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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

# MIDF Strategy 12 September 2022

## Week Ended 9 September 2022

- The benchmark 10-year UST yield ended higher for sixth week in a row at 3.31% (prior week: 3.19%), its highest weekly close since April 2011. Investors reacted to strong US economic data by betting on more leeway for the Federal Reserve to hike rates without the US economy falling into a recession. The ISM's non-manufacturing PMI for August came in above expectation at 56.9 (exp: 55.5). The 10y-3y yield spread inverted deeper week-on-week from -24bps to -29ps as the short-end underperformed due to its higher sensitivity to policy rate movement.

- Accordingly, medium-term inflation expectation ended the review week lower at 2.56% (prior week: 2.60%) in view of an aggressive Fed. 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 inflation.

- The price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields added 0.4bp and unchanged to close at 3.34% and 4.03% respectively. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 70bps to 69bps as the short-end underperformed.

- 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 RM9.38b. It declined on-week from RM9.97b registered a week ago. However, it improved markedly on-year from -RM7.53b a year ago.

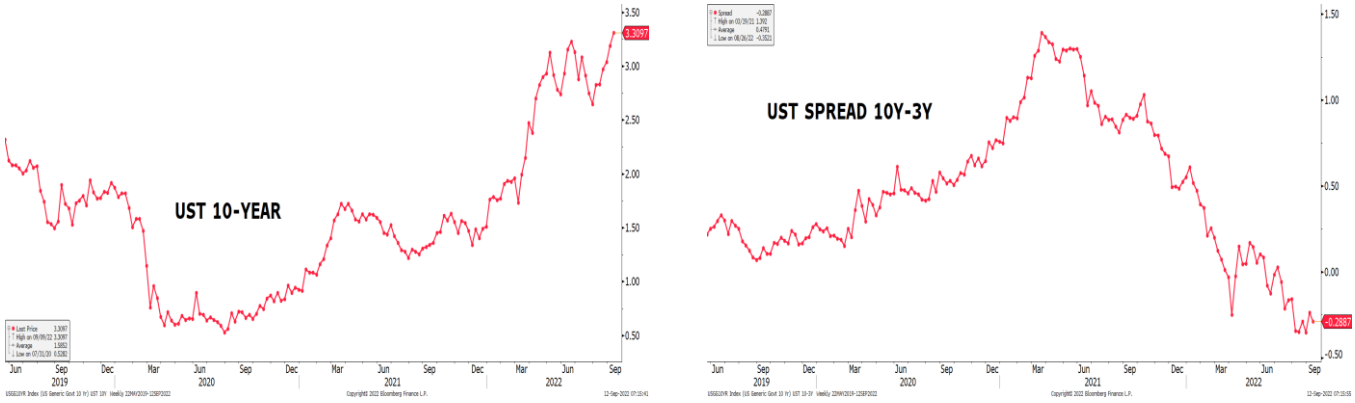
**12 September 2022 | Strategy**

Strategy Team | research@midf.com.my

# Weekly Money Review

## A. FIXED INCOME

- The benchmark 10-year UST yield ended higher for sixth week in a row at 3.31% (prior week: 3.19%), its highest weekly close since April 2011. Investors reacted to strong US economic data by betting on more leeway for the Federal Reserve to hike rates without the US economy falling into a recession. The ISM's non-manufacturing PMI for August came in above expectation at 56.9 (exp: 55.5). The 10y-3y yield spread inverted deeper week-on-week from -24bps to -29ps as the short-end underperformed due to its higher sensitivity to policy rate movement.




