

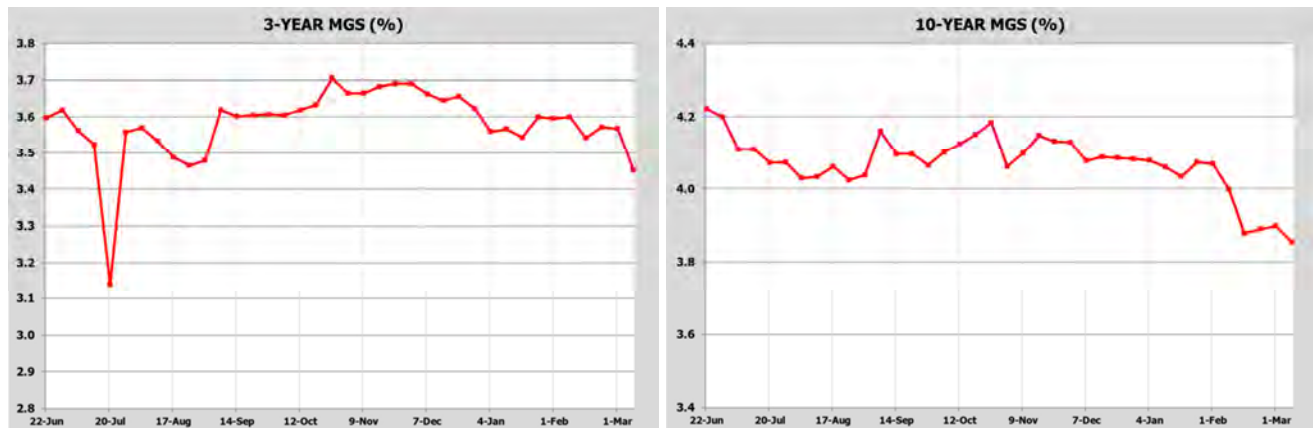
## MIDF Strategy | 4 March 2019

### Week Ended 1 March 2019

- UST registered all around gains (prices up; yields down) last week arguably in reaction to the latest data on non-farm payrolls which show the US economy added only 20K jobs in February (est: 180K). Nonetheless, the better than expected hourly earnings growth of 3.4% (est: 3.2%) may have moderated the price gains.
- The UST yield curve flattened slightly 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 signals a pause to the current hiking cycle.
- Domestically, the price of MGS benchmark issues ended the review week broadly higher while the curve steepened as the short-end outperformed with the 3-year and 10-year yields fell -11.5bps and -4.4bps respectively to close at 3.45% and 3.86%.
- Total trading value for Government Bonds (MGS/MII) increased to RM27.7b in the review week compared to RM16.2b in the previous week. Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.67b in the review week compared to RM3.68b in earlier week.
- Total foreign holdings of Government Bonds stood at RM166.7b as at end-Feb 2019. It was an increase of RM5.7b from the January 2019 figure of RM161.0b.
- On the other hand, total foreign holdings of Corporate Bonds decreased by -RM366m in the month of February 2019 to RM13.5b.
- In comparison to equities, the bonds market saw a total net inflow worth RM5.4b in February 2019 while the former saw a total net outflow worth -RM816m.

