

MIDF Strategy | 14 August 2017

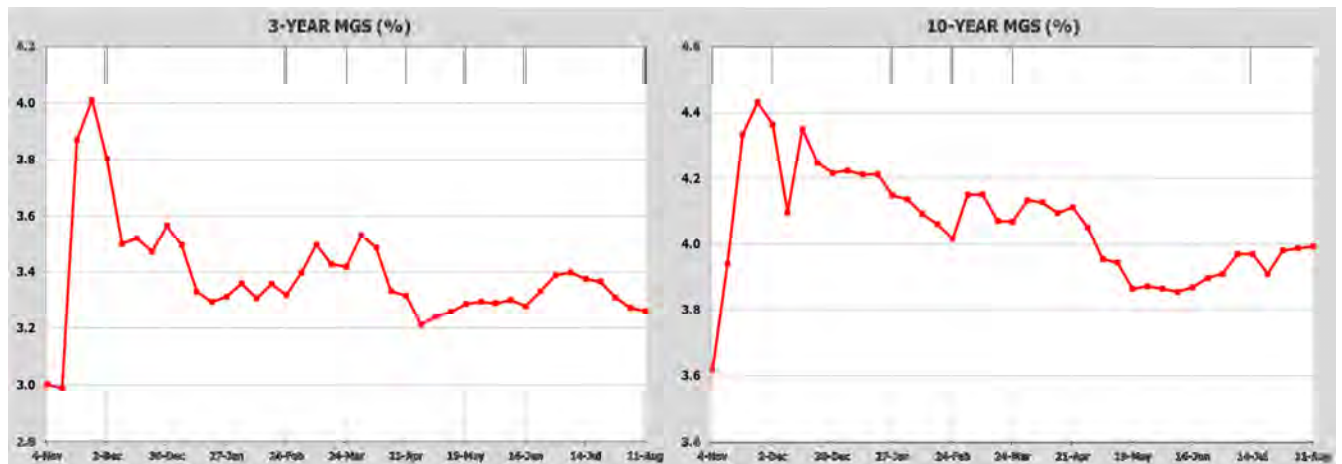
Week Ended 11 August

- The UST bonds posted price gains last week, pushing yields down, due to soft July inflation data. The CPI increased a paltry 0.1%mom (estimate 0.2%mom) and up 1.7%yoy (estimate 1.8%yoy).
- The fed fund futures (Jan'18) shows the odds of a rate hike by year-end 2017 fell from 40% before the CPI data were released to 28% post-data.
- Technically, the yield of 10-year UST remains bullish at below the key 200-day MA at the close last week.
- In the local scene, MGS yield curve steepened further for third consecutive week as the yield of benchmark 3-year MGS shed -1.2bp while the benchmark 10-year yield increased 0.5bp. The escalating geopolitical tension in North Asia may have generated some buying interests on the front end of the curve last week.
- Total foreign holdings of Government Bonds stood at RM168.4b as at end-July 2017, a drop of RM1.46b from the June 2017 figure of RM169.9b. In contrast, total foreign holdings of Corporate Bonds increased by RM477m in the month of July 2017 to RM16.3b.
- As at 31 July 2017, Bank Negara Malaysia's international reserves rose further to USD99.4b (equivalent to RM427b), up USD0.4b from USD99.0b a fortnight earlier.

