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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

# MIDF Strategy | 3 February 2025

## Week Ended 31 January 2025

- The UST market rallied with benchmark 10-year yield ended the review week lower at 4.58% (prior week: 4.63%) as market continued to price in more rate cuts by the Fed despite recent decision by the FOMC to stay cautious on future rate cuts. The 10y-3y yield slightly contracted (yield curve flattened) to +27bps (prior week: +28bps) as the long-end underperformed, however, throughout the week the yield spreads contracted to the lowest points of the week of +21bps. At the close of the week, the interest rate futures market implied additional rate cuts of -50bps (prior week: -25bps) this year.
- Medium-term inflation expectation (MTIE) ended the review week lower at 2.35% (prior week: 2.44%). The MTIE has remained above the US Fed target level of 2.00% since the initial interest rate cut in September. Nonetheless, we believe the market is still convinced the underlying inflation trend is easing despite the recent upswing in MTIE.
- The price of MGS benchmark issues ended the review week mixed with the 3-year yields increased by +3bps and unchanged for the 10-year yields and closed at 3.45% and 3.81% respectively. The 10y-3y yield spread was unchanged week-on-week at +36bps.
- MGS foreign holdings declined month-on-month to RM275b in December 2024 from RM277b in November 2024. It nonetheless increased year-on-year from RM270b in December 2023. On Bursa Malaysia, the 12- month rolling sum of foreign net equities trade ended the review week at -RM1.22b. It declined week-on-week from RM1.24b registered a week ago. However, it improved year-on-year from -RM4.12b a year ago.

**3 February 2025 | Strategy**

Strategy Team | research@midf.com.my

# Weekly Money Review

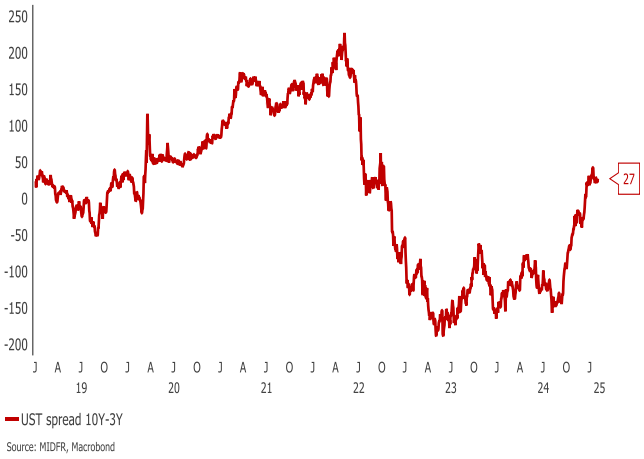
## A. FIXED INCOME

- The UST market rallied with benchmark 10-year yield ended the review week lower at 4.58% (prior week: 4.63%) as the market continued to price in more rate cuts by the Fed despite the recent decision by the FOMC to stay cautious on future rate cuts. The 10y-3y yield slightly contracted (yield curve flattened) to +27bps (prior week: +28bps) as the long-end underperformed, however, throughout the week the yield spreads contracted to the lowest points of the week of +21bps. At the close of the week, the interest rate futures market implied additional rate cuts of -50bps (prior week: -25bps) this year.

**10-Year US Treasury yields**




**US Treasury 10Y-3Y spreads**



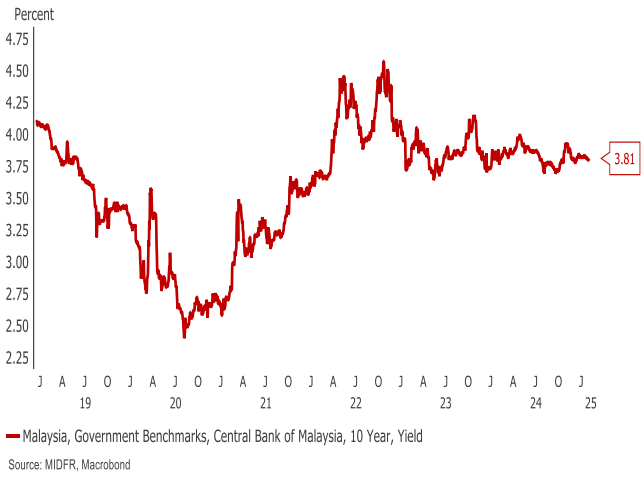

- Medium-term inflation expectation (MTIE) ended the review week lower at 2.54% (prior week: 2.52%), also marking the highest number recorded for this year. The MTIE continue to remain above the 2.00% since the Sept-24 rate cut decision. Nonetheless, we think the market is still convinced the underlying inflation trend is still weak despite the recent upswing in MTIE.

