

MIDF Strategy | 3 July 2017

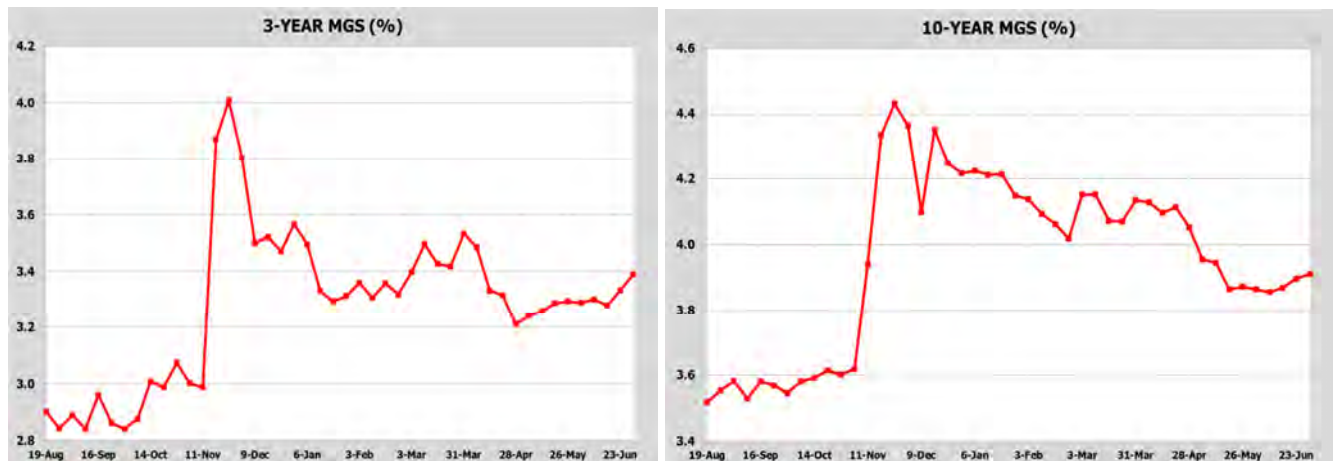
Week Ended 30 June

- US Treasury prices fell as (1) odds of another Fed rate hike this year rise to 60%, (2) higher interest-rate risk in Eurozone, and (3) May personal income and spending data prompted selling. Technically, the UST market is bordering on bearish territory.
- Likewise, MGS yields were higher thus prices fell across the board. The yield of 3-year MGS rose 5.7bp while that of 10-year gained 1.3bp on-week.
- Ringgit continues to stay on the recovery path despite a slight rise in USDMYR by 0.1% to 4.293 last week. We foresee the Ringgit will touch 4.20 by year-end due to improvement in market confidence as well as steady economic growth.
- For the first half of the year, things were a lot sunnier especially for most of the Asian countries. Rebound in external trade help boosted domestic economy and drive growth.
- Financial situations remain accommodative and supportive with most central banks maintaining their monetary stance.
- Domestically, we are maintaining our stance of the current supportive monetary policy to stay for the rest of 2017.

