

MIDF Strategy | 16 April 2018

Week Ended 13 April

- UST tanked (prices down; yields up) last week amid revival of risk-on mood with gains seen in equities (DJIA: +1.79%wow) and in reaction to the headline and core inflation data of 2.4%yoy and 2.1%yoy respectively in March 2018, almost the highest in a year.
- It is also noteworthy that the yield curve further flattened as the short-end underperformed. The 10y-3y yield spread dropped to +33bps, the lowest since March 2008. On this score, it seems the bond market is intuiting slower growth foreseeable ahead.
- Likewise, the prices of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields respectively higher by +4.9bps and +4.3bps to close the week at 3.51% and 4.00%.
- Total trading value for Government Bonds (MGS/MII) increased to RM11.5b in the review week compared to RM11.0b in the previous week. In addition, all the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM3.30b in the review week compared to RM3.63b in earlier week.

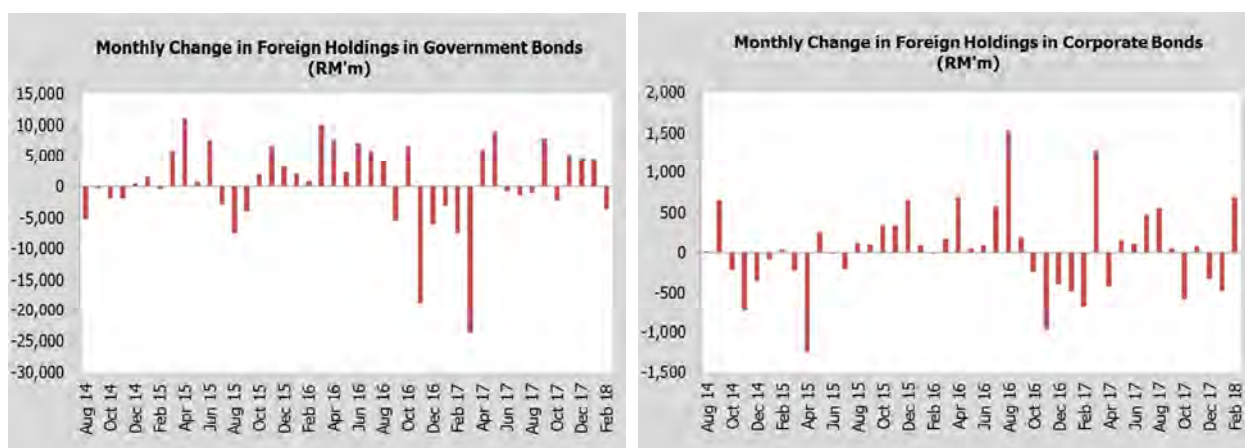
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- UST tanked (prices down; yields up) last week amid revival of risk-on mood with gains seen in equities (DJIA: +1.79%wow) and in reaction to the headline and core inflation data of 2.4%yoy and 2.1%yoy respectively in March 2018, almost the highest in a year.
- It is also noteworthy that the yield curve further flattened as the short-end underperformed. The 10y-3y yield spread dropped to +33bps, the lowest since March 2008. On this score, it seems the bond market is intuiting slower growth foreseeable ahead.
- Likewise, the prices of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields respectively higher by +4.9bps and +4.3bps to close the week at 3.51% and 4.00%.
- Total trading value for Government Bonds (MGS/MII) increased to RM11.5b in the review week compared to RM11.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 54% of the overall Government Bonds trades in the week under review (vis-à-vis ~58% in the week before). In addition, all 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 varied residual tenors. The top 3 most actively traded were MII 3.948% 04/14/22 at RM1.32b, MGS 3.899% 11/16/27 at RM879m and MII 4.755% 08/04/37 at RM741m.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM3.30b in the review week compared to RM3.63b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 28% of the overall Corporate Bonds trades (from ~31% 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 Govco Holdings Berhad 4.27% 06/06/23 at RM200m, Projek Lebuhraya Usahasa 4.64% 01/10/25 at RM100m and Ambank Malaysia Bhd 4.3% 03/25/19 at RM100m.
- Total foreign holdings of Government Bonds stood at RM183.9b as at end-February 2018. It was a decline of RM3.7b from the January 2018 figure of RM187.6b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds increased by RM688.4m in the month of February 2018 to RM16.3b.

