

## MIDF Strategy 18 December 2023

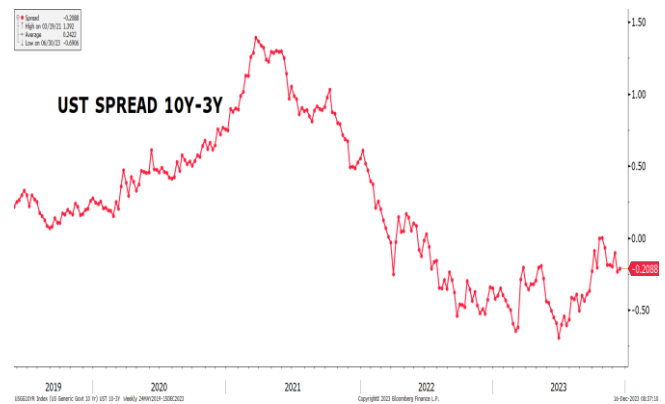
### Week Ended 15 December 2023

- The UST market rallied during the review week with benchmark 10-year yield closed markedly lower at 3.91% (prior week: 4.23%) as investors reacted to the US Fed statement during recent December FOMC meeting that it would cut interest rates three times next year. The 10y-3y yield spread rebounded but remains inverted at -21bps (prior week: -23bps) 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 higher week-on-week at 2.20% (prior week: 2.15%). The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but nonetheless above its 2.00% target level. 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 mixed with the 3-year and 10-year yields shed -6.7bps and added 1.8bps to close at 3.42% and 3.75% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 24bps to 32bps as the short-end outperformed.
- MGS foreign holdings increased on-year from RM248b in November 2022 to RM273b in November 2023. Moreover, it risen on-month from RM267b in October 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM3.05b. It improved on-week from -RM3.32b registered a week ago. However, it slumped on-year from +RM5.05b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- The UST market rallied during the review week with benchmark 10-year yield closed markedly lower at 3.91% (prior week: 4.23%) as investors reacted to the US Fed statement during recent December FOMC meeting that it would cut interest rates three times next year. The 10y-3y yield spread rebounded but remains inverted at -21bps (prior week: -23bps) 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

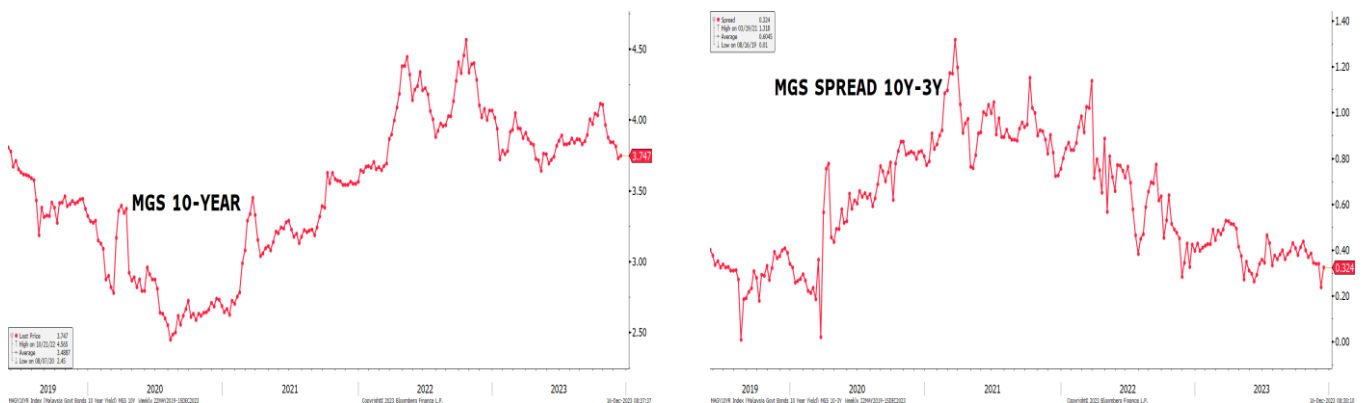
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### MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

