

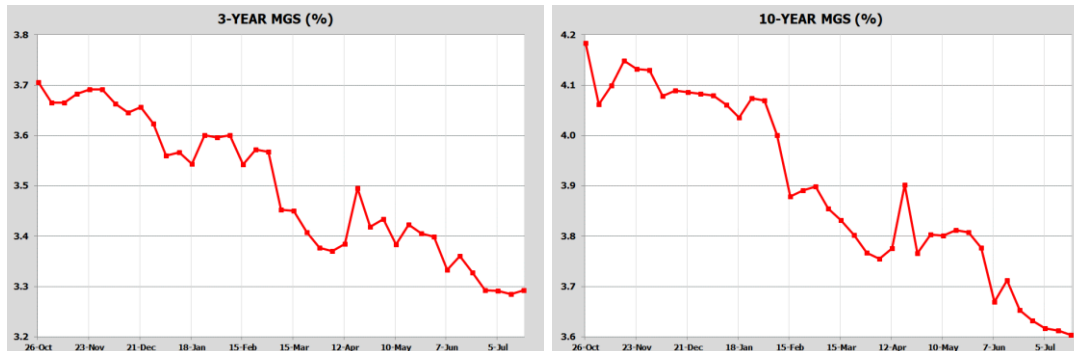
MIDF Strategy | 22 July 2019

Week Ended 20 July 2019

- The UST rallied (prices up; yields down) last week in anticipation of a Fed rate cut later this month. The expectation was further reinforced by a statement from the New York Fed President who said in a speech that "It's better to take preventative measures than to wait for disaster to unfold,". However, a New York Fed spokesperson later cautioned against reading too much into the statement.
- Meanwhile, it must be highlighted that the UST yield curve re-steepened as the yield spread between the 3-month and the 10-year, which had been inverted since mid-May, turned positive. Empirically, a re-steepening UST yield curve may portend to a bullish equity (and other risk assets) market.
- On the other hand, the domestic MGS saw mixed trading activities. Week-on-week, the benchmark 3-year and 10-year yields moved +0.8bp and -0.9bp respectively to close at 3.29% and 3.60%. Meanwhile, the curve slightly flattened as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) declined to RM16.0b in the review week compared to RM17.8b in the earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged at 44% of the overall Government Bonds trades in the week under review as compared to the week before. In addition, 8 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) dropped to RM3.27b in the review week compared to RM3.53b in earlier week (based on Bloomberg data). Moreover, the total trading value of the 10 most actively traded issues increased (lower trading breadth) to 42% of the overall Corporate Bonds trades in the review week as compared to 36% in the week before.

Weekly Money Review

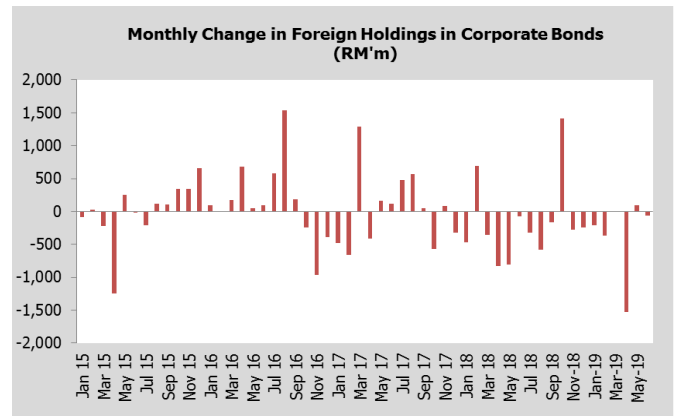
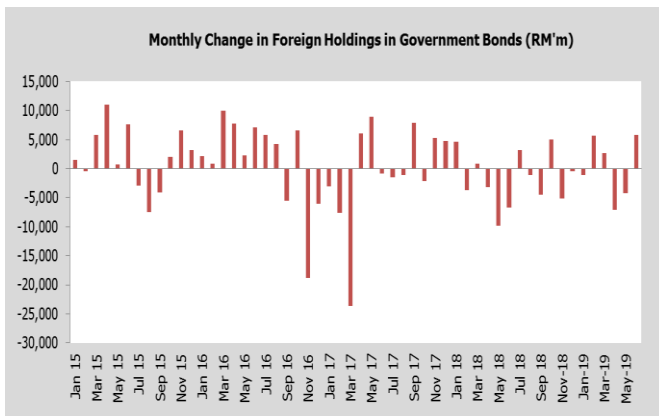
A. FIXED INCOME



