

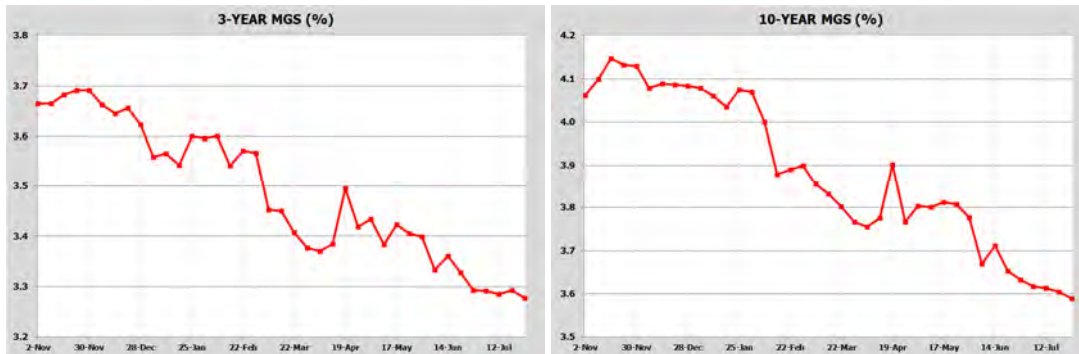
MIDF Strategy | 29 July 2019

Week Ended 27 July 2019

- The UST saw profit taking activities (prices down; yields up) last week in reaction to a better than expected GDP growth in 2Q19. Nonetheless, the 10y-3y yield spread slightly flattened (short-end underperformed) to +25bp from +27bp a week earlier as global growth concerns and trade war fears kept business investment lower in 2Q19 despite the better than expected headline growth figure.
- In this regard, the US Fed shall almost certainly cut its policy rate later this week as signaled by the US Dollar money market, i.e. overnight index swap (OIS) rate markedly lower (-45bp) than prevailing US Fed overnight rate.
- On the other hand, the domestic MGS saw mixed trading with price gains centred on benchmark tenors. Week-on-week, the 3-year and 10-year yields shed -1.6bp and -1.5bp respectively to close at 3.28% and 3.59%. Meanwhile, the curve slightly steepened as the short-end outperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM21.4b in the review week compared to RM16.0b in the earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 53% of the overall Government Bonds trades in the review week as compared to 44% in the week before. In addition, 9 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) dropped to RM2.88b in the review week compared to RM3.27b in earlier week (based on Bloomberg data). Moreover, the total trading value of the 10 most actively traded issues declined (higher trading breadth) to 32% of the overall Corporate Bonds trades in the review week as compared to 42% in the week before.

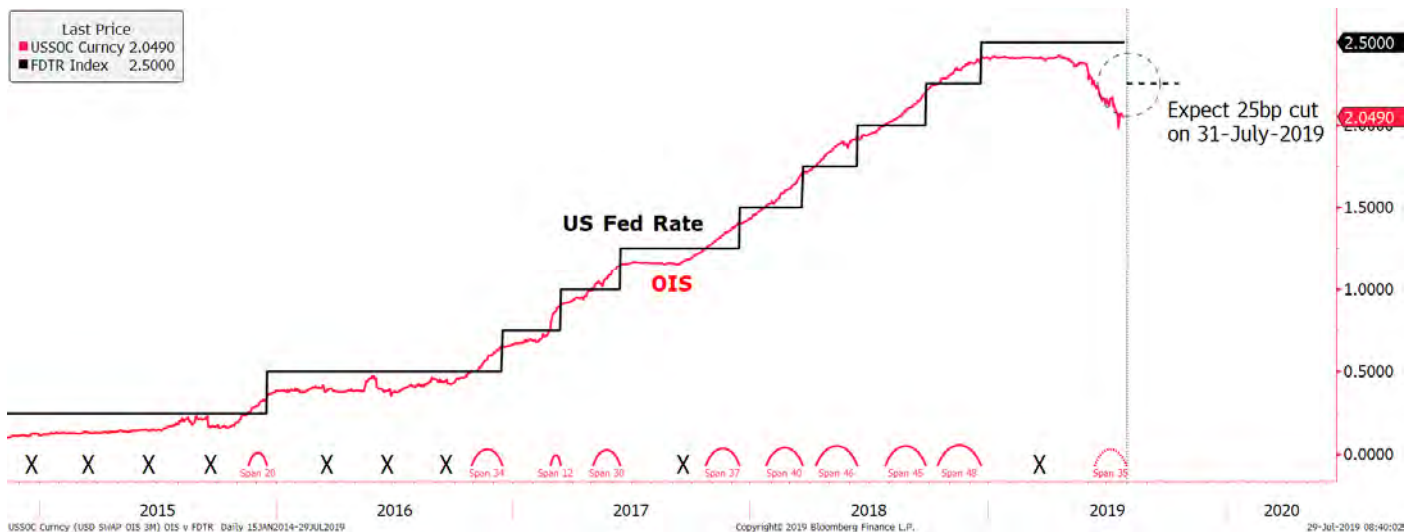
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg, MIDFR

