

22 March 2024

Global Economics & Market Strategy

Subtle Signs Suggest US FOMC Will Cut Less Than Three Times

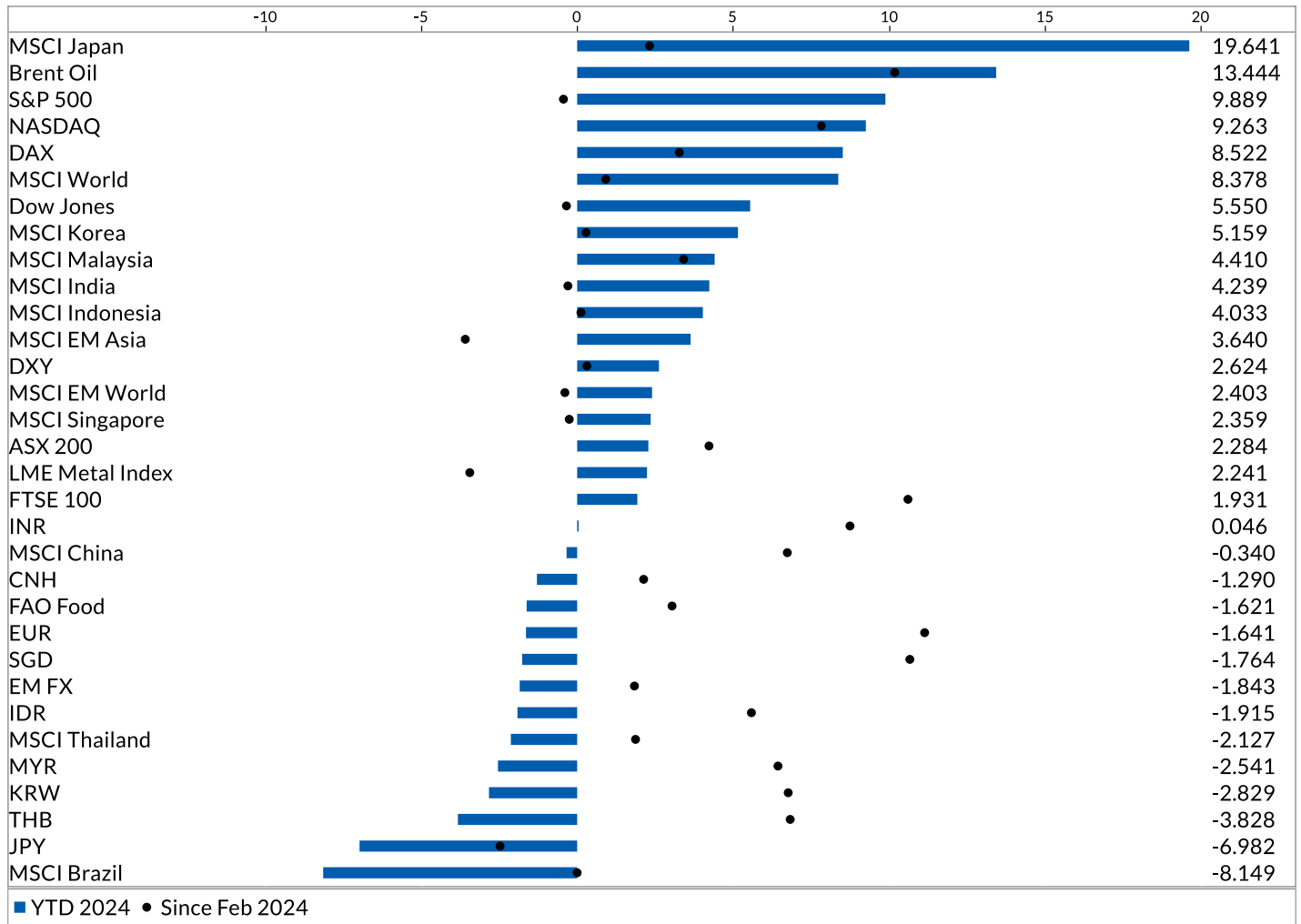
- ◆ **We maintain our forecast for the US FOMC to cut its Fed Funds Rate (FFR) by only two times in 2024.** We expect FFR to be cut only in 2H24, with the first cut to occur only towards the end of summer (September) and then in December by 25 basis points each, thus bringing the FFR to a year-end range of 4.75 – 5.0% (from current 5.25 – 5.50%). Current swap pricing is still indicating three rate cuts, which we think will be gradually priced out into the end of 1H24. The catalysts for our forecast are: (1) high-frequency US-centric economic data continue to suggest an improving growth momentum backdrop, as seen from the resilient labour, consumer confidence and retail sales, while (2) inflation risks remain elevated in 2Q24, especially given the uptick in price momentum seen in US CPI and PPI – we continue to expect higher global food and oil prices on the horizon.
- ◆ **We observe subtle signs that suggest that the US FOMC will cut less than three times in 2024.** First, individual FOMC members appeared to have revised their year-end FOMC rate expectations higher in the latest March Dot-Plot chart (Figure 41). In the latest chart, nine members indicated two or fewer rate cuts, compared to eight members in the prior Dec chart. Similarly, only one member indicated more than three rate cuts in 2024, as compared to the prior five members. Second, higher official GDP and CPI forecasts in 2024 suggest little impetus to cut rates anytime soon. Note that Fed members upgraded its US GDP 2024 outlook to 2.1%, from a prior 1.4%, against our full-year forecast of 2.2% with an upside bias, with the FOMC upgrading its core PCE price index to 2.6% in 2024, from a prior 2.4%. Third, the central bank may require time to observe the economic impact of a balance sheet drawdown taper, whereby (1) the specific schedule for the drawdown taper and (2) the extent of the drawdown have not been announced yet.
- ◆ **We continue to expect stronger DXY and sticky UST yields into 2Q24.** Our forecasts for the weaker DXY and lower UST yields seen in the prior two weeks have materialised nicely, with the DXY now trading at its 103 handle while UST 10Y yields rallying near 4.3%. We expect the DXY to rally to 105 – 107, with UST 10Y yields approaching 4.5% in 2Q24. We continue to expect higher commodity prices, with Brent likely to move higher towards our full-year growth average of US\$85 – 95 per barrel. At the same time, China's recovery should inject global demand-pull inflation into other growth-related commodities. For Asia FX, our view for MYR's appreciation to below 4.7 per USD being short-lived has materialised, and we expect MYR to further weaken to its 4.75 per USD handle on the back of further USD strength and, if broken, towards 4.8 per USD in 2Q24.
- ◆ **Closer to home, we keep Malaysia's GDP forecast at 4.6% YoY in 2024** versus the Bank Negara Malaysia's (BNM) projected range of 4.0 – 5.0%. In its latest projection, BNM marginally downgraded its inflation range forecast to 2.0 – 3.5% (from the prior 2.1 – 3.6%). We maintain our forecast for BNM to keep its policy rate unchanged at 3.0% for 2024 - the wide official inflation range of 2.0% to 3.5% should provide sufficient room against future price movements and to stay data-dependent until further clarity on the exact timeline and magnitude of Malaysia's fuel subsidy reforms. ([Report](#))

