

MIDF Strategy | 30 October 2017

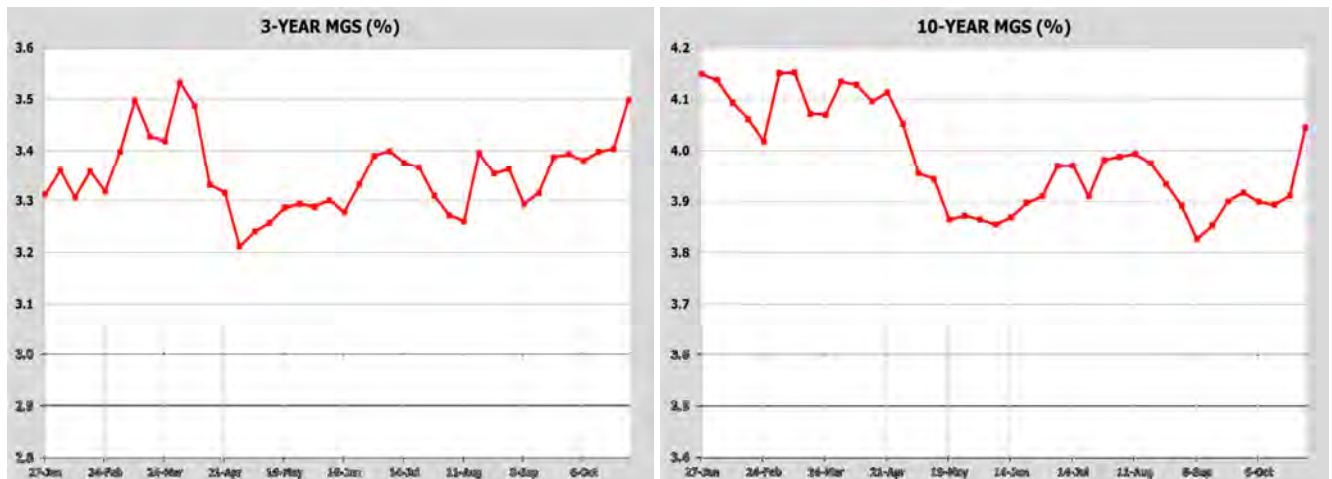
Week Ended 27 October

- The price of UST bonds fell last week, pushing yields higher, in reaction to (i) a better than expected US GDP growth report, and (ii) earlier speculation that President Trump might choose economist John Taylor, who is seen as hawkish, as the new Chairman of Federal Reserve. Nonetheless, the extent of the price decline was moderated on Friday as the US President is now believed to favour Federal Reserve Governor Jerome Powell, a pick that would hint a status quo in US monetary policy.
- The yield of 10-year UST went above 2.40% for the first time in five months. Nonetheless, the technical outlook is mixed as there was yet a bearish confirmation (i.e. death cross) despite the yield breaching all its 50-, 100-, and 200-day moving average (MA) lines at the close last week. However, the so-called death cross may manifest if the 10-year yield were to remain above 2.40% during the next month or two.
- The local MGS bonds posted price retreat with the yields of benchmark 3-year and 10-year jumped 9.4bp and 13.4bps week-on-week to 3.50% and 4.04% respectively. It is noteworthy that the 10-year yield went above 4.00% for the first time in since April this year. The major local headlines last week included Malaysia's GDP growth is expected to improve to 5.2-5.7% this year and remain robust at 5.0-5.5% in 2018.

