

MIDF Strategy 25 September 2023

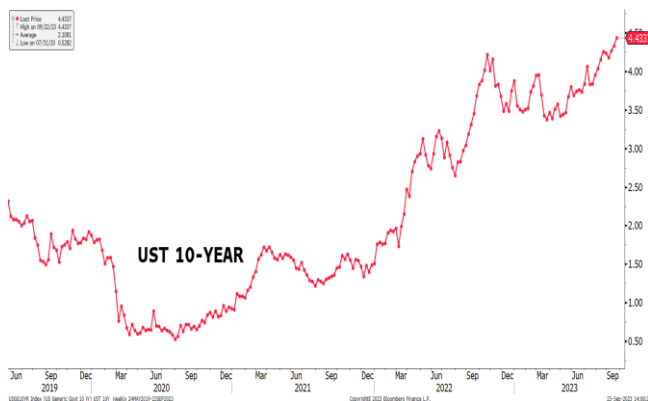
Week Ended 22 September 2023

- The UST market ended lower during the review week with benchmark 10-year yield closed higher at 4.43% (prior week: 4.33%), its highest weekly close since October 2007, as investors reacted to (1) the latest Fed dot plot suggesting another rate hike later this year, (2) the possibility of higher-for-longer interest rates, as well as (3) the upward revisions of GDP growth estimates for this year and next. Nonetheless, the interest rate futures market was implying no more Fed rate hikes. Meanwhile, the 10y-3y yield spread rebounded but remains deeply inverted at -36bps (prior week: -39bps) as the long-end underperformed.
- Medium-term inflation expectation (MTIE) ended unchanged week-on-week at 2.31%. The MTIE remains within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. However, 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 lower with the 3-year and 10-year yields added 7.4bps and 11.0bps to close at 3.57% and 4.00% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 40bps to 43bps as the long-end underperformed.
- MGS foreign holdings increased on-year from RM255b in August 2022 to RM274b in August 2023. However, it fell on-month from RM279b in July 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM5.46b. It improved on-week from -RM6.42b registered a week ago. Nonetheless, it slumped on-year from RM8.91b 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 4.43% (prior week: 4.33%), its highest weekly close since October 2007, as investors reacted to (1) the latest Fed dot plot suggesting another rate hike later this year, (2) the possibility of higher-for-longer interest rates, as well as (3) the upward revisions of GDP growth estimates for this year and next. Nonetheless, the interest rate futures market was implying no more Fed rate hikes. Meanwhile, the 10y-3y yield spread rebounded but remains deeply inverted at -36bps (prior week: -39bps) as the long-end underperformed.



Source: Bloomberg, MIDFR

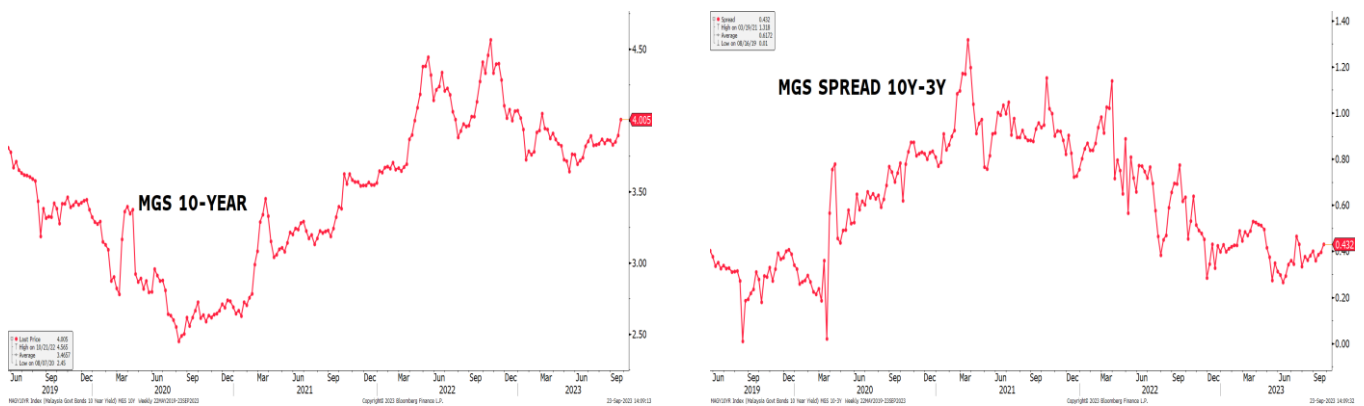
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

