

MIDF Strategy | 8 October 2018

Week Ended 5 October

- UST tumbled (prices down; yields up) again last week, a fifth weekly loss in six weeks, as the market reacted to the monthly jobs report which showed (i) unemployment rate dropped to a near 50-year low of 3.7%, and (ii) adjusted non-farm payrolls in August revised up to 270,000 from 201,000 earlier. The benchmark 10-year UST yield climbed to 3.23%, the highest level since May 2011.
- Furthermore, the yield curve slightly steepened as the long-end underperformed. The 10y-3y yield spread expanded to +25bps from +18bps a week earlier. However, technically, we reckon the flattening trend remains well intact.
- Domestically, the price of MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields shed -0.2bp and added +3.6bps respectively to close the week at 3.60% and 4.10%.
- Total foreign holdings of Government Bonds stood at RM162.7b as at end-Sept 2018. It was a decline of -RM4.4b from the Aug 2018 figure of RM167.1b.
- In tandem, total foreign holdings of Corporate Bonds decreased by -RM160.8m in the month of September 2018 to RM13.2b.
- In comparison to equities, the bonds market saw a total net outflow worth -RM4.6b in September 2018 while the former saw a total net inflow worth RM66.3m (first inflow in 5 months). Furthermore, year-to-date (Jan-Sep), both equities and bonds markets remained in the red with total net outflows of -RM8.5b and -RM23.2b respectively.

