

MIDF Strategy 23 September 2024

Week Ended 20 September 2024

- The UST market saw profit taking activities (after 2 consecutive weekly gains) with benchmark 10-year yield closed the review week higher at 3.73% (prior week: 3.65%) despite the US Fed's outsized 50-bps rate cut during the week. The 10y-3y yield spread expanded (yield curve steepened) to +26bps (prior week: +21bp) as the long-end underperformed. At week close, the interest rate futures market implied additional rate cuts totaling -75bps in the final quarter this year.
- Medium-term inflation expectation (MTIE) ended the review week higher at 2.05% (prior week: 1.96%). The MTIE reverted above the US Fed target level of 2.00% arguably in a knee-jerk reaction to the outsized interest rate cut. Nonetheless, we believe the market remains 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 -0.8bp and -1.2bps to close at 3.33% and 3.70% respectively. The 10y-3y yield spread was barely changed week-on-week at 38bps.
- MGS foreign holdings rose to an all-time high of RM288b in August 2024. It improved year-on-year from RM274b in August 2023 and month-on-month from RM279b in July 2024. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM3.83b. It declined week-on-week from RM4.15b registered a week ago. However, it improved year-on-year from -RM5.63b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market saw profit taking activities (after 2 consecutive weekly gains) with benchmark 10-year yield closed the review week higher at 3.73% (prior week: 3.65%) despite the US Fed's outsized 50-bps rate cut during the week. The 10y-3y yield spread expanded (yield curve steepened) to +26bps (prior week: +21bp) as the long-end underperformed. At week close, the interest rate futures market implied additional rate cuts totaling -75bps in the final quarter this year.



Source: Bloomberg, MIDFR (G628, G629)

- Medium-term inflation expectation (MTIE) ended the review week higher at 2.05% (prior week: 1.96%). The MTIE reverted above the US Fed target level of 2.00% arguably in a knee-jerk reaction to the outsized interest rate cut. Nonetheless, we believe the market remains 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 -0.8bp and -1.2bps to close at 3.33% and 3.70% respectively. The 10y-3y yield spread barely changed week-on-week at 38bps.



Source: Bloomberg, MIDFR (G630, G631)

- Total trading value for Government Bonds (MGS/MII) declined to RM18.44b in the review week compared to RM24.22b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 59% from 50% of the overall Government Bonds trades. Moreover, 4 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 RM3.12b, MGS 2.632% 4/15/31 at RM1.80b, and MGS 3.828% 7/5/34 at RM1.07b.

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



Source: Bloomberg, MIDFR (G659)

- MGS foreign holdings rose to an all-time high of RM288b in August 2024. It improved year-on-year from RM274b in August 2023 and month-on-month from RM279b in July 2024. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM3.83b. It declined week-on-week from RM4.15b registered a week ago. However, it improved year-on-year from -RM5.63b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.96b in the review week compared to RM6.38b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 46% from 43% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of long residual tenor. The top 3 most actively traded were Maybank 4.13% PERP at RM210m, Danainfra 4.95% 4/6/40 at RM150m, and Danainfra 4.85% 5/3/41 at RM150m.

B. FOREIGN EXCHANGE

- USD fell further as Fed began cutting rates. The US dollar weakened further last week as the DXY dollar index fell by -0.4%*wow* to 100.72, the lowest weekly closing in 4 weeks. The weakening of dollar was linked to the Fed's decision to shift to policy easing after the FOMC meeting last week. The index closed at 100.60, a 2-week low, last Wednesday after the Fed announced the -50bps cut after the policy meeting.
- Euro and pound gained vs. weaker dollar. As dollar weakened, euro and pound sterling depreciated by +0.8%*wow* to USD1.116 and +1.5%*wow* to USD1.332, respectively. The pound's appreciation was relatively steeper, supported by stronger economic data and the Bank of England's decision to maintain interest rates at the current high level.
- Ringgit closed the week at strongest level in 2.5 years. Like other regional currencies, the Malaysian ringgit gained against the weaker dollar by +2.3%*wow* and closed at RM4.204, the strongest level last seen in Mar-22. Being the currency that gained the most from the Fed's policy easing, the increased demand also supported ringgit to appreciate against currencies of Malaysia's major trading partners and as a result our MIDF Trade-Weighted Ringgit Index strengthened +2.1%*wow* to 93.12, appreciating the most against Japanese yen, Korean won and Taiwan dollar. While the recent ringgit performance has been more influenced by changes in the financial markets, higher commodity prices were also supportive of the ringgit with the Brent crude benchmark rising further by +4.0%*wow* to USD74.49pb (previous week: USD71.61pb).