B. FOREIGN EXCHANGE

- DXY Index depreciated by -0.5%wow. Amid President Trump's protectionist trade policies, consumer sentiment in the US fell to 97.8 points in Apr-18, a 3-month low and below market expectations of 100.5 points. In addition, number of jobs openings dropped from 6.2 million in Jan-18 to 6.05 million in Feb-18. On the other hand, headline and core inflation data showed significant jump to 2.4%yoy and 2.1%yoy respectively in Mar-18, almost the highest in a year. Henceforth, the upward trend in inflation will support the Fed to raise interest rate in the upcoming meetings. We maintain our call of 3 rate hikes in 2018.
- EURUSD remains intact. Trade balance in the economic region jumped from €3.5 billion in Jan-18 to €18.9 billion in Feb-18. During the second month, overall industrial and manufacturing productions expanded by 2.9%yoy and 2.5%yoy respectively. The steady performance of EUR will provide solid support for the ECB's monetary normalisation plan.

Currencies Changes (Week Ended 13/04) and Quarterly Forecasts

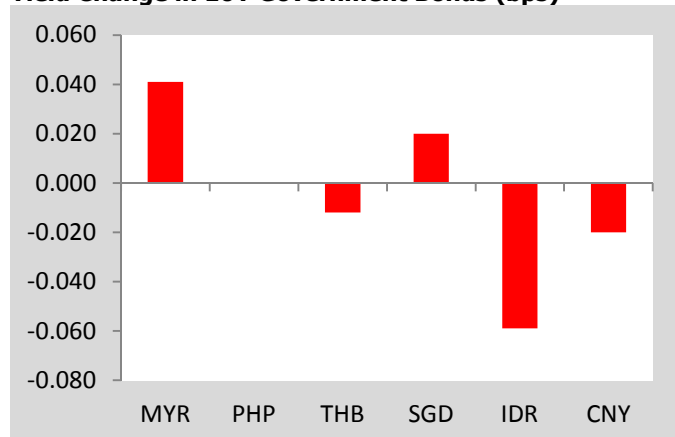
	Close (13/04)	Prev Close (06/04)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	89.694	90.108	-0.414	-0.5	90.07	90.69	91.91	95.98
EURUSD	1.234	1.228	0.006	0.4	1.23	1.22	1.20	1.16
GBPUSD	1.429	1.409	0.019	1.4	1.39	1.25	1.15	1.09
USDJPY	107.630	106.930	0.700	-0.7	108.09	100.29	95.10	102.27
USDMYR	3.881	3.872	0.009	-0.2	3.92	3.95	4.00	3.95
GBPMYR	5.543	5.423	0.121	-2.2	5.46	4.89	4.53	4.58
JPYMYR	3.605	3.621	-0.016	0.4	3.63	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR

Source: Bloomberg, MIDFR

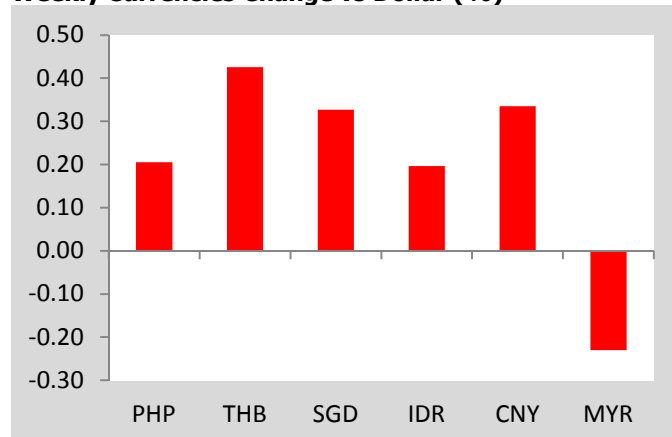
- Ringgit – Continue sliding down marginally for 3-consecutive weeks. Apart of political uncertainty, recent Feb-18 macro data showed slight decelerating trends as IPI growth registered at 3%yoy, lower than the previous month and retail trade up by 9.2%yoy, weakest since Jan-17. We maintain our call MYR to average at 4.00 and register year-end target at 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 (%)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.25
Indonesia	4.75	4.50	4.25	4.25	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	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.50	1.50	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	0.50	0.50	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	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.50	1.75

