

MIDF Strategy 27 May 2024

Week Ended 24 May 2024

- Sellers returned to the UST market with benchmark 10-year yield ended the review week higher at 4.46% (prior week: 4.42%) as investors reacted to (1) less dovish Fed meeting minutes, and (2) better-than-expected US PMI data. The 10y-3y yield spread inverted deeper at -25bps (prior week: -19bps) as the short-end underperformed. Meanwhile, the interest rate futures market now anticipates only 1 (prior week: 2) rate cut this year.
- Medium-term inflation expectation (MTIE) ended the review week a tad higher at 2.33% (prior week: 2.32%). The MTIE remains within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. It is also notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. In gist, we reckon the market is convinced that underlying 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 4.5bps and 3.9bps to close at 3.58% and 3.90% respectively. The 10y-3y yield spread was barely changed week-on-week at 32bps.
- MGS foreign holdings increased year-on-year from RM260b in April 2023 to RM266b in April 2024. However, it stagnated month-on-month from RM266b in March 2024. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM792m. It improved week-on-week from -RM89m registered a week ago. Moreover, it improved year-on-year from -RM4.93b a year ago.

Weekly Money Review

A. FIXED INCOME

- Sellers returned to the UST market with benchmark 10-year yield ended the review week higher at 4.46% (prior week: 4.42%) as investors reacted to (1) less dovish Fed meeting minutes, and (2) better-than-expected US PMI data. The 10y-3y yield spread inverted deeper at -25bps (prior week: -19bps) as the short-end underperformed. Meanwhile, the interest rate futures market now anticipates only 1 (prior week: 2) rate cut this year.



Source: Bloomberg, MIDFR (G628, G629)

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



Source: Bloomberg, MIDFR (G653)

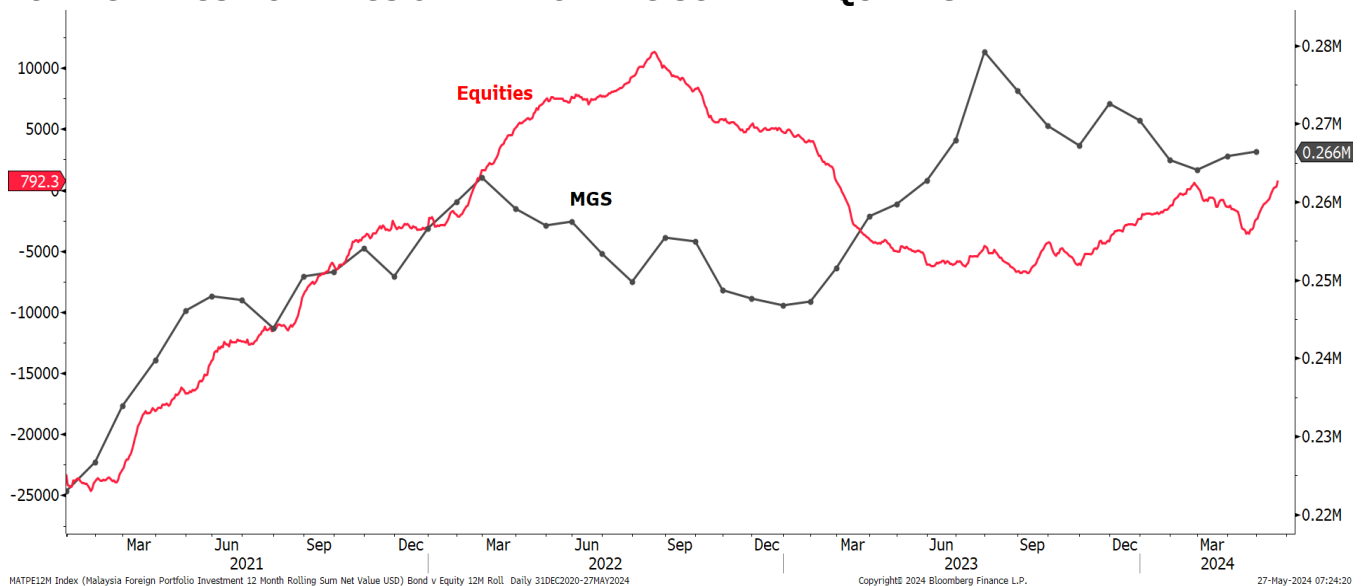
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Source: Bloomberg, MIDFR (G630, G631)

- Total trading value for Government Bonds (MGS/MII) declined to RM11.22b in the review week compared to RM19.00b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 60% from 50% of the overall Government Bonds trades. Moreover, 8 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 short and long residual tenor. The top 3 most actively traded were MGS 3.478% 6/14/24 at RM1.49b, MGS 3.882% 3/14/25 at RM1.03b, and MII 4.467% 9/15/39 at RM931m.

