

MIDF Strategy | 6 November 2017

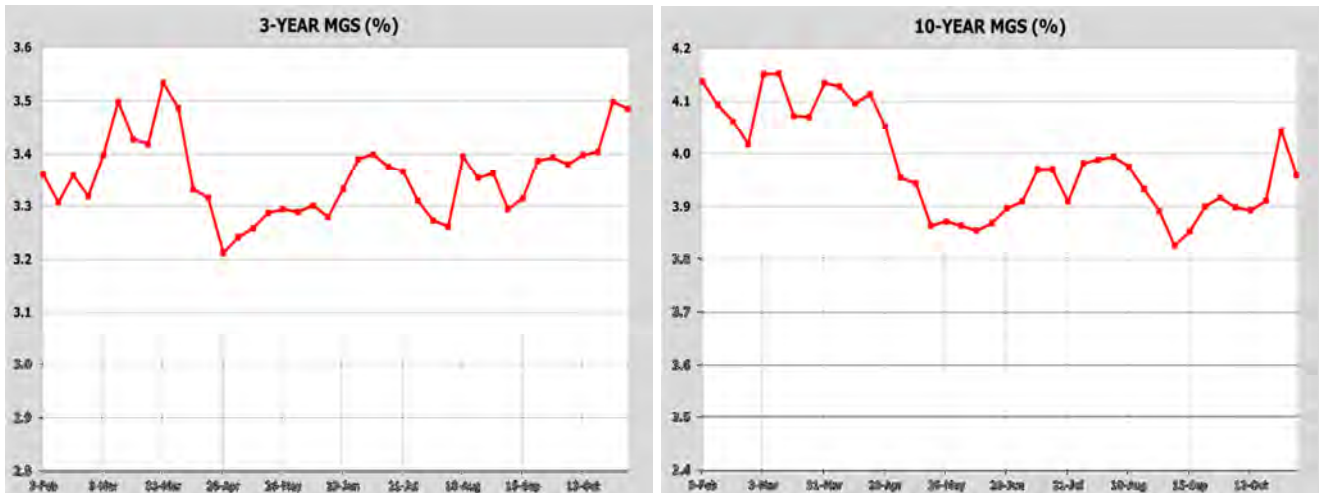
Week Ended 3 November

- The yields of UST bond were mostly lower last week, pushing price higher, led by long-end as the curve flattened, in reaction to (i) nomination of Jerome Powell as the new Chairman of Federal Reserve, a pick that would hint a status quo in US monetary policy; and (ii) FOMC statement which reiterates rate is likely to remain below expected long-term levels for some time while its actual path will depend on outlook/data, as well as reference to gradual pace of future rate hikes.
- The yield of 10-year UST dipped below 2.40% last week. Nonetheless, we reckon the technical outlook remains mixed as the yield continues to be in breach of all its 50-, 100-, and 200-day moving average (MA) lines at the close last week. Moreover, while there is yet a so-called death cross (i.e. 50- punching above 200-day MA), it may eventually manifest if the 10-year yield were to remain at current levels during the next month or two.
- The probability of a third US rate hike this year is growing larger as the fed fund futures (Jan'18) shows the odds of a rate hike by end 2017 rising further to 88% at the close last week from 84% a week earlier.
- Likewise, the local MGS bonds posted price increase last week with the yields of benchmark 3-year and 10-year dropped -1.3bp and -8.5bps week-on-week to 3.48% and 3.96% respectively.

