

MIDF Strategy | 27 November 2017

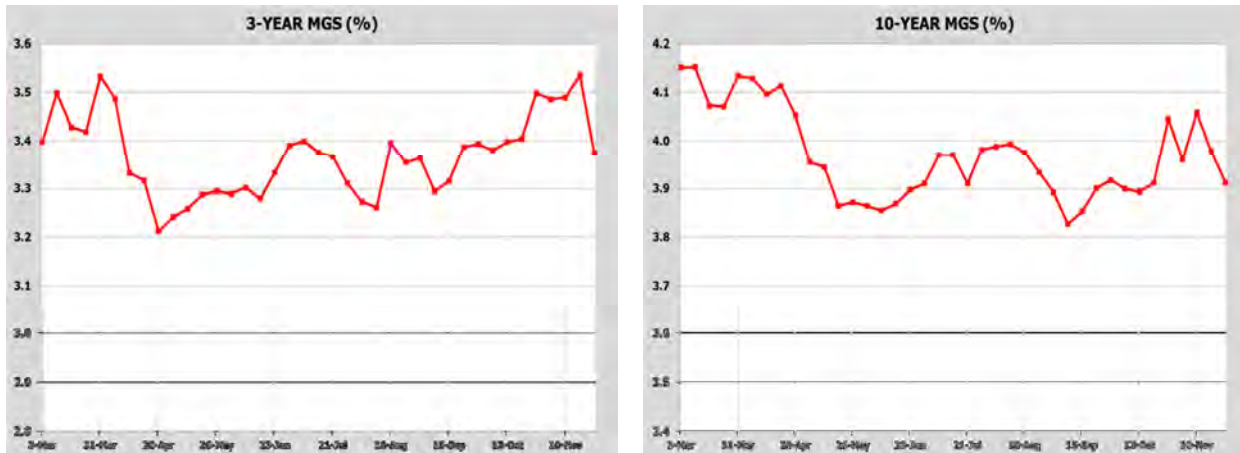
Week Ended 24 November

- The UST market is arguably still adjusting to the scenario of 4 rate hikes during the next 13 months amid hitherto benign inflation outlook. As in prior week, the yield curve flattened further last week with the long end outperforming. The 2s10s spread fell to a fresh 10-year low, the narrowest gap since early November 2007.
- The probability of a third US rate hike this year remains extremely high with the fed fund futures (Jan'18) shows 92% chance of a rate hike by end 2017 at the close of last week, unchanged from a week earlier.
- As we mentioned last week, according to Ned Davis Research, cyclical technology equity stocks have historically been the best performers during the flattening period while the defensive (e.g. health care, consumer staples and utilities) equity stocks generally outperform once the yield curve inverts.
- In the MGS market, the short-end of the curve found buying support on the back of stronger Ringgit. The USD/MYR was quoted circa 4.11 at the close of last week from 4.16 a week earlier. Meanwhile, buying interests were also seen at the long-end of the curve as CPI figure for the month of October came in below market expectation. The benchmark 3-year and 10-year erased -16.1bps and -6.7bps week-on-week to 3.37% and 3.91% respectively.

