

MIDF Strategy | 8 May 2017

Week Ended 5 May

- The yield curve flattened last week as shorter end rates rebounded while the longer end continued to fall. The 3-year MGS yield increased 2.9bp but the 10-year registered -9.7bp decline.
- The inaugural 30-year GII issue was met with strong bid-to-cover ratio of nearly 2.4x which indicated favorable demand for long-dated Ringgit debt, underpinned by the appreciating local currency of late.
- The US Fed maintained its key overnight target rate as widely expected but indicated it was still on track for two more hikes.
- This week will be BNM's third MPC meeting of the year. Its monetary stance would be influenced by the mixed domestic data released over the last few weeks. We reckon BNM to continue its current supportive monetary stance. Hence we maintain our view of no change in OPR for this upcoming MPC meeting on Friday.

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Weekly Money Review

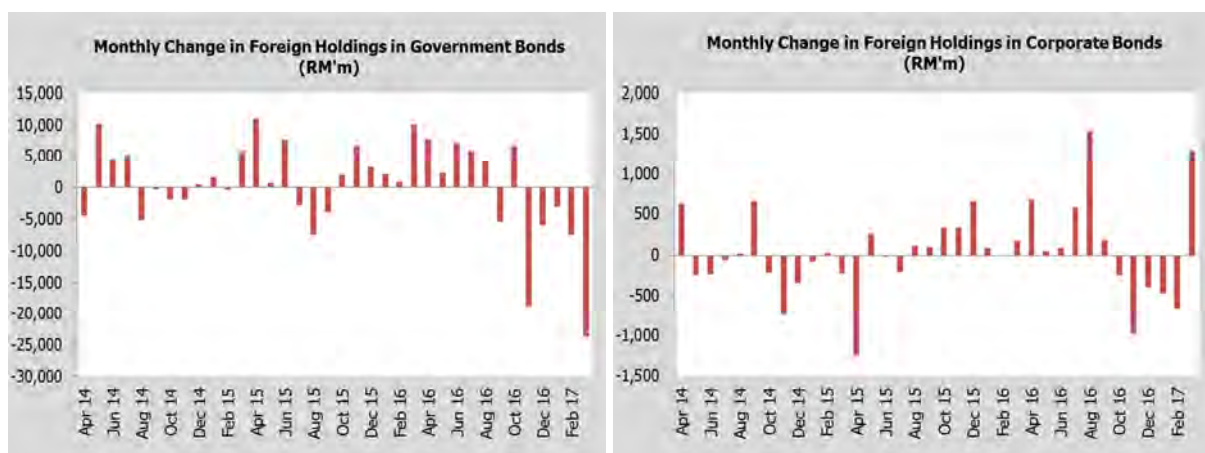
A. FIXED INCOME



Source: Bloomberg

- The US Fed maintained its key overnight target rate as widely expected but indicated it was still on track for two more hikes later this year. Nonetheless, the market was arguably more fixated over the slump in commodity prices with the benchmark Brent crude oil prices tumbling well below the USD50pb support level.
- In local bond market, the yield curve flattened a bit as rates at the shorter end rebounded while those at the longer end continued to fall. The yield of 3-year MGS rose by 2.9 basis points (bp) last week, compared with -9.7bp decline in the rate for 10-year MGS. It is also notable that the inaugural 30-year GII issue was met with strong bid-to-cover ratio of nearly 2.4x which indicated favorable demand for long-dated Ringgit debt, underpinned by the appreciating local currency of late.
- On monthly basis, the sovereign recorded gain in April after selling observed in March which saw more than RM28b outflow – a move we opine originated by liquidation of carry traders. We did outline that we were expecting the funds outflow to recede as Malaysia's economic fundamental remains solid.
- Total volume trade for Government Bonds (MGS/GII) increased to RM27.1b in the review week from RM25.0b in the week before (based on Bloomberg data). The 10 most actively traded issues represent slightly more than 56% of the overall Government Bonds trades in the review week (down from ~65% in week before).
- Unlike in previous weeks, the top 3 volumes were dominated by issues with mid to long (5 years and more) remaining tenor. The top 3 most actively traded were MGS 3.88% 03/10/22 at RM2.6b, MGS 3.95% 04/14/22 at RM2.4b and MGS 4.06% 09/30/24 at RM2.0b. Moreover, 10 out of the 10 most actively traded issues saw lower yields during the past week hence higher prices.
- Total volume trade for Corporate Bonds (Conventional & Sukuk) decreased to RM1.9b in the review week from RM2.1b in prior week (based on Bloomberg data). Trading interest was relatively less concentrated as the 10 most actively traded issues represented circa 37% (unchanged from previous week) of the overall Corporate Bonds trades.
- The top 3 actively traded issues among the Corporate Bonds were quite varied in terms of their remaining tenor. The biggest volumes were seen in Cahya Mata Sarawak 4.80% 05/05/22 at RM90m, Lebuhraya Duke Fasa 3 Sdn Bhd 5.77% 08/23/32 at RM90m and RHB Bank 4.30% 05/05/22 at RM90m.