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



Source: Bloomberg, MIDFR (G659)

- MGS foreign holdings increased year-on-year from RM260b in April 2023 to RM266b in April 2024. However, it stagnated month-on-month from RM266b in March 2024. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM792m. It improved week-on-week from -RM89m registered a week ago. Moreover, it improved year-on-year from -RM4.93b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM3.12b in the review week compared to RM3.29b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 36% from 34% 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 5.29% 7/22/44 at RM220m, Turus Pesawat 3.97% 2/5/25 at RM200m, and Pengurusan Air Selangor 4.74% 10/11/38 at RM110m.

B. FOREIGN EXCHANGE

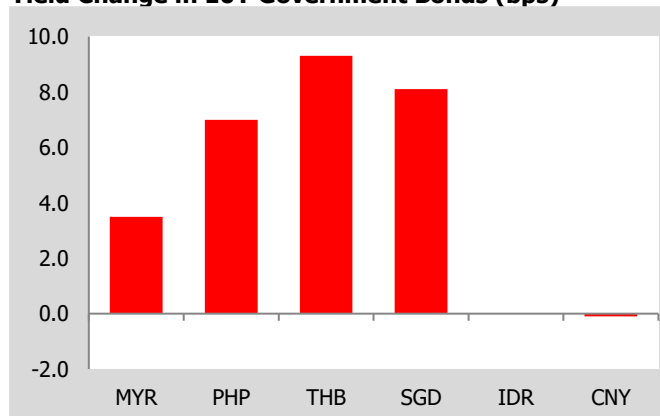
- USD rebounded last week. The US dollar appreciated last week as the DXY dollar index rose by +0.3%*wow* to 104.72. The dollar strengthened after FOMC minutes revealed that the Fed remained cautious about cutting the interest rates too early. Additionally, the robustness of the labour market and better-than-expected consumer sentiment signalled a better US economic outlook which may cause the Fed to delay rate cuts.
- Euro retreated but the pound gained against the dollar. The euro depreciated by -0.2%*wow* to USD1.085 while the pound sterling strengthened by +0.3%*wow* to USD1.274 despite the stronger dollar. The euro depreciated on dovish sentiments from the ECB while the pound benefitted from rising expectations for the BOE to delay its rate cuts.
- Ringgit reversed the previous week's gains. Like most regional currencies, the ringgit depreciated by -0.5%*wow* to RM4.712 against the broad strength in US dollar. Similarly, the ringgit weakened against the currencies of Malaysia's major trading partners and regional currencies as our MIDF Trade-Weighted Ringgit Index closed -0.2%*wow* lower at 85.81, the first decline in 7 weeks. The ringgit weakened the most against the Indian rupee but notably rebounded strongly against the Thai baht. Commodity prices were also unfavourable towards the ringgit, with the Brent crude oil prices declining -2.2%*wow* to USD82.12pb (previous week: USD83.98pb).

Currencies Changes (Week Ended 24 May 2024) and Quarterly Forecasts

	Close (24/05)	Prev. Close (17/05)	Weekly Change	Weekly Change (%)	1QCY24	2QCY24f	3QCY24f	4QCY24f
DXY Index	104.72	104.45	+0.279	+0.3	104.49	102.5	101.1	99.7
EURUSD	1.085	1.087	-0.002	-0.2	1.079	1.09	1.10	1.12
GBPUSD	1.274	1.270	+0.004	+0.3	1.262	1.24	1.26	1.27
USDJPY	156.99	155.65	-1.340	-0.9	151.35	141.0	138.0	135.0
USDMYR	4.712	4.6877	-0.024	-0.5	4.725	4.685	4.556	4.430
GBPMYR	5.988	5.933	-0.055	-0.9	5.960	5.73	5.72	5.74
JPYMYR	3.002	3.012	+0.010	+0.3	3.122	3.25	3.26	3.30
MIDF TWRI	85.81	85.98	-0.168	-0.2	85.00	86.40	88.00	91.50

