

## MIDF Strategy | 12 February 2018

### Week Ended 9 February

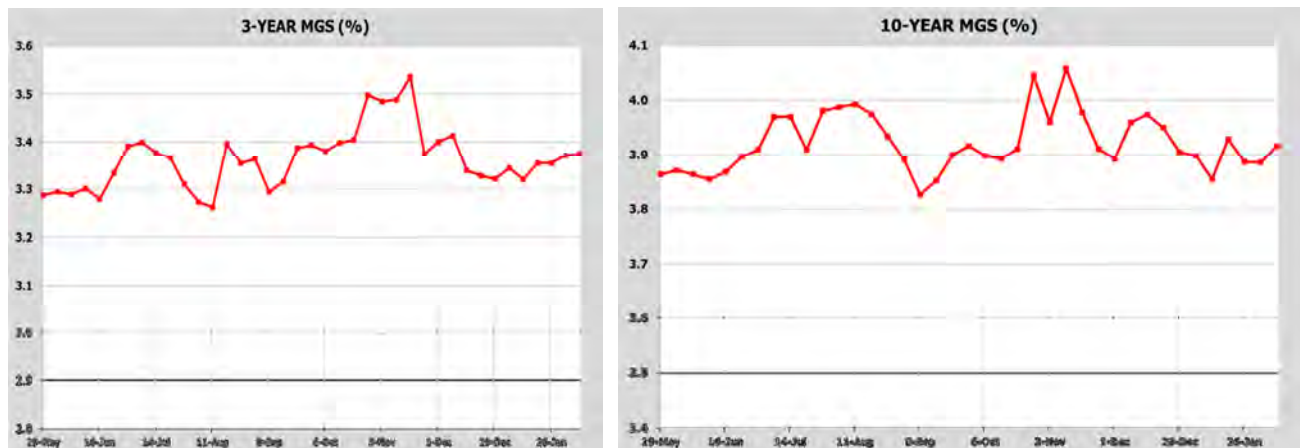
- The front-end UST yields fell while the long-end climbed last week, pushing the curve steeper, as the market reacted to an emerging prospect of higher than previously anticipated forward inflation risk. On this score, it is also notable that the yield on benchmark 10-year UST climbed further to 2.85% last week, its highest close since January 2014.
- The equity market reacted negatively to this expectation shift with the DJIA slumped -5.2% on-week to 24,191 points. With inflation worries gaining prominence, in the coming week, we expect heightened attention towards data on inflation expectations in the consumer sentiment report (out on Friday), as well as the closely-watched CPI figure for January (out on Wednesday).
- Likewise, the local MGS curve ended the review week steeper with the yields of benchmark 3-year and 10-year respectively risen 0.3bp and 3.1bps to close the week at 3.37% and 3.92%.
- Total trading value for Government Bonds jumped to RM16.82b in the review week compared to RM9.07b in the previous holiday-shortened week.
- Likewise, the total trading value for Corporate Bonds increased to RM1.58b in the review week compared to RM797m in earlier week.



