

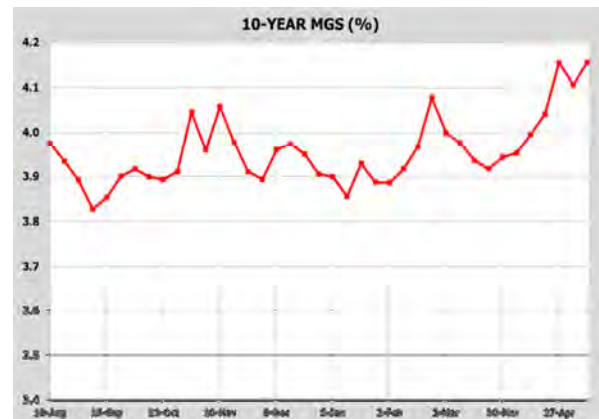
MIDF Strategy | 14 May 2018

Week Ended 11 May

- UST retreated (prices down; yields up) last week attributable to 2.5%yoy jump in Apr-18 headline inflation, the fastest since Feb-17. Moreover, the University of Michigan's preliminary consumer sentiment for the US came in higher than expected at 98.8 points in May-18.
- However, it is also notable that the UST yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +28bps, the lowest since August 2007. As previously highlighted, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Domestically, the MGS curve nevertheless steepened during the holiday-shortened review week with the benchmark 3-year and 10-year yields respectively fell -0.3bp and risen +4.9bps to close the week at 3.66% and 4.16%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM6.4b in the holiday-shortened review week compared to RM13.7b in the earlier week. The total trading value of 10 most actively traded issues increased to 65% of the overall Government Bonds trades in the week under review (vis-à-vis ~59% in the week before).
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM693.3m in the holiday-shortened review week compared to RM425.3m in earlier week. The total trading value of 10 most actively traded issues jumped to 50% of the overall Corporate Bonds trades (from ~29% in the week before).

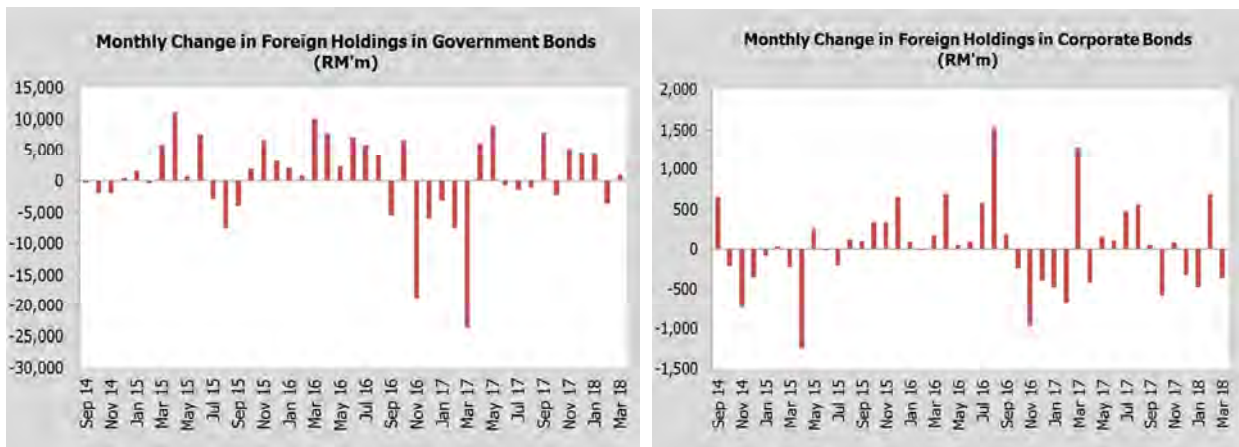
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- UST retreated (prices down; yields up) last week attributable to 2.5%yoy jump in Apr-18 headline inflation, the fastest since Feb-17. Moreover, the University of Michigan's preliminary consumer sentiment for the US came in higher than expected at 98.8 points in May-18.
- However, it is also notable that the UST yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +28bps, the lowest since August 2007. As previously highlighted, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Domestically, the MGS curve nevertheless steepened during the holiday-shortened review week with the benchmark 3-year and 10-year yields respectively fell -0.3bp and risen +4.9bps to close the week at 3.66% and 4.16%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM6.4b in the holiday-shortened review week compared to RM13.7b in the earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased to 65% of the overall Government Bonds trades in the week under review (vis-à-vis ~59% in the week before). In addition, 4 out of the 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 MGS 3.58% 09/28/18 at RM715.5m, MGS 3.62% 11/30/21 at RM680.7m and MGS 3.84% 04/15/33 at RM662.0m.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM693.3m in the holiday-shortened review week compared to RM425.3m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues jumped to 50% of the overall Corporate Bonds trades (from ~29% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with both short and long residual tenors. The biggest trading values were seen in Bright Focus Bhd 2.5% 01/24/30 at RM81.4m, Bank Pembangunan Malaysia Bhd 4.6% 03/02/27 at RM56.4m and PAC Lease Bhd 0% 06/11/18 at RM30.0m.
- Total foreign holdings of Government Bonds stood at RM184.8b as at end-March 2018. It was an increase of RM899m from the February 2018 figure of RM183.9b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds decreased by RM359.8m in the month of March 2018 to RM15.9b.

