

MIDF Strategy | 5 June 2017

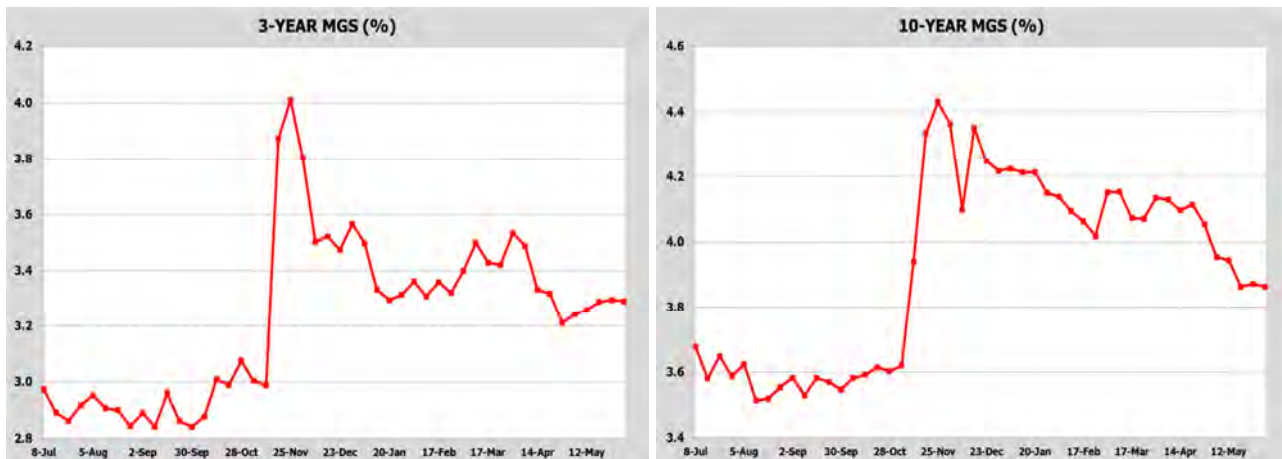
Week Ended 2 June

- UST rallied as (1) inflation gauge dropped further below 2% target, and (2) less than estimated NFP. While market still accords a high probability of a second US Fed rate hike in June, a third increase would probably come later in December.
- Yields of both 3-year and 10-year MGS slipped by 0.5bp and 0.8bp respectively.
- Total volume trade for Government Bonds dropped to RM11.6b from RM13.2b in the week before while that for Corporate Bonds increased to RM3.7b from RM2.6b.
- USDMYR depreciated to 4.281 mainly due to the lower than expected May NFP figure and we expect the Ringgit to improve further as Malaysia's macro performance is seen as positive.
- Malaysia's external trade data for April due today will give a cue on sustainability of the current growth. We are expecting another good performance by the exports segment. We maintain our view of no change in OPR for 2017.

