

MIDF Strategy | 17 July 2017

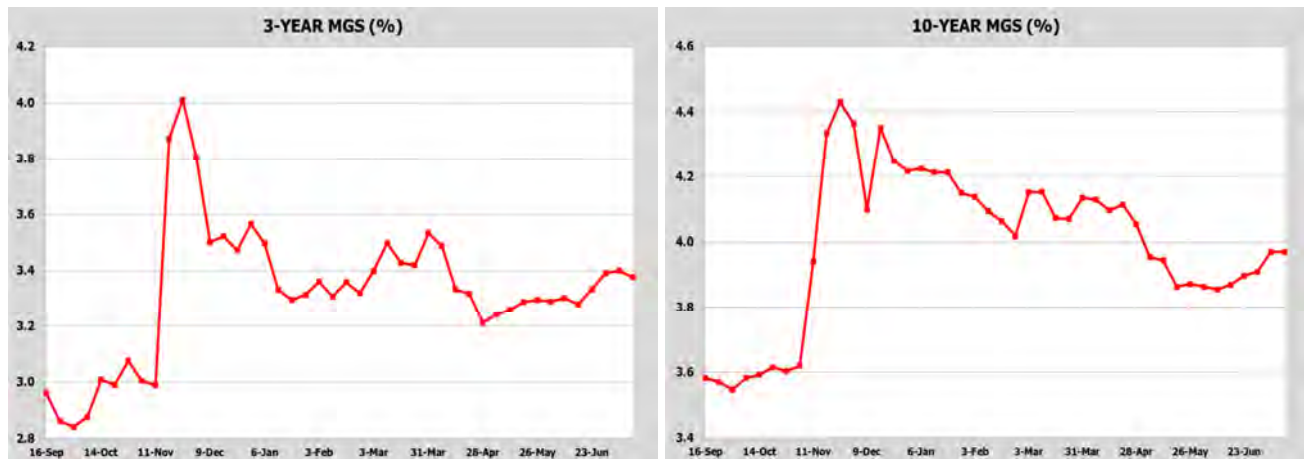
Week Ended 14 July

- UST prices rose in reaction to (1) a rather dovish congressional testimony by US Fed Chair Yellen, and (2) both June CPI figure and retail sales data were weaker than expected.
- A third interest rate hike by the US Fed this year is looking less likely (the probability fell to 45% from 66% in earlier week).
- MGS yields were generally unchanged to marginally lower thus prices were rather muted with slight upward bias.
- As expected, Bank Negara made no change to the OPR in the last MPC meeting held last week. We anticipate the current OPR at 3% will remain for the rest of the year with upward inflationary pressure tapering off.
- MYR was stronger at 4.292 attributable to poor performance in the USD.
- Malaysia's IPI rebounded to 4.6%yoy in May as compared to the previous month of 4.2%yoy - solidly contributed by expansion in manufacturing output. We opine the sanguine macroeconomic condition in Malaysia will continue and we expect USDMYR to touch 4.200 by year-end.

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Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The prices of US Treasury bonds rose across the board, pushing yields down, in reaction to a rather dovish congressional testimony by US Fed Chair Yellen in which she wavered over the transitory nature of inflation. Her latest statement on the “uncertainty about when (and how much) inflation will respond to tightening resource utilization” is seen as a slight departure from an earlier assertion that the prevailing disinflation is fully transitory.
- Moreover, a June CPI report released on Friday showed continued (the 4th consecutive month) weak pricing power across a range of goods and services. Hence, a third interest rate hike by the US Fed this year is looking less likely (the probability fell to 45% from 66% in earlier week) after the dovish testimony as well as weaker than expected CPI and retail sales data.
- In the local market, MGS yields were generally unchanged to marginally lower thus prices were rather muted with slight upward bias. The yield of benchmark 3-year MGS shed -2.3 basis points (bp) while the benchmark 10-year yield was unchanged during the review week. As expected, Bank Negara made no change to the OPR.
- Total value trade for Government Bonds (MGS/GII) decreased to RM11.2b in the review week from RM14.5b in prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues slightly increased to 65% of the overall Government Bonds trades in the review week (from ~63% in week before).
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with varied tenors. The top 3 most actively traded were MGS 3.80% 08/17/23 at RM1.27b, MGS 4.06% 09/30/24 at RM1.02b and 3.58% 09/28/18 at RM909m. In addition, 4 out of the 10 most actively traded issues saw lower yields hence higher prices during the past week.
- Total value trade for Corporate Bonds (Conventional & Sukuk) however increased to RM1.17b in the review week compared to RM732m in earlier week (based on Bloomberg data). Trading interest was slightly less concentrated among the 10 most actively traded issues at circa 38% of the overall Corporate Bonds trades (down from ~39% in the week before).
- The top 3 actively traded Corporate Bonds were also represented by issues with varied tenors. The biggest trading values were seen in Malayan Banking Bhd 4.90% 01/29/24 at RM60.3m, YTL Danainfra Nasional 5.29% 07/22/44 at RM60m and CIMB Bank Bhd 4.77% 08/07/26 at RM50m.

