

12 April 2024

## Global Economics & Market Strategy

### FFR Cuts are Becoming Less of a Reality

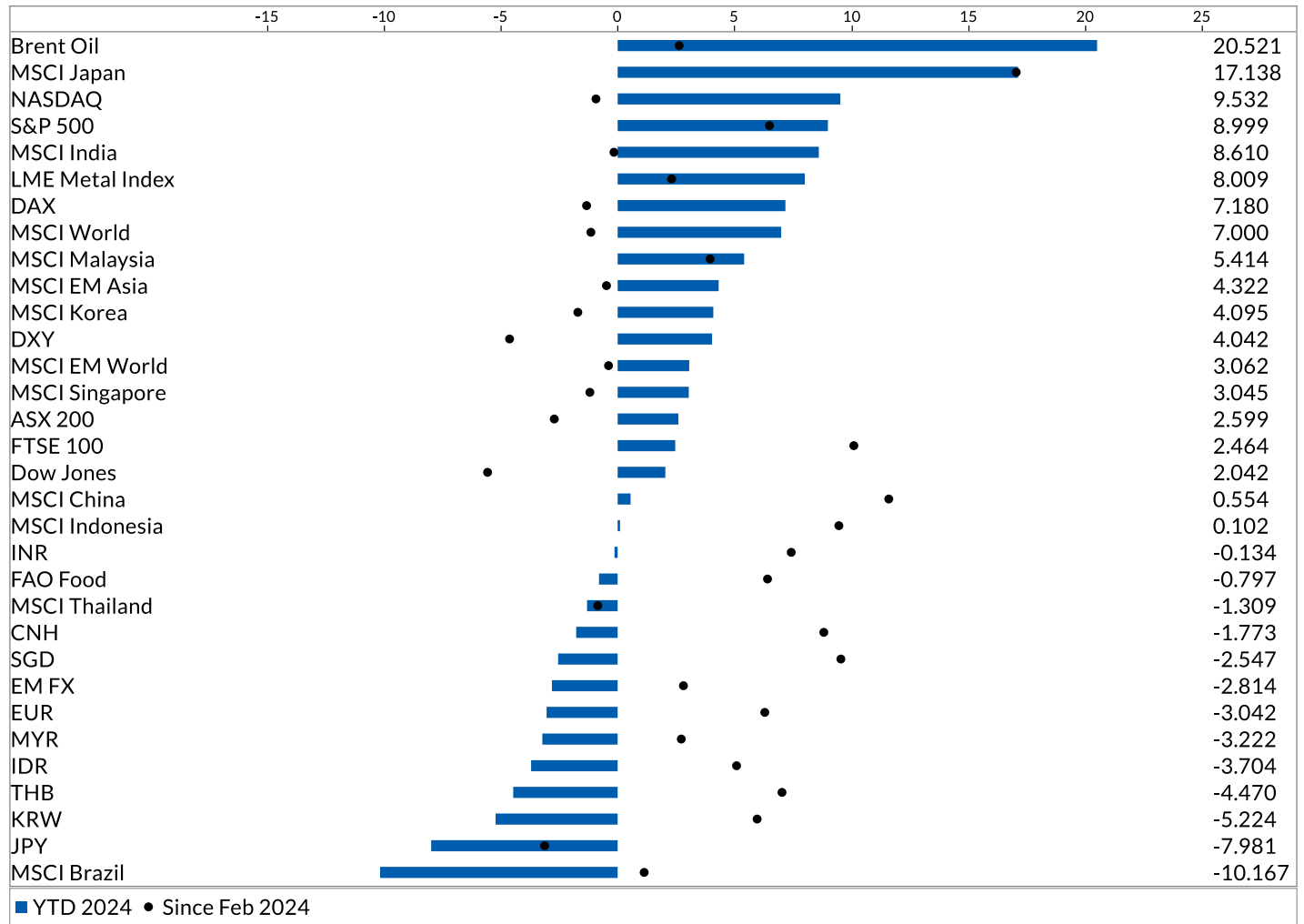
- ◆ **Our revision of the US inflation model suggests US PCE core inflation will not touch 2.0% by the end of 2024**, even on the assumption that month-on-month prints decelerate gradually towards 0.1% henceforth (see Figures 26 and 27). We keep US full-year headline inflation at 3.0%, with upside risks towards 3.2%, thus suggesting that inflation will continue to persist in the year ahead. The latest Fedspeak by NY President John Williams suggests “no clear need to adjust policy in the very near term”, as inflation still has “a ways to go” to reach the Fed’s 2.0% goal.
- ◆ **With core PCE inflation likely not touching 2.0% anytime soon, we think that inflation is likely not on the path towards the Fed’s goal in 2024.** Our model (Figure 27) suggests that (1) US core PCE inflation will head towards 3.4% (from the current 2.8%) if MoM % is unchanged at February’s 0.3% handle, and (2) should it accelerate to 0.4%, core PCE inflation will head up to 4.2% by year-end. Our view for higher commodity prices into the year, telegraphed as early as 2H23, remains unchanged. As such, global inflation is likely to be persistent, rather than a blip, on the back of (1) energy supply constraints by OPEC+, (2) poor weather conditions given the El Nino conditions, and (3) demand-led prices on the back of our above-consensus GDP forecasts in key markets.
- ◆ **We keep our base case for two Fed Fund Rates (FFR) cuts in 2H24 (specifically in September and December by 25bps each).** Since the start of the year, we have been ahead of market expectations for (1) dollar strength, (2) higher US 10Y yields, and (3) high-for-longer FFR, which had played out very well for us. At this juncture, our models suggest a material risk for only one FFR cut (or no cuts) in 2024, assuming that global inflation remains persistent in the year ahead. We keep our Brent crude forecast to head towards US\$95 per barrel in 2H24, while FAO food prices have rallied the fastest amongst Brent and LME Metals since February 2024 (See Figure 1). In ASEAN, we observe an uptick in import prices, with inflation heating up in economies without sizeable food subsidies (e.g. Singapore, whereby we [upgraded core CPI](#) to 3.5% in 2024). Note that swap pricings now indicate only two cuts by year-end, whereby markets may continue to price out rate cuts should global inflation stay hot.
- ◆ **The implications are as follows:** we keep our DXY forecast at a range of 105 – 110 in 2Q24, and US 10Y yields to head towards 4.6% in the same period, as cited in our latest [Pathfinder 2Q24 report](#). We remain optimistic about global economic momentum, with US and China growth pencilled at an above-consensus level of 2.5% and 5.0%, respectively. The relatively stronger DXY expected into 2Q24 will mean a weaker ASEAN FX spectrum, albeit SGD will likely remain the outperformer in ASEAN given its S\$NEER appreciation policy. We keep our MYR outlook to weaken towards 4.8 per USD in 2Q24.
- ◆ **Closer to home, we maintain our [optimistic view](#) of the manufacturing sector on the back of a rosier trade outlook.** We observe an improving momentum in Malaysia’s IP year-to-date, even as February’s IPI printed 3.1% YoY (January: 4.3% YoY), stronger than our in-house estimate of 2.1% YoY and Bloomberg consensus estimate of 1.8% YoY. Elsewhere, the Monetary Authority of Singapore kept its policy parameters unchanged in line with our expectations. We [maintain our outlook](#) for no change in SG’s policy stance for the year ahead.

