

## MIDF Strategy | 10 July 2017

Week Ended 7 July

- UST prices fell due to (1) growing speculation that major central banks shall imminently scale back stimulus, (2) trade re-positioning with the Fed viewed as committed to another hike, and (3) a larger-than-forecast increase in US jobs for June.
- Likewise, MGS yields were higher thus prices fell across the board. The yield of 3-year MGS rose 0.9bp while that of 10-year gained 6.0bp on-week.
- Total foreign holdings of MGS/GII stood at RM169.9b as end-June 2017. It was a drop of RM810m from the May 2017 figure of RM170.7b.
- Ringgit touched 4.30 after six consecutive months hovering below the 4.30 level. Not just Ringgit, most Asian currencies faced similar depreciations due to strong USD last week.
- We foresee the Ringgit will touch 4.20 by year-end based on current macro environment. Malaysia economy remains upbeat given the latest export in May expanded by 32.5%yoy, a 7-year high.
- Bank Negara Malaysia is having MPC meeting this week. We are anticipating no change to the OPR.



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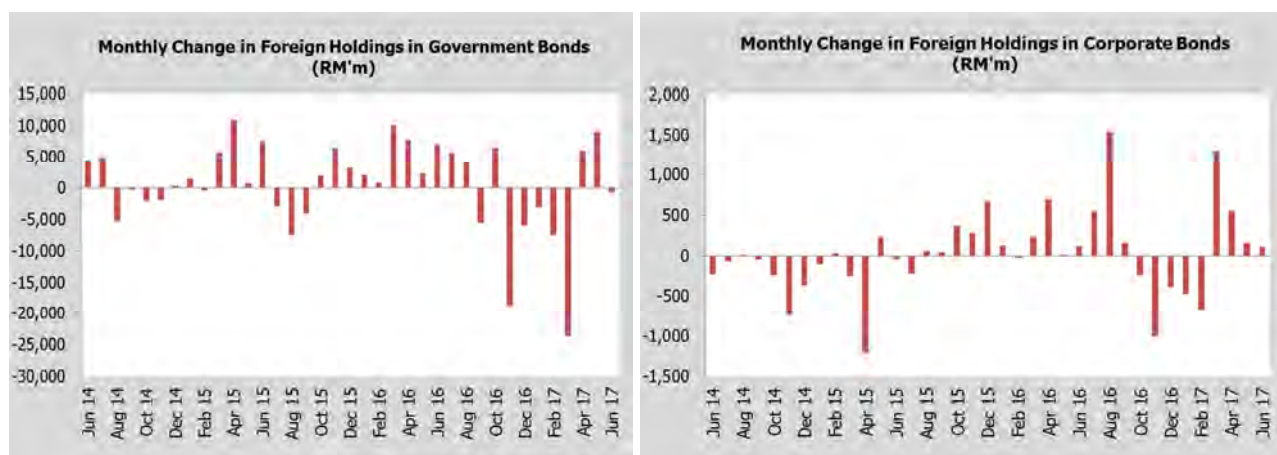
## Weekly Money Review

### A. FIXED INCOME



Source: Bloomberg

- In a repeat of last week's performance, the prices of US Treasury bonds fell across the board, pushing yields up, led by the long ends. The UST curve has steepened lately as investors cut on long-bond positions due to (1) growing speculation in the bond market that world's major central banks shall move together to imminently scale back stimulus, (2) trade re-positioning with the Fed viewed as committed to another rate hike this year (~60% probability, based on the EFR and the FOIS rate), and (3) a larger-than-forecast increase in US jobs for June.
- Technically, the 30-year yield is approaching a key 100-DMA level of 2.95%.
- Likewise, in the local market, MGS yields were generally higher thus prices fell across the board. The yield of benchmark 3-year MGS rose 0.9 basis point (bp) while that of 10-year gained 6.0bp during the review week.
- Total value trade for Government Bonds (MGS/GII) increased drastically to RM14.5b in the review week from RM5.5b in the Hari-Raya-holiday-shortened trading week before (based on Bloomberg data). The total trading value of 10 most actively traded issues slightly increased to 63% of the overall Government Bonds trades in the review week (from ~59% in week before).
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with varied tenors. The top 3 most actively traded were MGS 4.06% 09/30/24 at RM2.72b, MGS 4.01% 09/15/17 at RM1.19b and MII 4.26% 07/26/27 at RM912m. In addition, only 2 out of the 10 most actively traded issues saw lower yields hence higher prices during the past week.
- Total value trade for Corporate Bonds (Conventional & Sukuk) however saw a slight decline to RM732m in the review week compared to RM746m in the holiday-shortened prior week (based on Bloomberg data). Trading interest was slightly less concentrated among the 10 most actively traded issues at circa 39% of the overall Corporate Bonds trades (down from ~46% in the week before).
- The top 3 actively traded Corporate Bonds were also represented by issues with varied tenors. The biggest trading values were seen in Golden Assets International 4.35% 11/17/17 at RM140m, YTL Power International 5.05% 05/03/27 at RM127m and Danainfra Nasional 4.16% 11/26/21 at RM125m.
- Total foreign holdings of Government Bonds stood at RM169.9b as end-June 2017. It was a 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 surged to 96.008 by 0.4% on weekly basis. The surge is mainly driven by the release of employment data of June which saw 222,000 additional jobs being added into the US economy. The employment data beat market expectation of 179,000. Last month also saw the US labour participation rate increased to 62.8% and hence pushing up the unemployment rate to 4.4%.
- EURUSD and GBPUSD depreciated marginally by 0.2% and 1% respectively last week. Street demonstration protesting G-20 summit in Hamburg may be among the main factors for the depreciation of EURUSD. The demonstration went bitter as protesters and polices clashed with rod and pavement rocks being thrown to the authorities while the police used water cannon trucks against the rioters.

