

MIDF Strategy 29 January 2024

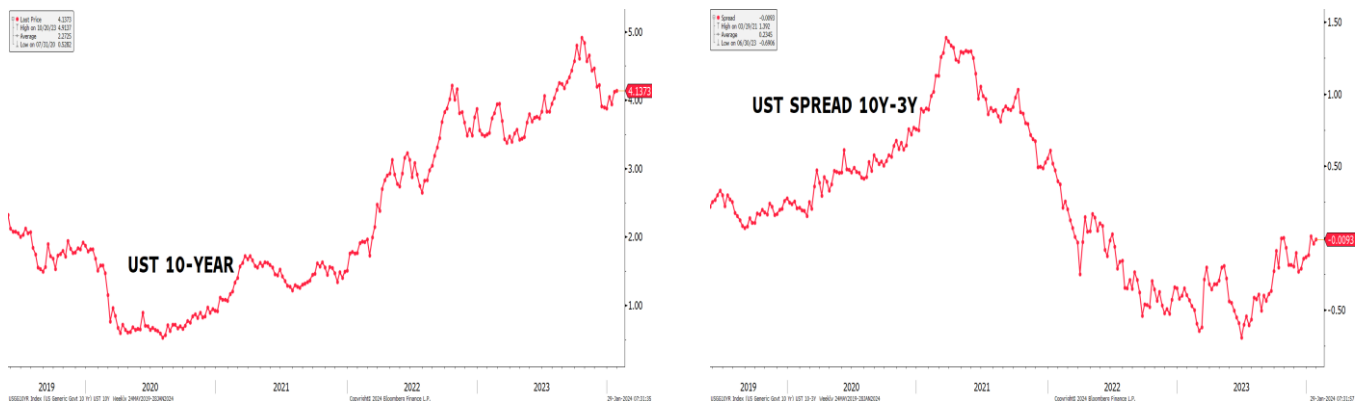
Week Ended 26 January 2024

- Sellers again prevailed in the UST market with benchmark 10-year yield closed the review week higher at 4.14% (prior week: 4.12%) as investors reacted to the release of strong 4Q23 GDP growth figure. Nonetheless, the selling pressure was moderated by the announcements of encouraging inflation data. Moreover, the 10y-3y yield spread rebounded but remains inverted at -1bp (prior week: -4bps) 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 May 2024.
- Medium-term inflation expectation (MTIE) ended the review week a tad lower at 2.29% (prior week: 2.30%), arguably in reaction to the encouraging US inflation figures. The MTIE remains within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. 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 -11.5bps and -1.3bps to close at 3.36% and 3.80% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 34bps to 44bps as the short-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 -RM1.84b. It improved on-week from -RM1.96b registered a week ago. However, it slumped on-year from +RM4.18b a year ago.

Weekly Money Review

A. FIXED INCOME

- Sellers again prevailed in the UST market with benchmark 10-year yield closed the review week higher at 4.14% (prior week: 4.12%) as investors reacted to the release of strong 4Q23 GDP growth figure. Nonetheless, the selling pressure was moderated by the announcements of encouraging inflation data. Moreover, the 10y-3y yield spread rebounded but remains inverted at -1bp (prior week: -4bps) 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 May 2024.



