

## MIDF Strategy | 25 April 2017

Week Ended 21 April

- US Treasury Secretary Steven Mnuchin said the government will produce an ambitious plan to overhaul the US tax code soon.
- UST curve steepened with 3-year yield declined by -1.14bp whereas 10-year yield increased by 1.06bp.
- MGS curve steepened in tandem.
- Total volume trade for Government Bonds (MGS/GII) increased to RM16.6b in the review week from RM16.3b in the week before.
- Total volume trade for Corporate Bonds (Conventional & Sukuk) increased to RM2.3b in the review week from RM1.6b in prior week.
- As at 14 April 2017, Bank Negara Malaysia's international reserves increased to USD95.7b (equivalent to RM423.2b).
- Ringgit breached the 4.400 resistance level to close at 4.3395 during review week.



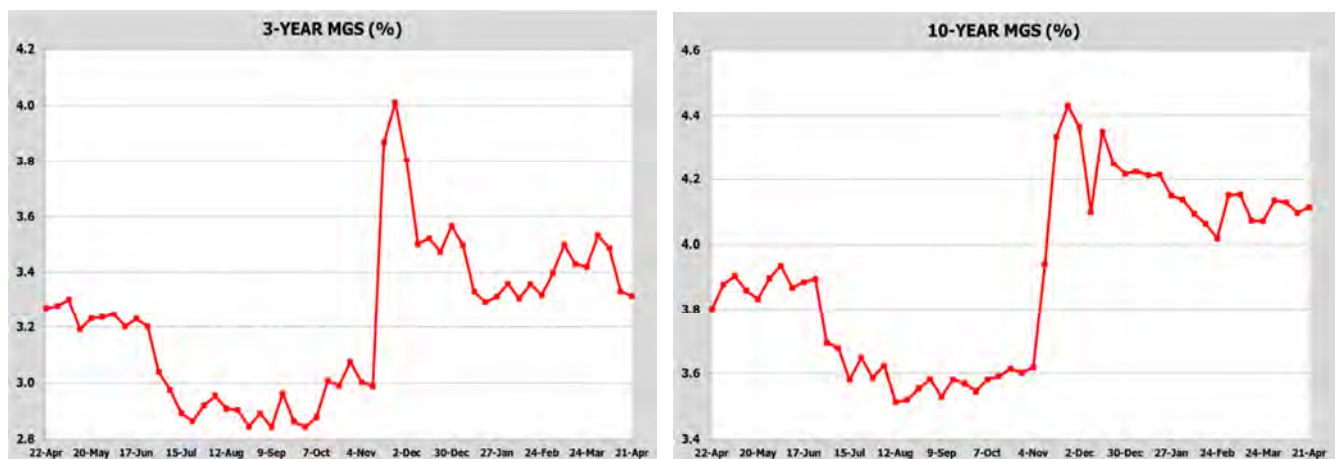
25 April 2017 | Strategy

## Weekly Money Review

### *Yield curve slightly steepened on growth expectation*

- US Treasury Secretary Steven Mnuchin said the government will produce an ambitious plan to overhaul the US tax code soon.
- On that score, a US Fed President (Neel Kashkari) commented that government's long-term fiscal policy matters more than the central bank's decision on when to raise rates next.
- In another note, a US Fed Vice Chairman (Stanley Fischer) said a gradual path of monetary policy normalization will help ensure US economic growth, while limiting undesirable spillovers abroad.
- The US Treasury curve steepened with the yield of 3-year UST declined by -1.14bp whereas the 10-year yield increased by 1.06bp during the week under review.

