

MIDF Strategy 4 December 2023

Week Ended 1 December 2023

- The UST market saw strong buying interest during the review week with benchmark 10-year yield ended lower at 4.20% (prior week: 4.47%) as investors reacted to tame inflation data despite the Fed calling market expectations for aggressive interest rate cuts ahead as 'premature'. The 10y-3y yield spread rebounded but remains inverted at -10bps (prior week: -20bps) as the short-end outperformed. Meanwhile, the interest rate futures market continued to imply (i) no more Fed rate hike, and (ii) spate of rate cuts in the second half of 2024.
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.16% (prior week: 2.21%). The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but nonetheless still above its target level. However, it is also 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 MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -3.0bps and -2.8bps to close at 3.47% and 3.82% respectively. The 10y-3y yield spread was unchanged week-on-week at 34bps.
- MGS foreign holdings increased on-year from RM249b in October 2022 to RM267b in October 2023. However, it fell on-month from RM270b in September 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM4.18b. It improved on-week from -RM4.42b registered a week ago. However, it slumped on-year from +RM5.32b a year ago.

Weekly Money Review

A. FIXED INCOME

- The UST market saw strong buying interest during the review week with benchmark 10-year yield ended lower at 4.20% (prior week: 4.47%) as investors reacted to tame inflation data despite the Fed calling market expectations for aggressive interest rate cuts ahead as 'premature'. The 10y-3y yield spread rebounded but remains inverted at -10bps (prior week: -20bps) as the short-end outperformed. Meanwhile, the interest rate futures market continued to imply (i) no more Fed rate hike, and (ii) spate of rate cuts in the second half of 2024.



Source: Bloomberg, MIDFR

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



Source: Bloomberg, MIDFR

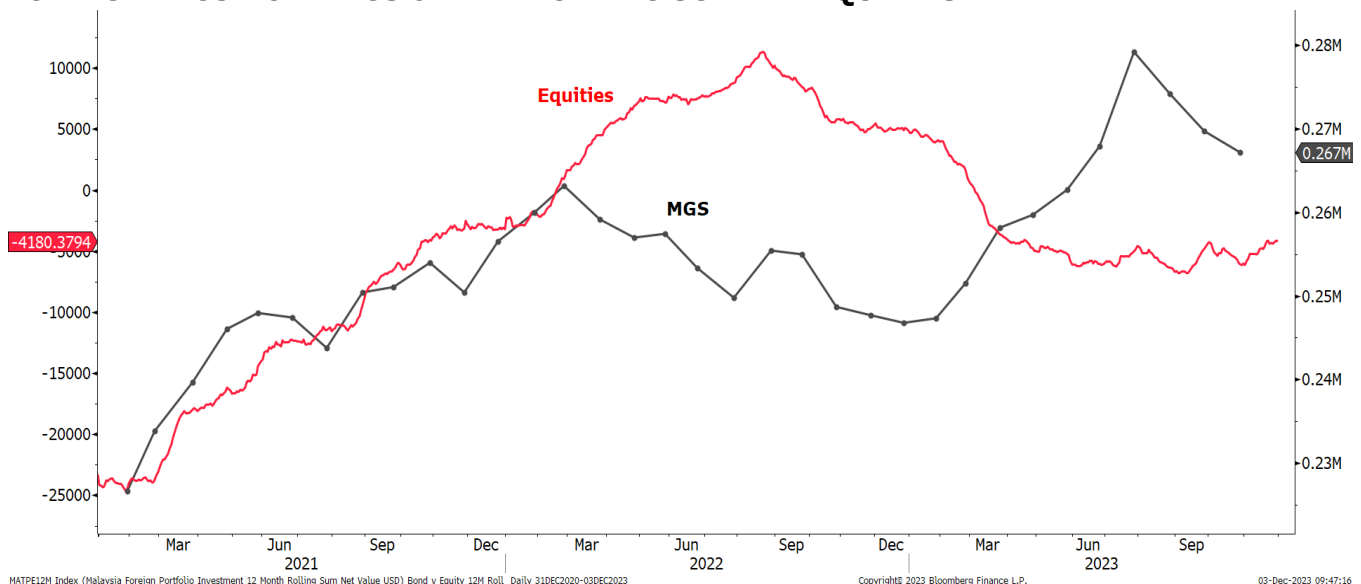
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM16.19b in the review week compared to RM11.08b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 59% from 54% of the overall Government Bonds trades. Moreover, 9 out of the 10 most actively traded bonds saw lower yield, hence higher 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 MGS 3.478% 6/14/24 at RM2.06b, MII 4.07% 9/30/26 at RM1.51b, and MII 4.245% 9/30/30 at RM1.20b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased one year from RM249b in October 2022 to RM267b in October 2023. However, it fell one-month from RM270b in September 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM4.18b. It improved one week from -RM4.42b registered a week ago. However, it slumped one year from +RM5.32b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.93b in the review week compared to RM2.98b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 37% from 33% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of mid and long residual tenor. The top 3 most actively traded were PLUS 5.0% 12/31/48 at RM210m, Danainfra 4.94% 10/20/37 at RM175m, and YTL Corp 4.97% 4/10/31 at RM120m.

