

MIDF Strategy 5 August 2024

Week Ended 2 August 2024

- The UST market rallied with benchmark 10-year yield closed the review week lower at 3.79% (prior week: 4.19%), its lowest weekly close since June 2023, as investors reacted to the prospect of imminent rate cuts and rising fears of an economic recession upon the release of weaker than expected economic figures. The 10y-3y yield spread rebounded to +8bps (prior week: 0bp) as the short-end outperformed due to its higher sensitivity to policy rate outlook. Meanwhile, at week close, the interest rate futures market implied rate cuts totaling -125bps (prior week: -75bps) this year.
- Medium-term inflation expectation (MTIE) ended the review week starkly lower at 1.92% (prior week: 2.16%). The MTIE fell below the US Fed target level of 2.00% to its lowest level since January 2021. In gist, we reckon the market is now convinced that the underlying inflation pressure is largely contained.
- The price of MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -10.5bps and -7.1bps to close at 3.32% and 3.71% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 36bps to 39bps as the short-end outperformed.
- MGS foreign holdings increased year-on-year from RM268b in June 2023 to RM271b in June 2024. However, it declined month-on-month from RM272b in May 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 RM1.14b registered a week ago. However, it improved year-on-year from -RM4.78b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market rallied with benchmark 10-year yield closed the review week lower at 3.79% (prior week: 4.19%), its lowest weekly close since June 2023, as investors reacted to the prospect of imminent rate cuts and rising fears of an economic recession upon the release of weaker than expected economic figures. The 10y-3y yield spread rebounded to +8bps (prior week: 0bp) as the short-end outperformed due to its higher sensitivity to policy rate outlook. Meanwhile, at week close, the interest rate futures market implied rate cuts totaling -125bps (prior week: -75bps) this year.

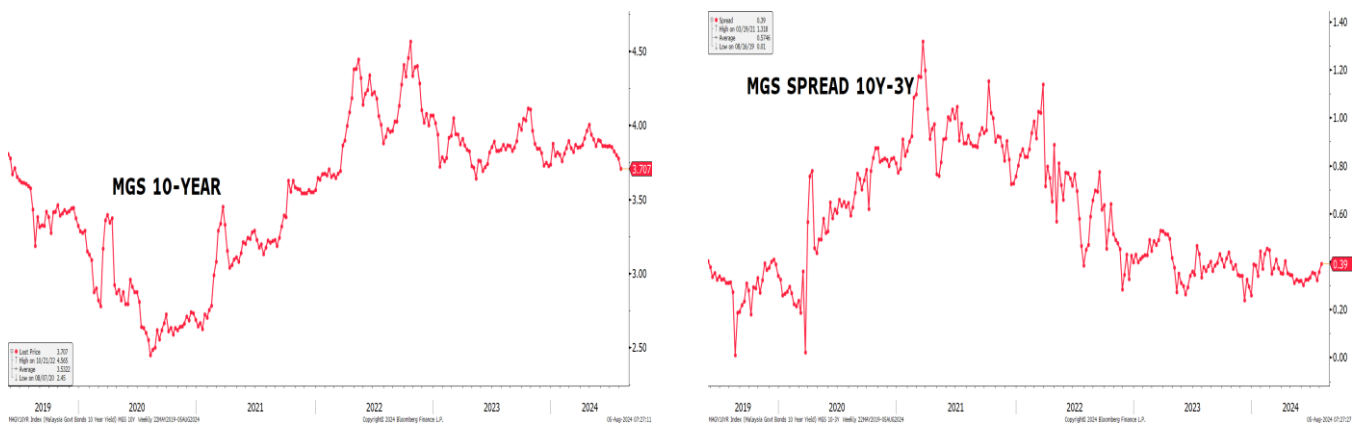


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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



