

MIDF Strategy | 11 December 2017

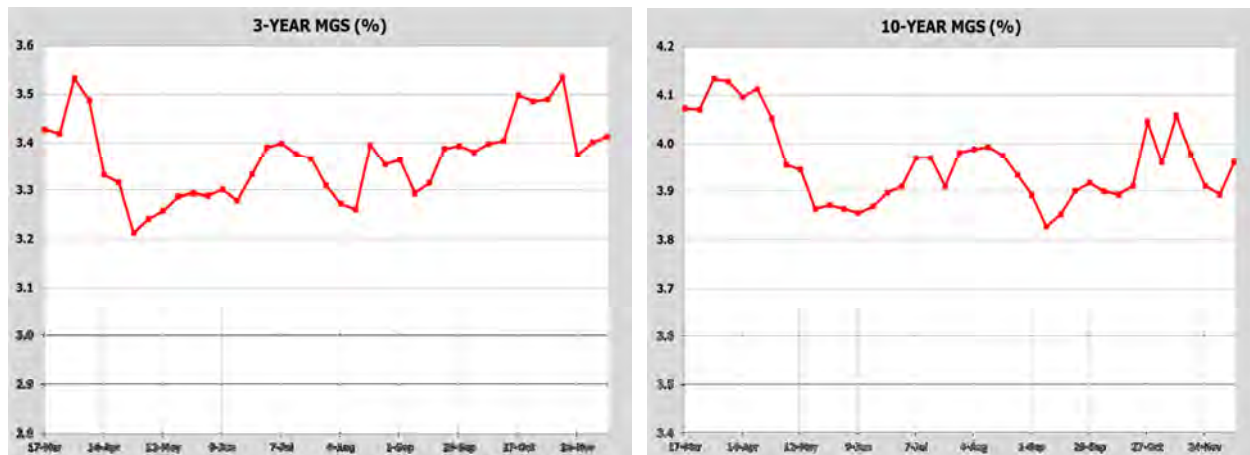
Week Ended 8 December

- The UST yields clocked higher across the board, hence lower prices, during the review week attributable to the latest employment report which showed nonfarm payrolls (NFP) in November rose more than forecast (actual: 228k; median Bloomberg estimate: 195k). Nonetheless, the yield rise was moderated by average hourly earnings which rose less than expected.
- The probability of a third US rate hike in 2017 this week remains extremely high with the fed fund futures (Jan'18) shows 94% chance of a rate hike as at the close of last week, higher by 2-ppts from a week earlier.
- Likewise, the local MGS market saw lower prices with the benchmark 3-year and 10-year yields adding +1.3bps and +6.7bps to close at 3.41% and 3.96% respectively.
- Total trading value for Government Bonds (MGS/MII) decreased to RM10.9b in the review week compared to RM11.5b in earlier week.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.29b in the review week compared to RM1.76b in earlier week.
- Total foreign holdings of Government Bonds stood at RM178.2b as at end-November 2017. It was an increase of RM5.2b from the October 2017 figure of RM173.0b.

