

## MIDF Strategy | 10 December 2018

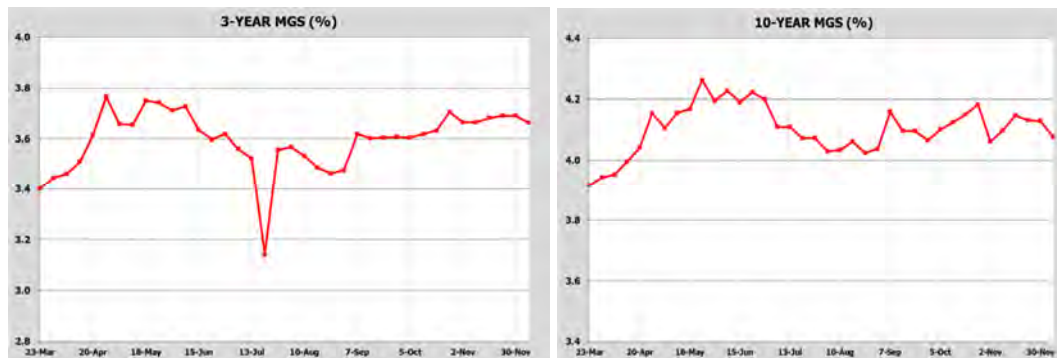
### Week Ended 7 December

- UST rallied (prices up; yields down) last week with the benchmark 10-year yield dipped further below the 3% level as investors reacted to US Fed officials' comments indicating the monetary authority could slow its pace of interest rate increases, or even take a pause after the anticipated December hike.
- Furthermore, the yield curve flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +13bps from +19bps a week earlier.
- Likewise, the price of local MGS benchmark issues ended the review week higher while the curve flattened with the 3-year and 10-year yields declined -2.8bps and -5.2bps respectively to close at 3.66% and 4.08%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM11.5b in the review week compared to RM12.6b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 56% of the overall Government Bonds trades in the week under review vis-à-vis 65% in the week before. In addition, all 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- In tandem, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM947m in the review week compared to RM1.83b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 32% of the overall Corporate Bonds trades from 50% in the week before.



