

## MIDF Strategy 26 June 2023

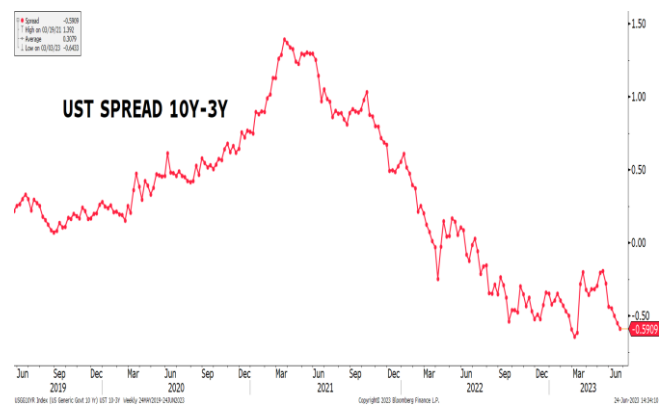
### Week Ended 23 June 2023

- The benchmark 10-year UST yield ended the review week slightly lower at 3.74% (prior week: 3.76%) as investors digested (1) the US Fed stance on interest rate outlook (i.e. data dependent), and (2) the latest economic data (i.e. higher than expected initial jobless claims). The 10y-3y yield spread inverted deeper at -59bps (prior week: -55bps) as the long-end outperformed. Moreover, the interest rate futures market was implying a 72% probability of a final 25-bp rate hike in July FOMC meeting.
- Medium-term inflation expectation (MTIE) ended slightly lower week-on-week at 2.18% (prior week: 2.20%) arguably in reaction to the higher-than-expected initial jobless claims. The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but above its 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 (while stubborn) 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 3.2bps and 8.0bps to close at 3.48% and 3.82% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 29bps to 34bps as the long-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 -RM5.89b. It worsened on-week from -RM5.88b registered a week ago. Moreover, it slumped on-year from RM7.38b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- The benchmark 10-year UST yield ended the review week slightly lower at 3.74% (prior week: 3.76%) as investors digested (1) the US Fed stance on interest rate outlook (i.e. data dependent), and (2) the latest economic data (i.e. higher than expected initial jobless claims). The 10y-3y yield spread inverted deeper at -59bps (prior week: -55bps) as the long-end outperformed. Moreover, the interest rate futures market was implying a 72% probability of a final 25-bp rate hike in July FOMC meeting.



Source: Bloomberg, MIDFR

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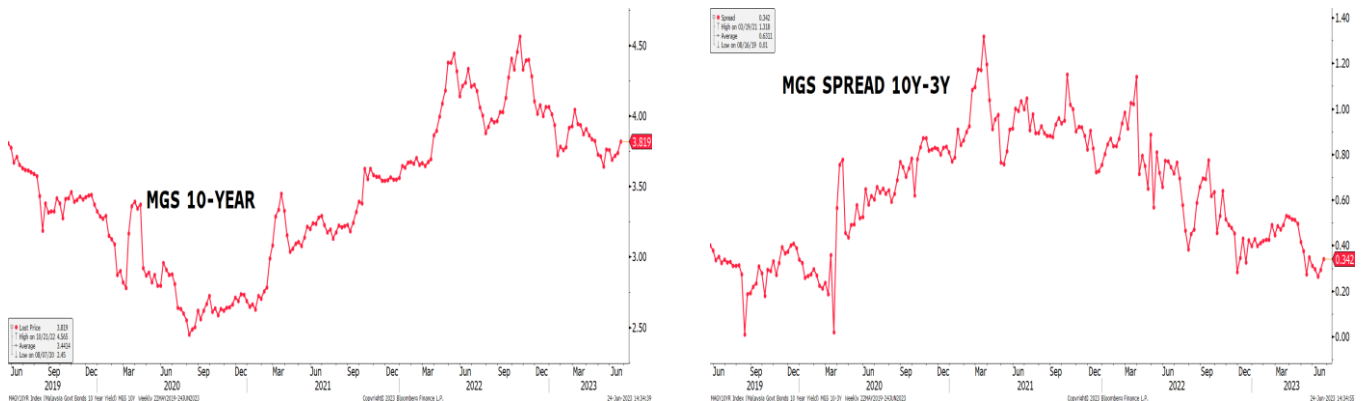
### MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR



