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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 22 May 2023

Week Ended 19 May 2023

- The UST market suffered its third consecutive selling week with benchmark 10-year yield ended higher at 3.67% (prior week: 3.46%). Market sentiment was dampened by statements from US Fed officials suggesting the fight against inflation was not yet over and that rates may even go higher still. The 10y-3y yield spread inverted deeper at -28bps (prior week: -19bps) as the short-end underperformed due to its higher sensitivity to policy rate action. However, interest rate futures market was implying no rate change during the next 3 meetings to be followed by a spate of rate cuts beginning in November 2023.

- Medium-term inflation expectation (MTIE) increased to 2.18% (prior week: 2.11%) as investors arguably reacted to the inflation-related statements from US Fed officials. Nonetheless, the MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but above the 2.00% target level. Moreover, it is also notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. It seems the market is convinced the inflation pressure is gradually ebbing. We reckon the MTIE may revert to 2.00% level rather soon.

- The price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added 4.7bps and 12.2bps to close at 3.42% and 3.76% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 27bps to 35bps as the long-end underperformed.

- MGS foreign holdings increased on-year from RM257b in April 2022 to RM260b in April 2023. Moreover, it risen on-month from RM258b in March 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM4.96b. It worsened on-week from -RM4.66b registered a week ago. Moreover, it slumped on-year from RM7.61b a year ago.

22 May 2023 | **Strategy**

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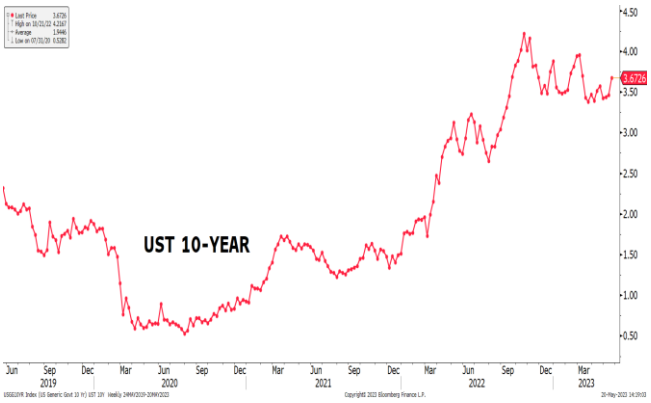
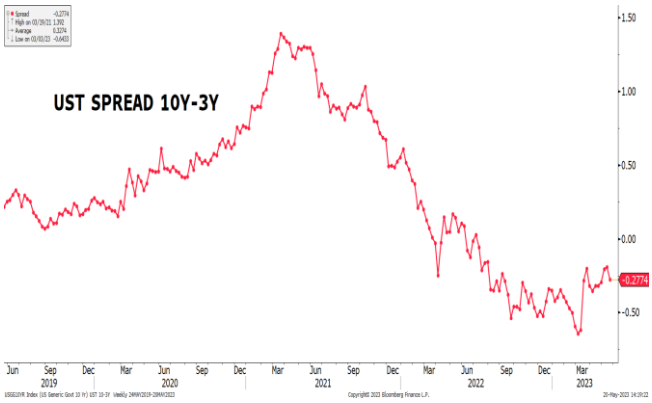
Weekly Money Review

A. FIXED INCOME

- The UST market suffered its third consecutive selling week with benchmark 10-year yield ended higher at 3.67% (prior week: 3.46%). Market sentiment was dampened by statements from US Fed officials suggesting the fight against inflation was not yet over and that rates may even go higher still. The 10y-3y yield spread inverted deeper at -28bps (prior week: -19bps) as the short-end underperformed due to its higher sensitivity to policy rate action. However, interest rate futures market was implying no rate change during the next 3 meetings to be followed by a spate of rate cuts beginning in November 2023.





