

MIDF Strategy 10 July 2023

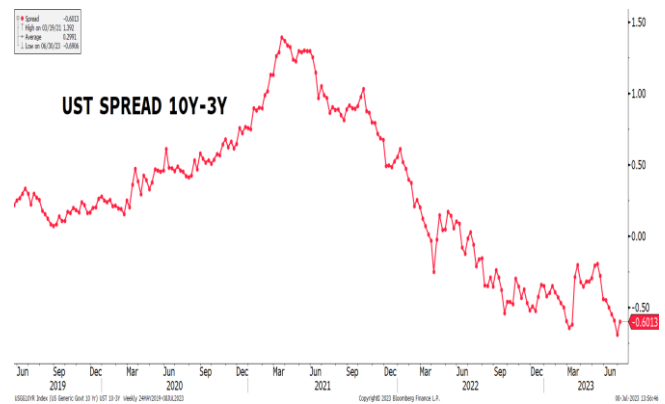
Week Ended 7 July 2023

- The benchmark 10-year UST yield ended the review week higher at 4.06% (prior week: 3.84%) as investors reacted to a strong June ADP jobs report. Moreover, a Labor Department report showed wage growth beat market estimate despite lower-than-expected NFP figure in June. The 10y-3y yield spread rebounded but remains deeply inverted at -60bps (prior week: -69bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying a final 25-bp rate hike in July FOMC meeting.
- Medium-term inflation expectation (MTIE) ended slightly higher week-on-week at 2.23% (prior week: 2.19%) arguably in reaction to the jobs and wage growth data. 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 5.3bps and 3.9bps to close at 3.55% and 3.89% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 36bps to 35bps 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 -RM5.95b. It improved on-week from -RM6.06b registered a week ago. However, it slumped on-year from RM7.75b a year ago.

Weekly Money Review

A. FIXED INCOME

- The benchmark 10-year UST yield ended the review week higher at 4.06% (prior week: 3.84%) as investors reacted to a strong June ADP jobs report. Moreover, a Labor Department report showed wage growth beat market estimate despite lower-than-expected NFP figure in June. The 10y-3y yield spread rebounded but remains deeply inverted at -60bps (prior week: -69bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying a final 25-bp rate hike in July FOMC meeting.



Source: Bloomberg, MIDFR

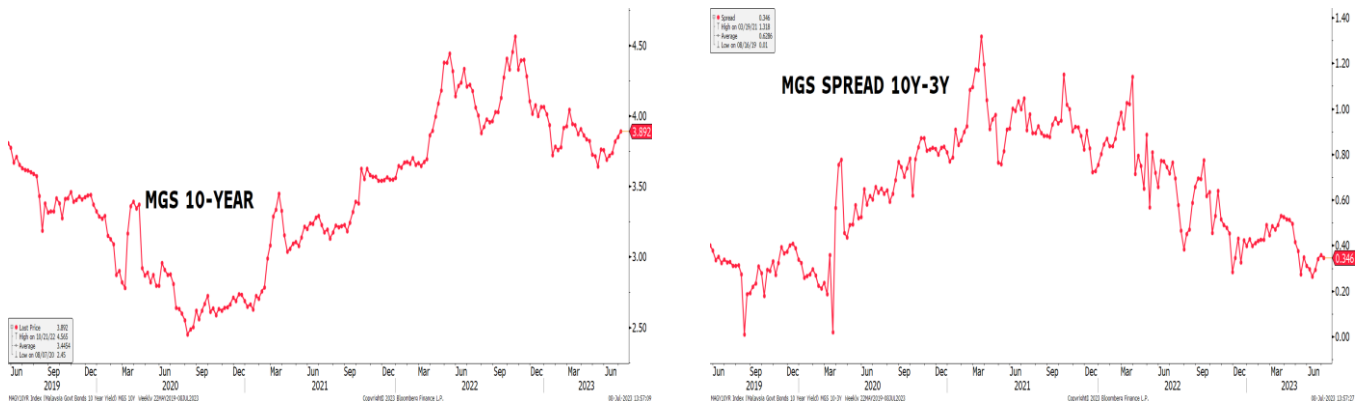
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

