

Oct 23, 2024

Three Take-Aways

1) Soft risk sentiments amid IMF's updated forecasts suggesting mounting growth risks, with most countries seeing downward revisions.

2) Geopolitical tensions aided a +2.4% surge of Brent Crude prices.

3) Malaysia Budget 2025 may fall short of 3.8% fiscal deficit target on ambitious revenue goals; but should nonetheless still represent a step towards fiscal consolidation.

MACRO THEME: Mounting Growth Risks

- Amid the absence of any notable data or FedSpeak, risk sentiments remained soft, especially as IMF lowered its global forecast to 3.2% (prev: 3.3%) for 2025 and warned of accelerating risks from wars to trade protectionism. Euro area forecast was downgraded to 1.2% (prev: 1.5%), due to persistent weakness in manufacturing in Germany and Italy. US growth estimate was boosted to 2.2% (prev: 1.9%), Japan's growth estimate was 1.1% (prev: 1.0%) and China's growth projection was unchanged at 4.5%.

- Brent Crude surged +2.4%, briefly testing \$76/bbl as geopolitical tensions continued roiling, with Israel and Hezbollah continuing to trade heavy fire even amid US efforts to broker a cease-fire.

Yields (2Y: +0.0bps; 10Y: +1.2bps; 30Y: -0.3bps)

- Following the treasuries sell-off at Monday's session, 2Y yields were unchanged while 10Y UST yields moved higher as election day approached.

Equities (Nasdaq: +0.2%; S&P: -0.1%; Dow: -0.0%)

- US equities were mostly unchanged.

FX (DXY: +0.6%)

- USD traded mixed against the G10 currencies.

- EUR sank below 1.08 on ECB Lagarde described recent inflation numbers as "relatively reassuring" even as she still appeared cautious on services inflation. Her remarks that "direction of travel of rates [was] clear", even if pace of cuts remained to be determined, fuelled bets that ECB will continue easing.

- Commodity currencies AUD and NOK led gains on oil's rally. AUD moved towards 67 cents.

- USD/JPY was buoyant above mid-150 and breached 151 handle while USD/SGD hovered around mid-1.31 levels.

China: Soft Sentiments

- Chinese equities were buoyed (CSI300: +0.6%), extending gains from a day earlier on Chinese banks' reduction in their loan prime rates. But the CSI300 remains ~7% lower compared to the close on 8 Oct (i.e. first trading day post-Golden Week), suggesting that risk sentiments remain soft.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(KR) PPI YoY (Sep)	1.0%	--	1.6%
(US) Richmond Fed Mfg Index (Oct)	-14	-17	-21
Today			
(SG) CPI/Core YoY (Sep)		1.9%/2.7%	2.2%/2.7%
(KR) Consumer Confidence (Oct)	101.7	--	100.0
(TW) Industrial Production YoY (Sep)		11.4%	13.4%
(US) Existing Home Sales (Sep)		3.88m	3.86m
(EZ) Consumer Confidence (Oct P)		-12.5	-12.9
(US) Fed Releases Beige Book			

Malaysia Budget: Some Risks of Misses, But A Constructive Step

- PM Anwar unveiled Budget 2025 on 18 Oct ("Reinvigorating the Economy, Driving Reforms and Prospering the Rakyat"). Budget 2025 featured labour reforms (e.g. minimum wage and broadening labour force through targeted tax relief), infrastructure push, extension and expansion of cost-of-living measures, while at the same time demonstrating a commitment towards fiscal consolidation. **Budget 2025 is targeting a deficit of 3.8% of GDP (2024: 4.3%).**

- **The commitment towards fiscal consolidation is certainly commendable, but we express some reservations on the 2025 target, in particular the revenue growth expectations.**

- Revenue collection in 2025 is expected to increase to RM340bn (16.3% of GDP), a 5.5% increase from the revised revenue projection of RM322bn for 2024. As reference, actual revenue growth for 2016-2019 averaged ~5.0%. We are rather circumspect on revenue growth due to rather modest growth YTD despite SST reforms in Feb'24 and an average 5.9% increase in median wages for YA2023. Notably, personnel income tax revenue for 1H'24 was 12.2% lower compared to a year ago. While there could be seasonal effects at play, and we do see indications of revenue catch-up in July and August, we think there are risks that the revised estimate may not be attained.

- Similarly, even **with the expansion of scope of sales and services tax* in Budget 2025** and as Q1'24 median wages (applicable for YA2024) are on average 7.7% higher YoY, we are more reserved on the actual growth due to distributional effects. Notwithstanding this, the shortfall is not expected to be outsized, as a surging KLCI index alludes to healthy profit margins for YA2024.

