

## MIDF Strategy 23 October 2023

### Week Ended 20 October 2023

- The UST market ended lower during the review week with benchmark 10-year yield closed markedly higher at 4.69% (prior week: 4.61%), its highest weekly close since July 2007, attributable to persistently strong US economic data released during past weeks (i.e., September retail sales, September nonfarm payrolls, August job openings). The 10y-3y yield spread turned neutral at 0bp (prior week: -20bps) as the long-end underperformed. Meanwhile, the interest rate futures market was implying no more Fed rate hike.
- Medium-term inflation expectation (MTIE) ended higher week-on-week at 2.46% (prior week: 2.27%) arguably in reaction to the persistently strong US economic data. The MTIE nonetheless remains 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 that 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 5.6bps and 8.1bps to close at 3.68% and 4.11% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 41bps to 44bps as the long-end underperformed.
- 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 -RM5.25b. It worsened on-week from -RM4.84b registered a week ago. Moreover, it slumped on-year from RM5.74b a year ago.

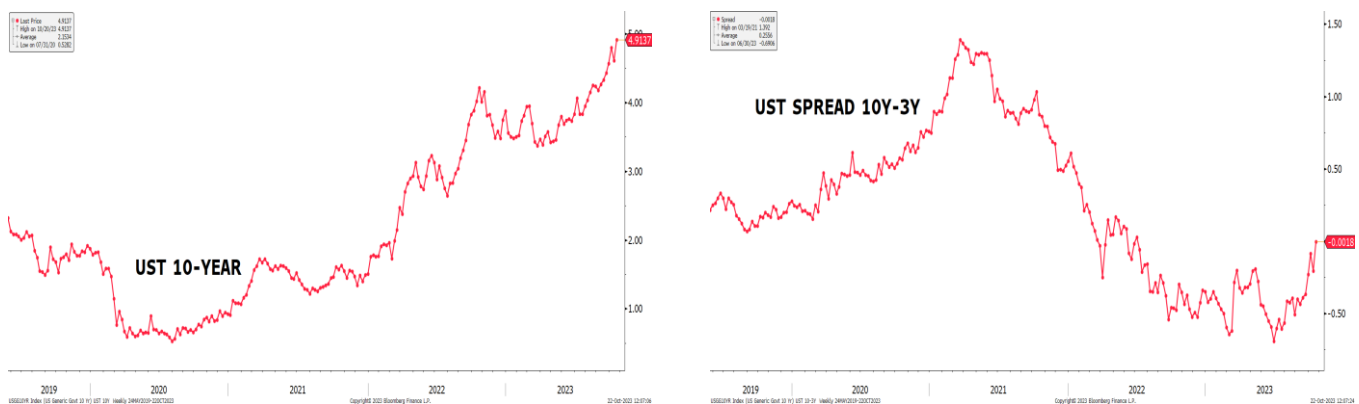
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## Weekly Money Review

### A. FIXED INCOME

- The UST market ended lower during the review week with benchmark 10-year yield closed markedly higher at 4.69% (prior week: 4.61%), its highest weekly close since July 2007, attributable to persistently strong US economic data released during past weeks (i.e., September retail sales, September nonfarm payrolls, August job openings). The 10y-3y yield spread turned neutral at 0bp (prior week: -20bps) 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 higher week-on-week at 2.46% (prior week: 2.27%) arguably in reaction to the persistently strong US economic data. The MTIE nonetheless remains 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 that inflation pressure (while stubborn) is progressively ebbing.

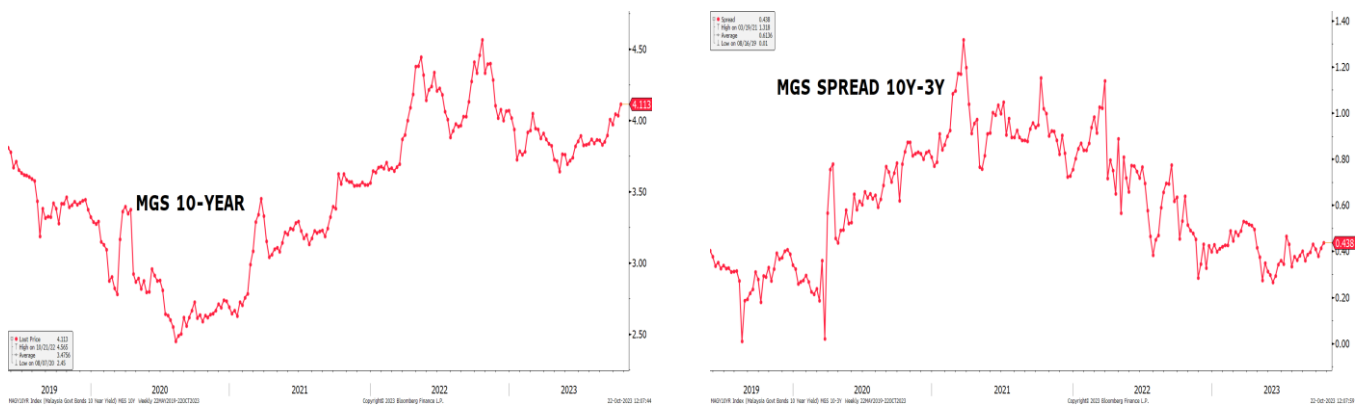
### MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 5.6bps and 8.1bps to close at 3.68% and 4.11% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 41bps to 44bps as the long-end underperformed.

