

29 March 2024

Global Economics & Market Strategy

Evidence Continues to Suggest No Rush to Cut (FFR) Rates

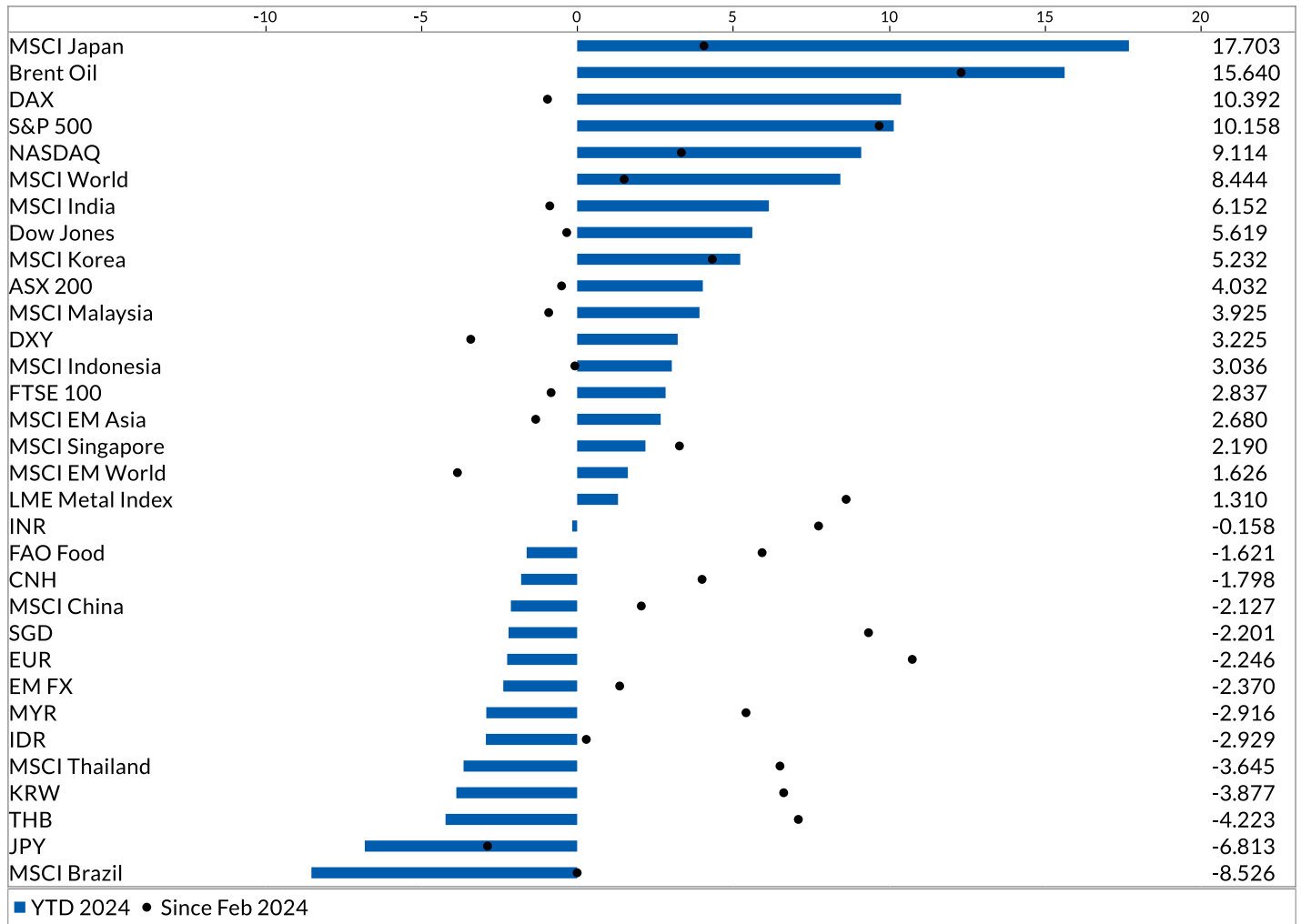
- ◆ **Yet another US Federal official cited his hesitancy to expect Fed Funds Rate (FFR) cuts.** We hear Christopher Waller citing “no rush” to cut rates, adding that recent inflation figures are “disappointing” and the need to see “at least a couple months of better inflation data” before reducing the FFR. He further said, “the progress in reducing inflation has slowed”. We concur with his view; we observe that the US economic output and labour market still show continued strength, while US inflation is far from being on the path towards 2.0%. Similarly, Raphael Bostic, a voting member of the FOMC, anticipates only one rate cut this year.
- ◆ **We maintain our forecast for the US FOMC to cut its Fed Funds Rate (FFR) by only two times in 2024.** We expect FFR to be cut only in 2H24, with the first cut to occur only towards the end of summer (September) and then in December by 25 basis points each, thus bringing the FFR to a year-end range of 4.75 – 5.0% (from current 5.25 – 5.50%). As cited in our previous [weekly report](#), we observe signs that US FOMC members are gradually shifting towards less than three rate cuts in 2024.
- ◆ **The focus will be on further strengthening of the DXY and higher UST 10Y yields, especially if tonight’s US PCE core inflation surprises higher.** We maintain our view that a 0.1 – 0.2% MoM core PCE print is imperative to embark on the inflation path towards 2.0%, and in the absence of it, cuts will be premature at this juncture. Market consensus is pencilling a core PCE inflation of 2.8% YoY (+0.3% MoM), and should it come to pass, it suggests price pressures are still too hot for any interest rate accommodation. We keep our forecasts for DXY to head towards 105 – 110 and for UST 10Y yields to head towards the 4.5% handle in the same period. The purported strengthening of the dollar will likely mean further depreciation of the ASEAN FX space, whereby we think the MYR immediate resistance is 4.75 per USD, and if broken, to head towards 4.8 per USD.
- ◆ **Two key central bankers are not in rate-cutting mode, suggesting that inflation remains to be the key concern for policymaking.** Despite market calls for the US FOMC to cut rates this year, a proxy for global rates to fall, rate hikes by the Central Bank of the Republic of China (Taiwan - CBC) and the Bank of Japan (BOJ) likely led market participants wondering if the bets on lower inflation may be misplaced. Note that the CBRC increased its benchmark rate to 2.0% (from 1.875%), whilst the BOJ ended the world’s last remaining negative rate policy, bringing its policy rate to a range of 0.0 – 0.1% (from -0.1%). Both central banks, in their policy decision, cited inflation risks as one of the key reasons for their decision, with BOJ chief Ueda citing “inflation expectations have yet to be anchored at 2.0%”. At the same time, CBC governor Yang mentioned that the hike was intended to curb inflation expectations.
- ◆ **The caveat for an earlier-than-expected cut will centre on (1) a sharper-than-anticipated decline in US core PCE inflation, (2) a sudden weakening of the US labour market or (3) should the Fed allow inflation to linger near current levels rather than drive it to its 2.0% target.** For us, we need to see PCE inflation fade to 0.1 – 0.2% MoM on a sustainable basis before we call for US FFR cuts. A persistent weakening of the US labour market (especially from nonfarm payrolls and initial jobless claims) may also persuade US policymakers to cut rates to achieve maximum employment. A tail-end risk, perhaps, is for the US policymakers to change their goalpost on their inflation targets.