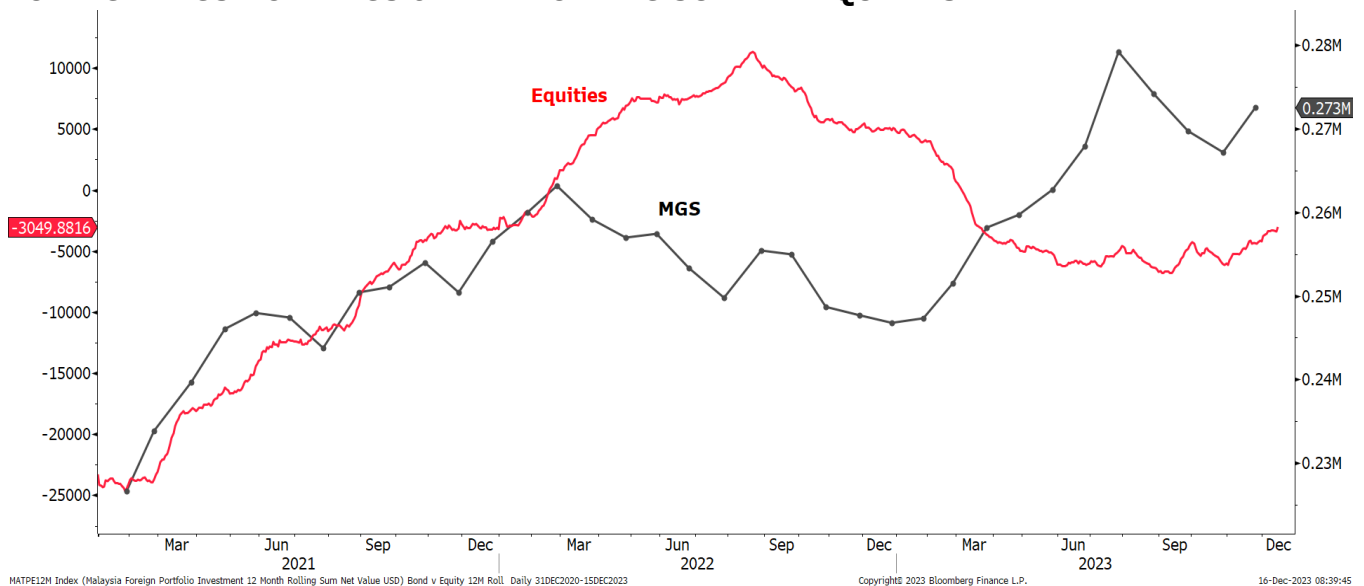
The price of MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields shed -6.7bps and added 1.8bps to close at 3.42% and 3.75% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 24bps to 32bps as the short-end outperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM13.4b in the review week compared to RM21.8b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 63% from 58% 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 varied residual tenor. The top 3 most actively traded were MGS 3.906% 7/15/26 at RM1.54b, MGS 4.642% 11/7/33 at RM1.23b, and MII 4.245% 9/30/30 at RM1.22b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased one year from RM248b in November 2022 to RM273b in November 2023. Moreover, it risen one-month from RM267b in October 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM3.05b. It improved in one week from -RM3.32b registered a week ago. However, it slumped one year from +RM5.05b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.45b in the review week compared to RM4.31b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 34% from 52% 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 Danainfra 4.9% 4/29/33 at RM150m, Sarawak Energy 5.04% 4/25/31 at RM100m, and Danainfra 4.1% 5/5/36 at RM100m.

## B. FOREIGN EXCHANGE

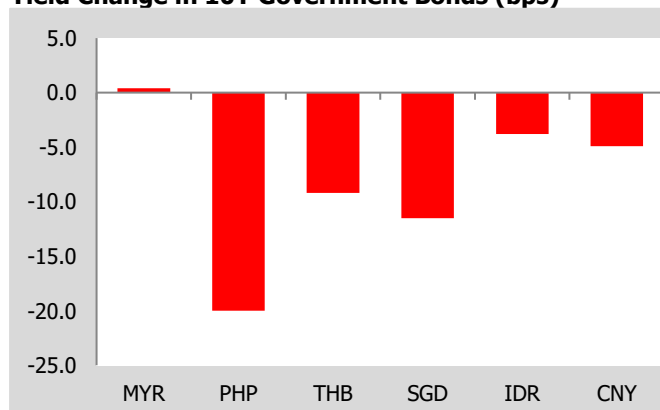
- USD weakened to 19-week lows. The US dollar depreciated against major currencies as the DXY dollar index plunged -1.4wow to 102.55, the lowest weekly closing since Aug-23. The dollar even closed last Thursday at 101.96, the lowest since end of Jul-23, following the Fed’s relatively more dovish signal after the Fed’s Dec-23 FOMC meeting. On Friday, the demand for dollar rose and reversed some of the weakness as data update showed continued resilience in the US services sector.
- The euro and pound gained from the weak dollar. The euro and pound strengthened last week by +1.2%wow to USD1.090 and +1.1%wow to USD USD1.268, respectively. Both euro and pound sterling gained from the weakness in US dollars and still hawkish signal by the ECB and BOE, despite the decision by both central banks last Thursday to keep their policy interest rates unchanged at highly restrictive levels.
- Ringgit weakened after 2 weeks of gains. The ringgit depreciated slightly by -0.1%wow to end the week at RM4.670. After closing intra-week low of RM4.706 at mid-week, like other currencies ringgit also appreciated after the Fed’s FOMC decision last week. Encouraging China’s economic data also buoyed ringgit’s appreciation later in the week. Conversely, ringgit failed to capitalise on the commodity price movement as Brent crude oil prices rose +0.9%wow during the week to USD76.55pb (previous week: USD75.84pb).

