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MIDF AMANAH INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

# MIDF Strategy 24 July 2023

## Week Ended 21 July 2023

- The UST market saw some profit taking activities with benchmark 10-year yield ended the review week a tad higher at 3.84% (prior week: 3.83%) as investors contemplated the probable path for interest rates ahead of the FOMC meeting later this week. The 10y-3y yield spread inverted deeper at -60bps (prior week: -54bps) as the short-end underperformed. Meanwhile, the interest rate futures market was implying a final 25-bp rate hike in July.

- Medium-term inflation expectation (MTIE) ended higher week-on-week at 2.24% (prior week: 2.16%) as the market assessed the post-pause inflation scenario. The MTIE nonetheless 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 lower with the 3-year and 10-year yields added 3.7bps and 0.2bp to close at 3.40% and 3.83% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 47bps to 43bps as the short-end underperformed.

- 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 -RM5.38b. It improved on-week from -RM5.93b registered a week ago. However, it slumped on-year from RM8.38b a year ago.

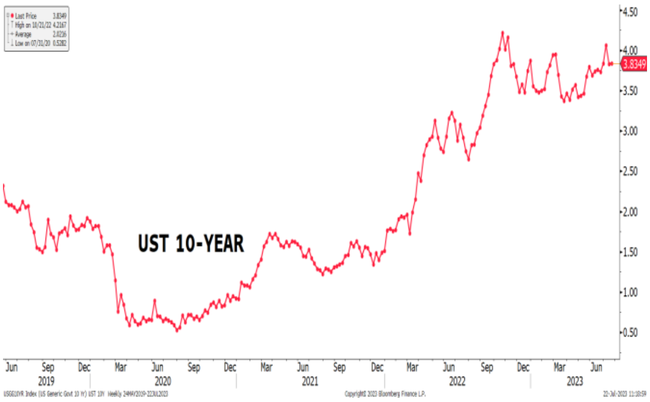
**24 July 2023 | Strategy**

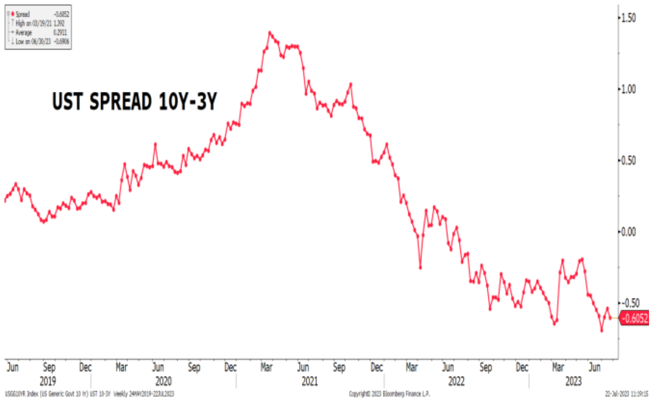
Strategy Team | research@midf.com.my

# Weekly Money Review

## A. FIXED INCOME

- The UST market saw some profit taking activities with benchmark 10-year yield ended the review week a tad higher at 3.84% (prior week: 3.83%) as investors contemplated the probable path for interest rates ahead of the FOMC meeting later this week. The 10y-3y yield spread inverted deeper at -60bps (prior week: -54bps) as the short-end underperformed. Meanwhile, the interest rate futures market was implying a final 25-bp rate hike in July.



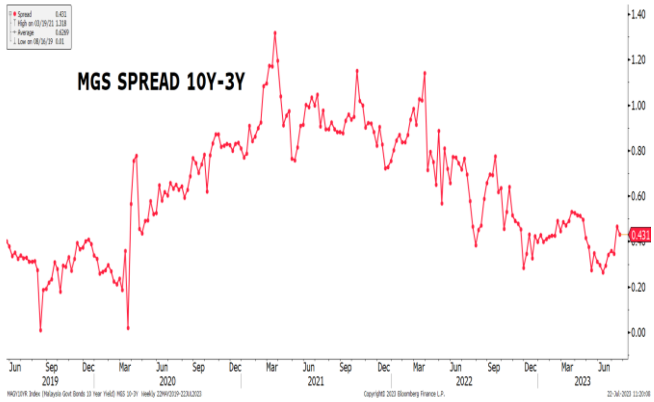

Source: Bloomberg, MIDFR

- Medium-term inflation expectation (MTIE) ended higher week-on-week at 2.24% (prior week: 2.16%) as the market assessed the post-pause inflation scenario. The MTIE nonetheless 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.