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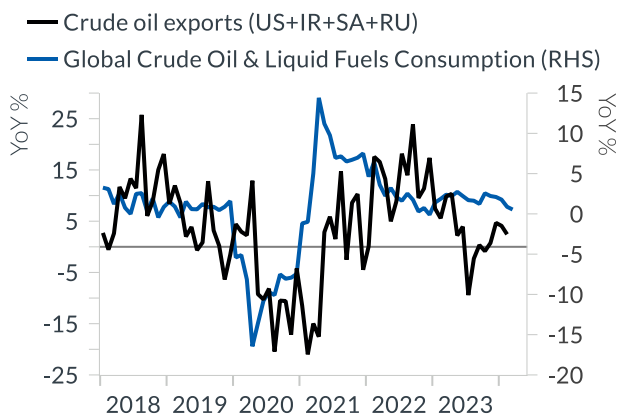
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**Figure 1: YTD 2024 total return – Investors continue to favour DM equities. Inflation remains on the uptrend with higher oil, metals and food prices. Note FAO food has rallied the fastest since Feb against Brent and LME metals.**



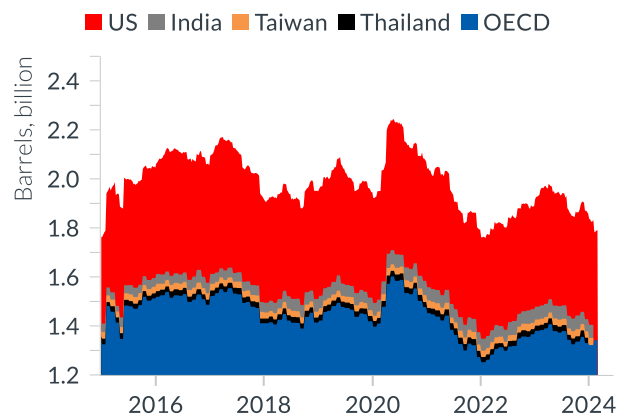
Source: Macrobond, RHB Economics & Market Strategy

**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

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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	8.67	6.02	1.33	153.252	151.647	127.516
CHF per USD	8.11	1.80	1.00	0.911	0.941	0.837
KRW per USD	5.51	3.86	1.70	1368.260	1361.825	1222.444
TWD per USD	5.12	3.41	0.87	32.232	32.479	29.668
THB per USD	4.68	3.40	0.53	36.534	37.069	32.704
AUD per USD	4.51	2.09	0.02	1.534	1.590	1.408
DXY	3.85	2.30	0.76	105.280	107.000	99.770
IDR per USD	3.85	6.46	0.85	16003.750	15946.000	14652.765
MYR per USD	3.33	1.70	0.50	4.748	4.793	4.245
EUR per USD	3.14	1.87	0.74	0.934	0.955	0.890
SGD per USD	2.61	0.07	0.47	1.354	1.374	1.308
PHP per USD	1.89	2.05	0.50	56.445	57.146	53.946
CNH per USD	1.81	-0.24	0.04	7.258	7.342	6.713
GBP per USD	1.73	1.50	0.87	0.798	0.845	0.762
INR per USD	0.13	1.59	-0.03	83.360	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
United States	68.9	31.9	4.94	5.22	3.77
Germany	55.7	10.3	2.95	3.33	2.34
United Kingdom	43.7	22.9	4.39	5.48	3.17
S. Korea*	28.6	11.9	3.43	4.14	3.12
Singapore	21.4	0.8	3.47	3.73	2.87
Malaysia*	8.3	5.6	3.55	3.69	3.31
India	-0.9	3.6	7.06	7.39	6.80
Indonesia	-4.6	2.6	6.34	6.91	5.62
Thailand	-5.2	11.2	2.28	2.62	1.53
China	-34.0	-5.9	1.84	2.47	2.07

