midf RESEARCH

MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 7 February 2023

Week Ended 3 February 2023

- The selling continued into second week with benchmark 10-year UST yield ended the review week higher at 3.52% (prior week: 3.50%) as investors reacted to stronger than expected jobs data. Nonfarm payrolls for January came in much higher at 517K (against 187K expected) while unemployment rate fell to 3.4% (against 3.6% estimated). Consequently, the interest rate futures market was implying two more 25-bp rate hikes with the terminal rate at 5.25% (against 5.00% earlier). The 10y-3y yield spread inverted deeper week-on-week from -39bps to -43bps as the short-end underperformed due to its higher sensitivity to policy rate movement.
- Medium-term inflation expectation (MTIE) ended the review week lower at 2.32% (prior week: 2.37%) arguably in reaction to the possibility of a bit more hawkish US Fed. The MTIE remains within an elevated inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed but 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 -3.2bps and -2.6bps respectively to close at 3.33% and 3.76%. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 42bps to 43bps as the short-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 RM4.01b. It increased on-week from RM3.90b registered a week ago. Moreover, it improved markedly on-year from -RM2.18b a year ago.

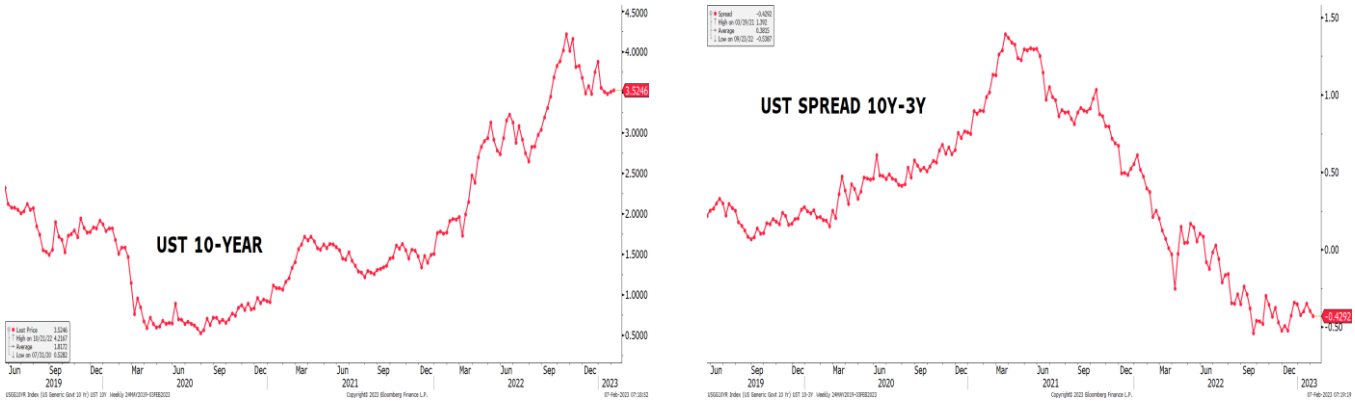
7 February 2023 | **Strategy**

Strategy Team | research@midf.com.my

Weekly Money Review

A. FIXED INCOME

- The selling continued into second week with benchmark 10-year UST yield ended the review week higher at 3.52% (prior week: 3.50%) as investors reacted to stronger than expected jobs data. Nonfarm payrolls for January came in much higher at 517K (against 187K expected) while unemployment rate fell to 3.4% (against 3.6% estimated). Consequently, the interest rate futures market was implying two more 25-bp rate hikes with the terminal rate at 5.25% (against 5.00% earlier). The 10y-3y yield spread inverted deeper week-on-week from -39bps to -43bps as the short-end underperformed due to its higher sensitivity to policy rate movement.