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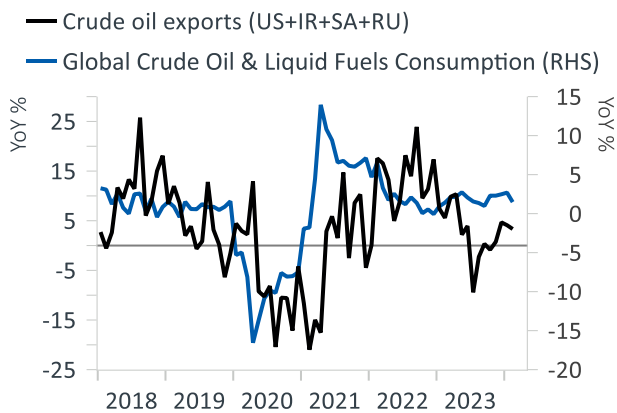
29 March 2024

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



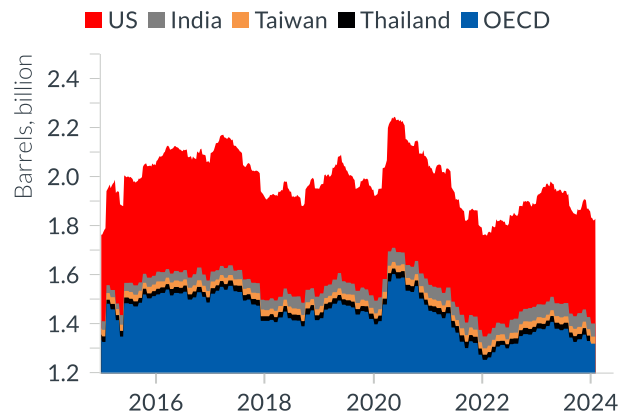
Source: Macrobond, RHB Economics & Market Strategy

Figure 2: Global crude oil consumption is supported, while supplies (exports) contracted further



Source: Macrobond, RHB Economics & Market Strategy

Figure 3: Global oil inventories continue to fade lower, with fundamentals clearly suggesting higher oil prices



Source: Macrobond, RHB Economics & Market Strategy

29 March 2024

Figure 4: We think DXY could head towards 105 – 110 in 2Q24, with the USD being a clear winner amongst the FX space

FX Rates % Change						
	YTD 2024 (%)	Since 2H23 (%)	QTD 2024 (%)	Close (2024)	High 2023	Low 2023
JPY per USD	7.31	4.69	7.31	151.332	151.647	127.516
CHF per USD	6.94	0.70	6.94	0.901	0.941	0.837
AUD per USD	4.44	2.02	4.44	1.533	1.590	1.408
THB per USD	4.41	3.14	4.41	36.440	37.069	32.704
TWD per USD	4.31	2.62	4.31	31.984	32.479	29.668
KRW per USD	4.03	2.41	4.03	1349.090	1361.825	1222.444
DXY	3.11	1.57	3.11	104.530	107.000	99.770
IDR per USD	3.02	5.61	3.02	15876.000	15946.000	14652.765
MYR per USD	3.00	1.38	3.00	4.733	4.793	4.245
EUR per USD	2.30	1.04	2.30	0.926	0.955	0.890
SGD per USD	2.25	-0.29	2.25	1.350	1.374	1.308
CNH per USD	1.83	-0.21	1.83	7.260	7.342	6.713
PHP per USD	1.45	1.61	1.45	56.202	57.146	53.946
GBP per USD	0.87	0.64	0.87	0.792	0.845	0.762
INR per USD	0.16	1.61	0.16	83.380	83.439	80.988

Source: Macrobond, RHB Economics & Market Strategy

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

Govt 2Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
Germany	45.4	45.4	2.85	3.33	2.34
United States	37.0	37.0	4.62	5.22	3.77
United Kingdom	20.9	20.9	4.16	5.48	3.17
Singapore	20.6	20.6	3.46	3.73	2.87
S. Korea*	17.1	17.1	3.32	4.14	3.12
Malaysia*	3.0	3.0	3.49	3.69	3.31
India	-4.5	-4.5	7.03	7.39	6.80
Indonesia	-7.2	-7.2	6.31	6.91	5.62
Thailand	-16.4	-16.4	2.17	2.62	1.53
China	-26.7	-26.7	1.92	2.47	2.07

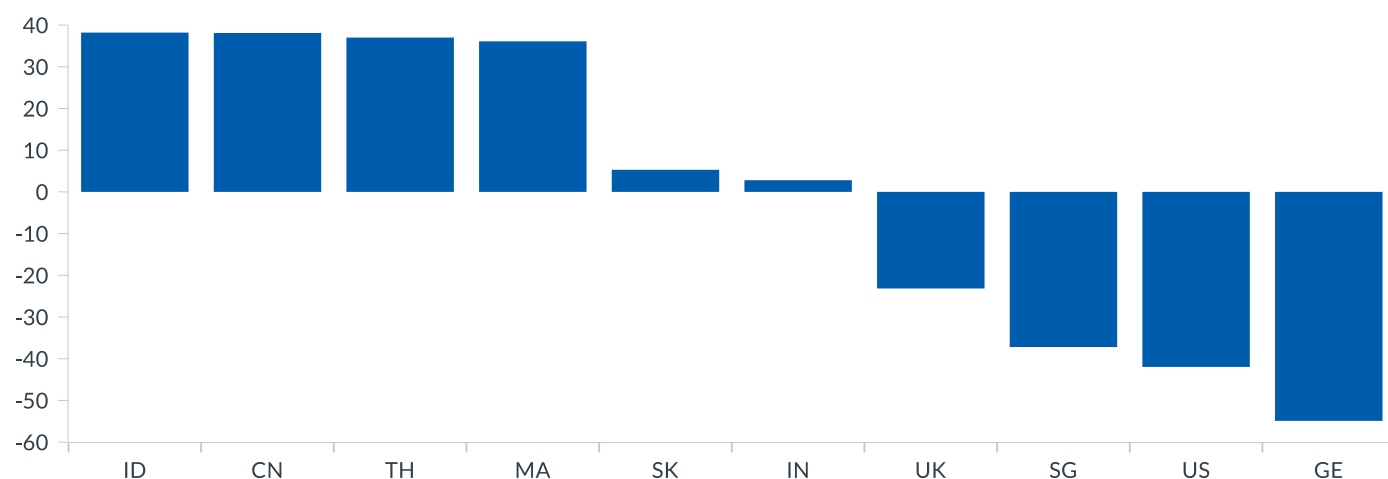
Source: Macrobond, RHB Economics & Market Strategy *Malaysia * Korea 3Y Bonds, YTD & QTD figures are in bps

Figure 6: ... albeit inversions are getting milder but...

