RHB

Path Finder

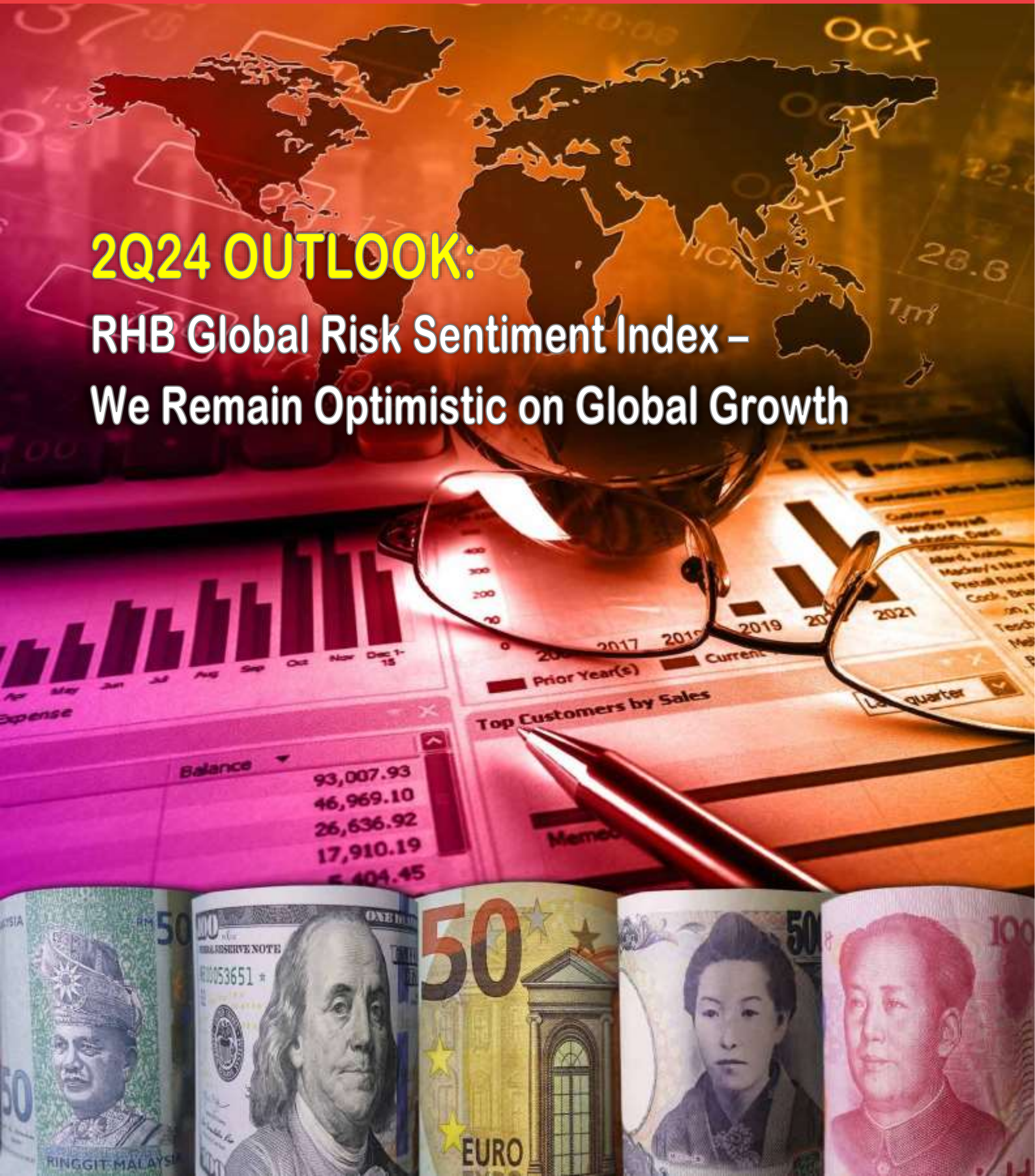
SEPARATE THE NOISE FROM REALITY

April 2024 | **Global Economics & Market Strategy**

Market Dateline / PP19489/05/2019 (035080)

2Q24 OUTLOOK:

RHB Global Risk Sentiment Index – We Remain Optimistic on Global Growth



04 April 2024

Path Finder – Separate the Noise from Reality

RHB Global Risk Sentiment Index - We Remain Optimistic on Global Growth

- **The five themes global investors will focus on in 2Q24 are (1) the continued economic recovery momentum in the US, China and key ASEAN economies; (2) the persistence of global inflation pressures; (3) high-for-longer global rates; (4) DXY to rally further; and (5) UST yields to stay sticky.**

- **We introduce our RHB Global Risk Sentiment Index, which reinforces our global asset allocation strategy for overweight (OW) Equities, (market weight) MW Fixed Income and underweight (UW) Cash. We continue to prefer developed market (DM) equities over emerging markets (EM), with DM equities to rally further by 5 – 10% in 2Q24. In EM, we like Malaysia, China and India.**

- **Fixed income: For 2Q24, continue to pay in UST10YR swaps and sell UST10YR bonds on rallies – we forecast UST10YR yields to rise to its 4.5% handle. In the US and Southeast Asia, we prefer credit relative to local currency government bonds. Foreign exchange: we forecast DXY to rally further to 105 – 110 in 2Q24 before trending to 100 in 4Q24.**

Acting Group Chief Economist & Head, Market Research
Barnabas Gan
+603 9280 8880
barnabas.gan@rhbgroup.com

Senior Fixed Income Strategist:
Tan Chee Hong

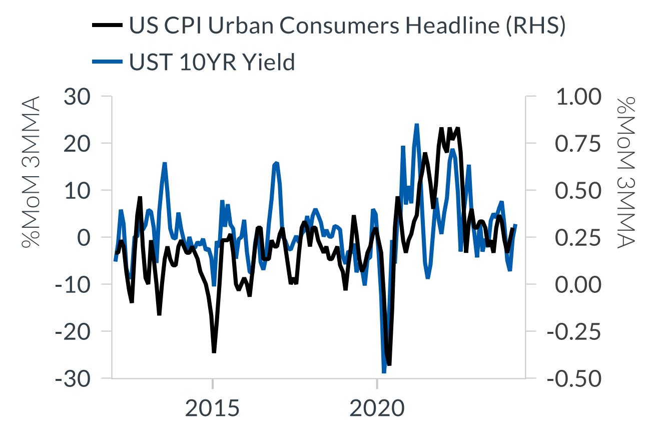
Fixed Income Analyst:
Tan Jin Shawn

Economist:
Chin Yee Sian

Associate Economist:
Wong Xian Yong

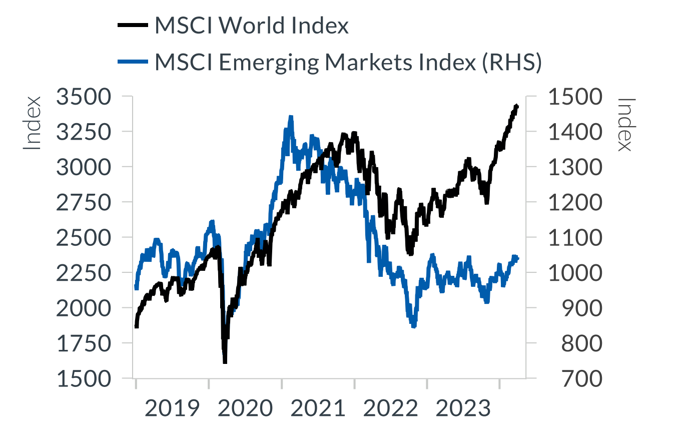
Associate Research Analyst:
Laalitha Raveenthar

Figure 1: US inflation will re-accelerate into 2Q24, UST10YR headed to 4.5% in the current quarter



Source: Macrobond, RHB Economics and Market Strategy

Figure 2: Investors stay positive on global equities, especially in the developed markets



Source: Macrobond, RHB Economics and Market Strategy

Table of Contents

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

RHB Government Bond Yield Forecasts					Bloomberg Consensus				
10YR Government Bond	2Q24	3Q24	4Q24	2025	10YR Government Bond	2Q24	3Q24	4Q24	2025
United States	4.4 - 4.6	4.1 - 4.3	3.8 - 4.0	3.6 - 3.8	United States	4.03	3.93	3.87	3.7 - 3.8
Malaysia	3.80	3.75	3.75	3.65- 3.85	Malaysia	3.73	3.68	3.65	3.5 - 3.6
Singapore	3.10	3.10	3.00	2.50- 2.70	Singapore	2.70	2.70	2.55	2.7 - 2.9
Indonesia	6.60	6.50	6.20	6.10- 6.30	Indonesia	6.63	6.49	6.33	5.9 - 6.2
Thailand	2.65	2.65	2.55	2.45- 2.65	Thailand	2.51	2.48	2.51	2.4 - 2.5

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	2Q24	3Q24	4Q24	2025	G10FX	2Q24	3Q24	4Q24	2025
EUR	1.0560	1.0778	1.1108	1.154	**EUR**	1.0900	1.1000	1.1000	1.1400
JPY	154.72	152.87	149.16	145.58	**JPY**	145.00	143.00	141.00	133.00
GBP	1.2254	1.2443	1.2761	1.326	**GBP**	1.2700	1.2700	1.2800	1.3200
AUD	0.6403	0.6525	0.6706	0.697	**AUD**	0.6700	0.6800	0.6900	0.7200
NZD	0.5797	0.5937	0.6157	0.640	**NZD**	0.6100	0.6300	0.6400	0.6600
AxJ FX	2Q24	3Q24	4Q24	2025	AxJ FX	2Q24	3Q24	4Q24	2025
CNH	7.3069	7.1980	7.0515	6.7750	**CNH**	7.2200	7.1500	7.1300	6.9000
IDR	16,096	15,897	15,693	15,077	**IDR**	15,599	15,350	15,250	14,750
MYR	4.7980	4.7299	4.6344	4.4527	**MYR**	4.7000	4.6500	4.6000	4.4500
SGD	1.3613	1.3382	1.3074	1.2562	**SGD**	1.3300	1.3300	1.3200	1.3000
THB	37.52	36.94	36.00	34.59	**THB**	36.00	35.50	35.00	34.20
VND	25,013	24,973	24,878	23,902	**VND**	24,500	24,400	24,300	23,800

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	2022	2023	2024F	2025F	% YoY	2022	2023	2024F	2025F
US	1.9	2.5	2.5	2.7	US	1.9	2.5	2.2	1.7
Western Europe	3.5	0.5	1.0	1.5	Western Europe	3.5	0.5	0.7	1.5
Japan	1.0	1.9	1.0	1.2	Japan	1.0	1.9	0.7	1.1
China	3.0	5.2	5.0	5.0	China	3.0	5.2	4.6	4.3
ASEAN					**ASEAN**				
Indonesia	5.3	5.1	5.0	5.3	Indonesia	5.3	5.1	5.0	5.1
Malaysia	8.7	3.7	4.6	4.7	Malaysia	8.7	3.7	4.3	4.5
Singapore	3.9	1.1	2.5	3.0	Singapore	3.9	1.1	2.4	2.6
Thailand	2.5	1.9	3.5	3.0	Thailand	2.5	1.9	2.8	3.4
Vietnam	8.0	5.1	6.4	6.5	Vietnam	8.0	5.1	6.0	6.4

Source: Bloomberg, RHB Economics & Market Strategy

Figure 6: RHB CPI inflation forecasts versus Bloomberg consensus forecasts

RHB CPI Inflation Forecasts					Bloomberg Consensus				
% YoY	2022	2023	2024F	2025F	% YoY	2022	2023	2024F	2025F
US	8.0	4.1	3.0	2.5	US	8.0	4.1	2.9	2.4
Western Europe	8.1	5.7	2.8	2.5	Western Europe	8.1	5.7	2.5	2.1
Japan	2.5	3.3	2.4	1.5	Japan	2.5	3.3	2.3	1.7
China	2.0	0.2	1.5	2.0	China	2.0	0.2	0.8	1.7
ASEAN					ASEAN				
Indonesia	4.2	3.7	3.3	3.0	Indonesia	4.2	3.7	2.9	3.0
Malaysia	3.4	2.5	3.3	2.9	Malaysia	3.4	2.5	2.5	2.4
Singapore	6.1	4.8	3.5	2.5	Singapore	6.1	4.8	3.0	2.0
Thailand	6.1	1.3	1.0	2.5	Thailand	6.1	1.3	1.0	1.7
Vietnam	3.2	3.3 (F)	3.5	3.3	Vietnam	3.2	3.3 (F)	3.5	3.3

Source: Bloomberg, RHB Economics & Market Strategy

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

RHB Policy Rate Forecasts					Bloomberg Consensus				
%	2022	2023	2024F	2025F	%	2022	2023	2024F	2025F
US	4.50	5.50	4.75 - 5.0	4.0 - 4.25	US	4.50	5.50	4.60	3.50
Western Europe	2.60	4.48	4.00	3.00	Western Europe	2.60	4.48	3.43	2.67
Japan	0.00	0.00	0.10	0.20	Japan	0.00	0.00	0.10	0.20
China	3.65	3.45	3.00	3.00	China	3.65	3.45	N/A	N/A
ASEAN					**ASEAN**				
Indonesia	5.50	6.00	5.50	5.00	Indonesia	5.50	6.00	5.45	4.80
Malaysia	2.75	3.00	3.00	3.00	Malaysia	2.72	3.00	2.95	2.85
Thailand	1.25	2.50	2.50	2.50	Thailand	1.25	2.50	2.10	1.85
Vietnam	6.00	4.50	4.50	4.50	Vietnam	6.00	4.50	4.50	4.50

Source: Bloomberg, RHB Economics & Market Strategy

Global Economic Indicators Signalling Growth & Optimism

Acting Group Chief Economist & Head, Market Research
Barnabas Gan
+603 9280 8880
barnabas.gan@rhbgroup.com

<u>**The five themes global investors will focus on in 2Q24 are:**</u>

1) **The continued economic recovery in the US, China and key ASEAN countries;**
2) **The persistence of global inflation pressures;**
3) **High-for-longer global rates;**
4) **DXY to rally further; and**
5) **UST yields to stay sticky.**

We continue to adopt an optimistic outlook for the global economy in 2024, whereby we expect a continued economic recovery momentum in key markets such as the US, China and selected ASEAN economies. Our views have materialised nicely in 1Q24; we advocated overweight (OW) on equities, market weight (MW) fixed income, and underweight (UW) cash. At the same time, we forecasted a China-centric recovery in 2024 and for markets to gradually price out US Fed Fund Rate (FFR) cuts into 1H24. For FX and UST yields, we had forecasted DXY to strengthen further in 1Q24, while UST yields stayed sticky above 4.0%. On the flip side, as compared to our previous Path Finder 2024 Outlook, we have since revised our FFR forecast to a peak of 5.25 – 5.50% in 2024 (the revision was made in January 2024, against the December's view for a peak of 5.50 – 5.75%), with two cuts to occur in 2H24.

With global economic indicators still signalling a year of growth and optimism, we will keep our global asset allocation strategy as OW equities, MW fixed income, and UW cash. For 2Q24, we expect a further rally in US equities by up to 5.0%. Year-to-date US-centric data has remained resilient, especially in its labour, consumer confidence and manufacturing activities, <u>while our proprietary global sentiment index (see discussion below)</u> suggests market players adopting a risk-taking and yield-chasing position. Market consensus is also adjusting higher towards our view, with Bloomberg forecasts pencilling US and China GDP growth at 2.2% (from 1.5% seen at the start of 2024) and 4.6% (from 4.5%). In the latest March economic projections, US policymakers have also shifted their US growth outlook higher to 2.1% (from a prior 1.4%), thus underlining their relative optimism for 2024.

Inflation risks, however, remain elevated on the back of food, oil, and metal prices. Our proprietary indicators for food inflation continue to suggest higher prices, at least in the next six months. We are already observing higher food prices in the US and ASEAN economies. Staples such as rice and palm oil are seeing an acceleration in price momentum, with higher prices a real possibility on the back of the ongoing *El Nino* weather conditions. Separately, the OPEC+ led crude oil export ban is likely to be extended into 2Q24, which in turn will likely lift Brent crude to a range of USD 85 – 90 per barrel in the same period. Lastly, we are seeing a strong uptick in base metal prices, a phenomenon likely explained by (1) the ongoing recovery of China and its manufacturing sector and (2) the uptick in global economic performance on the back of trade. Importantly, we do not see any quick reprieve to the current inflation momentum, whereby prices will likely continue to stay elevated into 2Q24.

We maintain our view that global rates should be high for longer. We keep our forecast for the US Federal Open Market Committee (FOMC) to cut its FFR by only two times in 2024. We expect the 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 25bps each, thus bringing the FFR to a year-end range of 4.75 – 5.0% (from the 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, and as discussed earlier whereby we expect global inflation to persist in 2Q24.

The implications to our global macroeconomic views are as follows: we continue to expect a 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 are 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 USD 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 the MYR's appreciation to below 4.7 per USD being short-lived has materialised, and we expect the 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.

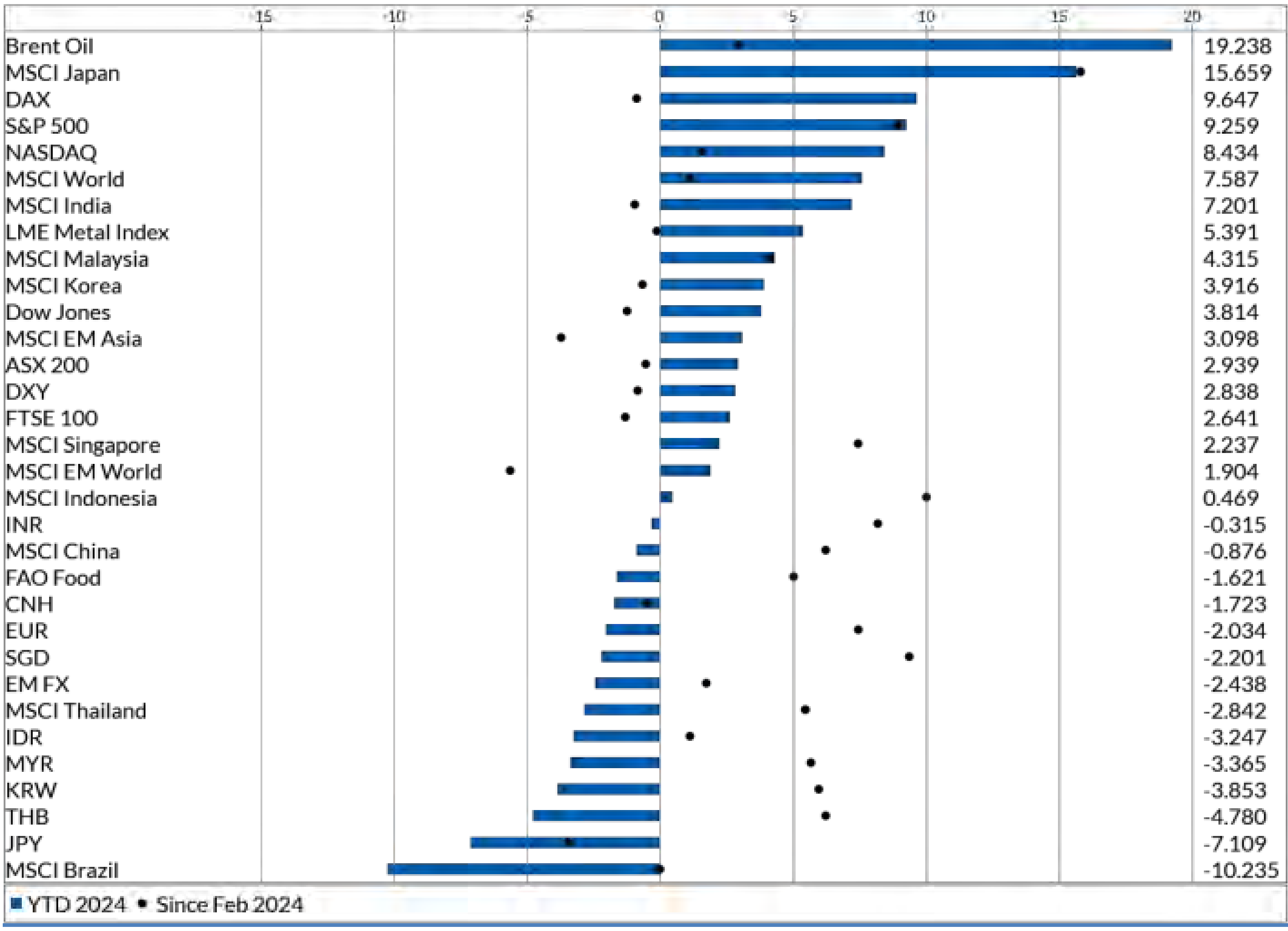
The balance of risks and caveats against our aforementioned base case are as follows: (1) the US Federal Reserve (Fed) engineers its first rate cut in June 2024; (2) China's economic growth slows drastically to below 4.0% in 2024; and/or (3) geopolitical tensions intensify.

US FFR first cut in June 2024: We note that current swap pricing is pencilling a 25bps FFR rate cut as early as June 2024. Albeit not our base case, the risk of seeing an earlier-than-expected rate cut (against our forecast for the first rate cut in September 2024) will be based on (1) a faster-than-anticipated slowdown in inflation; and (2) a significant weakening in US economic data, especially the labour market. Specifically, for US core personal core expenses (PCE) inflation, we need to see its month-on-month print slow and persist at a range of 0.1 – 0.2% in the coming months as a gauge for prices to move towards the path of 2.0%. Our view for the US labour market to stay resilient in 2024 is on track. Our preferred US labour data proxies are (1) nonfarm payrolls; and (2) jobless claims, whereby any unexpected softening of these indicators may persuade a rate cut in 1H24.

China's economic growth slows drastically to below 4.0% in 2024: We maintain our GDP growth forecast for China at 5.0% for 2024. High-frequency data supports a growth acceleration backdrop, as seen in China's PMI, CNY loans, and trade and retail sales. Importantly, China's exports in the first two months of the year grew by 7.1% YoY in USD terms, well ahead of Bloomberg's estimate of 1.9%, thus underlining an optimistic signal for a global trade recovery. This notwithstanding, China's official growth outlook of "around 5.0%" in 2024 will require monetary firepower. Cumulatively, China expanded 8.2% in 2022 – 2023. To expand by another 5.0% in 2024 means a cumulative growth of 10.2% in 2023 – 2024. With China being one of the largest trading partners in key ASEAN economies, any shortfall in China's growth and subsequent demand may inject a material downside revision to our base case growth scenarios for ASEAN.

Geopolitical tensions intensify: Geopolitical tensions remain black swan and wild card events and may span from tensions surrounding Russia-Ukraine, Israel-Palestine, North-South Korea, or US-China conflicts. These tensions, should they exacerbate, may disrupt supply chain conditions and deteriorate market confidence and risk-taking behaviour. Empirical evidence from past tensions suggests a revisit of higher commodity prices, with short- to medium-term corrections in global equity markets. The subsequent spillover effects from these tensions could resurface stagflation risks (low growth + high inflation), whereby global central banks may experience a conundrum in policymaking. Suffice to say, the occurrence of these risks will likely dent our optimistic view on the global economy, especially on ASEAN and China.

Figure 8: YTD 2024 total return – Evidence of higher commodity prices (note black dots – Feb to March's performance) suggest an elevated global inflation backdrop



Source: Bloomberg, RHB Economics & Market Strategy

Figure 9: DXY strength persisted since 2023, which may persist in 2Q24

FX Rates % Change

	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	7.25	4.63	7.25	151.240	151.647	127.516
CHF per USD	7.04	0.79	7.04	0.902	0.941	0.837
AUD per USD	4.49	2.07	4.49	1.534	1.590	1.408
TWD per USD	4.21	2.53	4.21	31.954	32.479	29.668
THB per USD	4.12	2.85	4.12	36.340	37.069	32.704
KRW per USD	3.75	2.12	3.75	1345.360	1361.825	1222.444
DXY	3.07	1.54	3.07	104.490	107.000	99.770
IDR per USD	2.97	5.56	2.97	15868.600	15946.000	14652.765
MYR per USD	2.82	1.20	2.82	4.725	4.793	4.245
EUR per USD	2.37	1.11	2.37	0.927	0.955	0.890
SGD per USD	2.13	-0.41	2.13	1.348	1.374	1.308
CNH per USD	1.76	-0.28	1.76	7.255	7.342	6.713
PHP per USD	1.38	1.55	1.38	56.165	57.146	53.946
GBP per USD	0.85	0.62	0.85	0.792	0.845	0.762
INR per USD	0.16	1.61	0.16	83.383	83.439	80.988

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 2024	QTD 2024	Last 2024	High 2023	Low 2023
United States	46.0	9.0	4.71	5.22	3.77
Germany	45.5	0.1	2.85	3.33	2.34
United Kingdom	27.5	6.7	4.23	5.48	3.17
Singapore	21.4	0.8	3.47	3.73	2.87
S. Korea*	18.9	2.2	3.33	4.14	3.12
Malaysia*	3.9	1.2	3.50	3.69	3.31
India	-3.3	1.2	7.04	7.39	6.80
Indonesia	-5.6	1.6	6.33	6.91	5.62
Thailand	-16.4	n/a	2.17	2.62	1.53
China	-30.1	-2.0	1.88	2.47	2.07

Source: Macrobond, RHB Economics & Market Strategy

Figure 11: ... although inflationary pressures may continue to elevate US 10Y yields towards 4.5%

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	55.1	14.9	4.08	4.74	3.00
Singapore	50.6	10.7	3.20	3.50	2.66
United States	50.0	17.9	4.38	4.99	3.31
Germany	38.0	10.4	2.40	2.97	1.89
S. Korea	27.7	4.9	3.45	4.40	3.16
Indonesia	21.8	-2.1	6.67	7.22	6.16
Malaysia	14.7	2.3	3.88	4.16	3.65
India	-7.5	5.7	7.11	7.44	6.96
Thailand	-12.3	5.1	2.55	3.35	2.26
China	-27.3	-0.5	2.28	2.92	2.54

Source: Macrobond, RHB Economics & Market Strategy

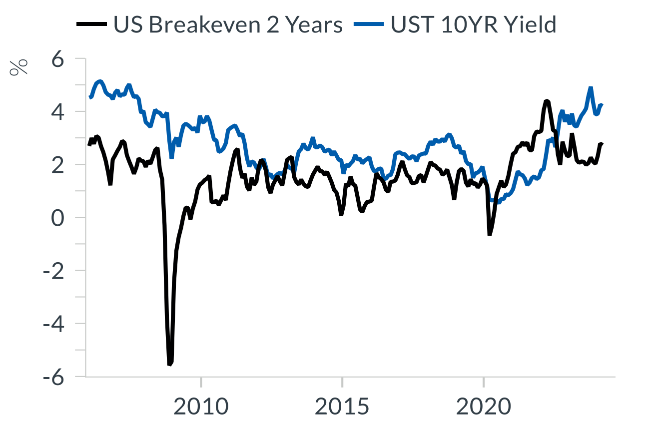
Figure 12: US growth data surprising on the downside recently (should not persist), while inflation is surprising higher

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

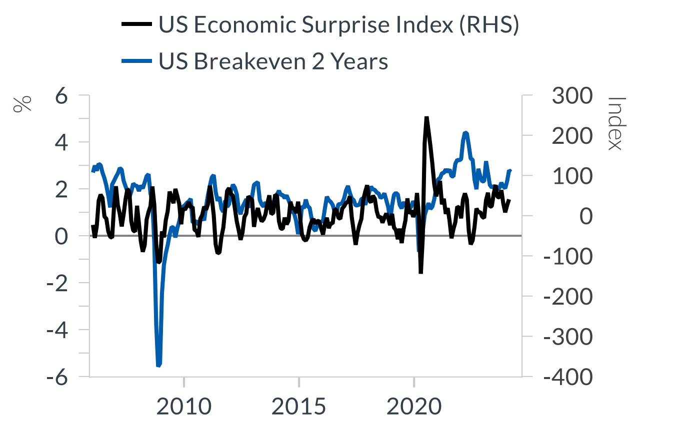
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: US short-term inflation expectations will rise…



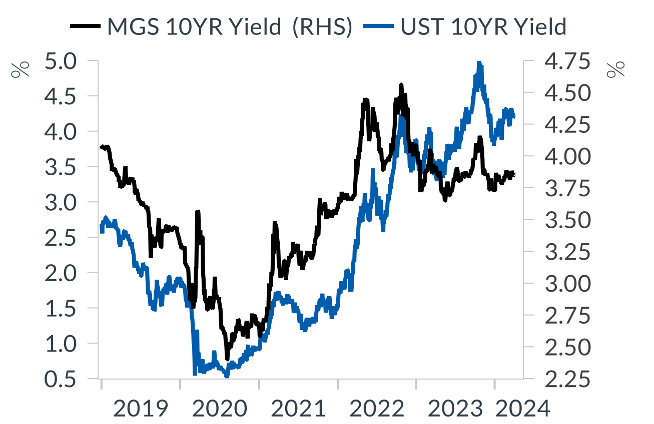
Source: Macrobond, RHB Economics & Market Strategy

Figure 15: …thus suggesting sticky inflation into 2Q24



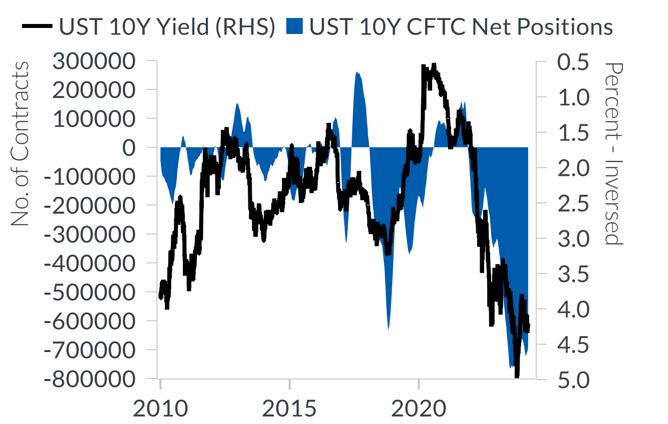
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: MGS10YR following UST10YR yields to some extent



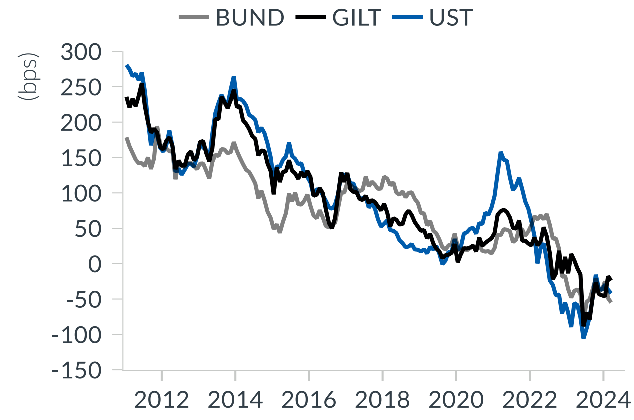
Source: Macrobond, RHB Economics & Market Strategy

Figure 17: Real money accounts positioning in US long-term sovereign bonds down, which suggests yields to go up



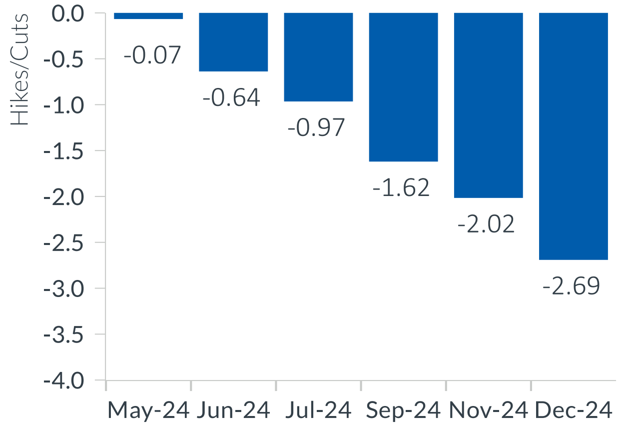
Source: Macrobond, RHB Economics & Market Strategy

Figure 18: Negative 2-10YR yield curves are normalising higher across DM



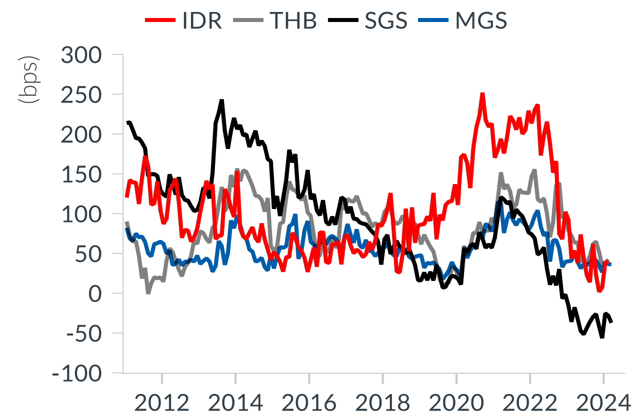
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: Markets pricing in three FFR cuts in 2024, which we think will be two cuts instead



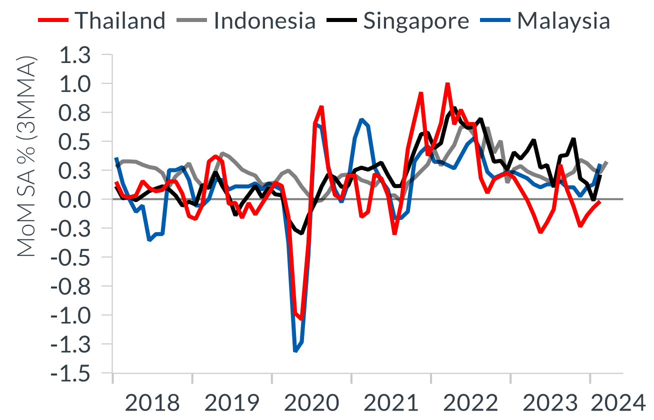
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: ASEAN 2-10YR yield curves are also normalising higher year-to-date…



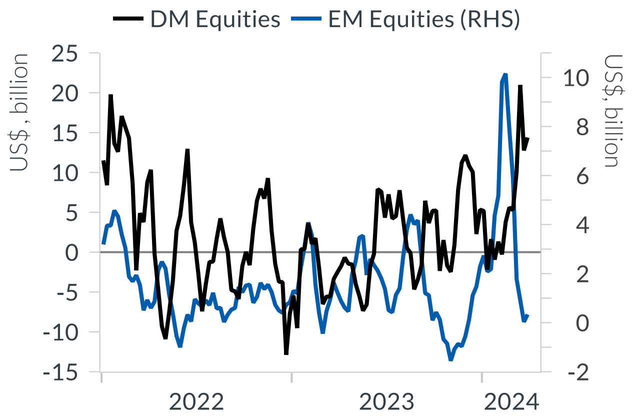
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: … while headline inflation momentum has picked up across key ASEAN economies



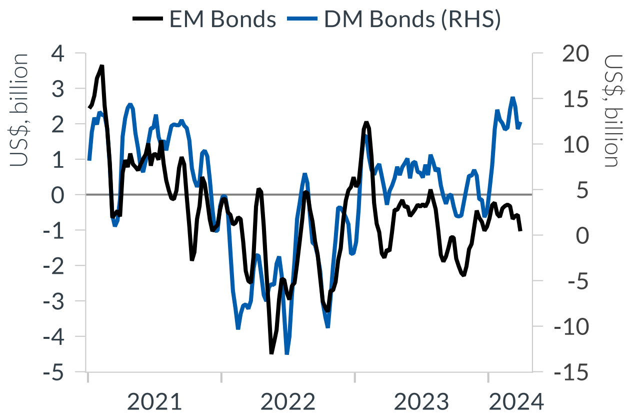
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: Investors continue to prefer DM equities…



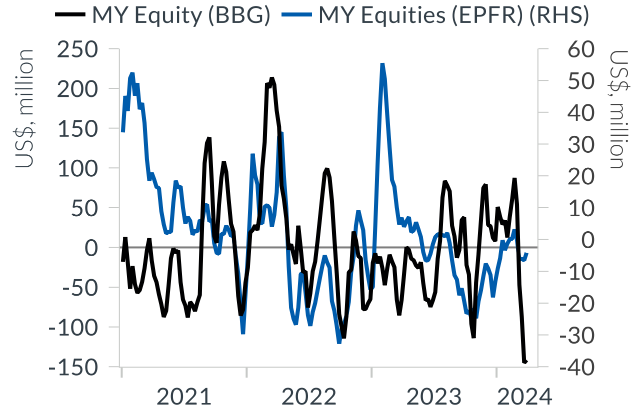
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 23: … and DM bonds year-to-date



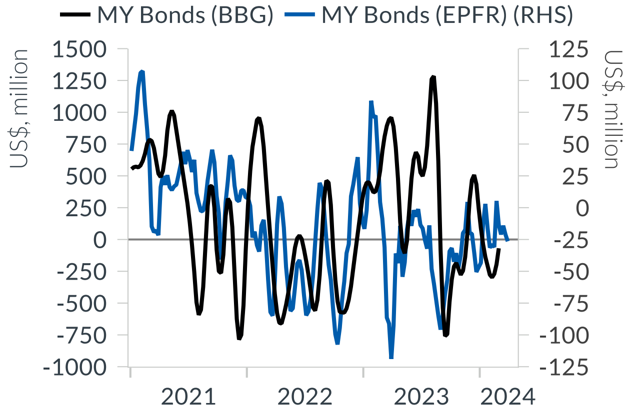
Source: Macrobond, EPFR RHB Economics & Market Strategy

Figure 24: Malaysia's net equity flows turn negative into end 1Q24...



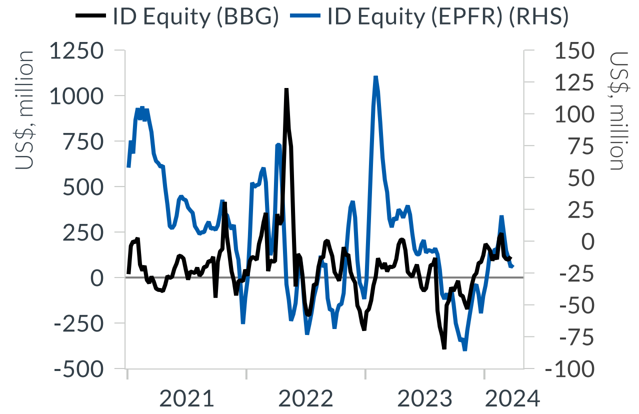
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: ... ditto for net bond flows as fixed income assets remain unattractive



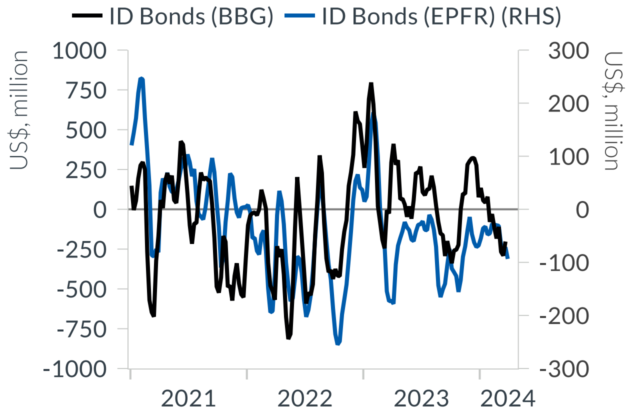
Source: Macrobond, RHB Economics & Market Strategy

Figure 26: Indonesia equity inflows have picked up, but are seeing some retracement at this juncture...



