

## MIDF Strategy 17 September 2024

### Week Ended 13 September 2024

- The UST market rallied with benchmark 10-year yield closed the review week lower at 3.65% (prior week: 3.71%) as investors turned their attention to the US Fed meeting later this week at which the central bank is expected to begin cutting interest rates. The 10y-3y yield spread expanded (yield curve steepened) to +21bps (prior week: +18bp) 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 -125bps (prior week: -125bps) this year.
- Medium-term inflation expectation (MTIE) ended the review week higher at 1.96% (prior week: 1.89%) in view of an impending rate cut later this week. The MTIE nonetheless remains below the US Fed target level of 2.00%. 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 -0.6bp and -1.5bps to close at 3.34% and 3.72% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 39bps to 38bps as the long-end outperformed.
- MGS foreign holdings increased both year-on-year from RM274b in August 2023 and month-on-month from RM279b in July 2024 to an all-time high of RM288b in August 2024. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM4.15b. It declined week-on-week from RM4.18b registered a week ago. However, it improved year-on-year from -RM6.64b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- The UST market rallied with benchmark 10-year yield closed the review week lower at 3.65% (prior week: 3.71%) as investors turned their attention to the US Fed meeting later this week at which the central bank is expected to begin cutting interest rates. The 10y-3y yield spread expanded (yield curve steepened) to +21bps (prior week: +18bp) 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 -125bps (prior week: -125bps) this year.



Source: Bloomberg, MIDFR (G628, G629)

- Medium-term inflation expectation (MTIE) ended the review week higher at 1.96% (prior week: 1.89%) in view of an impending rate cut later this week. The MTIE nonetheless remains below the US Fed target level of 2.00%. In gist, we reckon the market is now 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 higher with the 3-year and 10-year yields shed -0.6bp and -1.5bps to close at 3.34% and 3.72% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 39bps to 38bps as the long-end outperformed.



Source: Bloomberg, MIDFR (G630, G631)

- Total trading value for Government Bonds (MGS/MII) increased to RM24.22b in the review week compared to RM20.93b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 50% from 53% of the overall Government Bonds trades. Moreover, 9 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 varied residual tenor. The top 3 most actively traded were MGS 3.882% 3/14/25 at RM1.91b, MII 4.291% 8/14/43 at RM1.89b, and MGS 2.632% 4/15/31 at RM1.61b.

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



Source: Bloomberg, MIDFR (G659)

- MGS foreign holdings increased both year-on-year from RM274b in August 2023 and month-on-month from RM279b in July 2024 to an all-time high of RM288b in August 2024. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM4.15b. It declined week-on-week from RM4.18b registered a week ago. However, it improved year-on-year from -RM6.64b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM6.38b in the review week compared to RM3.65b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 43% from 28% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of short residual tenor. The top 3 most actively traded were Malaysia Rail Link 0% 3/11/25 at RM1.00b, Danainfra 4.5% 11/16/27 at RM330m, and Danainfra 4.53% 11/12/25 at RM260m.

## B. FOREIGN EXCHANGE

- USD weakened further. The US dollar weakened last week as the DXY dollar index closed the week slightly lower by -0.1%w to 101.11. As inflation moderated further in Aug-24, this supported expectations for the Fed to shift to rate cuts and therefore reducing demand for the greenback.
- Euro depreciated; pound was flat. As the ECB reduced interest rates last week, the euro depreciated by -0.1%w, although the exchange rate was virtually unchanged at USD1.108. The pound sterling was also unchanged, exchanging at USD1.313 on Friday. Despite the weakening of dollar, the pound sterling was supported by market expectations that the BOE will not carry out another rate cut at the next policy meeting (this week).
- Ringgit closed at the strongest level in 1.5 years. The Malaysian ringgit appreciated again last week by -0.2%w and closed at RM4.301, the strongest weekly closing since early Feb-23. We opine those gains in ringgit was supported by the weakening of US dollar and still positive economic fundamentals. Ringgit also appreciated against currencies of Malaysia's major trading partners, as our MIDF Trade-Weighted Ringgit Index rose +0.6%w to 91.23, mainly against Australian dollar and Chinese yuan. We believe oil price movement has little impact on ringgit although the Brent crude benchmark rose slightly by +0.8%w to USD71.61pb (previous week: USD71.06pb).