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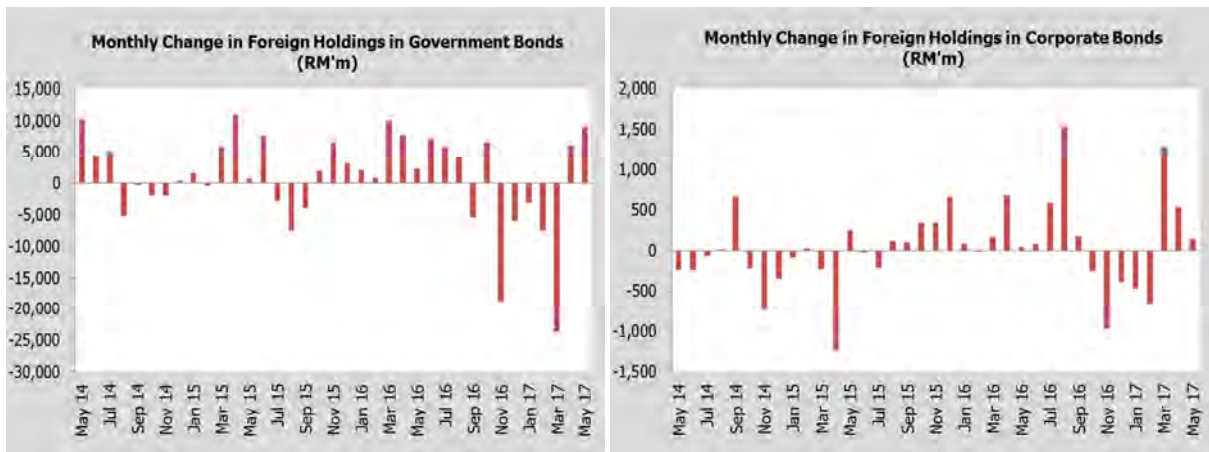
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The prices of US Treasury bonds fell across the board, pushing yields up, led by long ends as (1) odds of another Fed rate hike this year increased to 60% from 48%, (2) the UST market having to absorb higher interest-rate risk in the Eurozone, a spill over effect of the ECB paring its purchases of long-duration assets, and (3) May personal income and spending data prompted some traders into selling. Technically, the market is bordering on bearish territory as 10-year yield appears to be stroking above the downtrend line from March this year while 2-year yield is now at eight-year high.
- Likewise, in the local market, MGS yields were generally higher thus prices fell across the board. The yield of benchmark 3-year MGS rose 5.7 basis points (bp) while that of 10-year gained 1.3bp during the review week.
- Total value trade for Government Bonds (MGS/GII) declined to RM5.5b in the review week from RM10.6b in the week before (based on Bloomberg data) attributed to the Hari Raya holiday shortened trading week. The total trading value of 10 most actively traded issues decreased to 59% of the overall Government Bonds trades in the review week (from ~62% in week before).
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with varied tenors. The top 3 most actively traded were MGS 4.26% 07/26/27 at RM622m, MGS 4.45% 04/15/30 at RM440m and MGS 4.24% 02/07/18 at RM367m. In addition, only 1 out of the 10 most actively traded issues saw lower yields hence higher prices during the past week.
- Total value trade for Corporate Bonds (Conventional & Sukuk) decreased to RM746m in the review week compared to RM2.7b in prior week (based on Bloomberg data) also attributed to the holiday shortened trading week. Trading interest was slightly more concentrated among the 10 most actively traded issues at circa 46% of the overall Corporate Bonds trades (from ~32% in week before).
- The top 3 actively traded Corporate Bonds were also represented by issues with varied tenors. The biggest trading values were seen in YTL Power International 5.05% 05/03/27 at RM70m, Danainfra Nasional 4.16% 11/26/21 at RM50m and BGSM Management Sdn Bhd 4.48% 12/27/19 at RM40m.
- Total foreign holdings of Government Bonds stood at RM170.7b as end-May 2017. It was an increase of RM9.0b from the April 2017 figure of RM161.7b.



Source: BNM

- Likewise, total foreign holdings of Corporate Bonds increased by RM147m in the month of May 2017 to RM16.6b.

B. FOREIGN EXCHANGE

- DXY Index went down by 1.7% on weekly basis to 95.628. The drop in the greenback was possibly influenced by poor results in the US durable goods orders and Chicago Fed National Activity Index. Both data released last week recorded negative rates at 1.1% and 0.3% respectively. Besides, positive sentiments on the EU currency are among factors causing US dollar performance to depreciate last week.
- EURUSD and GBPUSD appreciated strongly by 2.1% and 2.4% respectively. The strong appreciations in both currencies are mainly due to speeches made by the head of the Bank of England Mark Carney and ECB President Mario Draghi. Carney indicates that interest rate hike is possible if UK's economy continues to stay on upbeat momentum while Draghi signals for curtailment of quantitative easing program in the Eurozone.

Currencies Changes (Week Ended 30/6) and Quarterly Forecasts

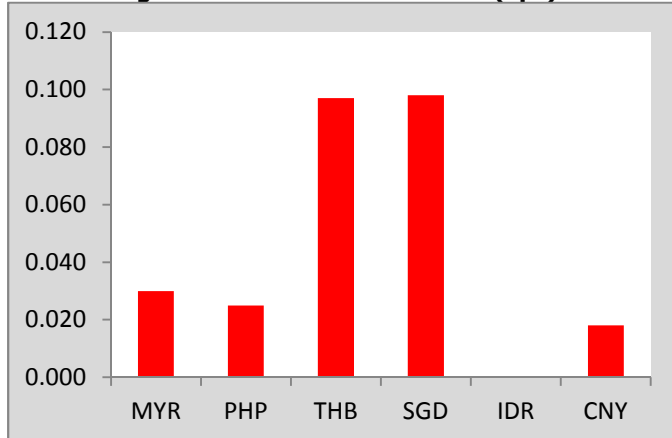
	Close (30/6)	Prev Close (23/6)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	95.628	97.264	-1.636	-1.7	101.12	102.50	103.00	103.50
EURUSD	1.143	1.119	0.023	2.1	1.06	1.05	1.02	1.03
GBPUSD	1.303	1.272	0.031	2.4	1.23	1.15	1.18	1.21
USDJPY	112.390	111.280	1.110	-1.0	114.00	118.00	120.00	119.00
USDMYR	4.293	4.289	0.003	-0.1	4.40	4.30	4.30	4.20
GBPMYR	5.579	5.459	0.120	-2.2	5.48	5.50	5.45	5.30
JPYMYR	3.820	3.855	-0.035	0.9	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

