

## MIDF Strategy 8 January 2024

### Week Ended 5 January 2024

- Sellers returned to the UST market with benchmark 10-year yield closed the review week higher at 4.05% (prior week: 3.88%) as investors reacted to (i) higher-than-expected December NFP data, and (ii) latest Fed meeting minutes which noted a level of uncertainty over when, or if, the anticipated rate cuts will happen. Moreover, the 10y-3y yield spread rebounded but remains inverted at -12bps (prior week: -13bps) as the long-end underperformed. Meanwhile, the interest rate futures market continued to imply no more Fed rate hike and spate of rate cuts commencing as early as in March 2024.
- Medium-term inflation expectation (MTIE) ended higher week-on-week at 2.21% (prior week: 2.16%). The MTIE nonetheless remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but 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 lower with the 3-year and 10-year yields added 1.2bps and 14.1bps to close at 3.49% and 3.88% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 26bps to 39bps as the long-end underperformed.
- 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 -RM2.02b. It improved on-week from -RM2.63b registered a week ago. However, it slumped on-year from +RM4.68b a year ago.

## Weekly Money Review

### A. FIXED INCOME

- Sellers returned to the UST market with benchmark 10-year yield closed the review week higher at 4.05% (prior week: 3.88%) as investors reacted to (i) higher-than-expected December NFP data, and (ii) latest Fed meeting minutes which noted a level of uncertainty over when, or if, the anticipated rate cuts will happen. Moreover, the 10y-3y yield spread rebounded but remains inverted at -12bps (prior week: -13bps) as the long-end underperformed. Meanwhile, the interest rate futures market continued to imply no more Fed rate hike and spate of rate cuts commencing as early as in March 2024.



Source: Bloomberg, MIDFR

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



Source: Bloomberg, MIDFR

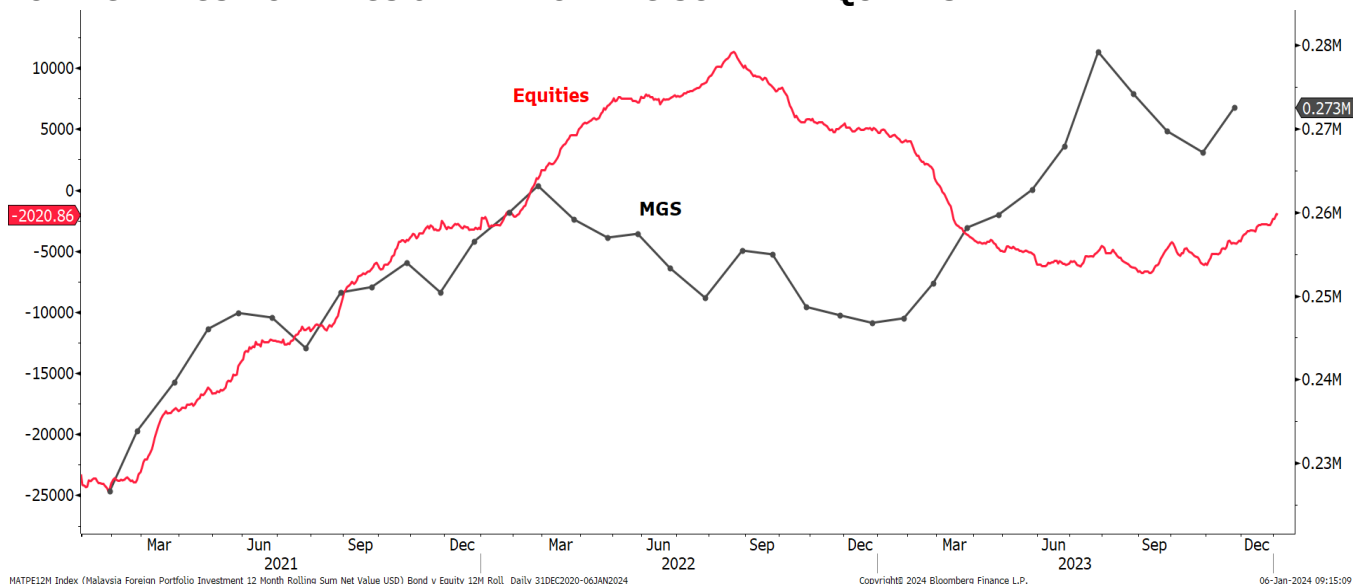
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM12.99b in the review week compared to RM6.16b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 70% from 63% of the overall Government Bonds trades. Moreover, 9 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 long residual tenor. The top 3 most actively traded were MGS 4.893% 6/8/38 at RM1.84b, MGS 4.642% 11/7/33 at RM1.30b, and MGS 4.582% 8/30/33 at RM1.02b.

