

MIDF Strategy | 26 February 2018

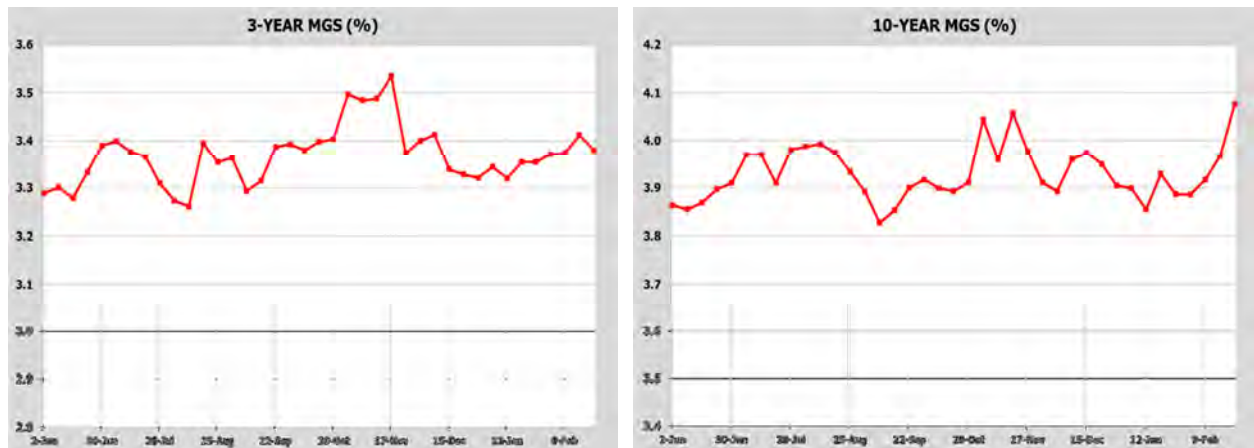
Week Ended 23 February

- The 3-year UST yield climbed while the 10-year rate fell during the review week, pushing the curve slightly flatter.
- Last week, composite PMI figure for February came in at multi-year high which provided support for further monetary tightening. Moreover, the US Fed released its semi-annual monetary policy report to Congress but nothing in it changes market expectation of a rate hike in March. However, led by the 10-year benchmark, UST prices rebounded on Friday driven by price gains in German's Bund.
- In contrast, the local MGS curve ended the review week steeper with the yields of benchmark 3-year and 10-year respectively fell -3.2bps and climbed 11.1bps to close the week at 3.38% and 4.08%.
- Total trading value for Government Bonds (MGS/MII) declined to RM9.32b in the review week compared to RM11.90b in the previous week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.79b in the review week compared to RM2.00b in earlier week.
- As at 15 February 2018, Bank Negara Malaysia's international reserves dipped to USD103.6b. The amount of reserves is sufficient to finance 7.1 months of retained imports and is 1.1 times the short-term external debt.

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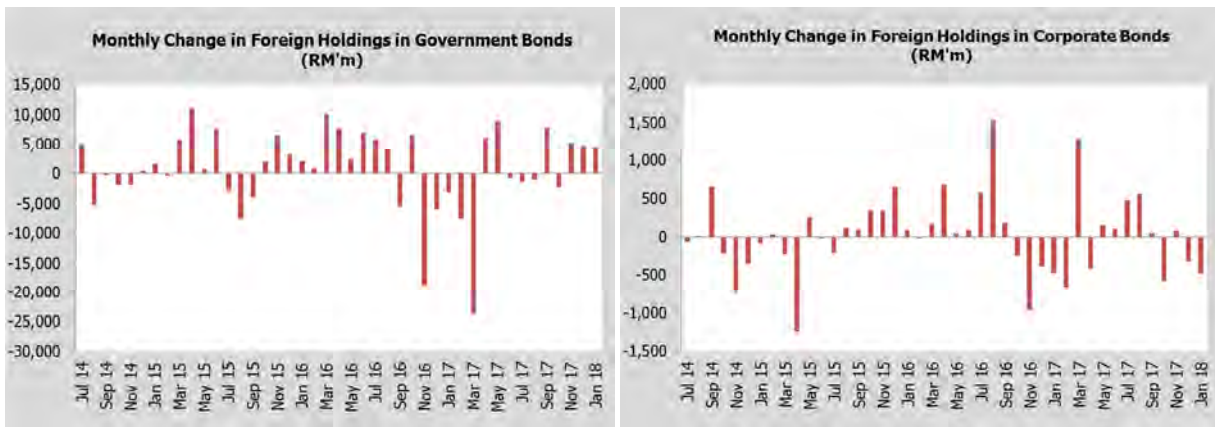
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The 3-year UST yield climbed while the 10-year rate fell during the review week, pushing the curve slightly flatter. Last week, composite PMI figure for February came in at multi-year high which provided support for further monetary tightening. Moreover, the US Fed released its semi-annual monetary policy report to Congress but nothing in it changes market expectation of a rate hike in March. However, led by the 10-year benchmark, UST prices rebounded on Friday driven by price gains in German's Bund.
- In contrast, the local MGS curve ended the review week steeper with the yields of benchmark 3-year and 10-year respectively fell -3.2bps and climbed 11.1bps to close the week at 3.38% and 4.08%.
- Total trading value for Government Bonds (MGS/MII) declined to RM9.32b in the review week compared to RM11.90b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 51% of the overall Government Bonds trades in the week under review (vis-à-vis ~59% in the week before). In addition, 4 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 to medium residual tenors. The top 3 most actively traded were MII 3.576% 05/15/20 at RM560.0m, MII 3.882% 3/10/22 at RM535.6m and MGS 4.059% 9/30/24 at RM530.8m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.79b in the review week compared to RM2.00b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 30% of the overall Corporate Bonds trades (from ~49% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with both short and long residual tenors. The biggest trading values were seen in Prasarana Malaysia 4.40 05/30/18 at RM90m, Malaysia Debt Ventures 5.19 09/26/18 at RM75m and Westports 4.58 3/31/28 at RM60m.
- Total foreign holdings of Government Bonds stood at RM187.5b as at end-January 2018. It was an increase of RM4.6b from the December 2017 figure of RM182.9b.