Acting Group Chief Economist &
Head, Market Research

Barnabas Gan
(SG) +65 6320 0804
(MY) +603 9280 8880
barnabas.gan@rhbgroup.com

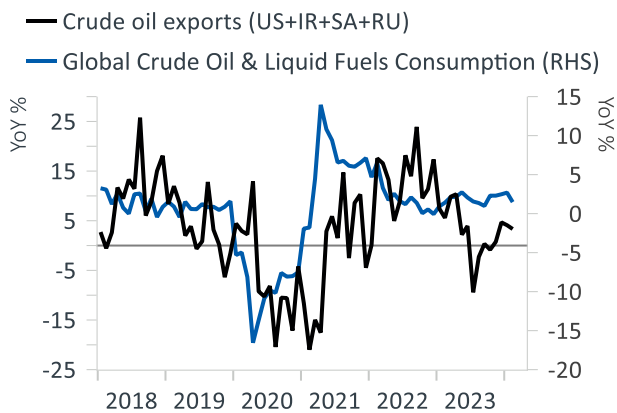
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Figure 1: YTD 2024 total return – Evidence of higher commodity prices (note black dots – Feb to March’s performance) suggest an elevated global inflation backdrop



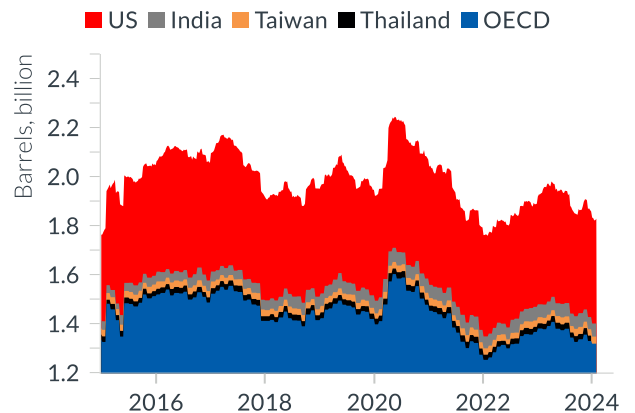
Source: Macrobond, RHB Economics & Market Strategy

Figure 2: Crude oil fundamentals stay supportive of prices – note diminishing exports and higher demand



Source: Macrobond, RHB Economics & Market Strategy

Figure 3: Overall oil inventories remain below historical peak = demand > supply fundamentals



Source: Macrobond, RHB Economics & Market Strategy

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Figure 4: Dollar strength persisted in 1Q24, whereby we think DXY could head towards 105 – 110 in 2Q24

FX Rates % Change						
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	7.51	4.88	7.51	151.606	151.647	127.516
CHF per USD	6.68	0.46	6.68	0.899	0.941	0.837
TWD per USD	4.11	2.42	4.11	31.922	32.479	29.668
THB per USD	3.98	2.71	3.98	36.290	37.069	32.704
AUD per USD	3.67	1.27	3.67	1.522	1.590	1.408
KRW per USD	2.91	1.30	2.91	1334.540	1361.825	1222.444
MYR per USD	2.61	0.99	2.61	4.715	4.793	4.245
DXY	2.59	1.07	2.59	104.010	107.000	99.770
IDR per USD	1.95	4.52	1.95	15712.000	15946.000	14652.765
SGD per USD	1.80	-0.73	1.80	1.344	1.374	1.308
EUR per USD	1.67	0.41	1.67	0.920	0.955	0.890
CNH per USD	1.31	-0.72	1.31	7.222	7.342	6.713
PHP per USD	1.26	1.43	1.26	56.099	57.146	53.946
GBP per USD	0.55	0.32	0.55	0.789	0.845	0.762
INR per USD	-0.05	1.40	-0.05	83.211	83.439	80.988

Source: Macrobond, RHB Economics & Market Strategy

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

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Germany	48.0	48.0	2.87	3.33	2.34
United States	38.0	38.0	4.63	5.22	3.77
United Kingdom	23.2	23.2	4.19	5.48	3.17
S. Korea*	16.6	16.6	3.31	4.14	3.12
Singapore	15.1	15.1	3.41	3.73	2.87
Malaysia*	0.4	0.4	3.47	3.69	3.31
India	-3.2	-3.2	7.04	7.39	6.80
Indonesia	-8.9	-8.9	6.29	6.91	5.62
China	-19.4	-19.4	1.99	2.47	2.07
Thailand	-19.9	-19.9	2.13	2.62	1.53

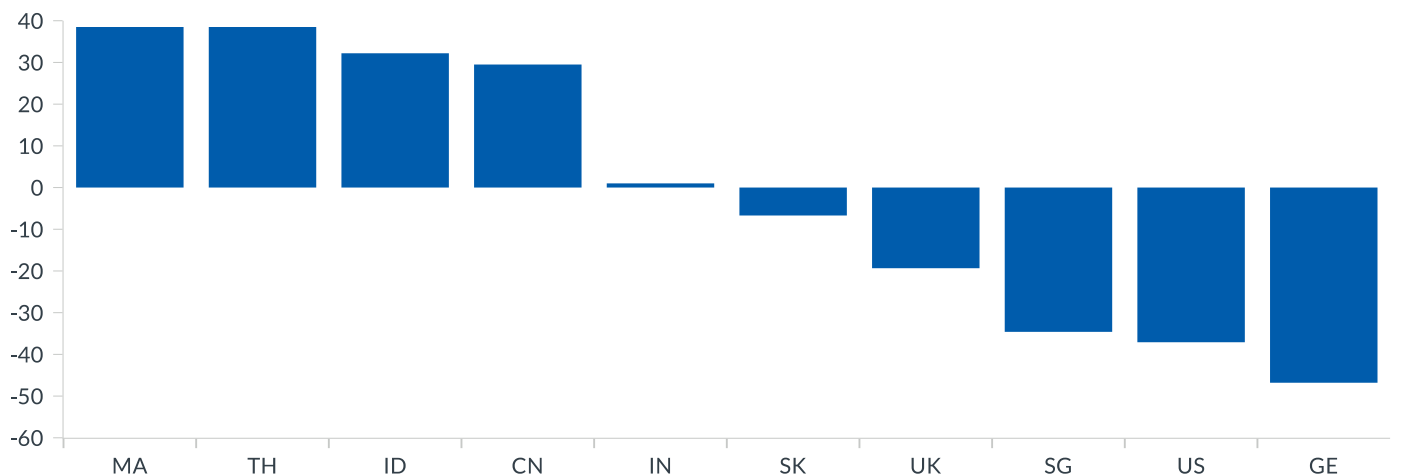
Source: Macrobond, RHB Economics & Market Strategy *Malaysia * Korea 3Y Bonds, YTD & QTD figures are in bps

