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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 27 March 2023

Week Ended 24 March 2023

- Buying activities continued into the third week with benchmark 10-year UST yield ended the review week lower at 3.38% (prior week: 3.43%) as investors gauged the potential impact of bank failures/distress on economic growth. The interest rate futures market was implying a spate of rate cuts beginning in July. The 10y-3y yield spread rebounded but remains inverted at -20bps (prior week: -28bps) as the short-end outperformed due to its higher sensitivity to policy rate movements.

- Medium-term inflation expectation (MTIE) rebounded slightly to 2.27% (prior week: 2.18%) after a massive fall in the prior week due to recent spate of bank failures/distress which could decelerate the pace of overall lending activities hence dampen the (hitherto quite protracted) underlying demand-pull price pressures. The MTIE edged higher back to within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. Moreover, it is notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. It seems the market is increasingly convinced the inflation pressure is ebbing. We reckon the MTIE may revert toward the 2.00% level rather soon.

- The price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields shed -10.3bps and -6.3bp to close at 3.34% and 3.87% respectively. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 49bps to 53bps as the short-end outperformed.

- MGS foreign holdings declined on-year from RM263b in February 2022 to RM252b in February 2023. However, it risen on-month from RM247b in January 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM3.38b. It declined on-week from -RM2.76b registered a week ago. Moreover, it dropped on-year from RM4.23b a year ago.

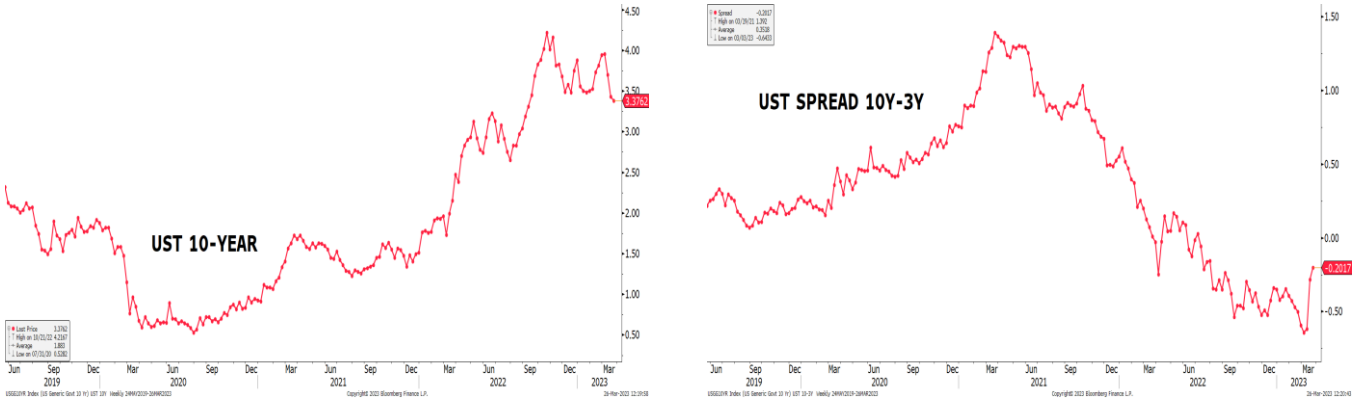
27 March 2023 | **Strategy**

Strategy Team | research@midf.com.my

Weekly Money Review

A. FIXED INCOME

- Buying activities continued into the third week with benchmark 10-year UST yield ended the review week lower at 3.38% (prior week: 3.43%) as investors gauged the potential impact of bank failures/distress on economic growth. The interest rate futures market was implying a spate of rate cuts beginning in July. The 10y-3y yield spread rebounded but remains inverted at -20bps (prior week: -28bps) as the short-end outperformed due to its higher sensitivity to policy rate movements.



