

MIDF Strategy | 16 October 2017

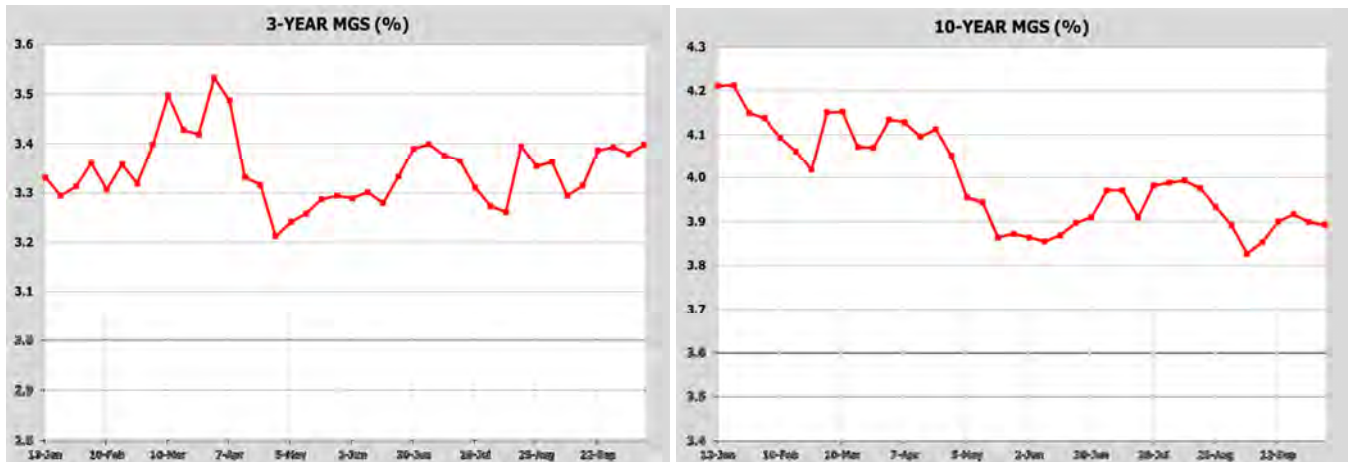
Week Ended 13 October

- The price of UST bonds rose last week, pushing yields lower, in reaction to lower than expected CPI figures. According to Reuters, economists had forecast the CPI rising 0.6%mom in September and accelerating 2.3%yoy. However, the actual numbers came in slightly lower in at 0.5%mom and 2.2%yoy.
- The technical picture nonetheless remains mixed as the 10-year yield is still trading at above the 50- and 100-day MAs despite a decisive break below the 200-day line during the review week.
- Moreover, the fed fund futures (Jan'18) shows the odds of a rate hike by year-end 2017 only fell marginally to 72% at the close last week from 76% a week earlier.
- The local MGS market saw a flattening curve as the short to mid tenors recorded higher yields while that of longer tenors ended lower. The benchmark 3-year and 10-year yields respectively rose and fell by 1.8bps and -0.6bp week-on-week to 3.40% and 3.89%.
- Total trading value for Government Bonds (MGS/MII) increased to RM9.3b in the review week compared to RM8.5b in the prior week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.12b in the review week compared to RM1.56b in earlier week.