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Weekly Money Review

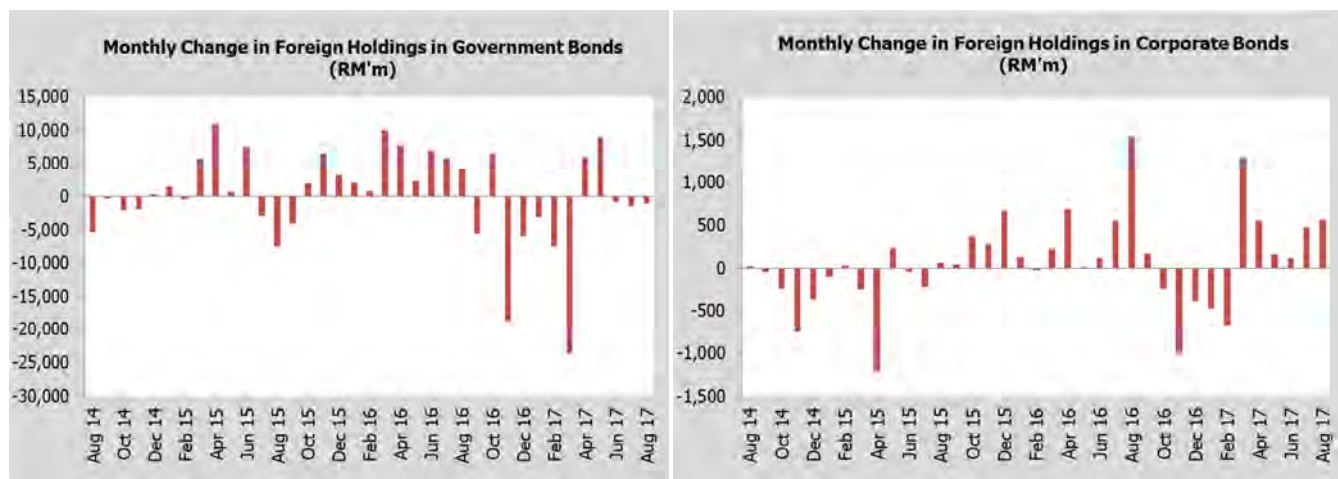
A. FIXED INCOME



Source: Bloomberg

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- The yield of 10-year UST went above 2.40% for the first time in five months. Nonetheless, the technical outlook is mixed as there was yet a bearish confirmation (i.e. death cross) despite the yield breaching all its 50-, 100-, and 200-day moving average (MA) lines at the close last week. However, the so-called death cross may manifest if the 10-year yield were to remain above 2.40% during the next month or two.
- The probability of a third US rate hike this year is growing ever larger as the fed fund futures (Jan'18) shows the odds of a rate hike by end 2017 rising to 84% at the close last week from 80% a week earlier.
- The local MGS bonds posted price retreat with the yields of benchmark 3-year and 10-year jumped 9.4bp and 13.4bps week-on-week to 3.50% and 4.04% respectively. It is noteworthy that the 10-year yield went above 4.00% for the first time in since April this year. The major local headlines last week included Malaysia's GDP growth is expected to improve to 5.2-5.7% this year and remain robust at 5.0-5.5% in 2018.
- Total trading value for Government Bonds (MGS/MII) surged to RM14.6b in the Budget announcement review week compared to RM6.9b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 69% of the overall Government Bonds trades in the review week (from ~63% in week before). In addition, 8 out of the 10 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 MGS 4.24% 02/07/18 at RM2.67b, MGS 3.26% 03/01/18 at RM1.96b and MGS 4.06% 09/30/24 at RM1.15b.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM2.73b in the review week compared to RM2.94b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 49% of the overall Corporate Bonds trades (from ~37% in the week before).

- The top 3 actively traded Corporate Bonds were dominated by issues with short to medium residual tenors. The biggest trading values were seen in Cagamas Berhad 4.1% 11/18/20 at RM250.0m, Gamuda Berhad 4.6% 03/13/19 at RM220.0m and Cagamas Berhad 4.7% 12/21/22 at RM200.0m.
- Total foreign holdings of Government Bonds stood at RM167.3b as at end-August 2017. It was a drop of RM1.11b from the July 2017 figure of RM168.4b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM563m in the month of August 2017 to RM16.8b.

