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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 3 October 2022

Week Ended 30 September 2022

- The benchmark 10-year UST yield ended higher for ninth week in a row at 3.83% (prior week: 3.68%), its highest weekly close since April 2010. Investors reacted to potential future interest rate hikes with core PCE for August came in higher than expected at 4.9%yoy (vis-à-vis market estimate of 4.7%yoy). Moreover, the situation was amplified by a series of hawkish comments from Fed officials last week. The 10y-3y yield spread rebounded but remains deeply inverted at -46bps (prior week: -54bps) as the long-end underperformed.

- In view of more inflation-busting rate hikes, medium-term inflation expectation ended the review week down at 2.16% (prior week: 2.44%), its lowest since January 2021. While inflation expectation has been declining from the high of 3.73% in late March 2022, it ended last week back at lower than the elevated inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed. At current juncture, it seems the market is highly convinced that the elevated price pressure would ebb in good time. In this regard, we reckon inflation expectation will 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 11.4bps and 13.3bps to close at 3.77% and 4.41% respectively. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 62bps to 64bps as the long-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 RM8.16b. It declined on-week from RM8.69b registered a week ago. However, it improved markedly on-year from -RM5.96b a year ago.

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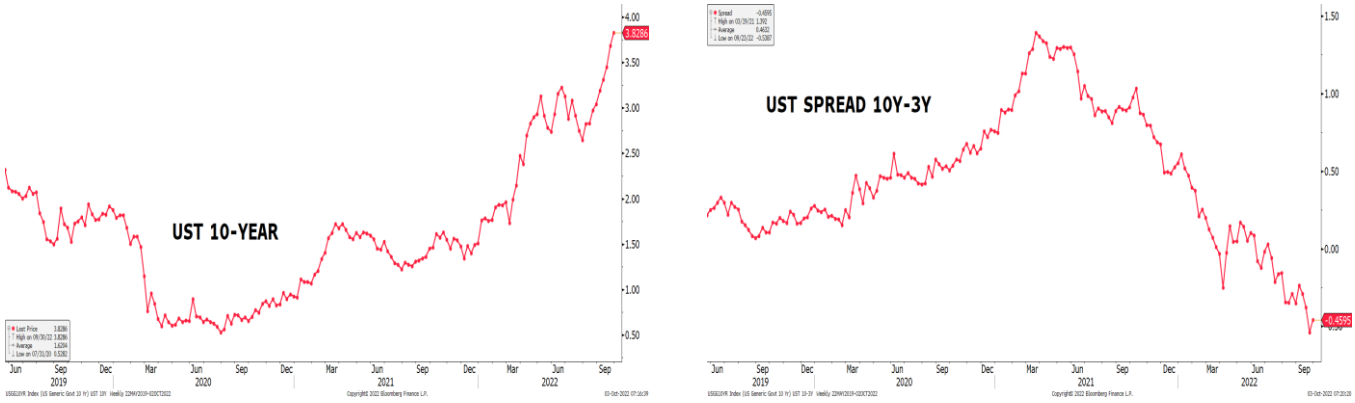
Weekly Money Review