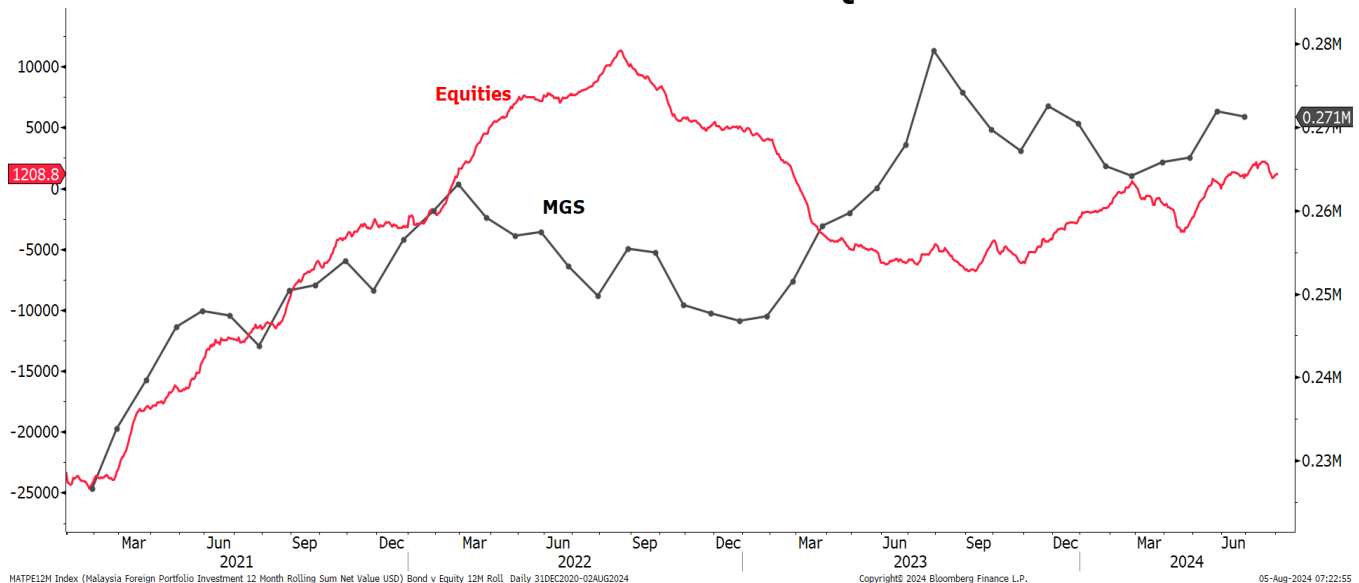
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Source: Bloomberg, MIDFR (G630, G631)

- Total trading value for Government Bonds (MGS/MII) jumped to RM44.90b in the review week compared to RM22.17b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 48% from 51% of the overall Government Bonds trades. Moreover, 10 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 4.642% 11/7/33 at RM3.32b, MII 3.655% 10/15/24 at RM2.90b, and MGS 3.885% 8/15/29 at RM2.54b.

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



Source: Bloomberg, MIDFR (G659)

- MGS foreign holdings increased year-on-year from RM268b in June 2023 to RM271b in June 2024. However, it declined month-on-month from RM272b in May 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 RM1.14b registered a week ago. However, it improved year-on-year from -RM4.78b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM3.20b in the review week compared to RM3.86b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues was unchanged week-on-week at 33% 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 PTPTN 4.11% 3/7/39 at RM300m, Danainfra 4.33% 11/15/24 at RM155m, and Danainfra 4.95% 4/6/40 at RM100m.

B. FOREIGN EXCHANGE

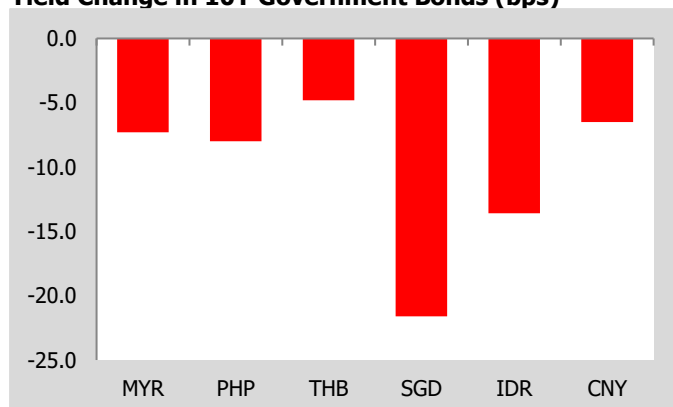
- USD closed the weakest since mid-Mar-24. The US dollar depreciated sharply last week as the DXY dollar index plunged -1.1%wow to 103.21. The decline was underpinned by a more dovish tone by the Fed, despite keeping the interest rate steady in its Jul-24 FOMC meeting. Additionally, softer than expected labour market data also heightened expectations for the Fed to start easing its policy rate soon.
- Euro rebounded while pound depreciated further. The euro appreciated by +0.5wow to USD1.091, capitalising on the weaker dollar to end 2 weeks of depreciation. In contrast the pound depreciated by -0.5%wow to USD1.280, weakening for the 3rd consecutive week as the BOE cut interest rate in its Aug-24 policy meeting.
- Ringgit closed the strongest since mid-May-23. The Malaysian ringgit appreciated +3.6%wow to RM4.497 outperforming other regional currencies. Additionally, ringgit appreciated steeply against the currencies of Malaysia's major trading partners and regional currencies, contributing to our MIDF Trade-Weighted Ringgit Index closing +2.7%wow higher at 89.19, the highest since Feb-23. The ringgit appreciated strongly against all currencies within the index but the Japanese yen, where it remains at previous week's level. Ringgit continued to be affected by the financial market developments as movement in the commodity prices was unfavourable towards the local currency with the Brent crude oil prices declining -5.3%wow to USD76.81pb (previous week: USD81.13pb).

