

MIDF Strategy 4 March 2024

Week Ended 1 March 2024

- Buyers dominated for the second week in a row with benchmark 10-year UST yield closed the review week lower at 4.18% (prior week: 4.25%) as investors reacted to lower-than-expected consumer sentiment index. The 10y-3y yield spread rebounded but remains inverted at -14bp (prior week: -20bps) as the short-end outperformed. Moreover, the interest rate futures market continued to imply no more Fed rate hike and spate of rate cuts commencing as early as in June 2024.
- Medium-term inflation expectation (MTIE) ended the review week higher at 2.44% (prior week: 2.37%) despite tame January PCE data. The MTIE remains within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. Moreover, it is notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. We reckon the market is convinced that inflation pressure (while stubborn) is progressively ebbing.
- The price of MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields added 5.0bps and shed -4.8bps to close at 3.50% and 3.85% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 45bps to 35bps as the long-end outperformed.
- MGS foreign holdings increased on-year from RM247b in January 2023 to RM265b in January 2024. However, it dropped on-month from RM270b in December 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM308m. It improved on-week from RM112m registered a week ago. However, it fell on-year from RM720m a year ago.

Weekly Money Review

A. FIXED INCOME

- Buyers dominated for the second week in a row with benchmark 10-year UST yield closed the review week lower at 4.18% (prior week: 4.25%) as investors reacted to lower-than-expected consumer sentiment index. The 10y-3y yield spread rebounded but remains inverted at -14bp (prior week: -20bps) as the short-end outperformed. Moreover, the interest rate futures market continued to imply no more Fed rate hike and spate of rate cuts commencing as early as in June 2024.



Source: Bloomberg, MIDFR

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



Source: Bloomberg, MIDFR

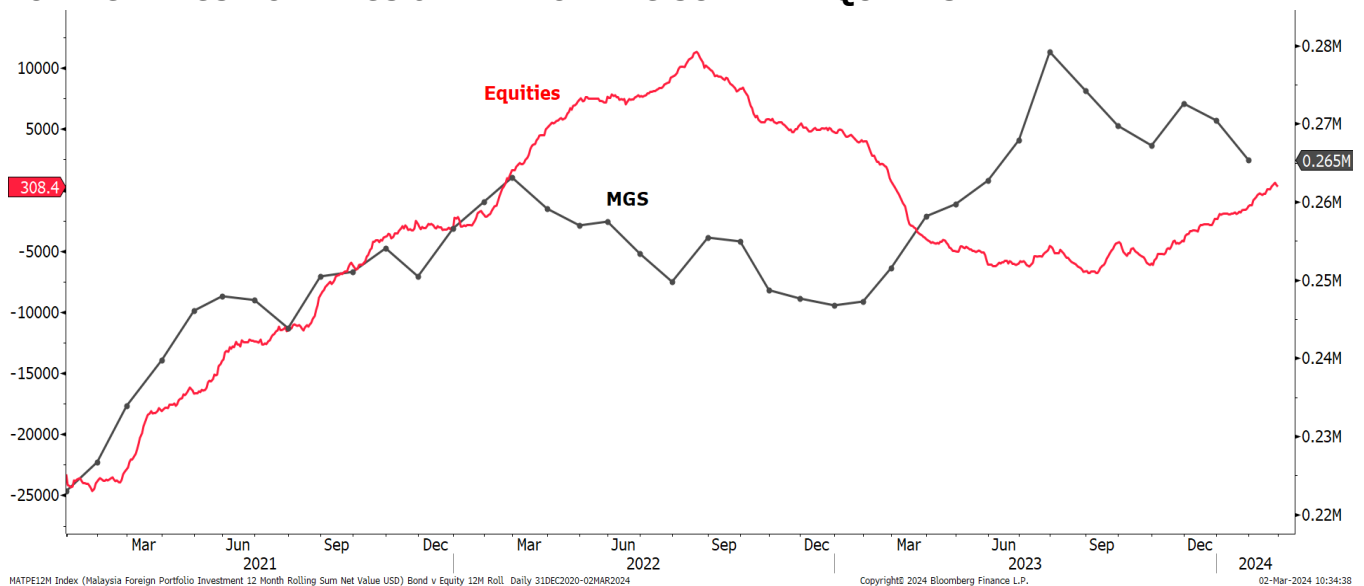
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM20.02b in the review week compared to RM16.38b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 43% from 52% of the overall Government Bonds trades. Moreover, 7 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 4.07% 9/30/26 at RM1.31b, MGS 4.498% 4/15/30 at RM1.08b, and MGS 3.502% 5/31/27 at RM942m.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased one year from RM247b in January 2023 to RM265b in January 2024. However, it dropped one-month from RM270b in December 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM308m. It improved on-week from RM112m registered a week ago. However, it fell one year from RM720m a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.15b in the review week compared to RM2.95b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 34% from 36% 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 Cagamas 4.12% 10/5/28 at RM250m, Cagamas 3.94% 8/24/26 at RM130m, and SMJ Energy 4.67% 10/26/38 at RM120m.