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


Source: Bloomberg, MIDFR

- Likewise, the price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 3.7bps and 0.2bp to close at 3.40% and 3.83% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 47bps to 43bps as the short-end underperformed.

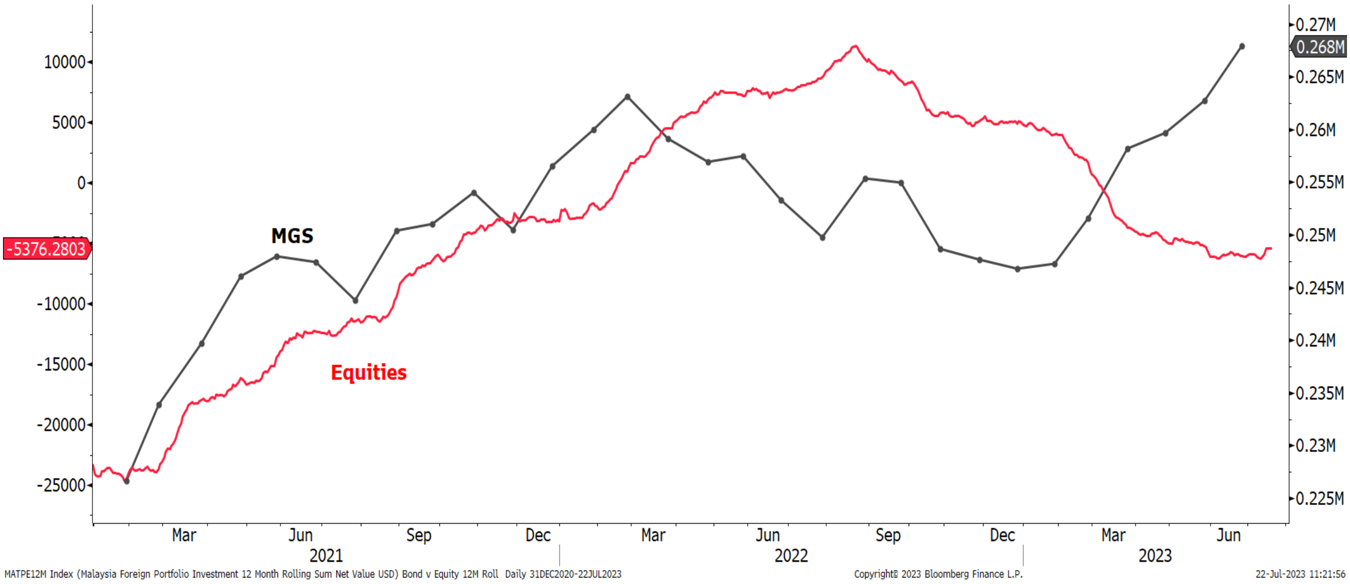




Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM22.34b in the review week compared to RM32.77b 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 64% of the overall Government Bonds trades. Moreover, 6 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 varied residual tenor. The top 3 most actively traded were MGS 3.478% 6/14/24 at RM2.56b, MGS 3.757% 5/22/40 at RM2.34b, and MGS 3.733% 6/15/28 at RM2.14b.

**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 -RM5.38b. It improved on-week from -RM5.93b registered a week ago. However, it slumped on-year from RM8.38b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.89b in the review week compared to RM1.91b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged vis-à-vis the prior week at 41% 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 Prasarana 4.75% 2/26/31 at RM235m, Maybank 3.41% 8/5/31 at RM120m, and Public Bank 3.93% 4/7/32 at RM100m.

