

MIDF Strategy 28 August 2023

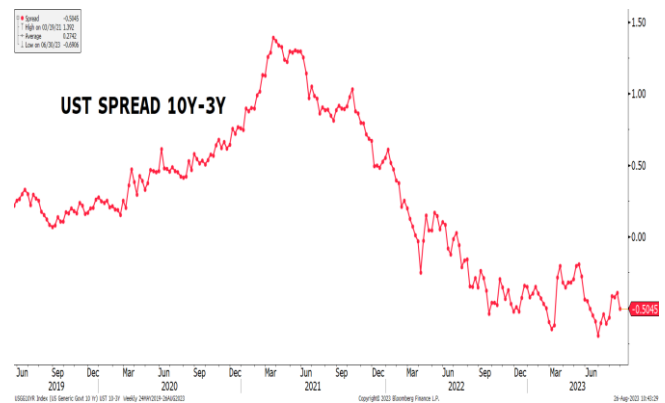
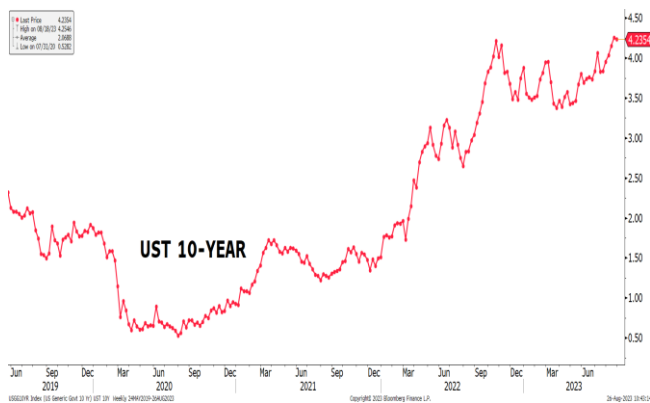
Week Ended 25 August 2023

- The UST market closed mixed during the review week. The long end of the yield curve declined with benchmark 10-year yield ended lower at 4.24% (prior week: 4.26%) as investors reacted to new data (i.e. S&P Global flash composite output index fell 1.6 points to 50.4 in August) which signaled a slowdown in economic growth. However, the short end of the curve climbed as worries mounted over the possibility of more overnight policy rate hikes. The 10y-3y yield inverted deeper at -50bps (prior week: -39bps) as the short-end underperformed. Meanwhile, the interest rate futures market was implying no rate hike in September but additional hikes in November and beyond.
- Medium-term inflation expectation (MTIE) ended a tad higher week-on-week at 2.26% (prior week: 2.24%). The MTIE climbed to within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. Despite the recent uptick, it is 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.
- The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -2.3bps and -0.4bp to close at 3.46% and 3.86% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 38bps to 40bps as the short-end outperformed.
- 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 -RM6.29b. It worsened on-week from -RM5.79b registered a week ago. Moreover, it slumped on-year from RM10.81b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market closed mixed during the review week. The long end of the yield curve declined with benchmark 10-year yield ended lower at 4.24% (prior week: 4.26%) as investors reacted to new data (i.e. S&P Global flash composite output index fell 1.6 points to 50.4 in August) which signaled a slowdown in economic growth. However, the short end of the curve climbed as worries mounted over the possibility of more overnight policy rate hikes. The 10y-3y yield inverted deeper at -50bps (prior week: -39bps) as the short-end underperformed. Meanwhile, the interest rate futures market was implying no rate hike in September but additional hikes in November and beyond.



Source: Bloomberg, MIDFR

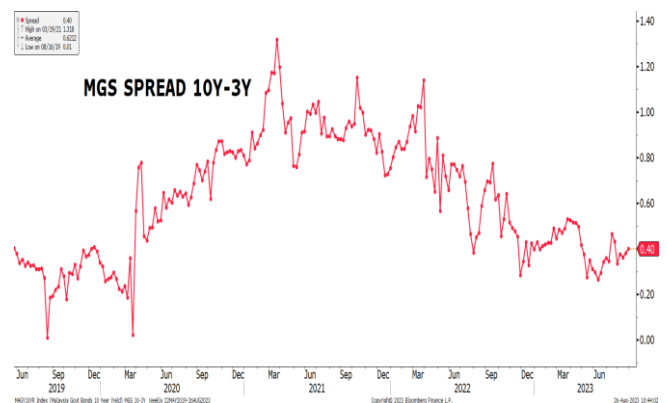
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

