

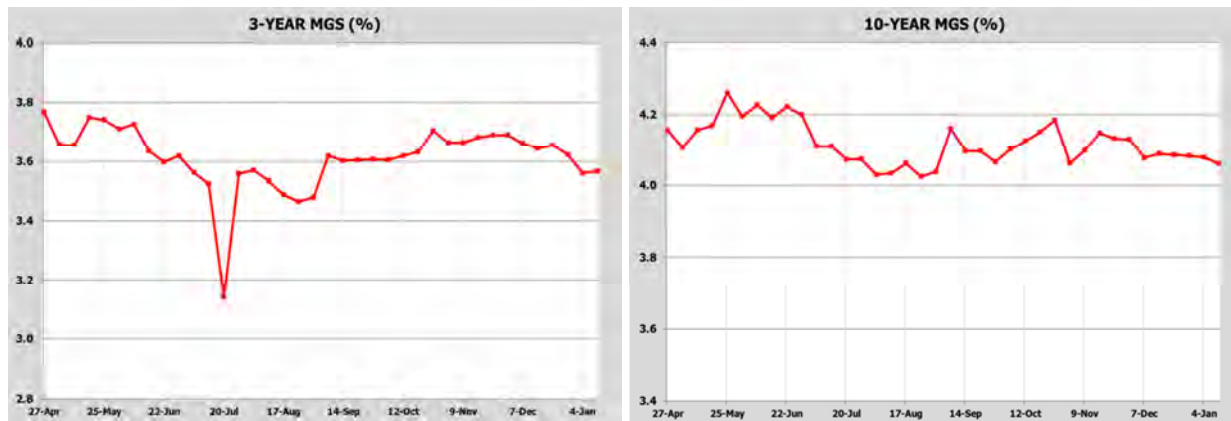
MIDF Strategy | 14 January 2019

Week Ended 11 January 2019

- UST retreated (prices down; yields up) last week as yields rebounded from sharp fall in the prior week.
- The UST yield curve flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +18bps from +19bps a week earlier. We reckon the yield curve shall retain its flattening bias until and unless the US Fed signals a cessation to the current hiking cycle.
- Domestically, the price of MGS benchmark issues ended the week mixed while the curve flattened with the 3-year and 10-year yields increased +0.7bp and declined -1.8bps respectively to close at 3.57% and 4.06%.
- Total trading value for Government Bonds (MGS/MII) increased to RM34.0b in the review week compared to RM16.1b in the previous week. The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 47% of the overall Government Bonds trades in the week under review vis-à-vis 55% in the week before. In addition, 8 out of 10 most actively traded bonds saw lower yields hence higher prices during the week.
- Total foreign holdings of Government Bonds stood at RM162.0b as at end-Dec 2018. It was a decline of -RM466m from the November 2018 figure of RM162.5b.
- On the other hand, total foreign holdings of Corporate Bonds increased by RM1.6b in the month of December 2018 to RM15.9b.
- In comparison to equities, the bonds market saw a total net inflow worth RM1.1b in December 2018 while the former saw a total net outflow worth -RM1.0b. 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.

