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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 7 November 2022

Week Ended 4 November 2022

- Sellers made a comeback to the UST market. The benchmark 10-year yield ended the review week higher at 4.16% (prior week: 4.01%). Investors reacted to the hawkish tone by US Fed in outlining the future course of its monetary actions after the latest 75-bps hike. The 10y-3y yield spread inverted deeper week-on-week from -35bps to -43bps as the short-end underperformed due to its higher sensitivity to policy rate movement.

- Medium-term inflation expectation ended the review week unchanged at 2.62%. It remains beyond the elevated range of 2.25%-2.50% acceptable (transiently) to the US Fed. However, it is notable that inflation expectation has been trending lower from the high of 3.73% in late March 2022. The market seems 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 lower with the 3-year and 10-year yields added 8.5bps and 6.1bps respectively to close at 3.90% and 4.39%. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 52bps to 49bps as the short-end underperformed due to its higher sensitivity to policy rate movement. Recall that the BNM raised its OPR target by 25bps to 2.75% this past week.

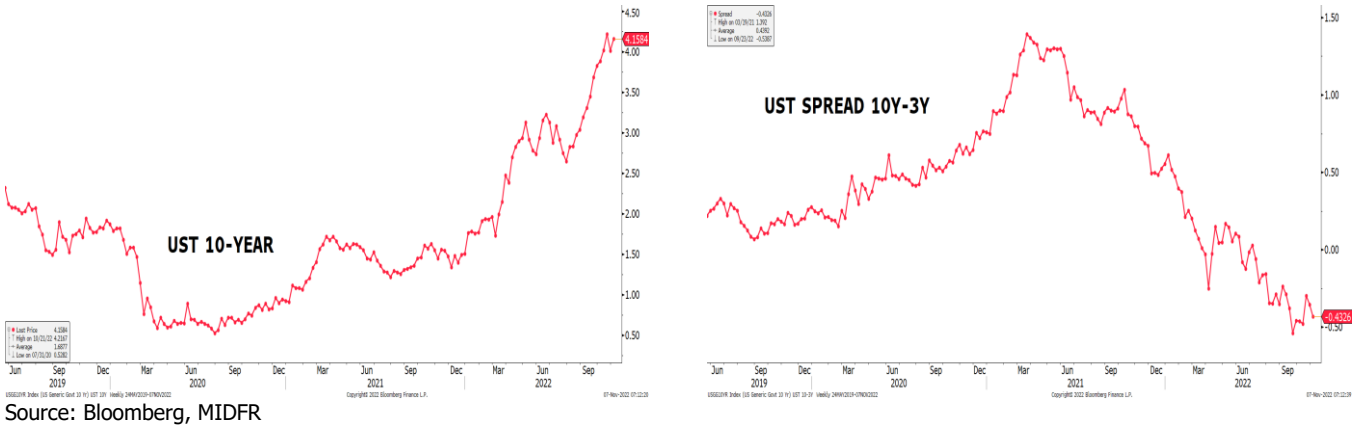
- MGS foreign holdings increased on-year from RM251b in September 2021 to RM255b in September 2022. Moreover, it remains unchanged on-month from RM255b in August 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM5.56b. It declined on-week from RM5.76b registered a week ago. However, it improved markedly on-year from -RM3.64b a year ago.

