

MIDF Strategy 26 August 2024

Week Ended 23 August 2024

- The UST market rallied with benchmark 10-year yield closed the review week lower at 3.80% (prior week: 3.88%) as investors reacted to the US Fed Chair Jerome Powell remark at the Jackson Hole symposium that the central bank will likely begin cutting interest rates in September. The 10y-3y yield spread expanded (yield curve steepened) to +8bps (prior week: +3bp) as the short-end outperformed due to its higher sensitivity to policy rate outlook. 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 higher at 2.02% (prior week: 1.97%). The MTIE swayed above the US Fed target level of 2.00% in view of the prospect of lower interest rates. Nonetheless, we reckon the market remains rather 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 -3.6bps and -0.9bp to close at 3.34% and 3.77% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 41bps to 44bps as the short-end outperformed.
- 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 RM1.77b. It improved week-on-week from RM225m registered a week ago. Moreover, it improved year-on-year from -RM6.08b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market rallied with benchmark 10-year yield closed the review week lower at 3.80% (prior week: 3.88%) as investors reacted to the US Fed Chair Jerome Powell remark at the Jackson Hole symposium that the central bank will likely begin cutting interest rates in September. The 10y-3y yield spread expanded (yield curve steepened) to +8bps (prior week: +3bp) as the short-end outperformed due to its higher sensitivity to policy rate outlook. At week close, the interest rate futures market implied rate cuts totaling -100bps (prior week: -100bps) this year.



Source: Bloomberg, MIDFR (G628, G629)

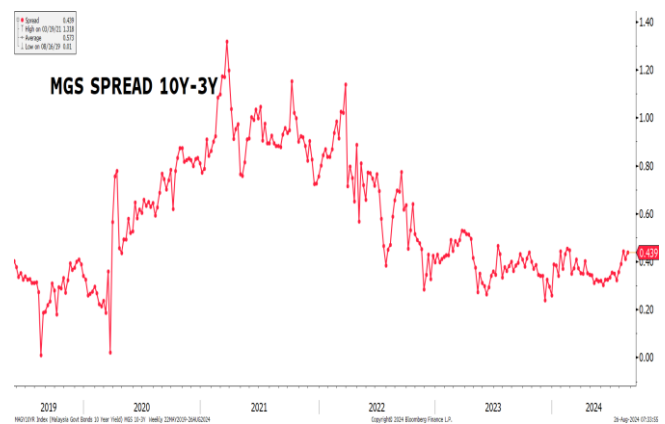
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR (G653)

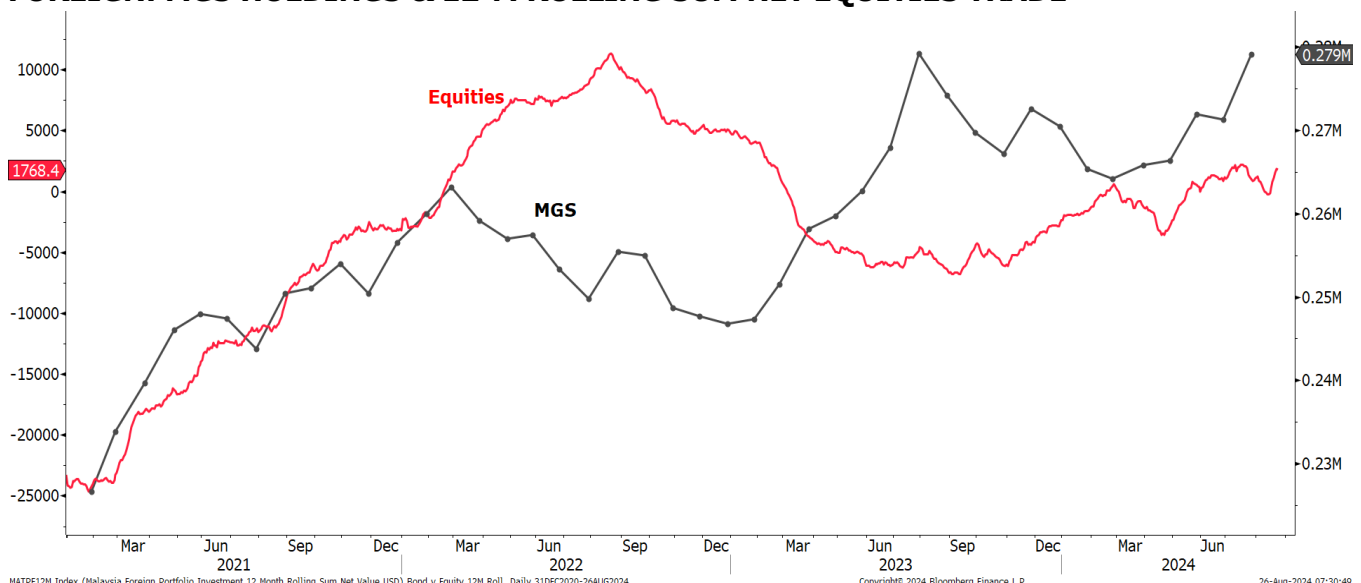
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Source: Bloomberg, MIDFR (G630, G631)