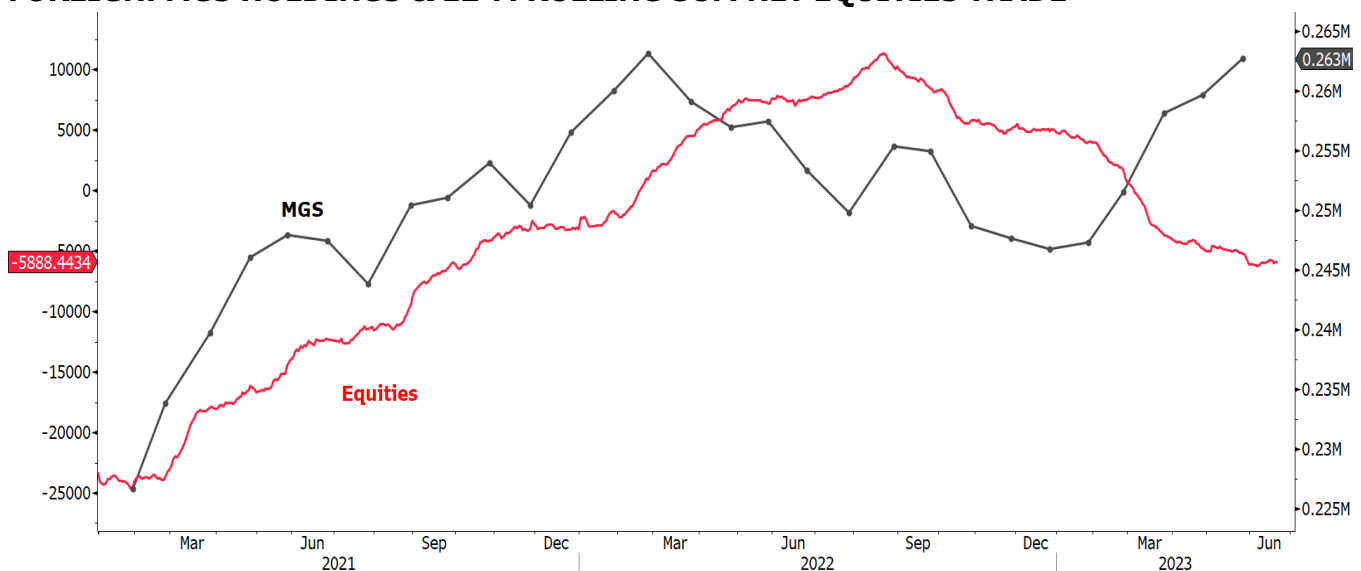
- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 3.2bps and 8.0bps to close at 3.48% and 3.82% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 29bps to 34bps as the long-end underperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM18.18b in the review week compared to RM13.56b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 40% from 58% of the overall Government Bonds trades. Moreover, 8 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 mid residual tenor. The top 3 most actively traded were MGS 3.882% 3/14/25 at RM904m, MGS 2.632% 4/15/31 at RM818m, and MII 4.07% 9/30/26 at RM806m.

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



Source: Bloomberg, MIDFR

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- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.61b in the review week compared to RM1.93b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 36% from 37% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of mid and long residual tenor. The largest trading values were seen in Sabah Credit 4.45% 5/24/30 at RM80m, Digi Telecom 4.05% 5/30/30 at RM75m, and PLUS 4.729% 1/12/33 at RM70m.

## B. FOREIGN EXCHANGE

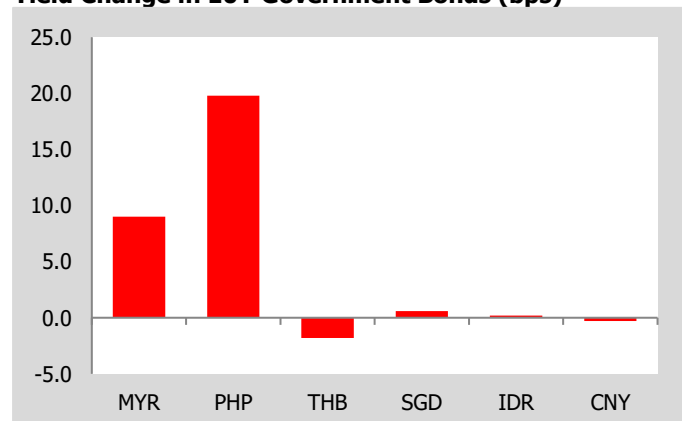
- USD gained over major currencies. The US dollars appreciated by +0.6%wow as the DXY index rose to 102.90, reversing 3 weeks of depreciation. The gain was underpinned by the Fed reiterating its commitment to bring inflation lower to its 2% target, signalling for more rate hikes. This was also supported by still resilient economic data and tight job market, despite weakness in manufacturing activities.
- Euro and pound depreciated. Both euro and pound sterling depreciated by -0.4%wow and -0.8%wow to USD1.089 and USD1.271, respectively, amid dollar strength. The euro weakness was mainly recorded on Friday due to growth concerns as PMI data for Jun-23 was weaker than expected. On the other hand, BOE's higher-than-expected rate hike failed to support the pound sterling as the currency weakened due to growing recession woes.
- Ringgit weakened further. Ringgit depreciated further last week still around the lowest level since Nov-22, ending -1.4%wow lower at RM4.678. Ringgit's weakness was aligned with the overall trend in regional currencies due to the strength in dollar and concerns over China's economic recovery. In addition, the commodity prices movement was also a drag to ringgit as Brent crude oil prices fell by -3.6%wow to USD73.85.

