

MIDF Strategy 15 January 2024

Week Ended 12 January 2024

- Buyers returned to the UST market with benchmark 10-year yield closed the review week lower at 3.94% (prior week: 4.05%) as investors reacted to lower-than-expected PPI figures in December despite higher-than-expected CPI data for the same month. Moreover, the 10y-3y yield spread turned positive at +1bp (prior week: -12bps) as the short-end outperformed. 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 2.24% (prior week: 2.21%), arguably in reaction to the mixed inflation data. 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 higher with the 3-year and 10-year yields shed -7.6bps and -8.1bps to close at 3.41% and 3.80% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 39bps to 38bps as the long-end outperformed.
- MGS foreign holdings increased on-year from RM247b in December 2022 to RM270b in December 2023. However, it dropped on-month from RM273b in November 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM1.94b. It improved on-week from -RM2.02b registered a week ago. However, it slumped on-year from +RM4.54b a year ago.

Weekly Money Review

A. FIXED INCOME

- Buyers returned to the UST market with benchmark 10-year yield closed the review week lower at 3.94% (prior week: 4.05%) as investors reacted to lower-than-expected PPI figures in December despite higher-than-expected CPI data for the same month. Moreover, the 10y-3y yield spread turned positive at +1bp (prior week: -12bps) as the short-end outperformed. 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

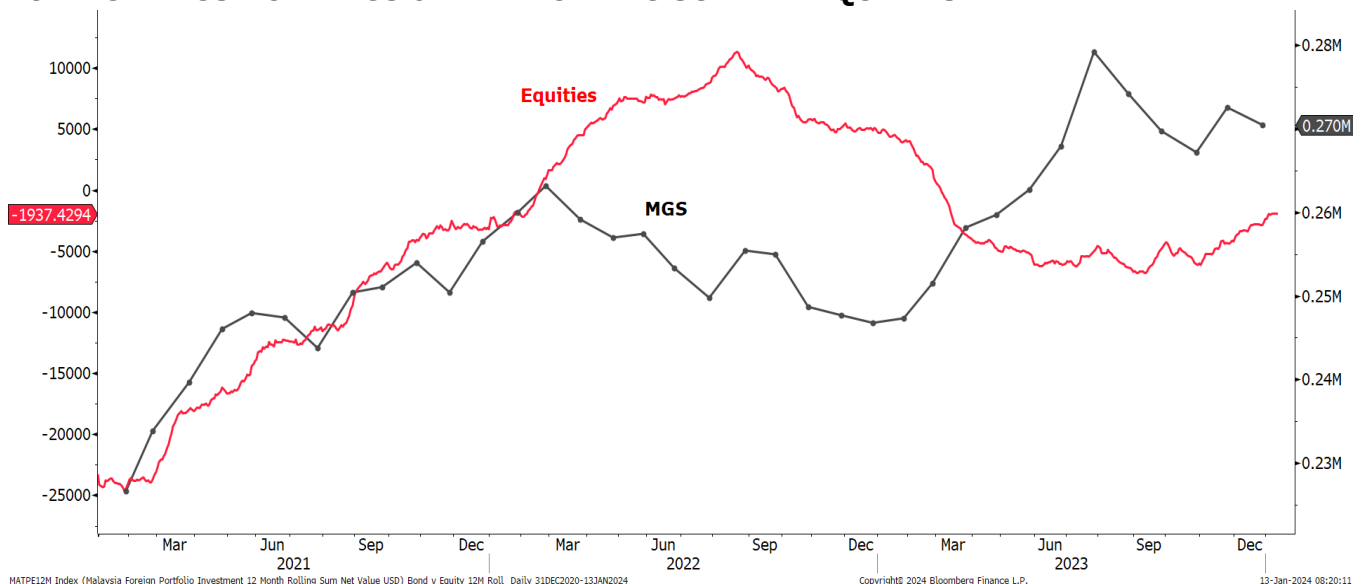
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM23.30b in the review week compared to RM12.99b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 50% from 70% 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 mid and long residual tenor. The top 3 most actively traded were MII 4.582% 8/30/33 at RM1.65b, MII 3.599% 7/31/28 at RM1.47b, and MGS 4.642% 11/7/33 at RM1.43b.

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



Source: Bloomberg, MIDFR

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- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.25b in the review week compared to RM2.65b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues declined (higher trading breadth) to 39% from 57% of the overall Corporate Bonds trades.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and mid residual tenor. The top 3 most actively traded were Khazanah Nasional 0% 3/20/24 at RM385m, PTPTN 4.67% 3/28/24 at RM330m, and Sarawak Energy 4.19% 7/4/30 at RM175m.