Figure 6: ... albeit inversions are getting milder

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	46.4	46.4	3.99	4.74	3.00
Germany	38.3	38.3	2.40	2.97	1.89
United States	38.0	38.0	4.26	4.99	3.31
Singapore	37.0	37.0	3.06	3.50	2.66
S. Korea	23.5	23.5	3.41	4.40	3.16
Indonesia	16.2	16.2	6.62	7.22	6.16
Malaysia	12.3	12.3	3.85	4.16	3.65
India	-13.7	-13.7	7.05	7.44	6.96
Thailand	-13.9	-13.9	2.54	3.35	2.26
China	-27.2	-27.2	2.29	2.92	2.54

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

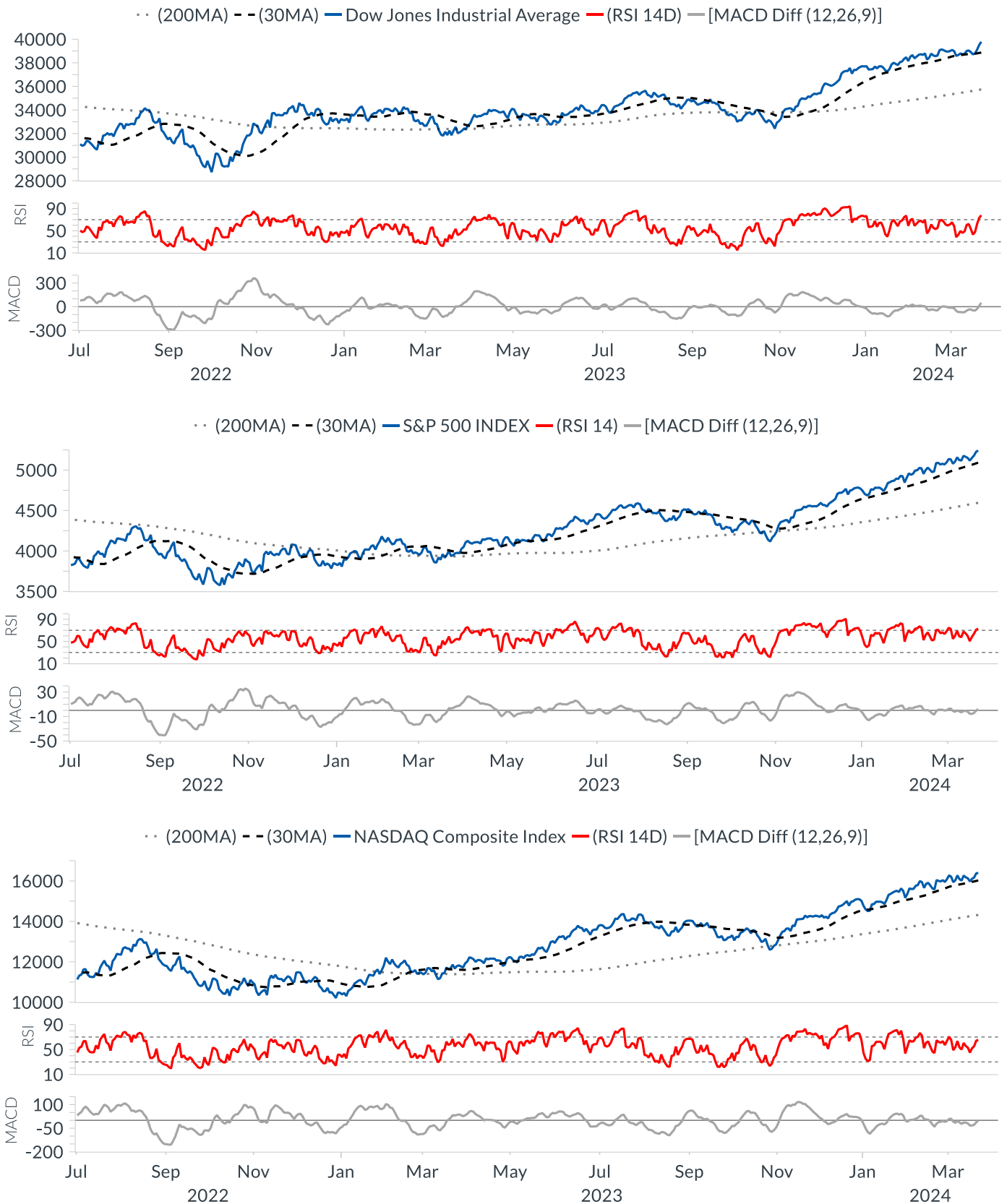
Figure 7: Treasury spread stay positive in the EM space, while normalisation of US FFR suggests negative spread to ease



Source: Macrobond, RHB Economics & Market Strategy

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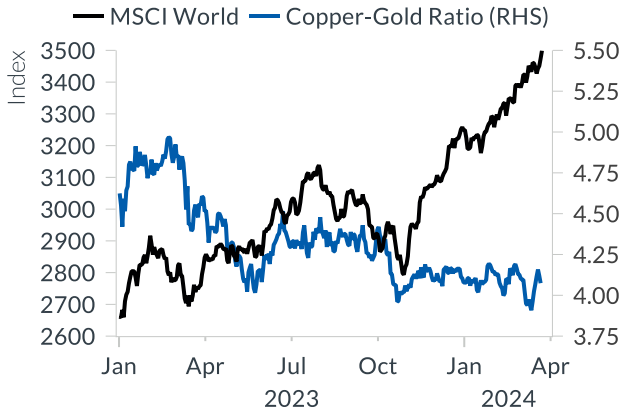
Figure 8: Our call for DM equity rallies in our previous weekly materialised, but watch out for some interim pullback in the next week due to technical profit-taking reasons



Source: Macrobond, RHB Economics & Market Strategy

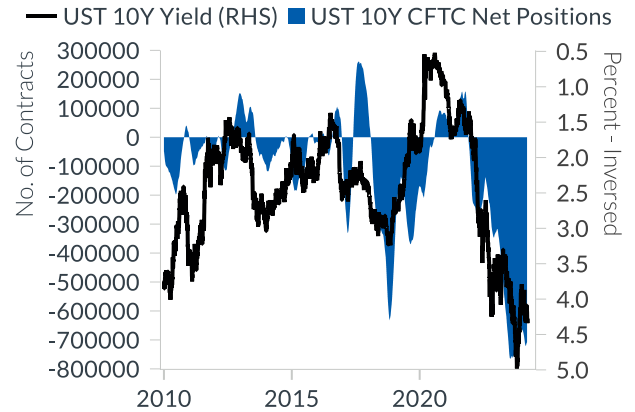
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Figure 9: MSCI world equity indices rallied further into 2024 as risk appetite stays strong



