Global Research

Global macro strategy

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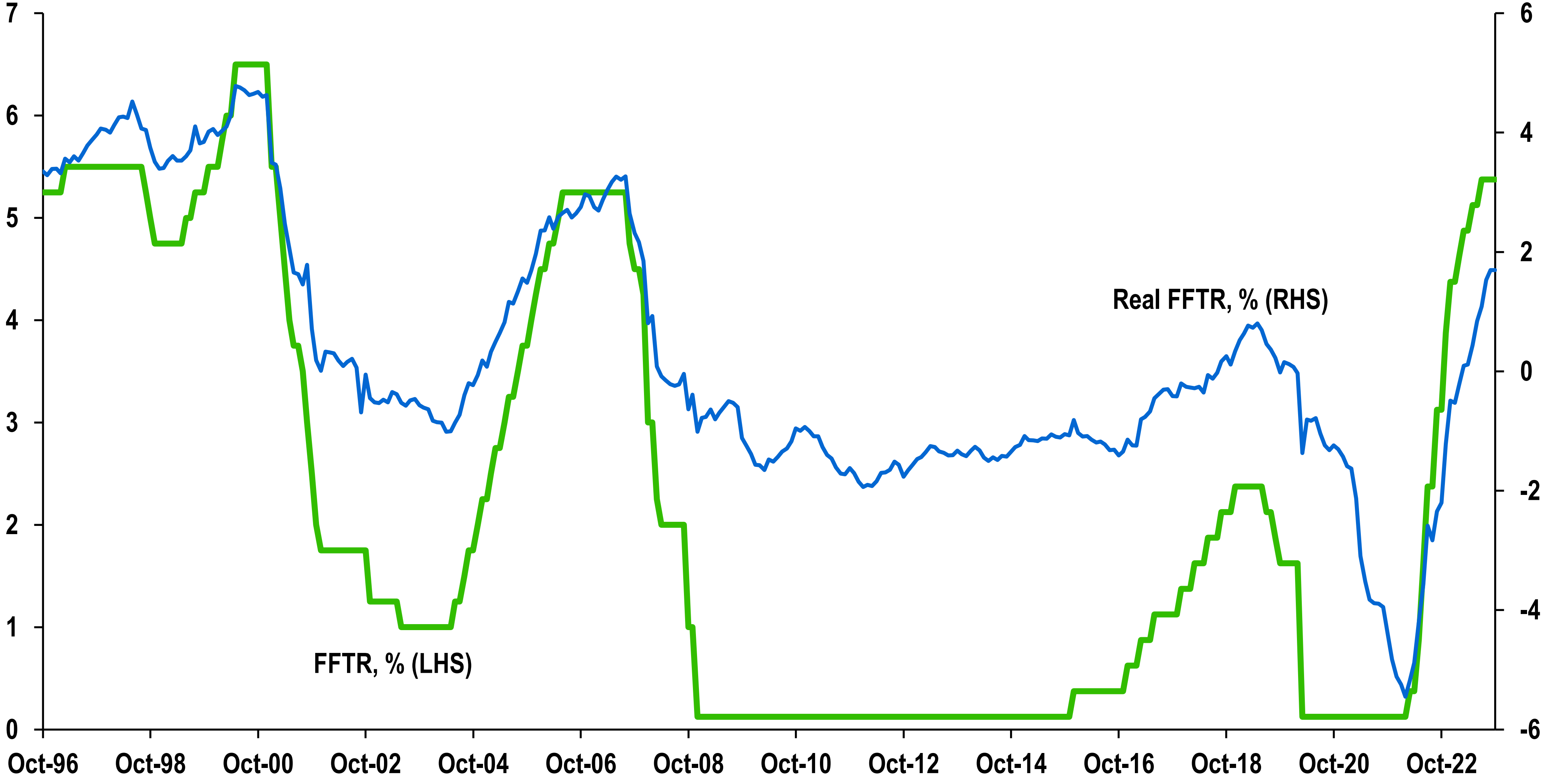
Summary – Navigating the pivot to global monetary easing

1. US - FOMC rate cycle to pivot to rate cuts in H2-2024
    - We see cuts in H2 - markets now see first full 25bp rate cut by May 2024
    - UST yields have peaked although markets are pricing a very aggressive shift to rate cuts
    - UST yield curve to steepen and be positively sloped by Q3-2024
2. EM growth – economic outlook defined by divergence
    - China growth remains sub-potential while ASEAN + India are outperforming
    - China still flirting with deflation; risk of exporting deflation to ROW; US inflation appears to have peaked
    - EM rates to perform well but you have to figure out who will ease and who will hold
3. The USD and EM FX – Uneven outlook
    - We believe the USD has peaked but path to depreciation will remain volatile
    - Latam has outperformed but we are looking for rotation in H1 with parts of AXJ FX to benefit
    - EM FX baskets should be constructed with a mix of high carry and beta to economic growth

Overview - US

Will FOMC rate cuts some soon enough to rescue the global economy?

FFTR, % (LHS) vs FFTR minus core PCE, % (RHS)

