

## MIDF Strategy | 16 July 2018

### Week Ended 13 July

- UST came under selling pressure (prices down; yields up) earlier last week attributable to a better than expected June PPI figure (3.4%yoy; highest since November 2011). However, the losses were moderated later in the week pursuant to a report on consumer sentiment from the University of Michigan which revealed that optimism declined to 97.1; its lowest level in 6 months.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +17bps, the lowest since July 2007. As previously stated, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- In contrast, the prices of local MGS benchmark issues ended the review week either higher or unchanged with the 3-year yield lower by -3.8bps while the 10-year yield unmoved to close the week at 3.52% and 4.11% respectively.
- Total trading value for Government Bonds (MGS/MII) decreased to RM16.5b in the review week compared to RM24.9b in the review week. The total trading value of 10 most actively traded issues increased to 56% of the overall Government Bonds trades in the week under review (vis-à-vis ~54% in the week before). In addition, 6 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- The total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.51b in the review week compared to RM2.21b in earlier week. The total trading value of 10 most actively traded issues increased to 31% of the overall Corporate Bonds trades (from ~30% in the week before).





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 paced for gains amid rising trade spat between China, the EU and the US. President Trump has released a list of 10% tariffs on USD 200b in Chinese goods which will undergo a two-month review process. China's response was relatively moderate. On the other hand, the University of Michigan's consumer sentiment for the US fell to 6-month low at 97.1 in Jul-18 following 98.2 points recorded in the preceding month. The drop was mainly due to falling current conditions gauge as concerns increased on the potential adverse impacts of tariffs on the domestic economy.
- USDJPY reached a 6-month high ahead of US retail sales data, Trump-Putin meeting and testimony by Fed Chair Jerome Powell. US retail sales release for May was quite upbeat as it increased by 0.8%mom, highest in 7 months after recorded a similar rate of expansion in Nov-17. Forecasts for June's release also point to advances. In addition, Fed Chair Jerome Powell's recent comments which suggest that FOMC will continue to further normalize monetary policy as the US economy is optimistic, also helped the USD. Meanwhile in Japan, industrial production for May-18 fell for the first time in 4 months at 0.2%mom after a 0.5%mom rise in the preceding month. Furthermore, inflation remains low and far from reaching the Bank of Japan's 2% core inflation target.

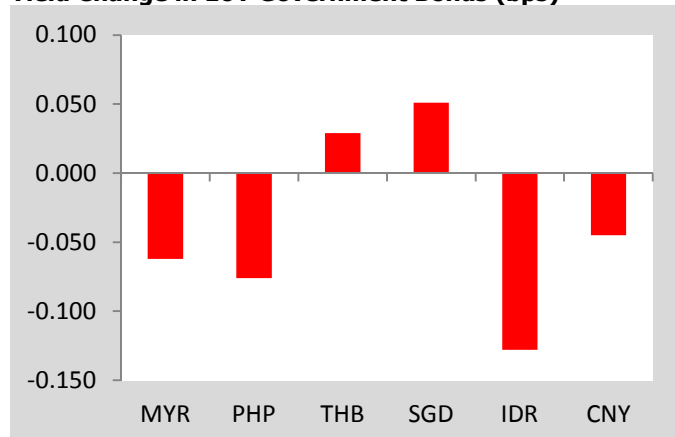
### Currencies Changes (Week Ended 13/07) and Quarterly Forecasts

	Close (13/07)	Prev Close (06/07)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	94.677	94.289	0.388	0.8%	90.07	92.79	91.79	93.69
EURUSD	1.169	1.171	-0.002	-0.5%	1.23	1.19	1.21	1.19
GBPUSD	1.322	1.324	-0.002	-0.5%	1.39	1.37	1.34	1.32
USDJPY	112.38	110.580	1.800	-1.7%	108.09	109.24	107.53	110.66
USDMYR	4.051	4.038	0.013	-0.3%	3.92	3.95	4.09	4.23
GBPMYR	5.319	5.345	-0.026	0.6%	5.46	5.37	5.46	5.52
JPYMYR	3.606	3.652	-0.046	1.4%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