Source: Bloomberg, MIDFR

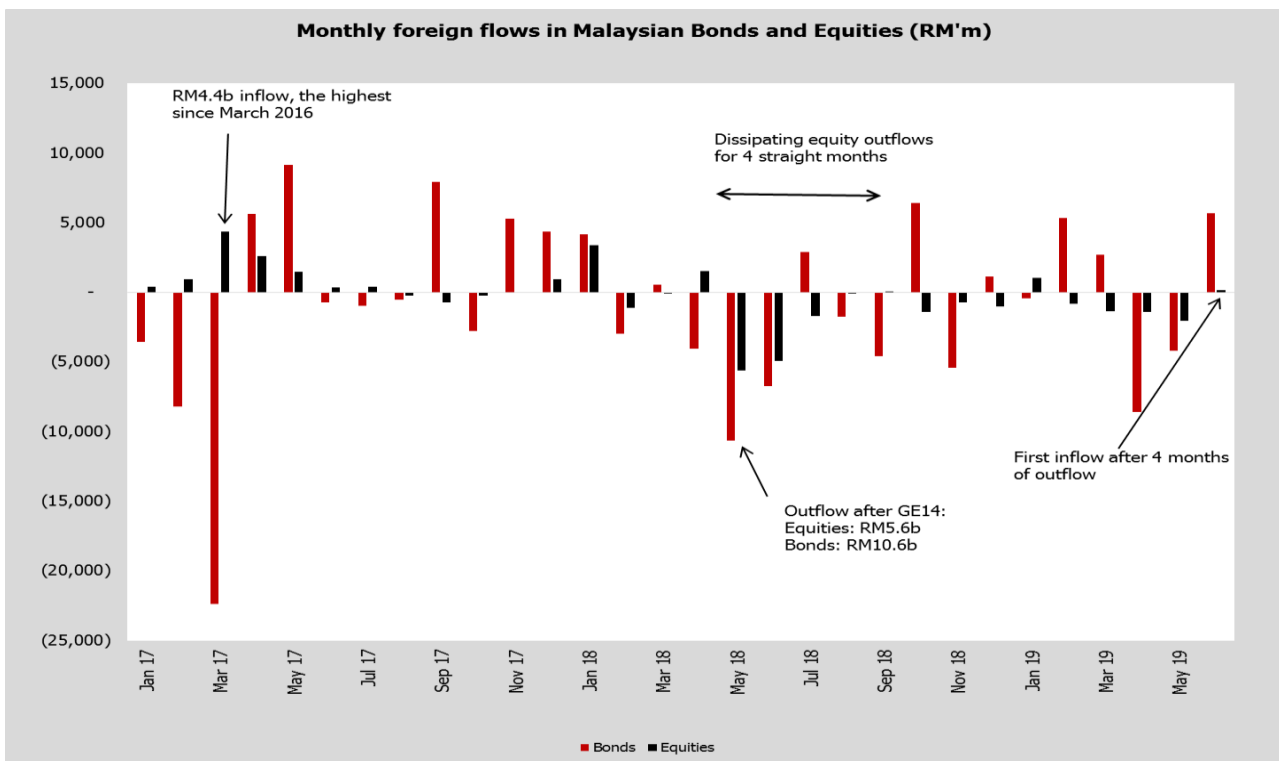
- The UST rallied (prices up; yields down) last week in anticipation of a Fed rate cut later this month. The expectation was further reinforced by a statement from the New York Fed President who said in a speech that "It's better to take preventative measures than to wait for disaster to unfold,". However, a New York Fed spokesperson later cautioned against reading too much into the statement.
- Meanwhile, it must be highlighted that the UST yield curve re-steepened as the yield spread between the 3-month and the 10-year, which had been inverted since mid-May, turned positive. Empirically, a [re-steepening UST yield curve](#) may portend to a bullish equity (and other risk assets) market.
- On the other hand, the domestic MGS saw mixed trading activities. Week-on-week, the benchmark 3-year and 10-year yields moved +0.8bp and -0.9bp respectively to close at 3.29% and 3.60%. Meanwhile, the curve slightly flattened as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) declined to RM16.0b in the review week compared to RM17.8b in the earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged at 44% of the overall Government Bonds trades in the week under review as compared to the week before. In addition, 8 out 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 of short and long residual tenors. The top 3 most actively traded were MGS 3.882% 3/10/22 at RM1.15b, MGS 3.885% 8/15/29 at RM804m, and MGS 3.654% 10/31/19 at RM756m.
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- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenors. The biggest trading values were seen in Pengurusan Air 4.28% 9/28/20 at RM225m, Khazanah 0% 8/27/19 at RM220m, and Danainfra 4.3% 3/31/34 at RM180m.
- Total foreign holdings of Government Bonds stood at RM163.8b as at end-June 2019. It was an increase of RM5.8b from the May 2019 figure of RM158.0b.

