

MIDF Strategy | 19 June 2017

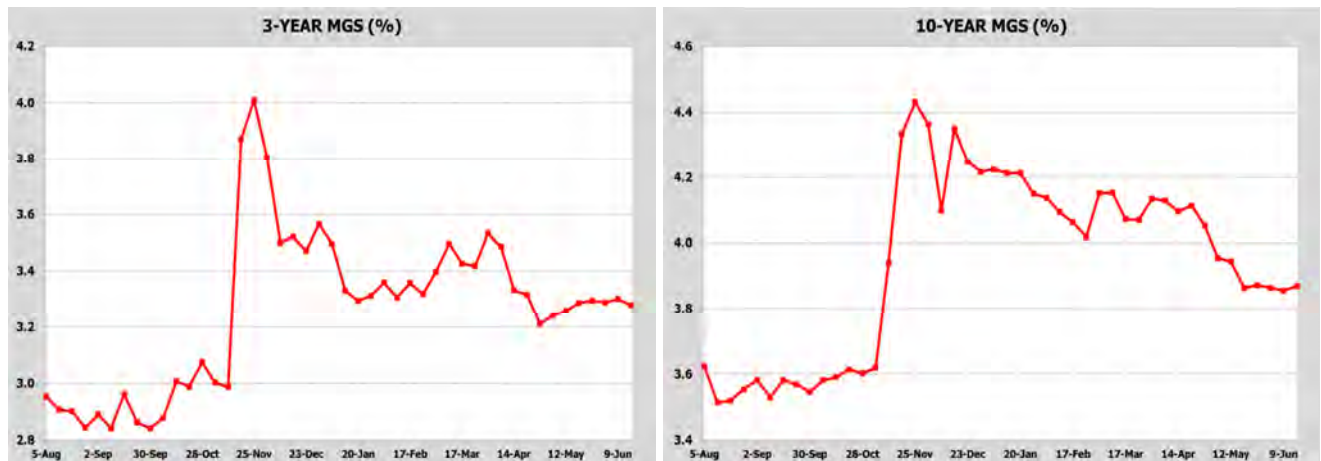
Week Ended 16 June

- The yields of US Treasury bonds dropped across the board spurred by lower housing starts which declined for the third month in a row as well as softer consumer sentiment.
- China's holdings of the Treasuries bounced to a six-month high at USD1.09t amid signs both its economy and currency are stabilizing.
- In contrast, MGS yields generally risen across the board except for in the front end. The yield of benchmark 3-year MGS slipped -2.2bp while that of 10-year gained 1.4bp.
- Total trading value for Government Bonds (MGS/GII) declined to RM16.2b in the review week from RM21.4b in the week before.
- Despite a slight rise in USDMYR by 0.3% to 4.276 last week, we foresee the Ringgit to stay on the recovery path and will touch 4.20 by year-end due to improvement in market confidences as well as steady economic growth.
- We are maintaining our stance of the current supportive BNM monetary policy to stay for the rest of 2017.