Source: Bloomberg, MIDFR

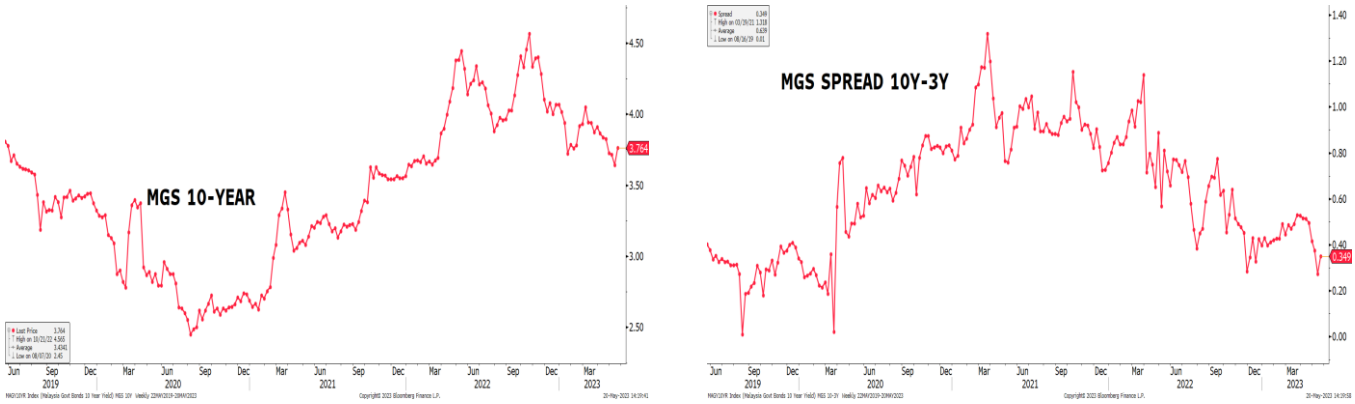
- Medium-term inflation expectation (MTIE) increased to 2.18% (prior week: 2.11%) as investors arguably reacted to the inflation-related statements from US Fed officials. Nonetheless, the MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently to the US Fed but above the 2.00% target level. Moreover, it is also notable that the MTIE has been trending lower from the high of 3.73% in late March 2022. It seems the market is convinced the inflation pressure is gradually ebbing. We reckon the MTIE may revert to 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 lower with the 3-year and 10-year yields added 4.7bps and 12.2bps to close at 3.42% and 3.76% respectively. The 10y-3y yield spread expanded (yield curve steepened) week-on-week from 27bps to 35bps as the long-end underperformed.

