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MIDF AMANAH
INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy 6 June 2023

Week Ended 2 June 2023

- Buyers returned to the safe-haven UST market with benchmark 10-year yield ended the review week lower at 3.69% (prior week: 3.80%) as the US debt ceiling impasse was nearing its default deadline. Nonetheless, sellers emerged later in the week upon a debt ceiling deal and the release of hotter-than-expected May payroll data. The 10y-3y yield spread inverted deeper at -45bps (prior week: -44bps) as the short-end underperformed. Meanwhile, the interest rate futures market was implying a 72% probability of no rate hike in June.

- Medium-term inflation expectation (MTIE) ended slightly lower week-on-week at 2.17% (prior week: 2.18%) despite the strong payroll data as investors were arguably soothed by a weaker-than-expected wage growth figure. 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 generally ebbing. We reckon the MTIE may revert to 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 -5.1bps and -6.6bps to close at 3.40% and 3.69% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 31bps to 30bps as the short-end underperformed.

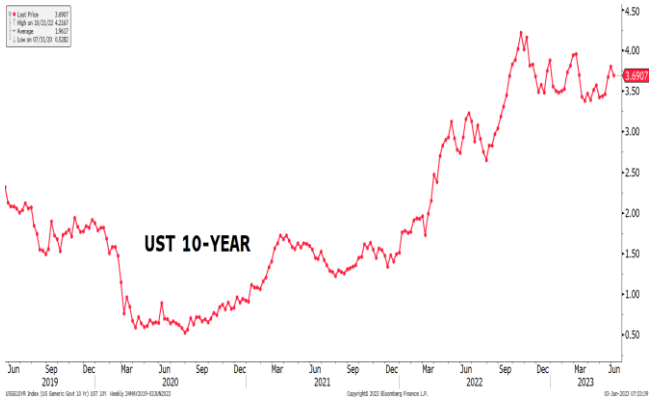
- MGS foreign holdings increased on-year from RM257b in April 2022 to RM260b in April 2023. Moreover, it risen on-month from RM258b in March 2023. On Bursa Malaysia, the 12-month rolling sum of foreign net equities trade ended the review week at -RM6.06b. It worsened on-week from -RM5.10b registered a week ago. Moreover, it slumped on-year from RM7.59b a year ago.

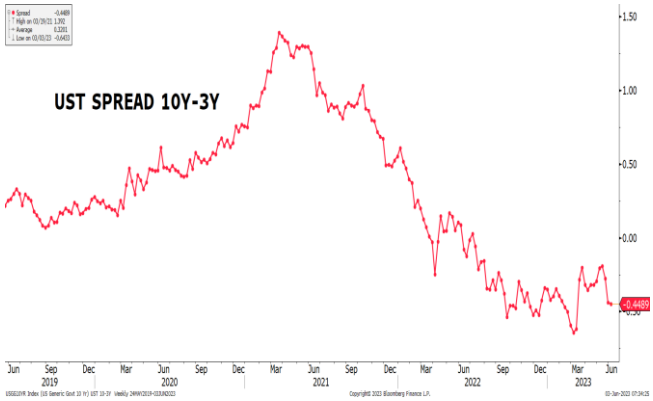
7 June 2023 | **Strategy** Strategy Team | research@midf.com.my

Weekly Money Review

A. FIXED INCOME

- Buyers returned to the safe-haven UST market with benchmark 10-year yield ended the review week lower at 3.69% (prior week: 3.80%) as the US debt ceiling impasse was nearing its default deadline. Nonetheless, sellers emerged later in the week upon a debt ceiling deal and the release of hotter-than-expected May payroll data. The 10y-3y yield spread inverted deeper at -45bps (prior week: -44bps) as the short-end underperformed. Meanwhile, the interest rate futures market was implying a 72% probability of no rate hike in June.





