

MIDF Strategy 25 October 2022

Week Ended 21 October 2022

- The 10-year UST yield ended higher for twelfth week in a row at 4.22% (prior week: 4.02%), its highest weekly close since June 2008, as the US Fed is highly expected to deliver its fourth consecutive 75 bps rate hike in early November. Nonetheless, the benchmark rate was off its 4.33% intraweek high amid hopes the US Fed would finally pivot in the December meeting. Moreover, the 10y-3y yield spread rebounded but remains deeply inverted at -30bps (prior week: -48bps) as the long-end underperformed.
- Arguably in reaction to the heightened probability for a December pivot (refer [CME FedWatch](#)), medium-term inflation expectation ended the review week higher at 2.70% (prior week: 2.50%). More importantly, it rebounded beyond the elevated range of 2.25%-2.50% acceptable (transiently) to the US Fed. However, despite the recent upswings, inflation expectation has been trending lower from the high of 3.73% in late March 2022. The market remains relatively sanguine that the elevated price pressure would ebb in good time. We reckon inflation expectation would revert (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 unchanged and jumped 10.9bps respectively to close at 3.92% and 4.56%. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 53bps to 64bps as the long-end underperformed.
- MGS foreign holdings increased on-year from RM251b in September 2021 to RM255b in September 2022. Moreover, it remains unchanged on-month from RM255b in August 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM5.65b. It declined on-week from RM6.69b registered a week ago. However, it improved markedly on-year from -RM4.22b a year ago.

Weekly Money Review

A. FIXED INCOME

- The 10-year UST yield ended higher for twelfth week in a row at 4.22% (prior week: 4.02%), its highest weekly close since June 2008, as the US Fed is highly expected to deliver its fourth consecutive 75 bps rate hike in early November. Nonetheless, the benchmark rate was off its 4.33% intraweek high amid hopes the US Fed would finally pivot in the December meeting. Moreover, the 10y-3y yield spread rebounded but remains deeply inverted at -30bps (prior week: -48bps) as the long-end underperformed.



Source: Bloomberg, MIDFR

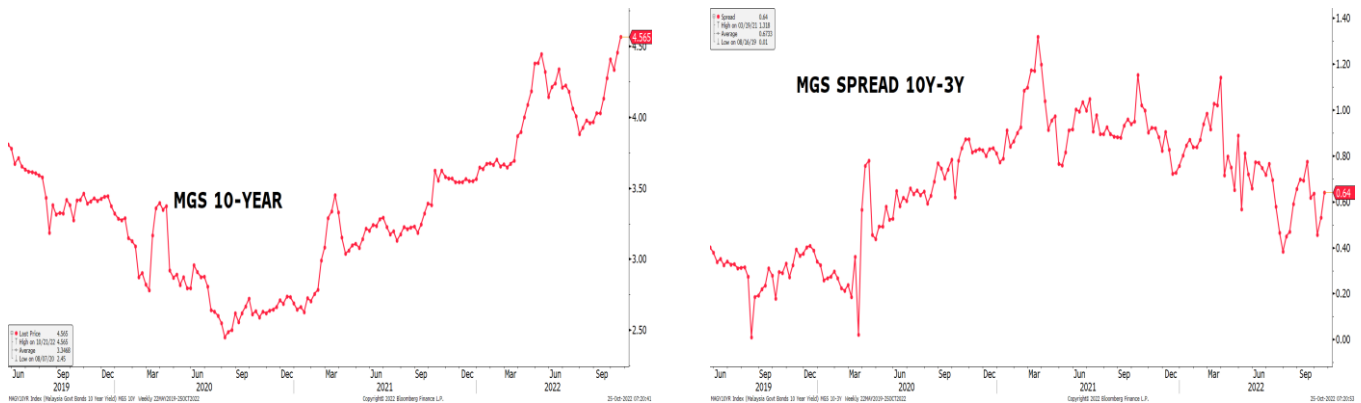
- Arguably in reaction to the heightened probability for a December pivot (refer [CME FedWatch](#)), medium-term inflation expectation ended the review week higher at 2.70% (prior week: 2.50%). More importantly, it rebounded beyond the elevated range of 2.25%-2.50% acceptable (transiently) to the US Fed. However, despite the recent upswings, inflation expectation has been trending lower from the high of 3.73% in late March 2022. The market remains relatively sanguine that the elevated price pressure would ebb in good time. We reckon inflation expectation would revert (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

