

## MIDF Strategy | 15 January 2018

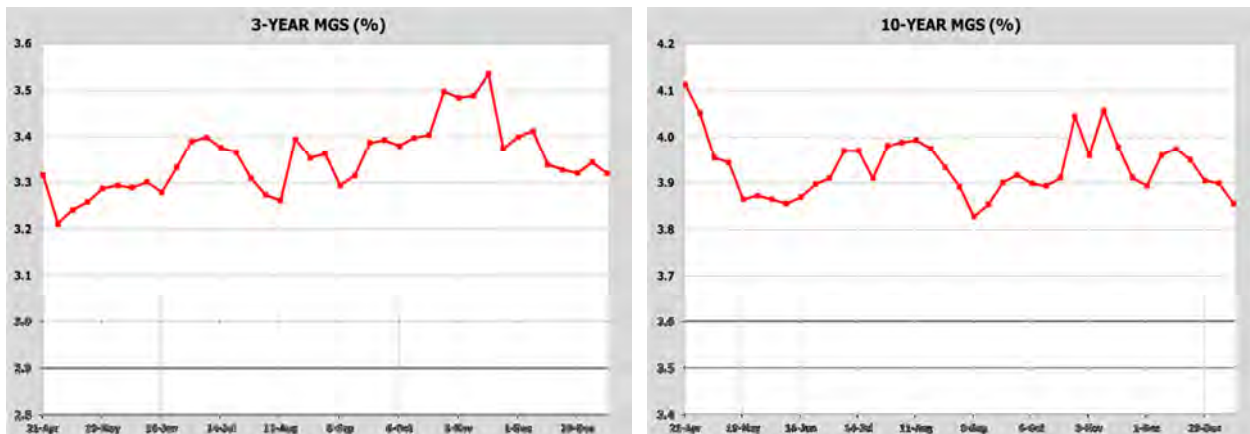
### Week Ended 12 January

- The yield of UST bonds rebounded across the curve last week, pushing price lower, as the market reacted to the unexpected acceleration in underlying pace of US inflation. The core (excluding food and energy) consumer price index increased 1.8%yoy in December and 0.3%mom that topped analyst expectations.
- Moreover, the latest data released by the Commerce Department indicated a busy year-end shopping season as US retail sales rose in December while the November's figure was revised upward. Furthermore, the market was also arguably reacted to reports claiming China, the largest foreign holder of UST, may limit or even cease additional purchases of US government debt.
- On the other hand, amid strengthening Ringgit to levels not seen since mid-July 2016, the key MGS rates ended the review week lower with the yields of benchmark 3-year and 10-year respectively fell -2.4bps and -4.4bps to close the week at 3.32% and 3.86%.
- Total trading value for Government Bonds (MGS/MII) jumped further to RM24.7b in the review week compared to RM15.2b in the earlier week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.97b in the review week compared to RM1.64b in earlier week.

