05 August 2024

Malaysia 2H24 Economic Outlook

Steady domestic growth amid elevated external risks

SUMMARY

- Global economic outlook for 2H24 is one of cautious optimism which will likely see divergent growth patterns across different regions, with emerging markets showing stronger momentum compared to more mature economies.

- The US may sustain growth momentum in the near term, but could face challenges as the labour market cools. China's recovery remains sluggish despite government stimulus, with risks from weak consumer spending and geopolitical tensions, though supportive policies may help. While high US interest rates may continue to impede growth, China's expected gradual recovery and India's strong economy could mitigate the slowdown.

- Current monetary tightness, coupled with improved supply-demand balance, is expected to continue driving inflation lower. However, risks remain from geopolitical tensions, weather disruptions, and US policy changes if Donald Trump wins the US presidency, reigniting inflation pressures.

- Major central banks are expected to start cutting rates in 2H24 due to signs of slowing growth and inflationary pressures, with the exception of the BoJ, which may hike again in 4Q24. Most major central banks are likely to cut rates beginning from September onwards, while the PBoC's next move may be to lower the RRR.

- The 10-year US Treasury (UST) yield is expected to decline as the Fed eases policy. Inflation is likely to trend lower, and the labour market may cool further. We project the yield to reach 3.73% by end-3Q24 and 3.60% by year-end, driven by strong treasury demand ahead of anticipated rate cuts.

- **Malaysia's GDP growth** momentum is expected to taper off going into the 2H24. Nonetheless, due to better-than-expected performance in 1H24, resilient domestic demand and continued expansion in key sectors, we maintain our GDP growth forecast for 2024 at 4.5% - 5.0% (2023: 3.6%), with an upside bias toward the upper-end of the range. For 2025, we project an expansion of 4.9%, anticipating the economy to normalise and continue its steady expansion.

- **Inflation** is projected to rise to 2.6% in 2H24 due to increased consumer spending, diesel cost pass-through, higher tourist spending, and geopolitical crises. Following the postponement of RON95 fuel subsidy rationalisation to possibly 2H25, we revised 2024 inflation projection to 2.2%, down from 2.7% previously.

- Bank Negara Malaysia (BNM) is expected to keep the **overnight policy rate (OPR)** at 3.00% for the rest of the year, possibly extending this stance well into 2025. This approach aims to manage inflationary pressures from the impact of subsidy rationalisation while supporting economic growth amid ongoing fiscal reforms.

- The **ringgit**, after a prolonged period of weakness, is expected to strengthen further as the USD index (DXY) is expected to decline in 4Q24, driven by a highly expected Fed rate cut in September. With fiscal consolidation, a stable BNM policy rate and solid growth prospects, the ringgit may strengthen to 4.42/USD by end-2024.

- Demand for Malaysian **bonds** is expected to stay strong throughout the year, supported by anticipated Fed rate cuts, an undervalued ringgit, and a stable OPR. Key drivers include the Madani framework, increased FDI, favorable investment policies, and renewed economic cooperation with China. Sovereign credit ratings with a 'stable' outlook from S&P and Fitch further boost attractiveness, with potential rating upgrades in 2025 on improved public finances and governance.

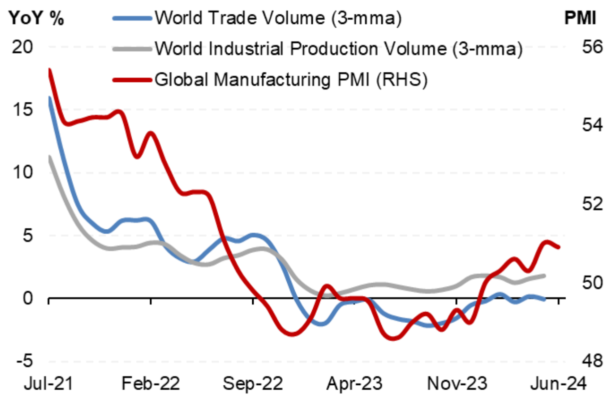
- Bond issuances in Malaysia are projected to decrease to RM175.0b - RM180.0b in 2024 (2023: RM190.9b) due to a lower **fiscal deficit** and reduced refinancing needs. We project the fiscal deficit to narrow to 4.6% of GDP. The 10-year **MGS yield** is forecasted to hover around 3.70% in the near term, reaching 3.56% by year-end, supported by strong local bond demand and lower supply.