- Total foreign holdings of Government Bonds stood at RM169.9b as end-June 2017. It was a drop of RM810m from the May 2017 figure of RM170.7b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM114m in the month of June 2017 to RM15.8b.

B. FOREIGN EXCHANGE

- DXY Index shrank by 0.9% to 95.153. The decrease was mainly due to a slowdown in the US inflation rate in June. Headline inflation was recorded at 1.6%, slowest since October 2016, while core inflation remained flat at 1.7%. Moreover, growth in retail sales also decelerated to 2.8%yoy, smallest in ten months. With the slowing down trends, this may lead the Fed to postpone further rate hike as expansion in the US economy is tuning down its speed.
- EURUSD and GBPUSD appreciated by 0.6% and 1.6% respectively last week. Weaker USD explains the surge in both currencies. Apart from that, the possibility of ECB to announce the guideline of QE tapering in September indirectly boosted market confidence in the Euro currency. The surge in GBP could partly due to surprising May unemployment rate of 4.5%, the lowest since June 1975.

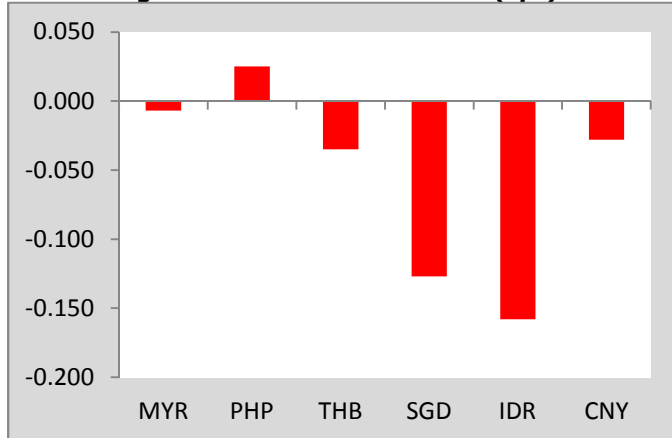
Currencies Changes (Week Ended 14/7) and Quarterly Forecasts

	Close (14/7)	Prev Close (7/7)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	95.153	96.008	-0.855	-0.9	101.12	102.50	103.00	103.50
EURUSD	1.147	1.140	0.007	0.6	1.06	1.05	1.02	1.03
GBPUSD	1.310	1.289	0.021	1.6	1.23	1.15	1.18	1.21
USDJPY	112.530	113.920	-1.390	1.2	114.00	118.00	120.00	119.00
USDMYR	4.292	4.301	-0.009	0.2	4.40	4.30	4.30	4.20
GBPMYR	5.564	5.555	0.009	-0.2	5.48	5.50	5.45	5.30
JPYMYR	3.814	3.776	0.039	-1.0	3.90	3.75	3.85	4.00

