

What's Been Happening

Global

Rafah Attack - The international community's unease over Israel's ongoing offensive in Rafah, now in its third week, escalated to outrage following an attack on Sunday, 26th May 2024. The incident sparked a fire in a tent camp located in a western part of the city, resulting in the deaths of at least 45 people, most of whom were children. Global leaders expressed horror at the blaze in this designated humanitarian zone, where families displaced by conflict had sought refuge. They urged compliance with a World Court order issued last week, demanding an end to Israel's assault. Saudi Arabia accused Israel of committing "genocide massacres" by targeting Palestinian tents in Rafah and held Israel responsible for its actions. There is growing concern that an Israeli invasion of Rafah in Gaza will exacerbate the volatility in oil prices.

US

The US Consumer Price Index (CPI) for April 2024 increased by a modest 0.3% month-over-month (MoM) and 3.4% year-over-year (YoY). This was due to smaller rises in service costs, such as food services, which balanced out the significant increases in rent and gasoline prices. The "advance" estimate released on 25th April 2024, indicated that the real gross domestic product (GDP) grew at an annual rate of 1.6% in the first quarter of 2024. This estimated growth was driven by higher consumer spending and housing investment, partially offset by a decline in inventory investment.

UK

The UK inflation came in hotter than expected with a drop to 2.3% in April 2024, largely driven by the price of energy. The headline reading declined from 3.2% in March which marked the first time inflation has been below 3% since July 2021 and brings it within touching distance of the Bank of England's 2% target.

Singapore

The Monetary Authority of Singapore left the policy settings unchanged at a policy review in April, marking the fourth consecutive time the central bank has kept the policy steady. Such stance is aimed at strengthening the trade-weighted SGD and counteracting inflationary pressures. Further, the Singapore's core inflation remained steady at 3.1% year on year in April, unchanged from March as gradual increases in services and food costs offset higher inflation for electricity and gas. However, overall inflation rose 0.1% month on month, while core inflation edged up by 0.4% .

Looking Ahead

- The US economy's ongoing normalization has progressed further through the 2Q 2024. Amid healthy consumer fundamentals, the GDP forecast for 2024 has been revised to 2.5% and 2.1% for 2025. CPI inflation remains stubborn, prompting an upward revision to 3.1% to the CPI forecast for 2024, and 2.5% for 2025. Stronger inflation and growth reaffirm the view of a cautious easing cycle from the Fed, which resulted in an expectation of just two interest rate cuts in 2024 before four further cuts in 2025.
- The UK's outlook for inflation is broadly positive, supported by favourable developments in food and energy prices. It is anticipated that inflation to return to its 2% target in 1H 2024. As such, this weakening inflationary pressure should put the Bank of England in a position to begin cutting interest rates this summer in June 2024. Following an early recovery from a technical recession in 2H 2023 and with anticipated improvements in incomes boosting consumer spending, real GDP growth is projected to be 0.3% in 2024 and to accelerate to 0.9% in 2025.
- The Singapore's economy is projected to improve over the year with consumer facing sectors already experiencing growth in 1Q 2024, partly driven by an increase in tourist arrivals. However, the outlook is still subject to uncertainties, including the timing of the monetary policy easing as well as the intensity of ongoing geopolitical tensions.

Source: Bloomberg and Reuters

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Global Benchmark Rates

	As of 30 May	As of 30 Apr
US (The Federal Reserve)	5.50%	5.50%
UK (Bank of England)	5.25%	5.25%
MAS 3 month	3.58%	3.56%

FX Rates

	As of 30 May 2024	1 WK (%)	1 MTH (%)	YTD (%)
USD/SGD	1.3530	0.04	-0.96	2.43
EUR/SGD	1.4610	-0.10	0.30	0.02
GBP/SGD	1.7170	0.05	0.69	2.23
AUD/SGD	0.8950	0.19	1.23	-0.46
NZD/SGD	0.8260	0.18	2.75	-0.91
CAD/SGD	0.9860	0.13	-0.50	-0.98
JPY/SGD	0.8590	-0.26	-0.75	-8.17
CHF/SGD	1.4800	0.10	-0.34	-5.61
HKD/SGD	0.1730	0.00	-0.80	2.49
SAR/SGD	0.3610	0.00	-0.85	2.47
MYR/SGD	0.2870	-0.14	0.31	-0.07
AED/SGD	0.3680	0.05	-0.86	2.50

FX News

USD/SGD drifted lower as markets awaited inflation data from several major economies scheduled for release this week. Last month's slightly softer US CPI data has led to decline in the dollar but following this, US Treasury yields have resumed their ascent, with the benchmark 10-year yield hitting its highest point in almost four weeks translating into appreciation of dollars. The preliminary US GDP report to be released today (30th May 2024) may have a stronger impact on the US dollar price trends. The Federal Reserve's preferred measure of inflation - the US core personal consumption expenditures (PCE) price index report, will be released tomorrow on Friday (31st May 2024) on which expectations are for it to hold steady on a monthly basis.

GBP/USD rose driven by higher-than-expected UK CPI figures which put a dent in bets on rate cuts from the Bank of England (BoE). The BoE is widely expected to wait until after elections in July before making any changes in policy, cementing the view that rates in the UK will stay unchanged for longer. However, it may be tested this Friday (31st May 2024) with the release of the US April PCE index data. If the PCE data meets expectations and remains steady, it is likely that market expectations for Fed rate cuts will be postponed, maintaining GBP/USD around its current levels while an increase in the data could elevate expectations for Fed rate hikes, putting pressure on GBP/USD. Conversely, a weaker-than-expected result might revive hopes for quicker US rate cuts, potentially driving the pound upwards.

The EUR/USD declined following Germany's May inflation data showing to have slowed down more than estimated on a month-over-month basis. In addition, monthly data published by the European Central Bank (ECB) showed that the drag on spending from credit provision continues to decline which reduces the need for the ECB to rapidly ease monetary policy and should allow the Governing Council to lower rates gradually. Investors expect the ECB to cut by 25bps on June 6 at the Monetary Policy meeting but have increasing doubts that cuts beyond this date will occur. Rates markets indicate that the policy paths of the Fed and ECB are not diverging as previously anticipated, which could constrain the range of EUR/USD.

FX Outlook

Expectations for interest rate cuts by the US Federal Reserve this year have been reduced due to indications of persistent inflation, highlighted by a recent unexpected increase in consumer sentiment as shown in Tuesday's (28th May 2024) data. Meanwhile, markets are currently only fully pricing one quarter-point reduction from the BoE this year, which is expected by November while the ECB is expected to lower rates as early as next month with at least two quarter-point reductions by December.