

27 March 2017 | Strategy

Weekly Money Review

Bond rebounded further as US health vote failed

KLCI: 1,745.75 points

2017 Year-end Target: 1,830 points

MONEY MARKET

- UST gained as a vote on legislation to repeal and replace Obamacare was ditched by the GOP thus fueling doubt on the ability of President Trump to push through his ambitious fiscal agenda. Furthermore, bond bears are arguably feeling the squeeze as anticipation of further US Fed tightening may moderate longer-end inflation expectation hence exerting downward pressure on longer-end yields.

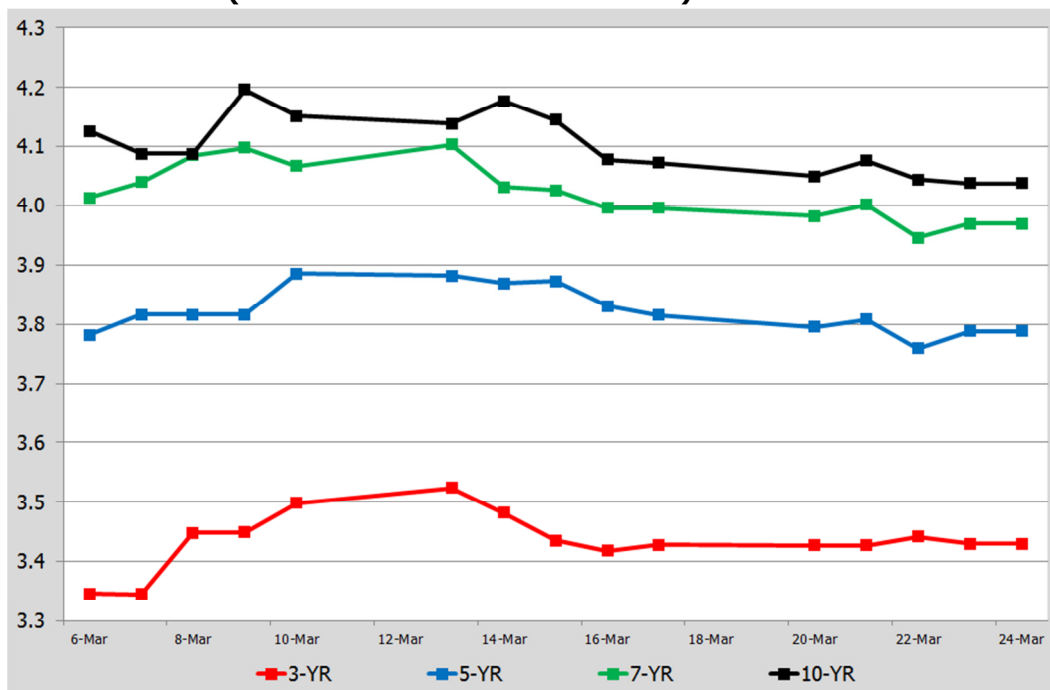
MONEY MARKET RATES

Tenor	17-Mar Fri	20-Mar Mon	21-Mar Tue	22-Mar Wed	23-Mar Thu	24-Mar Fri	Change (WoW bp)
MGS							
3-Y	3.428	3.427	3.427	3.442	3.43	3.419	-0.9
5-Y	3.815	3.795	3.808	3.759	3.788	3.806	-0.9
7-Y	3.996	3.982	4.001	3.946	3.969	3.987	-0.9
10-Y	4.072	4.05	4.076	4.044	4.038	4.07	-0.2
20-Y	4.639	4.664	4.618	4.626	4.626	4.605	-3.4
RINGGIT IRS							
1-Y	3.54	3.535	3.53	3.53	3.53	3.55	1
3-Y	3.68	3.63	3.66	3.665	3.675	3.69	1
5-Y	3.83	3.8075	3.82	3.8225	3.815	3.865	3.5
7-Y	3.945	3.925	3.93	3.92	3.93	3.985	4
10-Y	4.09	4.08	4.08	4.08	4.08	4.12	3
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	1.6008	1.5712	1.5308	1.5172	1.5279	1.5276	-7.32
5-Y	2.0183	1.9849	1.9466	1.9366	1.9516	1.945	-7.33
7-Y	2.306	2.2716	2.2299	2.2202	2.2349	2.2301	-7.59
10-Y	2.5005	2.4607	2.4175	2.405	2.4194	2.4123	-8.82
30-Y	3.1096	3.077	3.0343	3.0174	3.0294	3.0134	-9.62
USD LIBOR							
1-M	0.97611	0.97722	0.97722	0.98389	0.98167	0.98278	0.667
2-M	1.02167	1.02	1.02	1.02389	1.02	1.02278	0.111
3-M	1.15178	1.15622	1.15622	1.15678	1.15289	1.15128	-0.05

Source: Bloomberg, MIDFR

- This trading pattern was also similarly reflected in the Malaysian government bond yields which have generally eased across the board during the week under review.

