

MIDF Strategy | 5 February 2018

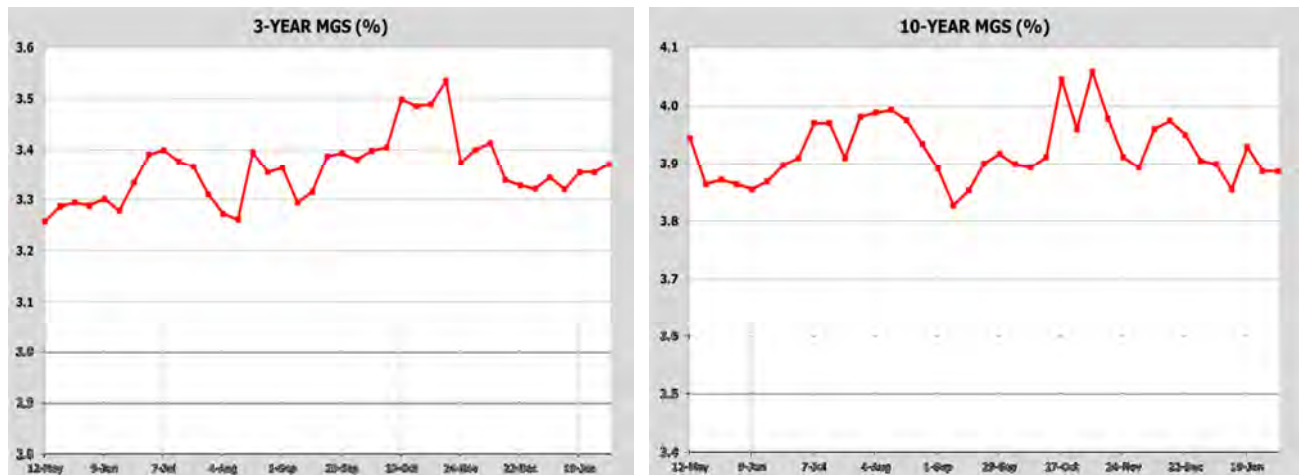
Week Ended 2 February

- The yield of UST bonds jumped across the curve last week, pushing price lower, as the market reacted to nonfarm payrolls figure for January which added 200,000 jobs, beating economists' median estimate for an 180,000 rise. Moreover, average hourly earnings were higher by 2.9%yoy, the biggest increase since June 2009.
- It is also notable that the yield on the benchmark 10-year UST climbed to 2.84%, its highest level since January 2014.
- On the other hand, the local MGS curve ended the review week marginally flatter with the yields of benchmark 3-year and 10-year respectively risen 1.7bps and fell -0.1bp to close the week at 3.37% and 3.89%.
- Total trading value for Government Bonds (MGS/MII) declined to RM9.07b in the holiday-shortened review week compared to RM13.2b in the previous week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM797m in the review week compared to RM1.37b in earlier week.
- Total foreign holdings of Government Bonds stood at RM182.9b as at end-December 2017. It was an increase of RM4.7b from the November 2017 figure of RM178.2b.
- Total foreign holdings of Corporate Bonds declined by RM323.2m in the month of December 2017 to RM16.1b.

