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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 26 September 2022

Week Ended 23 September 2022

- The benchmark 10-year UST yield ended higher for eighth week in a row at 3.68% (prior week: 3.45%), its highest weekly close since April 2010. Investors reacted to Federal Reserve's stated willingness to remain aggressive (even after the third consecutive 75-bp hike) with higher midpoint fed rate year-end 2022 at 4.4% (from 3.4%) and terminal of 4.6% (from 3.8%) next year. The 10y-3y yield spread inverted deeper week-on-week from -38bps to -54bps 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 2.44% (prior week: 2.53%) in view of an aggressive Fed. While inflation expectation has been declining from the high of 3.73% in late March 2022, it ended last week back at within 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 ever more convinced that the elevated price pressure would ebb in good time. In this regard, we reckon inflation expectation would steadily weaken (toward the 2.00% target) if the US Fed were seen as being judiciously aggressive in battling inflation.

- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 30bps and 14.3bps to close at 3.66% and 4.27% respectively. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 77bps to 62bps as the short-end underperformed.

- MGS foreign holdings increased on-year from RM250b in August 2021 to RM255b in August 2022. Moreover, it climbed higher on-month from RM250b in July 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equity trade ended the review week at RM8.69b. It declined on-week from RM9.01b registered a week ago. However, it improved markedly on-year from -RM6.73b a year ago.

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Strategy Team | research@midf.com.my

Weekly Money Review

A. FIXED INCOME

- The benchmark 10-year UST yield ended higher for eighth week in a row at 3.68% (prior week: 3.45%), its highest weekly close since April 2010. Investors reacted to Federal Reserve's stated willingness to remain aggressive (even after the third consecutive 75-bp hike) with higher midpoint fed rate year-end 2022 at 4.4% (from 3.4%) and terminal of 4.6% (from 3.8%) next year. The 10y-3y yield spread inverted deeper week-on-week from -38bps to -54bps as the short-end underperformed due to its higher sensitivity to policy rate movement.





Source: Bloomberg, MIDFR

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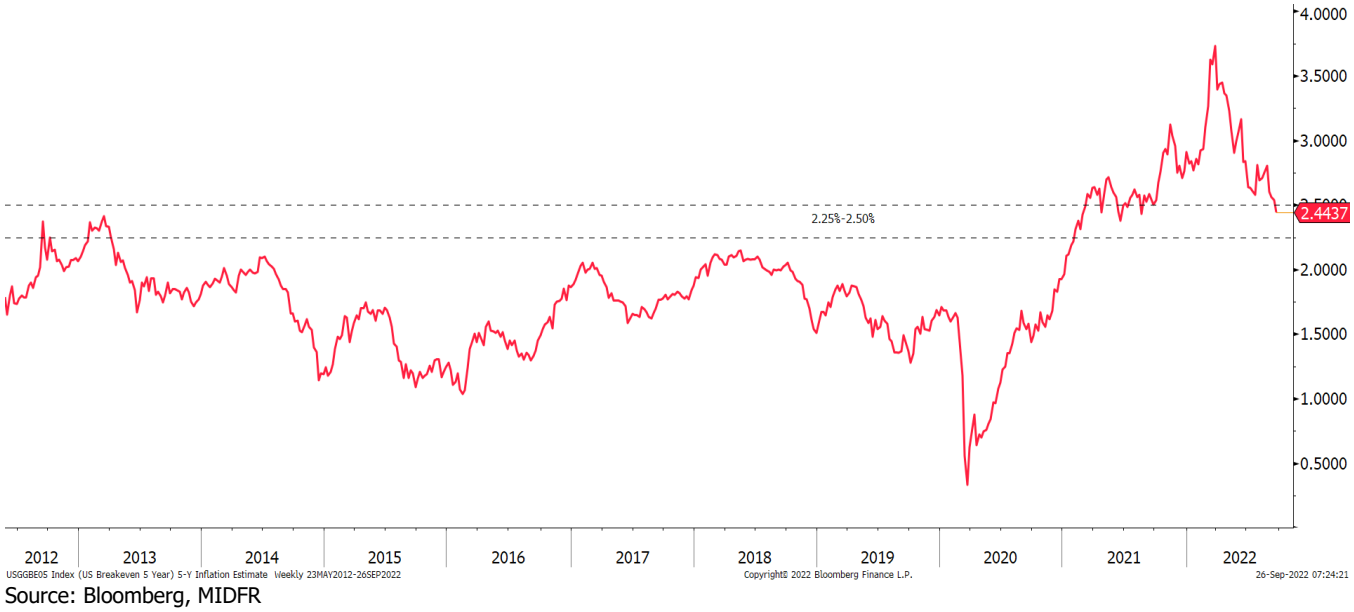
MEDIUM-TERM INFLATION EXPECTATION (5Y UST-TIPS SPREAD)



