

MIDF Strategy | 23 July 2018

Week Ended 20 July

- UST retreated (prices down; yields up) last week attributable to the US Fed's reiteration of its commitment to gradually tighten.
- It is also notable that St. Louis Fed President (James Bullard) said that if the US Fed's hikes rates at the pace it forecast in June, the UST curve may invert by end of this year. On this score, it must be highlighted that UST yield curve inversion has typically preceded US recessions (with lags of between 3 months to 2 years).
- In contrast, the prices of local MGS benchmark issues ended the review week higher with the 3-year and 10-year yields respectively lower at -38.3bps and -3.7bps to close the week at 3.14% and 4.07%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM11.2b in the review week compared to RM16.5b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased to 60% of the overall Government Bonds trades in the week under review (vis-à-vis ~56% 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.
- The total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.45b in the review week compared to RM2.51b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 29% of the overall Corporate Bonds trades (from ~31% in the week before).

Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

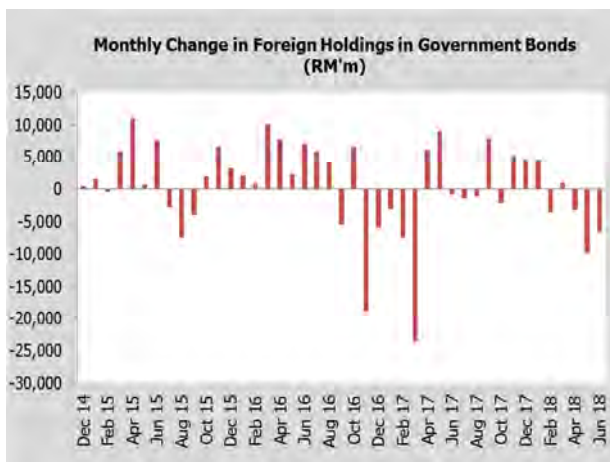
- UST retreated (prices down; yields up) last week attributable to the US Fed’s reiteration of its commitment to gradually tighten.
- Nonetheless, the UST yield curve steepened, as the short-end outperformed, after President Trump remarked that he is “not thrilled” with the US Fed’s rate hikes. Consequently, the 10y-3y yield spread bumped up to +22bps last week from +17bps in the prior week.
- However, we reckon the yield spread may resume its tightening trend going forward as (i) Chairman Jerome Powell has reiterated the US Fed’s commitment to gradually hikes, and (ii) it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- It is also notable that St. Louis Fed President (James Bullard) said that if the US Fed’s hikes rates at the pace it forecast in June, the UST curve may invert by end of this year. On this score, it must be highlighted that UST yield curve inversion has typically preceded US recessions (with lags of between 3 months to 2 years).

UST yield inversion preceded US recessions



Source: Bloomberg

- In contrast, the prices of local MGS benchmark issues ended the review week higher with the 3-year and 10-year yields respectively lower at -38.3bps and -3.7bps to close the week at 3.14% and 4.07%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM11.2b in the review week compared to RM16.5b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased to 60% of the overall Government Bonds trades in the week under review (vis-à-vis ~56% 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 mid and long residual tenors. The top 3 most actively traded were MII 4.37% 10/31/28 at RM2.349b, MGS 3.73% 06/15/28 at RM1.05b and MGS 4.06% 09/30/24 at RM855m.
- The total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.45b in the review week compared to RM2.51b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 29% of the overall Corporate Bonds trades (from ~31% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with mid and long residual tenors. The biggest trading values were seen in Malayan Banking Bhd 6.30% 09/25/68 at RM244m, Public Bank Berhad 4.80% 09/25/23 at RM115m and Prasarana Malaysia Bhd 4.35% 08/04/26 at RM100.0m.
- 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 stays weaker due to Trump's tweet. The president recently tweeted accusing China and EU as currency and interest rate manipulators. He expressed concerns that stronger USD and rising interest rates will push businesses out of the US. Plus, Trump broke decades of tradition where the president will not comment of the path of USD and monetary given that the two subjects are on the job scope of the Fed. Indirectly, he questioned the Fed's moves to raise the interest rate as it could affect business activity to slow. Now, the independence of the Fed is a question mark.
- EURUSD slight depreciated as ECB to have monetary meeting on Thursday. As guided by Draghi, ECB is set to reduce its monthly purchases from EUR30b to EUR15b in Sep-18 and end the asset-purchase program in Dec-18. Most market analysts predict ECB will make its first rate hike since 2011 in 2H19. However, downside risks for

EU's economic performance are among others escalating trade war tension, political crackdown within EU and sharp rise in commodity prices.

