

## MIDF Strategy 24 June 2024

### Week Ended 21 June 2024

- The UST market succumbed to profit activities with benchmark 10-year yield ended the review week slightly higher at 4.26% (prior week: 4.22%) as investors reacted to, among others, statement by a Fed official that it would take a year or two to get inflation back to 2%. Hence, concerns of interest rates staying higher for longer. The 10y-3y yield rebounded but remains inverted at -21bps (prior week: -22bps) as the long-end underperformed. Meanwhile, at week close, the interest rate futures market implied 2 rate cuts (prior week: 2 rate cuts) this year, i.e. in September and December.
- Medium-term inflation expectation (MTIE) ended the review week higher at 2.20% (prior week: 2.13%). The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but above its 2% target level. 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 slowly ebbing.
- The price of MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -0.6bp and -0.7bp to close at 3.53% and 3.86% respectively. The 10y-3y yield spread was unchanged week-on-week at 32bps.
- MGS foreign holdings increased year-on-year from RM263b in May 2023 to RM272b in May 2024. Moreover, it risen month-on-month from RM266b in April 2024. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM1.21b. It declined week-on-week from RM1.34b registered a week ago. However, it improved year-on-year from -RM6.03b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- The UST market succumbed to profit activities with benchmark 10-year yield ended the review week slightly higher at 4.26% (prior week: 4.22%) as investors reacted to, among others, statement by a Fed official that it would take a year or two to get inflation back to 2%. Hence, concerns of interest rates staying higher for longer. The 10y-3y yield rebounded but remains inverted at -21bps (prior week: -22bps) as the long-end underperformed. Meanwhile, at week close, the interest rate futures market implied 2 rate cuts (prior week: 2 rate cuts) this year, i.e. in September and December.



Source: Bloomberg, MIDFR (G628, G629)

- Medium-term inflation expectation (MTIE) ended the review week higher at 2.20% (prior week: 2.13%). The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but above its 2% target level. 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 slowly ebbing.

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



Source: Bloomberg, MIDFR (G653)

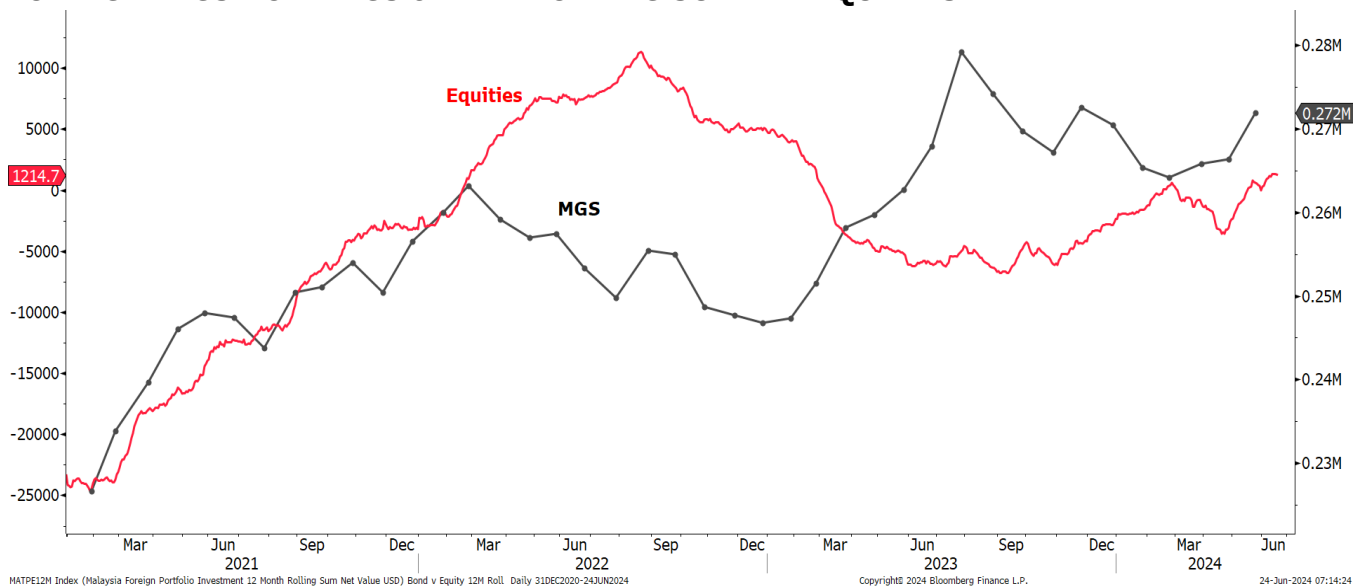
The price of MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -0.6bp and -0.7bp to close at 3.53% and 3.86% respectively. The 10y-3y yield spread was unchanged week-on-week at 32bps.



