

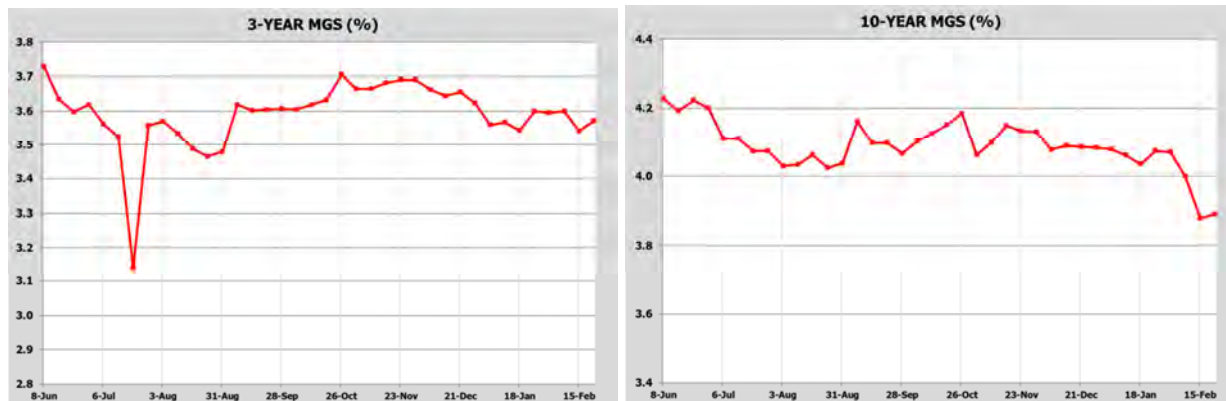
MIDF Strategy | 4 March 2019

Week Ended 1 March 2019

- UST tanked (prices down; yields up) last week as the market reacted to the higher than expected GDP figure of 2.6% (est: 2.2%) in 4Q18.
- The UST yield curve steepened slightly as the short-end outperformed. The 10y-3y yield spread widened to +22bps from +19bps a week earlier. Nonetheless, we reckon the yield curve shall retain its flattening bias until and unless the US Fed signals a pause to the current hiking cycle.
- Domestically, the price of MGS benchmark issues ended the review week mixed while the curve steepened a bit as the short-end outperformed with the 3-year and 10-year yields lost -0.4bp and gained +0.8bp respectively to close at 3.57% and 3.90%.
- Total trading value for Government Bonds (MGS/MII) declined to RM16.2b in the review week compared to RM22.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues dropped (higher trading breadth) to 45% of the overall Government Bonds trades in the week under review as compared to 50% in the week before. In addition, 6 out of 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) decreased to RM3.68b in the review week compared to RM4.21b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 33% compared to 29% of the overall Corporate Bonds trades vis-à-vis the week before.

