

## MIDF Strategy | 13 November 2017

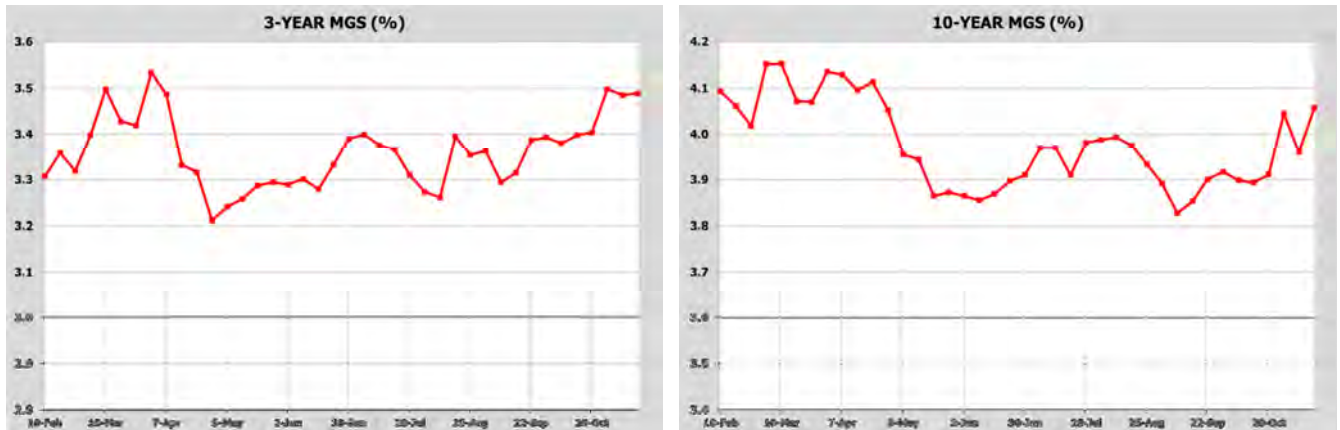
### Week Ended 10 November

- The yield of UST bonds rebounded last week, pushing price lower, as the market braces for the release of October inflation figures scheduled for this Wednesday. It is going to be the final CPI data before the FOMC meeting next month in which the Fed is expected to hike again.
- The 10-year UST rebounded towards 2.40% again last week. We reckon the technical picture is worsening as the benchmark yield continues to be in breach of all its 50-, 100-, and 200-day moving average (MA) lines at the close last week. On this score, while there is yet a so-called death cross (i.e. 50- punching above 200-day MA), it may eventually manifest if the 10-year yield were to remain at current levels during the next few weeks.
- The probability of a third US rate hike this year is growing larger as the fed fund futures (Jan'18) shows the odds of a rate hike by end 2017 rising further to 90% at the close last week from 88% a week earlier.
- Likewise, the local MGS bonds posted price retreat last week with the yields of benchmark 3-year and 10-year increased 0.4bp and 9.8bps week-on-week to 3.49% and 4.06% respectively. In the MPC meeting last week, OPR was left unchanged as predicted. However, the committee hinted rate hike may be in the offing next year as it considers reviewing the current degree of monetary accommodation.

