

20 March 2017 | Strategy

Weekly Money Review

Bond rallied pursuant to US Fed hike

KLCI: 1,745.20 points

2017 Year-end Target: 1,830 points

MONEY MARKET

- As widely anticipated, the US Federal Reserve delivered on its earlier promise to raise the key overnight rate.
- Nonetheless, the US Treasury bond market rallied with yields dropping as the US Fed is seen as entering into a series of interest rate hikes that will moderate future inflationary pressure.

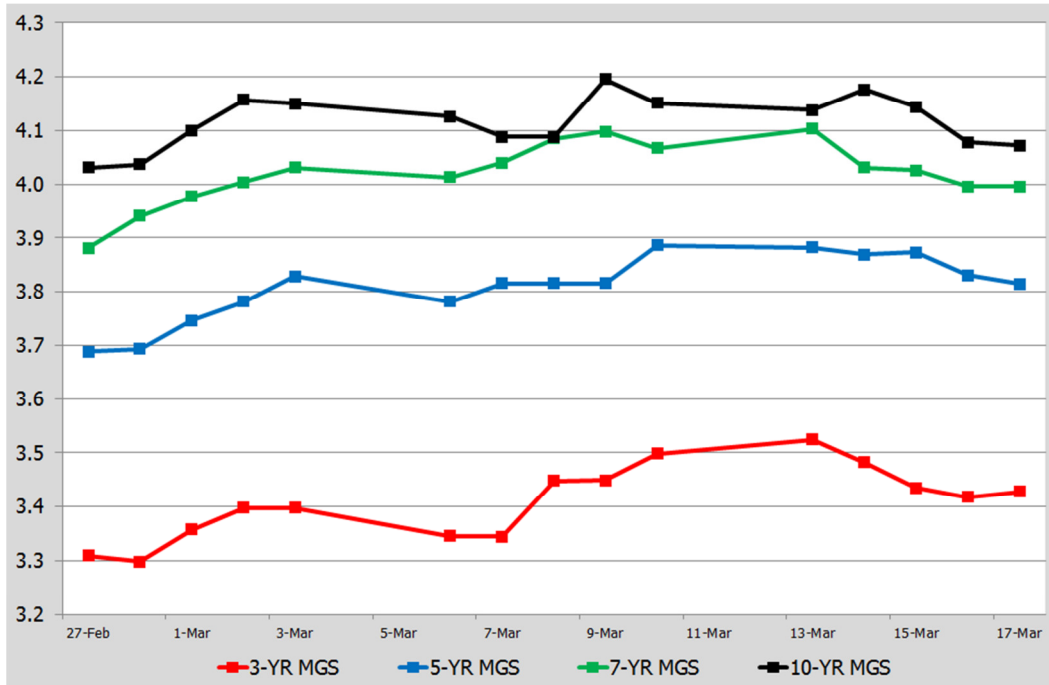
MONEY MARKET RATES

Tenor	10-Mar Fri	13-Mar Mon	14-Mar Tue	15-Mar Wed	16-Mar Thu	17-Mar Fri	Change (WoW bp)
MGS							
3-Y	3.498	3.524	3.482	3.435	3.418	3.428	-7
5-Y	3.886	3.882	3.869	3.873	3.831	3.815	-7.1
7-Y	4.067	4.103	4.031	4.026	3.996	3.996	-7.1
10-Y	4.152	4.139	4.177	4.145	4.078	4.072	-8
20-Y	4.732	4.723	4.707	4.664	4.605	4.639	-9.3
RINGGIT IRS							
1-Y	3.55	3.54	3.55	3.55	3.545	3.54	-1
3-Y	3.712	3.695	3.6975	3.7045	3.675	3.68	-3.2
5-Y	3.87	3.875	3.875	3.87	3.835	3.83	-4
7-Y	3.9725	3.97	3.98	3.975	3.935	3.945	-2.75
10-Y	4.12	4.12	4.13	4.13	4.095	4.09	-3
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	1.6598	1.684	1.684	1.5821	1.6277	1.6008	-5.9
5-Y	2.1014	2.1385	2.1285	2.003	2.0499	2.0183	-8.31
7-Y	2.3943	2.4365	2.4193	2.2984	2.3477	2.306	-8.83
10-Y	2.5745	2.6258	2.6002	2.493	2.5402	2.5005	-7.4
30-Y	3.1647	3.2122	3.1747	3.1071	3.1506	3.1096	-5.51
USD LIBOR							
1-M	0.89056	0.91222	0.92833	0.94278	0.97833	0.97611	8.555
2-M	0.95833	0.96944	0.97722	0.98722	1.01556	1.02167	6.334
3-M	1.12122	1.13122	1.13733	1.14817	1.15178	1.15178	3.056

Source: Bloomberg, MIDFR

- This trading pattern was also similarly reflected in the Malaysian government bond yields which have generally fallen across the board during the week under review.

