Monthly Manifests

November 2024 Edition

5 November 2024

AmBank Economics

AmBank Group

Executive Summary

The highlight of last month would be the Budget 2025 announcement on 18 October 2024, which marks the final annual budget under the Twelfth Malaysia Plan 2021-2025 (12MP). It is estimated that Malaysia's real GDP growth is between 4.5% and 5.5%, representing an increase from 4.0% to 5.0% in the previous range. We believe such a projection is realistic as our in-house forecast is at 4.6% in 2025. We posit that the upcoming 3Q2024 GDP growth result, out on 15 November 2024, will be around 5.0% y/y, maintaining its strong momentum following a rise of 5.9% in the previous quarter.

We believe that amidst the easing cycle, the path ahead in the FX space remains cloudy and would depend on the outcome of the upcoming US elections. When the dust settles, it will provide more clarity, and we may have to adjust our calls later on, but for now, we reiterate our view that the DXY index is still poised to be bearish amidst the Fed easing cycle, with a target of 102 – 103 by the end of this year. Structurally, the running macro backdrop remains focused on the Fed, and incoming rate cuts in November/December and into 2025-2026 will suffice to ensure a bearish trend for the DXY index, albeit a bumpy one.

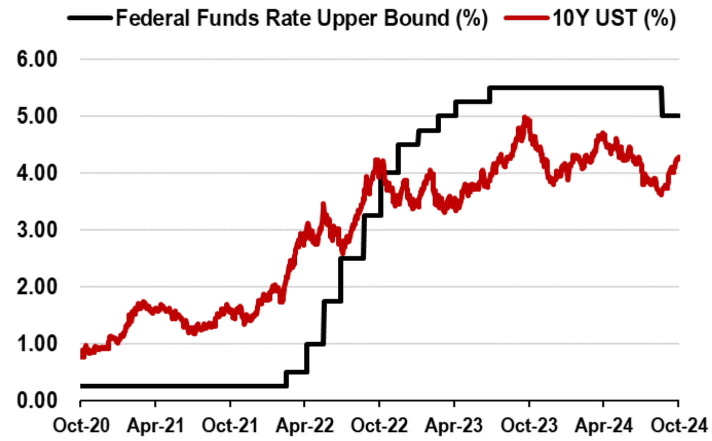
In the bond space, despite the Fed's decision to cut the FFR by the large 50 bps on 19 September, UST yields have surged during the month or so since the decision. The 10Y UST is up >50 bps since the Fed kickstarted its rate-cutting cycle. We think UST traders have taken as major drivers (to sell down Treasuries) 1) the US election risks (and anticipated Trump win), 2) continued release of firm economic data which aids US growth outlook, and 3) expectations that the Fed will execute gradual cuts in the FFR well into next year. In our opinion, post-US elections will likely return the allure of the safe-haven US government bonds. The bond market will likely trade based on incoming US fiscal measures alongside the Fed continuing to cut interest rates. We think a better-performing UST market would aid MGS/GII sentiment in the short term. Despite expectations the US fiscal deficit will still balloon this year and next, due to expectations the new government will raise spending, we think the passage of spending bills will be challenging, as we expect voting in Congress will be deeply partisan.

Exhibit 1: AmBank Economics' Projections (%)

	Actual Data		Forecast	
	2022	2023	2024F	2025F
GDP, y/y%	8.9	3.6	4.9	4.6
Inflation rate	3.4	2.5	1.8	2.5 – 3.0
Unemployment rate	3.8	3.3	3.2*	3.2*
OPR	2.75	3.00	3.00	3.00

Sources: BNM, DOSM, AmBank Economics
*Notes: *Year-end forecast*

Exhibit 2: Bond yields rise in October despite the Fed starting its rate cut cycle in September



Sources: Bloomberg, AmBank Economics

Macro View

US economy remains solid while inflation cools

Overall, inflation is edging closer to the 2.0% target.

Given the Fed's data-dependent stance, the past month has seen market focus remain on inflation and employment trends. The September data revealed that overall PCE inflation is edging closer to the 2.0% target, reaching its lowest level since February 2021 at 2.1% y/y (August: 2.3%). The continued disinflationary trend keeps the door ajar for a rate cut in November. However, the core PCE price index – the Fed's preferred inflation gauge – experienced its largest monthly increase in five months, rising by 0.3% m/m in September (August: 0.2%). On a y/y basis, the core PCE index rose by 2.7%, the same as in July and August. The slightly above consensus core PCE reading suggests that any forthcoming rate cut may be smaller than the 50bps reduction delivered in September.

Job growth is disappointing, with only a 12k increase attributed to severe hurricanes and a major strike.

October's non-farm payroll data fell short of broad consensus with only a 12k job increase – the smallest gain since December 2020 – following a gain of 223k jobs (revised down from 254k) in September. This contrasted with an unchanged unemployment rate of 4.1% and an uptick in average hourly earnings growth to 4.0% (September: 3.9%). Severe hurricanes and a major strike may have caused distortions in the data. Still, the downward revisions to the previous two months' data, totalling 112k fewer jobs, signalled a weakness in the jobs market, providing more ground for the Fed to proceed with rate cuts. Fed funds futures indicate a 25bp rate cut is almost certain at the upcoming FOMC meeting held on November 6-7, aligning with the latest FOMC projections.

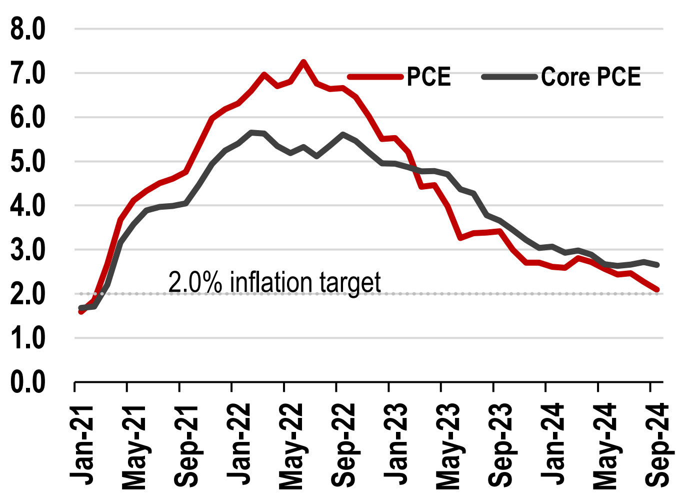
US growth has been propelled by resilient consumer spending and higher government expenditures.

