

## MIDF Strategy 19 August 2024

### Week Ended 16 August 2024

- The UST market rebounded with benchmark 10-year yield closed the review week lower at 3.88% (prior week: 3.94%) as investors reacted favorably to July inflation data which came in largely within expectations. The 10y-3y yield spread narrowed (yield curve flattened) to +3bps (prior week: +6bp) as the long-end outperformed. Meanwhile, at week close, the interest rate futures market implied rate cuts totaling -100bps (prior week: -100bps) this year.
- Medium-term inflation expectation (MTIE) ended the review week lower at 1.97% (prior week: 1.98%). The MTIE remains below the US Fed target level of 2.00%. In gist, we reckon the market is now rather convinced that the underlying inflation pressure is largely contained.
- The price of MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 4.4bps and 1.4bps to close at 3.37% and 3.78% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 44bps to 41bps as the short-end underperformed.
- MGS foreign holdings increased month-on-month from RM271b in June 2024 to RM279b in July 2024. Moreover, it regained the all-time high level last recorded in July 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM225m. It improved week-on-week from -RM24m registered a week ago. Moreover, it improved year-on-year from -RM5.54b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- The UST market rebounded with benchmark 10-year yield closed the review week lower at 3.88% (prior week: 3.94%) as investors reacted favorably to July inflation data which came in largely within expectations. The 10y-3y yield spread narrowed (yield curve flattened) to +3bps (prior week: +6bp) as the long-end outperformed. Meanwhile, at week close, the interest rate futures market implied rate cuts totaling -100bps (prior week: -100bps) this year.



Source: Bloomberg, MIDFR (G628, G629)

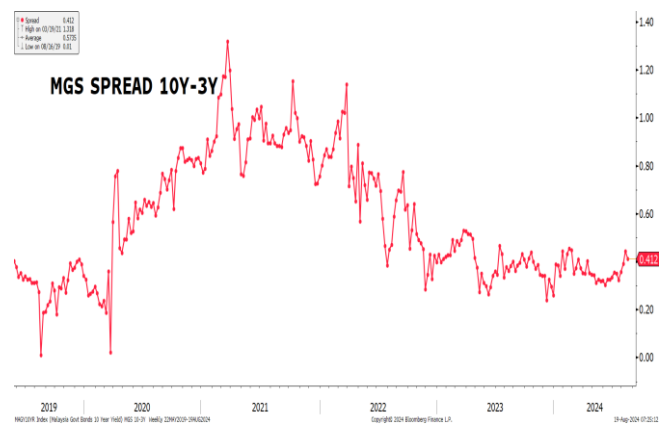
- Medium-term inflation expectation (MTIE) ended the review week lower at 1.97% (prior week: 1.98%). The MTIE remains below the US Fed target level of 2.00%. In gist, we reckon the market is now rather convinced that the underlying inflation pressure is largely contained.

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



Source: Bloomberg, MIDFR (G653)

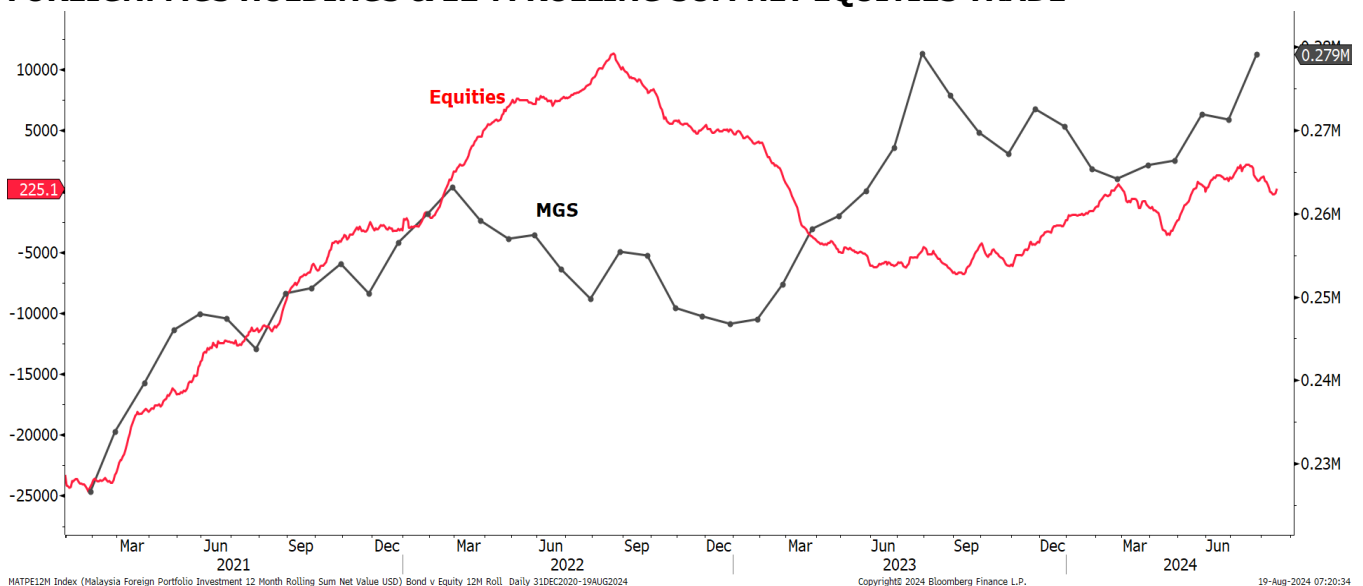
The price of MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 4.4bps and 1.4bps to close at 3.37% and 3.78% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 44bps to 41bps as the short-end underperformed.



