

MIDF Strategy 4 September 2023

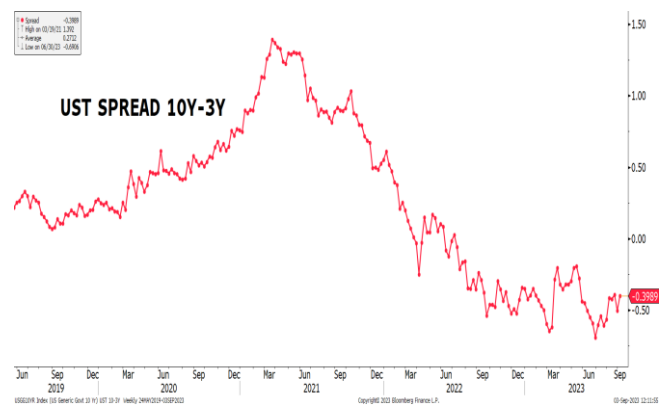
Week Ended 1 September 2023

- The UST market ended higher during the review week with benchmark 10-year yield closed lower at 4.18% (prior week: 4.24%) as investors reacted to the latest economic data, i.e. July PCE met expectation, higher unemployment rate and lower-than-expected wage growth in August. The 10y-3y yield rebounded but remains deeply inverted at -40bps (prior week: -50bps) as the short-end outperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hikes.
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.20% (prior week: 2.26%) arguably in reaction to the latest economic data. The MTIE dropped below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. Moreover, 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 mixed with the 3-year and 10-year yields added 0.6bp and shed -3.3bps to close at 3.47% and 3.83% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 40bps to 36bps as the long-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 -RM6.67b. It worsened on-week from -RM6.29b registered a week ago. Moreover, it slumped on-year from RM10.21b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market ended higher during the review week with benchmark 10-year yield closed lower at 4.18% (prior week: 4.24%) as investors reacted to the latest economic data, i.e. July PCE met expectation, higher unemployment rate and lower-than-expected wage growth in August. The 10y-3y yield rebounded but remains deeply inverted at -40bps (prior week: -50bps) as the short-end outperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hikes.



Source: Bloomberg, MIDFR

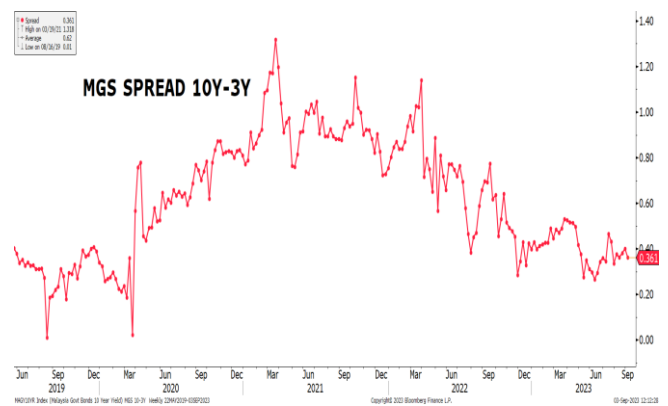
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

