

MIDF Strategy 17 July 2023

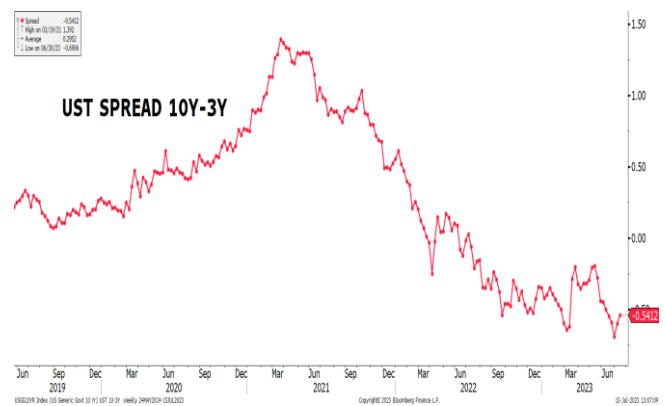
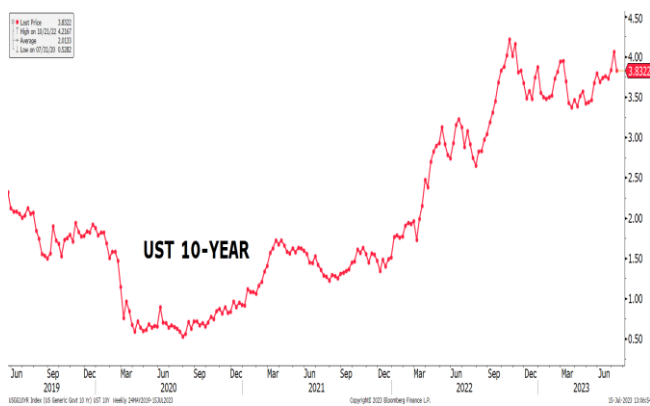
Week Ended 14 July 2023

- The UST market turned bullish with benchmark 10-year yield ended the review week lower at 3.83% (prior week: 4.06%) as investors reacted to slew of economic data pointing to an easing inflationary pressure, i.e. lower-than-expected NFP, CPI and PPI figures in June. The 10y-3y yield spread rebounded but remains deeply inverted at -54bps (prior week: -60bps) as the short-end outperformed. Meanwhile, the interest rate futures market was still implying a 25-bp rate hike in upcoming July FOMC meeting.
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.16% (prior week: 2.23%) arguably in reaction to the payroll and inflation data. The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but stays above its 2.00% target level. Moreover, it is also notable 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.
- Likewise, the price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -18.5bps and -6.5bps to close at 3.36% and 3.83% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 35bps to 47bps as the short-end outperformed.
- MGS foreign holdings increased on-year from RM253b in June 2022 to (an all-time high) RM268b in June 2023. Moreover, it risen on-month from RM263b in May 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM5.93b. It improved on-week from -RM5.95b registered a week ago. However, it slumped on-year from RM8.10b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market turned bullish with benchmark 10-year yield ended the review week lower at 3.83% (prior week: 4.06%) as investors reacted to slew of economic data pointing to an easing inflationary pressure, i.e. lower-than-expected NFP, CPI and PPI figures in June. The 10y-3y yield spread rebounded but remains deeply inverted at -54bps (prior week: -60bps) as the short-end outperformed. Meanwhile, the interest rate futures market was still implying a 25-bp rate hike in upcoming July FOMC meeting.



Source: Bloomberg, MIDFR

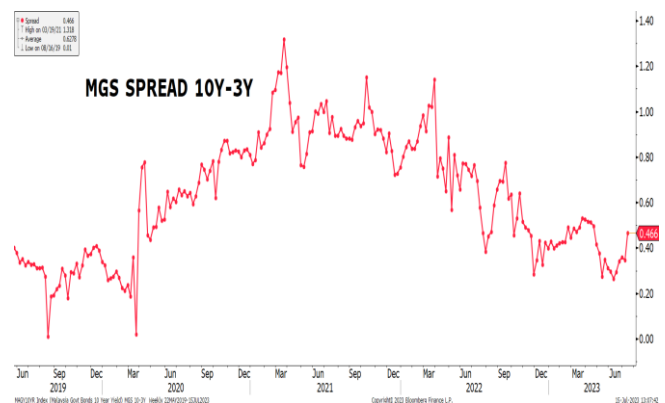
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