Source: Bloomberg, MIDFR

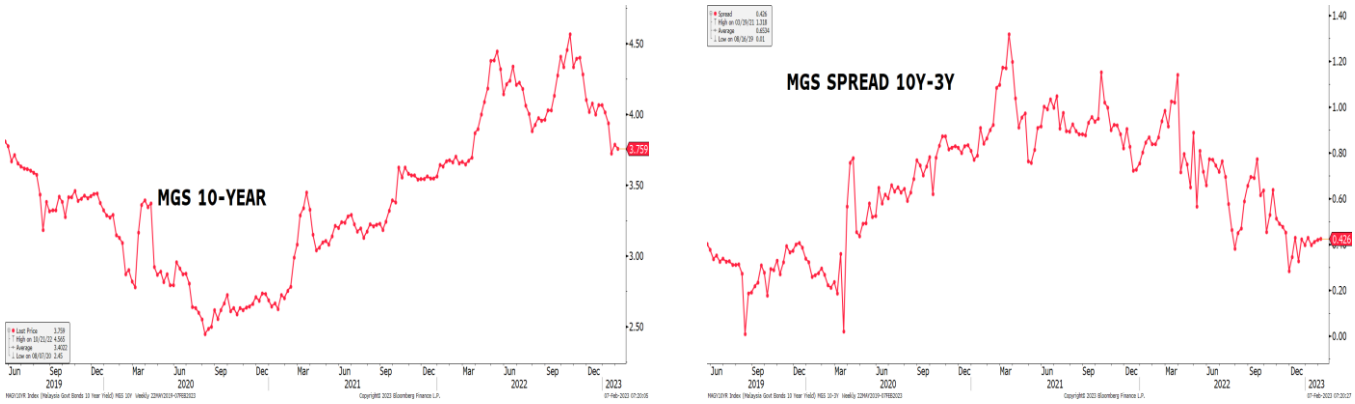
- Medium-term inflation expectation (MTIE) ended the review week lower at 2.32% (prior week: 2.37%) arguably in reaction to the possibility of a bit more hawkish US Fed. The MTIE remains within an elevated inflation range of 2.25%-2.50% acceptable (transiently) to the US Fed but has been trending lower 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 -3.2bps and -2.6bps respectively to close at 3.33% and 3.76%. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 42bps to 43bps as the short-end outperformed.

