

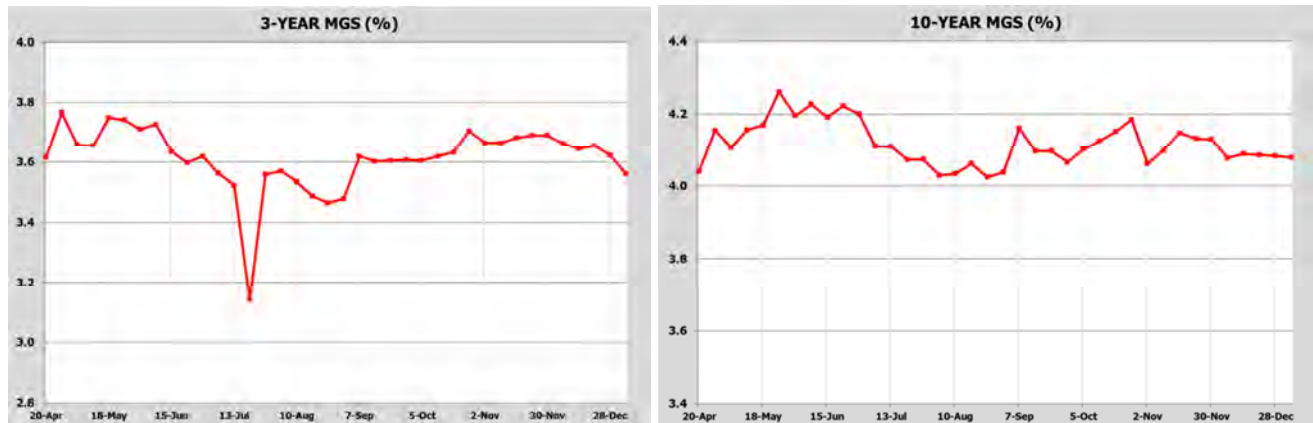
MIDF Strategy | 7 January 2019

Week Ended 4 January 2019

- UST rallied (prices up; yields down) for most of last week as the safe haven trades continue from prior week but the buying momentum was abruptly reversed on Friday due to the release of a better than expected job data.
- Moreover, the UST yield curve flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +19bps from +22bps a week earlier. We reckon the yield curve shall retain its flattening bias until and unless the US Fed declares a cessation to the current hiking cycle.
- Likewise, the price of MGS benchmark issues ended the review week higher but nonetheless the curve steepened with the 3-year and 10-year yields declined -6.3bps and -0.4bp respectively to close at 3.56% and 4.08%.
- Total trading value for Government Bonds (MGS/MII) increased to RM16.1b in the review week compared to RM5.6b in the previous week. The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 55% of the overall Government Bonds trades in the week under review vis-à-vis 59% 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.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.42b in the review week compared to RM1.9b in earlier week. The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 38% of the overall Corporate Bonds trades from 49% in the week before.