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

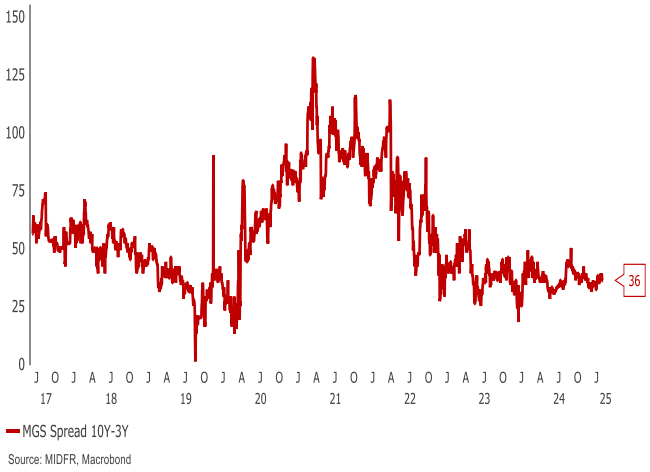


- The price of MGS benchmark issues ended the review week mixed with the 3-year yields increased by +3bps and unchanged for the 10-year yields and closed at 3.45% and 3.81% respectively. The 10y-3y yield spreads was unchanged week-on-week at +36bps.

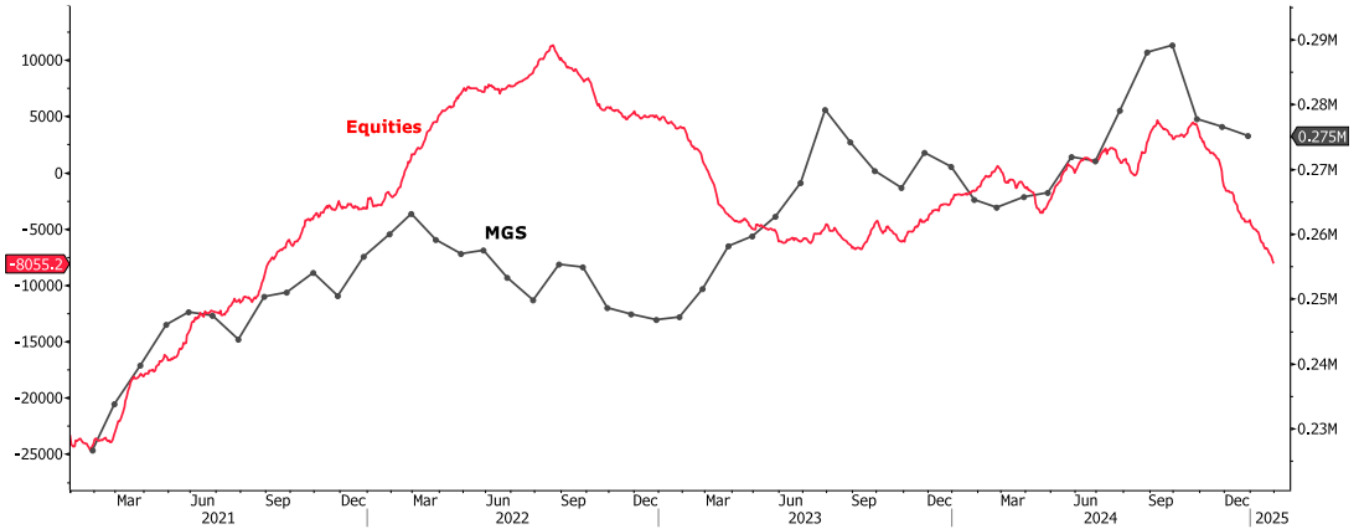
**10-Year MGS Yields**




**Malaysia MGS 10Y-3Y Spreads**




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




Source: Bloomberg, MIDFR (G659)

- MGS foreign holdings declined month-on-month to RM275b in December 2024 from RM277b in November 2024. It nonetheless increased year-on-year from RM270b in December 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM1.22b. It declined week-on-week from RM1.24b registered a week ago. However, it improved year-on-year from -RM4.12b a year ago.