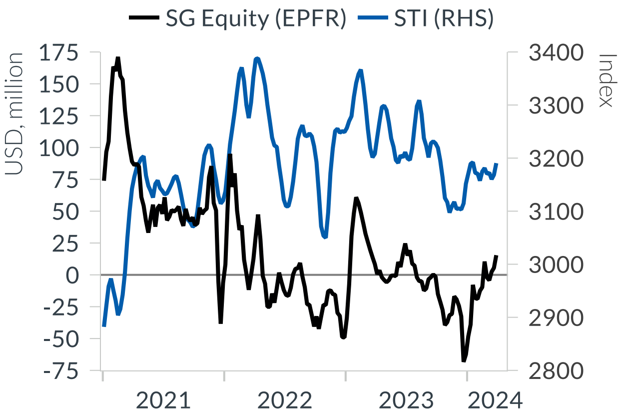
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: ... while bonds flows stay in net outflows zone as US-ID yields near parity



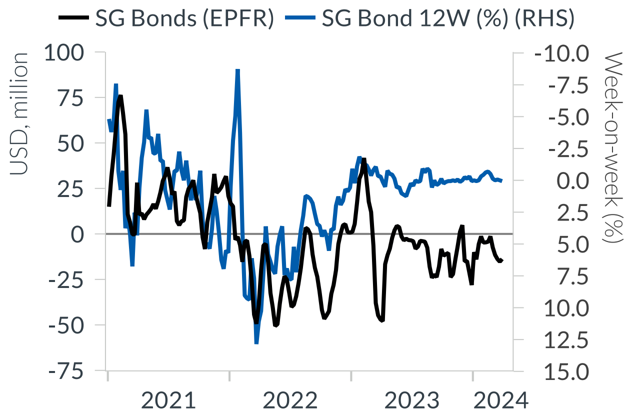
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: Singapore equity inflows turn north as market investors upgrade its GDP growth prospects...



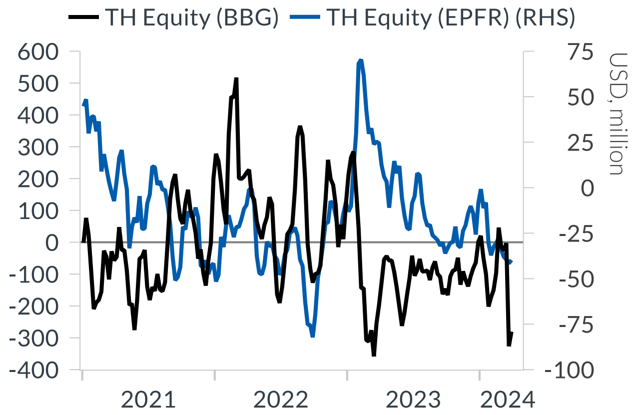
Source: Macrobond, RHB Economics & Market Strategy

Figure 29: ... but bonds remain unattractive



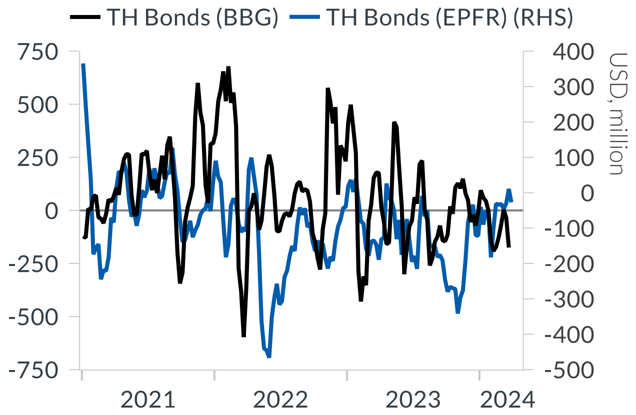
Source: Macrobond, RHB Economics & Market Strategy

Figure 30: Investors still stay relatively bearish on Thai equities



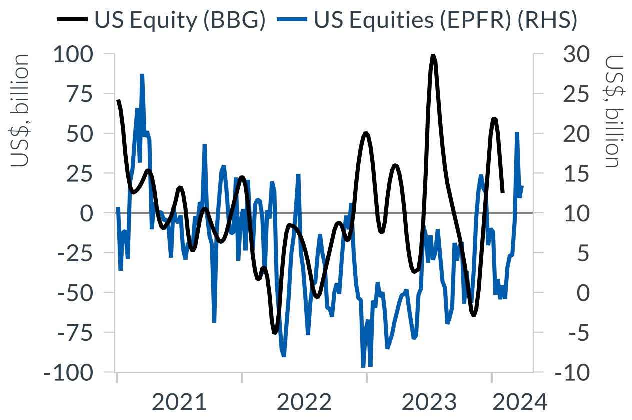
Source: Macrobond, RHB Economics & Market Strategy

Figure 31: Thailand bond flows seeing some support as interest in equities fade



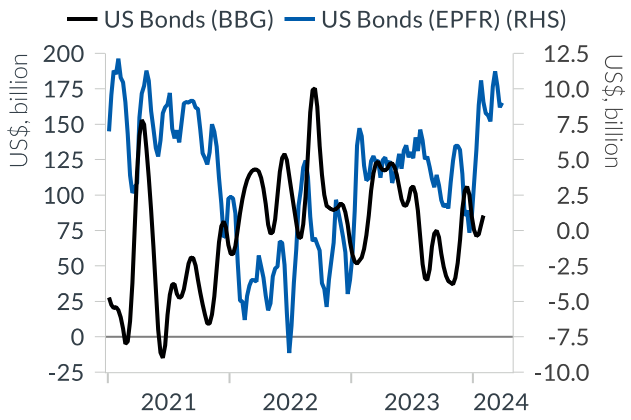
Source: Macrobond, RHB Economics & Market Strategy

Figure 32: US equities continue to see strong inflows…



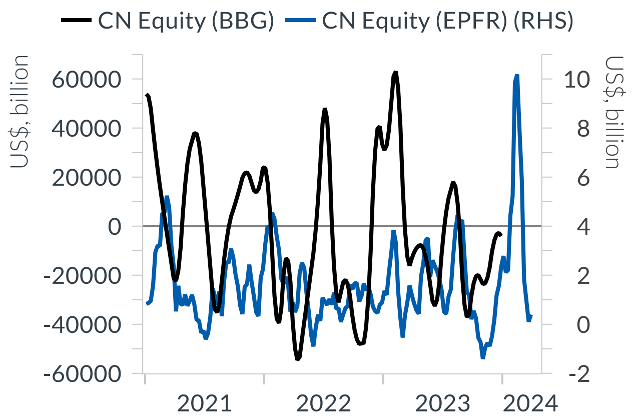
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: … similar to bonds, as yields may stay high



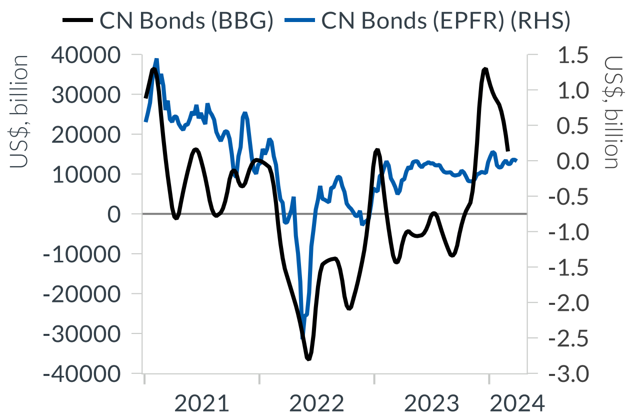
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: Equity net flows turn south for China, but likely on profit-taking behaviour considering the huge uptick



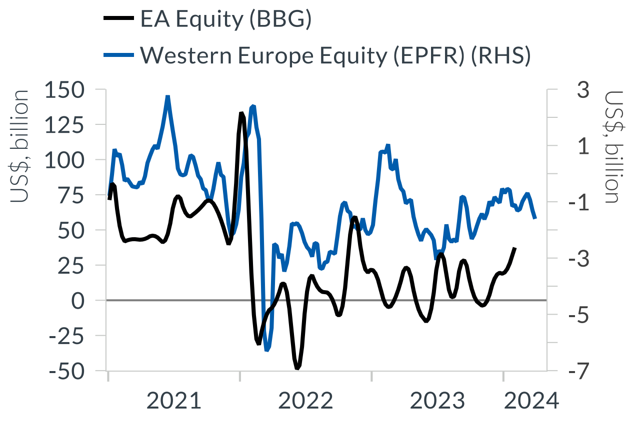
Source: Macrobond, RHB Economics & Market Strategy

Figure 35: China bond flows are up, reinforcing little risk on a potential hard landing



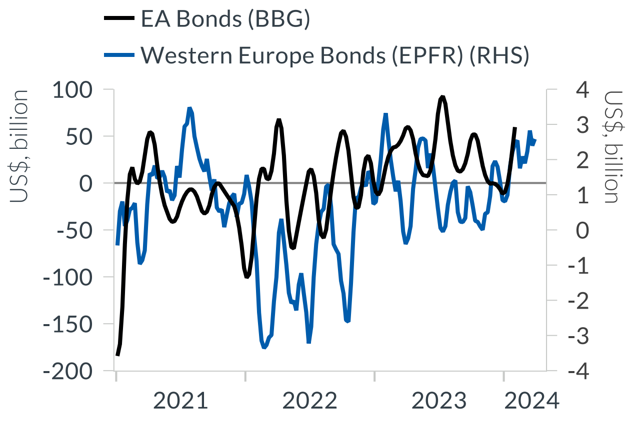
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: Euro Area equity flows are up…



Source: Macrobond, RHB Economics & Market Strategy

Figure 37: … ditto for bonds



Source: Macrobond, RHB Economics & Market Strategy

Upgrading US GDP Growth Forecast to 2.5%; China's Growth Target

Highlights

- We upgrade our full-year US GDP forecast to 2.5% in 2024 against our prior 2.2% forecast handle.
- Inflation remains the chief concern. We expect a potential re-acceleration of global inflation rates on the back of higher commodity prices and global demand-pull inflation drivers in 2Q24.
- In ASEAN, our RHB leading indices suggest that GDP growth momentum will accelerate into 2Q24, where we think that the pace will continue into 2H24.

We upgraded our full-year US GDP forecast to 2.5% in 2024 against our prior 2.1% forecast handle pencilled in 2023. Our view for a resilient recovery for the US economy year-to-date has materialised nicely – US GDP grew at a blistering 3.3% annualised rate in 4Q23, led by a strong pace in consumer and government spending. We expect US growth momentum to accelerate in 2Q24 on the back of the resilient high-frequency data seen in its labour, consumer spending, and externally-facing industries. As aforementioned, our view for the US labour market to stay resilient in 2024 is on track, especially seen in the nonfarm payrolls and jobless claims. We are not concerned over the increase in the US unemployment rate to 3.9% from 3.7% - rather, the increase in the workforce may have been led by more people seeking employment.

Market consensus has gradually adjusted to our view, a testament to the relative accuracy of our in-house proprietary and leading indicators. Market consensus for US GDP growth in 2024 has been gradually upgraded from a prior 1.4% handle to the current 2.2% at the time of writing. Our forecasts have also pre-empted official forecasts, whereby the US Fed upgraded its US GDP 2024 outlook to 2.1% (from 1.4% as well) in its latest economic projections. Separately, market consensus has also quickly priced out the expectation for six rate cuts in the FFR in 2024 to the current three cuts, which is in line with our expectations. Our economic projections are dependent on our (1) global assumptions and (2) in-house leading indicators rather than consensus-based ones.

Inflation remains the chief concern. We expect a potential re-acceleration of global inflation rates on the back of higher commodity prices and global demand-pull inflation drivers in 2Q24, with the balance of risks tilted to seeing inflation risks prolonged into 2H24. The catalysts are three-pronged: (1) We continue to see an upside bias for crude oil and food prices – the OPEC+ export ban is slated to be extended in 2Q24, whereby we expect Brent crude to rally to a topside of USD95 per barrel in 2024. Meanwhile, (2) our proprietary *El Nino*-Food model continues to suggest a strong uptick in global food prices in the next 6 – 12 months, suggesting upside bias for global inflation in 2024. Lastly, (3) demand-pull inflation drivers, on the back of Global+ASEAN economic growth, may continue to materialise into the next year. China's economic recovery, which is already taking form, will also mean higher commodity demand, especially for base metals, which in turn may lift import prices for ASEAN's manufacturing-reliant economies.

Moving our discussion to China, the country has recently announced a growth target of "about 5.0%" in 2024. We see three key fine prints in their announcement. First, we observe that China's growth target of "around 5.0%" in 2024 is not the same as "around 5.0%" in 2023; China expanded 5.2% in 2023 against a low base year of 3.0%. Cumulatively, China expanded 8.2% in 2022 –2023. To expand by another 5.0% in 2024 means a cumulative growth of 10.2% in 2023 –2024. Second, China is targeting a strong 7.4% YoY nominal growth in 2024, suggesting the need for material firepower. China highlighted a fiscal deficit target of CNY4.06tn (+CNY180bn from last year, or 3.0% of GDP, a record high). This translates to a GDP size of CNY135tn, or nominal growth of 7.4% YoY in 2024, against a nominal growth of 4.6% in 2023. Third, job creation appears to be a key focal point. The language regarding the job creation target has shifted from "around" to "over" 12m new jobs in 2024. This is against a projected 11.79m new graduates in 2024, suggesting China's commitment to supporting youth employment.

In ASEAN, our RHB leading indices suggest that GDP growth momentum will accelerate into 2Q24, where we think that the pace will continue into 2H24. We forecast Malaysia's GDP at 4.6% in 2024, up from 3.7% in 2023. For Singapore, we expect GDP growth to come in at 2.5% in 2024, near the top-bound of the official growth forecast range of 1 – 3%. Thailand's GDP growth is pencilled at 3.5% for 2024, up from 1.9% 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 the US+ASEAN in 2H24 will likely fuel consumption and investment behaviour.

We keep Malaysia's GDP forecast at 4.6% YoY in 2024 (2023: 3.7% YoY) versus the official projected range of 4.0 – 5.0%. The economic growth momentum is anticipated to pick up in 1H24, as suggested by our composite leading index for Malaysia, as well as the recent release of some of the high-frequency data. Domestic confidence has shown signs of improvement. Three key proxies, specifically (1) higher manufacturing PMI; (2) increased imports of capital and intermediate goods; and (3) rising business confidence, suggest that manufacturers' and businesses' optimism is up. For 2024, the GDP growth would be supported by a turnaround in trade performance and robust domestic demand. The unfolding developments, i.e. the strengthening of the Industrial Production Index (IPI) and export momentum, reinforce our view. Trade performance is expected to be underpinned by (1) a brighter global and regional economic outlook; (2) China's strengthening economic dynamics; and (3) re-acceleration in the global technology cycle.

For Malaysia's CPI, we maintain our 2024 headline inflation projection at 3.3%. Following the adjustments of services tax in March and the anticipated rollout of diesel subsidy rationalisation by 2Q24, we expected the inflation momentum to gain pace in 2Q24. So far, the inflation risks are cushioned by tame food inflation, partially due to the continuation of food subsidies and price controls for staple food items. The upsides to the inflation trajectory in the later part of the year would mainly emanate from fiscal consolidation measures, including fuel subsidy rationalisation (diesel and RON95 petrol), services tax adjustments as well as utility tariffs revision, where the proposed measures are projected to lift the headline inflation by 0.7% – 1.1% (versus 2.5% YoY in 2023). Given the uncertainties in the inflationary trajectory, we opine that the central bank is likely to stay pat at the current Overnight Policy Rate (OPR) of 3.00% throughout 2024. The policymakers might hold the OPR while assessing the lagged impact of fiscal policy changes on the overall inflationary trajectory and economic momentum.

Singapore's growth will be underpinned by the ongoing recovery in externally oriented industries, namely manufacturing and exports. The global economic recovery will further bolster global semiconductor demand, indicating that Singapore, being a small and open economy, will benefit from trade flows in 2024. We remain positive in the electronics, transport engineering, and general manufacturing industries in the next 6 – 12 months. Our GDP projection of 2.5% is on track, with the risks appearing balanced at this juncture, while the RHB GDP-LEI is showing an uptick in momentum, with growth at 3.0% in 1H24. Overall, our NODX and IP full-year forecasts of 3.0% and 5.0%, respectively, suggest that growth for these indicators will likely see positive YoY prints in 2024.

Singapore, being a highly-trade-dependent economy, is vulnerable to imported inflationary pressures. Hence, we are seeing sticky inflation risk persist in 2Q24, especially when food, oil and metal prices continue to remain elevated. We keep our projection of full-year headline inflation to remain at 3.5% and upgrade our core to 3.5% in 2024. The Monetary Authority of Singapore (MAS) is likely to maintain its current policy parameters throughout 2024 due to continuing inflation risk. We believe the current policy parameters are deemed appropriate for cushioning imported inflation and ensuring price stability over the medium term.

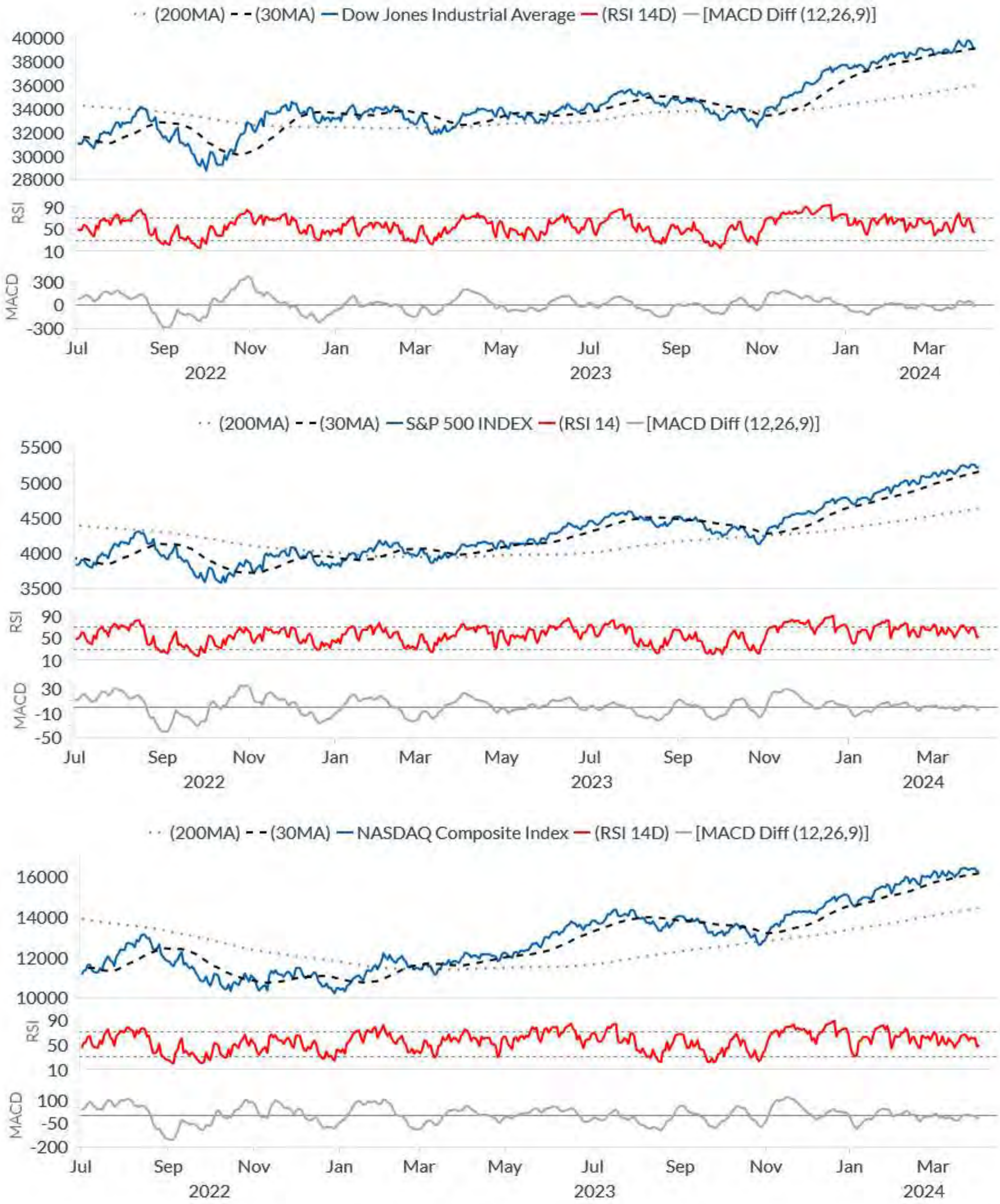
For Thailand, our GDP growth forecast is 3.5%, even as we pencil a slowing growth momentum in 2Q24. We are relatively cautious about Thailand's GDP growth in the current quarter given the (1) relatively lacklustre trade and private consumption backdrop seen year-to-date, (2) higher inflation dynamics elevated by the removal of energy subsidies effective 31 March 2024, while (3) our GDP leading index model suggests a slowdown into the same period. We forecast GDP growth to slow to 2.1% YoY in 2Q24, from an estimated 2.7% YoY in 1Q24 (translating to a 2.4% growth in 1H24). Nonetheless, we view a recovering GDP momentum in 2H24, underpinned by positive private consumption and tourism environment. We expect private investment to continue to play a greater role in supporting economic growth. Exports in 2024 are expected to grow with a persistent improvement in key export products, including manufacturing and agricultural products.

We keep Thailand's full-year headline and core inflation forecasts at 1.0% and 0.7%, respectively. Our prognosis is that Thailand's inflation has been driven primarily by policy manoeuvres, especially subsidies, which have resulted in disinflationary trends at this juncture. We anticipate that the headline CPI will continue to show deflationary trends until April 2024. Hence, we maintain our projection for the Bank of Thailand (BoT) to keep its benchmark rate at 2.50% in 2024 as we think the rate is in a neutral position and appropriate for ensuring price stability and supporting long-term sustainable growth.

Indonesia's GDP growth is likely to stay supported by household consumption and private investment in 1H24 despite a weaker sentiment of consumer spending. Robust fiscal support from the Government and the increase in FDI and domestic investment post-election are the key drivers of domestic demand. On the external front, we are optimistic that Indonesia's exports will recover, supported by a positive global economic outlook, increased commodity demand from China, and higher crude oil prices.

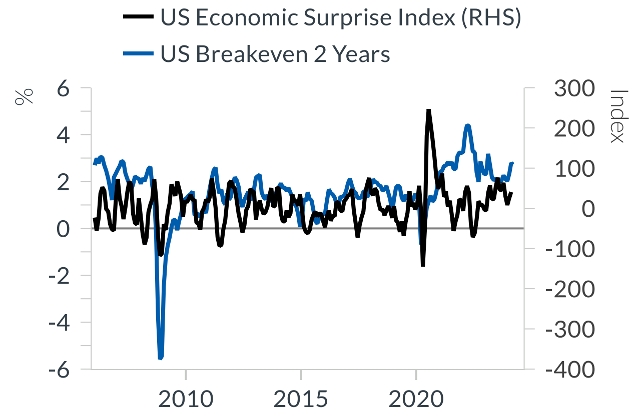
We maintain Indonesia's headline and core inflation forecast at 3.3% YoY and 2.2% YoY, respectively. The key determinants of the inflation trajectory include (1) elevated food inflation momentum due to *El Niño* conditions; (2) upside bias assumption of crude oil prices; and (3) increasing demand-side pressure aligned with improving economic growth prospects. As the inflationary risk persists, we maintain our view for Bank Indonesia (BI) to keep its benchmark policy rate unchanged at 6.00% in 1H24, followed by a 50bps reduction in 2H24 to 5.50%. We expect policymakers to maintain a stable interest rate differential gap through gradual policy adjustment, generally aligning with the FOMC's decision.

Figure 38: US equity technical charts suggest near-term correction, but overall higher valuations are expected in 2024



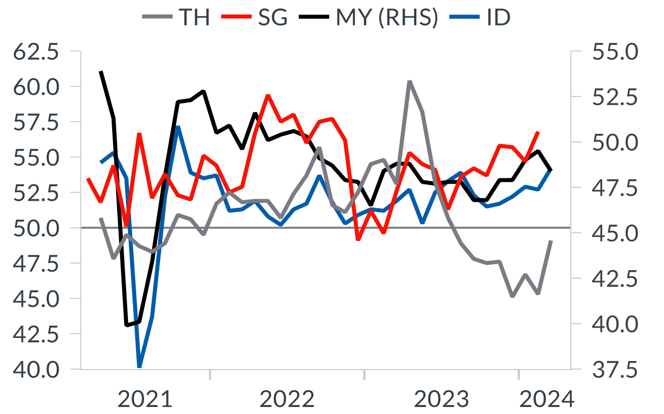
Source: Macrobond, RHB Economics & Market Strategy

Figure 39: US economic surprises are trending higher, but so is inflation…



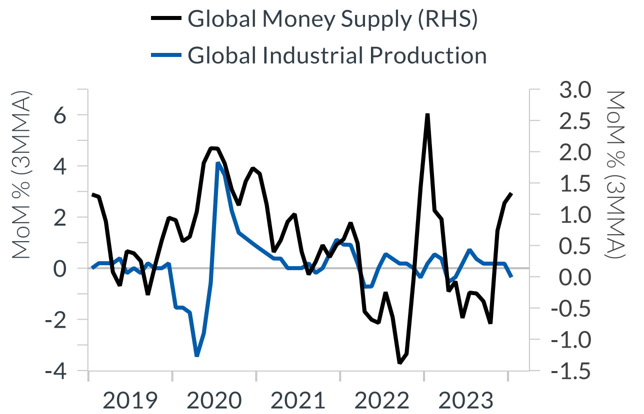
Source: Macrobond, RHB Economics & Market Strategy

Figure 40: … while ASEAN MFG PMIs are mostly up, suggesting stronger IP momentum



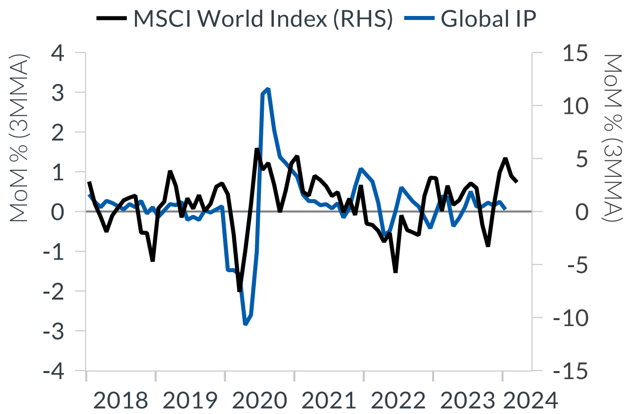
Source: Macrobond, RHB Economics & Market Strategy

Figure 41: Global financial conditions loosen as money supply rises, which supports a global IP recovery…



Source: Macrobond, RHB Economics & Market Strategy

Figure 42: … thus underpinning our OW global and Malaysia equity view into 2024

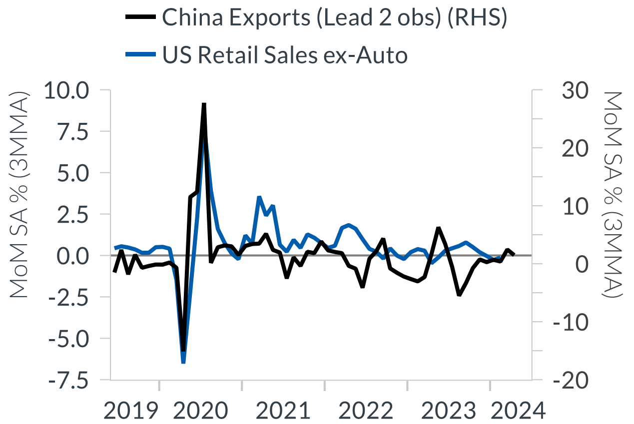


Source: Macrobond, RHB Economics & Market Strategy

Figure 43: Acceleration in US retail sales ex-autos is in tandem with APXJ exports…

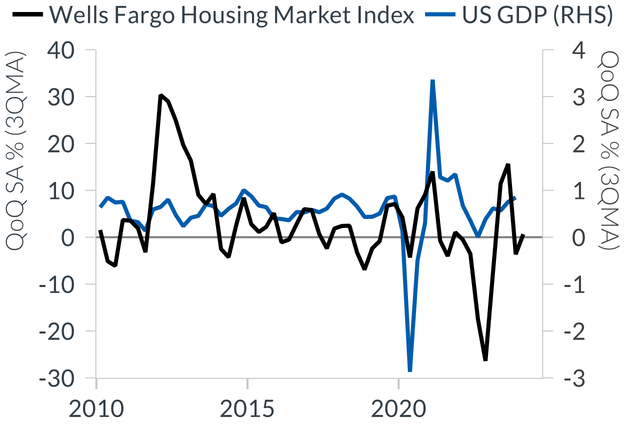
Source: Macrobond, RHB Economics & Market Strategy

Figure 44: … similar to China's exports, which are shown to lead by two observations



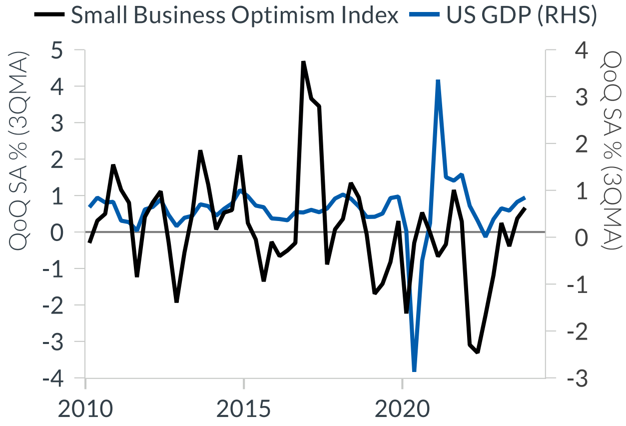
Source: Macrobond, RHB Economics & Market Strategy

Figure 45: US housing market is recovering year-to-date, and...



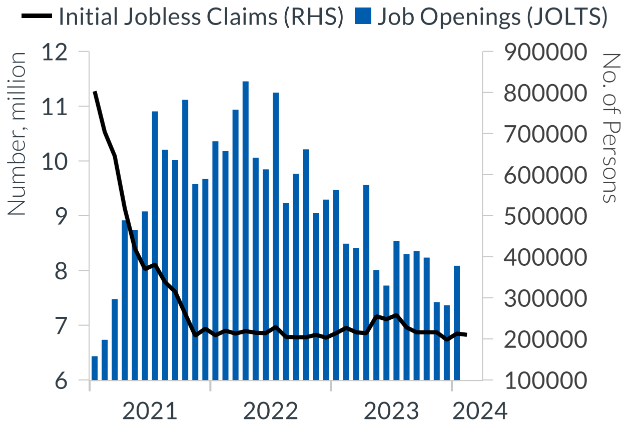
Source: Macrobond, RHB Economics & Market Strategy

Figure 46: ...SME sector sentiment up, implies US GDP resilient in 2024



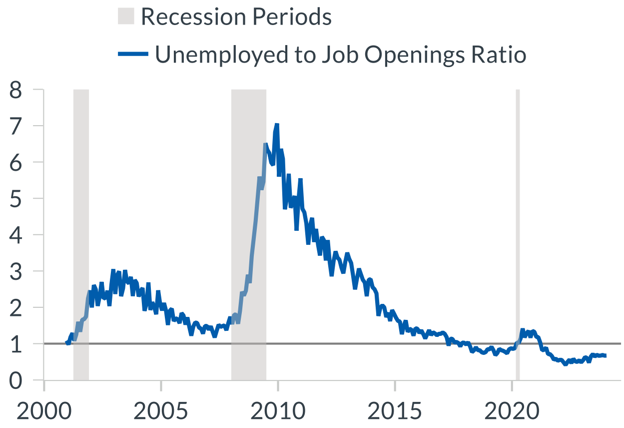
Source: Macrobond, RHB Economics & Market Strategy

Figure 47: US labour conditions appear healthy, seen in lower jobless claims and higher job openings...



Source: Macrobond, RHB Economics & Market Strategy

Figure 48: ...while number of job openings exceed unemployed persons



Source: Macrobond, RHB Economics & Market Strategy

RHB Sentiment Index Suggests Uptick In Global Risk-Taking Behaviour

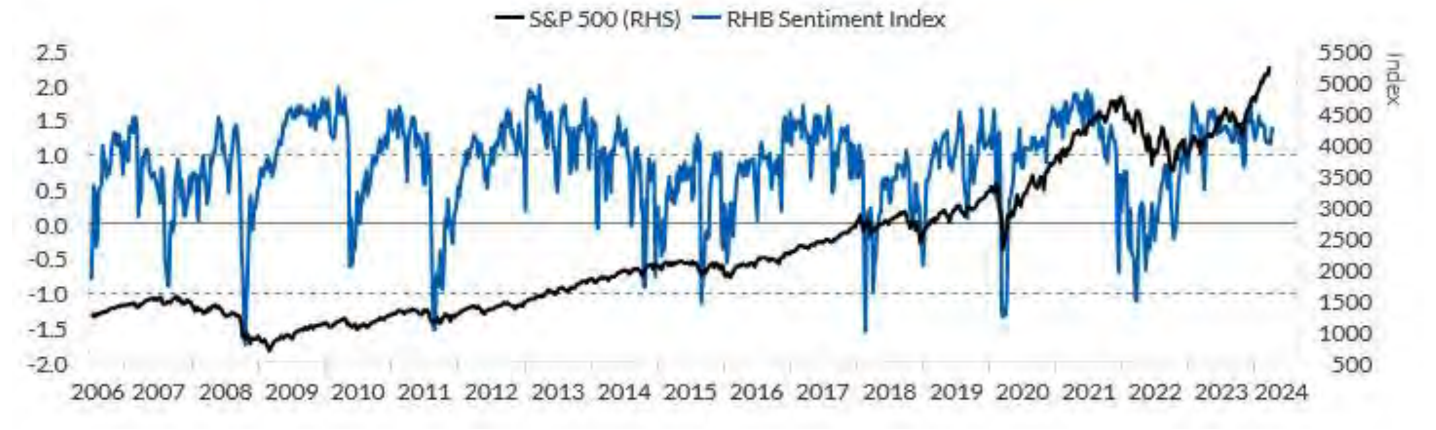
Highlights

- **We introduce our new proprietary indicator – the RHB Sentiment Index (RHB-SI).**
- **The RHB-SI suggests that risk-taking behaviour remains strong.**
- **The index takes on four variables – (1) US Ted Spread; (2) VIX; (3) Global equity net flows; and (4) UST 2-10Y Spread.**

As the saying goes, the only certain thing is uncertainty. With almost every economic outlook, there lies a lack of clarity on how global economic indicators behave and, in relation, the question of how investors may react to them. As a research house, in place of a mythic crystal ball that may otherwise tell us the future, the best tool we have is the construction of proprietary indicators that can help foretell how confident market players will be. We introduce our new proprietary indicator – the RHB Sentiment Index (RHB-SI) – which has so far been accurately indicative of market confidence and, in turn, highlights how US equities may move as a proxy for risk-taking behaviour.

The RHB-SI has a good sense of foretelling potential risk-off behaviour. The index (see Figure 49) takes on a scale of a range -2/+2, whereby a higher positive value suggests risk-taking behaviour while a lower negative value suggests risk-averse behaviour. Essentially, any value above 1.0 suggests very strong risk-taking behaviour, while a value below 1.0 is likely indicative of a market reaction towards a recessionary scenario. By observation, any decline in the RHB-SI below the 0.0 level (which is indicative of neutral sentiment) suggests risk-averse behaviour, whereby market players have empirically sold off US equities such as the S&P 500 Index. Such a phenomenon is clearly seen in the pre-Lehman period (2006 – 2008), the Russo-Ukrainian War (2014 – 2016), trade spats and Brexit (2019 – 2020) and COVID-19 (2021 – 2022).

Figure 49: RHB Sentiment Index (RHB-SI) suggests global markets in a strong risk-taking mode



Source: Macrobond, RHB Economics & Market Strategy

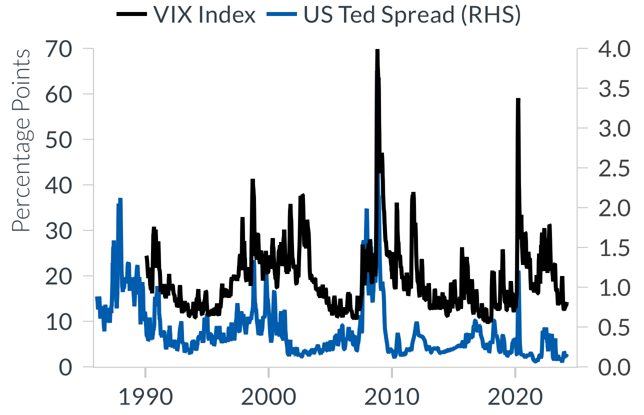
At this juncture, the RHB-SI suggests that global risk-taking behaviour remains strong. The current index has constantly been trending broadly above 1.0 since 2023, which, in turn, is seen in tandem with higher S&P 500 valuations. The RHB-SI is in line with our global economic assumptions and adds to our arsenal yet another indicator to reinforce our positive global growth outlook for 2024. As discussed in the earlier sections, we stay above consensus for the US and China, whereby we upgrade US GDP growth to 2.5% (from 2.2%) while keeping China's growth outlook at 5.0% for 2024. The RHB-SI, which only takes on liquidity and financial indicators (rather than economic data), resurfaces potential investor behaviour as variables that will help us determine market confidence.

Specifically, the index takes on four variables – (1) US Ted Spread; (2) VIX; (3) global equity net flows; and (4) UST 2-10Y Spread. The index also offers predictive power on how market confidence may trend (albeit marginal), whereby the index appears to lead the S&P 500 Index by two weeks. Given the nature of the aforementioned variables, we attribute negative coefficients for the US Ted Spread and the VIX, as well as positive coefficients for global equity net flows and UST 2-10Y spread. The model has taken on over 700 samples (the application of the central limit theorem[1]) for each variable, which are then further transformed to remove seasonality distortions and rebased to a Z-score.

Overall, we remain OW global equities, and we prefer DM equities over EM. The RHB-SI further reinforces our view, whereby the persistence of risk-taking behaviour of RHB-SI > 1.0 suggests the market's confidence in global economic strength and, in turn, equity valuations. Importantly, with the predictive power of the RHB-SI, despite being bereaved of a mythic crystal ball, we are able to separate the noise from reality.

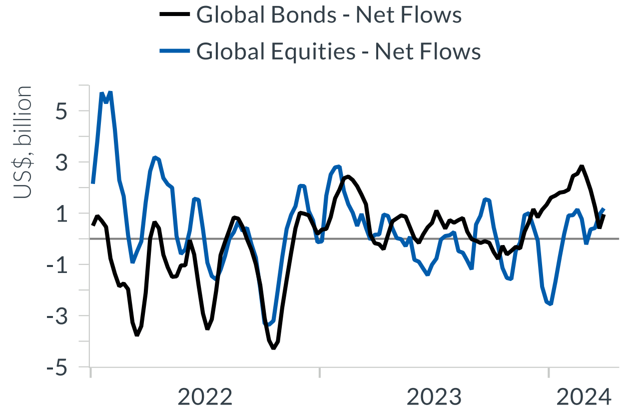
[1] The Central Limit Theorem tell us that as the sample size tends to infinity, the of the distribution of sample means approaches the normal distribution.

