

## MIDF Strategy 3 July 2023

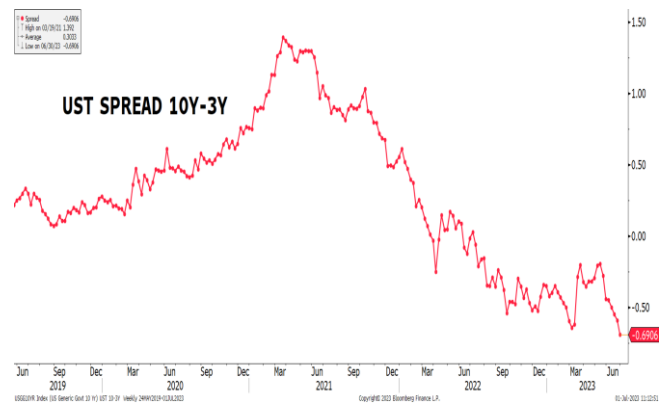
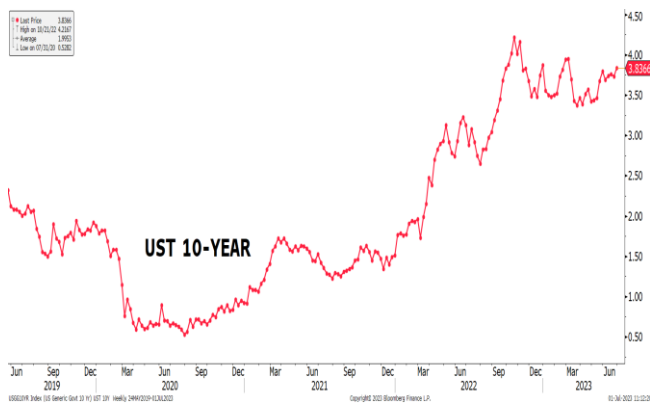
### Week Ended 30 June 2023

- The benchmark 10-year UST yield ended the review week higher at 3.84% (prior week: 3.74%) as investors reacted to hawkish remarks by the US Fed Chairman that he expects multiple interest rate hikes ahead driven by a very strong labour market. The 10y-3y yield spread inverted deeper at -69bps (prior week: -59bps) as the short-end underperformed due to its sensitivity to policy rate movements. Meanwhile, the interest rate futures market was still implying a final 25-bp rate hike in July FOMC meeting.
- Medium-term inflation expectation (MTIE) ended slightly higher week-on-week at 2.19% (prior week: 2.18%) arguably in reaction to the hawkish remarks by the US Fed Chairman. However, 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 1.6bps and 3.4bps to close at 3.49% and 3.85% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 34bps to 36bps 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 -RM6.06b. It worsened on-week from -RM5.89b registered a week ago. Moreover, it slumped on-year from RM7.66b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- The benchmark 10-year UST yield ended the review week higher at 3.84% (prior week: 3.74%) as investors reacted to hawkish remarks by the US Fed Chairman that he expects multiple interest rate hikes ahead driven by a very strong labour market. The 10y-3y yield spread inverted deeper at -69bps (prior week: -59bps) as the short-end underperformed due to its sensitivity to policy rate movements. Meanwhile, the interest rate futures market was still implying a final 25-bp rate hike in July FOMC meeting.



Source: Bloomberg, MIDFR

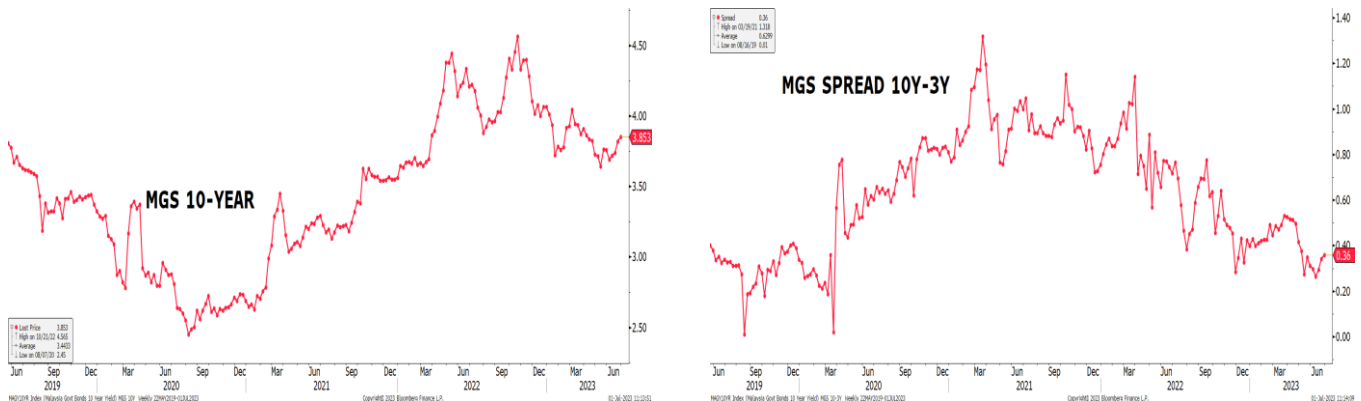
- Medium-term inflation expectation (MTIE) ended slightly higher week-on-week at 2.19% (prior week: 2.18%) arguably in reaction to the hawkish remarks by the US Fed Chairman. However, the MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed, but above its 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.

