

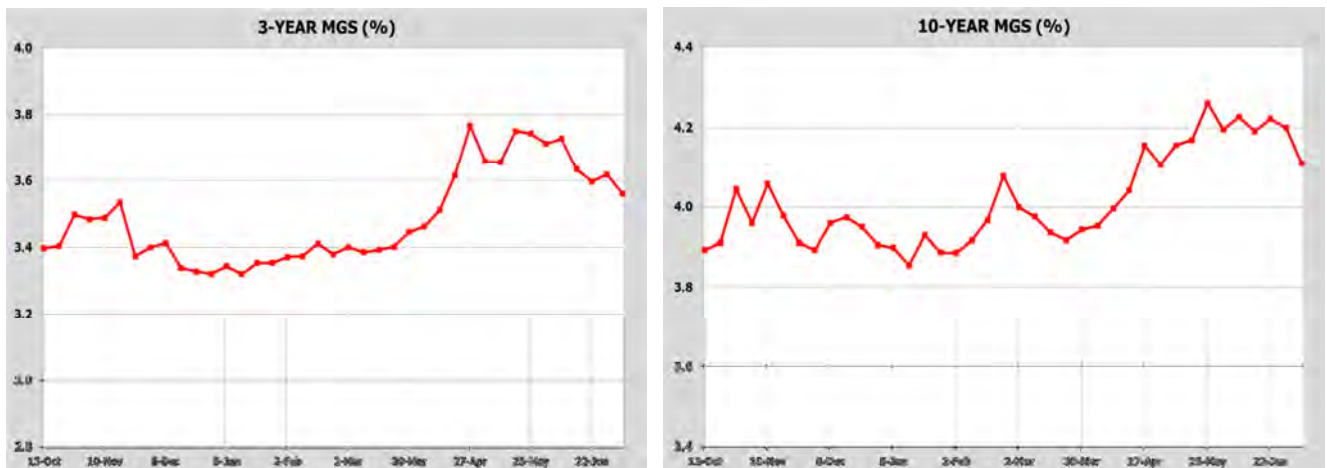
MIDF Strategy | 9 July 2018

Week Ended 6 July

- The mid and long tenors UST rallied (prices up; yields down) last week as the market reacted to a potentially serious threat to global trade and growth that may be engendered by the recent escalation in US-China trade friction.
- It is also notable that the UST yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +19bps, the lowest since July 2007. As previously stated, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- The MGS yield curve ended the week flatter with the benchmark 3-year and 10-year yields lower by -5.7bps and -9.0bps to close the week at 3.56% and 4.11% respectively. It is noteworthy that the latest trade figures were below market expectation as exports growth declined from 14%yoy in Apr-18 to 3.4%yoy in May-18.
- Total trading value for Government Bonds (MGS/MII) increased to RM24.9b in the review week compared to RM15.9b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 54% of the overall Government Bonds trades in the week under review (vis-à-vis ~47% 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) increased to RM2.21b in the review week compared to RM1.90b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 30% of the overall Corporate Bonds trades (from ~25% in the week before).

