

## MIDF Strategy 7 August 2023

### Week Ended 4 August 2023

- The UST market ended mixed during the review week. It saw buying activities at the shorter end and further profit taking at the longer end with benchmark 10-year yield closed higher at 4.03% (prior week: 3.95%) as investors reacted to Fitch Ratings downgrade of the US long-term foreign currency issuer default rating. The 10y-3y yield spread rebounded but remains deeply inverted at -41bps (prior week: -57bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying a terminal fed rate at 5.50% after the widely expected 25-bp rate hike two weeks ago.
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.28% (prior week: 2.31%) arguably in reaction to lower June PCE and softer July NFP data. The MTIE however remains within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. It is also notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. We reckon the market is convinced the inflation pressure (while stubborn) is gradually ebbing.
- Similarly, the price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields shed -0.9bp and added 3.3bp to close at 3.49% and 3.87% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 34bps to 38bps as the long-end underperformed.
- MGS foreign holdings increased on-year from RM253b in June 2022 to (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 -RM5.16b. It worsened on-week from -RM5.00b registered a week ago. Moreover, it slumped on-year from RM9.59b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- The UST market ended mixed during the review week. It saw buying activities at the shorter end and further profit taking at the longer end with benchmark 10-year yield closed higher at 4.03% (prior week: 3.95%) as investors reacted to Fitch Ratings downgrade of the US long-term foreign currency issuer default rating. The 10y-3y yield spread rebounded but remains deeply inverted at -41bps (prior week: -57bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying a terminal fed rate at 5.50% after the widely expected 25-bp rate hike two weeks ago.



Source: Bloomberg, MIDFR

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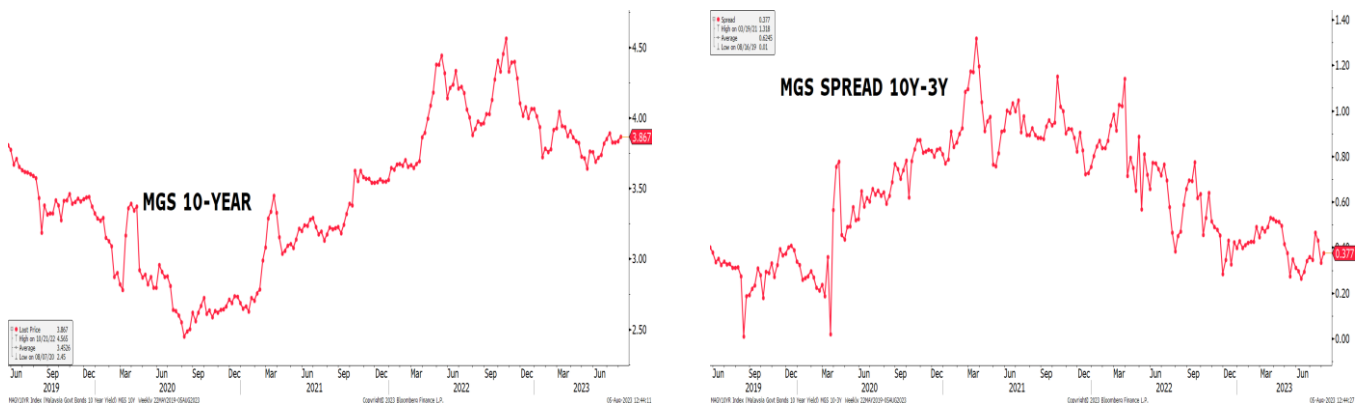
### MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR



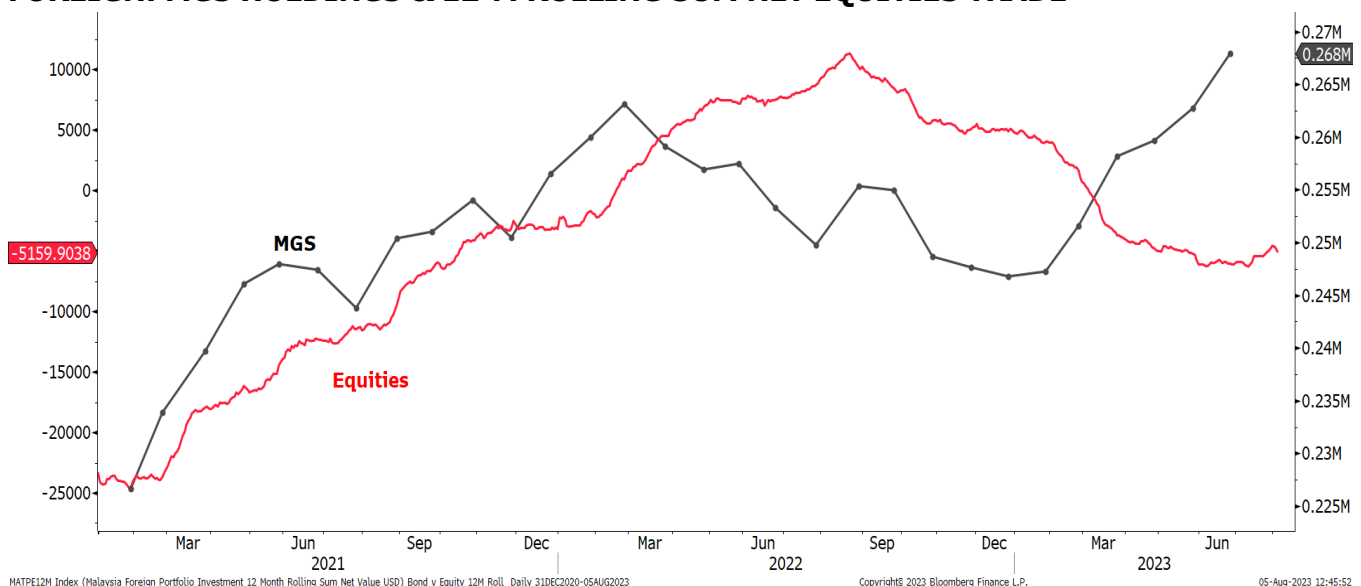
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM20.99b in the review week compared to RM15.96b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 72% from 67% of the overall Government Bonds trades. Moreover, 8 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 4.181% 7/15/24 at RM5.44b, MGS 4.642% 11/7/33 at RM2.12b, and MGS 3.478% 6/14/24 at RM2.12b.

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



Source: Bloomberg, MIDFR

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- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM3.42b in the review week compared to RM3.64b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged week-on-week at 35% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of mid residual tenor. The largest trading values were seen in Danainfra 4.08% 3/30/29 at RM185m, PLUS 4.526% 1/12/29 at RM150m, and Cagamas 4.26% 1/18/28 at RM150m.

## B. FOREIGN EXCHANGE

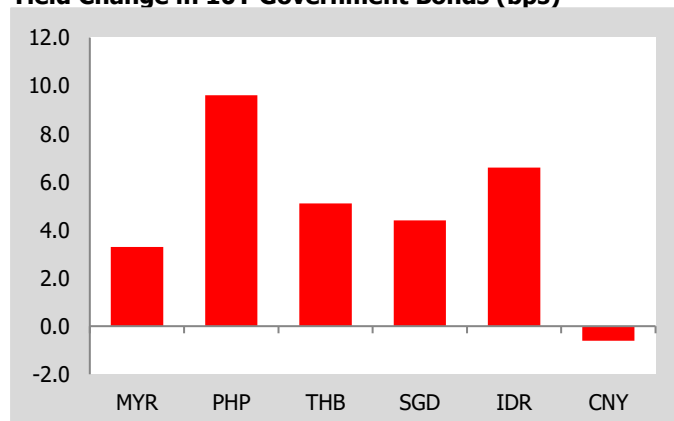
- USD appreciated for the third consecutive week. The greenback continued strengthening against major currencies as the DXY index rose +0.4%wow to 102.02. The USD disregarded Fitch's downgrade reaching an intra-week high on Wednesday but ended the week lower on weaker labour market data as nonfarm payroll rose slower than market expectations.
- Euro and pound depreciated against the USD. Euro and pound depreciated on the stronger dollar by -0.1%wow to USD1.101 and -0.8%wow and USD1.275, respectively. Euro closing on Friday was at the weakest in 4 weeks dollar strengthened on the back of still hawkish sentiment on the Fed's future policy move. Similarly, the dollar strength caused the pound sterling to end the week at its lowest in 5 weeks despite another hike by BOE during the week.
- Ringgit was virtually unchanged against the dollar. Despite the stronger dollar, the ringgit closed around the same level as the previous week at RM4.554. The ringgit started the week at an intra-week high before reversing the gains as the demand for the greenback rose. On a positive note, ringgit still performed better than its regional peers, which depreciated against the greenback. Commodity prices also were favourable towards the ringgit performance as Brent crude oil prices closed +1.5%wow higher at USD86.24pb.

