

MIDF Strategy | 23 October 2017

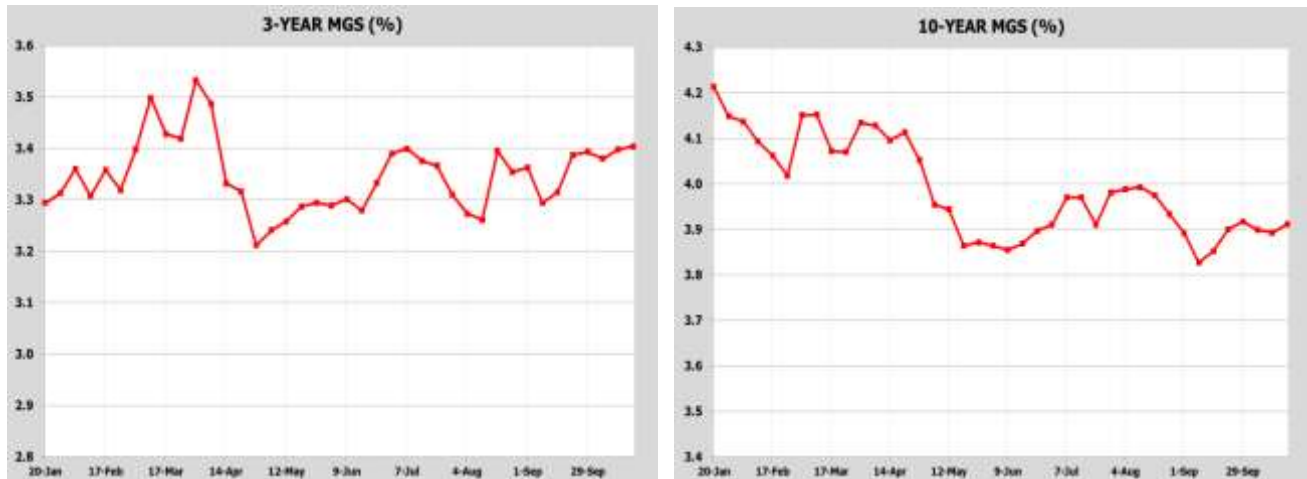
Week Ended 20 October

- The price of UST bonds fell last week, pushing yields higher, in reaction to (i) the adoption of a fiscal 2018 budget resolution by US Senate which would smoothen the process for tax cuts and in turn raise the likelihood of bigger fiscal deficits, and (ii) the heightened likelihood that either John Taylor or Kevin Warsh, both are seen as hawkish, to be selected by President Trump as the new Fed Chairman to succeed Janet Yellen.
- The technical picture remains mixed as there was yet a bearish confirmation (i.e. death cross) on the outlook for benchmark 10-year UST despite its yield breaching all the 50-, 100-, and 200-day moving average (MA) lines at the close last week.
- The probability of a third US rate hike this year is growing larger as the fed fund futures (Jan'18) shows the odds of a rate hike by end 2017 rebounded to 80% at the close last week from 72% a week earlier.
- The local MGS bonds mostly posted marginal price retreat with the yields of benchmark 3-year and 10-year inched up 0.6bp and 1.8bps week-on-week to 3.40% and 3.91% respectively. The latest CPI data shows inflationary pressure picked up in September to 4.3%yoy (versus 3.7%yoy in August) due to higher fuel price.
- Total trading value for Government Bonds (MGS/MII) declined to RM6.9b in the review week compared to RM9.3b in the prior week.