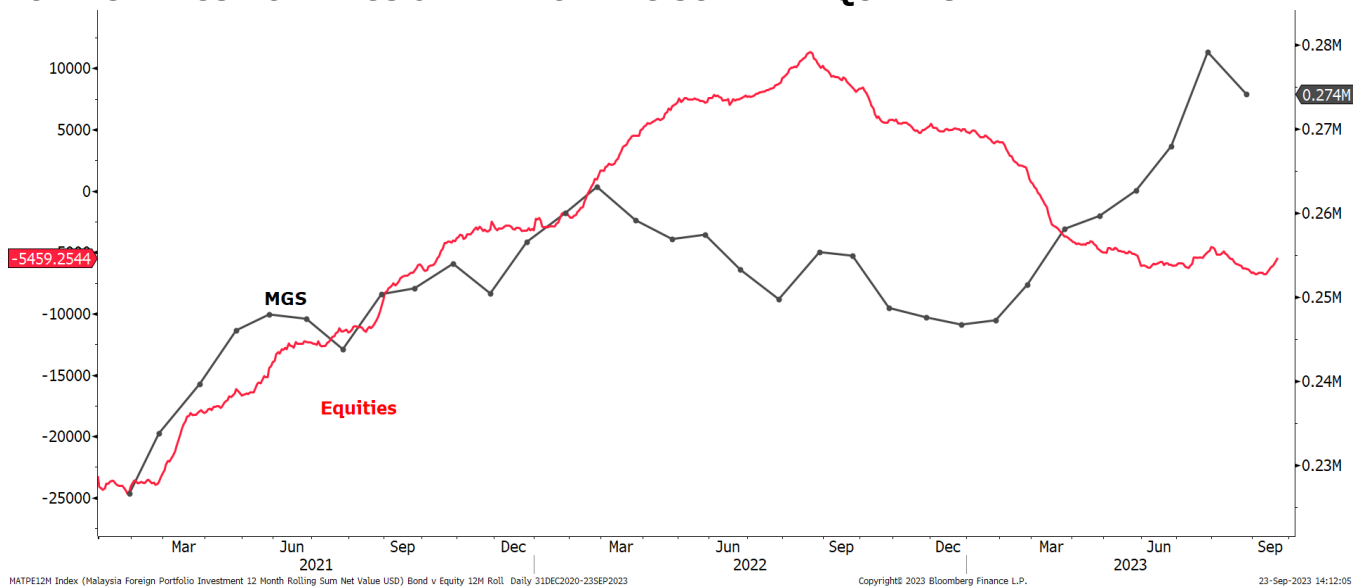
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM13.21b in the review week compared to RM13.10b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 54% from 56% of the overall Government Bonds trades. Moreover, 10 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 mid and long residual tenor. The top 3 most actively traded were MGS 4.642% 11/7/33 at RM1.20b, MGS 2.632% 4/15/31 at RM926m, and MGS 4.893% 6/8/38 at RM827m.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM255b in August 2022 to RM274b in August 2023. However, it fell on-month from RM279b in July 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM5.46b. It improved on-week from -RM6.42b registered a week ago. Nonetheless, it slumped on-year from RM8.91b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.40b in the review week compared to RM2.64b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 35% from 40% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of mid and long residual tenor. The largest trading values were seen in Kazanah Nasional 0% 9/3/32 at RM200m, Danainfra 4.15% 1/31/30 at RM100m, and Danainfra 5.08% 4/130/38 at RM90m.

B. FOREIGN EXCHANGE

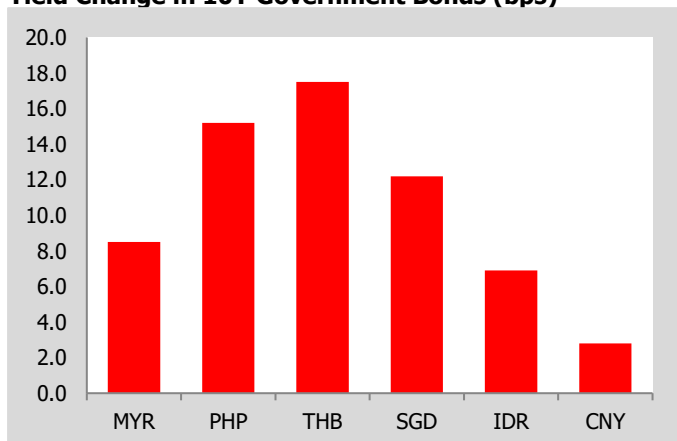
- USD strengthened for the 10th week. The dollar marked the strongest weekly closing in 43 weeks against major currencies as the DXY index rose +0.2%*wow* to 105.58. Despite the FOMC's decision to keep fed funds rate target unchanged after its Sep-23 meeting, demand for the dollar rose as the Fed maintained its hawkish stance and signalled the possibility for another hike later this year as inflation remained above the Fed's 2% target.
- Euro was virtually unchanged while the pound weakened further. Euro closed at around the same level as the previous week, closing at USD1.065 following recession fears as recent data depicted further contraction in both services and manufacturing sectors in euro area. Meanwhile, the pound sterling registered closed at 26-week lows, weakening by -1.1%*wow* to USD1.224. In addition to the stronger dollar, the pound weakened further as the BOE kept the interest rate status quo.
- Ringgit marked 4th consecutive week of weakening. On the back of stronger dollar, the ringgit depreciated -0.1%*wow* to RM4.689, reaching the weakest weekly closing since mid-Nov-22. Like other regional currencies, the ringgit slid further against the US dollars following Fed hawkish signal. In addition, commodity prices were also not supportive of the ringgit performance as the Brent crude benchmark declined by -0.7%*wow* to USD93.27pb.

