

## MIDF Strategy | 24 July 2017

Week Ended 21 July

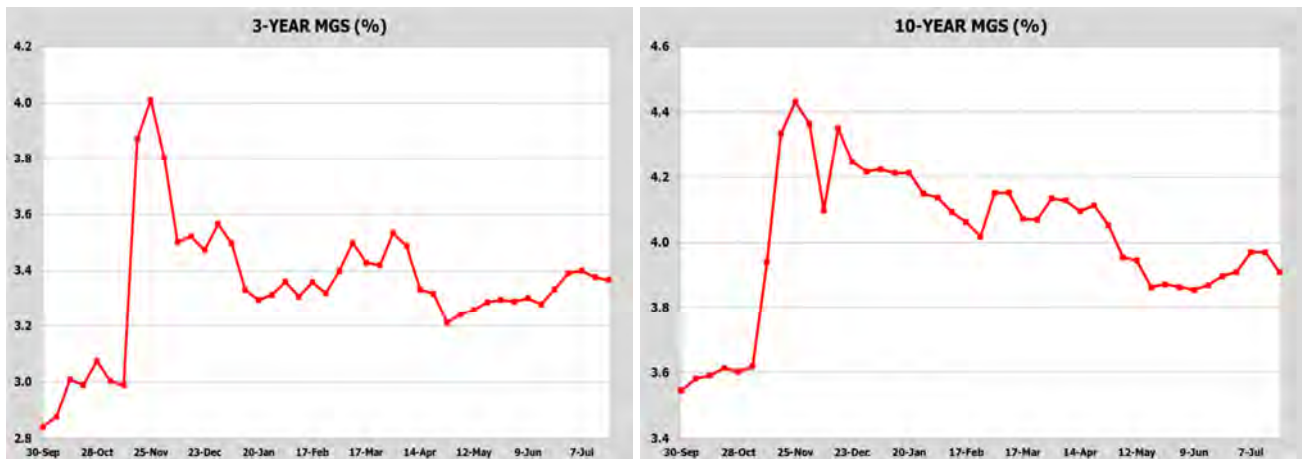
- The prices of UST bonds continued to rise across the board last week in a further reaction to the US Fed Chair Yellen recent congressional testimony in which she wavered over an earlier assertion that the prevailing disinflation is fully transitory.
- The market trimmed its implied expected inflation rate as the growth rate of Core CPI dropped to the lowest since 2015 while the auction of 10-year TIPS last week saw the weakest demand in nine years.
- Likewise, MGS prices were generally higher with the yield of benchmark 3-year MGS shed -1.0bp while the 10-year yield dropped -6.0bp.
- Total trading value for Government Bonds (MGS/GII) was slightly lower at 11.0b in the review week compared to RM11.2b in the prior week.
- Malaysia's unemployment rate remains at 3.4% with employment rate grew firmly by 1.8%yoy in May. Apart from that, inflation rate slows to 3.6% in June as transport and fuel prices decelerated further. Ringgit stays below 4.300 levels.
- As at 14 July 2017, BNM's international reserves rose further to USD99.1b (equivalent to RM425.4b), up USD0.2b from USD98.9b a fortnight earlier.



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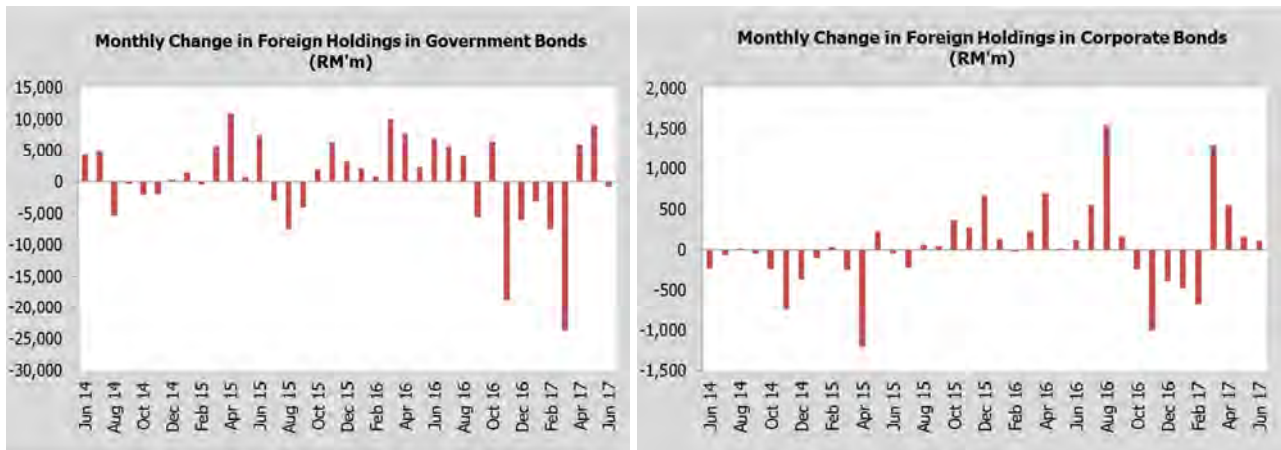
# Weekly Money Review