## Weekly Money Review

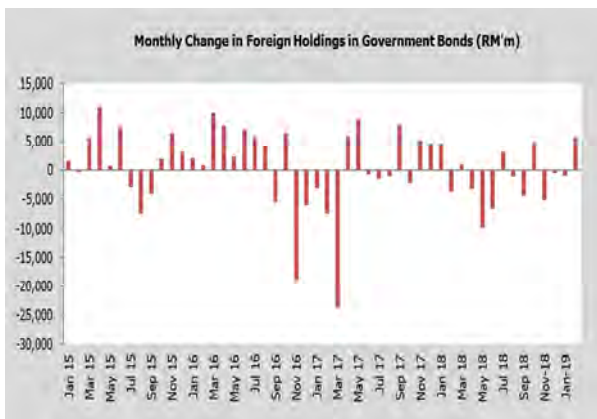
### A. FIXED INCOME



Source: Bloomberg

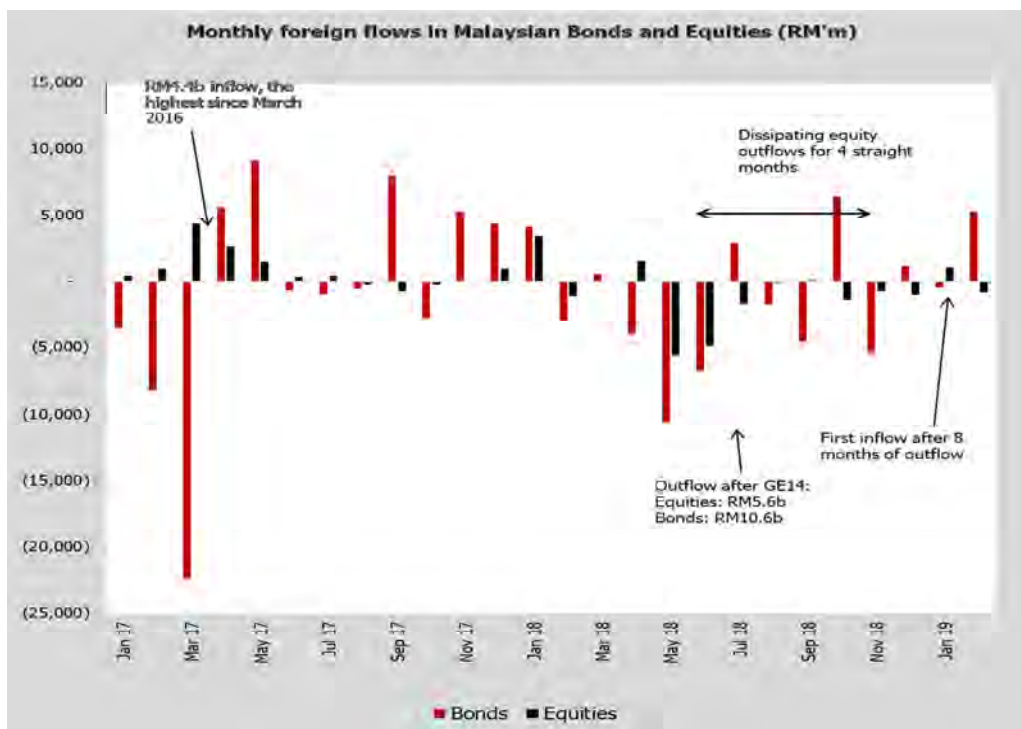
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- The UST yield curve flattened slightly as the long-end outperformed. The 10y-3y yield spread narrowed to +19bps from +22bps a week earlier. We reckon the yield curve shall retain its flattening bias until and unless the US Fed signals a pause to the current hiking cycle.
- Domestically, the price of MGS benchmark issues ended the review week broadly higher while the curve steepened as the short-end outperformed with the 3-year and 10-year yields fell -11.5bps and -4.4bps respectively to close at 3.45% and 3.86%.
- Total trading value for Government Bonds (MGS/MII) increased to RM27.7b in the review week compared to RM16.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues dropped (higher trading breadth) to 52% of the overall Government Bonds trades in the week under review as compared to 45% 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 mid and long residual tenors. The top 3 most actively traded were MII 4.09% 11/30/23 at RM3.0b, MGS 3.76% 04/20/23 at RM2.1b, and MII 4.37% 10/31/28 at RM2.0b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.67b in the review week compared to RM3.68b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 27% compared to 33% of the overall Corporate Bonds trades vis-à-vis 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 YTL Power International 5.05% 05/03/27 at RM204m, UMW Holdings Berhad 6.35% Perpetual at RM200m, and Bumitama Agri Ltd 5.25% 03/18/19 at RM130m.
- Total foreign holdings of Government Bonds stood at RM166.7b as at end-Feb 2019. It was an increase of RM5.7b from the January 2019 figure of RM161.0b.

