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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 18 July 2022

Week Ended 15 July 2022

- The benchmark 10-year UST yield declined -16bps to close the review week at 2.92%. Buying interest returned across the duration with larger yield drops seen at the longer end of the UST curve as investors assess the possibility of a US economic recession (within the next 24 months) engendered by rapidly rising Fed rate. The US Fed is expected to hike by another 75bps later this month. The 10y-3y yield spread inverted deeper week-on-week from -6bps to -21ps as the short-end underperformed.

- Medium-term inflation expectation ended the review week lower at 2.61% (prior week: 2.63%), its lowest weekly close since early October last year. While the level of inflation expectation has been declining from the high of 3.73% in late March 2022, it however remains marginally elevated beyond the (hotter-than-normal) inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed. At current juncture, it seems the market is increasingly (albeit not fully) convinced that the elevated price pressure would ebb in good time. In this regard, we reckon inflation expectation would methodically drop if the US Fed continued walking its talk on being sufficiently aggressive in battling against inflation.

- The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -0.2bp and -11.9bps to close at 3.48% and 4.06% respectively. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 70bps to 58bps as the short-end underperformed.

- MGS foreign holdings increased on-year from RM247b in June 2021 to RM253b in June 2022. However, it edged lower on-month from RM257b in May 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equity trade ended the review week at RM8.13b. It increased on-week from RM7.96b registered a week ago. Moreover, it improved markedly on-year from -RM12.29b a year ago.

18 July 2022 | **Strategy**

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Weekly Money Review

A. FIXED INCOME

- The benchmark 10-year UST yield declined -16bps to close the review week at 2.92%. Buying interest returned across the duration with larger yield drops seen at the longer end of the UST curve as investors assess the possibility of a US economic recession (within the next 24 months) engendered by rapidly rising Fed rate. The US Fed is expected to hike by another 75bps later this month. The 10y-3y yield spread inverted deeper week-on-week from -6bps to -21ps as the short-end underperformed.





Source: Bloomberg, MIDFR

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



Source: Bloomberg, MIDFR

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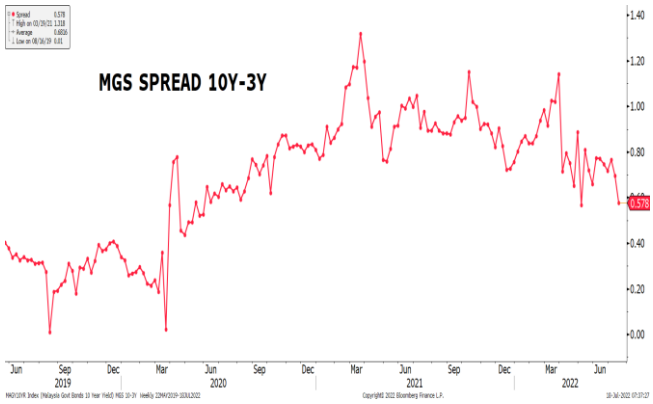
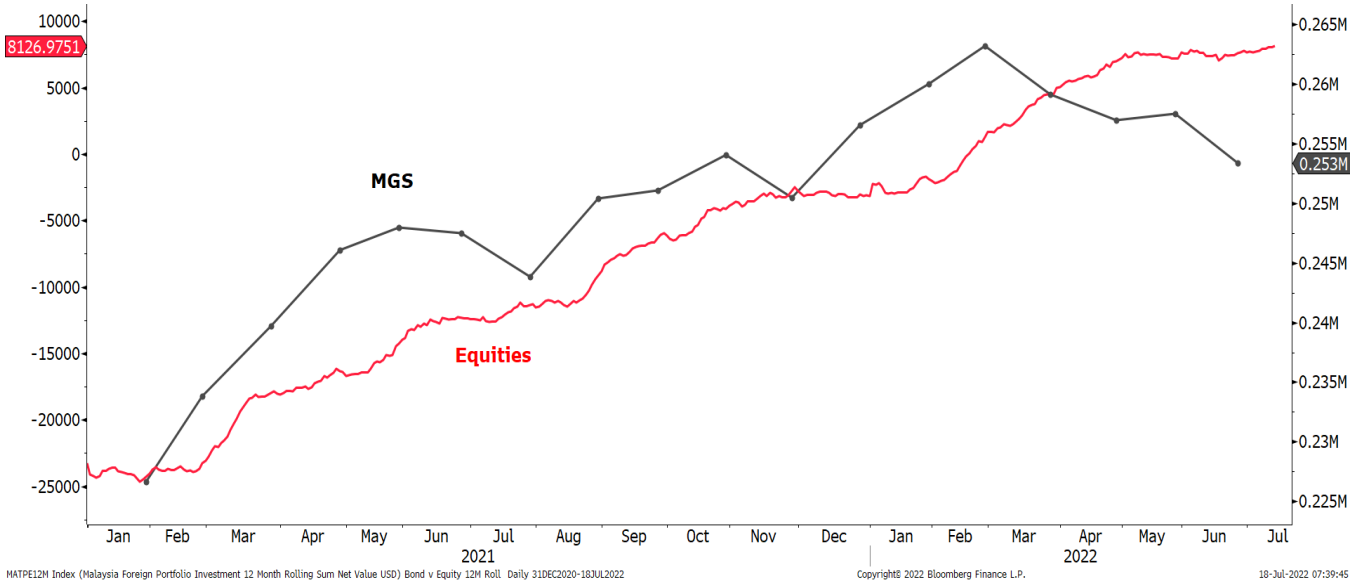


