

31 May 2024

Global Economics & Market Strategy

Short-term Risk-Taking Consolidation, But Do Not Fret

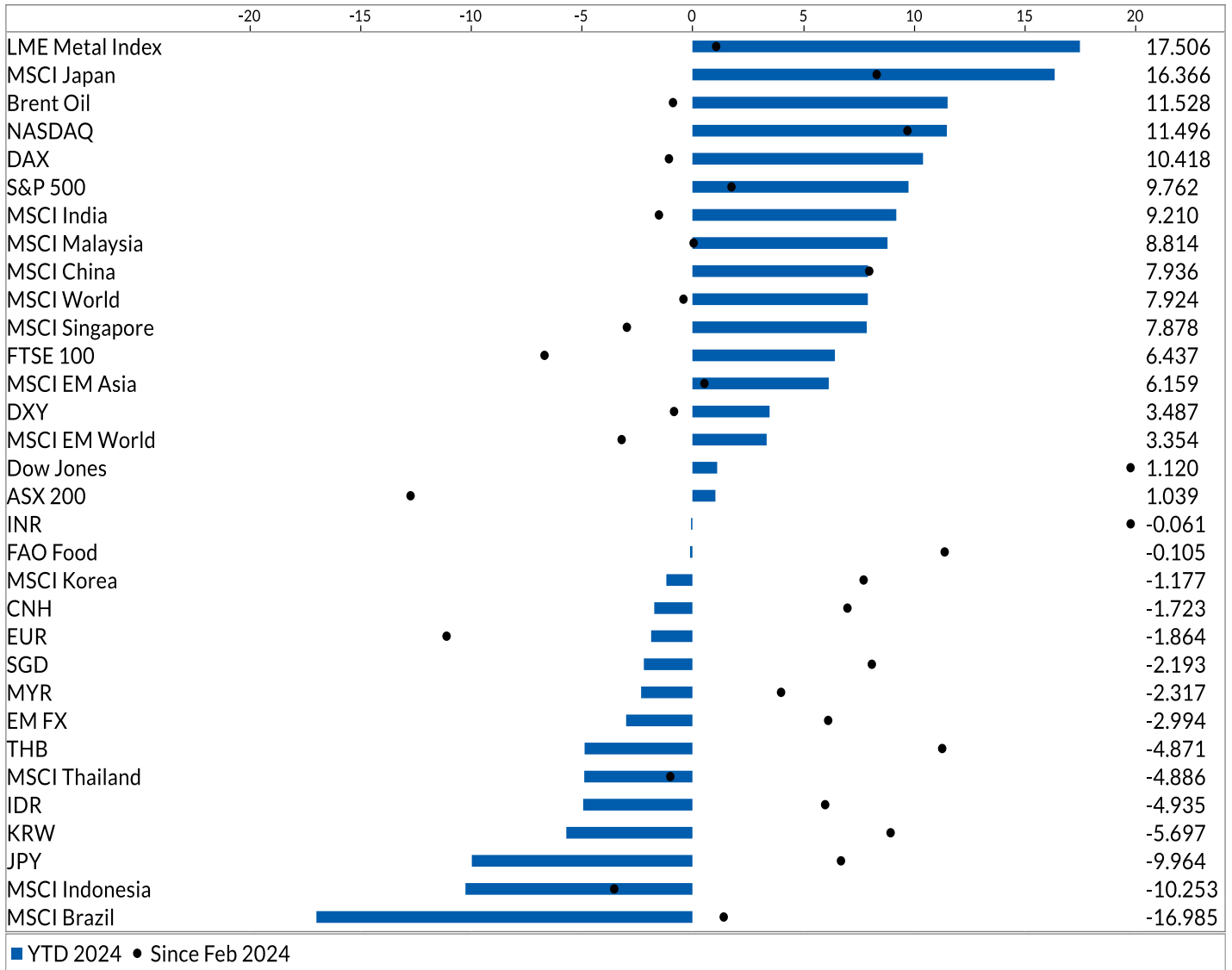
- ◆ **Some slowdown in risk appetite was seen in the latest data, as evident from the decline in MSCI World and our proprietary RHB Risk Sentiment Index (Figures 6 & 7).** We see no reason to fret - the recent moderation in risk-taking appetite as merely a function of the market discounting the US Fed Funds Rate cut to only one cut by the end of 2024. There is little evidence of a global economic slowdown, with a recent US May US Beige book citing that the US economy continued to expand at a slight to modest growth from early April to mid-May. US 1Q24 GDP, despite slowing to 1.3% QoQ annualised, underscored a continued economic expansion led by consumer spending (+2.0%) and investment (residential: +15.4%, non-residential: +3.3%, higher than initial estimates).
- ◆ **Even in China, latest economic data also signalled further recovery.** The latest numbers reinforced our global economic views for above-consensus GDP growth expectations for the US (RHB: +2.5%, Bloomberg: +2.4%) and China (RHB: +5.0%, Bloomberg: +4.9%), with consensus gradually moving towards our forecasts. China's industrial profits rose 4.0% YoY in April 2024, from a -3.5% YoY handle in March, albeit we noticed some slowing of Purchasing Managers' Index Prints in May. More importantly, our China chart pack (Figures 28 - 33) suggests a series of improvements in its housing market, labour, commodity consumption, and fixed asset investments - we are seeing further bottoming evidence for China's real estate prices, which has been (and still is, arguably) one of investors' concerns for the Middle Kingdom. We still think the recovery is precarious, albeit encouraging, and any further recovery of property prices suggests that (1) China's property valuations have likely fallen "enough", and (2) demand has gradually materialised on the back of a relatively more robust real economy led by China's externally-facing industries.
- ◆ **We maintain that DXY will rally for the remaining part of 2Q24, with the dollar index trending towards the 107 handle into June.** Our call for UST 10Y yields to rally back above 4.5% materialised, proving the initial downtrend below 4.4% was temporal. Continued market expectations for a US high-for-longer rate trajectory will likely keep the UST 10Y yields high(er) while net-shorts in UST persist (Figure 41). With the quick return for swap pricing to one FFR cut in the previous week, do expect some consolidation and potential profit-taking from risky assets such as US equities in the week ahead, in line with our proprietary RHB risk sentiment index which enjoys a relative correlation with the US S&P 500 index. Further pricing out of FFR cuts, potentially towards no cuts or one hike should inflation persist further (see Figures 24 - 27), may mean further upside bias for DXY and UST 10Y.
- ◆ **For the week ahead,** we will be watching for US nonfarm payrolls and unemployment rate (Friday), as well as a slew of ASEAN-centric data including Indonesia's May CPI (RHB: +3.05% YoY, BBG: +2.98% YoY) and Singapore's retail sales (RHB: +4.1% YoY, BBG: +2.5% YoY), as well as US ISM, SG PMI and China's Caixin PMI to give further colour of global economic growth prognosis.