## Currencies Changes (Week Ended 7/7) and Quarterly Forecasts

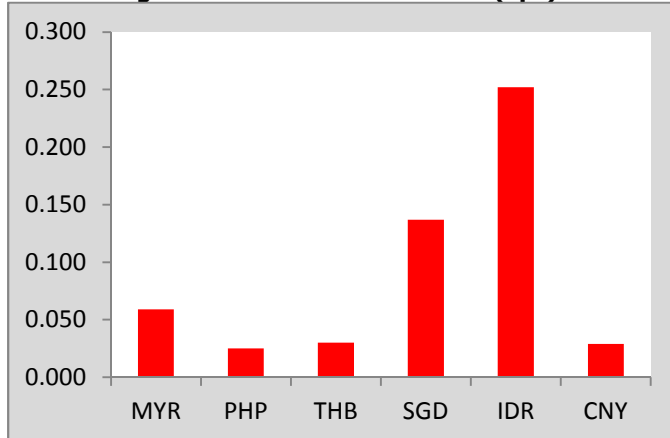
	Close (7/7)	Prev Close (30/6)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	96.008	95.628	0.380	0.4	101.12	102.50	103.00	103.50
EURUSD	1.140	1.143	-0.003	-0.2	1.06	1.05	1.02	1.03
GBPUSD	1.289	1.303	-0.014	-1.0	1.23	1.15	1.18	1.21
USDJPY	113.920	112.390	1.530	-1.4	114.00	118.00	120.00	119.00
USDMYR	4.301	4.293	0.008	-0.2	4.40	4.30	4.30	4.20
GBPMYR	5.555	5.579	-0.023	0.4	5.48	5.50	5.45	5.30
JPYMYR	3.776	3.820	-0.044	1.2	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

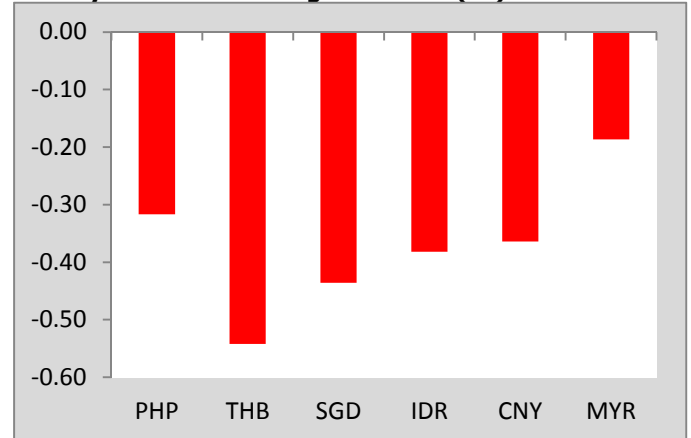
- Ringgit – touched 4.30 after six consecutive months hovering below the 4.30 level. Not just Ringgit, most Asian currencies faced similar depreciations due to strong USD last week. Based on current macroeconomic environment, Malaysia economy remain on upbeat momentum given that the latest export growth in May expanded by 32.5%yoy, the highest in 7 years. Hence, we foresee the Ringgit will touch 4.20 by year-end due to improvement in market confidence as well as steady economic growth in Malaysia's domestic and external market activities.