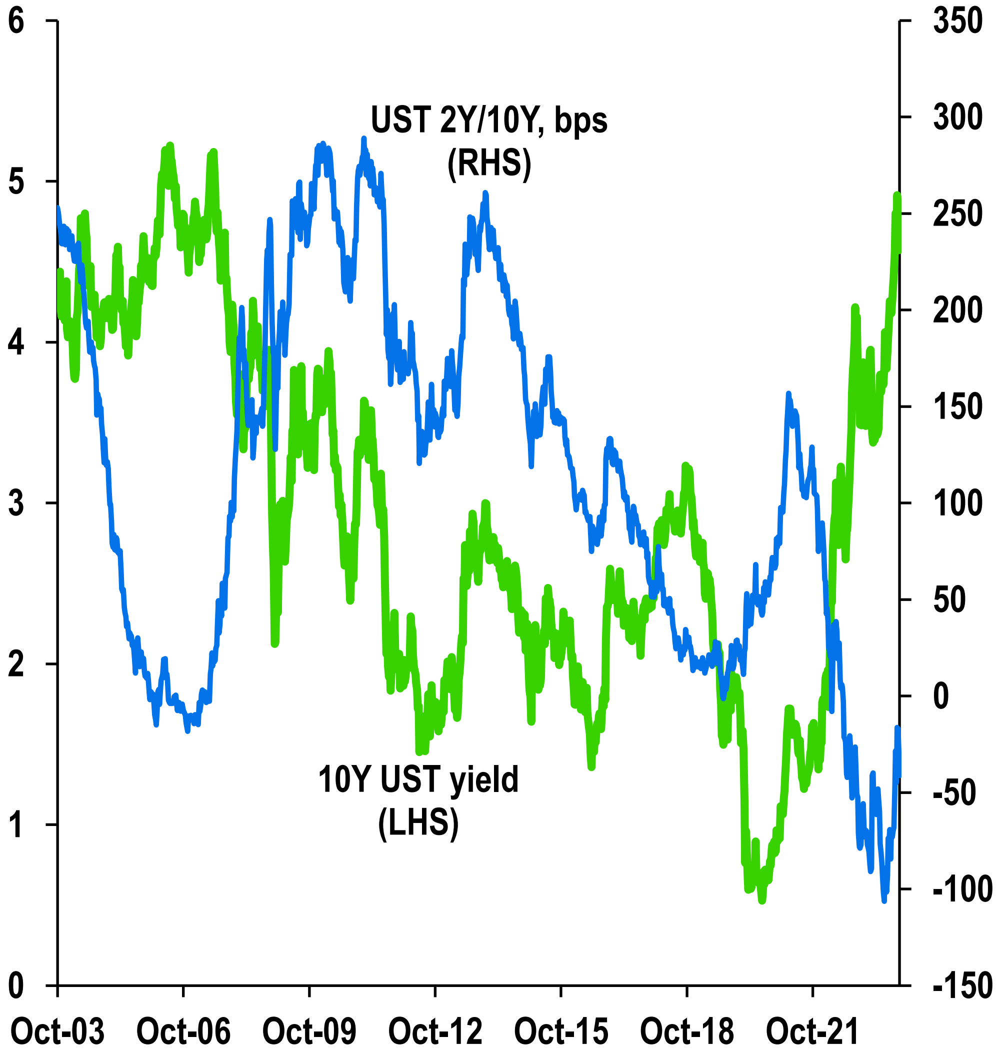


Source: Bloomberg, Standard Chartered Research

Overview - US

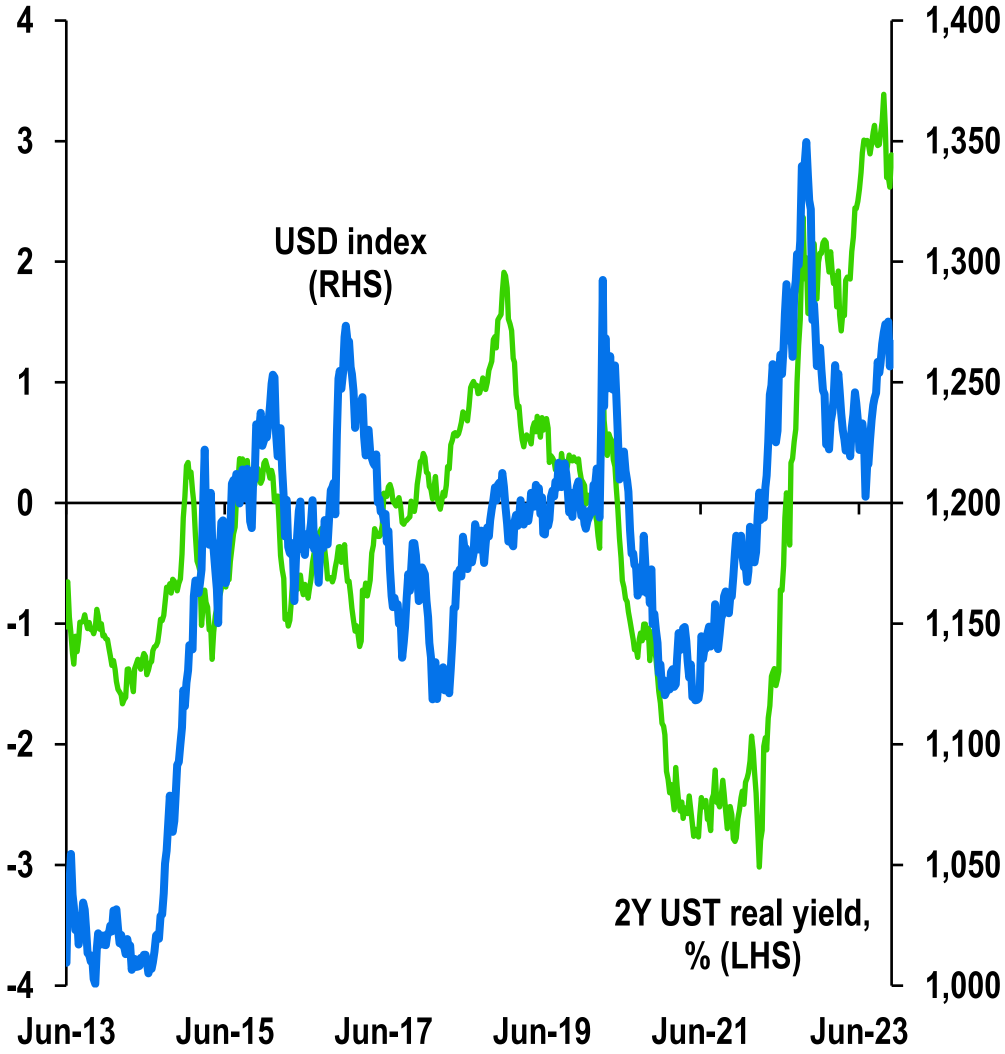
Transition year for the UST yield curve

10Y UST yield (LHS) vs UST 2Y/10Y, bps (RHS)



What will push the USD lower in 2024?

2Y UST real yield, % (LHS) vs USD index (RHS)



Source: Bloomberg, Standard Chartered Research

G10 FX – Is softer US activity USD-positive or negative?

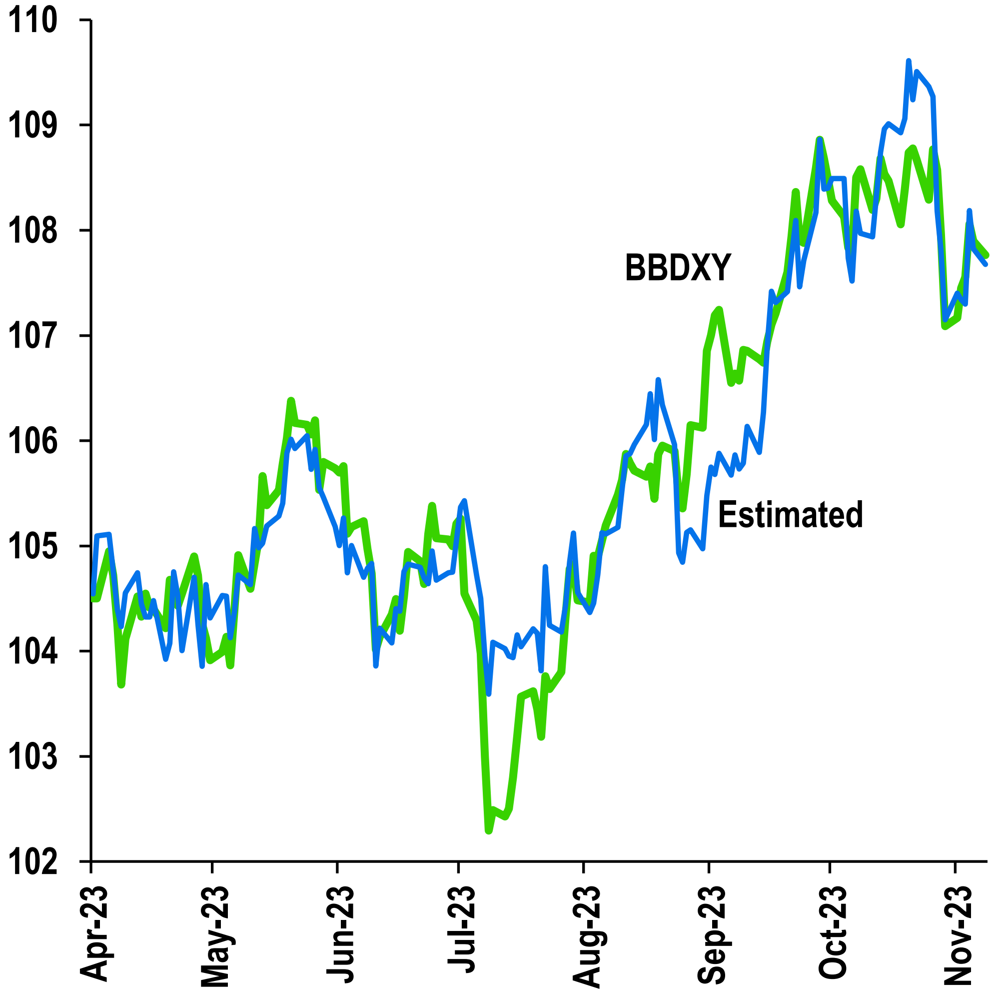
USD is close to long-term highs in real terms

