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MIDF AMANAH INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 11 October 2022

Week Ended 7 October 2022

- The benchmark 10-year UST yield ended higher for tenth week in a row at 3.88% (prior week: 3.83%), its highest weekly close since April 2010. The solid report on labor market for September dimmed any chances the US Fed would pivot its path of aggressive interest rate hikes anytime soon. The 10y-3y yield spread ended unchanged week-on-week at -46bps.
- Arguably in reaction to the strong September jobs report, medium-term inflation expectation ended the review week higher at 2.42% (prior week: 2.16%) which took it back within the elevated inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed. However, inflation expectation has been trending lower from the high of 3.73% in late March 2022. It seems the market remains rather sanguine the elevated price pressure would ebb in good time. In this regard, we reckon inflation expectation will continue to trend lower (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 mixed with the 3-year and 10-year yields added 10.6bps and shed -7.5bps to close at 3.88% and 4.33% respectively. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 64bps to 46bps as the long-end outperformed.
- 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 RM7.96b. It declined on-week from RM8.16b registered a week ago. However, it improved markedly on-year from -RM6.17b a year ago.

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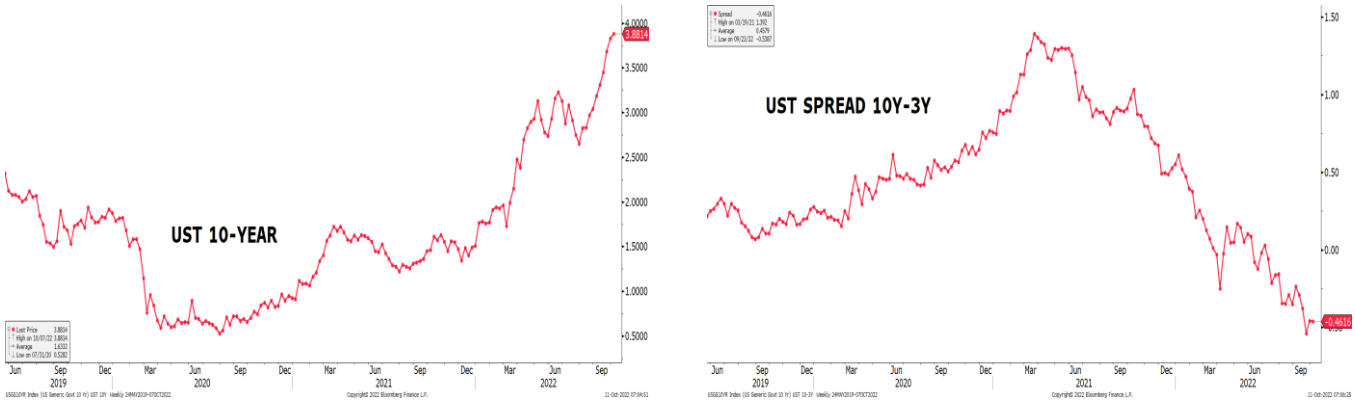
Weekly Money Review

A. FIXED INCOME

- The benchmark 10-year UST yield ended higher for tenth week in a row at 3.88% (prior week: 3.83%), its highest weekly close since April 2010. The solid report on labor market for September dimmed any chances the US Fed would pivot its path of aggressive interest rate hikes anytime soon. The 10y-3y yield spread ended unchanged week-on-week at -46bps.



