

MIDF Strategy | 5 September 2017

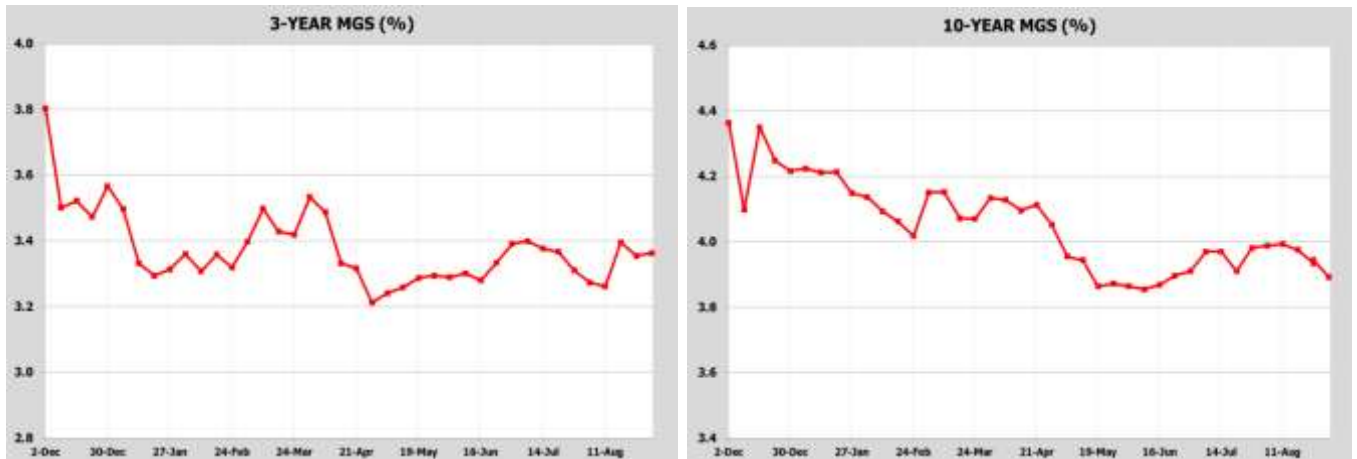
Week Ended 1 September

- The US Treasury bond curve steepened last week, with 3s30s widened by 3.3 basis points (bps) to 132bps. Trading was choppy as prices gained on August NFP report that lagged estimates but then declined after the release of highest ISM manufacturing PMI figure in six years.
- The fed fund futures (Jan'18) shows the odds of a rate hike by year-end 2017 at 30% after the release of less than expected NFP data but later rebounded to close unchanged on-week at 34%.
- Technically, the yield of 10-year UST remains bullish at below the key 200-day moving average at the close last week.
- In the holiday-shortened local scene, the MGS curve slightly flattened as the yields of benchmark 3-year and 10-year edged up 0.9bp and dropped -4.2bps week-on-week to 3.36% and 3.89% respectively.
- Total trading value for Government Bonds (MGS/MII) was lower at 11.8b in the holiday-shortened review week compared to RM15.4b in prior week (based on Bloomberg data).
- Similarly, total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.20b in the review week compared to RM2.89b in earlier week (based on Bloomberg data).