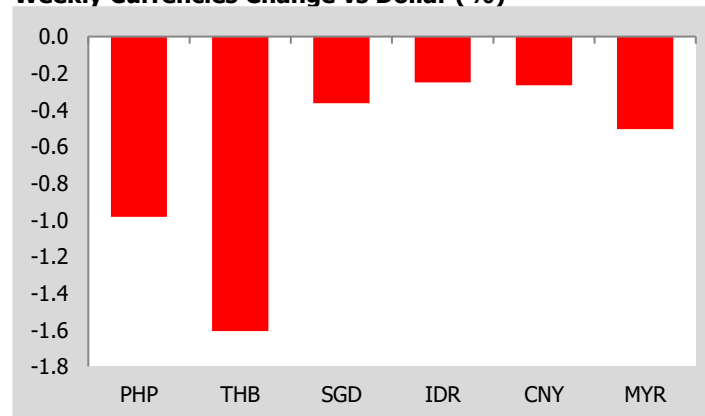
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.25
Philippines	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Thailand	2.50	2.50	2.50	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)	0.00-0.10	0.00-0.10	0.00-0.10
UK	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Euro area	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
USA	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	5.25-5.50

Source: Bloomberg, MIDFR

- US economic data released last week:
 - The services sector accelerated in May-24. The US S&P Global Service PMI increased to 54.8 (Apr-24: 51.3), the highest in a year and surpassing market forecast for the index to remain at 51.3.
 - The manufacturing sector returned to expansion. US S&P Global Manufacturing PMI rose to 50.9 (Apr-24: 50.0), against market expectations for the sector to experience another month of stagnation.
 - Labour market continued its resilience. The initial jobless claims remained above the 4MCY24 average albeit declining to 215K (previous week: 223K) and lower than market expectations of 220K.
 - Consumer sentiment revised higher. The University of Michigan's consumer sentiment index for the US was revised upward to 69.1 in May-24 (initial estimate: 67.4), although it remains the lowest in six months.
- The Fed remained cautious about cutting the interest rates too early. The minutes of the recent FOMC meeting revealed the Fed is still concerned about persistent inflation, indicating a lack of confidence in reducing interest rates too soon as inflation remained above its 2% target.
- Monetary decisions announced last week:
 - People's Bank of China kept its 1-year and 5-year loan prime rates (LPR) unchanged at 3.45% and 3.95%, respectively in its May-24 decision. The decision followed various initiatives by the central bank to revitalized China's property sector including CNY1.0t in extra funding.
 - Bank Indonesia kept its interest rate steady at 6.25% in May 2024, in line with expectations, to manage inflation within the 2.5±1% target and maintain foreign capital inflows and Rupiah stability.
 - The Bank of Korea maintained its base rate unchanged at 3.50% for the eleventh consecutive meeting in May-24, highlighting its commitment to economic stability amid robust and resilient economic conditions.
- Malaysia economic data released last week:
 - Exports rebounded in Apr-24. Exports rebounded and grew at +9.1%yoy driven by stronger domestic exports (+14.5%yoy), particularly non-E&E products.
 - Low inflation environment continues. Headline CPI inflation remained at +1.8%yoy in Apr-24, registering 8-straight months below +2.0% level (market consensus: +1.9%yoy), while core inflation rose to 4-month high at +1.9%yoy (Mar-24: +1.7%yoy) signalling higher demand pressures.
 - Robust growth momentum to continue. LI increased faster by +2.3%yoy in Mar-24 (Feb-24: +2.1%yoy) while the coincident index (CI) rose further by +2.3%yoy (Feb-24: +1.9%yoy).