A. FIXED INCOME

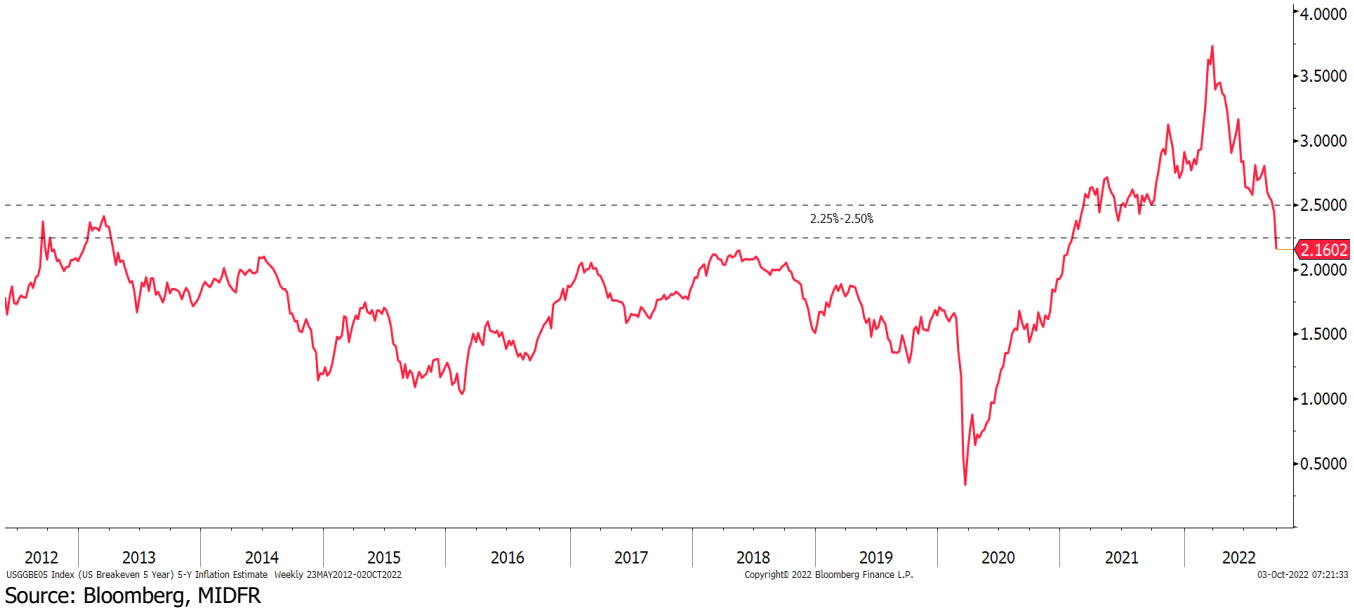
- The benchmark 10-year UST yield ended higher for ninth week in a row at 3.83% (prior week: 3.68%), its highest weekly close since April 2010. Investors reacted to potential future interest rate hikes with core PCE for August came in higher than expected at 4.9%yoy (vis-à-vis market estimate of 4.7%yoy). Moreover, the situation was amplified by a series of hawkish comments from Fed officials last week. The 10y-3y yield spread rebounded but remains deeply inverted at -46bps (prior week: -54bps) as the long-end underperformed.



Source: Bloomberg, MIDFR

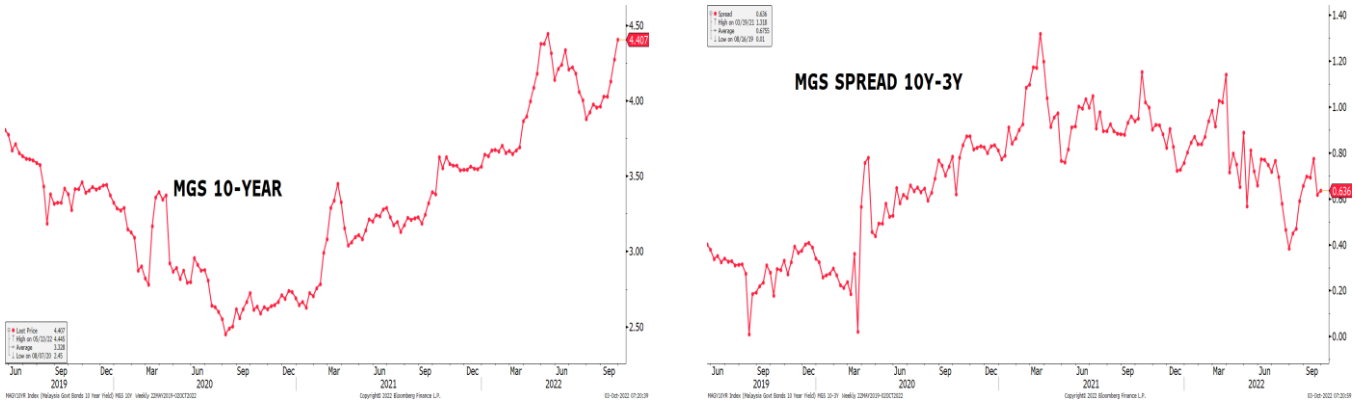
- In view of more inflation-busting rate hikes, medium-term inflation expectation ended the review week down at 2.16% (prior week: 2.44%), its lowest since January 2021. While inflation expectation has been declining from the high of 3.73% in late March 2022, it ended last week back at lower than the elevated inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed. At current juncture, it seems the market is highly convinced that the elevated price pressure would ebb in good time. In this regard, we reckon inflation expectation will steadily weaken (toward the 2.00% target) if the US Fed were seen as being judiciously aggressive in battling inflation.

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



Source: Bloomberg, MIDFR

- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 11.4bps and 13.3bps to close at 3.77% and 4.41% respectively. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 62bps to 64bps as the long-end underperformed.