Index, Jan 2006 = 100

Source: Macorbond, Standard Chartered Research

USD forecasted by yield differentials, equities

Index, 31-Dec-2021 = 100



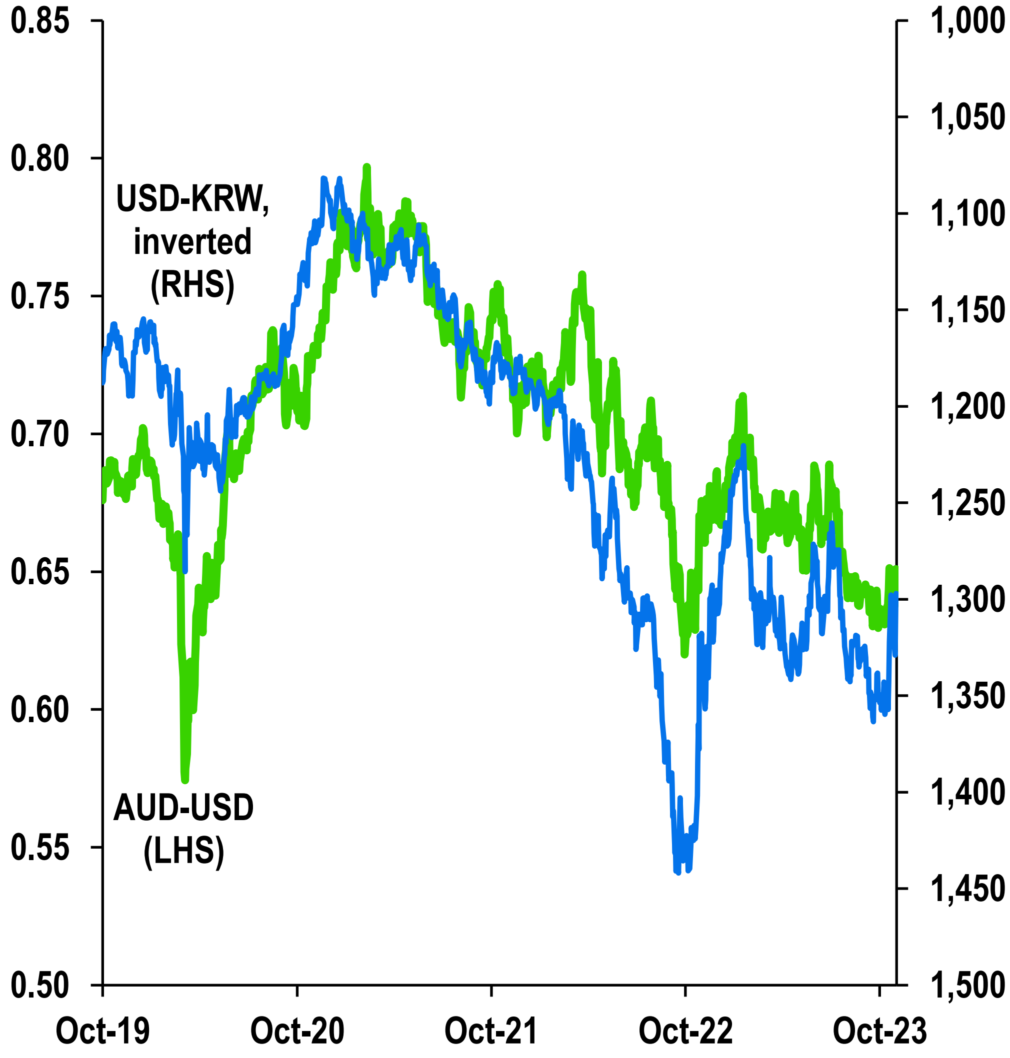
Note: See *What is driving USD weakness* for a discussion of our equation

Source: Macrobond, Standard Chartered Research

FX – A turn in the USD cycle?

Which currency can drive a USD sell-off?
EUR-USD (LHS) vs USD-CNH, inverted (RHS)

Can laggards in AXJ FX become leaders?
AUD-USD (LHS) vs USD-KRW, inverted (RHS)

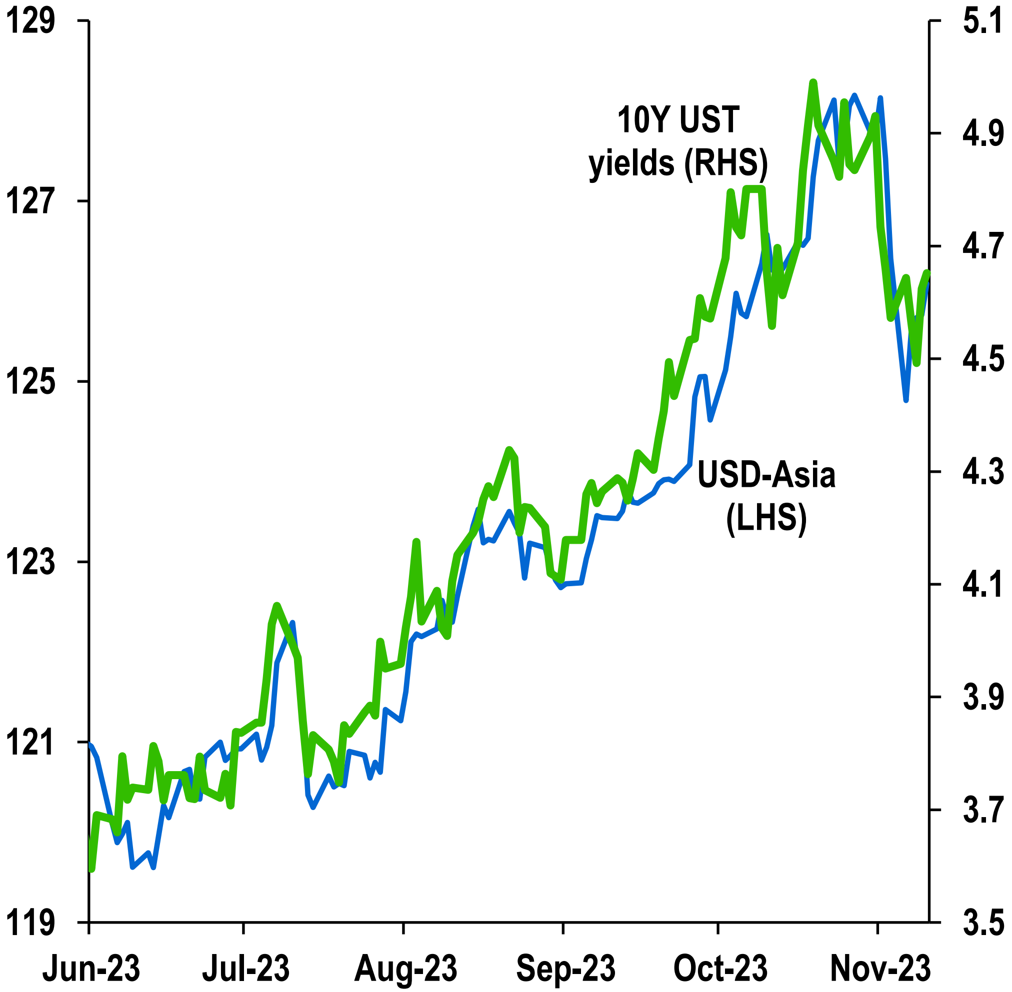


Source: Bloomberg, Standard Chartered Research

FX – Can AXJ FX recover?