B. FOREIGN EXCHANGE

- USD was virtually unchanged. The US dollar was virtually unchanged against major currencies last week as the DXY index closed at 102.40. The dollar closed at its intra-week low of 102.21 on Monday, appreciating for the next 2 days before retreating to 102.29 on Thursday as market still expected Fed to cut rates despite stronger-than-expected CPI inflation. However, increased safe-haven demand supported dollar later in the week following renewed geopolitical tension in the Middle East.
- Euro and pound appreciated. The euro and pound sterling gained by +0.1%wow to USD1.095 and +0.3%wow to USD1.275, respectively, from the weak dollar. Euro ended trading at intra-week high of USD1.097 on Wednesday, while pound sterling's intra-week high was at USD1.276 on Thursday. Both currencies reversed some of the gains towards end of the week as dollar strengthened on higher risk-off demand.
- Ringgit back on appreciating trend. The ringgit strengthened by +0.2%wow to RM4.648 against the greenback, the only regional currency to appreciate last week. The ringgit closed at intra-week high of RM4.642 on Wednesday but depreciated in the latter half of the week due to risk aversion. Movement in the commodity prices was also unfavourable towards the ringgit as Brent crude oil prices declined by -0.6% during the week to USD78.29pb (previous week: USD78.76pb).

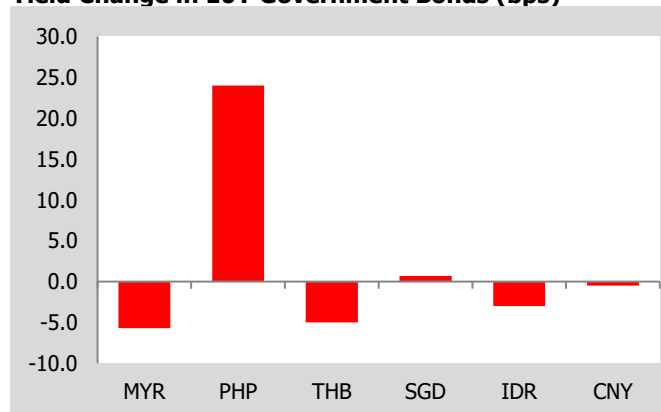
Currencies Changes (Week Ended 12 January 2024) and Quarterly Forecasts

	Close (12/01)	Prev. Close (05/01)	Weekly Change	Weekly Change (%)	1QCY24f	2QCY24f	3QCY24f	4QCY24f
DXY Index	102.40	102.41	-0.008	-0.0	103.8	102.5	101.1	99.7
EURUSD	1.095	1.094	+0.001	+0.1	1.07	1.09	1.10	1.12
GBPUSD	1.275	1.272	+0.003	+0.3	1.23	1.24	1.26	1.27
USDJPY	144.88	144.63	-0.250	-0.2	145	141	138	135
USDMYR	4.648	4.6553	+0.008	+0.2	4.39	4.38	4.32	4.20
GBPMYR	5.927	5.894	-0.033	-0.6	5.75	5.73	5.72	5.74
JPYMYR	3.207	3.218	+0.011	+0.3	3.19	3.25	3.26	3.30

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

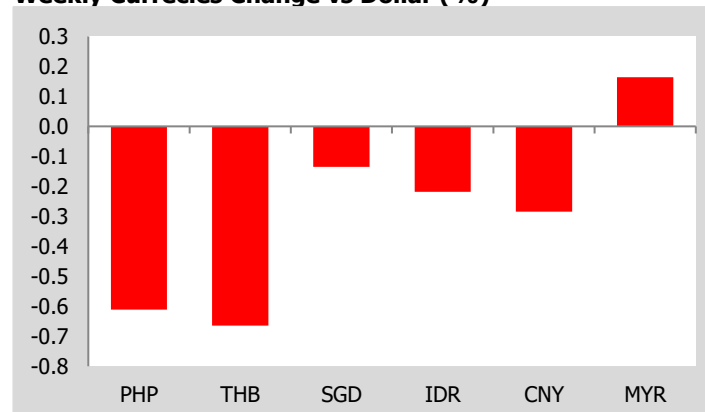
Source: Bloomberg, MIDFR

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:
 - Core inflation moderated further. The headline CPI inflation accelerated stronger than expected to +3.4%yoy in Dec-23 (Nov-23: +3.1%yoy; market consensus: +3.2%yoy), the fastest in 3 months. Meanwhile, the core CPI inflation eased further to +3.9%yoy (Nov-23: +4.0%yoy), albeit marginally higher than market expectations of +3.8%yoy but still the lowest reading since May-21. Producer's inflation edged higher to +1.0%yoy (Nov-23: +0.8%yoy) but was under market consensus of +1.3%yoy.
 - Labour market continued to show resilience. The initial jobless claims for the week ended 6 January 2024 fell to +202K (previous week: +203K), well under market expectations for an increase to +210K.
- Other economic data released last week:
 - Bank of Korea (BOK) kept the interest rate steady. The BOK unsurprisingly kept the interest rate unchanged at 3.5% for the 8th consecutive meeting amid slowdown in inflationary pressure.
- Malaysia economic data released last week:
 - Jobless rate hit new pandemic low. Malaysia's labour market continued improving trend as unemployment rate registered a new post-pandemic low of 3.30% in Nov-23.
 - Distributive trade growth moderated. Distributive trade posted growth of +6.2%yoy in Nov-23, the slowest expansion rate since Jul-23. On a month-on-month basis, non-seasonally adjusted distributive trade inched up by +0.2%.
 - Industrial production expanded more softly. IPI growth slowed to +0.6%yoy in Nov-23. Malaysia's IPI grew slower at +0.6%yoy in Nov-23 (Oct-23: +2.4%yoy), mainly due to weaker manufacturing output.