B. FOREIGN EXCHANGE

- USD closed at the lowest level in 15 weeks. The US dollar weakened further against major currencies as the DXY index declined -0.1wow to 103.27. Demand for USD dropped pushing the index to its intra-week low of 102.75 on Tuesday but dollar appreciated back to above 103 after the updated GDP data showed strong economic growth in 3QCY23. The dollar appreciation, however, was limited by expectations for no more hikes by the Fed as core PCE inflation moderated further.
- Euro weakened, but the pound continued to rally. The euro depreciated by -0.5%wow to USD1.088, ending 2 weeks of appreciation, following the lower-than-expected inflation data in the euro area which fuelled expectations the ECB is moving closer to rate cuts. Meanwhile, the pound appreciated further +0.8%wow to USD1.271, the 3rd consecutive week of strengthening, underpinned by the hawkish sentiments from BOE and amid weak demand for US dollars.
- Ringgit ended at the strongest level in 13 weeks. Ringgit appreciated +0.3%wow and ended the week at RM4.674, the strongest weekly closing in 13 weeks. Initially ringgit appreciated and closed at RM4.652 mid-week, level last seen in early Sep-23. However, ringgit weakened towards beyond RM4.67 by Friday following weak manufacturing PMI data for both China and Malaysia. Like the ringgit, other regional currencies also gained from the reduced dollar demand. Additionally, commodity prices also dampened the ringgit rally as Brent crude oil prices plunged -2.1%wow to USD78.88pb (previous week: USD80.58pb), the lowest in 2 weeks.

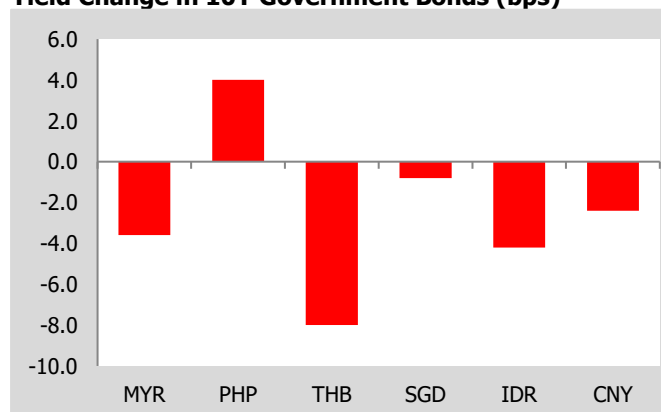
Currencies Changes (Week Ended 1 December 2023) and Quarterly Forecasts