### Currencies Changes (Week Ended 4 August 2023) and Quarterly Forecasts

	Close (04/08)	Prev. Close (28/07)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	102.02	101.62	+0.395	+0.4	102.51	101	98.3	97.5
EURUSD	1.101	1.102	-0.001	-0.1	1.08	1.09	1.12	1.13
GBPUSD	1.275	1.285	-0.010	-0.8	1.23	1.25	1.24	1.26
USDJPY	141.76	141.16	-0.600	-0.4	132.86	140	133	129
USDMYR	4.554	4.555	+0.001	+0.0	4.42	4.64	4.46	4.20
GBPMYR	5.787	5.839	+0.052	+0.9	5.46	5.80	5.53	5.25
JPYMYR	3.211	3.227	+0.015	+0.5	3.33	3.31	3.35	3.26

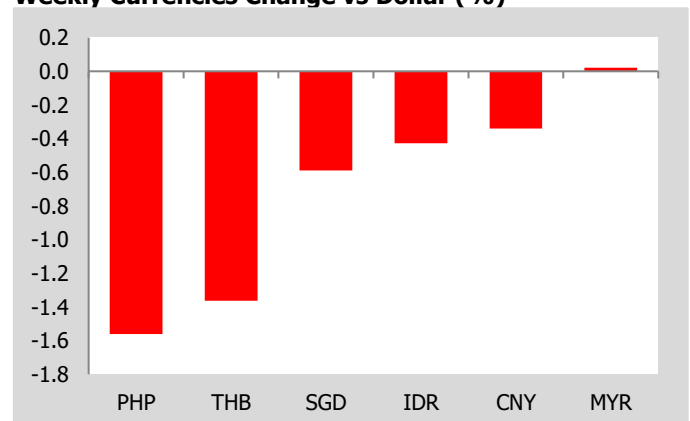
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

### 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 (%)

	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Malaysia	2.75	2.75	2.75	2.75	2.75	3.00	3.00	3.00	3.00
Indonesia	5.50	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Philippines	5.50	5.50	6.00	6.25	6.25	6.25	6.25	6.25	6.25
Thailand	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.00	2.25
Vietnam	6.00	6.00	6.00	6.00	5.50	5.00	4.50	4.50	4.50
South Korea	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
India	6.25	6.25	6.50	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	3.50	3.50	4.00	4.25	4.25	4.50	5.00	5.00	5.25
Euro area	2.50	2.50	3.00	3.50	3.50	3.75	4.00	4.25	4.25
USA	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	5.25-5.50

Source: Bloomberg, MIDFR

- US economic data released last week:
  - The manufacturing sector contracted while the services sector remained in expansionary territory. The Jul-23 S&P Global Manufacturing PMI was confirmed at 49.0 (Jun-23: 46.3), meeting the market expectations while ISM also reported a slower decline as its manufacturing PMI rose to 46.4 (Jun-23: 46.0), undershooting market expectations of 46.8. Meanwhile, S&P Global Services PMI was revised lower to 52.3 (Jun-23: 54.4; market forecasts: 52.4) while the ISM Services PMI edged down to 52.7 from a 4-month high of 53.9 in Jun-23, underwhelming market expectations for a steeper expansion of 53.0.
  - The labour market remained tight but with signs of easing. Nonfarm payroll rose faster in Jul-23 by 187K (Jun-23: 185K), but well below market expectations of 200K, mainly driven by a faster rise in private payroll. The unemployment rate declined to 3.5% in Jul-23 from 3.6% in Jun-23, the second month of consecutive decline. Meanwhile, initial jobless claims ended three weeks of decline for the week ending 29<sup>th</sup> July 2023 but remained close to 5-month low of the previous week at 227K (previous: 221K), well within market expectations.
- Fitch downgraded US long-term ratings to AA+. Fitch knocked down the US Long-Term Foreign-Currency Issuer Default Rating (IDR) to AA+ with a stable outlook from the highest possible rating of AAA, citing expectations for fiscal deterioration in the next three years, mounting government debt, and erosion of governance as attributable factors.
- On monetary policy decisions last week:
  - RBA kept its policy interest rate steady in Aug-23. Australia's central bank defied market expectations for another 25bps hike, maintaining its bench rate at 4.10% for the second consecutive meeting.
  - Bank of Thailand continued its tightening cycle. Thailand's central bank raised the interest rate by another 25bps in Aug-23, bringing the interest rate to the highest since early 2014 at 2.25%.
  - BOE unsurprisingly raised the rate in the Aug-23 decision. The BOE increased the interest rate by another 25bps to 5.25%, the 14th consecutive hike and bringing the interest rate to the highest since 2008.
- Malaysia's manufacturing sector continued to contract. Malaysia's S&P Global Manufacturing PMI marginally rose to 47.8 in Jul-23 (Jun-23: 47.7), but marking the 11th straight months of contraction as manufacturers reduced production and hirings in response to continued slowdown in demand.

