

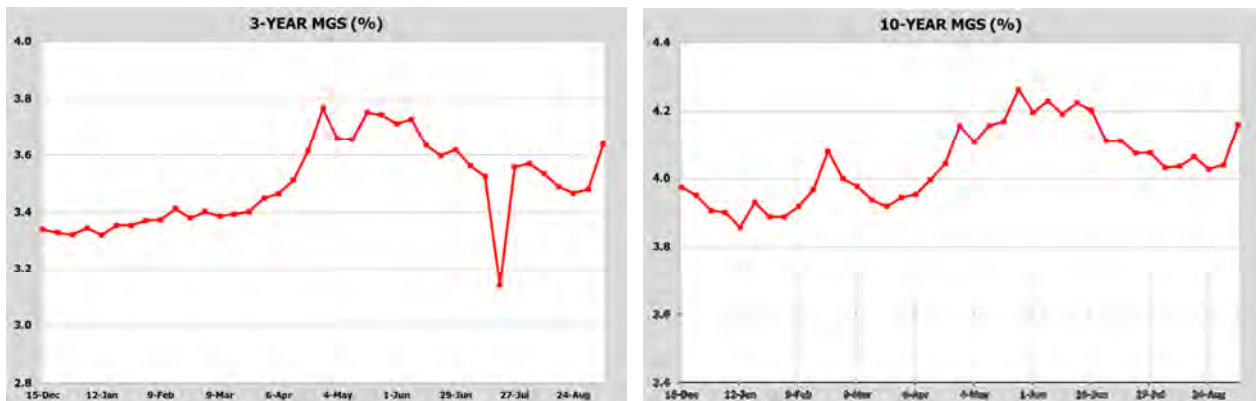
MIDF Strategy | 12 September 2018

Week Ended 7 September

- UST tanked (prices down; yields up) last week attributable to a strong labour data in August. The strength in employment raises the likelihood of the US Fed's raising rates two more times this year.
- Likewise, the price of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields higher at +14.0bps and +12.2bps respectively to close the week at 3.62% and 4.16%.
- Total trading value for Government Bonds (MGS/MII) increased to RM17.8b in the review week compared to RM12.2b in the previous week. Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.31b in the review week compared to RM1.76b in earlier week.
- Total foreign holdings of Government Bonds stood at RM167.1b as at end-August 2018. It was a decline of -RM1.16b from the July 2018 figure of RM168.3b. In tandem, total foreign holdings of Corporate Bonds decreased by -RM576.0m in the month of August 2018 to RM13.3b.
- In comparison to equities, the bonds market saw a total net outflow worth -RM1.73b in August 2018 while the former saw a total net outflow worth -RM97.4m. Furthermore, year-to-date (January-August), both bonds and equities markets remained in the red with total net outflows of -RM18.6b and -RM8.6b respectively.
- As at 30 August 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD104.4b, which is sufficient to finance 7.5 months of retained imports and is 0.9 times the short-term external debt.

