

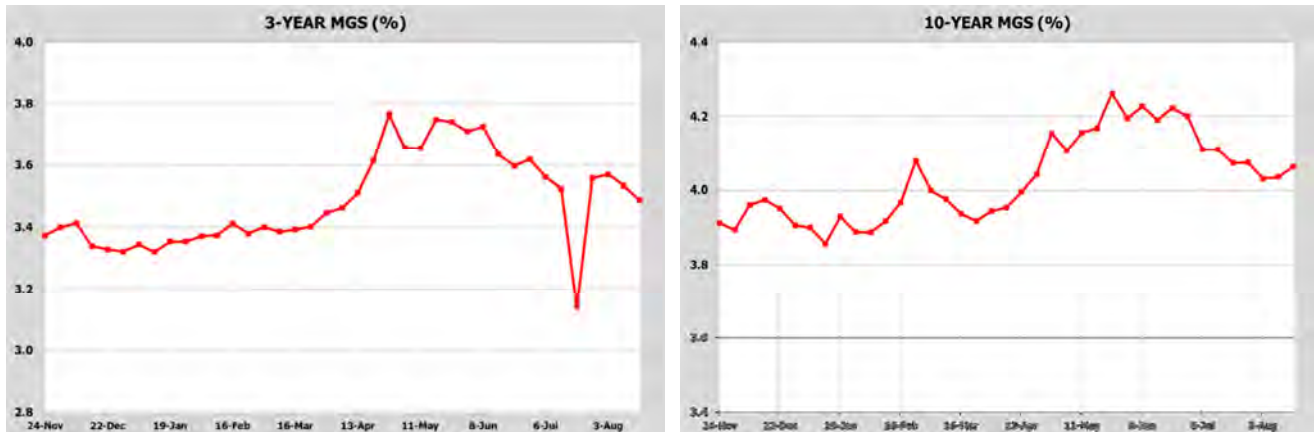
MIDF Strategy | 20 August 2018

Week Ended 17 August

- UST rallied (prices up; yields down) last week attributable to lingering worries over the potential fallout of Turkish Lira crisis as well as the ongoing US-China trade spat despite the news that authorities from both countries are working on a fresh round of trade discussion as early as later this month.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +18bps (from +19bps a week earlier). As previously stated, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- In contrast, the price of local MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields respectively lower by -4.6bps and higher by +2.8bps to close the week at 3.49% and 4.06%. The front end of the curve dropped on Friday attributable to the lower than expected 2Q18 GDP figure at 4.5% (vis-à-vis 5.2% market estimate).
- Total trading value for Government Bonds (MGS/MII) increased to RM17.5b in the review week compared to RM13.5b in the review week. The total trading value of 10 most actively traded issues decreased to 61% of the overall Government Bonds trades in the week under review (vis-à-vis ~66% in the week before). In addition, 5 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) increased to RM4.03b in the review week compared to RM2.98b in earlier week.

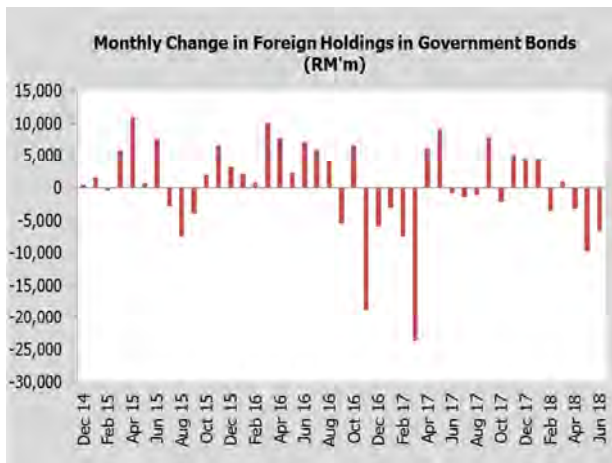
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- UST rallied (prices up; yields down) last week attributable to lingering worries over the potential fallout of Turkish Lira crisis as well as the ongoing US-China trade spat despite the news that authorities from both countries are working on a fresh round of trade discussion as early as later this month.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +18bps (from +19bps a week earlier). As previously stated, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- In contrast, the price of local MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields respectively lower by -4.6bps and higher by +2.8bps to close the week at 3.49% and 4.06%. The front end of the curve dropped on Friday attributable to the lower than expected 2Q18 GDP figure at 4.5% (vis-à-vis 5.2% market estimate).
- Total trading value for Government Bonds (MGS/MII) increased to RM17.5b in the review week compared to RM13.5b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 61% of the overall Government Bonds trades in the week under review (vis-à-vis ~66% in the week before). In addition, 5 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 short and long residual tenors. The top 3 most actively traded were MII 4.37% 10/31/28 at RM1.75b, MGS 4.64% 11/07/33 at RM1.57b and MGS 3.56% 04/30/19 at RM1.44b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.03b in the review week compared to RM2.98b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased to 35% of the overall Corporate Bonds trades (from ~30% 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 Cagamas Bhd 4.10% 02/04/19 at RM400m, Jimah East Power Sdn Bhd 5.82% 12/04/30 at RM150.0m and Jimah East Power Sdn Bhd 5.85% 06/04/31 at RM150.0m.
- Total foreign holdings of Government Bonds stood at RM165.0b as at end-June 2018. It was a decrease of RM6.68b from the May 2018 figure of RM171.7b.



