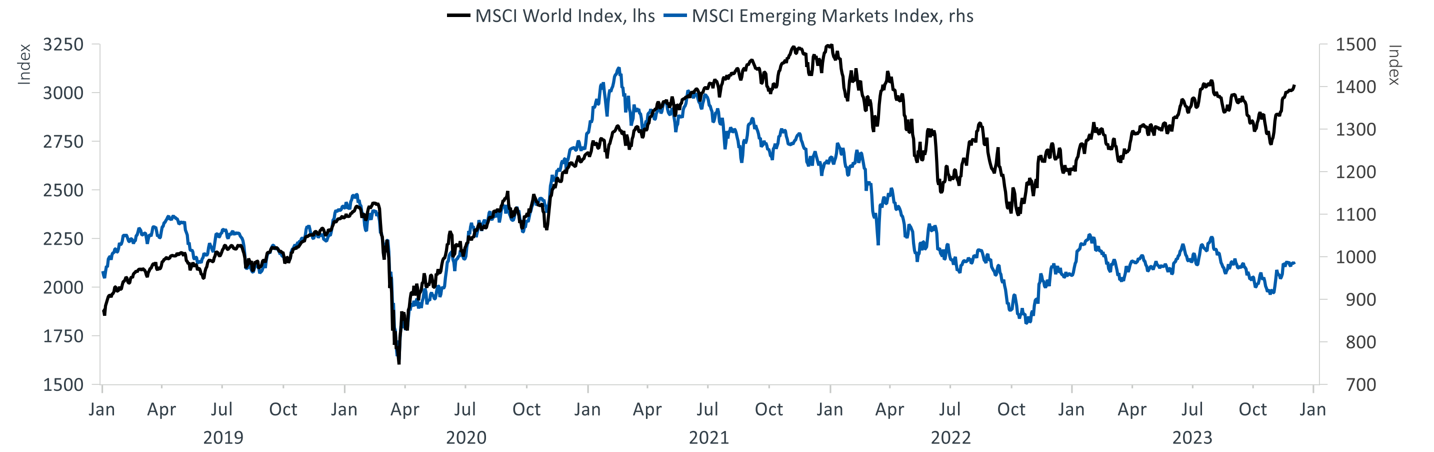
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: … while headline inflation momentum has picked up across key ASEAN economies



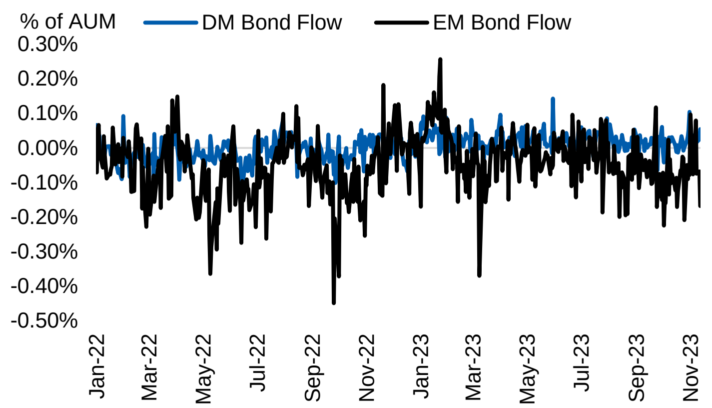
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: MSCI World recovery is sustainable while MSCI EM likely to underperform in 4Q23



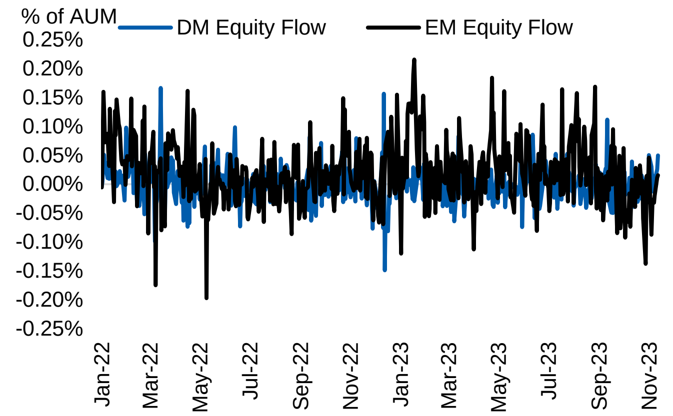
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: Rising flows to DM and falling flows to EM bond funds



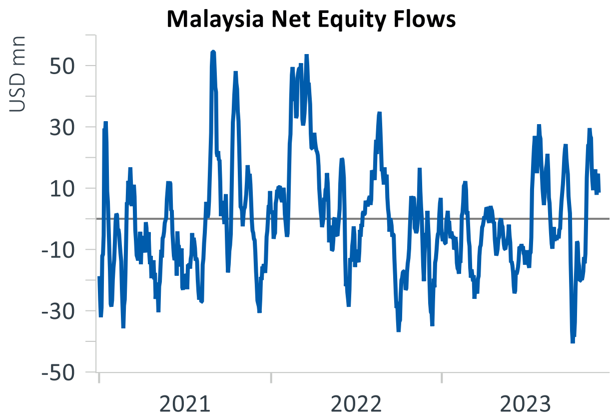
Source: EPFR, RHB Economics & Market Strategy

Figure 25: Rising flows to DM and EM equity funds



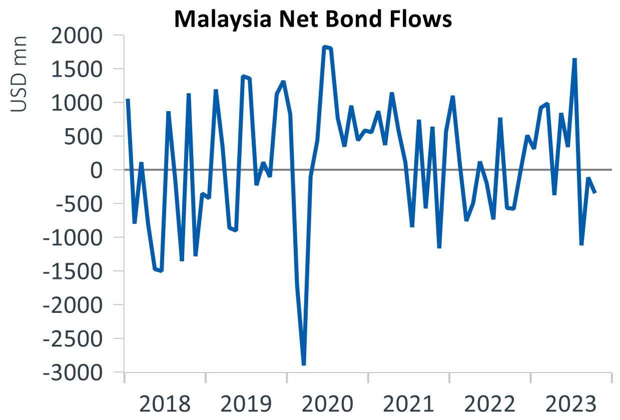
Source: EPFR, RHB Economics & Market Strategy

Figure 26: Malaysia – Net capital inflows to equity market



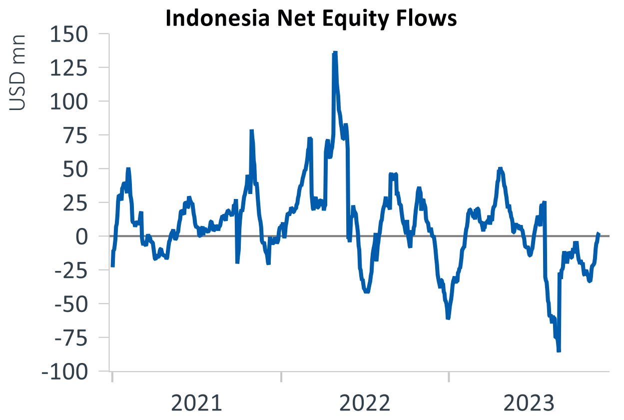
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: Malaysia – Net capital outflows from bond market



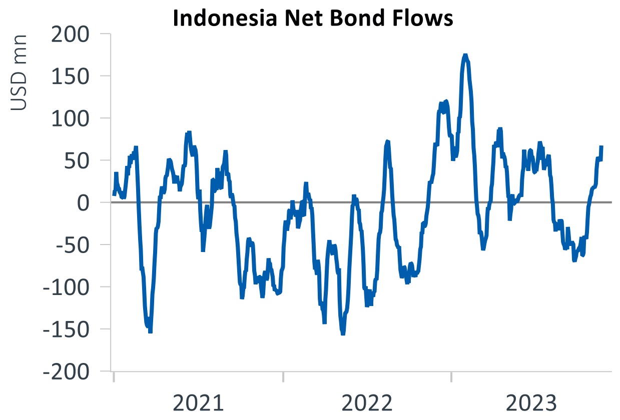
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: Indonesia – Equity inflows have picked up



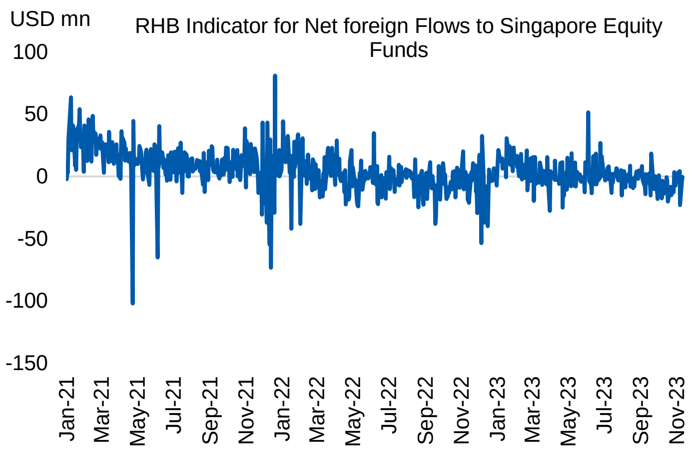
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: Indonesia – Bond inflows stay strong



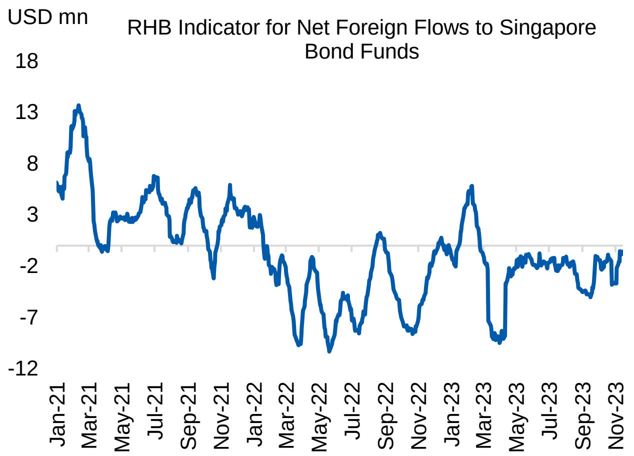
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: Singapore – Capital outflows from equity funds



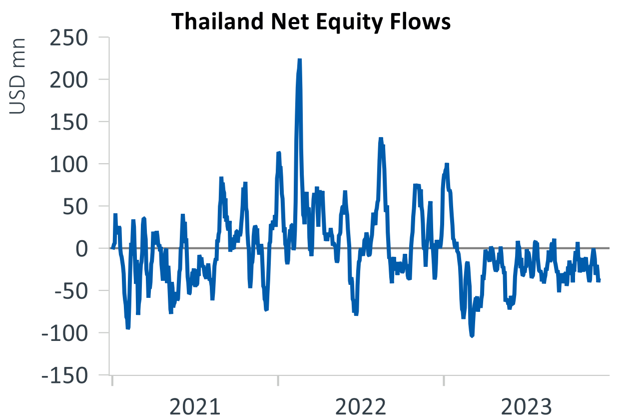
Source: EPFR, RHB Economics & Market Strategy

Figure 31: Singapore – Capital outflows from bond funds



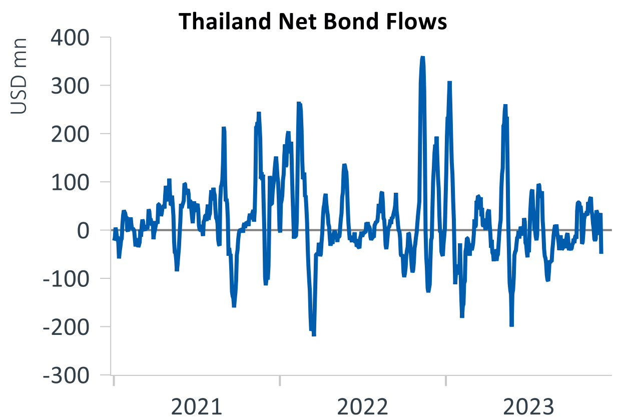
Source: EPFR, RHB Economics & Market Strategy

Figure 32: Thailand – Investors still stay relatively bearish on Thai equities



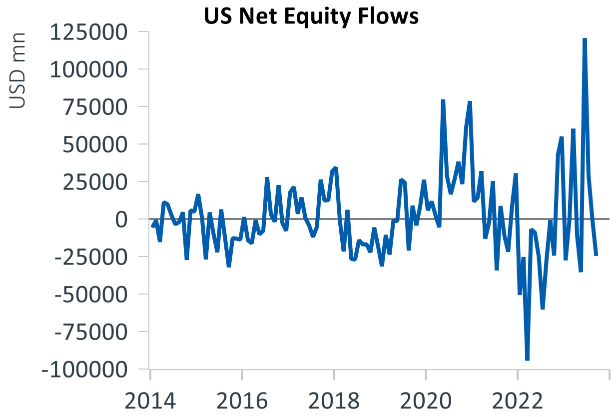
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: Thailand – While outflows persist, likely market watchers stay cautious on recent government subsidies



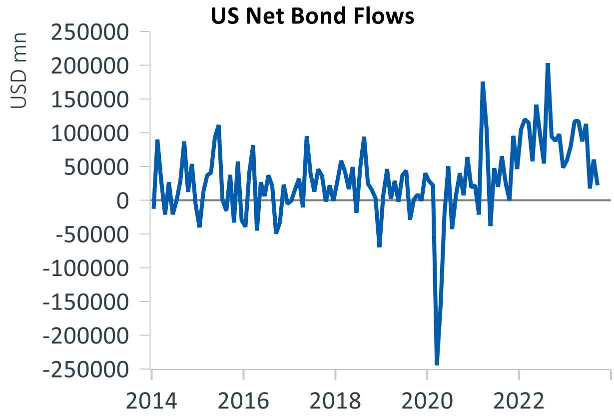
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: US – Equity flows are volatile, probably due to the FFR movements being a very close call at this juncture...



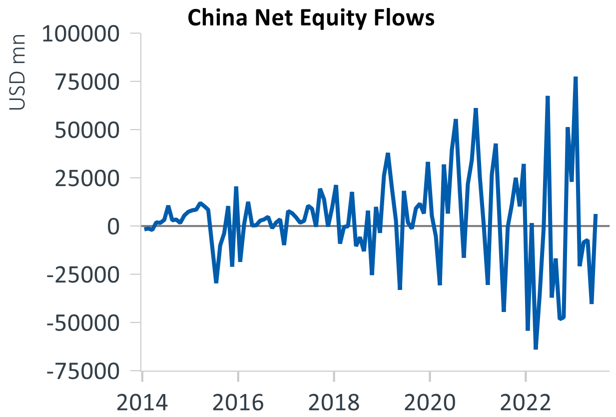
Source: Macrobond, RHB Economics & Market Strategy

Figure 35: US – … while bond inflows weaken year-to-date



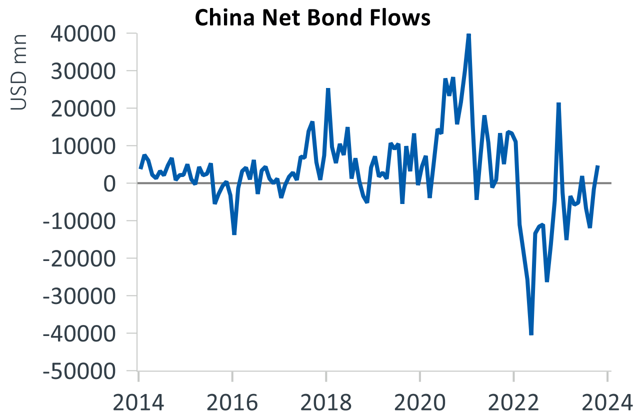
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: China – Equity inflows gaining momentum…



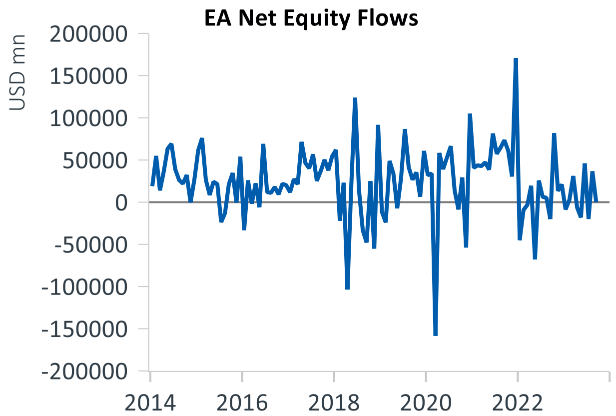
Source: Macrobond, RHB Economics & Market Strategy

Figure 37: China – … similar to bond flows



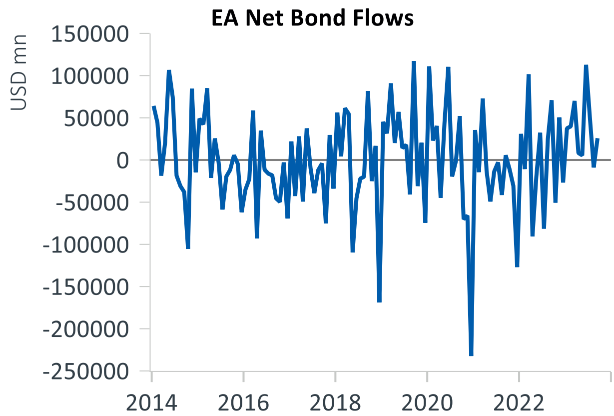
Source: Macrobond, RHB Economics & Market Strategy

Figure 38: Euro Area – Equity flows are volatile…



Source: Macrobond, RHB Economics & Market Strategy

Figure 39: Euro Area – … but appetite is going into bonds



Source: Macrobond, RHB Economics & Market Strategy

Global Growth to Accelerate in 2024

We keep our global asset allocation strategy as OW Equities, MW Fixed Income and UW Cash. However, for 1Q24, we expect some consolidation in US equities by 5 – 10%, as higher global yields resurface on the back of a potential FFR hike over the same period. Year-to-date, US equities have rallied further in 4Q23 as market expectations fade for an FFR hike in the upcoming December FOMC meeting. At this juncture, we look for the US FOMC to keep its FFR unchanged in December and hike to a peak FFR rate of 5.50 – 5.75% in 1Q24.

We expect global growth to accelerate in 2024. The catalysts for our views are threefold: (1) rate normalisation may materialise in 2H24; (2) dissipation of inflation risks over the same period towards central banks' objectives; and (3) China's potential economic recovery in 2024. We maintain our above-consensus forecast for the US and China to expand by 2.2% and 5.0% in 2024, respectively. For ASEAN economies, we maintain our view of a broad acceleration of GDP growth rates in 2024 (ex-Indonesia, to be discussed in the Indonesia Economy section) on the back of a rosier global growth backdrop.

Our view for the US economy to avoid a recession scenario in 2023 has materialised nicely, as guided by our proprietary growth models. We note that the US real GDP has expanded steadily in 3Q23, while its labour conditions remained tight, evidenced by continued robust job gains and a relatively low unemployment rate. Private domestic final purchases, which include PCE and private fixed investment, continued to show positive momentum year-to-date. Trade data also rose at the latest print, with real exports and imports of goods and services reflecting broad-based strength across key US industries. <u>Overall, we are cognizant of the resiliency of US GDP growth seen year-to-date, which is expected to sustain into 2024.</u>

We are observing early signs of China's growth recovery on the back of better-than-expected GDP 3Q23 data. GDP expanded 4.9% YoY (+1.3% QoQ SA) in 3Q23, surprising Bloomberg's consensus of 4.5% YoY (+0.9% QoQ SA). High-frequency numbers out of China remain supportive of its growth momentum, with industrial production, retail sales, labour, and fixed asset investment indicators being essential pillars of potential economic recovery into 2024. However, we remain cautious amid China's real estate headwinds and the continued risks of corporate defaults. Given the recent developments, we upgraded China's GDP growth to 5.0% (from 4.0%) in 2023 and adopted a higher-than-consensus growth rate of 5.0% for 2024.

In ASEAN, our RHB leading indices suggest that GDP growth momentum will accelerate into 1Q24, and we think that the pace will continue into 1H24. We forecast Malaysia's GDP at 4.6% in 2024, up from a projected 4.1% in 2023. For Singapore, we expect GDP growth to come in at 3.0% in 2024, at the top-bound of the official growth forecast range of 1 – 3%. Thailand's GDP growth is pencilled at 4.0% for 2024, up from 2.5% in 2023, while Indonesia's GDP growth is expected to stay flat at 5.0% in 2024. Key catalysts for ASEAN are (1) recovering momentum in externally facing industries such as manufacturing and exports, (2) supported services sector on the back of robust domestic consumption and higher tourism activities, and (3) normalisation of interest rates in US+ASEAN in 2H24 will likely fuel consumption and investment behaviour.

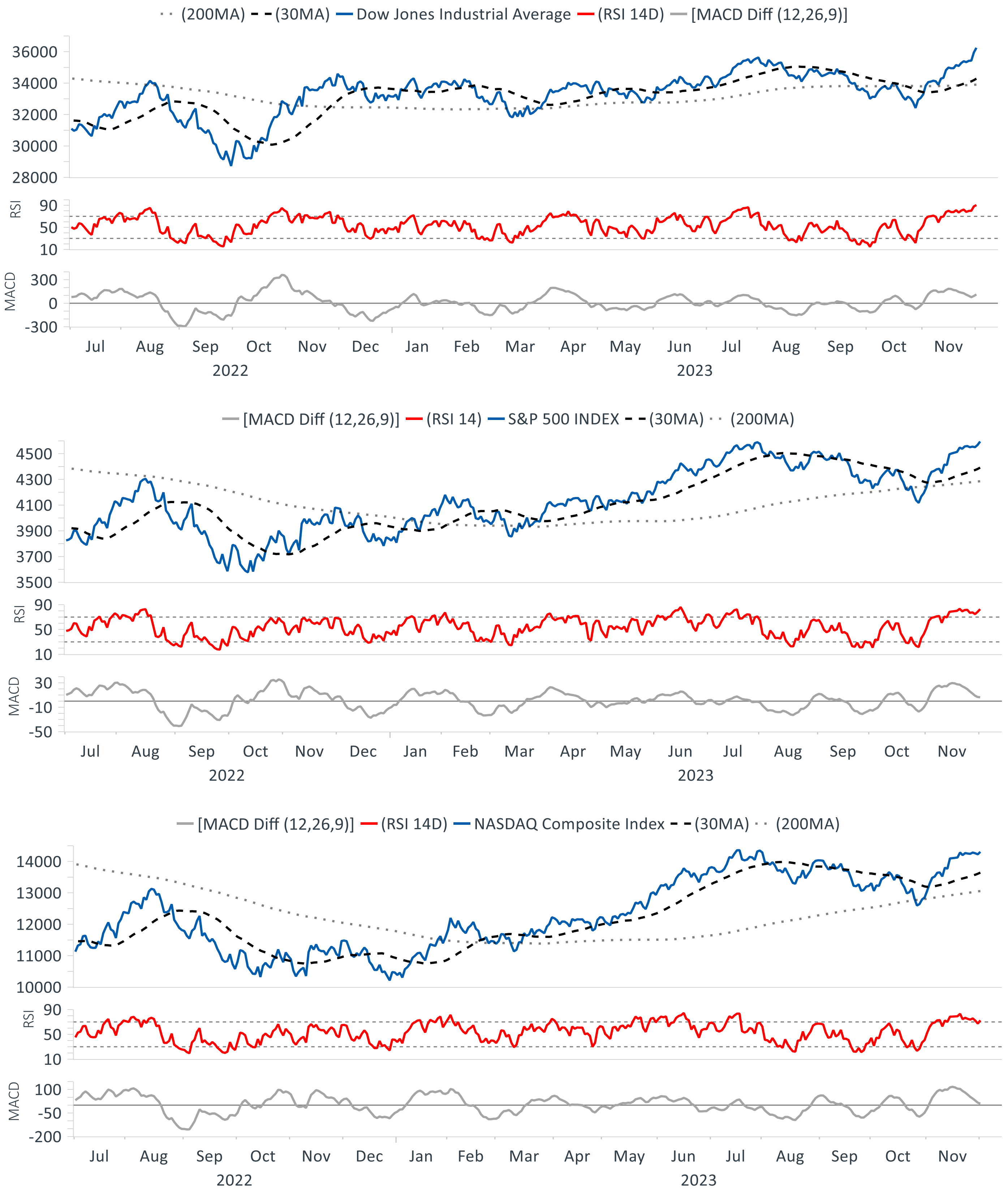
Malaysia's growth momentum is envisaged to gain pace into 2024, underpinned by the revival in the external sector, including manufacturing and exports. The rebound in the global technology cycle and improved regional economies' landscapes are expected to support the export-oriented segments. Domestic demand would be bolstered by robust consumer and investment spending. Upside risks to our GDP growth projection of 4.6% YoY would emanate from the business-friendly policies and incentives focusing on priority sectors, i.e. technology, tourism, and agriculture, as well as those with export capacity.

Singapore's growth will be led primarily by the recovering externally facing sectors, namely manufacturing and exports. The city-state has one of the highest total trades as a percentage of GDP across Asia, suggesting it stands to be one of the key beneficiaries of recovering global trade winds in 2024. Recent 3Q23 GDP data surprised market estimates on the upside, while its growth momentum accelerated in the same period. Overall exports also turned positive on a YoY basis in the latest release, with non-oil domestic exports (NODX) to China rising over 30%.

For Thailand, GDP growth will be underpinned on the back of (1) further recovery in inbound tourism, (2) rosier trade dynamics on the back of China's recovery, and (3) supported private consumption trends. We observed a pickup in the import momentum of capital and consumer goods, suggesting healthy investment and consumption appetite in 3Q23, coupled with a persistent improvement in export momentum in key export products, including manufacturing and agricultural products.

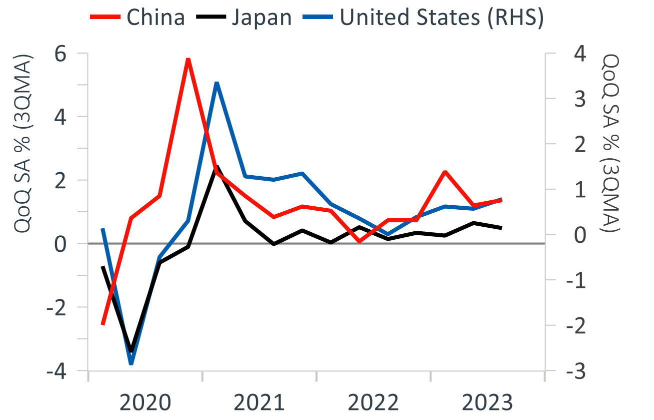
Indonesia's GDP growth should also stay supported primarily by domestic consumption and private investment patterns. At the same time, elections in 2024 will further elevate consumption and government expenditure activities, notwithstanding the potential widening of the trade deficit as the current account balance turned negative year-to-date. On the external front, we foresee Indonesia's trade momentum further recovering and maintaining a positive trajectory into 2024. The early-stage improvement in China's economic indicators and the ongoing resurgence in global trade have contributed to the increase in commodity prices and higher consumption, particularly in energy and construction materials.

Figure 40: US equity technical charts suggest key equity indices are over-bought



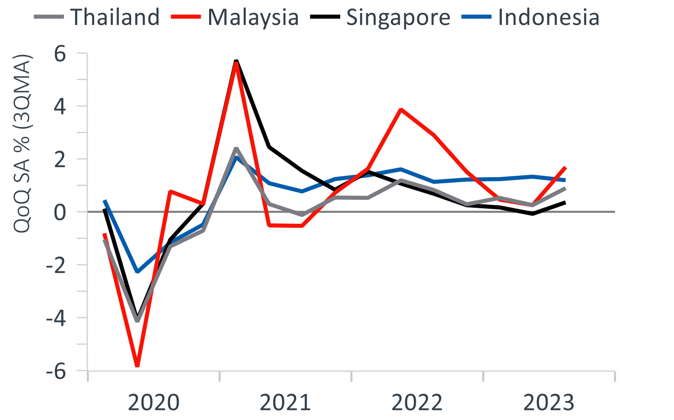
Source: Macrobond, RHB Economics & Market Strategy

Figure 41: Global GDP growth recovery in 2H23 has been broadly seen across key economies…



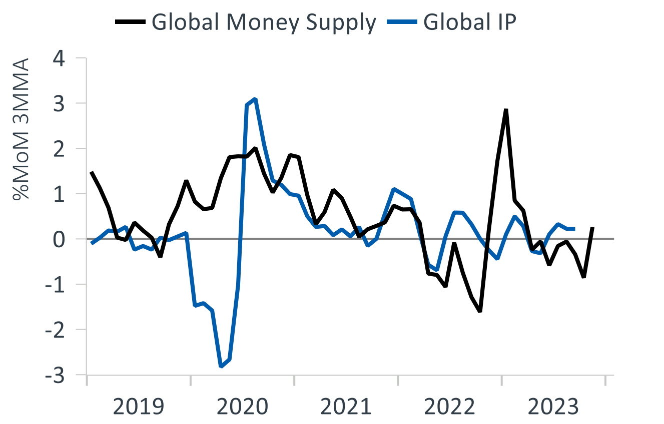
Source: Macrobond, RHB Economics & Market Strategy

Figure 42: … while ASEAN economies GDP momentum accelerates year-to-date



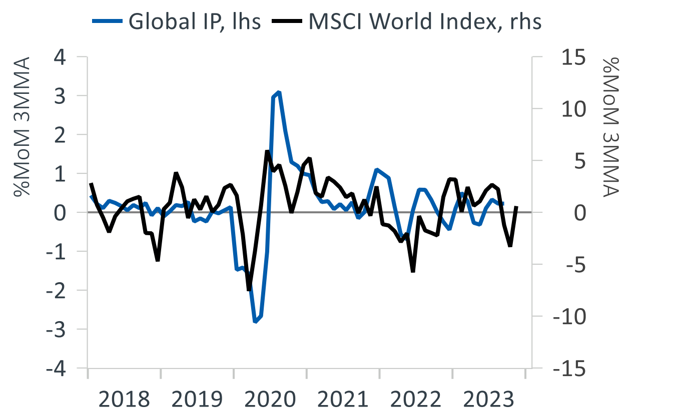
Source: Macrobond, RHB Economics & Market Strategy

Figure 43: Global financial conditions loosen as money supply rises, which supports a global IP recovery…



Source: Macrobond, RHB Economics & Market Strategy

Figure 44: … thus underpinning our OW global and Malaysia equity view into 2024

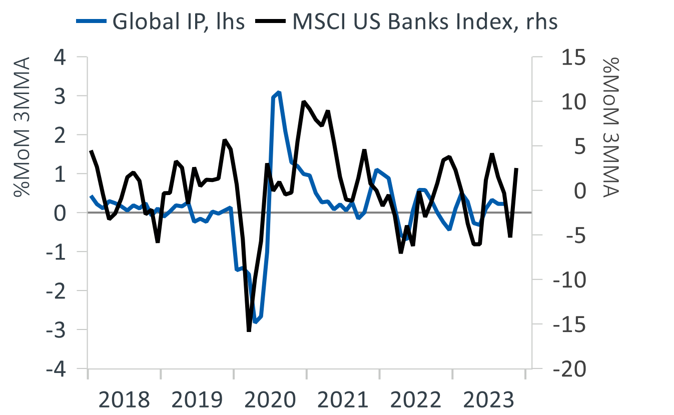


Source: Macrobond, RHB Economics & Market Strategy

Figure 45: Our leading indicator highlights resilient global growth and IP momentum into 2024

Source: Macrobond, RHB Economics & Market Strategy

Figure 46: US banking sector and global IP are highly correlated

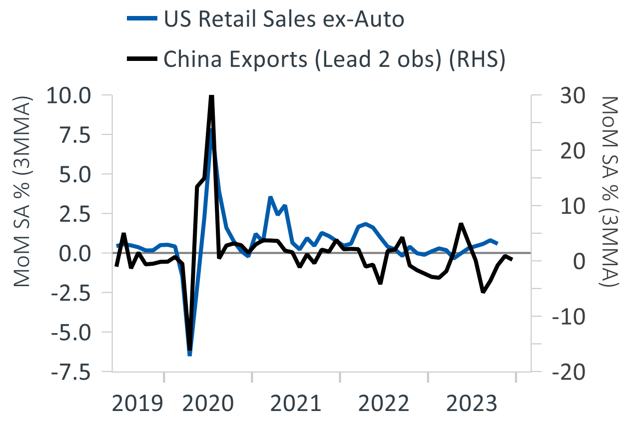


Source: Macrobond, RHB Economics & Market Strategy

Figure 47: Acceleration in US retail sales ex-autos is in tandem with APXJ exports…

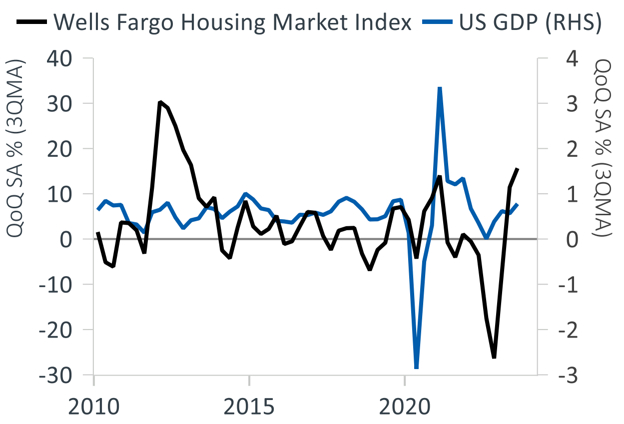
Source: Macrobond, RHB Economics & Market Strategy

Figure 48: … similar to China's exports, which are shown to lead by two observations



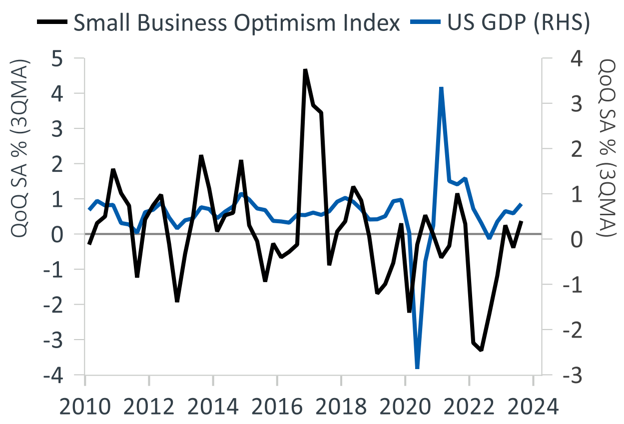
Source: Macrobond, RHB Economics & Market Strategy

Figure 49: US housing market is recovering and…



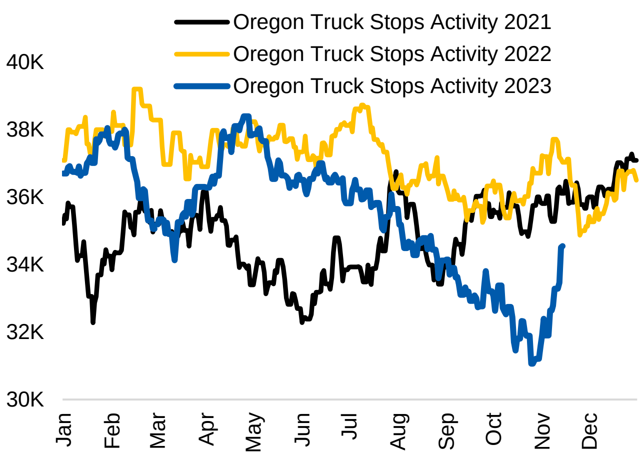
Source: Macrobond, RHB Economics & Market Strategy

Figure 50: …SME sector sentiment up, implies US GDP resilient in 2024



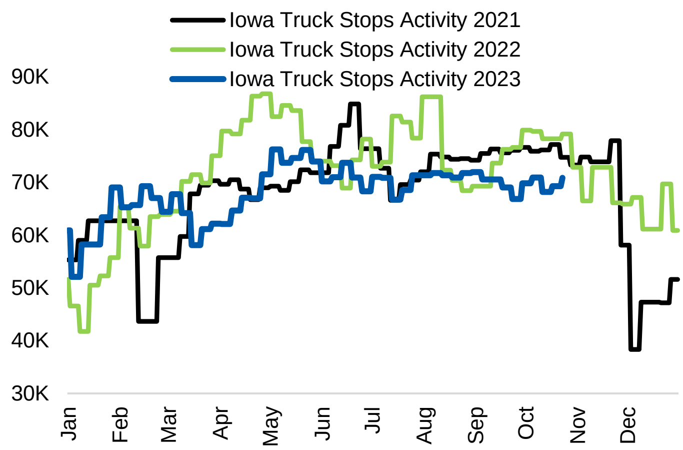
Source: Macrobond, RHB Economics & Market Strategy

Figure 51: US micro-level demand side indicators…



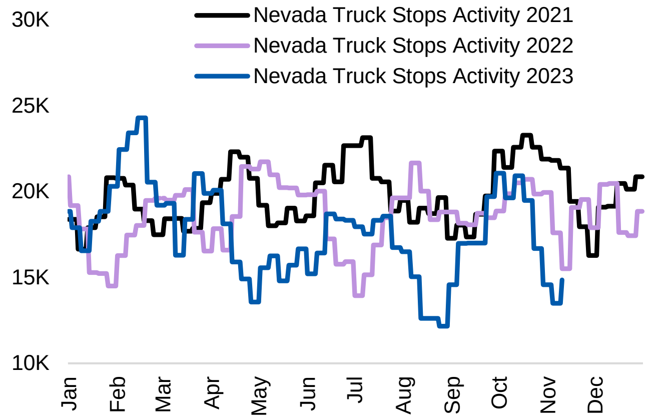
Source: SpaceKnow, RHB Economics & Market Strategy

Figure 52: … suggest…



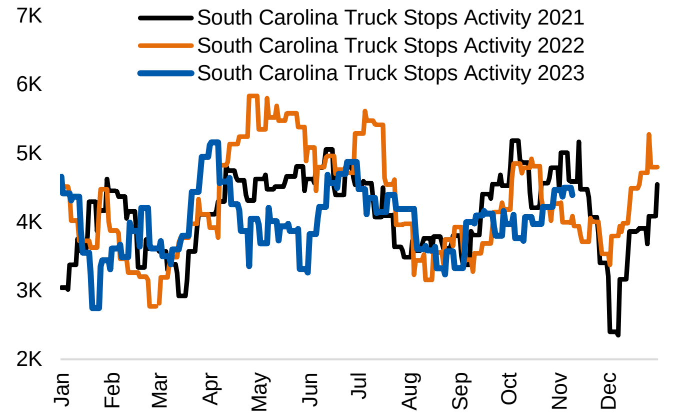
Source: SpaceKnow, RHB Economics & Market Strategy.

Figure 53: … logistic activities improving into Nov 2023…



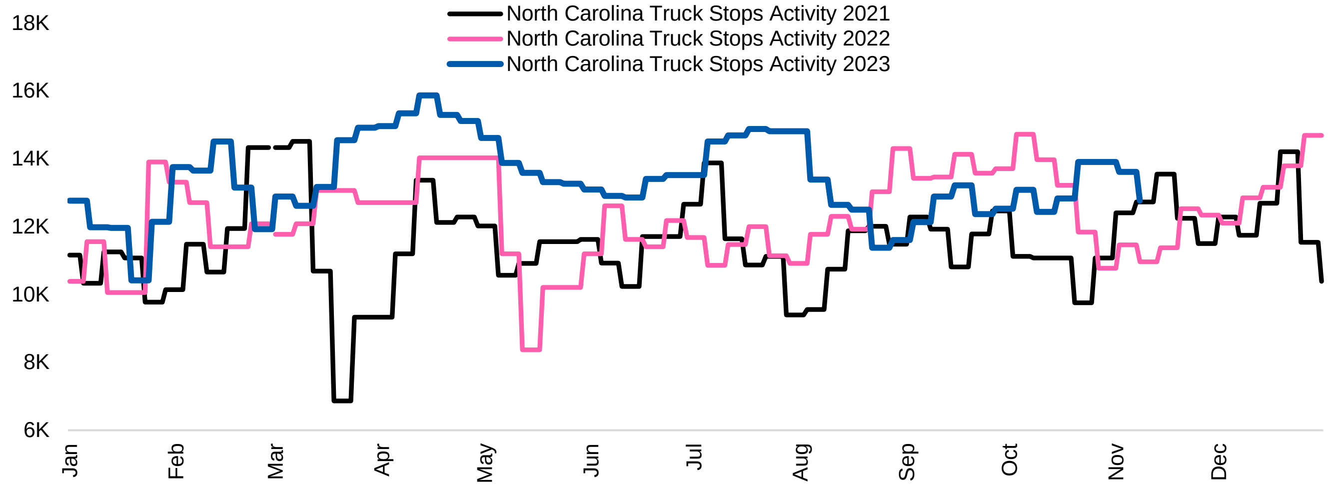
Source: SpaceKnow, RHB Economics & Market Strategy

Figure 54: …in most geographies…



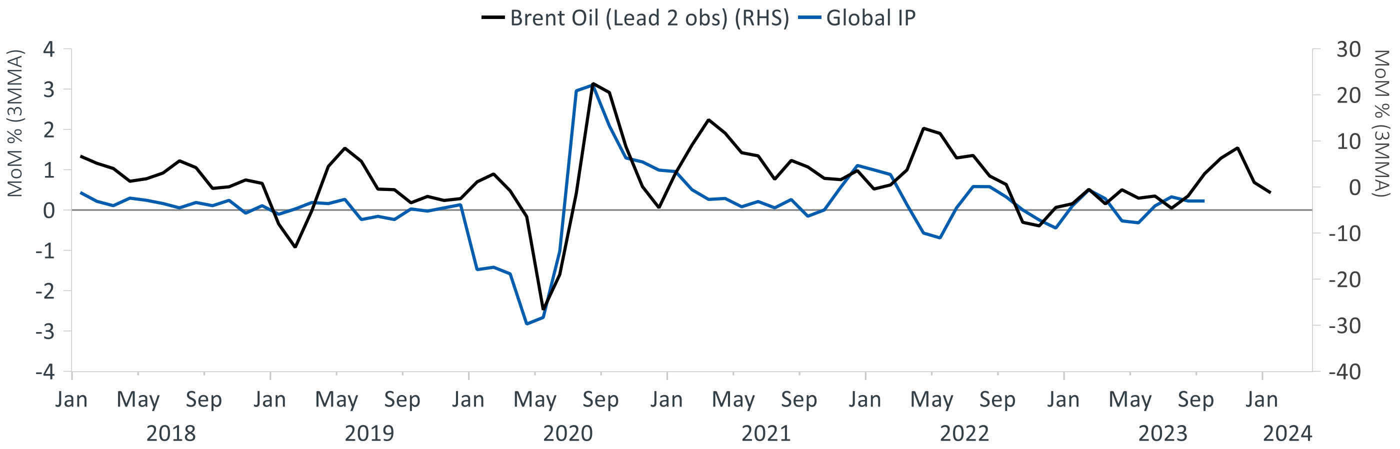
Source: SpaceKnow, RHB Economics & Market Strategy

Figure 55: …including North Carolina, thus reinforcing our view for a relatively rosier US economic outlook in 2024



Source: SpaceKnow, RHB Economics & Market Strategy

Figure 56: Accelerating momentum of oil prices signals global IP rebound in early 2024



Source: Macrobond, RHB Economics & Market Strategy

Beware of Inflation Risks in 1H24

Economic tenets suggest that a global growth acceleration backdrop may mean the introduction of higher inflationary pressures. We agree to a large extent on the back of more robust global demand-pull inflation drivers in the coming year. What is disconcerting is that beyond demand-pull drivers, we are observing other exogenous variables supporting global inflation in the coming year.

