

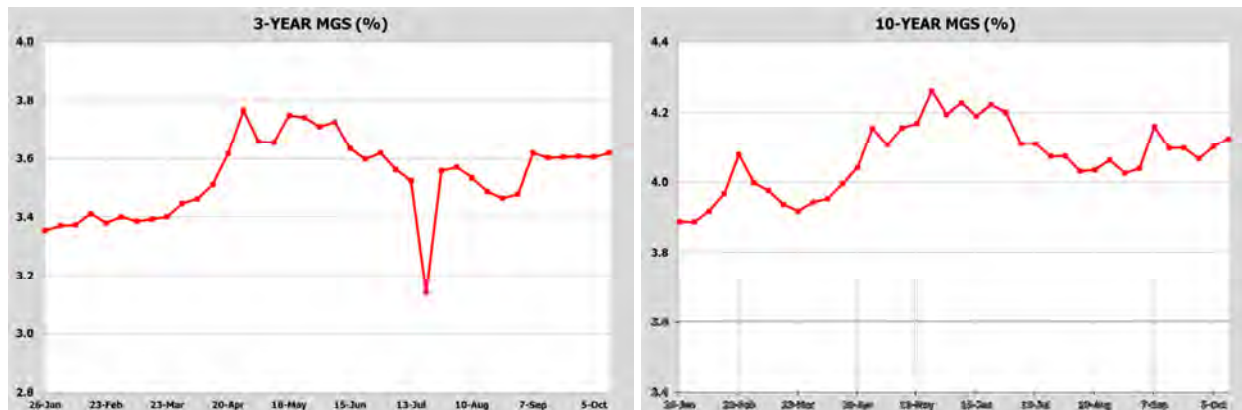
MIDF Strategy | 15 October 2018

Week Ended 12 October

- UST rallied (prices up; yields down) last week as investors fled to the safety of government credit pursuant to the equity market selloff on Wall Street.
- Furthermore, the yield curve slightly flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +22bps from +25bps a week earlier. Going forward, we reckon the yield curve may continue to flatten in view of further monetary tightening by the US Fed.
- In contrast, the price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields added +1.4bps and +2.3bps respectively to close the week at 3.62% and 4.12%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM11.7b in the review week compared to RM14.8b in the previous week. The total trading value of 10 most actively traded issues increased (lower trading breadth) to 69% of the overall Government Bonds trades in the week under review vis-à-vis 52% in the week before. In addition, only 4 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM2.12b in the review week compared to RM2.68b in earlier week. The total trading value of 10 most actively traded issues increased (lower trading breadth) to 37% of the overall Corporate Bonds trades from 33% in the week before.

