

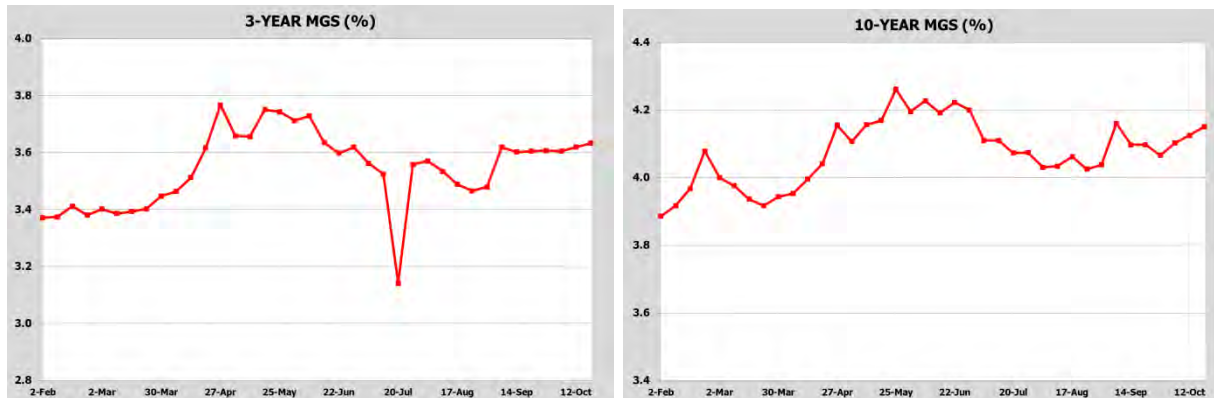
MIDF Strategy | 22 October 2018

Week Ended 19 October

- UST retreated (prices down; yields up) last week as investors reacted to the minutes of US Fed's September meeting which indicated that the planned rate hikes would continue as well as suggestion there could come a time the committee may even exceed a neutral level.
- Furthermore, the yield curve flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +21bps from +22bps a week earlier. Going forward, we reckon the yield curve may continue to flatten in view of further monetary tightening by the US Fed.
- Domestically, the price of MGS benchmark issues also ended the review week lower but the curve steepened with the 3-year and 10-year yields added +1.4bps and +2.6bps respectively to close the week at 3.63% and 4.15%.
- Total trading value for Government Bonds (MGS/MII) declined to RM9.4b in the review week compared to RM11.7b in the previous week. The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 58% of the overall Government Bonds trades in the week under review against 68% in the week before. In addition, 5 out of the 10 most actively traded bonds saw lower yields (higher prices) during the review week.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.45b in the review week compared to RM2.12b in earlier week. The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 36% of the overall Corporate Bonds trades from 37% in the week before.

