

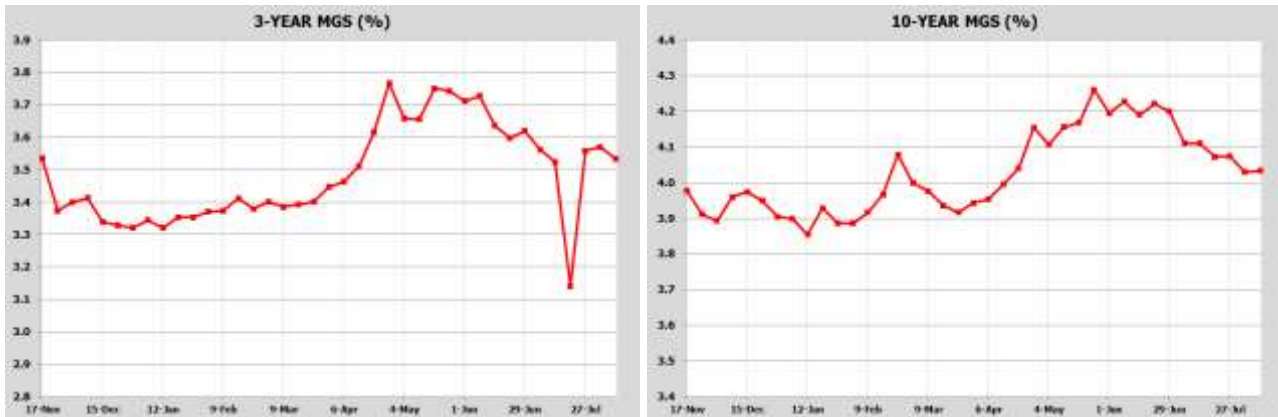
MIDF Strategy | 13 August 2018

Week Ended 10 August

- UST rallied (prices up; yields down) last week, most notably on Friday, as investors seek the safety of safer assets amid fear of contagion emanating from Turkish currency crisis.
- It is also noteworthy that the UST yield curve resumed its flattening drift as the long-end outperformed. The 10y-3y yield spread dropped to +19bps, from +22bps a week earlier. As previously stated, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still upbeat recent economic numbers.
- Nonetheless, the prices of local MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields respectively lower by -3.6bps and higher by +0.4bps to close the week at 3.53% and 4.03%.
- Total trading value for Government Bonds (MGS/MII) declined to RM15.4b in the review week compared to RM23.5b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues edged lower to 51% of the overall Government Bonds trades in the week under review (vis-à-vis ~52% in the week before). In addition, 5 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.32b 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 was higher at 32% of the overall Corporate Bonds trades (vis-à-vis ~25% in the week before).

Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

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- 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 RM1.96b, MII 4.76% 08/04/37 at RM1.06b and MGS 3.76% 04/20/23 at RM799m.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.32b 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 was higher at 32% of the overall Corporate Bonds trades (vis-à-vis ~25% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with varied residual tenors. The biggest trading values were seen in Cagamas 4.10% 02/04/19 at RM400m, Jambatan Kedua 4.30% 05/28/25 at RM185m and MKD Kencana 4.85% 10/01/32 at RM180m.
- 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 appreciates amid strong inflation data. Thanks to steady pick-up in global commodity prices, inflationary pressure in the US looms. Headline inflation maintains at 6-year high in Jul-18 at 2.9%yoy. Core inflation hits 10-year high at 2.4%yoy during the month. Henceforth, the growing inflationary pressure will support the Fed to further normalise its monetary policy plan. We expect another two rate hikes, in Sep-18 and Dec-18.
- EURUSD lowest in 13-week. Market uncertainties in the region of EU grew amid plunging Lira and economic war between Turkey and the US. President Donald Trump doubled the tariffs on steel imports from Turkey via his Twitter account. Referring to the tweet, tariffs on aluminium and steel to be at 20% and 50% respectively. Even though Turkey is not part of European Union, the negative spill-over effects from economic war between the US and Turkey would spread to other EU countries.