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM13.27b in the review week compared to RM11.22b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 61% from 48% of the overall Government Bonds trades. Moreover, 7 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.

- The top 3 actively traded Government Bonds were dominated by issues of short and long residual tenor. The top 3 most actively traded were MGS 3.582% 7/15/32 at RM1.37b, MII 4.193% 10/7/32 at RM1.28b, and MGS 3.795% 9/30/22 at RM1.25b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM247b in June 2021 to RM253b in June 2022. However, it edged lower on-month from RM257b in May 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equity trade ended the review week at RM8.13b. It increased on-week from RM7.96b registered a week ago. Moreover, it improved markedly on-year from -RM12.29b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.46b in the review week compared to RM1.25b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 48% from 55% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of varied residual tenor. The largest trading values were seen in Prasarana 4.75% 2/26/31 at RM260m, Aeon Co. 3.65% 7/14/23 at RM100m, and Sabah Credit Corp. 4.85% 12/22/26 at RM100m.

B. FOREIGN EXCHANGE

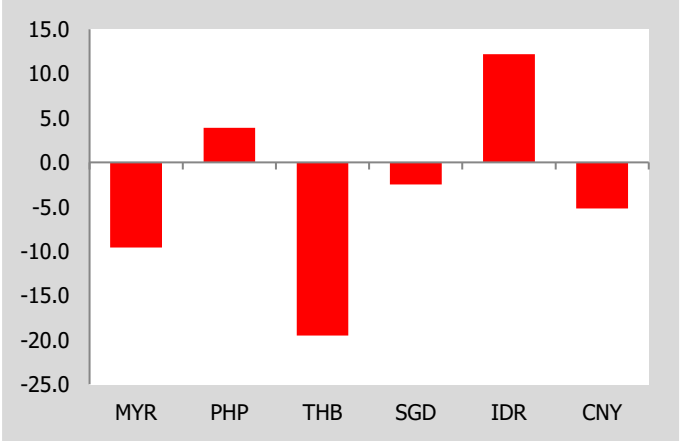
- USD strengthened as inflation remained high. US dollars appreciated against major currencies last week as the DXY US dollar index rose by +1%wow to 108.06, the strongest weekly closing in 2 decades. The stronger-than-expected CPI inflation update led to stronger demand for US dollars and fueled expectations for another large rate hike in the upcoming FOMC meeting later this month.
- EUR and GBP weakened. Due to increased demand for US dollars, euro and pound sterling both depreciated last week, falling by -1% to USD1.008 and -1.5% to USD1.186, respectively. On Wednesday, euro even touched below parity to the US dollars for the first time in 2 decades before bouncing back and close slightly above USD1.00.
- Ringgit and regional currencies also depreciated. Similarly, ringgit and other regional currencies weakened last week against the American dollar. Ringgit was exchanged at RM4.449 by Friday, closing -0.5% lower than previous week. The weakening of ringgit was also in tandem with lower oil prices; with Brent crude benchmark fell by -5.5%wow to USD101.16pb. There is a chance that the weak ringgit to continue, for now, as the expectations for more aggressive rate hike by the Fed will support for strengthening of US dollar against other currencies.