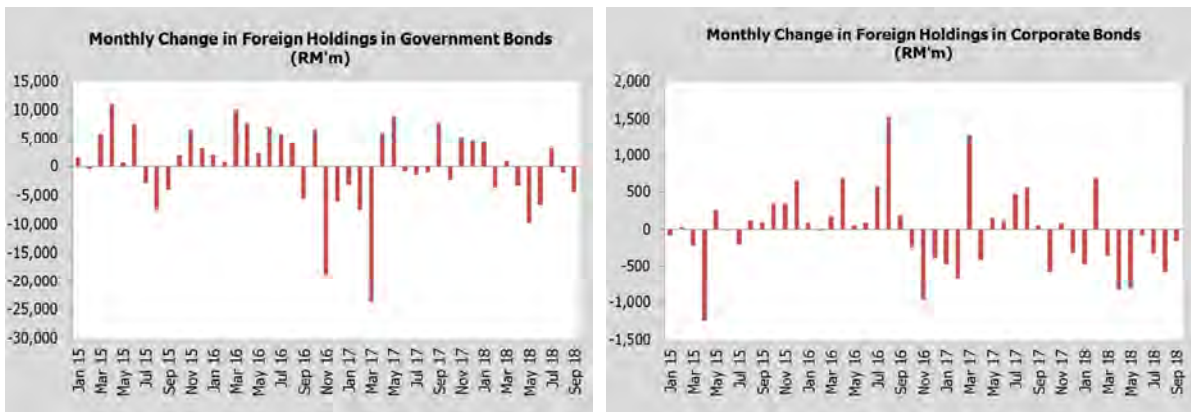
Weekly Money Review

A. FIXED INCOME



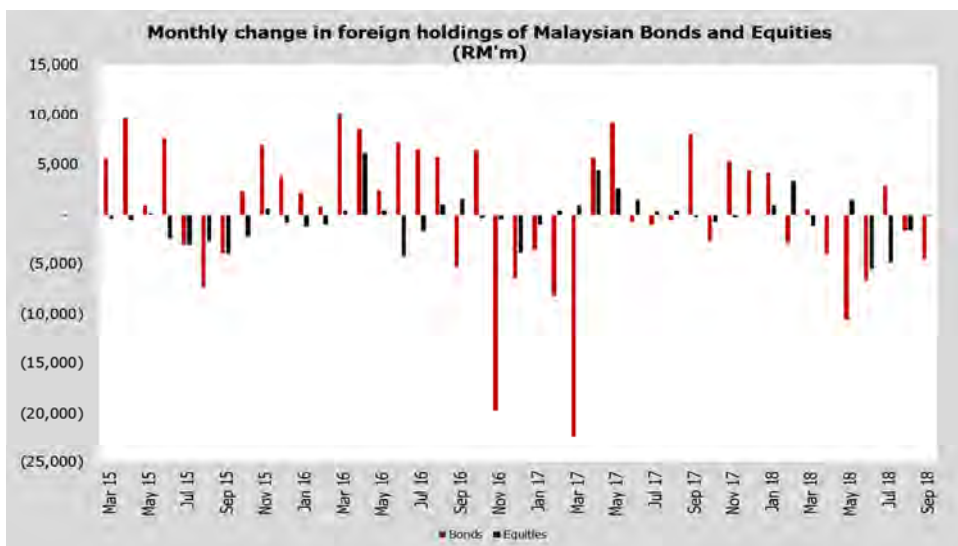
Source: Bloomberg

- UST rallied (prices up; yields down) last week as investors fled to the safety of government credit pursuant to the equity market selloff on Wall Street.
- Furthermore, the yield curve slightly flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +22bps from +25bps a week earlier. Going forward, we reckon the yield curve may continue to flatten in view of further monetary tightening by the US Fed.
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- 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 MGS 3.654% 10/31/19 at RM1.89b, MII 3.558% 04/30/19 at RM1.53b and MGS 3.757% 04/20/23 at RM1.19b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM2.12b in the review week compared to RM2.68b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 37% of the overall Corporate Bonds trades from 33% 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 AmIslamic Bank Berhad 4.45% 03/06/20 at RM120m, Perbadanan Tabung Pendidikan Nasional 4.86% 03/12/32 at RM110m and Sarawak Energy Berhad 5.32% 12/03/32 at RM100m.
- Total foreign holdings of Government Bonds stood at RM162.7b as at end-Sept 2018. It was a decline of -RM4.4b from the Aug 2018 figure of RM167.1b.
- In tandem, total foreign holdings of Corporate Bonds decreased by -RM160.8m in the month of September 2018 to RM13.2b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM4.6b in September 2018 while the former saw a total net inflow worth RM66.3m (first inflow in 5 months). Furthermore, year-to-date (Jan-Sep), both equities and bonds markets remained in the red with total net outflows of -RM8.5b and -RM23.2b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

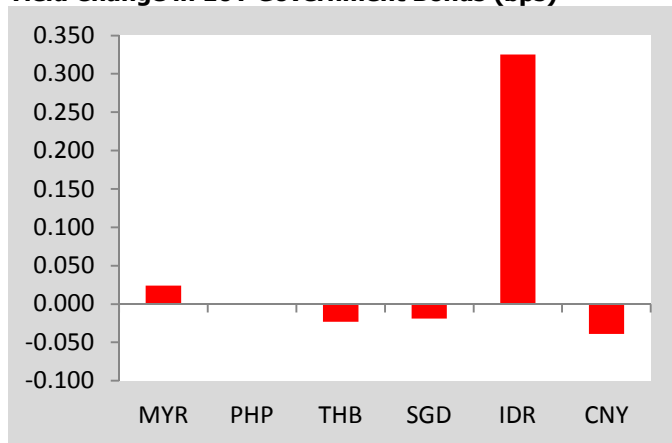
- DXY Index depreciates slightly due to lower than expected consumer sentiment. The University of Michigan's consumer sentiment fell to 99 points in Oct-18, lower than the previous month of 100.1 and missed market expectations of 100.4. In addition, headline inflation decelerated to 7-month low at 2.3% and unchanged core inflation rate at 2.2% in Sep-18.
- EURUSD improves as inflation in Germany hits 7-year high. In Sep-18, headline inflation in EU's largest economy surged to 2.3%, fastest since Nov-11 and core inflation registered 1.5%, highest in 4-month. Moreover, overall IPI increases by 0.9%yoy in Aug-18, better performance than the previous month of 0.3%yoy.
- Ringgit – Remains at 4.15 over mix directions of data. Global energy prices stay on high side and retail sales growth hit highest ever record at 14.8%yoy while overall IPI growth moderates to 2.2%yoy in Aug-18. The upcoming mid-term review of 11th Malaysia Plan on Thursday might provide relief to investors amid clearer economic direction under the PH government. We maintain our call MYR to average at 4.00 and register year-end target at 4.00.