The US economy has remained in decent shape thus far, expanding at a 2.8% annualised rate in 3Q2024, although this represents a slight deceleration from the 3.0% growth recorded in 2Q2024. Growth has been propelled by resilient consumer spending, which defied expectations of a slowdown amid prolonged high interest rates. Personal consumption expenditures posted their strongest growth since 1Q2023, rising by 3.7% (2Q2024: 2.8%), buoyed by higher goods spending. Government consumption expenditures have also contributed to growth, increasing by 5.0% (2Q2024: 3.1%), led by a jump in federal government spending (9.7% vs. 2Q2024: 4.3%). However, the trade deficit widened further as imports surged by 11.2% (2Q2024: 7.6%), outpacing exports, which grew by 8.9% (2Q2024: 1.0%).

Fed's Beige Book noted uncertainty stemming from the upcoming US Presidential elections hindering consumer and business activity.

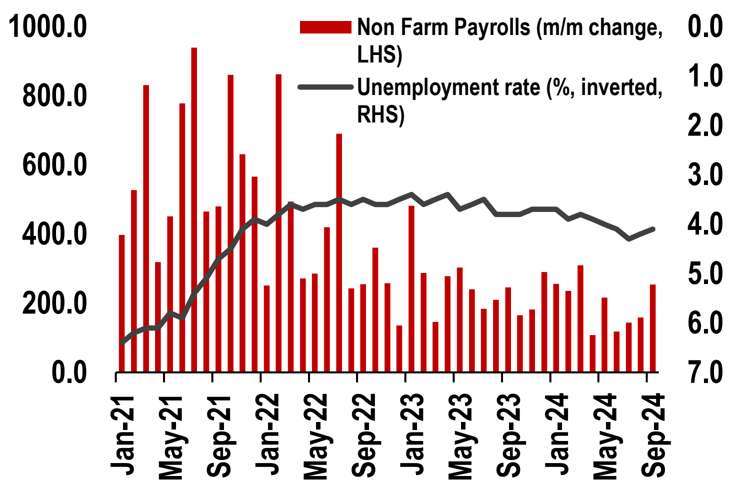
On the contrary, the Fed's October Beige Book indicated stagnating economic activity across most districts since early September. Uncertainty stemming from the upcoming US presidential election is noted as a major factor hindering consumer spending, especially on major purchases, as well as leading businesses to delay investment and hiring decisions.

Exhibit 3: US PCE Price Index (y/y%)



Sources: U.S. Bureau of Economic Analysis, AmBank Economics

Exhibit 4: US Non-Farm Payrolls vs. Unemployment Rate



Sources: U.S. Bureau of Labor Statistics, AmBank Economics

Euro's economic growth in the third quarter surpass preliminary estimates

The growth reflects a positive trend, with the economy showing a quarter-on-quarter (q/q) increase of 0.4%

According to Eurostat's preliminary flash estimates, the economic growth in the currency's bloc accelerated from the 0.2% recorded in the second quarter, defying market expectations of 0.2% and marking the strongest expansion since 3Q2022. Meanwhile, Germany, the bloc's largest economy, avoided contraction as GDP growth experienced a rise of 0.2% q/q (2Q2024: -0.3%) during the quarter, supported by increased government and household consumption. On a yearly basis, the Eurozone GDP expanded by 0.9% compared to 0.6% in the previous quarter. The ECB expects the economic growth to expand by 0.8% in 2024.

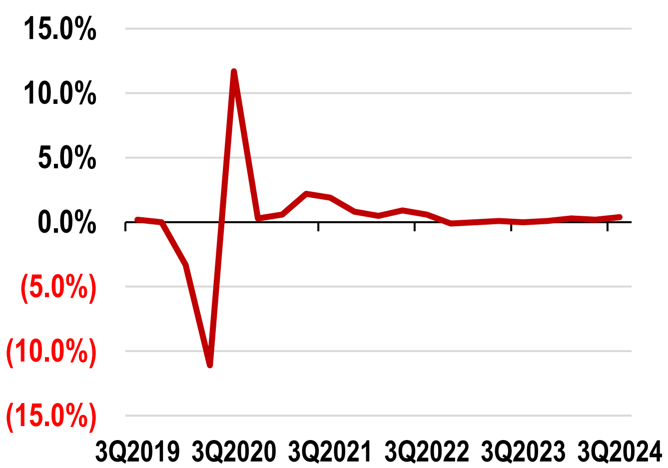
ECB seems to take a cautious approach to interest rate decisions as inflation picks up

During the October meeting, the central bank cuts the borrowing costs by 25bps in a widely anticipated move, bringing the key deposit rate to 3.25%, the lowest since May 2023. On the inflation front, consumer prices rose to 2% y/y in October (September: 1.7%), suggesting that a half-point reduction in December could be unlikely and boosting arguments for gradual rate cuts instead. At the same time, higher-than-expected GDP growth might relieve pressure on the central bank to avoid rushing into further steps. At the same time, higher-than-expected GDP growth might ease pressure on the central bank to avoid rushing into further steps. Despite that, concerns over the economic growth in the future remain, as the latest IMF forecast in October cut the overall Eurozone growth slightly to 0.8% in 2024, compared to the previous projection of 0.9% made in July. Despite that, concerns over the economic growth in the future remain as the latest IMF forecast in October cut the overall Eurozone growth slightly to 0.8% in 2024 compared to the previous projection of 0.9% made in July.