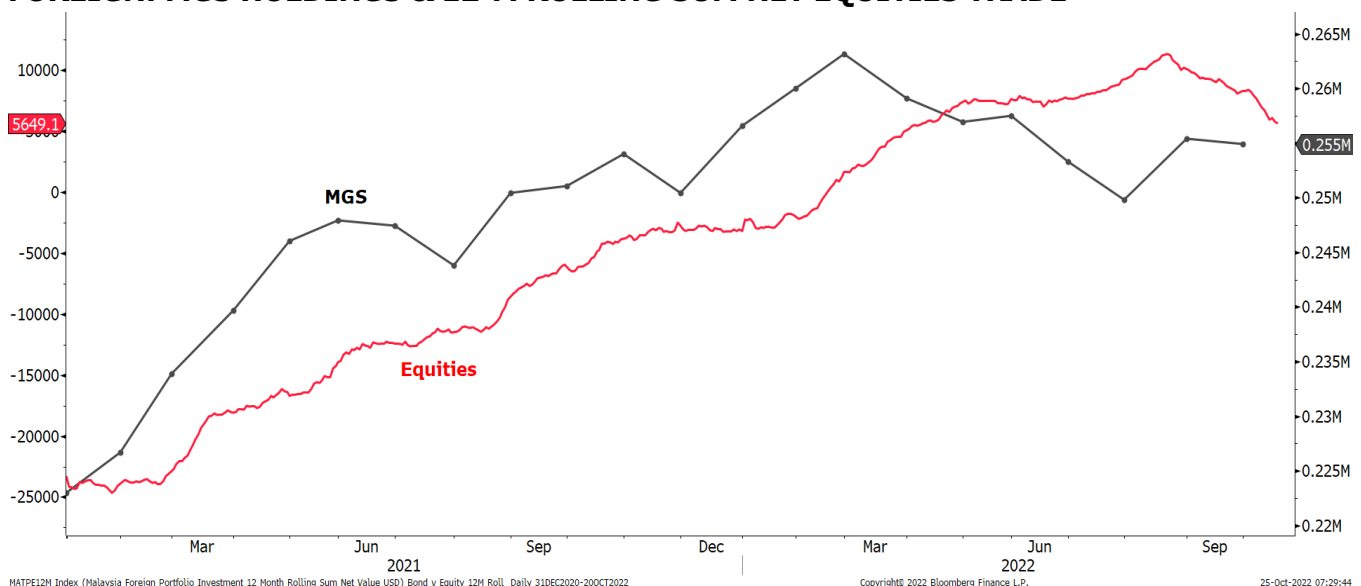
- The price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields unchanged and jumped 10.9bps respectively to close at 3.92% and 4.56%. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 53bps to 64bps as the long-end underperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM7.76b in the review week compared to RM7.24b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 60% from 70% 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 MII 4.369% 10/31/28 at RM858m, MGS 3.882% 3/14/25 at RM650m, and MGS 3.48% 3/15/23 at RM580m.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM251b in September 2021 to RM255b in September 2022. Moreover, it remains unchanged on-month from RM255b in August 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM5.65b. It declined on-week from RM6.69b registered a week ago. However, it improved markedly on-year from -RM4.22b a year ago.
- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.09b in the review week compared to RM707m in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 40% from 56% 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 Tanjung Bin Energy 5.75% 9/15/27 at RM60m, Sarawak Petchem 5.05% 7/27/29 at RM60m, and IJM Corp 4.9% 4/21/25 at RM58m.