Global Macro Outlook – 2H24

- **Global economy is expected to moderate in 2H24 as inflationary pressures cool, but risks are building due to the lag effect of global monetary policy tightening and escalating geopolitical tensions. This increases the likelihood of major central banks to ease monetary policy in the latter half of the year**

  – **Growth: Moderate growth is expected in 2H24 as the lag effects of cumulative monetary policy tightening weigh on consumer demand**

Graph 1: Global Indicators



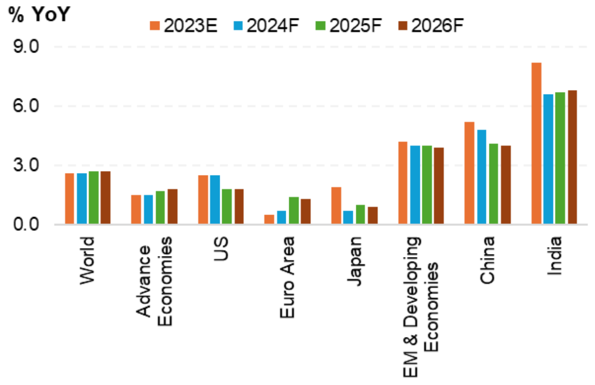
Source: Bloomberg, CPB, S&P Global, Kenanga Research

- The global economy has remained surprisingly resilient in 1H24, defying expectations despite tighter global monetary policies. The World Bank recently upgraded its global growth forecast to 2.6% (2023: 2.6%) from a previous estimate of 2.4%, citing robust domestic demand driving sustained growth in the US. Meanwhile, the IMF maintained its growth forecast at 3.2% (2023: 3.2%), largely driven by an upturn in global economic activity and trade, particularly in the technology sector. Despite these revisions, flattish growth is expected, largely due to multiple risks, including trade tensions and the impact of higher interest rates.

- The primary growth engine for the global economy, the US, is expected to sustain its momentum into 3Q24. The S&P Global Flash US PMI Composite Output Index rose to 55.0 in July (from 54.8 in June), marking the fastest pace of US business activity growth in 27 months. However, the resilience of domestic demand may wane by year-end as the US labour market gradually cools, which already shows signs of slowing.

- Conversely, China continues to struggle with its post-pandemic recovery, as household spending remains weak despite government stimulus efforts. This is evidenced by the poor retail sales growth, which slowed to 2.0% in June (May: 3.7%). However, with 1H24 GDP growth at 5.0%, China is still on track to meet the government's full year target of "around 5.0%". Challenges such as weak consumer spending, rising youth unemployment, an ageing population, and geopolitical tensions persist. Yet, there are signs of potential recovery, supported by domestic-oriented fiscal and monetary policies, and easing in the property sector crisis.

Graph 2: World Bank Global Economic Prospect (Jun-24)



Source: World Bank, Kenanga Research

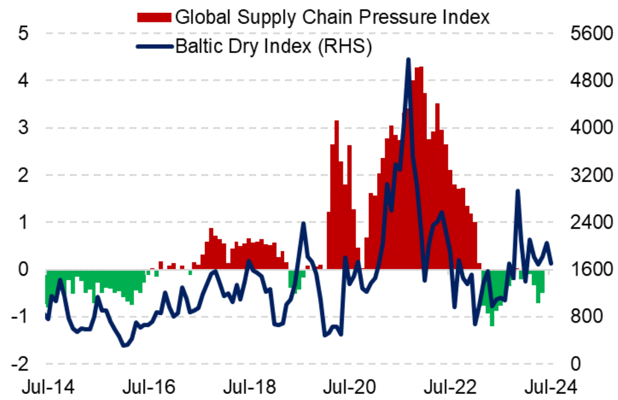
- Meanwhile, the IMF and the World Bank both forecast robust growth for India in 2024, with the IMF projecting growth above 6.0%, driven by strong domestic consumption, rebound in investment and government-led infrastructure spending. Given its growth rate and the scale of its economy, India is expected to be a leading driver of growth among emerging markets in 2024.

- While the global economy is expected to maintain steady growth, the outlook remains sensitive to inflation dynamics, interest rate changes, and geopolitical developments. The 2H24 will likely see divergent growth patterns across different regions, with emerging markets showing stronger momentum compared to more mature economies.