Figure 50: Risk indicators are declining year-to-date…



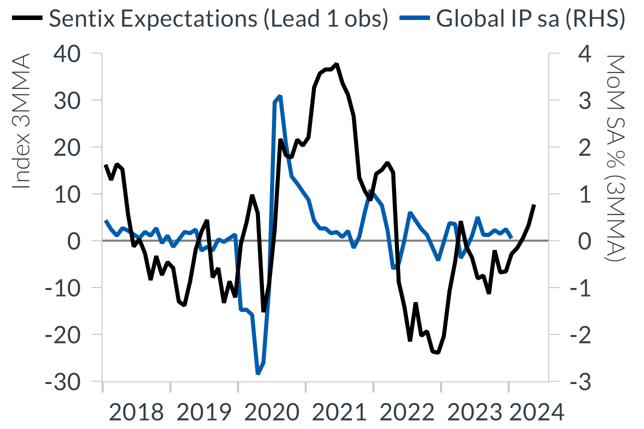
Source: Macrobond, RHB Economics and Market Strategy

Figure 51: … while global fund flows are up



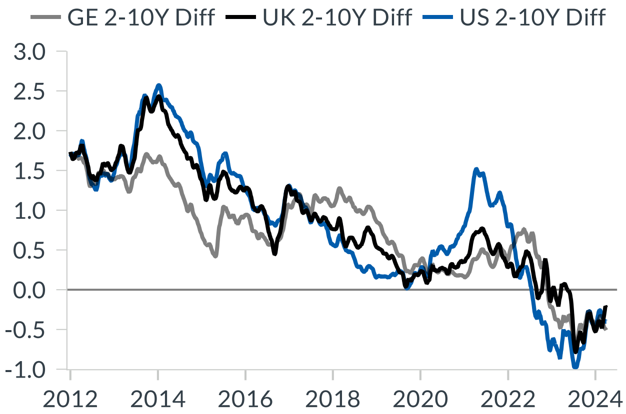
Source: Macrobond, RHB Economics and Market Strategy

Figure 52: Our leading global growth indicator is suggesting an imminent uptick



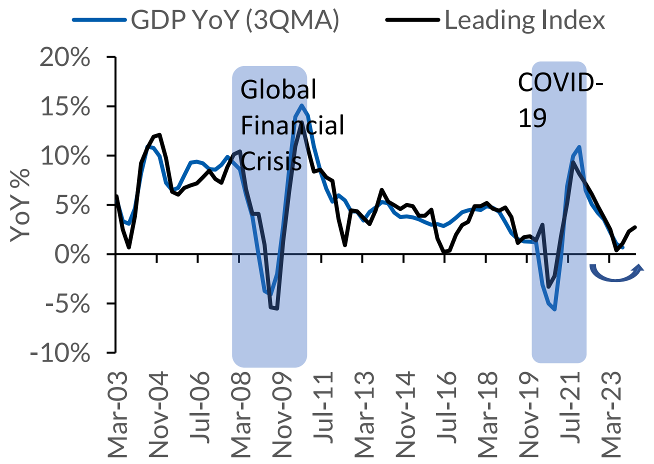
Source: Macrobond, RHB Economics & Market Strategy,

Figure 53: DM 2-10Y bond yield differential is getting less inverted



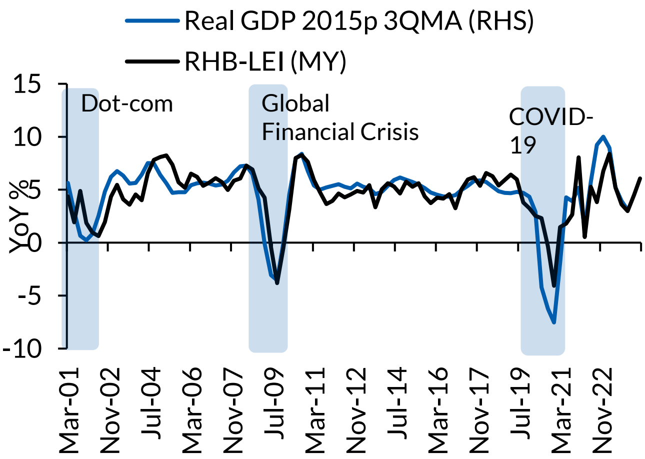
Source: Macrobond, RHB Economics & Market Strategy

Figure 54: RHB Singapore LEI is suggesting a material pickup in 1H24…



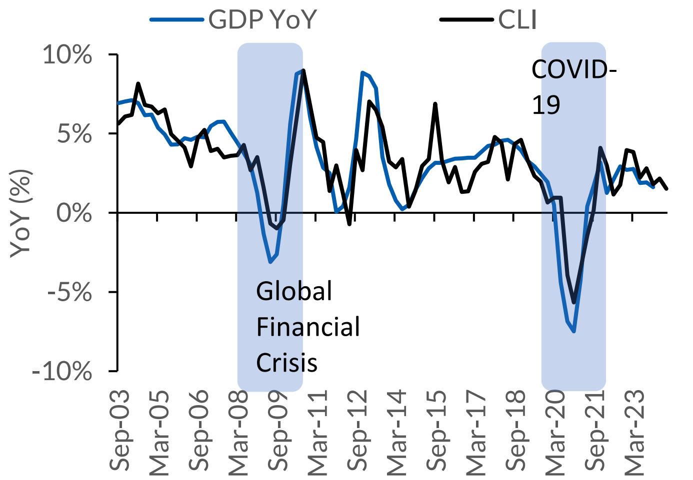
Source: Macrobond, RHB Economics & Market Strategy

Figure 55: … similar to Malaysia, where economic indicators will turn stronger in the months ahead



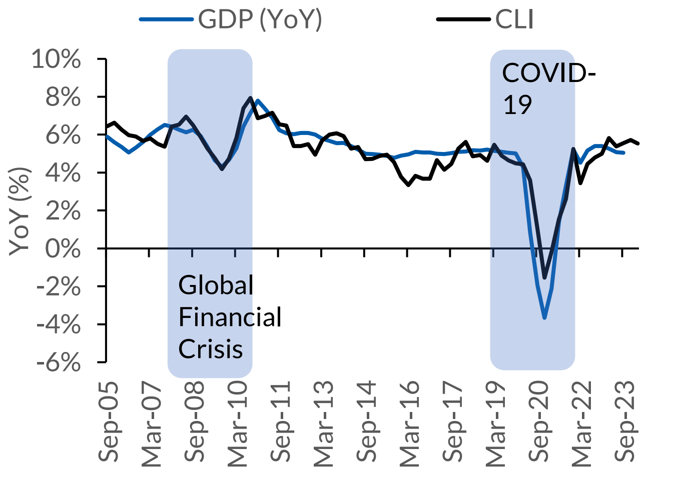
Source: Macrobond, RHB Economics & Market Strategy

Figure 56: Thailand's GDP LEI is not suggesting a similar pickup…



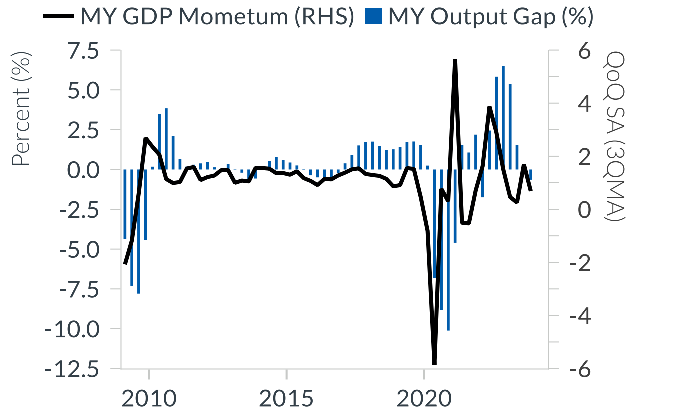
Source: Macrobond, RHB Economics & Market Strategy

Figure 57: … while Indonesia's GDP LEI is hinting at a flattish growth tangent at around 5.0% in 2024



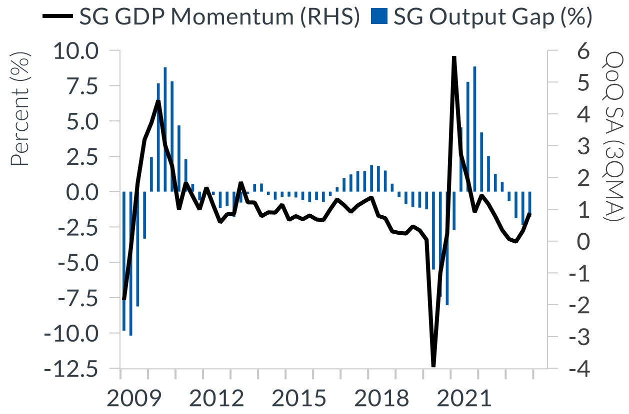
Source: Macrobond, RHB Economics & Market Strategy

Figure 58: Malaysia's output gap has turned negative in 4Q23, but should improve into 1H24…



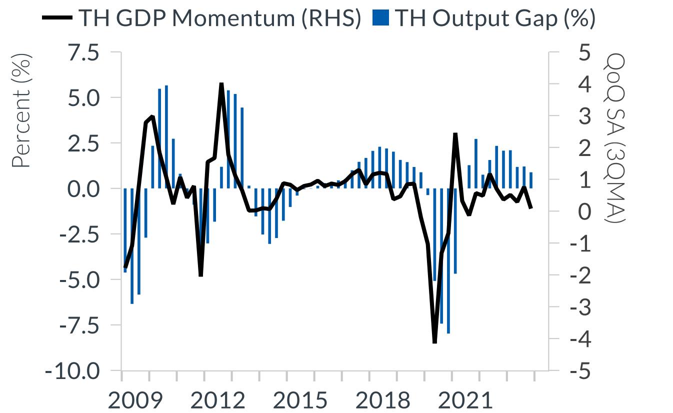
Source: Macrobond, RHB Economics & Market Strategy

Figure 59: … a similar trend is expected for Singapore, especially given strong tourism numbers in 1Q24



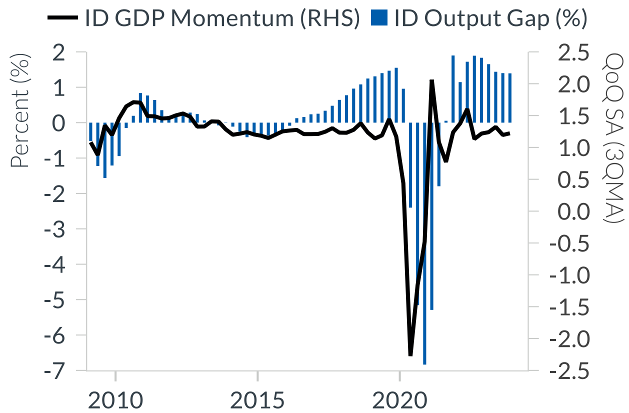
Source: Macrobond, RHB Economics & Market Strategy

Figure 60: Thailand's growth momentum slowed into year-end, suggesting a negative output gap in the near future



Source: Macrobond, RHB Economics & Market Strategy

Figure 61: Indonesia's positive output gap persisted, but we note the slowing trend into the end of 2023



Source: Macrobond, RHB Economics & Market Strategy

The Inflation Engima -Watch Out for Higher CPI

Highlights

- We are seeing persistent signals for ASEAN consumer prices to accelerate higher in 2Q24.
- Three key reasons why inflation will heat up – (1) stronger demand-pull drivers; (2) adverse weather and geopolitical conditions; and (3) China's economic recovery.
- Higher inflation will impact central bank rate decisions, whereby we see a high-for-longer rate backdrop in 2Q24.

We offer a contrarian view on global inflation against market calls for inflation to fade in 2Q24. Specifically, we are seeing persistent signals that ASEAN consumer prices will accelerate higher in the coming quarter. Our leading indicators for global food prices, and consequently, global consumer prices, have signalled higher inflation momentum in the immediate months ahead. In fact, the evidence for higher consumer prices has already been present since late 3Q23, thus shaping our forecast for sticky inflation, which has materialised nicely towards the end of 1Q24. Given the relative accuracy of our leading models for inflation, coupled with the recent exacerbation of geopolitical tensions, it becomes crystal clear to us that global inflation is not going away any time soon.

We observe three key reasons why inflation will heat up: (1) stronger demand-pull drivers; (2) adverse weather and geopolitical conditions; and (3) China's economic recovery. We discuss these drivers in the sections below.

Stronger demand-pull drivers: We are relatively sanguine regarding global economic growth in 2024. We expect global growth to accelerate in 2024. The catalysts for our view are threefold: (1) high-frequency data in the US and Asia continues to suggest a period of growth acceleration; (2) rate normalisation may materialise in 2H24; and (3) China's potential economic recovery in 2024. We had discussed in our earlier sections that US labour, consumption and externally-facing industries have been supportive of a strong US growth backdrop in 2024, coupled with ASEAN GDP growth leading indices suggesting a similar backdrop in 2Q24. Separately, we expect the FFR to be cut in September 2024 (-25bps) and again in December 2024 (-25bps).

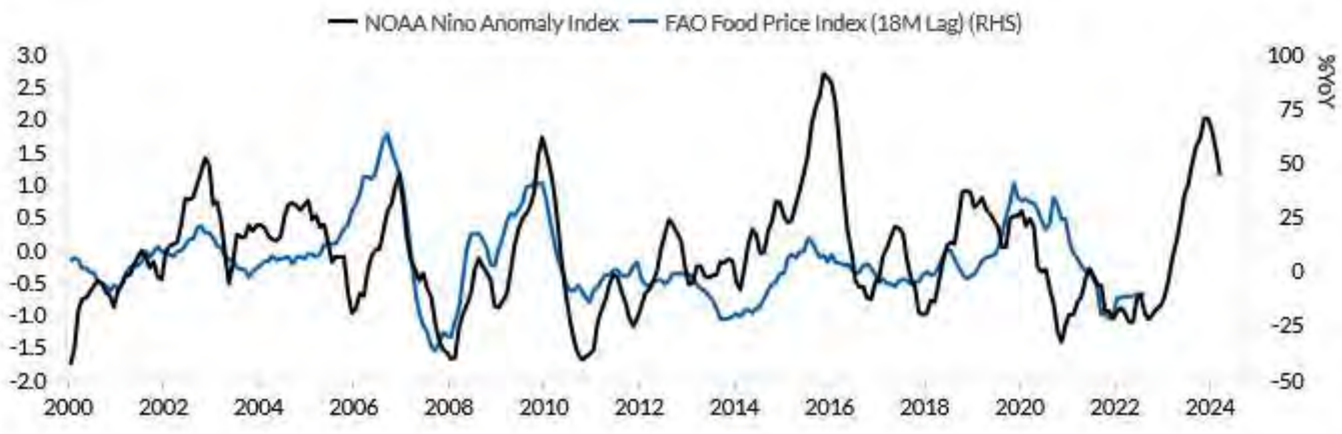
Adverse weather conditions and geopolitical tensions: We see clear signs of supply congestion in the global food and energy backdrop. Food prices in Asia have picked up dearly, no doubt on the premise of supply constraints. Food prices will likely point higher, exacerbated by India's rice export ban and *El Nino* weather conditions threatening favourable harvesting conditions. Our proprietary model on global food prices against the NOAA Oceanic Nino Index suggests that food prices face severe upside risks in the coming months. The quantitative analysis below shows the severity and relevancy of the model itself; FAO food prices have an R-square of 0.5 – 0.8, depending on the sample period, and were relevant, especially during *El Nino* years. Separately, the OPEC+ export ban, which is slated to be extended into 2Q24, may lift crude oil prices.

China's economic recovery: We see continued signs of China's economic recovery. As discussed, we are forecasting an above-consensus GDP growth of 5.0% in 2024, against Bloomberg's estimate of 4.6%. China expanded by 5.2% in 2023, meeting the consensus forecast, coupled with ongoing recovery in its high-frequency data, such as industrial production, fixed asset investments, and retail sales. Regarding China, we are strong believers in its "around 5.0%" growth target, as cited in our weekly and thematic reports. China's recovery will likely mean higher commodity demand for raw to semi-finished products, which in turn has already supported base metal prices year-to-date.

Our US CPI model suggests that core PCE inflation is not headed towards a path of 2.0%, given how it has trended year-to-date. Specifically, core PCE inflation must print at a range of between 0.1 – 0.2% MoM in order for YoY prints to decelerate towards 2.0% by the end of 2024. As per the recent print, core PCE inflation remains elevated at +0.3% MoM (+2.8% YoY) in Feb 2024, which is markedly far from the US-preferred definition of "stable prices". Beyond the US, inflationary risks have led policymakers to take drastic actions in response, with rate hikes in Japan (to 0.0 – 0.1% from -0.1%) and Taiwan (to 2.0% from 1.875%) in recent weeks, with the former ending the world's last negative interest rate regime.

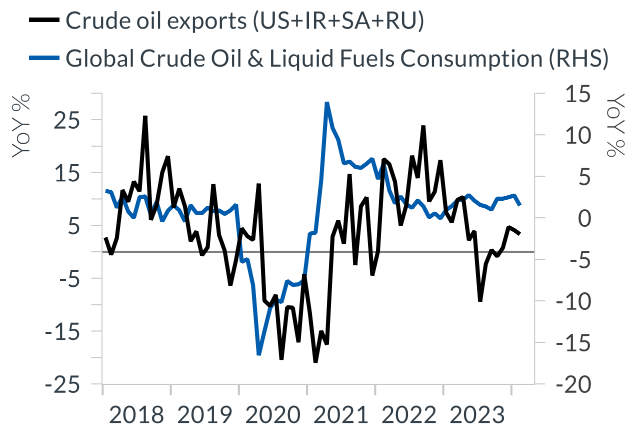
The implications of a reinflation backdrop in 2Q24 profoundly impact rates and FX. We reiterate our view that the FFR peaked at 5.25 – 5.50%. We believe that the current market pricing for three rate cuts (previously six cuts seen at the beginning of 2024) remains mispriced. Rather, we forecast only two FFR cuts in 2024, once in September (-25bps) and another in December (-25bps), to bring the FFR to a range of 4.75 – 5.0%. As aforementioned, we expect the DXY to rally to 105 – 110, 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 USD 85 – 95 per barrel. At the same time, China's recovery should inject global demand-pull inflation into other growth-related commodities. Across ASEAN in 2Q24, we think SGD will continue to be the outperformer on the back of the S$NEER policy framework. We are neutral on MYR and IDR, and bearish on the THB over the same period.

Figure 62: Global food prices are likely to rally on the back of elevated *El Nino* conditions in 2024



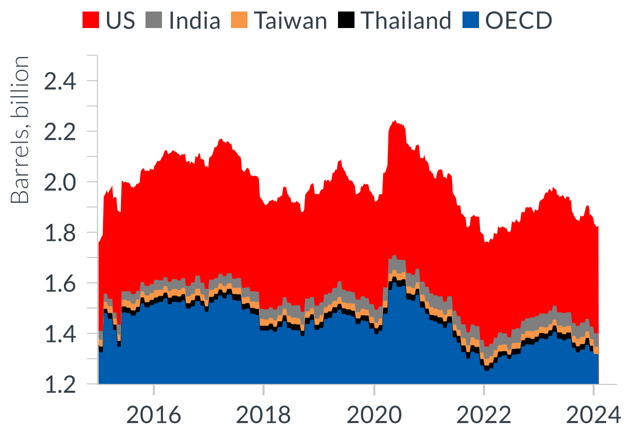
Source: Macrobond, RHB Economics & Market Strategy

Figure 63: Global oil exports contracted, while consumption stays supported…



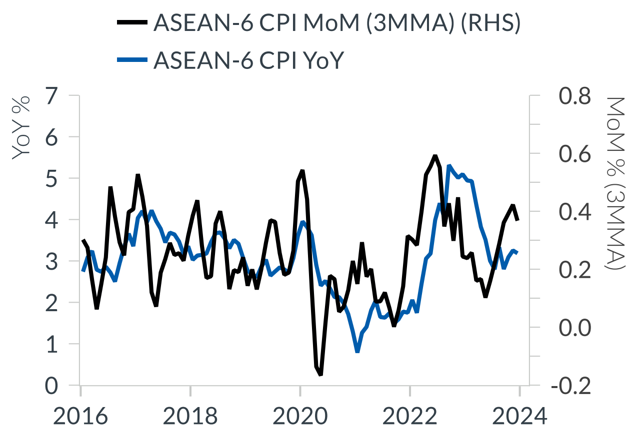
Source: Macrobond, RHB Economics & Market Strategy

Figure 64: Global oil inventories continue to decline, suggesting demand > supply conditions



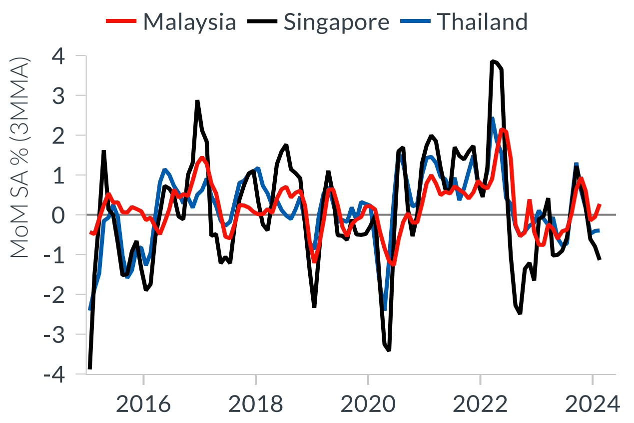
Source: Macrobond, RHB Economics & Market Strategy

Figure 65: ASEAN-6 GDP-Weighted CPI momentum is heating up…



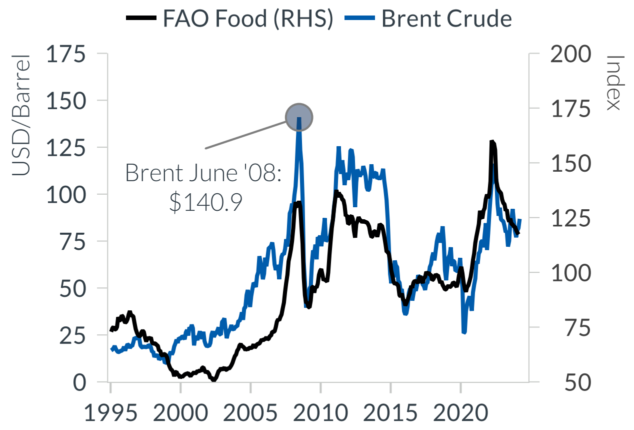
Source: Macrobond, RHB Economics & Market Strategy

Figure 66: …on the back of higher import price momentum year-to-date



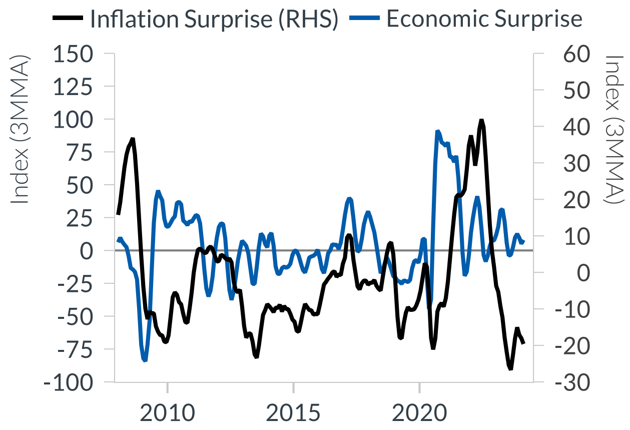
Source: Macrobond, RHB Economics & Market Strategy

Figure 67: Brent oil price range in 2011-2014 was 100-126.65, GFC peak was USD140.9/bbl (but short lived)



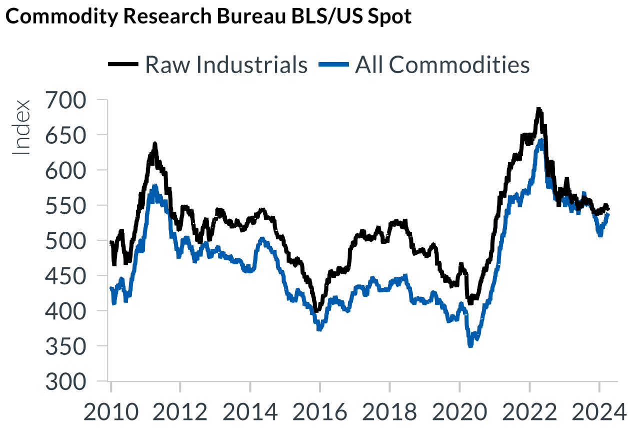
Source: Macrobond, RHB Economics & Market Strategy

Figure 68: Inflation surprise index on the mend in the near term



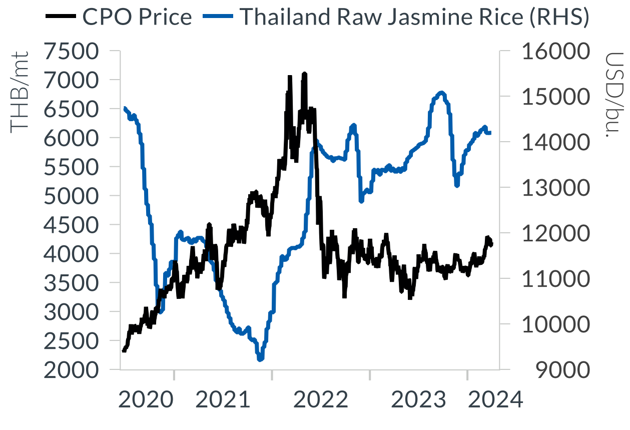
Source: Macrobond, RHB Economics & Market Strategy

Figure 69: Global aggregate commodity price indices bottoming out, next move is up



Source: Macrobond, RHB Economics & Market Strategy

Figure 70: Rice and palm oil prices are up on the back of adverse harvesting conditions



Source: Macrobond, RHB Economics & Market Strategy

Fixed Income Outlook

Muted ASEAN Rate Volatility Seen

2Q24 Fixed Income Outlook

Muted ASEAN Rate Volatility Seen

- **ASEAN rates volatility should remain muted in 2Q24 despite a potentially volatile US Treasury market as the Federal Reserve (Fed) weighs cuts, not hikes. Furthermore, ASEAN rates should have more room to ease in 2H24 as Fed cuts could come in as early as September.**
- **From a regional perspective, we remain Overweight Indonesia and Market Weight for Malaysia and Singapore. For Thailand, we remain Underweight while noting that return outcomes have turned increasingly binary as markets are expecting a Bank of Thailand rate cut soon versus our view of no cuts.**
- **The outlook for ASEAN corporate bonds appears healthy as corporate earnings are expected to register an average growth of 17% in 2024 and 9% in 2025, according to equity index-level data from Bloomberg consensus. We remain Overweight corporate bonds versus government bonds given the healthy yield pickup together with the limited room for sovereign yield compression.**

Global Economics & Market Strategy

Chris Tan Chee Hong
+603 9280 8864
tan.chee.hong@rhbgroup.com

FIC Strategy Team
+603 9280 8871
rhbficstrategy@rhbgroup.com

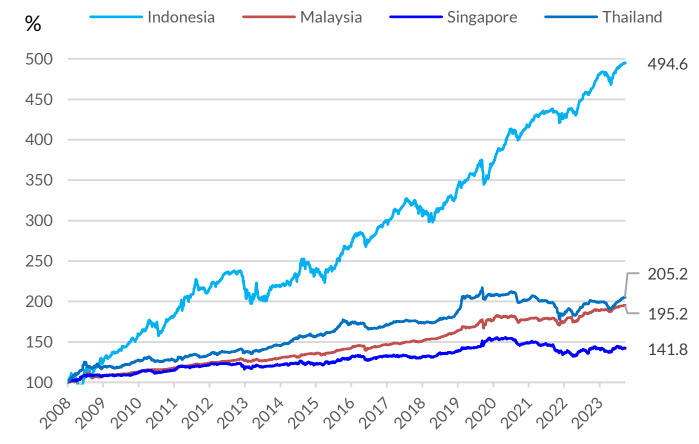
Figure 1: Our recommendations

Regional View	Duration View				Corporate Bonds
	Short (0-7)	Mid (8-14)	Long (15-21)	Ultra Long (22-30)	Top Picks
Indonesia (OW)	Overweight	Market Weight	Market Weight	Overweight	Indah Kiat, BRI, Telkom, PLN, CAP, Wijaya Karya, Merdeka Copper
Malaysia (MW)	Market Weight	Market Weight	Market Weight	Market Weight	UEMS, GGR, Malakoff Power, MRCB, PASB and IGB REIT
Singapore (MW)	Overweight	Market Weight	Market Weight	Market Weight	Singtel, NUS, NTU, Keppel, SIA, NEA, CLAS, CLAR, LTA
Thailand (UW)	Market Weight	Market Weight	Market Weight	Market Weight	THBEV, PTTGC, CP ALL, PTT
USD Asia Corporate Bonds	-	-	-	-	TNBGB, IOI Corp, MISC, Keppel Corp, PTT PCL, PLN, PTFI, GENM

Source: RHB Economics & Market Strategy

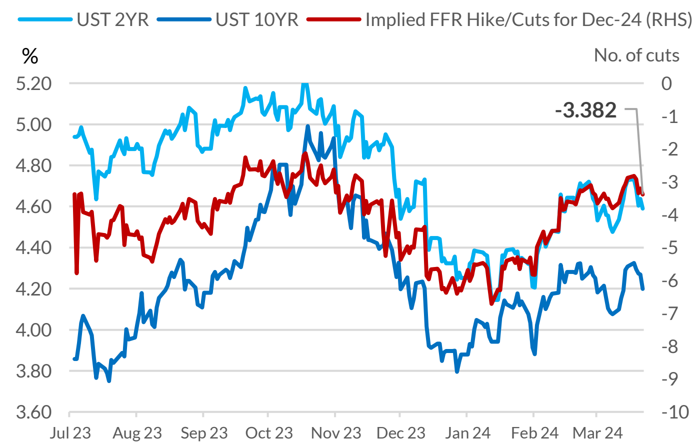
- **Despite our base case of higher UST yields in 2Q24, ASEAN rates (ex-Singapore) should see muted volatility and upside yield risk as the Federal Reserve's (Fed) next step is cuts, not hikes.** Although the Fed's road to a 2% inflation will likely be a bumpy one as US economy remains solid, we expect policy rate-sensitive ASEAN ex-Singapore rates' correlation with UST to continue to disconnect in 2Q24 (Figure 4). As such, rates should remain steadily anchored at current levels given that markets are anticipating a Fed rate cut rather than a hike. In addition, regional rates should have room to ease further in 2H24 as the first Federal Funds Rate (FFR) cuts could come in as early as September.
- **Moving forward, we expect markets to focus on the disinflationary dynamics in the US.** As the markets have realised in 1Q24, disinflation prospects in the US remain a challenge. Despite US economic numbers coming in strongly, UST have resisted major selloffs as markets are leaning towards a Goldilocks narrative of high growth and low inflation. Other factors driving inflation momentum in the US include supply chain realignment away from China, businesses' bias towards keeping prices of goods and services high to maintain profit margins, persistent government spending, and elevated immigration driving up demand for goods and services.
- **Clarity on FFR cuts is clearer now compared to January as the market and Fed's forecasts have converged.** In January, markets were pricing in almost seven FFR cuts by December 2024 (one cut equals to 25bps), a huge contrast with the Federal Open Market Committee's (FOMC) projection of only three cuts. However, as the US economic projections continued its upward reassessment, markets are currently pricing in three cuts by the end of 2024 (Figure 3), in line with the median projection of three cuts by the FOMC.
- **From a regional government bonds perspective, we remain Overweight Indonesia as we expect a total return 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 Overnight Policy Rate (OPR). We are also **Market Weight Singapore** given our expectations of a total return of **3.4%** in 2024. For **Thailand, we remain Underweight** given our 2024 target return of 3.0%, while cognisant that return outcomes have turned increasingly binary as markets are expecting a BoT rate cut soon versus our view of no cuts.
- **We remain Overweight corporate bonds versus government bonds given the healthy yield pickup together with the limited room for sovereign yield compression.** The outlook for ASEAN corporate bonds appears healthy as corporate earnings are expected to register moderate to strong growth this year. Bloomberg consensus shows index-level corporate earnings for Indonesia (MSCI Indonesia), Malaysia (FBM100), Singapore (MSCI Singapore), and Thailand (SET100) to grow by 22%, 28%, 2% and 17% respectively in 2024. Index-level data also showed improved gearing ratios (debt-to-equity) in 2023 versus 2022 for Indonesia (51% versus 53%), Singapore (94% versus 99%) and Thailand (93% versus 98%), while Malaysia FBM100 saw a higher gearing ratio of 95% at end-2023 versus 91% in the previous year.

Figure 2: Regional government bond returns (since July 2008)



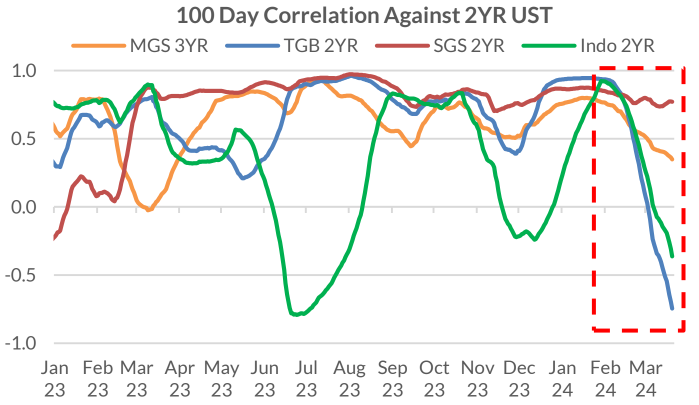
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 3: Markets eyeing December FFR positioning, swaps are pointing to three cuts by year-end



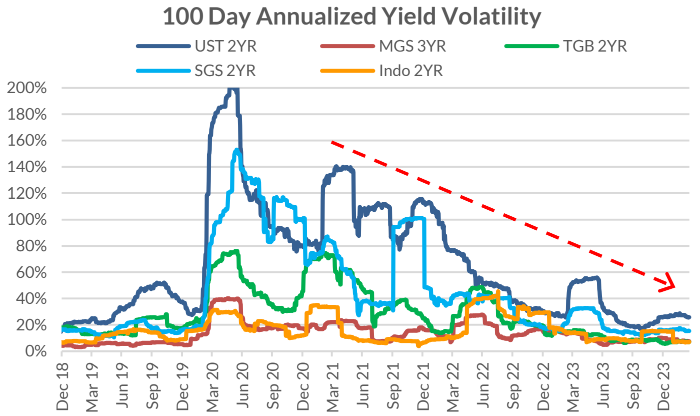
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 4: 100-day moving correlation against UST has weakened in 1Q24, measured using policy rate-sensitive front-end rates



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 March 2024

Figure 5: Policy rate-sensitive yield volatility should remain low post peak FFR cycle



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 March 2024

ASEAN Bond Review

Index Performance

- **The 1Q24 QTD backdrop was underscored by a reversal of expectations of a swift FFR cut, from almost seven cuts to three cuts for end-2024, as US disinflation progress disappointed markets with January and February CPI coming in stronger than consensus expectations.** 10YR UST yields hit a high of 4.307% in mid-March from 3.88% at the start of the year. As such, global bonds recorded -2.23% QTD returns, while UST recorded -1.18% returns. The upward assessment of the US and global economy growth boosted high-yield bonds, with US, emerging market (EM), Asia ex-Japan and China high yields outperforming the broader sector.
- **Meanwhile in ASEAN, the Thailand government index stood out with an impressive YTD return of 2.92% as the deflationary environment increased market bets for a rate cut.** YTD, the TGB curve bull-flattened as yields compressed -15bps on the 2YR while the 10YR and 30YR tightened by -22bps and -29bps, respectively. Elsewhere, returns were below our annualised targets, which is within our expectations given our expectations of a turbulent 1H24. In Indonesia, global events drove yields higher, particularly at the belly with the 15YR rising by 24bps, bringing its YTD return to 1.29%, supported by coupon returns. In Malaysia, YTD yields were largely flat except for the 10YR which rose by 12bps, and total returns recorded was 1.05%, with long-end bonds (15YR and above) recording single-digit compression. The Singapore government index bucked the trend as it recorded negative YTD returns of -1.65% as the yield curve moved higher alongside UST with the 10YR SGS rising by 37bps.

Figure 6: Bond index performance

	YTD	MTD	Feb '24	Jan '24	Dec '23	Nov '23	Oct '23	Sep '23
Global Bond	-2.23%	0.40%	-1.26%	-1.38%	4.16%	5.04%	-1.20%	-2.92%
US Government Bond	-1.18%	0.42%	-1.31%	-0.28%	3.37%	3.47%	-1.21%	-2.21%
US IG Bond	-0.64%	1.04%	-1.50%	-0.17%	4.34%	5.98%	-1.87%	-2.67%
US HY Bond	1.37%	1.08%	0.29%	0.00%	3.73%	4.53%	-1.16%	-1.18%
Emerging Market IG Bond	-0.48%	0.91%	-0.61%	-0.77%	4.09%	4.87%	-1.81%	-2.51%
Emerging Market HY Bond	4.48%	2.55%	2.10%	-0.22%	4.39%	6.06%	-0.89%	-1.87%
Asia ex-Japan IG Bond	0.09%	0.62%	-0.52%	0.00%	3.13%	3.91%	-0.90%	-1.53%
Asia ex-Japan HY Bond	6.27%	1.59%	1.85%	2.70%	2.32%	4.92%	-0.56%	0.58%
China HY	4.32%	0.18%	1.17%	2.92%	1.10%	3.74%	-1.16%	0.47%
Indonesia Govt Bond	1.29%	0.19%	0.57%	0.52%	1.26%	2.77%	-1.61%	-1.06%
Malaysia Govt Bond	1.05%	0.35%	0.12%	0.58%	0.92%	1.88%	-0.50%	-0.58%
Malaysia Govt Bond (USD-H)	1.59%	0.49%	0.30%	0.80%	1.13%	2.12%	-0.29%	-0.39%
Singapore Govt Bond	-1.65%	0.31%	-1.19%	-0.77%	2.14%	2.55%	0.33%	-0.96%
Thailand Govt Bond	2.92%	0.50%	1.18%	1.21%	2.10%	1.89%	-0.59%	-2.83%

Source: Bloomberg, RHB Economics & Market Strategy
Note 1: As of 22 March 2024, total return in LCY
Note 2: IG - Investment Grade, HY - High Yield

Figure 7: Yield change (bps)

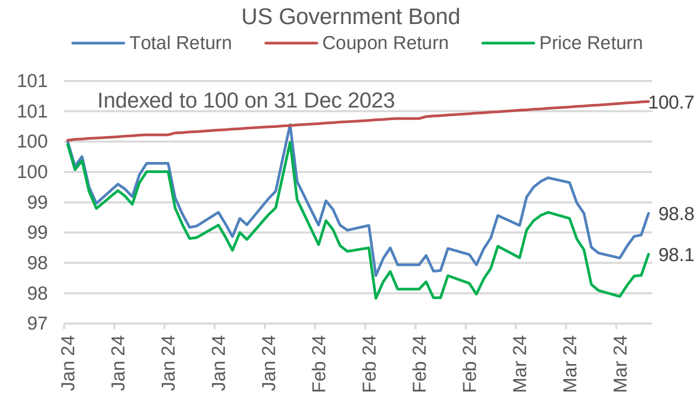
	YTD	MTD	Feb '24	Jan '24	Dec '23	Nov '23	Oct '23	Sep '23	Aug '23
Global Yield	24	-5	21	8	-42	-42	13	31	6
UST 2YR	34	-3	41	-4	-43	-41	4	18	-1
UST 5YR	34	-6	41	-1	-42	-59	24	36	8
UST 10YR	32	-5	34	3	-45	-61	36	46	15
UST 20YR	27	-5	25	7	-49	-61	39	49	19
UST 30YR	35	0	21	14	-47	-60	39	49	20
IndoGB 2YR	-8	11	0	-19	-21	-27	59	5	22
IndoGB 5YR	11	4	-1	8	-23	-37	47	37	20
IndoGB 10YR	18	4	2	12	-15	-48	20	53	13
IndoGB 15YR	24	8	4	13	-19	-34	12	53	6
IndoGB 20YR	14	7	0	7	-12	-26	12	41	15
IndoGB 30YR	6	4	0	2	-7	-21	16	26	2
MGS 2YR	0	-1	5	-4	0	-11	8	5	4
MGS 3YR	-1	-3	10	-8	0	-19	9	12	-3
MGS 5YR	0	-2	5	-3	-5	-23	13	14	-1
MGS 7YR	3	-3	6	0	-11	-24	18	14	-1
MGS 10YR	12	-1	8	5	-9	-27	11	14	1
MGS 15YR	-1	-2	4	-3	-3	-23	10	11	2
MGS 20YR	-4	-2	0	-1	-9	-23	14	12	6
MGS 30YR	-6	-1	-1	-4	-6	-23	9	17	7
SGS 2YR	14	2	22	-10	-11	-27	-6	22	-1
SGS 5YR	34	-2	21	15	-24	-37	-6	23	13
SGS 10YR	37	-2	19	20	-26	-41	-3	26	9
SGS 15YR	29	-4	18	15	-23	-32	4	16	26
SGS 20YR	28	0	14	15	-25	-28	6	13	37
SGS 30YR	29	2	18	10	-28	-15	4	3	50
TGB 2YR	-15	0	-11	-5	-11	-14	2	27	10
TGB 5YR	-22	-1	-12	-9	-17	-24	4	35	11
TGB 10YR	-22	-3	-10	-9	-22	-31	7	46	13
TGB 15YR	-24	-8	-6	-11	-23	-32	11	49	13
TGB 20YR	-24	-5	-7	-12	-22	-26	10	46	13
TGB 30YR	-29	-7	-11	-11	-21	-10	18	34	10

Source: Bloomberg, RHB Economics & Market Strategy
Note: As of 22 March 2024, total return in LCY

Government Index Return Component – Coupon Returns Carried Local Currency Total Returns

- **We expect positive bond price returns around 2H24 as FFR cuts shift yields lower.** Coupon returns remain the main contributor to US and most regional bond returns YTD as rising yields eroded bond prices returns. Malaysia and Thailand managed to record positive price returns as the MGS curve tightened at the long end while Thailand faced tailwinds from a potential rate cut. Indonesia's high coupon regime helps shield bond returns from yield expansion.