Currencies Changes (Week Ended 15/07) and Quarterly Forecasts

	Close (15/07)	Prev. Close (08/07)	Weekly Change	Weekly Change (%)	1Q22	2Q22	3Q22F	4Q22F
DXY Index	108.06	107.01	+1.056	+1.0	98.31	104.69	104.2	102.8
EURUSD	1.008	1.019	-0.011	-1.0	1.11	1.05	1.06	1.07
GBPUSD	1.186	1.203	-0.018	-1.5	1.31	1.22	1.23	1.25
USDJPY	138.57	136.1	-2.470	-1.8	121.7	135.72	132	131
USDMYR	4.449	4.426	-0.023	-0.5	4.20	4.41	4.33	4.25
GBPMYR	5.263	5.285	+0.021	+0.4	5.52	5.35	5.34	5.30
JPYMYR	3.213	3.252	+0.039	+1.2	3.45	3.25	3.28	3.24

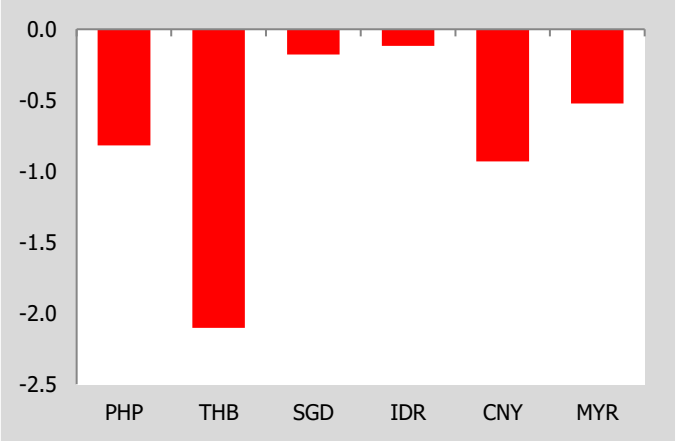
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

Yield Change in 10Y Government Bonds (bps)



Source: Bloomberg; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: Bloomberg; MIDFR

Central Bank Policy Rate by Selected Economies (%)

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Malaysia	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00	2.50
Indonesia	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Philippines	2.00	2.00	2.00	2.00	2.00	2.00	2.25	2.50	3.25
Thailand	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Vietnam	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
South Korea	1.00	1.00	1.25	1.25	1.25	1.50	1.75	1.75	2.25
India	4.00	4.00	4.00	4.00	4.00	4.00	4.40	4.90	4.90
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	0.10	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25
Euro area	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	0.25-0.50	0.75-1.00	1.50-1.75	1.50-1.75

Source: Bloomberg, MIDFR

- Inflation in the US remained stubbornly high as the headline CPI inflation accelerated to +9.1%yoy in Jun-22, mainly underpinned by rising energy prices. Other price components like housing & utility, medical care, education, and transport registered higher inflation during the month. Core CPI inflation, however, moderated for the third straight month to +5.9%yoy, the lowest in 6 months but slightly above market consensus.