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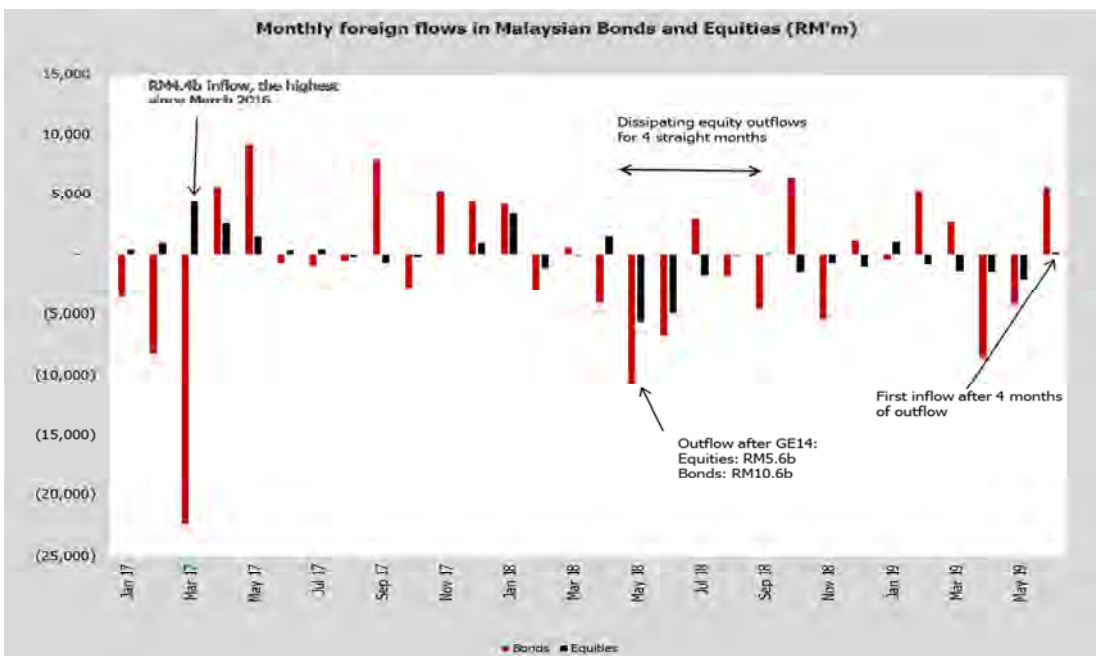
- On the other hand, the domestic MGS saw mixed trading with price gains centred on benchmark tenors. Week-on-week, the 3-year and 10-year yields shed -1.6bp and -1.5bp respectively to close at 3.28% and 3.59%. Meanwhile, the curve slightly steepened as the short-end outperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM21.4b in the review week compared to RM16.0b in the earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 53% of the overall Government Bonds trades in the review week as compared to 44% in the week before. In addition, 9 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 3.654% 10/31/19 at RM2.75b, MGS 4.921% 7/6/48 at RM2.02b, and MII 3.576% 5/15/20 at RM1.39b.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) dropped to RM2.88b in the review week compared to RM3.27b in earlier week (based on Bloomberg data). Moreover, the total trading value of the 10 most actively traded issues declined (higher trading breadth) to 32% of the overall Corporate Bonds trades in the review week as compared to 42% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and mid residual tenors. The biggest trading values were seen in Danainfra 4.1% 5/3/23 at RM200m, HSBC Amanah 4.22% 10/16/19 at RM105m, and Danainfra 4.27% 5/24/24 at RM100m.
- 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

