

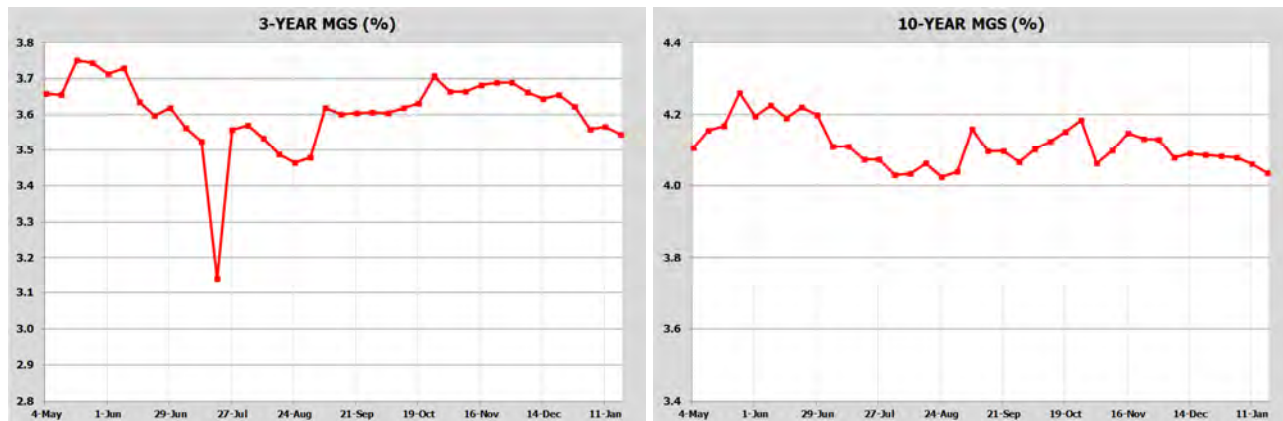
MIDF Strategy | 22 January 2019

Week Ended 18 January 2019

- UST retreated (prices down; yields up) again last week as yields rebounded further after China offered to boost its US imports for six years until 2024.
- The UST yield curve steepened slightly as the short-end outperformed. The 10y-3y yield spread widened to +19bps from +18bps a week earlier. However, 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 price of MGS benchmark issues ended the review week higher while the curve flattened with the 3-year and 10-year yields dropped -2.3bps and -2.6bps respectively to close at 3.54% and 4.04%.
- Total trading value for Government Bonds (MGS/MII) dropped to RM22.1b in the review week compared to RM34.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 43% of the overall Government Bonds trades in the week under review vis-à-vis 47% in the week before. In addition, 8 out of 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) declined to RM2.90b in the review week compared to RM4.87b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 31% of the overall Corporate Bonds trades from 39% in the week before.
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Weekly Money Review