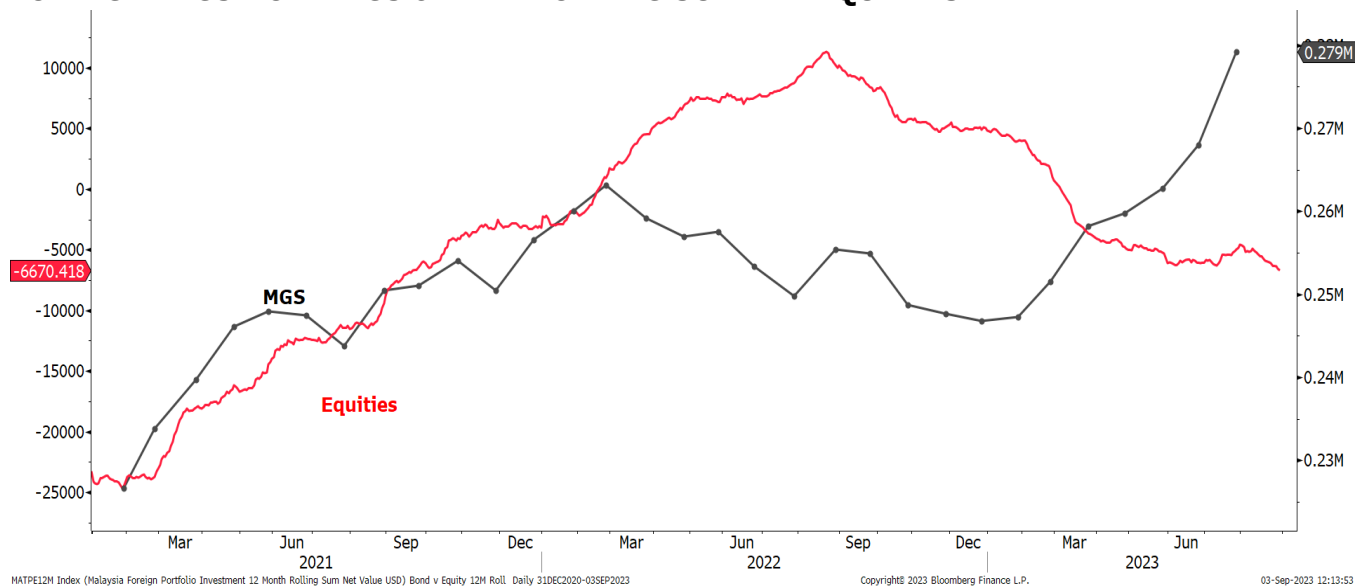
The price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields added 0.6bp and shed -3.3bps to close at 3.47% and 3.83% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 40bps to 36bps as the long-end outperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM7.96b in the holiday-shortened review week compared to RM9.10b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 55% from 60% of the overall Government Bonds trades. Moreover, 7 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 short and long residual tenor. The top 3 most actively traded were MGS 3.478% 6/14/24 at RM844m, MGS 4.893% 6/8/38 at RM598m, and MII 4.291% 8/14/43 at RM586m.

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 -RM6.67b. It worsened on-week from -RM6.29b registered a week ago. Moreover, it slumped on-year from RM10.21b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.71b in the review week compared to RM3.13b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 40% from 31% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenor. The largest trading values were seen in Johor Corp 4.72% 6/11/27 at RM200m, Danainfra 5.25% 4/21/34 at RM90m, and Danainfra 4.85% 5/3/41 at RM90m.

B. FOREIGN EXCHANGE

- USD registered the strongest weekly closing in 25 weeks. The greenback appreciated for the 7th consecutive week against major currencies as the DXY index rose by +0.2%*wow* to 104.24. The dollar extended its rally following strength in the US job market with higher-than-expected payroll data. Consequently, demand for the dollar rose despite the deterioration in the unemployment rate.
- The euro weakened while the pound appreciated. Euro depreciated on a stronger dollar for the 7th week by -0.1%*wow* to USD1.078 despite its attempt to rally earlier during the week. The euro depreciation was also due to the looming recession fears, easing inflation, and cooling in the labour market, all pointing to the end of the ECB's tightening cycle. On the other hand, the pound regained some of its loss, appreciating against the greenback by +0.1%*wow* to USD1.259. The pound reached its intra-week high at USD1.272 on BOE's hawkish tone but weakened thereafter towards end of the week on stronger-than-expected US payroll data.
- The ringgit reversed its gain in the previous week. Ringgit depreciated last week by -0.1%*wow* to RM4.647. The ringgit remained pressured by the stronger dollar and concerns related to China's real estate crisis. Initially, ringgit rose to an intraweek high of RM4.639 midweek but closed lower as demand for the dollar rose on Friday. The commodity prices movement failed to support the ringgit as Brent crude oil prices rose +4.8%*wow* to USD88.55pb.