	Close (01/12)	Prev. Close (24/11)	Weekly Change	Weekly Change (%)	4QCY23f	1QCY24f	2QCY24f	3QCY24f
DXY Index	103.27	103.40	-0.135	-0.1	105.5	103.8	102.5	101.1
EURUSD	1.088	1.094	-0.006	-0.5	1.06	1.07	1.09	1.10
GBPUSD	1.271	1.260	+0.011	+0.8	1.22	1.23	1.24	1.26
USDJPY	146.82	149.44	+2.620	+1.8	148	145	141	138
USDMYR	4.674	4.6853	+0.012	+0.3	4.45	4.39	4.23	4.16
GBPMYR	5.920	5.883	-0.037	-0.6	5.67	5.69	5.64	5.64
JPYMYR	3.183	3.135	-0.049	-1.5	3.14	3.19	3.23	3.24

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

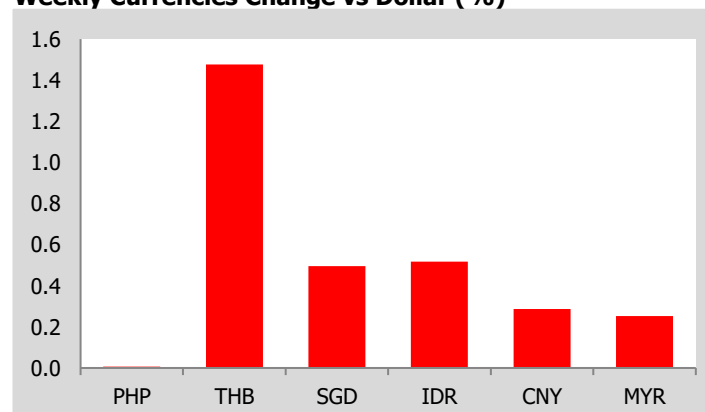
Source: Bloomberg, MIDFR

Yield Change in 10Y Government Bonds (bps)



Source: Bloomberg; Macrobond; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: Bloomberg; MIDFR

Central Bank Policy Rate by Selected Economies (%)

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

Source: Bloomberg, MIDFR

- US economic data released last week:
 - 3QCY23 GDP growth was higher than previous estimate. The 2nd estimates for the 3QCY23 showed US economy grew faster at annualized +5.2%qoq (previous estimate: +5.0%qoq).
 - PCE inflation moderated further. PCE inflation eased to +3.0%yoy on Oct-23, similar to market expectations and the softest reading since Mar-21. The Fed's preferred inflation measure, core PCE inflation, also eased to 27-month low of +3.5%yoy, also in line with market consensus.
 - The manufacturing sector contracted. The US S&P Global Manufacturing PMI dropped to 49.4 in Nov-23 (Oct-23: 50.0). Similarly, the ISM Manufacturing PMI was unchanged from the previous month at 46.7 (market forecasts: 47.6), marking the 13th month the index has remained in contraction.
 - No clear sign of labour market deterioration. Initial jobless claims remained low despite rising to +218K for the week ending 25th November (previous week: +211K), below market expectations of +220K.
- On monetary decisions last week:
 - On 29th November, the Bank of Thailand kept the interest rate status quo at 2.50%, as expected as the current interest rate is deemed conducive to controlling inflation.
 - On 30th November, the Bank of Korea (BOK) maintained the interest rate at 3.5%, in line with market expectations. The decision was underpinned by concerns over global uncertainties and escalating household debt.
- Malaysia economic data released last week:
 - Producer prices contracted. Producer prices returned to deflation of -0.3%yoy in Oct-23 as the previous month registered the first inflation in 8 months, +0.2%yoy in Sep-23. Against the previous month, overall producers' prices fell by -0.3%mom while intermediate materials and finished goods costs dropped by -0.2%mom and -0.6%mom respectively.
 - Slower contraction in manufacturing activities. Malaysia S&P Global Manufacturing PMI rose to 7-month high of 47.9 in Nov-23 (Oct-23: 46.8), but still signaling manufacturing activities in general continued to contract. The better PMI reading was, however, underpinned by a slower fall in demand conditions.