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Weekly Money Review

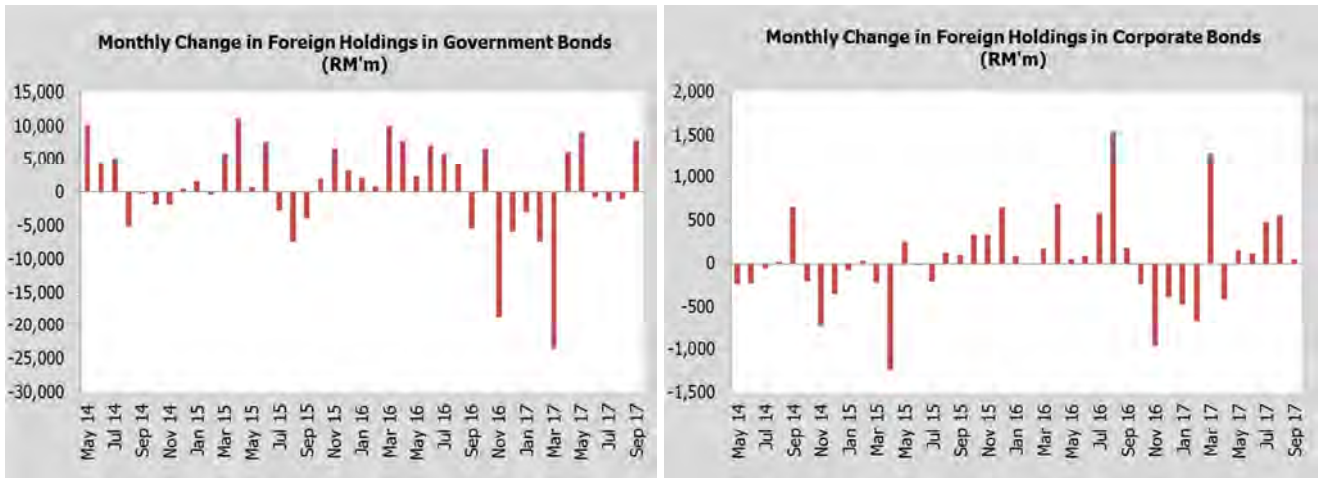
A. FIXED INCOME



Source: Bloomberg

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- Total trading value for Government Bonds (MGS/MII) increased to RM23.8b in the review week compared to RM16.4b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was at 71% (unchanged from earlier week) of the overall Government Bonds trades in the review week. In addition, all the 10 actively traded bonds saw lower yields hence higher prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short residual tenors. The top 3 most actively traded were MGS 3.26% 03/01/18 at RM4.16b, MGS 4.24% 02/07/18 at RM2.42b and MGS 3.58% 09/28/18 at RM2.25b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.61b in the review week compared to RM1.57b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 38% of the overall Corporate Bonds trades (from ~34% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with varying residual tenors. The biggest trading values were seen in Bank Islam Malaysia Berhad 5.08% 11/12/27 at RM110.0m, Sabah Development Bank 5.10% 07/11/19 at RM90.0m and Sabah Development Bank 4.85% 07/12/18 at RM90.0m.

- Total foreign holdings of Government Bonds stood at RM175.2b as at end-September 2017. It was an increase of RM7.9b from the August 2017 figure of RM167.3b.



Source: BNM

- Total foreign holdings of Corporate Bonds increased by RM53.0m in the month of September 2017 to RM16.9b.

B. FOREIGN EXCHANGE

- DXY Index depreciated by 0.7%. As FOMC minutes meeting released on Wednesday, most of committee members are worried on the US's inflation trend despite of tightening labour market. Other than that, flash November's PMI figures of manufacturing and services recorded lower than the previous month records, partly due to cost inflationary pressure.
- EURUSD steady albeit of strong business confidence. Despite of geopolitical risks in the Europe, business confidence in the region remains steady and solid. For instance, manufacturing PMI for Euro Area in November registered 57.5 points, highest in six years. EU's largest economy, Germany recorded all time-high of 117.5 in November, based on the Ifo Business Climate Index. Therefore, EUR will remain steady benefiting from the sanguine business environment in the region.

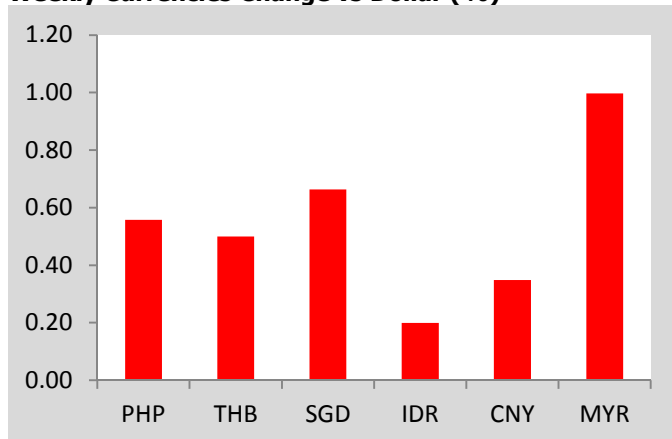
Currencies Changes (Week Ended 24/11) and Quarterly Forecasts

	Close (24/11)	Prev Close (17/11)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	93.110	93.729	-0.619	-0.7	101.12	102.50	103.00	103.50
EURUSD	1.186	1.179	0.007	0.6	1.06	1.05	1.02	1.03
GBPUSD	1.333	1.322	0.011	0.8	1.23	1.15	1.18	1.21
USDJPY	111.370	112.100	-0.730	0.7	114.00	118.00	120.00	119.00
USDMYR	4.120	4.161	-0.041	1.0	4.40	4.30	4.30	4.20
GBPMYR	5.490	5.513	-0.023	0.4	5.48	5.50	5.45	5.30
JPYMYR	3.699	3.712	-0.013	0.3	3.90	3.75	3.85	4.00

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

- Ringgit – USD/MYR lowest in 61 weeks. Continuing positive effects of 3Q17 GDP growth, MYR was seen strengthening to 4.110 last week. Even though below market expectations, inflation rate in October rose by 3.7%. We foresee inflation rate for November and December will continue rising amid of rising global oil prices. We opine USD/MYR to hover at 4.05 level underpinned by positive economic development.

