

MIDF Strategy 19 June 2023

Week Ended 16 June 2023

- The 10-year UST yield ended the review week higher at 3.76% (prior week: 3.74%) arguably in reaction to the June FOMC meeting posture to skip (rather than pause) the rate hike. The US Fed is deemed to signal continuing wariness over the underlying price pressure particularly at core levels. The 10y-3y yield spread inverted deeper at -55bps (prior week: -50bps) as the short-end underperformed due to its sensitivity to policy rate action. Moreover, the interest rate futures market was implying a 74% probability of another 25-bp rate hike in July FOMC meeting.
- Medium-term inflation expectation (MTIE) ended slightly higher week-on-week at 2.20% (prior week: 2.16%) as the US Fed indication of skipping (rather than pausing) the rate hike signaled continuing wariness over the underlying inflation pressure. The MTIE nonetheless 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 mixed with the 3-year and 10-year yields shed -0.9bp and added 2.0bps to close at 3.44% and 3.74% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 26bps to 29bps as the short-end outperformed.
- 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 -RM5.88b. It improved on-week from -RM6.22b registered a week ago. However, it slumped on-year from RM7.42b a year ago.

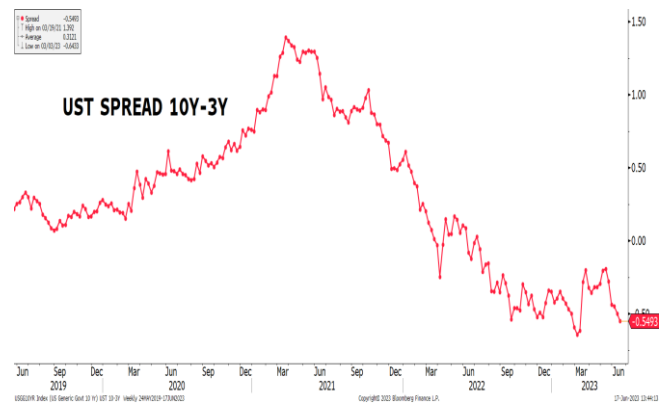
Weekly Money Review

A. FIXED INCOME

- The 10-year UST yield ended the review week higher at 3.76% (prior week: 3.74%) arguably in reaction to the June FOMC meeting posture to skip (rather than pause) the rate hike. The US Fed is deemed to signal continuing wariness over the underlying price pressure particularly at core levels. The 10y-3y yield spread inverted deeper at -55bps (prior week: -50bps) as the short-end underperformed due to its sensitivity to policy rate action. Moreover, the interest rate futures market was implying a 74% probability of another 25-bp rate hike in July FOMC meeting.



Source: Bloomberg, MIDFR



Source: Bloomberg, MIDFR

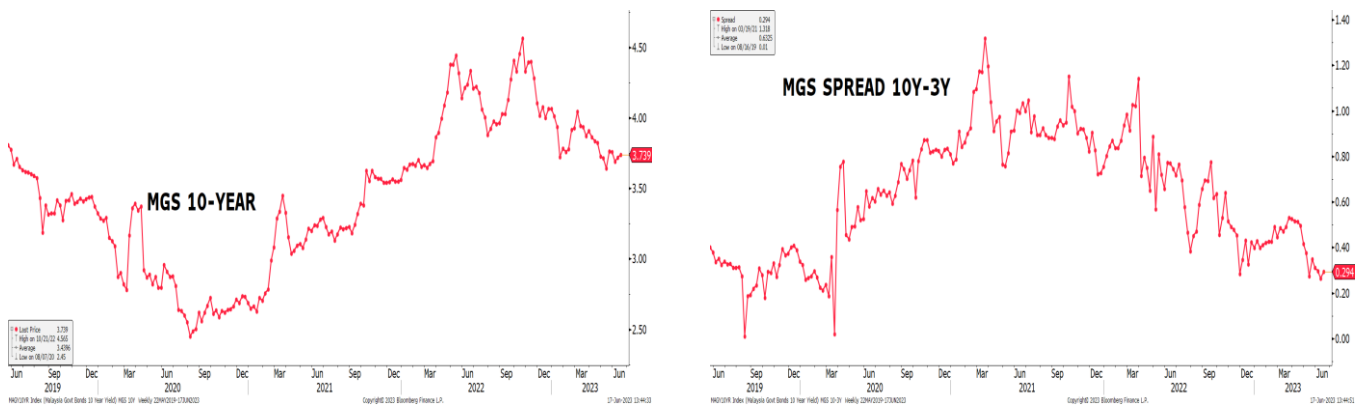
- Medium-term inflation expectation (MTIE) ended slightly higher week-on-week at 2.20% (prior week: 2.16%) as the US Fed indication of skipping (rather than pausing) the rate hike signaled continuing wariness over the underlying inflation pressure. The MTIE nonetheless remains below an elevated inflation 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