YIELDS OF MGS (From 27 Feb 2017 to 17 Mar 2017)



Source: Bloomberg, MIDFR

- Total volume trade for MGS/GII dropped to RM26.1b in the review week from RM33.1b in week before (based on Bloomberg data). The 10 most actively traded issues represent slightly more than 83% of the overall MGS/GII trades in the review week (also ~83% in week before).
- As in previous week, the top 3 volumes were seen in issues with short (less than 1 year) remaining tenor namely MGS 4.012% 09/15/17 at RM10.0b, MGS 4.240% 02/07/18 at RM3.5b and MGS 3.314% 10/31/17 at RM2.4b. Moreover, 7 out of the 10 most actively traded issues saw lower yields during the past week hence higher prices which imply buying interest.

10 MOST ACTIVELY TRADED GOVERNMENT BONDS (Week Ended 17 Mar 2017)

Name	Coupon	Maturity	10-Mar Yield	17-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.012	09/15/17	3.355	3.317	-3.8	9,996.2
MALAYSIA GOVERNMENT	4.24	02/07/18	3.331	3.414	8.3	3,519.9
MALAYSIA GOVERNMENT	3.314	10/31/17	3.350	3.410	6.0	2,440.8
MALAYSIA GOVERNMENT	3.882	03/10/22	3.886	3.815	-7.1	1,741.3
MALAYSIA GOVERNMENT	3.8	08/17/23	4.067	3.996	-7.1	1,081.1
MALAYSIA GOVERNMENT	3.9	11/30/26	4.152	4.072	-8.0	761.6
MALAYSIA GOVERNMENT	3.26	03/01/18	3.330	3.410	8.0	691.9
MALAYSIA GOVERNMENT	4.232	06/30/31	4.592	4.475	-11.7	626.7
MALAYSIA GOVERNMENT	3.955	09/15/25	4.259	4.209	-5.0	549.3
MALAYSIA INVEST ISSUE	4.07	09/30/26	4.276	4.250	-2.6	410.9
TOTAL VOLUME (TOP 10)						21,819.7
TOTAL VOLUME (Overall)						26,130.9

Source: Bloomberg, MIDFR

- Total volume trade for Corporate Bonds rose to RM3.0b in the review week from RM2.7b in prior week (based on Bloomberg data). Trading interest was more broad-based as the 10 most actively traded issues represent only circa 30% of the overall Corporate Bonds trades (~44% in week before).
- The top 3 actively traded issues among the Corporate Bonds were quite varied in terms of their remaining tenor. Moreover, some actively traded corporate issues registered higher yields hence lower prices despite the yield downticks in most government bond issues.
- The biggest volumes were seen in Pengurusan Air SPV 3.98% 06/16/17 at RM200m, L/Raya Duke F3 5.95% 08/23/34 at RM140m and Cagamas 3.38% 09/15/17 at RM90m.

10 MOST ACTIVELY TRADED CORPORATE BONDS (Week Ended 17 Mar 2017)

Name	Coupon	Maturity	10-Mar Yield	17-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
PENGURUSAN AIR SPV BHD	3.98	06/16/17	3.446	3.497	5.1	200.0
LEBUHRAYA DUKE FASA 3	5.95	08/23/34	N/A	5.262	N/A	140.0
CAGAMAS BERHAD	3.38	09/15/17	3.700	3.670	-3.0	90.0
MALAYSIA AIRPORTS CAP	4.55	08/28/20	4.232	4.362	13.0	85.0
CAGAMAS BERHAD	3.95	11/03/17	3.740	3.720	-2.0	75.0
DANAINFRA NASIONAL	4.15	04/06/22	N/A	4.120	N/A	75.0
JAMBATAN KEDUA SDN	4.52	07/28/31	N/A	4.772	N/A	75.0
CAGAMAS BERHAD	3.3	08/09/17	3.670	3.680	1.0	62.0
PENGURUSAN AIR SPV BHD	4.4	06/17/26	4.371	4.372	0.1	55.0
PENGURUSAN AIR SPV BHD	4.43	02/03/23	4.154	4.203	4.9	50.0
TOTAL VOLUME (TOP 10)						907.0
TOTAL VOLUME (Overall)						2,960.3

Source: Bloomberg, MIDFR

FOREIGN EXCHANGE

- Dollar in decline for two consecutive weeks. The DXY index shed 1.08 point last week to close at 100.17 on Friday as Fed was again seen 'dovish' despite delivery of March interest rate hike. This mark a cumulative loss of 1.4% in the past two weeks. The pound sterling made a good charge against the dollar, rising 1.9% to 1.240 while the Yen also gained on the weakness which saw USDJPY edged down to 113.2 or -1.4. The Euro jumped by 1.0% to 1.078.
- Meanwhile, Ringgit made a decent gain vs the dollar, rising 0.4% to 4.437 on Friday from 4.453 the previous week but lost its footing against sterling and yen, falling by 1.6% and 1.0% respectively.