Weekly Money Review

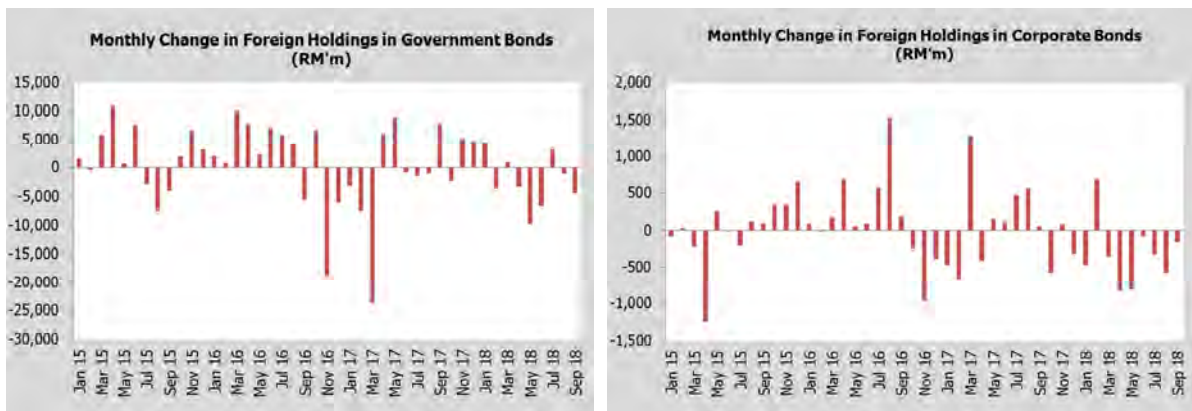
A. FIXED INCOME



Source: Bloomberg

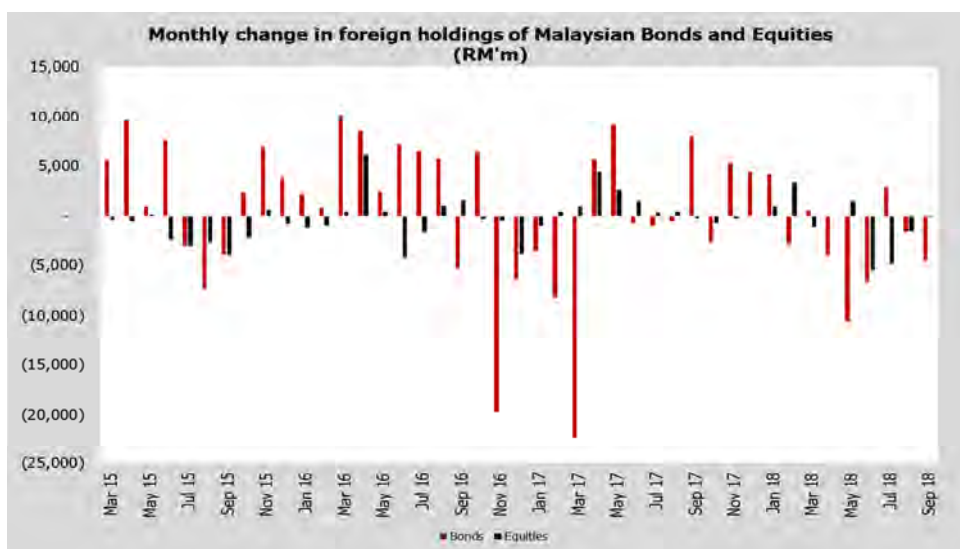
- UST tumbled (prices down; yields up) again last week, a fifth weekly loss in six weeks, as the market reacted to the monthly jobs report which showed (i) unemployment rate dropped to a near 50-year low of 3.7%, and (ii) adjusted non-farm payrolls in August revised up to 270,000 from 201,000 earlier. The benchmark 10-year UST yield climbed to 3.23%, the highest level since May 2011.
- Furthermore, the yield curve slightly steepened as the long-end underperformed. The 10y-3y yield spread expanded to +25bps from +18bps a week earlier. However, technically, we reckon the flattening trend remains well intact.
- Domestically, the price of MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields shed -0.2bp and added +3.6bps respectively to close the week at 3.60% and 4.10%.
- Total trading value for Government Bonds (MGS/MII) increased to RM14.8b in the review week compared to RM13.6b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 52% of the overall Government Bonds trades in the week under review vis-à-vis ~45% in the week before. In addition, only 2 out of the 10 most 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 and long residual tenors. The top 3 most actively traded were MGS 3.733% 06/15/28 at RM1.08b, MGS 3.65% 10/31/19 at RM1.01b and MII 3.80% 08/27/20 at RM860m.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM2.68b in the review week compared to RM3.84b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 33% of the overall Corporate Bonds trades from ~31% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues with mid and long residual tenors. The biggest trading values were seen in Prasarana 4.00% 9/06/27 at RM130m, Danainfra Nasional 5.16% 11/25/44 at RM100m and CIMB Thai Bank PCL 5.60% 07/05/24 at RM90m.
- Total foreign holdings of Government Bonds stood at RM162.7b as at end-Sept 2018. It was a decline of -RM4.4b from the Aug 2018 figure of RM167.1b.

- In tandem, total foreign holdings of Corporate Bonds decreased by -RM160.8m in the month of September 2018 to RM13.2b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM4.6b in September 2018 while the former saw a total net inflow worth RM66.3m (first inflow in 5 months). Furthermore, year-to-date (Jan-Sep), both equities and bonds markets remained in the red with total net outflows of -RM8.5b and -RM23.2b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

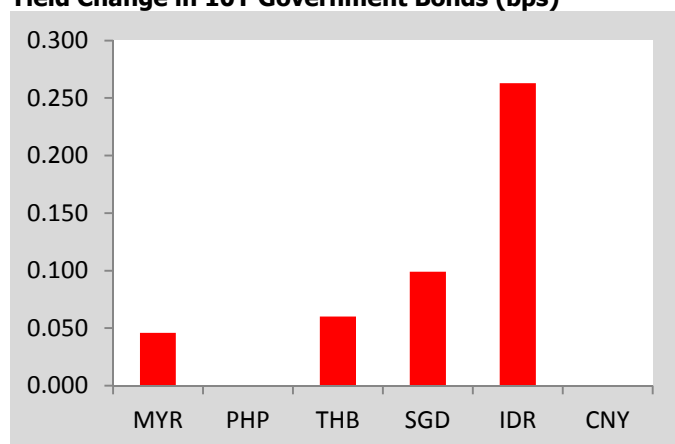
- DXY Index appreciates as jobless rate hits 3.7%. Underpin by robust economic momentum, labour market in the US continues to strengthen. Jobless rate in Sep-18 registered at almost 50-year low and non-farm payrolls increase by 134K. Average hourly earnings up 2.8%yoy during the same month. Strong performance in labour market will provide the Fed additional reasons to further normalised its monetary rate.
- EURUSD remains on steady path. Fundamentally, EUR stays healthy. Slight depreciation of 0.9%wow is mainly due to stronger USD. Services PMI which highly dependent on domestic demand rose to 54.7 points in Sep-18, highest in 3-month. In addition, retail sales in Aug-18 increased by 1.8%yoy, biggest gain since Apr-18.
- Ringgit – depreciate amid weak external trade performance. Malaysia’s exports shrank by 0.3%yoy in Aug-18, weakest since Feb-18. Imports jumped 11.2%yoy, recording 3-straight consecutive months of double digit rate. Hence, trade surplus declined to 5-year low at RM1.6 billion during the month. We maintain our call MYR to average at 4.00 and register year-end target at 4.00.

