

MIDF Strategy 21 August 2023

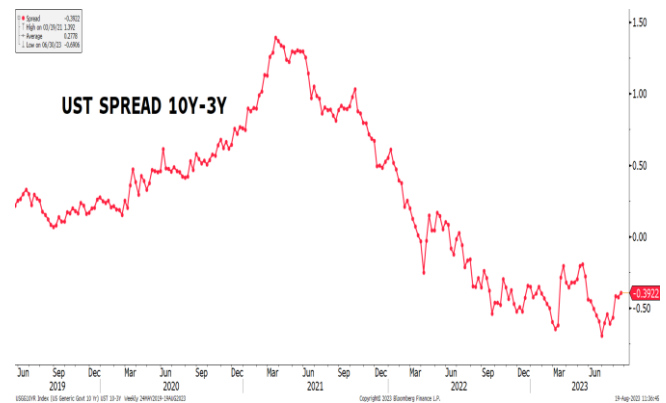
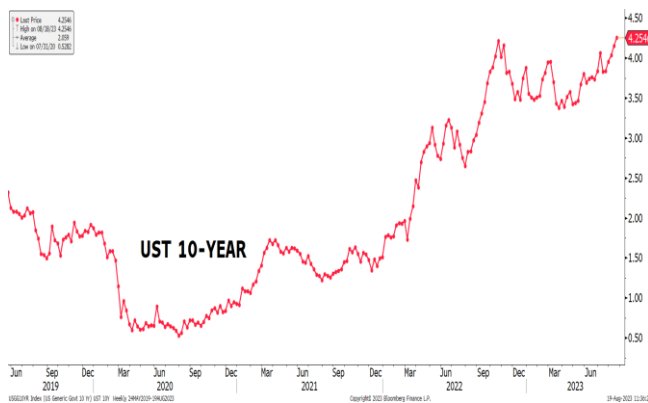
Week Ended 18 August 2023

- The UST market ended lower during the review week with benchmark 10-year yield closed higher at 4.26% (prior week: 4.15%), its highest weekly close since June 2008, as investors reacted to the latest FOMC meeting minutes which allude to the possibility of more Fed rate hikes. The 10y-3y yield spread rebounded but remains deeply inverted at -39bps (prior week: -41bps) as the long-end underperformed. Meanwhile, the interest rate futures market was strongly implying no rate hike (89% probability) in September but quite an elevated expectation (36% probability) of another hike in November.
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.24% (prior week: 2.32%) arguably in reaction to the rather hawkish FOMC meeting minutes. The MTIE dipped below 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.
- Likewise, the price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 0.8bp and 2.7bps to close at 3.48% and 3.86% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 36bps to 38bps as the long-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 -RM5.79b. It worsened on-week from -RM5.08b registered a week ago. Moreover, it slumped on-year from RM10.90b 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 4.26% (prior week: 4.15%), its highest weekly close since June 2008, as investors reacted to the latest FOMC meeting minutes which allude to the possibility of more Fed rate hikes. The 10y-3y yield spread rebounded but remains deeply inverted at -39bps (prior week: -41bps) as the long-end underperformed. Meanwhile, the interest rate futures market was strongly implying no rate hike (89% probability) in September but quite an elevated expectation (36% probability) of another hike in November.



Source: Bloomberg, MIDFR

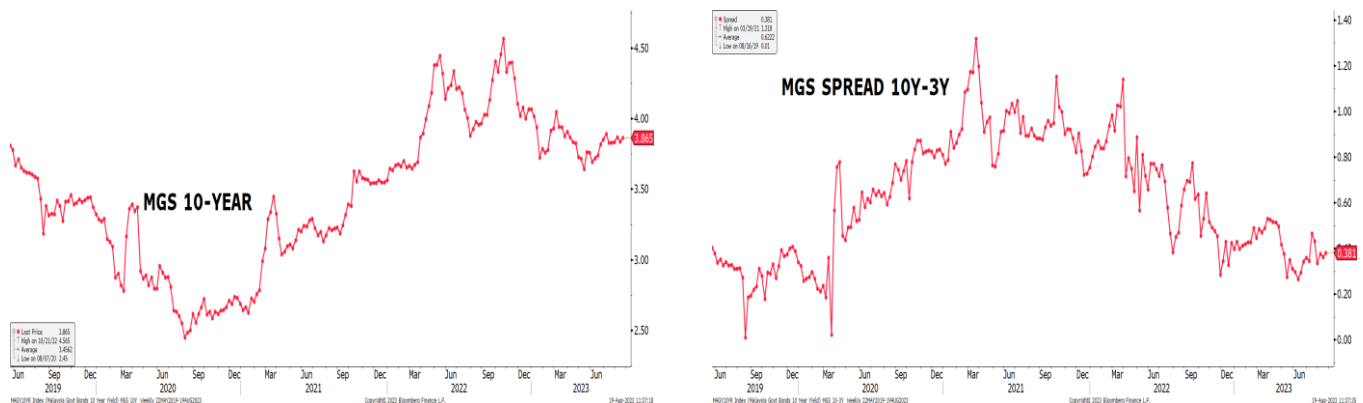
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.24% (prior week: 2.32%) arguably in reaction to the rather hawkish FOMC meeting minutes. The MTIE dipped below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. It is also notable that the MTIE has 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