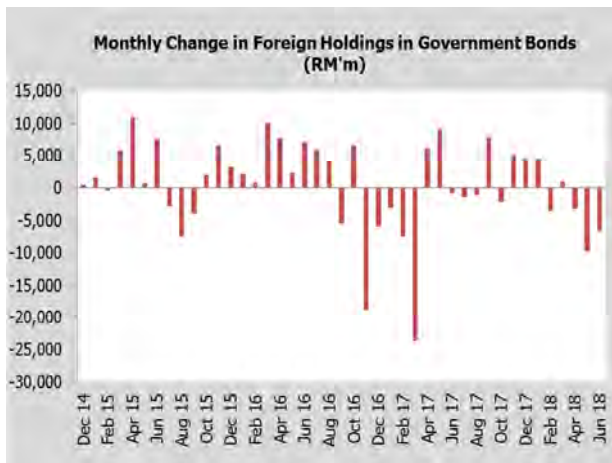
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- The mid and long tenors UST rallied (prices up; yields down) last week as the market reacted to a potentially serious threat to global trade and growth that may be engendered by the recent escalation in US-China trade friction.
- It is also notable that the UST yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +19bps, the lowest since July 2007. As previously stated, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Likewise, the local MGS yield curve ended the week flatter with the benchmark 3-year and 10-year yields lower by -5.7bps and -9.0bps to close the week at 3.56% and 4.11% respectively. It is noteworthy that the latest trade figures were below market expectation as exports growth declined from 14%yoy in Apr-18 to 3.4%yoy in May-18.
- Total trading value for Government Bonds (MGS/MII) increased to RM24.9b in the review week compared to RM15.9b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 54% of the overall Government Bonds trades in the week under review (vis-à-vis ~47% 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 mid and long residual tenors. The top 3 most actively traded were MII 4.37% 10/31/28 at RM2.12b, MGS 3.62% 11/30/21 at RM1.94b and MGS 3.48% 06/15/23 at RM1.53b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.21b in the review week compared to RM1.90b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 30% of the overall Corporate Bonds trades (from ~25% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with short and long residual tenors. The biggest trading values were seen in Danainfra Nasional 5.38% 04/21/39 at RM100m, Projek Lebuhraya Usaha 5.15% 01/12/32 at RM100m and BGSM Management Sdn Bhd 6.60% 12/27/19 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 contracted amid of less strengthening labour market. Jobless rate in the US rose to 4% in Jun-18 from 18-year low of 3.8% in the prior month. Non-farm payrolls recorded 213K during the month, lower than 244K in May-18. Average hourly earnings up 2.7%yoy and 0.2%mom last month. Nevertheless, the labour market remains firm reflecting continuous upbeat momentum in the economy. The slight deterioration would not influence the Fed to adjust its monetary stance. We expect another rate hike of 25 basis point in Dec-18.
- EURUSD gains as jobless rate in the US returned to 4%. Weaker USD helps improvement of EUR amid of the less optimistic sign in the US's labour market. In spite of this, steady pick-up in Germany's industrial production indicates positive signs for the economy as well as the whole region. In May-18, the IPI expanded by 3.1%yoy, higher than the previous month while on monthly basis, the expansion rate touched 6-month high of 2.6%mom.

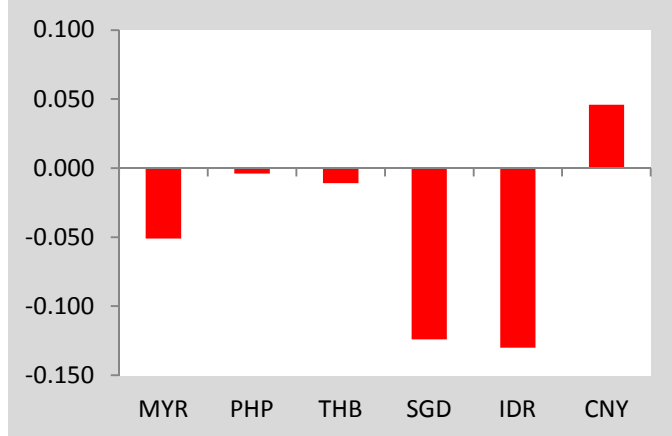
Currencies Changes (Week Ended 06/07) and Quarterly Forecasts

	Close (06/07)	Prev Close (29/06)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	94.289	94.470	-0.181	-0.2%	90.07	92.79	91.79	93.69
EURUSD	1.171	1.168	0.002	0.2%	1.23	1.19	1.21	1.19
GBPUSD	1.324	1.321	0.003	0.2%	1.39	1.37	1.34	1.32
USDJPY	110.580	110.760	-0.180	0.2%	108.09	109.24	107.53	110.66
USDMYR	4.038	4.039	-0.001	0.0%	3.92	3.95	4.09	4.23
GBPMYR	5.345	5.315	0.030	-0.6%	5.46	5.37	5.46	5.52
JPYMYR	3.652	3.648	0.004	-0.1%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

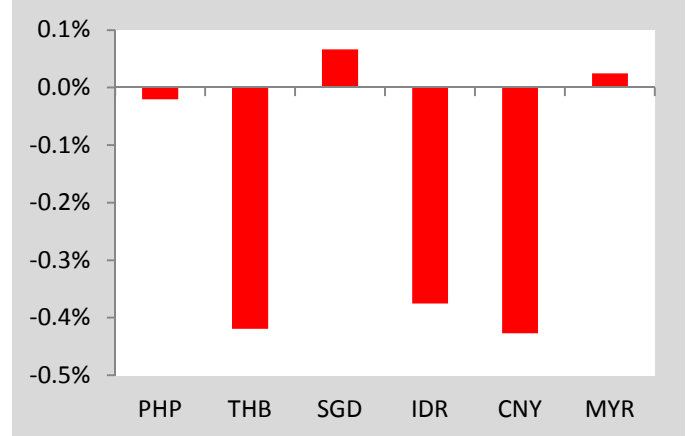
- Ringgit – Remain at low level, added with disappointment in external trade figures. Despite of almost full appointment of federal ministers, policy uncertainties remain as major pullback factor for MYR to appreciate. In addition, Malaysia's trade balance missed market expectations of RM11b after May-18 saw actual figures at RM8b. This is due to slowdown in exports growth from 14%yoy in Apr-18 to 3.4%yoy in May-18. 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 (%)

