

MIDF Strategy 12 June 2023

Week Ended 9 June 2023

- The 10-year UST yield ended the review week higher at 3.74% (prior week: 3.69%) arguably in a continuing reaction to the hotter-than-expected May payroll data. Nonetheless, the benchmark yield was off-its intraweek high as buyers emerged later in the week upon the release of weekly initial jobless claims data which came in at the highest since October 2021. The 10y-3y yield spread inverted deeper at -50bps (prior week: -45bps) as the short-end underperformed. Meanwhile, the interest rate futures market was implying a 70% probability of no rate hike in June meeting later this week.
- Medium-term inflation expectation (MTIE) ended slightly lower week-on-week at 2.16% (prior week: 2.17%) arguably in reaction to the high initial jobless claims data. The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but above the 2.00% target level. Moreover, it is also notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. It seems the market is convinced the inflation pressure is generally ebbing. We reckon the MTIE may revert to 2.00% level rather soon.
- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 5.9bps and 2.7bps to close at 3.45% and 3.72% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 30bps to 26bps as the short-end underperformed.
- MGS foreign holdings increased on-year from RM257b in May 2022 to RM263b in May 2023. Moreover, it risen on-month from RM260b in April 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM6.22b. It worsened on-week from -RM6.06b registered a week ago. Moreover, it slumped on-year from RM7.77b a year ago.

Weekly Money Review

A. FIXED INCOME

- The 10-year UST yield ended the review week higher at 3.74% (prior week: 3.69%) arguably in a continuing reaction to the hotter-than-expected May payroll data. Nonetheless, the benchmark yield was off-its intraweek high as buyers emerged later in the week upon the release of weekly initial jobless claims data which came in at the highest since October 2021. The 10y-3y yield spread inverted deeper at -50bps (prior week: -45bps) as the short-end underperformed. Meanwhile, the interest rate futures market was implying a 70% probability of no rate hike in June meeting later this week.



Source: Bloomberg, MIDFR

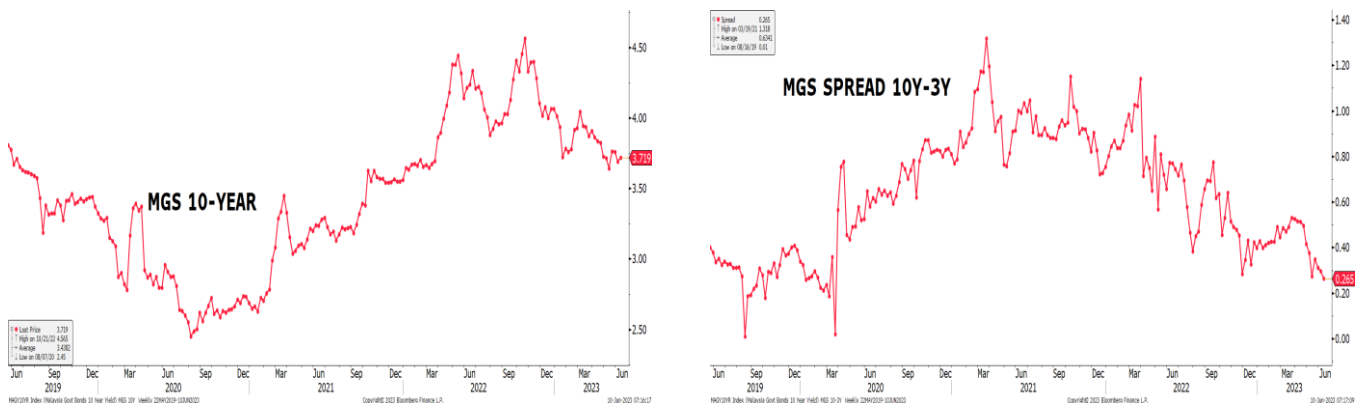
- Medium-term inflation expectation (MTIE) ended slightly lower week-on-week at 2.16% (prior week: 2.17%) arguably in reaction to the high initial jobless claims data. The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but above the 2.00% target level. Moreover, it is also notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. It seems the market is convinced the inflation pressure is generally ebbing. We reckon the MTIE may revert to 2.00% level rather soon.