## 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 -RM2.02b. It improved one week from -RM2.63b registered a week ago. However, it slumped on-year from +RM4.68b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.65b in the review week compared to RM670m 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 55% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of short residual tenor. The top 3 most actively traded were Khazanah Nasional 0% 3/20/24 at RM490m, Danainfra Nasional 4.09% 10/20/26 at RM300m, and TM Technology 4.55% 12/20/24 at RM110m.

## B. FOREIGN EXCHANGE

- USD ended 3 weeks of depreciation. The US dollar strengthened against major currencies last week as the DXY index rose +1.1wow to 102.41 after 3 weeks of decline. The demand for the dollar returned as data releases indicated continued resilience in the US labour market and the economy.
- Euro and pound depreciated. As the dollar strengthened, the euro and pound sterling both depreciated by -0.9%wow to USD1.094 and -0.1%wow to USD1.272, respectively. Weakness in the economy caused euro to weaken to the weakest level in 3 weeks. The depreciation in pound sterling was however marginal as the Dec-23 PMI report pointed to stronger-than-expected business activity in the services sector.
- Ringgit ended 2 weeks of appreciation. Like other currencies, the ringgit also depreciated and was last exchanged at RM4.655, the weakest level in over 2 weeks. The large -1.3%wow depreciation makes ringgit the worst-performing regional currency. Movement in the commodity prices was unable to support ringgit against the broad strength in the US dollar as Brent crude oil prices rose by +2.2%wow during the week to USD78.76pb (previous week: USD 77.04pb).

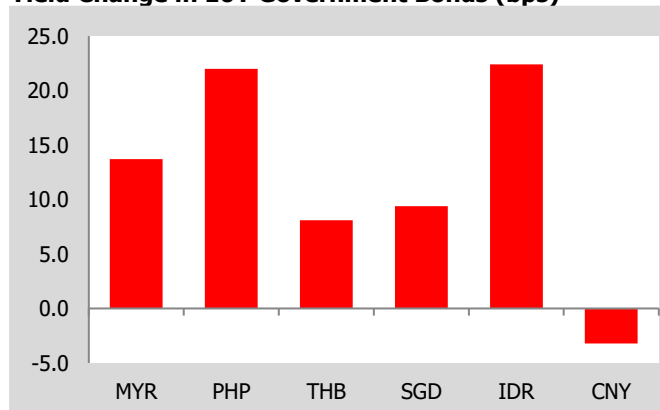
### Currencies Changes (Week Ended 5 January 2024) and Quarterly Forecasts

	Close (05/01)	Prev. Close (29/12)	Weekly Change	Weekly Change (%)	1QCY24f	2QCY24f	3QCY24f	4QCY24f
DXY Index	102.41	101.33	+1.079	+1.1	103.8	102.5	101.1	99.7
EURUSD	1.094	1.104	-0.010	-0.9	1.07	1.09	1.10	1.12
GBPUSD	1.272	1.273	-0.001	-0.1	1.23	1.24	1.26	1.27
USDJPY	144.63	141.04	-3.590	-2.5	145	141	138	135
USDMYR	4.655	4.594	-0.061	-1.3	4.39	4.38	4.32	4.20
GBPMYR	5.894	5.837	-0.057	-1.0	5.75	5.73	5.72	5.74
JPYMYR	3.218	3.255	+0.037	+1.1	3.19	3.25	3.26	3.30