- On the other hand, total foreign holdings of Corporate Bonds declined by -RM64.0m in the month of June 2019 to RM12.0b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM5.7b in June 2019 while the former saw a total net inflow worth RM136mb. For 2018, the net flows of both equities and bonds markets were in the red with total net outflows of -RM11.7b and -RM21.1b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

- DXY Index improves on stronger-than-expected manufacturing data. Philadelphia Fed Manufacturing index for current general activity accelerated to 21.8 points in July-19, a climb of 21.5 points from previous month and easily exceeded market expectations of 5 points. New orders and shipments expanded at a higher rate while employment growth was the strongest since Oct-17.
- EURUSD remain stable amid positive macro data. The Euro Area current account surplus widened to EUR 13.3b in May-19 from EUR 9.3b in the same month last year. The goods surplus widened to EUR 28.9b, primary income deficit narrowed to EUR 15.2b and the secondary income gap decreased to EUR 6.2b. Earlier last week, the bloc

trade surplus widened to EUR 23b during the same month and easily exceeded market consensus of a EUR 16.3b as exports increased 7.1%yoy while imports rose at a softer pace of 4.2%yoy.

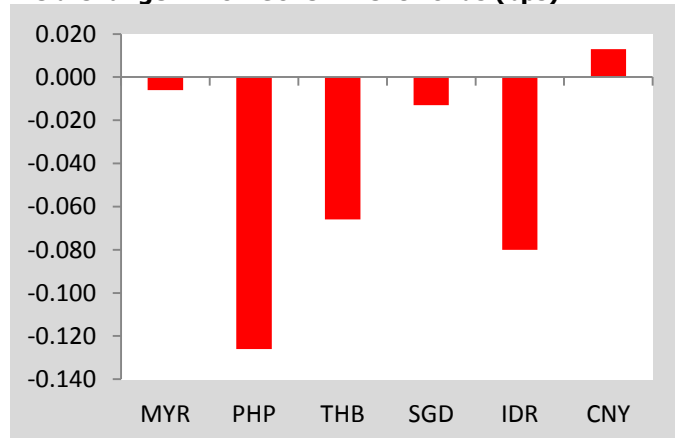
- Ringgit – steady due to strong credit ratings. Fitch Ratings has affirmed Malaysia’s long-term foreign currency issuer default rating at A-, with a stable outlook. The key drivers for the rating were the country’s strong and broad-based medium-term growth with a diversified export base. However, there are some concerns over high public debt and lagging structural factors. We maintain our call MYR to average at 4.12 and register year-end target at 4.10 in 2019.