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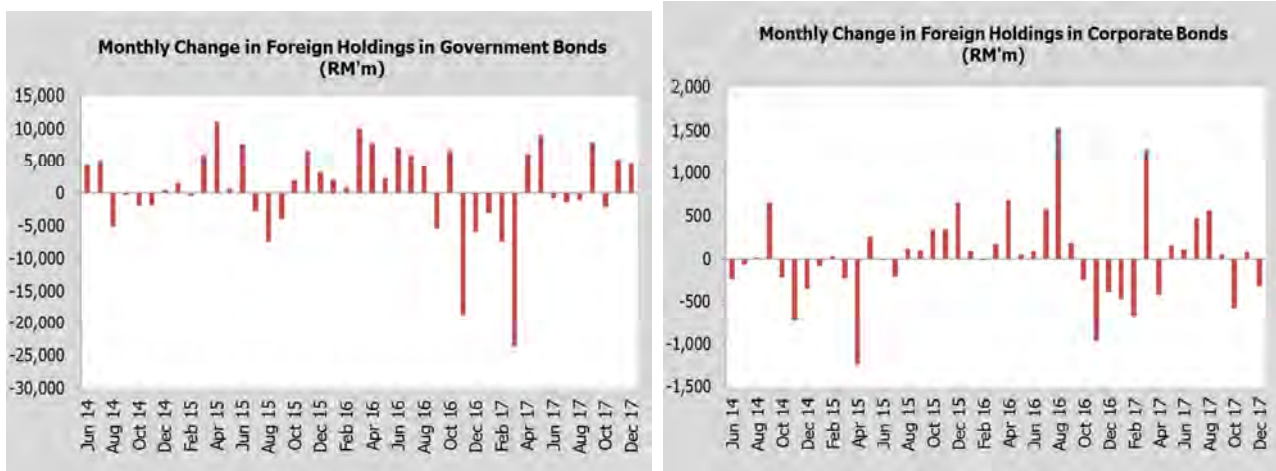
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The yield of UST bonds jumped across the curve last week, pushing price lower, as the market reacted to nonfarm payrolls figure for January which added 200,000 jobs, beating economists' median estimate for an 180,000 rise. Moreover, average hourly earnings were higher by 2.9%yoy, the biggest increase since June 2009. It is also notable that the yield on the benchmark 10-year UST climbed to 2.84%, its highest level since January 2014.
- On the other hand, the local MGS curve ended the review week marginally flatter with the yields of benchmark 3-year and 10-year respectively risen 1.7bps and fell -0.1bp to close the week at 3.37% and 3.89%.
- Total trading value for Government Bonds (MGS/MII) declined to RM9.07b in the holiday-shortened review week compared to RM13.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues was slightly lower at 66% of the overall Government Bonds trades in the week under review (vis-à-vis ~69% in the week before). In addition, 5 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short to medium residual tenors. The top 3 most actively traded were MGS 3.88% 03/10/22 at RM999.4m, MGS 3.62% 11/30/21 at RM703.4m and MGS 3.76% 03/15/19 at RM672.9m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM797m in the review week compared to RM1.37b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was nonetheless higher at 60% of the overall Corporate Bonds trades (up from ~37% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with varying residual tenors. The biggest trading values were seen in Govco Holdings Berhad 4.10% 02/22/22 at RM150.0m, Southern Power Generation 5.41% 04/29/33 at RM60.0m and Sunway Berhad 0% 03/05/18 at RM50.0m.
- Total foreign holdings of Government Bonds stood at RM182.9b as at end-December 2017. It was an increase of RM4.7b from the November 2017 figure of RM178.2b.



Source: BNM

- Total foreign holdings of Corporate Bonds declined by RM323.2m in the month of December 2017 to RM16.1b.

B. FOREIGN EXCHANGE

- DXY Index rebounded by 0.1%wow. Slight improvement for DXY as the US labour market data shows continuous positive results. Non-farm payrolls for January 2018 recorded at 200K, higher than market expectations of 180K. Plus, the tightening labour market is supported with unemployment rate stays at 17-year low for 4-consecutive months, 4.1% in the first month of 2018. On top of that, average hourly earnings rose by 0.3%mom, matched market consensus. Hence, the upbeat momentum in the job market provides additional reasons for further rate hike in the Fed's funds rate.
- EURUSD remains at healthy condition. Despite of improving USD, industrial producer prices in EU increased by 2.2%yoy in December 2017, lowest in 5 months. Moreover, manufacturing PMI for the region continues recording above 50 points, indicating optimistic business environment and growing demand in the region to persist this year despite of threat of protectionism.

