

MIDF Strategy | 21 May 2018

Week Ended 18 May

- UST retreated (prices down; yields up) last week. The benchmark 10-year yield punched above the psychological 3.00% level and ended the week at a level last seen in July 2011. It is noteworthy that CFTC CBT 10-year UST Notes Net Non-Commercial Futures Positions is near a net short record level (i.e. many traders are positioning for yield to climb higher).
- It is also notable that the yield curve steepened a bit as the short-end outperformed. The 10y-3y yield spread saw a slight expansion to +34bps (up +6bps from a decade low level in prior week), but the trend is still pointing downward.
- Likewise, the prices of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields respectively higher at +9.5bps and +1.3bps to close the week at 3.75% and 4.17%.
- Total trading value for Government Bonds (MGS/MII) increased to RM20.5b in the review week compared to RM6.4b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 61% of the overall Government Bonds trades in the week under review (vis-à-vis ~65% in the week before). In addition, 8 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1,024.8m in the review week compared to RM693.3m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was decreased to 47% of the overall Corporate Bonds trades (from ~50% in the week before).

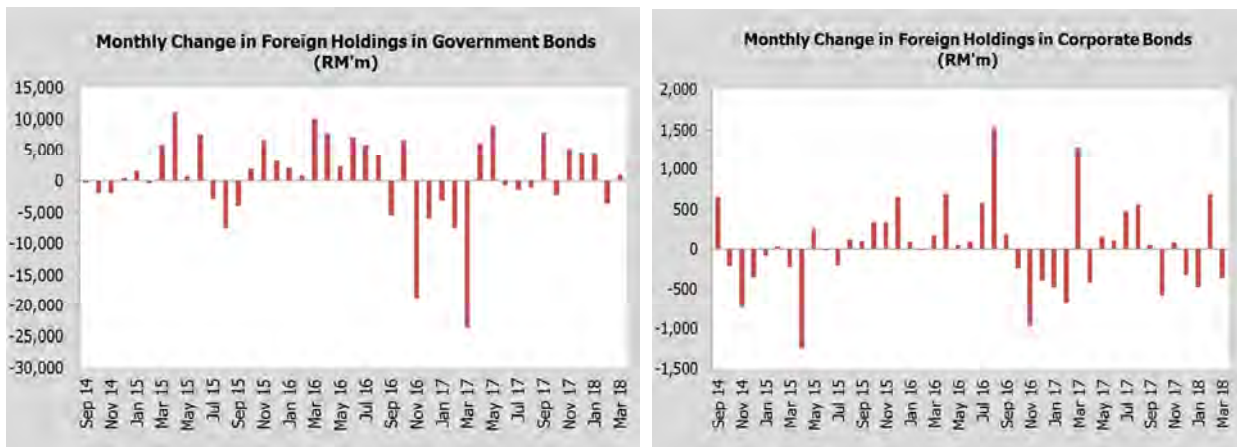
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

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- It is also notable that the yield curve steepened a bit as the short-end outperformed. The 10y-3y yield spread saw a slight expansion to +34bps (up +6bps from a decade low level in prior week), but the trend is still pointing downward.
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- Total trading value for Government Bonds (MGS/MII) increased to RM20.5b in the review week compared to RM6.4b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 61% of the overall Government Bonds trades in the week under review (vis-à-vis ~65% in the week before). In addition, 8 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short and medium residual tenors. The top 3 most actively traded were MGS 3.58% 09/28/18 at RM1.83b, MGS 4.38% 11/29/19 at RM1.80b and MII 4.13% 08/15/25 at RM1.66b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1,024.8m in the review week compared to RM693.3m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was decreased to 47% of the overall Corporate Bonds trades (from ~50% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with short and medium residual tenors. The biggest trading values were seen in Cagamas Bhd 3.9% 11/16/18 at RM100m, Govco Holdings Bhd 4.45% 02/23/21 at RM60m and Cagamas Bhd 3.95% 10/26/18 at RM60.0m.
- Total foreign holdings of Government Bonds stood at RM184.8b as at end-March 2018. It was an increase of RM899m from the February 2018 figure of RM183.9b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds decreased by RM359.8m in the month of March 2018 to RM15.9b.

