

MIDF Strategy | 13 May 2019

Week Ended 10 May 2019

- UST rebounded (prices up; yields down) last week but nonetheless the 10y-3y yield spread slightly steepened (as the short-end outperformed) to +24bps from +23bps a week earlier. We reckon the buying activities were urged by the sudden heightening in US-China trade spat but which is seen to be concluded one way or another. As of last Friday, the American government began to impose 25% tariffs on USD200b worth of Chinese imports despite the continuing trade talks in Washington.
- Likewise, the domestic MGS yields edged lower arguably in reaction to the external uncertainties. The price of MGS benchmark issues ended the review week higher while the curve steepened as the short-end outperformed with the 3-year and 10-year yields dropped -5.1bp and -0.2bp respectively to close at 3.38% and 3.80%.
- Total trading value for Government Bonds (MGS/MII) risen to RM26.9b in the review week compared to RM19.4b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 45% of the overall Government Bonds trades in the week under review as compared to 41% 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.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.74b in the review week compared to RM2.57b in earlier week (based on Bloomberg data). Moreover, the total trading value of the 10 most actively traded issues jumped (lower trading breadth) to 49% of the overall Corporate Bonds trades in the review week as compared to 22% in the week before.

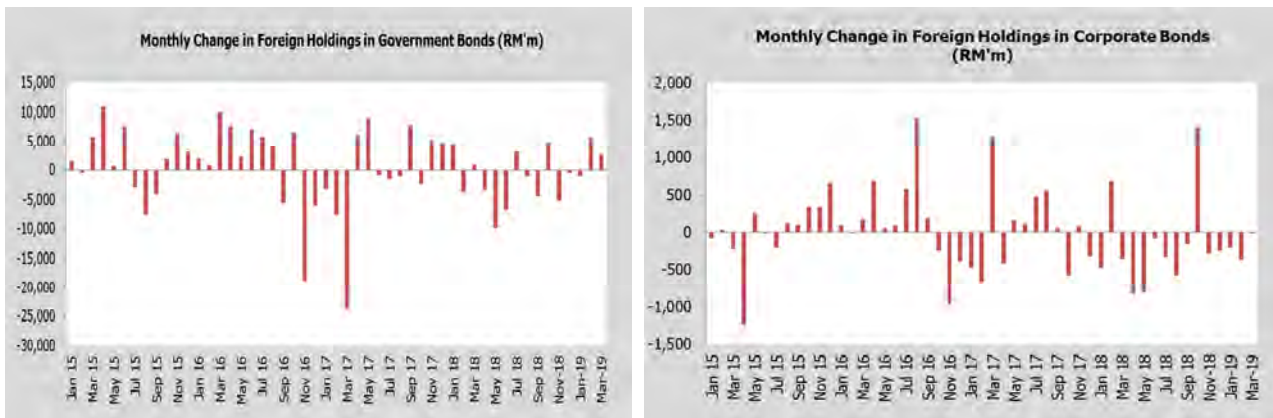
Weekly Money Review

A. FIXED INCOME



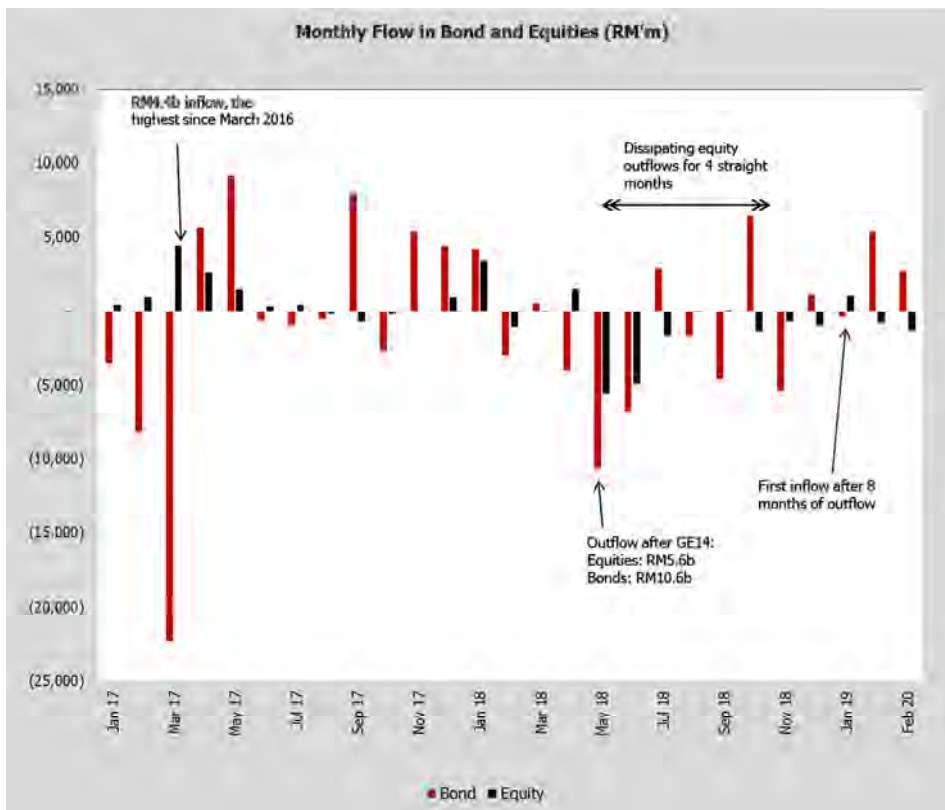
Source: Bloomberg, MIDFR

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- Furthermore, the top 3 actively traded Government Bonds were represented by issues of short and mid residual tenors. The top 3 most actively traded were MGS 3.906% 7/15/26 at RM2.24b, MGS 3.492% 3/31/20 at RM1.35b, and MGS 4.378% 11/29/19 at RM1.31b.