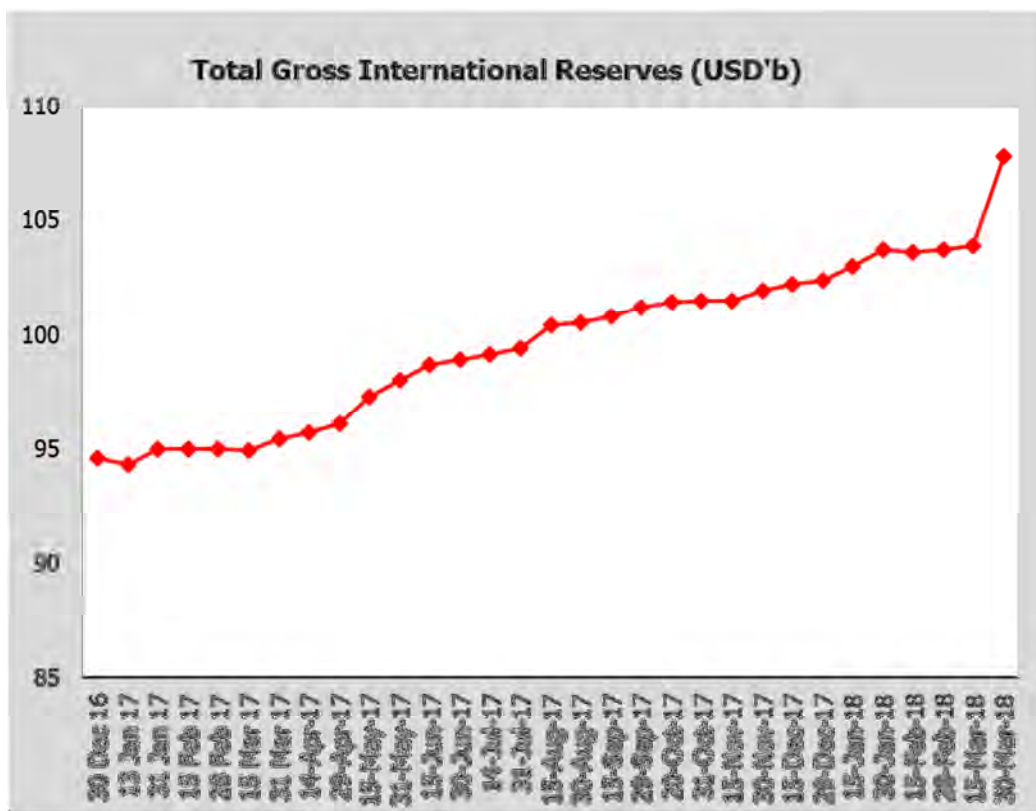
Source: CEIC, MIDFR

- Global growth remain upbeat with macroeconomics data released thus far validate our expectation that the momentum carried from 2017 remain intact albeit at slower pace.
- Both developed and emerging economies display resilient amid escalating threat of trade war between US and China.
- Near term risk for global growth is emanating from escalating trade between US and China that can disrupt the current growth momentum.
- Trade war posed as a major headwind for both global trade and financial market.
- Presently, monetary policy stance globally is seen as accommodative to support growth as well as providing conducive financial environment for the sustainable economic expansion.
- In general, central banks around the world are more hawkish about the trajectory of the global economy as well as their respective domestic economy. The risks are more on the upside. Again the threat of trade war will slowly taking center stage for central bankers.
- Globally, the upward bias inflation expectation will influence both the debt and equity markets. This will sway the investor's portfolio allocation as well as fund flow direction in the near term.
- 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.
- Stronger Ringgit performance as well as availability of spare capacity in the labor market will help demand pressure in the near term.
- Our base case scenario for OPR remains unchanged (single rate hike) for the full year. End the year at 3.25% barring any pleasant upward surprises from economic growth.

C. BNM FOREIGN RESERVES

- As at 30 March 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD107.8b.