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Weekly Money Review

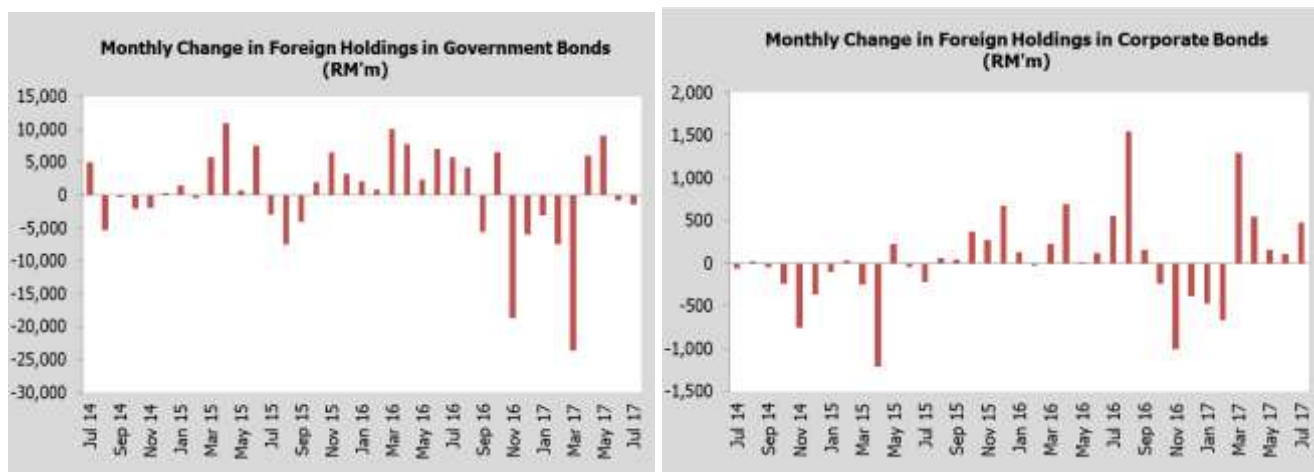
A. FIXED INCOME



Source: Bloomberg

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- Technically, the yield of 10-year UST remains bullish at below the key 200-day moving average at the close last week.
- In the holiday-shortened local scene, the MGS curve slightly flattened as the yields of benchmark 3-year and 10-year edged up 0.9bp and dropped -4.2bps week-on-week to 3.36% and 3.89% respectively.
- Total trading value for Government Bonds (MGS/MII) was lower at 11.8b in the holiday-shortened review week compared to RM15.4b in prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased to 67% of the overall Government Bonds trades in the review week (from ~64% in week before).
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with medium to long remaining tenors. The top 3 most actively traded were MGS 3.90% 11/16/27 at RM1.34b, MGS 4.05% 08/15/24 at RM1.18b and MGS 4.26% 07/26/27 at RM950m In addition, all 10 most actively traded issues saw lower yields hence higher prices during the past week.
- Similarly, total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.20b in the review week compared to RM2.89b in earlier week (based on Bloomberg data). On the other hand, trading interest was less concentrated among the 10 most actively traded issues at circa 42% of the overall Corporate Bonds trades (from ~53% 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 Danainfra Nasional 4.16% 11/26/21 at RM80.0m, Sarawak Energy Bhd 5.00% 07/04/24 at RM65.0m and Cagamas Bhd 3.95% 03/20/18 at RM55.0m.

- Total foreign holdings of Government Bonds stood at RM168.4b as at end-July 2017. It was a drop of RM1.46b from the June 2017 figure of RM169.9b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM477m in the month of July 2017 to RM16.3b.

B. FOREIGN EXCHANGE

- DXY Index slightly inclined to 92.814. Previous week saw the release of ISM manufacturing PMI figure at 58.8% which was the highest in six years. Moreover, non-farm payrolls (NFP) reached 156K jobs added into the US economy. Plus, average hourly earnings grew by 2.5%yoy.
- EURUSD contracted by 0.5%. As ECB will have its rate decision meeting this Thursday, possibility of a rate hike is absent. Apart from that, missile test conducted by North Korea caused uncertainty and indirectly affect EUR. Positive development in the US manufacturing sector sends USD into better position last week, thus affecting EUR.

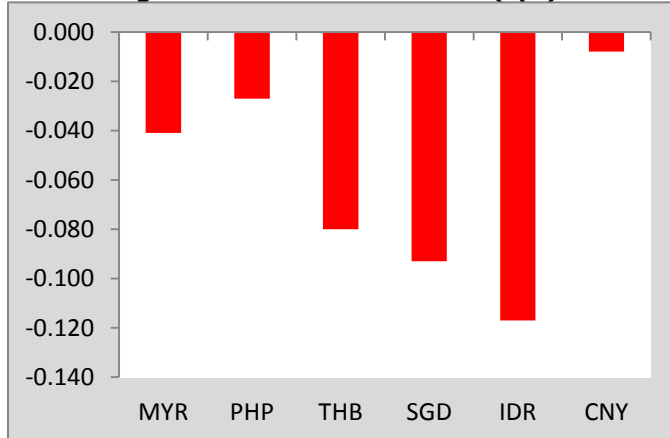
Currencies Changes (Week Ended 1/9) and Quarterly Forecasts

	Close (1/9)	Prev Close (25/8)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	92.814	92.74	0.074	0.1	101.12	102.50	103.00	103.50
EURUSD	1.186	1.192	-0.006	-0.5	1.06	1.05	1.02	1.03
GBPUSD	1.295	1.288	0.007	0.5	1.23	1.15	1.18	1.21
USDJPY	110.250	109.360	0.890	-0.8	114.00	118.00	120.00	119.00
USDMYR	4.271	4.272	-0.001	0.0	4.40	4.30	4.30	4.20
GBPMYR	5.521	5.475	0.046	-0.8	5.48	5.50	5.45	5.30
JPYMYR	3.874	3.907	-0.033	0.8	3.90	3.75	3.85	4.00