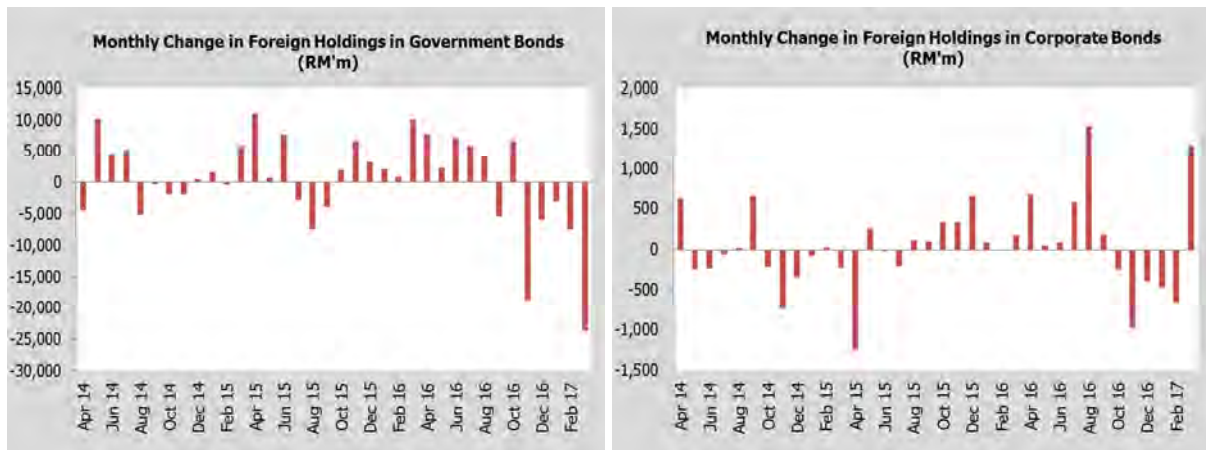
### A. FIXED INCOME



Source: Bloomberg

- In tandem with the steepening of UST curve, the yield of 3-year MGS declined by -1.6bp whereas 10-year MGS yield increased by 1.7bp during the week under review.
- Total volume trade for Government Bonds (MGS/GII) increased to RM16.6b in the review week from RM16.3b in the week before (based on Bloomberg data). The 10 most actively traded issues represent slightly more than 66% of the overall Government Bonds trades in the review week (up from ~58% in week before).
- Unlike in previous weeks, the top 3 volumes were not confined to issues with short (less than 1 year) remaining tenor. The top 3 most actively traded were MGS 4.01% 09/15/17 at RM2.4b, MGS 3.95% 04/14/22 at RM1.8b and MGS 3.88% 03/10/22 at RM1.69b. Moreover, 6 out of the 10 most actively traded issues saw higher yields during the past week hence lower prices.
- Total volume trade for Corporate Bonds (Conventional & Sukuk) increased to RM2.3b in the review week from RM1.6b in prior week (based on Bloomberg data). Trading interest was relatively less concentrated as the 10 most actively traded issues represent circa 41% of the overall Corporate Bonds trades (down from ~48% in week before).
- The top 3 actively traded issues among the Corporate Bonds were led by bank and utility and were quite varied in terms of their remaining tenor.

- The biggest volumes were seen in Maybank 4.3% 05/10/24 at RM235m, Pengurusan Air SPV 4.0% 06/16/17 at RM135m and Sunway Treasury Sukuk 0% 05/17/17 at RM115m.
- Total foreign holdings in Government Bonds stood at RM155.7b as at March 2017. It was a decline of -RM23.7b from the February 2017 figure of RM179.4b.



Source: BNM

- In contrast, total foreign holdings in Corporate Bonds increased by RM1.3b in the month of March 2017 to RM15.9b.

## B. FOREIGN EXCHANGE

- Dollar dipped as market eye French election. DXY index again dropped below the 100 level as investors are upbeat on the prospect of Macron leading the first round election, shedding 0.7% to 98.86 last Friday. Meanwhile, Euro gained strength on the optimism, rising 0.8% against the greenback to 1.071. Pound's rally against dollar continued for the fourth consecutive week – the longest weekly uptrend run in 2017. This was despite downbeat retail sales data during the week which increased only 1.7% compared to market expectation of 3.4%. Yen took a breather, declining by 0.4% after surging more than 2% the week before. Traders so far are still eyeing a weaker yen in the longer-term horizon.
- Ringgit breached the 4.400 resistance level to close at 4.3395, the biggest winner during the week. This was its highest weekly level since mid-November 2016. The improvement since the lows recorded in January this year – was in tandem with a slew of measures introduced by Bank Negara Malaysia (BNM) within the same period. On the other hand, Philippines Peso depreciated by 0.49% to 49.79 – a minor correction after having gained against the dollar in the previous three consecutive weeks.