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Weekly Money Review

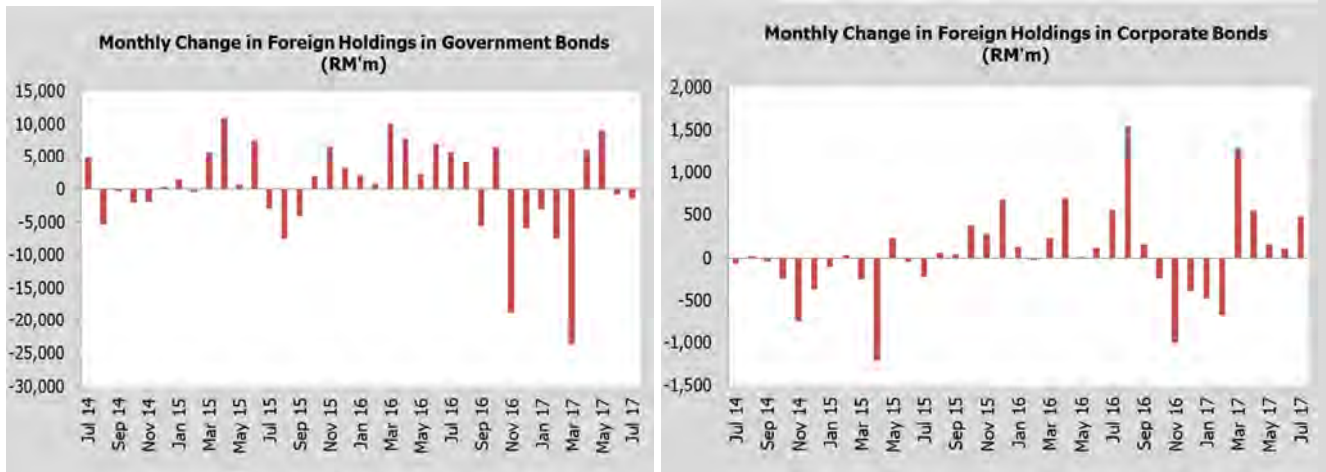
A. FIXED INCOME



Source: Bloomberg

- The US Treasury bonds posted price gains last week, pushing yields down, due to soft July inflation data. The CPI increased a paltry 0.1%mom against market estimate of 0.2%mom and up 1.7%yoy against estimate of 1.8%yoy.
- The fed fund futures (Jan'18) shows the odds of a rate hike by year-end 2017 fell from 40% before the CPI data were released to 28% post-data.
- Technically, the yield of 10-year UST remains bullish at below the key 200-day moving average at the close last week.
- In the local scene, MGS yield curve steepened further for third consecutive week as the yield of benchmark 3-year MGS shed -1.2 basis points (bp) while the benchmark 10-year yield increased 0.5bp. The escalating geopolitical tension in North Asia may have generated some buying interests on the front end of the curve last week.
- Total trading value for Government Bonds (MGS/MII) was higher at 12.6b in the review week compared to RM10.6b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased slightly to 56% of the overall Government Bonds trades in the review week (from ~58% in week before).
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short to medium remaining tenors. The top 3 most actively traded were MII 3.23% 04/15/20 at RM1.37b, MGS 4.06% 09/30/24 at RM893.0m and MGS 4.38% 11/29/19 at RM825.0m. In addition, 6 out of the 10 most actively traded issues saw lower yields hence higher prices during the past week.
- Total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM3.10b in the review week compared to RM3.70b in earlier week (based on Bloomberg data). Trading interest was more concentrated among the 10 most actively traded issues at circa 32% of the overall Corporate Bonds trades (from ~26% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with varying residual tenors. The biggest trading values were seen in Genm Capital Bhd 4.9% 08/22/25 at RM145.0m, Pengurusan Air SPV Bhd 4.43% 02/03/23 at RM145.0m and HSBC Amanah Malaysia Bhd 3.75% 09/28/17 at RM120.0m.

- Total foreign holdings of Government Bonds stood at RM168.4b as at end-July 2017. It was a drop of RM1.46b from the June 2017 figure of RM169.9b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM477m in the month of July 2017 to RM16.3b.

B. FOREIGN EXCHANGE

- DXY Index was hit by the latest US CPI data. The inflation rate rose to 1.7% in July, 0.1% higher than the previous month while core inflation stayed at the same momentum for three consecutive months. At 1.7%, the inflation rate was below market expectation of 1.8%. Coupled with geopolitical tensions with North Korea, DXY index depreciated by 0.5% last week.
- EURUSD and USDJPY remain steady. Apart from the below than expected US CPI figure, we believe the heightened geopolitical tensions between the US and North Korea indirectly pushed global investors to shift to other hard currencies, i.e. the Euro and Yen. The EU is seen as a stable economic and political region especially after the Dutch and French elections, while Japan is known as the world's biggest creditor nation.

Currencies Changes (Week Ended 11/8) and Quarterly Forecasts

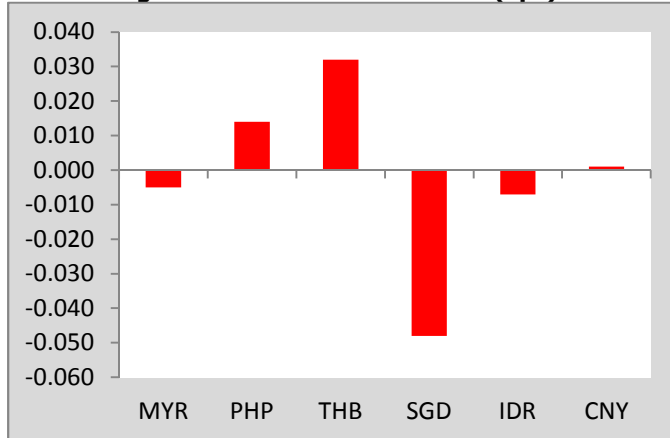
	Close (11/8)	Prev Close (4/8)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	93.069	93.542	-0.473	-0.5	101.12	102.50	103.00	103.50
EURUSD	1.182	1.177	0.005	0.4	1.06	1.05	1.02	1.03
GBPUSD	1.301	1.304	-0.003	-0.2	1.23	1.15	1.18	1.21
USDJPY	109.190	110.690	-1.500	1.4	114.00	118.00	120.00	119.00
USDMYR	4.295	4.278	0.017	-0.4	4.40	4.30	4.30	4.20
GBPMYR	5.572	5.625	-0.053	0.9	5.48	5.50	5.45	5.30
JPYMYR	3.933	3.865	0.068	-1.8	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