YIELDS OF MGS (From 6 Mar 2017 to 24 Mar 2017)



Source: Bloomberg, MIDFR

- Total volume trade for MGS/GII dropped further to RM17.6b in the review week from RM26.1b in week before (based on Bloomberg data). The 10 most actively traded issues represent slightly more than 78% of the overall MGS/GII trades in the review week (down from ~83% 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 4.012% 09/15/17 at RM5.9b, MGS 3.314% 10/31/17 at RM1.6b and MGS 3.882% 03/10/22 at RM1.5b. Moreover, 8 out of the 10 most actively traded issues saw lower yields during the past week hence higher prices which imply buying interest.

10 MOST ACTIVELY TRADED GOVERNMENT BONDS (Week Ended 24 Mar 2017)

Name	Coupon	Maturity	17-Mar Yield	24-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.012	09/15/17	3.317	3.194	-12.3	5,909.4
MALAYSIA GOVERNMENT	3.314	10/31/17	3.410	3.259	-15.1	1,586.4
MALAYSIA GOVERNMENT	3.882	03/10/22	3.815	3.806	-0.9	1,498.1
MALAYSIA GOVERNMENT	4.24	02/07/18	3.414	3.313	-10.1	1,139.7
MALAYSIA GOVERNMENT	3.58	09/28/18	3.430	3.394	-3.6	822.9
MALAYSIA GOVERNMENT	3.8	08/17/23	3.996	3.987	-0.9	769.2
MALAYSIA GOVERNMENT	3.9	11/30/26	4.072	4.057	-1.5	701.9
MALAYSIA INVEST ISSUE	4.582	08/30/33	N/A	4.709	N/A	592.0
MALAYSIA GOVERNMENT	4.498	04/15/30	4.551	4.477	-7.4	452.0
MALAYSIA INVEST ISSUE	4.258	07/26/27	4.126	4.138	1.2	260.0
TOTAL VOLUME (TOP 10)						13,731.6
TOTAL VOLUME (Overall)						17,547.6

Source: Bloomberg, MIDFR

- Total volume trade for Corporate Bonds rose further to RM3.2b in the review week from RM3.0b in prior week (based on Bloomberg data). Trading interest was relatively more concentrated as the 10 most actively traded issues represent circa 38% of the overall Corporate Bonds trades (up from ~30% in week before).
- The top 3 actively traded issues among the Corporate Bonds were quite varied in terms of their remaining tenor but nonetheless confined to among the nation's top banks. Moreover, some actively traded corporate issues registered higher yields hence lower prices despite the yield downticks in most government bond issues.
- The biggest volumes were seen in Maybank 4.25% 05/10/24 at RM300m, Public Bank 3.67% 04/26/18 at RM200m and Maybank 4.9% 01/29/24 at RM150m.

10 MOST ACTIVELY TRADED CORPORATE BONDS (Week Ended 24 Mar 2017)

Name	Coupon	Maturity	17-Mar Yield	24-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYAN BANKING BHD	4.25	05/10/24	N/A	4.414	N/A	300.0
PUBLIC BANK BERHAD	3.67	04/26/18	N/A	3.984	N/A	200.0
MALAYAN BANKING BHD	4.9	01/29/24	4.783	4.839	5.6	150.5
CAGAMAS BERHAD	4.05	12/20/18	N/A	3.906	N/A	120.0
PUBLIC BANK BERHAD	4.28	08/03/22	3.930	3.946	1.6	95.8
SARAWAK HIDRO SDN BHD	4.21	08/11/21	N/A	4.305	N/A	90.0
SMALL MEDIUM ENT BANK	4.06	03/20/19	N/A	3.892	N/A	90.0
DANAINFRA NASIONAL	4.95	03/19/32	N/A	4.887	N/A	70.0
DANAINFRA NASIONAL	4.23	07/23/21	N/A	4.044	N/A	65.0
CAGAMAS BERHAD	3.3	08/09/17	3.680	3.680	0.0	62.0
TOTAL VOLUME (TOP 10)						1,243.3
TOTAL VOLUME (Overall)						3,226.4

Source: Bloomberg, MIDFR

FOREIGN EXCHANGE

- Dollar weakness continues to the 3rd consecutive weeks. Emerging markets currencies made further inroad last week as dollar continues to slide. DXY index shed -0.7% to close below the 100 level for the first time in more than a month. Euro gained 0.6% to 1.080 while the pound also similar move, reaching 1.247 against the greenback from 1.240 last week. Hiccup by the Republicans as they pulled their Healthcare bill raised questions over the Trump's administration ability to follow through with its economic reform – which then contributed towards the dollar decline.

