

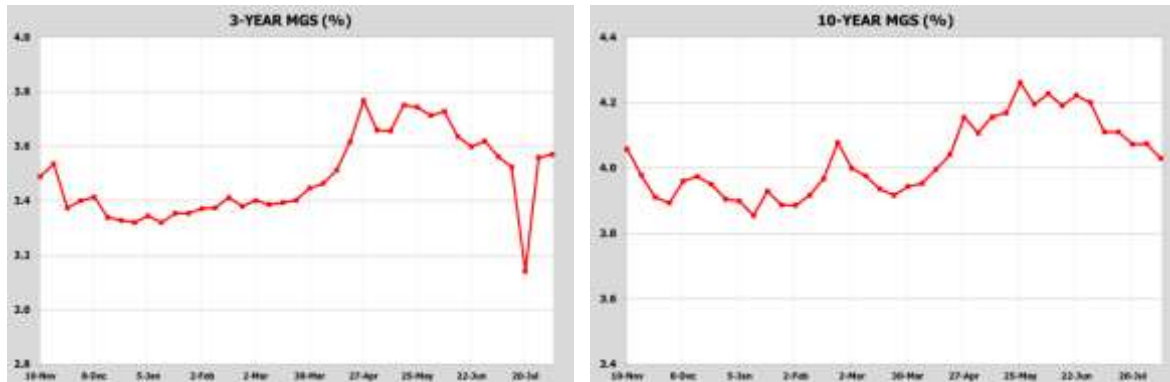
## MIDF Strategy | 6 August 2018

### Week Ended 3 August

- UST market perked up (prices up; yields down) last week attributable to milder than expected job data with the non-farm payrolls in July 2018 rose by 157k, less than 190k expected by the market. Moreover, the ISM non-manufacturing index in July fell to 55.7%, an 11-month low. Nonetheless, these economic figures are unlikely to reverse the expectation of another US Fed rate hike in September.
- It is also notable that the yield curve steepened slightly last week as the short-end outperformed. The 10y-3y yield spread expanded to +22bps, from +19bps a week earlier. However, the flattening trend remains well intact.
- Domestically, the prices of MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields respectively gained +1.2bps and lost -4.4bps to close the week at 3.57% and 4.03%.
- Total trading value for Government Bonds (MGS/MII) increased to RM23.5b in the review week compared to RM13.5b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 52% of the overall Government Bonds trades in the week under review (vis-à-vis ~66% in the week before). In addition, 6 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) increased to RM3.68b in the review week compared to RM2.98b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined to 25% of the overall Corporate Bonds trades (from ~30% in the week before).

## Weekly Money Review

### A. FIXED INCOME



Source: Bloomberg

- UST market perked up (prices up; yields down) last week attributable to milder than expected job data with the non-farm payrolls in July 2018 rose by 157k, less than 190k expected by the market. Moreover, the ISM non-manufacturing index in July fell to 55.7%, an 11-month low. Nonetheless, these economic figures are unlikely to reverse the expectation of another US Fed rate hike in September.
- It is also notable that the yield curve steepened slightly last week as the short-end outperformed. The 10y-3y yield spread expanded to +22bps, from +19bps a week earlier. However, the flattening trend remains well intact.
- Domestically, the prices of MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields respectively gained +1.2bps and lost -4.4bps to close the week at 3.57% and 4.03%.
- Total trading value for Government Bonds (MGS/MII) increased to RM23.5b in the review week compared to RM13.5b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 52% of the overall Government Bonds trades in the week under review (vis-à-vis ~66% in the week before). In addition, 6 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 MII 4.37% 10/31/28 at RM3.26b, MGS 3.88% 03/14/25 at RM2.21b and MGS 3.62% 11/30/21 at RM1.22b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.68b in the review week compared to RM2.98b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined to 25% of the overall Corporate Bonds trades (from ~30% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with long residual tenors. The biggest trading values were seen in MKD Kencana Sdn Bhd 4.85% 10/01/32 at RM140m, Ambank Malaysia Berhad 4.90% 10/15/27 at RM120.0m and Danainfra Nasional 4.58% 10/31/28 at RM90.0m.
- Total foreign holdings of Government Bonds stood at RM165.0b as at end-June 2018. It was a decrease of RM6.68b from the May 2018 figure of RM171.7b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds decreased by RM79.0m in the month of June 2018 to RM14.2b.