C. BNM INTERNATIONAL RESERVES

- As of 15 May 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD113.3b (30 April 2024: USD112.8b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR (G662)

- The number of reserves is sufficient to finance 5.4 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	17-May Fri	20-May Mon	21-May Tue	22-May Wed	23-May Thu	24-May Fri	Change (WoW bp)
MGS							
3-Y	3.537	3.562	3.551	3.551	3.583	3.582	4.5
5-Y	3.677	3.679	3.676	3.676	3.703	3.703	2.6
7-Y	3.789	3.812	3.795	3.795	3.831	3.839	5
10-Y	3.862	3.866	3.878	3.878	3.894	3.901	3.9
20-Y	4.128	4.143	4.141	4.141	4.143	4.132	0.4
RINGGIT IRS							
1-Y	3.6	3.6	3.6	3.6	3.6	3.6	0
3-Y	3.615	3.62	3.61	3.61	3.6075	3.61	-0.5
5-Y	3.695	3.6988	3.6905	3.6905	3.701	3.697	0.2
7-Y	3.79	3.795	3.79	3.79	3.8	3.8	1
10-Y	3.925	3.91	3.91	3.91	3.9	3.907	-1.8
KLIBOR							
1-M	3.29	3.29	3.29	3.29	3.29	3.29	0
3-M	3.59	3.59	3.59	3.59	3.59	3.59	0
UST							
3-Y	4.6101	4.6329	4.6017	4.6472	4.7129	4.7163	10.62
5-Y	4.445	4.4661	4.4341	4.4623	4.5298	4.5277	8.27
7-Y	4.4268	4.4529	4.4187	4.4396	4.4974	4.4866	5.98
10-Y	4.4198	4.4433	4.412	4.4218	4.4767	4.465	4.52
30-Y	4.5586	4.5845	4.5491	4.5377	4.5816	4.57	1.14
USD LIBOR							
1-M	5.43424	5.43507	5.43673	5.43664	5.43936	5.44226	0.802
3-M	5.58741	5.58833	5.59107	5.59246	5.5975	5.60449	1.708

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	17-May Yield	24-May Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.478	06/14/24	3.185	3.254	6.9	1,490.4
MALAYSIA GOVERNMENT	3.882	03/14/25	3.363	3.300	-6.3	1,028.8
MALAYSIA INVESTMNT ISSU	4.467	09/15/39	4.015	4.020	0.5	930.8
MALAYSIA GOVERNMENT	4.181	07/15/24	3.203	3.263	6.0	691.0
MALAYSIA GOVERNMENT	3.885	08/15/29	3.677	3.703	2.6	614.5
MALAYSIA GOVERNMENT	3.955	09/15/25	3.362	3.388	2.6	446.4
MALAYSIA INVESTMNT ISSU	3.655	10/15/24	3.265	3.326	6.1	412.8
MALAYSIA GOVERNMENT	3.828	07/05/34	3.886	3.900	1.4	373.8
MALAYSIA GOVERNMENT	4.642	11/07/33	3.862	3.901	3.9	358.8
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.396	3.392	-0.4	357.1
TOTAL VOLUME (TOP 10)						6,704.3
TOTAL VOLUME (Overall)						11,220.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	17-May Yield	24-May Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	5.29	07/22/44	4.224	4.209	-1.5	220.0
TURUS PESAWAT SDN BHD	3.97	02/05/25	N/A	3.507	N/A	200.0
PENGURUSAN AIR SELANGO	4.74	10/11/38	N/A	4.124	N/A	110.0
PRASARANA MALAYSIA BHD	4.39	03/07/25	3.432	3.435	0.3	105.0
PENGURUSAN AIR SPV BHD	4.34	02/07/29	3.866	3.771	-9.5	100.0
PERBADANAN TABUNG PEN	4.11	03/07/39	4.060	4.050	-1.0	90.0
CAGAMAS BERHAD	3.82	08/10/26	N/A	3.666	N/A	90.0
DIGI TELECOMMUNICATION	4.05	05/30/30	3.958	3.969	1.1	80.0
MMC CORP BHD	5.7	03/24/28	4.034	4.017	-1.7	70.0
DANAINFRA NASIONAL	4.38	02/08/33	3.954	3.925	-2.9	60.0
TOTAL VOLUME (TOP 10)						1,125.0
TOTAL VOLUME (Overall)						3,118.4

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