Source: Bloomberg, MIDFR

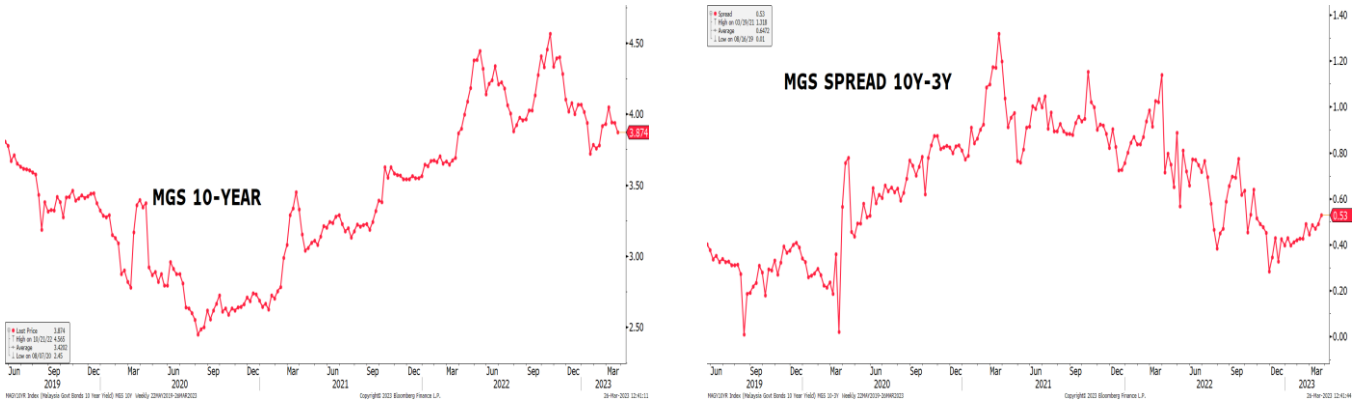
- Medium-term inflation expectation (MTIE) rebounded slightly to 2.27% (prior week: 2.18%) after a massive fall in the prior week due to recent spate of bank failures/distress which could decelerate the pace of overall lending activities hence dampen the (hitherto quite protracted) underlying demand-pull price pressures. The MTIE edged higher back to within an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed. Moreover, it is notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. It seems the market is increasingly convinced the inflation pressure is ebbing. We reckon the MTIE may revert toward the 2.00% level rather soon.

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 -10.3bps and -6.3bp to close at 3.34% and 3.87% respectively. Accordingly, the 10y-3y yield spread expanded (yield curve steepened) week-on-week from 49bps to 53bps as the short-end outperformed.

