

MIDF Strategy | 2 May 2017

Week Ended 28 April

- The prices of Ringgit government debt papers rose across the tenor range driven by the appreciation of ringgit which advanced to 4.341.
- DXY index, a measure of dollar against six major currencies, shed 0.9% to 99.050.
- The MGS yield curve steepened further as rates at the shorter end fell at a faster rate compared with that at the longer end.
- International trade figures reported by major economies were showing signs of reflation while manufacturing indexes were on the uptrend.
- With the receding downside risks at the global front as well as its mandate to promote domestic economic growth, we opine BNM will likely to continue with its supportive and accommodative monetary stance.
- Hence, there is less probability for BNM to hike its policy rate at the MPC meeting this month.

02 May 2017 | Strategy

Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- It was a healthy week for risk-free Ringgit government debt papers as prices rose across the tenor range. The broad price gains were in tandem with the appreciation of ringgit during the review week.
- The yield curve steepened further as rates at the shorter end fell at a faster rate compared with that at the longer end. The yield of 3-year MGS declined by 10.4 basis points (bp) last week, compared with 6.1bp decline in the rate for 10-year MGS. The yield curve has been steepening since the beginning of the month.
- Total volume trade for Government Bonds (MGS/GII) increased to RM25.0b in the review week from RM16.6b in the week before (based on Bloomberg data). The 10 most actively traded issues represent slightly more than 65% of the overall Government Bonds trades in the review week (down slightly from ~66% in week before).
- Unlike in previous weeks, the top 3 volumes were not confined to issues with short (less than 1 year) remaining tenor. The top 3 most actively traded were MGS 4.01% 09/15/17 at RM3.1b, MGS 3.88% 03/10/22 at RM2.8b and MGS 3.31% 10/31/17 at RM2.3b. Moreover, 8 out of the 10 most actively traded issues saw lower yields during the past week hence higher prices.
- Total volume trade for Corporate Bonds (Conventional & Sukuk) decreased to RM2.1b in the review week from RM2.3b in prior week (based on Bloomberg data). Trading interest was relatively less concentrated as the 10 most actively traded issues represent circa 37% of the overall Corporate Bonds trades (down from ~41% in week before).
- The top 3 actively traded issues among the Corporate Bonds were quite varied in terms of their remaining tenor and were not confined to financial institutions.
- The biggest volumes were seen in RHB Bank 4.3% 05/06/22 at RM110m, Hong Leong Bank 4.5% 06/21/24 at RM135m and Projek Lebuhraya Usahasa 4.86% 01/12/38 at RM85m.
- Total foreign holdings in Government Bonds stood at RM155.7b as at March 2017. It was a decline of RM23.6b from the February 2017 figure of RM179.4b.



Source: BNM

- In contrast, total foreign holdings in Corporate Bonds increased by RM1.3b in the month of March 2017 to RM15.9b.

B. FOREIGN EXCHANGE

- Dollar declined for third consecutive weeks as market digested the weaker 1Q17 GDP performance and data-risk lying ahead –stemming from FOMC, PCE inflation and job’s report. DXY index, a measure of dollar against six major currencies, shed 0.9% to 99.050 from 99.977. US GDP in the first quarter grew only 0.7% vs 1.0% median estimate. Meanwhile, Macron’s win against Le Pen in the first round of the France general election is viewed as receding risk of far-right movement in the Europe. On the flip side, EURUSD jumped by 1.6% to 1.090, aided by Draghi’s comments that the region recovery was on the uptrend and noting that the downside had diminished (referring to recent political movement).
- Ringgit – the lone winner during the week. The dollar weakness did not help the case for the EM currencies that we were tracking except Ringgit which advanced 1.3% against the greenback to 4.341 from 4.399. Ringgit’s breakthrough continued apace especially after breaking the major resistance level at 4.400 in the last two weeks. This bodes well with our forecast of USDMYR 4.20 by the end of this quarter. USDSGD flat-lined at 1.3973 while other currencies fell between 0.1% and 0.6% against the dollar.