Currencies Changes (Week Ended 10/08) and Quarterly Forecasts

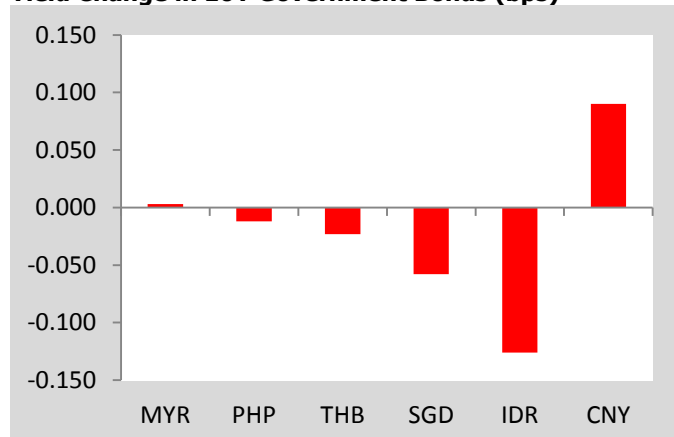
	Close (10/08)	Prev Close (03/08)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	96.36	95.16	1.196	1.3%	90.07	92.79	91.76	93.66
EURUSD	1.14	1.16	-0.016	-1.3%	1.23	1.19	1.21	1.19
GBPUSD	1.28	1.30	-0.024	-1.9%	1.39	1.37	1.34	1.32
USDJPY	110.83	111.25	-0.420	0.4%	108.09	109.24	107.54	110.66
USDMYR	4.09	4.08	0.005	-0.1%	3.92	3.95	4.09	4.05
GBPMYR	5.21	5.30	-0.090	1.7%	5.46	5.37	5.46	5.52
JPYMYR	3.68	3.67	0.016	-0.4%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR

Source: Bloomberg, MIDFR

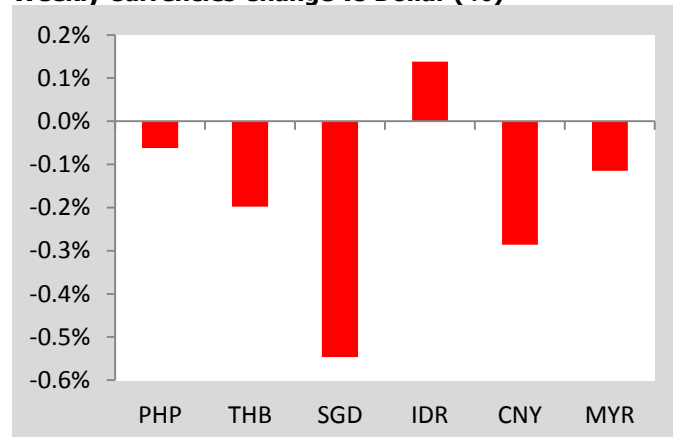
- Ringgit – Weakest so far in 2018. On macro view, IPI grew by 1.1%yoy, slowest in 4-year. The huge deceleration in IPI is mainly dragged down by contraction in mining output by -9.4%yoy. Jobless rate goes up to 3.4%, highest in 5-month. As tax-holiday starts in Jun-18, retail trade increases by 12.1%yoy, strongest since Aug-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 (%)

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Malaysia	3.00	3.00	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	4.25	4.75	5.25	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	3.25	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	1.50	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	1.25	1.50	1.50	1.50	1.75	1.75	1.75	2.00	2.00