## B. FOREIGN EXCHANGE

- Dollar index back to above 108 level. The US dollar strengthened last week as the DXY index increased by +0.9%wow to 108.4 while still hovering at the highest level in the past 2 years. The DXY gradually strengthened throughout last week and closed at a one-week high last Friday. At the start of the week, the DXY faced some downward pressure on the back of the equity market sell-off triggered by Deepseek and its impact on the AI industry and the weaker US GDP in 4QCY24. Later in the week, the DXY spiked higher on Friday after the release of the PCE data which saw inflation picked up to the highest level in seven months. Following the decision by the Trump's administration to impose higher import tariffs on goods from Mexico, Canada and China, we are on the lookout for any retaliation against the US by these countries, which could lead to higher inflationary pressure in the US.

- Euro and pound depreciated. The euro and pound sterling both depreciated last week despite the weaker dollar in the early part of the week. The euro weakened by -1.3%wow to USD1.036 on the back of further interest rate cuts by the European Central Bank. Meanwhile, the pound sterling weakened by -0.7%wow to USD1.240 following expectations that the Bank of England would make another rate cut this week.

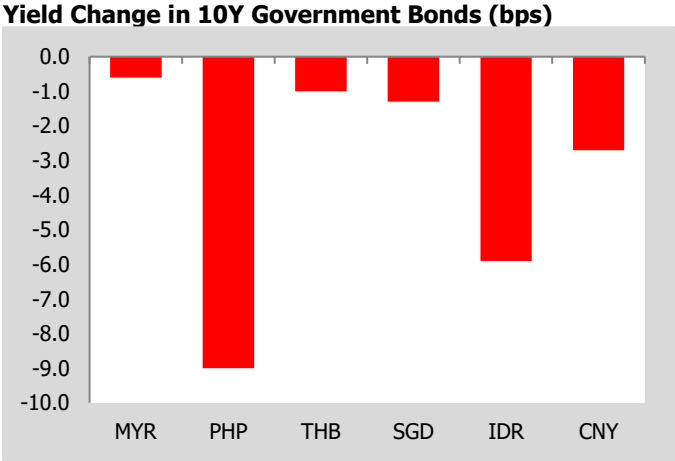
- Weak performance of the ringgit. The ringgit also depreciated against the US dollar by -1.9%wow to RM4.460. There was also a lack of domestic catalyst in the local market; therefore, ringgit movement was more impacted by external developments. The ringgit also weakened against the currencies of Malaysia's trading partner as our MIDF Trade Weighted Ringgit Index declined by -1.0%wow to 91.67 (previous: 92.80), weakening mainly against the Japanese yen (-2.3%wow), Saudi riyal (-1.9%wow), and Philippine peso (-1.9%wow)

**Currencies Changes (Week Ended 31 January 2024) and Quarterly Forecasts**

| | Close 31/01 | Prev. Close 24/01 | Weekly Change | Weekly Change (%) | 1QCY25f | 2QCY25f | 3QCY25f | 4QCY25f |
|---|---|---|---|---|---|---|---|---|
| DXY Index | 108.37 | 107.44 | +0.927 | +0.9 | 109.00 | 107.40 | 106.50 | 104.60 |
| EURUSD | 1.036 | 1.050 | -0.014 | -1.3 | 1.04 | 1.05 | 1.07 | 1.09 |
| GBPUSD | 1.240 | 1.248 | -0.009 | -0.7 | 1.26 | 1.28 | 1.30 | 1.32 |
| USDJPY | 155.2 | 156.0 | +0.810 | +0.5 | 150.00 | 147.80 | 146.70 | 143.94 |
| USDMYR | 4.460 | 4.378 | -0.083 | -1.9 | 4.40 | 4.31 | 4.22 | 4.03 |
| GBPMYR | 5.540 | 5.440 | -0.100 | -1.8 | 5.54 | 5.52 | 5.44 | 5.28 |
| JPYMYR | 2.872 | 2.806 | -0.066 | -2.3 | 2.93 | 2.93 | 2.88 | 2.83 |
| MIDF TWRI | 91.67 | 92.80 | -0.910 | -1.0 | 92.00 | 93.50 | 94.10 | 95.00 |