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Weekly Money Review

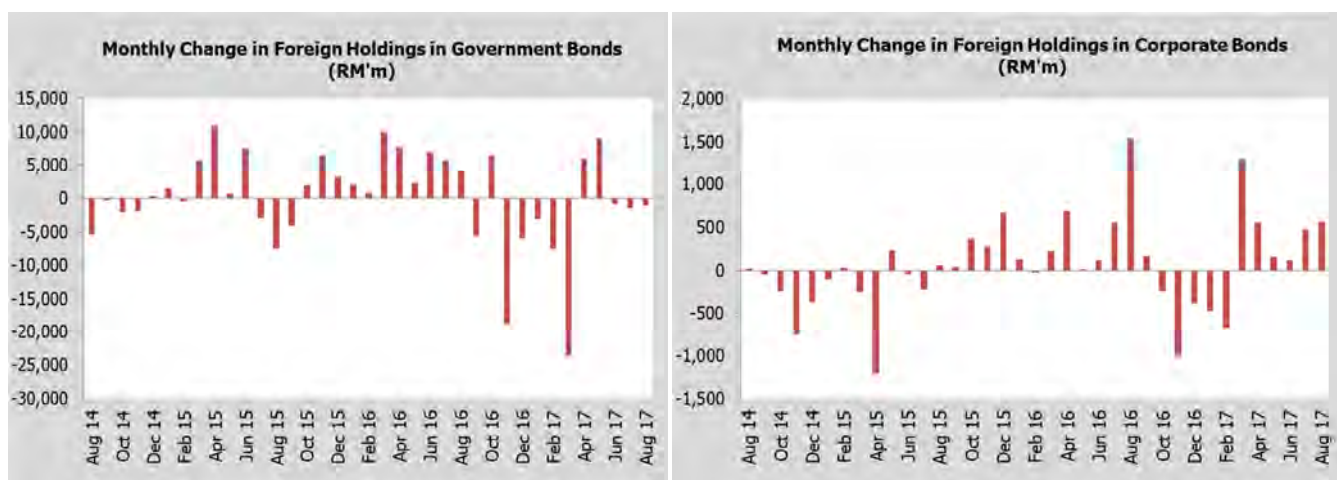
A. FIXED INCOME



Source: Bloomberg

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- Moreover, the fed fund futures (Jan'18) shows the odds of a rate hike by year-end 2017 only fell marginally to 72% at the close last week from 76% a week earlier.
- The local MGS market saw a flattening curve as the short to mid tenors recorded higher yields while that of longer tenors ended lower. The benchmark 3-year and 10-year yields respectively rose and fell by 1.8bps and -0.6bp week-on-week to 3.40% and 3.89%.
- Total trading value for Government Bonds (MGS/MII) increased to RM9.3b in the review week compared to RM8.5b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues was slightly higher at 68% of the overall Government Bonds trades in the review week (from ~66% in week before). In addition, 7 out of the 10 actively traded bonds saw lower yields hence higher prices during the past 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 RM1.54b, MGS 4.06% 09/30/24 at RM1.37b and MII 3.80% 08/27/20 at RM720.0m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.12b in the review week compared to RM1.56b in earlier week (based on Bloomberg data). Moreover, the total trading value of 10 most actively traded issues was lower at 41% of the overall Corporate Bonds trades (from ~46% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by government-related corporations with varying residual tenors. The biggest trading values were seen in Khazanah Nasional Berhad 0% 08/14/23 at RM200.0m, Cagamas Berhad 4.2% 10/22/18 at RM135.0m and Tenaga Nasional Berhad 5.2% 08/03/37 at RM110.0m.

- Total foreign holdings of Government Bonds stood at RM167.3b as at end-August 2017. It was a drop of RM1.11b from the July 2017 figure of RM168.4b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM563m in the month of August 2017 to RM16.8b.

B. FOREIGN EXCHANGE

- DXY Index disappointed with inflation data. Latest US headline inflation rate in September recorded 2.2%, missing market expectations of 2.3%. As for core inflation, the rate stays at two-year low for fifth consecutive months and below market expectations of 1.8%. Despite of increase in energy prices, the US inflation data remain stubborn and indirectly provide a shady outlook for Fed's tightening monetary plan.
- EURUSD appreciated amid of political factors. The Spanish government has given the Catalan President Carles Puigdemont eight days to withdraw the independence declaration or the Catalan government will lose autonomy power. The Spanish government is backed by Germany, France and other EU members given that maintaining political stability is vital to ensure sustainable economic development in the region.

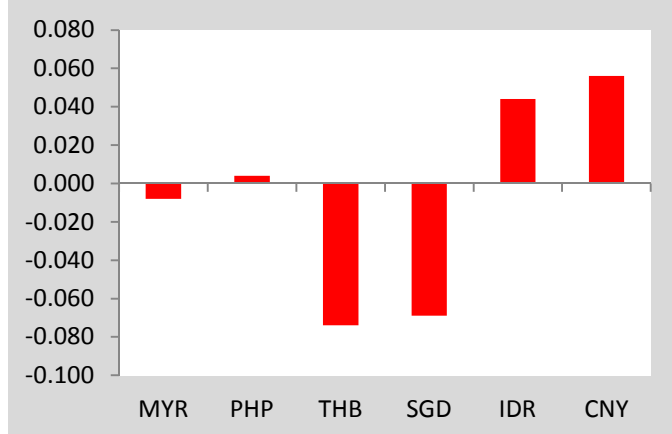
Currencies Changes (Week Ended 13/10) and Quarterly Forecasts

	Close (13/10)	Prev Close (6/10)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	93.091	93.800	-0.709	-0.8	101.12	102.50	103.00	103.50
EURUSD	1.182	1.173	0.009	0.8	1.06	1.05	1.02	1.03
GBPUSD	1.329	1.307	0.022	1.7	1.23	1.15	1.18	1.21
USDJPY	111.820	112.650	-0.830	0.7	114.00	118.00	120.00	119.00
USDMYR	4.222	4.237	-0.015	0.4	4.40	4.30	4.30	4.20
GBPMYR	5.618	5.540	0.077	-1.4	5.48	5.50	5.45	5.30
JPYMYR	3.776	3.762	0.014	-0.4	3.90	3.75	3.85	4.00