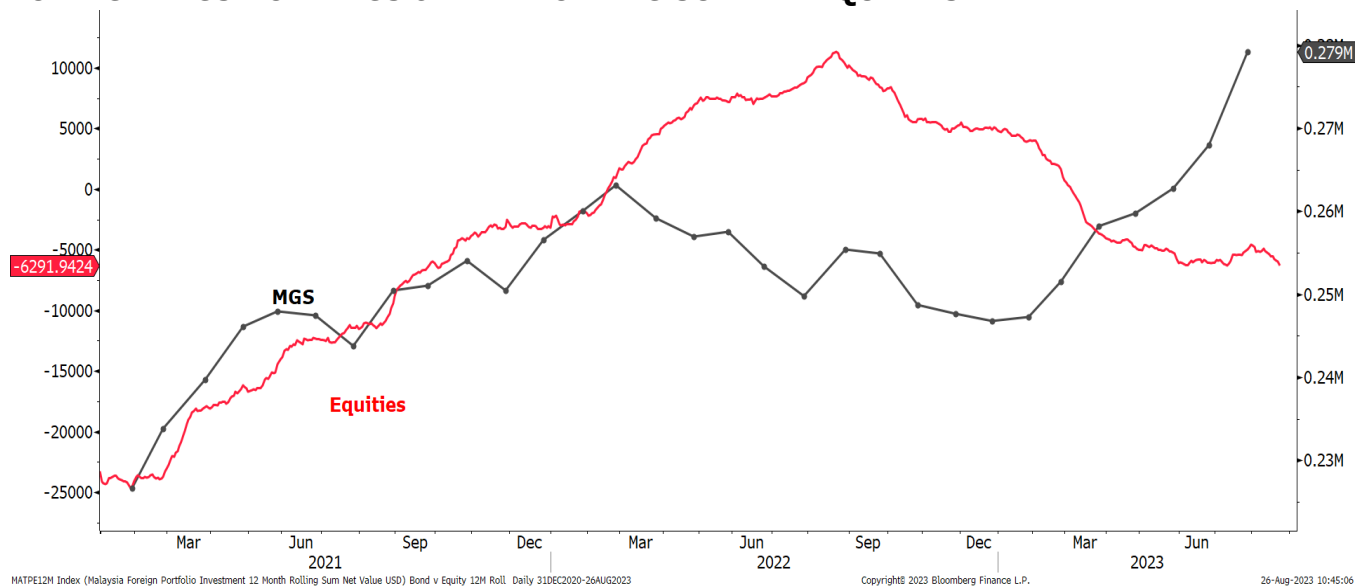
The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -2.3bps and -0.4bp to close at 3.46% and 3.86% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 38bps to 40bps as the short-end outperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM9.10b in the review week compared to RM19.31b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 60% from 51% 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 3.828% 7/5/34 at RM922m, MGS 3.478% 6/14/24 at RM717m, and MGS 3.519% 4/20/28 at RM677m.

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 -RM6.29b. It worsened on-week from -RM5.79b registered a week ago. Moreover, it slumped on-year from RM10.81b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.13b in the review week compared to RM2.81b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 31% from 33% 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 Maybank 2.9% 10/9/30 at RM170m, Sarawak Energy 4.7% 11/24/28 at RM130m, and Sabah Credit 4.33% 2/14/28 at RM100m.

B. FOREIGN EXCHANGE

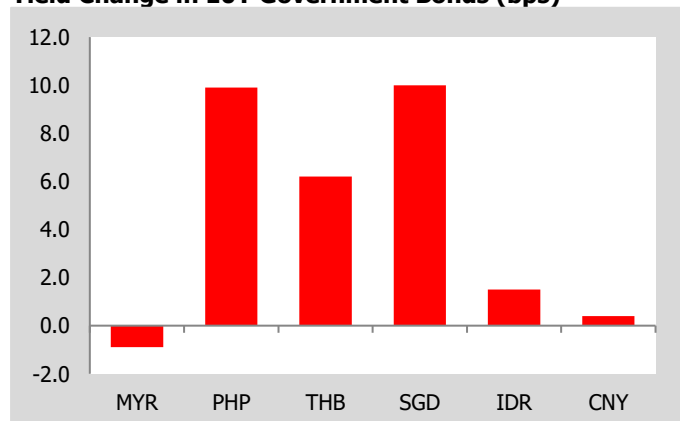
- USD strengthened for the 6-consecutive weeks. The greenback appreciated to the highest level in over 11-week against major currencies as the DXY index rose by +0.7%wow to 104.08. The dollar rallied following the Fed's Chairman hawkish tone at the Jackson Hole Symposium. The demand for the dollar rose as Fed's Chair, Jerome Powell, highlighted the Fed's concern over the still elevated inflation and reiterated the Fed's commitment in bringing inflation down to its +2.0% target.
- Euro and pound depreciated against the USD. Euro and pound depreciated on the stronger dollar by -0.7%wow to USD1.080 and -1.2%wow to USD1.258, respectively. The euro registered the weakest weekly closing in 11-week, underpinned by stronger USD and rising recession woes as economic data indicated a slowing economy. Similarly, the pound also closed at 11-week low, following deepening recession fears on sluggish factory activities.
- The Ringgit ended 2-week depreciation sequence. Despite the stronger dollar, the Ringgit strengthened against the USD by +0.2%wow to RM4.641, closing at an intra-week high. The Ringgit appreciated against the USD on weaker data on factory activities in advanced economies, including the US. The Ringgit movement was more influenced by the sentiments within the financial market as commodity prices were unfavourable towards the Ringgit as Brent crude oil prices closed -0.4%wow lower to USD84.48pb.