- Total foreign holdings in Government Bonds stood at RM155.7b as at March 2017. It was a decline of RM23.6b from the February 2017 figure of RM179.4b.



Source: BNM

- In contrast, total foreign holdings in Corporate Bonds increased by RM1.3b in the month of March 2017 to RM15.9b.

B. FOREIGN EXCHANGE

- Dollar declined for fourth consecutive weeks despite of strong increase in April's US non-farm payroll to 211,000. This is mainly due to positive environment in Europe as pro-EU Emmanuel Macron is set to be the French president. DXY index, a measure of dollar against six major currencies, shed 0.2% to 98.862 from 99.050. Drop in commodities prices have minimal impact on the dollar given their lower weightings. On the flip side, EURUSD jumped by 0.01% to 1.096, contributed by firmer confidence on European economy as threat of populism seems to tone down.
- Ringgit – on modest recovery. Solid performance in Malaysia's external trade and optimistic outlook on global economy may drive USDMYR to 4.20 by end of this year. Among Asean countries, only Malaysia and Philippines had an increase last week, 0.1% and 0.32% respectively.

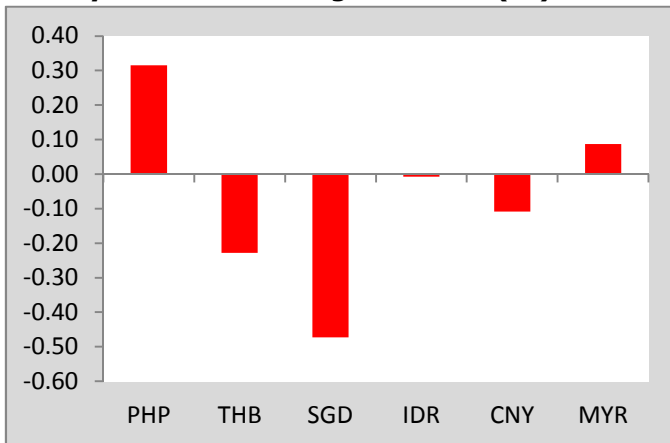
Currencies Changes (Weekly Ended on 5/5) and Quarterly Forecast

| | Close (5/5) | Prev Close (28/4) | Change | % Change | 1Q17F | 2Q17F | 3Q17F | 4Q17F |
|-----------|-------------|-------------------|--------|----------|--------|--------|--------|--------|
| DXY Index | 98.862 | 99.05 | -0.188 | -0.2 | 101.12 | 102.50 | 103.00 | 103.50 |
| EURUSD | 1.096 | 1.090 | 0.007 | 0.6 | 1.06 | 1.05 | 1.02 | 1.03 |
| GBPUSD | 1.294 | 1.295 | -0.001 | -0.1 | 1.23 | 1.15 | 1.18 | 1.21 |
| USDJPY | 112.310 | 111.490 | 0.820 | -0.7 | 114.00 | 118.00 | 120.00 | 119.00 |
| USDMYR | 4.337 | 4.341 | -0.004 | 0.1 | 4.45 | 4.20 | 4.43 | 4.30 |
| GBPMYR | 5.611 | 5.620 | -0.009 | 0.2 | 5.48 | 5.50 | 5.45 | 5.30 |
| JPYMYR | 3.862 | 3.894 | -0.032 | 0.8 | 3.92 | 3.75 | 3.85 | 3.85 |

