

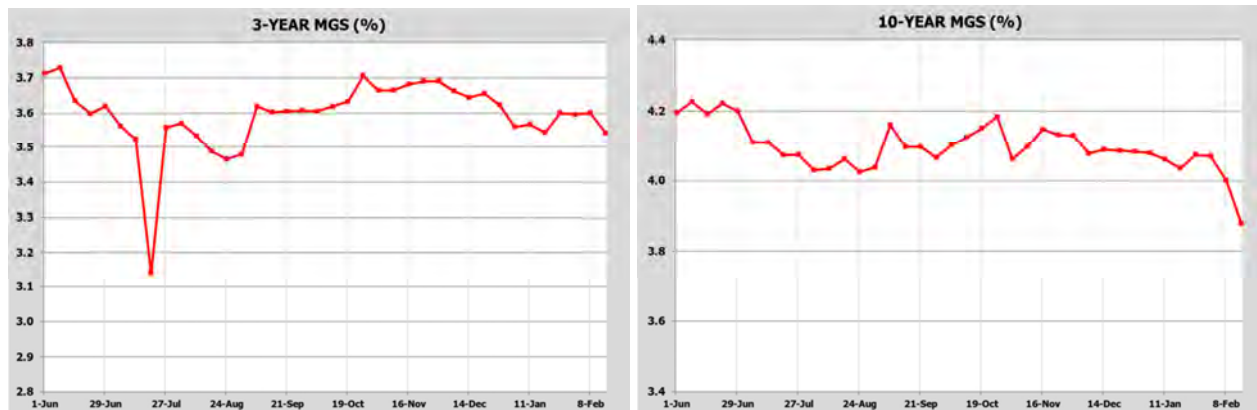
MIDF Strategy | 18 February 2019

Week Ended 15 February 2019

- UST retreated (prices down; yields up) last week, breaking a 3-week price rally, as yields rebounded partly attributable to optimism over the ongoing US-China trade talks.
- However, the UST yield curve flattened slightly as the long-end outperformed. The 10y-3y yield spread narrowed to +17bps from +19bps a week earlier. In this regard, we reckon the yield curve shall retain its flattening bias until and unless the US Fed signals a pause to the current hiking cycle.
- Domestically, the 4Q18 GDP figure came in better than market expectation at 4.7%yoy. Nevertheless, the price of MGS benchmark issues ended the review week higher while the curve flattened with the 3-year and 10-year yields dropped -5.8bps and -12.1bps respectively to close at 3.54% and 3.88%.
- Total trading value for Government Bonds (MGS/MII) jumped to RM36.7b in the review week compared to RM17.8b in the previous week. The total trading value of 10 most actively traded issues remained unchanged at 53% of the overall Government Bonds trades in the week under review vis-à-vis 53% in the week before. Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.12b in the review week compared to RM1.35b in earlier week.
- Total foreign holdings of Government Bonds stood at RM161.0b as at end-Jan 2019. It was a decline of -RM1.0bm from the December 2018 figure of RM162.0b. On the other hand, total foreign holdings of Corporate Bonds increased by RM661m in the month of January 2019 to RM16.6b.
- In comparison to equities, the bonds market saw a total net outflow worth -RM417m in January 2019 while the former saw a total net inflow 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.