Eurozone business activity is mired in stagnation.

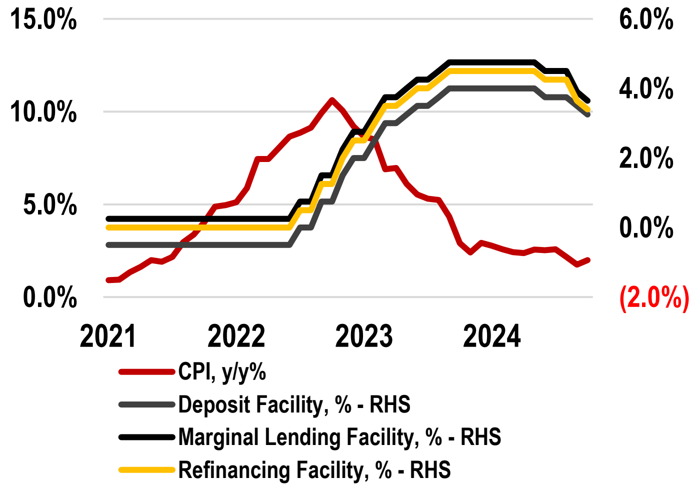
Though HCOB Eurozone Manufacturing PMI nudged up to 45.9 in October from 45.0 in the previous month, the manufacturing output declined as the latest reading remained below the 50-mark. New business also fell, with firms reducing purchases and lowering the stock of materials and finished goods. The declining demand landscape further dampened business confidence. While the sentiment weakened in both the manufacturing and services sectors, it remained more robust in the latter.

Exhibit 5: Euro Area GDP, q/q%



Sources: Eurostat, AmBank Economics

Exhibit 6: CPI vs. Policy Rate, %



Sources: Eurostat, ECB, AmBank Economics

China's 3Q2024 GDP growth decelerates, but full-year growth target remains within reach

The PBoC has stepped up its stimulus measures to support the economy.

The PBoC has stepped up its stimulus measure to support the economy by lowering rates while introducing a swap programme that facilitates easier access to funding for stock purchases by funds, insurers and brokers, and relatively cheap loans to help banks finance listed companies' share purchases and buybacks. Apart from that, the Chinese government has flagged more fiscal stimulus to come, with details expected to be unveiled after the standing committee of the National People's Congress meeting held on November 4-8.

Deflationary pressures persist.

Pressure on Beijing to do more to combat deflation has built up again as the latest inflation print disappoints. Consumer price inflation decelerated in October to a mere 0.4% y/y increase, down from 0.6% in September. Meanwhile, producer price deflation deepened with a y/y decline of 2.8%, compared to a 1.8% decrease in the previous month.

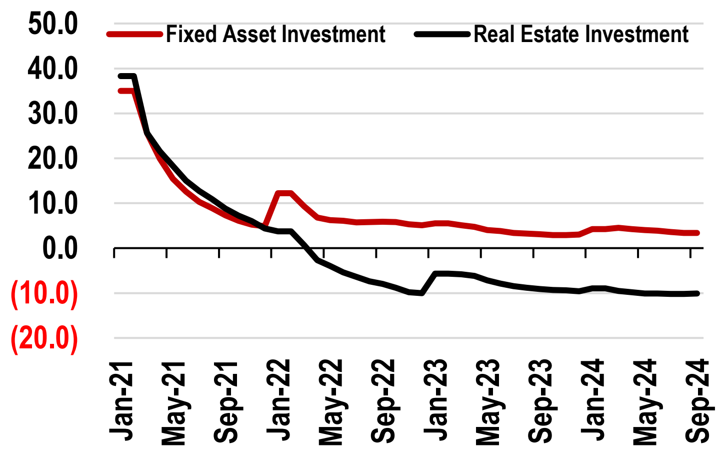
China's 3Q2024 GDP growth decelerates slightly to 4.6% y/y

China's economy grew by 4.6% y/y in 3Q2024, easing from a 4.7% expansion in the preceding quarter as a protracted property downturn, subdued consumer demand and fiscal strain on local governments continued to drag on growth. As a result, China's GDP for the first three quarters of the year stands at 4.8% y/y, keeping the official full-year growth target of 5.0% within reach. However, achieving this widely perceived ambitious growth target will depend on the effectiveness of the incoming fiscal stimulus.

September's monthly data showed an uptick in retail sales and industrial production.

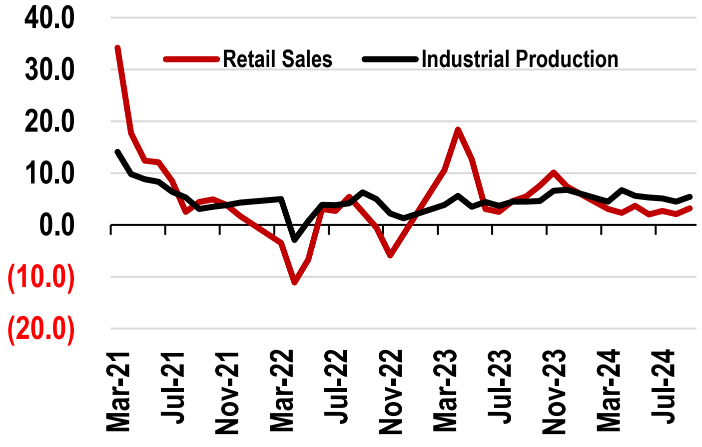
Fixed asset investment growth stabilised at 3.4% y/y in September, the same as in August, with the real estate sector continuing to be the largest drag, contracting by 10.1% y/y. On a positive note, September's monthly data showed an uptick in retail sales (3.2% vs. August: 2.1%) and industry production (5.4% vs. August: 4.5%). These increases partly reflect the impact of the government's consumption-boosting measures, such as trade-in policies, and the acceleration of hi-tech manufacturing.

