

03 April 2017 | Strategy

Weekly Money Review

BNM proposes MGS short-selling for companies

KLCI: 1,740.09 points

2017 Year-end Target: 1,830 points

MONEY MARKET

- **Short-selling MGS.** It was reported in the media recently that BNM is mulling to allow companies and insurers to short-sell Malaysian sovereign bonds. The proposed liberalization is meant to help companies and insurers to manage their interest-rate exposure more efficiently.

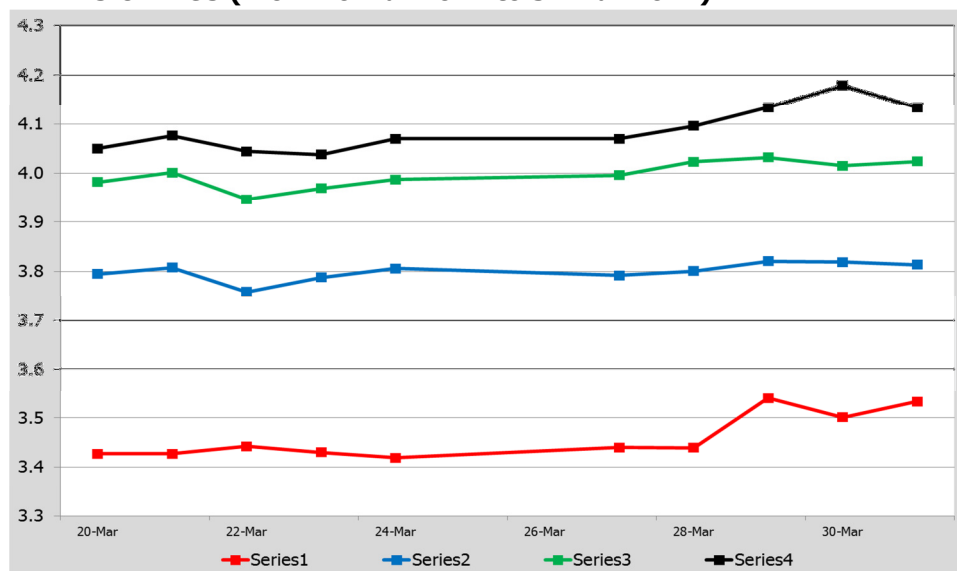
MONEY MARKET RATES

Tenor	24-Mar Fri	27-Mar Mon	28-Mar Tue	29-Mar Wed	30-Mar Thu	31-Mar Fri	Change (WoW bp)
MGS							
3-Y	3.419	3.44	3.439	3.54	3.501	3.533	11.4
5-Y	3.806	3.792	3.801	3.821	3.819	3.814	0.8
7-Y	3.987	3.996	4.023	4.032	4.015	4.024	3.7
10-Y	4.07	4.07	4.096	4.134	4.179	4.134	6.4
20-Y	4.605	4.589	4.656	4.639	4.656	4.648	4.3
RINGGIT IRS							
1-Y	3.55	3.55	3.55	3.56	3.56	3.565	1.5
3-Y	3.69	3.66	3.72	3.73	3.7375	3.7335	4.35
5-Y	3.865	3.845	3.875	3.875	3.88	3.8725	0.75
7-Y	3.985	3.955	3.9675	3.98	3.955	3.965	-2
10-Y	4.12	4.11	4.12	4.13	4.13	4.105	-1.5
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	1.5276	1.5086	1.5491	1.5165	1.5327	1.489	-3.86
5-Y	1.945	1.9183	1.9636	1.926	1.964	1.9212	-2.38
7-Y	2.2301	2.1982	2.2425	2.1958	2.2487	2.2098	-2.03
10-Y	2.4123	2.3782	2.4178	2.3765	2.4197	2.3874	-2.49
30-Y	3.0134	2.9848	3.0246	2.9856	3.0343	3.0095	-0.39
USD LIBOR							
1-M	0.98278	0.98222	0.98222	0.98222	0.98278	0.98278	0
2-M	1.02278	1.02278	1.02056	1.02444	1.02556	1.025	0.222
3-M	1.15128	1.15189	1.15222	1.14678	1.14761	1.14956	-0.172

Source: Bloomberg, MIDFR

- **Spur MGS trading volume.** A positive spillover of the new rulings, if implemented, is that it would likely spur the trading volume of our domestic sovereign debt market.
- **Attract more players and stimulate trading interest.** The resulting rise in secondary market liquidity would in turn attract more market players and stimulate interest in the Malaysian sovereign bonds.

YIELDS OF MGS (From 20 Mar 2017 to 31 Mar 2017)



Source: Bloomberg, MIDFR

- Total volume trade for MGS/GII dropped further to RM11.7b in the review week from RM17.6b in week before (based on Bloomberg data). The 10 most actively traded issues represent slightly more than 58% of the overall MGS/GII trades in the review week (down from ~78% 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 3.58% 09/28/18 at RM1.3b, MGS 4.24% 02/07/18 at RM1.2b and MGS 4.012% 09/15/17 at RM924m. Moreover, 7 out of the 10 most actively traded issues saw higher yields during the past week hence lower prices.