Currencies Changes (Week Ended 22 September 2023) and Quarterly Forecasts

	Close (22/09)	Prev. Close (15/09)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23	3QCY23f	4QCY23f
DXY Index	105.58	105.32	+0.261	+0.2	102.51	102.91	98.3	97.5
EURUSD	1.065	1.066	-0.000	-0.0	1.08	1.09	1.12	1.13
GBPUSD	1.224	1.238	-0.014	-1.1	1.23	1.27	1.24	1.26
USDJPY	148.37	147.85	-0.520	-0.4	132.86	144.31	147	135
USDMYR	4.689	4.683	-0.006	-0.1	4.42	4.67	4.58	4.24
GBPMYR	5.741	5.822	+0.081	+1.4	5.46	5.90	5.68	5.34
JPYMYR	3.160	3.167	+0.007	+0.2	3.33	3.23	3.12	3.14

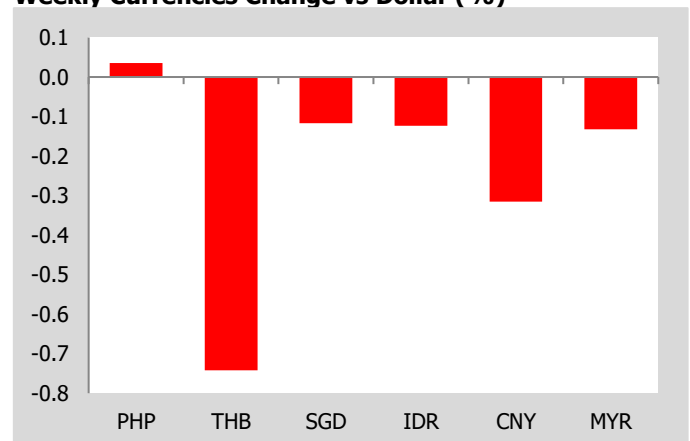
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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	4.50
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:
 - Leading index continued to contract while coincident index extended the expansionary sequence. Conference Board leading economic index (LEI) declined by -0.4%mom in Aug-23, extending the contraction for almost a year and a half. The current economic environment, however, indicated resilience as the coincident economic index (CEI) registered a +0.2%mom increase (Jul-23: +0.3%mom)
 - Labour market remained robust. Initial jobless claims for the week ending 16th September surprised the market, declining to +201K (previous week: +221K; market forecasts: +225K), the lowest since Jan-23.
 - Manufacturing sector remained contractionary while services continued expanding. The S&P Global Manufacturing US PMI improved to 48.9 in Sep-23 (Aug-23: 47.9; market forecasts: 48.0) but remained within the contractionary territory. Meanwhile, the S&P Global US Services PMI missed market expectations, declining to 50.2 (Aug-23: 50.5; market forecasts: 50.6), barely within the expansionary territory.

- Monetary decisions last week:
 - On 20 September,
 - PBOC kept its 1-year and 5-year Loan Prime Rates (LPRs) steady at 3.45% and 4.20%, respectively.
 - On 20 September, widely in line with market consensus, the Fed FOMC maintained the fed funds rate (FFR) target at 5.25-5.50%. The Fed will keep its policy setting restrictive and signalled another rate hike later this year as inflation remained above its 2% target.
 - On 21 September,
 - BOE decided to keep its Bank rate steady at 5.25% for the first time in nearly 2 years following the unexpected drop in the UK inflation in Aug-23.
 - Bank Indonesia maintained its policy interest rate at 5.75% for the 8th consecutive meeting.
 - Bangko Sentral ng Pilipinas held the interest rate steady at 6.25% for the 4th consecutive meeting.
 - On 22 September, BOJ kept its target for short-term interest rate at -0.1% and the 10y JGB yield around 0% as expected. BOJ also did not make any changes to the allowance band of 50bps set on either side of the yield target and the new hard cap of 1.0% adopted in Jul-23.