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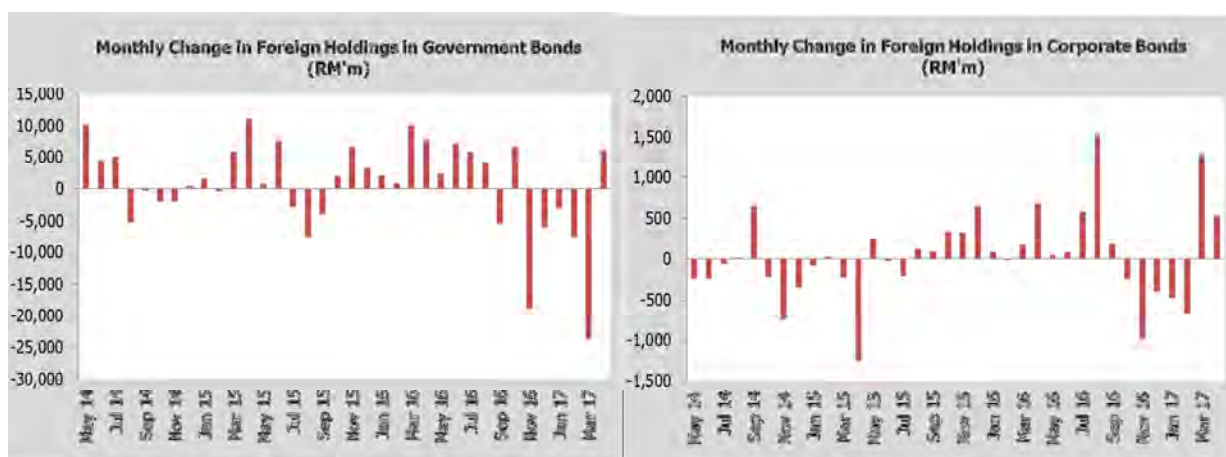
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- US Treasury rallied across the board, pushing longer-term yields to the lowest this year (e.g. benchmark 10-year yield closed at 2.16%, the lowest since US election), arguably driven by (1) the US Fed’s preferred inflation gauge dropped further below its 2% target, and (2) the US Labor Department figures showed less than estimated rise in payrolls and average hourly earnings for the month of May. While the market still accords a high 83% probability (based on EFR-FOIS) of a second US Fed rate hike in June, some market pundits now believe a third hike would only come later in December.
- Technically, the benchmark 10-year UST yield broke below the 200-day moving average in the review week.
- In the local scene, while the yields of both 3-year and 10-year MGS slipped by 0.5 basis points (bp) and 0.8bp respectively, price weakness were seen elsewhere particularly in 7-year issue as its yield rose by 4.7bp.
- Total volume trade for Government Bonds (MGS/GII) dropped to RM11.6b in the review week from RM13.2b in the week before (based on Bloomberg data). The 10 most actively traded issues increased to 53% of the overall Government Bonds trades in the review week (up from ~48% in week before).
- Similar to the week before, the top 3 volumes were represented by issues with varying tenor. The top 3 most actively traded were MGS 4.06% 09/30/24 at RM1.49b, GII 4.05% 08/15/24 at RM1.41b and MGS 3.65% 10/31/19 at RM548.7m. Moreover, 7 out of the 10 most actively traded issues saw lower yields during the past week hence higher prices.
- Total volume trade for Corporate Bonds (Conventional & Sukuk) however increased to RM3.7b in the review week from RM2.6b in prior week (based on Bloomberg data). Trading interest was slightly more concentrated among the 10 most actively traded issues at circa 52% of the overall Corporate Bonds trades (up from ~41% in week before).
- The top 3 actively traded issues among the Corporate Bonds were dominated by issues with relatively long remaining tenor. The biggest volumes were seen in Manfaat Tetap Sdn Bhd 3.50%% 01/25/29 at RM1.29b, YTL Power International 5.05% 05/03/27 at RM105m and Quill Retail Malls Sdn Bhd 5.25% 03/31/22 at RM80m.
- Total foreign holdings in Government Bonds stood at RM161.7b as at April 2017. It was an increase of RM6.0b from the March 2017 figure of RM155.7b.



Source: BNM

- Likewise, total foreign holdings in Corporate Bonds increased by RM536m in the month of April 2017 to RM16.5b.

B. FOREIGN EXCHANGE

- DXY Index went down to 96.67 on the last Friday. This was partly due to the release of May Non-Farm Payrolls (NFP) report which came in at 138,000. The figure was lower than market expectation of 185,000. Despite of that, unemployment rate of the US shrank to 4.3%, the lowest in 16 years.
- EURUSD and GBPUSD improved by 0.3% and 0.4% respectively last week. Thanks to US NFP report, weakness in the USD assisted EUR and GBP to perform slightly better last week. As for GBP, political instability and market uncertainties remain as challenges in particular this week will see the results of UK's general election on the 8th of June. Plus, further terror attacks would drag down the UK currency to a lower point.

Currencies Changes (Week Ended 26/5) and Quarterly Forecasts

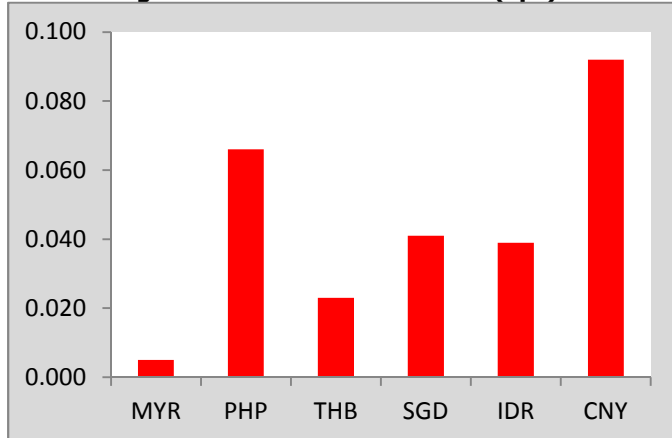
	Close (2/6)	Prev Close (26/5)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	96.670	97.442	-0.772	-0.8	101.12	102.50	103.00	103.50
EURUSD	1.122	1.118	0.004	0.3	1.06	1.05	1.02	1.03
GBPUSD	1.286	1.280	0.006	0.4	1.23	1.15	1.18	1.21
USDJPY	111.550	111.330	0.220	-0.2	114.00	118.00	120.00	119.00
USDMYR	4.281	4.269	0.012	-0.3	4.45	4.20	4.43	4.30
GBPMYR	5.505	5.497	0.008	-0.1	5.48	5.50	5.45	5.30
JPYMYR	3.837	3.834	0.003	-0.1	3.92	3.75	3.85	3.85