Source: Bloomberg, MIDFR

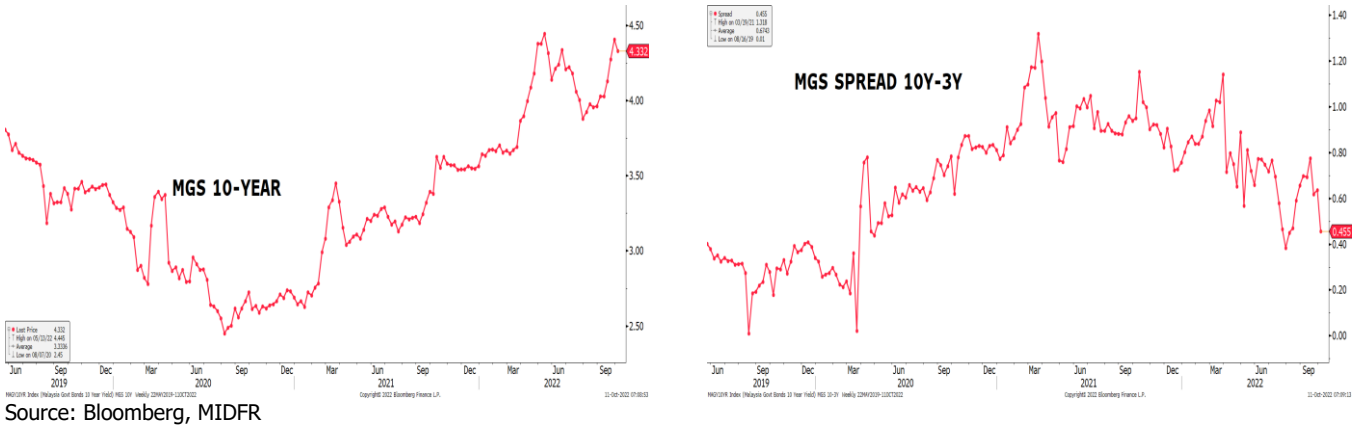
- Arguably in reaction to the strong September jobs report, medium-term inflation expectation ended the review week higher at 2.42% (prior week: 2.16%) which took it back within the elevated inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed. However, inflation expectation has been trending lower from the high of 3.73% in late March 2022. It seems the market remains rather sanguine the elevated price pressure would ebb in good time. In this regard, we reckon inflation expectation will continue to trend lower (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 mixed with the 3-year and 10-year yields added 10.6bps and shed -7.5bps to close at 3.88% and 4.33% respectively. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 64bps to 46bps as the long-end outperformed.

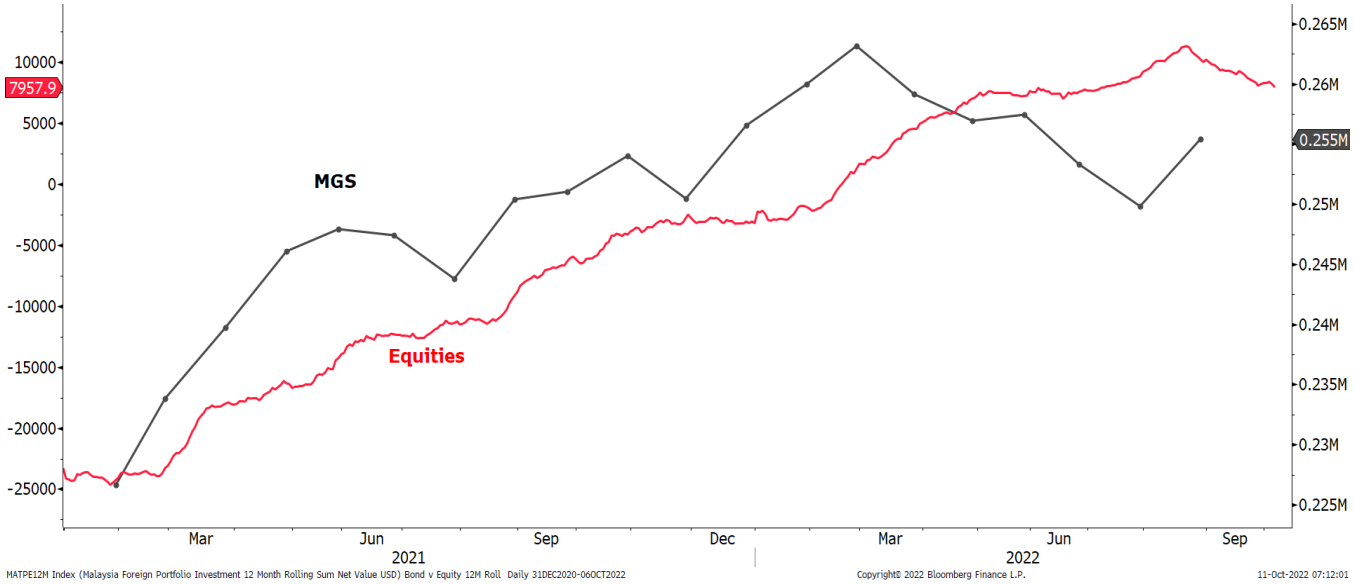


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM9.68b in the review week compared to RM14.25b 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 57% of the overall Government Bonds trades. Moreover, 9 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 3.882% 3/14/25 at RM990m, MGS 2.632% 4/15/31 at RM775m, and MGS 3.757% 4/20/23 at RM712m.