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

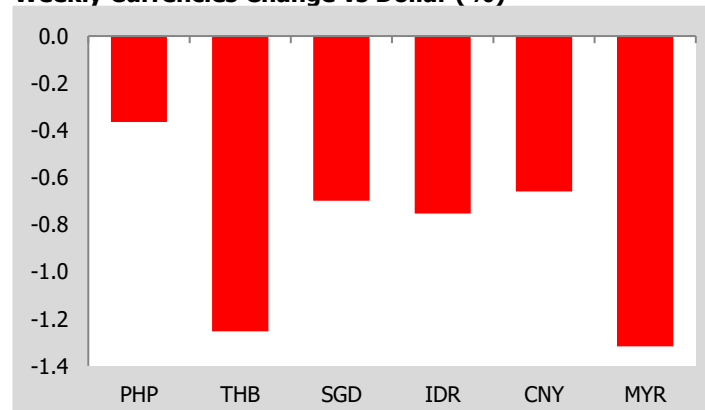
Source: Bloomberg, MIDFR

### 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 (%)

	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Malaysia	3.00	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	6.00	6.00	6.00	6.00
Philippines	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50
Thailand	2.00	2.00	2.00	2.25	2.50	2.50	2.50	2.50	2.50
Vietnam	5.00	4.50	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	4.50	5.00	5.00	5.25	5.25	5.25	5.25	5.25	5.25
Euro area	3.75	4.00	4.25	4.25	4.50	4.50	4.50	4.50	4.50
USA	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	5.25-5.50

Source: Bloomberg, MIDFR

- US economic data released last week:
  - The manufacturing sector remained contractionary while the services sector expanded. The ISM Manufacturing PMI stood at 47.4 in Dec-23 (Nov-23: 46.7; market forecasts: 47.1) while the US S&P Global Manufacturing PMI was revised lower to 47.9 (Nov-23: 49.4; preliminary: 48.2). Meanwhile, the US ISM Services PMI fall to the lowest in a 7-month period at 50.6 (Nov-23: 52.7; market forecasts: 52.6) while the US S&P Global Manufacturing PMI was revised higher to 51.4 (Nov-23: 50.8; preliminary: 51.3)
  - FOMC meeting minutes indicated lower interest rates in 2024. The minutes of Dec-23 FOMC meeting unveiled that FOMC members anticipated more rate cuts in 2024 as inflation is expected to ease further.
  - Labour market remained tight.
    - Nonfarm payrolls rose more than expected by +216K in Dec-23 (Nov-23: +173K; market forecasts: +170K). The unemployment rate remained at 3.7% (market forecasts: +3.8%).
    - ADP payroll data showed US private sector employment rose +164K in Dec-23 (Nov-23: +101K), the highest increase in 4 months.
    - Less Americans filed for jobless benefits as initial weekly claims for the week ended 30th December 2023 declined to 202K (previous week: 220K; market forecasts: 216K).
- Malaysia economic data released last week:
  - Malaysia's manufacturing activities continued to contract. Malaysia's S&P Global Manufacturing PMI was unchanged in Dec-23, remaining at the 7-month high of 47.9. The below-50 reading indicated activities in the manufacturing sector had contracted for the 16th consecutive month.

