

## MIDF Strategy 26 December 2023

### Week Ended 22 December 2023

- The UST market continued to attract buying interest during the review week with benchmark 10-year yield closed slightly lower at 3.90% (prior week: 3.91%) as investors reacted to the core PCE data for the month of November which showed cooling price pressures. The 10y-3y yield spread rebounded but remains inverted at -14bps (prior week: -21bps) as the short-end outperformed. Moreover, the interest rate futures market continued to imply no more Fed rate hike and spate of rate cuts in 2024.
- Medium-term inflation expectation (MTIE) ended lower week-on-week at 2.18% (prior week: 2.20%). 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 added 0.8bp and shed -2.1bps to close at 3.43% and 3.73% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 32bps to 30bps as the long-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 -RM2.75b. It improved on-week from -RM3.05b registered a week ago. However, it slumped on-year from +RM5.10b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- The UST market continued to attract buying interest during the review week with benchmark 10-year yield closed slightly lower at 3.90% (prior week: 3.91%) as investors reacted to the core PCE data for the month of November which showed cooling price pressures. The 10y-3y yield spread rebounded but remains inverted at -14bps (prior week: -21bps) as the short-end outperformed. Moreover, the interest rate futures market continued to imply no more Fed rate hike and spate of rate cuts in 2024.



Source: Bloomberg, MIDFR

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



Source: Bloomberg, MIDFR

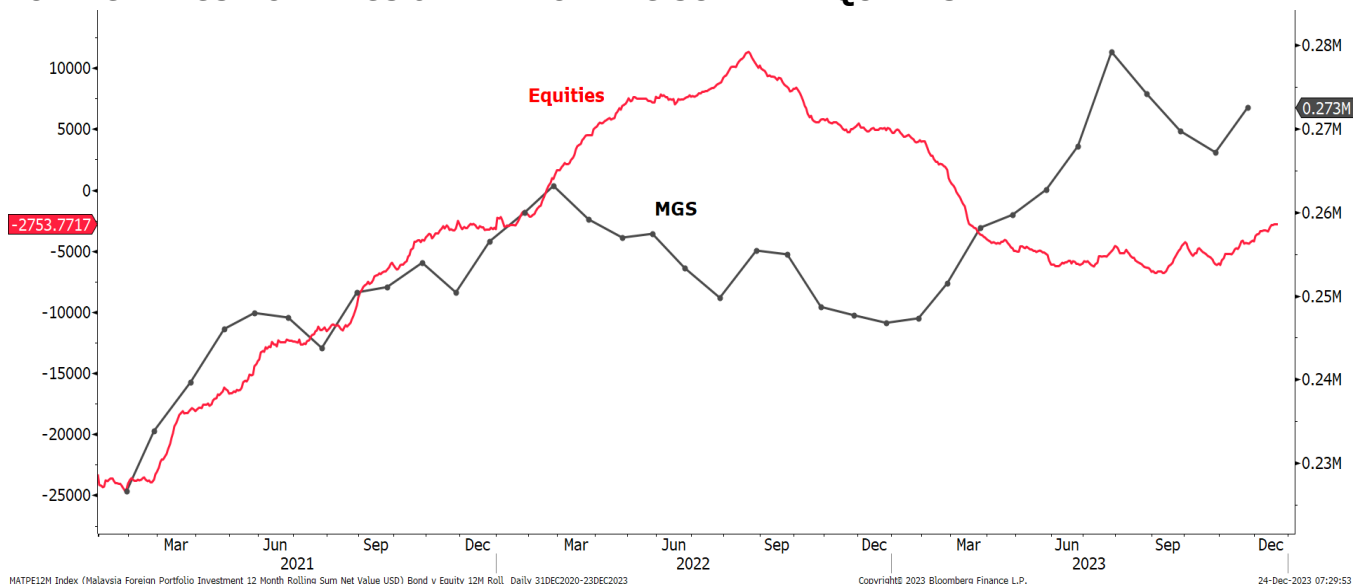
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM7.48b in the review week compared to RM13.40b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues was unchanged week-on-week at 63% of the overall Government Bonds trades. Moreover, 6 out of the 10 most actively traded bonds saw higher yield, hence lower 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 3.478% 6/14/24 at RM1.36b, MGS 3.519% 4/20/28 at RM972m, and MGS 4.642% 11/7/33 at RM456m.

## 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 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 -RM2.75b. It improved in one week from -RM3.05b registered a week ago. However, it slumped one year from +RM5.10b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.70b in the review week compared to RM2.45b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 49% from 34% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of varied residual tenor. The top 3 most actively traded were Danainfra 4.95% 4/6/40 at RM800m, PLUS 4.8% 1/12/27 at RM250m, and PLUS 4.44% 112/28 at RM160m.