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Malaysia	3.00	3.00	3.00	3.25	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	4.75	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	3.00	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	1.50	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	0.25	0.50	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	1.50	1.50	1.50	1.75	1.75	1.75	2.00

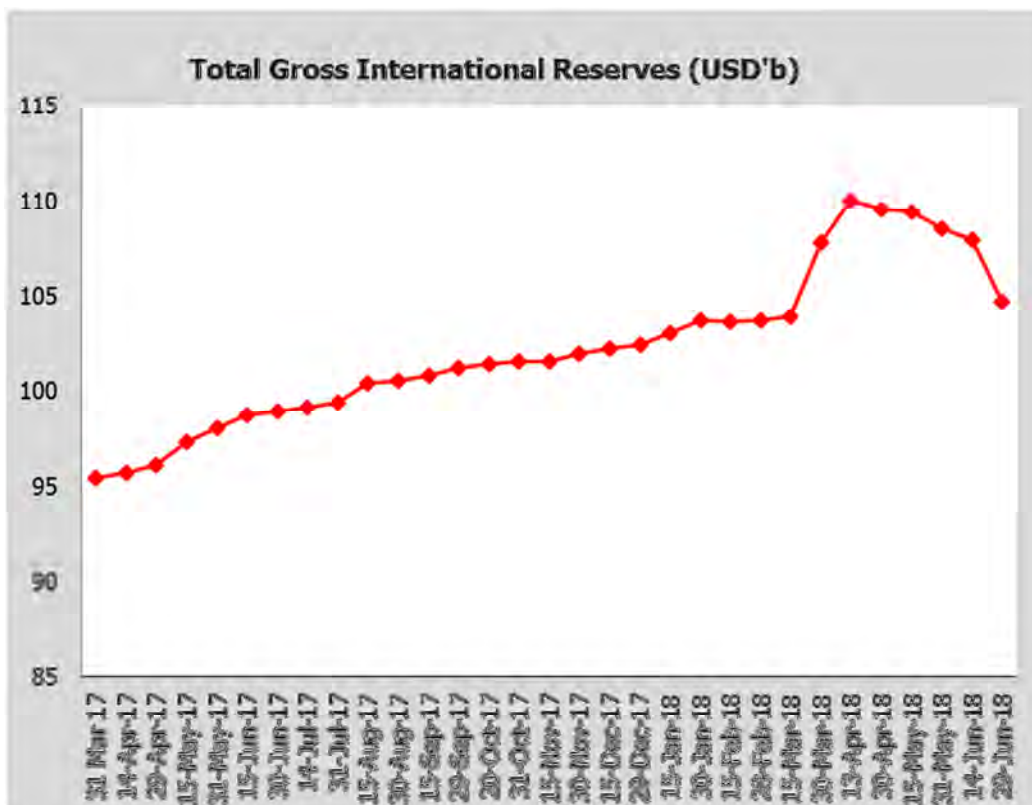
Source: CEIC, MIDFR

- The trade tension between US and China reached new uncharted level with President Trump pull a trigger last Friday by imposing tariff for China products.
- This development posed serious threat to global trade and growth and hamper investor's sentiment toward emerging economies.
- Over the past weeks, US recent stance on global trade has instigated countermeasures by its targeted allies and elevated uncertainty for the market.
- Emerging economies currencies are under pressure which requires central bank to respond. Regionally Bank Indonesia has raised its policy rate by 100bps since Early May.
- Growing risks related to trade tension, geopolitical uncertainties and policy uncertainty determine the positioning of global capital seeking for yield hence affecting monetary stance especially for emerging economies.
- 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. However, recent move to maintain the Ron95 pump price and zero-rated GST will help cushion the pressure.


- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for 2018 barring any unforeseen circumstances.
- Bank Negara will have its fourth monetary policy meeting this week(11th July) under the new governor, and it is expected to keep the rate unchanged.