7 November 2022 | **Strategy** Strategy Team | research@midf.com.my

Weekly Money Review

A. FIXED INCOME

- Sellers made a comeback to the UST market. The benchmark 10-year yield ended the review week higher at 4.16% (prior week: 4.01%). Investors reacted to the hawkish tone by US Fed in outlining the future course of its monetary actions after the latest 75-bps hike. The 10y-3y yield spread inverted deeper week-on-week from -35bps to -43bps 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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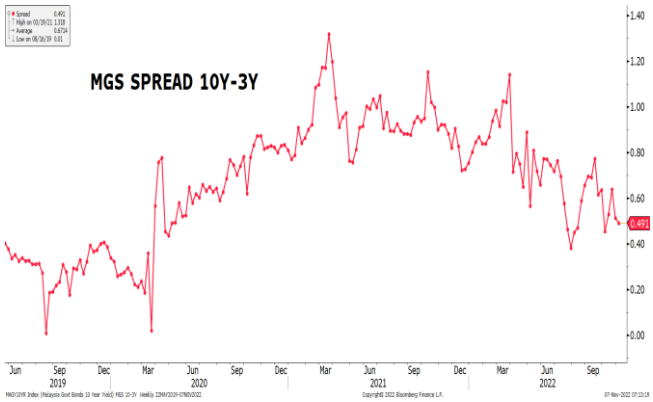
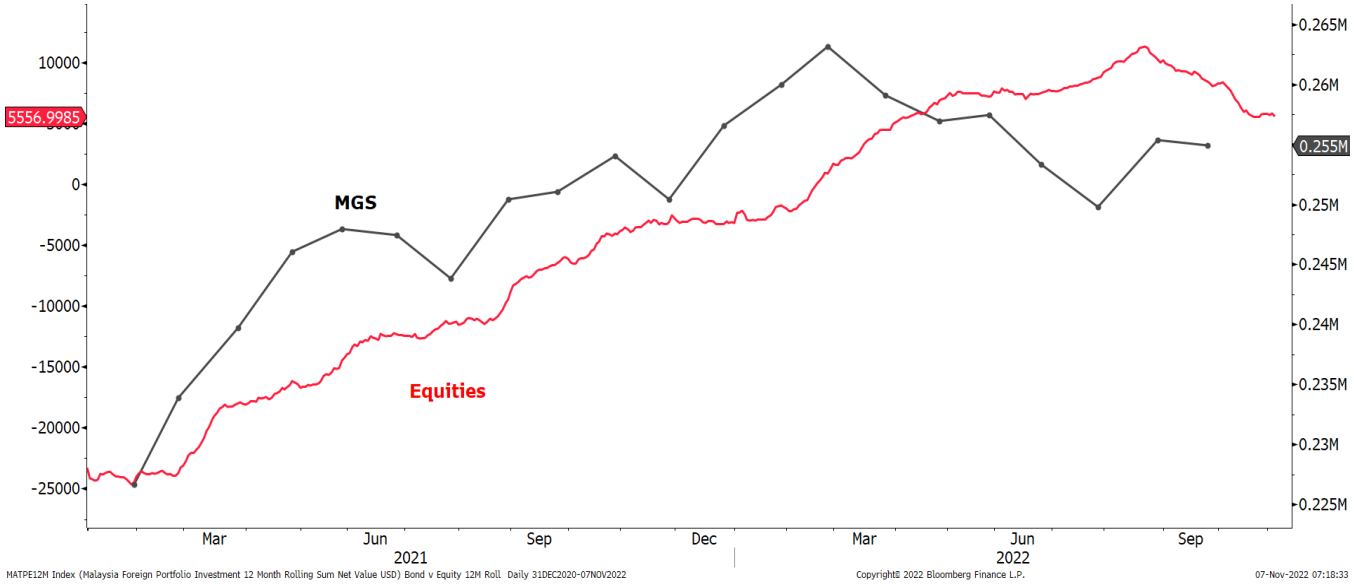


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM9.20b in the review week compared to RM9.74b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 55% from 73% of the overall Government Bonds trades. Moreover, 8 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 long residual tenor. The top 3 most actively traded were MGS 3.882% 3/14/25 at RM1.22b, MGS 3.757% 4/20/23 at RM628m, and MII 4.193% 10/7/32 at RM563m.

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 RM5.56b. It declined on-week from RM5.76b registered a week ago. However, it improved markedly on-year from -RM3.64b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM881m 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 42% from 40% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of mid and long residual tenor. The largest trading values were seen in Amanat Lebuhraya Rakyat 5.09% 10/11/30 at RM60m, Hong Leong Bank 4.7% PERP at RM59m, and Danainfra Nasional 3.18% 2/24/31 at RM50m.

B. FOREIGN EXCHANGE

- USD as Fed indicates more rate hikes needed. Following another large rate hike, USD appreciated slightly against major currencies last week; the DXY dollar index ended at 110.88 on Friday, only +0.1%wow higher than prior week. While some concluded the Fed hinted a possible pivot as early as Dec-22, the widening interest differentials boosted USD demand last week. This was also driven by more rate hikes as indicated by the Fed to contain stubbornly high inflation.

- EUR little changed but GBP weakened. As dollar strengthened following the FOMC meeting, euro and pound sterling closed the weak lower by -0.1%wow to USD0.997 and -2.0%wow to USD1.138, respectively. Pound sterling was also dragged down by concerns over the UK economic outlook due to warning from the Bank of England after the aggressive tightening during the week.