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Weekly Money Review

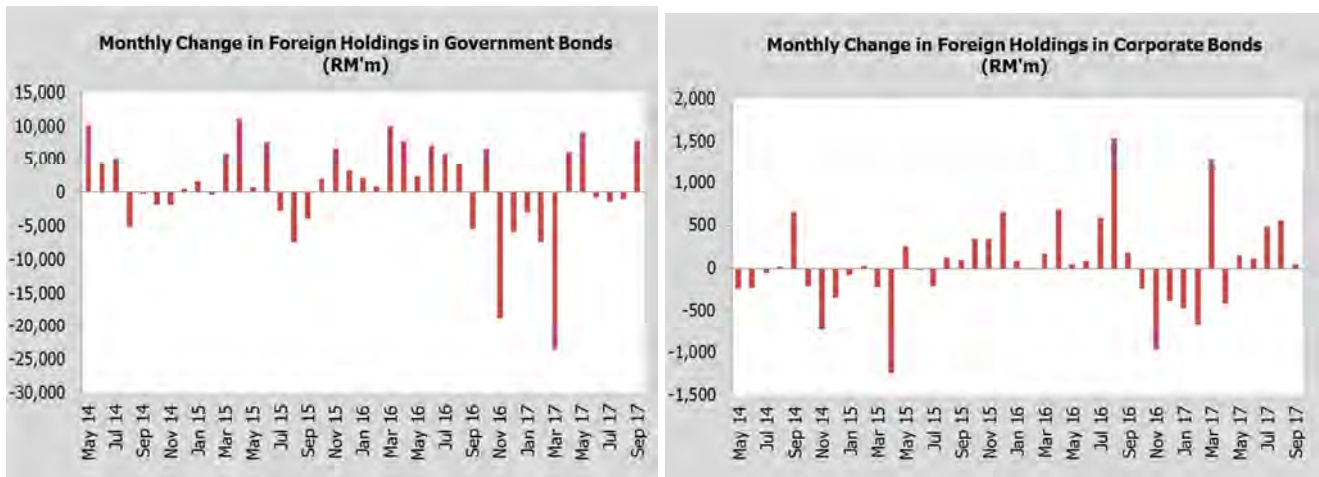
A. FIXED INCOME



Source: Bloomberg

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- Likewise, the local MGS bonds posted price increase last week with the yields of benchmark 3-year and 10-year dropped -1.3bp and -8.5bps week-on-week to 3.48% and 3.96% respectively.
- Total trading value for Government Bonds (MGS/MII) declined to RM14.5b in the review week compared to RM14.6b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 59% of the overall Government Bonds trades in the review week (from ~69% in week before). In addition, 5 out of the 10 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 with short to medium residual tenors. The top 3 most actively traded were MGS 4.24% 02/07/18 at RM1.66b, MGS 3.26% 03/01/18 at RM1.25b and MGS 4.06% 09/30/24 at RM1.24b.
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.55b in the review week compared to RM2.73b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was also lower at 41% of the overall Corporate Bonds trades (from ~49% in the week before).

- The top 3 actively traded Corporate Bonds were dominated by GLC issues with varying residual tenors. The biggest trading values were seen in Malayan Banking Berhad 6.3% 09/25/68 at RM200.0m, Bank Pembangunan Malaysia Berhad 4.28% 03/02/22 at RM60.0m and Danainfra Nasional 4.0% 02/08/23 at RM60.0m.
- Total foreign holdings of Government Bonds stood at RM175.2b as at end-September 2017. It was an increase of RM7.9b from the August 2017 figure of RM167.3b.



Source: BNM

- Total foreign holdings of Corporate Bonds increased by RM53.0m in the month of September 2017 to RM16.9b.

B. FOREIGN EXCHANGE

- DXY Index was stable at 94.941 amid rosy economic outlook in the US. Jerome Powell nomination and Republican tax plan are among positive news for the US economy as Powell is predicted to continue Yellen's monetary policy stance and the tax plan would provide extra rooms for businesses and consumers in the US to invest and spend. Apart from that, economic indicators released during the week show that the US labour market continues to tighten given that unemployment rate went down to 4.1% in October, lowest since December 2000. Non-farm payrolls up by 261K in October, rebounded from 18K in September 2017.
- EURUSD unchanged. Political conflicts in Spain and overall economic activity in the region continue to haunt EUR. Most recent, eight Catalan ministers jailed by Madrid court and a Europe arrest warrant was issued to extradite Carlos Puigdemont from Belgium. Street demonstrations organised by pro-independence campaigners are condemning the Madrid government. The worsening political situation may drag down overall EU economic growth and market confidences given that Spain is of major economic contributors in the region.