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

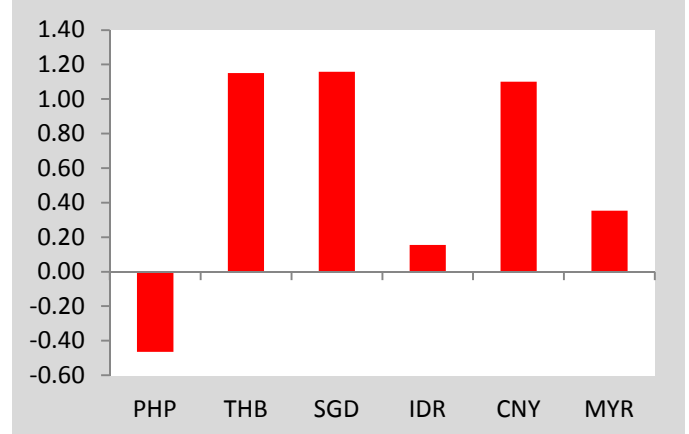
- Ringgit – Improved by 0.4%. Malaysian economy remains on upward trajectory path as industrial production and retail sales performance in August surprised the markets by expanding at 6.8%yoy and 13.4%yoy respectively. Strong IPI growth is supported by steady manufacturing production of 7.6%yoy and steep increase in mining production of 5.4%yoy. In spite of this, due to global factors, we maintain our call for the MYR to record at 4.200 by year-end.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

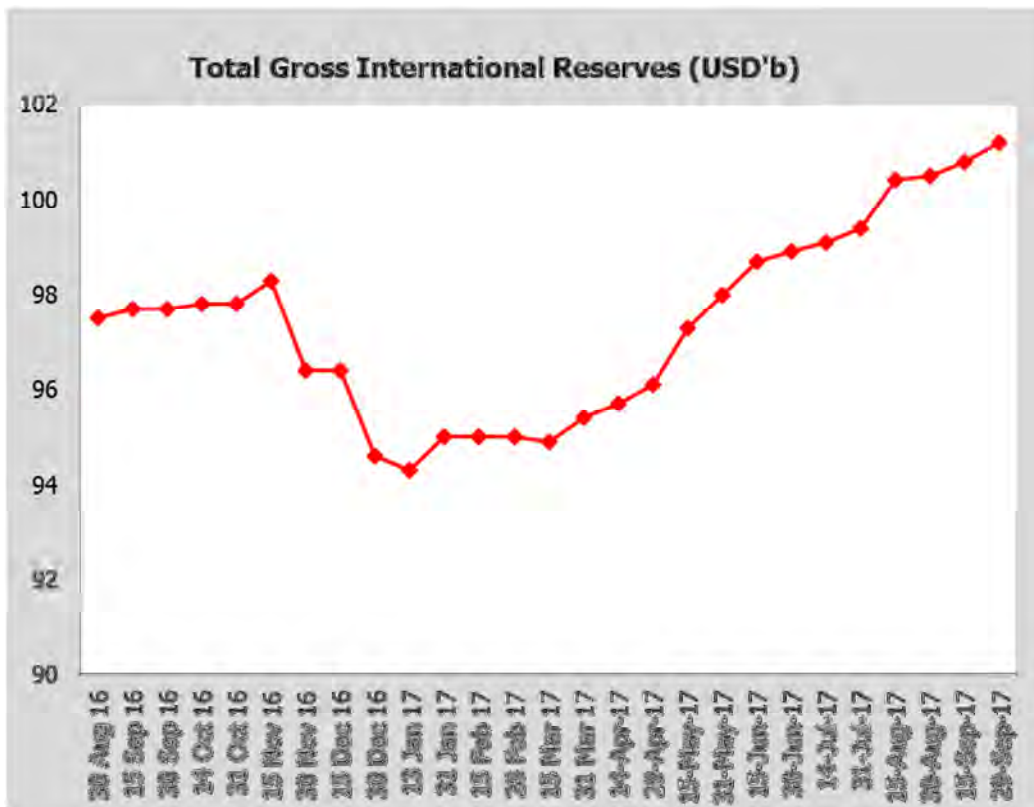


Source: BLOOMBERG; MIDFR


- Fed published its September minutes of meeting last week. As expected, it provides further details of the Fed plan to unwind its asset purchases program.
- Another salient point in the minutes was the Fed assessment of inflationary pressure that has failed to reach the targeted level by Fed. Nevertheless, the stubborn inflationary pressure will not deter Fed from raising rates again.
- The hawkish tone in the minutes also implied the probability of another rate hikes by end of this year has increase significantly.
- Regionally, all central bank kept their interest rate on hold in their last meeting amid pick-up in economic growth. Monetary policies remain accommodative in most economies.
- Bank of England which met last week maintained its policy rate at 0.25% but warned that the interest rate will rise in the coming months.
- In general, the tepid price movement over the past few months in the developed economies albeit improved labor market conditions provide a near term challenge for central banks in normalizing the rate.
- As for the domestic monetary policy, we maintain our stance that the current OPR at 3% will remain for the rest of the year despite jumps in inflationary pressure seen in recent months amid higher fuel related prices.