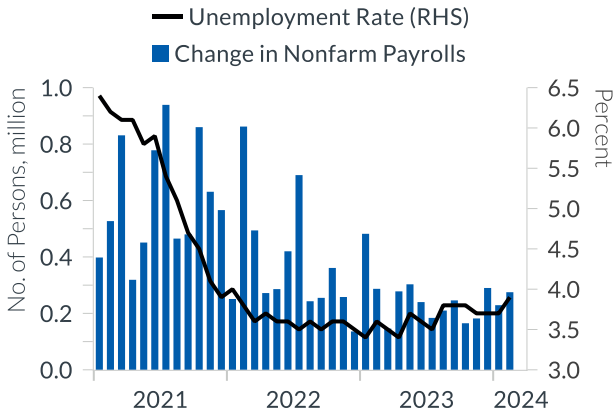
Source: Macrobond, RHB Economics & Market Strategy

Figure 10: Speculative net-shorts in UST persist, suggesting stickiness in UST 10YR yields above 4.0%



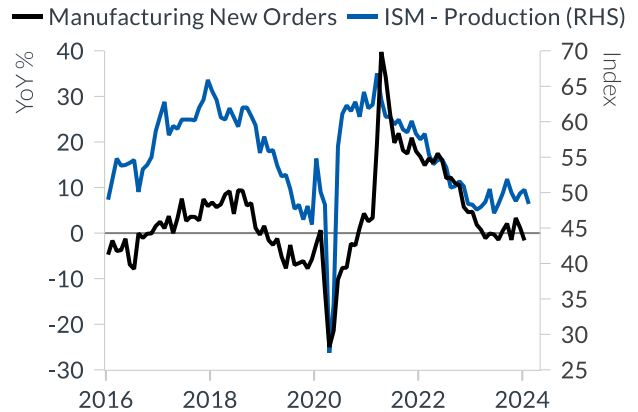
Source: Macrobond, RHB Economics & Market Strategy

Figure 11: US non-farm is (very) strong while unemployment rate is markedly lower



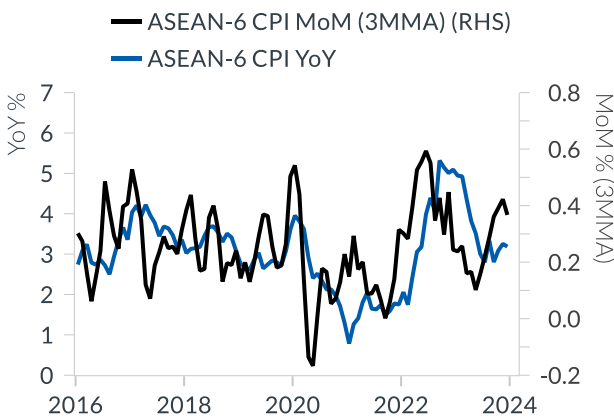
Source: Macrobond, RHB Economics & Market Strategy

Figure 12: US manufacturing activities appears to have bottomed



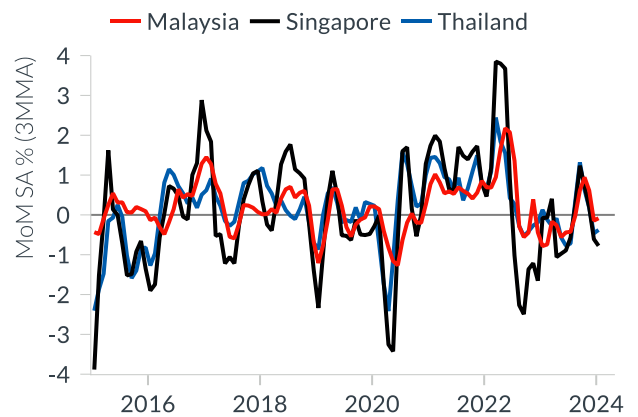
Source: Macrobond, RHB Economics & Market Strategy

Figure 13: ASEAN-6 GDP-Weighted CPI momentum is heating up



Source: Macrobond, RHB Economics & Market Strategy

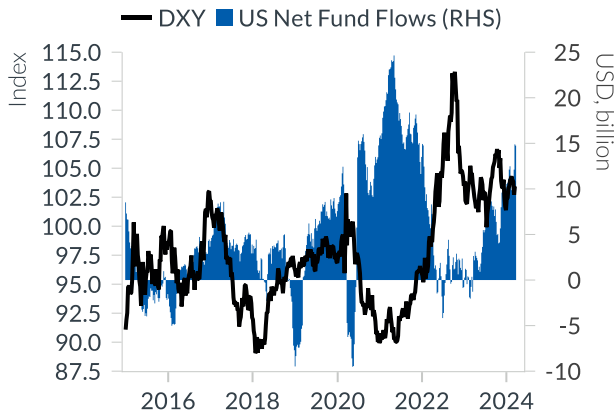
Figure 14: ... while import prices may bottom on the back of elevated global commodity prices



Source: Macrobond, RHB Economics & Market Strategy

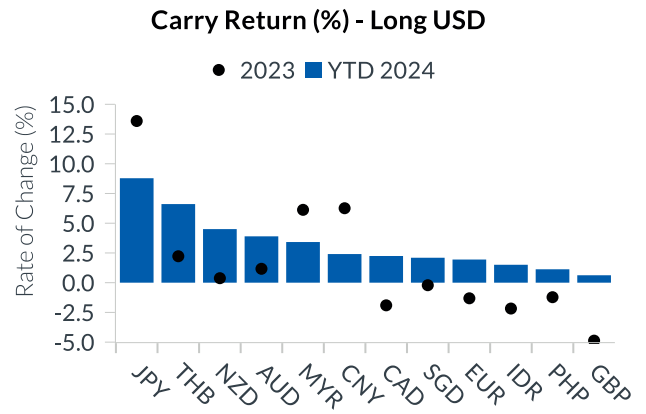
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Figure 15: Fund flows into US picked up in early 2024, thus supporting DXY strength...