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- The top 3 actively traded Corporate Bonds were dominated by issues of mid and long residual tenors. The biggest trading values were seen in PLUS 4.96% 1/12/29 at RM340m, MKD Kencana 4.47% 4/25/25 at RM75m, and MKD Kencana 4.43% 2/21/25 at RM75m.
- Total foreign holdings of Government Bonds stood at RM169.4b as at end-Mar 2019. It was an increase of RM2.7b from the February 2019 figure of RM167.0b.
- On the other hand, total foreign holdings of Corporate Bonds decreased by -RM7m in the month of March 2019 to RM13.5b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM2.7b in March 2019 while the former saw a total net outflow worth -RM1.4b. 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 depreciates by trivial point. In Apr-19, headline CPI hit 6-month high at 2%, slightly lower than market consensus of 2.1%. Core CPI remains steady at 2.1% during the month. The pick-up in inflationary pressure is in tandem with the development of global energy prices.
- EURUSD improves marginally. EU's trade surplus narrowed to EUR22.7b in Mar-19 (EUR24.6b:Feb-19). Exports and imports rose 1.9%yoy and 4.5%yoy respectively. Uncertainty over trade war and geopolitical risks remain challenges in the region.
- Ringgit – Depreciated as OPR cut 25 basis points. Amid moderating GDP growth, Bank Negara Malaysia trimmed down its overnight policy rate (OPR) from 3.25% to 3.00%. On macroeconomic performance, the data are showing progressing trend yet at modest pace. In Mar-19, IPI grew 3.1%yoy while jobless rate stays at full-

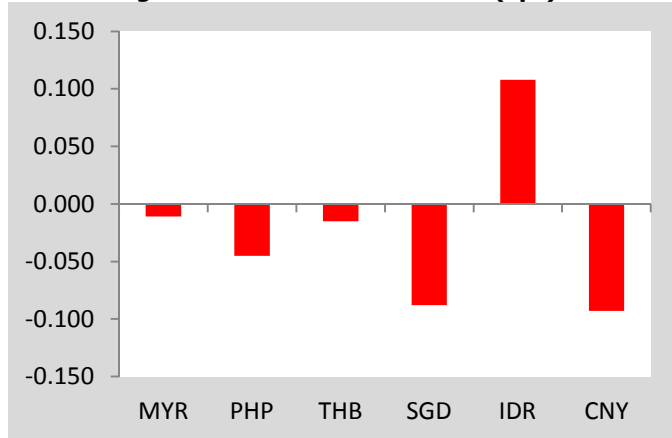
employment condition of 3.4%. We maintain our call MYR to average at 4.12 and register year-end target at 4.10 in 2019.