Source: Bloomberg, MIDFR

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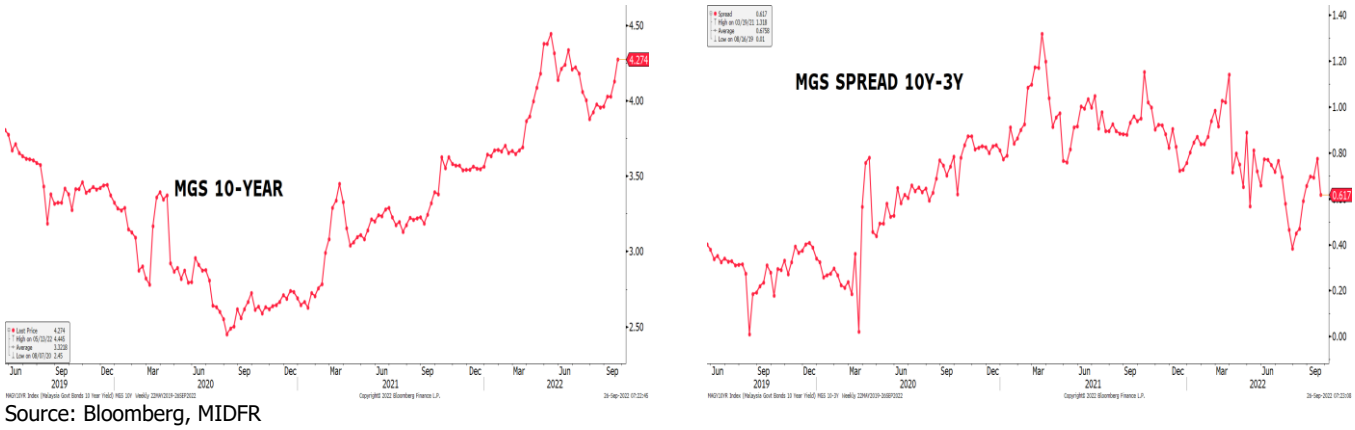
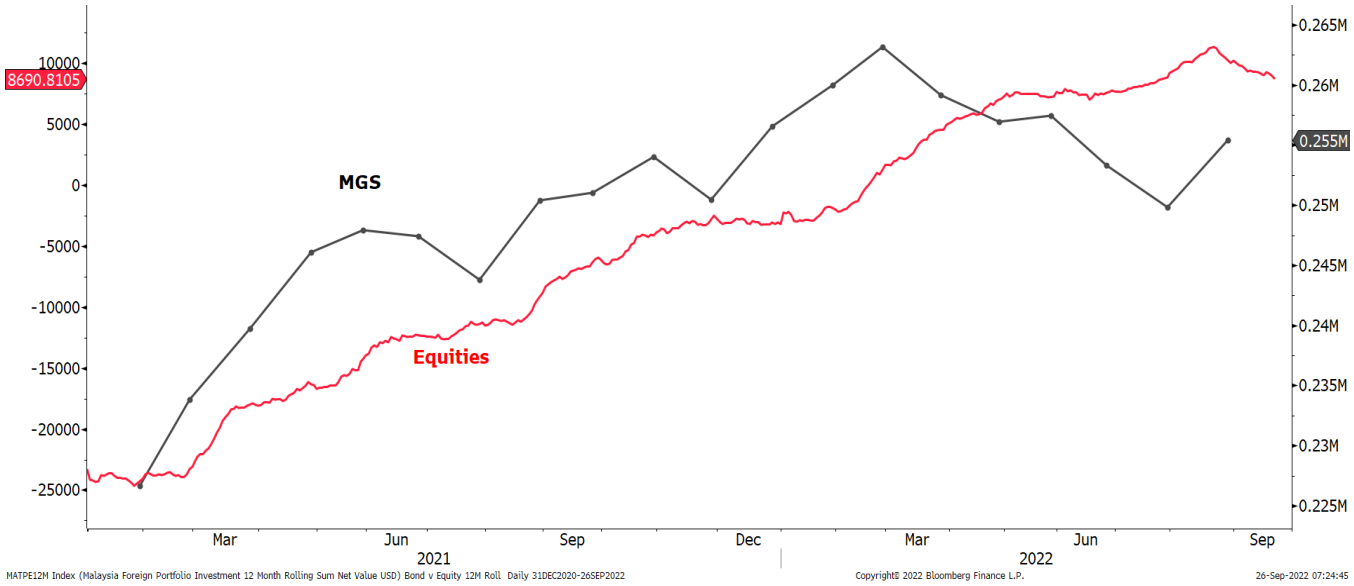