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31 May 2024

Figure 1: YTD 2024 total return – Watch LME’s advance, which is likely a function of China’s economic recovery; rally momentum in global equities appear resilient



Source: Macrobond, RHB Economics & Market Strategy

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

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Germany	68.1	22.7	3.07	3.33	2.34
United States	67.3	30.3	4.92	5.22	3.77
United Kingdom	52.4	31.6	4.48	5.48	3.17
S. Korea*	28.4	11.7	3.43	4.14	3.12
Indonesia	27.5	34.7	6.66	6.91	5.62
Singapore	13.7	-6.9	3.39	3.73	2.87
Malaysia*	11.3	8.6	3.58	3.69	3.31
Thailand	4.4	20.8	2.38	2.62	1.53
India	-4.6	-0.1	7.02	7.39	6.80
China	-40.8	-12.7	1.78	2.47	2.07

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

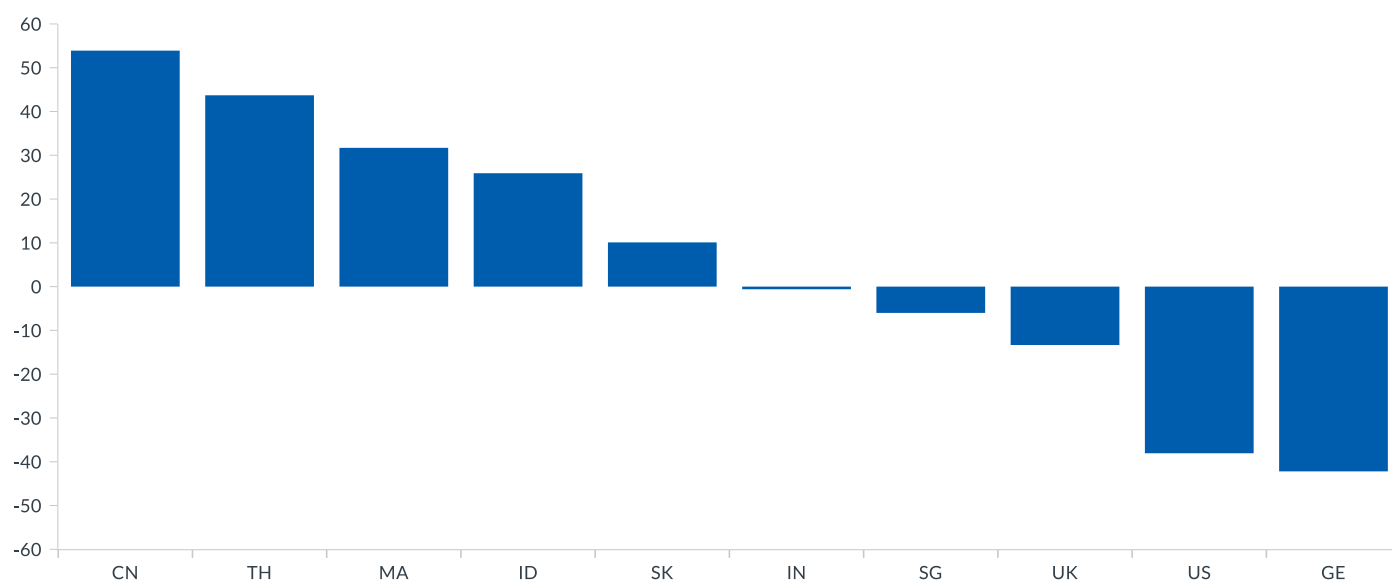
Figure 3: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	81.6	41.4	4.35	4.74	3.00
United States	66.3	34.2	4.54	4.99	3.31
Singapore	64.2	24.3	3.33	3.50	2.66
Germany	63.0	35.4	2.65	2.97	1.89
Indonesia	46.3	22.4	6.92	7.22	6.16
S. Korea	37.1	14.3	3.55	4.40	3.16
Malaysia	16.4	4.0	3.89	4.16	3.65
Thailand	13.7	31.1	2.81	3.35	2.26
India	-17.3	-4.1	7.01	7.44	6.96
China	-24.2	2.6	2.32	2.92	2.54

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

31 May 2024

Figure 4: Negative 2-10Y yield spread persist for developed economies



Source: Macrobond, RHB Economics & Market Strategy

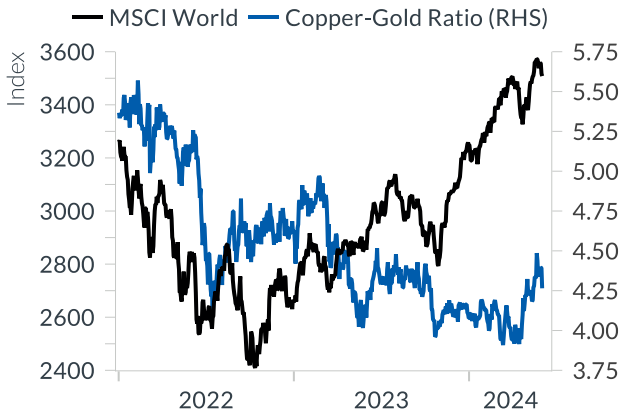
Figure 5: Interim DXY weakness is likely temporal, we keep our forecast for DXY to rally towards 107 in 2Q24

FX Rates % Change	FX Rates % Change			Close (2024)	High 2023	Low 2023
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)			
JPY per USD	11.07	8.36	3.56	156.628	151.647	127.516
CHF per USD	7.29	1.03	0.23	0.904	0.941	0.837
KRW per USD	6.04	4.38	2.21	1375.115	1361.825	1222.444
TWD per USD	5.61	3.90	1.34	32.382	32.479	29.668
PHP per USD	5.49	5.66	4.05	58.440	57.146	53.946
IDR per USD	5.19	7.84	2.16	16211.000	15946.000	14652.765
THB per USD	5.12	3.84	0.96	36.688	37.069	32.704
DXY	3.35	1.82	0.27	104.780	107.000	99.770
AUD per USD	2.62	0.24	-1.79	1.506	1.590	1.408
MYR per USD	2.37	0.76	-0.43	4.704	4.793	4.245
SGD per USD	2.24	-0.30	0.11	1.350	1.374	1.308
EUR per USD	1.90	0.64	-0.46	0.923	0.955	0.890
CNH per USD	1.75	-0.29	-0.01	7.254	7.342	6.713
INR per USD	0.06	1.51	-0.10	83.300	83.439	80.988
GBP per USD	0.05	-0.18	-0.80	0.785	0.845	0.762

Source: Macrobond, RHB Economics & Market Strategy

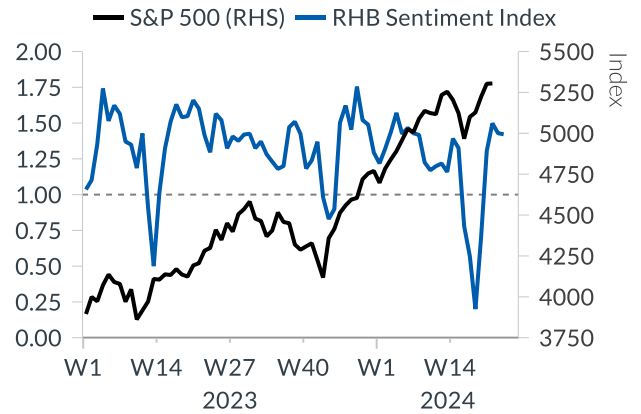
31 May 2024

Figure 6: Global risk appetite continued to advance, with higher MSCI World and Copper/Gold Ratio...