Currencies Changes (Weekly Ended on 10/3) and Quarterly Forecast

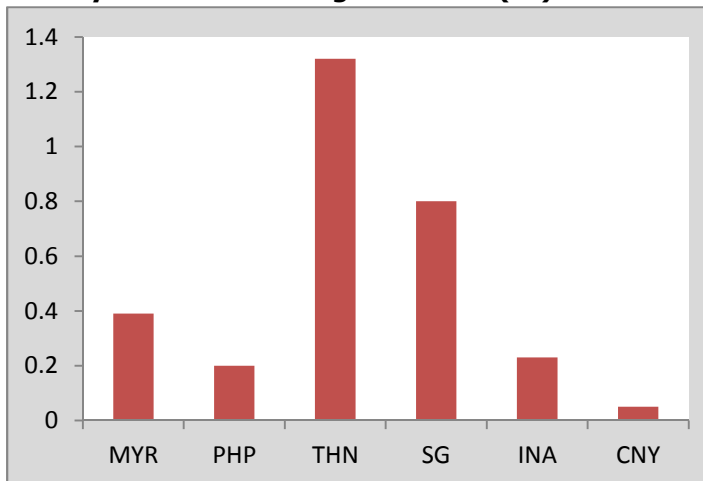
	Close (17/3)	Prev Close (10/7)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	100.17	101.25	-1.080	-1.1	101.12	101.50	101.7	102.0
EURUSD	1.078	1.067	0.010	1.0	1.055	1.045	1.020	1.030
GBPUSD	1.240	1.217	0.023	1.9	1.230	1.150	1.180	1.210
USDJPY	113.2	114.8	-1.550	-1.4	114.0	118.0	120.0	119.0

USDMYR	4.437	4.453	-0.016	0.4	4.45	4.20	4.43	4.30
GBPMYR	5.504	5.415	0.089	1.6	5.48	5.25	5.15	5.20
JPYMYR	3.919	3.880	0.039	1.0	3.92	3.75	3.85	3.85

Quarterly data are forecast by MIDFR
 Source: CEIC, Bloomberg, MIDF Research

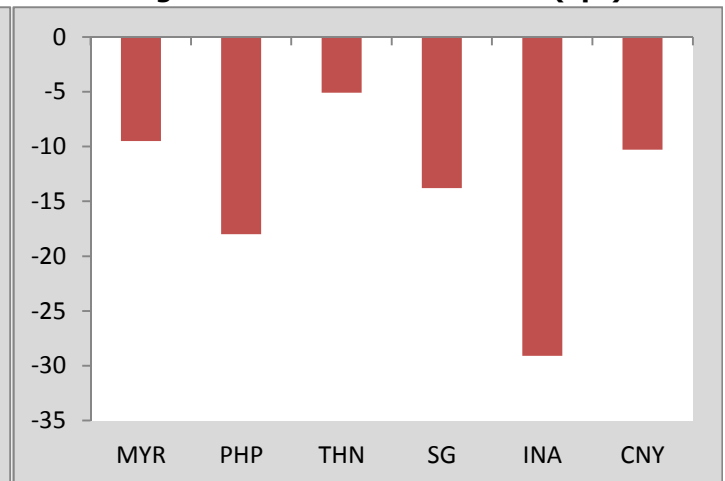
- Bath capped a strong week, rising 1.3% vs dollar as foreign investors made further buys into local treasuries. SGD rose 0.8% to 1.4011 from 1.4126 and Ringgit as aforementioned edged up by 0.4%. Both Indonesian Rupiah and Philippines pesos made a more modest gain, ticking up by 0.2% while the Yuan also rose marginally by 0.05%.
- Great foreign buying into ASEAN's sovereign bonds market. Overall, foreign funds continued to pour into both equity and bonds market. Indonesian bonds saw the biggest yield change in last week, down by nearly 30bps. This was followed by Philippines (18bps), Singapore (14bps) while the rest also saw yield trimmed down.

Weekly Currencies Change vs Dollar (%)



Source: Bloomberg, MIDFR

Yield Change in 10Y Government Bonds (bps)



Source: Bloomberg, MIDFR

INTEREST RATE

- Week 3 in March was an eventful week for central banks across the globe. Federal Reserve, Bank of Japan, Bank of England, and Bank Indonesia are handful of monetary authorities that had a policy meeting last week. Fed rate hike of 25 basis points was widely expected and its send a clear signal about its continued confidence in the improving US economy as well as steady recovery in global economy. The hike was the third time in a decade and the first move other than in December.
- Other central banks such as BoJ, ECB and BOE stand pat with their respective monetary stance as they try to fight against deflation and low inflation and growth. The Fed start of tightening cycle could hint the end of a long cycle of monetary stimulus.
- Dollar stayed elevated while Fed move toward its gradual pace of normalization. Stronger dollar help boost export and domestic economies for countries like Japan and Europe but adversely affected fragile emerging economies via capital flight. We opine in the near term, with the recovery in global economy, emerging economies like Malaysia, Indonesia and Thailand will allow its domestic rate to tailor more to fit its domestic requirements rather than as a measure to respond to flow of capital.



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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.