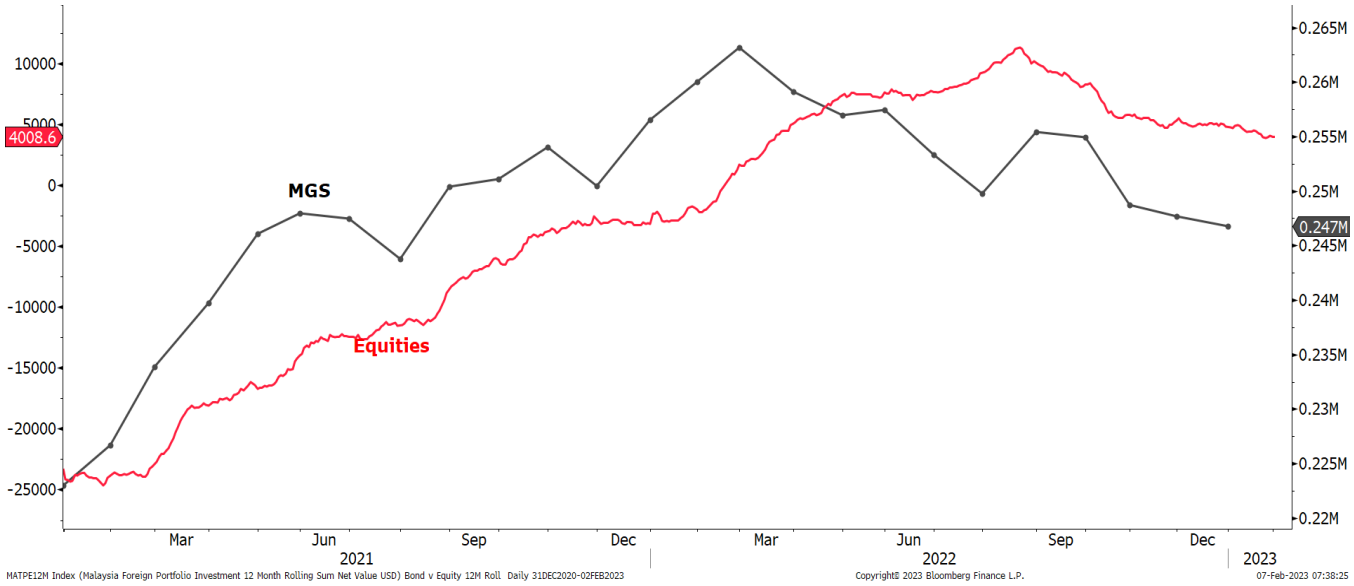


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM34.12b in the review week compared to RM28.39b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 61% from 71% of the overall Government Bonds trades. Moreover, 10 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 RM4.19b, MGS 3.48% 3/15/23 at RM3.84b, and MII 3.99% 10/15/25 at RM1.82b.

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 RM4.01b. It increased on-week from RM3.90b registered a week ago. Moreover, it improved markedly on-year from -RM2.18b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM5.19b in the review week compared to RM1.75b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 59% 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 RM930m, Cagamas 4.62% 11/4/27 at RM420m, and PLUS 5.017% 1/12/38 at RM420m.

B. FOREIGN EXCHANGE

- USD strengthened after better-than-expected job market update. US dollars strengthened against major currencies last week as the DXY dollar index rose +1%wow to 102.92. When the Fed's FOMC announced decision to further hike rate, the DXY index fell to 101.22, the lowest closing since Apr-22. However, the trend reversed and demand for USD picked up especially when job market update for Jan-23 came out stronger than market expectations, raising talks about additional rate hikes by the Fed.

- EUR and GBP weakened as dollar strengthened. Following the increased demand for US dollars, both euro and pound sterling depreciated by -0.7%wow to USD1.080 and -2.6%wow to USD1.206, respectively. Euro's depreciation was limited by expectations for more rate hikes as the ECB remains hawkish. Pound sterling, on the other hand, seems to be dragged more by concerns over the UK's economic outlook, with the BOE still focused on keep inflation in check with another rate hike last week.

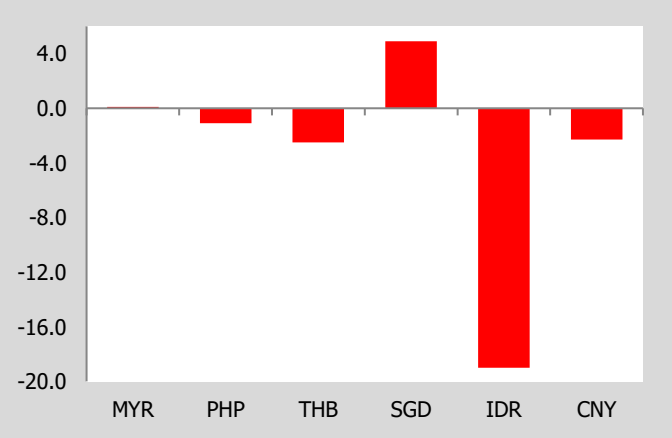
- Ringgit also weakened. Malaysian ringgit depreciated by -0.3%wow and closed at RM4.259 last Friday, mainly because market priced in for more rate hikes by the Fed. Commodity price movement was also a drag to ringgit's exchange rate because Brent crude oil ended at 3-week low of USD79.94pb, or -7.8%wow lower from prior week. Given the appreciation of ringgit over the past month, which has been stronger than our earlier prediction, we revise our ringgit outlook predicting a sharper strengthening against US dollars towards RM4.00 by year-end.