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

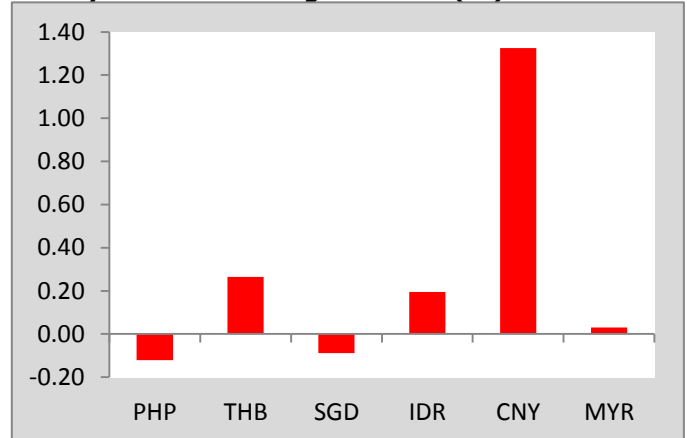
- Ringgit – Stable at 4.27. Business tendency index for third quarter of 2017 released last week showed continuous optimistic environment among overall Malaysia's businesses except for manufacturing sector. Overnight policy rate is expected to stay unchanged pursuant to MPC meeting on 7 September 2017. We maintain our call of no OPR hike this year and MYR to touch 4.20 by year-end.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

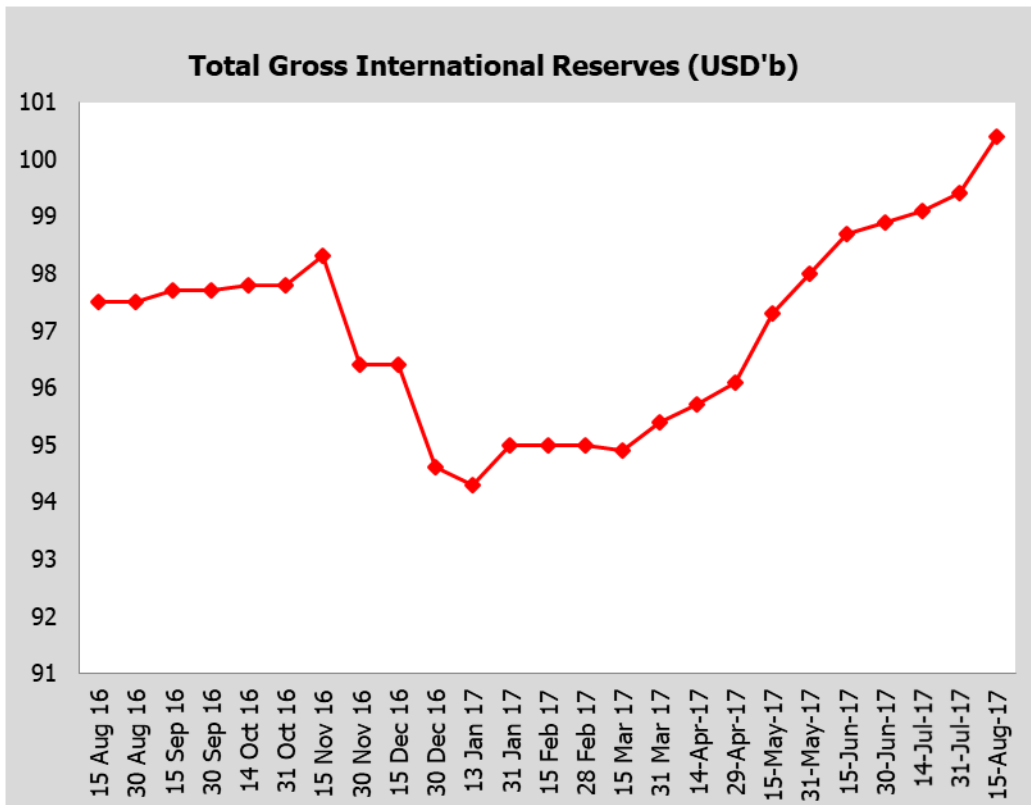


Source: BLOOMBERG; MIDFR


- Various macroeconomic data released over the past week in the US indicate the resiliency of the domestic economy. This is in tandem with Fed stance about the strength of US economy at the back of healthy employment growth and household spending amid sluggish prices.
- Fed is expected to remain on course to begin its balance sheet reduction program relatively soon which is expected to start in September. The balance sheet trimming exercise was unanimously agreed by all FOMC members as mentioned in the last July FOMC minutes.
- The changes of tones among central bankers seen in recent months indicate their optimism about the current well-being of the economy despite sluggish price environment observed in developed economies. Nevertheless, ECB and Fed are still within striking distance of their respective inflation targets, unlike BoJ.
- Nevertheless, the stickiness of long term interest to move in tandem with bullish view of the overall economy point to mixed views of the long term prospect by the market.
- Domestically, macroeconomic figures are beating market expectations. Domestic economy grew faster than expected with healthy external demand in tandem with reflation in global trade.
- As for the monetary policy, we anticipate the current OPR at 3% will remain for the rest of the year with upward inflationary pressure tapering off. The 5th MPC meeting this week is expected to maintain the policy rate at the current level.