Figure 8: UST: Total returns (-1.2%) significantly dragged by price returns (-1.9%)

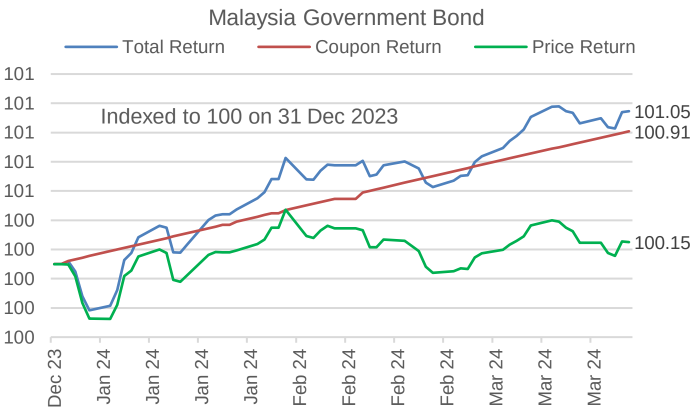


Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 22 March 2024

Figure 9: IndoGB: Coupon return contributed 1.6% return while price return contributed -0.2% YTD 2023

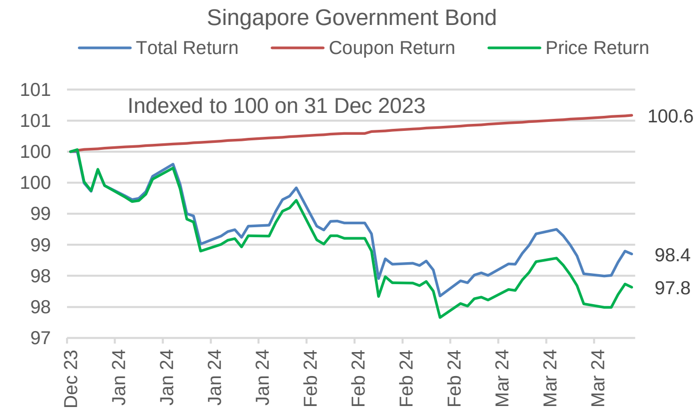
Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 22 March 2024

Figure 10: MGS/GII: Coupon return contributed 0.91% return while price return contributed 0.15% YTD



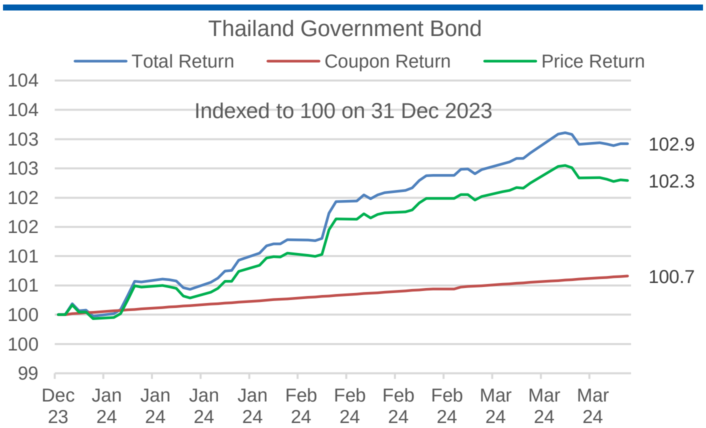
Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 22 March 2024

Figure 11: SGS: Negative price returns (-2.2%) dragged total returns lower (-1.6%)



Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 22 March 2024

Figure 12: TGB: Price return (2.3%) was key contributor to returns due to BoT rate cut hopes…

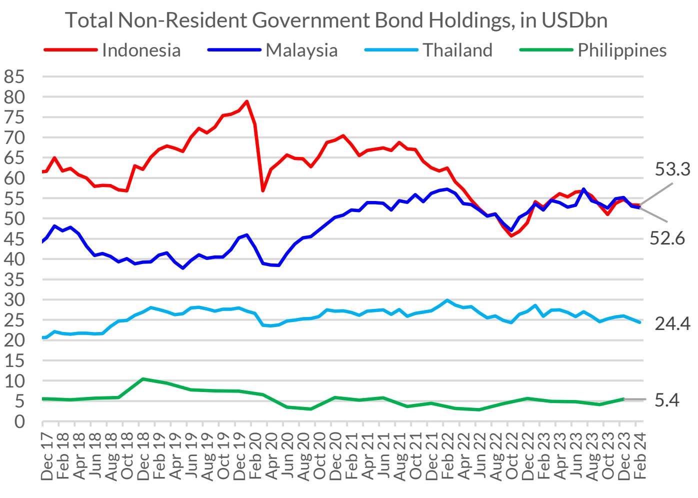


Source: Bloomberg, RHB Economics & Market Strategy
Note: From 31 December 2023 to 22 March 2024

Regional Non-Resident Government Bond Holdings

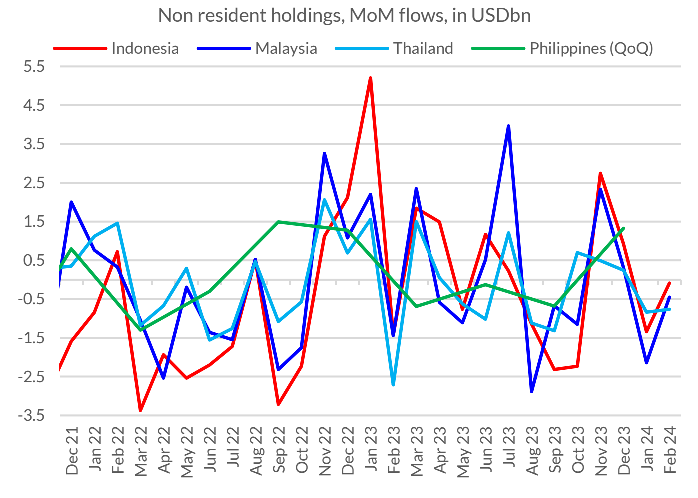
- **Overall in 2023, Malaysia saw the highest increase in non-resident (NR) bond holdings (in USD terms) followed by Indonesia, while Thailand saw a decline**. Indonesia NR holders increased by 10% or IDR79.9tn (USD5.19bn), Malaysia NR holders increased by 12% or MYR27.4bn (USD5.97bn) while Thailand saw a decline of 5% or THB47.8bn (-USD1.4bn). Overall NR flows turned negative or weak towards the end of 2023.
- As of February, Malaysia has the highest NR holdings as a percentage of total outstanding bonds (21.8%), followed by South Korea (September 2023: 20.3%), Indonesia (14.5%), Thailand (10.7%) and Philippines (December 2023: 2.1%).

Figure 13: Indonesia and Malaysia closely competing for the top destination for foreign bond investors (translated to USD)



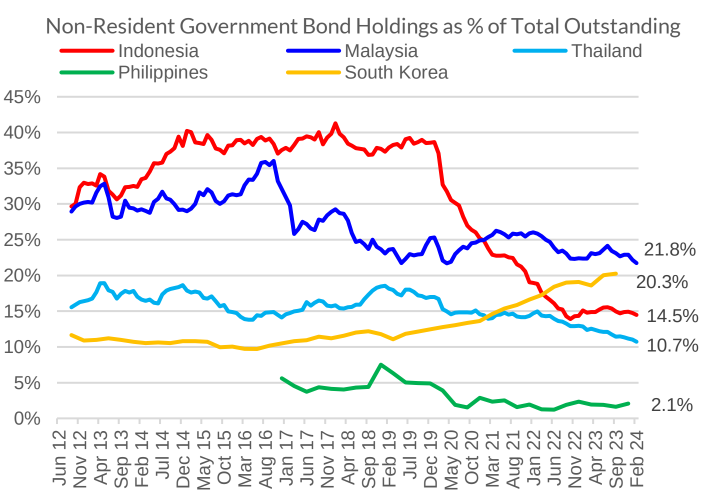
Source: Bloomberg, RHB Economics & Market Strategy
Note: From November 2017 to February 2024, Philippines – December 2023

Figure 14: The regional NR flow thesis remains intact (translated to USD)



Source: Bloomberg, RHB Economics & Market Strategy
Note: From December 2021 to February 2024, Philippines – December 2023

Figure 15: As a % of total outstanding, Malaysia leads the region followed by Korea, Indonesia, Thailand and Philippines



Source: Bloomberg, RHB Economics & Market Strategy
Note: From September 2012 to February 2024, Korea – September 2023, Philippines – December 2023

Government Bonds Outlook

Indonesia

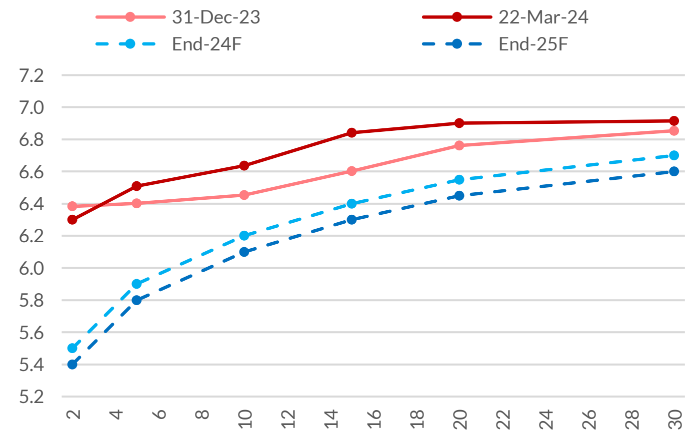
- **Keep regional Overweight call on IndoGBs.** IndoGBs remain attractive across the tenures, and so far in 2024, its high coupon returns helped against yields expansion at the belly of the curve. Nevertheless, we continue to expect full-year total returns of 7% as the yield curve will tighten in 2H24 as FFR cuts materialise. The current IndoGB index yields to maturity (YTM) is 6.63% (as of 25 March) while the current index coupon return is 7.13%. A softer inflation outlook in 2024 (CPI of 3.3% in 2024F) and our expected softening of DXY in 2H24 will leave room for Bank Indonesia (BI) to bring the policy rate down to 5.50% in 2H24 from 6.00% in 2023.
- **Our call to underweight the belly performed well, with the yields of the 10YR to 15YR part of the curve rising since end-2023.** Also, we think a structural downward movement for the IndoGB curve could materialise in the next one to three years 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.
- **Withholding tax premium and Operation Twist.** From a balance of risk perspective, we think the withholding tax could be removed or reformed in order 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 non-resident investors; and (2) structural interest rates in Indonesia can be lowered, benefitting the economy and bond investors.

Figure 16: 2024 and 2025 forecasts

	IndoGB 2YR	IndoGB 5YR	IndoGB 10YR	IndoGB 15YR	IndoGB 20YR	IndoGB 30YR
31-Dec-23	6.383	6.401	6.454	6.602	6.761	6.854
22-Mar-24	6.300	6.509	6.637	6.842	6.901	6.915
End-24F	5.50	5.90	6.20	6.40	6.55	6.70
End-25F	5.40	5.80	6.10	6.30	6.45	6.60

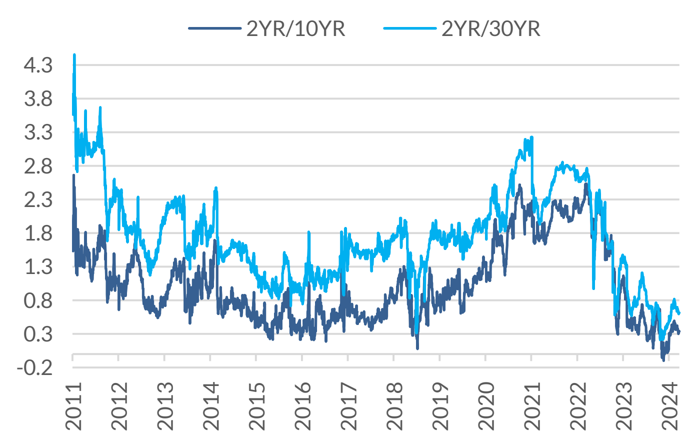
Source: Bloomberg, RHB Economics & Market Strategy

Figure 17: Our 2024 and 2025 IndoGB forecasts



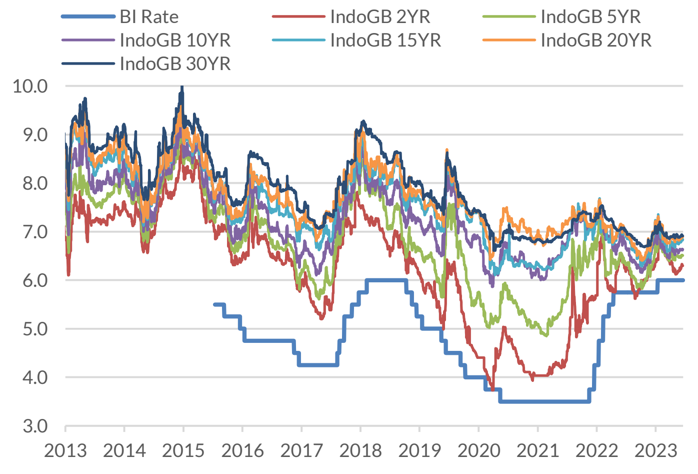
Source: Bloomberg, RHB Economics & Market Strategy
Note: As of 22 March 2024

Figure 18: 2YR/10YR and 2YR/30YR spreads shows curve is relatively flat



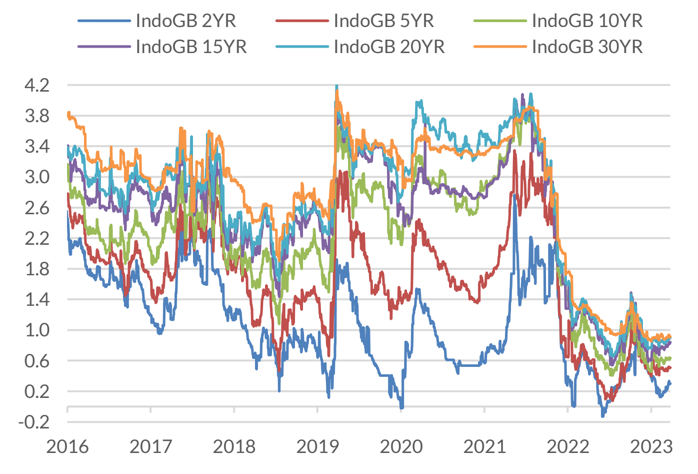
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 19: IndoGB yield curve is relatively flat



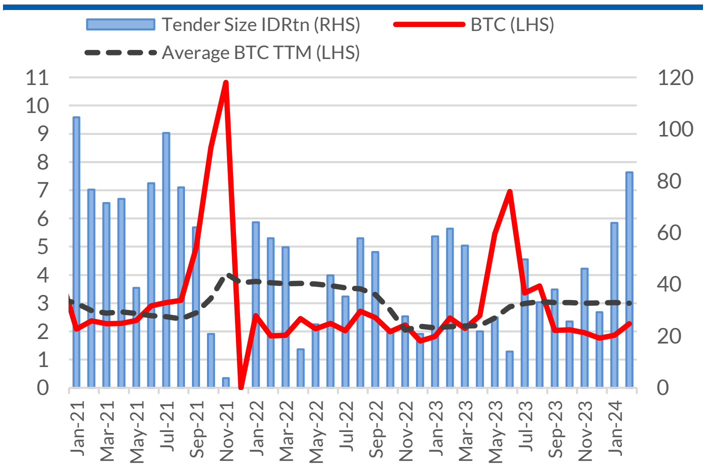
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 20: IndoGB spread against policy rate remains tight



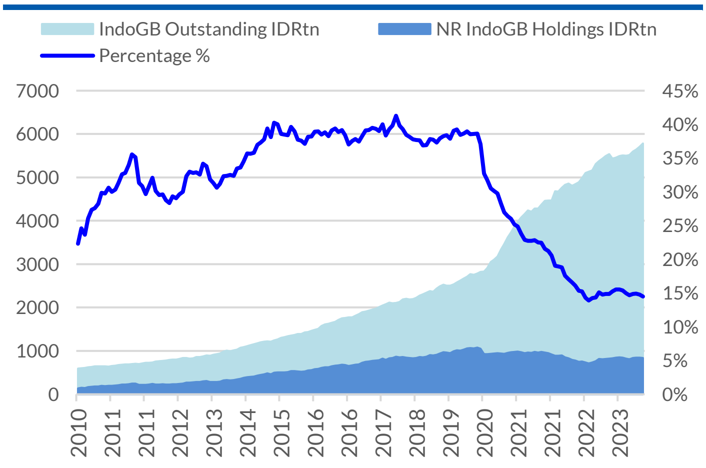
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 21: BTC ratio in improved in Jan-Fed 2024, in line with seasonal trend



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

Figure 22: Non-resident holders of IndoGB in IDR terms and in percentage remain significantly below pre-pandemic levels



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at February 2024

Malaysia

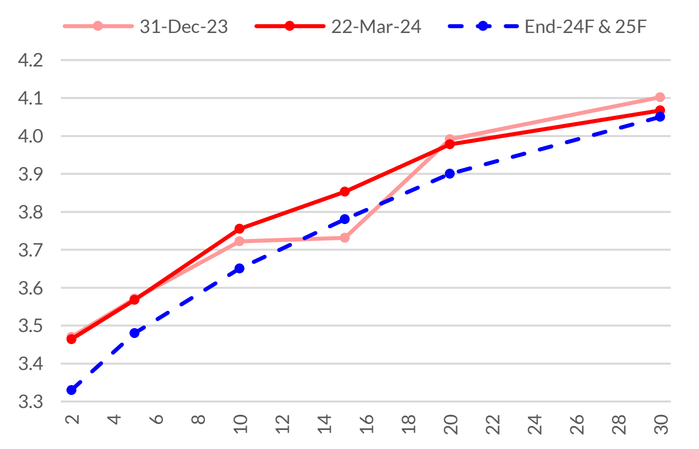
- **Regionally, we are Market Weight MGS/GII as current yields are near our medium-term targets with a total return of 4.0% in 2024.** As at 25 March 2024, the index YTM is 3.79%, while the current index coupon return is 4.16%. We maintain an agnostic view on duration but expect the longer end to outperform given the positive sloping curve. We see value in GII given its liquidity premium over MGS. However, if the supply of GIIs increases as planned this year, liquidity could improve and the yield gap between the two equally ranked government securities could narrow. Nonetheless, in terms of participation by non-residents, MGS remains the preferred instrument as foreign holdings are still significantly skewed towards MGS compared to GII.
- **We reveal our 2Q24 10YR MGS target of 3.80%**, against the Bloomberg consensus of 3.73%; our higher target is due to our upward adjustment of the 1H24 10YR UST target to 4.5%. Meanwhile, our end-2024 target is reassessed slightly higher to 3.78% from 3.75% as our FFR cut projection is reduced from three times to two times.
- **Demand for fixed income should be healthy in 2024; our Thematic Report discussed the demand and supply for fixed income in 2024**. Ample liquidity has contributed to the robust demand for fixed income assets in recent years; we discuss the dynamics shaping fixed income demand for 2024 in the aforementioned report.

Figure 23: 2023 to 2025 forecasts

	MGS 3YR	MGS 5YR	MGS 7YR	MGS 10YR	MGS 15YR	MGS 20YR	MGS 30YR	KLIBOR 1M	KLIBOR 3M
31-Dec-23	3.470	3.571	3.722	3.731	3.991	4.102	4.247	3.37	3.77
22-Mar-24	3.464	3.568	3.755	3.853	3.978	4.067	4.190	3.29	3.57
End-24F & 25F	3.33	3.48	3.65	3.78	3.90	4.05	4.10	3.33	3.65

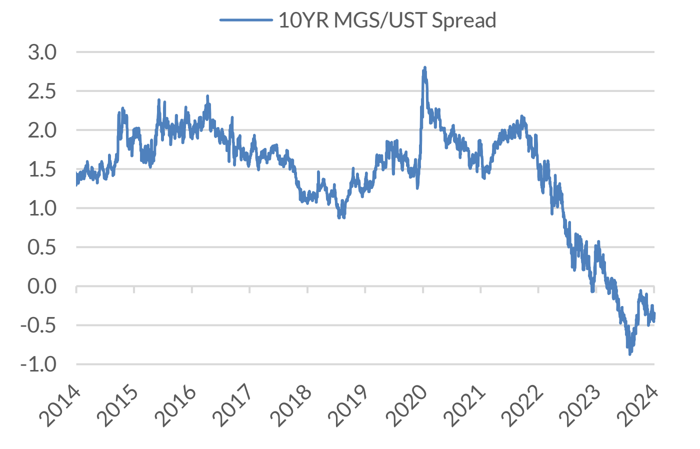
Source: RHB Economics & Market Strategy
Note: Data as of 22 March 2024

Figure 24: MGS is close to our end-2024 targeted yields; maintain Market Weight



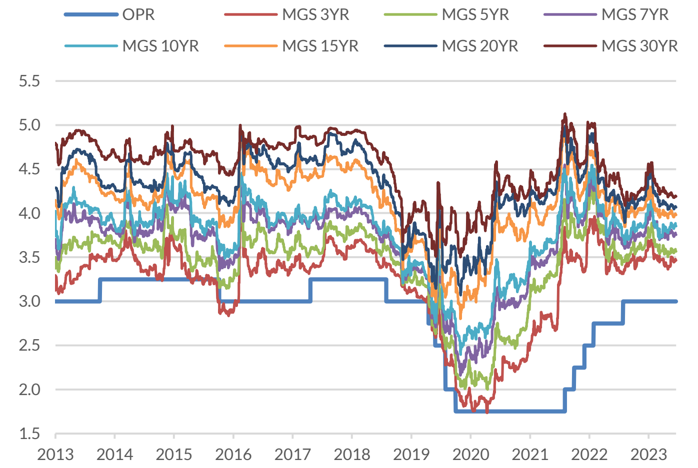
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point as of 22 March 2024

Figure 25: 10YR UST/MGS spreads are off multi-year lows. Spreads peaked at -88bps in October 2023



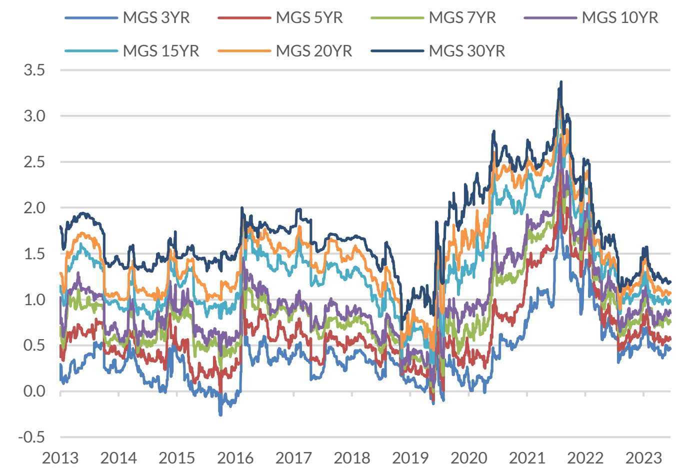
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 26: MGS yields and OPR



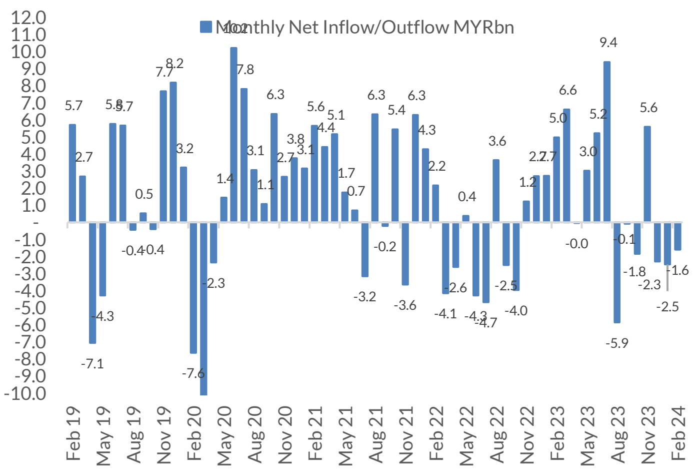
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 27: MGS spread over OPR



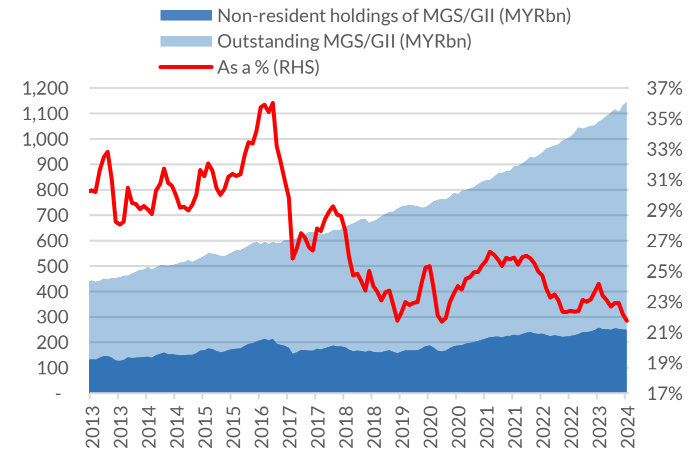
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 28: Non-resident holdings saw three consecutive months of outflow until February 2024



Source: BNM, RHB Economics & Market Strategy
Note: Last data point at February 2024

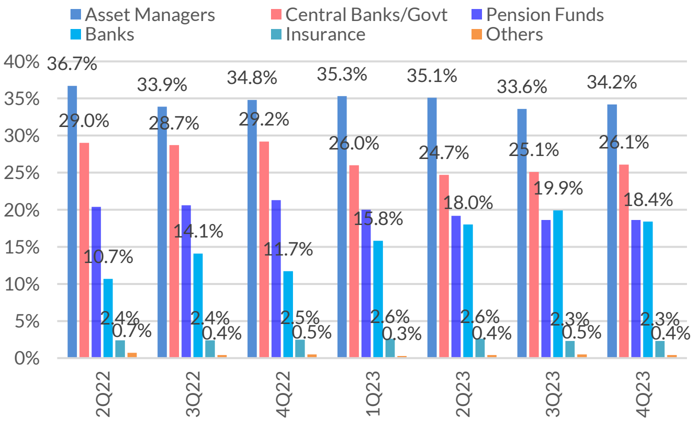
Figure 29: February non-resident holders stood at 21.8%



Source: BNM, RHB Economics & Market Strategy
Note: Last data point at February 2024

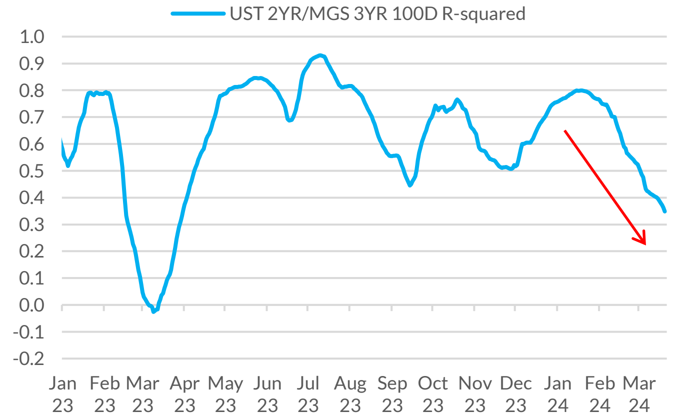
- **Post peak FFR hike means lower rate anxiety and lower sensitivity to US Treasuries (Figure 31). As such, a softening UST yield outlook should support a lower MGS/GII yield structure.**

Figure 30: In 4Q24, central banks/government increased MGS/GII holdings the most (+MYR2.9bn)



Source: BNM, RHB Economics & Market Strategy

Figure 31: 100D correlation between UST/MGS weakened in 1Q24



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 20 March 2024

Figure 32: 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
4Q23	12,767	-540	1,002	1,730	23,648	-13,359	50	515	-314	25,500

Source: BNM, RHB Economics & Market Strategy

Singapore

- **Regionally, we are Market Weight SGS given the less attractive YTM and our expectations of a total return of 3.4% in 2024, compensated by the AAA rating.** Domestically, we are Overweight the front end of the curve due to better YTM from the inverted curve. Our forecast of a higher SGS curve in 1H24 has largely materialised as UST yields rose. After rising around 30bps from 2.70% at December 2023 to 2.99% currently, we think the 30YR is attractive for long-end buyers to lock in yields in the current cycle.
- **We have penciled only two FFR cuts in 2024, with the first one occurring in the September FOMC meeting, followed by the second one in December**. As such, our forecasts reflect a tightening of yields by end-2024, particularly at the front end.

Figure 33: 2023 to 2025 SGS forecasts

	SGS 2YR	SGS 5YR	SGS 10YR	SGS 15YR	SGS 20YR	SGS 30YR
31-Dec-23	3.259	2.677	2.708	2.766	2.764	2.701
22-Mar-24	3.402	3.012	3.079	3.059	3.048	2.994
End-24F	3.11	3.06	3.00	2.97	2.95	2.92
End-25F	2.49	2.55	2.60	2.62	2.65	2.67

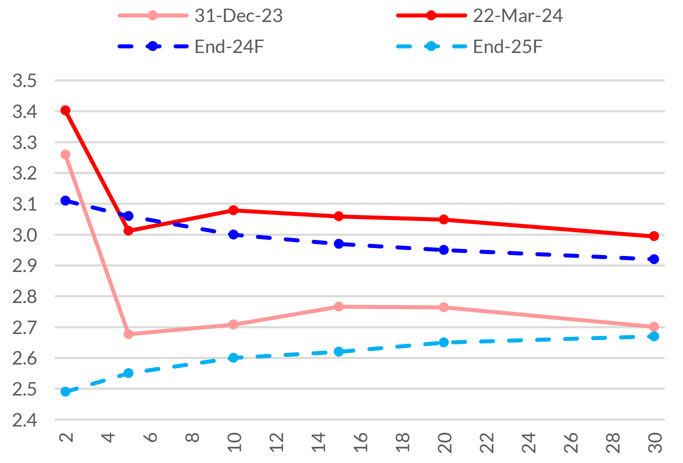
Source: RHB Economics & Market Strategy

Figure 34: SORA forecasts

	SORA 1M	SORA 3M	SORA 6M
22-Mar-24	3.693	3.628	3.700
2Q24	3.72	3.72	3.72
3Q24	3.65	3.70	3.71
4Q24	3.38	3.45	3.57
1Q25	3.00	3.25	3.35
2Q25	2.40	2.40	2.82
3Q25	2.40	2.40	2.40
4Q25	2.40	2.40	2.40

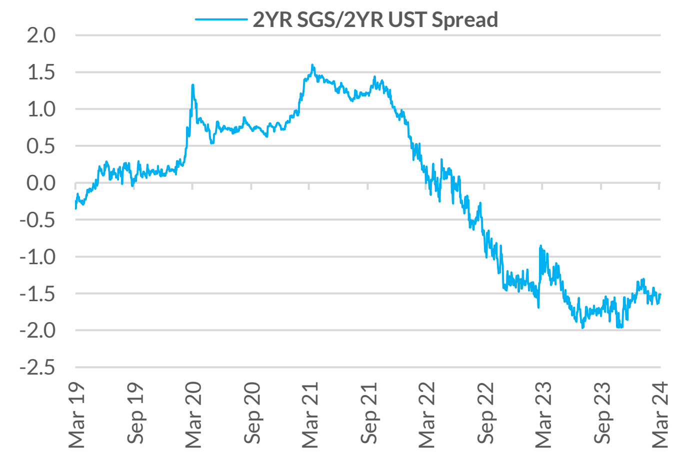
Source: RHB Economics & Market Strategy

Figure 35: Given the upgrade of the FFR assessment by us as well as the Fed, we are revising the 2024 forecasts higher



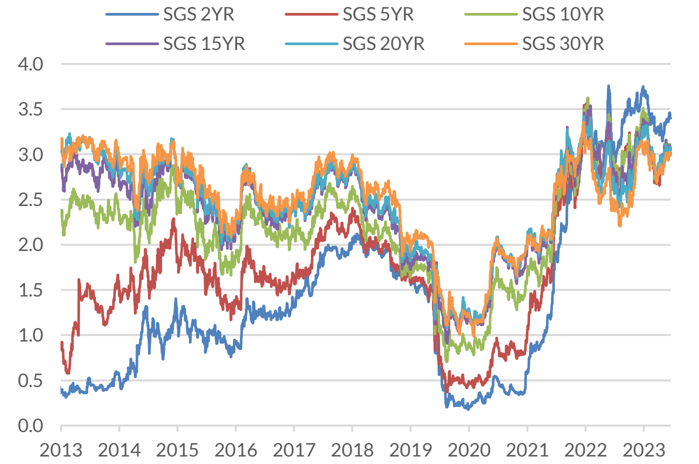
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 36: 2YR SGS maintained around -160bps spread versus 2YR UST since 4Q23



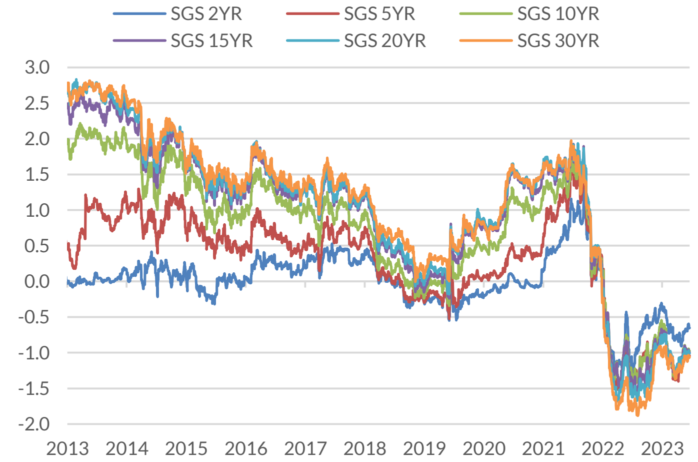
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 37: SGS yields



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 38: SGS spread against 3M SIBOR



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Thailand

- **Regionally, we continue to Underweight TGBs given our total return expectations of 3.0% in 2024.** Contrary to our underweight call, TGB was the top regional performer with a 2.92% return so far in 1Q24, as the deflationary environment (negative YoY headline inflation since October 2023) spurred bets for the Bank of Thailand (BoT) to cut rates. Nevertheless, we are calling to take profits as the deflationary environment is subsidy-driven and BoT will not cut its policy rate in the near term. As such, return outcomes on TGBs in 2Q24 will turn increasingly binary on the two outcomes.