Source: Bloomberg, MIDFR

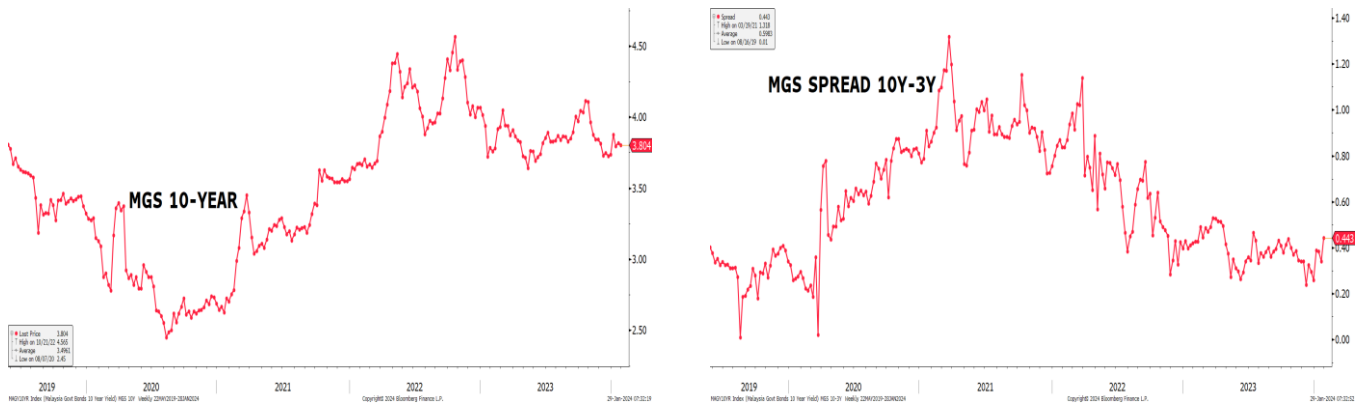
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MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

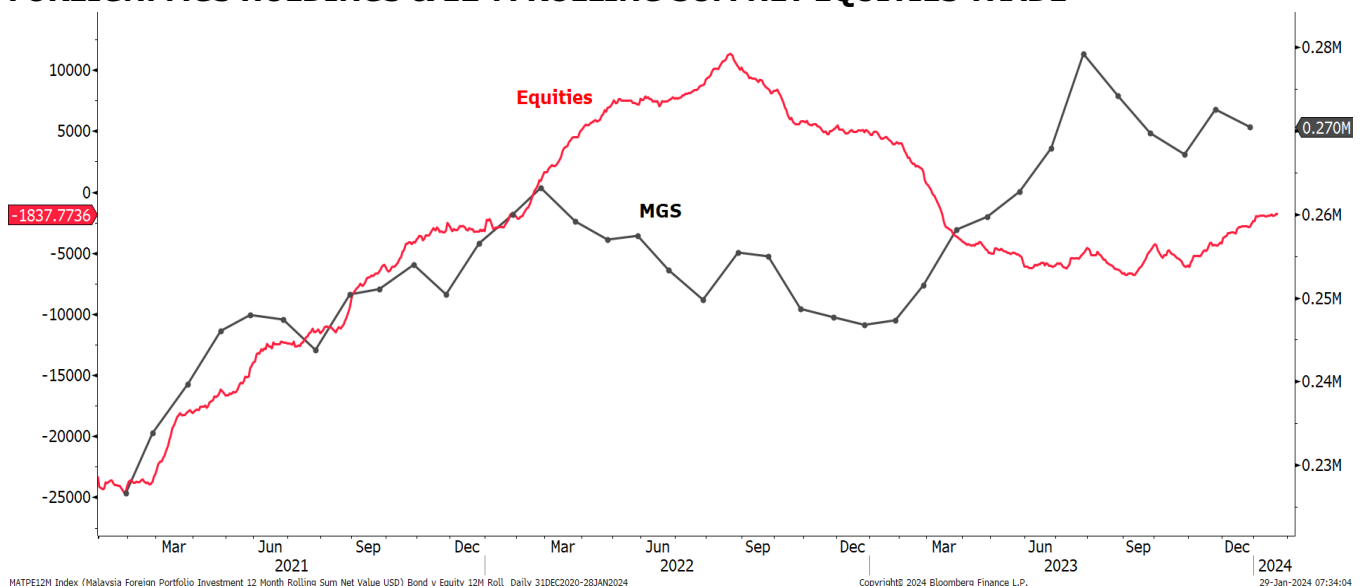
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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM12.06b in the review week compared to RM17.60b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 56% from 55% of the overall Government Bonds trades. Moreover, 10 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 MII 4.07% 9/30/26 at RM869m, MII 4.582% 8/30/33 at RM837m, and MGS 3.519% 4/20/28 at RM835m.