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) jumped to RM17.88b in the review week compared to RM7.68b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 66% from 61% of the overall Government Bonds trades. Moreover, 10 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 4.504% 4/30/29 at RM2.16b, MGS 3.48% 3/15/23 at RM1.96b, and MGS 3.899% 11/16/27 at RM1.21b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM250b in August 2021 to RM255b in August 2022. Moreover, it climbed higher on-month from RM250b in July 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equity trade ended the review week at RM8.69b. It declined on-week from RM9.01b registered a week ago. However, it improved markedly on-year from -RM6.73b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.04b in the review week compared to RM1.98b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 43% from 37% 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 Pro Lintasan Sg. Besi 6.63% 11/26/27 at RM100m, Sarawak Petchem 5.01% 7/27/28 at RM60m, and Danainfra 4.53% 11/12/25 at RM40m.

B. FOREIGN EXCHANGE

- US dollars strengthened sharply as further tightening by the Fed led to recession fears. Following another large monetary policy tightening by the Fed, US dollar appreciated against other currencies as DXY US dollar index increased +3.4%wow to 113.19, the highest weekly closing since 2002. While the decision by the Fed had been largely similar to market expectations, the appreciation was driven by higher safe-haven demand for USD because of fear of global slowdown.

- EUR and GBP depreciated on strong USD demand. Due to the strong demand for US dollars, euro and pound sterling both depreciated last week by 3.5%wow to USD0.967 and 5.6%wow to USD1.078, respectively. The reduced support for pound sterling led to relatively bigger depreciation following decision by the BOE to reduce holding of UK government bonds at the monetary policy meeting last week.

- Ringgit and regional currencies also weakened last week. Following the global trend, ringgit and other regional currencies also weakened against US dollars, with ringgit depreciating by -1.0%wow to RM4.579, a new low level last seen during Asian Financial Crisis. At the moment, market seems to be more focused on the Fed's policy tightening, consequently causing other currencies to weaken against USD. The lower crude oil prices also failed to support ringgit as Brent crude ended -5.7%wow lower at USD86.15pb (previous week: USD91.35pb).
  - Commenting about the weakness in ringgit, BNM indicated that any interventions (including re-pegging or capital controls) to support ringgit will be unlikely. In short, the central bank indicated that the value of ringgit will be determined by the market. BNM will also monitor ringgit movement to ensure stable and orderly financial market conditions despite persistently strength in US dollars.

Currencies Changes (Week Ended 23/09) and Quarterly Forecasts

	Close (23/09)	Prev. Close (16/09)	Weekly Change	Weekly Change (%)	1Q22	2Q22	3Q22F	4Q22F
DXY Index	113.19	109.76	+3.428	+3.1	98.31	104.69	109.0	107.5
EURUSD	0.967	1.002	-0.035	-3.5	1.11	1.05	1.00	1.03
GBPUSD	1.078	1.142	-0.065	-5.6	1.31	1.22	1.10	1.15
USDJPY	143.58	142.92	-0.660	-0.5	121.7	135.72	142	139
USDMYR	4.579	4.535	-0.044	-1.0	4.20	4.41	4.52	4.42
GBPMYR	5.115	5.184	+0.069	+1.3	5.52	5.35	5.16	5.08
JPYMYR	3.189	3.174	-0.016	-0.5	3.45	3.25	3.18	3.18

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

- As expected, the Fed raised fed funds rate by 75bps to 3.00 – 3.25%, in response to stubbornly high inflation and still strong labour market. The FOMC also downgraded its US economic growth forecast sharply to +0.2% in 2022, from +1.7% previously as the fed funds rate is expected to be raise higher to more than 4% by year-end. This has led to growing recession fears as the Fed Chair himself did not deny the possibility of the US economy to go into recession and the difficult balance to reach soft landing to bring inflation lower.