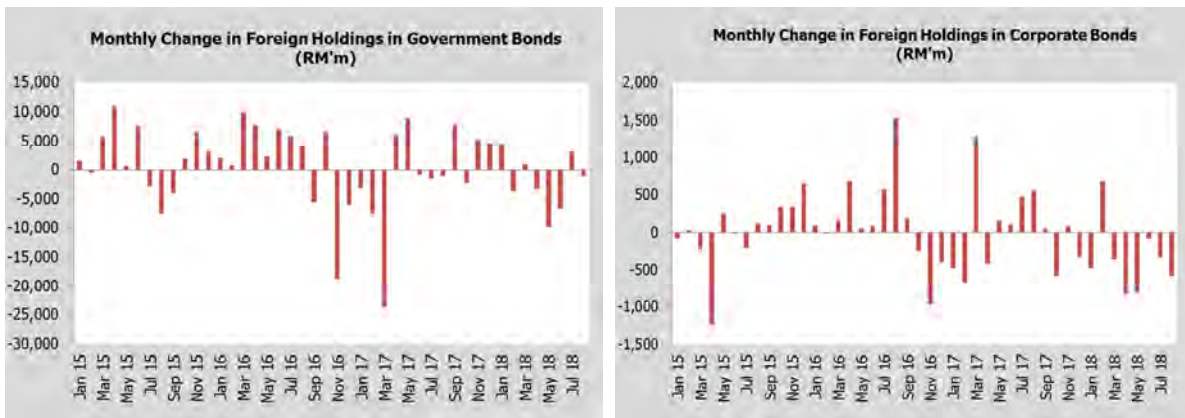
Weekly Money Review

A. FIXED INCOME



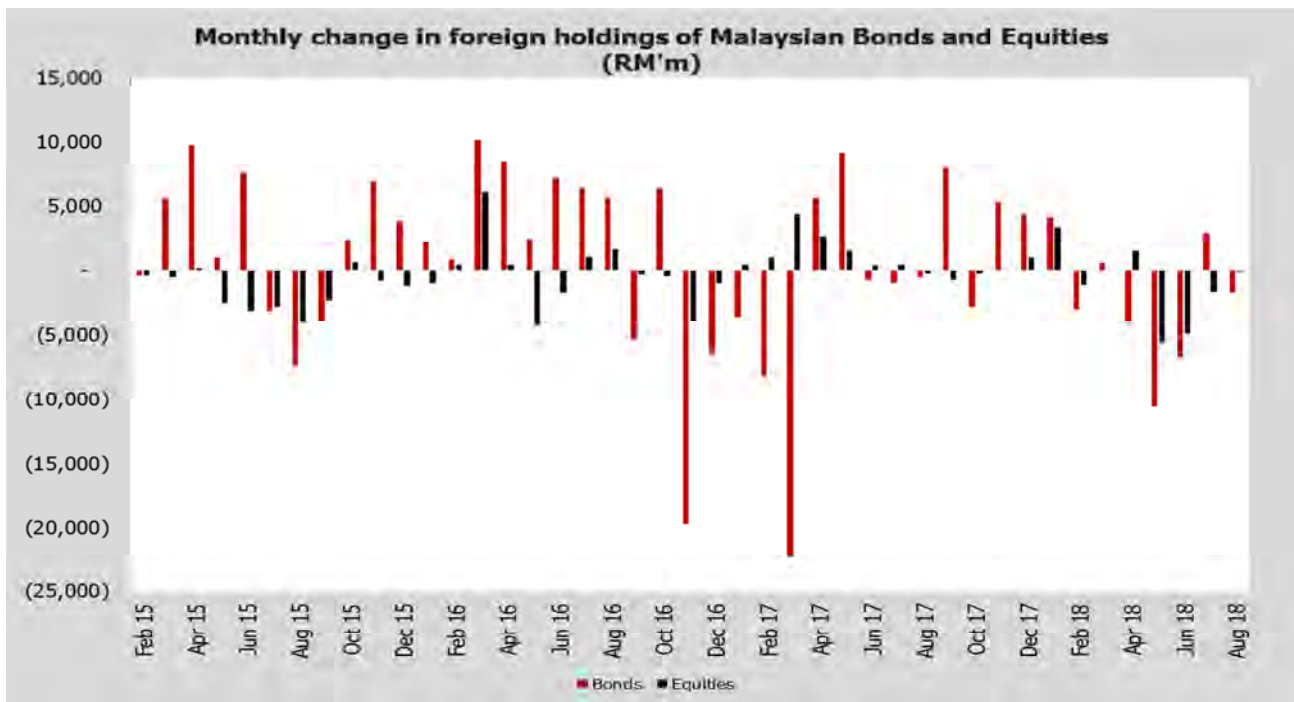
Source: Bloomberg

- UST tanked (prices down; yields up) last week attributable to a strong labour data in August. The strength in employment raises the likelihood of the US Fed's raising rates two more times this year.
- Likewise, the price of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields higher at +14.0bps and +12.2bps respectively to close the week at 3.62% and 4.16%.
- Total trading value for Government Bonds (MGS/MII) increased to RM17.8b in the review week compared to RM12.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 59% of the overall Government Bonds trades in the week under review (vis-à-vis ~63% in the week before). In addition, 9 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short and mid residual tenors. The top 3 most actively traded were MII 4.09% 11/30/23 at RM1.73b, MGS 3.76% 03/15/19 at RM1.58b and MGS 3.62% 11/30/21 at RM1.42b.
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.31b in the review week compared to RM1.76b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 33% of the overall Corporate Bonds trades (from ~32% 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 Cagamas Berhad 4.05% 09/07/21 at RM200m, Cagamas Berhad 4.20% 10/22/18 at RM100.0m and Sarawak Energy Berhad 5.28% 08/17/35 at RM74.0m.
- Total foreign holdings of Government Bonds stood at RM167.1b as at end-August 2018. It was a decline of -RM1.16b from the July 2018 figure of RM168.3b.