### Currencies Changes (Week Ended 15 December 2023) and Quarterly Forecasts

	Close (15/12)	Prev. Close (08/12)	Weekly Change	Weekly Change (%)	4QCY23f	1QCY24f	2QCY24f	3QCY24f
DXY Index	102.55	104.01	-1.460	-1.4	105.5	103.8	102.5	101.1
EURUSD	1.090	1.076	+0.013	+1.2	1.06	1.07	1.09	1.10
GBPUSD	1.268	1.255	+0.013	+1.1	1.22	1.23	1.24	1.26
USDJPY	142.15	144.95	+2.800	+2.0	148	145	141	138
USDMYR	4.670	4.6645	-0.005	-0.1	4.45	4.39	4.23	4.16
GBPMYR	5.965	5.857	-0.108	-1.8	5.67	5.69	5.64	5.64
JPYMYR	3.285	3.218	-0.067	-2.1	3.14	3.19	3.23	3.24

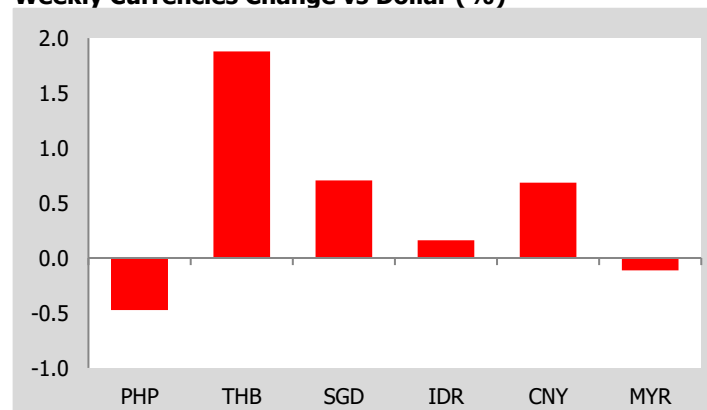
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

### 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 (%)

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

Source: Bloomberg, MIDFR

- US economic data released last week:
  - Industrial production contracted for the 4th consecutive month. Factory output declined -0.4%yoy in Nov-23 (Oct-23: -1.0%yoy).
  - The services sector expanded while the manufacturing sector contracted. The US S&P Global Services PMI rose to 51.3 in Dec-23 (Nov-23: 50.8; market forecasts: 50.6), marking the 11th straight month of expansion. Meanwhile, the S&P Global Manufacturing PMI deteriorated to the lowest point in 4 months at 48.2 (Nov-23: 49.4; market forecasts: 49.3).
  - Inflation eased further. Headline CPI inflation moderated to +3.1%yoy in Nov-23 (Oct-23: +3.2%yoy), the slowest price increase in 5 months and matched market expectations. Core CPI inflation was unchanged at +4.0%yoy, also similar to market consensus. Meanwhile, cost pressures also eased as PPI inflation moderated to +0.9%yoy in Nov-23 (Oct-23: +1.2%yoy; market forecasts: +1.0%yoy).
  - Retail sales growth accelerated. Retail sales expanded by +4.1%yoy in Nov-23 (Oct-23: +2.2%yoy) at the strongest pace in 9 months.
  - Labour market remained strong. The initial jobless claims for the week ended 9th December declined to +202K (previous week: +221; market forecasts: +220K).
- On monetary decisions last week:
  - The Fed's FOMC kept the fed funds rate unchanged at 5.25%-5.50% on signs of slowing economic growth and continued moderation in the US inflation.
  - The BOE also kept the Bank rate status quo at a 15-year high of 5.25%, conforming to market expectations despite deteriorating economic conditions.
  - The ECB maintained its main refinancing rate at 4.50%, the highest level in more than 2 decades, as expected by the market consensus, but indicated it would remain restrictive to combat inflation.
  - The Central Bank of Taiwan maintained its policy interest rate at 1.875% in view of easing domestic inflation and supporting economic growth.
  - Bangko Sentral ng Pilipinas held the interest rate steady at 6.50%, in line with market expectations.
- Malaysia economic data released last week:
  - Retail trade growth moderated in Oct-23. Malaysia's retail trade continued to grow by +3.9%yoy in Oct-23, but at the slowest expansion rate since Jan-22. On a month-on-month basis, non-seasonally adjusted retail trade fell by -0.8%.
  - IPI rose by +2.7%yoy in Oct-23 (Sep-23: -0.5%yoy), returning to growth after 2 months of marginal declines, mainly attributable to rebound in the mining sector output.