C. BNM FOREIGN RESERVES

- As at 29 June 2018, compared to previous fortnight, Bank Negara Malaysia’s international reserves decreased to USD104.7b.



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	29-Jun Fri	2-Jul Mon	3-Jul Tue	4-Jul Wed	5-Jul Thu	6-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.619	3.619	3.61	3.581	3.249	3.562	-5.7
5-Y	3.848	3.848	3.848	3.814	3.814	3.788	-6
7-Y	4.057	4.057	4.071	4.027	4.028	3.984	-7.3
10-Y	4.2	4.202	4.192	4.164	4.158	4.11	-9
20-Y	4.869	4.865	4.865	4.865	4.838	4.839	-3
RINGGIT IRS							
1-Y	3.725	3.725	3.725	3.725	3.725	3.71	-1.5
3-Y	3.79	3.79	3.785	3.76	3.755	3.765	-2.5
5-Y	3.88	3.88	3.875	3.86	3.855	3.85	-3
7-Y	4.005	4	3.995	3.985	3.98	3.975	-3
10-Y	4.16	4.15	4.18	4.17	4.165	4.16	0
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	2.622	2.6413	2.6164	2.6164	2.6386	2.6302	0.82
5-Y	2.7378	2.7548	2.7211	2.7211	2.7279	2.7178	-2
7-Y	2.8218	2.8343	2.7921	2.7921	2.797	2.7896	-3.22
10-Y	2.8601	2.8711	2.8309	2.8309	2.8291	2.8217	-3.84
30-Y	2.989	2.9929	2.9586	2.9586	2.9447	2.9293	-5.97
USD LIBOR							
1-M	2.09025	2.09994	2.08588	2.08725	2.09713	2.08625	-0.4
2-M	2.16913	2.17319	2.17475	2.1715	2.17756	2.16938	0.025
3-M	2.33575	2.3425	2.33725	2.33731	2.33863	2.33144	-0.431

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	29-Jun Yield	6-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.308	4.242	-6.6	2,115.0
MALAYSIA GOVERNMENT	3.62	11/30/21	3.619	3.562	-5.7	1,940.6
MALAYSIA GOVERNMENT	3.48	03/15/23	4.009	3.868	-14.1	1,534.7
MALAYSIA GOVERNMENT	3.58	09/28/18	3.251	3.315	6.4	1,522.9
MALAYSIA GOVERNMENT	3.733	06/15/28	4.200	4.110	-9.0	1,326.5
MALAYSIA GOVERNMENT	3.659	10/15/20	3.565	3.426	-13.9	1,094.8
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.566	3.490	-7.6	1,062.0
MALAYSIA GOVERNMENT	3.899	11/16/27	4.344	4.179	-16.5	994.7
MALAYSIA GOVERNMENT	4.16	07/15/21	3.709	3.605	-10.4	973.1
MALAYSIA GOVERNMENT	3.955	09/15/25	4.272	4.174	-9.8	950.7
TOTAL VOLUME (TOP 10)						13,515.1
TOTAL VOLUME (Overall)						24,936.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	29-Jun Yield	6-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
DANAINFRA NASIONAL	5.38	04/21/39	5.127	5.074	-5.3	100.0
PROJEK LEBUHRAYA USAHASA	5.15	01/12/32	4.952	4.912	-4.0	100.0
BGSM MANAGEMENT SDN BHD	6.6	12/27/19	#N/A N/A	4.394	#VALUE!	90.0
PERBADANAN TABUNG PENDID	4.67	03/28/24	4.454	4.424	-3.0	70.0
CAGAMAS BERHAD	6.5	08/08/28	#N/A N/A	-142.890	#VALUE!	60.0
PRASARANA MALAYSIA BHD	4.65	12/11/25	4.478	4.478	0.0	60.0
CELCOM NETWORKS SDN BHD	5.27	10/28/26	5.026	4.959	-6.7	50.0
UEM SUNRISE BHD	5	05/19/23	4.917	4.912	-0.5	50.0
PENGURUSAN AIR SPV BHD	4.63	02/05/26	#N/A N/A	4.474	#VALUE!	45.0
DANAINFRA NASIONAL	4.58	10/31/28	4.630	4.598	-3.2	45.0
TOTAL VOLUME (TOP 10)						670.0
TOTAL VOLUME (Overall)						2,214.6

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.