

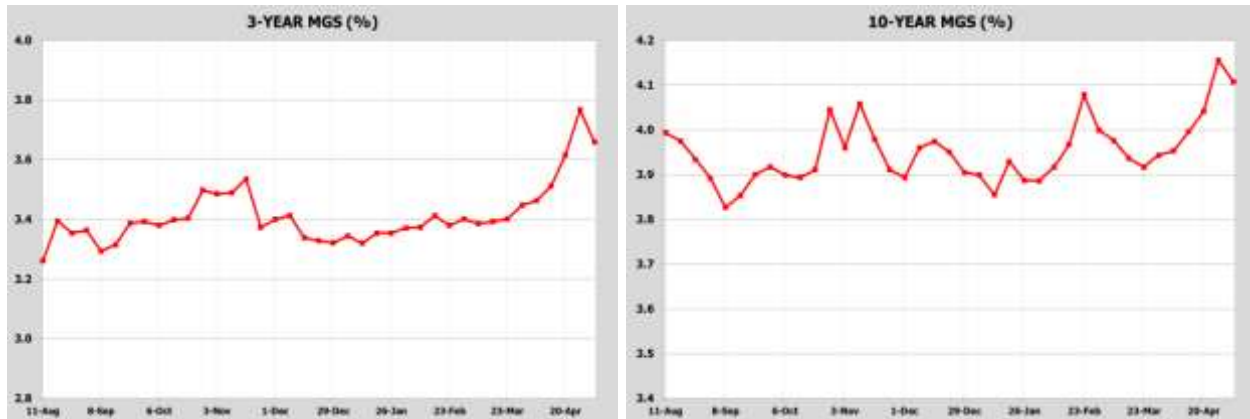
MIDF Strategy | 7 May 2018

Week Ended 4 May

- The UST front end sank (i.e. 3-year price down, yield up) arguably in reaction to April jobs report which saw unemployment at below 4% for the first time since 2000. However, productivity growth was sluggish and wage growth rather tepid. In contrast, the mid to back ends strengthened (i.e. prices up, yields down) albeit marginally.
- Consequently, the UST yield curve resumed its flattening drift as the long-end outperformed. The 10y-3y yield spread dropped -2bps week-on-week to +32bps. We reiterate our hunch that the bond market seems to intuit slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Domestically, the price of MGS benchmark issues ended the review week higher with the 3-year and 10-year yields respectively lower at -10.8bps and -4.8bps to close the week at 3.66% and 4.11%. Total trading value for Government Bonds decreased to RM13.7b in comparison to RM16.9b in the previous week. Likewise, the total trading value for Corporate Bonds declined to RM1.48b vis-à-vis RM1.87b in earlier week.
- 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. On the other hand, total foreign holdings of Corporate Bonds decreased by RM359.8m in the month of March 2018 to RM15.9b.