  – **Inflation: Persistent disinflation paves the way for a shift in monetary policy**

- Although the Bank of Canada and the European Central Bank initiated rate cuts in June, followed by Bank of England in August, most global central banks remain cautious, seeking "greater confidence" that inflation will return to their 2.0% targets. They aim to avoid the pitfalls of maintaining rates too high for too long, thereby stifling growth, or cutting too soon and risking a resurgence in inflation. We believe the current level of

Graph 3: Supply Chain Pressure and Baltic Dry Indices



Source: Bloomberg, Kenanga Research

monetary tightness will continue to drive inflation lower, particularly given the improvement in the supply-demand balance. Lower inflation expectations also help temper current spending, limiting second-round effects and contributing to a further decline in inflation. Additionally, China has acted as a disinflationary force due to falling export prices amid a weak yuan and increased output. Despite disruptions in the Red Sea, supply chain conditions remained stable and are currently in line with pre-pandemic levels.

- However, inflation risks persist due to escalating geopolitical tensions, weather disruptions and tight labour market, which could drive wage demands beyond productivity growth, worsening services inflation. A Trump election win could exacerbate this through expansionary fiscal policy, tariffs on Chinese goods, and immigration controls, potentially increasing consumer spending, raising business costs, and restricting labour supply, all contributing to higher inflation.

Table 1: Monetary Policy: Major central banks are likely to cut rates as inflation abates, with the exception of the BoJ

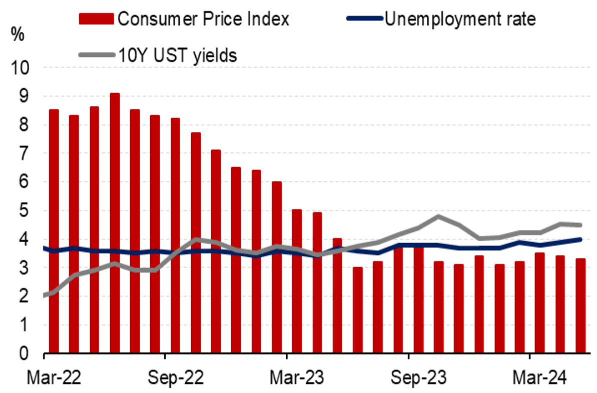
Central Bank	View	Commentary
Federal Reserve (Fed)	25 basis points (bps) cut in September, followed by a pause and another 25 bps cut in December.	Despite 525 bps cumulative rate hikes, high frequency macroeconomic indicators suggest the economy remains resilient. However, signs of slowing consumer spending and a softer labour market are emerging, supporting expectations for a rate cut in September. This expectation is bolstered by dovish signals from the Fed. However, the policy decision for December will likely hinge on the outcome of the Presidential election; a Trump victory could prompt the Fed to pause further rate cuts.
European Central Bank (ECB)	Another pause in September and October, followed by a 25 bps cut in December.	Latest economic data show weaker growth and lower headline inflation, but core inflation remains sticky. These mixed signals complicate the ECB's policy-setting process. More data is needed before the Bank can change course, especially with ongoing wage pressures posing upside risks to inflation. For now, they may continue a meeting-by-meeting approach, likely waiting until December to cut rates. However, a rate cut in September could become more likely if the eurozone's economic recovery weakens further.
Bank of England (BoE)	Another two 25 bps cuts, each in November and December.	Although the BoE cut rates in August, this move may not herald the beginning of a cutting cycle. While the recent headline inflation figure aligns with the Bank's 2.0% target, core inflation still suggests strong price pressures. Persistent services inflation and rising wages may prompt the BoE to pause further cuts until inflation shoes significant downside surprises, allowing time to assess the impact of its 25 bps reduction.
Bank of Japan (BoJ)	Another 15 bps overnight call rate (OCR) hike sometime in 4Q24.	After it surprised the market in July with a 15 bps increase in the OCR increase, driven by rising wages, inflation, and a weak yen, we expect persistent wage growth and underlying inflation remaining above 2.0% until 2025 to potentially led to another rate hike in 4Q24. However, due to increased uncertainty, the BoJ is likely to first assess the economic impact of this recent hike and proceed cautiously.
People’s Bank of China (PBoC)	To cut the reserve requirement ratio (RRR) by 25 bps as early as August and make another 10bps cut to the loan prime rates (LPR) in 4Q24.	Recent monetary policy adjustments, including a 10 bps cut to the LPR and 20 bps reduction in the medium-term lending facility, have provided some support for economic growth. However, the PBoC’s policy outlook remains uncertain amid expansionary fiscal efforts. Beijing faces the challenge of fostering economic growth while preventing further yuan depreciation. The PBoC may lower the RRR to ensure sufficient liquidity and ease pressure on banks.