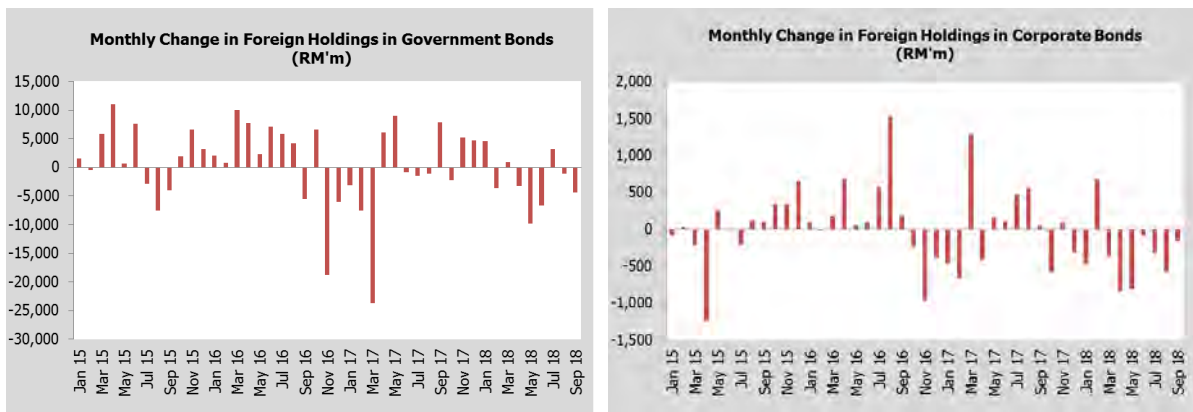
Weekly Money Review

A. FIXED INCOME



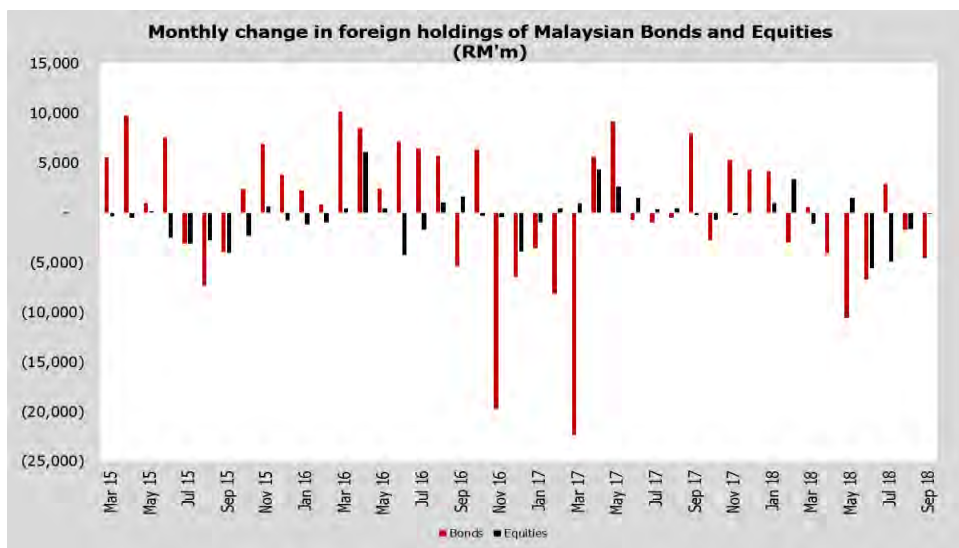
Source: Bloomberg

- UST retreated (prices down; yields up) last week as investors reacted to **the minutes of US Fed's September** meeting which indicated that the planned rate hikes would continue as well as suggestion there could come a time the committee may even exceed a neutral level.
- Furthermore, the yield curve flattened as the long-end outperformed. The 10y-3y yield spread narrowed to +21bps from +22bps a week earlier. Going forward, we reckon the yield curve may continue to flatten in view of further monetary tightening by the US Fed.
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- Total trading value for Government Bonds (MGS/MII) declined to RM9.4b in the review week compared to RM11.7b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 58% of the overall Government Bonds trades in the week under review vis-à-vis 68% in the week before. In addition, only 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 3.558% 04/30/19 at RM1.23b, MGS 4.893% 06/08/38 at RM675m and MGS 3.654% 10/31/19 at RM669m.
- In contrast, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.45b in the review week compared to RM2.12b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 36% of the overall Corporate Bonds trades from 37% 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 Cagamas Berhad 4.10% 02/04/19 at RM250m, CIMB Thai Bank PCL 5.60% 07/05/24 at RM181m and Telekom Malaysia Berhad 4.82% 03/21/24 at RM155m.
- Total foreign holdings of Government Bonds stood at RM162.7b as at end-Sept 2018. It was a decline of -RM4.4b from the Aug 2018 figure of RM167.1b.
- In tandem, total foreign holdings of Corporate Bonds decreased by -RM160.8m in the month of September 2018 to RM13.2b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM4.6b in September 2018 while the former saw a total net inflow worth RM66.3m (first inflow in 5 months). Furthermore, year-to-date (Jan-Sep), both equities and bonds markets remained in the red with total net outflows of -RM8.5b and -RM23.2b respectively.