Source: Bloomberg, MIDFR

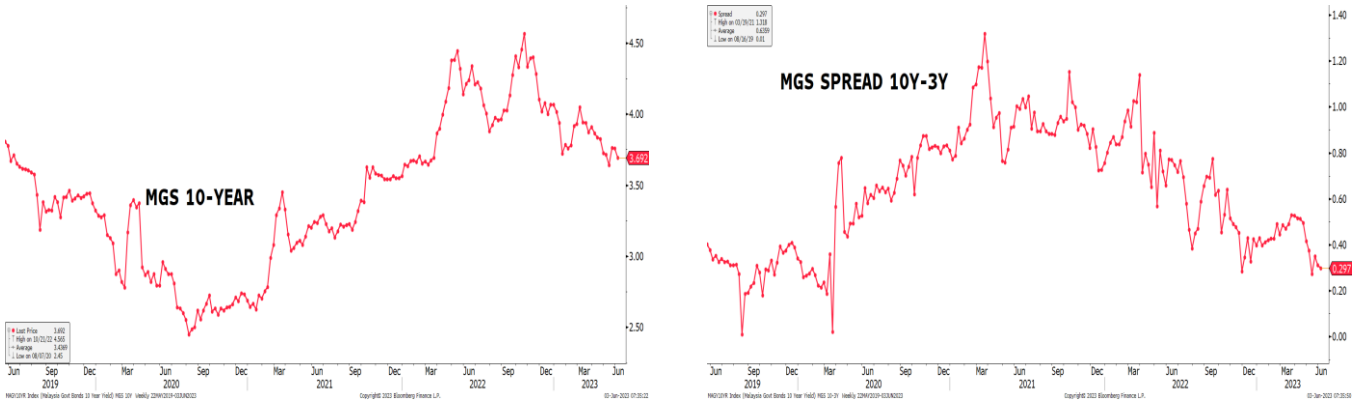
- Medium-term inflation expectation (MTIE) ended slightly lower week-on-week at 2.17% (prior week: 2.18%) despite the strong payroll data as investors were arguably soothed by a weaker-than-expected wage growth figure. The MTIE remains below an elevated inflation range (of 2.25%-2.50%) acceptable transiently 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 generally 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 higher with the 3-year and 10-year yields shed -5.1bps and -6.6bps to close at 3.40% and 3.69% respectively. The 10y-3y yield spread narrowed (yield curve flattened) week-on-week from 31bps to 30bps as the short-end underperformed.