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 RM7.96b. It declined on-week from RM8.16b registered a week ago. However, it improved markedly on-year from -RM6.17b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.61b in the review week compared to RM866m in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 48% from 46% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of short residual tenor. The largest trading values were seen in Danainfra 4.53% 11/12/25 at RM210m, MRCB 43.75% 4/14/23 at RM140m, and Perbadanan Kemajuan Selangor 3.5% 1/17/23 at RM100m.

B. FOREIGN EXCHANGE

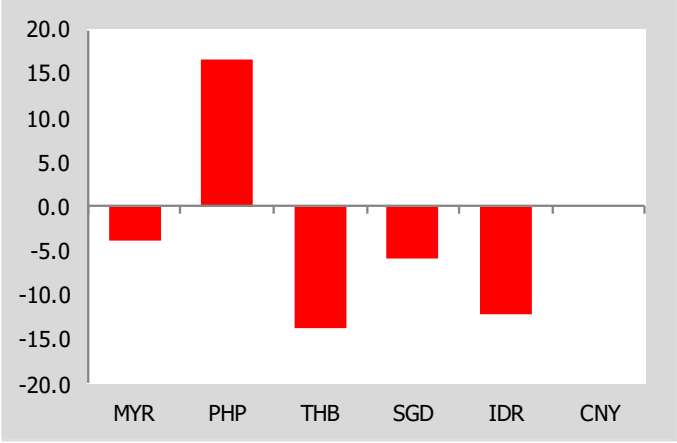
- Another week of strong dollar. The US dollar appreciated against major currencies last week as the US dollar DXY index rose 112.80, about 0.6% higher than earlier week. The still strong labour market data fueled expectation for further rate hikes by the Fed, despite some signs of easing job market condition.
- EUR and GBP deppreciated against stronger dollar. Euro depreciated by 0.6%wow to USD0.974 last week as investors preferred holding of US dollars. Similarly, pound sterling reversed the gains from previous week, with the GBP depreciating by 0.8%wow to USD1.109, which was also due to concerns over stability in Gilt market.
- Ringgit weakened to new low. The stronger dollar led ringgit to weaken again last week reaching a new low at RM4.648, 0.3%wow lower than previous week. The depreciation of ringgit, however, was limited by higher crude oil prices with the Brent crude ended the week +11.3%wow higher at USD97.92pb (previous week: USD87.96pb).

Currencies Changes (Week Ended 07/10) and Quarterly Forecasts

	Close (07/10)	Prev. Close (30/09)	Weekly Change	Weekly Change (%)	1Q22	2Q22	3Q22F	4Q22F
DXY Index	112.80	112.12	+0.678	+0.6	98.31	104.69	112.12	107.5
EURUSD	0.974	0.980	-0.006	-0.6	1.11	1.05	0.98	1.03
GBPUSD	1.109	1.117	-0.008	-0.8	1.31	1.22	1.12	1.15
USDJPY	145.25	144.74	-0.510	-0.4	121.7	135.72	144.74	139
USDMYR	4.650	4.638	-0.013	-0.3	4.20	4.41	4.64	4.45
GBPMYR	5.205	5.199	-0.006	-1	5.52	5.35	5.20	5.08
JPYMYR	3.199	3.204	+0.005	+0.1	3.45	3.25	3.20	3.18

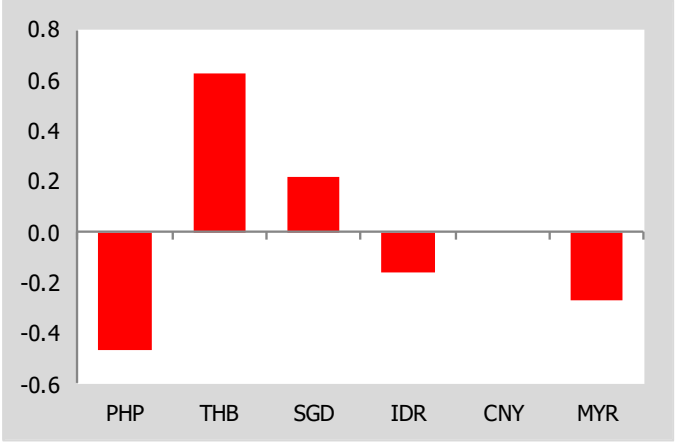
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Malaysia	1.75	1.75	1.75	2.00	2.00	2.25	2.25	2.50	2.50
Indonesia	3.50	3.50	3.50	3.50	3.50	3.50	3.75	4.25	4.25
Philippines	2.00	2.00	2.00	2.25	2.50	3.25	3.75	4.25	4.25
Thailand	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	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	1.50	1.75	1.75	2.25	2.50	2.25	2.25
India	4.00	4.00	4.00	4.40	4.90	4.90	5.40	5.40	5.40
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	0.50	0.75	0.75	1.00	1.25	1.25	1.75	2.25	2.25
Euro area	0.00	0.00	0.00	0.00	0.00	0.50	0.50	1.25	1.25
USA	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	3.00-3.25

