

MIDF Strategy 31 July 2023

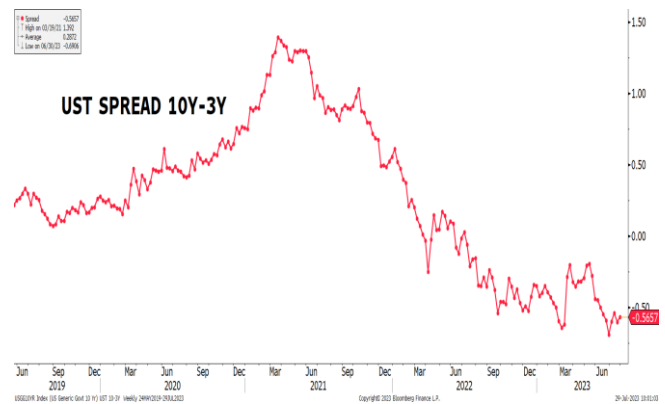
Week Ended 28 July 2023

- The UST market saw further profit taking activities with benchmark 10-year yield ended the review week higher at 3.95% (prior week: 3.84%) as investors reacted to stronger than anticipated US GDP growth in 2Q23 (actual: 2.4%qoq; estimate: 1.8%qoq). The 10y-3y yield spread rebounded but remains deeply inverted at -57bps (prior week: -60bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying a terminal fed rate of 5.50% after the widely expected 25-bp rate hike last week.
- Medium-term inflation expectation (MTIE) ended higher week-on-week at 2.31% (prior week: 2.24%) arguably in reaction to the higher-than-expected GDP growth data. The MTIE is back within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. Nonetheless, 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.
- Likewise, the price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 10.1bps and 0.5bp to close at 3.50% and 3.83% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 43bps to 34bps 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 -RM5.00b. It improved on-week from -RM5.38b registered a week ago. However, it slumped on-year from RM8.74b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market saw further profit taking activities with benchmark 10-year yield ended the review week higher at 3.95% (prior week: 3.84%) as investors reacted to stronger than anticipated US GDP growth in 2Q23 (actual: 2.4%qoq; estimate: 1.8%qoq). The 10y-3y yield spread rebounded but remains deeply inverted at -57bps (prior week: -60bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying a terminal fed rate of 5.50% after the widely expected 25-bp rate hike last week.



Source: Bloomberg, MIDFR

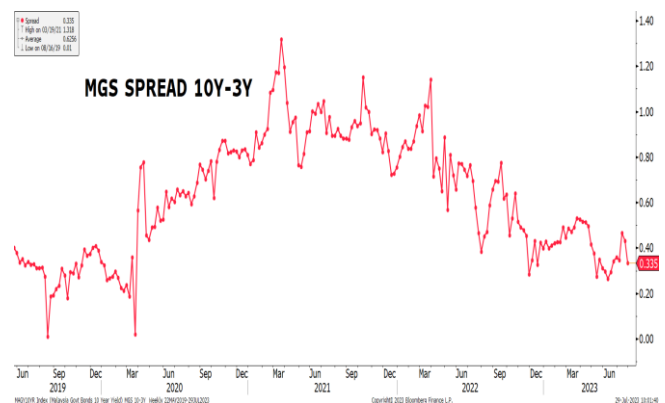
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM15.96b in the review week compared to RM22.34b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 67% 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 short and long residual tenor. The top 3 most actively traded were MGS 3.478% 6/14/24 at RM2.26b, MGS 4.642% 11/7/33 at RM1.94b, and MGS 3.8% 8/17/23 at RM1.22b.

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 -RM5.00b. It improved on-week from -RM5.38b registered a week ago. However, it slumped on-year from RM8.74b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.64b in the review week compared to RM1.89b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 35% from 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 PLUS 5% 12/31/38 at RM190m, PTPTN 4.22% 2/28/28 at RM180m, and Prasarana 4.97% 2/26/36 at RM180m.

