Quarterly Global Outlook 3Q 2024

The Fed waits while others start gradual rate cuts

Right By You

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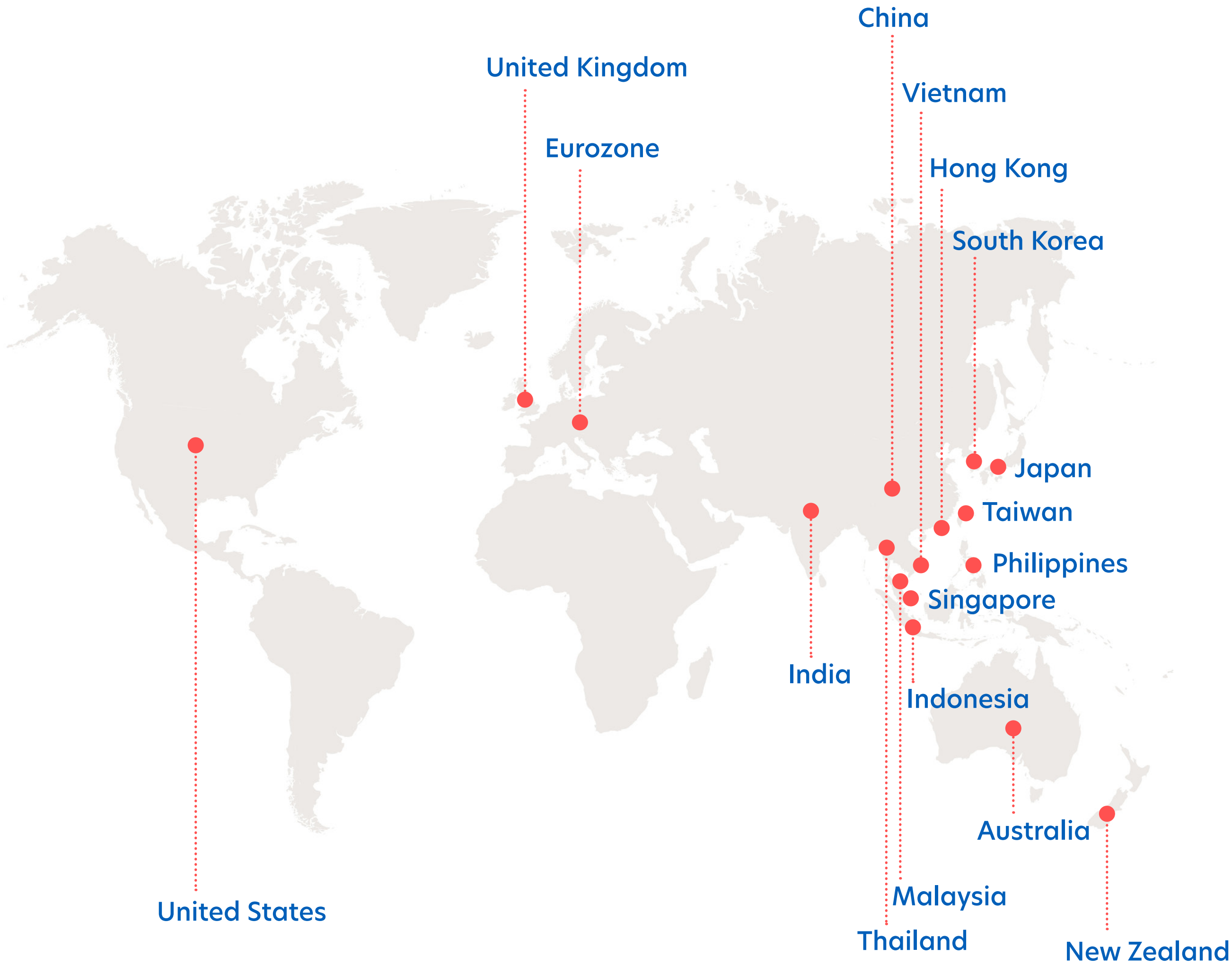

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EXECUTIVE SUMMARY

The Fed waits while others start gradual rate cuts

"Said, woman, take it slow
It'll work itself out fine
All we need is just a little patience."

—— "Patience" by Guns N' Roses

The US slowdown may be in sight but inflation still taking time to ease

One year ago, we were questioning why an US economic downturn has not materialized despite the very aggressive Federal Reserve's (Fed) rate hiking cycle. The main driving force for the remarkable strength of the US economy was the very resilient US labor market, with immigration likely exerted a much bigger economic impact than previously thought as the new workers fill shortages and add to demand. The Congressional Budget Office (CBO) recently estimated that the immigration factor may potentially add US$7 trillion to US GDP through 2033.

Although a soft landing remains our base case for the US economy in the second half of 2024, we still do not expect deep recession or an outright contraction of annual GDP due to the absence of any acute financial imbalances.

Although a soft landing remains our base case for the US economy in the second half of 2024, we still do not expect deep recession or an outright contraction of annual GDP due to the absence of any acute financial imbalances. That long-deferred US slowdown may be emerging. The US economy continued to expand in the first three months of 2024 but the pace was underwhelming at just 1.3% q/q SAAR, the slowest in two years. While the weaker 1Q was mainly attributed to the net exports of goods and services (which turned negative for the first time since 1Q 22), the key components of private consumption and business expenditure also recorded more pronounced growth moderations. The 1Q slowdown also coincided with a smaller number of so-called encounters between migrants and immigration authorities which fell to about 190,000/mth in Feb and Mar, well below the record of >300,000 in Dec, according to US Homeland Security data.

While immigration flows were positive for 2023 growth, its potential slowing could dampen GDP expansion in 2024.

There are also signs that some activities and segments of the US economy are contracting. The ISM manufacturing survey, which has mostly been in contraction territory (i.e. less than 50) since Nov 2022, fell further in May at 48.7 (Apr: 49.2), dragged by weaker demand. In comparison, services – accounting for 78% of US economy – which had been a pillar of strength for the economy saw the services ISM rebounding strongly to 53.8 in May (after a surprise dip to 49.4 in Apr), easing concerns about a broader US economic slowdown given the sector's importance. In addition, while immigration flows were positive for 2023 growth, its potential slowing could dampen GDP expansion in 2024. The Conference Board US leading (except for a temporary blip in Feb 2024) index has been contracting on a m/m basis almost uninterrupted since Apr 2022 while the University of Michigan consumer survey which had been hovering well above 70 in the first four months of the year, recently dipped to 69.1 (May 2024), well below the pre-pandemic level of 101.0 (Feb 2020).

We expect US jobless rate to rise above 4% to 4.3% by end-2024.

On the US labour market, we are also seeing signs of cooling with supply and demand converging to a better balance. The number of job openings (based on the Job Opening and Turnover Survey or JOLTS) dipped to 8.1 million positions in Apr (from 8.3 million in Mar), the lowest in more than three years, and brought the number of vacancies per unemployed worker down to 1.20 in Apr (from 1.30 in Mar), lowest in nearly three years. And while the US economy continued to add more jobs in Apr (the 40th consecutive month of job gains since Jan 2021), it turned out to be underwhelming, coming in at 175,000, lowest in 6 months while the jobless rate climbed to 3.9% (Mar: 3.8%). We expect US jobless rate to rise above 4% to 4.3% by end-2024. Wage growth remained positive but moderated in pace (3.9% y/y in Apr, the first sub-4% wage growth since Jun 2021) and together with the shrinking excess savings, will imply less support to private consumption.

Chart 1: US jobs openings on a trend decline, at 3-year low in Apr

Source: Macrobond, UOB Global Economics & Markets Research

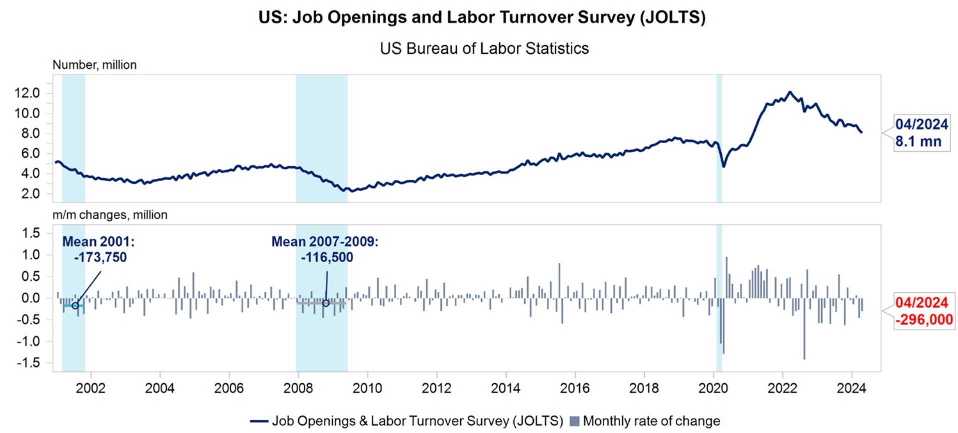
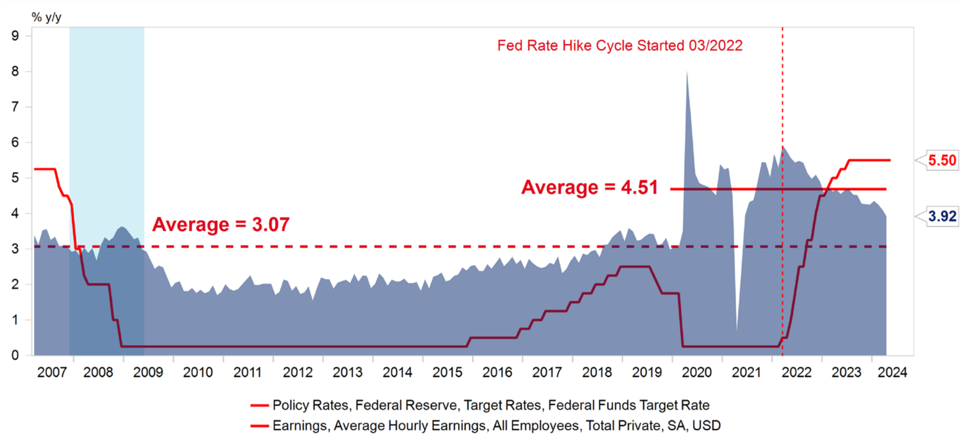


Chart 2: US wage growth eased to 3.9% y/y in Apr, below 4% for the first time since Jun 2021, but still higher than the 2007-2023 average

Source: Macrobond, UOB Global Economics & Markets Research



We believe US economic growth is nearing or already at the peak and is likely to turn lower in mid-2024 as the lagged effects of US monetary policy tightening and tighter financial/credit conditions take a more significant grip ...

Reaffirming our US GDP outlook – expecting a technical recession in 2024

We believe US economic growth is nearing or already at the peak and is likely to turn lower in mid-2024 as the lagged effects of US monetary policy tightening and tighter financial/credit conditions take a more significant grip, negatively affecting business investment as interest expenses stay elevated. For US households, the shrinking excess savings, tighter lending standards and elevated services costs (including housing) imply US consumers spending will come under more pressure and pull back from spending, especially for discretionary goods and services. Unemployment will pick up more meaningfully as the spokes of Fed cumulative rate hikes further wear down demand amidst a rise in delinquencies for credit card and car loans.

Our projections imply that US will experience a "technical" recession in 2Q-3Q 2024 (i.e. two consecutive quarters of negative q/q headline GDP data). When we look at the y/y figures, GDP is only expected to turn negative in 4Q 2024 temporarily before rebounding in subsequent quarters very much in line with a soft-landing scenario, based on our latest projections. Our annual GDP growth projections of 1.2% (2024) and 2.5% (2025) deviate to some extent from the US Fed's Mar 2024 SEP (Summary of Economic Projections) forecasts of 2.1% and 2.0%, respectively.

Concurrently, we revised our forecasts for US jobless rates to edge to 4.3% at end-2024 and improving to 3.9% at end-2025 which is also a deviation from the Fed's revised median projections of 4.0% and 4.1%, respectively.

US Forecasts – Technical recession mid-2024, but no outright annual GDP contraction

GDP (% q/q SAAR)	1Q	2Q	3Q	4Q	Full Year
2024	1.3*	-2.0	-1.2	1.4	--
2025	4.9	4.0	3.0	2.7	--
GDP (% y/y)					
2024	2.9	1.8	0.3	-0.2	1.2
2025	0.7	2.2	3.3	3.7	2.5
Unemployment (%)					
2024	3.8	4.0	4.2	4.3	4.3
2025	4.5	4.3	4.1	3.9	3.9

* actual
Source: UOB Global Economics & Markets Research forecasts

Underlying inflation for the US – proved to be stickier than what markets were hoping for and re-accelerated back to an uncomfortably elevated level ...

Inflation outlook is tricky although we still see gradual softening ahead

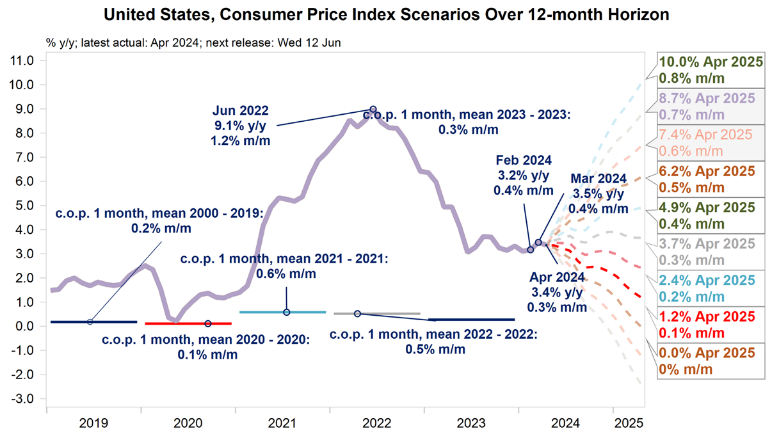
That said, the trickier part of the equation is on inflation. Underlying inflation for the US, as reflected by core PCE – which excludes food and energy and is the Fed Reserve's preferred price measure – proved to be stickier than what markets were hoping for and re-accelerated back to an uncomfortably elevated level as it spiked to 3.6% y/y in 1Q from 2.0% in 4Q & 3Q. There was some reprieve subsequently as both Apr's CPI and PCE deflators were seen as cooling in the right direction after the 1Q upside surprise. Key price drivers in Apr were housing and gasoline prices while insurance premiums for cars and homes were markedly higher (albeit smaller contribution due to their smaller weight in CPI). Core inflation measures were also in line with expectation, but services inflation remained stubbornly elevated.

If inflation resumes to "behaving badly" in the next few months, then that "easing" equation from the Fed will be in further doubt. We illustrate in a simple graph below where US inflation may be in 12 months' time. If the m/m pace stayed positive but at a more moderate pace of 0.1% for next 12 months, then inflation will ease to 1.2% y/y in Apr 2025. However, if the m/m pace stays at the latest print of 0.3%, then that will imply inflation reaccelerating to a much faster rate of 3.7% y/y by Apr next year, certainly well above the Fed's 2% objective.

Nonetheless, with base effect, improved supply chains and stabilizing energy/food prices, we still expect inflation to cool with headline CPI inflation to average 2.5% in 2024 (against 4.1% in 2023), while core inflation may also ease but at a higher average of 2.8% in 2024, a significant moderation from 4.8% in 2023, but still above the Fed's 2% objective. We continue to monitor for upside risks which include a resilient jobs market with reaccelerating wage growth pressures adding to services inflation and renewed external supply chain/commodity risk factors.

Chart 3: Whither be inflation in the next 12 months?

Source: Macrobond, UOB Global Economics & Markets Research



Still expecting 2 rate cuts in 2024 with lower confidence

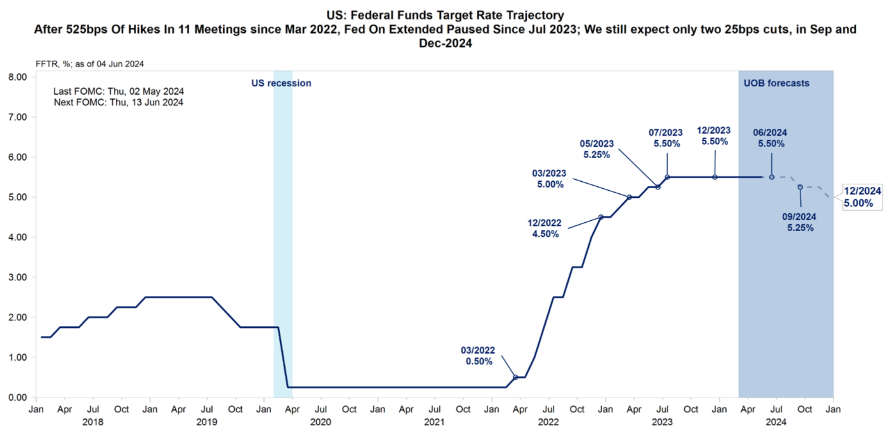
Thus, the softening growth outlook keeps our expectations for Fed to cut rates this year intact, but the uncertain downward path of inflation will hold the Fed's hand and keep it in a wait-and-see mode until policymakers "gained greater confidence that inflation is moving sustainably toward 2 percent."

The risk continues to be tilted towards the Fed delaying cuts even further, nudged by a slow and challenging inflation descent.

We continue to hold the view the Fed will keep its current the Fed Funds Target Rate (FFTR) steady at 5.25-5.50% for Jun and Jul FOMC, and subsequently start to ease monetary policy only in late 3Q, where we factor in 50 bps of rate cuts for the remainder of 2024, (i.e. two 25-bps cuts, one each in Sep 24 and Dec 24). Admittedly, the risk continues to be tilted towards the Fed delaying cuts even further, nudged by a slow and challenging inflation descent. Even if the Fed starts to ease, we do not expect an aggressive series of cuts to counteract the prior aggressive hike cycle as a soft landing remains to be our central view. In the run up to the Fed's FOMC meeting in Sep, key to watch will be the upcoming CPI and PCE reports as well as the Jackson Hole meeting in Aug.

Chart 4: A patient Fed with a projected 2 rate cuts in 2024

Source: Macrobond, UOB Global Economics & Markets Research



Central banks' policy direction: divergence in monetary policy cycle as Developed Market central banks cuts away while the Fed patiently waits

By now it is clear that some Developed Market (DM) central banks are diverging from the Fed and forging ahead with their rate cut cycle or setting their intentions to do so in the near future. The Fed has made it clear of its patience stance even though Fed Chair Powell also said that further hikes are unlikely.

The BOC led the way for the easing cycle among the G7 economies with a 25-bps cut on 5 Jun, its first rate reduction since 2020, joining the Swiss National Bank (SNB) and Sweden's Riksbank which have started their respective policy easing earlier in 2Q. The BOC also signalled more cuts to follow although it will remain dependent on the inflation progress which it projected "likely to be uneven" and Governor Macklem said the path of interest rates is likely to be gradual and does not need to move in lockstep with the Fed.

The BOC was followed closely by the ECB the following day (6 Jun) in what was a well-telegraphed 25-bps cut although its guidance was less clear on the timing of the next cuts, citing it will follow "a data dependent and meeting-to-meeting approach".

The BOE is also projected to cut rates and we believe their easing to start just ahead of the Fed in Aug, and we are pricing in 75 bps worth of cuts from UK central bank in 2024, similar to the ECB but more than the Fed. We project both the RBA and the RBNZ could pivot to easing sometime in the second half of 2024 but the upside risks to inflation may see both to stay on hold for longer, and that risk of delay in cutting rates is likely more acute for RBNZ despite it being among the earliest DM central banks to undertake monetary policy tightening and its most aggressive tightening since 1999. At the opposite end of the spectrum is the BOJ although we believe it will adopt a cautious approach to further rate normalisation, with just another 15 bps hike to bring the policy call rate to 0.25% in 4Q 2024.

For Asian central banks, we believe the majority may be more inclined to adopt a wait-and-see approach to their own rate cut cycle, especially with regards to the uncertain start to Fed's rate cut cycle.

Whereas for Asian central banks, we believe the majority may be more inclined to adopt a wait-and-see approach to their own rate cut cycle, especially with regards to the uncertain start to Fed's rate cut cycle. Jumping the gun ahead of the Fed will imply risks of a widening interest rate differentials with the US which in turn, put depreciation pressure on the domestic currencies and capital outflows- risks. Case in point is BI surprise rate hike in Apr to 6.25% to anchor the rupiah's stability. In comparison, BOT is likely first among the ASEAN central banks to start the easing cycle as the subdued inflation outlook and underlying price pressures will be conducive for it to lower policy rate. We expect BOT to cut its policy rate at its Jun and Aug meetings, by 25bps each. While we expect the BSP to start its rate cut cycle only in 4Q24 (by 25bps to 6.25%) when there are significant signs of inflation moving sustainably down to its midpoint target and Fed confirming its rate cut path, BSP Governor Eli Remolona has repeatedly signaled the central bank will cut its interest rates in Aug or 3Q24.

At the forefront of the monetary policy cycle in Asia is of course PBOC which has been progressively easing monetary policy on a targeted basis over the past years, in contrast to the significant monetary policy tightening globally over 2022-2023 period. The beginning of Fed's rate cut cycle which we expect to be in Sep, would create the space for further monetary policy easing by the PBOC. As such, we still expect the 1Y loan prime rate (LPR) to fall to 3.20% by end-4Q24 (current 3.45%) while the 5Y LPR may stay on hold at 3.95% through the rest of 2024 after the 25 bps reduction earlier in Feb.

Hereafter is a brief synopsis of key Focus pieces as well as key FX and Rates views.

FX STRATEGY

Keeping faith for a weaker USD in 2H24

The key risk to our bearish USD view is that if the Fed keeps its rates unchanged across 2024 should US inflation stay even more stickier and fail to come down further.

The USD was little changed against Major FX in the second quarter-to-date despite fluctuating Fed rate cut expectations. Overall, we reiterate our view of renewed USD weakness starting 3Q24 ahead of our expectations of Fed rate cuts in Sep and Dec. In line with this trajectory of gradual softening of the USD in line with the start of Fed rate cuts, we see Majors recovering against the USD towards the year end. As such, our 4Q24 forecasts for EUR/USD, GBP/USD, USD/JPY and AUD/USD are 1.12, 1.32, 149 and 0.69 respectively. The key risk to our bearish USD view is that if the Fed keeps its rates unchanged across 2024 should US inflation stay even more stickier and fail to come down further. In such a backdrop where other Major central banks such as the ECB, BOE would have already eased in 2H24, the USD would likely stay strong into end-2024.

While most Asia FX continued to bear the brunt of the "higher-for-longer" Fed rhetoric, intensifying efforts by Chinese authorities to stablise its economy helped limit the downside risks to the CNY and spillover to the other regional peers.

The picture is somewhat different for Asia FX which are on track for more losses for a second straight quarter. While most Asia FX continued to bear the brunt of the "higher-for-longer" Fed rhetoric, intensifying efforts by Chinese authorities to stablise its economy helped limit the downside risks to the CNY and spillover to the other regional peers. We have also seen some Asian central banks step up efforts to smooth currency volatility. After weakening in the 1H24, we expect Asia FX to recover modestly in 2H24. Firstly, the USD is expected to gradually lose its interest rate advantage, hence weaken anew as the Fed kickstarts its rate cut cycle in Sep. Secondly, a brighter economic outlook for China in 2H24 is expected to underpin a CNY and broader Asia FX recovery. As such, our 4Q24 forecasts for USD/CNY, USD/THB, USD/VND, USD/MYR, USD/IDR and USD/SGD are 7.13, 35.8, 25,000, 4.60, 15,800 and 1.33 respectively. The risk to our positive view Asia FX recovery is a sudden and unexpected CNY devaluation. Should the PBOC decide to lift the USD/CNY CFETS fixing to 7.15 from 7.11 currently, USD/CNY could revisit last year's highs above 7.30. That would almost certainly trigger a new round of Asia FX depreciation.

RATES STRATEGY

Not getting any easier for the Fed to cut

In line with the much anticipated start of the Fed easing cycle later this year, our base case remains for 50bps of easing in 2024 (25 bps each in Sep 24 and Dec 24), followed by a further 100 bps of cuts in 2025 (at an estimated pace of 25 bps per quarter) and finally for Fed Funds to reach a floor of 3.25% in mid-2026. Potential macroeconomic implications post US Presidential elections seem to present more upside risks to inflation which will hinder the Fed's ability to ease monetary policy significantly. Specifically, a second term of Trump administration may usher in material policy changes in the areas of Tax, Trade Tariffs as well as Immigration. These would have an impact relative to the incumbency baseline in the areas of GDP growth, inflation, as well as the Fed's monetary policy stance. The consensus takes on Trump's personal and corporate tax platform, suggests that the first order impact will be a mild uplift to both real GDP as well as inflation. This would on balance further constrain the Fed's ability to ease monetary policy. In addition, when viewed through the lens of the US deficit outlook, there is little indication from either side that fiscal discipline resides high on their campaign agenda. The consequent spill over into monetary policy will depend on the interplay between stimulatory fiscal settings and sticky inflation dynamics.

For now, short term rates are expected to drift lower across 2024 in line with our expectations of 50 bps rate cuts from the US Federal Reserve.

For now, short term rates are expected to drift lower across 2024 in line with our expectations of 50 bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr and Sora could drop to 4.97% and 3.43% respectively by 4Q24. Towards the end of 2024 as well, we have kept our long term yield forecasts unchanged with the 10Y UST and SGD yields forecasted to progressively decline and may touch 4.10% and 3.15% respectively by 4Q24. The overall forecast curve points lower across time due to our monetary policy easing cycle base case. However, we note that adjustments in the 10Y UST term premium has been modest thus far and has not demonstrated the same repricing intensity as previously seen in Oct 23's "term premium scare". This is an uneasy equilibrium and one that currently seems more likely to resolve higher. Therefore, our bias in the short term for 10Y UST price action is that the risks lie in the direction of sticky to higher yields.

Going forward, we can expect gold to be propelled higher in the months ahead by renewed ETF buying, once the Fed starts its anticipated rate cuts from Sep 2024.

COMMODITIES STRATEGY

Metals take flight amidst strong rally in both Gold and Copper in 2Q24

The two key drivers pulling gold higher have been present since late last year and have not changed at all. First is the increasing uncertainty in the global geopolitical landscape with two on-going conflicts that have ignited safe haven buying of gold. Second is the strong EM and Asian central bank reserve allocation into gold, led by strong allocation from China. The strong rally in gold this year is even more remarkable given the on-going strength in the USD with SOFR staying high above 5%. This implies that the abovementioned safe haven buying and central bank allocation have now overcome previous dampening effect from the strong USD and higher rates. Going forward, we can expect gold to be propelled higher in the months ahead by renewed ETF buying, once the Fed starts its anticipated rate cuts from Sep 2024. Overall, we maintain our positive outlook for gold and continue to raise our forecast higher to USD 2,400 / oz by 3Q24, 2,500 / oz by 4Q24 and 2,600 / oz by 1Q25 and 2,700 / oz by 2Q25.

Alongside gold, LME Copper staged a very strong rally of more than 20% year-to-date, jumping from about USD 8,500 / MT in Jan to as high as USD 10,500 / MT by mid-May. This jump in LME Copper especially in 2Q24 can be attributed to two key drivers. First is the outsized and above seasonal stockpiling of copper inventory by China. The second driver is the renewed optimism in demand from green transition, which is a difficult driver to quantify. Overall, in line with the nascent signs of growth stabilization in China, we raise our LME Copper forecast to USD 9,000 / MT for 2H24 and USD 10,000 / MT for 1H25. Concurrently, we continue to warn of near-term correction risk given recent strong rally. Over the near term, there are concerns as to whether this strong rally is sustainable? Afterall, previous attempts to trade above USD 10,000 / MT on a sustained basis were unsuccessful.

A renewed regional conflict escalation, putting both Iran's crude oil production and exports at risk will almost certainly fire up energy risk premium yet again.

There was a recent knee jerk sell-off in Brent in early Jun to just below USD 80 / bbl. This follows the market "disappointment" after OPEC announced at its latest meeting that they will gradually phase out about 2.2 mio bpd of production cuts from Oct 2024 to Sep 2025. However, it is important to note that baseline production cuts of 3.6 mio bpd will remain till end of 2025. Furthermore, while largely unspoken, OPEC is still expected to try to keep Brent crude oil stable around the USD 80 / bbl level. More importantly, long term geopolitical risks still remain. Iran is now a key crude oil producer pumping about 40% of Saudi Arabia's crude oil production. A renewed regional conflict escalation, putting both Iran's crude oil production and exports at risk will almost certainly fire up energy risk premium yet again. Overall, we keep to our view that Brent crude oil while consolidating around the USD 80 / bbl level, needs to reflect some form of geopolitical risk premium. We therefore maintain our modest positive forecast of Brent crude oil for USD 85 / bbl for 3Q and 4Q24 and USD 90 / bbl for 1Q and 2Q25.

ASEAN FOCUS I

Johor-Singapore Special Economic Zone is actively in progress

- Post the Johor-Singapore Special Economic Zone (JS-SEZ) memorandum of understanding (MOU) signed on 11 Jan 2024 (details in report), both countries' governments continue to work closely on formalizing the implementation of the cooperation.

- Chief Minister of Johor, Datuk Onn Hafiz Ghazi, revealed that the JS-SEZ would be closely linked with the Forest City Special Financial Zone (SFZ) to bring more investment opportunities, job creation and development projects to Johor.

- Both JS-SEZ and Forest City SFZ are planned as main catalysts to power up and elevate Johor to be a developed state in Malaysia by 2030. With positive spillovers to other economic regions, this will help drive Malaysia's economic development more rapidly.

ASEAN FOCUS II

Recent perspectives on regional labour market

- The ASEAN region is considered globally as the next potential spotlight for growth.

- This article examines one key factor that underpins this ASEAN growth optimism which is the comparatively higher proportion of younger population with its rising middle-income class.

- We employ a well-established theory of the Beveridge curve analysis to perform an empirical study on the bigger and more mature ASEAN economies of Singapore, Thailand, Malaysia, and Indonesia.

Global FX

USD/JPY: We think a more reasonable timeframe for USD/JPY to reverse lower on a more sustained basis is probably in 3Q24 amidst a renewed slide in US rates as the Sep Fed rate cuts come into focus. A second BOJ rate hike (from 0.1% to 0.25%) in 4Q24 will help reinforce the monetary policy divergence with the Fed, hence cementing USD/JPY's downside. Overall, our updated USD/JPY forecasts are 152 in 3Q24, 149 in 4Q24, 147 in 1Q25 and 145 in 2Q25.