10 MOST ACTIVELY TRADED GOVERNMENT BONDS (Week Ended 31 Mar 2017)

Name	Coupon	Maturity	24-Mar Yield	31-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.58	09/28/18	3.394	3.461	6.7	1,336.9
MALAYSIA GOVERNMENT	4.24	02/07/18	3.313	3.352	3.9	1,242.6
MALAYSIA GOVERNMENT	4.012	09/15/17	3.286	3.186	-10.0	924.0
MALAYSIA GOVERNMENT	3.654	10/31/19	3.572	3.682	11.0	577.7
MALAYSIA INVEST ISSUE	3.941	06/15/17	3.218	3.120	-9.8	503.1
MALAYSIA GOVERNMENT	3.9	11/30/26	4.070	4.134	6.4	502.9
MALAYSIA GOVERNMENT	3.882	03/10/22	3.806	3.814	0.8	485.0
MALAYSIA GOVERNMENT	4.378	11/29/19	3.624	3.693	6.9	452.3
MALAYSIA INVEST ISSUE	3.743	08/26/21	3.946	3.969	2.3	412.0
MALAYSIA INVEST ISSUE	3.309	08/30/17	3.260	3.180	-8.0	380.0
TOTAL VOLUME (TOP 10)						6,816.4
TOTAL VOLUME (Overall)						11,696.6

Source: Bloomberg, MIDFR

- Total volume trade for Corporate Bonds declined to RM2.4b in the review week from RM3.2b in prior week (based on Bloomberg data). Trading interest was relatively more concentrated as the 10 most actively traded issues represent circa 41% of the overall Corporate Bonds trades (up from ~38% in week before).
- The top 3 actively traded issues among the Corporate Bonds were quite varied in terms of their remaining tenor but were not confined to banks. Moreover, some actively traded corporate issues registered higher yields hence lower prices despite the yield downticks in most government bond issues.
- The biggest volumes were seen in Murud Capital 0% 06/30/17 at RM275m, Public Bank 3.67% 04/26/18 at RM160m and BGSM Management 6.1% 12/28/17 at RM120m.

10 MOST ACTIVELY TRADED CORPORATE BONDS (Week Ended 31 Mar 2017)

Name	Coupon	Maturity	24-Mar Yield	31-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
MURUD CAPITAL SDN	ZERO	06/30/17	N/A	3.840	N/A	275.0
PUBLIC BANK BERHAD	3.67	04/26/18	4.018	4.036	1.8	160.0
BGSM MANAGEMENT SDN BHD	6.1	12/28/17	4.459	4.454	-0.5	120.0
PRASARANA MALAYSIA BHD	4.29	02/24/23	N/A	4.210	N/A	90.0
SMALL MEDIUM ENT BANK	4.06	03/20/19	3.892	3.892	0.0	80.0
AMMB HOLDING	4.3	08/08/17	4.422	4.417	-0.5	70.0
SARAWAK HIDRO SDN BHD	4.21	08/11/21	4.283	4.280	-0.3	70.0
DRB-HICOM BHD	7.5	PERP	N/A	7.535	N/A	51.0
OCBC BANK MALAYSIA BHD	4	08/15/22	4.534	4.545	1.0	40.0
UNITED OVERSEAS BANK MAL	4.65	05/08/25	4.730	4.736	0.5	40.0
TOTAL VOLUME (TOP 10)						996.0
TOTAL VOLUME (Overall)						2,438.0

Source: Bloomberg, MIDFR

FOREIGN EXCHANGE

- **The third US 4Q16 GDP estimate gave solid push to DXY index.** The US 4Q16 GDP growth came in at annualized rate of 2.1%, beating consensus (2.0%) and faster than the previous estimate of 1.9%, on the back of stronger consumer spending. The data was timely in pushing back the DXY index above the 100 level - after declining against most major currencies for three straight weeks. The index closed at 100.53, up by 0.9% from last week. EURUSD saw its steepest decline in three months (1.1%) to 1.068 as consumer confidence seems to wane. Yen dropped 0.6% - USDJPY reached 112.0 vs 111.3 – hinting that the long-term decline pattern of Yen may resume. Pound slid marginally, declining by 0.2% to 1.245 which suggests that news on Brexit did not compound further the dollar strength – yet.
- **ASEAN currencies went up further albeit marginally, China fell.** Though the dollar strengthened against most major currencies, ASEAN currencies led by Baht made further inroad this week. Bank of Thailand kept its benchmark interest rate steady which saw Baht rallied 0.6% to 34.375 – the strongest weekly close in almost 2 years. This was followed by SGD and PHP which both rose by 0.1% to 1.3979 and 50.200. Meanwhile, Rupiah and Ringgit went up only slightly to 13,322 and 4.425 respectively. The latter could strengthen further on expected good February trade figures which will be released this week.