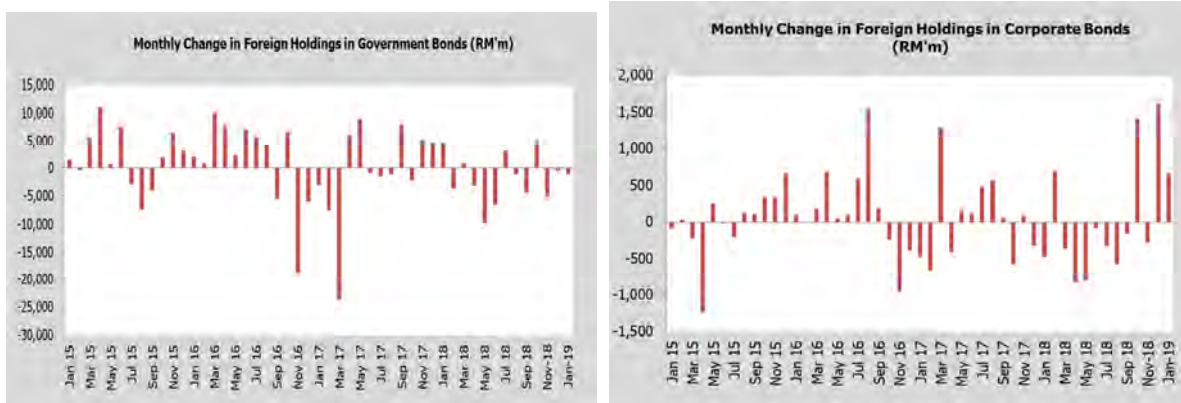
Weekly Money Review

A. FIXED INCOME



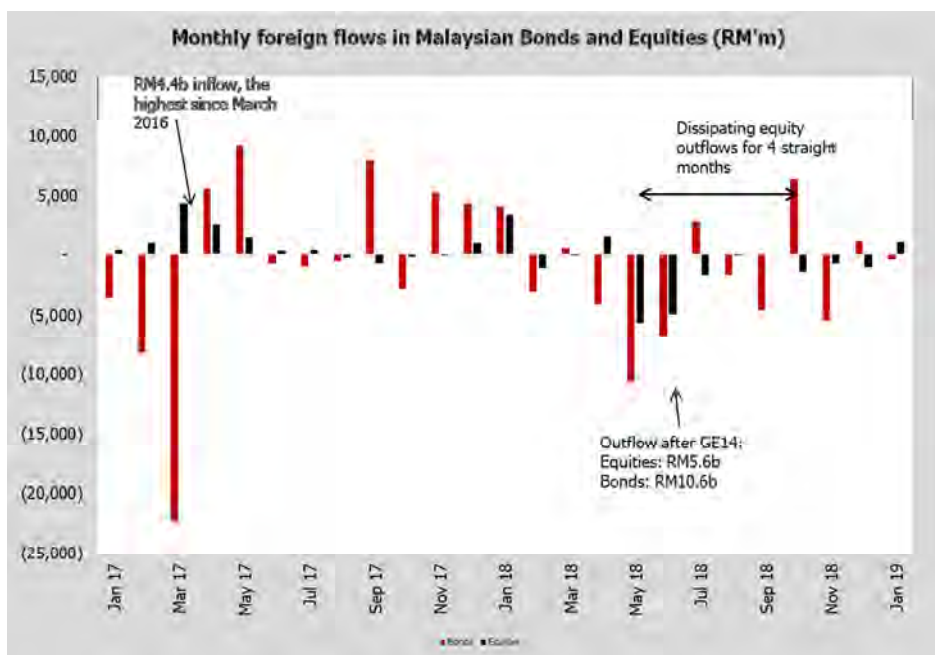
Source: Bloomberg

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- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short and long residual tenors. The top 3 most actively traded were MGS 3.76% 03/15/19 at RM1.1b, MII 4.72% 06/15/33 at RM1.05b, and MGS 3.654% 10/31/19 at RM979m.
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- The top 3 actively traded Corporate Bonds were dominated by issues with short and mid residual tenors. The biggest trading values were seen in Cagamas Berhad 3.65% 08/09/19 at RM195m, Govco Holdings Berhad 4.29% 02/22/24 at RM190m, and YTL Power International 5.05% 05/03/27 at RM120m.
- Total foreign holdings of Government Bonds stood at RM161.0b as at end-Jan 2019. It was a decline of -RM1.0bm from the December 2018 figure of RM162.0b.
- On the other hand, total foreign holdings of Corporate Bonds increased by RM661m in the month of January 2019 to RM16.6b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM417m in January 2019 while the former saw a total net inflow worth RM1.0b. 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

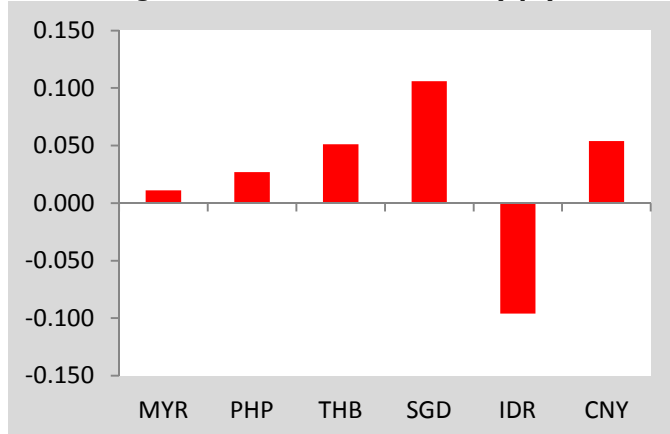
- DXY Index weakens. Trade talks between the US and China remain uncertain especially with the latest extension. In addition, Trump said he is always ready to walk-away if the negotiation stalemate. On macro data, the US economy expanded on annualised 2.6% in 4Q18, higher than market expectation of 2.4%. For full year 2018, GDP growth at 2.9%, fastest since 2015.
- EURUSD improves slightly. Germany's headline and core CPI rose steadily by 1.6% and 1.3% respectively in Jan-19, better than the previous month. The pick-up is in tandem with the return of global crude oil price to above \$60/pb. Nevertheless, geopolitical stress in the region stays as the biggest downside risk to its economic growth and development.
- Ringgit – MYR continues appreciating. Inflationary pressure is expected to stay low as PPI remains on contractionary path in Jan-19, -3.6%yoy. Business tendency survey for 1Q19 indicates moderating trend. Nevertheless, commodity-based industry players signal slight recovery in both agriculture and mining sectors. We maintain our call MYR to average at 4.05 and register year-end target at 4.00 in 2019.