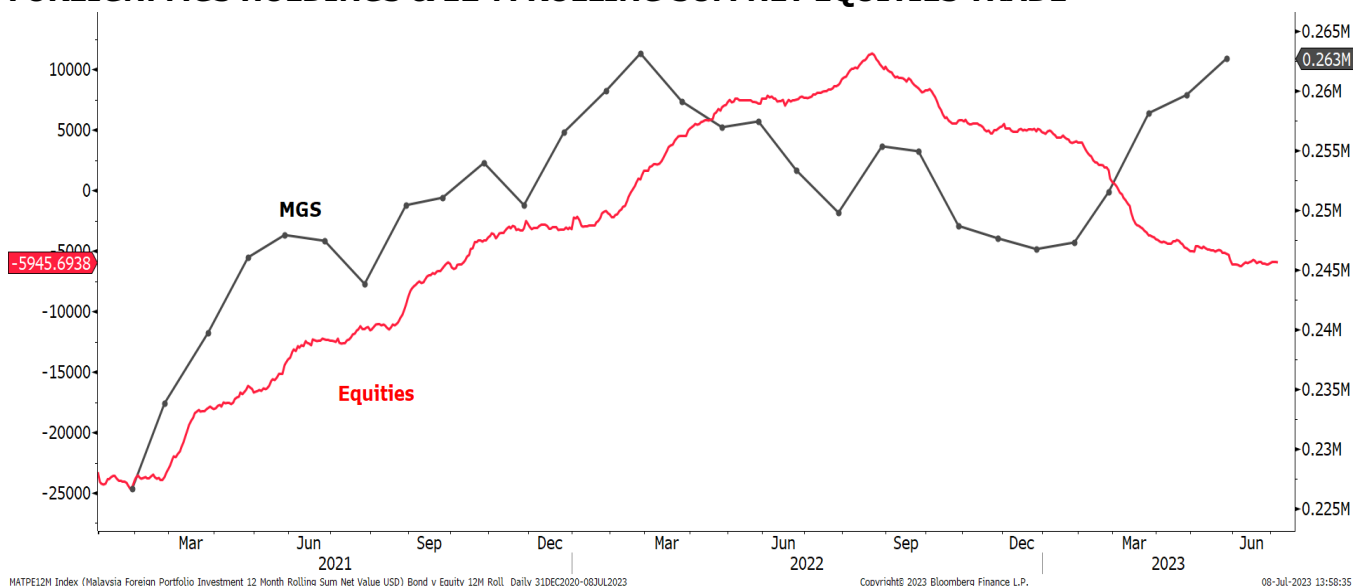
- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 5.3bps and 3.9bps to close at 3.55% and 3.89% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 36bps to 35bps as the short-end underperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM18.58b in the review week compared to RM15.29b 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 70% 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 varied residual tenor. The top 3 most actively traded were MII 3.599% 7/31/28 at RM2.3b, MGS 3.906% 7/15/26 at RM1.15b, and MGS 3.582% 7/15/32 at RM1.14b.

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 -RM5.95b. It improved on-week from -RM6.06b registered a week ago. However, it slumped on-year from RM7.75b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.83b in the review week compared to RM1.70b 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 46% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of varied residual tenor. The largest trading values were seen in SME Bank 4.03% 3/22/24 at RM110m, Public Islamic Bank 4.5% 12/17/27 at RM93m, and PLUS 5% 12/31/38 at RM90m.

B. FOREIGN EXCHANGE

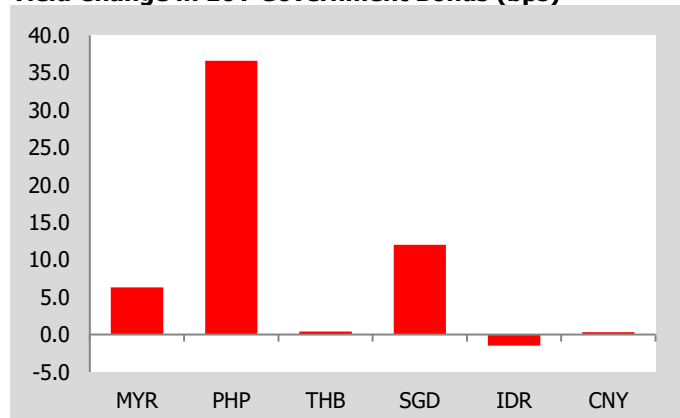
- USD depreciated to the lowest level in 3 weeks. The US dollar weakened against major currencies as the DXY index fell by -0.6%wow to 102.27. The greenback reached over a 3-week high mid-week after the minutes of Jun-23 FOMC meeting revealed a still hawkish stance among FOMC members. However, the dollar closed the week lower following weaker-than-expected Jun-23 labour market data.
- Euro and pound appreciated on weaker USD. Given the weakening of US dollars on Friday, euro and pound sterling strengthened by +0.5%wow and +1.1%wow to USD1.097 and USD1.284, respectively. It was the highest in over 2 weeks for euro and the strongest level for pound sterling since Apr-22. Both currencies also gained driven by expectations that the ECB and BOE will continue to hike interest rates to contain high inflation.
- Ringgit remained at last week's level. The ringgit closed the week virtually unchanged against the previous week's closing at RM4.667. The ringgit failed to benefit from the dollar's weakness despite reaching over 2-week high of RM4.652 on Tuesday ahead of the Jul-23 MPC meeting. However, ringgit weakened back towards RM4.66 following BNM's decision to keep the OPR status quo. The ringgit's FX movement was more influenced by the financial market developments as the local currency ended the week unchanged despite Brent crude oil prices closed +4.8%wow higher at USD78.47pb.