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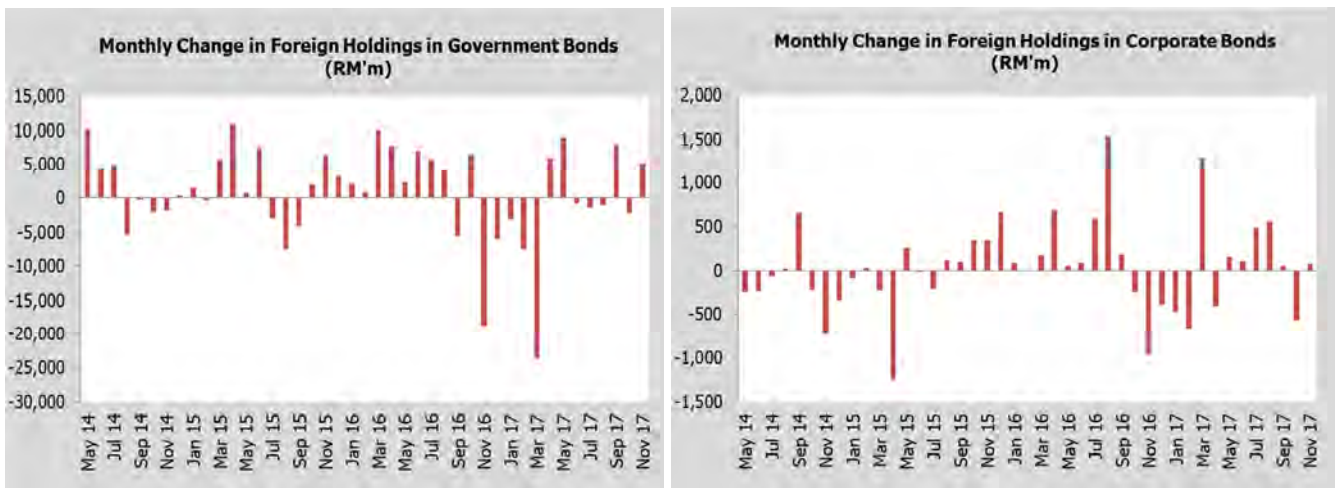
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The UST yields clocked higher across the board, hence lower prices, during the review week attributable to the latest employment report which showed nonfarm payrolls (NFP) in November rose more than forecast (actual: 228k; median Bloomberg estimate: 195k). Nonetheless, the yield rise was moderated by average hourly earnings which rose less than expected.
- The probability of a third US rate hike in 2017 this week remains extremely high with the fed fund futures (Jan'18) shows 94% chance of a rate hike as at the close of last week, higher by 2-ppts from a week earlier.
- Likewise, the local MGS market saw lower prices with the benchmark 3-year and 10-year yields adding +1.3bps and +6.7bps to close at 3.41% and 3.96% respectively.
- Total trading value for Government Bonds (MGS/MII) decreased to RM10.9b in the review week compared to RM11.5b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was at 63% (from ~72% in the week before) of the overall Government Bonds trades in the review week. In addition, 7 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with mid to long residual tenors. The top 3 most actively traded were MGS 3.90% 11/16/27 at RM1.49b, MGS 4.06% 09/30/24 at RM1.01b and MGS 3.84% 04/15/33 at RM695m.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.29b in the review week compared to RM1.76b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 31% of the overall Corporate Bonds trades (from ~40% in the week before).
- The top 3 actively traded Corporate Bonds were also dominated by issues with mid to long residual tenors. The biggest trading values were seen in YTL Power International 5.05% 05/03/27 at RM162.0m, Danainfra Nasional 5.38% 04/21/39 at RM100.0m and Suria KLCC Sdn Bhd 4.85% 12/31/24 at RM95.0m.
- Total foreign holdings of Government Bonds stood at RM178.2b as at end-November 2017. It was an increase of RM5.2b from the October 2017 figure of RM173.0b.



Source: BNM

- Total foreign holdings of Corporate Bonds increased by RM85.4m in the month of November 2017 to RM16.4b.

B. FOREIGN EXCHANGE

- DXY Index appreciated by 1.2%. As FOMC meeting will be held on the 13th December, most analysts expect the Fed will raise its interest rate during the final meeting of 2017. Plus, latest labour market data provide additional support for the Fed to normalise its monetary stance. In November, unemployment rate remains at 16-year high of 4.1% while non-farm payroll registered at 228 thousand, above expectation of circa 200 thousand.
- GBPUSD improved by 0.2%. Among others, UK and EU agreed on Brexit deal and solid rise UK's industrial production are key factors for the appreciation of GBP. Market expects the Phase 2 of Brexit talks will be successful given that EU President Juncker said that EU is ready to work on the Brexit's transition. On the other hand, IPI growth in October rose strongly by 3.6%yoy, fastest so far in 2017.