USD-Asia led higher by long-term US yields

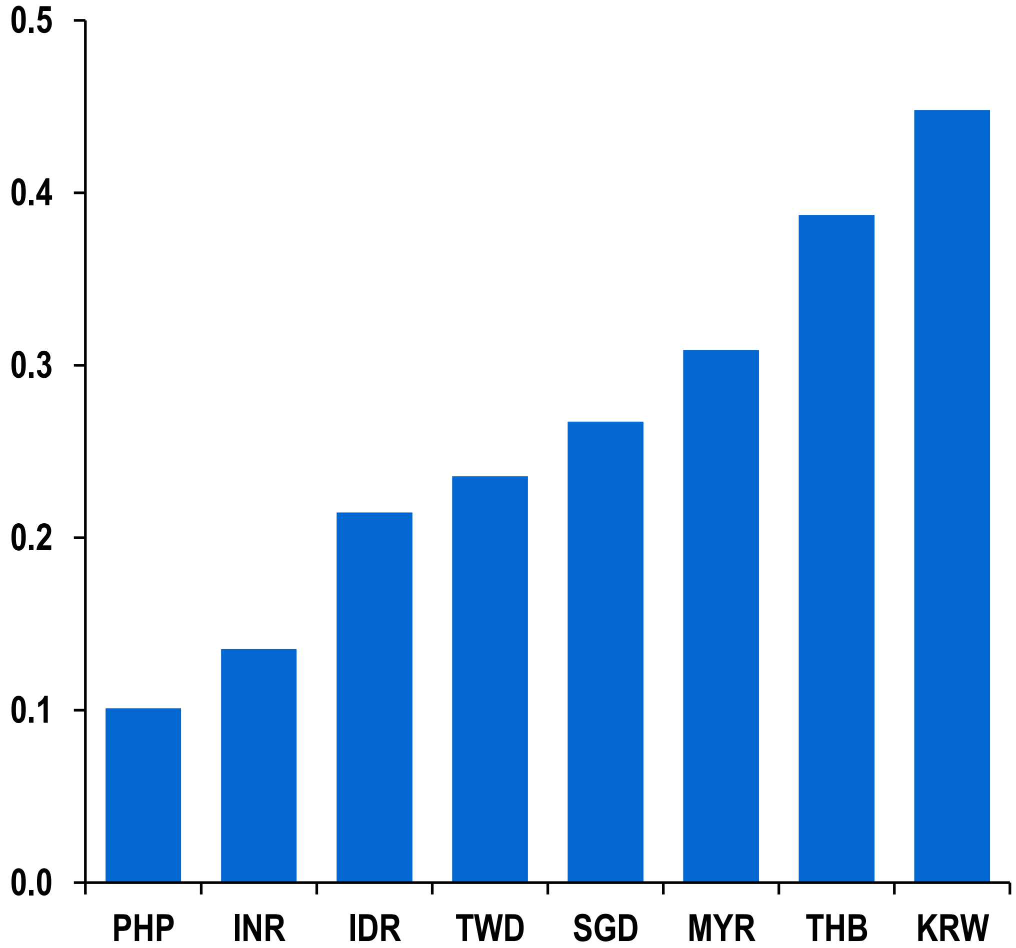
USD-Asia (equal-weighted), 10Y UST yields (%)



Source: Bloomberg, Standard Chartered Research

The spillover from CNH

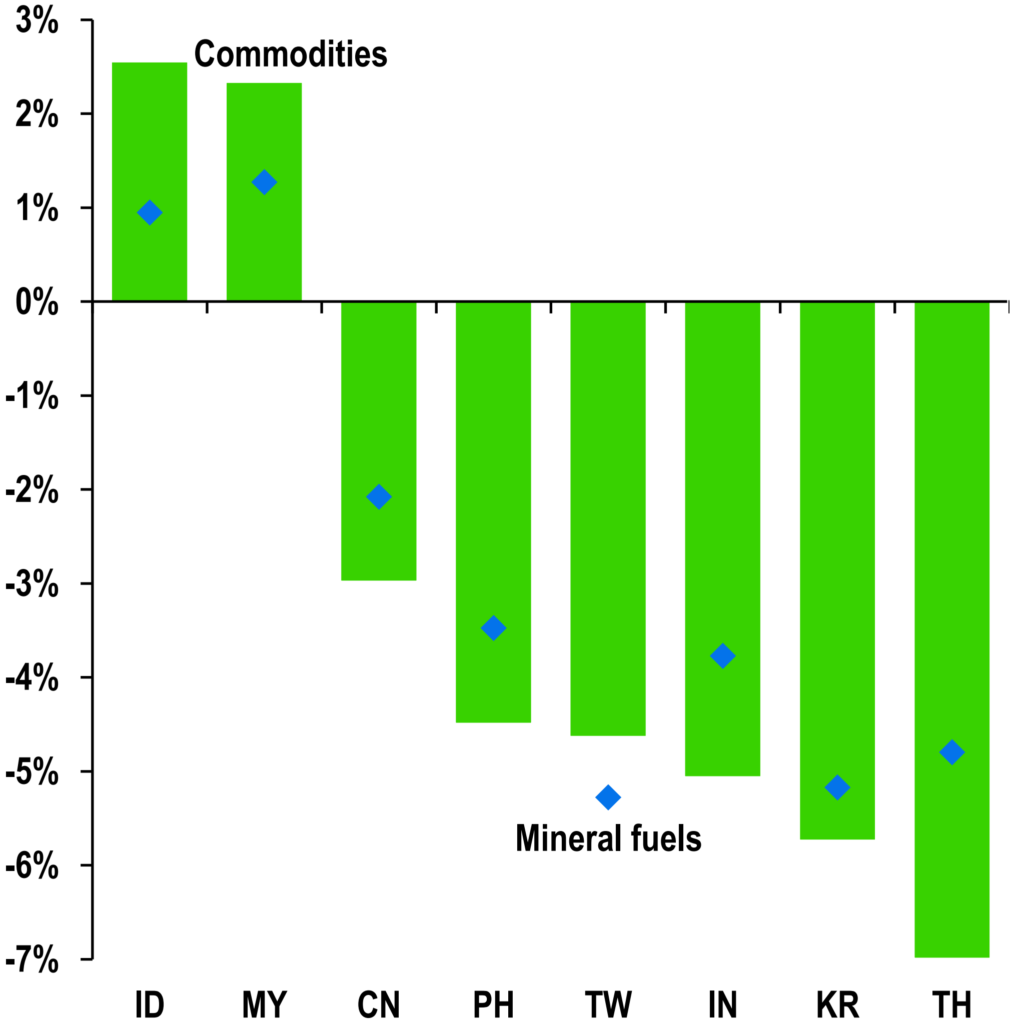
Beta of USD-Asia to USD-CNH (past five years, weekly data)*



