

MIDF Strategy | 22 May 2017

Week Ended 19 May

- US Treasury yields fell across the board arguably driven by safe-haven move precipitated by news that President Trump pressured former FBI Director Comey to end an investigation.
- 1Q17 GDP came in better than expected while the MGS yield curve flattened further as rate at the shorter end gained while those at the longer end continued to fall.
- Total volume trade for Government Bonds (MGS/GII) increased to RM17.3b in the review week from RM12.4b in the week before.
- USDMYR appreciated to 4.321 from previous weekly close of 4.346, mainly due to the upbeat 1Q17 GDP.
- We foresee at this juncture with waning and balanced external risks and moderating inflation the current monetary stance will continue to be supportive. Current OPR at 3% is expected to remain for the rest of the year.

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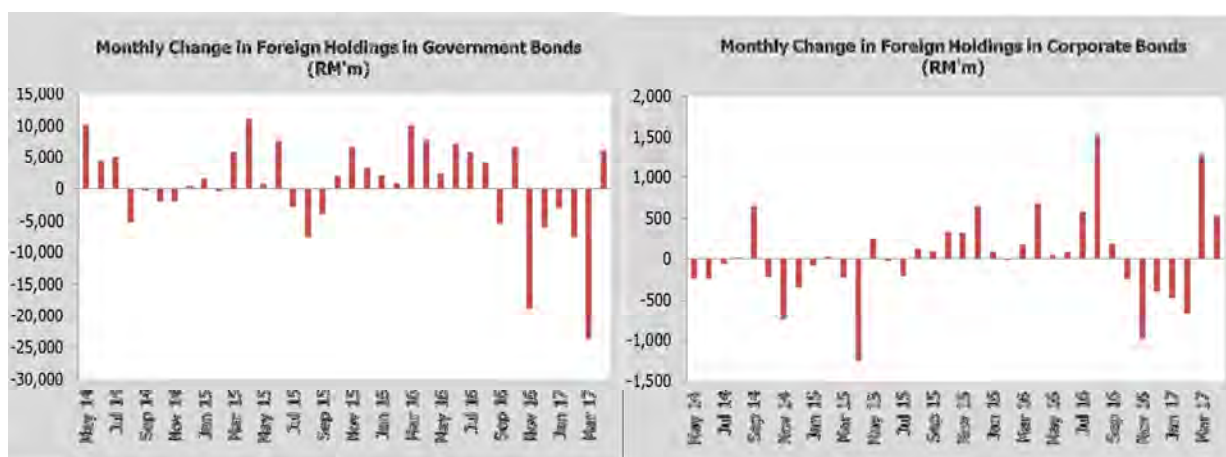
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- US Treasury yields fell across the board arguably driven by safe-haven move precipitated by news that President Donald Trump pressured former FBI Director James Comey to end an investigation of Russian interference in 2016 US presidential election. The UST curve retains flattening bias as 3-year yield fell at a slower pace than longer-end yields. The probability (as per Fed-dated OIS rates) of a 25bps rate hike in June risen to ~72% vis-à-vis ~57% earlier in the week.
- Meanwhile, in the local scene, GDP growth for 1Q17 came in better than expected at 5.6%. The MGS yield curve flattened further (3 weeks in a row) as rate at the shorter end gained while those at the longer end continued to fall. The yield of 3-year MGS rose by 2.9 basis points (bp) last week, compared with a -8.0bp decline in the rate for 10-year MGS.
- Total volume trade for Government Bonds (MGS/GII) increased to RM17.3b in the review week from RM12.4b in the week before (based on Bloomberg data). The 10 most actively traded issues were largely unchanged at 59% of the overall Government Bonds trades in the review week (from ~58% in week before).
- Unlike in previous weeks, the top 3 volumes were represented by issues with varying tenor. The top 3 most actively traded were MGS 4.06% 09/30/24 at RM2.1bm, MGS 4.01% 09/15/17 at RM1.3b and MGS 4.26% 07/26/27 at RM1.3b. Moreover, 4 out of the 10 most actively traded issues saw lower yields during the past week hence higher prices.
- Total volume trade for Corporate Bonds (Conventional & Sukuk) increased to RM2.4b in the review week from RM1.6b in prior week (based on Bloomberg data). Trading interest was not overly concentrated among the 10 most actively traded issues which represented circa 38% of the overall Corporate Bonds trades (up slightly from ~37% in week before).
- The top 3 actively traded issues among the Corporate Bonds were dominated by issues with relatively long remaining tenor. The biggest volumes were seen in Danainfra Nasional 4.56% 03/19/27 at RM220m, YTL Power International 5.05% 05/03/27 at RM130m and Lebuhraya Duke Fasa 3 5.86% 08/23/33 at RM100m.
- Total foreign holdings in Government Bonds stood at RM161.7b as at April 2017. It was an increase of RM6.0b from the March 2017 figure of RM155.7b.



