

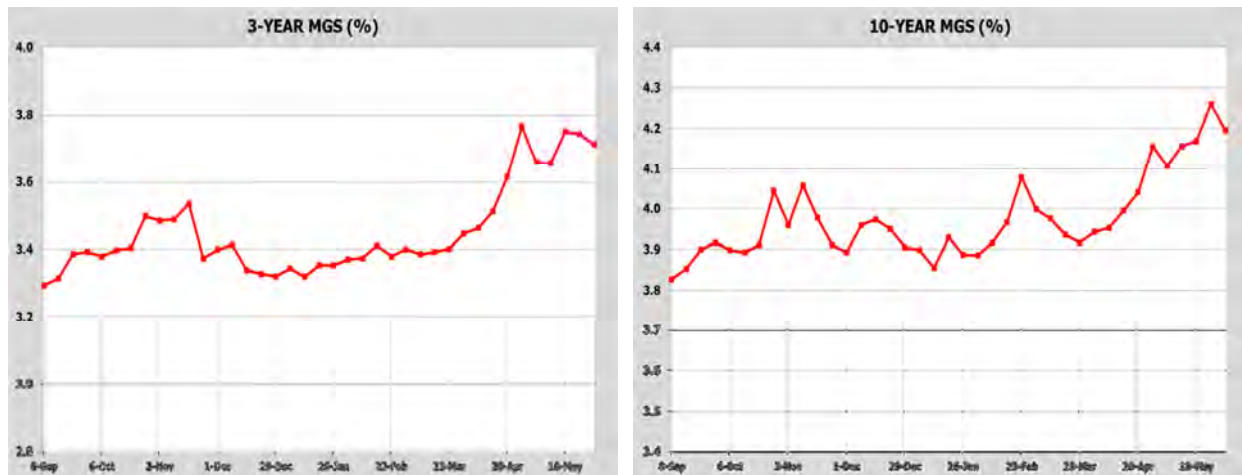
## MIDF Strategy | 4 June 2018

### Week Ended 1 June

- UST rallied (prices up; yields down) earlier last week attributable to continuing reaction to the 'dovish' medium-term signal in Fed minutes but most of the gains were reversed by week close due to better than expected job figures (i.e. nonfarm payrolls increased by 223,000 in May, vs 188,000 estimates) announced later in the week.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to near decade-low levels of +30bps. It seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Domestically, the price of local MGS benchmark issues ended the review week higher with the 3-year and 10-year yields respectively lower by -3.1bps and -6.6bps to close the week at 3.71% and 4.20%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM14.0b in the review week compared to RM20.5b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 59% of the overall Government Bonds trades in the week under review (vis-à-vis ~61% 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.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM572.0m in the review week compared to RM1,024.8m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 46% of the overall Corporate Bonds trades (from ~47% in the week before).