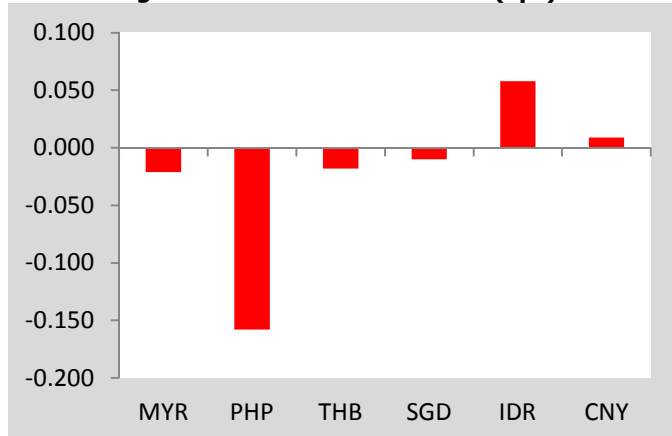
- DXY holds strength above the 97 mark on better-than-expected GDP data. The US annualized economy growth slowed to 2.1% in 2Q19 from 3.1% in the previous quarter but better than 1.8% expected by the market. In addition, global crude oil prices edged up amid bullish sentiment caused by the large fall in US crude inventories and the concerns over supply due to the decline of US oil rigs.
- EURUSD weakens slightly following ECB's decision. The ECB keeps rate on hold in its latest policy meeting but hinted at cutting rates in upcoming September meeting to support the bloc's ailing economy. It also consider more quantitative easing options. Earlier last week, the bloc's preliminary estimate showed manufacturing PMI dropped further to 46.4 in July-19 from 47.6 in the preceding month.
- Ringgit – slightly lower against the greenback ahead of two significant events: US monetary policy meeting and US-China trade talks. Fed is widely expected to cut interest rate by 25bp this month. Earlier last week, data showed that Malaysia has reduced fiscal deficit by approximately RM 14b in the first five months of this year in comparison to the same period last year. We maintain our call MYR to average at 4.12 and register year-end target at 4.10 in 2019.

Currencies Changes (Week Ended 26/07) and Quarterly Forecasts

	Close (26/07)	Prev Close (19/07)	Change	% Change	1Q19	2Q19	3Q19F	4Q19F
DXY Index	97.90	97.15	0.751	-0.5%	96.46	97.26	93.88	95.83
EURUSD	1.11	1.12	-0.009	0.4%	1.13	1.12	1.17	1.15
GBPUSD	1.24	1.25	-0.007	0.4%	1.30	1.28	1.30	1.27
USDJPY	108.65	107.71	0.940	0.5%	110.15	109.82	105.87	108.95
USDMYR	4.12	4.11	0.007	0.5%	4.09	4.15	4.12	4.10
GBPMYR	5.12	5.14	-0.023	0.7%	5.32	5.33	5.38	5.45
JPYMYR	3.79	3.82	-0.026	0.0%	3.72	3.78	3.92	3.95