EUR/USD: Notwithstanding expectations that ECB may cut more than the Fed this year, EUR/USD is likely driven more by the Fed going forward. We expect the start to Fed's much anticipated easing cycle in Sep to spur broad-based USD weakness starting 3Q24. Overall, our updated EUR/USD forecasts are at 1.10 in 3Q24, 1.12 in 4Q24, 1.14 in 1Q25 and 1.15 in 2Q25.

GBP/USD: Clearly, the GBP/USD has regained positive momentum in the past month and we reiterate our longer-term bullish view on GBP/USD. The updated point forecasts are at 1.30 in 3Q24, 1.32 in 4Q24,1.34 in 1Q25 and 1.36 in 2Q25.

AUD/USD: Helping to boost the AUD are stubbornly strong price pressures in Australia which is likely to delay RBA's rate cut timetable and a rebound in iron ore prices in 2Q24. Another factor that can drive further AUD gains in 2H24 is a brightening outlook in the Chinese economy and the CNY. Overall, we keep to our positive outlook on AUD/USD with updated forecasts at 0.68 in 3Q24, 0.69 in 4Q24, 0.70 in 1Q25 and 0.71 in 2Q25.

NZD/USD: Going forth, there is scope for further gains in the NZD/USD as an expected Fed rate cut in Sep spurs renewed USD weakness in 2H24. Overall, our updated NZD/USD forecasts are 0.63 in 3Q24, 0.64 in 4Q24 and 0.65 in both 1Q25 and 2Q25.

Asian FX

USD/CNY: Together with a brighter economic outlook boosting investor sentiment and reduced tail-risks on China's property sector, the stage is set for a modest CNY recovery in 2H24. That said, potential escalation of trade tariffs on China's exports and dividend outflows in summer mean the ensuing recovery is likely to be bumpy. Overall, our latest USD/CNY forecasts are 7.20 in 3Q24, 7.13 in 4Q24, 7.06 in 1Q25 and 7.00 in 2Q25.

USD/SGD: In 2H24, the SGD is expected to rebound alongside other Asia peers against the USD as the Fed kickstarts its easing cycle. As such, our updated USD/SGD forecasts are 1.34 in 3Q24, 1.33 in 4Q24, 1.32 in 1Q25 and 1.31 in 2Q25. In addition, we also factor in a modest pullback in certain SGD-crosses such as SGD/MYR and SGD/CNY as we expect the MAS to lower the policy slope in the coming Jul MPS which may spur a normalisation of the S$NEER lower.

USD/HKD: The interest rate spread which is currently a premium (ie US rates above HK rates) is likely to flip into a discount as the Fed embarks on its much-awaited easing cycle in Sep. As such, the USD/HKD carry trade would gradually lose its appeal and the currency is likely to gravitate towards the middle of its 7.75 – 7.85 trading band. Overall, our updated USD/HKD forecasts are at 7.80 for the next four quarters beginning 3Q24.

USD/TWD: Looking ahead, we see several favourable factors that may underscore a subsequent recovery in the TWD. These include renewed USD weakness as the Fed starts to cut rates in Sep, strong demand for Taiwan's semiconductors exports, TWD acting as a proxy for global AI play and a hawkish CBC relative to the Fed and other Asian central banks. Overall, our updated USD/TWD forecasts are at 32.0 in 3Q24, 31.5 in 4Q24, 31.0 in 1Q25 and 30.5 in 2Q25.

USD/KRW: Into 2H24, the tide may turn in KRW's favour as we expect the USD to weaken anew ahead of the projected Fed rate cut in Sep. Strong exports and KRW's proxy as to the Artificial-Intelligence (AI) play may led to the currency's outperformance as regional FX recovers. Overall, our USD/KRW forecasts are 1,350 in 3Q24, 1,330 in 4Q24, 1,310 in 1Q25 and 1,290 in 2Q25.

USD/MYR: The MYR may have bought itself enough time as we expect USD/MYR to weaken anew ahead of the anticipated Fed rate cut in Sep. A strong correlation to the CNY would also turn into a tailwind for the MYR as we also expect the CNY to rebound in 2H24. A steady OPR will help to narrow the negative gap with US interest rates and support the MYR recovery as well. With that, our USD/MYR forecasts are 4.65 in 3Q24, 4.60 in 4Q24, 4.55 in 1Q25, and 4.50 in 2Q25.

USD/IDR: As portfolio flows stabilise and in conjunction with BI's strong focus on maintaining IDR stability, it is likely IDR would join the regional FX recovery when we expect the Fed to cut rates in Sep. Our updated USD/IDR forecasts are 16,000 in 3Q24, 15,800 in 4Q24, 15,600 in 1Q25 and 15,400 in 2Q25.

USD/THB: The weak THB may have already priced in part of the front-loaded BOT 25 bps rate cuts in Jun and Aug. As such, a broad-based Asia FX recovery in 2H24 led by the CNY may help THB pare year-to-date losses. Overall, our USD/THB forecasts are 36.2 in 3Q24, 35.8 in 4Q24, 35.4 in 1Q25 and 35.0 in 2Q25.

USD/PHP: Should BSP hold off interest rate cuts till 4Q24 when the Fed has moved, we expect the PHP to start paring back some of the recent losses and participate in the broad-based Asia FX recovery starting 3Q24. Overall, our updated USD/PHP is now at 58.0 in 3Q24, 57.5 in 4Q24, 57.0 in 1Q25 and 56.5 in 2Q25.

USD/VND: We reiterate that the VND may recover in 2H24 as external pressures from the USD ebb ahead of an expected Fed rate cut in Sep. In addition, the VND is likely to benefit from a subsequent recovery in the CNY in 2H24 as China's economy shows clearer signs of stabilisation. Overall, our updated USD/VND forecasts are 25,200 in 3Q24, 25,000 in 4Q24, 24,800 in 1Q25 and 24,600 in 2Q25.

USD/INR: Looking ahead, the INR is set to recover alongside other Asian peers as the commencement of Fed's rate cut cycle in Sep will likely trigger renewed weakness in the USD. Overall, we keep to our downward trajectory in USD/INR with updated point forecasts at 83.0 in 3Q24, 82.0 in 4Q24, 81.0 in 1Q25 and 80.5 in 2Q25.

OUR FORECASTS

Real GDP Growth

y/y% change	2023	2024F	2025F	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24F	3Q24F	4Q24F
China	5.2	5.1	4.7	4.5	6.3	4.9	5.2	5.3	5.1	5.1	5.0
Hong Kong	3.3	2.9	2.5	2.8	1.6	4.2	4.3	2.7	2.3	3.1	3.4
India (FY)	7.0	8.2	6.7	12.8	5.5	4.3	6.2	8.2	8.1	8.6	7.8
Indonesia	5.1	5.2	5.3	5.0	5.2	4.9	5.0	5.1	5.3	5.0	5.2
Japan	1.9	1.0	1.9	2.6	2.3	1.6	1.2	-0.3	0.0	1.7	2.4
Malaysia	3.6	4.6	4.7	5.5	2.8	3.1	2.9	4.2	4.6	4.7	4.8
Philippines	5.5	6.0	6.5	6.4	4.3	6.0	5.5	5.7	6.2	6.2	5.8
Singapore	1.1	2.9	3.2	0.5	0.5	1.0	2.2	2.7	2.7	3.0	3.0
South Korea	1.4	2.8	2.4	1.1	1.0	1.4	2.1	3.3	2.7	2.5	2.8
Taiwan	1.3	4.0	2.5	-3.5	1.4	2.1	4.8	6.6	5.1	3.2	1.4
Thailand	1.9	2.8	3.1	2.6	1.8	1.4	1.7	1.5	2.1	2.5	5.1
Vietnam	5.0	6.0	6.4	3.3	4.1	5.3	6.8	5.6	6.0	6.5	6.0
Australia	2.1	1.2	2.2	2.5	2.1	2.1	1.6	1.1	1.2	1.2	1.5
Eurozone	0.4	0.8	1.4	1.3	0.1	0.1	0.4	0.4	0.6	1.0	1.2
New Zealand	0.8	0.9	2.3	2.1	1.5	-0.6	-0.3	0.3	0.2	1.2	1.7
United Kingdom	0.1	0.7	1.3	0.4	0.2	0.2	-0.2	0.2	0.4	0.7	1.5
United States (q/q SAAR)	2.5	1.2	2.5	2.2	2.1	4.9	3.4	1.3	-2.0	-1.2	1.4

For India, full-year and quarterly growth are based on its fiscal calendar (Apr-Mar)
Source: Macrobond, UOB Global Economics & Markets Research Forecast

FX, Interest Rates & Commodities

FX	06 Jun	3Q24F	4Q24F	1Q25F	2Q25F
USD/JPY	156	152	149	147	145
EUR/USD	1.09	1.10	1.12	1.14	1.15
GBP/USD	1.28	1.30	1.32	1.34	1.36
AUD/USD	0.67	0.68	0.69	0.70	0.71
NZD/USD	0.62	0.63	0.64	0.65	0.65
DXY	104.1	103.2	101.6	100.0	99.0
USD/CNY	7.25	7.20	7.13	7.06	7.00
USD/HKD	7.81	7.80	7.80	7.80	7.80
USD/TWD	32.29	32.00	31.50	31.00	30.50
USD/KRW	1,363	1,350	1,330	1,310	1,290
USD/PHP	58.54	58.00	57.50	57.00	56.50
USD/MYR	4.69	4.65	4.60	4.55	4.50
USD/IDR	16,260	16,000	15,800	15,600	15,400
USD/THB	36.38	36.20	35.80	35.40	35.00
USD/VND	25,433	25,200	25,000	24,800	24,600
USD/INR	83.48	83.00	82.00	81.00	80.50
USD/SGD	1.35	1.34	1.33	1.32	1.31
EUR/SGD	1.47	1.47	1.49	1.50	1.51
GBP/SGD	1.72	1.74	1.76	1.77	1.78
AUD/SGD	0.90	0.91	0.92	0.92	0.93
SGD/MYR	3.49	3.47	3.46	3.45	3.44
SGD/CNY	5.39	5.37	5.36	5.35	5.34
JPY/SGDx100	0.86	0.88	0.89	0.90	0.90

Source: UOB Global Economics & Markets Research Estimates

POLICY RATES	06 Jun	3Q24F	4Q24F	1Q25F	2Q25F
US Fed Fund Rate	5.50	5.25	5.00	4.75	4.50
JPY Policy Rate	0.10	0.10	0.25	0.25	0.25
EUR Refinancing Rate	4.25	4.00	3.75	3.50	3.25
GBP Repo Rate	5.25	5.00	4.75	4.50	4.25
AUD Official Cash Rate	4.35	4.35	4.00	3.75	3.50
NZD Official Cash Rate	5.50	5.50	5.25	5.00	4.75
CNY 1Y Loan Prime Rate	3.45	3.20	3.20	3.20	3.20
HKD Base Rate	5.75	5.50	5.25	5.00	4.75
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	3.50	3.25	3.00	2.75	2.50
PHP O/N Reverse Repo	6.50	6.50	6.25	6.00	5.75
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	6.25	6.25	6.25	5.75	5.50
THB 1D Repo	2.50	2.00	2.00	2.00	2.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.50	6.50	6.25	6.00	5.75

INTEREST RATES	06 Jun	3Q24F	4Q24F	1Q25F	2Q25F
USD 3M SOFR (compounded)	5.35	5.22	4.97	4.72	4.47
SGD 3M SORA (compounded)	3.67	3.60	3.43	3.28	3.08
US 10Y Treasuries Yield	4.29	4.20	4.10	4.00	3.90
SGD 10Y SGS	3.21	3.20	3.15	3.10	3.00

COMMODITIES	06 Jun	3Q24F	4Q24F	1Q25F	2Q25F
Gold (USD/oz)	2,372	2,400	2,500	2,600	2,700
Brent Crude Oil (USD/bbl)	80	85	85	90	90
LME Copper (USD/mt)	10,149	9,000	9,000	10,000	10,000

Key Events 3Q 2024

JULY

01-03
Eurozone

The theme of this year's ECB Forum on Central Banking in Sintra, Portugal will be "Monetary policy in an era of transformation".

02
Thailand

Senate election – polls to be held between 9-26 Jun and results to be announced on 2 Jul.

04
UK

General election to elect Members of Parliament to the House of Commons.

09-11
Global

The 2024 North Atlantic Treaty Organization (NATO) Summit will be held in the US. This will also be Sweden's first summit as a NATO member since joining on 7 Mar 2024.

Likely early-mid Jul
India

Tabling the full Budget for FY25, with possible tweaks to the interim Budget presented in Feb but no major changes are expected. In addition, the record dividend payout by RBI to the government will support fiscal consolidation efforts.

29 & 31
US

US Treasury Quarterly Refunding - the announcement will be on 29 Jul with the details out on 31 Jul.

Not later than 31
Singapore

MAS Monetary Policy Statement - We assess that normalization of monetary policy via a slight slope reduction (by 50bps) could occur as early as this meeting.

July
China

The Chinese Communist Party's central committee will gather for the third plenum. The main agenda will be on deepening reforms and promoting the modernization of China.

AUGUST

Likely 18
Singapore

Singapore's National Day Rally 2024 - PM Lawrence Wong will deliver his first National Day Rally (NDR) speech. Analysts have suggested that one possible window for the next General Election (GE) to take place will be Sep-Nov this year, after the NDR. The GE must be called by Nov 2025.

22-24
US

Jackson Hole Symposium - the topic this year is "Reassessing the Effectiveness and Transmission of Monetary Policy". In the past, this symposium has occasionally been used as a platform to signal major Fed policy changes.

August
China

The Beidaihe meeting or "summer summit," is typically held in early Aug each year for around two weeks where current and retired party and government leaders discuss issues relating to the leadership and economy.

August - September
Indonesia

Final Discussion of the 2025 State Budget - The Ministry of Finance will discuss with the president-elect and other ministries to finalise the 2025 budget before it is approved at a plenary meeting in Oct.

August/September
South Korea

South Korea's Ministry of Finance will submit the finalized budget proposal to the National Assembly by 2 Sep.

SEPTEMBER

09-11
Malaysia

The 17th World Chinese Entrepreneurs Convention (WCEC) will be held at Kuala Lumpur Convention Centre (KLCC), Malaysia, themed "Reimagineering the Future".

22-23
Global

Opening of the 79th UN General Assembly -- Heads of state and other world leaders will gather in US - a major highlight this year will include the long-anticipated Summit of the Future.

ASEAN FOCUS I

Johor-Singapore Special Economic Zone is actively in progress

- Post the Johor-Singapore Special Economic Zone (JS-SEZ) memorandum of understanding (MOU) signed on 11 Jan 2024 (details in report), both countries' governments continue to work closely on formalizing the implementation of the cooperation. In Apr, Malaysia's government has progressed on two out of the seven initiatives stated in the MOU to support the JS-SEZ.

- Chief Minister of Johor, Datuk Onn Hafiz Ghazi, revealed that the JS-SEZ would be closely linked with the Forest City Special Financial Zone (SFZ) to bring more investment opportunities, job creation and development projects to Johor. These two zones will likely be interconnected with a T-shape integrated transport network (i.e. Johor Bahru-Singapore Rapid Transit System (RTS), revised Kuala Lumpur-Singapore High-Speed Rail (KL-SG HSR) project and proposed Light Rail Transit (LRT) system).

- Both JS-SEZ and Forest City SFZ are planned as main catalysts to power up and elevate Johor to be a developed state in Malaysia by 2030. With positive spillovers to other economic regions, this will help drive Malaysia's economic development more rapidly. Priority sectors outlined in the state's masterplan are electrical & electronics (E&E), life science & med-tech, advanced manufacturing & engineering, digital economy, green economy, halal industry, electric vehicles (EV), aerospace and ports & logistics. It will also focus on ESG and actively seek more investments in renewable energy (RE) and other green technology sectors that will support the growth of new industries such as data centres.

- Further details such as government policy for the SEZ, investment prospects, precise location, suitable investment initiatives and packages to be offered, as well as feedback from businesses on the JS-SEZ have not been released at this juncture. Incentives relating to the implementation of JS-SEZ are expected to be announced during Budget 2025 in Oct.

Taking preliminarily actions to drive the success of JS-SEZ

Malaysia's government has initiated on two out of the seven initiatives stated in the MOU to support the JS-SEZ.

Malaysia's government has initiated on two out of the seven initiatives stated in the MOU (see details in official press release) to support the JS-SEZ. The two initiatives were:

i. Establish the Investment Malaysia Facilitation Center Johor (IMFC-J) to foster investment cooperation between the federal government and state agencies, streamline business and investment dealings in Johor, as well as pave the way for enhanced economic partnerships. It is expected to be set up in Forest City, which was granted a Special Financial Zone (SFZ) status in Aug 2023, and be completed this year (2024); and

ii. Malaysians travelling to Singapore will be able to clear immigration through QR code starting Jun 2024. It follows similar measures in Singapore which began in Mar 2024 and is expected to ease travel for hundreds of thousands of passengers crossing the causeway daily for work, education, business and social. This passport-free QR code clearance system on both sides is also part of the initiatives identified in the MOU, whereby the SEZ aims to achieve seamless connectivity and transport arrangements between Singapore and Johor.

The government has also announced the hosting of the ASEAN Tourism Forum at Forest City (Johor Bahru) on 19-25 Jan 2025, which will showcase Forest City's potential as a premier destination for tourism and hospitality. This recognition of Forest City as a venue for tourism and major events could be part of the joint promotion events as mentioned in the JS-SEZ MOU (one of the seven initiatives).

JS-SEZ and SFZ will be closely linked with T-shape connectivity

The JS-SEZ and Forest City Special Financial Zone (SFZ) will likely be interconnected with a T-shape integrated transport network, kicking off with the Johor Bahru-Singapore Rapid Transit System (RTS) project that is expected to begin operations by Dec 2026.

Trailing the RTS project will be the revival of Kuala Lumpur-Singapore High-Speed Rail (KL-SG HSR) and proposed Light Rail Transit (LRT) system, whereby both are still in the proposal stages. These three networks will form a T-shaped system passing through the southern Johor corridor.

The Gemas-Johor Bahru electrified double-tracking rail project (Gemas-JB EDTP), expected to be completed by 2025, is also eyed to be one of the game changers for Johor

Meanwhile, the government is also mindful of the importance of incorporating the Forest City SFZ and the JS-SEZ into the planning process of the revived KL-SG HSR project to ensure sustainable development as well as synergy with strategic areas for regional growth. The Gemas-Johor Bahru electrified double-tracking rail project (Gemas-JB EDTP), expected to be completed by 2025, is also eyed to be one of the game changers for Johor, which would run from Peninsula Malaysia's southernmost tip all the way to Padang Besar on the Thai border, thereby enhancing significantly the efficiency of moving people and cargo in the west coast of Peninsular Malaysia.

Eyeing Johor to be a developed state by 2030

With the establishment of the JS-SEZ and Forest City SFZ, the government projects the economic growth in Johor to pick up at a faster pace to be a developed state in Malaysia by 2030. The state government targets to raise Johor's GDP by 7.8% per annum to MYR260bn by 2030, from MYR142.1bn in 2022 and pre-pandemic average growth rate of 5.1% between 2016 and 2019.

Between 2022 and 2023, the Johor state government approved MYR113.7bn in investments, which was 19.0% of Malaysia's total approved investments of MYR597.2bn in the same period.

Between 2022 and 2023, the Johor state government approved MYR113.7bn in investments, which was 19.0% of Malaysia's total approved investments of MYR597.2bn in the same period. These investments focused on four sectors, namely machinery & equipment, food processing, E&E and chemical & petrochemical. For Iskandar Malaysia (the expected location of JS-SEZ), it has recorded total cumulative investments of MYR409.5bn as of Sep 2023, surpassing the region's target of MYR383bn by 2025. About 58% or MYR236.8bn of the cumulative investments have been realized. Given that Iskandar Malaysia has achieved its initial target for investments well ahead of time suggest that its potential is yet to be fully realized, and JS-SEZ will be a key catalyst for further achievements ahead.

Seven initiatives stated in the JS-SEZ MOU on 11 Jan 2024

Source: Ministry of Economy, UOB Global Economics & Markets Research

No	Initiative
1	**A one-stop business/investment service centre in Johor**
	- to facilitate the application processes for various approvals and licenses necessary for Singapore businesses to set-up in Johor
2	**Adoption/implementation of a passport-free QR code clearance system on both sides**
	- to facilitate more expeditious clearance of people at land checkpoints
3	**Adoption of digitised processes for cargo clearance at the land checkpoints**
4	**Co-organising an investors forum**
	- to gather feedback from Singapore and Malaysia businesses on the Johor-Singapore Special Economic Zone (JS-SEZ)
5	**Facilitating Malaysia-Singapore renewable energy cooperation in JS-SEZ**
6	**Curating training and work-based learning initiatives**
	- to address talent and skills gaps for relevant industries in JS-SEZ
7	**Developing joint promotion events between Johor and Singapore**
	- to promote trade and investment into JS-SEZ

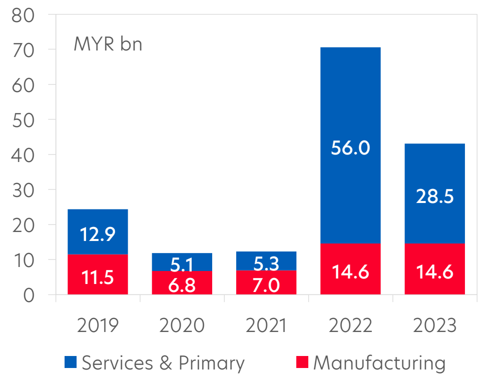
Selected incentives for Iskandar Malaysia (IM)

Source: Various media, UOB Global Economics & Markets Research

No	Incentive
1	A special income tax rate of 15% for skilled wokers
2	**Multiple entry visas, fast track entry for workers from Singapore**
3	A 100% tax exemption of up to 10 years on statutory income for promoted activities
4	**A 200% tax deduction of up to 10 years on investment activities in promoted sectors**
5	Approved developers Medini Iskandar Malaysia (MIM) can receive income tax exemption from statutory income derived from the rental or disposal of a building located in an approved area in MIM until 2025
6	**Approved development managers (businesses that provide the management, supervisory, or marketing services at MIM) can receive income tax exemption until 2024**

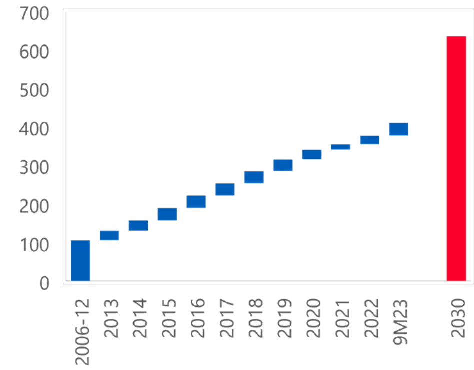
Total approved investments in Johor since 2019

Source: MIDA, UOB Global Economics & Markets Research



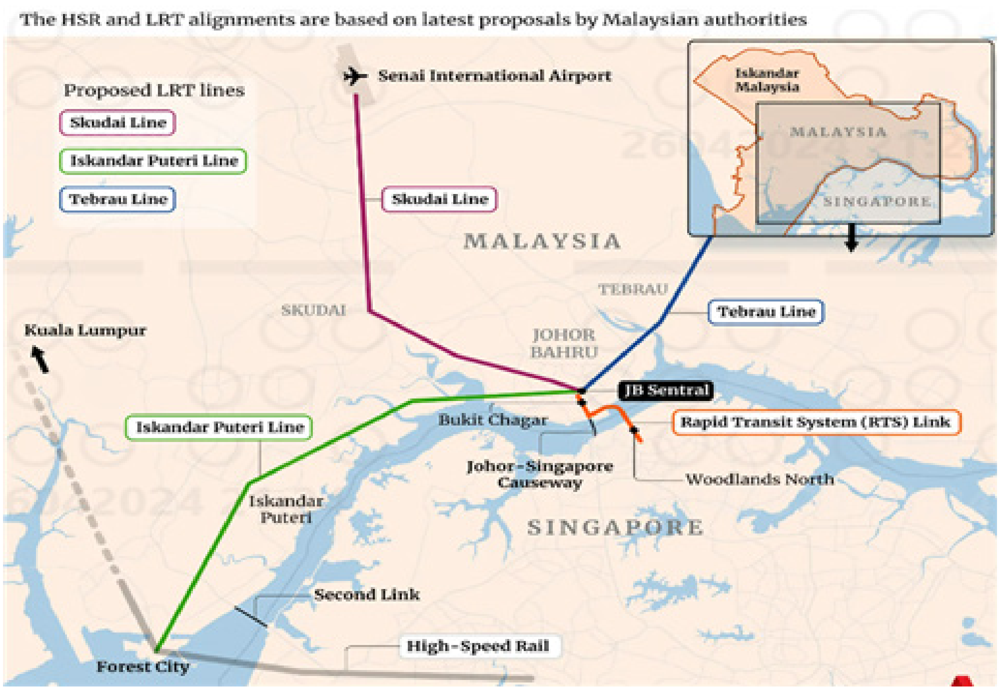
IM's cumulative investments as of Sep 2023

Source: IRDA, UOB Global Economics & Markets Research



Proposed T-shaped integrated transport network

Source: MRT Corp, Johor State Government, CNA, UOB Global Economics & Markets Research



For further information, please refer to our full article

ASEAN FOCUS II

Recent perspectives on regional labour market

- The ASEAN region is considered globally as the next potential spotlight for growth. One key factor that underpins this optimism is the comparatively higher proportion of young population with its rising middle-income class. The latest available estimate suggests that ASEAN population in 2022 stood at more than 673 million, the third largest in the world after China and India, surpassing the United States of America.
- An important area that is bound for change in the years ahead is the ASEAN's labour market dynamics. This is especially so because the structure and key stronghold sectors in ASEAN are diverse and unique but altogether face challenges such as the rise of adoption of artificial intelligence (AI) and automation to boost productivity levels.
- Hence, understanding the most recent perspectives on the state of ASEAN labour market is key to derive further insights on the near- to medium-term outlook of this region. We employ a well-established theory called Beveridge curve analysis to perform an empirical study on the bigger and more mature ASEAN economies of Singapore, Thailand, Malaysia, and Indonesia, to have a better understanding of the state of labour market mismatches.

There are nuances in the degree of skills' mismatches within the larger ASEAN-4 economies.

In essence, there are nuances in the degree of skills' mismatches within the larger ASEAN-4 economies. For Singapore, a surge in tech-related labour demand and fall in non-resident employment may have led to an increase in matching inefficiency. Thailand's mismatches seem to be low but as this dwell on relatively low wages sectors, structural transformation to attract more higher value-added sectors that can cater more for its higher skilled workers are called for to sustain growth in its economy.

Meanwhile, for Malaysia, studies found notable reduction in mismatches but strategies for higher wage growth in higher value-added skills are called for. Indonesia lacks job vacancy data but its large informal sector suggests that internal matching is relatively efficient. However, Indonesia's wage growth remains low and transformations are needed to attract investment in higher value-added industries.

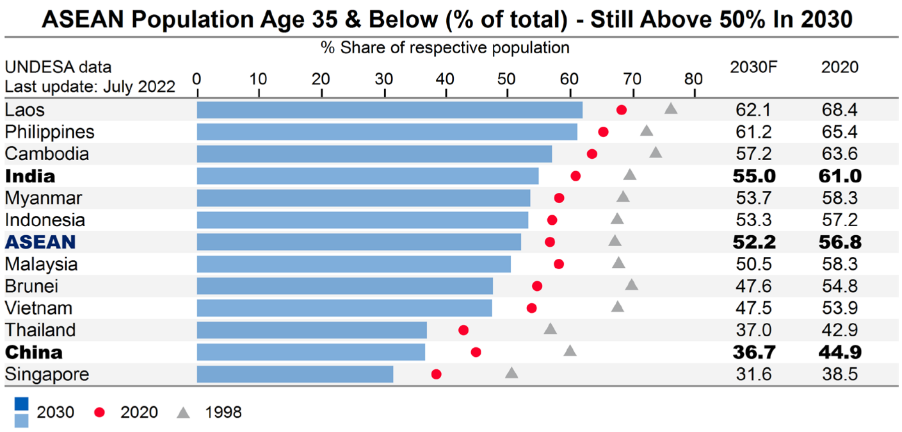
The silver lining is that proactive and contextual government policies are needed to reduce the extent of mismatches and streamline the labour market more effectively.

The bottom line is that proactive and contextual government policies are needed to reduce the extent of mismatches and streamline the labour market more effectively. Finally, consistent monitoring and having more comprehensive labour market data will undoubtedly hasten up efforts to create a more dynamic and resilient labour force in our region.