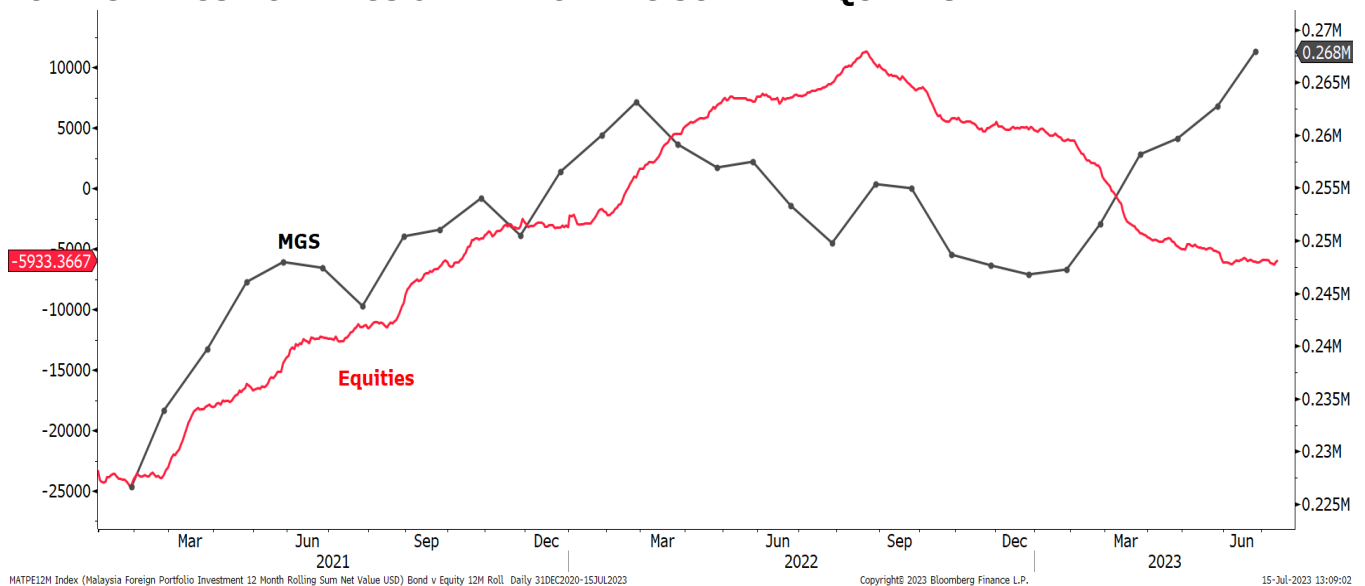
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) soared to RM32.77b in the review week compared to RM18.58b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 64% from 58% of the overall Government Bonds trades. Moreover, 10 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 mid residual tenor. The top 3 most actively traded were MGS 3.8% 8/17/23 at RM4.79b, MGS 3.478% 6/14/24 at RM2.98b, and MII 3.599% 7/31/28 at RM2.13b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM253b in June 2022 to (an all-time high) RM268b in June 2023. Moreover, it risen on-month from RM263b in May 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM5.93b. It improved on-week from -RM5.95b registered a week ago. However, it slumped on-year from RM8.10b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.91b in the review week compared to RM1.83b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 41% from 40% 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 Prasarana 4.64% 3/22/30 at RM170m, Edotco 4.27% 9/9/27 at RM110m, and Danainfra 4.3% 3/31/34 at RM100m.

B. FOREIGN EXCHANGE

- USD plunged to the lowest level in 15 months. The US dollar depreciated against major currencies as the DXY index fell by -2.3%*wow* to 99.91, the weakest weekly closing since Apr-22. The demand for USD haven subsided following a larger-than-expected moderation in inflation in Jun-23. Although another 25bps hike on this month's FOMC is widely expected, appetite for riskier assets returned on the back of rising bets that the Fed will pause after its Jul-23 decision.
- Euro and pound continued rally. Euro and pound appreciated on weaker the weaker dollar by +2.4%*wow* and +2.0%*wow* to USD1.123 and USD1.309, respectively. It was the highest in over 16 months for the euro and the strongest weekly closing for the pound since Apr-22. Besides the greenback weakness, appreciation for both currencies continued to be underpinned by expectations for the ECB and BOE to remain hawkish as inflation remained uncomfortably high.
- Ringgit appreciated to the highest level since May-23. As the dollar dived, the ringgit strengthened by +3.1%*wow* to close the week at RM4.527. The dollar weakness overwhelmed the cloudy outlook of regional trade as, like the ringgit, other regional currencies also gained over the dollar despite the weaker-than-expected China's Jun-23 trade data. Commodity prices also were favourable towards the ringgit as Brent crude oil prices closed +1.8%*wow* higher at USD79.87pb.

