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MIDF AMANAH INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 16 January 2023

Week Ended 13 January 2023

- The benchmark 10-year UST yield was on a two-week winning streak. It ended the review week lower at 3.50% (prior week: 3.56%) as investors reacted to December CPI figure which fell 0.1%mom. The monthly sequential contraction was yet another signal than inflation pressures are weakening. On this score, the interest rate futures market was implying more than 90% probability of a 'normalized' 25-bp hike in early February. The 10y-3y yield spread rebounded but remains deeply inverted at -40bps (prior week: -42bps) as the short-end outperformed.
- Medium-term inflation expectation (MTIE) ended the review week slightly higher at 2.24% (prior week: 2.23%) arguably in reaction to potentially less hawkish US Fed. However, the MTIE remained 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 -4.6bps and -7.7bps respectively to close at 3.54% and 3.94%. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 43bps to 40bps as the long-end outperformed.
- MGS foreign holdings declined on-year from RM257b in December 2021 to RM247b in December 2022. Moreover, it also declined on-month from RM248b in November 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM4.41b. It declined on-week from RM4.88b registered a week ago. However, it improved markedly on-year from -RM2.96b a year ago.

16 January 2023 | **Strategy**

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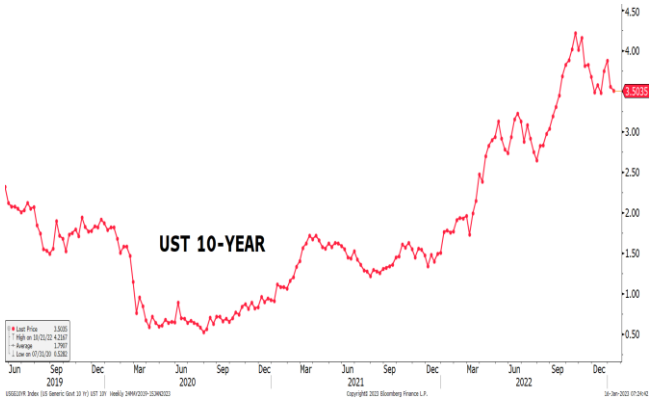
Weekly Money Review

A. FIXED INCOME

- The benchmark 10-year UST yield was on a two-week winning streak. It ended the review week lower at 3.50% (prior week: 3.56%) as investors reacted to December CPI figure which fell 0.1%mom. The monthly sequential contraction was yet another signal than inflation pressures are weakening. On this score, the interest rate futures market was implying more than 90% probability of a 'normalized' 25-bp hike in early February. The 10y-3y yield spread rebounded but remains deeply inverted at -40bps (prior week: -42bps) as the short-end outperformed.