B. FOREIGN EXCHANGE

- USD continued its rally into the second week. The US dollars continued appreciating against major currencies as the DXY index rose +0.5%wow to 101.62. The dollar initially weakened and fell to 1-week low of 100.89 on Wednesday as market priced in no more hike by the Fed after the +25bps hike last week. However, despite the moderation in the core PCE inflation in Jun-23, demand for the dollar increased again mainly because resilience in the US economy following higher-than-expected GDP growth in 2QCY23 led to renewed possibility of another hike.
- Euro depreciated while the pound remained virtually unchanged. As the dollar strengthened, euro weakened against the USD for the second consecutive week by -1.0%wow to USD1.102. Despite another +25bps hike by the ECB last week, the euro continued to plunge as ECB hinted at a possible pause in Sep-23 on rising recession woes. Meanwhile, the pound sterling ended the week unchanged at USD1.285 although it weakened to USD1.280 last Thursday when dollar strengthened after the strong US GDP data. However, pound sterling regained some of the losses when USD depreciated after the sharper-than-expected moderation in US inflation. Moreover, expectations for further hike by the BOE, which will be meeting later this week, continued to lend support to pound sterling.
- Ringgit rebounded against the USD. Ringgit appreciated against the greenback by +0.2%wow to RM4.555. Like other currencies, ringgit strengthened to over 10 weeks high of RM4.524 on Thursday after the Fed's decision to hike by +25bps last Wednesday which was broadly in line with market expectations. However, ringgit reversed some its gains following the strengthening of US dollars. Commodity prices were also favourable towards the ringgit performance as Brent crude oil prices rose +4.8%wow to USD84.99pb.

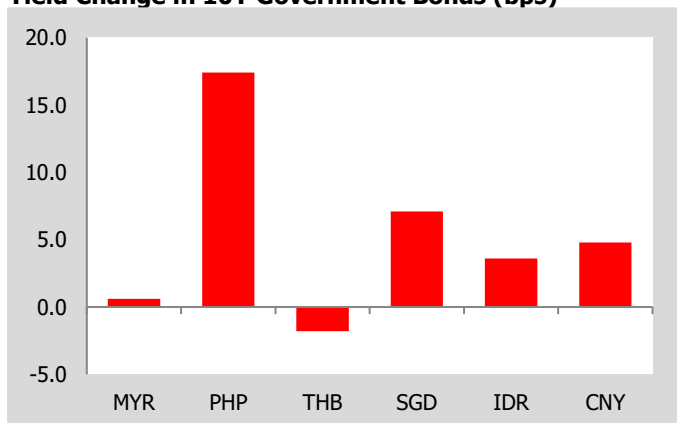
Currencies Changes (Week Ended 28 July 2023) and Quarterly Forecasts

	Close (28/07)	Prev. Close (21/07)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	101.62	101.07	+0.551	+0.5	102.51	101	98.3	97.5
EURUSD	1.102	1.112	-0.011	-1.0	1.08	1.09	1.12	1.13
GBPUSD	1.285	1.285	-0.000	-0.0	1.23	1.25	1.24	1.26
USDJPY	141.16	141.73	+0.570	+0.4	132.86	140	133	129
USDMYR	4.555	4.563	+0.008	+0.2	4.42	4.64	4.46	4.20
GBPMYR	5.839	5.871	+0.033	+0.6	5.46	5.80	5.53	5.25
JPYMYR	3.227	3.218	-0.009	-0.3	3.33	3.31	3.35	3.26