		Once the USD weakens in 4Q24, another LPR cut could follow invigorate the sluggish economy.
Bank Indonesia (BI)	May cut policy rates by 25 bps in 4Q24	Monetary tightening may have peaked, though another hike is possible as Indonesia's monetary policy remains focussed on rupiah's stability. However, BI is likely to wait for a Fed rate cut and assess its impact before lowering its policy rate. The rupiah remains fragile, trading above 16,000 against the USD, despite BI's record-high rates to attract capital flows. With GDP growth at 5.11% in 1Q24 (4Q23: 5.04%), and expected to stay strong alongside stable inflation, BI has room to maintain higher interest rates for a longer period.
Bank of Thailand (BoT)	10 bps cut towards the end of 4Q24	Despite growing public pressure to lower borrowing costs to stimulate demand, BoT is expected to keep the interest rate steady at 2.50% in the near term. The central bank believes the current rate aligns with its inflation target and economic fundamentals. However, with the 2024 growth target rate of 2.6% falling short of the 3.0% growth potential, rate cuts are likely, with a possible 10 bps reduction in 4Q24.

– **UST: Yields are likely to end the year lower as the Fed remains on track for policy easing**

- In June, UST yields experienced fluctuations due to mixed economic signals. Downward pressures came from an on-target PCE inflation report, weak spending figures, declining job openings, and sluggish manufacturing activity. However, a stronger-than-expected nonfarm payrolls report and a hawkish Fed stance pushed yields upward. Looking ahead, despite heightened volatility and uncertainty, the 10-year UST yield is expected to decline as the Fed stays on course for policy easing. However, fiscal policy uncertainties and President Biden's decision not to seek re-election, combined with rising expectations of a Trump victory, which could stoke inflationary pressures, may push yields higher.

Graph 4: US CPI, Unemployment rate and yields



Source: Macrobond, Kenanga Research

- We expect inflation to continue declining in the coming months, with the labour market likely showing signs of cooling. The Fed have already given a clear signal of its next move, a possible rate cut in September. Additionally, the Fed's slower pace of quantitative tightening is likely to put downward pressure on yields. Hence, we project the 10-year UST yield to trend lower, reaching 3.73% by the end-3Q24, reflecting ongoing economic and political volatility and a shift in investor sentiment. Furthermore, with investors eager to lock in high yields before anticipated rate cuts, demand for treasuries is expected to rise, likely pushing the 10-year UST yield down further to 3.60% by end-2024.

Domestic Macro Outlook – 2H24

- **The domestic economy is projected to sustain growth for the rest of the year, with overall 2024 GDP growth to settle within 4.5% to 5.0% range. While inflation remained susceptible to government policy changes, BNM is expected to hold the interest rate steady at 3.00% for the rest of the year and through 2025**

– **GDP: 2H24 Growth is expected to continue at a moderate pace after a strong 1H24, supported by a recovering manufacturing sector and resilient services sector**

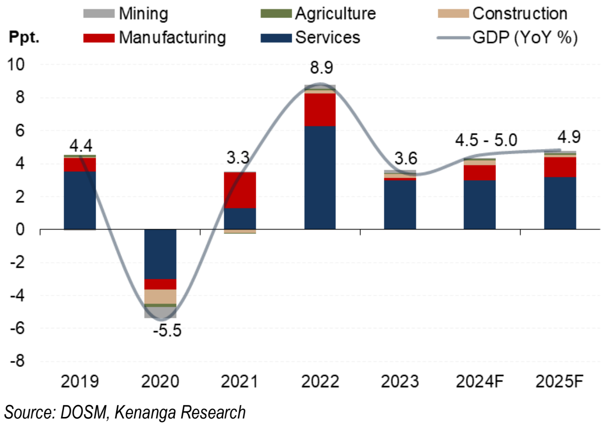
- The domestic economy has exceeded expectations growing 4.2% in 1Q24, surpassing our 3.3% forecast and Bloomberg's 3.9% consensus. Additionally, the recently DOSM's 2Q24 Advance GDP estimates indicate a strong 5.8% expansion, again beating our 5.1% projection and the 4.7% consensus. This brings 1H24 GDP growth to 5.0% (2H23: 3.0%). Despite this strong performance, we remain cautious, projecting growth to expand between 4.3% - 4.6% in the remaining quarters.