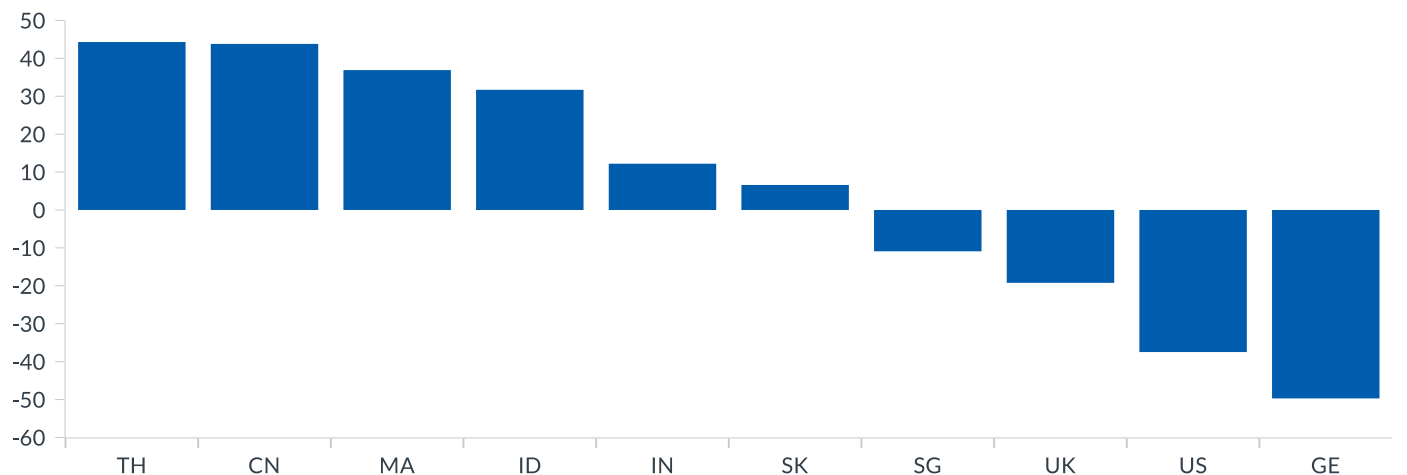
Source: Macrobond, RHB Economics & Market Strategy \*Malaysia \* Korea 3Y Bonds, YTD & QTD figures are in bps

Figure 6: ... similarly for 10Y yields across key markets

Govt 10Y Yields	YTD 2024	QTD 2024	Last 2024	High 2023	Low 2023
United States	68.5	36.4	4.56	4.99	3.31
Singapore	67.0	27.1	3.36	3.50	2.66
United Kingdom	67.0	26.8	4.20	4.74	3.00
Germany	43.1	15.5	2.45	2.97	1.89
S. Korea	38.0	15.2	3.56	4.40	3.16
Indonesia	20.0	-3.9	6.65	7.22	6.16
Malaysia	18.6	6.2	3.92	4.16	3.65
Thailand	4.7	22.1	2.72	3.35	2.26
India	-0.2	13.0	7.18	7.44	6.96
China	-27.5	-0.7	2.28	2.92	2.54

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

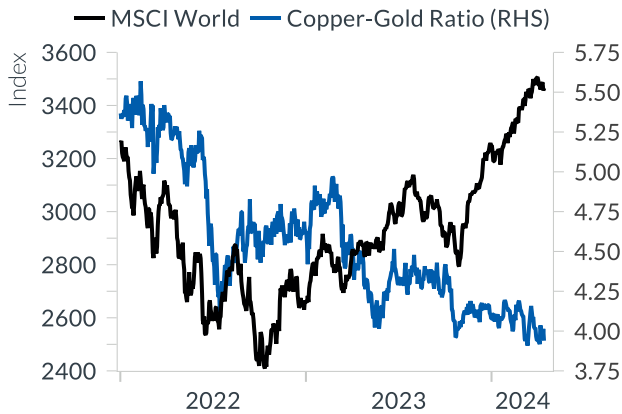
Figure 7: UST 2-10Y spread inversion widened in the latest week, as market participants price out FFR cuts to two times in 2H24



Source: Macrobond, RHB Economics & Market Strategy

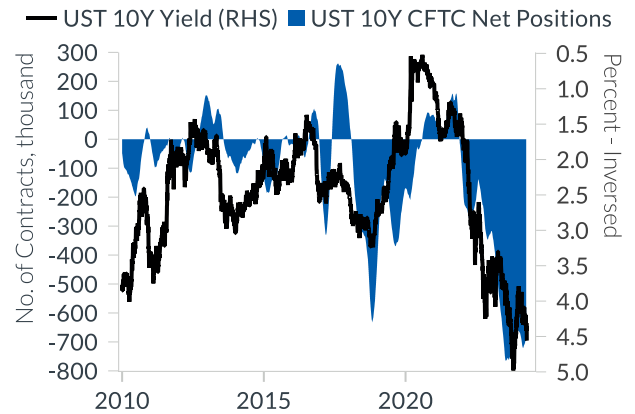
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**Figure 8: Some profit-taking ensued in MSCI world, as investors price in two or less FFR cuts**



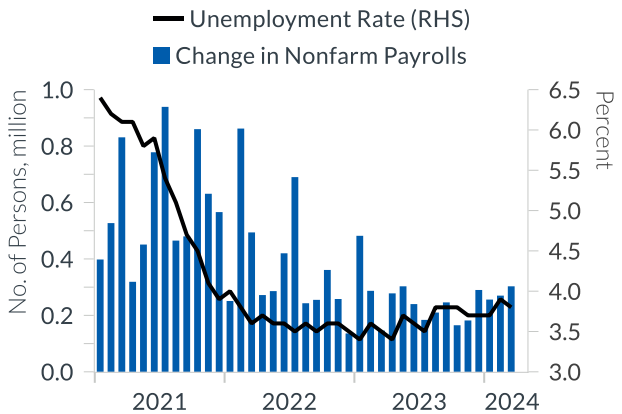
Source: Macrobond, RHB Economics & Market Strategy

**Figure 9: Speculative net-shorts in UST persist, suggesting stickiness in UST 10YR yields**



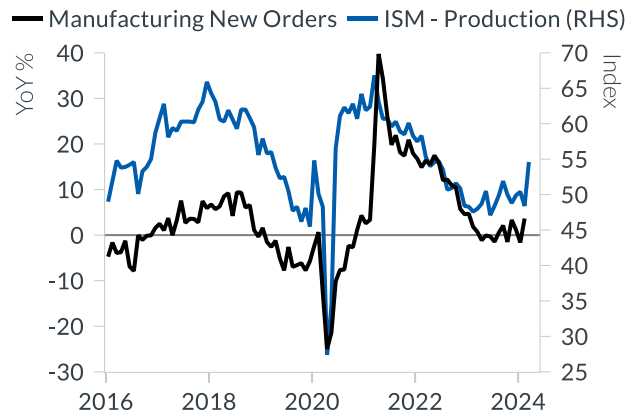
Source: Macrobond, RHB Economics & Market Strategy