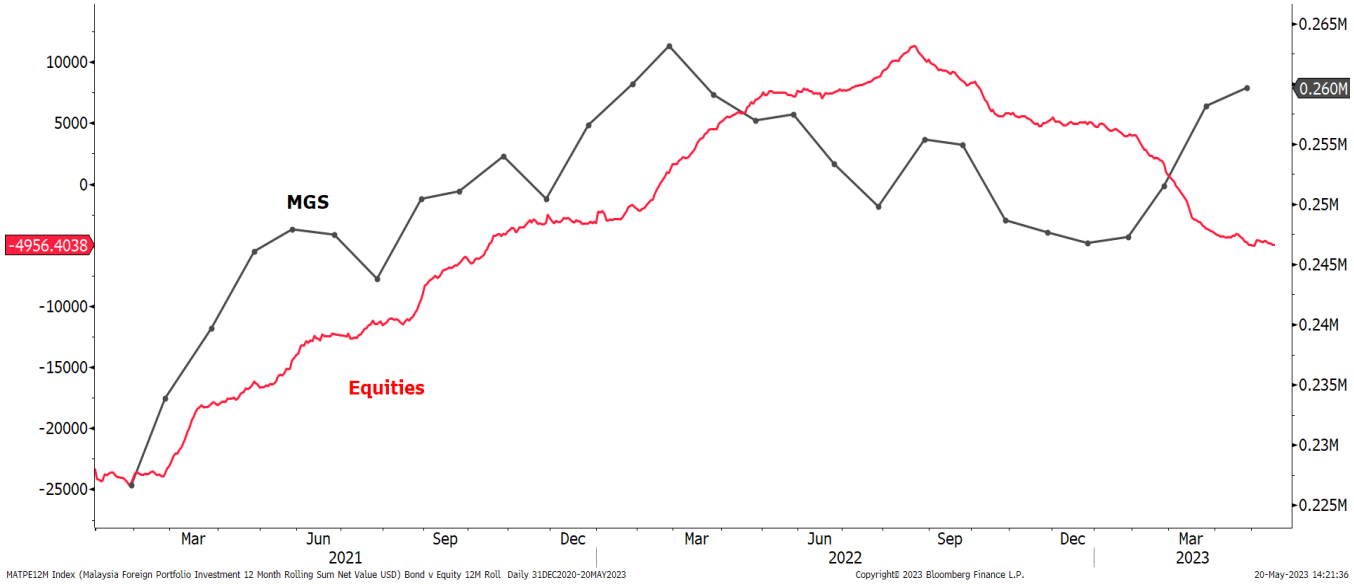


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM16.08b in the review week compared to RM17.89b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 64% from 60% of the overall Government Bonds trades. Moreover, 10 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 varied residual tenor. The top 3 most actively traded were MII 4.193% 10/7/32 at RM2.27, MGS 4.498% 4/15/30 at RM1.92b, and MGS 3.8% 8/17/23 at RM1.46b.

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



Source: Bloomberg, MIDFR

- MGS foreign holdings increased on-year from RM257b in April 2022 to RM260b in April 2023. Moreover, it risen on-month from RM258b in March 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM4.96b. It worsened on-week from -RM4.66b registered a week ago. Moreover, it slumped on-year from RM7.61b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.87b in the review week compared to RM2.29b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 52% from 33% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of long residual tenor. The largest trading values were seen in Danainfra 5.25% 5/24/47 at RM500m, PLUS 5.017% 1/12/38 at RM340m, and PLUS 4.954% 1/12/37 at RM210m.

B. FOREIGN EXCHANGE

- US Dollar continued gaining to 9-week high. The USD strengthened over major currencies for the second consecutive week, appreciating by +0.5%wow 103.20, the strongest level in 9 weeks. Despite optimism the US will eventually reach a deal to raise its debt ceiling, lingering fears still prompted demand for USD. The USD strength was also underpinned by changing views in the market, lower expectations for the Fed to pause and keep its policy rate unchanged at its next meeting as well as reduced probability for policy easing at the end of the year.

- Euro and Pound continued to weaken amid stronger US Dollar. As the dollar strengthened further, the euro and pound depreciated by -0.4%wow and -0.1%wow to USD1.081 and USD1.245, respectively. Despite the ECB remaining hawkish to contain inflation, less encouraging economic releases also weighed down and pushed euro to 8-week lows. Similarly, the pound failed to appreciate against the USD after recovering some of its losses earlier in the week.

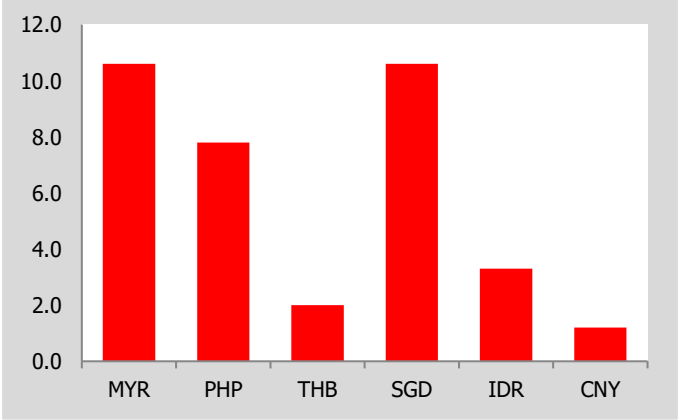
- Ringgit also continued weakening. Ringgit also depreciated against the USD for the second consecutive week, weakening by -1.3%wow to RM4.538, the weakest weekly closing since Nov-22. The ringgit's exchange rate was more influenced by the strength in US dollar as higher oil prices was unable to support ringgit; Brent crude oil prices closed the week +1.9%wow higher at USD75.58pb.

