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MIDF AMANAH INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 9 January 2023

Week Ended 6 January 2023

- The UST market rallied as investors reacted to lesser-than-expected wage growth (with average hourly earnings growth rose 4.6%yoy in December against 5.0%yoy expected) which is a signal than inflation pressures are weakening. The benchmark 10-year yield broke a two-week losing streak as it ended the first week of 2023 lower at 3.56% (prior week: 3.88%). Meanwhile, the interest rate futures market was implying more than 75% probability of a 'normalized' 25-bp hike in early February. The 10y-3y yield spread inverted deeper week-on-week from -35bps to -42bps as the long-end outperformed.

- Medium-term inflation expectation (MTIE) ended the review week lower at 2.23% (prior week: 2.38%) arguably in reaction to the favorable wage data. Notably, the MTIE scaled below the elevated inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed. Moreover, the MTIE has been trending lower from the high of 3.73% in late March 2022. It seems the market is rather sanguine the underlying price pressures are gradually ebbing. On this score, we reckon the MTIE would revert toward the 2.00% level in good time.

- The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -8.3bps and -5.2bps respectively to close at 3.59% and 4.02%. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 40bps to 43bps as the short-end outperformed.

- MGS foreign holdings declined on-year from RM250b in November 2021 to RM248b in November 2022. Moreover, it also declined on-month from RM249b in October 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM4.88b. It declined on-week from RM5.03b registered a week ago. However, it improved markedly on-year from -RM2.19b a year ago.

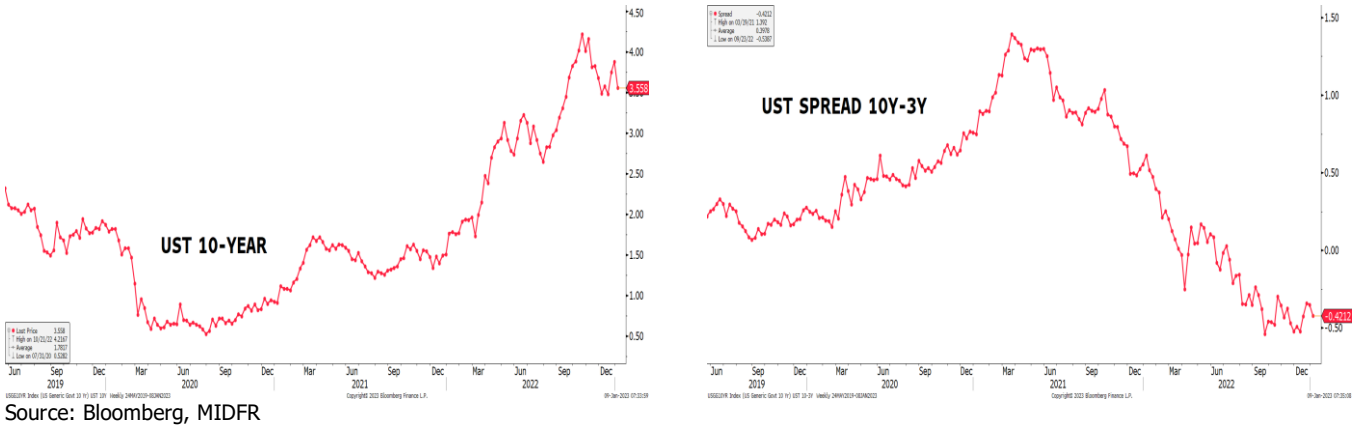
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Strategy Team | research@midf.com.my

Weekly Money Review

A. FIXED INCOME

- The UST market rallied as investors reacted to lesser-than-expected wage growth (with average hourly earnings growth rose 4.6%yoy in December against 5.0%yoy expected) which is a signal than inflation pressures are weakening. The benchmark 10-year yield broke a two-week losing streak as it ended the first week of 2023 lower at 3.56% (prior week: 3.88%). Meanwhile, the interest rate futures market was implying more than 75% probability of a 'normalized' 25-bp hike in early February. The 10y-3y yield spread inverted deeper week-on-week from -35bps to -42bps as the long-end outperformed.