**Figure 10: US non-farm is (very) strong, higher unemployment rates a function of more job seekers**



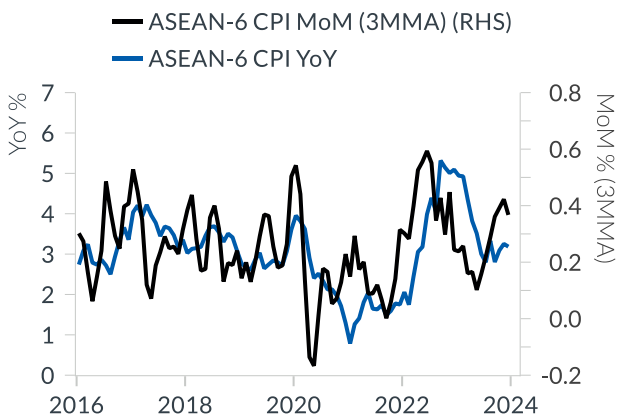
Source: Macrobond, RHB Economics & Market Strategy

**Figure 11: US manufacturing activities accelerated in the latest prints, suggesting the bottom is found**



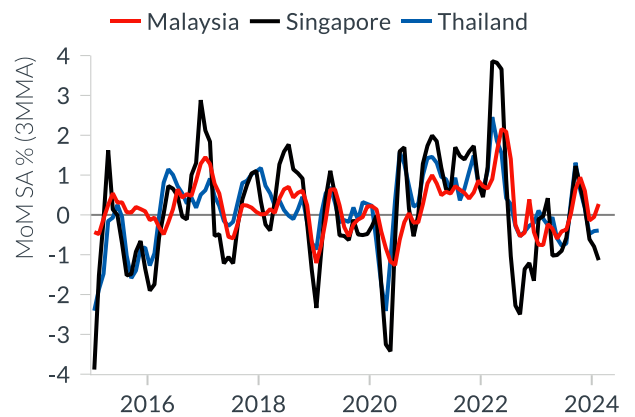
Source: Macrobond, RHB Economics & Market Strategy

**Figure 12: ASEAN-6 GDP-Weighted CPI momentum is heating up**



Source: Macrobond, RHB Economics & Market Strategy

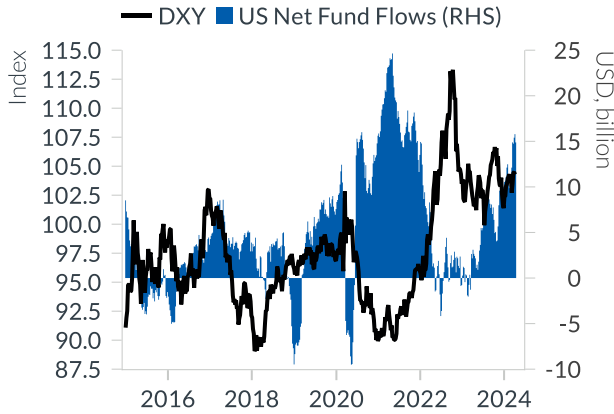
**Figure 13: ... while import price momentums have picked up for key markets**



Source: Macrobond, RHB Economics & Market Strategy

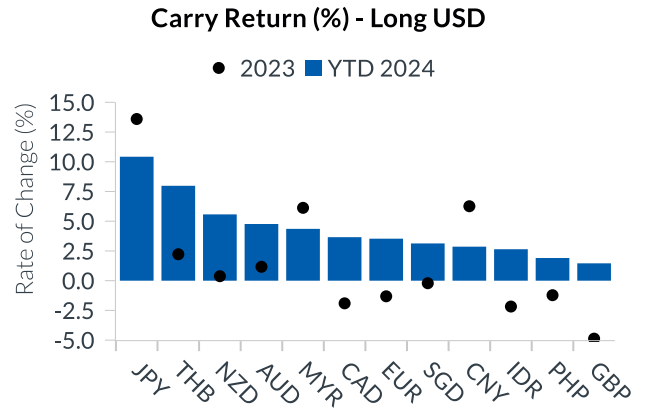
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**Figure 14: High for longer rates likely led to more fund inflows into the US, thus supporting DXY...**



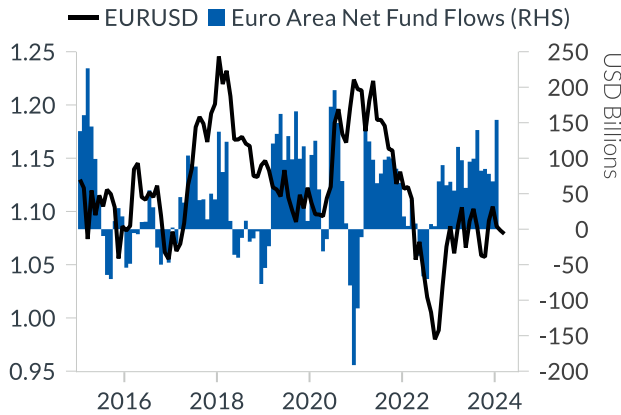
Source: Macrobond, EPFR, RHB Economics & Market Strategy

**Figure 15: ... while USD carry stays positive year-to-date**



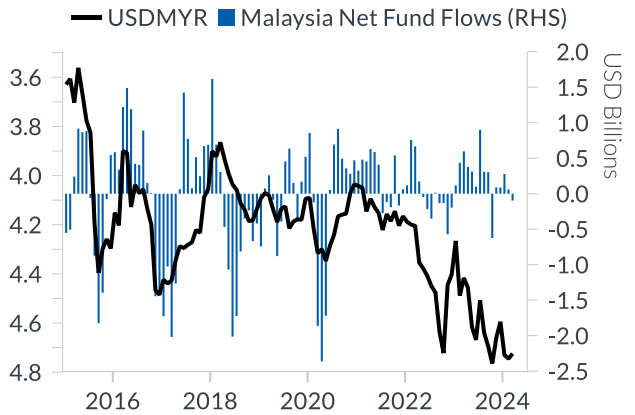
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 16: Fund flows into Euro Area accelerated in the latest week, but it remains to be seen if it is sustainable**



