

MIDF Strategy | 2 January 2018

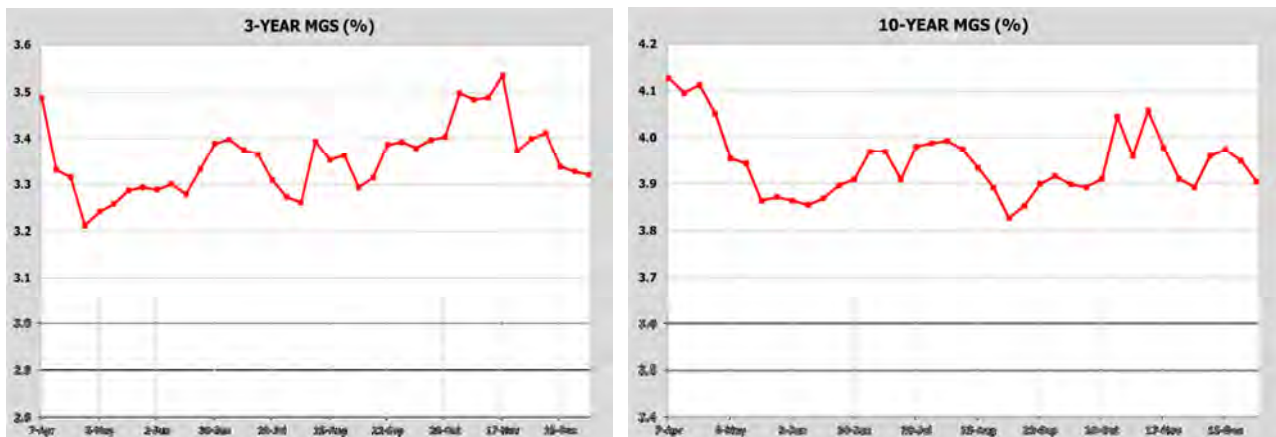
Week Ended 29 December

- The UST yield curve ended the final week of 2017 flatter. The long-end bonds were well bid which is not unusual in view of quarter-end portfolio rebalancing and month-end demand flows.
- In a wider context, it is also notable that the yield curve has in fact undergone a gradual flattening almost throughout the past year. On that score, the spread between the yields on 2-year and 10-year USTs has narrowed to just 52.2 basis points at year-end, close to the decade low reached on mid-December.
- Likewise, the local MGS curve ended the week flatter with the yields of benchmark 3-year and 10-year respectively fell -0.7bp and -4.5bps to close the week at 3.32% and 3.90%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM4.51b in the holiday-shortened review week compared to RM7.51b in earlier week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM962m in the review week compared to RM1.93b in earlier week.
- Total foreign holdings of Government Bonds stood at RM178.2b as at end-November 2017. It was an increase of RM5.2b from the October 2017 figure of RM173.0b. Total foreign holdings of Corporate Bonds increased by RM85.4m in the month of November 2017 to RM16.4b.

