

MIDF Strategy 2 October 2023

Week Ended 29 September 2023

- The UST market ended lower during the review week with benchmark 10-year yield closed higher at 4.57% (prior week: 4.43%), its highest weekly close since October 2007 attributable to continued reaction to the outcomes of US Fed latest meeting (i.e. the likelihood of higher-for-longer interest rates and upward revisions of GDP growth estimates for this year and next). However, the rise in the benchmark yield was moderated by lower-than-expected inflation data for August. The 10y-3y yield spread rebounded but remains deeply inverted at -23bps (prior week: -36bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hikes.
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.25% (prior week: 2.31%) attributable to lower-than-expected Core PCE (month-on-month) in August. The MTIE dropped back to within 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 higher with the 3-year and 10-year yields shed -1.1bps and -3.3bps to close at 3.56% and 3.97% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 43bps to 41bps as the long-end outperformed.
- 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 -RM4.59b. It improved on-week from -RM5.46b registered a week ago. Nonetheless, it slumped on-year from RM8.30b 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 4.57% (prior week: 4.43%), its highest weekly close since October 2007 attributable to continued reaction to the outcomes of US Fed latest meeting (i.e., the likelihood of higher-for-longer interest rates and upward revisions of GDP growth estimates for this year and next). However, the rise in the benchmark yield was moderated by lower-than-expected inflation data for August. The 10y-3y yield spread rebounded but remains deeply inverted at -23bps (prior week: -36bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hikes.



Source: Bloomberg, MIDFR

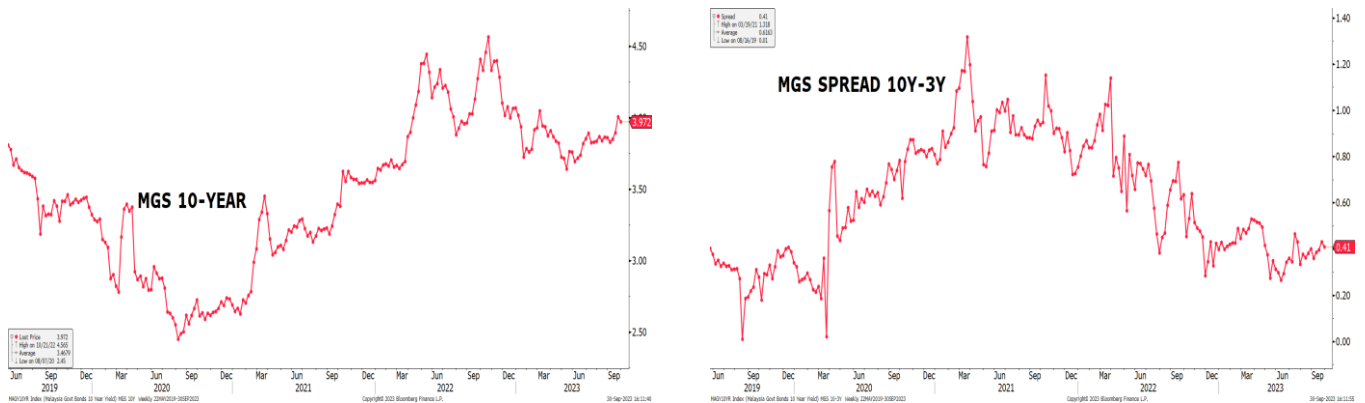
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.25% (prior week: 2.31%) attributable to the lower-than-expected Core PCE (month-on-month) in August. The MTIE dropped back to within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. Moreover, it 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.