B. FOREIGN EXCHANGE

- USD fell amid pivot speculations vs. recession fears. USD weakened last week with the US dollar DXY index closed at 112.01 on Friday, or -1.1%wow lower than prior week. Although the lower demand for USD reflected improved risk appetite among investors and Fed's pivot speculations, it was also dragged down by renewed recession fears as Fed is expected to carry out another large rate hike at the upcoming FOMC meeting.
- EUR and GBP strengthened. Euro appreciated by +1.4%wow to USD0.986 amid Fed's pivot speculations, leading to better support for EUR. Pound sterling also strengthened by +1.2%wow to USD1.130 backed by improved confidence following decision to halt the UK government's previously proposed tax cuts and the resignation of Liz Truss as the Prime Minister.
- Ringgit weakened further against USD. As Malaysia is heading into the 15th general election next month, the depreciation of ringgit continued, falling by -0.7%wow to RM4.739, still the weakest closing in 24 years. Movement in ringgit was driven more by expectations of hawkish Fed, not so much by the increase in crude oil prices; although Brent crude rose +2%wow last week to USD93.50pb (previous week: USD91.63pb).

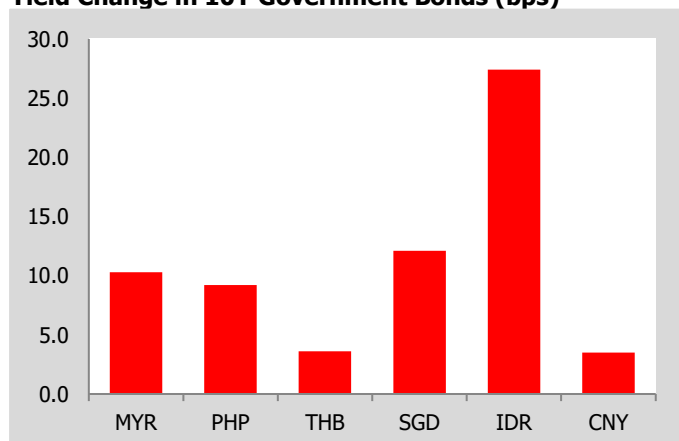
Currencies Changes (Week Ended 21/10) and Quarterly Forecasts

	Close (21/10)	Prev. Close (14/10)	Weekly Change	Weekly Change (%)	1Q22	2Q22	3Q22F	4Q22F
DXY Index	112.01	113.31	-1.299	-1.1	98.31	104.69	112.12	107.5
EURUSD	0.986	0.972	+0.014	+1.4	1.11	1.05	0.98	1.03
GBPUSD	1.130	1.117	+0.013	+1.2	1.31	1.22	1.12	1.15
USDJPY	147.65	148.67	+1.020	+0.7	121.7	135.72	144.74	139
USDMYR	4.739	4.705	-0.034	-0.7	4.20	4.41	4.64	4.45
GBPMYR	5.270	5.289	+0.019	+0.4	5.52	5.35	5.20	5.08
JPYMYR	3.211	3.163	-0.048	-1.5	3.45	3.25	3.20	3.18

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

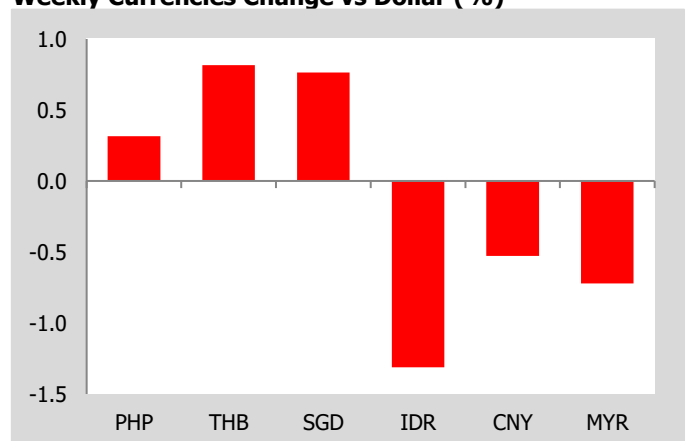
Source: Bloomberg, MIDFR

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	4.75
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	5.00	6.00
South Korea	1.25	1.25	1.50	1.75	1.75	2.25	2.50	2.50	3.00
India	4.00	4.00	4.00	4.40	4.90	4.90	5.40	5.90	5.90
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

