

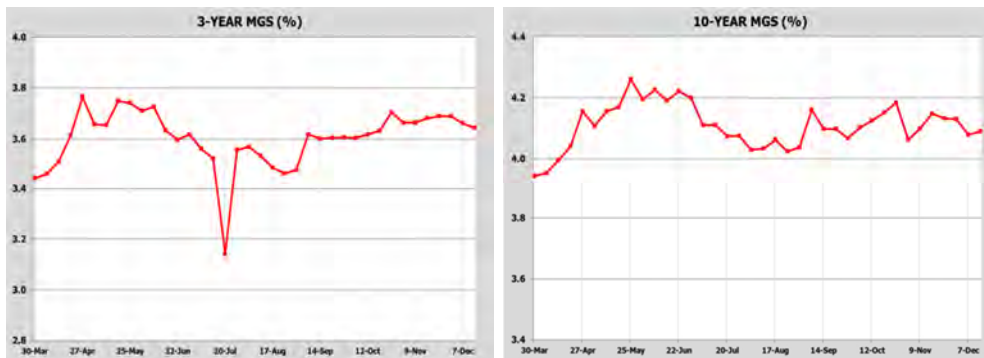
MIDF Strategy | 17 December 2018

Week Ended 14 December

- UST retreated (prices down; yields up) last week as yields rebounded from sharp fall in the prior week. Nonetheless, UST recovered some of the price losses on Friday as the market reacted to worse than expected economic data (i.e. retail sales and industrial output for November) coming from China.
- Furthermore, the UST yield curve steepened as the short-end outperformed. The 10y-3y yield spread widened to +17bps from +13bps a week earlier. Nevertheless, we reckon the yield curve retains its flattening bias until and unless the US Fed declares a cessation to the current hiking cycle.
- Domestically, the price of MGS benchmark issues ended the review week mixed while the curve steepened with the 3-year and 10-year yields declined -1.8bps and increased +1.1bps respectively to close at 3.64% and 4.09%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM8.4b in the review week compared to RM11.5b in the previous week (based on Bloomberg data). In addition, only 4 out of 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- Total foreign holdings of Government Bonds stood at RM162.5b as at end-Nov 2018. It was a decline of -RM5.1b from the Oct 2018 figure of RM167.6b.
- In tandem, total foreign holdings of Corporate Bonds dropped by -RM276m in the month of November 2018 to RM14.3b.
- In comparison to equities, the bonds market saw a total net outflow worth -RM5.4b in November 2018 while the former saw a total net outflow worth -RM0.7b. Furthermore, year-to-date (Jan-Nov), both equities and bonds markets remained in the red with total net outflows of -RM10.7b and -RM28.6b respectively.