Source: BNM

- Likewise, total foreign holdings in Corporate Bonds increased by RM536m in the month of April 2017 to RM16.5b.

B. FOREIGN EXCHANGE

- DXY Index dropped to 97.543 or 1.7% amid inflation and retail sales data show a slowdown in both indicators. Both inflation and retail sales expanded by 2.2% and 4.5%, lower than previous month records. Additionally, Initial jobless claims declined 4,000 to 232,000 in the week ending May 13th from 236,000 previously. Consensus forecasts called for a small increase to about 240,000 for the week.
- The dollar index has come under pressure due to several factors last week. Housing Starts/Building Permits, both reported last Tuesday, came weaker than expected for April. In addition, political turmoil in the US has been a drag on the dollar.
- There is concern is that the political controversies will derail efforts by President Trump to implement his economic stimulus plans. Hopes pegged on Trump's economic stimulus plan were the impetus behind DXY's advance from the time of the November election to the early 2017 peak set at 103.82, a move which lifted DXY more than 7%. The majority of that advance has now been given back.

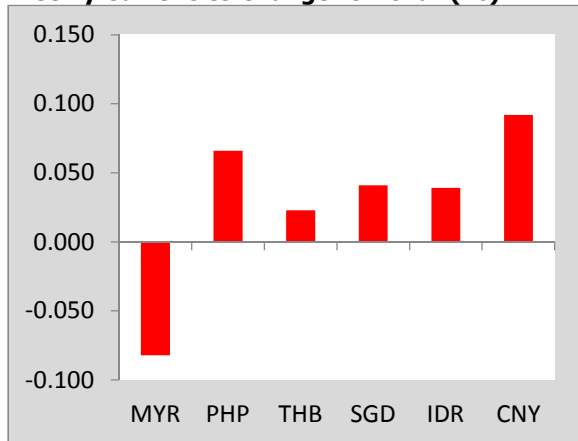
Currencies Changes (Weekly Ended on 19/5) and Quarterly Forecast

	Close (19/5)	Prev Close (12/5)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	97.543	99.252	-1.709	-1.7	101.12	102.50	103.00	103.50
EURUSD	1.115	1.093	0.022	2.0	1.06	1.05	1.02	1.03
GBPUSD	1.300	1.289	0.011	0.9	1.23	1.15	1.18	1.21
USDJPY	111.480	113.380	-1.900	1.7	114.00	118.00	120.00	119.00
USDMYR	4.321	4.346	-0.025	0.6	4.45	4.20	4.43	4.30
GBPMYR	5.619	5.581	0.038	-0.7	5.48	5.50	5.45	5.30
JPYMYR	3.876	3.833	0.043	-1.1	3.92	3.75	3.85	3.85