- Our cautiously optimistic outlook is tempered by the elevated risk from the external sector, particularly the potential global economic slowdown due to global monetary tightening and China's slower-than-expected economic recovery. This could adversely affect export performance, as Malaysia's external trade is heavily reliant on the economic health of our key trading partners namely China and the US.

- Malaysia's exports grew for second straight quarter (2Q24: 5.8%; 1Q24: 2.0%), driven mainly by increased demand from the US (2Q24: 16.1%; 1Q24: 8.0%). The renewed US-China tensions seem to benefit Malaysia amid trade and investment diversion, while the weaker Ringgit providing a buffer for exports. However, exports to China saw only a marginal rebound during the same period (2Q24: 0.4%; 1Q24: -3.3%), reflecting a slower recovery. Due to China's economic uncertainty, higher US tariffs on Chinese goods, and the impact of the Red Sea crisis causing global port congestion, we have revised our gross export growth to 7.3%, down from 9.4% (2023: -8.0%).

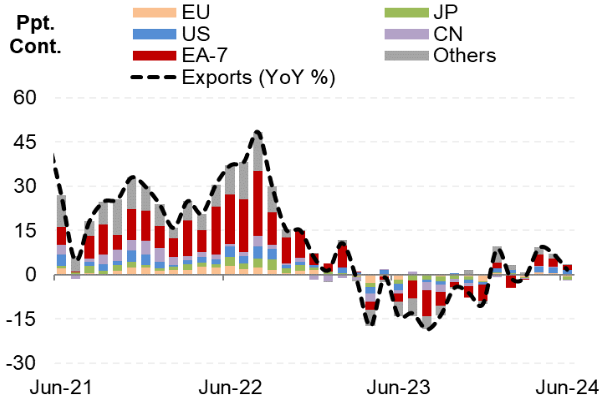
- On the domestic front, the downside risk to our growth outlook remains limited, supported by strong domestic demand and continued expanding services sector. This is bolstered by the positive impact of EPF's Account 3 withdrawal, increased tourist arrivals and spending, a stable average unemployment rate targeted at 3.2% (2023: 3.5%) and higher household income driven by realised investments. Last year, approved investments amounted to RM329.5b (2022: RM264.6b), with RM83.7b registered in 1Q24, likely boosting local income.

Graph 5: GDP Growth Trend (Supply side)



Source: DOSM, Kenanga Research

Graph 6: Exports by Destination



Source: DOSM, Kenanga Research

Table 2: Malaysia GDP Growth (constant 2015 prices)