- Meanwhile, **expenditure estimates (RM421bn, 20.2% of GDP) look reasonable** as it appears to be discerning to the cost of the initiatives introduced. In addition to the rollout of the progressive wage policy next year, the cost-of-living measures were much more generous than we had expected.

- On RON95 targeted petrol subsidy, details remain scant, although PM Anwar's speech alluded to the subsidy rationalisation likely targeting 15% of the population, comprising wealthy individuals, foreign national and businesses. The programme is officially slated to be rolled out in mid-2025, and we estimate savings of <0.05% of GDP for 2025 given possible leakages. In comparison, the continued diesel rationalisation programme introduced earlier this year was estimated to save ~0.2% of GDP annually.

- All in, downside risks to revenue estimates with initiatives that render considerable spending make the fiscal deficit target of 3.8% of GDP rather ambitious. But even if it misses the target by 0.1-0.2% of GDP, it would be a commendable effort and a constructive step towards fiscal consolidation from 2024's 4.3% deficit.

*Details await but the expansion of SST is expected to include commercial services, in particularly those with a fee-based model. We posit B2B fee-based services and financial brokerage services as possible groups which officials will consult with.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	151.08	151.14	+0.16%	150.00	- 152.30
EURUSD	1.0799	1.0797	▼0.15%	1.0720	- 1.0880
GBPUSD	1.2984	1.2982	▼0.01%	1.2900	- 1.3050
AUDUSD	0.6682	0.6683	+0.35%	0.6640	- 0.6720
DXY	104.1	--	+0.06%	103.8	- 104.4
USDCNY	7.1240	--	+0.04%	7.1000	- 7.1500
USDCNH	7.1357	7.1366	▼0.01%	7.1100	- 7.1600
USDHKD	7.7720	7.7720	▼0.02%	7.7600	- 7.7800
USDSGD	1.3163	1.3163	+0.00%	1.3100	- 1.3230
USDKRW	1381	1379	+0.00%	1370	- 1390
USDTHB	32.06	--	+0.28%	31.85	- 32.40
USDINR	84.08	--	+0.01%	84.00	- 84.20
USDIDR	15560	--	+0.42%	15450	- 15650
USDMYR	4.328	4.329	+0.48%	4.305	- 4.350
USDPHP	57.86	--	+0.51%	57.60	- 58.30
USDTHB	33.50	33.53	+0.25%	33.40	- 33.80
USDVND	25405	25409	+0.45%	25250	- 25600

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.033	4.209	0.0	1.2
JGB (JP)	0.444	0.968	1.3	1.4
Bunds (GE)	2.168	2.317	-0.9	3.6
Gilts (UK)	4.068	4.166	2.5	3.0
AGB (AU)	3.976	4.431	11.3	15.8
SGS (SG)	2.759	2.918	7.8	10.0
CGB (CN)	1.512	2.130	1.5	1.6
KGB (KR)	3.129	2.946	-0.2	0.0
SDL (IN)	6.823	6.680	0.0	1.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	163.17	163.19	+0.02%
GBP/JPY	196.165	196.21	+0.16%
JPY/SGD (100yen)	0.8712	0.8709	▼0.18%
JPY/HKD (100yen)	5.1441	5.1423	▼0.18%
CNH/JPY	21.206	21.217	+0.14%
CNH/HKD	1.091	1.0911	▼0.06%
EUR/GBP	0.83167	0.83169	▼0.15%
AUD/NZD	1.1057	1.1055	+0.14%
EUR/CNH	7.7068	7.7054	▼0.15%
GBP/CNH	9.2652	9.2647	▼0.01%