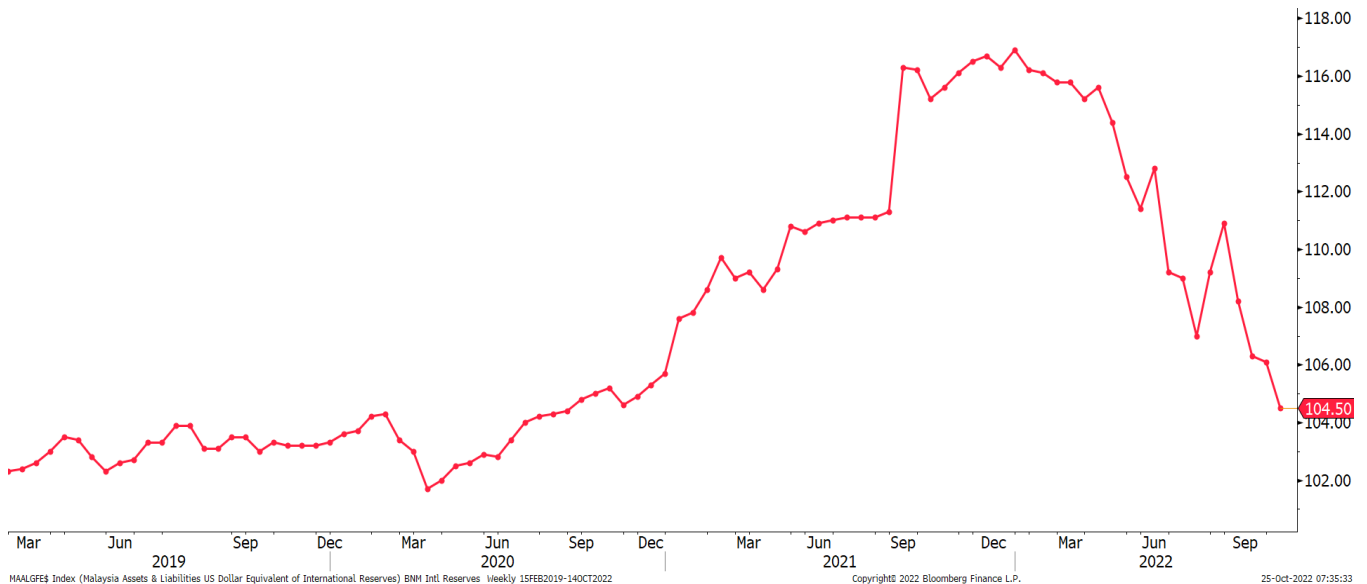
Source: Bloomberg, MIDFR

- US economic data released last week:
 - Industrial production rose faster at +5.3%yoy in Sep-22 (Aug-22: +3.9%yoy), with strong manufacturing and mining output.
 - Labour market remained tight. Initial jobless claims fell to 214K in week ended 15 October (previous: 226K), lower than market forecast of 230K.
- The US Beige Book released by the Fed indicated the US economy expanded moderately since early Sep-22. The report also found that demand slowed and weakened constrained by rising borrowing costs, high inflation and supply disruptions. While rising input prices indicated continued cost pressures, the reported indicated easing price pressures across several districts. Labour market remained tight although employment growth was at modest to moderate pace. Some districts also found businesses also stated concerns over weaker demand ahead.
- On 20 October 2022, Bank Indonesia raised its benchmark interest rate by 50bps to 4.75%, to contain inflation and support the rupiah exchange rate.
- Malaysia's external trade performance remained robust in Sep-22 albeit the rate of growth slowed from Aug-22 due to fading low-base effect. Exports grew by +30.1%yoy (Aug-22: +48.2%yoy), driven by demand for E&E and petroleum products. Import growth moderated to +33%yoy (Aug-22: +67.6%yoy) due to slower growth in imports of intermediate and consumption goods. In another release, although headline CPI inflation eased to +4.5%yoy in Sep-22 (Aug-22: +4.7%yoy) due to slower rise in food prices, core CPI inflation accelerated to +4%yoy (Aug-22: +3.8%yoy) indicating stronger demand-driven price pressures. Taking this into account, we maintain our forecast that BNM will raise OPR by another 25bps to 2.75% at the early Nov-22 meeting.

C. BNM INTERNATIONAL RESERVES

- As of 14 October 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD104.5b (30 September 2022: USD106.1b).