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



Source: Bloomberg, MIDFR

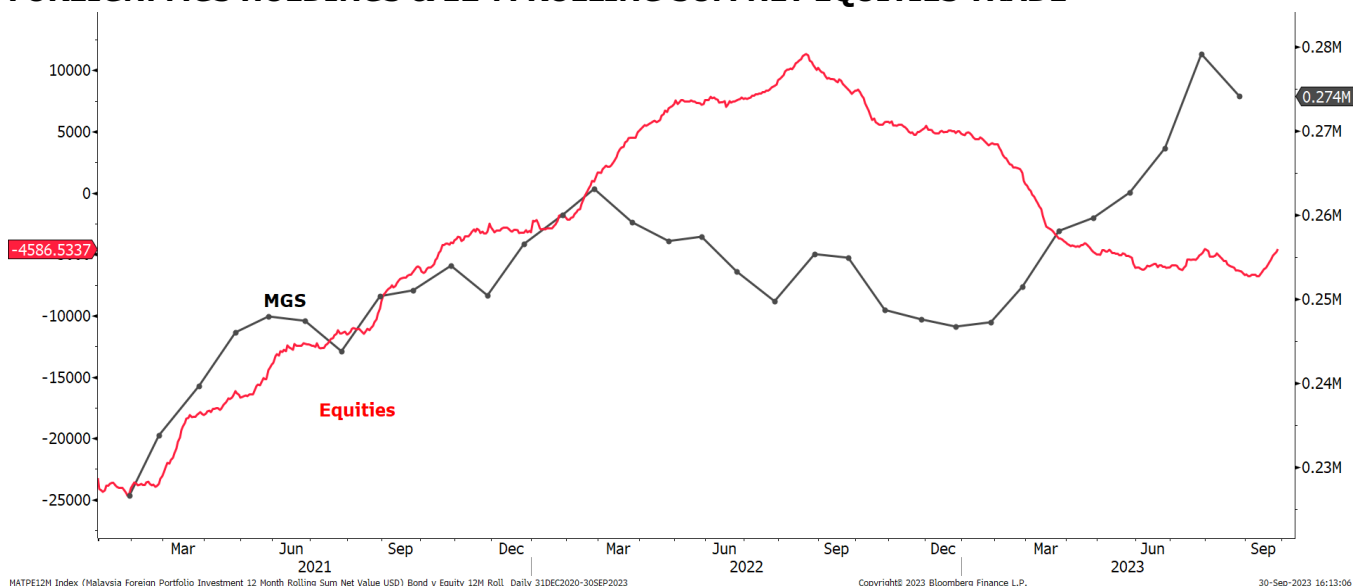
The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -1.1bps and -3.3bps to close at 3.56% and 3.97% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 43bps to 41bps as the long-end outperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM10.60b in the holiday-shortened review week compared to RM13.21b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 55% from 54% 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 varied residual tenor. The top 3 most actively traded were MII 3.599% 7/31/28 at RM1.36b, MGS 3.882% 3/14/25 at RM837m, and MGS 4.457% 3/31/53 at RM658m.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased one year from RM255b in August 2022 to RM274b in August 2023. However, it fell one-month from RM279b in July 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM4.59b. It improved one week from -RM5.46b registered a week ago. Nonetheless, it slumped one year from RM8.30b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.81b in the review week compared to RM2.40b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 41% from 35% 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 Govco Holdings 4.27% 9/27/24 at RM310m, Sarawak Energy 4.27% 7/4/33 at RM310m, and Danainfra 5.51% 4/21/44 at RM200m.

B. FOREIGN EXCHANGE

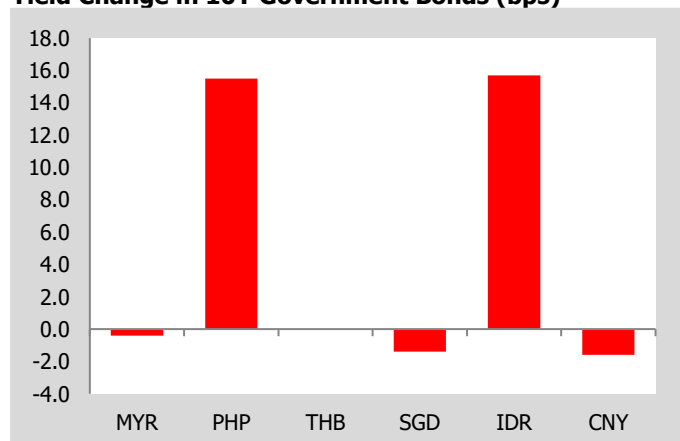
- USD appreciated for the 11th week. The US dollar closed last week at the highest level in since mid-Nov-22 against major currencies as the DXY index rose +0.6%wow to 106.17. Besides the Fed's hawkish sentiment, the dollar rally was underpinned by flight to safety following concerns over the possible US government shutdown, which overwhelmed the softer core PCE inflation data.
- Euro and pound depreciated. As dollar strengthened, euro and pound depreciated by -0.8%wow to USD1.057 and -0.3%wow to USD1.220, respectively. The euro registered the weakest closing in 31 weeks as growth concerns continued in addition to softer inflation in Germany. The pound closed the weakest in 28 weeks as sentiment was influenced by rising recession woes.
- Ringgit depreciated for the 5th week in a row. As the dollar strengthened, the ringgit depreciated -0.1%wow to RM4.695, still the weakest weekly closing since early Nov-22. Like other regional currencies, ringgit weakened further as risk aversion led to the stronger dollar. The depreciation was to a certain extent limited by the continued rise in commodity prices, as the Brent crude oil benchmark increasing by +2.2%wow to USD95.31pb last week.