Source: Bloomberg, MIDFR

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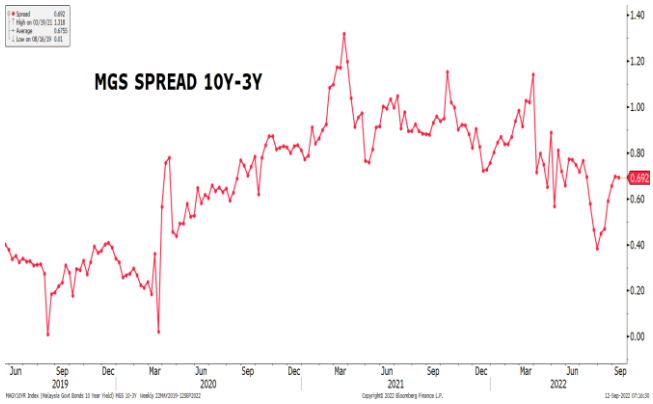
**MEDIUM-TERM INFLATION EXPECTATION (5Y UST-TIPS SPREAD)**




Source: Bloomberg, MIDFR

- The price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields added 0.4bp and unchanged to close at 3.34% and 4.03% respectively. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 70bps to 69bps as the short-end underperformed.



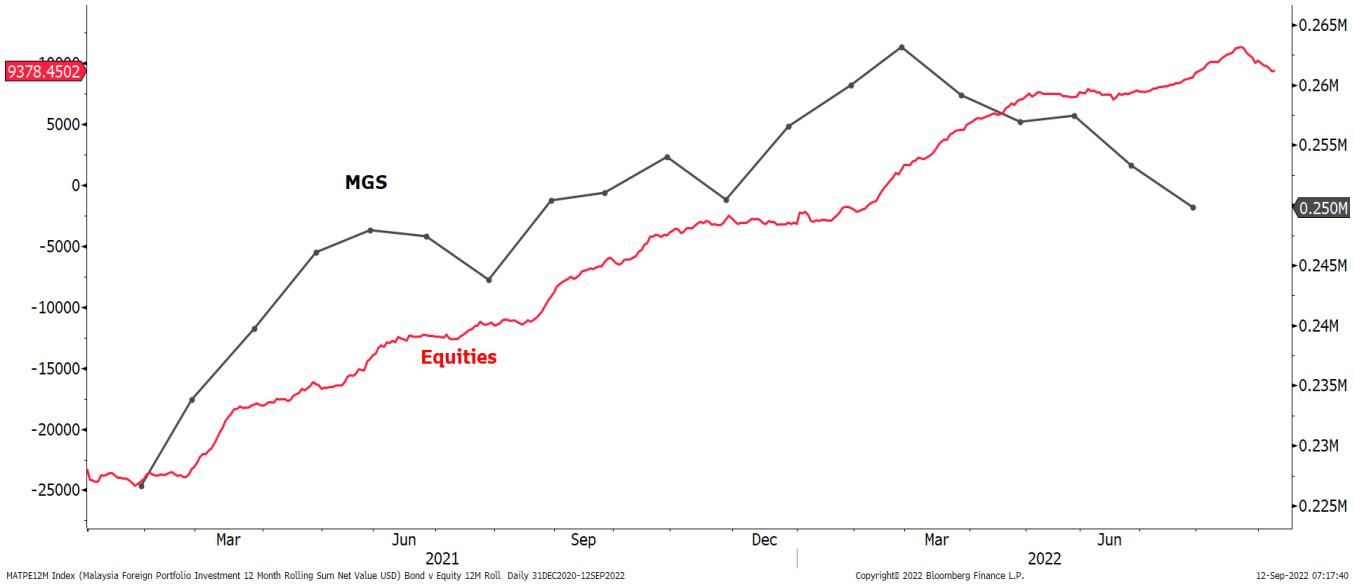




Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM13.82b in the review week compared to RM16.53b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 64% from 59% of the overall Government Bonds trades. Moreover, 6 out of the 10 most actively traded bonds saw higher yields hence lower 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% 1116/27 at RM1.88b, MGS 3.48% 3/15/23 at RM1.40b, and MGS 3.795% 9/30/22 at RM1.32b.

**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) declined to RM2.57b in the review week compared to RM2.62b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 47% from 50% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenor. The largest trading values were seen in Danainfra 4.76% 5/2/36 at RM300m, Cagamas FLOAT 5/29/23 at RM240m, and Danainfra 4.53% 11/12/25 at RM130m.

## B. FOREIGN EXCHANGE

- USD weakened despite expectations for further policy tightening. Despite expectations for further rate hikes by the Fed, the US dollars weakened against major currencies with the DXY US dollar index falling by -0.5%wow to 109.00. The relative weakness reflects more support for other major currencies following rate hikes and more hawkish message by other major central bank such as the ECB.

