

MIDF Strategy 14 August 2023

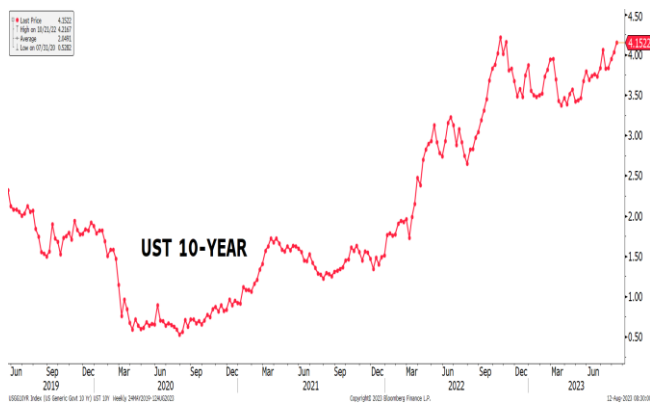
Week Ended 11 August 2023

- The UST market ended lower during the review week with benchmark 10-year yield closed higher at 4.15% (prior week: 4.03%), its highest weekly close since early November last year, as investors reacted to stronger-than-expected July PPI data. The 10y-3y yield spread inverted deeper at -42bps (prior week: -41bps) as the short-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 in July.
- Medium-term inflation expectation (MTIE) ended higher week-on-week at 2.32% (prior week: 2.28%) arguably in reaction to the stronger-than-expected July PPI 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.
- In contrast, the price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -1.4bps and -2.9bps to close at 3.48% and 3.84% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 38bps to 36bps as the short-end underperformed.
- MGS foreign holdings increased on-year from RM250b in July 2022 to (all-time high) RM279b in July 2023. Moreover, it risen on-month from RM268b in June 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM5.08b. It improved on-week from -RM5.16b registered a week ago. However, it slumped on-year from RM10.08b a year ago.

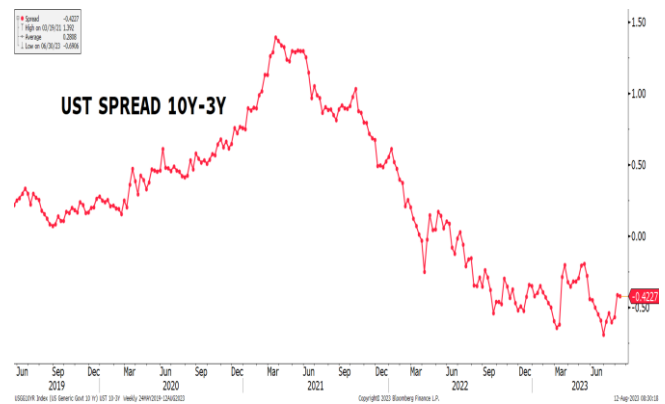
Weekly Money Review

A. FIXED INCOME

- The UST market ended lower during the review week with benchmark 10-year yield closed higher at 4.15% (prior week: 4.03%), its highest weekly close since early November last year, as investors reacted to stronger-than-expected July PPI data. The 10y-3y yield spread inverted deeper at -42bps (prior week: -41bps) as the short-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 in July.



Source: Bloomberg, MIDFR



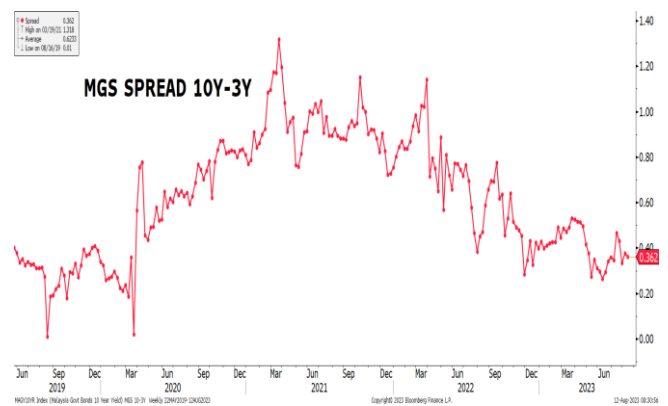
- Medium-term inflation expectation (MTIE) ended higher week-on-week at 2.32% (prior week: 2.28%) arguably in reaction to the stronger-than-expected July PPI data. The MTIE however remains within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. It is also notable that 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.