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## Weekly Money Review

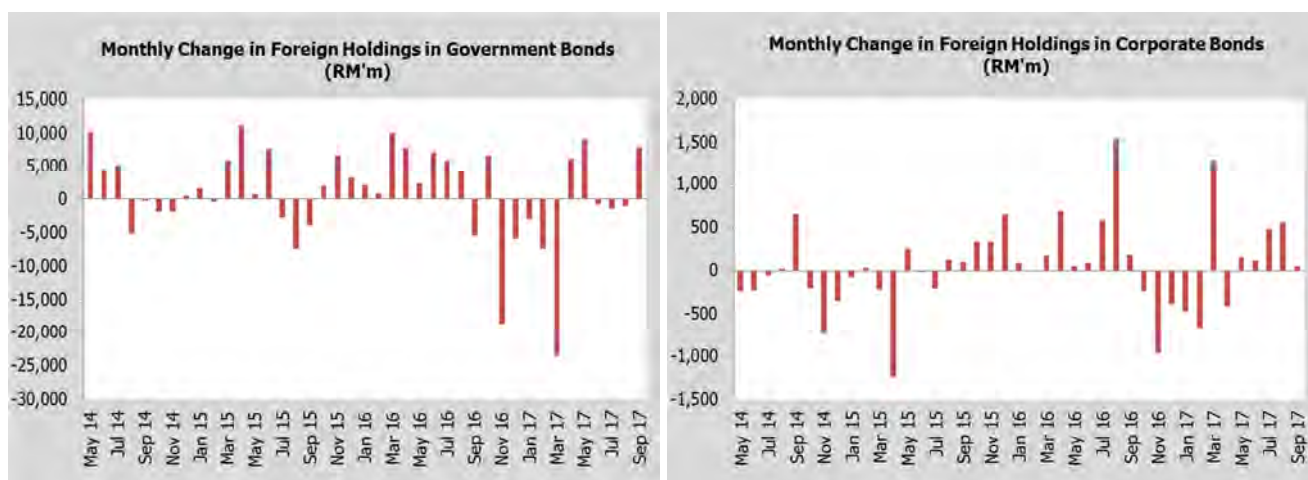
### A. FIXED INCOME



Source: Bloomberg

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- Likewise, the local MGS bonds posted price retreat last week with the yields of benchmark 3-year and 10-year increased 0.4bp and 9.8bps week-on-week to 3.49% and 4.06% respectively. In the final MPC meeting last week, OPR was left unchanged as predicted. However, the committee hinted rate hike may be in the offing next year as it considers reviewing the current degree of monetary accommodation.
- Total trading value for Government Bonds (MGS/MII) declined to RM13.0b in the review week compared to RM14.5b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 76% of the overall Government Bonds trades in the review week (from ~59% in week before). In addition, 5 out of the 10 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 3.26% 03/01/18 at RM4.18b, MGS 4.24% 02/07/18 at RM1.55b and MGS 4.06% 09/30/24 at RM1.55b.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.44b in the review week compared to RM1.55b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 32% of the overall Corporate Bonds trades (from ~41% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by GLC-bank issues with varying residual tenors. The biggest trading values were seen in Malayan Banking Berhad 6.3% 09/25/68 at RM200.0m, CIMB Group Holdings Berhad 5.8% PERPETUAL at RM101.5m and BGSM Management Sdn Bhd 4.92% 08/29/25 at RM80.0m.

- Total foreign holdings of Government Bonds stood at RM175.2b as at end-September 2017. It was an increase of RM7.9b from the August 2017 figure of RM167.3b.



Source: BNM

- Total foreign holdings of Corporate Bonds increased by RM53.0m in the month of September 2017 to RM16.9b.

## B. FOREIGN EXCHANGE

- DXY Index shrank amid of possible delay in tax reform. Investors sold off USD given that the US Senate Republican is expected to delay the tax-cut plan to 2019. The earlier proposal was to slash the tax in 2018. In addition, the University of Michigan's consumer sentiment fell to 97.8 points in November lower than October's 13-year high 100.7 points.
- EURUSD stabilising due to improving economic activity. Recently, the EU commission upgraded its 2017 forecast from 1.7% to 2.2%yoy for Euro Area. The commission raised its forecast given that macroeconomic activity in the region is improving and sign of protectionism is receding. The commission expects the European region in the next five years to remain stable as major political elections such as in Netherlands, France and Germany have shown positive results, rejection of Euro-Scepticism.

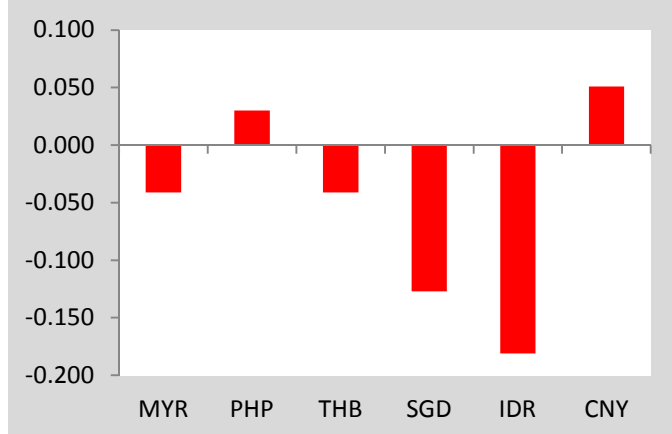
### Currencies Changes (Week Ended 10/11) and Quarterly Forecasts

	Close (10/11)	Prev Close (3/11)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	94.391	94.941	-0.550	-0.6	101.12	102.50	103.00	103.50
EURUSD	1.167	1.161	0.006	0.5	1.06	1.05	1.02	1.03
GBPUSD	1.320	1.308	0.012	0.9	1.23	1.15	1.18	1.21
USDJPY	113.530	114.070	-0.540	0.5	114.00	118.00	120.00	119.00
USDMYR	4.192	4.237	-0.045	1.1	4.40	4.30	4.30	4.20
GBPMYR	5.511	5.529	-0.018	0.3	5.48	5.50	5.45	5.30
JPYMYR	3.692	3.714	-0.022	0.6	3.90	3.75	3.85	4.00