Essentially, we expect the potential re-acceleration of global inflation rates on the back of higher commodity prices and global demand-pull inflation drivers in 2024. We continue to see an upside bias for crude oil and food prices. At the time of writing, we see stronger demand momentum for crude oil, while global supply remains tight as export momentum slows. On the back of Global+ASEAN economic growth, demand-pull inflation drivers may continue to materialise into the next year. Separately, our proprietary *El Nino*-Food model is pencilling in a strong uptick in global food prices in the next 6 – 12 months, suggesting an upside bias for global inflation in 2024. Should China's economic recovery take form in 2024, it will also mean higher commodity demand, especially for base metals, which may lift import prices for ASEAN's manufacturing-reliant economies.

We see the lack of clarity for US PCE inflation to trend towards the Fed's 2.0% objective for several reasons. Labour conditions remain tight, with the number of job openings still outnumbering unemployed persons. At the same time, higher wage adjustments due to the US auto workers strike in October 2023 have yet to be fully digested in the economy. The latest FOMC minutes also cited that the risks around the inflation forecasts are "skewed to the upside", while inflation can be "more persistent than expected". Policymakers added that nominal wage growth is still "rising above levels generally assessed to be consistent with… (the Fed's) 2.0% inflation objective". Given the evidence presented so far, and accounting for the Fed's dual mandate of achieving maximum employment and price stability, the relatively robust labour conditions and elevated inflation backdrop suggest a FOMC rate hike of 25bps in 1Q24 to a peak of 5.50 – 5.75%.

Commodity prices are also on the rise, especially crude oil and food. We expect Brent crude to resume in 1Q24, while full-year Brent prices are estimated at a range of US$85 – 95 per barrel, given that global demand momentum has picked up while supply conditions have tightened. The caveat to higher oil prices, however, may be seen from the recent developments in the geopolitical arena, whereby easing tensions may eventually lead to some reprieve from noise-induced premiums currently priced-in in current energy prices. Separately, as discussed above, *El Nino* conditions have continued to intensify at the latest reading, thus suggesting an upside to food prices in the next 6 – 12 months as indicated by our proprietary models.

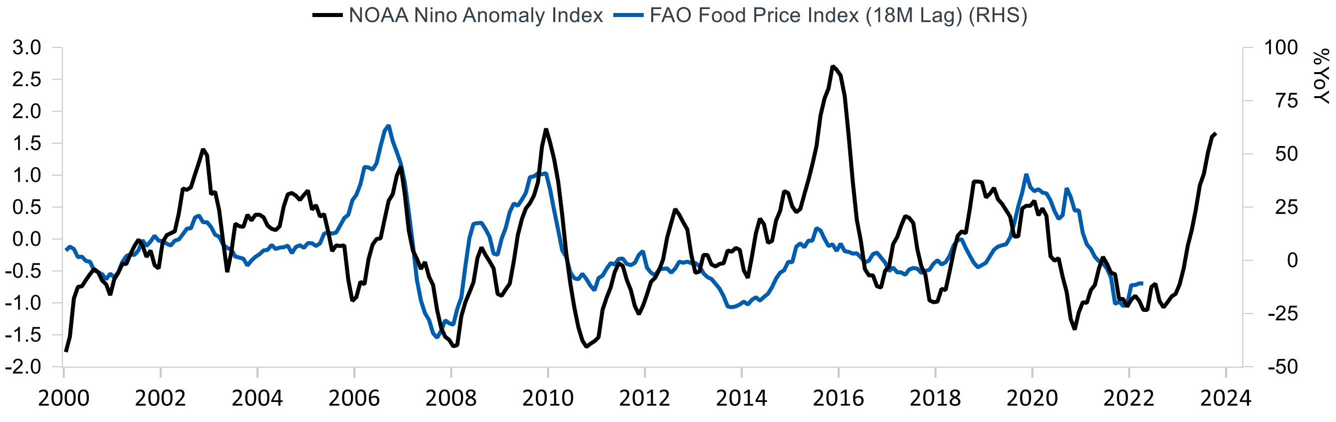
For Malaysia, we expect headline and core inflation to trend higher to 3.3% YoY and 3.6% YoY, respectively, in 2024. For 2024, the inflation trajectory would be affected by (1) changes in domestic policies, (2) upside bias in food and commodity prices; and (3) demand-side pressure in line with improved economic conditions. The strength of the inflation would be affected by the actual timing and magnitude of fuel subsidy rationalisation and the impact of increased services tax coupled with the subsequent impact on demand conditions. On the policy front, we opine that the Overnight Policy Rate will likely be maintained at 3.00% for 2024. Bank Negara Malaysia might adopt a wait-and-see approach to gauge the impact of the policy changes on domestic demand conditions and the magnitude of the second-round inflation impact before any official rate adjustments.

For Singapore, being highly trade-reliant is a double-edged sword as import prices have recently accelerated due to higher commodity prices. Thus, we see sticky inflation prospects, especially into 1H24, particularly on energy and food-related products. We expect headline inflation to remain at 3.5% in 2024, albeit core inflation may continue decelerating to around 2.0% by 2H24. With a relatively tame inflation prognosis, we expect the Monetary Authority of Singapore to keep its policy parameters unchanged in its January Monetary Policy Committee meeting.

We keep Thailand's full-year 2024 headline and core inflation forecasts at 2.0% and 1.0%, respectively. Thailand's inflation prognosis remains uncertain as recent policy manoeuvres have resulted in disinflationary trends (October headline CPI: -0.31% YoY). Thailand's CPI has been cushioned primarily by government efforts to cap the cost of living via a reduction of electricity, diesel and cooking gas prices from September – December 2023, while we think that subsidies may continue into 2024 to avoid a sudden spike in necessities prices. With disinflationary pressures already seen, we maintain our forecast for the Bank of Thailand benchmark rate at 2.5% for 2023 and 2024.

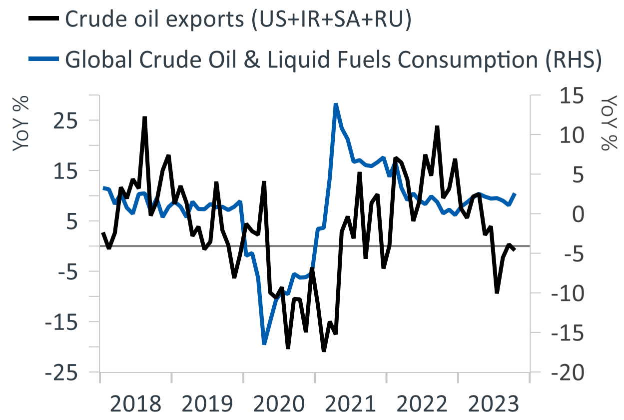
For Indonesia, we have recently upgraded our 2024 headline inflation forecast to 3.3% YoY, up from the previous estimate of 3.0%, while core inflation is projected to grow at 2.2% YoY. The catalysts for the upgrade in 2024's inflation pressures are (1) higher food prices led by *El Nino* conditions, (2) upside bias for oil prices given our global assumptions, and (3) demand-pull inflation as Indonesia sees a relatively robust private consumption pattern amid general elections in 2024. Despite the heightening inflationary pressure, we maintain our view for Bank Indonesia (BI) to maintain its 7-day reverse repo rate at 6.00% in the upcoming December policy meeting and keep it steady in 1H24, followed by a reduction to 5.50% at 2H24. However, the balance of risk is for BI to raise its policy rate by another 25bps to 6.25% in the first quarter, given the need to stabilise the IDR against higher rates in developed economies.

Figure 57: Global food prices are likely to rally on the back of elevated *El Nino* conditions in 2024



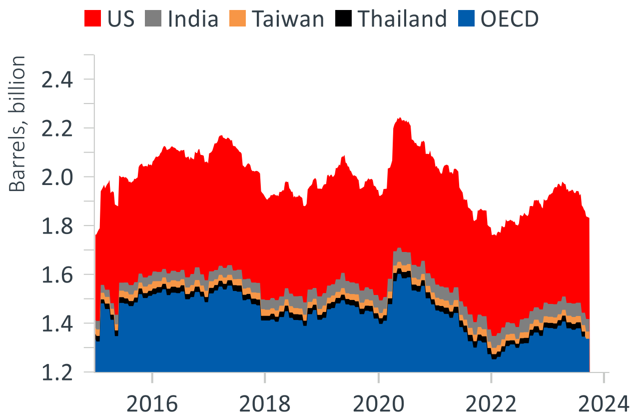
Source: Macrobond, RHB Economics & Market Strategy

Figure 58: Global energy consumption rose, supply down…



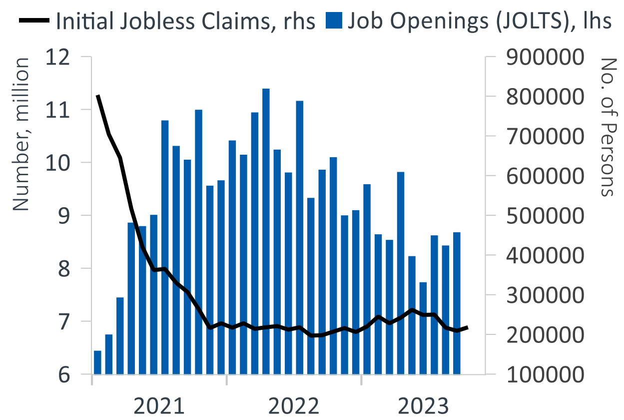
Source: Macrobond, RHB Economics & Market Strategy

Figure 59: … while global oil inventories continue to decline, suggesting demand > supply conditions



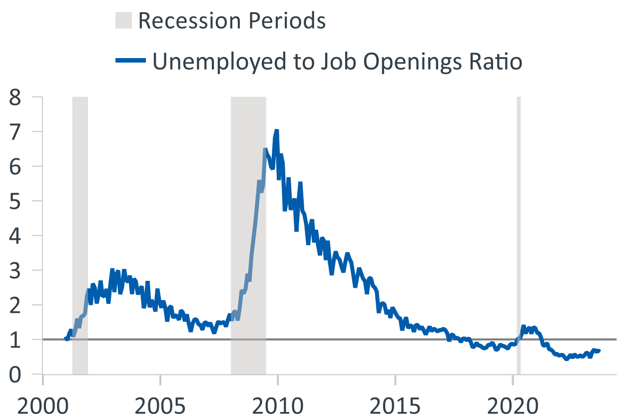
Source: Macrobond, RHB Economics & Market Strategy

Figure 60: US labour conditions appear healthy, seen in lower jobless claims and higher job openings…



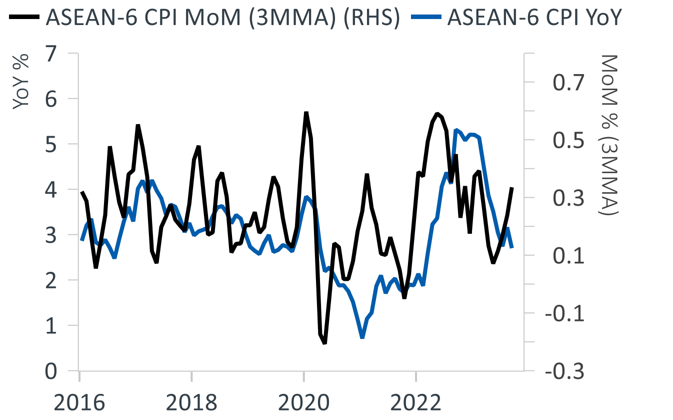
Source: Macrobond, RHB Economics & Market Strategy

Figure 61: … while number of job openings exceed unemployed persons



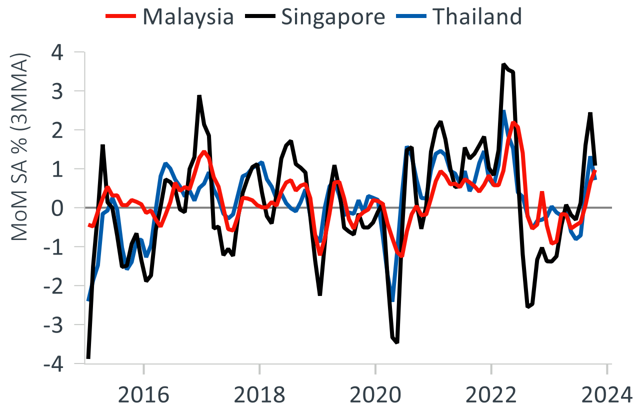
Source: Macrobond, RHB Economics & Market Strategy

Figure 62: ASEAN-6 GDP-weighted CPI momentum is heating up…



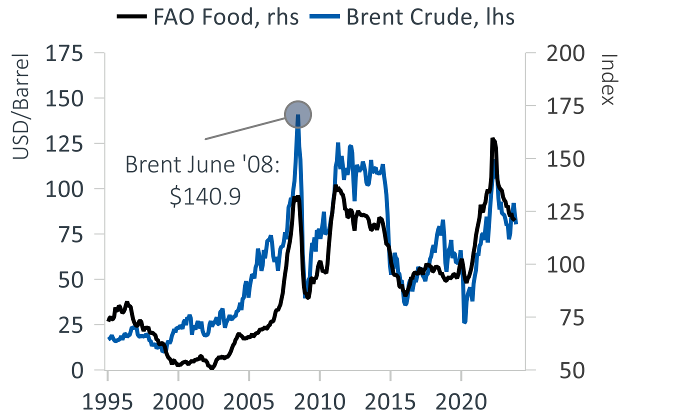
Source: Macrobond, RHB Economics & Market Strategy

Figure 63: …on the back of higher import price momentum year-to-date



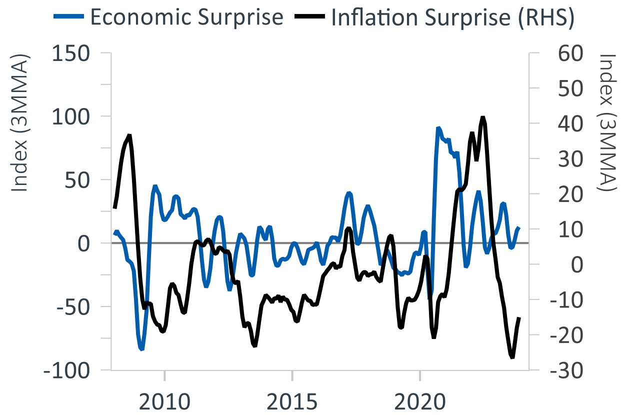
Source: Macrobond, RHB Economics & Market Strategy

Figure 64: Brent oil price range in 2011-2014 was 100-126.65, GFC peak was $140.9/bbl (but short lived)



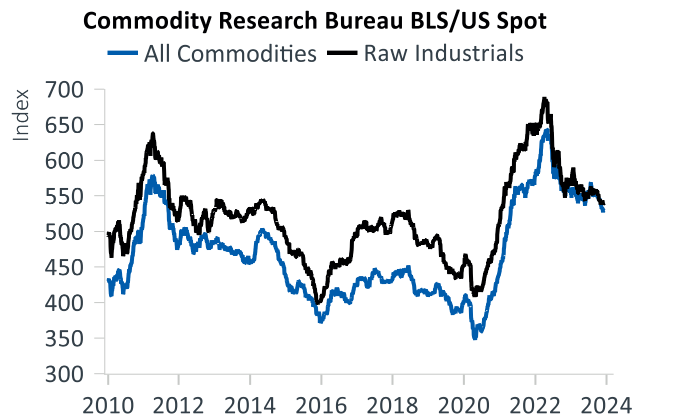
Source: Macrobond, RHB Economics & Market Strategy

Figure 65: Inflation surprise index on the mend in the near term



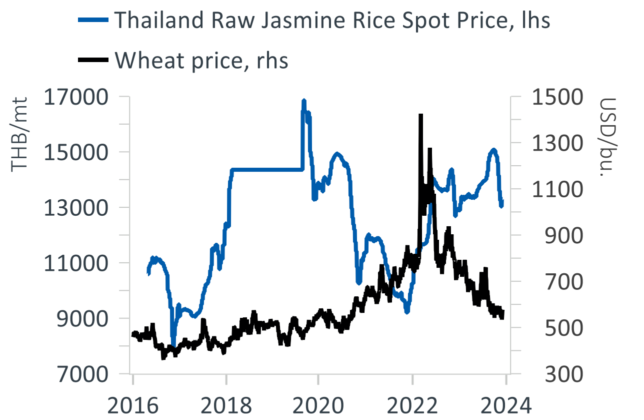
Source: Macrobond, RHB Economics & Market Strategy

Figure 66: Global aggregate commodity price indices bottoming out, next move is up



Source: Macrobond, RHB Economics & Market Strategy

Figure 67: Rice and wheat price indices may bottom soon



Source: Macrobond, RHB Economics & Market Strategy

China's Economic Comeback a Boon to ASEAN

We see early signs of China's economic recovery; we still advocate a cautiously optimistic approach amid China's real estate headwinds and the continued risks of corporate defaults. In October, we upgraded China's GDP growth to 5.0% on the back of the stronger-than-expected 3Q23 growth print. The catalysts for the upgrade are underpinned by the (1) better-than-expected 3Q23 GDP growth data, (2) relatively stronger China-centric high-frequency data in 2H23, and (3) continued stimulus measures by Chinese authorities seen year-to-date.

First, we were positively surprised by China's 3Q23 GDP growth. China's 3Q23 GDP surprised market estimates with a +1.3% QoQ SA growth print, thus translating to a 4.9% YoY growth over the same period. Moreover, China's growth momentum has accelerated into the latest quarter, from 2Q23's meagre +0.5% QoQ SA print, suggesting that China's growth prognosis is gradually recovering. While 3Q23's growth has slowed from 2Q23's 6.3% YoY handle, we observe the relatively higher base year in the prior year (3Q22: +3.9% YoY, 2Q22: +0.4% YoY) – year-to-date performance was an encouraging 5.2% print in the first three quarters of 2023, in line with our revised full-year GDP growth estimate of 5.0%.

Second, we expect the accelerating growth momentum seen in 3Q23 to persist into the next 6 – 12 months, following the relatively more robust China-centric high-frequency data. We are observing a broad recovery in several sectors, including investment, industrial production and retail sales, which are proxies for key China-centric growth pillars. The recovery in the real economy has also translated to a tighter labour market seen from a lower unemployment rate, stronger consumer confidence, and higher consumption of essential growth-related commodities year-to-date. More importantly, we are seeing a decrease in China's trade figures, in tandem with the recovery in global semiconductor demand and potentially injecting positive spillover effects to ASEAN's manufacturing backdrop.

Third, the downside risks to China's growth are cushioned by the continued stimulus measures by Chinese authorities seen year-to-date. Chinese authorities have boosted their budget spending in 2023 by raising their fiscal deficit target to CNY4.88trn from a prior CNY3.88trn. The additional CNY1.0trn will be allocated to local governments to support post-disaster reconstruction. The decision to inject a budget boost alongside other fiscal and monetary policy aid seen year-to-date, including interest rate cuts in China's one-year rate and banks' required reserve ratio. The move to remain accommodative in China's monetary policy space is likely a response to the economy's property slump and to increase the money supply to help support the general economy.

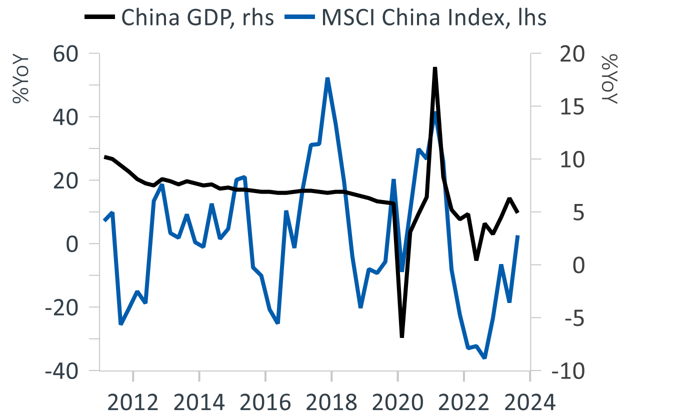
Our high-conviction trade ideas, on the back of China's economic recovery in 2024, are (1) USD-CNH to stage a recovery as early as 2Q24 and range 6.7 – 7.1 per USD in 2H24, while (2) the Shanghai Stock Exchange Composite Index is to rally by early 2024 and gradually tilt towards the 3,300 handle. At the same time, (3) commodity prices, especially base metals and energy, will likely stay supported at current levels with the balance of risks to the upside, given China's dominant role in global commodity demand. Beyond CNH, we also like growth-related commodities and emerging market (EM) equities on the back of China's recovery. We believe China's economic recovery will introduce tailwinds to commodities like industrial and base metals.

ASEAN will benefit from China's economic return on the back of a stronger trade and tourism prognosis. Overall, we expect a rosier ASEAN economic backdrop in 2024, with GDP growth to accelerate in the region. We think trade and tourism prospects, especially in Malaysia, Vietnam, Singapore, Thailand and Indonesia, will benefit from the return of China and E&E trade. On top of positive spillovers to ASEAN's services industries, we also like the electronic, transport, and chemicals industries, given China's empirical demand in the last decade.

We are optimistic about ASEAN's exports to China, especially on electronic-related manufactures and chemicals, given China's empirical demand for ASEAN's products in the past decade. China's key imports from ASEAN-6, over the said period, were primarily concentrated in (1) machinery & equipment, (2) manufactured goods, and (3) chemicals. This is despite China's sizeable imports of crude materials (43.8% of total imports) over the period, which were likely sourced from energy-exporting economies rather than ASEAN-6. Meanwhile, China's imports of machinery & transport equipment (38.5% of total imports) are a close second, suggesting the boon to ASEAN's trade dynamic.

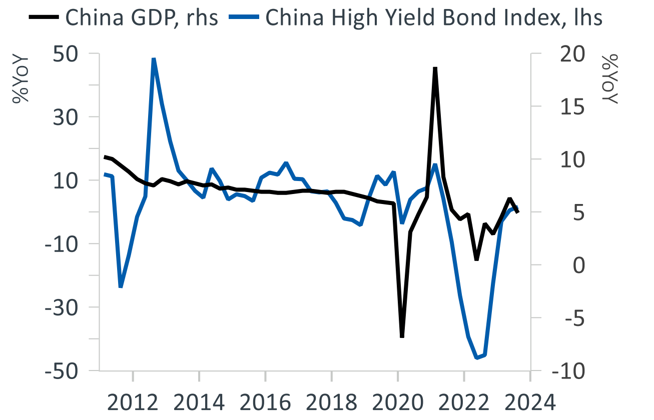
We think trade prospects, especially in Malaysia, Vietnam, Singapore and Thailand, will benefit from the return of China and the E&E trade. At the same time, Indonesia still has room to catch up regarding its exposure to China's E&E industries. With China's demand for electronic-related products in the last decade, we look at ASEAN-6's exports to China across key products. We like Malaysia's export structure as compared to its peers, given the dominance of trade in (1) machinery & transport equipment (42.6% of total trade); and (2) manufactured goods (20.1% of total trade) in the last decade. Singapore and Thailand's trade exposures are also sizeable, while Indonesia's trade of electronic and manufactured-related exports pale against its ASEAN peers. In the short to medium term, however, Indonesia stands to benefit given (1) the economy's sizeable exports of F&B and manufactured goods and (2) China's recent rise in import demand for such products.

Figure 68: China GDP has surprised higher while its equity valuation is strong…



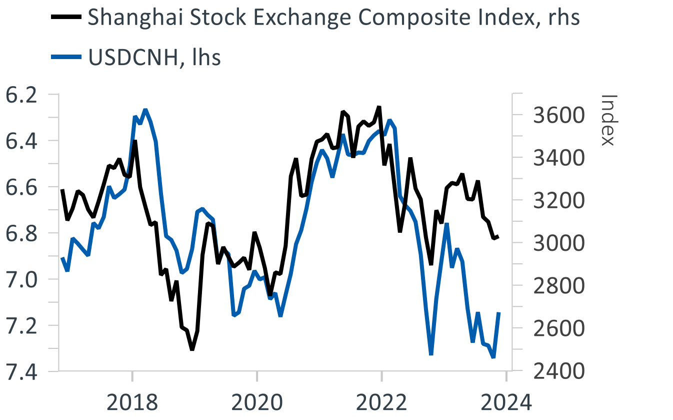
Source: Macrobond, RHB Economics and Market Strategy

Figure 69: … which in turn will rally high-yield bonds barring further exacerbation of default risks



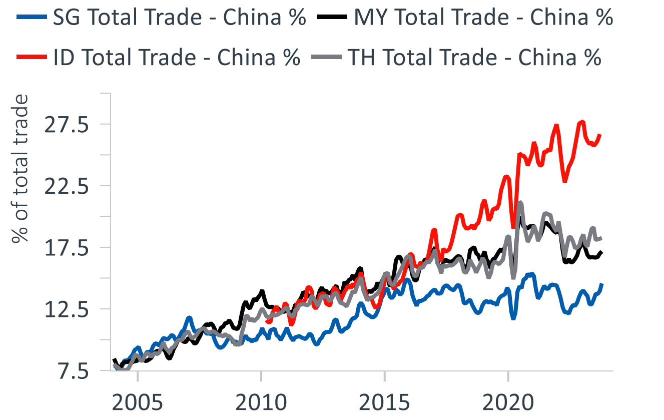
Source: Macrobond, RHB Economics and Market Strategy

Figure 70: China's SSE and CNH will likely rally in tandem should economic recovery ensue in 2024…



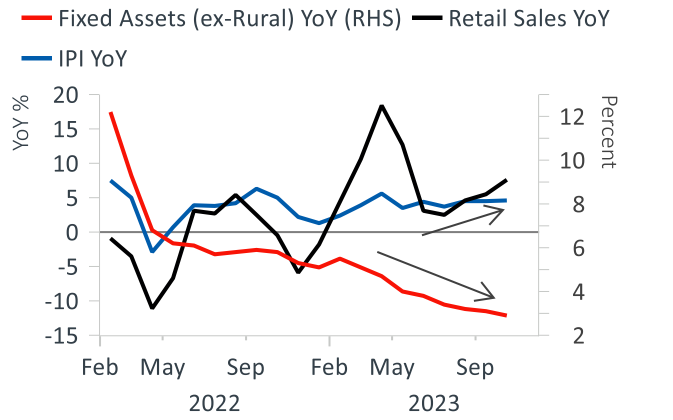
Source: Macrobond, RHB Economics & Market Strategy,

Figure 71: … and that will help ASEAN as China's trade demand resumes



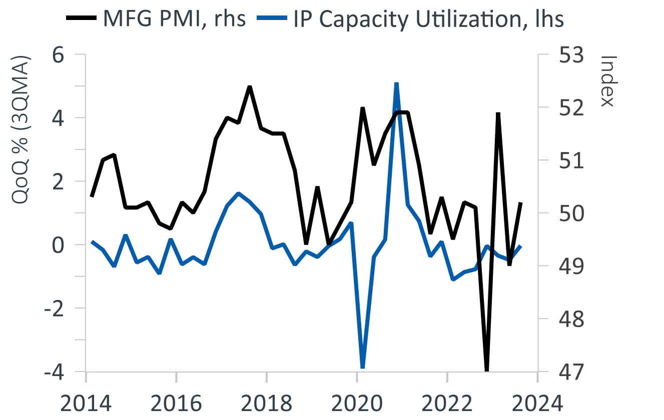
Source: Macrobond, RHB Economics & Market Strategy

Figure 72: Key China-centric pillars are gradually recovering, albeit still weak at this juncture…



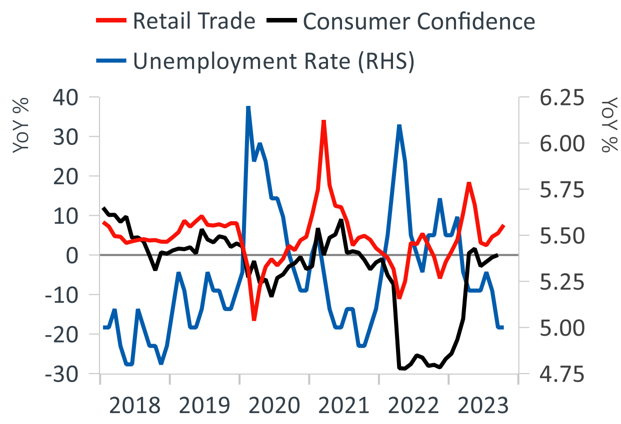
Source: Macrobond, RHB Economics & Market Strategy

Figure 73: … while manufacturing PMI surged amid more capacity utilisation year-to-date…



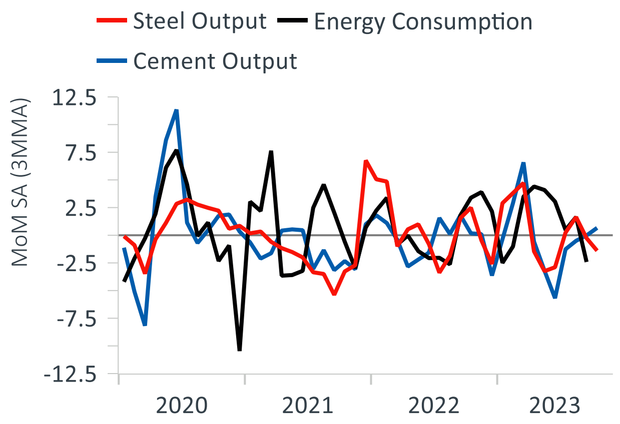
Source: Macrobond, RHB Economics & Market Strategy

Figure 74: … even as unemployment trended lower while consumer confidence rises…



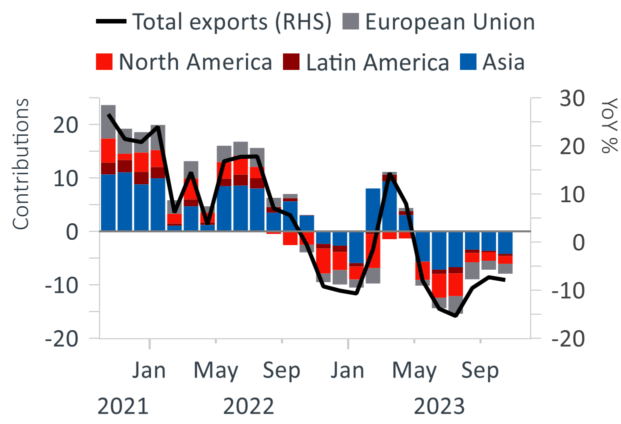
Source: Macrobond, RHB Economics & Market Strategy

Figure 75: … and consumption momentum of key commodities turns north as China slowly recovers



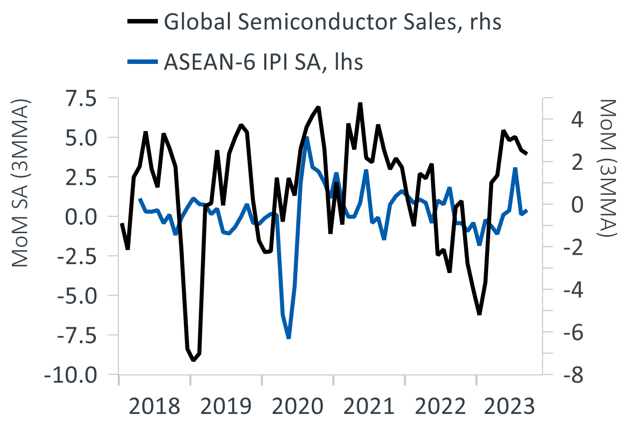
Source: Macrobond, RHB Economics & Market Strategy

Figure 76: China's export momentum recovers, albeit slowly…



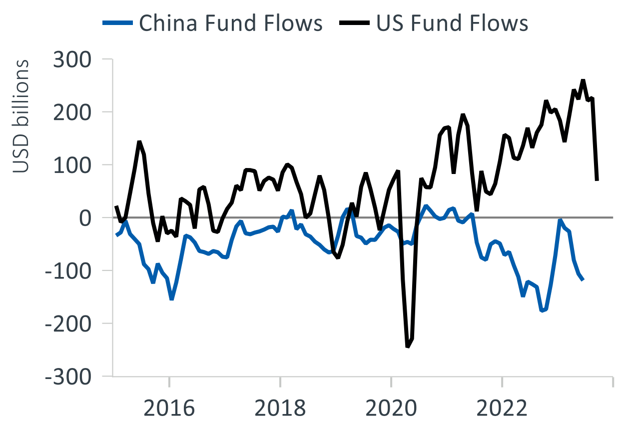
Source: Macrobond, RHB Economics & Market Strategy

Figure 77: … thus injecting positive spillover effects to ASEAN's manufacturing backdrop



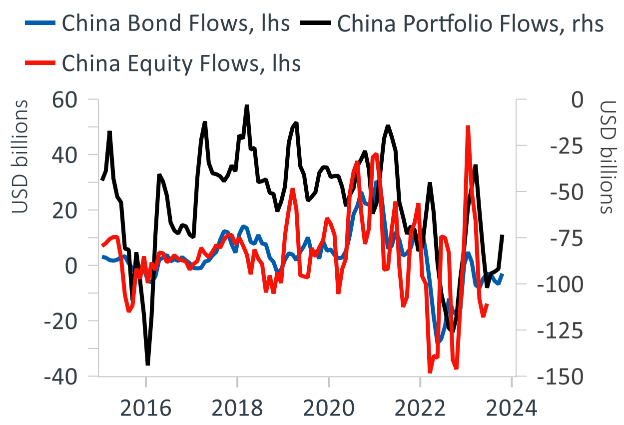
Source: Macrobond, RHB Economics & Market Strategy

Figure 78: Investors' interest in US funds recently diminished…



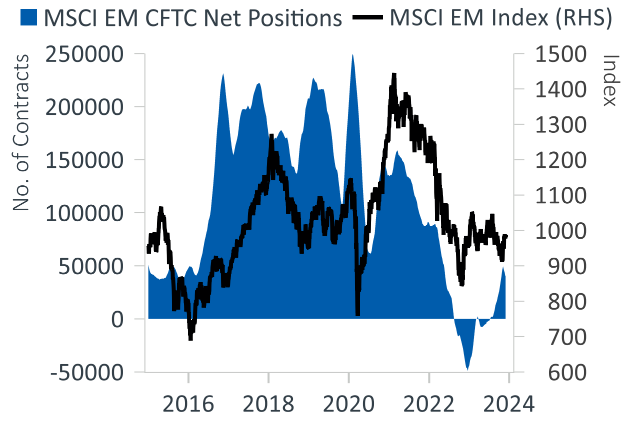
Source: Macrobond, RHB Economics & Market Strategy

Figure 79: … but China's flows into equities, bonds and portfolio instruments are up…



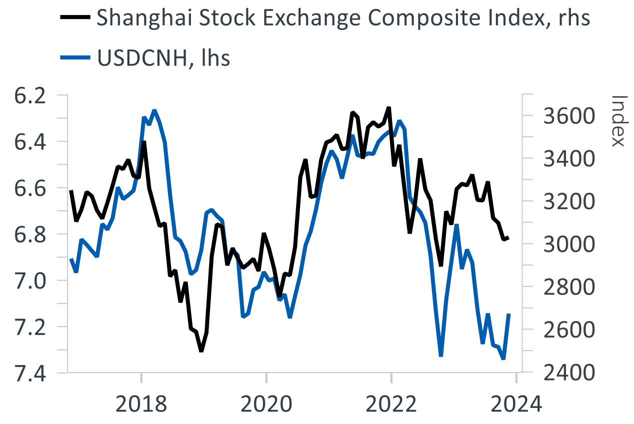
Source: Macrobond, RHB Economics & Market Strategy

Figure 80: … while investors are slowly turn net-long on MSCI EM equities…



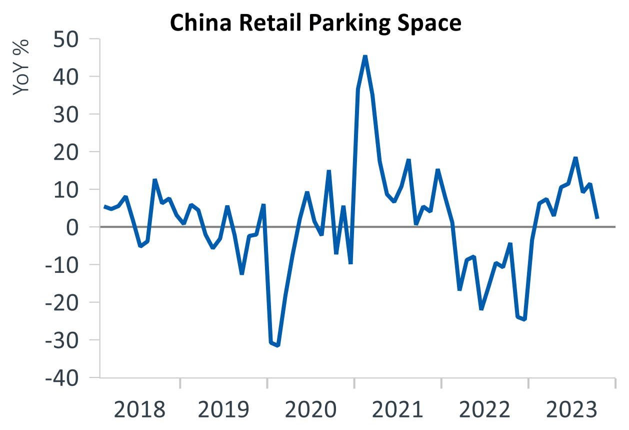
Source: Macrobond, RHB Economics & Market Strategy

Figure 81: … and that could eventually help support SSE and CNH into 2024



Source: Macrobond, RHB Economics & Market Strategy

Figure 82: China's parking space in retail areas have increased on a YoY basis…

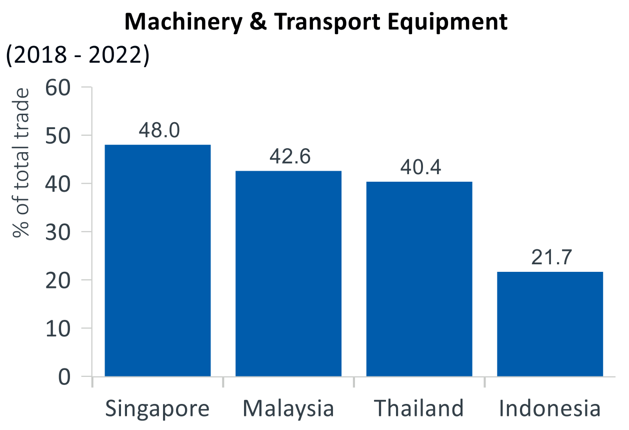


Source: Macrobond, RHB Economics & Market Strategy

Figure 83: … and on a momentum basis, suggesting a gradual uptick in consumer demand

Source: Macrobond, RHB Economics & Market Strategy

Figure 84: ASEAN's trade in machinery & transport equipment is sizeable…



Source: Macrobond, RHB Economics & Market Strategy

Figure 85: … similar to manufactured goods, with Malaysia leading others

Source: Macrobond, RHB Economics & Market Strategy

Figure 86: China imports across materials and products (% of total imports: 2013 – 2022)

F&B, Animals, Vegetable Oils	**4.3%**	**Manufactured Goods**	**14.6%**
Food & Live Animals	3.5%	Misc Manufactures	7.0%
Animal & Vegetable Oils, Fats & Waxes	0.5%	Iron & Steel & Non-ferrous	4.1%
Beverages & Tobacco	0.3%	Mineral Manufactures	1.1%
		Fabric & Products	0.9%
Crude Materials	**43.8%**	Manufactures Of Metals, N.e.s.	0.8%
Mineral Fuels & Lubricants	14.9%	Rubber & Products	0.3%
Crude Materials (Ex-Fuels)	13.9%	Paper & Products	0.3%
Petroleum & Products	11.7%	Leather & Products	0.2%
Natural/MFG Gas	2.1%	Cork & Wood	0.1%
Coal, Coke & Briquettes	1.2%		
Electric Current	0.0%	**Machinery & Transport Equipment**	**38.5%**
		Electrical Machinery & Parts	20.7%
Chemicals	**9.1%**	Road Vehicles & Related	5.1%
Plastics	3.3%	Telecommunications Equipment	3.4%
Organic Chemicals	2.8%	Office Machines	2.8%
Medical Products	1.4%	General Machinery & Parts	2.5%
Essential Oils	0.7%	Specialised Machinery	2.4%
Inorganic Chemicals	0.5%	Power-generating Equipment	1.2%
Dyeing Materials	0.2%	Metalworking Machinery	0.6%
Fertilizers	0.2%		

Source: Macrobond, RHB Economics & Market Strategy

Note: Misc Manufactures include construction materials, furniture, consumer apparels & articles, professional apparatus, and photography-related equipment

Fixed Income Outlook

Interest Rate Clarity Key to Positioning in 2024

2024 Fixed Income Outlook

Interest Rate Clarity Key to Positioning in 2024

- **We think global rates will continue to trend lower in 2024 on the back of the continued moderation of global growth and inflation. Clarity on the US Federal Reserve and other central banks interest rates trajectory will determine the pace, depth and volatility of the repricing. The balance of risk is for a severe slowdown in the US and globally, leading to steeper downward adjustments in global rates.**
- **From a regional government bond perspective, we remain Overweight Indonesia, Market Weight for Malaysia and Singapore and Underweight Thailand.**
- **We continue to Overweight corporate bonds versus government bonds, a view we have had since January 2023, for a few reasons: (1) corporate bond yields are attractive relative to government bonds; (2) credit quality has mostly improved or stabilised with the reopening of borders and the recovery in business activity; and (3) regional corporate bonds have outperformed sovereigns in the long run.**

Global Economics & Market Strategy

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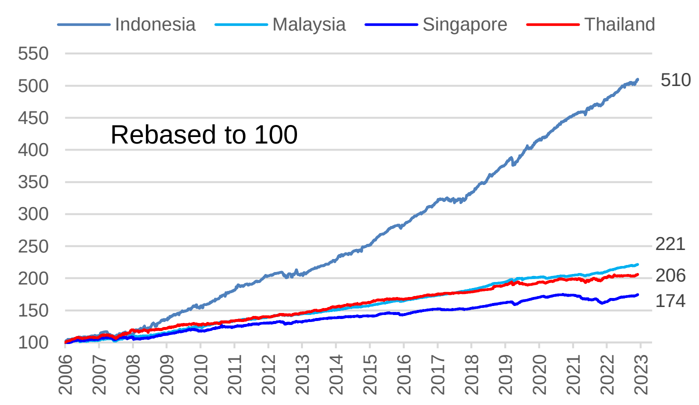
Figure 1: Our recommendations

Regional View	Duration View				Corporate Bonds
	Short (0-7)	Mid (8-14)	Long (15-21)	Ultra Long (22-30)	Top Picks
Indonesia (OW)	Overweight	Under Weight	Market Weight	Overweight	BRI, Chandra Asri, PLN, Indah Kiat, Merdeka Copper, Wijaya Karya
Malaysia (MW)	Market Weight	Market Weight	Market Weight	Market Weight	IOIPG, UEMS, GAR, IGB REIT, MRCB, AMMB, LDF3, SP Setia, Ranhill Powertron II, Genting
Singapore (MW)	Overweight	Market Weight	Market Weight	Market Weight	Singtel, NUS, Keppel, SIA, NEA, CLAS, CLAR, LTA
Thailand (UW)	Market Weight	Market Weight	Market Weight	Market Weight	THBEV, PTTGC, CP ALL,
USD Asia Corporate Bonds	-	-	-	-	TOP, MISC, Keppel, SGX, PTT, PLN, PTFI, GENM Capital

Source: RHB Economics & Market Strategy

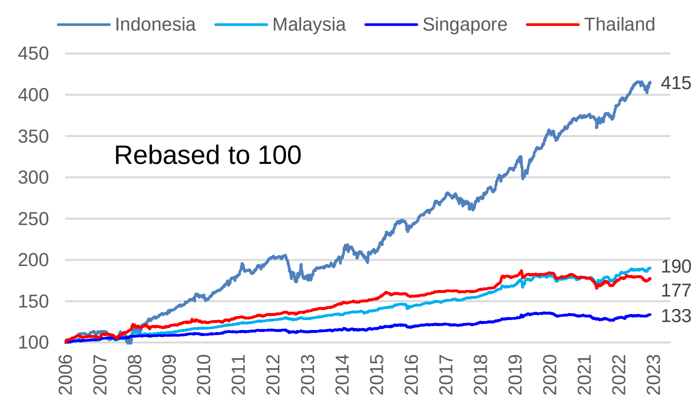
- **We think global rates will continue to trend lower in 2024** on the back of the continued moderation of global growth and inflation. Cross-border labour mobility has improved, easing worker shortages and backlogs. Despite that, the road back to historical inflation rates will likely be bumpy as we continue to see reflation risks, and the pathway to the Fed's 2% inflation target remains unclear**.**
- **Nevertheless, bond markets have rallied in favour to err on any upside yield risk, as investors fear** missing out on the rate cut bandwagon, whenever it may be. Moving forward, the emerging debate for 2024 will be the clarity of the Fed's and other central banks' interest rate trajectory. This will determine the pace, depth, and volatility of global rates. The balance of risk is for a severe slowdown in the US and globally (including China), leading to further downward pricing of interest rates. Although not our base case, the bond rally narrative could be upended by shocks arising from 1) New or expansion of geopolitical events and 2) the reimposition of travel restrictions from a new global pandemic.
- **From a regional government bond perspective, we remain Overweight Indonesia as we expect total returns of 7.0% in 2024.** We remain **Market Weight** for **Malaysia** as we expect a total return of 4.00% in 2024 as the current yield curve is close to its historical trend relative to the OPR. We are also **Market Weight Singapore,** given our expectations of a total return of 3.4% in 2024. For **Thailand**, we remain **Underweight,** with an expected total return of 3.0% in 2024.
- **We continue to Overweight corporate bonds versus government bonds, a view we have had since January 2023, for three reasons:** (1) corporate bond yields are attractive relative to government bonds; (2) credit quality has mostly improved or stabilised with the reopening of borders and the recovery in business activity; and (3) regional corporate bonds have outperformed sovereigns in the long run. We are constructive on Asia's economic prospects in 2024, as such, we expect corporate credit quality to remain stable.