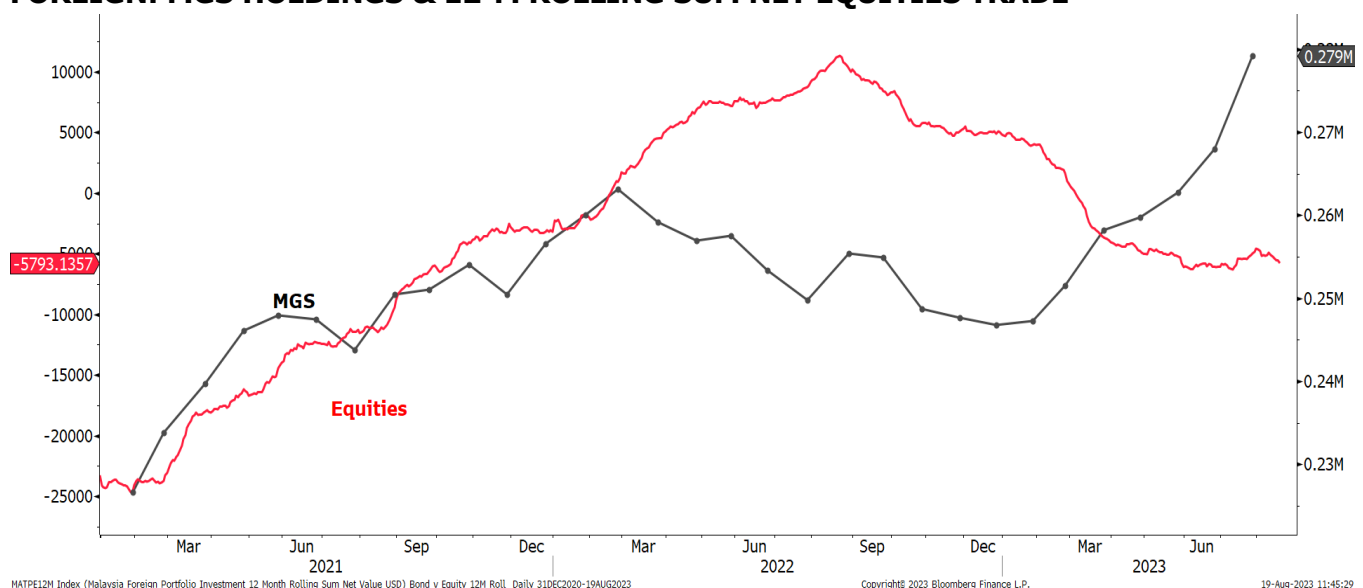
Likewise, the price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 0.8bp and 2.7bps to close at 3.48% and 3.86% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 36bps to 38bps as the long-end underperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM19.31b in the review week compared to RM13.11b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 51% from 59% of the overall Government Bonds trades. Moreover, 6 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 mid residual tenor. The top 3 most actively traded were MGS 3.478% 6/14/24 at RM2.02b, MGS 3.519% 54/20/28 at RM1.89b, and MGS 4.181% 7/15/24 at RM853m.

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 -RM5.79b. It worsened on-week from -RM5.08b registered a week ago. Moreover, it slumped on-year from RM10.90b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.81b in the review week compared to RM3.65b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged week-on-week at 33% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of long residual tenor. The largest trading values were seen in Danainfra 4.93% 7/24/34 at RM120m, Sarawak Energy 4.27% 7/4/33 at RM110m, and Danainfra 4.21% 6/8/38 at RM105m.