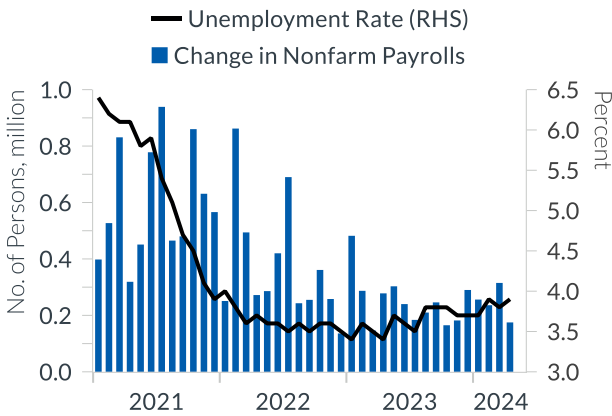
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: ... albeit we are seeing some tapering in risk appetite in the latest week



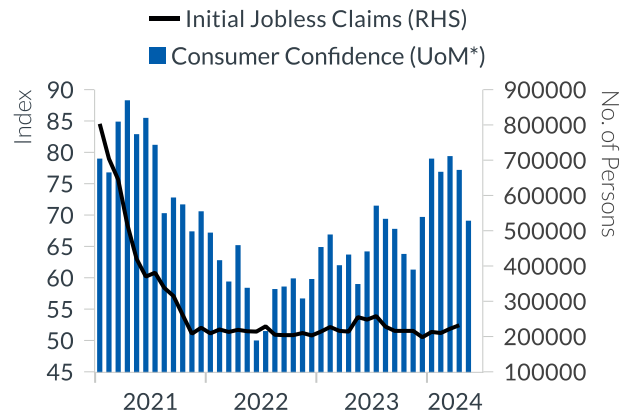
Source: Macrobond, RHB Economics & Market Strategy

Figure 8: US NFP has recently softened with higher unemployment rates...



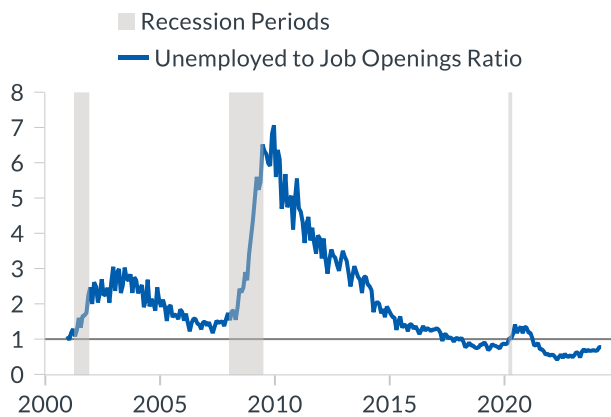
Source: Macrobond, RHB Economics & Market Strategy

Figure 9: ... but jobless claims remain low while consumer confidence stayed supported...



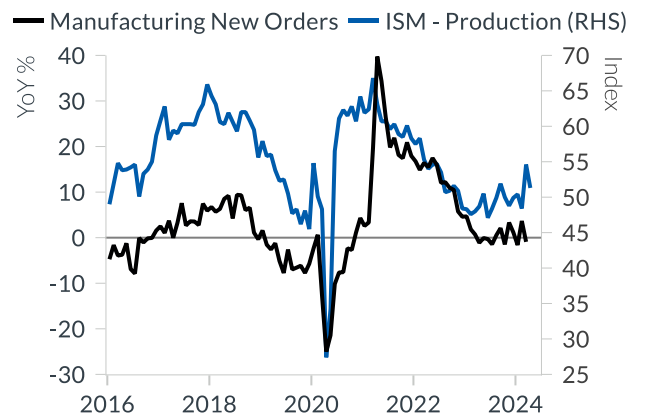
Source: Macrobond, RHB Economics & Market Strategy

Figure 10: ... with overall US labour conditions still tight, as job openings still outnumber unemployed persons



Source: Macrobond, RHB Economics & Market Strategy

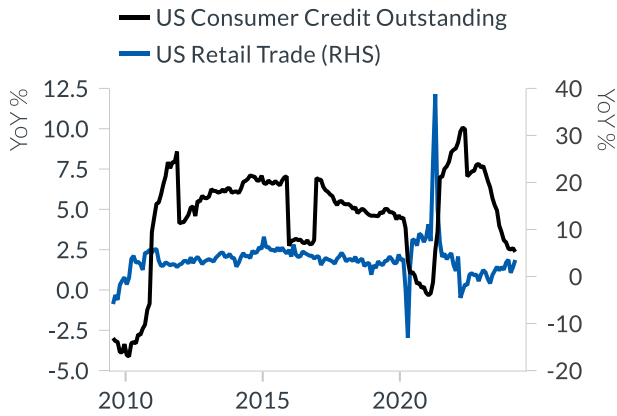
Figure 11: US production activities continue to advance...



Source: Macrobond, RHB Economics & Market Strategy

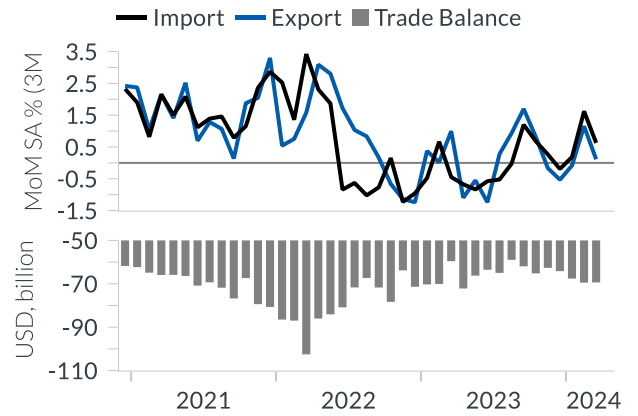
31 May 2024

Figure 12: ... with improvements in job market and the real economy supporting retail trade, rather than debt



Source: Macrobond, RHB Economics & Market Strategy

Figure 13: Some slowdown in US trade activities were seen in 1Q24...