Currencies Changes (Weekly Ended on 28/4) and Quarterly Forecast

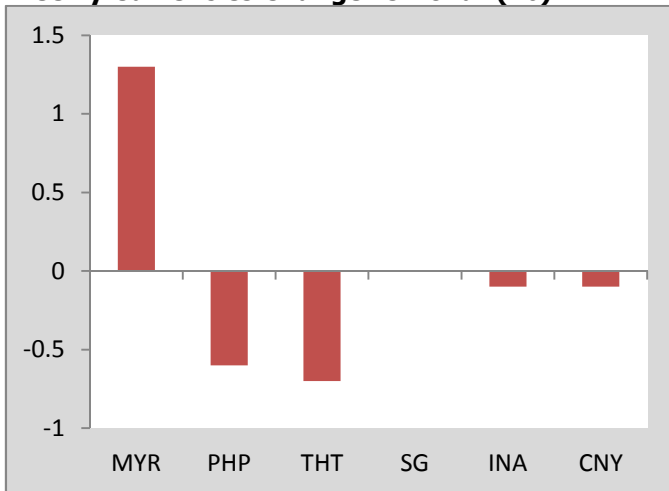
	Close (28/4)	Prev Close (21/4)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	99.050	99.977	-0.673	-0.9	101.12	102.5	103	103.5
EURUSD	1.090	1.073	0.006	1.6	1.055	1.045	1.02	1.03
GBPUSD	1.295	1.282	0.008	1.0	1.23	1.15	1.18	1.21
USDJPY	111.49	109.09	-1.36	-2.2	114.00	118.00	120.00	119.00
USDMYR	4.341	4.399	-0.009	1.3	4.45	4.20	4.43	4.30
GBPMYR	5.620	5.630	0.024	0.2	5.48	5.50	5.45	5.30
JPYMYR	3.894	4.033	0.04	3.4	3.92	3.75	3.85	3.85

Quarterly figures are forecast by MIDFR

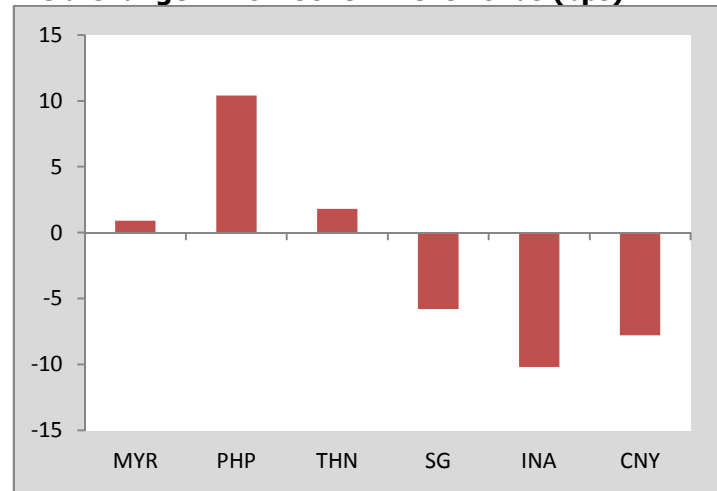
Source: CEIC, Bloomberg, MIDF Research

- The price of Malaysia’s 10-yr bond rose albeit slightly after having saw its yield declined by 4bps to 4.075 from 4.115 the week before. The sovereign is set to record a monthly gain after heavy selling observed in March which saw more than RM28b outflow – a move we opine originated by liquidation of carry traders. We did outline that we were expecting the funds outflow to recede as Malaysia’s economic fundamental remains solid.

Weekly Currencies Change vs Dollar (%)



Yield Change in 10Y Government Bonds (bps)



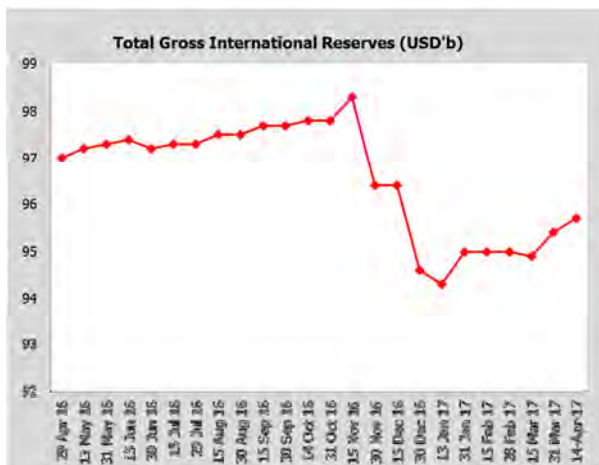
For the week ended on 28/4/2017

Source: Bloomberg, MIDFR


- The current general economic conditions are gradually improving both at the domestic and at the global fronts. International trade figures reported in major economies were showing signs of reflation while manufacturing indexes were on the uptrend.
- With consumer and business confidence reportedly shown an improvement, supportive monetary environment is expected to continue to further support growth in economic activities.
- Third upcoming Bank Negara MPC meeting on the 12th will be closely watched as how BNM will maneuver and hint its monetary stance amid rising inflationary pressure seen in the last quarter. Inflation rate averaged at 4.26% in the first 3 months of the year. The inflation rate was slightly above BNM's upper range average of 4% expected for the rest of the year.
- The receding downside risks at the global front as well as mandate to promote higher economic growth, we opine BNM will likely to continue with its supportive and accommodative monetary stance. Hence, there is less probability for BNM to hike policy rate at the upcoming MPC meeting.
- MPC would likely to focus on economic growth rate and stability rather than weighing its options to counter slight increase in headline inflation, which is expected to move slightly above BNM's inflation band of between 3 to 4% mainly due to cost driven factor. We maintain our view that BNM keeps OPR unchanged at 3% in the upcoming MPC meeting.