B. FOREIGN EXCHANGE

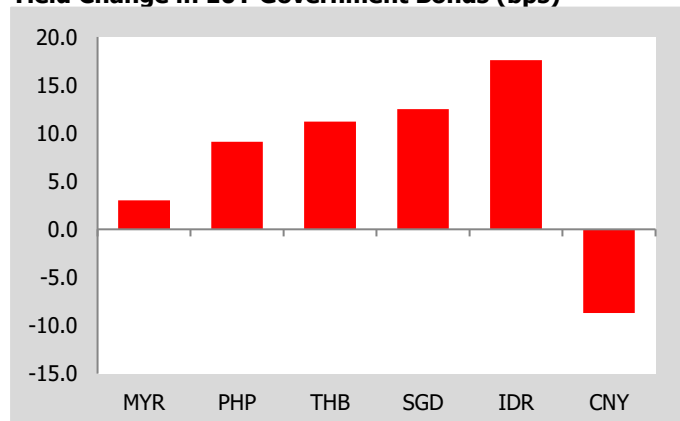
- USD extended rally for the 5th week. The US dollars registered the strongest weekly gain against major currencies in 10 weeks as the DXY index rose by +0.5%*wow* to 103.38. Increased demand for the dollar came as the Jul-23 FOMC minutes revealed the possibility of further tightening by the Fed to combat inflation. This led some observers anticipating another hike latter this year, though market mostly expecting a pause in Sep-23.
- Euro depreciated while pound continued to strengthen. Euro depreciated by -0.7%*wow* to USD1.087, the weakest weekly closing in 10 weeks, due to the strength in dollar. Furthermore, euro depreciated last week as easing inflation led to rising expectations that the ECB is approaching the end of its tightening cycle. Meanwhile, the pound sterling strengthened further by +0.3%*wow* to USD1.273. Despite the stronger dollar, the pound continued to be supported by expectations for more hikes by the BOE to bring inflation down.
- Ringgit weakened for the second consecutive week. Ringgit ended the week at the weakest weekly closing in 6 weeks, depreciating by -1.3%*wow* to RM4.649. Ringgit depreciation was in line with the general weakening of regional currencies, which was underpinned by stronger dollar and concerns over China's growth outlook (with renewed problems in the real estate market). Together with the growth concerns, ringgit performance was affected by the decline in Brent crude oil prices, which closed -2.3%*wow* lower at USD84.80pb on Friday.

Currencies Changes (Week Ended 18 August 2023) and Quarterly Forecasts

	Close (18/08)	Prev. Close (11/08)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	103.38	102.84	+0.533	+0.5	102.51	101	98.3	97.5
EURUSD	1.087	1.095	-0.008	-0.7	1.08	1.09	1.12	1.13
GBPUSD	1.273	1.270	+0.004	+0.3	1.23	1.25	1.24	1.26
USDJPY	145.39	144.96	-0.430	-0.3	132.86	140	133	129
USDMYR	4.649	4.588	-0.061	-1.3	4.42	4.64	4.46	4.20
GBPMYR	5.916	5.825	-0.091	-1.5	5.46	5.80	5.53	5.25
JPYMYR	3.197	3.165	-0.032	-1.0	3.33	3.31	3.35	3.26

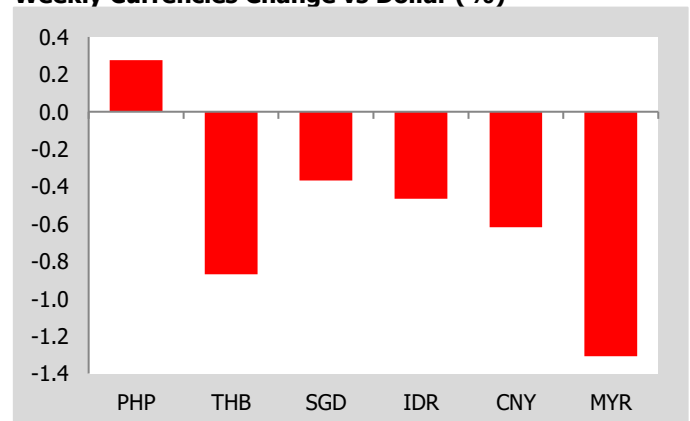
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 expectations cooled to +3.5%yoy in Jul-23 from +3.8%yoy in Jun-23, marking the 4th consecutive month of easing.
 - US consumer spending was resilient as retail sales grew the fastest in 5 months at +3.2%yoy (Jun-23: +1.6%yoy), exceeding market forecasts of +1.5%yoy.
 - Industrial production and manufacturing production fell further. Industrial production contracted for the second consecutive month at -0.2%yoy in Jul-23 (Jun-23: -0.4%yoy), with manufacturing production registering its 5th consecutive month of decline at -0.7%yoy (Jun-23: -0.3%yoy).
 - Labour market resilience continued. Initial jobless claims for the week ending 12th August 2023 declined to 239K (previous week: 250K), slightly lower than market forecasts of 240K.
- The minutes of the Jul-23 FOMC indicated the possibility of further tightening. The minutes highlighted concerns among FOMC members over upside risks to inflation in view of the still robust labour market. The minutes generally reiterated the Fed's openness for more hikes as inflation remained stubbornly above its 2% target.
- Bangko Sentral ng Pilipinas maintained its borrowing cost at 6.25%, a more-than-14-year high for 3-consecutive meetings Aug-23 decisions.
- Malaysia's economic releases last week:
 - Malaysia's GDP growth moderated more than expected to +2.9%yoy in 2QCY23 (1QCY23: +5.6%yoy; market consensus: +3.5%yoy) amid sharp fall in external trade of goods and slower growth in private consumption.
 - Exports continued to fall at -13.1%yoy in Jul-23 (Jun-23: -14.1%yoy), while imports also sustained a double-digit decline for the second month, decreasing by -15.9%yoy (Jun-23: -18.7%yoy). Total trade declined by -14.4%yoy (Jun-23: -16.2%yoy), although the trade value remained above RM200b.