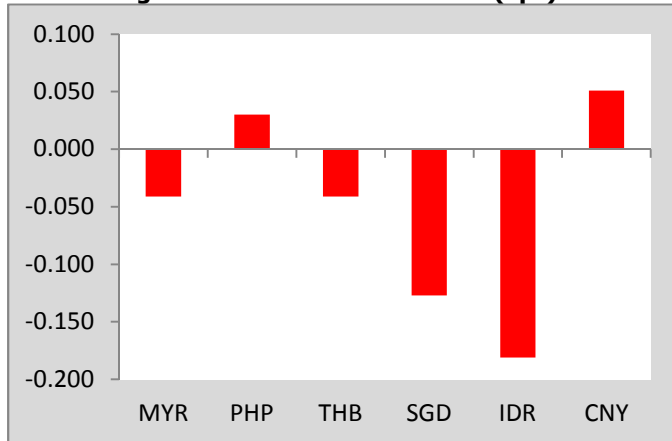
Currencies Changes (Week Ended 3/11) and Quarterly Forecasts

	Close (3/11)	Prev Close (27/10)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	94.941	94.916	0.025	0.0	101.12	102.50	103.00	103.50
EURUSD	1.161	1.161	0.000	0.0	1.06	1.05	1.02	1.03
GBPUSD	1.308	1.313	-0.005	-0.4	1.23	1.15	1.18	1.21
USDJPY	114.070	113.670	0.400	-0.4	114.00	118.00	120.00	119.00
USDMYR	4.237	4.242	-0.005	0.1	4.40	4.30	4.30	4.20
GBPMYR	5.529	5.550	-0.021	0.4	5.48	5.50	5.45	5.30
JPYMYR	3.714	3.731	-0.017	0.5	3.90	3.75	3.85	4.00

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

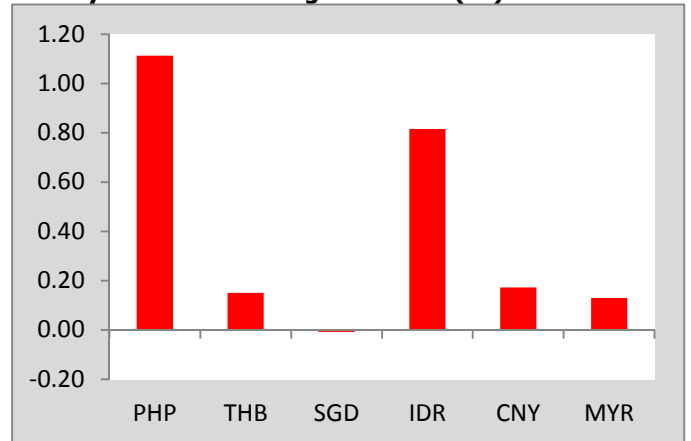
- Ringgit – Slim appreciation due to upbeat external trade momentum. Malaysia’s exports and imports in September rose by 14.8%yoy and 15.2%yoy respectively. On quarterly basis, both exports value and volume recorded the highest in 2017 at 22.1%yoy and 14.2%yoy respectively while trade surplus widen to RM26.7 billion. We maintain our call for the MYR at 4.200 by year-end.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: BLOOMBERG; MIDFR

- The better than expected macro numbers came out from developed economies over the past week was welcomed news especially for central bankers.
- Inflationary pressure is volatile amid gradually uptrend in Eurozone while in the US prices are very much sluggish despite robust labor market. Phillip curve expectation of inflation and optimal unemployment continued to weaken.
- Pro-growth and accommodative monetary stance is expected to persist in developing economies while developed economies are preparing for its tightening move.
- Bank of England made the first move in a decade by raising interest rate by 0.25% last week, while Bank of Japan maintained its policy stance.
- In general, inflationary pressures remain tepid in developed economy.
- Recovery in global economic growth continues to be broad based. But the question mark over the long term sustainability is still valid.
- Nevertheless, no expectation of major turnaround in the near future with geopolitical headwinds still continues as threats.
- Domestically, inflationary pressure is expected picked up with recent upswing in crude prices. Nevertheless, core inflation is expected to remain stable at 2.4%.
- Bank Negara will have its monetary policy meeting this week. We maintain our stance that the current OPR at 3% will remain for the rest of the year despite jumps in inflationary pressure seen in recent months amid higher fuel related prices.