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



Source: Bloomberg, MIDFR

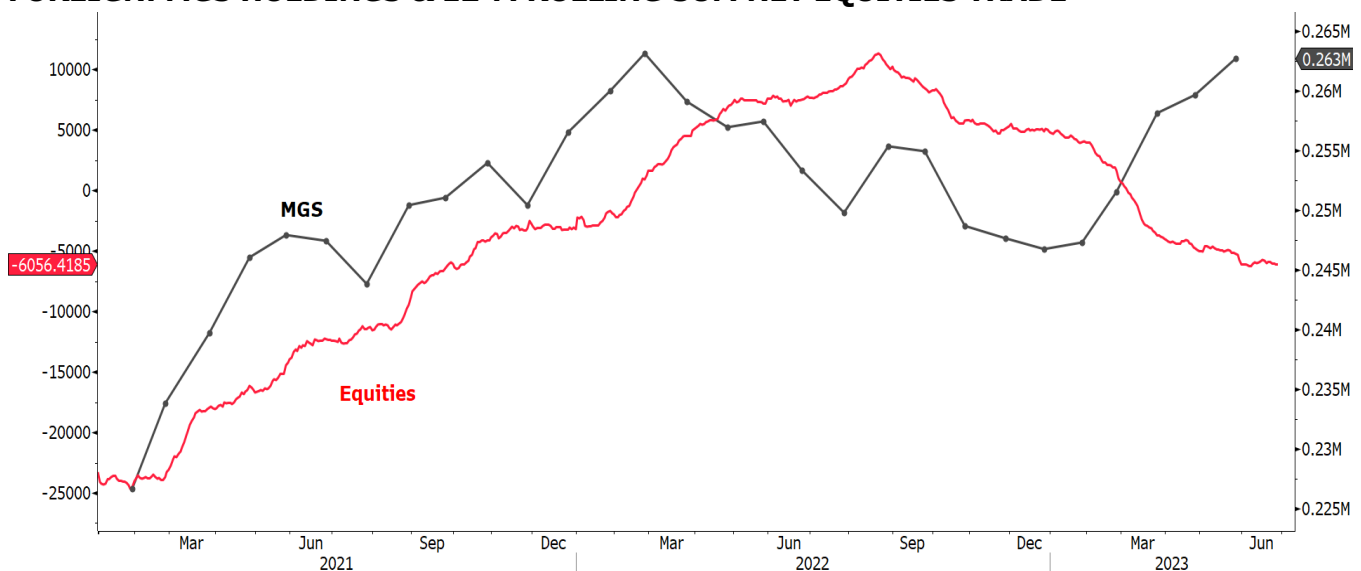
- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 1.6bps and 3.4bps to close at 3.49% and 3.85% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 34bps to 36bps as the long-end underperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM15.29b in the review week compared to RM18.18b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 70% from 40% of the overall Government Bonds trades. Moreover, 7 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 MII 3.599% 7/31/28 at RM2.1b, MGS 3.478% 6/14/24 at RM1.97b, and MGS 3.8% 8/17/23 at RM1.64b.

## 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 -RM6.06b. It worsened on-week from -RM5.89b registered a week ago. Moreover, it slumped on-year from RM7.66b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.70b in the review week compared to RM1.61b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 46% from 36% 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 Khazanah Nasional 0% 8/14/23 at RM260m, Public Bank 4.7% 10/27/28 at RM100m, and Aman Sukuk 4.25% 4/12/24 at RM80m.