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## Weekly Money Review

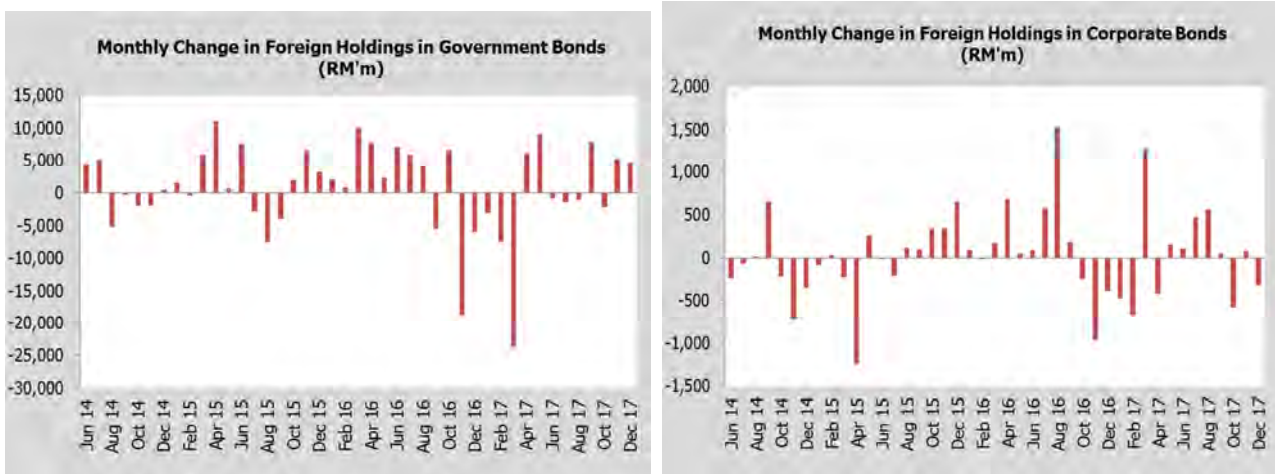
### A. FIXED INCOME



Source: Bloomberg

- The front-end UST yields fell while the long-end climbed last week, pushing the curve steeper, as the market reacted to an emerging prospect of higher than previously anticipated forward inflation risk. On this score, it is also notable that the yield on benchmark 10-year UST climbed further to 2.85% last week, its highest close since January 2014.
- The equity market reacted negatively to this expectation shift with the DJIA slumped -5.2% on-week to 24,191 points. With inflation worries gaining prominence, in the coming week, we expect heightened attention towards data on inflation expectations in the consumer sentiment report (out on Friday), as well as the closely-watched CPI figure for January (out on Wednesday).
- Likewise, the local MGS curve ended the review week steeper with the yields of benchmark 3-year and 10-year respectively risen 0.3bp and 3.1bps to close the week at 3.37% and 3.92%.
- Total trading value for Government Bonds (MGS/MII) jumped to RM16.82b in the review week compared to RM9.07b in the previous holiday-shortened week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 61% of the overall Government Bonds trades in the week under review (vis-à-vis ~66% in the week before). In addition, 5 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 short to medium residual tenors. The top 3 most actively traded were MGS 4.378% 11/29/19 at RM1.56b, MII 3.948% 4/14/22 at RM1.22b and MGS 4.059% 9/30/24 at RM1.17b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.58b in the review week compared to RM797m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was nonetheless lower at 27% of the overall Corporate Bonds trades (from ~60% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with medium residual tenor. The biggest trading values were seen in Konsortium Lebuh Utara 4.75 12/02/25 at RM60m, Malakoff Power 5.65 12/17/25 at RM50m and Telekom Malaysia 4.82 3/21/24 at RM50m.

- Total foreign holdings of Government Bonds stood at RM182.9b as at end-December 2017. It was an increase of RM4.7b from the November 2017 figure of RM178.2b.



Source: BNM

- Total foreign holdings of Corporate Bonds declined by RM323.2m in the month of December 2017 to RM16.1b.

## B. FOREIGN EXCHANGE

- DXY Index improved despite market turmoil. Equity market in the US experienced huge uncertainties during the week as reflected by the fall in the Dow Jones. However, among others, the passing of a budget deal which ended the second government shutdown helped in restoring confidence in the market as well as provide rooms for the appreciation of Dollar index.
- EURUSD depreciated amid of political factors. Grand coalition between Angela Merkel's Christian Democrats and the Social Democrats, or SPD, remains uncertain and not yet come to final agreement. In addition, Martin Schulz who previously announced to resign as SPD leader made a U-turn to take a position in the new coalition. This could lead towards a minority government or fresh election given that SPD members may vote against the coalition plan.

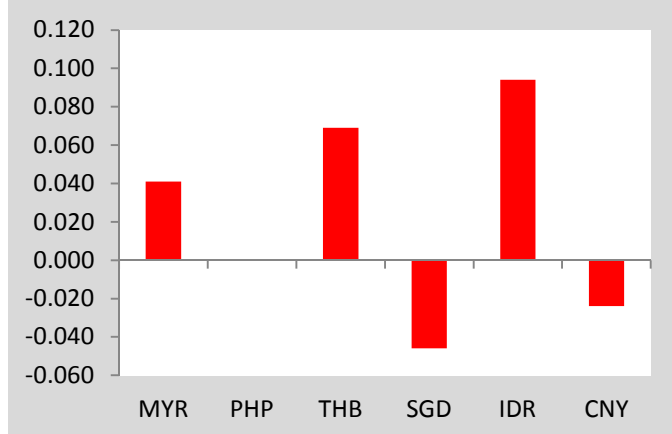
### Currencies Changes (Week Ended 9/2) and Quarterly Performances

	Close (9/02)	Prev Close (2/02)	Change	% Change	1Q18F	2Q18F	3Q18F	4Q18F
DXY Index	90.222	89.195	1.027	1.2	93.54	90.69	91.91	95.98
EURUSD	1.227	1.246	-0.019	-1.5	1.19	1.22	1.20	1.16
GBPUSD	1.397	1.412	-0.014	-1.0	1.25	1.25	1.15	1.09
USDJPY	109.270	110.170	-0.900	0.8	107.50	100.29	95.10	102.27
USDMYR	3.939	3.886	0.054	-1.4	4.05	3.90	4.00	3.95
GBPMYR	5.505	5.533	-0.028	0.5	5.12	4.89	4.53	4.58
JPYMYR	3.605	3.527	0.078	-2.2	3.79	3.89	4.14	4.13