## A. FIXED INCOME



Source: Bloomberg

- The prices of US Treasury bonds continued to rise across the board last week, pushing yields down, in a further reaction to the US Fed Chair Yellen recent congressional testimony in which she wavered over an earlier assertion that the prevailing disinflation is fully transitory.
- The market trimmed its implied expected inflation rate as the growth rate of Core CPI dropped to the lowest since 2015 while the auction of 10-year Treasury Inflation-Protected Securities (TIPS) last week saw the weakest demand in nine years.
- Technically, the yield of 10-year UST fell below the key 200-day moving average last week.
- Likewise, in the local market, MGS yields were generally lower thus higher prices. The yield of benchmark 3-year MGS shed -1.0 basis point (bp) while the benchmark 10-year yield dropped -6.0bp.
- Total trading value for Government Bonds (MGS/GII) was slightly lower at 11.0b in the review week compared to RM11.2b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues slid to 60% of the overall Government Bonds trades in the review week (from ~65% in week before).
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short to medium tenors. The top 3 most actively traded were MGS 4.06% 09/30/24 at RM1.90b, MII 3.23% 04/15/20 at RM836m and MGS 4.01% 09/15/17 at RM624mm. In addition, 8 out of the 10 most actively traded issues saw lower yields hence higher prices during the past week.
- On the other hand, total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.73b in the review week compared to RM1.17m in earlier week (based on Bloomberg data). Trading interest was less concentrated among the 10 most actively traded issues at circa 24% of the overall Corporate Bonds trades (down from ~38% in the week before).
- The top 3 actively traded Corporate Bonds were represented by issues with medium to long tenors. The biggest trading values were seen in Prasarana Malaysia Bhd 3.77% 09/06/22 at RM90.0m, YTL BGSM Management Sdn Bhd 5.35% 03/09/26 at RM80m and Projeck Lebuhraya Usaha 4.48% 01/12/23 at RM80m.
- Total foreign holdings of Government Bonds stood at RM169.9b as end-June 2017. It was a slight drop of RM810m from the May 2017 figure of RM170.7b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM114m in the month of June 2017 to RM15.8b.

## B. FOREIGN EXCHANGE

- DXY Index shrank by -1.3% to 93.928. Following up to the upcoming FOMC meeting this Wednesday, most currency traders expect no rate hike. Despite of strengthening labour market, other key economic indicators namely inflation, wage growth and retail sales are reflecting signs of slowing down. Last week also saw Philadelphia Fed Manufacturing Index went down to 19.5 points, lowest since November 2016.
- EURUSD rose to 1.663, improved strongly last week. Apart from weaker USD, market confidences on the Eurozone surged as the ECB left its interest rate unchanged at 0% and remains committed towards tapering off QE. The QE program is expected to end by December 2017.

### Currencies Changes (Week Ended 14/7) and Quarterly Forecasts

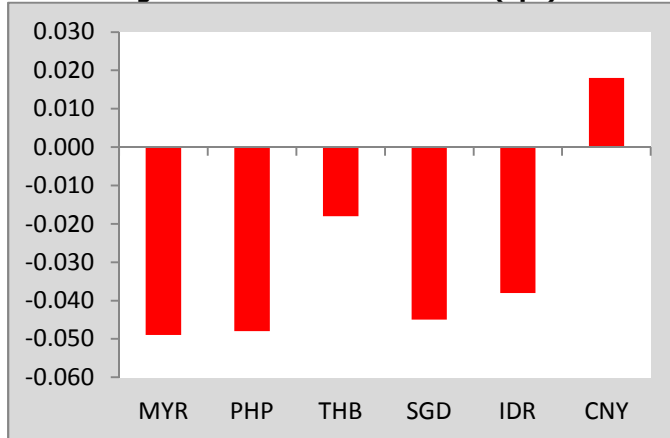
	Close (21/7)	Prev Close (14/7)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	93.928	95.153	-1.225	-1.3	101.12	102.50	103.00	103.50
EURUSD	1.663	1.147	0.516	45.0	1.06	1.05	1.02	1.03
GBPUSD	1.300	1.310	-0.010	-0.8	1.23	1.15	1.18	1.21
USDJPY	111.130	112.530	-1.400	1.2	114.00	118.00	120.00	119.00
USDMYR	4.284	4.292	-0.008	0.2	4.40	4.30	4.30	4.20
GBPMYR	5.568	5.564	0.004	-0.1	5.48	5.50	5.45	5.30
JPYMYR	3.855	3.814	0.040	-1.1	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