Source: Bloomberg, MIDFR (G630, G631)

- Total trading value for Government Bonds (MGS/MII) declined to RM17.56b in the review week compared to RM28.19b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 53% from 52% 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 mid residual tenor. The top 3 most actively traded were MII 3.655% 10/15/24 at RM1.65b, MGS 3.885% 8/15/29 at RM1.48b, and MII 4.07% 9/30/26 at RM1.12b.

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



Source: Bloomberg, MIDFR (G659)

- MGS foreign holdings increased month-on-month from RM271b in June 2024 to RM279b in July 2024. Moreover, it regained the all-time high level last recorded in July 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM225m. It improved week-on-week from -RM24m registered a week ago. Moreover, it improved year-on-year from -RM5.54b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.77b in the review week compared to RM3.30b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 33% from 31% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and mid residual tenor. The top 3 most actively traded were Malaysia Rail Link 0% 2/7/25 at RM200m, UEM Sunrise 5.09% 9/27/30 at RM150m, and Prasarana 4.64% 3/22/30 at RM140m.

## B. FOREIGN EXCHANGE

- USD weakened for the 4th week. The US dollar depreciated for the 4<sup>th</sup> consecutive week as the DXY dollar index fell -0.2%*wow* to 102.46, the weakest since mid-Jan-24. The depreciation was mainly underpinned by further moderation in US inflation, heightening expectations for a Fed rate cut in the Sep-24 FOMC meeting.
- Euro and pound appreciated. Capitalising on the weaker dollar, the euro and pound sterling appreciated by +1.0%*wow* to USD1.103 and +1.4%*wow* to USD1.294, respectively. It was the strongest closing for the euro since the start of 2024, while the pound sterling marked the end of 4 consecutive weeks of depreciation.
- Ringgit experienced a slight correction. The Malaysian ringgit depreciated by -0.2%*wow* to RM4.432, performing worse than other regional currencies after closing at the strongest since Apr-23 in the previous week. Similarly, the ringgit depreciated against the currencies of Malaysia’s major trading partners and regional currencies, contributing to our MIDF Trade-Weighted Ringgit Index closing -0.4%*wow* lower at 89.94, weakening against all components of the index, but the Japanese yen and Thailand baht. Commodity prices did not contribute much towards ringgit movement as the Brent crude oil prices were little changed at USD79.68pb (previous week: USD79.66pb). Given the recent strength, we opine there is more room for ringgit to appreciate and end the year at RM4.23 per dollar.

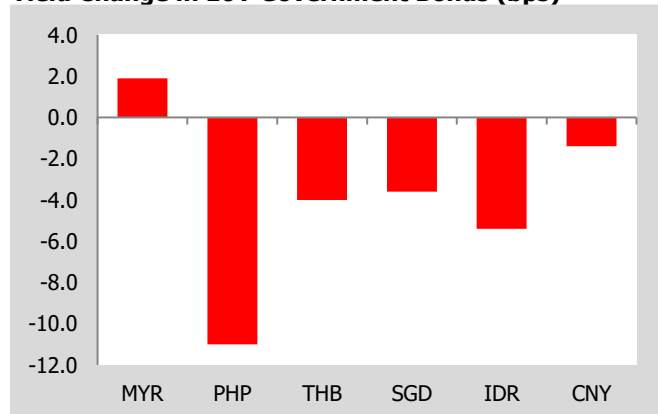
### Currencies Changes (Week Ended 16 August 2024) and Quarterly Forecasts