## B. FOREIGN EXCHANGE

- DXY Index appreciates amid plenty of positive numbers in jobs report. While US economy added less jobs than expected, the rest of the report was sufficient enough to pick up the slack. US non-farm payrolls rose by 157k in Jul-18 however less than 190k expected by the market. Among others, manufacturing sector added 37k jobs. Meantime, US unemployment rate ticked down to 3.9% in Jul-18 following 4% in the previous month. Similarly, US average hourly earnings for all employees increased by 2.7% in Jul-18 from a year earlier and matched market estimations. Besides that, China has announced retaliatory tariffs on USD60b of US goods and the implementation will subject to the actions of the US.
- EURUSD remains fragile. Most of the economic data from the Eurozone were weak. Retail sales in the Euro area rose by 1.2%yoy in Jun-18 however slower than previous month's reading of 1.6%yoy and fell below market expectations. In addition, Euro area business growth slowed in Jul-18 as suggested by composite PMI which went down to 54.3 points. The final PMI numbers hampered by a drop in new orders that weaken private-sector optimism. Earlier, manufacturing PMI data showed that factory growth remained subdued as concerns on trade disputes escalate.

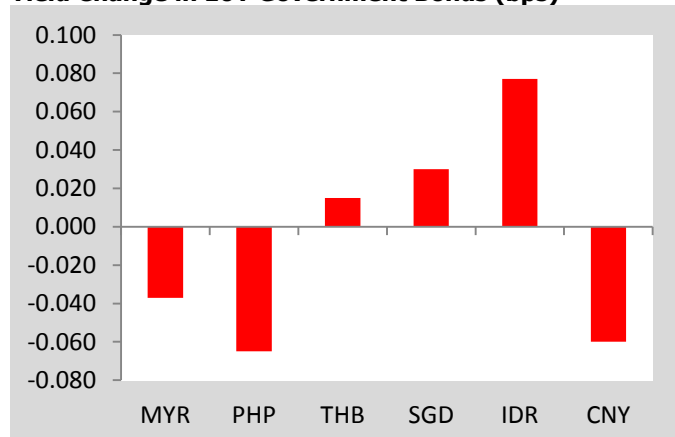
### Currencies Changes (Week Ended 03/08) and Quarterly Forecasts

	Close (03/08)	Prev Close (27/07)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	95.16	94.67	0.491	0.2%	90.07	92.79	91.76	93.66
EURUSD	1.16	1.17	-0.009	-0.6%	1.23	1.19	1.21	1.19
GBPUSD	1.30	1.31	-0.010	-0.2%	1.39	1.37	1.34	1.32
USDJPY	111.25	111.05	0.200	0.3%	108.09	109.24	107.54	110.66
USDMYR	4.08	4.06	0.019	0.0%	3.92	3.95	4.09	4.05
GBPMYR	5.30	5.32	-0.019	-0.7%	5.46	5.37	5.46	5.52
JPYMYR	3.67	3.66	0.010	-0.4%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

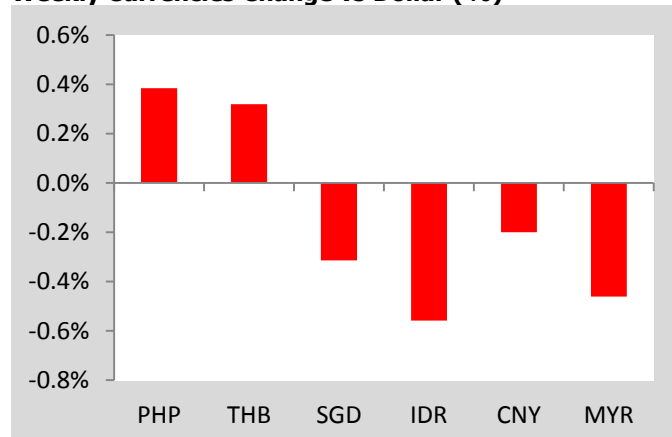
- Ringgit at 7-month low. Malaysia's June exports grew slower than expected. Exports expanded by 7.6%yoy however missed market consensus of 10.3%yoy. So far, this is the first time in 2018 where imports growth (14.9%yoy) outpaced exports. The latest data signal toward softer yet robust economic growth in 2Q18 which is scheduled to be released on August 16. 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 (%)**