Currencies Changes (Week Ended 19 May 2023) and Quarterly Forecasts

	Close (19/5)	Prev. Close (12/05)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	103.20	102.68	+0.517	+0.5	102.51	101	98.3	97.5
EURUSD	1.081	1.085	-0.004	-0.4	1.08	1.09	1.12	1.13
GBPUSD	1.245	1.246	-0.001	-0.1	1.23	1.25	1.24	1.26
USDJPY	137.98	135.7	-2.280	-1.7	132.86	131.3	129	126
USDMYR	4.538	4.480	-0.058	-1.3	4.42	4.35	4.13	4.00
GBPMYR	5.641	5.612	-0.028	-0.5	5.46	5.44	5.12	5.04
JPYMYR	3.289	3.302	+0.013	+0.4	3.33	3.32	3.20	3.17

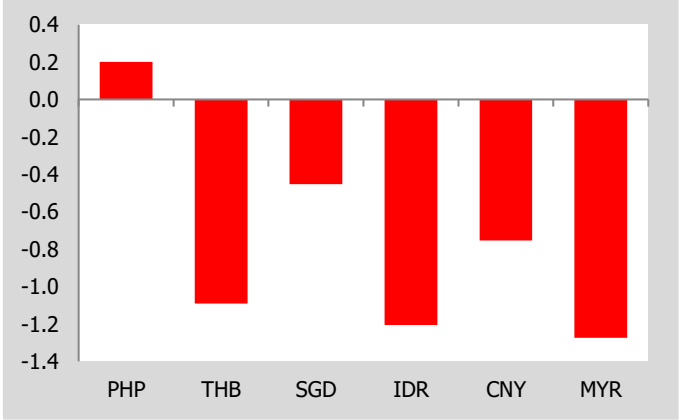
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Malaysia	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	3.00
Indonesia	4.25	4.75	5.25	5.50	5.75	5.75	5.75	5.75	5.75
Philippines	4.25	4.25	5.00	5.50	5.50	6.00	6.25	6.25	6.25
Thailand	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75
Vietnam	5.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
South Korea	2.50	3.00	3.25	3.25	3.50	3.50	3.50	3.50	3.50
India	5.90	5.90	5.90	6.25	6.25	6.50	6.50	6.50	6.50
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	2.25	2.25	3.00	3.50	3.50	4.00	4.25	4.25	4.50
Euro area	1.25	2.00	2.00	2.50	2.50	3.00	3.50	3.50	3.75
USA	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	4.75-5.00	5.00-5.25

Source: Bloomberg, MIDFR

- US economic data released last week:
  - Retail sales increased. Retail sales expanded by +1.6%yoy in Apr-23 (Mar-23: +2.4%yoy), driven mainly by the sales of food and services and drinking places (+9.4%yoy). However, sales of gasoline stations continued into the third month of contraction, declining by -14.6%yoy, limiting the overall growth.
  - Industrial production rose. US industrial production increased by +0.2%yoy in Apr-23 (Mar-23: +0.1%yoy), backed by higher mining production (+5.6%yoy) vis-à-vis declines in manufacturing output (-0.9%yoy) and utilities (-0.4%yoy).
  - Still robust and tight job market. Initial jobless claims declined more than expected to 242K from the previous 18-month high of 264K and lower than market expectations of 254K. The still-tight labour market provides room for the Fed to continue raising interest rates, if deemed necessary.
  - The leading index pointed to recession risk. The Conference Board Leading Economic Index dropped to 107.5 in Apr-23 (Mar-23: 108.2), falling for the 13th consecutive month. As a result, the Conference Board forecasted economic activity would decline in 2QCY23 and enter a mild recession in 2HCY23.