## B. FOREIGN EXCHANGE

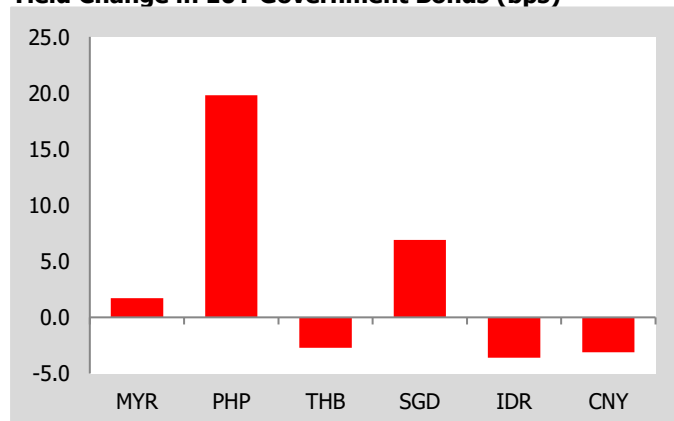
- USD was virtually unchanged. US dollars was relatively unchanged from previous week as the DXY index closed at around the same level at 102.91. Although the dollar reached over 2-week high on Thursday as Fed reiterated the possibility of more rate hikes, the greenback weakened on Friday as inflation eased further as shown by the moderation in PCE prices.
- Euro appreciated while the pound continued to weaken. The euro appreciated against the dollar by +0.1%wow to USD1.091 on increasing hawkish sentiment that the ECB will continue to raise interest rate. On the other hand, the pound depreciated against the dollar for the second week in a row by -0.1%wow to USD1.270. The pound continued to record weekly depreciation for the 2nd week due to recession fears in view of elevated inflation and higher borrowing costs.
- Ringgit gained after 3 weeks of depreciation. Ringgit appreciated against US dollars for the first time in four weeks, strengthening by +0.3%wow to RM4.667. The weekly gain in ringgit was underpinned mainly by the decline in US dollars on Friday after the release of inflation data. The commodity prices were also favourable towards the ringgit as Brent crude oil prices rose by +1.4%wow to USD74.90.

### Currencies Changes (Week Ended 30 June 2023) and Quarterly Forecasts

	Close (30/06)	Prev. Close (23/06)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f		3QCY23f	4QCY23f
DXY Index	102.91	102.90	+0.009	+0.0	102.51	101		98.3	97.5
EURUSD	1.091	1.089	+0.002	+0.1	1.08	1.09		1.12	1.13
GBPUSD	1.270	1.271	-0.001	-0.1	1.23	1.25		1.24	1.26
USDJPY	144.31	143.7	-0.610	-0.4	132.86	140		133	129
USDMYR	4.667	4.678	+0.012	+0.3	4.42	4.64		4.46	4.20
GBPMYR	5.896	5.950	+0.054	+0.9	5.46	5.80	5.53	5.25	
JPYMYR	3.234	3.255	+0.021	+0.7	3.33	3.31	3.35	3.26	

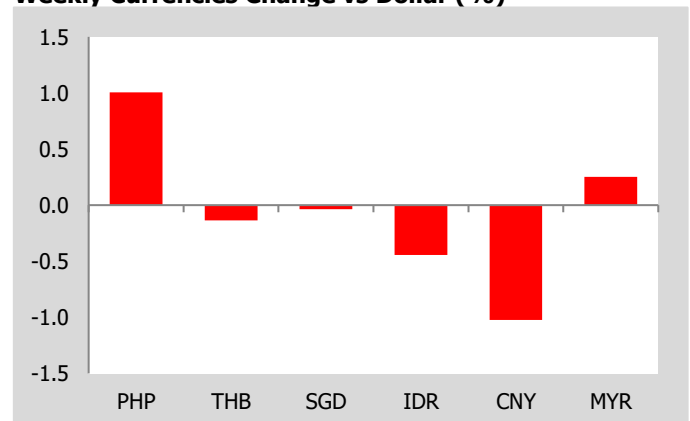
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

### 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 (%)

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

Source: Bloomberg, MIDFR

- US economic data released last week:
  - Durable goods order rose. Durable goods orders in May-23 rose +1.7%mom (Apr-23: +1.2%mom), beating market expectations for a contraction of -1.0%mom.
  - Labour market remained hot. Initial claims for unemployment benefits for the week ending 24th June fell to 239K, against market expectations for it to match the previous week's 265K.
  - Rising consumer confidence. The Conference Board consumer confidence rose to 109.7 in Jun-23 (May-23: 102.5; market forecast: 104.0), due to optimism on future and current economic conditions.
  - Stronger revision for 1Q GDP growth. US GDP grew +2.0%qoq in 1QCY23 (4QCY22: +2.6%qoq), significantly higher than the market consensus of +1.4%qoq mainly due to stronger consumer spending.
  - Personal consumption expenditure prices moderated. PCE price inflation moderated to +3.8%yoy in May-23 (Apr-23: +4.3%yoy), the lowest since Apr-21. Core PCE inflation eased to +4.6%yoy (Apr-23: +4.7%yoy), slightly better than market forecast for no change.
- Speaking at Banco de Espana Fourth Conference on Financial Stability, Chairman Jerome Powell reiterated the Fed's commitment to bringing inflation down to 2.0%, highlighting possibilities of 2 more rate hikes following the pause after the Jun-23 FOMC meeting.
- Malaysia's PPI contracted for the 4th straight month. Producer prices declined faster by -4.6%yoy in May-23 (Apr-23: -3%yoy), signaling CPI inflation would moderate in coming months given reduced cost pressures.