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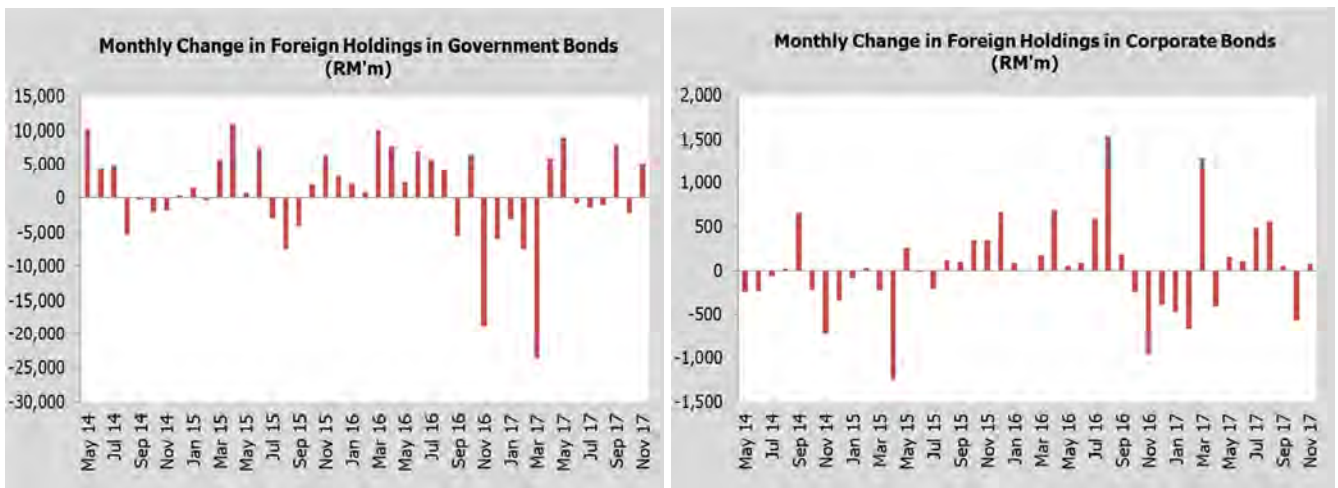
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The UST yield curve ended the final week of 2017 flatter. The long-end bonds were well bid which is not unusual in view of quarter-end portfolio rebalancing and month-end demand flows.
- In a wider context, it is also notable that the yield curve has in fact undergone a gradual flattening almost throughout the past year. On that score, the spread between the yields on 2-year and 10-year USTs has narrowed to just 52.2 basis points at year-end, close to the decade low reached on mid-December.
- Likewise, the local MGS curve ended the week flatter with the yields of benchmark 3-year and 10-year respectively fell -0.7bp and -4.5bps to close the week at 3.32% and 3.90%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM4.51b in the holiday-shortened review week compared to RM7.51b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was at 77% (~71% in the week before) of the overall Government Bonds trades in the week under review. In addition, 8 out of the 10 most 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 to medium residual tenors. The top 3 most actively traded were MII 3.95% 04/14/22 at RM767.4m, MII 3.51% 05/15/18 at RM610m and MGS 3.58% 09/28/18 at RM457m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM962m in the review week compared to RM1.93b 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 ~29% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with medium to long residual tenors. The biggest trading values were seen in Gamuda Berhad 4.83% 11/23/22 at RM55.0m, YTL Power International 5.05% 05/03/27 at RM75.0m and Bank Islam Malaysia Bhd 5.08% 11/12/27 at RM40.0m.
- Total foreign holdings of Government Bonds stood at RM178.2b as at end-November 2017. It was an increase of RM5.2b from the October 2017 figure of RM173.0b.



Source: BNM

- Total foreign holdings of Corporate Bonds increased by RM85.4m in the month of November 2017 to RM16.4b.

B. FOREIGN EXCHANGE

- DXY Index hits 15-weeks low at 92.124. Despite of the US tax cut, economic indicators released during the week shown moderating signs. Initial jobless claims recorded at 245K in the third week of December, higher than market expectations of 240K. Moreover, the US's consumer sentiment dropped to 3-months low at 95.9 points, lower than consensus forecast of 96.8 points.
- EUR reached 3-months high at 1.201. Apart from softening USD, higher than expected German's inflation at 1.7%yoy in December (Consensus: 1.5%yoy) provides extra boost for EUR to reach year-end at 1.20 level. On political side, general election in Italy is confirmed to be held on 4th March 2018. The likeliness of Italy exits EU is low due to tortuous legislative process and requires cross-party political backing. Plus, a newly-introduced electoral law that encourages parties to build alliances will surely put pressure for Eurosceptic Five-Star Movement to pull Italy out from EU.

Currencies Changes (Week Ended 29/12) and Quarterly Performances

	Close (29/12)	Prev Close (22/12)	Change	% Change	1Q17	2Q17	3Q17	4Q17
DXY Index	92.124	93.347	-1.223	-1.3	100.80	98.25	93.28	93.66
EURUSD	1.201	1.186	0.014	1.2	1.07	1.10	1.18	1.18
GBPUSD	1.351	1.336	0.015	1.1	1.24	1.28	1.31	1.33
USDJPY	112.690	113.290	-0.600	0.5	113.56	111.10	110.78	112.86
USDMYR	4.047	4.080	-0.033	0.8	4.44	4.33	4.26	4.16
GBPMYR	5.467	5.457	0.010	-0.2	5.51	5.54	5.58	5.52
JPYMYR	3.604	3.601	0.003	-0.1	3.91	3.90	3.85	3.68

Source: CEIC, Bloomberg, MIDFR

- Ringgit – Matched our year-end target at 4.05. MYR improved significantly from year-end 2016 of 4.46 underpin by the robust pace in external trade performance, recovery of global commodity prices and steady momentum in Malaysia's domestic demand. We foresee MYR to average at 4.00 while year-end at 3.95, mainly driven by continuous upbeat momentum in the economy as well as better performance in business environment.