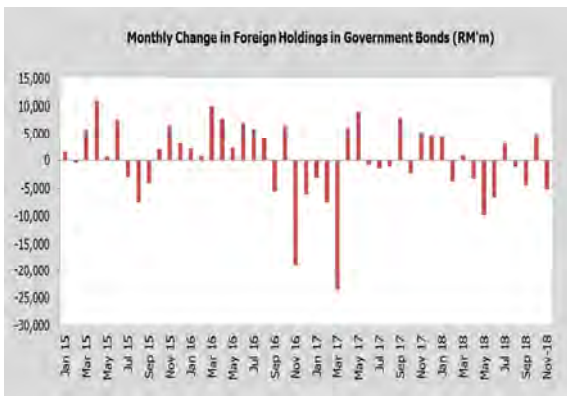
Weekly Money Review

A. FIXED INCOME



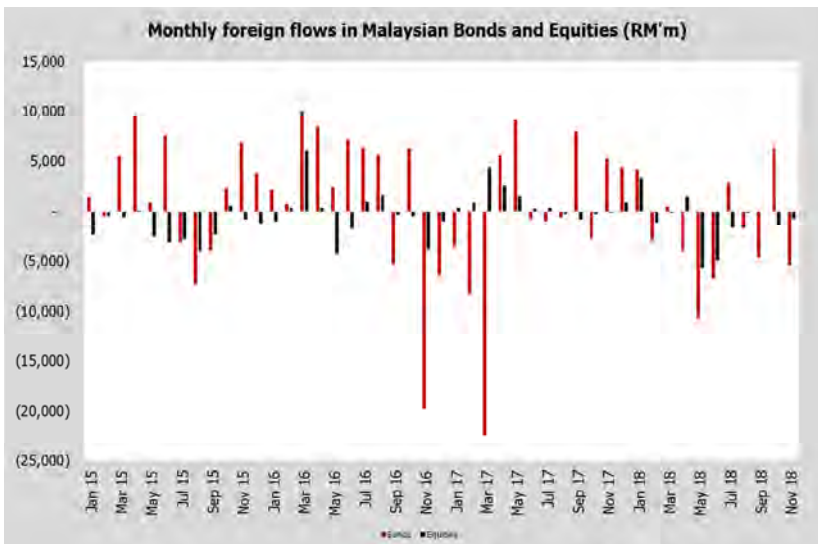
Source: Bloomberg

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- Moreover, the UST yield curve flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +19bps from +22bps a week earlier. We reckon the yield curve shall retain its flattening bias until and unless the US Fed declares a cessation to the current hiking cycle.
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- Furthermore, the top 3 actively traded Government Bonds were represented by issues of short and mid residual tenors. The top 3 most actively traded were MII 3.729% 03/31/22 at RM1.17b, MII 4.094% 11/30/23 at RM1.09b and MGS 3.654% 10/31/19 at RM1.05B.
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- The top 3 actively traded Corporate Bonds were dominated by issues of varied residual tenors. The biggest trading values were seen in YTL Power International 4.99% 08/24/28 at RM80m, Cagamas Berhad 4.17% 03/29/21 at RM70m and RHB Bank Bhd 4.99% 07/08/24 at RM60m.
- Total foreign holdings of Government Bonds stood at RM162.5b as at end-Nov 2018. It was a decline of -RM5.1b from the Oct 2018 figure of RM167.6b.
- In tandem, total foreign holdings of Corporate Bonds dropped by -RM276m in the month of November 2018 to RM14.3b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM5.4b in November 2018 while the former saw a total net outflow worth -RM0.7b. Furthermore, year-to-date (Jan-Nov), both equities and bonds markets remained in the red with total net outflows of -RM10.7b and -RM28.6b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

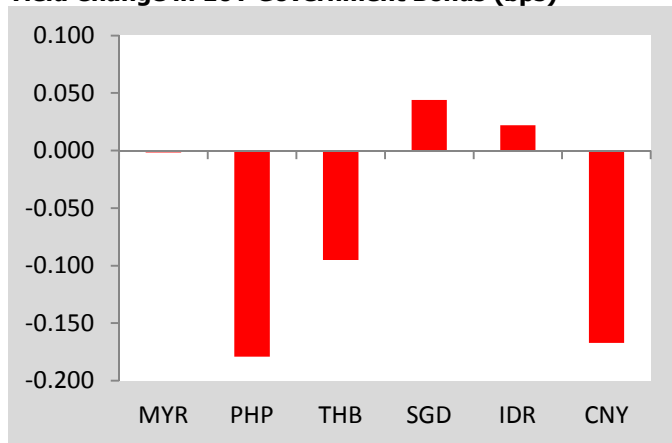
- DXY Index slides down slightly by -0.2%wov. In Dec-18, unemployment rate in the US rises to 3.9%, higher than the 49-year low record of 3.7% in the previous month. Nevertheless, the job market still indicates strong domestic demand in the US given that non-farm payroll up 312K, highest in 10-month and average hourly earnings for private sector increases strongly by 4%yoy in Dec-18, fastest growth since Feb-09.
- EURUSD stays at 1.14. Inflationary pressure in Euro Area is decreasing as data shown in Dec-18 indicates headline CPI declines to 1.6%, lowest since Apr-18 while core inflation unchanged at 1%. In addition, jobless rate in Germany remains at 38-year low of 3.3%. Moderating inflationary pressure and economic growth in 2019 would drive ECB to postpone its monetary normalisation plan.
- Ringgit – MYR improved amid steady exports performance. Malaysia's exports grow by 1.6%yoy in Nov-18 at RM84.8b, higher than 2018's monthly average of RM83.1b. The outbound shipment is mainly supported by re-exports which increase by 24.5%yoy whereas domestic exports contracts by -2.6%yoy. We forecast exports and imports of goods to expand by 3.6% and 3% respectively this year. We maintain our call MYR to average at 4.05 and register year-end target at 4.00 in 2019.