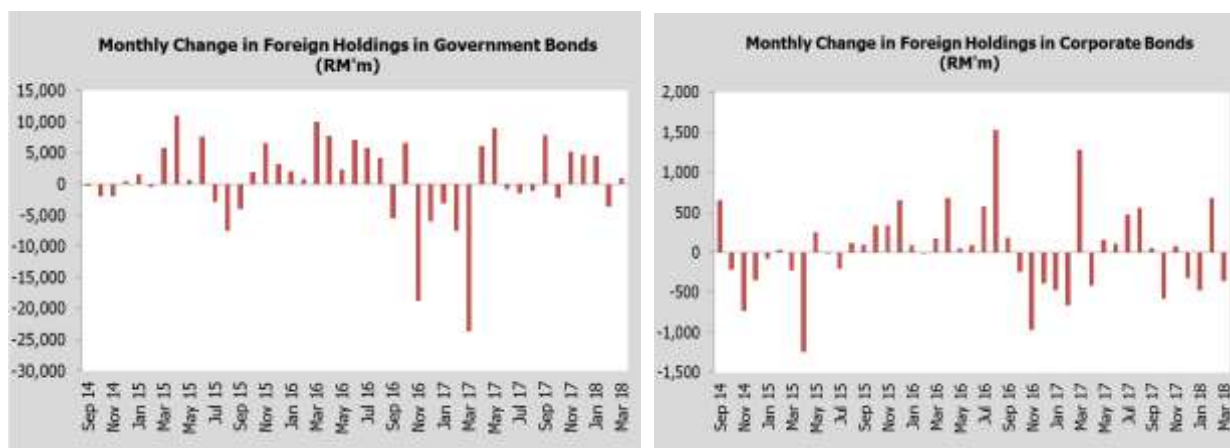
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The UST front end sank (i.e. 3-year price down, yield up) arguably in reaction to April jobs report which saw unemployment at below 4% for the first time since 2000. However, productivity growth was sluggish and wage growth rather tepid. In contrast, the mid to back ends strengthened (i.e. prices up, yields down) albeit marginally.
- Consequently, the UST yield curve resumed its flattening drift as the long-end outperformed. The 10y-3y yield spread dropped -2bps week-on-week to +32bps. We reiterate our hunch that the bond market seems to intuit slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Domestically, the price of MGS benchmark issues ended the review week higher with the 3-year and 10-year yields respectively lower at -10.8bps and -4.8bps to close the week at 3.66% and 4.11%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM13.7b in the review week compared to RM16.9b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined to 59% of the overall Government Bonds trades in the week under review (vis-à-vis ~64% in the week before). In addition, 8 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 RM1.59b, MGS 3.62% 11/30/21 at RM1.32b and MGS 3.90% 11/16/27 at RM933.5m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.48b in the review week compared to RM1.87b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 29% of the overall Corporate Bonds trades (from ~41% 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 4.7% 10/13/21 at RM60.0m, MKD Kencana Sdn Bhd 4.47% 04/25/25 at RM60.0m and Southern Power Generation 5.04% 04/28/28 at RM50.0m.
- 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 appreciated firmly as labour market stays on tightening path. Non-farm payrolls increase by 164K in Apr-18, better than the previous month of 135K. Hence, the jobless rate in the US went down to 3.9%, lowest ever since Dec-00. Moving forward, as guided by continuous optimism in business activity in the US, we opine the labour market will continue on tightening path and support the Fed to normalise its monetary policy stance.
- EURUSD disappointed by poor inflation data. Headline inflation of EU recorded at 1.2%yoy in Apr-18, below market expectations of 1.3%yoy. Core inflation touched 0.7%yoy during the month, slowest since in 3-year. Slowdown in inflation data would put a barrier for ECB to further normalise its monetary policy in the short and medium terms.

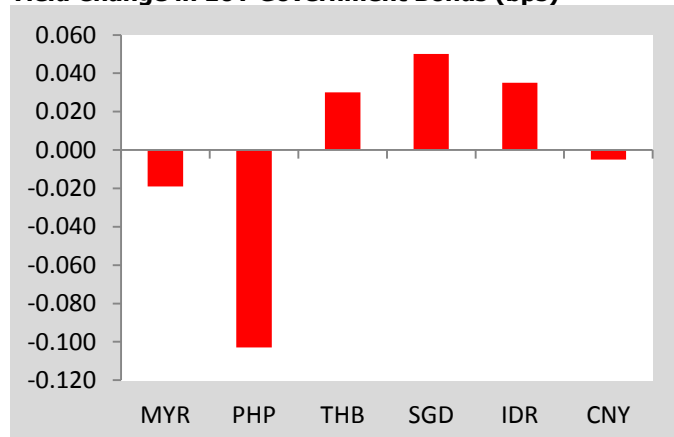
Currencies Changes (Week Ended 04/05) and Quarterly Forecasts

	Close (04/05)	Prev Close (27/04)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	92.551	91.542	1.009	1.1%	90.07	90.69	91.91	95.98
EURUSD	1.197	1.213	-0.016	-1.3%	1.23	1.22	1.20	1.16
GBPUSD	1.356	1.378	-0.022	-1.6%	1.39	1.25	1.15	1.09
USDJPY	109.090	109.050	0.040	0.0%	108.09	100.29	95.10	102.27
USDMYR	3.940	3.920	0.020	-0.5%	3.92	3.95	4.00	3.95
GBPMYR	5.343	5.415	-0.072	1.3%	5.46	4.89	4.53	4.58
JPYMYR	3.611	3.594	0.017	-0.5%	3.63	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