B. FOREIGN EXCHANGE

- DXY Index reached 94.916, highest in thirty weeks. The US economy surprised the markets by expanding at 3% in the third quarter this year. Despite of hurricanes Harvey and Irma attacks, consumer spending and business investment in the US continue supporting the economic activity. Hence, upbeat economic growth, 16-year low unemployment and soaring market confidence are possible reasons for the Fed to raise its interest rate.
- EURUSD gloomy underpinned by bleak political situation in Spain and dovish ECB policy. The Catalan government declared independence while the Spain government called for fresh regional election in the region. Political situation in Spain remains unstable. On the other hand, ECB announced to reduce the size of its monthly asset purchase starting on January 2018 and extending the bond buying through at least September.

Currencies Changes (Week Ended 27/10) and Quarterly Forecasts

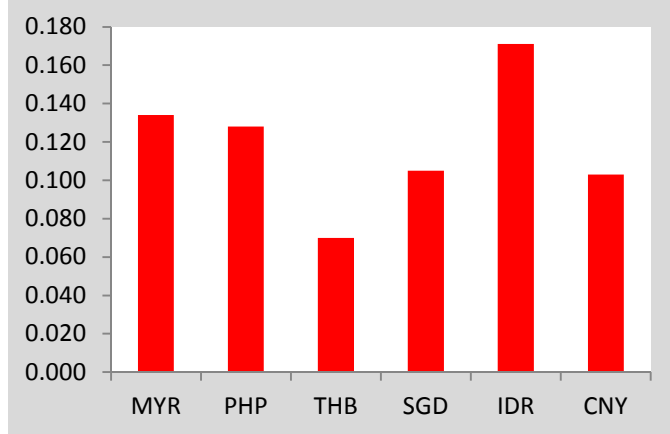
	Close (27/10)	Prev Close (20/10)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	94.916	93.810	1.106	1.2	101.12	102.50	103.00	103.50
EURUSD	1.161	1.178	-0.018	-1.5	1.06	1.05	1.02	1.03
GBPUSD	1.313	1.319	-0.006	-0.5	1.23	1.15	1.18	1.21
USDJPY	113.670	113.520	0.150	-0.1	114.00	118.00	120.00	119.00
USDMYR	4.242	4.225	0.017	-0.4	4.40	4.30	4.30	4.20
GBPMYR	5.550	5.549	0.001	0.0	5.48	5.50	5.45	5.30
JPYMYR	3.731	3.722	0.009	-0.3	3.90	3.75	3.85	4.00

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

- Ringgit – Slight depreciation ahead of Budget 2018. As general election is expected to occur next year, the recent budget saw share of development expenditure declined from 17.3% in 2017 to 16.4% in 2018. However, Budget

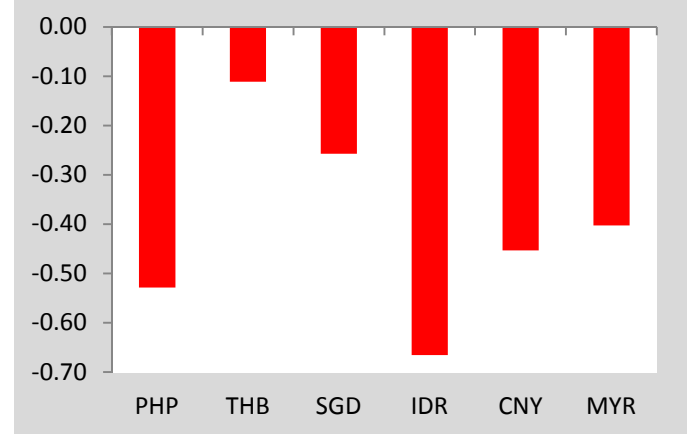
2018 is in line with Malaysia's long term plan and prudent for sustaining our economic growth and optimistic business environment. We maintain our call for the MYR at 4.200 by year-end.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