- In tandem, total foreign holdings of Corporate Bonds decreased by -RM576.0m in the month of August 2018 to RM13.3b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM1.73b in August 2018 while the former saw a total net outflow worth -RM97.4m. Furthermore, year-to-date (January-August), both bonds and equities markets remained in the red with total net outflows of -RM18.6b and -RM8.6b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

- DXY Index appreciates amid sound labour data. Likelihood of another rate hike in the upcoming FOMC meeting in Sep-18 is higher, thanks to the labour market. Unemployment rate stays at 3.9% while non-farm payrolls increase by 201K in Aug-18. Wage growth reflected by average hourly earnings up by 0.4%mom, fastest in 8-month.
- EURUSD improves by 0.4%wow. Among others, robust external trade performance of Germany supports EUR to strengthen. Both outbound and inbound shipments of the largest economy in EU rose strongly by 7.6%yoy and 12%yoy respectively. The expansion in trade performance reflects sound and steady economic activities within EU despite trade war fear and political uncertainties especially Brexit deal.

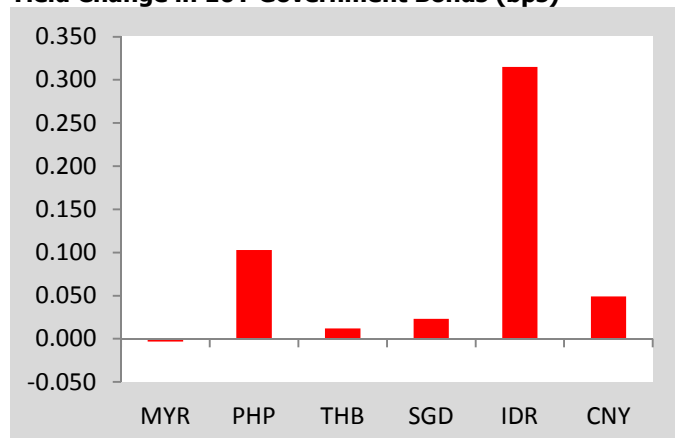
Currencies Changes (Week Ended 07/09) and Quarterly Forecasts

	Close (07/09)	Prev Close (31/08)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	95.36	95.14	0.220	0.2%	90.07	92.79	91.76	93.66
EURUSD	1.16	1.16	0.004	0.4%	1.23	1.19	1.21	1.19
GBPUSD	1.29	1.30	-0.003	-0.2%	1.39	1.37	1.34	1.32
USDJPY	110.69	111.03	-0.340	0.3%	108.09	109.24	107.54	110.66
USDMYR	4.15	4.11	0.036	-0.9%	3.92	3.95	4.09	4.05
GBPMYR	5.36	5.35	0.012	-0.2%	5.46	5.37	5.46	5.52
JPYMYR	3.75	3.70	0.046	-1.2%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