Source: Bloomberg, MIDFR

- US economic data released last week:
  - ISM manufacturing PMI fell to 50.9, below market forecast as manufacturing activities in the US slowed sharper than expected due to lower new orders and employment.
  - Initial weekly jobless claims rose to 219K in the latest week ended 1 Oct, signaling some softening in the job market. The increase, however, was linked to the bad weather, which led to higher claims in Puerto Rico.
  - Job market update for Sep-22 indicates signs of easing in the US job market. Nonfarm payrolls rose by 263K, the slowest job creation since Apr-21 albeit higher than market consensus (250K). Overall, the tight condition remains, and the still resilient job market data may suggest for further rate hike by the Fed to contain inflation.

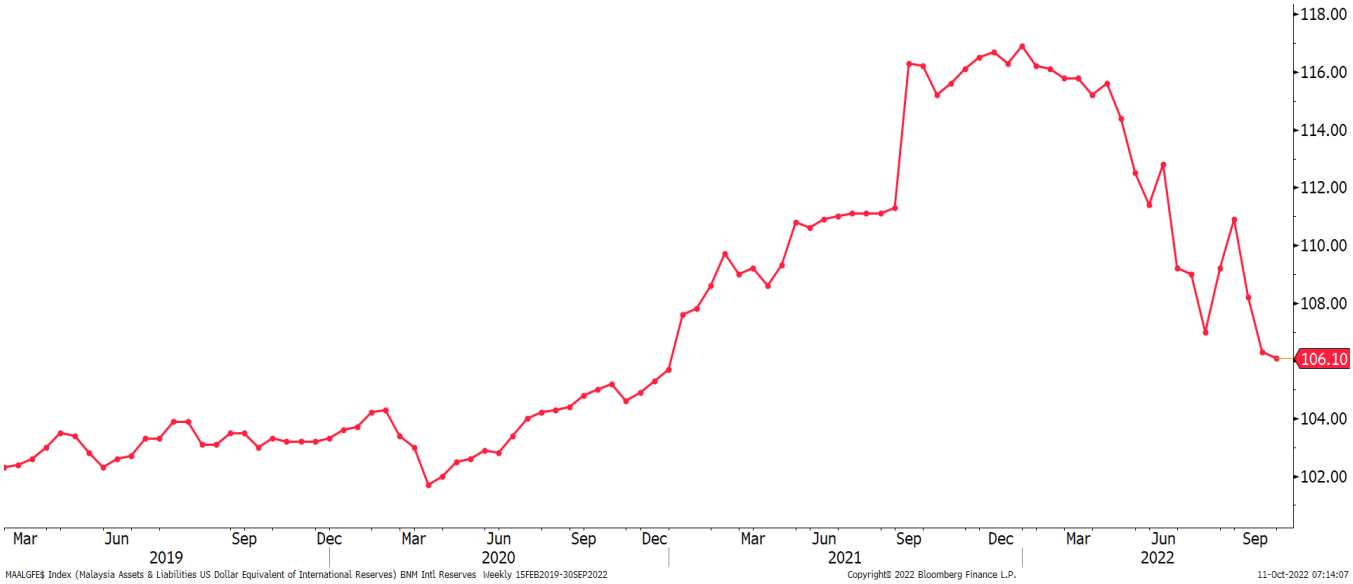
- Last week, Reserve Bank of Australia raised its benchmark interest rate by 25bps to 2.60% to bring down inflation to its target range of 2.0-3.0% over time.

- Malaysia's government tabled the Budget 2023, the largest on record to support the people and ensure sustainable economic growth next year, which is projected to moderate to 4.0-5.0% from 6.5-7.0% this year. The development expenditures will see highest allocation of RM95b covering various infrastructure projects particularly in transport industry. The government will also reduce personal income tax rate by 2ppt for those earning RM70K-RM100K. In addition, the cash handouts will also be increased to support the people and boost their income and spending. In particular, the one-off Cukai Makmur (or Prosperity Tax) will not be imposed next year. However, following the dissolution of parliament yesterday, the budget document may need to be reviewed and re-tabled by the newly elected government.