Source: BNM

- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	6-Apr Fri	9-Apr Mon	10-Apr Tue	11-Apr Wed	12-Apr Thu	13-Apr Fri	Change (WoW bp)
MGS							
3-Y	3.463	3.463	3.466	3.471	3.504	3.512	4.9
5-Y	3.559	3.569	3.575	3.572	3.59	3.598	3.9
7-Y	3.857	3.857	3.86	3.86	3.865	3.89	3.3
10-Y	3.953	3.949	3.962	3.966	4	3.996	4.3
20-Y	4.536	4.552	4.523	4.568	4.567	4.603	6.7
RINGGIT IRS							
1-Y	3.75	3.75	3.75	3.75	3.75	3.75	0
3-Y	3.8025	3.805	3.81	3.805	3.815	3.815	1.25
5-Y	3.875	3.87	3.87	3.87	3.88	3.88	0.5
7-Y	3.985	3.9925	3.98	3.98	3.985	3.99	0.5
10-Y	4.095	4.1	4.1	4.1	4.13	4.13	3.5
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	2.3997	2.4108	2.4442	2.443	2.4947	2.5002	10.05
5-Y	2.5858	2.5976	2.6247	2.6129	2.6707	2.6726	8.68
7-Y	2.7066	2.7165	2.7414	2.7215	2.7814	2.7765	6.99
10-Y	2.7735	2.779	2.8009	2.7808	2.8358	2.8267	5.32
30-Y	3.0182	3.0118	3.0214	2.9951	3.0431	3.027	0.88
USD LIBOR							
1-M	1.89713	1.89713	1.89438	1.89563	1.89688	1.8955	-0.163
2-M	2.02225	2.0235	2.02538	2.02788	2.0355	2.0375	1.525
3-M	2.33746	2.3373	2.33903	2.34163	2.34769	2.35281	1.535

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	6-Apr Yield	13-Apr Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.829	3.839	1.0	1,323.0
MALAYSIA GOVERNMENT	3.899	11/16/27	3.953	3.996	4.3	878.8
MALAYSIA INVESTMNT ISSUE	4.755	08/04/37	4.747	4.820	7.3	740.5
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.150	4.186	3.6	739.5
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.589	3.609	2.0	557.7
MALAYSIA GOVERNMENT	3.759	03/15/19	3.141	3.385	24.4	452.8
MALAYSIA GOVERNMENT	3.48	03/15/23	3.735	3.763	2.8	415.9
MALAYSIA GOVERNMENT	4.378	11/29/19	3.331	3.414	8.3	410.3
MALAYSIA GOVERNMENT	3.62	11/30/21	3.463	3.512	4.9	336.6
MALAYSIA GOVERNMENT	4.181	07/15/24	3.890	3.903	1.3	330.2
TOTAL VOLUME (TOP 10)						6,185.3
TOTAL VOLUME (Overall)						11,456.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	6-Apr Yield	13-Apr Yield	Change (WoW bp)	Weekly Volume (RM bn)
GOVCO HOLDINGS BHD	4.27	06/06/23	4.209	4.157	-5.2	200.0
PROJEK LEBUHRAYA USAHASA	4.64	01/10/25	4.503	4.481	-2.2	100.0
AMMBANK MALAYSIA BHD	4.3	03/25/19	4.086	4.063	-2.3	100.0
PERBADANAN TABUNG PENDID	4.67	03/28/24	4.335	4.305	-3.0	90.0
PRASARANA MALAYSIA BHD	4.27	12/11/20	N/A	3.981	N/A	90.0
CAGAMAS BERHAD	3.78	08/08/18	3.701	3.701	0.0	80.0
PENGURUSAN AIR SPV BHD	4.23	06/16/23	N/A	4.156	N/A	70.0
AMMB HOLDING	5.23	02/23/28	5.000	5.260	26.0	67.1
KHAZANAH NASIONAL BHD	ZERO	03/20/24	4.302	4.266	-3.6	60.0
RHB INVESTMENT BANK BHD	4.9	10/11/27	N/A	4.888	N/A	60.0
TOTAL VOLUME (TOP 10)						917.1
TOTAL VOLUME (Overall)						3,302.7

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.