## B. FOREIGN EXCHANGE

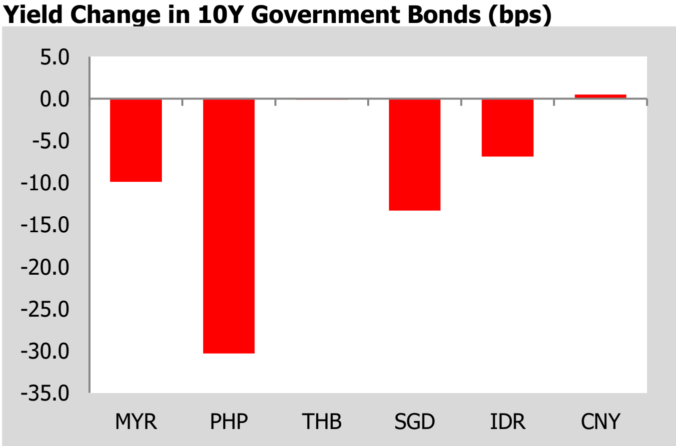
- USD ended two weeks losing streak. The US dollar reversed some of its losses last week as the DXY index rose by +1.2%wow to 101.07. The greenback appreciated on the back of renewed expectations for a still hawkish Fed ahead of the Jul-23 interest rate decision, driving higher demand for the dollar.
- Euro and pound weakened. Following the strength in US dollars, euro and pound depreciated by -0.9%wow to USD1.112 and -1.8%wow to USD1.285, respectively. The euro started the week at the highest level since Feb-22 but weakened as inflation moderated within market expectations. Similarly, the pound sterling also depreciated on a faster-than-expected descent in inflation.
- Ringgit depreciated against the USD. As the dollar recovered some of its loss from the previous week, the ringgit depreciated by -0.8%wow to RM4.563. Ringgit depreciation was also underpinned by less encouraging economic data following sluggish external trade in Jun-23 and a slower-than-expected China's 2QCY23 GDP growth. The higher commodity prices failed to prop up the ringgit as Brent crude oil prices closed +1.5%wow higher at USD81.07pb.

**Currencies Changes (Week Ended 21 July 2023) and Quarterly Forecasts**

| | Close (21/07) | Prev. Close (14/07) | Weekly Change | Weekly Change (%) | 1QCY23 | 2QCY23f | 3QCY23f | 4QCY23f |
|---|---|---|---|---|---|---|---|---|
| DXY Index | 101.07 | 99.91 | +1.157 | +1.2 | 102.51 | 101 | 98.3 | 97.5 |
| EURUSD | 1.112 | 1.123 | -0.010 | -0.9 | 1.08 | 1.09 | 1.12 | 1.13 |
| GBPUSD | 1.285 | 1.309 | -0.024 | -1.8 | 1.23 | 1.25 | 1.24 | 1.26 |
| USDJPY | 141.73 | 138.8 | -2.930 | -2.1 | 132.86 | 140 | 133 | 129 |
| USDMYR | 4.563 | 4.527 | -0.036 | -0.8 | 4.42 | 4.64 | 4.46 | 4.20 |
| GBPMYR | 5.871 | 5.936 | +0.065 | +1.1 | 5.46 | 5.80 | 5.53 | 5.25 |
| JPYMYR | 3.218 | 3.260 | +0.042 | +1.3 | 3.33 | 3.31 | 3.35 | 3.26 |

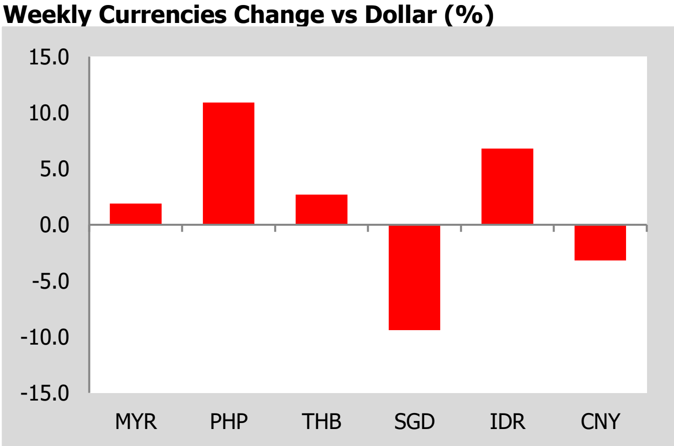
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