### Currencies Changes (Week Ended 23 June 2023) and Quarterly Forecasts

	Close (23/06)	Prev. Close (16/06)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	102.90	102.24	+0.660	+0.6	102.51	101	98.3	97.5
EURUSD	1.089	1.094	-0.004	-0.4	1.08	1.09	1.12	1.13
GBPUSD	1.271	1.282	-0.010	-0.8	1.23	1.25	1.24	1.26
USDJPY	143.7	141.82	-1.880	-1.3	132.86	140	133	129
USDMYR	4.678	4.615	-0.064	-1.4	4.42	4.64	4.46	4.20
GBPMYR	5.950	5.905	-0.045	-0.8	5.46	5.80	5.53	5.25
JPYMYR	3.255	3.254	-0.001	-0.0	3.33	3.31	3.35	3.26

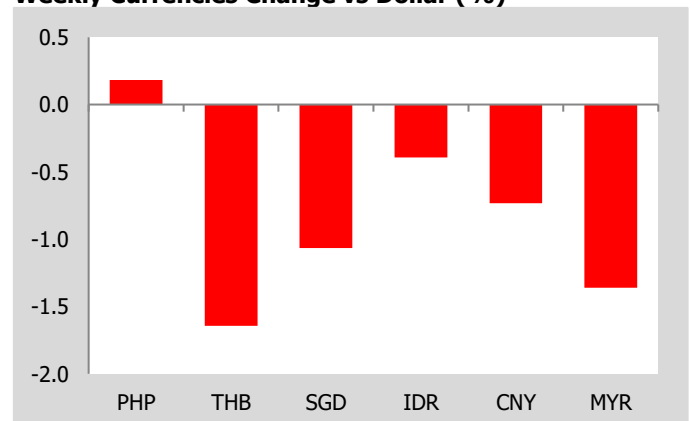
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

### 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	2.00	2.00
Vietnam	6.00	6.00	6.00	6.00	6.00	6.00	5.50	5.00	4.50
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	5.00
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:
  - The leading index contracted further. The May-23 CB Leading Index contracted to -0.7%mom (Apr-23:-0.6%mom), well within market expectations.
  - Labour market tight despite some signs of cooling. Initial jobless claims for the week ending 17th June exceeded market expectations (260K) as the number matched 264K in the prior week.
  - Unexpectedly strong housing market data. Housing starts recorded a new high since Apr-22 in May-23 at 1.63m (Apr-23: 1.34m) against market expectations of 1.40m.
  - Reduced economic activities in May-23. The Chicago Fed National Activity Index logged a contraction in May-23 at -0.15 (Apr-23: +0.14)
  - The manufacturing sector shrunk further while the service sector remained resilient. The S&P Global Manufacturing PMI slipped further into contractionary territory in Jun-23 at 46.3 (May-23: 48.4; market forecasts: 48.5), while the Services PMI expanded higher than consensus at 54.1 (May: 54.9; market forecasts: 54.0)
- In the Fed's semi-annual monetary policy report to the Congress, Chair Jerome Powell reiterated one or two more hikes, as in the updated FOMC forecast, to bring inflation down towards the 2% longer-term target.
- On monetary policy decisions last week:
  - BOE surprisingly raised the interest rate by a higher-than-expected 50bps in the Jun-23 meeting, bringing the interest rate to 5.00% in response to stronger-than-expected inflation data.
  - Bank Indonesia kept its seven-day repo rate steady for the fifth consecutive meeting in its Jun-23 decision at 5.75%, just as the market expected.
  - Bangko Sentral ng Filipinas held the rate steady at 6.25% for the second consecutive meeting last week.
  - PBOC continued on a path of monetary easing in its Jun-23 LPR decision, cutting its 1-year and 5-year LPR by 10bps to 3.55% and 4.20%.
  - State Bank of Vietnam eased again, cutting its benchmark interest rate by another 50bps to 4.50%.
- Malaysia's economic releases last week:
  - External trade performance improved. Both exports and imports fell at slower pace in May-23 at -0.7%yoy (Apr-23: -17.6%yoy) and -3.3%yoy (Apr-23: +11.1%yoy), respectively.
  - Inflation eased further. Headline inflation moderated faster than expected in May-23 to +2.8%yoy (Apr-23: +3.3%yoy). However, core inflation remained elevated despite moderating slightly to +3.5%yoy (Apr-23: +3.6%yoy), leaving room for the BNM to consider another 25bps hike in 2H this year.