	Close 16/08	Prev. Close 09/08	Weekly Change	Weekly Change (%)	1QCY24	2QCY24	3QCY24f	4QCY24f
DXY Index	102.46	103.14	-0.672	-0.7	104.49	105.87	101.1	99.7
EURUSD	1.103	1.092	+0.011	+1.0	1.079	1.071	1.10	1.12
GBPUSD	1.294	1.276	+0.018	+1.4	1.26	1.265	1.26	1.27
USDJPY	147.6	146.6	-1.020	-0.7	151.35	160.88	138.0	135.0
USDMYR	4.432	4.424	-0.008	-0.2	4.725	4.718	4.367	4.230
GBPMYR	5.720	5.645	-0.075	-1.3	5.960	5.967	5.72	5.74
JPYMYR	3.003	3.019	+0.016	+0.5	3.122	2.932	3.26	3.30
MIDF TWRI	89.94	90.33	-0.388	-0.4	85.00	86.25	91.00	93.00

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

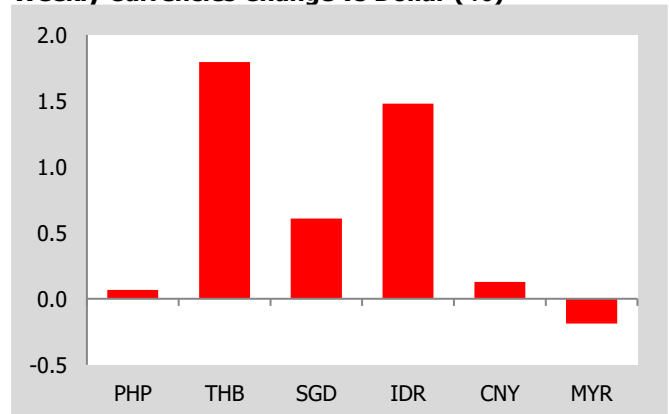
Source: Bloomberg, MIDFR

### 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 (%)

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Jul-24	Aug-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	6.25	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	6.25
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	6.25
Japan	(0.10)	(0.10)	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.25	0.25	0.25
UK	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.00	5.00
Euro area	4.50	4.50	4.50	4.50	4.50	4.25	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:
  - US consumer spending continued to grow. Retail sales rose by +2.7%yoy in Jul-24 (Jun-24: +2.0%yoy), the fastest growth in 3 months.
  - Production contracted again. Industrial production fell by -0.2%yoy (Jun-24: +1.1%yoy), the first decline in 3 months with manufacturing output growth slowing to +0.1%yoy (Jun-24: +0.6%yoy).
  - Resilience in the job market. Initial jobless claims for the week ending 10th August 2024 fell to 227K (previous week: 234K), the lowest in 5 weeks and against market expectations for a slight increase to 235K.
  - Inflation moderated further:
    - The headline CPI inflation eased to +2.9%yoy in Jul-24 (Jun-24: +3.0%yoy), the lowest in over a year and slightly softer than market expectations of +3.0%yoy. Meanwhile, core CPI inflation eased to +3.2%yoy (Jun-24: +3.3%yoy), the lowest since Apr-21 and in line with market consensus.
    - PPI inflation also eased to +2.2%yoy in Jul-24 (Jun-24: +2.7%yoy), the lowest in 3 months and slightly below market expectations of +2.3%yoy.
  - Consumer sentiment improved. Michigan Consumer Sentiment rose to 67.8 in Aug-24 (Jul-24: 66.4), surpassing market projections of 66.9.
- Bangko Sentral ng Pilipinas surprisingly cut its interest rate by -25bps to 6.25%. The decision was made as the central bank views that inflation will be on the downward trend for 2024 and 2025.
- Malaysia economic data released last week:
  - GDP rose faster in 2QCY24. GDP growth accelerated to +5.9%yoy in 2QCY24, marking the fastest expansion in 6 quarters (1QCY24: +4.2%yoy) and surpassing the advance estimate of +5.8%yoy.
  - Construction sector continued a double-digit growth in 2QCY24. The value of construction works completed surged by +20.2%yoy in 2QCY24 (1QCY24: +14.2%), marking the steepest rise in 7 quarters.