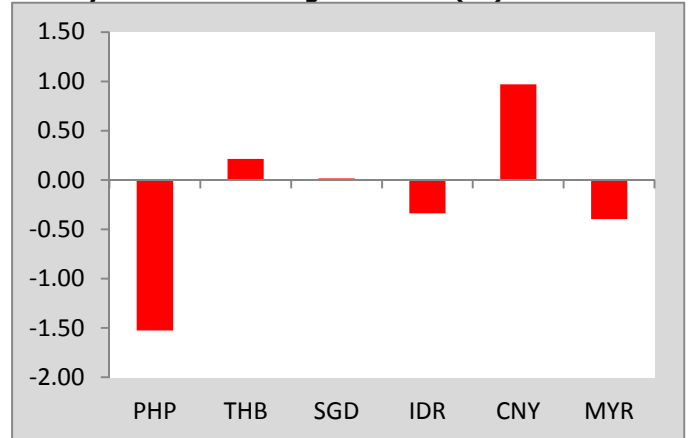
- Ringgit – depreciated by 0.4%, after four weeks of appreciation. We opine the depreciation of MYR was partly attributable to the proposal to introduce MYR futures in SGX. On this score, the BNM has made it clear that offshore Ringgit derivatives are against Malaysia's FX policies. However, we remain firm on our call for MYR to touch 4.20 by year-end given that economic indicators continue to show upward trends.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

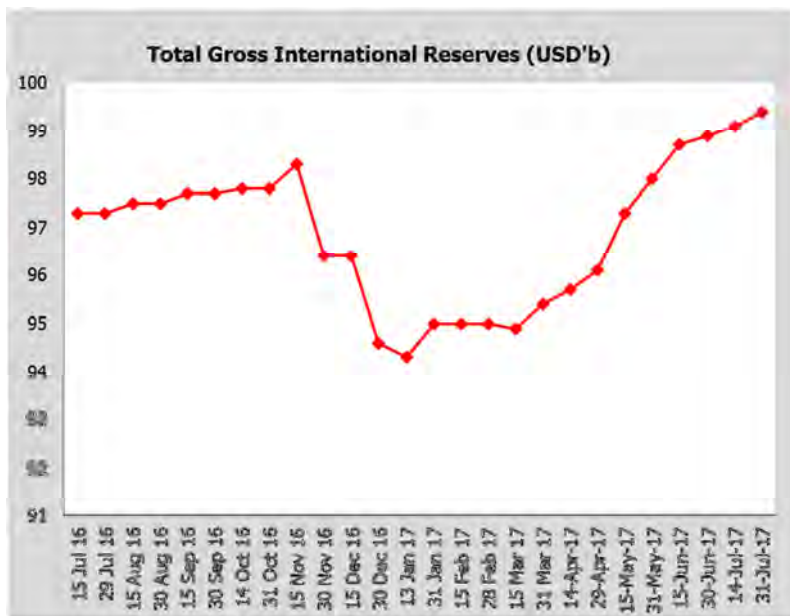


Source: BLOOMBERG; MIDFR


- The current geopolitical developments around the world particularly in North Korea will be potential threats to monitor in months to come. Continued instability in the Korean Peninsula will have an adverse implication especially in regards to the flow of funds into the region.
- Globally, sustained and improving trade figures recorded by major economies such as China, US and EU indicate continued recovery in global trade. Improvement in global trade helps boost domestic economies.
- Inflation trajectory is on the up-trend in most economies. Inflationary pressure as well as higher expected economic growth will be key indicators for central banks to assess in making their call in regard to monetary stance.
- In general, we anticipate interest rates globally to remain accommodative at least for the remaining second half of the year. The spillover from robust external sector to domestic demand has not affect growth stability.
- Globally, inflation has eased while core inflation remains contained with commodities prices seen stabilizing. However, developed economies continue to struggle with sluggish price movement amid uptick in domestic activities and low unemployment.
- Domestically, gauging by the movement of commodities especially crude oil in the past few weeks, we are anticipating moderating inflation as compared to previous month. As far as interest rate is concern, we are maintaining our expectation of BNM to hold the OPR at current level barring any major shock in the near term.