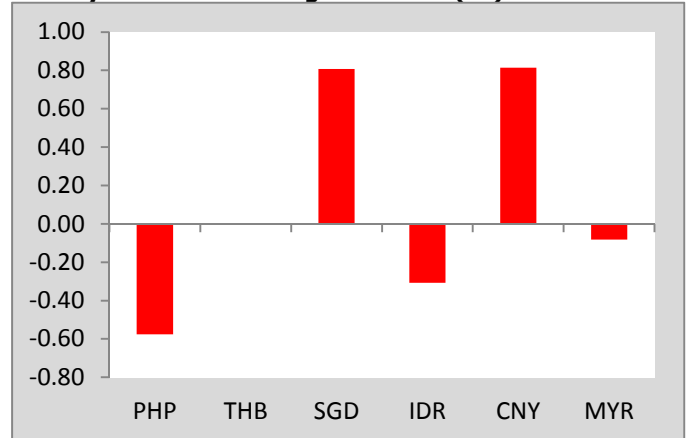
- Ringgit – remains below 4.30 for six consecutive months. Ringgit continues to stay on the recovery path despite a slight rise in USDMYR by 0.1% to 4.293 last week. We foresee the Ringgit will touch 4.20 by year-end due to improvement in market confidence as well as steady economic growth in Malaysia's domestic and external market activities.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

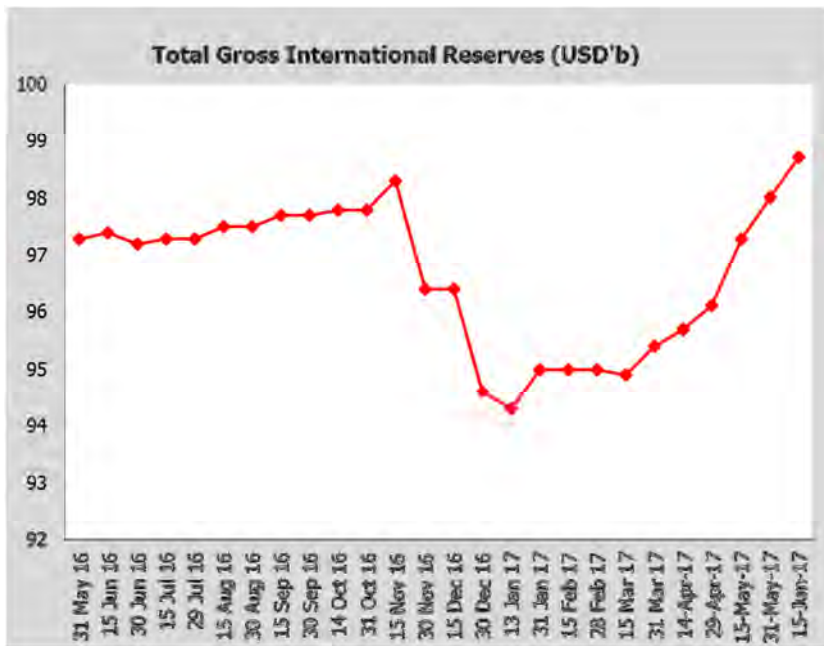


Source: BLOOMBERG; MIDFR


- For the first half of the year, things were a lot sunnier especially for most of the Asian countries. Rebound in external trade help boosted domestic economy and drive growth.
- Financial situations remain accommodative and supportive with most central banks maintaining their monetary stance.
- US on the other hand are embarking on gradual rate normalization course despite signs of domestic economy losing momentum. First quarter growth was well below expectation. Personal consumption, which accounts for about 70% of GDP, is losing steam.
- New car sales down on-year for fifth month in a row. Retail sales fell significantly for the first time in more than 16 months. These are some of the signs of a slowdown.
- The US monetary policy stance will be a tricky affair going forward with long term interest rate in the US remained at relatively low levels (between 2.0-2.5%) despite the 4 rate hikes since 2015. This could indicate market anxiety about the future of the economy.
- For other developed economies, we anticipate the upward rate adjustment will take place gradually with emerging economies expected to keep their current monetary stance in the near term.
- Inflationary pressure is expected to taper off in the second half of the year for most emerging economies while stagnant prices will remain a challenge for developed economies.
- Domestically, we are maintaining our stance of the current supportive monetary policy to stay for the rest of 2017.

