

MIDF Strategy | 20 November 2017

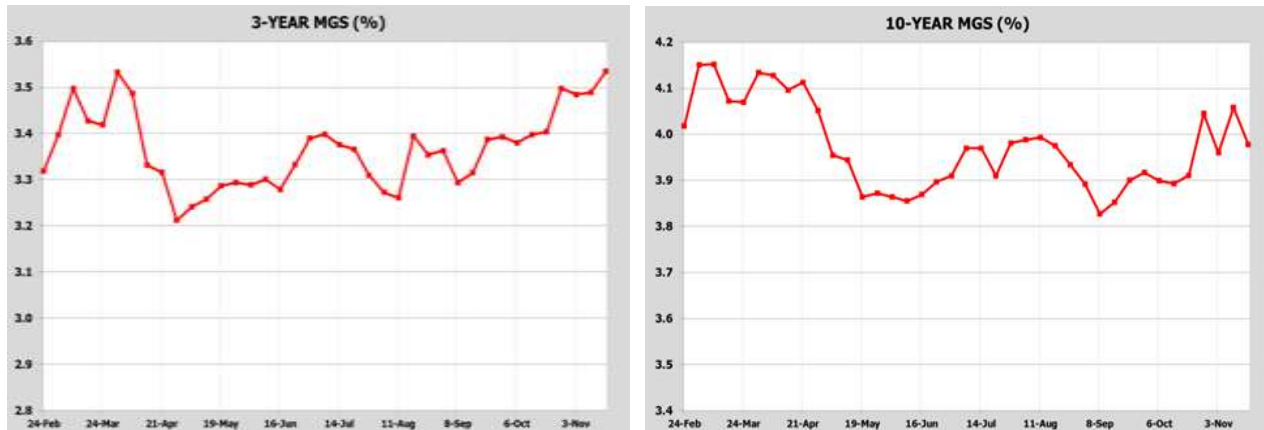
Week Ended 17 November

- The UST yield curve flattened further with the long end outperforming driven by the prospect of additional 4 rate hikes during the next 13 months amid hitherto benign inflation outlook. It is noteworthy that 5s30s spread narrowed to the flattest since 2007 last week.
- For equity investors out there, according to Ned Davis Research, cyclical technology stocks have historically been the best performers during the flattening period while the defensives (e.g. health care, consumer staples and utilities) generally outperform once the curve inverts.
- The 10-year UST yield declined to 2.34% last week. However, we reckon the technical picture is worsening as the benchmark yield continues to be in breach of all its key moving average (MA) lines. Moreover, as anticipated in our previous report, the so-called death cross (i.e. 50-punching above 200-day MA) manifested last week.
- The probability of a third US rate hike this year is growing larger as the fed fund futures (Jan'18) shows the odds of a rate hike by end 2017 rising further to 92% at the close last week from 90% a week earlier.
- In spite of the better than expected Malaysia's GDP figure in 3Q17, the local MGS bonds curve likewise flattened last week with the yields of benchmark 3-year and 10-year increased +4.6bps and declined -8.0bps week-on-week to 3.54% and 3.98% respectively.