## 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	23-Jun Fri	26-Jun Mon	27-Jun Tue	28-Jun Wed	29-Jun Thu	30-Jun Fri	Change (WoW bp)
<b>MGS</b>							
3-Y	3.477	3.473	3.469	3.457	3.457	3.493	1.6
5-Y	3.612	3.587	3.587	3.575	3.575	3.599	-1.3
7-Y	3.737	3.73	3.675	3.715	3.715	3.732	-0.5
10-Y	3.819	3.839	3.819	3.819	3.819	3.853	3.4
20-Y	4.201	4.179	4.066	4.099	4.099	4.102	-9.9
<b>RINGGIT IRS</b>							
1-Y	3.585	3.58	3.5875	3.595	3.595	3.613	2.8
3-Y	3.605	3.595	3.585	3.61	3.61	3.635	3
5-Y	3.65	3.6275	3.63	3.635	3.635	3.675	2.5
7-Y	3.755	3.735	3.738	3.745	3.745	3.77	1.5
10-Y	3.88	3.86	3.86	3.87	3.87	3.9	2
<b>KLIBOR</b>							
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
<b>UST</b>							
3-Y	4.3256	4.3115	4.3885	4.326	4.4862	4.5273	20.17
5-Y	3.991	3.968	4.0305	3.967	4.1309	4.1556	16.46
7-Y	3.8663	3.8481	3.9028	3.8429	3.9796	3.9928	12.65
10-Y	3.7347	3.7212	3.7639	3.7078	3.8383	3.8367	10.2
30-Y	3.8115	3.8142	3.8422	3.807	3.8999	3.8605	4.9
<b>USD LIBOR</b>							
1-M	5.14843	5.17786	5.19171	5.193	5.205	5.205	5.657
3-M	5.54414	5.521	5.52871	5.53786	5.53343	5.53343	-1.071

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	23-Jun Yield	30-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.609	3.703	9.4	2,095.2
MALAYSIA GOVERNMENT	3.478	06/14/24	3.286	3.298	1.2	1,973.5
MALAYSIA GOVERNMENT	3.8	08/17/23	3.221	3.095	-12.6	1,644.3
MALAYSIA GOVERNMENT	3.882	03/14/25	3.396	3.405	0.9	1,292.9
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.480	3.483	0.3	1,076.4
MALAYSIA GOVERNMENT	4.696	10/15/42	4.201	4.102	-9.9	1,013.5
MALAYSIA GOVERNMENT	3.899	11/16/27	3.600	3.586	-1.4	533.7
MALAYSIA GOVERNMENT	4.181	07/15/24	3.271	3.340	6.9	356.4
MALAYSIA GOVERNMENT	3.906	07/15/26	3.477	3.493	1.6	328.9
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.869	3.883	1.4	315.3
TOTAL VOLUME (TOP 10)						10,629.9
TOTAL VOLUME (Overall)						15,286.2

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	23-Jun Yield	30-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
KHAZANAH NASIONAL BHD	ZERO	08/14/23	N/A	3.296	N/A	260.0
PUBLIC BANK BERHAD	4.7	10/27/28	N/A	3.713	N/A	100.0
AMAN SUKUK BHD	4.25	04/12/24	N/A	3.656	N/A	80.0
PROJEK LEBUHRAYA USAHA	4.954	01/12/37	4.420	4.459	3.9	60.0
PENGURUSAN AIR SELANGO	4.89	04/19/38	4.491	4.499	0.8	60.0
PROJEK LEBUHRAYA USAHA	4.821	01/12/35	4.320	4.311	-0.9	50.0
SP SETIA BERHAD	4.41	06/23/28	N/A	4.410	N/A	50.0
BANK PERTANIAN MALAY	3.63	11/02/26	N/A	3.954	N/A	40.0
SARAWAK PETCHEM SDN B	5.5	07/27/37	N/A	4.475	N/A	40.0
TNB POWER GENERATION	4.58	03/29/33	4.209	4.229	2.0	40.0
TOTAL VOLUME (TOP 10)						780.0
TOTAL VOLUME (Overall)						1,699.0

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