

## MIDF Strategy | 29 May 2017

Week Ended 26 May

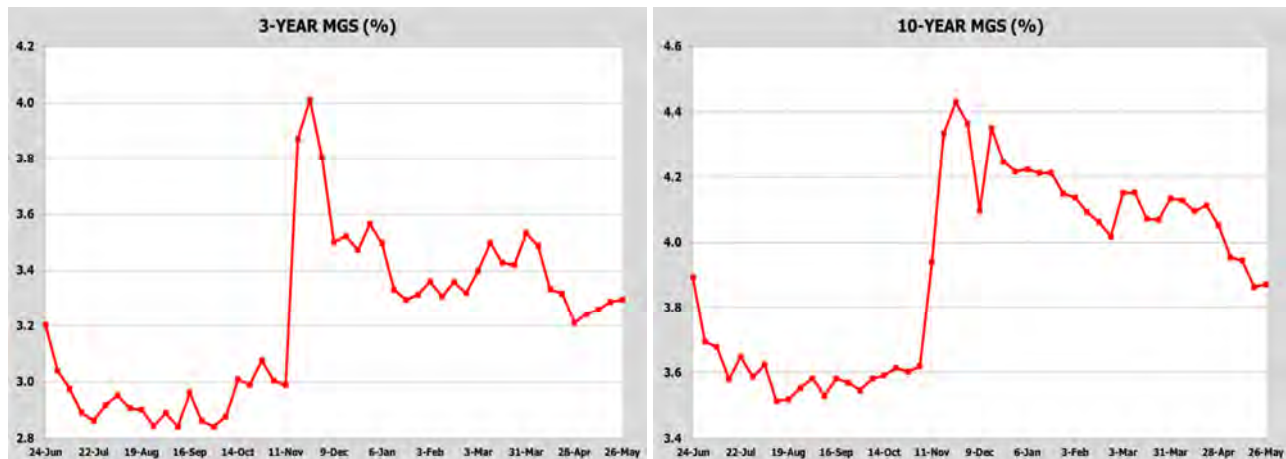
- US Treasury yields gained across the board arguably driven by news that the US Fed shall imminently initiate the process to wind down its USD4.5t balance sheet.
- The unwinding process may involve lower reinvestment in the proceeds of maturing bonds or even outright sale of existing bonds, both of which would exert upward pressures on yield.
- In the local scene, while the yields of both 3-year and 10-year MGS rose by 0.7bp and 0.8bp respectively, price support was seen in 20-year issue as its yield dropped by -5.3bp.
- As at 15 May 2017, BNM's international reserves totaled USD97.3b, up USD1.2b from a fortnight ago, sufficient to finance 7.8 months of retained imports and is 1.1x short-term external debts.
- DXY Index gained on week to 97.442 partly due to positive revision of US GDP growth at 1.2%yoy. Nonetheless, Ringgit appreciated against USD to 4.269 on favorable domestic macro data.



29 May 2017 | Strategy

## Weekly Money Review

### A. FIXED INCOME



Source: Bloomberg

- US Treasury yields gained across the board arguably driven by the news that the US Fed shall imminently initiate the process to wind down its balance sheet. The US Fed's balance sheet currently contains ~USD4.5t asset portfolio of principally government debt it accumulated mostly since the aftermath of the 2008 financial crisis. The unwinding process may involve lower reinvestment in the proceeds of maturing bonds or even outright sale of existing bonds, both of which would exert upward pressures on yield.
- In the local scene, while the yields of both 3-year and 10-year MGS rose by 0.7 basis points (bp) and 0.8bp respectively, price support was seen particularly in 20-year issue as its yield dropped by -5.3bp.
- Total volume trade for Government Bonds (MGS/GII) dropped to 13.2b in the review week from RM17.3b in the week before (based on Bloomberg data). The 10 most actively traded issues declined to 48% of the overall Government Bonds trades in the review week (down from ~59% in week before).
- Similar to the week before, the top 3 volumes were represented by issues with varying tenor. The top 3 most actively traded were MGS 4.01% 09/15/17 at RM877m, MGS 4.06% 09/30/25 at RM727m and MGS 3.31% 10/31/17 at RM705.9m. Moreover, 6 out of the 10 most actively traded issues saw lower yields during the past week hence higher prices.
- Total volume trade for Corporate Bonds (Conventional & Sukuk) increased to RM2.6b in the review week from RM2.4b in prior week (based on Bloomberg data). Trading interest was slightly more concentrated among the 10 most actively traded issues at circa 41% of the overall Corporate Bonds trades (up slightly from ~38% in week before).
- The top 3 actively traded issues among the Corporate Bonds were dominated by issues with relatively long remaining tenor. The biggest volumes were seen in Danainfra Nasional 4.56% 03/19/27 at RM160m, Malayan Banking 4.90% 10/27/25 at RM180m and Prasarana Malaysia Berhad 4.00% 09/06/27 at RM130m.
- Total foreign holdings in Government Bonds stood at RM161.7b as at April 2017. It was an increase of RM6.0b from the March 2017 figure of RM155.7b.