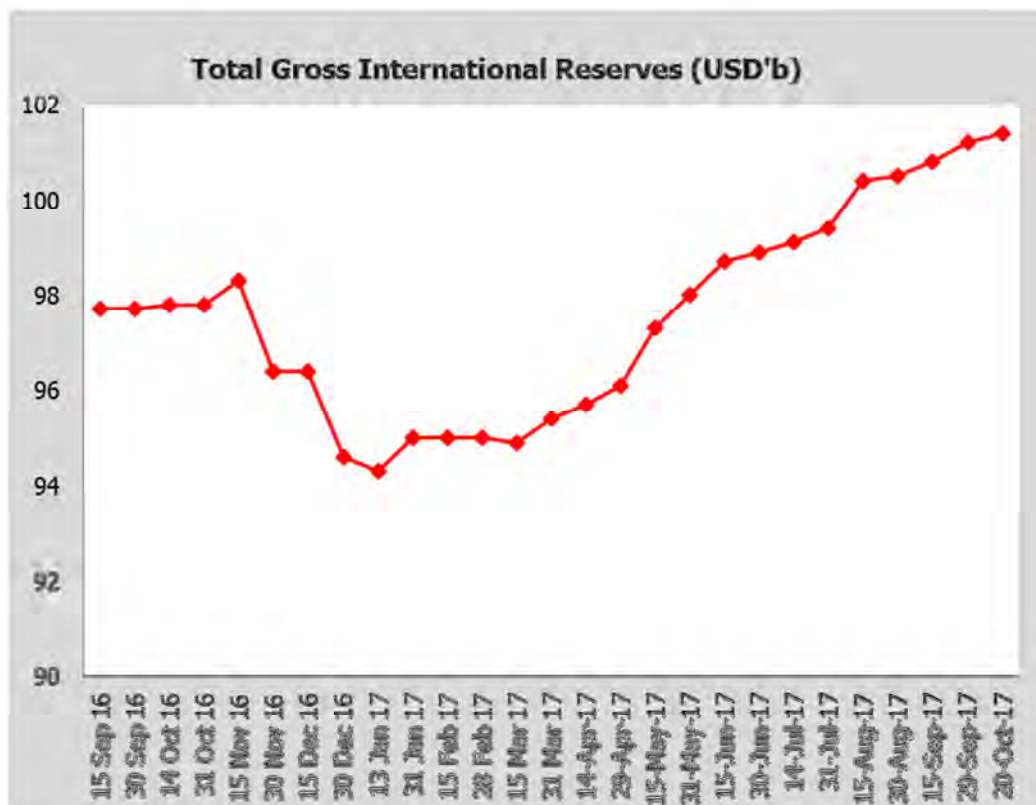
Central Bank Policy Rate by Selected Economies (%)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.50	4.25	4.25	4.25
Singapore	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
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
China	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	-0.100
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
EU	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25

