midf RESEARCH

MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy | 17 February 2025

Week Ended 14 February 2025

- The UST market rallied with benchmark 10-year yield ended 1.9bps lower at 4.477% (prior: 4.496%) as market players continued to remain on the defensive stance amid the heightened political risk stemming from the tariff negotiations added with a less hawkish stance from the Federal Reserve Chair Powell's congressional testimony suggesting that the Fed isn't eager to lower interest rates. On top of that, last week's economic data release indicated a softening job market and weaker retail spending in contrast to the slightly elevated inflation data, which may support a lower trajectory of the Fed Funds rate scenario. The 10y-3y yield spreads increased (yield curve steepened) to +20.6bps (prior week: 18.2bps), as the short-end moved lower. At the closing of the week, the interest rate futures market implied the next probable rate cut by the Fed would be in Sept-25 by -25bps.

- Medium-term inflation expectation (MTIE) closed the week slightly higher at 2.65% (prior week: 2.62%), as the mid-week it increased to 2.68%, being the highest level since the start of the year. The MTIE has continued to remain above the 2.00% since Sept-24. We think the market is still expecting the underlying inflationary pressure is still weak despite the recent upswing in MTIE.

- The 10-year MGS yield closed slightly lower as it traded lower last week declining by -0.4bps to 4.271, while the 3-year yields traded higher towards the end of the week closing by +1.5bps to 3.455%. The 10y-3y spreads closed lower week-on-week at +35.1bps (prior: 37.0bps).

  MGS foreign holdings increased month-on-month to RM276b in January 2025 from RM275b in December 2024. The latest reading in Jan-25 was higher than RM265b a year ago in Jan-24.

17 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 -1.9bps lower at 4.477% (prior: 4.496%) as market players continued to remain on the defensive stance amid the heightened political risk stemming from the tariff negotiations added with a less hawkish stance from the Federal Reserve Chair Powell's congressional testimony suggesting that the Fed isn't eager to lower interest rates now. On top of that, last week's economic data release indicated a softening job market and weaker retail spending in contrast to the slightly elevated inflation data, which may support a lower trajectory of the Fed Funds rate scenario. The 10y-3y yield spreads increased (yield curve steepened) to +20.6bps (prior week: 18.2bps), as the short-end moved lower. At the closing of the week, the interest rate futures market implied the next probable rate cut by the Fed would be in Sept-25 by -25bps.

10-Year US Treasury yields



US Treasury 10Y-3Y spreads



Source: Macrobond, MIDFR

- Medium-term inflation expectation (MTIE) closed the week slightly higher at 2.65% (prior week: 2.62%), as the mid-week it increased to 2.68%, being the highest level since the start of the year. The MTIE has continued to remain above the 2.00% since Sept-24. We think the market is still expecting the underlying inflationary pressure is still weak despite the recent upswing in MTIE.

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



Source: Macrobond, MIDFR

- The 10-year MGS yield closed slightly lower as it traded lower last week declining by -0.4bps to 4.271, while the 3-year yields traded higher towards the end of the week closing by +1.5bps to 3.455%. The 10y-3y spreads closed lower week-on-week at +35.1bps (prior: 37.0bps).