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	14-Oct Fri	17-Oct Mon	18-Oct Tue	19-Oct Wed	20-Oct Thu	21-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.925	3.89	3.903	3.938	3.934	3.925	0
5-Y	4.252	4.252	4.252	4.253	4.287	4.318	6.6
7-Y	4.362	4.33	4.31	4.374	4.397	4.433	7.1
10-Y	4.456	4.476	4.456	4.45	4.496	4.565	10.9
20-Y	4.893	4.865	4.857	4.877	4.883	4.889	-0.4
RINGGIT IRS							
1-Y	3.605	3.6	3.625	3.66	3.71	3.71	10.5
3-Y	4.015	4.015	4.025	4.065	4.115	4.125	11
5-Y	4.2075	4.22	4.235	4.255	4.315	4.36	15.25
7-Y	4.375	4.38	4.38	4.41	4.48	4.505	13
10-Y	4.55	4.485	4.495	4.525	4.61	4.6	5
KLIBOR							
1-M	2.67	2.67	2.68	2.68	2.68	2.68	1
2-M	2.95	2.95	2.96	2.96	2.97	2.97	2
3-M	3.1	3.1	3.11	3.12	3.13	3.14	4
UST							
3-Y	4.495	4.4358	4.4331	4.5665	4.6523	4.5133	1.83
5-Y	4.2677	4.2287	4.2217	4.3568	4.4445	4.3411	7.34
7-Y	4.1646	4.1357	4.1252	4.2629	4.3537	4.2847	12.01
10-Y	4.0184	4.0104	4.0066	4.1335	4.2283	4.2167	19.83
30-Y	3.9916	4.0204	4.0297	4.1249	4.2191	4.3335	34.19
USD LIBOR							
1-M	3.443	3.47986	3.48914	3.50071	3.57243	3.58557	14.257
3-M	4.19371	4.22657	4.24257	4.27757	4.32457	4.35843	16.472

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	14-Oct Yield	21-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.369	10/31/28	4.397	4.350	-4.7	857.6
MALAYSIA GOVERNMENT	3.882	03/14/25	3.925	3.925	0.0	649.8
MALAYSIA GOVERNMENT	3.48	03/15/23	2.852	2.751	-10.1	579.6
MALAYSIA GOVERNMENT	3.899	11/16/27	4.252	4.318	6.6	541.1
MALAYSIA GOVERNMENT	3.478	06/14/24	3.601	3.565	-3.6	457.9
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.501	4.655	15.4	451.8
MALAYSIA INVESTMNT ISSU	3.422	09/30/27	4.192	4.285	9.3	331.3
MALAYSIA GOVERNMENT	3.582	07/15/32	4.456	4.565	10.9	310.7
MALAYSIA GOVERNMENT	3.733	06/15/28	4.366	4.441	7.5	257.1
MALAYSIA GOVERNMENT	3.8	08/17/23	3.096	3.105	0.9	254.8
TOTAL VOLUME (TOP 10)						4,691.7
TOTAL VOLUME (Overall)						7,755.6

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	14-Oct Yield	21-Oct Yield	Change (WoW bp)	Weekly Volume (RM mn)
TANJUNG BIN ENERGY SDN	5.75	09/15/27	N/A	5.999	N/A	60.0
SARAWAK PETCHEM SDN B	5.05	07/27/29	4.819	4.880	6.1	60.0
IJM CORPORATION BERHAD	4.9	04/21/25	N/A	4.488	N/A	58.0
TG EXCELLENCE BHD	3.95	PERP	5.987	6.093	10.6	55.5
PROJEK LEBUHRAYA USAHA	4.48	01/12/23	N/A	3.253	N/A	50.0
PRASARANA MALAYSIA BHD	5.01	09/14/37	4.570	4.919	34.9	45.0
YINSON HOLDINGS BERHA	5.55	12/07/26	5.802	5.925	12.3	30.0
HONG LEONG BANK	4.7	PERP	N/A	4.473	N/A	29.2
AMBANK MALAYSIA BHD	5.2	10/12/32	4.860	4.740	-12.0	28.3
DANAINFRA NASIONAL	4.91	11/12/35	N/A	4.805	N/A	20.0
TOTAL VOLUME (TOP 10)						436.0
TOTAL VOLUME (Overall)						1,090.2

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 <i>rise</i> 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 <i>fall</i> 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