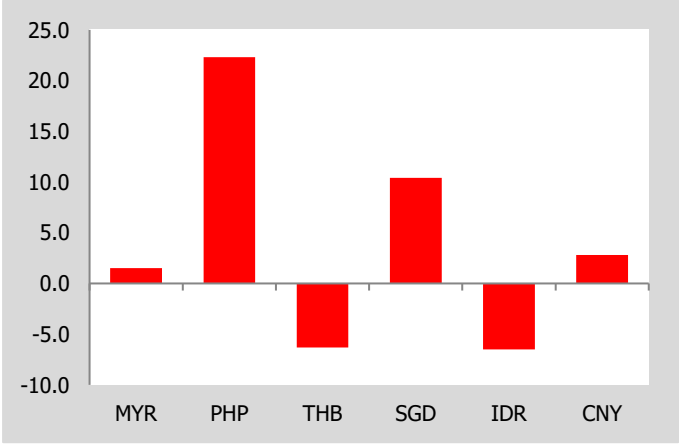
- Ringgit weakened amid dollar strength. The strength in dollar mostly led to the weakening of ringgit last week, with another weekly depreciation of -0.6%wow to RM4.748, the weakest level since Asian Financial Crisis. Ringgit exchange rate was more influenced by the financial market developments because rising oil prices did failed to push ringgit higher; Brent crude rose another +2.9%wow to USD98.57pb by Friday (previous week: USD95.77pb). As the Fed's pivot to taper down the pace of policy tightening will take place later as more rate hikes are needed, the strong dollar will continue and therefore reduces the possibility for ringgit to move towards RM4.45 by year-end. In other words, ringgit would possibly strengthen towards RM4.65 by end-2022.

Currencies Changes (Week Ended 04/11) and Quarterly Forecasts

	Close (04/11)	Prev. Close (28/10)	Weekly Change	Weekly Change (%)	1Q22	2Q22	3Q22F	4Q22F
DXY Index	110.88	110.75	+0.125	+0.1	98.31	104.69	112.12	107.5
EURUSD	0.996	0.997	-0.001	-0.1	1.11	1.05	0.98	1.02
GBPUSD	1.138	1.162	-0.024	-2.0	1.31	1.22	1.12	1.14
USDJPY	146.62	147.60	+0.980	+0.7	121.7	135.72	144.74	142
USDMYR	4.748	4.725	-0.023	-0.5	4.20	4.41	4.64	4.65
GBPMYR	5.326	5.446	+0.120	+2.3	5.52	5.35	5.20	5.30
JPYMYR	3.238	3.204	-0.034	-1.1	3.45	3.25	3.20	3.27

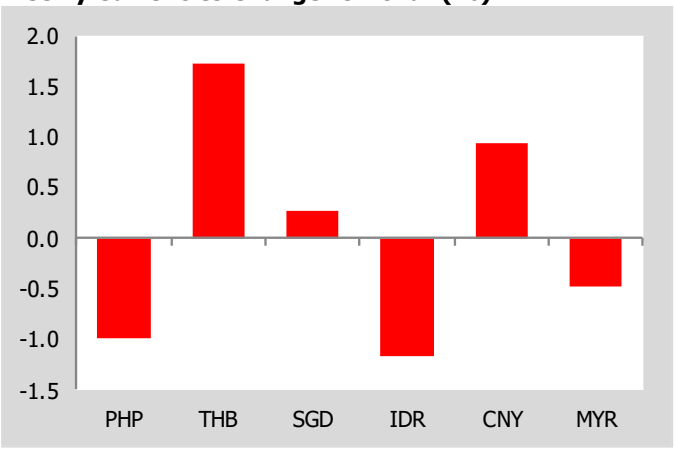
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Malaysia	1.75	1.75	2.00	2.00	2.25	2.25	2.50	2.50	2.75
Indonesia	3.50	3.50	3.50	3.50	3.50	3.75	4.25	4.75	4.75
Philippines	2.00	2.00	2.25	2.50	3.25	3.75	4.25	4.25	4.25
Thailand	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.00
Vietnam	4.00	4.00	4.00	4.00	4.00	4.00	5.00	6.00	6.00
South Korea	1.25	1.50	1.75	1.75	2.25	2.50	2.50	3.00	3.00
India	4.00	4.00	4.40	4.90	4.90	5.40	5.90	5.90	5.90
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	0.75	0.75	1.00	1.25	1.25	1.75	2.25	2.25	3.00
Euro area	0.00	0.00	0.00	0.00	0.50	0.50	1.25	1.25	2.00
USA	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	3.75-4.00