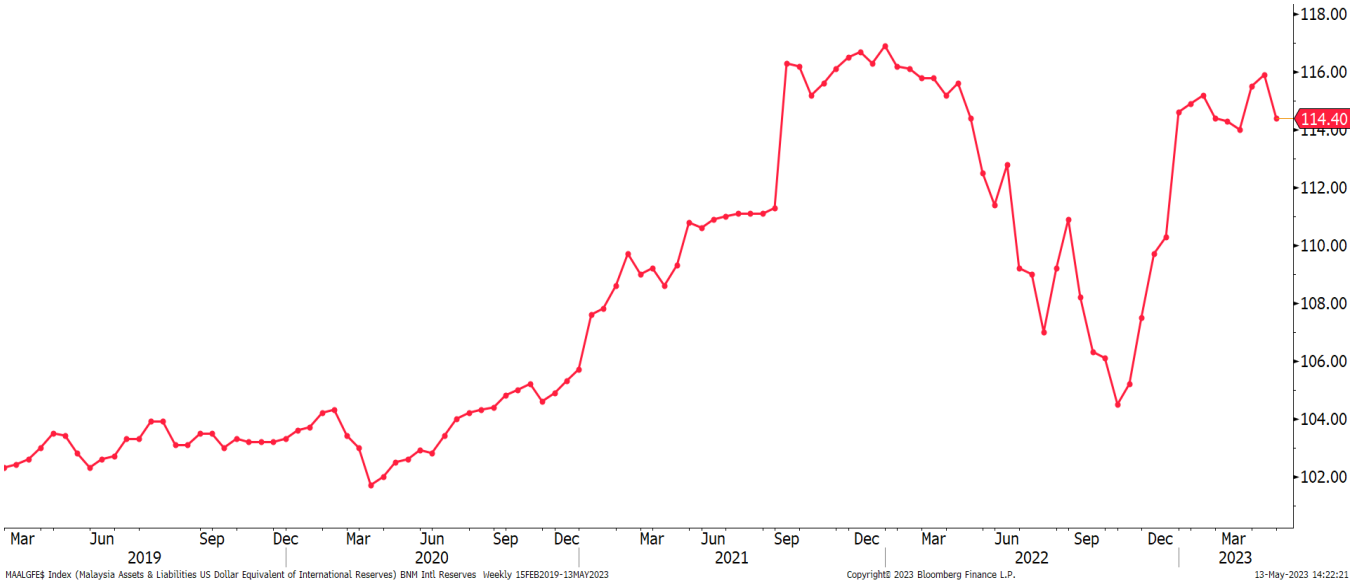
- The Bangko Sentral ng Pilipinas held the interest rate steady. The central bank unsurprisingly kept the interest rate at 6.25% in its May-23 meeting after the country's headline inflation slowed to the lowest since Sep-22 at 6.6% in Apr-23.

- Malaysia's exports plummeted. Malaysia's exports plunged by -17.4%yoy in Apr-23 (Mar-23: -1.4%yoy), worse than expected and the sharpest decline since May-20 mainly due to lower E&E exports. Imports also fell sharply by -11.1%yoy (Mar-23: -1.8%yoy) largely because of lower imports of intermediate and capital goods.