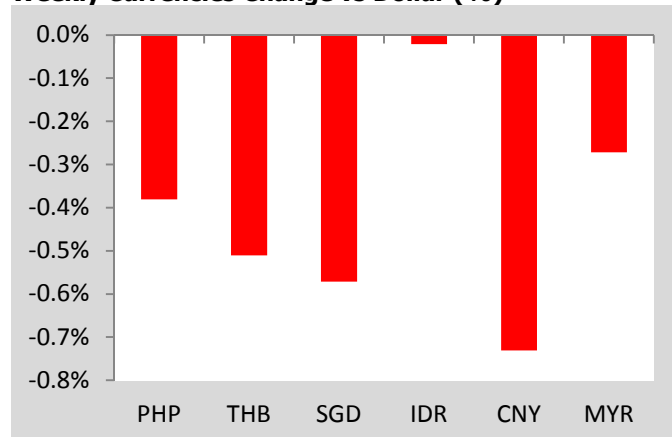
- Ringgit – Continue to demonstrate upside fatigue despite sanguine performance of retail sales and industrial production. Retail sales grew to the strongest rate since Jan-18 at 9.3%yoy in May-18 after 7.9%yoy registered in a month earlier while industrial production growth matched market expectations of 3%yoy. However, policy uncertainties remain as a key pullback factor for MYR to appreciate. In addition, trade war fears also hurt MYR. 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 (%)**

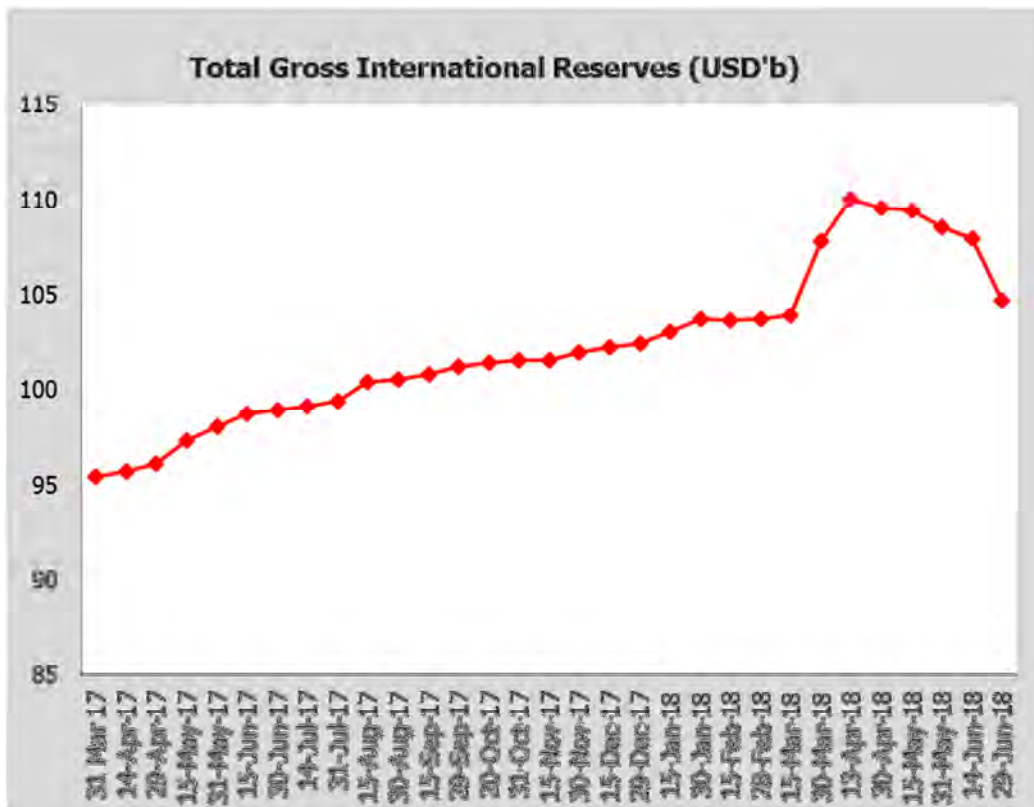
	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Malaysia	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.25	4.75	5.25	5.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25
Thailand	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


- The trade tension between US and China reached new level with US an announcement of possible tariff on China goods worth USD200 billion.
- The move from rhetoric to action posed serious threat to global trade and growth and continued to hamper investor's sentiment toward emerging economies.
- Over the past weeks, US recent stance on global trade has elevated uncertainty in the market.
- Regional currencies are expected to come under pressure amid hawkish Fed, stronger dollar and ongoing trade tension.
- Growing risks determine the positioning of global capital seeking for yield and affecting monetary stance especially in emerging economies.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance.
- Domestically, inflationary pressure is expected to moderate in the upcoming months taking into consideration the impact of recent policy move by the government.
- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for 2018 barring any unforeseen circumstances.

