

MIDF Strategy | 7 August 2017

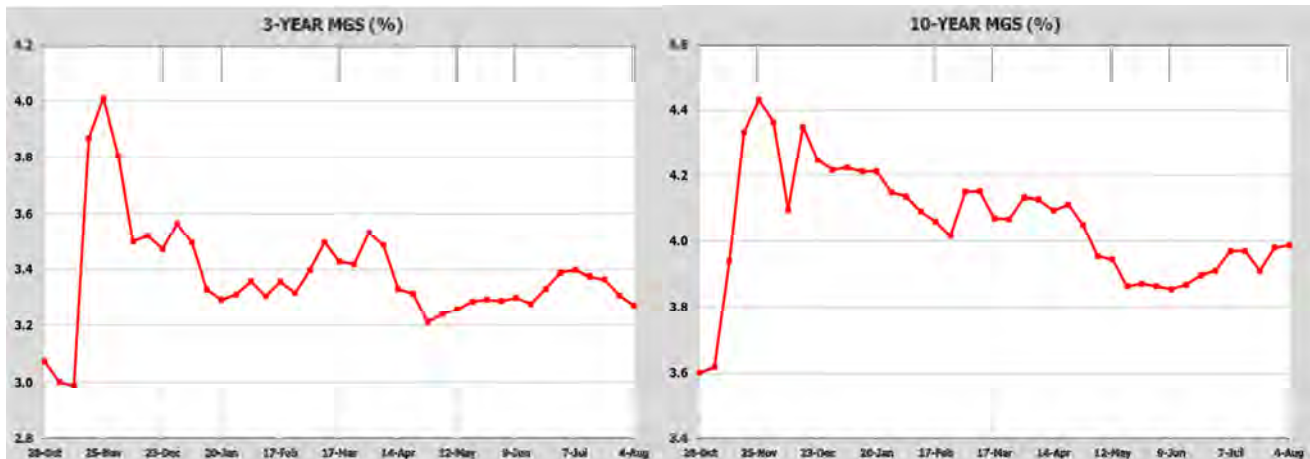
Week Ended 4 August

- The US Treasury bonds posted price gains last week, pushing yields down, encouraged by weaker than forecast July auto sales. General Motors, Ford Motor and Fiat Chrysler Automobiles all posted larger than expected drop in July US light vehicle sales.
- The US Fed's 2% inflation target may be in jeopardy with data showing prices on new cars and trucks dropped for 5 straight months through June.
- Technically, the yield of 10-year UST remained bullish at below the key 200-day moving average at the close last week.
- In the local scene, MGS yield curve steepened further as the yield of benchmark 3-year MGS shed - 3.7 basis points (bp) while the benchmark 10-year yield increased 0.7bp. The news on 1MDB missing payment to IPIC may have influenced market sentiment.
- Total trading value for Government Bonds (MGS/MII) was slightly higher at 10.6b in the review week compared to RM10.3b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 58% of the overall Government Bonds trades in the review week (from ~63% in week before).

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Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

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- Total trading value for Government Bonds (MGS/MII) was slightly higher at 10.6b in the review week compared to RM10.3b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 58% of the overall Government Bonds trades in the review week (from ~63% in week before).
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with varying tenors. The top 3 most actively traded were MII 3.23% 04/15/20 at RM1.34b, MGS 3.68% 11/23/17 at RM992.5m and MGS 3.89% 11/16/27 at RM721.4m. In addition, 6 out of the 10 most actively traded issues saw lower yields hence higher prices during the past week.
- Total trading value for Corporate Bonds (Conventional & Sukuk) jumped to RM3.70b in the review week compared to RM1.63b in earlier week (based on Bloomberg data). Trading interest was less concentrated among the 10 most actively traded issues at circa 26% of the overall Corporate Bonds trades (down from ~33% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by GLC issuers of short to medium tenors. The biggest trading values were seen in Khazanah Nasional Bhd 0% 06/15/22 at RM160.0m, Khazanah Nasional Bhd 0% 09/02/22 at RM160.0m and Prasarana Malaysia Bhd 4.4% 05/30/18 at RM110.0m.