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

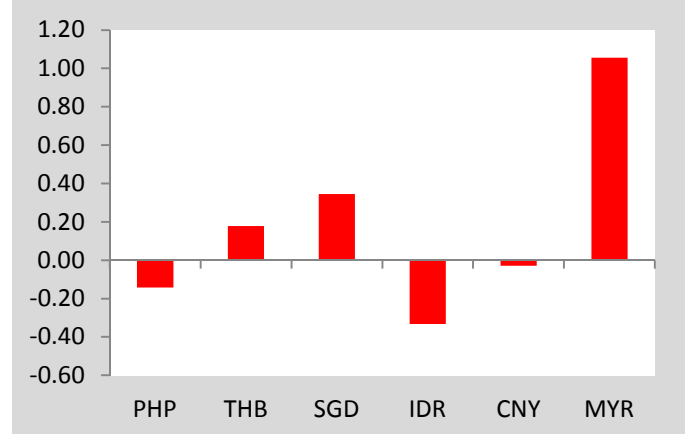
- Ringgit – Went below 4.20 as BNM hints for possible rate hike next year. In the final meeting of MPC, OPR is left unchanged as predicted. However, the committee mentioned in the statement that it may consider reviewing the current degree of monetary accommodation. Apart from that, macro indicators released last week saw IPI and retail sales grew by 4.7%yoy and 9.6%yoy respectively in September. We maintain our call for the MYR at 4.200 by year-end.

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



Source: BLOOMBERG; MIDFR

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



Source: BLOOMBERG; MIDFR

- The synchronized recovery in global trade and growth is likely to sustain its momentum into 2018.
- Leading indicators such as PMI, business confidence index and consumer sentiment pointed toward cautiously optimistic outlook in months ahead.
- Inflationary pressure is visible amid gradually uptrend in Eurozone while in the US prices are very much sluggish despite robust labor market. US and UK inflation data this week will be much anticipated as it will provides conviction for Fed in doing another rate hikes this December.
- Pro-growth and accommodative monetary stance is expected to persist in developing economies while developed economies are preparing for its tightening move.
- In general, inflationary pressures remain tepid in developed economy while higher commodities prices in recent weeks will keep the pressure on.
- Nevertheless, no expectation of major turnaround in the near future with geopolitical headwinds still continues as threats.
- Domestically, third quarter GDP is due this coming Friday. Domestic growth is expected to slightly moderate compared to the previous 2 quarters due to base effect.
- Bank Negara maintained its policy rate at 3% at its final 2017 monetary policy meeting last week but indicated a possible move in its monetary stance should the operating economic environment changed. Possible upward revision is on the card.

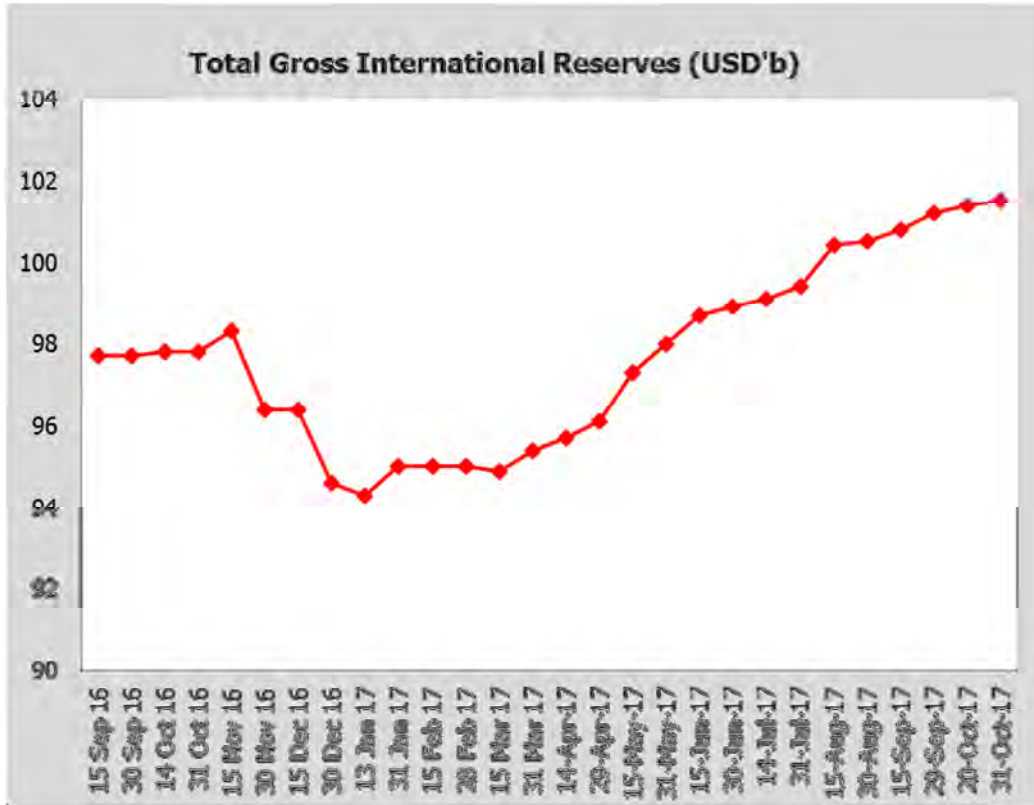
**Central Bank Policy Rate by Selected Economies (%)**

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
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	1.25
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	-0.100
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
EU	0.0	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 31 October 2017, Bank Negara Malaysia's international reserves rose further to USD101.5b (equivalent to RM428.9b), up USD0.1b from USD101.4b a fortnight earlier.