Currencies Changes (Week Ended 7 July 2023) and Quarterly Forecasts

	Close (07/07)	Prev. Close (30/06)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	102.27	102.91	-0.640	-0.6	102.51	101	98.3	97.5
EURUSD	1.097	1.091	+0.006	+0.5	1.08	1.09	1.12	1.13
GBPUSD	1.284	1.270	+0.014	+1.1	1.23	1.25	1.24	1.26
USDJPY	142.21	144.31	+2.100	+1.5	132.86	140	133	129
USDMYR	4.667	4.667	+0.000	+0.0	4.42	4.64	4.46	4.20
GBPMYR	5.949	5.896	-0.053	-0.9	5.46	5.80	5.53	5.25
JPYMYR	3.283	3.234	-0.050	-1.5	3.33	3.31	3.35	3.26

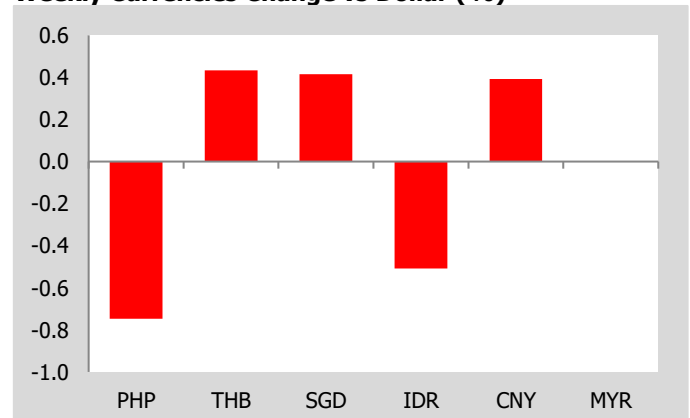
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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:
 - The manufacturing sector remained contractionary while the services sector expanded further. The ISM Manufacturing PMI and S&P Global Manufacturing PMI shrunk further in Jun-23 to 46.0 (May-23: 46.9) and 46.3 (May-23: 48.4), respectively. Meanwhile, the ISM Services PMI and S&P Global Services PMI expanded to 53.9 (May-23: 50.3) and 54.4 (May-23: 54.9), respectively.
 - Tight labour market despite weaker-than-expected Jun-23 job market data. The US job market overall remained tight although job creation was weaker than expected as non-farm payrolls only increased by +209K (May-23: +306K; market forecasts: +225K), the smallest rise since Dec-20. The unemployment rate also fell within market expectations to 3.6% (May-23: 3.7%). Additionally, initial jobless claims for the week ending 1 July 2023 rose more than expected to 248K (previous week: 236K; market forecasts: 245K).
 - Factory orders rose lower than expected. Factory orders rose at +0.3%mom in May-23 (market forecasts: +0.8%mom), the same monthly growth as in Apr-23. Excluding transport, orders generally remained weak falling further by -0.5%mom (Apr-23: -0.6%mom) for the 4th straight month.
 - Exports and imports declined. Exports declined for the third consecutive month in May-23 to USD247.1b (Apr-23: USD249.2b), the lowest level since Mar-22, while imports shrunk to USD316.1b (Apr-23: 323.6b).
- FOMC Jun-23 meeting minutes revealed possibilities of further interest rate hikes. Fed officials agreed that the pause in the Jun-23 decision was to assess the impacts of the previous hikes, and further hikes are likely, albeit at a more moderate pace.
- On monetary policy decisions last week:
 - BNM kept OPR status quo. BNM maintained OPR at 3.0%, conforming to market expectations. However, given the resilience of domestic demand and sticky core inflation, we believe there is available headroom for BNM to consider another hike this year.
 - RBA surprisingly held the rate constant. Reserve Bank of Australia kept the interest rate steady at 4.10% after its Jul-23 decision, against market expectations for another hike of 25bps to 4.35%.
- Activities in Malaysia's manufacturing sector continued to fall. Malaysia's S&P Global Manufacturing PMI remained below 50 (i.e. contraction) in Jun-23 for the 10th month as the index edged down slightly to 47.7 (May-23: 47.8) as local manufacturers reduced output, purchases and employment in view of slowing demand.