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

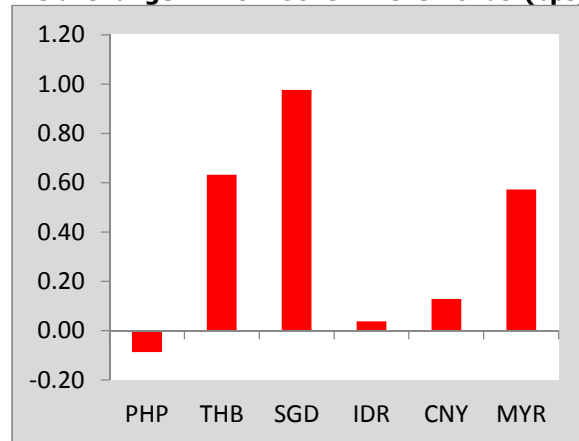
- Ringgit – remain on recovery path. USDMYR appreciated to 4.321 from previous weekly close of 4.346, mainly due to positive market expectation based on the upbeat first quarter GDP which beat market expectation. We expect Malaysia’s GDP to continue its growth momentum for the rest of the year. The continuing positive macroeconomic data will be supportive for Ringgit.
- Over the last 2 weeks central banks around the world sent uniform tone of messages that global economy continue to expand. Fed, BoJ, BoE and Bank Negara Malaysia maintained their respective domestic borrowing rate in their last respective policy meetings.

Weekly Currencies Change vs Dollar (%)



Source: BLOOMBERG; MIDFR

Yield Change in 10Y Government Bonds (bps)

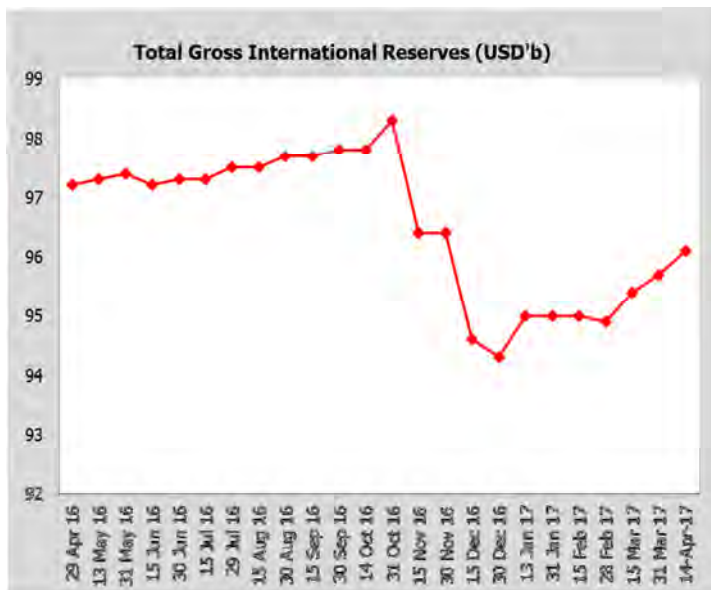


Source: BLOOMBERG; MIDFR


- The global economy in general has displayed reflation with a stream of continuing positive data since the last quarter of 2016. Pickups in commodity prices as well as signs of increased investments spending are validating the recent improved outlook both in developed and developing economies.
- IMF acknowledged the revival and raised its global outlook for global growth to 3.5% from 3.1% citing surge in confidence and better prospect in large emerging economies as well as uptick in global trade will fueled the growth in 2017.
- Domestically, the economy performed fairly well in the first quarter with 5.6% GDP growth. The domestic economy was supported by sustained expansion in domestic demand and better performance of external demand. The average inflation of 4.3% recorded in the first quarter is expected to moderate in the later part of year.
- The domestic growth momentum is expected to continue for the rest of the year .The uncertainty coming from geopolitical and protectionism will remain as salient threat to future growth albeit receding.
- We foresee at this juncture with waning and balanced external risks and moderating inflation the current monetary stance will continue to be supportive. Current OPR at 3% is expected to remain for the rest of the year.

C. BNM FOREIGN RESERVES

- As at 28 April 2017, Bank Negara Malaysia’s international reserves totaled up to USD96.1b (equivalent to RM425.2b).