Currencies Changes (Week Ended 1/3) and Quarterly Forecasts

| | Close (1/3) | Prev Close (22/2) | Change | % Change | 1Q19F | 2Q19F | 3Q19F | 4Q19F |
|-----------|-------------|-------------------|--------|----------|--------|--------|--------|--------|
| DXY Index | 96.53 | 96.51 | 0.020 | -0.4% | 96.78 | 95.26 | 94.20 | 96.15 |
| EURUSD | 1.14 | 1.13 | 0.003 | 0.3% | 1.14 | 1.16 | 1.18 | 1.16 |
| GBPUSD | 1.32 | 1.31 | 0.015 | 1.3% | 1.25 | 1.27 | 1.25 | 1.22 |
| USDJPY | 111.89 | 110.69 | 1.200 | -0.2% | 111.76 | 109.13 | 107.42 | 110.55 |
| USDMYR | 4.07 | 4.08 | -0.003 | 0.2% | 4.12 | 4.07 | 4.05 | 4.00 |
| GBPMYR | 5.40 | 5.31 | 0.083 | -1.5% | 5.23 | 5.21 | 5.29 | 5.36 |
| JPYMYR | 3.64 | 3.68 | -0.043 | 0.4% | 3.74 | 3.76 | 3.95 | 3.97 |

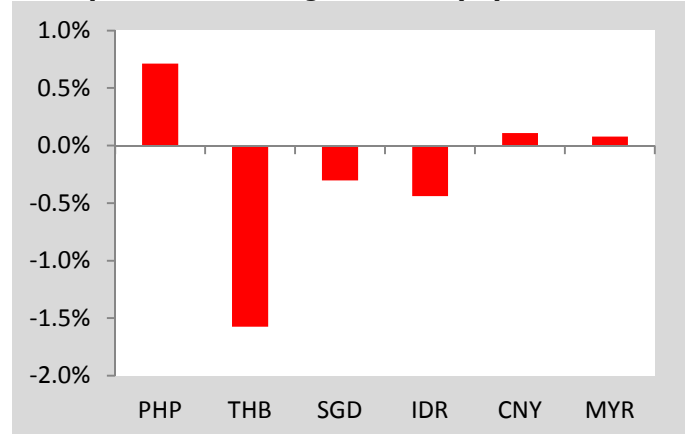
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

| | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Malaysia | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| Indonesia | 4.75 | 5.25 | 5.25 | 5.50 | 5.75 | 5.75 | 6.00 | 6.00 | 6.00 |
| Singapore | Neut. | Neut. | Neut. | Neut. | Neut. | Neut. | Neut. | Neut. | Neut. |
| Philippines | 3.00 | 3.25 | 3.25 | 4.00 | 4.50 | 4.50 | 4.75 | 4.75 | 4.75 |
| Thailand | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 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 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 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 | 0.50 | 0.50 | 0.50 | 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 | 1.75 | 2.00 | 2.00 | 2.00 | 2.25 | 2.25 | 2.25 | 2.50 | 2.50 |