C. BNM INTERNATIONAL RESERVES

- As of 29 December 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD113.5b (15 December 2023: USD112.8b).

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	5-Jan Fri	8-Jan Mon	9-Jan Tue	10-Jan Wed	11-Jan Thu	12-Jan Fri	Change (WoW bp)
MGS							
3-Y	3.489	3.466	3.432	3.424	3.414	3.413	-7.6
5-Y	3.62	3.619	3.61	3.594	3.551	3.544	-7.6
7-Y	3.81	3.774	3.775	3.747	3.746	3.737	-7.3
10-Y	3.877	3.841	3.811	3.801	3.81	3.796	-8.1
20-Y	4.125	4.108	4.121	4.107	4.118	4.11	-1.5
RINGGIT IRS							
1-Y	3.545	3.51	3.51	3.505	3.51	3.485	-6
3-Y	3.502	3.47	3.465	3.43	3.44	3.425	-7.7
5-Y	3.65	3.61	3.5925	3.56	3.56	3.528	-12.2
7-Y	3.78	3.73	3.725	3.675	3.69	3.66	-12
10-Y	3.924	3.88	3.87	3.84	3.84	3.81	-11.4
KLIBOR							
1-M	3.34	3.33	3.32	3.32	3.3	3.3	-4
3-M	3.7	3.68	3.66	3.64	3.61	3.59	-11
UST							
3-Y	4.1627	4.1397	4.1281	4.1062	4	3.9275	-23.52
5-Y	4.0066	3.9874	3.9699	3.9735	3.8788	3.83	-17.66
7-Y	4.0349	4.0167	3.9933	4.0038	3.9256	3.8868	-14.81
10-Y	4.0457	4.0305	4.0133	4.0283	3.9658	3.939	-10.67
30-Y	4.2021	4.1934	4.1856	4.2046	4.1726	4.1751	-2.7
USD LIBOR							
1-M	5.45372	5.45219	5.45001	5.44867	5.44764	5.44764	-0.608
3-M	5.59087	5.58735	5.58505	5.58807	5.5756	5.5756	-1.527

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	5-Jan Yield	12-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	3.907	3.818	-8.9	1,651.8
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.653	3.587	-6.6	1,472.6
MALAYSIA GOVERNMENT	4.642	11/07/33	3.877	3.796	-8.1	1,427.9
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.841	3.763	-7.8	1,243.3
MALAYSIA INVESTMNT ISSU	4.119	11/30/34	3.950	3.846	-10.4	1,239.7
MALAYSIA GOVERNMENT	3.519	04/20/28	3.620	3.544	-7.6	993.7
MALAYSIA GOVERNMENT	4.498	04/15/30	3.810	3.737	-7.3	983.0
MALAYSIA GOVERNMENT	3.899	11/16/27	3.592	3.488	-10.4	979.1
MALAYSIA INVESTMNT ISSU	4.13	07/09/29	3.755	3.653	-10.2	911.4
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.502	3.411	-9.1	861.7
TOTAL VOLUME (TOP 10)						11,764.2
TOTAL VOLUME (Overall)						23,298.6

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	5-Jan Yield	12-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
KHAZANAH NASIONAL BHD	ZERO	03/20/24	3.443	3.462	1.9	385.0
PERBADANAN TABUNG PEN	4.67	03/28/24	N/A	3.399	N/A	330.0
SARAWAK ENERGY BHD	4.19	07/04/30	3.927	3.948	2.1	175.0
DANAINFRA NASIONAL	4.34	10/27/36	N/A	4.001	N/A	165.0
PROJEK LEBUHRAYA USAHA	4.44	01/12/28	3.887	3.840	-4.7	150.0
PERBADANAN TABUNG PEN	4.27	03/14/24	N/A	3.340	N/A	120.0
DANAINFRA NASIONAL	4.34	11/10/36	N/A	3.999	N/A	100.0
BANK ISLAM MALAYSIA BH	3.75	03/26/30	N/A	3.821	N/A	80.0
TNB POWER GENERATION	4.84	03/27/43	4.248	4.239	-0.9	80.0
CAGAMAS BERHAD	3.94	08/24/26	N/A	3.719	N/A	80.0
TOTAL VOLUME (TOP 10)						1,665.0
TOTAL VOLUME (Overall)						4,249.6

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