Currencies Changes (Week Ended 10/05) and Quarterly Forecasts

	Close (10/05)	Prev Close (03/05)	Change	% Change	1Q19	2Q19F	3Q19F	4Q19F
DXY Index	97.33	97.52	-0.190	-0.2%	96.46	94.94	93.88	95.83
EURUSD	1.12	1.12	0.004	0.3%	1.13	1.15	1.17	1.15
GBPUSD	1.30	1.32	-0.017	-1.3%	1.30	1.32	1.30	1.27
USDJPY	109.95	111.10	-1.150	1.0%	110.15	107.55	105.87	108.95
USDMYR	4.16	4.14	0.015	-0.4%	4.09	4.15	4.10	4.10
GBPMYR	5.41	5.39	0.013	-0.2%	5.32	5.29	5.38	5.45
JPYMYR	3.78	3.73	0.053	-1.4%	3.72	3.73	3.92	3.95

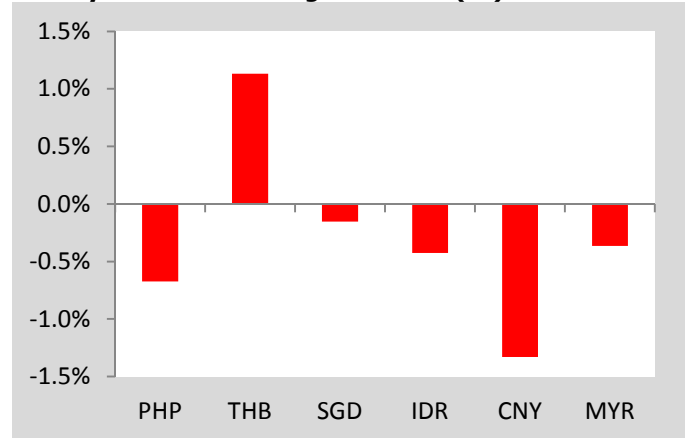
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.00
Indonesia	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.00	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.50
Thailand	1.50	1.50	1.50	1.50	1.75	1.75	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	1.75	1.75	1.75	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	0.75	0.75	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	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50

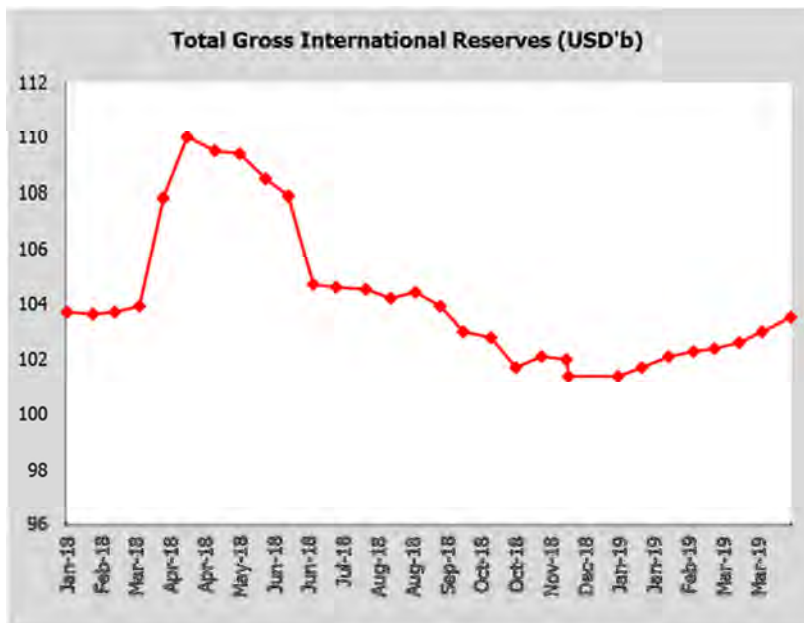
Source: CEIC, MIDFR

- Trade talks between the US and China still remain uncertain and directionless.


- 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 resilience and inflationary pressure is tepid. Domestic economic activities in major economies are improving at steady pace.
- On the monetary policy space, as guided by the latest projection, the Fed will maintain its interest rate at current range in 2019.
- The Fed predicts slower GDP growth, higher jobless rate while Core PCE inflation stays at 2%.
- ECB sees no rate hike in 2019.
- Bank Negara Malaysia cut OPR by 25 basis points to 3.00%.
- Domestic demand remains intact and solid.
- IPI growth recorded at 3.1%yoy in Mar-19, supported by expansion in manufacturing and electricity output.
- Unemployment rate at 3.4% in 1Q19, still reflecting full-employment condition in Malaysia.
- Current monetary policy remains accommodative at present to support growth in the domestic economy.
- We expect no further changes in monetary policy which OPR maintains at 3.00% in 2019.

C. BNM FOREIGN RESERVES

- As at 15 April 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD103.5b.