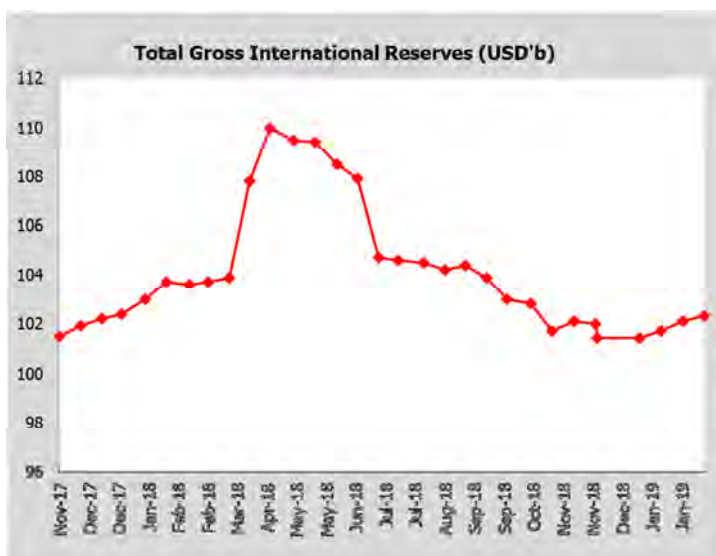
Source: CEIC, MIDFR

- The US and China are still on progressive path towards a trade deal.
- Manufacturing PMI for China remains on contraction while non-manufacturing PMI stays optimistic in Feb-19.
- Trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.


- Nevertheless, global demand is expected to remain resilient and inflationary pressure is tepid. Trade deal between the US and China in which on progressive development may provide hope for long term solution and boost market confidence.
- On the monetary policy space, as guided by its latest minutes, the Fed is predicted to slow its normalization pace in 2019 as most of the officials were unsure on the future rate hikes amid increased downside risks.
- We expect two times of rate hike this year.
- Domestic leading indicators on the other hand are pointing towards slightly better performance leading into 1Q19.
- GDP growth for the final quarter of 2018 surprised market expectations, 4.7% vs 4.5%.
- The solid economic growth contributed by private consumption and external market.
- Headline CPI hits 10-year low at -0.7% in Jan-19.
- It is the first time Malaysia had price deflation since GFC'09.
- PPI remains in negative territory, indicating low inflationary pressure for 1H19.
- Current monetary policy remains accommodative at present to support growth in the domestic economy.
- We expect no changes in monetary policy which OPR maintains at 3.25% in 2019.

C. BNM FOREIGN RESERVES

- As at 15 February 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD102.3b.



Source: BNM

- The amount of reserves is sufficient to finance 7.3 months of retained imports and is 1.0 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

| Tenor | 22-Feb Fri | 25-Feb Mon | 26-Feb Tue | 27-Feb Wed | 28-Feb Thu | 1-Mar Fri | Change (WoW bp) |
|-------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------------|
| MGS | | | | | | | |
| 3-Y | 3.572 | 3.569 | 3.568 | 3.561 | 3.185 | 3.568 | -0.4 |
| 5-Y | 3.704 | 3.717 | 3.704 | 3.706 | 3.717 | 3.709 | 0.5 |
| 7-Y | 3.862 | 3.854 | 3.866 | 3.869 | 3.874 | 3.874 | 1.2 |
| 10-Y | 3.891 | 3.891 | 3.885 | 3.891 | 3.892 | 3.899 | 0.8 |
| 20-Y | 4.483 | 4.483 | 4.479 | 4.479 | 4.494 | 4.465 | -1.8 |
| RINGGIT IRS | | | | | | | |
| 1-Y | 3.655 | 3.655 | 3.655 | 3.655 | 3.655 | 3.675 | 2 |
| 3-Y | 3.69 | 3.685 | 3.68 | 3.69 | 3.69 | 3.7 | 1 |
| 5-Y | 3.77 | 3.77 | 3.775 | 3.78 | 3.78 | 3.79 | 2 |
| 7-Y | 3.895 | 3.895 | 3.9 | 3.9 | 3.9 | 3.91 | 1.5 |
| 10-Y | 4.045 | 4.05 | 4.05 | 4.05 | 4.06 | 4.075 | 3 |
| KLIBOR | | | | | | | |
| 1-M | 3.43 | 3.43 | 3.43 | 3.43 | 3.43 | 3.43 | 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 | 2.4615 | 2.4697 | 2.4449 | 2.4668 | 2.4943 | 2.5329 | 7.14 |
| 5-Y | 2.471 | 2.4761 | 2.4451 | 2.4803 | 2.5122 | 2.5562 | 8.52 |
| 7-Y | 2.5506 | 2.558 | 2.5308 | 2.581 | 2.6205 | 2.6602 | 10.96 |
| 10-Y | 2.6518 | 2.6626 | 2.6357 | 2.6825 | 2.715 | 2.7531 | 10.13 |
| 30-Y | 3.0159 | 3.0271 | 3.0055 | 3.0648 | 3.0802 | 3.1226 | 10.67 |
| USD LIBOR | | | | | | | |
| 1-M | 2.48438 | 2.47913 | 2.493 | 2.48925 | 2.49038 | 2.48188 | -0.25 |
| 2-M | 2.57638 | 2.57675 | 2.57913 | 2.57213 | 2.56713 | 2.56138 | -1.5 |
| 3-M | 2.64625 | 2.63863 | 2.62888 | 2.62613 | 2.61513 | 2.5985 | -4.775 |