Currencies Changes (Week Ended 27 Jan 2023) and Quarterly Forecasts

	Close (03/02)	Prev. Close (27/01)	Weekly Change	Weekly Change (%)	1QCY23f	2QCY23f	3QCY23f	4QCY23f
DXY Index	102.92	101.93	+0.988	+1.0	102.50	101.00	98.60	97.10
EURUSD	1.080	1.087	-0.007	-0.7	1.07	1.08	1.10	1.11
GBPUSD	1.206	1.238	-0.033	-2.6	1.20	1.22	1.24	1.25
USDJPY	131.19	129.88	-1.310	-1.0	132	131	130	129
USDMYR	4.259	4.244	-0.014	-0.3	4.21	4.17	4.15	4.00
GBPMYR	5.216	5.251	+0.035	+0.7	5.05	5.09	5.15	5.00
JPYMYR	3.247	3.268	+0.022	+0.7	3.19	3.18	3.19	3.10

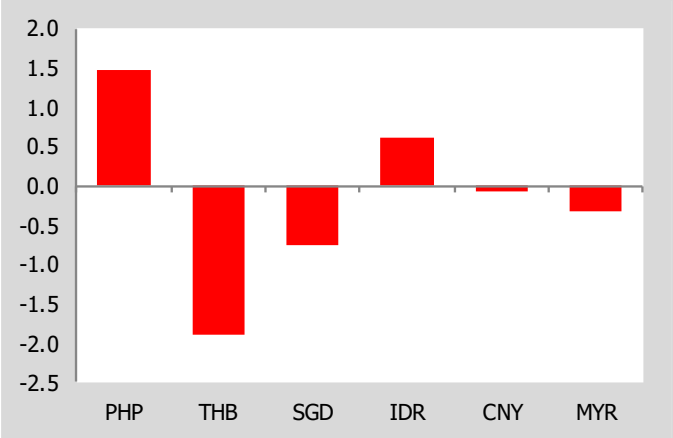
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Malaysia	2.00	2.25	2.25	2.50	2.50	2.75	2.75	2.75	2.75
Indonesia	3.50	3.50	3.75	4.25	4.75	5.25	5.50	5.75	5.75
Philippines	2.50	3.25	3.75	4.25	4.25	5.00	5.50	5.50	5.50
Thailand	0.50	0.50	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Vietnam	4.00	4.00	4.00	5.00	6.00	6.00	6.00	6.00	6.00
South Korea	1.75	2.25	2.50	2.50	3.00	3.25	3.25	3.50	3.50
India	4.90	4.90	5.40	5.90	5.90	5.90	6.25	6.25	6.25
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	1.25	1.25	1.75	2.25	2.25	3.00	3.50	3.50	4.00
Euro area	0.00	0.50	0.50	1.25	2.00	2.00	2.50	2.50	3.00
USA	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	4.50-4.75

Source: Bloomberg, MIDFR

- US economic data released last week:
  - Manufacturing activities weakened at sharper pace in Jan-23 as ISM manufacturing PMI index fell to 47.4 (Dec-22: 48.4) due to sharper contraction in new orders and production activities. Services sector, however, expanded at more rapid pace in Jan-23 as the ISM non-manufacturing PMI increased to 55.2 (vs. 49.2 in Dec-22) as rebound in new orders led to stronger business activities.
  - Job market remained tight and strong:
    - Non-farm payrolls surprised to the upside in Jan-23, with +517K new jobs created (Dec-22: +260K) which is the strongest monthly increase in 6 months. The jump in non-farm payrolls was far higher than market's prediction of +185K. Unemployment rate even fell to 3.4%, the lowest since May 1969.
    - Initial jobless claims fell to 183K for the week ended 28th January (prior week: 186K), lower than market forecast of 200K.

- On monetary policy decisions last week:
  - 1 Feb: US FOMC raised fed funds rate by 25bps to 4.50-4.75%, in line with market consensus for smaller rate hike. Although inflation started to ease, the Fed keeps its hawkish stance and committed to contain inflation, and FOMC maintains its projection with no consideration of rate cuts this year.
  - 2 Feb: ECB hiked its interest rates by 50bps to 3.00% as inflation remains above its 2% target, and indicated hikes will be needed to keep inflation in check. BOE also raised its benchmark interest rate by 50bps to 4.00%, the highest since 2008 as inflation remains at multi-year highs.