Currencies Changes (Week Ended 8/12) and Quarterly Forecasts

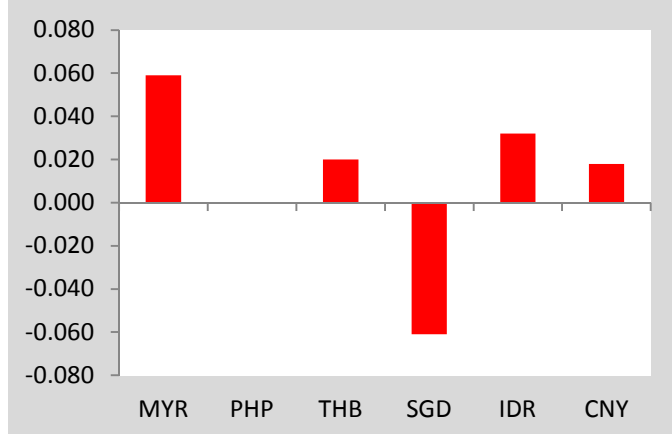
	Close (8/12)	Prev Close (1/12)	Change	% Change	1Q17	2Q17	3Q17	4Q17F
DXY Index	93.965	92.885	1.080	1.2	100.80	98.25	93.28	103.50
EURUSD	1.174	1.190	-0.016	-1.3	1.07	1.10	1.18	1.03
GBPUSD	1.350	1.348	0.002	0.2	1.24	1.28	1.31	1.21
USDJPY	113.570	112.170	1.400	-1.2	113.56	111.10	110.78	119.00
USDMYR	4.086	4.091	-0.005	0.1	4.44	4.33	4.26	4.20
GBPMYR	5.516	5.527	-0.012	0.2	5.51	5.54	5.58	5.30
JPYMYR	3.598	3.646	-0.048	1.3	3.91	3.90	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

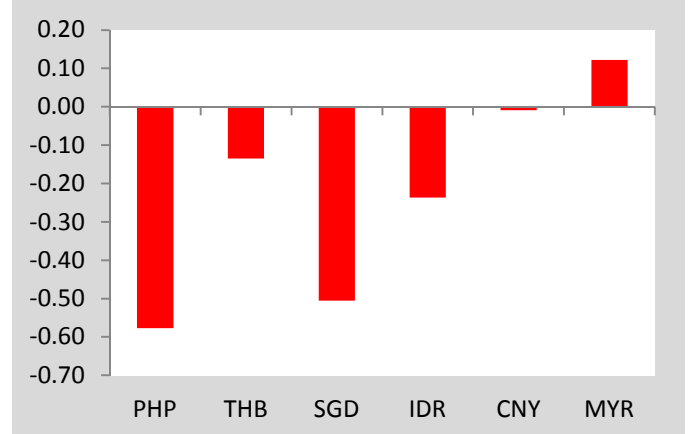
- Ringgit – USD/MYR lowest in 65 weeks. MYR continues hovering below 4.10 for two consecutive weeks. Despite of strengthening USD, positive signs in Malaysia's economic indicators continue supporting the appreciation of MYR. Previous week, manufacturing PMI for November recorded at 52 points, highest since April 2014 while exports in October grew higher than September's at 18.9%yoy vs 14.8%yoy respectively.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: BLOOMBERG; MIDFR

- Most analysts expect the final FOMC meeting of 2017 will see a hike of 25 basis points.
- Latest labor market data indicates positive signs in the US economy which unemployment rate stays at 4.1% and non-farm payroll registered 228 thousand. Hence, supporting more reasons for the expected final rate hike of the year.
- Changes in accommodative monetary stance are expected to start in developing economies at the back of higher commodities prices.
- In general, inflationary pressures remain tepid in developed economy while higher commodities prices in recent weeks will keep the pressure on.
- Crude oil price is expected to remain elevated going into 2018 amid prolong OPEC production cut and heighten geopolitical risks in the Middle East.
- Exports growth for October released last Wednesday was above expectation, 18.9% vs 17% market expectation. Trade balance hits RM10.6 billion, highest since March 2016.
- With economic growth remain robust, crude oil prices trending upward, and inflationary pressure build up we anticipate Bank Negara to make its move in the first quarter 2018. Possible upward revision is on the card.

