

## MIDF Strategy | 13 June 2017

Week Ended 9 June

- The prices of US Treasury retreated across the board driven by (1) the drop in initial jobless claims signals labour market strength, and (2) the James Comey's testimony turned out to be largely not unexpected.
- Additionally, the CME Futures indicates a 99.6% probability of a US Fed rate hike this week.
- In the local market, MGS prices gained across the board except for in the front end.
- Ringgit remains on recovery path, gained by 0.3% to 4.265 possibly due to the April's industrial production data which expanded by 4.2%yoy.
- Total volume trade for Government Bonds (MGS/GII) surged to RM21.4b in the review week from RM11.6b in the week before.
- Total foreign holdings of Government Bonds (MGS/GII) increased by RM9.0b to RM170.7b in May 2017.
- As at 31 May 2017, BNM's international reserves rose further to USD98.0b (equivalent to RM433.3b), up USD0.7b from USD97.3b a fortnight ago.

13 June 2017 | Strategy

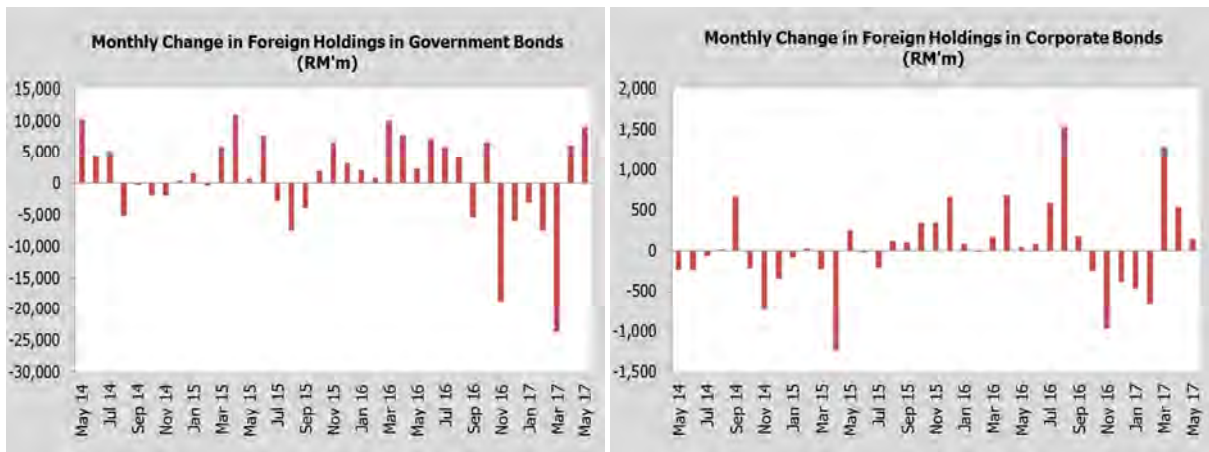
## Weekly Money Review

### A. FIXED INCOME



Source: Bloomberg

- The prices of US Treasury retreated across the board, pushing yields higher arguably driven by (1) the drop in initial jobless claims (-10k to 245k) which remain near the lowest levels since early 1970s hence signalling labour market strength, and (2) the James Comey's testimony to the US Senate Intelligence Committee in which his public statements regarding the case turned out to be largely not unexpected. Additionally, a US Fed rate hike on June 14 this week is virtually a done deal with a 99.6% probability (as of Friday) according to the CME Futures.
- In the local market however, MGS yields eased thus prices gained across the board except for in the front end. The yield of benchmark 3-year MGS added 1.2 basis points (bp) while that of 10-year slipped -0.9bp during the review week.
- Total volume trade for Government Bonds (MGS/GII) surged to RM21.4b in the review week from RM11.6b in the week before (based on Bloomberg data). The 10 most actively traded issues increased to 61% of the overall Government Bonds trades in the review week (up from ~53% in week before).
- Furthermore, the top 3 volumes were represented by issues with short- to mid-range tenor. The top 3 most actively traded were GII 4.05% 08/15/24 at RM2.27b, MGS 4.01% 09/15/17 at RM1.98b and MGS 4.06% 09/30/24 at RM1.65b. In addition, 8 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) however decreased to RM2.1b in the review week from RM3.7b in prior week (based on Bloomberg data). Trading interest was slightly less concentrated among the 10 most actively traded issues at circa 31% of the overall Corporate Bonds trades (down from ~52% in week before).
- The top 3 actively traded Corporate Bonds were represented by issues with varying tenor. The biggest volumes were seen in YTL Power International 5.05% 05/03/27 at RM86m, Malayan Banking Bhd 6.30% 09/25/68 at RM80m and Cagamas Berhad 3.38% 09/15/17 at RM80m.
- Total foreign holdings of Government Bonds stood at RM170.7b as at May 2017. It was an increase of RM9.0b from the April 2017 figure of RM161.7b.



