

MIDF Strategy | 12 March 2018

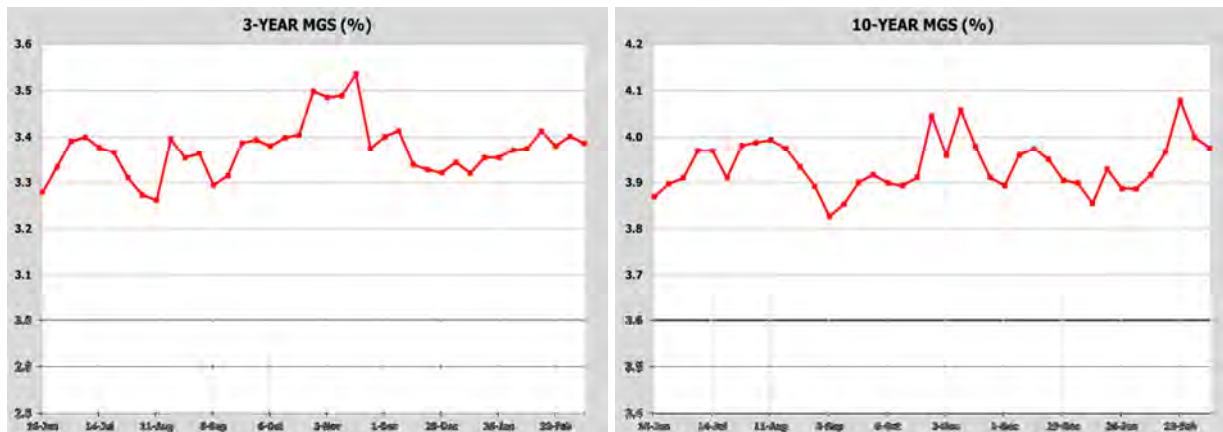
Week Ended 9 March

- The yield of UST bonds rebounded across the curve last week, pushing price lower, as the market reacted to the higher than expected non-farm payrolls figures which increased by 331K, the highest since July 2016, and soundly beating market estimate of merely 200K.
- In contrast, the local MGS recorded price gains across the curve during the review week with the yields of benchmark 3-year and 10-year respectively fell -1.5bps and -2.3bps to close the week at 3.39% and 3.98%. The no hike decision pursuant to the latest MPC meeting may have contributed to the slight easing in yields despite the higher than expected external trade figures announced for January 2018.
- Total trading value for Government Bonds (MGS/MII) declined to RM19.68b in the review week compared to RM23.30b in the previous week. The total trading value of 10 most actively traded issues was nonetheless higher at 58% of the overall Government Bonds trades in the week under review (vis-à-vis ~56% in the week before). In addition, 7 of the 10 most actively traded bonds saw lower yields hence higher prices.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.74b in the review week compared to RM2.37b in earlier week. The total trading value of 10 most actively traded issues was however lower at 32% of the overall Corporate Bonds trades (from ~37% in the week before).

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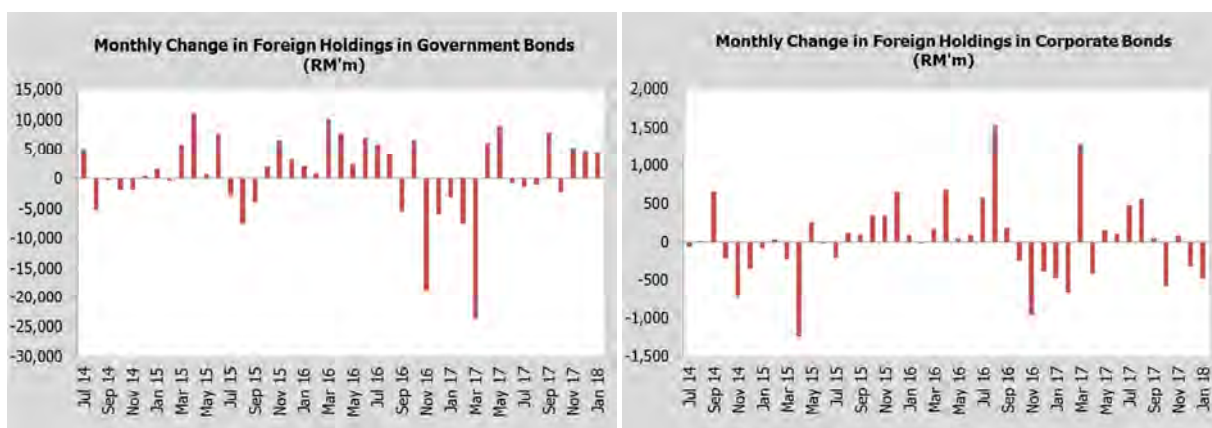
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The yield of UST bonds rebounded across the curve last week, pushing price lower, as the market reacted to the higher than expected non-farm payrolls figures which increased by 331K, the highest since July 2016, and soundly beating market estimate of merely 200K.
- In contrast, the local MGS recorded price gains across the curve during the review week with the yields of benchmark 3-year and 10-year respectively fell -1.5bps and -2.3bps to close the week at 3.39% and 3.98%. The no hike decision pursuant to the latest MPC meeting may have contributed to the slight easing in yields despite the higher than expected external trade figures announced for January 2018.
- Total trading value for Government Bonds (MGS/MII) declined to RM19.68b in the review week compared to RM23.30b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues was nonetheless higher at 58% of the overall Government Bonds trades in the week under review (vis-à-vis ~56% in the week before). In addition, 7 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 medium to long residual tenors. The top 3 most actively traded were MII 3.948% 04/14/22 at RM2.19b, MGS 3.899% 11/16/27 at RM1.87b, and MGS 4.059% 09/30/24 at RM1.56b.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.74b in the review week compared to RM2.37b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was however lower at 32% of the overall Corporate Bonds trades (from ~37% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with varying tenors. The biggest trading values were seen in DanaInfra Nasional 4.89% 05/25/32 at RM110m, Rantau Abang Capital 4.14% 08/28/19 at RM105m, and Khazanah Nasional Bhd 0.00% 03/08/21 at RM100m.
- Total foreign holdings of Government Bonds stood at RM187.5b as at end-January 2018. It was an increase of RM4.6b from the December 2017 figure of RM182.9b.