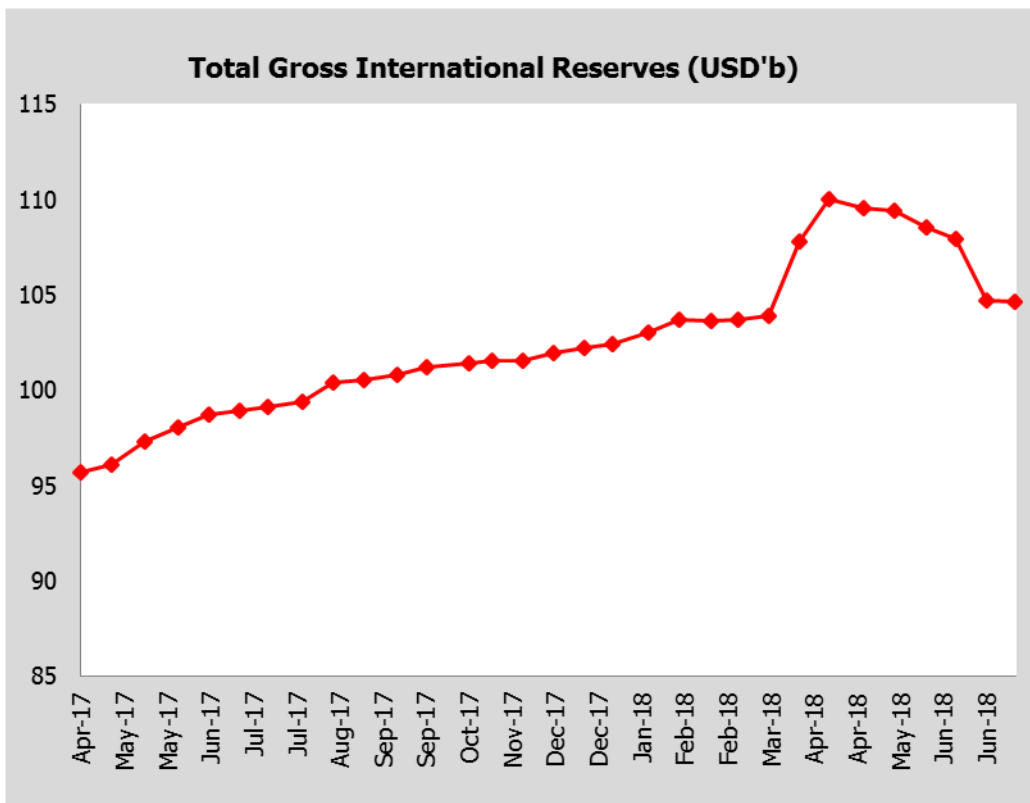
Source: CEIC, MIDFR

- Presently, there quite a number of factors that could be a threat to both global trade and global growth.
- Ongoing trade tension, tightening monetary policy, policy uncertainties, geopolitical worries, and upward price pressure are some of the factors that can be a headwind in the near term.
- Escalating trade tension for example, could be the tipping point for global growth slowdown should the tension escalate to full blown war.
- Nevertheless, we discount the possibility of full blown trade war as ongoing trade talks will at least resolve some of the contentious points.
- However, the prolong tension already impacted sentiment which adversely affected emerging markets and could distort the investment outlook in the near future.
- Pare down investment outlook will eventually affect future production that could hamper growth in the near term.
- Regional currencies are expected to come under pressure amid hawkish Fed, stronger dollar and ongoing trade tension which move capital to safe haven.
- US strong economic growth as well as robust consumer confidence could seal the deal for Fed to proceed with its planned hike this year as highlighted in the last FOMC meeting.


- Elsewhere, Central Bank of Philippines raised its policy rate by 50bps last week in bid to tame inflation. Bank Indonesia is having a monetary policy this week and is widely expected to keep rates on hold.
- Domestically, consumption is also expected to remain robust amid tax holiday period and stable labor market. This is positive to domestic growth. Bank Negara will release 2Q 2018 GDP data this Friday. We expect a better performance compared to 1Q 2018.
- For domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike- 3.25%) for 2018 barring any unforeseen circumstances. Domestic inflation to remain tepid in the upcoming months.

C. BNM FOREIGN RESERVES

- As at 13 July 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD104.6b.