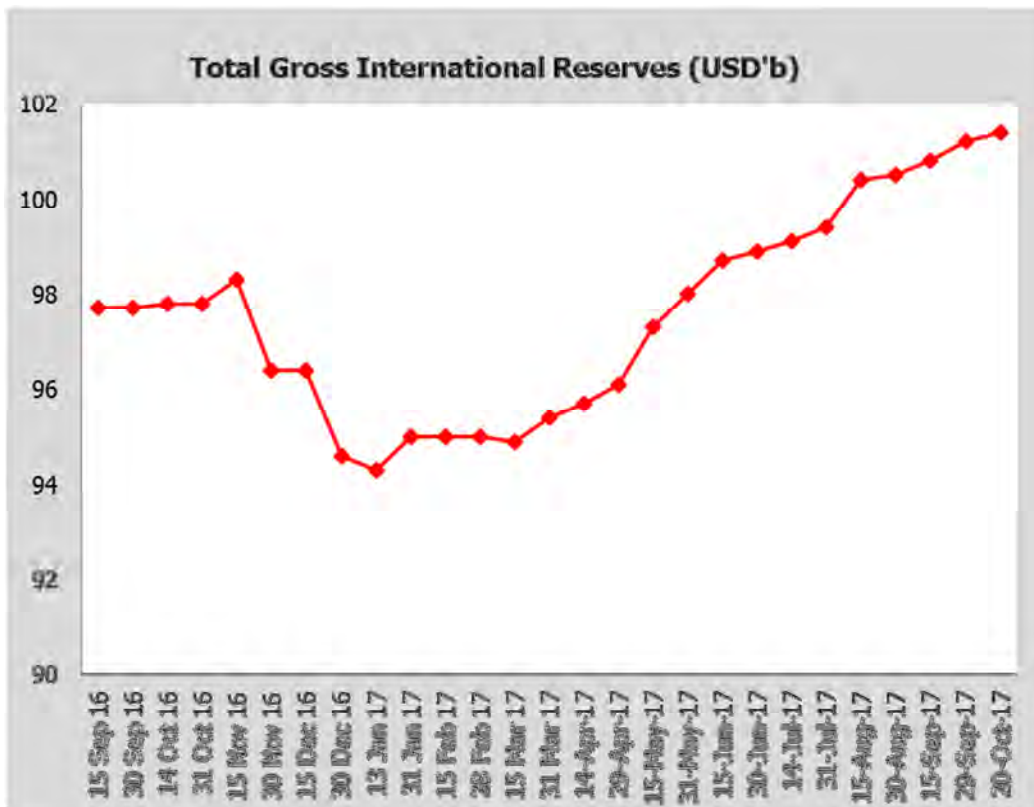


Source: BLOOMBERG; MIDFR


- Pro-growth and accommodative monetary stance is expected to persist toward the end of the year for most of the economies.
- Federal Reserve, Bank of England and Bank of Japan will be having their respective policy meeting this week.
- Fed and BoJ are expected to keep rates on hole but BoE is underway for the first rate hike in a decade
- ECB maintained its policy rate in its recent meeting last week. Additionally as anticipated, ECB announced it was cutting its massive stimulus plan but extending it to run until September.
- Eurozone economy has picked up gradually over the past 9 months but inflationary pressures remain muted at 1.5%yoy. Core inflation is trending down at 1.1% in September as compared to August.
- In general, inflationary pressures remain tepid in developed economy.
- Recovery in global economic growth continues to be broad based. But the question mark over the long term sustainability is still valid.
- Nevertheless, no expectation of major turnaround in the near future with geopolitical headwinds still continues as threats.
- Domestically, inflationary pressure is expected picked up with recent upswing in crude prices. Nevertheless, core inflation is expected to remain stable at 2.4%.
- As for the domestic monetary policy, we maintain our stance that the current OPR at 3% will remain for the rest of the year despite jumps in inflationary pressure seen in recent months amid higher fuel related prices.

C. BNM FOREIGN RESERVES

- As at 20 October 2017, Bank Negara Malaysia's international reserves rose further to USD101.4b (equivalent to RM429b), up USD0.2b from USD101.2b a fortnight earlier.