Source: BNM

- Likewise, total foreign holdings of Corporate Bonds increased by RM147m in the month of May 2017 to RM16.6b.

## B. FOREIGN EXCHANGE

- DXY Index surged to 97.27 on Friday last week. The push-factors, among others, are UK's election result which led to further market uncertainties in UK, ECB maintained its interest rate and optimistic mood for the next FOMC meeting this week. Testimony by former FBI Director James Comey seems does not affect the dollar much as his statements regarding the case were expected.
- GBPUSD and EURUSD shrank by 1.1% and 0.7% respectively last week. Many thanks to political uncertainty in UK as Theresa May failed to gain majority in the parliament and hoping on forming coalition with a small conservative Irish party, DUP. Currently, UK parliament is a hung parliament and thus inviting a hard Brexit.

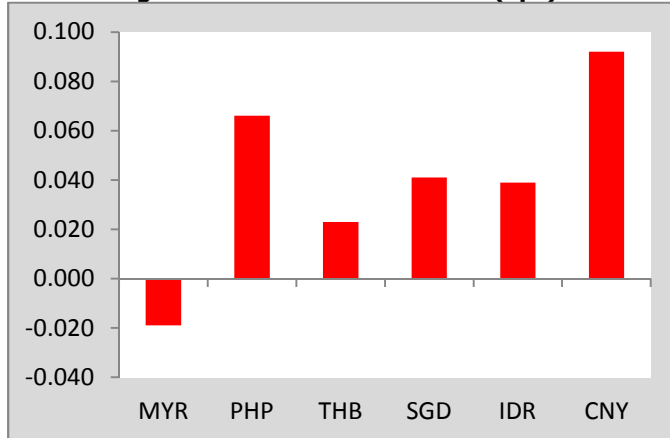
### Currencies Changes (Week Ended 9/6) and Quarterly Forecasts

	Close (9/6)	Prev Close (2/6)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	97.274	96.715	0.559	0.6	101.12	102.50	103.00	103.50
EURUSD	1.120	1.128	-0.008	-0.7	1.06	1.05	1.02	1.03
GBPUSD	1.275	1.289	-0.014	-1.1	1.23	1.15	1.18	1.21
USDJPY	110.320	110.400	-0.080	0.1	114.00	118.00	120.00	119.00
USDMYR	4.265	4.280	-0.015	0.3	4.40	4.30	4.30	4.20
GBPMYR	5.429	5.505	-0.076	1.4	5.48	5.50	5.45	5.30
JPYMYR	3.866	3.877	-0.010	0.3	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR  
Source: CEIC, Bloomberg, MIDFR

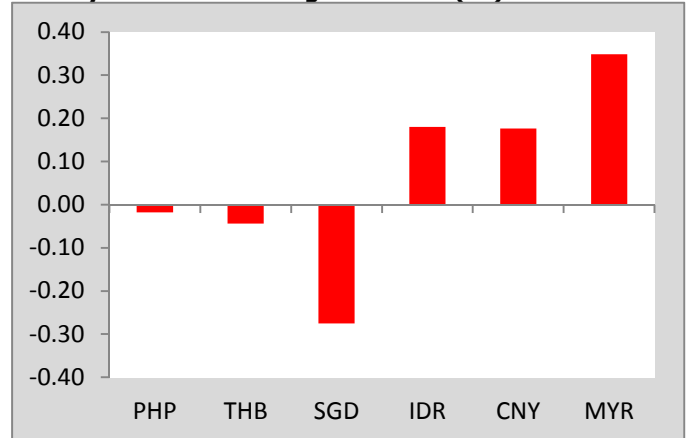
- Ringgit – remain on recovery path. USDMYR eased by 0.3% to 4.265 while GBPMYR dropped significantly by 1.4%. Apart from global event factors, steady growth in Malaysia's economic activities assist the Ringgit to improve at gradual pace. Improvement in the Ringgit last week was possibly due to the releasing of April's industrial production data which expanded by 4.2%yoy, mainly driven by manufacturing output.