B. FOREIGN EXCHANGE

- DXY Index stays at 92.5. In Apr-18, headline inflation jumped by 2.5%yoy, fastest since Feb-17 while core inflation maintains at 2.1%yoy. Plus, The University of Michigan's preliminary consumer sentiment for the US registered at 98.8 points for 2-consecutive months in May-18. Henceforth, the upward trend in inflation will support the Fed to raise interest rate in the upcoming meetings. We maintain our call of 3 rate hikes in 2018.
- EURUSD remains intact. On macroeconomic data, EU remains on steady momentum despite of global trade war factor and rising inflationary pressure. However, political instability particularly in the UK and Italy posed market uncertainties in the region. Italy is expected to have another general election given that currently is a hung parliament.

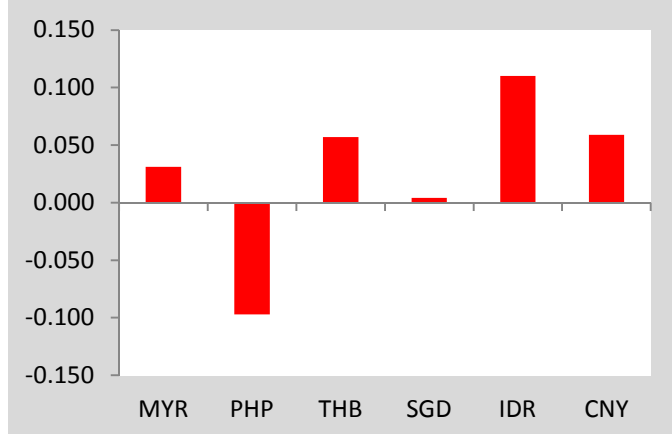
Currencies Changes (Week Ended 11/05) and Quarterly Forecasts

	Close (11/05)	Prev Close (04/05)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	92.537	92.566	-0.029	0.0%	90.07	90.69	91.91	95.98
EURUSD	1.194	1.196	-0.002	-0.1%	1.23	1.22	1.20	1.16
GBPUSD	1.354	1.353	0.001	0.1%	1.39	1.25	1.15	1.09
USDJPY	109.390	109.120	0.270	-0.2%	108.09	100.29	95.10	102.27
USDMYR	3.950	3.940	0.010	-0.3%	3.92	3.95	4.00	3.95
GBPMYR	5.344	5.337	0.007	-0.1%	5.46	4.89	4.53	4.58
JPYMYR	3.611	3.611	0.000	0.0%	3.63	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

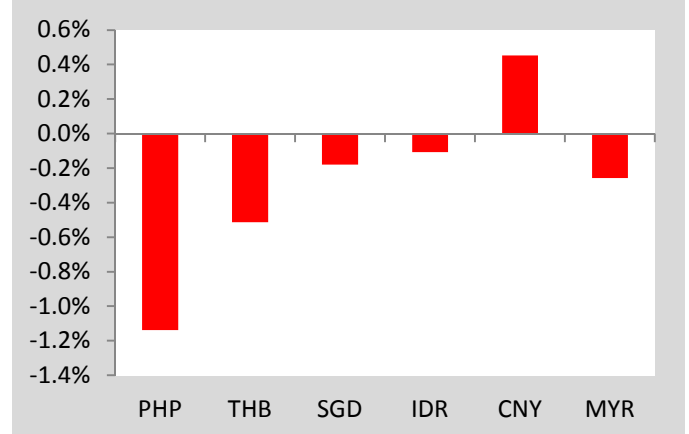
- Ringgit – Remains below 4.00. Malaysia's financial and capital markets were closed for three days amid of GE14 and a newly formed government for the country. Moving forward, we maintain our call MYR to average at 4.00 and register year-end target at 3.95 mainly due to continuous upbeat momentum in external trade performance and gradual rise in commodity prices.