Figure 2: Regional corporate bond returns (since 2007)



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 3: Regional government bond returns (since 2007)



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Regional Bond Review

Index Performance

- **The 4Q23 QTD period was driven by rising global yields as markets due to fading US recession risk.** 10YR UST yields hit a high of 4.99% (our previous end-2023 target was 5.0%) in mid-October before the global bond reversed in November as the US economy showed some signs of slowing due to restrictive interest rates, leading to a multi-year record monthly gain of 5% during the month. Meanwhile, the 10YR MGS also touched our 4.10% end-2023 target in October as the 10YR UST reached close to 5.0%. The November rally lifted all bond segments, including rate and corporates (investment grade and high yield) in both emerging and developing markets. Global bond YTD (30 November) returns stand at 1.50%.
- **For YTD ASEAN sovereign bonds, Indonesia (IndoGB) was the top performer with a 7.30% return**, followed by Malaysia (MGS) at 5.13%, Singapore (SGS) at 3.17% and Thailand (TGB) at 1.16%. Meanwhile, for corporate bonds, Singapore was the top performer at 6.96%, followed by Indonesia at 6.42%, Malaysia at 5.24% and Thailand at 2.49%.
- **All corporate bonds outperformed sovereign bonds on a YTD basis except for Indonesia.**

Figure 4: Bond index performance

	YTD	QTD	Nov '23	Oct '23	Sep '23	Aug '23	Jul '23	Jun '23
Global Bond	1.50%	3.79%	5.04%	-1.20%	-2.92%	-1.37%	0.69%	-0.01%
US Government Bond	0.67%	2.22%	3.47%	-1.21%	-2.21%	-0.52%	-0.35%	-0.75%
US IG Bond	4.01%	3.99%	5.98%	-1.87%	-2.67%	-0.78%	0.34%	0.41%
US HY Bond	9.37%	3.31%	4.53%	-1.16%	-1.18%	0.28%	1.38%	1.67%
Emerging Market IG Bond	2.63%	2.97%	4.87%	-1.81%	-2.51%	-1.15%	0.37%	0.25%
Emerging Market HY Bond	8.35%	5.11%	6.06%	-0.89%	-1.87%	-1.30%	2.62%	3.77%
Asia ex-Japan IG Bond	4.12%	2.98%	3.91%	-0.90%	-1.53%	-0.74%	0.26%	-0.12%
Asia ex-Japan HY Bond	2.67%	4.34%	4.92%	-0.56%	0.58%	-3.27%	-1.19%	3.14%
China HY	-12.84%	2.54%	3.74%	-1.16%	0.47%	-4.97%	-4.57%	1.35%
Indonesia Govt Bond	7.30%	1.11%	2.77%	-1.61%	-1.06%	-0.16%	0.63%	1.10%
Indonesia Corporate Bond	6.42%	1.18%	1.44%	-0.25%	0.08%	0.30%	0.46%	0.60%
Malaysia Govt Bond	5.13%	1.32%	1.89%	-0.56%	-0.62%	0.14%	0.35%	-0.03%
Malaysia Corporate Bond	5.24%	0.86%	0.95%	-0.08%	0.23%	0.44%	0.49%	0.23%
Singapore Govt Bond	1.58%	1.57%	1.29%	0.27%	-0.24%	-0.40%	0.22%	-0.15%
Singapore Corporate Bond	6.96%	1.23%	1.13%	0.11%	0.25%	0.38%	0.28%	0.13%
Thailand Govt Bond	1.27%	1.33%	1.60%	-0.27%	-2.08%	-0.47%	0.29%	0.09%
Thailand Corporate Bond	2.49%	1.35%	0.99%	0.36%	-0.57%	-0.03%	0.23%	-0.06%

Source: Bloomberg, RHB Economics & Market Strategy
Note 1: As of 30 November 2023, total return in LCY
Note 2: IG - Investment Grade, HY - High Yield

- **From 2007 to 30 Novermber 2023 (Figures 3 and 4 below), Indonesia corporate bonds recorded the best performance** with a total return of 510%, followed by IndoGBs with a return of 415% and Malaysian corporate bonds with a return of 221%. Should we compare corporate bonds versus government bonds returns, corporate bonds outperformed government bonds in all four countries, and the outperformance was achieved with around half of the volatility of government bonds.

Changes in Yield

- **In 4Q23 QTD, the UST curve bull-steepened, with the 2YR and 10YR UST falling by 36bps and 25bps, respectively. Regional ASEAN yields also largely fell during the period.**
- **On a YTD basis, UST, SGS, and TGB yields rose across the curve while yields on MGS and IndoGBs fell.**

Figure 5: Yield Change (bps)

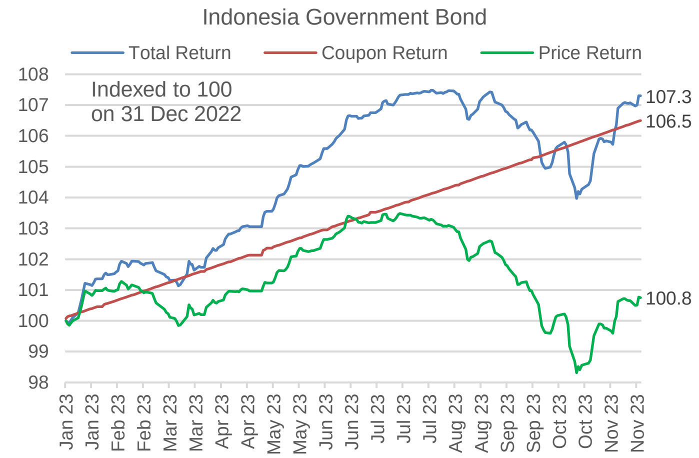
	YTD	QTD	Nov '23	Oct '23	Sep '23	Aug '23	Jul '23	Jun '23
Global Yield	20	-29	-42	13	31	6	1	18
UST 2YR	25	-36	-41	4	18	-1	-2	50
UST 5YR	27	-34	-59	24	36	8	2	40
UST 10YR	45	-25	-61	36	46	15	12	19
UST 20YR	53	-22	-61	39	49	19	14	5
UST 30YR	53	-21	-60	39	49	20	15	0
IndoGB 2YR	67	31	-27	59	5	22	20	19
IndoGB 5YR	48	10	-37	47	37	20	6	-12
IndoGB 10YR	-32	-29	-48	20	53	13	-1	-11
IndoGB 15YR	1	-21	-34	12	53	6	-5	-11
IndoGB 20YR	-20	-14	-26	12	41	15	-10	-9
IndoGB 30YR	-32	-5	-21	16	26	2	-7	-7
MGS 2YR	-15	-3	-11	8	5	4	-4	11
MGS 3YR	-20	-11	-19	9	12	-3	0	9
MGS 5YR	-23	-10	-23	13	14	-1	-1	15
MGS 7YR	-17	-6	-24	18	14	-1	1	12
MGS 10YR	-26	-16	-27	11	14	1	-1	13
MGS 15YR	-24	-13	-23	10	11	2	-1	4
MGS 20YR	-21	-9	-23	14	12	6	-1	2
MGS 30YR	-30	-14	-23	9	17	7	0	2
TGB 2YR	90	-12	-14	2	27	10	4	7
TGB 5YR	66	-20	-24	4	35	11	6	9
TGB 10YR	34	-23	-31	7	46	13	2	5
TGB 15YR	12	-21	-32	11	49	13	-2	-1
TGB 20YR	7	-16	-26	10	46	13	-3	1
TGB 30YR	3	8	-10	18	34	10	-5	7
SGS 2YR	26	-33	-27	-6	22	-1	-9	25
SGS 5YR	9	-42	-37	-6	23	13	-14	23
SGS 10YR	-12	-44	-41	-3	26	9	-3	23
SGS 15YR	-8	-29	-32	4	16	26	7	13
SGS 20YR	41	-22	-28	6	13	37	15	2
SGS 30YR	52	-11	-15	4	3	50	16	7

Source: Bloomberg, RHB Economics & Market Strategy
Note: As of 30 November 2023, total return in LCY

Government Index Return Component – Coupon Returns Were the Key Contributor

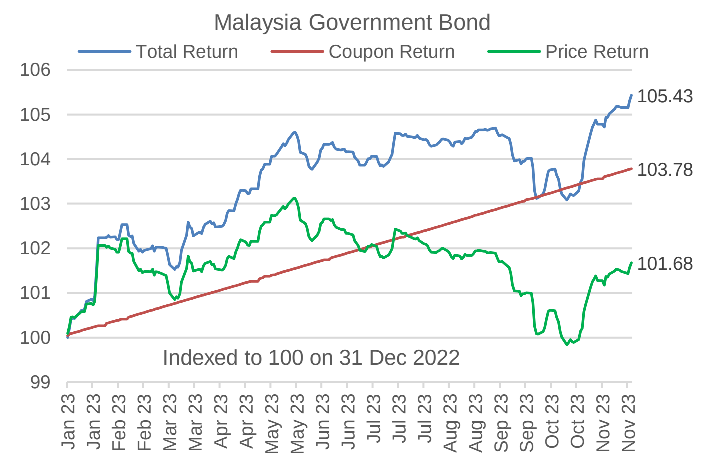
- **Coupon returns remain the main contributor to regional bond returns YTD and will likely remain so for the remainder of the year.** Indonesia and Malaysia managed to record positive price returns as their higher yield differential benefitted from yield compression, while Singapore and Thailand saw negative price returns as yields trended upwards.

Figure 6: IndoGB: Coupon returns key contributor for IndoGBs in YTD 2023, contributing 6.5% while price return was at 0.8%



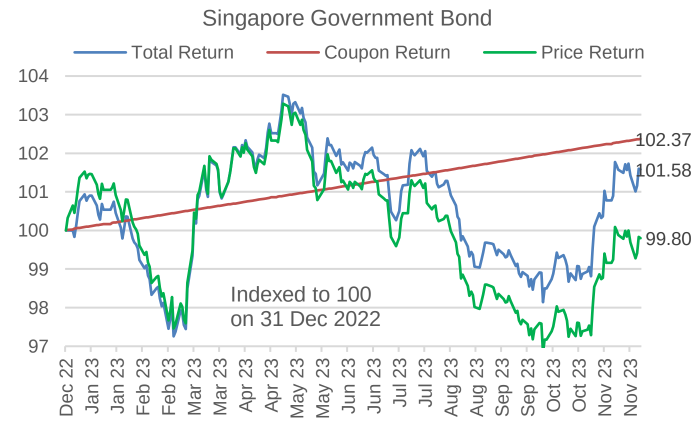
Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2022 to 30 November 2023

Figure 7: MGS/GII: Coupon return contributed 3.8% return while price return contributed 1.7% YTD 2023



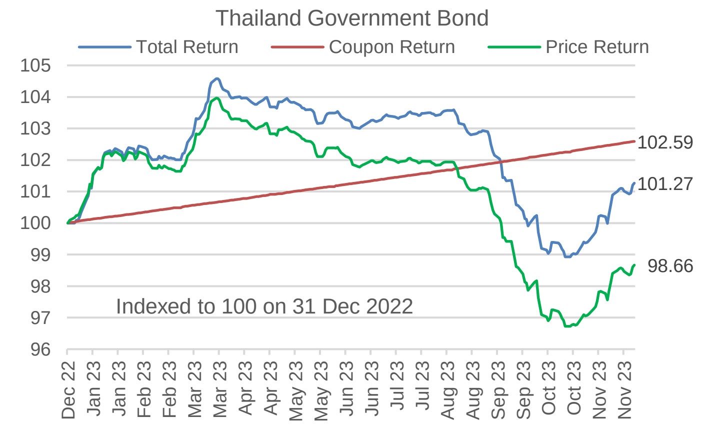
Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2022 to 30 November 2023

Figure 8: SGS: Coupon return contributed 2.4% return while price return contributed -0.2% YTD 2023



Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2022 to 30 November 2023

Figure 9: TGB: Coupon return contributed 2.6% return while price return contributed -1.2% YTD 2023

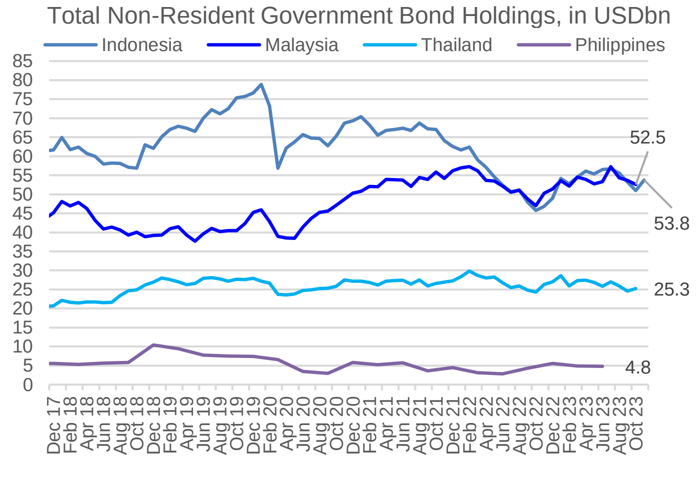


Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2022 to 30 November 2023

Regional Non-Resident Government Bond Holdings

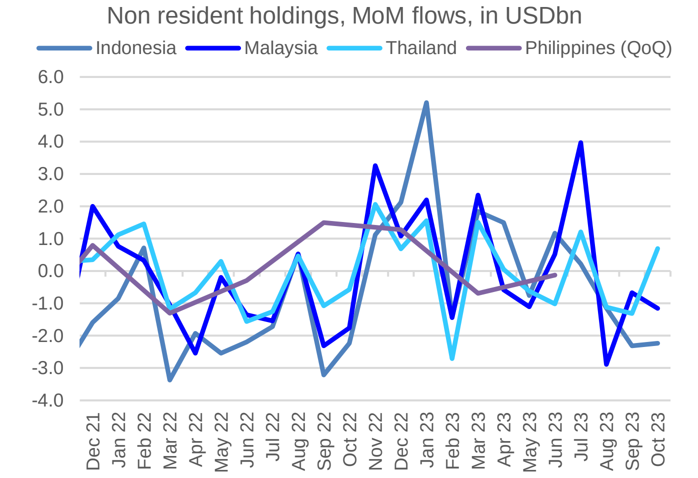
- **Indonesia and Malaysia saw increases in non-resident (NR) investors since 3Q22 as the global inflation outlook improved (Figure 10).** The collective regional NR flows (Figure 11) suggest the recent inflows (since 3Q22) could be tactical positions looking to benefit from the improving inflation outlook and softening economic growth. In October, we saw coordinated NR outflows from Indonesia and Malaysia (Figure 11).
- Malaysia has the highest NR holdings as a percentage of total outstanding bonds, followed by Korea, Indonesia, Thailand and the Philippines (Figure 12).

Figure 10: Indonesia and Malaysia competing for the top destination for foreign investors (translated to USD)



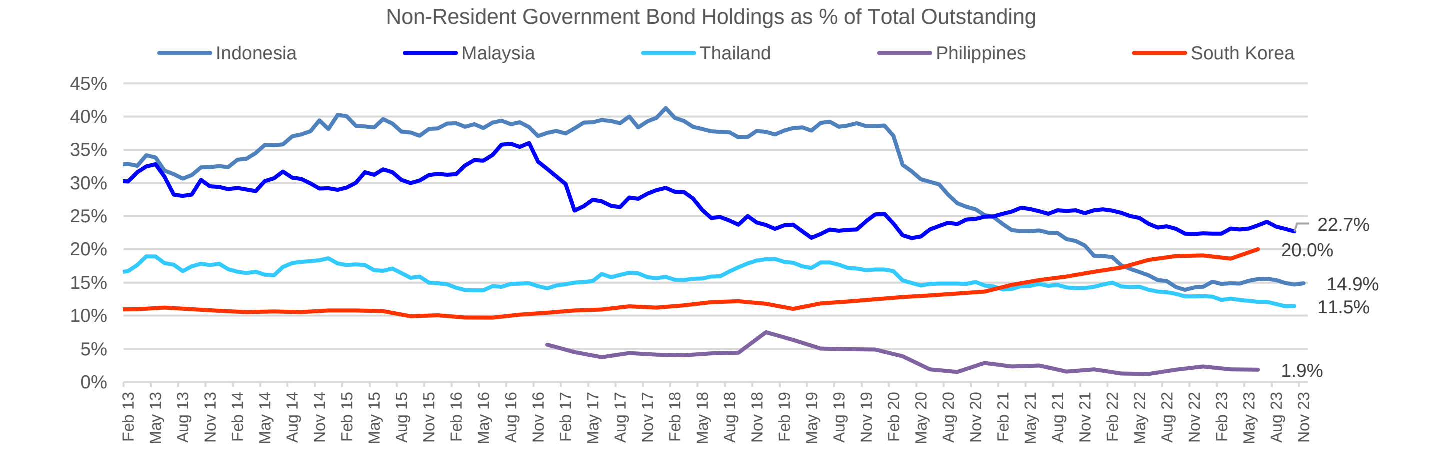
Source: Bloomberg, RHB Economics & Market Strategy
Note: From November 2017 to November 2023, (Philippines – June 2023, Malaysia & Thailand – October 2023)

Figure 11: The regional NR flow thesis remains intact (translated to USD)



Source: Bloomberg, RHB Economics & Market Strategy
Note: From December 2021 to October 2023 (Philippines – June 2023)

Figure 12: As a % of total outstanding, Malaysia leads the region, followed by Korea, Indonesia, Thailand and Philippines



Source: Bloomberg, RHB Economics & Market Strategy
Note: From February 2013 to November 2023 (Korea & Philippines - June 2023, Malaysia & Thailand – October 2023)

Government Bonds Outlook

Indonesia (BBB, Stable)

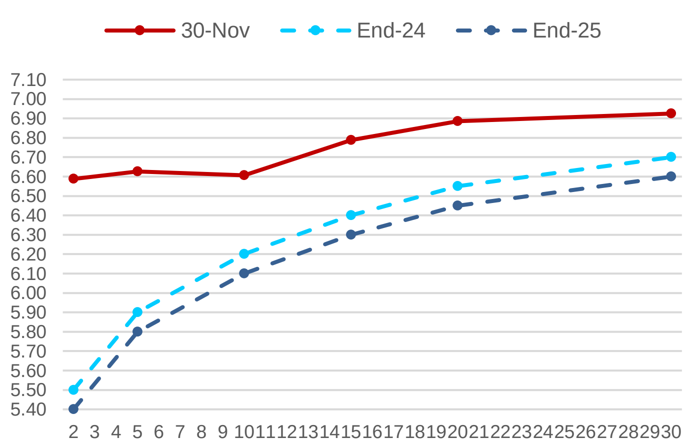
- **Our regional Overweight call for IndoGBs continues to perform in line.** Being the top-performing regional index YTD, we think IndoGBs are attractive across the tenures, and yields alone will generate outperformance against regional peers as the IndoGB index yields 6.75% (as of 30 November). We view BI to bring the policy rate down to 5.50% in 2H24, from 6.0% in 2023, on the back of a moderating inflation outlook in 2024 (CPI of 3.3% in 2024F), and our view for a weaker DXY for the most of 2024. We think a structural downward movement for the IndoGB curve could materialise in the medium term on the back of a maturing financial system and economy. Foreign inflows could also return, given the low NR holdings relative to pre-pandemic levels. We expect total return of 7.0% in 2024.
- **Withholding tax premium and Operation Twist.** From a balance of risk perspective, we think withholding tax could be removed to attract foreign flows, which will help stabilise its bond yields and currency. Two benefits of a stable currency are (1) the removal of Operation Twist, which was put in place to raise short-end bond prices to attract NR investors, and (2) structural interest rates in Indonesia will be lowered, benefitting the economy and bond investors, as such we are overweight duration.
- **Rating outlook:** S&P noted that the rating could be raised if net external debt falls below 50% of current account receipts or gross external financing needs fall below 50% plus usable reserves. The rating could also improve if the fiscal deficit falls below 3% of GDP, net debt stock falls below 30% of GDP, or interest payments drop below 10% of state revenue.

Figure 13: 2023, 2024 and 2025 forecasts

	IndoGB 2YR	IndoGB 5YR	IndoGB 10YR	IndoGB 15YR	IndoGB 20YR	IndoGB 30YR
As at 30 November	6.588	6.626	6.606	6.788	6.885	6.925
End-2024 Target	5.50	5.90	6.20	6.40	6.55	6.70
End-2025 Target	5.40	5.80	6.10	6.30	6.45	6.60

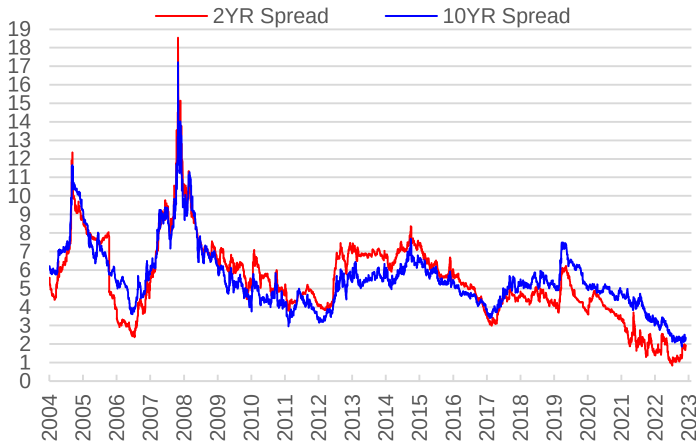
Source: Bloomberg, RHB Economics & Market Strategy

Figure 14: Our 2023, 2024 and 2025 IndoGB forecasts



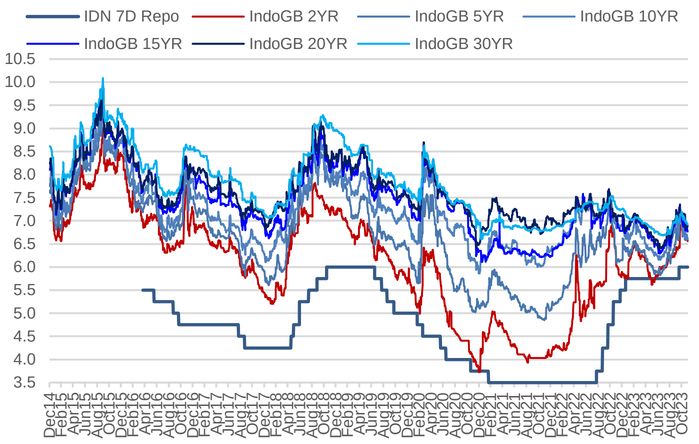
Source: Bloomberg, RHB Economics & Market Strategy
Note: As of 30 November 2023

Figure 15: UST/IndoGB spreads hovering at record lows and likely to sustain near those levels



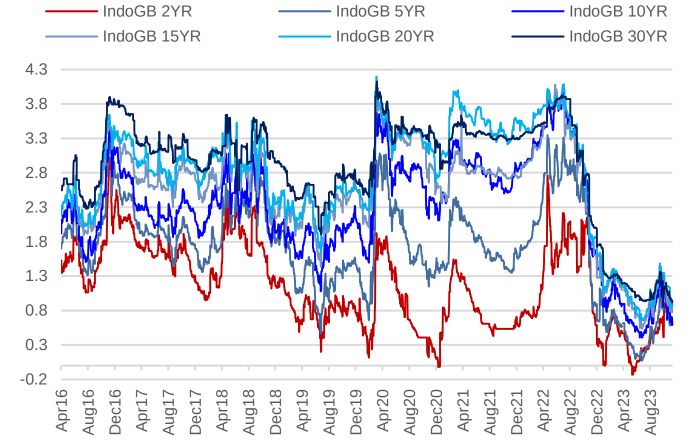
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 16: IndoGB yield curve is relatively flat



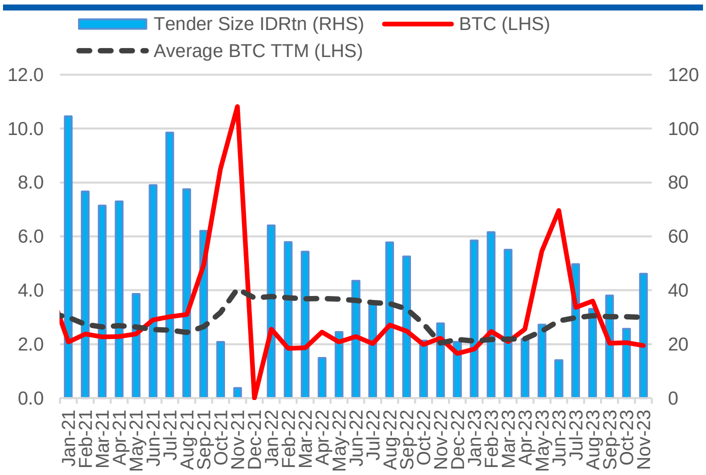
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 17: IndoGB spread against policy rate remains tight



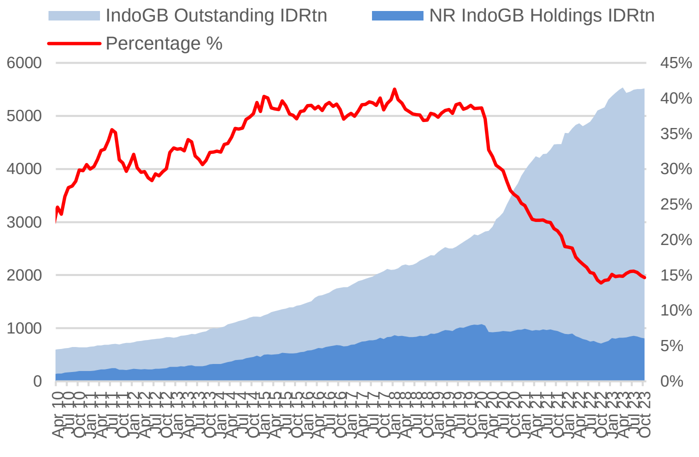
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 18: BTC ratio in 2023 remains within trend



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at November 2023

Figure 19: Non-resident holders of IndoGB in IDR terms and in percentage remain below pre-pandemic levels



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at October 2023

Malaysia (A, Stable)

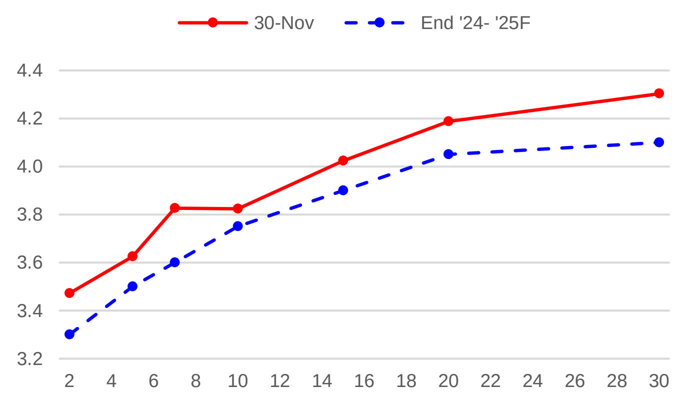
- **Regionally, we are Market Weight MGS/GII as current yields are near our medium-term targets with a total return of 4.0% in 2024.** Given the adjustment of our end-2023 10YR UST target from 5.0% to 4.5%, we are revising the end-2023 10YR MGS target from 4.10% to 3.70%.
- **Our 10YR UST and 10YR MGS targets materialised on 19 October when the 10YR UST closed at 4.99%,** while the 10YR MGS closed at a cycle peak of 4.159% a day later. Our call to add MGS/GII on 25 October has done well. Given our expectations for the Overnight Policy Rate to be maintained at 3.00% through 2024 and 2025, we expect 10YR MGS to trade around 3.60%, derived from the 2023 low of 3.647% in May.

Figure 20: 2023 to 2025 forecasts

	MGS 3YR	MGS 5YR	MGS 7YR	MGS 10YR	MGS 15YR	MGS 20YR	MGS 30YR
As at 30 November	3.472	3.626	3.827	3.824	4.024	4.188	4.303
End-'24F & '25F	3.30	3.50	3.60	3.75	3.90	4.05	4.10

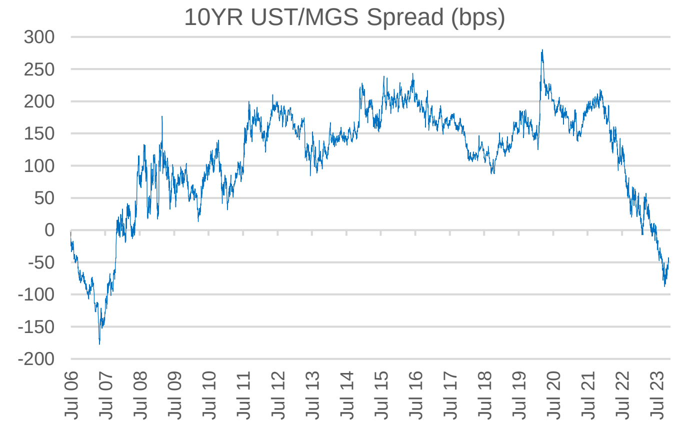
Source: RHB Economics & Market Strategy
Note: Data as of 30 November 2023

Figure 21: MGS bull-steepened in 3Q23, and is close to our end-2023 targeted yields; maintain Market Weight



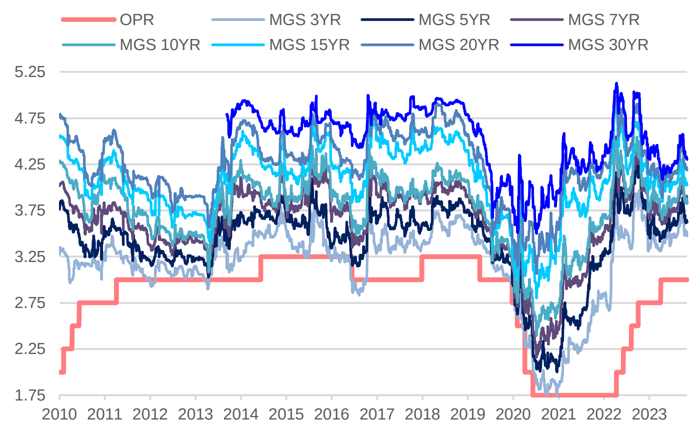
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point as of 30 November 2023

Figure 22: 10YR UST/MGS spreads off multi-year lows are UST yields retreated in Nov



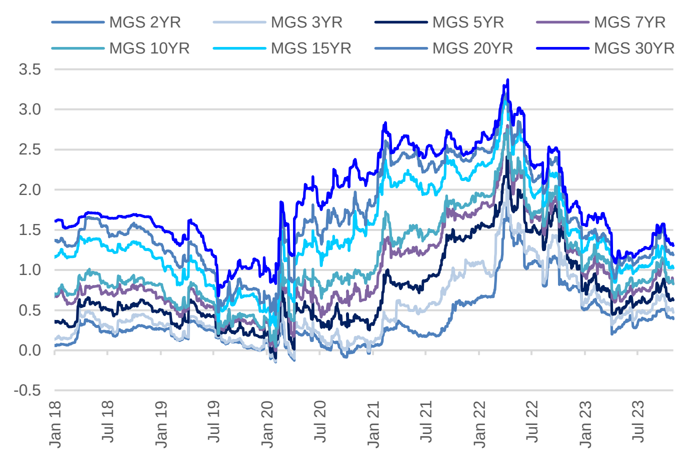
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 23: MGS yields and OPR



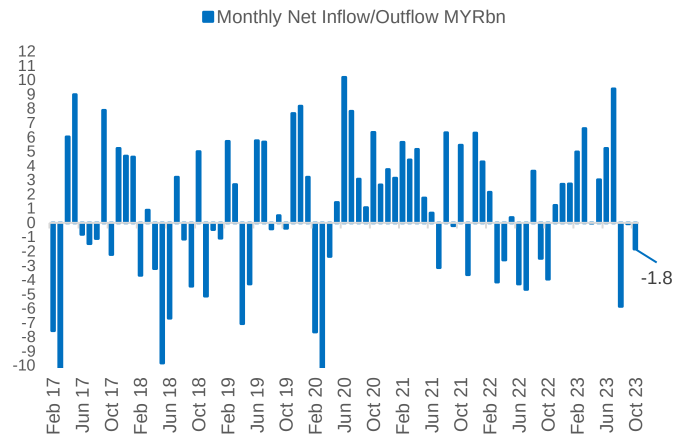
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 24: MGS spread over OPR relatively tight



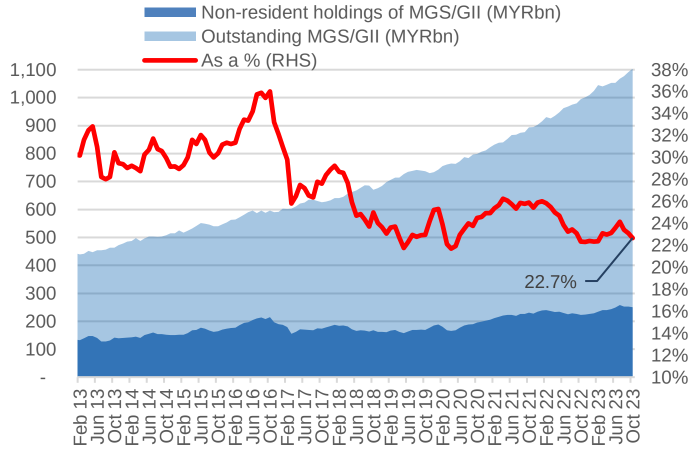
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 25: Non-resident holdings saw three consecutive months of outflow



Source: BNM, RHB Economics & Market Strategy
Note: Last data point at October 2023

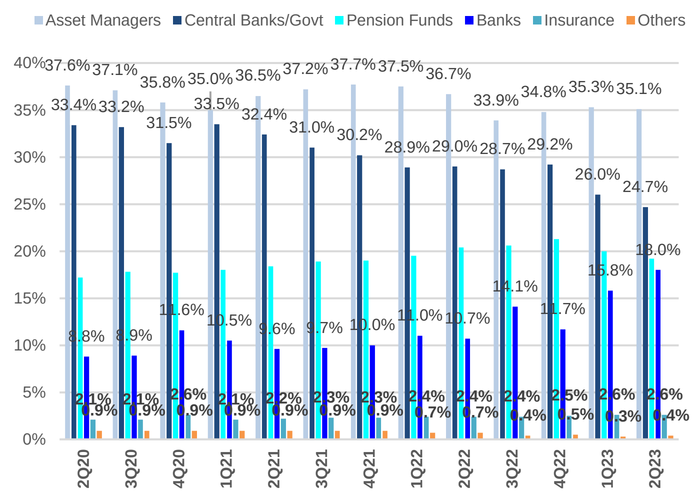
Figure 26: October non-resident holders stood at 22.7%



Source: BNM, RHB Economics & Market Strategy
Note: Last data point at October 2023

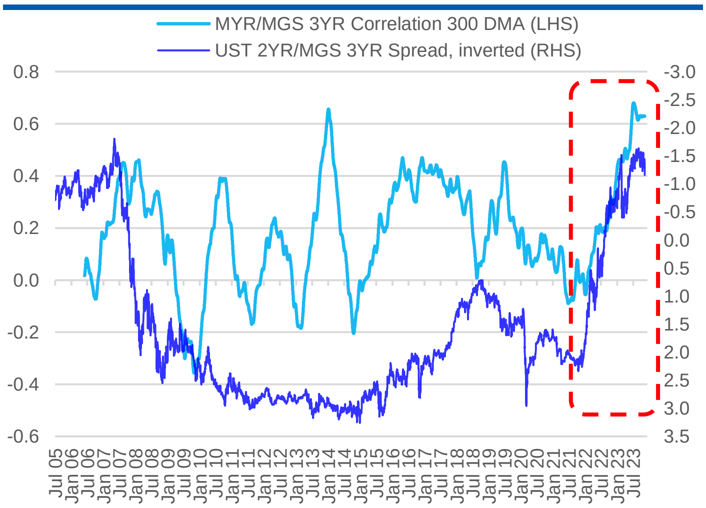
- **The rising UST/MGS spreads have driven the correlation between the MYR and MGS (Figure 28). Thus, a softening UST yield outlook should support a lower MGS/GII yield structure.**

Figure 27: In 2Q23, non-resident central banks/Government reduced MGS/GII holdings while banks increased holdings



Source: BNM, RHB Economics & Market Strategy

Figure 28: Rising UST/MGS yield differential is driving MYR and MGS correlation higher



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 29: MGS/GII quarterly change in holdings, internal calculations

	EPF	KWAP	Insurance	BNM	Banks	DFI	Non-bank FIs	Foreign	Others	Total
1Q16	2,904	-48	-562	-763	3,832	631	-50	13,013	-458	18,500
2Q16	10,899	-375	592	561	3,930	-214	30	17,186	-9,281	23,328
3Q16	-5,493	519	-462	-1,700	-8,048	-632	-130	5,436	2,541	-7,969
4Q16	3,128	2,851	2,145	4,758	5,377	-2,001	0	-18,271	6,013	4,000
1Q17	14,573	-522	459	3,472	24,719	1,096	160	-34,318	1,611	11,250
2Q17	14,816	-2,153	-2,199	-3,763	5,903	-1,175	-30	14,185	-4,302	21,281
3Q17	5,704	-1,023	317	-584	-2,728	-1,015	28	5,299	-58	5,940
4Q17	4,117	164	-61	3,465	-15,729	-14	162	7,701	2,515	2,319
1Q18	13,647	307	-108	-2,003	2,389	611	-50	1,824	-3,479	13,139
2Q18	8,265	107	1,480	-348	30,632	164	290	-19,726	1,487	22,350
3Q18	2,961	1,688	2,382	-2,250	6,385	278	-160	-2,390	-3,250	5,644
4Q18	-2,119	-467	321	6,230	7,903	-363	60	-4,157	3,392	10,800
1Q19	12,321	-258	-1,169	-455	10,368	321	-50	8,205	40	29,322
2Q19	2,911	2,538	-230	-2,560	15,527	-2,145	120	-2,855	7,195	20,500
3Q19	-3,569	-1,836	425	-1,370	-2,757	737	-50	5,745	7,360	4,684
4Q19	2,817	45	820	-1,670	-16,696	-48	70	12,650	-4,208	-6,219
1Q20	9,182	187	-2,460	7,280	22,488	-385	140	-16,839	8,207	27,800
2Q20	-12,297	-860	3,404	482	16,045	-2,589	30	10,689	-2,904	12,000
3Q20	-8,370	1,451	2,701	1,313	7,838	260	-40	11,044	7,330	23,527
4Q20	-749	-620	1,791	5,357	-6,851	755	-10	13,014	2,071	14,758
1Q21	3,065	1,223	1,580	-2,430	10,164	1,048	120	12,575	154	27,500
2Q21	7,964	1,321	1,583	996	12,250	-1	-20	7,897	-4,489	27,500
3Q21	-1,758	233	2,375	-960	1,838	560	80	3,410	4,523	10,300
4Q21	10,735	1,770	-234	8,346	495	30	-310	8,568	-2,400	27,000
1Q22	9,176	157	683	-6,604	14,513	1,334	70	2,857	835	23,021
2Q22	7,250	793	1,564	8,750	16,040	2,016	-270	-6,122	5,980	36,000
3Q22	11,355	-40	1,150	14,955	-7,750	710	-270	-3,532	560	17,139
4Q22	5,927	-584	3,272	24,030	-2,832	-28	150	365	-301	30,000
1Q23	11,909	1,998	2,576	-4,185	1,587	2,794	670	14,395	-664	31,080
2Q23	6,591	2,013	1,480	-11,609	13,590	21	-220	8,116	3,118	23,100
3Q23	15,908	640	2,063	2,389	8,855	-1,279	-210	3,447	-3,813	28,000

Source: BNM, RHB Economics & Market Strategy

Singapore (AAA, Stable)

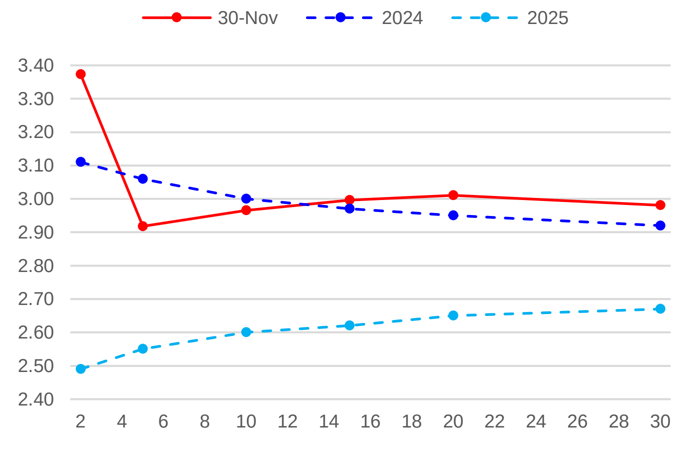
- **Regionally, we are Market Weight SGS given the less attractive yields to maturity (YTM) and our expectations of a total return of 3.4% in 2024, albeit a high-quality sovereign.** Domestically, we are Overweight the front end of the curve due to attractive yields from the inverted curve. We are fine-tuning our 2024 targets as we expect the Federal Reserve to begin cutting rates by 2H24 to close the year with the Fed Fund Rate (FFR) at 5.0 - 5.25%; as such, SGD rates will start to move lower in response to a lower FFR scenario around 2H24.