- EUR back to parity; GBP also appreciated. Euro strengthened last week, appreciating by +0.9%wow back to parity at USD1.004. The gain in EUR was supported by the large unprecedented rate hike by the ECB. Meanwhile, the pound sterling appreciated by +0.7%wow to USD1.159 by Friday as measures announced by the UK government to support household and the energy market helped to boost GBP.

- Ringgit touched lowest level since Asian Financial Crisis. Despite BNM's decision to hike OPR, ringgit weakened to RM4.50 last week, closing -0.9% lower than previous week. The ringgit depreciation can be linked to the weakening of Chinese yuan and some correction in crude oil prices, with Brent prices ending -0.2%wow lower at USD92.84pb (previous week: USD93.02pb).

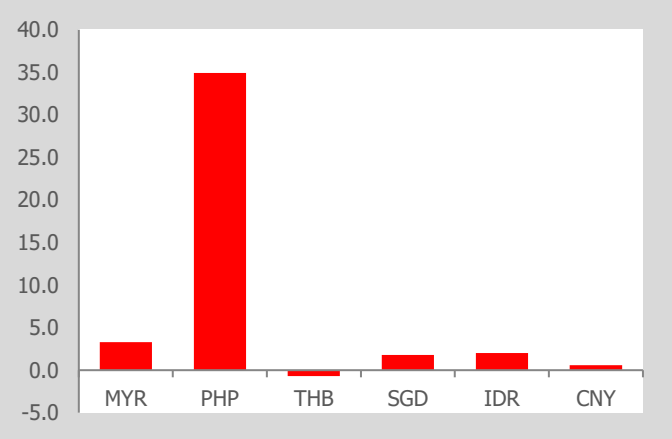
  - Taking into account the recent weakness in ringgit, we downgrade our ringgit forecast to average RM4.38 this year (previous forecast: 4.28). We still maintain our assumptions that the potential fund flows and eventual decision by the Fed to slow down the pace of policy tightening from large to more normal hikes will be positive for EM currencies including ringgit to appreciate towards the end of the year. On that note, we project ringgit to appreciate (from the recent lows) towards RM4.35 by end-2022 (previous forecast: RM4.25).

**Currencies Changes (Week Ended 09/09) and Quarterly Forecasts**

| | Close (09/09) | Prev. Close (02/09) | Weekly Change | Weekly Change (%) | 1Q22 | 2Q22 | 3Q22F | 4Q22F |
|---|---|---|---|---|---|---|---|---|
| DXY Index | 109.00 | 109.53 | -0.531 | -0.5 | 98.31 | 104.69 | 104.2 | 102.8 |
| EURUSD | 1.004 | 0.995 | +0.009 | +0.9 | 1.11 | 1.05 | 1.06 | 1.07 |
| GBPUSD | 1.159 | 1.151 | +0.008 | +0.7 | 1.31 | 1.22 | 1.23 | 1.25 |
| USDJPY | 142.47 | 140.2 | -2.270 | -1.6 | 121.7 | 135.72 | 132 | 131 |
| USDMYR | 4.498 | 4.486 | -0.012 | -0.3 | 4.20 | 4.41 | 4.48 | 4.35 |
| GBPMYR | 5.231 | 5.182 | -0.049 | -0.9 | 5.52 | 5.35 | 5.34 | 5.30 |
| JPYMYR | 3.155 | 3.202 | -0.047 | +1.5 | 3.45 | 3.25 | 3.28 | 3.24 |

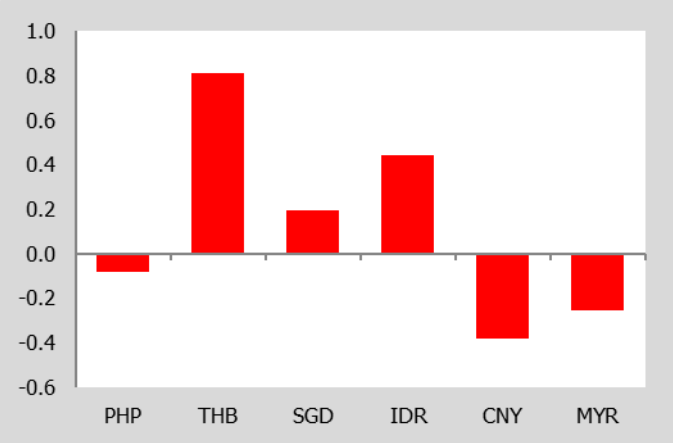
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