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	3-May Fri	6-May Mon	7-May Tue	8-May Wed	9-May Thu	10-May Fri	Change (WoW bp)
MGS							
3-Y	3.434	3.411	3.367	3.37	3.405	3.383	-5.1
5-Y	3.612	3.581	3.565	3.565	3.592	3.592	-2
7-Y	3.785	3.753	3.737	3.731	3.743	3.777	-0.8
10-Y	3.803	3.792	3.76	3.784	3.796	3.801	-0.2
20-Y	4.349	4.349	4.357	4.312	4.312	4.312	-3.7
RINGGIT IRS							
1-Y	3.545	3.525	3.48	3.48	3.48	3.48	-6.5
3-Y	3.555	3.525	3.52	3.52	3.52	3.52	-3.5
5-Y	3.64	3.585	3.585	3.585	3.585	3.595	-4.5
7-Y	3.725	3.68	3.67	3.675	3.675	3.67	-5.5
10-Y	3.9	3.855	3.81	3.85	3.865	3.86	-4
KLIBOR							
1-M	3.43	3.43	3.43	3.19	3.19	3.19	-24
2-M	3.66	3.66	3.66	3.41	3.41	3.41	-25
3-M	3.69	3.69	3.69	3.46	3.46	3.46	-23
UST							
3-Y	2.2995	2.247	2.247	2.2604	2.217	2.2306	-6.89
5-Y	2.3234	2.2633	2.2583	2.285	2.2449	2.2633	-6.01
7-Y	2.4239	2.3603	2.353	2.3774	2.3359	2.3578	-6.61
10-Y	2.525	2.4692	2.4566	2.4835	2.4423	2.4672	-5.78
30-Y	2.9186	2.8883	2.8643	2.8937	2.8612	2.8867	-3.19
USD LIBOR							
1-M	2.46663	2.46663	2.46275	2.45138	2.45338	2.449	-1.763
2-M	2.50838	2.50838	2.51475	2.501	2.49638	2.48963	-1.875
3-M	2.55988	2.55988	2.562	2.54513	2.53525	2.52788	-3.2

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	3-May Yield	10-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.906	07/15/26	3.785	3.777	-0.8	2,240.8
MALAYSIA GOVERNMENT	3.492	03/31/20	3.347	3.239	-10.8	1,350.2
MALAYSIA GOVERNMENT	4.378	11/29/19	3.322	3.140	-18.2	1,312.6
MALAYSIA GOVERNMENT	3.654	10/31/19	3.320	3.160	-16.0	1,293.3
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	3.698	3.625	-7.3	1,262.9
MALAYSIA GOVERNMENT	4.16	07/15/21	3.394	3.373	-2.1	996.2
MALAYSIA INVESTMNT ISSUE	3.655	10/15/24	3.643	3.655	1.2	975.0
MALAYSIA GOVERNMENT	3.757	04/20/23	3.612	3.592	-2.0	933.2
MALAYSIA INVESTMNT ISSUE	4.13	07/09/29	3.901	3.865	-3.6	926.0
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	3.911	3.860	-5.1	789.6
TOTAL VOLUME (TOP 10)						12,079.6
TOTAL VOLUME (Overall)						26,888.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	3-May Yield	10-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
PROJEK LEBUHRAYA USAHASA	4.96	01/12/29	4.251	4.236	-1.5	340.0
MKD KENCANA SDN BHD	4.47	04/25/25	3.952	3.928	-2.4	75.0
MKD KENCANA SDN BHD	4.43	02/21/25	3.942	3.913	-2.9	75.0
PROJEK LEBUHRAYA USAHASA	5.07	01/10/31	4.326	4.340	1.4	60.0
DANAINFRA NASIONAL	4.57	05/02/31	4.127	4.117	-1.0	60.0
PROJEK LEBUHRAYA USAHASA	4.56	01/12/24	4.064	4.054	-1.0	60.0
WCT HOLDINGS BHD	4.6	08/28/20	4.804	4.699	-10.5	50.0
YTL POWER INTERNATIONAL	4.49	03/24/23	4.383	4.347	-3.6	50.0
PROJEK LEBUHRAYA USAHASA	5	01/11/30	4.286	4.297	1.1	40.0
PROJEK LEBUHRAYA USAHASA	4.31	01/12/21	3.927	3.900	-2.7	40.0
TOTAL VOLUME (TOP 10)						850.0
TOTAL VOLUME (Overall)						1,737.0

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.