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United Kingdom	40.2	40.2	3.93	4.74	3.00
Singapore	39.9	39.9	3.09	3.50	2.66
United States	32.1	32.1	4.20	4.99	3.31
Germany	27.6	27.6	2.30	2.97	1.89
Indonesia	23.9	23.9	6.69	7.22	6.16
S. Korea	23.4	23.4	3.41	4.40	3.16
Malaysia	12.5	12.5	3.86	4.16	3.65
India	-13.2	-13.2	7.05	7.44	6.96
Thailand	-16.2	-16.2	2.51	3.35	2.26
China	-25.9	-25.9	2.30	2.92	2.54

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

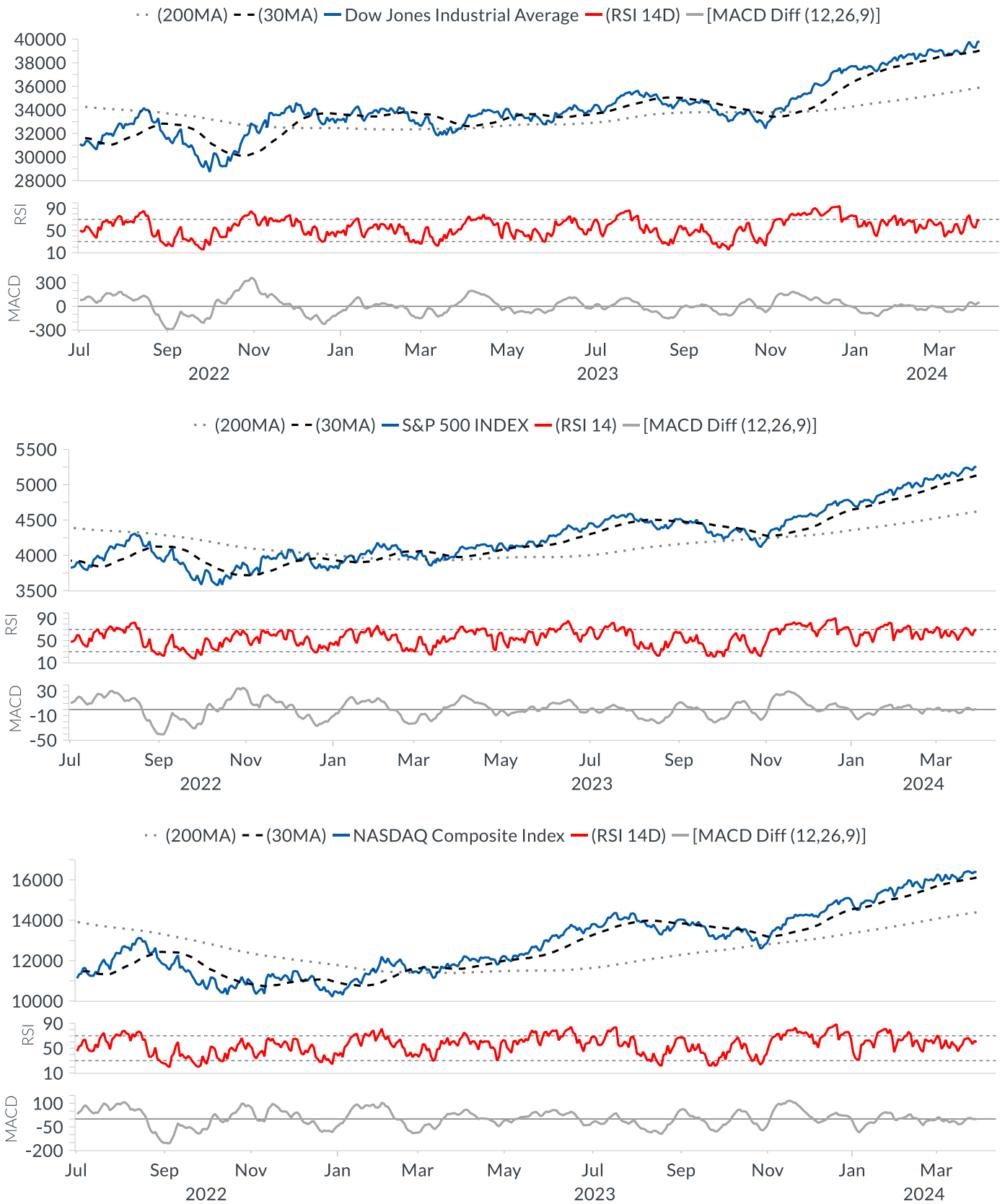
Figure 7: ... UST 2-10Y spread inversion has widened in the latest week as market gradually price out short-term rate cuts



Source: Macrobond, RHB Economics & Market Strategy

29 March 2024

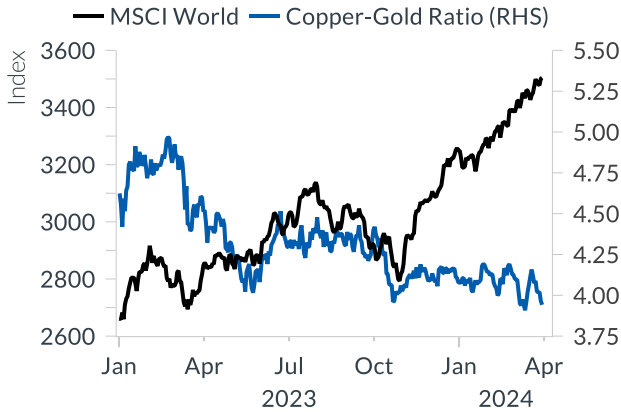
Figure 8: Technical readings on US equities suggest an interim pullback, especially should inflation surprise higher + gradual pricing out of FFR cuts in 1H24