Currencies Changes (Week Ended 12/10) and Quarterly Forecasts

	Close (12/10)	Prev Close (05/10)	Change	% Change	1Q18	2Q18	3Q18	4Q18F
DXY Index	95.22	95.62	-0.404	-0.4%	90.07	92.79	95.02	96.99
EURUSD	1.16	1.15	0.008	0.7%	1.23	1.19	1.16	1.14
GBPUSD	1.32	1.31	0.012	0.9%	1.39	1.37	1.30	1.28
USDJPY	112.35	113.72	-1.370	1.2%	108.09	109.24	111.48	114.72
USDMYR	4.15	4.15	0.003	-0.1%	3.92	3.95	4.10	4.00
GBPMYR	5.50	5.40	0.092	-1.7%	5.46	5.37	5.33	5.40
JPYMYR	3.70	3.65	0.047	-1.3%	3.63	3.62	3.67	3.70

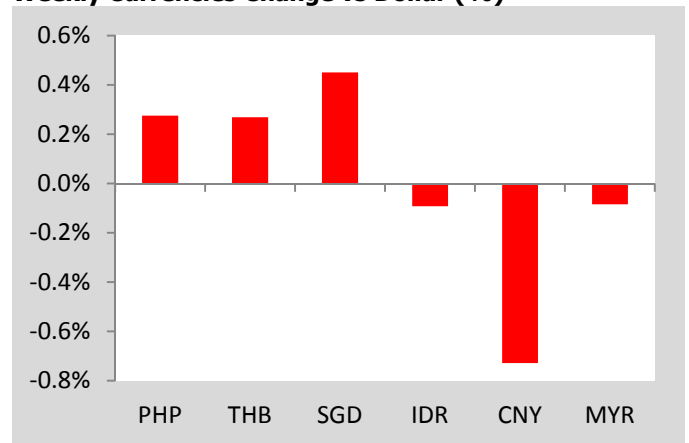
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Malaysia	3.25	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	4.75	5.25	5.25	5.50	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.25	3.25	4.00	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	1.50	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	1.75	1.75	1.75	2.00	2.00	2.00	2.25

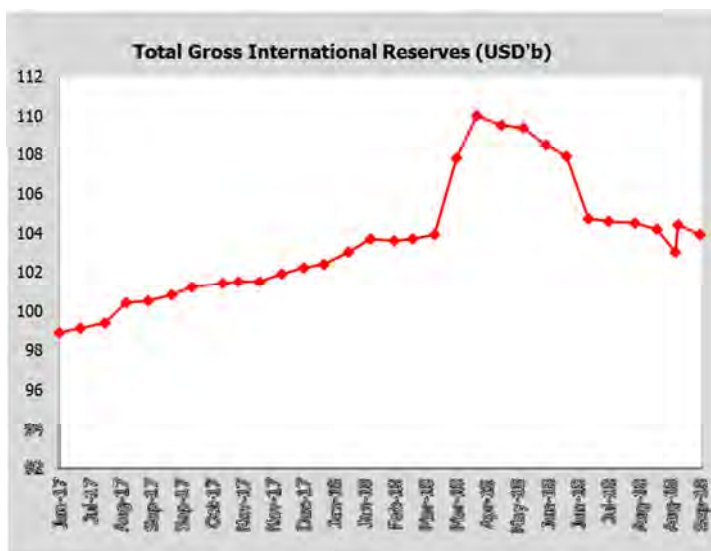
Source: CEIC, MIDFR

- The International Monetary Fund has cut its global growth forecasts last week as trade tensions between the U.S. and trading partners have started to hit economic activity worldwide.
- Various latest leading macroeconomic indicators for both developed and emerging economies are pointed toward moderation in the medium term.