Source: CEIC, MIDFR

C. BNM FOREIGN RESERVES

- As at 20 October 2017, Bank Negara Malaysia's international reserves rose further to USD101.4b (equivalent to RM429b), up USD0.2b from USD101.2b a fortnight earlier.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.1 times the short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	27-Oct Fri	30-Oct Mon	31-Oct Tue	1-Nov Wed	2-Nov Thu	3-Nov Fri	Change (WoW bp)
MGS							
3-Y	3.498	3.501	3.453	3.466	3.485	3.485	-1.3
5-Y	3.756	3.723	3.668	3.675	3.655	3.705	-5.1
7-Y	4.025	3.992	3.937	3.95	3.967	3.97	-5.5
10-Y	4.045	4.021	3.899	3.948	3.996	3.96	-8.5
20-Y	4.695	4.695	4.663	4.671	4.671	4.671	-2.4
RINGGIT IRS							
1-Y	3.525	3.525	3.525	3.525	3.525	3.52	-0.5
3-Y	3.665	3.6675	3.645	3.6525	3.645	3.6475	-1.75
5-Y	3.8	3.8025	3.77	3.765	3.77	3.7725	-2.75
7-Y	3.9725	3.9495	3.89	3.89	3.895	3.89	-8.25
10-Y	4.08	4.07	4.03	4.02	4.03	4.03	-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	1.7174	1.6956	1.7257	1.734	1.7204	1.7289	1.15
5-Y	2.0281	1.9951	2.0165	2.0182	2	1.99	-3.81
7-Y	2.2524	2.2161	2.2306	2.2257	2.2015	2.1821	-7.03
10-Y	2.4064	2.3684	2.3793	2.3721	2.345	2.3325	-7.39
30-Y	2.9179	2.8802	2.8794	2.8579	2.8255	2.8129	-10.5
USD LIBOR							
1-M	1.24233	1.24214	1.24333	1.24333	1.24212	1.24322	0.089
2-M	1.31376	1.3161	1.31841	1.32169	1.33267	1.33389	2.013
3-M	1.38009	1.37678	1.38122	1.38483	1.39139	1.39194	1.185

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	27-Oct Yield	3-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.24	02/07/18	2.982	2.999	1.7	1,656.0
MALAYSIA GOVERNMENT	3.26	03/01/18	2.999	2.951	-4.8	1,252.5
MALAYSIA GOVERNMENT	4.059	09/30/24	4.025	3.970	-5.5	1,236.2
MALAYSIA GOVERNMENT	3.955	09/15/25	4.119	4.165	4.6	996.1
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.508	3.502	-0.6	872.2
MALAYSIA INVESTMNT ISSUE	3.872	08/30/18	3.140	3.120	-2.0	851.8
MALAYSIA GOVERNMENT	3.899	11/16/27	4.045	3.960	-8.5	477.5
MALAYSIA GOVERNMENT	4.048	09/30/21	3.688	3.727	3.9	435.1
MALAYSIA GOVERNMENT	3.759	03/15/19	3.187	3.255	6.8	383.9
MALAYSIA GOVERNMENT	4.232	06/30/31	4.448	4.549	10.1	351.1
TOTAL VOLUME (TOP 10)						8,512.3
TOTAL VOLUME (Overall)						14,492.0

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	27-Oct Yield	3-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYAN BANKING BHD	6.3	09/25/68	4.435	4.366	-6.9	200.0
BANK PEMBANGUNAN MALAY	4.28	03/02/22	4.300	4.380	8.0	60.0
DANAINFRA NASIONAL	4	02/08/23	#N/A N/A	4.166	#VALUE!	60.0
CAGAMAS BERHAD	4.25	04/28/22	4.118	4.128	1.0	50.0
SUNWAY TREASURY SUKUK SD	ZERO	12/06/17	#N/A N/A	3.741	#VALUE!	50.0
UMW HOLDINGS BERHAD	5.22	10/02/26	4.976	4.989	1.3	50.0
MALAYAN BANKING BHD	4.9	01/29/24	4.785	4.631	-15.4	43.0
CIMB GROUP HOLDINGS BHD	6.35	04/05/60	5.700	4.780	-92.0	40.7
AFFIN BANK BHD	5.03	09/20/27	4.934	4.931	-0.3	40.3
AFFIN BANK BHD	5.45	02/05/27	4.885	4.876	-0.9	40.0
TOTAL VOLUME (TOP 10)						634.0
TOTAL VOLUME (Overall)						1,554.1

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.