Source: BNM, Bursa Preliminary Statistics

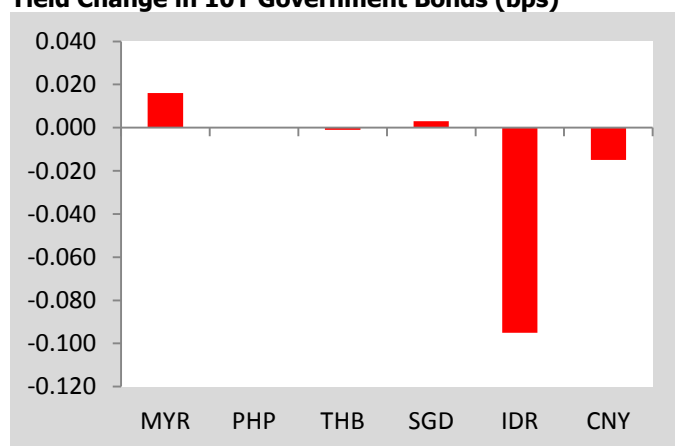
B. FOREIGN EXCHANGE

- DXY Index appreciates amid firm commitment by the Fed. Referring to the minutes of meeting, the Fed remains bullish on further increasing its interest rate. Underpin by robust economic performance and rising inflationary pressure, the Fed may consider to raise the rate by three times in 2019. Latest IPI growth in Sep-18 hits 8-year high at 5.1%yoy while factory output grows by 3.5%yoy, fastest since Apr-12.
- EURUSD declines over Italy's budget. Italy under the leadership of Eurosceptic Lega-Five Star Movement government announced in Sep-18 to increase its budget deficit to GDP target at 2.4%. The budget to GDP ratio is **0.4% higher than EU's limit and three times bigger than the previous government. The Italian government announced sensible tax cuts and introduction of basic income to fight poverty. The risks of higher budget deficit will impact EU's debt position and may dim rating performance.**
- Ringgit – Continue depreciating despite clearer policy guidance. MYR slides to 4.16 after the tabling of mid-term review of 11th Malaysia Plan. Among others, the plan slash down development expenditure by RM40b and broadening tax base are key highlights of the revised plan. The new government lower GDP forecast from 5-6% to 4.5-5.5% per annum for the period 2016-2020. We maintain our call MYR to average at 4.00 and register year-end target at 4.00.

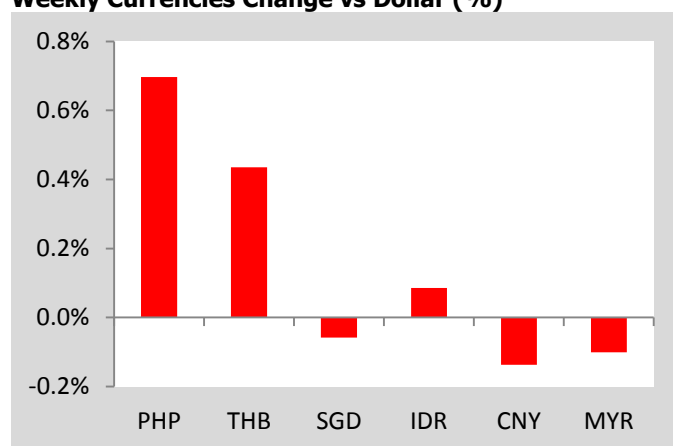
Currencies Changes (Week Ended 19/10) and Quarterly Forecasts

	Close (19/10)	Prev Close (12/10)	Change	% Change	1Q18	2Q18	3Q18	4Q18F
DXY Index	95.71	95.22	0.489	0.5%	90.07	92.79	95.02	96.99
EURUSD	1.15	1.16	-0.006	-0.5%	1.23	1.19	1.16	1.14
GBPUSD	1.30	1.32	-0.012	-0.9%	1.39	1.37	1.30	1.28
USDJPY	112.42	112.21	0.210	-0.2%	108.09	109.24	111.48	114.72
USDMYR	4.16	4.15	0.004	-0.1%	3.92	3.95	4.10	4.00
GBPMYR	5.42	5.49	-0.070	1.3%	5.46	5.37	5.33	5.40
JPYMYR	3.70	3.70	-0.004	0.1%	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 (%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-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	4.25	4.25	4.75	5.25	5.25	5.50	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.25	3.25	4.00	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	1.50
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	1.75	1.75	1.75	2.00	2.00	2.00	2.25

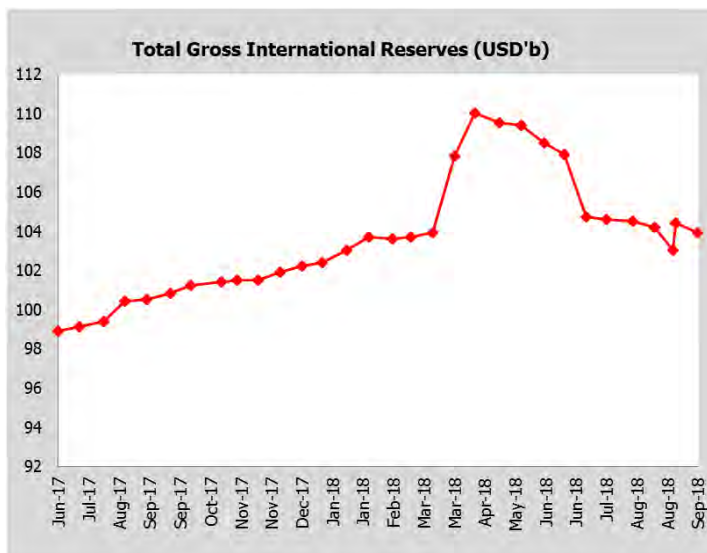
Source: CEIC, MIDFR

- Global economy is expected to experience growth moderation in the medium term.
- Confluence of factors including prolong trade tension, geopolitical instability, debt worry, Fed moves to normalize rate will affect the global trade and growth.
- Additionally, latest leading macroeconomic indicators for both developed and emerging economies are pointed toward moderation in the medium term with business and consumer sentiments showing signs of slowing down.