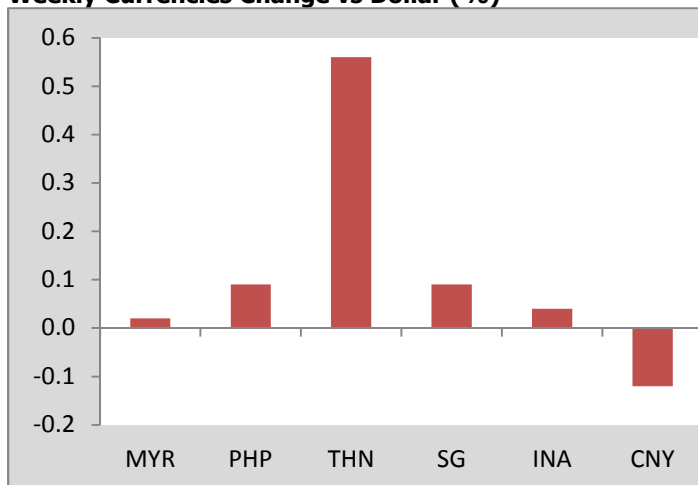
Currencies Changes (Weekly Ended on 31/3) and Quarterly Forecast

	Close (31/3)	Prev Close (24/3)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	100.53	99.63	0.903	0.9	101.12	102.50	103.0	103.5
EURUSD	1.068	1.080	-0.012	-1.1	1.055	1.045	1.020	1.030
GBPUSD	1.245	1.247	-0.002	-0.2	1.230	1.150	1.180	1.210
USDJPY	112.0	111.3	0.690	-0.6	114.0	118.0	120.0	119
USDMYR	4.425	4.426	-0.001	0.0	4.45	4.20	4.43	4.30
GBPMYR	5.508	5.528	-0.020	-0.4	5.48	5.25	5.15	5.20
JPYMYR	3.950	3.976	-0.026	-0.7	3.92	3.75	3.85	3.85

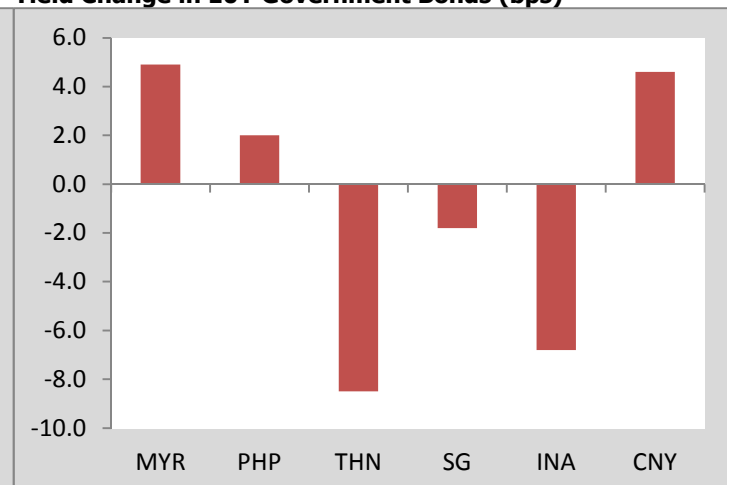
Quarterly figures are forecast by MIDFR
Source: CEIC, Bloomberg, MIDF Research

- Mixed performance for observed government bonds.** Malaysian 10-year bond yields rose the most last week, rising by 4.9bps to close at 4.139 followed by China (4.6bps) to 3.279 while Philippine sovereign bond only increased marginally by 2.0bps to 4.632. Meanwhile, Thailand sovereign bonds yield declined the most by 8.0bps, indicating a possibility of a strong foreign buying. Likewise, Indonesian bonds decreased to 7.013 by 6.8bps, buoyed by funds inflow which heed on continued speculation that a credit rating upgrade to investment grade this year. However, the largest risk remains with large holding of foreign investors which could liquidate positions in the face of faster normalization by the Fed.

Weekly Currencies Change vs Dollar (%)




Yield Change in 10Y Government Bonds (bps)



For the week ended on 31/3/2017
Source: Bloomberg, MIDFR

Interest rate views

- The first quarter of 2017 end with a few highlights** including rising consumer confidence globally, positive growth in trade in major trading economies, PMI numbers were in the upward momentum in major economies, and commodities prices stabilizing. These positive developments were overshadowed by threat of protectionism and anti-globalization lauded in US and some of EU economies.
- Domestically, macroeconomic indicators are holding up.** Unemployment and inflation are on the uptrend but still at the manageable level which will not be major hindrance for growth. External trade is riding on the global momentum which we expect to sustain in the later part of the year. Trade is expected to contribute significantly to our domestic growth in 2017.

- **We are optimistic that the overall domestic economic conditions are comparatively** better than a year ago. The current accommodative and supportive monetary stance is expected to remain at the current level barring any major surprises both at domestic and external fronts. 

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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.