Source: BNM

- Total foreign holdings of Corporate Bonds declined by RM470.8m in the month of January 2018 to RM15.6b.

B. FOREIGN EXCHANGE

- DXY Index improved marginally by 0.8%wow. Among others, composite PMI rose to 2.5-year at 55.9 points in February. The rise is supported by optimistic manufacturing and services PMI figures during the same month. The positive signs in business activities in the US provide additional reasons for the Fed to normalise and raise interest rate in the upcoming March's FOMC meeting. We forecast the Fed to hike another 25 basis points in the meeting.
- EURUSD contracted by 0.7%wow. Apart from improving USD, headline inflation in EU went down to 1.3%yoy in January, slowest since July-17. The overall price has been on declining trend since Nov-17. On a flip side, EU's largest economy Germany grew by 2.9%yoy in 4Q17, fastest since 3Q11. We view EUR to remain at stable level and hence provide supportive points for ECB to continue with its normalisation of monetary policy.

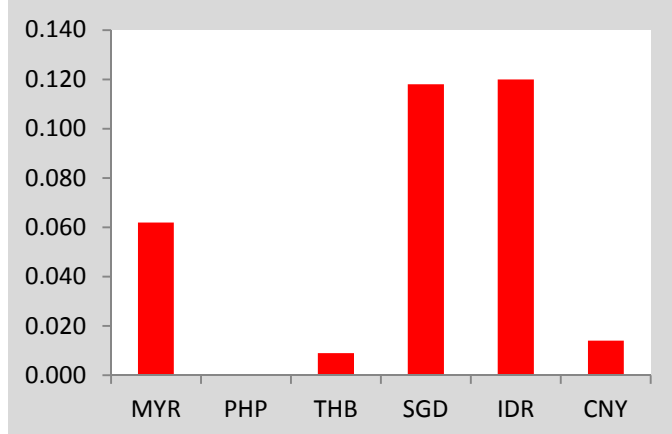
Currencies Changes (Week Ended 26/2) and Quarterly Performances

	Close (23/02)	Prev Close (16/02)	Change	% Change	1Q18F	2Q18F	3Q18F	4Q18F
DXY Index	89.824	89.100	0.724	0.8	93.54	90.69	91.91	95.98
EURUSD	1.232	1.241	-0.009	-0.7	1.19	1.22	1.20	1.16
GBPUSD	1.398	1.403	-0.005	-0.3	1.25	1.25	1.15	1.09
USDJPY	106.790	106.210	0.580	-0.5	107.50	100.29	95.10	102.27
USDMYR	3.915	3.894	0.021	-0.5	4.05	3.90	4.00	3.95
GBPMYR	5.478	5.499	-0.021	0.4	5.12	4.89	4.53	4.58
JPYMYR	3.666	3.665	0.001	0.0	3.79	3.89	4.14	4.13