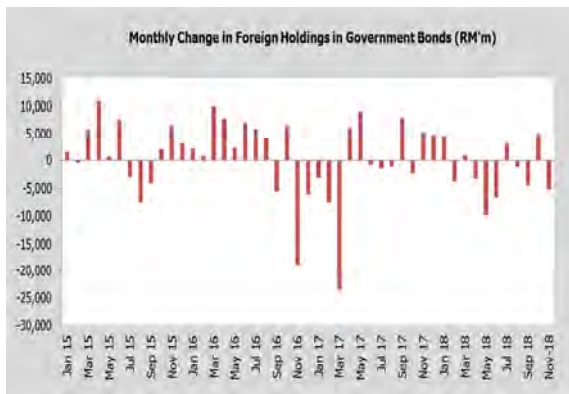
Weekly Money Review

A. FIXED INCOME



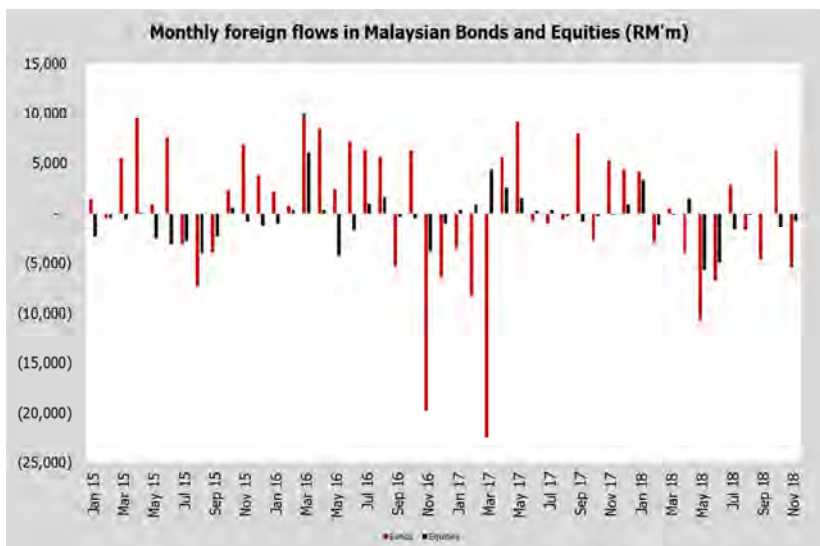
Source: Bloomberg

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- Domestically, the price of MGS benchmark issues ended the review week mixed while the curve steepened with the 3-year and 10-year yields declined -1.8bps and increased +1.1bps respectively to close at 3.64% and 4.09%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM8.4b in the review week compared to RM11.5b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 51% of the overall Government Bonds trades in the week under review vis-à-vis 56% in the week before. In addition, only 4 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 short and mid residual tenors. The top 3 most actively traded were MII 3.729% 03/31/22 at RM994m, MGS 4.160% 07/15/21 at RM539m and MGS 3.759% 03/15/19 at RM486m.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.34b in the review week compared to RM947m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 43% of the overall Corporate Bonds trades from 32% 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 Sarawak Energy Bhd 5.32% 12/03/32 at RM255m, Affin Islamic Bank Bhd 5.05% 10/23/28 at RM190m and TP Varlik Kiralama AS 6.00% 06/26/19 at RM104m.
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- In tandem, total foreign holdings of Corporate Bonds dropped by -RM276m in the month of November 2018 to RM14.3b.



Source: BNM

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Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

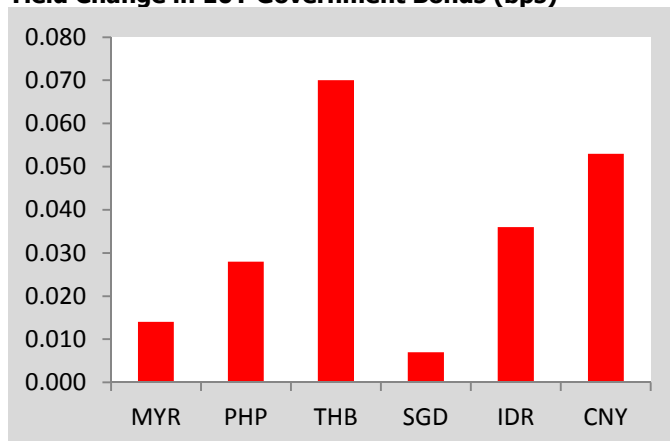
- DXY Index appreciates due to high expectation of a rate hike this midweek. The Fed is widely predicted to increase its interest rate by another 25 basis point. Next year would be between 2-3 times of hikes. On macro data, industrial production in the US remains upbeat as it expands by 3.9%yoy and retail sales up by 4.2%yoy in Nov-18. Nevertheless, business optimism is tapering as flash manufacturing PMI in Dec-18 went down to 53.9 points, lowest since Nov-17.
- EURUSD weaken by lower business optimism. Brexit, Italy's budget deficit, France's riot and debt risk are among internal factors causing flash manufacturing PMI in Dec-18 to record at almost 3-year low, 51.4 points. In addition, ECB announced the end of QE program during its last monetary meeting in 2018.
- Ringgit – Economic fundamentals remain strong. MYR depreciates as USD strengthens following the upcoming FOMC meeting. On macro data, industrial production grew by 4.2%yoy, higher than market consensus of 3.3%yoy while retail sales rose by 11.2%yoy, 5-consecutive month of double digit expansion rate. Jobless rate stays low at 3.3%. We maintain our call MYR to average at 4.00 and register year-end target at 4.10.