Source: Bloomberg, MIDFR

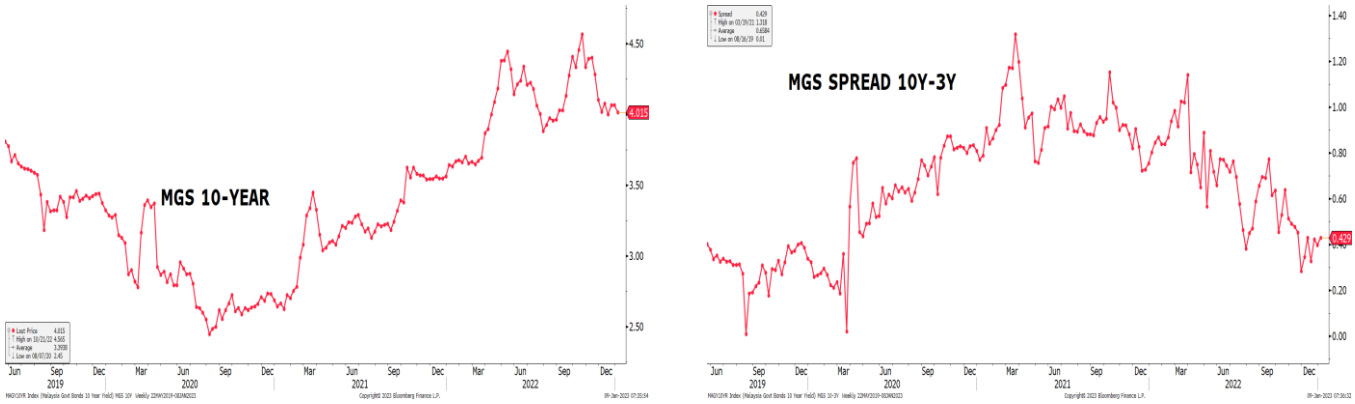
- Medium-term inflation expectation (MTIE) ended the review week lower at 2.23% (prior week: 2.38%) arguably in reaction to the favorable wage data. Notably, the MTIE scaled below the elevated inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed. Moreover, the MTIE has been trending lower from the high of 3.73% in late March 2022. It seems the market is rather sanguine the underlying price pressures are gradually ebbing. On this score, we reckon the MTIE would revert toward the 2.00% level in good time.

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



Source: Bloomberg, MIDFR

- The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -8.3bps and -5.2bps respectively to close at 3.59% and 4.02%. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 40bps to 43bps as the short-end outperformed.