A. FIXED INCOME



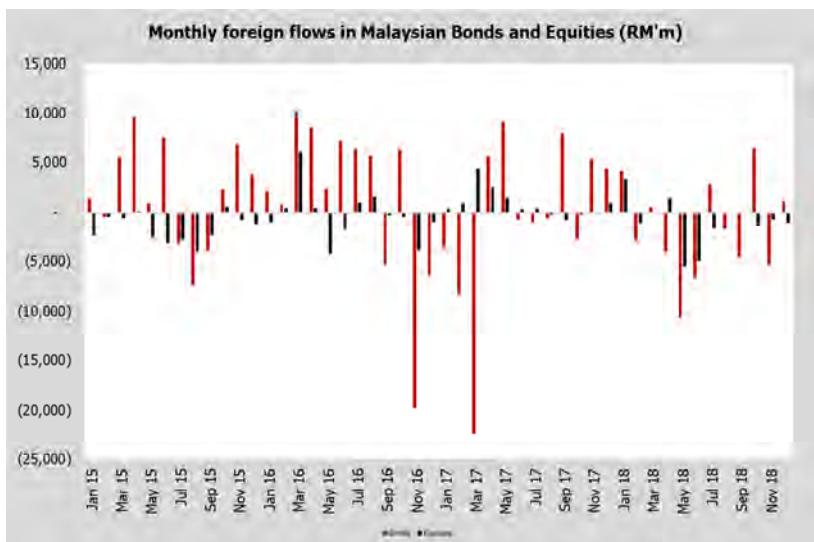
Source: Bloomberg

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- 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 3.704% 09/30/19 at RM1.32b, MII 4.369% 10/31/28 at RM1.15b, and MII 4.755% 08/04/37 at RM1.12b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.90b in the review week compared to RM4.87b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 31% of the overall Corporate Bonds trades from 39% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues with varied residual tenors. The biggest trading values were seen in Aeon Credit Service 6.65% Perp at RM144m, Cagamas Berhad 4.5% 05/25/23 at RM115m, and Govco Holdings Bhd 4.88% 09/28/32 at RM100m.
- Total foreign holdings of Government Bonds stood at RM162.0b as at end-Dec 2018. It was a decline of -RM466m from the November 2018 figure of RM162.5b.
- On the other hand, total foreign holdings of Corporate Bonds increased by RM1.6b in the month of December 2018 to RM15.9b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM1.1b in December 2018 while the former saw a total net outflow 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

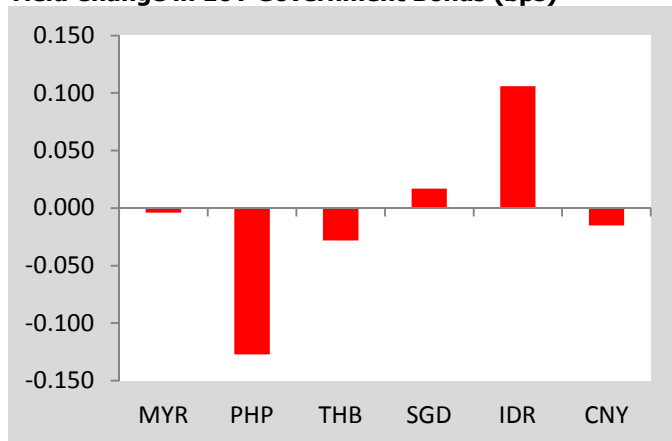
- DXY Index appreciated on trade optimism. China has offered a 6-year plan to boost US imports during its ongoing talks with the US. China would increase its annual import of US goods by a combined value of over USD 1T, reducing its trade surplus with the US to zero by 2024. Besides that, greenback was also lifted by US industrial production which beat market forecast. The US industrial production rose 0.3%mom in Dec-18 and exceeded market expectations of a 0.2%mom gain. Manufacturing production in particular increased by the most in 10 months.
- EURUSD weaken on lack of key indicators. On the macro side, the Eurozone current account surplus narrowed to EUR 23.2B in Nov-18 from EUR 38B recorded in the same period last year. The smaller surplus was due to a sharp decline in the goods surplus to EUR 22.4B (EUR 35.2B in Nov-17) and widening deficit of secondary to EUR 14B (-EUR 10.8B in Nov-17). Besides that, Euro was also affected by dollar strength.
- Ringgit – Economic fundamentals remain strong. MYR depreciated against dollar despite rising oil prices. Brent crude was recorded at USD62.7 per barrel. However, the support for ringgit from rising oil price waned as USD strengthened following positive performance of local key indicators on top of progressive trade negotiations between the country and China. We forecast MYR to average at 4.05 and register year-end target at 4.00 in 2019.