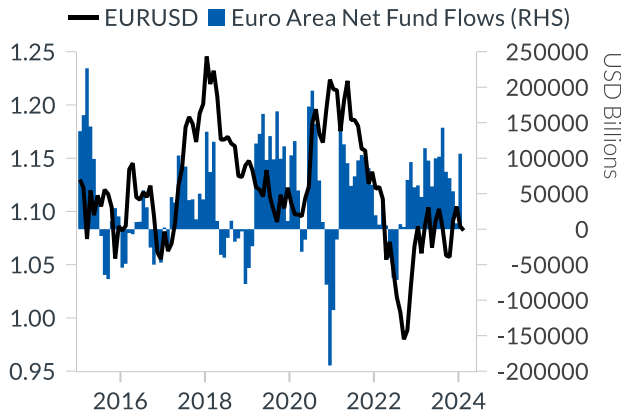
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 16: ... while USD carry returns remains positive year-to-date



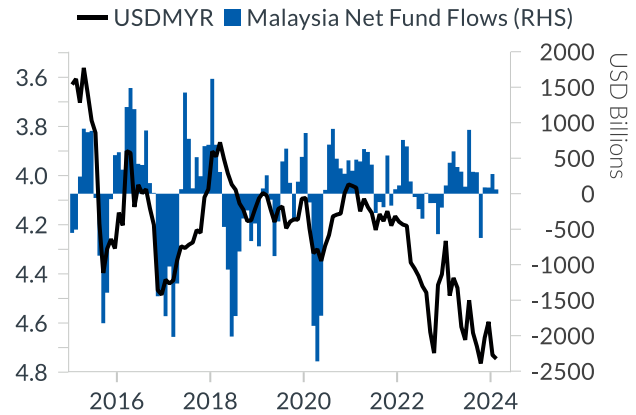
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 17: Fund flows into Euro Area stay weak – EUR strength may be temporal if this continues..



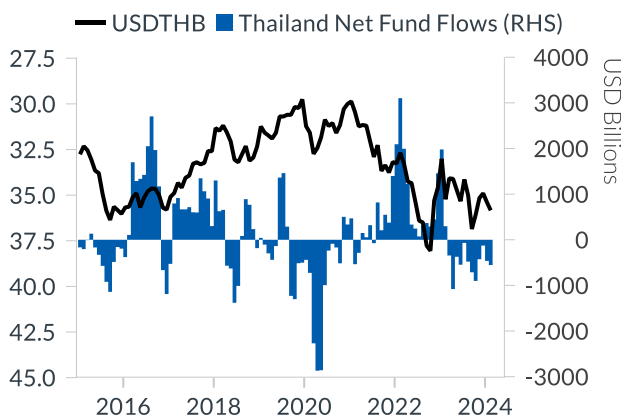
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 18: ... while the MYR weakness is seen with relatively tepid fund flows



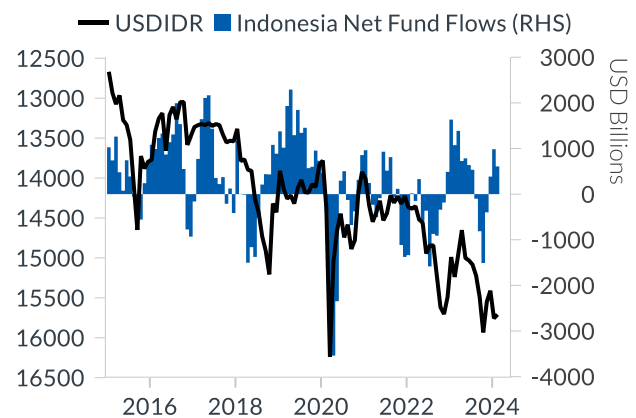
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 19: Thailand's fund flows stay in outflow zone, which may mean a softer THB in the month ahead...



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

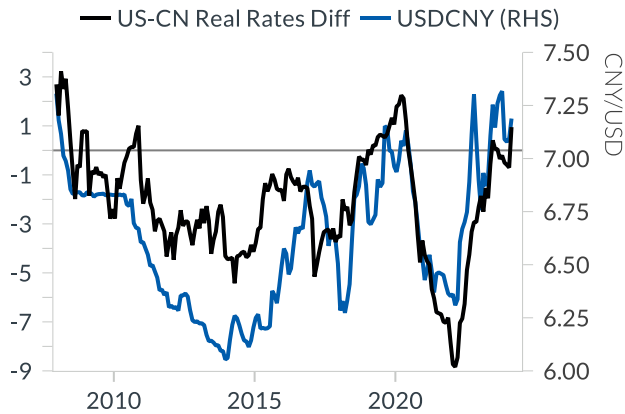
Figure 20: ... but recent uptick of funds into Indonesia's shores may support IDR in the short-term



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

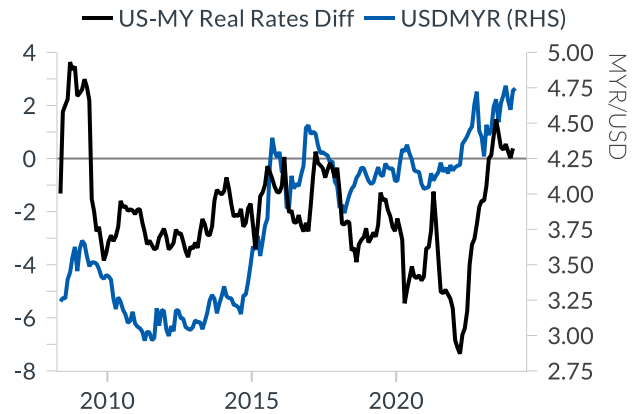
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Figure 21: US real rates has recently softened against China's, with the CNY strengthening in tandem...



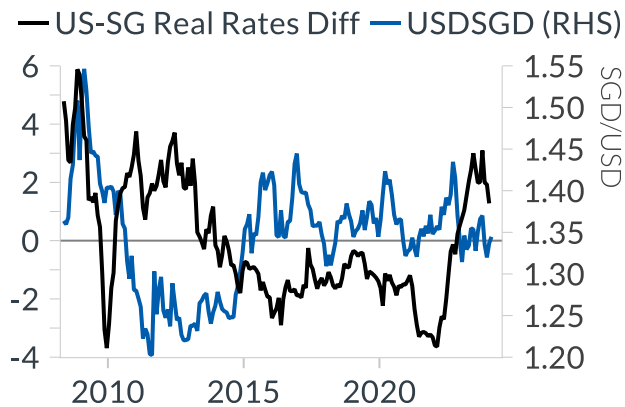
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: Malaysia's real rates differentials are still a function of MYR



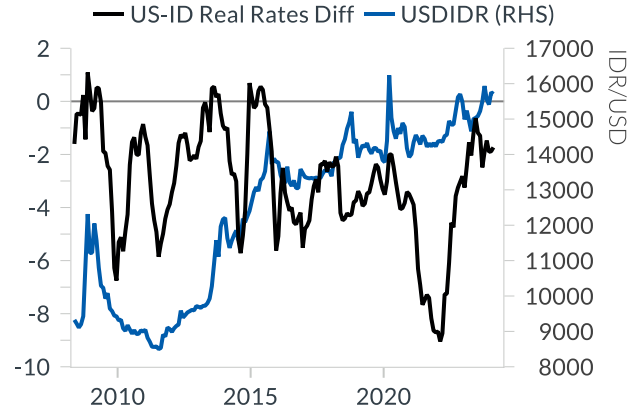
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: ... while Singapore appears less susceptible to rate differentials given its S\$NEER appreciation policy...