## B. FOREIGN EXCHANGE

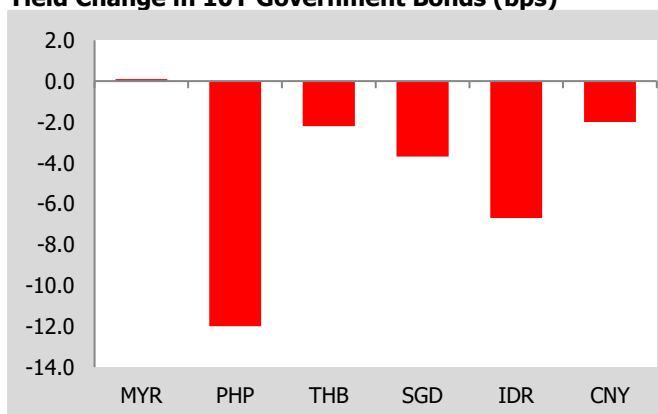
- USD depreciated for the second consecutive week. The US dollar weakened against major currencies as the DXY dollar index declined -0.8% to 101.70, the lowest closing since late Jul-23. The dollar demand receded as inflation moderated further, influenced by heightened sentiment that the Fed will ease its policy interest rate next year.
- The euro and pound gained on weaker dollar. Last week, the euro and pound strengthened by +1.1% to USD 1.101 and +0.2% to USD 1.270, respectively. The euro ended the week at the strongest level since late Jul-23 while the pound had its strongest weekly closing in 4 weeks. The pound appreciation was however dampened by the much softer-than-expected UK inflation data, easing expectations for further hikes.
- Ringgit reversed previous week's depreciation. The ringgit appreciated by +0.9% to end the week at RM4.629, the strongest closing since mid-Aug-23. Ringgit was the best performing currency among regional peers, benefiting from the dollar's weakness. Additionally, commodity price movement favoured the ringgit as Brent crude oil prices rose +3.3% during the week to USD79.07pb (previous week: USD76.55pb).

### Currencies Changes (Week Ended 22 December 2023) and Quarterly Forecasts

	Close (22/12)	Prev. Close (15/12)	Weekly Change	Weekly Change (%)	4QCY23f	1QCY24f	2QCY24f	3QCY24f
DXY Index	101.70	102.55	-0.852	-0.8	105.5	103.8	102.5	101.1
EURUSD	1.101	1.090	+0.012	+1.1	1.06	1.07	1.09	1.10
GBPUSD	1.270	1.268	+0.002	+0.2	1.22	1.23	1.24	1.26
USDJPY	142.41	142.15	-0.260	-0.2	148	145	141	138
USDMYR	4.629	4.6698	+0.041	+0.9	4.45	4.39	4.23	4.16
GBPMYR	5.872	5.965	+0.094	+1.6	5.67	5.69	5.64	5.64
JPYMYR	3.250	3.285	+0.036	+1.1	3.14	3.19	3.23	3.24

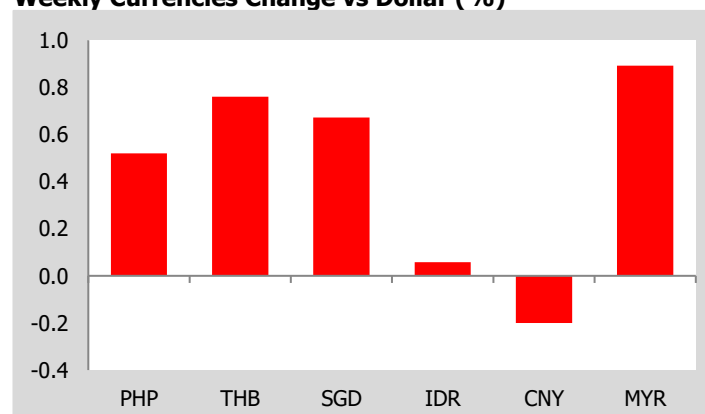
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

### 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:
  - Consumer optimism rose. CB Consumer confidence climbed to 110.7 in Dec-23 (Nov-23: 101.0; market forecasts: 104.0).
  - 3QCY23 GDP expanded softer than 2nd estimate. US GDP expanded on an annualized +4.9%qoq in 3QCY23, lower than +5.2%qoq in the 2nd estimate, but remained the strongest quarter-on-quarter growth since 4QCY21.
  - The Fed's preferred inflation gauge moderated further. The core PCE inflation eased to +3.2%yoy in Nov-23 (Oct-23: +3.4%yoy; market forecasts: +3.3%yoy), the lowest since Apr-21.
  - Labour market remained robust. The initial jobless claims for the week ended 16th December rose to +205K, but were well under market expectations (previous week: +203; market forecasts: +215K).
  
- On monetary decisions last week:
  - On 19th December, Bank of Japan kept the benchmark interest rate at -0.1% and the 10-year bond yields around 0% after its Dec-23 policy meeting, citing the uncertainties domestically and abroad which require continuous monetary easing.
  - On 20th December, People's Bank of China, kept the 1-year and 5-year Loan Prime Rates steady at 3.45% and 4.20%, respectively, following central bank liquidity injection through medium-term policy.
  - On 21st December, Bank Indonesia kept the interest rate unchanged at 6.00% during its Dec-23 decision, just as the market expected. The central bank cited the strengthening and stabilisation of the rupiah and the pre-emptive effort to quell inflation as the main reason for the decision.
  