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	12-May Fri	15-May Mon	16-May Tue	17-May Wed	18-May Thu	19-May Fri	Change (WoW bp)
MGS							
3-Y	3.258	3.274	3.229	3.301	3.328	3.287	2.9
5-Y	3.568	3.551	3.562	3.56	3.559	3.545	-2.3
7-Y	3.856	3.8	3.79	3.8	3.807	3.799	-5.7
10-Y	3.944	3.912	3.852	3.876	3.881	3.864	-8
20-Y	4.655	4.607	4.607	4.607	4.607	4.607	-4.8
RINGGIT IRS							
1-Y	3.53	3.53	3.51	3.515	3.51	3.515	-1.5
3-Y	3.66	3.635	3.619	3.635	3.6248	3.615	-4.5
5-Y	3.76	3.7285	3.7135	3.7	3.715	3.72	-4
7-Y	3.86	3.825	3.805	3.81	3.815	3.82	-4
10-Y	4.015	3.96	3.95	3.97	3.97	3.97	-4.5
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	1.4866	1.4946	1.4893	1.4197	1.4383	1.4462	-4.04
5-Y	1.8468	1.8617	1.8484	1.7542	1.7722	1.7803	-6.65
7-Y	2.131	2.1457	2.1287	2.0241	2.0363	2.0436	-8.74
10-Y	2.3257	2.3433	2.3257	2.2243	2.2294	2.2346	-9.11
30-Y	2.9889	3.0064	2.9921	2.916	2.9005	2.8966	-9.23
USD LIBOR							
1-M	0.99244	1.00078	0.99911	1.00356	1.00994	1.01711	2.467
2-M	1.07778	1.07556	1.07833	1.07833	1.07639	1.09611	1.833
3-M	1.17956	1.17944	1.18117	1.17839	1.17172	1.18644	0.688
5-Y	3.579	3.586	3.586	3.586	3.576	3.568	-1.1
7-Y	3.859	3.853	3.862	3.862	3.861	3.856	-0.3
10-Y	3.955	3.944	3.95	3.95	3.947	3.944	-1.1
20-Y	4.653	4.653	4.655	4.655	4.655	4.655	0.2

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	12-May Yield	19May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.059	09/30/24	3.859	3.856	-0.3	2,087.2
MALAYSIA GOVERNMENT	4.012	09/15/17	3.085	3.062	-2.3	1,327.9
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.097	4.100	0.3	1,270.0
MALAYSIA GOVERNMENT	3.882	03/10/22	3.579	3.568	-1.1	938.5
MALAYSIA INVESTMNT ISSUE	4.045	08/15/24	4.004	4.014	1.0	910.0
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.726	3.723	-0.3	893.0
MALAYSIA INVESTMNT ISSUE	4.582	08/30/33	4.573	4.581	0.8	831.8
MALAYSIA GOVERNMENT	3.899	11/16/27	N/A	N/A	N/A	810.0
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.624	3.626	0.2	574.6
MALAYSIA GOVERNMENT	3.844	04/15/33	3.895	4.407	51.2	478.1
TOTAL VOLUME (TOP 10)						10,121.1
TOTAL VOLUME (Overall)						17,256.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	12-May Yield	19-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
DANAINFRA NASIONAL	4.56	03/19/27	N/A	N/A	N/A	220.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.998	4.987	-1.1	130.0
LEBUHRAYA DUKE FASA 3 SD	5.86	08/23/33	N/A	N/A	N/A	100.0
DANAINFRA NASIONAL	3.87	07/19/24	N/A	N/A	N/A	90.0
PRASARANA MALAYSIA BHD	4.35	08/04/26	N/A	N/A	N/A	90.0
CAHYA MATA SARAWAK	4.8	05/05/22	4.666	4.666	0.0	60.0
PERBADANAN TABUNG PENDID	4.45	03/12/27	N/A	N/A	N/A	60.0
PUTRAJAYA HOLDINGS BHD	4.3	09/18/20	N/A	N/A	N/A	60.0
BANK PEMBANGUNAN MALAY	4.98	03/02/32	4.919	4.919	0.0	50.0
DANAINFRA NASIONAL	4.95	03/19/32	4.838	4.847	0.9	50.0
TOTAL VOLUME (TOP 10)						910.0
TOTAL VOLUME (Overall)						2,424.0

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.