- Total foreign holdings of Government Bonds stood at RM169.9b as end-June 2017. It was a slight drop of RM810m from the May 2017 figure of RM170.7b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM114m in the month of June 2017 to RM15.8b.

B. FOREIGN EXCHANGE

- DXY index improved amid strengthening labour market. Unemployment rate went down to 4.3% in July, matching 16-year low in May. In addition, non-farm payrolls increase by 209,000 in July while June's figure revised up from 222000 to 231000. Data on labour market which was released last week showed positive figures hence providing good hint for the US Federal Reserve to start trimming down its balance sheet and more hike in its interest rate.
- EURUSD appreciated by 0.2% despite positive development in the US labour market. Previous week saw Euro Area economic growth for the second quarter registered at 2.1%yoy, highest in six years. Germany, EU's largest economy provides optimistic signs as its factory orders and retail sales grew healthily by 1%mom and 1.1%mom in June 2017. Plus, unemployment claims fell by 9000 in July, reflecting strong labour market.

Currencies Changes (Week Ended 4/8) and Quarterly Forecasts

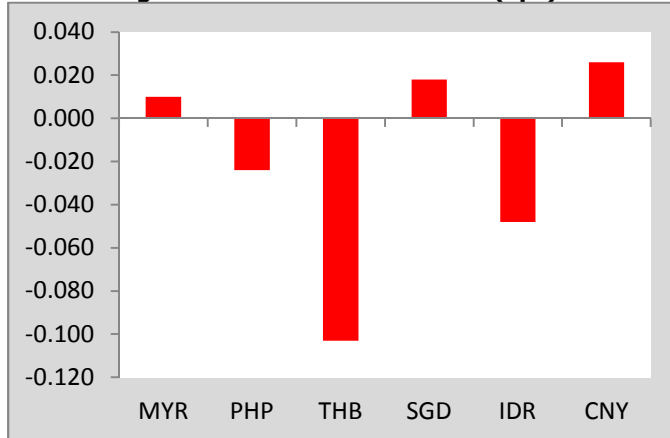
	Close (4/8)	Prev Close (28/7)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	93.542	93.259	0.283	0.3	101.12	102.50	103.00	103.50
EURUSD	1.177	1.175	0.002	0.2	1.06	1.05	1.02	1.03
GBPUSD	1.304	1.314	-0.010	-0.7	1.23	1.15	1.18	1.21
USDJPY	110.690	110.680	0.010	0.0	114.00	118.00	120.00	119.00
USDMYR	4.278	4.281	-0.003	0.1	4.40	4.30	4.30	4.20
GBPMYR	5.625	5.600	0.025	-0.4	5.48	5.50	5.45	5.30
JPYMYR	3.865	3.868	-0.003	0.1	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

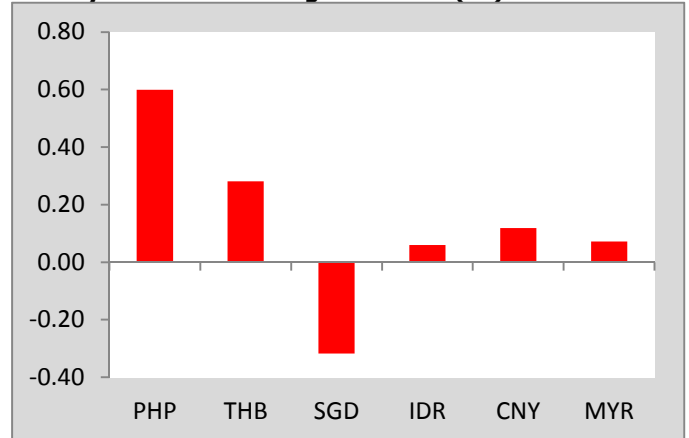
- Ringgit – touched 4.27, lowest in seven weeks. Continuous double digit growth in Malaysia's export for seven consecutive months indicates upbeat momentum is still in play. Moreover, even though remain below 50-point, Nikkei manufacturing PMI showed upward direction as PMI for July was 48.3 as compared to June was 46.9. We maintain our call on Ringgit to touch 4.20 by year-end due to sustain improvement in domestic as well as global economic activities.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