For further information, please refer to our full article

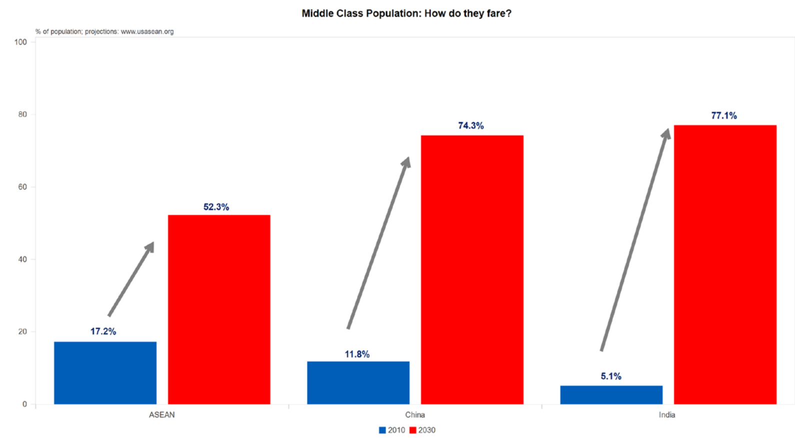
ASEAN's population advantages with more than 50% of young population

Source: Macrobond, UOB Global Economics & Markets Research



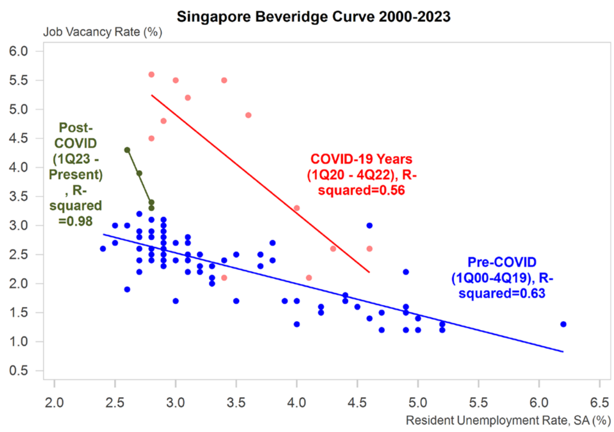
ASEAN's rising middle income class to power up its economy

Source: Macrobond, UOB Global Economics & Markets Research



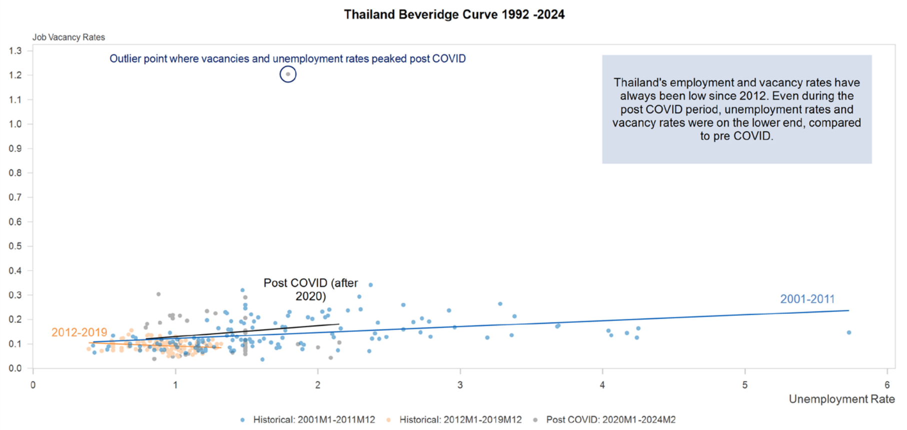
Shifts in Singapore's Beveridge Curve

Source: Macrobond, UOB Global Economics & Markets Research



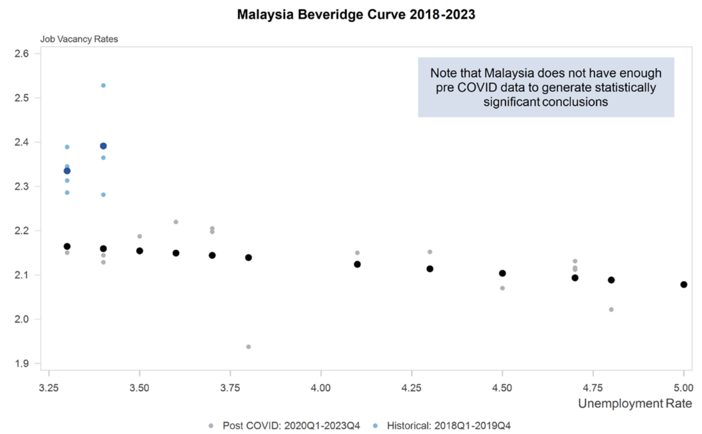
Thailand Beveridge Curve

Source: Macrobond, UOB Global Economics & Markets Research



Malaysia Beveridge Curve

Source: Macrobond, UOB Global Economics & Markets Research



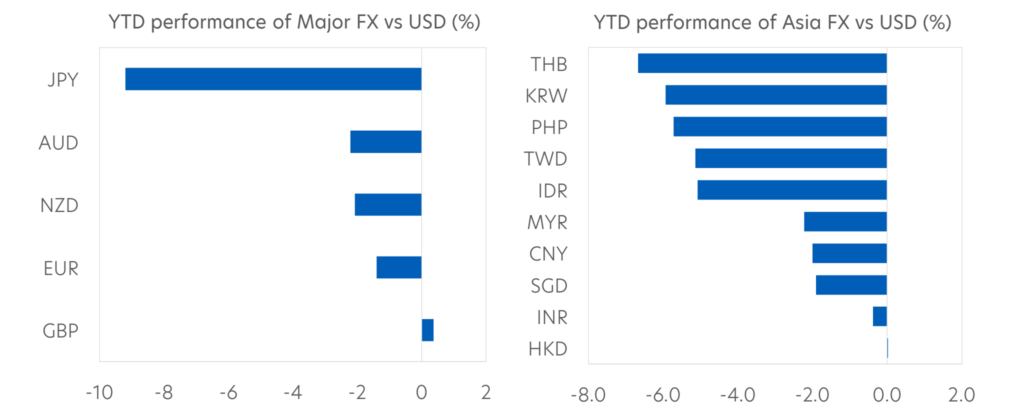
FX STRATEGY

Keeping faith for a weaker USD in 2H24

The USD was little changed against Major FX in the second quarter-to-date despite fluctuating Fed rate cut expectations. A weaker-than-expected US inflation in Apr helped bolster bets that the Fed is still on track for rate cuts later in the year, though at a significantly reduced magnitude compared to expectations at the start of 2024. As long as the Fed stays the course for rate normalisation in 2H24, we reiterate the view of renewed USD weakness starting 3Q24 ahead of our expectations of Fed rate cuts in Sep and Dec. The key risk to our negative USD outlook is if the Fed keeps its rates unchanged across 2024, as what we highlighted previously in the FX & Rates Monthly published 3 May 2024. For details, pls refer to report here.

Chart 1: The USD gained against most of its Major and Asia FX peers in 1H24

Source: Bloomberg, UOB Global Economics & Markets Research



While most Asia FX continued to bear the brunt of the "higher-for-longer" Fed rhetoric, intensifying efforts by Chinese authorities to stablise its economy helped limit the downside risks to the CNY and spillover to the other regional peers.

The picture is different for Asia FX which are on track for losses for a second straight quarter. While most Asia FX continued to bear the brunt of the "higher-for-longer" Fed rhetoric, intensifying efforts by Chinese authorities to stablise its economy helped limit the downside risks to the CNY and spillover to the other regional peers. We have also seen some Asian central banks step up efforts to smooth currency volatility. Similar to the Major FX space, we reiterate the view of USD weakening anew against Asia FX starting 3Q24 as the interest rate advantage of the USD relative to Asia peers starts to erode ahead as the Fed is projected to begin its easing cycle in Sep. The tail risks to our base case are a potential CNY devaluation and further conflict escalation in the Middle East, as we pointed out in the previous monthly report.

Major FX Strategy

As the drum beat of Fed rate cuts get louder, USD will likely weaken anew

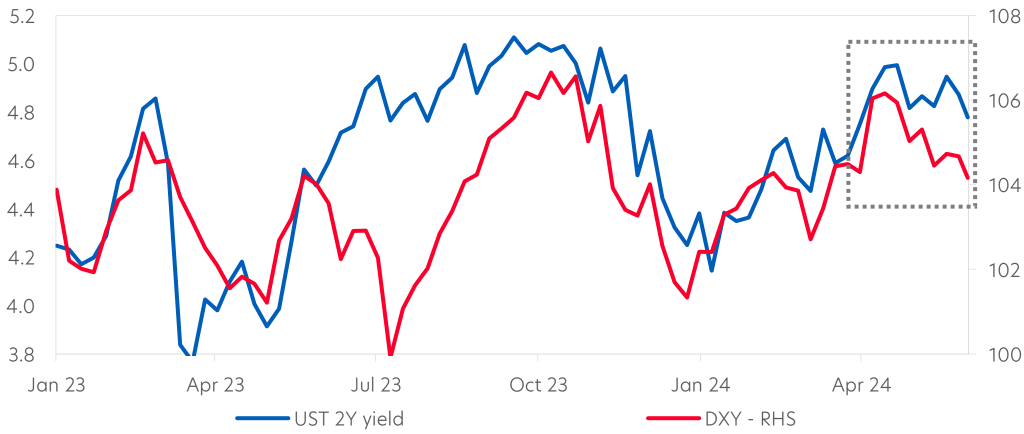
We were pleasantly surprised the USD did not strengthen in 2Q24. The US Dollar Index (DXY) was flat quarter-till-date at 104.2 despite a 15 bps rise in the 2-year US Treasury yield and "various" Fed officials citing a willingness to tighten policy further if necessary.

We reiterate the view of renewed USD weakness starting 3Q24 ahead of our expectations of Fed rate cuts in Sep and Dec.

Weighing on the USD is likely the recent Apr US CPI report which showed the first moderation in inflation this year. In addition, our macro team expects US headline inflation to average 2.5% this year (compared to 3.2% in 1Q24) which implies a resumption of the disinflation process in 2H24, giving the Fed the much-needed confidence to commence its easing cycle. Overall, we reiterate the view of renewed USD weakness starting 3Q24 ahead of our expectations of Fed rate cuts in Sep and Dec.

Chart 2: The USD was not as strong as what the rhetoric suggests in 2Q24

Source: Bloomberg, UOB Global Economics & Markets Research



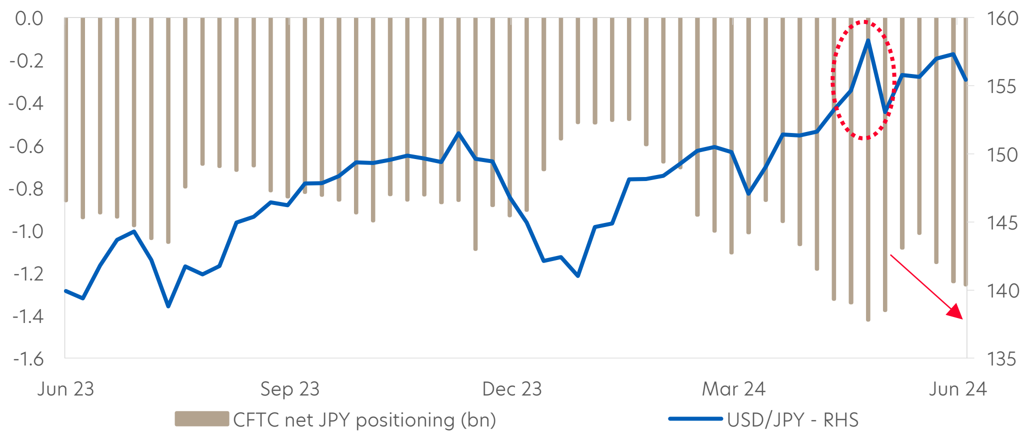
In such a backdrop where other Major central banks such as the ECB, BOE, RBA and RBNZ would have already eased in 2H24, the USD would likely stay strong into end-2024 – though not our base case yet - supported by favourable rates differentials.

As we highlight in the previous report, the key risk to our bearish USD view is that the Fed keeps its rates unchanged across 2024 if inflation fails to come down further. In such a backdrop where other Major central banks such as the ECB, BOE, RBA and RBNZ would have already eased in 2H24, the USD would likely stay strong into end-2024 – though not our base case yet - supported by favourable rates differentials.

The JPY continued to underperform within the Major FX space, falling around 3% in the second quarter-to-date and 9% year-to-date at 155.30 /USD. The lacklustre performance came despite intervention by the BOJ to support the JPY at the end of Apr. We think a more reasonable timeframe for USD/JPY to reverse lower on a more sustained basis is probably in 3Q24 amidst a renewed slide in US rates as the projected Sep Fed rate cuts come into focus. A second BOJ rate hike (from 0.1% to 0.25%) in 4Q24 will help reinforce the monetary policy divergence with the Fed, hence cementing USD/JPY's downside. Overall, our updated USD/JPY forecasts are 152 in 3Q24, 149 in 4Q24, 147 in 1Q25 and 145 in 2Q25.

Chart 3: Markets appear to be rebuilding JPY shorts again after Japan's currency intervention late Apr

Source: Bloomberg, UOB Global Economics & Markets Research



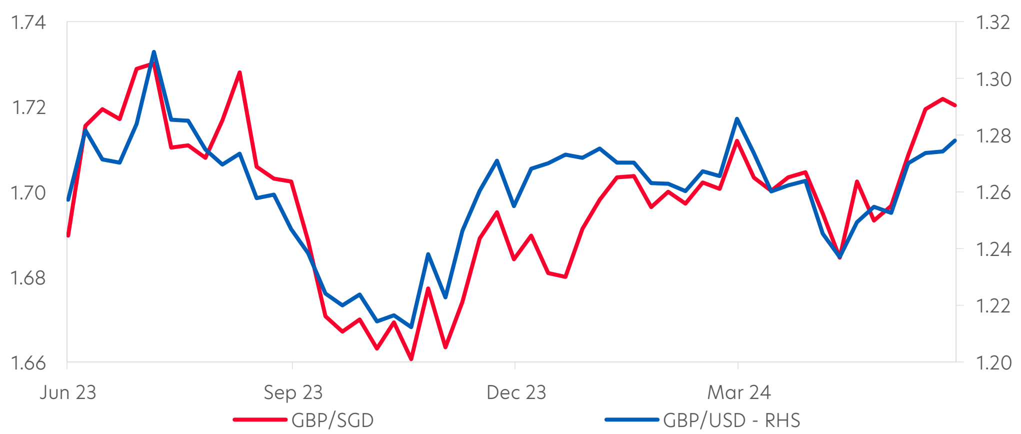
EUR/USD was largely stable at 1.08 as markets digested a well-telegraphed 25 bps rate cut by the ECB in Jun. Notwithstanding expectations that ECB may cut more than the Fed this year, EUR/USD is likely driven more by the Fed going forward. We expect the start to Fed's much anticipated easing cycle in Sep to spur broad-based USD weakness starting 3Q24. Overall, our updated EUR/USD forecasts are at 1.10 in 3Q24, 1.12 in 4Q24, 1.14 in 1Q25 and 1.15 in 2Q25.

GBP reversed losses incurred in Apr and traded back above 1.28, making it the first and only G-10 currency to gain against the USD year-to-date.

GBP reversed losses incurred in Apr and traded back above 1.28, making it the first and only G-10 currency to gain against the USD year-to-date. Markets' expectations that the BOE would not cut rates ahead of the general election in Jul even if inflation prints permit helped push back rate cut expectations and underpin the GBP/USD. Futures positioning on the GBP/USD also flipped back to a modest net long after a 4-week net short stint in May. Clearly, the GBP/USD has regained positive momentum in the past month and we reiterate our longer-term bullish view on GBP/USD. The updated point forecasts are at 1.30 in 3Q24, 1.32 in 4Q24, 1.34 in 1Q25 and 1.36 in 2Q25.

Chart 4: GBP has recouped earlier losses and are now higher on the year against the USD and SGD

Source: Bloomberg, UOB Global Economics & Markets Research



AUD was one of the outperformers among G-10 in the second quarter, holding ground against a USD resurgence to gain 2% across Apr and May to 0.6650.

AUD was one of the outperformers among G-10 in the second quarter, holding ground against a USD resurgence to gain 2% across Apr and May to 0.6650. Helping to boost the AUD are stubbornly strong price pressures in Australia which is likely to delay RBA's rate cut timetable and a rebound in iron ore prices in 2Q24. As for the RBA, we had previously seen a chance of a pivot to easing in 3Q24, but we have pushed back the view of the first rate cut to Nov. Another driver that can drive further AUD gains in 2H24 is a brightening outlook in the Chinese economy and the CNY. Overall, we keep to our positive outlook on AUD/USD with updated forecasts at 0.68 in 3Q24, 0.69 in 4Q24, 0.70 in 1Q25 and 0.71 in 2Q25.

Asia FX Strategy
Weighed down by persistent worries of further CNY weakness

With US rates staying "higher for longer" in 2Q24, it was no surprise that most Asia FX were weaker against the USD on the quarter due to portfolio outflow pressures. At the same time, a largely stable CNY and smoothing operation by some Asian central banks helped limit local currency losses.

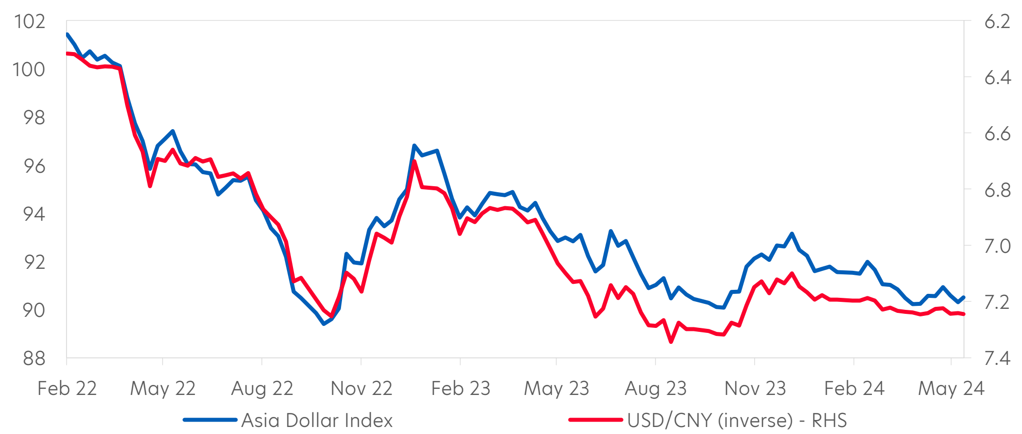
After weakening in the 1H24, we expect Asia FX to recover modestly in 2H24 as the headwinds that previously weighed on regional currencies turned into tailwinds. Firstly, the USD is expected to gradually lose its interest rate advantage, hence weaken anew as the Fed kickstarts its rate cut cycle in Sep. Secondly, a brighter economic outlook for China in 2H24 is expected to underpin a CNY and broad Asia FX recovery. We have recently upgraded China's 2024 GDP forecast to 5.1% from 4.8% as the government unveiled more measures to boost growth, particularly on the fiscal front. For details, pls refer to report here.

Together with a brighter economic outlook boosting investor sentiment and reduced tail-risks on China's property sector, the stage is set for a modest CNY recovery in 2H24.

Tethered to a stable fixing rate, the CNY was little changed on the quarter at 7.2450 / USD despite US-China rate differentials widening against the CNY. The rate differentials may start to narrow starting 3Q24 in favour of CNY as the Fed rate cut narrative regains momentum. Together with a brighter economic outlook boosting investor sentiment and reduced tail-risks on China's property sector, the stage is set for a modest CNY recovery in 2H24. That said, potential escalation of trade tariffs on China's exports and dividend outflows in summer mean the ensuing recovery is likely to be bumpy. Overall, our latest USD/CNY forecasts are 7.20 in 3Q24, 7.13 in 4Q24, 7.06 in 1Q25 and 7.00 in 2Q25. The risk to our positive view on CNY is a sudden and unexpected CNY devaluation. Should the PBOC lift the fixing to 7.15 from 7.11 currently, USD/CNY could revisit last year's highs near 7.30.

Chart 5: Asia FX struggled in 1H24 as outflow pressures grew though CNY's depreciation remained in check

Source: Bloomberg, UOB Global Economics & Markets Research



In 2H24, the SGD is expected to rebound alongside other Asia peers against the USD as the Fed kickstarts its easing cycle.

The SGD remained one of the most resilient Asia FX, holding flat at 1.35 /USD in the second quarter to date as a gradual pace of appreciation of the S$NEER helped blunt out the depreciation pressure on Asia FX. In 2H24, the SGD is expected to rebound alongside other Asia peers against the USD as the Fed kickstarts its easing cycle. As such, our updated USD/SGD forecasts are 1.34 in 3Q24, 1.33 in 4Q24, 1.32 in 1Q25 and 1.31 in 2Q25. In addition, we also factor in a modest pullback in certain SGD-crosses such as SGD/MYR and SGD/CNY as we expect the MAS to lower the policy slope in the coming Jul MPS which may spur a modest normalisation of the S$NEER lower.

The MYR may have bought itself enough runway this time as we expect the USD/MYR to weaken anew ahead of the anticipated Fed rate cut in Sep. A strong correlation to the CNY would also turn into a tailwind for the MYR as we also expect the CNY to rebound in 2H24.

MYR regained its footing to be best performing Asia FX in the second quarter to date, marginally stronger at 4.70 /USD while other Asia peers slipped. The MYR rebounded off its well-watched 4.80 /USD level in Apr after concerted measures by BNM to encourage conversion of FX income held by government related companies, corporates, exporters, and investors into MYR. The MYR may have bought itself enough runway this time as we expect the USD/MYR to weaken anew ahead of the anticipated Fed rate cut in Sep. A strong correlation to the CNY would also turn into a tailwind for the MYR as we also expect the CNY to rebound in 2H24. A steady OPR will also help to narrow the negative gap with US interest rates and support the MYR recovery as well. Overall, our USD/MYR forecasts are 4.65 in 3Q24, 4.60 in 4Q24, 4.55 in 1Q25 and 4.50 in 2Q25.

The THB fell over 7% year-to-date to 36.8/ USD, one of the worst performing Asia FX as BOT rate cut expectations build. Outflows from the local stock and bond markets also weighed on the THB. In a way, the relative weakness of the THB relative to regional peers is already reflecting our expectations of the front-loaded BOT 25bp rate cuts in Jun and Aug. As such, a broad-based Asia FX recovery in 2H24 led by the CNY may help THB par year-to-date losses. Overall, our USD/THB forecasts are 36.2 in 3Q24, 35.8 in 4Q24, 35.4 in 1Q25 and 35.0 in 2Q25.

Chart 6: Is the worst over for MYR as the currency rebounded for a third time off 4.80 /USD in Apr ?

Source: Bloomberg, UOB Global Economics & Markets Research

As portfolio flows stabilise and in conjunction with BI's strong focus on maintaining IDR stability, it is likely IDR would join the regional FX recovery when the Fed cuts rates in Sep.

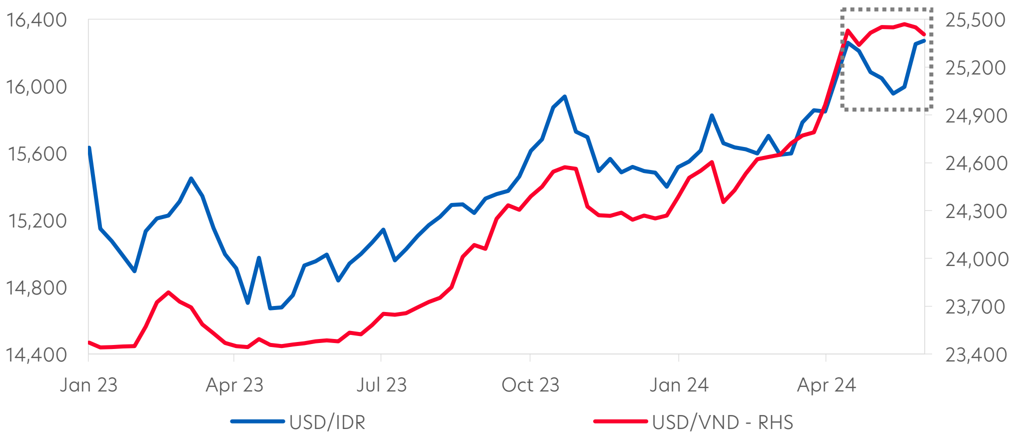
IDR weakened beyond the psychological 16,000 /USD in 2Q24 amid broad USD strength though intervention and an unexpected rate hike by BI have helped to limit losses. Investor interest on the Indonesia Government bonds have picked up again as the country posted in May the biggest monthly inflow (USD 1.2 bn) this year and after two prior months of steep outflows. As portfolio flows stabilise and in conjunction with BI's strong focus on maintaining IDR stability, it is likely IDR would join the regional FX recovery when the Fed cuts rates in Sep. Our updated USD/IDR forecasts are 16,000 in 3Q24, 15,800 in 4Q24, 15,600 in 1Q25 and 15,400 in 2Q25.

We reiterate the view that the VND may recover in 2H24 as external pressures from the USD ebbed ahead of an expected Fed rate cut in Sep. In addition, the VND is likely to benefit from a subsequent recovery in the CNY in the 2H24 as the China's economy shows clearer signs of stabilisation.

Despite improving domestic fundamentals, VND was held hostage to broad-based USD strength in 2Q24 and traded to a new record low of close to 25,500 /USD. The SBV said it had intervened in the FX markets and this may help to keep currency losses and volatility in check. That said, we reiterate the view that the VND may recover in 2H24 as external pressures from the USD ebbed ahead of an expected Fed rate cut in Sep. In addition, the VND is likely to benefit from a subsequent recovery in the CNY in the 2H24 as the China's economy shows clearer signs of stabilisation. Overall, our updated USD/VND forecasts are 25,200 in 3Q24, 25,000 in 4Q24, 24,800 in 1Q25 and 24,600 in 2Q25.

Chart 7: Authorities' currency support in 2Q24 may buy enough time for eventual USD reversal lower in 3Q24

Source: Bloomberg, UOB Global Economics & Markets Research



RATES STRATEGY

Not getting any easier for the Fed to cut

- Our base case has 50bps of easing in 2024, followed by a further 100 bps of cuts in 2025 and finally for Fed Funds to reach a floor of 3.25% in mid-2026.
- Potential economic implications post US elections seem to present more upside risks to inflation which will hinder the Fed's ability to ease monetary policy significantly.

Real 10Y UST yield continues to be volatile and was responsible for virtually all the increase seen in the nominal bond.

2Q24 price action

The second quarter to 3rd Jun has been an eventful one with a few notable shifts in the curves. Fed rate cut expectations for 2024 have been marked down further in 2Q, resulting in higher UST yields. 2s10s UST curve is sitting unchanged compared to the end of 1Q, while the 2s10s SGS curve is steeper by 31bps. Divergence in the curvature changes was driven by outperformance at the front end of the SGS yield curve. 2Y SGS spread to UST tightened by 28bps as domestic liquidity conditions remained conducive and demand for high quality short duration yield stayed robust. Real 10Y UST yield continues to be volatile and was responsible for virtually all the increase seen in the nominal bond.

Chart 1: Monthly change (29 Mar to 03 Jun)

Source: Bloomberg, UOB Global Economics & Markets Research

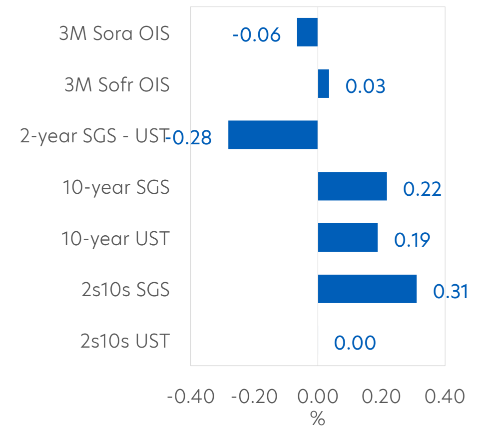
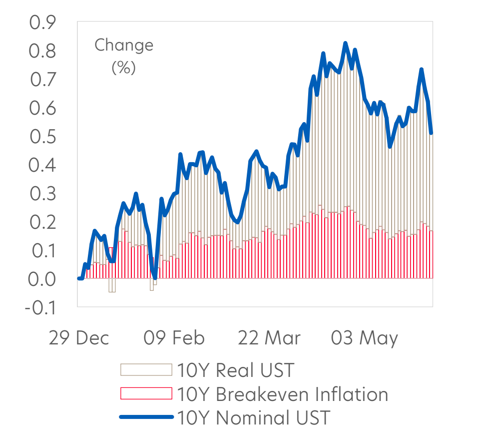


Chart 2: 10Y UST yield change (ytd cumulative)

Source: Bloomberg, UOB Global Economics & Markets Research



As we cross over into the second half of 2024, the center of gravity for event risks will inescapably begin to shift towards the US Presidential election.

Focus shifting towards upcoming US Presidential election

As we cross over into the second half of 2024, the center of gravity for event risks will inescapably begin to shift towards the US Presidential election. While the policy agenda may be quite different depending on the final composition of government, in most respects when viewed through the lens of the US deficit outlook, there is little indication from either side that fiscal discipline resides high on their campaign agenda.

The spill over into monetary policy will depend on the interplay between stimulatory fiscal settings and sticky inflation dynamics. A key question on everyone's mind is whether we will see a change in the Fed's response function towards preventing second order inflation risks from becoming entrenched. The answer is not so obvious since there are scenarios where monetary policy decisions may become politicised.

This point pertains more if Trump prevails over the incumbency, which is a possibility that warrants consideration since the average of polling results compiled by Real Clear Politics has Trump consistently at a positive spread over Biden in a head-to-head matchup.

Chart 3: Real Clear Politics (Trump - Biden spread)

Source: Bloomberg, UOB Global Economics & Markets Research

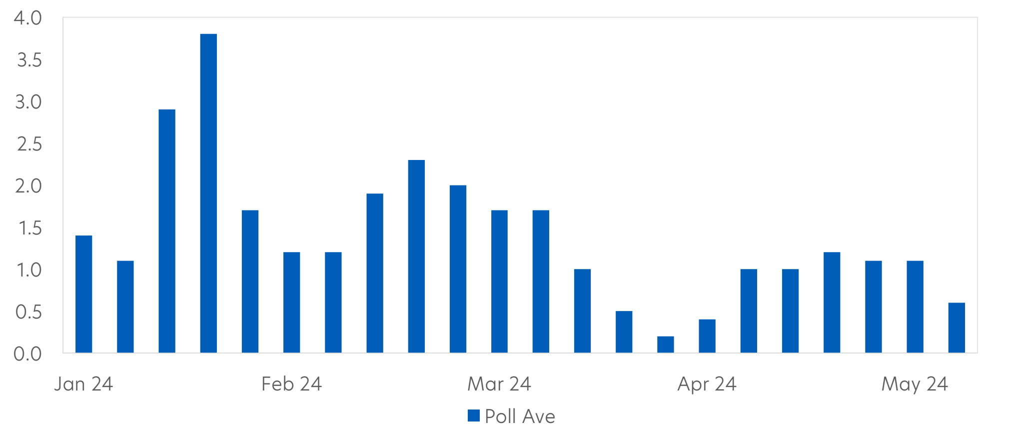


Diagram 1: Impact of Trump's policies

Impact on each of the indicators	Personal Tax	Corporate Tax	Tariff	Immigration
Real GDP	+	+	--	---
Inflation	+	+	+++	-
Fed funds	+	+	+++	--

Source: UOB Global Economics & Markets Research

+/-	mild impact
++/--	moderate impact
+++/---	major impact

A second term of Trump administration may usher in material changes in the areas of Tax, Trade Tariff as well as Immigration. These would have an impact relative to the incumbency baseline in the areas of GDP, Inflation, as well as the Fed's policy stance. The consensus takes on Trump's personal and corporate tax platform, suggests that the first order impact will be a mild uplift to both real GDP as well as inflation. This would further constrain the Fed's ability to ease monetary policy. In the case of Tariffs, real GDP is expected to take a hit and inflation could experience significant upside pressures. Based on the prevailing economic resiliency and inflation being above policy target range, the Fed's response to these shocks should be to tighten monetary policy. Trump's immigration policy, arguably his most contentious one, may result in a significant hit to real GDP and some downside to inflation if carried out to the full extent. The Fed would probably have to ease monetary policy to buffer an expected economic slowdown in this instance.

