

MIDF Strategy 16 October 2023

Week Ended 13 October 2023

- The UST market ended its 5-week losing streak with benchmark 10-year yield closed lower at 4.61% (prior week: 4.80%) attributable to dovish statements by US Fed officials despite the release of slightly stronger than expected inflation figures (i.e. PPI and CPI for September). The 10y-3y yield spread inverted deeper at -20bps (prior week: -9bps) as the long-end outperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hike.
- Medium-term inflation expectation (MTIE) ended higher week-on-week at 2.27% (prior week: 2.18%) arguably in reaction to the slightly higher than expected September inflation data. The MTIE climbed back to 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 that inflation pressure (while stubborn) is progressively ebbing.
- The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields dropped -4.7bps and -1.3bps to close at 3.62% and 4.03% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 38bps to 41bps as the short-end outperformed.
- MGS foreign holdings increased on-year from RM255b in September 2022 to RM270b in September 2023. However, it fell on-month from RM274b in August 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM4.84b. It improved on-week from -RM5.07b registered a week ago. However, it slumped on-year from RM6.92b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market ended its 5-week losing streak with benchmark 10-year yield closed lower at 4.61% (prior week: 4.80%) attributable to dovish statements by US Fed officials despite the release of slightly stronger than expected inflation figures (i.e. PPI and CPI for September). The 10y-3y yield spread inverted deeper at -20bps (prior week: -9bps) as the long-end outperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hike.



Source: Bloomberg, MIDFR

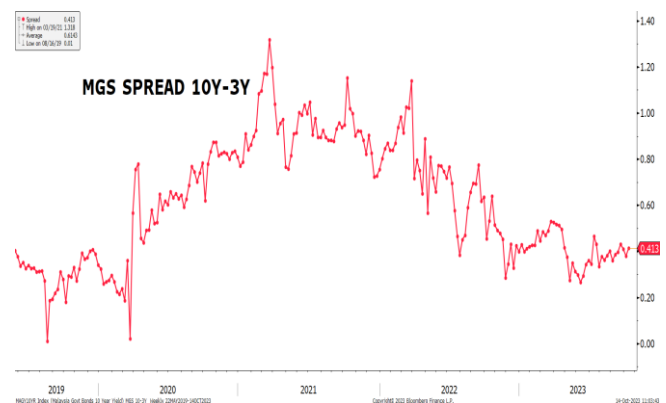
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