						Kenanga					MOF	BNM
YoY %	**2023**	**2Q23**	**3Q23**	**4Q23**	**1Q24**	**2Q24F**	**1H24F**	**2H24F**	**2024F**	**2025F**	**2024F**	**2024F**
By Sector												
Agriculture	0.7	-0.7	0.3	1.9	1.6	1.3	1.4	1.2	1.3	1.6	1.2	-0.5
Mining	0.5	-2.1	-1.1	3.5	5.7	3.9	4.8	1.2	3.0	2.2	2.7	3.5
Manufacturing	0.7	0.1	-0.1	-0.3	1.9	4.4	3.2	5.0	4.1	5.1	4.2	3.5
Construction	6.1	6.2	7.2	3.6	11.9	8.6	10.3	6.0	8.1	4.7	6.8	6.7
Services	5.1	4.5	4.9	4.1	4.7	5.7	5.2	4.8	5.0	5.3	5.6	5.5
Real GDP	**3.6**	**2.8**	**3.1**	**2.9**	**4.2**	**5.1**	**4.7**	**4.4**	**4.5 – 5.0**	**4.9**	**4.0 – 5.0**	**4.0 – 5.0**
By Expenditure												
Consumption	4.4	4.1	4.3	4.5	5.1	5.2	5.2	4.6	4.9	5.5	5.1	5.2
Public	3.3	3.3	5.3	5.8	7.3	5.5	6.4	3.4	4.7	3.5	2.6	3.2
Private	4.7	4.2	4.1	4.2	4.7	5.1	4.9	4.9	4.9	5.9	5.7	5.7
Investment	5.5	5.5	5.1	6.4	9.6	5.6	7.6	5.8	6.7	5.7	6.1	6.2
Public	8.6	7.9	7.5	11.3	11.5	6.1	8.9	5.4	6.8	4.9	8.3	6.2
Private	4.6	5.1	4.5	4.0	9.2	5.5	7.3	5.9	6.6	6.0	5.4	6.1
Public Spending	4.6	4.3	5.9	7.4	8.4	5.6	7.0	4.0	5.3	3.9	4.1	4.0
Private Spending	4.6	4.4	4.2	4.1	5.7	5.2	5.4	5.1	5.3	5.9	5.6	5.8
Aggregate Demand	4.6	4.4	4.5	4.9	6.1	5.3	5.7	4.9	5.3	5.6	4.8	4.6
Exports	-8.1	-9.0	-12.0	-7.9	5.2	8.7	6.9	9.9	8.4	4.7	4.1	4.0
Imports	-7.4	-8.8	-11.3	-2.6	8.0	9.3	8.7	9.8	9.2	4.9	3.9	4.1
Net Exports	-16.2	-11.9	-19.9	-52.9	-24.5	-2.1	-16.1	11.6	-2.6	1.6	5.5	2.1
Real GDP	**3.6**	**2.8**	**3.1**	**2.9**	**4.2**	**5.1**	**4.7**	**4.4**	**4.5 – 5.0**	**4.9**	**4.0 – 5.0**	**4.0 – 5.0**

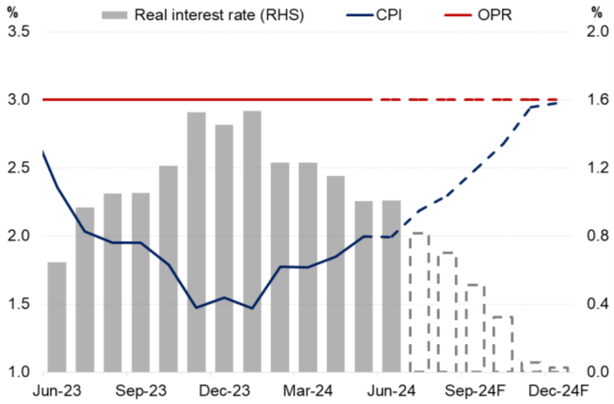
Source: DoSM, BNM, MoF, Kenanga Research

- Given these factors, **we maintain our 2024 GDP growth forecast at 4.5% - 5.0%**, aligning in line with the government and BNM forecast of 4.0% - 5.0%. For 2025, we project growth of 4.9% as we expect the economy to normalise and remain on a steady expansion backed by domestic demand and regional growth expansion.

– **Inflation: To remain stable below 3.0% on expected delayed RON95 fuel subsidy rationalisation**

- In 1H24, headline and core inflation averaged 1.8% YoY, below the 10-year average of 2.0%, despite the removal of diesel subsidies on June 10, domestic electricity and water tariff adjustments, and price pressures from supply shocks triggered by geopolitical conflicts and extreme weather. However, we expect inflation to rise to 2.6% in 2H24, driven increased consumer spending from EPF's Account 3 withdrawal, the pass-through effects of floating diesel prices, potential supply chain bottlenecks, heightened demand for semiconductors, rising tourist spending, and low base effect.

Graph 7: Real Interest Rate, Inflation Rate and OPR



Source: Bloomberg, Kenanga Research

- As notd in our latest inflation report, we have revised our 2024 inflation projection down to 2.2% from the previous forecast of 2.7%. This adjustment follows PM Anwar's recent assurance that the RON95 fuel subsidy rationalisation will not be implemented anytime soon. We believe, 2H25 will be the best timing for the rationalisation in order to minimise household cost pressure. Additionally, the planned salary increase of over 13.0% for civil servants in December is likely to accelerate inflation to an average of around 3.8% in 2025.

