

MIDF Strategy | 18 September 2017

Week Ended 15 September

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- The fed fund futures (Jan'18) shows the odds of a rate hike by year-end 2017 rose sharply to 46% at the close last week from 22% in earlier week.
- Nonetheless, the yield of 10-year UST remains technically bullish at below the key 200-day moving average at the close last week.
- Likewise, the MGS mostly posted price retreat with the yields of benchmark 3-year and 10-year rising 2.1bps and 2.6bps week-on-week to 3.32% and 3.85% respectively.
- Total trading value for Government Bonds (MGS/MII) was higher at RM28.7b in the review week compared to RM25.8b in the week before (based on Bloomberg data).
- USD/MYR lowest in 47 weeks. Robust IPI growth in July at 6.1%yoy and breaching new record high for retail sales growth of 14.1%yoy indirectly contribute towards the appreciation of Ringgit. Plus, positive development on investment and diplomacy relationship between the US and Malaysia improvise market sentiment thus driving the Ringgit into better position.

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Weekly Money Review

A. FIXED INCOME

- The UST bond posted overall price retreat last week, pushing yields higher, prompted by (1) selloff in UK Gilts, and (2) University of Michigan consumer sentiment index beat expectations, while 1-year and 5-10 year inflation expectations both rising.
- The fed fund futures (Jan'18) shows the odds of a rate hike by year-end 2017 rose sharply to 46% at the close last week from 22% in earlier week.
- Nonetheless, the yield of 10-year UST remains in technically bullish territory at below the key 200-day moving average at the close last week.
- Likewise, the MGS mostly posted price retreat with the yields of benchmark 3-year and 10-year rising 2.1bps and 2.6bps week-on-week to 3.32% and 3.85% respectively.
- Total trading value for Government Bonds (MGS/MII) was higher at RM28.7b in the review week compared to RM25.8b in the week before (based on Bloomberg data). The total trading value of 10 most actively traded issues increased to 62% of the overall Government Bonds trades in the review week (from ~58% in week before). In addition, 8 out of the 10 bonds saw higher yields hence lower prices during the past week.
- Furthermore, the top 3 actively traded Government Bonds were dominated by issues with medium-term remaining tenors. The top 3 most actively traded were MGS 3.88% 03/10/22 at RM4.02b, MGS 4.06% 09/30/24 at RM3.18b and MGS 3.44% 02/15/21 at RM2.29b.
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) jumped to RM3.07b in the review week compared to RM2.37b in earlier week (based on Bloomberg data). Moreover, the total trading value of 10 most actively traded issues was slightly higher at 55% of the overall Corporate Bonds trades (from ~43% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by long-dated Prasarana issues. The biggest trading values were seen in Prasarana Malaysia Berhad 5.23% 09/13/47 at RM720.0m, Prasarana Malaysia Berhad 5.01% 09/14/37 at RM580.0m and Prasarana Malaysia Berhad 5.11% 09/12/42 at RM575.0m.
- 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 improved to 9186 by 0.6%. Ahead of FOMC meeting on the 20th September, headline inflation rate of the US increase to 1.9% in August. The rise in inflation is mainly due to Hurricane Harvey's impact as gasoline price shoot up. Apart from that, core inflation remains at 1.7% and retail sales recorded lower growth in August at 3.2%yoy, lower than July. Hence, we see no solid reason for the Fed to change its current monetary policy stance given that latest inflation is driven by cost-push factors.
- EURUSD contracted by 1.1%. Despite of FOMC meeting on the 20th September, market uncertainties in the European region brew up as Germany will hold its federal election on the 24th September. Most polls suggest Angela Merkel will stay for her fourth terms as prime minister. In addition, lower than market expectations, Euro Area trade surplus registered EUR18.6 billion in July, against EUR20.1 billion as predicted by consensus.

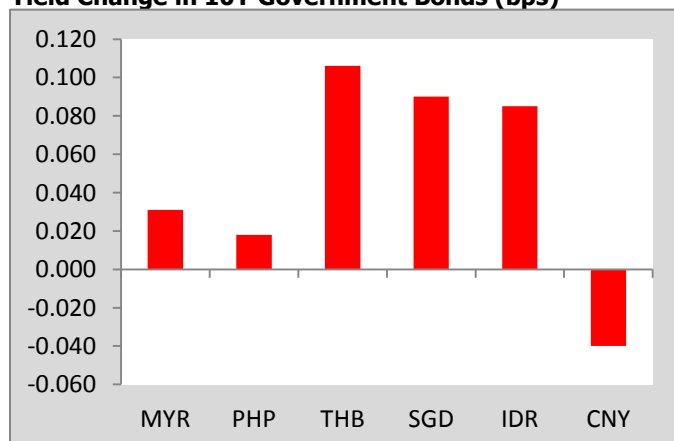
Currencies Changes (Week Ended 15/9) and Quarterly Forecasts