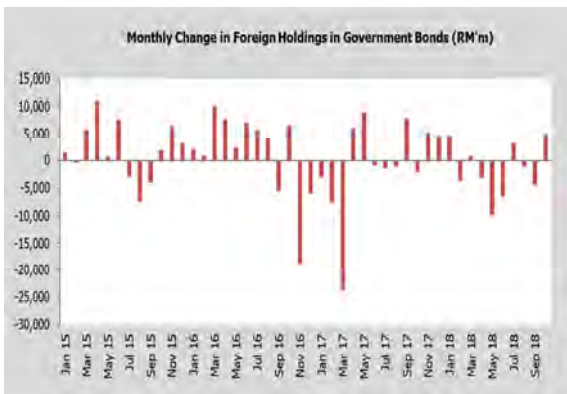
## Weekly Money Review

### A. FIXED INCOME



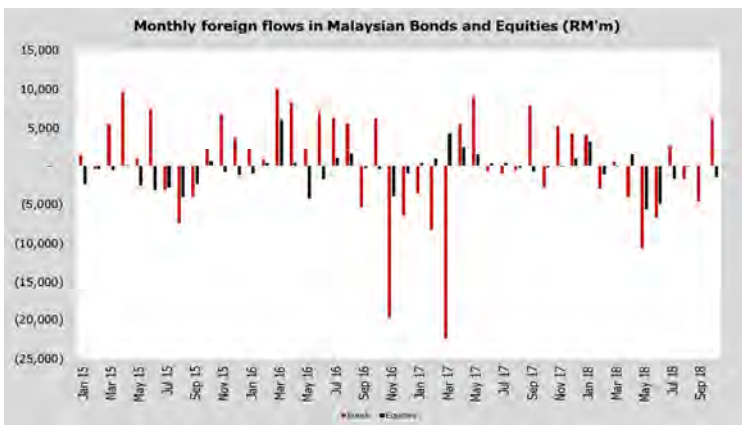
Source: Bloomberg

- UST rallied (prices up; yields down) last week with the benchmark 10-year yield dipped further below the 3% level as investors reacted to US Fed officials' comments indicating the monetary authority could slow its pace of interest rate increases, or even take a pause after the anticipated December hike.
- Furthermore, the yield curve flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +13bps from +19bps a week earlier.
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- Total trading value for Government Bonds (MGS/MII) decreased to RM11.5b in the review week compared to RM12.6b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 56% of the overall Government Bonds trades in the week under review vis-à-vis 65% in the week before. In addition, all 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 4.369% 10/31/28 at RM2.21b, MGS 4.128% 08/15/25 at RM1.70b and MGS 4.378% 11/29/19 at RM1.48b.
- In tandem, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM947m in the review week compared to RM1.83b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 32% of the overall Corporate Bonds trades from 50% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues with short and mid residual tenors. The biggest trading values were seen in Khazanah Nasional Bhd 0% 08/27/19 at RM165m, Khazanah Nasional Bhd 0% 08/14/23 at RM150m and Perbadanan Tabung Pendidikan 3.9% 07/27/23 at RM140m.
- Total foreign holdings of Government Bonds stood at RM167.7b as at end-Oct 2018. It was an increase of RM5.0b from the Sept 2018 figure of RM162.7b.
- In tandem, total foreign holdings of Corporate Bonds increased by RM1.4b in the month of October 2018 to RM14.6b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM6.4b in October 2018 while the former saw a total net outflow worth RM1.4b. Furthermore, year-to-date (Jan-Oct), both equities and bonds markets remained in the red with total net outflows of -RM10.0b and -RM23.2b respectively.



Source: BNM, Bursa Preliminary Statistics

## B. FOREIGN EXCHANGE

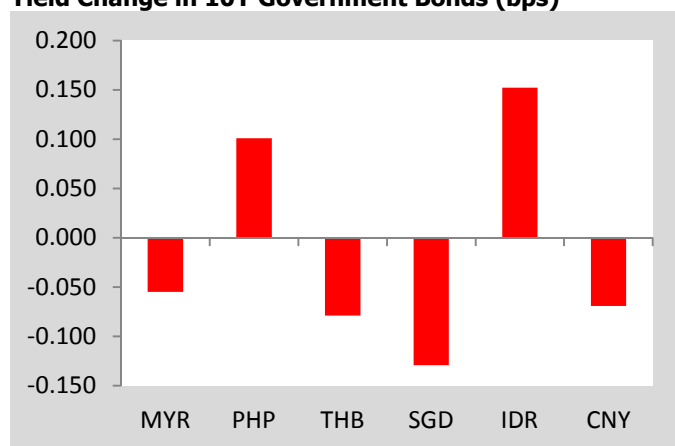
- DXY Index depreciates slightly due to unchanged consumer sentiment. The University of Michigan's consumer sentiment maintains at 97.5 points in Nov-18, similar to previous month record. In addition, non-farm payrolls increase by 155K during the month, below market expectations of 200K and lower than 237K in Oct-18. Nevertheless, jobless rate stays at 49-year low of 3.7%.
- EURUSD strengthening ahead of ECB's monetary meeting. The central bank is set to announce the end of its QE programme on 13<sup>th</sup> Dec-18. However, current developments of EU's economy and political reduce the chances of monetary normalization in the region. Uncertainty over Brexit, fiscal risk by Italy and yellow vest riot in France are among regional factors affecting the economy.
- Ringgit – Improve marginally amid strong external trade performance. Malaysia's exports and trade balance hit record high in Oct-18 at RM96b and RM16b. In term growth, exports and imports surprised market estimates as both recorded double digit expansion rate during the month. We maintain our call MYR to average at 4.00 and register year-end target at 4.10.

## Currencies Changes (Week Ended 7/12) and Quarterly Forecasts

	Close (7/12)	Prev Close (30/11)	Change	% Change	1Q18	2Q18	3Q18	4Q18F
DXY Index	96.51	97.27	-0.436	-0.8%	90.07	92.79	95.02	96.99
EURUSD	1.14	1.13	0.005	0.5%	1.23	1.19	1.16	1.14
GBPUSD	1.28	1.27	0.001	0.0%	1.39	1.37	1.30	1.28
USDJPY	112.80	113.57	-0.770	0.7%	108.09	109.24	111.48	114.72
USDMYR	4.17	4.18	-0.017	0.4%	3.92	3.95	4.10	4.10
GBPMYR	5.31	5.36	-0.047	0.9%	5.46	5.37	5.33	5.40
JPYMYR	3.69	3.69	0.007	-0.2%	3.63	3.62	3.67	3.70