15 January 2018 | Strategy

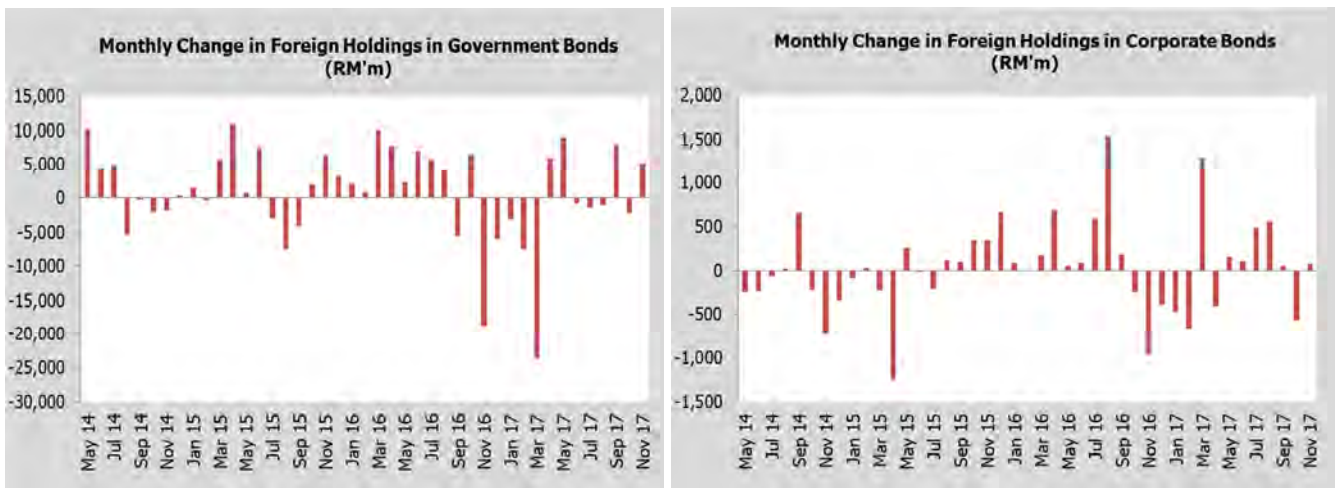
# Weekly Money Review

## A. FIXED INCOME



Source: Bloomberg

- The yield of UST bonds rebounded across the curve last week, pushing price lower, as the market reacted to (i) the unexpected acceleration in underlying pace of US inflation with the core (excluding food and energy) consumer price index increased 1.8%yoy in December and 0.3%mom that topped analyst expectations, (ii) the latest data released by the Commerce Department indicating a busy year-end shopping season as US retail sales rose in December while the November's figure was revised upward, as well as (iii) reports claiming China, the largest foreign holder of UST, may limit or even cease additional purchases of US government debt.
- On the other hand, amid strengthening Ringgit to levels not seen since mid-July 2016, the key MGS rates ended the review week lower with the yields of benchmark 3-year and 10-year respectively fell -2.4bps and -4.4bps to close the week at 3.32% and 3.86%.
- Total trading value for Government Bonds (MGS/MII) jumped further to RM24.7b in the review week compared to RM15.2b in the earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was at 65% of the overall Government Bonds trades in the week under review (from ~64% in the week before). In addition, 4 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- The top 3 actively traded Government Bonds were represented by issues with varying residual tenors. The top 3 most actively traded were MII 3.76% 04/14/22 at RM4.32b, MII 4.26% 07/26/27 at RM3.16 and MGS 3.90% 11/16/27 at RM1.39b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.97b in the review week compared to RM1.64b 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 ~37% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with short to medium residual tenors. The biggest trading values were seen in Cagamas Berhad 4.36% 09/03/20 at RM280.0m, Gas Malaysia 5.45% 02/09/18 at RM140.0m and BGSM Management Sdn Bhd 5.45% 06/28/24 at RM80.0m.
- 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 hits 17-weeks low at 90.974. In December, US headline inflation rose by 2.1%yoy, lower than 2.2%yoy rise in November. However, core inflation rose by 1.8%yoy, higher than 1.7%yoy in November and the biggest gain in 11 months amid rising cost of rents and healthcare. In addition, retail sales in December increased by 5.4%yoy amid solid holiday shopping.
- EUR reached 3-year high at 1.220. Despite of weakening USD, reports of a breakthrough in German coalition talks have surged the currency to levels not seen in quite some time. Besides that, industrial production in the Euro Area for November increased by 3.2%yoy higher than market expectations of 3%yoy. Germany is one of several Eurozone's economies to score strong output growth during the month.

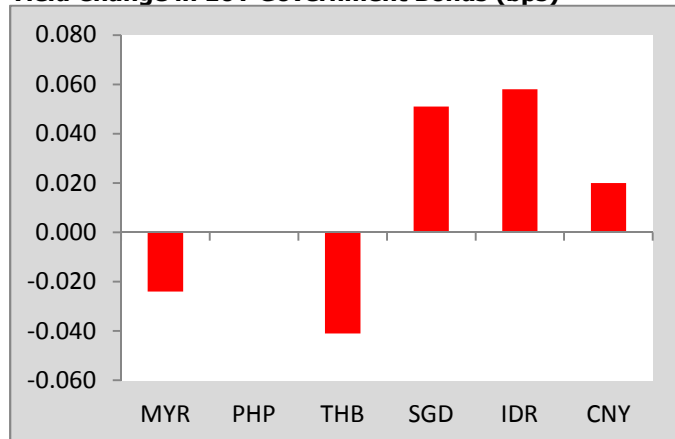
### Currencies Changes (Week Ended 12/1) and Quarterly Performances

	Close (12/1)	Prev Close (5/1)	Change	% Change	1Q17	2Q17	3Q17	4Q17
DXY Index	91.510	91.949	-0.439	-0.5	100.80	98.25	93.28	93.66
EURUSD	1.220	1.203	0.017	1.4	1.07	1.10	1.18	1.18
GBPUSD	1.373	1.357	0.016	1.2	1.24	1.28	1.31	1.33
USDJPY	111.060	113.050	-1.990	1.8	113.56	111.10	110.78	112.86
USDMYR	3.972	3.998	-0.026	0.6	4.44	4.33	4.26	4.16
GBPMYR	5.398	5.413	-0.016	0.3	5.51	5.54	5.58	5.52
JPYMYR	3.576	3.536	0.040	-1.1	3.91	3.90	3.85	3.68