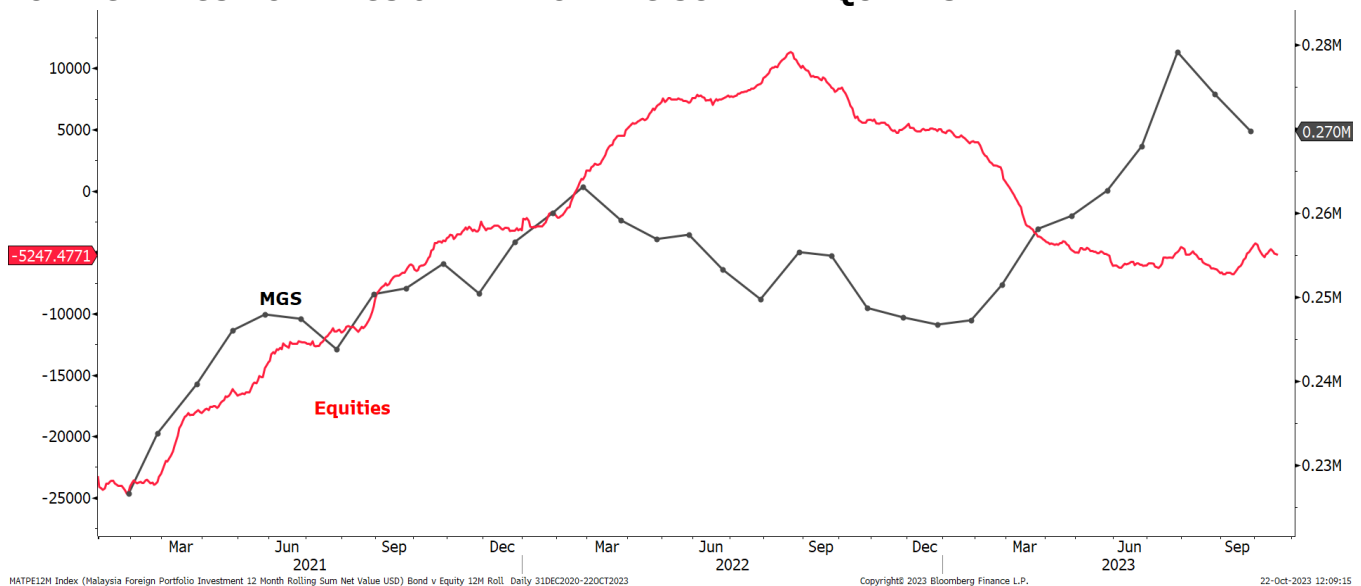




Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM12.28b in the review week compared to RM11.80b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 56% from 52% of the overall Government Bonds trades. Moreover, 10 out of the 10 most actively traded bonds saw higher yields and hence lower 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 MII 4.582% 8/30/33 at RM1.35b, MII 4.444% 5/22/24 at RM1.00b, and MGS 4.181% 7/15/24 at RM953m.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased one year from RM255b in September 2022 to RM270b in September 2023. However, it fell one-month from RM274b in August 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM5.25b. It worsened on-week from -RM4.84b registered a week ago. Moreover, it slumped one year from RM5.74b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.87b in the review week compared to RM2.28b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 57% from 40% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenor. The top 3 most actively traded were PLUS 5.75% 1/12/37 at RM600m, Danainfra 5.02% 5/03/46 at RM300m, and Danainfra 4.32% 11/26/25 at RM140m.