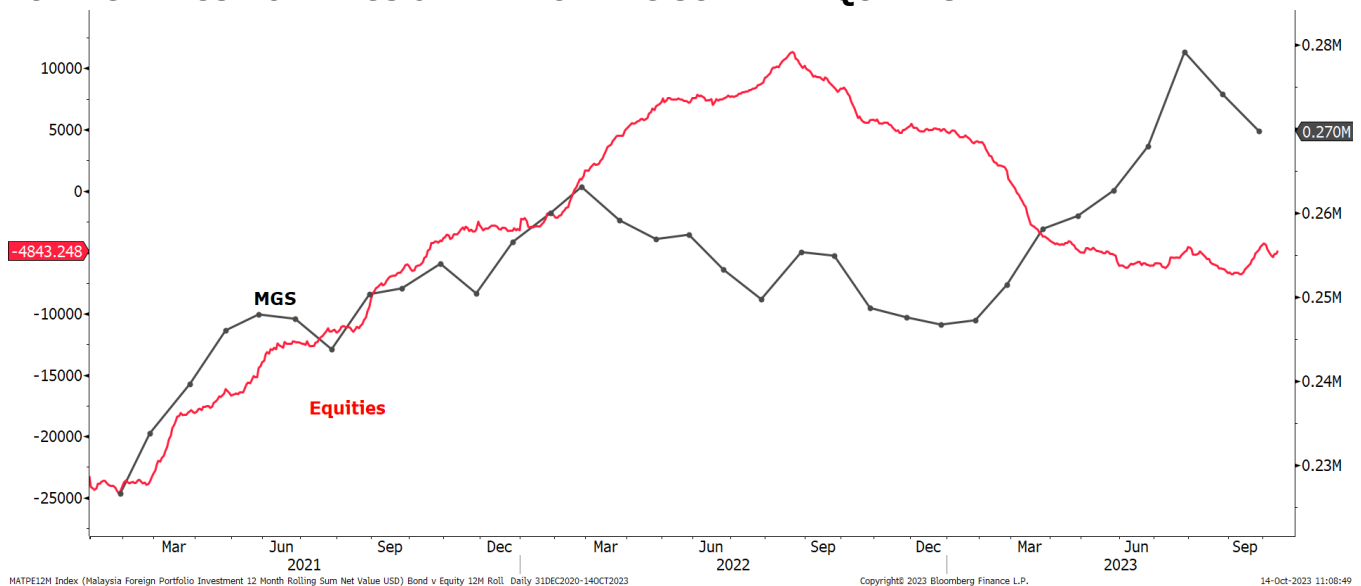
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM11.80b in the review week compared to RM14.80b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 52% from 53% of the overall Government Bonds trades. Moreover, 9 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 RM1.10b, MGS 3.906% 7/15/26 at RM932m, and MII 4.582% 8/30/33 at RM676m.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM255b in September 2022 to RM270b in September 2023. However, it fell on-month from RM274b in August 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM4.84b. It improved on-week from -RM5.07b registered a week ago. However, it slumped on-year from RM6.92b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.28b in the review week compared to RM2.02b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 40% from 44% 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 4.94% 10/20/37 at RM300m, Danum Capital 4.02% 6/30/25 at RM200m, and YTL Corp 4.63% 11/11/26 at RM70m.

B. FOREIGN EXCHANGE

- USD appreciated after weakening last week. The US dollar closed higher last week against major currencies as the DXY index rose +0.6%*wow* to 106.65. USD weakened to the lowest level over 2 weeks mid-week at 105.82 but appreciated after data showed inflation remained sticky in Sep-23 due to higher oil prices, although underlying inflation moderated. The labour market also remained resilient, contributing further to the strengthening of the greenback.
- Euro and pound weakened. The euro and pound depreciated on the stronger dollar by -0.7%*wow* to USD1.051 and -0.8%*wow* to USD1.214, respectively. The returning demand for the dollar following steeper US inflation than the market expected pushed the euro and pound to weaken. The euro and pound also depreciated on dovish expectations, as the ECB and BOE are expected to end the tightening cycles soon.
- Ringgit depreciated for the 7th week. Ringgit depreciated on the stronger dollar, weakening by -0.3%*wow* to RM4.728. Ringgit on Monday was weakest since Nov-22 at RM4.732 but strengthened for the next three days before closing the week weaker on the sticky US inflation data. Ringgit's depreciation, however, was somewhat cushioned by the change in commodity prices as Brent crude oil prices rose +7.5%*wow* to USD90.89pb (previous week: USD84.58pb).

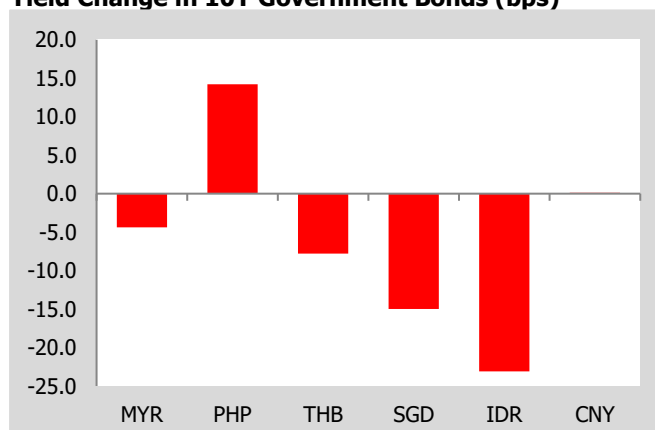
Currencies Changes (Week Ended 13 September 2023) and Quarterly Forecasts