B. FOREIGN EXCHANGE

- DXY Index improved by 1%wow. The US had two major trade negotiations, namely with China, and NAFTA members. Both negotiations stalled. The US and China decided to withdraw from imposing tariffs on each other. As for NAFTA, the Trump-led administration is unlikely to have enough time to table a deal to the Congress by year-end. Moreover, no agreement reached among the members particularly on major issues ranging from intellectual property and labour regulations.
- EURUSD shrank amid Italian politics. Two largest parties in Italy, League and Five Star Movements, agreed to form a coalition and committed for Italy's exit from EU. Both parties requested ECB to forgive €250 billion of Italian debt and possible push for exit discussion. Rising market uncertainties with possible further break-up of EU would drag overall economic growth of the region, thus affecting ECB's monetary normalisation plan.

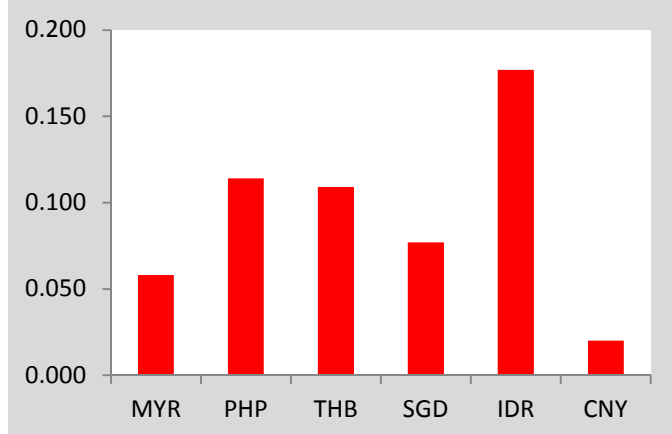
Currencies Changes (Week Ended 18/05) and Quarterly Forecasts

	Close (18/05)	Prev Close (11/05)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	93.426	92.537	0.889	1.0%	90.07	90.69	91.91	95.98
EURUSD	1.181	1.194	-0.013	-1.1%	1.23	1.22	1.20	1.16
GBPUSD	1.350	1.354	-0.004	-0.3%	1.39	1.25	1.15	1.09
USDJPY	110.950	109.390	1.560	-1.4%	108.09	100.29	95.10	102.27
USDMYR	3.971	3.950	0.021	-0.5%	3.92	3.95	4.00	3.95
GBPMYR	5.361	5.344	0.017	-0.3%	5.46	4.89	4.53	4.58
JPYMYR	3.579	3.611	-0.032	0.9%	3.63	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

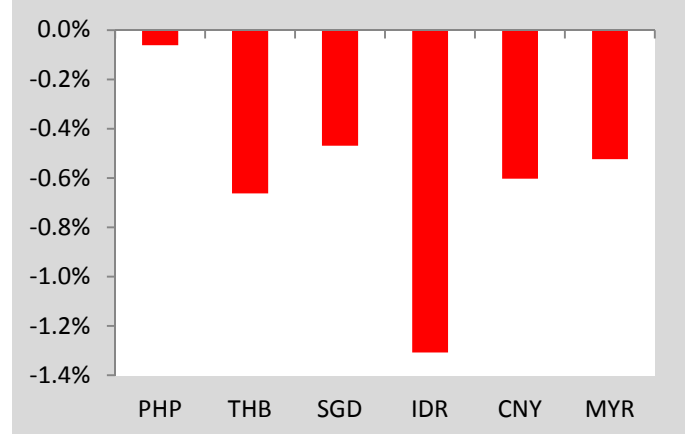
- Ringgit – USD/MYR closed at 18-week high. Despite steady economic growth and large current account surplus, MYR remains weak partly due to policy uncertainties. Malaysia's GDP grew by 5.4%yoy in 1Q18 and current surplus recorded at almost 4-year high of RM15 billion. Nevertheless, we reckon the market sees downside risk to government fiscal position pursuant to zero-rated GST and possible toll abolishment as announced by the Council of Elders last week. At this juncture, we maintain our call for MYR to average at 4.00 this year and with year-end target at 3.95.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: BLOOMBERG; MIDFR