## C. BNM FOREIGN RESERVES

- As at 29 June 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD104.7b.



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	6-Jul Fri	9-Jul Mon	10-Jul Tue	11-Jul Wed	12-Jul Thu	13-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.562	3.546	3.524	3.546	3.537	3.524	-3.8
5-Y	3.788	3.765	3.738	3.744	3.744	3.775	-1.3
7-Y	3.984	3.972	3.941	3.941	3.957	3.957	-2.7
10-Y	4.11	4.094	4.072	4.072	4.073	4.11	0
20-Y	4.839	4.807	4.783	4.787	4.787	4.787	-5.2
RINGGIT IRS							
1-Y	3.71	3.71	3.71	3.71	3.71	3.71	0
3-Y	3.765	3.765	3.74	3.742	3.735	3.745	-2
5-Y	3.85	3.8425	3.845	3.83	3.8425	3.855	0.5
7-Y	3.975	3.99	3.97	3.96	3.955	3.965	-1
10-Y	4.16	4.165	4.13	4.13	4.145	4.15	-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	2.6302	2.6581	2.6609	2.6741	2.6741	2.6523	2.21
5-Y	2.7178	2.7484	2.7467	2.7502	2.7468	2.7249	0.71
7-Y	2.7896	2.8245	2.817	2.8195	2.8145	2.7946	0.5
10-Y	2.8217	2.8564	2.8491	2.8491	2.8454	2.8271	0.54
30-Y	2.9293	2.964	2.9555	2.9524	2.9462	2.9315	0.22
USD LIBOR							
1-M	2.08625	2.0775	2.0665	2.07425	2.07163	2.07325	-1.3
2-M	2.16938	2.17175	2.16713	2.17288	2.17313	2.17338	0.4
3-M	2.33144	2.33313	2.33744	2.337	2.33919	2.336	0.456

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	6-Jul Yield	13-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.242	4.215	-2.7	2,449.0
MALAYSIA GOVERNMENT	3.733	06/15/28	4.110	4.110	0.0	1,572.6
MALAYSIA GOVERNMENT	3.757	04/20/23	3.788	3.775	-1.3	1,040.0
MALAYSIA GOVERNMENT	3.58	09/28/18	3.315	3.250	-6.5	887.5
MALAYSIA GOVERNMENT	4.642	11/07/33	4.573	4.558	-1.5	627.5
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.086	4.064	-2.2	620.3
MALAYSIA GOVERNMENT	3.48	03/15/23	3.868	3.881	1.3	550.7
MALAYSIA GOVERNMENT	4.059	09/30/24	3.903	3.989	8.6	534.8
MALAYSIA GOVERNMENT	3.759	03/15/19	3.380	3.385	0.5	466.6
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.490	3.464	-2.6	415.0
TOTAL VOLUME (TOP 10)						9,164.1
TOTAL VOLUME (Overall)						16,459.8

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	6-Jul Yield	13-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
GOVCO HOLDINGS BHD	4.29	02/22/24	N/A	4.337	N/A	155.0
RHB INVESTMENT BANK BHD	4.9	10/11/27	N/A	4.917	N/A	130.0
SARAWAK ENERGY BHD	4.85	01/19/27	4.867	4.812	-5.5	90.0
DANAINFRA NASIONAL	4.33	04/04/25	4.463	4.295	-16.8	60.0
PRASARANA MALAYSIA BHD	5.01	09/14/37	N/A	4.978	N/A	60.0
CAGAMAS BERHAD	6.5	08/08/28	-142.890	-142.890	0.0	60.0
TAN CHONG MOTOR HLDGS	4.5	11/22/19	5.804	6.108	30.4	58.0
DANAINFRA NASIONAL	4.95	03/19/32	N/A	4.787	N/A	55.0
DANAINFRA NASIONAL	5.38	04/21/39	5.074	5.064	-1.0	55.0
MALAYAN BANKING BHD	6.3	09/25/68	N/A	4.323	N/A	50.0
TOTAL VOLUME (TOP 10)						773.0
TOTAL VOLUME (Overall)						2,514.7

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.