Figure 30: 2023 to 2025 SGS forecasts

	SGS 2YR	SGS 5YR	SGS 10YR	SGS 15YR	SGS 20YR	SGS 30YR
As at 30 November	3.373	2.918	2.966	2.996	3.011	2.981
End-2024F	3.11	3.06	3.00	2.97	2.95	2.92
End-2025F	2.49	2.55	2.60	2.62	2.65	2.67

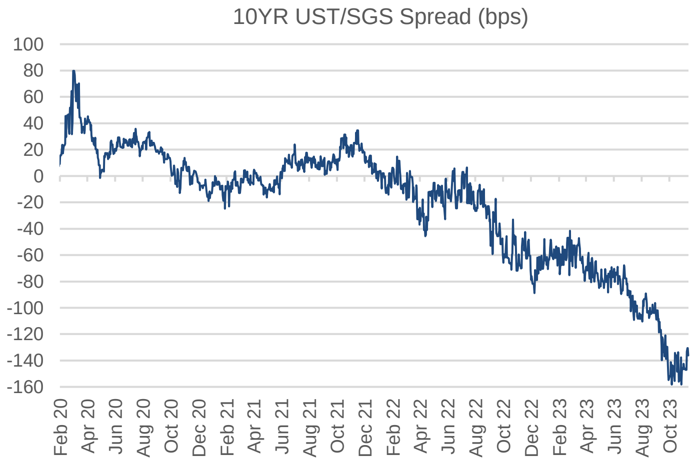
Source: RHB Economics & Market Strategy
Note: Data as of 30 November 2023

Figure 31: Given the upgrade of the FFR assessment by us, as well as the Fed, we are revising higher the 2024 forecasts



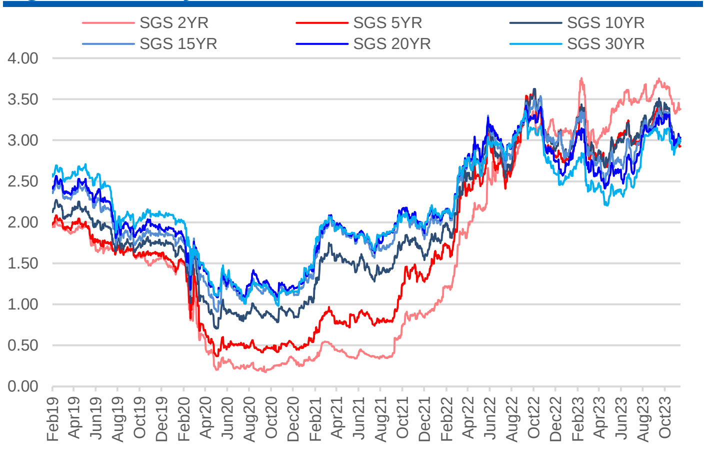
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 32: SGS yields resisted UST yield rally as 10YR spreads widen



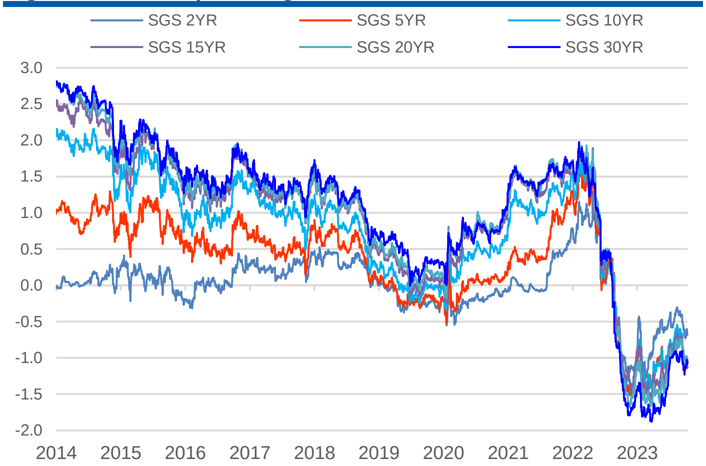
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 33: SGS yields



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 34: SGS spread against 3M SIBOR



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Thailand (BBB+, Stable)

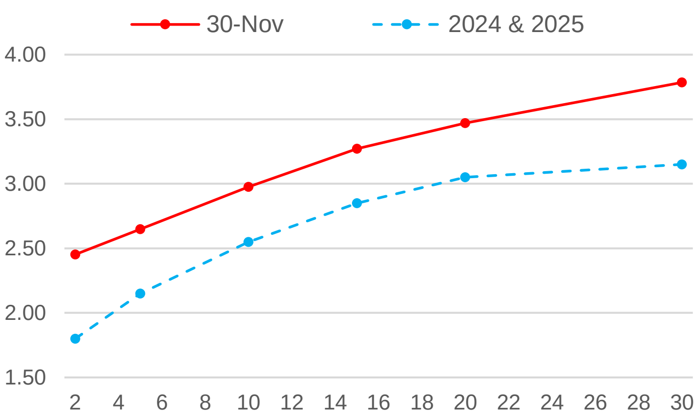
- **Regionally, we continue to Under Weight TGBs given our total return expectations of 3.0% in 2024.** Our regional 3Q23 Underweight call for TGB panned well, and the index returned 2.3%. We are neutral on the curve positioning from a domestic perspective, as the yield curve is well-priced. We think the FFR cut by the end of 2024 will allow TGB yields to decline. The worst of the UST yield differential has passed as the UST yield retreated in November.
- **We saw persistent non-resident outflows in 2023, given the rising USD yield differential and political uncertainty.** Looking forward, we do not see a strong catalyst for a return of non-resident investors in the near term; however, a stabilising political outlook could improve foreign flows. Domestic banks' participation should remain robust given the moderating growth and relatively low inflationary environment.

Figure 35: 2023 and 2024 forecasts

	TGB 2YR	TGB 7YR	TGB 10YR	TGB 15YR	TGB 20YR	TGB 30YR
As at 30 November 23	2.452	2.649	2.977	3.271	3.469	3.785
End-'24F & '25F	1.800	2.150	2.550	2.850	3.050	3.150

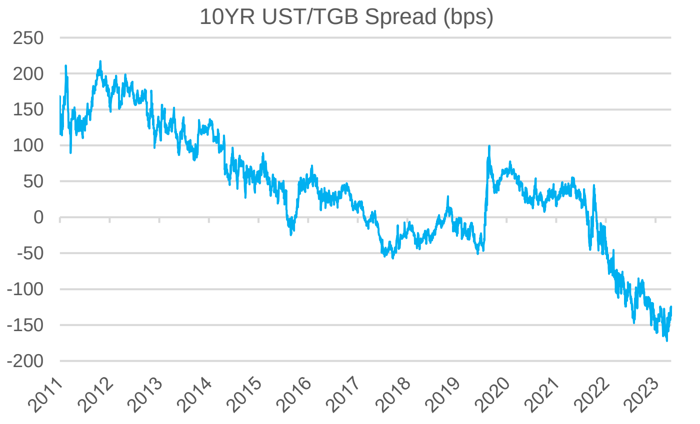
Source: RHB Economics & Market Strategy
Note: Data as of 30 November 2023

Figure 36: Current TGB yields versus our year-end forecast



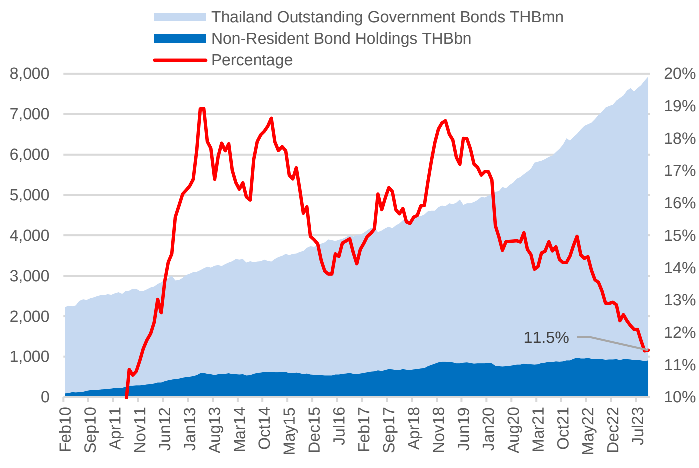
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 37: 10YR UST/TGB spreads rebounding from record low as UST yields retreat in November



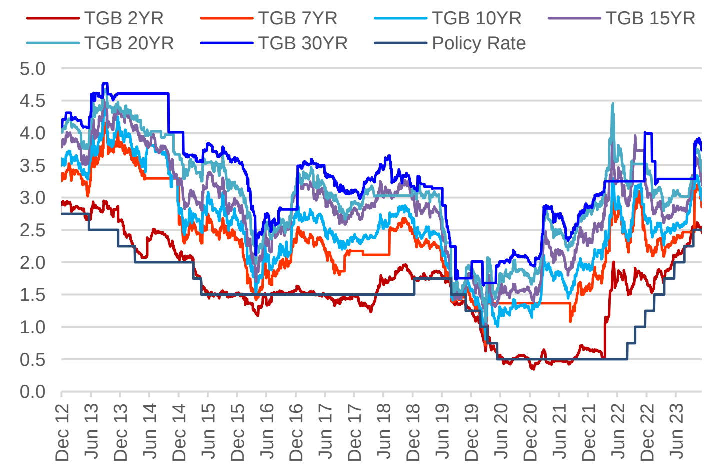
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Figure 38: In October, non-resident holders stood at 11.5%



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at October 2023

Figure 39: TGB yields



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

Corporate Bonds

Asia USD Bonds – Corporate Bond Picks

- The corporate bond issuers we like are **MISC, Keppel Corporation, Singapore Exchange, PTT PCL, Perusahaan Listrik Negara Persero and PT Freeport Indonesia.**

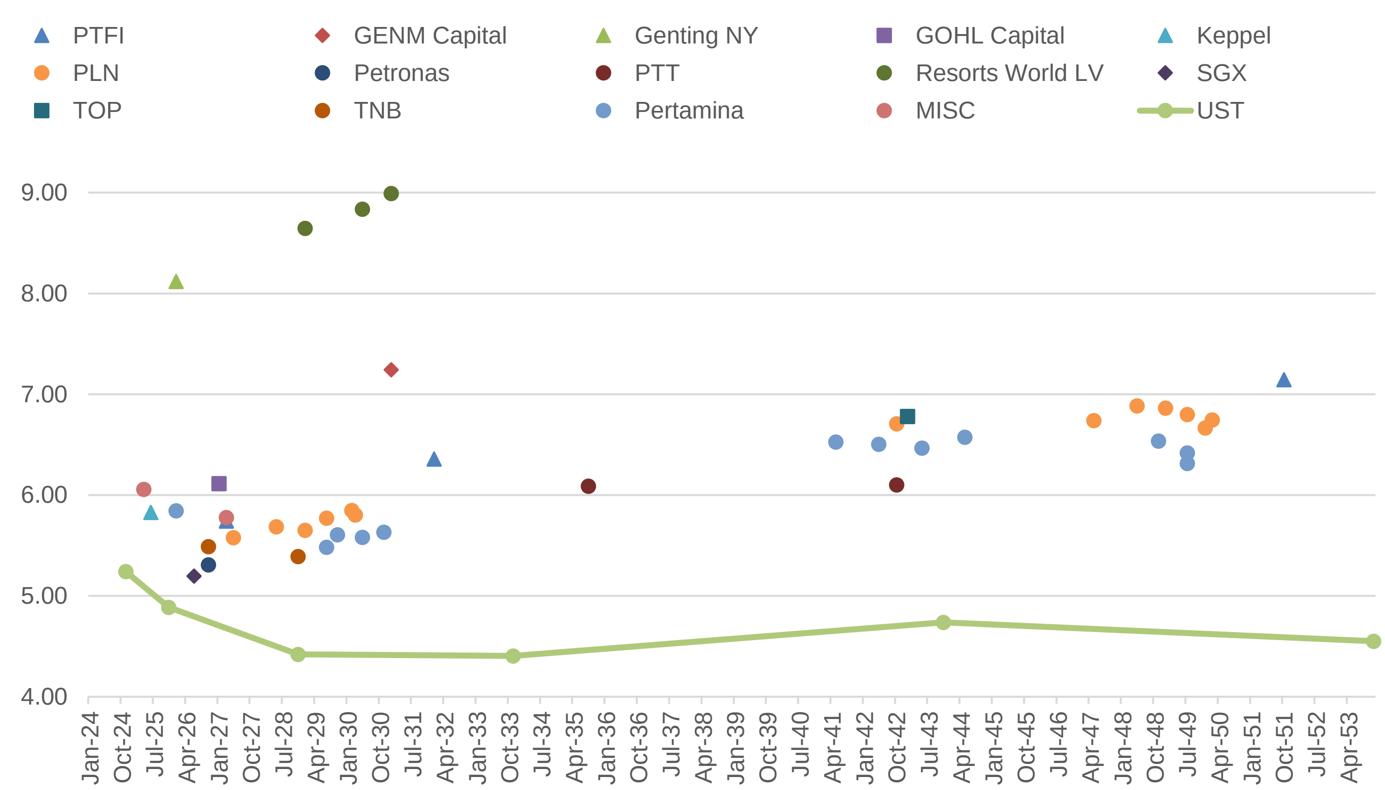
Figure 40: Issuer description and outlook

Issuer	Description & Outlook
Thai Oil PCL (TOP)	We maintain **Market Perform on Thai Oil PCL** (TOP) (BBB-) and **Thaioil Treasury Center Company Ltd** (TTCC) as the pick-up yields are low when compared to their USD US Energy BBB- peers. TTCC bonds are guaranteed by TOP. TOP is Thailand's largest oil refiner with a capacity of 275k barrels per day (bpd) and has long-term feedstock supply and product offtake agreements with subsidiaries of PTT PCL. As TOP is strategically important to its parent PTT's (48% stake) downstream oil business, it is likely to receive extraordinary support from PTT, which is 51% owned by the Thai Government. In 3Q23, net profit rose by 869% QoQ to THB10.8bn as its oil refinery business contributed higher due to its gross refining margin increasing 176% QoQ to USD12.4/bbl. Its debt-to-equity ratio was little changed at 1.18x. Performance in 4Q23 is expected to be weaker as the gasoline crack spread in October fell 51% MoM to about USD6/bbl due to soft gasoline demand following the end of the US driving season, a peak demand season for gasoline.
Pertamina Persero PT (Pertamina)	We are **Market Perform on Pertamina Persero PT** (Pertamina) (BBB) as its yields provide little pick-up compared to the US Energy AAA curve. Pertamina is Indonesia's largest integrated oil and gas player and is state-owned with 100% ownership by the Indonesian government. This reflects the high likelihood of extraordinary support from the Indonesian government. Pertamina is strategic to Indonesia as it produces c. 45% of the country's fuel requirements. The fuel it sells is at a mandated subsidised price and receives government subsidy reimbursement. Pertamina produces an average of 967 thousand barrels of oil equivalent per day (kboepd) and plans to achieve 1,000 kboepd per day by 2030. To achieve this, it plans to drill more than 800 development wells and 29 exploration wells in 2023. The higher kboepd will contribute to higher revenue over the years. In FY22, revenue rose 48% YoY to USD3.8bn as oil prices were strong, product prices increased, and upstream and downstream businesses improved. Furthermore, oil production increased 8% YoY, while sales volume increased 5% YoY. The FY22 capex of USD4.5bn was mainly due to upstream and refinery investments. Pertamina plans to spend USD65 billion from 2023 to 2027 to expand its drilling production and refinery capacity. Historically, the company's capex has been lower than the budgeted amount.
MISC Berhad (MISC)	We are **Outperform on MISC Berhad** (MISC) (BBB) USD bonds that it issues and guarantees through its SPV **MISC Capital Two (Labuan) Ltd**. The yield returns are good as they are above the USD US Corporate BBB curve. MISC is an international energy shipping company with business activities in liquefied natural gas & petroleum shipping and offshore & heavy engineering and is 51% owned by Petroliam Nasional Berhad, a state-owned integrated energy entity. The company operates 12 offshore floating facilities and 97 chartered-in vessels and has a combined capacity of more than 13m deadweight tonnage. International rating agencies view that the parent will provide extraordinary support to MISC due to their close integration. The Mero 3 project is at 89% completion as at end-2Q23, and upon commissioning in 2Q24, it will provide growth to its charter revenue, improve FCF and provide stable cash flow for the next 22 years. CFO rose to MYR3.1bn mainly due to a one-off prepayment from a charterer within the gas assets and solutions business. Meanwhile, the debt-to-equity ratio remains low and improved to 0.45x in 1H23 due to debt repayments. MISC's performance is exposed to the volatility of freight indexes as most of its contracts are linked to it.
Keppel Corporation Ltd (Keppel)	We are **Outperform on Keppel Corporation Ltd** (Keppel) (unrated) as the 6/25 bond yield of 5.87% is above the USD Corporate A curve. Keppel is 21% owned by Temasek and has segments in energy & environment (63% of revenue), urban development (14%), connectivity (20%) and asset management (3%). In 1H23, net profit, excluding a one-off divestment gain of SGD3.3bn, grew 2.5% YoY to SGD445m due to better performance in infrastructure from an improved integrated power business. Keppel gained SGD3.3bn from the disposal of its offshore & marine business as it is shifting to remove its conglomerate structure and become a global alternative real asset manager with deep operating capabilities in infrastructure, real estate and connectivity. Its CFO/interest fell to -1.6 as interest expense rose to SGD148m, with an average interest cost of 3.53%.
Singapore Exchange Ltd (SGX)	We are **Outperform on Singapore Exchange Ltd** (SGX) (AA) as the SGXSP 9/26 gives an additional 30+ bps above similarly rated bonds. SGX enjoys a monopoly in Singapore as it is the sole equities exchange, equities clearinghouse and central depositor, while it has 18 offices globally apart from Singapore. International rating agencies view the exchange to have a high probability of support from the Singapore Government due to its strategic and systematic importance in the country. FY23 revenue rose 8.7% YoY, mainly due to the fixed income, currencies and commodities (FICC) business that grew 30.6% YoY. The company's debt-to-equity ratio improved to 0.43x, while capex is expected to increase to SGD75-80m in FY24 due to an SGD8m deferment in FY23.
PTT PCL (PTT)	We are **Outperform on PTT PCL** (PTT) (BBB+) as its 12YR bond yields give additional pick-up of 20bps against its USD US Energy BBB+ peers. In 1H23, its net profit fell 48 % YoY to THB47.96bn, mainly due to higher stock losses and lower gross margin. Meanwhile, the net debt-to-equity ratio improved to 0.48x in 2H23. The recent jump in crude oil prices could support PTT's short- to medium-term earnings from upstream oil & gas production, while downstream activities will record inventory gains. The group enjoys credit uplift due to its strategic importance to the energy sector and close link to the Government of Thailand.
Perusahaan Listrik Negara Persero (PLN)	We are **Outperform on Perusahaan Listrik Negara Persero** (PLN) (BBB) as its USD bond offers yield pick-up of 5.5% to 6.6%, above its corporate peers, especially at the long end. International rating agencies view the company's credit as equal to Indonesia's due to its importance in providing a key public service, its strong linkage to the state, and the likelihood of sovereign support. PLN is a 100% government-owned integrated electricity utility company with a monopoly position in Indonesia's electricity transmission and distribution and a dominant position in power generation. PLN receives support from the Indonesian government through electricity subsidy payments to meet the country's public service obligation. However, there is an average gap of 17% in actual and budgeted subsidies paid, while there have been delays in the actual payment of the subsidies in recent years. The irregularity of the payment timing could strain the company's credit profile. PLN's credit metrics may be strained as large capital expenditures are required for its plans to increase to 14.3 gigawatt capacity over the next 10 years. In 1H23, its debt-to-equity ratio improved to 0.37x from 0.41x in 2022, while EBIT fell to IDR32.3trn from IDR36.2trn in 1H22 over the same period due to a lower EBIT margin of 13.8%.

PT Freeport Indonesia (PTFI)	We are **Outperform on PT Freeport Indonesia** (PTFI) (BBB-) as its bond yields are well above the USD Indonesia Corporate curve. PTFI has exclusive rights to mine and operate the Grasberg mine in Indonesia, the largest gold and copper mining deposits globally in terms of production and reserves. The Indonesian government owns 52% of the company, while an American mining company, Freeport-McMoRan Inc, owns the remaining 48%. The copper and gold reserve at Grasberg mines is estimated to have a reserve life up to 2041 if PTFI mines within its planned production of 1.6bn pounds of copper annually. PTFI's performance is exposed to metal prices as its revenue is primarily from copper, followed by gold sales. Copper and gold prices have remained well above its pre-pandemic levels at c.USD374/lb and USD1,900/oz respectively. PTFI's EBIT margin was high at 54% in FY22 due to its low production cost. Its low debt/EBIT of 0.5x gives it room to take up more capex and build more smelters.
Tenaga Nasional Berhad (TNB)	**Tenaga Nasional Berhad** (TNB) is the obligor of **TNB Global Ventures Capital Berhad** (TNBGV) (BBB+, S&P), an SPV that issues USD Sukuk. TNB is Malaysia's largest vertically integrated electric utility in Malaysia and produces most of the power in Peninsular Malaysia. Its generation mix is mainly made up of coal (56%) and gas (37%) as of the end of 2022. The government is highly likely to support TNB as the company plays a core role in the country's power utilities. TNB's strong balance sheet is supported by its high cash holdings of MYR14.7bn, while its CFO is high at 3.7x as at 1Q23. The company's debt-to-equity increased to 1.61x as it drew down additional borrowings for working capital needs and capex. Due to the business' capital-intensive nature, there is a risk that TNB's gearing will increase as it plans to venture into overseas markets such as South Korea, Taiwan and Australia. We are **Underperform** on TNBGV as its yields are below its USD US energy peers.
Petroliam Nasional Berhad (Petronas)	**Petroliam Nasional Berhad** (Petronas) (A2, Moody's) is a leading multinational, integrated energy company with a global presence in over 50 countries, and a strategic Malaysia state-owned entity. International rating agency Fitch assesses Petronas's standalone credit profile to be stronger than its shareholders, **meaning its implied rating is at least A1.** The company benefits from exclusive rights to Malaysia's oil and gas reserves by law. As of 1 January 2023, Petronas' entitlement to proven oil and gas reserves was 6.78bn barrels of oil equivalent, with around 53% in Malaysia. The company's strong financial metrics and robust liquidity as of 1Q23 is supported by a sturdy balance sheet profile with a robust net cash position of MYR110bn and stable debt-to-equity ratio of 0.29x. Petronas' CFO/debt-service ratio is at 4.5x. In 1H22, the company reported higher EBITDA of 80% to MYR82bn due to high oil prices. The company's bonds are trading well above USTs but tighter than the Bloomberg USD Asia materials curve with an average rating of A2; we are **Market Perform** on Petronas USD bonds.
GENM Capital Labuan	We are **Outperform on GENM Capital Labuan** (BBB-, S&P), given the meaningful 80bps spread over the USD BBB- curve. We are also **Outperform the speculative grade Genting New York LLC** (GENTNY) (BB+, S&P), and **Resorts World Las Vegas LLC** (RWLV) (BB+, S&P) given the attractive spread of around 140bps over the USD BB+ curve. We are **Market Perform** on **GOHL Capital Ltd** (BBB, Fitch) given that yields are near the BBB- curve.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 41: Relative value – Our recommended Asia USD corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Prices as of 30 November 2023

Indonesia – Corporate bond picks

- Outstanding corporate bond issuers are distributed widely in many sectors, with financial constituting the largest share (42%), followed by materials (19%) and industrials (16%).

Figure 42: Domestic outstanding IDR corporate bonds, as a % of total outstanding

Sector	IDRmn	%
Financials	198,604,274	42.43%
Materials	90,596,460	19.36%
Industrials	73,753,294	15.76%
Utilities	30,222,685	6.46%
Communications	20,375,750	4.35%
Consumer Discretionary	19,228,681	4.11%
Consumer Staples	15,605,538	3.33%
Energy	17,503,360	3.74%
Health Care	2,171,000	0.46%

Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 30 November 2023

- Indonesian corporate bonds offer the highest absolute yields under our regional coverage. **We prefer strategically important government-related entities (GRE), as they offer sovereign support together with some yield pick-up over IndoGBs**. Operation Twist by Bank Indonesia lifted front-end yields and offered attractive short-term yields, helping to reduce duration risk.
- The corporate bond issuers we like are **Bank Rakyat Indonesia, Perusahaan Listrik Negara, Sarana Multi Infrastruktur, PT Chandra Asro, Indah Kiat, Wijaya Karya, and Merdeka Copper and Gold**.

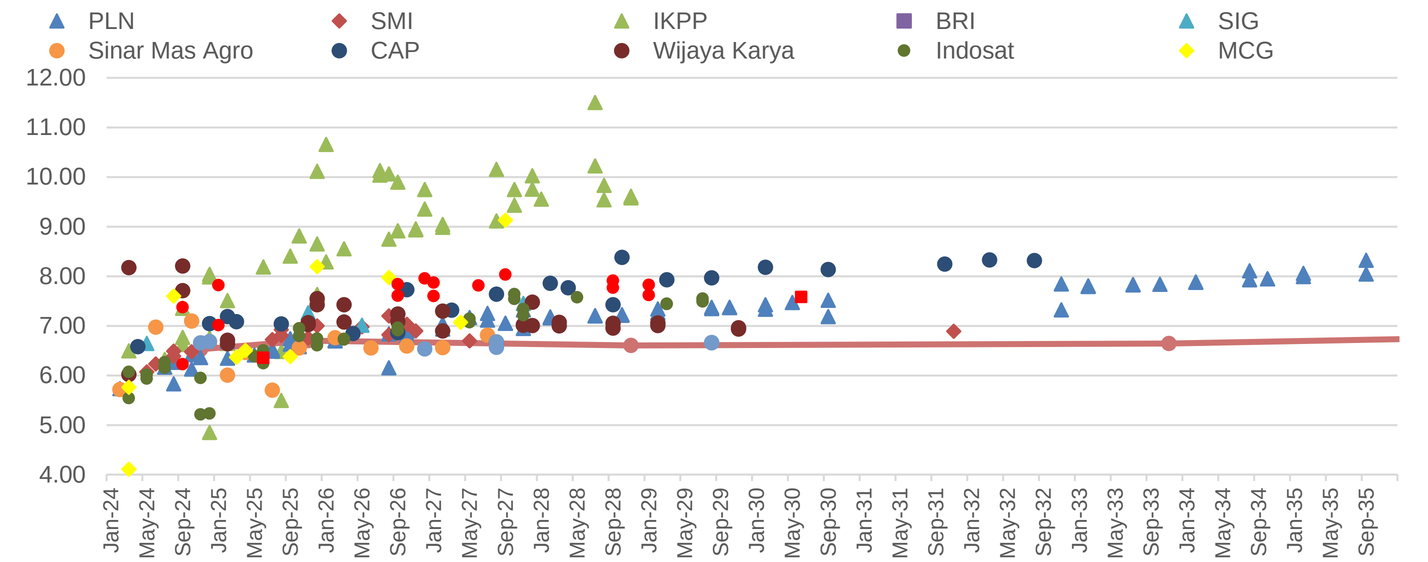
Figure 43: Issuer description and outlook

Issuer	Description & Outlook
Hutama Karya Persero PT (HK)	We are **Market Perform on Hutama Karya Persero PT** (HK) (AA-, Pefindo) as the yield returns are relatively on par with IndoGB. However, the yield returns of the three 2025-2027 secured bonds are above 7.50%. HK is a state-owned construction company and toll road operator. There is a high likelihood of government support due to HK's role in constructing the Trans-Sumatra toll road. This is evident with the government injecting capital of IDR83.7trn since 2015 and IDR31.4trn in 2022. Under the presidential decrees, the government is to provide unconditional and irrevocable guarantees for loans used to finance the Trans-Sumatra project, and it states that HK is the sole developer and operator of the 2,749km long toll road project. The project will be the longest toll road in Indonesia upon completion. The Trans-Sumatra toll road project consists of four stages, and the first stage is expected to be completed by 2024. As of the end of 2022, 596km of the Trans-Sumatra project is in operation. The Trans-Sumatra toll road makes up 54% of HK's revenue in FY22 and will likely support its earnings for the next few years. The company's CFO/interest ratio remains low at 0.2x, while the debt-to-equity ratio is at 0.58x. HK is expected to rely on government support as internally generated funds are insufficient to fund the construction of the Trans-Sumatra project. However, credit risk is mitigated as 87% of HK's debt in FY22 is related to the Trans-Sumatra project, which is government-guaranteed.
Kereta Api Indonesia PT (KAI)	We are **Underperform on Kereta Api Indonesia PT (KAI) (AAA, Pefindo)** as its yields are unattractive with yields below the IndoGB. KAI provides, regulates and manages rail transportation services in Indonesia and is wholly owned by the Indonesian government. KAI is highly likely to receive extraordinary government support as its role is important to Indonesia's railway system. Furthermore, its importance is reflected in a presidential decree that states KAI is to operate the Greater Jakarta Light Rail Transit (LRT) and Jakarta-Bandung High-Speed Rail (HSR) projects. Government support is evident in the past as the railway received a series of state capital injections of IDR17.7trn in 2015-2022. In FY22, KAI turned to net profit as ridership rose 84% YoY to 284.6m following the easing of COVID-19 restrictions, while its freight transportation rose by an average of 22% in 2022. Despite the change in commuting patterns, such as hybrid work arrangements, ridership is expected to improve as there are no longer travel restrictions. The railway's freight transport will continue to be supported by the long-term contract to transport coal production from mining sites with Bukit Asam Tbk PT. The company's debt-to-equity ratio is at 1.01x and is expected to continue to be highly leveraged as it takes more debt for several capacity expansion projects. 48% of KAI's total debt in FY22 is comprised of syndicated loans on the Greater Jakarta LRT and are government-guaranteed. Any additional loans under the Greater Jakarta LRT would be automatically government-guaranteed.
Bank Rakyat Indonesia (BRI)	We are **Outperform Bank Rakyat Indonesia** (BRI) as its April 2027 and June 2027 4YR bonds are attractive with indicative yields of c.6.22-6.38% above IndoGB. BRI's liquidity position remains healthy, with strong loan growth in 1Q23. NPL coverage stood high at 282.49%, Tier-1 CAR remains high at 23.93%, loan growth grew 9.7% YoY, while NIM rose 10bps YoY to 7.82%. BRI is one of the largest banks in Indonesia, and its largest shareholder is the Government of Indonesia, with 53% holdings.
Semen Indonesia Group (SIG)	We are giving an **Underperform** rating to **Semen Indonesia Group** (SIG) (rated AA+ by a domestic rating agency) as its bond yields are lower than IndoGB. The company mainly manufactures cement and its derivatives with a market share of c.50% in the domestic cement market. Its largest shareholder, 51%, is the Government of Indonesia, through the Ministry of State-owned Enterprises. SIG's net profit increased 11.1% QoQ as they managed to control costs despite a continued trend of slowing demand and high coal prices in 1Q23. In 1Q23, debt-to-equity remained low at 0.3x, while CFO/interest deteriorated to 1.6x.
Telkom Indonesia (Telkom)	**Telkom Indonesia** (Telkom) **(Market Perform)** (AAA, Pefindo) is a good name for exposure to the high-quality IDR space. Bonds offer additional c.70bps pick-up compared to IndoGBs. The company is 52% owned by the Government of Indonesia and is the country's largest and most dominant integrated telecommunications company. The company also holds 72% of Dayamitra Telekomunikasi, Indonesia's largest tower company with over 35k towers (around 36% market share).

PT Chandra Asri Petrochemical Tbk (CAP)	We are **Outperform PT Chandra Asri Petrochemical Tbk** (CAP) (AA-, Perfindo), an integrated petrochemical producer and a regional market leader in its sector. The company serves the domestic downstream industries and regional export markets in Indonesia. Credit metrics for CAP are healthy, with 0.0x and 0.5x of net and gross gearing at Dec-FY22, respectively. Nevertheless, the company suffered losses in FY22 due to high input costs from volatile oil prices. However, yields are attractive as they offer between 6.0% and 8.5% for tenures from one year to nine years.
Perusahaan Listrik Negara Persero (PLN)	International rating agencies view **Perusahaan Listrik Negara Persero's** (AAA, Pefindo) credit as equal to that of Indonesia due to its importance in providing a key public service, its strong linkage to the state and expectations of a likelihood of sovereign support. PLN is a 100% government-owned integrated electricity utility company with a monopoly position in Indonesia's electricity transmission and distribution and a dominant position in power generation. PLN receives support from the Indonesian government through electricity subsidy payments to meet the country's public service obligation. However, there is an average gap of 17% in actual and budgeted subsidies paid, while there have been delays in the actual payment of the subsidies in recent years. The irregularity of the payment timing could strain the company's credit profile. PLN's credit metrics may be strained as large capital expenditures are required for its plans to increase to 14.3-gigawatt capacity over the next ten years. In 1H23, its debt-to-equity ratio improved to 0.37x from 0.41x in 2022, while EBIT fell to IDR32.3trn from IDR36.2trn in 1H22 over the same period due to a lower EBIT margin of 13.8%. We are **Outperform** on longer-end bonds given the attractive pick-up over IndoGBs.
Sarana Multi Infrastruktur Persero PT (SMI)	**Sarana Multi Infrastruktur Persero (Market Perforn)** is a 100% government-owned financial institution providing financing, investment, advisory, and project development services to infrastructure projects. On 5 April 2022, Fitch affirmed SMI's local and foreign currency ratings at BBB (stable), stating "the close linkage between SMI's operations and the Indonesian Government's functions would lead the state to take over the company's liabilities to prevent a default." The state has strong control over SMI, in which government representatives are appointed in the board.
Indah Kiat Pulp & Paper Tbk (IKPP)	**Indah Kiat Pulp & Paper (Outperform)** (IKPP) (A+, Pefindo) operates as a pulp and paper industry, producing and marketing colour, photocopy, embossed, sticky note, envelope, memo, pad, fancy sheet, and corrugated paper products. Indah Kiat Pulp & Paper Tbk serves customers in Indonesia. It has strong credit metrics and gearing ratios. China's reopening should boost pulp and paper demand and lead to higher prices, supporting growth ahead for the company.
Merdeka Copper Gold Tbk PT (MCG)	**Merdeka Copper Gold (Outperform)** (A+, Pefindo) mines gold, copper, minerals and metals and recently ventured into electric vehicle battery manufacturing. Significant equity and debt fundraising have strengthened its balance sheet. Its stable outlook is underpinned by improving demand from the easing of zero-COVID-19 measures in China while moderated by project execution risks on its battery plant project. We like bonds maturing in 2025 and beyond as we see decent pick-up over IndoGBs.
Wijaya Karya Persero	The 65% state-owned **Wijaya Karya Persero (Outperform)** (BBB, Pefindo) offers construction services, manufactures building materials, and develops real estate. The company constructs commercial and residential apartments, rail transportation systems and bridges and manufactures concrete products, energy conversion products, alloy component casting, furniture, and steel construction. Balance sheet and credit metrics have weakened in the last three years. New contract growth is supported by strategic infrastructure development programmes and has the potential to increase along with Capital City of Nusantara project auctions.
Indosat TBK PT	**Indosat (Market Perform)** provides telecommunication services such as data communication, broadband, messaging, voice calling, roaming, and networking services. Indosat serves customers worldwide. Its strong balance sheet and healthy cash flow underpin credit quality. Healthy gross margins and potential price hikes will be credit-positive.
Sinar Mas Agro Resources & Technology	**Sinar Mas Agro Resources & Technology (Market Perform)** and its subsidiaries develop oil palm and tea plantations. The company produces and trades crude palm oil, palm kernel oil, tea, and refined palm products such as cooking oil and margarine. Sinar Mas also manufactures packaging products such as bottles and caps and provides management services. A strong cash flow coverage ratio and improving debt ratios underpin its credit profile. However, a China slowdown risk could dampen the demand outlook for CPO.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 44: Relative value – IDR corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 30 November 2023

Malaysia – Corporate bond picks

- Malaysia's outstanding corporate bonds are concentrated in financial-related issuers (financial services, banks and commercial finance).

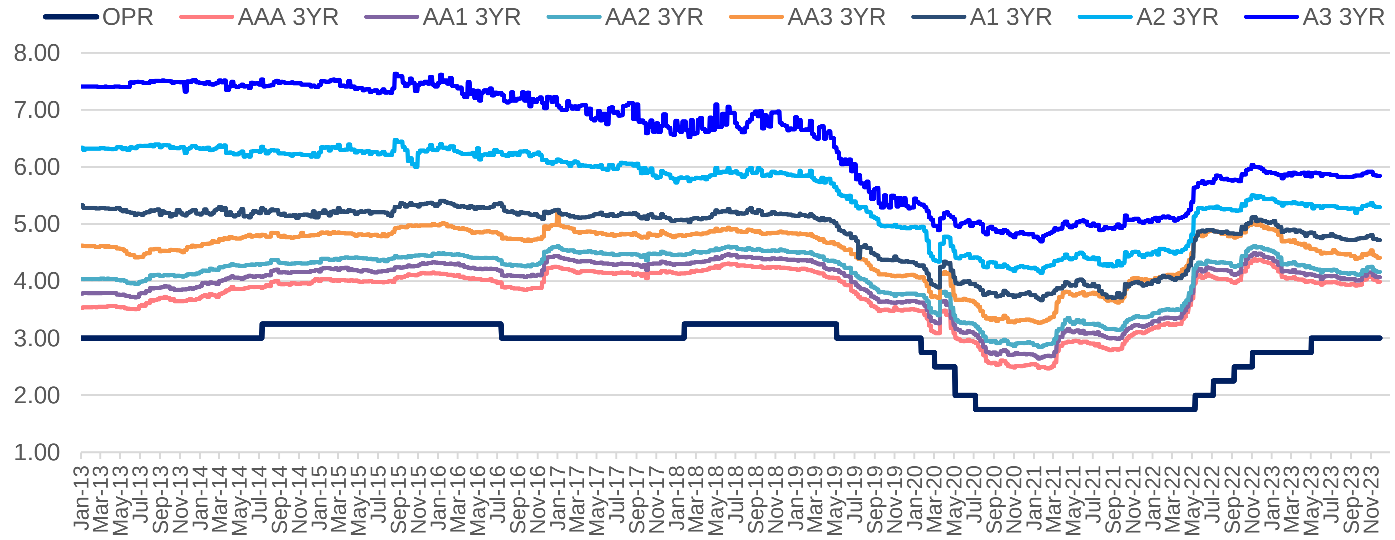
Figure 45: Domestic outstanding MYR corporate bonds, as % of total outstanding

Sector	MYRmn	%
Financial	204,702	29.30%
Public Administration	144,965	20.75%
Transportation and Storage	126,015	18.04%
Energy and Utilities	126,680	18.13%
Real Estate	38,176	5.47%
Consumer Discretionary	16,366	2.34%
Consumer Staples	12,655	1.81%
Communications Services	11,818	1.69%
Industrials	11,782	1.69%
Basic Materials	2,850	0.41%
Health Care and Social Work	1,205	0.17%
Information Technology	1,075	0.15%
Professional Services	250	0.04%

Source: BPAM, RHB Economics & Market Strategy
Note: Data as at 30 November 2023

Malaysia – Corporate yields

Figure 46: We think corporate bond yields have stabilised



Source: BNM, Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 30 November 2023

- Our top picks are **IOI Properties Group, Lebuhraya DUKE Fasa 3, SP Setia, UEM Sunrise, TNB, Bumitama Agri, Ranhill Powertron II, AmBank, EcoWorld, Malaysian Resources Corporation, YTL Power, and Genting.**
- Please refer to our commentary below and the relative value chart.