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.75	5.25	5.25	5.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.50	3.50	3.50
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	0.50	0.50	0.50	0.75
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.50	1.50	1.50	1.75	1.75	1.75	2.00	2.00	2.00

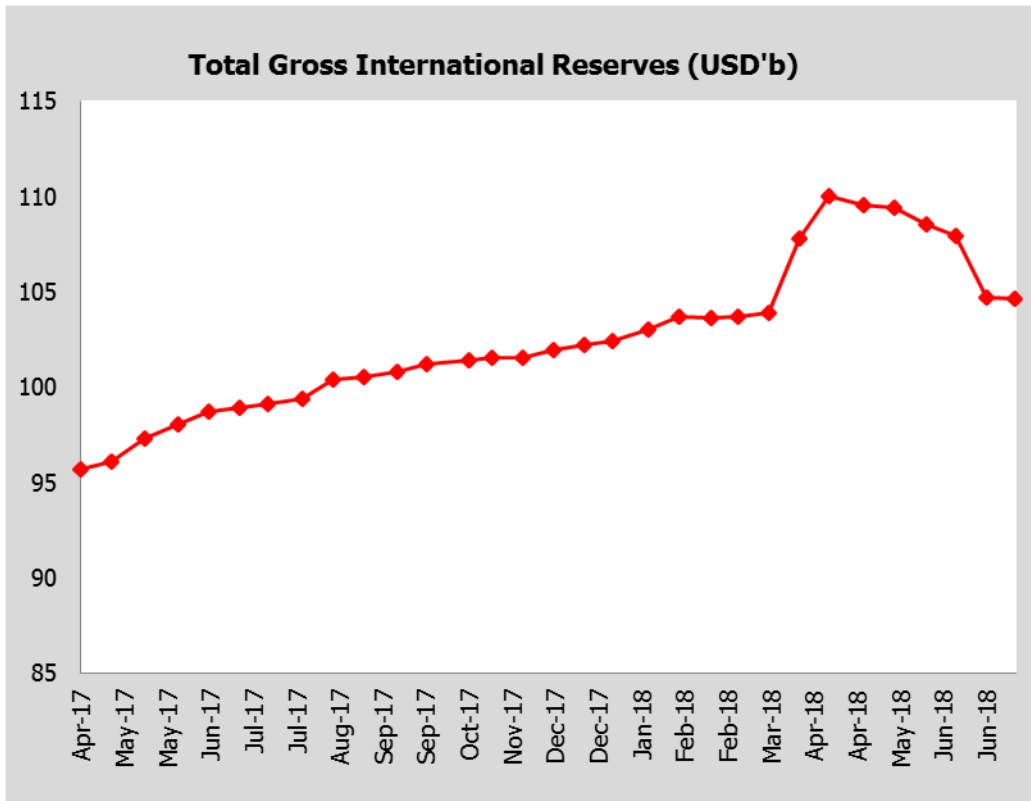
Source: CEIC, MIDFR

- The intertwined global value chain developed over the years posed a vulnerable link to any shock to global trade. The current trade tension posed a threat to the global trade.
- It could be the tipping point for global growth slowdown should the tension escalate to full blown war.
- Nevertheless, we discount the possibility of full blown trade war as ongoing trade talks will at least resolve some of the contentious points.
- However, the prolong tension already impacted sentiment which adversely affected emerging markets and could distort the investment outlook in the near future.
- Regional currencies are expected to come under pressure amid hawkish Fed, stronger dollar and ongoing trade tension which move capital to safe haven.
- US strong economic growth as reported in the 2nd quarter (4.1%) could seal the deal for Fed to proceed with its planned hike this year as highlighted in the last week FOMC meeting.
- Elsewhere, other central banks such as BOE and ECB are signaling move toward normalization. BOE hikes interest rate by 25bps last week amid hawkish expectation about domestic growth despite uncertainty regarding Brexit.
- Domestic consumption is also expected to remain robust amid tax holiday period and stable labor market. This is positive to domestic growth.


- For domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike- 3.25%) for 2018 barring any unforeseen circumstances. Domestic inflation to remain tepid in the upcoming months.