- Total trading value for Government Bonds (MGS/MII) increased to RM22.29b in the review week compared to RM17.56b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 58% from 53% 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 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 RM1.77b. It improved week-on-week from RM225m registered a week ago. Moreover, it improved year-on-year from -RM6.08b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.38b in the review week compared to RM3.77b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 22% from 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 Danainfra 4.76% 5/2/36 at RM120m, Danainfra 4.32% 11/26/25 at RM120m, and Sabah Credit 3.53% 4/25/25 at RM110m.

B. FOREIGN EXCHANGE

- USD closed the weakest since Jul-23. The US dollar depreciated for the 5th consecutive week as the DXY dollar index fell sharply by -1.7%wow to 100.72. The depreciation was mainly due to signs of a cooling labour market and a strong signal that the Fed is ready to start easing its interest rate on Sep-24, following the Fed Chair's speech at Jackson Hole's symposium.
- Euro and pound registered strong gains. As the dollar took a plunge, the euro appreciated by +1.5%wow to USD1.119, while the pound rose by +2.1%wow to USD1.321. It was the strongest closing for the euro since Jul-23, while the pound strengthened to its strongest level since Mar-22.
- Ringgit at the strongest against the dollar since Feb-23. The Malaysian ringgit appreciated by +1.3%wow to RM4.375, similar to other regional currencies. Similarly, the ringgit appreciated against the currencies of Malaysia's major trading partners and regional currencies, contributing to our MIDF Trade-Weighted Ringgit Index closing +0.2%wow higher at 90.15, gaining the most against the USD, Saudi riyals and UAE dirham. Commodity prices were a drag on the ringgit as Brent crude oil prices declined -0.8%wow to USD79.02pb (previous week: USD79.68pb).

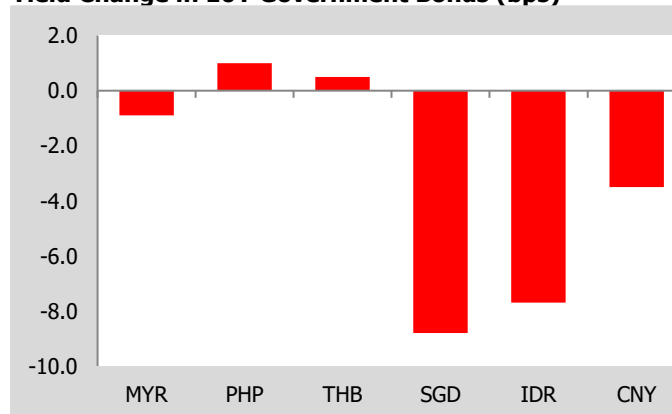
Currencies Changes (Week Ended 23 August 2024) and Quarterly Forecasts