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Weekly Money Review

A. FIXED INCOME

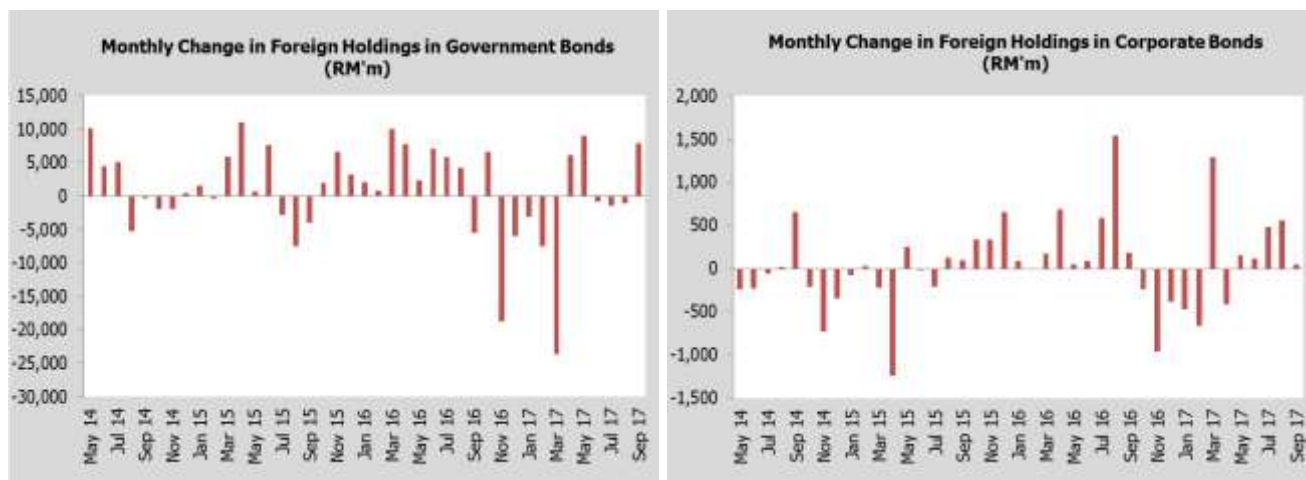


Source: Bloomberg

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- For equity investors out there, according to Ned Davis Research, cyclical technology stocks have historically been the best performers during the flattening period while the defensives (e.g. health care, consumer staples and utilities) generally outperform once the yield curve inverts.
- The 10-year UST yield declined to 2.34% last week. However, we reckon the technical picture is worsening as the benchmark yield continues to be in breach of all its 50-, 100-, and 200-day moving average (MA) lines. Moreover, as anticipated in our previous report, the so-called death cross (i.e. 50- punching above 200-day MA) manifested last week.
- The probability of a third US rate hike this year is growing larger as the fed fund futures (Jan'18) shows the odds of a rate hike by end 2017 rising further to 92% at the close last week from 90% a week earlier.
- In spite of the better than expected Malaysia's GDP figure in 3Q17, the local MGS bonds curve likewise flattened last week with the yields of benchmark 3-year and 10-year increased +4.6bps and declined -8.0bps week-on-week to 3.54% and 3.98% respectively.
- Total trading value for Government Bonds (MGS/MII) increased to RM16.4b in the review week compared to RM13.0b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 71% of the overall Government Bonds trades in the review week (from ~56% in week before). In addition, 5 out of the 10 actively traded bonds saw lower yields hence higher prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with varying residual tenors. The top 3 most actively traded were MGS 3.26% 03/01/18 at RM3.83b, MII 4.26% 07/26/27 at RM1.64b and MGS 4.24% 02/07/18 at RM1.39b.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.57b in the review week compared to RM2.44b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 34% of the overall Corporate Bonds trades (from ~32% 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 HSBC Amanah Malaysia Berhad 4.24% 03/27/20 at RM90.0m, Bank

Pembangunan Malaysia Berhad 4.28% 03/02/22 at RM90.0m and IJM Corporation Berhad 4.90% 04/21/25 at RM80.0m.

- Total foreign holdings of Government Bonds stood at RM175.2b as at end-September 2017. It was an increase of RM7.9b from the August 2017 figure of RM167.3b.



Source: BNM

- Total foreign holdings of Corporate Bonds increased by RM53.0m in the month of September 2017 to RM16.9b.

B. FOREIGN EXCHANGE

- DXY Index depreciated by 0.7%. Even though the Trump's proposed tax cut plan approved in the US House of Representatives, Republican has slim chance of winning votes in the Senate. Republican has smaller majority in the Senate and in order to pass the tax cut plan, the party cannot lose more than two Senate votes. As a result, most investors are less confident on further approval of the tax cut plan.
- EURUSD steady at 1.179. Despite of depreciation in USD, the release of Eurozone's October inflation data boost up market confidence on the region. On monthly basis, inflation grew by 0.1% during the month and has been on increasing trend for three consecutive months. Headline and core inflation stable at 1.4% and 0.9% respectively. The inflation data provides support and hope for the ECB to normalise its monetary policy rate.