Overall, three out of four policy areas present upside risk to inflation on a standalone basis. Whether this translates into tighter monetary policy may be complicated by the degree of interventionist zeal displayed by the next US administration. For example, adopting a stronger stance or installing a new sympathetic Fed Chair to pressure the central bank from taking action to counteract any inflationary consequences of fiscal policies. Nonetheless, upside pressure on yields will be in play and may well present themselves in the longer end of the yield curve. To the extent that monetary policy response becomes encumbered, we could see a larger steepening in the yield curve than otherwise.

To the extent that monetary policy response becomes encumbered, we could see a larger steepening in the yield curve than otherwise.

FOMC view

In their base case, our US macro team expects the Fed Funds rate to stay at 5.50% until a US easing cycle kicks off in 3Q 24 and rate cuts are forecasted to extend into 2026. This anticipation of a turn lower in the US monetary policy cycle, rests on the assumptions that:

- inflation declining into policy makers' comfort zone, and
- the prevailing policy real rate level is perceived as restrictive.

Chart 4: Fed Funds forecasts

Source: Bloomberg, UOB Global Economics & Markets Research

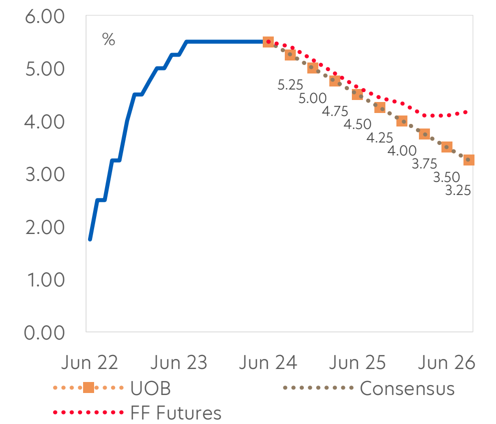
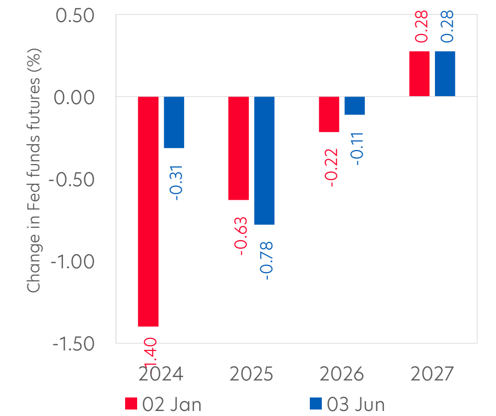


Chart 5: Calendar year pricing of Fed cuts

Source: Bloomberg, UOB Global Economics & Markets Research



While we have not built in a major retrenchment in economic growth when deriving this Fed baseline, we have priced in a technical recession in mid-2024 (i.e. two consecutive quarters of q/q declines) but no outright contraction of annual GDP. Therefore, in the event of a substantial (unforeseen) negative growth shock, the policy rate response will likely undershoot deep into more accommodative territory.

Although our US macro team's base case is for US monetary policy easing to kick off this year, recent economic data especially that of sticky inflation, does shift the needle towards the possibility that there may be less cuts delivered in 2024 rather than more cuts.

At a high level, the US economy has continued to expand in 1Q24 but the pace was underwhelming at 1.3%, slowest in two years. That said, in the absence of a significant growth shock, the disinflation trend going forward may be choppy around what is still a downtrend as per our base case scenario. However, considering that the possible fiscal scenarios coming out of this year's election are more likely to be a continuation of the government's largesse rather than any attempts at austerity. This could add more fuel to proponents of the second inflation wave thesis. Simply put, the arguments for Fed rate cuts do increasingly seem like they are falling into the "wants" category rather than "needs".

As it stands, we have factored in 50bps of rate cuts across 2024 as our base case and Fed funds futures market pricing as of end May is slightly more hawkish compared to our view. Greater divergence sets in over the full cycle as we have a more dovish profile for Fed Funds compared to what the market has priced in. Specifically, our easing cycle bottom for Fed Funds sits at 3.25% by mid-2026 which is 85bps lower than the futures market price of around 4.10% as of end May.

Short term rates are expected to drift lower across 2024 in tune with our expectations of 50 bps rate cuts from the US Federal Reserve.

For end 3Q24, we see the 3M compounded in arrears Sofr and Sora at 5.22% and 3.65% respectively. Thereafter, short term rates are then expected to drift lower across 2024 in tune with our expectations of 50 bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr and Sora could drop to 4.97% and 3.43% respectively by the end of the year.

It is this stability in bank reserves which matters more when looking at interbank funding conditions. A shortage of bank reserves will likely result in more frequent spikes in Sofr.

Fed QT view

Investor consensus is coalesced on a Fed balance sheet size that is in the mid to high USD 6tn region. At the end of the day, there is no hard science behind deriving the optimal Fed balance sheet size. It all boils down to ensuring enough liquidity for market functioning as the overarching objective. Notably, since the start of QT, the Fed balance sheet has shrunk by around USD 1.6tn (-18%) while at the same time, bank reserves have grown by around USD 0.3tn (+9%). It is this stability in bank reserves which matters more when looking at interbank funding conditions. A shortage of bank reserves will likely result in more frequent spikes in Sofr.

Chart 6: Fed balance sheet

Source: Bloomberg, UOB Global Economics & Markets Research

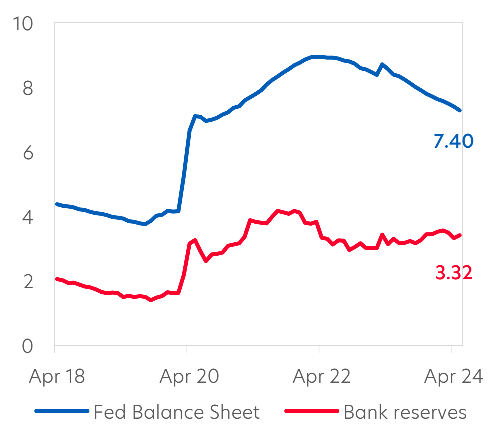
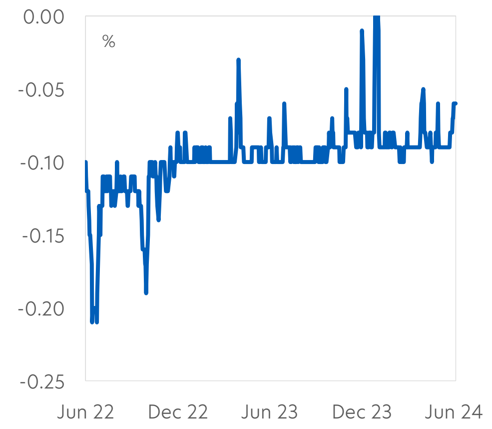


Chart 7: Sofr - IORB spread

Source: Bloomberg, UOB Global Economics & Markets Research



Market functioning, as measured through the spread between Sofr and Interest on Reserve Balances (IORB) rates, has been relatively well behaved since QT kicked off back in Jun 22. Stability of bank reserves is one of the reasons why we have yet to witness liquidity stress to the extent seen in the previous 2017 to 2019 QT phase which drove the Sofr-IORB spread sharply higher into positive territory and stayed higher for an extended period.

10Y UST and SGS view

For the longer end of the curve, we have the 10Y UST and SGS yields at 4.20% and 3.20% respectively by end 3Q24. These forecasts are unchanged compared to the previous month. The overall forecast curve points lower across time due to our monetary policy easing cycle base case.

Chart 8: 10Y UST

Source: Bloomberg, UOB Global Economics & Markets Research

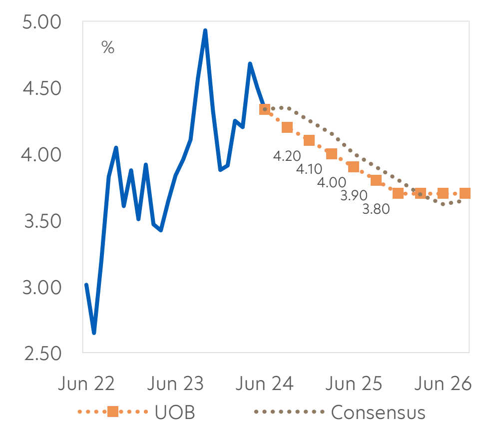
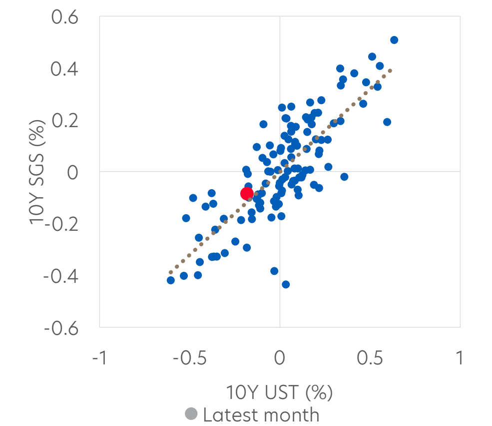


Chart 9: Monthly yield change (2014 to 2024)

Source: Bloomberg, UOB Global Economics & Markets Research



Considering that futures market pricing has only one 25bps cut locked in for 2024 (with another 25bps a coin toss), the room for an even more hawkish re-pricing is modest in our view unless US policy makers open the door to rate hikes being the probable next move. That outlier scenario aside, owing to our more dovish Fed easing cycle call and our expectation that rate cuts will begin in 3Q 2024, we think that there is value in the 10Y segment of the curve.

Our bias in the short term for 10Y UST price action is that the risks lie in the direction of sticky to higher yields.

However, we note that adjustments in the 10Y UST term premium has been modest thus far and has not demonstrated the same repricing intensity as previously seen in Oct 23's "term premium scare". This is an uneasy equilibrium and one that currently seems more likely to resolve higher. Therefore, our bias in the short term for 10Y UST price action is that the risks lie in the direction of sticky to higher yields.

For SG rates, our forecast assumes that the long-term relationship which governs the process of SG rates adjusting by a lesser degree to US rate changes will continue to hold into 2024 as well as persist across the whole US rate cut cycle. Fundamentally, we think that the potential for significant SGS outperformance is limited because the SGD NEER is starting from a position of strength, and we do not expect the MAS to tighten monetary policy further.

Towards the end of 2024, we have kept our long term yield forecasts unchanged with the 10Y UST and SGD yields forecasted to progressively decline and may touch 4.10% and 3.15% respectively by end 4Q24.

2s10s UST curve view

Based on our Fed easing expectations, the second half of 2024 will be a transition period from policy plateau to policy easing. Aside from impacting outright yield levels, the policy shift is also set to herald in a period where yield curves become more volatile as well as raising the possibility of a range break.

Chart 10: 2s10s UST curve

Source: Bloomberg, UOB Global Economics & Markets Research

Since Oct 23, 2s10s UST curve has ranged between -16bps and -54bps. It currently sits just above the middle of this range. A move out of this eight-month sideways price action is a probable outcome as we get closer to the inaugural rate cut, our bias in this instance is for the curve to steepen. Historically, monthly 2s10s UST curve changes have recorded a wider dispersion of outcomes during policy rate cuts periods compared to policy rate plateau periods. In addition, episodes of large positive monthly change in the curve occurs more frequently than negative ones which is a benefit to our curve steepening bias.

This means that stress points will continue to be present during long bond auctions, and it may take just one particularly poor auction outcome to trigger a more aggressive round of term premium repricing seeing as how market sentiment is already weighed down by a challenging supply outlook.

On the other hand, if our rate cut view gets pushed back, this would extend the curve's status quo run, but we think that the probability of 2s10s UST curve breaching the range top should still outweigh a downside break scenario. Term premium repricing may be a possible bear catalyst for USTs. Although this year's run up in 10Y UST yield compared to Oct 23's term premium scare has been associated with a milder uplift in the term premium. Most US fiscal deficit projections still sees large shortfalls persisting and the assumptions are unlikely to be materially changed regardless of Nov's US election outcome. This means that stress points will continue to be present during long bond auctions, and it may take just one particularly poor auction outcome to trigger a more aggressive round of term premium repricing seeing as how market sentiment is already weighed down by a challenging supply outlook.

Wider monetary policy views

Our monetary policy views on major developed markets (DM) sees central bankers there positioned to cut their own policy rates largely in step with, or ahead of the US (such as the ECB). The exception being Japan where the BOJ continues to dance to a different tune and policy normalization/exit from negative interest rate policy (NIRP) remains the objective. We have penciled in another BOJ rate hike in 4Q 24 to take the policy rate up to 0.25% which will be its highest since 2008.

UOB forecasted change in policy rates (%)

Developed markets			Asia		
Economy	2024	2025	Economy	2024	2025
United Kingdom	-0.50	-1.00	Hong Kong	-0.50	-1.00
Eurozone	-0.50	-1.00	South Korea	-0.50	-0.50
United States	-0.50	-1.00	Thailand	-0.50	-
Australia	-0.35	-0.75	Philippines	-0.25	-1.00
New Zealand	-0.25	-1.00	India	-0.25	-1.00
Japan	0.15	-	China	-0.25	-
			Singapore*	-0.15	-0.81
			Indonesia	-	-1.00
			Taiwan	-	-
			Malaysia	-	-
			Vietnam	-	-

* Represented by the change in 3M OIS rate
Source: UOB Global Economics & Markets Research

In the Asian region, it is our view that central banks may be more inclined to adopt a wait and see approach to their own rate cuts. Our argument for this is two-fold;

- First, external demand will probably receive some support from expected monetary policy easing by DM central banks. Consequently, Asian policy makers may be inclined to assess the magnitude of uplift in external demand before deciding on pulling their own policy levers.

- Second, interest rate differentials are on the tighter end of their ranges now. Prospects for widening of the differentials (i.e. Asia – US spread heads higher) could lend support to domestic currencies and this in turn may translate to improved investor confidence/ risk appetites. Such an outcome will also be received favourably by policy makers.

Rate hikes by Asian central banks, such as the one delivered by Bank Indonesia in Apr are exceptions rather than the norm in our view. To this point, our macro team has BI on hold for the rest of 2024 followed by monetary policy easing in 2025. Justification for higher policy rates across Asia at this stage essentially boils down to the defense of domestic currencies against further depreciations and in this regard, we are confident that policy makers are aware of the limitations of unilaterally leaning against the USD tide.

Chart 11: 5Y Asian bonds vs UST (cumulative change)

Source: Bloomberg, UOB Global Economics & Markets Research

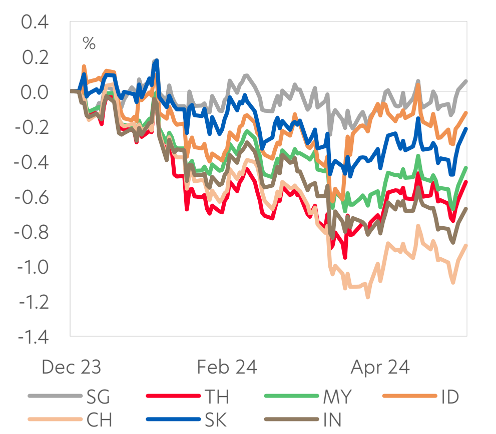
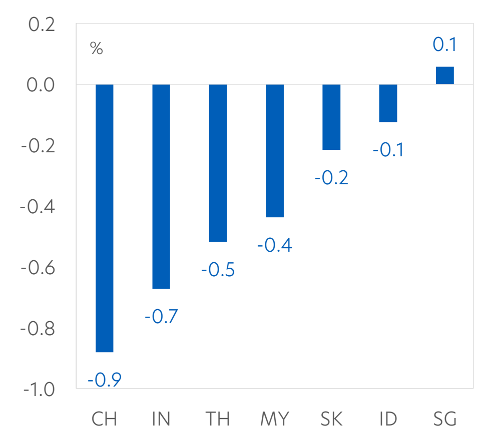


Chart 12: 5Y Asian bonds vs UST (change ytd)

Source: Bloomberg, UOB Global Economics & Markets Research



Year to date Asian 5Y sovereign bond market performance is book ended by SG bonds on one end with its spread to UST relatively unchanged since the start of the year, and CH bonds on the other end where the spread to UST is lower by around 90bps from where it started the year. Outperformance by CH bonds has been driven by expectations that domestic monetary policy settings will be kept accommodative for an extended period to deal with economic challenges.

Given that Asian bond spreads are relatively tight to USTs, we could see them lagging rallies in USTs. At the same time, fundamentals underpinning Asian sovereigns appear fairly sound which will provide some insulation when USTs are being sold.

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Summary table of rates forecasts

Rates	3 Jun 24	Forecast	3Q24F	4Q24F	1Q25F	2Q25F
US Fed Funds Target	5.50	Current	5.25	5.00	4.75	4.50
		Previous	5.25	5.00	4.75	4.50
3M Compounded SOFR	5.35	Current	5.22	4.97	4.72	4.47
		Previous	5.23	4.98	4.73	4.48
10Y UST	4.50	Current	4.20	4.10	4.00	3.90
		Previous	4.20	4.10	4.00	3.90
3M Compounded SORA	3.66	Current	3.60	3.43	3.28	3.08
		Previous	3.56	3.44	3.32	3.14
10Y SGS	3.35	Current	3.20	3.15	3.10	3.00
		Previous	3.20	3.15	3.10	3.00

Source: UOB Global Economics & Markets Research forecasts

COMMODITIES STRATEGY

Metals take flight amidst strong rally in both Gold and Copper in 2Q24

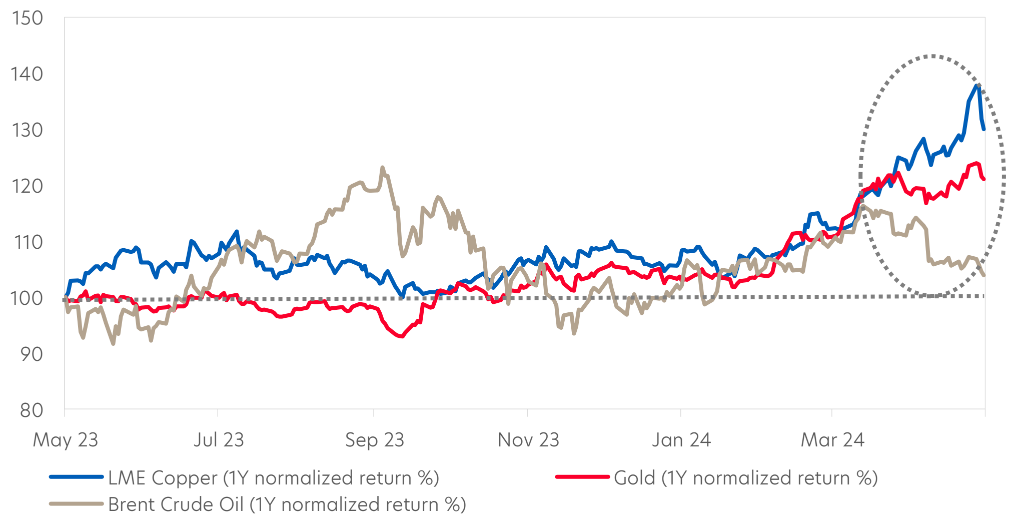
In the previous quarterly report, we highlighted the “uncharacteristic calm” in both Brent crude oil and LME Copper prices. This lack of volatility and absence of risk premium in Brent crude oil continued to extend throughout 2Q24. Brent crude oil continued its directionless drift after successful de-escalation efforts from the international community contained the further risk of war between Israel and Iran in mid-April. Eventually, by late May, Brent crude oil had drifted back down to seek stronger support at the psychologically important USD 80 / bbl price level. This is an important price level where OPEC had at many times in recent years tried to support. As such, we can expect a further rollover of existing production cuts from various OPEC members.

There is an intense debate over whether LME Copper can sustain its strong gains above USD 10,000 / MT.

As for LME Copper prices, we were focused on the economic weakness out of China, particularly increasing woes around the ailing domestic residential property market. The view during the previous quarterly report was that LME Copper risks a price correction back below USD 9,000 / MT. Instead, LME Copper and other industrial metals joined the broader precious metal rally and powered ahead across 2Q24. LME Copper prices eventually broke above USD 10,000 / MT as gold traded up to a new record high above USD 2,400 / oz. There is an intense debate over whether LME Copper can sustain its strong gains above USD 10,000 / MT. Bears will argue that industrial and manufacturing demand out of China remains weak and uncertain. Bulls will argue that there is a strong growing demand for LME Copper and other industrial metals due to the intensifying green transition megatrend.

Gold and Copper staged strong rally in 2Q24 as Brent softens instead

Source: Bloomberg, UOB Global Economics & Markets Research



Does the latest rally in commodities prices imply an inflation rebound ahead?

Source: Bloomberg, UOB Global Economics & Markets Research

Overall, broad commodities indices like the GSCI and CRB indices have indeed turned back up across 2Q24, driven mostly by the strong rally in the precious metal and industrial metal complexes.

Heading into 2H24, key questions were being asked as to whether this strong rally in gold and LME copper is sustainable? And whether Brent crude oil can remain deceptively uncharacteristic of risk premium? Concurrently investors have also started to ask a more critical question around global inflation outlook. That is, will this strong metal rally result in pushing global inflation back up? Afterall, US and UK inflation indicators have turned out to be stickier than expected. The US Federal Reserve (Fed) now says that they need more time to gain better confidence that inflation is trending lower. And the Reserve Bank of Australia (RBA) has also warned that it is watching renewed inflation risks closely. Concurrently, freight rates globally which appeared to have bottomed out, are rising anew. Overall, broad commodities indices like the GSCI and CRB indices have indeed turned back up across 2Q24, driven mostly by the strong rally in the precious metal and industrial metal complexes. Is this rise in commodities prices a harbinger of renewed uptick in global inflation to come in 2H24?

Gold

Lifting our positive forecast further to USD 2,700 / oz by 2Q25

UOB's Forecast	3Q24	4Q24	1Q25	2Q25
Gold (USD/oz)	2,400	2,500	2,600	2,700

Gold had a strong rally in the first half of 2024, gaining by about 20% year-to-date, from USD 2,000 / oz in Jan to about USD 2,400 oz in May.

The two key drivers pulling gold higher have been present since late last year and have not changed at all. First is the increasing uncertainty in the global geopolitical landscape with two on-going conflicts that have ignited safe haven buying of gold. Second is the strong EM and Asian central bank reserve allocation into gold.

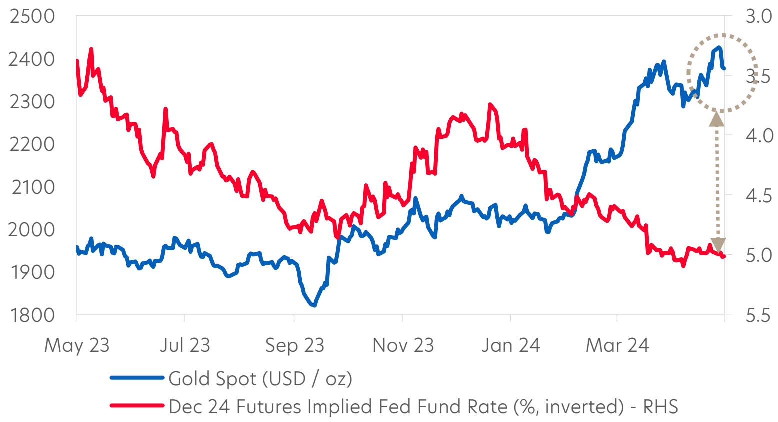
China has of course caught everyone's attention with its strong allocation into gold. According to the World Gold Council, as of May 2024, China's official holding of gold has now risen to about 2,300 tonnes, or just under 5% of total reserves. This a jump of about 20% from the 1,900 tonnes level just two years ago in mid-2022. There are also various industry reports of heavy retail buying of gold wafers, gold nuggets and gold ETF amongst retail investors in China.

The strong rally in gold this year is even more remarkable given the on-going strength in the USD with SOFR staying high above 5%. This implies that the abovementioned safe haven buying and central bank allocation have now overcome previous dampening effect from the strong USD and higher rates. Going forward, we can expect gold to be propelled higher in the months ahead by renewed ETF buying, once the Fed starts its anticipated rate cuts from Sep 2024.

Overall, we maintain our positive outlook for gold and continue to raise our forecast higher to USD 2,400 / oz by 3Q24, 2,500 / oz by 4Q24 and 2,600 / oz by 1Q25 and 2,700 / oz by 2Q25. The previous forecast was USD 2,350 / oz by 3Q24, USD 2,400 / oz by 4Q24 and USD 2,450 / oz by 1Q25, as published in the Monthly FX & Rates Strategy report, dated 03 Apr 24.

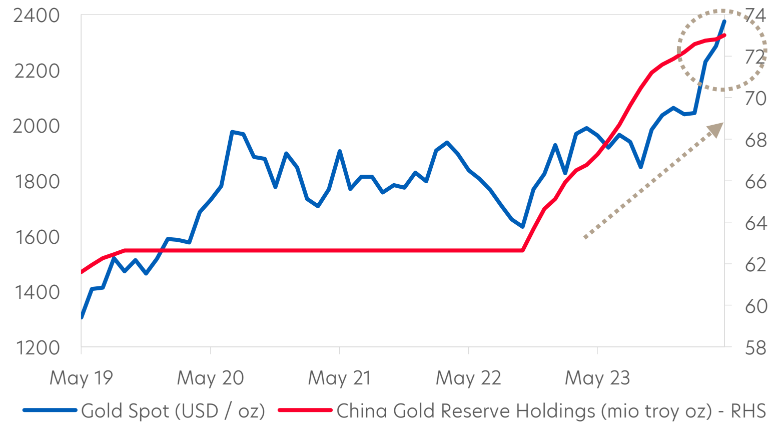
Gold powers ahead despite futures pricing for prolonged "higher for longer" rates

Source: Bloomberg, UOB Global Economics & Markets Research



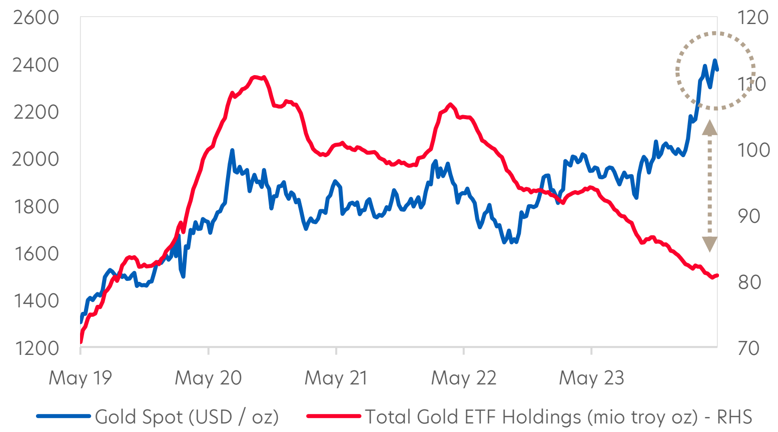
China's strong buying of gold for central bank reserves is a key positive driver

Source: Bloomberg, UOB Global Economics & Markets Research



Decline in gold ETF holdings imply that institutional investors have yet to join the gold rally

Source: Bloomberg, UOB Global Economics & Markets Research



Brent Crude Oil

Pulling back to stronger price support at around USD 80 / bbl

UOB's Forecast	3Q24	4Q24	1Q25	2Q25
Brent crude oil (USD/bbl)	85	85	90	90

In the previous Quarterly Report in Mar 2024, we "lamented" that despite rising geopolitical tensions in the Middle East, Brent crude oil had been trading at around USD 80 / bbl with an "uncharacteristic" lack of price volatility and little geopolitical risk premium attached.

Indeed, thanks to the concerted effort of the international community to help de-escalate tensions in the Middle East, the conflict between Israel and Iran started to cool down after a brief alarming escalation that resulted in an exchange of missiles in mid-April. As such, while Israel's sovereign credit default swap (CDS) still stays at elevated level, Saudi Arabia's CDS has fallen back to low levels yet again, implying that markets see limited immediate contagion risk to the rest of the Middle East for now.

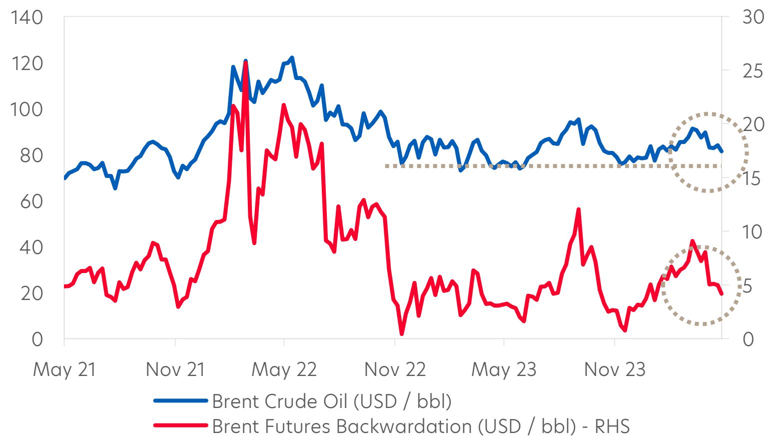
However, it is important to note that long term geopolitical risks still remain. Iran is now a key crude oil producer pumping about 40% of Saudi Arabia's crude oil production. A renewed escalation, putting both Iran's crude oil production and exports at risk will almost certainly fire up energy risk premium yet again.

There was a recent knee jerk sell-off in Brent in early Jun from USD 81 to about 78 / bbl. This follows the market "disappointment" after OPEC announced at its latest meeting that they will gradually phase out about 2.2 mio bpd of production cuts from Oct 2024 to Sep 2025. However, it is important to note that baseline production cuts of 3.6 mio bpd will remain till end of 2025. Furthermore, while largely unspoken, OPEC is still expected to try to keep Brent crude oil stable around the USD 80 / bbl level.

Overall, we keep to our view that Brent crude oil while consolidating around the USD 80 / bbl level, needs to reflect some form of geopolitical risk premium. We therefore maintain our modest positive forecast of Brent crude oil for USD 85 / bbl for 3Q and 4Q24 and USD 90 / bbl for 1Q and 2Q25.