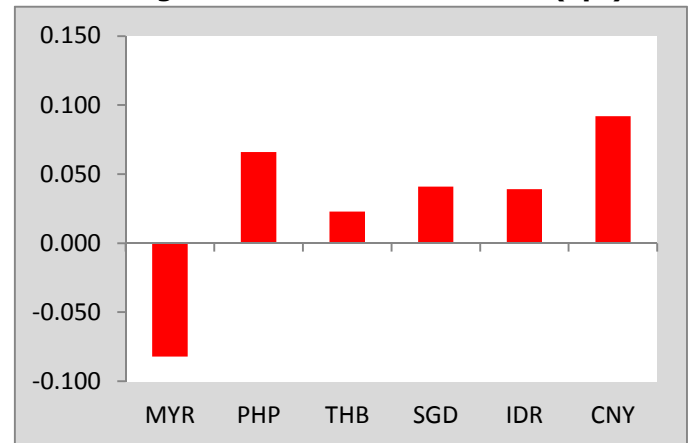
Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDF Research

Weekly Currencies Change vs Dollar (%)



Yield Change in 10Y Government Bonds (bps)



For the week ended on 28/4/2017

Source: Bloomberg, MIDFR

- Uncertainty is the main feature of global market over the last 18 months. Uncertainty always parts of the market variable but sometimes it is more pronounced. The key events such as Brexit, outcome of the US Presidential election and the more recent – French Presidential election, were some of those more pronounced uncertainty.
- Amid current receding downside threats in global economy, Fed maintained its target rate in the last FOMC meeting held last week. The Federal Reserve seems inclined to stick to its earlier communication that the US economy is strong enough to withstand to its 3 times rate hikes in 2017.
- The Fed's course of action is always data dependent. After weak first quarter GDP which grew 0.7% in the first 3 month of 2017, unemployment rate fell to 4.4% in April from 4.5% in the previous month. April unemployment rate registered in April was the lowest jobless rate since May 2007. In addition non-farm payrolls increased by 211,000 in April above the 79,000 in March. Host of recent data indicate tightening labor market and the domestic economy is on expansionary mode. We retain our view of 2 more rate hikes in the US in 2017.
- This week will be Bank Negara third MPC meeting of the year. Mixed domestic data released over the last few weeks ranging from strong external trade figures, rising inflationary pressure, and recovery in consumer and business confidence will be some of the key determining factors that will influence BNM monetary stance.
- Maintaining stable pace of domestic economic growth will likely made BNM to continue its current supportive monetary stance. Hence, we maintain our view of no change in OPR for this upcoming MPC meeting on Friday.

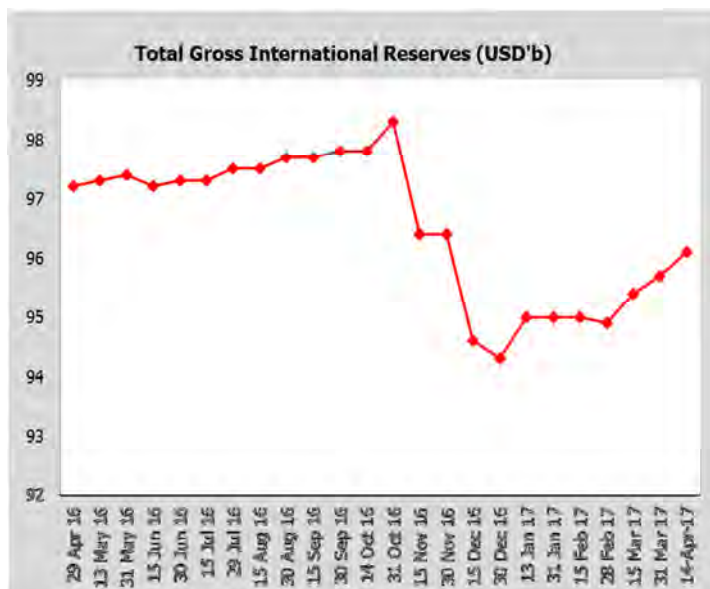
Overnight Policy Rate (%) by Selected Countries