- Malaysia economic data released last week:
  - Exports fell sharper in Nov-23. Exports shrank -5.9%yoy in Nov-23 (Oct-23: -4.5%yoy), a 9th consecutive month of decline, due to weakness in E&E shipments as well as a sharper fall in exports to major destinations like China and the US.
  - Headline CPI inflation eased to +1.5%yoy in Nov-23, the lowest since Feb-21 and below market consensus of +1.7%yoy. Non-food inflation was unchanged at +0.9%yoy while food inflation eased to a 2-year low at +2.6%yoy.

## C. BNM INTERNATIONAL RESERVES

- As of 15 December 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD112.8b (30 November 2023: USD112.3b).

### BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The number of reserves is sufficient to finance 5.5 months of imports of goods & services and is 1.0 times total short-term external debt. 📈

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	15-Dec Fri	18-Dec Mon	19-Dec Tue	20-Dec Wed	21-Dec Thu	22-Dec Fri	Change (WoW bp)
MGS							
3-Y	3.423	3.483	3.47	3.479	3.48	3.431	0.8
5-Y	3.556	3.543	3.573	3.573	3.556	3.569	1.3
7-Y	3.71	3.727	3.757	3.7	3.717	3.725	1.5
10-Y	3.747	3.733	3.733	3.733	3.739	3.726	-2.1
20-Y	4.07	4.104	4.091	4.09	4.104	4.089	1.9
RINGGIT IRS							
1-Y	3.56	3.585	3.585	3.585	3.59	3.585	2.5
3-Y	3.495	3.495	3.52	3.51	3.495	3.5	0.5
5-Y	3.5625	3.58	3.575	3.565	3.555	3.58	1.75
7-Y	3.67	3.7	3.69	3.695	3.69	3.695	2.5
10-Y	3.825	3.84	3.83	3.825	3.83	3.84	1.5
KLIBOR							
1-M	3.37	3.37	3.37	3.37	3.37	3.37	0
3-M	3.77	3.77	3.77	3.77	3.77	3.77	0
UST							
3-Y	4.1199	4.142	4.1417	4.0409	4.0573	4.0364	-8.35
5-Y	3.9088	3.9311	3.9343	3.8441	3.8749	3.8721	-3.67
7-Y	3.9367	3.9545	3.9569	3.8674	3.9004	3.9099	-2.68
10-Y	3.911	3.9314	3.9313	3.8474	3.8881	3.895	-1.6
30-Y	4.008	4.0446	4.0387	3.9856	4.0303	4.0493	4.13
USD LIBOR							
1-M	5.47023	5.4724	5.47204	5.47137	5.47043	5.46984	-0.039
3-M	5.6256	5.632	5.63623	5.63267	5.62174	5.61272	-1.288

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	15-Dec Yield	22-Dec Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.478	06/14/24	3.122	3.146	2.4	1,362.5
MALAYSIA GOVERNMENT	3.519	04/20/28	3.546	3.569	2.3	972.2
MALAYSIA GOVERNMENT	4.642	11/07/33	3.747	3.726	-2.1	456.2
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.603	3.598	-0.5	410.4
MALAYSIA GOVERNMENT	3.955	09/15/25	3.371	3.372	0.1	298.5
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.502	3.497	-0.5	281.8
MALAYSIA INVESTMNT ISSU	4.444	05/22/24	3.157	3.176	1.9	245.0
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	3.769	3.767	-0.2	237.0
MALAYSIA GOVERNMENT	4.457	03/31/53	4.117	4.148	3.1	225.5
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.734	3.746	1.2	219.8
TOTAL VOLUME (TOP 10)						4,708.8
TOTAL VOLUME (Overall)						7,482.0

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	15-Dec Yield	22-Dec Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.95	04/06/40	N/A	4.181	N/A	800.0
PROJEK LEBUHRAYA USAHA	4.8	01/12/27	3.960	3.841	-11.9	250.0
PROJEK LEBUHRAYA USAHA	4.44	01/12/28	4.058	3.887	-17.1	160.0
SARAWAK ENERGY BHD	4.27	07/04/33	4.061	4.019	-4.2	140.0
DANAINFRA NASIONAL	4.78	10/18/41	N/A	4.209	N/A	120.0
PENGURUSAN AIR SELANGO	4.87	07/26/32	4.099	4.004	-9.5	70.0
AMANAT LEBUHRAYA RAKY	5.24	10/13/32	4.299	4.209	-9.0	70.0
PROJEK LEBUHRAYA USAHA	5.15	01/12/32	4.109	3.968	-14.1	70.0
SARAWAK ENERGY BHD	5.04	04/25/31	3.973	3.964	-0.9	60.0
GOLDEN ASSETS INTERNAT	5.42	04/08/27	N/A	4.147	N/A	60.0
TOTAL VOLUME (TOP 10)						1,800.0
TOTAL VOLUME (Overall)						3,695.7

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