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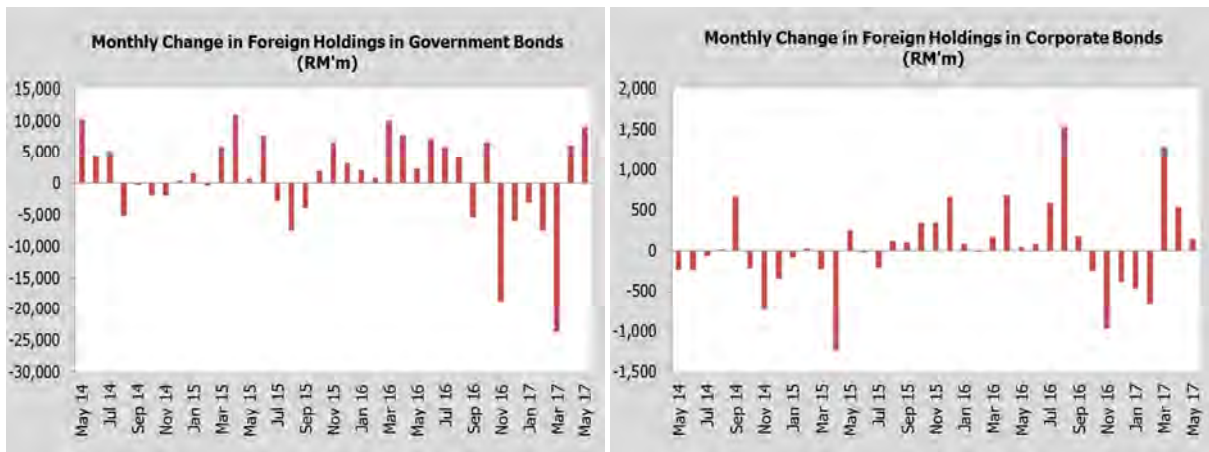
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The prices of US Treasury bonds advanced across the board, pushing yields down, spurred by lower housing starts which dropped for the third month in a row as well as softer consumer sentiment. Meanwhile, China's holdings of the Treasuries bounced back to a six-month high at USD1.09t amid signs both its economy and currency are stabilizing.
- In the local market however, MGS yields generally risen thus prices fell across the board except for in the front end. The yield of benchmark 3-year MGS slipped -2.2 basis points (bp) while that of 10-year gained 1.4bp during the review week.
- Total value trade for Government Bonds (MGS/GII) declined to RM16.2b in the review week from RM21.4b in the week before (based on Bloomberg data). The total trading value of 10 most actively traded issues dropped to 57% of the overall Government Bonds trades in the review week (from ~61% 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 4.01% 09/15/17 at RM1.61b, GII 4.26% 07/26/27 at RM1.60b and MGS 4.05% 09/30/24 at RM1.28b. In addition, only 2 out of the 10 most actively traded issues saw lower yields during the past week hence higher prices.
- Total value trade for Corporate Bonds (Conventional & Sukuk) however remained largely unchanged at RM2.2b in the review week compared to RM2.1b in prior week (based on Bloomberg data). Trading interest was slightly more concentrated among the 10 most actively traded issues at circa 32% of the overall Corporate Bonds trades (from ~31% in week before).
- The top 3 actively traded Corporate Bonds were represented by issues with relatively short tenors. The biggest trading values were seen in Sunway Treasury Sukuk SD ZERO 07/19/17 at RM125m, ADCB Finance Cayman Ltd 5.35% 11/22/17 at RM70m and HSBC Amanah Malaysia Berhad 4.24% 03/27/20 at RM80m.
- Total foreign holdings of Government Bonds stood at RM170.7b as end-May 2017. It was an increase of RM9.0b from the April 2017 figure of RM161.7b.



Source: BNM

- Likewise, total foreign holdings of Corporate Bonds increased by RM147m in the month of May 2017 to RM16.6b.

B. FOREIGN EXCHANGE

- DXY Index shrank slightly in the review week by -0.1% to 97.164. Despite the Fed's rate hike, the US Dollar declined due to soft macro data released last week. US consumer sentiment, inflation rate and retail sales recorded lower than market expectations. For instance, consumer sentiment registered at 94.5 in June, lowest in seven months and below market's consensus at 97.
- GBPUSD rose by 0.3% while EURUSD was unchanged at 1.120. Bank of England maintained interest rate at 0.25%. However, three MPC members voted for a rate hike which surprised the market. This was probably due to concerns over inflation which rose sharply by 2.9% in May, the highest since June 2013. In spite of this, UK's consumer spending is seen weakening as growth in retail sales slowed from 4.2%yoy in April to 0.9%yoy in May.

Currencies Changes (Week Ended 16/6) and Quarterly Forecasts

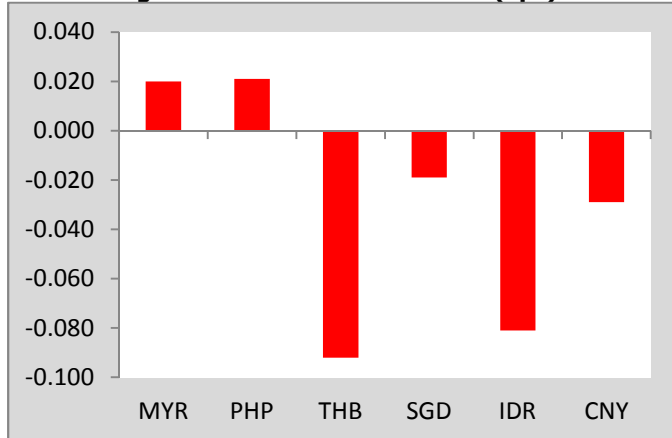
	Close (16/6)	Prev Close (9/6)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	97.164	97.274	-0.110	-0.1	101.12	102.50	103.00	103.50
EURUSD	1.120	1.120	0.000	0.0	1.06	1.05	1.02	1.03
GBPUSD	1.278	1.275	0.004	0.3	1.23	1.15	1.18	1.21
USDJPY	110.880	110.320	0.560	0.5	114.00	118.00	120.00	119.00
USDMYR	4.276	4.265	0.011	0.3	4.40	4.30	4.30	4.20
GBPMYR	5.461	5.429	0.032	0.6	5.48	5.50	5.45	5.30
JPYMYR	3.857	3.866	-0.009	-0.2	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