*Control variables include DXY, VIX, US2Y and Brent;
Source: Bloomberg, Standard Chartered Research

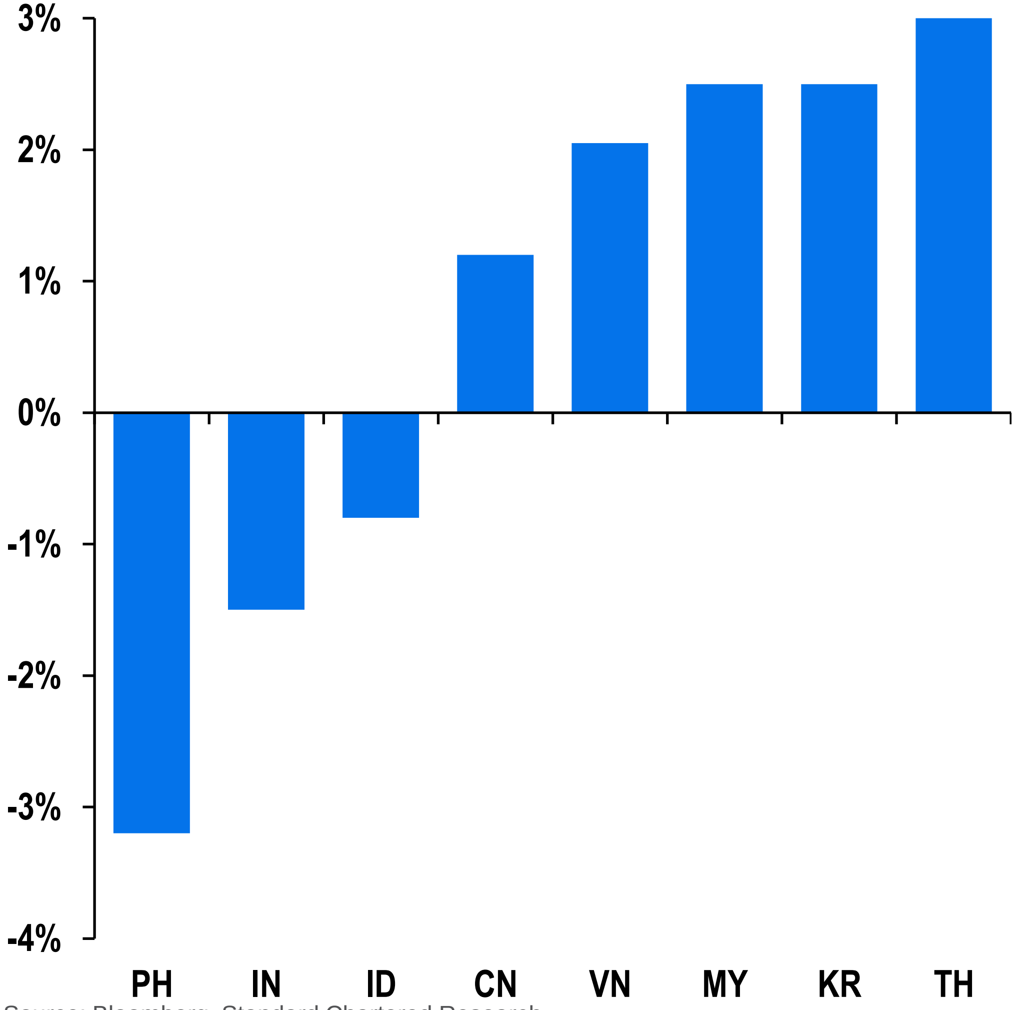
Asia FX *(cont'd)*

Higher commodity prices hurt most of EM Asia
Commodities, mineral fuels trade balance (% of GDP)



Source: UN Comtrade, Standard Chartered Research

Higher oil prices would add to the Philippines' already large C/A deficit
2024 Bloomberg C/A consensus forecasts (% of GDP)