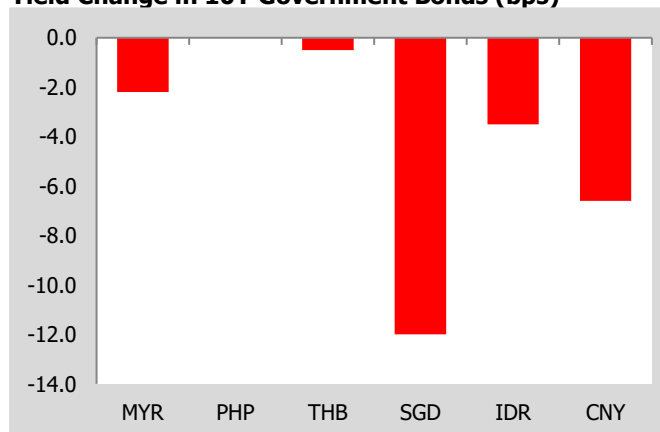
### Currencies Changes (Week Ended 13 September 2024) and Quarterly Forecasts

	Close 13/09	Prev. Close 06/09	Weekly Change	Weekly Change (%)	1QCY24	2QCY24	3QCY24f	4QCY24f
DXY Index	101.11	101.18	-0.063	-0.1	104.49	105.87	101.1	99.7
EURUSD	1.108	1.108	-0.001	-0.1	1.079	1.071	1.10	1.12
GBPUSD	1.312	1.313	-0.000	-0.0	1.26	1.265	1.26	1.27
USDJPY	140.9	142.3	+1.450	+1.0	151.35	160.88	138.0	135.0
USDMYR	4.301	4.330	+0.029	+0.7	4.725	4.718	4.367	4.230
GBPMYR	5.650	5.705	+0.055	+1.0	5.960	5.967	5.50	5.37
JPYMYR	3.055	3.043	-0.011	-0.4	3.122	2.932	3.16	3.13
MIDF TWRI	91.23	90.71	+0.511	+0.6	85.00	86.25	91.00	93.00

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

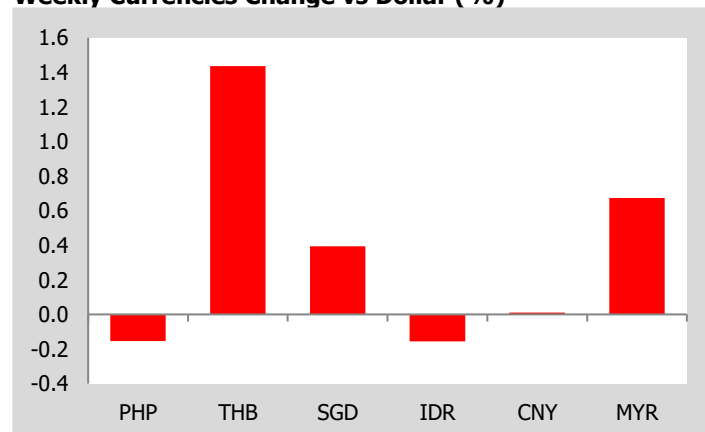
Source: Bloomberg, MIDFR

### 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 (%)

	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Jul-24	Aug-24	Sep-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	6.25	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	6.25	6.25
Japan	(0.10)	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.25	0.25	0.25	0.25
UK	5.25	5.25	5.25	5.25	5.25	5.25	5.00	5.00	5.00
Euro area	4.50	4.50	4.50	4.50	4.25	4.25	4.25	4.25	3.65
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 inflation remained broadly on moderating trend:
    - Headline CPI inflation eased to +2.5%yoy in Aug-24 (Jul-24: +2.9%yoy), the lowest since Feb-21 and slightly below market consensus (+2.6%yoy). The monthly inflation was as predicted by market, rising at the same pace of +0.2%mom.
    - Core CPI inflation was unchanged at 3.2%yoy, although the monthly increase of +0.3%mom was slightly higher than market forecast (+0.2%mom).
    - PPI inflation also moderated to +1.7%yoy in Aug-24 (Jul-24: +2.1%yoy). In contrast, core PPI excluding food & energy rose faster at +2.4%yoy (Jul-24: +2.3%yoy) but slightly lower than market consensus (+2.5%yoy).
  - The job market remained healthy despite signs of cooling. Initial jobless claims rose to +230K for the week ending 7 September 2024 (previous: 228K), in line with market expectations.
  - Consumers expected inflation to ease further. The preliminary reading of University of Michigan's Consumer Sentiment Index rose more than expected to 69 in Sep-24 (Aug-24: 67.9; market consensus: 68) as consumers were more optimistic on the current and future economic outlook. Nevertheless, 1-year inflation expectations eased further to +2.7% (Aug-24: +2.8%).
- On 12 September 2024, the ECB reduced the deposit facility rate and main refinancing rate by -25bps to 3.50% and -60bps to 3.65%, respectively. A rate cut was highly anticipated as inflation continued to cool.
- Malaysia economic data last week continued to point to growing economy in Jul-24:
  - Retail spending continued to expand robustly, although the growth in retail trade moderated to +6.4%yoy (Jun-24: +7.9%yoy). Overall, distributive trade grew faster at +6.7%yoy (Jun-24: +5.4%yoy) driven by surge in motor vehicle sales (+12.2%yoy; Jun-24: +2.0%yoy) and stronger wholesale trade (+5.5%yoy; Jun-24: +4.0%yoy).
  - The job market remained healthy with sustained rise in employment at +1.8%yoy, keeping unemployment rate low and unchanged at 3.3% with the labour participation rate remaining high at 70.4%.
  - IPI growth accelerated to +5.3%yoy (Jun-24: +5.0%yoy), supported by stronger manufacturing output and higher electricity generation which offset lower output in the mining industry.