- In response to rising and high inflation, several central banks tightened their monetary policy further last week:
  - The Bank of England (BOE) hiked its interest rate by 50bps to 2.25%, marking the 7th consecutive rate hike and pushing the borrowing cost to the highest level since 2008. The BOE policymakers also voted to reduce the stock of purchased UK government bonds by GBP80b in the next 12 months.
  - Bank of Indonesia (BI) and Bangko Sentral ng Pilipinas (BSP) hiked by 50bps, bringing the benchmark interest rates to each central bank to 4.25%. The hike by BI was higher than market forecast (+25bps), while BSP's 50bps hike was similar to market expectations.

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	4.25
Philippines	2.00	2.00	2.00	2.00	2.25	2.50	3.25	3.75	4.25
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	2.25
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	3.00-3.25

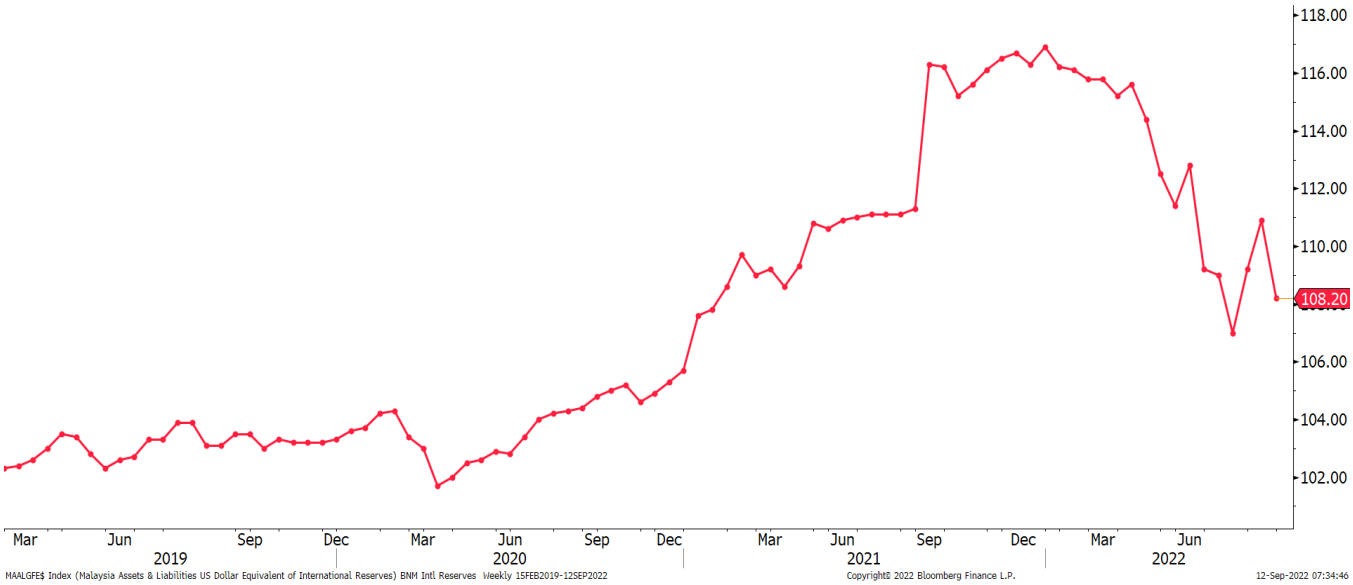
Source: Bloomberg, MIDFR

Malaysia's external trade performed better than expected in Aug-22, with exports growing stronger at +47.9%yoy (Jul-22: +38%yoy) backed by demand for E&E, petroleum, LNG and palm oil. Imports growth also jumped to +67.7%yoy (Jul-22: +41.8%yoy) on the back of growing domestic economy. Meanwhile, CPI inflation accelerated to +4.7%yoy as food inflation reached new highs (+7.2%yoy). Core CPI inflation also jumped to a new peak at +3.8%yoy as higher demand led to broader price pressures. With inflation rose higher, we expect another rate hike by BNM at the Nov-22 meeting to bring OPR to a more normal level.