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



Source: Bloomberg, MIDFR

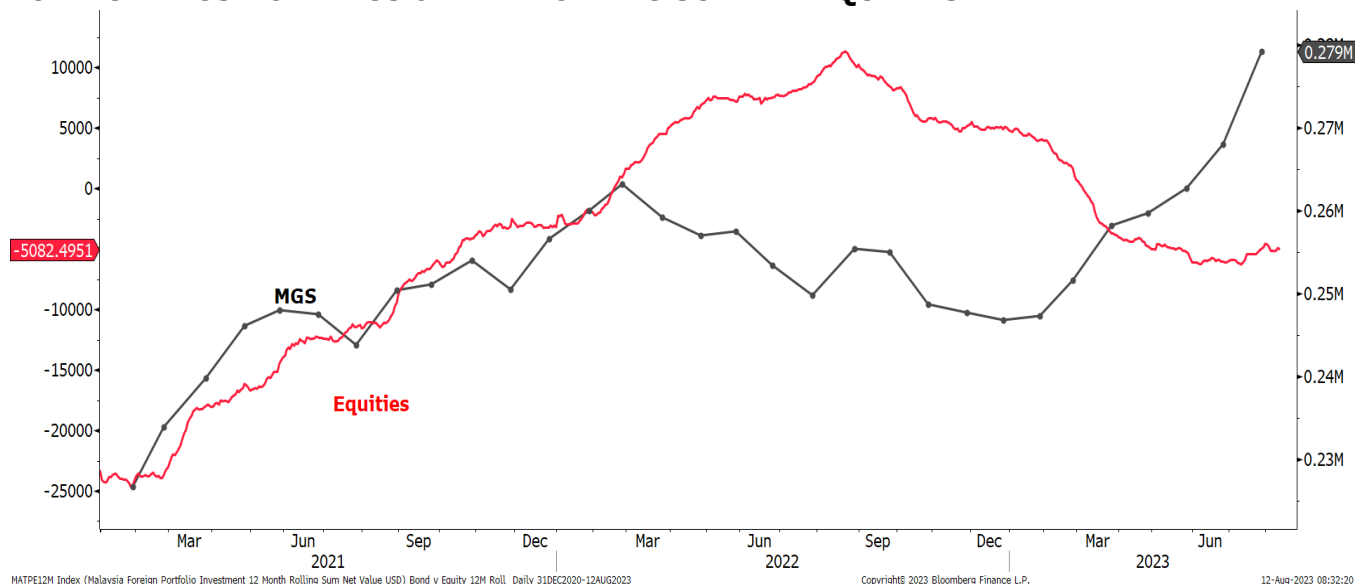
- In contrast, the price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -1.4bps and -2.9bps to close at 3.48% and 3.84% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 38bps to 36bps as the short-end underperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM13.11b in the review week compared to RM20.99b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 59% from 72% of the overall Government Bonds trades. Moreover, 5 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 3.8% 8/17/23 at RM1.80b, MII 5.357% 5/15/52 at RM770m, and MII 4.245% 9/30/30 at RM750m.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM250b in July 2022 to (all-time high) RM279b in July 2023. Moreover, it risen on-month from RM268b in June 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM5.08b. It improved on-week from -RM5.16b registered a week ago. However, it slumped on-year from RM10.08b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.65b in the review week compared to RM3.42b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 33% from 35% 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 Khazanah 0% 3/20/24 at RM200m, Danainfra 4.65% 10/20/36 at RM150m, and Prasarana 4.64% 3/22/30 at RM120m.

B. FOREIGN EXCHANGE

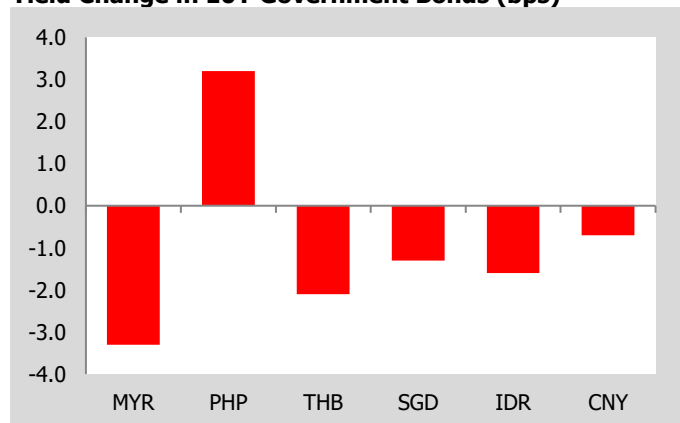
- USD strengthened for the 4th consecutive week. The greenback appreciated to the highest level in 5 weeks against major currencies as the DXY index rose by +0.8%w to 102.84. The higher demand for the dollar was underpinned by rising expectations for further tightening by the Fed. The dollar rallied further despite easing core CPI inflation and signs of cooling in the labor market.
- Euro and pound continued to depreciate. As the dollar strengthened, euro and pound sterling depreciated against the USD by -0.5%w to USD1.095 and -0.4%w to USD1.270, respectively. The euro currency registered the weakest weekly closing in 6 weeks as the ECB is expected to keep the interest rate status quo at the Sep-23 meeting. Meanwhile, the pound sterling recorded the weakest weekly closing in 9 weeks as the rise in US headline inflation and renewed expectations for more hike by the Fed offset the stronger-than-expected UK GDP data and expectations for BOE to remain hawkish.
- Ringgit depreciated against the USD. Ringgit also depreciated by -0.7%w to RM4.588, the weakest weekly closing in 5 weeks. The strengthening of US dollars led to broad weakening of regional currencies including ringgit, in addition to worries about China's growth outlook related to concerns over the country's property market and weak trade data. We believe the ringgit movement was more influenced by changes in the financial market and dollar strength, thus not benefiting much from higher commodity prices, with Brent crude oil prices closing higher by +0.7%w to USD86.81pb last week.

