

MIDF Strategy 26 February 2024

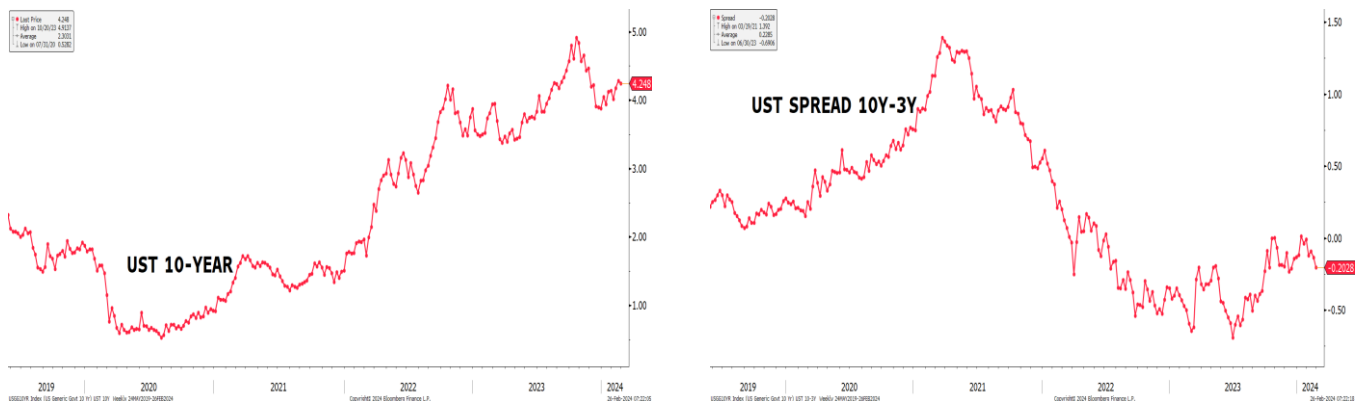
Week Ended 23 February 2024

- Buyers returned to the long-end of UST market with benchmark 10-year yield closed the review week lower at 4.25% (prior week: 4.28%) as investors reacted to the minutes of US Fed's January policy meeting which showed while the central bankers were not keen to rush the anticipated rate cuts, likewise, were not expecting any further rate hike. Moreover, the 10y-3y yield spread inverted deeper at -20bp (prior week: -14bps) as the long-end outperformed. Correspondingly, the interest rate futures market continued to imply no more Fed rate hike and spate of rate cuts commencing as early as in June 2024.
- Medium-term inflation expectation (MTIE) ended the review week a tad lower at 2.37% (prior week: 2.42%). The MTIE remains above an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. However, it is also notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. We reckon the market is convinced that inflation pressure (while stubborn) is progressively ebbing.
- The price of MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 5.6bps and 5.0bps to close at 3.45% and 3.90% respectively. Week-on-week, the 10y-3y yield spread was largely unchanged at 45bps.
- MGS foreign holdings increased on-year from RM247b in January 2023 to RM265b in January 2024. However, it dropped on-month from RM270b in December 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM112m. It improved on-week from -RM373m registered a week ago. However, it fell on-year from RM1.96b a year ago.

Weekly Money Review

A. FIXED INCOME

- Buyers returned to the long-end of UST market with benchmark 10-year yield closed the review week lower at 4.25% (prior week: 4.28%) as investors reacted to the minutes of US Fed’s January policy meeting which showed while the central bankers were not keen to rush the anticipated rate cuts, likewise, were not expecting any further rate hike. Moreover, the 10y-3y yield spread inverted deeper at -20bp (prior week: -14bps) as the long-end outperformed. Correspondingly, the interest rate futures market continued to imply no more Fed rate hike and spate of rate cuts commencing as early as in June 2024.



Source: Bloomberg, MIDFR

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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

