midf RESEARCH

MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 22 August 2022

Week Ended 19 August 2022

- The benchmark 10-year UST yield ended the week higher at 2.97% (prior week: 2.83%). Investors reacted to the latest July minutes of US Fed which sees interest rate hikes continuing until inflation eases substantially albeit at a tapered pace. Moreover, economic data that showed a drop in jobless claims also spurred selling interest. The 10y-3y yield spread rebounded, but remains inverted, from -35bps to -29bps as the short-end outperformed.

- Medium-term inflation expectation ended the review week higher at 2.75% (prior week: 2.71%). While the level of inflation expectation has been declining from the high of 3.73% in late March 2022, it however remains 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 -13.7bps and -1.8bps to close at 3.37% and 3.96% respectively. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 47bps to 59bps as the short-end outperformed.

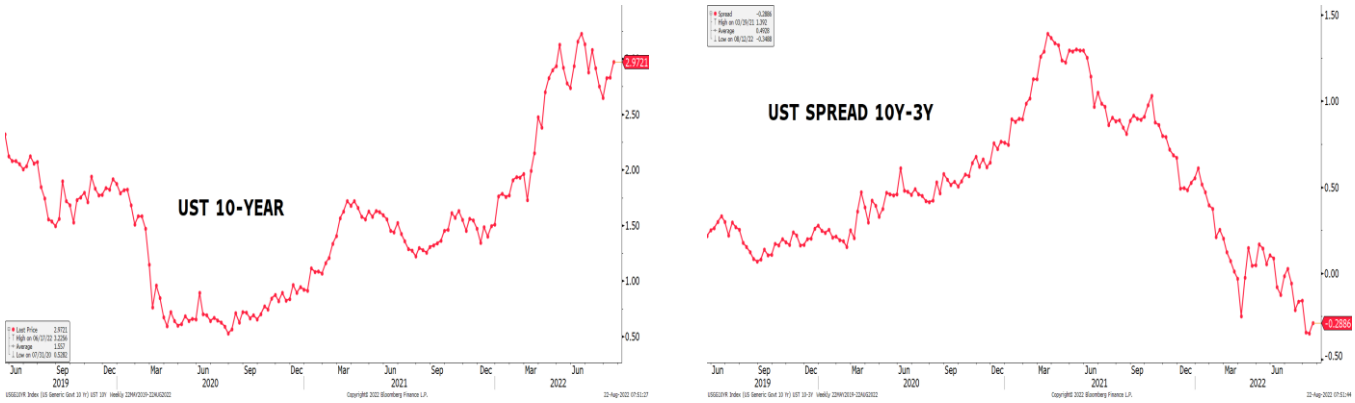
- MGS foreign holdings increased on-year from RM244b in July 2021 to RM250b in July 2022. However, it edged lower on-month from RM253b in June 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equity trade ended the review week at RM11.17b. It increased on-week from RM10.34b registered a week ago. Moreover, it improved markedly on-year from -RM11.06b a year ago.

22 August 2022 | **Strategy** Strategy Team | research@midf.com.my

Weekly Money Review

A. FIXED INCOME

- The benchmark 10-year UST yield ended the week higher at 2.97% (prior week: 2.83%). Investors reacted to the latest July minutes of US Fed which sees interest rate hikes continuing until inflation eases substantially albeit at a tapered pace. Moreover, economic data that showed a drop in jobless claims also spurred selling interest. The 10y-3y yield spread rebounded, but remains inverted, from -35bps to -29bps as the short-end outperformed.



