

MIDF Strategy 9 October 2023

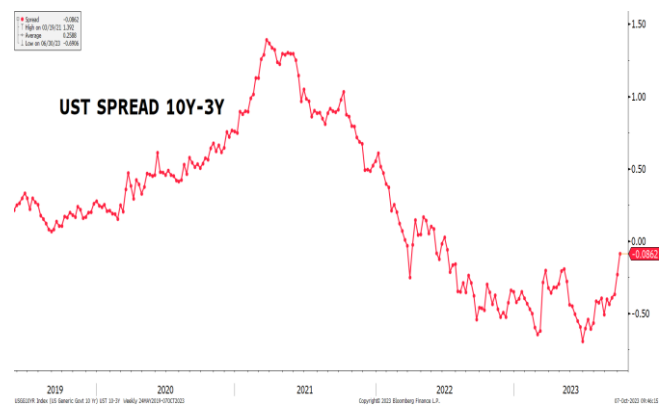
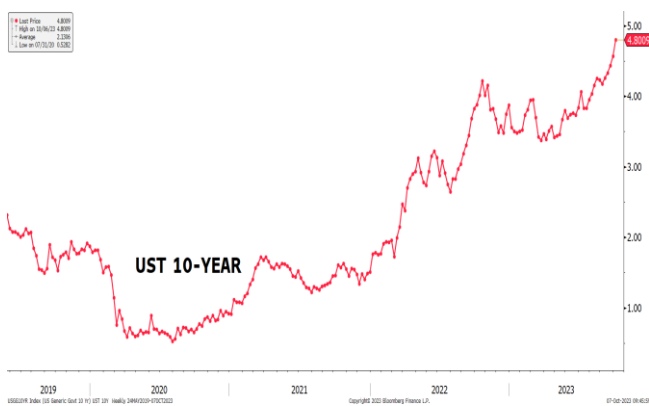
Week Ended 6 October 2023

- The UST market ended lower during the review week with benchmark 10-year yield closed markedly higher at 4.80% (prior week: 4.57%), its highest weekly close since July 2007, attributable to persistently strong US economic data (i.e. August job openings and September nonfarm payrolls). The 10y-3y yield spread rebounded sharply but remains inverted at -9bps (prior week: -23bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hike.
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.18% (prior week: 2.25%) despite the strong jobs data. The MTIE even 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 progressively ebbing.
- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 10.4bps and 7.3bps to close at 3.67% and 4.04% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 41bps to 38bps as the short-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 -RM5.07b. It worsened on-week from -RM4.59b registered a week ago. Moreover, it slumped on-year from RM8.16b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market ended lower during the review week with benchmark 10-year yield closed markedly higher at 4.80% (prior week: 4.57%), its highest weekly close since July 2007, attributable to persistently strong US economic data (i.e. August job openings and September nonfarm payrolls). The 10y-3y yield spread rebounded sharply but remains inverted at -9bps (prior week: -23bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hike.



Source: Bloomberg, MIDFR

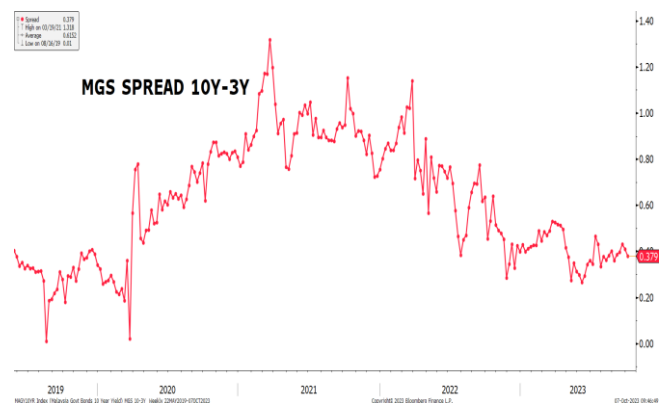
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.18% (prior week: 2.25%) despite the strong jobs data. The MTIE even dropped below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. Moreover, it is notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. We reckon the market is convinced the inflation pressure (while stubborn) is progressively ebbing.