Figure 47: Issuer description and outlook

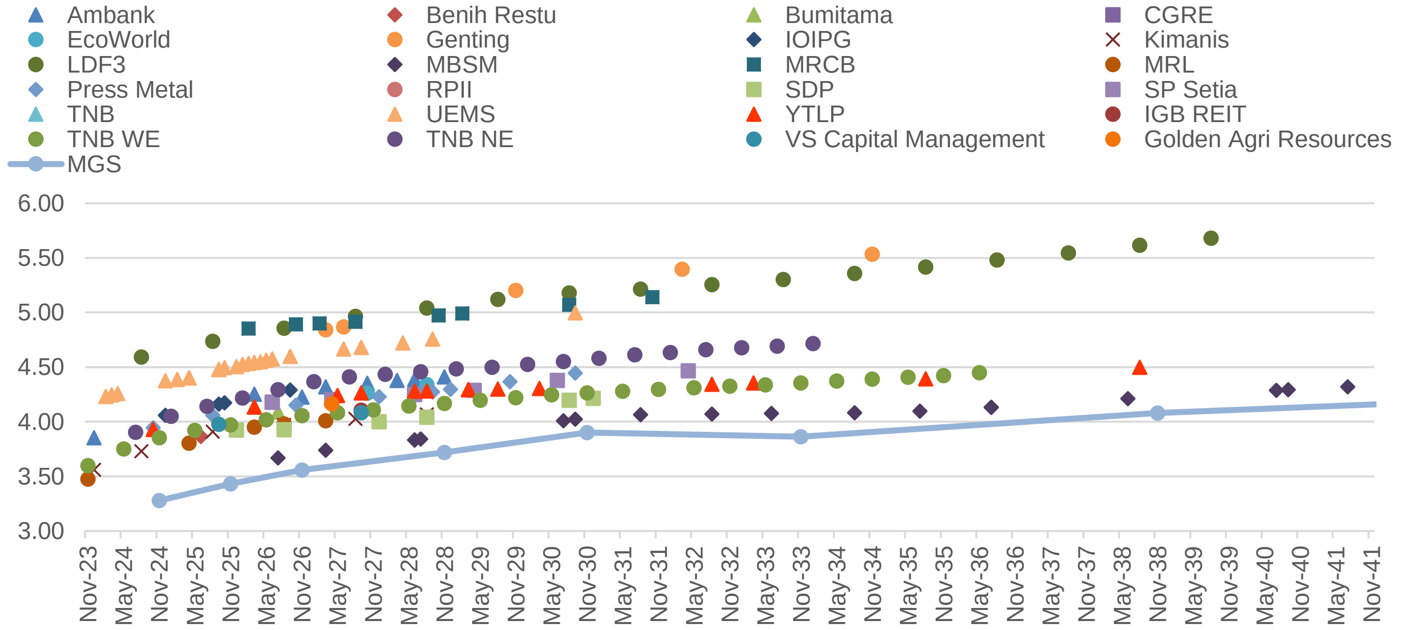
Issuer	Description & Outlook
UEM Sunrise Bhd (UEMS)	We maintain **Outperform on UEM Sunrise Bhd** (UEMS) (AA-) due to its attractive YTM and our stable view on the property sector. In addition, the recovery in the Johor property sector will bode well for the company, although gearing could rise in the near term to fund developments. UEMS is the property development arm of UEM Group Bhd that is 100% owned by Khazanah. MARC Ratings assigns a one-notch rating uplift based on Khazanah's ownership and implicit parental support. In 9M23, UEMS's net profit declined 19% YoY to MYR48m, its net debt-to-equity ratio remains low at 0.45x, while the CFO-to-interest coverage ratio is healthy at 1.5x. Its unsold inventory declined to MYR135m from MYR203m at end-2022. Unbilled sales in 1H23 were at MYR2.66bn, which would provide earnings visibility over the next two years. As of mid-August 2023, its existing projects have a combined GDV of MYR4.6bn, while its landbank is at 8,440 acres, with 92% in Johor. Most of its current and upcoming projects are in Johor and will benefit from the revival of Iskandar Puteri, Johor and the KL-Singapore High-Speed Rail projects.
EcoWorld	We are **Market Perform on Eco World Capital Berhad** (AA-), an SPV of **Eco World Development Group Berhad** (EcoWorld), as its yield returns are similar to its AA- peers. EcoWorld focuses on developing residential properties in the mid-range segment, with consistently high average take-up rates of 76% as at end-April 2023, and has more than 3,400 acres of landbank, mainly in key populous areas such as Klang Valley (53%), Johor (40%) and Penang (7%) as at end-August 2023. The property developer has a large amount of landbank and several projects in Iskandar Malaysia, and is expected to benefit upon the completion of the Rapid Transit System between Johor and Singapore. EcoWorld is looking to acquire more landbanks in Klang Valley and Iskandar Malaysia for industrial and township developments. In 9M23, revenue decreased 6.9% YoY, while its net profit rose 19.7% YoY as the net margin rose to 13% due to cost savings realised and good site progress. Its earnings visibility over the medium term is strong, with unbilled sales at MYR4.22bn as of 9MFY23. The company's debt-to-equity ratio has gradually improved to 0.51x at 9MFY23 (FY22: 0.59x) and is well-positioned to acquire more land.
Golden Agri Resources (GAR)	We maintain our **Outperform call on Golden Agri Resources (GAR)** (AA3, issued under Golden Assets International Finance Ltd). We think yields are attractive given the company's status as the largest plantation company in Indonesia. GAR's 9M23 results were below expectations at USD237m (-65% YoY) due to lower-than-expected FFB and CPO output and inventory build-up during the third quarter. GAR maintains its FFB growth projection guidance of -3% YoY for FY23. Credit metrics have continued to improve in 1H23, with the debt-to-equity ratio at 0.55x versus 0.57x at the end of 22.
IGB REIT Capital (IRC)	The 15bps pick-up over the AAA benchmark and the stable asset quality warrants an **Outperform rating on IGB REIT Capital** (IRC), based on the 9/27 call date. IRC is the funding SPV of IGB REIT Bhd (IGB). The Second Tranche MTN is secured (among others) via a legal charge over Mid Valley Megamall (MVM) and its rental income. The mall is strategically located in a mature and well-established integrated development with office towers, commercial offices, residential buildings and retail outlets. Furthermore, MVM has great connectivity to major highways such as the Federal Highway and New Pantai Expressway. The mall also has a proven strong track record since its opening. MVM has over 500 tenants with 1.79m sq ft of net rental area, while its average occupancy rate stands at a healthy 97.5% with an average rental rate of MYR16.1psf as at end-June 2023. The mall's lease maturity profile is healthy, with 90% of the leases expiring in 2023 renewed at the end of August 2023, with a mid-single-digit upward revision. In FY22, the mall's net income grew significantly by 53% YoY to MYR307m, while net profit margin rose to 78.4% from 71.5% as footfall recovered after the removal of COVID-19 restrictions. In 9M23, IGB REIT's debt-to-equity ratio remains stable at 0.30x, while CFO/debt service is healthy at 2.1x.
Tenaga Nasional Berhad (TNB)	We are **Market Perform on Tenaga Nasional Berhad (TNB)** (AAA) as its yields are relatively on par with its AAA peers. The Malaysian national electric utility company is a strategically important entity in Malaysia's power sector, with a state ownership of 69%. With a peak electricity demand of 19,716MW in May, we expect demand to remain resilient in 2H23. Furthermore, the National Energy Transition Roadmap will benefit TNB greatly due to its significant share in generation capacity and monopoly in electricity distribution in West Malaysia. While the imbalance cost pass-through (ICPT) mechanism mitigates the recent volatile fuel prices and protects TNB's earnings, delays in ICPT collection occurred due to elevated fuel prices. However, 1H23's MYR10.4bn ICPT was fully received in July, and TNB is expected to recover MYR4.7bn ICPT cost in 2H23. In 1H23, the debt-to-equity ratio is at 1.53x, given the capital-intensive nature of its power generation projects and overseas expansion plans. Meanwhile, the CFO-to-interest ratio rose to 6.7x as improvement in collection improved its cash flow.
TNB Western Energy Berhad	We are **Market Perform on TNB Western Energy Berhad** (TNB WE) (AAA) as its yield pick-up spread is low compared to its AAA peers. TNB WE is an SPV of TNB Manjung Five Sdn Bhd (TNB MF) that owns and operates a 1,000MW coal-fired power plant in Majung, Perak and is ultimately 100% owned by Tenaga Nasional Berhad (TNB). Moreover, TNB provides an unconditional and irrevocable rolling guarantee to fund any of TNB WE's finance service account shortfalls. The plant's unplanned outage rate (UOR) reached 45% in 2021 due to recurring issues related to CIDF blades. This issue has been rectified, and the UOR has gradually improved to 7.23% in March 2023. However, the UOR is still above the power purchase agreement limit of 6%. Actual capacity payments (CP) in 2020 and 2021 were significantly lower than budgeted due to low plant availability from high UOR. In 2022, the actual CP has improved to MYR298.8m, slightly below the budgeted CP of MYR304m. In FY22, CFO interest coverage decreased to 1.17x from 1.65x in FY21 as the CFO decreased from purchasing a higher inventory of consumables for its scheduled maintenance in 2023. According to MARC Ratings' base case forecast, the financial service coverage ratio (FSCR) is expected to be a minimum of 1.25x and an average of 2.05x from 2023 to 2034. That said, it is above the covenanted FSCR of 1.20x for distribution purposes.
TNB Northern Energy Berhad (TNB NE)	We are **Market Perform on TNB Northern Energy Berhad** (TNB NE) (AAA) as its bond yields provide little additional yields compared to its AAA peers. TNB NE is the SPV of TNB Prai Sdn Bhd (TNB Prai), operates a 1,071MW combined-cycle gas turbine power plant and is wholly owned by TNB Power Generation Sdn Bhd which is wholly-owned by Tenaga Nasional Berhad (TNB). Moreover, TNB extends an unconditional and irrevocable rolling guarantee on TNB NE. The plant consists of two generation units, Unit 10 and Unit 20, where Unit 10's unplanned outage rate (UOR) is above the 4% UOR limit at 19%, while Unit 20's UOR is at 1.9% as at end-December 2022. TNB Prai expects the UOR of Unit 10 to fall within UOR limits by October 2023. In 2019-2022, actual CP was MYR41.9m, below budgeted CP, mainly due to UOR not meeting its contracted average availability target. In 2022, its heat rate was higher than its contracted target, resulting in failure to fully pass through fuel costs to TNB and a MYR19.4m cost that it has to absorb. The CFO-to-interest ratio is at 1.75x at the end of 2022, while MARC projected the financial service coverage ratio to be within 0.64-1.04 from 2023-2031.

Malaysian Resources Corporation Berhad (MRCB)	We are **Outperform on Malaysian Resources Corporation Berhad** (MRCB) (AA-) given its pick-up yield of 70bps above its AA-peers. MRCB is majority-owned by EPF (36.2%) and is an established property developer and construction company known for its flagship transit-oriented development, KL Sentral CBD. In 1H23, the company has earnings visibility through 2027 with MYR5.4bn in outstanding external construction order book, while unbilled sales from its property development segment are at MYR220m. With its track record in Light Rail Transit (LRT) 3 and Mass Rapid Transit (MRT) 2, it may be able to increase its order book by grabbing opportunities in upcoming rail-related projects such as MRT3 and Penang LRT. In 1H23, revenue fell 11% YoY as key infrastructure projects were completed in FY22. The debt-to-equity ratio is at 0.51x in 1H23, while the company has undrawn credit lines of MYR1.3bn which could provide additional liquidity if needed.
VS Industry Berhad (VSI)	We are **Market Perform on VS Capital Management Sdn Bhd** (VSC) (AA) as its bond yields are on par with its AA peers. VSC is a wholly owned SPV of **VS Industry Berhad** (VSI), an electronics manufacturing services (EMS) provider, unconditionally and irrevocably guaranteed by the parent. VSI is the sixth largest EMS provider by revenue in ASEAN and manufactures and assembles numerous types of finished and semi-finished consumer electronic products. VSI is exposed to concentration risk as its top five customers comprise 83% of its total revenue in FY22. That said, the concentration risk is mitigated by the company's longstanding relationships, with some spanning up to 22 years. CFO/interest improved to 10.5x as the CFO returned to positive territory in FY23 due to the normalisation of supply change, labour shortages and reduction in inventory build-up. Its debt-to-equity ratio mildly increased to 0.37x as it took up more borrowings for expansion purposes and machinery upgrades.
AMMB Holdings Berhad (AMMB)	We maintain **Outperform on AMMB Holdings Berhad** (AMMB) (AA2/Stable) as bond returns remain attractive after its rating upgrade by RAM Ratings to AA2/Stable from AA3/Positive on stronger capitalisation and improved credit metrics. As of end-June 2023, net profit fell 9% YoY to MYR352m. Net interest margin (NIM) is at 1.76% due to NIM compression and intensity of deposit competition. Loans grew 7% YoY, while the management revised the FY24 loan growth target to 4-5%. Credit cost increased to 52bps due to forward-looking provisions driven by a change in expected credit loss model assumptions. Gross impaired loan (GIL) ratio is low at 1.7%, with increases seen in the manufacturing and household sectors, while GIL coverage, including regulatory reserves is decent at 104.9%. AMMB's CET1 ratio rose back to 1MDB pre-settlement levels to 12.9% from 10.4% in March 2021.
IOI Properties Group Berhad (IOIPG)	We are **Outperform on IOI Properties Group Berhad** (IOIPG) as the yield returns are attractive comparative to its AA peers. IOIPG issues bonds through its wholly-owned SPV Fortune Premiere Sdn Bhd (FPSB) (AA) and provides an unconditional and irrevocable corporate guarantee. IOIPG has three main segments – property development, property investment, and hospitality & leisure. IOIPG's FY23 net profit rose 102% YoY, mainly due to higher property investment income from recurring income generated by the newly commenced IOI City Mall Phase 2. Unbilled sales are at MYR623m, which supports earnings visibility. The company's debt-to-equity ratio slightly improved to 0.68x. A take-up rate of 69% was achieved in FY23, while its completed units in FY23 fell to 2,410 from a peak of 3,048 in FY22, mainly due to lower inventories in Malaysia. The company has a remaining landbank of 5,195 acres with gross development value of MYR63.2bn. IOIPG's projects in Singapore, the Marina View launched in October 2023, and IOI Central Boulevard Towers will start leasing in FY24, are expected to boost IOIPG's earnings in FY24-25.
Sime Darby Property (SDP)	Maintain **Market Perform on Sime Darby Property Berhad** (SDP) (AA+). 1H23 results show healthy debt-to-equity ratios while CFO metrics weakened on working capital drawdowns. 1H23 property sales recorded MYR1.5bn, and management raised its full-year target to MYR2.7bn from MYR2.3bn. 2Q23 revenue showed decent QoQ growth from MYR688.5m to MYR811.5m. Unbilled sales increased to MYR3.8bn from MYR3.6bn in 1Q23. We maintain our stable outlook on Malaysia's property sector on healthy demand factors such as favourable demographics, household formation and stable employment; industrial property will also benefit from improved FDI and local demand. Debt-to-equity and net debt-to-equity remain low at 0.29x and 0.21x, respectively, while CFO/interest weakened to 0.5x from 9.3x in FY22. Given encouraging demand, the company could extend leverage in the medium term as it has an ample development landbank of 12,600 acres.
DUKE Fasa 3 Sdn Bhd (LDF3)	We are **Outperform on Lebuhraya DUKE Fasa 3 Sdn Bhd** (LDF3) (AA-) given the attractive 60bps pick-up over the AA3 curve. LDF3 is the concession holder through to August 2069 for the 32km Setiawangsa-Pantai Expressway (SPE) that connects the Middle Ring Road 2 (MRR2) at Wangsa Maju to Kerinchi Link adjoining the Federal Highway. SPE has received its Certificate of Practical Completion and is set to fully operate by end-August 2023. A section of SPE began operations in March 2022 with an annual average daily traffic (AADT) of 5,058, significantly below its opening estimate of 32k vehicles; this is expected to pick up when the expressway is in full operation. The toll prices are from MYR1.80 to MYR10.50 depending on the vehicle class, and prices will increase by 20% every five years. Under Malaysian Rating Corporation's base case, the average financial service coverage ratio (FSCR) is expected to average at 1.4x. Given the removal of the construction risk, the remaining key risk to this concession is meeting traffic projections.
SP Setia Berhad	We maintain our **Outperform on SP Setia Berhad** (AA) as it has strong credit metrics while yield returns are above its AA peers. SP Setia is Malaysia's largest developer by revenue, with sizeable landbanks of 7,022 acres (63% in Klang Valley). Most SP Setia's projects priced below MYR1m recorded take-up rates above 90%. The company also has strong notable shareholders – Permodalan Nasional Berhad (26.0%), Amanah Saham Bumiputera (24.7%), Kumpulan Wang Persaran (8.8%) and EPF (5.8%). As at end-2022 SP Setia has unbilled sales of MYR4.6bn, which supports its earnings visibility over the next few years, while its gross development value for its ongoing domestic projects is worth MYR7.8bn. Its strong credit metrics is supported by its high cash holdings of MYR2.4bn, while its debt-to-equity ratio improved to 0.56x in 1Q23. The management plans to pare down debt by disposing non-core land to fund its other projects.
Country Garden Real Estate Sdn Bhd (CGRE)	We are **downgrading Country Garden Real Estate Sdn Bhd** (CGRE) (AA3) to a speculative category bond as liquidity concerns have mounted after residential property sales deteriorated rather than recovered after the post-pandemic reopening as previously expected. On a YoY basis, July sales are reportedly lower by -67% YoY at RMB12.1bn, according to Bloomberg. Moody's recently downgraded the firm's rating to B1 from Ba3 as they highlighted liquidity concerns on the worsening outlook. Noteholders of Country Garden Holdings (CGH) USD bonds, the ultimate guarantor to CGRE bonds, yesterday reported that the company missed two coupon payments totalling USD22.5m; any declaration of default will also trigger a cross-default clause in CGRE MYR bonds. CGH's RMB bonds have been trading at highly distressed levels and have slumped even lower recently. The policy measures announced by Chinese regulators so far have been unable to reverse the sales slump in the market; actual implementation of support to the property market has also been very slow. Ultimately, we think an asset exchange programme is needed to revive the Chinese property sector bonds, whereby regulators acquire developer's bonds and debts and restructure them, lifting liquidity pressures to private developers to ensure timely completion of projects to end buyers.
Benih Restu Berhad	**Benih Restu Berhad** (AA2) is a funding conduit wholly owned and backed by an irrevocable and unconditional corporate guarantee by **Genting Plantations** (GenP) (AA2). In 1Q23, the company's upstream division fell 52% YoY to MYR119m due to lower CPO average selling prices and higher fertiliser costs. In contrast, its downstream division recorded a higher profit of MYR11m on higher revenue and margins. Its credit metrics are historically strong, with a low net debt-to-equity ratio and healthy CFO/interest. Its net debt-to-equity ratio rose slightly to 0.21x as cash balances fell, while CFO/interest is 1.3x. We are **Underperform GenP** as the yields are lower than its AA2 peers at 3.81%

Mercedes-Benz Services Malaysia (MBSM)	We are **Market Perform Mercedes-Benz Services Malaysia** (MBSM) (AAA, RAM) as its yields are near to indicative AAA peers due to the strong credit metrics of its single A (International rating) rated guarantor and parent company, Mercedes-Benz AG. The Germany-based parent company has an irrevocable and unconditional guarantee on MBSM bonds. The locally based entity provides leasing services and vehicle financing for its Mercedes Benz automobiles in Malaysia. As at end-December 2022, gross impaired financing (GIF) coverage is at 136%, while the GIF ratio eased to 0.9% as repossessions rebounded following the end of temporary suspension on repossessions.
Malaysia Rail Link (MRL)	We are **Market Perform Malaysia Rail Link** (MRL) as the bond yields are on par with the Quasi-GG curve. MRL is wholly owned by Malaysia's Minister of Finance (MoF) and owns the 665km East Coast Rail Link (ECRL) project that began in 2017. The ECRL will link the east coast states with the west of Klang Valley. As of March 2023, the project is 40.8% completed, while its target completion date is end of 2026.
Kimanis Power Sdn Bhd (KPSB)	We are **Underperform Kimanis Power Sdn Bhd** (KPSB) (AA) due to lower yields of c.3.57- 4.07%, below the indicative AA curve as the issuer has solid credit metrics. KPSB owns and operates a 285MW gas-fired power plant in Kimanis Bay. The company is jointly owned by Petronas Gas Berhad (60%) and NRG Consortium (Sabah) Sdn Bhd (40%), an indirect wholly-owned subsidiary of the Sabah state development vehicle, Yayasan Sabah Group. The plant rolling unplanned outage rate (UOR) in 2022 was 1.93%, below the power purchase agreement (PPA) limit of 4.0%, while heat rates also remained below PPA heat rates, allowing KPSB to fully pass through its fuel costs. In 2022, its financial service coverage ratio (FSCR) rose to 2.57x, well above the minimum covenanted FSCR of 1.25x. Its cash balance at end-2022 is at RM171.2m, which is more than sufficient to meet its total *sukuk* commitments of RM110.3m in 2023.
Bumitama Agri Limited (Bumitama)	We are **Market Perform Bumitama Agri Limited** (AA2) (Bumitama) as its bond yield is on par with its peers amid a challenging economic environment. The company's 1Q23 net profit dropped sharply by 51% YoY on lower average selling prices and higher fertiliser costs. However, its credit metrics remain solid with its debt-to-equity ratio continuing its downward trend to 0.2x, while CFO/debt service rose to 7.6x. Bumitama is listed on the Singapore Exchange and is the parent company of a palm oil plantation company based in Indonesia, PT Bumitama Gunajaya Agro.
Ranhill Powertron II (RPII)	We are **Outperform Ranhill Powertron II** (RPII) (AAA) as its bonds are at attractive levels of c.4.15-4.45%, well above its AAA peers. RPII's RM350m issuance is backed by an irrevocable and unconditional guarantee from Bank Pembangunan Malaysia Berhad. The plant owned and operated by RPII is the 190MW combined-cycle gas turbine Rugading Power Station in Sabah, which has been operational since 2011. For the past few years, the plant's unplanned outage rate was within the PPA-stipulated limit of 4%, entitling RPII to full capacity payments. Meanwhile, in the past few years, its heat rate has also been within the PPA requirement, and it has managed to fully pass through its fuel cost, receiving energy payments. For FYE December 2022, the company's FSCR was high at 2.58x, well above the covenanted 1.25x.
Genting (Group)	We maintain our **Outperform** call on **Genting** and its credit family as the company reported solid 1Q23-March results. Reported 1Q revenue/EBITDA of MYR5.8bn and MYR1.70bn were weaker QoQ, but remained within trend, on slower visitors, while foreign arrivals are not yet back to pre-pandemic levels. Credit metrics remain healthy with marginal QoQ improvement in the gearing ratios. The company operates leisure and hospitality, gaming, and entertainment businesses. Genting also operates plantations, develops and manages property, provides tours and travel-related services, manufactures and trades paper, explores oil and gas, and provides money lending services.
Press Metal Aluminium Holdings	We are **Market Perform Press Metal Aluminium Holdings (AA2)** as credit metrics look healthy with the debt-to-equity ratio deleveraging more than half to 0.6x from FY21 to FY22. At the same time, net income remains robust at MYR1.4bn in FY22. Credit metrics are expected to improve further as Press Metal moderates its capital expenditure for the next few years. The company is expected to remain supported by decent aluminium prices of c.USD2,283/MT, above pre-pandemic levels. Downside risks include a further decrease in aluminium prices. The yield levels of Press Metal are fair within the AA2 space at 4.026-4.423%.
YTL Power International Bhd (YTLP)	YTL Power **(Market Perform)** (YTLP) provides power generation, electricity transmission, water supply, and communications services. The company serves customers in Malaysia, Singapore and the UK. Credit metrics remain stable, gearing is commensurate with a power generation company, and earnings are expected to improve in FY23.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 48: Relative value - MYR corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 30 November 2023

Singapore – Corporate bonds picks

- Financials have the most outstanding bonds, with a share of more than half (63%), followed by consumer discretionary (13%) and industrials (9%).

Figure 49: Domestic outstanding SGD corporate bonds, as % of total outstanding

Sector	SGDmn	%
Financials	47,257	63.51%
Consumer Discretionary	10,749	14.45%
Industrials	7,848	10.55%
Communications	2,325	3.12%
Consumer Staples	1,920	2.58%
Energy	2,304	3.10%
Utilities	1,475	1.98%
Health Care	325	0.44%
Materials	195	0.26%
Technology	5	0.01%

Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 30 November 2023

- **Our corporate bond top picks are Singtel Telecommunications, National University of Singapore, Keppel Corporation Limited, Singapore Airlines, CapitaLand Ascott, and CapitaLand Ascendas,** as we believe these names will benefit from a resurgence of regional travel, healthy business activity and improving rental rates.
- We are recommending a 6-12 month tactical strategy of playing into reversal of the inverted SGD yield curve, which we think will happen by end-2024. We think state-owned entities (SOE) are good options as they offer some premium over SGS. SOEs we picked are **Public Utilities Board, National Environment Agency, Land Transport Authority and Housing Development Board.**

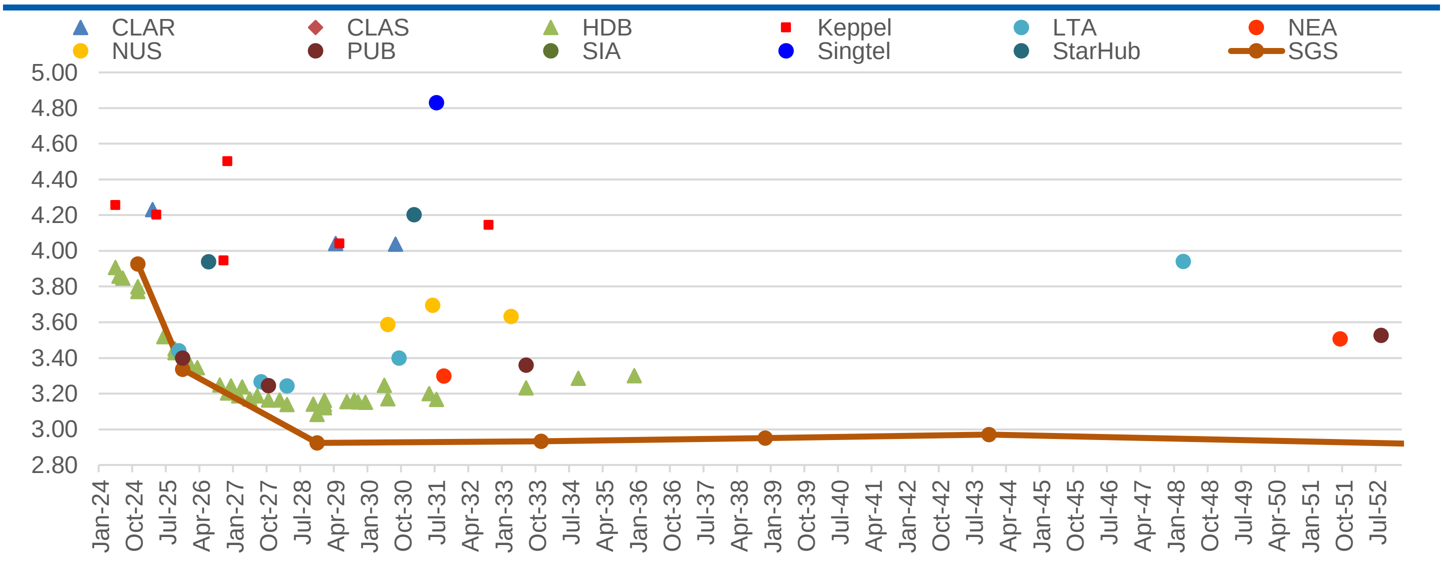
Figure 50: Issuer description and outlook

Issuer	Description & Outlook
Housing & Development Board (HDB)	We remain **Market Perform on the Housing & Development Board** (AAA) (HDB) given the close spreads over SGS. HDB is the Singapore government's arm, which mainly deals with primary public housing and related social policy. HDB has a high likelihood of support from the government due to its strong link with the government and its special status as a key statutory board under the Fifth Schedule of the Constitution of the Republic of Singapore and incorporation under the Housing Development Act 1959, which does not allow it to enter bankruptcy. In FY23, its deficit rose to SGD5.36bn (57.4% of revenue) from SGD4.34bn (55.4% of revenue) in FY22 as construction costs rose, while construction activities increased following the slowdown during the pandemic. However, the government provided grants to preserve HDB's capital and deficits. HDB's total debt stood at SGD65.73 (FY22 SGD65.65bn), while 57% of its debts are owed to the government.
Singtel Telecommunications Ltd (Singtel)	We maintain **Outperform on Singtel Telecommunications Ltd** (A3) (Singtel) as we think the 7/31 is attractive with an MTM of 4.73%. Singtel is an integrated telecommunications service provider that is 52% owned by Temasek and has strong market positions in Singapore and Australia (Optus). The group's 1HFY23 revenue fell 3.2% YoY to SGD7.03bn due to translation losses from its Australian and weaker Singapore operations, which fell 3.4% YoY. The balance sheet remains strong, with a low debt-to-equity ratio of 0.41x and a high CFO-to-interest ratio of 18.0x. Singtel plans to reduce core cost by SGD200m annually until FY26 by decreasing operational complexity, increasing digitalisation & automation and decommissioning legacy systems.
StarHub Ltd (Unrated)	We are **Market Perform on StarHub Ltd (Unrated)** and prefer the 1/31 over the 6/26 given the shorter-end bond's deep negative spread over the SGD Corporate curve. The fully integrated info-communication company offers communications, entertainment and digital services for both corporates and consumers in Singapore and is 56.2% indirectly owned by Temasek Holdings Pte Ltd through Singapore Technologies Telemedia Pte Ltd. Its 1H23 revenue mainly came from its enterprise business (37.6%) and mobile segments (27.4%). In 1H23, Starhub's total number of subscribers was relatively stable with around 3.1m subscribers – 2.2m mobile (1.6m post-paid, 0.6m prepaid), 342m entertainment and 576m broadband subscribers. Meanwhile, the average revenue per user was mostly stable in 1H23 for its post-paid, prepaid, entertainment and broadband segments at SGD32 (1H22: SGD 29), SGD7 (1H22: SGD8), SGD45 (1H22: SGD0) and SGD34 (1H22: SGD34) respectively. Its net debt-to-equity ratio is 1.08x, while its EBITDA-to-interest ratio is 5.4x. Our equity analyst expects the company's FY23-25 core earnings to improve by 3-11%, mainly due to stronger opex efficiencies.
Changi Airport Group (Singapore) Pte Ltd	We are **Market Perform on Changi Airport Group (Singapore) Pte Ltd** (CAG) (Aaa) as its yields are slightly below the SGD Corporate curve, while giving additional pick-up yield of about 60bps from SGS. The Ministry of Finance owns 100% of CAG, the sole airport operator in Singapore, and it owns and operates Singapore Airport (Changi Airport), the dominant international airport in the country. The top rating of Aaa given by Moody's reflects its strategically important role in providing a key infrastructure service and implied support from the state. CAG's credit metrics and traffic are on track to recover to pre-pandemic levels following the removal of COVID-19 restrictions. Passenger movements rose to 42.6m in FY23 (FY22: 5.2m, FY19: 66.3m), and commercial aircraft movements rose to 257m in FY23 (FY22: 123m, FY19: 386m). Capex is expected to pick up as there are plans to increase the capacity of total passengers with the resumption of Terminal 5 construction at Changi Airport in 2024. Terminal 5 targets to operate by mid-2030s and is expected to handle around 50m passengers per annum. Its financial profile is strong, with CFO/debt service of 2.0x in FY23 and debt/equity of 0.49x.

National University of Singapore (NUS)	We are **Outperform National University of Singapore** (NUS), rated Aaa by Moody's, as its yields are above SGS at c.3.55-3.72%. As at end-FY22, NUS has a high endowment balance, reflected by its total cash and investments of USD10.4bn, while its liquidity is strong with total cash and investments to operating expenditures at 5.3x. Total undergraduate and postgraduate enrolments for the academic year ending July, from 2018 to 2021, were c. 35-40k, with a total enrolment growth rate of c.3-5%. NUS has a close relationship with the Singapore Government and has historically received government grants of 40-50% of its total adjusted operating revenue. The university is Singapore's top higher education provider with a strong global presence and enjoys implied extraordinary support from the government due to its importance in Singapore's university system.
Keppel Corporation Limited (Keppel)	We are **Outperform Keppel Corporation Limited's** (Keppel) 2026-2030 bonds, as the spreads are 60-80bps higher than SGS. Keppel is 21%-owned by Temasek and has segments in energy & environment, urban development, connectivity and asset management, which comprised 63%, 14%, 20% and 3% of 2022 revenue, respectively. In 1H23, net profit, excluding one-off divestment gain of SGD3.3bn grew 2.5% YoY to SGD445m, mainly due to better performance in infrastructure from an improved integrated power business. Keppel gained SGD3.3bn from the disposal of its offshore & marine business as it is shifting to remove its conglomerate structure and become a global alternative real asset manager with deep operating capabilities in infrastructure, real estate and connectivity. Its CFO/interest weakened to -1.6% as interest expense rose to SGD148m with an average interest cost of 3.53%.
Singapore Airlines (SIA)	We reiterate our **Outperform** call for **Singapore Airlines** (SIA). As travel recovered, SIA's revenue for its full-year FY23-March more than doubled by 133% from SGD7,614.8m in FY22 to SGD17,774.8m in FY23, while net income turned from a loss of SGD992m in FY22 to SGD2,121.7m in FY23. While the reopening demand boosted short-term profitability and credit metrics, the long-term outlook is supported by its majority shareholding by Singapore's sovereign wealth fund and the airline's status as the country's national carrier. Yields for SIA bonds have tightened considerably year to date, benefitting bondholders. SIA provides air transportation, engineering, pilot training, air charter, and tour wholesaling services. The company's airline operation covers Asia, Europe, the Americas, South West Pacific, and Africa.
Public Utilities Board (PUB)	The **Public Utilities Board (Market Perform)** (PUB) administers the water supply system. The board manages water supply, water catchment, desalination and used water throughout Singapore. In the quasi-government space, we like government-owned PUB, an important state agency that offers yield premium versus government benchmark yields.
National Environment Agency (NEA)	The **National Environment Agency (Market Perform)** (NEA) provides environmental engineering solutions. The company offers pollution control, hawker management, pest control, radiation safety, smoking prohibition, and waste management services. NEA serves clients in Singapore. In the quasi-government space, we like government-owned NEA, an important state agency that offers yield premium versus government benchmark yields.
CapitaLand Ascott Trust (CLAS)	**CapitaLand Ascott Trust (Outperform)** (CLAS) is a REIT primarily invested in income-producing real estate and real estate-related assets: serviced residences, hotels, rental housing properties, and other hospitality assets. CLAS serves customers worldwide. Hospitality REITs are primary beneficiaries of Singapore's rising rental rates and healthy employment environment. CLAS has seen revenue growth from higher occupancy rates and has had stable and improving credit metrics in the past two years.
CapitaLand Ascendas REIT (CLAR)	**CapitaLand Ascendas REIT (Outperform)** (CLAR) is an industrial REIT which invests in business and science park properties, integrated development, amenities, and retail (IDAR) properties, high-specification industrial properties and data centres, light industrial and flatted factories, and logistics and distribution centres. It has assets globally and generates 80% of revenue from Singapore. CLAR, similar to CLAS, is part of the real estate conglomerate CapitaLand and is expected to generate better income due to higher rents (+8%) and good occupancy (94.6%). Credit health is underpinned by conservative leverage and healthy credit metrics.
Land Transport Authority (LTA)	**The Land Transport Authority (Outperform)** (LTA), as we think the LTA 3/48 offers attractive pick-up over SGS. LTA is involved in the planning, operating, and maintaining land transport infrastructure and systems. The state-owned entity manages, assesses, collects, and enforces various taxes, fees, charges, and other services related to land transport.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 51: Relative value - SGD corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 30 November 2023

Thailand – Corporate Bonds Picks

- Thailand outstanding corporate bonds are led by financials (29%) followed by consumer staples (18%) and consumer discretionary (11%).

Figure 52: Domestic outstanding THB corporate bonds, as % of total outstanding

Sector	THBmn	%
Financials	1,287,471	28.84%
Consumer Staples	792,671	17.76%
Consumer Discretionary	474,531	10.63%
Utilities	418,281	9.37%
Materials	470,138	10.53%
Energy	440,282	9.86%
Communications	369,406	8.28%
Industrials	198,665	4.45%
Health Care	6,800	0.15%
Technology	5,380	0.12%

Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 30 November 2023

- Our top picks are **Thai Beverage, PTT Global Chemical, CP All, and PTT**, which are leading names in their sectors, and we expect their credit profiles to improve or remain stable in the near future. The companies' description and outlook are listed below.

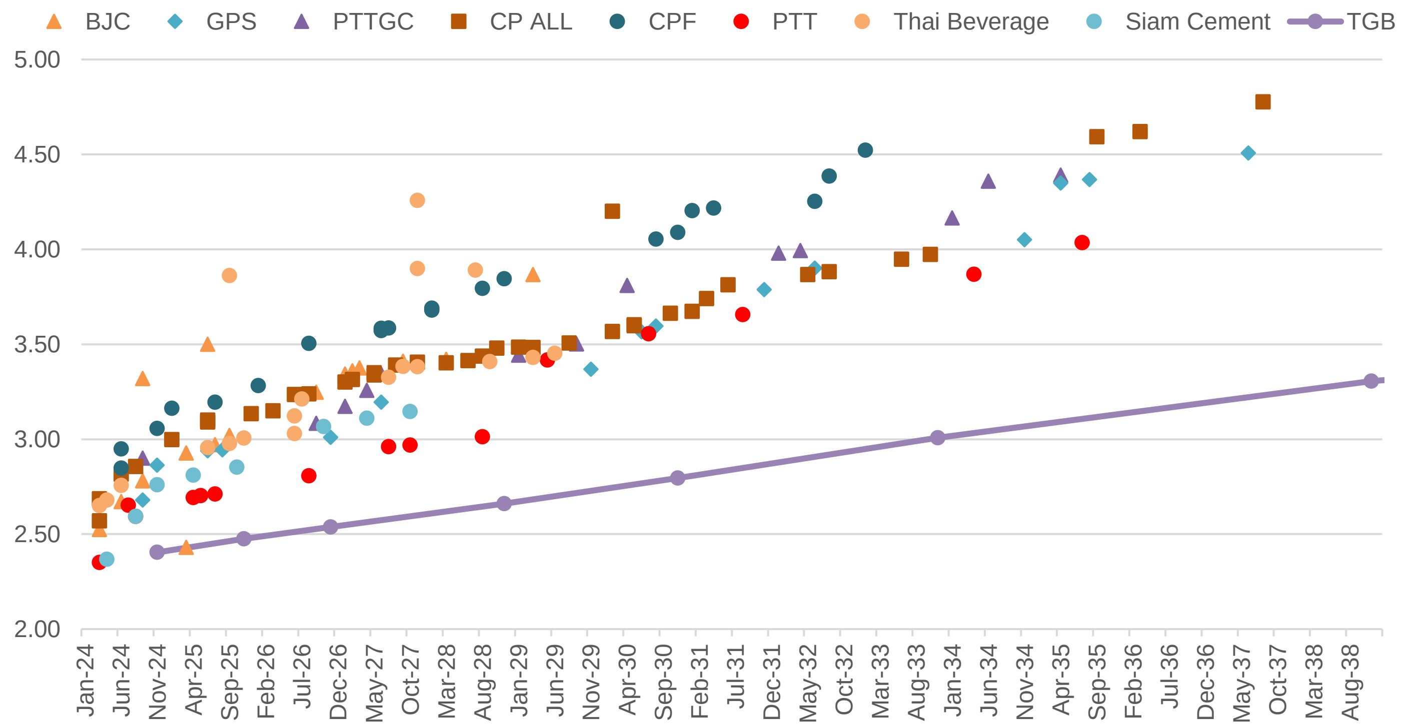
Figure 53: Issuer description and outlook

Issuer	Description & Outlook
Charoen Pokphand Foods (CPF)	We are **Market Perform on Charoen Pokphand Foods** (CPF) (A+,TRIS) as its bond yield returns are on par with it's A+ peers. CPF is a Thailand-based integrated food and agro-industrial company that produces and distributes a wide range of food products. Its products include animal feed, pet snacks, ready-to-eat meals, meat and food products. The company operates in 17 countries and exports products to over 40 countries globally. In 9M23, CPF made a net loss of THB5.5bn from a profit of THB12.2bn in 9M22 as broiler, swine and shrimp prices fell 8%, 28% and 13% YoY, respectively. Its net debt-to-equity ratio rose to 1.82x as interest-payment burden rose 30% YoY to THB18.6bn in tandem with the higher Fed Fund rate. Notably, 85% of its total long-term debt is USD denominated at the end of 2022.
Berli Jucker PCL (BJC)	We maintain **Market Perform on Berli Jucker PCL** (BJC) (A+, TRIS) as BJC's yields are on par with its A+ peers. BJC owns the retailer Big C, manufactures and distributes consumer products, and operates online and physical retail stores. In 9M23, BJS's net profit fell 6.6% YoY to THB3,157m mainly due to increased finance and electricity costs, while the opex-to-sales ratio increased 0.6% YoY on the back of higher opex from the opening of new stores. Credit metrics remain decent, with the debt-to-equity ratio and EBITDA/interest ratio at 1.34x and 2.1x, respectively. Net margin has been low but stable at 3%. We believe the company's performance is bottoming out and will improve along with better tourism activities in Thailand.
Thai Beverage PCL (THBEV)	We maintain **Outperform on Thai Beverage PCL** (THBEV) (Baa3) as its yields are attractive compared to its BBB- peers. THBEV produces a wide range of branded beer and spirits in Thailand and Vietnam. The company has 27 distilleries, 20 manufacturing facilities and three local breweries. Its FY23 net profit fell mainly due to higher investment and marketing costs. Revenue from the spirits, non-alcoholic beverages and food divisions grew 3%, 12% and 16% YoY, respectively, while its beer business fell 1% YoY due to lower sales volume. Its EBITDA margin decreased to 17.3% from 18.2% in FY22, mainly due to lower margins in beer and food. Meanwhile, its spirits division maintained a stable EBITDA margin of around 25% since 2020, making up 80% of its net profit. THBEV's credit metrics remain stable with a debt-to-equity ratio at 0.87x, while the CFO-to-interest ratio remains high at 4.4x.
Global Power Synergy (GPS)	We are **Underperform Global Power Synergy** (GPS) as its bond yields are below the indicative yield of its A+ peers. The company is rated A+ by an international rating agency with a two-notch uplift from its parent PTT PCL (47% stake), as there are strategic and operational benefits for the parent to support GPS. GPS generates 10% of Thailand's power with predictable cash flow from its power-generation assets. Around 43% of the company's revenue is contracted under long-term take-or-pay power purchase agreements with the state-owned Electricity Generating Authority of Thailand, and an additional 31% comes from the PTT group. In 1Q23, its debt-to-equity ratio is high at 1.16x given its large capex and investment plans.
PTT Global Chemical (PTTGC)	We are **Outperform PTT Global Chemical** (PTTGC) (AA+) as its bonds give attractive yields, at c.2.07-4.06%, versus TGB. The petrochemical company produces, refines and distributes olefins and aromatics products globally, with Thailand being its largest market. PTTGC's largest shareholder is PTT (45%), and it has long-term feedstock supply and product offtake agreements with PTT as it plays a key role in its parent's energy value chain. PTTGC's earnings are vulnerable to volatility as shown in the past few years, while weak petrochemical margins remain a source of stress. The company's EBITDA/interest is low at 0.6x as at end-March 2023 as the EBITDA did not climb significantly, while borrowings remain elevated following its acquisition of Allnex, a global resin producer, in 2021. PTTGC enjoys implied credit rating support from its parent PTT.
CP ALL PCL (CP ALL)	We are **Outperform CP ALL PCL** (CP ALL), as the group will benefit from the economic recovery and return of foreign travellers. The recent FY22-Dec full-year revenue grew 46% YoY while EBITDA grew by 92%; gearing remained stretched while other credit metrics remained stable. The restructuring in 2021 has enlarged the group's footprint and moderated its gearing to a certain extent. CP ALL operates convenience store chains in Thailand and China. The company also owns and operates a department store chain in Shanghai and Chongqing. Bloomberg forecasts revenue to improve by 10% for FYE December 2023, while credit metrics are stretched but stable.