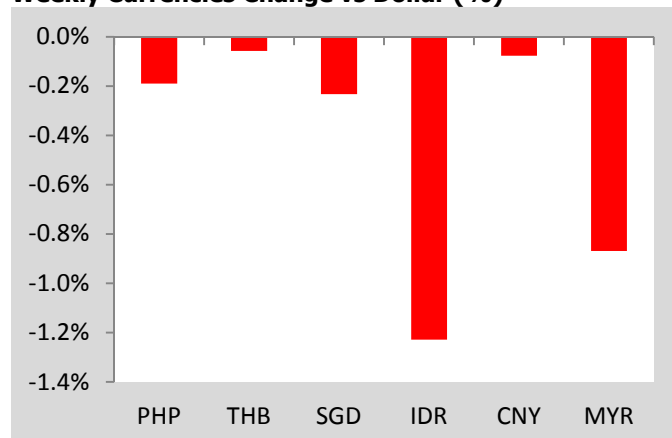
- Ringgit – Remains on weakening path. Depreciating MYR is mainly drag by strengthening USD. All Asean currencies during the week contracted. On macro data, Malaysian economy remains resilient as external trade and IPI performances stay firm on expansionary tracks. In Jul-18, exports and imports expand by 9.4%yoy and 10.3%yoy respectively (Beating market estimates; 2.8% and 5%). In addition, IPI growth registers at 2.6%yoy, higher than market consensus of 1.4%yoy. 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 (%)

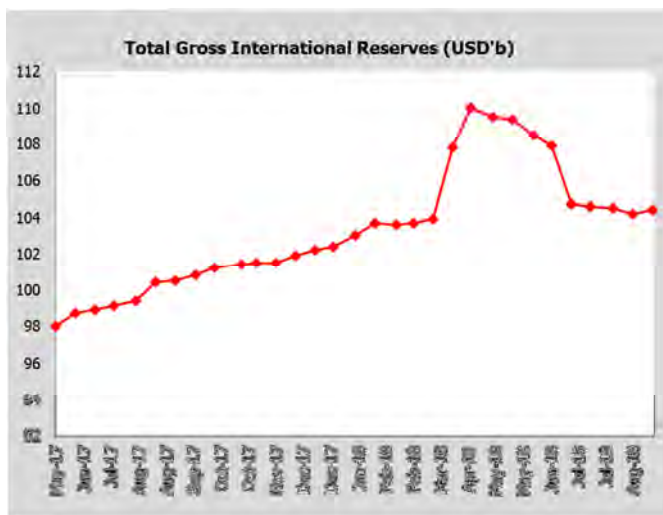
	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.75	5.25	5.25	5.50
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	4.00
Thailand	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	1.50	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	0.50	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	1.50	1.50	1.50	1.75	1.75	1.75	2.00	2.00	2.00

Source: CEIC, MIDFR


- Bleaker outlook for global trade as Trump raises stakes on tariffs which could negatively affect emerging economies.
- Ongoing trade tension, tightening monetary policy, policy uncertainties, geopolitical worries, and upward price pressure are some of the factors that can derail global growth trajectory in both near and medium term.
- Global expansion is becoming more uneven between developed and emerging economies.
- Globally, most leading indicators are still remains above the threshold level but showing declining trend.
- Emerging currencies over the past few weeks have been under pressure thanks to mighty dollar and concern about trade tension.
- Countries with weak fundamentals and high exposure to foreign debts are high vulnerable.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth. This is positive to domestic growth.
- Headline inflation is expected to remain tepid. The trend is expected to continue despite the end of tax holiday period in September.
- Our base case scenario for OPR remains unchanged (single rate hike- 3.25%) for 2018 barring any unforeseen circumstances in the near term. The last MPC meeting is schedule in the second week of November.