Currencies Changes (Week Ended 11 August 2023) and Quarterly Forecasts

	Close (11/08)	Prev. Close (04/08)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	102.84	102.02	+0.825	+0.8	102.51	101	98.3	97.5
EURUSD	1.095	1.101	-0.006	-0.5	1.08	1.09	1.12	1.13
GBPUSD	1.270	1.275	-0.005	-0.4	1.23	1.25	1.24	1.26
USDJPY	144.96	141.76	-3.200	-2.2	132.86	140	133	129
USDMYR	4.588	4.554	-0.034	-0.7	4.42	4.64	4.46	4.20
GBPMYR	5.825	5.787	-0.039	-0.7	5.46	5.80	5.53	5.25
JPYMYR	3.165	3.211	+0.046	+1.5	3.33	3.31	3.35	3.26

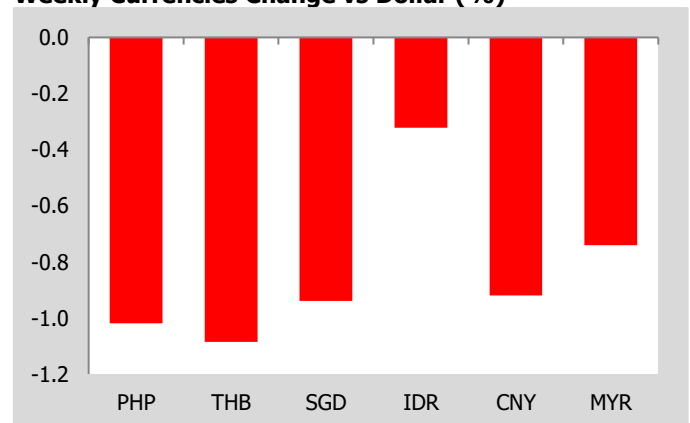
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	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:
 - Consumer inflation rose but below market expectations. US headline CPI inflation accelerated to +3.2%yoy in Jul-23 (Jun-23: +3.0%yoy), but slightly below market expectations (+3.3%yoy). This acceleration in Jul-23, mainly due to slower deflation in fuel and energy prices, marks the first rise after moderating steadily in the previous 12 months. Meanwhile, core inflation eased to +4.7%yoy (Jun-23: +4.8%yoy), the slowest increase since Oct-21 and below market expectations (+4.8%yoy).
 - Producer inflation accelerated. PPI inflation rose to +0.8%yoy in Jul-23 (Jun-23: +0.2%yoy), faster than market expectations of +0.7%yoy. The change in core PPI was the same as Jun-23's at +2.4%yoy but overshot market expectations for it to slow to +2.3%yoy.
 - The tight labour market indicated further cooling. The initial jobless claim for the week ending 5th August 2023 rose more than expected to 248K (previous week: 227K; market forecast: 230K), a fresh sign of worsening job market conditions.
 - Exports and imports registered a decline in Jun-23. Exports fell slightly in Jun-23 to USD247.5b (May-23: USD247.8b), while imports declined to USD313.0b (May-23: 316.1b).
 - Small business confidence rose. The US NFIB Small Business Optimism Index rose to the highest level in 8 months at 91.9 in Jul-23 (Jun-23: 91.0), better than market consensus for a decline to 90.6.
 - Economic pessimism rose. The IBD/TIPP Economic optimism index fell to the lowest point in 12 months in Aug-23 to 40.3 (Jul-23: 41.3), against market expectations for a rise to 43.0.
- The Reserve Bank of India kept the interest rate steady. As expected, India's central bank kept the rate steady for the third consecutive meeting at 6.50% despite reemerged concern over food inflation.
- Malaysia's economic releases last week:
 - Construction output continued to expand. Construction output based on the value of work done recorded the 5th straight quarter of growth in the 2QCY23, albeit moderating to +8.1%yoy (1QCY23: +9.4%yoy).
 - Labour market continued to improve. The unemployment rate registered a new pandemic low of 3.4% in Jun-23 (May-23: 3.5%). Labour force and employment expanded by +1.9%yoy and +2.3%yoy, respectively, supported by upbeat domestic economic momentum.
 - Retail trade growth remained at a double-digit pace in 1HCY23. Malaysia's retail trade growth posted at +5.8%yoy in Jun-23, slightly better than the previous month.
- IPI growth turned back to negative. Malaysia's IPI growth weakened more than expected in Jun-23, falling by -2.2%yoy (May-23: +4.8%yoy) because of reduced output in the mining and manufacturing sectors.

