

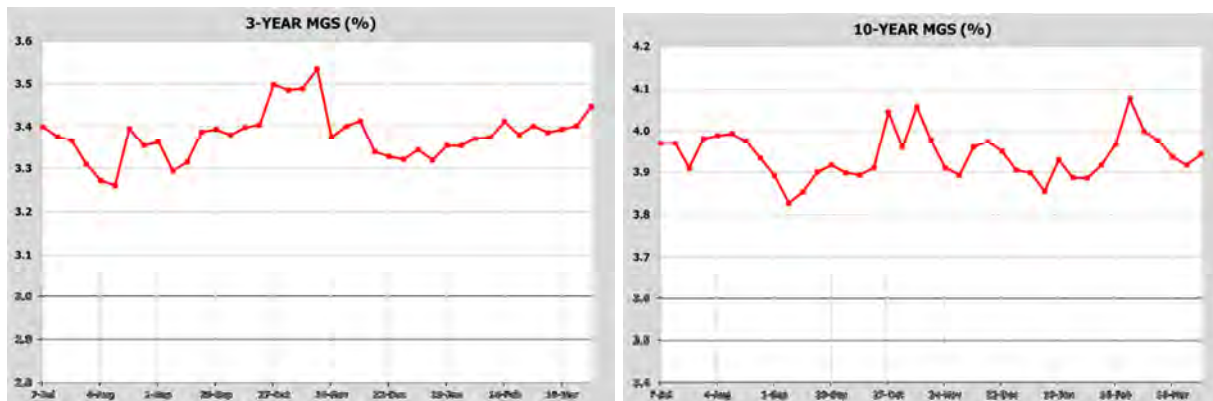
MIDF Strategy | 2 April 2018

Week Ended 30 March

- UST rallied (prices up; yields down) last week attributable to quarter-end buying despite the upbeat University of Michigan sentiment figures. It is noteworthy that the benchmark 10-year yield dropped below the 2.80% resistance level.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +36bps, the lowest since March 2008. It seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- In contrast, the prices of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields respectively higher at +4.5bps and +2.6bps to close the week at 3.45% and 3.94%.
- Total trading value for Government Bonds increased to RM13.3b in the review week compared to RM12.2b in the previous week. In addition, 5 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Likewise, the total trading value for Corporate Bonds rose to RM5.50b in the review week compared to RM3.48b in earlier week.
- Total foreign holdings of Government Bonds stood at RM183.9b as at end-February 2018. It was a decline of RM3.7b from the January 2018 figure of RM187.6b.
- On the other hand, total foreign holdings of Corporate Bonds increased by RM688.4m in the month of February 2018 to RM16.3b.

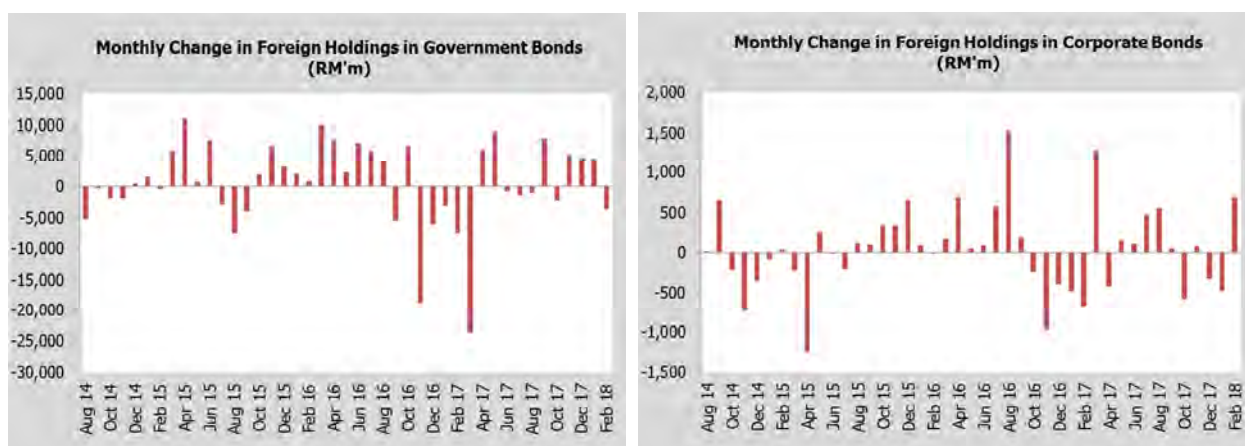
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- UST rallied (prices up; yields down) last week attributable to quarter-end buying despite the upbeat University of Michigan sentiment figures. It is noteworthy that the benchmark 10-year yield dropped below the 2.80% resistance level.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +36bps, the lowest since March 2008. It seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- In contrast, the prices of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields respectively higher at +4.5bps and +2.6bps to close the week at 3.45% and 3.94%.
- Total trading value for Government Bonds (MGS/MII) increased to RM13.3b in the review week compared to RM12.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged at 53% of the overall Government Bonds trades in the week under review (vis-à-vis ~53% in the week before). In addition, 5 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with long residual tenors. The top 3 most actively traded were MII 3.948% 04/14/44 at RM1.67b, MGS 3.899% 11/16/27 at RM1.02b and MII 4.258% 07/26/27 at RM900m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) rose to RM5.50b in the review week compared to RM3.48b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was also unchanged at 45% of the overall Corporate Bonds trades (from ~45% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with short residual tenors. The biggest trading values were seen in Prasarana Malaysia Berhad 4.08% 03/12/19 at RM485m, Pengurusan Air SPV Bhd 4.16% 02/07/19 at RM350m and Cagamas Bhd 4.17% 03/29/21 at RM300m.
- Total foreign holdings of Government Bonds stood at RM183.9b as at end-February 2018. It was a decline of RM3.7b from the January 2018 figure of RM187.6b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds increased by RM688.4m in the month of February 2018 to RM16.3b.