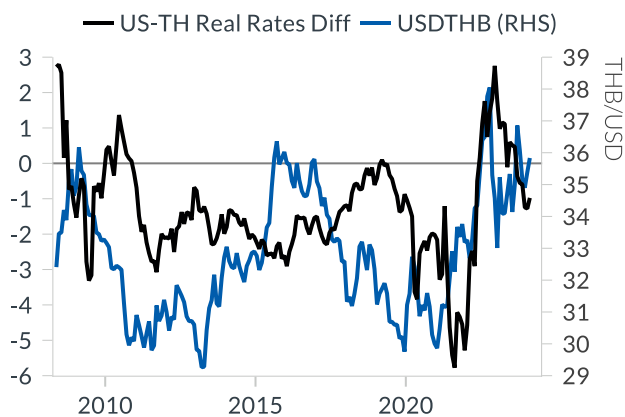
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: ... but not so for Indonesia with US-ID rates near parity



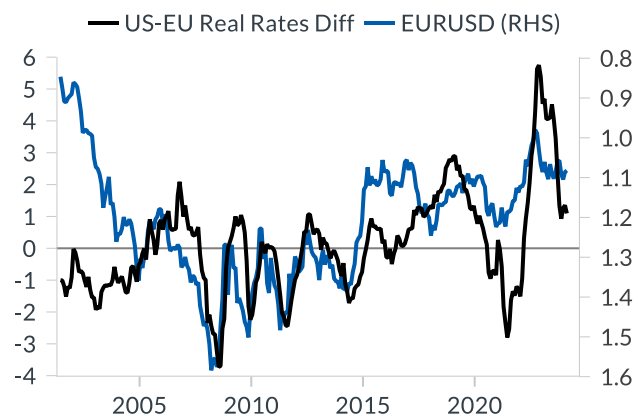
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: Thailand's real rates are elevated due to its subsidy-driven deflation backdrop



Source: Macrobond, RHB Economics & Market Strategy

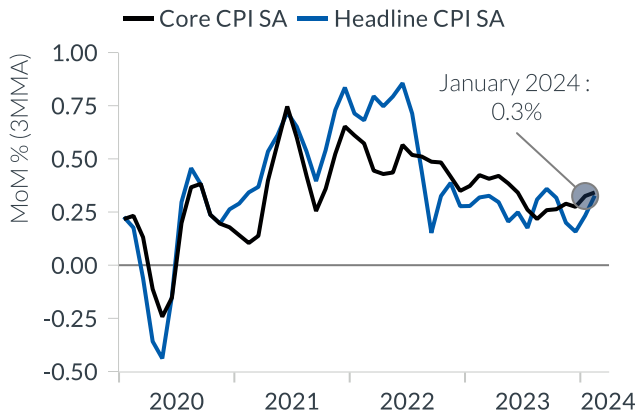
Figure 26: EURUSD remains well-behaved against US-EU 3M rate spread



Source: Macrobond, RHB Economics & Market Strategy

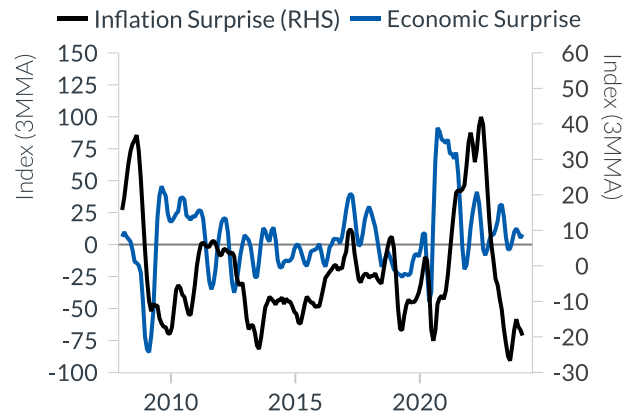
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Figure 27: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...



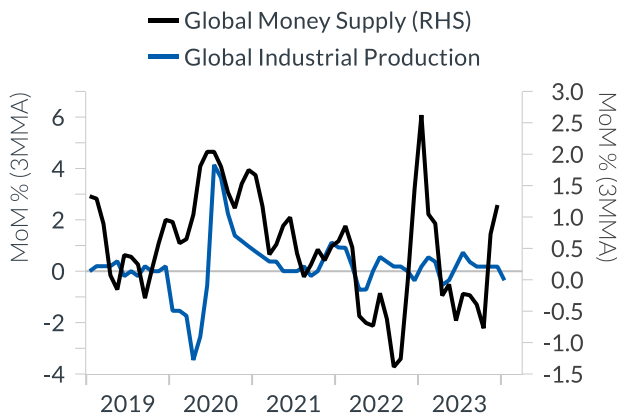
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: US economic surprises are still being observed, but watch for the uptick in inflation surprise



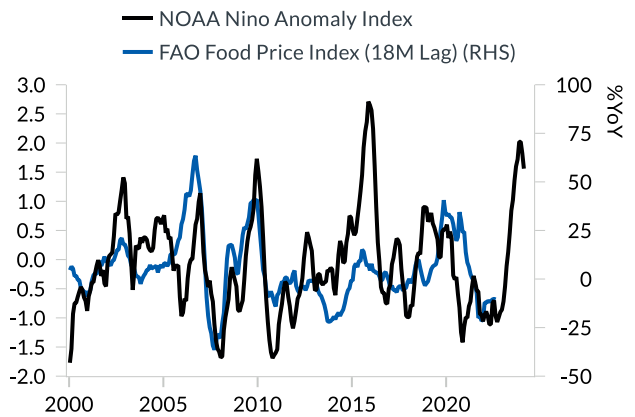
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: Loosening global financial conditions may mean stronger global IP outlook, especially in 2H24



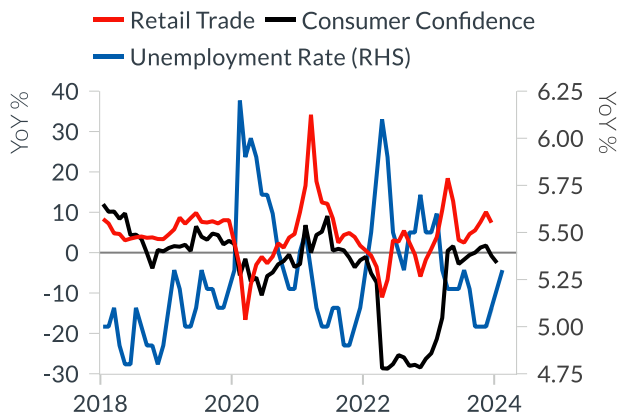
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: Higher global food prices may be evident from the El Nino condition