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



Source: BLOOMBERG; MIDFR

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

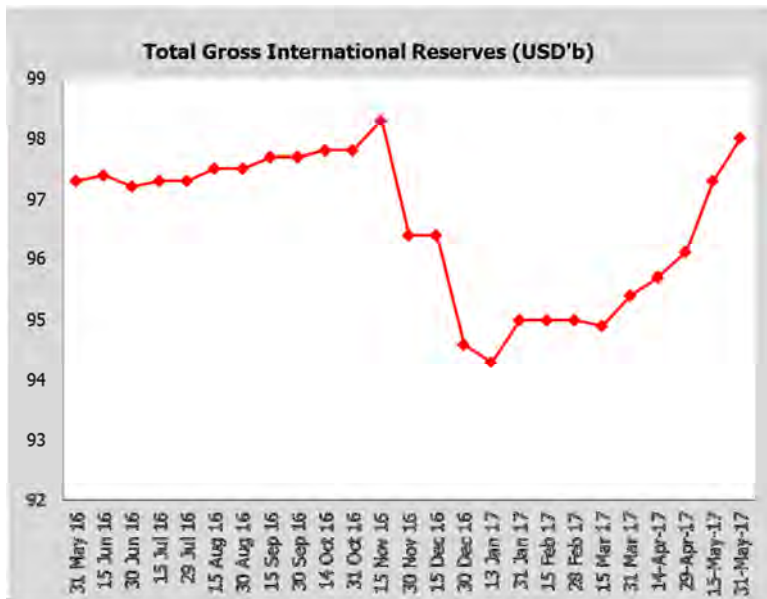


Source: BLOOMBERG; MIDFR


- The UK election outcomes capped another eventful week of which geopolitical happenings took a center stage last week. The ongoing diplomatic tension in the Middle East and the testimony of former FBI Director before the Senate added flavors to the markets.
- The outcome of the UK election was yet another evidence of how fluid the political landscape can be. The single biggest implication of the election result was related to Brexit negotiation. The outcomes of the Brexit negotiation will determine the prospect for the UK and its economic and social shape for years to come. For now, the post-election impacts do not appear to threaten current global growth momentum.
- As for the week, attentions are on central banks with Fed, Bank of England and Bank of Japan are having their monetary policy meetings. The most important event is FOMC meeting with markets expecting another hike in the federal funds rate. BoE and BoJ are expected to leave their respective monetary policy on hold.
- The Fed believes that the slow growth in Q1 was "transitory" and they are proceeding to raise interest rates in the upcoming meeting. But, given the poor hard data, now showing up as underwhelming job growth and a real lack of any upward wage pressure, it is interesting to see what Fed's assessment of the current trend would be.
- We are maintaining our expectation of Fed delivering a rate hike in the meeting on Wednesday. It is also anticipated that Fed will continue to indicate its expectation of another rate hike this year and its approach to reduce its USD4.5 trillion balance sheet.

## C. BNM FOREIGN RESERVES

- As at 31 May 2017, Bank Negara Malaysia's international reserves rose further to USD98.0b (equivalent to RM433.3b), up USD0.7b from USD97.3b a fortnight ago.