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



Source: Bloomberg, MIDFR

- 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 -RM1.84b. It improved one week from -RM1.96b registered a week ago. However, it slumped one year from +RM4.18b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.16b in the review week compared to RM4.87b in the prior week (based on Bloomberg data). The total trading value of the 10 most actively traded issues increased (lower trading breadth) to 44% from 32% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenor. The top 3 most actively traded were Cagamas 4.0% 3/10/26 at RM75m, Danainfra 4.76% 5/2/36 at RM70m, and Danainfra 4.34% 10/27/36 at RM70m.

B. FOREIGN EXCHANGE

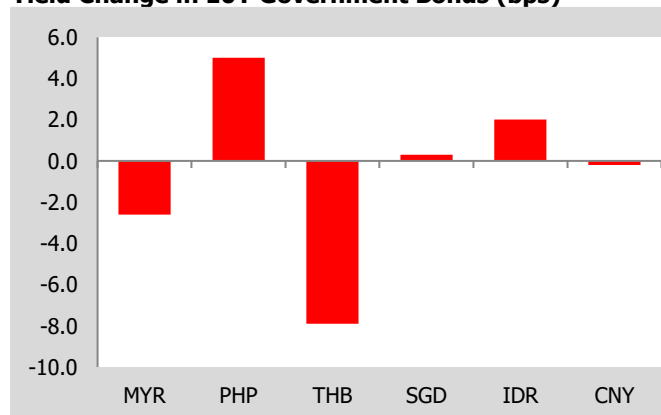
- USD appreciated despite moderating inflation. The US dollar strengthened against major currencies last week as the DXY index rose +0.1%wow to 103.43. Initially, the dollar index ended higher at 103.62 last Tuesday, the strongest level in 1 month, underpinned by expectations that Fed may keep current high interest rates for longer period. Despite the stronger-than-expected 4QCY23 GDP growth, US dollars reversed some of the gains by Friday in view of the moderating inflation.
- Euro depreciated while pound sterling virtually unchanged. The euro weakened by -0.4%wow to USD1.085 following expectations for earlier cuts by the ECB, in addition to the strength in US dollars. In contrast, the pound sterling was unchanged from previous week as the currency was supported by expectations that the BOE will also keep high interest rates for a longer period.
- Ringgit depreciated for the second week. Malaysian ringgit depreciated by -0.2%wow to RM4.730, the weakest closing in 13 weeks. Apart from the strength in US dollars, the ringgit also closed weaker at RM4.732 on Wednesday after BNM decided to keep the OPR steady. The weekly depreciation in ringgit was not as sharp as some regional currencies; which we opine it was partly limited by the higher Brent crude oil prices, which surged by +6.4%wow to USD83.55pb (previous week: USD78.56pb).

Currencies Changes (Week Ended 26 January 2024) and Quarterly Forecasts

	Close (26/01)	Prev. Close (19/01)	Weekly Change	Weekly Change (%)	1QCY24f	2QCY24f	3QCY24f	4QCY24f
DXY Index	103.43	103.29	+0.145	+0.1	103.8	102.5	101.1	99.7
EURUSD	1.085	1.090	-0.005	-0.4	1.07	1.09	1.10	1.12
GBPUSD	1.270	1.270	+0.000	+0.0	1.23	1.24	1.26	1.27
USDJPY	148.15	148.12	-0.030	-0.0	145	141	138	135
USDMYR	4.730	4.7185	-0.012	-0.2	4.39	4.38	4.32	4.20
GBPMYR	6.014	5.985	-0.029	-0.5	5.75	5.73	5.72	5.74
JPYMYR	3.193	3.185	-0.008	-0.2	3.19	3.25	3.26	3.30