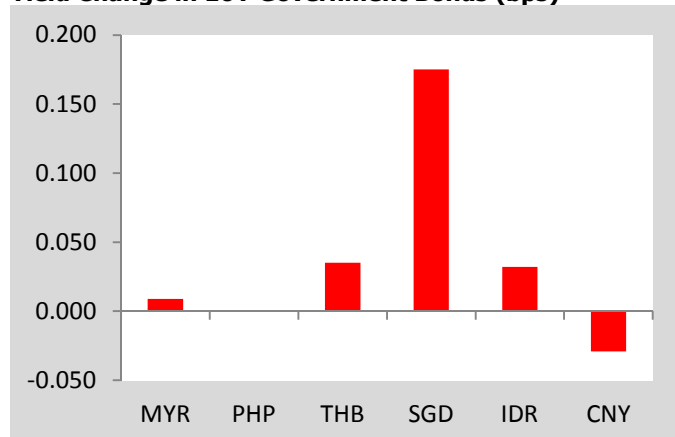
Currencies Changes (Week Ended 2/2) and Quarterly Performances

	Close (2/02)	Prev Close (26/01)	Change	% Change	1Q18F	2Q18F	3Q18F	4Q18F
DXY Index	89.195	89.067	0.128	0.1	93.54	90.69	91.91	95.98
EURUSD	1.252	1.243	0.009	0.7	1.19	1.22	1.20	1.16
GBPUSD	1.426	1.416	0.010	0.7	1.25	1.25	1.15	1.09
USDJPY	109.700	108.580	1.120	-1.0	107.50	100.29	95.10	102.27
USDMYR	3.886	3.871	0.015	-0.4	4.05	3.90	4.00	3.95
GBPMYR	5.540	5.509	0.031	-0.6	5.12	4.89	4.53	4.58
JPYMYR	3.542	3.564	-0.022	0.6	3.79	3.89	4.14	4.13

Source: CEIC, Bloomberg, MIDFR

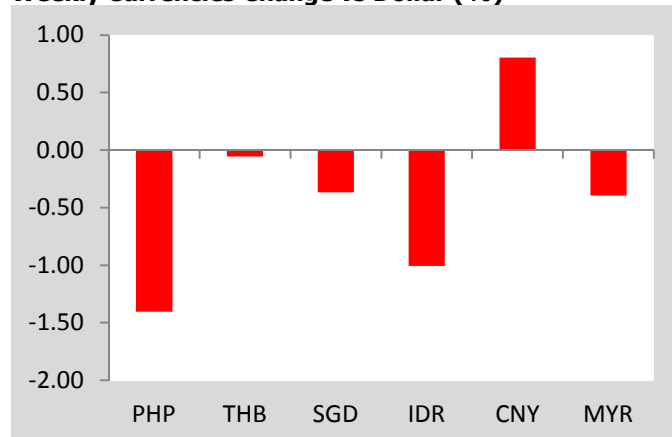
- Ringgit – Stays below 4.00 for 4-consecutive weeks. Despite of slight depreciation, MYR remains on positive direction amid of slowdown in producer price changes and upbeat manufacturing sector. PPI for December 2017 decelerated to 14-month low of 0.3%yoy while Nikkei manufacturing PMI for Malaysia improved to above 50 points level in the first month of 2018. In spite of this, we maintain our call for MYR to average 4.00 this year with year-end target of 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 (%)