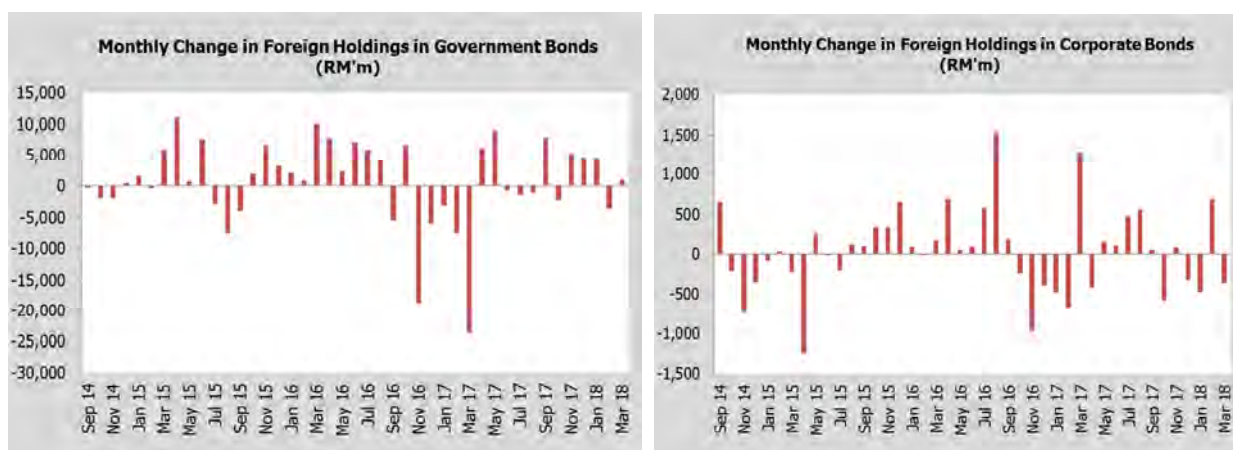
## Weekly Money Review

### A. FIXED INCOME



Source: Bloomberg

- UST rallied (prices up; yields down) earlier last week attributable to continuing reaction to the 'dovish' medium-term signal in Fed minutes but most of the gains were reversed by week close due to better than expected job figures (i.e. nonfarm payrolls increased by 223,000 in May, vs 188,000 estimates) announced later in the week.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to near decade-low levels of +30bps. It seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Domestically, the price of local MGS benchmark issues ended the review week higher with the 3-year and 10-year yields respectively lower by -3.1bps and -6.6bps to close the week at 3.71% and 4.20%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM14.0b in the review week compared to RM20.5b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 59% of the overall Government Bonds trades in the week under review (vis-à-vis ~61% 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 with varied residual tenors. The top 3 most actively traded were MGS 3.58% 09/28/18 at RM1.92b, MII 4.13% 08/15/25 at RM1.11b and MII 4.37% 10/31/28 at RM1.07b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM572.0m in the review week compared to RM1,024.8m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 46% of the overall Corporate Bonds trades (from ~47% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with varied residual tenors. The biggest trading values were seen in YTL Power International 5.05% 05/03/27 at RM105m, Sunway Treasury Sukuk Sdn Bhd 0% 06/28/18 at RM105m and Malaysia Airports Holdings Bhd 5.75% Perpetual at RM60.0m.
- Total foreign holdings of Government Bonds stood at RM184.8b as at end-March 2018. It was an increase of RM899m from the February 2018 figure of RM183.9b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds decreased by RM359.8m in the month of March 2018 to RM15.9b.

## B. FOREIGN EXCHANGE

- DXY Index continues strengthening. A rate hike in the upcoming Jun-18 FOMC meeting is mostly confirmed amid of further tightening labour market, optimistic business confidence and steady inflationary pressure. Unemployment rate in the US recorded at 3.8% in May-18, the lowest since Apr-00 and non-farm payrolls rose by 223K, highest in 3-month. ISM manufacturing PMI rebounded last month at 58.7 points from 9-month low in Apr-18. Referred inflation indicator by the Fed, core PCE maintains at 1.8%yoy in Apr-18, slightly below the 2% target.
- EURUSD unchanged as Italian politics found its footing. Giuseppe Conte sworn in as the Prime Minister of Italy, representing a populist government consists of Five-Star Movement (M5S) and the far-right League Party. The end of political deadlock and avoidance of a snap re-election indirectly reduce market uncertainties in the region. On a flip side, headline and core inflation in EU registered stronger data in May-18. Headline inflation up 1.9%yoy, fastest since Apr-17 while core inflation touched 8-month high at 1.1%yoy. However, we view the rising inflation would not give sufficient reasons for ECB to raise its interest rate in the near term given that political and market uncertainties remain as the downside risks.

### Currencies Changes (Week Ended 01/06) and Quarterly Forecasts

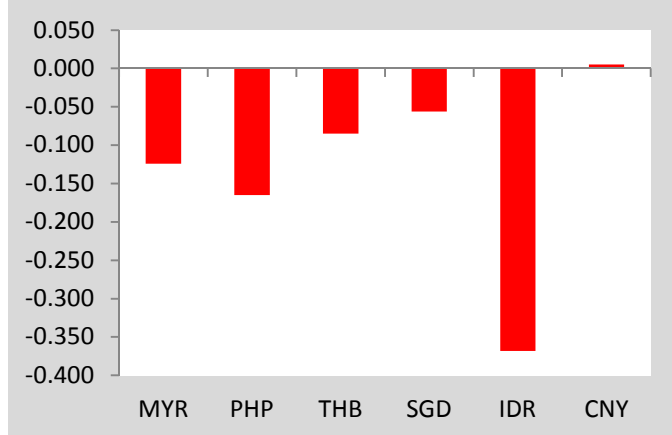
	Close (01/06)	Prev Close (25/05)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	94.156	94.253	-0.097	-0.1%	90.07	90.69	91.91	95.98
EURUSD	1.166	1.165	0.001	0.1%	1.23	1.22	1.20	1.16
GBPUSD	1.335	1.331	0.004	0.3%	1.39	1.25	1.15	1.09
USDJPY	109.540	109.410	0.130	-0.1%	108.09	100.29	95.10	102.27
USDMYR	3.979	3.981	-0.002	0.1%	3.92	3.95	4.00	3.95
GBPMYR	5.288	5.324	-0.036	0.7%	5.46	4.89	4.53	4.58
JPYMYR	3.633	3.640	-0.007	0.2%	3.63	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR