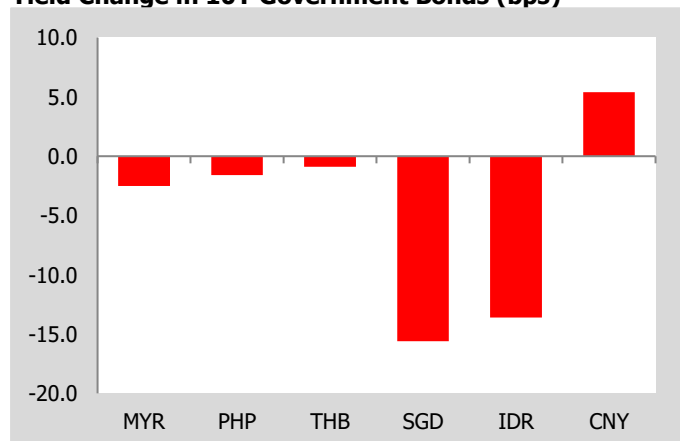
Currencies Changes (Week Ended 1 September 2023) and Quarterly Forecasts

	Close (01/09)	Prev. Close (25/08)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23	3QCY23f	4QCY23f
DXY Index	104.24	104.08	+0.159	+0.2	102.51	102.91	98.3	97.5
EURUSD	1.078	1.080	-0.002	-0.1	1.08	1.09	1.12	1.13
GBPUSD	1.259	1.258	+0.001	+0.1	1.23	1.27	1.24	1.26
USDJPY	146.22	146.44	+0.220	+0.2	132.86	144.31	133	129
USDMYR	4.647	4.641	-0.006	-0.1	4.42	4.67	4.38	4.24
GBPMYR	5.890	5.840	-0.050	-0.9	5.46	5.90	5.53	5.25
JPYMYR	3.178	3.170	-0.008	-0.3	3.33	3.23	3.35	3.26

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

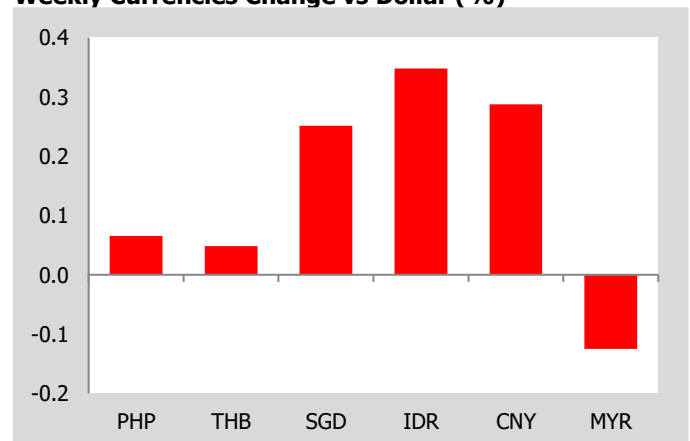
Source: Bloomberg, MIDFR

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 (%)

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

Source: Bloomberg, MIDFR

- US economic data released last week:
 - GDP growth was slower in 2QCY23 than earlier estimates. US GDP grew annualized +2.1%qoq in 2QCY23 (1QCY23: +2.0%qoq) according to the 2nd estimate, lower than initial estimates and market expectations of +2.4%qoq.
 - Jul-23 Core PCE inflation was within market expectations. Core PCE inflation accelerated to +4.2%yoy (Jul-23: +4.1%yoy), well within market expectations. On a month-on-month basis, core PCE inflation was unchanged from Jul-23 at +0.2mom, meeting market expectations.
 - The manufacturing sector extended its contractionary run in Aug-23. The Aug-23 S&P Global Manufacturing PMI was revised higher but remained well within the contractionary territory at 47.9 (Jul-23: 49.0) from the initial estimate and market forecasts of 47.0. The Aug-23 ISM Manufacturing PMI also remained in contraction at 47.6, also indicating continued contraction albeit at slower pace (Jul-23: 46.4 market forecasts: 47.0).
 - The resilient labour market showed signs of easing. Labour demand remained robust as nonfarm payroll rose faster in Aug-23 by +187K (Jul-23: +157K; market forecast: +170K). Initial jobless claims for the week ending 26 August 2023 also declined to 228K (previous week: 232K), defying market expectations for an increase to 235K. The unemployment rate, however, rose to 17-month high of 3.8%, above Jul-23 reading and market expectations of 3.5%.
- Malaysia's economic update:
 - Malaysia producer's inflation moderated further. Producers' prices deflated for 6th consecutive month in Jul-23, declining by -2.3%yoy (Jun-23: -4.8%yoy) and signalling continued ease in cost pressures. On a month-on-month basis, PPI rose +0.2%mom after -0.3%mom decline last month.
 - Activities in the manufacturing sector continued to decline in Aug-23 as Malaysia's S&P Global Manufacturing PMI remained unchanged at 47.8 as local manufacturing firms cut workforce and output amid weak demand.