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDF Research

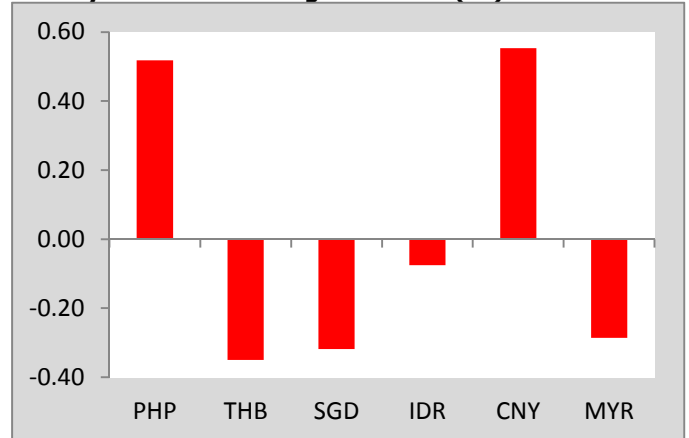
- Ringgit – remain on recovery path. USDMYR depreciated to 4.281 from previous week of 4.269. This was mainly due to the lower than expected May NFP figure. Moving forward, we expect the Ringgit will continue to improve as Malaysia's macroeconomic performance is seen as positive.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

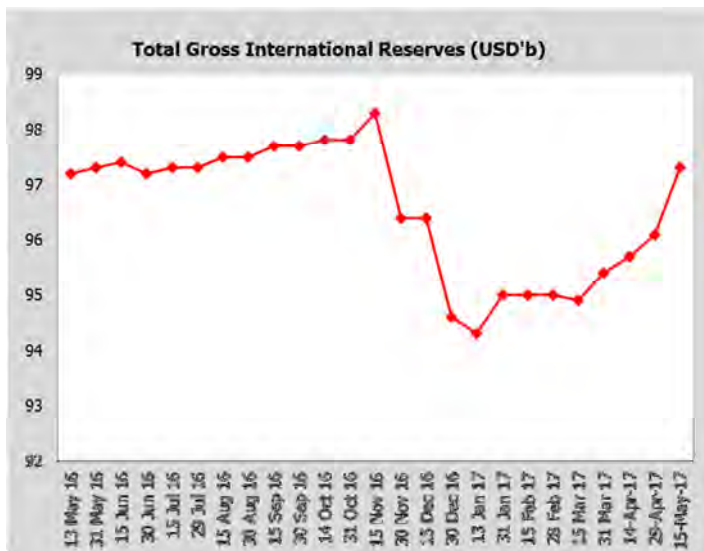


Source: BLOOMBERG; MIDFR


- Uncertainty and volatility are some of the main features of global financial market in the last 12 months. Over the last 3 months political events such as UK's election, French Presidential election and Trump's policy stance were some of the more pronounced happenings that jiggled the markets.
- In general, the threats of potential headwinds such as trade war or debt crisis are still evident but receding. The more pressing puzzle is whether the current reflation in economic growth seen in both developed economies and emerging markets is indeed sustainable.
- US job markets is indicating a slowdown with soft employment numbers as shown by May's NFP figure. The economy added 138,000 jobs well below forecasts of 185,000. The figure suggesting that labor market is losing momentum. Wage growth also disappointed, stuck at an annual rate of 2.5% while unemployment inched down to 4.3%.
- The latest labor market figures could potentially derail Fed from lifting interest rate this month. However, we still believe it is likely that the Fed will proceed with its hike later this month. The hints of subsequent hikes coming from the June meeting is essential.
- Domestically, soft data are pointing toward sustained growth. Business tendency index indicating a positive sentiment going forward. External trade data for April due today will give a cue on sustainability of the current growth. We are expecting another good performance by the exports segment.
- On the financial market, maintaining stable pace of domestic economic growth will likely made BNM to continue with its current supportive monetary stance. Hence, we maintain our view of no change in OPR for 2017.