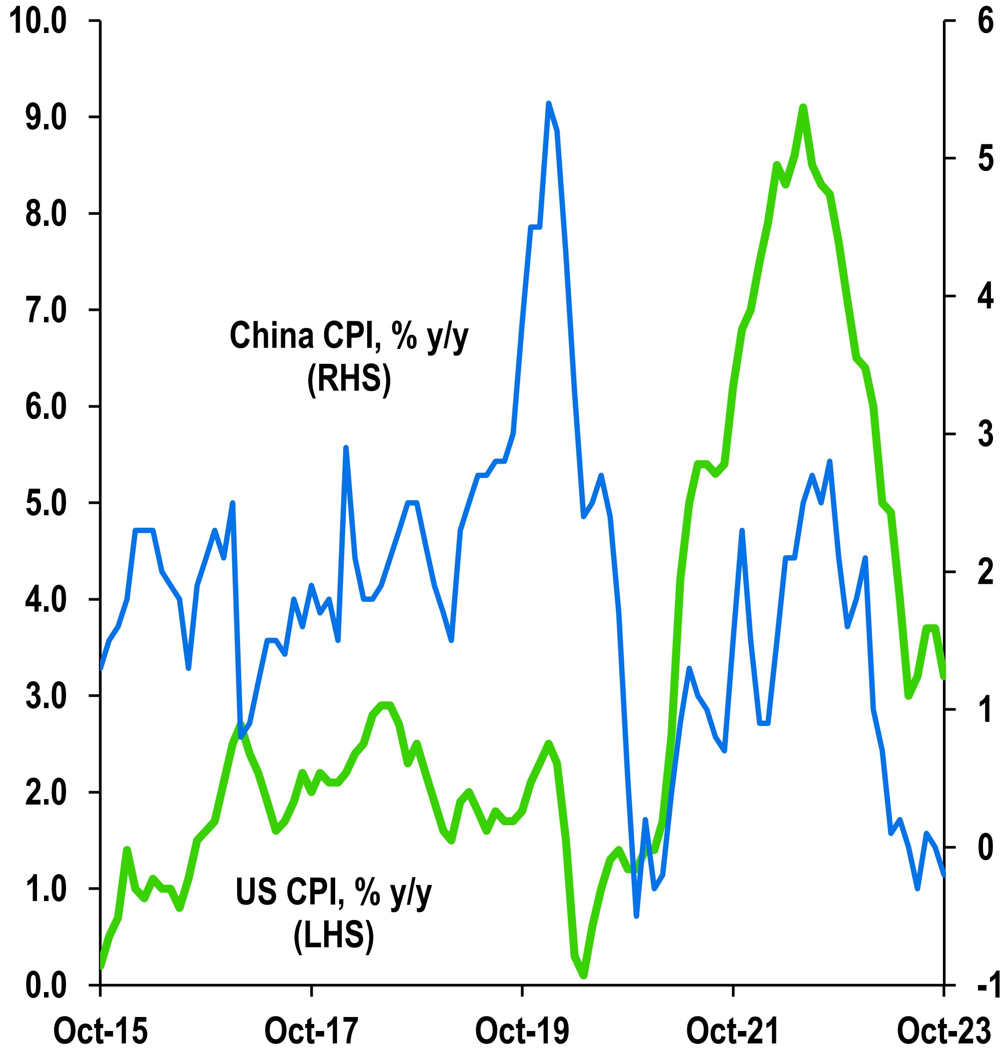


Source: Bloomberg, Standard Chartered Research

China and US inflation cycles have converged

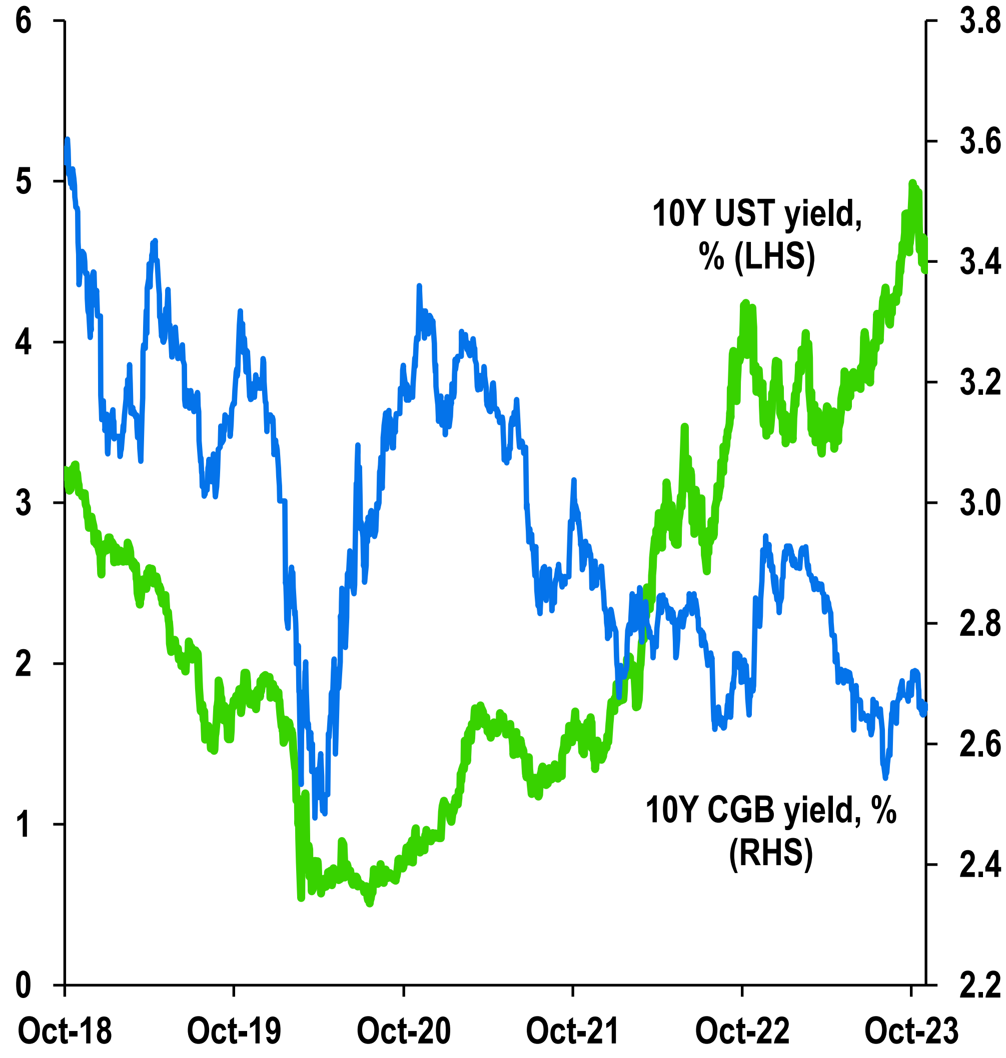
Will disinflation spread from China to rest of world?

US CPI, % y/y (LHS) vs China CPI, % y/y (RHS)



Who leads who?

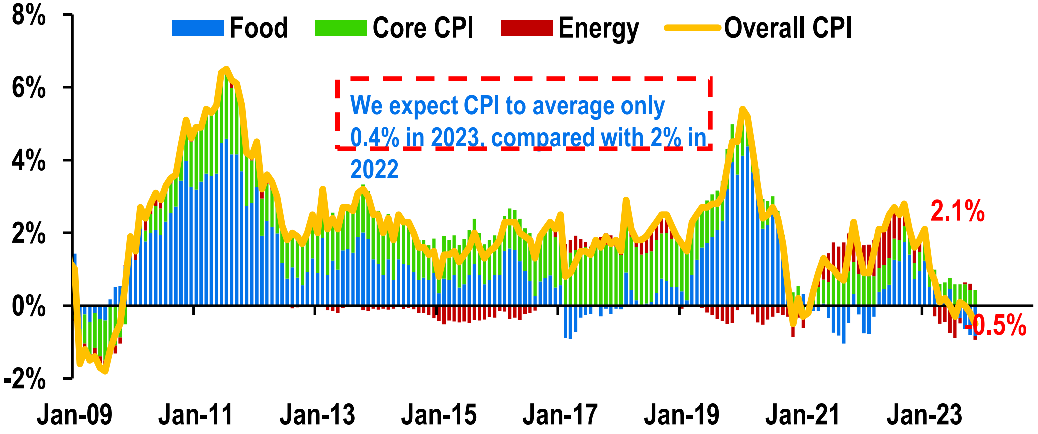
10Y UST yield, % (LHS) vs 10Y China CGB yield, % (RHS)



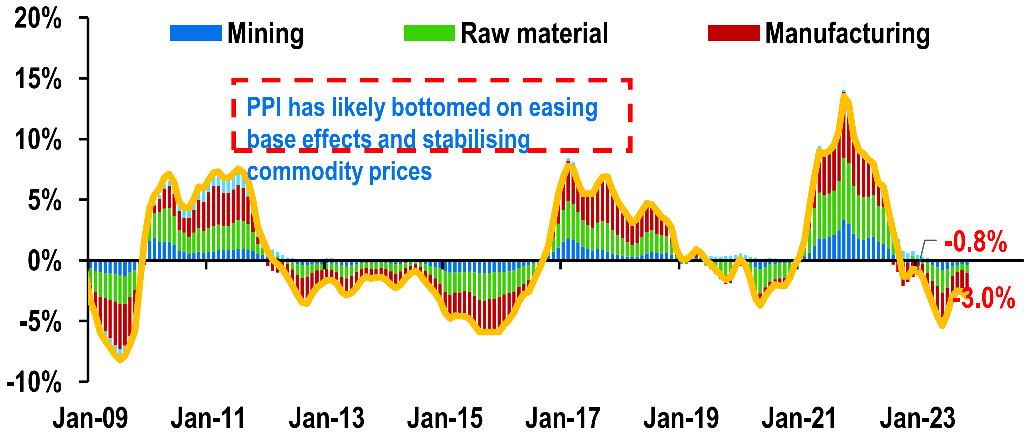
Source: Bloomberg, Standard Chartered Research