B. FOREIGN EXCHANGE

- DXY Index improved by 0.5%wow. Consumer confidence in the US reflected by The University of Michigan's consumer sentiment rose to 14-year high in Mar-18. Personal income and spending up by 0.4%mom and 0.2%mom respectively during the same month, matching market expectations. The optimistic signs in the economy indicate stronger domestic demand and thus provide solid foundations for the Fed to continue with its normalisation of its monetary policy.
- EURUSD depreciated amid of tone down in optimism. Business and consumer confidences drop in Mar-18. For instance, the Eurozone's business climate indicator fell to 1.34 points, 6-month low while consumer confidence in the region remains unchanged at 0.1 points for 2-consecutive months. The slight slowdown partly due to rising threat of trade war by the US-president Donald Trump and political uncertainties especially election in Italy.

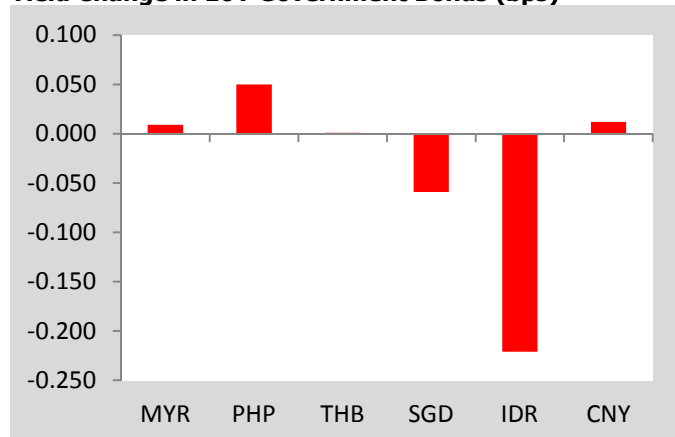
Currencies Changes (Week Ended 30/03) and Quarterly Forecasts

	Close (30/03)	Prev Close (23/03)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	89.881	89.436	0.445	0.5	90.06	90.69	91.91	95.98
EURUSD	1.233	1.235	-0.002	-0.2	1.23	1.22	1.20	1.16
GBPUSD	1.406	1.413	-0.007	-0.5	1.39	1.25	1.15	1.09
USDJPY	106.200	104.740	1.460	-1.4	108.08	100.29	95.10	102.27
USDMYR	3.864	3.919	-0.055	1.4	3.92	3.90	4.00	3.95
GBPMYR	5.432	5.527	-0.095	1.7	5.46	4.89	4.53	4.58
JPYMYR	3.638	3.741	-0.103	2.7	3.63	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