B. FOREIGN EXCHANGE

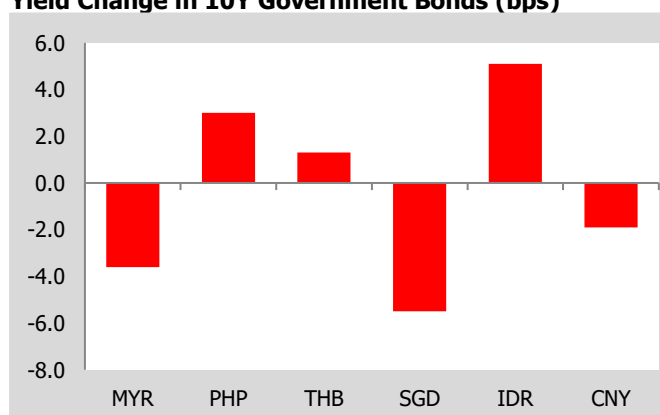
- USD weakened to 5-week lows. The US dollar depreciated for 2 consecutive weeks as the DXY index fell -0.1%w to close at 103.86, the lowest weekly closing in 5 weeks. The dollar weakened further as inflation eased further and data update showed the US GDP growth in 4QCY23 was slightly softer than the initial estimate.
- Euro appreciated but pound weakened. The euro appreciated last week by +0.1%w to USD1.084. Aside from the dollar weakness, the euro appreciation was also buoyed by continued hawkish sentiment by the ECB. On the other hand, the pound sterling depreciated by -0.1%w to USD1.266, awaiting clearer cues on interest rate direction by the BOE.
- Ringgit recorded the strongest weekly closing in 4 weeks. The ringgit appreciated by +0.7%w to close at RM4.746 last week. The pace of weekly appreciation was the strongest since +0.8%w in the final week of Dec-23, making ringgit the best-performing regional currency. The ringgit was at its intra-week high of RM4.743 last Thursday following a statement from the second finance minister about a coordination effort to attract more inflows. Commodity prices were also favourable towards the ringgit as the Brent crude oil prices rose +2.4%w to USD83.55pb (previous week: US81.62pb).

Currencies Changes (Week Ended 1 March 2024) and Quarterly Forecasts

	Close (01/03)	Prev. Close (23/02)	Weekly Change	Weekly Change (%)	1QCY24f	2QCY24f	3QCY24f	4QCY24f
DXY Index	103.86	103.94	-0.075	-0.1	103.8	102.5	101.1	99.7
EURUSD	1.084	1.082	+0.002	+0.1	1.07	1.09	1.10	1.12
GBPUSD	1.266	1.267	-0.002	-0.1	1.23	1.24	1.26	1.27
USDJPY	150.12	150.51	+0.390	+0.3	145	141	138	135
USDMYR	4.746	4.7773	+0.031	+0.7	4.39	4.38	4.32	4.20
GBPMYR	5.995	6.046	+0.052	+0.9	5.75	5.73	5.72	5.74
JPYMYR	3.161	3.174	+0.013	+0.4	3.19	3.25	3.26	3.30

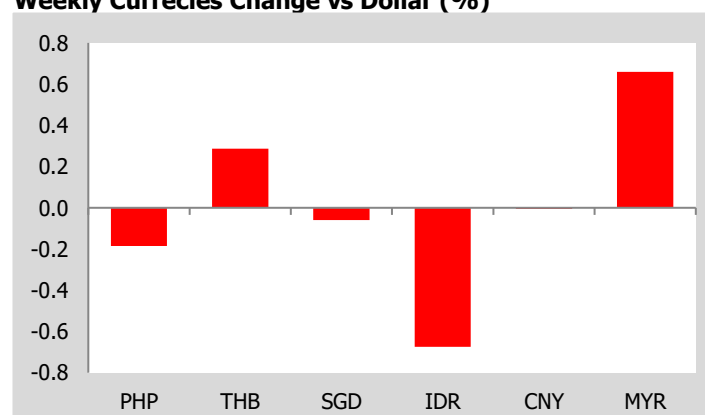
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	5.75	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00
Philippines	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50	6.50
Thailand	2.00	2.25	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)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	5.00	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Euro area	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50
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 Fed's favoured inflation gauge moderated. The US PCE inflation rate moderated to +2.4%yoy in Jan-24, the lowest since Feb-21 and right within market expectations. Core PCE inflation rate eased to +2.8%yoy, the softest expansion since Mar-21.
 - The US economy expanded softer than the initial estimate. The US economy expanded softer at +3.2%qoq in 4QCY23 (3QCY23: +4.9%qoq; advance estimate: +3.3%qoq).
 - The manufacturing sector remained in contraction. The US ISM Manufacturing PMI remained in contractionary territory at 47.8 in Feb-24 (Jan-24: 49.1; market forecasts: 49.5). Meanwhile, the S&P Global Manufacturing PMI was revised higher to 52.2 (Jan-24: 50.7; preliminary estimate: 51.5).
 - Labour market showed signs of easing. The initial jobless claims for the week ending 24th February 2024 rose to 215K (previous week: 202K), higher than market expectations of 210K.