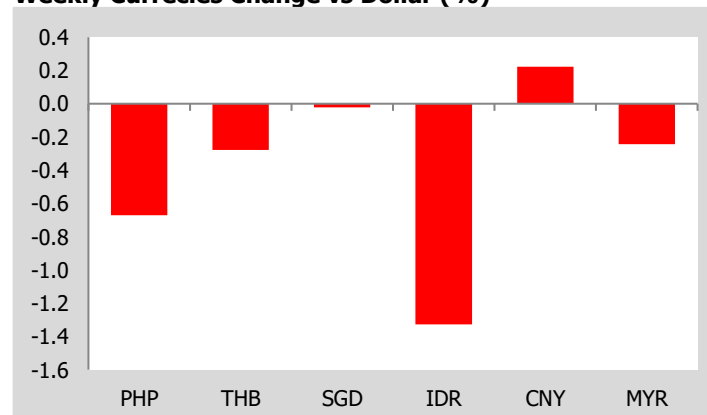
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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:
 - Both services and manufacturing sectors expanded in Jan-24. The US S&P Global Manufacturing PMI rose to 50.3 in Jan-24, better than market expectations (for the reading to remain at 47.9) and the highest level since Oct-22. The S&P Global Services PMI also rose better than expected to 7-month high of 52.9 (Dec-23: 51.4; market consensus: 51.0).
 - Better-than-expected GDP growth in 4QCY23. US GDP grew by annualized +3.3%qoq in 4QCY23 (3QCY23: +4.9%qoq), stronger than +2.0%qoq predicted by market expectations. For the whole year, the US economy expanded stronger by +2.5% (2022: +1.9%).
 - Still healthy labour market. Initial jobless claims for the week ending 20th Jan-24 rose to 214K (previous week: 189K), surpassing market expectations of 200K.
 - Fed's preferred inflation gauge eased further. Although the headline PCE inflation was unchanged at +2.6%yoy in Dec-23, the core PCE inflation eased further to +2.9%yoy (Nov-23: +3.2%yoy), the lowest level since Mar-21 and slightly below market expectations of +3.0%yoy.
- Monetary decisions announced last week:
 - On 22nd January, People's Bank of China (PBOC) kept both 1-year and 5-year Loan Prime Rates (LPRs) unchanged at 3.45% and 4.20%, respectively. The decision to keep the interest rates at low levels was to support economic growth.
 - On 23rd January, the Bank of Japan (BOJ) kept the interest rate unchanged at -0.10% and the 10-year bond yields around 0%, citing that the core inflation on the right track to climb higher towards its 2% target.
 - On 24th January,
 - Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) at 3.00% as expected. BNM stated the current policy setting is supportive of economic growth and aligned with BNM's existing assessment of inflation and growth prospects.
 - PBOC announced the reserve requirement ratio (RRR) for all banks will be slashed by 50bps, effective on 5th Feb-24. The move is expected to free up CNY1 trillion to the market, additional stimulus to support China's economic recovery.
 - On 25th January, the European Central Bank (ECB) maintained the interest rate at 4.50%. The ECB is committed to maintain the interest rate at restrictive level to bring inflation down to its 2% target.
- Malaysia economic data released last week:
 - Inflation remained at +1.5%yoy in Dec-23. The headline inflation was unchanged at +1.5%yoy in Dec-23, the slowest since Feb-21. Core inflation rate was lower at +1.9%yoy, the lowest since Mar-22. As for 2023, the headline inflation eased to +2.5% (2022: +3.4%), while the core inflation was unchanged at +3.0%.
 - Leading index back to expansionary. Malaysia's leading index rose +0.5%mom in Nov-23 (Oct-23: -0.1%mom), the first expansion in 3 months. The increase reflected the higher real imports of semiconductors and increase in Bursa Malaysia Industrial Index.

C. BNM INTERNATIONAL RESERVES

- As of 15 January 2024, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD115.1b (29 December 2023: USD113.5b).