C. BNM FOREIGN RESERVES

- As at 15 May 2017, Bank Negara Malaysia's international reserves totaled USD97.3b (equivalent to RM430.5b), up USD1.2b from USD96.1b a fortnight ago.



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	26-May Fri	29-May Mon	30-May Tue	31-May Wed	1-Jun Thu	2-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.294	3.293	3.321	3.292	3.29	3.289	-0.5
5-Y	3.56	3.56	3.564	3.562	3.577	3.582	2.2
7-Y	3.783	3.783	3.83	3.806	3.829	3.83	4.7
10-Y	3.872	3.872	3.888	3.87	3.864	3.864	-0.8
20-Y	4.554	4.554	4.56	4.542	4.553	4.561	0.7
RINGGIT IRS							
1-Y	3.525	3.525	3.525	3.525	3.525	3.525	0
3-Y	3.625	3.63	3.635	3.6295	3.64	3.64	1.5
5-Y	3.725	3.73	3.725	3.715	3.725	3.72	-0.5
7-Y	3.825	3.82	3.825	3.825	3.825	3.83	0.5
10-Y	3.98	3.98	3.98	3.975	3.98	3.98	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	1.4539	1.4539	1.4322	1.4322	1.4375	1.4237	-3.02
5-Y	1.7894	1.7894	1.7549	1.7516	1.7615	1.7188	-7.06
7-Y	2.0602	2.0602	2.0241	2.0168	2.0192	1.9711	-8.91
10-Y	2.2465	2.2465	2.2098	2.2028	2.2114	2.1591	-8.74
30-Y	2.912	2.912	2.8772	2.8634	2.8626	2.81	-10.2
USD LIBOR							
1-M	1.04467	1.04467	1.0505	1.06033	1.07589	1.08617	4.15
2-M	1.12083	1.12083	1.11444	1.12583	1.13472	1.14306	2.223
3-M	1.20178	1.20178	1.20178	1.21	1.21806	1.2225	2.072

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	19-May Yield	26-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	4.059	09/30/24	3.799	3.783	-1.6	1,494.9
MALAYSIA INVESTMNT ISSUE	4.045	08/15/24	3.900	3.924	2.4	1,412.7
MALAYSIA GOVERNMENT	3.654	10/31/19	3.446	3.436	-1.0	548.7
MALAYSIA GOVERNMENT	3.314	10/31/17	3.145	3.015	-13.0	519.9
MALAYSIA GOVERNMENT	3.58	09/28/18	3.348	3.248	-10.0	475.2
MALAYSIA GOVERNMENT	3.882	03/10/22	3.545	3.560	1.5	431.9
MALAYSIA GOVERNMENT	4.762	04/07/37	4.607	4.554	-5.3	316.0
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.619	3.631	1.2	315.0
MALAYSIA GOVERNMENT	3.844	04/15/33	4.353	4.281	-7.2	301.6
MALAYSIA GOVERNMENT	4.24	02/07/18	3.229	3.143	-8.6	277.9
TOTAL VOLUME (TOP 10)						6,093.7
TOTAL VOLUME (Overall)						11,595.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	19-May Yield	26-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MANFAAT TETAP SDN BHD	3.5	01/25/29	N/A	N/A	N/A	1,293.6
YTL POWER INTERNATIONAL	5.05	05/03/27	4.980	4.966	-1.4	105.0
QUILL RETAIL MALLS SDN	5.25	03/31/22	5.498	5.499	0.1	80.0
SABAH CREDIT CORP	4.835	06/23/23	N/A	4.730	N/A	75.0
DANAINFRA NASIONAL	4.45	11/11/22	4.150	N/A	N/A	70.0
BGSM MANAGEMENT SDN BHD	5.6	12/27/23	N/A	N/A	N/A!	60.0
BANK PEMBANGUNAN MALAY	4.98	03/02/32	4.945	4.943	-0.2	60.0
PRASARANA MALAYSIA BHD	4.35	08/04/26	4.361	4.361	0.0	60.0
MALAYAN BANKING BHD	6.3	09/25/68	4.770	4.571	-19.9	50.0
SARAWAK ENERGY BHD	4.85	01/19/27	4.702	4.702	0.0	50.0
TOTAL VOLUME (TOP 10)						1,903.6
TOTAL VOLUME (Overall)						3,683.3

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.