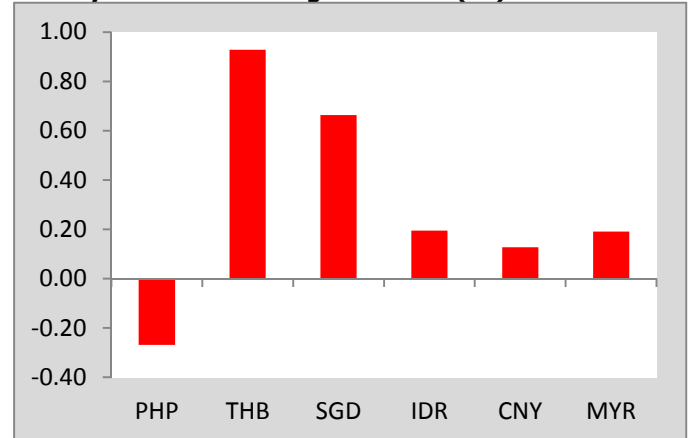
- Ringgit – stays below 4.300 levels. Previous week saw Malaysia’s unemployment rate remains at 3.4% with employment rate grew firmly by 1.8%yoy in May. Apart from that, inflation rate slows to 3.6% in June as transport and fuel prices decelerated further. Hence, we opine the sanguine macroeconomic conditions in Malaysia will continue and we expect USDMYR to touch 4.200 by year-end.

**Yield Change in 10Y Government Bonds (bps)**



Source: BLOOMBERG; MIDFR

**Weekly Currencies Change vs Dollar (%)**

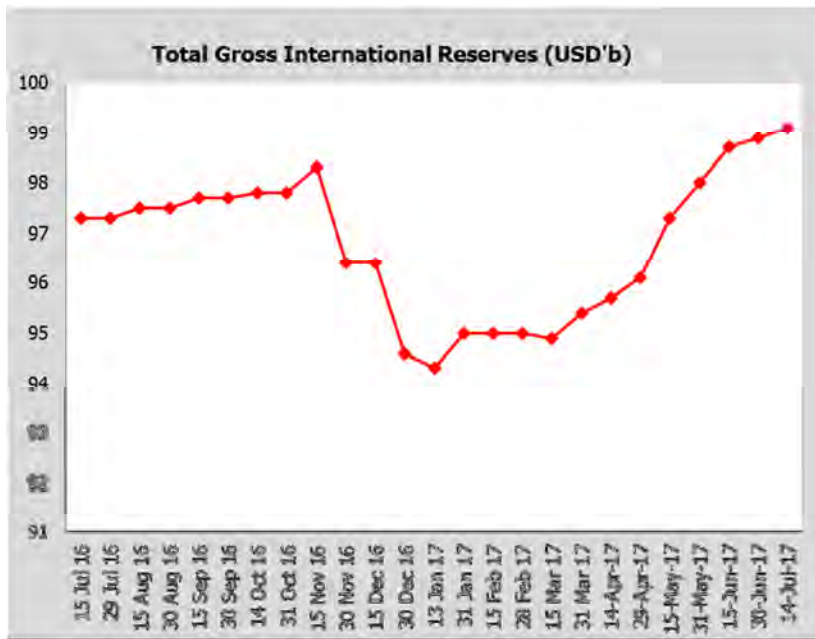


Source: BLOOMBERG; MIDFR


- The current general economic conditions are gradually improving both at the domestic and at the global fronts. International trade figures reported in major economies were showing signs of deflation while manufacturing indexes were on the uptrend.
- The changes of tones among central bankers seen in the past months indicate their optimism about the current well-being of the economy despite sluggish price environment.
- With consumer and business confidence reportedly shown an improvement, supportive monetary environment is expected to continue to further support growth in economic activities.
- The rate of inflation in recent months has demonstrated declining trends with prices expected to stabilize in the second part of the year. Nevertheless, the average inflation rate in the second half of 2017 is expected to be higher than of second half of 2016 due to low base effect (2H2016 – 1.5%).
- We opine, at least in the near term, BNM will likely to continue with its supportive and accommodative monetary stance in view of (1) the receding downside risks at the global front, as well as (2) its mandate to promote higher economic growth.
- We maintain our view that BNM to keep OPR unchanged at 3% for the rest of 2017.