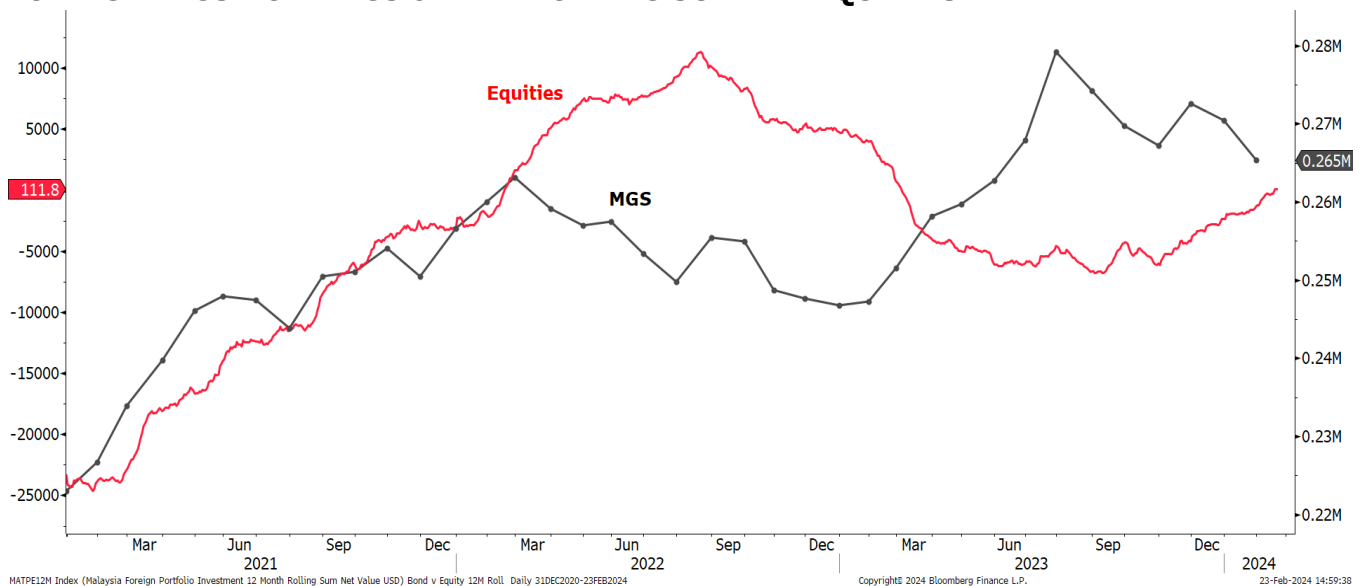
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM16.38b in the review week compared to RM14.13b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 52% from 58% of the overall Government Bonds trades. Moreover, 10 out of the 10 most actively traded bonds saw higher yield, hence lower prices during the review week.
- The top 3 actively traded Government Bonds were dominated by issues of mid and long residual tenor. The top 3 most actively traded were MII 4.582% 8/30/33 at RM1.57b, MGS 4.642% 11/7/33 at RM1.36b, and MGS 3.502% 5/31/27 at RM1.05b.

FOREIGN: MGS HOLDINGS & 12-M ROLLING SUM NET EQUITIES TRADE



Source: Bloomberg, MIDFR

- MGS foreign holdings increased one year from RM247b in January 2023 to RM265b in January 2024. However, it dropped on-month from RM270b in December 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM112m. It improved one week from -RM373m registered a week ago. However, it fell one year from RM1.96b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.95b in the review week compared to RM2.37b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 36% from 39% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenor. The top 3 most actively traded were Danainfra 4.8% 4/5/52 at RM200m, Danainfra 4.68% 4/7/42 at RM170m, and Malaysia Airports 3.87% 12/30/26 at RM110m.

B. FOREIGN EXCHANGE

- USD registered the weakest weekly closing in 3-week. The US dollar ended 5-consecutive weeks of strengthening as the DXY index fell -0.3%wow to close at 103.94. The dollar closed at its intra-week low following softer-than-expected services PMI data. Additionally, the softer expansion of the services sector was also accompanied by further signs of easing inflationary pressure.
- The euro and pound appreciated. The weaker dollar resulted in both the euro and pound sterling appreciating by +0.4%wow to USD1.082 and +0.6%wow to USD1.267, respectively. In addition, the euro also appreciated following the return of the services sector to expansionary territory as indicated by the PMI data. On the same note, the pound gained against the greenback was also underpinned by stronger-than-expected services PMI number.
- Ringgit touched the weakest level in 26-year. The ringgit was virtually unchanged against the USD, closing the week at RM4.777. The ringgit closed at RM4.799 on Tuesday, touching the weakest level since the Asian Financial Crisis due to risk aversion factor as conflicts in Ukraine and the Middle East escalated. The ringgit however closed higher than its intra-week low as the dollar weakened. Commodity prices were also unfavourable towards the ringgit as the Brent crude oil prices fell -2.2%wow to USD81.62pb (previous week: US83.47pb).