Currencies Changes (Week Ended 19/07) and Quarterly Forecasts

	Close (12/07)	Prev Close (05/07)	Change	% Change	1Q19	2Q19	3Q19F	4Q19F
DXY Index	96.88	96.81	0.068	-0.5%	96.46	97.26	93.88	95.83
EURUSD	1.13	1.13	-0.001	0.4%	1.13	1.12	1.17	1.15
GBPUSD	1.25	1.26	-0.005	0.4%	1.30	1.28	1.30	1.27
USDJPY	107.67	107.91	-0.240	0.5%	110.15	109.82	105.87	108.95
USDMYR	4.11	4.11	-0.002	0.5%	4.09	4.15	4.12	4.10
GBPMYR	5.15	5.16	-0.009	0.7%	5.32	5.33	5.38	5.45
JPYMYR	3.82	3.81	0.006	0.0%	3.72	3.78	3.92	3.95

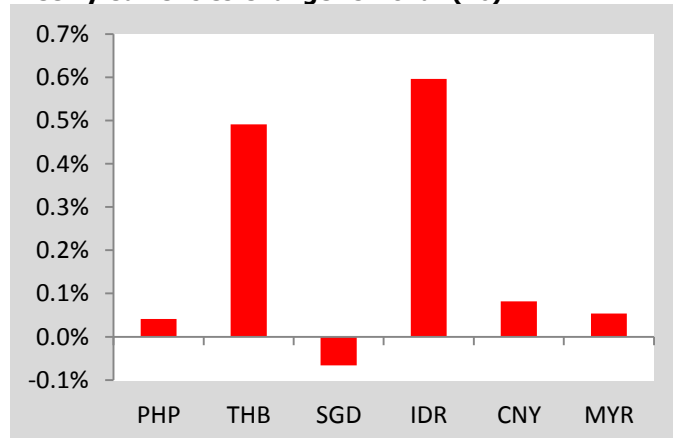
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00
Indonesia	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.50	4.50
Thailand	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
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	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50

Source: CEIC, MIDFR

- Trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.
- US put China tariffs on hold and resume trade talk from where they left but uncertainties remain.
- Japan – South Korea relations deteriorated as Japan curbed exports of three high-tech materials to South Korea and removed it from its “white country” list. South Korea has warned of retaliation.
- China’s economic growth slowed to 6.2%yoy in the 2Q19, the lowest expansions since 1Q92 amid ongoing trade disputes with the US and weakening global demand besides worrying off-balance-sheet borrowings by local governments.
- On the monetary policy space, as guided by the latest projection, the Fed may consider one rate cut in 2H19.
- Slight decline in inflation, worrying business confidence, global risks and moderating economic growth signal the Fed to consider for rate cuts.
- ECB council agreed to ease monetary stance by changing forward guidance on rates, resume net asset purchases and cut interest rates.
- South Korea and Indonesia cut key rates due to mounting risks to economic growth.
- Accommodative in global crude oil prices to support mining sector to improve in 2Q19 and 2H19.
- Current monetary policy remains accommodative at present to support growth in the domestic economy.
- We expect no further changes in monetary policy which OPR maintains at 3.00% in 2019.