C. BNM INTERNATIONAL RESERVES

- As of 15 September 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD106.3b (30 August 2022: USD108.2b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.3 months of imports of goods & services and is 1.0 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	16-Sep Fri	19-Sep Mon	20-Sep Tue	21-Sep Wed	22-Sep Thu	23-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.357	3.31	3.451	3.529	3.561	3.657	30
5-Y	3.844	3.92	3.92	3.963	4.039	4.103	25.9
7-Y	4.039	4.06	4.097	4.068	4.221	4.298	25.9
10-Y	4.131	4.196	4.183	4.196	4.235	4.274	14.3
20-Y	4.505	4.54	4.543	4.588	4.607	4.666	16.1
RINGGIT IRS							
1-Y	3.435	3.45	3.465	3.47	3.535	3.545	11
3-Y	3.72	3.755	3.76	3.785	3.885	3.94	22
5-Y	3.835	3.91	3.94	3.975	4.063	4.15	31.5
7-Y	3.92	4.0225	4.075	4.115	4.2	4.25	33
10-Y	4.115	4.15	4.235	4.285	4.36	4.41	29.5
KLIBOR							
1-M	2.67	2.67	2.67	2.67	2.67	2.67	0
2-M	2.89	2.89	2.9	2.9	2.9	2.9	1
3-M	3.02	3.02	3.02	3.02	3.03	3.03	1
UST							
3-Y	3.8264	3.8913	3.9368	4.0078	4.1417	4.2233	39.69
5-Y	3.6309	3.6823	3.7464	3.7662	3.9363	3.9789	34.8
7-Y	3.5597	3.6119	3.6854	3.6777	3.86	3.8635	30.38
10-Y	3.4494	3.4905	3.563	3.5299	3.7138	3.6846	23.52
30-Y	3.5131	3.515	3.5707	3.5023	3.6403	3.6059	9.28
USD LIBOR							
1-M	3.01386	3.01386	3.05186	3.059	3.084	3.08029	6.643
3-M	3.56529	3.56529	3.60171	3.60386	3.64143	3.62843	6.314

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	16-Sep Yield	23-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	4.504	04/30/29	4.039	4.298	25.9	2,163.6
MALAYSIA GOVERNMENT	3.48	03/15/23	2.542	2.873	33.1	1,961.4
MALAYSIA GOVERNMENT	3.899	11/16/27	3.844	4.103	25.9	1,214.3
MALAYSIA GOVERNMENT	3.795	09/30/22	1.570	2.168	59.8	1,184.1
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.511	3.772	26.1	1,128.5
MALAYSIA GOVERNMENT	3.8	08/17/23	2.753	3.164	41.1	1,098.5
MALAYSIA INVESTMNT ISSU	4.369	10/31/28	4.033	4.340	30.7	944.7
MALAYSIA GOVERNMENT	3.478	06/14/24	3.260	3.488	22.8	788.8
MALAYSIA GOVERNMENT	3.582	07/15/32	4.131	4.274	14.3	688.2
MALAYSIA GOVERNMENT	3.757	04/20/23	2.448	2.969	52.1	686.4
TOTAL VOLUME (TOP 10)						11,858.6
TOTAL VOLUME (Overall)						17,877.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	16-Sep Yield	23-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
PRO LINTASAN SUNGAI BES	6.63	11/26/27	N/A	5.955	N/A	100.0
SARAWAK PETCHEM SDN B	5.01	07/27/28	4.452	4.505	5.3	60.0
DANAINFRA NASIONAL	4.53	11/12/25	3.687	3.846	15.9	40.0
MMC CORP BHD	5.29	04/26/23	3.437	3.518	8.1	40.0
DANAINFRA NASIONAL	4.89	05/25/32	4.350	4.369	1.9	40.0
TENAGA NASIONAL BERHA	4.78	08/29/33	4.489	4.629	14.0	40.0
PRO LINTASAN SUNGAI BES	6.48	11/26/27	N/A	5.958	N/A	40.0
EDRA ENERGY SDN BHD	5.7	07/05/23	3.562	3.712	15.0	30.0
PRASARANA MALAYSIA BHD	4.93	12/28/32	4.289	4.349	6.0	30.0
SMALL MEDIUM ENT BANK	3.3	04/23/27	N/A	4.136	N/A	30.0
TOTAL VOLUME (TOP 10)						450.0
TOTAL VOLUME (Overall)						1,036.5

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