- On the other hand, total foreign holdings of Corporate Bonds decreased by -RM366m in the month of February 2019 to RM13.5b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM5.4b in February 2019 while the former saw a total net outflow worth -RM816m. For 2018, the net flows of both equities and bonds markets were in the red with total net outflows of -RM11.7b and -RM21.1b respectively.



Source: BNM, Bursa Preliminary Statistics

## B. FOREIGN EXCHANGE

- DXY Index strengthens as trade deficit hits 10-year high. Despite of trade war, the US economy recorded a trade deficit of \$59.8b in Dec-18, the widest deficit since Oct-08. Exports weakened while imports recovered. Improvement in the inbound shipment reflects continuous solid domestic demand in the US. This is in tandem with the surge in services PMI in Feb-19, highest in 7-month.
- EURUSD turns bearish. The central bank sees its interest rate will remain at there at least through the end of 2019. In addition, ECB also announced a new series of quarterly targeted longer-term refinancing operations (TLTRO) to be launched in Sep-19 and ends in Mac-21, offering banks cheap loans in an effort to assist revive the economy. The stimulus is introduced amid multiple uncertainties such as global trade war, Brexit and Italy's debt concerns which spook EU's economic growth.

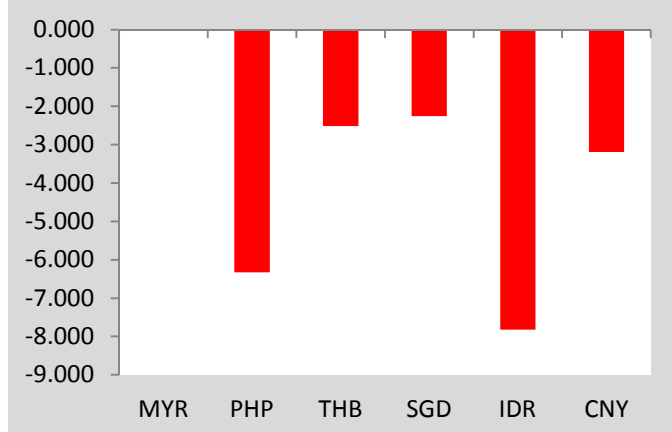
- Ringgit – Depreciate as OPR remains. BNM maintains its monetary rate at 3.25% amid decline inflationary pressure, moderating economic growth and global uncertainty. The economy stays on uptick trend given that exports increased 3.1%yoy and trade surplus surged to 3-month high in Jan-19. We maintain our call MYR to average at 4.05 and register year-end target at 4.00 in 2019.

## Currencies Changes (Week Ended 8/3) and Quarterly Forecasts

	Close (8/3)	Prev Close (1/3)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	97.50	96.53	0.977	0.0%	96.78	95.26	94.20	96.15
EURUSD	1.12	1.14	-0.016	0.3%	1.14	1.16	1.18	1.16
GBPUSD	1.31	1.32	-0.010	1.1%	1.25	1.27	1.25	1.22
USDJPY	111.08	111.89	-0.810	-1.1%	111.76	109.13	107.42	110.55
USDMYR	4.09	4.07	0.015	0.1%	4.12	4.07	4.05	4.00
GBPMYR	5.36	5.40	-0.038	-1.5%	5.23	5.21	5.29	5.36
JPYMYR	3.68	3.64	0.041	1.2%	3.74	3.76	3.95	3.97