Source: CEIC, Bloomberg, MIDFR

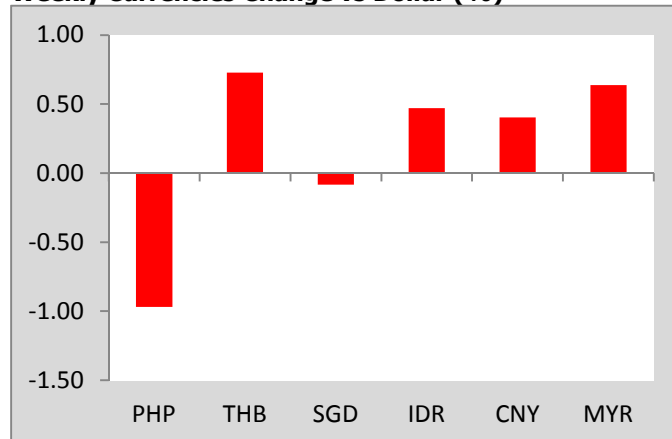
- Ringgit continued its strong momentum at 3.97. The MYR performance buoyed by strong crude oil prices besides weak USD. Also, industrial production in Malaysia for November increased by 5%yoy, strongest since August. During the month, retail sales maintained its double-digit growth at 10.5%yoy. Meanwhile, wholesale trade and motor vehicles grew by 9.6%yoy and 2.5%yoy respectively. We foresee MYR to average at 4.00 while year-end at 3.95 in 2018.

**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 (%)**

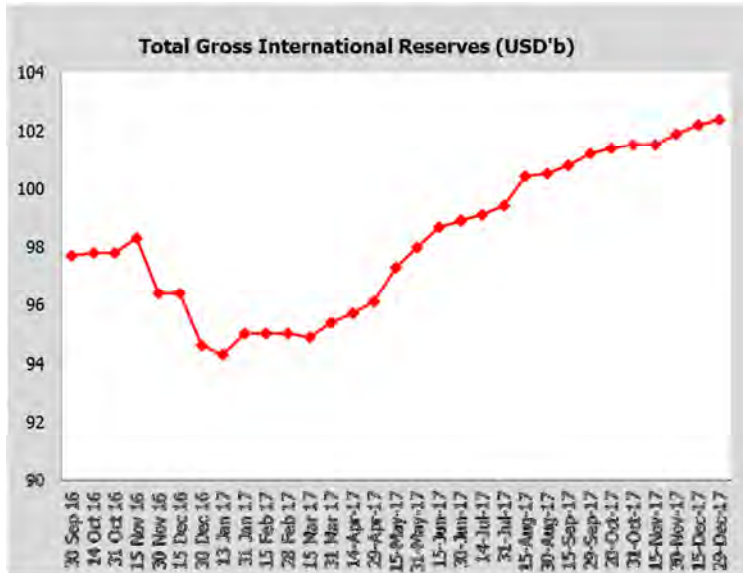
	17-Apr	17-May	17-Jun	17-Jul	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.50	4.25	4.25	4.25	4.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.50	6.50	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	1.25	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	0.25	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	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.50

Source: CEIC, MIDFR


- Hosts of data released last week suggest that global macroeconomics conditions are still robust. Business activity growth gained momentum and rising inflows of new orders suggest that external demand remain elevated.
- The brighter outlook and signs of stretched capacity led to the largest rise in employment for a decade. The trend is observed in most of the developed economies with improved labor market condition and fall in unemployment.
- Price pressures meanwhile slowly trending upward, reflecting improved pricing power amid robust demand. Inflationary pressure is expected to kick-in, boost by tight labor market as well as higher commodities prices.
- Few potential headwinds that stem from policy uncertainties, geopolitical as well as development in monetary policy could pose a possible drag to the advancement in global growth.
- Changes in accommodative monetary stance are expected to start in both developed and emerging economies at the back of expected better economic growth and stable commodities prices.
- Crude oil price is expected to remain elevated in 2018 amid heighten geopolitical risks in the Middle East and expected prolong OPEC production cut.
- Domestically, inflationary pressure is expected to moderate amid stable commodities prices and high base effect.
- Monetary policy wise - with economic growth remain robust and crude oil prices trending upward we anticipate Bank Negara to change its monetary stance in 2018. Possible upward revision is on the card.

## C. BNM FOREIGN RESERVES

- As at 29 December 2017, Bank Negara Malaysia's international reserves rose to USD102.4b (equivalent to RM431.6b).