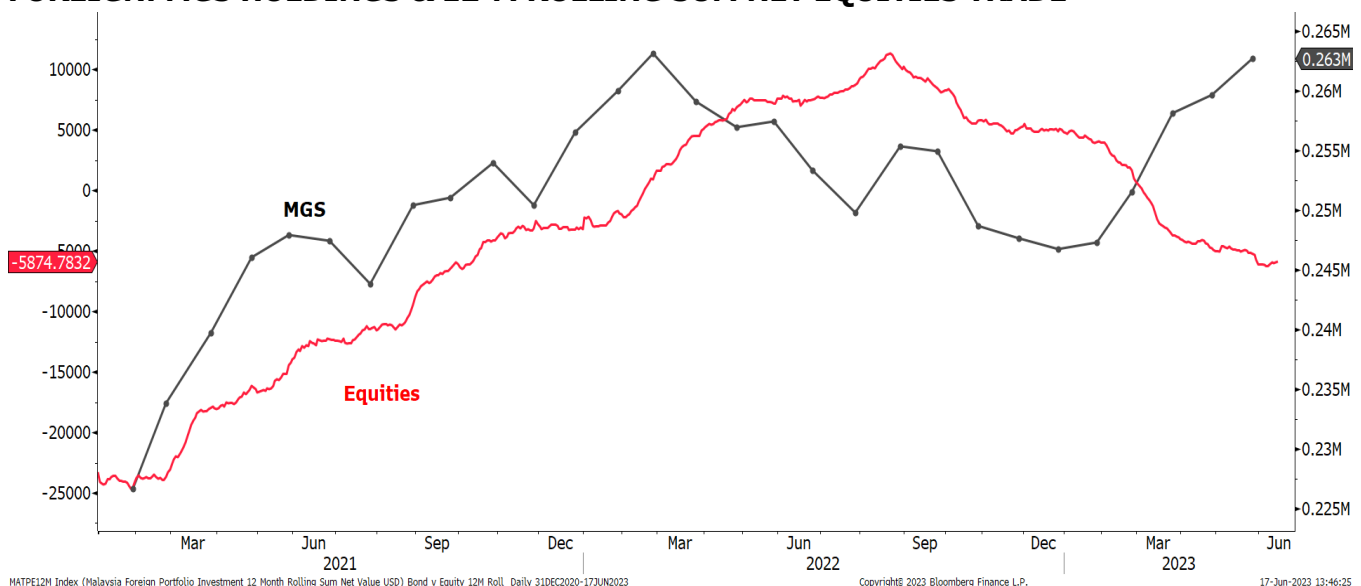
- The price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields shed -0.9bp and added 2.0bps to close at 3.44% and 3.74% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 26bps to 29bps as the short-end outperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM13.56b in the review week compared to RM10.09b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 58% from 68% of the overall Government Bonds trades. Moreover, 7 out of the 10 most actively traded bonds saw lower yields hence higher 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 4.193% 10/7/32 at RM1.47b, MGS 3.8% 8/17/23 at RM1.16b, and MGS 3.582% 7/15/32 at RM812m.

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 -RM5.88b. It improved on-week from -RM6.22b registered a week ago. However, it slumped on-year from RM7.42b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.93b in the review week compared to RM1.56b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 37% from 59% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of short and mid residual tenor. The largest trading values were seen in Cagamas 4.5% 12/13/27 at RM210m, Aman Sukuk 4.25% 10/20/23 at RM110m, and Malakoff 6.05% 12/17/29 at RM70m.

B. FOREIGN EXCHANGE

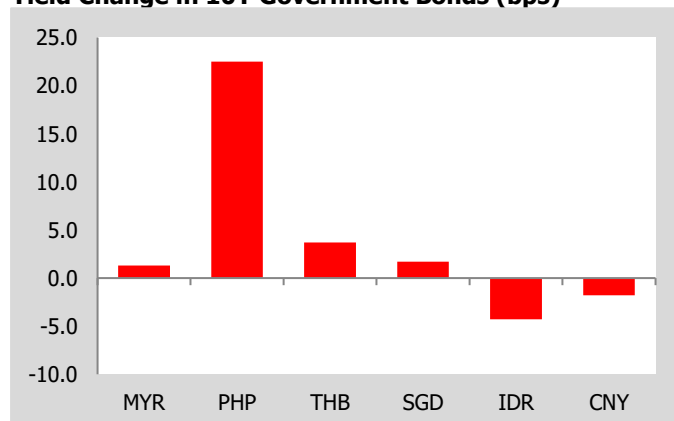
- USD depreciated for the third consecutive week. The USD weakened further against major currencies as the DXY dollar index fell by -1.3%wow to 102.24, the lowest in 5 weeks. The USD depreciated following Fed's decision to keep its interest rate steady at the Jun-23 meeting, conforming to market expectations. However, the steepness of the USD fall was limited after the Fed remained hawkish, indicating a possibility of two more hikes this year.
- Euro and pound strengthened. As the dollar weakened, the euro and the pound appreciated by +1.7%wow and +1.9%wow to USD1.094 and USD1.282, respectively. Besides USD weakness, the euro benefitted from the ECB's decision to raise the interest rate after its Jun-23 meeting last week. Consequently, the pound rally was also underpinned by hawkish bias for the BOE ahead of its upcoming Jun-23 policy meeting.
- Ringgit was virtually unchanged. Ringgit was little changed against previous week's closing, remaining around RM4.615. During the week, ringgit continued to weaken following news of China's less encouraging data releases. Like other currencies, ringgit also gained slightly following Fed's decision to skip another rate hike. Although ringgit performance was more influenced by financial market developments, change in commodity prices cushioned some falls as Brent crude oil prices rebounded by +2.4%wow to end the week at USD76.61pb.