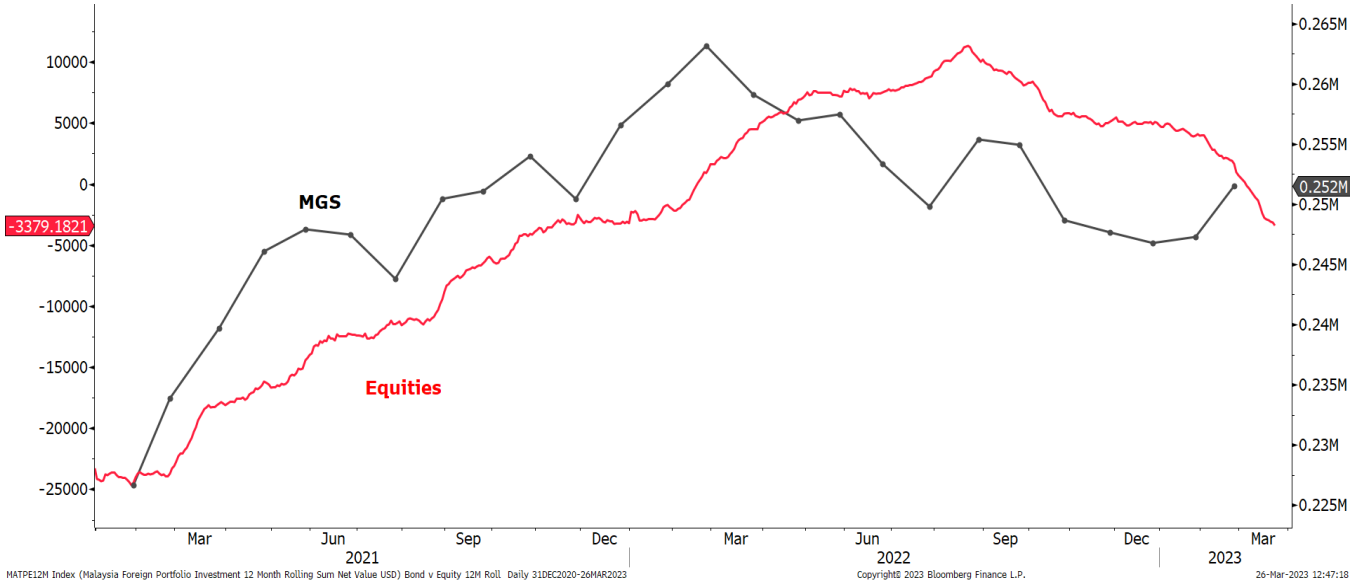


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM19.82b in the review week compared to RM29.64b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 58% from 64% 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 long residual tenor. The top 3 most actively traded were MGS 3.582% 7/15/32 at RM1.72b, MGS 3.8% 8/17/23 at RM1.69b, and MII 4.193% 10/7/32 at RM1.40b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings declined on-year from RM263b in February 2022 to RM252b in February 2023. However, it risen on-month from RM247b in January 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM3.38b. It declined on-week from -RM2.76b registered a week ago. Moreover, it dropped on-year from RM4.23b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.86b in the review week compared to RM3.33b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 39% from 43% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of short residual tenor. The largest trading values were seen in Cagamas 4.35% 10/31/25 at RM430m at RM250m, Cagamas 4.24% 12/22/25 at RM300m, and Govco Holdings 4.29% 2/22/24 at RM200m.

B. FOREIGN EXCHANGE

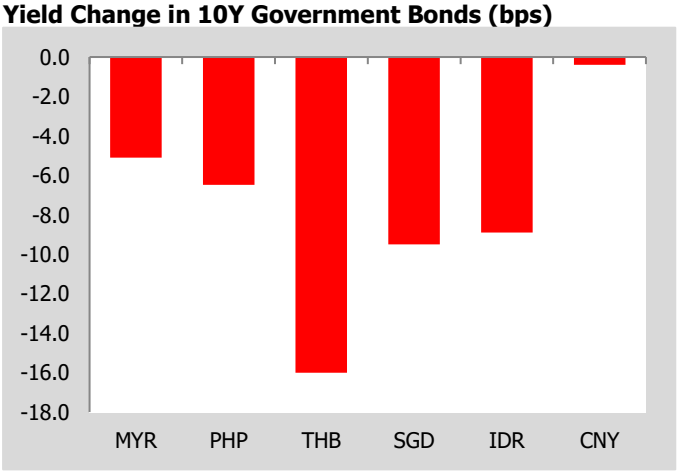
- USD weakened following dovish signal from Fed. US dollars weakened last week as the DXY dollar index fell by -0.6%wow to 103.12, the lowest weekly closing in 7 weeks. Despite the rate hike last week, demand for US dollar softened in view of the hint from the Fed that the rate hikes may be nearing its end.
- Dollar weakness supported euro and pound. In contrast, both euro and pound strengthened by +0.8%wow to USD1.076 and +0.5%wow to USD1.223, respectively.
- Strong appreciation in ringgit. Regional currencies also strengthened, with Malaysian ringgit gaining the most by +1.3%wow to RM4.428. Moreover, higher crude oil prices supported ringgit as Brent benchmark increased +2.8%wow last week to USD74.99pb (previous week: USD72.97pb).