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 (%)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.25	3.25
Indonesia	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
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	3.00	3.00
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	1.25	1.25	1.25	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	0.25	0.25	0.25	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	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75

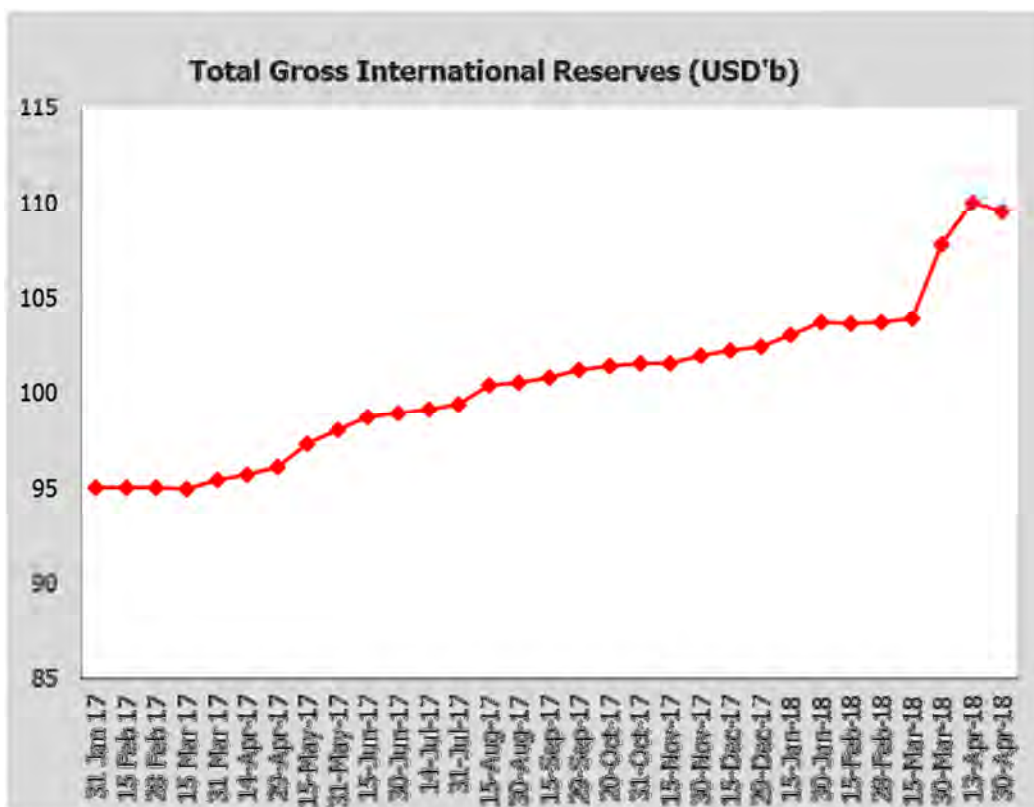
Source: CEIC, MIDFR

- The prominent risk for global growth among others is emanating from escalating trade between US and China. The tension if escalates into full blown trade war will impede the global growth momentum.
- Nevertheless, recent development and trade talk manage to diffuse the tension at least for now, but the situation remains fragile, at least for now.
- Cooling geopolitical tension especially in Korean Peninsular is a welcome development for global trade but Iran nuclear deal issue could emerge as another threat which will influence the commodities prices especially crude.
- Globally, monetary policy stance is seen as accommodative to support growth as well as providing favorable financial environment for the sustainable economic expansion.
- The risks are more on the upside. Again, we can expect see central banks to move toward normalization in months to come.
- Commodities prices continue trending upward signaling inflationary pressure to start kick-in in both developed and emerging economies. Negative outcomes from Iran nuclear deal could push up the crude prices.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance as well as commodities prices.
- Domestically, inflationary pressure is expected to moderate with upward bias amid rising pressure from commodities prices.


- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for the full year.
- MPC meeting held last week decided to maintain the OPR at 3.25% as widely expected.
- We anticipate OPR to end the year at 3.25% barring any pleasant upward surprises from economic growth.

C. BNM FOREIGN RESERVES

- As at 30 April 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD109.5b.



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	4-May Fri	7-May Mon	8-May Tue	9-May Wed	10-May Thu	11-May Fri	Change (WoW bp)
MGS							
3-Y	3.659	3.662	3.656	3.656	3.656	3.656	-0.3
5-Y	3.79	3.79	3.79	3.79	3.79	3.79	0
7-Y	3.915	3.915	3.915	3.915	3.915	3.915	0
10-Y	4.107	4.123	4.156	4.156	4.156	4.156	4.9
20-Y	4.762	4.746	4.778	4.778	4.778	4.778	1.6
RINGGIT IRS							
1-Y	3.755	3.755	3.75	3.75	3.75	3.75	-0.5
3-Y	3.82	3.83	3.82	3.82	3.82	3.82	0
5-Y	3.905	3.905	3.92	3.92	3.92	3.92	1.5
7-Y	4.015	4.02	4.025	4.025	4.025	4.025	1
10-Y	4.17	4.17	4.18	4.18	4.18	4.18	1
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	2.6332	2.6306	2.6448	2.6823	2.685	2.6905	5.73
5-Y	2.7837	2.7871	2.8143	2.8398	2.8296	2.8382	5.45
7-Y	2.8998	2.8998	2.9298	2.9573	2.9323	2.9398	4
10-Y	2.9497	2.9497	2.976	3.0042	2.9622	2.9695	1.98
30-Y	3.1221	3.1229	3.1295	3.1618	3.1082	3.1041	-1.8
USD LIBOR							
1-M	1.9277	1.9277	1.92851	1.92851	1.91839	1.91839	-0.931
2-M	2.08257	2.08257	2.08186	2.08636	2.09171	2.09171	0.914
3-M	2.36906	2.36906	2.3525	2.35575	2.355	2.355	-1.406

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	4-May Yield	11-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.58	09/28/18	3.306	3.424	11.8	715.5
MALAYSIA GOVERNMENT	3.62	11/30/21	3.659	3.656	-0.3	680.7
MALAYSIA GOVERNMENT	3.844	04/15/33	4.614	4.609	-0.5	662.0
MALAYSIA GOVERNMENT	3.441	02/15/21	3.715	3.787	7.2	490.9
MALAYSIA GOVERNMENT	3.955	09/15/25	4.150	4.210	6.0	458.4
MALAYSIA GOVERNMENT	3.882	03/10/22	3.853	3.782	-7.1	278.7
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.853	3.883	3.0	227.7
MALAYSIA GOVERNMENT	3.654	10/31/19	3.527	3.603	7.6	223.9
MALAYSIA GOVERNMENT	3.759	03/15/19	3.431	3.431	0.0	207.1
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.756	3.737	-1.9	200.0
TOTAL VOLUME (TOP 10)						4,144.8
TOTAL VOLUME (Overall)						6,423.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	4-May Yield	11-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
BRIGHT FOCUS BHD	2.5	01/24/30	5.221	5.224	0.3	81.4
BANK PEMBANGUNAN MALAY	4.62	03/02/27	4.770	4.770	0.0	56.4
PAC LEASE BHD	ZERO	06/11/18	N/A	3.912	N/A	30.0
KT KIRA SERT VARLIK	5.72	07/15/20	5.584	5.584	0.0	30.0
AFFIN BANK BHD	5.45	02/05/27	4.893	4.893	0.0	30.0
AFFIN BANK BHD	5.03	09/20/27	4.923	4.923	0.0	30.0
MEX II SDN BHD	6.2	04/29/32	5.499	5.499	0.0	26.0
PUBLIC BANK BERHAD	4.73	11/15/23	4.392	4.392	0.0	25.0
EDRA ENERGY SDN BHD	5.61	01/05/22	N/A	5.161	N/A	20.0
DRB-HICOM BHD	4.85	11/30/18	N/A	5.470	N/A	20.0
TOTAL VOLUME (TOP 10)						348.8
TOTAL VOLUME (Overall)						693.3

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.