Source: Bloomberg, MIDFR

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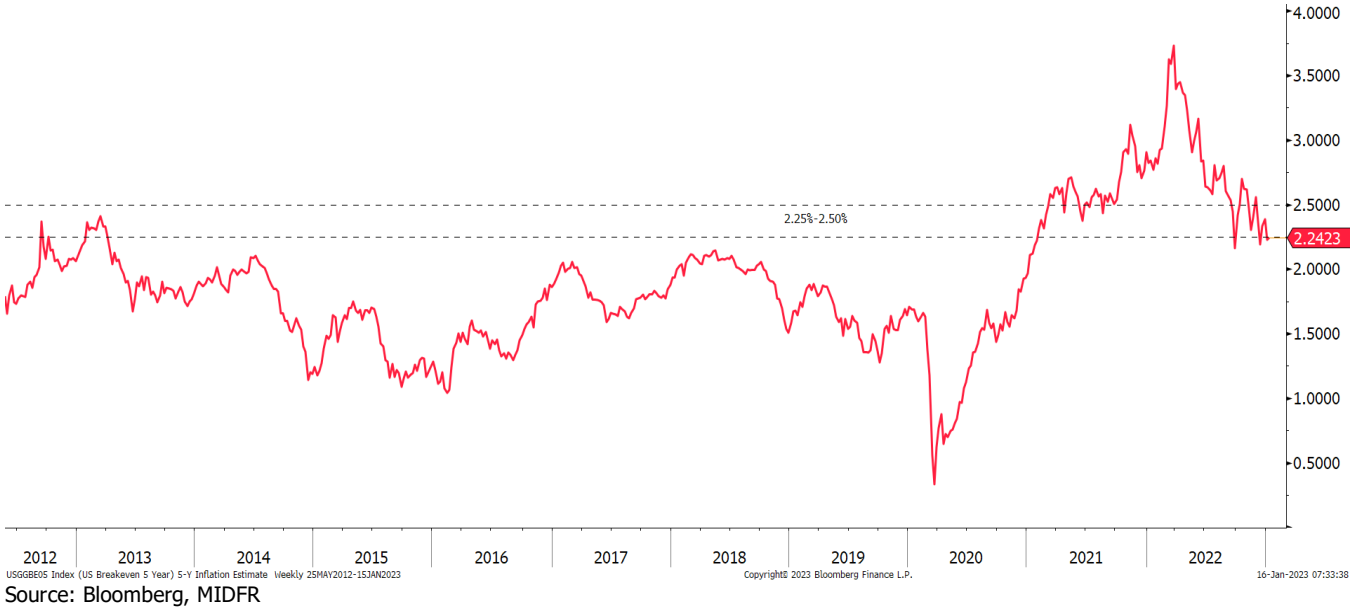
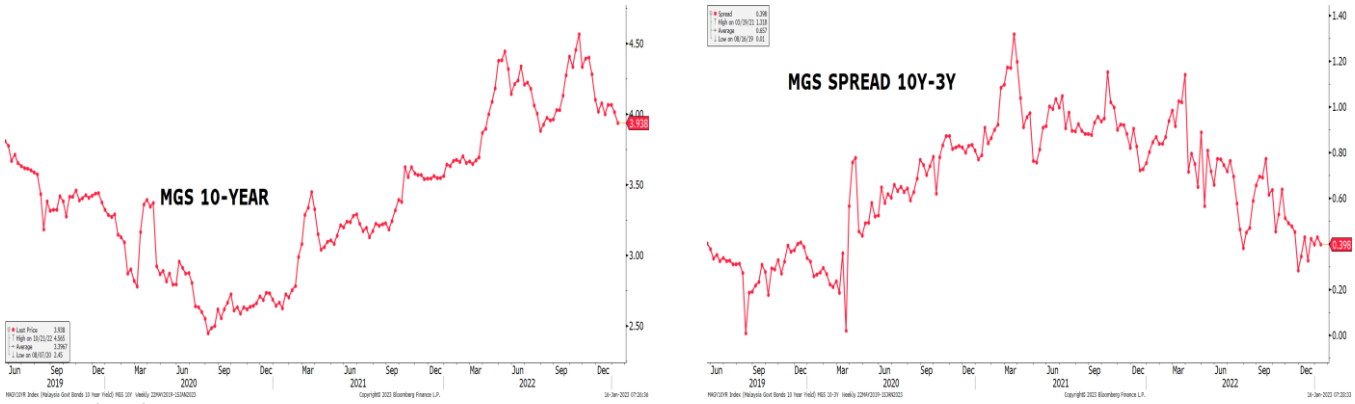
MEDIUM-TERM INFLATION EXPECTATION (MTIE): 5Y UST-TIPS SPREAD



Source: Bloomberg, MIDFR

- The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -4.6bps and -7.7bps respectively to close at 3.54% and 3.94%. Accordingly, the 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 43bps to 40bps as the long-end outperformed.