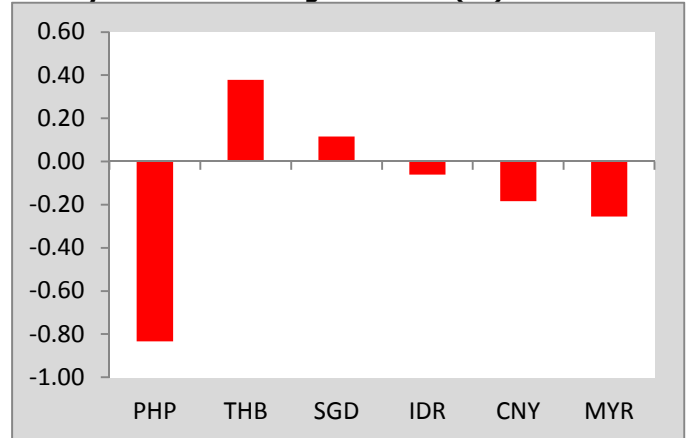
- Ringgit – remains below 4.30 for four consecutive months. Ringgit continues to stay on the recovery path despite a slight rise in USDMYR by 0.3% to 4.276 last week. We foresee the Ringgit will touch 4.20 by year-end due to improvement in market confidences as well as steady economic growth in Malaysia's domestic and external market activities.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

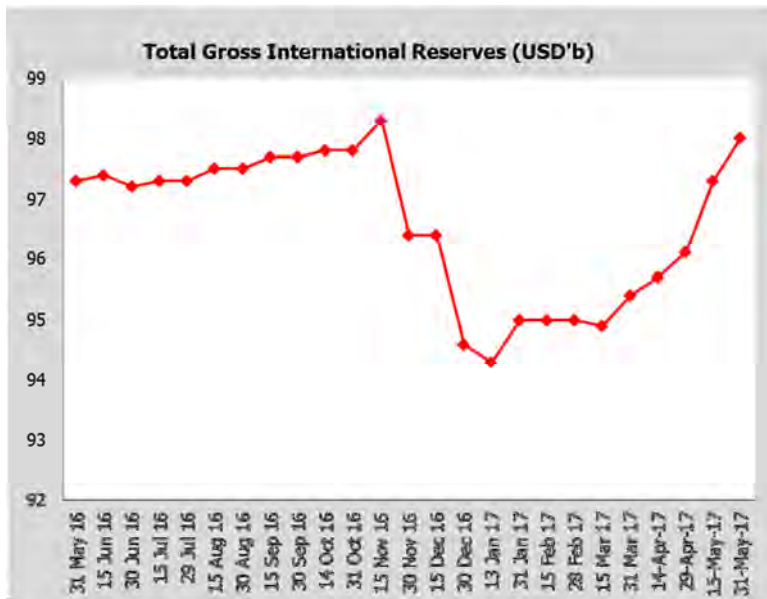


Source: BLOOMBERG; MIDFR


- In the past week, we witnessed outcomes from several central banks' policy meetings which provide clues about their assessments of current economic environment as well as their monetary stance going forward.
- Among key messages inferred from these central banks (Fed, BoE and BoJ) are:
 - i. The global economy is expanding albeit moderately based on the latest assessments by Fed and Bank of Japan;
 - ii. Fed has made clear about its future intention to tightening further albeit via a gradual pace of rate normalization and balance sheet reduction exercise;
 - iii. Inflation remains a key concern among policymakers with Bank of England recent meeting indicated 3 rate-setting committee members supported a rate rise amid concern over inflationary pressure.
- The future trajectory of interest rate is particularly difficult to project given economic uncertainty stemming from various factors ranging from policy ambiguity, volatility in financial market and geopolitical events.
- We foresee the inflationary pressure may elevate in most economies due to cost driven factors but the effect is expected to taper off hence no monetary policy intervention is required.
- For developed economies, we anticipate the upward rate adjustment will take place gradually with emerging economies expected to keep their current monetary stance.
- We are also projecting that the Fed will continue with its rate normalization plan – another hike is expected in December.
- Domestically, we are maintaining our stance of the current supportive monetary policy to stay for the rest of 2017.