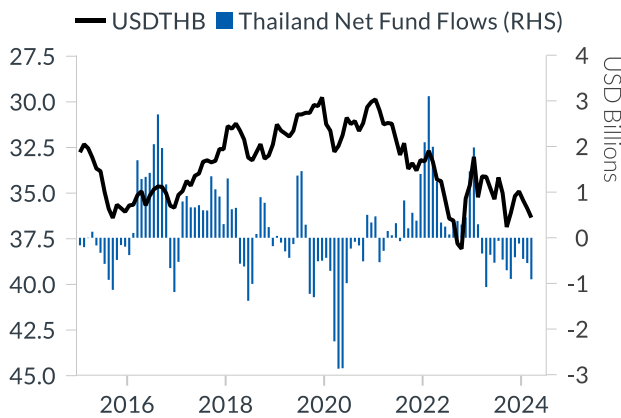
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 17: ... while the MYR is likely headed towards 4.8 per USD amid relatively tepid fund flows**



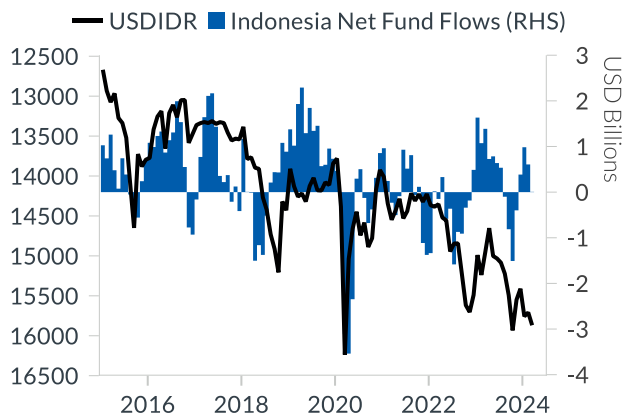
Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

**Figure 18: No reprieve for Thailand's net outflows, suggesting further weakness in THB...**



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

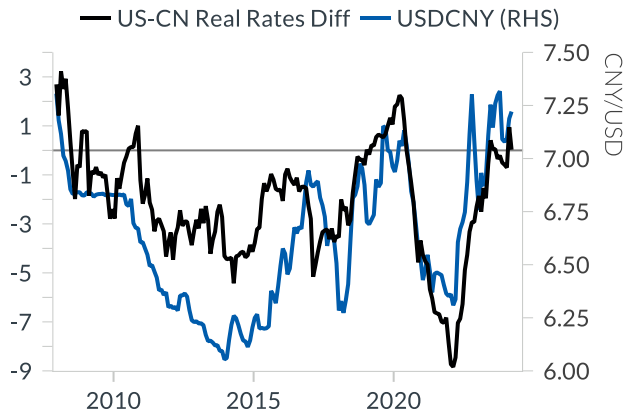
**Figure 19: ... but uptick of funds into Indonesia's shores cap IDR weakness**



Source: Macrobond, Bloomberg, RHB Economics & Market Strategy

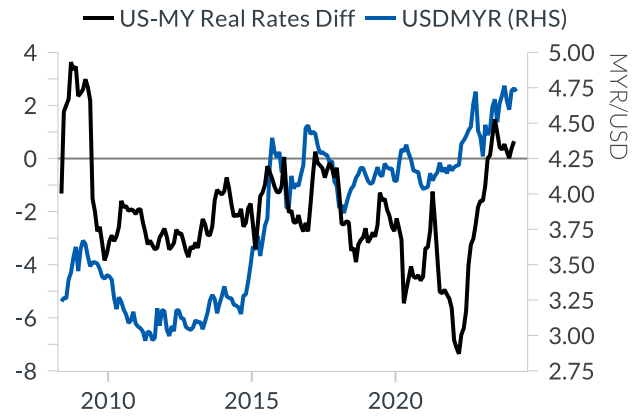
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**Figure 20: US real rates has turned positive against China, and the persistence will mean a higher USDCNY**



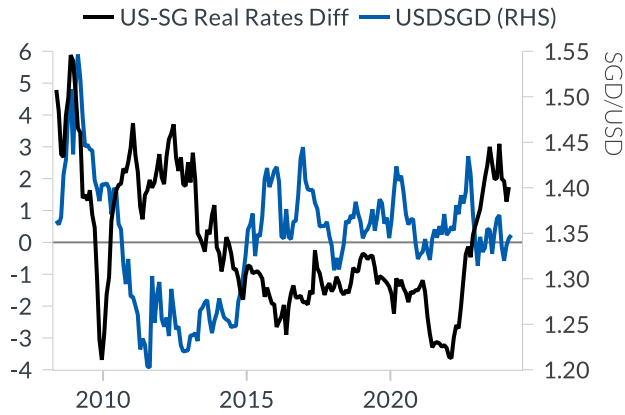
Source: Macrobond, RHB Economics & Market Strategy

**Figure 21: Malaysia's real rates differentials are still a function of MYR**



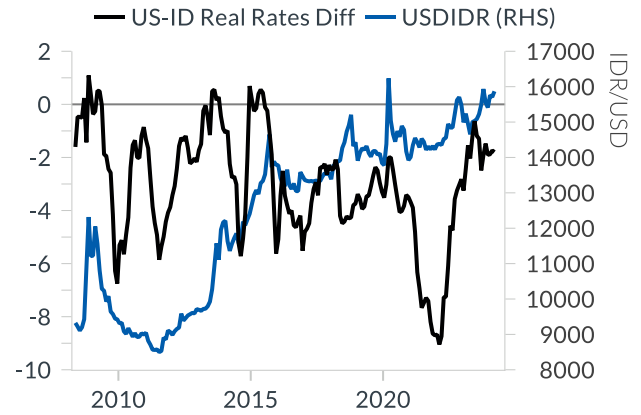
Source: Macrobond, RHB Economics & Market Strategy

**Figure 22: ... while Singapore appears less susceptible to rate differentials given its S\$NEER appreciation policy...**