Weekly Currencies Change vs Dollar (%)



Source: BLOOMBERG; MIDFR

- Almost all of our regional peers reported better than expected economic growth in the third quarter 2017. Singapore's economy grew 5.2% in 3Q2017 against official estimate of 2% to 3% growth.
- The current trend in global trade is likely to sustain its momentum into 2018. Countries which have high level of trade openness such as Malaysia will benefit for this development.
- Changes in accommodative monetary stance are expected to start in developing economies at the back of higher commodities prices.
- In general, inflationary pressures remain tepid in developed economy while higher commodities prices in recent weeks will keep the pressure on.
- Crude oil price is expected to remain elevated going into 2018 amid heighten geopolitical risks in the Middle East and expected prolong OPEC production cut.
- Inflation figure for October released last Friday was well below expectation, 3.7% vs 4.1 market expectation.
- With economic growth remain robust, crude oil prices trending upward, and inflationary pressure build up we anticipate Bank Negara to make its move in the first quarter 2018. Possible upward revision is on the card.

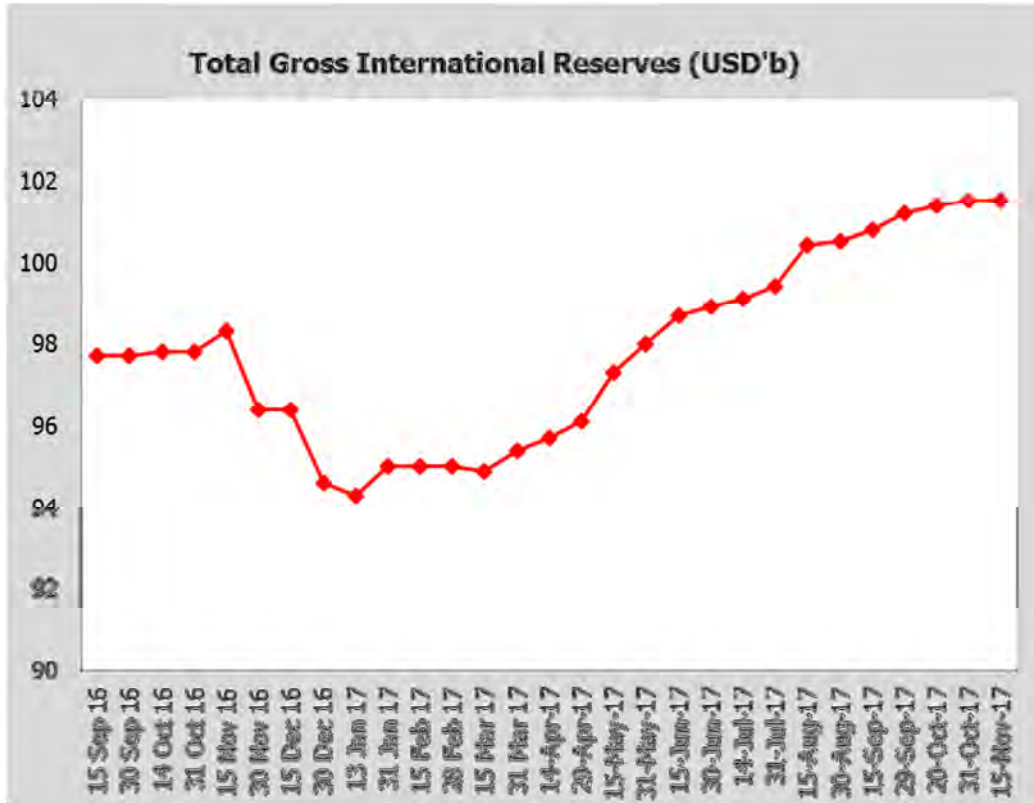
Central Bank Policy Rate by Selected Economies (%)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.50	4.25	4.25	4.25
Singapore	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
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
China	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	-0.100
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
EU	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25

Source: CEIC, MIDFR

C. BNM FOREIGN RESERVES

- As at 15 November 2017, Bank Negara Malaysia's international reserves rose remain at USD101.5b (equivalent to RM429.0b)..