C. BNM INTERNATIONAL RESERVES

- As of 15 November 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD110.5b (31 October 2023: USD108.5b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The number of reserves is sufficient to finance 5.3 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	24-Nov Fri	27-Nov Mon	28-Nov Tue	29-Nov Wed	30-Nov Thu	1-Dec Fri	Change (WoW bp)
MGS							
3-Y	3.503	3.543	3.499	3.482	3.445	3.473	-3
5-Y	3.643	3.673	3.655	3.63	3.605	3.634	-0.9
7-Y	3.873	3.899	3.881	3.828	3.829	3.836	-3.7
10-Y	3.843	3.866	3.843	3.826	3.806	3.815	-2.8
20-Y	4.246	4.216	4.195	4.209	4.164	4.164	-8.2
RINGGIT IRS							
1-Y	3.685	3.705	3.685	3.665	3.645	3.6575	-2.75
3-Y	3.695	3.695	3.68	3.615	3.603	3.6	-9.5
5-Y	3.805	3.795	3.7525	3.6725	3.665	3.67	-13.5
7-Y	3.91	3.92	3.89	3.805	3.815	3.795	-11.5
10-Y	4.03	4.06	4.03	3.95	3.935	3.923	-10.7
KLIBOR							
1-M	3.35	3.35	3.35	3.35	3.35	3.35	0
3-M	3.69	3.7	3.7	3.7	3.7	3.7	1
UST							
3-Y	4.6643	4.6016	4.482	4.3967	4.4419	4.2964	-36.79
5-Y	4.485	4.4107	4.2769	4.2088	4.2663	4.1231	-36.19
7-Y	4.5059	4.43	4.3389	4.2734	4.341	4.1979	-30.8
10-Y	4.4665	4.3866	4.3207	4.2552	4.3264	4.1956	-27.09
30-Y	4.5973	4.537	4.5053	4.4371	4.4932	4.3888	-20.85
USD LIBOR							
1-M	5.46164	5.46604	5.46283	5.45729	5.45545	5.46035	-0.129
3-M	5.64819	5.65482	5.64983	5.6387	5.63099	5.63684	-1.135

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	24-Nov Yield	1-Dec Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.478	06/14/24	3.102	3.097	-0.5	2,062.4
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.601	3.564	-3.7	1,510.2
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.916	3.866	-5.0	1,197.4
MALAYSIA GOVERNMENT	4.642	11/07/33	3.802	3.815	1.3	1,016.8
MALAYSIA GOVERNMENT	4.498	04/15/30	3.867	3.836	-3.1	910.7
MALAYSIA GOVERNMENT	3.885	08/15/29	3.831	3.786	-4.5	730.6
MALAYSIA GOVERNMENT	3.906	07/15/26	3.503	3.473	-3.0	665.2
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.956	3.889	-6.7	579.6
MALAYSIA INVESTMNT ISSU	5.357	05/15/52	4.428	4.400	-2.8	525.2
MALAYSIA GOVERNMENT	3.582	07/15/32	3.909	3.885	-2.4	429.5
TOTAL VOLUME (TOP 10)						9,627.6
TOTAL VOLUME (Overall)						16,193.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	24-Nov Yield	1-Dec Yield	Change (WoW bp)	Weekly Volume (RM mn)
PROJEK LEBUHRAYA USAHA	5	12/31/38	4.418	4.249	-16.9	210.0
DANAINFRA NASIONAL	4.94	10/20/37	N/A	4.149	N/A	175.0
YTL CORPORATION BERHA	4.97	04/10/31	N/A	4.450	N/A	120.0
IMTIAZ SUKUK II BHD	4.77	05/11/29	4.214	4.188	-2.6	100.0
MALAYSIA DEBT VENTURES	4.04	04/10/29	N/A	3.928	N/A	100.0
AMAN SUKUK BHD	4.25	04/12/24	N/A	3.586	N/A	90.0
EDOTCO MALAYSIA SDN BH	4.27	09/09/27	4.075	4.057	-1.8	80.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	3.552	3.489	-6.3	70.0
BANK MUAMALAT MALAYSI	4.5	06/13/31	N/A	4.436	N/A	70.0
PROJEK LEBUHRAYA USAHA	4.56	01/12/24	3.632	3.636	0.4	70.0
TOTAL VOLUME (TOP 10)						1,085.0
TOTAL VOLUME (Overall)						2,934.0

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