C. BNM INTERNATIONAL RESERVES

- As of 30 September 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD106.1b (15 September 2022: USD106.3b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.6 months of imports of goods & services and is 1.1 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	30-Sep Fri	3-Oct Mon	4-Oct Tue	5-Oct Wed	6-Oct Thu	7-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.771	3.873	3.812	3.801	3.794	3.877	10.6
5-Y	4.04	4.099	3.996	4.051	4.085	4.074	3.4
7-Y	4.213	4.24	4.17	4.132	4.169	4.276	6.3
10-Y	4.407	4.447	4.301	4.315	4.355	4.332	-7.5
20-Y	4.845	4.849	4.774	4.727	4.735	4.754	-9.1
RINGGIT IRS							
1-Y	3.53	3.545	3.475	3.54	3.545	3.54	1
3-Y	3.845	3.855	3.783	3.88	3.902	3.95	10.5
5-Y	4.03	4.075	3.97	4.045	4.075	4.16	13
7-Y	4.16	4.17	4.11	4.21	4.217	4.3	14
10-Y	4.34	4.355	4.3	4.34	4.4	4.45	11
KLIBOR							
1-M	2.67	2.67	2.67	2.67	2.67	2.67	0
2-M	2.92	2.92	2.92	2.93	2.93	2.94	2
3-M	3.06	3.06	3.06	3.07	3.07	3.07	1
UST							
3-Y	4.2881	4.116	4.0993	4.166	4.2706	4.343	5.49
5-Y	4.09	3.8782	3.8539	3.9662	4.0671	4.1423	5.23
7-Y	3.9808	3.7596	3.7493	3.8723	3.9627	4.0278	4.7
10-Y	3.8286	3.6387	3.6329	3.7528	3.8236	3.8814	5.28
30-Y	3.7759	3.6783	3.6945	3.7538	3.7838	3.8417	6.58
USD LIBOR							
1-M	3.14271	3.17443	3.18571	3.19814	3.30029	3.31357	17.086
3-M	3.75471	3.74829	3.74071	3.784	3.82571	3.90871	15.4

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	30-Sep Yield	7-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.882	03/14/25	3.771	3.877	10.6	990.4
MALAYSIA GOVERNMENT	2.632	04/15/31	4.455	4.464	0.9	774.6
MALAYSIA GOVERNMENT	3.757	04/20/23	2.859	2.939	8.0	712.3
MALAYSIA GOVERNMENT	3.899	11/16/27	4.040	4.074	3.4	710.3
MALAYSIA GOVERNMENT	3.955	09/15/25	3.866	3.918	5.2	638.2
MALAYSIA GOVERNMENT	4.504	04/30/29	4.213	4.276	6.3	546.4
MALAYSIA GOVERNMENT	3.757	05/22/40	4.916	4.850	-6.6	491.5
MALAYSIA GOVERNMENT	3.885	08/15/29	4.349	4.388	3.9	489.6
MALAYSIA GOVERNMENT	3.828	07/05/34	4.722	4.735	1.3	426.5
MALAYSIA INVESTMNT ISSU	4.662	03/31/38	4.676	4.689	1.3	380.0
TOTAL VOLUME (TOP 10)						6,159.8
TOTAL VOLUME (Overall)						9,676.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	30-Sep Yield	7-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.53	11/12/25	3.998	4.019	2.1	210.0
MALAYSIAN RESOURCES CO	3.75	04/14/23	N/A	4.618	N/A	140.0
PERBADANAN KEMAJUAN S	3.5	01/17/23	N/A	3.829	N/A	100.0
PERBADANAN KEMAJUAN S	3.39	02/22/23	N/A	3.894	N/A	70.0
SARAWAK PETCHEM SDN B	4.83	07/27/27	3.580	4.589	100.9	50.0
PROJEK LEBUHRAYA USAHA	5.75	01/12/37	5.200	5.219	1.9	40.0
KUALA LUMPUR KEPONG BH	4.58	08/12/25	3.918	4.220	30.2	40.0
DANAINFRA NASIONAL	4.85	05/03/41	N/A	5.059	N/A	40.0
KUALA LUMPUR KEPONG	3.75	09/27/29	N/A	4.769	N/A	40.0
SARAWAK PETCHEM SDN B	5.19	07/27/33	4.721	5.070	34.9	40.0
TOTAL VOLUME (TOP 10)						770.0
TOTAL VOLUME (Overall)						1,605.7

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