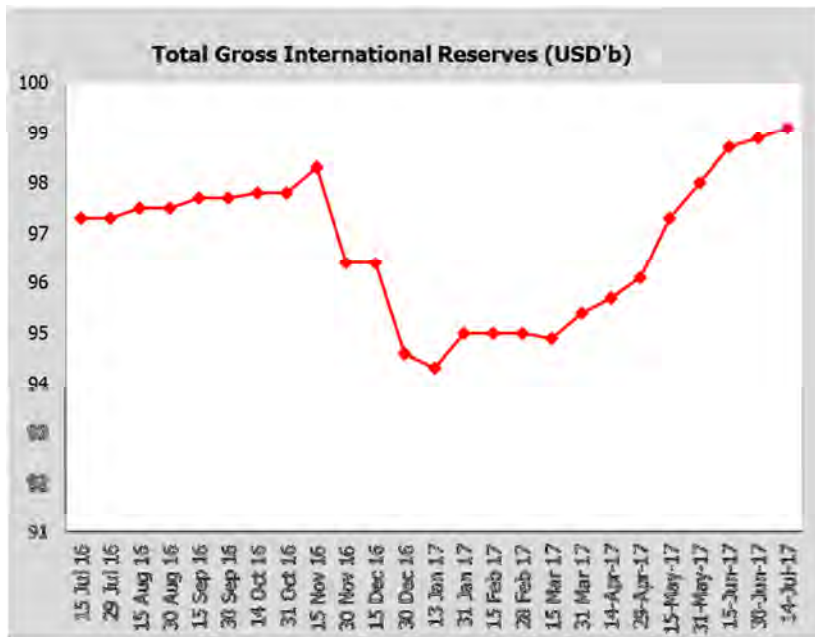


Source: BLOOMBERG; MIDFR


- In recent months, central banks around the world sent uniform tone of messages that global economy continues to expand. Fed, BoJ, BoE and Bank Negara Malaysia maintained their respective domestic borrowing rates in their latest respective policy meetings.
- International agencies such as IMF and World Bank acknowledged the revival and raised its global outlook for global growth to 3.5% from 2.7% citing surge in confidence and better growth prospect in large and emerging economies as well as uptick in global trade will drive the growth in 2017.
- Domestically, the growth momentum is expected to continue for the remaining of the year albeit at relatively slower pace. The uncertainty coming from geopolitical and protectionism will remain as salient threats to future growth although receding.
- Domestic demand is expected to continue its momentum amid favorable labour market and stable wage growth. Private investment on the other hand is on the uptick in tandem with improvement in global trade.
- Headline inflation reached 8-years high in March but since retreated to second lowest for the year in June at 3.6%. The steep rise in inflation was mainly due to cost-driven factors rather than demand-push. Core inflation remains stable at 2.5% in June and it is expected to follow the same path in months to come.
- We foresee at this juncture with waning and balanced external risks and moderating inflation the current monetary stance will continue to be supportive. Current OPR at 3% is expected to remain for the rest of the year.

C. BNM FOREIGN RESERVES

- As at 14 July 2017, Bank Negara Malaysia's international reserves rose further to USD99.1b (equivalent to RM425.4b), up USD0.2b from USD98.9b a fortnight earlier.