## 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



- 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	28-Jul Fri	31-Jul Mon	1-Aug Tue	2-Aug Wed	3-Aug Thu	4-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.499	3.492	3.486	3.495	3.483	3.49	-0.9
5-Y	3.623	3.599	3.597	3.6	3.611	3.6	-2.3
7-Y	3.756	3.764	3.773	3.756	3.766	3.78	2.4
10-Y	3.834	3.835	3.841	3.839	3.868	3.867	3.3
20-Y	4.117	4.112	4.117	4.12	4.162	4.177	6
RINGGIT IRS							
1-Y	3.645	3.625	3.62	3.615	3.625	3.62	-2.5
3-Y	3.66	3.66	3.63	3.63	3.645	3.64	-2
5-Y	3.73	3.72	3.7	3.695	3.745	3.755	2.5
7-Y	3.82	3.82	3.805	3.806	3.855	3.865	4.5
10-Y	3.94	3.93	3.93	3.93	3.978	3.975	3.5
KLIBOR							
1-M	3.27	3.27	3.27	3.27	3.27	3.27	0
3-M	3.51	3.51	3.5	3.5	3.5	3.5	-1
UST							
3-Y	4.5164	4.5249	4.5678	4.5507	4.5765	4.4474	-6.9
5-Y	4.1774	4.1774	4.216	4.2371	4.2917	4.1336	-4.38
7-Y	4.0751	4.0751	4.1219	4.1663	4.2476	4.0855	1.04
10-Y	3.9507	3.9588	4.023	4.0775	4.1751	4.0338	8.31
30-Y	4.0105	4.0096	4.0919	4.1749	4.2909	4.2007	19.02
USD LIBOR							
1-M	5.43258	5.43232	5.43243	5.43162	5.43088	5.43088	-0.17
3-M	5.63352	5.62693	5.62796	5.63102	5.63146	5.63146	-0.206

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	28-Jul Yield	4-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	4.181	07/15/24	3.233	3.249	1.6	5,443.2
MALAYSIA GOVERNMENT	4.642	11/07/33	3.834	3.867	3.3	2,123.3
MALAYSIA GOVERNMENT	3.478	06/14/24	3.122	3.150	2.8	2,118.2
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.790	3.806	1.6	1,566.1
MALAYSIA GOVERNMENT	3.8	08/17/23	3.112	3.140	2.8	997.5
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.860	3.866	0.6	887.0
MALAYSIA GOVERNMENT	3.906	07/15/26	3.499	3.490	-0.9	582.4
MALAYSIA INVESTMNT ISSU	4.094	11/30/23	3.013	2.969	-4.4	537.5
MALAYSIA GOVERNMENT	3.882	03/14/25	3.255	3.331	7.6	480.8
MALAYSIA GOVERNMENT	3.955	09/15/25	3.378	3.388	1.0	478.2
TOTAL VOLUME (TOP 10)						15,214.1
TOTAL VOLUME (Overall)						20,990.2

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	28-Jul Yield	4-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.08	03/30/29	N/A	3.798	N/A	185.0
PROJEK LEBUHRAYA USAHA	4.526	01/12/29	N/A	4.021	N/A	150.0
CAGAMAS BERHAD	4.26	01/18/28	4.017	3.917	-10.0	150.0
SARAWAK ENERGY BHD	5.32	12/03/32	4.195	4.197	0.2	140.0
PERBADANAN TABUNG PEN	4.58	02/28/34	3.999	4.003	0.4	105.0
SARAWAK ENERGY BHD	5.28	08/17/35	4.369	4.299	-7.0	100.0
CAGAMAS BERHAD	4.62	11/04/27	3.913	3.913	0.0	100.0
SMALL MEDIUM ENT BANK	4.05	05/30/28	N/A	4.033	N/A	100.0
DANAINFRA NASIONAL	4.89	05/25/32	N/A	3.988	N/A	90.0
DANAINFRA NASIONAL	4.9	11/16/32	4.008	3.977	-3.1	90.0
TOTAL VOLUME (TOP 10)						1,210.0
TOTAL VOLUME (Overall)						3,424.7

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