Central Bank Policy Rate by Selected Economies (%)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Malaysia	3.00	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50
Singapore	Neut.	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	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.50	1.50
China	4.35	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	-0.10	-0.10
United Kingdom	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75

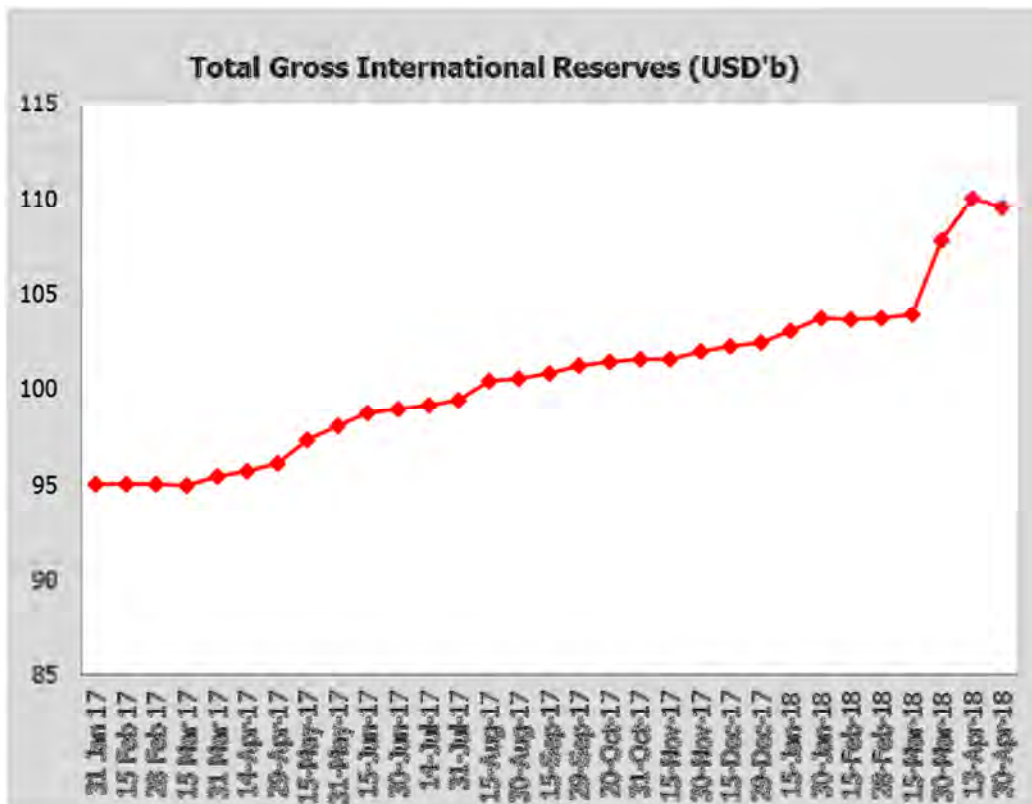
Source: CEIC, MIDFR

- Iran nuclear deal issue could emerge as a threat which will influence the commodities prices especially crude.
- Fragile developments in Korean Peninsular also add to the geopolitical instability and could adversely influence global trade.
- Globally, monetary policy stance in general is seen as accommodative to support growth as well as providing favorable financial environment for the sustainable economic expansion.
- Nevertheless, move toward normalization and tightening in certain economies are expected in the medium term as growth pick-up and inflationary pressure seep in.
- Commodities prices continue trending upward signaling inflationary pressure to start kick-in in both developed and emerging economies. Negative outcomes from Iran nuclear deal could push up the crude prices even further.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance as well as commodities prices.
- Regionally, Bank of Thailand maintained its policy rate but Bank Indonesia hikes interest rate for the first time in 4 years in their respective policy meeting last week.
- Domestically, inflationary pressure is expected to moderate with upward bias amid rising pressure from commodities prices.


- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for the full year.
- We anticipate OPR to end the year at 3.25% barring upward surprises in economic growth.