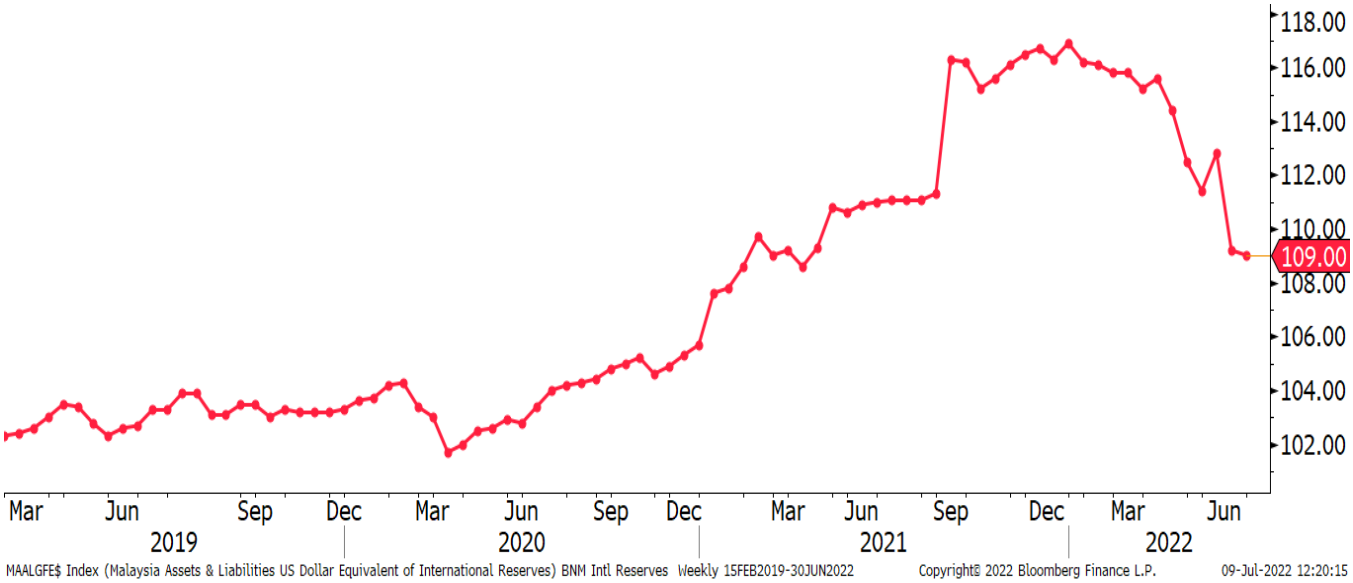
- On 13 July 2022, Bank of Korea raised its policy interest rate by 50bps to 2.25%, marking it the largest rate hike on record due to concern over rising inflation and concerns over rising indebtedness. On 14 July 2022, Bangko Sentral ng Pilipinas also raised its benchmark interest rate by 75bps to 3.25%. It was a surprise move ahead of its regular monetary policy meeting in Aug-22 as the Philippines' central bank expressed its readiness to take action against surging prices.

- Malaysia's manufacturing PMI increased to 50.4 in Jun-22 (May-22: 50.1), indicating activities in the local manufacturing sector grew slightly faster than previous month. This was supported by growing new orders and stabilization in production activities, after 5 months of declines.