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 strengthens steadily. The greenback currency appreciated by 0.1%wow as global central bankers gather at annual event at Jackson Hole, Wyoming. On a different note, the US and China agreed to have a trade talk between Donald Trump and Xi Jinping in Nov-18. The trade talk is aiming at ending the current trade war deadlock. On macro data, consumer sentiment in the US as reflected by the University of Michigan's consumer sentiment index fell to 95.3 points in Aug-18, lowest since Sep-17.
- EURUSD sluggish despite positive inflation data. Thanks to Lira crisis and Brexit, market uncertainties in the world's largest economic region are at level high. UK is at 50-50 chance of departing without a formal trade deal with EU while economic war in Turkey affects most investors especially from EU. Germany is the second biggest foreign investor in Turkey. On macro data, headline inflation hits 6-year high in Jul-18 at 2.1%yoy and core inflation rose by 1.1%yoy.

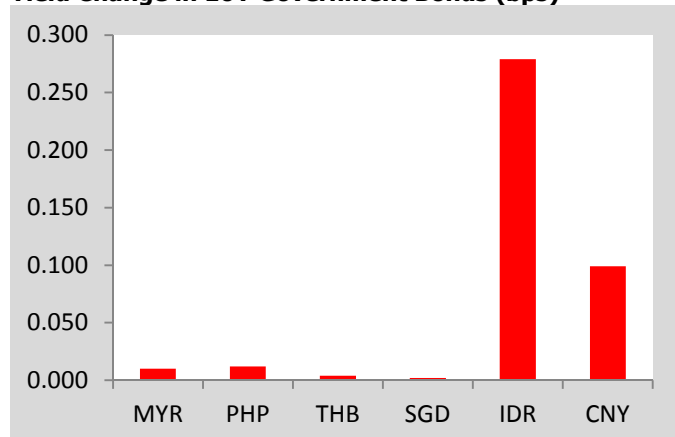
Currencies Changes (Week Ended 17/08) and Quarterly Forecasts

	Close (17/08)	Prev Close (10/08)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	96.46	96.36	0.104	0.1%	90.07	92.79	91.76	93.66
EURUSD	1.14	1.14	-0.002	-0.2%	1.23	1.19	1.21	1.19
GBPUSD	1.27	1.28	-0.004	-0.3%	1.39	1.37	1.34	1.32
USDJPY	110.55	110.83	-0.280	0.3%	108.09	109.24	107.54	110.66
USDMYR	4.11	4.09	0.019	-0.5%	3.92	3.95	4.09	4.05
GBPMYR	5.22	5.21	0.006	-0.1%	5.46	5.37	5.46	5.52
JPYMYR	3.71	3.68	0.029	-0.8%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

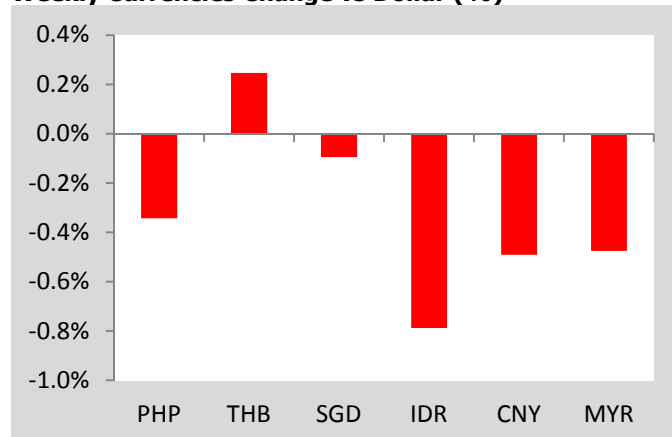
- Ringgit – Weakest so far in 2018. The depreciating MYR to 4.11 is mainly due to poor national account and balance of payment (BOP) data. GDP growth for 2Q18 recorded at 4.5%yoy, weakest since 4Q16 and missed market expectations of 5.2%yoy. As for BOP, foreign direct investment registered its lowest ever level at RM2.84 billion during the quarter. 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 (%)