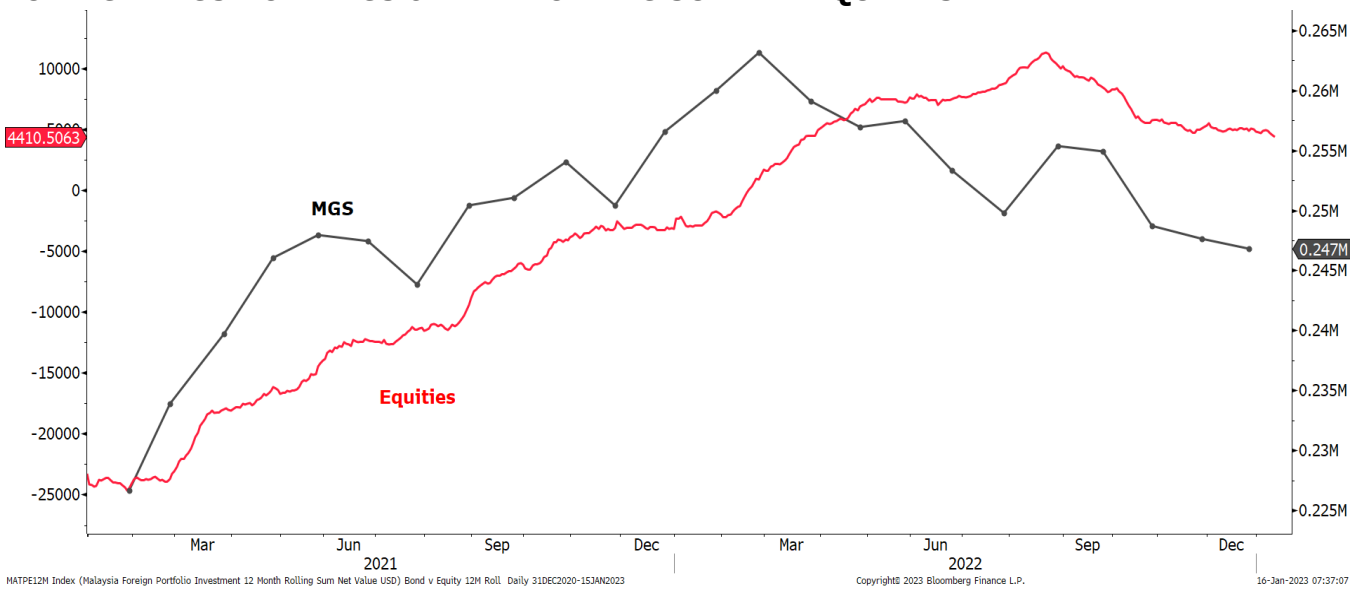


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM24.76b in the review week compared to RM16.33b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 65% from 67% of the overall Government Bonds trades.

- The top 3 actively traded Government Bonds were dominated by issues of mid and long residual tenor. The top 3 most actively traded were MGS 3.582% 7/15/32 at RM2.80b, MGS 3.899% 11/16/27 at RM2.79b, and MII 4.193% 10/7/32 at RM2.56b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings declined on-year from RM257b in December 2021 to RM247b in December 2022. Moreover, it also declined on-month from RM248b in November 2022. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at RM4.41b. It declined on-week from RM4.88b registered a week ago. However, it improved markedly on-year from -RM2.96b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.04b in the review week compared to RM1.58b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 50% from 31% 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 PLUS 4.954% 1/12/37 at RM580m, PLUS 4.891% 1/11/36 at RM255m, and Public Islamic Bank 3.9% 7/27/29 at RM240m.

B. FOREIGN EXCHANGE

- USD weakened as inflation eased further. US dollars depreciated last week as the DXY dollar index fell -1.6%wow to 102.20, level last seen in Jun-22. Reduced USD demand and improved risk-on sentiment was due to further easing in inflation in Dec-22, reducing the need for aggressive hike by the Fed.

- EUR rose to 9-month high, GBP also gained. Following weakness in US dollars, euro appreciated +1.7%wow to 9-month high USD1.083. The pound sterling also gained but at smaller magnitude +1.1%wow to USD1.223, the strongest level in one month.