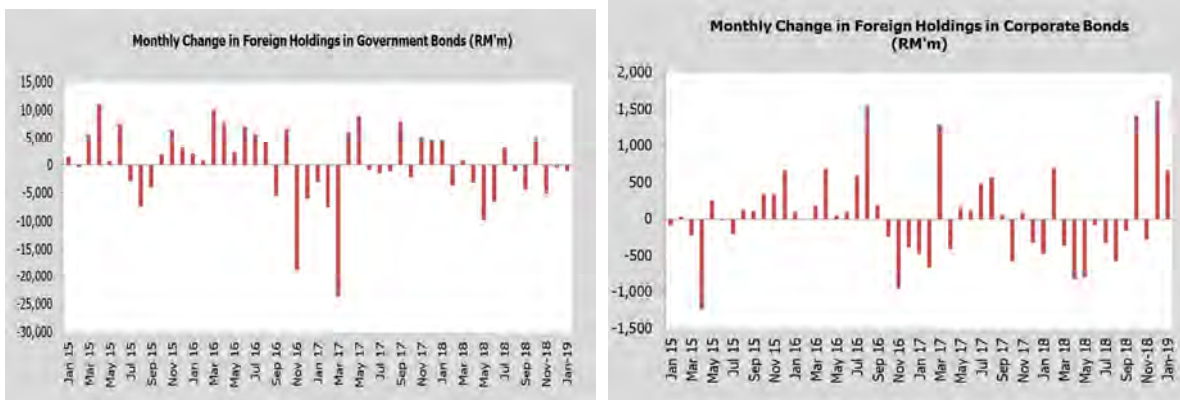
Weekly Money Review

A. FIXED INCOME



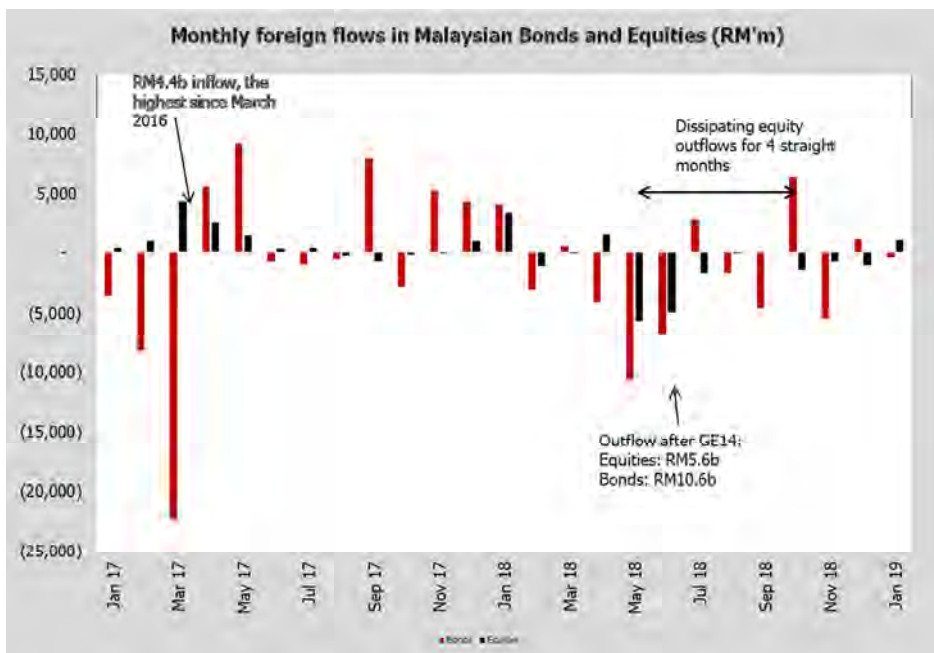
Source: Bloomberg

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- However, the UST yield curve flattened slightly as the long-end outperformed. The 10y-3y yield spread narrowed to +17bps from +19bps a week earlier. In this regard, we reckon the yield curve shall retain its flattening bias until and unless the US Fed signals a pause to the current hiking cycle.
- Domestically, the 4Q18 GDP figure came in better than market expectation at 4.7%yoy. Nevertheless, the price of MGS benchmark issues ended the review week higher while the curve flattened with the 3-year and 10-year yields dropped -5.8bps and -12.1bps respectively to close at 3.54% and 3.88%.
- Total trading value for Government Bonds (MGS/MII) jumped to RM36.7b in the review week compared to RM17.8b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues remained unchanged at 53% of the overall Government Bonds trades in the week under review vis-à-vis 53% in the week before. In addition, 7 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 mid and long residual tenors. The top 3 most actively traded were MII 4.369% 10/31/28 at RMRM3.39b, MII 4.128% 08/15/25 at RM2.43b, and MGS 3.906% 07/15/26 at RM2.15b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.12b in the review week compared to RM1.35b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 29% of the overall Corporate Bonds trades from 67% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues with short and mid residual tenors. The biggest trading values were seen in Sunway Berhad 0% 03/18/19 at RM200m, Sunway Treasury Sukuk Sdn Berhad 0% 03/11/19 at RM200m, and Benih Restu Berhad 4.62% 06/05/25 at RM165m.
- Total foreign holdings of Government Bonds stood at RM161.0b as at end-Jan 2019. It was a decline of -RM1.0bm from the December 2018 figure of RM162.0b.