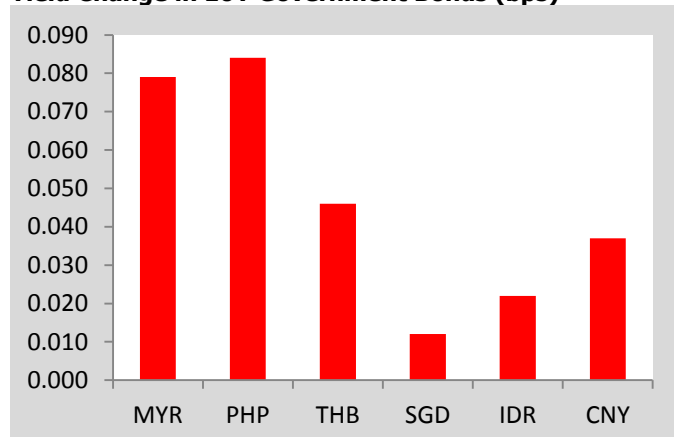
Currencies Changes (Week Ended 17/11) and Quarterly Forecasts

	Close (17/11)	Prev Close (10/11)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	93.729	94.391	-0.662	-0.7	101.12	102.50	103.00	103.50
EURUSD	1.179	1.167	0.013	1.1	1.06	1.05	1.02	1.03
GBPUSD	1.324	1.320	0.004	0.3	1.23	1.15	1.18	1.21
USDJPY	112.610	113.530	-0.920	0.8	114.00	118.00	120.00	119.00
USDMYR	4.164	4.192	-0.027	0.7	4.40	4.30	4.30	4.20
GBPMYR	5.513	5.511	0.002	0.0	5.48	5.50	5.45	5.30
JPYMYR	3.698	3.692	0.006	-0.2	3.90	3.75	3.85	4.00

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

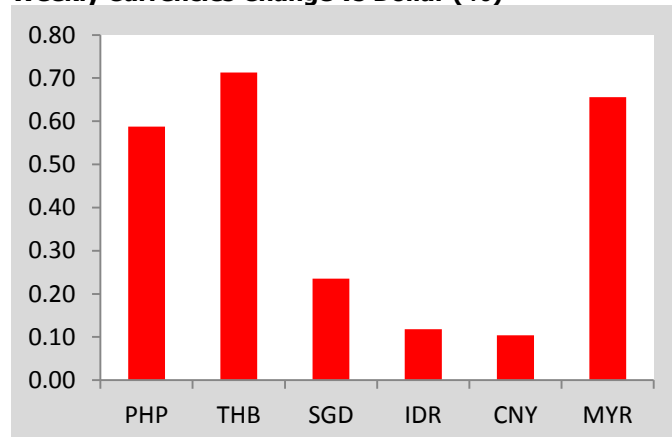
- Ringgit – USD/MYR lowest in 47 weeks. Malaysia's GDP growth for 3Q17 recorded at 6.2%yoy, beating market expectations of 5.7%yoy. The main thrusts of the strong growth are robust external trade activities and sturdy domestic spending. Moving forward, we foresee the economic growth momentum will continue given that global trade activities remain on optimistic and steady rise in global commodity prices since late September. Henceforth, further positive development in Malaysia's economic activity may translate into better performance in MYR.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: BLOOMBERG; MIDFR

- Almost all of our regional peers reported better than expected economic growth in the third quarter 2017.
- The current trend in global trade is likely to sustain its momentum into 2018. Countries which have high level of trade openness such as Malaysia will benefit for this development.
- Financial developments in the developed economies are pointing toward gradual tightening amid build up in inflationary pressure.
- Inflationary pressure is visible amid gradually uptrend in Eurozone while in the US prices are inched up slightly despite robust labor market.
- Changes in accommodative monetary stance are expected to start in developing economies at the back of higher commodities prices. In general, inflationary pressures remain tepid in developed economy while higher commodities prices in recent weeks will keep the pressure on.
- Domestically, third quarter GDP released last Friday again beats market expectation for the third consecutive quarters. Domestic growth remained robust and the trend is expected to continue into the final quarter 2017.
- Inflation figure for October is due mid-week, and is expected to trend higher at the back of higher transportation inflation.
- With economic growth remain robust and crude oil prices trending upward, we anticipate Bank Negara to make its move in the first quarter 2018. Possible upward revision is on the card.