**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:
  - Retail sales growth slowed in Jun-23. Retail sales rose +1.5%yoy in Jun-23, lower than +2.0%yoy in May-23 and market expectations of +1.6%yoy.
  - Job market remained tight. Initial jobless claims for the week ending 15 July 2023 descended to 228K (previous week: 237K; market forecasts: 242K), marking a third consecutive decline.
  - Industrial and manufacturing production contracted. Industrial production shrank by -0.4%yoy in Jun-23 (May-23: +0.0%yoy), the first contraction since Feb-21 and significantly undershooting market expectations of +1.1%yoy. Meanwhile, manufacturing output marked $4^{th}$ consecutive month of decline, falling -0.3%yoy (May-23: -0.4%yoy).
  - Leading index signalled weaker growth momentum. Conference Board Leading Index fell further in Jun-23 by -0.7%mom, steeper than both May-23's and market forecasts of -0.6%mom.

- China's central bank kept lending rates status quo. In line with market expectations, PBOC kept the 1-year and 5-year loan prime rates (LPR) steady at 3.55% and 4.20%, respectively, in Jul-23.

- Malaysia's external trade plunged in Jun-23. Total trade remained below last year, falling sharper at -6.3%yoy in Jun-23 (May-23: -2.2%yoy), with both exports and imports falling at sharper pace of -14.1%yoy and -18.9%yoy (May-23: -0.8%yoy and -3.7%yoy), respectively.

## 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**


Source: Bloomberg, MIDFR

- 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 | 14-Jul Fri | 17-Jul Mon | 18-Jul Tue | 19-Jul Wed | 20-Jul Thu | 21-Jul Fri | Change (WoW bp) |
|---|---|---|---|---|---|---|---|
| MGS | | | | | | | |
| 3-Y | 3.361 | 3.356 | 3.382 | 3.382 | 3.396 | 3.398 | 3.7 |
| 5-Y | 3.553 | 3.564 | 3.553 | 3.553 | 3.553 | 3.576 | 2.3 |
| 7-Y | 3.736 | 3.711 | 3.702 | 3.702 | 3.751 | 3.739 | 0.3 |
| 10-Y | 3.827 | 3.813 | 3.81 | 3.81 | 3.812 | 3.829 | 0.2 |
| 20-Y | 4.055 | 4.062 | 4.069 | 4.069 | 4.048 | 4.069 | 1.4 |
| RINGGIT IRS | | | | | | | |
| 1-Y | 3.57 | 3.575 | 3.57 | 3.57 | 3.56 | 3.58 | 1 |
| 3-Y | 3.57 | 3.58 | 3.57 | 3.57 | 3.575 | 3.59 | 2 |
| 5-Y | 3.61 | 3.62 | 3.6 | 3.6 | 3.61 | 3.625 | 1.5 |
| 7-Y | 3.71 | 3.725 | 3.711 | 3.711 | 3.725 | 3.733 | 2.3 |
| 10-Y | 3.82 | 3.85 | 3.815 | 3.815 | 3.82 | 3.832 | 1.2 |
| KLIBOR | | | | | | | |
| 1-M | 3.37 | 3.33 | 3.29 | 3.29 | 3.28 | 3.28 | -9 |
| 3-M | 3.53 | 3.52 | 3.5 | 3.5 | 3.49 | 3.49 | -4 |
| UST | | | | | | | |
| 3-Y | 4.3734 | 4.3395 | 4.3478 | 4.3392 | 4.446 | 4.4401 | 6.67 |
| 5-Y | 4.047 | 4.0189 | 4.0066 | 3.9855 | 4.1017 | 4.093 | 4.6 |
| 7-Y | 3.9389 | 3.9129 | 3.8999 | 3.8713 | 3.9835 | 3.9654 | 2.65 |
| 10-Y | 3.8322 | 3.8068 | 3.7853 | 3.7483 | 3.8503 | 3.8349 | 0.27 |
| 30-Y | 3.9278 | 3.9287 | 3.8945 | 3.8397 | 3.9084 | 3.8974 | -3.04 |
| USD LIBOR | | | | | | | |
| 1-M | 5.34442 | 5.36059 | 5.36905 | 5.37805 | 5.40582 | 5.40582 | 6.14 |
| 3-M | 5.5715 | 5.58173 | 5.58775 | 5.59513 | 5.60718 | 5.60718 | 3.568 |