Currencies Changes (Week Ended 25 August 2023) and Quarterly Forecasts

	Close (25/08)	Prev. Close (18/08)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	104.08	103.38	+0.702	+0.7	102.51	101	98.3	97.5
EURUSD	1.080	1.087	-0.008	-0.7	1.08	1.09	1.12	1.13
GBPUSD	1.258	1.273	-0.016	-1.2	1.23	1.25	1.24	1.26
USDJPY	146.44	145.39	-1.050	-0.7	132.86	140	133	129
USDMYR	4.641	4.649	+0.008	+0.2	4.42	4.64	4.46	4.20
GBPMYR	5.840	5.916	+0.076	+1.3	5.46	5.80	5.53	5.25
JPYMYR	3.170	3.197	+0.028	+0.9	3.33	3.31	3.35	3.26

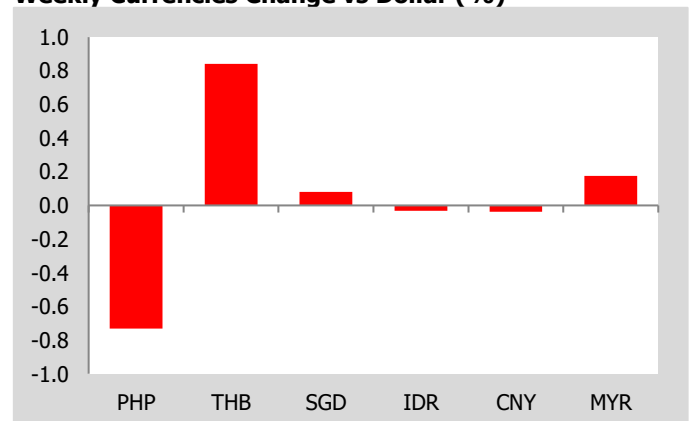
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg; MIDFR

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 continued in a contractionary sequence while the services sector expanded further. The S&P Global US Manufacturing PMI extended its contractionary run into 4-straight months in Aug-23, falling to 47.0 (Jul-23: 49.0), lower than market expectations of 49.3. Meanwhile, the S&P Global US Services PMI moderated to a 6-month low of 51.0 (Jul-23: 52.3), missing market expectations 52.2.
 - The labour market remained tight. Initial jobless claims for the week ending 19th August 2023 declined to 230K, below the previous week's upwardly revised market forecasts of 240K.
- Fed's Chairman maintained a hawkish tone at Jackson Hole. Fed's Chair, Jerome Powell, highlighted possibilities of further hikes on worries over the still elevated inflation while reiterating the Fed's commitment to bring inflation down to its +2.0% target.
- On monetary policy decisions last week:
 - PBOC slashed the rate for 1-year LPR. PBOC cut its 1-year prime loan prime rate (LPR) by 10bps to 3.45% meanwhile the 5-year LPR left status quo at 4.20% in its Aug-23 decision.
 - The Bank of Korea (BOK) kept the rate steady. The Bank of Korea (BOK) maintained the interest rate steady for 5-consecutive meetings in Aug-23 at 3.50%, just as the market expected.
 - Bank of Indonesia held the rate steady. The Bank of Indonesia kept the interest rate unchanged for 7-consecutive meetings in Aug-23 at 5.75%.
- Malaysia's economic releases last week:
 - Headline inflation is almost at a 2-year low. Headline inflation rate moderated to +2.0%yoy in Jul-23, the slowest rate since Aug-21 and slightly lower than the market consensus of +2.1%. Core inflation rate moderated below the +3.0% level at +2.8%yoy yet still above the pre-pandemic average of +1.7%
 - The Leading Index (LI) contracted while the Coincident Index (CI) expanded. LI extended its contractionary sequence into 4-consecutive months at -2.1%yoy in Jun-23 (May-23: -1.1%yoy). Meanwhile, the CI rose by +1.6%yoy.