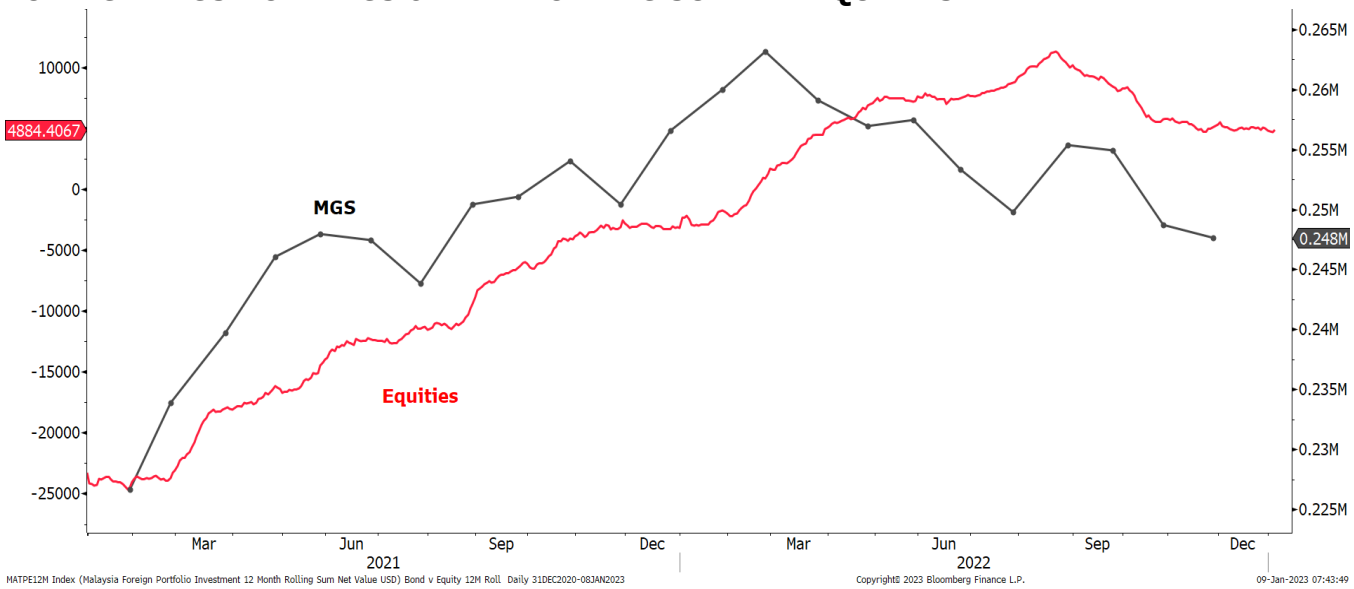


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM16.33b in the review week compared to RM7.01b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 67% from 74% of the overall Government Bonds trades. Moreover, 9 out of the 10 most actively traded bonds saw lower yields hence higher 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 3.899% 11/16/27 at RM2.05b, MGS 3.48% 3/15/23 at RM1.88b, and MII 3.99% 10/15/25 at RM1.68b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings declined on-year from RM250b in November 2021 to RM248b in November 2022. Moreover, it also declined on-month from RM249b in October 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM4.88b. It declined on-week from RM5.03b registered a week ago. However, it improved markedly on-year from -RM2.19b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.58b in the review week compared to RM623m in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 31% from 64% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of varied residual tenor. The largest trading values were seen in Edotco Malaysia 4.54% 9/9/32 at RM100m, Danainfra 4.32% 11/26/25 at RM60m, and Imtiaz Sukuk II 4.77% 5/11/29 at RM50m.

B. FOREIGN EXCHANGE

- USD strengthened as job market beat expectations. US dollars appreciated as the DXY dollar index increased +0.3%wow and ended last week at 103.52. The dollar index even closed at 3-week high of 105.04 on Thursday, following indication of still strong labour market data and Fed's commitment to continue raising rates. However, dollar weakened on Friday as risk-on sentiment improved following signs of cooling inflation.

- EUR weakened but GBP gained vs. dollar. Despite the weaker USD demand on Friday, euro ended last week weakened by -0.6%wow to USD1.064. The pound sterling, on the other hand, managed to appreciate +0.1%wow to USD1.209 by Friday; recovering from Thursday's low closing of USD1.191 which was the lowest since Nov-22.

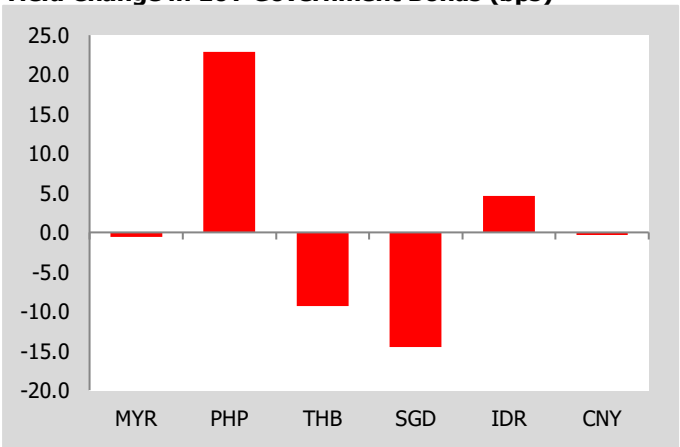
- Ringgit was unchanged despite decline stronger dollar and reduced oil prices. Ringgit was effectively unchanged against USD, after ending at RM4.404 last week. We opine this may indicate support for ringgit from positive growth fundamentals as the local currency could have depreciated given strength in US dollar and lower oil prices; Brent crude oil benchmark decreased -8.5%wow and ended USD78.57pb on Friday (previous week: USD85.91pb).

