

MIDF Strategy | 31 July 2017

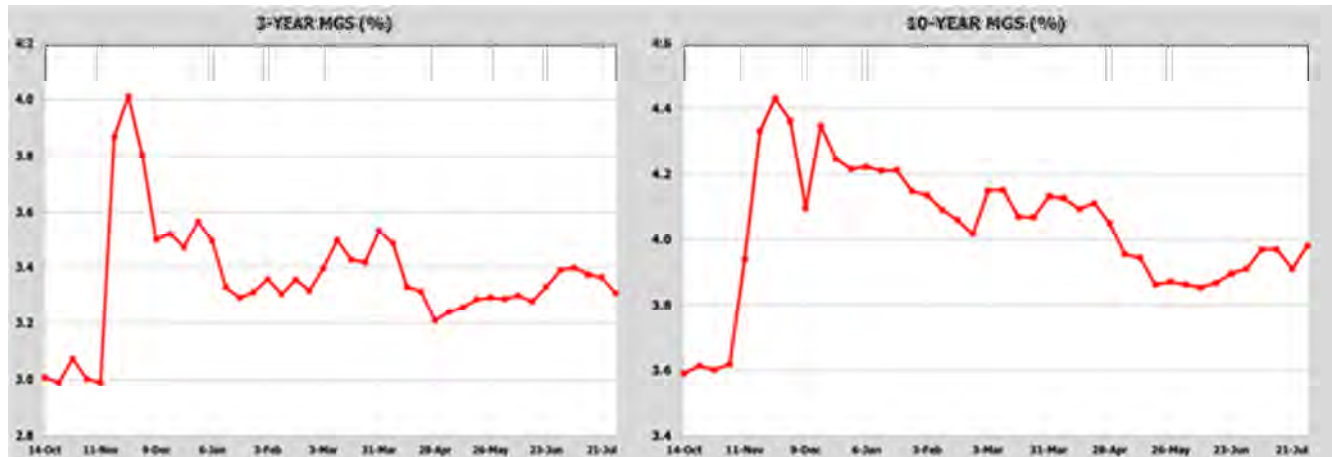
Week Ended 28 July

- The yields of UST bonds rose across the board last week, pushing prices down. The UST curve steepened as the selloff was led by the longer dated issues.
- The Fed said last week they would commence paring off their USD4.5 trillion balance sheet “relatively soon”; possibly as soon as September.
- On this score, it is notable that the balance sheet normalization process may inadvertently set the stage for further steepening of the UST curve moving forward.
- Technically, despite the price weakness, the yield of 10-year UST remained slightly below the key 200-day moving average at the close last week.
- Likewise, in the local market, MGS yield curve steepened as the yield of benchmark 3-year MGS shed -5.6bp while the benchmark 10-year yield jumped 7.1bp.
- Total trading value for MGS/GII was lower at 10.3b in the review week compared to RM11.0b in the prior week while the total trading value of 10 most actively traded issues increased to 63% in the review week (up from ~60% in week before).