Currencies Changes (Week Ended 05/10) and Quarterly Forecasts

	Close (05/10)	Prev Close (28/09)	Change	% Change	1Q18	2Q18	3Q18	4Q18F
DXY Index	95.62	95.13	0.488	0.5%	90.07	92.79	95.02	96.99
EURUSD	1.15	1.16	-0.010	-0.9%	1.23	1.19	1.16	1.14
GBPUSD	1.30	1.30	0.000	0.0%	1.39	1.37	1.30	1.28
USDJPY	113.85	113.70	0.150	-0.1%	108.09	109.24	111.48	114.72
USDMYR	4.15	4.14	0.008	-0.2%	3.92	3.95	4.10	4.00
GBPMYR	5.40	5.41	-0.006	0.1%	5.46	5.37	5.33	5.40
JPYMYR	3.64	3.64	0.003	-0.1%	3.63	3.62	3.67	3.70

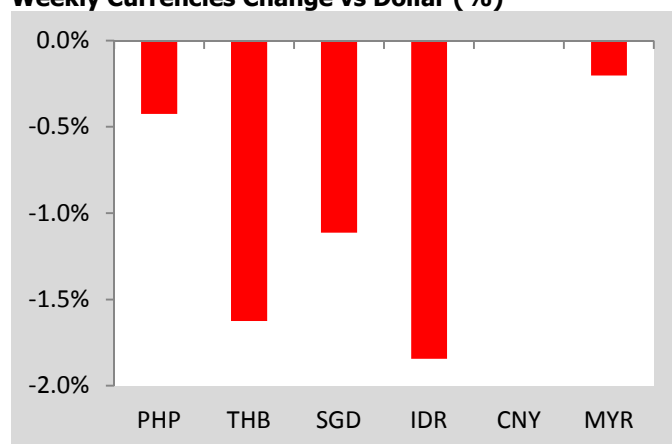
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.75	5.25	5.25	5.50	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.25	3.25	4.00	4.50
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.50	1.50	1.50	1.50	1.50	1.50	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	0.50	0.50	0.50	0.50	0.50	0.50	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	1.50	1.50	1.75	1.75	1.75	2.00	2.00	2.00	2.25

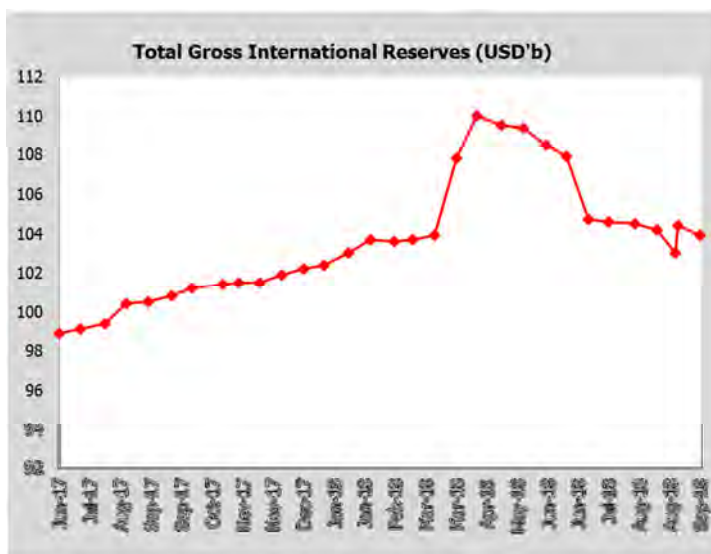
Source: CEIC, MIDFR

- Various latest leading macroeconomic indicators for both developed and emerging economies are pointed toward moderation in the next three to six month.
- Increasing oil prices and ongoing trade spat between US and China add pressure to global growth path especially to emerging economies.


- Tightening monetary policy in the US generates financial volatility which is could capital flight from emerging economies.
- Countries with weak fundamentals and high exposure to foreign debts are highly vulnerable to shift in appetite for risky assets.
- Over the last few weeks, central banks in developing countries have raised their policy rate to defend their currencies and to curb capital flight.
- Fed raises its policy rate third time during its 6th FOMC. Another rate hike penciled toward year-end and three more for 2019.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth.
- Headline inflation is expected to remain tepid. The trend is expected to continue despite the end of tax holiday period in September.
- Our base case scenario for OPR remains unchanged (single rate hike - 3.25%) for 2018. Current monetary policy remains accommodative to support growth in the domestic economy.