Central Bank Policy Rate by Selected Economies (%)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.50	4.25	4.25	4.25
Singapore	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
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
China	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	-0.100
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
EU	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25


Source: CEIC, MIDFR

C. BNM FOREIGN RESERVES

- As at 31 October 2017, Bank Negara Malaysia's international reserves rose further to USD101.5b (equivalent to RM428.9b), up USD0.1b from USD101.4b 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	10-Nov Fri	13-Nov Mon	14-Nov Tue	15-Nov Wed	16-Nov Thu	17-Nov Fri	Change (WoW bp)
MGS							
3-Y	3.489	3.489	3.522	3.499	3.473	3.535	4.6
5-Y	3.755	3.83	3.78	3.757	3.729	3.759	0.4
7-Y	4.008	4.058	3.991	3.963	3.949	3.983	-2.5
10-Y	4.058	4.083	4.04	4.009	3.954	3.978	-8
20-Y	4.776	4.795	4.802	4.802	4.802	4.802	2.6
RINGGIT IRS							
1-Y	3.665	3.645	3.635	3.635	3.64	3.65	-1.5
3-Y	3.775	3.77	3.74	3.74	3.755	3.77	-0.5
5-Y	3.85	3.845	3.83	3.82	3.845	3.8575	0.75
7-Y	3.965	3.9645	3.955	3.95	3.9748	3.97	0.5
10-Y	4.07	4.07	4.075	4.075	4.085	4.09	2
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	1.7849	1.8118	1.8091	1.7957	1.8254	1.8229	3.8
5-Y	2.0515	2.0749	2.0582	2.0316	2.0699	2.0567	0.52
7-Y	2.2597	2.2743	2.2499	2.2085	2.2524	2.2304	-2.93
10-Y	2.3984	2.4055	2.3717	2.3222	2.3753	2.3435	-5.49
30-Y	2.8797	2.871	2.83	2.7646	2.8268	2.7778	-10.19
USD LIBOR							
1-M	1.24606	1.25028	1.2635	1.266	1.28267	1.28719	4.113
2-M	1.35433	1.356	1.361	1.36406	1.37944	1.38278	2.845
3-M	1.41289	1.41586	1.41899	1.4219	1.43567	1.44067	2.778

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	10-Nov Yield	17-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.26	03/01/18	2.801	2.650	-15.1	3,834.6
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.250	4.327	7.7	1,637.1
MALAYSIA GOVERNMENT	4.24	02/07/18	2.848	2.689	-15.9	1,386.7
MALAYSIA GOVERNMENT	4.059	09/30/24	4.008	3.983	-2.5	1,200.7
MALAYSIA INVESTMNT ISSUE	3.872	08/30/18	3.210	3.260	5.0	904.4
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.574	3.607	3.3	796.0
MALAYSIA GOVERNMENT	3.58	09/28/18	3.072	2.884	-18.8	656.8
MALAYSIA GOVERNMENT	4.378	11/29/19	3.365	3.413	4.8	427.2
MALAYSIA GOVERNMENT	3.492	03/31/20	3.402	3.468	6.6	417.2
MALAYSIA GOVERNMENT	3.899	11/16/27	4.058	3.978	-8.0	411.7
TOTAL VOLUME (TOP 10)						11,672.3
TOTAL VOLUME (Overall)						16,437.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	10-Nov Yield	17-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
HSBC AMANAH MALAYSIA BHD	4.24	03/27/20	N/A	4.264	N/A	90.0
BANK PEMBANGUNAN MALAY	4.28	03/02/22	4.380	4.420	4.0	90.0
IJM CORPORATION BERHAD	4.9	04/21/25	N/A	4.721	N/A	80.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	5.098	5.168	7.0	54.0
PERBADANAN KEMAJUAN SEL	4.45	10/31/18	4.350	4.370	2.0	50.0
WCT HOLDINGS BHD	4.8	12/28/18	N/A	4.584	N/A	40.0
INVERFIN SDN BHD	4.2	02/28/19	N/A	4.175	N/A	32.0
CIMB GROUP HOLDINGS BHD	5.8	PERP	5.231	4.985	-24.6	30.6
JIMAH EAST POWER SDN	5.77	12/04/29	N/A	4.948	N/A	30.0
TANJUNG BIN ENERGY ISSUE	6.2	03/16/32	5.163	5.165	0.2	30.0
TOTAL VOLUME (TOP 10)						526.6
TOTAL VOLUME (Overall)						1,568.1

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.