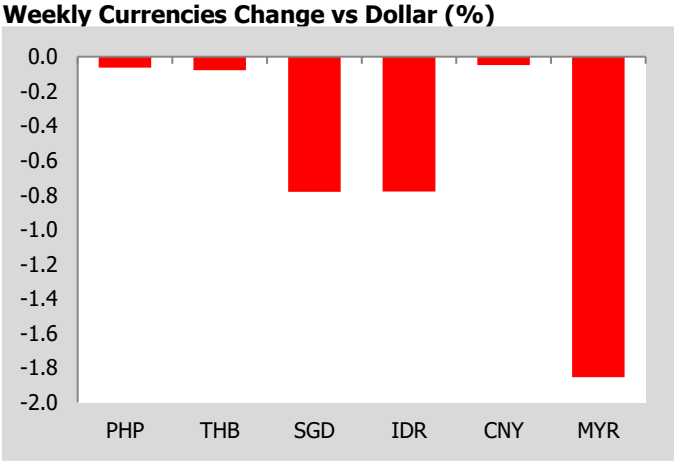
Note: "+" indicates appreciation, while "-"indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

**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 (%)**

| | Jun-24 | Jul-24 | Jul-24 | Aug-24 | Sep-24 | Oct-24 | Nov-24 | Dec-24 | Jan-25 |
|---|---|---|---|---|---|---|---|---|---|
| Malaysia | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Indonesia | 6.25 | 6.25 | 6.25 | 6.25 | 6.00 | 6.00 | 6.00 | 6.00 | 5.75 |
| Philippines | 6.50 | 6.50 | 6.50 | 6.25 | 6.25 | 6.00 | 6.00 | 5.75 | 5.75 |
| Thailand | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.25 | 2.25 | 2.25 | 2.25 |
| 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 | 3.25 | 3.00 | 3.00 | 3.00 |
| India | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 |
| Japan | 0.00-0.10 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 |
| UK | 5.25 | 5.25 | 5.00 | 5.00 | 5.00 | 5.00 | 4.75 | 4.75 | 4.75 |
| Euro area | 4.25 | 4.25 | 4.25 | 4.25 | 3.65 | 3.40 | 3.40 | 3.15 | 2.90 |
| USA | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 | 4.75-5.00 | 4.75-5.00 | 4.50-4.75 | 4.25-4.50 | 4.25-4.50 |

Source: Bloomberg, MIDFR

- US economic data released last week:
  - Advance estimates indicate slower GDP growth in 4QCY24. The US economy expanded by an annualised +2.3%qoq in the 4QCY24 (3QCY24: +3.1%qoq) but continued to be driven by higher consumer and government spending.
  - Unemployment claims decreased again. Initial jobless claims declined to 207K in the week ending 15th January 2025 (consensus: 220K), a sharp pullback from 223K in the previous week and the second lowest reading since Feb-2024.
  - PCE inflation picked up. The headline annual PCE inflation edged higher to +2.6%yoy in Dec-24 (Nov-24: +2.4%yoy), the highest in 7 months but in line with market expectations. Meanwhile, core PCE inflation remained unchanged at +2.8%yoy.

- On monetary policy decisions last week:
  - On 29 January 2025, as widely expected, the Federal Reserve kept the fed funds rate steady at 4.25-4.50% target range. The central bank paused the rate cuts cycle after three consecutive reductions in 2024, emphasising that the central bank is in no hurry to adjust its policy stance, particularly as the economy remains strong, while future inflation trajectory remains uncertain.
  - On 30 January 2025, the European Central Bank announced another -25bps cut for its key interest rates, reducing the deposit facility rate and main refinancing rate to 2.75% and 2.90%, respectively. The decision was the fifth cut since the central bank began easing monetary policy in June 2024.

- Malaysia's economic update last week:
  - PPI back to mild inflation. Malaysia's producer prices rebounded to inflation in Dec-24, rising by +0.5%yoy (Nov-24: -0.4%yoy), marking the first rise since Sep-24 and the quickest increase in 5 months.

## C. BNM INTERNATIONAL RESERVES

- As of 31 December 2024, compared to the previous fortnight, Bank Negara Malaysia's international reserves was higher at USD116.2b (15 December 2024: USD118.0b).

**BNM INTERNATIONAL RESERVES**




Source: Bloomberg (G662), MIDFR

- The number of reserves is sufficient to finance 5.0 months of imports of goods & services and is 1.0 times total short-term external debt.

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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 *rise* 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 *fall* 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 |