Source: CEIC, Bloomberg, MIDFR

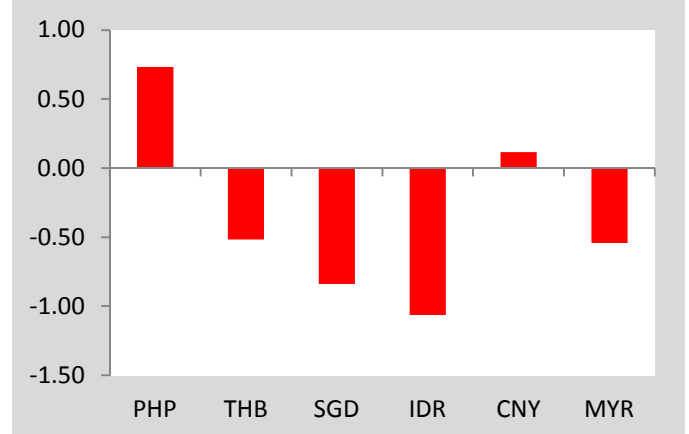
- Ringgit – Stays below 4.00 for 8-Consecutive weeks. Despite of slight depreciation, MYR remains on positive direction amid of continuous upbeat momentum in the economy. Recently released, labor productivity for 2017 up 3.6%, fastest in 3-year. As for the upcoming 7-Mac MPC meeting, we expect OPR to stay unchanged at 3.25%. Hence, we maintain our call MYR to average at 4.00 and register 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 (%)

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25
Indonesia	4.75	4.75	4.50	4.25	4.25	4.25	4.25	4.25	4.25
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	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	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	0.25	0.25	0.25	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	1.25	1.25	1.25	1.50	1.50	1.50

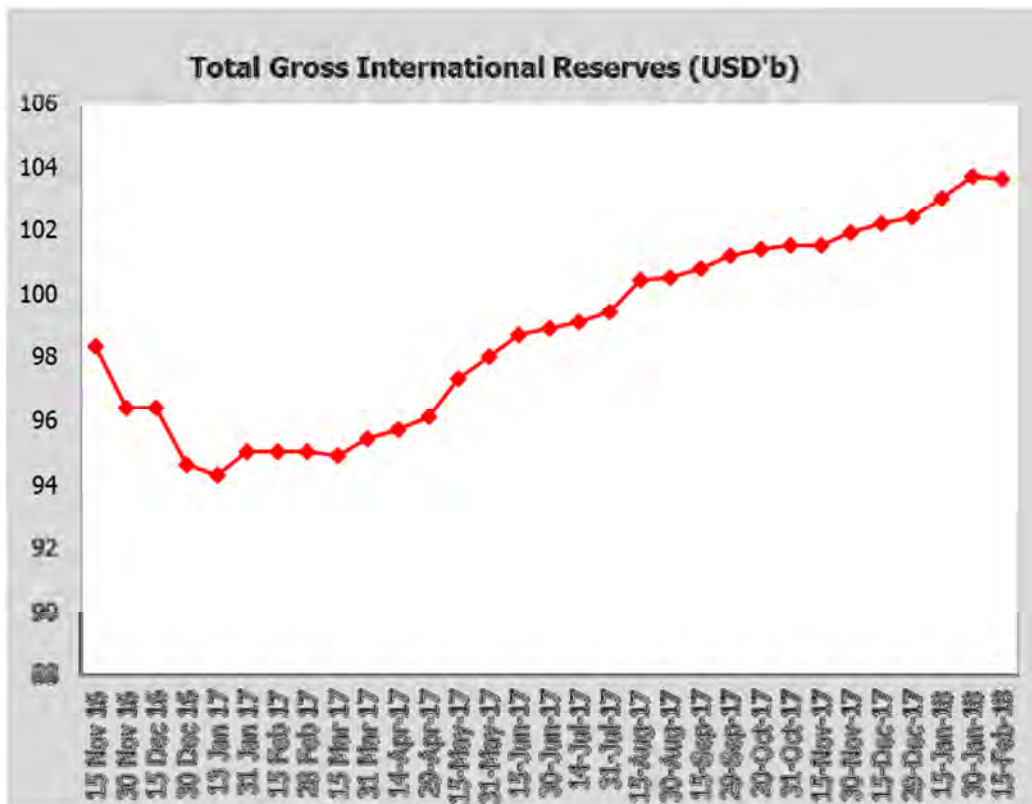
Source: CEIC, MIDFR

- Federal Reserve released their assessment of the current economic conditions last week which provide clues of the future trajectory of interest rate in the US.
- Federal Reserve policymakers see an economy that may be past full employment, financial market prices that are high and overall growth that continues to gather steam in 2018.
- Those conditions remain appropriate for further interest rate increases, though inflation pressures remain fairly muted for now even though labor market is fairly tight.
- Federal Reserve upbeat new term outlook on current economic conditions increases the probability of first rate hike during their second upcoming FOMC meeting in March.
- In general, central banks around the world are more hawkish about the trajectory of the global economy as well as their respective domestic economy.
- Degree of monetary accommodation at the global level is expected to shift toward normalize level.
- Price pressures meanwhile slowly trending upward, reflecting improved inflationary pressure amid robust demand. Inflationary pressure is expected to kick-in, boost by tight labor market as well as higher commodities prices.
- The upward bias inflation expectation will influence both the debt and equity markets globally. This will sway the investor's portfolio allocation as well as fund flow direction.


- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance.
- Domestically, inflationary pressure is expected to moderate amid stable commodities prices and high base effect. January's inflation figure scheduled to be release this week is expected to be in the range of 2.6% to 2.9%.

C. BNM FOREIGN RESERVES

- As at 15 February 2018, Bank Negara Malaysia's international reserves declined to USD103.6b.



Source: BNM

- The amount of reserves is sufficient to finance 7.1 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	16-Feb Fri	19-Feb Mon	20-Feb Tue	21-Feb Wed	22-Feb Thu	23-Feb Fri	Change (WoW bp)
MGS							
3-Y	3.412	3.363	3.37	3.334	3.38	3.38	-3.2
5-Y	3.579	3.561	3.587	3.587	3.6	3.6	2.1
7-Y	3.961	3.953	3.989	3.989	4.006	4.003	4.2
10-Y	3.967	4.011	4.03	4.043	4.06	4.078	11.1
20-Y	4.588	4.627	4.638	4.638	4.65	4.635	4.7
RINGGIT IRS							
1-Y	3.76	3.76	3.76	3.76	3.765	3.77	1
3-Y	3.8245	3.8273	3.835	3.835	3.8375	3.8375	1.3
5-Y	3.9125	3.9125	3.9275	3.93	3.935	3.93	1.75
7-Y	4.03	4.03	4.045	4.045	4.0425	4.05	2
10-Y	4.15	4.15	4.17	4.17	4.175	4.17	2
KLIBOR							
1-M	3.42	3.42	3.42	3.42	3.42	3.42	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	2.3835	2.3835	2.4055	2.4358	2.4085	2.3869	0.34
5-Y	2.6291	2.6291	2.6446	2.6858	2.6552	2.6183	-1.08
7-Y	2.8039	2.8039	2.814	2.8672	2.8345	2.7896	-1.43
10-Y	2.8749	2.8749	2.8896	2.95	2.9207	2.866	-0.89
30-Y	3.1316	3.1316	3.153	3.2204	3.2062	3.1555	2.39
USD LIBOR							
1-M	1.59375	1.59563	1.59563	1.60251	1.6207	1.6312	3.745
2-M	1.73006	1.73311	1.74219	1.74914	1.76399	1.77781	4.775
3-M	1.88494	1.89213	1.90394	1.91975	1.94363	1.95625	7.131

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	16-Feb Yield	23-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.576	05/15/20	3.849	3.603	-24.6	560.0
MALAYSIA GOVERNMENT	3.882	03/10/22	3.579	3.600	2.1	535.6
MALAYSIA GOVERNMENT	4.059	09/30/24	3.961	4.003	4.2	530.8
MALAYSIA GOVERNMENT	3.899	11/16/27	3.967	4.078	11.1	517.7
MALAYSIA GOVERNMENT	3.795	09/30/22	3.782	3.787	0.5	508.3
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.886	3.886	0.0	504.2
MALAYSIA INVESTMNT ISSUE	3.508	05/15/18	3.293	3.197	-9.6	503.4
MALAYSIA GOVERNMENT	4.048	09/30/21	3.556	3.598	4.2	376.0
MALAYSIA GOVERNMENT	4.736	03/15/46	4.861	4.851	-1.0	343.5
MALAYSIA GOVERNMENT	4.378	11/29/19	3.343	3.332	-1.1	335.3
TOTAL VOLUME (TOP 10)						4,714.7
TOTAL VOLUME (Overall)						9,324.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	16-Feb Yield	23-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
PRASARANA MALAYSIA BHD	4.4	05/30/18	#N/A N/A	3.509	#VALUE!	90.0
MALAYSIA DEBT VENTURES	5.19	09/26/18	#N/A N/A	3.579	#VALUE!	75.0
WESTPORTS MALAYSIA SDN	4.58	03/31/28	4.896	4.918	2.1	60.0
TENAGA NASIONAL BERHAD	4.95	08/03/32	5.005	5.020	1.5	60.0
MKD KENCANA SDN BHD	4.43	02/21/25	#N/A N/A	4.431	#VALUE!	50.0
MALAYAN BANKING BHD	4.9	01/29/24	4.589	4.919	33.0	41.0
SOUTHERN POWER GENERATIO	4.94	04/30/26	5.139	5.145	0.7	40.0
SOUTHERN POWER GENERATIO	4.88	04/30/25	5.059	5.062	0.3	40.0
PERBADANAN TABUNG PENDID	4.45	03/26/21	#N/A N/A	4.012	#VALUE!	40.0
IMPIAN EKSPRESI SDN BHD	4.58	11/29/19	4.061	4.040	-2.2	40.0
TOTAL VOLUME (TOP 10)						536.0
TOTAL VOLUME (Overall)						1,792.3

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.