Source: Macrobond, RHB Economics & Market Strategy

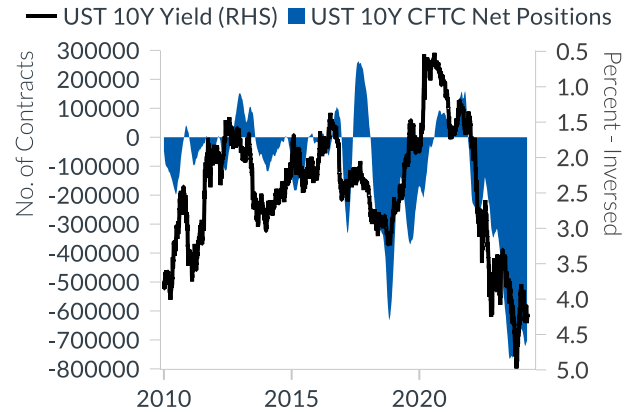
29 March 2024

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



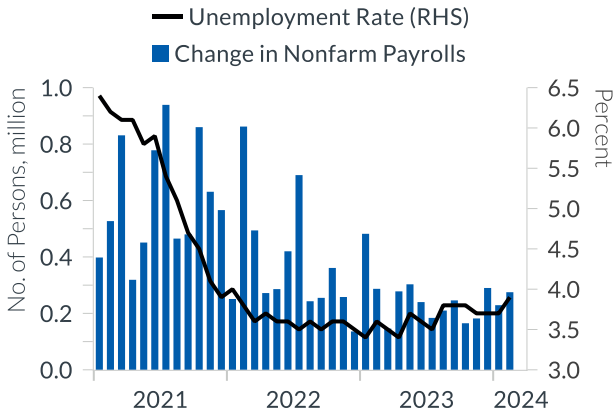
Source: Macrobond, RHB Economics & Market Strategy

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



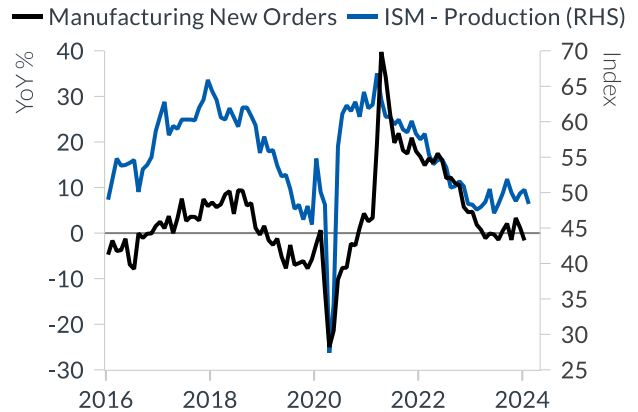
Source: Macrobond, RHB Economics & Market Strategy

Figure 11: US non-farm is (very) strong, higher unemployment rates a function of more job seekers



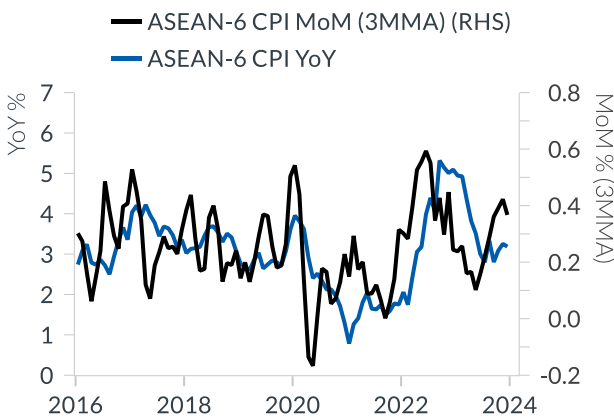
Source: Macrobond, RHB Economics & Market Strategy

Figure 12: US manufacturing activities appears to have bottomed



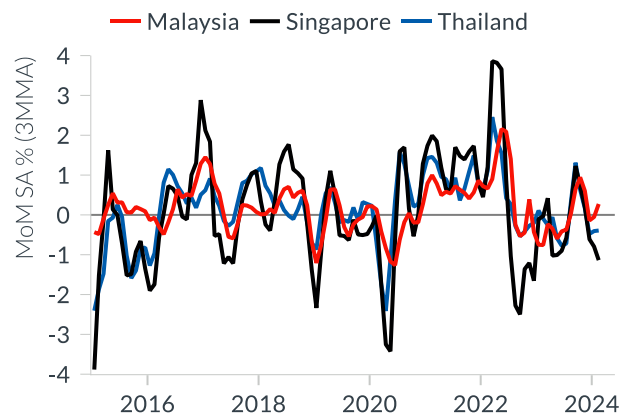
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

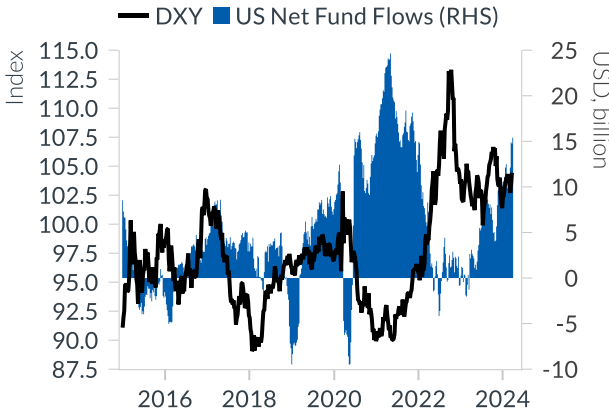
Figure 14: ... while import price momentums have picked up for key markets



Source: Macrobond, RHB Economics & Market Strategy

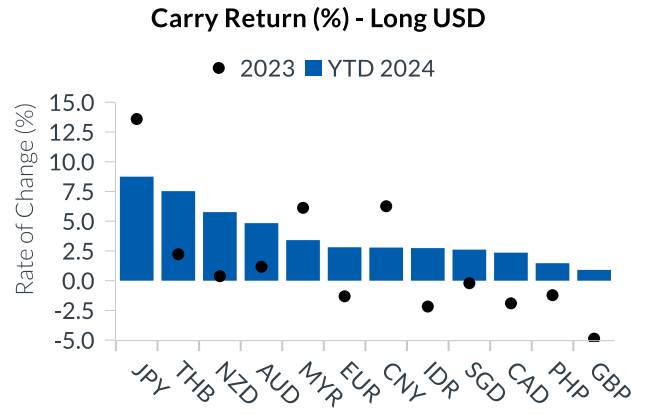
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Figure 15: Fund flows into US continued to gain strength, thus supporting DXY...