C. BNM INTERNATIONAL RESERVES

- As of 31 July 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD112.9b (14 July 2023: USD111.8b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.1 months of imports of goods & services and is 1.1 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	4-Aug Fri	7-Aug Mon	8-Aug Tue	9-Aug Wed	10-Aug Thu	11-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.49	3.482	3.479	3.467	3.458	3.476	-1.4
5-Y	3.6	3.593	3.6	3.605	3.587	3.602	0.2
7-Y	3.78	3.755	3.755	3.736	3.729	3.762	-1.8
10-Y	3.867	3.861	3.855	3.838	3.831	3.838	-2.9
20-Y	4.177	4.159	4.162	4.146	4.151	4.162	-1.5
RINGGIT IRS							
1-Y	3.62	3.61	3.61	3.59	3.58	3.595	-2.5
3-Y	3.64	3.645	3.62	3.61	3.595	3.62	-2
5-Y	3.755	3.725	3.69	3.695	3.6825	3.6925	-6.25
7-Y	3.865	3.84	3.81	3.8	3.78	3.79	-7.5
10-Y	3.975	3.95	3.94	3.926	3.9	3.91	-6.5
KLIBOR							
1-M	3.27	3.27	3.27	3.27	3.27	3.27	0
3-M	3.5	3.5	3.5	3.5	3.5	3.5	0
UST							
3-Y	4.4474	4.4559	4.4157	4.4396	4.51	4.575	12.76
5-Y	4.1336	4.1651	4.1108	4.137	4.2321	4.3012	16.76
7-Y	4.0855	4.1325	4.0699	4.0777	4.1797	4.2456	16.01
10-Y	4.0338	4.0885	4.022	4.0081	4.1055	4.1522	11.84
30-Y	4.2007	4.2698	4.2067	4.1701	4.2518	4.2614	6.07
USD LIBOR							
1-M	5.43172	5.43031	5.42688	5.42694	5.42695	5.42695	-0.477
3-M	5.63219	5.62904	5.62689	5.62839	5.63076	5.63076	-0.143

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	4-Aug Yield	11-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.8	08/17/23	3.140	3.375	23.5	1,804.0
MALAYSIA INVESTMNT ISSU	5.357	05/15/52	4.290	4.346	5.6	770.0
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.806	3.778	-2.8	750.0
MALAYSIA GOVERNMENT	4.642	11/07/33	3.867	3.838	-2.9	735.8
MALAYSIA GOVERNMENT	3.882	03/14/25	3.331	3.357	2.6	727.2
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.866	3.861	-0.5	694.9
MALAYSIA GOVERNMENT	4.762	04/07/37	4.054	4.027	-2.7	594.4
MALAYSIA GOVERNMENT	4.181	07/15/24	3.249	3.284	3.5	574.1
MALAYSIA GOVERNMENT	3.478	06/14/24	3.150	3.191	4.1	539.0
MALAYSIA GOVERNMENT	3.906	07/15/26	3.490	3.476	-1.4	499.8
TOTAL VOLUME (TOP 10)						7,689.2
TOTAL VOLUME (Overall)						13,114.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	4-Aug Yield	11-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
KHAZANAH NASIONAL BHD	ZERO	03/20/24	N/A	3.433	N/A	200.0
DANAINFRA NASIONAL	4.65	10/20/36	4.101	4.109	0.8	150.0
PRASARANA MALAYSIA BHD	4.64	03/22/30	3.888	3.836	-5.2	120.0
PRASARANA MALAYSIA BHD	4.58	08/29/28	3.761	3.742	-1.9	120.0
DRB-HICOM BHD	5.1	12/12/29	5.006	5.340	33.4	110.0
PRASARANA MALAYSIA BHD	4.93	12/28/32	3.969	3.954	-1.5	100.0
SMALL MEDIUM ENT BANK	4.03	03/22/24	3.384	3.508	12.4	100.0
GEORGE KENT MALAYSIA B	5.5	03/26/26	N/A	5.236	N/A	100.0
CAGAMAS BERHAD	3.41	09/25/23	N/A	3.429	N/A	100.0
SARAWAK ENERGY BHD	4.27	07/04/33	4.170	4.154	-1.6	100.0
TOTAL VOLUME (TOP 10)						1,200.0
TOTAL VOLUME (Overall)						3,650.4

Source: Bloomberg

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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