Currencies Changes (Week Ended 06 Jan 2023) and Quarterly Forecasts

	Close (06/01)	Prev. Close (30/12)	Weekly Change	Weekly Change (%)	1QCY23f	2QCY23f	3QCY23f	4QCY23f
DXY Index	103.88	103.52	+0.357	+0.3	102.50	100.00	98.50	97.50
EURUSD	1.064	1.071	-0.006	-0.6	1.09	1.11	1.12	1.14
GBPUSD	1.209	1.208	+0.001	+0.1	1.22	1.24	1.26	1.27
USDJPY	132.08	131.12	-0.960	-0.7	132	130	129	128
USDMYR	4.404	4.405	+0.001	+0.0	4.35	4.30	4.27	4.23
GBPMYR	5.221	5.299	+0.079	+1.5	5.31	5.33	5.38	5.37
JPYMYR	3.333	3.358	+0.025	+0.7	3.30	3.31	3.31	3.30

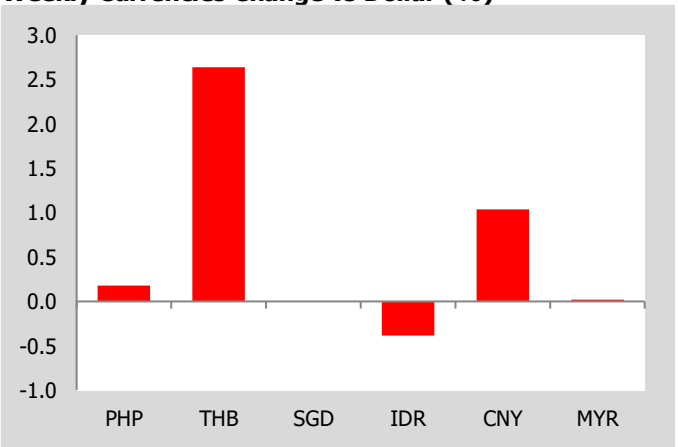
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Malaysia	2.00	2.00	2.25	2.25	2.50	2.50	2.75	2.75	2.75
Indonesia	3.50	3.50	3.50	3.75	4.25	4.75	5.25	5.50	5.50
Philippines	2.25	2.50	3.25	3.75	4.25	4.25	5.00	5.50	5.50
Thailand	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.25	1.25
Vietnam	4.00	4.00	4.00	4.00	5.00	6.00	6.00	6.00	6.00
South Korea	1.75	1.75	2.25	2.50	2.50	3.00	3.25	3.25	3.25
India	4.40	4.90	4.90	5.40	5.90	5.90	5.90	6.25	6.25
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	1.00	1.25	1.25	1.75	2.25	2.25	3.00	3.50	3.50
Euro area	0.00	0.00	0.50	0.50	1.25	2.00	2.00	2.50	2.50
USA	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	4.25-4.50	4.25-4.50

Source: Bloomberg, MIDFR

- US economic data released last week:
  - ISM PMIs indicated weaker business activity in Dec-22, with the manufacturing PMI dropped to 48.4 (Nov-22: 49) and non-manufacturing PMI fell to 49.6 (Nov-22: 56.5). The contraction reflects weaker new orders and production activities, and firms also eased employment in view of slowing demand.
  - US labour market remained tight in Dec-22. Nonfarm payrolls rose higher than expected at +223K (Nov-22: 256K, market forecast: 200K), and unemployment rate fell to 3.5% (Nov-22: 3.7%). Initial jobless claims dropped to 204K for the week ended 31th December (prior week: 223K), no signs of significant deterioration in job market condition as labour demand remained robust.