Currencies Changes (Week Ended 16 June 2023) and Quarterly Forecasts

	Close (16/06)	Prev. Close (09/06)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	102.24	103.56	-1.314	-1.3	102.51	101	98.3	97.5
EURUSD	1.094	1.075	+0.019	+1.7	1.08	1.09	1.12	1.13
GBPUSD	1.282	1.257	+0.025	+1.9	1.23	1.25	1.24	1.26
USDJPY	141.82	139.4	-2.420	-1.7	132.86	131.3	129	126
USDMYR	4.615	4.614	-0.001	-0.0	4.42	4.35	4.13	4.00
GBPMYR	5.905	5.786	-0.119	-2.0	5.46	5.44	5.12	5.04
JPYMYR	3.254	3.311	+0.057	+1.8	3.33	3.32	3.20	3.17

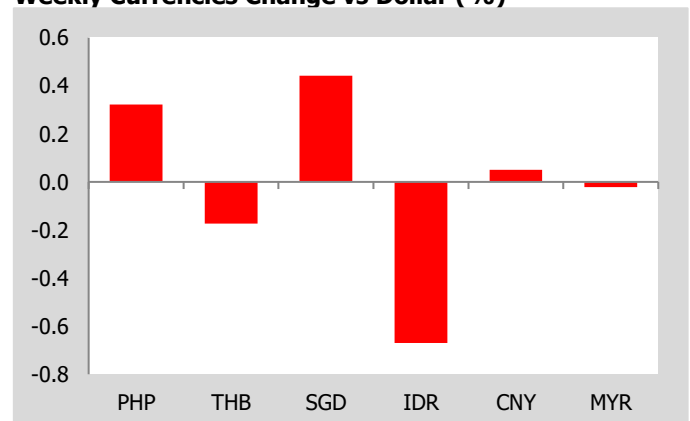
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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	4.00
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:
 - Inflation cooled as expected. Headline inflation eased to +4.0%yoy in May-23 (Apr-23: +4.9%yoy; market forecast: +4.1%yoy), while core inflation also slowed to +5.3%yoy (Apr-23: +5.5%yoy) as expected by market consensus. Furthermore, the PPI moderated to +1.1%yoy (Apr-23: +2.3%yoy, indicating lower cost pressure and further easing in consumer inflation).
 - Labour market remained tight despite more signs of cooling. Initial jobless claims for the week ending 10th June exceeded market expectations (249K) as the number matched 262K as in the previous week.
 - Retail sales rose better than expected. Retail sales increased by +1.6%yoy in May-23, higher than the downwardly revised +1.2%yoy in Apr-23. On a monthly basis, the +0.3%mom increase was better than the market forecast for a decline by -0.1%mom.
 - Industrial production logged smaller growth. Industrial production was up +0.2%yoy in May-23, lower than upwardly revised +0.4% in Apr-23. On a month-on-month basis, industrial production shrunk by -0.2%mom (Apr-23: +0.5%mom), below market consensus for +0.1%mom rise.
 - Sentiment improved in Jun-23. Preliminary reading of University of Michigan consumer sentiment index rose to 63.9 in Jun-23 (May-23: 59.2), better than expected as policymakers resolved the debt ceiling issue and consumers indicated expectations of slower inflation in the next 12 months.
- On monetary policy decisions last week:
 - Fed ended a sequence of 10 consecutive rate hikes, keeping its interest rate status quo at 5.00%-5.25% as widely expected. Nevertheless, the Fed reiterated its hawkish stance to contain inflation, with revised projection for the fed funds rate to be raised to 5.6% this year (previous forecast: 5.1%).
 - The ECB hiked the interest rate by another 25bps to 4.00%, marking the eighth consecutive hike as inflation remained above its target.
 - The BOJ unsurprisingly kept its policy interest rate unchanged at -0.10%.
 - In a move to provide more support to China's economic recovery, on 13th June PBOC cut 7-day reverse repurchase rate by 10bps to 1.90%. On 15th June, PBOC cut 1-year medium-term loan facility (MLF) also by 10bps to 2.65%.
 - Malaysia's retail trade was robust. Retail sales grew at a more moderate pace by +12.9%yoy in Apr-23 (Mar-23: +17.7%yoy) but marking 15 straight months of double-digit expansion. Compared to Mar-23, non-seasonally adjusted retail trade increased by +3.1%mom (Mar-23: +0.9%mom).

