

MIDF Strategy | 2 July 2018

Week Ended 29 June

- UST gained (prices up; yields down) last week as the market was assessing the impact on external trade and broader economy pursuant to tariffs activation beginning 6 July (next Friday) on the importation of USD34b worth of Chinese goods. The government of China is expected to retaliate in kind.
- It is also notable that the UST yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +24bps, the lowest since August 2007. As stated before, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Similarly, the yield curve of local MGS bonds ended the review week flatter with the benchmarks 3-year yield lower by -2.1bps while the 10-year yield higher by +2.2bps to close the week at 3.62% and 4.20% respectively.
- Total trading value for Government Bonds (MGS/MII) increased to RM15.9b in the review week compared to RM7.4b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 47% of the overall Government Bonds trades in the week under review (vis-à-vis ~52% in the week before). In addition, 6 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.9b in the review week compared to RM834m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 25% of the overall Corporate Bonds trades (from ~41% in the week before).

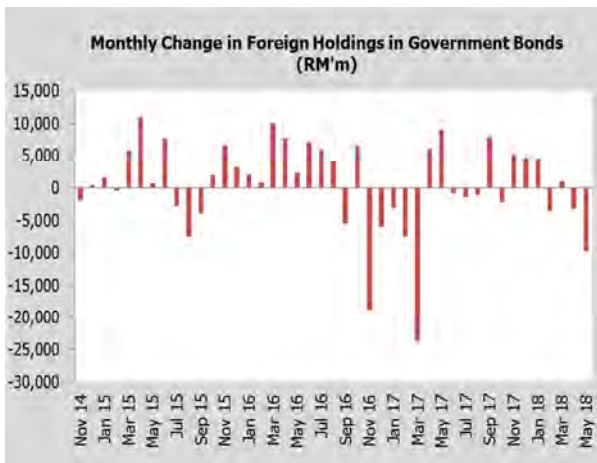
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

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- It is also notable that the UST yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +24bps, the lowest since August 2007. As stated before, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Similarly, the yield curve of local MGS bonds ended the review week flatter with the benchmarks 3-year yield lower by -2.1bps while the 10-year yield higher by +2.2bps to close the week at 3.62% and 4.20% respectively.
- Total trading value for Government Bonds (MGS/MII) increased to RM15.9b in the review week compared to RM7.4b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 47% of the overall Government Bonds trades in the week under review (vis-à-vis ~52% in the week before). In addition, 6 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues of varied residual tenors. The top 3 most actively traded were MGS 3.65% 10/31/19 at RM1.07b, MGS 3.48% 03/15/23 at RM1.02b and MII 4.72% 06/15/33 at RM860.3m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.9b in the review week compared to RM834m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 25% of the overall Corporate Bonds trades (from ~41% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues of varied residual tenors. The biggest trading values were seen in Malaysia Debt Ventures 5.19% 09/26/18 at RM70m, YTL Power International 5.05% 05/03/27 at RM66.5m and Prasarana Malaysia Bhd 4.65% 12/11/25 at RM60.0m.
- Total foreign holdings of Government Bonds stood at RM171.7b as at end-May 2018. It was a decline of -RM9.82b from the April 2018 figure of RM181.5b.



Source: BNM

- In tandem, total foreign holdings of Corporate Bonds decreased by -RM803.5m in the month of May 2018 to RM14.3b.

B. FOREIGN EXCHANGE

- DXY Index appreciated by 0.5%wow. Positive economic data paves way for the Fed to continue with its contractionary monetary policy. Core PCE inflation which mostly referred by the Fed, for the first time in 6-year touched the 2% target line in May-18. Plus, firm domestic demand supported with optimistic consumer confidence will provide additional boost to the economy. The University of Michigan's consumer sentiment registered 98.2 points in Jun-18, higher than the previous month.
- EURUSD contracted as retail sales in Germany fell. Retail sales in the EU's largest economy shrank by -1.6%yoy in May-18, the slowest in 2018. Core inflation for EU decelerates to 1%yoy in Jun-18, below 8-month high in the previous month of 1.1%. On a flip side, headline inflation in the region went up to 2%, highest since Feb-17. Political uncertainty, looming trade war tension and rising commodity prices are key downside risks for the economy as well as ECB.