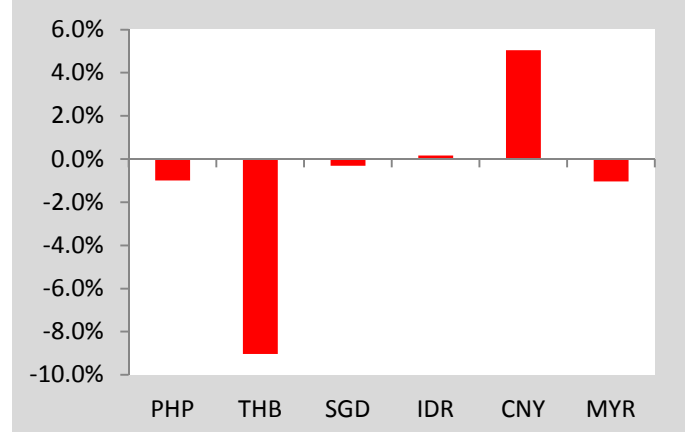
Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

## 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 (%)

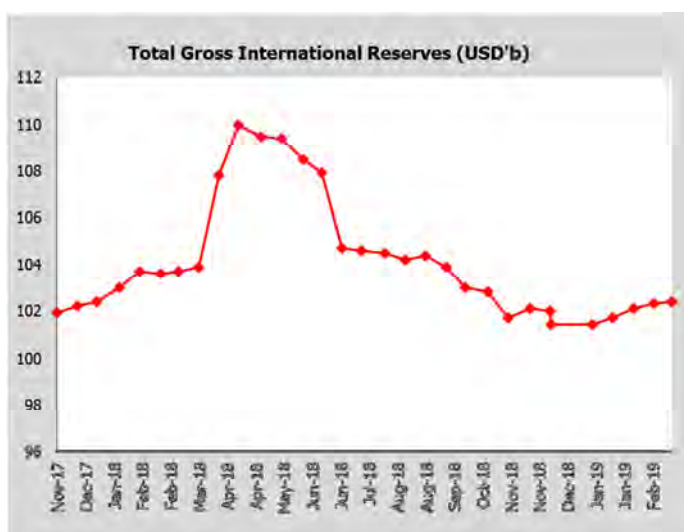
	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	5.25	5.25	5.50	5.75	5.75	6.00	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.25	3.25	4.00	4.50	4.50	4.75	4.75	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75	1.75
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	1.75	1.75	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	0.75	0.75	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	2.00	2.00	2.00	2.25	2.25	2.25	2.50	2.50	2.50

Source: CEIC, MIDFR

- The US and China are still on progressive path towards a trade deal.
- Trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.
- Nevertheless, global demand is expected to remain resilient and inflationary pressure is tepid. Trade deal between the US and China in which on progressive development may provide hope for long term solution and boost market confidence.
- On the monetary policy space, as guided by its latest minutes, the Fed is predicted to slow its normalization pace in 2019 as most of the officials were unsure on the future rate hikes amid increased downside risks.
- We expect two times of rate hike this year.
- ECB sees no rate hike in 2019.
- Domestic leading indicators on the other hand are pointing towards slightly better performance leading into 1Q19.
- GDP growth for the final quarter of 2018 surprised market expectations, 4.7% vs 4.5%.
- The solid economic growth contributed by private consumption and external market.
- Trade surplus hits 3-month high at RM11.5b in Jan-19.
- Exports growth exceeds market expectation, 3.1%yoy vs 1.4%yoy.
- PPI remains in negative territory, indicating low inflationary pressure for 1H19.
- 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 28 February 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD102.4b.