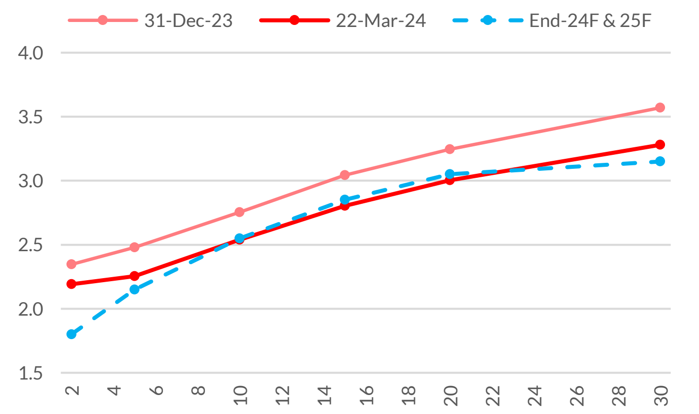
- **We saw persistent non-resident outflows in 2023 as we think TGBs remain unattractive given the high negative USD yield differential, although political uncertainty has subsided after the appointment of its Prime Minister in August.** Looking forward, we do not see a strong catalyst for a return of 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 39: 2023 and 2024 forecasts

	TGB 2YR	TGB 7YR	TGB 10YR	TGB 15YR	TGB 20YR	TGB 30YR
31-Dec-23	2.346	2.479	2.755	3.044	3.247	3.570
22-Mar-24	2.191	2.255	2.538	2.804	3.003	3.280
End-24F & 25F	1.800	2.150	2.550	2.850	3.050	3.150

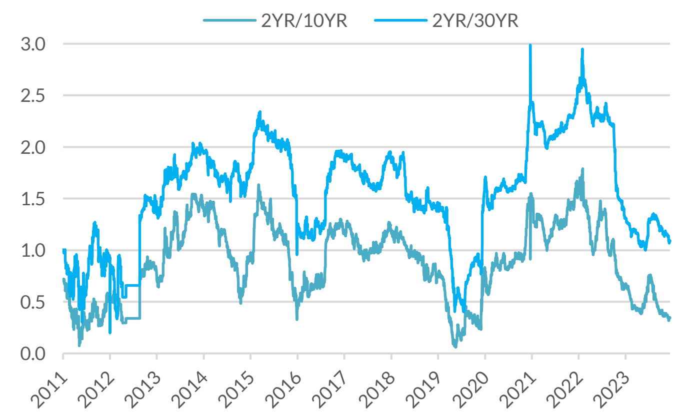
Source: RHB Economics & Market Strategy
Note: Data as of 22 March 2024

Figure 40: Current TGB yields versus our year-end forecast



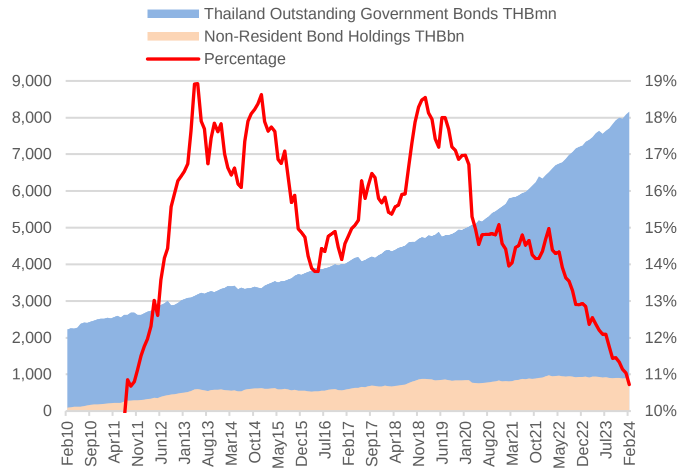
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 41: 2YR/10YR and 2YR/30YR spreads



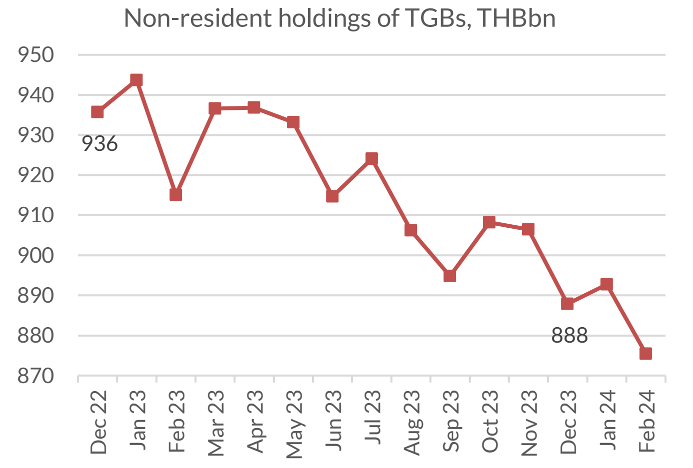
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 42: In February, non-resident holders stood at 10.7%



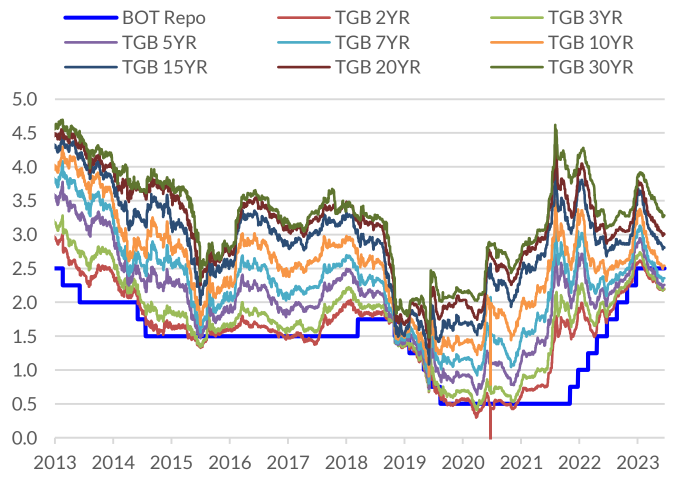
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at February 2024

Figure 43: TGB non-resident holdings saw persistent outflow in 2023, totalling THB47.8bn



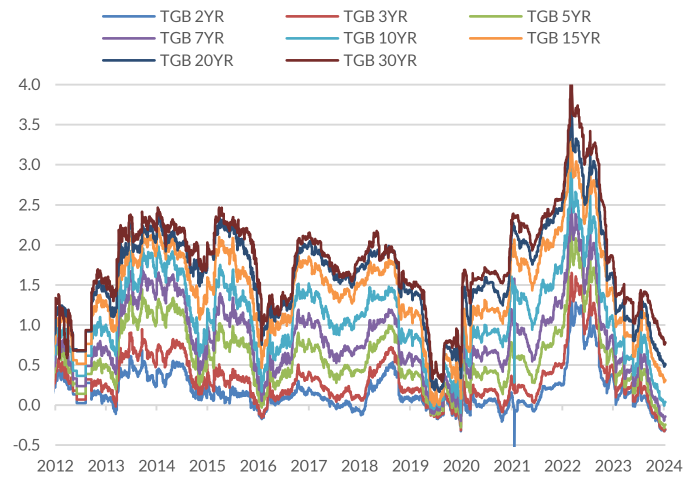
Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 44: TGB yields



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Figure 45: TGB spread versus BoT policy rate



Source: Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 22 March 2024

Corporate Bonds

Asia USD Bonds

- **ASEAN corporate earnings per share, as represented by MSCI ASEAN, are expected to grow at a healthy 13.8% in 2024, after declining by 2.4% in 2023**. Meanwhile, debt-to-equity ratio stood at 87.3% at end-2023, an improvement from 91.2% at end-2022.
- The Asia USD corporate bond issuers we like are **TNB Global Ventures Capital, IOI Corp, MISC, Keppel Corporation, PTT PCL, Perusahaan Listrik Negara Persero and PT Freeport Indonesia and GENM Capital Labuan.**

Figure 46: Issuer description and outlook

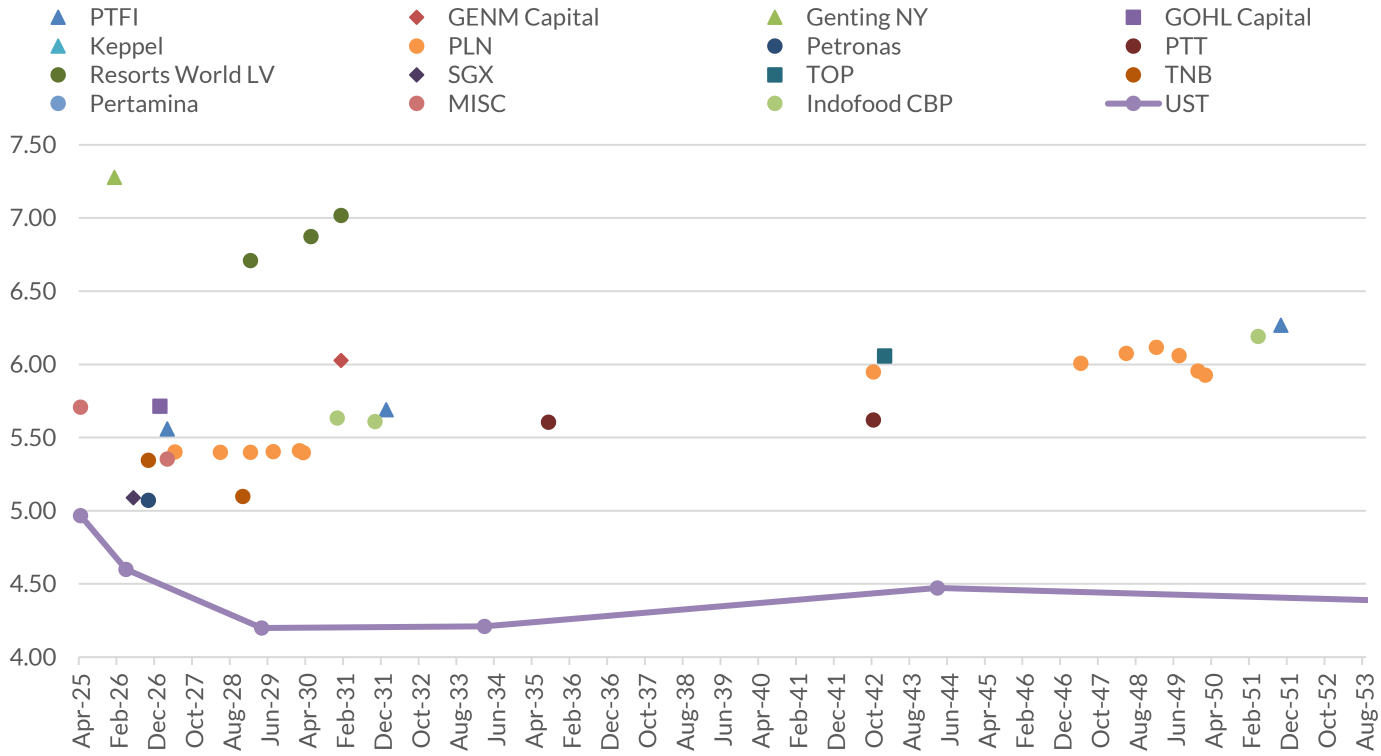
Issuer	Description & Outlook
TNB Global Ventures Capital Berhad (TNBGV)	**Market Perform TNB Global Ventures Capital Berhad (TNBGV) (BBB+, S&P).** We like TNBGV's strong balance sheet and the 10/26 bond over the 11/28, given the higher spread at the front-end. Tenaga Nasional Berhad (TNB) is the obligor of the TNBGV SPV that issues USD bonds. TNB is Malaysia's largest vertically integrated electric utility in Malaysia and produces most of the power in Peninsular Malaysia. Its generation mix is mostly made up of coal (56%) and gas (38%) as of September 2023. The Malaysian Government is highly likely to support TNB as the company plays a core role in the country's power utility. **In FY23, net profit fell 20% YoY due to a weaker domestic generation arm that turned to loss of MYR527mn, larger general expenses and fuel margin losses.** This is despite the higher electricity sales and lower tax from the absence of prosperity tax. In 4Q23, net profit fell 32% QoQ due to increase in opex, offsetting its positive fuel margins and lower finance costs. Electricity demand in FY23 rose 3.6% YoY mainly due to stronger commercial (+7.6% YoY) and domestic (+6.7% YoY) segments, while the industrial segment fell -2.6% YoY. TNB's strong balance sheet is supported by its high cash holdings of MYR21bn, while its cash flow from operations interest coverage ratio is high at 6.9x in FY23. The company's debt-to-equity ratio is at 1.52x due to drawdown of additional borrowings for working capital and capex needs. Due to the business' capital-intensive nature, there is risk that TNB's gearing will increase as it plans to venture into the overseas markets such as South Korea, Taiwan and Australia.
Pertamina Geothermal Energy Tbk (PGEO)	**We are Market Perform on Pertamina Geothermal Energy Tbk (PGEO) (Baa3) as its strong credit metrics are reflected in its bond yield return. PGEO is one of Indonesia's top geothermal independent power producers (IPP) with total installed capacity of 1,877MW.** It is indirectly 75% owned by Pertamina (Persero), a state-owned entity, while Moody's view is that its ultimate parent will provide the energy company support in times of stress due to strong operational linkages and its strategic importance. **In 9M23, net profit rose by 20% YoY to USD134mn due to a 34% YoY increase in foreign exchange gains, while the blended average selling price increased by 1.6% YoY to USD8.16 cents/kWh.** Blended cost of production rose by 5.4% to USD4.10 cents/kWh. The outage rate fell to 0.44% from 1.06% in 9M22. The debt-to-equity ratio improved to 0.38x due to a large increase in cash. PGEO's capex is expected to rise as it plans to increase its geothermal capacity by 600MW by 2027; this will be mainly funded by additional debt.
Perusahaan Gas Negara PT (PGAS)	**We are Underperform on Perusahaan Gas Negara PT (PGAS) (Baa2) given the compressed 5/24 yields.** PGAS is a gas transmission & distribution company with over 90% market share in Indonesia. The company has around 5.8k km of pipelines with gas distribution volume of 900bn British thermal units per day. An international rating agency assigned a one-notch rating uplift based on the high likelihood of support from the Government through PGAS's parent, Pertamina Persero PT, due to PGAS' strategic role in the sector and Indonesia. Moreover, the Government owns a golden share in the company. **In 9M23, net profit dwindled to 57% YoY to USD198mn due to higher gas costs and lower distribution margins.** The company faces challenges in passing on costs to protect its margins due to the law enacted in 2017 which gives the Ministry of Energy and Mineral Resources the power to determine the gas price based on a formula that caps PGAS's returns. In late 2023, PGAS' proposal to raise industrial gas pricing for unregulated gas users was rejected by the Government. The company's CFO/debt service is strong at 4.6x, while the debt-to-equity ratio is low at 0.32x.
Indofood CBP Sukses Makmur Tbk PT (ICBP)	**We are on Market Perform on Indofood CBP Sukses Makmur Tbk PT (ICBP) (Baa3) as the bond yield returns are similar to its peers, while there is risk that its high USD debt service would affect its earnings.** ICBP is based in Indonesia and is a packed food products manufacturer. Products that it manufactures include instant noodles, snacks, dairy products, seasonings and beverages. The manufacturer has a production capacity of 35bn packs of instant noodles per year, with 80 factories across Indonesia, Malaysia, South Eastern Europe, Middle East and Africa. Around 70% of its revenue is from Indonesia and from its instant noodles product segment. **In 9M23, net income surged 113% YoY to IDR7.1bn as sales of its noodles (+5% YoY) and snack food (+17% YoY) segments jumped.** The manufacturer's revenue in Indonesia fell 1.5% YoY but was offset by its 15% YoY increase sales in other countries. Pinehill, which was acquired by ICBP in 2020 for IDR43.5tn, saw strong growth of 11% YoY. The movement of USD/IDR would impact the company's performance as 95% of the acquisition of Pinehill was funded by USD debt borrowings. ICBP's debt-to-equity ratio remains stable at 0.7x, while its CFO/interest is strong at 14.3x.
IOI Corporation Berhad (IOI Corp)	**We maintain Outperform on IOI Corporation Berhad (IOI) (Baa2, Moody's) given the 5/31's attractive spread over the Asian BBB curve.** The company issues its bond through its SPV, IOI Investment L Berhad. IOI is one of Malaysia's biggest palm oil companies with a total oil palm area of around 174k hectares, with an average age of 14 years as at June 2023. The company also has downstream manufacturing facilities like refineries, oleochemical, and specialty fats manufacturing plants. Moreover, IOI owns 32% of Bumitama Agri (AA2), a pure upstream player in Indonesia. **In 1Q23, net profit rose 77% YoY to MYR304mn and attained a CPO price of MYR3,789/tonne (-16% YoY), FFB production rose to 734k MT (+10% YoY), while CPO production increased to 165k MT (+13% YoY).** Credit metrics remain strong with a low debt-to-equity ratio of 0.32x. With the confirmation of *El Nino* that is expected to last through 1H24, pure planters such as IOI are expected to benefit from the CPO price upcycle. We expect to see the impact of price upcycle from *El Nino* in late 2Q24 and we project CPO prices to reach MYR3,900/tonne for FY24F.

Thai Oil PCL (TOP)	**We maintain Market Perform on Thai Oil PCL (TOP) (BBB-) and Thaioil Treasury Center Company Ltd (TTCC) as its pickup are low compared to its USD US Energy BBB- peers.** TTCC bonds are guaranteed by TOP. TOP is Thailand's largest oil refiner with capacity of 275k barrels per day (bpd) and has long-term feedstock supply and product off-take 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 the gross refining margin increasing 176% QoQ to USD12.4/bbl.** The 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, which is peak demand season for gasoline.
Pertamina Persero PT (Pertamina)	**We are Market Perform on Pertamina Persero PT (Pertamina) (BBB) as its yields provide little pickup compared to the US Energy AAA curve.** Pertamina is the largest integrated oil and gas player in Indonesia and is state-owned with 100% ownership by the Indonesian Government. This reflects the high likelihood of extraordinary support from the Government. Pertamina is strategic to Indonesia as it produces c.45% of the country's fuel requirements, and the fuel that it sells is at a subsidised priced mandated by the Government while receiving subsidy reimbursement. Pertamina produces an average of 967 thousand barrels of oil equivalent per day (kboepd) and to plans 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 both upstream and downstream businesses improved.** Furthermore, oil production increased 8% YoY, while sales volume increased 5% YoY. FY22 capex of USD4.5bn is mainly due to upstream investment and refinery investment. Pertamina plans to spend USD65bn from 2023-2027 to expand its drilling production and refinery capacity. Historically, the company's capex is lower than the budgeted amount.
MISC Berhad (MISC)	**We are Outperform on MISC Berhad's (MISC) (BBB) USD bonds that it issues through its SPV MISC Capital Two (Labuan) Ltd and guarantees**. The yield returns are good as it is 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 dead weight tonnage. International rating agencies view that the parent will provide extraordinary support to MISC due to the close integration between them. The Mero 3 project is at 89% completion as at end-2Q23, and upon commissioning in 2Q24 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 received 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 made. MISC's performance is significantly 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, urban development, connectivity and asset management which made up 63%, 14%, 20% and 3% of 2022 revenue respectively.** In 1H23, net profit excluding a one-off divestment gain of SGD3.3bn grew 2.5% YoY to SGD445m mainly due to better performance in infrastructure from an integrated power business. Keppel gained SGD3.3bn from 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 Exchange Ltd (SGX)	**We are Outperform on Singapore Exchange Ltd (SGX) (AA) as the SGXSP 9/26 gives an additional 30 plus bps above similar 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 SGD75-80mn in FY24 due to a SGD8mn deferment in FY23.
PTT PCL (PTT)	**We are Outperform on PTT PCL (PTT) as its 12YR bond yields gives an additional pickup 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 earnings in the short to medium term as earnings from upstream oil & gas production will increase 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. **PTT operates as an oil, gas and petrochemical company based in Thailand.** The company produces, transports, and sells natural gas, crude oil, lubricants, aviation and marine, and petrochemical products. PTT's strategic importance to Thailand's energy sector and 63.3% state ownership indicates a high likelihood of extraordinary support from the Thai Government.
Perusahaan Listrik Negara Persero (PLN)	**We are Outperform on Perusahaan Listrik Negara Persero (PLN) (BBB) as its USD bond offers pickups of 5.5% to 6.6 % that are above its corporate peers, especially at the long end.** International rating agencies view the company's 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 dominant position in power generation. In return for meeting the country's public-service obligation, PLN receives support from the Indonesian government through electricity subsidies payments. However, there is an average gap of 17% in actual and budgeted subsidy paid, while there have been delays in the actual payment of the subsidies in recent years. The irregularity of the timing of payment could strain the company's credit profile. PLN's credit metrics may strain as large capital expenditure is required for its plans to increase to a 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 IDR32.3tn from IDR36.2tn 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, which is the largest gold and copper mining deposits globally in terms of production and reserves. The Indonesian Government owns 52% of the company, while the remaining 48% is owned by an American mining company, Freeport-McMoRan Inc. The copper and gold reserves at Grasberg mines are 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 mostly from copper, followed by gold sales. Copper and gold prices remained well above its pre-pandemic levels at c.USD374/lb and USD1,900/oz respectively. PTFI's EBIT margin is 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.

Petroliam Nasional Berhad (Petronas)	**Petroliam Nasional Berhad** (Petronas) (A2, Moody's) is a leading multinational, integrated energy company with global presence in over 50 countries, and a strategic to Malaysia state-owned entity. International rating agency Fitch assesses Petronas' standalone credit profile to be stronger than that of its shareholder, **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% located in Malaysia. The company's strong financial metrics and robust liquidity as of 1Q23 are 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 average ratings of A2; as such, we are **Market Perform** on Petronas USD bonds.
GENM Capital Labuan	We are **Outperform on GENM Capital Labuan** (BBB- S&P), given the meaningful 80 bps 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 47: Relative value – Our recommended Asia USD corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Prices as of 25 March 2024

Indonesia – IDR bonds

- **Corporate profits are expected to be robust in 2024, according to Bloomberg estimates. Corporate earnings per share, as represented by MSCI Indonesia, are expected to grow by 22% YoY in 2024 after falling by 15% in 2023.** Meanwhile, debt-to-equity stood at 51% at end-2023, an improvement from 53% at end-2022.
- Outstanding corporate bond issuers are distributed widely in many sectors, with financial constituting the largest share (42%), followed by materials (20%) and industrials (15%).

Figure 48: Domestic outstanding IDR corporate bonds, as a % of total outstanding

Sector	IDRmn	%
Financials	195,712,096	41.66%
Materials	95,567,340	20.34%
Industrials	71,148,094	15.15%
Utilities	28,738,685	6.12%
Communications	20,263,380	4.31%
Consumer Discretionary	19,755,886	4.21%
Consumer Staples	15,015,873	3.20%
Energy	20,980,360	4.47%
Health Care	2,571,000	0.55%

Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 25 March 2024

- Indonesian corporate bonds offer the highest absolute yields under our regional coverage. **Our strategy for Indonesian corporate bonds is to focus on strategically important government-related entities (GRE), as they offer sovereign support together with some pickup over IndoGBs**. Operation Twist by Bank Indonesia lifted front-end yields and offers attractive short-term yields, helping to reduce duration risk.
- The corporate bond issuers we like are **Indah Kiat Pulp & Paper, Bank Rakyat Indonesia, Telkom Indonesia, Perusahaan Listrik Negara, PT Chandra Asro, Wijaya Karya and Merdeka Copper and Gold**.

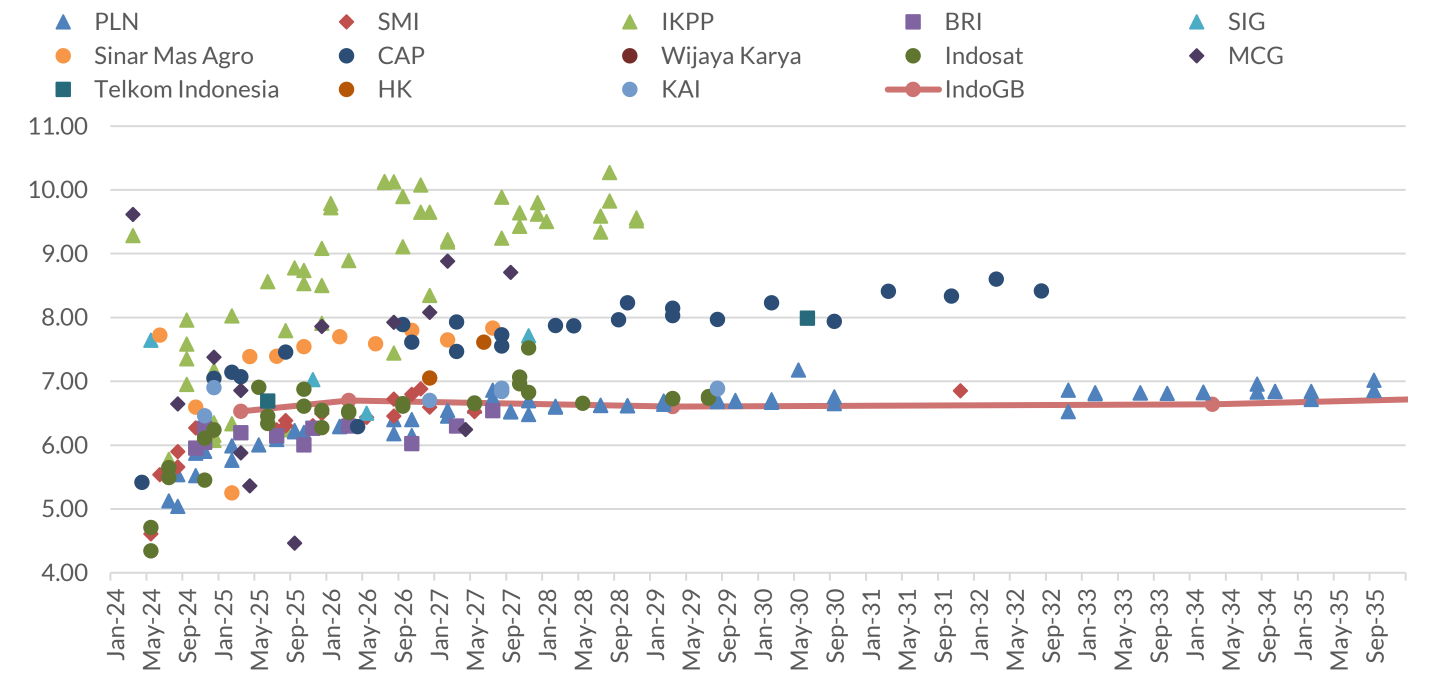
Figure 49: Issuer description and outlook

Issuer	Description & Outlook
Indosat TBK PT (ISAT)	**We are Market Perform on Indosat TBK PT (ISAT) (AAA, Pefindo) and we prefer '26 and above given the better pickup over IndoGBs.** ISAT is among the top telecommunication companies in Indonesia, providing cellular, multimedia, internet, and telecommunication services. **In 9M23, ISAT's normalised net profit, excluding its one-off gain from tower sale, jumped 254.8% YoY to IDR2,215bn as all its businesses performed well.** Its cellular, MIDI and fixed telecom business revenue increased 7.8%, 10.8% and 26.8% YoY, respectively. Normalised EBITDA margin grew 5.1bps YoY to 46.7%, average revenue per user (ARPU) grew 2.5% YoY, while data traffic rose 16.5% YoY. Its net debt-to-equity ratio is at 1.46x, while its EBITDA-to-debt service ratio is at 1.4x.
Indah Kiat Pulp & Paper Tbk (IKPP)	**We maintain Outperform on Indah Kiat Pulp & Paper TBK (IKPP) (A+, PEFINDO) due to its strong credit metrics, while its medium duration bonds are attractive.** IKPP is a leading pulp and paper manufacturer globally that produces pulp, tissue, cultural & industrial paper and packaging. It has mills in Sumatra and West Java of Indonesia. **In 9M23, its net profit fell significantly by 50% YoY to USD321mn as cultural paper & pulp and industrial paper, tissue & others segments gross profits fell 18% and 54% YoY, respectively.** This was mainly due to the 10% and 27% YoY decline in average selling price (ASP) of pulp and industrial paper & tissue. The lower ASP was primarily due to a dip in export sales, pulp and wood prices. The company has stable credit metrics with a debt-to-equity ratio of 0.53x and high cash balance of USD2.69bn. IKPP plans to increase its total production capacity by 3.9m tons/year by building a new factory in Karawang, West Java.
Hutama Karya Persero PT (HK)	**We are Market Weight 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 high likelihood of government support due to the importance of HK's role in constructing the Trans-Sumatra toll road. This is evident with the government injecting capital of IDR83.7tn since 2015 and IDR31.4tn in 2022. Under the presidential decrees, the Government is to provide an unconditional and irrevocable guarantee 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 Trans-Sumatra toll road project. The toll 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 at end-2022, 596km of the Trans-Sumatra project are in operation. **The Trans-Sumatra toll road made up 54% of HK's revenue in FY22 and is expected to continue being the major contributor to 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 that 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 the 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 was evident in the past as the railway received a series of state capital injections of IDR17.7tn in 2015-2022. **In FY22, KAI turned to net profit as ridership rose 84% YoY to 284.6mn following the easing of COVID-19 restrictions, while its freight transportation rose by an average 22% in 2022.** Despite the change in commuting patterns such as hybrid work arrangements, ridership is expected to improve as there are no longer any 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 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 made up of syndicated loans on the Greater Jakarta LRT and they 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-27 and June-27 4Y bonds are attractive with indicative yields of c.6.22-6.38% that are 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 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 at 51% is the Government of 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 (AAA) (Telkom) is a good entry into the high-quality IDR space. Bonds offer additional c.70bps pickup compared to IndoGBs.** The company is 52%-owned by the Government of Indonesia and is the largest and most dominant integrated telecommunications company in the country. The company also holds 72% of Dayamitra Telekomunikasi, which is Indonesia's largest tower company with over 35k towers (around 36% market share).
PT Chandra Asri Petrochemical Tbk (CAP)	**PT Chandra Asri Petrochemical Tbk (CAP) (rated AA- by domestic rating agency) is an integrated petrochemical producer. It is a regional market leader in its sector, and serves both the domestic downstream industries and regional export markets in Indonesia.** Credit metrics for CAP are healthy with 0.0 net gearing and gross gearing of 0.5x at December FY22. Nevertheless, the company suffered losses in FY22 due to high input costs from volatile oil prices. However, yields are attractive as it offers between 6.0% to 8.5% for tenures from one year to nine years.
Perusahaan Listrik Negara Persero (PLN)	**Perusahaan Listrik Negara Persero (PLN) is a 100% government-owned integrated electricity utility company, with a monopoly position in Indonesia's electricity transmission and distribution, and dominant position in power generation.** International rating agencies view PLN's 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 likelihood of sovereign support. PLN is a substitute for Indonesian sovereign credit with pickup, offering yields of c.5% to c.8%.
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 easing of zero-COVID-19 measures in China while moderated by project execution risks on its battery plant project. We like bonds maturing 2025 and beyond as we see decent pickup 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.
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 also 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

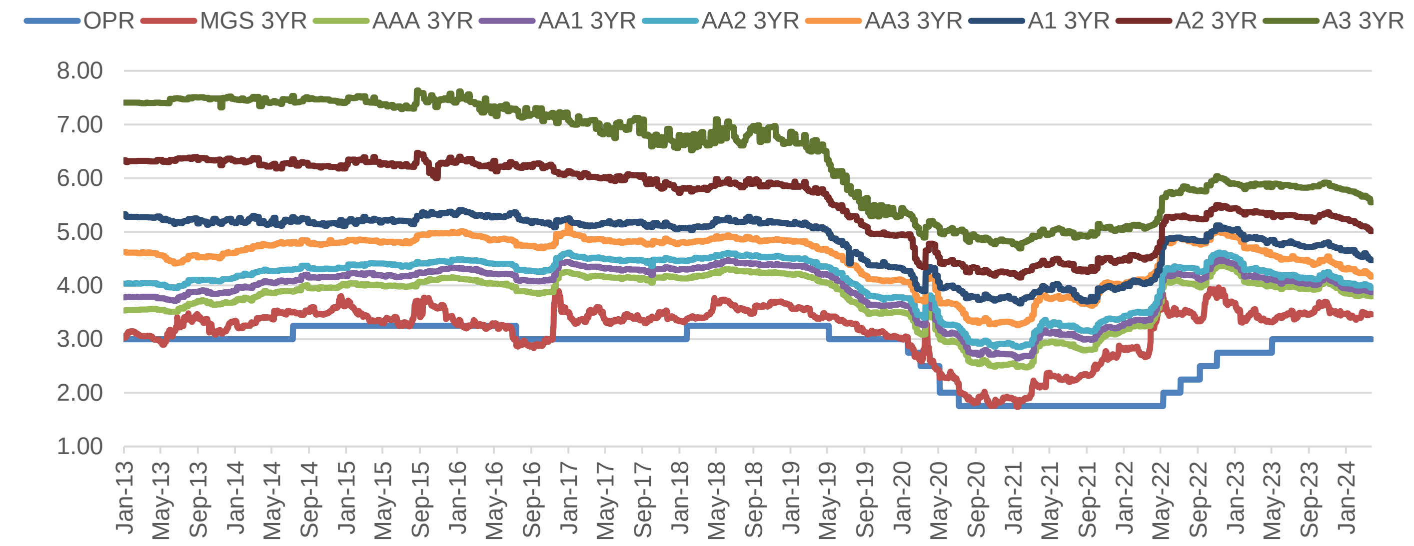
Figure 50: Relative value – IDR corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 25 March 2024

Malaysia – MYR bonds

Figure 51: We think corporate bond yields have stabilised



Source: BNM, Bloomberg, RHB Economics & Market Strategy
Note: Last data point at 25 March 2024

Corporate bond picks

- **Corporate financial performance are expected to remain robust in 2024 with the broader FBM100 index forecasted to see earnings growth of 28% in 2024, according to Bloomberg consensus.** Meanwhile, debt-to-equity stood at 95% at end-2023, rising from 91% at end-2022.
- Malaysia's outstanding corporate bonds are concentrated in financial-related issuers (financial services, banks and commercial finance).

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

Sector	MYRmn	%
Financial	210,170	29.98%
Public Administration	144,570	20.62%
Transportation and Storage	124,355	17.74%
Energy and Utilities	127,894	18.25%
Real Estate	38,115	5.44%
Consumer Discretionary	16,266	2.32%
Consumer Staples	12,680	1.81%
Communications Services	11,350	1.62%
Industrials	9,904	1.41%
Basic Materials	2,800	0.40%
Health Care and Social Work	1,205	0.17%
Information Technology	1,390	0.20%
Professional Services	250	0.04%

Source: BPAM, RHB Economics & Market Strategy
Note: Data as at 25 March 2024

- Our top picks are **UEM Sunrise, Golden Agri Resources, Malakoff Power, Malaysian Resources Corporation, PASB and IGB REIT Capital**
- Please refer to our commentary below and the relative value chart.

Figure 53: Issuer description and outlook

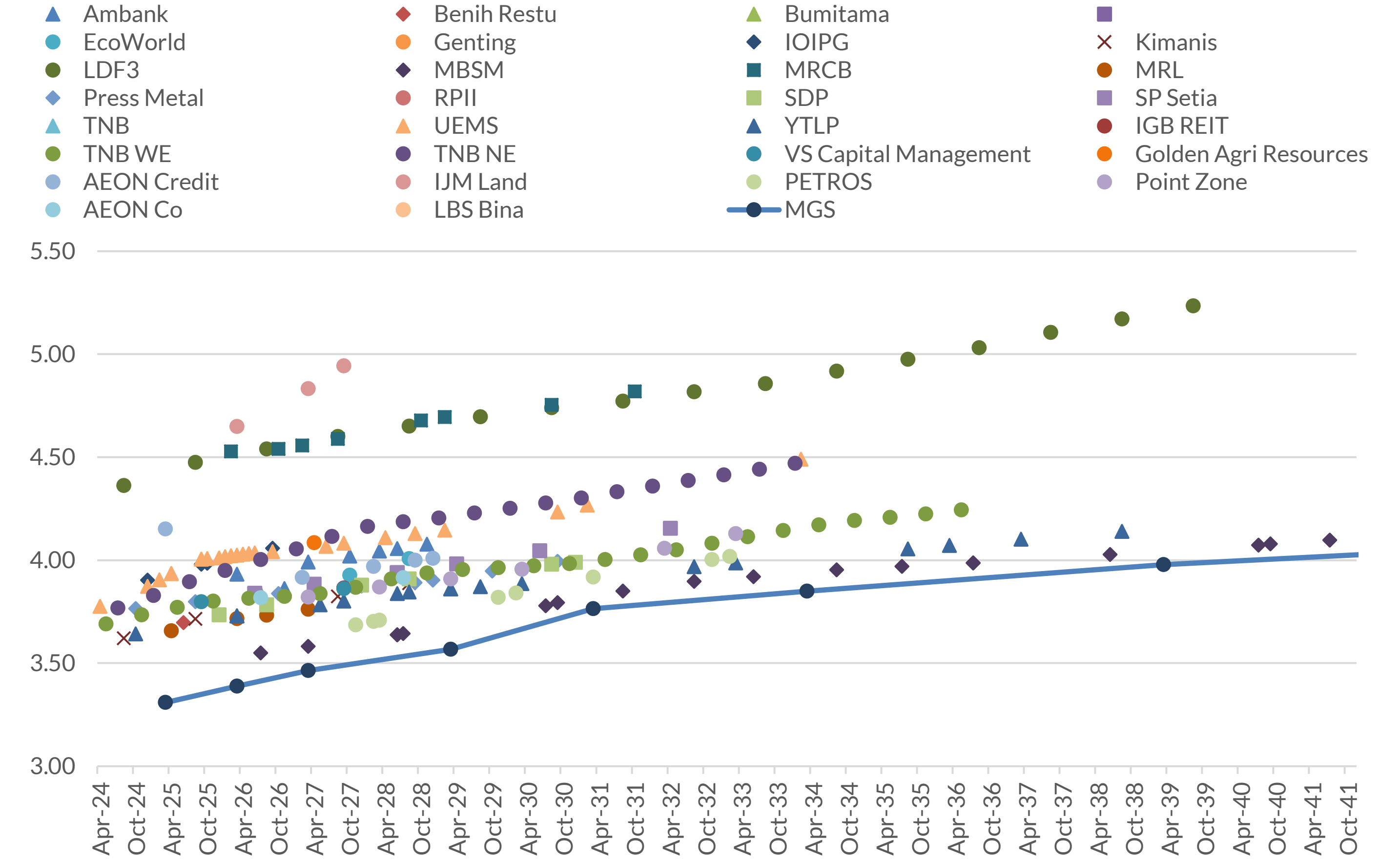
Issuer	Description & Outlook
SP Setia Berhad (SPSB)	**Market Perform on SP Setia Berhad (SPSB) (AA) based on its tight yield spread from its AA peers and strong balance sheet.** SPSB is the largest developer by revenue in Malaysia with a sizeable landbank of 7,022 acres (63% in Klang Valley). Most of its projects that are priced below MYR1m recorded take-up rates of above 90%. The company also has strong notable shareholders, namely Permodalan Nasional Berhad (26.0%), Amanah Saham Bumiputera (24.7%), Kumpulan Wang Persaraan (8.8%) and EPF (5.8%). **In FY23, SPSB's revenue fell slightly by 2% YoY due to the completion of its Daintree Residence project in Singapore in FY22, while it saw better sales for its Malaysia and Australia operations.** In 4Q23, revenue grew 28% QoQ due to the handover of its UNO Melbourne project, while EBIT margin rose 26.5% from 15.4% in 4Q22, driven by land sales and cost savings from project accounts finalisation. Unsold inventory rose 2.9% QoQ to MYR1.77bn, while unbilled sales fell 16.6% QoQ to MYR5.64bn. The debt-to-equity ratio improved to 0.49x, while net interest expense fell 13% QoQ as SPSB plans to lower its borrowings to MYR9.4bn in FY24 from MYR10.2bn in FY23, through land sales. Debt could ease further as SPSB is looking to expand its industrial developments that could drive land disposals or JVs.
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 FY23, UEMS's net profit fell 5.9% YoY due to lower development revenue and higher land sales in FY22.** In 4Q23, net profit shot up by 228% QoQ, while developed land sales jumped 249% QoQ. EBIT margin rose to 22.9% from 13.6% in the previous quarter. Unsold properties fell by MYR8m for the quarter to MYR217mn, while unbilled sales was little changed for the quarter at MYR2.65bn, which would provide earnings visibility over the next two years. The debt-to equity ratio remains stable at 0.60x. As of August 2023, its existing projects have a combined GDV of MYR4.6bn, while the landbank is at 8,440 acres with 92% in Johor. The majority 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.
Aeon Credit Service (M) Bhd (ACSB)	**We are Market Perform on Aeon Credit Service (M) Bhd's (ACSB)(AA3/A1, Stable) Senior and Subordinated sukuk.** ACSB's sukuk yields are tight against similarly rated peers in the financial sector, signifying investors' confidence in the lending company. The leading consumer financier boasts industry-leading net interest margins in relation to its exposure to its higher-risk lending profile. Expectations of extraordinary support from its ultimate parent, AEON Co., Ltd, also underpins the financial flexibility attributed to ACSB. **Its recent third financial quarter ended 11/23 saw mixed results with revenue rising by 3.1% QoQ to MYR486m while profit before tax fell by 30% QoQ to MYR111.4m.** Impairment losses crept higher by 51.6% QoQ to MYR182.8m. Gearing improved to 3.3x from 3.4x in FYE2/22, while NPLs saw an uptick to 2.73% from 1.75% from a year ago.
Golden Agri Resources (GGR)	**We maintain our Outperform call on Golden Agri Resources 4/27 (GGR) (AA2) issued under Golden Assets International Finance Ltd).** We think yields are attractive given the company's status as the largest plantation company in Indonesia. While GGR is based in Singapore, it operates mainly in Indonesia. The company is involved in the cultivation and harvesting of palm oil, as well as in refining, processing, and marketing palm oil products. **In FY23, net profit normalised 73% YoY to USD198mn from a bumper year in FY22, while core net profit fell 72% YoY to USD284.3mn.** This was mainly driven by the higher effective tax rates of 31% in 2H23 and higher unit costs that rose 0.6% YoY to USD325/tonne. GGR guided that unit costs will fall 3-5% YoY to around USD310/tonne in 2024. Its fresh fruit bunches (FFB), crude palm oil (CPO) and palm kernel (PK) production all fell by 4.5%, 4.1% and 3.6% YoY, respectively. Meanwhile, its FFB and CPO yield per hectare fell 3.0% and 1.9% YoY. The debt-to equity ratio remains healthy at 0.59x, while cash from operation interest coverage is at 2.5x.
Market perform on IJM Land (IJML)	**We are Market Perform on IJM Land's (IJML) perpetual sukuk (A2). Although yields are below-benchmark, the credit quality is underpinned by a subordinated guarantee by IJM Corporation (IJMC, AA3).** IJMC extends an unconditional and irrevocable subordinated guarantee to IJML. IJML was previously listed on the Main Market of Bursa Malaysia before becoming a wholly-owned subsidiary property arm of IJMC through the privatisation which was completed in March 2015. Constructions activities are taken by IJMC, while its property developments are mostly under IJML. **IJMC's 9MFY24 net profit rose 118% YoY, while core net profit increased 34% YoY.** This was mainly due to better-than-expected performance in the property division that saw its profit before tax (PBT) rise 97% YoY as its work in progress for ongoing projects with higher profit margins were good. PBT of its industrial segment increased 17% YoY due to higher deliveries of piles and ready-mixed concrete. The construction arm's PBT fell 27% YoY as its new projects have yet to pick up pace. Meanwhile, its orderbook rose to 43% YoY to MYR6.6bn. Unbilled sales dropped 26% YoY to MYR2.5bn. Credit metrics remain healthy with the debt-to-equity ratio at 0.51x, while CFO interest coverage ratio is at 3.7x.
Press Metal Aluminium Holdings Berhad (PMAH)	**We are changing Press Metal Aluminium Holdings Berhad (PMAH) (AA2) to Market Perform from Outperform as yields have compressed considerably since our initial coverage in May 2023.** PMAH is in the business of extrusion and smelting aluminium, and has a total annual extrusion capacity of 370k MT in Malaysia and China. **In FY23, net profit fell 13.7% YoY as the average market price for aluminium declined. LME aluminium in 2023 fell 16% YoY to an average of USD2,261/MT, while alumina prices fell 5% to USD344/MT.** In 4Q23, revenue rose 2.7% QoQ, while core net profit rose 8% QoQ due to better contributions from associates (+8% QoQ, +78% YoY) and lower costs in raw material (alumina and carbon anode). FY23 debt-to-equity ratio improved to 0.55x from 0.64x in FY22 as its cash balances and CFO rose to MYR1.23bn and MYR2.57bn from MYR604m and MYR1.83bn, respectively.