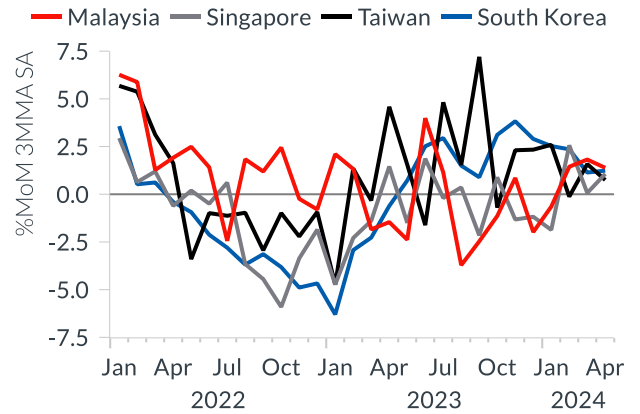
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: ... similar to global trends, including ASEAN-6...



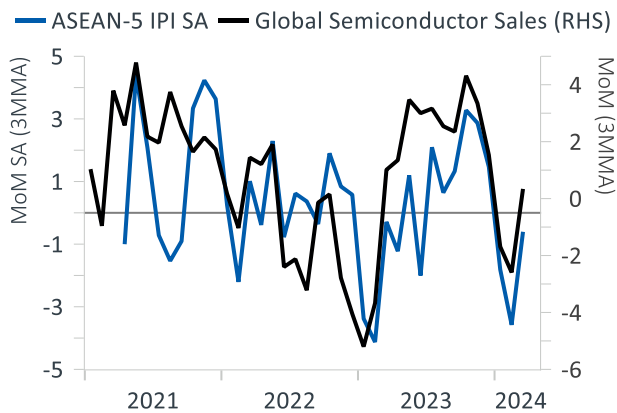
Source: Macrobond, RHB Economics & Market Strategy

Figure 15: ... but critical E&E outbound shipments from key exporting economies appear supported



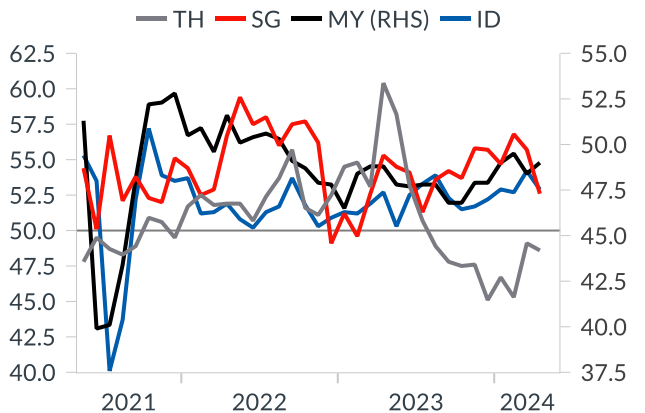
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: Despite softer trade, manufacturing activities remain supported over the same period...



Source: Macrobond, RHB Economics & Market Strategy, Includes SG, MY, TH, PH, VN

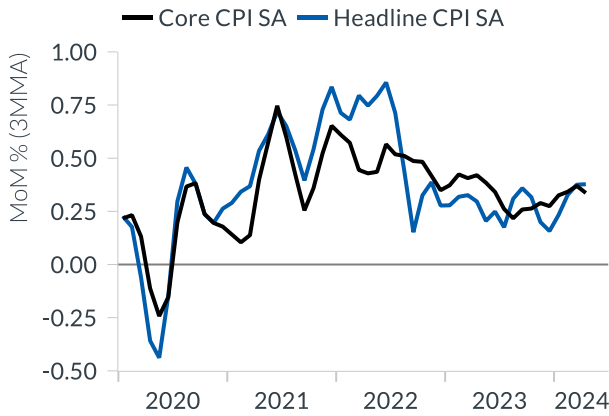
Figure 17: ... with PMI (whole economy) numbers in ASEAN seeing some consolidation



Source: Macrobond, RHB Economics & Market Strategy

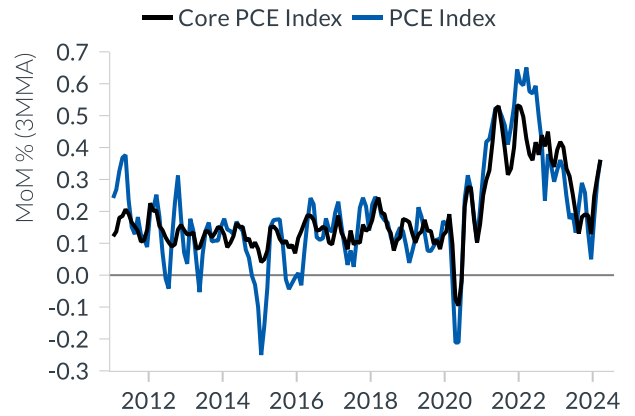
31 May 2024

Figure 18: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...



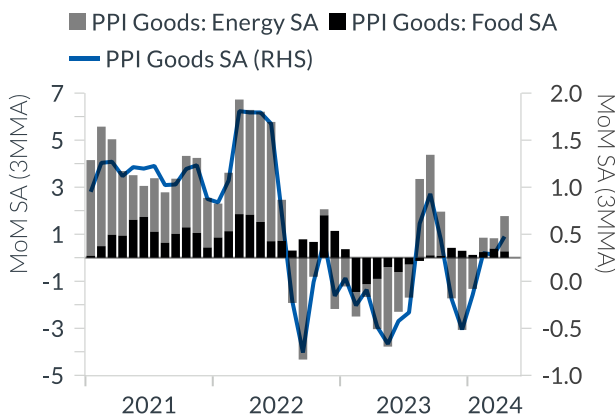
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: ... with core PCE inflation momentum surging in the latest prints...



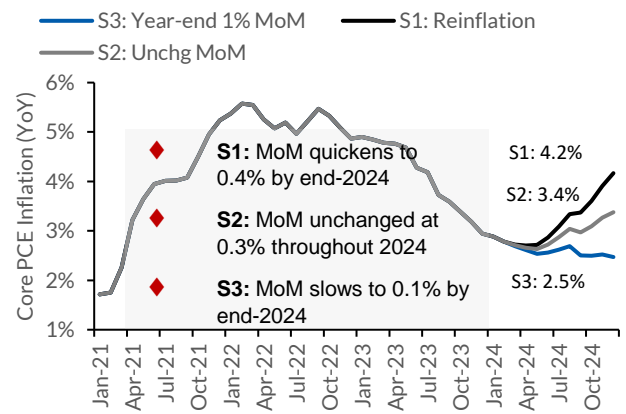
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: ... while US producer price indices are elevated, which should support consumer prices...