Currencies Changes (Week Ended 14/12) and Quarterly Forecasts

	Close (14/12)	Prev Close (7/12)	Change	% Change	1Q18	2Q18	3Q18	4Q18F
DXY Index	97.17	96.51	0.654	0.7%	90.07	92.79	95.02	96.99
EURUSD	1.13	1.14	-0.003	-0.3%	1.23	1.19	1.16	1.14
GBPUSD	1.26	1.27	-0.012	-0.9%	1.39	1.37	1.30	1.28
USDJPY	113.58	112.69	0.890	-0.8%	108.09	109.24	111.48	114.72
USDMYR	4.19	4.17	0.019	-0.4%	3.92	3.95	4.10	4.10
GBPMYR	5.28	5.31	-0.034	0.7%	5.46	5.37	5.33	5.40
JPYMYR	3.69	3.70	-0.012	0.3%	3.63	3.62	3.67	3.70

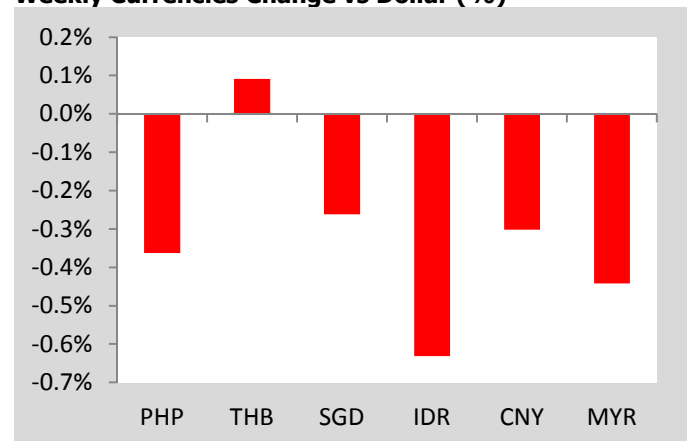
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-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	4.75	5.25	5.25	5.50	5.75	5.75	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.25	3.25	4.00	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	1.50	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	0.50	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	1.75	2.00	2.00	2.00	2.25	2.25	2.25

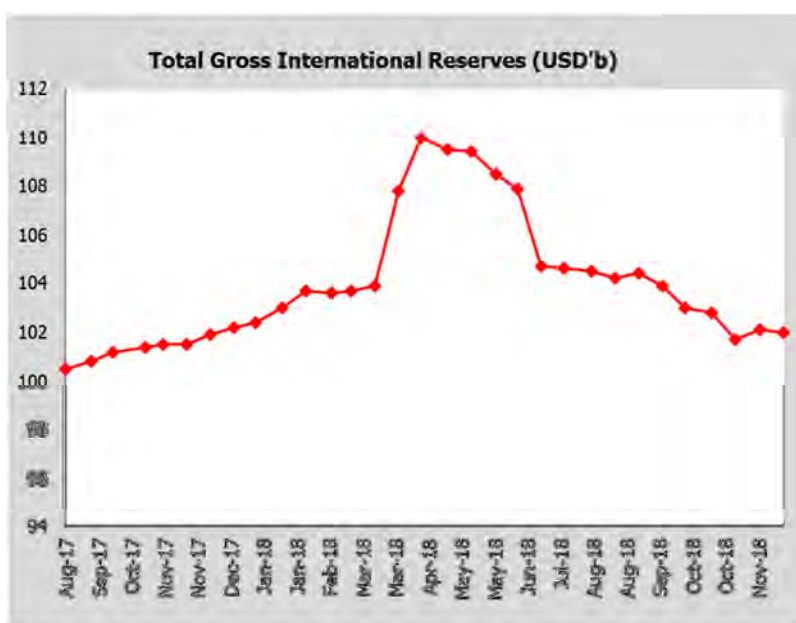
Source: CEIC, MIDFR

- Global economic outlook in 2019 is shaping up to be a challenging year for world economy.


- Growth moderation for the global economy is expected in the near term as leading indicators such as PMIs are showing sign of trending down.
- Ongoing headwinds such as trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth.
- Nevertheless, global demand remains solid and inflationary pressure is still under control.
- Pace in rate of normalization in the US shift risk appetite and boost dollar strength which is negative to EM currencies - the trend observed in the last couple of months.
- This week the Federal Reserve, Bank of England and Bank of Japan will be deciding on monetary policy.
- Fed is widely expected to proceed with its 4th hike for the year. However, Fed updated views on its rate path for 2019 is what will matter to the market.
- Domestic leading indicators as reflected in the latest Business Tendency Survey are pointing towards better performance leading into 1Q19.
- Latest domestic data on distributive trade 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.