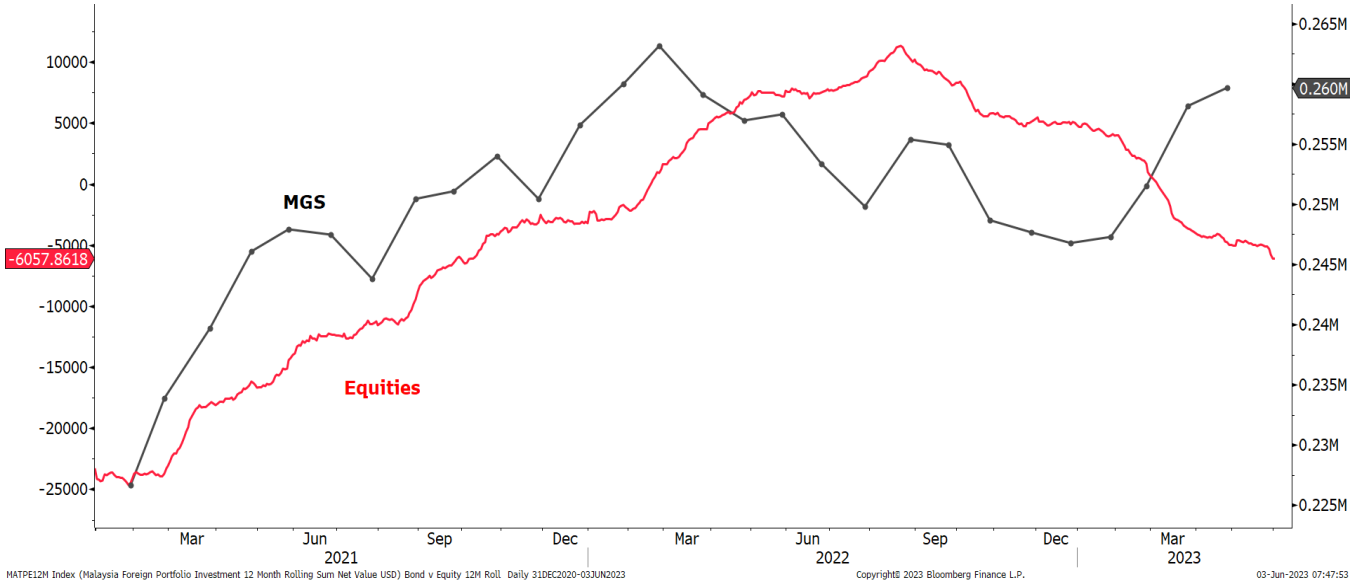


Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM14.84b in the review week compared to RM16.78b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 50% from 56% 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 with long residual tenor. The top 3 most actively traded were MGS 4.893% 6/8/38 at RM1.18b, MII 4.193% 10/7/32 at RM1.08b, and MGS 3.582% 7/15/32 at RM892m.

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 -RM6.06b. It worsened on-week from -RM5.10b registered a week ago. Moreover, it slumped on-year from RM7.59b a year ago.

- Total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.57b in the review week compared to RM2.46b 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 41% of the overall Corporate Bonds trades.

- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenor. The largest trading values were seen in Danainfra 4.32% 11/26/25 at RM160m, Digi Telecom 3.5% 9/18/26 at RM80m, and PLUS 4.954% 1/12/37 at RM60m.

B. FOREIGN EXCHANGE

- USD ended a 3-week rally. The USD depreciated last week as the DXY index fell by -0.2%wow to 104.02. After three weeks of appreciation, USD weakened as risk-on sentiment returned following the US government's decision to suspend the increase of debt ceiling limit until Jan-25. Additionally, the Fed's dovish sentiment to skip the hike in Jun-23 also spurred the USD retreat, although robust labour market data on Friday pushed the USD to recover some of the losses.

- Euro continued to weaken while the pound appreciated. The euro depreciated for 4 consecutive weeks, albeit marginally by -0.1%wow to USD1.071. Although euro reached the lowest level in over 2 months mid-week before gaining again as the US debt ceiling fears subsided. However, the appreciation was dampened by renewed prediction of another hike by the Fed, forcing euro to close slightly lower than last week. On the contrary, the pound sterling appreciated by +0.9%wow to USD1.245, backed by expectations for more hikes by the BOE.

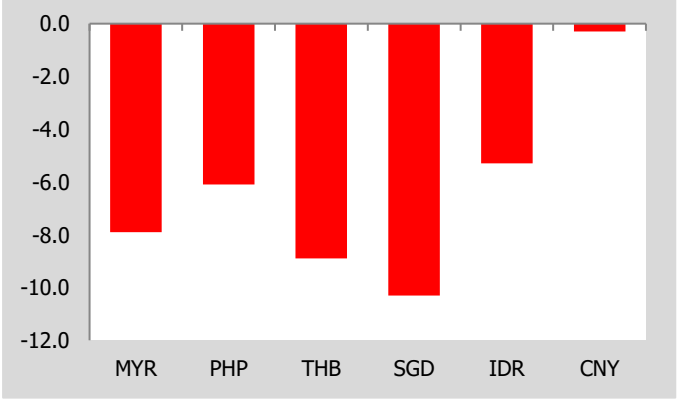
- Ringgit appreciated it for the first time in 4 weeks. Ringgit closed the week higher by +0.5%wow at RM4.577, reversing the depreciation in the previous 3 weeks. Like other currencies, ringgit gained from improved sentiment in the market as fears over US debt default diminished. The ringgit movement was affected mainly by the USD weakness as the commodity price changes were unfavourable towards the ringgit, with the Brent crude benchmark closing lower by -1.1%wow at USD76.13.