**Yield Change in 10Y Government Bonds (bps)**



Source: BLOOMBERG; MIDFR

**Weekly Currencies Change vs Dollar (%)**



Source: BLOOMBERG; MIDFR


- The news feeds from the US especially on Fed Chair Janet Yellen testimony to Congress later this week will offer some clarity on the direction of US monetary policy.
- Over the past few weeks, central banks around the world continue to mull the possibility of ending monetary stimulus particularly in US and Europe.
- The possible end of monetary supports mark the hawkish views of central banks especially in US and Europe that the economy is expanding based on their assessments.
- Recent jobs data in the US for June (+222k) for instance indicate continue improvement in domestic economy. Wage growth however remains sticky while unemployment edged up in tandem with improvement in labor participation rate.
- We anticipate the upward rate adjustment in developed economies will take place gradually with emerging economies are expected to maintain their current monetary stance in the near term.
- Domestically, Bank Negara Malaysia is having a Monetary Policy Committee (MPC) meeting this week. We are anticipating no change to the Overnight Policy Rate (OPR).

## C. BNM FOREIGN RESERVES

- As at 30 June 2017, Bank Negara Malaysia's international reserves rose further to USD98.9b (equivalent to RM424.8b), up USD0.2b from USD98.0b 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	30-Jun Fri	3-Jul Mon	4-Jul Tue	5-Jul Wed	6-Jul Thu	7-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.39	3.414	3.42	3.388	3.374	3.399	0.9
5-Y	3.624	3.752	3.752	3.705	3.693	3.751	12.7
7-Y	3.898	3.962	3.946	3.94	3.922	3.944	4.6
10-Y	3.91	4.006	3.958	3.97	3.97	3.97	6
20-Y	4.56	4.645	4.606	4.599	4.586	4.606	4.6
RINGGIT IRS							
1-Y	3.505	3.505	3.505	3.51	3.505	3.515	1
3-Y	3.647	3.66	3.655	3.645	3.655	3.665	1.8
5-Y	3.735	3.78	3.765	3.77	3.76	3.79	5.5
7-Y	3.84	3.875	3.87	3.865	3.87	3.89	5
10-Y	3.99	4.02	4.02	4.02	4.015	4.04	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	1.5461	1.5844	1.5844	1.5763	1.5873	1.5902	4.41
5-Y	1.8884	1.9316	1.9316	1.9134	1.9351	1.947	5.86
7-Y	2.1402	2.1891	2.1891	2.1623	2.199	2.2163	7.61
10-Y	2.3037	2.3499	2.3499	2.3232	2.3659	2.3856	8.19
30-Y	2.8348	2.8669	2.8669	2.8469	2.9016	2.9289	9.41
USD LIBOR							
1-M	1.22389	1.22689	1.22333	1.22333	1.22444	1.22633	0.244
2-M	1.25333	1.25389	1.25389	1.25556	1.255	1.255	0.167
3-M	1.29917	1.30072	1.30211	1.303	1.30411	1.30522	0.605

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	23-Jun Yield	30-Jun Yield	Change (WoW bp)	Weekly Value (RM bn)
MALAYSIA GOVERNMENT	4.059	09/30/24	3.898	3.944	4.6	2,724.0
MALAYSIA GOVERNMENT	4.012	09/15/17	3.050	3.034	-1.6	1,191.2
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.099	4.105	0.6	912.0
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.843	3.843	0.0	715.0
MALAYSIA GOVERNMENT	4.498	04/15/30	4.425	4.497	7.2	714.0
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.625	3.589	-3.6	708.4
MALAYSIA GOVERNMENT	3.8	08/17/23	3.892	4.042	15.0	608.0
MALAYSIA GOVERNMENT	4.762	04/07/37	4.560	4.606	4.6	584.0
MALAYSIA GOVERNMENT	3.844	04/15/33	4.448	4.458	1.0	535.4
MALAYSIA GOVERNMENT	4.378	11/29/19	3.501	3.516	1.5	468.1
TOTAL VOLUME (TOP 10)						9,159.9
TOTAL VOLUME (Overall)						14,501.4

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	9-Jun Yield	16-Jun Yield	Change (WoW bp)	Weekly Value (RM bn)
GOLDEN ASSETS INTERNATIO	4.35	11/17/17	5.038	4.966	-7.2	140.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.967	4.978	1.1	127.0
DANAINFRA NASIONAL	4.16	11/26/21	4.045	4.044	-0.1	125.0
OCBC BANK MALAYSIA BHD	4	08/15/22	3.824	4.002	17.8	70.0
AFFIN BANK BHD	5.45	02/05/27	5.062	5.053	-0.9	50.0
DIGI TELECOMMUNICATIONS	4.38	04/14/22	4.270	4.290	2.0	50.0
DIGI TELECOMMUNICATIONS	4.53	04/12/24	4.401	4.417	1.6	50.0
GENTING CAPITAL BHD	4.42	06/08/22	4.658	4.698	4.0	40.0
SARAWAK ENERGY BHD	4.75	08/18/25	N/A	4.622	N/A	40.0
BGSM MANAGEMENT SDN BHD	6.6	12/27/19	4.446	4.446	0.0	40.0
TOTAL VOLUME (TOP 10)						732.0
TOTAL VOLUME (Overall)						1,858.7

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.