C. BNM FOREIGN RESERVES

- As at 30 November 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD102.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.0 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	7-Dec Fri	10-Dec Mon	11-Dec Tue	12-Dec Wed	13-Dec Thu	14-Dec Fri	Change (WoW bp)
MGS							
3-Y	3.663	3.652	3.656	3.663	3.637	3.645	-1.8
5-Y	3.832	3.826	3.839	3.837	3.841	3.842	1
7-Y	3.983	3.989	3.991	3.994	4.014	4	1.7
10-Y	4.078	4.078	4.091	4.094	4.085	4.089	1.1
20-Y	4.723	4.719	4.719	4.733	4.733	4.719	-0.4
RINGGIT IRS							
1-Y	3.705	3.705	3.7075	3.705	3.707	3.707	0.2
3-Y	3.7575	3.755	3.753	3.755	3.76	3.76	0.25
5-Y	3.845	3.84	3.85	3.855	3.865	3.87	2.5
7-Y	3.945	3.945	3.945	3.965	3.9625	3.97	2.5
10-Y	4.164	4.14	4.14	4.169	4.1775	4.17	0.6
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	2.7127	2.7321	2.7626	2.7755	2.7563	2.7207	0.8
5-Y	2.6891	2.7142	2.7411	2.7681	2.7545	2.7306	4.15
7-Y	2.7584	2.7757	2.8004	2.8351	2.8301	2.8052	4.68
10-Y	2.845	2.8575	2.879	2.9096	2.9131	2.8895	4.45
30-Y	3.1403	3.1293	3.1261	3.1497	3.1694	3.1433	0.3
USD LIBOR							
1-M	2.40019	2.4205	2.43238	2.44013	2.45513	2.455	5.481
2-M	2.54525	2.56763	2.57981	2.58494	2.58863	2.588	4.275
3-M	2.77106	2.77594	2.779	2.7775	2.78819	2.80069	2.963

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	7-Dec Yield	14-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.729	03/31/22	3.750	3.757	0.7	994.3
MALAYSIA GOVERNMENT	4.16	07/15/21	3.650	3.658	0.8	538.5
MALAYSIA GOVERNMENT	3.759	03/15/19	3.193	3.266	7.3	486.0
MALAYSIA GOVERNMENT	4.378	11/29/19	3.438	3.478	4.0	396.7
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.069	4.072	0.3	370.2
MALAYSIA GOVERNMENT	3.654	10/31/19	3.466	3.462	-0.4	344.7
MALAYSIA GOVERNMENT	3.9	11/30/26	4.153	4.145	-0.8	305.8
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.192	4.188	-0.4	295.3
MALAYSIA GOVERNMENT	5.734	07/30/19	3.350	3.463	11.3	264.9
MALAYSIA GOVERNMENT	3.48	03/15/23	3.851	3.587	-26.4	264.7
TOTAL VOLUME (TOP 10)						4,261.0
TOTAL VOLUME (Overall)						8,377.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	7-Dec Yield	14-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
SARAWAK ENERGY BHD	5.32	12/03/32	4.886	4.882	-0.4	255.0
AFFIN ISLAMIC BANK BHD	5.05	10/23/28	#N/A N/A	4.999	#VALUE!	190.0
TF VARLIK KIRALAMA AS	6	06/28/19	#N/A N/A	6.116	#VALUE!	104.0
KT KIRA SERT VARLIK	5.8	03/31/20	#N/A N/A	5.637	#VALUE!	90.0
TENAGA NASIONAL BERHAD	4.95	08/03/32	#N/A N/A	4.706	#VALUE!	70.0
UEM SUNRISE BHD	5.06	12/09/22	4.804	4.797	-0.7	70.0
SOUTHERN POWER GENERATIO	5.41	04/29/33	4.914	4.908	-0.6	65.0
SOUTHERN POWER GENERATIO	5.45	10/31/33	4.971	4.961	-1.0	60.0
KT KIRA SERT VARLIK	5.72	05/15/20	#N/A N/A	5.671	#VALUE!	56.0
JIMAH EAST POWER SDN	5.77	12/04/29	4.797	4.794	-0.3	50.0
TOTAL VOLUME (TOP 10)						1,010.0
TOTAL VOLUME (Overall)						2,339.4

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.