- The timing and pace of tightening monetary policy in the US generates financial volatility which is could trigger capital flight from emerging economies.
- Shift in risk appetite boost dollar strength which is negative to EM currencies.
- Central banks in developing countries have raised their policy rate to defend their currencies and curb capital flight.
- Increasing oil prices and heightens policy uncertainty help to exacerbate the situation especially for net energy importer countries.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth. Distributive trade figures continued to validate the upbeat consumer sentiments.
- Headline inflation is expected to remain tepid amid cost related policy measures. The trend is expected to continue despite the end of tax holiday period in September.
- Our base case scenario for OPR remains unchanged (single rate hike - 3.25%) for 2018. Current monetary policy remains accommodative to support growth in the domestic economy.

C. BNM FOREIGN RESERVES

- As at 28 September 2018, compared to previous fortnight, **Bank Negara Malaysia's international reserves** decreased to USD103.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 0.9 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	12-Oct Fri	15-Oct Mon	16-Oct Tue	17-Oct Wed	18-Oct Thu	19-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.619	3.609	3.609	3.609	3.609	3.633	1.4
5-Y	3.769	3.769	3.769	3.769	3.779	3.794	2.5
7-Y	3.988	3.997	3.997	4.008	4.008	4.008	2
10-Y	4.125	4.117	4.117	4.125	4.13	4.151	2.6
20-Y	4.727	4.77	4.782	4.777	4.782	4.813	8.6
RINGGIT IRS							
1-Y	3.715	3.715	3.715	3.715	3.715	3.715	0
3-Y	3.77	3.7745	3.77	3.77	3.7675	3.785	1.5
5-Y	3.865	3.8625	3.865	3.875	3.88	3.88	1.5
7-Y	3.99	3.98	3.98	3.98	3.995	4.015	2.5
10-Y	4.185	4.17	4.18	4.18	4.19	4.2	1.5
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	2.9408	2.9408	2.9518	2.9821	2.9574	2.9824	4.16
5-Y	3.0149	3.0098	3.0236	3.058	3.0272	3.0463	3.14
7-Y	3.1054	3.1004	3.1106	3.1485	3.1182	3.1335	2.81
10-Y	3.1613	3.1557	3.1633	3.205	3.1786	3.1921	3.08
30-Y	3.3347	3.3364	3.3338	3.3722	3.3634	3.3758	4.11
USD LIBOR							
1-M	2.27975	2.2895	2.28713	2.282	2.27963	2.28188	0.213
2-M	2.33413	2.344	2.33575	2.3335	2.34838	2.35538	2.125
3-M	2.43644	2.44881	2.44456	2.44963	2.469	2.47719	4.075

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	12-Oct Yield	19-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.311	3.299	-1.2	1,228.5
MALAYSIA GOVERNMENT	4.893	06/08/38	4.727	4.813	8.6	675.0
MALAYSIA GOVERNMENT	3.654	10/31/19	3.436	3.432	-0.4	668.8
MALAYSIA GOVERNMENT	3.759	03/15/19	3.259	3.272	1.3	572.2
MALAYSIA GOVERNMENT	3.48	03/15/23	3.815	3.806	-0.9	564.3
MALAYSIA GOVERNMENT	3.62	11/30/21	3.619	3.633	1.4	410.7
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.190	4.196	0.6	402.4
DANGA CAPITAL BHD	4.88	01/29/30	4.633	4.598	-3.5	340.0
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.216	4.171	-4.5	310.3
MALAYSIA GOVERNMENT	3.733	06/15/28	4.125	4.151	2.6	293.2
TOTAL VOLUME (TOP 10)						5,465.5
TOTAL VOLUME (Overall)						9,363.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	12-Oct Yield	19-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	4.1	02/04/19	3.679	3.681	0.2	250.0
CIMB THAI BANK PCL	5.6	07/05/24	4.494	5.553	105.9	181.0
TELEKOM MALAYSIA BERHAD	4.82	03/21/24	4.303	4.313	1.0	155.0
SARAWAK ENERGY BHD	5.32	12/03/32	4.849	4.839	-1.0	120.0
MUDAJAYA CORP BHD	4.8	01/23/19	#N/A N/A	5.419	#VALUE!	105.0
DANAINFRA NASIONAL	4.08	08/18/23	#N/A N/A	4.036	#VALUE!	100.0
CAGAMAS BERHAD	3.75	10/18/19	3.865	3.869	0.4	95.0
CIMB BANK BHD	4.8	12/23/25	4.806	4.486	-32.0	90.0
DANAINFRA NASIONAL	4.1	05/03/23	4.035	4.035	0.0	85.0
TELEKOM MALAYSIA BERHAD	4.58	09/03/27	#N/A N/A	4.528	#VALUE!	70.0
TOTAL VOLUME (TOP 10)						1,251.0
TOTAL VOLUME (Overall)						3,449.5

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.