	Close 23/08	Prev. Close 16/08	Weekly Change	Weekly Change (%)	1QCY24	2QCY24	3QCY24f	4QCY24f
DXY Index	100.72	102.46	-1.745	-1.7	104.49	105.87	101.1	99.7
EURUSD	1.119	1.103	+0.017	+1.5	1.079	1.071	1.10	1.12
GBPUSD	1.321	1.294	+0.027	+2.1	1.26	1.265	1.26	1.27
USDJPY	144.4	147.6	+3.260	+2.3	151.35	160.88	138.0	135.0
USDMYR	4.375	4.432	+0.058	+1.3	4.725	4.718	4.367	4.230
GBPMYR	5.743	5.720	-0.022	-0.4	5.960	5.967	5.72	5.74
JPYMYR	3.030	3.003	-0.027	-0.9	3.122	2.932	3.26	3.30
MIDF TWRI	90.15	89.94	+0.205	+0.2	85.00	86.25	91.00	93.00

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

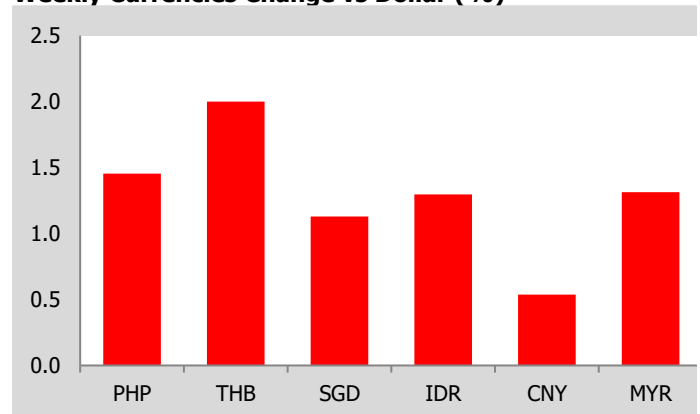
Source: Bloomberg, MIDFR

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	6.50
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	6.25
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:
 - The leading index signalled softer growth. The US Conference Board Leading Index (LI) fell by -0.6%mom in Jul-24 (Jun-24: -0.2%mom), marking the 5th consecutive month of contraction and sharper than market expectations of -0.3%mom. Current economic conditions remained positive as the Coincident Index (CI) held steady in Jul-24.
 - The service sector stayed robust. The US S&P Global Services PMI rose to 55.2 (Jul-24: 55.0), exceeding market expectations of 54.0.
 - The manufacturing sector registered sharp deterioration. The S&P Global Manufacturing PMI declined to 48.0 in Aug-24, marking the steepest deterioration in 8 months and falling short of market expectations for the index to remain at 49.6 as in Jul-24.
 - Labour market eased. Initial jobless claims for the week ending 17th August 2024 rose to 232K (previous week: 228K), exceeding consensus of 230K.
- The Fed's Chair signalled rate cuts at Jackson Hole. In his speech at Jackson Hole's Symposium on 23rd August 2024, Jerome Powell indicated that the Fed would start easing the policy rate soon, given easing inflation and cooling labour market conditions.
- Monetary decisions announced last week:
 - On 20th August 2024, The People's Bank of China (PBOC) maintained its 1-year and 5-year Loan Prime Rates (LPR) at 3.35% and 3.85%, respectively, as the market expected. The decision was made following the central bank's announcement that authorities would avoid drastic measures for the economy.
 - On 21st August 2024,
 - Bank of Thailand held its key rate steady at 2.50%, conforming to market expectations. The central bank decided the current interest rate level is optimal to support the economy and safeguard macro-financial stability.
 - Bank Indonesia (BI), kept rate policy rate unchanged at 6.25% as the market projected. The decision was made to stabilize the rupiah exchange rate further and maintain moderate inflation.
 - The Bank of Korea (BOK) also maintained its policy interest rate at 3.50%, which aligned with market expectations as inflation remained elevated although the moderating trend is expected to continue.
- Malaysia economic data released last week:
 - Inflation remained stable. Headline CPI inflation remained at +2.0%yoy for the 3rd consecutive month in Jul-24, while core CPI inflation steadied at +1.9%yoy for the 4th consecutive month.
 - Robust economic outlook and current economic conditions. Malaysia's Leading Index (LI) grew further albeit slower at +3.5%yoy in Jun-24 (May-24 +3.8%yoy), while the Coincident Index (CI) rose faster by +2.6%yoy in Jun-24 (May-24 +2.2%yoy).

C. BNM INTERNATIONAL RESERVES

- As of 15 August 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD115.9b (31 July 2024: USD114.7b).