C. BNM FOREIGN RESERVES

- As at 31 July 2017, Bank Negara Malaysia's international reserves rose further to USD99.4b (equivalent to RM427b), up USD0.4b from USD99.0b 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	4-Aug Fri	7-Aug Mon	8-Aug Tue	9-Aug Wed	10-Aug Thu	11-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.273	3.285	3.291	3.274	3.272	3.261	-1.2
5-Y	3.69	3.69	3.662	3.661	3.642	3.647	-4.3
7-Y	3.913	3.916	3.917	3.908	3.903	3.904	-0.9
10-Y	3.988	3.994	3.994	3.982	3.976	3.993	0.5
20-Y	4.556	4.556	4.56	4.56	4.567	4.567	1.1
RINGGIT IRS							
1-Y	3.49	3.49	3.495	3.49	3.485	3.485	-0.5
3-Y	3.65	3.65	3.64	3.64	3.635	3.63	-2
5-Y	3.755	3.765	3.75	3.76	3.745	3.75	-0.5
7-Y	3.87	3.87	3.865	3.86	3.86	3.855	-1.5
10-Y	4	4	4	4	4	4	0
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	1.5026	1.5026	1.4944	1.5027	1.4813	1.4466	-5.6
5-Y	1.8157	1.8107	1.8172	1.804	1.7711	1.7429	-7.28
7-Y	2.0766	2.0694	2.0766	2.0621	2.0139	2.0017	-7.49
10-Y	2.262	2.253	2.2619	2.2476	2.1975	2.1888	-7.32
30-Y	2.842	2.8336	2.8428	2.8222	2.7729	2.7855	-5.65
USD LIBOR							
1-M	1.22889	1.22889	1.23056	1.22889	1.22889	1.22667	-0.222
2-M	1.25944	1.25944	1.25944	1.26	1.26222	1.26111	0.167
3-M	1.31194	1.31139	1.30944	1.30917	1.30911	1.315	0.306

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	4-Aug Yield	11-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.575	3.548	-2.7	1,374.8
MALAYSIA GOVERNMENT	4.059	09/30/24	3.913	3.904	-0.9	893.0
MALAYSIA GOVERNMENT	4.378	11/29/19	3.423	3.387	-3.6	825.0
MALAYSIA INVESTMNT ISSUE	3.678	11/23/17	3.089	3.059	-3.0	751.8
MALAYSIA GOVERNMENT	3.899	11/16/27	3.988	3.993	0.5	699.4
MALAYSIA GOVERNMENT	4.16	07/15/21	3.604	3.539	-6.5	556.5
MALAYSIA GOVERNMENT	3.314	10/31/17	3.031	3.082	5.1	546.2
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.813	3.766	-4.7	530.0
MALAYSIA GOVERNMENT	4.012	09/15/17	3.018	3.045	2.7	452.4
MALAYSIA GOVERNMENT	3.882	03/10/22	3.690	3.647	-4.3	441.2
TOTAL VOLUME (TOP 10)						7,070.4
TOTAL VOLUME (Overall)						12,622.0

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	4-Aug Yield	11-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
GENM CAPITAL BHD	4.9	08/22/25	N/A	4.785	N/A	145.0
PENGURUSAN AIR SPV BHD	4.43	02/03/23	4.122	4.099	-2.3	145.0
HSBC AMANAH MALAYSIA BHD	3.75	09/28/17	N/A	3.612	N/A	120.0
KHAZANAH NASIONAL BHD	ZERO	03/08/21	N/A	4.016	N/A	100.0
LEBUHRAYA DUKE FASA 3 SD	6.33	08/23/38	5.402	5.401	-0.1	100.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	5.115	5.093	-2.2	90.0
KHAZANAH NASIONAL BHD	ZERO	07/09/18	3.633	3.633	0.0	90.0
KHAZANAH NASIONAL BHD	ZERO	06/15/22	4.184	4.169	-1.5	80.0
DANAINFRA NASIONAL	5.1	05/25/37	N/A	5.008	N/A	65.0
MALAYSIA AIRPORTS CAPITA	4.68	12/16/22	4.361	4.353	-0.8	60.0
TOTAL VOLUME (TOP 10)						995.0
TOTAL VOLUME (Overall)						3,103.5

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.