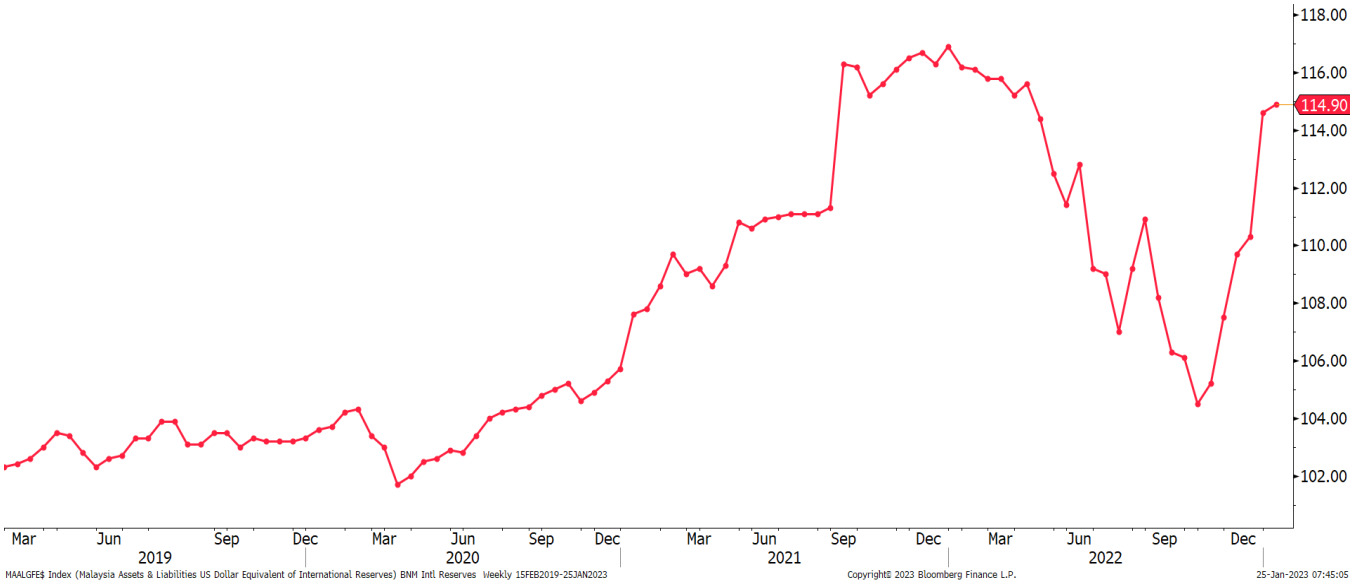
- Malaysia's producer price inflation accelerated slightly to +3.5%yoy in Dec-22 (Nov-22: +3.2%yoy) but more or less remained at the slowest pace in 2 years due to continued fall in prices of crude materials and slower inflation in prices of intermediate goods.

- Malaysia's manufacturing activity continued to contract in Jan-23 as S&P Global manufacturing PMI fell to 46.5 (Dec-22: 47.8), declining for the sixth straight month and the weakest reading since Aug-21. Manufacturers slowed production on the back of sharper fall in new orders, including export demand.