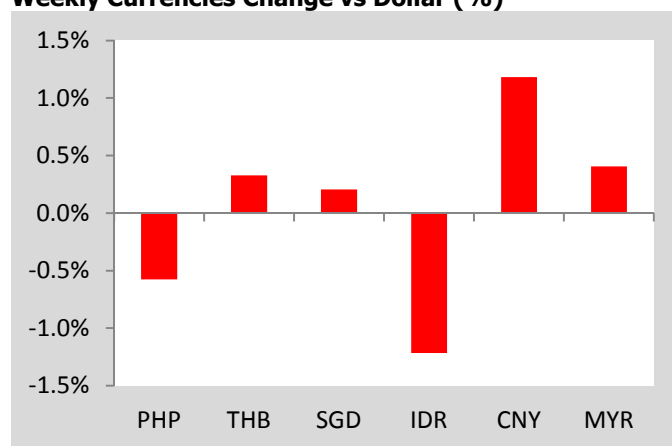
Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

### 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	6.00
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	1.75
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	0.50	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

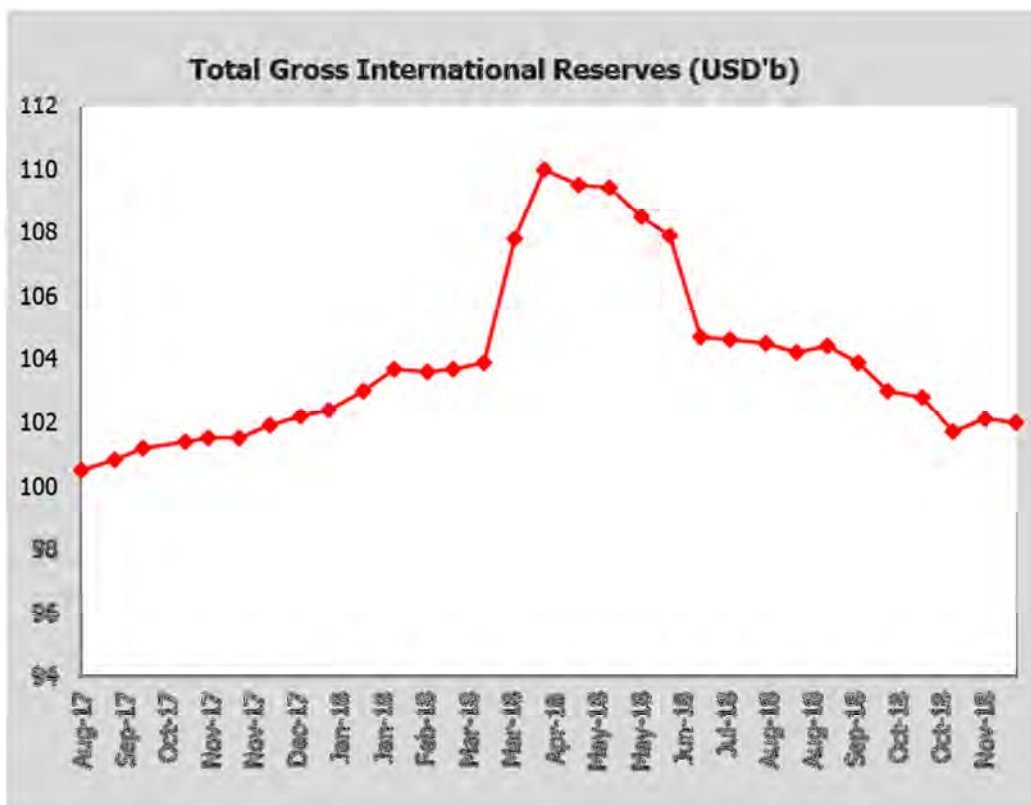
Source: CEIC, MIDFR

- Growth moderation for the global economy is expected in the near term as pocket of uneven growth seen in different parts of the world based on 3Q GDP figures.
- Ongoing headwinds such as trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth.

- Optimism in both business and consumer sentiments in most major and developing markets are showing signs of moderation.
- Domestic leading indicators as reflected in the latest Business Tendency Survey are pointing towards better performance leading into 1Q19.
- Pace in rate of normalization in the US shift risk appetite and boost dollar strength which is negative to EM currencies - the trend observed in the last couple of months.
- 1st Mar-19 will be the deadline for the US and China to reach a trade deal.
- As promoted by Trump to be energy independence & dominance, the US became net exporter for the first time as data shown in Nov-18.
- OPEC members and Russia agreed to cut oil output by 1.2 million bpd for the first six months of 2019.
- 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.