Source: BNM

- The amount of reserves is sufficient to finance 8.1 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	2-Jun Fri	5-Jun Mon	6-Jun Tue	7-Jun Wed	8-Jun Thu	9-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.289	3.23	3.276	3.275	3.302	3.301	1.2
5-Y	3.582	3.784	3.547	3.547	3.551	3.551	-3.1
7-Y	3.83	3.82	3.829	3.813	3.814	3.808	-2.2
10-Y	3.864	3.866	3.866	3.866	3.86	3.855	-0.9
20-Y	4.561	4.561	4.565	4.53	4.517	4.497	-6.4
RINGGIT IRS							
1-Y	3.525	3.51	3.51	3.51	3.505	3.505	-2
3-Y	3.64	3.63	3.615	3.6195	3.62	3.615	-2.5
5-Y	3.72	3.705	3.7	3.695	3.705	3.705	-1.5
7-Y	3.83	3.815	3.8	3.8	3.8	3.81	-2
10-Y	3.98	3.965	3.95	3.96	3.96	3.965	-1.5
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	1.4237	1.4427	1.4209	1.448	1.4535	1.478	5.43
5-Y	1.7188	1.7418	1.7138	1.7385	1.7483	1.7664	4.76
7-Y	1.9711	1.9952	1.9567	1.9831	1.9951	2.0096	3.85
10-Y	2.1591	2.1817	2.1451	2.1729	2.1885	2.2005	4.14
30-Y	2.81	2.8366	2.8115	2.8366	2.851	2.8556	4.56
USD LIBOR							
1-M	1.08617	1.08422	1.08867	1.096	1.11711	1.12711	4.094
2-M	1.14306	1.14167	1.145	1.15167	1.16278	1.17278	2.972
3-M	1.2225	1.21956	1.219	1.221	1.22811	1.23644	1.394

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	2-Jun Yield	9-Jun Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.045	08/15/24	3.932	3.915	-1.7	2,274.9
MALAYSIA GOVERNMENT	4.012	09/15/17	3.011	2.966	-4.5	1,983.0
MALAYSIA GOVERNMENT	4.059	09/30/24	3.830	3.808	-2.2	1,645.0
MALAYSIA GOVERNMENT	4.762	04/07/37	4.561	4.497	-6.4	1,606.1
MALAYSIA GOVERNMENT	3.314	10/31/17	3.063	3.061	-0.2	1,276.2
MALAYSIA GOVERNMENT	4.24	02/07/18	3.097	3.121	2.4	1,160.9
MALAYSIA GOVERNMENT	3.58	09/28/18	3.224	3.226	0.2	1,010.9
MALAYSIA INVESTMNT ISSUE	3.941	06/15/17	3.074	2.080	-99.4	756.4
MALAYSIA INVESTMNT ISSUE	3.704	09/30/19	3.530	3.483	-4.7	750.0
MALAYSIA GOVERNMENT	3.844	04/15/33	4.331	4.309	-2.2	622.3
TOTAL VOLUME (TOP 10)						13,085.7
TOTAL VOLUME (Overall)						21,389.8

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	2-Jun Yield	9-Jun Yield	Change (WoW bp)	Weekly Volume (RM bn)
YTL POWER INTERNATIONAL	5.05	05/03/27	4.974	4.968	-0.6	86.0
MALAYAN BANKING BHD	6.3	09/25/68	4.631	4.623	-0.8	80.0
CAGAMAS BERHAD	3.38	09/15/17	3.520	3.416	-10.4	80.0
RANTAU ABANG CAPITAL	4.3	12/03/20	4.130	4.094	-3.6	75.0
KONSORTIUM LEBUH UTARA	4.75	12/01/28	N/A	4.812	N/A	60.0
MAYBANK ISLAMIC BHD	4.75	04/05/24	4.376	4.392	1.6	60.0
BGSM MANAGEMENT SDN BHD	5.6	12/27/23	4.861	4.861	0.0	60.0
MMC CORP BHD	5.8	11/12/25	N/A	5.314	N/A	50.0
PENGURUSAN AIR SPV BHD	4.43	02/03/23	4.174	4.188	1.4	45.0
AMISLAMIC BANK BHD	5.05	03/25/24	N/A	4.544	N/A	45.0
TOTAL VOLUME (TOP 10)						641.0
TOTAL VOLUME (Overall)						2,052.0

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.