## C. BNM INTERNATIONAL RESERVES

- As of 30 November 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD112.3b (15 November 2023: USD110.5b).

### BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The number of reserves is sufficient to finance 5.4 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	8-Dec Fri	11-Dec Mon	12-Dec Tue	13-Dec Wed	14-Dec Thu	15-Dec Fri	Change (WoW bp)
MGS							
3-Y	3.49	3.506	3.497	3.507	3.516	3.423	-6.7
5-Y	3.581	3.606	3.626	3.644	3.546	3.556	-2.5
7-Y	3.757	3.755	3.781	3.781	3.7	3.71	-4.7
10-Y	3.729	3.752	3.754	3.846	3.699	3.747	1.8
20-Y	4.101	4.097	4.136	4.131	4.079	4.07	-3.1
RINGGIT IRS							
1-Y	3.6	3.6	3.6025	3.6025	3.565	3.56	-4
3-Y	3.53	3.545	3.532	3.547	3.445	3.495	-3.5
5-Y	3.63	3.645	3.63	3.6525	3.5425	3.5625	-6.75
7-Y	3.76	3.77	3.75	3.77	3.66	3.67	-9
10-Y	3.89	3.9	3.9	3.925	3.81	3.825	-6.5
KLIBOR							
1-M	3.36	3.36	3.37	3.37	3.37	3.37	1
3-M	3.75	3.75	3.76	3.77	3.77	3.77	2
UST							
3-Y	4.4571	4.4569	4.4256	4.1457	4.0928	4.1199	-33.72
5-Y	4.2392	4.2461	4.2197	3.9704	3.9044	3.9088	-33.04
7-Y	4.2676	4.2727	4.2388	4.0141	3.9347	3.9367	-33.09
10-Y	4.2256	4.2333	4.2006	4.0164	3.9208	3.911	-31.46
30-Y	4.3036	4.3267	4.308	4.1752	4.0355	4.008	-29.56
USD LIBOR							
1-M	5.46946	5.47426	5.47931	5.47629	5.47273	5.47273	0.327
3-M	5.62765	5.64078	5.64767	5.64624	5.63935	5.63935	1.17

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	8-Dec Yield	15-Dec Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.906	07/15/26	3.490	3.423	-6.7	1,541.4
MALAYSIA GOVERNMENT	4.642	11/07/33	3.729	3.747	1.8	1,228.9
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.774	3.734	-4.0	1,219.4
MALAYSIA INVESTMNT ISSU	5.357	05/15/52	4.352	4.332	-2.0	897.1
MALAYSIA GOVERNMENT	3.519	04/20/28	3.573	3.546	-2.7	888.4
MALAYSIA GOVERNMENT	4.498	04/15/30	3.757	3.710	-4.7	800.3
MALAYSIA GOVERNMENT	2.632	04/15/31	3.842	3.815	-2.7	585.8
MALAYSIA GOVERNMENT	3.478	06/14/24	3.176	3.122	-5.4	541.8
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	3.794	3.769	-2.5	436.2
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.516	3.502	-1.4	374.0
TOTAL VOLUME (TOP 10)						8,513.2
TOTAL VOLUME (Overall)						13,413.9

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	8-Dec Yield	15-Dec Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.9	04/29/33	N/A	3.888	N/A	150.0
SARAWAK ENERGY BHD	5.04	04/25/31	4.088	3.973	-11.5	100.0
DANAINFRA NASIONAL	4.1	05/05/36	N/A	3.969	N/A	100.0
PRASARANA MALAYSIA BHD	5.11	09/12/42	N/A	4.195	N/A	80.0
PRASARANA MALAYSIA BHD	4.59	08/29/42	4.289	4.194	-9.5	80.0
YTL POWER INTERNATIONAL	4.62	08/24/35	4.279	4.209	-7.0	80.0
PENGURUSAN AIR SELANGO	4.74	10/11/38	N/A	4.208	N/A	70.0
IMTIAZ SUKUK II BHD	4.77	05/11/29	4.188	4.179	-0.9	60.0
PROJEK LEBUHRAYA USAHA	5.75	01/12/37	4.318	4.157	-16.1	60.0
SMJ ENERGY SDN BHD	4.67	10/26/38	4.348	4.271	-7.7	55.0
TOTAL VOLUME (TOP 10)						835.0
TOTAL VOLUME (Overall)						2,447.6

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