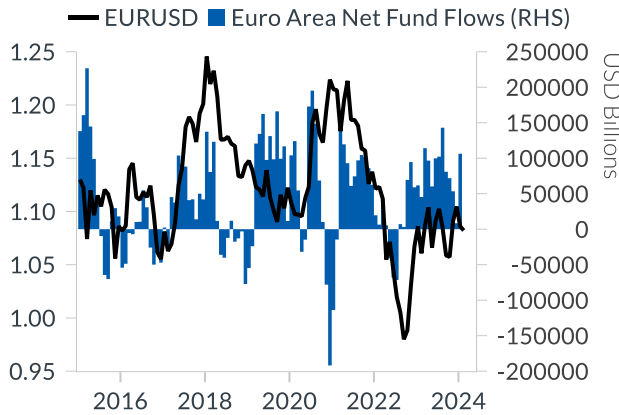
Source: Macrobond, EPFR, RHB Economics & Market Strategy

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



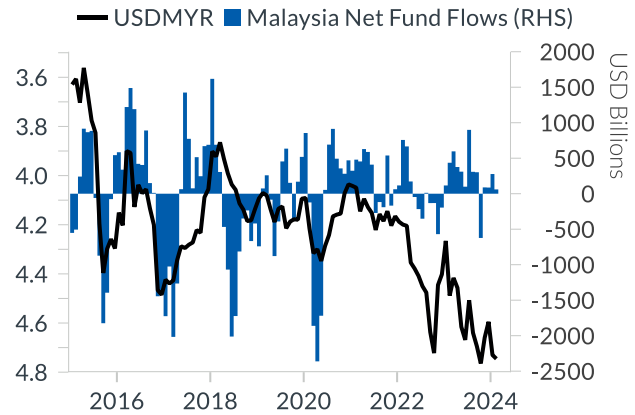
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 17: Fund flows into Euro Area accelerated in the latest week, but it remains to be seen if it is sustainable



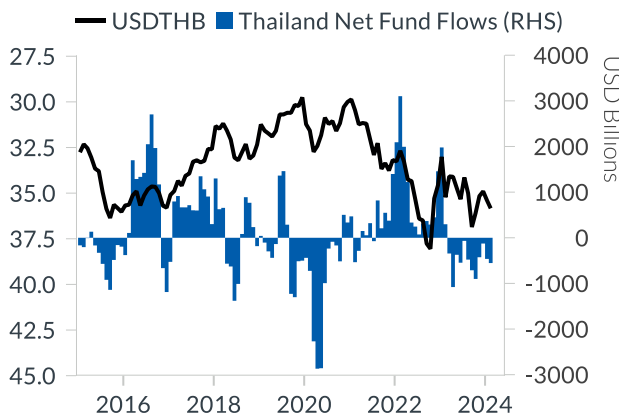
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 18: ... while the MYR is likely headed towards 4.8 per USD amid relatively tepid fund flows



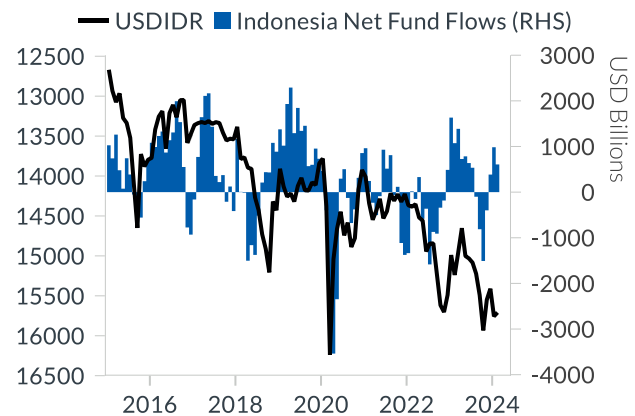
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

Figure 19: No reprieve for Thailand's net outflows, suggesting further weakness in THB...



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

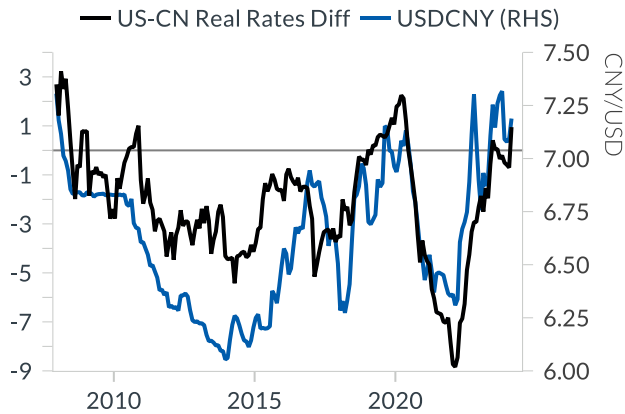
Figure 20: ... but recent uptick of funds into Indonesia's shores may stem IDR weakness



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

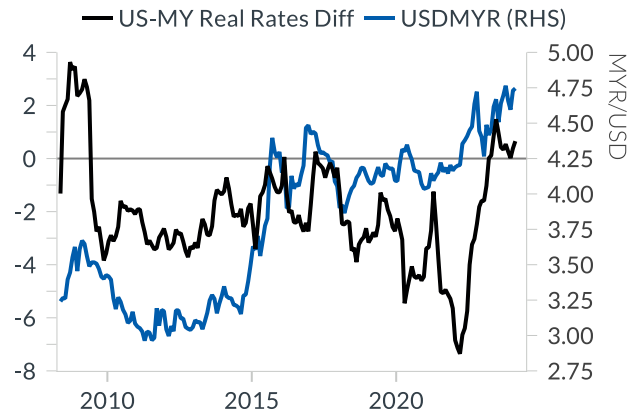
29 March 2024

Figure 21: US real rates has turned positive against China, and the persistence will mean a higher USDCNY



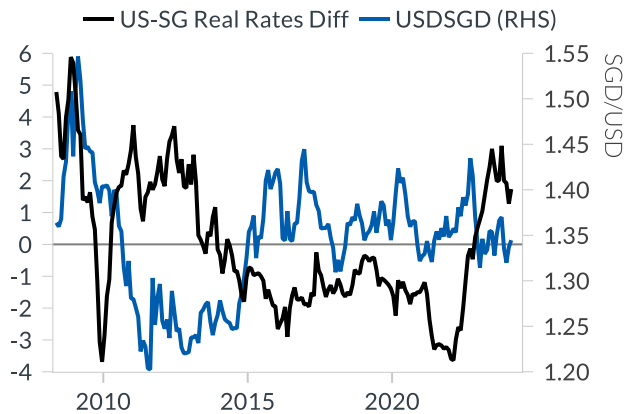
Source: Macrobond, RHB Economics & Market Strategy