C. BNM FOREIGN RESERVES

- As at 14 April 2017, Bank Negara Malaysia's international reserves totaled up to USD95.7b (equivalent to RM423.2b).



Source: BNM

- The amount of reserves is sufficient to finance 8.2 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	21-Apr Fri	24-Apr Mon	25-Apr Tue	26-Apr Wed	27-Apr Thu	28-Apr Fri	Change (WoW bp)
MGS							
3-Y	3.316	3.316	3.233	3.244	3.246	3.212	-10.4
5-Y	3.762	3.762	3.757	3.734	3.693	3.677	-8.5
7-Y	3.99	3.99	3.988	3.958	3.938	3.902	-8.8
10-Y	4.113	4.113	4.084	4.077	4.071	4.052	-6.1
20-Y	4.724	4.724	4.724	4.724	4.724	4.676	-4.8
RINGGIT IRS							
1-Y	3.535	3.535	3.54	3.545	3.525	3.545	1
3-Y	3.7	3.7	3.7	3.68	3.68	3.6565	-4.35
5-Y	3.82	3.82	3.82	3.785	3.74	3.765	-5.5
7-Y	3.92	3.92	3.93	3.905	3.875	3.865	-5.5
10-Y	4.065	4.065	4.07	4.045	4.03	4.02	-4.5
KLIBOR							
1-M	3.18	3.18	3.18	3.18	3.18	3.18	0
2-M	3.4	3.4	3.4	3.4	3.4	3.4	0
3-M	3.43	3.43	3.43	3.43	3.43	3.43	0
UST							
3-Y	1.4004	1.4326	1.4784	1.4567	1.4378	1.443	4.26
5-Y	1.7703	1.8017	1.8549	1.8282	1.8224	1.8142	4.39
7-Y	2.0569	2.0787	2.1395	2.1078	2.1005	2.0941	3.72
10-Y	2.248	2.273	2.3322	2.3035	2.2946	2.2802	3.22
30-Y	2.9015	2.9288	2.9879	2.9602	2.9642	2.9508	4.93
USD LIBOR							
1-M	0.99056	0.99111	0.99222	0.99278	0.995	0.995	0.444
2-M	1.04	1.04611	1.04056	1.04	1.03722	1.03722	-0.278
3-M	1.15622	1.1665	1.17039	1.17178	1.16956	1.17233	1.611

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	21-Apr Yield	28-Apr Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.012	09/15/17	3.145	3.004	-14.1	3,111.2
MALAYSIA GOVERNMENT	3.882	03/10/22	3.762	3.677	-8.5	2,773.8
MALAYSIA GOVERNMENT	3.314	10/31/17	3.185	3.086	-9.9	2,267.3
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.876	3.793	-8.3	1,990.2
MALAYSIA GOVERNMENT	4.059	09/30/24	3.990	3.902	-8.8	1,146.3
MALAYSIA GOVERNMENT	4.378	11/29/19	3.542	3.467	-7.5	1,100.1
MALAYSIA GOVERNMENT	3.58	09/28/18	3.310	3.284	-2.6	1,080.6
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.714	3.666	-4.8	1,042.2
MALAYSIA GOVERNMENT	3.9	11/30/26	4.113	4.052	-6.1	881.0
MALAYSIA GOVERNMENT	3.844	04/15/33	4.489	4.425	-6.4	849.3
TOTAL VOLUME (TOP 10)						16,242.0
TOTAL VOLUME (Overall)						25,003.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	21-Mar Yield	28-Apr Yield	Change (WoW bp)	Weekly Volume (RM bn)
RHB BANK	4.3	05/06/22	N/A	9.083	N/A	110.0
HONG LEONG BANK	4.5	06/21/24	4.471	4.518	4.7	109.6
PROJEK LEBUHRAYA USAHASA	4.86	01/12/38	5.005	5.001	-0.4	85.0
SUNWAY BERHAD	ZERO	05/26/17	N/A	3.802	N/A	85.0
PROJEK LEBUHRAYA USAHASA	5.07	01/10/31	4.891	4.861	-3.0	79.0
RANTAU ABANG CAPITAL	4.14	08/28/19	4.035	4.006	-2.9	65.0
AMMB HOLDING	4.5	08/08/19	4.688	4.688	0.0	60.0
IMPIAN EKSPRESI SDN BHD	4.75	11/27/20	4.785	4.785	0.0	60.0
MALAYSIA AIRPORTS HG BHD	5.75	PERP	4.979	4.979	0.0	60.0
SUNWAY TREASURY SUKUK SD	ZERO	05/25/17	3.812	3.812	0.0	45.0
TOTAL VOLUME (TOP 10)						758.6
TOTAL VOLUME (Overall)						2,072.4

Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.