PTT PCL	In 1H23, **PTT PCL's** net profit fell 48% YoY to THB47.96bn, mainly due to higher stock losses and lower gross margin. Meanwhile, the net debt-to-equity ratio improved to 0.48x in 2H23. The recent jump in crude oil prices could support PTT's short- to medium-term earnings from upstream oil & gas production, while downstream activities will record inventory gains. The group enjoys credit uplift due to its strategic importance to the energy sector and close link to the Government of Thailand.
Siam Cement PCL	We are **Market Weight Siam Cement,** a diversified industrial company. The company's operations include cement manufacturing, petrochemicals manufacturing, paper manufacturing, building product manufacturing, and distribution. We expect balance sheet and credit metrics to remain decent, but the cautious property construction outlook could drag financial performance in the near term.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 54: Relative value –THB corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 30 November 2023

RHB Credit Strategy Rating Definitions

Recommendation	Time Horizon	Definition
Outperform	6 to 12 months	A corporate bond's expected relative performance versus a defined reference (i.e. AA3 peers or a corporate bond index)
Market perform	6 to 12 months	
Underperform	6 to 12 months	
Speculative	Indefinitely	The bond's repayment ability is highly uncertain
Not Rated (NR)	Indefinitely	Not under coverage

Foreign Exchange Outlook

A Stronger Global Economy + Peak FFR = A Weaker Greenback in 2024

Foreign Exchange Outlook

A Stronger Global Economy + Peak FFR = A Weaker Greenback in 2024

- **We forecast the DXY to weaken in the period 2Q24 – 4Q24. Our DXY assumptions are 105 – 110 in 1Q24, 100 – 105 in 2Q24 and 95 – 105 in 2H24. The catalysts for our view are (1) global growth is expected to accelerate further in 2024, suggesting limited safe haven demand into the greenback; (2) the Fed Funds Rate (FFR) will likely peak in 1Q24, followed by rate cuts in 2H24; while (3) risk-taking behaviour will likely benefit high-beta currencies such as AUD, NZD, and developing ASEAN economies.**
- **In ASEAN, we think SGD will continue to be the outperformer, on the back of the S$NEER policy framework, followed by MYR and THB. We are neutral on the IDR; the IDR may strengthen against the greenback, albeit likely to stay weak against the ASEAN basket. We upgrade our MYR forecast to 4.3 – 4.6 per USD in 2H24, from a prior outlook of 4.5 – 4.7 per USD.**
- **We are positive on the CNH, on the back of our assumptions for China to stage an economic recovery in 2024. We are now China bulls, following the recovery in Chinese high-frequency numbers. Our quantitative analysis on the CNH suggests a <7.0 per USD prognosis into 2H24. The caveat remains to be related to its property downturn, whereby any exacerbated stress may unwind the recent positive economic developments.**

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Figure 1: RHB USD/Asia forecasts above consensus in 1Q24, while broad DXY weakness may ensue in 2Q – 4Q24

RHB FX Forecasts					Bloomberg Consensus				
G10FX	**1Q24**	**2Q24**	**2H24**	**2025**	**G10FX**	**1Q24**	**2Q24**	**2H24**	**2025**
EUR	1.03 - 1.07	1.06 - 1.1	1.07 - 1.16	1.12 - 1.18	**EUR**	1.0800	1.0900	1.1100	1.1400
JPY	147 - 153	143 - 149	137 - 148	126 - 134	**JPY**	145.00	141.00	135.00	130.00
GBP	1.19 - 1.24	1.22 - 1.27	1.24 - 1.34	1.23 - 1.31	**GBP**	1.2300	1.2400	1.2700	1.2700
AUD	0.64 - 0.66	0.66 - 0.69	0.67 - 0.73	0.70 - 0.74	**AUD**	0.6600	0.6700	0.7000	0.7100
NZD	0.59 - 0.61	0.61 - 0.63	0.62 - 0.68	0.65 - 0.69	**NZD**	0.6100	0.6200	0.6300	0.6500
AxJ FX	**1Q24**	**2Q24**	**2H24**	**2025**	**AxJ FX**	**1Q24**	**2Q24**	**2H24**	**2025**
CNH	7.2 - 7.5	7.0 - 7.3	6.7 - 7.1	6.5 - 6.9	**CNH**	7.1600	7.1900	7.0000	6.8000
IDR	15,500 – 16,200	15,300 – 16,000	15,000 – 15,600	14,100 – 15,000	**IDR**	15,275	15,180	14,850	14,600
MYR	4.6 - 4.9	4.5 - 4.8	4.3 - 4.6	4.2 - 4.5	**MYR**	4.6100	4.5400	4.4000	4.3300
SGD	1.35 - 1.40	1.30 - 1.35	1.25 - 1.31	1.25 - 1.35	**SGD**	1.3400	1.3300	1.3000	1.3300
THB	35.5 – 37.0	34.5 - 36.0	33.5 – 35.0	32.0 - 34.0	**THB**	35.00	34.70	33.80	33.30
VND	24,100 – 25,100	23,400 – 24,350	22,600 – 23,500	21,800 – 23,200	**VND**	23,800	23,700	23,250	N/A

Source: RHB Economics & Market Strategy
Note: The above forecasts are trading ranges for end of the quarter

The Tide is Turning for CNH and ASEAN Currencies

We forecast the DXY to weaken in the period 2Q24 – 4Q24. Our DXY assumptions are for it to strengthen to 105 – 110 in 1Q24, before weakening to 100 – 105 in 2Q24 and 95 – 105 in 2H24. The catalysts for our view are (1) global growth is expected to accelerate further in 2024, suggesting limited safe-haven demand into the greenback; (2) the Fed Funds Rate (FFR) will likely peak in 1Q24, followed by rate cuts in 2H24; while (3) risk-taking behaviour will likely benefit high-beta currencies such as AUD, NZD, and developing ASEAN economies. Our view for FFR to be cut to around 5.0% (from an assumed peak of 5.5%) may mean a narrowing US-ASEAN rate spread, thus limiting the rich USD carry observed for most of 2022 – 2023.

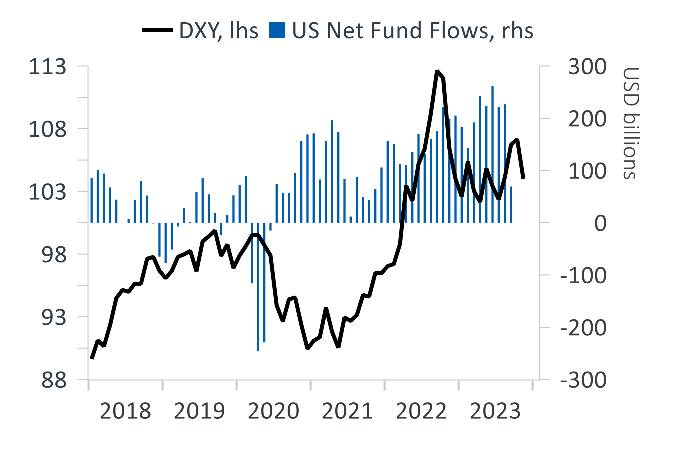
For 2024, we maintain the view for ASEAN currencies to see a higher-beta relationship with USD-CNH, rather than the DXY, albeit that our assumptions for a peak FFR in 1Q24 before cuts ensue in 2H24 will also lend strength to ASEAN FX. We are China bulls in 2024, whereby we see a bias for CNH strength in the coming year to end below 7.0 per USD, thus suggesting a broad ASEAN FX appreciation. In ASEAN, we think SGD will continue to be the outperformer on the back of the S$NEER policy framework, followed by MYR and THB. We are neutral on the IDR; the IDR may strengthen against the greenback, albeit likely to stay weak against the ASEAN basket. We upgrade our MYR forecast to 4.3 – 4.6 per USD in 2H24, from a prior outlook of 4.5 – 4.7 per USD.

We are positive on the CNH on the back of our assumptions for China to stage an economic recovery in 2024. Our quantitative analysis on the CNH suggests a <7.0 per USD prognosis into 2H24. The caveat remains related to its property downturn, whereby any exacerbated stress may unwind the recent positive economic developments. Our Ordinary Least Square Estimation (OLS) suggests that US-CN nominal rate differential is the key determinant of USD-CNH movements. Across other independent variables, US-CN nominal rate differentials have the highest absolute value, thus explaining the depreciation in CNH on the back of higher US rates year-to-date. However, the China-centric economic backdrop also impacts CNH movements, especially (1) reserve assets, (2) foreign direct investment and (3) semiconductor trade. The OLS model suggests that CNH will strengthen in 2024, following narrowing US-CN nominal rate differentials and a rosier economic backdrop in 2024 which should support FDI and semiconductor trade.

Still, domestic factors driving local currency markets will vary across Southeast Asia. Countries with weak domestic fundamentals, heightened political risk premiums, and existing negative carry against the USD will be impacted relatively more by interest rate differentials with the US and the momentum of USD/CNH. We think IDR will likely be among the weakest in the ASEAN pack despite its estimated appreciation against USD. The catalysts are (1) the political noise surrounding elections in 2024, (2) unfavourable trade structure as compared to its ASEAN peers, and (3) an assumed flat GDP growth trend into 2024 at 5.0% (from 2023's assumed 5.1%). Indonesia also has one of Asia's highest policy rates (currently at 6.0%), suggesting relatively limited policy room to raise rates to stabilise its FX backdrop.

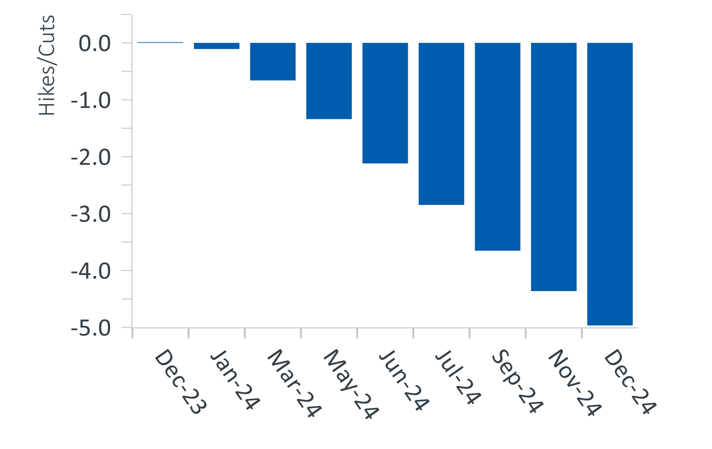
As such, our top trade ideas are as follows: (1) long SGD/IDR on dips with a near-term target of 11,850, and if breached, 12,050. We continue to like (very much) the SGD given the inherent S$NEER policy framework (assumed at an annual appreciation of 1.5% at this juncture), while domestic factors surrounding Indonesia as aforementioned may weigh on the IDR; and (**2) long AUD/USD on dips with a near-term target of 0.67.** Our global and China growth assumptions suggest higher commodity prices, especially base metals, which inject upside bias to commodity-linked currencies such as AUD, while reduced safe-haven demand, coupled with lower US FFR, will keep USD strength at bay.

Figure 2: Fund inflows continue into US shores but have slowed markedly into end-2023…



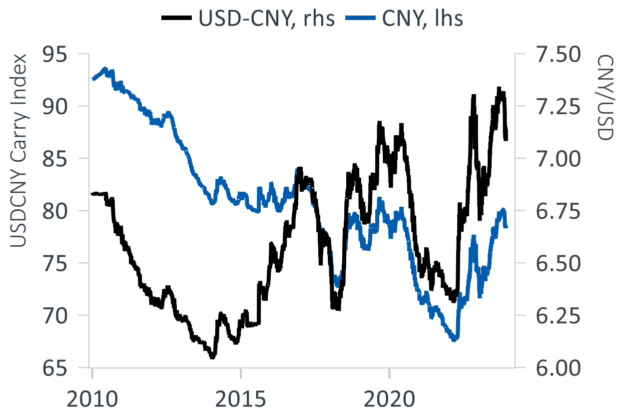
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: … as market participants anticipate no rate hikes in December 2023, while rate cuts will materialise in 2H24



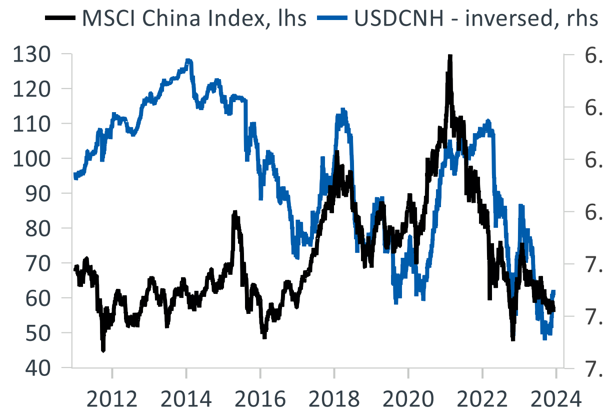
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Negative carry for CNY has narrowed…



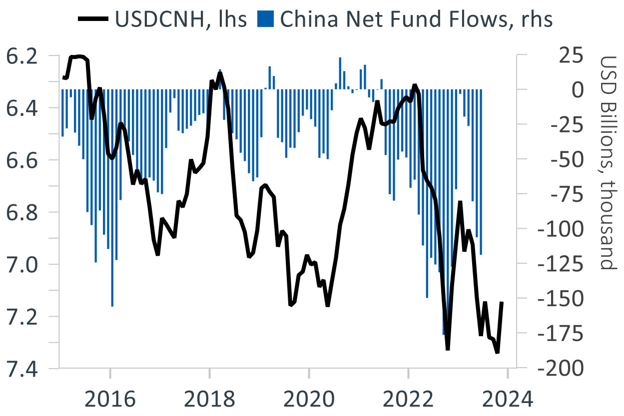
Source: Macrobond,, RHB Economics & Market Strategy

Figure 5: … while a bottoming MSCI China will help CNH



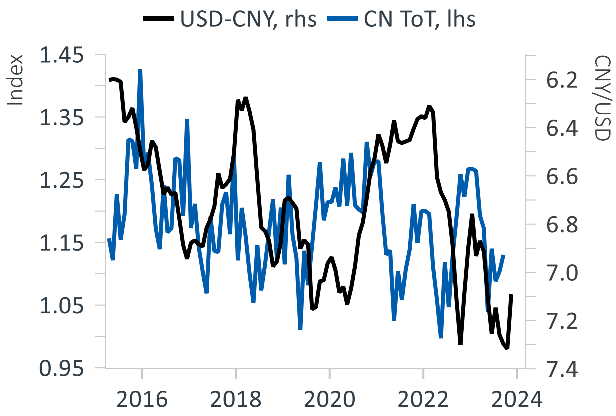
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: China fund flows remain negative, depressing CNH per USD…



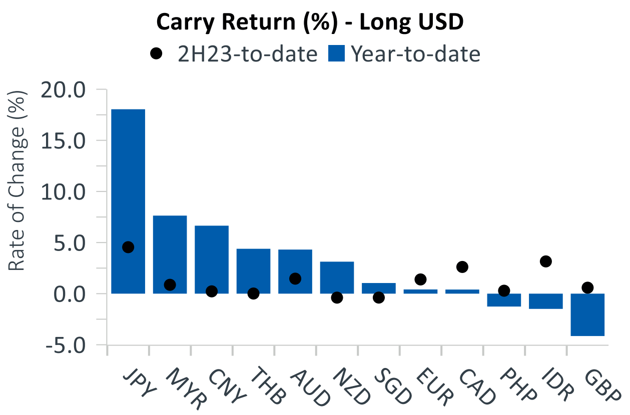
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: … although recovering terms of trade should help rally the CNY in 2024



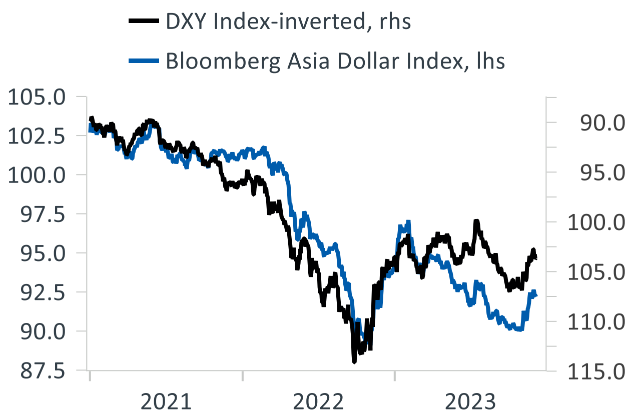
Source: Macrobond, RHB Economics & Market Strategy

Figure 8: Carry returns have evolved – IDR carry against USD has weakened, not seen in other ASEAN currencies



Source: Macrobond, RHB Economics & Market Strategy

Figure 9: The relationship between the DXY Index resumed year-to-date



Source: Macrobond, RHB Economics & Market Strategy

Figure 12: Dollar strength was broadly seen for the most of 2023, but the tide is changing for 2024

	YTD %change	QTD %change	YoY %change
GBPUSD	-4.595	-3.269	-3.127
EURUSD	-1.323	-2.096	-2.673
AUDUSD	2.557	-2.809	2.031
USDJPY	11.541	-1.477	7.962
USDCHF	-5.491	-4.511	-6.831
USDMYR	6.159	-0.475	6.961
USDTHB	1.992	-4.330	0.871
USDKRW	4.210	-3.118	0.675
USDCNH	3.397	-1.839	2.838
USDTWD	2.224	-2.478	3.025
USDSGD	-0.216	-2.028	-1.116
USDPHP	-0.466	-2.185	-1.000
USDINR	0.796	0.487	2.009
USDIDR	0.062	0.036	0.296
INRMYR	5.263	-0.885	4.869
IDRMYR	6.321	-0.856	6.546
PHPMYR	6.439	1.566	8.077
SGDMYR	6.206	1.111	7.592
CNHMYR	2.482	1.367	4.134
THBMYR	3.698	2.788	6.027
KRWMYR	1.607	2.027	5.125

Source: Macrobond, RHB Economics & Market Strategy

Figure 13: External vulnerability ratio trends for Malaysia

Malaysia

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance as % of GDP	8.16	4.97	2.14	3.49	3.83	3.01	2.83	1.87	4.98	3.78	5.88
FDI + Portfolio Investment flows % of GDP	6.58	3.80	-3.60	10.06	-2.13	3.27	1.28	0.72	-0.47	5.68	-1.60
M2/FX reserves ratio	3.44	3.58	4.14	4.29	4.19	4.42	4.73	4.86	5.04	4.98	4.98
Foreign currency deposits/M1 ratio	0.27	0.23	0.27	0.39	0.36	0.31	0.33	0.34	0.31	0.33	0.37
External debt/FX reserves ratio	1.56	1.73	2.00	2.25	2.33	2.26	2.32	2.36	2.37	2.48	2.52
Short-term debt/FX reserves ratio	0.73	0.84	0.98	0.94	0.96	0.90	1.02	0.97	0.91	0.93	1.06
External debt/exports	0.86	0.93	0.91	0.98	1.07	1.00	0.89	0.95	1.01	0.86	0.74

Source: Macrobond, RHB Economics & Market Strategy

Figure 14: External vulnerability ratio trends for Indonesia

Indonesia

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance as % of GDP	-3.47	-2.04	-2.71	-2.20	-0.75	-2.16	-3.71	-2.82	0.31	0.48	1.14
FDI + Portfolio Investment flows % of GDP	2.89	4.31	3.94	5.75	2.99	4.23	6.95	5.00	3.53	1.06	3.19
M2/FX reserves ratio	3.25	3.29	3.18	3.31	3.37	3.23	3.47	3.60	3.82	4.23	4.41
Foreign currency deposits/M1 ratio	0.26	0.32	0.31	0.31	0.27	0.25	0.25	0.24	0.23	0.22	0.25
External debt/FX reserves ratio	2.40	2.87	2.78	3.11	2.90	2.85	3.29	3.31	3.26	3.17	3.21
Short-term debt/FX reserves ratio	0.42	0.46	0.43	0.39	0.37	0.38	0.41	0.36	0.34	0.36	0.39
External debt/exports	1.33	1.46	1.67	2.07	2.20	2.09	2.09	2.41	2.55	1.79	1.36

Source: Macrobond, RHB Economics & Market Strategy

Figure 15: External vulnerability ratio trends for Singapore

Singapore

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance as % of GDP	16.09	16.13	19.65	18.58	15.25	15.93	15.40	15.69	14.39	18.19	14.64
FDI + Portfolio Investment flows % of GDP	31.14	42.78	0.33	31.61	10.86	6.04	18.44	13.08	20.04	5.87	11.57
M2/FX reserves ratio	1.52	1.45	1.52	1.50	1.59	1.56	1.54	1.69	1.50	1.33	1.99
Foreign currency deposits/M1 ratio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.66
External debt/FX reserves ratio	4.87	4.90	5.29	5.24	5.46	5.39	5.33	5.82	4.89	4.47	6.60
Short-term debt/FX reserves ratio	3.84	3.90	4.08	3.94	3.91	3.87	3.82	3.98	3.14	2.95	4.40
External debt/exports	3.00	3.16	3.24	3.59	3.95	4.00	3.69	4.12	4.71	3.99	3.57

Source: Macrobond, RHB Economics & Market Strategy

Figure 16: External vulnerability ratio trends for Thailand

Thailand

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account balance as % of GDP	-3.02	4.06	13.67	11.49	10.08	7.82	9.48	9.86	-0.31	-3.96	1.97
FDI + Portfolio Investment flows % of GDP	-1.90	-2.35	-3.90	-4.78	-7.14	-1.28	0.71	-1.66	-4.16	2.24	2.02
M2/FX reserves ratio	2.87	3.09	3.45	3.26	3.10	3.02	3.13	3.18	3.11	3.20	3.69
Foreign currency deposits/M1 ratio	0.10	0.13	0.17	0.20	0.21	0.20	0.20	0.19	0.17	0.14	0.17
External debt/FX reserves ratio	0.77	0.90	0.96	0.88	0.81	0.80	0.83	0.79	0.77	0.87	1.02
Short-term debt/FX reserves ratio	0.34	0.39	0.38	0.35	0.33	0.35	0.32	0.27	0.30	0.33	0.41
External debt/exports	0.57	0.63	0.63	0.62	0.62	0.66	0.65	0.70	0.83	0.73	0.70

Source: Macrobond, RHB Economics & Market Strategy

USD/IDR: Weakness within ASEAN Despite Favourable Outlook

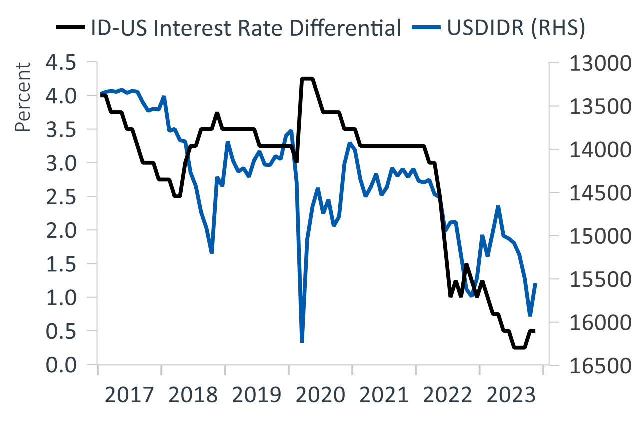
- **Our 4Q23 Path Finder report projected the IDR to range between 15,300 and 15,800 per USD from October to December.** However, IDR depreciated to its lowest point since 2020, reaching 15,940 at the end of October. This decline was triggered by a surge in capital outflows following escalated geopolitical tensions in the Middle East during the same month. Subsequently, the IDR rebound to its current level of 15,500 after a 25bps hike in Bank Indonesia's (BI) October Policy Meeting. We expect the IDR to stay soft into 1Q24 based on our assumptions for an FFR hike in the same period.
- **In 2024, we anticipate a gradual strengthening of the IDR towards the lower range of our 2H24 forecast, specifically between 15,000 and 15,600.** The primary catalyst for the potential appreciation of the currency lies in the expected anchoring of market expectations on the peak FFR in the first quarter, coupled with the anticipation of a rate cut in the second half of the year. We foresee the ID-US yield differential widening towards the year's end, thus increasing the positive carry associated with the IDR. This development is expected to encourage more substantial capital inflows into the bond market, providing additional support for the currency's appreciation.
- **While maintaining an overall positive outlook on IDR for 2024, we expect relative weakness compared to its regional counterparts.** Despite our expectation of appreciation against the USD, it will likely emerge as one of the weakest currencies within the ASEAN pack. We see several catalysts to contribute to this view: (1) heightened political uncertainty surrounding the 2024 elections will tend to amplify exchange rate volatility; (2) Indonesia's unfavourable trade structure benefitting less from the global semiconductor upturn in comparison to other ASEAN nations which are more energy-centric; and (3) flat GDP growth of 5.0% is expected in 2024 compared to 5.1% in 2023, whereas accelerated GDP growth is foreseen across the ASEAN region.
- **1Q24: 15,500 – 16,200: IDR weakness stemming from a narrowing ID-US interest rate differential as the FFR is expected to peak at 5.50 – 5.75% in 1Q24.** This will increase net capital outflows from Indonesia's equity and bond markets, compounded by political uncertainty preceding the February 2024 general election. The balance of risk is for BI to raise its policy rate by another 25bps to 6.25% in 1Q24, which would support the IDR.
- **2Q24: 15,300 – 16,000: Gradual appreciation of IDR begins amid broad USD weakness across ASEAN.** We see the support coming from the dissipation of political risk and the continued recovery pathway of the global economy. Besides, improvements in export performance and tourism receipts provide additional support to the appreciation trend.
- **2H24: 15,000 – 15,600: The IDR is expected to strengthen further as the market begins to factor in a potential FFR rate cut, consequently increasing the positive carry due to the widened ID-US yield differential.** We anticipate the FOMC to reduce its FFR rates to 5.00 – 5.25%, while moderation of the BI policy rate is expected once IDR stability is achieved.
- **2025: 14,100 – 15,000: IDR reverts to its long-term trends in 2025 amid the expansion of interest rate differentials between Indonesia and the US, reflecting the consolidation of policy rates globally.** The global economy, including Indonesia, continues its recovery path amidst the substantial reduction in geopolitical and pandemic-related risks.

Figure 17: USD/IDR key determinant is…

Dependent Variable:	USD-IDR			
	Coeff	*Std Error*	*t Stat*	*P-value*
Intercept	6299.80	238.99	26.36	0.00
Bank Loans (Mar2010 = 100) (t-2)	22.88	0.86	26.54	0.00
US-ID Real Rates Diff (Mar2010 = 100) (t-2)	8.06	2.14	-3.77	0.00
US-ID FDI Diff (Mar2010 = 100) (t-2)	1.11	0.55	1.99	0.05
Non-Performing Loan (YoY) (t-2)	23.54	5.64	4.17	0.00
R-Square	0.95			

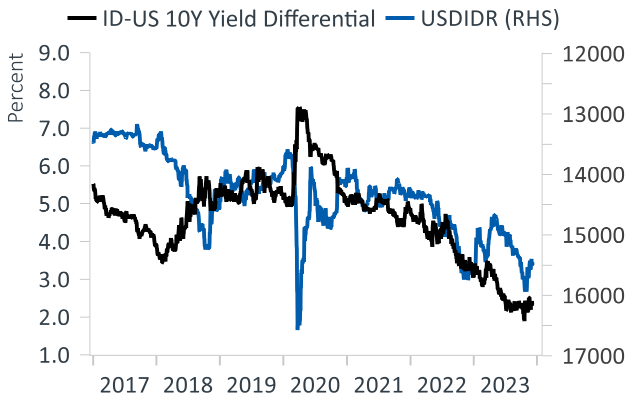
Source: RHB Economics & Market Strategy
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents magnification of coefficients

Figure 18: … ID-US interest rate differential…



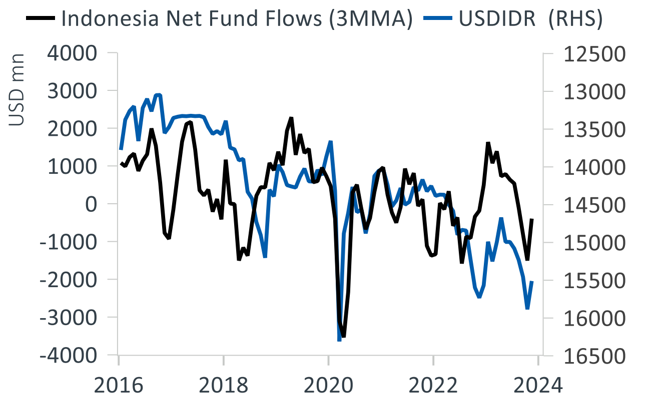
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: …as wider gap increases the positive IDR carry…



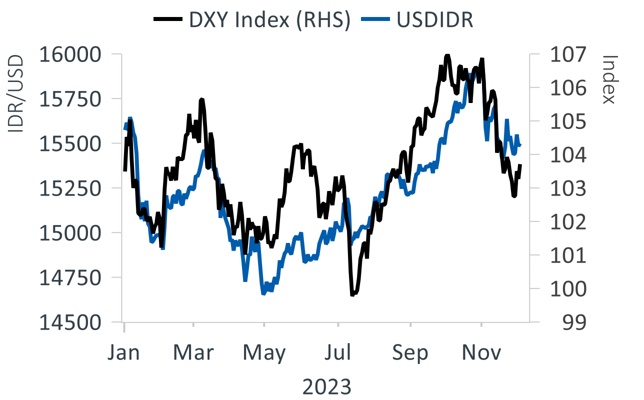
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: …and promotes stronger net capital inflow



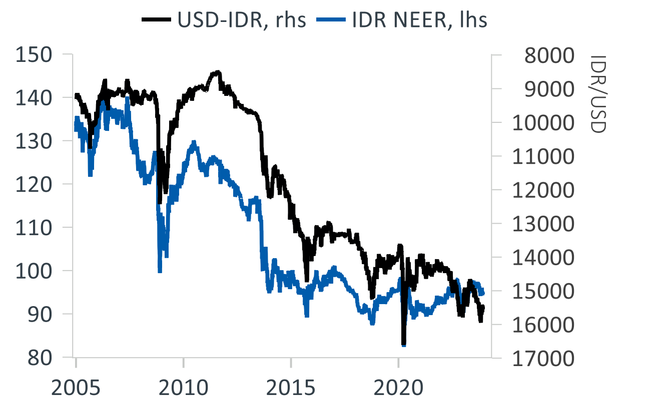
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: While we see stronger IDR toward USD in 2024…



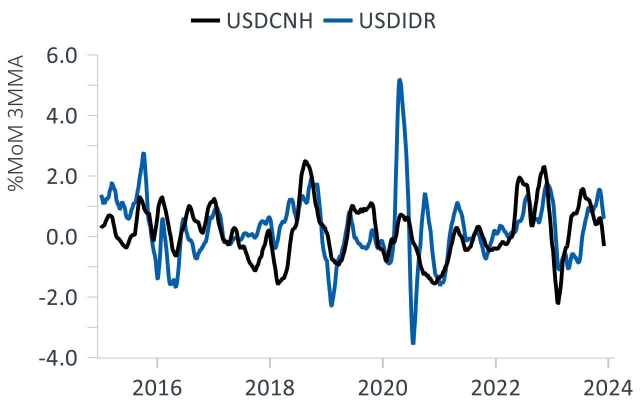
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: …its relative weakness is expected within ASEAN



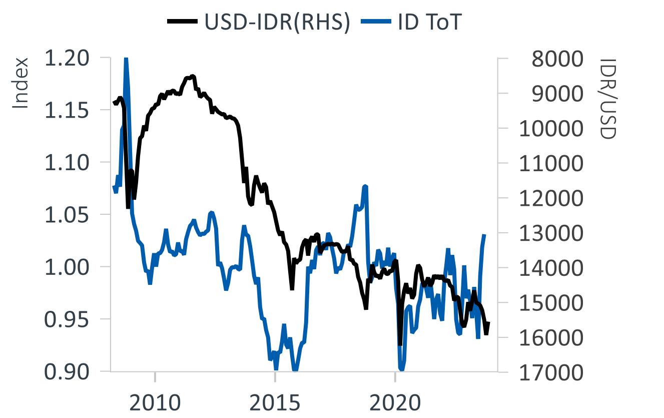
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: USD/IDR momentum is correlated well with USD/CNH momentum…



Source: Macrobond, RHB Economics & Market Strategy

Figure 24: …but less significant when compared to ID terms of trade



Source: Macrobond, RHB Economics & Market Strategy

USD/MYR: MYR to Hit 4.30 – 4.60 Range by 2H24

- **Our view for MYR to trade at 4.60 – 4.80 has materialised nicely so far.** In 2023, MYR had at one point been one of the weakest currencies against the USD on a regional basis amid (1) wide US-MY interest differentials, (2) concerns over the fiscal position, and (3) softening of trade momentum in the earlier part of the year. At the time of writing, we have begun to see green shoots of recovery in trade activities, and export momentum is anticipated to accelerate in 1H24.
- **Overall, we are positive on the MYR outlook for 2024, where the USD/MYR is expected to hover in the 4.30 – 4.60 range by 2H24.** The USD/MYR may see some consolidation as early as 2Q24 on the back of a peak FFR by 1Q24, where the positive carry seen in the greenback is expected to dissipate gradually. In addition, the strengthening of CNH in 2024 is expected to lend some strength to the MYR. On the domestic front, the USD/MYR would be supported by the improvement in the Malaysia-centric macroeconomic backdrop, coupled with phased fiscal consolidation.
- **Our quantitative analysis via six key variables suggests that the MYR will strengthen, given improving fiscal and current account matrices. At the same time, potentially higher crude oil prices and a narrower US-MY rate spread towards 2H24 will help. However, the downside may be driven by the sustained elevated public debt into the next year.**
- **Our optimistic view on USD/MYR is predicated on three key factors:**
    - **We expect the positive carry on USD to narrow against ASEAN FX (including MYR) in 2024.** The FFR will likely peak by 1Q24, followed by rate normalisation to 5.00 **–** 5.25% by 2H24. The narrowing of USD-MYR interest rate differentials by 2H24 suggests a stronger MYR per USD ahead.
    - **Malaysia's current account surplus is expected to improve to 3.0% of GDP in 2024, up from an estimated 2.1% in 2023, on the back of a pickup in trade performance and tourism receipts.** The trade performance is envisaged to be supported by the global technology cycle rebound and a rosier global economic landscape. We expect the economic momentum to pick up in 2024, underpinned by improvements in manufacturing and exports.
    - **Separately, we expect Malaysia's fiscal balance deficit to narrow to 4.3% of GDP in 2024 against 5.0% of GDP perceived in 2023, in line with the Government's commitment to fiscal strengthening and consolidation.** Budget 2024 measures, i.e. the introduction of new revenue drivers, enhancement of tax compliance and rationalisation of subsidies, are in line with containing the fiscal deficit. We expect domestic sentiment to improve following greater clarity on the fiscal and infrastructure sector policy reforms.
- **Conversely, headwinds to MYR could emanate from potential consolidation in Brent crude and higher Malaysian public debt in 2024.** We continue to see an upside bias for crude oil in early 2024 amid more robust demand coupled with policy-induced supply constraints, given production cuts by global oil producers. Nonetheless, stabilisation in Brent crude can be expected into 2H24, assuming the easing of geopolitical tensions and relaxation of oil supply. Separately, Malaysia sees its federal government debt at 64% of GDP by the end of 2024, from 62% as of August 2023, which will likely cap MYR strength in the coming year.

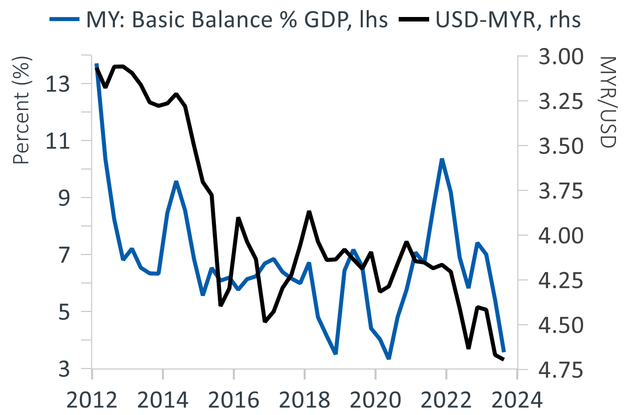
1Q24: 4.60 – 4.90. USD/MYR will remain under pressure amid potentially higher US FFR rates in 1Q24. As we expect the Overnight Policy Rate to likely be on hold for 2024, the widening of US-MY interest rate differentials favours holding USD compared to MYR.

2Q24: 4.50 – 4.80. Some consolidation in USD/MYR is expected following the peak FFR by 1Q24, where the positive carry seen in the greenback is anticipated to dissipate gradually. Domestic confidence is expected to improve following greater clarity in fiscal consolidation measures.

2H24: 4.30 – 4.60. We expect USD/MYR to trend lower amid the narrowing of US-MY interest rate differentials, assuming that market participants start pricing in FFR cuts in the same period. By 2H24, orderly implementation of the aforementioned fiscal measures is expected. Separately, the CA balance would be bolstered by improvement in export performance and tourism receipts.

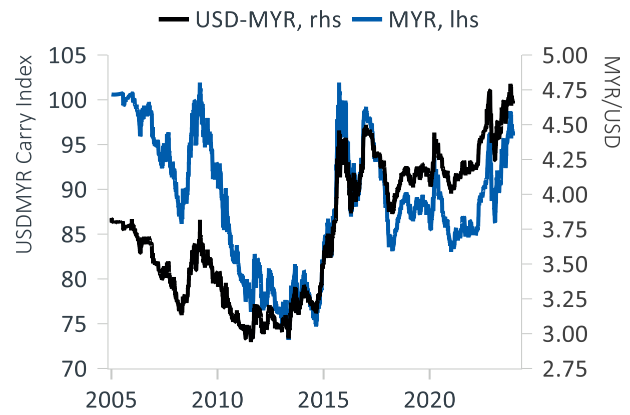
2025: 4.20 – 4.50. A stronger MYR is anticipated following the diminishing US-MY rate spread and improved fiscal and balance of payments position.