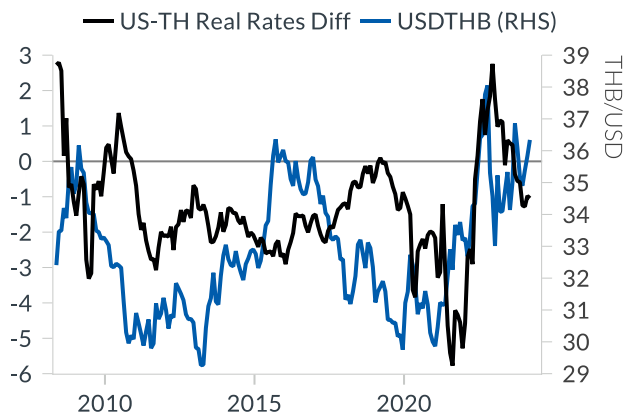
Source: Macrobond, RHB Economics & Market Strategy

**Figure 23: ... further evidence for the cushioning of IDR weakness can be seen from lower US-ID real rates**



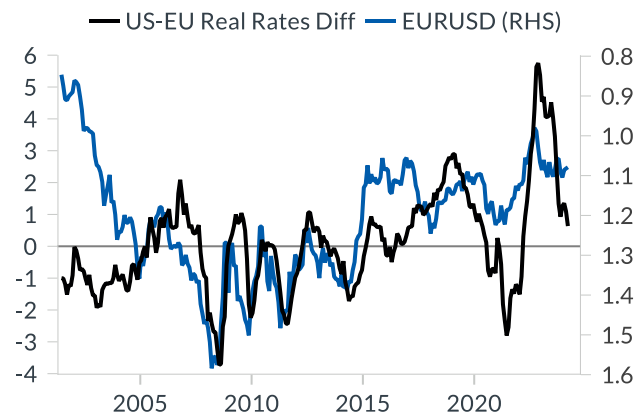
Source: Macrobond, RHB Economics & Market Strategy

**Figure 24: Thailand's real rates are elevated due to its subsidy-driven deflation backdrop**



Source: Macrobond, RHB Economics & Market Strategy

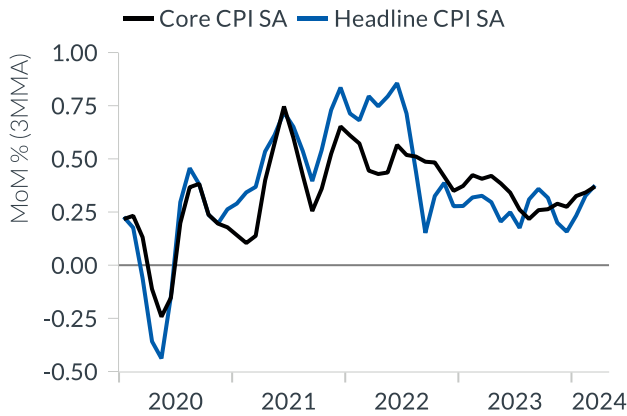
**Figure 25: EURUSD remains well-behaved against US-EU 3M rate spread**



Source: Macrobond, RHB Economics & Market Strategy

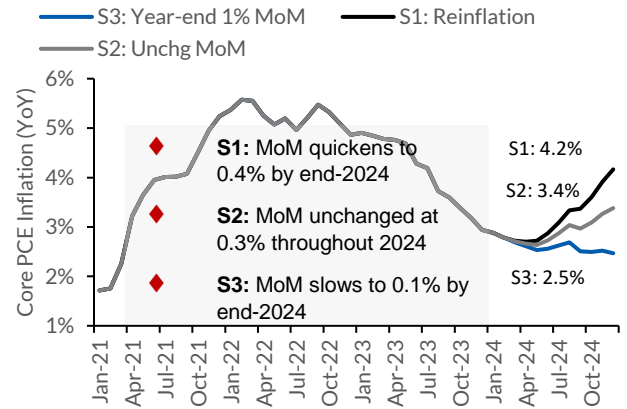
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**Figure 26: US core inflation momentum is elevated, suggesting that it is not on a 2.0% path...**



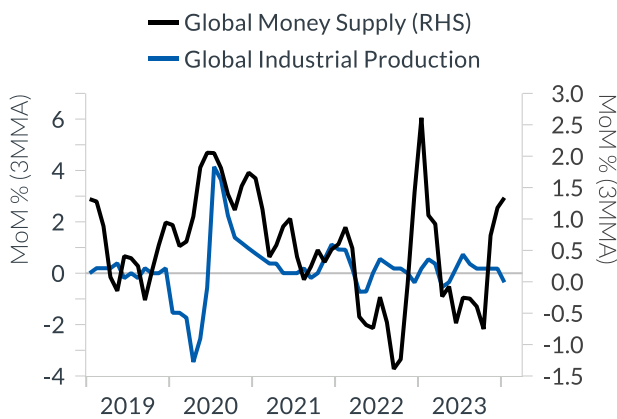
Source: Macrobond, RHB Economics & Market Strategy

**Figure 27: ... and year-end PCE core inflation will be flat at around 2.5% even if MoM decelerates to 0.1%**



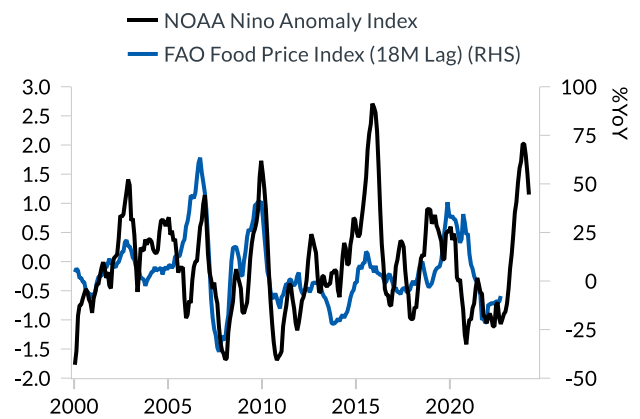
Source: Macrobond, RHB Economics & Market Strategy