Exhibit 7: China's Investment YTD, y/y%



Sources: China's National Bureau of Statistics, AmBank Economics

Exhibit 8: China's Retail Sales vs. Industrial Production, y/y%



Sources: China's National Bureau of Statistics, AmBank Economics

Budget 2024 paints Malaysia's economic scenario in the coming year

AmBank's real GDP growth forecast in 2024 and 2025 falls at the low point of the latest budget growth range estimate.

The highlight of last month would be the Budget 2025 announcement on 18 October 2024, which marks the final annual budget under the Twelfth Malaysia Plan 2021-2025 (12MP). It is estimated that Malaysia's real GDP growth will be between 4.5% and 5.5%, representing an increase from the previous range of 4.0% to 5.0%. We believe such a projection is realistic as our in-house forecast is at 4.6% in 2025. We posit that the upcoming 3Q GDP growth result, which will be out on 15 November 2024, will be around 5.0% y/y, maintaining its strong momentum following a rise of 5.9% in the previous quarter. This is buoyed by domestic demand, which is the economy's main driver and constitutes around 60% of the GDP. For this year, we anticipate the growth to be at 4.9%, which lies in the official estimates range of 4.8% and 5.3%.

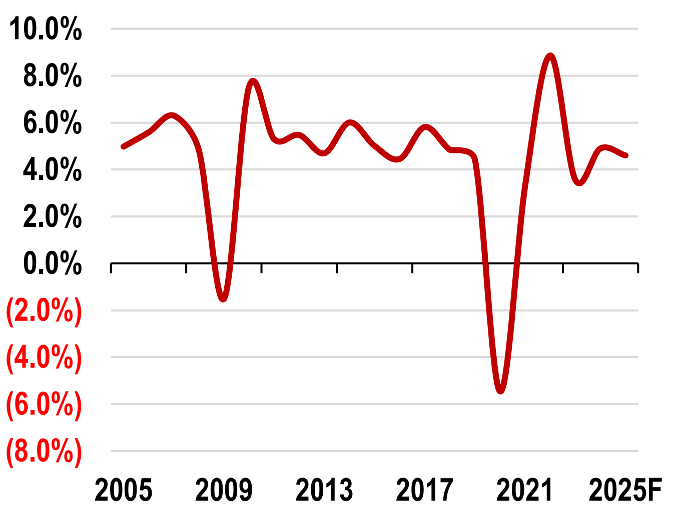
There is no pressure for an OPR hike as inflation remains low and economic growth momentum is going strong.

Inflation is averaging at 1.8% following the limited impact of recent policy changes. Furthermore, soft retail spending could also be one of the main reasons for such a drop. In view of this, we estimate that the inflation could be hovering below 2.0% for this year before the price pressure rise in 2025 between 2.0% and 3.5% based on the official estimates, aligning with our forecast of 2.5% following the planned RON95 subsidy rationalisation in mid-2025. For the upcoming MPC meeting this month – the last meeting of the year- we think BNM will opt to maintain the OPR level at its current state and stay flat until mid-next year.

The unemployment rate reading suggests a robust labour market.

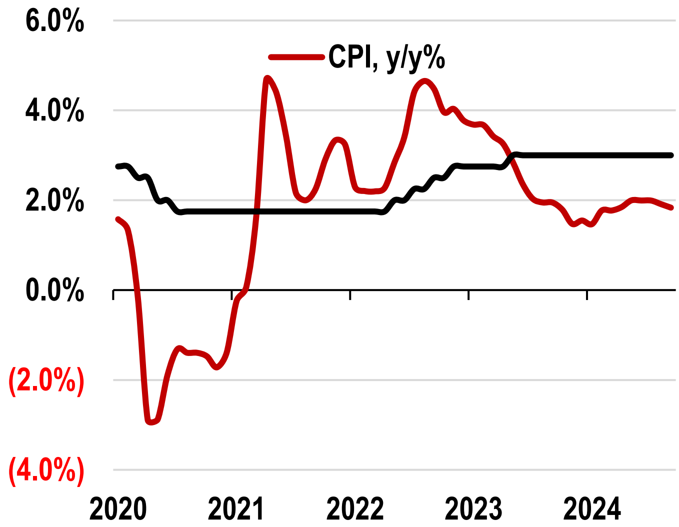
After nine straight months, registering a rate of 3.3%, the latest unemployment rate fell to 3.2%, with a high labour force participation rate of 70.4% in August. Additionally, the latest reading is consistent with our year-end outlook for the unemployment rate to be 3.2% this year. Meanwhile, the unemployment rate is expected to improve to 3.1% in 2025, which we think is reasonable with our in-house forecast of 3.2%. This also aligns with the government's projection that personal income tax to increase in 2025 as the income tax net gets bigger amid higher labour force participation.

Exhibit 9: Real GDP, y/y%



Sources: BNM, DOSM, AmBank Economics

Exhibit 10: CPI vs. OPR, %



Sources: BNM, DOSM, AmBank Economics

Iron & Steel

Declining exports for iron and steel in Malaysia are attributed to sluggish demand.

Strategic undertakings – Malaysia is partnering with China to create a government-to-government mechanism for capacity management and technology sharing in the steel industry, as addressed by the Deputy Investment Trade and Industry Minister during the Malaysian Iron and Steel Industry Federation's (MSIF) 14th conference on 24th October. It underscores the need to balance local production of long steel products with imports of flat products while enhancing manufacturing capacity and addressing environmental impacts, particularly through a proposed carbon tax mentioned in the Budget 2025 to fund green initiatives. The decline of steel consumption by 6.2% in China leads to excess production and a potential glut in the global market, which could impact Malaysia.