## C. BNM INTERNATIONAL RESERVES

- As of 31 July 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD114.7b (15 July 2024: USD113.3b).

### BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR (G662)

- 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	9-Aug Fri	12-Aug Mon	13-Aug Tue	14-Aug Wed	15-Aug Thu	16-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.327	3.327	3.327	3.334	3.341	3.371	4.4
5-Y	3.489	3.488	3.494	3.494	3.517	3.526	3.7
7-Y	3.699	3.689	3.707	3.702	3.717	3.721	2.2
10-Y	3.769	3.775	3.762	3.756	3.768	3.783	1.4
20-Y	4.043	4.043	4.043	4.045	4.046	4.024	-1.9
RINGGIT IRS							
1-Y	3.365	3.3475	3.38	3.4	3.395	3.406	4.1
3-Y	3.315	3.295	3.315	3.325	3.355	3.37	5.5
5-Y	3.375	3.37	3.4	3.4075	3.425	3.4425	6.75
7-Y	3.465	3.475	3.485	3.5	3.505	3.52	5.5
10-Y	3.555	3.56	3.57	3.59	3.605	3.6225	6.75
KLIBOR							
1-M	3.28	3.28	3.27	3.27	3.27	3.28	0
3-M	3.54	3.54	3.54	3.54	3.53	3.53	-1
UST							
3-Y	3.8753	3.8279	3.75	3.7639	3.8977	3.8532	-2.21
5-Y	3.7961	3.7458	3.6715	3.6799	3.7887	3.7571	-3.9
7-Y	3.8387	3.7902	3.7241	3.7265	3.823	3.7945	-4.42
10-Y	3.9398	3.9035	3.8428	3.8352	3.9131	3.8826	-5.72
30-Y	4.2186	4.2003	4.1584	4.125	4.1702	4.1402	-7.84
USD LIBOR							
1-M	5.448	5.45225	5.45137	5.45312	5.45605	5.45016	0.216
3-M	5.3743	5.37763	5.3797	5.35714	5.36316	5.39002	1.572

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	9-Aug Yield	16-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	3.655	10/15/24	3.092	3.039	-5.3	1,648.1
MALAYSIA GOVERNMENT	3.885	08/15/29	3.489	3.526	3.7	1,484.9
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.324	3.327	0.3	1,117.5
MALAYSIA GOVERNMENT	2.632	04/15/31	3.699	3.721	2.2	827.7
MALAYSIA GOVERNMENT	4.642	11/07/33	3.769	3.783	1.4	823.0
MALAYSIA GOVERNMENT	4.059	09/30/24	3.019	3.070	5.1	794.0
MALAYSIA GOVERNMENT	4.498	04/15/30	3.590	3.623	3.3	764.3
MALAYSIA INVESTMNT ISSU	3.804	10/08/31	3.704	3.715	1.1	700.0
MALAYSIA GOVERNMENT	3.502	05/31/27	3.327	3.371	4.4	635.8
MALAYSIA GOVERNMENT	3.955	09/15/25	3.124	3.092	-3.2	506.3
TOTAL VOLUME (TOP 10)						9,301.6
TOTAL VOLUME (Overall)						17,561.3

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	9-Aug Yield	16-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA RAIL LINK	ZERO	02/07/25	N/A	3.405	N/A	200.0
UEM SUNRISE BHD	5.09	09/27/30	N/A	3.997	N/A	150.0
PRASARANA MALAYSIA BHD	4.64	03/22/30	3.739	3.668	-7.1	140.0
GOVCO HOLDINGS BHD	4.95	02/20/32	N/A	3.881	N/A	140.0
DANAINFRA NASIONAL	4.95	04/06/40	3.999	3.994	-0.5	120.0
7-ELEVEN MSIA HL	4.28	06/26/26	4.254	4.175	-7.9	120.0
MALAYSIA RAIL LINK	4.12	07/23/36	3.981	3.910	-7.1	120.0
PRASARANA MALAYSIA BHD	4.59	08/29/42	4.065	4.079	1.4	100.0
PRASARANA MALAYSIA BHD	3.97	06/28/34	3.918	3.873	-4.5	80.0
MMC PORT HOLDING SDN B	4.83	04/08/32	4.068	3.998	-7.0	70.0
TOTAL VOLUME (TOP 10)						1,240.0
TOTAL VOLUME (Overall)						3,768.0

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