Source: Bloomberg, MIDFR (G630, G631)

- Total trading value for Government Bonds (MGS/MII) declined to RM15.73b in the review week compared to RM16.58b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 53% from 60% of the overall Government Bonds trades. Moreover, 8 out of the 10 most actively traded bonds saw lower yield, hence higher prices during the review week.
- The top 3 actively traded Government Bonds were dominated by issues of short and mid residual tenor. The top 3 most actively traded were MGS 3.502% 5/31/27 at RM1.40b, MGS 2.632% 4/15/31 at RM1.12b, and MII 4.07% 9/30/26 at RM902m.

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



Source: Bloomberg, MIDFR (G659)

- MGS foreign holdings increased year-on-year from RM263b in May 2023 to RM272b in May 2024. Moreover, it risen month-on-month from RM266b in April 2024. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM1.21b. It declined week-on-week from RM1.34b registered a week ago. However, it improved year-on-year from -RM6.03b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.76b in the review week compared to RM3.70b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 27% from 30% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of mid residual tenor. The top 3 most actively traded were Tenaga Nasional 4.95% 8/3/32 at RM100m, CIMB Group 4.88% 9/13/29 at RM90m, and Air Selangor 4.4% 10/11/30 at RM80m.

## B. FOREIGN EXCHANGE

- USD appreciated further. The US dollar strengthened for the third consecutive week last week as the DXY dollar index rose by +0.2%w to 105.80, closing at the strongest level since late Apr-24. The continued strength in the US dollar was supported by hawkish expectations on the future move by the Fed as the recent data releases pointed to continued resilience in the US services sector and improved manufacturing activity.
- Euro and pound weakened further. The euro and pound sterling depreciated by -0.1%w to USD1.069 and -0.3%w to USD1.265, respectively. The euro closed at its weakest closing since early-May-24, while the pound sterling weakened to the lowest since middle of May-24. Aside from the dollar strength, both currencies also retreated on weaker-than-expected PMI data.
- Ringgit rebounded, outperformed other regional currencies. In contrast to regional currencies weakening against stronger US dollar, Malaysian ringgit appreciated by +0.2%w to RM4.713. Similarly, the ringgit gained against the currencies of Malaysia's major trading partners and regional currencies, contributing to our MIDF Trade-Weighted Ringgit Index closing +0.4%w higher at 86.35, the strongest level since Aug-23. The ringgit appreciated the most against Japanese yen and Chinese yuan. Commodity prices were favourable towards the ringgit as the Brent crude oil prices rose +3.2%w to USD85.24pb (previous week: USD82.62pb).

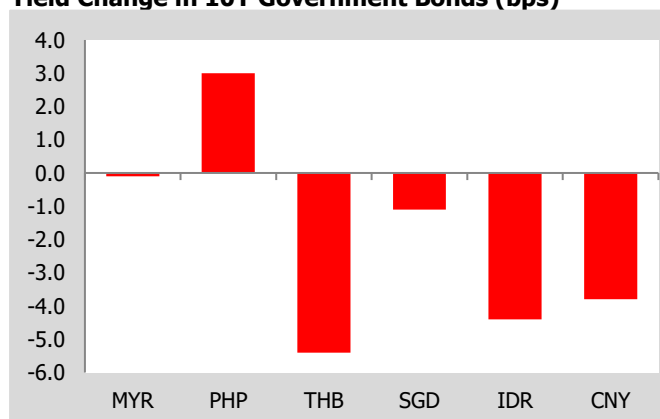
### Currencies Changes (Week Ended 21 June 2024) and Quarterly Forecasts