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Weekly Money Review

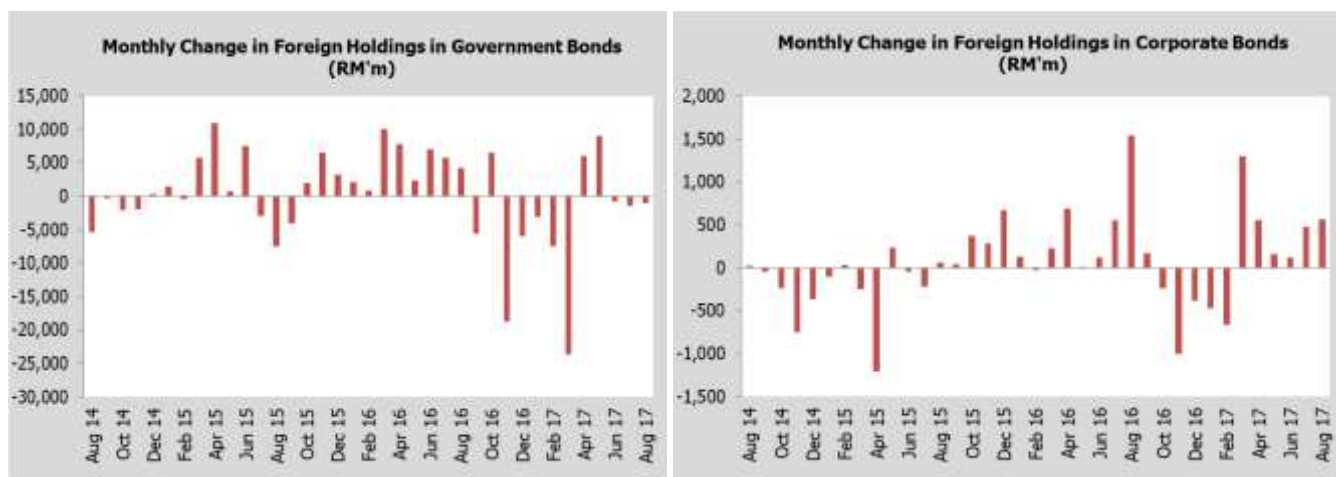
A. FIXED INCOME



Source: Bloomberg

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- Total trading value for Government Bonds (MGS/MII) declined to RM6.9b in the review week compared to RM9.3b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 63% of the overall Government Bonds trades in the review week (from ~68% in week before). In addition, 8 out of the 10 actively traded bonds saw higher yields hence lower prices during the past 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 MGS 3.26% 03/01/18 at RM2.19b, MGS 4.06% 09/30/24 at RM470m and MGS 3.88% 03/10/22 at RM267.3m.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.94b in the review week compared to RM2.12b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was lower at 37% of the overall Corporate Bonds trades (from ~41% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with varying residual tenors. The biggest trading values were seen in Cagamas Berhad 4.1% 11/18/20 at RM350.0m, Sunway Sukuk Treasury Berhad 0% 11/23/17 at RM135.0m and Sarawak Energy Berhad 5.7% 06/23/26 at RM120.0m.

- Total foreign holdings of Government Bonds stood at RM167.3b as at end-August 2017. It was a drop of RM1.11b from the July 2017 figure of RM168.4b.



Source: BNM

- In contrast, total foreign holdings of Corporate Bonds increased by RM563m in the month of August 2017 to RM16.8b.

B. FOREIGN EXCHANGE

- DXY Index surged by 0.8% to 93.810. Among others, the US Senate has given a green light for Trump's tax cut plan to be executed in the near future. With the approval, market or investors are optimistic with the fiscal policy plan as the tax cut will lead to wider fiscal deficits and indirectly push up inflation thus providing more rooms for the Fed to increase its interest rate. We maintain our call for another rate hike in December 2017.
- EURUSD gloomy amid of political uncertainties in Spain. The Catalan government turned down the Spanish government's demand to withdraw its declaration of independence. Hence, Spain government will invoke Article 155 of the Spanish Constitution to have direct control over Catalonia and also diminish autonomy power had by the Catalan government. As EU leaders are expected to meet on 26 October, the meeting is predicted to discuss further on the Catalonia conflicts and other geopolitical disputes rather than trade talks with Britain.

Currencies Changes (Week Ended 20/10) and Quarterly Forecasts

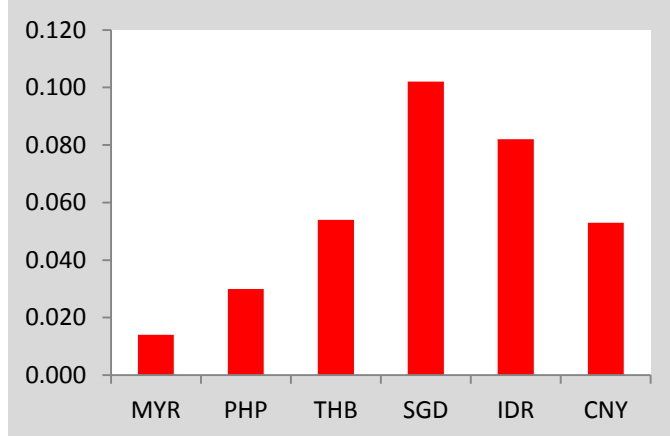
	Close (20/10)	Prev Close (13/10)	Change	% Change	1Q17F	2Q17F	3Q17F	4Q17F
DXY Index	93.810	93.091	0.719	0.8	101.12	102.50	103.00	103.50
EURUSD	1.178	1.182	-0.004	-0.3	1.06	1.05	1.02	1.03
GBPUSD	1.319	1.329	-0.010	-0.7	1.23	1.15	1.18	1.21
USDJPY	113.520	111.820	1.700	-1.5	114.00	118.00	120.00	119.00
USDMYR	4.225	4.222	0.003	-0.1	4.40	4.30	4.30	4.20
GBPMYR	5.549	5.618	-0.069	1.2	5.48	5.50	5.45	5.30
JPYMYR	3.722	3.776	-0.054	1.4	3.90	3.75	3.85	4.00