Source: Bloomberg, MIDFR

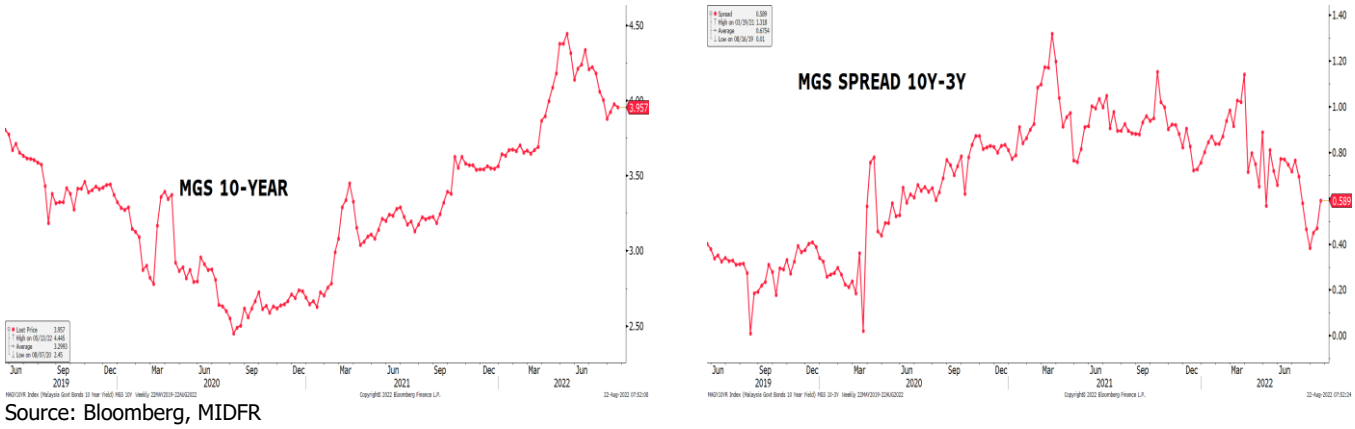
- Medium-term inflation expectation ended the review week higher at 2.75% (prior week: 2.71%). While the level of inflation expectation has been declining from the high of 3.73% in late March 2022, it however remains elevated beyond the (hotter-than-normal) inflation range of 2.25%-2.50% acceptable (transiently) 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.

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



Source: Bloomberg, MIDFR

- The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -13.7bps and -1.8bps to close at 3.37% and 3.96% respectively. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 47bps to 59bps as the short-end outperformed.

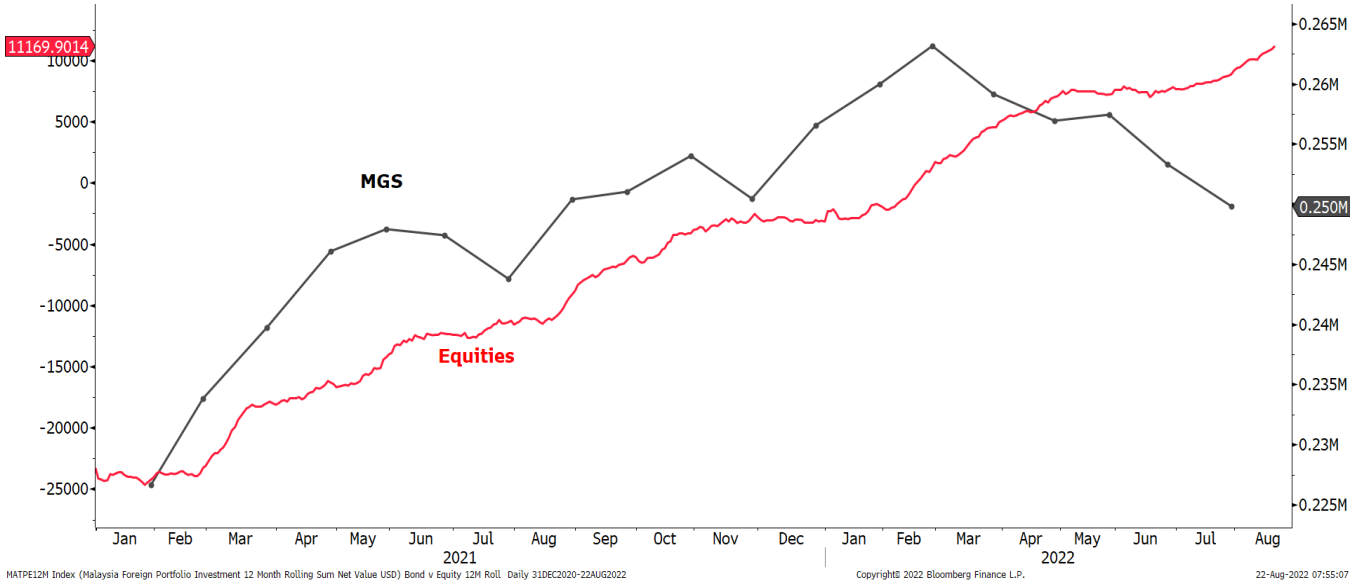


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM14.85b in the review week compared to RM13.42b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 65% from 58% of the overall Government Bonds trades. Moreover, 8 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 varied residual tenor. The top 3 most actively traded were MGS 3.899% 11/16/27 at RM2.54b, MGS 3.48% 3/15/23 at RM1.65b, and MII 4.193% 10/7/32 at RM1.06b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM244b in July 2021 to RM250b in July 2022. However, it edged lower on-month from RM253b in June 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equity trade ended the review week at RM11.17b. It increased on-week from RM10.34b registered a week ago. Moreover, it improved markedly on-year from -RM11.06b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.84b in the review week compared to RM1.62b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 44% from 48% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of short and mid residual tenor. The largest trading values were seen in GOVCO Hldgs. 4.27% 9/27/24 at RM200m, TNB 5.57% 6/28/47 at RM165m, and GENM Cap. 5.3% 7/11/28 at RM97m.

B. FOREIGN EXCHANGE

- USD strengthened as Fed remains hawkish. US dollars appreciated strongly last week as the DXY US dollar index rose +2.4%wow to 108.17 by Friday. Demand for US increased as market views the release of FOMC minutes and commentary from Fed officials suggest the Fed will remain hawkish and committed in its combat against high inflation.

- EUR and GBP weakened on broad dollar strength and recession risk. Stronger dollar also hit euro and pound sterling. Euro closed -2.2%wow lower at USD1.026, with sentiment also influenced by rising inflation and recession risk. Meanwhile. pound sterling weakened -2.5%wow to USD1.183 dragged down by weaker consumer confidence and concerns about the UK economy in general.

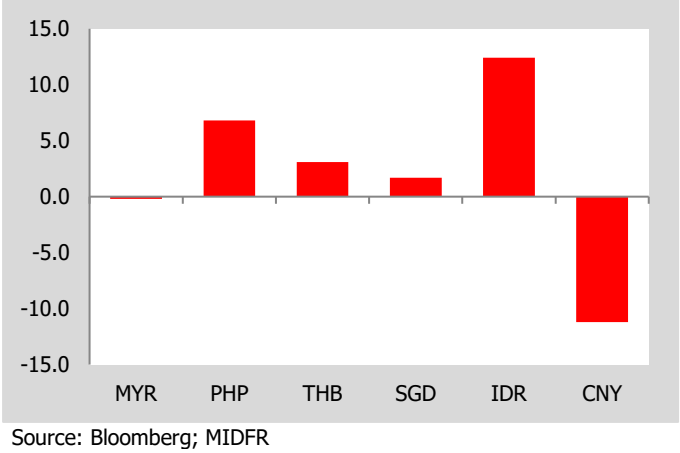
- Ringgit and regional currencies also depreciated. Ringgit also depreciated by -0.7%wow to RM4.478, although the decline was not as sharp as major and other regional currencies. Following strength in USD, recent policy easing by PBOC and to a certain extent slow growth in China also led to depreciation in ringgit and regional currencies. Lower oil prices also affected ringgit performance as Brent crude oil ended the week at USD96.72pb, or -1.5% lower than prior week.

Currencies Changes (Week Ended 19/08) and Quarterly Forecasts

	Close (19/08)	Prev. Close (12/08)	Weekly Change	Weekly Change (%)	1Q22	2Q22	3Q22F	4Q22F
DXY Index	108.17	105.63	+2.538	+2.4	98.31	104.69	104.2	102.8
EURUSD	1.004	1.026	-0.022	-2.2	1.11	1.05	1.06	1.07
GBPUSD	1.183	1.214	-0.031	-2.5	1.31	1.22	1.23	1.25
USDJPY	136.97	133.42	-3.550	-2.6	121.7	135.72	132	131
USDMYR	4.478	4.445	-0.033	-0.7	4.20	4.41	4.33	4.25
GBPMYR	5.325	5.413	+0.088	+1.7	5.52	5.35	5.34	5.30
JPYMYR	3.270	3.329	+0.059	+1.8	3.45	3.25	3.28	3.24

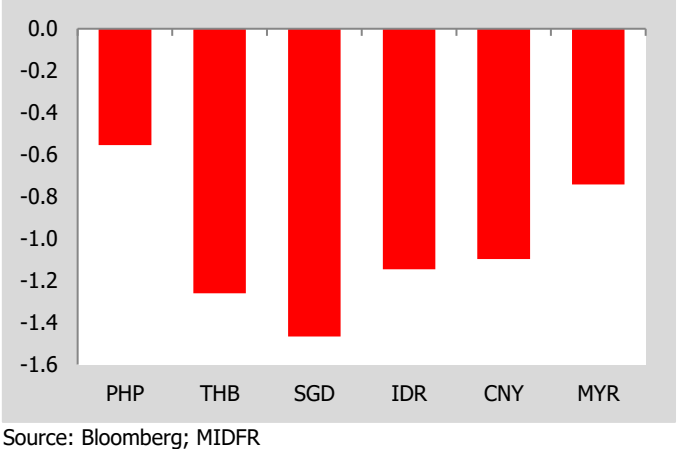
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Malaysia	1.75	1.75	1.75	1.75	1.75	2.00	2.00	2.25	2.25
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	2.25	2.50	3.25	3.75
Thailand	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Vietnam	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
South Korea	1.00	1.25	1.25	1.25	1.50	1.75	1.75	2.25	2.25
India	4.00	4.00	4.00	4.00	4.00	4.40	4.90	4.90	5.40
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25	1.75
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	0.25-0.50	0.25-0.50	0.75-1.00	1.50-1.75	2.25-2.50	2.25-2.50

Source: Bloomberg, MIDFR

- US labour market remained strong as the weekly initial claims for unemployment benefit declined to 250K for the week ended 13 August, lower than market consensus of 265K. In another release, US retail sales in Jul-22 was unchanged from previous month, weaker than +0.1%mom predicted by market as consumers cut down spending on gasoline, motor vehicles & parts and clothing. On year-on-year basis, retail spending remained strong, accelerating to +10.3%yoy (Jun-22: 8.5%yoy), the fastest growth in 5 months.

- The minutes of Jul-22 FOMC meeting signals the Fed remained committed to bring down inflation towards its long-term 2% inflation target. Latest comments from Fed policymakers also indicated another large rate hike may be considered at the next FOMC meeting in Sep-22. St. Louis Fed president, James Bullard, indicated his preference for another 75bps hike, while San Francisco Fed president Mary Daly foresees another hike by 50bps to 75bps to be "reasonable." Kansas City Fed President, Esther George, told that the Fed will remain on its tightening path until there is clear evidence the elevated inflation is coming down.

- On 18 August 2022, Bangko Sentral ng Pilipinas raised benchmark interest rate by 50bps to 3.75%, generally in line with market forecast as the central bank focuses on controlling the high inflation in the Philippines.

- Malaysia's external trade performance remained robust in Jul-22. Exports sustained growth at +38%yoy (Jun-22: +38.4%yoy) on increased foreign demand for Malaysian-made E&E and petroleum. Meanwhile, imports grew by +41.9%yoy (Jun-22: +49.2%yoy) with stronger growth in imports of consumption goods.

C. BNM INTERNATIONAL RESERVES

- As of 29 July 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD109.2b (15 July 2022: USD107.0b).

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	12-Aug Fri	15-Aug Mon	16-Aug Tue	17-Aug Wed	18-Aug Thu	19-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.505	3.472	3.467	3.492	3.45	3.368	-13.7
5-Y	3.75	3.75	3.729	3.733	3.728	3.701	-4.9
7-Y	3.922	3.915	3.904	3.901	3.895	3.887	-3.5
10-Y	3.975	3.935	3.951	3.959	3.963	3.957	-1.8
20-Y	4.394	4.396	4.38	4.394	4.388	4.386	-0.8
RINGGIT IRS							
1-Y	3.135	3.155	3.145	3.18	3.18	3.2175	8.25
3-Y	3.48	3.465	3.45	3.49	3.475	3.49	1
5-Y	3.6075	3.595	3.575	3.605	3.615	3.625	1.75
7-Y	3.6995	3.69	3.68	3.72	3.75	3.737	3.75
10-Y	3.7975	3.785	3.745	3.825	3.88	3.91	11.25
KLIBOR							
1-M	2.43	2.43	2.43	2.43	2.43	2.43	0
2-M	2.59	2.59	2.59	2.59	2.59	2.59	0
3-M	2.7	2.7	2.71	2.72	2.72	2.72	2
UST							
3-Y	3.18	3.1112	3.2021	3.2769	3.2244	3.2606	8.06
5-Y	2.9562	2.8997	2.9529	3.0511	3.0271	3.0933	13.71
7-Y	2.8994	2.8517	2.887	2.9882	2.9681	3.0473	14.79
10-Y	2.8312	2.7878	2.8041	2.8968	2.8822	2.9721	14.09
30-Y	3.1078	3.1013	3.0891	3.1513	3.1365	3.212	10.42
USD LIBOR							
1-M	2.38686	2.37971	2.377	2.36557	2.36814	2.38671	-0.015
3-M	2.92157	2.94186	2.96057	2.97657	2.984	2.95771	3.614

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	12-Aug Yield	19-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.899	11/16/27	3.750	3.701	-4.9	2,544.1
MALAYSIA GOVERNMENT	3.48	03/15/23	2.553	2.577	2.4	1,649.5
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.011	3.993	-1.8	1,060.2
MALAYSIA GOVERNMENT	3.955	09/15/25	3.541	3.434	-10.7	950.8
MALAYSIA GOVERNMENT	3.795	09/30/22	2.333	2.360	2.7	727.3
MALAYSIA GOVERNMENT	3.882	03/14/25	3.505	3.368	-13.7	723.1
MALAYSIA INVESTMNT ISSU	3.422	09/30/27	3.790	3.754	-3.6	609.0
MALAYSIA GOVERNMENT	3.733	06/15/28	3.916	3.883	-3.3	565.3
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.509	3.448	-6.1	530.0
MALAYSIA GOVERNMENT	4.504	04/30/29	3.922	3.887	-3.5	362.0
TOTAL VOLUME (TOP 10)						9,721.2
TOTAL VOLUME (Overall)						14,846.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	12-Aug Yield	19-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
GOVCO HOLDINGS BHD	4.27	09/27/24	N/A	3.599	N/A	200.0
TENAGA NASIONAL BERHA	5.57	06/28/47	5.084	5.085	0.1	165.0
GENM CAPITAL BHD	5.3	07/11/28	4.905	4.651	-25.4	97.3
DANUM CAPITAL BHD	4.68	06/29/29	4.309	4.302	-0.7	65.0
PROJEK LEBUHRAYA USAHA	5.75	01/12/37	4.940	4.758	-18.2	60.0
CAGAMAS BERHAD	2.33	11/28/22	N/A	3.023	N/A	50.0
PROJEK LEBUHRAYA USAHA	4.48	01/12/23	3.163	3.079	-8.4	50.0
PRASARANA MALAYSIA BHD	5.01	09/14/37	N/A	4.465	N/A	45.0
SIME DARBY PLANTATIONS	5.65	PERP	N/A	4.366	N/A	40.0
UNITED OVERSEAS BANK M	3	08/02/30	3.450	3.443	-0.7	40.0
TOTAL VOLUME (TOP 10)						812.3
TOTAL VOLUME (Overall)						1,839.4

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

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