Currencies Changes (Week Ended 4/1) and Quarterly Forecasts

	Close (4/1)	Prev Close (28/12)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	96.18	96.40	-0.220	-0.2%	96.78	95.26	94.20	96.15
EURUSD	1.14	1.14	-0.004	-0.3%	1.14	1.16	1.18	1.16
GBPUSD	1.27	1.27	-0.004	-0.3%	1.25	1.27	1.25	1.22
USDJPY	107.95	110.27	-2.320	2.1%	111.76	109.13	107.42	110.55
USDMYR	4.14	4.15	-0.015	0.4%	4.12	4.07	4.05	4.00
GBPMYR	5.24	5.26	-0.022	0.4%	5.23	5.21	5.29	5.36
JPYMYR	3.83	3.77	0.067	-1.7%	3.74	3.76	3.95	3.97

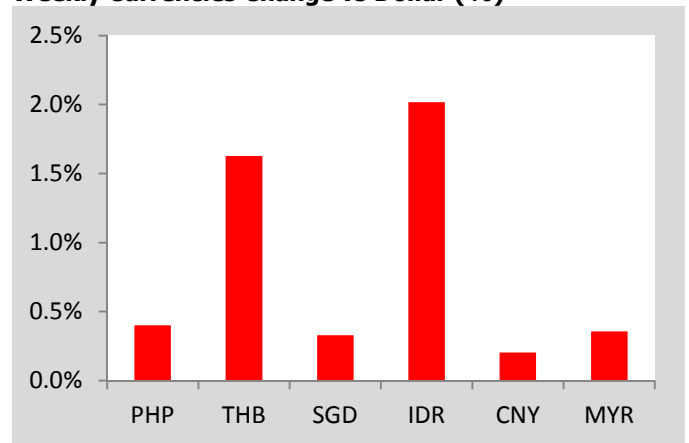
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.75	5.25	5.25	5.50	5.75	5.75	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.25	3.25	4.00	4.50	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	1.75	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	0.50	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	1.75	2.00	2.00	2.00	2.25	2.25	2.25	2.50

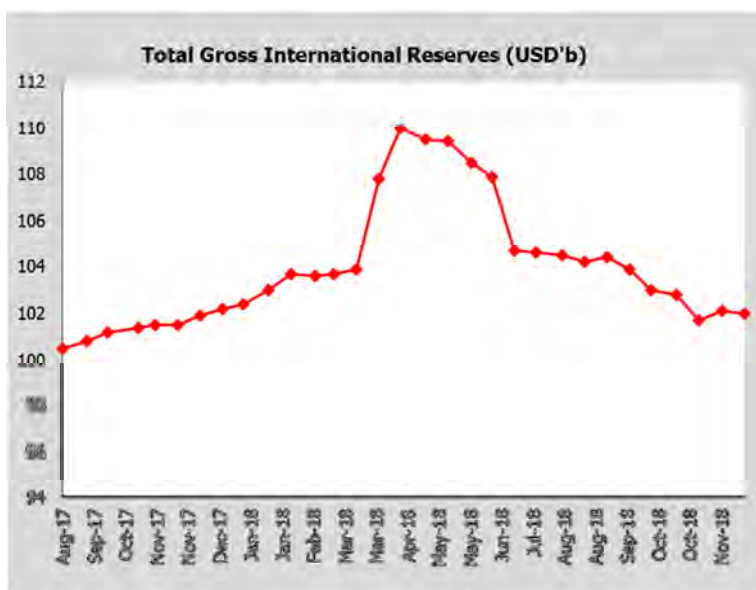
Source: CEIC, MIDFR

- Business and consumer sentiments are showing signs of growing pessimism about the near term outlook of world economy.
- High frequency leading indicators are showing sign of trending down with manufacturing sector registered a noticeable sign of decline.


- Trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.
- The lag effects of trade tension are starting to appear as macro numbers such as export order, investment and employment starting to moderate.
- Nevertheless, global demand is expected to remain resilience and inflationary pressure is tepid. Trade negotiation between US and China this week will provide hope for long term solution and boost market confidence.
- On the monetary policy space, pace of rate of normalization in the US will have significant influence to the performance of EMs currencies and monetary policy.
- Growth divergence among developed and developing countries will also cause differences in policy prescription which will have broader impact beyond border.
- Domestic leading indicators on the other hand are pointing towards slightly better performance leading into 1Q19.
- Domestic data on domestic consumption and labor market are continued to give a positive signal.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth.
- Headline inflation in the upcoming months is expected to remain modest but tracking upward. The trend is expected to continue.
- 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 30 November 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD102.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.0 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	28-Dec Fri	31-Dec Mon	1-Jan Tue	2-Jan Wed	3-Jan Thu	4-Jan Fri	Change (WoW bp)
MGS							
3-Y	3.623	3.623	3.623	3.572	3.564	3.56	-6.3
5-Y	3.784	3.756	3.756	3.723	3.71	3.741	-4.3
7-Y	3.977	3.988	3.988	3.955	3.97	3.971	-0.6
10-Y	4.083	4.07	4.07	4.063	4.061	4.079	-0.4
20-Y	4.656	4.656	4.656	4.595	4.58	4.579	-7.7
RINGGIT IRS							
1-Y	3.7075	3.69	3.69	3.69	3.69	3.69	-1.75
3-Y	3.723	3.715	3.715	3.715	3.71	3.71	-1.3
5-Y	3.825	3.82	3.82	3.805	3.82	3.82	-0.5
7-Y	3.95	3.945	3.945	3.925	3.9325	3.925	-2.5
10-Y	4.16	4.15	4.15	4.13	4.1	4.13	-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	2.4951	2.4563	2.4563	2.4286	2.3376	2.4749	-2.02
5-Y	2.5547	2.5111	2.5111	2.4577	2.3579	2.5008	-5.39
7-Y	2.6275	2.5857	2.5857	2.5196	2.4319	2.561	-6.65
10-Y	2.7182	2.6842	2.6842	2.6204	2.5535	2.6677	-5.05
30-Y	3.0222	3.0145	3.0145	2.9518	2.9025	2.981	-4.12
USD LIBOR							
1-M	2.51988	2.50269	2.50269	2.50713	2.51275	2.52056	0.068
2-M	2.6195	2.61375	2.61375	2.61738	2.62038	2.62313	0.363
3-M	2.797	2.80763	2.80763	2.79388	2.795	2.80388	0.688

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	28-Dec Yield	4-Jan Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.729	03/31/22	3.721	3.711	-1.0	1,171.8
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	3.864	3.845	-1.9	1,088.3
MALAYSIA GOVERNMENT	3.654	10/31/19	3.471	3.465	-0.6	1,050.4
MALAYSIA GOVERNMENT	3.757	04/20/23	3.799	3.784	-1.5	989.4
MALAYSIA INVESTMNT ISSUE	4.194	07/15/22	3.770	3.740	-3.0	920.0
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.206	4.238	3.2	838.9
MALAYSIA GOVERNMENT	4.642	11/07/33	4.493	4.466	-2.7	784.9
MALAYSIA GOVERNMENT	3.733	06/15/28	4.086	4.083	-0.3	714.2
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.291	3.270	-2.1	651.4
MALAYSIA GOVERNMENT	3.882	03/14/25	4.002	3.977	-2.5	645.5
TOTAL VOLUME (TOP 10)						8,854.8
TOTAL VOLUME (Overall)						16,121.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	28-Dec Yield	4-Jan Yield	Change (WoW bp)	Weekly Volume (RM bn)
YTL POWER INTERNATIONAL	4.99	08/24/28	#N/A N/A	#N/A N/A	#VALUE!	80.0
CAGAMAS BERHAD	4.17	03/29/21	3.948	3.948	0.0	70.0
RHB BANK	4.99	07/08/24	#N/A N/A	#N/A N/A	#VALUE!	60.0
SARAWAK ENERGY BHD	5.32	12/03/32	4.879	4.879	0.0	50.0
KHAZANAH NASIONAL BHD	ZERO	02/24/21	#N/A N/A	#N/A N/A	#VALUE!	50.0
AMBANK MALAYSIA BHD	8.25	09/30/39	#N/A N/A	#N/A N/A	#VALUE!	50.0
AFFIN ISLAMIC BANK BHD	5.05	10/23/28	4.971	4.970	-0.1	50.0
SERBA DINAMIK HOLDINGS	5.3	10/02/28	#N/A N/A	#N/A N/A	#VALUE!	45.0
RHB INVESTMENT BANK BHD	4.95	04/16/25	#N/A N/A	#N/A N/A	#VALUE!	42.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.885	4.874	-1.1	40.0
TOTAL VOLUME (TOP 10)						537.0
TOTAL VOLUME (Overall)						1,419.7

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.