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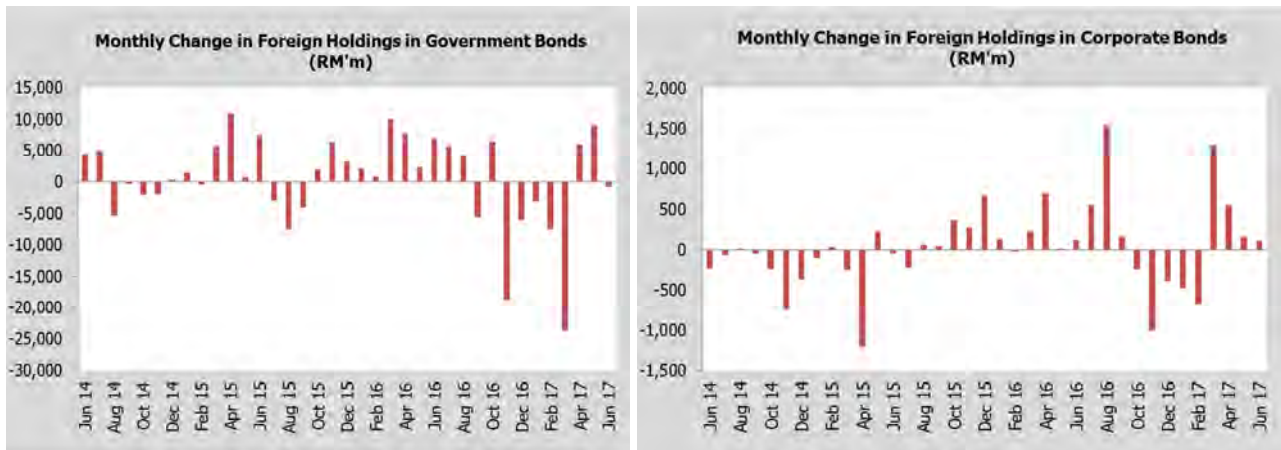
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The yields of US Treasury bonds rose across the board last week, pushing prices down. The UST curve steepened as the selloff was led by the longer dated issues. The Fed said last week they would commence paring off their USD4.5 trillion balance sheet "relatively soon"; possibly as soon as September.
- On this score, it is notable that the balance sheet normalization process may inadvertently set the stage for further steepening of the UST curve moving forward.
- Technically, despite the price weakness, the yield of 10-year UST remained slightly below the key 200-day moving average at the close last week.
- Likewise, in the local market, MGS yield curve steepened as the yield of benchmark 3-year MGS shed -5.6 basis points (bp) while the benchmark 10-year yield jumped 7.1bp.
- Total trading value for Government Bonds (MGS/GII) was lower at 10.3b in the review week compared to RM11.0b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased to 63% of the overall Government Bonds trades in the review week (up from ~60% in week before).
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with medium to long tenors. The top 3 most actively traded were MGS 4.06% 09/30/24 at RM1.30b, MGS 3.90% 11/16/27 at RM1.06b and MGS 3.88% 03/10/22 at RM829m. In addition, 9 out of the 10 most actively traded issues saw higher yields hence lower prices during the past week.
- Similarly, total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.63b in the review week compared to RM2.73b in earlier week (based on Bloomberg data). Trading interest was more concentrated among the 10 most actively traded issues at circa 33% of the overall Corporate Bonds trades (up from ~24% in the week before).
- The top 3 actively traded Corporate Bonds were represented by issues with short to medium tenors. The biggest trading values were seen in Rantau Abang Capital 4.30% 12/03/20 at RM95.0m, Perbadanan Kemajuan Selangor 4.85% 05/29/20 at RM70m and RHB Bank 4.75% 05/08/25 at RM60m.
- Total foreign holdings of Government Bonds stood at RM169.9b as end-June 2017. It was a slight drop of RM810m from the May 2017 figure of RM170.7b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM114m in the month of June 2017 to RM15.8b.

B. FOREIGN EXCHANGE

- DXY Index fell for three consecutive weeks. As expected, the US interest rate was left unchanged due to unfavourable economic data shown in inflation rates and spending levels. However, the Fed again mentioned that the tapering down of its balance sheet will be happening soon provided the economic conditions improve as anticipated. In addition, last week saw the Republicans struggled to remove Obamacare in the US Senate. We opine the continuous shrink in the Dollar index is contributed by these two factors.
- EURUSD ended higher at 1.175, rising for the third consecutive weeks. Apart from weaker USD, EU's largest economy Germany hints positive economic performance. Germany's inflation rose to 1.7% in July, highest in three months. Plus, French second quarter GDP posted at 1.8%yoy, the highest since 2011. This upbeat momentum reflected in the two major EU economies indirectly improves market confidence and causes for the appreciation in the EU currency.

Currencies Changes (Week Ended 14/7) and Quarterly Forecasts

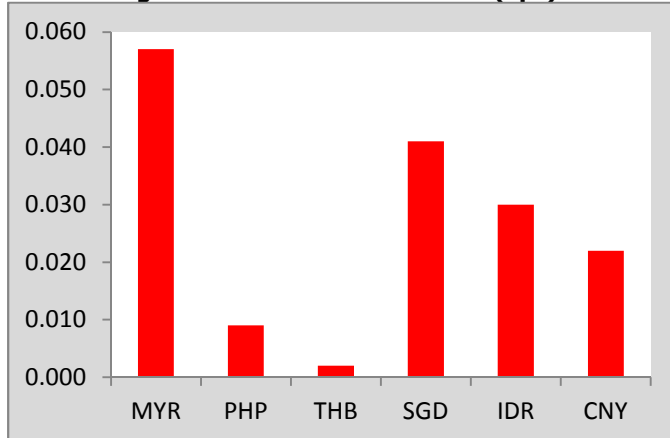
	Close (28/7)	Prev Close (21/7)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	93.259	93.928	-0.669	-0.7	101.12	102.50	103.00	103.50
EURUSD	1.175	1.166	0.009	0.8	1.06	1.05	1.02	1.03
GBPUSD	1.314	1.300	0.014	1.1	1.23	1.15	1.18	1.21
USDJPY	110.680	111.130	-0.450	0.4	114.00	118.00	120.00	119.00
USDMYR	4.281	4.284	-0.003	0.1	4.40	4.30	4.30	4.20
GBPMYR	5.600	5.568	0.032	-0.6	5.48	5.50	5.45	5.30
JPYMYR	3.868	3.855	0.014	-0.4	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