Sime Darby Property Berhad (SDP)	**Maintain Market Perform on Sime Darby Property Berhad (SDP) (AA+) as its strong credit metrics are reflected in its tight pick-up against its peers.** SDP is a property developer with decades of experience in developing townships. The property developer has an ample landbank at over 13k acres, mainly in Klang Valley and Negeri Sembilan. Currently, it has over 20 developments and active townships. PNB is SDP's largest shareholder with 58% holdings, followed by EPF and Kumpulan Wang Persaraan at 7.1% and 6.5% holdings respectively. **In FY23, net profit rose 29% YoY mainly due to strong sales seen in both its industrial and residential sectors.** Better efficiency in marketing, sales and steady expenses contributed to better margins. Revenue increased 25% YoY due to one-off land sales in Kedah and Negeri Sembilan. Unbilled sales were little changed at MYR3.6bn versus MYR3.7bn in FY22. In 4Q23, unsold inventory decreased to MYR243.4m from MYR283.3m in 3Q23, while the take-up rate of its properties rose to 80% from 4Q23 vs 70% in 3Q23. SDP's net debt-to-equity ratio remains stable at 0.23x. We expect the company's property sales to remain encouraging.
YTL Power International Berhad (YTLP)	**We are Market Perform on YTL Power International Berhad (YTLP) (AA1) given the tight spread over the AA1 curve. The company's earnings are anchored by its solid concession business, which also mitigates execution risks from expansion into new businesses.** YTLP is an utilities company that is 56% owned by YTL Corporation Berhad. YTLP is an investment-holding company that relies on its investee companies to support its operations. YTLP's operating entities are in the business of providing power generation, electricity transmission, water supply, communications services and data centres. Its power generation segment contributes most to its revenue at around 70%, followed by its water and sewerage segment at around 20%. **In 1HFY24, YTLP's net profit jumped 355% to MYR1,693bn as contributions from its Singaporean power generation, PowerSeraya, rose, while the non-household retail market improved.** The debt-to-equity improved to 1.78x from 1.94x in FY23, albeit still highly geared. Total debt stood at MYR31.86bn. CFO interest coverage ratio improved to 2.8x from 2.4x in FY23. The majority of its debt at its investee companies are ring-fenced, concession-related and have no recourse to the holding company.
Malakoff Power Bhd (MPower)	**Based on its high yield returns, we are Outperform on Malakoff Power Bhd (MPower) (AA-), a wholly-owned subsidiary, financing conduit and independent power plants (IPP) operations & maintenance (O&M) operator of Malakoff Corporation Bhd (MLK).** MLK guarantees that it will provide for any liquidity shortfalls of MPower through inter-company loan advances and repayments. Hence, the credit profile of MPower is hinged on MLK. MLK is an independent power company that owns, constructs, operates and maintains its IPPs with a total generation capacity of 5,342MW in Malaysia. **In 9M23, MLK recorded net loss of MYR480mn from profit of MYR260mn in 9M22 mainly due to the loss of GB3 power plant revenue as the power purchase agreement (PPA) expired in December 2022, and it received lower energy payments from its Tanjung Bin Power plant.** Nevertheless, CFO turned positive to MYR733mn as PPA payment receipts rose. MLK expects capex of MYR2.7-3.0bn in the next few years to fund its renewable energy projects which will replace two of its IPPs that are expiring in 2024 and 2027. Two PPAs of its IPPs with a total capacity of 1,653MW will expire in the next four years which will result in lower cashflows. The debt-to-equity ratio rose slightly to 1.51x as total debt rose due to consolidation of its plant RP Hydro's outstanding project financing of RM955.2mn. In 1H23, all of its domestic IPP unplanned outage rates (UOR) and heat rates were within PPA-stipulated limits, except its Tanjung Bin Energy IPP due to damage to its turbine blades that resulted in higher UOR.
Petroleum Sarawak Exploration & Production Sdn Bhd (PSEP)	**We are Market Perform on Petroleum Sarawak Exploration & Production Sdn Bhd (PSEP) (AAA) as PSEP's yields are tightly compressed against its AAA peers. PSEP is Petroleum Sarawak Berhad's (PETROS) wholly-owned upstream oil & gas (O&G) arm that accounts for the majority of PETROS's profit and cash flow.** PETROS is a Sarawak state-owned O&G company that is authorised to plan and develop the O&G sector in Sarawak under the Ministers of the State Government Order. In addition, the company has received an injection of MYR520m of cash and MYR35m worth of land from the state, signifying its strategic importance to Sarawak's O&G development. As such, we view the company's financial strength to be aligned with the state and believes the company will be able to derive substantial financial flexibility from this alignment. **In 1H23, revenue rose 121% YoY to MYR2.1bn due to strong performance in its farm production sharing contracts (PSC).** Operating cash flow in 1H23 was strong at MYR1.2bn, while its operating cash flow debt coverage ratio is at 0.5x. The gearing ratio increased to 2.6x due the issuance of MYR3.0bn sukuk to fund its addition of three new PSCs. Its expansion in the next few years could see its gearing and debt level increase due to the capex-intensive nature of the upstream O&G business.
Malaysian Resources Corporation Bhd (MRCB)	**We maintain Outperform on construction player Malaysian Resources Corporation Bhd (MRCB, AA-) as we think that the more than 60bps pickup over the AA3 benchmark is more than sufficient to compensate for the sector's cyclical risks.** MRCB is majority owned by the Employees Provident Fund (EPF) (36% stake) and is an established property developer and construction company that is known for its flagship transit-oriented development KL Sentral CBD. MARC incorporates the support extended by its key shareholder EPF into the rating that it owns. As at end-September 2023, MRCB has projects with MYR6.8bn GDV in the pipeline, unbilled sales of MYR33.6mn and MYR555mn of unsold completed property. As at end-June 2023, the overall take-up rate of its ongoing project is at 55%. In 9M23, net profit fell 48% YoY to MYR21m mainly due to the completion of major infrastructure projects completed in 2022 and 1H23. Net debt-to-equity remains low at 0.31x, while its interest coverage ratio is decent at 1.5x.
Pengurusan Air SPV (PASB)	**We think Pengurusan Air SPV (PASB) (AAA) offers better relative value compared to Air Selangor (AAA), especially for papers after 2030 given the higher spreads offered.** In addition, we think PASB derives better financial flexibility through its ownership by the federal government versus Air Selangor, which is controlled by the Selangor state government. As such, we think PASB should command a smaller yield premium versus Air Selangor. Nevertheless, both entities require equity/financial support given the subdued revenue from heavy water tariff subsidies. **PASB is involved in the consolidation of the national water infrastructure while Air Selangor is the sole supplier of water treatment and distribution in Selangor, Kuala Lumpur and Putrajaya.** Both entities enjoy implicit federal and state financial support respectively and have good market accessibility for funding. Nevertheless, both entities require equity/financial support given the subdued revenue from heavy water tariff subsidies.

IGB REIT Capital (IRC)	**The 15bps pickup 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 1.79mn sqf 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 end-August 2023 with a mid-single digit upward revision. In FY22, the mall's net income grew significantly by 53% YoY to MYR307mn, while net profit margin rose to 78.4% from 71.5% as footfall continues to recover following 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.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 54: Relative value - MYR corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 25 March 2024

Singapore – SGD bonds

- **We expect a moderation in earnings growth in 2024 as corporate earnings per share, as represented by MSCI Singapore, are expected to grow by 2% YoY in 2024 after growing by 4% in 2023, according to Bloomberg.** Meanwhile, debt-to-equity stood at 94% at end-2023, an improvement from 99% at end-2022.
- Financials have the most outstanding bonds with a share of more than half (63%), followed by consumer discretionary (15%) and industrials (10%).

Figure 55: Domestic outstanding SGD corporate bonds, as % of total outstanding

Sector	SGDmn	%
Financials	47,568	63.45%
Consumer Discretionary	11,172	14.90%
Industrials	7,648	10.20%
Communications	2,825	3.77%
Consumer Staples	1,920	2.56%
Energy	1,835	2.45%
Utilities	1,475	1.97%
Health Care	325	0.43%
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, Nanyang Technological University, National University of Singapore, Keppel Corporation Limited, Singapore Airlines, CapitaLand Ascott, and CapitaLand Ascendas**.
- 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.**

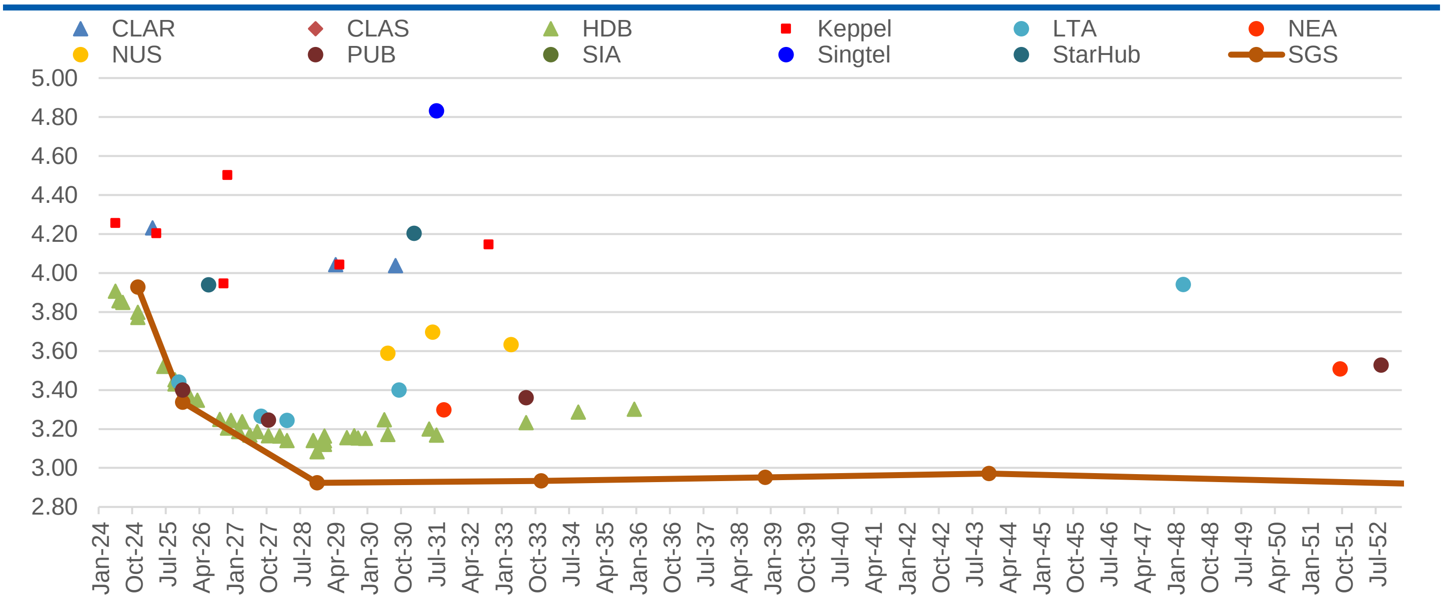
Figure 56: Issuer description and outlook

Issuer	Description & Outlook
Nanyang Technological University (NTU)	**We are Outperform on Nanyang Technological University (NTU) (Aaa) given the better relative value (vs National University of Singapore), prudent financial management and the expected extraordinary financial support from the state due to their strong operational and policy interlinkages.** NTU is one of Singapore's largest universities that is highly ranked worldwide with over 34k undergraduate and postgraduate students. The university has strong linkages to the Government as the Board of Trustees also have positions in the public sector and government-linked entities. Moreover, the members of the Board of Trustees can be removed and appointed by the Minister of Education under the Nanyang Technological University (Corporatisation) Act of 2005. The Government is NTU's important source of funding received through three main grants programmes – operating grants, research grants and development grants. **In FY23, the state-owned university recorded net loss of SGD20mn mainly due to higher expenditure from manpower expenditure and other expenses that grew 6.0% and 23.6% YoY, respectively**. Meanwhile, tuition & other student-related income rose and research & grants rose 5.4% and 35% YoY, respectively. Undergraduate and post-graduate students continued to grow at 0.8% and 14.1%, respectively. Debt-to-equity remains low at 0.13x, while its total cash and investments remain high at SGD4,280mn which will provide sufficient buffer for its substantial debt coverage and operations. NTU 10/36 also offers a slightly better 7bps pickup compared to NUS 3/33, albeit at a longer duration.
Housing & Development Board (HDB)	We remain **Market Perform on Housing & Development Board** (AAA) (HDB) given the close spreads over SGS. HDB is the Singapore Government's arm that mainly deals with primary public housing and related social policy. HDB has high likelihood of support from the Government due to its strong linkages and its special status as a key statutory board under the Fifth Schedule of the Constitution of Republic of Singapore and incorporation under the Housing Development Act 1959 which does not allow it 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 SGD65.73bn (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 a 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 operations 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 high CFO-to-interest ratio of 18.0x. Singtel plans to reduce core costs 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 at 1.08x, while its EBITDA-to-interest ratio is at 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 (CAG)	**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 pickup 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 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 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 that amount to 40-50% of its total adjusted operating revenue. The university is Singapore's top higher education provider that has 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 made up 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 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 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.
CapitaLand Ascendas REIT (CLAR)	**CapitaLand Ascendas REIT (CLAR).** CLAR is an industrial REIT which invests in business and science park properties, integrated development, amenities, and retail (IDAR) properties, high-specifications industrial properties and data centers, light industrial and flatted factories, and logistics and distribution centers. 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)	**We are Outperform on the Land Transport Authority** (LTA), as we think the LTA 3/48 offers attractive pickup over SGS. LTA is involved in the planning, operation, and maintainence of land transport infrastructure and systems. The state-owned entity manages, assesses, collects, and enforces various taxes, fees, charges, and other services relating to land transport.
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, which is an important state agency and 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, which is an important state agency and 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 which are serviced residences, hotels, rental housing properties, and other hospitality assets. CLAS serves customers worldwide. Hospitality REITs are primary beneficiaries of the rising rental rates and healthy employment environment in Singapore. CLAS has seen revenue growth from higher occupancy rates, and has had stable to improving credit metrics in the past two years.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 57: Relative value - SGD corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 25 March 2024

Thailand – TGB bonds

- **Corporate financial performance is expected to remain robust in 2024 with the broad SET100 index forecasted to see earnings per share growth of 17% in 2024 after falling by 26% in 2023, according to Bloomberg.** Meanwhile, debt-to-equity stood at 93% at end-2023, an improvement from 98% at end-2022.
- Thailand outstanding corporate bonds are led by financials (29%) followed by consumer staples (18%) and consumer discretionary (11%).

Figure 58: Domestic outstanding THB corporate bonds, as % of total outstanding

Sector	THBmn	%
Financials	1,309,384	29.06%
Consumer Staples	817,993	18.16%
Consumer Discretionary	483,494	10.73%
Utilities	426,831	9.47%
Materials	479,315	10.64%
Energy	415,375	9.22%
Communications	354,398	7.87%
Industrials	207,587	4.61%
Health Care	5,300	0.12%
Technology	5,759	0.13%

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

- Thailand corporate 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.

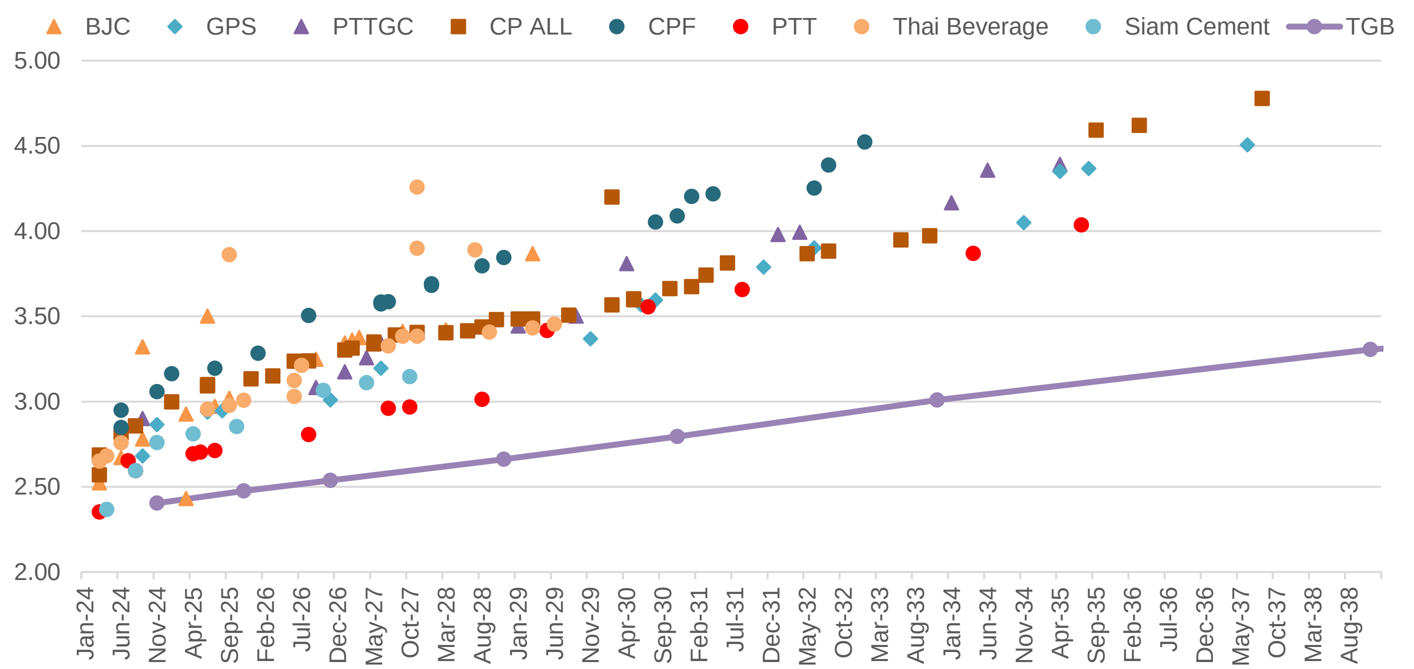
Figure 59: Issuer description and outlook

Issuer	Description & Outlook
Siam Cement PCL (SCC)	**We are Underperform on Siam Cement PCL (SCC) (A, Fitch) as its bond yields returns are below its A rated peers, while we expect SCC's 4Q23 financial performance results to disappoint given the weak demand seen in its business segments.** SCC is a diversified industrial company that manufactures cement, petrochemicals, paper and building materials. The company has about 9k dealers in Thailand and 57% of its revenue comes from Thailand. Its main divisions are cement & building materials, petrochemicals and packaging businesses. **In 9M23, SCC's net profit was little changed on a YoY basis but it fell significantly by 70% QoQ.** This is mainly due to weak performance in all three of its business division, especially the petrochemicals segment which was affected by lower polyolefin spreads that fell USD50-70/MT QoQ. There was a THB176m asset impairment in the cement & building materials segment, while the packaging segment saw lower sales volume and pulp & paper prices. SCC's net debt-to-equity ratio remains stable at 0.62x.
Charoen Pokphand Foods (CPF)	**We are downgrading Charoen Pokphand Foods (CPF) (A+ Neg, TRIS) to Underperform from Market Perform as we are turning negative on the group's credit outlook on the back of deteriorating credit metrics as the company has been experiencing increasing debt levels and widening debt service deficits on the back of persistently weak post-CAPEX cash flow turnaround.** Although we see the 9M23 net losses as transitory, the company will likely face hurdles to bring gearing and debt service to sustainable levels. **In 9M23, CPF made net loss of THB5.5bn from 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 the interest-payment burden rose 30% YoY to THB18.6bn in tandem with the higher FFR as 85% of its total long-term debt is USD denominated at the end of 2022. 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.
Thai Beverage PCL (THBEV)	**We maintain Outperform on Thai Beverage PCL (THBEV) (Baa3) as its yields are attractive in comparison with 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 of its 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 FY mainly due to lower margins in beer and food. Meanwhile, its spirits maintained a stable EBITDA margin of around 25% since 2020 and make up 80% of its net profit. THBEV credit metrics remains stable with debt-to-equity ratio at 0.68x, while CFO-to-interest ratio remains high at 4.4x.
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, distributes consumer products and operates online and physical retail stores. **In 9M23, BJS's net profit fell 6.6% YoY to THB3,157mn 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 margins have been low but stable at 3%. We believe that the company's performance is bottoming out and will improve along with better tourism activities in Thailand.
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 international rating agency with a two-notch uplift from its parent PTT PCL with 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 state-owned Electricity Generating Authority of Thailand and an additional 31% comes from 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 distribute olefins and aromatics products globally with Thailand being its largest market. PTTGC's largest shareholder is PTT, which owns 45%, and it has long-term feedstock supply and product off-take 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 pressure. The company's EBITDA/interest is low at 0.6x as at end-March 2023 as EBITDA did not climb significantly, while borrowings remain elevated with its acquisition of Allnex, a global resin producer, in 2021. PTTGC enjoys implied credit rating support from rating agencies' view.
CP ALL PCL (CP ALL)	**We recommend THB bond CP ALL PCL, as the group will benefit from the economic recovery and return of foreign travellers.** The company operates convenience store chains in Thailand and China. Recent Dec-FY22 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.
PTT PCL (PTT)	**PTT PCL (PTT) operates as an oil, gas and petrochemical company based in Thailand.** The company produces, transports, and sells natural gas, crude oil, lubricants, aviation and marine, and petrochemical products. PTT's strategic importance to Thailand's energy sector and 63.3% state ownership indicates a high likelihood of extraordinary support from the Thai Government. **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 earnings in the short to medium term as earnings from upstream oil & gas production will increase 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.

Source: Bloomberg, RHB Economics & Market Strategy

Figure 60: Relative value –THB corporate bonds



Source: Bloomberg, RHB Economics & Market Strategy
Note: Data as at 25 March 2024

Figure 61: 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

High-for-longer FFR + Strong US GDP = An Expensive DXY

Foreign Exchange Outlook

High-for-longer FFR + Strong US GDP = An Expensive DXY

- **We forecast the DXY to strengthen to 105 – 110 in 2Q24 before weakening marginally to 103 – 107 in 3Q24 and towards 100 by 4Q24. The catalysts are: (1) markets will continue to price out Federal Funds Rate cuts towards our view for two reductions by year-end; (2) US growth momentum will continue to stay supported; and (3) risk-taking behaviour will likely benefit high-beta currencies such as AUD and NZD.**
- **Across ASEAN in 2Q24, we think SGD will continue to be the outperformer on the back of the S$NEER policy framework. We are neutral on MYR and IDR, and bearish on the THB over the same period.**
- **Our top trade ideas in 2Q24 are as follows: (1) long DXY, especially against JPY and THB, (2) long SGD against ASEAN and for a longer paradigm into the end of 2024; and (3) long AUD and NZD against JPY.**

Acting Group Chief Economist & Head, Market Research
Barnabas Gan
+65 6320 0804
barnabas.gan@rhbgroup.com

Economist
Chin Yee Sian
+603 9280 8862
chin.yee.sian@rhbgroup.com

Associate Economist
Wong Xian Yong
+603 9280 2179
wong.xian.yong@rhbgroup.com

Figure 1: RHB FX Forecasts against Bloomberg consensus – A Stronger DXY Backdrop in 2Q24

RHB FX Forecasts					Bloomberg Consensus				
G10FX	2Q24	3Q24	4Q24	2025	G10FX	2Q24	3Q24	4Q24	2025
EUR	1.0560	1.0778	1.1108	1.154	EUR	1.0900	1.1000	1.1000	1.1400
JPY	154.72	152.87	149.16	145.58	JPY	145.00	143.00	141.00	133.00
GBP	1.2254	1.2443	1.2761	1.326	GBP	1.2700	1.2700	1.2800	1.3200
AUD	0.6403	0.6525	0.6706	0.697	AUD	0.6700	0.6800	0.6900	0.7200
NZD	0.5797	0.5937	0.6157	0.640	NZD	0.6100	0.6300	0.6400	0.6600
AxJ FX	2Q24	3Q24	4Q24	2025	AxJ FX	2Q24	3Q24	4Q24	2025
CNH	7.3069	7.1980	7.0515	6.7750	CNH	7.2200	7.1500	7.1300	6.9000
IDR	16,096	15,897	15,693	15,077	IDR	15,599	15,350	15,250	14,750
MYR	4.7980	4.7299	4.6344	4.4527	MYR	4.7000	4.6500	4.6000	4.4500
SGD	1.3613	1.3382	1.3074	1.2562	SGD	1.3300	1.3300	1.3200	1.3000
THB	37.52	36.94	36.00	34.59	THB	36.00	35.50	35.00	34.20
VND	25,013	24,973	24,878	23,902	VND	24,500	24,400	24,300	23,800

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

Still a Stronger DXY Backdrop, But It Will Not Last

We forecast the DXY to strengthen to 105 – 110 in 2Q24 before weakening marginally to 103 – 107 in 3Q24 and towards 100 by 4Q24. The catalysts are: (1) markets will continue to price out Federal Fund Rate (FFR) cuts towards our view for two reductions by year-end; (2) US growth momentum will continue to stay supported; and (3) a potential drawdown taper of the Fed's quantitative tightening (QT) programme may support DXY strength. We keep our FFR cut forecasts to two times in 2H24, specifically in September (-25bps) and December (-25bps) 2024, against market pricing of three times cut seen at the time of writing. The high-for-longer FFR view means investors will prefer the dollar on the back of yield-chasing behaviour and positive carry already seen since 2023. Note, US economic indicators have continued to signal a rosy economic backdrop, with economic tenets underlining the natural appreciation of its domestic currency. Meanwhile, the US Federal Open Market Committee's (FOMC) potential drawdown taper of its QT programme supports market expectations for a stronger DXY.

Across ASEAN in 2Q24, we think SGD will continue to be the outperformer on the back of the S$NEER policy framework. We continue to like the SGD on the back of its S$NEER policy framework. The S$NEER is currently trading at 1.6% above the midpoint at the time of writing. We perceive the S$NEER appreciation at +1.5% per annum with a +/- 2.0% band. Empirically, the SGD has remained the strongest currency across ASEAN, which is in line with our expectations as written in the previous Path Finder report. We are neutral on MYR and IDR, and bearish on the THB. Specifically, MYR may see a formidable resistance at its 4.80 per USD handle in 2Q24, before appreciating towards 4.60 per USD on the back of potential improvement in its fiscal and current account balances. The IDR may also see a credible resistance at its 16,200 per USD, and appreciate towards 15,700 in 2H24 as economic growth averages 5.0% for the full year. The THB however, may continue to stay soft towards 37.5 per USD in 2Q24 as our leading index suggest (1) a slowdown in GDP momentum over the same period, while (2) the removal of energy subsidies may depress its real interest rate on the back of higher inflation.

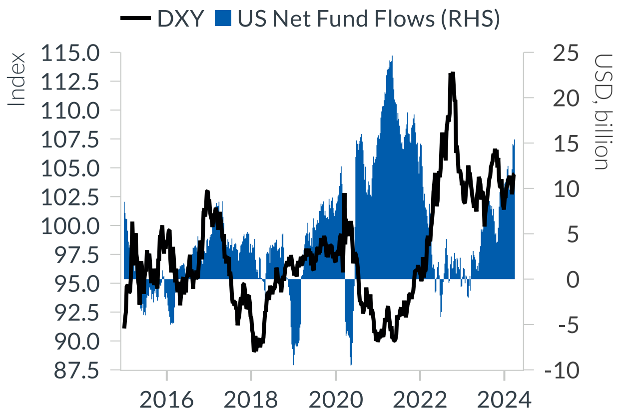
We continue to stay positive on the CNH on the back of our assumptions for China to stage an economic recovery in 2024. Our quantitative analysis of the CNH to approach 7.0 per USD prognosis into 2H24.. Our Ordinary Least Square Estimation (OLS) suggests that US-CN nominal rate differentials are the 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 the 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.

Separately, risk-taking behaviour will likely benefit high-beta currencies such as the AUD and NZD for the year ahead. Our assumptions for China's economic recovery will benefit growth-related commodity prices, including energy and base metals. Amongst the G10, we are most positive on AUD and NZD in terms of further nominal export recovery. We expect growth-related commodity prices to rally further for the rest of this year, especially crude oil and base metals - we pencil Brent to average US$85 – 95 per barrel in 2024, whilst LME base metals have already rallied markedly since February 2024. Separately, we see little impact to the JPY despite the Bank of Japan's move to exit from its negative policy rate – the JPY remains to be a safe haven, which in turn, could mean little strengthening stimulus for the year ahead.

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. The catalysts are: (1) the relative differing of economic growth trajectory across economies into the year ahead; (2) trade structure as compared to its ASEAN peers, which will subsequently impact the spillover effects from China's recovery; and (3) exogenous variables, such as potential political noise, in 2024. Suffice to say, the potential FFR cuts in 2H24 will serve to support ASEAN FX strength in the same period.

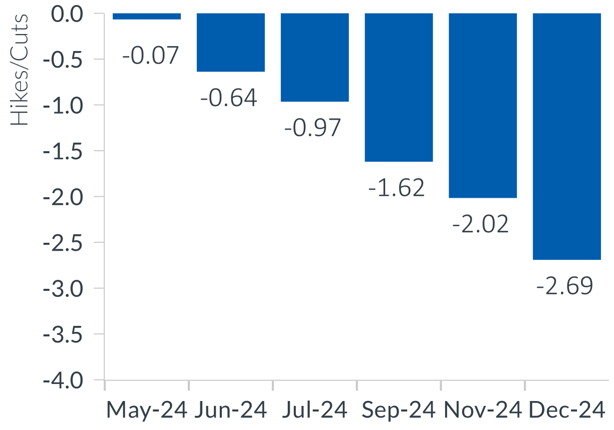
As such, our top trade ideas in 2Q24 are as follows: (1) long DXY, especially against JPY and THB, (2) long SGD against ASEAN and for a longer paradigm into the end of 2024; and (3) long AUD and NZD against JPY. On the back of our DXY assumption to strengthen in 2Q24, we practically favour the USD against most of Asia as the Fed keeps its high-for-longer rate backdrop. In ASEAN, we like (very much) the SGD its regional peers. In the longer paradigm, a global economic recovery backdrop and higher commodity prices will continue to support the AUD and NZD. At the same time, safe haven assets, such as the JPY, will stay unattractive.

Figure 2: Fund inflows continue into US shores on the back of high-for-longer FFR…



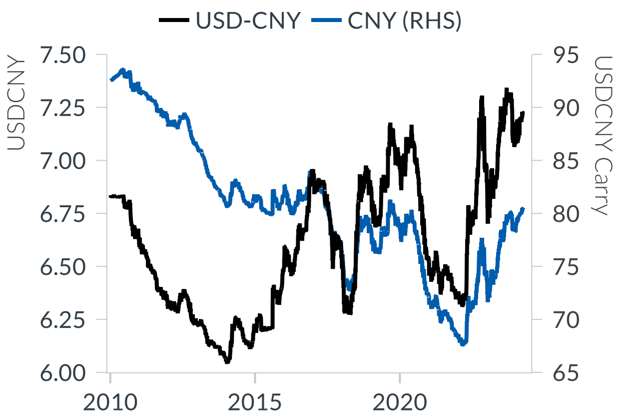
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: … with market participants pricing out six rate cuts (to the current three cuts) in 2024



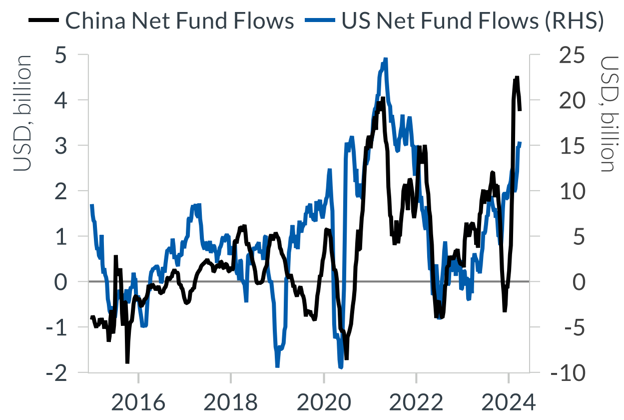
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: USD carry over CNY may fade, especially when FFR cuts commence…



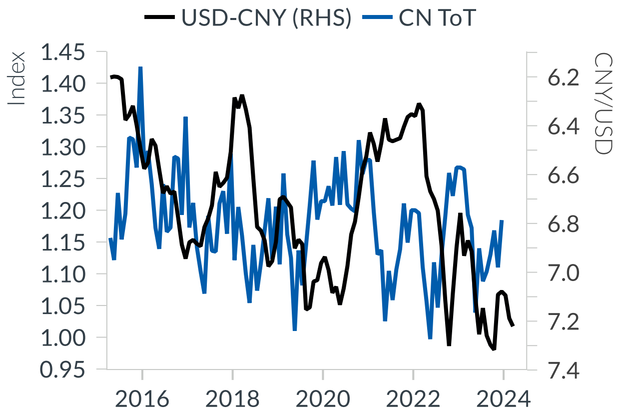
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: … while we are already seeing strong net fund inflows into China year-to-date…



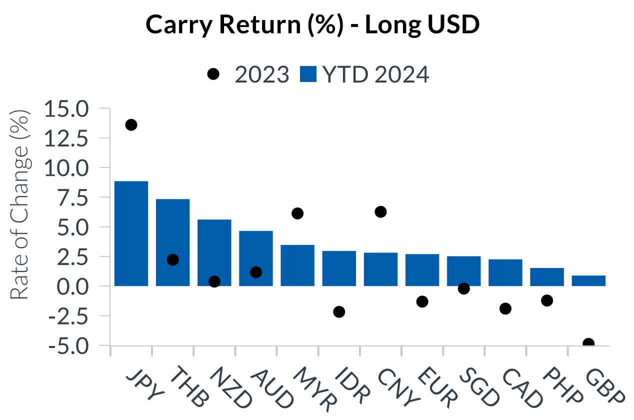
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: … and a recovering China's terms of trade will likely persuade a path towards 7.0 per USD in 2H24



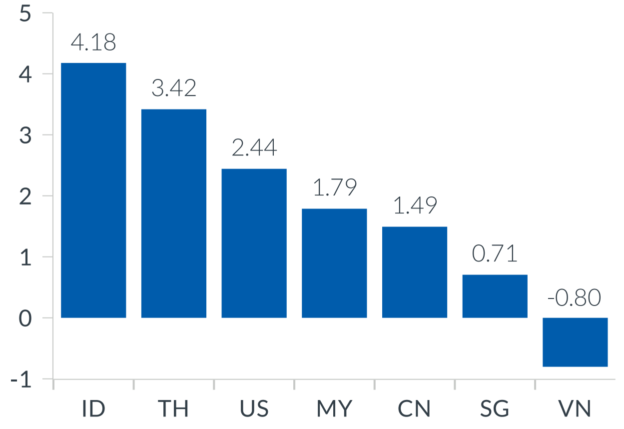
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Dollar carry against other currencies remains positive, suggesting further DXY strength in 2Q24



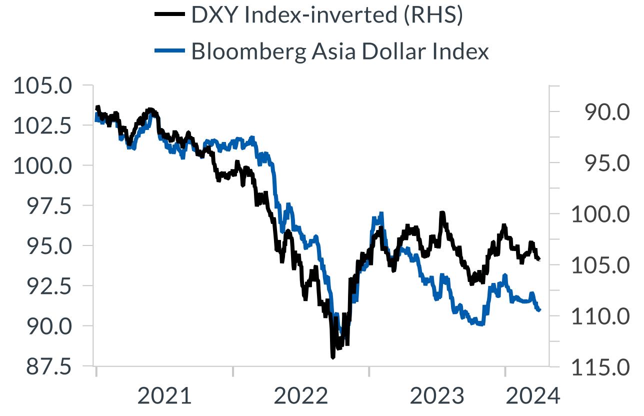
Source: Macrobond, RHB Economics & Market Strategy

Figure 8: Real rates across key economies are broadly positive (ex-VN), with ID running ahead of the pack



Source: Macrobond, RHB Economics & Market Strategy

Figure 9: DXY to move towards 105 – 110 in 2Q24, thus suggesting a weaker Asia FX backdrop



Source: Macrobond, RHB Economics & Market Strategy

USD/IDR: Navigating Mixed Market Forces with a Neutral Outlook

- **Our 2024 Path Finder report's projection for the IDR to range between 15,300 and 15,800 per USD during the January-March period has materialised nicely, with the IDR staying soft in the first quarter of 2024.** At the beginning of the year, the IDR started at the 15,400 level before depreciating sharply to the 15,800 level at the end of January due to political noise, as indicated in our thematic report, in which the volatility of the financial markets tend to rise pre-election and this translates into profit-taking behaviour. Subsequently, the presidential election had limited immediate impact on the currency trajectory, as it remained relatively stable within the range of 15,600 – 15,800 during the electoral period from early February to March.
- **Looking forward to year-end, we maintain a neutral stance on the IDR and anticipate a marginal strengthening towards our 4Q24 forecast at 15,700.** The primary support for the currency's strength remains the interest rate differential between the FOMC and Bank Indonesia (BI). We maintain our forecast for the FOMC to cut its FFR only twice in 2024, with the first cut expected in September and the second in December, each by 25bps. Similarly, we expect BI to cut the policy rate by 50bps in 2H24. However, we believe that the delay in the timing of BI rate cuts could widen the ID-US yield differential, encouraging substantial capital inflows into the bond market and providing support for the currency's appreciation.
- **Despite our cautiously optimistic outlook for the IDR in 2024, several caveats exist regarding the positive trajectory of the currency:** (1) medium-term fiscal risks are increasing due to President-elect Prabowo Subianto's emphasis on social welfare initiatives, such as free school lunches and milk, which could strain government spending and challenge Indonesia's fiscal prudence outlined in the 2003 State Finance Law which caps the fiscal deficit and government debt at 3% and 60% of nominal GDP, respectively; (2) the current account (CA) balance is trending down, primarily due to a narrower non-energy trade balance, fuelled by increased import activity and ongoing moderation of commodity prices; and (3) GDP growth faces downside risk from weakened household consumption sentiment due to declining purchasing power among lower-income groups and subdued business sentiment following post-*Lebaran* celebrations.
- **Our quantitative model (Figure 11) reaffirms our neutral stance on the IDR, supported by limited strength from key coefficient variables.** With a projected GDP growth rate of 5.0% in 2024, slightly down from 5.1% in 2023, and anticipated subdued consumer sentiment in the latter half of 2024, there is potential for moderate loan growth and a potential uptick in non-performing loans, which could dampen support for IDR appreciation. However, optimism stems from the favourable real interest rate differentials and continued inflow of foreign direct investment capital.
- **2Q24: 15,900– 16,250: In the short term, the IDR will continue to weaken as the market continues to price out the number of FFR cuts, as the US CPI prints are likely to remain hot.** Nevertheless, we expect formidable resistance at the 16,000 level, as the BI is perceived to intervene in response to escalating IDR volatility. Net fund flows stay positive, supported by equity inflow. We perceive an immediate resistance at its 16,000 per USD, and if broken, to head towards 16,200 per USD.
- **3Q24: 15,750 – 16050: IDR appreciates marginally as the initial FFR cuts widen the ID-US yield differential and reduce the positive carry of the USD.** Consequently, foreign inflows into debt instruments turn positive, further supporting the IDR. This is complemented by stronger foreign direct investment and equity portfolio investments, offsetting the decline in the current account. As a result, the overall basic balance remains robust.
- **4Q24: 15,540 – 15,850: The IDR is expected to strengthen further with subsequent FFR rate cuts to the range of 4.75 – 5.00%.** Investor yield-chasing behaviour is expected to favour IDR bond instruments as the yield differential widens with the onset of the FOMC rate cut cycle, coupled with the delayed timing of BI rate cuts.
- **2025: 14,900 – 15,200: The IDR reverts to its long-term trends in 2025 amid the consolidation of policy rates globally and the normalisation of ID-US interest differentials towards the pre-pandemic level.** The ongoing global economic recovery, including Indonesia, continues its recovery path amidst the substantial reduction in geopolitical risks.

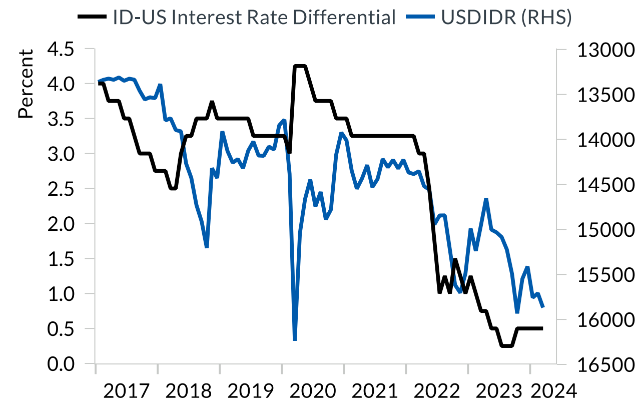
Figure 10: USD/IDR key determinants are...

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

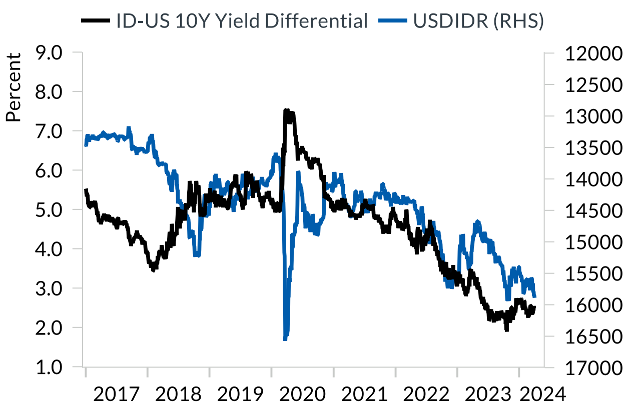
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents a magnification of coefficients

Figure 11: ... the ID-US interest rate differential...