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	20-Oct Fri	23-Oct Mon	24-Oct Tue	25-Oct Wed	26-Oct Thu	27-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.404	3.472	3.479	3.498	3.498	3.498	9.4
5-Y	3.605	3.682	3.701	3.721	3.756	3.756	15.1
7-Y	3.898	3.959	3.967	3.992	4	4.025	12.7
10-Y	3.911	3.959	3.96	3.95	3.996	4.045	13.4
20-Y	4.513	4.513	4.513	4.513	4.566	4.695	18.2
RINGGIT IRS							
1-Y	3.51	3.52	3.52	3.525	3.52	3.525	1.5
3-Y	3.64	3.645	3.65	3.66	3.65	3.665	2.5
5-Y	3.7625	3.79	3.795	3.805	3.81	3.8	3.75
7-Y	3.86	3.92	3.925	3.975	3.94	3.9725	11.25
10-Y	4.01	4.04	4.04	4.05	4.06	4.08	7
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	1.7141	1.6952	1.7251	1.7252	1.7497	1.7174	0.33
5-Y	2.0202	1.9985	2.0439	2.044	2.0777	2.0281	0.79
7-Y	2.2324	2.2128	2.2595	2.267	2.2991	2.2524	2
10-Y	2.3845	2.3664	2.4189	2.4317	2.4609	2.4064	2.19
30-Y	2.8969	2.8833	2.9331	2.9404	2.9714	2.9179	2.1
USD LIBOR							
1-M	1.23788	1.23788	1.23955	1.23999	1.24166	1.24233	0.445
2-M	1.29504	1.29965	1.30431	1.30723	1.31212	1.31376	1.872
3-M	1.36476	1.36742	1.37064	1.37446	1.37796	1.38009	1.533

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	20-Oct Yield	27-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.24	02/07/18	3.057	2.982	-7.5	2,665.4
MALAYSIA GOVERNMENT	3.26	03/01/18	3.000	2.999	-0.1	1,959.6
MALAYSIA GOVERNMENT	4.059	09/30/24	3.898	4.025	12.7	1,150.9
MALAYSIA GOVERNMENT	3.882	03/10/22	3.605	3.756	15.1	845.4
MALAYSIA GOVERNMENT	3.314	10/31/17	3.055	3.260	20.5	741.7
MALAYSIA INVESTMNT ISSUE	3.872	08/30/18	3.140	3.140	0.0	680.0
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.350	3.248	-10.2	613.0
MALAYSIA GOVERNMENT	3.441	02/15/21	3.405	3.498	9.3	563.6
MALAYSIA GOVERNMENT	4.736	03/15/46	4.814	4.984	17.0	491.6
MALAYSIA GOVERNMENT	4.16	07/15/21	3.543	3.656	11.3	397.2
TOTAL VOLUME (TOP 10)						10,108.4
TOTAL VOLUME (Overall)						14,600.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	20-Oct Yield	27-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	4.1	11/18/20	3.994	3.994	0.0	250.0
GAMUDA BERHAD	4.62	03/13/19	4.210	4.200	-1.0	220.0
CAGAMAS BERHAD	4.7	12/21/22	4.140	4.170	3.0	200.0
PERBADANAN TABUNG PENDID	4.86	03/12/32	4.808	4.854	4.6	155.0
SUNWAY TREASURY SUKUK SD	ZERO	11/23/17	3.792	3.792	0.0	135.0
PERBADANAN TABUNG PENDID	4.93	08/17/32	4.824	4.836	1.2	125.0
CAGAMAS BERHAD	3.95	10/26/18	3.638	3.693	5.5	75.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	N/A	4.376	N/A	70.0
PERBADANAN TABUNG PENDID	4.29	08/17/23	N/A	4.272	N/A	60.0
CAGAMAS BERHAD	4.36	09/03/20	4.000	3.990	-1.0	60.0
TOTAL VOLUME (TOP 10)						1,350.0
TOTAL VOLUME (Overall)						2,730.5

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.