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



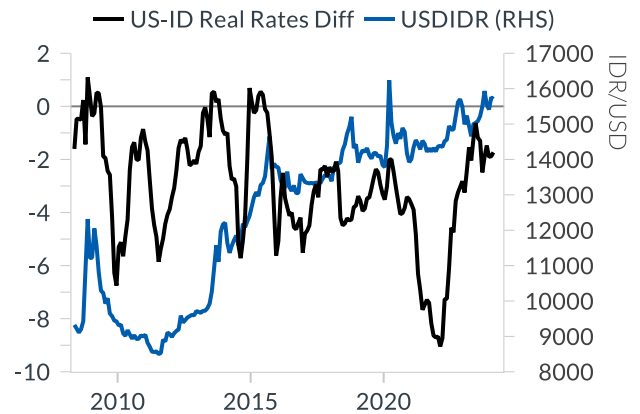
Source: Macrobond, RHB Economics & Market Strategy

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



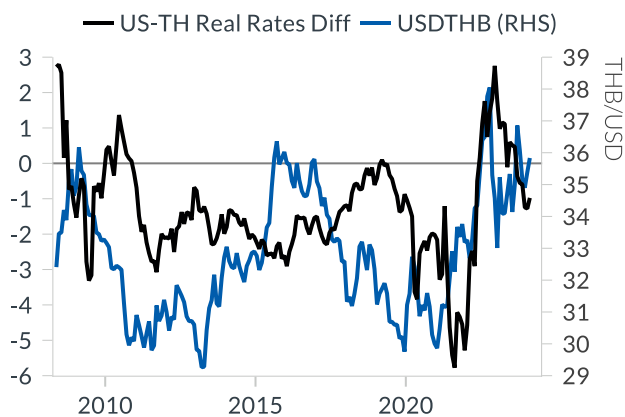
Source: Macrobond, RHB Economics & Market Strategy

Figure 24: ... further evidence for the cushioning of IDR weakness can be seen from lower US-ID real rates



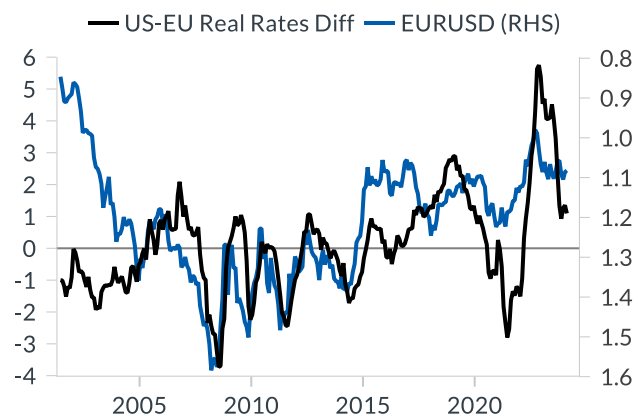
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

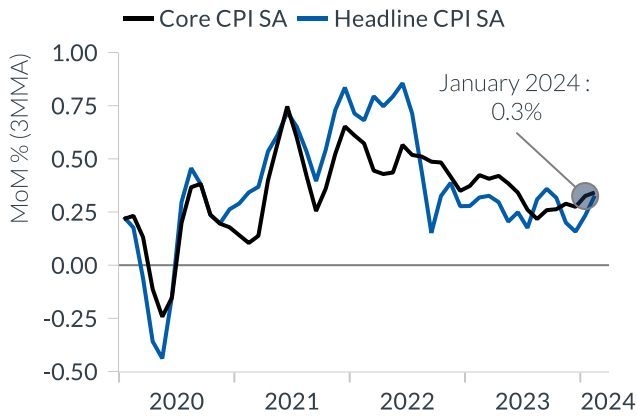
Figure 26: EURUSD remains well-behaved against US-EU 3M rate spread



Source: Macrobond, RHB Economics & Market Strategy

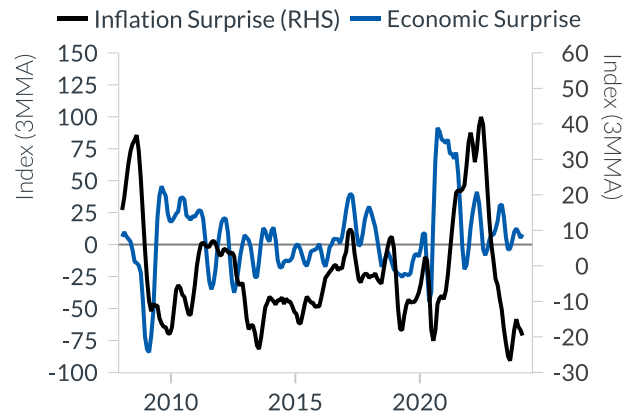
29 March 2024

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



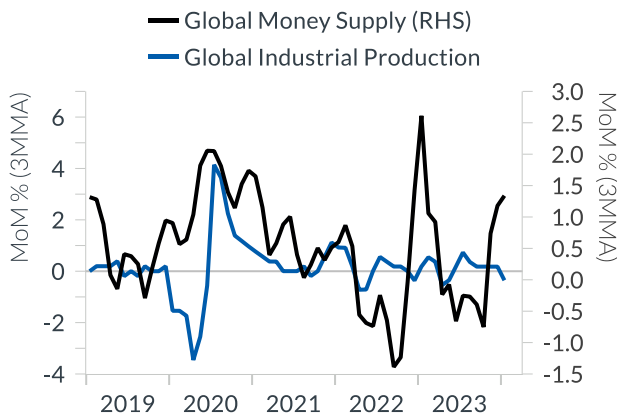
Source: Macrobond, RHB Economics & Market Strategy

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



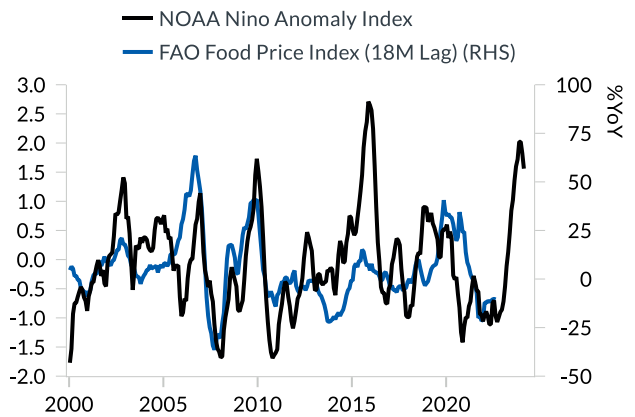
Source: Macrobond, RHB Economics & Market Strategy