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



Source: Bloomberg, MIDFR

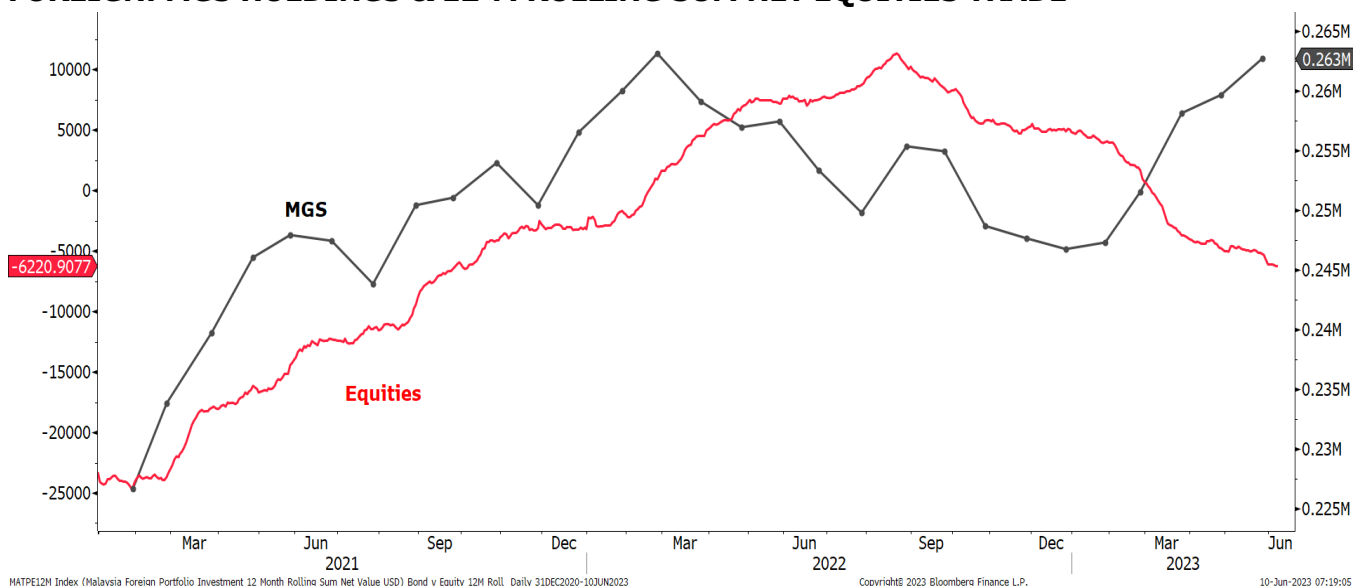
- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 5.9bps and 2.7bps to close at 3.45% and 3.72% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 30bps to 26bps as the short-end underperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM10.09b in the review week compared to RM14.84b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 68% from 50% of the overall Government Bonds trades. Moreover, 9 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- The top 3 actively traded Government Bonds were dominated by issues of short and long residual tenor. The top 3 most actively traded were MII 4.07% 9/30/26 at RM1.78b, MGS 3.8% 8/17/23 at RM1.28b, and MII 4.193% 10/7/32 at RM954m.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM257b in May 2022 to RM263b in May 2023. Moreover, it risen on-month from RM260b in April 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM6.22b. It worsened on-week from -RM6.06b registered a week ago. Moreover, it slumped on-year from RM7.77b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.56b in the review week compared to RM1.57b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 59% from 39% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenor. The largest trading values were seen in PLUS 5% 12/31/38 at RM495m, YTL Power 5.05% 5/3/27 at RM65m, and Prasarana 4.16% 3/2/35 at RM50m.

B. FOREIGN EXCHANGE

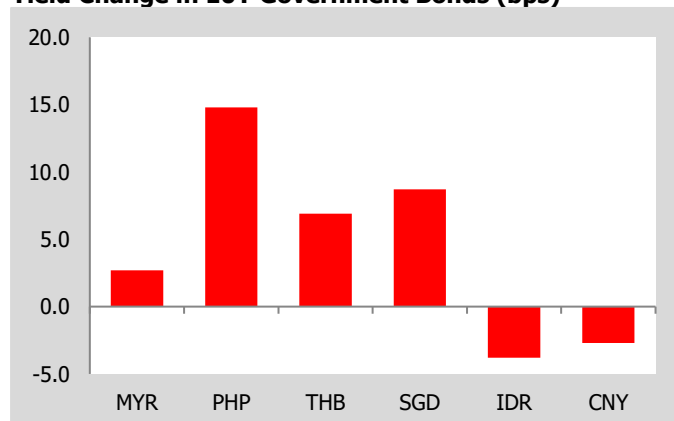
- USD depreciated for the second week. The USD depreciated against major currencies for the second consecutive week as the DXY index fell by -0.4%wow to 103.56. The USD weakened after the market's appetite for riskier assets returned following the resolution of the US debt ceiling issue. Additionally, weakness in the USD was also underpinned by expectations that the Fed will keep its policy interest rate status quo at the Jun-23 meeting.
- Euro and pound appreciated. The euro appreciated against the USD for the first time in 5 weeks by +0.4%wow to USD1.075, reaching over 2-week high on Thursday but closed the week lower following confirmation that the bloc experienced a technical recession during the 1QCY23. Meanwhile, the pound sterling strengthened against the USD for the second consecutive week by +1%wow to 1-month high of USD1.257. Besides the weakening dollar, the market sentiment for the BOE to remain hawkish also underpinned the pound rally.
- Ringgit depreciated against the USD. Ringgit reversed its gains against the USD last week, weakening by -0.8%wow to RM4.614. The ringgit failed to capitalise on the USD weakness, dragged down by growth concerns following weaker-than-expected IPI reading and the decline in China's exports. Apart from the already widened interest differentials (against the fed funds rate), movement in commodity prices was also not in favour towards ringgit; Brent crude oil fell for the second week in a row by -1.8%wow to USD74.79.