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name | Coupon | Maturity | 22-Feb Yield | 1-Mar Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|--------------------------|--------|----------|--------------|-------------|-----------------|-----------------------|
| MALAYSIA GOVERNMENT | 3.759 | 03/15/19 | 3.277 | 3.409 | 13.2 | 1,097.4 |
| MALAYSIA INVESTMNT ISSUE | 4.724 | 06/15/33 | 4.381 | 4.377 | -0.4 | 1,048.0 |
| MALAYSIA GOVERNMENT | 3.654 | 10/31/19 | 3.399 | 3.387 | -1.2 | 979.0 |
| MALAYSIA INVESTMNT ISSUE | 4.094 | 11/30/23 | 3.806 | 3.814 | 0.8 | 935.9 |
| MALAYSIA INVESTMNT ISSUE | 3.729 | 03/31/22 | 3.645 | 3.669 | 2.4 | 728.8 |
| MALAYSIA GOVERNMENT | 4.378 | 11/29/19 | 3.394 | 3.378 | -1.6 | 578.7 |
| MALAYSIA GOVERNMENT | 3.955 | 09/15/25 | 3.941 | 3.934 | -0.7 | 572.4 |
| MALAYSIA GOVERNMENT | 3.906 | 07/15/26 | 3.858 | 3.874 | 1.6 | 461.7 |
| MALAYSIA GOVERNMENT | 3.899 | 11/16/27 | 4.007 | 4.004 | -0.3 | 459.9 |
| MALAYSIA GOVERNMENT | 4.498 | 04/15/30 | 4.158 | 4.145 | -1.3 | 431.1 |
| TOTAL VOLUME (TOP 10) | | | | | | 7,292.8 |
| TOTAL VOLUME (Overall) | | | | | | 16,198.8 |

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name | Coupon | Maturity | 22-Feb Yield | 1-Mar Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|--------------------------|--------|----------|--------------|-------------|-----------------|-----------------------|
| CAGAMAS BERHAD | 3.65 | 08/09/19 | 3.685 | 3.685 | 0.0 | 195.0 |
| GOVCO HOLDINGS BHD | 4.29 | 02/22/24 | 4.053 | 4.054 | 0.1 | 190.0 |
| YTL POWER INTERNATIONAL | 5.05 | 05/03/27 | 4.784 | 4.791 | 0.7 | 120.0 |
| RANTAU ABANG CAPITAL | 4.14 | 08/28/19 | #N/A N/A | 3.801 | #VALUE! | 120.0 |
| YTL POWER INTERNATIONAL | 4.49 | 03/24/23 | 4.570 | 4.544 | -2.6 | 100.7 |
| TELEKOM MALAYSIA BERHAD | 4.68 | 10/31/28 | 4.551 | 4.519 | -3.2 | 100.0 |
| PERBADANAN TABUNG PENDID | 4.85 | 07/26/41 | 4.841 | 4.831 | -1.0 | 100.0 |
| DANAINFRA NASIONAL | 4.9 | 11/16/32 | 4.501 | 4.493 | -0.8 | 100.0 |
| CAGAMAS BERHAD | 4.08 | 10/08/21 | 4.032 | 4.032 | 0.0 | 100.0 |
| AFFIN ISLAMIC BANK BHD | 5.65 | PERP | 5.027 | 4.996 | -3.1 | 90.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 1,215.7 |
| TOTAL VOLUME (Overall) | | | | | | 3,677.8 |

Source: Bloomberg

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(Bank Pelaburan)

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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. |