Currencies Changes (Week Ended 2 June 2023) and Quarterly Forecasts

	Close (02/6)	Prev. Close (26/5)	Weekly Change	Weekly Change (%)	1QCY23	2QCY23f	3QCY23f	4QCY23f
DXY Index	104.02	104.21	-0.191	-0.2	102.51	101	98.3	97.5
EURUSD	1.071	1.072	-0.002	-0.1	1.08	1.09	1.12	1.13
GBPUSD	1.245	1.234	+0.011	+0.9	1.23	1.25	1.24	1.26
USDJPY	139.92	140.6	+0.680	+0.5	132.86	131.3	129	126
USDMYR	4.577	4.600	+0.024	+0.5	4.42	4.35	4.13	4.00
GBPMYR	5.736	5.686	-0.049	-0.9	5.46	5.44	5.12	5.04
JPYMYR	3.270	3.273	+0.003	+0.1	3.33	3.32	3.20	3.17

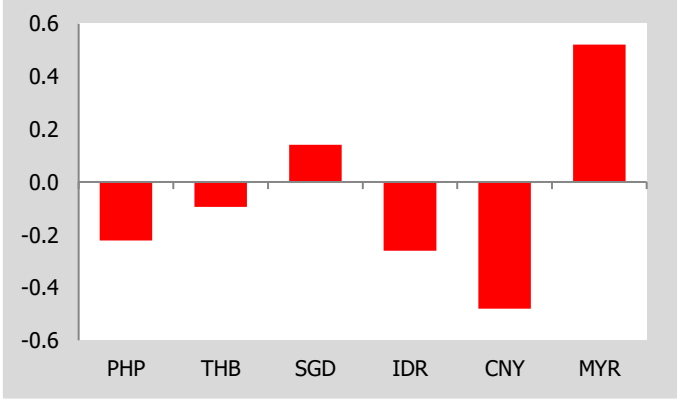
Note: "+" indicates appreciation, while "-" indicates depreciation. Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

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

Source: Bloomberg, MIDFR

- US economic data released last week:
  - Still robust May-23 labour market data despite some sign of cooling. US non-farm payrolls increased faster than expected at +339K in May-23 (Apr-23: 294K), overwhelmingly higher than market expectations for smaller job creation of +190K. However, the unemployment rate was higher than expected at 3.7% (Apr-23: 3.4%; market expectations: 3.5%), the highest level since Oct-22. Nevertheless, tightness in the job market continued as initial weekly filing for jobless benefits remained low despite rising to 4-week high at 232K (previous week: 230K).
  - The manufacturing sector recorded a contraction. The S&P Global Manufacturing PMI and ISM Manufacturing PMI fell to contractionary territory in May-23 at 48.4 (Apr-23: 50.2) and 46.9 (Apr-23: 47.1), respectively.
  - Productivity fell in the 1QCY23. Non-farm labour productivity declined by -2.1%qoq (4QCY22: +1.6%qoq) in 1QCY23, but the decline was not as sharp as market expectations for -2.5%qoq decline.

- Bank of Thailand raised its policy interest rate by 25bps to 2.00% in its May-23 meeting last week, as the market anticipated. The decision was to contain high inflation especially elevated core inflation from affecting the country's economic growth.

- Malaysia's economic releases last week:
  - Producer prices declined faster by -3%yoy in Apr-23 (Mar-23: -2.9%yoy), falling for the third straight month mainly attributable to continued fall in raw material prices and lower PPI for agriculture and mining sectors.
  - Activities in the manufacturing sector remained in contractionary as manufacturing PMI fell to 47.8 in May-23 (Apr-23: 48.8), the sharpest month-to-month drop in five months. The index remained in contraction, i.e. below 50 for 9 months.

C. BNM INTERNATIONAL RESERVES

- As of 15 May 2023, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD114.7b (28 April 2023: USD114.4b).