Source: BNM

- Likewise, total foreign holdings in Corporate Bonds increased by RM536m in the month of April 2017 to RM16.5b.

## B. FOREIGN EXCHANGE

- DXY Index improved to 97.442 last week as compared to the week before. This is partly due second revision of US's GDP annualised growth recorded higher than initial forecast, 1.2%yoy vs 0.9%yoy. Apart from that, the US durable goods orders contracted less than market expectations, 0.7%yoy vs 1.2%yoy.
- EURUSD and GBPUSD shrank by 0.2% and 1.8% respectively last week. As the US economy registered a solid growth, most investors are eyeing on the Federal Reserves, hoping for another rate hike. Besides, the recent Manchester attack could possibly drag down business and consumer confidences especially in the UK which indirectly affect the GBP as well as EUR.

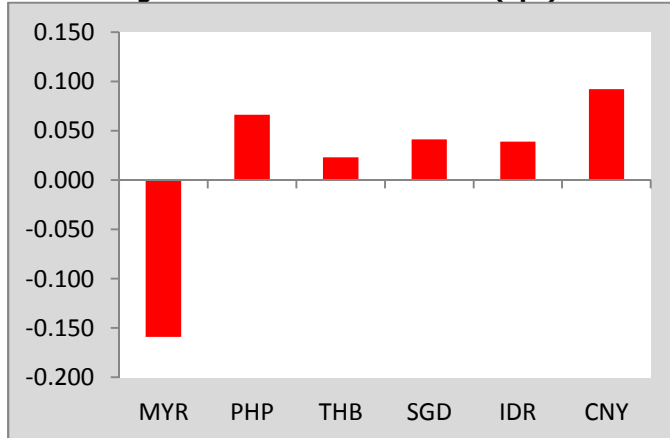
### Currencies Changes (Week Ended 26/5) and Quarterly Forecasts

	Close (26/5)	Prev Close (19/5)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	97.442	97.142	0.300	0.3	101.12	102.50	103.00	103.50
EURUSD	1.118	1.121	-0.002	-0.2	1.06	1.05	1.02	1.03
GBPUSD	1.280	1.304	-0.023	-1.8	1.23	1.15	1.18	1.21
USDJPY	111.330	111.260	0.070	-0.1	114.00	118.00	120.00	119.00
USDMYR	4.269	4.322	-0.053	1.2	4.45	4.20	4.43	4.30
GBPMYR	5.497	5.619	-0.121	2.2	5.48	5.50	5.45	5.30
JPYMYR	3.834	3.884	-0.050	1.3	3.92	3.75	3.85	3.85

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

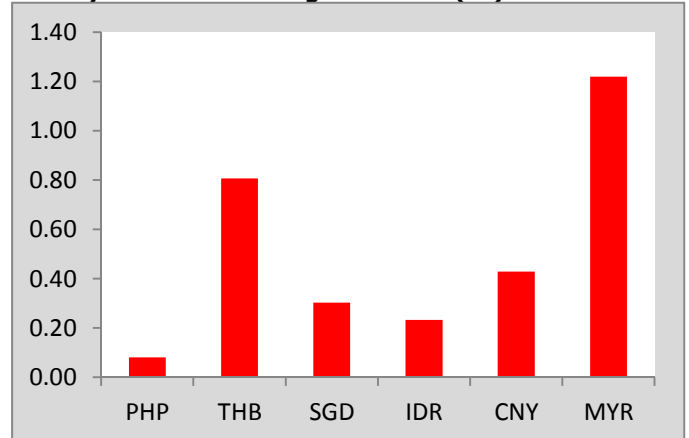
- Ringgit – remain on recovery path. USDMYR declined to 4.269 from previous weekly close of 4.322, mainly due to positive market expectation based on the upbeat first quarter GDP which beat market expectation. We expect Malaysia's GDP to continue its growth momentum for the rest of the year. The continuing positive macroeconomic data will be supportive for Ringgit.