Currencies Changes (Week Ended 24 March 2023) and Quarterly Forecasts

	Close (24/03)	Prev. Close (17/03)	Weekly Change	Weekly Change (%)	1QCY23f	2QCY23f	3QCY23f	4QCY23f
DXY Index	103.12	103.71	-0.592	-0.6	102.5	101	98.3	97.5
EURUSD	1.076	1.067	+0.009	+0.8	1.07	1.08	1.12	1.13
GBPUSD	1.223	1.217	+0.006	+0.5	1.20	1.22	1.24	1.26
USDJPY	130.73	131.85	+1.120	+0.9	132	130	129	126
USDMYR	4.428	4.487	+0.059	+1.3	4.48	4.21	4.13	4.00
GBPMYR	5.409	5.442	+0.033	+0.6	5.38	5.14	5.12	5.04
JPYMYR	3.386	3.402	+0.016	+0.5	3.39	3.24	3.20	3.17

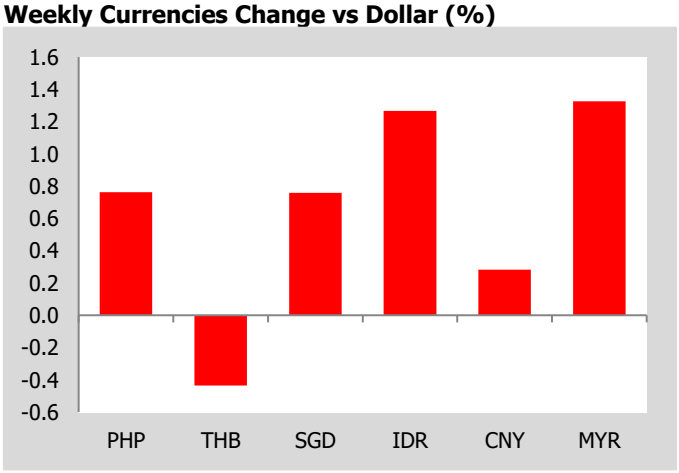
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Malaysia	2.25	2.25	2.50	2.50	2.75	2.75	2.75	2.75	2.75
Indonesia	3.50	3.75	4.25	4.75	5.25	5.50	5.75	5.75	5.75
Philippines	3.25	3.75	4.25	4.25	5.00	5.50	5.50	6.00	6.00
Thailand	0.50	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50
Vietnam	4.00	4.00	5.00	6.00	6.00	6.00	6.00	6.00	6.00
South Korea	2.25	2.50	2.50	3.00	3.25	3.25	3.50	3.50	3.50
India	4.90	5.40	5.90	5.90	5.90	6.25	6.25	6.50	6.50
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	1.25	1.75	2.25	2.25	3.00	3.50	3.50	4.00	4.25
Euro area	0.50	0.50	1.25	2.00	2.00	2.50	2.50	3.00	3.50
USA	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	4.75-5.00

Source: Bloomberg, MIDFR

- US economic data released last week:
  - Economic activity weakened in Feb-23. Chicago Fed National Economic Index dropped to -0.19 (Jan-23: 0.23).
  - US job market remained tight. Initial jobless claims fell again 192K for the week ended 18th March (prior week: 192K), below market consensus of 197K.
  - Business activities were stronger in Mar-23. Flash reading of S&P Global Composite PMI rose to 53.3 (Feb-23: 50.1), underpinned by faster expansion in services sector and slower contraction in factory activities.