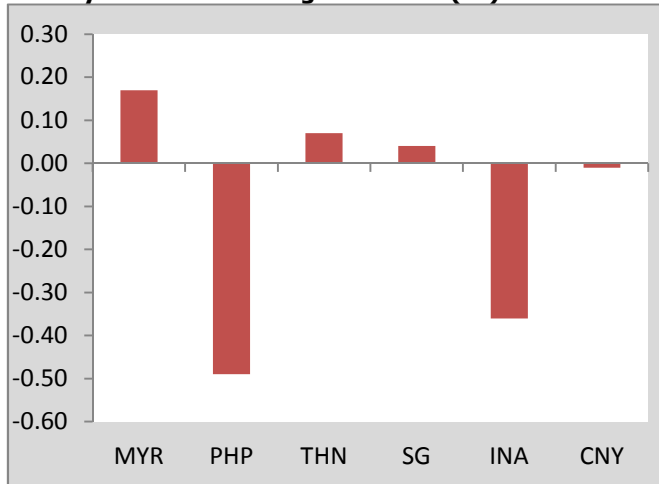
### Currencies Changes (Weekly Ended on 21/4) and Quarterly Forecast

|           | Close (21/4) | Prev Close (14/4) | Change | % Change | 1Q17   | 2Q17F  | 3Q17F | 4Q17F |
|-----------|--------------|-------------------|--------|----------|--------|--------|-------|-------|
| DXY Index | 99.86        | 100.51            | -0.654 | -0.7     | 100.35 | 102.50 | 103.0 | 103.5 |
| EURUSD    | 1.071        | 1.062             | 0.009  | 0.8      | 1.065  | 1.045  | 1.020 | 1.030 |
| GBPUSD    | 1.281        | 1.252             | 0.028  | 2.3      | 1.255  | 1.150  | 1.180 | 1.210 |
| USDJPY    | 109.1        | 108.6             | 0.470  | -0.4     | 111.4  | 118.0  | 120.0 | 119.0 |
| USDMYR    | 4.3395       | 4.4070            | -0.008 | 0.2      | 4.43   | 4.20   | 4.43  | 4.30  |
| GBPMYR    | 5.630        | 5.514             | 0.116  | 2.1      | 5.51   | 5.60   | 5.45  | 5.50  |
| JPYMYR    | 4.032        | 4.057             | -0.025 | -0.6     | 3.97   | 3.75   | 3.85  | 3.85  |

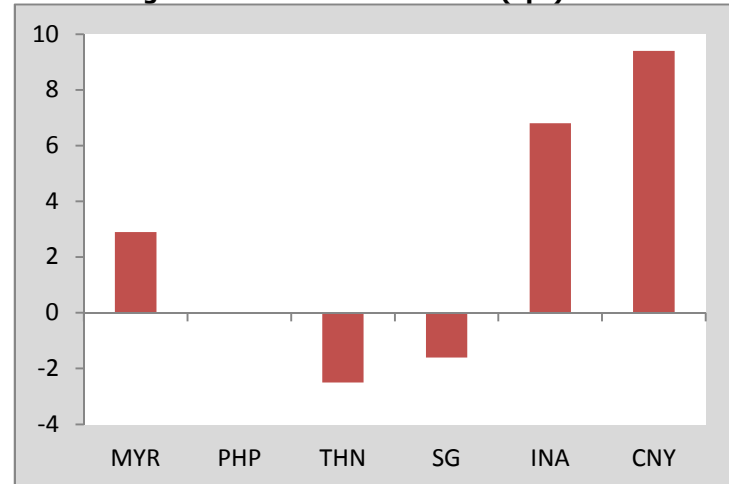
Quarterly figures are forecast by MIDFR  
Source: CEIC, Bloomberg, MIDF Research

- Most sovereign bonds yield that we were tracking rose especially China. The second largest world economy had seen its 10-year treasury yield increased by 9.4bps to 3.454% as the domestic continues to show sign of acceleration and clamp down on the shadow banking market. Recall that China registered 6.9% GDP growth in the first quarter of this year – the fastest pace since 1Q15.