| | 17-Jan | 17-Feb | 17-Mar | 17-Apr |
|-----------------------|--------|--------|--------|--------|
| Malaysia | 3.0 | 3.0 | 3.0 | 3.0 |
| Indonesia | 4.8 | 4.8 | 4.8 | 4.8 |
| Singapore | Neut. | Neut. | Neut. | Neut. |
| Philippines | 3.0 | 3.0 | 3.0 | |
| Thailand | 1.5 | 1.5 | 1.5 | |
| Vietnam | 6.5 | 6.5 | 6.5 | 6.5 |
| Korea | 1.3 | 1.3 | 1.250 | 1.3 |
| China | 4.4 | 4.4 | 4.4 | 4.4 |
| Japan | -0.1 | -0.1 | -0.1 | -0.1 |
| United Kingdom | 0.3 | 0.3 | 0.3 | |
| EU | 0.0 | 0.0 | 0.0 | 0.0 |
| United States | 0.8 | 0.8 | 1.0 | 1.0 |


Source: MIDFR

C. BNM FOREIGN RESERVES

- As at 28 April 2017, Bank Negara Malaysia's international reserves totaled up to USD96.1b (equivalent to RM425.2b).



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-Apr Fri | 1-May Mon | 2-May Tue | 3-May Wed | 4-May Thu | 5-May Fri | Change (WoW bp) |
|-------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------------|
| MGS | | | | | | | |
| 3-Y | 3.212 | 3.212 | 3.212 | 3.255 | 3.253 | 3.241 | 2.9 |
| 5-Y | 3.677 | 3.677 | 3.621 | 3.582 | 3.586 | 3.579 | -9.8 |
| 7-Y | 3.902 | 3.902 | 3.863 | 3.847 | 3.852 | 3.859 | -4.3 |
| 10-Y | 4.052 | 4.052 | 3.982 | 3.95 | 3.963 | 3.955 | -9.7 |
| 20-Y | 4.676 | 4.676 | 4.652 | 4.642 | 4.653 | 4.653 | -2.3 |
| RINGGIT IRS | | | | | | | |
| 1-Y | 3.545 | 3.545 | 3.54 | 3.54 | 3.525 | 3.535 | -1 |
| 3-Y | 3.6565 | 3.6565 | 3.66 | 3.64 | 3.66 | 3.65 | -0.65 |
| 5-Y | 3.765 | 3.765 | 3.77 | 3.745 | 3.755 | 3.764 | -0.1 |
| 7-Y | 3.865 | 3.865 | 3.865 | 3.87 | 3.86 | 3.86 | -0.5 |
| 10-Y | 4.02 | 4.02 | 4.015 | 4.02 | 4.02 | 4.02 | 0 |
| 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 | 1.443 | 1.4619 | 1.4429 | 1.4782 | 1.5026 | 1.5054 | 6.24 |
| 5-Y | 1.8142 | 1.8405 | 1.8027 | 1.8519 | 1.8865 | 1.8816 | 6.74 |
| 7-Y | 2.0941 | 2.1256 | 2.0893 | 2.133 | 2.1695 | 2.1624 | 6.83 |
| 10-Y | 2.2802 | 2.318 | 2.2803 | 2.318 | 2.3541 | 2.3487 | 6.85 |
| 30-Y | 2.9508 | 3.0023 | 2.9689 | 2.9681 | 2.9983 | 2.9832 | 3.24 |
| USD LIBOR | | | | | | | |
| 1-M | 0.995 | 0.995 | 0.99278 | 0.99167 | 0.99278 | 0.99444 | -0.056 |
| 2-M | 1.03722 | 1.03722 | 1.04361 | 1.04611 | 1.06028 | 1.06 | 2.278 |
| 3-M | 1.17233 | 1.17233 | 1.17372 | 1.17122 | 1.17928 | 1.18039 | 0.806 |