Figure 25: Malaysia's basic balance has slowed in tandem with MYR…



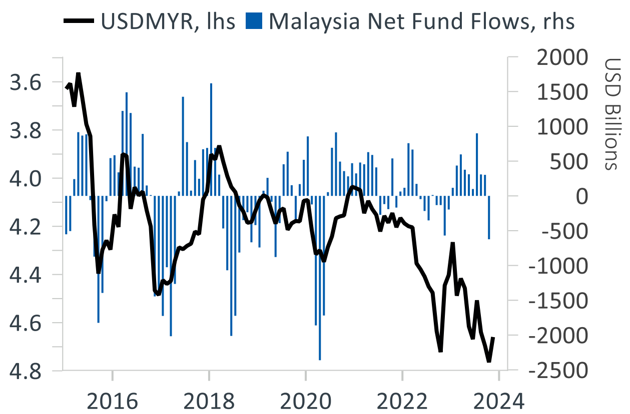
Source: Macrobond, RHB Economics & Market Strategy

Figure 26: … which is not surprising given the negative MYR carry against USD…



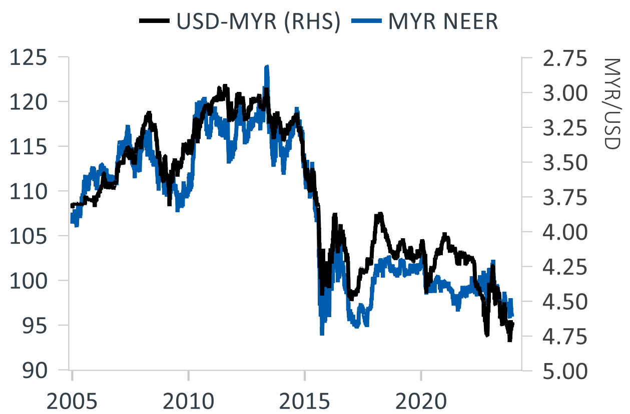
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: … which then leads to net fund outflows into 4Q23



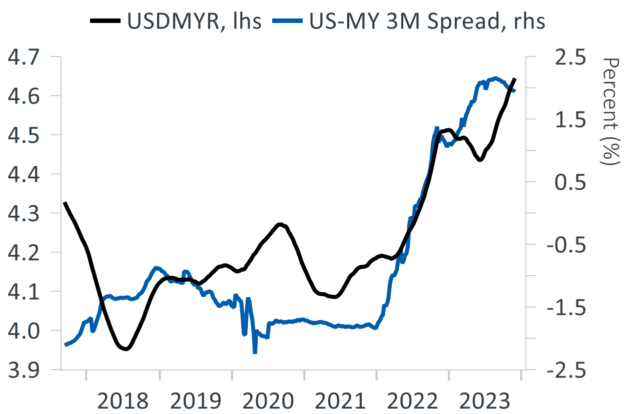
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: Malaysia Nominal Exchange Rate (NEER) below November 2022 low



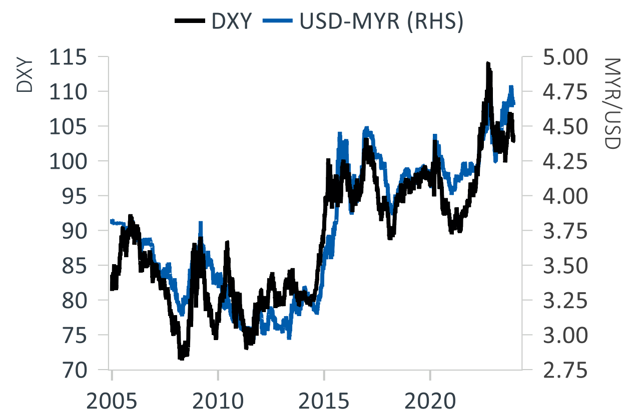
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: Narrower US-MY 3M spread may strengthen MYR in 2024…



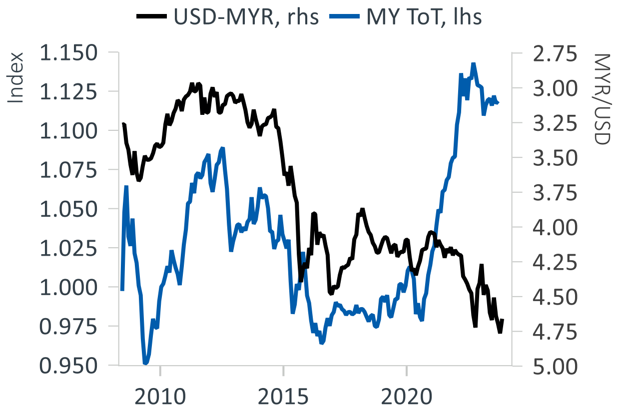
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: … while correlation between DXY and MYR resumes



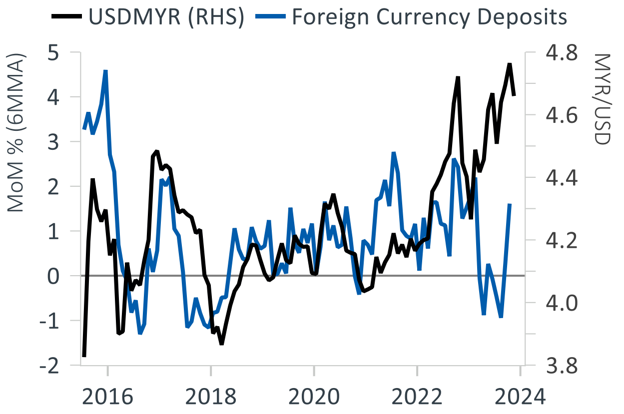
Source: Macrobond, RHB Economics & Market Strategy

Figure 31: Malaysia's terms of trade has improved in 2023; improving macroeconomic fundamentals will help MYR



Source: Macrobond, RHB Economics & Market Strategy

Figure 32: Relationship between foreign currency deposits breaks down against MYR, suggesting that MYR was determined by positive USD carry instead



Source: Macrobond, RHB Economics & Market Strategy

Figure 33: USD-MYR is primarily driven by six key variables, R-square 0.751

Dependent Variable: USD-MYR	
Regression Statistics	
Multiple R	0.867
R Square	0.751
Adjusted R Square	0.727
Standard Error	0.256
Observations	70

	Coeff	*Std Error*	*t Stat*	*P-value*
Intercept	6.96	0.40	17.38	0.00
Current Account % GDP (-1)	-0.10	0.02	-6.40	0.00
Fiscal Account % GDP (-4)	-0.07	0.04	-1.89	0.05
Public Debt YoY (3QMA) (-2)	-0.04	0.01	-2.81	0.01
KLCI (x100) (-1)	-0.13	0.00	-5.72	0.00
Brent (x100) (-1)	-0.48	0.00	-2.82	0.01
US-MY Real Rates (-4)	0.02	0.03	0.91	0.36

Source: RHB Economics & Market Research, Notes: (-n) represent the n lags of the variables respectively, (xNK) represents a magnification of coefficients

USD/SGD: Outperformer Across ASEAN

- **In our last Path Finder report, we forecasted USD/SGD at a range of 1.34 – 1.38 for 4Q23, where the view has materialised quite nicely.** SGD is trading near 1.34 per USD at the time of writing, which is at the bottom of our forecast range. A key catalyst behind our accurate view is underpinned by our call for the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in October 2023. We see little impetus for the MAS to tweak its policy parameters in 2024 against our assumptions that Singapore's economic growth will accelerate to 3.0% and CPI risk will stay manageable.
- **We like (very much) the SGD for 2024.** Singapore, an economy that uses the Nominal Effective Exchange Rate (S$NEER) as its monetary policy tool, is estimated to have a 1.5% appreciation gradient since deciding on a pause at its October Monetary Policy Committee (MPC) meeting. Coupled with the inherent appreciation framework, Singapore's sound economic prognosis amid FFR cuts assumed in 2H24 hints at SGD being an outperformer currency against its ASEAN peers.
- **Our USD/SGD leading model takes on seven independent variables, with p-value below 0.05 and R-square at 0.86. Singapore's industrial production, labour and money supply are key determinants of SGD levels.** Separately, foreign direct investment (FDI) differentials between the US and Singapore positively correlate with USD/SGD. The OLS findings are pertinent to our SGD view; recent above-expectation manufacturing activities and relatively tight labour conditions are already observed in 2H23. Conversely, Singapore is highly susceptible to global trade shocks, underlining a caveat against a strong SGD should unforeseen adverse global growth shocks occur in 2024.
- **1Q24: 1.35 – 1.40. We expect USD/SGD to see an upside bias towards 1.40 on the back of a peak FFR assumed at 5.50 – 5.75%.** Still, SGD's weakness may be limited compared to the rest of ASEAN, given Singapore's S$NEER policy, thus allowing a free hand to influence SG's interest rates. As such, US-SG rate differentials have seen a relatively low beta against how USD/SGD trends empirically.
- **2Q24: 1.30 – 1.35. Broad USD weakness across ASEAN will likely ensue, following market expectations for FFR cuts to materialise in 2H24.** SGD will still outperform the region, where we assume an appreciation of around 3.0 – 4.0% against 1Q24's levels, against around 2.0 – 3.0% uptick in the rest of ASEAN.
- **2H24: 1.25 – 1.31. We expect USD/SGD to trend lower as US-SG interest rate differentials narrow, assuming that market participants start pricing in FFR cuts in the same period.** A decline of USD/SGD to below 1.30 has not been seen for most of the last decade. However, it suggests SGD's rally to the growth years post-Great Financial Crisis (2011 – 2014: USD/SGD saw a low of 1.20 and a high of 1.34) will be against a likely similar backdrop on the back of our global assumptions.
- **2025: 1.25 – 1.35. We expect the SGD to return to lower range-trading behaviour in 2025 amid diminishing interest rate differentials between US-SG.** Overall, Singapore's economic fundamentals should return to long-term trends in 2025 amid a significant dissipation of geopolitical- and pandemic-related risks.

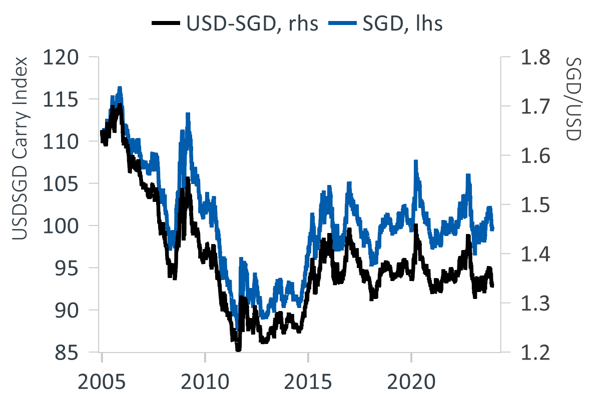
Figure 34: USD/SGD will trade up in 3Q23 on back of…

Dependent Variable:	*USD - SGD*			
	Coeff	*Std Err*	*t Stat*	*P-value*
Intercept	2.31	0.14	16.16	0.00
US-SG FDI Differentials (x100K) (t-3)	0.03	0.00	2.37	0.02
Industrial Production Index (x1K) (t-2)	-3.43	0.00	-3.01	0.00
Total Employment (x1K) (t-2)	-0.34	0.00	-6.37	0.00
M2 Money Supply (x100K) (t-4)	-0.14	0.00	-3.68	0.00
Foreign Reserves (x100K) (t-4)	0.12	0.00	3.98	0.00
Non-Performaning Loans: Overall (t-4)	0.03	0.01	3.09	0.00
Bank Loans (x100K) (t-4)	0.07	0.00	9.22	0.00
R-Square	0.86			

Source: RHB Economics & Market Strategy

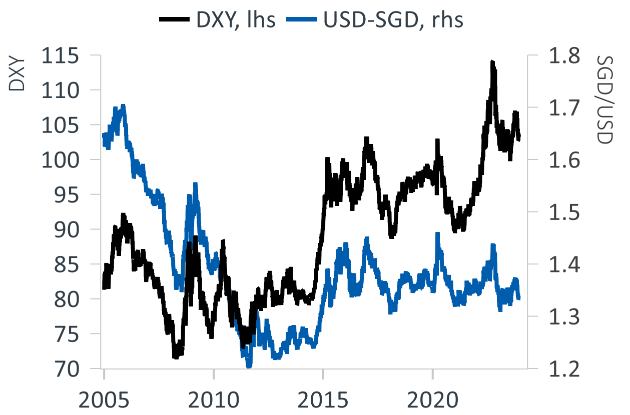
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents magnification of coefficients

Figure 35: …the negative carry on holding SGD



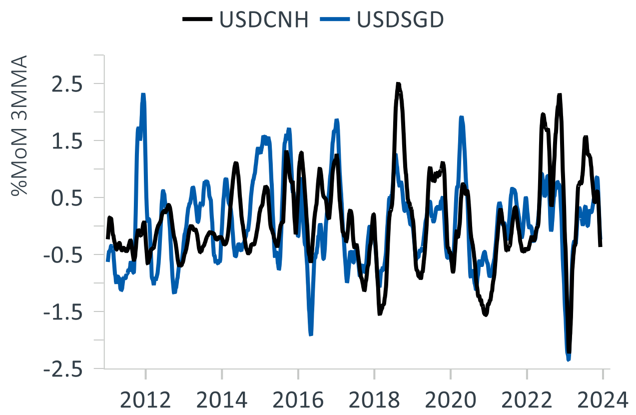
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: USD/SGD will continue to trade with limited correlation with the USD and will be relatively more…



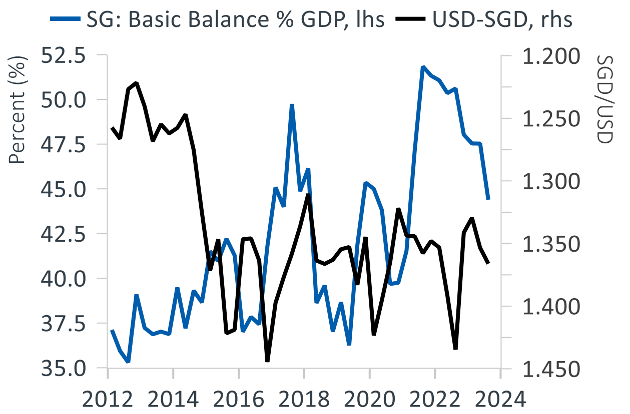
Source: Macrobond, RHB Economics & Market Strategy

Figure 37: …impacted by the momentum of USD/CNH into 2024…



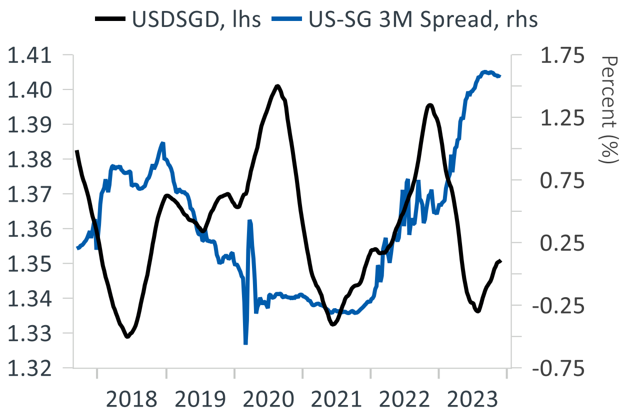
Source: Macrobond, RHB Economics & Market Strategy

Figure 38: SG basic balance is rich, thus supporting SGD



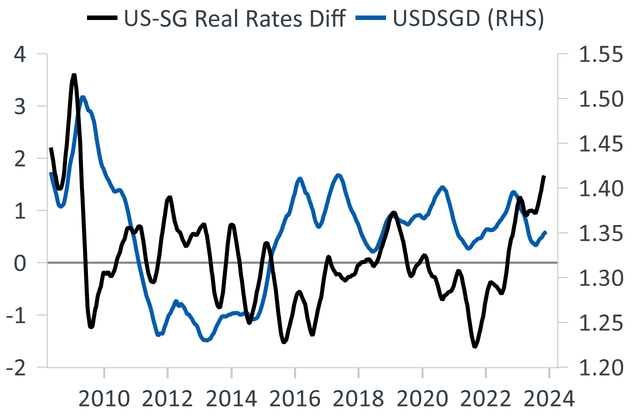
Source: Macrobond, RHB Economics & Market Strategy

Figure 39: SGD not influenced by nominal US-SG rate spread…



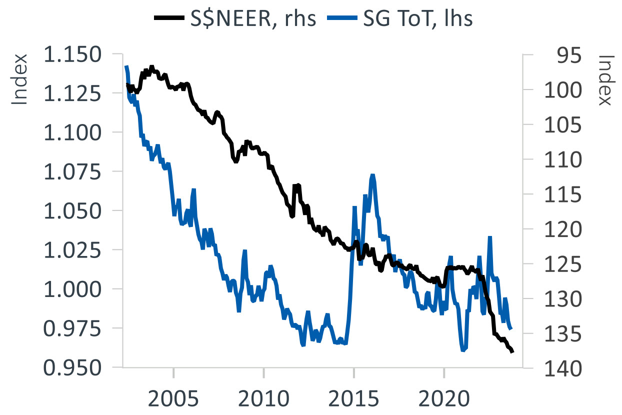
Source: Macrobond, RHB Economics & Market Strategy

Figure 40: … nor when we discount it via inflation (real rates), suggesting the S$NEER is a bigger influence



Source: Macrobond, RHB Economics & Market Strategy

Figure 41: SG terms of trade does not trend with S$NEER



Source: Macrobond, RHB Economics & Market Strategy

USD/THB: China's Return Will Greatly Help

- **Our view for THB to remain weak above 35.0 for 4Q23 materialised nicely.** The weakness in the THB was led primarily by the weaker-than-expected tourism arrivals for 2023. However, some reprieve is seen from the expected momentum recovery in Thailand's high-frequency data. Thailand's trade and current account balances have improved in their latest reading, while foreign reserves have picked up from 2022's levels. Separately, the domestic deflation pressures seen of late, although they may not persist into 2024, have elevated the economy's real interest rates against the rest of its ASEAN peers.

- **Overall, we are positive on the THB for three key reasons:**
  - **We expect Thailand to clock one of ASEAN's fastest appreciations in GDP growth rates, from an estimated 2.5% in 2023 to 4.0% in 2024.** Thailand, in our view, benefits immensely from our China bull call. Our quant estimations suggest that tourism demand into Thailand will surge on China's economic recovery, followed by an uptick in demand for Thailand's electronic products.
  - **Thailand's current account surplus is expected to grow robustly to 3.0% of GDP in 2024, up from an estimated 0.7% in 2023.**A marginally wider budget deficit at 3.5% of GDP in 2024, from an estimated deficit of 3.2% of GDP in 2023, may do little to dent THB's strength, given the relatively stronger current account backdrop. Overall, the recovering matrices will help support the THB.
  - **Our USD/THB leading model suggests higher foreign reserves, tourism and consumer confidence to be key determinants of the currency pair.** The model reinforces our view for THB's strength in 2024 while also lending support from positive spillover effects from consumer spending and confidence, which we think will also pick up with the recovery already seen year-to-date.

- **Broad picture in 2024:** Similar to the rest of ASEAN, THB may stay relatively flattish in 1Q24, following our assumptions for an FFR hike in the same period. We forecast the peak FFR at 5.5 – 5.75% in 1Q24. The softness will likely be mitigated by the aforementioned positive Thailand-centric economic indicators, thus setting THB near the top of the pack. Being the only ASEAN economy that has seen CPI deflation in 4Q23, Thailand's real interest rate has stayed high versus its peers, thus suggesting that the Bank of Thailand (BoT) will keep its benchmark rates unchanged in the coming year. Separately, the dissipation of political noise seen since the appointment of Prime Minister Srettha Thavisin will keep THB's political risk premium at bay.

- **1Q24: 35.5 – 37.0. We expect USD/THB to remain supported at current levels, with the bias for THB to depreciate marginally.** The key catalyst will likely be led by the positive USD carry against THB in 1Q24, following our peak FFR assumed at 5.50 – 5.75%. Despite the FFR hike, we do not expect BoT to follow suit with a rate hike of its own, thus suggesting the US-TH rate spread will widen over the same period.

- **2Q24: 34.5 – 36.0. We pencil an appreciation in THB against USD, in tandem with the broad USD weakness.** We expect the FFR to see an eventual rate reduction to 5.0 – 5.25% in 2H24, with the balance of risks tilted to a cut only in 4Q24. Thus, a gradual appreciation of the THB may materialise as expectations for diminishing USD carry takes form.

- **2H24: 33.5 – 35.0. We expect USD/THB to trend lower as US-TH interest rate differentials narrow, assuming that market participants start pricing in FFR cuts in the same period.** By 2H24, we will also likely see more clarity on China's economic recovery, which would have already injected positive spillover effects to Thailand's manufacturing and tourism numbers.

- **2025: 32.0 – 34.0 We expect the THB to return to lower range-trading behaviour in 2025 amid a diminishing US-TH rate spread.** By 2H24, Thailand's tourism sector should have returned to pre-pandemic levels, while a significant dissipation of geopolitical and pandemic risks will likely be seen.

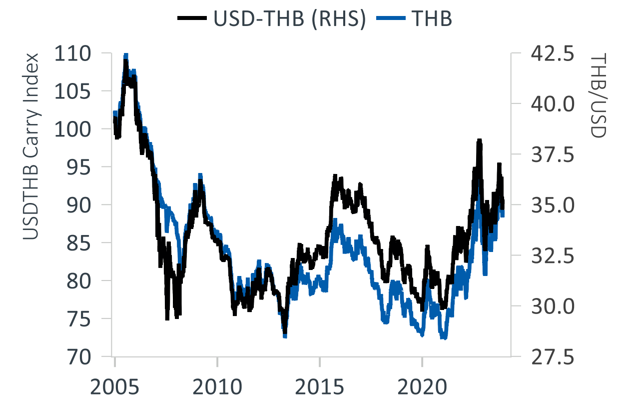
Figure 42: Tourism, economic activities are key drivers of THB

Dependent Variable:	USD - THB			
	Coeff	*Std Error*	*t Stat*	*P-value*
Intercept	39.09	1.60	24.39	0.00
M2 Money Supply (x100K) (t-2)	0.08	0.00	7.42	0.00
Foreign Reserve (x100K) (t-3)	-8.13	0.00	-8.41	0.00
Accommodation Occupancy Rate (t-4)	-0.05	0.01	-4.97	0.00
Consumer Confidence Index (t-2)	-0.09	0.03	-2.79	0.01
Motor Vehicle Sales (YoY) (t-2)	-0.01	0.00	-2.81	0.01
Credit Card Spending Value (YoY) (t-2)	0.07	0.01	4.74	0.00
R-Square	0.789			

Source: RHB Economics & Market Strategy

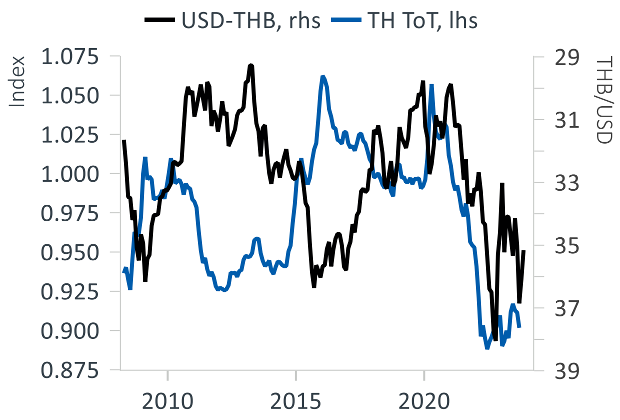
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents magnification of coefficients

Figure 43: Improving THB carry against USD will help support the currency



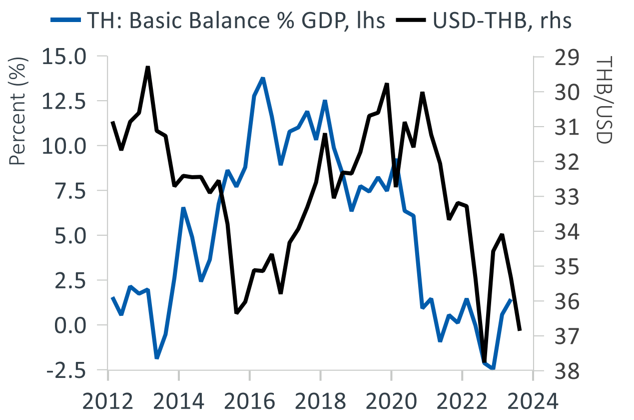
Source: Macrobond, RHB Economics & Market Strategy

Figure 44: THB trends well with terms of trade



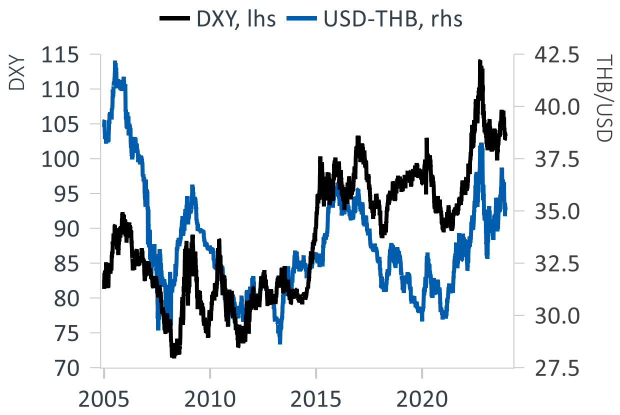
Source: Macrobond, RHB Economics & Market Strategy

Figure 45: TH's basic balance slows in 2H23, but better economic prognosis will help THB in 2024



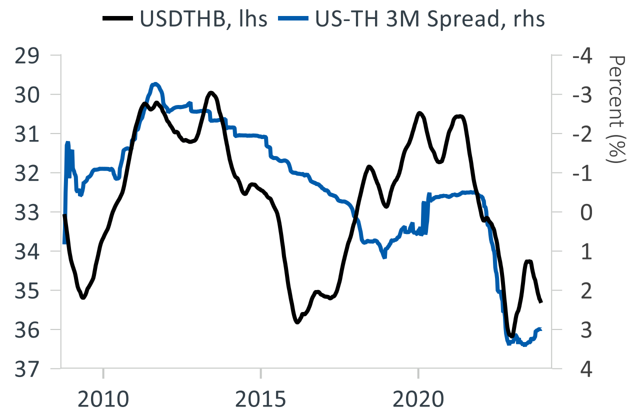
Source: Macrobond, RHB Economics & Market Strategy

Figure 46: THB resumes its trend with USD…



Source: Macrobond, RHB Economics & Market Strategy

Figure 47: … while a narrower US-TH rate spread will help THB



Source: Macrbond, RHB Economics & Market Strategy

Economic Outlook

Indonesia

Sustained Growth on the Tide of Global Recovery

- **We maintain our GDP growth forecast at 5.0% for 2024, with private consumption expenditure being the primary driver.**
- **We recently revised our 2024 headline inflation forecast to 3.3% YoY, up from the previous estimate of 3.0%. Core inflation is projected to grow at 2.2% YoY.**
- **We expect Bank Indonesia (BI) to keep its policy rate (7-day reverse repo rate) at 6.00% in 1H24, followed by a 50bps rate cut in 2H24 to 5.50%, albeit the balance of risk is for BI to raise its policy rate by another 25bps to 6.25% in 1Q24.**

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Figure 1: Key Economic Forecasts

	2022	2023F	2024F	1H23	2H23F	1H24F	2H24F
Real GDP Growth (% YoY)	**5.3**	**5.1**	**5.0**	**5.1**	**5.1**	**4.4**	**5.6**
Contribution to real GDP Growth (%)							
Private Consumption	2.6	2.7	2.5	2.6	2.7	2.3	2.7
Investment	1.2	1.4	2.0	1.0	1.8	2.3	1.7
Government Consumption	-0.4	0.3	0.7	0.5	0.2	0.5	0.9
Net Exports	0.8	0.4	0.0	0.9	-0.1	-0.3	0.2
CPI	**4.2**	**3.8**	**3.3**	**4.6**	**2.9**	**3.1**	**3.5**
Policy Interest Rate	**5.50**	**6.00**	**5.50**	**5.75**	**6.00**	**6.00**	**5.50**
Current Account Balance (% of GDP)	**1.0**	**-0.4**	**-0.8**	**0.2**	**-1.0**	**-0.6**	**-1.0**
Fiscal Balance (% of GDP)	**-2.4**	**-2.3**	**-2.3**	**1.5**	**-6.1**	**2.0**	**-6.6**

Source: CEIC, RHB Economics & Market Strategy

We maintain our GDP growth forecast at 5.0% for 2024, with private consumption expenditure being the primary driver. Our positive outlook for Indonesia's growth is underpinned by three crucial factors: (1) the robustness of private consumption and investment contributing significantly to the growth trajectory; (2) early signs of China's economic recovery which is expected to bolster Indonesia's trade and tourism sectors; and (3) the upswing in trade activities continuing to be fueled by the improved global market sentiment, positively impacting the external-oriented sector.

Domestically, we remain positive on Indonesia's growth and expect momentum to persist on the back of Indonesia's general election which is scheduled to be held in February 2024. In our previous thematic study, we discovered that household consumption and government expenditure rose in the quarters before and after the election dates. Investment activities and stock valuations appeared to slow prior to the election, but rose markedly after the polls. In historical trends, we also found that elections contribute 0.2% to 0.6% to Indonesia's annual GDP. In general, the election would positively contribute to economic growth.

On the external front, we foresee Indonesia's trade momentum to further recover and maintain a positive trajectory into 2024, supported by several key factors. These include the anticipated recovery in the Chinese economy, elevated commodity prices – especially in energy products – and the ongoing resurgence in global trade. The early-stage improvement in China's economic indicators has contributed to the increase in commodity consumption, particularly in energy and construction materials. Additionally, we foresee Brent crude oil prices resuming their ascent towards the US$100/bbl mark by the first quarter of 2024. This projection is based on the observed acceleration in global crude oil demand momentum coupled with tightened supply conditions. Given Indonesia's status as a major commodity exporter, heightened demand and increased commodity prices indicate a promising outlook for the country's trade dynamics. At the same time, our thematic report on China suggests that Indonesia still has room to catch up regarding its exposure to China's E&E industries.

Our view for GDP growth momentum to sustain in 2024 is further reinforced by our proprietary Composite Leading Index (CLI) model, which leads empirical GDP data by two quarters. Our CLI has accurately captured the GDP trend in 1H23. The CLI model, which takes on six independent variables, suggested a marginally slower GDP growth in 3Q23, which has materialised nicely. Looking ahead to the following year, the CLI signals a sustained growth momentum and a more promising economic outlook for 2024. Notably, high-frequency data such as consumer sentiment and retail sales index have shown an improving momentum, rebounding from lower figures observed in the third quarter.

We have recently revised our 2024 headline inflation forecast to 3.3% YoY, up from the previous estimate of 3.0%. Core inflation is projected to grow at 2.2% YoY. The catalysts for the upgrade in 2024's inflation pressure are (1) higher food prices led by *El Nino* conditions; (2) upside bias for oil prices given our global assumptions; and (3) demand-pull inflation as Indonesia sees a relatively robust private consumption pattern amid general elections in 2024. Our view that higher food prices will lead Indonesia's inflation has materialised nicely in the recent data release, notably driven by higher inflation contributions from staple foods. Besides, *El Nino* conditions are expected to persist into 2024, which will lead to lower global food production and potentially extended impact on global food prices (Figure 4), and ultimately lead to longer persistent sticky inflation in Indonesia.

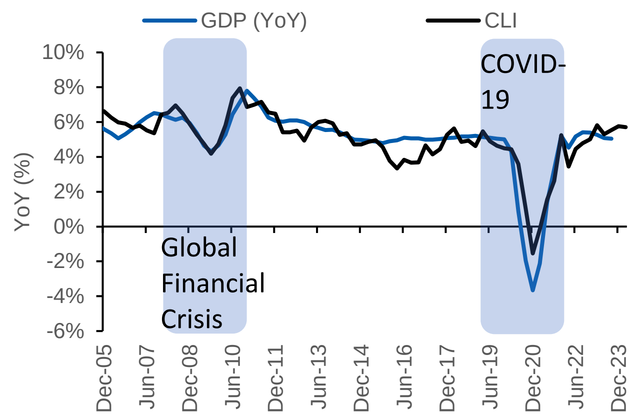
We expect Bank Indonesia (BI) to keep its policy rate (7-day reverse repo rate) at 6.00% in 1H24, followed by a 50bps rate cut in 2H24 to 5.50%, albeit the balance of risk is for BI to raise its policy rate by another 25bps to 6.25% in 1Q24. IDR stability will remain the main focus of the central bank as the trajectory of the policy rate hinges closely with currency performance. In tandem with our assumption of the US Fed Fund Rate (FFR) to peak at 5.50 – 5.75% by 1Q24 and normalise to 5.00 – 5.25% by 2H24, we expect BI to maintain a stable interest rate differential gap through gradual policy adjustment, generally aligning with Federal Open Market Committee decisions. This approach aims to uphold IDR stability while managing capital outflows. We foresee a potential further depreciation of IDR in the first quarter as the interest and yield differential reaches its narrowest point, followed by a gradual recovery towards the year's end.

We maintain our current account (CA) balance outlook at -0.4% of GDP in 2023, and expect the deficit to widen towards -0.8% in 2024. The projection indicates an end to the surplus trend by 2024, primarily due to an anticipated decline in the trade balance. These deficits will primarily stem from a narrower non-energy trade balance, driven by increased import projections amid stronger domestic consumption. Our 2024 commodity forecasts for Brent and crude palm oil are USD85 – USD95/barrel (2023 YTD average: USD82/barrel) and MYR4,000/MT (2023: MYR3700 – MYR3800/MT)[1] respectively. Despite the expected rise in energy prices in the upcoming year, we foresee higher energy imports to offset the surge in energy exports, thereby stabilising the energy CA balance. In terms of service balance, we see the deficit to narrow in 2024, led by higher tourist receipts as inbound tourist arrivals rebound closer to pre-pandemic levels.

We project a fiscal deficit of 2.3% for both 2023 and 2024, maintaining a steady trajectory. However, the 2023 forecast holds potential upside risks. Indonesia's Finance Minister Sri Mulyani Indrawati mentioned in a press conference[2] that the current revenue collection exceeds the set target, while expenditures are progressing at a slower pace. This suggests the possibility of the fiscal deficit for 2023 being lower than initial projections.

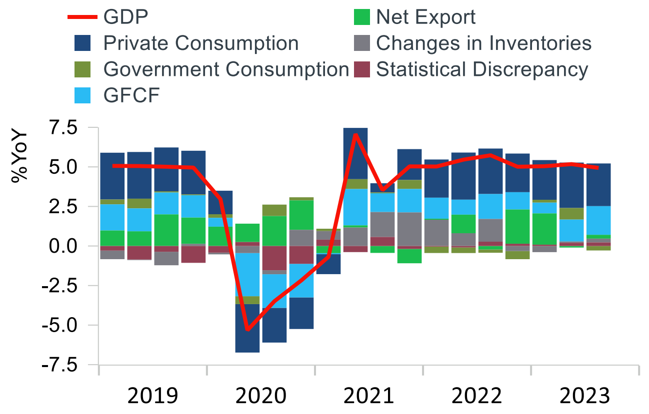
1 RHB Investment Bank (IB), *El Nino* Confirmed, Higher Prices In 2024F, 5 Oct 2023
2 The Straits Times, Indonesia Finance Minister predicts smaller 2023 budget deficit, 25 Oct 2023

Figure 2: GDP growth momentum to sustain…



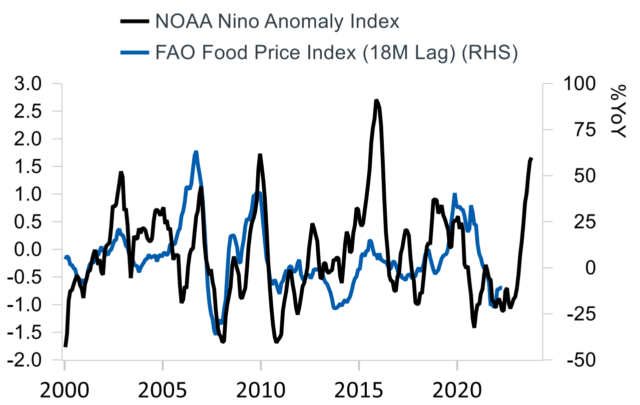
Source: CEIC, RHB Economics & Market Research

Figure 3: …with support from private consumption and investment



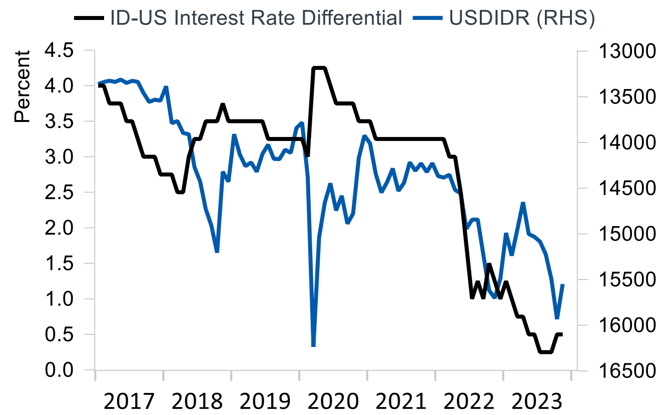
Source: Macrobond, RHB Economics & Market Research

Figure 4: Elevated food and commodity prices contribute to stronger inflation



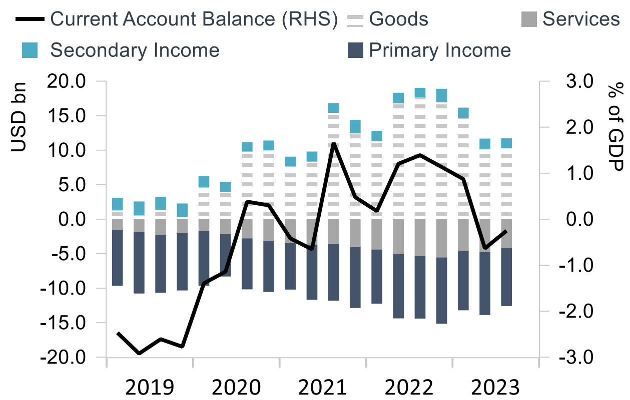
Source: Macrobond, RHB Economics & Market Research

Figure 5: Policy rate will maintain in the first half to support IDR stability



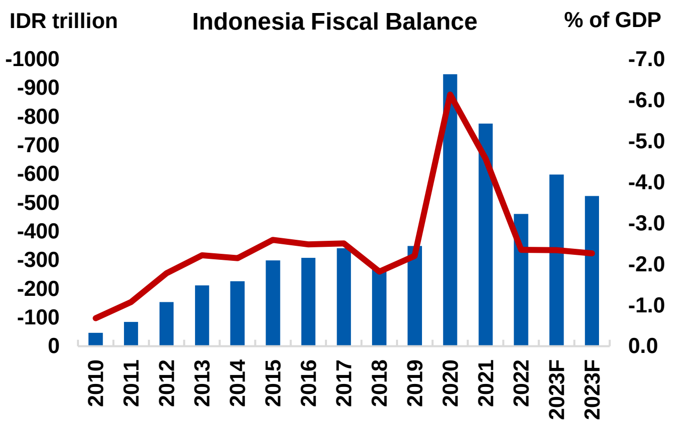
Source: Macrobond, RHB Economics & Market Research

Figure 6: Narrower non-energy goods balance is expected to widen the current account deficit



Source: Macrobond, RHB Economics & Market Research

Figure 7: Fiscal balance to stay flat in 2024



Source: CEIC, RHB Economics & Market Research

Malaysia

We are Optimistic on the 2024 Economic Landscape

- **We maintain Malaysia's GDP growth forecast at 4.6% YoY for 2024, up from an estimated 4.1% in 2023.**
- **We expect headline and core inflation to trend higher to 3.3% YoY and 3.6% YoY, respectively, in 2024.**
- **On the policy front, we opine that the Overnight Policy Rate will likely be maintained at 3.00% for 2024.**

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Figure 1: Key Economic Forecasts

	2022	2023F	2024F	1H23	2H23F	1H24F	2H24F
Real GDP Growth (% YoY)	**8.7**	**4.1**	**4.6**	**4.2**	**4.0**	**5.0**	**4.3**
Contribution to real GDP Growth (%)							
Private Consumption	6.6	3.1	3.3	3.1	3.1	3.6	3.0
Investment	1.4	1.3	0.7	1.1	0.6	0.7	0.4
#Private	1.1	0.8	0.4	0.8	1.1	0.8	1.1
#Government	0.2	0.5	0.3	0.2	1.0	0.2	0.8
Government Consumption	0.6	0.3	0.5	0.1	0.03	0.5	0.2
Net Exports	-0.1	-0.6	1.3	1.0	-1.9	0.9	1.2
CPI	3.3	2.6	3.3	3.2	2.0	3.3	3.4
Policy Interest Rate (eop)	2.75	3.00	3.00	3.00	3.00	3.00	3.00
Current Account Balance (% of GDP)	2.6	2.1	3.0	1.6	2.6	2.4	3.6
Fiscal Balance (% of GDP)	-5.6	-5.0	-4.3	-4.5	-5.4	-4.2	-4.4

Source: CEIC, RHB Economics & Market Strategy

Malaysia's growth momentum is expected to gain pace into 2024, underpinned by the external sector, including manufacturing and exports. The rebound in the global technology cycle and continued resilience in the US and ASEAN economies are expected to support the export-oriented segments. Besides that, tourist arrivals are anticipated to accelerate further by 2024 on the global travel boom, with Chinese tourists having room for catch-up growth. Domestically, we expect private consumption to increase in 2024, led by a tighter labour market. We maintain our GDP growth forecast at 4.6% YoY for 2024. Upside risks to our GDP growth projection would emanate from the business-friendly policies and incentives focusing on priority sectors, i.e. technology, tourism, and agriculture, as well as those with export capacity. For 2023, we revised our GDP forecast to 4.1% YoY versus our former projection of 4.3% YoY, as investment growth and export momentum are weaker than we expected in 3Q23.

Consumer spending momentum is likely to increase in 2024 on a tighter labour market. Labour market conditions are expected to remain resilient, with healthy job creation and the unemployment rate trending at an average of 3.3% for 2024. Expansion of consumer spending and improved tourism inflows are expected to provide much-needed support to the retail trade, accommodation and restaurants, and communication segments. We recognise that reduced subsidies might cap the strength in consumer spending and disposable income. However, the risks to aggregate consumer spending remain limited on continued assistance to the lower income group and relatively inelastic demand in the higher income group. At an aggregate level, the T40 contributes the most to aggregate consumer expenditure at 42.3%, followed by the M40 at 39.9% and the B20 group at 17.8%.

Meanwhile, investment spending is projected to remain robust in 2024, with expansion from both private and public investment. Private investment activities would be buoyed by further progress in construction projects, continued capacity expansion and business-friendly policies. Meanwhile, public investment is projected to expand further amid the continuation of large-scale transport-related projects.

We expect export momentum to accelerate by 1H24, predicated on three main factors: (1) a rosier global and regional economic outlook, (2) recovery in the global technology cycle, and (3) the recovery in China's economy. We see more signs of the dissipation of downside risks, i.e. the global technology cycle downturn might be close to an end, and there are early signs of recovery in China's economy. We have noticed that the E&E export trend in Malaysia and ASEAN has been picking up in recent months. In addition, the World Semiconductor Trade Statistics expects a rosier outlook for 2024, with an anticipated rebound in semiconductor sales by 11.8% in 2024 versus a decline of 10.3% for 2023, which would help to lift Malaysia's E&E exports.

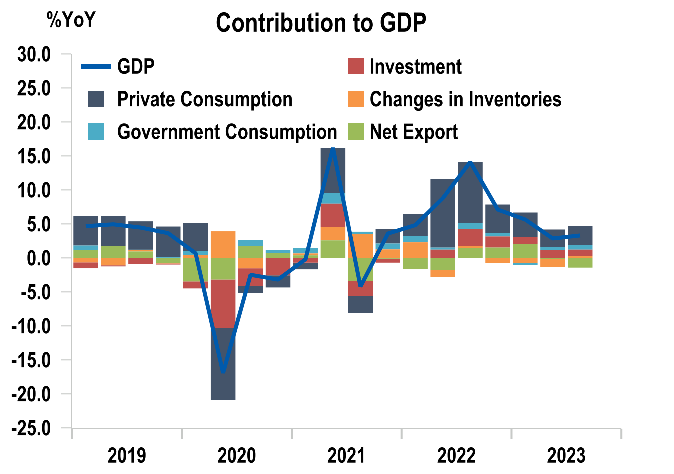
We expect headline and core inflation to trend higher to 3.3% YoY and 3.6% YoY, respectively, in 2024. For 2024, the inflation trajectory would be affected by (1) changes in domestic policies, (2) upside bias in food and commodity prices, and (3) demand-side pressure in line with improved economic conditions. The strength of inflation would be affected by the actual timing and magnitude of fuel subsidy rationalisation and the impact of increased services tax coupled with the subsequent impact on demand conditions. At this juncture, we see a limited impact of the progressive wage model on inflation by next year due to its limited exposure as it involves only voluntary participation of selected micro, small and medium enterprises (with a target of 1,000 companies). Furthermore, full-scale implementation might only occur after December 2024 and would be subject to the assessment results of the pilot run from June to September 2024.

Our 2024 current account balance forecast is 3.0% of GDP versus 2.1% in 2023. The goods surplus is expected to trend higher on the back of higher exports, in tandem with improved economic prospects of major trade partners. We also project smaller outflows in the services account, supported mainly by higher earnings from tourism receipts and transportation activities. Tourism receipts are expected to be lifted by higher tourism arrivals and per capita spending in the coming year.

We maintain our 2024 fiscal deficit projection at 4.3% of GDP. We view that higher revenue collection would be achievable for 2024, supported by higher proceeds of company and individual tax collections amid improved economic prospects, broadening the tax base and enhancing tax compliance and collection efficiencies. On expenditure rationalisation, the Government is currently at an inceptive stage of fiscal reforms with phased fuel and electricity subsidy rationalisation. In our opinion, further diversification of the revenue base and rationalisation of operating expenditure is necessary to reduce the fiscal deficit to below 3% of GDP or an ideally balanced budget in the coming years. There is a need to increase the indirect tax revenue, given that it constitutes only around 3% of GDP, where an enhancement in consumption tax collection (i.e. reinstatement of GST or further broadening of SST collection) could be considered.