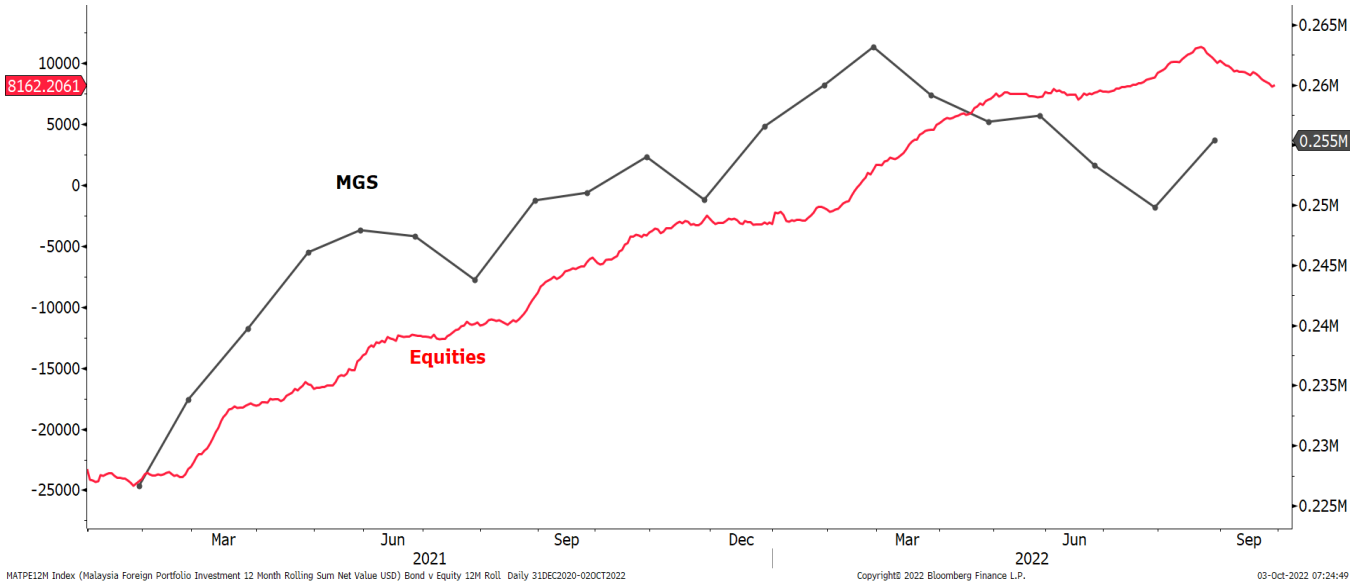


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM14.25b in the review week compared to RM17.88b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 57% from 66% of the overall Government Bonds trades. Moreover, 7 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 RM1.47b, MGS 3.899% 11/16/27 at RM1.43b, and MGS 3.757% 4/20/23 at RM871m.

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 RM8.16b. It declined on-week from RM8.69b registered a week ago. However, it improved markedly on-year from -RM5.96b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM866m in the review week compared to RM1.04b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 46% from 43% 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 Telekom Malaysia 4.73% 5/18/28 at RM60m, Ambank Malaysia 4.98% 1/15/28 at RM58m, and Benih Restu 4.62% 6/5/25 at RM50m.

B. FOREIGN EXCHANGE

- USD DXY index fell as sentiment in the market improved. The US dollar depreciated against major currencies last week as the US dollar DXY index fell by -0.9%wow to 112.12, but still remained around two-decade high. The decline in US dollar demand last week reflects improved sentiment in the market which led to reduced safe-haven demand for the US dollars. Investors generally agree the need to hike interest rates to curb stubbornly high inflation.

- EUR and GBP appreciated against USD. On the back of lower demand for USD, euro appreciated last week by 1.2%wow to USD0.980, backed by strong inflation reading. Similarly, pound sterling was also traded stronger against USD, appreciating by 2.9%wow to USD1.117 last week as decision by the Bank of England to buy long-dated UK gilts helped to support GBP. Previously, the GBP fell to new record low of below USD1.07 after market sell-off that was triggered by the UK government's big tax cuts.