	Close (15/9)	Prev Close (8/9)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	91.860	91.352	0.508	0.6	101.12	102.50	103.00	103.50
EURUSD	1.191	1.204	-0.013	-1.1	1.06	1.05	1.02	1.03
GBPUSD	1.339	1.320	0.019	1.4	1.23	1.15	1.18	1.21
USDJPY	110.200	107.840	2.360	-2.2	114.00	118.00	120.00	119.00
USDMYR	4.195	4.196	0.000	0.0	4.40	4.30	4.30	4.20
GBPMYR	5.616	5.513	0.103	-1.9	5.48	5.50	5.45	5.30
JPYMYR	3.807	3.890	-0.083	2.1	3.90	3.75	3.85	4.00

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

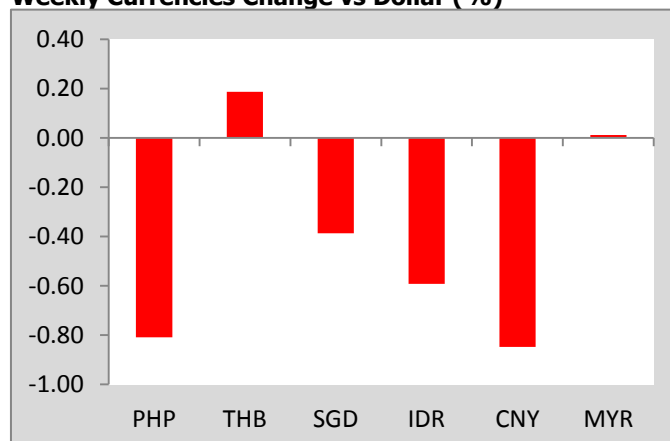
- Ringgit – USD/MYR lowest in 47 weeks. Robust IPI growth in July at 6.1%yoy and breaching new record high for retail sales growth of 14.1%yoy indirectly contribute towards the appreciation of Ringgit. Plus, positive development on investment and diplomacy relationship between the US and Malaysia improvise market sentiment thus affecting the Ringgit into better position.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)



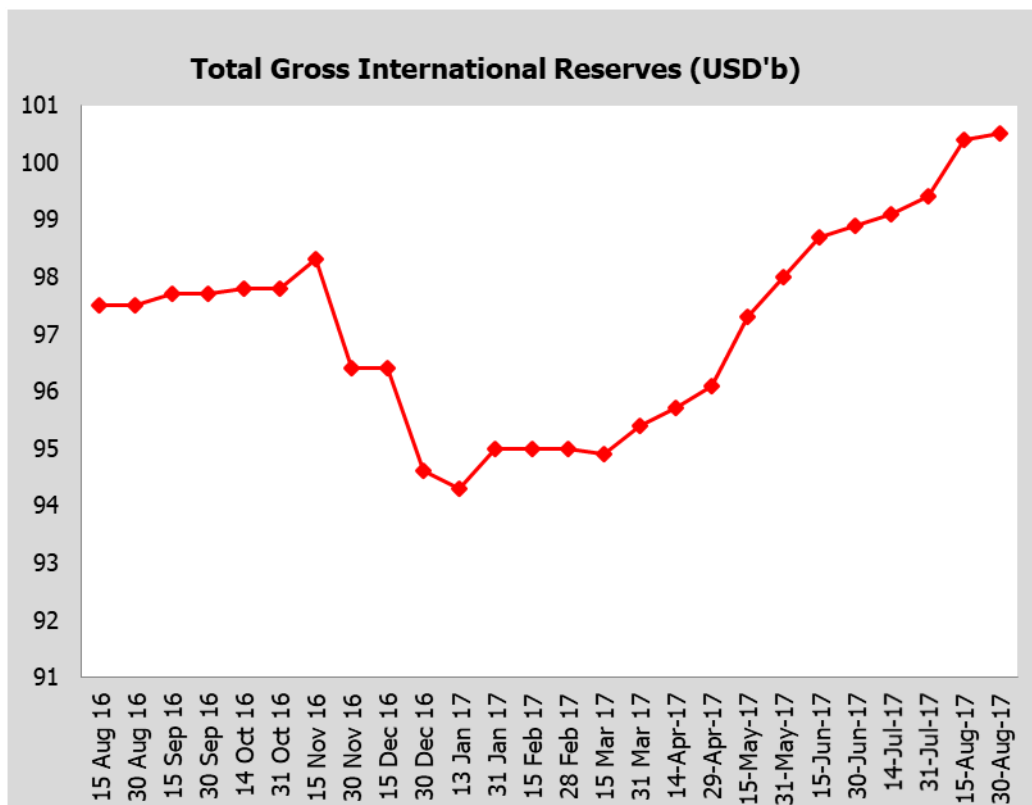
Source: BLOOMBERG; MIDFR

- Federal Reserve and Bank of Japan policy meeting this week are among key events in the monetary policy space.
- Federal Reserve will deliver its quarterly economic projection as well as its latest policy decision.