- On the other hand, total foreign holdings of Corporate Bonds increased by RM661m in the month of January 2019 to RM16.6b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM417m in January 2019 while the former saw a total net inflow 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 strengthens due to high hopes on trade deal. American delegation led by Steven Mnuchin and Robert Lighthizer were in Beijing for the discussion of trade deal between both economies. Nevertheless, macro data reported last week were less optimistic. Retail sales growth at 2.5-year low of 2.3%yoy in Dec-18. Headline CPI went down to 1.6%, lowest since Jun-17. Hence, chances of rate hike in the near term are declining. We expect two rate hikes by the Fed this year.
- EURUSD depreciates as Spain going for snap election. After Socialist Party's budget failed in Congress, Prime Minister Pedro Sanchez calls for snap election. It is the third election in four years. On the other hand, ECB is likely to issue new long term cheap loans for European banks. The current Targeted Long-Term Refinancing Operation (TLTRO) is close to its repayment date in 2020.
- Ringgit – MYR on strong footing. Malaysia's GDP performance exceeded market expectations, 4.7% vs 4.5% in 4Q18. The growth mainly supported by private consumption and external trade market. By sector, mining, manufacturing and services contributed towards the solid growth. The economic growth hints better performance

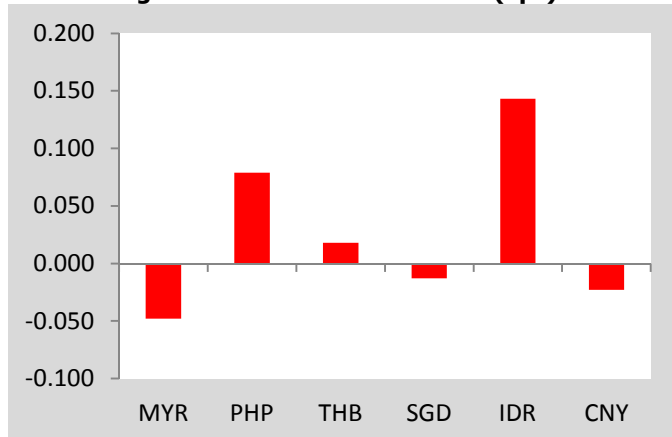
in 2019 especially with better global demand and gradual pick-up in commodity prices. We maintain our call MYR to average at 4.05 and register year-end target at 4.00 in 2019.

Currencies Changes (Week Ended 15/2) and Quarterly Forecasts

	Close (15/2)	Prev Close (8/2)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	97.11	96.64	0.469	0.5%	96.78	95.26	94.20	96.15
EURUSD	1.13	1.13	-0.005	-0.4%	1.14	1.16	1.18	1.16
GBPUSD	1.28	1.29	-0.014	-1.0%	1.25	1.27	1.25	1.22
USDJPY	110.32	109.73	0.590	-0.5%	111.76	109.13	107.42	110.55
USDMYR	4.09	4.07	0.017	-0.4%	4.12	4.07	4.05	4.00
GBPMYR	5.23	5.26	-0.026	0.5%	5.23	5.21	5.29	5.36
JPYMYR	3.70	3.71	-0.003	0.1%	3.74	3.76	3.95	3.97