China - Consumption trends pull inflation lower

CPI breakdown, % y/y



PPI breakdown, % y/y

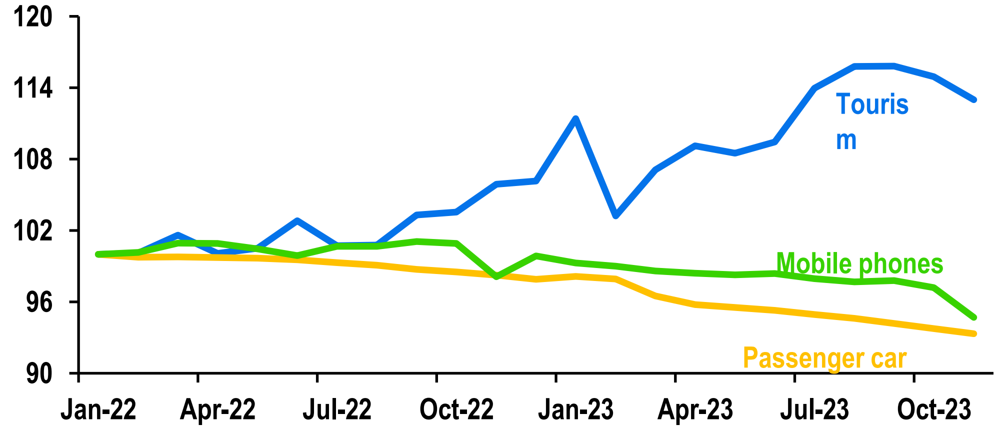


Source: CEIC, Standard Chartered Research

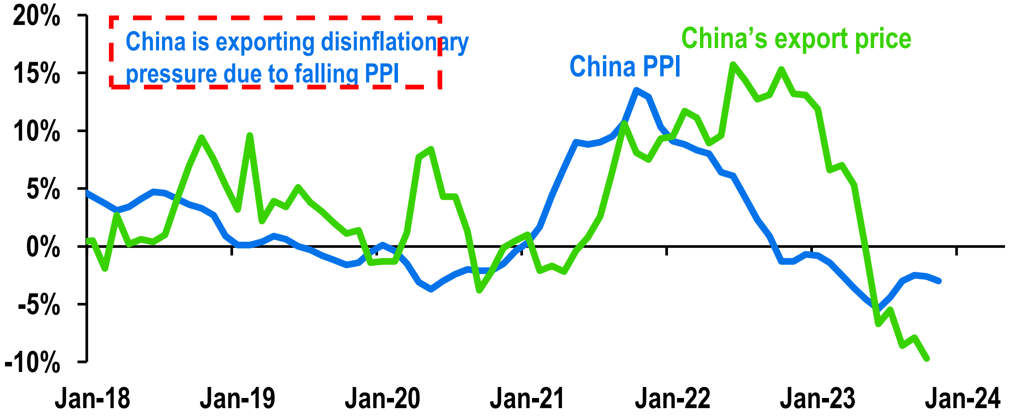
Consumption trade-off to weigh on inflation

China's terms of trade

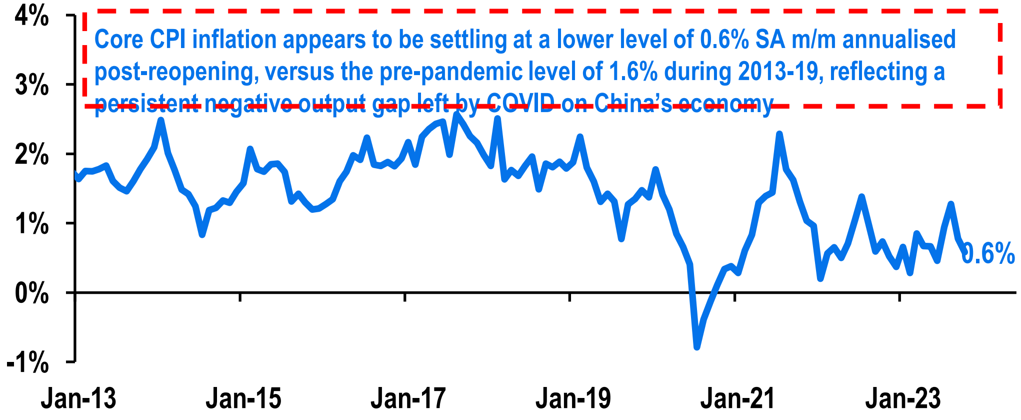
Seasonally adjusted (SA) price index, Jan-2022 = 100



China's PPI and export prices in CNY terms, % y/y



Seasonally adjusted (SA) core-CPI inflation, % m/m annualised, 6mma



Source: CEIC, Standard Chartered Research

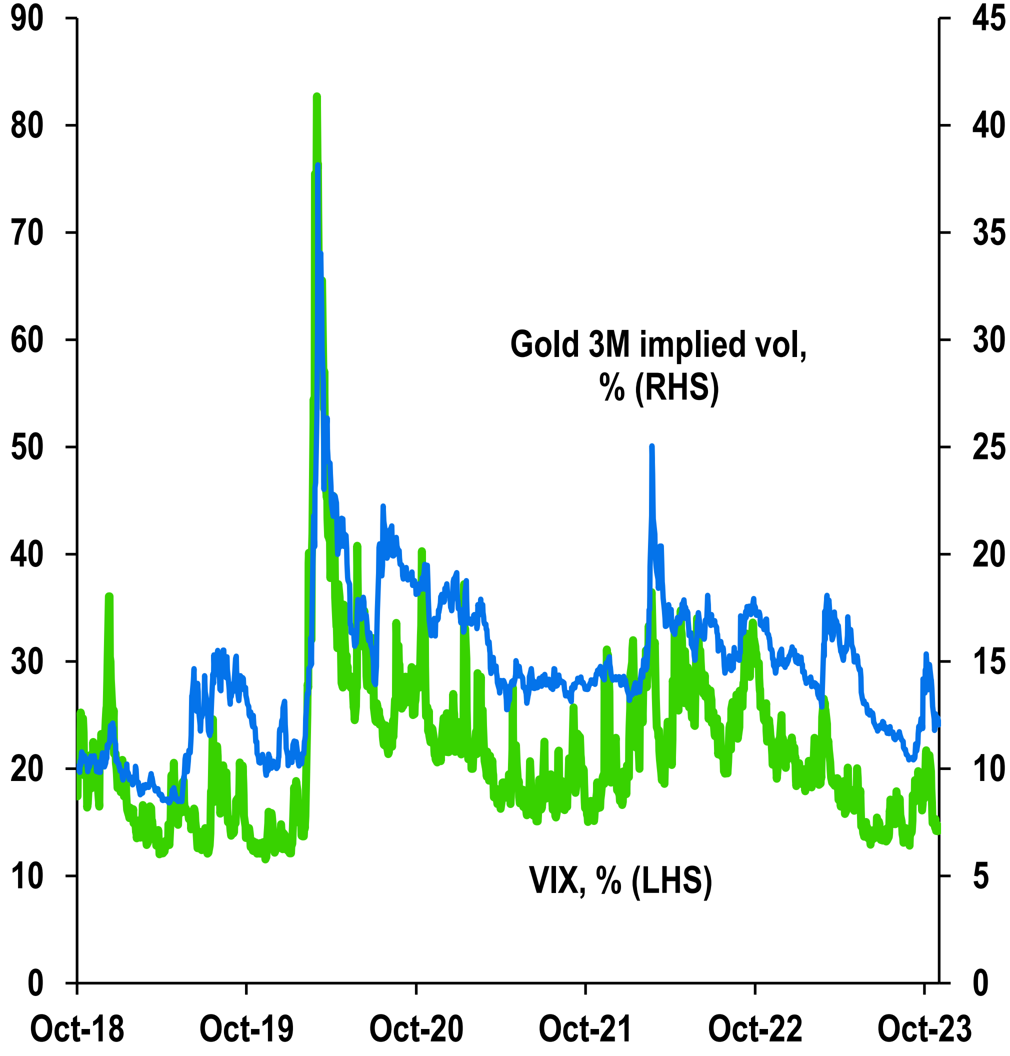
Commodity markets – watch correlations for clues on global growth

Commodity divergence widens

Gold, USD/oz (LHS) vs Brent oil, USD/bbl (RHS)