Quarterly figures are forecast by MIDFR

Source: CEIC, Bloomberg, MIDFR

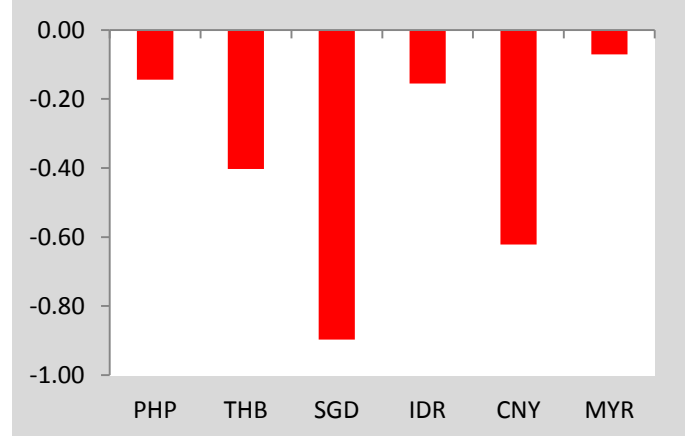
- Ringgit – Slight depreciation of 0.1%. MYR maintains on steady path despite of strengthening USD due to sanguine economic activities in Malaysia. For instance, previous week August's data labor market shows unemployment rate falls to 3.4% from 3.5% in previous month, added with 16 thousands jobs added. On a flip side, inflation as expected by markets up 4.3%yoy in September amid rising oil prices. We maintain our call for the MYR at 4.200 by year-end.

Yield Change in 10Y Government Bonds (bps)



Source: BLOOMBERG; MIDFR

Weekly Currencies Change vs Dollar (%)

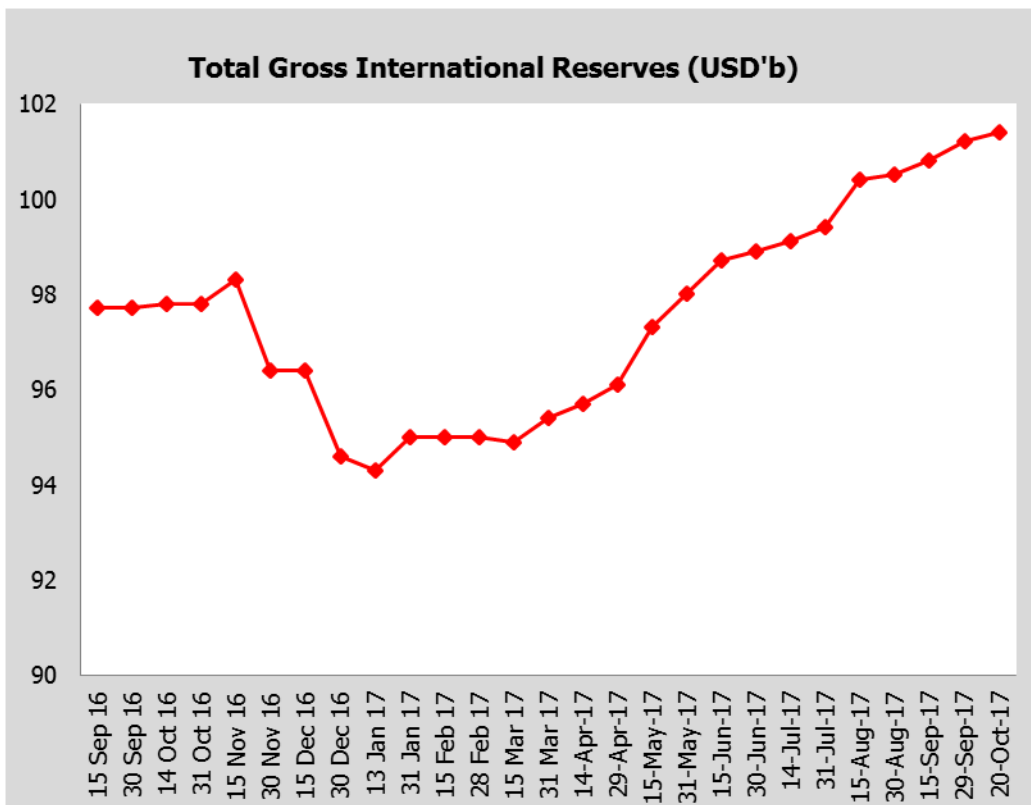


Source: BLOOMBERG; MIDFR


- Regionally, Bank Indonesia and the Bank of Korea maintain policy rates in their respective meeting last week. Pro-growth and accommodative monetary stance is expected to persist toward the end of the year.
- ECB will announce its interest rate decision this mid-week. Rate is expected to be status quo while market is anticipated clarity on the ECB move to unwind as indicated in their earlier statements.
- In general, inflationary pressures remain tepid in developed economy. Stagnant wage growth despite historically low unemployment rate failed to move the prices.
- Recovery in global economic growth continues to be broad based. But the question mark over the long term sustainability is still valid. Nevertheless, no expectation of major turnaround in the near future.
- Domestically, inflationary pressure picked up in September to 4.3% compared to a year earlier. It was higher compared to 3.7% recorded in August 2017. Cost driven factors attributed to the rise in the figure but core inflation remain stable at 2.4%.
- As for the domestic monetary policy, we maintain our stance that the current OPR at 3% will remain for the rest of the year despite jumps in inflationary pressure seen in recent months amid higher fuel related prices.