- We expect the government to float the country's main grade fuel only after fully assessing the impact of the diesel price floating and assuring the *Pangkalan Data Utama* (PADU) system is ready for targeted subsidies, likely in July 2025. With Brent crude expected to stabilise around USD84.0/barrel in 2H25, a free-floating RON95 price could rise by about 56.1% to around RM3.20/litre from the current RM 2.05/litre, adding around 3.1% to the headline CPI.

– **Monetary Policy: BNM to maintain the status quo for the rest of the year and potentially extend well into 2025**

- BNM is expected to prioritise domestic in the short to medium term, even though the outlook is tilted to the upside, it remains vulnerable to external risks. These include the pace of China's economic recovery, the impact of the highr interest rate environment in th US, and uncertainties surrounding global elections, particularly the US Presidential Elections. Escalating geopolitical tensions could further impact the domestic growth outlook. Additionally, the current monetary policy stance is crucial to support the Madani government's reforms, especially as future subsidy rationalisation could negatively affect consumer and business sentiment, potentially dampening domestic demand.

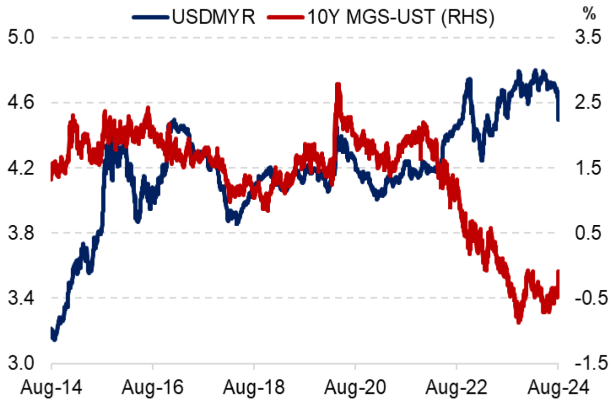
- Maintaining the current monetary stance also addresses inflation concerns, especially with the potential impact of the diesel subsidy rationalisation. Despite stable inflation in June (2.0%; May: 2.0%), risks remain, particularly in 2H24 and into 2025. Factors such as the potential impact of EPF's Account 3 withdrawal, higher public sector salaries, and logistical disruptions due to prolonged Red Sea crisis could increase price pressures. These risks and uncertainties may influence future central bank's decisions.

– **Ringgit: Poised for strong recovery amid imminent US Fed rate cuts and robust growth outlook**

- The ringgit traded above the 4.60/USD level for the entirety of 1H24, marking its longest period of weakness on record. It hit a low of around 4.80/USD in February, driven by the Fed's "higher-for-longer" stance and China's weak economic prospects. Recent hints by Fed Chair Powell at a September rate cut amid signs of cooling inflation have boosted demand for Malaysian assets, benefiting the ringgit and pushing it below 4.50/USD. A lower DXY, expected to trend around the 101.0 - 102.0 level in 4Q24, could further strengthened the ringgit, based on anticipated 25 bps Fed rate cuts in September and December amid a cooling job market and slowing inflation, along with rising credit card and auto loan delinquencies. However, the outlook remains highly fluid given the increasing prospect of a Trump presidency.

- Domestically, the government's ongoing debt reduction through fiscal consolidation may boost investor confidence and lead to a potential credit rating upgrade, as the fiscal deficit is expected to narrow. With most global central banks expected to cut their policy rates in 2H24, our expectation that BNM will maintain the OPR at 3.00% for the next 12-18 months should attract capital inflows. Combined with solid GDP growth prospects of 4.5% - 5.0% in 2024 (2023: 3.6%) and 4.9% in 2025, this supports a bullish ringgit outlook. We therefore maintain our projection of USDMYR at 4.42/USD by end-2024, though downside risks remain due to US political uncertainty.

Graph 8: USDMYR and 10Y MGS-UST Yield Differential

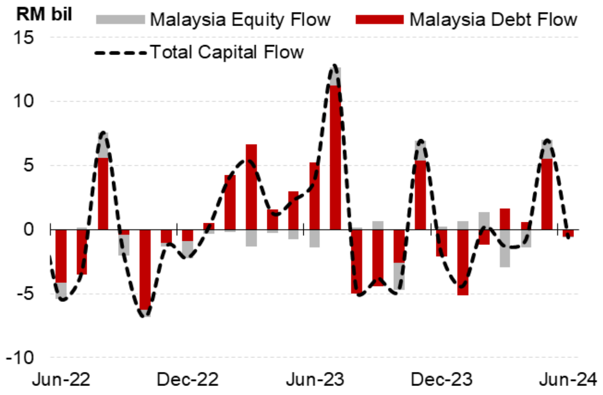


Source: Bloomberg, Kenanga Research

– **Bond Market: Neutral-to-bullish on strong demand outlook and lower debt issuances**