C. BNM FOREIGN RESERVES

- As at 30 August 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD104.4b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 0.9 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	31-Aug Fri	3-Sep Mon	4-Sep Tue	5-Sep Wed	6-Sep Thu	7-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.479	3.493	3.543	3.619	3.639	3.619	14
5-Y	3.695	3.709	3.756	3.864	3.852	3.828	13.3
7-Y	3.934	3.927	4.028	4.023	4.058	4.05	11.6
10-Y	4.038	4.045	4.104	4.147	4.16	4.16	12.2
20-Y	4.67	4.67	4.69	4.701	4.701	4.701	3.1
RINGGIT IRS							
1-Y	3.7	3.7	3.7	3.7	3.71	3.71	1
3-Y	3.74	3.74	3.745	3.745	3.7525	3.7475	0.75
5-Y	3.835	3.844	3.85	3.85	3.855	3.855	2
7-Y	3.975	3.97	3.97	3.98	3.98	3.995	2
10-Y	4.1625	4.155	4.165	4.17	4.175	4.165	0.25
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	2.6914	2.6914	2.7219	2.719	2.694	2.772	8.06
5-Y	2.7382	2.7382	2.7719	2.7685	2.7415	2.8211	8.29
7-Y	2.8094	2.8094	2.8493	2.8468	2.8169	2.8919	8.25
10-Y	2.8604	2.8604	2.8985	2.9022	2.8731	2.9388	7.84
30-Y	3.0191	3.0191	3.0616	3.0753	3.0527	3.1014	8.23
USD LIBOR							
1-M	2.11375	2.1095	2.12031	2.1205	2.13256	2.131	1.725
2-M	2.20613	2.20638	2.21188	2.20688	2.2095	2.21088	0.475
3-M	2.32075	2.31563	2.32275	2.31681	2.32706	2.33125	1.05

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	31-Aug Yield	7-Sep Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	3.815	3.922	10.7	1,725.0
MALAYSIA GOVERNMENT	3.759	03/15/19	3.316	3.286	-3.0	1,575.2
MALAYSIA GOVERNMENT	3.62	11/30/21	3.479	3.619	14.0	1,419.1
MALAYSIA GOVERNMENT	4.642	11/07/33	4.470	4.586	11.6	1,205.6
MALAYSIA GOVERNMENT	3.757	04/20/23	3.695	3.818	12.3	948.4
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.140	4.234	9.4	831.9
MALAYSIA GOVERNMENT	3.882	03/10/22	3.622	3.676	5.4	809.1
MALAYSIA GOVERNMENT	3.9	11/30/26	4.167	4.223	5.6	722.9
MALAYSIA GOVERNMENT	3.733	06/15/28	4.038	4.160	12.2	684.4
MALAYSIA GOVERNMENT	3.882	03/14/25	3.934	4.050	11.6	637.4
TOTAL VOLUME (TOP 10)						10,559.1
TOTAL VOLUME (Overall)						17,785.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	31-Aug Yield	7-Sep Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	4.05	09/07/21	N/A	4.056	N/A	200.0
CAGAMAS BERHAD	4.2	10/22/18	N/A	3.440	N/A	100.0
SARAWAK ENERGY BHD	5.28	08/17/35	5.138	5.037	-10.1	74.0
TENAGA NASIONAL BERHAD	4.98	08/27/38	4.950	4.981	3.1	65.0
PENGURUSAN AIR SPV BHD	4.1	11/05/20	N/A	3.894	N/A	60.0
AMBank MALAYSIA BHD	5.2	12/29/23	N/A	4.354	N/A	60.0
SAJ CAPITAL SDN BHD	5.49	01/26/27	N/A	5.227	N/A	60.0
PRASARANA MALAYSIA BHD	4.27	12/11/20	N/A	3.898	N/A	50.0
HONG LEONG FINL GROUP	4.35	09/06/21	N/A	4.352	N/A	50.0
SARAWAK ENERGY BHD	5.32	12/03/32	5.021	4.880	-14.1	50.0
TOTAL VOLUME (TOP 10)						769.0
TOTAL VOLUME (Overall)						2,310.7

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.