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name | Coupon | Maturity | 28-Apr Yield | 5-May Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|-----------------------------|--------|----------|-----------------|----------------|--------------------|--------------------------|
| MALAYSIA GOVERNMENT | 3.882 | 03/10/22 | 3.762 | 3.677 | -8.5 | 2,608.6 |
| MALAYSIA INVESTMNT ISSUE | 3.948 | 04/14/22 | 3.876 | 3.793 | -8.3 | 2,370.2 |
| MALAYSIA GOVERNMENT | 4.059 | 09/30/24 | 3.990 | 3.902 | -8.8 | 2,041.8 |
| MALAYSIA GOVERNMENT | 3.955 | 09/15/25 | 4.142 | 4.061 | -8.1 | 2,005.8 |
| MALAYSIA GOVERNMENT | 4.232 | 06/30/31 | 4.493 | 4.443 | -5.0 | 1,310.2 |
| MALAYSIA GOVERNMENT | 3.9 | 11/30/26 | 4.113 | 4.052 | -6.1 | 1,198.8 |
| MALAYSIA GOVERNMENT | 4.012 | 09/15/17 | 3.145 | 3.004 | -14.1 | 1,067.7 |
| MALAYSIA GOVERNMENT | 3.58 | 09/28/18 | 3.310 | 3.284 | -2.6 | 1,007.5 |
| MALAYSIA INVESTMNT ISSUE | 3.226 | 04/15/20 | 3.714 | 3.666 | -4.8 | 918.2 |
| MALAYSIA GOVERNMENT | 3.844 | 04/15/33 | 4.489 | 4.425 | -6.4 | 666.4 |
| TOTAL VOLUME (TOP 10) | | | | | | 15,195.2 |
| TOTAL VOLUME (Overall) | | | | | | 27,049.8 |

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name | Coupon | Maturity | 28-Apr Yield | 5-May Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|-----------------------------|--------|----------|-----------------|----------------|--------------------|--------------------------|
| CAHYA MATA SARAWAK | 4.8 | 05/05/22 | N/A | N/A | N/A | 90.0 |
| LEBUHRAYA DUKE FASA 3 SD | 5.77 | 08/23/32 | 5.159 | N/A | N/A | 90.0 |
| RHB BANK | 4.3 | 05/06/22 | N/A | 9.083 | N/A | 90.0 |
| PRASARANA MALAYSIA BHD | 4.47 | 02/26/26 | 4.313 | 4.303 | -1.0 | 75.0 |
| PENGURUSAN AIR SPV BHD | 3.9 | 08/05/22 | N/A | 4.335 | N/A | 70.0 |
| GOVCO HOLDINGS BHD | 4.1 | 02/22/22 | N/A | 4.084 | N/A | 65.0 |
| PENGURUSAN AIR SPV BHD | 4.63 | 02/05/26 | 4.372 | 4.301 | -7.1 | 55.0 |
| GENM CAPITAL BHD | 4.78 | 03/31/22 | 4.778 | 4.778 | 0.0 | 50.0 |
| HONG LEONG BANK | 4.5 | 06/21/24 | 4.471 | 4.518 | 4.7 | 50.0 |
| PENGURUSAN AIR SPV BHD | 4.1 | 11/05/20 | N/A | N/A | N/A | 50.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 685.0 |
| TOTAL VOLUME (Overall) | | | | | | 1,855.1 |

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. |