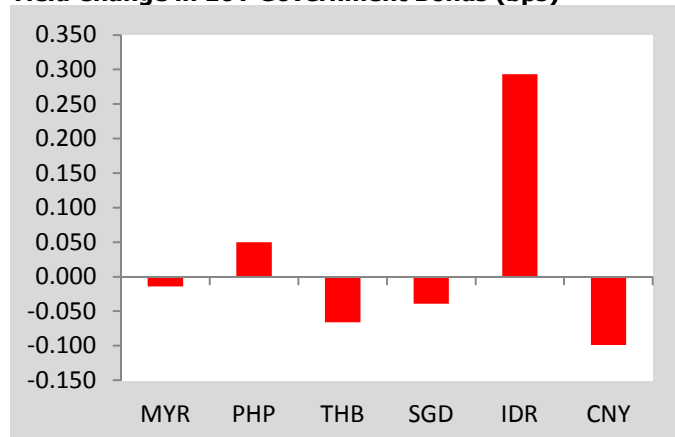
Currencies Changes (Week Ended 29/06) and Quarterly Forecasts

	Close (29/06)	Prev Close (22/06)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	94.946	94.520	0.426	0.5%	90.07	92.82	94.07	98.24
EURUSD	1.162	1.165	-0.003	-0.2%	1.23	1.19	1.18	1.13
GBPUSD	1.312	1.326	-0.015	-1.1%	1.39	1.37	1.25	1.18
USDJPY	110.680	109.970	0.710	-0.6%	108.09	109.24	103.58	111.40
USDMYR	4.037	4.002	0.035	-0.9%	3.92	3.95	4.00	4.28
GBPMYR	5.295	5.321	-0.026	0.5%	5.46	5.37	4.97	5.02
JPYMYR	3.648	3.639	0.008	-0.2%	3.63	3.62	3.86	3.85

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

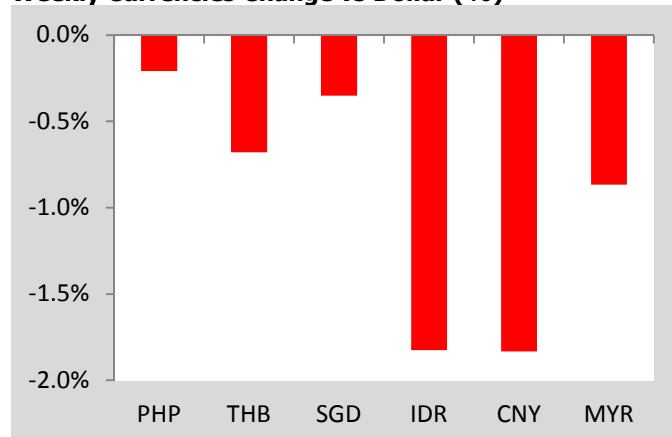
- Ringgit – At 6-month low. By year-end 2017, MYR was at 4.05. By end of Jun-18, MYR recorded at 4.04. Apart from global factors, policy uncertainties remain the main factor causing MYR to depreciate. MYR is expected to improve once the Budget 2019 and Mid-Term Review of RMK-11 being tabled in 4Q18. We maintain our call MYR to average at 4.00 and register year-end target at 3.95.