**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 (%)**

| | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 |
|---|---|---|---|---|---|---|---|---|---|
| Malaysia | 1.75 | 1.75 | 1.75 | 1.75 | 2.00 | 2.00 | 2.25 | 2.25 | 2.50 |
| Indonesia | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.75 | 3.75 |
| Philippines | 2.00 | 2.00 | 2.00 | 2.00 | 2.25 | 2.50 | 3.25 | 3.75 | 3.75 |
| Thailand | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 |
| Vietnam | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| South Korea | 1.25 | 1.25 | 1.25 | 1.50 | 1.75 | 1.75 | 2.25 | 2.50 | 2.50 |
| India | 4.00 | 4.00 | 4.00 | 4.00 | 4.40 | 4.90 | 4.90 | 5.40 | 5.40 |
| Japan | (0.10) | (0.10) | (0.10) | (0.10) | (0.10) | (0.10) | (0.10) | (0.10) | (0.10) |
| UK | 0.25 | 0.50 | 0.75 | 0.75 | 1.00 | 1.25 | 1.25 | 1.75 | 1.75 |
| Euro area | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.50 | 0.50 | 1.25 |
| USA | 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 | 2.25-2.50 |

Source: Bloomberg, MIDFR

- Data released last week indicated resilience in the US economy:
  - Activities in the services sector was more resilient in Aug-22 as the ISM non-manufacturing PMI rose to 56.9 (Jul-22: 56.7) with improvements in new orders, business activity and employment.
  - Labour market remained strong and tight as the weekly initial jobless claims fell to 3-month low at 222K.
  - Based on the latest Beige Book report, activities in the US economy was unchanged since early Jul-22. Consumers continued to spend more on foods and essential items. US labour market condition remained tight, while price pressures were still elevated. Nevertheless, outlook for the US economy was generally weak as demand is expected to soften in the next 6-12 months.

- At a conference hosted by Cato Institute last week, Fed Chair Jerome Powell reiterated that the Fed will need to keep its focus on bringing down inflation, indicating that the Fed needs to "act now, forthrightly, strongly" until the job is done.

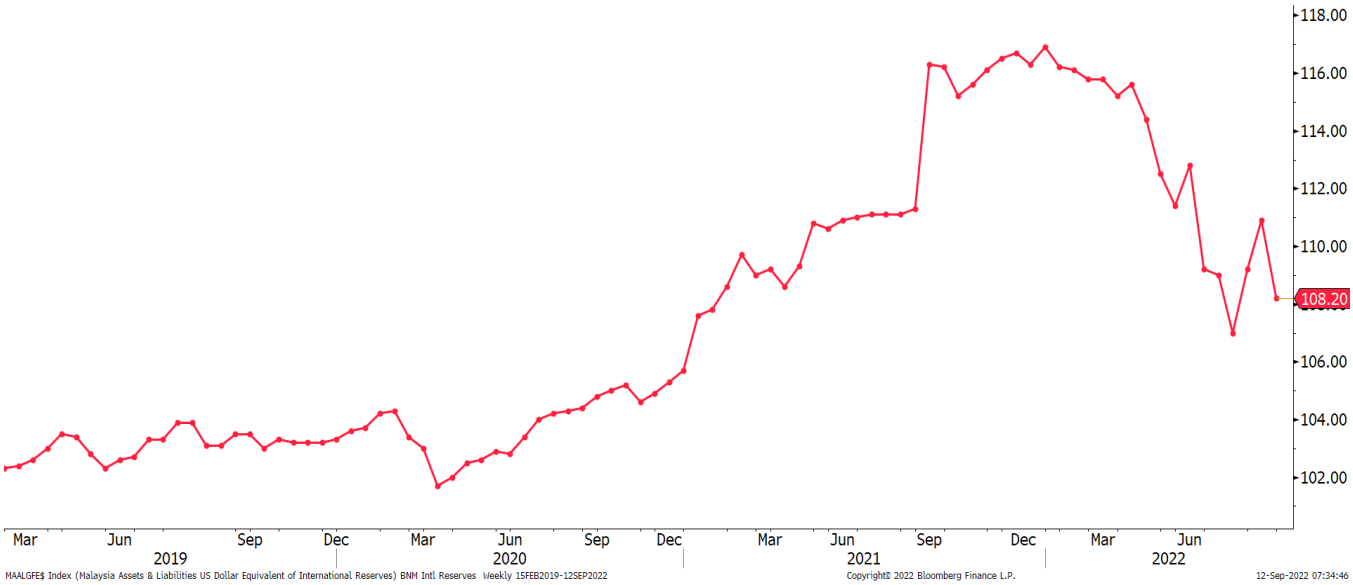
- On 8 September 2022, after monetary policy meeting:
  - Bank Negara Malaysia hiked OPR by 25bps to 2.50%, a widely anticipated move to bring the policy rate to more normal level in view of strong economic growth and rising inflation.
  - European Central Bank (ECB) raised its interest rates by 75bps, lifting the main refinancing rate to 1.25%. The ECB even indicated more rate hikes at upcoming meetings to control high inflation.