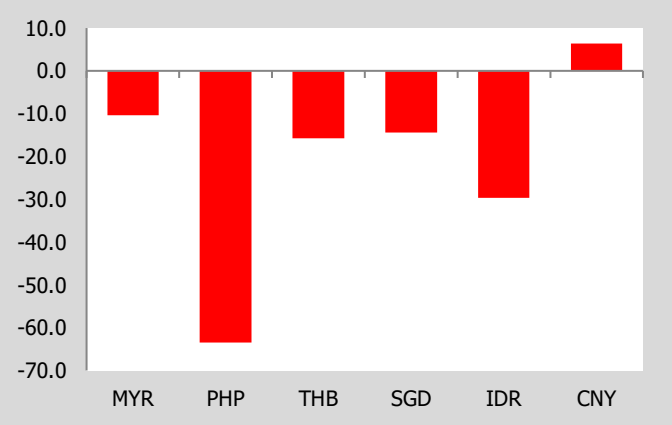
- Ringgit appreciated to nearly 9-month high. On the back of weaker dollar, ringgit like other EM currencies strengthened last week, closing at RM4.335 on Friday, the strongest in nearly 9 months. The +1.6%wow gain in ringgit was backed by improved risk-on appetite and rising crude oil prices in view of China's economic reopening. Brent crude oil price rose +8.5%wow to end at USD85.28pb on Friday (previous week: USD78.57pb).

Currencies Changes (Week Ended 13 Jan 2023) and Quarterly Forecasts

	Close (13/01)	Prev. Close (06/01)	Weekly Change	Weekly Change (%)	1QCY23f	2QCY23f	3QCY23f	4QCY23f
DXY Index	102.20	103.88	-1.675	-1.6	102.50	100.00	98.50	97.50
EURUSD	1.083	1.064	0.019	1.7	1.09	1.11	1.12	1.14
GBPUSD	1.223	1.209	0.013	1.1	1.22	1.24	1.26	1.27
USDJPY	127.87	132.08	4.210	3.3	132	130	129	128
USDMYR	4.335	4.404	0.069	1.6	4.35	4.30	4.27	4.23
GBPMYR	5.301	5.221	-0.080	-1.5	5.31	5.33	5.38	5.37
JPYMYR	3.391	3.333	-0.058	-1.7	3.30	3.31	3.31	3.30

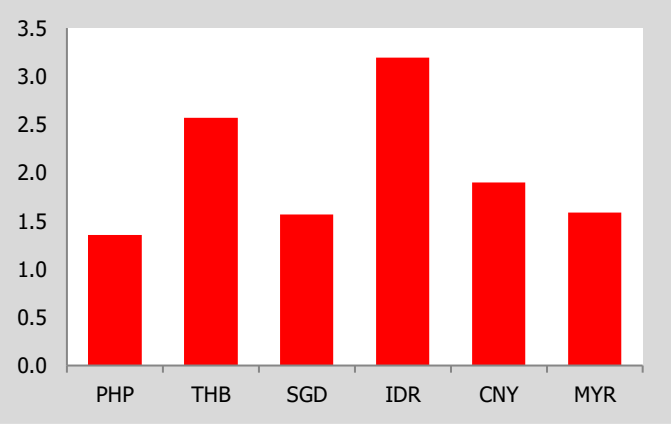
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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	3.50
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:
  - Consumer inflation expectations slowed to 5% in Dec-22, according to New York Fed survey.
  - IBD/TIPP Economic Optimism index dropped to 42.3 in Jan-23 (Dec-22: 42.9) as Americans indicated concerns over economic outlook and personal finance, despite easing inflation.
  - US headline CPI inflation moderated further to +6.5%yoy in Dec-22, thanks to lower energy inflation. Core CPI inflation also eased to +5.7% from +6%yoy in Nov-22.
  - Labour market remained tight. Initial jobless claims dropped to 205K for the week ended 7th January (prior week: 206K), better than 215K predicted by market expectations.
  - Preliminary reading of University of Michigan consumer sentiment rose to 64.6 in Jan-23, higher than market forecast as confidence on the future economic outlook improved on the back of easing inflation.