C. BNM FOREIGN RESERVES

- As at 29 September 2017, Bank Negara Malaysia's international reserves rose further to USD101.2b (equivalent to RM428b), up USD0.4b from USD100.8b 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	6-Oct Fri	9-Oct Mon	10-Oct Tue	11-Oct Wed	12-Oct Thu	13-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.38	3.379	3.379	3.392	3.402	3.398	1.8
5-Y	3.585	3.614	3.597	3.597	3.596	3.594	0.9
7-Y	3.894	3.894	3.89	3.892	3.877	3.875	-1.9
10-Y	3.899	3.899	3.902	3.895	3.893	3.893	-0.6
20-Y	4.525	4.529	4.513	4.513	4.513	4.513	-1.2
RINGGIT IRS							
1-Y	3.5	3.5	3.5	3.5	3.51	3.51	1
3-Y	3.6245	3.6245	3.6248	3.6363	3.6348	3.63	0.55
5-Y	3.745	3.75	3.74	3.75	3.75	3.745	0
7-Y	3.845	3.875	3.87	3.855	3.855	3.85	0.5
10-Y	3.98	3.98	3.99	3.985	3.98	3.98	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	1.638	1.638	1.6383	1.644	1.6626	1.6304	-0.76
5-Y	1.9561	1.9561	1.9595	1.9562	1.938	1.8998	-5.63
7-Y	2.1857	2.1857	2.1857	2.176	2.1516	2.1079	-7.78
10-Y	2.3589	2.3589	2.3607	2.3481	2.3177	2.273	-8.59
30-Y	2.8936	2.8936	2.8952	2.8824	2.8467	2.805	-8.86
USD LIBOR							
1-M	1.235	1.23722	1.23778	1.23889	1.23889	1.23667	0.167
2-M	1.27133	1.27189	1.27189	1.273	1.27744	1.27744	0.611
3-M	1.35028	1.35639	1.35667	1.35861	1.35917	1.35333	0.305

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	6-Oct Yield	13-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.26	03/01/18	3.056	2.977	-7.9	1,536.6
MALAYSIA GOVERNMENT	4.059	09/30/24	3.894	3.875	-1.9	1,368.0
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.580	3.546	-3.4	720.0
MALAYSIA GOVERNMENT	3.58	09/28/18	3.124	3.093	-3.1	527.4
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.490	3.471	-1.9	480.0
MALAYSIA GOVERNMENT	3.314	10/31/17	3.058	3.264	20.6	432.6
MALAYSIA GOVERNMENT	4.378	11/29/19	3.315	3.302	-1.3	408.3
MALAYSIA INVESTMNT ISSUE	4.755	08/04/37	4.684	4.803	11.9	367.3
MALAYSIA GOVERNMENT	3.882	03/10/22	3.585	3.594	0.9	278.3
MALAYSIA GOVERNMENT	5.734	07/30/19	3.327	3.293	-3.4	251.0
TOTAL VOLUME (TOP 10)						6,369.5
TOTAL VOLUME (Overall)						9,339.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	6-Oct Yield	13-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
KHAZANAH NASIONAL BHD	ZERO	08/14/23	4.308	4.308	0.0	200.0
CAGAMAS BERHAD	4.2	10/22/18	3.586	3.634	4.8	135.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	5.087	5.098	1.1	110.0
YTL POWER INTERNATIONAL	4.35	08/24/18	4.124	4.096	-2.8	85.0
CAGAMAS BERHAD	3.9	11/16/18	3.638	3.551	-8.7	75.0
SARAWAK ENERGY BHD	5.65	06/23/26	4.667	4.692	2.5	60.0
TURUS PESAWAT SDN BHD	3.93	11/19/24	N/A	4.302	N/A	60.0
TENAGA NASIONAL BERHAD	4.95	08/03/32	4.807	4.835	2.8	54.0
SARAWAK ENERGY BHD	4.75	08/18/25	4.596	4.616	2.0	50.0
BANK PEMBANGUNAN MALAY	4.98	03/02/32	N/A	4.960	N/A	40.0
TOTAL VOLUME (TOP 10)						869.0
TOTAL VOLUME (Overall)						2,124.6

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.