Plantation

As of writing, Malaysian palm oil price has reached above MYR 4,800 per tonne – maintaining its highest level since mid-June 2022

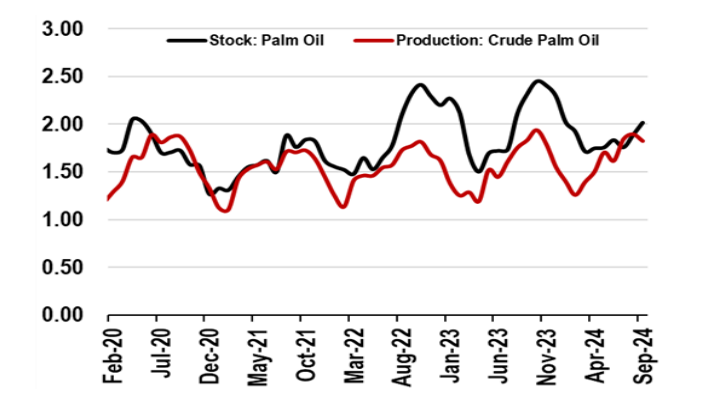
Rising palm oil price – In 3Q2024, Malaysian crude palm oil production soared to between 1.8 and 1.9 million tonnes. By taking the monthly average throughout the quarter, it reflects a 15.2% q/q increase from the second quarter, primarily due to the timing of harvesting season. Additionally, stockpiles reached an eight-month high in September 2024, hitting 2.01 million tonnes. It can be attributed to weak domestic consumption. Starting 1 November 2024, Malaysia will introduce a new export duty schedule that includes additional export taxes on crude palm oil (CPO) prices. Despite this, global prices have remained near recent peaks due to ongoing supply concerns, as the Indonesian Palm Oil Association has pointed to limitations in palm oil production largely attributed to the impacts of El Niño.

Semiconductors

Malaysia's strength is downstream assembly, testing & packaging (ATP) - 7.0% of the world's ATP capacity.

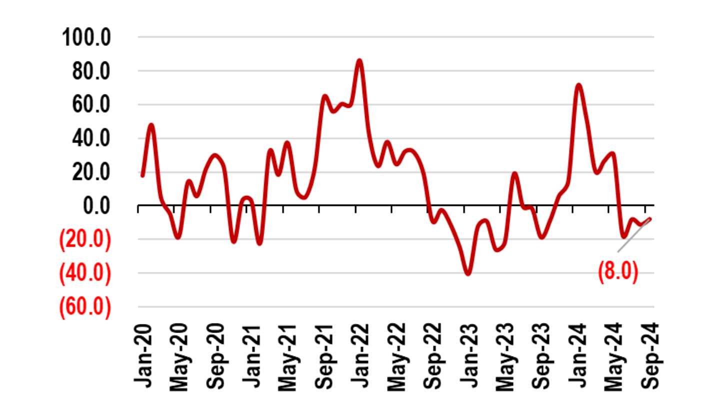
Government targeted initiatives – As announced in Budget 2025, the government placed a strong emphasis on talent development with a strategic investment fund of MYR1.0 billion in the electrical and electronics (E&E) sector that will enhance Malaysia's competitiveness in the global semiconductor supply chain. The budget also expands tax incentives for integrated circuit (IC) design services to boost exports and introduces special income tax incentives for investments in less developed regions.

Exhibit 11: Palm Oil Production & Inventory Level (mil tonnes)



Sources: Malaysian Palm Oil Board, AmBank Economics

Exhibit 12: Malaysia Exports: Iron & Steel (y/y%)



Sources: DOSM, AmBank Economics

FX Overview

The dollar gets a lift ahead of the US elections as a challenging landing scenario gets thrown out the window.

This is a wake-up call in FX markets as the US outlook remains rosy, supporting the dollar.

Monthly Review – FX movement throughout October was characterised as a "wake-up call" directed to investors expecting the US economy to be already on its way into a recession scenario, thus leading them to price an imminent aggressively dovish rate cut in the prior months. Economic data released throughout the month proved investors wrong and reinforced the case for a "soft-landing" scenario rather than a hard one. Even the headline and core inflation readings recorded slightly faster for September, proving that the disinflation process will continue to be bumpy and less steep. Additionally, the latest global outlook by the IMF revised US GDP growth upwardly compared to the July update.

On 30th September 2024, just before the blowout in September job reports which shook the markets, the FFR futures were showing as much as 47% probabilities for the FFR to end the year at 4.00% - 4.25% range, which would translate into another 75 bps cut on top of the unexpected jumbo 50 bps trim in September FOMC meeting. However, the latest data signalled that market players have toned down their pricing with a 74% probability that FFR will land in the 4.25% - 4.50% range by the end of this year.

In addition, Trump trade boosts the dollar further.

In tandem with the supported DXY during the month (as much as 3.2% monthly gains), the UST yields also shot higher, with the 10Y yield to 4.28%, up from 3.78% at the end of September. This higher trend had to do with the so-called "Trump Trade", as most polls are starting to show that the Republican candidate will win the presidential election race for the second time.

This means that markets have already started to price in for him to implement his planned policies, including imposing more tax cuts, regulatory easing, increasing trade tariffs, etc.; most of them are expansionary and could cause faster domestic economic growth. This could ultimately push the Fed to reconsider their rate cut plan, i.e., the easing path could be staggered, or the terminal rate would not be as low as what policymakers jotted down in the September Summary of Economic Projections (SEP). Additionally, running up to any past presidential elections would result in higher yields as risk appetite would be dampened by the uncertainties related to the key risk. Thus, these factors could be another reason why the UST yields were supported as well, especially on the longer part of the tenors.

Outlook for rate cuts elsewhere pressures global currencies as the USD shows strength.

We noted that weaknesses in economic conditions in other major countries such as the Euro Area and Japan, coupled with the encouraging disinflation process in the UK, all of which would influence central banks to cut rates faster to prop up their economy (or hold their rate hike plan in the case of BoJ as price pressures have elevated), compared with the possibilities for FFR to be cut in a staggered manner. Additionally, on the ECB's front, the most notable hawkish among its board members, Isabel Schnabel, has shifted her tone to growth risks, adding to growing signals from other officials, which may worsen the rate differentials vis-à-vis the US FFR.