Source: BNM

- The amount of reserves is sufficient to finance 7.6 months of retained imports and is 1.1 times the short-term external debt.

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	3-Nov Fri	6-Nov Mon	7-Nov Tue	8-Nov Wed	9-Nov Thu	10-Nov Fri	Change (WoW bp)
MGS							
3-Y	3.485	3.505	3.505	3.505	3.505	3.489	0.4
5-Y	3.705	3.705	3.717	3.71	3.709	3.755	5
7-Y	3.97	3.978	3.958	3.95	3.979	4.008	3.8
10-Y	3.96	3.997	3.984	3.984	4.145	4.058	9.8
20-Y	4.671	4.706	4.683	4.706	4.702	4.776	10.5
RINGGIT IRS							
1-Y	3.52	3.525	3.515	3.515	3.6	3.665	14.5
3-Y	3.6475	3.65	3.65	3.64	3.791	3.775	12.75
5-Y	3.7725	3.78	3.775	3.76	3.83	3.85	7.75
7-Y	3.89	3.89	3.89	3.9	3.935	3.965	7.5
10-Y	4.03	4.03	4.01	4.01	4.05	4.07	4
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	1.7289	1.7262	1.7346	1.7688	1.7581	1.7688	3.99
5-Y	1.99	1.9834	1.9884	2.0099	2.0116	2.0332	4.32
7-Y	2.1821	2.17	2.1748	2.199	2.2086	2.2353	5.32
10-Y	2.3325	2.3163	2.3145	2.3343	2.3416	2.3735	4.1
30-Y	2.8129	2.7941	2.777	2.7918	2.8161	2.8607	4.78
USD LIBOR							
1-M	1.24322	1.24424	1.24389	1.24606	1.24606	1.24606	0.284
2-M	1.33389	1.33472	1.33944	1.34167	1.34167	1.34167	0.778
3-M	1.39194	1.39703	1.40258	1.40981	1.40981	1.40981	1.787

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	3-Nov Yield	10-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.26	03/01/18	2.951	2.801	-15.0	4,178.5
MALAYSIA GOVERNMENT	4.24	02/07/18	2.999	2.848	-15.1	1,546.1
MALAYSIA GOVERNMENT	4.059	09/30/24	3.970	4.008	3.8	1,487.4
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.502	3.574	7.2	655.4
MALAYSIA GOVERNMENT	4.16	07/15/21	3.691	3.680	-1.1	391.0
MALAYSIA GOVERNMENT	4.378	11/29/19	3.374	3.365	-0.9	340.2
MALAYSIA GOVERNMENT	4.048	09/30/21	3.727	3.740	1.3	327.3
MALAYSIA GOVERNMENT	3.899	11/16/27	3.960	4.058	9.8	326.8
MALAYSIA GOVERNMENT	4.736	03/15/46	4.981	4.970	-1.1	312.6
MALAYSIA GOVERNMENT	3.659	10/15/20	3.481	3.422	-5.9	268.5
TOTAL VOLUME (TOP 10)						9,833.8
TOTAL VOLUME (Overall)						12,989.9

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	3-Nov Yield	10-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYAN BANKING BHD	6.3	09/25/68	4.366	4.366	0.0	200.0
CIMB GROUP HOLDINGS BHD	5.8	PERP	5.190	5.231	4.1	101.5
BGSM MANAGEMENT SDN BHD	4.92	08/29/25	4.814	4.815	0.1	80.0
CAGAMAS BERHAD	4.25	04/28/22	4.128	4.149	2.1	70.0
SARAWAK ENERGY BHD	5.5	07/04/29	4.900	4.917	1.7	65.0
BANK PEMBANGUNAN MALAY	4.28	03/02/22	4.380	4.380	0.0	60.0
DANAINFRA NASIONAL	4	02/08/23	4.166	4.166	0.0	60.0
SPORTS TOTO MALAYSIA SDN	4.4	07/02/18	N/A	4.298	N/A	55.0
SARAWAK ENERGY BHD	4.85	01/19/27	4.717	4.727	1.0	50.0
MALAYAN BANKING BHD	4.9	01/29/24	4.631	4.662	3.1	50.0
TOTAL VOLUME (TOP 10)						791.5
TOTAL VOLUME (Overall)						2,444.7

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.