Source: BNM

- Total foreign holdings of Corporate Bonds declined by RM470.8m in the month of January 2018 to RM15.6b.

B. FOREIGN EXCHANGE

- DXY Index returned to 90 levels. Despite of the resignation of Gary Cohn and tariff imposition on aluminium & steel, the Dollar went up stronger underpin by tightening labour market in the US. For instance, jobless rate stays at 17-year low for 5-consecutive months in Feb-18 at 4.1%. In the same month, non-farm payrolls increased by 331K, outpacing market expectations of 200K and highest since Jul-16. Continuous positive signs in the labour market will provide concrete pathway for the Fed to normalise its monetary stance. We forecast 3 rate hikes this year.
- EURUSD remains intact. GDP growth for 4Q17 registered at 2.7%yoy, in tandem with market consensus. In spite of this, overall 2017 the GDP growth averaged at 2.3%, slightly below market expectations of 2.5%. We view EUR to remain at stable level and hence provide supportive points for ECB to continue with its normalisation of monetary policy.

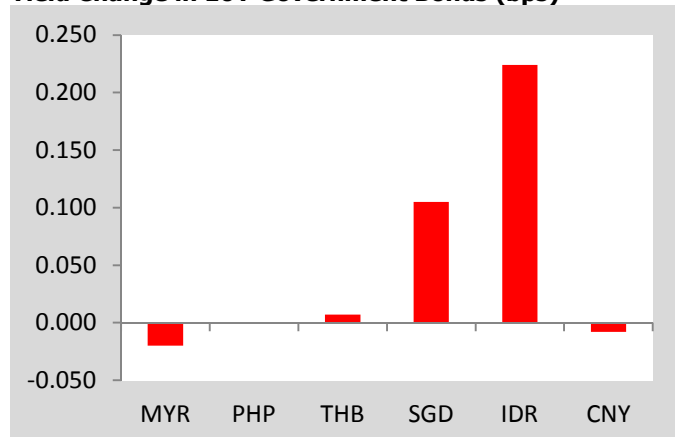
Currencies Changes (Week Ended 09/03) and Quarterly Forecasts

	Close (09/03)	Prev Close (02/03)	Change	% Change	1Q18F	2Q18F	3Q18F	4Q18F
DXY Index	90.196	89.935	0.261	0.3	93.54	90.69	91.91	95.98
EURUSD	1.230	1.232	-0.002	-0.1	1.19	1.22	1.20	1.16
GBPUSD	1.381	1.380	0.001	0.0	1.25	1.25	1.15	1.09
USDJPY	106.740	105.750	0.990	-0.9	107.50	100.29	95.10	102.27
USDMYR	3.913	3.904	0.010	-0.2	4.05	3.90	4.00	3.95
GBPMYR	5.403	5.381	0.023	-0.4	5.12	4.89	4.53	4.58
JPYMYR	3.666	3.691	-0.025	0.7	3.79	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