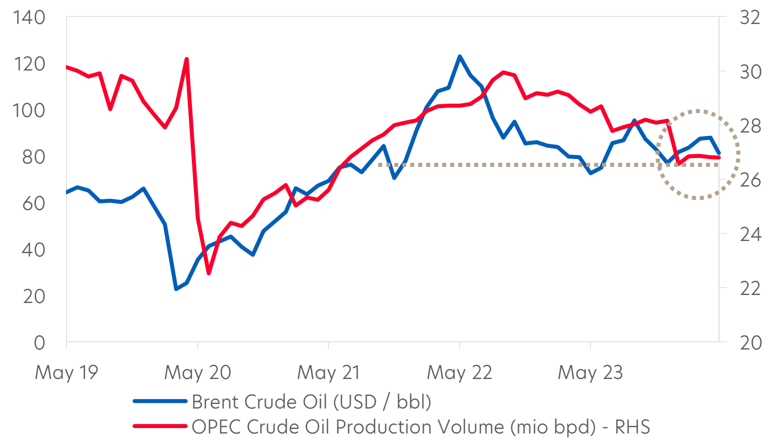
Brent falls back towards USD 80 / bbl as backwardation eases in tandem

Source: Bloomberg, UOB Global Economics & Markets Research



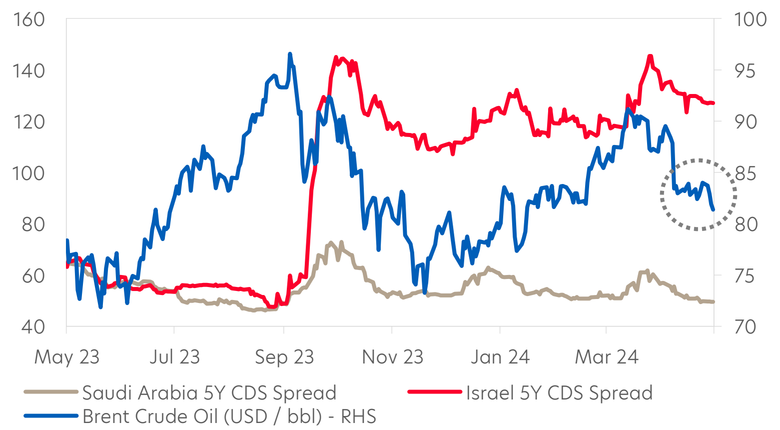
Brent consolidation just above USD 80 / bbl as OPEC is seen keeping to its production cuts

Source: Bloomberg, UOB Global Economics & Markets Research



Brent softer at USD 80 / bbl as market sees limited contagion in Middle East from Israel Hamas Conflict

Source: Bloomberg, UOB Global Economics & Markets Research



Copper

Is the jump above USD 10,000 / MT sustainable?

UOB's Forecast	3Q24	4Q24	1Q25	2Q25
LME Copper (USD/mt)	9,000	9,000	10,000	10,000

Alongside gold, LME Copper staged a very strong rally of more than 20% year-to-date, jumping from about USD 8,500 / MT in Jan to as high as USD 10,500 / MT by mid-May. The key question going forward is whether this strong rally is sustainable? Afterall, previous attempts to trade above USD 10,000 / MT on a sustained basis were unsuccessful.

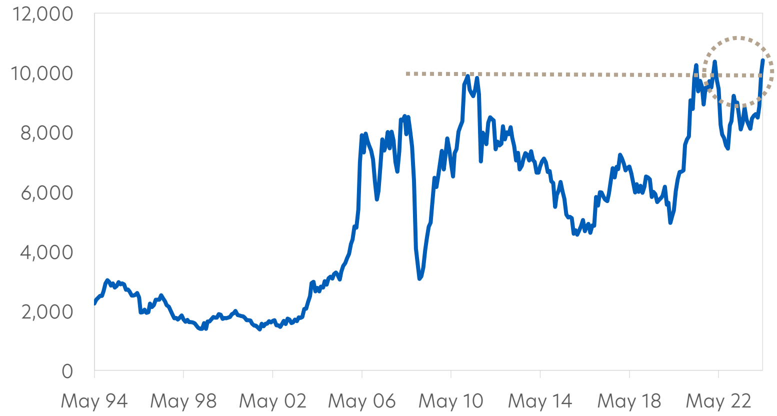
This jump in LME Copper especially in 2Q24 can be attributed to two key drivers. First is the outsized and above seasonal stockpiling of copper inventory by China. This is in contrast to the on-going nascent improvement in manufacturing outlook for China. Specifically, there has been a big jump in LME Copper inventory on the SHFE raising concerns that Chinese authorities may be stockpiling LME Copper and other industrial metals ahead of further RMB depreciation.

The second driver is the renewed optimism in demand from green transition, which is a difficult driver to quantify. A good proxy is demand from Electric Vehicles (EV) production where Copper and other industrial metals are key components of electronics and parts. Over the past two years, there has indeed been a sharp jump in EV production in China, leading to higher Copper and other industrial metals demand.

There is also increased optimism that with the latest round of comprehensive demand stimulus and inventory reduction package for China's ailing property sector that its economy may well achieve the targeted growth of 5.0% and slightly more. Overall, in line with the nascent signs of growth stabilization in China, we raise our LME Copper forecast to USD 9,000 / MT for 2H24 and USD 10,000 / MT for 1H25. Importantly, we continue to warn of near-term correction risk given recent strong rally. Indeed, latest price actions continue to suggest that LME Copper is struggling to make any major headway above USD 10,000 / MT.

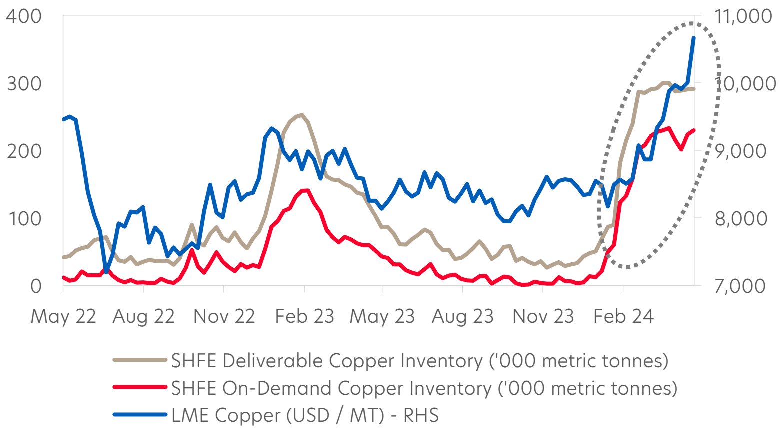
Is LME Copper's latest rally above the USD 10,000 / MT resistance sustainable?

Source: Bloomberg, UOB Global Economics & Markets Research



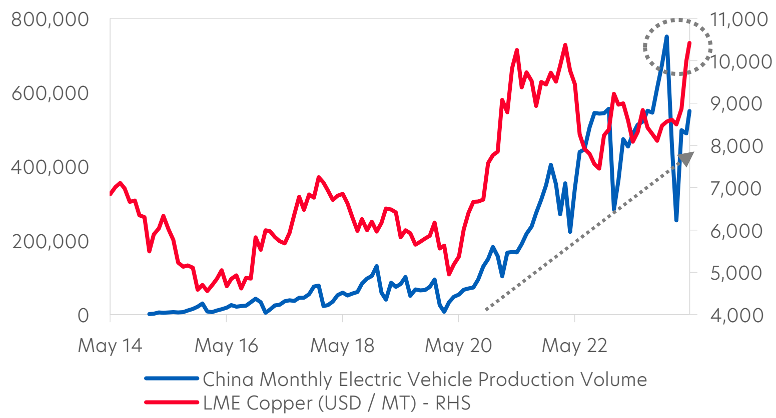
There is marked stockpiling of copper by China as implied by jump in SHFE inventory

Source: Bloomberg, UOB Global Economics & Markets Research



Copper price increasingly at risk as China's PPI stays negative

Source: Bloomberg, UOB Global Economics & Markets Research



FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/CNY	7.20	7.13	7.06	7.00
CNY 1Y Loan Prime Rate	3.20	3.20	3.20	3.20
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.0	5.2	5.1	4.7
CPI (avg y/y %)	2.0	0.2	0.7	1.4
Unemployment Rate (%)	5.5	5.1	5.1	5.2
Current Account (% of GDP)	2.5	1.4	1.3	1.0
Fiscal Balance (% of GDP)	-4.7	-4.6	-4.9	-4.8

ECONOMY

Growth may exceed 5% target in 2024

Following the surprisingly strong 1Q24 GDP growth of 5.3% y/y, the data in Apr showed domestic demand faltered and the property price decline worsened despite a jump in industrial activities.

While China's economic recovery has continued to be uneven and patchy, the outlook turned more positive compared to the start of the year as more stimulus measures, particularly on the fiscal front, are being rolled out. In Mar, the State Council issued an action plan to promote large-scale equipment renewals and trade-ins of consumer goods. In the durable consumer goods segment, the upgrading of cars and home appliances is estimated to boost demand by more than CNY1 tn (0.8% of GDP). The industrial sector upgrade including the CNY344 bn semiconductor investment fund will boost growth in key manufacturing industries in the coming years amid China's efforts to increase self-reliance in the sector.

The first batch of special treasury bonds was issued on 17 May and the remaining of the CNY1 tn amount will be issued by mid-Nov, to be used in specific areas including technology innovation, education, healthcare and other areas of major national importance and national security. The issuance of local government bonds was also ramped up in May to a 7-month high.

The property market will be less of a drag on China's growth in 2024 and 2025 compared to recent years. The property rescue package in May further lowered the minimum downpayment and establish a CNY300bn relending program for social housing in addition to its "whitelist" program in Jan to provide funding for selected projects. We estimate that PBOC's relending program could digest as much as 19% of the 391 million square meters completed unsold units (as of Apr 2024). While this could help to stabilise market, it is not expected to turn around the property sector as prices remain soft and structural factors such as reduced demand for investment purposes and ageing population may continue to hold back home purchases. The program also has its limitation as it is a "voluntary basis" and take up could be hampered by the low rental yield. Further measures may need to be rolled out if the newly announced package fails to stabilise market.

Exports will remain the main growth driver this year and thus the intensifying trade tensions with the US and the EU will be of concern. In May, the White House announced tariff increases on US$18 bn worth of Chinese goods (4.2% of US' imports from China or 0.5% of China's total exports in 2023) including EVs, semiconductors, batteries, solar cells, and critical minerals. Many of the tariff hikes will be effective from 1 Aug, except for semiconductors (2025) and non-EV lithium-ion batteries, some critical minerals and medical gloves (2026). So far, the impact of the targeted tariff hikes is expected to be muted but there are greater worries over Trump's proposed 60% tariff for all Chinese goods if he is re-elected and whether EU will follow the US to tighten their imports of Chinese goods such as the EVs as well as China's retaliatory measures that may follow. Trade tensions with the US are likely to escalate in 2H24 ahead of the Nov presidential election. For now, we are maintaining our forecast for China's export growth of 7.0% (2023: -4.6%) this year on the back of a positive tech demand outlook and expected easing of global financial conditions in the later part of the year.

Factoring in the support measures and stronger 1Q24 GDP, we revise higher our growth forecast for China to 5.1% (from 4.8%) in 2024 and 4.7% (from 4.4%) in 2025. The domestic property market and local government debt risks as well as trade tensions with the US and EU continue to have significant bearings on China's outlook. Meanwhile, the upcoming third plenum in Jul is expected to emphasize China's efforts to deepen reforms and modernize its economy.

CENTRAL BANK

Monetary policy easing continues

In the first four months of the year, headline and core inflation averaged 0.1% y/y and 0.7% y/y, respectively. Weak demand and falling food prices contributed much to the soft CPI readings. We expect the headline inflation rate to remain positive but stay mild under 1% until 3Q24. Our forecast for headline inflation is at 0.7% for 2024 and 1.4% for 2025.

The beginning of Fed's rate cut cycle which we expect to be in Sep, would create the space for further monetary policy easing by the PBOC. As such, we still expect the 1Y loan prime rate (LPR) to fall to 3.20% by end-4Q24 (current 3.45%) while the 5Y LPR may stay on hold at 3.95% through the rest of 2024 after the 25 bps reduction in Feb. We also think there is a possibility of another 50 bps cut to the reserve requirement ratio (RRR) in 2H24, adding to the 50 bps reduction in Feb.

CURRENCY

Modest recovery

Tethered by a stable fixing, the CNY was little changed on the quarter at 7.2450/USD despite US-China rate differentials widening against the CNY. The rate differentials may start to narrow starting 3Q24 in favour of CNY as the Fed rate cut narrative regains momentum. Together with a brighter economic outlook boosting investor sentiment and reduced tail-risks on China's property sector, the stage is set for a modest CNY recovery in 2H24. That said, potential escalation of trade tariffs on China's exports and dividend outflows in summer mean the ensuing recovery is likely to be bumpy. Overall, our latest USD/CNY forecasts are 7.20 in 3Q24, 7.13 in 4Q24, 7.06 in 1Q25 and 7.00 in 2Q25.

HONG KONG

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/HKD	7.80	7.80	7.80	7.80
HKD Base Rate	5.50	5.25	5.00	4.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	-3.7	3.3	2.9	2.5
CPI (avg y/y %)	1.9	2.1	2.0	2.4
Unemployment Rate (%)	3.5	2.9	2.9	3.0
Current Account (% of GDP)	10.2	9.3	8.4	7.3
Fiscal Balance (% of GDP)	-4.4	-3.4	-1.5	0.2

ECONOMY

Exports led growth rebound in 1Q24

Hong Kong's GDP growth came in much stronger-than-expected at 2.7% y/y, 2.3% q/q seasonally adjusted in 1Q24. The robust headline growth was underpinned by exports of goods and services. Shipments of goods rose for the second consecutive quarter, helped by the low base of comparison and a surge in exports to the mainland. Services exports continued its strong rebound as tourist arrivals improved. Likewise, imports of goods and services rose with the latter boosted by demand for outbound travel.

On the other hand, private consumption expenditure and gross domestic fixed capital formation grew at a modest pace. The post-pandemic rebound since 2023 has run its course and further recovery in private consumption and investment may face speed bumps as a result of the elevated interest rates and ongoing geopolitical and trade tensions. Having said that, the labour market remained tight with the unemployment rate staying low at 3.0% and wages rose to support higher private consumption. Meanwhile, government spending continued to slide due to the ongoing fiscal consolidation after running up huge deficits during the Covid-19 pandemic.

Hong Kong's property market appears to be stabilising after the government delivered a strong boost by scrapping its property demand-side management measures in Feb. However, an expected surge in new home completions in 2024-25 may cap the price recovery. Private residential property prices rose 1.1% in Mar but is still down 1.8% from end-2023. Hong Kong's property prices have slumped by 23% since its peak in Sep 2021 due to an exodus of expatriates and weaker outlook in the mainland. The easing of financial conditions in 2H24 will help with the stabilisation but ongoing downsizing of the mainland's property sector and geopolitical risks including the uncertainties arising from the US' presidential election will be headwinds ahead.

In terms of growth contribution, net exports of goods and services contributed the bulk of the headline growth rate at 3.5% points in 1Q24. Private consumption and gross domestic fixed capital formation contributed 0.7% point and 0.1% point respectively. The drags were from inventory drawdown and government consumption slowdown, at -1.1% point and -0.5% point respectively.

Accounting for the improvement in 1Q24 GDP growth, the full-year growth rate will likely be in the mid of the official forecast range of 2.5%-3.5%. We revise higher our forecast to 2.9% from 2.5%. While the stabilisation of the mainland's economy and Hong Kong government's measures to boost the property market and tourism industry is positive for the domestic demand outlook, there remain risks that we watch for such as trade tariffs from US and EU which may affect the export outlook. We expect growth to moderate to 2.3% in 2Q24 before rebounding to 3.3% y/y in 2H24.

Hong Kong's inflation has stayed mild in Jan-Apr with headline CPI averaging 1.7% y/y and the underlying CPI inflation (excluding the government's one-off measures) at 1.0% y/y. Utilities prices continued to decline as power tariffs were lowered while food prices and private rents rose at a moderate pace. Domestic price pressures are expected to be contained despite higher business costs alongside the economic recovery. Meanwhile, external price pressures are likely to ease as inflation in the major economies moderate but geopolitical tensions keep bias to the upside. Factoring in the inflation to-date, we lower our forecast for 2024 headline inflation to 2.0% from 2.5% (official forecast 2.4%).

CENTRAL BANK

Hibor retreated from Nov high

Hong Kong's aggregate balance has been steady for the past year at around HKD45bn. This is the lowest level since 2008 as interbank liquidity tightened along with higher interest rates. Nevertheless, the Hibor rates have retreated from their highs in late-2023. The strengthening equity inflows which picked up more significantly over the past two months could help to anchor Hibor rates lower. In line with historical trends, the spread with the US rates is likely to turn in favour of the HKD when Fed begins to cut interest rates in earnest later this year.

CURRENCY

HKD to normalise towards 7.80

USD/HKD fluctuated between 7.80 and 7.84 in 2Q24, largely mirroring moves in the Sofr-Hibor spread. The interest rate spread which is currently a premium (ie US rates above HK rates) is likely to flip into a discount as the Fed embarks on its much-awaited easing cycle in Sep. As such, the USD/HKD carry trade would gradually lose its appeal and the currency is likely to gravitate towards the middle of its 7.75 – 7.85 trading band. Overall, our updated USD/HKD forecasts are at 7.80 for the next four quarters beginning 3Q24.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/INR	83.0	82.0	81.0	80.5
INR Repo Rate	6.50	6.25	6.00	5.75
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP, FY (%)	9.7	7.0	8.2	6.7
CPI, FY (avg y/y %)	5.5	6.7	5.4	4.5
Current Account, FY (% of GDP)	-1.2	-2.0	-1.2	-1.1
Fiscal Balance, FY (% of GDP)	-6.7	-6.4	-5.6	-5.1

ECONOMY

Robust 4QFY24 growth led by exports and investment

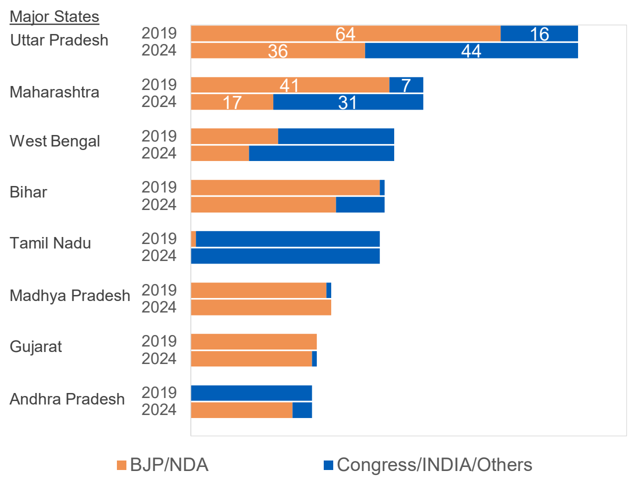
India's real GDP growth remained robust in 4QFY24 (Jan-Mar 2024) at 7.8% y/y, materially stronger than Bloomberg consensus' 7.0%, taking the full year FY24 growth to 8.2% (FY23: 7.0%). The upbeat outturn was driven by an improvement in government expenditure (4Q: +0.9% y/y, 3Q: -3.2%) likely due to election-related spending and resilient private consumption (4Q & 3Q: 4.0% y/y) albeit still weaker than historical norms. Gross fixed capital formation (GFCF) slowed to 6.5% y/y (3Q: 9.7%) ahead of the Lok Sabha elections while net exports saw a turnaround, contributing positively to growth, as the rise in exports (4Q: 8.1% y/y, 3Q: 3.4%) outpaced the increase in imports (4Q: 8.3% y/y, 3Q: 8.7%). Notably, the 3QFY24 (Oct-Dec 2023) GDP growth was revised a tad higher to 8.6% y/y from 8.4%.

India's Gross Value Added (GVA), which excludes taxes and subsidy transfer payments, moderated further to 6.3% y/y in 4Q from the revised 6.8% y/y in 3Q (prev: 6.5%). Growth in GVA was driven by manufacturing (4Q: 8.9% y/y, 3Q: 11.5%) and key services industries including financial, real estate & professional (4Q: 7.6% y/y, 3Q: 7.0%) and public administration, defence & others (4Q: 7.8% y/y, 3Q: 7.5%). Notably, activity in the trade, hotels, transport & communication (4Q: 5.1% y/y, 3Q: 6.9%) has somewhat slowed while agriculture (4Q: 0.6% y/y, 3Q: 0.4%) remained tepid possibly due to adverse weather conditions weighing on crop yields. The widening in the GDP-GVA gap in the recent quarters continues in 4Q, implying the outsized impact of taxes and transfers.

The incumbent BJP, led by Prime Minister Narendra Modi, failed to secure a majority in parliament (272 seats required) in the latest Lok Sabha elections with 240 seats (2019: 303, 2014: 282) and would therefore require the support of the broader NDA coalition (2024: 293, 2019: 352, 2014: 336) such as the JD(U) in Bihar and TDP in Andhra Pradesh to form government. The result fell short of predictions from exit polls data and the largest surprise came from the state of Uttar Pradesh (traditionally a BJP stronghold) where the NDA lost 28 seats (2024: 36, 2019: 64) largely to the opposition INDIA alliance, reflecting discontent by the electorate over fundamental issues such as income inequality, unemployment and inflation while Congress' manifesto takes a more populist slant, with promises to create more jobs (e.g. Nav Sankalp Economic Policy) and enhance income transfers to the poor (e.g. the Mahalakshmi scheme).

Lok Sabha election results by major states

Source: Various news sources, UOB Global Economics & Markets Research



In our view, post-election volatility could weigh on investment activity in the near term at least until after the new government is formed and the full budget for FY25 is tabled, sometime in early Jul according to news sources. We think the risks of a fiscal slippage in the near term is low, given the record dividend payment by RBI to the government may help to offset any possible increase in expenditure. Furthermore, populist measures are likely to feature more prominently in the budgets closer to the next election in 2029.

CENTRAL BANK

Expect first rate cut in 3QFY25 (Oct-Dec 2024)

Headline inflation is likely to remain a notch above RBI's 4% target in May-Jun and could momentarily fall below target in Jul-Aug on base effects and rebound to around the 4% handle in Sep-Dec thereafter. Hence, we expect RBI to keep peak policy rates unchanged for some time to anchor the disinflation process, with a 25bps rate cut in the Oct-Dec 2024 quarter being factored in, when the inflation "elephant" has proved to remain around RBI's 4% target on a durable basis. In addition, ahead of any impending rate cuts, RBI may alter its stance from "withdrawal of accommodation" to "neutral".

CURRENCY

Resilient INR

INR remained one of the more resilient Asian currencies, trading flat on the second quarter and year to date, at 83.40 /USD. While volatility has picked up post elections, USD/INR remained within recent trading ranges. We noted that bond inflows have resumed in May following brief outflow in Apr and will likely underpin the INR.

Looking ahead, the INR is set to recover alongside other Asian peers as the commencement of Fed's rate cut cycle in Sep will likely trigger renewed weakness in the USD. Overall, we keep to our downward trajectory in USD/INR with updated point forecasts at 83.0 in 3Q24, 82.0 in 4Q24, 81.0 in 1Q25 and 80.5 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/IDR	16,000	15,800	15,600	15,400
IDR 7D Reverse Repo	6.25	6.25	5.75	5.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	5.3	5.1	5.2	5.3
CPI (avg y/y %)	4.2	3.7	3.0	3.1
Unemployment Rate (%)	6.0	5.3	5.2	5.1
Current Account (% of GDP)	1.0	-0.1	-0.2	-1.5
Fiscal Balance (% of GDP)	-2.6	-1.7	-2.5	-2.7

ECONOMY

Growth remained robust

Indonesia's economy grew stronger-than-expected in 1Q24 at 5.1% y/y (consensus: 5%) on the back of expansion in government spending and private consumption. The Indonesian government accelerated and extended the distribution of social assistance to mitigate the impact of El Nino on vulnerable groups, as well as the election and the continued spending on government projects especially the Capital City of the Archipelago (IKN or Nusantara), a key factor that drove government spending to grow by 19.9% y/y, the fastest pace in a decade.

With the upbeat 1Q24 reading, we expect growth momentum to continue into the remaining quarters of the year. We maintain our forecast for the Indonesian economy to grow by 5.2% this year, underpinned by improving domestic consumption, supported by fiscal expansion and investment. Nevertheless, external risks could pose some headwinds for growth.

Indonesia's external balance remained resilient amid heightened uncertainty. Indonesia registered a wider current account (CA) deficit of USD2.2bn (-0.6% of GDP) in 1Q24 from the previous quarter's deficit of USD1.1bn (-0.3% of GDP) due to lower exports revenue amid declining demand from Indonesia's major trading partners. Imports of transport services increased in line with higher freight rates due to geopolitical tensions in the Middle East. The primary income deficit also increased slightly due to higher returns payments to foreign investors in line with higher external debt and still high global interest rates.

Capital and financial account recorded a deficit of USD2.3bn (0.7% of GDP) in 1Q24, on the back of declining portfolio and other investment amid solid direct investment performance. Overall, Indonesia recorded a Balance of Payments (BoP) of USD6bn deficit in 1Q24. We keep our forecast for the CA position to hover between -0.5 to +0.1% of GDP in 2024. The commissioning of new smelters and the expansion of capacity of existing smelters in 2H24 will likely underpin the improvement in trade surplus.

Indonesia's inflation in May 2024 remained relatively low and stable at 2.8% y/y (viz. Dec's 2.6% y/y but significantly lower from 4.1% in May 2023). Moderation in the food items, particularly rice, chili, and chicken meat underpinned a steady levels of headline inflation in May. Core inflation rose by 1.9% y/y, increased 0.1pt from Dec. This might imply steady people purchasing power.

Therefore, we maintain our 2024 average inflation forecast of 3%, markedly lower compared to 3.7% in 2023, but still within BI's target range of 1.5% to 3.5% on the back of normalisation in energy and food prices.

CENTRAL BANK

High for longer to anchor Rupiah stability

BI maintained its benchmark rate (BI rate) at 6.25% at the 22 May meeting following a 25bps rate hike in Apr. Consequently, BI also kept its deposit facility rate at 5.50% as well as the lending facility rate at 7.00%. The latest announcement also reinforced BI's view that the global economy is still facing uncertainties. BI also underlined that the broader trade conflict between the US and China could potentially disrupt the Indonesian economy going forward. Nonetheless, BI's view on the prospect of the Fed rate cut was more optimistic than in the previous month.

We expect global interest rates to start coming down around early 4Q24, with the US Fed likely to deliver its first cut of 25bps in the Sep FOMC. That will support our forecast for BI to start normalising its benchmark interest rate level that currently stands at 6.25% to 5.75% in 1Q25. We believe that with inflationary pressure ebbing globally and for Indonesia as well, along with likely softening of the economic growth momentum as tight monetary policy works its way through, there is room for BI to start easing early next year.

CURRENCY

IDR to recover

IDR weakened beyond the psychological 16,000 /USD in 2Q24 amid broad USD strength though intervention and an unexpected rate hike by BI in Apr have helped to limit losses. Investor interest on the Indonesia Government bonds have picked up again as the country posted the biggest monthly inflow (USD 1.2 bn) in May this year and after two prior months of steep outflows.

As portfolio flows stabilise and in conjunction with BI's strong focus on maintaining IDR stability, it is likely IDR would join the regional FX recovery when we expect the Fed to cut rates in Sep. Our updated USD/IDR forecasts are 16,000 in 3Q24, 15,800 in 4Q24, 15,600 in 1Q25 and 15,400 in 2Q25.

JAPAN

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/JPY	152	149	147	145
JPY Policy Rate	0.10	0.25	0.25	0.25
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	1.0	1.8	1.0	1.9
CPI (avg y/y %)	2.5	3.2	2.4	1.7
Unemployment Rate (%)	2.7	2.4	2.8	2.8
Current Account (% of GDP)	1.9	1.5	2.5	2.3
Fiscal Balance, FY (% of GDP)	-13.2	-6.0	-5.0	-4.5

ECONOMY

Poor start to 2024 but a rebound likely in sight

1Q24 GDP disappointed as the economy contracted more than expected, at -0.5% q/q (-2.0% q/q annualized rate). Adding to the growth weakness was the 4Q's annualized expansion which was revised lower to 0.0% (from previous estimate of 0.4%). The 1Q decline came about as all major components of the economy faltered in 1Q24 except for government spending and investments. When compared to the same period one year ago, Japan's GDP contracted by -0.2% y/y in 1Q24 after having markedly slowed down to 1.2% y/y in 4Q23. This was the first outright y/y contraction after recording 11 straight quarters of y/y expansion between 2Q21 and 4Q23. In real terms, the size of the economy shrank to JPY 555.26 tn in 1Q (from JPY 558.04 tn in 4Q), weakest level since 4Q22 (JPY 550.97 tn) and slipped below the pre-pandemic peak of JPY 557.84 tn (in 3Q19).

Notwithstanding the 1Q disappointment, we expect a swift growth rebound in 2Q due to the resumption of auto production post-1Q certification scandal while some segments of the markets have expressed confidence in a consumption rebound for Japan in 2Q due to rising wages post-Mar Shunto (annual wage negotiations), reports of tight labour market conditions and income tax cuts from Jun. Recent accelerated investments into semiconductor technology and production will bode well for its long-term potential and may lead to a bump up in investments spending in the upcoming quarters though not likely to add much to near-term production.

Japan's manufacturing PMI which has mostly been in contraction since Nov 2022 (except for the blip in May 2023) and dipped to a low of 47.2 in Feb (likely due to the already mentioned auto production disruption), finally turned expansionary with a 50.4 print in May (2024) potentially signaling a turnaround for the sector. In comparison, the continued influx of foreign tourists and a cheaper yen have helped the services sector fare better than manufacturing and anchor the domestic recovery. But the downside risk to services depends on the extent of global and China growth slowdown. The services PMI briefly dipped to 52.5 in Feb (Jan: 53.1) but rebounded subsequently (May: 53.6, Apr, 54.3) although still below the peak of 55.9 in May 2023.

Despite the expected 2Q rebound, our growth outlook continues to be weighed by the downside factors of weak domestic demand, uncertain external demand landscape, tightening financial market conditions on the back of tighter monetary policies stance among advanced economies, a weak yen ballooning the import bill while partly cushioned by upside factors of electronics upcycle, improving tourism and the positive impact on in-person services. For now, we keep our 2024 GDP growth forecast at 1.0% (2023: 1.9%) and picking up pace to 1.9% for 2025.

Japan's Apr inflation cooled but was in line or slightly above expectations. Apr CPI headline inflation eased to 2.5% y/y (versus est 2.4% y/y from 2.7% in Mar), while core CPI (excluding fresh food) eased to 2.2% y/y (exactly with Bloomberg est, and lower from 2.6% in Mar) and core-core CPI (excluding fresh food, energy) also eased to 2.4% y/y (exactly with Bloomberg est, and lower from 2.9% in Mar). But services prices jumped by 2.8% y/y in Apr (from 2.4% in Mar), the fastest since Sep 1991. The BOJ noted the y/y increase in CPI (all items less fresh food) is likely to be above 2% through FY 2024, because of factors such as the "effects of a pass-through to consumer prices of cost increases led by the past rise in import prices are expected to wane" but the upside to price pressures included the rise in crude oil prices and waning of the government's economic measures pushing down CPI inflation. It noted risks to CPI are skewed to the upside for FY2024 but generally balanced thereafter. We expect headline CPI inflation to average 2.4% while core inflation will likely average 2.3% for 2024.