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	3.00	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	4.25	4.75	5.25	5.25	5.50
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	4.00
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	1.50	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	1.50	1.75	1.75	1.75	2.00	2.00	2.00

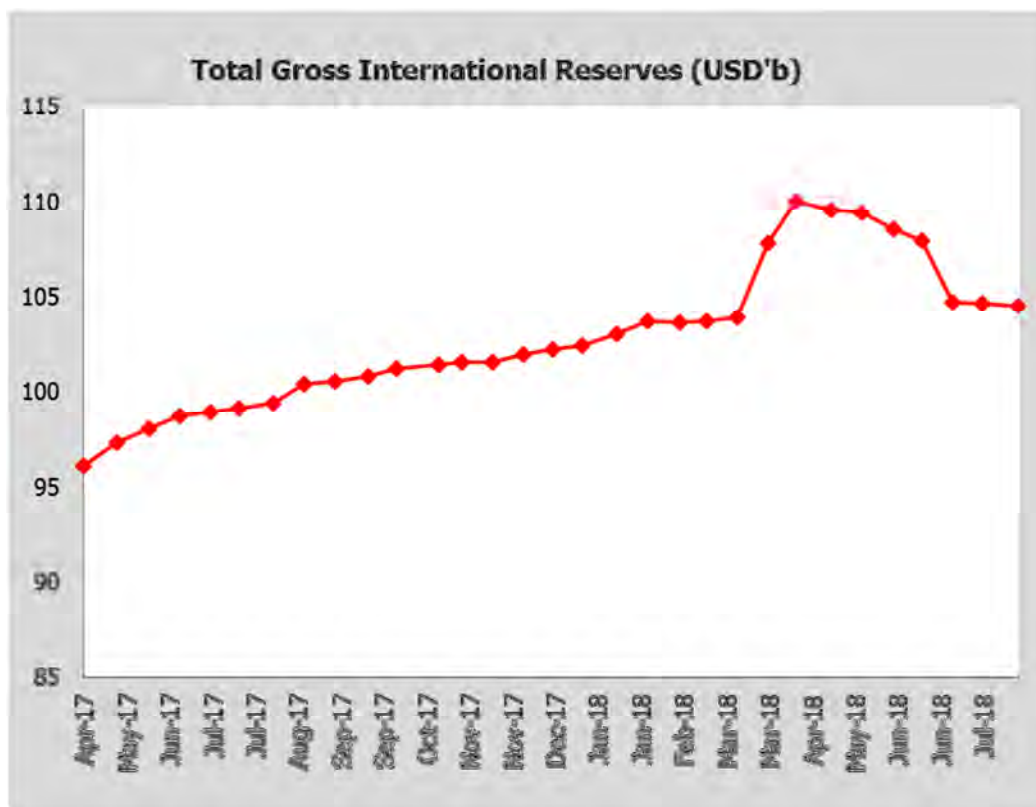
Source: CEIC, MIDFR

- Proposed trade negotiation between US and China which is expected to start end of this month bring relief to global market.
- Ongoing trade tension, tightening monetary policy, policy uncertainties, geopolitical worries, and upward price pressure are some of the factors that can derail global growth trajectory in both near and medium term.
- Escalating trade tension for example, provides disruption to investment outlook that could hamper further expansion in the future.
- Nevertheless, we discount the possibility of full blown trade war as ongoing trade talks will at least resolve some of the contentious points.
- However, the prolong tension impacted sentiment which adversely affected emerging markets and currencies.
- Regional currencies are expected to come under pressure amid hawkish Fed, stronger dollar and ongoing trade tension which move capital to safe haven.
- Regionally, Bank Indonesia unexpectedly raised interest rate by another 25bps amid pressure on Rupiah.
- Domestically, consumption is also expected to remain robust amid tax holiday period and stable labor market. This is positive to domestic growth.