10-Year MGS Yields

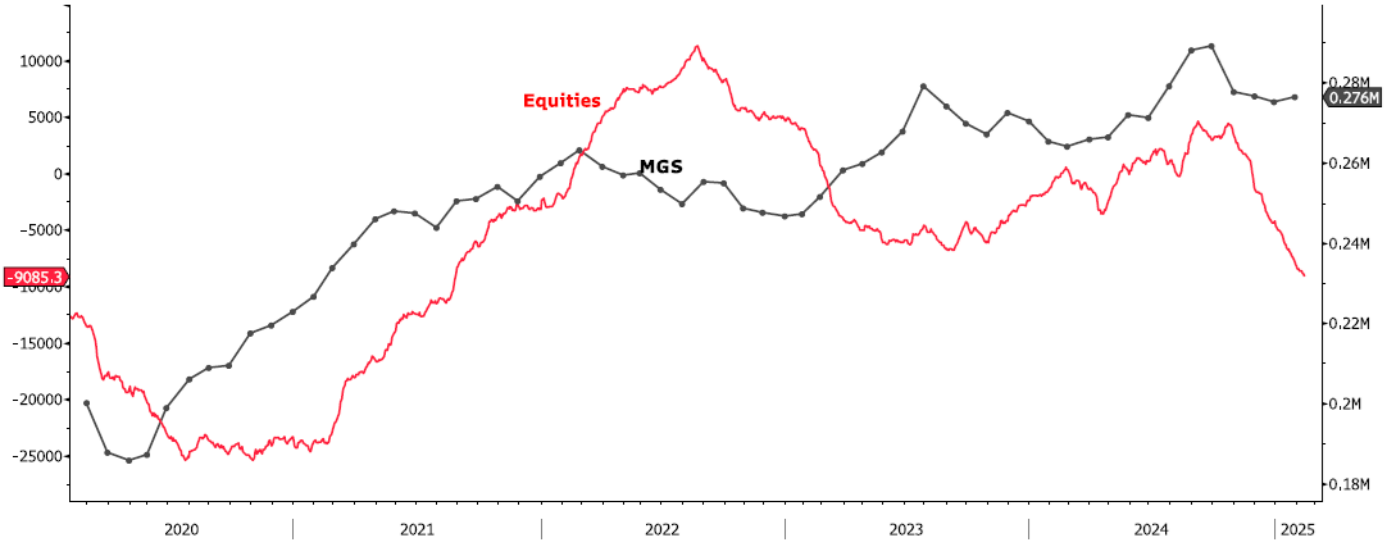


Malaysia MGS 10Y-3Y Spreads



Source: Macrobond, MIDFR

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



Source: Bloomberg, MIDFR (G659)

- MGS foreign holdings increased month-on-month to RM276b in January 2025 from RM275b in December 2024. The latest reading in Jan-25 was higher than RM265b a year ago in Jan-24. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM45.6b. It declined week-on-week from -RM42.5b registered a week ago. Moreover, it declined year-on-year from +RM1.5b a year ago.

B. FOREIGN EXCHANGE

- The DXY trended lower after opening strongly last week. The US dollar weakened last week as the DXY index fell by -1.2%wow to 106.7, breaching below the 107 level for the first time since mid-Dec-24. The weakening of US dollar was influenced by the continuation of the slightly dovish signals during Fed Chair Powell's testimony to the Congress indicating that the Fed is not in a rush to get interest rates lower, causing the probability of a rate cut in the short term to remain low. Demand for dollar also fell as economic releases last week showed signs of moderation in the job market and weaker retail spending, in contrast to elevated inflation data. In terms of government policies, President Donald Trump signed a sweeping reciprocal tariff plan which caused the US will treat other countries' non-tariff policies as unfair trade practices that warrant tariffs in response. Therefore, we expect investors to remain cautious in the near term, and markets will react to policy changes announced by the president.

- Pound sterling and euro gained against the dollar. The pound sterling appreciated by +1.5%wow against the US dollar and closed at USD1.259 last week on the back of better-than-expected UK GDP growth in 4QCY24. The euro also appreciated against the US dollar last week by +1.6%wow to USD1.049, gaining on the weakness in US dollar.

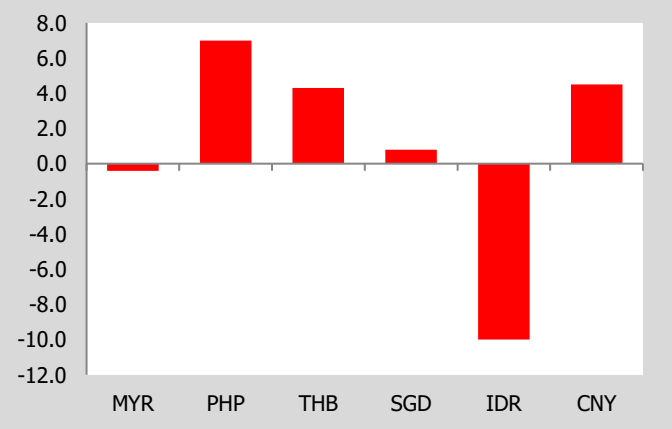
- Ringgit appreciated slightly. The ringgit strengthened slightly against the US dollar and briefly breached the RM4.470 level, which was later reversed to below the RM4.40 level. The ringgit ended stronger than the previous week by +0.1%wow to RM4.436 on the back of encouraging economic data. However, ringgit weakened against the currencies of Malaysia's trading partner as our MIDF Trade Weighted Ringgit Index declined by -1.0%wow to 90.08 (previous: 91.98), mainly depreciating against the Korean won (-0.9%wow), Australian dollar (-0.7%wow) and Singapore dollar (-0.6%wow).