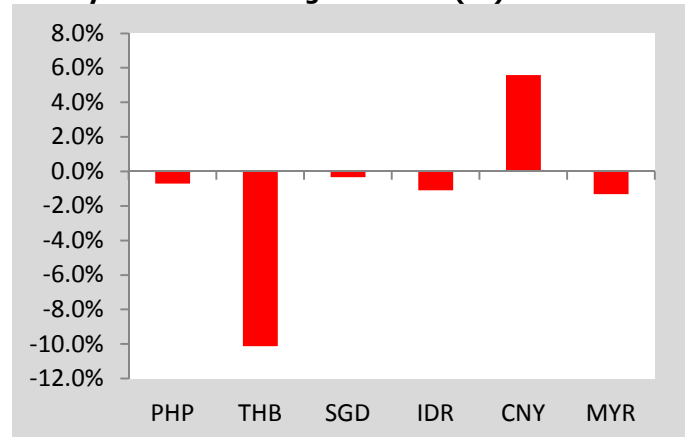
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.75	5.25	5.25	5.50	5.75	5.75	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.25	3.25	4.00	4.50	4.50	4.75	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75
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	1.75	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	0.75	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	2.00	2.00	2.00	2.25	2.25	2.25	2.50	2.50

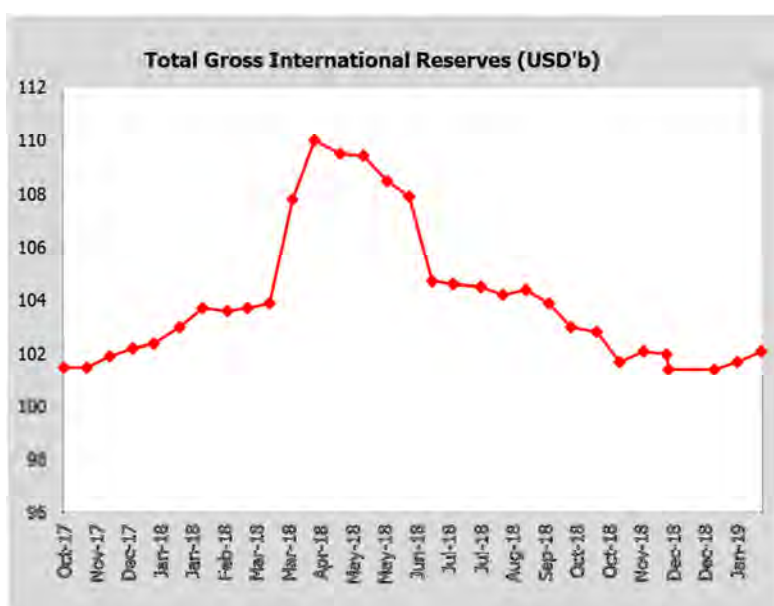
Source: CEIC, MIDFR

- The US and China are still on progressive path towards a trade deal.

- Rebound in China's exports as well as gradual recovery in commodity prices signal positive development to global trade activities.
- Trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.
- Nevertheless, global demand is expected to remain resilience and inflationary pressure is tepid. Trade deal between the US and China in which on progressive development may provide hope for long term solution and boost market confidence.
- On the monetary policy space, the Fed is predicted to slower its normalization pace in 2019 given that inflation rate went down to 18-month low at 1.6% and retail sales growth at 2.3%yoy in Dec-18, slowest since Jul-16.
- We expect two times of rate hike this year.
- Domestic leading indicators on the other hand are pointing towards slightly better performance leading into 1Q19.
- GDP growth for the final quarter of 2018 surprised market expectations, 4.7% vs 4.5%.
- The solid economic growth contributed by private consumption and external market.
- 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 January 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD102.1b.