Source: Bloomberg, MIDFR

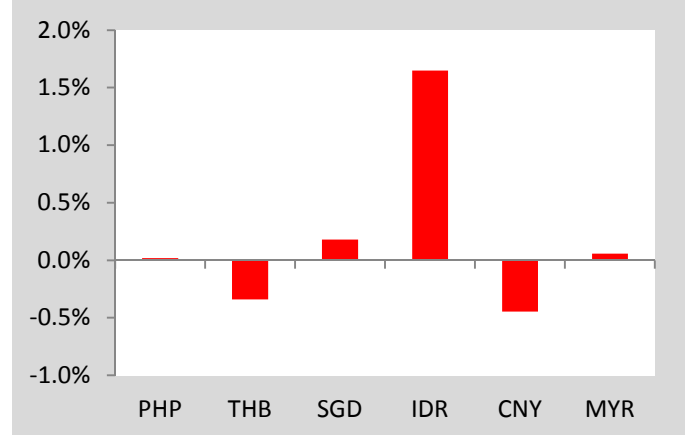
- Ringgit – Stays near 4.00. MYR remains flirting between 3.95-4.00 amid of policy uncertainties and structural changes. Zero-rated GST started on the 1<sup>st</sup> Jun-18 and tax holiday of 3 months till SST to be implemented in Sep-18. Further revision of mega projects adds extra market uncertainties. In line with the latest Business Tendency Index, business confidence is expected to record lower in the coming months. We expect business confidence to rebound once Budget 2019 and Mid-Term Review of RMK-11 tabled in parliament by 4Q18. 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 (%)**

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Malaysia	3.00	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.75
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	3.25
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	1.50	1.50	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	0.50	0.50	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	1.50	1.50	1.50	1.75	1.75	1.75

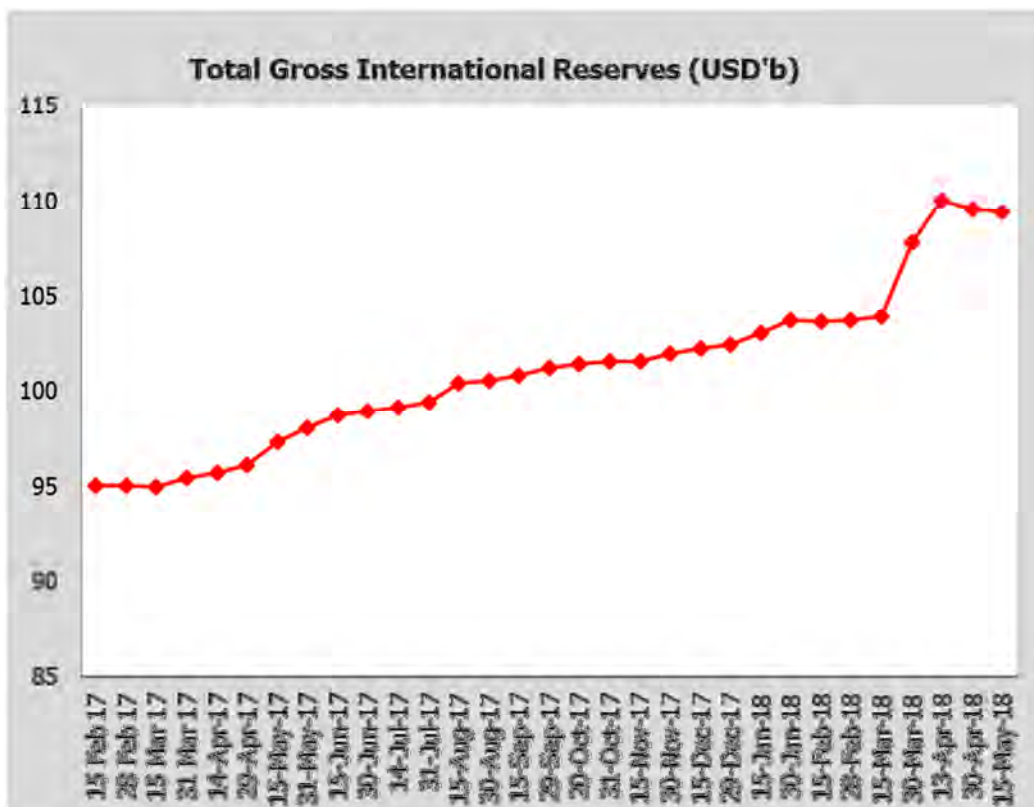
Source: CEIC, MIDFR

- Trade tension is running high. Recent tariff moves by US toward its allies is expected to welcome by counter measures. This development will pose a serious threat to global trade.
- Additionally, geopolitical threats remain prevalent in influencing the pace off global growth in the near term. Political uncertainty in Italy is the latest addition to the list.
- Risks related to trade tension and geopolitical uncertainties determine the portfolio positioning of global capital seeking for higher yield.
- Globally, monetary policy stance in general is seen as accommodative to support growth as well as providing favorable financial environment for the sustainable economic expansion.
- Nevertheless, move toward normalization and tightening in certain economies are expected in the medium term as growth pick-up and inflationary pressure seep in.
- Commodities prices continue its upward momentum signaling inflationary pressure to start kick-in in both developed and emerging economies. Negative outcomes trade tension could push up the crude prices even further.


- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance as well as commodities prices.
- Domestically, inflationary pressure is expected to moderate with upward bias amid rising pressure from commodities prices. Recent reading for April stood at 1.4%yoy bringing the first 4 months inflation rate at 1.7%yoy.
- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for the full year.

## C. BNM FOREIGN RESERVES

- As at 15 April 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD109.4b.



Source: BNM

- The amount of reserves is sufficient to finance 7.6 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	25-May Fri	28-May Mon	29-May Tue	30-May Wed	31-May Thu	1-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.743	3.749	3.749	3.749	3.79	3.712	-3.1
5-Y	3.881	3.881	3.881	3.915	3.842	3.797	-8.4
7-Y	4.034	4.034	4.034	4.06	4.019	4.034	0
10-Y	4.261	4.245	4.245	4.245	4.178	4.195	-6.6
20-Y	4.93	4.93	4.93	4.93	4.913	4.872	-5.8
RINGGIT IRS							
1-Y	3.755	3.75	3.75	3.75	3.745	3.745	-1
3-Y	3.84	3.83	3.83	3.83	3.815	3.8075	-3.25
5-Y	3.94	3.93	3.93	3.92	3.89	3.885	-5.5
7-Y	4.035	4.025	4.025	4	3.97	3.9725	-6.25
10-Y	4.165	4.165	4.165	4.155	4.115	4.11	-5.5
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	2.6082	2.6082	2.4321	2.531	2.5502	2.5998	-0.84
5-Y	2.7652	2.7652	2.5841	2.6811	2.6962	2.7483	-1.69
7-Y	2.8849	2.8849	2.7147	2.8008	2.8057	2.8576	-2.73
10-Y	2.9313	2.9313	2.781	2.855	2.8586	2.9022	-2.91
30-Y	3.092	3.092	2.9745	3.0269	3.0253	3.0506	-4.14
USD LIBOR							
1-M	1.97563	1.97563	1.98031	1.98246	2.0007	2.00468	2.905
2-M	2.09942	2.09942	2.09718	2.09677	2.10686	2.11126	1.184
3-M	2.31813	2.31813	2.30719	2.30031	2.32125	2.31781	-0.032

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	25-May Yield	1-Jun Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.58	09/28/18	3.314	3.107	-20.7	1,917.4
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.241	4.160	-8.1	1,111.1
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.337	4.316	-2.1	1,071.8
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	N/A	4.012	N/A	930.0
MALAYSIA GOVERNMENT	3.733	06/15/28	4.261	4.195	-6.6	692.8
MALAYSIA GOVERNMENT	3.955	09/15/25	4.309	4.230	-7.9	643.7
MALAYSIA GOVERNMENT	4.232	06/30/31	4.781	4.695	-8.6	521.2
MALAYSIA GOVERNMENT	3.9	11/30/26	4.369	4.319	-5.0	490.1
MALAYSIA GOVERNMENT	3.844	04/15/33	4.749	4.701	-4.8	445.8
MALAYSIA GOVERNMENT	3.899	11/16/27	4.367	4.288	-7.9	423.9
TOTAL VOLUME (TOP 10)						8,247.8
TOTAL VOLUME (Overall)						13,986.6

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	25-May Yield	1-Jun Yield	Change (WoW bp)	Weekly Volume (RM bn)
YTL POWER INTERNATIONAL	5.05	05/03/27	5.033	5.033	0.0	105.0
SUNWAY TREASURY SUKUK SD	ZERO	06/28/18	3.913	3.913	0.0	105.0
MALAYSIA AIRPORTS HG BHD	5.75	PERP	5.100	5.039	-6.1	60.0
BUMITAMA AGRI LTD	5	09/02/19	4.698	4.659	-3.9	50.0
UEM SUNRISE BHD	5	05/19/23	4.993	4.956	-3.7	50.0
PRASARANA MALAYSIA BHD	5.23	09/13/47	5.258	5.268	1.0	45.0
MAH SING GROUP BHD	6.8	PERP	#N/A N/A	5.638	#VALUE!	41.0
PUBLIC BANK BERHAD	4.77	10/27/23	4.309	4.316	0.7	40.0
DANAINFRA NASIONAL	5.14	07/22/39	5.150	5.161	1.1	40.0
PERBADANAN KEMAJUAN SEL	4.55	10/31/18	4.436	4.442	0.6	36.0
TOTAL VOLUME (TOP 10)						572.0
TOTAL VOLUME (Overall)						1,246.4

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.