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	3-Aug Fri	6-Aug Mon	7-Aug Tue	8-Aug Wed	9-Aug Thu	10-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.57	3.516	3.525	3.525	3.538	3.534	-3.6
5-Y	3.756	3.742	3.74	3.744	3.749	3.747	-0.9
7-Y	3.958	3.947	3.944	3.953	3.96	3.96	0.2
10-Y	4.03	4.036	4.036	4.043	4.043	4.034	0.4
20-Y	4.69	4.655	4.655	4.672	4.672	4.672	-1.8
RINGGIT IRS							
1-Y	3.705	3.705	3.695	3.705	3.705	3.705	0
3-Y	3.74	3.74	3.73	3.735	3.735	3.735	-0.5
5-Y	3.845	3.835	3.835	3.835	3.855	3.8325	-1.25
7-Y	3.955	3.95	3.95	3.955	3.96	3.945	-1
10-Y	4.125	4.1285	4.125	4.14	4.175	4.145	2
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	2.7304	2.7277	2.7585	2.7609	2.7363	2.6791	-5.13
5-Y	2.8125	2.8041	2.8414	2.8312	2.8075	2.7448	-6.77
7-Y	2.8998	2.8849	2.9198	2.9123	2.8799	2.8227	-7.71
10-Y	2.9488	2.9395	2.973	2.96	2.9258	2.8732	-7.56
30-Y	3.0886	3.0894	3.1176	3.1103	3.0717	3.0303	-5.83
USD LIBOR							
1-M	2.07931	2.08256	2.07113	2.06344	2.06731	2.06675	-1.256
2-M	2.18238	2.17844	2.18381	2.1855	2.19238	2.18638	0.4
3-M	2.343	2.34325	2.34144	2.3405	2.338	2.31925	-2.375

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	3-Aug Yield	10-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.146	4.141	-0.5	1,965.5
MALAYSIA INVESTMNT ISSUE	4.755	08/04/37	4.787	4.761	-2.6	1,065.0
MALAYSIA GOVERNMENT	3.757	04/20/23	3.756	3.747	-0.9	799.4
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.771	3.770	-0.1	673.8
MALAYSIA GOVERNMENT	3.8	08/17/23	3.800	3.833	3.3	650.9
MALAYSIA GOVERNMENT	4.642	11/07/33	4.485	4.477	-0.8	603.5
MALAYSIA GOVERNMENT	3.733	06/15/28	4.030	4.034	0.4	547.4
MALAYSIA GOVERNMENT	3.882	03/14/25	3.958	3.960	0.2	531.2
MALAYSIA INVESTMNT ISSUE	3.872	08/30/18	3.298	3.300	0.2	505.5
MALAYSIA INVESTMNT ISSUE	4.724	06/15/33	4.523	4.562	3.9	490.0
TOTAL VOLUME (TOP 10)						7,832.2
TOTAL VOLUME (Overall)						15,376.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	3-Aug Yield	10-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	4.1	02/04/19	3.870	3.807	-6.3	400.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	4.272	4.269	-0.3	185.0
MKD KENCANA SDN BHD	4.85	10/01/32	4.807	4.790	-1.7	180.0
KHAZANAH NASIONAL BHD	ZERO	06/15/22	#N/A N/A	4.195	#VALUE!	130.0
SUNWAY TREASURY SUKUK SD	ZERO	09/07/18	#N/A N/A	3.851	#VALUE!	101.0
PENGURUSAN AIR SPV BHD	4.23	06/16/23	4.216	4.092	-12.4	95.0
PERBADANAN TABUNG PENDID	4.27	03/14/24	4.205	4.177	-2.8	95.0
PROJEK LEBUHRAYA USAHASA	4.72	01/12/26	#N/A N/A	4.604	#VALUE!	75.0
GAMUDA BERHAD	4.785	03/16/23	4.716	4.720	0.4	70.0
DANAINFRA NASIONAL	4.58	10/31/28	4.407	4.413	0.6	70.0
TOTAL VOLUME (TOP 10)						1,401.0
TOTAL VOLUME (Overall)						4,319.8

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.