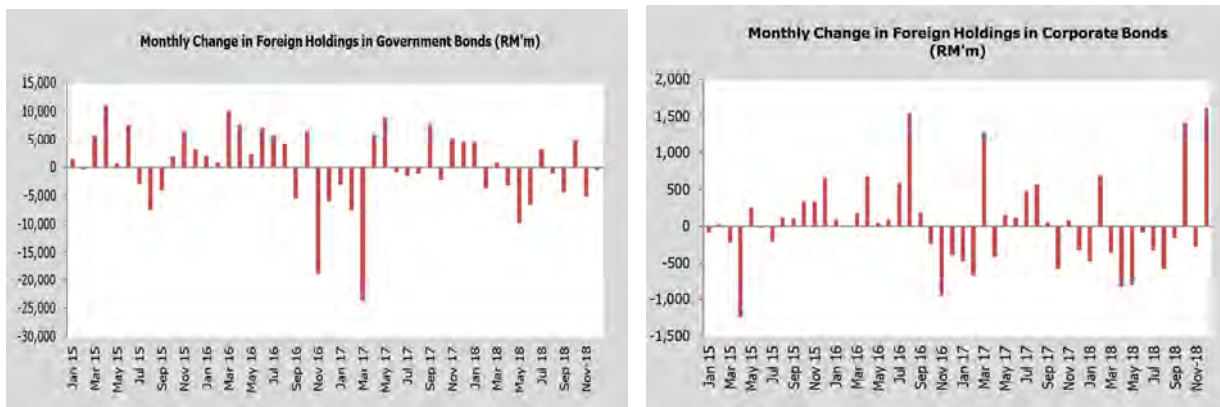
Weekly Money Review

A. FIXED INCOME



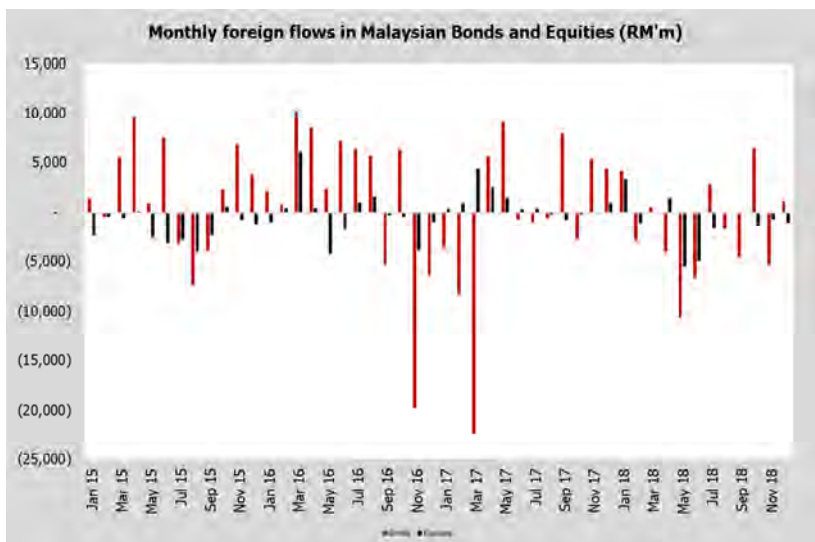
Source: Bloomberg

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- Domestically, the price of MGS benchmark issues ended the review week mixed while the curve flattened with the 3-year and 10-year yields increased +0.7bp and declined -1.8bps respectively to close at 3.57% and 4.06%.
- Total trading value for Government Bonds (MGS/MII) increased to RM34.0b in the review week compared to RM16.1b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 47% of the overall Government Bonds trades in the week under review vis-à-vis 55% in the week before. In addition, 8 out of 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 RM2.49b, MGS 3.757% 04/20/23 at RM2.12b and MGS 3.654% 10/31/19 at RM1.98b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.87b in the review week compared to RM1.42b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 39% of the overall Corporate Bonds trades from 38% 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 Affin Islamic Bank Bhd 5.05% 10/23/28 at RM800m, Pengurusan Air SPV Berhad 4.30% 06/06/22 at RM280m and YTL Power International 5.05% 05/03/27 at RM210m.
- Total foreign holdings of Government Bonds stood at RM162.0b as at end-Dec 2018. It was a decline of -RM466m from the November 2018 figure of RM162.5b.
- On the other hand, total foreign holdings of Corporate Bonds increased by RM1.6b in the month of December 2018 to RM15.9b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM1.1b in December 2018 while the former saw a total net outflow worth -RM1.0b. 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 slides down by -0.8%wow. As guided by the latest Fed's minutes, normalisation pace is expected to be slower and it maintains of two rate hikes in 2019. Moderating economic growth and decline in business optimism are among factors of the slower pace. In addition, headline inflation in the US fell to 1.7% in Dec-18, lowest since Aug-17.
- GBPUSD risks of depreciation due to Brexit's vote. The parliament of UK is expected to cast its vote on Theresa May's Brexit deal on Tuesday this week. Most expects the voting result would lead the UK with exit EU without a deal. On macro performance, IPI shrank by -1.5%yoy, recording 3-consecutive months of negative growth.
- Ringgit – MYR improved amid steady macro indicators. Malaysia's IPI grew by 2.5%yoy in Nov-18 higher than market estimates of 2.3%yoy. Nevertheless, manufacturing production increases at slower pace of 3.6%yoy, lowest since Apr-16. Domestic demand remains robust as retail sales rose by 12.6%yoy, registering 6-consecutive months of double digit expansion rate since the zero-rated GST in Jun-18. We maintain our call MYR to average at 4.05 and register year-end target at 4.00 in 2019.