Currencies Changes (Week Ended 29 September 2023) and Quarterly Forecasts

	Close (29/09)	Prev. Close (22/09)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23	3QCY23f	4QCY23f
DXY Index	106.17	105.58	+0.591	+0.6	102.51	102.91	98.3	97.5
EURUSD	1.057	1.065	-0.008	-0.8	1.08	1.09	1.12	1.13
GBPUSD	1.220	1.224	-0.004	-0.3	1.23	1.27	1.24	1.26
USDJPY	149.37	148.37	-1.000	-0.7	132.86	144.31	147	135
USDMYR	4.695	4.689	-0.006	-0.1	4.42	4.67	4.58	4.24
GBPMYR	5.758	5.741	-0.017	-0.3	5.46	5.90	5.68	5.34
JPYMYR	3.144	3.160	+0.017	+0.5	3.33	3.23	3.12	3.14

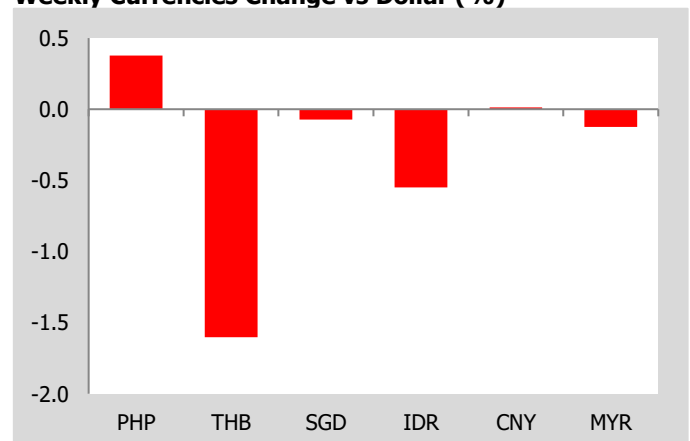
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

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

Source: Bloomberg, MIDFR

- US economic data released last week:
 - Consumer confidence deteriorated. The Conference Board (CB) Consumer confidence index declined in Sep-23 to 103.0 following the upwardly revised 108.7 in Aug-23, underwhelming market expectations of 105.5.
 - US labour market remained robust. Initial jobless claims for the week ending 23 September rose to 204K (previous week: 202K) but was well under market expectations of 215K.
 - No change to US GDP growth in 2QCY23. The updated estimate released by Bureau of Economic Analysis (BEA) showed the US GDP grew by annualised +2.1%qoq, similar to previous estimate.
 - Core PCE inflation moderated. Core PCE inflation decelerated to the lowest since Jun-21 at +3.9%yoy (Jul-23: +4.3%yoy), right within market expectations.
- On 27 September, the Bank of Thailand surprised the market with another 25bps hike, bringing the interest rate to 2.50% in its Sep-23 decision, pushing the interest rate to the highest since late 2013.
- Malaysia's economic releases last week:
 - Producer prices continued on a contraction sequence. Producer price index deflated for the 7th straight month, declining by -1.8%yoy in Aug-23.
 - LI continued to suggest moderating growth momentum in the short run. Leading Index (LI) recorded the 5th straight month of contraction, albeit falling slower at -0.9%yoy (Jun-23: -2.1%yoy).