- Malaysia's economc indicators signal continued improvement in the economy. Better labour market condition contributed to the further decline in unemployment rate to 3.7% in Jul-22, a new pandemic low. Industrial production expanded faster at +12.5%yoy in Jul-22 (Jun-22: +12.1%yoy), backed by higher manufacturing and mining output.

## C. BNM INTERNATIONAL RESERVES

- As of 30 August 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD108.2b (15 August 2022: USD110.9b).

**BNM INTERNATIONAL RESERVES**




Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.4 months of imports of goods & services and is 1.1 times total short-term external debt.

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

| Tenor | 2-Sep Fri | 5-Sep Mon | 6-Sep Tue | 7-Sep Wed | 8-Sep Thu | 9-Sep Fri | Change (WoW bp) |
|---|---|---|---|---|---|---|---|
| MGS | | | | | | | |
| 3-Y | 3.332 | 3.335 | 3.339 | 3.392 | 3.353 | 3.336 | 0.4 |
| 5-Y | 3.759 | 3.77 | 3.786 | 3.839 | 3.784 | 3.752 | -0.7 |
| 7-Y | 3.901 | 3.93 | 3.925 | 3.983 | 3.963 | 3.913 | 1.2 |
| 10-Y | 4.028 | 4.028 | 4.031 | 4.111 | 4.047 | 4.028 | 0 |
| 20-Y | 4.464 | 4.441 | 4.442 | 4.49 | 4.464 | 4.453 | -1.1 |
| RINGGIT IRS | | | | | | | |
| 1-Y | 3.27 | 3.255 | 3.275 | 3.31 | 3.295 | 3.305 | 3.5 |
| 3-Y | 3.625 | 3.615 | 3.62 | 3.685 | 3.625 | 3.575 | -5 |
| 5-Y | 3.78 | 3.775 | 3.8 | 3.8375 | 3.78 | 3.725 | -5.5 |
| 7-Y | 3.84 | 3.855 | 3.875 | 3.935 | 3.87 | 3.82 | -2 |
| 10-Y | 4.02 | 4.025 | 4.05 | 4.11 | 4.04 | 3.995 | -2.5 |
| KLIBOR | | | | | | | |
| 1-M | 2.43 | 2.43 | 2.43 | 2.43 | 2.43 | 2.66 | 23 |
| 2-M | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.86 | 26 |
| 3-M | 2.75 | 2.75 | 2.75 | 2.76 | 2.76 | 3 | 25 |
| UST | | | | | | | |
| 3-Y | 3.4258 | 3.4258 | 3.568 | 3.4859 | 3.5659 | 3.5984 | 17.26 |
| 5-Y | 3.2928 | 3.2928 | 3.4518 | 3.3584 | 3.4209 | 3.4352 | 14.24 |
| 7-Y | 3.2686 | 3.2686 | 3.4241 | 3.3424 | 3.4012 | 3.3989 | 13.03 |
| 10-Y | 3.1894 | 3.1894 | 3.3492 | 3.2635 | 3.317 | 3.3097 | 12.03 |
| 30-Y | 3.3435 | 3.3435 | 3.5011 | 3.4109 | 3.475 | 3.4474 | 10.39 |
| USD LIBOR | | | | | | | |
| 1-M | 2.65571 | 2.64286 | 2.68486 | 2.70457 | 2.75643 | 2.77314 | 11.743 |
| 3-M | 3.15814 | 3.14486 | 3.16786 | 3.194 | 3.23571 | 3.24543 | 8.729 |