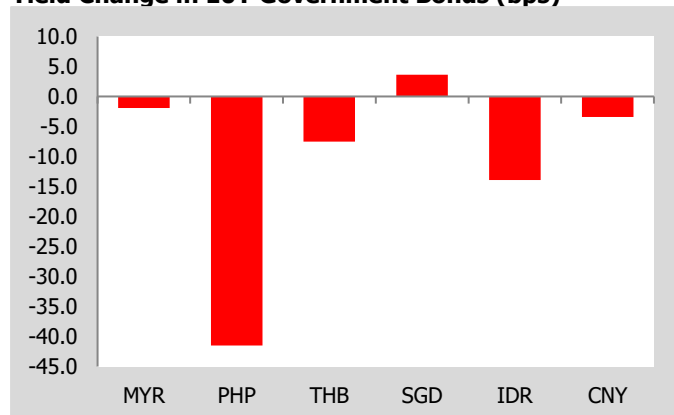
Currencies Changes (Week Ended 20 September 2024) and Quarterly Forecasts

	Close 20/09	Prev. Close 13/09	Weekly Change	Weekly Change (%)	1QCY24	2QCY24	3QCY24f	4QCY24f
DXY Index	100.72	101.11	-0.391	-0.4	104.49	105.87	101.1	99.7
EURUSD	1.116	1.108	+0.009	+0.8	1.079	1.071	1.10	1.12
GBPUSD	1.332	1.312	+0.020	+1.5	1.26	1.265	1.26	1.27
USDJPY	143.9	140.9	-3.000	-2.1	151.35	160.88	138.0	135.0
USDMYR	4.204	4.301	+0.097	+2.3	4.725	4.718	4.367	4.230
GBPMYR	5.588	5.650	+0.062	+1.1	5.960	5.967	5.50	5.37
JPYMYR	2.921	3.055	+0.133	+4.6	3.122	2.932	3.16	3.13
MIDF TWRI	93.12	91.23	+1.893	+2.1	85.00	86.25	91.00	93.00

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

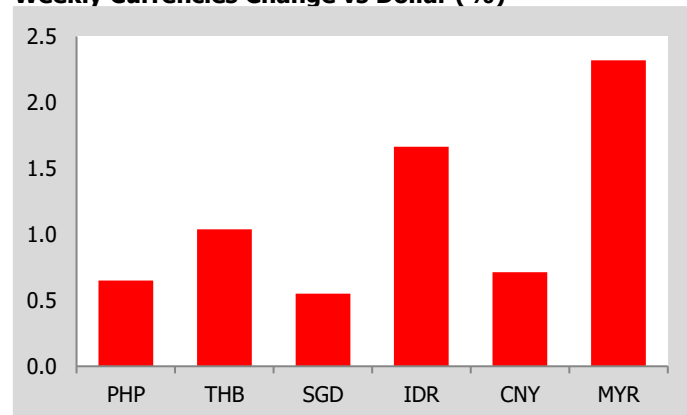
Source: Bloomberg, MIDFR

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	6.00
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	4.75-5.00

Source: Bloomberg, MIDFR

- US economic data released last week:
 - Retail spending grew stronger than expected in Aug-24. Retail sales rose further by +0.1%mom (Jul-24: +0.2%mom) which was better than market expectations for a decline by -0.2%mom. On a year-to-year basis, retail sales moderated to +2.1%yoy (Jul-24: +2.9%yoy).
 - Industrial production improved. IPI was flat against Aug-23 (Jul-24: -0.7%yoy), with stronger manufacturing production (+0.2%yoy; Jul-24: -0.7%yoy). Compared to Jul-24, production activities in the US picked up and grew stronger by +0.8%mom (Jul-24: -0.2%mom; market consensus: +0.2%mom). The stronger production also comes with a higher capacity utilization rate which rose to 78% (Jul-24: 77.4%).
 - Still healthy job market. Reduced number of unemployed people relied on unemployment benefits as the initial weekly claims fell to 219K for the week ending 14 September 2024 (previous: 231K), lower than 230K predicted by market consensus.
 - Leading index suggests economy slowing momentum. The Conference Board Leading Economic Index decreased for the 6th straight month but at a smaller pace of -0.2%mom in Aug-24 (Jul-24: -0.6%mom), weighed down by lower new orders, weaker consumer expectations on the future business conditions and other developments i.e. negative interest rate spread and lower stock prices (particularly in early Aug-24).
- Monetary policy decision last week:
 - On 18th September,
 - Ahead of the Fed's decision, Bank Indonesia made a surprise move to cut its policy rate by -25bps to 6.00% supported by forecasts of low inflation, stable rupiah and need to push the economy.
 - The Fed slashed fed funds rate target by -50bps to 4.75-5.00%, marking the first cut in 4 years. The shift to policy easing was in line with market expectations, but the large reduction by -50bps was a surprise to some observers. However, the Fed indicated no hurry to ease policy in response to moderating inflation as the US economy remained in "good shape," still growing at a "solid pace".
 - On 19th September, the Bank of England maintained its Bank rate at 6.00% and unanimously agreed to cut its holding of UK government bonds by -£100b in the next 12 months to a total of £558b.
 - On 20th September,
 - People's Bank of China unexpectedly maintained both 1-year and 5-year loan prime rates at 3.35% and 3.85%, respectively, despite concerns over slowing growth momentum.
 - Bank of Japan left its overnight call rate unchanged at 0.25% conforming to market expectations with recent data showing inflation in Japan picked up as expected in Aug-24.
- Malaysia economic data last week continued to point to growing economy in Jul-24:
 - External trade performed robustly in Aug-24 as Malaysia's export growth was sustained at +12.1%yoy (Jul-24: +12.3%yoy), with a surge in E&E exports (Aug-24: +16.5%yoy; Jul-24: +2.4%yoy). However, the trade balance shrank further to post-pandemic low of +RM5.7b (Jul-24: +RM6.4b) on the back more robust import growth at +26.2%yoy (Jul-24: +25.4%yoy).