Currencies Changes (Week Ended 18/01) and Quarterly Forecasts

| | Close (18/1) | Prev Close (11/1) | Change | % Change | 1Q19F | 2Q19F | 3Q19F | 4Q19F |
|-----------|--------------|-------------------|--------|----------|--------|--------|--------|--------|
| DXY Index | 96.34 | 95.67 | 0.666 | 0.7% | 96.78 | 95.26 | 94.20 | 96.15 |
| EURUSD | 1.14 | 1.15 | -0.011 | -0.9% | 1.14 | 1.16 | 1.18 | 1.16 |
| GBPUSD | 1.29 | 1.28 | 0.003 | 0.2% | 1.25 | 1.27 | 1.25 | 1.22 |
| USDJPY | 109.78 | 108.48 | 1.300 | -1.2% | 111.76 | 109.13 | 107.42 | 110.55 |
| USDMYR | 4.11 | 4.10 | 0.018 | -0.4% | 4.12 | 4.07 | 4.05 | 4.00 |
| GBPMYR | 5.32 | 5.22 | 0.106 | -2.0% | 5.23 | 5.21 | 5.29 | 5.36 |
| JPYMYR | 3.75 | 3.77 | -0.029 | 0.8% | 3.74 | 3.76 | 3.95 | 3.97 |

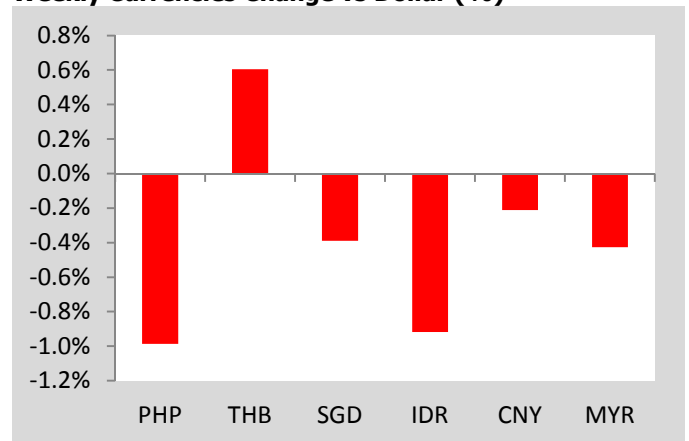
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 |