CENTRAL BANK

Cautious normalisation path

The weaker than expected 1Q GDP outturn certainly reaffirms our cautious outlook to BOJ's path for monetary policy normalisation. We continue to expect the BOJ to embark on a long, gradual and likely limited normalisation path. We expect BOJ to stay on hold in the next Jun 2024 Monetary Policy Meeting (MPM) but may start the discussion to slow the pace of bond buying although a decision is not expected in this meeting. For now, we still expect the BOJ to lift the short-term Policy-Rate Balances from 0.1% to 0.25% but that increase may only come in 4Q24, subject to further CPI forecasts changes in the subsequent MPMs.

CURRENCY

JPY to rebound in 2H24

The JPY continued to underperform within the Major FX space, falling around 3% in the second quarter-to-date and 9% year-to-date at 155.3 /USD. The lacklustre performance came despite intervention by the BOJ to support the JPY at the end of Apr. We think a more reasonable timeframe for USD/JPY to reverse lower on a more sustained basis is probably in 3Q24 amidst a renewed slide in US rates as the Sep Fed rate cuts come into focus. A second BOJ rate hike (from 0.1% to 0.25%) in 4Q24 will help reinforce the monetary policy divergence with the Fed, hence cementing USD/JPY's downside. Overall, our updated USD/JPY forecasts are 152 in 3Q24, 149 in 4Q24, 147 in 1Q25 and 145 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/MYR	4.65	4.60	4.55	4.50
MYR O/N Policy Rate	3.00	3.00	3.00	3.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	8.9	3.6	4.6	4.7
CPI (avg y/y %)	3.3	2.5	2.6	2.8
Unemployment Rate (%)	3.6	3.3	3.3	3.3
Current Account (% of GDP)	3.1	1.2	2.0	2.2
Fiscal Balance (% of GDP)	-5.5	-5.0	-4.3	-3.6

ECONOMY

Improved GDP in 1Q24

Malaysia's final 1Q24 GDP growth came in at 4.2% y/y, above the advance estimate of 3.9% and markedly higher than 2.9% in 4Q23. The monthly GDP performance showed a higher GDP growth of 4.8% in Jan and 5.0% in Feb, before easing to 2.9% in Mar. On a seasonally adjusted basis, the economy turned around to expand by 1.4% q/q (vs -1.0% in 4Q23).

Growth was buoyed by expansions across all sectors, led by services (4.7%), manufacturing (1.9%), construction (11.9%), and mining & quarrying (5.7%) industries. Domestic demand continued to be the key driver of overall growth, offsetting the drag from net exports. Private consumption rose by 4.7% y/y and 1.8% q/q seasonally adjusted amid higher seasonal spending, while private investments chalked up 9.2% y/y growth, the highest quarterly gain in five quarters. Meanwhile, public spending also grew by 8.4% y/y amid higher disbursement of central government funds in Jan-Mar.

Given the robust GDP growth in 1Q24 and several growth catalysts in place, we maintain our 2024 full-year forecast at 4.6% (BNM est: 4.0%-5.0%, 2023: 3.6%). The anticipated MYR20bn-30bn (or 1.0%-1.5% of GDP) withdrawals from Employees Provident Fund (EPF) Account 3 starting 11 May will boost private consumption in 2H24. As of 22 May, it was reported that 3.03mn withdrawal applications were approved, amounting to MYR5.52bn. The pre-announced salary increment starting 1 Dec this year, which is projected to cost the government MYR10bn (or 0.5% of GDP), will also buffer consumption. This is in addition to the government's progressive wage project that will commence from Jun to Aug this year.

Investments are also gaining traction with increasing news flow about FDIs into Malaysia's integrated circuit (IC) design parks, data centres and renewable energy projects to date. To foster the semiconductor industries and moving up the supply chain, the government on 28 May unveiled its Semiconductor Strategy (NSS), a sweeping three-phased plan with five overarching targets and backed by MYR25bn in fiscal support and targeted incentives to ensure successful operationalization of the NSS.

In addition to that, a Bill on the progressive regulatory framework for carbon capture, utilisation and storage (CCUS) is expected to be passed in Parliament in Nov. There has been active progress in the Johor-Singapore Special Economic Zone (JS-SEZ) with the establishment of an Investment Facilitation Center and a QR code for immigration clearance in complexes towards Singapore starting from mid-Jun. Further details on the location and policy framework of the JS-SEZ, as well as the Forest City Special Financial Zone (SFZ) are expected in Budget 2025 in Oct.

Other key growth catalysts include the upturn in the global tech cycle, increasing tourism activities, and continued implementation of budget measures such as infrastructure projects and cash aid. That said, the potential impact of Malaysia's subsidy rationalization, escalation in geopolitical risks (including trade protectionism) and slower-than-expected global economic landscape are wildcards for Malaysia's near-term growth prospects.

CENTRAL BANK

OPR on hold at 3.00%

With a balance of risks between domestic growth and inflation, our forecast for the overnight policy rate (OPR) is kept unchanged at 3.00% for now. The OPR has been on hold since Jul 2023. BNM projected headline and core inflation to average between 2.0%-3.5% (UOB: 2.6%) and 2.0%-3.0%, respectively, this year, after incorporating the potential impact of subsidy rationalization. The Monetary Policy Committee (MPC) did not signal any potential changes to their monetary policy settings in May. The MPC will next meet on 10-11 Jul and 4-5 Sep.

CURRENCY

Steadier MYR

MYR regained its footing to be the best performing Asia FX in the second quarter to date, marginally higher at 4.70 /USD while other Asia peers slipped. The MYR rebounded off its well-watched 4.80 /USD level in Apr after concerted measures by BNM to encourage conversion of FX income held by government related companies, corporates, exporters, and investors into MYR. It is estimated that there is USD6bn – 7bn of potential annual income to be converted that can help offset (any) negative outflows and to be an active stabiliser for MYR.

The MYR may have bought itself enough time as we expect USD/MYR to weaken anew ahead of the anticipated Fed rate cut in Sep. A strong correlation to the CNY would also turn into a tailwind for the MYR as we also expect the CNY to rebound in 2H24. A steady OPR will help to narrow the negative gap with US interest rates and support the MYR recovery as well.

With that, our USD/MYR forecasts are 4.65 in 3Q24, 4.60 in 4Q24, 4.55 in 1Q25, and 4.50 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/PHP	58.0	57.5	57.0	56.5
PHP O/N Reverse Repo	6.50	6.25	6.00	5.75
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	7.6	5.5	6.0	6.5
CPI (avg y/y %)	5.8	6.0	3.5	3.5
Unemployment Rate (%)	5.5	4.6	4.5	4.5
Current Account (% of GDP)	-4.5	-2.6	-1.8	-1.5
Fiscal Balance (% of GDP)	-7.3	-6.2	-5.1	-4.1

ECONOMY

Softer growth outlook

The Philippine economy improved by 5.7% y/y in 1Q24 (4Q23: +5.5%), slower than our expectation (6.0%) and Bloomberg consensus (5.9%). It was mainly aided by a recovery in export sector and a modest rebound in government consumption (1Q24: +1.7%, 4Q23: -1.0%). Net exports contributed 1.2ppts to 1Q24 GDP growth (4Q23: -1.4ppts), primarily thanks to a double-digit growth rebound in exports of semiconductor products (1Q24: +19.8%, 4Q23: -19.6%) and electronic data processing goods (1Q24: +16.4%, 4Q23: -16.0%). This helped to cushion the adverse impact of higher interest rates, inflationary pressures and a weaker currency on household consumption (1Q24: +4.6%, 4Q23: +5.3%) and investments (1Q24: +2.3%, 4Q23: +10.2%) amid inventory withdrawals (1Q24: -0.2ppt, 4Q23: +0.3ppt) in the quarter.

There were also mixed performance across major economic sectors in 1Q24. Manufacturing (1Q24: +4.5%, 4Q23: +0.5%) and utilities (1Q24: +6.3%, 4Q23: +5.5%) sectors posted higher growth rates while agriculture, hunting, fishery & forestry (1Q24: +0.4%, 4Q23: +1.3%), construction (1Q24: +7.0%, 4Q23: +8.4%) and services (1Q24: +6.9%, 4Q23: +7.4%) industries penciled in a smaller gain.

Adding to the downbeat outcomes, the seasonally adjusted real GDP growth moderated to 1.3% q/q (4Q23: +1.8%), pointing to a softer growth momentum. Hence, we downgraded our Philippines' growth forecast to 6.0% for this year (from 6.5% previously, official est: 6.0%-7.0%) after taking into account the 1Q24 GDP outturn, the persistence of extreme weather conditions in the country and an expected delay in BSP rate cuts.

The persistence of high inflationary pressures and restrictive monetary policy settings will further weigh on household consumption and investment over the next few quarters. Nevertheless, a continued recovery in external sector and government spending will be the key impetuses to the domestic growth prospects in the near term. During the 1Q24 GDP press briefing on 9 May, Economic Planning Secretary Dr. Arsenio Balisacan said he was still sanguine over the Philippines' growth prospects, forecasting a faster expansion in the current quarter (2Q24) that will enable the country to meet its growth target of 6.0%-7.0% in 2024, unless the government's gains in fighting inflation are reversed.

CENTRAL BANK

Keeping its tight grip on rates

BSP continued to maintain its overnight reverse repurchase (RRP) rate unchanged at 6.50% for the fifth straight meeting on 16 May. The Monetary Board (MB) sent a slightly less hawkish tone in the latest monetary policy statement (MPS) following the slower-than-expected rise in Apr inflation and softer-than-expected GDP in 1Q24. It had also revised down its baseline and risk-adjusted inflation projections for 2024 (to 3.5% and 3.8% respectively, from 3.8% and 4.0% previously, UOB's baseline est: 3.5%) but tweaked those forecasts slightly higher for 2025 (baseline inflation: to 3.3% from 3.2%; risk-adjusted inflation: to 3.7% from 3.5%; UOB's baseline est: 3.5%) on the assumption of higher crude oil prices.

Despite changes on the interest rate forward guidance, from rate cuts in 4Q24/1Q25 to as early as Aug this year, we continue to see high chances for a steady RRP rate through 3Q24. We expect BSP to start its rate cut cycle only in 4Q24 (by 25bps to 6.25%) when there are significant signs of inflation moving sustainably down to its mid-point target and Fed confirming its rate cut path. The next MB meeting is scheduled on 27 Jun.

CURRENCY

Increased bearishness toward PHP

The PHP has depreciated by 5.5% this year to 58.63 against the USD as of 4 Jun, moving closer to the record-low level 59.32 level it reached in 2022 and becoming one of Asia's worst performing currencies this quarter. This was primarily attributed to BSP's dovish messaging on potential interest rate cuts as early as in Aug, ahead of the US Fed easing, which dampen investor appetite for PHP amid a firmer USD outlook.

With the PHP approaching a record low level on speculation activity in the FX market, BSP said that it intervened in the market in small amounts and will continue to monitor closely developments in the currency market. We also believe that the central bank will exercise caution in lowering borrowing costs to guard against inflation risks that could emanate from excessive currency weakness.

Should BSP hold off interest rate cuts till 4Q24 when the Fed has moved, we expect the PHP to start paring back some of the recent losses and participate in the broad-based Asia FX recovery starting 3Q24. Overall, our updated USD/PHP is now at 58.0 in 3Q24, 57.5 in 4Q24, 57.0 in 1Q25 and 56.5 in 2Q25.

SINGAPORE

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/SGD	1.34	1.33	1.32	1.31
SGD 3M SORA (compounded)	3.60	3.43	3.28	3.08
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.8	1.1	2.9	3.2
Headline CPI (avg y/y %)	6.1	4.8	2.8	2.0
Unemployment Rate, eop (%)	2.0	2.0	2.3	2.3
Current Account (% of GDP)	18.0	19.8	20.4	19.9
Fiscal Balance, FY (% of GDP)	0.3	-0.5	0.1	0.3

ECONOMY

Stronger sequential recovery in 2H24 on improvement in externally-oriented sectors

Singapore's final 1Q24 GDP growth was unchanged from the advance estimates (ae) at 2.7% y/y, 0.1% q/q sa (4Q23: 2.2% y/y, 1.2% q/q sa) as the downward revisions in manufacturing (-1.8% y/y, ae: +0.8%) and construction (4.1% y/y, ae: +4.3%) were offset by the upward adjustment to services (3.9% y/y, ae: +3.2%). The strong sequential expansion in services (1Q24: 1.9% q/q sa, 4Q23: 0.3%) was driven by an improvement in externally-oriented segments such as wholesale trade, transportation & storage on a relatively benign external backdrop while activity in tourism-related sectors such as accommodation, F&B and retail was robust, supported by the ongoing recovery in visitor arrivals especially from China. These were bolstered by the 30-day mutual visa-free arrangement as well as popular concerts by internationally renowned artists such as Coldplay (in Jan) and Taylor Swift (in Mar). Importantly, activity in the finance & insurance services sector remained resilient even after three consecutive quarters of sequential expansion, driven by a surge in transaction volumes across most asset classes, which boosted net fees and commission incomes in the banking and fund management segments while credit intermediation activity saw an uptick as evidenced by the expansion in overall loans to residents, despite the elevated interest rate environment.

Going forward, tight financial conditions stemming from elevated interest rates in the US/EU may temper the extent of improvement in externally-oriented sectors in the near-term although these sectors could stage a more meaningful recovery in the latter half of 2024 should the Federal Reserve commence its rate cut cycle, which may stimulate investment and consumption activity abroad. Meanwhile, China's recovery could be supported by recent measures to target large-scale equipment renewals and trade-ins of durable consumer goods as well as the latest moves to stabilize the property market, which has positive spillover effects to Singapore's economy and the rest of the region.

Activities in tourism-related sectors are likely to moderate as tailwinds from the post-pandemic pent-up demand for these services ease. The strong momentum in these sectors in 1Q24 may not be sustained for the full-year as the impetus from the popular concert events may be "one-off" while Singapore's competitiveness as a tourism destination could also be weighed down by structurally higher price levels vis-à-vis the regional ASEAN economies, in addition to the effects from the strong exchange-rate based (S$NEER) monetary policy to anchor inflation. We maintain our 2024 GDP growth forecast at 2.9% and expect growth to be a tad stronger in 2025 at 3.2%.

CENTRAL BANK

Policy normalization via slight slope reduction could occur as early as Jul

Singapore's core inflation was unchanged at 3.1% y/y in Apr with several key components of core CPI such as food and communication experiencing sustained disinflation although this was offset by the increase in water tariffs as well as some normalization in components with y/y inflation already below long-term historical averages. The share of items in the CPI basket with >2.0% y/y increases has fallen (Apr: 57%, Mar: 58%, Feb: 63%) but remains sizeable due to the effects of GST. Overall, we project core inflation to average 3.0% in 2024 and normalize further to 1.6% in 2025.

Domestic inflation amongst our key import partners (China, US, EU27, Malaysia and Taiwan) has softened since the peak in 3Q22 and we assess that a normalization of MAS monetary policy via a slight slope reduction (by 50bps) could occur as early as the Jul 2024 MPS on the basis of a continued transmission of imported disinflation into Singapore's core inflation in addition to a softening of domestic cost pressures, anchored by the restraining effect from a gradual appreciation of the S$NEER on a still positive slope of the S$NEER policy band.

CURRENCY

SGD to strengthen modestly in 2H24

The SGD remained one of the most resilient Asia FX, holding flat at 1.35 /USD in the second quarter to date as a gradual pace of appreciation of the S$NEER helped blunt the depreciation pressure on Asia FX. In 2H24, the SGD is expected to rebound alongside other Asia peers against the USD as the Fed kicks start its easing cycle. As such, our updated USD/SGD forecasts are 1.34 in 3Q24, 1.33 in 4Q24, 1.32 in 1Q25 and 1.31 in 2Q25. In addition, we also factor in a modest pullback in certain SGD-crosses such as SGD/MYR and SGD/CNY as we expect the MAS to lower the policy slope in the coming Jul MPS which may spur a normalisation of the S$NEER lower.

SOUTH KOREA

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/KRW	1,350	1,330	1,310	1,290
KRW Base Rate	3.25	3.00	2.75	2.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	2.7	1.4	2.8	2.4
CPI (avg y/y %)	5.1	3.6	2.5	2.0
Unemployment Rate (%)	3.0	3.2	3.0	3.1
Current Account (% of GDP)	1.5	2.1	3.8	3.5
Fiscal Balance (% of GDP)	-3.3	-0.6	-1.9	-1.0

ECONOMY

Export continues to drive growth

South Korea's GDP growth accelerated to 3.3% y/y or 1.3% q/q SA in 1Q24 from 2.1% y/y or 0.5% q/q SA in 4Q23. The stronger growth momentum was driven by exports, private consumption and government spending but facilities investment weakened due to a decline in transportation equipment investment. Indicators such as exports, manufacturing PMI, tourist arrivals, consumer sentiment and employment continued to point to an ongoing economic recovery.

South Korea's exports have turned around to register positive growth since Oct 2023 led by a sharp rebound in shipments of semiconductors, ships, flat panel displays and computers. Exports of semiconductors accounting for around 19% of total exports, surged by 52% y/y in Jan-May. The low base of comparison into the third quarter together with stronger global demand for chips will continue to aid the export recovery.

The unemployment rate remained low at 2.8% in Apr with the services sector being a major driver of the employment gains so far. Total tourist arrivals are back to nearly 90% of its pre-COVID level in 1Q24 and the continued recovery in the tourism sector is expected to support the private consumption demand. Meanwhile, property prices have largely stabilised in 1Q24 but there remain concerns over high household debts and risks in real estate project financing.

Overall, we remain optimistic of an export-led recovery in 2024 with private consumption staying positive but investments may continue to be weak in the near term amid elevated global interest rates and heightened geopolitical risks. The escalation of trade tensions is also a key concern for major exporters like South Korea given the prospect of Trump being re-elected as US president. That said, the outlook for the semiconductors industry remains bright as the government boosts support to sharpen its competitiveness. South Korea aims to lift its global market share in non-memory chips to 10% by 2030 from current 2%. The announced USD19bn support package for the chip businesses includes financial support for certain investments as well as tax incentives with more details to be released soon.

Following the above consensus GDP growth in 1Q24, we have revised higher our forecast for 2024 growth to 2.8% from 2.5% previously (BOK: 2.5%) while maintaining the projection for 2025 at 2.4% (BOK: 2.1%). We expect the GDP growth rates to moderate to around 2.7% y/y in 2Q-4Q this year.

Headline and core inflation continued to ease but this has not been fast enough to assure the BOK that it will soon converge to the 2% target. The prices of agricultural products and global oil prices are key drivers of South Korea's inflation as food and energy account for 22% of the CPI basket. In the first five months this year, headline and core inflation clocked 2.9% and 2.4% respectively. We expect the headline inflation rate to average 2.5% in 2024 (BOK: 2.6%) and moderate to 2.0% (BOK: 2.1%) in 2025.

CENTRAL BANK

Stronger growth, elevated inflation may delay rate cut

Stronger growth and domestic inflation continue to hold back the BOK. The impending policy change will also need to take into consideration the likely delay in US Fed rate cuts that has kept the KRW under pressure as well as factors such as a high household debt, risks in property finance, and geopolitical developments.

We keep our call for the BOK to begin cutting its 7-day repo rate in Aug and to maintain a pace of 25 bps cut per quarter until 2Q25. We expect stronger signals at the next BOK meeting on 11 Jul in order to be on track for a cut in Aug. A delay of the first cut to 4Q24 is possible if the inflation outlook is still uncertain by then.

CURRENCY

KRW to rebound in 2H24

USD/KRW traded at a higher range of between 1,345 and 1,400 as a delay to Fed's rate-cut cycle helped boost the USD. Depreciation pressures on the KRW were checked as South Korean authorities pledged action on excessive FX market volatility that deviates from the local economic fundamentals amid rising tension in the Middle East.

Into 2H24, the tide may turn into KRW's favour as we expect the USD to weaken anew ahead of the Fed rate cut in Sep. Strong exports and KRW's proxy as the AI play may led to the currency's outperformance as regional FX recovers. Overall, our USD/KRW forecasts are 1,350 in 3Q24, 1,330 in 4Q24, 1,310 in 1Q25 and 1,290 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/TWD	32.0	31.5	31.0	30.5
TWD Official Discount Rate	2.00	2.00	2.00	2.00
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	2.6	1.3	4.0	2.5
CPI (avg y/y %)	2.9	2.5	2.1	1.9
Unemployment Rate (%)	3.6	3.4	3.3	3.3
Current Account (% of GDP)	13.3	13.8	14.2	13.9
Fiscal Balance (% of GDP)	0.3	-2.6	-2.0	-1.5

ECONOMY
Outlook improves

Taiwan's economy has stayed on a recovery path over the past year. The GDP growth accelerated sharply to 6.56% y/y in 1Q24, the fastest pace since 3Q21.

Other than the low base of comparison in the year-ago period, the growth drivers were exports of goods & services and private consumption. While private consumption has been on a positive trend for 2 ½ years due to higher spending on services including for outbound tourism, the export recovery only started in 4Q23 after contracting for a year. Stronger external demand was seen in technology goods and for inbound travel services. Government consumption and imports were also higher in 1Q24, with the latter turning positive after more than a year. On the contrary, gross capital formation extended its contraction as investors stayed on the sidelines ahead of Taiwan's presidential election in Jan and the high interest rates and geopolitical tensions weighed on outlook.

Exports will continue to anchor growth in the coming months as Taiwan's leading position in the global high-end chips industry drives strong demand for its products in areas such as AI applications and high performance computing (HPC). Taiwan is also reaping the returns from its capacity investment post-Covid. Meanwhile, the outperformance of the tech sector has led the stock index to rise to a record high, with the wealth effect in turn boosting private consumption. The labour market has remained tight as the unemployment rate stayed at a record low level of 3.4% in Jan-Apr. Total employment in Jan-Apr averaged 11.58 million compared to 11.53 million in 2023 with gains largely in the services sector. Wage growth has continued but higher inflation has inevitably affected the purchasing power.

There is still room for services export to recover as global demand strengthens and China's economy stabilises in the second half. In the first two months of the year, tourist arrivals only reached 68% of their levels in 2019. Mainland arrivals accounted for just 5.5% of total arrivals in Taiwan so far this year, significantly lower than nearly 23% in 2019. This is not only due to the geopolitical tensions but also weaker demand for international travel by the mainland tourists.

The momentum in the economy is expected to remain positive for the rest of the year. Factoring in the stronger than expected 1Q24 GDP, we think Taiwan is likely to achieve a growth of 4.0% this year, higher than our forecast of 3.5% at the start of the year. Private consumption is projected to contribute around 1.5% points and net exports by 1.0% point with the rest from investments, inventory building and government spending. The official forecast has also been revised higher to 3.94% from 3.43% following the release of the final 1Q24 GDP in May.

CENTRAL BANK
CBC to hold for the rest of the year

Taiwan's headline and core inflation eased below the central bank's 2% threshold in Apr despite a significant hike in the electricity tariff but the impact could pass through over the coming months. This would keep CBC on a tightening mode.

Headline inflation averaged 2.2% y/y in Jan-May. We expect inflation to rise a tad higher before moderating in the fourth quarter. We adjust our forecast for 2024 headline inflation lower to 2.1% from 2.3% as the impact of the electricity tariff hike appeared to be more contained than expected. Nonetheless, the inflation risk may still be tilted slightly to the upside as a stronger economic recovery could increase demand-side pressures.

The CBC surprised with a 12.5 bps hike to bring the benchmark discount rate to 2.00% in Mar, the highest since Dec 2008. This sprung from concerns of a resurgence in inflation due to the Apr electricity tariff hike while there are also concerns that Taiwan's inflation has become structurally higher. If domestic inflation continues on a path towards 2% by late-2024, this would reinforce expectation for the CBC to stay on hold for the rest of the year.

CURRENCY
TWD to rebound

The TWD weakened about 1.2% in the second quarter to date to 32.4 /USD amid broad USD strength against Asia FX. Notwithstanding a further delay to Fed rate cuts, we expect limited downside in TWD from here.

Looking ahead, we see several favourable factors that may underscore a subsequent recovery in the TWD. These include renewed USD weakness as the Fed starts to cut rates in Sep, strong demand for Taiwan's semiconductors exports, TWD acting as a proxy for global AI play and a hawkish CBC relative to the Fed and other Asian central banks.

Overall, our updated USD/TWD forecasts are at 32.0 in 3Q24, 31.5 in 4Q24, 31.0 in 1Q25 and 30.5 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/THB	36.2	35.8	35.4	35.0
THB 1D Repo	2.00	2.00	2.00	2.00
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	2.5	1.9	2.8	3.1
CPI (avg y/y %)	6.1	1.3	1.3	1.9
Unemployment Rate (%)	0.9	0.8	1.0	1.0
Current Account (% of GDP)	-3.2	1.4	1.7	2.3
Fiscal Balance (% of GDP)	-4.6	-3.7	-4.5	-4.2

ECONOMY
Uneven recovery to persist into 2H24

The Thai economy grew better than expected in 1Q24, driven by surprisingly resilient private consumption, tourism, and private investment. However, the overall rebound was uneven. The economy expanded by 1.5% y/y in 1Q24, decelerating from 1.7% y/y in 4Q23, and on a sequential basis, growth rose by 1.1% q/q from the contraction of 0.6% q/q in the previous quarter, beating market expectations (Bloomberg est: +0.7% y/y, +0.5% q/q), and official estimates of the BOT (1.0% y/y, 1.0% q/q), and our forecasts of 0.8% y/y, 0.6% q/q. Although the economy grew more robustly than expected, it remained below the historical trend and the BOT's estimated potential growth rate of 3.0%.

Based on the outturn in 1Q24, the data suggested that the sluggish and uneven economic recovery would likely persist. While external sector in the form of services exports have supported growth so far, household consumption has not recovered at the same pace, save for tourism-related service consumption. The economic rebound will also likely be slower than regional peers. Noticeably, Thailand's structural challenges, particularly high dependence on external demand, deteriorating competitiveness, and household debt overhang, among others, have started to weigh on the cyclical recovery. In addition, the 1Q24 GDP readings reveal that a potential growth path in the post-pandemic era has declined.

Based on the positive surprise of 1Q24 GDP and taking into account the highly uncertain internal and external environment, we maintain our 2024 growth forecast of 2.8% and 3.1% for 2025. Tourism and related service sectors are expected to continue providing household income sources and job opportunities. Government expenditure is expected to rebound at a stronger pace because of the effectiveness of the FY2024 fiscal budget in late Apr 24, despite uncertainties surrounding a pace of disbursement as the end of the current fiscal year approaches. This should subsequently support both private and public investment activity. Merchandise exports are expected to increase gradually, supported by the global economy's resilience.

Nevertheless, risks to the near-term outlook are still tilted to the downside. Those include (1) a slower-than-expected private consumption due to slower loan growth and tightening financial conditions, (2) slower-than-anticipated disbursement of the fiscal budget, (3) smaller-than-expected fiscal stimulus, (4) political uncertainty disruptive to macroeconomic management, and (5) a weaker-than-expected global demand and geopolitical factors.

CENTRAL BANK
Rate cuts remain on the table

At its meeting on 10 Apr, the MPC decided, again with a 5-2 split vote, to maintain the policy rate at 2.50%, citing the current level of the policy rate appropriate to ensuring long-term macro-financial stability, addressing elevated household debt, and encouraging the ongoing debt deleveraging process. This echoed our view that the BOT has shifted its focus to financial stability, as it remained broadly sanguine on the growth and inflation outlook. Despite a hawkish tone in the meeting minutes, the MPC acknowledged the highly uncertain near-term outlook and indicated readiness to adjust the policy rate if necessary. The key factors to be under the central bank's radar are the export recovery path, government spending, and fiscal stimulus measures. The MPC also recognized the reduced potential growth in the post-pandemic era, suggesting a lower policy rate may be warranted. Despite better-than-anticipated 1Q24 GDP readings, it remains below historical trends and the BOT's estimated potential growth rate of 3.0%. As a result, we stay with our call for a cumulative 50 bps rate cut in 2024, at the Jun and Aug meetings. This adjustment would support a stronger economic recovery and better align with the lower potential growth in the post-pandemic era, while targeted measures to tackle household debts would help mitigate financial stability risks. Risk to our forecast is for the timeline of the rate cut to be pushed back into 2H24, with further guidance expected in forthcoming policy statements.

CURRENCY
THB to pare losses in 2H24

The THB fell over 7% year-to-date to 36.8/ USD, one of the worst performing Asia FX as BOT rate cut expectations build. Outflows from the local stock and bond markets also weighed on the THB. That said, the weak THB may have already priced in part of the front-loaded BOT 25bp rate cuts in Jun and Aug. As such, a broad-based Asia FX recovery in 2H24 led by the CNY may help THB pare year-to-date losses. Overall, our USD/THB forecasts are 36.2 in 3Q24, 35.8 in 4Q24, 35.4 in 1Q25 and 35.0 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/VND	25,200	25,000	24,800	24,600
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	8.0	5.0	6.0	6.4
CPI (avg y/y %)	3.2	3.3	3.8	4.2
Current Account (% of GDP)	0.3	1.0	1.0	1.2
Fiscal Balance (% of GDP)	-4.5	-3.0	-2.6	-2.5

ECONOMY

Recovery momentum is intact into 2H24

Vietnam started off 2024 with a robust economic performance, as reflected by the 5.66% y/y growth in 1Q24. It extended the growth rates of 6.72% in 4Q23 and 5.33% in 3Q23, surpassing the 3.41% gain in the same quarter in 2023 and marking its strongest 1Q performance since 2020.

The strong performance in 1Q24 was attributed to a resurgence of both manufacturing and services sectors, as well as an acceleration in external trade at the fastest pace since 2021, which reversed the decline through most of 2023.

The most recent data released by the General Statistics Office (GSO) continued to reaffirm the encouraging outlook for Vietnam's growth trajectory. Purchasing Managers' Index (PMI) for the manufacturing sector rose for the second straight month in May, at 50.3 and the fourth positive reading in the first 5 months of 2024, suggesting that momentum remains positive. This came after industrial production gained 8.9% y/y in May, marking the third straight month of growth in 2024.