Source: BNM

- The amount of reserves is sufficient to finance 7.9 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	28-Jul Fri	31-Jul Mon	1-Aug Tue	2-Aug Wed	3-Aug Thu	4-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.31	3.303	3.303	3.302	3.3	3.273	-3.7
5-Y	3.692	3.698	3.681	3.695	3.7	3.69	-0.2
7-Y	3.916	3.91	3.905	3.918	3.911	3.913	-0.3
10-Y	3.981	3.988	3.994	4.006	3.994	3.988	0.7
20-Y	4.56	4.557	4.56	4.558	4.558	4.556	-0.4
RINGGIT IRS							
1-Y	3.5	3.4975	3.5	3.5	3.4925	3.49	-1
3-Y	3.65	3.645	3.64	3.655	3.6395	3.65	0
5-Y	3.765	3.76	3.77	3.765	3.755	3.755	-1
7-Y	3.87	3.875	3.88	3.875	3.875	3.87	0
10-Y	3.995	4	4	4	4	4	0.5
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	1.5026	1.5081	1.4891	1.5081	1.4781	1.5026	0
5-Y	1.8339	1.8356	1.7994	1.8256	1.7879	1.8157	-1.82
7-Y	2.1009	2.1129	2.0671	2.0888	2.043	2.0766	-2.43
10-Y	2.2889	2.2942	2.2532	2.271	2.2212	2.262	-2.69
30-Y	2.8953	2.8999	2.8567	2.8559	2.7972	2.842	-5.33
USD LIBOR							
1-M	1.23167	1.23167	1.23167	1.23056	1.23056	1.22889	-0.278
2-M	1.25833	1.25556	1.25611	1.25778	1.25778	1.25944	0.111
3-M	1.31056	1.31056	1.31056	1.31278	1.31167	1.31194	0.138

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	28-Jul Yield	4-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.594	3.575	-1.9	1,339.7
MALAYSIA INVESTMNT ISSUE	3.678	11/23/17	3.129	3.089	-4.0	992.5
MALAYSIA GOVERNMENT	3.899	11/16/27	3.981	3.988	0.7	721.4
MALAYSIA GOVERNMENT	4.012	09/15/17	3.030	3.018	-1.2	552.2
MALAYSIA GOVERNMENT	4.059	09/30/24	3.916	3.913	-0.3	510.1
MALAYSIA GOVERNMENT	4.498	04/15/30	4.373	4.378	0.5	502.2
MALAYSIA GOVERNMENT	3.759	03/15/19	3.310	3.273	-3.7	474.3
SUKUK PERUMAHAN KERAJAAN	3.691	07/12/22	3.949	3.961	1.2	370.0
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.781	3.635	-14.6	327.0
MALAYSIA GOVERNMENT	3.654	10/31/19	3.456	3.394	-6.2	318.1
TOTAL VOLUME (TOP 10)						6,107.4
TOTAL VOLUME (Overall)						10,553.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	28-Jul Yield	4-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
KHAZANAH NASIONAL BHD	ZERO	06/15/22	N/A	4.184	N/A	160.0
KHAZANAH NASIONAL BHD	ZERO	09/02/22	N/A	4.150	N/A	160.0
PRASARANA MALAYSIA BHD	4.4	05/30/18	3.539	3.513	-2.6	110.0
TAN CHONG MOTOR HLDGS	4.7	11/24/21	N/A	5.949	N/A	107.3
KHAZANAH NASIONAL BHD	ZERO	07/09/18	N/A	3.633	N/A	90.0
BANK PEMBANGUNAN MALAY	4.62	03/02/27	4.573	4.601	2.8	83.0
TAN CHONG MOTOR HLDGS	4.5	11/22/19	N/A	6.185	N/A	70.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	N/A	5.115	N/A	65.0
BGSM MANAGEMENT SDN BHD	4.9	12/27/18	4.324	4.298	-2.6	65.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.977	4.915	-6.2	65.0
TOTAL VOLUME (TOP 10)						975.3
TOTAL VOLUME (Overall)						3,696.5

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.