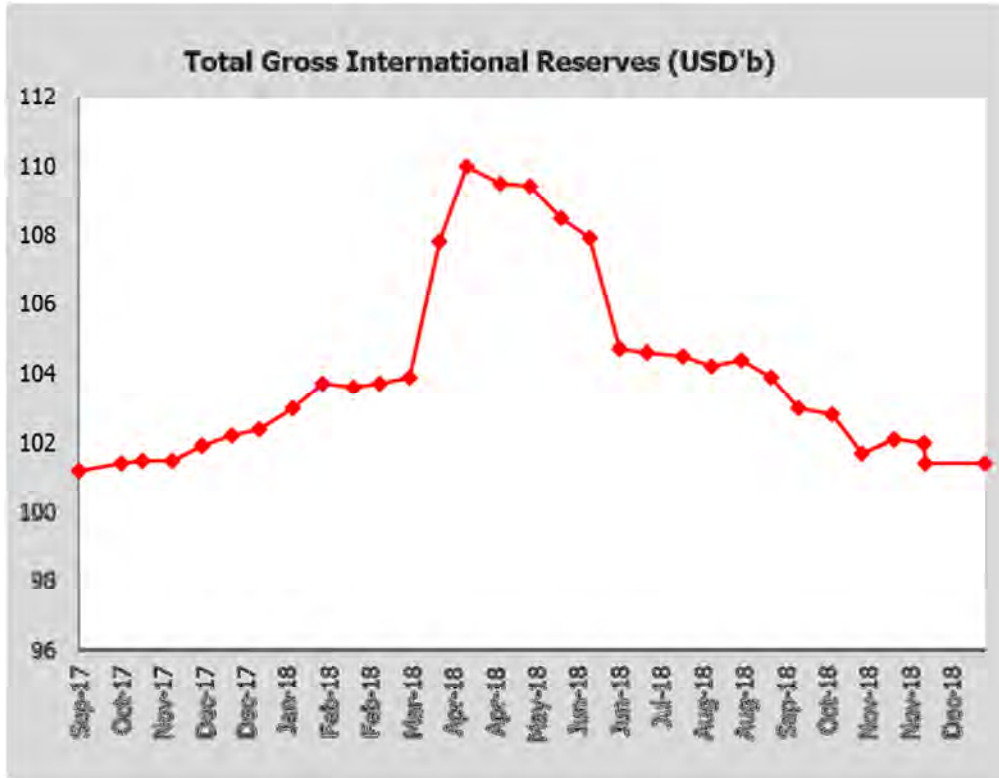
Source: CEIC, MIDFR

- Growth moderation for the global economy is expected in the near term as high frequency leading indicators 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 trajectory.
- Trade tension starts to bite as Chinese exports unexpectedly tumbled in Dec-18, underscoring the rapid weakening of the economy.
- Nevertheless, global demand is expected to remain resilience and inflationary pressure is tepid.
- In the recent development of the US-China trade talks, China has offered a 6-year plan to ramp up imports from the US. The move is expected to reconfigure the relationship between the world's two largest economies, providing hope for a long term solution.
- Fed is anticipated to engage in a less aggressive approach of rate hikes in 2019, emphasizing the importance of data in the timing of hikes.
- We foresee two rate hikes for the US this year.
- The US will grow at a moderating pace in 2019 however still considered healthy.
- Growth divergence among developed and developing countries will also cause differences in policy prescription which will have broader impact beyond border.
- Domestic leading indicators are pointing towards slightly better performance leading into 1Q19.
- Latest domestic data on labor market continued to give a positive signal.
- Job market to continue benefiting from the resilience global trade activities and gradual recovery in commodity prices especially in export-reliance and commodity-oriented industries.
- 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.
- We expect no changes in monetary policy which OPR maintains at 3.25% in 2019.

C. BNM FOREIGN RESERVES

- As at 31 December 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD101.4b.



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 | 11-Jan Fri | 14-Jan Mon | 15-Jan Tue | 16-Jan Wed | 17-Jan Thu | 18-Jan Fri | Change (WoW bp) |
|-------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------|
| MGS | | | | | | | |
| 3-Y | 3.567 | 3.567 | 3.565 | 3.552 | 3.03 | 3.544 | -2.3 |
| 5-Y | 3.735 | 3.735 | 3.73 | 3.723 | 3.72 | 3.697 | -3.8 |
| 7-Y | 3.977 | 3.977 | 3.977 | 3.88 | 3.878 | 3.892 | -8.5 |
| 10-Y | 4.061 | 4.061 | 4.061 | 4.058 | 4.055 | 4.035 | -2.6 |
| 20-Y | 4.572 | 4.572 | 4.56 | 4.556 | 4.558 | 4.56 | -1.2 |
| RINGGIT IRS | | | | | | | |
| 1-Y | 3.68 | 3.665 | 3.6745 | 3.66 | 3.66 | 3.655 | -2.5 |
| 3-Y | 3.7 | 3.69 | 3.69 | 3.6725 | 3.6775 | 3.685 | -1.5 |
| 5-Y | 3.79 | 3.7875 | 3.795 | 3.775 | 3.7875 | 3.7875 | -0.25 |
| 7-Y | 3.915 | 3.9 | 3.91 | 3.89 | 3.9 | 3.9095 | -0.55 |
| 10-Y | 4.1 | 4.08 | 4.08 | 4.065 | 4.07 | 4.065 | -3.5 |
| 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 | 2.5163 | 2.5109 | 2.5136 | 2.5218 | 2.5491 | 2.5986 | 8.23 |
| 5-Y | 2.5288 | 2.5237 | 2.5304 | 2.537 | 2.5707 | 2.6231 | 9.43 |
| 7-Y | 2.5953 | 2.5928 | 2.6051 | 2.615 | 2.6521 | 2.6944 | 9.91 |
| 10-Y | 2.7007 | 2.7024 | 2.7112 | 2.7218 | 2.7504 | 2.7842 | 8.35 |
| 30-Y | 3.0334 | 3.0526 | 3.0734 | 3.0711 | 3.0741 | 3.0974 | 6.4 |
| USD LIBOR | | | | | | | |
| 1-M | 2.50894 | 2.51006 | 2.5075 | 2.51325 | 2.503 | 2.506 | -0.294 |
| 2-M | 2.648 | 2.637 | 2.63963 | 2.64225 | 2.63313 | 2.62963 | -1.837 |
| 3-M | 2.78731 | 2.77894 | 2.77344 | 2.78031 | 2.77575 | 2.761 | -2.631 |