- Demand for domestic bonds is expected to remain strong throughout the year, bolstered by anticipated Fed rate cuts, a strengthening ringgit, and a stable OPR projected to hold steady at 3.00% until end-2025. The Madani framework's clear policy direction and increased foreign direct investment (FDI) inflows are key factors supporting local bond demand. Malaysia's proactive measures and favorable investment policies, highlighted in the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2024, position the country well in the global FDI landscape. The recent renewal of the five-year economic and trade cooperation pact between China and Malaysia further enhances FDI prospects amid rising US-China tensions, potentially increasing investor interest in Malaysian financial assets.

Graph 9: Monthly Net Foreign Capital Flows



Source: BNM, Kenanga Research

- On the demand side, the reaffirmation of Malaysia's sovereign credit ratings with a 'stable' outlook from both S&P and Fitch is likely to boost the appeal of local bonds to foreign investors. S&P's assesment reflects expectations of sustained economic growth and narrowing deficits, supported by favourable labour market conditions and upcoming progressive wage policies. Fitch highlighted Malaysia's diversified export base, robust economy, and strong current account surpluses as key reasons for its stable outlook. Potential rating upgrade could be on the horizon, driven by improvements in public finances, including a declining federal debt-to-GDP ratio, enhancing the appeal of local bonds. We foresee possible revisions to Fitch's outlook to positive BBB+ and S&P's to positive A- in 2025, with the potential for Malaysia to achieve A- from Fitch and A from S&P, supported by prospects of improved fiscal consolidation, better governance and economic fundamentals.

Table 3: Federal Government Debt Headroom

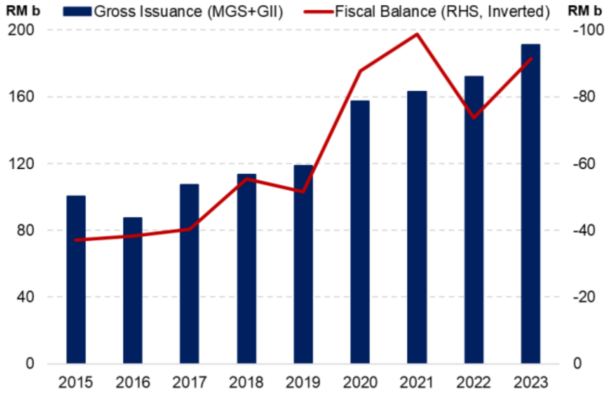
			RM bil	
		latest	limit	balance
Offshore borrowing	1Q24	30.0	35.0	5.0
Malaysian Treasury Bills (MTB)	June-24	6.0	10.0	4.0
Statutory (MGS, MGII, MITB)	June-24	1,192.2	1,256.8	64.6
Statutory (% of GDP)	June-24	61.7%	60.0%	3.3%
Total:		**1,228.2**	**1,301.8**	**73.6**

Source: BNM, CEIC, Kenanga Research

- On the supply side, we expect total bond issuances to decrease to around RM175.0b to RM180.0b (2023: RM190.9b) due to a lower fiscal deficit outlook and reduced refinancing of maturing debts. As of June 2024, the debt headroom, amounting to about RM73.6b, remains manageable given the GDP growth and prudent fiscal spending. We project the fiscal deficit to narrow to 4.6% of GDP (2023: 5.0%), driven by ongoing subsidy rationalisation, which will reduce the government's financing requirements and lead to fewer issuances of MGS and GII. As of July 2024, bond issuances reached RM109.5b.

- Overall, we maintain a neutral-to-bullish outlook for the 10-year MGS yield this year. In the near term, it is expected to hover around 3.70%, driven by US market instability, before reaching 3.63% by end-3Q24. Thereafter, we project the 10-year MGS yield to fall to 3.56% by year-end, supported by robust local bond buying activity and lower supply.

Graph 10: Gross Debt Issuance and Fiscal Balance



Source: Bloomberg, Kenanga Research

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