Exports of goods recorded its third month of double-digit gain, rising 15.8% y/y in May from 10.6% in Apr while imports rose 29.9% y/y from 19.9% in Apr. Year-to-date (YTD), exports rose 16% y/y and imports increased by 18.6% in May, compared to the negative readings in the same period in 2023. Trade surplus amounted to USD7.8 bn YTD in May, narrower than the USD9.5 bn in the same period last year.

Foreign direct investments (FDI) data are reassuring too, indicating investors' continued confidence in Vietnam's political environment and competitiveness. YTD FDI inflows rose 7.8% y/y to USD8.3bn in May, the fastest in the 5-month period since 2018, following the record inflows of USD23.2 bn in 2023. Domestic activities are on track, with total goods retail sales and consumer service revenues increasing by 8.7% y/y YTD in May, underpinned by restaurant and accommodation (15.1% y/y) and tourism (45.1% y/y).

While external headwinds continue to weigh on economic prospects (including conflicts in eastern Europe and the Middle East), Vietnam's prospects are bolstered by the recovery in the semiconductor cycle, stable growth in China and the region, as well as the ongoing supply chain shifts. Based on data released to-date, we expect GDP growth to pick up to 6% y/y in 2Q24, extending the 5.66% gain in 1Q24. We maintain our growth forecast for Vietnam at 6.0% for 2024 (official target: 6.0-6.5%).

CENTRAL BANK

SBV to keep policy rates steady through 2024

We expect SBV to keep its key policy rates unchanged for the rest of 2024, driven by steady domestic economic recovery, latent inflation pressures, and a weakened VND, which has fallen to record low against the USD.

Instead of rate changes, the SBV is focusing on boosting credit growth to support economic activities, emerging sectors, green transition, circular economy, and social housing. Its latest guidance on 31 May aims for credit growth of 5-6% by end-2Q24, and lowering of lending rates by 1-2%, through simplified loan procedures, cost-saving measures and applications of digital technology. According to the SBV, credit growth until 10 May increased by 1.95% since beginning of 2024, or an increase of VND264.4 tn. The figure is well short of this year's growth target of 14-15%, or roughly VND2,000 tn. In 2023, bank lending rose 13.5% y/y, vs. the 14-15% goal for the year.

With activities on the mend, and with inflation rates hovering just below target, as well as concerns on the domestic currency, the possibility of lowering interest rates has diminished. Raising rates at this juncture may run the risk of hampering the credit and liquidity environment. As such, we believe SBV will keep its refinancing rate at the current level of 4.50%, and focus its efforts on facilitating loans growth and other support measures.

CURRENCY

VND to turn the corner

Despite improving domestic fundamentals, VND was held hostage to broad-based USD strength in 2Q24 and traded to a new record low of close to 25,500 /USD. The SBV said it had intervened in the FX markets and this helped to keep currency losses and volatility in check. That said, we reiterate that the VND may recover in 2H24 as external pressures from the USD ebb ahead of an expected Fed rate cut in Sep. In addition, the VND is likely to benefit from a subsequent recovery in the CNY in 2H24 as China's economy shows clearer signs of stabilisation. Overall, our updated USD/VND forecasts are 25,200 in 3Q24, 25,000 in 4Q24, 24,800 in 1Q25 and 24,600 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
AUD/USD	0.68	0.69	0.70	0.71
AUD Official Cash Rate	4.35	4.00	3.75	3.50
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	3.8	2.1	1.2	2.2
CPI (avg y/y %)	6.6	5.6	3.4	2.8
Unemployment Rate (%)	3.7	3.7	4.2	4.5
Current Account (% of GDP)	1.1	1.2	0.9	0.5
Fiscal Balance, FY (% of GDP)	-1.8	-0.8	-0.4	-1.0

ECONOMY
Weak demand to keep economy subdued

GDP only rose 0.1% q/q in 1Q24, a tad lower than expectations of 0.2%. The previous quarter's growth pace was revised higher to 0.3% q/q from 0.2% q/q previously. From a year earlier, the economy expanded by 1.1% y/y, also slightly below expectations of 1.2%, and below 1Q24's revised reading of 1.6% y/y (1.5% y/y previously). The annual reading was the weakest, outside the pandemic, since 1Q1992, when Australia was emerging from a recession.

Employment rose by 38,500 positions in Apr, following an upwardly revised 5.9k drop in Mar. The outcome was stronger than the consensus estimate for a 23,700 rise. Despite the solid jobs gain, the jobless rate jumped back up to 4.1% in Apr, from an upwardly revised 3.9% in Mar. The underemployment rate held steady at 6.6%, despite hours worked remaining unchanged. Looking ahead, leading indicators point to a softening in labour demand, and we see the unemployment rate rising towards 4.5% over the course of the year against a backdrop of rapidly growing labour supply.

Price pressures, however, remained stubbornly strong. Headline CPI growth came in at 1.0% q/q in 1Q24, stronger than the consensus forecast of 0.8%, and against a previous reading of 0.6% q/q. The annual pace of inflation eased to 3.6% from 4.1% in 4Q23. Core inflation was also stronger than expected in 1Q24, with the trimmed mean CPI rising 1.0% q/q, following a 0.8% increase in 4Q23. The closely watched annual pace fell back to 4.0%, from 4.2% in 4Q23, but was above the consensus forecast of 3.8%, and certainly well above the RBA's 2%-3% target. The monthly CPI climbed 3.6% from a year earlier in Apr, exceeding estimates of 3.4%. Core inflation, which stripped out volatile items, held at 4.1% in Apr.

The wage price index rose 0.8% q/q in 1Q24, weaker than the 1.0% q/q reading in 4Q23, and consensus forecast of 0.9% q/q. From a year earlier, pay gains softened to 4.1%, which is slightly higher than the top of the 3%-4% per-annum pace required to achieve the RBA's 2%-3% inflation goal. That said, the pace of gains has peaked and will likely ease further on the back of weaker hiring demand and as higher unemployment chip away at worker bargaining power.

The recent flow of economic data suggests that the risk that inflation takes longer to return to target than anticipated has increased. At the same time, the risk that demand is weaker than expected (leading to spare capacity) is still material, with recent labour market and consumption data providing different signals about the strength of domestic demand. Going forward, high interest rates and weak consumer spending will continue to weigh on the economy, with growth expected to remain subdued over most of 2024. We have revised our full year 2024 GDP forecast slightly lower to 1.2% from 1.3% previously.

CENTRAL BANK
RBA to extend pause

The RBA decided to leave its cash rate target unchanged at 4.35% for a fourth straight meeting in May. It also kept the interest rate paid on Exchange Settlement balances unchanged at 4.25%. May's accompanying statement had a minor tweak in the concluding paragraph, where the RBA flagged that "recent data indicate that, while inflation is easing, it is doing so more slowly than previously expected and it remains high. The Board expects that it will be some time yet before inflation is sustainably in the target range and will remain vigilant to upside risks". This compares to the Mar accompanying statement, where the RBA had said that "while recent data indicate that inflation is easing, it remains high. The Board expects that it will be some time yet before inflation is sustainably in the target range".

The cumulative 425bps of rate increases by the RBA between May 2022 and Nov 2023 are at the lower end of the global tightening scale, with RBA Governor Michele Bullock reiterating a willingness to be patient on inflation, and with the RBA's forecasts showing CPI growth will only return to target in 2025. As it is, the forward-looking policy guidance was unchanged, with the RBA once again highlighting in May that the Board "is not ruling anything in or out".

Our view is for the RBA to be on hold for longer, rather than a near-term hike. The weak growth outlook should give the RBA some relief that the output gap is closing and inflationary pressures will continue to ease. We had previously seen a chance of a pivot to easing in 3Q24, but we have pushed back the view of the first rate cut to Nov. Our view, nonetheless, remains highly data dependent. The outlook for wage growth remains a key factor shaping inflation and monetary policy. Slowing wage growth in 1Q24 was positive for the RBA, but it will likely want to wait for more softening in wages and a weaker labour market before embarking on the easing cycle.

CURRENCY
AUD likely to rise further

AUD was amongst outperformers in G-10 in the second quarter, holding ground against a USD resurgence to gain 2% across Apr and May to 0.6650. Helping to boost the AUD are stubbornly strong price pressures in Australia which is likely to delay RBA's rate cut timetable and a rebound in iron ore prices in 2Q24. Another factor that can drive further AUD gains in 2H24 is a brightening outlook in the Chinese economy and the CNY. Overall, we keep to our positive outlook on AUD/USD with updated forecasts at 0.68 in 3Q24, 0.69 in 4Q24, 0.70 in 1Q25 and 0.71 in 2Q25.

EUROZONE

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
EUR/USD	1.10	1.12	1.14	1.15
EUR Refinancing Rate	4.00	3.75	3.50	3.25
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	3.4	0.4	0.8	1.4
CPI (avg y/y %)	8.4	5.5	2.4	2.1
Unemployment Rate (%)	6.8	6.6	6.6	6.6
Current Account (% of GDP)	-0.6	1.7	2.0	1.8
Fiscal Balance, FY (% of GDP)	-3.7	-3.6	-3.0	-2.7

ECONOMY

Exits recession and recovering

expanded by 0.3% q/q in 1Q24, rebounding from the 0.1% q/q fall in 4Q23. Compared with the same quarter of the previous year, GDP increased by 0.4%, up from the 0.1% y/y reading in 4Q23. The region has recovered more quickly than expected from its mild recession in the second half of last year, as its four top economies drove much speedier growth than expected. Economic confidence has improved as well, as the European Commission sentiment index rose to 96 in May from 95.6 in Apr. Readings for industrial confidence and services were better than in Apr as well.

Private-sector business activity reached its highest level in a year, suggesting the rebound is taking hold. The S&P Global's PMI rose to 52.3 in May, exceeding forecasts, and from a reading of 51.7 in Apr. The average for the last two reporting periods of 52.0 is above that for Jan to Mar of 49.2. This suggests that growth is recovering in 2Q24. The labour market, too, remains strong. The unemployment rate fell to 6.4% in Apr from 6.5% in Mar. We have thus revised higher our GDP forecast for the Eurozone, looking for the region to grow by 0.8% in 2024, up from 0.4% in 2023.

The latest headline inflation reading accelerated to 2.6% in May from 2.4% in Apr. The core CPI reading also rose to 2.9% from 2.7%. Upside was driven by services prices. Services inflation climbed to 4.1% from 3.7% and surpassed the 4.0% mark, where the reading had hovered for five months before Apr. That said, some of the recent volatility can be attributed to the launch of a cheap nationwide transport ticket in Germany a year ago, which skewed the latest inflation reading higher, as did a strong decline of energy costs in 2023. ECB officials have also been more confident that it is on track to meet the 2% target, as the larger backdrop is one of a disinflation process. We see headline inflation continuing to ease into the summer towards the ECB's target of 2%. Core and services inflation should also decline, but more slowly, remaining above 2% through 2H24.

CENTRAL BANK

ECB delivers first rate cut since 2019

The ECB decided to cut its three key interest rates by 25 bps In Jun, confirming a widely anticipated move, and supporting its decision by stating that inflation in the Eurozone has been moving in the right direction. In recollection, ECB President Christine Lagarde noted that the inflation stood at the peak of 10.6% in Oct 2022 and halved to 5.2% in Sep 2023.

Yet, interestingly, the ECB made upward revisions to inflation yesterday, which financial markets viewed as hawkish, as it now sees headline inflation averaging 2.5% (from 2.3% in Mar) for 2024, 2.2% (from 2.0% in Mar) for 2025 and 1.9% (unchanged) for 2026. For inflation excluding energy and food, it sees an average of 2.8% (from 2.6% in Mar) for 2024, 2.2% (from 2.1% in Mar) for 2025 and 2.0% (unchanged) in 2026. Economic growth is now expected to pick up to 0.9% (from 0.6% in Mar) for 2024, 1.4% (down from 1.5% in Mar) for 2025 and 1.6% (unchanged) for 2026.

After all, negotiated wage gains in the Eurozone have been running at a hot pace so far this year, which suggests difficulty in getting inflation durably on target. The re-acceleration in May's inflation readings, coupled with recent broadly improving economic indicators, actually made it easy to argue against a cut. Notably, Austrian National Bank governor and known-hawk Robert Holzmann was the lone dissenter on the ECB's latest decision to cut interest rates.

But the ECB's own communication over the last couple of months has made it almost impossible not to cut. This was also why it was evident, in a couple of occasions during the press conference, that Lagarde refrained from giving an implicit signal about what comes next. Rather, she emphasised the data dependency as well as meeting-by-meeting approach that the ECB will be taking going forward. All in all, as much as interest was on the ECB's "next move", there was a distinct lack of forward guidance, and Lagarde made clear the rationale behind the cut was to gradually reduce the level of monetary policy restrictiveness without ending restrictiveness.

The next monetary policy meeting will be held on 18 Jul, and given Lagarde's emphasis of "accumulating data", we think that Jun inflation readings, Jun PMIs, and 1Q24 compensation/unit labour cost (among other lower tier releases), are unlikely to give the ECB enough confidence to move again in Jul. Bearing strongly in mind, though, that signs of reflation and stronger economic activity would limit the ECB's room for manoeuvre, and the risks are skewed towards fewer rate cuts; our current base case is that the ECB will have more information by the 12 Sep meeting. Assuming inflation behaves in a good enough manner, we keep to our view of another two 25bps cuts in 2024, one each in Sep and Dec.

CURRENCY

Next leg higher

EUR/USD was largely stable at 1.08 as markets digested a well-telegraphed 25 bps rate cut by the ECB in Jun. Notwithstanding expectations that ECB may cut more than the Fed this year, EUR/USD is likely driven more by the Fed going forward. We expect the start to Fed's much anticipated easing cycle in Sep to spur broad-based USD weakness starting 3Q24.

Overall, our updated EUR/USD forecasts are at 1.10 in 3Q24, 1.12 in 4Q24, 1.14 in 1Q25 and 1.15 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
NZD/USD	0.63	0.64	0.65	0.65
NZD Official Cash Rate	5.50	5.25	5.00	4.75
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	2.5	0.8	0.9	2.3
CPI (avg y/y %)	7.2	5.8	3.2	2.2
Unemployment Rate (%)	3.3	3.7	4.7	5.1
Current Account (% of GDP)	-7.9	-7.5	-5.5	-4.3
Fiscal Balance, FY (% of GDP)	-2.8	-2.9	-2.5	-1.5

ECONOMY

Inflation retreat is proving to be more challenging

The economy slipped into a technical recession last year as GDP surprisingly contracted by 0.1% in 4Q23, from expectations of 0.1%. On a year-on-year basis, GDP expanded 0.6%, slowing from the 1.3% growth recorded in 3Q23. As a result, New Zealand's economy slowed to 0.8% in 2023, from 2.5% in 2022. 1Q24 GDP figures will be due on 20 Jun. Recent economic data suggest that economic growth has been weaker than expected. We forecast GDP growth to remain sluggish at 0.9% in 2024, before picking up to about 2.3% in 2025. Positive factors include a turning housing market, surging net migration, and expansionary fiscal policy; while negative factors include tight monetary conditions, softer global demand, and heightened geopolitical tensions.

Employment fell 0.2% q/q in 1Q24, weaker than consensus forecast of 0.3% growth. While the level of employment was in line with the RBNZ's projections in Feb, the unemployment rate was higher due to faster-than-projected growth in the working-age population and labor supply. The unemployment rate rose to a three-year high of 4.3%, overshooting the consensus estimate of 4.2%, and also above the RBNZ's projection of 4.2%. Private sector wage growth eased back to 0.8% q/q from 1.0% in 4Q23. On a year-on-year basis, wages climbed 3.8%, which was consistent with the RBNZ's Feb forecast. Aggregate wage growth was stronger in 1Q24, at 0.9% q/q. The Public Sector Pay Adjustment delivered a boost to public sector wages, which rose 1.2% q/q or 5.6% y/y in 1Q24. Wage growth is likely to trend lower, given the rising jobless rate, increased underemployment and surging labour supply.

As for inflation, headline CPI growth slowed to its lowest level since 2Q21, at 0.6% q/q in 1Q24, coming in within expectations, but a tad higher from the 0.5% q/q reading in 4Q23. Compared to the same period a year ago, New Zealand's CPI growth eased to 4.0% y/y, also in line with consensus, from the 4.7% y/y reading in 4Q23. Non-tradeable inflation, a closely watched indicator of domestic price pressures, accelerated from 1.1% q/q previously to 1.6% q/q in 1Q24. Compared to the same period a year ago, non-tradable inflation barely slowed, coming in at 5.8% y/y in 1Q24, compared to the previous reading of 5.9% y/y, driven by rent, construction of new houses, and cigarettes and tobacco. Tradeable inflation fell 0.7% q/q, from -0.2% q/q previously. Compared to the same period a year ago, tradable inflation came in at 1.6% y/y, down considerably from 3.0% y/y previously. Domestic inflation pressures remain acute, particularly concentrated in services sectors. These are the sticky components which are likely to show persistence moving forward and continue to imply a more gradual easing of inflation ahead.

CENTRAL BANK

Hawkish tilt by RBNZ

As expected, the RBNZ decided to leave its official cash rate (OCR) unchanged at 5.50% in May, for a seventh straight meeting. The bias was hawkish, though, as the central bank surprised markets by saying it considered a hike. In its accompanying press release, the RBNZ stated that "the committee discussed the possibility of increasing the OCR at this meeting", adding that "the committee also agreed that interest rates may have to remain at a restrictive level for longer than anticipated".

The RBNZ's updated forecasts in the latest Monetary Policy Statement (MPS) showed the average OCR peaking at 5.65% this year, compared to 5.60% in its previous projections in Feb. The forecasts also showed the average OCR falling to 5.40% in the third quarter of 2025. Inflation forecasts have been revised higher in the near term, pushing out when annual inflation is expected to be in the 1%-3% target band by one quarter (to 4Q24), and getting all the way back to 2% now takes six months longer. The key non-tradable part of inflation is higher, baking in the meaningfully higher starting point. Labour market forecasts are similar to Feb's forecasts, with the unemployment rate expected to peak at 5.1% in 2025, but stay elevated a little longer.

The next monetary policy meeting is on 10 Jul. The overall take from the RBNZ is that the risk of further rate hikes has lessened, which reinforces our view that the OCR has peaked in this current cycle. However, rate cuts will also probably not occur as quickly as previously expected. Future data on non-tradeable inflation, the labour market and housing market will continue to be closely watched. We have pushed back our OCR rate cut view from 3Q24 to 4Q24.

CURRENCY

Scope for further gains

NZD rebounded by 3.5% in the second quarter to date to 0.6190 against the USD, making it one of the best performing G-10 currency. A hawkish RBNZ relative to other major central banks was the key driver behind the NZD gains while the buoyant global risk appetite also provided a constructive backdrop.

Going forth, there is scope for further gains in the NZD/USD as an expected Fed rate cut in Sep spurs renewed USD weakness in 2H24. Overall, our updated NZD/USD forecasts are 0.63 in 3Q24, 0.64 in 4Q24 and 0.65 in both 1Q25 and 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
GBP/USD	1.30	1.32	1.34	1.36
GBP Repo Rate	5.00	4.75	4.50	4.25
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	4.5	0.1	0.7	1.3
CPI (avg y/y %)	9.1	7.4	2.5	2.2
Unemployment Rate (%)	3.9	4.0	4.3	4.4
Current Account (% of GDP)	-3.1	-3.3	-2.7	-2.8
Fiscal Balance, FY (% of GDP)	-4.4	-5.0	-3.6	-2.9

ECONOMY

All eyes on upcoming general election

The UK economy expanded by 0.6% q/q in 1Q24, after contracting by 0.3% in 4Q23. Services sector output increased by 0.7% q/q, the first expansion since 1Q23. Production grew by 0.8%, with manufacturing as the main contributor. However, the construction sector contracted by 0.9%. Net trade, household consumption, and government spending contributed positively to the headline GDP growth. For the month of Mar, the UK economy had expanded by 0.4% after growth of 0.1% in Feb.

Overall, the economy staged an early recovery from a technical recession in the second half of 2023. We look for GDP growth to come in at 0.7% in 2024, and to accelerate to 1.3% in 2025. Improving incomes are expected to bolster consumer spending, while investment should also benefit from easing credit conditions. The pressure on households is also likely to ease as wage growth continues to surpass inflation. Headwinds remain, nonetheless. A loosening labour market may make households more cautious. Elevated interest rates and rising rents are also creeping into household budgets. Around a million households are yet to witness an increase in repayments this year as fixed-rate mortgage deals expire.

Regarding inflation, headline CPI dropped to 2.3% in Apr from 3.2% in Mar. The consensus, as well as the BOE's latest forecast, was for a decline of 2.1%. The biggest single contributor to the slowdown in the 12-month rate was the 12% fall in household energy prices (electricity, gas and other fuels) during the month. Prices only dropped by 1.2% at the same time in 2023. Services inflation – a key metric for the BOE – fell marginally to 5.9% from 6.0%. We remain of the view that inflation is likely to drop further in the coming months and remain close to 2% over the remainder of the year.

As it is, both PM Rishi Sunak's Conservative Party and the opposition Labour Party seized on the latest inflation data, to set the narrative amid voters' concerns ahead of the general election due on 4 Jul. Sunak, who made reducing inflation a key goal for his first year in office, hailed the data as evidence that price growth was "back to normal," adding that "brighter days are ahead". Meanwhile, Labour's would-be chief Treasury secretary, Darren Jones, however, said that the failure to hit the CPI target showed it was "not game over" yet for high inflation in the UK. Latest opinion polls suggest that the main opposition Labour Party is ahead of the Conservatives, who have been in power since 2010.

The next few weeks will be critical amid the election campaign, and every piece of economic news/data release will be closely scrutinised for evidence that the UK's tentative economic recovery is gaining momentum or has started to falter.

Upcoming data to watch	
11 Jun	Labour market data
12 Jun	GDP data for Apr
19 Jun	CPI data for May
20 Jun	BOE's monetary policy decision
21 Jun	Retail sales and public finances data for May

CENTRAL BANK

BOE's battle against inflation not quite over

Following its monetary policy meeting in May, the BOE decided to maintain the Bank Rate at 5.25%. The decision was widely expected. However, the 7-2 vote split by the nine-member Monetary Policy Committee (MPC) took another dovish step, with Dave Ramsden joining all-time dove Swati Dhingra in favour of a 25bps rate cut. The rest of the seven members had voted in favour of the proposition.

In a new addition to its latest Monetary Policy Summary and Minutes statement, the BOE said "The Committee will consider forthcoming data releases and how these inform the assessment that the risks from inflation persistence are receding. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level". During the subsequent press conference, BOE Governor Andrew Bailey also emphasised the importance of monitoring data releases, adding that the latest inflation figures were "encouraging, but we are not yet at a point where we can cut Bank Rates."

The BOE raised its policy rate - 14 times – from 0.10% in Dec 2021 to 5.25% in Aug 2023. But there has been obvious changes since the Mar 2024 meeting, where one more member of the MPC had voted for a cut. While the latest ratio of "no change" to "cut" votes is 7-2, more members are likely to join the cohort in favour of a reduction in the coming months. At this juncture, we are still leaning towards a 1 Aug start date for the BOE to deliver its first rate cut, but we acknowledge that our view remains highly uncertain. The upside surprise in the latest inflation numbers will increase the focus on May wage and inflation data due in the days before the next BOE meeting on 20 Jun.

CURRENCY

Strong momentum to guide GBP higher

GBP reversed losses incurred in Apr and traded back above 1.28, making it the first and only G-10 currency to gain against the USD year-to-date. Markets' expectations that the BOE would not cut rates ahead of the general election in Jul even if inflation prints permit helped push back rate cut expectations and underpin the GBP/USD. Futures positioning on the GBP/USD also flipped back to a modest net long after a 4-week net short stint in May.

Clearly, the GBP/USD has regained positive momentum in the past month and we reiterate our longer-term bullish view on GBP/USD. The updated point forecasts are at 1.30 in 3Q24, 1.32 in 4Q24, 1.34 in 1Q25 and 1.36 in 2Q25.

FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
DXY	103.2	101.6	100.0	99.0
US Fed Funds Rate	5.25	5.00	4.75	4.50
Economic Indicator	**2022**	**2023**	**2024F**	**2025F**
GDP (%)	1.9	2.5	1.2	2.5
CPI (avg y/y %)	8.0	4.1	2.5	1.9
Unemployment Rate (%)	3.5	3.7	4.3	3.9
Current Account (% of GDP)	-3.8	-3.3	-3.5	-2.3
Fiscal Balance, FY (% of GDP)	-5.3	-6.2	-6.0	-5.5

ECONOMY

Testing growth resilience

The US economy continued to expand in 1Q 24 but the pace was underwhelming with growth pace revised lower to 1.3% q/q SAAR, from the 3.4% clocked in 4Q 23. This was the slowest in two years, since 2Q 22 (-0.6%). Compared to one year ago, US GDP grew by 2.9% y/y in 1Q, easing slightly from 3.1% in 4Q. While the miss in 1Q was mainly attributed to the net exports of goods and services (which turned negative for the first time since 1Q 22), deeper moderations were seen in private consumption, business expenditure and government spending, coupled with another quarter of inventory drawdown. The 1Q slowdown also coincided with a smaller number of so-called encounters between migrants and immigration authorities which fell to about 190,000/mth in Feb and Mar, well below the record of >300,000 in Dec (2023), according to Homeland Security data. (The Congressional Budget Office in a Feb 24 report found that immigration exerted a much bigger economic impact than previously thought, adding an estimated US$7 trillion to US GDP through 2033, as the new workers fill shortages and add to demand).

Going forward, we believe US economic growth is likely to turn lower in mid-2024 as the lagged effects of US monetary policy tightening and tighter financial/credit conditions take a more significant grip, negatively affecting business investment as interest expenses stay elevated while for US households, the shrinking excess savings, tighter lending standards and elevated services cost (including housing) imply US consumers spending will come under more pressure. The manufacturing sector recovery wavered. Even as the May S&P Global manufacturing PMI surprised with a return to expansion territory (51.3), the ISM manufacturing survey contracted more in May at 48.7 (Apr: 49.2), dragged by weaker demand. Meanwhile, services – which makes up 78% of US GDP – which had been a pillar of strength for the economy saw the services ISM rebounding strongly to 53.8in May (after a surprise dip to 49.4 in Apr), easing concerns about a broader US economic slowdown given the sector's importance. In addition, immigration flows was positive for 2023 growth although its potential slowing could further ease GDP expansion in 2024. We expect the US growth slowdown to be more apparent in 2Q 2024 onwards with risk of a technical recession but a soft landing remains our base case, implying no deep recession or any outright contraction of annual GDP. We keep our US growth forecast at 1.2% for 2024 from 2.5% in 2023.

Even as 1Q's growth was slower, the bigger warning signal was that underlying inflation proved to be sticky and re-accelerated (as reflected by the spike in core PCE -which excludes food and energy and is the Fed's preferred price measure - to 3.6% in 1Q from 2.0% in 4Q & 3Q). That said, there was reprieve as both Apr's CPI and PCE deflators were seen as cooling in the right direction after multiple upside surprises in 1Q. Key price drivers in Apr were housing and gasoline prices while insurance premiums for cars and homes were markedly higher (albeit smaller contribution due to their smaller weight in CPI). Core inflation measures were also better behaved, but services inflation remained stubbornly elevated. We still expect headline CPI inflation to average 2.5% in 2024 (against 4.1% in 2023), while core inflation may also ease but at a higher average of 2.8% in 2024, a significant moderation from 4.8% in 2023, but still above the Fed's 2% objective. We remain wary about upside price risks, especially reaccelerating wage growth pressures adding to services inflation and renewed external supply chain/ commodity risk factors.

Apr employment report turned out to be underwhelming, as job creation came in at 175,000, lowest in 6 months while the jobless rate expectedly rose to 3.9% (Mar: 3.8%). We expect US jobless rate to rise above 4% to 4.3% by end-2024. Wage growth remained positive but eased (3.9% y/y in Apr, first sub-4% wage growth since Jun 21), but still a key risk input to services inflation and in turn, stickier core CPI.

Domestic politics will cast an increasingly uncertain shadow on US outlook as we near the US presidential election in Nov and the probability of Donald Trump returning as President continues to rise. While Trump may harden his stance against China and global trade, he could also likely be very vocal about current elevated interest rates and pressure the Fed to lower rates further in 2025. He may also seek to lower taxes which may benefit economic growth in the short term at the expense of worsening the US fiscal outlook.

CENTRAL BANK

Still expecting 2 rate cuts in 2024 with lower confidence

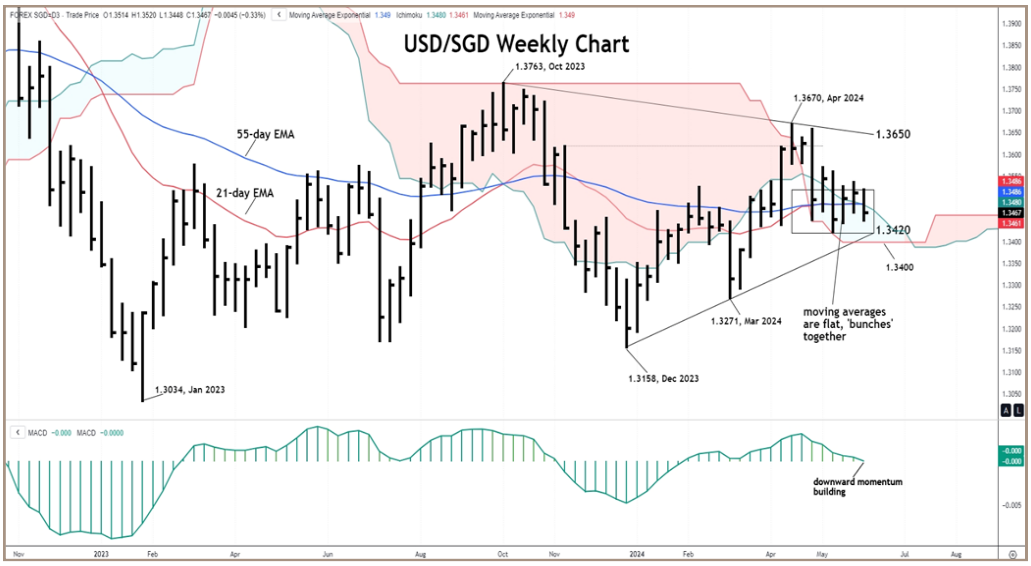
The Fed in its 30 Apr/01 May 2024 FOMC meeting, unanimously agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%, the 6th consecutive pause while FOMC Chair Powell confirmed that policy rate is likely at its peak and the next move will unlikely be a hike. While most Fed senior officials were aligned with Powell on the need to keep rates high until they "*gained greater confidence that inflation is moving sustainably toward 2 percent*", some still did not rule out further hikes.