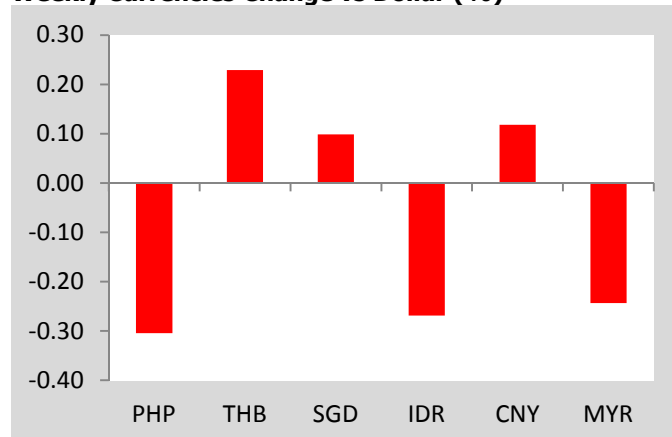
- Ringgit – Stays below 4.00 for 9-Consecutive weeks. Despite of slight depreciation, MYR remains on positive direction amid higher-than-expected exports growth. Exports expanded by 17.9%yoy in Jan-18, beat market expectations of 11.4%yoy. During the week, BNM maintained OPR at current rate of 3.25%. Hence, we maintain both our calls for MYR to average 4.00 in 2018 and with year-end target of 3.95.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)



Source: BLOOMBERG; MIDFR

Central Bank Policy Rate by Selected Economies (%)

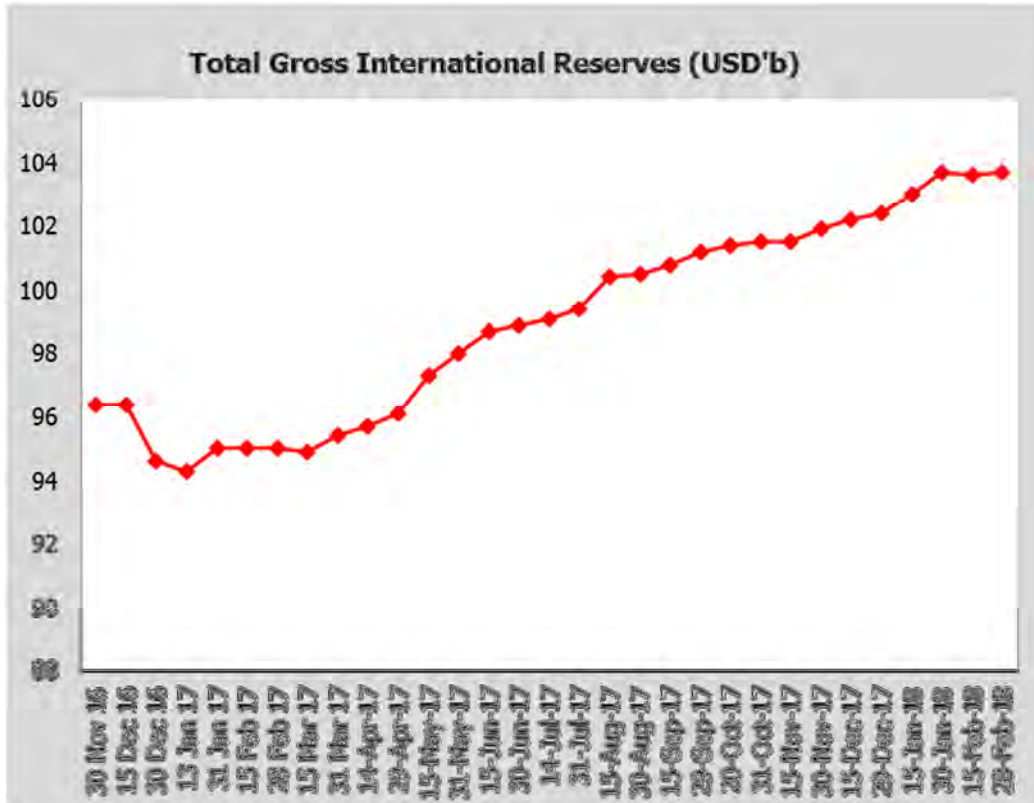
	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25
Indonesia	4.75	4.75	4.50	4.25	4.25	4.25	4.25	4.25	4.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.50	1.50	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	0.50	0.50	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	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.50

Source: CEIC, MIDFR


- In general, central banks around the world are more hawkish about the trajectory of the global economy as well as their respective domestic economy.
- Price pressures meanwhile slowly trending upward, reflecting improved inflationary pressure amid robust demand. Inflationary pressure is expected to kick-in, boost by tight labor market as well as higher commodities prices.
- The upward bias inflation expectation will influence both the debt and equity markets globally. This will sway the investor's portfolio allocation as well as fund flow direction.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance.
- Domestically, inflationary pressure is expected to moderate amid stable commodities prices and high base effect.
- Stronger Ringgit performance as well as availability of spare capacity in the labor market will help demand pressure in the near term.
- Bank Negara maintains its policy rate during 2nd MPC meeting last week. The hike in January lifts off pressure for BNM to make a move in March.
- Our base case scenario for OPR remains unchanged (single rate hike) for the full year. End the year at 3.25% barring any pleasant upward surprises from economic growth.