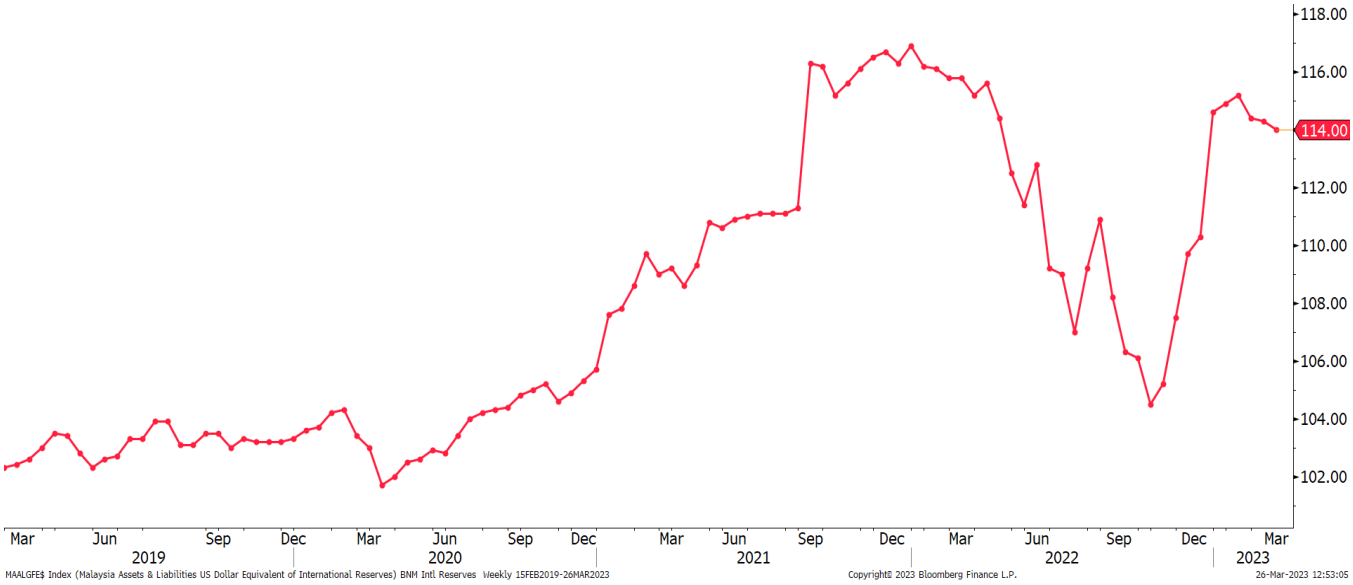
- On monetary policy decisions, last week:
  - US Fed FOMC raised fed funds rate by 25bps to 4.75-5.00%, the highest level since 2007. The decision was similar to market consensus with the Fed reiterating its commitment to bring down inflation. But, Fed Chair hinted future tightening may not require more rate hikes, a lesson from the recent banking sector turmoil.
  - BOE raised its Bank rate by 25bps to 4.25% as latest inflation data shows an acceleration in Feb-23. Although BOE Governor kept it open on the possibility for more rate hikes, BOE anticipates inflation to ease going forward.
  - Bangko Sentral ng Pilipinas raised its policy interest rate by 25bps to 6.25%, the highest since 2007. The decision was generally in line with market consensus as inflation remained above the BSP target of 2.0-4.0%.

- Malaysia's external trade performed stronger than expected as export growth accelerated to +9.6%yoy in Feb-23 (Jan-23: +1.4%yoy) on increased shipments of crude and processed petroleum, LNG, and E&E products. Meanwhile, CPI inflation was unchanged at +3.7%yoy in Feb-23 (Jan-23: +3.7%yoy) underpinned by higher food prices. Meanwhile, core CPI inflation was also unchanged at +3.9%yoy, still higher than the headline.