Source: CEIC, Bloomberg, MIDFR

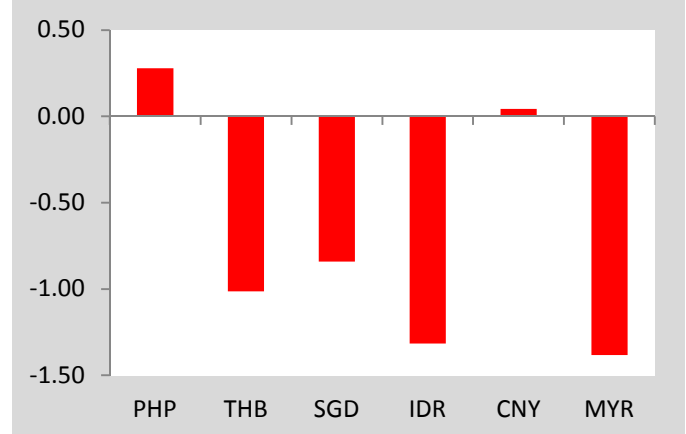
- Ringgit – Stays below 4.00 for 5-consecutive weeks. MYR depreciated amid of weaker-than-expected macroeconomic numbers released previous week. Exports growth for December 2017 recorded at 4.7%yoy, well below market expectation of 12.4%yoy. Plus, IPI grew at slower pace by 2.9%yoy, weakest since May 2016. Hence, we maintain our call for MYR to average 4.00 this year with year-end target of 3.95.

**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 (%)**

	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25
Indonesia	4.75	4.75	4.75	4.50	4.25	4.25	4.25	4.25	4.25
Singapore	Neut.	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	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	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	0.25	0.25	0.25	0.25	0.25	0.25	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	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50

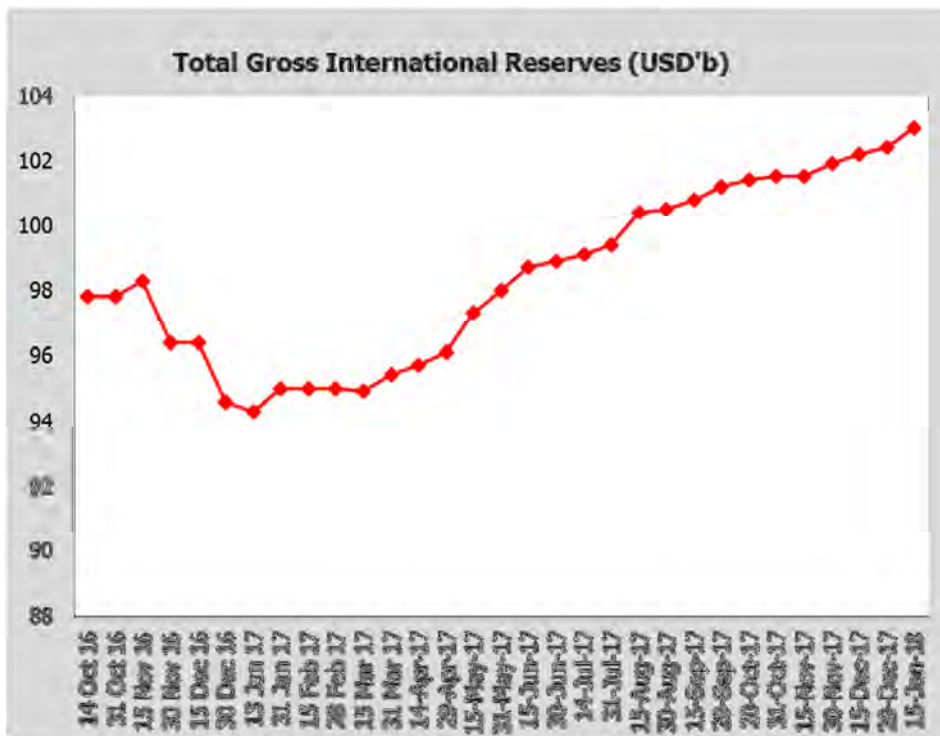
Source: CEIC, MIDFR

- Bank of England and several other central banks such as RBA and Reserve Bank of India which met earlier last week provide their new term outlook on economics and kept their monetary policy stance unchanged.
- In recent weeks central banks around the world are more hawkish about the trajectory of the global economy as well as their respective domestic economy.
- Degree of monetary accommodation at the global level is expected to shift toward normalize level.
- Nevertheless, monetary policy in general remained strongly supportive — indeed, in the cases of the European Central Bank and the Bank of Japan, became far more supportive.
- Price pressures meanwhile slowly trending upward, reflecting improved inflationary pressure amid robust demand. Inflationary pressure is expected to kick-in, boost by tight labor market as well as higher commodities prices.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance.
- Domestically, inflationary pressure is expected to moderate amid stable commodities prices and high base effect.
- Bank Negara made its first move as anticipated by hiking OPR by 25bps in its first Monetary Policy Committee meeting of 2018. Our baseline view is for the OPR to stay at the current level till year end barring any pleasant upward surprises.