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 (%)

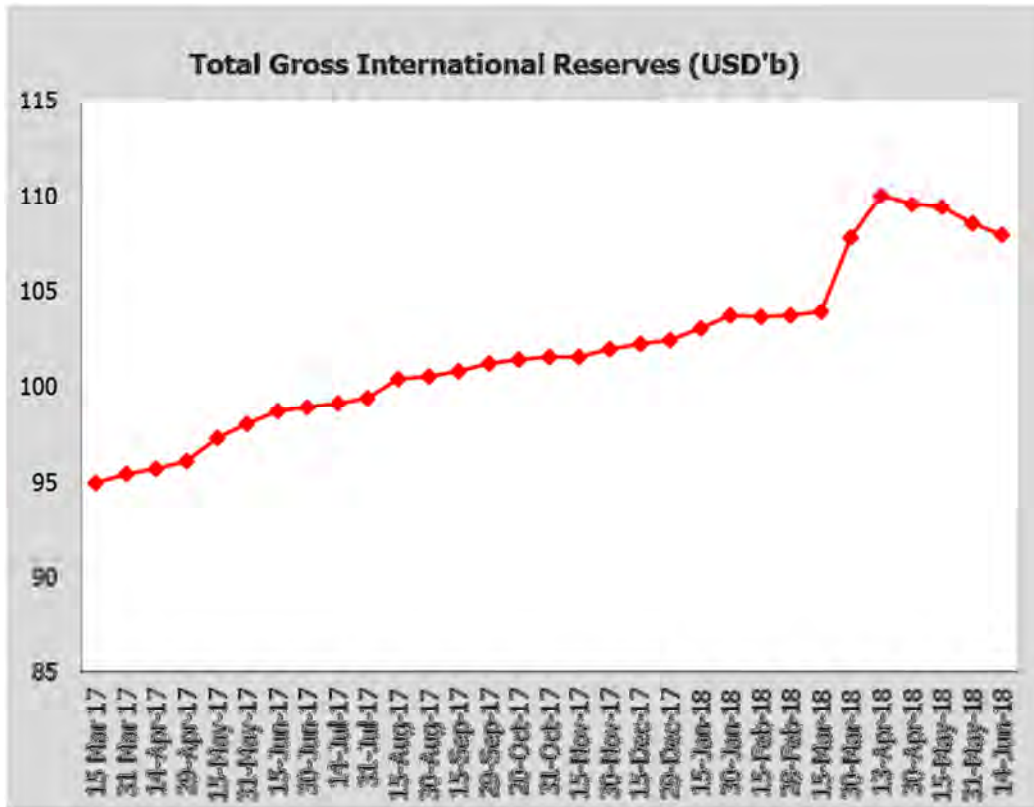
	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Malaysia	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.75	5.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
United Kingdom	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	2.00

Source: CEIC, MIDFR


- The trade tension among US and its key trading allies posed serious threat to global trade and growth.
- US recent stance on global trade has instigated countermeasures by its targeted allies and elevated uncertainty for the market. Emerging economies currencies are under pressure which requires central bank to respond.
- Growing risks related to trade tension, geopolitical uncertainties and policy uncertainty determine the positioning of global capital seeking for yield hence affecting monetary stance especially for emerging economies.
- Nevertheless, move toward normalization and tightening in developed economies are expected in the near term as growth pick-up and inflationary pressure start kicking in amid elevated commodities prices.
- Regionally Bank Indonesia raised another 50bps in their latest policy meeting as pressure mounting to curb exodus of foreign fund. Bank Indonesia has raised 100bps since May this year.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance as well as commodities prices.
- Domestically, inflationary pressure is expected to moderate with upward bias amid rising pressure from commodities prices. However, recent move to maintain the Ron95 pump price and zero-rated GST will help cushion the pressure.
- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for 2018 barring any unforeseen circumstances.