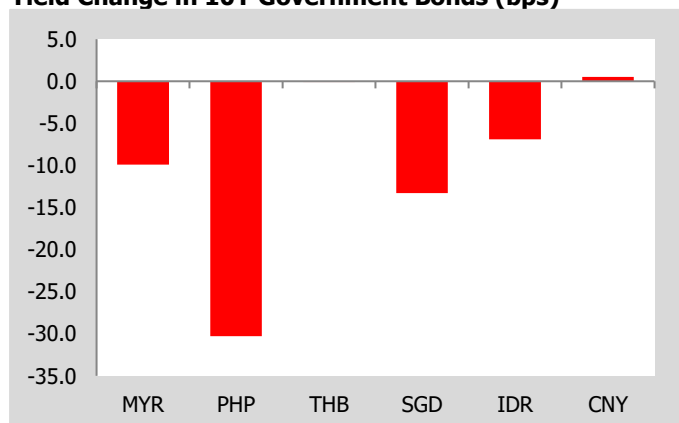
Currencies Changes (Week Ended 14 July 2023) and Quarterly Forecasts

	Close (14/07)	Prev. Close (07/07)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	99.91	102.27	-2.358	-2.3	102.51	101	98.3	97.5
EURUSD	1.123	1.097	+0.026	+2.4	1.08	1.09	1.12	1.13
GBPUSD	1.309	1.284	+0.025	+2.0	1.23	1.25	1.24	1.26
USDJPY	138.8	142.21	+3.410	+2.5	132.86	140	133	129
USDMYR	4.527	4.667	+0.140	+3.1	4.42	4.64	4.46	4.20
GBPMYR	5.936	5.949	+0.013	+0.2	5.46	5.80	5.53	5.25
JPYMYR	3.260	3.283	+0.023	+0.7	3.33	3.31	3.35	3.26

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

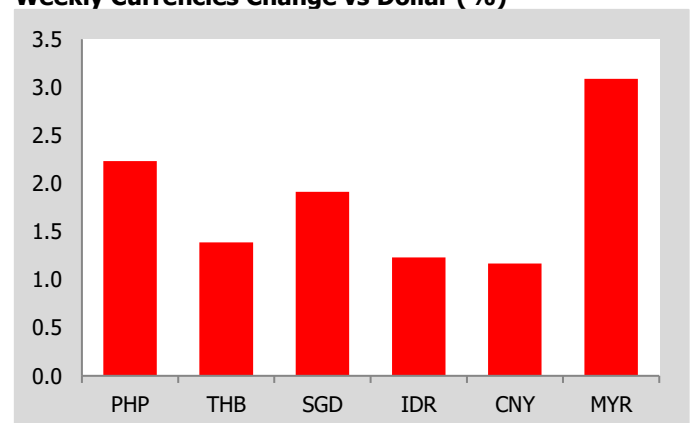
Source: Bloomberg, MIDFR

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:
 - Inflation moderated to an over 2-year low. Headline inflation decelerated in Jun-23 to +3.0%yoy (May-23: +4.0%yoy; market forecasts: +3.1%yoy) while core inflation descended to +4.8%yoy (May-23: +5.3%yoy; market forecasts: +5.0%yoy). Producers' inflation also slowed to +0.1%yoy (May-23: +0.9%yoy; market forecasts: +0.4%yoy), signaling further moderation in consumer prices. Nevertheless, a pause in the Jul-23 interest rate decision is unlikely due to elevated core inflation. However, the easing inflation and cooling labour market leave smaller headroom for another consecutive hike.
 - The hot labour market continued to cool down. Initial Jobless Claims for the week ending 8th Jul-23 declined to 237K (previous week: 249K; market forecasts: 250K), indicating further easing after weaker-than-expected payroll data last week.
 - Increased economic pessimism, but small businesses remained optimistic. TIPP Economic Optimism Index declined to 41.3 in Jul-23, the lowest in 8-month and way under market expectations of 45.3. Meanwhile, NFIB Small Business Optimism Index rose to 7-month high at 91.0, higher than the market consensus of 89.9.
 - Consumer sentiment improved. The University of Michigan consumer sentiment for the US rose to the highest level since Sep-21 to 72.6 in Jul-23. The ascend is mainly attributed to the softer inflation and stability in the labour market.

- The Bank of Korea kept the rate status quo. The BOK unsurprisingly kept the rate steady for the fourth consecutive meeting at 3.5%.