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.1 times the short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	17-Nov Fri	20-Nov Mon	21-Nov Tue	22-Nov Wed	23-Nov Thu	24-Nov Fri	Change (WoW bp)
MGS							
3-Y	3.535	3.536	3.489	3.374	3.374	3.374	-16.1
5-Y	3.759	3.759	3.728	3.64	3.602	3.606	-15.3
7-Y	3.983	3.983	3.961	3.886	3.874	3.874	-10.9
10-Y	3.978	3.936	3.96	3.938	3.911	3.911	-6.7
20-Y	4.802	4.802	4.73	4.636	4.62	4.608	-19.4
RINGGIT IRS							
1-Y	3.65	3.65	3.645	3.66	3.635	3.66	1
3-Y	3.77	3.76	3.74	3.735	3.735	3.73	-4
5-Y	3.8575	3.845	3.81	3.805	3.81	3.845	-1.25
7-Y	3.97	3.975	3.93	3.965	3.92	3.965	-0.5
10-Y	4.09	4.09	4.065	4.07	4.05	4.06	-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	3.41	3.41	1
3-M	3.43	3.43	3.43	3.43	3.43	3.43	0
UST							
3-Y	1.8229	1.8554	1.8772	1.8312	1.8312	1.845	2.21
5-Y	2.0567	2.0919	2.0986	2.0417	2.0417	2.0636	0.69
7-Y	2.2304	2.2621	2.2572	2.2084	2.2084	2.2303	-0.01
10-Y	2.3435	2.3666	2.3559	2.3187	2.3187	2.3418	-0.17
30-Y	2.7778	2.7801	2.7577	2.7392	2.7392	2.7638	-1.4
USD LIBOR							
1-M	1.28719	1.29418	1.31287	1.3275	1.32862	1.33756	5.037
2-M	1.38278	1.38833	1.39726	1.40578	1.40767	1.41213	2.935
3-M	1.44067	1.44594	1.454	1.46233	1.46206	1.46763	2.696

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	17-Nov Yield	24-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.26	03/01/18	2.650	2.380	-27.0	4,158.2
MALAYSIA GOVERNMENT	4.24	02/07/18	2.689	2.412	-27.7	2,415.8
MALAYSIA GOVERNMENT	3.58	09/28/18	2.884	2.440	-44.4	2,247.4
MALAYSIA GOVERNMENT	3.492	03/31/20	3.468	3.200	-26.8	1,548.2
MALAYSIA GOVERNMENT	3.844	04/15/33	4.650	4.469	-18.1	1,480.0
MALAYSIA INVESTMNT ISSUE	3.872	08/30/18	3.260	3.000	-26.0	1,407.2
MALAYSIA GOVERNMENT	3.654	10/31/19	3.412	3.167	-24.5	986.6
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.327	4.238	-8.9	955.0
MALAYSIA GOVERNMENT	3.759	03/15/19	3.310	2.925	-38.5	876.5
MALAYSIA GOVERNMENT	4.048	09/30/21	3.799	3.639	-16.0	793.0
TOTAL VOLUME (TOP 10)						16,867.8
TOTAL VOLUME (Overall)						23,751.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	17-Nov Yield	24-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
BANK ISLAM MALAYSIA BHD	5.08	11/12/27	#N/A N/A	5.030	#VALUE!	110.0
SABAH DEVELOPMENT BANK	5.1	07/11/19	#N/A N/A	4.739	#VALUE!	90.0
SABAH DEVELOPMENT BANK	4.85	07/12/18	#N/A N/A	4.396	#VALUE!	90.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	5.168	5.168	0.0	60.0
CAGAMAS BERHAD	4.05	12/20/18	3.724	3.726	0.2	60.0
CIMB GROUP HOLDINGS BHD	5.8	PERP	4.985	5.451	46.6	41.0
MMC CORP BHD	5.95	11/12/27	5.368	5.361	-0.7	40.0
UMW HOLDINGS BERHAD	5.22	10/02/26	4.989	4.965	-2.4	40.0
DANAJAMIN NASIONAL BHD	4.8	10/06/27	4.780	4.775	-0.5	40.0
SOUTHERN POWER GENERATIO	5.37	10/29/32	#N/A N/A	5.360	#VALUE!	35.0
TOTAL VOLUME (TOP 10)						606.0
TOTAL VOLUME (Overall)						1,605.6

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.