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 number 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	22-Sep Fri	25-Sep Mon	26-Sep Tue	27-Sep Wed	28-Sep Thu	29-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.573	3.571	3.579	3.532	3.532	3.562	-1.1
5-Y	3.699	3.699	3.759	3.687	3.687	3.712	1.3
7-Y	3.89	3.862	3.874	3.876	3.876	3.878	-1.2
10-Y	4.005	3.976	3.975	3.975	3.975	3.972	-3.3
20-Y	4.308	4.287	4.295	4.308	4.308	4.313	0.5
RINGGIT IRS							
1-Y	3.68	3.675	3.68	3.675	3.675	3.675	-0.5
3-Y	3.785	3.77	3.755	3.755	3.755	3.75	-3.5
5-Y	3.867	3.875	3.87	3.86	3.86	3.865	-0.2
7-Y	3.995	4.005	4.005	4	4	3.995	0
10-Y	4.122	4.11	4.14	4.11	4.11	4.135	1.3
KLIBOR							
1-M	3.28	3.28	3.28	3.28	3.28	3.29	1
3-M	3.55	3.55	3.56	3.57	3.57	3.57	2
UST							
3-Y	4.7984	4.83	4.8215	4.8964	4.8161	4.7991	0.07
5-Y	4.5584	4.6142	4.6053	4.6848	4.6232	4.609	5.06
7-Y	4.5222	4.6005	4.598	4.6795	4.6362	4.6144	9.22
10-Y	4.4337	4.5334	4.5356	4.6075	4.5748	4.5711	13.74
30-Y	4.5245	4.6521	4.675	4.719	4.7044	4.6992	17.47
USD LIBOR							
1-M	5.43199	5.43193	5.43291	5.43056	5.42907	5.42907	-0.292
3-M	5.66142	5.65273	5.64719	5.65169	5.65643	5.65643	-0.499

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	22-Sep Yield	29-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.746	3.790	4.4	1,361.9
MALAYSIA GOVERNMENT	3.882	03/14/25	3.434	3.367	-6.7	836.6
MALAYSIA GOVERNMENT	4.457	03/31/53	4.475	4.406	-6.9	658.5
MALAYSIA GOVERNMENT	3.885	08/15/29	3.881	3.886	0.5	631.9
MALAYSIA GOVERNMENT	3.478	06/14/24	3.281	3.239	-4.2	519.3
MALAYSIA GOVERNMENT	3.733	06/15/28	3.767	3.762	-0.5	421.7
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.019	3.996	-2.3	405.8
MALAYSIA GOVERNMENT	3.582	07/15/32	4.003	3.963	-4.0	364.9
MALAYSIA INVESTMNT ISSU	4.094	11/30/23	3.120	3.099	-2.1	361.5
MALAYSIA GOVERNMENT	3.519	04/20/28	3.699	3.712	1.3	257.6
TOTAL VOLUME (TOP 10)						5,819.6
TOTAL VOLUME (Overall)						10,601.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	22-Sep Yield	29-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
GOVCO HOLDINGS BHD	4.27	09/27/24	N/A	3.505	N/A	310.0
SARAWAK ENERGY BHD	4.27	07/04/33	4.138	4.239	10.1	310.0
DANAINFRA NASIONAL	5.51	04/21/44	N/A	4.409	N/A	200.0
PETROLEUM SARAWAK EXP	5.08	11/11/27	4.077	4.082	0.5	145.0
CAGAMAS BERHAD	4	08/29/28	N/A	4.000	N/A	120.0
DRB-HICOM BHD	5.1	12/12/29	5.152	5.363	21.1	110.0
PRASARANA MALAYSIA BHD	3.44	02/24/40	4.209	4.285	7.6	100.0
GEORGE KENT MALAYSIA B	5.5	03/26/26	N/A	5.210	N/A	100.0
CAGAMAS BERHAD	3.67	09/30/24	N/A	3.670	N/A	90.0
DANAINFRA NASIONAL	3.93	11/27/34	N/A	4.139	N/A	80.0
TOTAL VOLUME (TOP 10)						1,565.0
TOTAL VOLUME (Overall)						3,812.8

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