C. BNM INTERNATIONAL RESERVES

- As of 30 June 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD109.0b (15 June 2022: USD109.2b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.8 months of imports of goods & services and is 1.1 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	8-Jul Fri	11-Jul Mon	12-Jul Tue	13-Jul Wed	14-Jul Thu	15-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.485	3.485	3.446	3.457	3.475	3.483	-0.2
5-Y	3.824	3.824	3.779	3.721	3.748	3.766	-5.8
7-Y	4.448	4.448	3.995	3.994	3.977	3.994	-45.4
10-Y	4.18	4.18	4.073	4.042	4.045	4.061	-11.9
20-Y	4.68	4.68	4.62	4.573	4.596	4.577	-10.3
RINGGIT IRS							
1-Y	3	3	2.98	2.99	3.075	3.075	7.5
3-Y	3.5	3.5	3.375	3.385	3.435	3.42	-8
5-Y	3.675	3.675	3.53	3.535	3.575	3.545	-13
7-Y	3.78	3.78	3.62	3.655	3.69	3.64	-14
10-Y	3.895	3.895	3.72	3.75	3.75	3.76	-13.5
KLIBOR							
1-M	2.41	2.41	2.41	2.41	2.41	2.41	0
2-M	2.56	2.56	2.56	2.56	2.56	2.56	0
3-M	2.61	2.61	2.61	2.62	2.63	2.63	2
UST							
3-Y	3.1389	3.1052	3.0824	3.1512	3.1567	3.1267	-1.22
5-Y	3.1234	3.0552	3.0178	3.0278	3.0651	3.0341	-8.93
7-Y	3.1468	3.0693	3.0319	3.0119	3.0491	3.0116	-13.52
10-Y	3.0803	2.9928	2.9687	2.9336	2.9595	2.9152	-16.51
30-Y	3.2436	3.1744	3.1618	3.1182	3.104	3.0751	-16.85
USD LIBOR							
1-M	1.89971	1.96443	1.97143	1.99914	2.156	2.12029	22.058
3-M	2.423	2.45514	2.483	2.512	2.74029	2.73757	31.457

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	8-Jul Yield	15-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.582	07/15/32	4.180	4.061	-11.9	1,368.0
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.144	4.104	-4.0	1,277.5
MALAYSIA GOVERNMENT	3.795	09/30/22	2.281	2.383	10.2	1,247.1
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.546	3.511	-3.5	828.0
MALAYSIA GOVERNMENT	4.504	04/30/29	4.448	3.994	-45.4	809.5
MALAYSIA GOVERNMENT	3.418	08/15/22	2.178	2.350	17.2	616.2
MALAYSIA INVESTMNT ISSU	4.369	10/31/28	4.107	4.014	-9.3	539.7
MALAYSIA GOVERNMENT	3.844	04/15/33	4.423	4.283	-14.0	484.4
MALAYSIA GOVERNMENT	3.733	06/15/28	4.049	3.924	-12.5	456.7
MALAYSIA GOVERNMENT	3.955	09/15/25	3.614	3.683	6.9	409.1
TOTAL VOLUME (TOP 10)						8,036.3
TOTAL VOLUME (Overall)						13,266.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	8-Jul Yield	15-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
PRASARANA MALAYSIA BHD	4.75	02/26/31	N/A	4.330	N/A	260.0
AEON CO. (M) BHD	3.65	07/14/23	N/A	3.598	N/A	100.0
SABAH CREDIT CORP	4.85	12/22/26	N/A	4.469	N/A	100.0
TENAGA NASIONAL BERHA	4.73	06/29/29	4.581	4.546	-3.5	72.1
AMAN SUKUK BHD	4.1	03/08/23	N/A	3.168	N/A	30.0
DANAINFRA NASIONAL	4.9	11/16/32	4.498	4.378	-12.0	30.0
PENGURUSAN AIR SPV BHD	4.54	02/23/29	N/A	4.500	N/A	30.0
PRASARANA MALAYSIA BHD	2.98	08/27/26	N/A	3.970	N/A	30.0
PRASARANA MALAYSIA BHD	4	09/06/27	N/A	4.071	N/A	30.0
ALLIANCE BK MALAYSIA BH	3.6	10/25/30	3.904	4.104	20.0	21.8
TOTAL VOLUME (TOP 10)						703.9
TOTAL VOLUME (Overall)						1,463.5

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 *rise* 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 *fall* 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