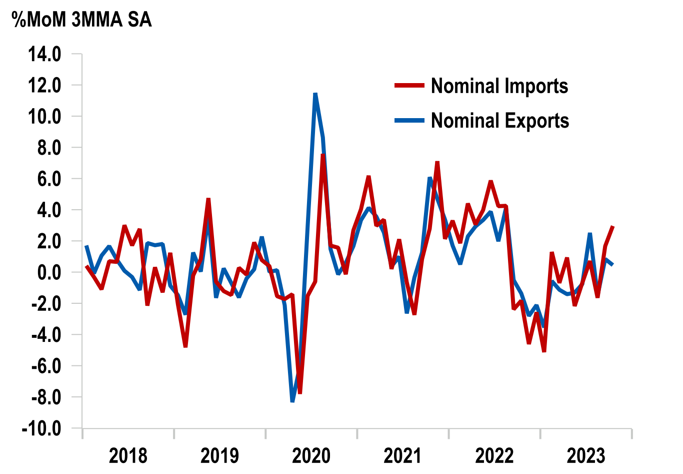
On the policy front, we opine that the Overnight Policy Rate will likely be maintained at 3.00% for 2024. No OPR cuts or hikes are expected at this juncture. A few key factors drive our view: (1) USD/MYR to consolidate towards the end of 2024; (2) domestic rates to remain elevated, which narrows the interest differential with developed markets; and (3) uncertainties in inflationary trajectory amid domestic policy changes. Bank Negara Malaysia might adopt a wait-and-see approach to gauge the impact of the policy changes on domestic demand conditions and the magnitude of the second-round inflation impact before any official rate adjustments.

Figure 2: Domestic demand to stay resilient…



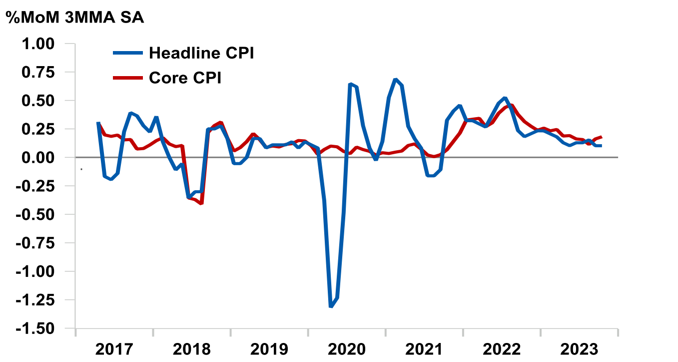
Source: CEIC, RHB Economics & Market Strategy
Note: Last data point is 3Q23

Figure 3: …wih trade momentum showing signs of bottoming



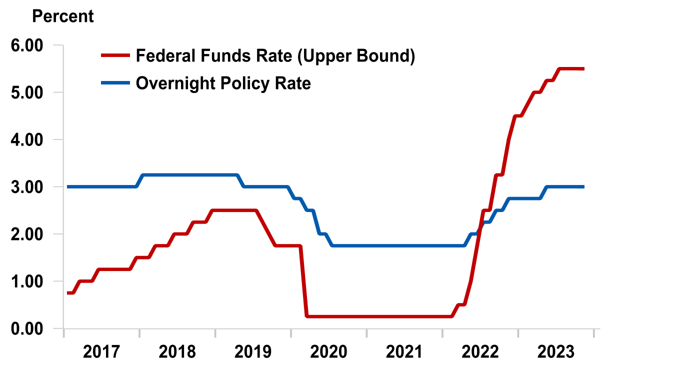
Source: Macrobond, RHB Economics & Market Strategy
Note: Last data point is October 2023

Figure 4: Core inflation momentum is picking up despite easing headline inflation



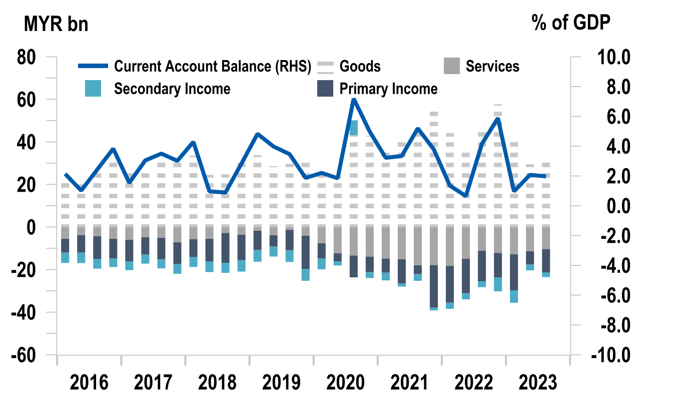
Source: Macrobond, RHB Economics & Market Strategy
Note: Last data point is October 2023

Figure 5: The FFR and OPR differential remains wide in 2023 and expected to narrow by 2H24



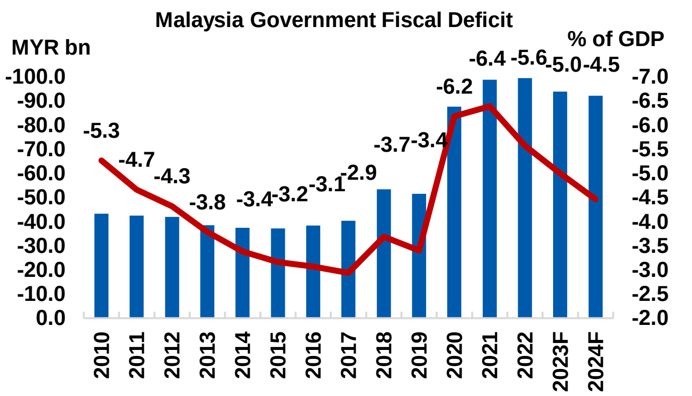
Source: Macrobond, RHB Economics & Market Strategy
Note: Last data point is November 2023

Figure 6: Current account balance to trend higher to 3.0% of GDP by 2024



Source: CEIC, RHB Economics & Market Strategy
Note: Last data point is 3Q23

Figure 7: Our 2023 and 2024 fiscal deficit projections are 5.0% and 4.3% of GDP



Source: MOF, RHB Economics & Market Strategy
Note: Last data point is 2024F

Singapore

GDP Growth is Expected to Accelerate in 2024

- **We keep Singapore's GDP growth at 3.0% in 2024, marking an acceleration from a forecasted 1.5% in 2023. We expect growth momentum to stay resilient in the new year.**

- **We upgrade our CPI forecast to 3.5% for 2024, up from our previous outlook of 3.0%, and against an estimated 4.9% in 2023.**

- **The Monetary Authority of Singapore (MAS) is expected to keep its policy parameters unchanged for 2024.**

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Figure 1: Key Economic Forecasts

	2022	2023F	2024F	1H23	2H23F	1H24F	2H24F
Real GDP Growth (% YoY)	**3.6**	**1.5**	**3.0**	**0.5**	**2.5**	**4.1**	**2.0**
Contribution to real GDP Growth (%)							
Private Consumption	3.2	1.5	1.5	1.4	1.7	1.7	1.3
Government Consumption	-0.3	0.2	0.0	0.2	0.3	0.4	-0.4
Gross Fixed Capital Formation	0.4	0.2	0.5	-0.3	0.6	0.9	0.2
Net Exports	0.6	1.8	0.4	2.6	1.1	-0.9	1.7
CPI	**6.1**	**4.9**	**3.5**	**5.6**	**4.3**	**3.8**	**3.2**
Current Account Balance (% of GDP)	**19.3**	**17.4**	**15.1**	**19.6**	**15.4**	**14.6**	**15.6**
Fiscal Balance (% of GDP)	**-1.0**	**-0.1**	**0.5**	**4.7**	**-4.9**	**-1.0**	**2.0**

Source: CEIC, RHB Economics & Market Strategy

We keep Singapore's GDP growth at 3.0% in 2024, marking an acceleration from a forecasted 1.5% in 2023. We expect growth momentum to stay resilient in the new year. Our view for Singapore's GDP to recover in 2H23 is materialising nicely, guided by our RHB proprietary GDP leading index and incoming high-frequency data from global trading partners, which have seen improving momentum trends year-to-date. Specifically, we expect the growth momentum seen in Singapore's externally facing sectors, namely industrial production and exports, to persist into 2024. Beyond that, we do not see evidence of a recession in global and ASEAN-centric numbers for the coming year. As a testament to our positive view on Singapore's economy, our GDP growth forecast of 3.0% in 2024 is at the top end of the official range forecast of between 1% and 3%.

Bright spots for Singapore's economy in 2024 are as follows: (1) continued improvement in growth-related momentum in global and ASEAN indicators; (2) global central banks approaching their peak rate objectives, which means rate cuts in 2H24 may be on the table; and (3) the hope for China to see a better economic prognosis, which will support global semiconductor demand. Recent news of a possible de-escalation of geopolitical tensions in the Middle East may lift market spirits and support growth-related industries in ASEAN. We are optimistic about Singapore's manufacturing landscape, especially in electronics, precision engineering, transport engineering, and general manufacturing. China's potential economic recovery in 2024 may also fuel tourism demand into ASEAN-6, as per our thematic study, thus also underpinning Singapore's services and hospitality-related industries.

The continued momentum recovery in Singapore's externally-facing industries reinforces our positive outlook. Our forecast for NODX momentum to improve in 2H23 has materialised nicely; global trade activities, on a momentum basis, have already embarked on a recovering trend. Singapore's manufacturing momentum is expected to strengthen in 4Q23 – 1Q24, led by improving global trade winds and gradual recovery in China-centric numbers. Separately, Singapore's NODX to China surged 38.5% YoY in October, up from 26.2% YoY in September and the fastest pace since November 2011, thus highlighting that China's economic recovery will mean a strong boon to Singapore's externally-facing numbers. Overall, our NODX and IPI full-year forecasts of -12.5% and -4.0% suggest that growth for these indicators will likely see positive YoY prints in the last two months of 2023. We see evidence of a bottoming of global semiconductor demand, which has empirically supported Singapore's industrial production activities.

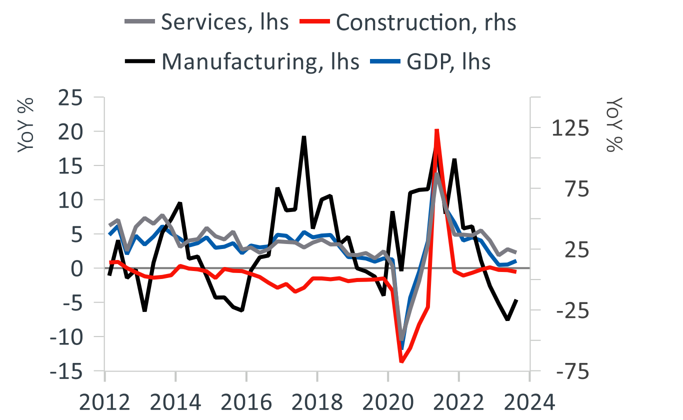
We upgrade our CPI forecast to 3.5% for 2024, up from our previous outlook of 3.0%, and against an estimate of 4.9% in 2023. The catalyst for our upgrade, albeit marginal by 50bps, is underpinned by our revised assumptions for China's economic growth to feed into global inflation via two key channels, mainly through positive spillover impact to global growth and higher commodity prices given China's being a dominant global commodity consumer. As such, we continue to see evidence of sticky inflation to persist into 1H24, and higher import prices will be the chief underpinning factor for Singapore's inflation climate, especially on the back of energy and food prices. We expect core inflation to slow to 2.5 – 3.0% in 4Q23, but still stay above 2.0% in 1Q24, given the recent uptick in import prices. The balance of risks is for headline and core inflation to trend above our base case forecasts, given (1) higher crude oil prices into 1Q24; (2) uptick in food prices on the back of *El Nino* conditions; and (3) demand-pull drivers against our global growth assumptions for a rosier 2024 backdrop.

The Monetary Authority of Singapore (MAS) is expected to keep its policy parameters unchanged for 2024. The consolidation against higher inflation pressures in 2024 can be gleaned from the strengthening SGD against ASEAN pairs. The SGD has remained the top performer in ASEAN since the start of 2H23. According to our RHB S$NEER model, the S$NEER has rallied to 1.7% above the mid-point last week, against the 1.0 – 1.5% seen for most of this year. Our S$NEER model suggests that ASEAN currencies comprise the lion's share at 41% of total S$NEER weights, towering above USD weights. A relatively stronger SGD seen year-to-date is expected to cushion the impact of higher import prices. Note that Singapore policymakers have increased the frequency of the MAS meetings in the next year, up to four meetings from two. We maintain our view for MAS to keep its policy parameters unchanged in its upcoming January meeting.

We expect a fiscal deficit of 0.1% of GDP in 2023 and a turn to a surplus of 0.5% of GDP in 2024. Singapore's fiscal balance has been laid out in detail in Budget FY2023, which pencilled total expenditure at SGD123.7bn, the largest ticket beyond the COVID-19 pandemic. The Budget introduced revenue drivers to shore up SGD800m of revenue through these policies, or SGD2.6bn if we include the recent increase in GST rate. Note that Singapore's Budget is usually scheduled in February, hence we will see more clarity on its fiscal standing in early 2024. Singapore practices a balanced budget mandate over the term of government, and thus a small surplus for 2024 and 2025 may be needed to achieve a balanced budget.

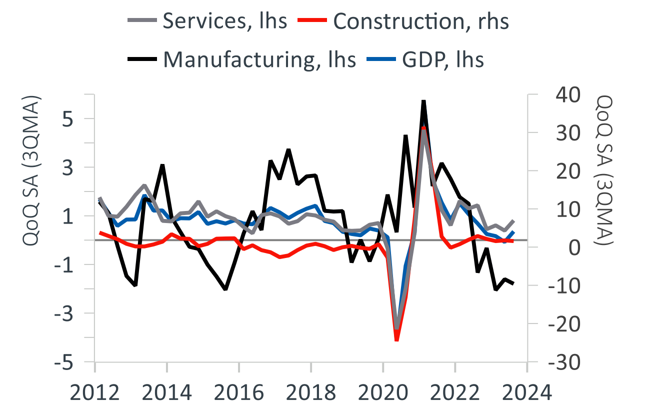
We forecast Singapore's current account surplus at 15.1% in 2024, from an estimated 17.4% in 2023. The lower surplus ratio is underpinned by our above-consensus forecast for GDP to expand 3.0% in 2024. The CA balance will remain healthy, especially on the back of our assumptions for China's economic recovery in 2024. Separately, the services account should benefit from the acceleration of tourism activities in 2024, in tandem with the recovery pattern already seen year-to-date. The risk to our outlook may stem from a further slowdown in global trade flows, injecting a more profound and sustained downturn in Singapore's trade dynamics in 2024.

Figure 2: GDP growth slowed on a YoY basis…



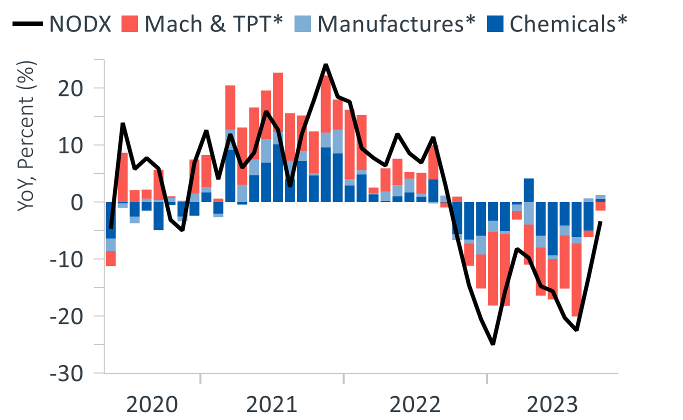
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: … but momentum has broadly accelerated



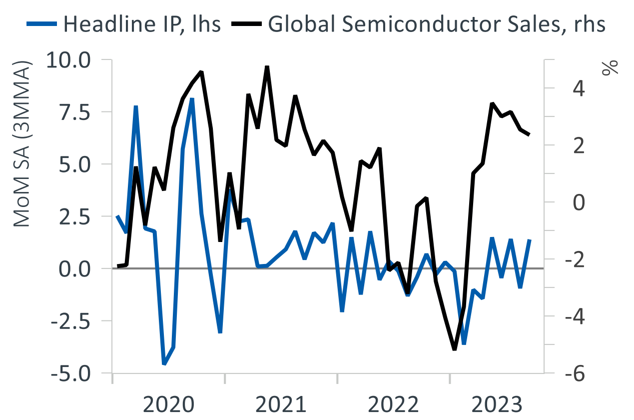
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Externally-facing indicators, like NODX, are better



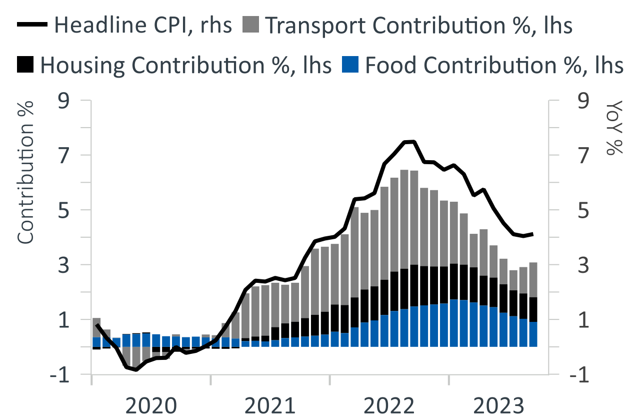
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: MFG benefits from ↑ semiconductor backdrop



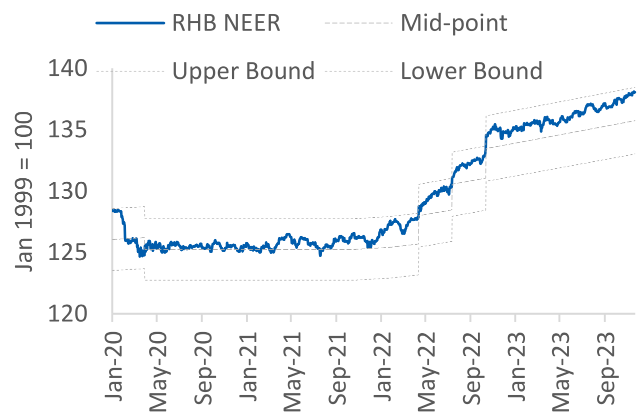
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 6: Inflation accelerated on higher commodity prices



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Stronger S$NEER should help, MAS to stay pat



Source: Macrobond, RHB Economics & Market Strategy

Thailand

China's Recovery will Help Exports and Tourism in 2024

- **We keep Thailand's GDP growth at 4.0% for 2024 and 2.5% for 2023.**
- **We maintain Thailand's headline inflation forecasts at 1.0% and 2.0% for 2023 and 2024, respectively.**
- **We forecast Bank of Thailand (BoT) to keep its benchmark rate unchanged at 2.50% in 2024.**

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Figure 1: Key Economic Forecasts

	2022	2023F	2024F	1H23	2H23F	1H24F	2H24F
Real GDP Growth (% YoY)	**2.6**	**2.5**	**4.0**	**2.2**	**2.8**	**4.2**	**3.8**
Contribution to real GDP Growth (%)							
Private Consumption	3.4	4.3	2.7	3.8	4.8	3.2	2.3
Gross Fixed Capital Formation	0.6	0.4	0.1	0.4	0.4	0.3	-0.2
Government Consumption	0.0	-0.7	-0.6	-0.8	-0.7	-0.5	-0.8
Net Exports	1.8	3.9	2.9	2.0	5.8	3.7	2.1
CPI	**6.1**	**1.0**	**2.0**	**2.5**	**0.2**	**1.0**	**3.0**
Policy Interest Rate	**1.25**	**2.50**	**2.50**	**2.00**	**2.50**	**2.50**	**2.50**
Current Account Balance (% of GDP)	**-3.0**	**0.7**	**3.0**	**-0.2**	**1.5**	**3.8**	**1.2**
Fiscal Balance (% of GDP)	**-2.7**	**-3.2**	**-3.5**	**-2.3**	**-4.1**	**-3.5**	**-3.5**

Source: CEIC, RHB Economics & Market Strategy

We keep Thailand's GDP growth at 4.0% for 2024 and 2.5% for 2023. In 2024, we expect GDP to accelerate from 2023's performance. The catalysts are: (1) further recovery in inbound tourism; (2) rosier trade dynamics on the back of China's recovery; and (3) supported private consumption trends. We expect private consumption to be one of the key growth supports for Thailand's GDP growth in 2024, with the recovery in tourism demand likely to support services activities in the foreseeable future. Per our Chief Economist Insight report, we are observing early signs of China's recovery pattern based on our cautiously optimistic outlook on its growth in 2024. The recovery in China's growth, should it materialise in the coming year, will be exceptionally supportive for Thailand's growth on (1) Chinese demand for Thailand's key exports; and (2) Chinese tourism demand into ASEAN, especially Thailand. Our forecast for Thailand's 2024 GDP growth of 4.0% is currently above consensus, as we also account for the relatively low base in 2023 (estimated GDP growth of 2.5%).

Our leading index is currently pencilling Thailand's GDP growth at 3.8% and 2.3% for 4Q23 and 1Q24, respectively. Our growth prognosis has been guided by our proprietary GDP leading index, which has accurately led the GDP trend by two quarters. The latest high-frequency data, including higher (1) accommodation occupancy rate; (2) approved foreign direct investments; (3) housing loan growth; and (4) decline in unemployment rate, all point to an accelerating GDP growth momentum for 4Q23 and 1Q24. Separately, private consumption into 2024 will support Thailand's economic growth. Private consumption accounts for over 50% of total GDP. Our view for the recovery in private consumption has materialised nicely, as penned in our consumption thematic report, where we found that Thailand's tourism activities and wages are key determinants of private consumption. Wages are, in turn, driven by unemployment, investment and factory production. Note that private consumption has expanded 8.1% YoY in 3Q23, the fastest pace since a year ago, in line with our expectations, while nominal wage growth momentum accelerated year-to-date.

We maintain Thailand's headline inflation forecasts at 1.0% and 2.0% for 2023 and 2024, respectively. Thailand's CPI momentum will slow in 4Q23, while inflation may turn negative over the same period. Thailand's deflation environment bucks the trend seen in other key global and ASEAN economies; we are seeing a broad acceleration in consumer prices in US and ASEAN economies on the back of higher commodity prices. We have been advocating a scenario of sticky prices in 4Q23, a view that has materialised nicely, whereby this phenomenon is likely to persist into 1Q24. Our inflation models indicate a potential acceleration in inflation pressures in the immediate months ahead, led by the increased severity of *El Nino* weather conditions that will inject upside risks to food prices in the next 6 – 12 months.

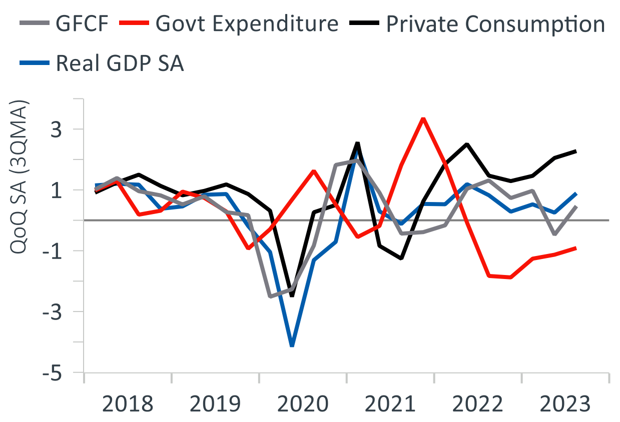
We reiterate that continued subsidies may depress consumer prices, albeit some price support from demand-pull inflation and higher commodity prices can also be expected. On a YoY basis, electricity prices declined for the second reading as market prices adjusted to the cut in energy prices effective September 2023. However, we note that (1) most of the subsidies are slated to end by December 2023, albeit with little clarity if they may be continued into 2024; and (2) some policies are inflationary into 2024. Overall, we think that the current deflationary print is policy-induced and temporal. At the same time, upside risks to inflation in 2024 remain on the table, given (1) higher global commodity prices; and (2) policy-induced drivers that may fuel demand-pull inflation.

We keep our forecast for the Bank of Thailand (BoT) to keep its benchmark unchanged at 2.50% in 2024. Due to policy manoeuvres, Thailand faces a deflation backdrop, unlike that seen in its ASEAN peers. While Thailand has kept its policy parameters unchanged in its November Monetary Policy Committee meeting, we were however surprised to see a hike in its September meeting. We are of the view that there remains no impetus to hike, with the balance of risks of the next move heading to a cut in 2H24, especially if the US Federal Funds Rate is lowered as well. We expect policies to have a strong dampening effect on consumer prices into end-2023 and early 2024, which in turn suggests some form of continuity of subsidy measures into the next year. With deflation on the cards, we believe that BoT will stay pat in 2024.

We pencil an above-consensus current account surplus of 3.0% of GDP in 2024, against Bloomberg's consensus of 2.7%. Thailand's trade momentum has improved markedly in 2H23, led by export momentum to ASEAN and EU28. YoY exports to China have appeared to have bottomed in mid-2023 as well, in tandem with our call for China's economic recovery to benefit Thailand's trade dynamics. Importantly, China's recovery will likely translate into higher tourism activities for ASEAN, including Thailand, which will thus support the economy's services account in the coming year.

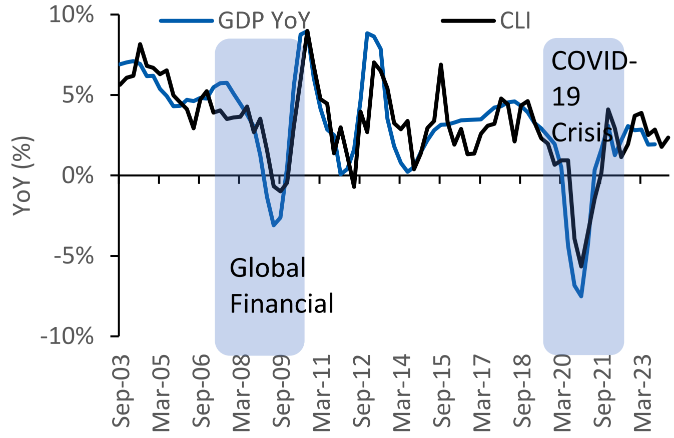
However, Thailand's fiscal balance faces a potentially wider fiscal deficit in 2023 and 2024. We now pencil fiscal deficits of -3.2% and -3.5% of GDP in 2023 and 2024, respectively. Thailand's deficit is likely to climb on the back of expenditure measures by the new administration's efforts to cap costs of living. Specifically, F&B prices declined 0.6% YoY, the first negative print since October 2021 (-0.3% YoY), while the decline in utility costs pressured overall housing & furnishing prices (-0.7% YoY). We note that other products such as medical & personal care (+1.3% YoY), recreation-related (+0.6% YoY) and tobacco & alcoholic beverages (+1.1% YoY) continued to contribute to inflation pressures.

Figure 2: GDP shows signs of bottoming in 2Q23…



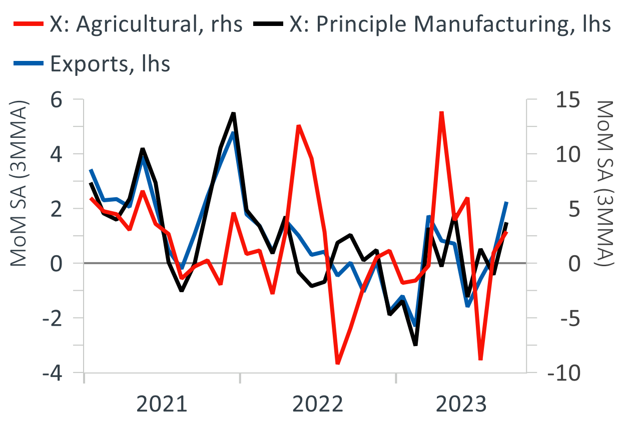
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: … while our GDP CLI suggests a 2H23 recovery



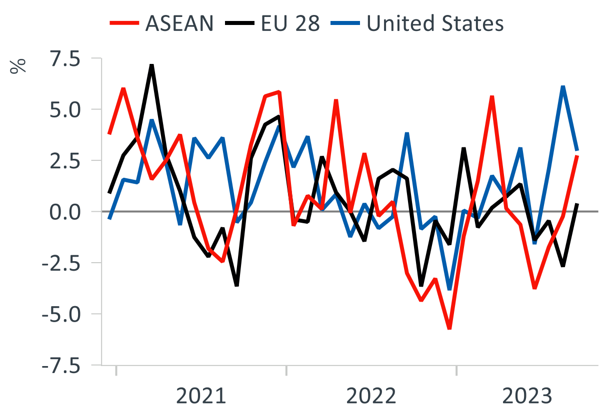
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Trade momentum has improved year-to-date…



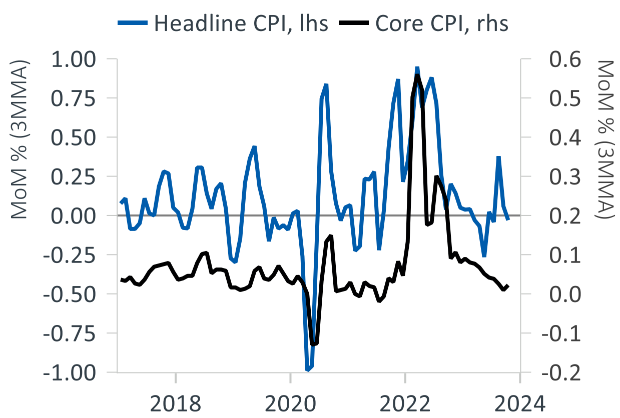
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: … led by exports to key trading partners



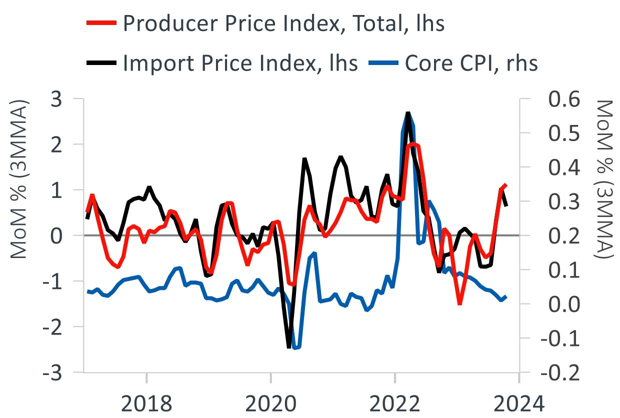
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: CPI turned negative as subsidies helped…



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: … but import and producer prices are still high



Source: Macrobond, RHB Economics & Market Strategy

Vietnam

Economic Growth Projected to Rebound in 2024

- **We maintain our 2023 real GDP growth forecast at 4.7% and expect growth to accelerate to 6.4% in 2024. This aligns with the Bloomberg consensus estimates of 4.7% and 6.2% for the corresponding years.**

- **We anticipate a pick-up in both public and private consumption, driven by increased public spending and a rebound in trade momentum.**

- **We believe the State Bank of Vietnam (SBV) may be done with cutting interest rates for this year. Therefore, we see the refinancing policy rate to settle at 4.50% at end-2023 and 4.0% at end-2024.**

Research Analyst

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Figure 1: Key Economic Forecasts

	2022	2023F	2024F	1H23	2H23F	1H24F	2H24F
Real GDP Growth (% YoY)	**8.0**	**4.7**	**6.4**	**3.7**	**5.8**	**6.3**	**6.5**
Contribution to real GDP Growth (%)							
Private Consumption	7.0	5.6	6.5	-	-	-	
Government Consumption	5.4	5.3	5.5	-	-	-	
Gross Fixed Capital Formation (%)	6.0	5.0	5.3	-	-	-	
Net Exports (USDbn)	9.8	-	-	-	-	-	
CPI (%)	3.2	3.4	3.8	3.3	3.5	4.0.	3.7
Policy Interest Rate (%)	6.00	4.50	4.00	4.50	4.50	4.50	4.00
Current Account Balance (% of GDP)	-0.3	1.5	2.5	-	-	-	
Fiscal Balance (% of GDP)	-4.5	-4.3	-4.1	-	-	-	

Source: Bloomberg, CEIC, RHB Economics & Market Strategy

We maintain our 2023 real GDP growth forecast at 4.7% and expect growth to accelerate to 6.4% in 2024. This also aligns with the Bloomberg consensus estimates of 4.7% and 6.2% for the corresponding years. We foresee a more robust rebound in late 4Q23 and a sustained momentum into 1Q24, especially nearing festive periods such as the Lunar New Year in February. The dissipation of downside risks is noteworthy, supported by indications that the global technology cycle downturn may be nearing its end and early signs of recovery in China's economy. Consequently, we expect Vietnam's GDP to accelerate to 6.4% in 2024. Meanwhile, the Vietnamese Government has set growth targets at 6.5% for 2023 and a range of 6.0 – 6.5% for 2024.

Signs of recovery are poised to persist into 1Q24. Based on recent data from the General Statistics Office, Vietnam's real GDP growth gained momentum to reach 5.3% YoY in 3Q23, a notable increase from 4.1% in 2Q23 and marking the strongest performance since 4Q22. This upturn can be attributed to the improved manufacturing sector output and better trade performance. The earlier rate cuts by the State Bank of Vietnam (SBV) this year and a robust rebound in tourism have further propelled growth in the service sector. Notably, tourist arrivals more than doubled in November. Meanwhile, foreign direct investment (FDI) inflows have remained resilient, with foreign enterprises demonstrating unwavering commitment to Vietnam. The country's cost competitiveness, the shift in trade dynamics from China, and active participation in key trade agreements should contribute to the sustained strength of Vietnam's FDI in 2024.

Vietnam's FDI registered for the first ten months of the year saw a substantial uptick of 14.7% YoY, substantially higher than the 7.7% handle recorded in December 2022. Meanwhile, disbursed FDI in October increased for the fifth consecutive month, rising 3.2% YoY to reach USD18.0bn. Notably, if this momentum persists, full-year foreign funding inflows (with two more months to go) are poised to match the pre-pandemic 2019 level of USD20.4bn – a noteworthy achievement given the prevailing uncertainties, inflationary pressures, and weakened confidence in the current economic landscape.

We expect both public and private consumption to pick up pace in 4Q23 and extend into 1Q24. The Government plans to increase public spending in the coming year, including focusing on enhancing transportation and other critical infrastructure. Concurrently, an expected rebound in global trade further contributes to the positive outlook. Improved economic growth translating to higher disposable income, upcoming year-end festivities, and the Lunar New Year in early 2024 will likely support private consumption. The young and expanding population, aided by a burgeoning middle class, should propel demand across diverse sectors. The country's prevailing low-interest rate environment serves as an additional stimulus, fostering increased consumer spending.

We expect trade momentum to pick up pace in 1H24. Exports bottomed out in August, with nascent recovery in September and October readings. We expect the momentum to accelerate into 1Q24, underpinned by a rosier global and regional economic outlook, recovery in the global technology cycle and improvement in China's economy, which would likely support Vietnam's trade performance.

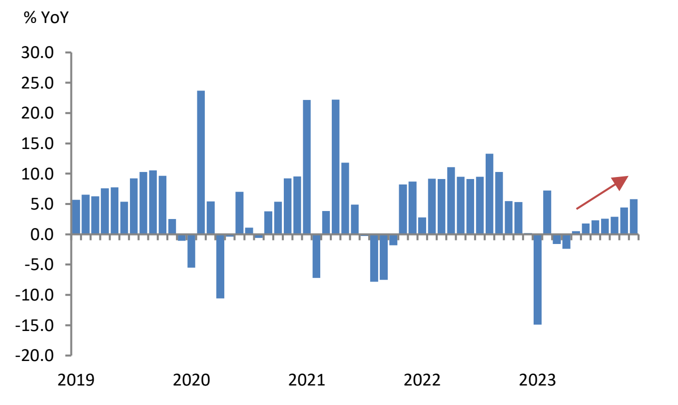
Inflation is expected to stay elevated in 1Q24 and the rest of 2024. Factors such as firmer global energy and commodity prices and lower crop yields due to El Nino weather conditions could exert upward pressure on inflation in 2024. Additionally, ongoing geopolitical tensions can potentially lift global and regional food prices, contributing to the overall upward trajectory of inflation. Despite these challenges, we anticipate that inflation will stay below the Government's 4.0 – 4.5% target. We project inflation to remain within manageable bounds, with an average of 3.4% in 2023 and 3.8% in 2024.

We see the current account (CA) balance to remain in surplus in 2024. Vietnam's CA balance has traditionally been in surplus, reflecting the country's export-oriented economy. Trade and manufacturing activities should recover materially in 2024, and we view that better export performance and robust foreign tourist arrivals will shore up the CA balance in 2024.

We view the fiscal deficit to improve in 2024. We anticipate a narrower fiscal deficit of 4.1% in 2024 from 4.3% in 2023. The Government's recent corruption crackdown to reduce leakages, continued efforts to improve tax collections and broaden the tax base and steady FDIs should support government revenue. They are expected to resume fiscal consolidation and target to reduce the fiscal deficit to below 4.0% by 2025.

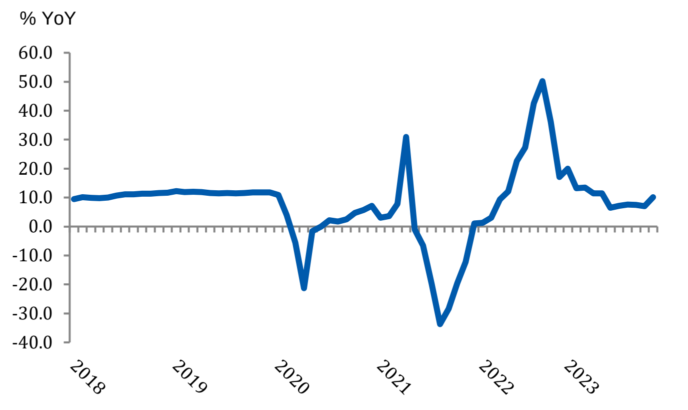
We believe SBV may be done with cutting interest rates for this year. SBV has cut interest rates four times this year; the last cut was in mid-June 2023, bringing the refinancing policy rate to 4.50%. The banking system's recent bad debt ratio skyrocketed to 3.6% at the end of July from 2.0% at the beginning of this year. Additionally, any interest rate cuts could widen the differential with global markets, thereby exerting pressure on the country's foreign exchange rates. Therefore, we anticipate SBV to exercise greater caution and postpone its policy rate cut until 1H2024. That said, the refinancing policy rate will settle at 4.50% at end-2023 and 4.0% at end-2024.

Figure 2: Industrial output gaining momentum



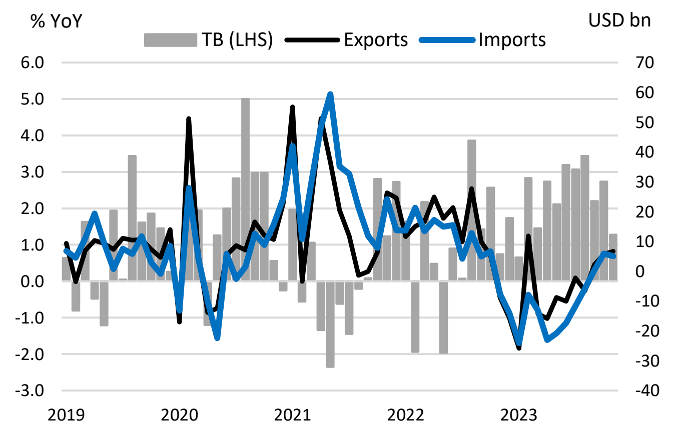
Source: CEIC, RHB Economics & Market Strategy
Note: Last data point as of November 2023

Figure 3: Retail sales are on an uptick



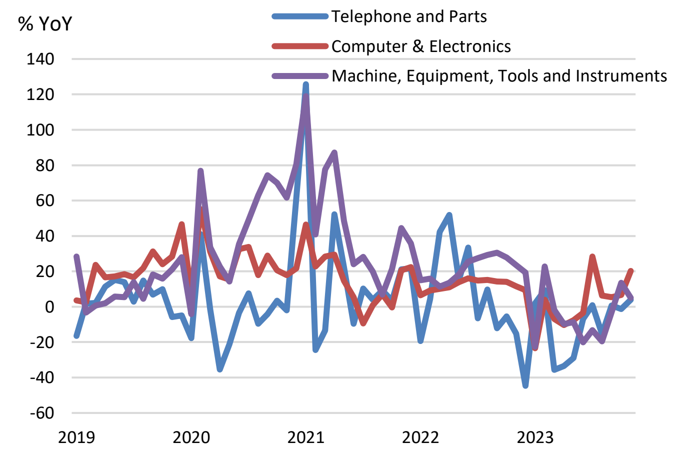
Source: CEIC, RHB Economics & Market Strategy
Note: Last data point as of November 2023

Figure 4: Both exports and imports have edged higher for the last three consecutive months



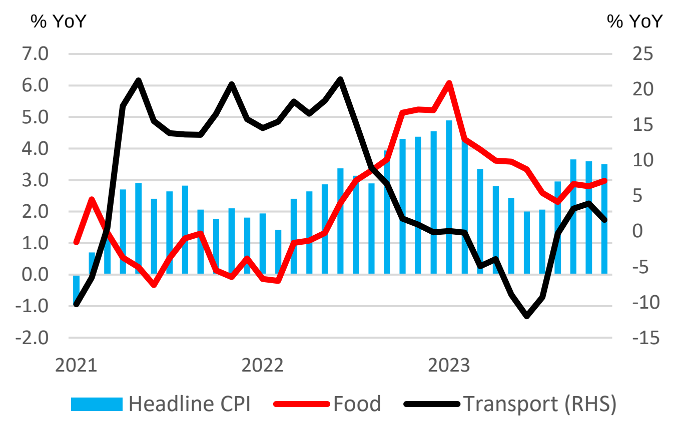
Source: CEIC, RHB Economics & Market Strategy
Note: Last data point as of November 2023

Figure 5: Recovery in global tech cycle as indicated by rising E&E exports



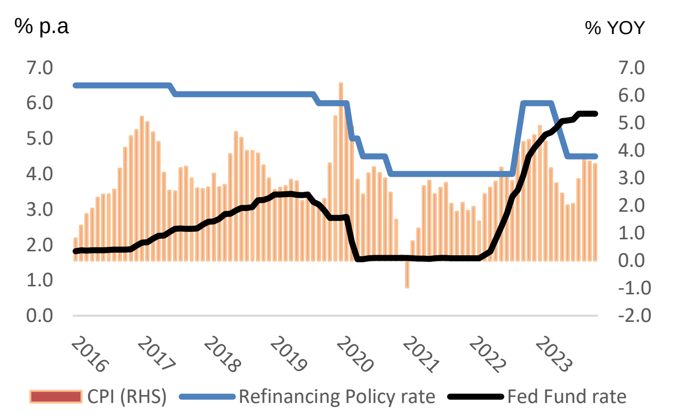
Source: CEIC, RHB Economics & Market Strategy
Note: Last data point as of November 2023

Figure 6: *El Nino* weather conditions may elevate food prices in the near term



Source: CEIC, RHB Economics & Market Strategy
Note: Last data point as of November 2023

Figure 7: Expect SBV to stay pat for the rest of 2023 to avoid further widening in rates differential



Source: CEIC, RHB Economics & Market Strategy
Note: Last data point as of November 2023

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