The inflation developments coupled with a resilient US labor market, reinforces our view the Fed will keep its current FFTR steady at 5.25-5.50% and maintain this level beyond Jun-2024, where we factor in 50 bps of rate cuts only for 2H 2024 (i.e. two 25-bps cuts, one each in Sep 24 and Dec 24). Admittedly, the risk continues to be tilted towards the Fed delaying cuts even further, nudged by a slow inflation descent. With a soft landing being the central view, even if the Fed starts to ease, we do not expect an aggressive series of cuts to counteract the prior aggressive hike cycle.

FX TECHNICALS

USD/SGD: 1.3460

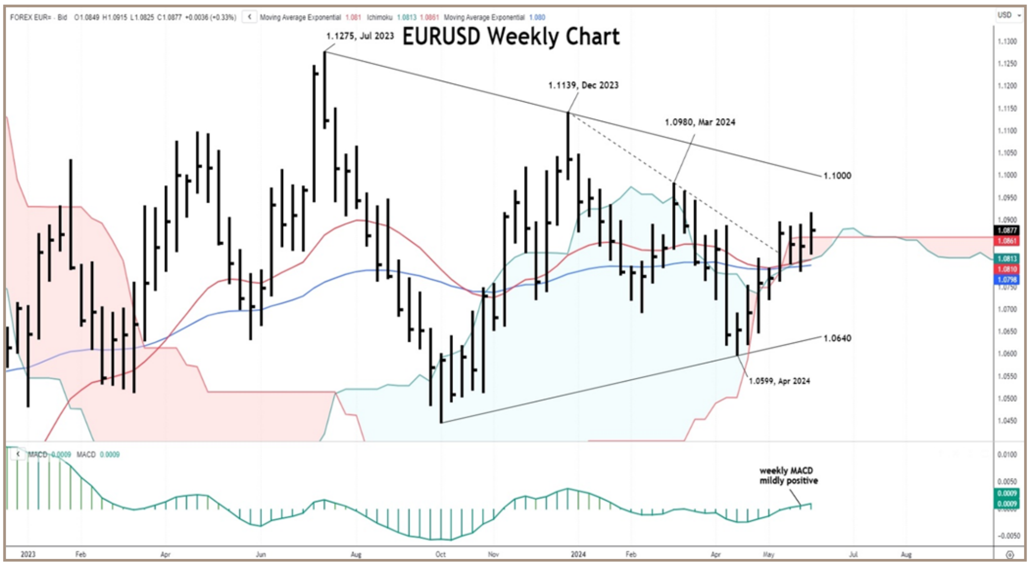
Downward momentum is building, and the chance of a sustained decline is increasing. While USD/SGD could break below the 1.3400/1.3420 support zone, it remains to be seen if any decline can reach 1.3270.



After pulling back from a high of 1.3670 in April, USD/SGD traded sideways in a directionless manner – note that moving averages are flat and 'bunches' together. However, at the time of writing in early June, downward momentum is beginning to build, and the chance of a sustained decline is increasing. While a break of the solid support zone between 1.3400 and 1.3420 would not be surprising, given that downward momentum is only beginning to build, it remains to be seen if any decline can reach the next major support at 1.3270. On the upside, resistance is at 1.3560, followed by 1.3650. The latter level is a significant resistance and is unlikely to be threatened.

EUR/USD: 1.0865

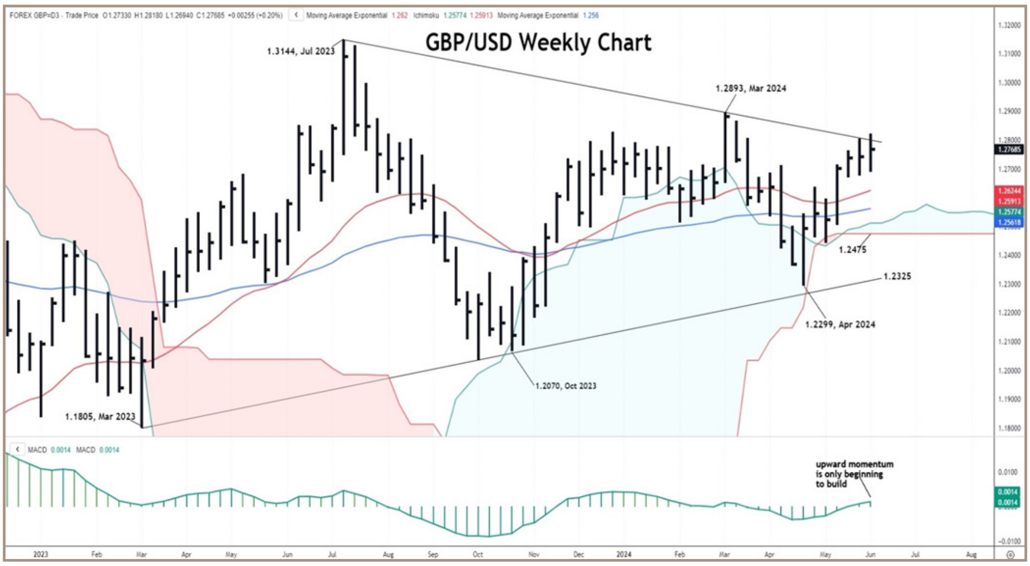
Bias for EUR/USD is tilted to the upside, towards the top of the triangle near 1.1100.



While EUR/USD broke above the minor descending trendline connecting the highs of December 2023 and March 2024 in mid-May, there was not much of a follow-through. The price action appears to be part of an ongoing triangle formation. The current level of the bottom of the triangle is at 1.0640, while the top is at 1.1000. As the weekly MACD is mildly positive, the bias for EUR/USD in the third quarter of this year is tilted to the upside towards 1.1000. At this time, it is unclear if there will be sufficient momentum for EUR/USD to break above this key resistance level.

GBP/USD: 1.2770

GBP/USD is likely to trade with an upward bias in 3Q24 and potentially break above March's high, near 1.2895. The next significant resistance level at 1.3145 is likely out of reach.



At the time of writing in early June 2024, GBP/USD just edged above the descending trendline connecting the highs of July 2023 and March 2024. The weekly MACD has just crossed into positive territory, indicating that upward momentum is only beginning to build. GBP/USD is likely to trade with an upward bias in 3Q24 and potentially break above March's high, near 1.2895. The next significant resistance level at 1.3145 (last July's high) is likely out of reach. To keep the momentum going, GBP/USD must not break below the bottom of the weekly Ichimoku cloud, now at 1.2475. On a shorter-term note, there is another strong support level near 1.2630.

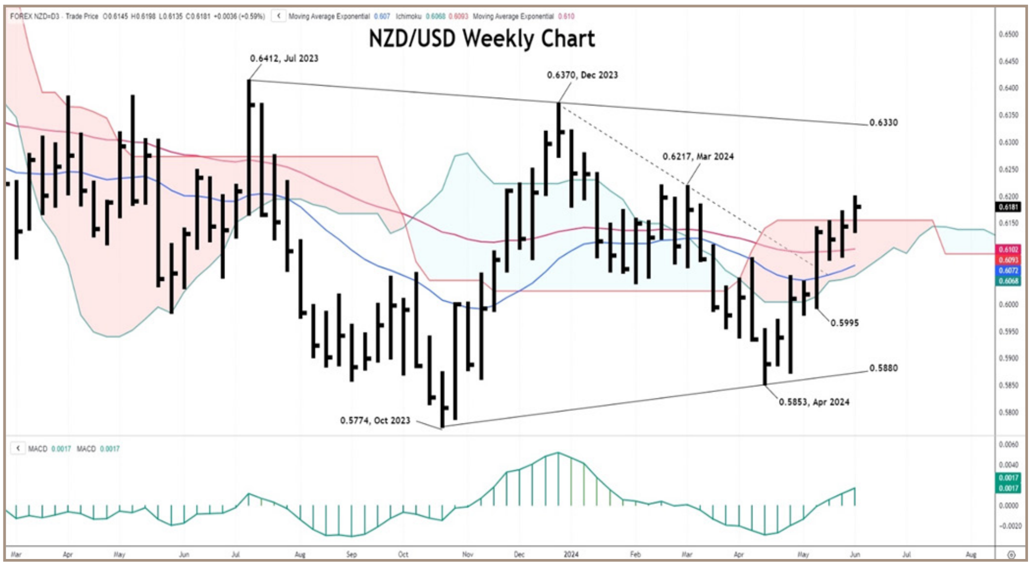
AUD/USD: 0.6655

Should AUD/USD break above the top of the weekly Ichimoku cloud and the descending trendline, it could lead to a rise to last December's high of 0.6871.

After failing to break through the top of the weekly Ichimoku cloud in mid-May, AUD/USD traded sideways within the cloud. Given that the weekly MACD is positive, there is a likelihood that AUD/USD will rise towards the top of the weekly Ichimoku cloud again. This time around, the top of the cloud, near 0.6715, has added significance as it is not far below the descending trendline connecting the highs of January 2023 and December 2023 (currently at 0.6730). Should AUD/USD break clearly above these resistance levels, it could lead to a rise to last December's high of 0.6871. Support levels are at 0.6550 and 0.6390.

NZD/USD: 0.6180

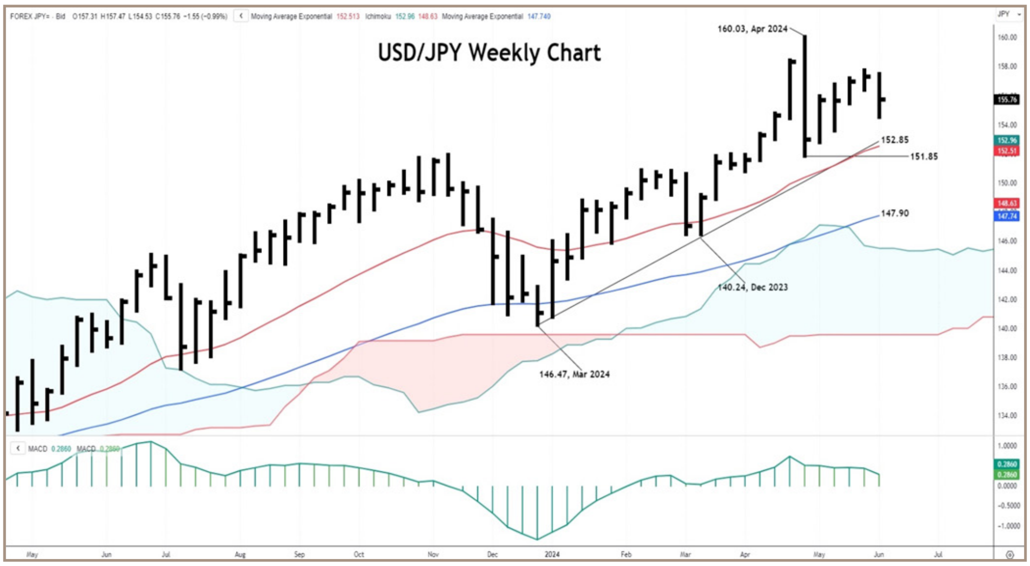
Upward momentum is increasing; there is a chance for NZD/USD to rise above March's high of 0.6217. The next resistance at 0.6330 is likely out of reach.



In late May, NZD/USD edged above the top of the weekly Ichimoku cloud. Upward momentum is increasing, and there is a chance for NZD/USD to rise above March's high of 0.6217. However, the next resistance at 0.6330 seems to be out of reach. To maintain the buildup in momentum, NZD/USD must not break below 0.5995.

USD/JPY: 155.70

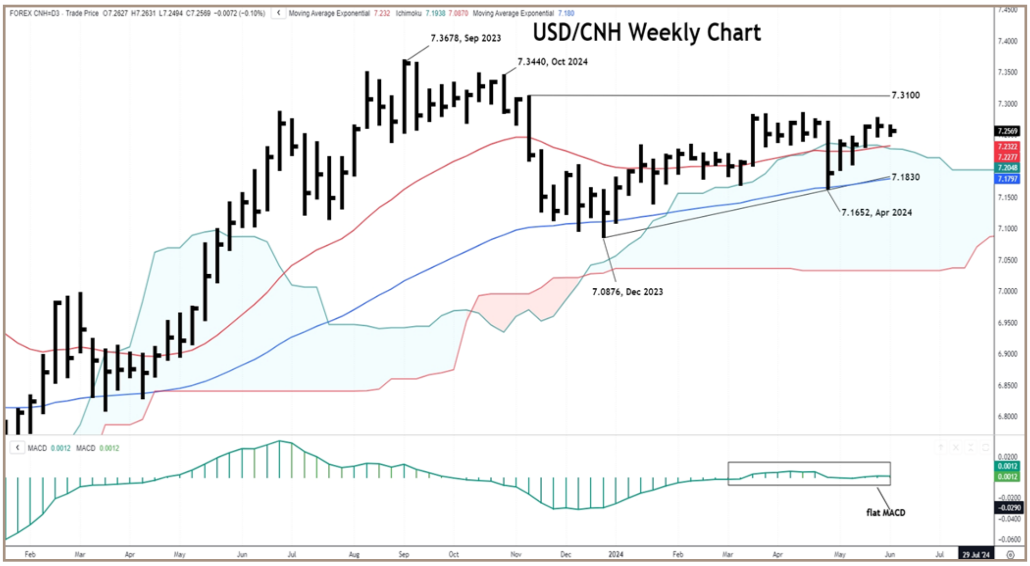
USD/JPY is likely to trade between the two major levels of 152.85 and 160.00.



After plunging from a high of 160.03 to 151.85 in late April, USD/JPY recovered and edged higher in May. The recovery does not seem to have enough momentum to reach 160.00 again. On the other hand, both the ascending trendline and 21-week EMA are located near 152.85. This level is a significant support, and the likelihood of USD/JPY breaking clearly below this level is not high. Overall, USD/JPY is likely to trade between the two major levels of 152.85 and 160.00 in the third quarter of the year. Looking ahead, if USD/JPY were to break below 152.85, it would greatly increase the risk of it breaking below 151.85 as well.

USD/CNH: 7.2530

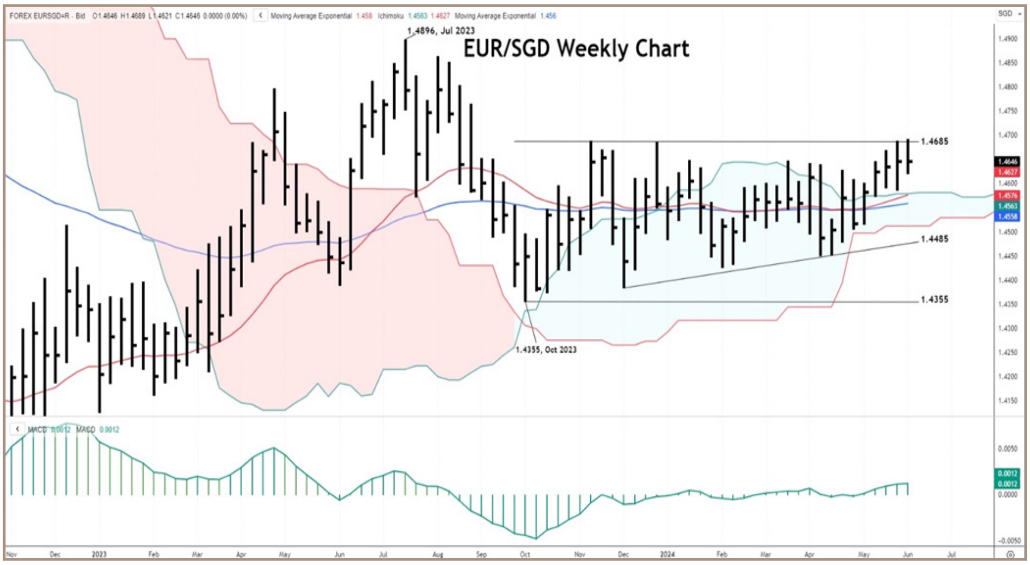
There is no clear directional bias; USD/CNH is likely to trade in a range between 7.1830 and 7.3100.



USD/CNH traded in a relatively quiet manner over the past few months. Weekly MACD is flat, and there is no clear directional bias. Moving into the third quarter of the year, USD/CNH is likely to trade in a range, likely between 7.1830 and 7.3100. The 7.1830 level is a significant support, as both the ascending trendline and the 55-week EMA are near the same level. The 7.3100 level is last October's high. Looking ahead, USD/CNH has to either break clearly below 7.1830 or above 7.3100 before directional price movements can be expected.

EUR/SGD: 1.4650

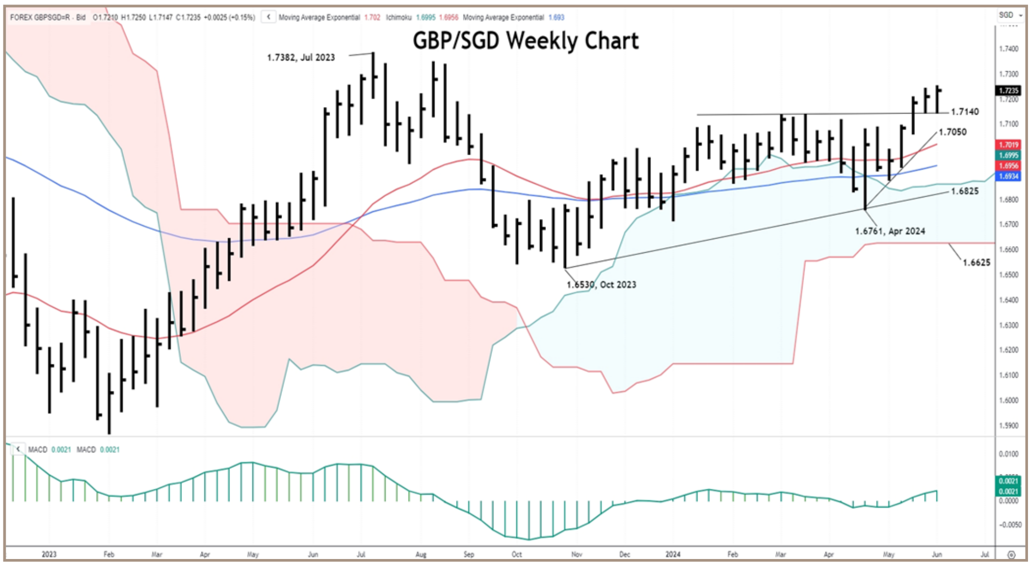
Upward momentum is showing tentative sign of building; the chance of EUR/SGD rising in 3Q24 is increasing.



EUR/SGD traded sideways between 1.4355 and 1.4685 since early October 2023. However, at the time of writing in early June, it is challenging the major resistance of 1.4685. Upward momentum is showing tentative sign of building, and the chance of EUR/SGD rising in 3Q24 is increasing. While the most apparent resistance level is at the 2023 high, near 1.4900, it is premature to expect EUR/SGD to rise to this level. On a shorter-term note, there is another resistance level at 1.4800. On the downside, should EUR/SGD break below the minor ascending trendline at 1.4485, it would suggest that it is likely to continue to trade sideways.

GBP/SGD: 1.7200

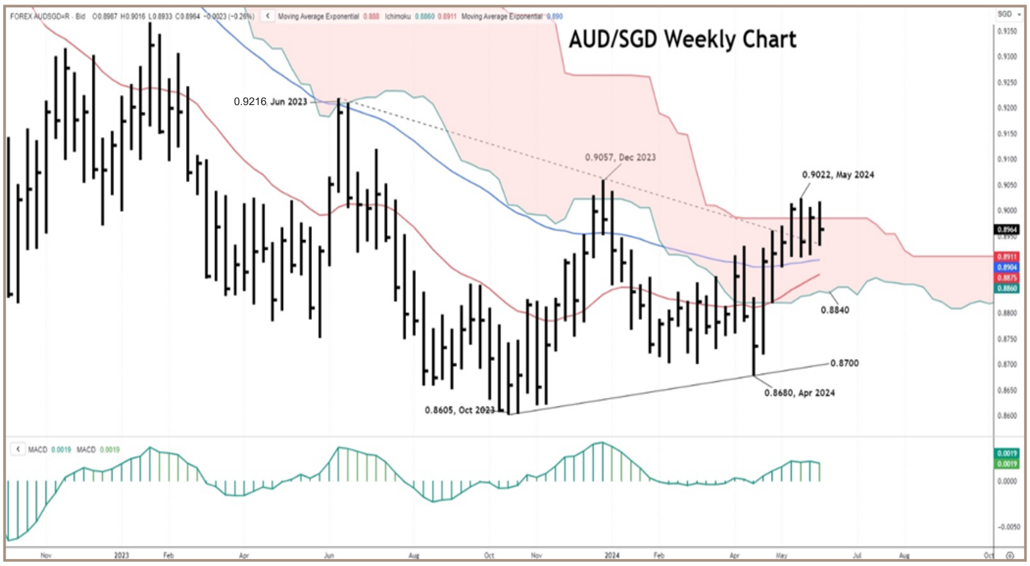
Upward momentum is building steadily; GBP/SGD could rise towards the 2023 high, near 1.7380.



GBP/SGD broke above the strong resistance level of 1.7140 in mid-May. While it has not been able to make a lot of headway on the upside, upward momentum is building steadily. If GBP/SGD can maintain a foothold above 1.7050, there is a good chance of it rising to last year's high, near 1.7380. The ascending trendline support connecting the lows of October 2023 and April 2024 (the level is now at 1.6825) is unlikely to come under threat in the third quarter of the year.

AUD/SGD: 0.8965

There is room for AUD/SGD to ratchet higher; June's 2023 high of 0.9216 is likely out of reach.



AUD/SGD fell sharply, but briefly, to a low of 0.8680 in mid-April before rebounding. While the rebound subsequently broke above the top of the weekly Ichimoku cloud, there has been not much of a follow-through. However, positive upward momentum suggests there is room for AUD/SGD to ratchet higher. As upward momentum appears to be lackluster, June's 2023 high of 0.9216 is likely out of reach, at least in 3Q24. On the downside, support levels are at 0.8840 and 0.8700.

JPY/SGD: 0.8630

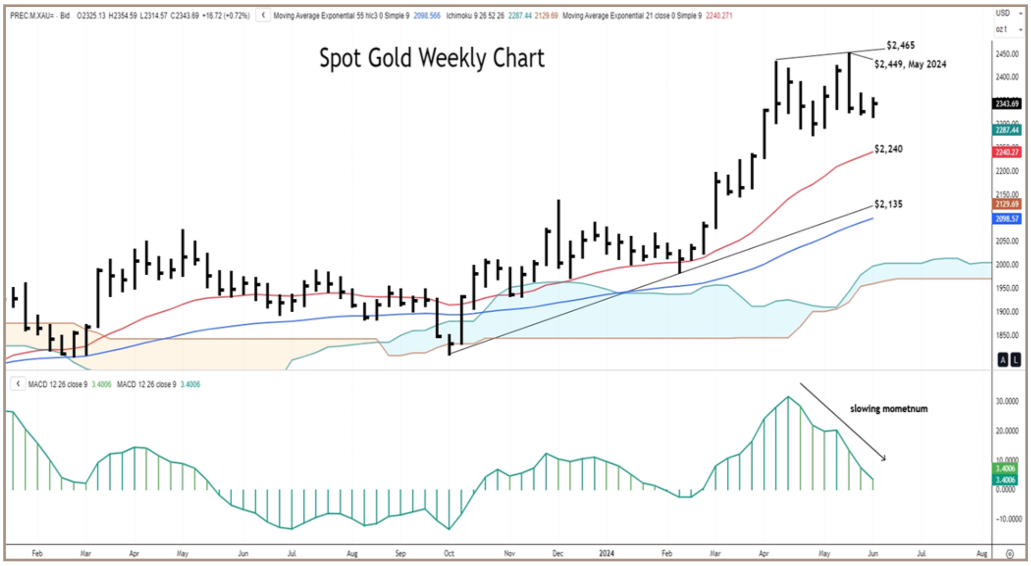
JPY/SGD could continue to trade between 0.8512 and 0.8860, but there is a higher risk for it rising to 0.8860 again.

JPY/SGD fell to a low of 0.8512 in late April before rebounding sharply to 0.8860. It has since been trading between these two levels. While JPY/SGD could continue to trade between these two levels, severely oversold conditions suggest higher risk of it rising to 0.8860 again instead of declining to 0.8512. However, note that both the 21-week EMA and the top of what appears to be a descending channel formation are both near 0.8860. In other words, this level is expected to offer significant resistance.

COMMODITIES TECHNICALS

Spot Gold
$2,344/oz

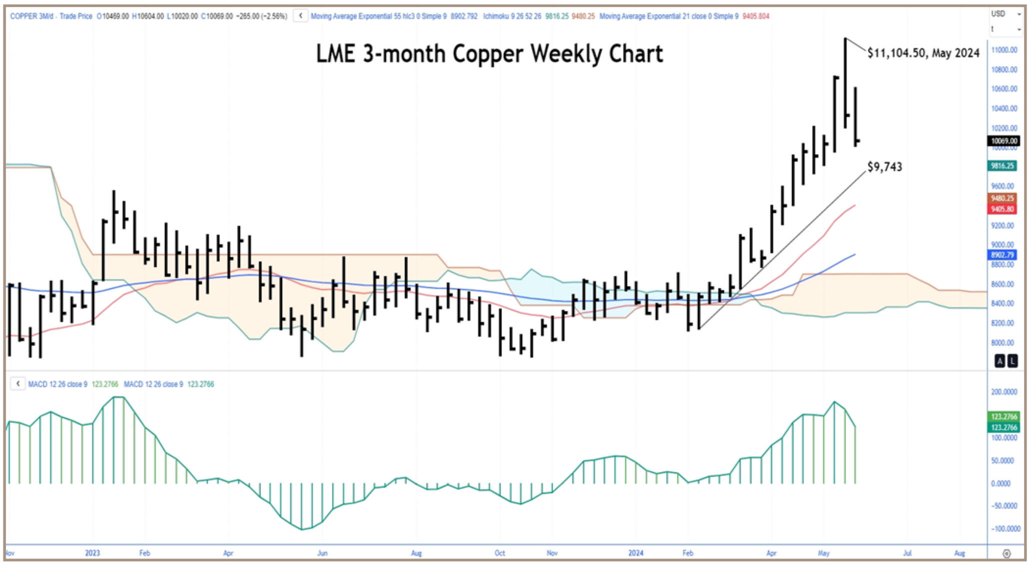
Upward momentum is slowing; while spot gold could break above the record of $2,449, the pace of any advance is likely to be slow, and the chance of it breaking above $2,465 is not high.



After surging to a record high of $2,449, spot gold pulled back sharply and formed a weekly outside reversal bar. This, combined with slowing upward momentum, indicates that the pace of any further advance is likely to be slow. While spot gold could rise above $2,449, the chance of it breaking above the minor ascending trendline near $2,465 is not high. On the downside, the 21-week EMA is acting as a strong support level. Should spot gold break this level, it would greatly reduce the odds of further record highs. The long-term support at $2,135 is highly unlikely to come under threat in 3Q24.

LME 3-mth Copper
$10,069/mt

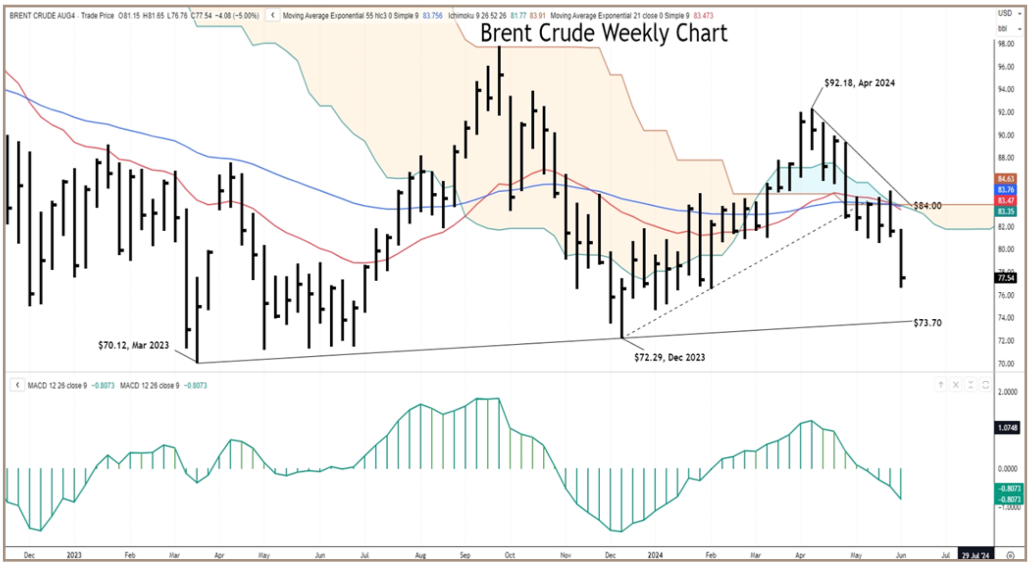
An interim top could be in place; copper is likely to trade between $9,743 and $11,104.



The 3-month LME copper future lifted off in mid-March and never looked back, rocketing and reaching a record high of $11,104.50 in mid-May. Copper subsequently pulled back sharply and swiftly from the high. The pullback from severely overbought conditions suggests that an interim top could be in place. In the third quarter of this year, copper is likely to trade between $9,743 and $11,104.50. Looking ahead, if copper breaks below $9,743, it could potentially trigger a more sustained pullback.

Brent Crude
$77.50/bbl

Sharp increase in momentum is likely to lead to further Brent crude weakness towards $73.70.



Brent crude broke below both the ascending trendline support and the bottom of the weekly Ichmoku cloud support in late April. It subsequently traded sideways, but in early June, it lurched lower and plunged. The sharp increase in momentum is likely to lead to further Brent weakness towards $73.70. The ascending trendline support that connects the lows of March 2023 and December 2023 sits near $73.70. At the time of writing, it is too early to tell if Brent has sufficient momentum to reach December 2023 low of $72.29. On the upside, the key resistance level is at $84.00.

GLOSSARY

BI	Bank Indonesia
BNM	Bank Negara Malaysia
BOE	Bank of England
BOJ	Bank of Japan
BOK	Bank of Korea
BOT	Bank of Thailand
BSP	Bangko Sentral ng Pilipinas
CBC	The Central Bank of the Republic of China (Taiwan)
ECB	European Central Bank
FOMC	Federal Open Market Committee
HKMA	Hong Kong Monetary Authority
MAS	Monetary Authority of Singapore
PBOC	The People's Bank of China
RBA	Reserve Bank of Australia
RBI	Reserve Bank of India
RBNZ	Reserve Bank of New Zealand
SBV	State Bank of Vietnam

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