C. BNM FOREIGN RESERVES

- As at 28 September 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD103.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 0.9 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	28-Sep Fri	1-Oct Mon	2-Oct Tue	3-Oct Wed	4-Oct Thu	5-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.607	3.592	3.615	3.615	3.632	3.605	-0.2
5-Y	3.747	3.769	3.761	3.762	3.817	3.781	3.4
7-Y	3.953	3.97	3.965	3.979	3.997	3.997	4.4
10-Y	4.066	4.079	4.066	4.066	4.129	4.102	3.6
20-Y	4.685	4.685	4.666	4.666	4.689	4.689	0.4
RINGGIT IRS							
1-Y	3.715	3.71	3.71	3.71	3.715	3.715	0
3-Y	3.765	3.765	3.7575	3.76	3.775	3.775	1
5-Y	3.85	3.8535	3.8475	3.845	3.869	3.87	2
7-Y	3.965	3.975	3.965	3.96	3.985	3.99	2.5
10-Y	4.165	4.165	4.155	4.14	4.175	4.19	2.5
KLIBOR							
1-M	3.43	3.43	3.43	3.43	3.43	3.43	0
2-M	3.66	3.66	3.66	3.66	3.66	3.66	0
3-M	3.69	3.69	3.69	3.69	3.69	3.69	0
UST							
3-Y	2.883	2.8859	2.8832	2.9643	2.9617	2.9821	9.91
5-Y	2.9529	2.9614	2.9512	3.0449	3.045	3.0693	11.64
7-Y	3.0199	3.0349	3.0199	3.1303	3.1329	3.1734	15.35
10-Y	3.0612	3.0836	3.0631	3.1813	3.187	3.2328	17.16
30-Y	3.2057	3.2343	3.2175	3.3353	3.3475	3.4036	19.79
USD LIBOR							
1-M	2.26056	2.26513	2.27394	2.27925	2.28063	2.27669	1.613
2-M	2.31075	2.30975	2.31988	2.31925	2.32388	2.31875	0.8
3-M	2.39838	2.39813	2.4075	2.40825	2.40963	2.40806	0.968

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	28-Sep Yield	5-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.733	06/15/28	4.066	4.102	3.6	1,077.6
MALAYSIA GOVERNMENT	3.654	10/31/19	3.409	3.401	-0.8	1,007.9
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.507	3.532	2.5	860.0
MALAYSIA GOVERNMENT	3.757	04/20/23	3.747	3.781	3.4	843.0
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.288	3.319	3.1	822.1
MALAYSIA GOVERNMENT	4.378	11/29/19	3.662	3.462	-20.0	724.5
MALAYSIA INVESTMNT ISSUE	3.729	03/31/22	3.701	3.722	2.1	653.8
MALAYSIA GOVERNMENT	3.844	04/15/33	4.570	4.556	-1.4	605.6
MALAYSIA INVESTMNT ISSUE	4.444	05/22/24	3.989	4.002	1.3	601.3
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.753	3.770	1.7	513.3
TOTAL VOLUME (TOP 10)						7,709.0
TOTAL VOLUME (Overall)						14,773.0

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	28-Sep Yield	5-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
PRASARANA MALAYSIA BHD	4	09/06/27	4.303	4.344	4.1	130.0
DANAINFRA NASIONAL	5.16	11/25/44	#N/A N/A	5.023	#VALUE!	100.0
CIMB THAI BANK PCL	5.6	07/05/24	4.552	4.494	-5.8	90.0
PRASARANA MALAYSIA BHD	4.02	03/24/20	3.843	3.895	5.2	90.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	4.208	4.207	-0.1	90.0
DANAINFRA NASIONAL	4.27	05/24/24	4.106	4.109	0.3	90.0
PERBADANAN TABUNG PENDID	4.86	03/12/32	4.612	4.630	1.8	80.0
DANAINFRA NASIONAL	4.33	11/15/24	4.167	4.159	-0.8	80.0
DANAINFRA NASIONAL	5.08	04/30/38	#N/A N/A	4.858	#VALUE!	60.0
SARAWAK ENERGY BHD	4.5	01/19/22	4.334	4.334	0.0	60.0
TOTAL VOLUME (TOP 10)						870.0
TOTAL VOLUME (Overall)						2,675.8

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.