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name | Coupon | Maturity | 11-Jan Yield | 18-Jan Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|--------------------------|--------|----------|--------------|--------------|-----------------|-----------------------|
| MALAYSIA INVESTMNT ISSUE | 3.704 | 09/30/19 | 3.339 | 3.306 | -3.3 | 1,320.0 |
| MALAYSIA INVESTMNT ISSUE | 4.369 | 10/31/28 | 4.171 | 4.167 | -0.4 | 1,153.5 |
| MALAYSIA INVESTMNT ISSUE | 4.755 | 08/04/37 | 4.698 | 4.681 | -1.7 | 1,120.0 |
| MALAYSIA INVESTMNT ISSUE | 4.724 | 06/15/33 | 4.458 | 4.453 | -0.5 | 1,050.8 |
| MALAYSIA GOVERNMENT | 3.757 | 04/20/23 | 3.735 | 3.697 | -3.8 | 898.9 |
| MALAYSIA GOVERNMENT | 3.955 | 09/15/25 | 4.015 | 3.989 | -2.6 | 819.0 |
| MALAYSIA GOVERNMENT | 3.733 | 06/15/28 | 4.061 | 4.035 | -2.6 | 787.1 |
| MALAYSIA GOVERNMENT | 3.906 | 07/15/26 | #N/A N/A | 3.892 | #VALUE! | 783.2 |
| MALAYSIA INVESTMNT ISSUE | 4.258 | 07/26/27 | 4.118 | 4.101 | -1.7 | 770.7 |
| MALAYSIA INVESTMNT ISSUE | 4.13 | 07/09/29 | 4.094 | 4.094 | 0.0 | 750.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 9,453.2 |
| TOTAL VOLUME (Overall) | | | | | | 22,062.2 |

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name | Coupon | Maturity | 11-Jan Yield | 18-Jan Yield | Change (WoW bp) | Weekly Volume (RM bn) |
|------------------------|--------|----------|--------------|--------------|-----------------|-----------------------|
| AEON CREDIT SERVICE M | 6.65 | PERP | #N/A N/A | 6.237 | #VALUE! | 144.5 |
| CAGAMAS BERHAD | 4.5 | 05/25/23 | #N/A N/A | 4.155 | #VALUE! | 115.0 |
| GOVCO HOLDINGS BHD | 4.88 | 09/28/32 | 4.744 | 4.651 | -9.3 | 100.0 |
| DANAINFRA NASIONAL | 5.35 | 11/15/47 | 5.062 | 5.030 | -3.2 | 100.0 |
| HONG LEONG BANK | 4.5 | 06/21/24 | 4.098 | 4.085 | -1.3 | 90.0 |
| GB SERVICES BHD | 5.3 | 11/08/19 | 4.268 | 4.224 | -4.4 | 80.0 |
| PRASARANA MALAYSIA BHD | 4.84 | 12/02/33 | #N/A N/A | 4.651 | #VALUE! | 70.0 |
| GOVCO HOLDINGS BHD | 4.55 | 02/22/27 | #N/A N/A | 4.328 | #VALUE! | 70.0 |
| PENGURUSAN AIR SPV BHD | 4.16 | 02/07/19 | 3.504 | 3.459 | -4.5 | 70.0 |
| PRASARANA MALAYSIA BHD | 4.97 | 12/11/30 | #N/A N/A | 4.460 | #VALUE! | 65.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 904.5 |
| TOTAL VOLUME (Overall) | | | | | | 2,899.5 |

Source: Bloomberg

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(Bank Pelaburan)

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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. |