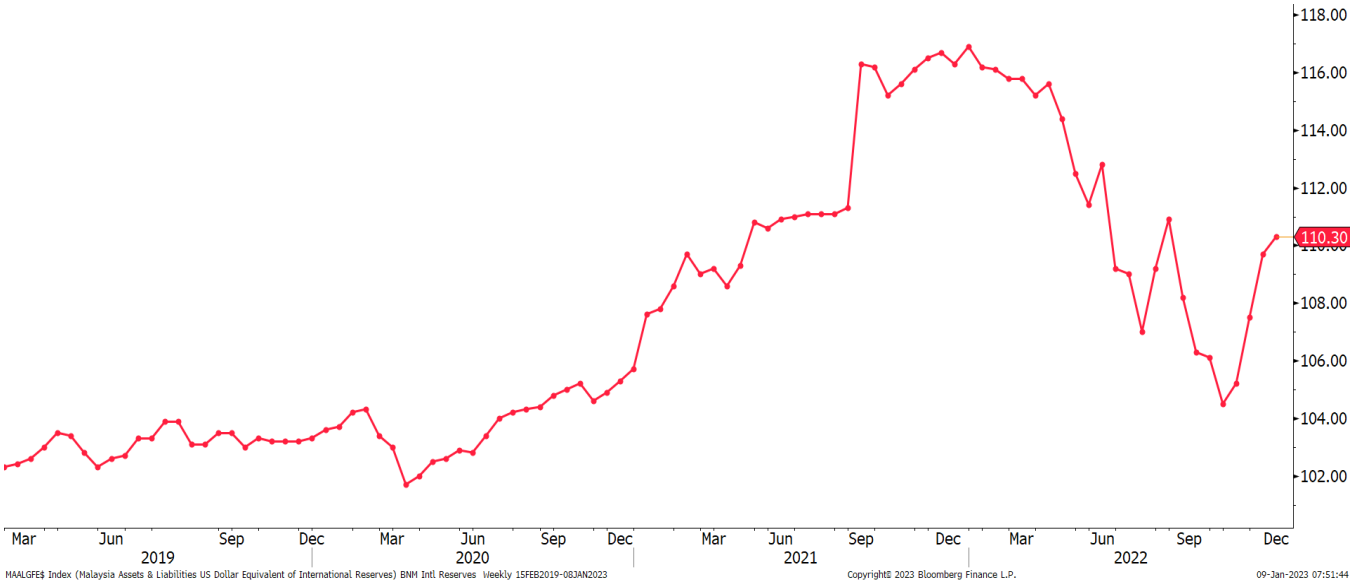
- Minutes of the Dec-22 FOMC Meeting shows Fed's commitment to keep interest rates at high level even after the Fed finally brings the fed funds rate to projected terminal rate of more than 5%. This defies market forecast of possible rate cuts towards end of 2023, in anticipation for weaker growth outlook.

- Malaysia's manufacturing sector activities contracted slightly sharper in Dec-22 as manufacturing PMI fell further to 47.8 (Nov-22: 47.9), the fastest fall since Aug-21. Production and order book volume moderated during the month, with firms slowing down purchases of materials, eased inventory levels, and softened employment. Backlogs of order even fell at pace which was among the sharpest contraction on record.