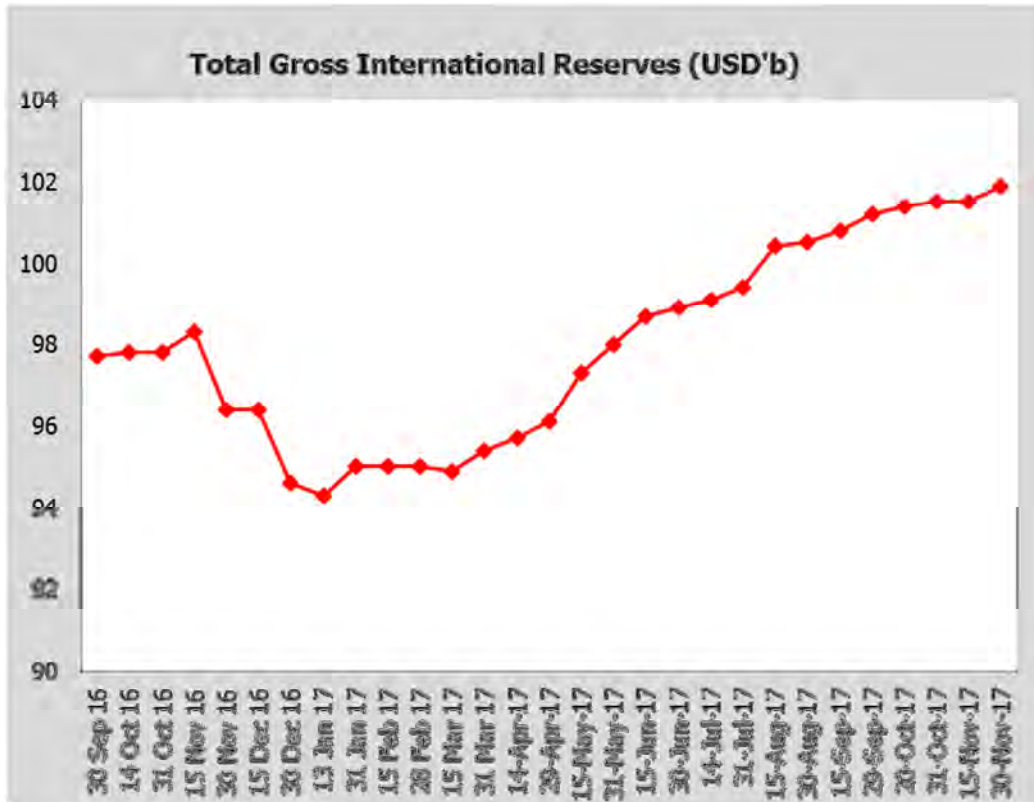
Central Bank Policy Rate by Selected Economies (%)

	17-Apr	17-May	17-Jun	17-Jul	17-Aug	17-Sep	17-Oct	17-Nov
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	1.50
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	-0.10
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
EU	0.00	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 30 November 2017, Bank Negara Malaysia's international reserves rose remain at USD101.9b (equivalent to RM430.4b).