C. BNM FOREIGN RESERVES

- As at 20 October 2017, Bank Negara Malaysia's international reserves rose further to USD101.4b (equivalent to RM429b), up USD0.2b from USD101.2b a fortnight earlier.



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	13-Oct Fri	16-Oct Mon	17-Oct Tue	18-Oct Wed	19-Oct Thu	20-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.398	3.398	3.398	3.398	3.405	3.404	0.6
5-Y	3.594	3.576	3.583	3.583	3.588	3.605	1.1
7-Y	3.875	3.868	3.88	3.88	3.876	3.898	2.3
10-Y	3.893	3.893	3.893	3.893	3.911	3.911	1.8
20-Y	4.513	4.513	4.513	4.513	4.513	4.513	0
RINGGIT IRS							
1-Y	3.51	3.51	3.51	3.51	3.495	3.51	0
3-Y	3.63	3.6295	3.625	3.625	3.6375	3.64	1
5-Y	3.745	3.74	3.74	3.74	3.725	3.7625	1.75
7-Y	3.85	3.845	3.855	3.855	3.835	3.86	1
10-Y	3.98	3.97	3.985	3.985	3.99	4.01	3
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	1.6304	1.6814	1.6814	1.7084	1.6654	1.7141	8.37
5-Y	1.8998	1.9497	1.9581	1.9932	1.9532	2.0202	12.04
7-Y	2.1079	2.1492	2.1517	2.1956	2.1639	2.2324	12.45
10-Y	2.273	2.3034	2.2998	2.3465	2.3178	2.3845	11.15
30-Y	2.805	2.8231	2.8019	2.8562	2.8365	2.8969	9.19
USD LIBOR							
1-M	1.23667	1.23666	1.23777	1.23888	1.23888	1.23788	0.121
2-M	1.27744	1.27689	1.28044	1.283	1.29197	1.29504	1.76
3-M	1.35333	1.35389	1.35733	1.36261	1.3625	1.36476	1.143

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	13-Oct Yield	20-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.26	03/01/18	2.977	3.000	2.3	2,186.0
MALAYSIA GOVERNMENT	4.059	09/30/24	3.875	3.898	2.3	468.9
MALAYSIA GOVERNMENT	3.882	03/10/22	3.594	3.605	1.1	267.3
MALAYSIA GOVERNMENT	4.16	07/15/21	3.541	3.543	0.2	248.7
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.546	3.567	2.1	240.0
MALAYSIA GOVERNMENT	3.889	07/31/20	3.380	3.411	3.1	219.5
MALAYSIA GOVERNMENT	3.844	04/15/33	4.349	4.312	-3.7	207.6
MALAYSIA GOVERNMENT	3.314	10/31/17	3.264	3.055	-20.9	196.9
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.471	3.489	1.8	180.0
MALAYSIA INVESTMNT ISSUE	4.045	08/15/24	4.009	4.010	0.1	172.7
TOTAL VOLUME (TOP 10)						4,387.6
TOTAL VOLUME (Overall)						6,959.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	13-Oct Yield	20-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	4.1	11/18/20	N/A	3.994	N/A	350.0
SUNWAY TREASURY SUKUK SD	ZERO	11/23/17	N/A	3.792	N/A	135.0
SARAWAK ENERGY BHD	5.65	06/23/26	4.692	4.680	-1.2	120.0
CAGAMAS BERHAD	4.05	12/20/18	N/A	3.645	N/A	80.0
MALAKOFF POWER BHD	5.05	12/17/19	4.369	4.362	-0.7	80.0
TENAGA NASIONAL BERHAD	4.95	08/03/32	4.835	4.673	-16.2	70.5
MALAKOFF POWER BHD	5.75	12/17/26	N/A	4.818	N/A	70.0
SABAH DEVELOPMENT BANK	ZERO	01/16/18	4.296	4.296	0.0	67.0
CAGAMAS BERHAD	3.95	10/26/18	3.614	3.638	2.4	65.0
SARAWAK ENERGY BHD	5.5	07/04/29	4.887	4.900	1.3	60.0
TOTAL VOLUME (TOP 10)						1,097.5
TOTAL VOLUME (Overall)						2,935.1

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.