C. BNM FOREIGN RESERVES

- As at 15 June 2017, Bank Negara Malaysia's international reserves rose further to USD98.7b (equivalent to RM436.1b), up USD0.7b from USD98.0b a fortnight earlier.



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	23-Jun Fri	26-Jun Mon	27-Jun Tue	28-Jun Wed	29-Jun Thu	30-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.333	3.333	3.333	3.296	3.36	3.39	5.7
5-Y	3.594	3.594	3.594	3.613	3.596	3.624	3
7-Y	3.842	3.842	3.842	3.867	3.867	3.898	5.6
10-Y	3.897	3.897	3.897	3.893	3.9	3.91	1.3
20-Y	4.538	4.538	4.538	4.538	4.538	4.56	2.2
RINGGIT IRS							
1-Y	3.505	3.505	3.505	3.5	3.495	3.505	0
3-Y	3.595	3.595	3.595	3.6095	3.605	3.647	5.2
5-Y	3.7	3.7	3.7	3.71	3.705	3.735	3.5
7-Y	3.805	3.805	3.805	3.815	3.81	3.84	3.5
10-Y	3.955	3.955	3.955	3.96	3.96	3.99	3.5
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	1.4784	1.4783	1.5189	1.5026	1.5243	1.5461	6.77
5-Y	1.7565	1.7565	1.8115	1.8206	1.8502	1.8884	13.19
7-Y	1.9732	1.9684	2.0388	2.0461	2.0989	2.1402	16.7
10-Y	2.1423	2.137	2.2051	2.2279	2.2666	2.3037	16.14
30-Y	2.7155	2.697	2.7518	2.781	2.8135	2.8348	11.93
USD LIBOR							
1-M	1.22	1.22211	1.22378	1.22611	1.22722	1.22389	0.389
2-M	1.25111	1.25222	1.25222	1.25444	1.25444	1.25333	0.222
3-M	1.29328	1.29483	1.29506	1.29639	1.29861	1.29917	0.589

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	23-Jun Yield	30-Jun Yield	Change (WoW bp)	Weekly Value (RM bn)
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.044	4.099	5.5	622.0
MALAYSIA GOVERNMENT	4.498	04/15/30	4.394	4.425	3.1	440.0
MALAYSIA GOVERNMENT	4.24	02/07/18	3.147	3.225	7.8	367.2
MALAYSIA GOVERNMENT	4.059	09/30/24	3.842	3.898	5.6	362.1
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.802	3.843	4.1	290.0
MALAYSIA GOVERNMENT	3.654	10/31/19	3.406	3.427	2.1	276.4
MALAYSIA GOVERNMENT	3.659	10/15/20	3.577	3.625	4.8	268.1
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.570	3.625	5.5	242.4
MALAYSIA GOVERNMENT	4.378	11/29/19	3.416	3.501	8.5	224.6
MALAYSIA GOVERNMENT	4.012	09/15/17	3.063	3.050	-1.3	170.0
TOTAL VALUE (TOP 10)						3,262.7
TOTAL VALUE (Overall)						5,510.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	9-Jun Yield	16-Jun Yield	Change (WoW bp)	Weekly Value (RM bn)
YTL POWER INTERNATIONAL	5.05	05/03/27	4.966	4.967	0.1	70.0
DANAINFRA NASIONAL	4.16	11/26/21	4.025	4.045	2.0	50.0
BGSM MANAGEMENT SDN BHD	6.6	12/27/19	4.478	4.446	-3.2	40.0
CAGAMAS BERHAD	3.3	08/09/17	3.560	3.560	0.0	40.0
TANJUNG BIN O&M BHD	5.37	07/01/27	N/A	4.778	N/A	30.0
TANJUNG BIN O&M BHD	5.27	07/01/26	N/A	4.738	N/A	30.0
AMMB HOLDINGS BHD	5.2	03/15/27	4.989	4.847	-14.2	22.3
CIMB BANK BHD	6.7	10/07/38	4.525	4.505	-2.0	20.0
MALAYSIA DEBT VENTURES	5.19	09/26/18	N/A	3.648	N/A	20.0
AFFIN BANK BHD	5.45	02/05/27	5.065	5.062	-0.3	20.0
TOTAL VALUE (TOP 10)						342.3
TOTAL VALUE (Overall)						746.0

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.