- Malaysia's economic releases last week:
 - Retail trade growth moderated to more than 1-year low in May-23. Retail trade growth recorded at +5%yoy, the slowest since Jan-22. However, overall distributive trade sales growth improved from 16-month low in Apr-23 to +6.6%yoy. The slower retail trade growth is likely due to post-festive season effects due to Ramadhan and Aidilfitri.
 - IPI performance improved by +4.7%yoy in May-23, the fastest growth rate since Dec-22 and significantly above market expectations of +0.5%yoy. The recovery was largely contributed by the manufacturing output turnaround, which rose by +5.1%yoy and increased electricity generation. The increased electricity generation reflected higher energy consumption on the back of a pick-up in business activities.

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	7-Jul Fri	10-Jul Mon	11-Jul Tue	12-Jul Wed	13-Jul Thu	14-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.546	3.482	3.489	3.433	3.407	3.361	-18.5
5-Y	3.679	3.656	3.611	3.589	3.576	3.553	-12.6
7-Y	3.787	3.787	3.782	3.729	3.695	3.736	-5.1
10-Y	3.892	3.9	3.876	3.86	3.8	3.827	-6.5
20-Y	4.127	4.131	4.124	4.107	4.077	4.055	-7.2
RINGGIT IRS							
1-Y	3.685	3.68	3.65	3.625	3.575	3.57	-11.5
3-Y	3.705	3.69	3.66	3.635	3.575	3.57	-13.5
5-Y	3.7475	3.733	3.685	3.675	3.605	3.61	-13.75
7-Y	3.851	3.825	3.78	3.775	3.707	3.71	-14.1
10-Y	3.95	3.93	3.89	3.885	3.803	3.82	-13
KLIBOR							
1-M	3.45	3.45	3.46	3.45	3.42	3.37	-8
3-M	3.59	3.61	3.61	3.59	3.56	3.53	-6
UST							
3-Y	4.6629	4.5443	4.5475	4.3818	4.2446	4.3734	-28.95
5-Y	4.3597	4.2355	4.2285	4.0734	3.9472	4.047	-31.27
7-Y	4.2249	4.1272	4.1088	3.9726	3.8608	3.9389	-28.6
10-Y	4.0616	3.9938	3.97	3.8573	3.7634	3.8322	-22.94
30-Y	4.0453	4.032	4.0073	3.9473	3.9009	3.9278	-11.75
USD LIBOR							
1-M	5.29149	5.30834	5.31091	5.3167	5.33612	5.33612	4.463
3-M	5.56008	5.56111	5.5627	5.57266	5.56957	5.56957	0.949

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	7-Jul Yield	14-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.8	08/17/23	3.038	3.026	-1.2	4,791.4
MALAYSIA GOVERNMENT	3.478	06/14/24	3.310	3.065	-24.5	2,979.3
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.708	3.610	-9.8	2,129.9
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.539	3.429	-11.0	1,836.6
MALAYSIA GOVERNMENT	3.582	07/15/32	3.892	3.827	-6.5	1,815.3
MALAYSIA GOVERNMENT	3.882	03/14/25	3.453	3.193	-26.0	1,721.9
MALAYSIA GOVERNMENT	3.519	04/20/28	3.679	3.553	-12.6	1,608.8
MALAYSIA GOVERNMENT	4.642	11/07/33	3.943	3.813	-13.0	1,584.2
MALAYSIA GOVERNMENT	4.059	09/30/24	3.408	3.235	-17.3	1,489.5
MALAYSIA GOVERNMENT	3.955	09/15/25	3.470	3.253	-21.7	1,143.3
TOTAL VOLUME (TOP 10)						21,100.1
TOTAL VOLUME (Overall)						32,771.0

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	7-Jul Yield	14-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
PRASARANA MALAYSIA BHD	4.64	03/22/30	N/A	3.888	N/A	170.0
EDOTCO MALAYSIA SDN BH	4.27	09/09/27	N/A	4.047	N/A	110.0
DANAINFRA NASIONAL	4.3	03/31/34	N/A	4.098	N/A	100.0
DANAINFRA NASIONAL	4.8	11/25/33	N/A	3.999	N/A	80.0
PROJEK LEBUHRAYA USAHA	4.58	01/11/30	4.050	4.098	4.8	60.0
PENGURUSAN AIR SPV BHD	4.51	04/04/31	4.209	4.148	-6.1	60.0
PROJEK LEBUHRAYA USAHA	4.96	01/12/29	N/A	4.068	N/A	60.0
DANAINFRA NASIONAL	4.63	11/23/29	N/A	3.898	N/A	55.0
TENAGA NASIONAL BERHA	4.78	08/29/33	4.289	4.228	-6.1	50.0
SARAWAK ENERGY BHD	4.75	08/18/25	N/A	3.847	N/A	40.0
TOTAL VOLUME (TOP 10)						785.0
TOTAL VOLUME (Overall)						1,907.8

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