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name | Coupon | Maturity | 14-Jul Yield | 21-Jul Yield | Change (WoW bp) | Weekly Volume (RM mn) |
|---|---|---|---|---|---|---|
| MALAYSIA GOVERNMENT | 3.478 | 06/14/24 | 3.065 | 2.970 | -9.5 | 2,561.2 |
| MALAYSIA GOVERNMENT | 3.757 | 05/22/40 | 4.062 | 4.116 | 5.4 | 2,342.8 |
| MALAYSIA GOVERNMENT | 3.733 | 06/15/28 | 3.553 | 3.597 | 4.4 | 2,140.0 |
| MALAYSIA GOVERNMENT | 4.059 | 09/30/24 | 3.235 | 3.188 | -4.7 | 1,792.6 |
| MALAYSIA GOVERNMENT | 3.8 | 08/17/23 | 3.026 | 2.807 | -21.9 | 1,783.0 |
| MALAYSIA GOVERNMENT | 4.181 | 07/15/24 | 3.098 | 3.076 | -2.2 | 1,630.1 |
| MALAYSIA GOVERNMENT | 3.882 | 03/14/25 | 3.193 | 3.192 | -0.1 | 1,199.9 |
| MALAYSIA INVESTMNT ISSU | 4.245 | 09/30/30 | 3.733 | 3.805 | 7.2 | 921.7 |
| MALAYSIA GOVERNMENT | 4.642 | 11/07/33 | 3.813 | 3.829 | 1.6 | 790.4 |
| MALAYSIA GOVERNMENT | 4.392 | 04/15/26 | 3.390 | 3.387 | -0.3 | 560.2 |
| TOTAL VOLUME (TOP 10) | | | | | | 15,721.7 |
| TOTAL VOLUME (Overall) | | | | | | 22,337.3 |

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name | Coupon | Maturity | 14-Jul Yield | 21-Jul Yield | Change (WoW bp) | Weekly Volume (RM mn) |
|---|---|---|---|---|---|---|
| PRASARANA MALAYSIA BHD | 4.75 | 02/26/31 | N/A | 3.919 | N/A | 235.0 |
| MALAYAN BANKING BHD | 3.41 | 08/05/31 | 3.718 | 3.692 | -2.6 | 120.0 |
| PUBLIC BANK BERHAD | 3.93 | 04/07/32 | N/A | 3.999 | N/A | 100.0 |
| PRASARANA MALAYSIA BHD | 4.97 | 12/11/30 | N/A | 3.898 | N/A | 80.0 |
| PROJEK LEBUHRAYA USAHA | 4.68 | 01/12/32 | 4.149 | 4.128 | -2.1 | 45.0 |
| KHAZANAH NASIONAL BHD | ZERO | 08/14/23 | 3.296 | 3.300 | 0.4 | 40.0 |
| TENAGA NASIONAL BERHA | 4.78 | 08/29/33 | 4.228 | 4.209 | -1.9 | 40.0 |
| MALAYAN BANKING BHD | 2.9 | 10/09/30 | 3.290 | 3.274 | -1.6 | 40.0 |
| PROJEK LEBUHRAYA USAHA | 5.07 | 01/10/31 | 4.168 | 4.138 | -3.0 | 40.0 |
| PENGURUSAN AIR SELANGO | 4.89 | 04/19/38 | 4.499 | 4.410 | -8.9 | 40.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 780.0 |
| TOTAL VOLUME (Overall) | | | | | | 1,890.9 |

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 *rise* 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 *fall* 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 |