C. BNM FOREIGN RESERVES

- As at 14 June 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD107.9b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.0 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	22-Jun Fri	25-Jun Mon	26-Jun Tue	27-Jun Wed	28-Jun Thu	29-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.598	3.61	3.61	3.604	3.61	3.619	2.1
5-Y	3.871	3.871	3.871	3.871	3.848	3.848	-2.3
7-Y	4.042	4.042	4.042	4.062	4.053	4.057	1.5
10-Y	4.222	4.207	4.204	4.205	4.205	4.2	-2.2
20-Y	4.885	4.885	4.893	4.893	4.875	4.869	-1.6
RINGGIT IRS							
1-Y	3.73	3.73	3.725	3.725	3.725	3.725	-0.5
3-Y	3.795	3.795	3.795	3.795	3.79	3.79	-0.5
5-Y	3.885	3.885	3.87	3.8775	3.876	3.88	-0.5
7-Y	4	4	3.995	3.995	4	4.005	0.5
10-Y	4.16	4.165	4.16	4.17	4.18	4.16	0
KLIBOR							
1-M	3.43	3.43	3.43	3.43	3.43	3.43	0
2-M	3.66	3.66	3.66	3.66	3.66	3.66	0
3-M	3.69	3.69	3.69	3.69	3.69	3.69	0
UST							
3-Y	2.6413	2.6276	2.6221	2.5835	2.5945	2.622	-1.93
5-Y	2.7668	2.7515	2.7463	2.6952	2.7142	2.7378	-2.9
7-Y	2.8523	2.8398	2.8348	2.7824	2.7973	2.8218	-3.05
10-Y	2.8949	2.8803	2.8766	2.8256	2.8365	2.8601	-3.48
30-Y	3.0394	3.0244	3.0251	2.9673	2.9657	2.989	-5.04
USD LIBOR							
1-M	2.09775	2.10288	2.10188	2.0935	2.09213	2.09025	-0.75
2-M	2.17881	2.16963	2.16888	2.17113	2.17288	2.16913	-0.968
3-M	2.33888	2.337	2.33563	2.33438	2.33738	2.33575	-0.313

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	22-Jun Yield	29-Jun Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.654	10/31/19	3.490	3.651	16.1	1,072.1
MALAYSIA GOVERNMENT	3.48	03/15/23	3.929	4.009	8.0	1,020.5
MALAYSIA INVESTMNT ISSUE	4.724	06/15/33	4.724	4.733	0.9	860.3
MALAYSIA GOVERNMENT	3.955	09/15/25	4.250	4.272	2.2	723.2
MALAYSIA GOVERNMENT	4.181	07/15/24	4.124	4.122	-0.2	714.8
MALAYSIA GOVERNMENT	4.059	09/30/24	4.140	4.196	5.6	690.4
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	4.011	4.004	-0.7	640.4
MALAYSIA GOVERNMENT	3.9	11/30/26	4.328	4.365	3.7	618.2
MALAYSIA GOVERNMENT	3.733	06/15/28	4.222	4.200	-2.2	605.7
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.332	4.308	-2.4	571.5
TOTAL VOLUME (TOP 10)						7,517.1
TOTAL VOLUME (Overall)						15,907.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	22-Jun Yield	29-Jun Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA DEBT VENTURES	5.19	09/26/18	N/A	3.629	N/A	70.0
YTL POWER INTERNATIONAL	5.05	05/03/27	5.004	5.005	0.1	66.5
PRASARANA MALAYSIA BHD	4.65	12/11/25	N/A	4.478	N/A	60.0
DANAINFRA NASIONAL	4.58	10/31/28	4.689	4.630	-5.9	50.0
AEON CO. (M) BHD	ZERO	07/31/18	N/A	3.913	N/A	45.0
PENGURUSAN AIR SPV BHD	4.43	02/03/23	N/A	4.320	N/A	45.0
MEX II SDN BHD	6.3	04/29/33	5.596	5.598	0.2	40.5
KHAZANAH NASIONAL BHD	ZERO	03/20/19	3.928	3.799	-12.9	40.0
MALAKOFF POWER BHD	4.9	12/17/18	4.370	4.331	-3.9	40.0
SOUTHERN POWER GENERATIO	5.53	10/31/34	N/A	5.317	N/A	35.0
TOTAL VOLUME (TOP 10)						492.0
TOTAL VOLUME (Overall)						1,994.1

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 <i>rise</i> 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 <i>fall</i> 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.