	Close (13/10)	Prev. Close (06/10)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23	3QCY23f	4QCY23f
DXY Index	106.65	106.04	+0.604	+0.6	102.51	102.91	98.3	97.5
EURUSD	1.051	1.059	-0.008	-0.7	1.08	1.09	1.12	1.13
GBPUSD	1.214	1.224	-0.009	-0.8	1.23	1.27	1.24	1.26
USDJPY	149.57	149.32	-0.250	-0.2	132.86	144.31	147	135
USDMYR	4.728	4.7135	-0.015	-0.3	4.42	4.67	4.58	4.24
GBPMYR	5.765	5.753	-0.011	-0.2	5.46	5.90	5.68	5.34
JPYMYR	3.161	3.156	-0.005	-0.2	3.33	3.23	3.12	3.14

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

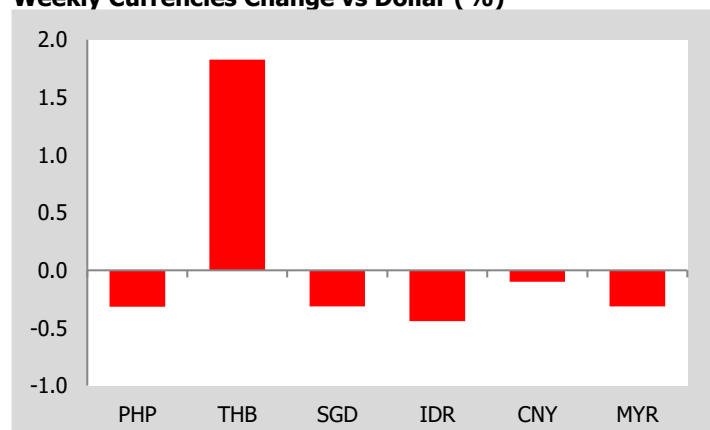
Source: Bloomberg, MIDFR

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 (%)

	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:
 - Demand-driven inflation moderated in Sep-23. Headline consumer inflation was unchanged from the previous month at +3.7%yoy against market expectations for a moderation to +3.6%. On the other hand, core inflation softened to a 2-year low of +4.1%yoy, which was right within market expectations. Meanwhile, PPI growth accelerated to +2.7%yoy (Aug-23: +2.5%yoy) against market expectations for a moderation to +2.3%yoy.
 - Labour market remained robust. Initial jobless claims was unchanged at +209K for the week ending 7th October, against market expectations for an increase to +210K.
- Fed's Sep-23 FOMC meeting showed FFR to stay higher for longer. Fed minutes showed unanimity in opinions for the FFR to stay elevated until the 2% inflation target is imminent. However, Fed officials were divided on additional hikes for the year, although the balance seems to favour another hike before year-end.
- Malaysia's economic releases last week:
 - Retail trade sales growth improved to a 4-month high. Retail trade growth posted at +6.7%yoy in Aug-23. On a month-on-month basis, non-seasonally adjusted retail trade increased by +1.4%mom.
 - IPI fell by -0.3%yoy in Aug-23. Malaysia's IPI fell again by -0.3%yoy (Jul-23: +0.7%yoy), mainly due to the weak manufacturing production, particularly lower production in the export-oriented sectors.
 - Healthy job market. Malaysia's labour market continued to improve as the unemployment rate maintained at a pandemic low of 3.4% in Aug-23. Labour force and employment continued expanding +1.8%yoy and +2.1%yoy.