**Figure 28: Loosening global financial conditions may mean stronger global IP outlook, especially in 2H24**



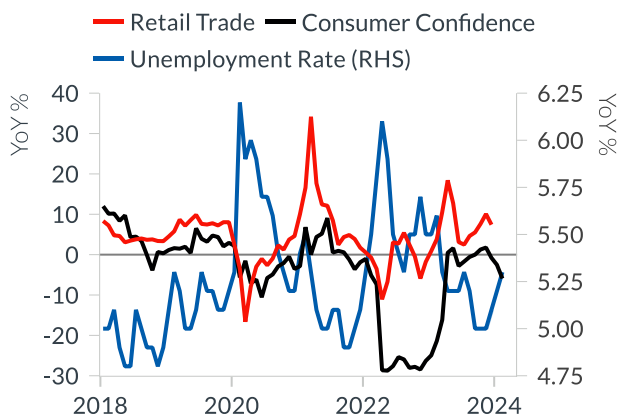
Source: Macrobond, RHB Economics & Market Strategy

**Figure 29: Higher global food prices may be evident from the El Nino condition**



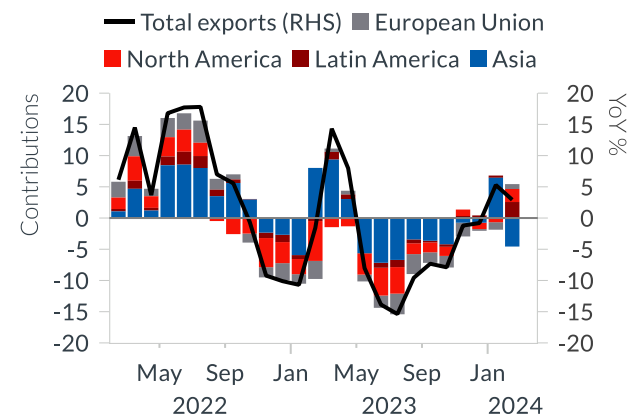
Source: Macrobond, RHB Economics & Market Strategy

**Figure 30: Chinese-centric high-frequency data has weakened in Feb, likely due to CNY...**



Source: Macrobond, RHB Economics & Market Strategy

**Figure 31: ... similar for exports, whereby momentum has softened...**

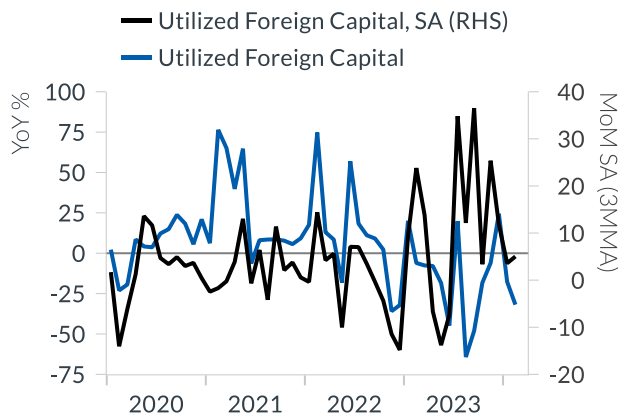


Source: Macrobond, RHB Economics & Market Strategy



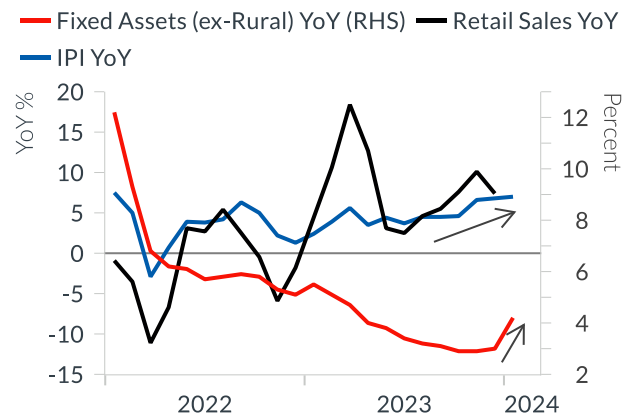
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Figure 32: China's utilisation of foreign capital declined in January, potentially because of the Lunar New Year...



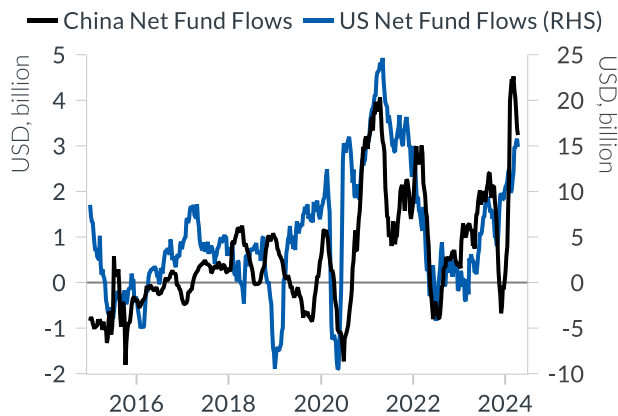
Source: Macrobond, RHB Economics & Market Strategy

Figure 33: ... which is not a concern as the recovery in China's IPI and consumer spending are still seen



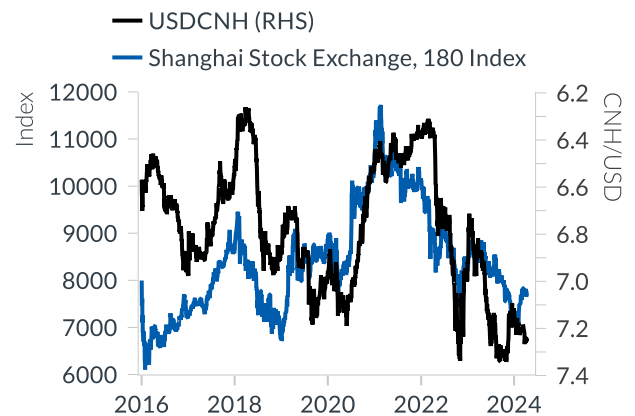
Source: Macrobond, RHB Economics & Market Strategy

Figure 34: Investors' interest in US funds remain healthy, but note the return of investment into China...