C. BNM INTERNATIONAL RESERVES

- As of 30 June 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD111.4b (15 June 2023: USD113.0b).

BNM INTERNATIONAL RESERVES



- The amount of reserves is sufficient to finance 5.0 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	30-Jun Fri	3-Jul Mon	4-Jul Tue	5-Jul Wed	6-Jul Thu	7-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.493	3.485	3.519	3.54	3.5	3.546	5.3
5-Y	3.599	3.644	3.621	3.679	3.702	3.679	8
7-Y	3.732	3.737	3.775	3.805	3.779	3.787	5.5
10-Y	3.853	3.861	3.873	3.887	3.887	3.892	3.9
20-Y	4.102	4.138	4.15	4.129	4.12	4.127	2.5
RINGGIT IRS							
1-Y	3.613	3.615	3.64	3.7	3.675	3.685	7.2
3-Y	3.635	3.63	3.68	3.705	3.685	3.705	7
5-Y	3.675	3.675	3.725	3.725	3.695	3.7475	7.25
7-Y	3.77	3.77	3.83	3.835	3.82	3.851	8.1
10-Y	3.9	3.9	3.95	3.95	3.92	3.95	5
KLIBOR							
1-M	3.18	3.18	3.21	3.4	3.43	3.45	27
3-M	3.45	3.45	3.46	3.51	3.56	3.59	14
UST							
3-Y	4.5273	4.574	4.574	4.6091	4.6703	4.6629	13.56
5-Y	4.1556	4.1874	4.1874	4.2492	4.3468	4.3597	20.41
7-Y	3.9928	4.0216	4.0216	4.0951	4.2007	4.2249	23.21
10-Y	3.8367	3.8545	3.8545	3.9315	4.0291	4.0616	22.49
30-Y	3.8605	3.8632	3.8632	3.9286	3.9997	4.0453	18.48
USD LIBOR							
1-M	5.21771	5.25688	5.25688	5.25981	5.27927	5.27927	6.156
3-M	5.54543	5.53035	5.53035	5.53837	5.54251	5.54251	-0.292

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	30-Jun Yield	7-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.703	3.708	0.5	2,321.2
MALAYSIA GOVERNMENT	3.906	07/15/26	3.493	3.546	5.3	1,147.6
MALAYSIA GOVERNMENT	3.582	07/15/32	3.853	3.892	3.9	1,137.0
MALAYSIA GOVERNMENT	3.478	06/14/24	3.298	3.310	1.2	1,085.1
MALAYSIA GOVERNMENT	3.885	08/15/29	3.755	3.814	5.9	1,067.0
MALAYSIA GOVERNMENT	3.8	08/17/23	3.095	3.038	-5.7	1,030.3
MALAYSIA INVESTMNT ISSU	4.13	07/09/29	3.751	3.851	10.0	818.4
MALAYSIA GOVERNMENT	4.696	10/15/42	4.102	4.127	2.5	753.1
MALAYSIA GOVERNMENT	4.059	09/30/24	3.360	3.408	4.8	750.7
MALAYSIA GOVERNMENT	3.955	09/15/25	3.450	3.470	2.0	682.7
TOTAL VOLUME (TOP 10)						10,793.2
TOTAL VOLUME (Overall)						18,583.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	30-Jun Yield	7-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
SMALL MEDIUM ENT BANK	4.03	03/22/24	N/A	3.672	N/A	110.5
PUBLIC ISLAMIC BANK BHD	4.5	12/17/27	4.079	4.117	3.8	93.4
PROJEK LEBUHRAYA USAHA	5	12/31/38	4.175	4.208	3.3	90.0
DANAINFRA NASIONAL	4.9	04/29/33	N/A	4.018	N/A	80.0
SARAWAK ENERGY BHD	4.27	07/04/33	N/A	4.269	N/A	80.0
DIGI TELECOMMUNICATION	4.05	05/30/30	4.038	4.118	8.0	70.0
AEON CO. (M) BHD	4.28	07/03/26	N/A	4.244	N/A	65.0
TNB POWER GENERATION	4.84	03/27/43	4.399	4.421	2.2	59.5
TENAGA NASIONAL BERHA	3.55	08/10/40	4.430	4.359	-7.1	40.5
DIALOG GROUP BERHAD	4.53	01/28/32	N/A	4.488	N/A	40.0
TOTAL VOLUME (TOP 10)						728.9
TOTAL VOLUME (Overall)						1,830.5

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).
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(A Participating Organisation of Bursa Malaysia Securities Berhad)

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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