## 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



HAALGFES Index (Malaysia Assets & Liabilities US Dollar Equivalent of International Reserves) BNM Intl Reserves Weekly 15FEB2019-15DEC2023

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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	29-Dec Fri	1-Jan Mon	2-Jan Tue	3-Jan Wed	4-Jan Thu	5-Jan Fri	Change (WoW bp)
MGS							
3-Y	3.477	3.477	3.475	3.492	3.481	3.489	1.2
5-Y	3.581	3.581	3.607	3.631	3.607	3.62	3.9
7-Y	3.709	3.709	3.742	3.753	3.792	3.81	10.1
10-Y	3.736	3.736	3.748	3.794	3.847	3.877	14.1
20-Y	4.1	4.1	4.107	4.139	4.136	4.125	2.5
RINGGIT IRS							
1-Y	3.575	3.575	3.58	3.555	3.535	3.545	-3
3-Y	3.49	3.49	3.515	3.53	3.51	3.502	1.2
5-Y	3.58	3.58	3.625	3.66	3.62	3.65	7
7-Y	3.705	3.705	3.74	3.765	3.75	3.78	7.5
10-Y	3.82	3.82	3.88	3.91	3.89	3.924	10.4
KLIBOR							
1-M	3.37	3.37	3.37	3.36	3.35	3.34	-3
3-M	3.77	3.77	3.77	3.74	3.72	3.7	-7
UST							
3-Y	4.0088	4.0088	4.0874	4.0843	4.152	4.1627	15.39
5-Y	3.8471	3.8471	3.9133	3.9029	3.98	4.0066	15.95
7-Y	3.8812	3.8812	3.9356	3.9226	3.9981	4.0349	15.37
10-Y	3.8791	3.8791	3.9294	3.9162	3.9988	4.0457	16.66
30-Y	4.0282	4.0282	4.0708	4.0725	4.1522	4.2021	17.39
USD LIBOR							
1-M	5.4692	5.4692	5.46292	5.45979	5.45819	5.45819	-1.101
3-M	5.59301	5.59301	5.58894	5.59179	5.59092	5.59092	-0.209

Source: Bloomberg

**10 MOST ACTIVELY TRADED GOVERNMENT BONDS**

Name	Coupon	Maturity	29-Dec Yield	5-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	4.893	06/08/38	3.971	4.035	6.4	1,845.2
MALAYSIA GOVERNMENT	4.642	11/07/33	3.736	3.877	14.1	1,295.0
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	3.767	3.907	14.0	1,022.0
MALAYSIA GOVERNMENT	3.478	06/14/24	3.199	3.069	-13.0	914.4
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.770	3.841	7.1	856.6
MALAYSIA INVESTMNT ISSU	4.13	07/09/29	3.695	3.755	6.0	751.7
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.820	3.862	4.2	652.5
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.606	3.653	4.7	632.3
MALAYSIA GOVERNMENT	3.519	04/20/28	3.581	3.620	3.9	588.7
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.490	3.502	1.2	476.9
TOTAL VOLUME (TOP 10)						9,035.2
TOTAL VOLUME (Overall)						12,993.6

Source: Bloomberg

**10 MOST ACTIVELY TRADED CORPORATE BONDS**

Name	Coupon	Maturity	29-Dec Yield	5-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
KHAZANAH NASIONAL BHD	ZERO	03/20/24	N/A	3.443	N/A	490.0
DANAINFRA NASIONAL	4.09	10/20/26	N/A	3.585	N/A	300.0
TM TECHNOLOGY SDN BHD	4.55	12/20/24	N/A	3.582	N/A	110.0
CAGAMAS BERHAD	3.91	06/29/26	N/A	3.744	N/A	100.0
CAGAMAS BERHAD	3.97	08/08/28	N/A	3.852	N/A	100.0
BANK PEMBANGUNAN MALA	4.05	06/06/31	N/A	4.000	N/A	90.0
CAGAMAS BERHAD	3.9	04/14/26	3.728	3.727	-0.1	90.0
CAGAMAS BERHAD	4.26	01/18/28	N/A	3.817	N/A	80.0
CAGAMAS BERHAD	4.5	12/27/27	N/A	3.817	N/A	80.0
PRESS METAL ALUMINIUM	4	08/15/25	N/A	3.903	N/A	70.0
TOTAL VOLUME (TOP 10)						1,510.0
TOTAL VOLUME (Overall)						2,652.1

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