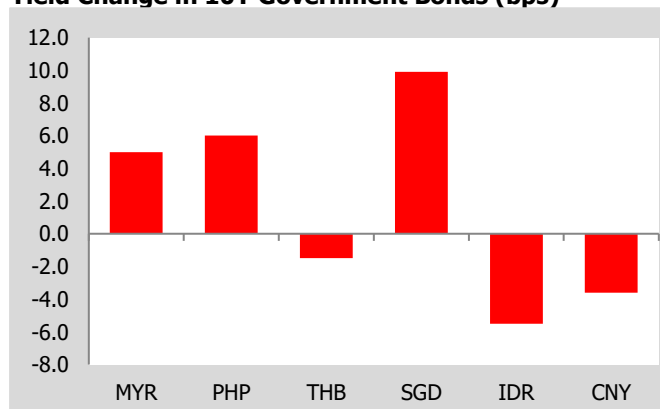
Currencies Changes (Week Ended 23 February 2024) and Quarterly Forecasts

	Close (23/02)	Prev. Close (16/02)	Weekly Change	Weekly Change (%)	1QCY24f	2QCY24f	3QCY24f	4QCY24f
DXY Index	103.94	104.28	-0.339	-0.3	103.8	102.5	101.1	99.7
EURUSD	1.082	1.078	+0.004	+0.4	1.07	1.09	1.10	1.12
GBPUSD	1.267	1.260	+0.007	+0.6	1.23	1.24	1.26	1.27
USDJPY	150.51	150.21	-0.300	-0.2	145	141	138	135
USDMYR	4.777	4.7793	+0.002	+0.0	4.39	4.38	4.32	4.20
GBPMYR	6.046	6.015	-0.031	-0.5	5.75	5.73	5.72	5.74
JPYMYR	3.174	3.182	+0.008	+0.2	3.19	3.25	3.26	3.30

Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR

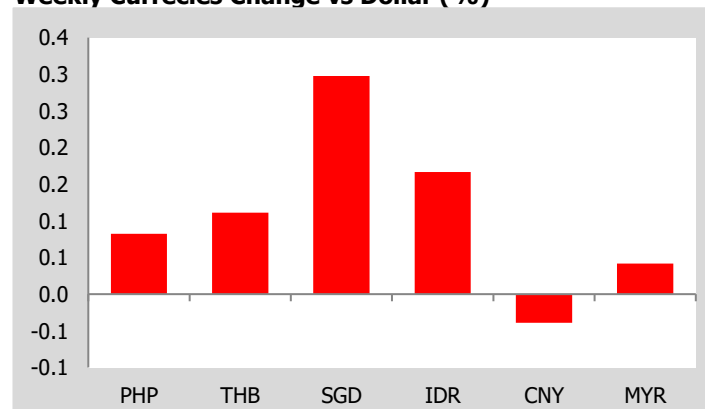
Source: Bloomberg, MIDFR

Yield Change in 10Y Government Bonds (bps)



Source: Bloomberg; Macrobond; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: Bloomberg; MIDFR

Central Bank Policy Rate by Selected Economies (%)

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	5.75	5.75	5.75	5.75	6.00	6.00	6.00	6.00	6.00
Philippines	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50
Thailand	2.00	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.50
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	5.00	5.00	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Euro area	4.00	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50
USA	5.00-5.25	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50

Source: Bloomberg, MIDFR

- US economic data released last week:
 - Fed minutes indicated interest rates to stay elevated. The Fed's Jan-24 FOMC Meeting minutes revealed officials remained cautious of cutting the rates too soon and would like to observe further evidence that inflation is sustainably moving lower towards its 2% target.
 - Both the services and manufacturing sectors expanded. The US S&P Global Services PMI moderated to 51.3 in Feb-24 (Jan-2: 52.5), 13-consecutive months of expansion albeit missing market consensus of 52.0. Meanwhile, the manufacturing PMI rose to 51.5, the highest since Sep-22 and surpassing market expectations of 50.5.
 - Labour market continued to show resilience. Initial jobless claims for the week ending 17th Feb-24 eased to 201K (previous week: 213K), much lower than market expectations for an increase to 218K.
- Monetary decisions announced last week:
 - On 20th Feb-24, the People's Bank of China (PBOC) kept the 1-year Loan Prime Rate (LPR) steady at 3.45%, surprising the market, which expected a -15bps cut to 3.30%. Meanwhile, the 5-year LPR, the reference for mortgages was cut by -25bps to 3.95%, steeper than market expectations for -15bps cut to 4.05%.
 - On 21st Feb-24, the Bank Indonesia (BI) kept the interest rate unchanged at 6.00%, meeting market consensus, citing that current levels remained adequate to manage inflation.
 - On 22nd Feb-24, Bank of Korea (BOK), kept the policy rate status quo at 3.50% just as the market expected saying it needs more time to assess changes in domestic and external conditions.
- Malaysia economic data released last week:
 - Headline inflation rate came in at +1.5%yoy the first month of 2024. The rate plateaued since Nov-23, the lowest since Mar-21 and lower than the market consensus of +1.6%yoy. The core inflation rate recorded lower at +1.8%yoy, almost 2-year low.
 - The leading index expanded while coincident index contracted. The Leading Index (LI) expanded +0.3%yoy on Dec-23, the first expansion in a 10-month period. Meanwhile, the Coincident Index (CI) rose +2.3%yoy (Nov-23: +2.6%yoy).