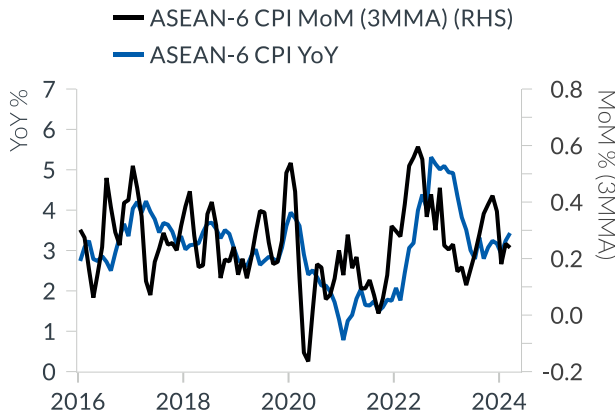
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: ... with our models suggesting that US core PCE inflation to move into the 3.0% handle really soon



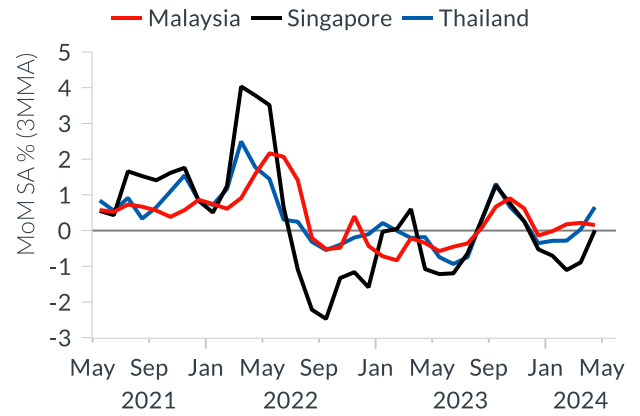
Source: Macrobond, RHB Economics & Market Strategy

Figure 22: ASEAN-6 GDP-Weighted CPI momentum is heating up



Source: Macrobond, RHB Economics & Market Strategy

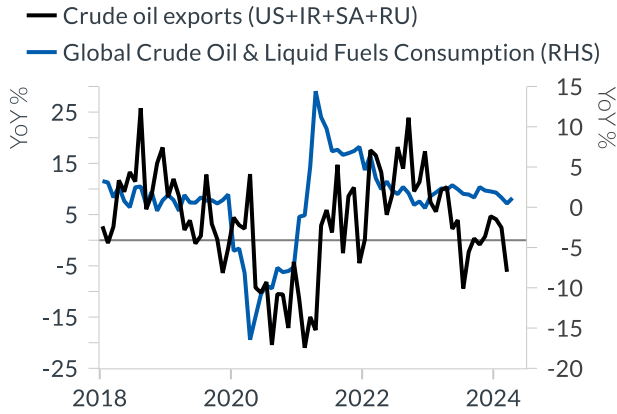
Figure 23: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

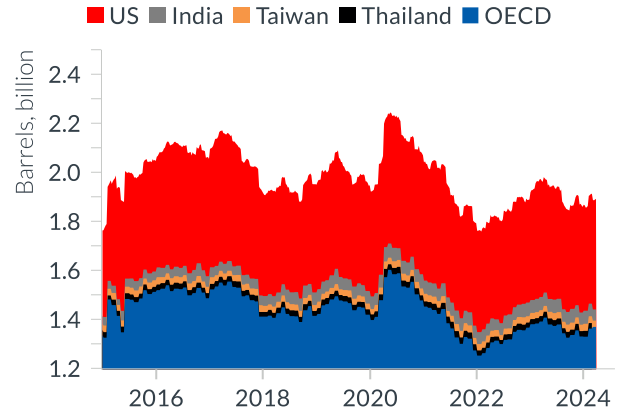
31 May 2024

Figure 24: Crude prices are slated to point higher, as global supplies decline...



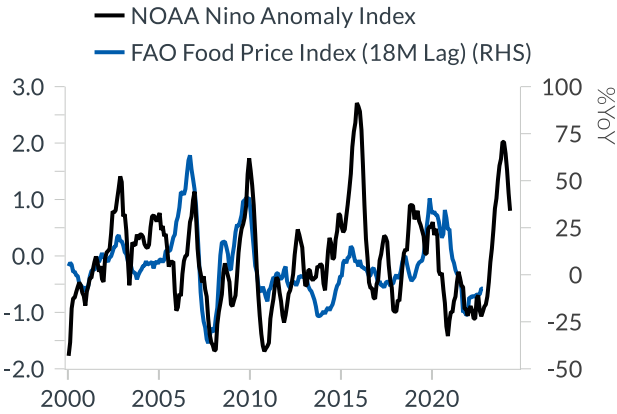
Source: Macrobond, RHB Economics & Market Strategy

Figure 25: ... while global inventories see little direction after decline from its 2020's high



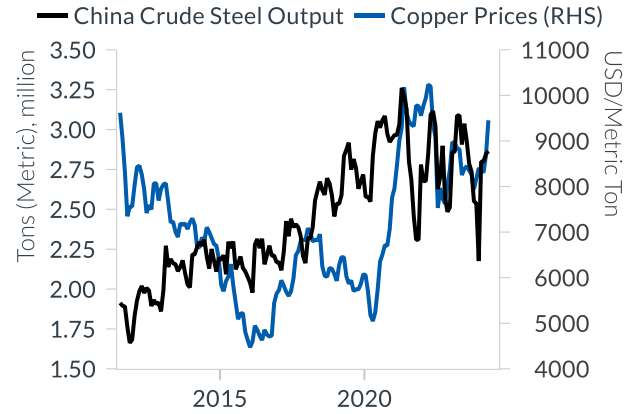
Source: Macrobond, RHB Economics & Market Strategy

Figure 26: Higher global food prices may be evident from the El Nino condition



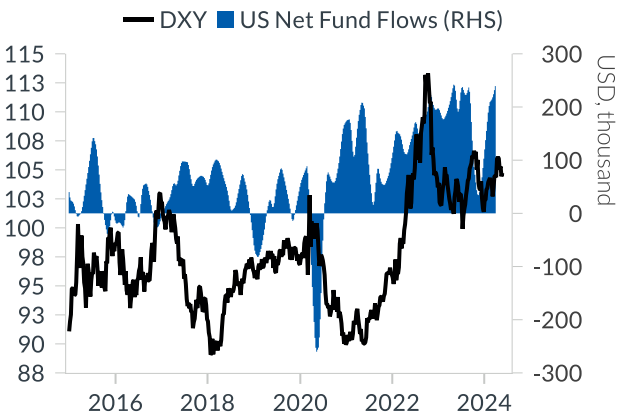
Source: Macrobond, RHB Economics & Market Strategy

Figure 27: Higher base metal prices will be supported from China's return, as commodity consumption rise



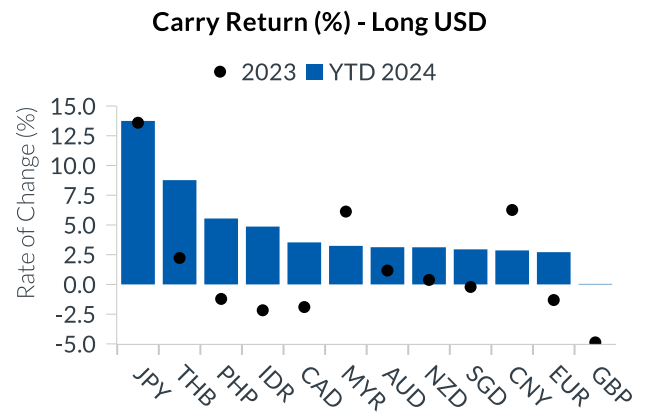
Source: Macrobond, RHB Economics & Market Strategy

Figure 28: High for longer rates likely led to more fund inflows into the US, thus supporting DXY...