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

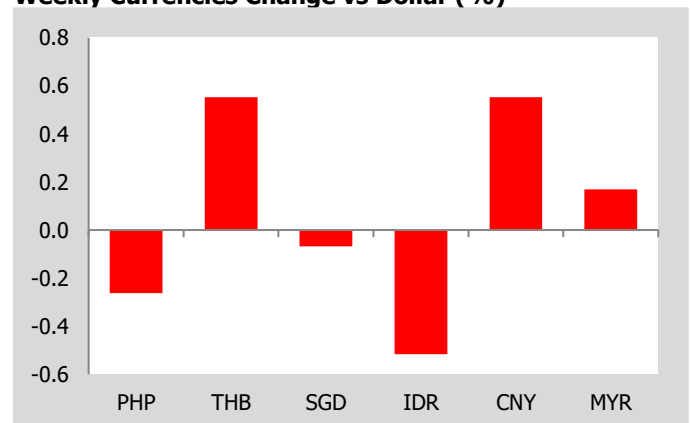
Source: Bloomberg, MIDFR

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	4.25
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	5.25-5.50

Source: Bloomberg, MIDFR

- US economic data released last week:
 - The manufacturing sector remained in contraction while the services sector expanded. The S&P Global US Manufacturing PMI improved but remained in contractionary territory at 49.0 in Jul-23, exceeding market expectations (Jun-23: 46.3; market forecasts: 46.2). Meanwhile, S&P Global US Services PMI remained in expansionary territory albeit declining more than market expectations at 52.4 (Jun-23: 54.4; market forecasts: 54.0).
 - The job market remained hot. Initial jobless claims for the week ending 22 July 2023 dropped to 5-month low at 221K (previous: 228K; market forecasts: 235K).
 - GDP growth exceeded expectations. US GDP grew +2.4%qoq on annualized basis in 2QCY23 (1QCY23: +2.0%qoq), overshooting market expectations of +1.8%qoq growth.
 - Consumer confidence rose. CB Consumer Confidence Index rose in Jul-23 to 117.0 (Jun-23: 110.1), the highest level in 2 years and significantly higher than market expectations of 111.8.
 - PCE inflation moderated to the lowest level in over two years. PCE inflation descended to +3.0%yoy in Jun-23, well within market expectations and the slowest rise since Mar-21 (May-23: +3.8%yoy; market expectations: +3.0%yoy). PCE core inflation moderated more than market consensus at +4.1%yoy (Jun-23: +4.6%yoy; market forecasts: +4.2%yoy).
 - Consumer spending rose in Jun-23. On the back of the resilience in 2Q GDP, personal spending rose +0.5%mom in Jun-23 (May-23: +0.2%mom), stronger than +0.4%mom predicted by market consensus.
- On monetary policy decisions last week:
 - Bank Indonesia kept the rate steady for the 6th consecutive meeting. Bank Indonesia unsurprisingly kept the rate steady at 5.75% in its Jul-23 interest rate decision.
 - Fed raised hiked by 25bps. In a widely expected decision, the Fed hiked the interest rate by another 25bps to 5.25%-5.50% in Jul-23 FOMC.
 - ECB continued its tightening sequence. As the market expected, the ECB raised the interest rate by another 25bps to 4.25% last week which was the 9th consecutive rate hike.
 - Surprise tweak to BOJ yield curve control. Although BOJ kept the its policy rate status quo at -0.1% and maintained the guidance for 10-year government bond to move around 0.5%point around the yield target of 0% after its Jul-23 monetary policy meeting last week, but market was surprised by the BOJ's decision shifting the yield target as "reference" rather than "rigid limits." This follows signals from the BOJ which is seen to allow greater tolerance for the 10-year JGB yield to increase to as high as 1.0%.
- Malaysia's inflation continued on a moderating trend. Headline inflation rate moderated to +2.4%yoy in Jun-23, the slowest rate since Apr-22. The core inflation rate remained sticky at +3.1%yoy (May-23: +3.5%yoy). Meanwhile, producer price inflation contracted for the 5th straight month by -4.8%yoy in Jun-23 (May-23: -4.6%yoy), the sharpest PPI deflation in 3 years.