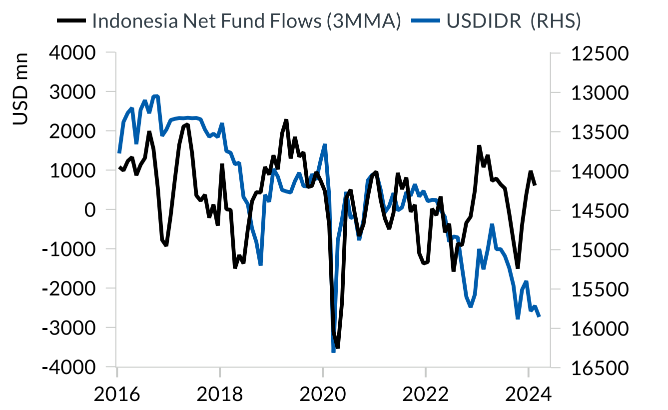
Source: Macrobond, RHB Economics & Market Strategy

Figure 12: ...as the wider gap increases the positive IDR carry...



Source: Macrobond, RHB Economics & Market Strategy

Figure 13: ...and promotes stronger net foreign capital inflow



Source: Macrobond, RHB Economics & Market Strategy

Figure 14: Basic Balance remains robust with support from foreign equity inflow and FDI

Source: Macrobond, RHB Economics & Market Strategy

USD/MYR: Remain Under Pressure in 2Q24

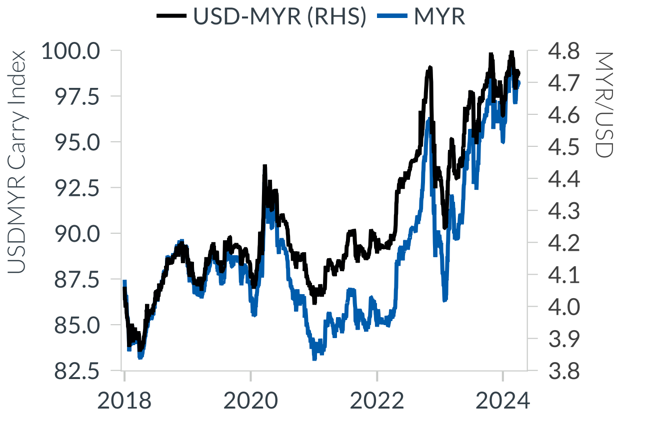
- **As stated in our 2024 Path Finder report, we expected USD/MYR to trade at a range of 4.60 – 4.90 in 1Q24.** In line with our in-house view, the MYR weakened against the USD to 4.73 by the end of March (versus 4.59 per USD in December). As the market prices out the FFR cuts, the USD carry against MYR is likely to remain rich, suggesting that the MYR's weakness may persist in the near term. We see a formidable resistance for the MYR at 4.80 per USD in 2Q24, before trending lower towards 4.60 per USD in 4Q24.
- **Our view for a peak FFR of 5.25 – 5.50% is unchanged.** Our earlier expectation of a pricing-out effect by the market participants has materialised nicely. Currently, the market is pricing in three rate cuts (six rate cuts previously) for the whole year. Gradual pricing out of rate cuts is likely to be extended to our two FFR cuts expectation. As cited in our previous published report, we observe signs that FOMC members are gradually shifting towards less than three rate cuts in 2024. This implies that the DXY is likely to strengthen to 105 – 110 by 2Q24.
- **Our quantitative analysis suggests that the MYR will benefit from an improved Malaysia-centric interest rate and trade and fiscal matrices while being dragged by potentially lower oil prices and higher public debt.** The anticipated normalisation of the FFR by 2H24 is expected to lend some strength to the MYR, where the positive carry seen in the greenback is expected to dissipate gradually. We pencil in the earliest cut by September and another by December to bring the FFR to 4.75 – 5.00%. The MYR is expected to strengthen to the level of 4.60 per USD by the end of 2024, should the FFR cuts start in September.
- **Separately, we expect Malaysia's fiscal balance deficit to narrow to 4.3% of GDP in 2024 against 5.0% of GDP estimated in 2023, which is in line with the Government's commitment to fiscal strengthening and consolidation.** Budget 2024 measures, ie the introduction of new revenue drivers, enhancement of tax compliance and rationalisation of subsidies, are in line with containing the fiscal deficit. The domestic confidence in holding MYR would partially hinge on the progress of fiscal and infrastructure policy reforms. The Government is still in the inceptive stage of fiscal consolidation. The services tax adjustments have been implemented as planned. Nevertheless, there is a lack of clarity on the fuel subsidy rationalisation at this juncture, where there are pending official announcements on the timeline as well as the magnitude of adjustments at the time of writing.
- **Malaysia's current account surplus is expected to grow robustly to 2.3% of GDP in 2024 versus 1.2% of GDP in 2023, which is MYR positive.** The goods surplus is expected to trend higher on the back of higher exports, in tandem with strengthening external demand. Meanwhile, tourism receipts are expected to be lifted by higher tourism arrivals and receipts.
- **Meanwhile, we continue to see upside bias for crude oil for early 2024 amid stronger demand coupled with policy-induced supply constraints given production cuts by global oil producers.** The Brent oil price is projected to stay strong at a range of USD85 – 95 per barrel. On the flip side, headwinds to the MYR could be emanating from Malaysia’s elevated public debt in 2024. Malaysia sees its federal government debt to sustain at 64.0% of GDP by the end of 2024 versus 64.3% as of December 2023, which will likely cap MYR strength in 2024.
- **2Q24: 4.70 – 4.90.** MYR will remain under pressure amid the persistence of US-MY interest rate differentials. As the market gradually prices out the FFR, the USD carry against the MYR is likely to remain rich, suggesting that the MYR's weakness may persist in the near term.
- **3Q24: 4.60 – 4.80.** USD/MYR to show some early signs of consolidation by the end of 3Q24 should the first FFR cut materialise by September. By 3Q24, orderly implementation of the aforementioned fiscal measures is envisaged. Separately, the CA balance would be bolstered by improvement in export performance and tourism receipts.
- **4Q24: 4.50 – 4.70.** USD/MYR will strengthen further amid the continued narrowing of US-MY interest rate differentials, following the second FFR cut by December. On the domestic front, the MYR would be supported by an improved fiscal position (should the subsidy rationalisation plan pan out as planned) and CA balance.
- **2025: 4.35 – 4.55.** A stronger MYR is anticipated following the diminishing US-MY rate spread coupled with improved fiscal and balance of payment position.

Figure 15: USD-MYR is driven by six key variables

Dependent Variable:	*USD-MYR*			
	Coeff	*Std Err*	*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
R-Square	0.75			

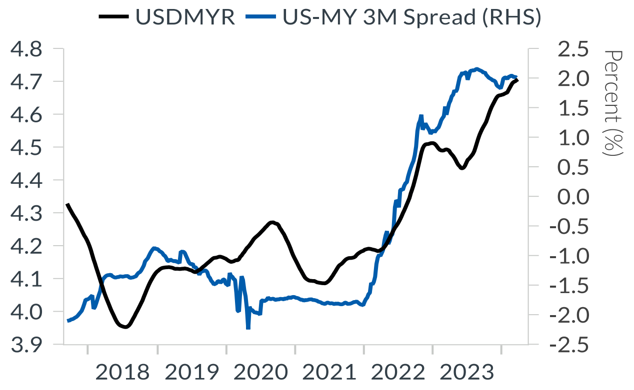
Source: RHB Economics & Market Strategy
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents a magnification of coefficients

Figure 16: USD carry against MYR remains rich as the market price out FFR cuts, suggesting MYR weakness may persist...



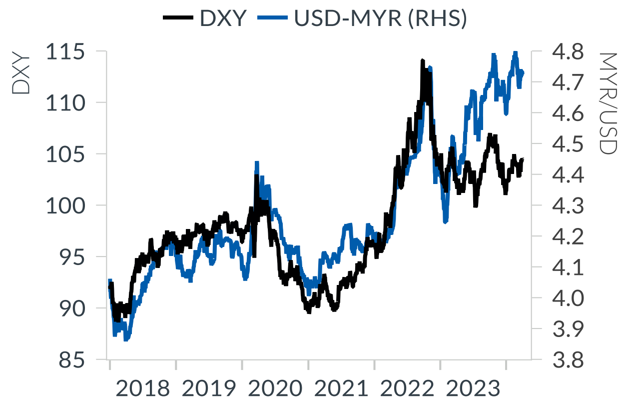
Source: Macrobond, RHB Economics & Market Strategy

Figure 17: ... but FFR cuts in 2H24 may narrow the US-MY spread and lead MYR towards 4.6 per USD



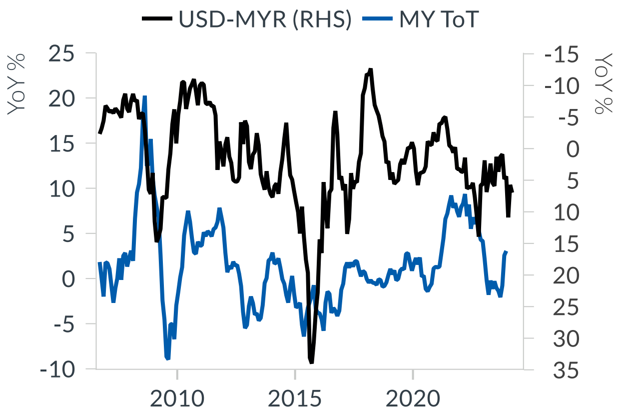
Source: Macrobond, RHB Economics & Market Strategy

Figure 18: Correlation between DXY and MYR resumed



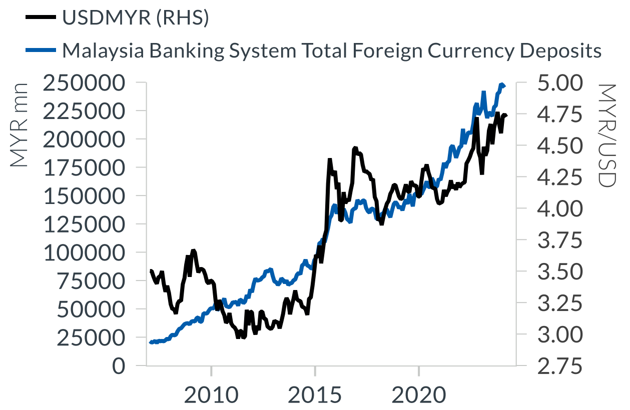
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: Malaysia's terms of trade to strengthen in 2024, which is MYR-supportive



Source: Macrobond, RHB Economics & Market Strategy

Figure 20: USD hoarding onshore in Malaysia is still elevated and reflects weak domestic sentiment



Source: Macrobond, RHB Economics & Market Strategy

USD/SGD: Outperformer in ASEAN

- **We see the SGD appreciating towards 1.30 by end 2024; we estimate the S$NEER to be at a +1.5% appreciation gradient, with a +/-2.0% band.** The key catalyst behind our SGD view is hinged on our call for the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in 2024. Inflation risks and a resilient economic backdrop will likely persuade MAS to keep its policy parameters unchanged in 2024 (Singapore: MAS Policy Will Likely Stay Pat For 2024). Singapore, an import-reliant economy, is susceptible to imported inflation, whereby we are seeing upside bias for food and energy prices in the foreseeable future. We project both Singapore's headline and core inflation at 3.5% in 2024, with the balance of risks tilted to the upside for food and energy prices in the foreseeable future. We expect its externally facing sectors, namely industrial production and exports, to improve amid a strong economic backdrop recovery in global trade, along with our positive outlook on China (Singapore: Accelerating Inflation Momentum in 1H24).
- **We like (very much) the SGD for 2024.** Singapore, being one of the few Asian economies that use the Nominal Effective Exchange Rate (S$NEER) as its monetary policy tool, is estimated to have a 1.5% appreciation gradient since deciding on a pause at its January 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 levels below 0.05 and R-square at 0.86. We found Singapore's industrial production, labour and money supply to be key determinants of SGD levels.** Separately, foreign direct investment (FDI) differentials between the US and Singapore have a positive relationship with USD/SGD. The OLS findings are pertinent to our SGD view. On the flip side, Singapore is highly susceptible to global trade shocks, underlining a caveat against a strong SGD should unforeseen negative global growth shocks be present in 2024.
- **2Q24: 1.35 – 1.37. 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 against the USD and its ASEAN peers.
- **3Q24: 1.32 – 1.35. SGD's weakness may be limited, given Singapore's S$NEER policy, thus allowing the 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.
- **4Q24: 1.29 – 1.32. We expect USD/SGD to trend lower as US-SG interest rate differentials narrow, on the assumption that market participants start pricing in FFR cuts in the same period.** SGD's rally to the growth years post-GFC (2011 – 2014: USD/SGD saw a low of 1.20 and a high of 1.34) is a likely similar backdrop on the back of our global assumptions.
- **2025: 1.23 – 1.28. 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.

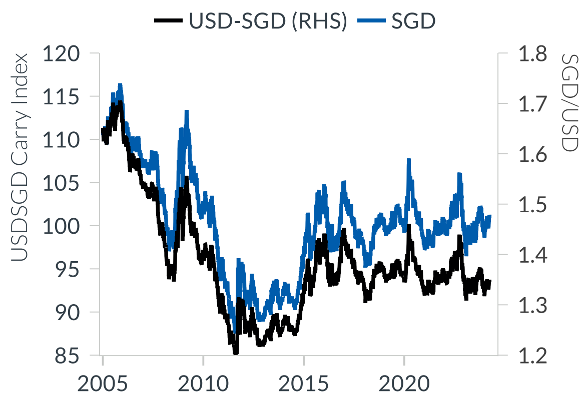
Figure 21: SGD will trade up in 2024 on the back of...

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

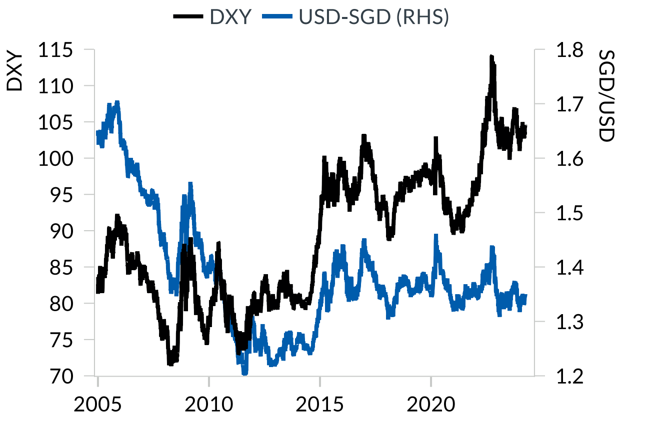
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents a magnification of coefficients

Figure 22: ...the negative carry on holding SGD



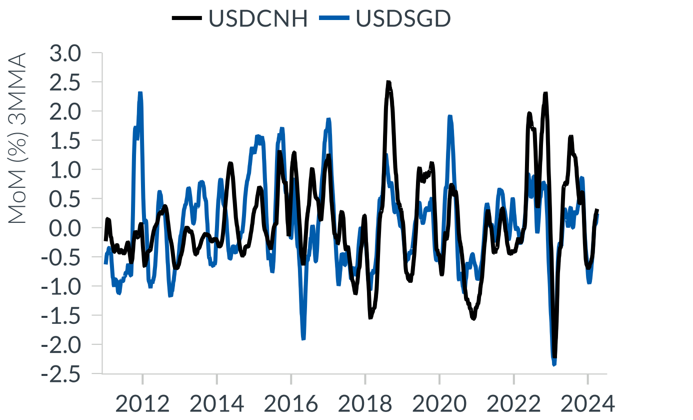
Source: Macrobond, RHB Economics & Market Strategy

Figure 23: USD/SGD will continue to trade with limited correlation with the USD and will be relatively more…



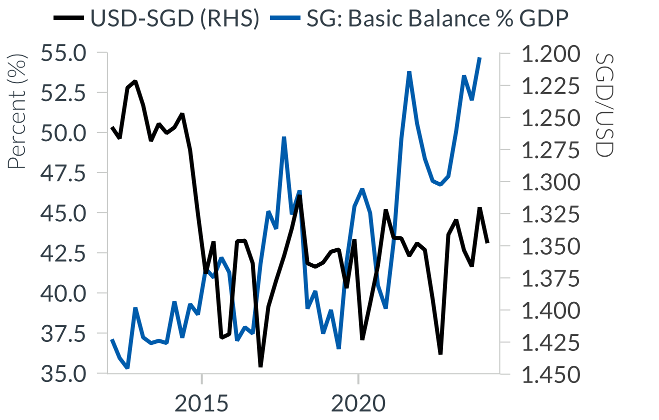
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: …impacted by the momentum of USD/CNH in 2024



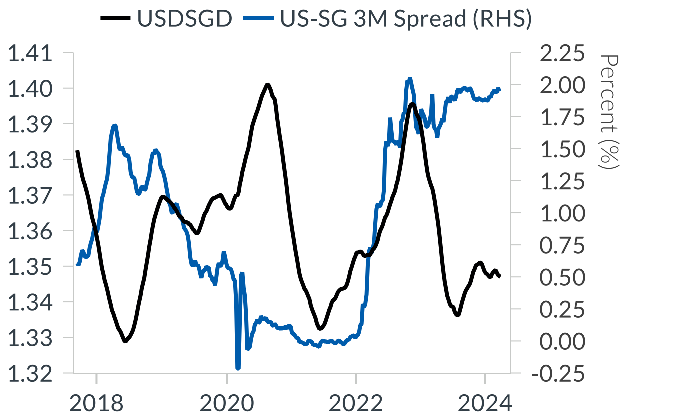
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: SG basic balance is rich, thus supporting SGD



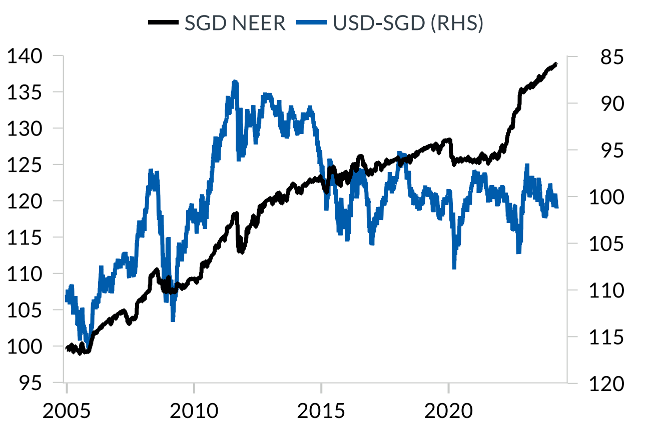
Source: Macrobond, RHB Economics & Market Strategy

Figure 26: SGD not influenced by US-SG spread on the back of its S$NEER policy



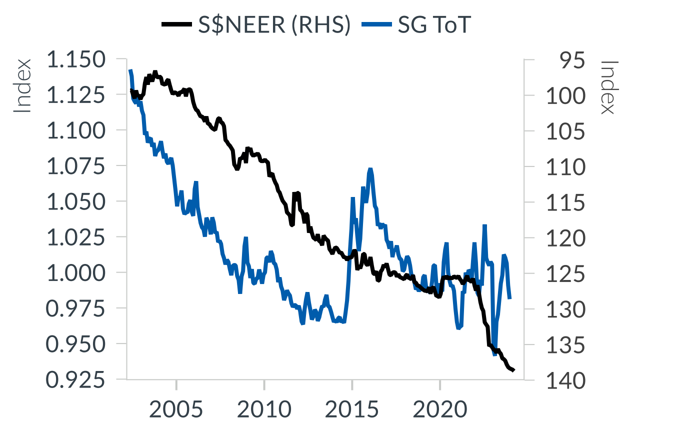
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: SG basic balance is rich, thus supporting SGD



Source: Macrobond, RHB Economics & Market Strategy

Figure 28: SG terms of trade do not trend with S$NEER



Source: Macrobond, RHB Economics & Market Strategy

USD/THB: Positive Real Return Under Pressure Amid Rising Inflation

- **Our outlook for THB to weaken to a range of 35.5 – 37.0 per USD materialised nicely; the THB softened to 36.60 per USD at the time of writing.** THB has been relatively softer as compared to its ASEAN peers especially IDR and SGD, as investors reacted to the massive fiscal payout for its energy subsidies, amid the less-than-stellar recovery in Thailand's trade and tourism levels. Further weakening of the THB in 2Q24 towards 37.5 per USD cannot be discounted for several reasons: (1) a slowdown in GDP momentum over the same period as seen in our GDP leading index model, while (2) the removal of energy subsidies may depress its real interest rate on the back of higher inflation and (3) a potential higher fiscal deficit into FY2025, with the cabinet approving a plan to widen the deficit target by about US$4.2 billion starting 1 October 2024.

- **Still, we forecast THB to strengthen towards 36.0 by end-2024.** THB, like the rest of ASEAN, will also be influenced by US-TH 3M spread amid policy normalisation by the Fed in 2H24. We keep our view for the US FFR to be cut two times this year, specifically in September (-25bps) and December (-25bps). We observe no impetus for the Bank of Thailand (BoT) to cut rates; (1) current deflation backdrop is policy-driven and does not reflect demand conditions, (2) growth outlook in 2Q24 – 3Q24 remains weak, (3) while the elevated real interest rates may dissuade policy manoveurs until further clarity on its trend can be ascertained. Thus, lower US-centric rates will be seen against our view for the BoT to keep its policy rate unchanged at 2.5%, suggesting that the positive US-TH yield differential will narrow into 2H24.

- **Another potential strength for THB in 2H24 may stem from a further recovery in its inbound tourism activities.** We expect Thailand's inbound visitor arrivals to return to pre-pandemic levels in 2024. Visitor arrivals have already clocked 3.3 million persons in February alone, higher than the monthly average of 3.2 million persons in 2019 (pre-COVID). Should this trend persist, we expect a total of 38.0 million visitor arrivals for the whole of 2024. We discuss the tourism outlook in our thematic report, whereby our quantitative model suggest that wages and tourism are the chief determinants of Thailand's consumption function.
- **Our USD/THB leading model suggests that higher foreign reserves, tourism, and consumer confidence are key determinants of the currency pair.** The model reinforces our view of THB's resilience in 2H24 while also lending support from positive spillover effects from consumer spending and confidence, which we think will also pick up in tandem with the recovery already seen year-to-date.
- **2Q24: 37.1 – 37.9. We expect the USD/THB to remain supported at current levels, with the bias for THB to depreciate marginally.** Thailand's positive real return will come under pressure given the expiry of its diesel fuel subsidy at end-March which could lead to a material spike in prices. Higher inflation is on the cards, especially given the recent removal of fuel subsidies effective 31 March 2024.

- **3Q24: 36.6 – 37.3. We pencil in a marginal appreciation in THB against the USD in tandem with its broad weakness.** We expect the FFR to see an eventual rate reduction to 4.75 – 5.00% in 2H24. Thus, a gradual appreciation of the THB may materialise as expectations for diminishing USD carry take form.

- **4Q24: 35.6 – 36.4. We expect USD/THB to trend lower as US-TH interest rate differentials narrow, on the assumption that market participants start pricing in FFR cuts in the same period.** By 2H24, we will also likely see a stronger clarity on China's economic recovery, which would have already injected positive spillover effects to Thailand's manufacturing and tourism numbers. Overall, THB is neutral, as we expect it to move back to near where it first started in 2024.

- **2025: 34.2 – 34.9. We expect the THB to return to lower range-trading behaviour in 2025 amid 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.

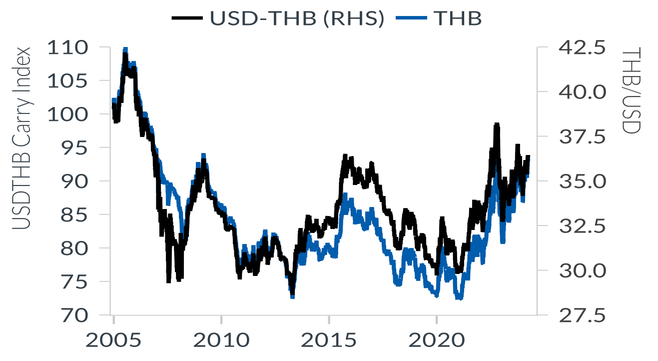
Figure 29: Tourism economic activities are key drivers of THB

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*

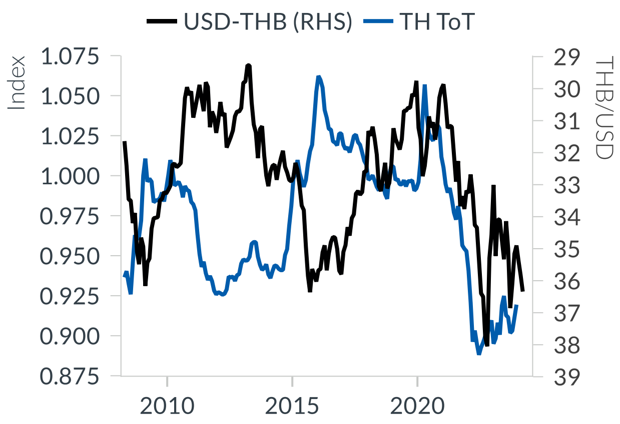
Notes: (t-n) represent the n lags of the variables respectively, (xNK) represents a magnification of coefficients

Figure 30: Negative carry will propel USD/THB higher in 2024



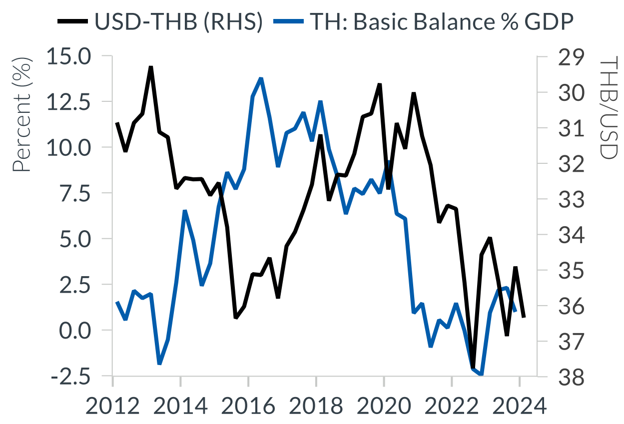
Source: Macrobond, RHB Economics & Market Strategy

Figure 31: THB trends well against its terms of trade



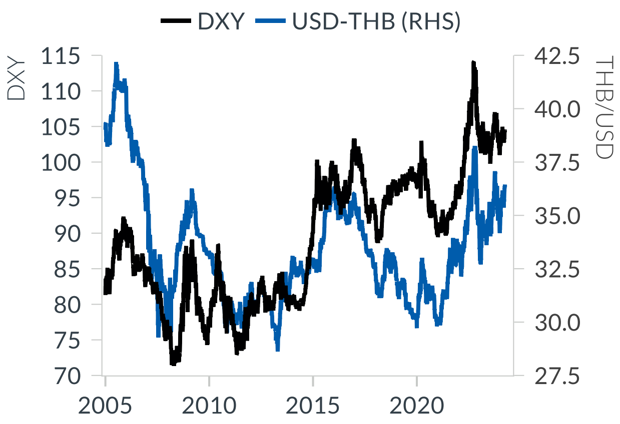
Source: Macrobond, RHB Economics & Market Strategy

Figure 32: TH's Basic Balance slows in 2H23, but a better economic prognosis will help THB in 2024



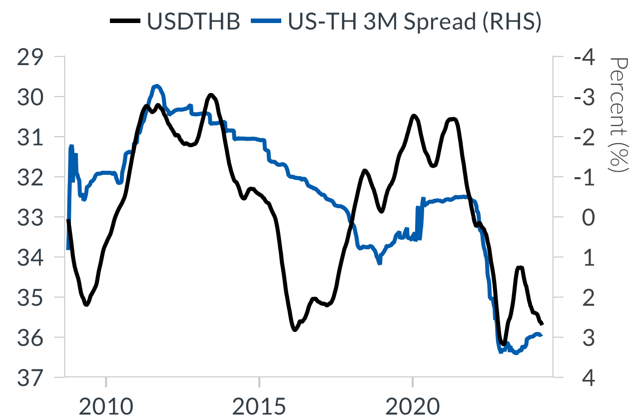
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: THB resumes its trend with USD…



Source: Macrobond, RHB Economics & Market Strategy

Figure 34: … while a narrower US-TH rate spread will help THB



Source: Macrobond, RHB Economics & Market Strategy

Economic Outlook

Indonesia

Cautiously Optimistic Outlook Amidst Weak Consumer Sentiment

- **We maintain our forecast for Indonesia's annual GDP growth at 5.0% in 2024, with the balance of risk leaning towards the downside due to weaker consumer spending expectations.**

- **We keep our 2024 headline and core inflation forecasts at 3.3% YoY and 2.2% YoY, respectively.**

- **Our view remains for Bank Indonesia (BI) to keep its benchmark policy rate unchanged at 6.00% in 1H24, followed by a 50bps reduction in 2H24 to 5.50%.**

Associate Economist

Wong Xian Yong
+603 9280 2179
wong.xian.yong@rhbgroup.com

Figure 1: Key Economic Forecasts

	2022	2023	2024F	2025F	1Q24F	2Q24F	2H24F
Real GDP Growth (% YoY)	**5.3**	**5.0**	**5.0**	**5.3**	**5.1**	**5.0**	**5.0**
Contribution to real GDP Growth (%)							
Private Consumption	2.6	2.5	2.5	2.7	2.5	2.6	2.4
Investment	1.2	1.4	2.0	1.9	2.0	2.0	1.9
Government Consumption	-0.4	0.2	0.7	0.4	0.4	0.6	0.9
Net Exports	0.8	0.7	-0.1	0.2	-0.2	0.0	-0.2
CPI	**4.2**	**3.7**	**3.3**	**3.0**	**2.8**	**3.2**	**3.6**
Policy Interest Rate	**5.50**	**6.00**	**5.50**	**5.00**	**6.00**	**6.00**	**5.50**
Current Account Balance (% of GDP)	**1.0**	**0.1**	**-0.8**	**-1.0**	**-0.4**	**-0.8**	**-1.0**
Fiscal Balance (% of GDP)	**-2.4**	**-1.7**	**-2.5**	**-2.8**	**1.2**	**2.0**	**-6.6**

Source: CEIC, RHB Economics & Market Strategy

We maintain our annual GDP growth forecast at 5.0% in 2024, albeit with the balance of risk tilted towards the downside, primarily due to subdued consumer spending expectations. Following recent discussions with policymakers and retail market representatives in Indonesia, we identified a prevailing sentiment of weak household consumption expenditure arising from deteriorating purchasing power within the lower-income segment and dampened business sentiment on consumer demand post-*Lebaran* celebrations. **Despite the downside risk, we maintain our forecast due to three key supporting factors for the economy:** (1) the Indonesian Government has demonstrated robust policy support with various initiatives to underpin purchasing power; (2) an increase in investment and foreign direct investment activities is expected post-election; and (3) the rosier outlook for global economic expansion coupled with China's ongoing economic recovery.

On the external front, we maintain a positive outlook for Indonesia's export recovery in 2024. We believe that the weakness of exports in the first two months was led by seasonal factors, which typically result in negative growth at the beginning of the year. We are optimistic that Indonesia's export recovery strength will outweigh the seasonal blips, supported by a positive global economic outlook, increased commodity demand from China, and higher crude oil prices. Our confidence in global economic growth in 2024 remains strong, with above-consensus forecasts for the US and China to expand by 2.5% and 5.0% respectively. This positive trajectory of the global economic landscape is evident in Figure 4, where the Sentix Global Economic Sentiment Index reflects an improvement in global business sentiment over the next six months. Concurrently, global industrial production, a key gauge of global economic activity, signals an acceleration in global production momentum.

Our view for GDP growth momentum to sustain in 1H24 is further reinforced by our proprietary Composite Leading Index (CLI) model, which leads empirical GDP data for two quarters. Our CLI has accurately captured the GDP trend in 2H23. The CLI model, which takes on six independent variables, suggested a marginal pick-up in GDP growth in 4Q23 which has also materialised nicely. Looking ahead to 1H24, the CLI signals a likely persistence of growth momentum, projecting a stable trajectory. Notably, high-frequency data such as consumer sentiment and the retail sales index have shown an improving momentum, rebounding from lower figures observed in 4Q23.

We maintain our 2024 headline and core inflation forecast at 3.3% and 2.2% YoY, respectively. The key determinants of the inflation trajectory include: (1) elevated food inflation momentum due to *El Niño* conditions; (2) potential fiscal policy adjustments; and (3) increasing demand-side pressure aligned with improving economic growth prospects. The *El Niño* phenomenon will lead to an increase in sea surface temperatures, resulting in reduced precipitation and delayed rice production, ultimately contributing to elevated rice prices and sustained food inflation. **Food inflation poses a significant risk to Indonesia as the price level of the fresh food component contributes the most to the headline inflation trajectory.** Despite the United Nation's World Meteorological Organisation[1] reporting that *El Niño* is likely to dissipate, we do not expect an immediate improvement in this challenging situation. This is because the production of rice, both domestic and external, is disrupted, and more time is required for paddy crops to mature due to delayed plantation by farmers since the previous year. Additionally, according to our model in Figure 6, food inflation typically lags the anomaly index by 12 to 18 months, suggesting a prolonged period of elevated food prices.

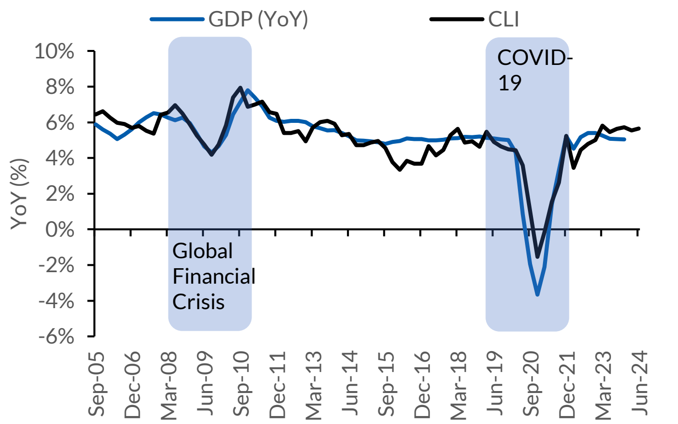
We maintain our view for Bank Indonesia (BI) to keep its benchmark policy rate unchanged at 6.00% in 1H24, followed by a 50bps reduction in 2H24 to 5.50%. We expect policymakers to maintain a stable interest rate differential gap through gradual policy adjustment, generally aligning with the Federal Open Market Committee's decision. This is because we find it highly improbable for BI to ease its policy rate before the Federal Reserve does. Any policy easing by BI prior to a Federal Funds Rate adjustment will erode investors' yield-chasing appetite and could exert downward pressure on the IDR. Based on our conversation with BI and the guidance in policy announcements, IDR stability will remain the main focus of the central bank, as the trajectory of the policy rate hinges closely on currency performance. Hence, we believe that BI would only begin the policy easing once a clear indication of IDR strength becomes evident.

We maintain our current account (CA) balance forecast at -0.8% of GDP in 2024, mainly due to the anticipated decline in the trade balance. These deficits will primarily arise from a narrower non-energy trade balance, fuelled by increased import activity, particularly in consumer and capital goods sectors, alongside the ongoing moderation of commodity prices. As for the energy trade balance, we anticipate higher energy imports to offset the increase in energy exports, thereby stabilising the energy CA balance. Our 2024 commodity forecasts for Brent are held steady at USD85-USD95/barrel (2023 YTD average: USD82/barrel) while the average for crude palm oil is projected at MYR3,900/MT (2023: MYR3,700-MYR3,800/MT)[2].

We project a fiscal deficit of 2.5% of GDP for 2024. The latest figures from the year-to-date monthly realisation of Indonesia's government budget indicate that expenditures for January and February show a nearly 30% YoY growth, while revenue collection declined by 4-7% YoY. Indonesia's Finance Minister Sri Mulyani Indrawati mentioned in a press briefing that this was attributed to a corporate tax refund, as business performance was worse than expected last year due to the decline in global commodity prices.

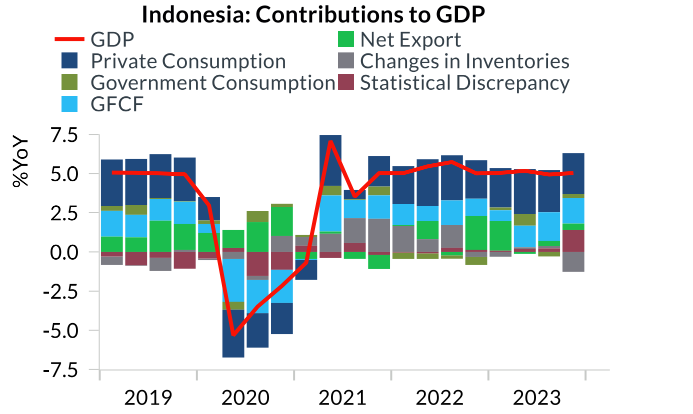
1 World Meteorological Organisation (WMO), *El Niño weakens but impacts continue*, 5 Mar 2024
2 RHB Research, Stock/Usage Ratio Now Below Historical Average, 12 Mar 2024

Figure 2: We keep our view that Indonesia's growth momentum will sustain its positive trajectory in 1H24...