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	19-Jan Fri	22-Jan Mon	23-Jan Tue	24-Jan Wed	25-Jan Thu	26-Jan Fri	Change (WoW bp)
MGS							
3-Y	3.476	3.413	3.411	3.374	3.374	3.361	-11.5
5-Y	3.569	3.57	3.569	3.56	3.56	3.551	-1.8
7-Y	3.76	3.735	3.734	3.742	3.742	3.767	0.7
10-Y	3.817	3.8	3.814	3.811	3.811	3.804	-1.3
20-Y	4.095	4.09	4.082	4.091	4.091	4.075	-2
RINGGIT IRS							
1-Y	3.51	3.515	3.52	3.515	3.515	3.51	0
3-Y	3.46	3.435	3.45	3.455	3.455	3.44	-2
5-Y	3.57	3.555	3.57	3.578	3.578	3.56	-1
7-Y	3.705	3.68	3.7	3.7	3.7	3.685	-2
10-Y	3.85	3.84	3.85	3.85	3.85	3.84	-1
KLIBOR							
1-M	3.29	3.29	3.29	3.29	3.29	3.29	0
3-M	3.57	3.57	3.57	3.57	3.57	3.57	0
UST							
3-Y	4.1601	4.1461	4.1405	4.1887	4.1011	4.1467	-1.34
5-Y	4.0507	4.0278	4.0385	4.0885	3.9983	4.0366	-1.41
7-Y	4.0941	4.0731	4.0943	4.1394	4.0734	4.0984	0.43
10-Y	4.1226	4.1052	4.1282	4.1762	4.1184	4.1373	1.47
30-Y	4.3285	4.3195	4.3625	4.4087	4.3706	4.3688	4.03
USD LIBOR							
1-M	5.45042	5.44951	5.45034	5.45112	5.45107	5.45095	0.053
3-M	5.57741	5.58019	5.58628	5.58566	5.5812	5.57904	0.163

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	19-Jan Yield	26-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.07	09/30/26	3.491	3.443	-4.8	869.4
MALAYSIA INVESTMNT ISSU	4.582	08/30/33	3.853	3.846	-0.7	837.0
MALAYSIA GOVERNMENT	3.519	04/20/28	3.569	3.551	-1.8	835.3
MALAYSIA GOVERNMENT	3.478	06/14/24	3.173	2.934	-23.9	834.3
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.613	3.594	-1.9	680.3
MALAYSIA GOVERNMENT	4.642	11/07/33	3.817	3.804	-1.3	630.8
MALAYSIA GOVERNMENT	4.181	07/15/24	3.201	3.092	-10.9	626.1
MALAYSIA GOVERNMENT	4.457	03/31/53	4.237	4.215	-2.2	617.7
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.783	3.750	-3.3	476.8
MALAYSIA GOVERNMENT	3.899	11/16/27	3.550	3.520	-3.0	332.1
TOTAL VOLUME (TOP 10)						6,739.7
TOTAL VOLUME (Overall)						12,060.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	19-Jan Yield	26-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
CAGAMAS BERHAD	4	03/10/26	3.699	3.705	0.6	75.0
DANAINFRA NASIONAL	4.76	05/02/36	3.988	3.988	0.0	70.0
DANAINFRA NASIONAL	4.34	10/27/36	4.020	4.001	-1.9	70.0
PRASARANA MALAYSIA BHD	4.93	12/28/32	3.919	3.899	-2.0	60.0
PRASARANA MALAYSIA BHD	5.11	09/12/42	4.183	4.167	-1.6	40.0
IMTIAZ SUKUK II BHD	4.77	05/11/29	4.081	4.058	-2.3	40.0
CAGAMAS BERHAD	4.5	12/27/27	3.817	3.790	-2.7	40.0
DANAINFRA NASIONAL	4.34	11/10/36	4.020	4.003	-1.7	40.0
CAGAMAS BERHAD	3.97	08/08/28	3.827	3.827	0.0	40.0
PUBLIC ISLAMIC BANK BHD	4.4	07/28/32	3.886	3.867	-1.9	30.0
TOTAL VOLUME (TOP 10)						505.0
TOTAL VOLUME (Overall)						1,159.6

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