- World Bank downgraded its global growth forecast to +1.7% for 2023, 1.3%-point lower than its previous forecast as the developed economies are projected to grow slower this year.

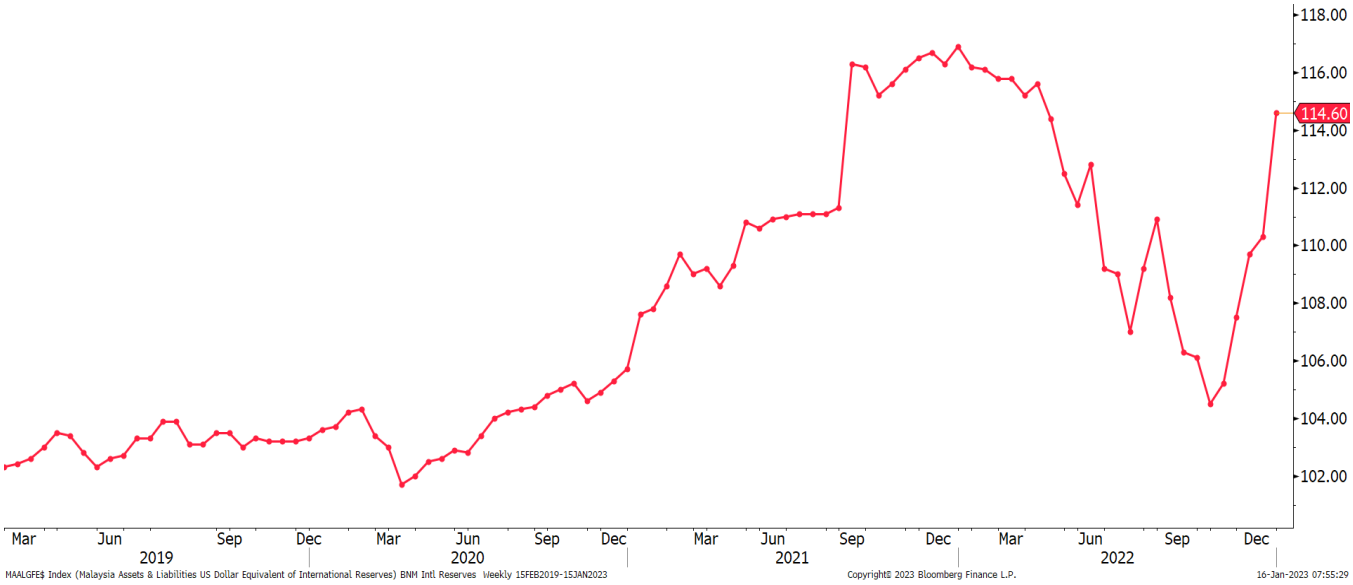
- Bank of Korea continued to tighten as expected to contain inflation, raising its policy interest rate by 25bps to 3.50%, the highest in 14 years. As economic data starting to signal weaker activities, BOK may pause at the next meetings.

- Malaysia's economic indicators showed resilience in Nov-22:
  - Job demand continued to increase as employment rose to new high of 16.11m or +3.2%yoy higher than Nov-21, while unemployment count dropped to new pandemic low at 601k, or annual decline of -13.5%yoy. Unemployment remained steady at 3.6% for the third straight month.
  - Industrial production growth was better than expected, strengthening marginally to +4.8%yoy, underpinned by manufacturing and electricity output.
- Distributive trade continued to grow albeit at moderate pace of +13.9%yoy (Oct-22: +14.9%yoy). Retail sales maintained two-digit growth although the pace of growth moderated to +22.8%yoy, while motor vehicle sales rose faster at +17.2%yoy.

C. BNM INTERNATIONAL RESERVES

- As of 30 December 2022, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD114.6b (15 December 2022: USD110.3b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.2 months of imports of goods & services and is 1.0 times total short-term external debt.

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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