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

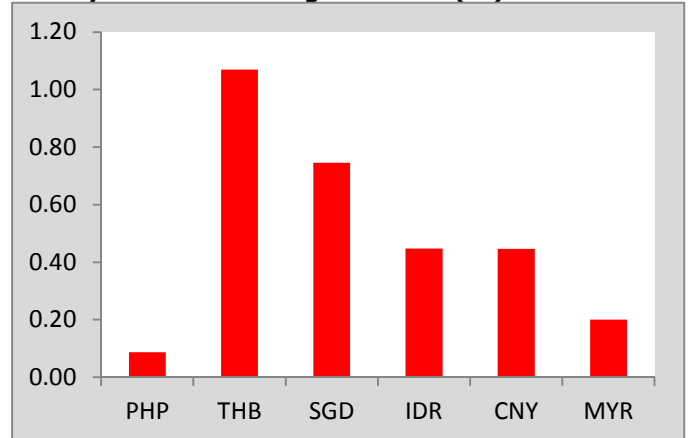
- Ringgit – returned to below 4.300 levels. Last week, MYR was stronger at 4.292 attributable to poor performance in the USD. In addition, industrial production growth rebounded to 4.6%yoy in May as compared to the previous month of 4.2%yoy. The increase in IPI was solidly contributed by expansion in manufacturing output of 6.7%yoy, highest so far in 2017. Hence, we opine the sanguine macroeconomic condition in Malaysia will continue and we expect USDMYR to touch 4.200 by year-end.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

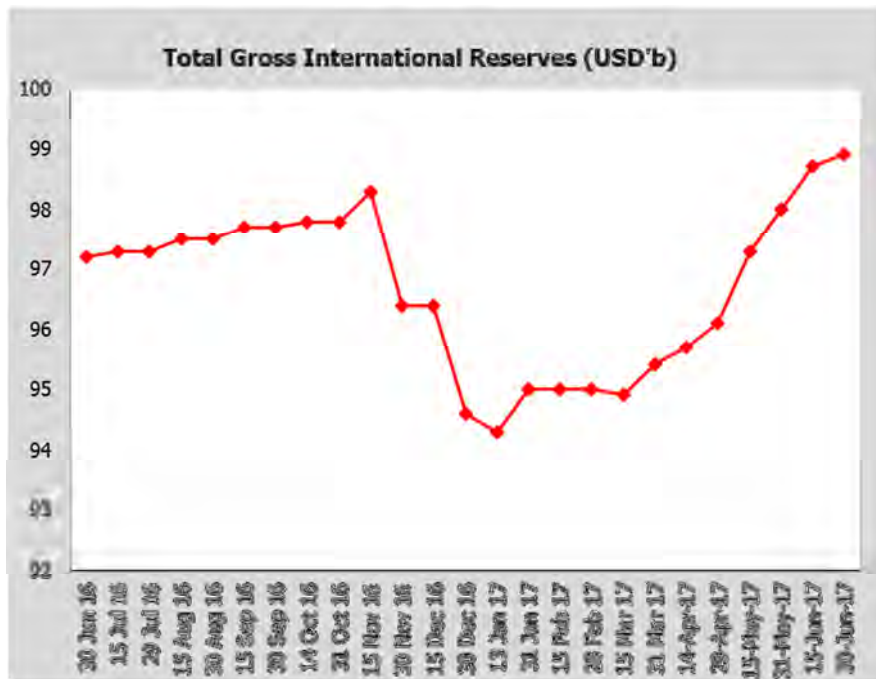


Source: BLOOMBERG; MIDFR


- US Federal Reserve Chair Yellen delivered an upbeat message about the strength of US economy on the back of employment growth. She highlighted that Fed remained on course to begin its balance sheet reduction program expected to start in September.
- However, recent weaknesses in the inflation number as well as sub-par wage growth could derail Fed plan or at least lead to slower than expected pace of normalization.
- The importance of the clear guidance on monetary policy as far as US is concerned is to minimize market overreaction on the policy message and to avoid the repeat of taper tantrum.
- The changes of tones among central bankers seen in the past months indicate their optimism about the current well-being of the economy despite sluggish price environment.
- Nevertheless, the stickiness of long term interest to move in tandem with bullish view of the overall economy points to mixed views of the long term prospect by the market.
- Domestically, Bank Negara made no change to the OPR in the last MPC meeting held last week. We anticipate the current OPR at 3% will remain for the rest of the year with upward inflationary pressure tapering off.