C. BNM FOREIGN RESERVES

- As at 15 August 2017, Bank Negara Malaysia's international reserves rose further to USD100.4b (equivalent to RM431b), up USD1.0b from USD99.4b 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	25-Aug Fri	28-Aug Mon	29-Aug Tue	30-Aug Wed	31-Aug Thu	1-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.354	3.357	3.357	3.363	3.363	3.363	0.9
5-Y	3.561	3.561	3.56	3.56	3.56	3.56	-0.1
7-Y	3.868	3.858	3.85	3.853	3.853	3.853	-1.5
10-Y	3.934	3.914	3.9	3.892	3.892	3.892	-4.2
20-Y	4.537	4.537	4.537	4.529	4.529	4.529	-0.8
RINGGIT IRS							
1-Y	3.495	3.49	3.495	3.495	3.495	3.495	0
3-Y	3.6295	3.625	3.625	3.63	3.63	3.63	0.05
5-Y	3.73	3.725	3.72	3.73	3.73	3.73	0
7-Y	3.835	3.83	3.82	3.845	3.845	3.845	1
10-Y	3.97	3.97	3.965	3.97	3.97	3.97	0
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	1.4621	1.4513	1.4215	1.4322	1.4267	1.4591	-0.3
5-Y	1.7568	1.7402	1.7036	1.7167	1.702	1.7383	-1.85
7-Y	1.989	1.9769	1.9455	1.959	1.9422	1.9929	0.39
10-Y	2.1659	2.1571	2.1292	2.1309	2.117	2.1657	-0.02
30-Y	2.7469	2.7554	2.7384	2.7377	2.7262	2.777	3.01
USD LIBOR							
1-M	1.23556	1.23556	1.23889	1.23722	1.23167	1.23056	-0.5
2-M	1.27111	1.27111	1.27556	1.27556	1.27556	1.27389	0.278
3-M	1.31778	1.31778	1.31694	1.31611	1.31778	1.31611	-0.167

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	25-Aug Yield	1-Sep Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.899	11/16/27	3.934	3.892	-4.2	1,341.4
MALAYSIA INVESTMNT ISSUE	4.045	08/15/24	3.982	3.972	-1.0	1,184.5
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.075	4.047	-2.8	950.0
MALAYSIA GOVERNMENT	4.059	09/30/24	3.868	3.853	-1.5	909.2
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.498	3.487	-1.1	700.0
MALAYSIA GOVERNMENT	4.378	11/29/19	3.380	3.366	-1.4	636.4
MALAYSIA GOVERNMENT	3.58	09/28/18	3.142	3.086	-5.6	591.0
MALAYSIA GOVERNMENT	4.012	09/15/17	3.056	2.893	-16.3	567.1
MALAYSIA GOVERNMENT	4.232	06/30/31	4.426	4.392	-3.4	537.2
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.650	3.599	-5.1	450.0
TOTAL VOLUME (TOP 10)						7,866.9
TOTAL VOLUME (Overall)						11,837.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	25-Aug Yield	1-Sep Yield	Change (WoW bp)	Weekly Volume (RM bn)
DANAINFRA NASIONAL	4.16	11/26/21	4.036	3.993	-4.3	80.0
SARAWAK ENERGY BHD	5	07/04/24	4.545	4.496	-4.9	65.0
CAGAMAS BERHAD	3.95	03/20/18	3.674	3.420	-25.4	55.0
RHB ISLAMIC BANK BHD	4.95	05/15/24	4.487	4.455	-3.2	55.0
DANAINFRA NASIONAL	3.87	07/19/24	N/A	4.278	N/A	50.0
DANAINFRA NASIONAL	5.18	03/21/47	N/A	5.124	N/A	45.0
YTL POWER INTERNATIONAL	4.55	06/10/22	4.495	4.476	-1.9	40.0
DANAINFRA NASIONAL	4.45	11/11/22	4.069	4.054	-1.5	40.0
DANAINFRA NASIONAL	5.1	05/25/37	4.958	4.939	-1.9	40.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	5.078	5.069	-0.9	37.0
TOTAL VOLUME (TOP 10)						507.0
TOTAL VOLUME (Overall)						1,204.9

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.