Source: Macrobond, EPFR, RHB Economics & Market Strategy

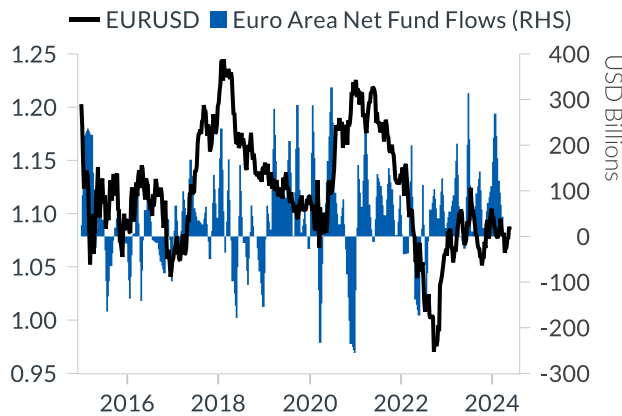
Figure 29: ... while USD carry stays positive year-to-date



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

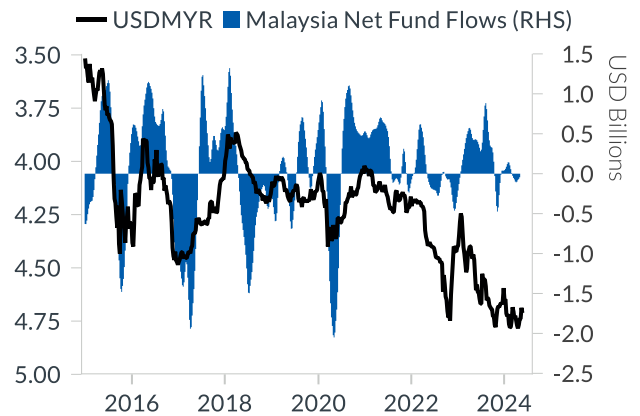
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Figure 30: Fund flows into Euro Area accelerated further, but EUR flat-lined



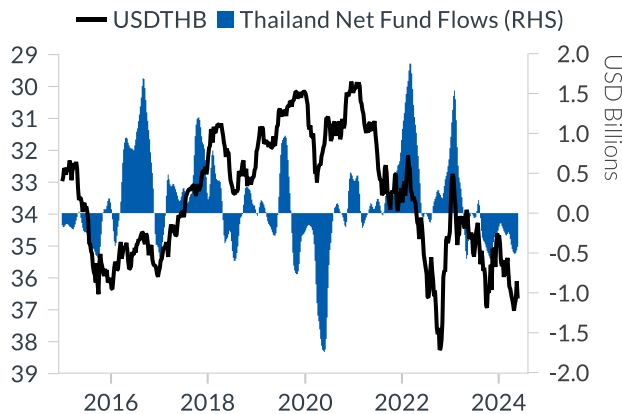
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 31: Malaysia's net fund flows are gradually turning positive, which is MYR-positive



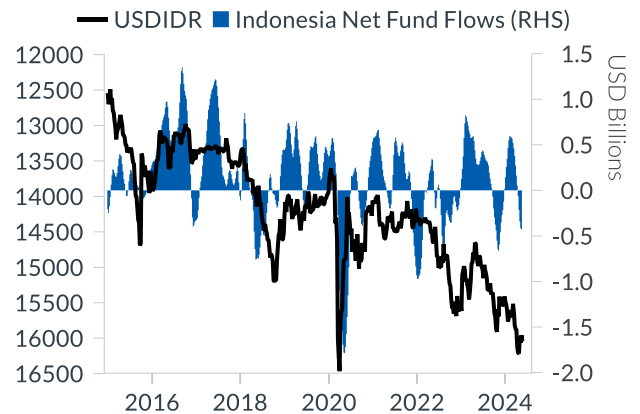
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 32: No reprieve for Thailand's net outflows, suggesting further weakness in THB...



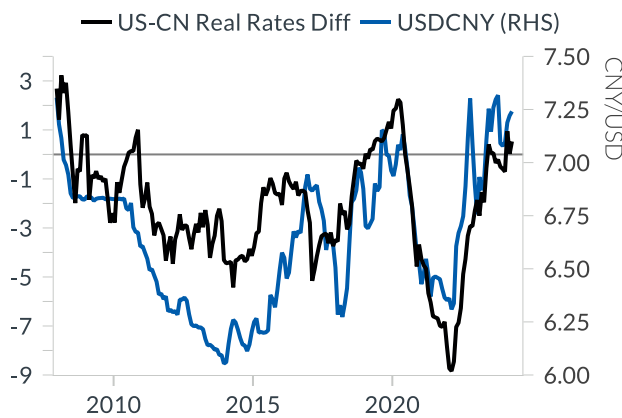
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 33: ... while investors continuing to pull funds out of Indonesia



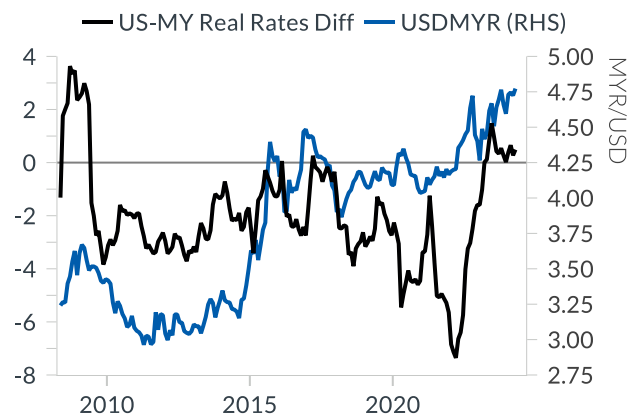
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 34: US-CN real rates differential is behaving well with USD-CNY,



Source: Macrobond, RHB Economics & Market Strategy

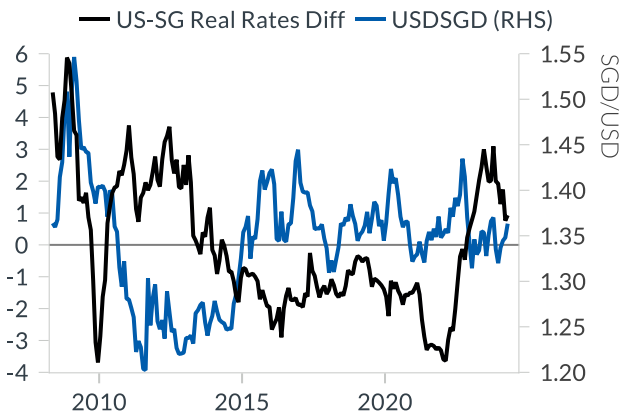
Figure 35: US-MY real rates narrowed recently, in tandem with the recent MYR strength