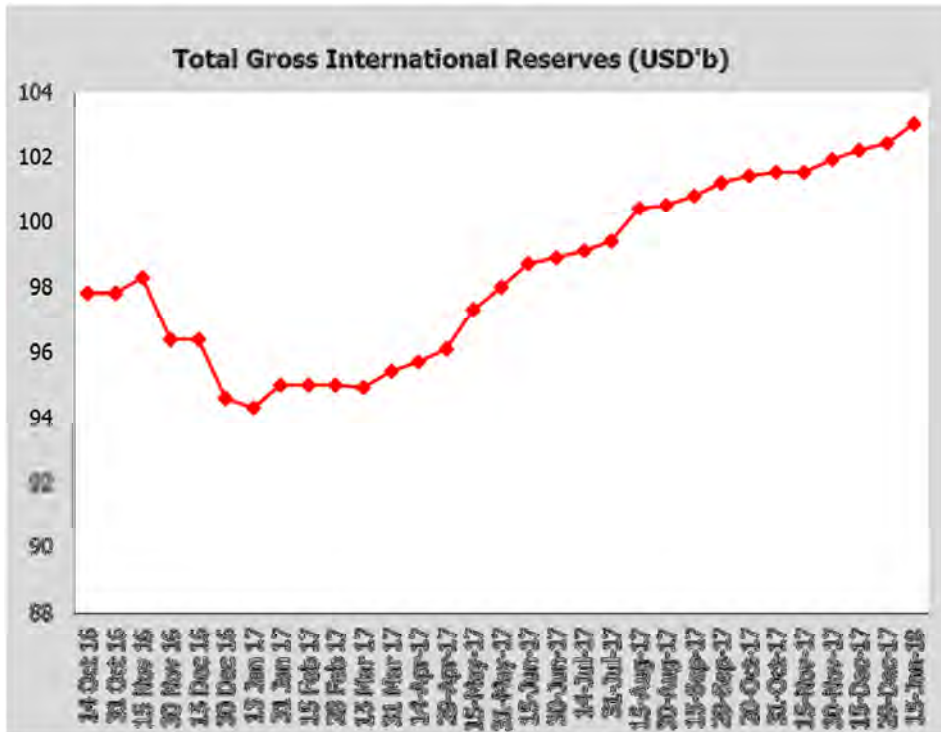
	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25
Indonesia	4.75	4.75	4.75	4.50	4.25	4.25	4.25	4.25	4.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	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	0.25	0.25	0.25	0.25	0.25	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	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50

Source: CEIC, MIDFR


- In the United States, the Federal Reserve delivered its latest monetary policy decision last week, but no changes in monetary stance for Fed Chair Yellen's last meeting as the head of the central bank.
- ECB and Bank of Japan which met earlier provide their new term outlook on economics and kept their monetary policy stance unchanged.
- Monetary policy in general remained strongly supportive — indeed, in the cases of the European Central Bank and the Bank of Japan, became far more supportive — in subsequent years.
- Price pressures meanwhile slowly trending upward, reflecting improved inflationary pressure amid robust demand. Inflationary pressure is expected to kick-in, boost by tight labor market as well as higher commodities prices.
- Crude oil price is expected to remain elevated in 2018 amid heighten geopolitical risks in the Middle East and expected prolong OPEC production cut.
- Domestically, inflationary pressure is expected to moderate amid stable commodities prices and high base effect.
- Bank Negara made its first move as anticipated by hiking OPR by 25bps in its first Monetary Policy Committee meeting of 2018. Our baseline view is for the OPR to stay at the current level until year end.
- With economic growth remains robust, crude oil prices trending upward, MYR is strengthening and core inflation inched upward, the current level of OPR seen as accommodative.