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



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

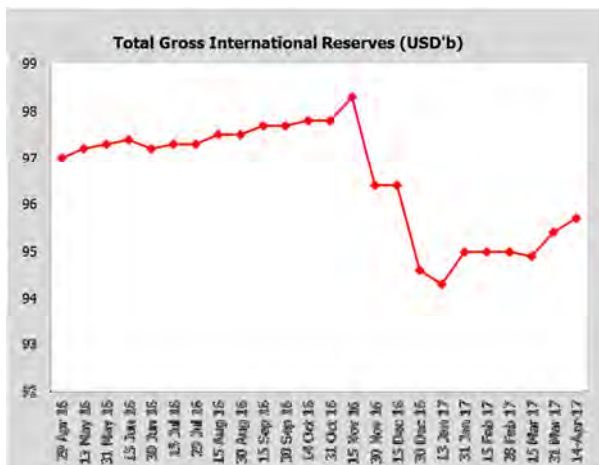


For the week ended on 21/4/2017  
Source: Bloomberg, MIDFR


- The much anticipated outcome of the first round French presidential election brought relief to euro. Euro surged more than 1% amid eased concerns about the political stability of the bloc. Emmanuel Macron, a centrist candidate won most of the votes in the first round ahead of other 6 candidates. Le Pen, a populist candidate managed to secure 21.3% of the total votes to face Macron in May 7 final round of the presidential election.
- The uncertainties of geopolitical developments and lack of clarity about the direction of fiscal and monetary policies in major economies will posed considerable downside risk to global economic growth in months to come.
- International trade on the other hand is showing a momentum with WTO forecasting that global trade will expand by 2.4% in 2017. Modest international trade growth in 2017 is following weak performance in the last few years which marked weaknesses in global economy.
- On the other hand, spike in inflation driven by higher commodities prices could lead to tightening monetary stance and higher interest rate in the near term. Malaysia recorded a 5.1% rate of inflation in March which reflects the 3 consecutive months of upward movement of inflation in 2017. The average inflation rate for the first quarter of 2017 stands at 4.26% which is relatively higher than the upper bound of 4% expected by BNM for 2017.
- With core inflation stable at 2.5% and performance of other macroeconomics indicators are commendable, we maintain our views of monetary stance to stand pat at the current level with biased toward upward revision with 40% probability.

## C. BNM FOREIGN RESERVES

- As at 14 April 2017, Bank Negara Malaysia's international reserves increased further to USD95.7b (RM423.2b) from USD95.4b (RM422.2b) recorded a fortnight earlier.



Source: BNM

- The amount of reserves is sufficient to finance 8.2 months of retained imports and is 1.1 times the short-term external debt. 

### WEEKLY INTEREST RATE MONITOR

| Tenor       | 14-Apr<br>Fri | 17-Apr<br>Mon | 18-Apr<br>Tue | 19-Apr<br>Wed | 20-Apr<br>Thu | 21-Apr<br>Fri | Change<br>(WoW bp) |
|-------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------|
| MGS         |               |               |               |               |               |               |                    |
| 3-Y         | 3.332         | 3.332         | 3.38          | 3.347         | 3.328         | 3.316         | -1.6               |
| 5-Y         | 3.796         | 3.78          | 3.78          | 3.775         | 3.773         | 3.762         | -3.4               |
| 7-Y         | 3.965         | 3.976         | 3.988         | 3.996         | 3.988         | 3.99          | 2.5                |
| 10-Y        | 4.096         | 4.09          | 4.112         | 4.105         | 4.116         | 4.113         | 1.7                |
| 20-Y        | 4.716         | 4.716         | 4.723         | 4.707         | 4.707         | 4.724         | 0.8                |
| RINGGIT IRS |               |               |               |               |               |               |                    |
| 1-Y         | 3.525         | 3.54          | 3.54          | 3.54          | 3.53          | 3.535         | 1                  |
| 3-Y         | 3.68          | 3.63          | 3.675         | 3.68          | 3.695         | 3.7           | 2                  |
| 5-Y         | 3.8           | 3.785         | 3.8           | 3.805         | 3.8125        | 3.82          | 2                  |
| 7-Y         | 3.905         | 3.895         | 3.895         | 3.905         | 3.91          | 3.92          | 1.5                |
| 10-Y        | 4.045         | 4.04          | 4.05          | 4.06          | 4.06          | 4.065         | 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         | 1.4118        | 1.4063        | 1.3528        | 1.3794        | 1.398         | 1.4004        | -1.14              |
| 5-Y         | 1.7691        | 1.7756        | 1.6997        | 1.7392        | 1.7639        | 1.7703        | 0.12               |
| 7-Y         | 2.045         | 2.0595        | 1.9774        | 2.0207        | 2.0449        | 2.0569        | 1.19               |
| 10-Y        | 2.2374        | 2.2498        | 2.1682        | 2.2143        | 2.232         | 2.248         | 1.06               |
| 30-Y        | 2.8923        | 2.9094        | 2.8354        | 2.8729        | 2.8822        | 2.9015        | 0.92               |
| USD LIBOR   |               |               |               |               |               |               |                    |
| 1-M         | 0.99444       | 0.99444       | 0.99278       | 0.99111       | 0.98833       | 0.99056       | -0.388             |
| 2-M         | 1.035         | 1.035         | 1.03667       | 1.03611       | 1.04056       | 1.04          | 0.5                |
| 3-M         | 1.15844       | 1.15844       | 1.15622       | 1.15567       | 1.15317       | 1.15622       | -0.222             |