	Close (21/06)	Prev. Close (14/06)	Weekly Change	Weekly Change (%)	1QCY24	2QCY24f	3QCY24f	4QCY24f
DXY Index	105.80	105.55	+0.246	+0.2	104.49	102.5	101.1	99.7
EURUSD	1.069	1.070	-0.001	-0.1	1.079	1.09	1.10	1.12
GBPUSD	1.265	1.269	-0.004	-0.3	1.262	1.24	1.26	1.27
USDJPY	159.8	157.4	-2.400	-1.5	151.35	141.0	138.0	135.0
USDMYR	4.713	4.7207	+0.008	+0.2	4.725	4.685	4.556	4.430
GBPMYR	5.963	5.999	+0.035	+0.6	5.960	5.73	5.72	5.74
JPYMYR	2.949	3.000	+0.051	+1.7	3.122	3.25	3.26	3.30
MIDF TWRI	86.35	85.97	+0.379	+0.4	85.00	86.40	88.00	91.50

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

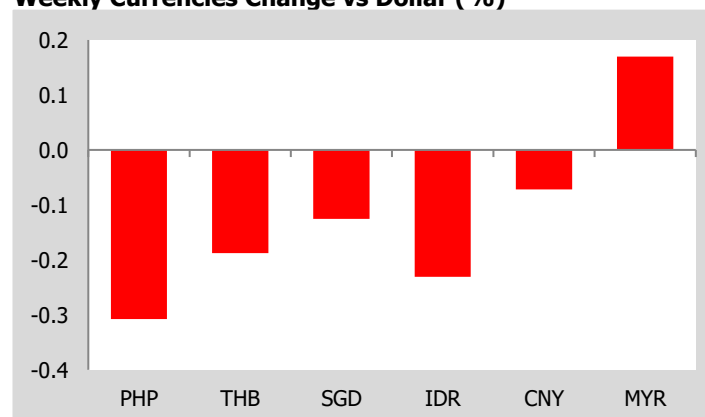
Source: Bloomberg, MIDFR

### 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 (%)

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.25
Philippines	6.50	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)	0.00-0.10	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	4.25
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:
  - Retail sales remained expansionary. The US retail sales rose +2.3%yoy in May-24, the slowest in 3 months.
  - Industrial production rebounded. Industrial production returned to expansion, growing at +0.4%yoy and ending 2 months of contraction.
  - The services sector expanded faster. The S&P Global Flash US Services PMI increased to 55.1 (May-24: 54.8), reaching a 26-month high and against market expectations for a lower reading of 53.7.
  - The manufacturing sector remained expansionary. The manufacturing PMI rose to 51.7 (May-24: 51.3), the strongest expansion in 3 months and exceeded market expectations of 51.0.
  - Leading index signalled a softer outlook. The Conference Board leading index registered another month of contraction at -0.5%mom in May-24 (Apr-24: -0.6%mom), steeper than -0.3%mom anticipated by market expectations.
  - No further cooling in the job market. Initial jobless claims for the week ending 15th June 2024 fell to 238K (previous week: 243K), higher than market expectations of 235K.
  
- Monetary decisions announced last week:
  - On 18th June 2024:
    - Reserve Bank of Australia (RBA) maintained the interest rate at 4.35% but remained cautious about of the elevated inflation, which is still above the 2%-3% target.
  - On 20th June 2024:
    - The People's Bank of China (PBOC) maintained its 1-year and 5-year Loan Prime Rates (LPRs) at 3.45% and 3.95%, respectively, as anticipated by the market consensus. The PBOC was seen to dovish to bolster the still soft domestic demand, but recent growth limited the need for further easing.
    - The Bank of England (BOE) kept its interest rate at 5.25%, in line with market expectations. Despite inflation reaching the BOE's 2% target, the BOE maintained its policy setting due to persistent service inflation, awaiting further evidence of diminishing inflationary pressures.
    - Bank Indonesia (BI) kept its interest rate at the high level of 6.25% to ensure inflation remains within the central bank's target of +2.5±1% for 2024 and 2025 and to protect the rupiah's stability.
  
- Malaysia economic data released last week:
  - Sustained recovery in Malaysia's external trade. Malaysia's export growth was sustained for the second month in a row at +7.3%yoy (Apr-24: +9.1%yoy), supported by higher E&E and palm oil exports. Meanwhile, imports growth was sustained at double-digit pace at +13.8%yoy (Apr-24: +15.6%yoy) due to rising imports of capital and intermediate goods.