BNM INTERNATIONAL RESERVES



Source: Bloomberg, MIDFR

- The amount of reserves is sufficient to finance 4.9 months of imports of goods & services and is 1.0 times total short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	26-May Fri	29-May Mon	30-May Tue	31-May Wed	1-Jun Thu	2-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.446	3.418	3.408	3.392	3.403	3.395	-5.1
5-Y	3.474	3.483	3.474	3.471	3.482	3.471	-0.3
7-Y	3.68	3.686	3.635	3.603	3.61	3.593	-8.7
10-Y	3.758	3.751	3.738	3.701	3.708	3.692	-6.6
20-Y	4.13	4.112	4.095	4.073	4.065	4.043	-8.7
RINGGIT IRS							
1-Y	3.55	3.53	3.505	3.495	3.495	3.485	-6.5
3-Y	3.5395	3.515	3.485	3.445	3.45	3.425	-11.45
5-Y	3.595	3.56	3.525	3.49	3.48	3.4525	-14.25
7-Y	3.73	3.695	3.645	3.615	3.605	3.575	-15.5
10-Y	3.85	3.82	3.78	3.74	3.73	3.7	-15
KLIBOR							
1-M	3.19	3.19	3.19	3.19	3.19	3.19	0
3-M	3.46	3.46	3.46	3.46	3.45	3.45	-1
UST							
3-Y	4.2372	4.2372	4.1118	4.0465	3.9813	4.1396	-9.76
5-Y	3.9271	3.9271	3.8067	3.7547	3.6975	3.8437	-8.34
7-Y	3.8656	3.8656	3.7474	3.6989	3.6454	3.7756	-9
10-Y	3.7983	3.7983	3.6866	3.6426	3.595	3.6907	-10.76
30-Y	3.9607	3.9607	3.8904	3.8611	3.8149	3.8877	-7.3
USD LIBOR							
1-M	5.15371	5.15371	5.17043	5.193	5.163	5.163	0.929
3-M	5.47571	5.47571	5.496	5.51671	5.49857	5.49857	2.286

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	26-May Yield	2-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	4.893	06/08/38	4.030	3.813	-21.7	1,180.4
MALAYSIA INVESTMNT ISSU	4.193	10/07/32	3.864	4.325	46.1	1,082.3
MALAYSIA GOVERNMENT	3.582	07/15/32	3.758	3.692	-6.6	892.4
MALAYSIA INVESTMNT ISSU	4.13	07/09/29	3.797	3.677	-12.0	741.0
MALAYSIA INVESTMNT ISSU	3.599	07/31/28	3.553	3.515	-3.8	642.2
MALAYSIA GOVERNMENT	3.906	07/15/26	3.446	3.395	-5.1	635.8
MALAYSIA GOVERNMENT	3.885	08/15/29	3.730	3.585	-14.5	586.8
MALAYSIA GOVERNMENT	4.762	04/07/37	4.026	3.985	-4.1	583.1
MALAYSIA GOVERNMENT	3.519	04/20/28	3.474	3.471	-0.3	556.3
MALAYSIA GOVERNMENT	3.8	08/17/23	3.075	3.047	-2.8	508.9
TOTAL VOLUME (TOP 10)						7,409.2
TOTAL VOLUME (Overall)						14,843.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	26-May Yield	2-Jun Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.32	11/26/25	N/A	3.447	N/A	160.0
DIGI TELECOMMUNICATION	3.5	09/18/26	3.883	3.869	-1.4	80.0
PROJEK LEBUHRAYA USAHA	4.954	01/12/37	4.460	4.536	7.6	60.0
TNB POWER GENERATION	4.84	03/27/43	4.410	4.399	-1.1	60.0
PRASARANA MALAYSIA BHD	4.53	03/10/34	N/A	4.001	N/A	45.0
KUALA LUMPUR KEPONG BH	4.58	08/12/25	3.906	3.908	0.2	40.0
PENGURUSAN AIR SPV BHD	4.15	06/04/29	4.057	4.048	-0.9	40.0
PUBLIC ISLAMIC BANK BHD	3.75	10/31/29	N/A	3.780	N/A	40.0
PRESS METAL ALUMINIUM	4	08/15/25	4.130	4.108	-2.2	40.0
TANJUNG BIN ENERGY SDN	5.7	03/16/27	N/A	5.458	N/A	40.0
TOTAL VOLUME (TOP 10)						605.0
TOTAL VOLUME (Overall)						1,569.5

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