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MIDF AMANAH INVESTMENT BANK BERHAD

WEEKLY MONEY REVIEW

MIDF Strategy | 5 November 2018

Week Ended 2 November

- UST tumbled (prices down; yields up) last week as investors reacted to the Labor Department's monthly jobs report for October which showed nonfarm payrolls increased by 250,000 seasonally adjusted, exceeded the 190,000 expected by economists. Moreover, wages were up 3.14%yoy in October, the fastest pace since April 2009.
- Furthermore, the yield curve steepened as the short-end outperformed. The 10y-3y yield spread widened to +24bps from +22bps a week earlier. Nevertheless, we reckon the yield curve retains its flattening bias in view of further monetary tightening by the US Fed.
- Domestically, the price of MGS benchmark issues ended the review week higher while the curve flattened with the 3-year and 10-year yields declined -4.1bps and -12.2bps respectively to close the week at 3.66% and 4.06%.
- Total trading value for Government Bonds (MGS/MII) increased to RM16.0b in the review week compared to RM9.4b in the previous week. The total trading value of 10 most actively traded issues increased (lower trading breadth) to 68% of the overall Government Bonds trades in the week under review vis-à-vis 58% in the week before. In addition, 7 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.45b in the review week compared to RM3.45b in earlier week. The total trading value of 10 most actively traded issues increased (lower trading breadth) to 39% of the overall Corporate Bonds trades from 36% in the week before.

05 November 2018 | Strategy

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Weekly Money Review

A. FIXED INCOME

Source: Bloomberg

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- Furthermore, the yield curve steepened as the short-end outperformed. The 10y-3y yield spread widened to +24bps from +22bps a week earlier. Nevertheless, we reckon the yield curve retains its flattening bias in view of further monetary tightening by the US Fed.

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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 MII 4.369% 10/31/28 at RM2.10b, MGS 4.378% 11/29/19 at RM1.61b and MGS 3.733% 06/15/28 at RM1.52b.

- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.45b in the review week compared to RM3.45b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 39% of the overall Corporate Bonds trades from 36% in the week before.

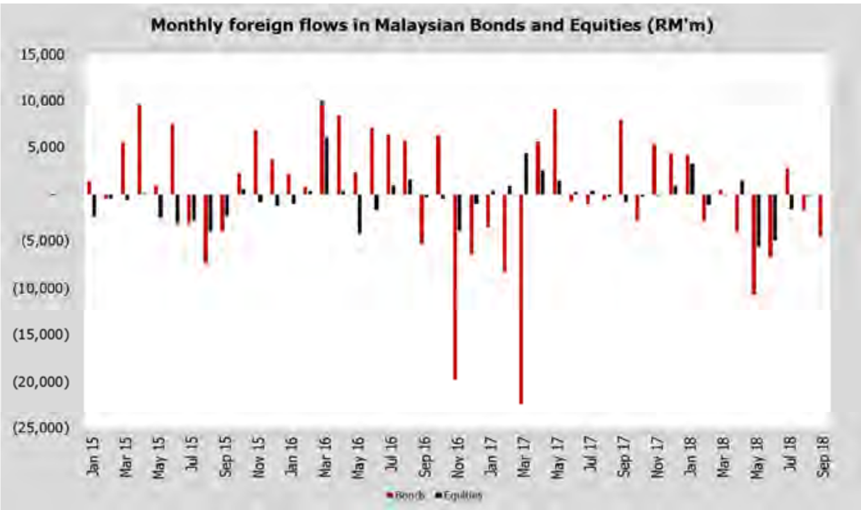
- The top 3 actively traded Corporate Bonds were dominated by issues with varied tenors. The biggest trading values were seen in Fortune Premiere Sdn Bhd 5.05% 09/05/25 at RM181m, Fortune Premier Sdn Bhd 4.85% 09/07/23 at RM60m and OCBC Bank Malaysia Berhad 6.75% 04/15/39 at RM60m.

- Total foreign holdings of Government Bonds stood at RM162.7b as at end-Sept 2018. It was a decline of -RM4.4b from the Aug 2018 figure of RM167.1b.