In the UK, growth prospects appear brighter than those of its Euro Area peers, with private business activity still showing slower growth. Further, the unemployment rate edged lower to 4.0% from the three-year peak of 4.4% back in May 2024, while the headline inflation rate for September unexpectedly dipped below 2.0%, suggesting a smooth disinflation process is still possible for the UK economy. However, the most recent remarks by BoE Governor Andrew Bailey suggest the central bank could go ”aggressive” in its easing process, signalling policymakers' worries about growth.

Meanwhile, BoJ decided to maintain rates.

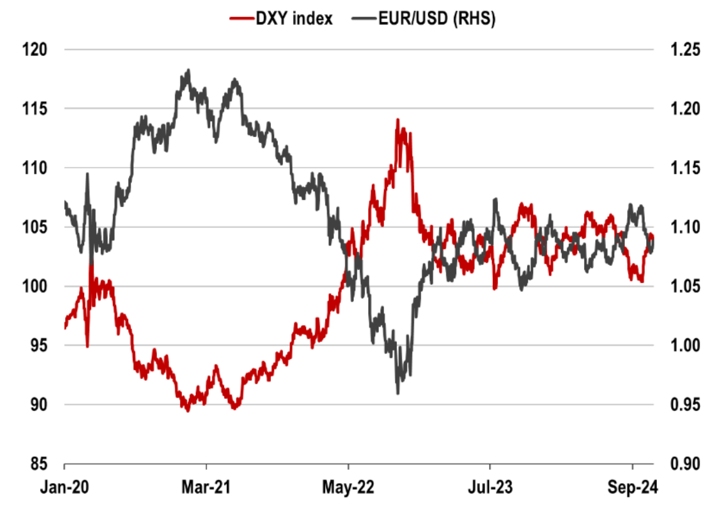
Just before October ended, BoJ policymakers met at their second last meeting of the year and decided to keep the policy rate unchanged at 0.25%. We take note of the press conference post-decision by Governor Kazuo Ueda, who hinted that conditions are falling into place to raise interest rates again, with wages and prices moving “in line” with their forecasts. This is a shift of tone from back in July when the central bank said it could "afford to spend time" assessing risks after its rate hike in July and the markets deemed it slightly dovish. It also came right after Japan's ruling LDP–Komeito coalition lost its parliamentary majority while opposition parties made substantial gains. The markets were concerned that the result could complicate fiscal policy implementation. Still, Ueda somewhat dismissed these concerns and said the recent political landscape alone will not directly influence the forecasts.

We believe that amidst the easing cycle, the path ahead in the FX space remains cloudy and would depend on the outcome of the upcoming US elections. When the dust settles, it will provide more clarity, and we may have to adjust our calls later on, but for now, we reiterate our view that the DXY index is still poised to be bearish amidst the Fed easing cycle, with a target of 102 – 103 by the end of this year.

Short-term Outlook – We believe that amidst the easing cycle, the path ahead in the FX space remains cloudy and would depend on the outcome of the upcoming US elections. Even if the current polling standing gives way to Harris, the financial markets are betting the other way around. A win by the Republican candidate would mean the planned expansionary fiscal policy may eventually force the Fed to ease its monetary policy significantly less than what markets and policymakers thought in the first place. This would translate into a broadly supported USD, and it could trend sideways, at worst, rather than downward during an easing cycle. Additionally, the dollar would be supported by safe-haven demand amidst the ongoing geopolitical tension, alongside the expected tariff imposed on the rest of the world, fearing retaliatory actions could come from the receiving countries. On the other hand, a victory by the Democrat candidate means markets focus would return to the US inflation and labour market dynamics, which in this case could cause the USD to reverse back its recent gains and trend broadly downward moving forward, in tandem with our current projections.

When the dust settles, it will provide more clarity, and we may have to adjust our calls later on, but for now, we reiterate our view that the DXY index is still poised to be bearish amidst the Fed easing cycle, with a target of 102 – 103 by the end of this year. Structurally, the running macro backdrop remains focused on the Fed, and incoming rate cuts in November/December and into 2025-2026 will suffice to ensure a bearish trend for the DXY index, albeit a bumpy one. For the EUR/USD pair, the current 1.09 – 1.10 range seems plausible as the ECB struggles with the region's growth problems, and the central bank may need to cut faster than the Fed. Meanwhile, the USD/JPY path towards below 150 seems to be brighter again based on the latest BoJ signals. Still, policymakers need the economic condition to evolve based on their expectations for another rate hike. Similarly, as the Fed cuts and BNM holds steady interest rate differentials, they will resume moving towards MYR's advantage. We maintain our end-2024 USD/MYR target of 4.150-4.200 range.