C. BNM FOREIGN RESERVES

- As at 28 February 2018, Bank Negara Malaysia's international reserves declined to USD103.7b.



Source: BNM

- The amount of reserves is sufficient to finance 7.2 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	2-Mar Fri	5-Mar Mon	6-Mar Tue	7-Mar Wed	8-Mar Thu	9-Mar Fri	Change (WoW bp)
MGS							
3-Y	3.401	3.387	3.386	3.386	3.386	3.386	-1.5
5-Y	3.59	3.59	3.558	3.576	3.587	3.584	-0.6
7-Y	3.897	3.885	3.866	3.867	3.876	3.883	-1.4
10-Y	3.999	4.011	3.999	3.98	3.986	3.976	-2.3
20-Y	4.58	4.549	4.556	4.549	4.56	4.545	-3.5
RINGGIT IRS							
1-Y	3.755	3.75	3.755	3.745	3.75	3.745	-1
3-Y	3.82	3.8198	3.831	3.81	3.815	3.805	-1.5
5-Y	3.9075	3.9	3.91	3.89	3.895	3.89	-1.75
7-Y	4.025	4.02	4.02	4.01	4.015	4.01	-1.5
10-Y	4.15	4.15	4.15	4.14	4.15	4.14	-1
KLIBOR							
1-M	3.42	3.42	3.42	3.42	3.42	3.42	0
2-M	3.66	3.66	3.66	3.66	3.66	3.66	0
3-M	3.69	3.69	3.69	3.69	3.69	3.69	0
UST							
3-Y	2.396	2.4017	2.4184	2.4158	2.4131	2.4303	3.43
5-Y	2.6283	2.6451	2.6536	2.6485	2.63	2.6502	2.19
7-Y	2.7871	2.807	2.8144	2.8095	2.7822	2.8095	2.24
10-Y	2.8643	2.8808	2.8863	2.8827	2.8571	2.8938	2.95
30-Y	3.1398	3.1531	3.1531	3.1498	3.1218	3.158	1.82
USD LIBOR							
1-M	1.6905	1.7017	1.71131	1.71794	1.73957	1.75032	5.982
2-M	1.82686	1.83064	1.84193	1.84861	1.86058	1.87145	4.459
3-M	2.02519	2.0349	2.04728	2.05725	2.0714	2.08875	6.356

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	2-Mar Yield	9-Mar Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.852	3.830	-2.2	2,190.4
MALAYSIA GOVERNMENT	3.899	11/16/27	3.999	3.976	-2.3	1,869.2
MALAYSIA GOVERNMENT	4.059	09/30/24	3.897	3.883	-1.4	1,562.8
MALAYSIA GOVERNMENT	3.882	03/10/22	3.590	3.584	-0.6	1,045.6
MALAYSIA GOVERNMENT	3.654	10/31/19	3.245	3.259	1.4	1,026.6
MALAYSIA GOVERNMENT	4.16	07/15/21	3.413	3.422	0.9	949.7
MALAYSIA GOVERNMENT	3.844	04/15/33	4.443	4.414	-2.9	864.3
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.057	4.030	-2.7	823.0
MALAYSIA INVESTMNT ISSUE	3.508	05/15/18	3.146	3.183	3.7	560.0
MALAYSIA GOVERNMENT	3.58	09/28/18	3.106	2.934	-17.2	559.2
TOTAL VOLUME (TOP 10)						11,450.9
TOTAL VOLUME (Overall)						19,681.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	2-Mar Yield	9-Mar Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.89	05/25/32	4.851	4.866	1.5	110.0
RANTAU ABANG CAPITAL	4.14	08/28/19	4.015	4.040	2.5	105.0
KHAZANAH NASIONAL BHD	ZERO	03/08/21	4.000	4.070	7.0	100.0
KHAZANAH NASIONAL BHD	ZERO	02/24/21	#N/A N/A	4.061	#VALUE!	100.0
PENGURUSAN AIR SPV BHD	4.63	02/05/26	4.423	4.431	0.8	100.0
PENGURUSAN AIR SPV BHD	3.85	06/15/18	3.512	3.512	0.0	100.0
CAGAMAS BERHAD	3.78	08/08/18	#N/A N/A	3.775	#VALUE!	80.0
DANAINFRA NASIONAL	3.74	07/20/22	#N/A N/A	4.169	#VALUE!	70.0
CIMB GROUP HOLDINGS BHD	6.35	04/05/60	5.240	5.030	-21.0	67.0
RANTAU ABANG CAPITAL	5	01/16/32	#N/A N/A	4.874	#VALUE!	60.0
TOTAL VOLUME (TOP 10)						892.0
TOTAL VOLUME (Overall)						2,741.8

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.