- Malaysia economic data released last week:
 - Producers' inflation remained contractionary. PPI contracted by -0.6%yoy in Jan-24, registering 4-consecutive months of deflation.
 - The manufacturing sector contracted further albeit at a softer pace. Malaysia's S&P Global Manufacturing PMI rose to 49.5 in Feb-24, the softest contraction in an 18-month sequence.
 - BNM's Financial Market Committee (FMC) issued statement last Friday on 1 March 2024 highlighting about the current level of ringgit is undervalued, which does not reflect Malaysia's economic fundamentals and growth prospects. The FMC also claimed that there was "immediate buying interest" which supported ringgit following the second minister's statement about the greater coordination between the government and BNM to bring in more inflows into Malaysia.

C. BNM INTERNATIONAL RESERVES

- As of 15 February 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD115.4b (31 January 2024: USD114.8b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- 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	23-Feb Fri	26-Feb Mon	27-Feb Tue	28-Feb Wed	29-Feb Thu	1-Mar Fri	Change (WoW bp)
MGS							
3-Y	3.447	3.484	3.491	3.504	3.501	3.497	5
5-Y	3.584	3.592	3.597	3.584	3.597	3.576	-0.8
7-Y	3.77	3.797	3.786	3.799	3.769	3.791	2.1
10-Y	3.895	3.866	3.873	3.877	3.858	3.847	-4.8
20-Y	4.095	4.086	4.091	4.097	4.086	4.088	-0.7
RINGGIT IRS							
1-Y	3.6	3.595	3.605	3.635	3.63	3.62	2
3-Y	3.585	3.56	3.57	3.59	3.585	3.595	1
5-Y	3.705	3.675	3.6725	3.68	3.67	3.665	-4
7-Y	3.83	3.8	3.805	3.795	3.79	3.785	-4.5
10-Y	3.96	3.94	3.93	3.93	3.92	3.91	-5
KLIBOR							
1-M	3.29	3.29	3.29	3.29	3.29	3.29	0
3-M	3.55	3.55	3.55	3.56	3.56	3.56	1
UST							
3-Y	4.4508	4.4882	4.4856	4.4344	4.4146	4.3237	-12.71
5-Y	4.2799	4.3122	4.3114	4.2605	4.2447	4.1571	-12.28
7-Y	4.281	4.313	4.3291	4.2839	4.2708	4.1875	-9.35
10-Y	4.248	4.2795	4.3032	4.2639	4.2502	4.1798	-6.82
30-Y	4.3703	4.3942	4.4269	4.4047	4.3789	4.3275	-4.28
USD LIBOR							
1-M	5.43861	5.443	5.44074	5.44007	5.43692	5.43692	-0.169
3-M	5.59218	5.59942	5.60477	5.60286	5.59513	5.59513	0.295

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	23-Feb Yield	1-Mar Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.475	3.458	-1.7	1,306.5
MALAYSIA GOVERNMENT	4.498	04/15/30	3.770	3.748	-2.2	1,074.7
MALAYSIA GOVERNMENT	3.502	05/31/27	3.488	3.497	0.9	942.3
MALAYSIA GOVERNMENT	4.059	09/30/24	3.074	3.254	18.0	849.0
MALAYSIA INVESTMNT ISSU	4.291	08/14/43	4.157	4.124	-3.3	831.2
MALAYSIA GOVERNMENT	3.885	08/15/29	3.681	3.628	-5.3	804.4
MALAYSIA GOVERNMENT	3.478	06/14/24	3.267	3.150	-11.7	767.5
MALAYSIA GOVERNMENT	2.632	04/15/31	3.827	3.791	-3.6	726.8
MALAYSIA GOVERNMENT	3.519	04/20/28	3.570	3.576	0.6	704.2
MALAYSIA GOVERNMENT	4.642	11/07/33	3.895	3.847	-4.8	687.6
TOTAL VOLUME (TOP 10)						8,694.2
TOTAL VOLUME (Overall)						20,015.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	23-Feb Yield	1-Mar Yield	Change (WoW bp)	Weekly Volume (RM mn)
CAGAMAS BERHAD	4.12	10/05/28	N/A	3.822	N/A	250.0
CAGAMAS BERHAD	3.94	08/24/26	3.716	3.713	-0.3	130.0
SMJ ENERGY SDN BHD	4.67	10/26/38	4.099	4.129	3.0	120.0
CAGAMAS BERHAD	3.74	07/24/24	N/A	3.545	N/A	110.0
DANAINFRA NASIONAL	3.99	04/06/29	3.632	3.683	5.1	100.0
PENGURUSAN AIR SPV BHD	4.56	01/31/30	3.917	3.888	-2.9	85.0
DANAINFRA NASIONAL	4.08	03/30/29	N/A	3.683	N/A	80.0
DANAINFRA NASIONAL	4.62	03/18/52	4.289	4.253	-3.6	80.0
PRASARANA MALAYSIA BHD	5.07	09/28/29	3.727	3.694	-3.3	65.0
TURUS PESAWAT SDN BHD	4.37	03/11/31	N/A	3.927	N/A	60.0
TOTAL VOLUME (TOP 10)						1,080.0
TOTAL VOLUME (Overall)						3,153.9

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