## C. BNM FOREIGN RESERVES

- As at 13 July 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD104.6b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	27-Jul Fri	30-Jul Mon	31-Jul Tue	1-Aug Wed	2-Aug Thu	3-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.558	3.555	3.567	3.538	3.522	3.57	1.2
5-Y	3.754	3.754	3.754	3.751	3.756	3.756	0.2
7-Y	3.966	3.975	3.965	3.956	3.942	3.958	-0.8
10-Y	4.074	4.084	4.066	4.055	4.024	4.03	-4.4
20-Y	4.783	4.779	4.772	4.736	4.682	4.69	-9.3
RINGGIT IRS							
1-Y	3.705	3.705	3.705	3.705	3.705	3.705	0
3-Y	3.75	3.755	3.745	3.745	3.745	3.74	-1
5-Y	3.845	3.84	3.84	3.8425	3.835	3.845	0
7-Y	3.985	3.98	3.975	3.97	3.96	3.955	-3
10-Y	4.18	4.176	4.17	4.135	4.125	4.125	-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	2.7604	2.7577	2.7661	2.7802	2.7608	2.7304	-3
5-Y	2.8394	2.8496	2.8479	2.8751	2.8548	2.8125	-2.69
7-Y	2.9172	2.9322	2.9247	2.9621	2.9397	2.8998	-1.74
10-Y	2.9542	2.9728	2.9598	3.0064	2.9859	2.9488	-0.54
30-Y	3.0822	3.1047	3.0822	3.1321	3.1184	3.0886	0.64
USD LIBOR							
1-M	2.07675	2.0815	2.08138	2.08213	2.08019	2.07931	0.256
2-M	2.16875	2.17363	2.17906	2.18075	2.18206	2.18238	1.363
3-M	2.34238	2.34313	2.34856	2.34825	2.3405	2.343	0.062

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	27-Jul Yield	3-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.201	4.146	-5.5	3,263.5
MALAYSIA GOVERNMENT	3.882	03/14/25	3.966	3.958	-0.8	2,205.7
MALAYSIA GOVERNMENT	3.62	11/30/21	3.558	3.570	1.2	1,215.4
MALAYSIA GOVERNMENT	4.642	11/07/33	4.542	4.485	-5.7	1,208.9
MALAYSIA GOVERNMENT	3.844	04/15/33	4.596	4.505	-9.1	847.4
MALAYSIA GOVERNMENT	5.734	07/30/19	3.430	3.370	-6.0	834.1
MALAYSIA GOVERNMENT	3.733	06/15/28	4.074	4.030	-4.4	790.7
MALAYSIA GOVERNMENT	3.654	10/31/19	3.428	3.454	2.6	694.7
MALAYSIA INVESTMNT ISSUE	3.704	09/30/19	3.483	3.488	0.5	655.0
MALAYSIA GOVERNMENT	3.757	04/20/23	3.754	3.756	0.2	629.6
TOTAL VOLUME (TOP 10)						12,344.9
TOTAL VOLUME (Overall)						23,533.2

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	27-Jul Yield	3-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
MKD KENCANA SDN BHD	4.85	10/01/32	#N/A N/A	4.807	#VALUE!	140.0
AMBank MALAYSIA BHD	4.9	10/15/27	#N/A N/A	4.964	#VALUE!	120.0
DANAINFRA NASIONAL	4.58	10/31/28	4.479	4.407	-7.2	110.0
DANAINFRA NASIONAL	5.1	05/25/37	5.048	4.947	-10.1	90.0
DANAINFRA NASIONAL	4.89	05/25/32	4.780	4.723	-5.7	80.0
PRASARANA MALAYSIA BHD	5.07	09/28/29	#N/A N/A	4.494	#VALUE!	80.0
PERBADANAN TABUNG PENDID	4.27	03/14/24	#N/A N/A	4.205	#VALUE!	80.0
PUBLIC BANK BERHAD	4.85	04/23/27	4.676	4.651	-2.5	75.0
KRUNG THAI BANK/CAYMAN	5.1	07/04/25	4.808	4.810	0.2	72.0
PRASARANA MALAYSIA BHD	4.64	03/22/30	#N/A N/A	4.527	#VALUE!	70.0
TOTAL VOLUME (TOP 10)						917.0
TOTAL VOLUME (Overall)						3,682.2

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.