Source: Bloomberg, MIDFR

- US economic data released last week:
  - ISM manufacturing and non-manufacturing PMIs declined to 50.2 and 54.4 in Oct-22 indicating slower growth in activities in both sectors.
  - Labour market remained tight. Initial jobless claims fell to 217K in week ended 29 October (previous: 218K), lower than market forecast of 220K. More jobs added into the economy as nonfarm payrolls rose by +261K in Oct-22 (Sep-22: +315K), even higher than +200K predicted by market consensus. With the softer job creation number, jobless rate rose to 3.7% (Sep-22: 3.6%).

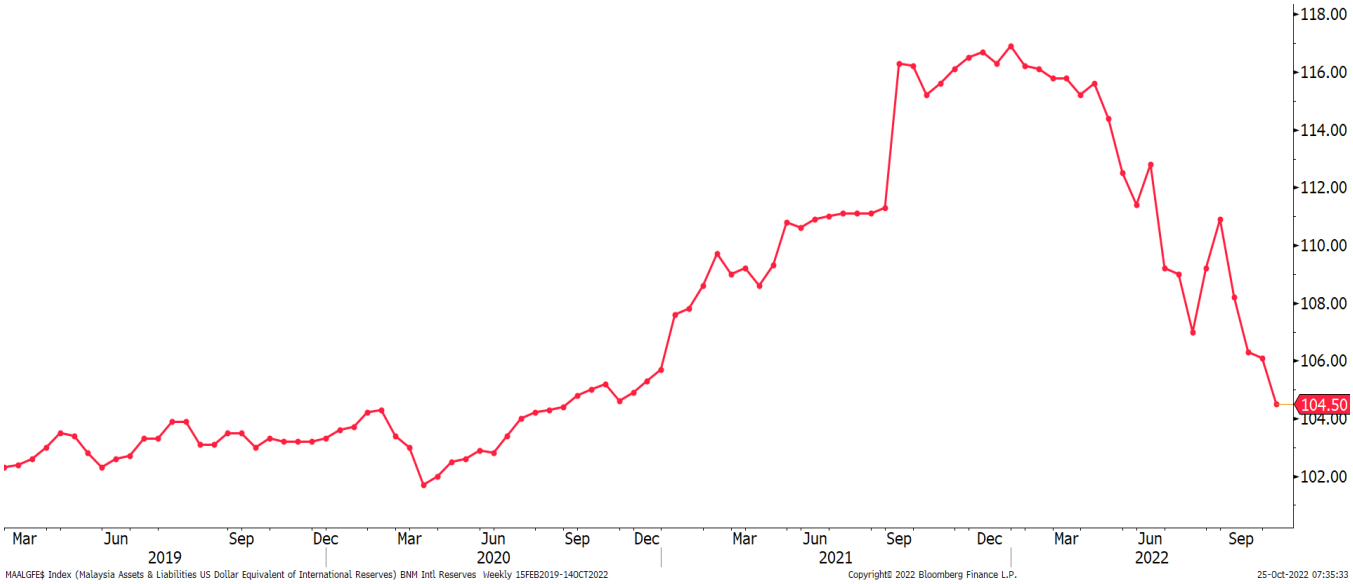
- Several monetary policy meetings held last week:
  - On 1 November 2022, Reserve Bank of Australia raised its benchmark interest rate by 25bps to 2.85%, the 7th consecutive meeting of rate hikes with more rate hikes may be needed to contain high inflation.
  - On 2 November 2022, US FOMC as expected decided to raise fed funds rate by 75bps to 3.75-4.00% as inflation remained high and amid tight job market condition.
  - On 3 November 2022, as we anticipated BNM MPC raised the OPR by 25bps to 2.75% on the back of stronger growth in 3QCY22 driven by robust domestic demand. BNM also mentioned that demand and cost pressures would keep inflation elevated moving into 2023.
  - Bank of England decided on 3 November 2022 to raise Bank Rate by 75bps to 3.00%, the largest rate hike in 33 years. While the decision is to curb inflation, BOE warned the UK is facing the longest recession on record.

- Malaysia's manufacturing PMI fell further to 48.7 in Oct-22 (Sep-22: 49.1) as manufacturing sector activities contracted faster. The weaker performance among others was attributable to softer new orders, continued spare capacity and reduced employment.