Cross-asset volatility remains subdued

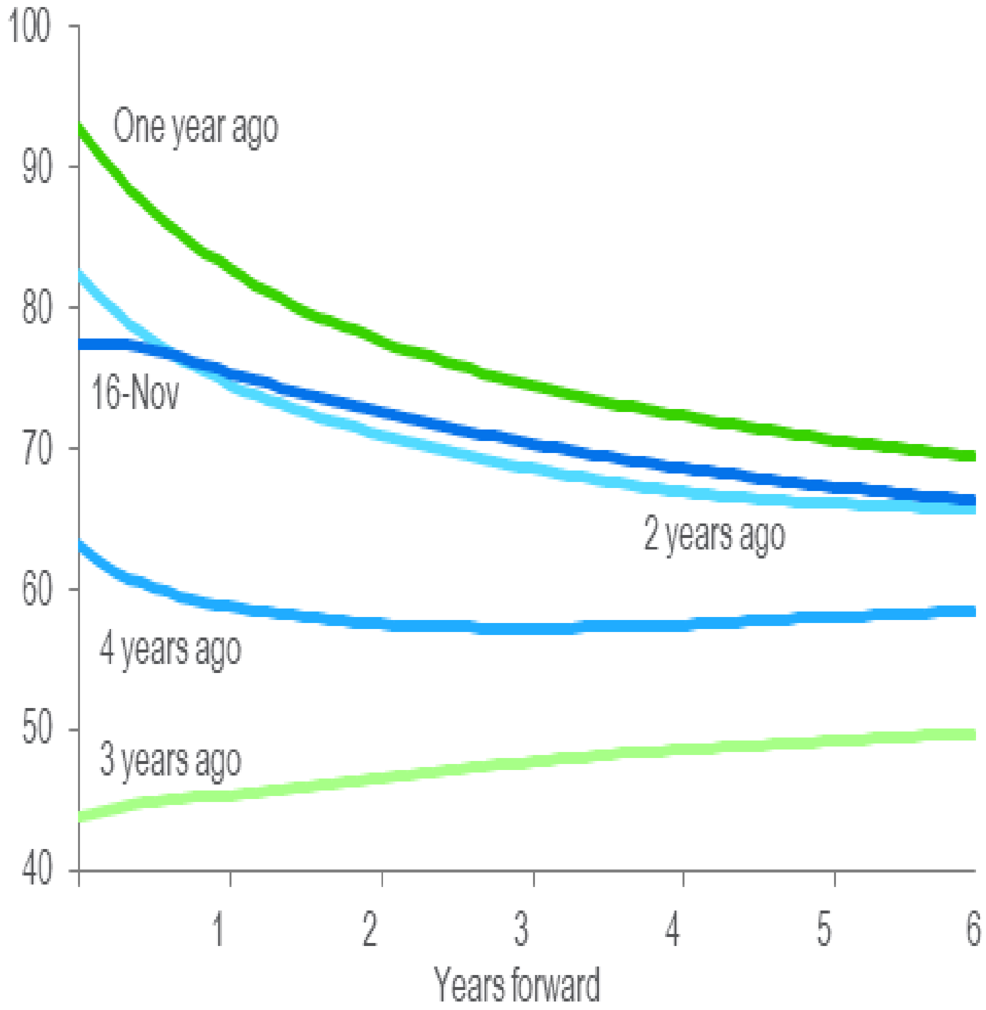
VIX, % (LHS) vs gold 3M implied vol, % (RHS)



Source: Bloomberg, Standard Chartered Research

Commodities – oil price decline surprises markets

Brent forward curve
USD/bbl



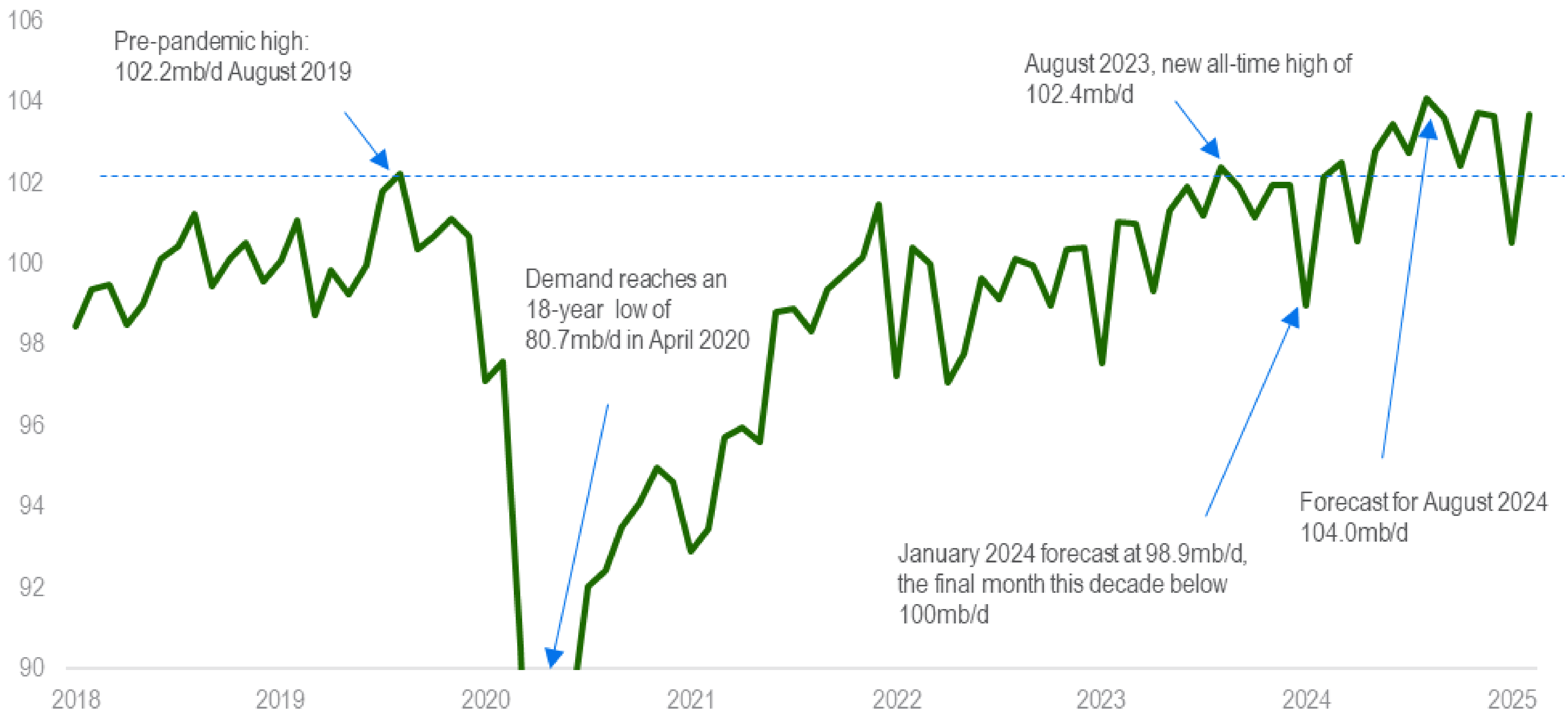
Source: ICE, Standard Chartered Research

Oil volatility recovered from its September low
30-day realised annualised Brent volatility, %

Source: Standard Chartered Research

Commodities – Oil demand looks robust

Monthly global oil demand according to Standard Chartered model *(mb/d)*



Source: Standard Chartered Research