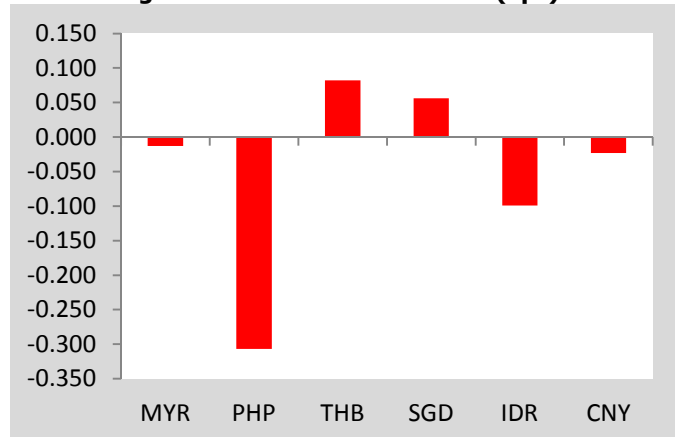
Currencies Changes (Week Ended 11/1) and Quarterly Forecasts

| | Close (11/1) | Prev Close (4/1) | Change | % Change | 1Q19F | 2Q19F | 3Q19F | 4Q19F |
|-----------|--------------|------------------|--------|----------|--------|--------|--------|--------|
| DXY Index | 95.38 | 96.18 | -0.802 | -0.8% | 96.78 | 95.26 | 94.20 | 96.15 |
| EURUSD | 1.15 | 1.14 | 0.013 | 1.1% | 1.14 | 1.16 | 1.18 | 1.16 |
| GBPUSD | 1.27 | 1.27 | 0.001 | 0.1% | 1.25 | 1.27 | 1.25 | 1.22 |
| USDJPY | 108.30 | 108.51 | -0.210 | 0.2% | 111.76 | 109.13 | 107.42 | 110.55 |
| USDMYR | 4.10 | 4.14 | -0.040 | 1.0% | 4.12 | 4.07 | 4.05 | 4.00 |
| GBPMYR | 5.22 | 5.24 | -0.027 | 0.5% | 5.23 | 5.21 | 5.29 | 5.36 |
| JPYMYR | 3.81 | 3.81 | 0.000 | 0.8% | 3.74 | 3.76 | 3.95 | 3.97 |

Quarterly figures are forecast by MIDFR

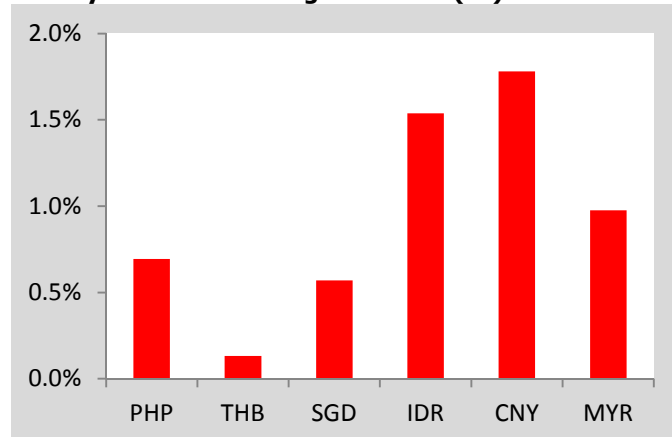
Source: Bloomberg, MIDFR

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 (%)

| | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Malaysia | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| Indonesia | 4.25 | 4.75 | 5.25 | 5.25 | 5.50 | 5.75 | 5.75 | 6.00 | 6.00 |
| Singapore | Neut. | Neut. | Neut. | Neut. | Neut. | Neut. | Neut. | Neut. | Neut. |
| Philippines | 3.00 | 3.00 | 3.25 | 3.25 | 4.00 | 4.50 | 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 | 1.75 | 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 | 0.50 | 0.50 | 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 | 1.75 | 1.75 | 2.00 | 2.00 | 2.00 | 2.25 | 2.25 | 2.25 | 2.50 |