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



Source: Bloomberg, MIDFR

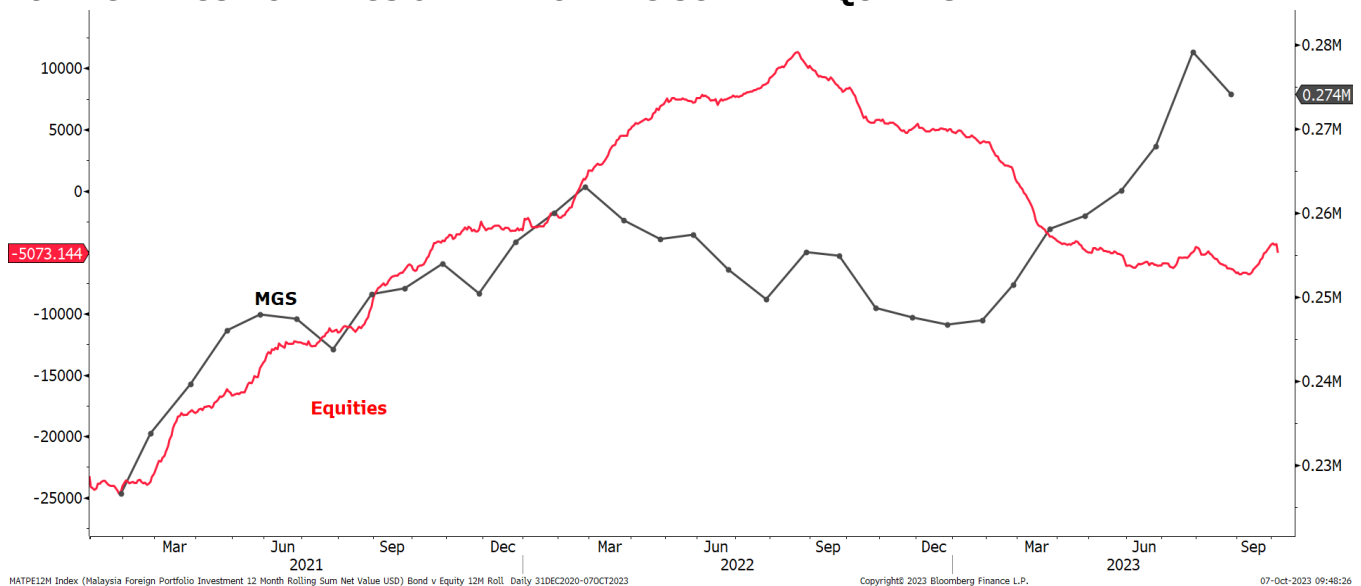
The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 10.4bps and 7.3bps to close at 3.67% and 4.04% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 41bps to 38bps as the short-end underperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM14.80b in the review week compared to RM10.60b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 53% from 55% 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 short and mid residual tenor. The top 3 most actively traded were MII 4.193% 10/7/32 at RM1.44b, MII 3.599% 7/31/28 at RM1.16b, and MGS 3.478% 6/14/24 at RM950m.

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 -RM5.07b. It worsened on-week from -RM4.59b registered a week ago. Moreover, it slumped on-year from RM8.16b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.02b in the review week compared to RM3.81b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 44% from 41% 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 Danainfra 5.04% 11/12/40 at RM200m, Danainfra 5.22% 11/14/42 at RM200m, and Danum Capital 4.02% 6/30/25 at RM100m.

B. FOREIGN EXCHANGE

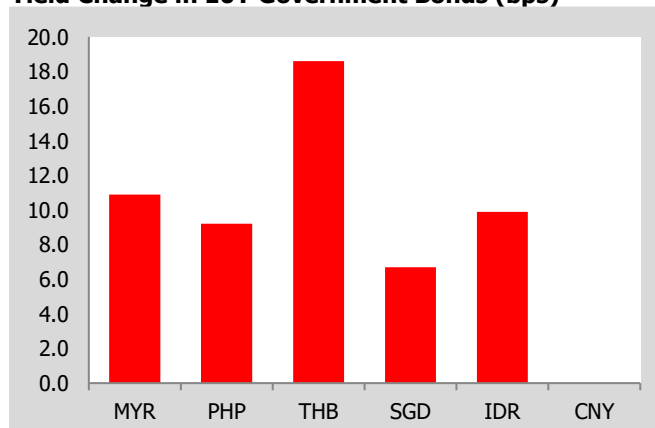
- USD ended 11 weeks of strengthening. The US dollar closed slightly lower last week against major currencies as the DXY index edged down -0.1%wov to 106.04. Earlier in the week, the DXY index rose to 107 on Tuesday, strongest level last seen in Nov-22, following hawkish commentary by Fed policymakers. However, the retreat in US Treasury yields, expected moderation in inflation (given sharp decline in oil prices), and weaker private payrolls led to weakening of dollar since Wednesday. The US dollar depreciated further despite labour market update on Friday showed stronger-than-expected job creation in Sep-23.
- Euro and pound appreciated. The euro and pound appreciated by +0.1%wov to USD1.059 and +0.3%wov to USD1.224, respectively. Easing demand for US dollars led to the euro and pound ending its 11 weeks and 4 weeks of depreciation on expectations for further moderation in US inflation, therefore reduced need for additional rate hikes by the Fed.
- Ringgit depreciated for the 6th week. The ringgit failed to capitalise on the USD weakness, depreciating further by -0.4%wov last week, still around the weakest weekly closing since early Nov-22. Expectations for further rate hikes which led to the dollar strengthening at the early part of the week, led to ringgit weakening towards RM4.73 on Wednesday. However, like other regional currencies the weekly depreciation was limited by some weakening of the dollar in the latter part of the week, with ringgit ended the week at RM4.714. To a certain extent, the ringgit weakening was influenced by decline in crude oil prices with a sharp -11.3%wov plunge in the Brent crude benchmark to USD84.58pb (previous week: USD95.31pb).