Central Bank Policy Rate by Selected Economies (%)

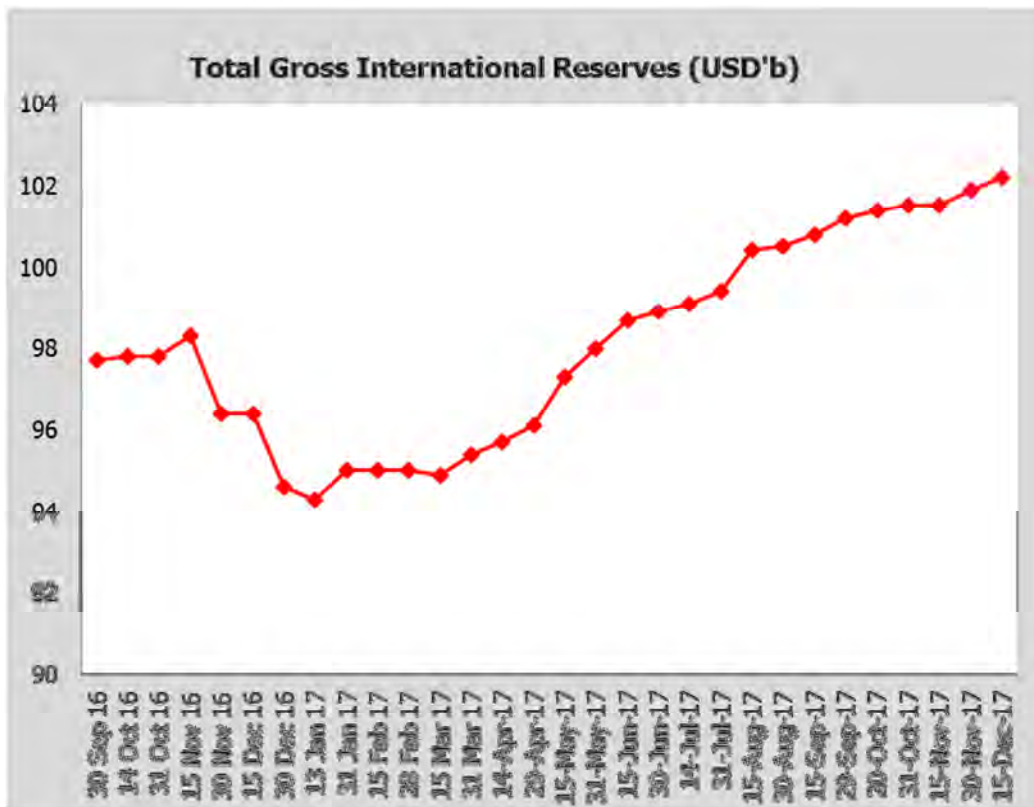
	17-Apr	17-May	17-Jun	17-Jul	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.50	4.25	4.25	4.25	4.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	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	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50
China	4.35	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	-0.10	-0.10
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
EU	0.00	0.00	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	1.50

Source: CEIC, MIDFR


- Balanced and broad-based growth in both developed and emerging economies observed in the last 12 months of 2017 will likely to sustain its momentum.
- 2018 is likely to see similar growth pattern albeit few potential headwinds that stem from policy uncertainties, geopolitical as well as development in monetary policy.
- 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 continued to benefit from this development.
- Changes in accommodative monetary stance are expected to start in both developed and emerging economies on the back of expected better economic growth and stable commodities prices.
- 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 in 2018 amid heighten geopolitical risks in the Middle East and expected prolong OPEC production cut.
- Domestically, inflationary pressure is expected to moderate amid stable commodities prices and high base effect.
- Monetary policy wise - with economic growth remain robust and crude oil prices trending upward we anticipate Bank Negara to change its monetary stance in 2018. Possible upward revision is on the card.

C. BNM FOREIGN RESERVES

- As at 15 December 2017, Bank Negara Malaysia's international reserves rose to USD102.2b (equivalent to RM431.6b).