Currencies Changes (Week Ended 9 June 2023) and Quarterly Forecasts

	Close (09/06)	Prev. Close (02/06)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	103.56	104.02	-0.458	-0.4	102.51	101	98.3	97.5
EURUSD	1.075	1.071	+0.004	+0.4	1.08	1.09	1.12	1.13
GBPUSD	1.257	1.245	+0.012	+1.0	1.23	1.25	1.24	1.26
USDJPY	139.4	139.92	+0.520	+0.4	132.86	131.3	129	126
USDMYR	4.614	4.577	-0.037	-0.8	4.42	4.35	4.13	4.00
GBPMYR	5.786	5.736	-0.050	-0.9	5.46	5.44	5.12	5.04
JPYMYR	3.311	3.270	-0.041	-1.2	3.33	3.32	3.20	3.17

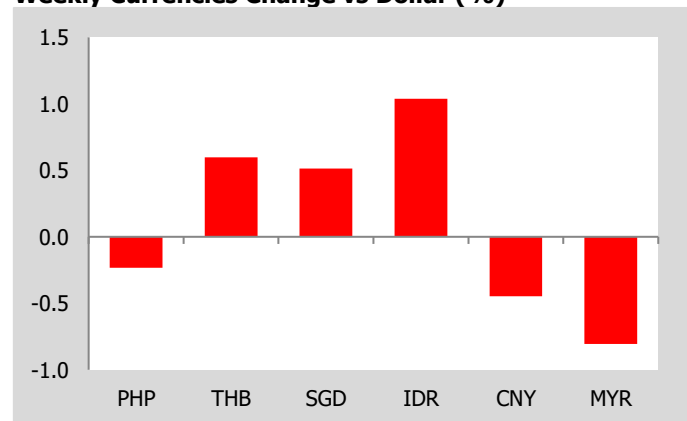
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

Yield Change in 10Y Government Bonds (bps)



Source: Bloomberg; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: Bloomberg; MIDFR

Central Bank Policy Rate by Selected Economies (%)

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Malaysia	2.50	2.75	2.75	2.75	2.75	2.75	2.75	3.00	3.00
Indonesia	4.75	5.25	5.50	5.75	5.75	5.75	5.75	5.75	5.75
Philippines	4.25	5.00	5.50	5.50	6.00	6.25	6.25	6.25	6.25
Thailand	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75	2.00
Vietnam	6.00	6.00	6.00	6.00	6.00	6.00	5.50	5.50	5.00
South Korea	3.00	3.25	3.25	3.50	3.50	3.50	3.50	3.50	3.50
India	5.90	5.90	6.25	6.25	6.50	6.50	6.50	6.50	6.50
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	2.25	3.00	3.50	3.50	4.00	4.25	4.25	4.50	4.50
Euro area	2.00	2.00	2.50	2.50	3.00	3.50	3.50	3.75	3.75
USA	3.00-3.25	3.75-4.00	4.25-4.50	4.25-4.50	4.50-4.75	4.75-5.00	4.75-5.00	5.00-5.25	5.00-5.25

Source: Bloomberg, MIDFR

- US economic data released last week:
 - A tight labour market signalled further cooling. The labour market showed more signs of caving as initial jobless claims rose again by 261K for week ended 3rd June (previous week: 233K; market forecast: 235K).
 - Exports decreased while imports increased. The US trade deficit widened to -USD74.55b in Apr-23 (Mar-23: -USD60.59b), attributable to both lower exports and higher imports.
 - Continued expansion in services sector. Both S&P Global Services PMI and ISM Services PMI remained in expansionary territory in May-23 at 54.9 (Apr-23: 53.6) and 50.3 (Apr-23: 51.9), respectively, although both were lower than market expectations.
 - Reduced pessimism in the economy. The IBD/TIPP Economic Optimism Index improved in Jun-23 to 41.7 (May-23: 41.6) but remained below 50, indicating continued pessimism. Inflation was the major concern highlighted in the Jun-23 survey.
- Reserve Bank of Australia raised its benchmark interest rate by 25bps to +4.10%, the highest in 11 years. The rate hike defied market expectations for no change as inflation remained high.
- Malaysia's economic releases last week:
 - IPI declined for the first time in 20 months. IPI recorded the first decline since Aug-21, falling by -3.3%yoy in Apr-23 (Mar-23: +3.2%yoy), with contraction recorded in all major sectors.
 - Labour market remained robust. Labour market remained resilient in Apr-23 as unemployment rate stayed at 3.5% since Mar-23. Both labour force and employment grew further by +2%yoy and +2.5%yoy, respectively, buoyed by upbeat domestic demand.