C. BNM INTERNATIONAL RESERVES

- As of 15 February 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD115.4b (31 January 2024: USD114.8b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The number of reserves is sufficient to finance 5.5 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	16-Feb Fri	19-Feb Mon	20-Feb Tue	21-Feb Wed	22-Feb Thu	23-Feb Fri	Change (WoW bp)
MGS							
3-Y	3.391	3.388	3.399	3.435	3.448	3.447	5.6
5-Y	3.547	3.544	3.547	3.583	3.57	3.584	3.7
7-Y	3.7	3.7	3.726	3.73	3.765	3.77	7
10-Y	3.845	3.848	3.859	3.866	3.859	3.895	5
20-Y	4.07	4.071	4.089	4.082	4.097	4.095	2.5
RINGGIT IRS							
1-Y	3.53	3.535	3.55	3.58	3.585	3.6	7
3-Y	3.5	3.505	3.515	3.525	3.55	3.585	8.5
5-Y	3.62	3.63	3.63	3.66	3.69	3.705	8.5
7-Y	3.745	3.745	3.755	3.785	3.79	3.83	8.5
10-Y	3.88	3.89	3.9	3.92	3.95	3.96	8
KLIBOR							
1-M	3.29	3.29	3.29	3.29	3.29	3.29	0
3-M	3.55	3.55	3.55	3.55	3.55	3.55	0
UST							
3-Y	4.4154	4.4154	4.39	4.4413	4.4843	4.4508	3.54
5-Y	4.2738	4.2738	4.2525	4.3044	4.3278	4.2799	0.61
7-Y	4.2937	4.2937	4.2832	4.3258	4.3445	4.281	-1.27
10-Y	4.2792	4.2792	4.2753	4.3187	4.3207	4.248	-3.12
30-Y	4.4356	4.4356	4.4482	4.4775	4.456	4.3703	-6.53
USD LIBOR							
1-M	5.43033	5.43033	5.43476	5.43551	5.43541	5.43861	0.828
3-M	5.57563	5.57563	5.58735	5.58354	5.58544	5.59218	1.655

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	16-Feb Yield	23-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	3.846	3.890	4.4	1,572.5
MALAYSIA GOVERNMENT	4.642	11/07/33	3.845	3.895	5.0	1,356.2
MALAYSIA GOVERNMENT	3.502	05/31/27	3.433	3.488	5.5	1,051.5
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.407	3.475	6.8	841.2
MALAYSIA GOVERNMENT	3.478	06/14/24	3.264	3.267	0.3	715.4
MALAYSIA GOVERNMENT	4.457	03/31/53	4.096	4.116	2.0	690.4
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.559	3.710	15.1	645.4
MALAYSIA GOVERNMENT	2.632	04/15/31	3.767	3.827	6.0	574.2
MALAYSIA GOVERNMENT	3.885	08/15/29	3.621	3.681	6.0	503.3
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.856	3.889	3.3	489.2
TOTAL VOLUME (TOP 10)						8,439.3
TOTAL VOLUME (Overall)						16,375.6

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	16-Feb Yield	23-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.8	04/05/52	N/A	4.265	N/A	200.0
DANAINFRA NASIONAL	4.68	04/07/42	4.070	4.104	3.4	170.0
MALAYSIA AIRPORTS HG B	3.87	12/30/26	3.728	3.656	-7.2	110.0
PUBLIC BANK BERHAD	3.93	04/07/32	3.847	3.820	-2.7	110.0
CAGAMAS BERHAD	4	08/29/28	3.845	3.844	-0.1	100.0
TNB POWER GENERATION	4.84	03/27/43	4.169	4.179	1.0	90.0
GENTING CAPITAL BHD	4.86	06/08/27	N/A	4.550	N/A	80.0
CAGAMAS BERHAD	4.26	01/18/28	3.832	3.797	-3.5	70.0
MALAYAN BANKING BHD	4.03	01/31/34	3.940	3.899	-4.1	61.0
TURUS PESAWAT SDN BHD	4.16	02/04/28	N/A	3.694	N/A	60.0
TOTAL VOLUME (TOP 10)						1,051.0
TOTAL VOLUME (Overall)						2,946.5

Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell