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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 29 August 2022

Week Ended 26 August 2022

- The benchmark 10-year UST yield ended the week higher at 3.04% (prior week: 2.97%). In his Jackson Hole speech, US Fed Chair Jerome Powell remarked that the central bank will not back off in its fight against rapid inflation and will "use our tools forcefully" to attack inflation. He also warns of "some pain" ahead. Investors reacted by selling both bonds and (more intensely) equities. The 10y-3y yield spread inverted deeper week-on-week from -29bps to -35bps as the short-end underperformed.

- Medium-term inflation expectation ended the review week higher at 2.80% (prior week: 2.75%). 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 mixed with the 3-year and 10-year yields shed -6.1bps and added 0.7bp to close at 3.31% and 3.96% respectively. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 59bps to 66bps 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 RM10.65b. It declined on-week from RM11.17b registered a week ago. However, it improved markedly on-year from -RM10.29b a year ago.

29 August 2022 | **Strategy**

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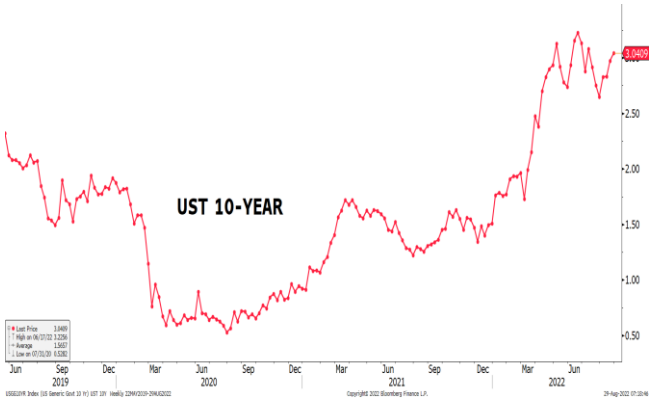
Weekly Money Review

A. FIXED INCOME

- The benchmark 10-year UST yield ended the week higher at 3.04% (prior week: 2.97%). In his Jackson Hole speech, US Fed Chair Jerome Powell remarked that the central bank will not back off in its fight against rapid inflation and will "use our tools forcefully" to attack inflation. He also warns of "some pain" ahead. Investors reacted by selling both bonds and (more intensely) equities. The 10y-3y yield spread inverted deeper week-on-week from -29bps to -35bps as the short-end underperformed.





Source: Bloomberg, MIDFR

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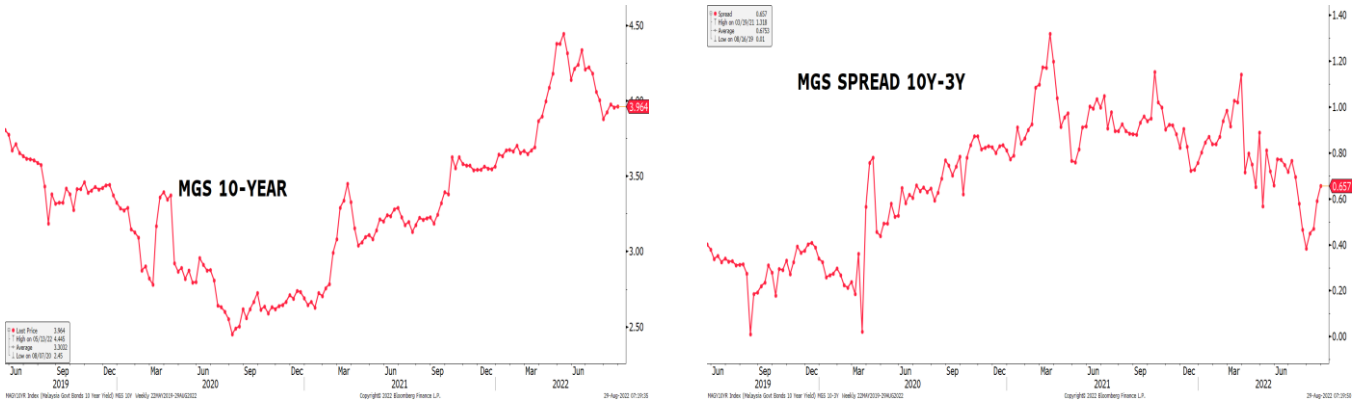
MEDIUM-TERM INFLATION EXPECTATION (5Y UST-TIPS SPREAD)



Source: Bloomberg, MIDFR

- The price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields shed -6.1bps and added 0.7bp to close at 3.31% and 3.96% respectively. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 59bps to 66bps as the short-end outperformed.

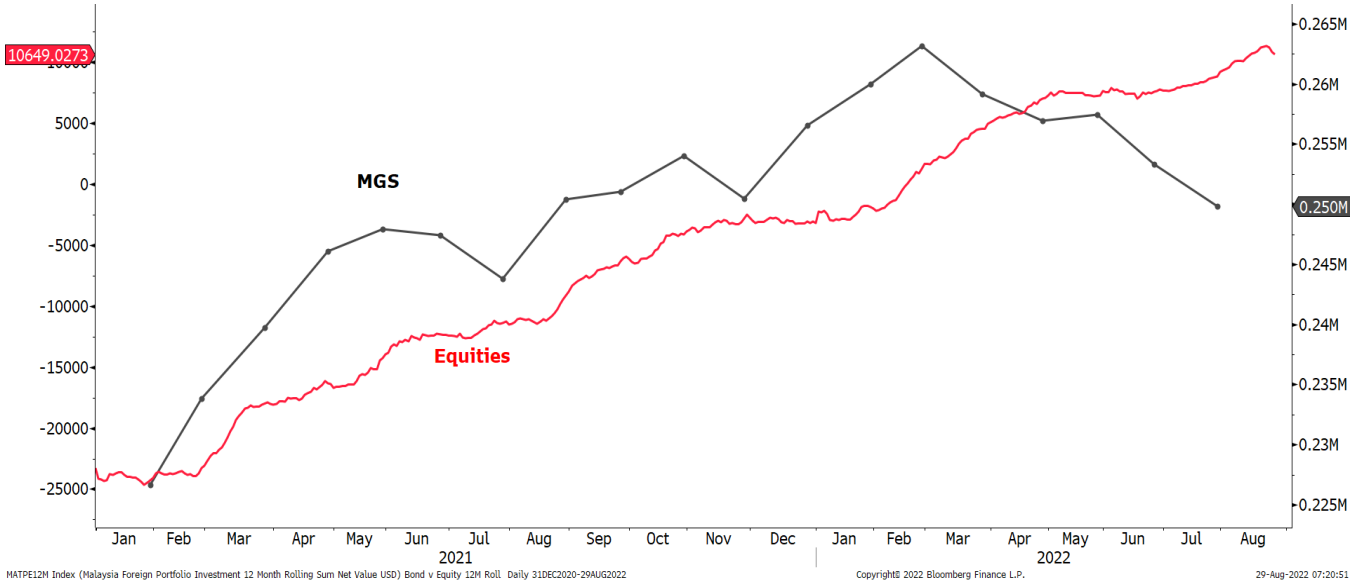


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM14.08b in the review week compared to RM14.85b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 58% from 65% of the overall Government Bonds trades. Moreover, 6 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 mid residual tenor. The top 3 most actively traded were MGS 3.899% 11/16/27 at RM2.64b, MGS 3.48% 3/15/23 at RM907m, and MGS 3.795% 9/30/22 at RM835m.

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 RM10.65b. It declined on-week from RM11.17b registered a week ago. However, it improved markedly on-year from -RM10.29b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.55b in the review week compared to RM1.84b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 49% from 44% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of mid and long residual tenor. The largest trading values were seen in Pengurusan Air SPV 3.32% 6/4/27 at RM120m, Prasarana 4.75% 2/26/31 at RM100m, and Prasarana 4.93% 12/28/32 at RM100m.

B. FOREIGN EXCHANGE

- USD strengthened further as Fed remains hawkish with better economic data. US dollars appreciated further last week with the DXY US dollar index rising further by +0.6%wow to 108.80 by Friday. The appreciation in USD reflects market expectations that US Fed will remain hawkish in view of stronger-than-expected economic releases.

- EUR weakened to below parity; GBP also depreciated. The strong demand for dollar pushed the euro to weaken by -0.7%wow to USD0.996 last week, the first weekly closing at below parity since Nov-02. Meanwhile, the stronger dollar also led to pound sterling depreciating -0.8%wow to USD1.173 by Friday, the weakest weekly closing since Mar-20.

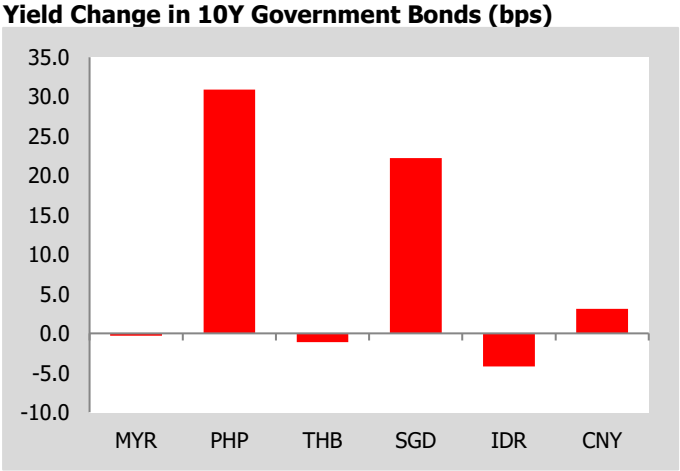
- Ringgit appreciated despite stronger dollar. Unlike other regional currencies, ringgit ended stronger last week, appreciating by +0.3%wow to 2-week high of RM4.467. Appreciation of ringgit can be attributed to the reduced concern of a recession risk in the US and higher crude oil prices, with Brent crude benchmark ending at USD100.99pb, or +4.4% higher than previous week.

Currencies Changes (Week Ended 26/08) and Quarterly Forecasts

	Close (26/08)	Prev. Close (19/08)	Weekly Change	Weekly Change (%)	1Q22	2Q22	3Q22F	4Q22F
DXY Index	108.80	108.17	+0.634	+0.6	98.31	104.69	104.2	102.8
EURUSD	0.996	1.004	-0.008	-0.7	1.11	1.05	1.06	1.07
GBPUSD	1.173	1.183	-0.010	-0.8	1.31	1.22	1.23	1.25
USDJPY	137.63	136.97	-0.660	-0.5	121.7	135.72	132	131
USDMYR	4.467	4.478	+0.011	+0.3	4.20	4.41	4.33	4.25
GBPMYR	5.274	5.325	+0.051	+1.0	5.52	5.35	5.34	5.30
JPYMYR	3.246	3.270	+0.025	+0.8	3.45	3.25	3.28	3.24

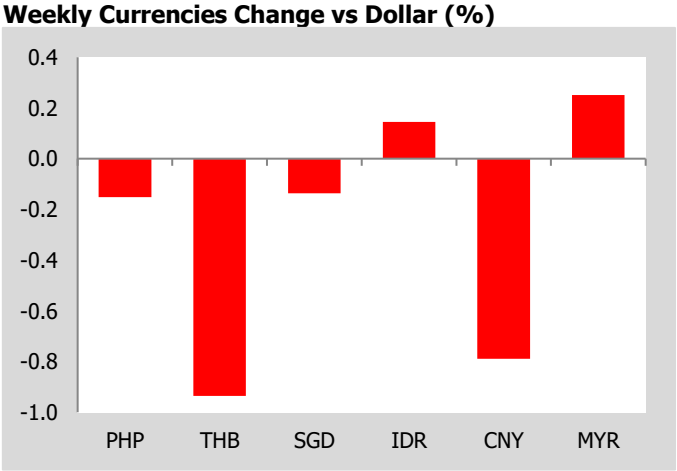
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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	3.75
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	2.50
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	0.50	0.50
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 economic data released last week:
  - US economy contracted smaller than previously estimated. US real GDP only fell by -0.6%qoq on annualized basis in 2QCY22 (advance estimate: -0.9%qoq). Private consumption expenditures grew quicker during the quarter due to smaller fall in spending on goods.
  - Core PCE price inflation eased to +4.6%yoy in Jul-22 (Jun-22: +4.8%yoy), more than market expectations.
  - Based on the final reading, Aug-22 University of Michigan consumer sentiment improved to 58.2, higher than preliminary reading of 55.1. Consumer sentiment improved as consumers began to expect slower inflation.

- Policymakers of major central banks delivered their hawkish message after the Jackson Hole symposium:
  - US Fed Chair, Jerome Powell, indicated the Fed will continue to hike fed funds rate until there is clear evidence inflation is trending lower.
  - The ECB officials also expressed the need for the European Central Bank to act and tighten their policy interest rate further to control the high inflation in the euro area.

- Monetary policy meetings concluded last week:
  - On 20 August 2022, People's Bank of China eased its monetary policy, reducing the 1-year and 5-year loan prime rates to 3.65% (-5bps) and 4.30% (-15bps), respectively, to stimulate loan demand as China's economy continued to be constrained by Covid-19 situation and ongoing weakness in property market.
  - On 23 August 2022, Bank Indonesia raised its benchmark interest rate by 25bps to 3.75%, the first rate hike since 2018 as the central bank decided to begin containing rising inflation as well as future inflation expectations.
  - On 25 August 2022, Bank of Korea hiked its key interest rate by 25bps to 2.50%, another back-to-back tightening of its monetary policy to curb high inflation.

- Malaysia's leading index rose further at +5.3%yoy in Jun-22, indicating growth momentum to continue in the near term going into 2HCY22.

C. BNM INTERNATIONAL RESERVES

- As of 15 August 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD110.9b (29 July 2022: USD109.2b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.5 months of imports of goods & services and is 1.1 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	19-Aug Fri	22-Aug Mon	23-Aug Tue	24-Aug Wed	25-Aug Thu	26-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.368	3.363	3.371	3.358	3.385	3.307	-6.1
5-Y	3.701	3.665	3.686	3.701	3.694	3.692	-0.9
7-Y	3.887	3.903	3.903	3.894	3.885	3.852	-3.5
10-Y	3.957	3.976	3.989	3.976	3.959	3.964	0.7
20-Y	4.386	4.402	4.42	4.42	4.409	4.388	0.2
RINGGIT IRS							
1-Y	3.2175	3.23	3.25	3.25	3.22	3.215	-0.25
3-Y	3.49	3.5	3.535	3.535	3.515	3.505	1.5
5-Y	3.625	3.635	3.67	3.65	3.595	3.61	-1.5
7-Y	3.737	3.765	3.795	3.75	3.71	3.725	-1.2
10-Y	3.91	3.91	3.952	3.93	3.875	3.885	-2.5
KLIBOR							
1-M	2.43	2.43	2.43	2.43	2.43	2.43	0
2-M	2.59	2.6	2.6	2.6	2.6	2.6	1
3-M	2.72	2.73	2.73	2.73	2.73	2.73	1
UST							
3-Y	3.2606	3.3498	3.3416	3.3921	3.3587	3.393	13.24
5-Y	3.0933	3.1577	3.1648	3.2331	3.1522	3.2051	11.18
7-Y	3.0473	3.1038	3.1322	3.189	3.1094	3.135	8.77
10-Y	2.9721	3.0146	3.0461	3.1039	3.0258	3.0409	6.88
30-Y	3.212	3.2255	3.255	3.3123	3.2407	3.192	-2
USD LIBOR							
1-M	2.38671	2.42743	2.44371	2.45486	2.49343	2.52386	13.715
3-M	2.95771	2.97971	2.99686	3.01	3.04314	3.06957	11.186

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	19-Aug Yield	26-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.899	11/16/27	3.701	3.692	-0.9	2,639.6
MALAYSIA GOVERNMENT	3.48	03/15/23	2.577	2.782	20.5	906.6
MALAYSIA GOVERNMENT	3.795	09/30/22	2.360	2.350	-1.0	835.0
MALAYSIA GOVERNMENT	4.696	10/15/42	4.386	4.388	0.2	608.3
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.993	3.999	0.6	608.0
MALAYSIA GOVERNMENT	3.882	03/14/25	3.368	3.307	-6.1	560.0
MALAYSIA INVESTMNT ISSU	3.422	09/30/27	3.754	3.759	0.5	551.7
MALAYSIA GOVERNMENT	3.955	09/15/25	3.434	3.376	-5.8	538.1
MALAYSIA GOVERNMENT	4.059	09/30/24	3.363	3.258	-10.5	464.5
MALAYSIA INVESTMNT ISSU	5.357	05/15/52	4.605	4.604	-0.1	450.0
TOTAL VOLUME (TOP 10)						8,161.8
TOTAL VOLUME (Overall)						14,084.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	19-Aug Yield	26-Aug Yield	Change (WoW bp)	Weekly Volume (RM mn)
PENGURUSAN AIR SPV BHD	3.32	06/04/27	4.188	4.212	2.4	120.0
PRASARANA MALAYSIA BHD	4.75	02/26/31	N/A	4.199	N/A	100.0
PRASARANA MALAYSIA BHD	4.93	12/28/32	4.596	4.239	-35.7	100.0
SARAWAK ENERGY BHD	4.85	01/19/27	4.159	4.149	-1.0	90.0
TENAGA NASIONAL BERHA	5.57	06/28/47	5.085	5.149	6.4	80.0
DANUM CAPITAL BHD	4.02	06/30/25	3.940	3.936	-0.4	70.0
DIGI TELECOMMUNICATION	3.6	09/20/29	N/A	4.321	N/A	60.0
KHAZANAH NASIONAL BHD	ZERO	08/14/23	N/A	3.192	N/A	55.0
PRASARANA MALAYSIA BHD	4.84	12/02/33	N/A	4.292	N/A	50.0
CIMB GROUP HOLDINGS BH	5.4	PERP	N/A	3.902	N/A	40.0
TOTAL VOLUME (TOP 10)						765.0
TOTAL VOLUME (Overall)						1,549.4

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