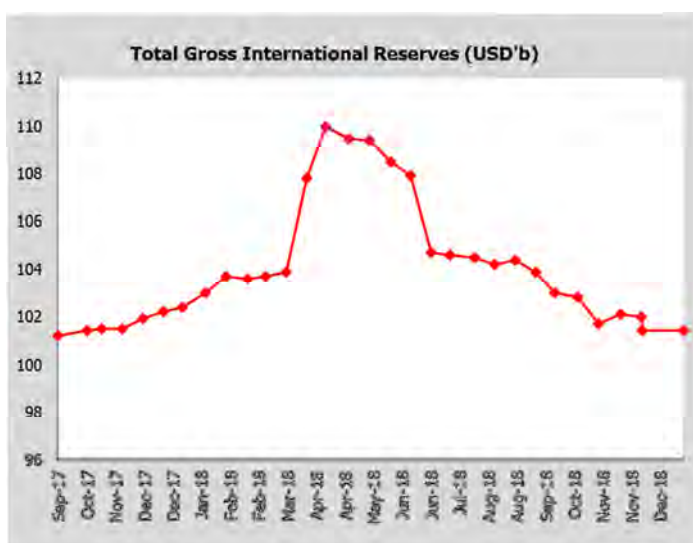
Source: CEIC, MIDFR

- Business and consumer sentiments are showing signs of growing pessimism about the near term outlook of world economy.
- High frequency leading indicators are showing sign of trending down with manufacturing sector registered a noticeable sign of decline.

- Trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.
- The lag effects of trade tension are starting to appear as macro numbers such as export order, investment and employment starting to moderate.
- Nevertheless, global demand is expected to remain resilience and inflationary pressure is tepid. Trade negotiation between US and China this week will provide hope for long term solution and boost market confidence.
- On the monetary policy space, as guided by the latest minutes, the Fed is predicted to slower its normalization pace in 2019.
- We expect two times of rate hike this year, as early as Mar-19.
- Growth divergence among developed and developing countries will also cause differences in policy prescription which will have broader impact beyond border.
- Domestic leading indicators on the other hand are pointing towards slightly better performance leading into 1Q19.
- Domestic data on domestic consumption and labor market are continued to give a positive signal.
- 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.
- We expect no changes in monetary policy which OPR maintains at 3.25% in 2019.

C. BNM FOREIGN RESERVES

- As at 31 December 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD101.4b.



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 | 4-Jan Fri | 7-Jan Mon | 8-Jan Tue | 9-Jan Wed | 10-Jan Thu | 11-Jan Fri | Change (WoW bp) |
|-------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------------|
| MGS | | | | | | | |
| 3-Y | 3.56 | 3.575 | 3.573 | 3.575 | 3.565 | 3.567 | 0.7 |
| 5-Y | 3.741 | 3.735 | 3.733 | 3.746 | 3.738 | 3.735 | -0.6 |
| 7-Y | 3.971 | 3.983 | 3.975 | 3.983 | 3.979 | 3.977 | 0.6 |
| 10-Y | 4.079 | 4.067 | 4.07 | 4.079 | 4.061 | 4.061 | -1.8 |
| 20-Y | 4.579 | 4.579 | 4.591 | 4.598 | 4.572 | 4.572 | -0.7 |
| RINGGIT IRS | | | | | | | |
| 1-Y | 3.69 | 3.69 | 3.69 | 3.695 | 3.685 | 3.68 | -1 |
| 3-Y | 3.71 | 3.715 | 3.715 | 3.715 | 3.71 | 3.7 | -1 |
| 5-Y | 3.82 | 3.825 | 3.82 | 3.815 | 3.8 | 3.79 | -3 |
| 7-Y | 3.925 | 3.935 | 3.94 | 3.955 | 3.935 | 3.915 | -1 |
| 10-Y | 4.13 | 4.1 | 4.1 | 4.11 | 4.1 | 4.1 | -3 |
| 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 | 2.4749 | 2.5218 | 2.5662 | 2.5299 | 2.5463 | 2.5163 | 4.14 |
| 5-Y | 2.5008 | 2.5375 | 2.5795 | 2.5475 | 2.5676 | 2.5288 | 2.8 |
| 7-Y | 2.561 | 2.5954 | 2.6323 | 2.6101 | 2.6373 | 2.5953 | 3.43 |
| 10-Y | 2.6677 | 2.696 | 2.728 | 2.71 | 2.7421 | 2.7007 | 3.3 |
| 30-Y | 2.981 | 2.9878 | 3.0068 | 3.0029 | 3.0627 | 3.0334 | 5.24 |
| USD LIBOR | | | | | | | |
| 1-M | 2.52056 | 2.51113 | 2.5155 | 2.51875 | 2.51419 | 2.50894 | -1.162 |
| 2-M | 2.62313 | 2.63388 | 2.64638 | 2.65288 | 2.65275 | 2.648 | 2.487 |
| 3-M | 2.80388 | 2.79681 | 2.7825 | 2.79888 | 2.79694 | 2.78731 | -1.657 |