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



- 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	11-Aug Fri	14-Aug Mon	15-Aug Tue	16-Aug Wed	17-Aug Thu	18-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.476	3.49	3.486	3.498	3.511	3.484	0.8
5-Y	3.602	3.64	3.645	3.648	3.659	3.648	4.6
7-Y	3.762	3.762	3.795	3.761	3.78	3.764	0.2
10-Y	3.838	3.866	3.808	3.86	3.882	3.865	2.7
20-Y	4.162	4.155	4.169	4.155	4.169	4.159	-0.3
RINGGIT IRS							
1-Y	3.595	3.625	3.625	3.605	3.625	3.61	1.5
3-Y	3.62	3.645	3.675	3.639	3.675	3.65	3
5-Y	3.6925	3.75	3.765	3.73	3.77	3.74	4.75
7-Y	3.79	3.85	3.87	3.83	3.885	3.845	5.5
10-Y	3.91	3.98	3.98	3.97	4.01	3.955	4.5
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	4.575	4.6457	4.6459	4.6659	4.6519	4.6468	7.18
5-Y	4.3012	4.3599	4.3724	4.4029	4.4083	4.3854	8.42
7-Y	4.2456	4.296	4.3093	4.3492	4.3626	4.3443	9.87
10-Y	4.1522	4.1913	4.211	4.2504	4.2741	4.2546	10.24
30-Y	4.2614	4.2888	4.3155	4.3519	4.3868	4.3751	11.37
USD LIBOR							
1-M	5.42496	5.42709	5.42824	5.42643	5.42846	5.42846	0.35
3-M	5.62618	5.63344	5.63809	5.64084	5.64137	5.64137	1.519

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	11-Aug Yield	18-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.478	06/14/24	3.191	3.197	0.6	2,015.4
MALAYSIA GOVERNMENT	3.519	04/20/28	3.602	3.648	4.6	1,890.3
MALAYSIA GOVERNMENT	4.181	07/15/24	3.284	3.248	-3.6	852.9
MALAYSIA GOVERNMENT	4.642	11/07/33	3.838	3.865	2.7	833.8
MALAYSIA GOVERNMENT	4.893	06/08/38	4.047	4.023	-2.4	767.2
MALAYSIA GOVERNMENT	3.882	03/14/25	3.357	3.351	-0.6	750.9
MALAYSIA GOVERNMENT	3.906	07/15/26	3.476	3.484	0.8	728.0
MALAYSIA GOVERNMENT	4.762	04/07/37	4.027	4.050	2.3	696.2
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.778	3.799	2.1	685.0
MALAYSIA GOVERNMENT	3.885	08/15/29	3.772	3.734	-3.8	667.3
TOTAL VOLUME (TOP 10)						9,886.9
TOTAL VOLUME (Overall)						19,310.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	11-Aug Yield	18-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.93	07/24/34	N/A	4.005	N/A	120.0
SARAWAK ENERGY BHD	4.27	07/04/33	4.154	4.149	-0.5	110.0
DANAINFRA NASIONAL	4.21	06/08/38	N/A	4.150	N/A	105.0
PERBADANAN TABUNG PEN	4.58	02/28/34	3.999	4.006	0.7	100.0
CIMB GROUP HOLDINGS BH	4.4	09/08/32	4.340	4.193	-14.7	100.0
CAGAMAS BERHAD	3.72	04/28/25	N/A	3.695	N/A	100.0
KUALA LUMPUR KEPONG	3.75	09/27/29	4.097	4.078	-1.9	85.0
IMTIAZ SUKUK II BHD	4.38	05/12/27	4.056	4.064	0.8	71.1
YTL POWER INTERNATIONA	4.99	03/24/33	4.490	4.470	-2.0	65.0
AMBANK M BHD	3.14	12/29/23	N/A	3.950	N/A	60.0
TOTAL VOLUME (TOP 10)						916.1
TOTAL VOLUME (Overall)						2,806.9

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 <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