Source: Macrobond, RHB Economics & Market Strategy

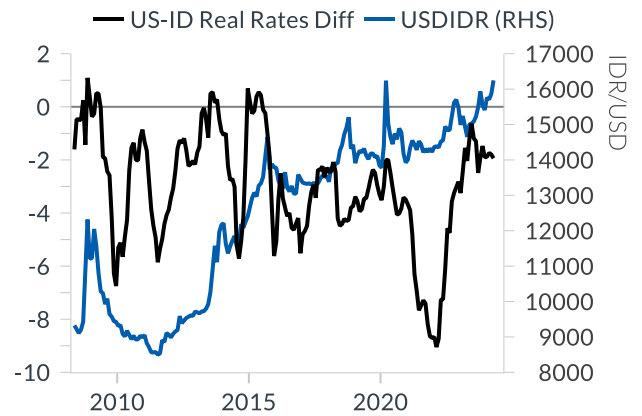
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Figure 36: Singapore remains less susceptible to rate differentials given its S\$NEER appreciation policy



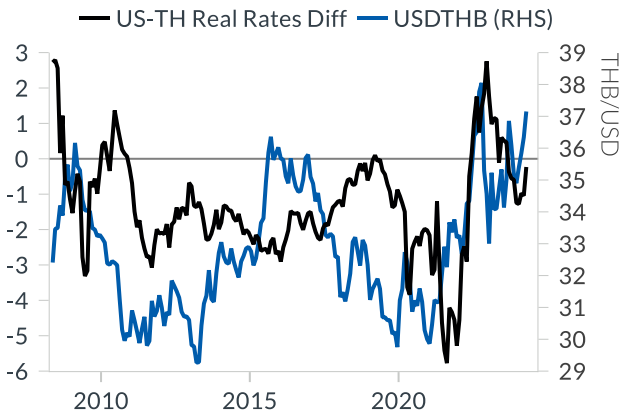
Source: Macrobond, RHB Economics & Market Strategy

Figure 37: US-ID real rates remain flat, USD-IDR has already moved below 16,000



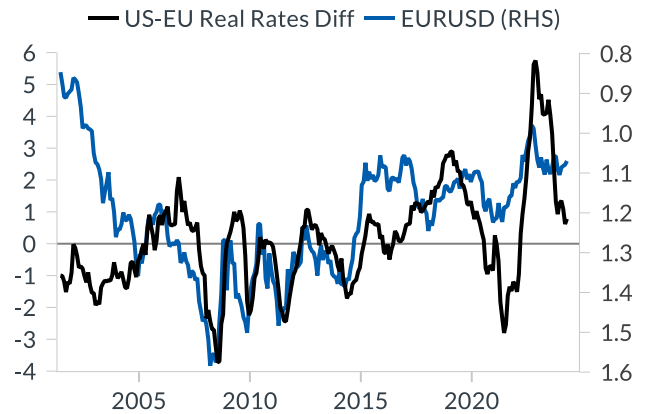
Source: Macrobond, RHB Economics & Market Strategy

Figure 38: We still remain bearish on THB, as the hike in retail diesel prices will narrow TH real rates



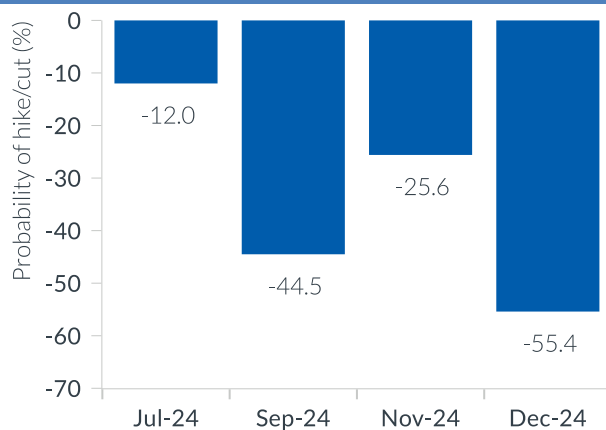
Source: Macrobond, RHB Economics & Market Strategy

Figure 39: EURUSD remains well-behaved against US-EU 3M rate spread



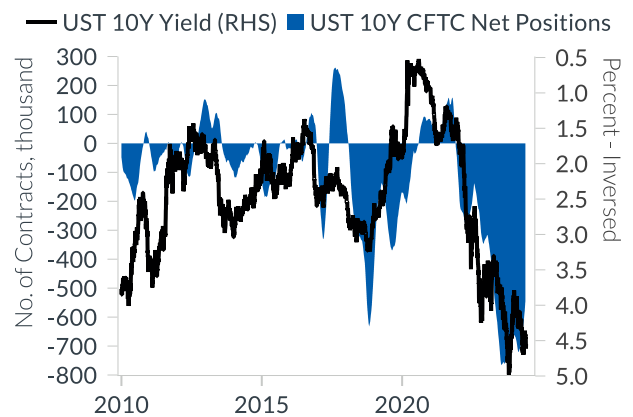
Source: Macrobond, RHB Economics & Market Strategy

Figure 40: Markets only pricing in a potential US FFR cut at year-end...



Source: Macrobond, RHB Economics & Market Strategy

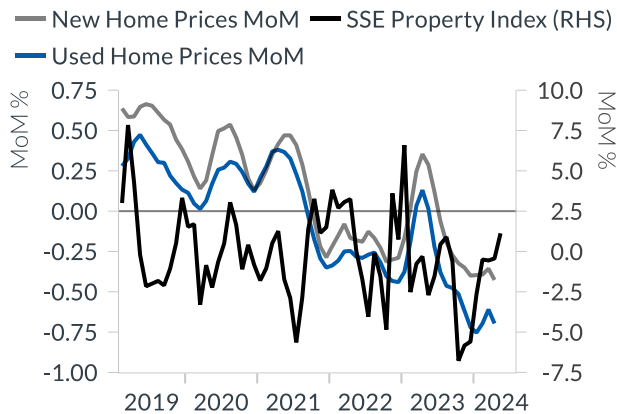
Figure 41: ... with UST 10Y yields likely to stay elevated as rates stay high-for-longer