## C. BNM INTERNATIONAL RESERVES

- As of 15 June 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD113.0b (31 May 2023: USD112.7b).

### 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	16-Jun Fri	19-Jun Mon	20-Jun Tue	21-Jun Wed	22-Jun Thu	23-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.445	3.449	3.463	3.478	3.474	3.477	3.2
5-Y	3.53	3.518	3.561	3.541	3.575	3.612	8.2
7-Y	3.67	3.67	3.694	3.707	3.725	3.737	6.7
10-Y	3.739	3.752	3.762	3.779	3.806	3.819	8
20-Y	4.116	4.141	4.19	4.17	4.208	4.201	8.5
RINGGIT IRS							
1-Y	3.55	3.55	3.58	3.565	3.59	3.585	3.5
3-Y	3.55	3.5645	3.5845	3.57	3.605	3.605	5.5
5-Y	3.585	3.595	3.61	3.6	3.635	3.65	6.5
7-Y	3.7	3.695	3.72	3.715	3.757	3.755	5.5
10-Y	3.82	3.83	3.84	3.84	3.862	3.88	6
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	4.3107	4.3107	4.2825	4.2939	4.3734	4.3256	1.49
5-Y	3.9828	3.9828	3.9529	3.9566	4.042	3.991	0.82
7-Y	3.8713	3.8713	3.8376	3.8402	3.9209	3.8663	-0.5
10-Y	3.7613	3.7613	3.7207	3.7189	3.7946	3.7347	-2.66
30-Y	3.8522	3.8522	3.8114	3.807	3.8686	3.8115	-4.07
USD LIBOR							
1-M	5.15657	5.16271	5.15414	5.14757	5.15043	5.15043	-0.614
3-M	5.51	5.51429	5.52029	5.53957	5.54186	5.54186	3.186

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	16-Jun Yield	23-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.882	03/14/25	3.389	3.396	0.7	903.7
MALAYSIA GOVERNMENT	2.632	04/15/31	3.770	3.828	5.8	818.1
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.448	3.480	3.2	806.0
MALAYSIA INVESTMNT ISSU	3.422	09/30/27	3.484	3.607	12.3	785.2
MALAYSIA GOVERNMENT	3.955	09/15/25	3.401	3.436	3.5	752.9
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.846	3.869	2.3	703.6
MALAYSIA GOVERNMENT	4.181	07/15/24	3.334	3.271	-6.3	695.4
MALAYSIA GOVERNMENT	3.899	11/16/27	3.564	3.600	3.6	636.3
MALAYSIA GOVERNMENT	3.478	06/14/24	3.300	3.286	-1.4	607.4
MALAYSIA GOVERNMENT	4.893	06/08/38	3.877	4.059	18.2	603.2
TOTAL VOLUME (TOP 10)						7,311.7
TOTAL VOLUME (Overall)						18,181.7

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	16-Jun Yield	23-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
SABAH CREDIT CORP	4.45	05/24/30	N/A	4.341	N/A	80.0
DIGI TELECOMMUNICATION	4.05	05/30/30	4.038	4.038	0.0	75.0
PROJEK LEBUHRAYA USAHA	4.729	01/12/33	4.239	4.199	-4.0	70.0
SIME DARBY PLANTATIONS	5.65	PERP	4.194	4.187	-0.7	60.0
FORTUNE PREMIERE SDN B	5.05	09/05/25	N/A	4.197	N/A	60.0
HONG LEONG FINL GROUP	4.3	06/14/29	4.026	3.995	-3.1	60.0
INFRACAP RESOURCES S B	4.12	04/14/28	4.029	4.082	5.3	60.0
INFRACAP RESOURCES S B	4.8	04/13/35	N/A	4.381	N/A	40.0
TENAGA NASIONAL BERHA	5.57	06/28/47	4.549	4.549	0.0	40.0
LEBUHRAYA DUKE FASA 3 S	5.34	08/23/28	N/A	5.010	N/A	35.0
TOTAL VOLUME (TOP 10)						580.0
TOTAL VOLUME (Overall)						1,607.0

Source: Bloomberg



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### 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