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name                        | Coupon | Maturity | 14-Apr<br>Yield | 21-Apr<br>Yield | Change<br>(WoW bp) | Weekly Volume<br>(RM bn) |
|-----------------------------|--------|----------|-----------------|-----------------|--------------------|--------------------------|
| MALAYSIA GOVERNMENT         | 4.012  | 09/15/17 | 3.106           | 3.145           | 3.9                | 2,420.1                  |
| MALAYSIA INVESTMNT<br>ISSUE | 3.948  | 04/14/22 | 3.870           | 3.876           | 0.6                | 1,770.0                  |
| MALAYSIA GOVERNMENT         | 3.882  | 03/10/22 | 3.796           | 3.762           | -3.4               | 1,692.9                  |
| MALAYSIA GOVERNMENT         | 4.059  | 09/30/24 | 3.965           | 3.990           | 2.5                | 1,088.4                  |
| MALAYSIA GOVERNMENT         | 3.58   | 09/28/18 | 3.314           | 3.310           | -0.4               | 934.8                    |
| MALAYSIA GOVERNMENT         | 4.232  | 06/30/31 | 4.481           | 4.493           | 1.2                | 688.9                    |
| MALAYSIA GOVERNMENT         | 3.795  | 09/30/22 | 3.908           | 3.918           | 1.0                | 647.9                    |
| MALAYSIA INVESTMNT<br>ISSUE | 3.226  | 04/15/20 | 3.707           | 3.714           | 0.7                | 600.0                    |
| MALAYSIA GOVERNMENT         | 3.62   | 11/30/21 | 3.870           | 3.835           | -3.5               | 560.1                    |
| MALAYSIA GOVERNMENT         | 3.759  | 03/15/19 | 3.332           | 3.316           | -1.6               | 549.8                    |
| TOTAL VOLUME (TOP 10)       |        |          |                 |                 |                    | 10,952.9                 |
| TOTAL VOLUME (Overall)      |        |          |                 |                 |                    | 16,548.2                 |

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name                        | Coupon | Maturity | 14-Mar<br>Yield | 21-Apr<br>Yield | Change<br>(WoW bp) | Weekly Volume<br>(RM bn) |
|-----------------------------|--------|----------|-----------------|-----------------|--------------------|--------------------------|
| MALAYAN BANKING BHD         | 4.25   | 05/10/24 | 4.414           | 4.399           | -1.5               | 235.0                    |
| PENGURUSAN AIR SPV BHD      | 3.98   | 06/16/17 | 3.497           | 3.499           | 0.2                | 130.0                    |
| SUNWAY TREASURY<br>SUKUK SD | ZERO   | 05/17/17 | 3.792           | 3.792           | 0.0                | 115.0                    |
| PROJEK LEBUHRAYA<br>USAHASA | 4.86   | 01/12/38 | N/A             | 5.005           | N/A                | 95.0                     |
| GB SERVICES BHD             | 5.3    | 11/08/19 | 4.533           | 4.532           | -0.1               | 90.0                     |
| IMPIAN EKSPRESI SDN<br>BHD  | 4.75   | 11/27/20 | N/A             | 4.785           | N/A                | 60.0                     |
| MALAYSIA AIRPORTS HG<br>BHD | 5.75   | PERP     | 5.010           | 4.979           | -3.1               | 60.0                     |
| CAGAMAS BERHAD              | 5.27   | 03/29/19 | N/A             | 3.908           | N/A                | 60.0                     |
| SUNWAY TREASURY<br>SUKUK SD | ZERO   | 05/17/17 | 3.812           | 3.812           | 0.0                | 54.0                     |
| KUALA LUMPUR KEPONG<br>BHD  | 4.65   | 04/24/26 | 4.627           | 4.629           | 0.2                | 50.0                     |
| TOTAL VOLUME (TOP 10)       |        |          |                 |                 |                    | 949.0                    |
| TOTAL VOLUME (Overall)      |        |          |                 |                 |                    | 2,317.8                  |

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. |