## B. FOREIGN EXCHANGE

- USD depreciated as Fed signalled no hike. The US dollar weakened against major currencies last week as the DXY dollar index fell -0.5%wow to 106.16. The US dollar initially strengthened to 106.57 at mid-week, supported by safe-haven demand because of risk aversion from the development in Middle East. However, the greenback depreciated after the less hawkish tone in the speech by the Fed's Chairman, and his signal for no hike at the next FOMC meeting.
- Euro and pound appreciated. As dollar depreciated, the euro and pound sterling appreciated by +0.8%wow to USD1.059 and +0.2%wow to USD1.216, respectively. The euro marked the strongest weekly closing in 4 weeks, driven by expectations the ECB would maintain the restrictive rate for longer period given the still-elevated inflation and strong labour market. Meanwhile, the appreciation in pound sterling was limited as the currency weakened on Friday following larger-than-expected contraction in the UK retail sales.
- Ringgit touched new lows in more than 25 years. Ringgit failed to capitalise on the dollar's weakness, ending the week -0.8%wow weaker at RM4.768, the lowest weekly closing at least since the Asian Financial Crisis. On Thursday, ringgit even touched a new low of RM4.78 before closing the day at RM4.7695. Ringgit and regional currencies depreciated due to the broad strength in USD because of the flight to safety in response to the geopolitical tension in the Middle East. Commodity prices failed to support the ringgit despite Brent crude oil prices rising further by +1.4%wow to USD92.16pb (previous week: USD90.89pb).

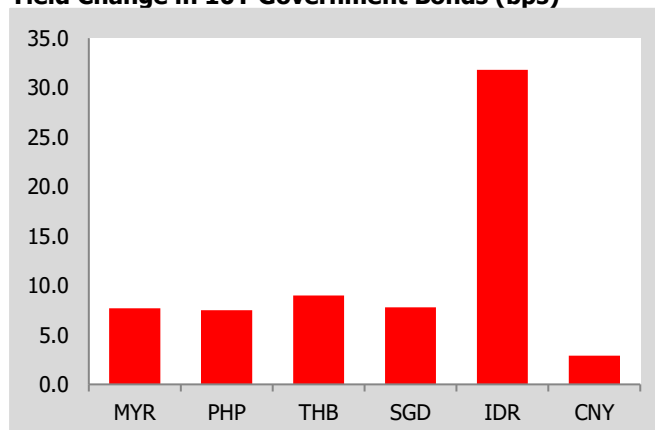
### Currencies Changes (Week Ended 20 September 2023) and Quarterly Forecasts

	Close (20/10)	Prev. Close (13/10)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23	3QCY23f	4QCY23f
DXY Index	106.16	106.65	-0.485	-0.5	102.51	102.91	98.3	97.5
EURUSD	1.059	1.051	+0.008	+0.8	1.08	1.09	1.12	1.13
GBPUSD	1.216	1.214	+0.002	+0.2	1.23	1.27	1.24	1.26
USDJPY	149.86	149.57	-0.290	-0.2	132.86	144.31	147	135
USDMYR	4.768	4.7283	-0.039	-0.8	4.42	4.67	4.58	4.24
GBPMYR	5.781	5.765	-0.017	-0.3	5.46	5.90	5.68	5.34
JPYMYR	3.182	3.161	-0.020	-0.6	3.33	3.23	3.12	3.14