- In tandem, total foreign holdings of Corporate Bonds decreased by -RM160.8m in the month of September 2018 to RM13.2b.

Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM4.6b in September 2018 while the former saw a total net inflow worth RM66.3m (first inflow in 5 months). Furthermore, year-to-date (Jan-Sep), both equities and bonds markets remained in the red with total net outflows of -RM8.5b and -RM23.2b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

- DXY Index continued to appreciate after rosy payrolls. The US economy added 250K jobs in Oct-18, following a downwardly revised 118K in Sep-18 and more than 190K expected by the market. Among others, job gains occurred in health care, manufacturing and construction. In addition, average hourly earnings in Oct-18 increased in line with expectations at a monthly 0.2% and 3.1% from a year earlier. Besides that, US unemployment rate was unchanged in Oct-18 from the previous month's 49-year low of 3.7%.

- EURUSD declined over falling PMI. The Eurozone Manufacturing PMI fell to 52 points in Oct-18 from 53.2 points in the preceding month and slightly worse than 52.1 points estimated by the market. The reading is the weakest since Aug-16 as new exports orders fell for the first time since mid-2013 amid concerns over the global trade protectionism measures. Weaker growth of factory activity is also highlighted in France and Germany, the bloc's two biggest economies.

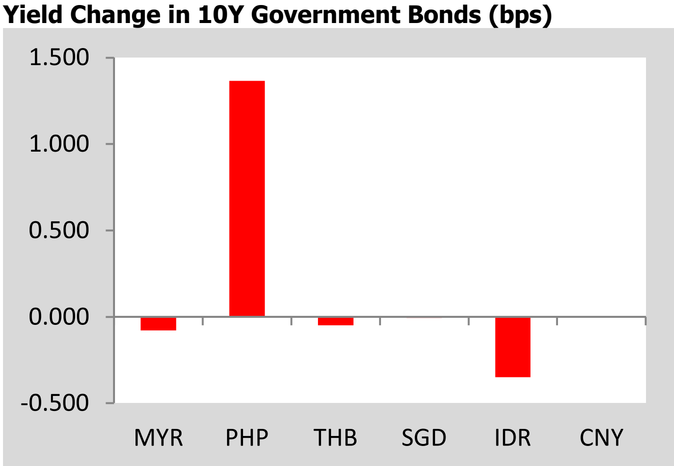
- Ringgit – ended higher on 2019 Budget announcement. Investors reacted positively to the fairly expansionary 2019 Budget when the earlier mood was leaning more towards austerity. The total budget allocation of RM314.5b for 2019 is the largest-ever, representing an 8.3% increase over the RM290.4b allocation for 2018. More pertinently, fiscal deficit is expected to improve to -3.4% of GDP in 2019 (-3.7% in 2018). In addition, the government expects Malaysia's economy to continue performing in 2019 albeit at moderating pace of 4.9%, indicating a cautiously optimistic view of government in respect to the current economic landscapes. We maintain our call MYR to average at 4.00 and register year-end target at 4.00.

Currencies Changes (Week Ended 02/11) and Quarterly Forecasts

	Close (02/11)	Prev Close (26/10)	Change	% Change	1Q18	2Q18	3Q18	4Q18F
DXY Index	96.54	96.36	0.183	0.2%	90.07	92.79	95.03	97.00
EURUSD	1.14	1.14	-0.002	-0.1%	1.23	1.19	1.16	1.14
GBPUSD	1.30	1.28	0.014	1.1%	1.39	1.37	1.30	1.27
USDJPY	113.20	111.91	1.290	-1.1%	108.09	109.24	111.50	114.74
USDMYR	4.16	4.18	-0.018	0.4%	3.92	3.95	4.10	4.24
GBPMYR	5.42	5.35	0.071	-1.3%	5.46	5.37	5.33	5.40
JPYMYR	3.67	3.73	-0.059	1.6%	3.63	3.62	3.67	3.70