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	6-Oct Fri	9-Oct Mon	10-Oct Tue	11-Oct Wed	12-Oct Thu	13-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.666	3.68	3.67	3.643	3.615	3.619	-4.7
5-Y	3.81	3.791	3.798	3.725	3.725	3.723	-8.7
7-Y	4.014	3.962	3.982	3.948	3.926	3.935	-7.9
10-Y	4.045	4.056	4.068	4.005	4.023	4.032	-1.3
20-Y	4.46	4.495	4.46	4.445	4.368	4.38	-8
RINGGIT IRS							
1-Y	3.69	3.69	3.67	3.67	3.67	3.685	-0.5
3-Y	3.79	3.775	3.755	3.745	3.73	3.74	-5
5-Y	3.955	3.925	3.886	3.845	3.8525	3.865	-9
7-Y	4.08	4.065	4.02	3.985	3.972	3.985	-9.5
10-Y	4.22	4.21	4.157	4.1	4.12	4.12	-10
KLIBOR							
1-M	3.29	3.29	3.29	3.29	3.29	3.29	0
3-M	3.57	3.57	3.58	3.58	3.6	3.61	4
UST							
3-Y	4.887	4.887	4.7567	4.7465	4.8458	4.8174	-6.96
5-Y	4.7566	4.7566	4.614	4.5767	4.6923	4.6388	-11.78
7-Y	4.8059	4.8059	4.6592	4.593	4.7204	4.6485	-15.74
10-Y	4.8009	4.8009	4.653	4.5582	4.6969	4.6124	-18.85
30-Y	4.9676	4.9676	4.8325	4.6942	4.8543	4.7533	-21.43
USD LIBOR							
1-M	5.45555	5.45555	5.46325	5.44686	5.44898	5.44898	-0.657
3-M	5.66835	5.66835	5.68738	5.65538	5.65548	5.65548	-1.287

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	6-Oct Yield	13-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.478	06/14/24	3.323	3.257	-6.6	1,099.4
MALAYSIA GOVERNMENT	3.906	07/15/26	3.666	3.619	-4.7	932.2
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	4.124	4.061	-6.3	675.6
MALAYSIA GOVERNMENT	4.696	10/15/42	4.460	4.380	-8.0	658.2
MALAYSIA GOVERNMENT	4.059	09/30/24	3.327	3.375	4.8	634.8
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.107	4.067	-4.0	530.8
MALAYSIA INVESTMNT ISSU	4.444	05/22/24	3.335	3.332	-0.3	501.0
LEMBAGA PEMBIAYAAN PER	4.85	10/29/38	4.435	4.321	-11.4	380.0
MALAYSIA GOVERNMENT	4.893	06/08/38	4.295	4.131	-16.4	372.1
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.673	3.641	-3.2	361.2
TOTAL VOLUME (TOP 10)						6,145.4
TOTAL VOLUME (Overall)						11,803.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	6-Oct Yield	13-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.94	10/20/37	N/A	4.320	N/A	300.0
DANUM CAPITAL BHD	4.02	06/30/25	3.875	3.883	0.8	200.0
YTL CORPORATION BERHA	4.63	11/11/26	N/A	4.247	N/A	70.0
PERBADANAN TABUNG PEN	4.55	12/20/24	N/A	3.596	N/A	60.0
DANAINFRA NASIONAL	4.64	05/05/51	N/A	4.649	N/A	60.0
PENGURUSAN AIR SELANGO	5.16	09/18/37	N/A	4.505	N/A	60.0
DANUM CAPITAL BHD	4.3	02/13/26	N/A	3.945	N/A	50.0
UMW HOLDINGS BERHAD	5.22	10/02/26	N/A	4.153	N/A	40.0
TENAGA NASIONAL BERHA	5.18	08/03/37	4.269	4.499	23.0	40.0
PONSB CAPITAL BHD	4.64	12/28/26	4.215	4.216	0.1	40.0
TOTAL VOLUME (TOP 10)						920.0
TOTAL VOLUME (Overall)						2,278.5

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