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	1-Dec Fri	4-Dec Mon	5-Dec Tue	6-Dec Wed	7-Dec Thu	8-Dec Fri	Change (WoW bp)
MGS							
3-Y	3.4	3.4	3.4	3.44	3.423	3.413	1.3
5-Y	3.6	3.585	3.575	3.6	3.637	3.65	5
7-Y	3.907	3.881	3.856	3.923	3.915	3.94	3.3
10-Y	3.893	3.85	3.861	3.939	3.948	3.96	6.7
20-Y	4.6	4.585	4.585	4.585	4.598	4.592	-0.8
RINGGIT IRS							
1-Y	3.64	3.635	3.635	3.635	3.645	3.645	0.5
3-Y	3.7295	3.735	3.7375	3.7375	3.7348	3.74	1.05
5-Y	3.815	3.825	3.81	3.82	3.825	3.82	0.5
7-Y	3.9295	3.925	3.9298	3.925	3.9295	3.93	0.05
10-Y	4.055	4.06	4.06	4.06	4.06	4.06	0.5
KLIBOR							
1-M	3.18	3.18	3.18	3.18	3.18	3.18	0
2-M	3.41	3.41	3.41	3.41	3.41	3.41	0
3-M	3.43	3.43	3.43	3.43	3.43	3.43	0
UST							
3-Y	1.884	1.9226	1.9282	1.9146	1.912	1.9069	2.29
5-Y	2.1127	2.1428	2.1428	2.1262	2.138	2.1398	2.71
7-Y	2.2708	2.288	2.2782	2.2612	2.2832	2.2883	1.75
10-Y	2.3615	2.3723	2.3509	2.3385	2.3634	2.376	1.45
30-Y	2.7615	2.7638	2.7315	2.73	2.7607	2.7685	0.7
USD LIBOR							
1-M	1.37938	1.39181	1.40319	1.40688	1.43185	1.44438	6.5
2-M	1.4415	1.453	1.459	1.46409	1.47638	1.48849	4.699
3-M	1.49463	1.50849	1.51532	1.52263	1.53606	1.54878	5.415

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	1-Dec Yield	8-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.899	11/16/27	3.893	3.960	6.7	1,490.1
MALAYSIA GOVERNMENT	4.059	09/30/24	3.907	3.940	3.3	1,007.2
MALAYSIA GOVERNMENT	3.844	04/15/33	4.455	4.413	-4.2	695.0
MALAYSIA GOVERNMENT	3.26	03/01/18	2.393	2.689	29.6	661.2
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.887	3.891	0.4	575.0
MALAYSIA GOVERNMENT	3.62	11/30/21	3.598	3.587	-1.1	541.1
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.271	4.282	1.1	508.7
MALAYSIA GOVERNMENT	3.58	09/28/18	2.575	2.837	26.2	492.2
MALAYSIA GOVERNMENT	3.654	10/31/19	3.151	3.212	6.1	472.5
MALAYSIA INVESTMNT ISSUE	4.582	08/30/33	4.706	4.670	-3.6	400.0
TOTAL VOLUME (TOP 10)						6,843.0
TOTAL VOLUME (Overall)						10,858.6

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	1-Dec Yield	8-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
YTL POWER INTERNATIONAL	5.05	05/03/27	4.880	4.903	2.3	162.0
DANAINFRA NASIONAL	5.38	04/21/39	N/A	5.065	N/A	100.0
SURIA KLCC SDN BHD	4.73	12/31/24	N/A	4.445	N/A	95.0
CAGAMAS BERHAD	5.52	07/17/24	5.500	3.441	-205.9	60.0
DANAINFRA NASIONAL	4.82	11/12/30	N/A	4.722	N/A	55.0
ALLIANCE BK MALAYSIA BHD	5.75	10/27/25	4.878	4.853	-2.5	50.8
CAGAMAS BERHAD	4.36	09/03/20	3.990	3.970	-2.0	50.0
DANAINFRA NASIONAL	4.58	10/31/28	N/A	4.557	N/A	50.0
MALAYAN BANKING BHD	6.3	09/25/68	4.366	4.522	15.6	47.0
AMMB HOLDINGS BHD	5.2	03/15/27	4.850	4.840	-1.0	42.3
TOTAL VOLUME (TOP 10)						712.0
TOTAL VOLUME (Overall)						2,286.1

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.