- With economic growth remains robust, crude oil prices trending upward, MYR is strengthening and core inflation inched upward the current level of OPR seen as accommodative.

## C. BNM FOREIGN RESERVES

- As at 15 January 2018, Bank Negara Malaysia's international reserves rose to USD103.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.1 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	2-Feb Fri	5-Feb Mon	6-Feb Tue	7-Feb Wed	8-Feb Thu	9-Feb Fri	Change (WoW bp)
MGS							
3-Y	3.371	3.378	3.378	3.374	3.423	3.374	0.3
5-Y	3.603	3.576	3.61	3.6	3.583	3.586	-1.7
7-Y	3.919	3.912	3.924	3.92	3.912	3.903	-1.6
10-Y	3.886	3.948	3.948	3.955	3.954	3.917	3.1
20-Y	4.603	4.635	4.619	4.627	4.599	4.595	-0.8
RINGGIT IRS							
1-Y	3.775	3.7675	3.76	3.76	3.76	3.76	-1.5
3-Y	3.835	3.835	3.825	3.8125	3.82	3.825	-1
5-Y	3.9175	3.92	3.905	3.9	3.9025	3.91	-0.75
7-Y	4.025	4.03	4.015	3.9925	4.005	4.01	-1.5
10-Y	4.14	4.15	4.13	4.13	4.13	4.13	-1
KLIBOR							
1-M	3.42	3.42	3.42	3.42	3.42	3.42	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	2.323	2.1819	2.2847	2.3205	2.2988	2.2879	-3.51
5-Y	2.5883	2.4369	2.5396	2.5565	2.538	2.5433	-4.5
7-Y	2.7648	2.6132	2.7101	2.7351	2.7301	2.7479	-1.69
10-Y	2.8411	2.7056	2.8016	2.8359	2.824	2.8512	1.01
30-Y	3.0868	3.006	3.0659	3.1139	3.1293	3.1596	7.28
USD LIBOR							
1-M	1.57957	1.58007	1.57926	1.57932	1.58077	1.5832	0.363
2-M	1.66899	1.67333	1.67149	1.67244	1.68324	1.68886	1.987
3-M	1.78902	1.79345	1.7907	1.79989	1.8105	1.82	3.098

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	2-Feb Yield	9-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.378	11/29/19	3.342	3.291	-5.1	1,562.0
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.876	3.889	1.3	1,217.8
MALAYSIA GOVERNMENT	4.059	09/30/24	3.919	3.903	-1.6	1,166.4
MALAYSIA GOVERNMENT	3.441	02/15/21	3.371	3.374	0.3	1,047.1
MALAYSIA GOVERNMENT	4.16	07/15/21	3.481	3.505	2.4	929.1
MALAYSIA GOVERNMENT	3.882	03/10/22	3.603	3.586	-1.7	924.8
MALAYSIA GOVERNMENT	4.762	04/07/37	4.603	4.595	-0.8	894.9
MALAYSIA GOVERNMENT	3.899	11/16/27	3.886	3.917	3.1	893.4
MALAYSIA GOVERNMENT	3.58	09/28/18	3.018	3.099	8.1	809.8
MALAYSIA GOVERNMENT	3.62	11/30/21	3.492	3.491	-0.1	794.8
TOTAL VOLUME (TOP 10)						10,240.1
TOTAL VOLUME (Overall)						16,824.4

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	2-Feb Yield	9-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
KONSORTIUM LEBUH UTARA	4.75	12/02/25	#N/A N/A	4.753	#VALUE!	60.0
MALAKOFF POWER BHD	5.65	12/17/25	#N/A N/A	4.772	#VALUE!	50.0
TELEKOM MALAYSIA BERHAD	4.82	03/21/24	4.376	4.391	1.5	50.0
SUNWAY BERHAD	ZERO	03/05/18	3.902	3.902	0.0	50.0
PENGURUSAN AIR SPV BHD	4.63	02/05/26	4.395	4.406	1.1	40.0
MALAYAN BANKING BHD	4.9	01/29/24	4.571	4.573	0.2	40.0
SARAWAK ENERGY BHD	4.5	01/19/22	#N/A N/A	4.443	#VALUE!	40.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	5.088	5.101	1.3	40.0
DANAINFRA NASIONAL	4.33	04/04/25	4.351	4.381	3.0	30.0
UEM SUNRISE BHD	5.06	12/09/22	4.901	4.876	-2.5	30.0
TOTAL VOLUME (TOP 10)						430.0
TOTAL VOLUME (Overall)						1,584.3

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.