C. BNM INTERNATIONAL RESERVES

- As of 13 January 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD114.9b (30 December 2022: USD114.6b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.3 months of imports of goods & services and is 1.0 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	27-Jan Fri	30-Jan Mon	31-Jan Tue	1-Feb Wed	2-Feb Thu	3-Feb Fri	Change (WoW bp)
MGS							
3-Y	3.365	3.361	3.39	3.39	3.393	3.333	-3.2
5-Y	3.531	3.566	3.554	3.554	3.44	3.446	-8.5
7-Y	3.643	3.632	3.689	3.689	3.626	3.631	-1.2
10-Y	3.785	3.772	3.804	3.804	3.785	3.759	-2.6
20-Y	4.157	4.154	4.171	4.171	4.178	4.078	-7.9
RINGGIT IRS							
1-Y	3.45	3.475	3.465	3.465	3.415	3.365	-8.5
3-Y	3.375	3.39	3.385	3.385	3.305	3.265	-11
5-Y	3.52	3.57	3.54	3.54	3.42	3.39	-13
7-Y	3.643	3.7	3.68	3.68	3.565	3.525	-11.8
10-Y	3.785	3.83	3.8	3.8	3.7	3.7	-8.5
KLIBOR							
1-M	2.98	2.98	2.98	2.98	2.98	2.98	0
3-M	3.68	3.68	3.68	3.68	3.68	3.67	-1
UST							
3-Y	3.8971	3.9451	3.8999	3.7869	3.7755	3.9538	5.67
5-Y	3.6102	3.6621	3.6171	3.5154	3.4879	3.659	4.88
7-Y	3.5635	3.6044	3.5687	3.467	3.4392	3.5943	3.08
10-Y	3.5035	3.5366	3.5069	3.4166	3.3927	3.5246	2.11
30-Y	3.619	3.652	3.6322	3.5658	3.5447	3.614	-0.5
USD LIBOR							
1-M	4.56971	4.56557	4.57429	4.575	4.58	4.57186	0.215
3-M	4.82529	4.81357	4.81357	4.79629	4.80614	4.83414	0.885

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	27-Jan Yield	3-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.899	11/16/27	3.531	3.446	-8.5	4,187.6
MALAYSIA GOVERNMENT	3.48	03/15/23	2.851	2.726	-12.5	3,842.0
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.395	3.359	-3.6	1,822.3
MALAYSIA GOVERNMENT	3.882	03/14/25	3.365	3.333	-3.2	1,792.3
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.917	3.873	-4.4	1,705.8
MALAYSIA GOVERNMENT	4.893	06/08/38	3.989	3.984	-0.5	1,663.8
MALAYSIA INVESTMNT ISSU	4.13	07/09/29	3.808	3.755	-5.3	1,584.7
MALAYSIA GOVERNMENT	3.733	06/15/28	3.623	3.546	-7.7	1,540.4
MALAYSIA GOVERNMENT	4.504	04/30/29	3.643	3.631	-1.2	1,406.8
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	N/A	3.498	N/A	1,191.0
TOTAL VOLUME (TOP 10)						20,736.6
TOTAL VOLUME (Overall)						34,121.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	27-Jan Yield	3-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
PROJEK LEBUHRAYA USAHA	4.954	01/12/37	4.891	4.703	-18.8	930.0
CAGAMAS BERHAD	4.62	11/04/27	4.020	4.001	-1.9	420.0
PROJEK LEBUHRAYA USAHA	5.017	01/12/38	4.949	4.745	-20.4	420.0
PROJEK LEBUHRAYA USAHA	4.891	01/11/36	4.863	4.689	-17.4	390.0
PUBLIC ISLAMIC BANK BHD	3.75	10/31/29	3.863	3.831	-3.2	260.0
PROJEK LEBUHRAYA USAHA	4.582	01/11/30	4.438	4.348	-9.0	160.0
PROJEK LEBUHRAYA USAHA	4.821	01/12/35	4.778	4.631	-14.7	160.0
PROJEK LEBUHRAYA USAHA	4.729	01/12/33	4.609	4.502	-10.7	135.0
SARAWAK ENERGY BHD	5.5	07/04/29	4.258	4.161	-9.7	120.0
DANUM CAPITAL BHD	3.07	02/21/25	3.988	3.864	-12.4	70.0
TOTAL VOLUME (TOP 10)						3,065.0
TOTAL VOLUME (Overall)						5,189.4

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

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