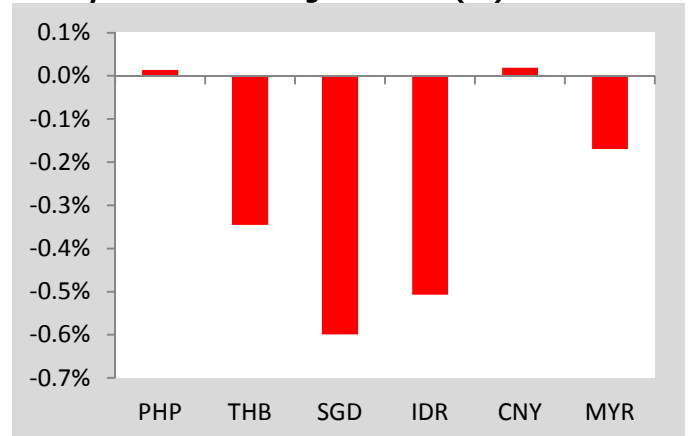
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.50	4.75	4.75	4.75	4.75	4.75	4.50	4.50	4.50
Thailand	1.50	1.50	1.75	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	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	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	0.75	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	2.50	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.
- IMF lowered global growth forecast of 2019 and 2020 to 3.2% and 3.5% respectively as downside risks had intensified. US-China tariffs hike or hard Brexit could further slow growth, weaken investment and disrupt supply chain.
- The US's annualized economic growth slowed to 2.1% in 2Q19 from 3.1% in 1Q19 but better than market expectation of 1.8%. Household consumption and government spending increased at faster paces.
- On the monetary policy space, as guided by the latest projection, the Fed may consider one rate cut in 2H19.
- Softening inflation, worrying business confidence, global risks and moderating economic growth signal the Fed to consider for rate cuts.
- ECB maintained interest rate at current low level and signaled rate cuts in upcoming meeting.
- Accommodative in global crude oil prices to support mining sector to improve in 2Q19 and 2H19.
- Malaysia latest leading index showed monthly and annually negative growth of 1.7% and 0.3% respectively however the movement predicts economic momentum to continue growing and still on the right track.
- Malaysia headline inflation accelerated to 1.5%yoy in June-19 from tepid 0.2%yoy in May-19 mainly due to low base effect resulting from the removal of GST last year.
- Similar to the headline figure, core inflation surged to 1.9%yoy from 0.4%yoy in the previous month.
- 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 15 July 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD103.3b (from 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	19-Jul Fri	22-Jul Mon	23-Jul Tue	24-Jul Wed	25-Jul Thu	26-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.293	3.289	3.272	3.272	3.278	3.277	-1.6
5-Y	3.415	3.417	3.421	3.401	3.432	3.426	1.1
7-Y	3.528	3.547	3.542	3.552	3.538	3.535	0.7
10-Y	3.604	3.607	3.608	3.587	3.597	3.589	-1.5
20-Y	3.989	3.99	3.996	3.993	3.992	3.975	-1.4
RINGGIT IRS							
1-Y	3.375	3.36	3.362	3.36	3.36	3.36	-1.5
3-Y	3.36	3.36	3.365	3.365	3.345	3.365	0.5
5-Y	3.41	3.425	3.425	3.425	3.4185	3.415	0.5
7-Y	3.48	3.48	3.485	3.505	3.48	3.485	0.5
10-Y	3.59	3.595	3.61	3.59	3.575	3.5625	-2.75
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	1.7851	1.777	1.8041	1.7824	1.8314	1.8179	3.28
5-Y	1.8147	1.8031	1.8331	1.8098	1.8585	1.8469	3.22
7-Y	1.9257	1.916	1.9475	1.916	1.9548	1.947	2.13
10-Y	2.0552	2.0464	2.0812	2.0428	2.081	2.0703	1.51
30-Y	2.5792	2.5712	2.6156	2.5726	2.6083	2.5922	1.3
USD LIBOR							
1-M	2.26113	2.26913	2.266	2.26175	2.24113	2.237	-2.413
2-M	2.25975	2.29363	2.286	2.2805	2.25263	2.247	-1.275
3-M	2.25938	2.28275	2.2755	2.26663	2.25575	2.26575	0.637

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	19-Jul Yield	26-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.654	10/31/19	3.053	3.062	0.9	2,753.5
MALAYSIA GOVERNMENT	4.921	07/06/48	4.256	4.176	-8.0	2,022.8
MALAYSIA INVESTMNT ISSUE	3.576	05/15/20	3.175	3.152	-2.3	1,390.0
MALAYSIA GOVERNMENT	3.492	03/31/20	3.140	3.128	-1.2	1,131.0
MALAYSIA GOVERNMENT	4.16	07/15/21	3.244	3.224	-2.0	834.4
MALAYSIA GOVERNMENT	3.889	07/31/20	3.169	3.132	-3.7	769.8
MALAYSIA GOVERNMENT	3.659	10/15/20	3.207	3.171	-3.6	681.5
MALAYSIA GOVERNMENT	4.893	06/08/38	3.989	3.975	-1.4	571.0
MALAYSIA GOVERNMENT	3.62	11/30/21	3.287	3.264	-2.3	550.7
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.159	3.150	-0.9	540.0
TOTAL VOLUME (TOP 10)						11,244.8
TOTAL VOLUME (Overall)						21,373.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	19-Jul Yield	26-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
DANAINFRA NASIONAL	4.1	05/03/23	3.503	3.475	-2.8	200.0
HSBC AMANAH MALAYSIA BHD	4.22	10/16/19	3.191	3.148	-4.3	105.0
DANAINFRA NASIONAL	4.27	05/24/24	3.496	3.497	0.1	100.0
GOVCO HOLDINGS BHD	4.55	02/22/27	#N/A N/A	3.719	#VALUE!	90.0
PERBADANAN TABUNG PENDID	4.9	01/21/33	3.980	3.966	-1.4	80.0
FORTUNE PREMIERE SDN BHD	5.05	09/05/25	4.352	4.134	-21.8	80.0
PERBADANAN TABUNG PENDID	4.85	07/26/41	4.246	4.143	-10.3	70.0
BENIH RESTU BHD	4.62	06/05/25	4.057	3.989	-6.8	70.0
PRASARANA MALAYSIA BHD	4.38	03/12/31	#N/A N/A	3.798	#VALUE!	60.0
SARAWAK HIDRO SDN BHD	4.61	08/09/30	4.011	3.981	-3.0	60.0
TOTAL VOLUME (TOP 10)						915.0
TOTAL VOLUME (Overall)						2,883.0

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.