## C. BNM INTERNATIONAL RESERVES

- As of 31 May 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD113.6b (15 May 2024: USD113.3b).

### 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	14-Jun Fri	17-Jun Mon	18-Jun Tue	19-Jun Wed	20-Jun Thu	21-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.538	3.538	3.552	3.534	3.534	3.532	-0.6
5-Y	3.655	3.655	3.653	3.646	3.637	3.635	-2
7-Y	3.797	3.797	3.803	3.781	3.786	3.786	-1.1
10-Y	3.863	3.863	3.882	3.86	3.862	3.856	-0.7
20-Y	4.128	4.128	4.128	4.128	4.132	4.135	0.7
RINGGIT IRS							
1-Y	3.585	3.585	3.58	3.555	3.5725	3.57	-1.5
3-Y	3.58	3.58	3.575	3.555	3.55	3.545	-3.5
5-Y	3.64	3.64	3.636	3.595	3.6225	3.615	-2.5
7-Y	3.75	3.75	3.75	3.701	3.72	3.7085	-4.15
10-Y	3.865	3.865	3.86	3.81	3.845	3.84	-2.5
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	4.4391	4.5036	4.4385	4.4385	4.4693	4.4659	2.68
5-Y	4.2383	4.3032	4.2431	4.2431	4.2746	4.2742	3.59
7-Y	4.2166	4.2785	4.2213	4.2213	4.2573	4.2543	3.77
10-Y	4.2209	4.2809	4.2227	4.2227	4.2594	4.2554	3.45
30-Y	4.3488	4.4055	4.3551	4.3551	4.3972	4.3971	4.83
USD LIBOR							
1-M	5.4464	5.45315	5.45673	5.45673	5.45812	5.45971	1.331
3-M	5.60564	5.60518	5.60902	5.60902	5.60907	5.60616	0.052

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	14-Jun Yield	21-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.502	05/31/27	3.538	3.532	-0.6	1,400.3
MALAYSIA GOVERNMENT	2.632	04/15/31	3.797	3.786	-1.1	1,120.8
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.461	3.452	-0.9	902.1
MALAYSIA GOVERNMENT	3.882	03/14/25	3.274	3.267	-0.7	901.6
MALAYSIA INVESTMNT ISSU	3.655	10/15/24	3.242	3.252	1.0	762.8
MALAYSIA GOVERNMENT	4.642	11/07/33	3.863	3.856	-0.7	706.7
MALAYSIA GOVERNMENT	3.885	08/15/29	3.655	3.635	-2.0	683.6
MALAYSIA GOVERNMENT	3.955	09/15/25	3.291	3.266	-2.5	672.4
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.619	3.612	-0.7	601.4
MALAYSIA INVESTMNT ISSU	4.28	03/23/54	4.238	4.240	0.2	538.7
TOTAL VOLUME (TOP 10)						8,290.3
TOTAL VOLUME (Overall)						15,734.3

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	14-Jun Yield	21-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
TENAGA NASIONAL BERHA	4.95	08/03/32	3.958	3.930	-2.8	100.0
CIMB GROUP HOLDINGS BH	4.88	09/13/29	3.778	3.781	0.3	90.0
PENGURUSAN AIR SELANGO	4.4	10/11/30	3.949	3.956	0.7	80.0
MERC BENZ SVC MALAYSIA	3.91	03/24/28	3.897	3.868	-2.9	80.0
IJM TREASURY MANAGEME	4.4	03/21/39	4.238	4.224	-1.4	75.0
CAGAMAS BERHAD	3.76	08/30/24	3.566	3.460	-10.6	70.0
MALAYAN BANKING BHD	4.13	PERP	4.197	3.991	-20.6	60.5
EDOTCO MALAYSIA SDN BH	4.27	09/09/27	N/A	3.844	N/A	60.0
PROJEK LEBUHRAYA USAHA	4.891	01/11/36	4.032	4.039	0.7	60.0
PONSB CAPITAL BHD	4.1	05/28/31	3.988	3.988	0.0	60.0
TOTAL VOLUME (TOP 10)						735.5
TOTAL VOLUME (Overall)						2,764.7

Source: Bloomberg



MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have an interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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