- Malaysia's economic releases last week:
 - Exports and imports fell sharper in Aug-23. Exports registered 6th straight month of decline, contracting sharper at -18.6%yoy in Aug-23 (Jul-23: -13.0%yoy). Meanwhile, imports registered even larger decline at -21.2%yoy in Aug-23 (Jul-23: -16.1%yoy), with reduced purchases of intermediate, capital and consumption goods.
 - CPI inflation stabilized at +2.0%yoy. Headline CPI inflation was unchanged at 2-year low of +2.0%yoy in Aug-23, similar to market consensus. Underlying demand pressure eased with the core inflation moderated further to +2.5%yoy (Jul-23: +2.8%yoy), but it was still above pre-pandemic average of +1.7%.

C. BNM INTERNATIONAL RESERVES

- As of 15 September 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD111.5b (30 August 2023: USD112.5b).

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	15-Sep Fri	18-Sep Mon	19-Sep Tue	20-Sep Wed	21-Sep Thu	22-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.499	3.517	3.517	3.547	3.581	3.573	7.4
5-Y	3.626	3.674	3.668	3.686	3.711	3.699	7.3
7-Y	3.766	3.81	3.798	3.829	3.847	3.89	12.4
10-Y	3.895	3.871	3.904	3.935	3.976	4.005	11
20-Y	4.185	4.208	4.201	4.234	4.301	4.308	12.3
RINGGIT IRS							
1-Y	3.655	3.685	3.68	3.685	3.695	3.68	2.5
3-Y	3.695	3.74	3.75	3.765	3.77	3.785	9
5-Y	3.81	3.835	3.84	3.88	3.9025	3.867	5.7
7-Y	3.935	3.955	3.955	4.005	4.013	3.995	6
10-Y	4.06	4.08	4.08	4.13	4.13	4.122	6.2
KLIBOR							
1-M	3.27	3.28	3.28	3.28	3.28	3.28	1
3-M	3.54	3.54	3.54	3.55	3.55	3.55	1
UST							
3-Y	4.7211	4.7268	4.778	4.8608	4.8552	4.7984	7.73
5-Y	4.4633	4.4491	4.5115	4.5832	4.621	4.5584	9.51
7-Y	4.4198	4.3986	4.4574	4.5217	4.581	4.5222	10.24
10-Y	4.3324	4.3026	4.3586	4.407	4.4942	4.4337	10.13
30-Y	4.4172	4.384	4.4241	4.4448	4.573	4.5245	10.73
USD LIBOR							
1-M	5.44156	5.43932	5.43857	5.43793	5.4342	5.4342	-0.736
3-M	5.66329	5.65946	5.65863	5.65774	5.6617	5.6617	-0.159

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	15-Sep Yield	22-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	4.642	11/07/33	3.895	4.005	11.0	1,200.0
MALAYSIA GOVERNMENT	2.632	04/15/31	3.909	3.973	6.4	926.5
MALAYSIA GOVERNMENT	4.893	06/08/38	4.073	4.151	7.8	827.1
MALAYSIA GOVERNMENT	3.582	07/15/32	3.900	4.003	10.3	771.3
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.561	3.589	2.8	713.3
MALAYSIA GOVERNMENT	3.733	06/15/28	3.716	3.767	5.1	691.9
MALAYSIA GOVERNMENT	3.885	08/15/29	3.761	3.881	12.0	609.9
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.689	3.746	5.7	545.8
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.919	4.019	10.0	472.7
MALAYSIA GOVERNMENT	4.498	04/15/30	3.779	3.890	11.1	415.4
TOTAL VOLUME (TOP 10)						7,174.0
TOTAL VOLUME (Overall)						13,212.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	15-Sep Yield	22-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
KHAZANAH NASIONAL BHD	ZERO	09/03/32	N/A	4.026	N/A	200.0
DANAINFRA NASIONAL	4.15	01/31/30	3.847	3.845	-0.2	100.0
DANAINFRA NASIONAL	5.08	04/30/38	N/A	4.186	N/A	90.0
SARAWAK PETCHEM SDN B	5.5	07/27/37	N/A	4.429	N/A	90.0
PENGURUSAN AIR SELANGO	5.35	09/19/42	N/A	4.702	N/A	70.0
ECO WORLD CAPITAL BHD	5.69	10/29/27	4.478	4.415	-6.3	70.0
LEBUHRAYA DUKE FASA 3 S	6.23	08/21/37	N/A	5.505	N/A	60.0
MALAYSIA AIRPORTS HG B	3.3	11/05/27	3.949	3.998	4.9	60.0
GAMUDA LAND T12 SDN BH	4.2	10/11/27	N/A	4.170	N/A	50.0
SARAWAK PETCHEM SDN B	5.09	07/26/30	N/A	4.108	N/A	50.0
TOTAL VOLUME (TOP 10)						840.0
TOTAL VOLUME (Overall)						2,402.6

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