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



Source: BLOOMBERG; MIDFR

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

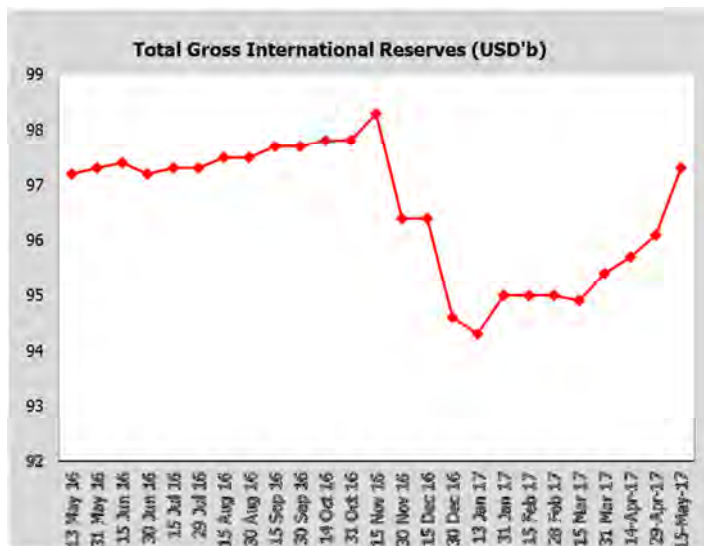


Source: BLOOMBERG; MIDFR


- In recent weeks 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 basely felt around the world.
- Cost push inflationary pressure is expected to taper down with yearly price differential is expected to narrow. Domestically, our inflation reading demonstrating downward trend with the latest figure for April came lowest in 2 months.
- On the monetary policy, notably, among major economies, Fed is the only central bank on a tightening cycle in response to stronger growth. Stronger labor market data due to be release this week is expected to pave the way for another rate hike in June.
- Considering the current growth momentum and balanced external risks we believe Fed will remain on its rate normalization course of 3 rate hikes this year.
- Domestically, we foresee at this juncture with waning and balanced external risks and moderating inflation the current monetary stance will continue to be supportive. Current OPR at 3% is expected to remain for the rest of the year.

## C. BNM FOREIGN RESERVES

- As at 15 May 2017, Bank Negara Malaysia's international reserves totaled USD97.3b (equivalent to RM430.5b), up USD1.2b from USD96.1b a fortnight ago.



Source: BNM

- The amount of reserves is sufficient to finance 7.8 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	19-May Fri	22-May Mon	23-May Tue	24-May Wed	25-May Thu	26-May Fri	Change (WoW bp)
MGS							
3-Y	3.287	3.326	3.297	3.297	3.317	3.294	0.7
5-Y	3.545	3.545	3.554	3.572	3.553	3.56	1.5
7-Y	3.799	3.815	3.791	3.799	3.806	3.783	-1.6
10-Y	3.864	3.873	3.86	3.875	3.872	3.872	0.8
20-Y	4.607	4.607	4.584	4.558	4.554	4.554	-5.3
RINGGIT IRS							
1-Y	3.515	3.5125	3.515	3.53	3.525	3.525	1
3-Y	3.615	3.63	3.61	3.6295	3.6195	3.625	1
5-Y	3.72	3.73	3.725	3.705	3.71	3.725	0.5
7-Y	3.82	3.815	3.825	3.825	3.82	3.825	0.5
10-Y	3.97	3.98	3.975	3.98	3.97	3.98	1
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	1.4462	1.4569	1.4838	1.4461	1.4568	1.4539	0.77
5-Y	1.7803	1.7985	1.8267	1.7852	1.7943	1.7894	0.91
7-Y	2.0436	2.0631	2.0899	2.0509	2.0631	2.0602	1.66
10-Y	2.2346	2.2537	2.2799	2.2502	2.2554	2.2465	1.19
30-Y	2.8966	2.9136	2.9432	2.9245	2.9206	2.912	1.54
USD LIBOR							
1-M	1.01711	1.02939	1.02356	1.03272	1.04383	1.04467	2.756
2-M	1.09611	1.09889	1.10139	1.11056	1.12028	1.12083	2.472
3-M	1.18644	1.192	1.18867	1.19761	1.20039	1.20178	1.534

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	19-May Yield	26-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.012	09/15/17	3.062	3.116	5.4	877.0
MALAYSIA GOVERNMENT	4.059	09/30/24	3.856	3.799	-5.7	725.6
MALAYSIA GOVERNMENT	3.314	10/31/17	3.021	3.145	12.4	705.9
MALAYSIA GOVERNMENT	3.844	04/15/33	4.407	4.353	-5.4	671.4
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.464	3.464	0.0	610.0
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.626	3.619	-0.7	609.0
MALAYSIA GOVERNMENT	3.899	11/16/27	N/A	3.864	N/A	560.0
MALAYSIA GOVERNMENT	3.882	03/10/22	3.568	3.545	-2.3	521.9
MALAYSIA GOVERNMENT	3.659	10/15/20	3.611	3.592	-1.9	519.5
MALAYSIA GOVERNMENT	3.654	10/31/19	3.476	3.446	-3.0	517.0
TOTAL VOLUME (TOP 10)						6,317.3
TOTAL VOLUME (Overall)						13,128.2

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	19-May Yield	26-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
DANAINFRA NASIONAL	4.56	03/19/27	N/A	4.389	N/A	160.0
MALAYAN BANKING BHD	4.9	10/27/25	N/A	N/A	N/A	150.0
PRASARANA MALAYSIA BHD	4	09/06/27	N/A	N/A	N/A	130.0
PENGURUSAN AIR SPV BHD	4.04	06/15/18	N/A	N/A	N/A	120.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.987	4.980	-0.7	100.0
PENGURUSAN AIR SPV BHD	3.98	06/16/17	3.499	3.499	0.0	100.0
DANAINFRA NASIONAL	3.87	07/19/24	N/A	4.274	N/A	90.0
PRASARANA MALAYSIA BHD	4.35	08/04/26	N/A	4.361	N/A	90.0
RANTAU ABANG CAPITAL	4.14	08/28/19	4.006	4.006	0.0	70.0
CAGAMAS BERHAD	3.55	07/13/17	N/A	#N/A N/A	N/A	70.0
TOTAL VOLUME (TOP 10)						1,080.0
TOTAL VOLUME (Overall)						2,647.5

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.