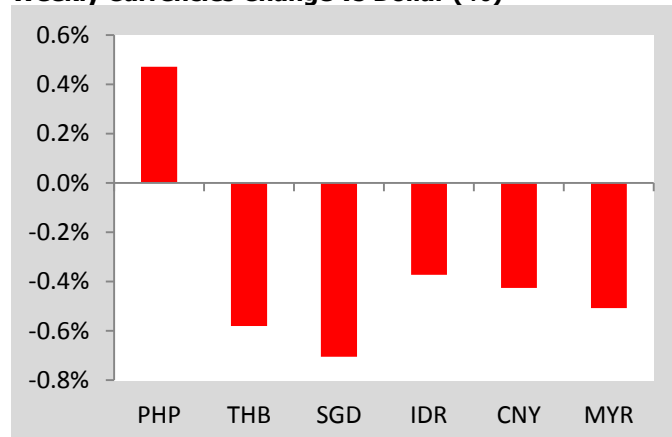
- Ringgit – Continue sliding down marginally for 6-consecutive weeks amid of GE14. Level of political uncertainty and tension rose higher as polling day to be held this coming Wednesday. Nevertheless, macroeconomic data especially Malaysia’s external trade performance showed steady rebound in Mar-18. Exports grew by 2.2%yoy, higher than market estimates of 2%yoy and trade balance reached RM33.3bn, highest since 1Q10. 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 (%)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.25	3.25
Indonesia	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
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	1.25	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	0.25	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	1.25	1.50	1.50	1.50	1.75	1.75

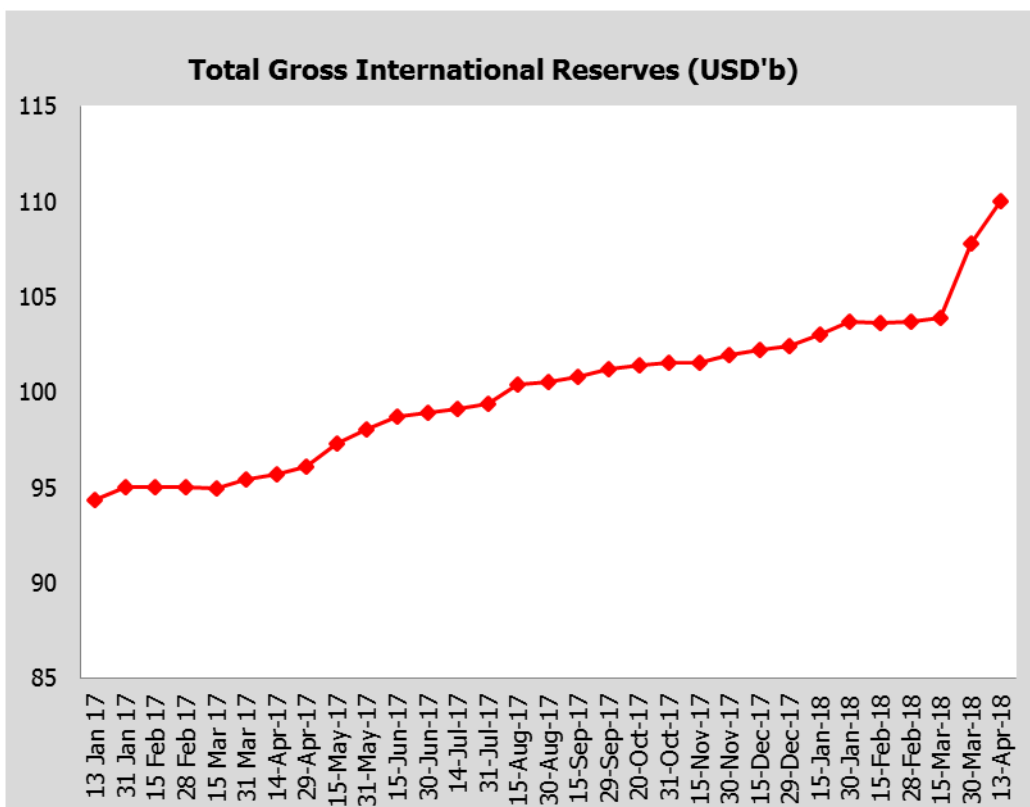
Source: CEIC, MIDFR

- Near term risk for global growth among others is emanating from escalating trade between US and China that can disrupt the current growth momentum. Nevertheless, recent development and trade talk manage to diffuse the tension at least for now.
- Cooling geopolitical tension especially in Korean Peninsular is a welcome development for global trade but Iran nuclear deal issue could emerge as another threat.
- Globally, monetary policy stance is seen as accommodative to support growth as well as providing favorable financial environment for the sustainable economic expansion.
- The risks are more on the upside. Again, we can expect see central banks to move toward normalization in months to come.
- Commodities prices continue trending upward signaling inflationary pressure to start kick-in in both developed and emerging economies. Negative outcomes from Iran nuclear deal could push up the crude prices.
- 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.