## 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	30-Nov Fri	3-Dec Mon	4-Dec Tue	5-Dec Wed	6-Dec Thu	7-Dec Fri	Change (WoW bp)
MGS							
3-Y	3.691	3.691	3.684	3.67	3.659	3.663	-2.8
5-Y	3.856	3.848	3.836	3.839	3.824	3.832	-2.4
7-Y	4.049	4.01	4.014	4.009	3.987	3.983	-6.6
10-Y	4.13	4.086	4.069	4.065	4.065	4.078	-5.2
20-Y	4.754	4.745	4.739	4.739	4.723	4.723	-3.1
RINGGIT IRS							
1-Y	3.71	3.7125	3.71	3.7075	3.705	3.705	-0.5
3-Y	3.76	3.77	3.765	3.76	3.7575	3.7575	-0.25
5-Y	3.855	3.8775	3.86	3.8575	3.845	3.845	-1
7-Y	3.98	3.985	4.005	3.98	4.005	3.945	-3.5
10-Y	4.175	4.1825	4.2	4.17	4.15	4.164	-1.1
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	2.7997	2.8274	2.805	2.805	2.766	2.7127	-8.7
5-Y	2.8125	2.8175	2.7871	2.7871	2.7533	2.6891	-12.34
7-Y	2.8973	2.8849	2.8402	2.8402	2.8179	2.7584	-13.89
10-Y	2.9879	2.9697	2.9136	2.9136	2.8955	2.845	-14.29
30-Y	3.29	3.2535	3.1727	3.1727	3.1624	3.1403	-14.97
USD LIBOR							
1-M	2.34694	2.37888	2.3795	2.38325	2.38694	2.40019	5.325
2-M	2.51006	2.53656	2.53625	2.54275	2.54044	2.54525	3.519
3-M	2.73613	2.75125	2.73888	2.76575	2.76713	2.77106	3.493

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	30-Nov Yield	7-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.231	4.192	-3.9	2,206.1
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.144	4.069	-7.5	1,702.5
MALAYSIA GOVERNMENT	4.378	11/29/19	3.472	3.438	-3.4	1,476.7
MALAYSIA GOVERNMENT	3.757	04/20/23	3.856	3.832	-2.4	1,149.1
MALAYSIA GOVERNMENT	3.733	06/15/28	4.130	4.078	-5.2	1,105.6
MALAYSIA GOVERNMENT	3.759	03/15/19	3.315	3.193	-12.2	862.6
MALAYSIA GOVERNMENT	3.492	03/31/20	3.513	3.501	-1.2	861.8
MALAYSIA GOVERNMENT	3.9	11/30/26	4.197	4.153	-4.4	731.4
MALAYSIA GOVERNMENT	3.899	11/16/27	4.233	4.190	-4.3	728.8
MALAYSIA INVESTMNT ISSUE	3.226	04/15/20	3.569	3.531	-3.8	723.4
TOTAL VOLUME (TOP 10)						11,548.0
TOTAL VOLUME (Overall)						20,457.3

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	30-Nov Yield	7-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
KHAZANAH NASIONAL BHD	ZERO	08/27/19	#N/A N/A	3.786	#VALUE!	165.0
KHAZANAH NASIONAL BHD	ZERO	08/14/23	4.165	4.165	0.0	150.0
PERBADANAN TABUNG PENDID	3.9	07/27/23	#N/A N/A	4.147	#VALUE!	140.0
BGSM MANAGEMENT SDN BHD	6.6	12/27/19	4.209	4.189	-2.0	86.8
CELCOM NETWORKS SDN BHD	5.2	08/27/27	4.789	4.759	-3.0	75.0
DANAINFRA NASIONAL	4.58	10/31/28	4.446	4.446	0.0	70.0
SARAWAK ENERGY BHD	5.04	04/25/31	4.766	4.796	3.0	70.0
PENGURUSAN AIR SPV BHD	4.56	06/06/25	4.209	4.234	2.5	70.0
PRASARANA MALAYSIA BHD	5.11	09/12/42	#N/A N/A	5.081	#VALUE!	60.0
DANAINFRA NASIONAL	5.2	05/23/42	#N/A N/A	5.042	#VALUE!	60.0
TOTAL VOLUME (TOP 10)						946.8
TOTAL VOLUME (Overall)						2,963.9

Source: Bloomberg

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(Bank Pelaburan)

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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.