Source: Macrobond, RHB Economics & Market Strategy

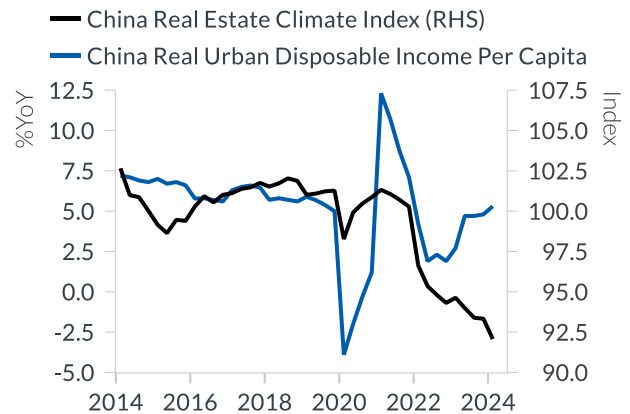
31 May 2024

Figure 42: China new home price momentum continue to recover in the latest months



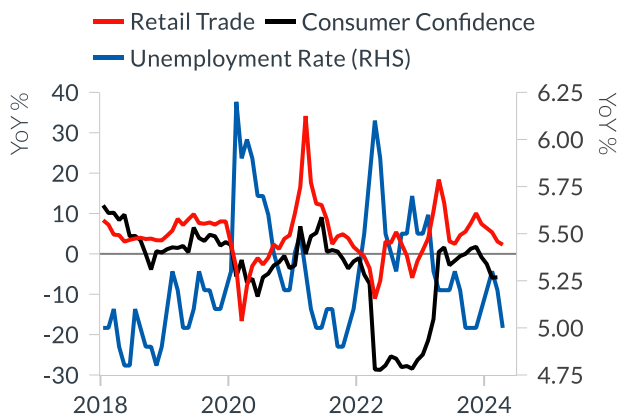
Source: Macrobond, RHB Economics & Market Strategy

Figure 43: Real urban disposable income continue to rise, de-risking away from the real estate backdrop



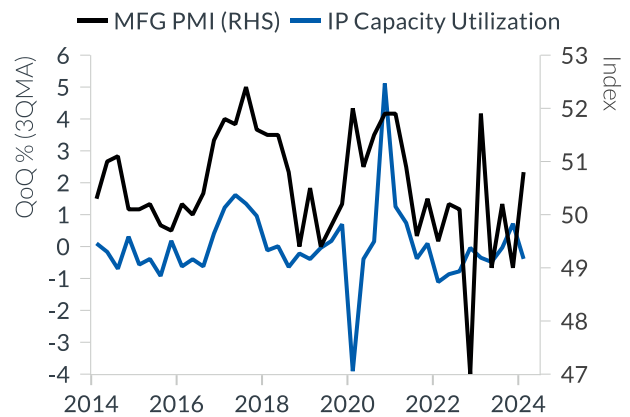
Source: Macrobond, RHB Economics & Market Strategy

Figure 44: Chinese unemployment levels continue to fade lower, but retail trade and confidence are muted...



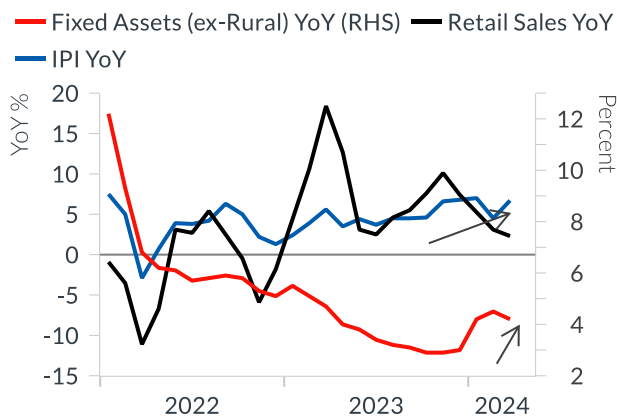
Source: Macrobond, RHB Economics & Market Strategy

Figure 45: ... although externally-facing industries have improved, with MFG PMI surging at its latest data...



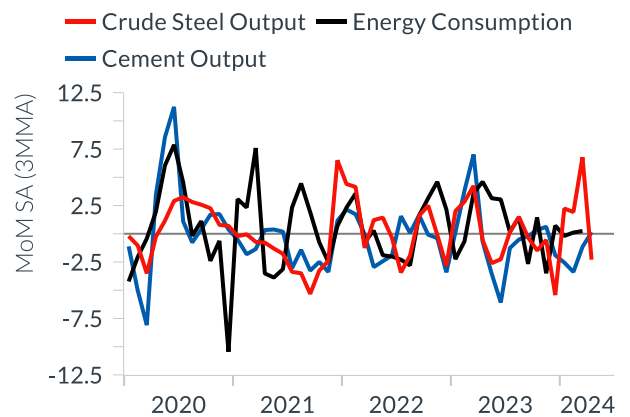
Source: Macrobond, RHB Economics & Market Strategy

Figure 46: ... while industrial production (IPI) growth rising to close to new highs ...



Source: Macrobond, RHB Economics & Market Strategy

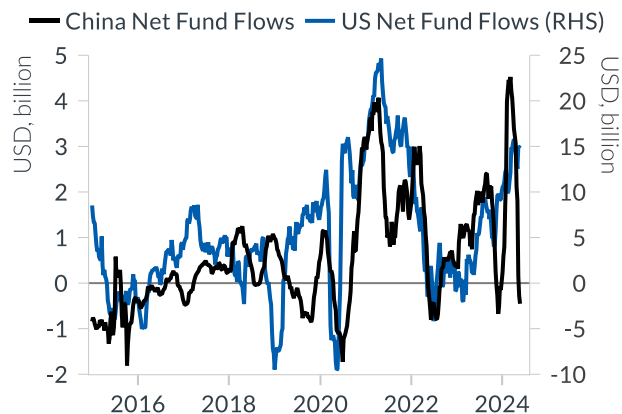
Figure 47: ... with commodity consumption supported on the back of its recovery



Source: Macrobond, RHB Economics & Market Strategy

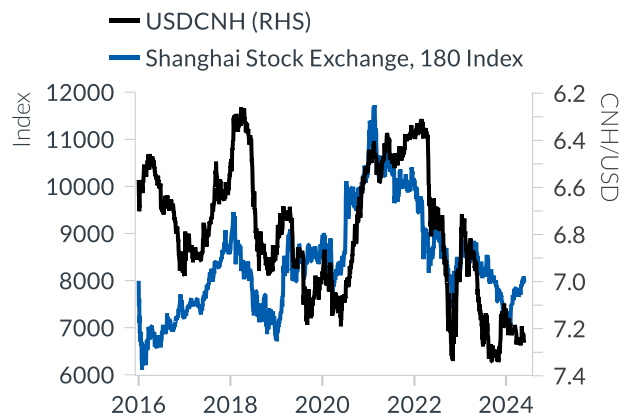
31 May 2024

Figure 48: Investors' interest in US funds remain healthy, some redemption of Chinese funds is ongoing...



Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 49: ... but SSE remains on the climb as risk appetite stays rosy



Source: Macrobond, RHB Economics & Market Strategy

31 May 2024

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