C. BNM INTERNATIONAL RESERVES

- As of 15 December 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD110.3b (30 November 2022: USD109.7b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.3 months of imports of goods & services and is 1.1 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	30-Dec Fri	2-Jan Mon	3-Jan Tue	4-Jan Wed	5-Jan Thu	6-Jan Fri	Change (WoW bp)
MGS							
3-Y	3.669	3.669	3.592	3.597	3.62	3.586	-8.3
5-Y	3.841	3.841	3.762	3.739	3.789	3.818	-2.3
7-Y	4.033	4.033	3.962	3.944	3.961	3.998	-3.5
10-Y	4.067	4.067	4.014	3.989	4.015	4.015	-5.2
20-Y	4.317	4.317	4.302	4.317	4.269	4.343	2.6
RINGGIT IRS							
1-Y	3.73	3.73	3.695	3.63	3.655	3.6825	-4.75
3-Y	3.705	3.705	3.6375	3.615	3.635	3.66	-4.5
5-Y	3.775	3.775	3.7	3.66	3.705	3.73	-4.5
7-Y	3.925	3.925	3.88	3.81	3.85	3.869	-5.6
10-Y	4.045	4.045	3.93	3.9	3.96	3.995	-5
KLIBOR							
1-M	2.98	2.98	2.98	2.98	2.98	2.98	0
2-M	3.35	3.35	3.35	3.35	3.35	3.35	0
3-M	3.68	3.68	3.68	3.68	3.69	3.69	1
UST							
3-Y	4.2242	4.2242	4.1501	4.1045	4.2018	3.9792	-24.5
5-Y	4.0039	4.0039	3.894	3.8402	3.9132	3.698	-30.59
7-Y	3.9653	3.9653	3.8338	3.7698	3.8235	3.627	-33.83
10-Y	3.8748	3.8748	3.7389	3.6827	3.7181	3.558	-31.68
30-Y	3.963	3.963	3.8389	3.7975	3.7941	3.6874	-27.56
USD LIBOR							
1-M	4.39157	4.39157	4.40129	4.38429	4.39514	4.40157	1
3-M	4.76729	4.76729	4.78186	4.78843	4.81171	4.80986	4.257

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	30-Dec Yield	6-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.899	11/16/27	3.841	3.818	-2.3	2,046.9
MALAYSIA GOVERNMENT	3.48	03/15/23	3.134	2.935	-19.9	1,875.1
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.759	3.662	-9.7	1,682.5
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	4.130	4.127	-0.3	1,297.8
MALAYSIA GOVERNMENT	3.582	07/15/32	4.067	4.015	-5.2	1,163.7
MALAYSIA GOVERNMENT	3.882	03/14/25	3.669	3.586	-8.3	737.9
MALAYSIA INVESTMNT ISSU	4.13	07/09/29	4.042	4.028	-1.4	736.6
MALAYSIA GOVERNMENT	4.181	07/15/24	3.604	3.537	-6.7	518.6
MALAYSIA GOVERNMENT	3.757	05/22/40	4.338	4.360	2.2	446.4
MALAYSIA GOVERNMENT	3.478	06/14/24	3.628	3.477	-15.1	425.7
TOTAL VOLUME (TOP 10)						10,931.1
TOTAL VOLUME (Overall)						16,334.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	30-Dec Yield	6-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
EDOTCO MALAYSIA SDN BH	4.54	09/09/32	4.531	4.479	-5.2	100.0
DANAINFRA NASIONAL	4.32	11/26/25	3.900	3.866	-3.4	60.0
IMTIAZ SUKUK II BHD	4.77	05/11/29	N/A	4.633	N/A	50.0
ALLIANCE BK MALAYSIA BH	3.8	10/27/32	N/A	4.477	N/A	45.0
DANAINFRA NASIONAL	2.66	09/23/27	N/A	4.022	N/A	45.0
DANAINFRA NASIONAL	4.58	10/31/28	N/A	4.068	N/A	45.0
BGSM MANAGEMENT SDN B	4.13	12/03/27	4.498	4.399	-9.9	40.0
HONG LEONG BANK	4.7	PERP	4.348	4.346	-0.2	40.0
BGSM MANAGEMENT SDN B	4.47	08/13/27	N/A	4.396	N/A	40.0
DANAINFRA NASIONAL	4.04	07/20/27	N/A	3.998	N/A	30.0
TOTAL VOLUME (TOP 10)						495.0
TOTAL VOLUME (Overall)						1,575.8

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