C. BNM FOREIGN RESERVES

- As at 28 June 2019, compared to previous fortnight, Bank Negara Malaysia’s international reserves increased to USD102.7b.
- The amount of reserves is sufficient to finance 7.3 months of retained imports and is 1.2 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	12-Jul Fri	15-Jul Mon	16-Jul Tue	17-Jul Wed	18-Jul Thu	19-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.285	3.297	3.288	3.3	3.298	3.293	0.8
5-Y	3.422	3.433	3.444	3.444	3.43	3.415	-0.7
7-Y	3.556	3.548	3.551	3.557	3.541	3.528	-2.8
10-Y	3.613	3.61	3.619	3.625	3.613	3.604	-0.9
20-Y	3.997	3.993	4.004	3.984	3.983	3.989	-0.8
RINGGIT IRS							
1-Y	3.385	3.385	3.385	3.38	3.38	3.375	-1
3-Y	3.39	3.39	3.39	3.385	3.365	3.36	-3
5-Y	3.45	3.455	3.45	3.46	3.44	3.41	-4
7-Y	3.52	3.525	3.515	3.52	3.49	3.48	-4
10-Y	3.635	3.64	3.61	3.61	3.59	3.59	-4.5
KLIBOR							
1-M	3.19	3.19	3.19	3.19	3.19	3.19	0
2-M	3.41	3.41	3.41	3.41	3.41	3.41	0
3-M	3.46	3.46	3.46	3.46	3.46	3.46	0
UST							
3-Y	1.8253	1.8065	1.8308	1.7823	1.7338	1.7851	-4.02
5-Y	1.8709	1.8444	1.8677	1.8129	1.7665	1.8147	-5.62
7-Y	1.9836	1.957	1.974	1.9208	1.8822	1.9257	-5.79
10-Y	2.1219	2.0887	2.1026	2.0451	2.0242	2.0552	-6.67
30-Y	2.6467	2.6106	2.6121	2.5568	2.564	2.5792	-6.75
USD LIBOR							
1-M	2.332	2.31413	2.30038	2.29788	2.2715	2.26113	-7.087
2-M	2.33375	2.30838	2.30188	2.29538	2.27988	2.25975	-7.4
3-M	2.32225	2.30325	2.29963	2.3025	2.27763	2.25938	-6.287

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	12-Jul Yield	19-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.882	03/10/22	3.285	3.293	0.8	1,145.8
MALAYSIA GOVERNMENT	3.885	08/15/29	3.613	3.604	-0.9	804.4
MALAYSIA GOVERNMENT	3.654	10/31/19	3.068	3.053	-1.5	756.5
MALAYSIA GOVERNMENT	3.906	07/15/26	3.556	3.528	-2.8	710.0
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.168	3.159	-0.9	676.8
MALAYSIA GOVERNMENT	5.734	07/30/19	3.064	3.062	-0.2	660.0
MALAYSIA GOVERNMENT	3.478	06/14/24	3.433	3.415	-1.8	625.2
MALAYSIA INVESTMNT ISSUE	4.13	07/09/29	3.627	3.626	-0.1	604.5
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.179	3.189	1.0	510.0
MALAYSIA INVESTMNT ISSUE	3.726	03/31/26	3.581	3.564	-1.7	460.0
TOTAL VOLUME (TOP 10)						6,953.1
TOTAL VOLUME (Overall)						15,976.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	12-Jul Yield	19-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
PENGURUSAN AIR SPV BHD	4.28	09/28/20	#N/A N/A	3.246	#VALUE!	225.0
KHAZANAH NASIONAL BHD	ZERO	08/27/19	#N/A N/A	3.168	#VALUE!	220.0
DANAINFRA NASIONAL	4.3	03/31/34	4.089	3.926	-16.3	180.0
KHAZANAH NASIONAL BHD	ZERO	09/02/22	3.503	3.486	-1.7	170.0
KHAZANAH NASIONAL BHD	ZERO	03/24/20	3.270	3.238	-3.2	130.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	#N/A N/A	4.099	#VALUE!	100.0
AMAN SUKUK BHD	4.22	03/07/25	#N/A N/A	3.778	#VALUE!	100.0
PENGURUSAN AIR SPV BHD	3.72	07/01/20	#N/A N/A	3.233	#VALUE!	95.0
LEBUHRAYA DUKE FASA 3 SD	6.23	08/21/37	4.952	4.891	-6.1	90.0
LEBUHRAYA DUKE FASA 3 SD	6.04	08/23/35	#N/A N/A	4.739	#VALUE!	80.0
TOTAL VOLUME (TOP 10)						1,390.0
TOTAL VOLUME (Overall)						3,272.5

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.