C. BNM FOREIGN RESERVES

- As at 30 April 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD109.5b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	11-May Fri	14-May Mon	15-May Tue	16-May Wed	17-May Thu	18-May Fri	Change (WoW bp)
MGS							
3-Y	3.656	3.696	3.711	3.711	3.73	3.751	9.5
5-Y	3.79	3.813	3.835	3.835	3.892	3.892	10.2
7-Y	3.915	3.94	3.966	4.008	4.051	4.051	13.6
10-Y	4.156	4.156	4.156	4.195	4.208	4.169	1.3
20-Y	4.778	4.802	4.802	4.843	4.901	4.872	9.4
RINGGIT IRS							
1-Y	3.75	3.75	3.75	3.75	3.755	3.755	0.5
3-Y	3.82	3.83	3.845	3.845	3.85	3.845	2.5
5-Y	3.92	3.9175	3.92	3.94	3.96	3.95	3
7-Y	4.025	4	4.025	4.04	4.045	4.055	3
10-Y	4.18	4.12	4.15	4.17	4.18	4.175	-0.5
KLIBOR							
1-M	3.43	3.43	3.43	3.43	3.43	3.43	0
2-M	3.66	3.66	3.66	3.66	3.66	3.66	0
3-M	3.69	3.69	3.69	3.69	3.69	3.69	0
UST							
3-Y	2.6905	2.7069	2.7452	2.7618	2.7482	2.7127	2.22
5-Y	2.8382	2.8621	2.9186	2.9392	2.9359	2.8881	4.99
7-Y	2.9398	2.9699	3.0379	3.0607	3.0633	3.0104	7.06
10-Y	2.9695	3.0024	3.0723	3.0964	3.1112	3.0559	8.64
30-Y	3.1041	3.1347	3.2007	3.2172	3.2462	3.1974	9.33
USD LIBOR							
1-M	1.91871	1.93375	1.93875	1.935	1.94775	1.95275	3.404
2-M	2.08652	2.08569	2.09167	2.09369	2.10338	2.10375	1.723
3-M	2.3425	2.33	2.32063	2.32563	2.33125	2.32938	-1.312

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	11-May Yield	18-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.58	09/28/18	3.424	3.446	2.2	1,832.7
MALAYSIA GOVERNMENT	4.378	11/29/19	3.603	3.593	-1.0	1,795.0
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.127	4.208	8.1	1,664.0
MALAYSIA GOVERNMENT	3.844	04/15/33	4.609	4.755	14.6	1,542.9
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.883	3.928	4.5	1,416.7
MALAYSIA GOVERNMENT	3.899	11/16/27	4.156	4.176	2.0	1,230.9
MALAYSIA GOVERNMENT	4.642	11/07/33	4.587	4.614	2.7	968.1
MALAYSIA GOVERNMENT	3.441	02/15/21	3.787	3.781	-0.6	716.5
MALAYSIA GOVERNMENT	3.882	03/14/25	3.915	4.051	13.6	646.6
MALAYSIA GOVERNMENT	3.882	03/10/22	3.782	3.895	11.3	579.8
TOTAL VOLUME (TOP 10)						12,393.1
TOTAL VOLUME (Overall)						20,496.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	11-May Yield	18-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	3.9	11/16/18	3.849	3.838	-1.1	100.0
GOVCO HOLDINGS BHD	4.45	02/23/21	#N/A N/A	4.060	#VALUE!	60.0
CAGAMAS BERHAD	3.95	10/26/18	3.800	3.827	2.7	60.0
MEDIA CHINESE INTL LTD	4.8	02/25/19	#N/A N/A	4.843	#VALUE!	53.0
MALAYSIA AIRPORTS HG BHD	4.15	09/06/18	#N/A N/A	4.010	#VALUE!	50.0
CELCOM NETWORKS SDN BHD	3.75	08/29/19	4.450	4.460	1.0	40.0
BANK ISLAM MALAYSIA BHD	5.08	11/12/27	#N/A N/A	4.952	#VALUE!	40.0
SOUTHERN POWER GENERATIO	4.79	10/31/23	#N/A N/A	4.735	#VALUE!	30.0
MBSB BANK BHD	4.56	12/24/19	#N/A N/A	4.653	#VALUE!	30.0
JIMAH EAST POWER SDN	5.68	12/04/28	#N/A N/A	5.029	#VALUE!	21.9
TOTAL VOLUME (TOP 10)						484.9
TOTAL VOLUME (Overall)						1,024.8

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.