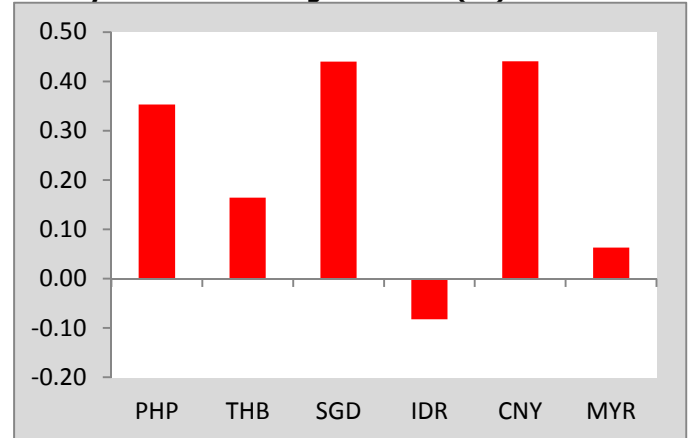
- Ringgit – appreciated to 4.281. MIER's Business and Consumer sentiment indexes released on 26 July showed uptick direction in the Malaysia's economic activities. Moreover, the legalization of e-hailing services by the Malaysia parliament last week is signaled as a greenlight for Industry 4.0 to dig deeper in our economic activities. Improve market condition and upbeat momentum in economic growth could land the Ringgit to 4.20 by year-end.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

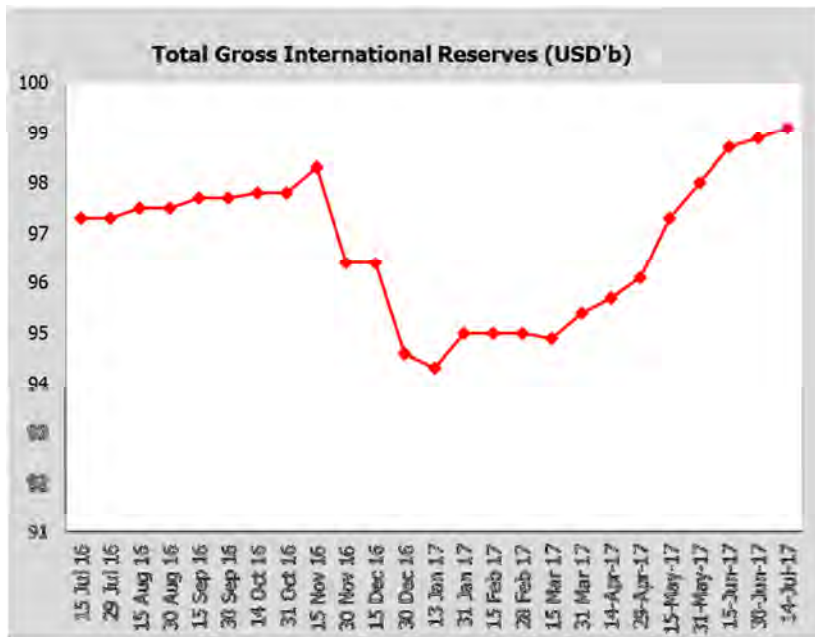


Source: BLOOMBERG; MIDFR


- The global economy in general has displayed reflation with a stream of continuing positive data since the last quarter of 2016. Higher commodity prices as well as signs of increased investments spending are validating the recent improved outlook both in developed and developing economies.
- IMF acknowledged the revival and raised its global outlook for global growth to 3.5% from 3.1% citing a surge in confidence and a better prospect in large emerging economies as well as an uptick in global trade will fuel growth in 2017.
- Fed latest policy statement suggests that the FOMC is ready to start the process of reducing its balance sheet at its September meeting as anticipated. The initial Q2 GDP estimate at 2.6% suggests the economy is still on track to achieve annualized growth of 2.2% in 2017. This should convince Fed that despite recent weaknesses of core inflation, the real economy remains in good shape
- The Euro reached its highest level against the US Dollar since before QE began. It would probably take a much larger appreciation to knock the economic recovery completely off course. But a further rise would weigh on inflation, and could ultimately prompt the ECB to delay or extend its taper.
- Domestically, the growth momentum is expected to continue for the remaining of the year albeit at relatively slower pace. The uncertainty coming from geopolitical and protectionism will remain as salient threat to future growth although receding.
- 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 14 July 2017, Bank Negara Malaysia's international reserves rose further to USD99.1b (equivalent to RM425.4b), up USD0.2b from USD98.9b a fortnight earlier.