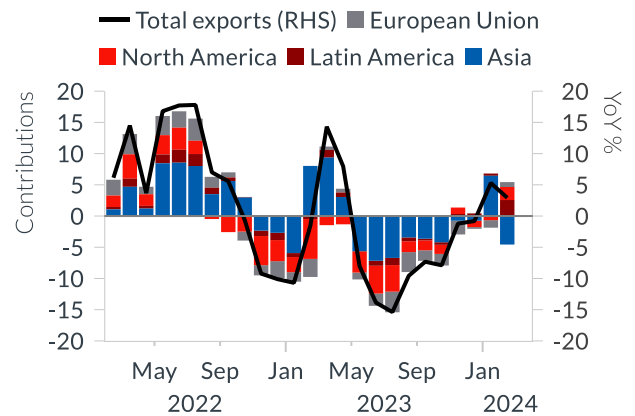
Source: Macrobond, RHB Economics & Market Strategy

Figure 31: Chinese-centric high-frequency data has decelerated marginally towards year-end but,...



Source: Macrobond, RHB Economics & Market Strategy

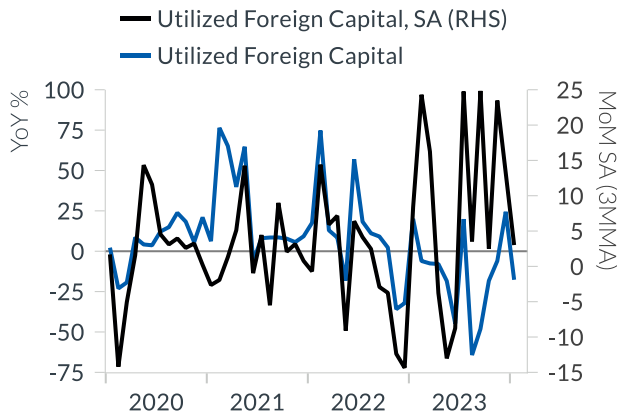
Figure 32: ... with exports are still on the path of recovery (huge bump in Feb '24 is due to Jan+Feb)



Source: Macrobond, RHB Economics & Market Strategy

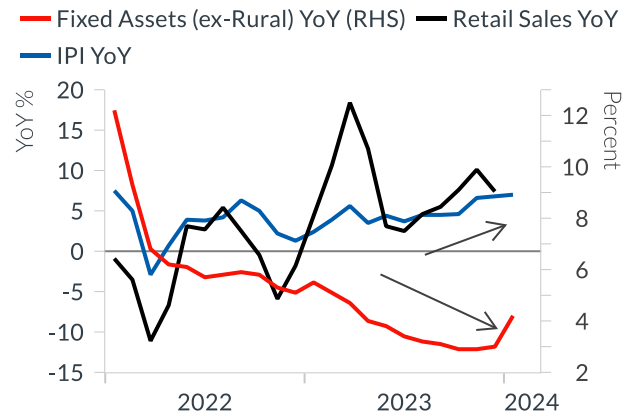
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Figure 33: China's utilisation of foreign capital declined in January, potentially because of the Lunar New Year...



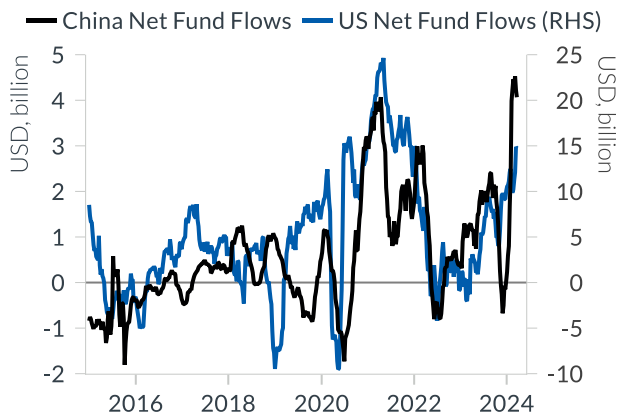
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: ... which is not a concern as the recovery in China's IPI and consumer spending is still seen



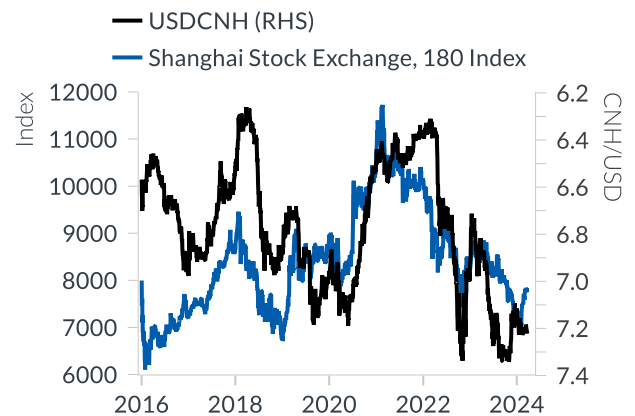
Source: Macrobond, RHB Economics & Market Strategy

Figure 35: Investors' interest in US funds remain healthy, but note the return of investment into China...



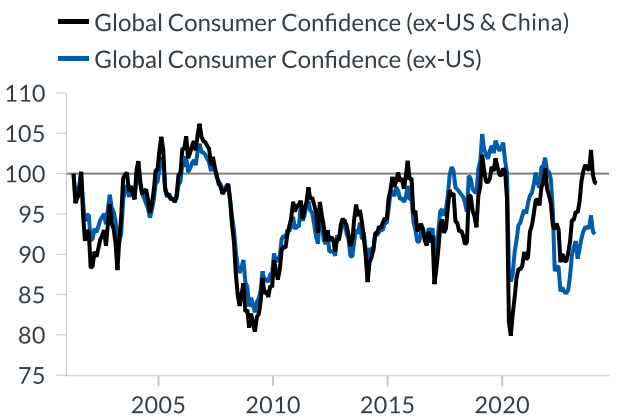
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 36: ... thus suggesting a likely bottoming of CNH and SSE in the new year



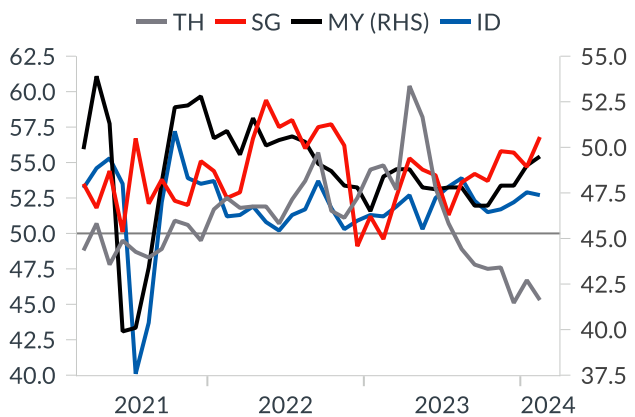
Source: Macrobond, RHB Economics & Market Strategy