Currencies Changes (Weekly Ended on 24/3) and Quarterly Forecast

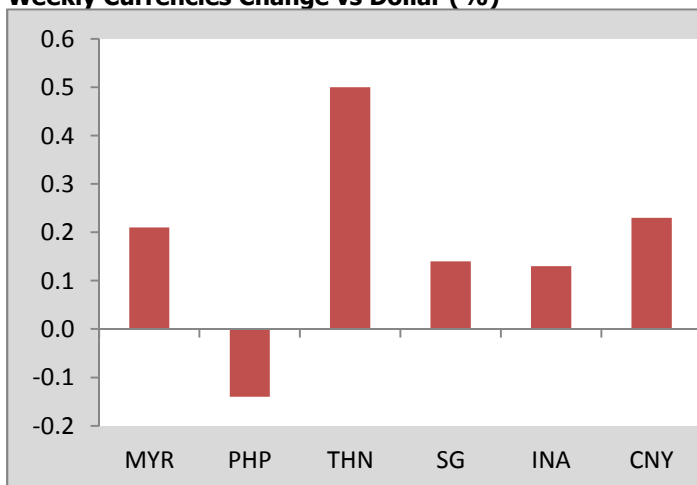
	Close (24/3)	Prev Close (17/3)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	99.63	100.30	-0.673	-0.7	101.12	102.50	103.0	103.5
EURUSD	1.080	1.074	0.006	0.6	1.055	1.045	1.020	1.030
GBPUSD	1.247	1.240	0.008	0.6	1.230	1.150	1.180	1.210
USDJPY	111.3	112.7	-1.360	-1.2	114.0	118.0	120.0	119
USDMYR	4.426	4.436	-0.009	0.2	4.45	4.20	4.43	4.30
GBPMYR	5.528	5.504	0.024	0.4	5.48	5.25	5.15	5.20
JPYMYR	3.976	3.936	0.040	1.0	3.92	3.75	3.85	3.85

Quarterly figures are forecast by MIDFR

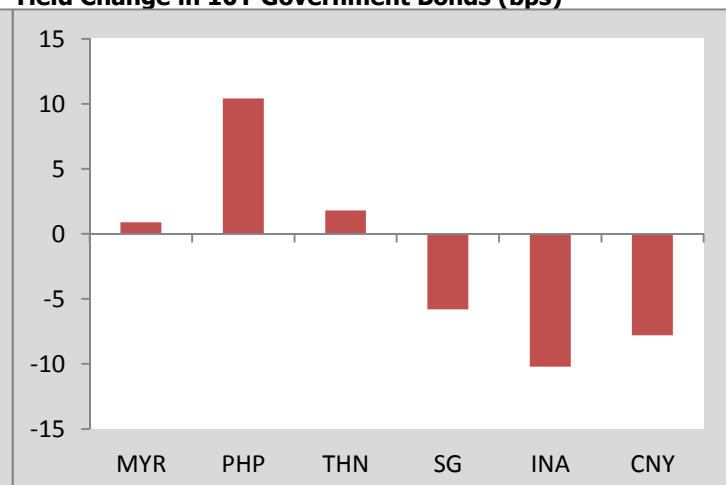
Source: CEIC, Bloomberg, MIDF Research

- Most ASEAN currencies gained except Philippines peso which saw the latter declined marginally by 0.1% to 50.24 from 50.174 last week. Thai Baht strengthened the most, edging up by 0.5% to 34.656 and look to retest the resistance level at 34.54. In the same period, Yuan advanced by 0.23% followed by Ringgit (0.21%) while SGD and the rupiah both edged 0.1 against the dollar.
- The government bonds market that we have been tracking almost mimicked the performance of its currencies but with a slight twist. The 10-year Indonesian government bonds were the biggest beneficiary - down by 10.2bps to 7.083 – a four months high. This suggests potential heavy buying took place despite its elevated level of foreign holding. The Chinese and Singaporean bond yield reduced by 7.8bps and 5.8bps respectively. Meanwhile, Malaysian and Thai's bonds price went down slightly as yield rose by 0.9bps and 1.8bps respectively. In line with the Peso's decline, the Philippine's bond yield edged up by 10.4bps.

Weekly Currencies Change vs Dollar (%)




Yield Change in 10Y Government Bonds (bps)



For the week ended on 24/3/2017
Source: Bloomberg, MIDFR

Interest rate views

- Over the last 3 months most major and emerging economies have seen their inflation rates rise in tandem with the strengthening of energy prices. The trend of inflationary pressure is broad based and felt around the world. Domestically, in February, our CPI rose 4.5% over the same corresponding period last year thanks to higher transportation cost and food items.
- On the bigger picture, would this rising inflation trigger central bank response and change its policy stance? As far as domestic economy is concerned, we are in the opinion that the current OPR of 3% remain accommodative and supportive for stimulating domestic growth. The rising inflationary pressure is mainly cost driven and is expected to taper down in the later part of the year. Hence, we do not foresee any changes in monetary stance in response to the price pressure.
- Notably, among major economies, Fed is the only central bank on a tightening cycle in response to stronger growth and rising inflation. Considering the current growth momentum we believe Fed will remain in its normalization course for the next 3 quarters. As for other major economies and Malaysia we expect central banks to keep their rates unchanged for the rest of the year. 

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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.