Source: BNM

- The amount of reserves is sufficient to finance 7.9 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	21-Jul Fri	24-Jul Mon	25-Jul Tue	26-Jul Wed	27-Jul Thu	28-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.366	3.315	3.345	3.313	3.324	3.31	-5.6
5-Y	3.656	3.656	3.689	3.691	3.679	3.692	3.6
7-Y	3.888	3.888	3.896	3.916	3.903	3.916	2.8
10-Y	3.91	3.916	3.97	3.988	3.982	3.981	7.1
20-Y	4.56	4.556	4.56	4.556	4.56	4.56	0
RINGGIT IRS							
1-Y	3.495	3.495	3.495	3.495	3.495	3.5	0.5
3-Y	3.62	3.62	3.625	3.64	3.64	3.65	3
5-Y	3.74	3.74	3.75	3.765	3.76	3.765	2.5
7-Y	3.835	3.845	3.855	3.875	3.87	3.87	3.5
10-Y	3.985	3.99	4	4	4	3.995	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	1.4946	1.5107	1.5567	1.5053	1.5189	1.5026	0.8
5-Y	1.8031	1.8214	1.89	1.8265	1.852	1.8339	3.08
7-Y	2.0485	2.068	2.1487	2.0924	2.1169	2.1009	5.24
10-Y	2.2375	2.2552	2.3354	2.2872	2.3103	2.2889	5.14
30-Y	2.8087	2.8345	2.9171	2.8914	2.9194	2.8953	8.66
USD LIBOR							
1-M	1.23222	1.23278	1.23278	1.23333	1.23389	1.23167	-0.055
2-M	1.26056	1.26	1.25667	1.25778	1.25722	1.25833	-0.223
3-M	1.31444	1.31389	1.31667	1.31389	1.31111	1.31056	-0.388

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	21-Jul Yield	28-Jul Yield	Change (WoW bp)	Weekly Value (RM bn)
MALAYSIA GOVERNMENT	4.059	09/30/24	3.888	3.916	2.8	1,296.9
MALAYSIA GOVERNMENT	3.899	11/16/27	3.910	3.981	7.1	1,063.2
MALAYSIA GOVERNMENT	3.882	03/10/22	3.656	3.692	3.6	829.1
MALAYSIA GOVERNMENT	3.58	09/28/18	3.293	3.240	-5.3	669.7
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.566	3.594	2.8	647.3
MALAYSIA GOVERNMENT	3.314	10/31/17	3.036	3.055	1.9	622.4
MALAYSIA GOVERNMENT	4.012	09/15/17	2.904	3.030	12.6	413.2
MALAYSIA GOVERNMENT	4.378	11/29/19	3.401	3.469	6.8	376.5
MALAYSIA INVESTMNT ISSUE	4.045	08/15/24	4.012	4.012	0.0	280.0
MALAYSIA INVESTMNT ISSUE	3.309	08/30/17	3.050	3.140	9.0	262.5
TOTAL (TOP 10)						6,460.7
TOTAL (Overall)						10,295.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	21-Jul Yield	28-Jul Yield	Change (WoW bp)	Weekly Value (RM bn)
RANTAU ABANG CAPITAL	4.3	12/03/20	4.086	4.101	1.5	95.0
PERBADANAN KEMAJUAN SEL	4.85	05/29/20	N/A	4.847	N/A	70.0
RHB BANK	4.75	05/08/25	4.678	4.678	0.0	60.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.965	4.977	1.2	50.0
CAGAMAS BERHAD	4.25	04/28/22	4.138	4.128	-1.0	50.0
KUALA LUMPUR KEPONG BHD	4	09/02/22	N/A	4.385	N/A	50.0
SABAH DEVELOPMENT BANK	ZERO	09/26/17	N/A	4.271	N/A	44.0
SARAWAK ENERGY BHD	4.85	01/19/27	4.678	4.687	0.9	40.0
BANK PEMBANGUNAN MALAY	4.28	03/02/22	4.291	4.299	0.8	40.0
CELCOM NETWORKS SDN BHD	5.27	10/28/26	4.978	4.999	2.1	40.0
TOTAL (TOP 10)						539.0
TOTAL (Overall)						1,632.7

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.