C. BNM INTERNATIONAL RESERVES

- As of 31 May 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD112.7b (15 May 2023: USD114.7b).

BNM INTERNATIONAL RESERVES



- The amount of reserves is sufficient to finance 4.8 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	2-Jun Fri	5-Jun Mon	6-Jun Tue	7-Jun Wed	8-Jun Thu	9-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.395	3.395	3.402	3.418	3.431	3.454	5.9
5-Y	3.471	3.471	3.482	3.507	3.543	3.53	5.9
7-Y	3.593	3.593	3.593	3.593	3.64	3.632	3.9
10-Y	3.692	3.692	3.673	3.699	3.745	3.719	2.7
20-Y	4.043	4.043	4.054	4.053	4.075	4.068	2.5
RINGGIT IRS							
1-Y	3.485	3.485	3.465	3.465	3.53	3.535	5
3-Y	3.425	3.425	3.425	3.4345	3.495	3.5195	9.45
5-Y	3.4525	3.4525	3.455	3.47	3.5485	3.55	9.75
7-Y	3.575	3.575	3.575	3.585	3.655	3.67	9.5
10-Y	3.7	3.7	3.71	3.71	3.783	3.79	9
KLIBOR							
1-M	3.19	3.19	3.19	3.19	3.18	3.18	-1
3-M	3.45	3.45	3.45	3.45	3.45	3.45	0
UST							
3-Y	4.1396	4.1085	4.106	4.2216	4.1644	4.241	10.14
5-Y	3.8437	3.8176	3.8072	3.9404	3.8581	3.9128	6.91
7-Y	3.7756	3.7576	3.7422	3.8787	3.7936	3.8323	5.67
10-Y	3.6907	3.6831	3.6602	3.7952	3.7179	3.7394	4.87
30-Y	3.8877	3.8831	3.8439	3.945	3.8877	3.8804	-0.73
USD LIBOR							
1-M	5.18857	5.19057	5.20114	5.18171	5.22243	5.22243	3.386
3-M	5.49629	5.50914	5.51329	5.50986	5.53971	5.53971	4.342

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	2-Jun Yield	9-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.409	3.483	7.4	1,784.9
MALAYSIA GOVERNMENT	3.8	08/17/23	3.047	3.217	17.0	1,276.1
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.325	3.813	-51.2	954.2
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.313	3.339	2.6	554.1
MALAYSIA GOVERNMENT	4.893	06/08/38	3.813	4.007	19.4	495.9
MALAYSIA GOVERNMENT	3.906	07/15/26	3.395	3.454	5.9	462.1
MALAYSIA GOVERNMENT	3.885	08/15/29	3.585	3.647	6.2	368.8
MALAYSIA GOVERNMENT	3.582	07/15/32	3.692	3.719	2.7	341.1
MALAYSIA INVESTMNT ISSU	3.726	03/31/26	3.350	3.441	9.1	296.9
MALAYSIA GOVERNMENT	3.478	06/14/24	3.226	3.274	4.8	287.5
TOTAL VOLUME (TOP 10)						6,821.4
TOTAL VOLUME (Overall)						10,089.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	2-Jun Yield	9-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
PROJEK LEBUHRAYA USAHA	5	12/31/38	4.218	4.175	-4.3	495.0
YTL POWER INTERNATIONA	5.05	05/03/27	4.255	4.248	-0.7	65.0
PRASARANA MALAYSIA BHD	4.16	03/02/35	4.059	4.019	-4.0	50.0
TOYOTA CAPITAL MALAYSI	3.3	01/26/24	N/A	3.722	N/A	50.0
AMANAT LEBUHRAYA RAKY	5.09	10/11/30	N/A	4.167	N/A	50.0
PROJEK LEBUHRAYA USAHA	4.954	01/12/37	4.536	4.460	-7.6	50.0
SARAWAK HIDRO SDN BHD	4.56	08/10/29	N/A	4.078	N/A	40.0
DRB-HICOM BHD	4.55	12/12/24	4.679	4.341	-33.8	40.0
MERC BENZ SVC MALAYSIA	3.57	11/28/23	N/A	3.475	N/A	40.0
PENGURUSAN AIR SELANGO	4.1	10/27/28	N/A	4.074	N/A	40.0
TOTAL VOLUME (TOP 10)						920.0
TOTAL VOLUME (Overall)						1,559.9

Source: Bloomberg

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 <i>rise</i> 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 <i>fall</i> 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