## C. BNM INTERNATIONAL RESERVES

- As of 30 August 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD116.8b (15 August 2024: USD115.9b).

### 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	6-Sep Fri	9-Sep Mon	10-Sep Tue	11-Sep Wed	12-Sep Thu	13-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.342	3.345	3.343	3.334	3.333	3.336	-0.6
5-Y	3.495	3.484	3.49	3.49	3.494	3.465	-3
7-Y	3.68	3.7	3.7	3.687	3.681	3.664	-1.6
10-Y	3.732	3.742	3.745	3.731	3.729	3.717	-1.5
20-Y	4.05	4.042	4.042	4.042	4.042	4.024	-2.6
RINGGIT IRS							
1-Y	3.415	3.43	3.435	3.42	3.4225	3.41	-0.5
3-Y	3.33	3.34	3.35	3.32	3.315	3.3	-3
5-Y	3.375	3.395	3.4	3.3725	3.37	3.3425	-3.25
7-Y	3.465	3.485	3.495	3.465	3.465	3.425	-4
10-Y	3.565	3.58	3.595	3.57	3.565	3.535	-3
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	3.5259	3.5341	3.4578	3.4607	3.4774	3.4386	-8.73
5-Y	3.4852	3.4868	3.4232	3.4437	3.4642	3.4312	-5.4
7-Y	3.5866	3.5814	3.5206	3.5356	3.5584	3.5277	-5.89
10-Y	3.708	3.7004	3.6423	3.6534	3.674	3.6513	-5.67
30-Y	4.018	4.0005	3.9622	3.9657	3.9882	3.9795	-3.85
USD LIBOR							
1-M	5.22432	5.21841	5.22525	5.2104	5.21099	5.19721	-2.711
3-M	5.20025	5.18713	5.21047	5.1929	5.20825	5.20279	0.254

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	6-Sep Yield	13-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.882	03/14/25	3.146	3.154	0.8	1,910.3
MALAYSIA INVESTMNT ISSU	4.291	08/14/43	4.078	4.062	-1.6	1,888.9
MALAYSIA GOVERNMENT	2.632	04/15/31	3.680	3.664	-1.6	1,608.9
MALAYSIA GOVERNMENT	4.059	09/30/24	3.141	3.085	-5.6	1,239.2
MALAYSIA GOVERNMENT	3.885	08/15/29	3.495	3.465	-3.0	1,071.0
MALAYSIA GOVERNMENT	3.828	07/05/34	3.732	3.716	-1.6	1,050.9
MALAYSIA INVESTMNT ISSU	3.655	10/15/24	3.137	3.104	-3.3	929.0
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.319	3.306	-1.3	900.0
MALAYSIA GOVERNMENT	4.498	04/15/30	3.591	3.576	-1.5	810.4
MALAYSIA GOVERNMENT	4.642	11/07/33	3.763	3.749	-1.4	809.9
TOTAL VOLUME (TOP 10)						12,218.7
TOTAL VOLUME (Overall)						24,214.9

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	6-Sep Yield	13-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA RAIL LINK	ZERO	03/11/25	N/A	3.363	N/A	1,000.0
DANAINFRA NASIONAL	4.5	11/16/27	N/A	3.432	N/A	330.0
DANAINFRA NASIONAL	4.53	11/12/25	3.335	3.325	-1.0	260.0
DANAINFRA NASIONAL	4.89	05/25/32	N/A	3.788	N/A	240.0
DANAINFRA NASIONAL	4.15	01/31/30	N/A	3.611	N/A	180.0
DANGA CAPITAL BHD	4.88	01/29/30	3.811	3.790	-2.1	170.0
PRASARANA MALAYSIA BHD	4.35	08/04/26	N/A	3.343	N/A	160.0
RANTAU ABANG CAPITAL	5	01/16/32	N/A	3.898	N/A	160.0
MALAYAN BANKING BHD	4.03	01/31/34	3.974	3.936	-3.8	143.8
PENGURUSAN AIR SPV BHD	4.56	01/31/30	3.829	3.852	2.3	115.0
TOTAL VOLUME (TOP 10)						2,758.8
TOTAL VOLUME (Overall)						6,376.7

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