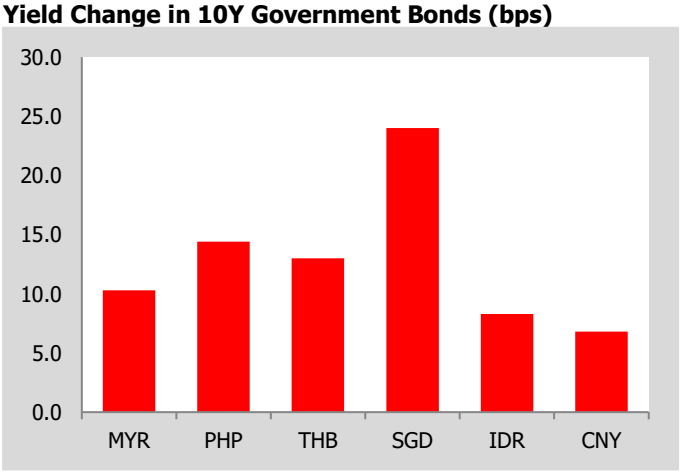
- Ringgit touched a new low. Despite lower demand for USD, ringgit weakened further last week reaching a new low at RM4.638, %1.3wow lower than previous week and the lowest exchange rate since Asian Financial Crisis. In fact, ringgit slide also followed the weakening of yuan and dragged down by lower oil price due to concern over weaker global growth. Brent crude oil prices ended the week -1.2%wow lower at USD85.14pb (previous week: USD86.15pb).

Currencies Changes (Week Ended 30/09) and Quarterly Forecasts

	Close (30/09)	Prev. Close (23/09)	Weekly Change	Weekly Change (%)	1Q22	2Q22	3Q22F	4Q22F
DXY Index	112.12	113.19	-1.075	-0.9	98.31	104.69	112.12	107.5
EURUSD	0.980	0.969	+0.012	+1.2	1.11	1.05	0.98	1.03
GBPUSD	1.117	1.086	+0.031	+2.9	1.31	1.22	1.12	1.15
USDJPY	144.74	143.31	-1.430	-1.0	121.7	135.72	144.74	139
USDMYR	4.638	4.579	-0.059	-1.3	4.20	4.41	4.64	4.45
GBPMYR	5.199	5.115	-0.084	-1.6	5.52	5.35	5.20	5.08
JPYMYR	3.204	3.194	-0.010	-0.3	3.45	3.25	3.20	3.18

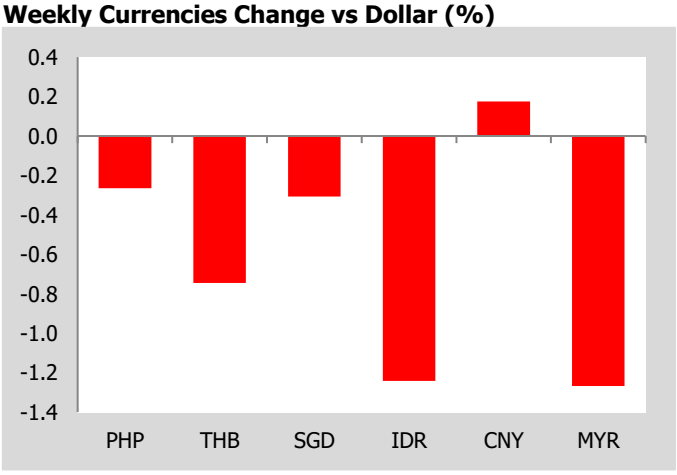
Note: "+" indicates appreciation against US dollar, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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	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	1.00
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

- Among US data released last week:
  - The third estimate shows US GDP growth contracted by -0.6%qoq on annualized basis, unchanged from previous estimate. The upward revision to consumer spending was offset by downward revision to exports.
  - US job market remained tight and strong as the latest jobless claims for the week ended 24th Sep declined to 193K (previous week: 209K), the lowest since end-Apr-22.
  - Similar to the trend in CPI, headline PCE price inflation eased to +6.2%yoy in Aug-22 (Jul-22: 6.4%yoy), tracking the recent decline in gasoline prices. However, core PCE prices rose to +4.9%yoy (Jul-22: +4.7%yoy), indicating broader price pressures which supports the large rate hikes by the Fed.

- Like other central banks, Bank of Thailand raised its benchmark interest rate last week by 25bps to 1.00%. It was the second straight meeting of rate hikes to contain rising inflation.

- Malaysia's PPI inflation eased to 16-month low of +6.8%yoy, tracking the lower commodity prices which resulted in declines in PPI for the mining and agriculture sectors. The slower price increases for raw materials and intermediate goods also led to slower PPI inflation for the manufacturing sector. Meanwhile, Malaysia's Leading Index (LI) expanded further by +4.1%yoy in Jul-22 (Jun-22: +5.3%yoy), pointing towards positive growth outlook in the next few months. However, there is sign of softer growth prospects as LI declined on monthly basis (-2.0%mom) as a result of reduced imports of materials i.e. other basic precious & other non-ferrous metals and semiconductors.