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

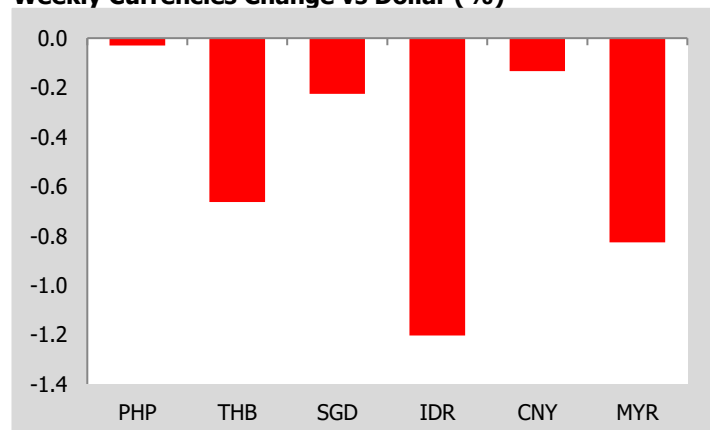
Source: Bloomberg, MIDFR

### 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	6.00
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

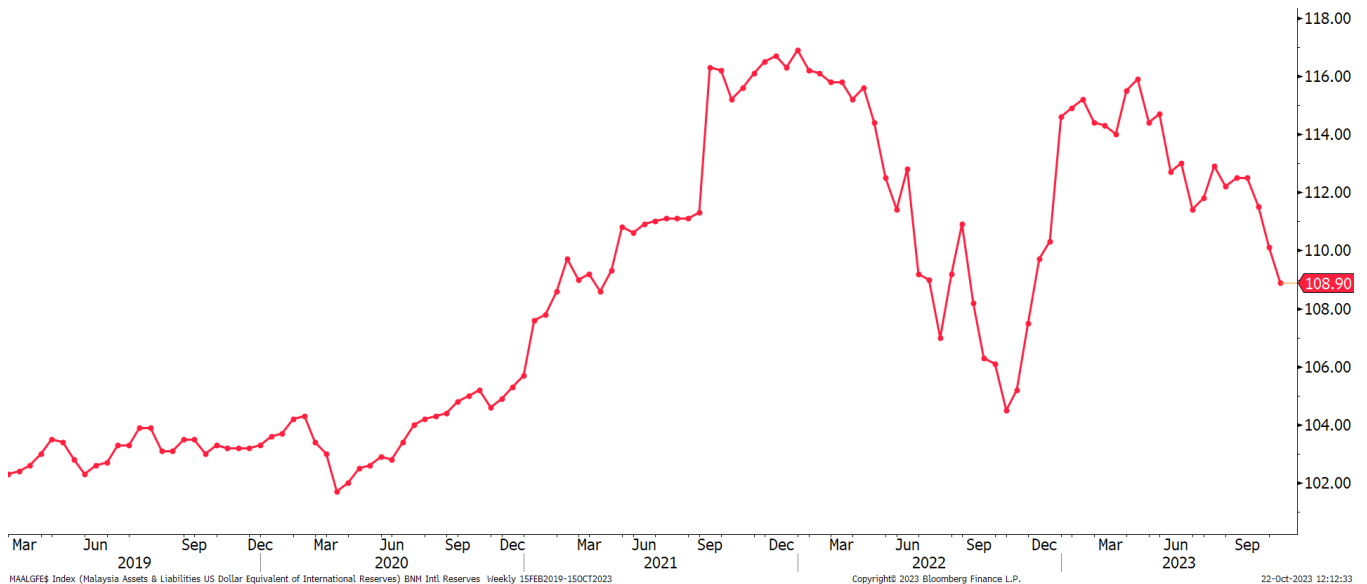
Source: Bloomberg, MIDFR

- US economic data released last week:
  - Consumer spending remained strong in Sep-23. Retail sales grew stronger at +3.8%yoy in Sep-23 (Aug-23: +2.9%yoy), marking the fastest expansion since Mar-23.
  - Sustained expansion in industrial production. Industrial production sustained the same growth of +0.1%yoy in Sep-23. The continued fall in manufacturing production (share: 75.4% of IPI), which fell further for the 7th consecutive month at -0.8%yoy (Aug-23: -0.9%yoy), was offset by increased production in other sectors.
  - Labour market remained robust as jobless claims fell below 200K. Initial jobless claims fell to +198K (previous week: +211K; market forecasts: +212K) for the week ending 14th October, the lowest since Jan-23.
- On 19th October,
  - Fed's Chair, Jerome Powell hinted reduced need for further tightening at the next FOMC meeting because the rise in the US treasury yields amounting to additional tightening of financial condition. However, he did not indicate the end of policy tightening, reiterating the Fed's option for more hike and lending rate to stay high for longer, given the strength in the US economy and inflation remaining above the Fed's 2% target.
  - Bank Indonesia surprised the market by increasing its benchmark interest rate by 25bps to 6.00%, in move to stabilise the rupiah, given rising global uncertainties, and to mitigate import goods inflation.
- Malaysia's economic releases last week:
  - Based on the advanced estimate, GDP grew faster at +3.3%yoy in 3QCY23 (2QCY23: +2.9%yoy). For 9MCY23, GDP grew by +3.9%yoy.
  - Exports contracted slower at -13.7%yoy in Sep-23 (Aug-23: -18.7%yoy). On month-on-month basis, exports surged +8.2%mom driven by exports of manufactured goods, especially E&E (+25.7%mom) and optical & scientific equipment (+12.5%mom).
  - Headline CPI inflation eased further to +1.9%yoy in Sep-23, the lowest since Mar-21. Non-food inflation rate skidded to +0.9%yoy while food inflation rate moderated to 19-month low at +3.9%yoy. The core inflation rate was unchanged at +2.5%yoy yet still above pre-pandemic average of +1.7% and signalled rather sticky underlying demand pressures.