## C. BNM FOREIGN RESERVES

- As at 14 July 2017, Bank Negara Malaysia's international reserves rose further to USD99.1b (equivalent to RM425.4b), up USD0.2b from USD98.9b a fortnight earlier.



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	14-Jul Fri	17-Jul Mon	18-Jul Tue	19-Jul Wed	20-Jul Thu	21-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.376	3.382	3.381	3.368	3.366	3.366	-1
5-Y	3.751	3.716	3.716	3.68	3.68	3.656	-9.5
7-Y	3.939	3.923	3.915	3.904	3.894	3.888	-5.1
10-Y	3.97	3.964	3.928	3.94	3.94	3.91	-6
20-Y	4.598	4.587	4.562	4.553	4.549	4.56	-3.8
RINGGIT IRS							
1-Y	3.515	3.495	3.495	3.495	3.495	3.495	-2
3-Y	3.6495	3.64	3.63	3.625	3.63	3.62	-2.95
5-Y	3.775	3.7625	3.75	3.755	3.745	3.74	-3.5
7-Y	3.875	3.865	3.85	3.85	3.85	3.835	-4
10-Y	4.03	4.01	4.005	4	4	3.985	-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	1.5455	1.5402	1.5161	1.5215	1.508	1.4946	-5.09
5-Y	1.866	1.8594	1.8129	1.8246	1.818	1.8031	-6.29
7-Y	2.136	2.1214	2.0678	2.0825	2.0728	2.0485	-8.75
10-Y	2.3319	2.3141	2.259	2.2696	2.2589	2.2375	-9.44
30-Y	2.9195	2.9039	2.8461	2.8514	2.8254	2.8087	-11.08
USD LIBOR							
1-M	1.22611	1.22833	1.22778	1.22889	1.22722	1.23222	0.611
2-M	1.25667	1.25667	1.25667	1.25722	1.25833	1.26056	0.389
3-M	1.30361	1.30611	1.30694	1.30722	1.3125	1.31444	1.083

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	14-Jul Yield	21-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.059	09/30/24	3.939	3.888	-5.1	1,897.9
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.607	3.566	-4.1	835.6
MALAYSIA GOVERNMENT	4.012	09/15/17	3.000	2.904	-9.6	623.5
MALAYSIA INVESTMNT ISSUE	3.678	11/23/17	3.084	3.129	4.5	540.0
MALAYSIA GOVERNMENT	3.882	03/10/22	3.751	3.656	-9.5	485.0
MALAYSIA GOVERNMENT	4.24	02/07/18	3.157	3.100	-5.7	471.4
MALAYSIA INVESTMNT ISSUE	4.895	05/08/47	4.936	4.936	0.0	440.0
MALAYSIA GOVERNMENT	3.58	09/28/18	3.319	3.293	-2.6	433.9
MALAYSIA GOVERNMENT	4.498	04/15/30	4.503	4.451	-5.2	426.2
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.842	3.784	-5.8	420.0
TOTAL (TOP 10)						6,573.5
TOTAL (Overall)						11,036.3

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	14-Jul Yield	21-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
PRASARANA MALAYSIA BHD	3.77	09/06/22	N/A	4.075	N/A	90.0
BGSM MANAGEMENT SDN BHD	5.35	03/09/26	4.986	4.980	-0.6	80.0
PROJEK LEBUHRAYA USAHASA	4.48	01/12/23	4.212	4.255	4.3	80.0
IJM CORPORATION BERHAD	4.83	06/10/22	4.418	4.496	7.8	70.0
RHB BANK	4.75	05/08/25	N/A	4.678	N/A	60.0
LEBUHRAYA DUKE FASA 3 SD	6.13	08/22/36	5.261	5.292	3.1	60.0
DANAINFRA NASIONAL	5.29	07/22/44	5.212	5.212	0.0	60.0
PRASARANA MALAYSIA BHD	4.67	03/12/24	N/A	4.247	N/A	55.0
AFFIN BANK BHD	5.45	02/05/27	5.052	5.051	-0.1	55.0
PROJEK LEBUHRAYA USAHASA	5.63	01/11/36	N/A	5.162	N/A	50.0
TOTAL (TOP 10)						660.0
TOTAL (Overall)						2,727.1

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.