Currencies Changes (Week Ended 6 September 2023) and Quarterly Forecasts

	Close (02/10)	Prev. Close (29/09)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23	3QCY23f	4QCY23f
DXY Index	106.04	106.17	-0.130	-0.1	102.51	102.91	98.3	97.5
EURUSD	1.059	1.057	+0.001	+0.1	1.08	1.09	1.12	1.13
GBPUSD	1.224	1.220	+0.004	+0.3	1.23	1.27	1.24	1.26
USDJPY	149.32	149.37	+0.050	+0.0	132.86	144.31	147	135
USDMYR	4.714	4.695	-0.018	-0.4	4.42	4.67	4.58	4.24
GBPMYR	5.753	5.758	+0.005	+0.1	5.46	5.90	5.68	5.34
JPYMYR	3.156	3.144	-0.013	-0.4	3.33	3.23	3.12	3.14

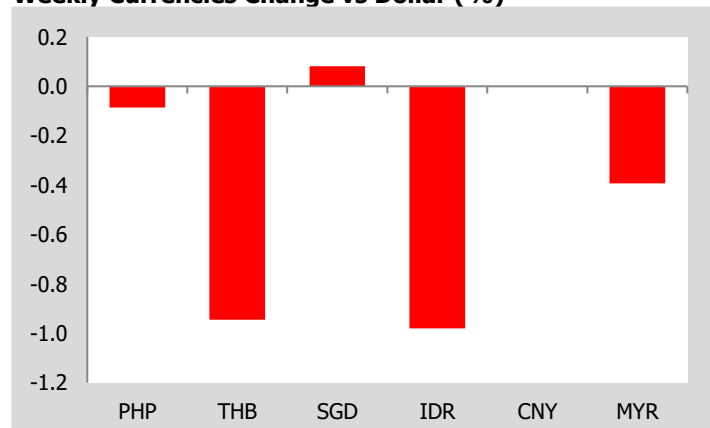
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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:
 - Manufacturing activities fell slower in Sep-23. Manufacturing activities continued to fall but at slower pace as the S&P US Global Manufacturing PMI and ISM Manufacturing PMI rose to 49.8 in Sep-23 (Aug-23: 47.9; market forecasts: 48.9) and 49.0 (Aug-23: 47.6; market forecasts: 47.8), respectively. Both indices remained below 50 (in contractionary) despite showing better reading vis-à-vis market expectations.
 - Services sector activities continued to grow. The S&P Global US Services PMI and the ISM Services PMI eased but remained above 50 at 50.1 (Aug-23: 50.5) and 53.6 (Aug-23: 54.5), respectively.
 - Economic pessimism rose. The IBD/TIPP Economic Optimism Index plunged further into pessimistic territory at 36.3 in Oct-23 (Sep-23: 43.2; market forecasts: 41.6).
 - US labour market remained resilient in Sep-23:
 - More jobs were added in Sep-23 with nonfarm payrolls rising faster than expected by +336K (Aug-23: +227K; market forecast: +170K), the second highest monthly increase in 2023 after +472K in Jan-23.
 - Wage growth eased as average hourly earnings growth moderated slightly to +4.2%yoy (Aug-23: +4.3%yoy; market forecasts: +4.3%yoy).
 - The unemployment rate remained at 3.8% as in Aug-23, against 3.7% expected by market consensus.
 - Initial jobless claims still low despite increasing to +207K for the week ending 30th September (previous week: +205K; market forecast: +210K).
- On monetary decisions last week:
 - On 3 October, the Reserve Bank of Australia unsurprisingly kept the interest rate steady at 4.10% for the 4th straight month, despite warning inflation still remains a concern and more rate hikes may be necessary.
 - On 6 October, the Reserve Bank of India maintained the interest rate at 6.50% for the 4th straight meeting but signaled to keep tight liquidity through bond sales to contain still-elevated inflation.
 - Malaysia's manufacturing activities contracted further. The S&P Global Malaysia Manufacturing PMI fell to 46.8 in Sep-23 (Aug-23: 47.8) and pointed to sharper fall in manufacturing activities, which has been on a decline for 13 months in a row with sharp contraction in new export orders.