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	23-Sep Fri	26-Sep Mon	27-Sep Tue	28-Sep Wed	29-Sep Thu	30-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.657	3.744	3.774	3.817	3.768	3.771	11.4
5-Y	4.103	4.16	4.171	4.205	4.062	4.04	-6.3
7-Y	4.298	4.406	4.371	4.412	4.371	4.213	-8.5
10-Y	4.274	4.379	4.453	4.419	4.43	4.407	13.3
20-Y	4.666	4.849	4.842	4.903	4.893	4.845	17.9
RINGGIT IRS							
1-Y	3.545	3.625	3.575	3.55	3.555	3.53	-1.5
3-Y	3.94	4.045	3.97	3.945	3.87	3.845	-9.5
5-Y	4.15	4.27	4.15	4.12	4.055	4.03	-12
7-Y	4.25	4.385	4.255	4.23	4.19	4.16	-9
10-Y	4.41	4.57	4.46	4.43	4.38	4.34	-7
KLIBOR							
1-M	2.67	2.67	2.67	2.67	2.67	2.67	0
2-M	2.9	2.9	2.9	2.91	2.91	2.92	2
3-M	3.03	3.03	3.03	3.04	3.05	3.06	3
UST							
3-Y	4.2233	4.4135	4.3739	4.1621	4.2143	4.2881	6.48
5-Y	3.9789	4.1913	4.1845	3.9478	4.0171	4.09	11.11
7-Y	3.8635	4.1053	4.111	3.8749	3.9213	3.9808	11.73
10-Y	3.6846	3.9244	3.9451	3.7312	3.7856	3.8286	14.4
30-Y	3.6059	3.74	3.8254	3.699	3.7238	3.7759	17
USD LIBOR							
1-M	3.08029	3.11314	3.12057	3.11529	3.12786	3.14271	6.242
3-M	3.62843	3.64086	3.64186	3.67414	3.74286	3.75471	12.628

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	23-Sep Yield	30-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	4.504	04/30/29	4.298	4.213	-8.5	1,471.9
MALAYSIA GOVERNMENT	3.899	11/16/27	4.103	4.040	-6.3	1,428.2
MALAYSIA GOVERNMENT	3.757	04/20/23	2.969	2.859	-11.0	871.2
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.772	3.799	2.7	740.5
MALAYSIA GOVERNMENT	4.065	06/15/50	4.794	4.977	18.3	694.6
MALAYSIA GOVERNMENT	3.478	06/14/24	3.488	3.576	8.8	687.8
MALAYSIA GOVERNMENT	3.955	09/15/25	3.730	3.866	13.6	611.2
MALAYSIA INVESTMNT ISSU	4.369	10/31/28	4.340	4.370	3.0	584.8
MALAYSIA GOVERNMENT	4.762	04/07/37	4.600	4.647	4.7	555.5
MALAYSIA GOVERNMENT	3.882	03/14/25	3.657	3.771	11.4	539.9
TOTAL VOLUME (TOP 10)						8,185.5
TOTAL VOLUME (Overall)						14,252.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	23-Sep Yield	30-Sep Yield	Change (WoW bp)	Weekly Volume (RM mn)
TELEKOM MALAYSIA BERHA	4.73	05/18/28	4.210	4.580	37.0	60.0
AMBANK MALAYSIA BHD	4.98	11/15/28	N/A	3.862	N/A	58.5
BENIH RESTU BHD	4.62	06/05/25	3.997	4.337	34.0	50.0
HONG LEONG FINL GROUP	5.23	PERP	4.114	4.208	9.4	47.3
GOVCO HOLDINGS BHD	4.95	02/20/32	4.374	4.761	38.7	40.0
DANAINFRA NASIONAL	4.8	11/25/33	N/A	4.638	N/A	30.0
PERBADANAN TABUNG PEN	4.9	01/21/33	N/A	4.611	N/A	30.0
PRASARANA MALAYSIA BHD	2.98	08/27/26	3.874	4.219	34.5	30.0
TENAGA NASIONAL BERHA	5.57	06/28/47	5.219	5.498	27.9	30.0
PRASARANA MALAYSIA BHD	5.02	12/03/38	4.569	5.001	43.2	25.0
TOTAL VOLUME (TOP 10)						400.8
TOTAL VOLUME (Overall)						865.5

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