C. BNM INTERNATIONAL RESERVES

- As of 15 March 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD114.0b (28 February 2023: USD114.3b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.0 months of imports of goods & services and is 1.0 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	17-Mar Fri	20-Mar Mon	21-Mar Tue	22-Mar Wed	23-Mar Thu	24-Mar Fri	Change (WoW bp)
MGS							
3-Y	3.447	3.391	3.422	3.409	3.363	3.344	-10.3
5-Y	3.557	3.511	3.534	3.51	3.498	3.486	-7.1
7-Y	3.83	3.806	3.814	3.806	3.793	3.75	-8
10-Y	3.937	3.93	3.951	3.931	3.878	3.874	-6.3
20-Y	4.128	4.105	4.153	4.169	4.154	4.144	1.6
RINGGIT IRS							
1-Y	3.55	3.495	3.515	3.52	3.475	3.455	-9.5
3-Y	3.545	3.5	3.525	3.515	3.465	3.415	-13
5-Y	3.655	3.58	3.635	3.615	3.575	3.49	-16.5
7-Y	3.765	3.7	3.74	3.725	3.68	3.63	-13.5
10-Y	3.885	3.82	3.87	3.86	3.842	3.76	-12.5
KLIBOR							
1-M	2.96	2.96	2.96	2.96	2.96	2.96	0
3-M	3.62	3.62	3.62	3.62	3.62	3.62	0
UST							
3-Y	3.7131	3.8114	3.9823	3.7217	3.6246	3.5779	-13.52
5-Y	3.5002	3.5892	3.748	3.5114	3.4392	3.4075	-9.27
7-Y	3.4942	3.5619	3.6961	3.4886	3.4408	3.4002	-9.4
10-Y	3.4286	3.4847	3.6094	3.4341	3.4266	3.3762	-5.24
30-Y	3.6197	3.6655	3.7321	3.6516	3.6978	3.6438	2.41
USD LIBOR							
1-M	4.77771	4.75229	4.77929	4.797	4.84529	4.83057	5.286
3-M	4.99843	4.94714	5.01771	5.08	5.13371	5.10143	10.3

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	17-Mar Yield	24-Mar Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.582	07/15/32	3.937	3.874	-6.3	1,717.4
MALAYSIA GOVERNMENT	3.8	08/17/23	2.661	2.375	-28.6	1,689.3
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.990	3.917	-7.3	1,395.9
MALAYSIA GOVERNMENT	3.882	03/14/25	3.324	3.245	-7.9	1,389.5
MALAYSIA GOVERNMENT	3.757	04/20/23	2.442	2.215	-22.7	1,111.5
MALAYSIA INVESTMNT ISSU	3.99	10/15/25	3.387	3.289	-9.8	1,081.7
MALAYSIA INVESTMNT ISSU	3.151	05/15/23	2.627	2.367	-26.0	1,037.1
MALAYSIA GOVERNMENT	3.906	07/15/26	3.439	3.344	-9.5	828.0
MALAYSIA GOVERNMENT	3.899	11/16/27	3.557	3.486	-7.1	771.4
MALAYSIA GOVERNMENT	3.955	09/15/25	3.404	3.293	-11.1	559.8
TOTAL VOLUME (TOP 10)						11,581.6
TOTAL VOLUME (Overall)						19,819.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	17-Mar Yield	24-Mar Yield	Change (WoW bp)	Weekly Volume (RM mn)
CAGAMAS BERHAD	4.35	10/31/25	N/A	3.848	N/A	430.0
CAGAMAS BERHAD	4.24	12/22/25	N/A	3.948	N/A	300.0
GOVCO HOLDINGS BHD	4.29	02/22/24	3.424	3.361	-6.3	200.0
PERBADANAN TABUNG PEN	4.67	03/28/24	N/A	3.351	N/A	200.0
PROJEK LEBUHRAYA USAHA	4.445	01/12/27	4.139	4.137	-0.2	165.0
PROJEK LEBUHRAYA USAHA	4.496	01/12/28	4.228	4.216	-1.2	140.0
PROJEK LEBUHRAYA USAHA	4.376	01/12/26	4.079	4.115	3.6	125.0
PRO LINTASAN SUNGAI BES	6.48	11/26/27	5.759	5.709	-5.0	120.0
DANAINFRA NASIONAL	4.47	11/24/28	N/A	3.789	N/A	115.0
PRO LINTASAN SUNGAI BES	6.63	11/26/27	N/A	5.708	N/A	100.0
TOTAL VOLUME (TOP 10)						1,895.0
TOTAL VOLUME (Overall)						4,858.4

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