C. BNM FOREIGN RESERVES

- As at 15 January 2018, Bank Negara Malaysia's international reserves rose to USD103.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.1 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	26-Jan Fri	29-Jan Mon	30-Jan Tue	31-Jan Wed	1-Feb Thu	2-Feb Fri	Change (WoW bp)
MGS							
3-Y	3.354	3.353	3.353	3.353	3.353	3.371	1.7
5-Y	3.591	3.603	3.637	3.637	3.637	3.603	1.2
7-Y	3.909	3.929	3.929	3.929	3.929	3.919	1
10-Y	3.887	3.898	3.961	3.961	3.961	3.886	-0.1
20-Y	4.607	4.611	4.613	4.613	4.613	4.603	-0.4
RINGGIT IRS							
1-Y	3.695	3.75	3.76	3.76	3.76	3.775	8
3-Y	3.815	3.827	3.83	3.83	3.83	3.835	2
5-Y	3.895	3.905	3.9125	3.9125	3.9125	3.9175	2.25
7-Y	3.995	4.0025	4.0275	4.0275	4.0275	4.025	3
10-Y	4.11	4.14	4.13	4.13	4.13	4.14	3
KLIBOR							
1-M	3.42	3.42	3.42	3.42	3.42	3.42	0
2-M	3.66	3.66	3.66	3.66	3.66	3.66	0
3-M	3.68	3.68	3.69	3.69	3.69	3.69	1
UST							
3-Y	2.2411	2.2523	2.2608	2.2832	2.3222	2.323	8.19
5-Y	2.4702	2.4903	2.5054	2.5139	2.5712	2.5883	11.81
7-Y	2.5958	2.6254	2.6501	2.6477	2.7246	2.7648	16.9
10-Y	2.6599	2.6936	2.7199	2.705	2.7896	2.8411	18.12
30-Y	2.9114	2.9421	2.9706	2.9348	3.0241	3.0868	17.54
USD LIBOR							
1-M	1.56777	1.57345	1.5747	1.5797	1.57946	1.57957	1.18
2-M	1.6514	1.65363	1.65761	1.65894	1.66724	1.66899	1.759
3-M	1.7669	1.77225	1.7734	1.77777	1.78698	1.78902	2.212

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	26-Jan Yield	2-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.882	03/10/22	3.591	3.603	1.2	999.4
MALAYSIA GOVERNMENT	3.62	11/30/21	3.465	3.492	2.7	703.4
MALAYSIA GOVERNMENT	3.759	03/15/19	3.208	3.143	-6.5	672.9
MALAYSIA GOVERNMENT	4.378	11/29/19	3.241	3.342	10.1	652.3
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.848	3.876	2.8	633.5
MALAYSIA GOVERNMENT	3.899	11/16/27	3.887	3.886	-0.1	528.3
MALAYSIA GOVERNMENT	4.762	04/07/37	4.607	4.603	-0.4	506.9
MALAYSIA GOVERNMENT	3.58	09/28/18	3.111	3.018	-9.3	482.0
MALAYSIA GOVERNMENT	4.059	09/30/24	3.905	3.919	1.4	427.8
MALAYSIA GOVERNMENT	3.844	04/15/33	4.440	4.403	-3.7	346.1
TOTAL VOLUME (TOP 10)						5,952.6
TOTAL VOLUME (Overall)						9,071.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	26-Jan Yield	2-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
GOVCO HOLDINGS BHD	4.1	02/22/22	3.996	4.030	3.4	150.0
SOUTHERN POWER GENERATIO	5.41	04/29/33	5.349	5.278	-7.1	60.0
SUNWAY BERHAD	ZERO	03/05/18	#N/A N/A	3.902	#VALUE!	50.0
MALAKOFF POWER BHD	5.15	12/17/20	4.394	4.440	4.6	40.0
PROJEK LEBUHRAYA USAHASA	5.27	01/12/33	4.947	4.956	0.9	40.0
CIMB BANK BHD	4.77	10/16/23	#N/A N/A	4.265	#VALUE!	30.0
PROJEK LEBUHRAYA USAHASA	5.63	01/11/36	#N/A N/A	5.053	#VALUE!	30.0
GOLDEN ASSETS INTERNATIO	5.35	08/05/19	7.086	5.125	-196.1	30.0
YTL POWER INTERNATIONAL	4.7	10/13/21	4.632	4.480	-15.2	28.0
IMPIAN EKSPRESI SDN BHD	4.75	11/27/20	#N/A N/A	4.728	#VALUE!	20.0
TOTAL VOLUME (TOP 10)						478.0
TOTAL VOLUME (Overall)						797.0

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.