Exhibit 13: DXY vs. EUR/USD

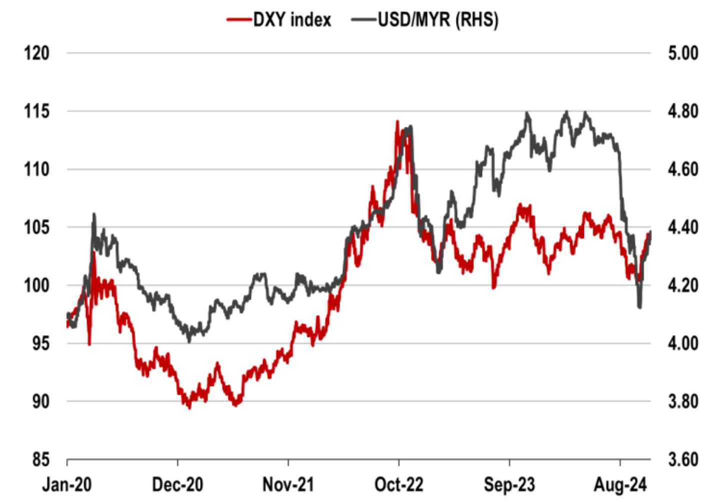


Sources: Bloomberg, AmBank Economics

Exhibit 14: Risk-Reversal Options for BBDXY 3-Months

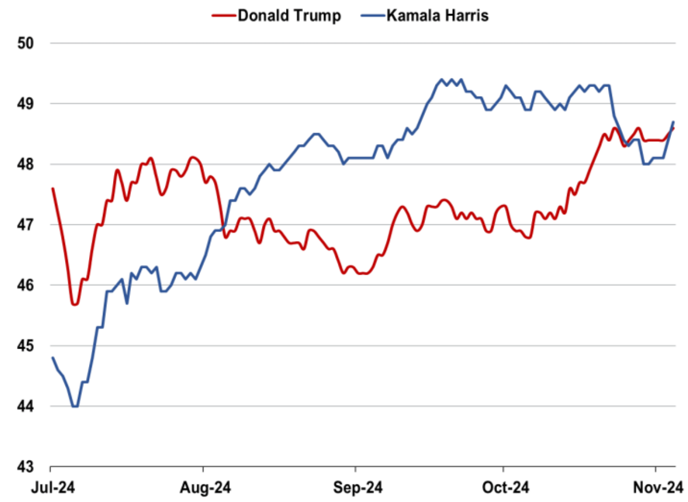
Sources: Bloomberg, AmBank Economics

Exhibit 15: DXY vs. USD/MYR



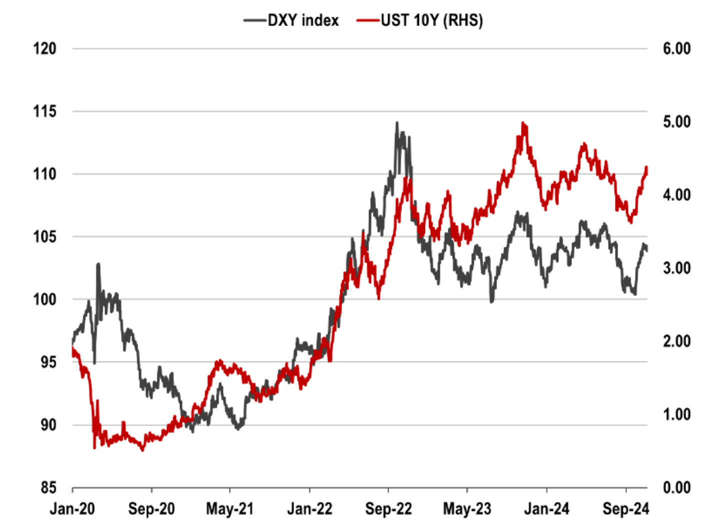
Sources: Bloomberg, AmBank Economics

Exhibit 16: RCP Poll Average (%)



Sources: Bloomberg, AmBank Economics

Exhibit 17: DXY vs. UST10Y (%)



Sources: Bloomberg, AmBank Economics

Exhibit 18: DXY vs. USD/JPY

Sources: Bloomberg, AmBank Economics

Bond Space

Bond yields rise even though the Fed has begun a rate cut cycle.

UST yields rose in the past month despite the Fed starting its rate-cut cycle

US Treasuries – Despite the Fed's decision to cut the FFR by the large 50 bps on 19 September, UST yields have surged during the month or so since the decision. The curve shows that the 10Y UST is up >50 bps since the Fed kickstarted its rate-cutting cycle. We think UST traders have taken as major drivers (to sell down Treasuries) as

1) the US election risks (and anticipated Trump win)
2) continued release of firm economic data which aids US growth outlook and
3) Expect the Fed to make gradual cuts in the FFR well into next year.

The bond market was pricing in inflation worries post-US elections.

Regarding the US elections, bond markets were pricing for a Trump win. A Trump win could raise inflationary pressures via tariff implementations (which raises domestic prices of imports) and sustained pro-growth policies [even though an election win for either Trump or Harris could still mean fiscal deficits will be prolonged as both candidates may opt to implement large tax cuts/spending, thereby raising the potential for large issuances of Treasury papers in the coming year(s)]. Encouraging economic US data added to the Fed's expectation to continue its rate cut cycle but at a more gradual pace than earlier market expectations. Indeed, the September FOMC meeting minutes revealed that there was pushback by some Fed officials against the executed 50 bps done, as those officials preferred a gradual pace of cuts – to better gauge the degree of current policy restrictiveness, especially via monitoring the strength of incoming macroeconomic data.

The Malaysian bond market was affected by the weak performance of the US and by the Budget announcement of subsidy rationalisation, which sparked inflation fears.

Malaysian bonds. The Malaysian bond market was affected by the weak performance in the US and global bond markets and the Malaysian Budget announcement. As UST yields rose by >50 bps in October, Malaysian Government Securities (MGS) yields were recorded up 10-25 bps across the curve except for the 30Y, which rose 5 bps m/m. Mixed domestic economic data contributed to sentiment-driven mainly by global drivers, coming ahead of the November MPC meeting where BNM is anticipated to continue to hold the OPR at 3.00% with expectations policymakers will yet to show their hands if easing of policy is required in the coming year. Yet, the announcement in the Budget 2025 of plans to rationalise the RON95 subsidy influenced the bond market as traders began to tread cautious of possible inflationary pressures coming in next year. We noted that 7Y to 15Y yields rose 13-22 bps m/m in October, reflecting the fresh worries over inflation. Meanwhile, credit spreads widened as the weak sentiment flowed into the corporate space. Increased issuances of corporate bonds (YTD at MYR95.2 billion vs MYR103.4 billion in the full year 2023) contributed to the wider spreads.

Nevertheless, we have a positive view of the supply dynamics for MGS and GII next year.