Currencies Changes (Week Ended 14 February 2025) and Quarterly Forecasts

	Close 14/02	Prev. Close 7/02	Weekly Change	Weekly Change (%)	1QCY25f	2QCY25f	3QCY25f	4QCY25f
DXY Index	106.71	108.04	-1.330	-1.2	109.00	107.40	106.50	104.60
EURUSD	1.049	1.033	+0.016	+1.6	1.04	1.05	1.07	1.09
GBPUSD	1.259	1.240	+0.018	+1.5	1.26	1.28	1.30	1.32
USDJPY	152.3	151.4	-0.900	-0.6	150.00	147.80	146.70	143.94
USDMYR	4.436	4.440	+0.004	+0.1	4.40	4.31	4.22	4.03
GBPMYR	5.584	5.532	-0.052	-0.9	5.54	5.52	5.44	5.28
JPYMYR	2.912	2.932	+0.020	+0.7	2.93	2.93	2.88	2.83
MIDF TWRI	90.08	90.99	-0.911	-1.0	92.00	93.50	94.10	95.00

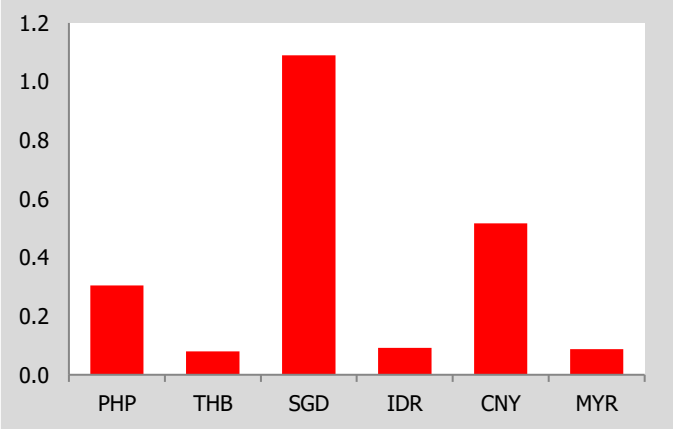
Note: "+" indicates appreciation, while "-"indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

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

Source: Bloomberg, MIDFR

- US economic data released last week:
  - Inflation picked up higher. The headline CPI inflation picked up by +3.0%yoy in Jan-25 (Dec-25: +2.9%yoy), above market consensus of +2.9% yoy. Energy cost rose by +1.0%yoy the first increase in six months. Meanwhile, on the monthly basis, the CPI rose faster by +0.5% mom (Dec-29: +0.4%mom), on the back of +0.5%mom rise in the shelter index. Meanwhile, core CPI edged up to +3.3%yoy in Jan-22 (Dec-24: +3.2%yoy and consensus: +3.1%yoy).
  - PPI higher than market consensus. The PPI stood at +3.5%yoy in Jan-25, unchanged from the previous month but higher than the consensus of +3.2%yoy and being the highest level since Feb-23. Meanwhile, the core PPI was recorded at +3.6%yoy (previous: +3.7%yoy and consensus: +3.3%yoy).
  - Unemployment claims fell. The initial jobless claims decreased by -7K from the preceding week to 213K, below the consensus market forecast of 215K but still indicated continued robustness within the US labour market. The four-week moving average of initial claims declined slightly to 216K.
  - Industrial production increased. The industrial production increased to +2.0%yoy in Jan-25 (previous: +0.3%yoy), the biggest rise since Oct-22. Utility output rose +6.9%, mining added +3.0% and manufacturing rose +1.0%, the biggest rise since Dec-23.
  - Sustained but softer rise in retail spending. Retail sales picked up by +4.2%yoy in Jan-25, but easing from +4.4%yoy in Dec-25. On the monthly basis, the US retail sales fell -0.9%mom in Jan-25, significantly worse than the -0.1%mom decline forecasted by the market and the largest drop since Mar-23 due to severe weather and LA fires which impacted consumer spending.

- Malaysia's economic update last week:
  - Unemployment rate shifts lower. Malaysia's labour market remained healthy in Dec-24, with the unemployment rate dropping to 3.1%, hitting a near-decade low and aligning with market expectations. This stability was underpinned by a continued rise in the labour force (+1.7%yoy) and steady employment growth (+1.9%yoy).
  - Malaysia's economy grew by +5.1% in 2024. Malaysia's GDP growth moderated to +5.0%yoy in 4QCY24 (3QCY24: +5.4%yoy), slightly above the advance estimate of +4.8%yoy on the back of a sustained rise in consumer spending and higher contribution from net exports. For the full year, Malaysia's economy expanded stronger by +5.1% in 2024 (2023: +3.6%), within the government's target of +4.8% to +5.3%.

C. BNM INTERNATIONAL RESERVES

- As of 31 January 2025, compared to the previous fortnight, Bank Negara Malaysia's international reserve rose to USD116.4bn in 31 January 2025 from USD115.5bn on 15 January 2025.

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.

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

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