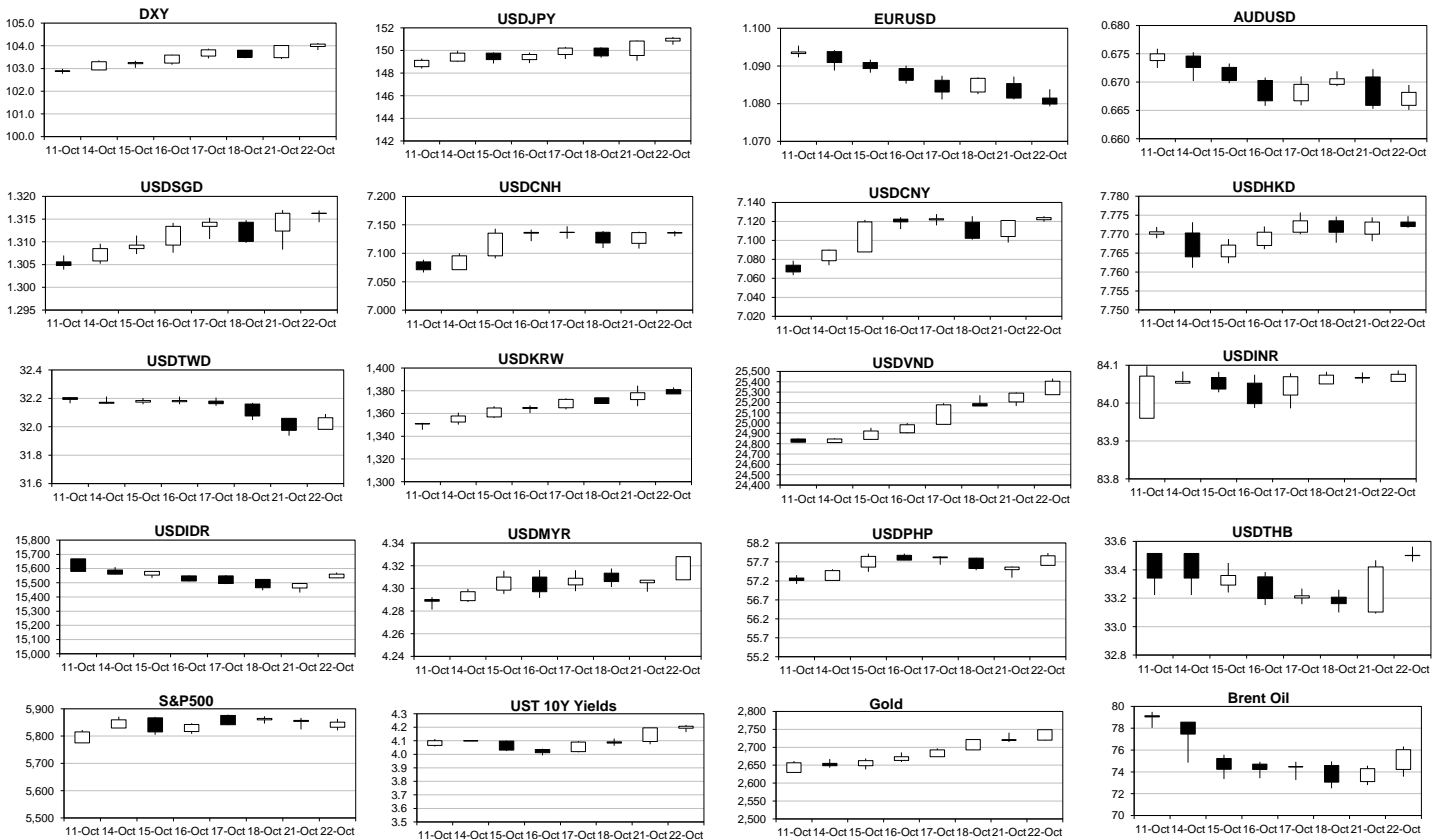
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5851.2	-2.78	▼0.05%
Nasdaq (US)	18573.13	33.12	+0.18%
DJIA (US)	42924.89	-6.71	▼0.02%
N225 (JP)	38411.96	-542.64	▼1.39%
STOXX50 (EU)	4939.31	-1.91	▼0.04%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4539.69	-4.37	▼0.10%
STI (SG)	3587.41	-27.17	▼0.75%
SHCOMP (CN)	3285.867	17.76	+0.54%
SZCOMP (CN)	1953.644	16.68	+0.86%
HSI (HK)	20498.95	20.49	+0.10%
SENSEX (IN)	80220.72	-930.55	▼1.15%
JSE (ID)	7788.983	16.39	+0.21%
KLSE (MY)	1642.54	-3.14	▼0.19%
PSE (PH)	7413.16	6.53	+0.09%
SET (TH)	1470.32	-18.42	▼1.24%
VNINDEX (VN)	1269.89	-0.01	▼0.77%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,437.80	17.04	+0.18%
IRON ORE (CN)	103.68	-2.62	▼0.51%
GOLD	2,749.01	29.16	+1.07%
SILVER	34.86	0.00	▼0.04%
OIL (BRENT)	76.04	1.75	+2.36%
OIL (WTI)	72.09	1.53	+2.17%
NATURAL GAS	2.31	1.07	+3.17%

CHARTS



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