Source: BNM

- The amount of reserves is sufficient to finance 7.2 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	5-Jan Fri	8-Jan Mon	9-Jan Tue	10-Jan Wed	11-Jan Thu	12-Jan Fri	Change (WoW bp)
MGS							
3-Y	3.344	3.341	3.303	3.31	3.337	3.32	-2.4
5-Y	3.504	3.499	3.514	3.555	3.536	3.51	0.6
7-Y	3.837	3.823	3.82	3.837	3.84	3.836	-0.1
10-Y	3.899	3.843	3.868	3.874	3.858	3.855	-4.4
20-Y	4.569	4.584	4.588	4.604	4.592	4.588	1.9
RINGGIT IRS							
1-Y	3.645	3.64	3.64	3.645	3.645	3.635	-1
3-Y	3.745	3.7525	3.7575	3.76	3.76	3.76	1.5
5-Y	3.83	3.8275	3.835	3.84	3.84	3.835	0.5
7-Y	3.92	3.9345	3.9395	3.945	3.945	3.9445	2.45
10-Y	4.05	4.05	4.06	4.045	4.055	4.07	2
KLIBOR							
1-M	3.18	3.18	3.18	3.18	3.18	3.18	0
2-M	3.43	3.43	3.43	3.43	3.43	3.43	0
3-M	3.44	3.44	3.44	3.44	3.44	3.44	0
UST							
3-Y	2.0596	2.057	2.0765	2.0892	2.0919	2.1163	5.67
5-Y	2.2886	2.287	2.3307	2.3291	2.3259	2.3465	5.79
7-Y	2.4065	2.4041	2.4658	2.4708	2.4659	2.4762	6.97
10-Y	2.4763	2.48	2.553	2.5568	2.5367	2.5462	6.99
30-Y	2.8105	2.8113	2.8952	2.8984	2.8673	2.8491	3.86
USD LIBOR							
1-M	1.5525	1.55375	1.55375	1.55375	1.55945	1.55947	0.697
2-M	1.62194	1.62372	1.625	1.6271	1.63063	1.63065	0.871
3-M	1.70393	1.70802	1.70457	1.70911	1.72019	1.72152	1.759

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	5-Jan Yield	12-Jan Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.762	3.805	4.3	4,326.2
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.131	4.158	2.7	3,155.0
MALAYSIA GOVERNMENT	3.899	11/16/27	3.899	3.855	-4.4	1,389.1
MALAYSIA GOVERNMENT	3.58	09/28/18	2.681	3.049	36.8	1,371.0
MALAYSIA GOVERNMENT	4.059	09/30/24	3.837	3.836	-0.1	1,247.6
MALAYSIA GOVERNMENT	3.654	10/31/19	3.050	3.188	13.8	1,201.4
MALAYSIA GOVERNMENT	3.844	04/15/33	4.363	4.383	2.0	1,141.4
MALAYSIA INVESTMNT ISSUE	4.724	06/15/33	4.587	4.546	-4.1	716.0
MALAYSIA GOVERNMENT	3.955	09/15/25	3.988	3.938	-5.0	659.8
MALAYSIA GOVERNMENT	3.26	03/01/18	2.603	3.204	60.1	659.6
TOTAL VOLUME (TOP 10)						15,867.0
TOTAL VOLUME (Overall)						24,698.4

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	5-Jan Yield	12-Jan Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	4.36	09/03/20	4.100	4.090	-1.0	280.0
GAS MALAYSIA BERHAD	ZERO	02/09/18	N/A	3.510	N/A	140.0
BGSM MANAGEMENT SDN BHD	5.45	06/28/24	4.710	4.699	-1.1	80.0
PRASARANA MALAYSIA BHD	4.35	08/04/26	N/A	4.450	N/A	80.0
BANK ISLAM MALAYSIA BHD	5.08	11/12/27	5.010	5.012	0.2	75.0
SARAWAK ENERGY BHD	5.65	06/23/26	N/A	4.725	N/A	70.0
BANK PEMBANGUNAN MALAY	6.3	04/23/21	4.344	4.328	-1.6	70.0
CIMB THAI BANK PCL	5.6	07/05/24	4.877	4.868	-0.9	65.0
PUBLIC BANK BERHAD	4.8	09/25/23	4.365	4.374	0.9	50.0
WESTPORTS MALAYSIA SDN	4.53	12/13/21	N/A	4.490	N/A	50.0
TOTAL VOLUME (TOP 10)						960.0
TOTAL VOLUME (Overall)						2,968.3

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.