Currencies Changes (Week Ended 2 August 2024) and Quarterly Forecasts

	Close 02/08	Prev. Close 26/07	Weekly Change	Weekly Change (%)	1QCY24	2QCY24	3QCY24f	4QCY24f
DXY Index	103.21	104.32	-1.108	-1.1	104.49	105.87	101.1	99.7
EURUSD	1.091	1.086	+0.006	+0.5	1.079	1.071	1.10	1.12
GBPUSD	1.280	1.287	-0.007	-0.5	1.26	1.265	1.26	1.27
USDJPY	146.5	153.8	+7.230	+4.9	151.35	160.88	138.0	135.0
USDMYR	4.497	4.658	+0.161	+3.6	4.725	4.718	4.556	4.430
GBPMYR	5.729	5.994	+0.265	+4.6	5.960	5.967	5.72	5.74
JPYMYR	3.068	3.027	-0.040	-1.3	3.122	2.932	3.26	3.30
MIDF TWRI	89.19	86.87	+2.319	+2.7	85.00	86.25	88.00	91.50

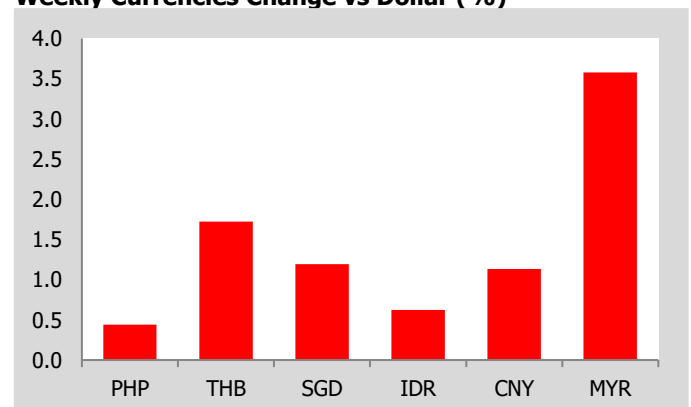
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Jul-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	6.25	6.25	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)	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.25	0.25
UK	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.00
Euro area	4.50	4.50	4.50	4.50	4.50	4.50	4.25	4.25	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:
 - Consumer confidence improved. The US Conference Board (CB) Consumer Confidence Index rose to 100.3 in Jul-24 from the downwardly revised 97.8 in Jun-24.
 - The manufacturing sector deteriorated. ISM Manufacturing PMI rose to 46.8 in Jul-24 (Jun-24: 48.5), but still underwhelmed market expectations of 48.8. Meanwhile, the S&P Global Manufacturing PMI fell to 48.6 (Jun24: 51.6), slightly better than market expectations of 49.5.
 - Labour market cool faster:
 - Non-farm payroll rose +114K in Jul-24 (Jun-24: +179K), the lowest in 3 months and much softer than market expectations of +175K.
 - The jobless rate rose to 4.3%, the 4th consecutive month of increase and the highest since Oct-21, surpassing market expectations for it to remain at 4.1%.
 - ADP data shows private sector hiring expanded softer at +122K in Jul-24, the least in 6 months and lower than market expectations of +150K.
 - Initial jobless claims for the week ending 27th July 2024 soared to 249K (previous week: 235K), almost a year high and faster than the market projection of 236K.
 - Labour demand softened as the number for JOLTS job openings decreased to 8.18m (May-24: 8.23m), though still exceeding market expectations of 8.00m
- Monetary decisions announced last week:
 - On 31 July 2024,
 - Bank of Japan increased its interest rates by +15bps to 0.25% from 0.0%-0.10% previously against market expectations for the rate to be kept status quo. BOJ cited possibilities of another hike this year to raise borrowing cost to levels deemed neutral to the economy.
 - The Federal Reserve (FED) maintained the Federal Funds Rate at 5.25%-5.50%, conforming to market expectations. The Fed stated that Sep-24 cut is a possibility if inflation decelerated in line with expectations.
 - On 1 August 2024, the Bank of England (BOE) unsurprisingly cut the interest rate by -25bps to 5.00%. The BOE, however, said it will remain cautious in easing its policy rate until there is further evidence that inflation remains subdued.
- Malaysia economic data released last week:
 - Producer's inflation ascended. PPI inflation accelerated to +1.6%yoy in Jun-24, marking the 2nd consecutive month of increase.
 - The manufacturing sector deteriorated further. S&P Global Manufacturing PMI slightly decreased to 49.7 (Jun-24: 49.9), contracting for the second consecutive month. New orders eased in Jul-24, the first time in 3 months due to weaker domestic demand.