- The Fed is likely to keep interest rate on hold, while the most anticipated decision would be its detail plans to unwind its balance sheet as indicated in the last policy meeting.
- Bank of Japan is expected to continue with its supportive and accommodative monetary policy and its stimulus program is expected to remain status quo. Inflation is still way below BoJ target with signs of broad based gradual economic recovery on the card.
- The sluggish prices movement over the past few months in the developed economies albeit improved labor market conditions provide a near term challenge for central banks in normalizing the rate.
- Bank of England last week keeps their rate at the current level (0.25%) despite rising in inflationary pressure. A November hike however was mentioned and pound responded last week.
- Nevertheless, 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. ECB and Fed are still within striking distance of their respective inflation target unlike BoJ.
- As for the domestic monetary policy, we maintain our stance that the current OPR at 3% will remain for the rest of the year with upward inflationary pressure tapering off. Surge in external trade has yet putting a pressure on prices with core inflation remains within comfort threshold at 2.6%. Inflation data due this week is expected to continue sliding from previous month.

C. BNM FOREIGN RESERVES

- As at 30 August 2017, Bank Negara Malaysia's international reserves rose further to USD100.5b (equivalent to RM431b), up USD0.1b from USD100.4b a fortnight earlier.



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	8-Sep Fri	11-Sep Mon	12-Sep Tue	13-Sep Wed	14-Sep Thu	15-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.294	3.291	3.319	3.312	3.315	3.315	2.1
5-Y	3.47	3.472	3.496	3.496	3.5	3.485	1.5
7-Y	3.766	3.767	3.783	3.77	3.778	3.76	-0.6
10-Y	3.827	3.827	3.858	3.848	3.851	3.853	2.6
20-Y	4.461	4.465	4.491	4.483	4.492	4.492	3.1
RINGGIT IRS							
1-Y	3.495	3.48	3.48	3.48	3.48	3.48	-1.5
3-Y	3.5935	3.5845	3.585	3.577	3.585	3.585	-0.85
5-Y	3.6875	3.68	3.695	3.695	3.69	3.695	0.75
7-Y	3.815	3.78	3.795	3.795	3.8	3.795	-2
10-Y	3.92	3.925	3.93	3.92	3.93	3.93	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	1.3687	1.4342	1.4632	1.4792	1.498	1.5251	15.64
5-Y	1.6332	1.709	1.7454	1.767	1.777	1.8055	17.23
7-Y	1.8798	1.9545	1.9884	2.003	2.0055	2.0324	15.26
10-Y	2.0507	2.1306	2.1672	2.1883	2.1847	2.2023	15.16
30-Y	2.6692	2.743	2.7715	2.7863	2.7669	2.77	10.08
USD LIBOR							
1-M	1.23611	1.23611	1.23667	1.23444	1.23444	1.23722	0.111
2-M	1.27178	1.272	1.27222	1.27167	1.27167	1.27278	0.1
3-M	1.31033	1.31667	1.31917	1.32	1.32111	1.32389	1.356

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	8-Sep Yield	15-Sep Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.882	03/10/22	3.470	3.485	1.5	4,022.9
MALAYSIA GOVERNMENT	4.059	09/30/24	3.766	3.760	-0.6	3,181.1
MALAYSIA GOVERNMENT	3.441	02/15/21	3.294	3.315	2.1	2,286.7
MALAYSIA GOVERNMENT	3.314	10/31/17	3.043	2.925	-11.8	1,677.7
MALAYSIA GOVERNMENT	3.58	09/28/18	2.844	2.901	5.7	1,405.4
MALAYSIA INVESTMNT ISSUE	4.045	08/15/24	3.925	3.936	1.1	1,337.0
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	3.974	4.023	4.9	1,160.1
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.420	3.459	3.9	1,080.7
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.666	3.696	3.0	852.2
MALAYSIA GOVERNMENT	4.012	09/15/17	3.092	3.212	12.0	822.0
TOTAL VOLUME (TOP 10)						17,825.8
TOTAL VOLUME (Overall)						28,676.0

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	8-Sep Yield	15-Sep Yield	Change (WoW bp)	Weekly Volume (RM bn)
PRASARANA MALAYSIA BHD	5.23	09/13/47	N/A	5.141	N/A	720.0
PRASARANA MALAYSIA BHD	5.01	09/14/37	N/A	4.992	N/A	580.0
PRASARANA MALAYSIA BHD	5.11	09/12/42	N/A	5.051	N/A	575.0
PRASARANA MALAYSIA BHD	4.28	09/13/24	N/A	4.273	N/A	515.0
DANAINFRA NASIONAL	4.55	04/19/24	4.273	4.267	-0.6	140.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.867	4.859	-0.8	133.0
DANAINFRA NASIONAL	4.06	05/25/22	N/A	3.994	N/A	130.0
PRASARANA MALAYSIA BHD	4.08	09/14/22	N/A	4.023	N/A	100.0
PRASARANA MALAYSIA BHD	3.77	09/06/22	N/A	4.024	N/A	100.0
DANAINFRA NASIONAL	4.95	03/19/32	4.798	4.799	0.1	80.0
TOTAL VOLUME (TOP 10)						3,073.0
TOTAL VOLUME (Overall)						5,582.3

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.