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	16-Aug Fri	19-Aug Mon	20-Aug Tue	21-Aug Wed	22-Aug Thu	23-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.371	3.341	3.335	3.333	3.325	3.335	-3.6
5-Y	3.526	3.517	3.503	3.483	3.483	3.487	-3.9
7-Y	3.721	3.709	3.692	3.676	3.685	3.694	-2.7
10-Y	3.783	3.78	3.773	3.769	3.771	3.774	-0.9
20-Y	4.024	4.054	4.058	4.046	4.054	4.044	2
RINGGIT IRS							
1-Y	3.406	3.4	3.405	3.37	3.39	3.415	0.9
3-Y	3.37	3.325	3.31	3.305	3.305	3.345	-2.5
5-Y	3.4425	3.4025	3.37	3.37	3.38	3.406	-3.65
7-Y	3.52	3.5	3.475	3.45	3.45	3.48	-4
10-Y	3.6225	3.6	3.575	3.57	3.57	3.6025	-2
KLIBOR							
1-M	3.28	3.28	3.28	3.28	3.28	3.28	0
3-M	3.53	3.53	3.53	3.53	3.53	3.53	0
UST							
3-Y	3.8532	3.8644	3.7889	3.7414	3.8085	3.7244	-12.88
5-Y	3.7571	3.7569	3.6875	3.6562	3.7166	3.6486	-10.85
7-Y	3.7945	3.7868	3.723	3.7026	3.7634	3.6994	-9.51
10-Y	3.8826	3.8711	3.8067	3.801	3.8521	3.799	-8.36
30-Y	4.1402	4.1222	4.0606	4.0775	4.1258	4.0908	-4.94
USD LIBOR							
1-M	5.45016	5.42465	5.42593	5.42306	5.39243	5.39049	-5.967
3-M	5.39002	5.38773	5.38269	5.36337	5.33292	5.34225	-4.777

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	16-Aug Yield	23-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	3.655	10/15/24	3.039	3.118	7.9	2,253.8
MALAYSIA GOVERNMENT	4.498	04/15/30	3.623	3.596	-2.7	1,539.7
MALAYSIA GOVERNMENT	2.632	04/15/31	3.721	3.694	-2.7	1,507.7
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.802	3.778	-2.4	1,463.3
MALAYSIA GOVERNMENT	3.885	08/15/29	3.526	3.487	-3.9	1,397.9
MALAYSIA GOVERNMENT	4.642	11/07/33	3.783	3.774	-0.9	1,083.4
MALAYSIA GOVERNMENT	4.059	09/30/24	3.070	3.037	-3.3	1,044.5
MALAYSIA GOVERNMENT	3.502	05/31/27	3.371	3.335	-3.6	1,006.4
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	3.812	3.807	-0.5	800.0
MALAYSIA GOVERNMENT	3.955	09/15/25	3.092	3.126	3.4	770.3
TOTAL VOLUME (TOP 10)						12,866.9
TOTAL VOLUME (Overall)						22,291.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	16-Aug Yield	23-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.76	05/02/36	3.908	3.900	-0.8	120.0
DANAINFRA NASIONAL	4.32	11/26/25	3.441	3.331	-11.0	120.0
SABAH CREDIT CORP	3.53	04/25/25	3.672	3.679	0.7	110.0
DANGA CAPITAL BHD	4.52	09/06/27	3.727	3.685	-4.2	100.0
PRASARANA MALAYSIA BHD	4.93	12/28/32	3.828	3.824	-0.4	100.0
DANAINFRA NASIONAL	4.34	10/27/36	3.915	3.899	-1.6	100.0
CAGAMAS BERHAD	3.72	04/28/25	N/A	3.493	N/A	90.0
SARAWAK ENERGY BHD	4.95	11/25/33	3.847	3.849	0.2	80.0
PETROLEUM SARAWAK EXP	4.1	03/19/31	3.859	3.858	-0.1	80.0
RHB BANK	3.65	04/28/31	N/A	3.688	N/A	80.0
TOTAL VOLUME (TOP 10)						980.0
TOTAL VOLUME (Overall)						4,380.8

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