C. BNM FOREIGN RESERVES

- As at 30 June 2017, Bank Negara Malaysia's international reserves rose further to USD98.9b (equivalent to RM424.8b), up USD0.2b from USD98.0b 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	7-Jul Fri	10-Jul Mon	11-Jul Tue	12-Jul Wed	13-Jul Thu	14-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.399	3.429	3.422	3.415	3.414	3.376	-2.3
5-Y	3.751	3.787	3.789	3.758	3.751	3.751	0
7-Y	3.944	3.962	3.954	3.951	3.939	3.939	-0.5
10-Y	3.97	3.982	3.958	3.97	3.97	3.97	0
20-Y	4.606	4.614	4.614	4.614	4.588	4.598	-0.8
RINGGIT IRS							
1-Y	3.515	3.515	3.51	3.5075	3.515	3.515	0
3-Y	3.665	3.675	3.665	3.665	3.645	3.6495	-1.55
5-Y	3.79	3.8	3.785	3.785	3.78	3.775	-1.5
7-Y	3.89	3.915	3.9	3.89	3.87	3.875	-1.5
10-Y	4.04	4.07	4.05	4.04	4.03	4.03	-1
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	1.5902	1.5738	1.552	1.5375	1.559	1.5455	-4.47
5-Y	1.947	1.9321	1.9156	1.8741	1.8908	1.866	-8.1
7-Y	2.2163	2.1968	2.1822	2.1334	2.1554	2.136	-8.03
10-Y	2.3856	2.373	2.3605	2.3177	2.3444	2.3319	-5.37
30-Y	2.9289	2.9265	2.9234	2.8838	2.9172	2.9195	-0.94
USD LIBOR							
1-M	1.22633	1.22389	1.22389	1.22444	1.22556	1.22611	-0.022
2-M	1.255	1.255	1.255	1.25778	1.25722	1.25667	0.167
3-M	1.30522	1.30411	1.3035	1.30389	1.30361	1.30361	-0.161

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	7-Jul Yield	14-Jul Yield	Change (WoW bp)	Weekly Value (RM bn)
MALAYSIA GOVERNMENT	3.8	08/17/23	4.042	4.024	-1.8	1,268.1
MALAYSIA GOVERNMENT	4.059	09/30/24	3.944	3.939	-0.5	1,021.5
MALAYSIA GOVERNMENT	3.58	09/28/18	3.331	3.319	-1.2	909.0
MALAYSIA GOVERNMENT	4.24	02/07/18	3.227	3.157	-7.0	874.6
MALAYSIA GOVERNMENT	3.882	03/10/22	3.751	3.751	0.0	855.9
MALAYSIA GOVERNMENT	4.498	04/15/30	4.497	4.503	0.6	555.7
MALAYSIA GOVERNMENT	3.955	09/15/25	3.847	4.129	28.2	546.8
MALAYSIA INVESTMNT ISSUE	4.895	05/08/47	4.882	4.936	5.4	410.0
MALAYSIA GOVERNMENT	4.762	04/07/37	4.606	4.598	-0.8	408.8
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.589	3.607	1.8	363.0
TOTAL (TOP 10)						7,213.5
TOTAL (Overall)						11,169.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	7-Jul Yield	14-Jul Yield	Change (WoW bp)	Weekly Value (RM bn)
MALAYAN BANKING BHD	4.9	01/29/24	4.692	4.700	0.8	60.3
DANAINFRA NASIONAL	5.29	07/22/44	N/A	5.212	N/A	60.0
CIMB BANK BHD	4.77	08/07/26	4.839	4.794	-4.5	50.0
MMC CORP BHD	5.8	11/12/25	5.312	5.314	0.2	50.0
AFFIN BANK BHD	5.45	02/05/27	5.053	5.052	-0.1	40.0
PRASARANA MALAYSIA BHD	4.65	12/11/25	N/A	4.363	N/A	40.0
RHB ISLAMIC BANK BHD	4.95	05/15/24	4.502	4.497	-0.5	40.0
UEM SUNRISE BHD	5	05/19/23	4.807	4.805	-0.2	40.0
MMC CORP BHD	5.2	11/12/20	4.855	4.910	5.5	30.0
UMW HOLDINGS BERHAD	4.7	02/15/21	N/A	4.693	N/A	30.0
TOTAL (TOP 10)						440.3
TOTAL (Overall)						1,165.4

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.