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



Source: Bloomberg, MIDFR

- 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	25-Aug Fri	28-Aug Mon	29-Aug Tue	30-Aug Wed	31-Aug Thu	1-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.461	3.459	3.455	3.43	3.43	3.467	0.6
5-Y	3.601	3.601	3.589	3.599	3.599	3.58	-2.1
7-Y	3.767	3.741	3.749	3.732	3.732	3.74	-2.7
10-Y	3.861	3.846	3.829	3.843	3.843	3.828	-3.3
20-Y	4.178	4.16	4.169	4.137	4.137	4.157	-2.1
RINGGIT IRS							
1-Y	3.595	3.595	3.58	3.59	3.59	3.59	-0.5
3-Y	3.62	3.62	3.62	3.61	3.61	3.61	-1
5-Y	3.72	3.715	3.6925	3.695	3.695	3.695	-2.5
7-Y	3.835	3.835	3.8	3.8	3.8	3.805	-3
10-Y	3.96	3.97	3.95	3.94	3.94	3.94	-2
KLIBOR							
1-M	3.27	3.27	3.27	3.27	3.27	3.27	0
3-M	3.51	3.51	3.51	3.52	3.52	3.52	1
UST							
3-Y	4.7399	4.6971	4.5826	4.5713	4.5542	4.5777	-16.22
5-Y	4.4383	4.4007	4.2769	4.2681	4.2541	4.2958	-14.25
7-Y	4.3637	4.3238	4.2255	4.2134	4.2056	4.2606	-10.31
10-Y	4.2354	4.202	4.1197	4.1139	4.1081	4.1788	-5.66
30-Y	4.2841	4.2774	4.2303	4.2257	4.2107	4.2936	0.95
USD LIBOR							
1-M	5.44331	5.44331	5.44554	5.44416	5.44189	5.44335	0.004
3-M	5.6655	5.6655	5.68406	5.67121	5.66283	5.66391	-0.159

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	25-Aug Yield	1-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.478	06/14/24	3.229	3.195	-3.4	844.0
MALAYSIA GOVERNMENT	4.893	06/08/38	4.067	3.897	-17.0	597.9
MALAYSIA INVESTMNT ISSU	4.291	08/14/43	4.261	4.115	-14.6	585.5
MALAYSIA GOVERNMENT	4.642	11/07/33	3.861	3.828	-3.3	491.5
MALAYSIA GOVERNMENT	3.519	04/20/28	3.601	3.580	-2.1	474.8
MALAYSIA GOVERNMENT	3.882	03/14/25	3.338	3.322	-1.6	317.1
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.470	3.473	0.3	311.6
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.877	3.877	0.0	300.6
MALAYSIA GOVERNMENT	4.504	04/30/29	3.772	3.719	-5.3	241.2
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	3.852	3.893	4.1	240.0
TOTAL VOLUME (TOP 10)						4,404.1
TOTAL VOLUME (Overall)						7,963.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	25-Aug Yield	1-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
JOHOR CORPORATION	4.72	06/11/27	4.347	4.417	7.0	200.0
DANAINFRA NASIONAL	5.25	04/21/34	N/A	4.008	N/A	90.0
DANAINFRA NASIONAL	4.85	05/03/41	N/A	4.249	N/A	90.0
PROJEK LEBUHRAYA USAHA	4.891	01/11/36	4.299	4.279	-2.0	60.0
PROJEK LEBUHRAYA USAHA	4.44	01/12/28	3.965	3.999	3.4	50.0
SUNWAY TREASURY SUKUK	ZERO	09/27/23	N/A	3.660	N/A	50.0
AMBANK MALAYSIA BHD	5.2	10/12/32	4.460	4.450	-1.0	40.3
DANAINFRA NASIONAL	4.29	04/30/26	3.544	3.535	-0.9	40.0
DANAINFRA NASIONAL	4.93	07/24/34	4.005	4.013	0.8	40.0
PRASARANA MALAYSIA BHD	5.23	09/13/47	4.279	4.340	6.1	30.0
TOTAL VOLUME (TOP 10)						690.3
TOTAL VOLUME (Overall)						1,711.8

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