## C. BNM INTERNATIONAL RESERVES

- As of 13 October 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD108.9b (29 September 2023: USD110.1b).

### BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The number 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	13-Oct Fri	16-Oct Mon	17-Oct Tue	18-Oct Wed	19-Oct Thu	20-Oct Fri	Change (WoW bp)
<b>MGS</b>							
3-Y	3.619	3.626	3.679	3.626	3.681	3.675	5.6
5-Y	3.723	3.735	3.751	3.763	3.783	3.805	8.2
7-Y	3.935	3.952	3.973	4.002	4.046	4.09	15.5
10-Y	4.032	4.041	4.05	4.063	4.119	4.113	8.1
20-Y	4.38	4.399	4.437	4.46	4.496	4.509	12.9
<b>RINGGIT IRS</b>							
1-Y	3.685	3.7025	3.72	3.725	3.81	3.795	11
3-Y	3.74	3.755	3.7785	3.819	3.895	3.885	14.5
5-Y	3.865	3.87	3.905	3.96	4.05	4.025	16
7-Y	3.985	3.995	4.035	4.09	4.185	4.145	16
10-Y	4.12	4.14	4.16	4.215	4.326	4.29	17
<b>KLIBOR</b>							
1-M	3.29	3.29	3.29	3.29	3.3	3.3	1
3-M	3.61	3.61	3.62	3.63	3.63	3.63	2
<b>UST</b>							
3-Y	4.8174	4.8716	5.0088	5.0492	5.0151	4.9155	9.81
5-Y	4.6388	4.7156	4.8685	4.9338	4.9557	4.8581	21.93
7-Y	4.6485	4.7365	4.8844	4.9576	5.0094	4.9199	27.14
10-Y	4.6124	4.706	4.8341	4.9149	4.9898	4.9137	30.13
30-Y	4.7533	4.85	4.9246	4.9948	5.1099	5.0755	32.22
<b>USD LIBOR</b>							
1-M	5.44981	5.4492	5.44799	5.45359	5.45314	5.44613	-0.368
3-M	5.66444	5.65665	5.65842	5.67743	5.67354	5.66008	-0.436

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	13-Oct Yield	20-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	4.061	4.110	4.9	1,352.3
MALAYSIA INVESTMNT ISSU	4.444	05/22/24	3.332	3.386	5.4	1,000.0
MALAYSIA GOVERNMENT	4.181	07/15/24	3.316	3.373	5.7	953.0
MALAYSIA GOVERNMENT	4.696	10/15/42	4.380	4.509	12.9	782.5
MALAYSIA GOVERNMENT	3.906	07/15/26	3.619	3.675	5.6	545.3
MALAYSIA GOVERNMENT	3.478	06/14/24	3.257	3.354	9.7	541.9
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.067	4.146	7.9	521.5
MALAYSIA GOVERNMENT	4.642	11/07/33	4.032	4.113	8.1	385.5
MALAYSIA GOVERNMENT	4.893	06/08/38	4.131	4.267	13.6	383.2
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.771	3.829	5.8	360.5
TOTAL VOLUME (TOP 10)						6,825.9
TOTAL VOLUME (Overall)						12,279.3

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	13-Oct Yield	20-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
PROJEK LEBUHRAYA USAHA	5.75	01/12/37	4.479	4.511	3.2	600.0
DANAINFRA NASIONAL	5.02	05/03/46	N/A	4.590	N/A	300.0
DANAINFRA NASIONAL	4.32	11/26/25	3.573	3.660	8.7	140.0
YTL POWER INTERNATIONA	5.05	05/03/27	4.094	4.305	21.1	120.0
DANAINFRA NASIONAL	5.1	10/29/38	N/A	4.319	N/A	100.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	N/A	3.665	N/A	80.0
PENGURUSAN AIR SPV BHD	4.56	06/06/25	N/A	3.709	N/A	80.0
DANAINFRA NASIONAL	4.37	02/21/25	N/A	3.564	N/A	70.0
ALLIANCE BK MALAYSIA BH	3.6	10/25/30	3.976	3.866	-11.0	70.0
RANTAU ABANG CAPITAL	5	01/16/32	N/A	4.348	N/A	60.0
TOTAL VOLUME (TOP 10)						1,620.0
TOTAL VOLUME (Overall)						2,866.3

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