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name | Coupon | Maturity | 4-Jan Yield | 11-Jan Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|--------------------------|--------|----------|-------------|--------------|-----------------|-----------------------|
| MALAYSIA INVESTMNT ISSUE | 4.369 | 10/31/28 | 4.236 | 4.171 | -6.5 | 2,487.6 |
| MALAYSIA GOVERNMENT | 3.757 | 04/20/23 | 3.741 | 3.735 | -0.6 | 2,121.1 |
| MALAYSIA GOVERNMENT | 3.654 | 10/31/19 | 3.422 | 3.358 | -6.4 | 1,977.4 |
| MALAYSIA GOVERNMENT | 3.733 | 06/15/28 | 4.079 | 4.061 | -1.8 | 1,512.5 |
| MALAYSIA INVESTMNT ISSUE | 3.558 | 04/30/19 | 3.258 | 3.238 | -2.0 | 1,480.0 |
| MALAYSIA INVESTMNT ISSUE | 3.576 | 05/15/20 | 3.507 | 3.496 | -1.1 | 1,410.0 |
| MALAYSIA GOVERNMENT | 3.659 | 10/15/20 | 3.521 | 3.523 | 0.2 | 1,358.3 |
| MALAYSIA GOVERNMENT | 4.378 | 11/29/19 | 3.425 | 3.421 | -0.4 | 1,342.0 |
| MALAYSIA GOVERNMENT | 3.492 | 03/31/20 | 3.503 | 3.446 | -5.7 | 1,292.2 |
| MALAYSIA INVESTMNT ISSUE | 3.729 | 03/31/22 | 3.641 | 3.644 | 0.3 | 1,180.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 16,161.0 |
| TOTAL VOLUME (Overall) | | | | | | 34,046.9 |

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name | Coupon | Maturity | 4-Jan Yield | 11-Jan Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|--------------------------|--------|----------|-------------|--------------|-----------------|-----------------------|
| AFFIN ISLAMIC BANK BHD | 5.05 | 10/23/28 | 4.970 | 4.917 | -5.3 | 800.0 |
| PENGURUSAN AIR SPV BHD | 4.3 | 06/06/22 | #N/A N/A | 4.003 | #VALUE! | 280.0 |
| YTL POWER INTERNATIONAL | 5.05 | 05/03/27 | 4.862 | 4.851 | -1.1 | 210.0 |
| CIMB GROUP HOLDINGS BHD | 5.4 | PERP | 4.985 | 4.877 | -10.8 | 110.0 |
| PERBADANAN TABUNG PENDID | 3.85 | 06/15/22 | #N/A N/A | 4.040 | #VALUE! | 100.0 |
| MALAYAN BANKING BHD | 4.25 | 05/10/24 | 4.109 | 4.069 | -4.0 | 85.0 |
| TENAGA NASIONAL BERHAD | 5.18 | 08/03/37 | 4.923 | 4.887 | -3.6 | 80.0 |
| CIMB BANK BHD | 4.77 | 08/07/26 | 4.571 | 4.507 | -6.4 | 80.0 |
| PENGURUSAN AIR SPV BHD | 4.16 | 02/07/19 | 3.519 | 3.504 | -1.5 | 75.0 |
| YTL POWER INTERNATIONAL | 4.65 | 08/24/23 | #N/A N/A | 4.613 | #VALUE! | 65.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 1,885.0 |
| TOTAL VOLUME (Overall) | | | | | | 4,869.2 |

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. |