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	28-Oct Fri	31-Oct Mon	1-Nov Tue	2-Nov Wed	3-Nov Thu	4-Nov Fri	Change (WoW bp)
MGS							
3-Y	3.818	3.791	3.813	3.755	3.764	3.903	8.5
5-Y	4.132	4.174	4.143	4.058	4.144	4.211	7.9
7-Y	4.282	4.255	4.266	4.248	4.294	4.343	6.1
10-Y	4.333	4.372	4.307	4.28	4.348	4.394	6.1
20-Y	4.805	4.814	4.782	4.806	4.798	4.83	2.5
RINGGIT IRS							
1-Y	3.62	3.64	3.615	3.555	3.655	3.81	19
3-Y	3.955	3.99	3.915	3.845	3.955	4.03	7.5
5-Y	4.13	4.185	4.1	4.04	4.155	4.205	7.5
7-Y	4.26	4.31	4.24	4.175	4.286	4.345	8.5
10-Y	4.38	4.44	4.33	4.28	4.4	4.44	6
KLIBOR							
1-M	2.68	2.68	2.68	2.68	2.68	2.93	25
2-M	2.98	2.98	2.98	2.98	2.98	3.23	25
3-M	3.16	3.16	3.16	3.16	3.17	3.45	29
UST							
3-Y	4.366	4.4404	4.4978	4.5698	4.6422	4.591	22.5
5-Y	4.1844	4.2283	4.267	4.3093	4.3677	4.3308	14.64
7-Y	4.0984	4.1427	4.1636	4.2134	4.2687	4.2505	15.21
10-Y	4.0123	4.0478	4.0419	4.1005	4.1469	4.1584	14.61
30-Y	4.1414	4.1639	4.0919	4.1405	4.1812	4.2463	10.49
USD LIBOR							
1-M	3.76771	3.80486	3.84157	3.83571	3.84657	3.85814	9.043
3-M	4.43957	4.46029	4.45971	4.50843	4.53157	4.55029	11.072

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	28-Oct Yield	4-Nov Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.882	03/14/25	3.818	3.903	8.5	1,215.8
MALAYSIA GOVERNMENT	3.757	04/20/23	2.573	2.585	1.2	628.2
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.460	4.495	3.5	562.6
MALAYSIA GOVERNMENT	3.733	06/15/28	4.298	4.393	9.5	443.1
MALAYSIA GOVERNMENT	3.899	11/16/27	4.132	4.211	7.9	414.7
MALAYSIA GOVERNMENT	3.48	03/15/23	2.620	2.610	-1.0	405.9
MALAYSIA GOVERNMENT	2.632	04/15/31	4.498	4.511	1.3	391.4
MALAYSIA GOVERNMENT	3.828	07/05/34	4.679	4.681	0.2	349.5
MALAYSIA GOVERNMENT	4.504	04/30/29	4.282	4.343	6.1	326.3
MALAYSIA INVESTMNT ISSU	3.151	05/15/23	2.867	2.857	-1.0	320.0
TOTAL VOLUME (TOP 10)						5,057.7
TOTAL VOLUME (Overall)						9,204.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	28-Oct Yield	4-Nov Yield	Change (WoW bp)	Weekly Volume (RM mn)
AMANAT LEBUHRAYA RAKY	5.09	10/11/30	N/A	5.097	N/A	60.0
HONG LEONG BANK	4.7	PERP	4.473	4.246	-22.7	58.7
DANAINFRA NASIONAL	3.18	02/24/31	N/A	4.578	N/A	50.0
TENAGA NASIONAL BERHA	4.73	06/29/29	4.708	4.710	0.2	45.0
TENAGA NASIONAL BERHA	4.98	08/27/38	5.208	5.169	-3.9	30.0
BGSM MANAGEMENT SDN B	4.05	12/04/26	4.639	4.609	-3.0	30.0
MALAYSIAN REINSURANCE	5.21	10/26/32	4.870	4.870	0.0	25.3
DANAINFRA NASIONAL	4.84	02/11/39	N/A	4.920	N/A	25.0
PRASARANA MALAYSIA BHD	4.26	08/29/23	N/A	3.453	N/A	25.0
AMAN SUKUK BHD	4.75	02/28/23	N/A	3.320	N/A	20.0
TOTAL VOLUME (TOP 10)						369.0
TOTAL VOLUME (Overall)						880.7

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