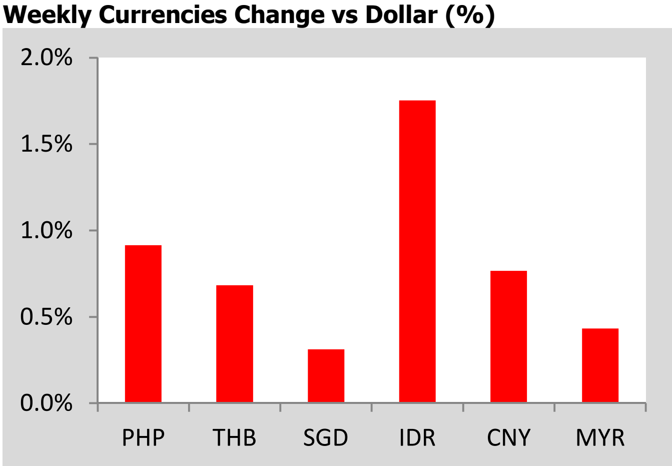
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.75	5.25	5.25	5.50	5.75	5.75	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.25	3.25	4.00	4.50	4.50	4.50
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	1.50	1.50	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	0.50	0.50	0.50	0.50	0.50	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	1.75	1.75	2.00	2.00	2.00	2.25	2.25	2.25

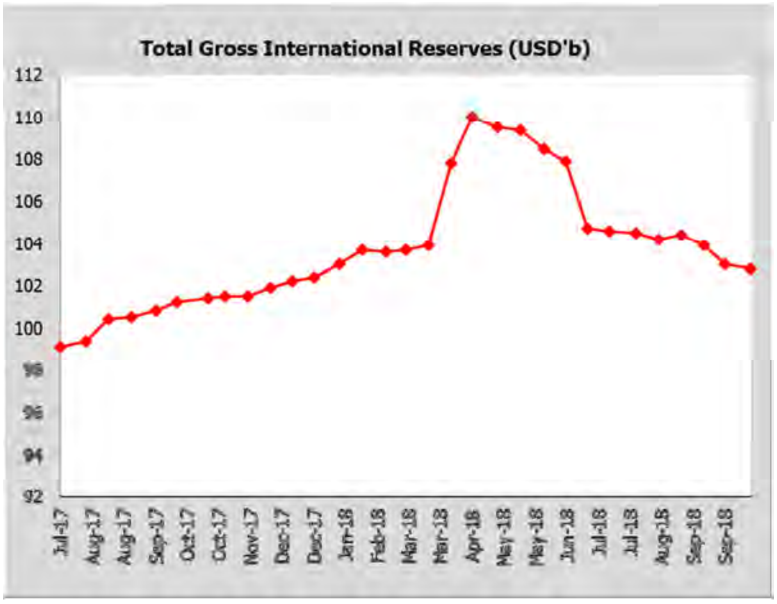
Source: CEIC, MIDFR

- Global economy is expected to experience growth moderation in the near term as pocket of uneven growth seen in different parts of the world.

- Ongoing headwinds such as trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy remain as key factors affecting growth.
- Business and consumer sentiments in most major markets are showing signs of slowing down.
- Domestic leading indicators for businesses and consumers are also pointing toward moderation after reaching new high in 2Q18.
- Rate normalization in the US shift in risk appetite and boost dollar strength which is negative to EM currencies - the trend observed in the last couple of months.
- Federal Reserve will have its 7th FOMC this Wednesday and expected to keep rate on hold.
- Increasing oil prices and heightens policy uncertainty help to exacerbate the situation especially for net energy importer countries.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth. Various people friendly initiatives unveiled during Budget 2019 will help sustained domestic sector.
- Headline inflation in the upcoming months is expected to remain tepid amid cost related policy measures. The trend is expected to continue despite the end of tax holiday period in September.
- Bank Negara will have its final (6th) policy meeting this upcoming Thursday. Our base case scenario for OPR remains unchanged (single rate hike - 3.25%) for 2018.
- Current monetary policy remains accommodative to support growth in the domestic economy.

C. BNM FOREIGN RESERVES

- As at 15 October 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD102.8b.