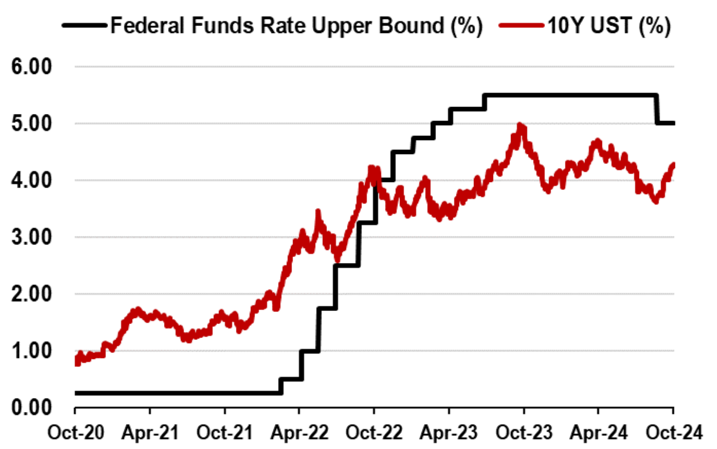
Nevertheless, we have a positive view of the supply dynamics for MGS and GII in the longer term. The 2025 Malaysian Budget targeting a lower fiscal deficit has led us to estimate that net MGS and GII issuance for 2025 will fall below the issuance number of MYR95.4 billion in fiscal 2024. Our FY 2025 gross MGS and GII issuance of MYR165.0 billion forecast is also anticipated to be below the MYR183 billion estimate for 2024 as contained in the Budget document. However, we note that sentiment remained mixed in the primary MGS/GII market. Auctions in October comprised MYR4.5 billion of the 3Y MGS (at 1.61x BTC), MYR 4.5 billion of the 10Y GII (1.60x BTC), MYR3.0 billion of the 20Y MGS (plus MYR2.0 billion private placement) (2.04x BTC) and MYR5.0 billion of the 7Y GII (2.00x BTC). The 2025 Budget announcement stating total MGS/GII issuance for fiscal 2024 to amount to MYR183.0 billion is higher than our initial target of as much as MYR180 billion because we think the government will hike the MGS/GII offerings to lower the reliance on Treasury bills issuance and take advantage of YTD lowering of MGS/GII yields. YTD gross issuances of Treasury bills amount to MYR23.0 billion, down from MYR42.5 billion in 2023.

The bond market is likely to trade based on incoming US fiscal measures while the Fed cuts interest rates.

Outlook – Post-US elections will likely return the allure of the safe-haven US government bonds. The bond market will likely trade based on incoming US fiscal measures alongside the Fed continuing to cut interest rates in the coming year. We think a better-performing UST market would aid MGS/GII sentiment in the short-term. Despite expectations that the US fiscal deficit will still balloon this year and next, due to expectations the new government will raise spending, we think passage of spending bills will still be difficult, as we also believe voting in Congress will be deeply partisan as either side will try to put one over the other post the contentious election this month. In any case, the Fed is due to cut rates again this year, with the futures market pricing in cuts at both the November and December FOMC meetings.

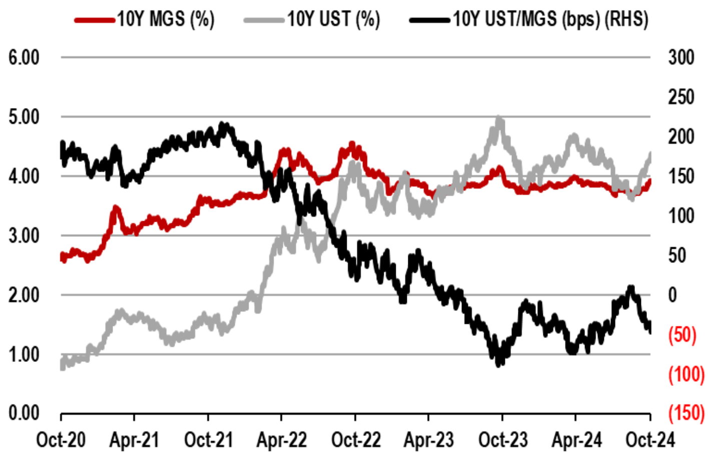
Passage of US spending bills will still be difficult, as we also think voting in Congress will be deeply partisan.

Exhibit 19: UST yields surged despite Fed's 50 bps cut



Sources: Bloomberg, AmBank Economics

Exhibit 20: MGS yields followed UST higher in October



Sources: Bloomberg, AmBank Economics

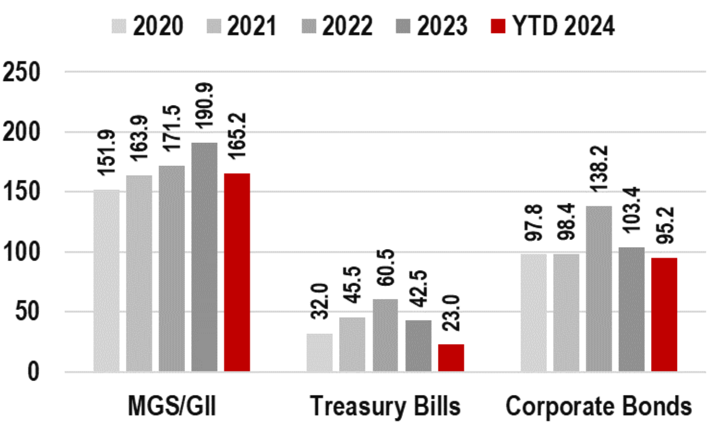
Exhibit 21: MGS/GII auctions held in October 2024

Issuance	Issue Date	Maturity	Amount (MYR bn)	BTC (x)	Avg Yield (%)
3Y MGS reopening	08-Oct-24	31-May-27	4.50	1.61	3.426
10Y GII reopening	15-Oct-24	30-Nov-34	4.50	1.60	3.832
20Y MGS reopening	22-Oct-24	16-May-44	3.00	2.04	4.136
20Y MGS reopening*	22-Oct-24	16-May-44	2.00		
7Y GII reopening	30-Oct-24	08-Oct-31	5.00	2.00	3.914

* Private Placement

Sources: BNM, AmBank Economics

Exhibit 22: Gross issuances of MYR bonds 2020-YTD2024



Sources: BPAM, AmBank Economics

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