- 2Q 2018 GDP data released last Friday signaled moderating growth trend. Domestic economy grew slowest in 6th quarter.
- BNM also revised its 2018 growth target to 5% from 5.5% to 6% range on the back of expected slowdown in supply side sector.
- Nevertheless, for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike-3.25%) for 2018 barring any unforeseen circumstances.
- Domestic inflation to remain tepid in the upcoming months which July number due end of this week to remain below 1%.

C. BNM FOREIGN RESERVES

- As at 31 July 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD104.5b.



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	10-Aug Fri	13-Aug Mon	14-Aug Tue	15-Aug Wed	16-Aug Thu	17-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.534	3.541	3.538	3.57	3.531	3.488	-4.6
5-Y	3.747	3.744	3.754	3.751	3.611	3.714	-3.3
7-Y	3.96	3.969	3.969	3.986	3.974	3.934	-2.6
10-Y	4.034	4.056	4.056	4.062	4.056	4.062	2.8
20-Y	4.672	4.672	4.672	4.693	4.696	4.693	2.1
RINGGIT IRS							
1-Y	3.705	3.705	3.705	3.705	3.705	3.705	0
3-Y	3.735	3.725	3.73	3.735	3.735	3.735	0
5-Y	3.8325	3.835	3.845	3.86	3.86	3.83	-0.25
7-Y	3.945	3.945	3.945	3.97	3.98	3.95	0.5
10-Y	4.145	4.145	4.155	4.17	4.18	4.15	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	2.6791	2.6927	2.7118	2.679	2.6817	2.6787	-0.04
5-Y	2.7448	2.7499	2.7719	2.7346	2.7413	2.7413	-0.35
7-Y	2.8227	2.8251	2.8425	2.8052	2.8126	2.8076	-1.51
10-Y	2.8732	2.8786	2.8985	2.8623	2.8659	2.8605	-1.27
30-Y	3.0303	3.0471	3.0672	3.0319	3.0255	3.0199	-1.04
USD LIBOR							
1-M	2.06675	2.06269	2.0635	2.06	2.07738	2.06938	0.263
2-M	2.18638	2.17838	2.18263	2.18275	2.19613	2.18588	-0.05
3-M	2.31925	2.31375	2.31519	2.31175	2.32225	2.31188	-0.737

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	10-Aug Yield	17-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.141	4.142	0.1	1,750.0
MALAYSIA GOVERNMENT	4.642	11/07/33	4.477	4.486	0.9	1,571.3
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.410	3.406	-0.4	1,442.9
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.770	3.749	-2.1	1,383.6
MALAYSIA GOVERNMENT	3.757	04/20/23	3.747	3.714	-3.3	1,376.4
MALAYSIA GOVERNMENT	3.62	11/30/21	3.534	3.488	-4.6	847.2
MALAYSIA GOVERNMENT	3.882	03/14/25	3.960	3.934	-2.6	664.6
MALAYSIA GOVERNMENT	3.58	09/28/18	3.257	3.530	27.3	620.3
MALAYSIA GOVERNMENT	3.733	06/15/28	4.034	4.062	2.8	512.7
MALAYSIA GOVERNMENT	3.899	11/16/27	4.148	4.175	2.7	458.0
TOTAL VOLUME (TOP 10)						10,626.9
TOTAL VOLUME (Overall)						17,542.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	10-Aug Yield	17-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	4.1	02/04/19	3.807	3.807	0.0	400.0
JIMAH EAST POWER SDN	5.82	12/04/30	5.036	4.961	-7.5	150.0
JIMAH EAST POWER SDN	5.85	06/04/31	#N/A N/A	4.978	#VALUE!	150.0
JIMAH EAST POWER SDN	5.79	06/04/30	5.029	4.910	-11.9	125.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	4.269	4.267	-0.2	115.0
SARAWAK HIDRO SDN BHD	4.58	10/13/28	#N/A N/A	4.457	#VALUE!	100.0
MALAYAN BANKING BHD	4.25	05/10/24	4.257	4.255	-0.2	90.0
GOVCO HOLDINGS BHD	4.88	09/28/32	4.948	4.857	-9.1	90.0
MALAKOFF POWER BHD	4.9	12/17/18	4.237	4.199	-3.8	90.0
KRUNG THAI BANK/CAYMAN	5.1	07/04/25	4.786	4.767	-1.9	85.0
TOTAL VOLUME (TOP 10)						1,395.0
TOTAL VOLUME (Overall)						4,029.8

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.