C. BNM INTERNATIONAL RESERVES

- As of 28 April 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD114.4b (14 April 2023: USD115.9b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 5.1 months of imports of goods & services and is 1.0 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	12-May Fri	15-May Mon	16-May Tue	17-May Wed	18-May Thu	19-May Fri	Change (WoW bp)
MGS							
3-Y	3.368	3.391	3.387	3.405	3.415	3.415	4.7
5-Y	3.445	3.463	3.463	3.507	3.483	3.494	4.9
7-Y	3.587	3.609	3.606	3.639	3.687	3.686	9.9
10-Y	3.642	3.653	3.653	3.689	3.692	3.764	12.2
20-Y	3.91	3.88	3.884	3.906	3.911	4.023	11.3
RINGGIT IRS							
1-Y	3.465	3.485	3.48	3.48	3.495	3.475	1
3-Y	3.385	3.435	3.405	3.415	3.45	3.465	8
5-Y	3.455	3.495	3.462	3.5	3.535	3.55	9.5
7-Y	3.57	3.615	3.578	3.62	3.65	3.665	9.5
10-Y	3.695	3.73	3.7	3.745	3.78	3.775	8
KLIBOR							
1-M	3.2	3.2	3.2	3.2	3.2	3.2	0
3-M	3.51	3.51	3.5	3.5	3.49	3.48	-3
UST							
3-Y	3.6555	3.6722	3.7446	3.8173	3.9156	3.95	29.45
5-Y	3.4462	3.4686	3.5257	3.5848	3.6843	3.7319	28.57
7-Y	3.4515	3.4794	3.5228	3.5688	3.6615	3.7056	25.41
10-Y	3.4625	3.5019	3.5339	3.5641	3.6457	3.6726	21.01
30-Y	3.7888	3.8419	3.8537	3.8538	3.904	3.9271	13.83
USD LIBOR							
1-M	5.10543	5.10771	5.11129	5.13243	5.14843	5.14843	4.3
3-M	5.31829	5.33043	5.34514	5.369	5.37914	5.37914	6.085

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	12-May Yield	19-May Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.766	3.840	7.4	2,268.6
MALAYSIA GOVERNMENT	4.498	04/15/30	3.587	3.686	9.9	1,917.3
MALAYSIA GOVERNMENT	3.8	08/17/23	2.969	3.175	20.6	1,461.5
MALAYSIA GOVERNMENT	3.906	07/15/26	3.368	3.415	4.7	1,073.1
MALAYSIA GOVERNMENT	3.519	04/20/28	3.445	3.494	4.9	840.0
MALAYSIA INVESTMNT ISSU	4.245	09/30/30	3.690	3.804	11.4	683.2
MALAYSIA GOVERNMENT	3.882	03/14/25	3.216	3.312	9.6	512.5
MALAYSIA INVESTMNT ISSU	4.13	07/09/29	3.702	3.779	7.7	502.1
MALAYSIA GOVERNMENT	3.899	11/16/27	3.472	3.510	3.8	498.8
MALAYSIA GOVERNMENT	3.582	07/15/32	3.642	3.764	12.2	465.7
TOTAL VOLUME (TOP 10)						10,222.8
TOTAL VOLUME (Overall)						16,076.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	12-May Yield	19-May Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	5.25	05/24/47	N/A	4.269	N/A	500.0
PROJEK LEBUHRAYA USAHA	5.017	01/12/38	4.614	4.525	-8.9	340.0
PROJEK LEBUHRAYA USAHA	4.954	01/12/37	4.559	4.539	-2.0	210.0
TG EXCELLENCE BHD	3.95	PERP	5.892	5.264	-62.8	91.7
CAGAMAS BERHAD	4.27	12/22/25	3.800	3.769	-3.1	90.0
TEKNOLOGI TENAGA PERLI	4.79	07/31/23	N/A	3.581	N/A	60.0
DANAINFRA NASIONAL	3.72	11/10/28	N/A	3.677	N/A	60.0
TENAGA NASIONAL BERHA	4.95	08/03/32	4.318	4.220	-9.8	55.0
PENGURUSAN AIR SPV BHD	3.75	04/28/28	N/A	3.997	N/A	45.0
PERBADANAN KEMAJUAN P	3.81	10/30/23	N/A	4.739	N/A	42.0
TOTAL VOLUME (TOP 10)						1,493.7
TOTAL VOLUME (Overall)						2,872.7

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