- It is a busy week for central banks with Reserve Bank of New Zealand, Bank Negara Malaysia Central Bank of Philippines and Bank of England having their respective policy meetings this week.
- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for the full year. We do not expect any change in monetary stance in this upcoming meeting this week.
- We anticipate OPR to end the year at 3.25% barring any pleasant upward surprises from economic growth.

C. BNM FOREIGN RESERVES

- As at 13 April 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD110.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.7 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	27-Apr Fri	30-Apr Mon	1-May Tue	2-May Wed	3-May Thu	4-May Fri	Change (WoW bp)
MGS							
3-Y	3.767	3.649	3.649	3.68	3.671	3.659	-10.8
5-Y	3.779	3.768	3.768	3.79	3.801	3.79	1.1
7-Y	4.051	3.957	3.957	3.965	3.94	3.915	-13.6
10-Y	4.155	4.129	4.129	4.156	4.123	4.107	-4.8
20-Y	4.742	4.778	4.778	4.754	4.762	4.762	2
RINGGIT IRS							
1-Y	3.75	3.75	3.75	3.75	3.7575	3.755	0.5
3-Y	3.82	3.82	3.82	3.83	3.8175	3.82	0
5-Y	3.905	3.905	3.905	3.905	3.9	3.905	0
7-Y	4.015	4.025	4.025	4.02	4.01	4.015	0
10-Y	4.165	4.17	4.17	4.17	4.17	4.17	0.5
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	2.6178	2.6263	2.6404	2.6295	2.6158	2.6332	1.54
5-Y	2.8006	2.7972	2.8124	2.7955	2.7803	2.7837	-1.69
7-Y	2.9197	2.9123	2.9247	2.9172	2.8924	2.8998	-1.99
10-Y	2.9568	2.9531	2.9644	2.9663	2.9458	2.9497	-0.71
30-Y	3.1245	3.1237	3.1287	3.146	3.1213	3.1221	-0.24
USD LIBOR							
1-M	1.90701	1.90932	1.90875	1.91713	1.9227	1.9277	2.069
2-M	2.06111	2.0656	2.07959	2.08258	2.08476	2.08257	2.146
3-M	2.35805	2.36294	2.35375	2.36294	2.36313	2.36906	1.101

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	27-Apr Yield	4-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.58	09/28/18	3.468	3.306	-16.2	1,586.4
MALAYSIA GOVERNMENT	3.62	11/30/21	3.767	3.659	-10.8	1,317.4
MALAYSIA GOVERNMENT	3.899	11/16/27	4.155	4.107	-4.8	933.5
MALAYSIA GOVERNMENT	3.882	03/14/25	4.051	3.915	-13.6	825.4
MALAYSIA GOVERNMENT	3.844	04/15/33	4.688	4.614	-7.4	694.9
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	N/A	4.326	N/A	643.0
MALAYSIA GOVERNMENT	3.48	03/15/23	4.050	3.982	-6.8	633.9
MALAYSIA GOVERNMENT	4.378	11/29/19	3.651	4.209	55.8	534.5
MALAYSIA GOVERNMENT	3.955	09/15/25	4.217	4.150	-6.7	451.0
MALAYSIA GOVERNMENT	3.759	03/15/19	3.496	3.431	-6.5	436.0
TOTAL VOLUME (TOP 10)						8,055.9
TOTAL VOLUME (Overall)						13,683.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	27-Apr Yield	4-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
YTL POWER INTERNATIONAL	4.7	10/13/21	N/A	4.535	N/A	60.0
MKD KENCANA SDN BHD	4.47	04/25/25	4.467	4.467	0.0	60.0
SOUTHERN POWER GENERATIO	5.04	04/28/28	4.899	4.925	2.6	50.0
DANAINFRA NASIONAL	4.9	04/29/33	N/A	4.898	N/A	50.0
CIMB BANK BHD	4.8	09/13/23	4.762	4.386	-37.6	50.0
PUTRAJAYA BINA SDN BHD	4.6	09/10/27	4.728	4.716	-1.2	35.0
AFFIN BANK BHD	5.03	09/20/27	4.899	4.923	2.4	30.3
AFFIN BANK BHD	5.45	02/05/27	4.863	4.893	3.0	30.0
PUTRAJAYA HOLDINGS BHD	4.58	05/26/26	4.569	4.635	6.6	30.0
ALLIANCE BK MALAYSIA BHD	5.75	10/27/25	4.957	4.880	-7.7	30.0
TOTAL VOLUME (TOP 10)						425.3
TOTAL VOLUME (Overall)						1,480.8

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.