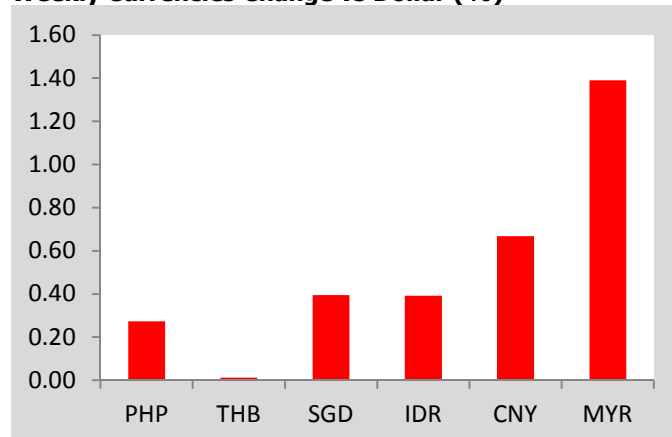
- Ringgit – Averaged at 3.92 in 1Q18. Underpin by continuous robust macroeconomic performances and a single rate hike by BNM, the Ringgit appreciates stronger and hovering below 4.00 level during the first three months of 2018. Previous week, BNM released its Annual Report of 2017, among others highlighting Malaysia's GDP to expand between 5.5%-6% and CPI to record at a range of 2%-3% this year. Plus, gross exports and imports are predicted to grow by 8.4% and 8.6% respectively, slightly lower than our forecast for both, 9.3% and 8.9% accordingly. Nevertheless, we maintain our call MYR to average at 4.00 and register year-end target at 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 (%)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.25
Indonesia	4.75	4.50	4.25	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	6.25	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	1.50	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	0.50	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	1.50	1.50	1.50	1.75

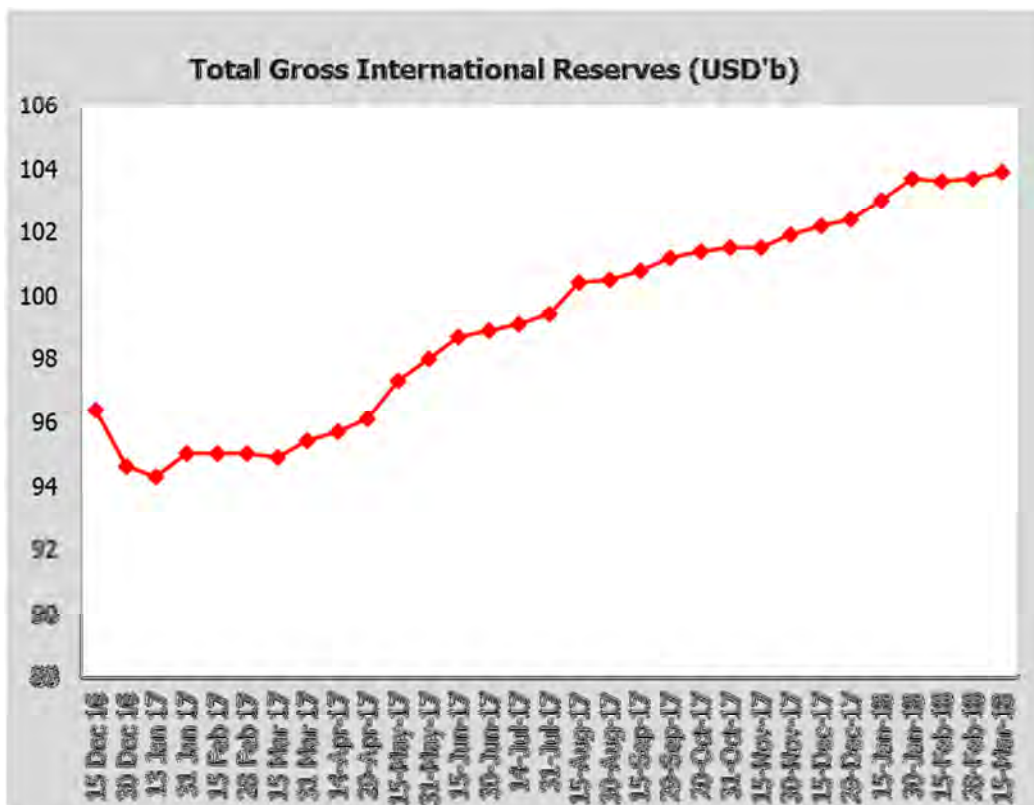
Source: CEIC, MIDFR

- Global macroeconomics data released in the first quarter thus far validate our expectation that the momentum carried from 2017 remain intact albeit at slower pace.
- Both developed and emerging economies display resilient amid escalating threat of trade war between US and China.
- Monetary policy stance globally is seen as accommodative to support growth as well as providing conducive financial environment for the sustainable economic expansion.
- Regionally, central banks of Indonesia, Philippines and New Zealand keep their respective official rate during their last monetary policy meeting. Bank of England also maintains their official rate but strongly indicated their intention for upward revision in May.
- In general, central banks around the world are more hawkish about the trajectory of the global economy as well as their respective domestic economy. The risks are more on the upside.
- Globally, the upward bias inflation expectation will influence both the debt and equity markets. This will sway the investor's portfolio allocation as well as fund flow direction in the near term.
- 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.
- 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 15 March 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD103.9b.