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



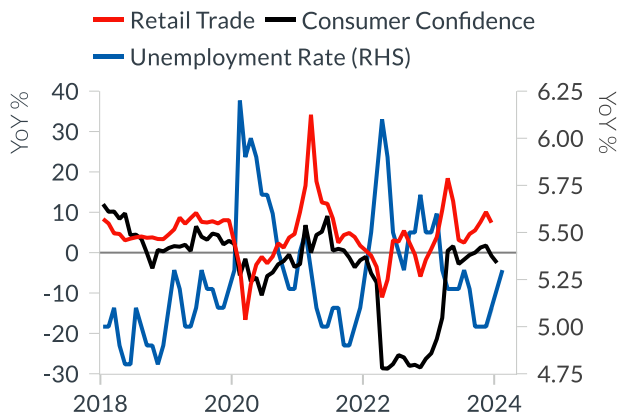
Source: Macrobond, RHB Economics & Market Strategy

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



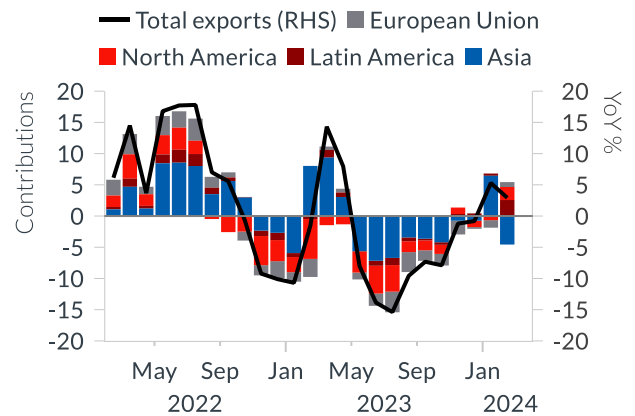
Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

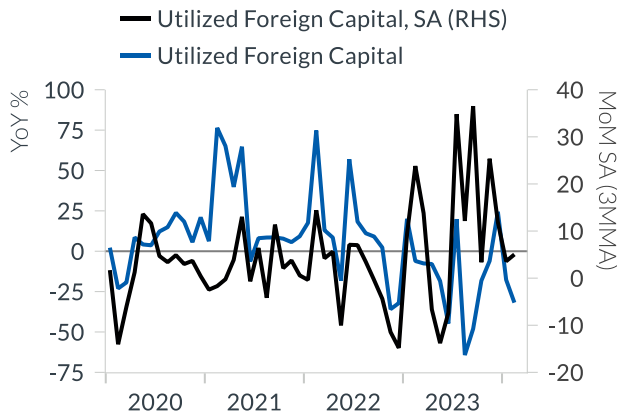
Figure 32: ... with exports are still on the path of recovery (huge bump in Feb '24 is due to Jan+Feb)



Source: Macrobond, RHB Economics & Market Strategy

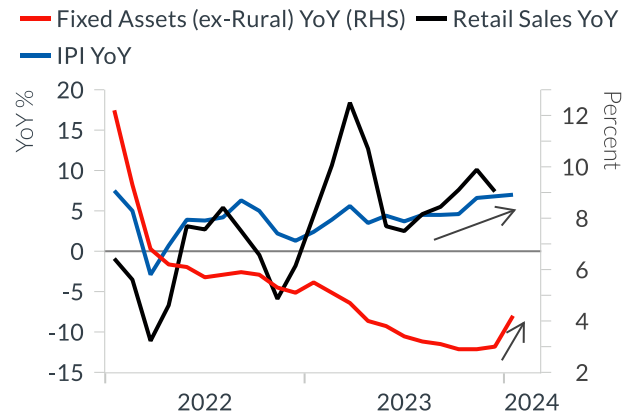
29 March 2024

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



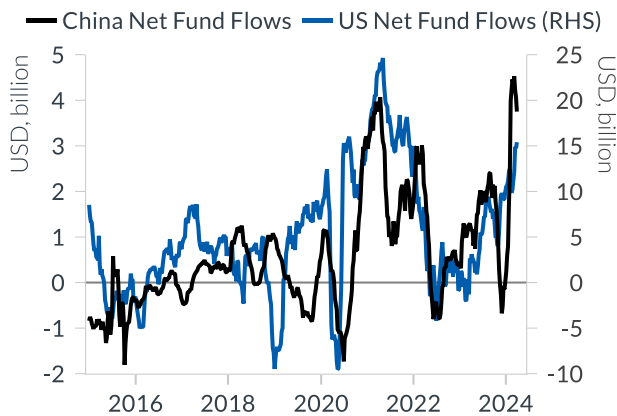
Source: Macrobond, RHB Economics & Market Strategy

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



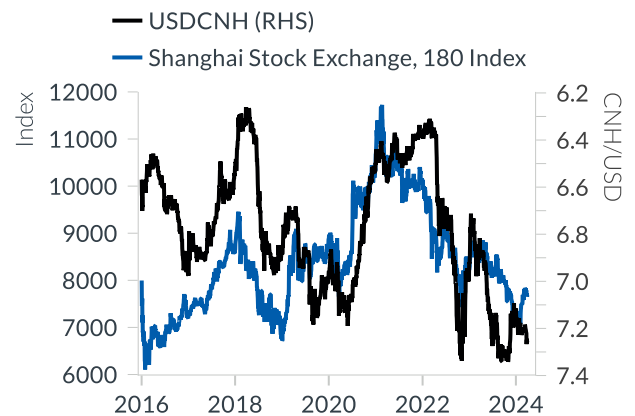
Source: Macrobond, RHB Economics & Market Strategy

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



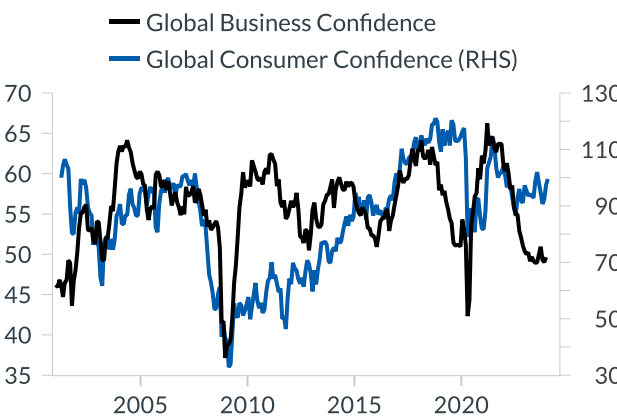
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 36: ... thus suggesting a likely bottoming of SSE and CNH