Figure 37: RHB-CCI suggests resilience in global confidence, albeit CCI is relatively weaker in China



Source: Macrobond, RHB Economics & Market Strategy

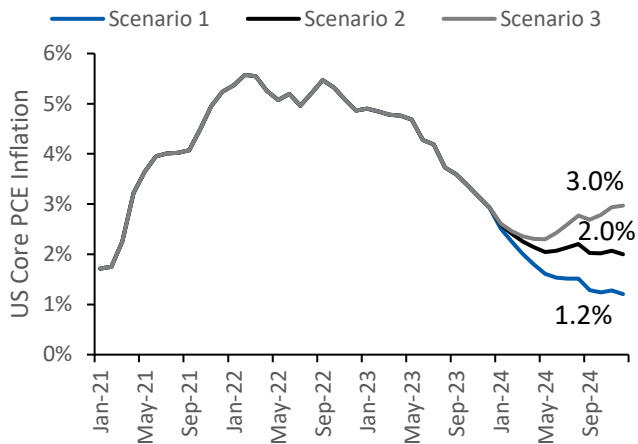
Figure 38: PMI (whole economy) numbers in most ASEAN economies are up



Source: Macrobond, RHB Economics & Market Strategy

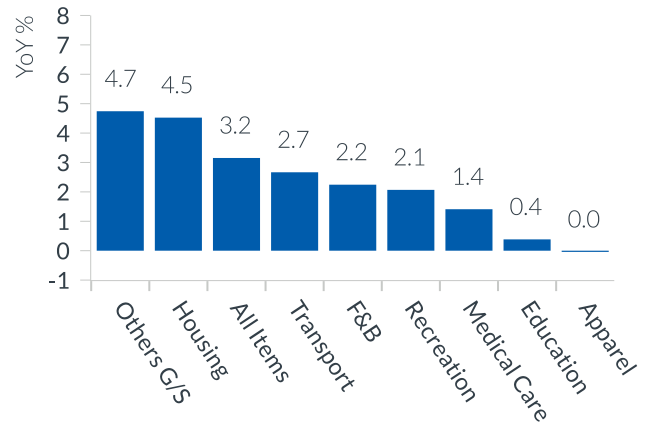
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Figure 39: Core CPI is at 0.4% MoM, and if it persists, will mean year-end print at 3.0%, not 2.0%



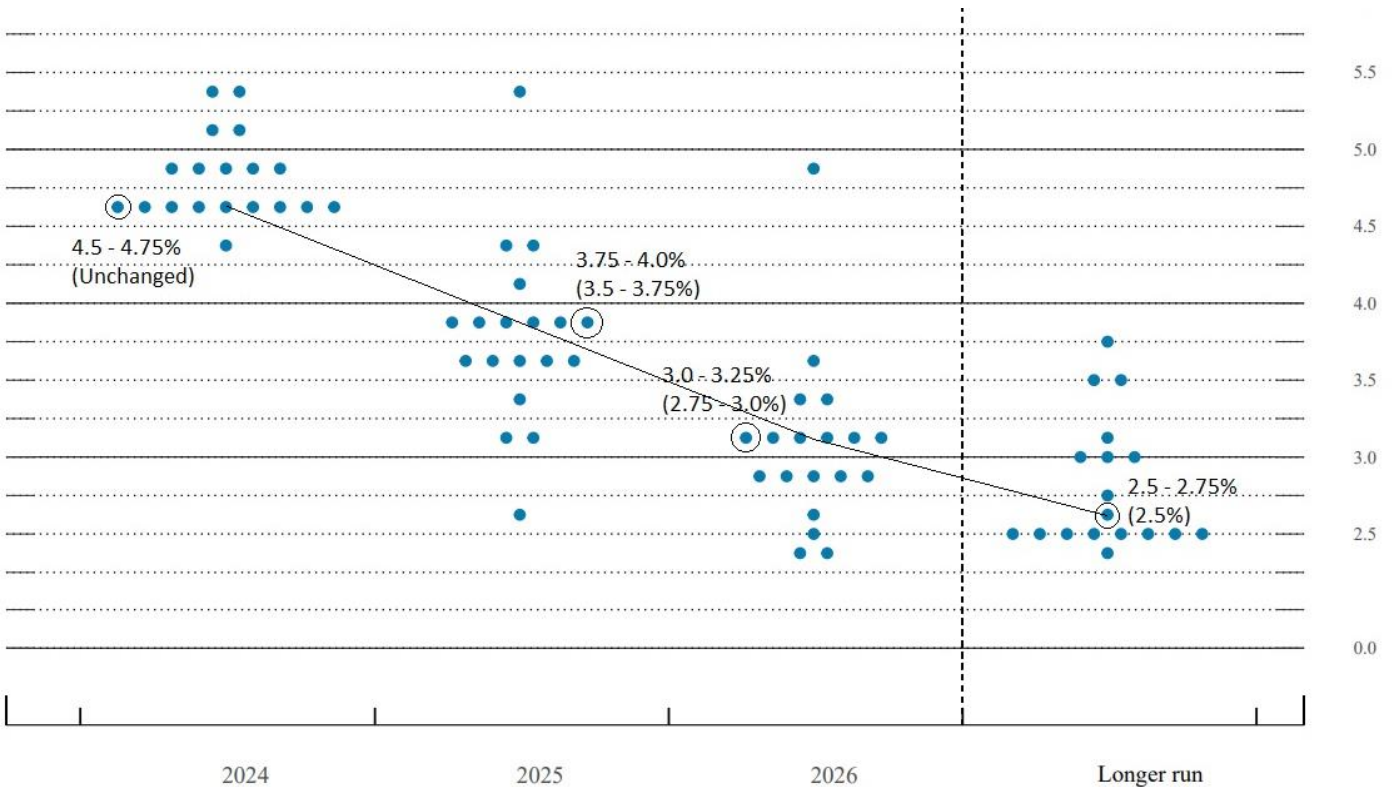
Source: Macrobond, RHB Economics & Market Strategy

Figure 40: US inflation driven by housing and other G/S inflation thus slowdown in prices is not broad-based



Source: Macrobond, RHB Economics & Market Strategy

Figure 41: March median dot-plot chart signalled 3 cuts in 2024, but revised rates higher in 2025 - 2026



Source: US Federal Reserve, RHB Economics & Market Strategy

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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799