Source: BNM

- The amount of reserves is sufficient to finance 7.3 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	23-Mar Fri	26-Mar Mon	27-Mar Tue	28-Mar Wed	29-Mar Thu	30-Mar Fri	Change (WoW bp)
MGS							
3-Y	3.402	3.403	3.4	3.414	3.385	3.447	4.5
5-Y	3.545	3.532	3.542	3.546	3.547	3.538	-0.7
7-Y	3.875	3.875	3.88	3.871	3.876	3.827	-4.8
10-Y	3.917	3.941	3.949	3.939	3.945	3.943	2.6
20-Y	4.541	4.533	4.548	4.541	4.537	4.537	-0.4
RINGGIT IRS							
1-Y	3.75	3.75	3.7525	3.745	3.755	3.75	0
3-Y	3.79	3.79	3.795	3.788	3.795	3.795	0.5
5-Y	3.85	3.8525	3.855	3.84	3.855	3.8525	0.25
7-Y	3.9595	3.96	3.965	3.9545	3.965	3.9595	0
10-Y	4.09	4.09	4.09	4.08	4.09	4.08	-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	2.4023	2.438	2.3831	2.4051	2.3831	2.3831	-1.92
5-Y	2.5993	2.6401	2.567	2.5956	2.562	2.562	-3.73
7-Y	2.7374	2.7748	2.7	2.7174	2.6841	2.6841	-5.33
10-Y	2.8135	2.852	2.7753	2.7807	2.7389	2.7389	-7.46
30-Y	3.0608	3.0859	3.0286	3.0214	2.9737	2.9737	-8.71
USD LIBOR							
1-M	1.875	1.87688	1.87688	1.88688	1.88313	1.88313	0.813
2-M	1.99338	1.99688	1.99438	2.00344	1.99944	1.99944	0.606
3-M	2.29155	2.29496	2.302	2.308	2.31175	2.31175	2.02

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	23-Mar Yield	30-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.832	3.823	-0.9	1,670.4
MALAYSIA GOVERNMENT	3.899	11/16/27	3.917	3.943	2.6	1,023.7
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.144	4.149	0.5	899.7
MALAYSIA INVESTMNT ISSUE	4.724	06/15/33	4.576	4.552	-2.4	786.9
MALAYSIA GOVERNMENT	3.62	11/30/21	3.429	3.447	1.8	630.4
MALAYSIA GOVERNMENT	3.882	03/14/25	3.823	3.827	0.4	472.6
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.643	3.614	-2.9	463.2
MALAYSIA GOVERNMENT	3.8	08/17/23	3.768	3.799	3.1	377.4
MALAYSIA INVESTMNT ISSUE	4.755	08/04/37	4.745	4.770	2.5	371.6
MALAYSIA INVESTMNT ISSUE	4.284	06/15/20	3.589	3.685	9.6	350.0
TOTAL VOLUME (TOP 10)						7,045.9
TOTAL VOLUME (Overall)						13,299.6

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	23-Mar Yield	30-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
PRASARANA MALAYSIA BHD	4.08	03/12/19	3.719	3.718	-0.1	485.0
PENGURUSAN AIR SPV BHD	4.16	02/07/19	3.755	3.753	-0.2	350.0
CAGAMAS BERHAD	4.17	03/29/21	N/A	4.164	N/A	300.0
PENGURUSAN AIR SPV BHD	4.06	06/07/19	3.798	3.797	-0.1	250.0
KHAZANAH NASIONAL BHD	ZERO	03/20/19	3.757	3.768	1.1	240.0
MMC CORP BHD	5.7	03/24/28	N/A	5.697	N/A	210.0
PENGURUSAN AIR SPV BHD	4.15	06/17/19	3.801	3.804	0.3	185.0
KHAZANAH NASIONAL BHD	ZERO	08/14/23	N/A	4.378	N/A	165.0
DANAINFRA NASIONAL	4.58	10/31/28	4.607	4.622	1.5	160.0
DANAINFRA NASIONAL	4.85	05/03/41	5.132	5.126	-0.6	160.0
TOTAL VOLUME (TOP 10)						2,505.0
TOTAL VOLUME (Overall)						5,502.6

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.