C. BNM INTERNATIONAL RESERVES

- As of 15 July 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD113.3b (28 June 2024: USD113.8b).

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	26-Jul Fri	29-Jul Mon	30-Jul Tue	31-Jul Wed	1-Aug Thu	2-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.422	3.407	3.404	3.351	3.351	3.317	-10.5
5-Y	3.57	3.546	3.535	3.515	3.5	3.491	-7.9
7-Y	3.723	3.697	3.684	3.675	3.668	3.666	-5.7
10-Y	3.778	3.759	3.74	3.716	3.695	3.707	-7.1
20-Y	4.058	4.032	4.032	4.025	4.025	4.032	-2.6
RINGGIT IRS							
1-Y	3.47	3.465	3.475	3.455	3.45	3.427	-4.3
3-Y	3.42	3.44	3.4525	3.425	3.41	3.38	-4
5-Y	3.505	3.5	3.4975	3.4875	3.4525	3.4125	-9.25
7-Y	3.59	3.6	3.605	3.56	3.53	3.503	-8.7
10-Y	3.705	3.705	3.7	3.67	3.6325	3.6025	-10.25
KLIBOR							
1-M	3.29	3.29	3.29	3.29	3.29	3.29	0
3-M	3.57	3.57	3.57	3.57	3.57	3.57	0
UST							
3-Y	4.1988	4.2099	4.1702	4.057	3.9582	3.7072	-49.16
5-Y	4.0749	4.0749	4.0331	3.9132	3.8335	3.6166	-45.83
7-Y	4.1146	4.1017	4.0629	3.9446	3.8806	3.67	-44.46
10-Y	4.1939	4.1744	4.1394	4.0296	3.976	3.7904	-40.35
30-Y	4.4523	4.4244	4.3948	4.3028	4.2759	4.1072	-34.51
USD LIBOR							
1-M	5.46118	5.45819	5.45681	5.45703	5.46473	5.46652	0.534
3-M	5.51698	5.51372	5.50929	5.50271	5.50373	5.48934	-2.764

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	26-Jul Yield	2-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	4.642	11/07/33	3.778	3.707	-7.1	3,318.3
MALAYSIA INVESTMNT ISSU	3.655	10/15/24	3.140	3.068	-7.2	2,900.5
MALAYSIA GOVERNMENT	3.885	08/15/29	3.570	3.491	-7.9	2,539.9
MALAYSIA GOVERNMENT	2.632	04/15/31	3.723	3.666	-5.7	2,388.2
MALAYSIA GOVERNMENT	4.059	09/30/24	3.098	3.079	-1.9	1,866.0
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.678	3.626	-5.2	1,809.3
MALAYSIA GOVERNMENT	3.502	05/31/27	3.422	3.317	-10.5	1,769.2
MALAYSIA INVESTMNT ISSU	4.119	11/30/34	3.770	3.721	-4.9	1,734.8
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.374	3.306	-6.8	1,674.5
MALAYSIA GOVERNMENT	3.906	07/15/26	3.337	3.207	-13.0	1,630.7
TOTAL VOLUME (TOP 10)						21,631.3
TOTAL VOLUME (Overall)						44,897.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	26-Jul Yield	2-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
PERBADANAN TABUNG PEN	4.11	03/07/39	3.999	3.959	-4.0	300.0
DANAINFRA NASIONAL	4.33	11/15/24	N/A	3.320	N/A	155.0
DANAINFRA NASIONAL	4.95	04/06/40	4.055	3.979	-7.6	100.0
CAGAMAS BERHAD	4	06/28/34	N/A	3.930	N/A	100.0
UMW HOLDINGS BERHAD	3.88	11/24/26	3.828	3.766	-6.2	80.0
CAGAMAS BERHAD	3.67	09/30/24	3.473	3.420	-5.3	75.0
CAGAMAS BERHAD	4.2	05/31/33	3.949	3.899	-5.0	70.0
CIMB ISLAMIC BANK BHD	4.03	03/27/31	3.948	3.898	-5.0	67.0
PRASARANA MALAYSIA BHD	4.09	08/05/39	N/A	3.971	N/A	60.0
DANAINFRA NASIONAL	4.64	05/05/51	N/A	4.165	N/A	60.0
TOTAL VOLUME (TOP 10)						1,067.0
TOTAL VOLUME (Overall)						3,203.8

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