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 amount 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	13-Sep Fri	16-Sep Mon	17-Sep Tue	18-Sep Wed	19-Sep Thu	20-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.336	3.336	3.33	3.303	3.339	3.328	-0.8
5-Y	3.465	3.465	3.46	3.464	3.479	3.481	1.6
7-Y	3.664	3.664	3.643	3.68	3.675	3.685	2.1
10-Y	3.717	3.717	3.717	3.685	3.697	3.705	-1.2
20-Y	4.024	4.024	4.024	4.031	4.031	4.031	0.7
RINGGIT IRS							
1-Y	3.41	3.41	3.395	3.41	3.41	3.41	0
3-Y	3.3	3.3	3.285	3.3	3.315	3.31	1
5-Y	3.3425	3.3425	3.32	3.3375	3.3525	3.355	1.25
7-Y	3.425	3.425	3.415	3.43	3.45	3.445	2
10-Y	3.535	3.535	3.52	3.525	3.545	3.54	0.5
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	3.4386	3.4109	3.4664	3.4887	3.4693	3.4806	4.2
5-Y	3.4312	3.4019	3.443	3.4826	3.4825	3.4978	6.66
7-Y	3.5277	3.4972	3.5326	3.5833	3.5909	3.6111	8.34
10-Y	3.6513	3.6176	3.6456	3.7038	3.7131	3.7413	9
30-Y	3.9795	3.9285	3.9586	4.0205	4.0505	4.0833	10.38
USD LIBOR							
1-M	5.19721	5.12877	5.0793	5.07534	5.03439	4.9717	-22.551
3-M	5.20279	5.12498	5.08124	5.07514	5.01488	4.95286	-24.993

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	13-Sep Yield	20-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.882	03/14/25	3.154	3.063	-9.1	3,116.8
MALAYSIA GOVERNMENT	2.632	04/15/31	3.664	3.685	2.1	1,799.8
MALAYSIA GOVERNMENT	3.828	07/05/34	3.716	3.705	-1.1	1,074.3
MALAYSIA GOVERNMENT	4.642	11/07/33	3.749	3.748	-0.1	1,009.3
MALAYSIA GOVERNMENT	3.885	08/15/29	3.465	3.481	1.6	791.7
MALAYSIA GOVERNMENT	4.059	09/30/24	3.085	3.143	5.8	772.8
MALAYSIA GOVERNMENT	3.955	09/15/25	3.109	3.189	8.0	650.3
MALAYSIA GOVERNMENT	3.502	05/31/27	3.336	3.328	-0.8	642.8
MALAYSIA GOVERNMENT	3.519	04/20/28	3.444	3.452	0.8	588.5
MALAYSIA GOVERNMENT	4.498	04/15/30	3.576	3.580	0.4	502.1
TOTAL VOLUME (TOP 10)						10,948.2
TOTAL VOLUME (Overall)						18,437.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	13-Sep Yield	20-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYAN BANKING BHD	4.13	PERP	3.994	4.041	4.7	210.5
DANAINFRA NASIONAL	4.95	04/06/40	3.994	3.991	-0.3	150.0
DANAINFRA NASIONAL	4.85	05/03/41	4.000	4.009	0.9	150.0
DANAINFRA NASIONAL	4.06	07/15/39	N/A	3.960	N/A	100.0
MERC BENZ SVC MALAYSIA	3.91	03/24/28	3.827	3.830	0.3	80.0
MALAYAN CEMENT BHD	4.24	07/03/29	3.987	3.988	0.1	50.0
MALAYAN CEMENT BHD	5.07	12/11/29	4.018	4.017	-0.1	46.1
YTL POWER INTERNATIONA	5.05	05/03/27	3.739	3.736	-0.3	40.0
PENGURUSAN AIR SPV BHD	3.75	04/28/28	3.776	3.776	0.0	40.0
PROJEK LEBUHRAYA USAHA	4.773	01/12/34	3.940	3.958	1.8	40.0
TOTAL VOLUME (TOP 10)						906.6
TOTAL VOLUME (Overall)						1,960.3

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