C. BNM INTERNATIONAL RESERVES

- As of 29 September 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD110.1b (15 September 2023: USD111.5b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.1 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	29-Sep Fri	2-Oct Mon	3-Oct Tue	4-Oct Wed	5-Oct Thu	6-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.562	3.558	3.618	3.717	3.67	3.666	10.4
5-Y	3.712	3.715	3.763	3.834	3.846	3.81	9.8
7-Y	3.878	3.875	3.932	4.015	4.027	4.014	13.6
10-Y	3.972	3.973	4.01	4.116	4.104	4.045	7.3
20-Y	4.313	4.323	4.312	4.451	4.488	4.46	14.7
RINGGIT IRS							
1-Y	3.675	3.675	3.68	3.705	3.7	3.69	1.5
3-Y	3.75	3.765	3.765	3.81	3.794	3.79	4
5-Y	3.865	3.8965	3.905	3.99	3.945	3.955	9
7-Y	3.995	4.02	4.035	4.117	4.105	4.08	8.5
10-Y	4.135	4.13	4.155	4.27	4.25	4.22	8.5
KLIBOR							
1-M	3.29	3.29	3.29	3.29	3.29	3.29	0
3-M	3.57	3.57	3.57	3.57	3.57	3.57	0
UST							
3-Y	4.7991	4.88	4.9525	4.863	4.8227	4.887	8.79
5-Y	4.609	4.7083	4.7993	4.7243	4.6852	4.7566	14.76
7-Y	4.6144	4.7203	4.8244	4.7576	4.7257	4.8059	19.15
10-Y	4.5711	4.6785	4.7955	4.7329	4.7185	4.8009	22.98
30-Y	4.6992	4.7882	4.923	4.8584	4.8901	4.9676	26.84
USD LIBOR							
1-M	5.43347	5.43856	5.44199	5.44488	5.45046	5.45046	1.699
3-M	5.65711	5.64976	5.6759	5.68401	5.66781	5.66781	1.07

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	29-Sep Yield	6-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.996	4.107	11.1	1,435.5
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.790	3.839	4.9	1,161.4
MALAYSIA GOVERNMENT	3.478	06/14/24	3.239	3.323	8.4	950.3
MALAYSIA GOVERNMENT	4.642	11/07/33	3.972	4.045	7.3	907.2
MALAYSIA GOVERNMENT	3.885	08/15/29	3.886	3.971	8.5	702.7
MALAYSIA GOVERNMENT	4.696	10/15/42	4.313	4.460	14.7	635.6
MALAYSIA GOVERNMENT	4.893	06/08/38	4.146	4.295	14.9	571.6
MALAYSIA GOVERNMENT	4.762	04/07/37	4.153	4.347	19.4	560.3
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.597	3.673	7.6	445.7
MALAYSIA INVESTMNT ISSUE	4.245	09/30/30	3.928	4.013	8.5	421.0
TOTAL VOLUME (TOP 10)						7,791.3
TOTAL VOLUME (Overall)						14,795.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	29-Sep Yield	6-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	5.04	11/12/40	N/A	4.339	N/A	200.0
DANAINFRA NASIONAL	5.22	11/14/42	4.278	4.389	11.1	200.0
DANUM CAPITAL BHD	4.02	06/30/25	N/A	3.875	N/A	100.0
PRASARANA MALAYSIA BHD	4.85	09/27/24	N/A	3.423	N/A	90.0
SIME DARBY PROPERTY BH	4.14	08/21/28	4.098	4.137	3.9	65.0
DANAINFRA NASIONAL	4.82	04/01/48	4.344	4.639	29.5	60.0
SARAWAK ENERGY BHD	5.04	04/25/31	N/A	4.166	N/A	50.0
PROJEK LEBUHRAYA USAHA	4.8	01/12/27	4.037	4.135	9.8	50.0
DANAINFRA NASIONAL	4.38	02/08/33	N/A	4.078	N/A	40.0
SARAWAK ENERGY BHD	5.18	04/25/36	4.344	4.406	6.2	40.0
TOTAL VOLUME (TOP 10)						895.0
TOTAL VOLUME (Overall)						2,022.2

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