Source: CEIC, RHB Economics & Market Research

Figure 3: ...with support from private consumption and investment

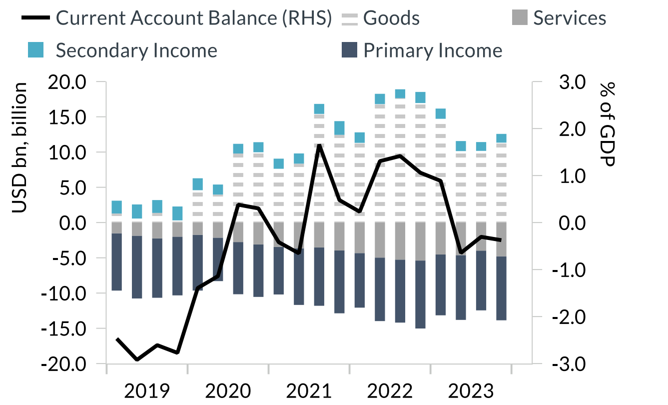


Source: Macrobond, RHB Economics & Market Research

Figure 4: We anticipate the recovery trajectory to sustain on the back of global economic recovery

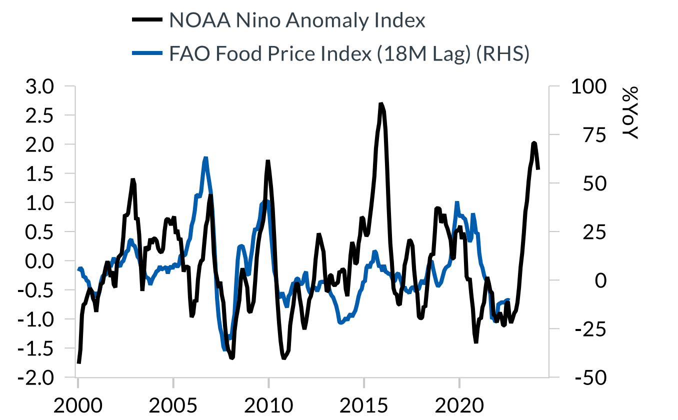
Source: Macrobond, RHB Economics & Market Research

Figure 5: Stronger imports will lead current account deficit to widen towards -0.8% in 2024



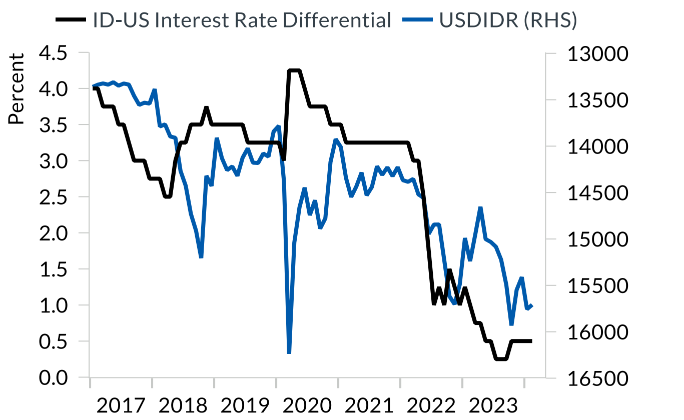
Source: Macrobond, RHB Economics & Market Research

Figure 6: Food inflation momentum to sustain due to *El Niño* conditions



Source: Macrobond, RHB Economics & Market Research

Figure 7: Policy rate will maintain in the first half to support IDR stability



Source: Macrobond, RHB Economics & Market Research

Malaysia

Room for Optimism in Economic Landscape

- **We keep Malaysia's GDP forecast at 4.6% YoY in 2024, versus the official projected range of 4.0-5.0%. The growth momentum is anticipated to pick up in 1H24, as suggested by our composite leading index for Malaysia. Recent data indicates that domestic confidence has shown signs of improvement.**

- **We maintain our 2024 headline inflation projection at 3.3%. The inflation momentum is envisaged to gain pace in 2Q24 following the services tax adjustments in March and anticipated rollout of diesel subsidy rationalisation by 2Q24.**

- **On the policy front, the Overnight Policy Rate is likely to be maintained at 3.00% amid uncertainties in the inflationary trajectory. On the fiscal front, we maintain our 2024 fiscal deficit projection at 4.3% of GDP.**

Economist

Chin Yee Sian
+603 9280 8862
chin.yee.sian@rhbgroup.com

Figure 1: Key Economic Forecasts

	2022	2023	2024F	2025F	1Q24F	2Q24F	2H24F
Real GDP Growth (% YoY)	**8.7**	**3.7**	**4.6**	**4.7**	**4.4**	**4.6**	**4.6**
Contribution to real GDP Growth (%)							
Private Consumption	6.6	2.8	3.5	3.6	3.5	3.4	3.6
Investment	1.4	1.1	1.2	0.9	1.1	1.3	1.2
Government Consumption	0.6	0.5	0.4	0.4	0.5	0.4	0.4
Net Exports	-0.1	-0.6	0.1	-0.1	-0.5	0.7	0.1
CPI	**3.4**	**2.5**	**3.3**	**2.9**	**1.5**	**3.2**	**4.1**
Policy Interest Rate	**2.75**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**
Current Account Balance (% of GDP)	**3.1**	**1.2**	**2.3**	**2.5**	**1.3**	**2.9**	**2.4**
Fiscal Balance (% of GDP)	**-5.5**	**-5.0**	**-4.3**	**-4.1**	**-3.6**	**-2.7**	**-5.4**

Source: CEIC, RHB Economics & Market Strategy

We keep Malaysia's GDP forecast at 4.6% YoY in 2024 (2023: 3.7% YoY), versus the official projected range of 4.0-5.0%. The growth momentum is anticipated to pick up in 1H24, as suggested by our composite leading index for Malaysia. Recent data indicates that domestic confidence has shown signs of improvement. Three key proxies, specifically (1) higher manufacturing PMI; (2) increased imports of capital and intermediate goods; and (3) rising business confidence, suggest that manufacturers and businesses optimism is up. Moving ahead, GDP growth would be underpinned by a turnaround in trade performance and robust domestic demand. The strengthening of the Industrial Production Index (IPI) and export momentum early in the year reinforces our positive view on the external demand outlook.

On the downside risk, we recognise opposing factors where dampening effects may emanate from the reduced subsidies and revision in consumption tax measures, which cap consumer expenditure and disposable income from a wealth effect perspective. However, the impact would be cushioned by (1) healthy labour demand conditions; (2) continuation of social assistance to targeted groups; and (3) differing impacts across income groups where the higher income group has relatively inelastic demand. Meanwhile, investment spending is projected to remain robust in 2024. Private investment would be buoyed by capacity expansion and business-friendly policies. Meanwhile, public investment activities are anticipated to be supported by the continued progress of multi-year projects and the implementation of catalytic initiatives under the national master plans.

Labour market conditions remain robust with healthy job creation amid expansion in economic activities. The unemployment rate is expected to stabilise around its historical average of 3.3%. Both consumer and business confidence indexes have picked up as at the end-2023, signalling the possibility of healthier retail and business spending going forward.

In tandem with the improvement in global economy landscape and resurgence of the global technology cycle, Malaysia's exports are poised to benefit from the growth in electrical and electronics (E&E) and commodity-based exports. The export momentum is anticipated to strengthen in 1H24, underpinned by (1) a brighter global and regional economic outlook; (2) strengthening economic dynamics of China; and (3) the uptrend in the global technology cycle.

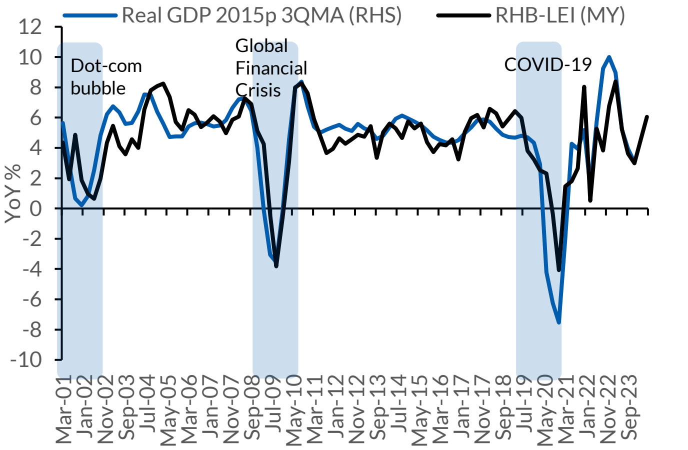
We maintain our 2024 headline inflation projection at 3.3%. The inflation momentum is envisaged to gain pace in 2Q24 following the services tax adjustments in March and anticipated rollout of diesel subsidy rationalisation by 2Q24. The inflation momentum remains tame so far, cushioned by steady food prices amid continuation of food subsidies and price controls for staple food items. The upsides to inflation trajectory in the later part of the year would mainly emanate from fiscal consolidation measures, ie fuel subsidy rationalisation (diesel and RON95 petrol), services tax adjustments as well as utilities tariffs revision, where the proposed measures are projected to lift headline inflation by 0.7-1.1% (versus 2.5% YoY in 2023).

Our 2024 current account balance forecast is 2.3% of GDP versus 1.2% of GDP in 2023. The goods surplus is expected to trend higher on the back of higher exports, in tandem with strengthening external demand. 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. Tourism activities are expected to be boosted by government measures, ie tourism promotion activities abroad and the 30-day visa-free travel for nationals from China and India. Tourism Malaysia targets 27.3m tourist arrivals in 2024, surpassing 2019 levels of 26.1m persons (2023: 20.1m).

We maintain our 2024 fiscal deficit projection at 4.3% of GDP. With the operating expenditure (OE) accounting for more than 95% of central government revenue, the adoption of a two-pronged fiscal consolidation strategy, ie revenue diversification and OE rationalisation, is necessary to contain the fiscal deficit. We view that higher revenue collection would be achievable for 2024, supported by higher proceeds of company and individual tax collection amid improved economic prospects and a broader tax base coupled with enhancement of tax collection efficiency. The revision in services tax could potentially increase government revenue by MYR3.0bn. On OE rationalisation, the Government is currently in the inceptive stage of phased fuel subsidy rationalisation, following the earlier rationalisation of electricity and water tariffs. The impact of fuel subsidy rationalisation on the Government's finances would depend on the timeline as well as magnitude of adjustments, where there are pending official announcements at the time of writing. Based on our in-house estimation, there could be potential savings of MYR2.2bn for every 10% reduction in fuel subsidies.

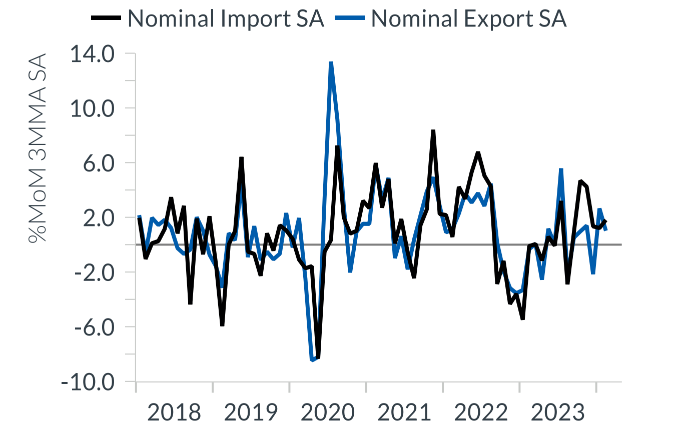
On the policy front, the Overnight Policy Rate (OPR) is likely to be maintained at 3.00% for 2024. We see a lack of impetus for Bank Negara Malaysia (BNM) to tweak its policy rate level in 2024, considering the rosier domestic economic prospects amid uncertainties in the inflationary trajectory. The wide official inflation range of 2.0% to 3.5% should provide sufficient room against future price movements. The policymakers might hold the OPR rate while assessing the lagged impact of fiscal policy changes on the overall inflationary trajectory and economic momentum.

Figure 2: Economic momentum to pick up in 1H24...



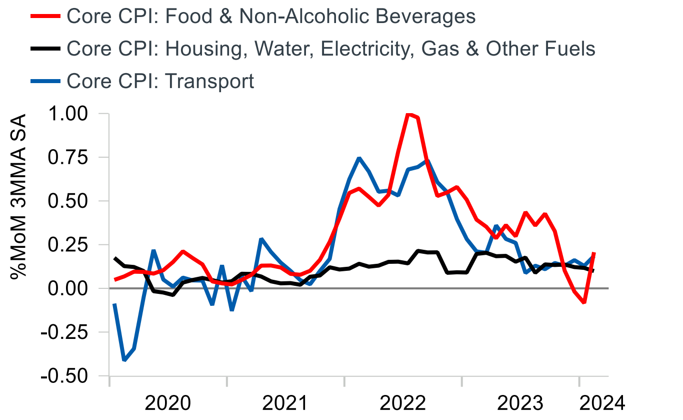
Source: CEIC, RHB Economics & Market Strategy

Figure 3: ...with trade momentum showing signs of bottoming up



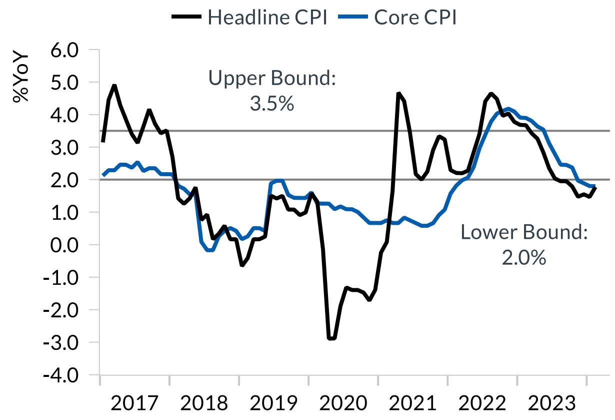
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Food inflation stays tame on price control and subsidies while utilities costs trend up on tariffs adjustments



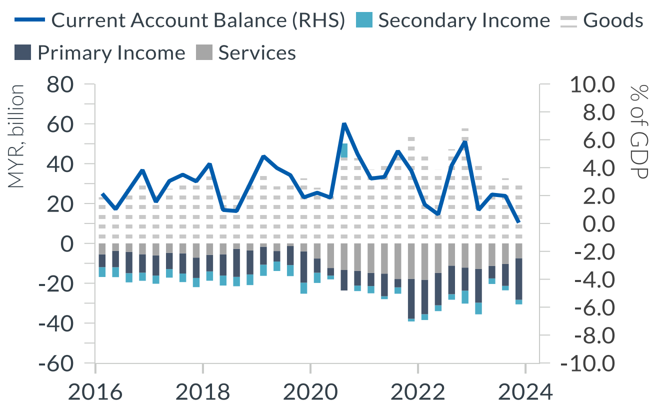
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: BNM is likely to stay pat at 3.0% if the headline inflation falls within the projected range



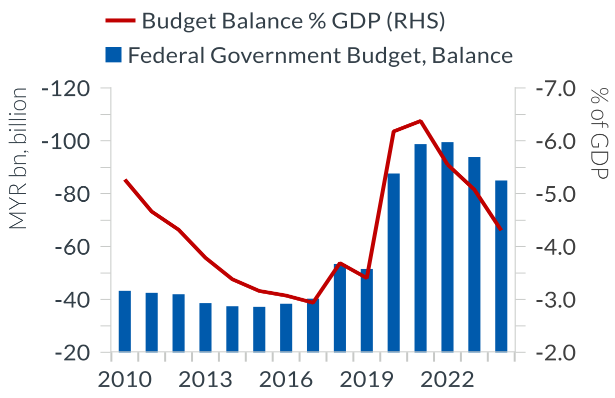
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: The current account balance projection to improve to 2.3% of GDP for 2024



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Our 2024 fiscal deficit projection is 4.3% of GDP



Source: MOF, RHB Economics & Market Strategy

Singapore

GDP Growth to Remain Robust in 2Q24

- **We maintain our forecast for Singapore's GDP growth at 2.5% in 2024, marking an acceleration from 2023's 1.1% print. We expect growth momentum to stay resilient throughout the year.**
- **We keep Singapore's full-year headline inflation at 3.5% and upgrade core inflation to 3.5% (from the previous outlook of 2.8%).**
- **The Monetary Authority of Singapore (MAS) is expected to keep its policy parameters unchanged for 2024. We estimate the S$NEER to be at a +1.5% appreciation gradient, with a +/-2.0% band.**

Acting Group Chief Economist & Head, Market Research

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

Associate Research Analyst

Laalitha Raveenthar
+603 9280 2165
laalitha.raveenthar@rhbgroup.com

Figure 1: Key Economic Forecasts

	2022	2023	2024F	2025F	1Q24F	2Q24F	2H24F
Real GDP Growth (% YoY)	**3.9**	**1.1**	**2.5**	**3.0**	**4.6**	**1.5**	**2.0**
Contribution to real GDP Growth (%)							
Private Consumption	2.7	1.3	1.4	0.7	2.3	1.1	1.1
Government Consumption	-0.2	0.3	-0.2	0.1	0.4	0.1	-0.6
Gross Fixed Capital Formation	0.6	-0.1	0.4	0.8	1.5	0.2	0.0
Net Exports	0.4	2.9	0.3	1.6	-1.0	-0.9	1.6
CPI	**6.1**	**4.8**	**3.5**	**2.5**	**3.2**	**3.4**	**3.7**
Current Account Balance (% of GDP)	**18.0**	**19.8**	**16.7**	**16.2**	**21.0**	**12.2**	**16.8**
Fiscal Balance (% of GDP)	**-3.4**	**-0.5**	**0.1**	**0.2**	**-3.7**	**6.0**	**-2.1**

Source: Bloomberg & CEIC, RHB Economics & Market Strategy

We maintain our forecast for Singapore's GDP growth at 2.5% in 2024, marking an acceleration from 2023's 1.1% print. We expect growth momentum to stay resilient throughout the year. Our proprietary GDP leading index model has materialised relatively well as demonstrated by the performance of 4Q23, which our model projected to grow by 2.3% YoY (against the empirical 2.2% YoY). The same model, which typically leads GDP by at least two quarters, indicates that Singapore's GDP is showing an uptick in momentum with growth at 3.0% in 1H24. We are projecting Singapore's 1Q24 GDP to expand by 4.6% from Taylor Swift's Eras Tour on 9 March. This would be mainly supported by higher foreign tourist spending which would eventually boost the services-producing industry in Singapore.

We are optimistic about Singapore's manufacturing landscape, especially in electronics, precision engineering, transport engineering and general manufacturing, in the next 6-12 months. Our optimistic outlook is underpinned by our global economic forecast, whereby our GDP growth projections for the US and China stand at 2.5% and 5.0% respectively, further bolstering our positive outlook for Singapore's manufacturing momentum. We maintain a favourable outlook for semiconductor-related sectors as the global recovery in E&E industries is expected to continue throughout the year. Particularly, Singapore's electronic cluster remains a crucial pillar of its economy, representing 40% of the industrial production (IP) basket and accounting for 22.3% of total non-oil domestic exports (NODX) from 2019-2023. We remain bullish on these industries, particularly with China's economic rebound in 2024 as highlighted in our China thematic report.

The ongoing recovery in momentum seen in Singapore's externally-oriented industries strengthens our optimistic outlook. Singapore's manufacturing sector is anticipated to gain momentum in 2024, with the uptick in growth to be material in 2Q-4Q24. We anticipate a strengthening of Singapore's NODX momentum in 1H24, fuelled by the improving global demand for semiconductors that is anticipated to remain robust throughout the year. The global economic rebound will further boost the demand for semiconductors globally, benefiting Singapore as a small, open economy heavily reliant on trade. Overall, our full-year forecasts for NODX and IP at 3.0% and 5.0% respectively indicate that both indicators are likely to show positive YoY growth.

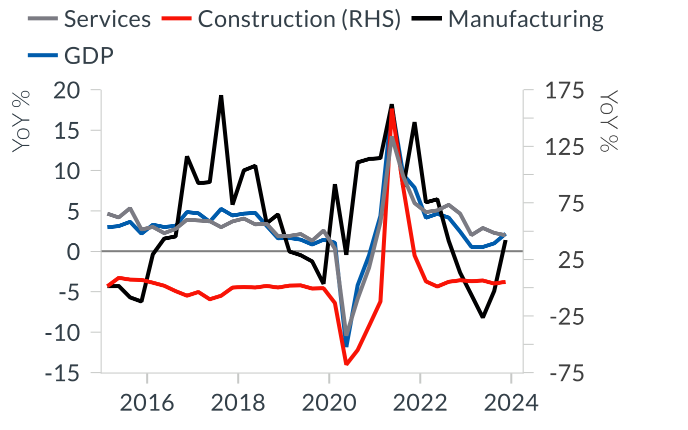
We keep Singapore's full-year headline at 3.5% and upgrade core inflation to 3.5% (from the previous outlook of 2.8%). Amidst ongoing global uncertainties, persistent inflationary pressures are expected to continue in 1H24. The catalysts for our outlook are underpinned by domestic factors, including a tight labour market leading to higher wages and demand-driven price effects. Besides, escalating commodity prices, particularly energy and food prices due to *El Nino* conditions and geopolitical tensions, remain significant concerns. We expect core inflation to average 3.4% in 1Q24 and potentially accelerate to 3.5% in 2Q24, given the uptick in import prices. As cited in our thematic report on global inflation, our proprietary indicators show that global inflation signals are flashing red. Given Singapore's reliance on imports, the country is vulnerable to imported inflation pressures. Therefore, domestic inflation will be influenced by both external and internal factors, suggesting that sticky inflation will persist into 2Q24.

The Monetary Authority of Singapore (MAS) is expected to maintain its policy parameters unchanged for 2024. We estimate the S$NEER to be at a +1.5% appreciation gradient, with a +/-2.0% band. We believe the current policy parameters are deemed appropriate for cushioning imported inflation and ensuring price stability over the medium term. According to our S$NEER model, the S$NEER has rallied to 1.6% above the mid-point, indicating limited imported inflations due to a stronger SGD and room (towards the 2.0% handle) for the S$NEER to appreciate further to maintain price stability. On the global scale, we view the current US Fed Funds Rate (FFR) to see a peak of 5.25-5.50%, notwithstanding the likelihood for policymakers to reduce its FFR level by 50bps (two times cut) by 2H24. Considering these factors, there is no immediate need for the MAS to tighten or loosen policy at the upcoming Monetary Policy Committee meeting.

We expect Singapore's fiscal outlook to print a surplus of 0.1% of GDP in 2024, against the empirical deficit of 0.5% in 2023. As Singapore enters the fourth Budget of its five-year fiscal term in FY2024, the need for a "balanced budget" over the five-year term requires policymakers to account for an accumulated 0.5% deficit (FY2021: +0.3% of GDP, FY2022: -0.3% of GDP, FY2023: -0.5% of GDP). The FY2024 budget, which was announced on 16 February 2024, has successfully met our internal projections for the fiscal surplus (0.1% of GDP). Budget FY2024 pencilled a total expenditure at SGD111.8bn, comprising major expenditures to upgrade areas such as transport, healthcare and education. In particular, the GST rate which was increased from 8% to 9% is expected to bring in SGD19.4bn in revenue in FY2024. Overall, Singapore's Budget FY2024 is characterised as essentially a balanced fiscal position.

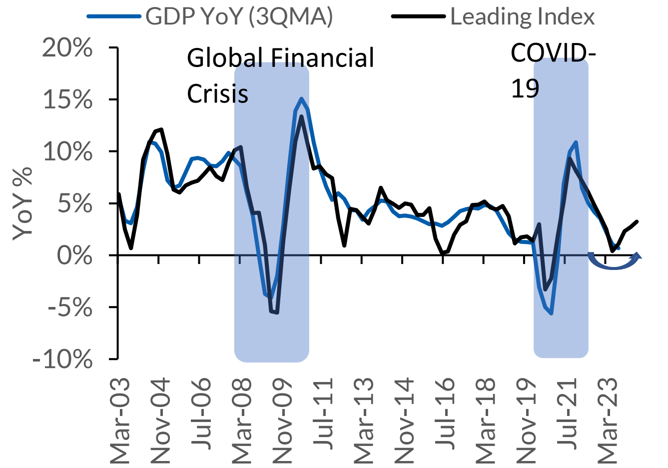
We forecast Singapore's current account (CA) surplus at 16.7% in 2024, from the empirical of 19.8% in 2023. The lower surplus ratio is underpinned by our optimistic GDP forecast of 2.5% in 2024. Notwithstanding the decline from the previous year, the CA balance will likely be supported by China's expected economic recovery and a boost in tourism activities. However, a potential risk to this outlook is a further slowdown in global trade flows, which could impact Singapore's trade dynamics in 2024.

Figure 2: GDP growth is expected to further accelerate in 2024, led especially by the recovery in manufacturing



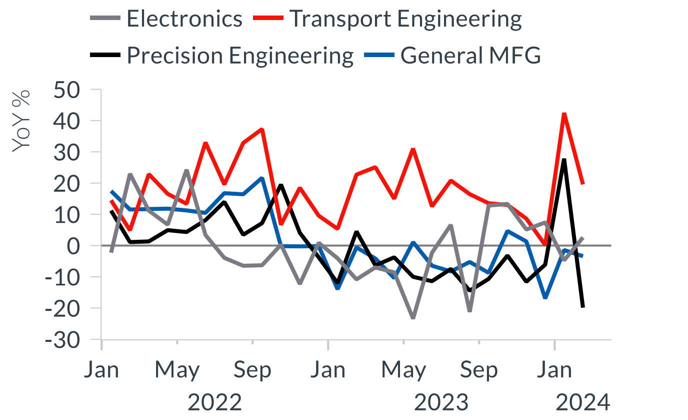
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: RHB SG GDP-LEI is suggesting an uptick momentum into 1H24



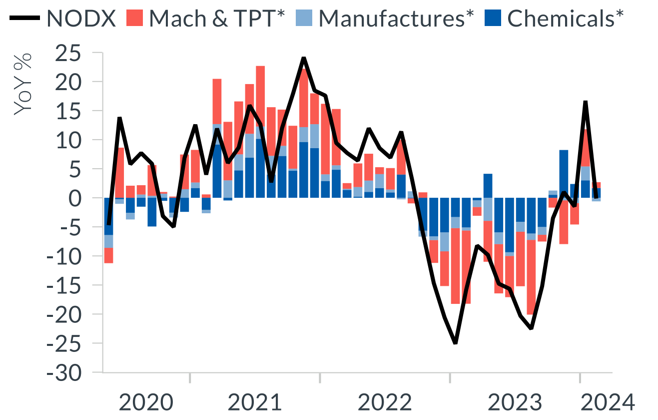
Source: CEIC, RHB Economics & Market Strategy

Figure 4: Upward momentum in key manufacturing clusters may be observed in 2Q24



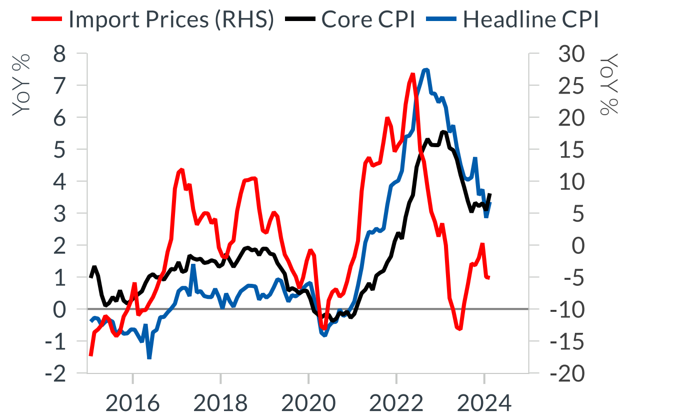
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Externally-facing industries like NODX are projected to rebound in 2024



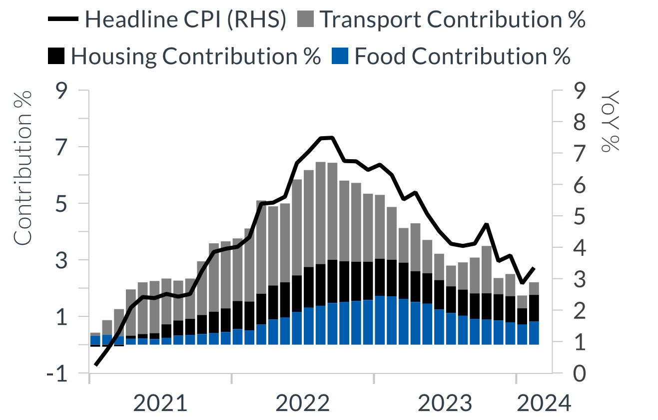
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: Sticky inflationary pressure is expected to persist in 1H24...



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: ...while food and housing CPI remains elevated in Jan 2024



Source: Macrobond, RHB Economics & Market Strategy

Thailand

Potential 2Q24 GDP Moderation Amidst Positive Full-Year Outlook

- **We downgrade our forecast for Thailand's GDP growth to 3.5% for 2024, down from our previous outlook of 4.0%.**

- **We maintain our forecast for Thailand's headline and core inflation at 1.0% and 0.7%, respectively, in 2024.**

- **We keep our expectation for the Bank of Thailand (BoT) to maintain its benchmark rate at 2.50% this year.**

Acting Group Chief Economist & Head, Market Research

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

Associate Research Analyst

Laalitha Raveenthar
+603 9280 2165
laalitha.raveenthar@rhbgroup.com

Figure 1: Key Economic Forecasts

	2022	2023	2024F	2025F	1Q24F	2Q24F	2H24F
Real GDP Growth (% YoY)	**2.5**	**1.9**	**3.5**	**3.0**	**2.7**	**2.1**	**4.5**
Contribution to real GDP Growth (%)							
Private Consumption	3.4	4.0	3.1	2.5	3.9	2.8	2.9
Government Consumption	0.0	-0.7	-0.3	-0.5	-0.4	-0.4	-0.2
Gross Fixed Capital Formation	0.6	0.3	0.0	0.0	-0.3	0.2	0.0
Net Exports	1.8	3.0	1.2	1.0	1.2	1.4	1.1
CPI	**6.1**	**1.3**	**1.0**	**2.5**	**-0.7**	**0.5**	**2.1**
Policy Interest Rate	**1.25**	**2.50**	**2.50**	**2.50**	**2.50**	**2.50**	**2.50**
Current Account Balance (% of GDP)	**-3.0**	**1.1**	**2.4**	**3.5**	**1.6**	**1.8**	**3.1**
Fiscal Balance (% of GDP)	**-2.7**	**-3.4**	**-3.7**	**-4.4**	**-3.6**	**-3.6**	**-3.8**

Source: Bloomberg & CEIC, RHB Economics & Market Strategy

We downgrade our forecast for Thailand's GDP growth to 3.5% for 2024, down from our previous outlook of 4.0%, with the balance of risks tilted towards 3.0%. The outlook is guided by our proprietary GDP Leading Economic Index (LEI), which is hinting at an economic slowdown to 2.1% YoY in 2Q24, from 2.7% YoY in 1Q24, thus translating into a 1H24 GDP growth of 2.4% YoY. The drag may stem from a lacklustre trade and consumption environment, which further disappointment into 2H24 will inject downside risks to our base case assumptions. Nonetheless, we expect a 3.5% GDP growth print, underpinned by the positive outlook for private consumption in 2H24. Note that private consumption accounts for around 60% of its GDP, thus making it a dominant contributor to overall growth.

As aforementioned, we are expecting slower economic growth into 2Q24. We are relatively cautious about Thailand's GDP growth in the current quarter given the (1) relatively lacklustre trade and private consumption backdrop seen year-to-date, (2) higher inflation dynamics elevated by the removal of energy subsidies effective 31 March 2024, while (3) our GDP leading index model suggests a slowdown into the same period. The light at the end of the 1H24 tunnel, perhaps, may stem from the relatively stronger tourism arrivals already seen year-to-date. Visitor arrivals have already clocked 3.3 million persons in February alone, higher than the monthly average of 3.2 million persons in 2019 (pre-COVID). Should this trend persist, we expect a total of 38.0 million visitor arrivals for the whole of 2024. We discuss the tourism outlook in our thematic report, whereby our quantitative model suggests that wages and tourism are the chief determinants of Thailand's consumption function.

We maintain our forecast for Thailand's headline inflation at 1.0% in 2024. Thailand's CPI is expected to gradually pick up momentum throughout 2024, although negative YoY figures might persist in 1Q24. This projection is based on the observation that Thailand's inflation has primarily been influenced by policy measures (specifically subsidies) at this time. The Ministry of Commerce of Thailand indicated that (1) prices are falling due to subsidies, and (2) there are policies in place until the end of 1Q24 due to the expiration of certain energy price subsidies. We anticipate that the headline CPI will continue to show deflationary trends until April 2024, albeit core CPI is expected to rise at 0.5% as early as 2Q24. It is imperative to note that our global inflation indicators are showing signs of concern, with expectations of higher global food and oil prices on the horizon. Despite the deflationary readings, Thailand's producer prices are also gradually increasing, indicating a potential significant rise in overall consumer prices once subsidies are eventually removed. Besides, there is a risk of a material spike in prices given the expiry of the diesel fuel subsidy at the end of March 2024.

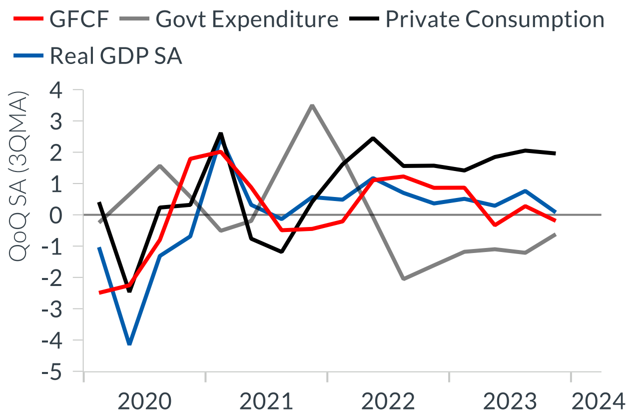
Despite the presence of subsidies, Thailand is observing subtle indications of increased prices in crucial sectors. On a momentum basis, Thailand's transport and communication prices experienced their first uptick after three consecutive quarters of decline. This growth is driven by vehicle operation costs, likely influenced by rising global crude oil prices that have supported fuel costs. Additionally, there has been an uptick in non-core energy prices, with momentum rising by 0.6% following four consecutive months of decline. As aforementioned, higher inflation is on the cards, especially as subsidies are expected to be phased out later this year, coupled with the already present rise in energy prices throughout the year.

We keep our expectation for the Bank of Thailand (BoT) to maintain its benchmark rate at 2.50% this year. This anticipation is driven by two main factors: (1) inflation pressures are likely to rise as the year progresses, and (2) the positive outlook on Thailand's economic growth in 2H24, as discussed earlier. We consider the current benchmark rate to be neutral and suitable for ensuring price stability while supporting long-term growth. Our projection suggests that Thailand's GDP will expand by 3.5% in 2024, with the balance of risk tilted towards 3.0%. Our global inflation indicators are signalling a concerning trend, with expectations of higher global food and oil prices in the near future. Therefore, we believe that reacting prematurely by cutting rates due to deflation would be unwise, particularly considering the potential for increased inflationary pressures if subsidies are eventually removed.

We pencil a current account surplus of 2.4% of GDP in 2024, similar to Bloomberg's consensus of 2.4%. We are expecting Thailand's trade momentum to improve in 2H24, driven by the increased exports to ASEAN, US and EU28. The recovery in China's economy is expected to lead to a rise in the tourism sector across ASEAN, including Thailand, thereby bolstering the services sector account of the economy this year. In 2025, we expect a rosier trade backdrop, hence underpinning our view of CA surplus at 3.5% of GDP.

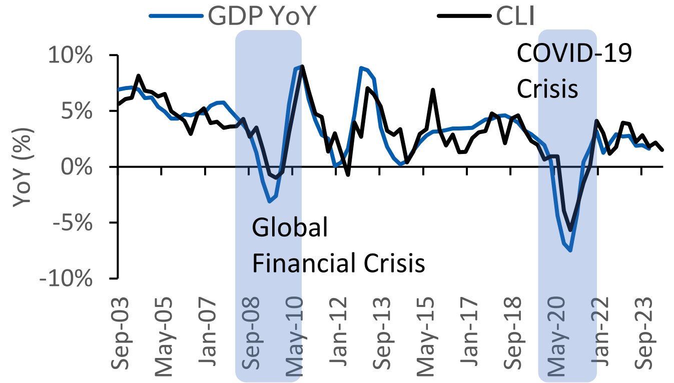
Thailand's fiscal balance is expected to face a potentially wider deficit in 2024, with a projected deficit of -3.7% of GDP. This increase in the deficit is likely due to efforts to control the cost of living, which will lead to higher government expenditures. F&B prices are expected to show negative prints in 1Q24, while prices for apparel & footwear items are projected to decline throughout the year. However, we view that inflation pressures will likely persist in other sectors such as housing & furnishing (+1.3% YoY), medical & personal care (+1.0% YoY), transport & communication (+0.5% YoY) and tobacco & alcoholic beverages (+1.2% YoY). In 2025, we expect Thailand's fiscal deficit to widen to 4.4% of GDP, with the cabinet recently approving a plan to widen the deficit target in FY2025 by about US$4.2b.

Figure 2: GDP shows signs of bottoming in 2023...



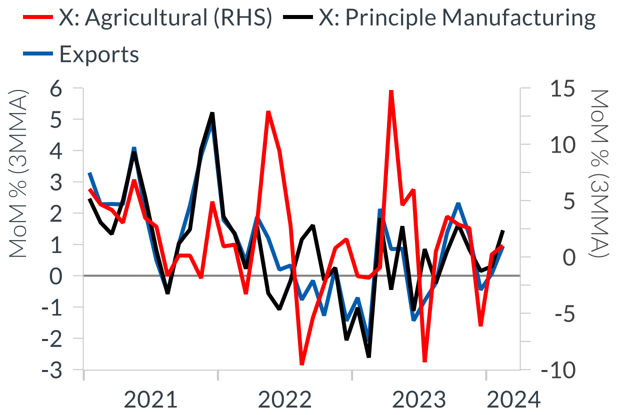
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: ... while our GDP CLI suggests an expansion in 2024



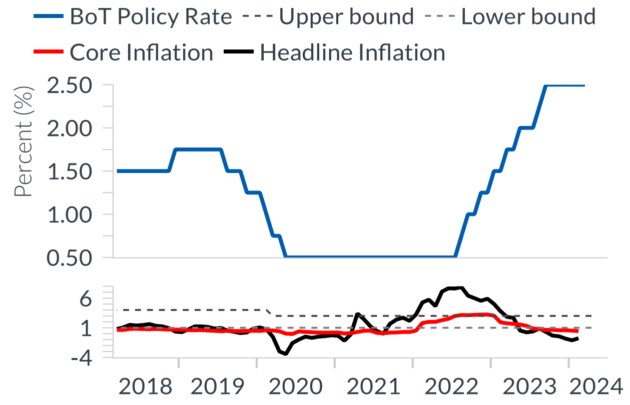
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Trade momentum is showing an improvement in early 2024



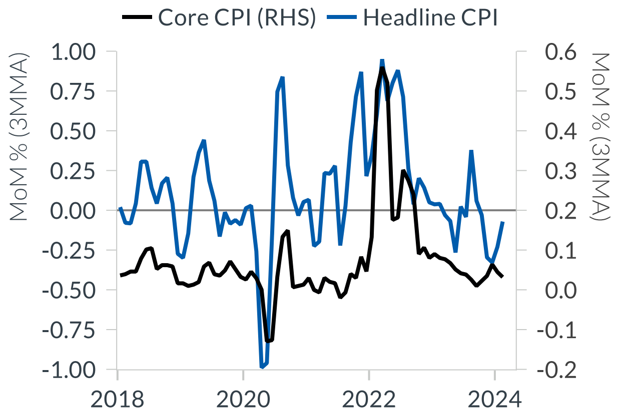
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Thailand's inflation remains below the lower bound, albeit BoT rate is at 2.5%



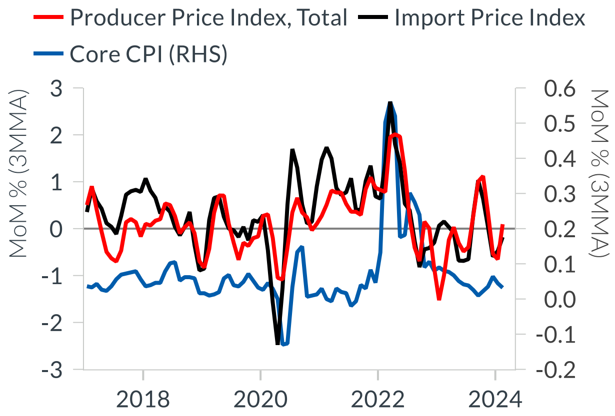
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: Headline momentum is advancing in line with our inflation assumptions



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Import and producer prices are showing an increasing momentum



Source: Macrobond, RHB Economics & Market Strategy

Disclaimer Economics and Market Strategy

This report is prepared for information purposes only by the Economics and Market Strategy division within RHB Bank Berhad and/or its subsidiaries, related companies and affiliates, as applicable ("RHB").

All research is based on material compiled from data considered to be reliable at the time of writing, but RHB does not make any representation or warranty, express or implied, as to its accuracy, completeness or correctness.

Neither this report, nor any opinion expressed herein, should be construed as an offer to sell or a solicitation of an offer to acquire any securities or financial instruments mentioned herein. RHB (including its officers, directors, associates, connected parties, and/or employees) accepts no liability whatsoever for any direct or consequential loss arising from the use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without prior consent of RHB and RHB (including its officers, directors, associates, connected parties, and/or employees) accepts no liability whatsoever for the actions of third parties in this respect.

Recipients are reminded that the financial circumstances surrounding any company or any market covered in the reports may change since the time of their publication. The contents of this report are also subject to change without any notification.

This report does not purport to be comprehensive or to contain all the information that a prospective investor may need in order to make an investment decision. The recipient of this report is making its own independent assessment and decisions regarding any securities or financial instruments referenced herein. Any investment discussed or recommended in this report may be unsuitable for an investor depending on the investor's specific investment objectives and financial position. The material in this report is general information intended for recipients who understand the risks of investing in financial instruments. This report does not take into account whether an investment or course of action and any associated risks are suitable for the recipient. Any recommendations contained in this report must therefore not be relied upon as investment advice based on the recipient's personal circumstances. Investors should make their own independent evaluation of the information contained herein, consider their own investment objective, financial situation and particular needs and seek their own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

RHB (including its respective directors, associates, connected parties and/or employees) may own or have positions in securities or financial instruments of the company(ies) covered in this research report or any securities or financial instruments related thereto, and may from time to time add to, or dispose of, or may be materially interested in any such securities or financial instruments. Further, RHB does and seeks to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities or financial instruments of such company(ies), may sell them or buy them from customers on a principal basis and may also perform or seek to perform significant banking, advisory or underwriting services for or relating to such company(ies), as well as solicit such banking, advisory or other services from any entity mentioned in this research report.

RHB (including its respective directors, associates, connected parties and/or employees) do not accept any liability, be it directly, indirectly or consequential losses, loss of profits or damages that may arise from any reliance based on this report or further communication given in relation to this report, including where such losses, loss of profits or damages are alleged to have arisen due to the contents of such report or communication being perceived as defamatory in nature.

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