- Tightening monetary policy in the US generates financial volatility which is could trigger capital flight from emerging economies.
- Countries with weak fundamentals and high exposure to foreign debts are highly vulnerable to shift in appetite for risky assets.
- Over the last few weeks, central banks in developing countries have raised their policy rate to defend their currencies and curb capital flight.
- Increasing oil prices and heightens policy uncertainty help to exacerbate the situation especially for net energy importer countries.
- US macro numbers remained solid with Fed is on course to another hike in December. Dollar index gains 3.5%ytd which explained broad weaknesses among emerging currencies.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth. Distributive trade figures continued to validate the upbeat consumer sentiments.
- Headline inflation is expected to remain tepid amid cost related policy measures. 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. Current monetary policy remains accommodative to support growth in the domestic economy.

C. BNM FOREIGN RESERVES

- As at 28 September 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD103.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 0.9 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	5-Oct Fri	8-Oct Mon	9-Oct Tue	10-Oct Wed	11-Oct Thu	12-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.605	3.615	3.619	3.609	3.609	3.619	1.4
5-Y	3.781	3.752	3.752	3.774	3.774	3.769	-1.2
7-Y	3.997	3.997	3.997	3.971	3.988	3.988	-0.9
10-Y	4.102	4.098	4.118	4.127	4.132	4.125	2.3
20-Y	4.689	4.689	4.689	4.689	4.689	4.727	3.8
RINGGIT IRS							
1-Y	3.715	3.715	3.715	3.715	3.715	3.715	0
3-Y	3.775	3.775	3.78	3.775	3.775	3.77	-0.5
5-Y	3.87	3.875	3.8825	3.86	3.87	3.865	-0.5
7-Y	3.99	3.995	3.995	3.995	3.99	3.99	0
10-Y	4.19	4.1825	4.2	4.19	4.181	4.185	-0.5
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	2.9821	2.9821	2.9794	2.929	2.9353	2.9408	-4.13
5-Y	3.0693	3.0693	3.0557	3.0027	3.0044	3.0149	-5.44
7-Y	3.1734	3.1734	3.1482	3.0978	3.0928	3.1054	-6.8
10-Y	3.2328	3.2328	3.2063	3.1629	3.1498	3.1613	-7.15
30-Y	3.4036	3.4036	3.3685	3.3476	3.3233	3.3347	-6.89
USD LIBOR							
1-M	2.27669	2.28406	2.28713	2.28319	2.2795	2.27975	0.306
2-M	2.31875	2.32175	2.314	2.3225	2.33075	2.33413	1.538
3-M	2.40806	2.41425	2.42044	2.42519	2.43631	2.43644	2.838

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	5-Oct Yield	12-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.654	10/31/19	3.401	3.436	3.5	1,893.9
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.319	3.311	-0.8	1,533.8
MALAYSIA GOVERNMENT	3.757	04/20/23	3.781	3.769	-1.2	1,189.2
MALAYSIA GOVERNMENT	3.62	11/30/21	3.605	3.619	1.4	794.5
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.532	3.603	7.1	605.8
MALAYSIA GOVERNMENT	4.893	06/08/38	4.689	4.727	3.8	472.4
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.187	4.190	0.3	452.4
MALAYSIA GOVERNMENT	4.181	07/15/24	3.994	3.925	-6.9	397.0
MALAYSIA GOVERNMENT	3.844	04/15/33	4.556	4.547	-0.9	382.1
MALAYSIA GOVERNMENT	3.48	03/15/23	3.855	3.815	-4.0	376.6
TOTAL VOLUME (TOP 10)						8,097.6
TOTAL VOLUME (Overall)						11,712.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	5-Oct Yield	12-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
AMISLAMIC BANK BHD	4.45	03/06/20	#N/A N/A	4.304	#VALUE!	120.0
PERBADANAN TABUNG PENDID	4.86	03/12/32	4.630	4.631	0.1	110.0
SARAWAK ENERGY BHD	5.32	12/03/32	4.913	4.849	-6.4	100.0
DANAINFRA NASIONAL	4.1	05/03/23	4.034	4.035	0.1	85.0
DANAJAMIN NASIONAL BHD	4.8	10/06/27	4.685	4.674	-1.1	75.0
TELEKOM MALAYSIA BERHAD	4.55	12/20/24	#N/A N/A	4.388	#VALUE!	75.0
BGSM MANAGEMENT SDN BHD	4.58	09/28/21	#N/A N/A	4.425	#VALUE!	60.0
PRASARANA MALAYSIA BHD	5.11	09/12/42	4.971	4.971	0.0	50.0
PERBADANAN TABUNG PENDID	4.93	08/17/32	4.646	4.646	0.0	50.0
CAGAMAS BERHAD	3.73	01/22/19	#N/A N/A	3.563	#VALUE!	48.0
TOTAL VOLUME (TOP 10)						773.0
TOTAL VOLUME (Overall)						2,115.5

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.