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	22-Dec Fri	25-Dec Mon	26-Dec Tue	27-Dec Wed	28-Dec Thu	29-Dec Fri	Change (WoW bp)
MGS							
3-Y	3.328	3.328	3.328	3.328	3.321	3.321	-0.7
5-Y	3.589	3.589	3.535	3.535	3.534	3.531	-5.8
7-Y	3.905	3.905	3.905	3.905	3.905	3.876	-2.9
10-Y	3.95	3.95	3.942	3.942	3.938	3.905	-4.5
20-Y	4.604	4.604	4.604	4.604	4.588	4.542	-6.2
RINGGIT IRS							
1-Y	3.65	3.65	3.65	3.645	3.645	3.645	-0.5
3-Y	3.75	3.75	3.75	3.75	3.74	3.745	-0.5
5-Y	3.835	3.835	3.83	3.825	3.83	3.825	-1
7-Y	3.94	3.94	3.9395	3.94	3.925	3.925	-1.5
10-Y	4.07	4.07	4.07	4.06	4.055	4.055	-1.5
KLIBOR							
1-M	3.18	3.18	3.18	3.18	3.18	3.18	0
2-M	3.42	3.42	3.42	3.42	3.43	3.43	1
3-M	3.43	3.43	3.43	3.44	3.44	3.44	1
UST							
3-Y	2.0083	2.0083	2.0139	1.9758	1.995	1.9707	-3.76
5-Y	2.249	2.249	2.2424	2.1934	2.2361	2.2064	-4.26
7-Y	2.3931	2.3931	2.3833	2.3313	2.3586	2.3327	-6.04
10-Y	2.481	2.481	2.4756	2.4107	2.4305	2.4054	-7.56
30-Y	2.8309	2.8309	2.8246	2.7461	2.7561	2.7399	-9.1
USD LIBOR							
1-M	1.56375	1.56375	1.56375	1.569	1.56775	1.56425	0.05
2-M	1.61674	1.61674	1.61674	1.62347	1.62189	1.62186	0.512
3-M	1.68577	1.68577	1.68577	1.69339	1.69465	1.69428	0.851

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	22-Dec Yield	29-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.888	3.794	-9.4	767.4
MALAYSIA INVESTMNT ISSUE	3.508	05/15/18	2.869	3.251	38.2	610.4
MALAYSIA GOVERNMENT	3.58	09/28/18	2.804	2.742	-6.2	456.7
MALAYSIA GOVERNMENT	3.899	11/16/27	3.950	3.905	-4.5	436.2
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.260	4.187	-7.3	292.6
MALAYSIA GOVERNMENT	4.059	09/30/24	3.905	3.876	-2.9	239.8
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.485	3.431	-5.4	187.7
MALAYSIA INVESTMNT ISSUE	4.724	06/15/33	4.728	4.651	-7.7	185.5
MALAYSIA GOVERNMENT	3.418	08/15/22	3.768	3.691	-7.7	158.1
MALAYSIA GOVERNMENT	3.26	03/01/18	2.799	2.821	2.2	133.7
TOTAL VOLUME (TOP 10)						3,467.9
TOTAL VOLUME (Overall)						4,510.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	22-Dec Yield	29-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
GAMUDA BERHAD	4.825	11/23/22	4.757	4.734	-2.3	55.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.903	4.892	-1.1	52.4
BANK ISLAM MALAYSIA BHD	5.08	11/12/27	5.040	5.040	0.0	40.0
MALAKOFF POWER BHD	4.9	12/17/18	4.218	4.201	-1.7	40.0
MMC CORP BHD	5.95	11/12/27	5.362	5.358	-0.4	40.0
SARAWAK ENERGY BHD	4.7	06/22/18	3.855	3.892	3.7	32.0
GOLDEN ASSETS INTERNATIO	5.35	08/05/19	5.892	5.167	-72.5	30.0
PROJEK LEBUHRAYA USAHASA	4.96	01/12/29	#N/A N/A	4.696	#VALUE!	30.0
AFFIN BANK BHD	5.45	02/05/27	4.836	4.828	-0.8	25.0
PROJEK LEBUHRAYA USAHASA	4.8	01/12/27	4.631	4.615	-1.6	25.0
TOTAL VOLUME (TOP 10)						369.4
TOTAL VOLUME (Overall)						962.3

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.