C. BNM INTERNATIONAL RESERVES

- As of 14 July 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD111.8b (30 June 2023: USD111.4b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.1 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	21-Jul Fri	24-Jul Mon	25-Jul Tue	26-Jul Wed	27-Jul Thu	28-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.398	3.406	3.409	3.432	3.415	3.499	10.1
5-Y	3.576	3.583	3.582	3.593	3.562	3.623	4.7
7-Y	3.739	3.734	3.75	3.758	3.724	3.756	1.7
10-Y	3.829	3.801	3.818	3.813	3.8	3.834	0.5
20-Y	4.069	4.087	4.09	4.09	4.101	4.117	4.8
RINGGIT IRS							
1-Y	3.58	3.585	3.575	3.595	3.595	3.645	6.5
3-Y	3.59	3.59	3.595	3.62	3.615	3.66	7
5-Y	3.625	3.615	3.645	3.67	3.66	3.73	10.5
7-Y	3.733	3.73	3.75	3.775	3.765	3.82	8.7
10-Y	3.832	3.84	3.86	3.89	3.87	3.94	10.8
KLIBOR							
1-M	3.28	3.27	3.27	3.27	3.27	3.27	-1
3-M	3.49	3.49	3.49	3.5	3.5	3.51	2
UST							
3-Y	4.4401	4.5109	4.5279	4.4881	4.582	4.5164	7.63
5-Y	4.093	4.1515	4.1676	4.1163	4.2388	4.1774	8.44
7-Y	3.9654	4.0153	4.0312	4.0023	4.1371	4.0751	10.97
10-Y	3.8349	3.8725	3.8845	3.8668	3.9982	3.9507	11.58
30-Y	3.8974	3.9223	3.9288	3.9344	4.039	4.0105	11.31
USD LIBOR							
1-M	5.41247	5.41986	5.43	5.43185	5.43313	5.43313	2.066
3-M	5.61282	5.61225	5.61897	5.6272	5.63073	5.63073	1.791

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	21-Jul Yield	28-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.478	06/14/24	2.970	3.122	15.2	2,264.5
MALAYSIA GOVERNMENT	4.642	11/07/33	3.829	3.834	0.5	1,941.9
MALAYSIA GOVERNMENT	3.8	08/17/23	2.807	3.112	30.5	1,220.8
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.805	3.790	-1.5	1,217.6
MALAYSIA GOVERNMENT	4.181	07/15/24	3.076	3.233	15.7	1,018.9
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.643	3.661	1.8	805.2
MALAYSIA GOVERNMENT	3.582	07/15/32	3.881	3.893	1.2	765.3
MALAYSIA GOVERNMENT	4.498	04/15/30	3.739	3.756	1.7	476.3
MALAYSIA GOVERNMENT	4.457	03/31/53	4.156	4.190	3.4	469.7
MALAYSIA GOVERNMENT	3.906	07/15/26	3.398	3.499	10.1	446.2
TOTAL VOLUME (TOP 10)						10,626.5
TOTAL VOLUME (Overall)						15,963.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	21-Jul Yield	28-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
PROJEK LEBUHRAYA USAHA	5	12/31/38	4.208	4.148	-6.0	190.0
PERBADANAN TABUNG PEN	4.22	02/28/28	N/A	3.745	N/A	180.0
PRASARANA MALAYSIA BHD	4.97	02/26/36	4.149	4.061	-8.8	180.0
DANAINFRA NASIONAL	4.53	04/07/37	N/A	4.099	N/A	160.0
CAGAMAS BERHAD	4.62	11/04/27	N/A	3.913	N/A	150.0
PRASARANA MALAYSIA BHD	4.58	08/29/28	N/A	3.761	N/A	90.0
PROJEK LEBUHRAYA USAHA	4.56	01/12/24	3.742	3.727	-1.5	90.0
CAGAMAS BERHAD	4.5	12/27/27	N/A	3.915	N/A	85.0
HSBC AMANAH MALAYSIA B	4.3	10/02/23	3.581	3.487	-9.4	80.0
PRO LINTASAN SUNGAI BES	6.48	11/26/27	N/A	5.608	N/A	80.0
TOTAL VOLUME (TOP 10)						1,285.0
TOTAL VOLUME (Overall)						3,642.5

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