Source: BNM

- The amount of reserves is sufficient to finance 7.3 months of retained imports and is 0.9 times the short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	26-Oct Fri	29-Oct Mon	30-Oct Tue	31-Oct Wed	1-Nov Thu	2-Nov Fri	Change (WoW bp)
MGS							
3-Y	3.706	3.682	3.689	3.664	3.678	3.665	-4.1
5-Y	3.843	3.843	3.83	3.786	3.798	3.786	-5.7
7-Y	4.066	4.056	4.052	4.007	3.988	4.029	-3.7
10-Y	4.184	4.162	4.159	4.076	4.09	4.062	-12.2
20-Y	4.799	4.853	4.849	4.782	4.76	4.778	-2.1
RINGGIT IRS							
1-Y	3.715	3.715	3.715	3.71	3.71	3.71	-0.5
3-Y	3.78	3.78	3.78	3.775	3.785	3.79	1
5-Y	3.89	3.89	3.89	3.8825	3.884	3.9075	1.75
7-Y	4.005	4	3.995	3.9975	4	4.0135	0.85
10-Y	4.2015	4.1925	4.2	4.1925	4.2	4.215	1.35
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	2.8554	2.872	2.908	2.9247	2.8997	2.9696	11.42
5-Y	2.9071	2.919	2.9562	2.9749	2.9563	3.033	12.59
7-Y	2.9975	3.0075	3.0449	3.0624	3.0474	3.1278	13.03
10-Y	3.0755	3.0849	3.1227	3.1435	3.1303	3.2121	13.66
30-Y	3.3098	3.3306	3.3637	3.3909	3.376	3.454	14.42
USD LIBOR							
1-M	2.29669	2.302	2.29938	2.30688	2.31356	2.31788	2.119
2-M	2.38531	2.39106	2.39338	2.39638	2.418	2.42625	4.094
3-M	2.52038	2.52663	2.541	2.5585	2.5815	2.59238	7.2

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	26-Oct Yield	2-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.275	4.251	-2.4	2,097.9
MALAYSIA GOVERNMENT	4.378	11/29/19	3.464	3.451	-1.3	1,614.0
MALAYSIA GOVERNMENT	3.733	06/15/28	4.184	4.062	-12.2	1,518.7
MALAYSIA GOVERNMENT	3.654	10/31/19	3.445	3.455	1.0	1,418.6
MALAYSIA GOVERNMENT	3.62	11/30/21	3.706	3.665	-4.1	1,037.9
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	3.886	3.907	2.1	936.2
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.356	3.292	-6.4	925.4
MALAYSIA INVESTMNT ISSUE	3.729	03/31/22	3.766	3.756	-1.0	497.3
MALAYSIA GOVERNMENT	3.757	04/20/23	3.843	3.798	-4.5	435.8
MALAYSIA GOVERNMENT	3.48	03/15/23	3.820	3.849	2.9	404.8
TOTAL VOLUME (TOP 10)						10,886.6
TOTAL VOLUME (Overall)						16,039.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	26-Oct Yield	2-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
FORTUNE PREMIERE SDN BHD	5.05	09/05/25	4.995	4.991	-0.4	180.6
FORTUNE PREMIERE SDN BHD	4.85	09/07/23	4.837	4.839	0.2	60.0
OCBC BANK MALAYSIA BHD	6.75	04/15/39	4.380	4.324	-5.6	60.0
BGSM MANAGEMENT SDN BHD	5.45	06/28/24	4.567	4.567	0.0	50.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.873	4.876	0.3	40.0
GAS MALAYSIA BERHAD	4.15	11/01/19	#N/A N/A	4.033	#VALUE!	40.0
PUBLIC BANK BERHAD	4.85	04/23/27	4.604	4.597	-0.7	40.0
PERBADANAN KEMAJUAN SEL	5.013	10/31/23	#N/A N/A	4.978	#VALUE!	35.0
AMMB HOLDINGS BHD	5.2	03/15/27	5.213	5.086	-12.7	31.8
TELEKOM MALAYSIA BERHAD	4.68	10/31/28	#N/A N/A	4.652	#VALUE!	30.0
TOTAL VOLUME (TOP 10)						567.4
TOTAL VOLUME (Overall)						1,454.4

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 *rise* 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 *fall* 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.