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	8-Feb Fri	11-Feb Mon	12-Feb Tue	13-Feb Wed	14-Feb Thu	15-Feb Fri	Change (WoW bp)
MGS							
3-Y	3.6	3.533	3.535	3.531	3.548	3.542	-5.8
5-Y	3.73	3.691	3.683	3.695	3.701	3.717	-1.3
7-Y	3.883	3.874	3.851	3.835	3.827	3.843	-4
10-Y	4	3.959	3.966	3.955	3.926	3.879	-12.1
20-Y	4.533	4.468	4.465	4.457	5.019	5.019	48.6
RINGGIT IRS							
1-Y	3.6525	3.65	3.65	3.65	3.657	3.65	-0.25
3-Y	3.6725	3.675	3.6775	3.685	3.68	3.675	0.25
5-Y	3.77	3.755	3.755	3.75	3.7625	3.7625	-0.75
7-Y	3.88	3.89	3.89	3.875	3.89	3.895	1.5
10-Y	4.045	4.05	4.05	4.04	4.045	4.05	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	2.4402	2.462	2.4891	2.519	2.4728	2.489	4.88
5-Y	2.4445	2.4663	2.4965	2.5235	2.4729	2.4931	4.86
7-Y	2.5315	2.5535	2.5879	2.6076	2.5534	2.5656	3.41
10-Y	2.6339	2.6536	2.6877	2.7021	2.6536	2.6626	2.87
30-Y	2.9802	2.9921	3.0247	3.0311	2.9976	2.9936	1.34
USD LIBOR							
1-M	2.50413	2.49788	2.49375	2.48875	2.48138	2.48038	-2.375
2-M	2.59388	2.5855	2.59113	2.59888	2.5905	2.58425	-0.963
3-M	2.69775	2.688	2.69288	2.68375	2.69388	2.68288	-1.487

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	8-Feb Yield	15-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.144	4.079	-6.5	3,389.3
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	3.996	3.973	-2.3	2,432.0
MALAYSIA GOVERNMENT	3.906	07/15/26	3.871	3.843	-2.8	2,151.8
MALAYSIA GOVERNMENT	3.654	10/31/19	3.377	3.398	2.1	2,078.5
MALAYSIA GOVERNMENT	3.757	04/20/23	3.717	3.717	0.0	2,052.9
MALAYSIA GOVERNMENT	3.733	06/15/28	3.988	3.952	-3.6	2,017.5
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	3.856	3.820	-3.6	1,795.6
MALAYSIA GOVERNMENT	5.734	07/30/19	3.327	3.342	1.5	1,336.1
MALAYSIA GOVERNMENT	4.059	09/30/24	3.849	3.829	-2.0	1,268.9
MALAYSIA GOVERNMENT	4.642	11/07/33	4.292	4.263	-2.9	1,138.1
TOTAL VOLUME (TOP 10)						19,660.6
TOTAL VOLUME (Overall)						36,742.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	8-Feb Yield	15-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
SUNWAY BERHAD	ZERO	03/18/19	#N/A N/A	3.912	#VALUE!	200.0
SUNWAY TREASURY SUKUK SD	ZERO	03/11/19	3.911	3.911	0.0	200.0
BENIH RESTU BHD	4.62	06/05/25	4.534	4.534	0.0	165.0
TELEKOM MALAYSIA BERHAD	4.68	10/31/28	4.561	4.611	5.0	130.0
IMTIAZ SUKUK II BHD	4.45	10/16/20	4.190	4.151	-3.9	100.0
DANAINFRA NASIONAL	4.21	10/31/23	#N/A N/A	4.012	#VALUE!	100.0
DANAINFRA NASIONAL	4.33	11/15/24	#N/A N/A	4.084	#VALUE!	80.0
EDRA ENERGY SDN BHD	6.35	07/05/33	6.011	6.011	0.0	80.0
EDRA ENERGY SDN BHD	6.47	01/05/35	6.042	6.163	12.1	75.0
DANAINFRA NASIONAL	5.06	02/12/49	#N/A N/A	4.996	#VALUE!	60.0
TOTAL VOLUME (TOP 10)						1,190.0
TOTAL VOLUME (Overall)						4,119.6

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.