C. BNM FOREIGN RESERVES

- As at 31 May 2017, Bank Negara Malaysia's international reserves rose further to USD98.0b (equivalent to RM433.3b), up USD0.7b from USD97.3b a fortnight ago.



Source: BNM

- The amount of reserves is sufficient to finance 8.1 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	9-Jun Fri	12-Jun Mon	13-Jun Tue	14-Jun Wed	15-Jun Thu	16-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.301	3.301	3.3	3.264	3.226	3.279	-2.2
5-Y	3.551	3.551	3.55	3.543	3.538	3.563	1.2
7-Y	3.808	3.808	3.813	3.81	3.806	3.844	3.6
10-Y	3.855	3.855	3.855	3.855	3.869	3.869	1.4
20-Y	4.497	4.497	4.5	4.5	4.5	4.5	0.3
RINGGIT IRS							
1-Y	3.505	3.505	3.5	3.505	3.505	3.51	0.5
3-Y	3.615	3.615	3.62	3.62	3.605	3.6045	-1.05
5-Y	3.705	3.705	3.705	3.69	3.685	3.69	-1.5
7-Y	3.81	3.81	3.805	3.79	3.795	3.795	-1.5
10-Y	3.965	3.965	3.965	3.95	3.94	3.95	-1.5
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	1.478	1.4862	1.508	1.4653	1.4946	1.4732	-0.48
5-Y	1.7664	1.778	1.7813	1.7153	1.7632	1.7433	-2.31
7-Y	2.0096	2.0217	2.0193	1.9421	1.9854	1.9685	-4.11
10-Y	2.2005	2.2145	2.2109	2.1256	2.1637	2.1514	-4.91
30-Y	2.8556	2.8694	2.8648	2.7692	2.7872	2.7752	-8.04
USD LIBOR							
1-M	1.12711	1.13933	1.15889	1.17167	1.20944	1.21222	8.511
2-M	1.17278	1.18167	1.19167	1.20111	1.23833	1.24389	7.111
3-M	1.23644	1.24167	1.24556	1.25033	1.26744	1.27356	3.712

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	9-Jun Yield	16-Jun Yield	Change (WoW bp)	Weekly Value (RM bn)
MALAYSIA GOVERNMENT	4.012	09/15/17	2.966	3.000	3.4	1,609.8
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.003	4.045	4.2	1,598.5
MALAYSIA GOVERNMENT	4.059	09/30/24	3.808	3.844	3.6	1,275.3
MALAYSIA INVESTMNT ISSUE	3.704	09/30/19	3.483	3.472	-1.1	1,050.0
MALAYSIA GOVERNMENT	4.24	02/07/18	3.121	3.125	0.4	897.3
MALAYSIA INVESTMNT ISSUE	4.045	08/15/24	3.915	3.930	1.5	633.6
MALAYSIA GOVERNMENT	4.762	04/07/37	4.497	4.500	0.3	618.2
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.470	3.433	-3.7	540.0
MALAYSIA INVESTMNT ISSUE	3.91	08/13/19	3.506	3.456	-5.0	530.0
MALAYSIA GOVERNMENT	3.58	09/28/18	3.226	3.270	4.4	521.7
TOTAL VALUE (TOP 10)						9,274.4
TOTAL VALUE (Overall)						16,181.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	9-Jun Yield	16-Jun Yield	Change (WoW bp)	Weekly Value (RM bn)
SUNWAY TREASURY SUKUK SD	ZERO	07/19/17	N/A	3.792	N/A	125.0
ADCB FINANCE CAYMAN LTD	5.35	11/22/17	4.320	4.220	-10.0	70.0
HSBC AMANAH MALAYSIA BHD	4.24	03/27/20	N/A	4.169	N/A	70.0
PUTRAJAYA HOLDINGS BHD	4.34	05/26/20	N/A	4.128	N/A	70.0
LEBUHRAYA DUKE FASA 3 SD	6.43	08/23/39	5.471	5.471	0.0	62.0
PRASARANA MALAYSIA BHD	4	09/06/27	4.428	4.436	0.8	60.0
AMAN SUKUK BHD	4.53	05/28/21	N/A	4.222	N/A	60.0
MMC CORP BHD	5.8	11/12/25	5.314	5.312	-0.2	60.0
KONSORTIUM LEBUH UTARA	4.75	12/01/28	4.812	4.812	0.0	60.0
PENGURUSAN AIR SPV BHD	4.43	02/03/23	4.188	4.183	-0.5	55.0
TOTAL VALUE (TOP 10)						692.0
TOTAL VALUE (Overall)						2,159.0

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.