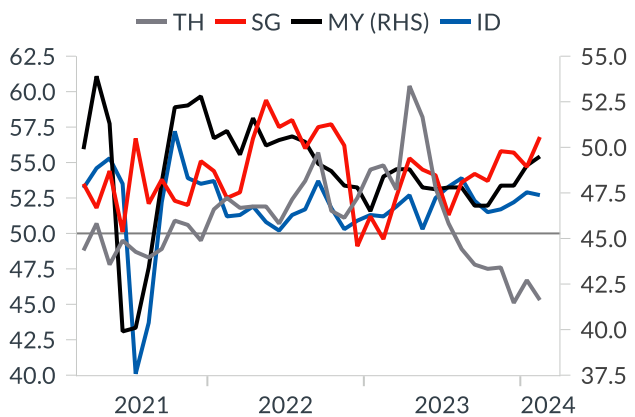
Source: Macrobond, RHB Economics & Market Strategy

Figure 37: RHB Biz and Consumer confidence suggest a bottoming and potential pickup in 2024



Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

29 March 2024

Figure 39: US core PCE inflation needs to be at 0.1 – 0.2% MoM (Scenario 2) in order for a 2.0% inflation path

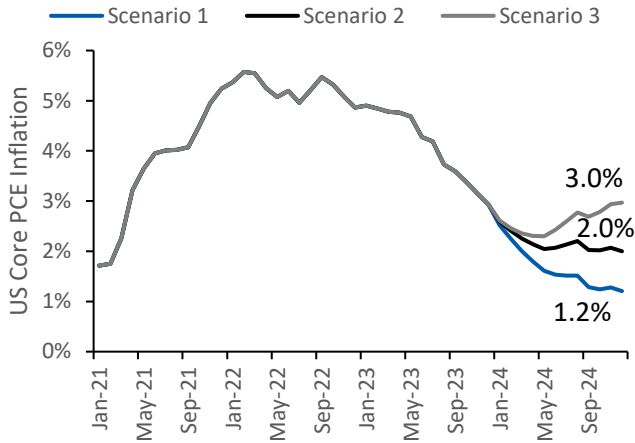
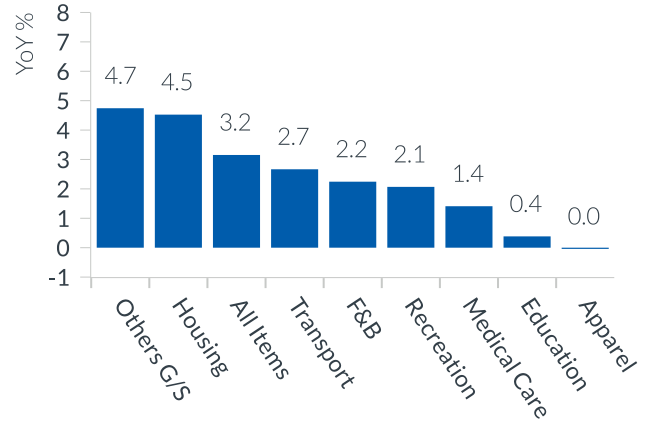


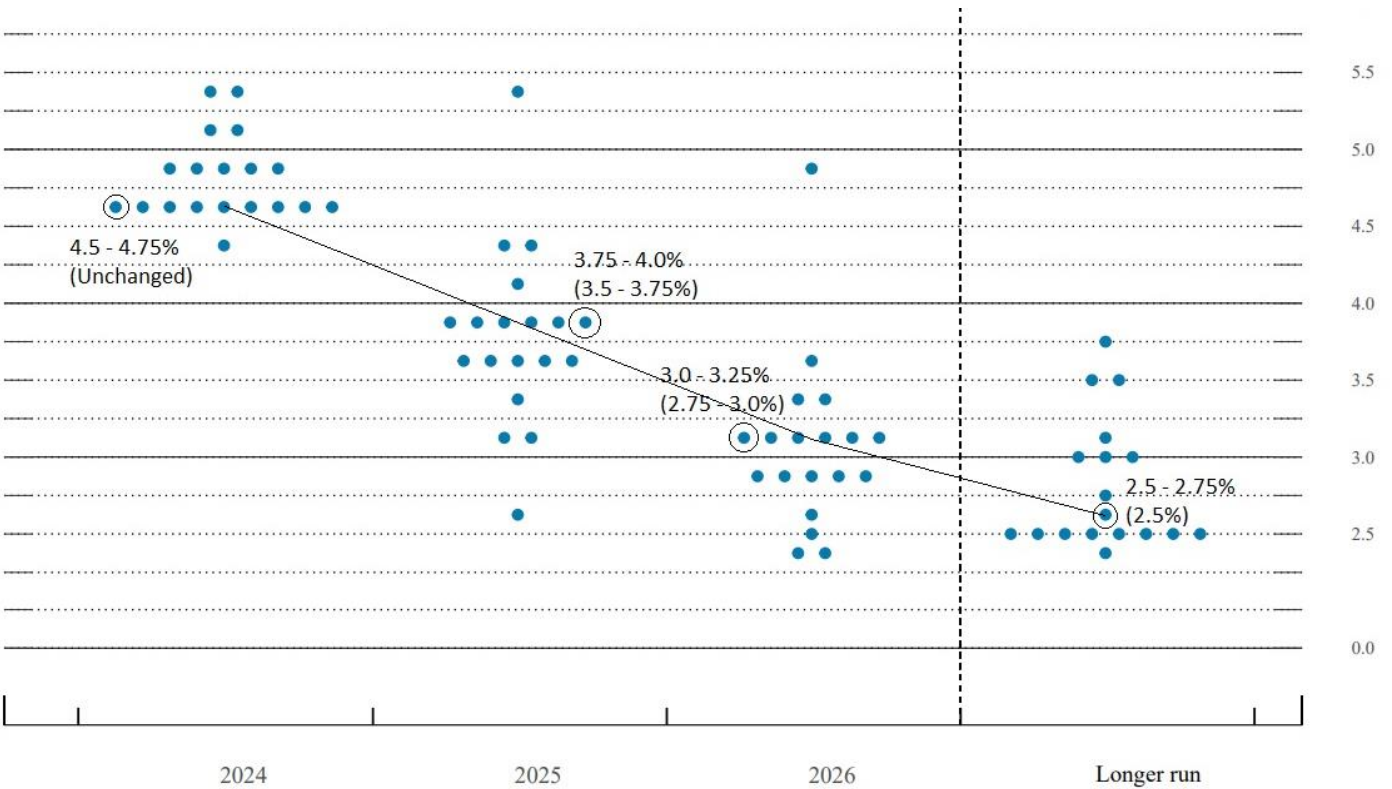
Figure 40: US inflation driven by housing and other G/S inflation thus slowdown in prices is not broad-based



Source: Macrobond, RHB Economics & Market Strategy

Source: Macrobond, RHB Economics & Market Strategy

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



Source: US Federal Reserve, RHB Economics & Market Strategy

29 March 2024

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