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	9-Jun Fri	12-Jun Mon	13-Jun Tue	14-Jun Wed	15-Jun Thu	16-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.454	3.454	3.457	3.461	3.456	3.445	-0.9
5-Y	3.53	3.53	3.523	3.5	3.545	3.53	0
7-Y	3.632	3.632	3.639	3.64	3.679	3.67	3.8
10-Y	3.719	3.719	3.728	3.706	3.732	3.739	2
20-Y	4.068	4.068	4.113	4.123	4.128	4.116	4.8
RINGGIT IRS							
1-Y	3.535	3.535	3.525	3.535	3.575	3.55	1.5
3-Y	3.5195	3.525	3.5	3.515	3.57	3.55	3.05
5-Y	3.55	3.575	3.535	3.555	3.61	3.585	3.5
7-Y	3.67	3.69	3.65	3.67	3.728	3.7	3
10-Y	3.79	3.81	3.76	3.79	3.84	3.82	3
KLIBOR							
1-M	3.18	3.18	3.18	3.18	3.18	3.18	0
3-M	3.45	3.45	3.45	3.45	3.45	3.45	0
UST							
3-Y	4.241	4.2241	4.2791	4.2932	4.2427	4.3107	6.97
5-Y	3.9128	3.8936	3.9907	3.9891	3.9098	3.9828	7
7-Y	3.8323	3.8194	3.9127	3.8919	3.8116	3.8713	3.9
10-Y	3.7394	3.7356	3.8133	3.7862	3.7165	3.7613	2.19
30-Y	3.8804	3.8813	3.92	3.8823	3.8376	3.8522	-2.82
USD LIBOR							
1-M	5.21929	5.218	5.19329	5.15814	5.14629	5.14629	-7.3
3-M	5.54443	5.55743	5.552	5.50843	5.51371	5.51371	-3.072

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	9-Jun Yield	16-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.813	3.846	3.3	1,468.0
MALAYSIA GOVERNMENT	3.8	08/17/23	3.217	3.194	-2.3	1,154.6
MALAYSIA GOVERNMENT	3.582	07/15/32	3.719	3.739	2.0	811.9
MALAYSIA GOVERNMENT	3.906	07/15/26	3.454	3.445	-0.9	739.8
MALAYSIA GOVERNMENT	2.632	04/15/31	3.776	3.770	-0.6	653.0
MALAYSIA GOVERNMENT	3.885	08/15/29	3.647	3.680	3.3	643.7
MALAYSIA INVESTMNT ISSU	4.13	07/09/29	3.725	3.720	-0.5	628.1
MALAYSIA GOVERNMENT	4.893	06/08/38	4.007	3.877	-13.0	616.1
MALAYSIA GOVERNMENT	4.762	04/07/37	4.020	4.019	-0.1	611.2
MALAYSIA INVESTMNT ISSU	4.724	06/15/33	3.934	3.901	-3.3	489.1
TOTAL VOLUME (TOP 10)						7,815.6
TOTAL VOLUME (Overall)						13,564.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	9-Jun Yield	16-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
CAGAMAS BERHAD	4.5	12/13/27	N/A	3.960	N/A	210.0
AMAN SUKUK BHD	4.25	10/20/23	3.566	3.555	-1.1	110.0
MALAKOFF POWER BHD	6.05	12/17/29	N/A	5.119	N/A	70.0
PROJEK LEBUHRAYA USAHA	4.891	01/11/36	4.431	4.369	-6.2	55.0
PELABUHAN TANJUNG PELE	3.95	06/18/27	4.181	4.175	-0.6	50.0
PROJEK LEBUHRAYA USAHA	5.63	01/11/36	N/A	4.419	N/A	50.0
PROJEK LEBUHRAYA USAHA	4.954	01/12/37	4.460	4.439	-2.1	45.0
MALAYSIA AIRPORTS HG B	5.75	PERP	4.625	4.562	-6.3	40.0
MALAKOFF POWER BHD	6.15	12/17/30	5.208	5.158	-5.0	40.0
SARAWAK HIDRO SDN BHD	4.67	08/11/31	N/A	4.168	N/A	40.0
TOTAL VOLUME (TOP 10)						710.0
TOTAL VOLUME (Overall)						1,933.9

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