Source: BNM

- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 1.0 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	1-Mar Fri	4-Mar Mon	5-Mar Tue	6-Mar Wed	7-Mar Thu	8-Mar Fri	Change (WoW bp)
MGS							
3-Y	3.568	3.53	3.549	3.522	3.448	3.453	-11.5
5-Y	3.709	3.724	3.695	3.651	3.622	3.577	-13.2
7-Y	3.874	3.869	3.852	3.822	3.791	3.778	-9.6
10-Y	3.899	3.902	3.887	3.87	3.873	3.855	-4.4
20-Y	4.465	4.465	4.477	4.476	4.464	4.46	-0.5
RINGGIT IRS							
1-Y	3.675	3.675	3.675	3.585	3.58	3.565	-11
3-Y	3.7	3.7	3.7	3.63	3.61	3.585	-11.5
5-Y	3.79	3.79	3.755	3.71	3.66	3.69	-10
7-Y	3.91	3.915	3.905	3.8	3.785	3.79	-12
10-Y	4.075	4.07	4.06	3.99	3.965	3.965	-11
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	2.5329	2.5163	2.5246	2.4942	2.4444	2.4359	-9.7
5-Y	2.5562	2.5276	2.5277	2.4991	2.4403	2.4303	-12.59
7-Y	2.6602	2.628	2.6256	2.5935	2.5368	2.5196	-14.06
10-Y	2.7531	2.7223	2.7169	2.6934	2.6393	2.6285	-12.46
30-Y	3.1226	3.0891	3.081	3.0705	3.0262	3.0119	-11.07
USD LIBOR							
1-M	2.48188	2.483	2.48088	2.49175	2.49275	2.4915	0.962
2-M	2.56138	2.55975	2.56063	2.56188	2.5615	2.57013	0.875
3-M	2.5985	2.60763	2.60663	2.5945	2.60063	2.59663	-0.187

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	1-Mar Yield	8-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	3.814	3.732	-8.2	2,968.4
MALAYSIA GOVERNMENT	3.757	04/20/23	3.709	3.577	-13.2	2,075.0
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.099	4.057	-4.2	2,036.7
MALAYSIA GOVERNMENT	3.906	07/15/26	3.874	3.778	-9.6	1,321.1
MALAYSIA INVESTMNT ISSUE	4.755	08/04/37	4.601	4.600	-0.1	1,189.0
MALAYSIA GOVERNMENT	3.654	10/31/19	3.387	3.360	-2.7	1,072.0
MALAYSIA GOVERNMENT	3.885	08/15/29	3.899	3.855	-4.4	1,016.6
MALAYSIA INVESTMNT ISSUE	3.729	03/31/22	3.669	3.544	-12.5	1,016.0
MALAYSIA GOVERNMENT	3.882	03/10/22	3.547	3.453	-9.4	936.7
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	3.968	3.883	-8.5	872.1
TOTAL VOLUME (TOP 10)						14,503.6
TOTAL VOLUME (Overall)						27,673.7

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	1-Mar Yield	8-Mar Yield	Change (WoW bp)	Weekly Volume (RM bn)
YTL POWER INTERNATIONAL	5.05	05/03/27	4.791	4.743	-4.8	204.0
UMW HOLDINGS BERHAD	6.35	PERP	5.638	5.652	1.4	200.0
BUMITAMA AGRI LTD	5.25	03/18/19	4.464	4.650	18.6	130.0
PERBADANAN TABUNG PENDID	4.86	03/12/32	4.491	4.458	-3.3	115.0
GOVCO HOLDINGS BHD	4.88	09/28/32	4.552	4.528	-2.4	110.0
PROJEK LEBUHRAYA USAHASA	4.88	01/12/28	#N/A N/A	4.424	#VALUE!	105.0
SUNWAY TREASURY SUKUK SD	ZERO	04/11/19	#N/A N/A	3.913	#VALUE!	100.0
PERBADANAN TABUNG PENDID	4.85	07/26/41	4.831	4.821	-1.0	100.0
PRASARANA MALAYSIA BHD	4.02	03/24/20	#N/A N/A	3.695	#VALUE!	100.0
YTL POWER INTERNATIONAL	4.49	03/24/23	4.544	4.544	0.0	100.0
TOTAL VOLUME (TOP 10)						1,264.0
TOTAL VOLUME (Overall)						4,667.4

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.