C. BNM INTERNATIONAL RESERVES

- As of 15 August 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD112.2b (31 July 2023: USD112.9b).

BNM INTERNATIONAL RESERVES



- The amount of reserves is sufficient to finance 5.2 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	18-Aug Fri	21-Aug Mon	22-Aug Tue	23-Aug Wed	24-Aug Thu	25-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.484	3.484	3.472	3.474	3.456	3.461	-2.3
5-Y	3.648	3.641	3.643	3.612	3.598	3.601	-4.7
7-Y	3.764	3.768	3.768	3.754	3.77	3.767	0.3
10-Y	3.865	3.876	3.855	3.853	3.853	3.861	-0.4
20-Y	4.159	4.169	4.174	4.168	4.169	4.178	1.9
RINGGIT IRS							
1-Y	3.61	3.615	3.605	3.58	3.59	3.595	-1.5
3-Y	3.65	3.655	3.645	3.63	3.62	3.62	-3
5-Y	3.74	3.74	3.73	3.705	3.705	3.72	-2
7-Y	3.845	3.835	3.85	3.835	3.835	3.835	-1
10-Y	3.955	3.98	3.98	3.96	3.96	3.96	0.5
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	3.51	3.51	1
UST							
3-Y	4.6468	4.7155	4.7558	4.6559	4.7019	4.7399	9.31
5-Y	4.3854	4.4662	4.4879	4.3697	4.4146	4.4383	5.29
7-Y	4.3443	4.4272	4.4327	4.302	4.3501	4.3637	1.94
10-Y	4.2546	4.3379	4.3241	4.1918	4.2372	4.2354	-1.92
30-Y	4.3751	4.4465	4.4004	4.2699	4.3021	4.2841	-9.1
USD LIBOR							
1-M	5.42875	5.43226	5.42978	5.42943	5.43472	5.43472	0.597
3-M	5.64478	5.63895	5.64468	5.65266	5.64951	5.64951	0.473

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	18-Aug Yield	25-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.828	07/05/34	4.009	3.984	-2.5	922.5
MALAYSIA GOVERNMENT	3.478	06/14/24	3.197	3.229	3.2	717.4
MALAYSIA GOVERNMENT	3.519	04/20/28	3.648	3.601	-4.7	677.2
MALAYSIA INVESTMNT ISSU	4.291	08/14/43	4.095	4.261	16.6	574.8
MALAYSIA GOVERNMENT	4.642	11/07/33	3.865	3.861	-0.4	510.0
MALAYSIA GOVERNMENT	3.906	07/15/26	3.484	3.461	-2.3	464.2
MALAYSIA GOVERNMENT	4.893	06/08/38	4.023	4.067	4.4	426.0
MALAYSIA GOVERNMENT	3.882	03/14/25	3.351	3.338	-1.3	403.6
MALAYSIA GOVERNMENT	4.181	07/15/24	3.248	3.246	-0.2	389.0
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.869	3.877	0.8	377.4
TOTAL VOLUME (TOP 10)						5,462.1
TOTAL VOLUME (Overall)						9,102.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	18-Aug Yield	25-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYAN BANKING BHD	2.9	10/09/30	3.274	3.247	-2.7	170.0
SARAWAK ENERGY BHD	4.7	11/24/28	3.969	3.936	-3.3	130.0
SABAH CREDIT CORP	4.33	02/14/28	4.138	4.117	-2.1	100.0
CIMB GROUP HOLDINGS BH	4.4	09/08/32	4.193	4.198	0.5	95.0
DANAINFRA NASIONAL	4.8	10/31/33	N/A	4.028	N/A	90.0
GENM CAPITAL BHD	4.9	08/22/25	4.489	4.474	-1.5	80.0
DANUM CAPITAL BHD	4.68	02/14/34	N/A	4.148	N/A	80.0
PERBADANAN TABUNG PEN	2.77	10/27/28	3.800	3.842	4.2	80.0
ECO WORLD CAPITAL BHD	5.69	10/29/27	4.525	4.478	-4.7	80.0
PUBLIC ISLAMIC BANK BHD	4.5	12/17/27	4.036	3.966	-7.0	80.0
TOTAL VOLUME (TOP 10)						985.0
TOTAL VOLUME (Overall)						3,129.4

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