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name | Coupon | Maturity | 2-Sep Yield | 9-Sep Yield | Change (WoW bp) | Weekly Volume (RM mn) |
|---|---|---|---|---|---|---|
| MALAYSIA GOVERNMENT | 3.899 | 11/16/27 | 3.759 | 3.752 | -0.7 | 1,882.4 |
| MALAYSIA GOVERNMENT | 3.48 | 03/15/23 | 2.609 | 2.658 | 4.9 | 1,397.2 |
| MALAYSIA GOVERNMENT | 3.795 | 09/30/22 | 2.411 | 2.523 | 11.2 | 1,315.9 |
| MALAYSIA INVESTMNT ISSU | 3.422 | 09/30/27 | 3.855 | 3.795 | -6.0 | 1,070.0 |
| MALAYSIA GOVERNMENT | 3.582 | 07/15/32 | 4.028 | 4.028 | 0.0 | 710.4 |
| MALAYSIA INVESTMNT ISSU | 4.193 | 10/07/32 | 4.040 | 4.071 | 3.1 | 525.0 |
| MALAYSIA GOVERNMENT | 3.882 | 03/14/25 | 3.332 | 3.336 | 0.4 | 518.4 |
| MALAYSIA GOVERNMENT | 3.478 | 06/14/24 | 3.271 | 3.280 | 0.9 | 514.2 |
| MALAYSIA GOVERNMENT | 4.762 | 04/07/37 | 4.274 | 4.283 | 0.9 | 452.9 |
| MALAYSIA INVESTMNT ISSU | 4.094 | 11/30/23 | 2.992 | 2.992 | 0.0 | 394.1 |
| TOTAL VOLUME (TOP 10) | | | | | | 8,780.6 |
| TOTAL VOLUME (Overall) | | | | | | 13,814.7 |

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name | Coupon | Maturity | 2-Sep Yield | 9-Sep Yield | Change (WoW bp) | Weekly Volume (RM mn) |
|---|---|---|---|---|---|---|
| DANAINFRA NASIONAL | 4.76 | 05/02/36 | N/A | 4.530 | N/A | 300.0 |
| CAGAMAS BERHAD | FLOAT | 05/29/23 | N/A | N/A | N/A | 240.0 |
| DANAINFRA NASIONAL | 4.53 | 11/12/25 | N/A | 3.687 | N/A | 130.0 |
| CAGAMAS BERHAD | 2.5 | 05/29/23 | N/A | 3.403 | N/A | 120.0 |
| TENAGA NASIONAL BERHA | 4.73 | 06/29/29 | 4.202 | 4.358 | 15.6 | 90.0 |
| PENGURUSAN AIR SPV BHD | 3.12 | 09/27/30 | N/A | 4.500 | N/A | 80.0 |
| IMTIAZ SUKUK II BHD | 4.77 | 05/11/29 | 4.685 | 4.718 | 3.3 | 73.3 |
| PROJEK LEBUHRAYA USAHA | 5.51 | 01/12/35 | N/A | 4.629 | N/A | 70.0 |
| GOVCO HOLDINGS BHD | 4.95 | 02/20/32 | 4.278 | 4.374 | 9.6 | 60.0 |
| TENAGA NASIONAL BERHA | 4.78 | 08/29/33 | 4.519 | 4.489 | -3.0 | 50.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 1,213.3 |
| TOTAL VOLUME (Overall) | | | | | | 2,572.7 |

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 |