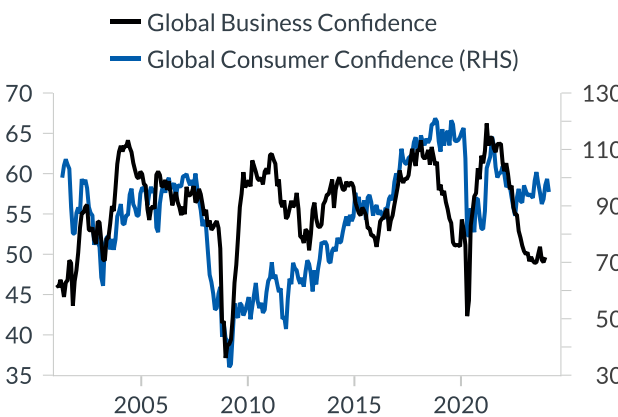
Source: Macrobond, EPFR, RHB Economics & Market Strategy

Figure 35: ... thus suggesting a likely bottoming of SSE and CNH



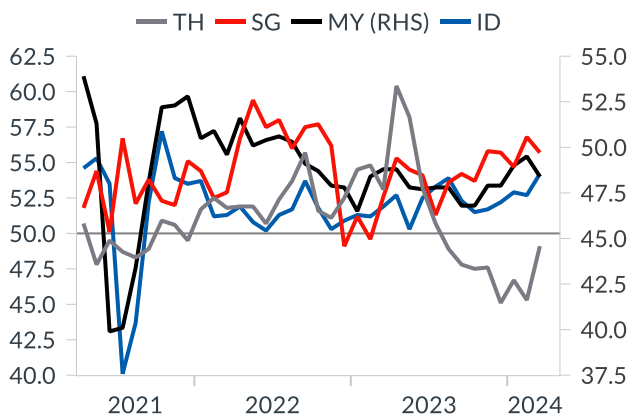
Source: Macrobond, RHB Economics & Market Strategy

Figure 36: RHB Biz and Consumer confidence suggest a bottoming and potential pickup in 2024



Source: Macrobond, RHB Economics & Market Strategy

Figure 37: PMI (whole economy) numbers in most ASEAN economies are up

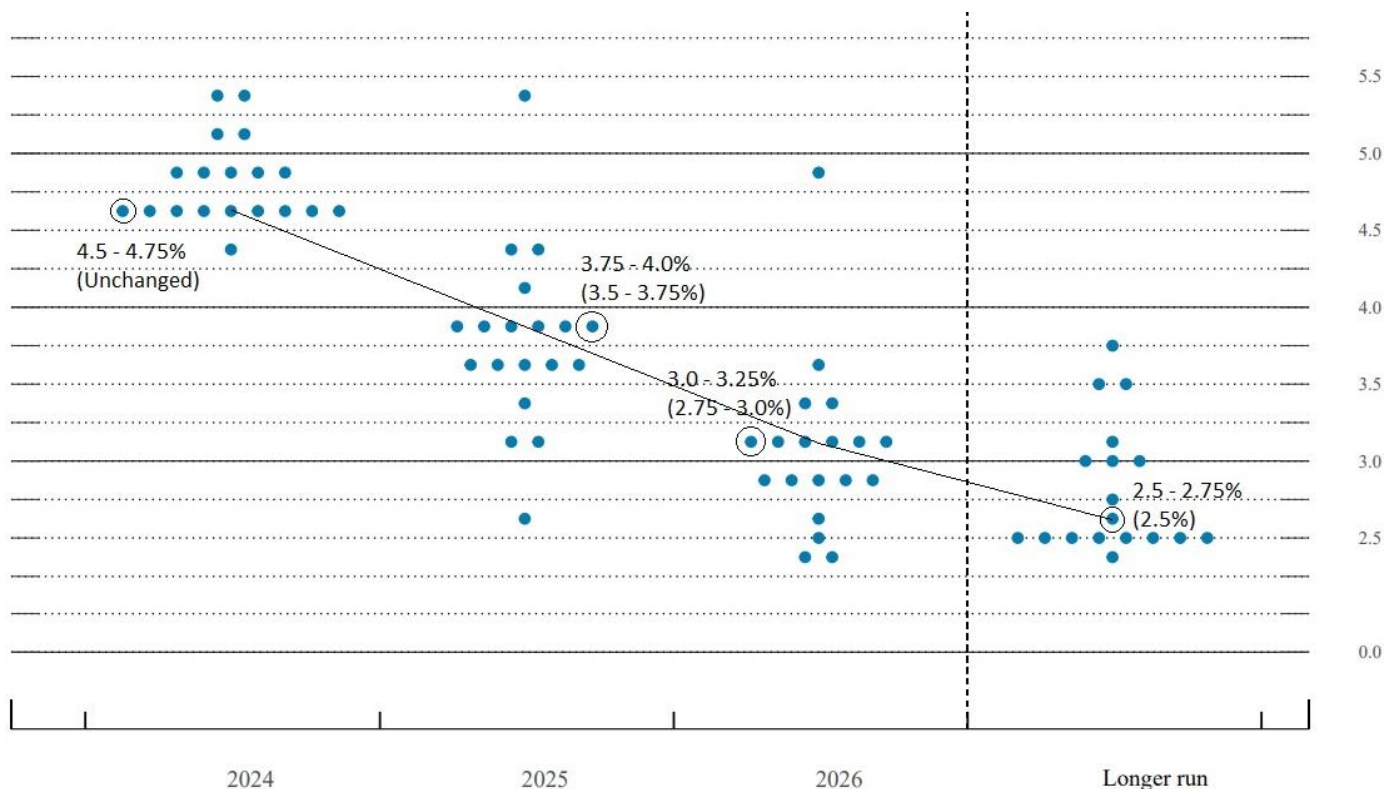


Source: Macrobond, RHB Economics & Market Strategy



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Figure 38: March median dot-plot chart signalled 3 cuts in 2024, but revised rates higher in 2025 - 2026



Source: US Federal Reserve, RHB Economics & Market Strategy

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