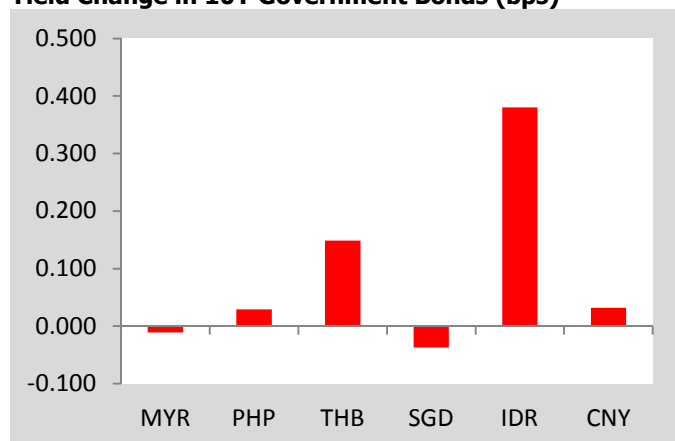
Currencies Changes (Week Ended 20/07) and Quarterly Forecasts

	Close (20/07)	Prev Close (13/07)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	95.16	94.68	0.485	0.5%	90.07	92.79	91.76	93.66
EURUSD	1.17	1.17	-0.003	-0.3%	1.23	1.19	1.21	1.19
GBPUSD	1.30	1.32	-0.020	-1.5%	1.39	1.37	1.34	1.32
USDJPY	112.47	112.38	0.090	-0.1%	108.09	109.24	107.54	110.66
USDMYR	4.06	4.05	0.011	-0.3%	3.92	3.95	4.09	4.05
GBPMYR	5.29	5.32	-0.030	0.6%	5.46	5.37	5.46	5.52
JPYMYR	3.61	3.61	0.007	-0.2%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

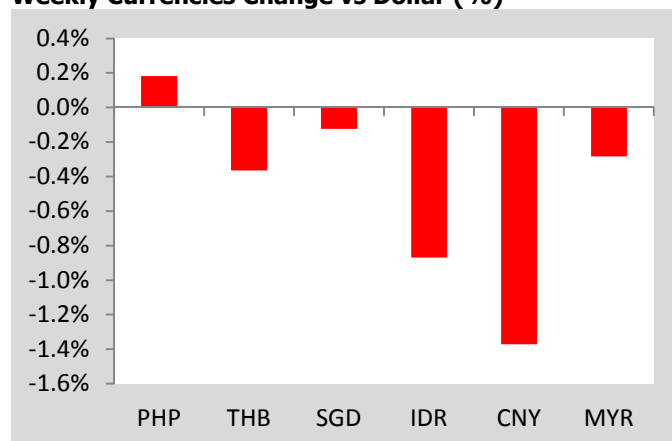
- Ringgit – Remain on uncertainty path as new SST regime to take place. The new SST regime is expected to have wider coverage of goods and services, with tax rate of 10% and 6% respectively. The coverage details are not yet announced. On macro data, underpin by zero-rated GST, headline inflation went down to 3-year low at 0.8%yoy in Jun-18 while core inflation recorded lowest ever at 0.1%yoy. MIER's consumer sentiment index touched 21-year high at 132.9 points in 2Q18 amid of post-GE14 and tax holiday effects. 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 (%)

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Malaysia	3.00	3.00	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	4.25	4.75	5.25	5.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25
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

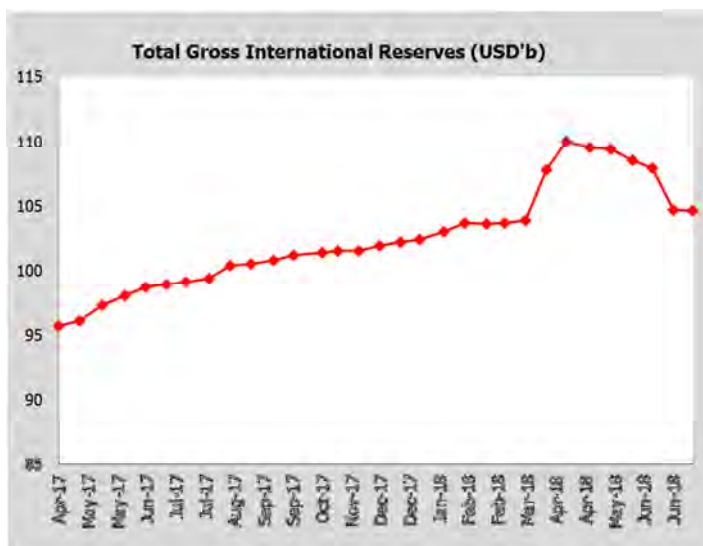
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.25	1.50	1.50	1.50	1.75	1.75	1.75	2.00	2.00

Source: CEIC, MIDFR


- Presently, the greatest threat to global growth is trade war. If the trade tension escalates to a full blown trade war, it could be the tipping point for global growth slowdown.
- The trade tension between US and China reached new level with US an announcement of possible tariff on China goods worth USD200 billion.
- President Trump announced a possible USD500 billion more tariff on China products last week.
- The move from rhetoric to action posed serious threat to global trade and growth and continued to hamper investor's sentiment toward emerging economies.
- US recent stance on global trade has elevated uncertainty in the market and highly disruptive.
- Growing risks determine the positioning of global capital seeking for yield and affecting monetary stance especially in emerging economies.
- Regional currencies are expected to come under pressure amid hawkish Fed, stronger dollar and ongoing trade tension which move capital to safe haven.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance.
- Domestically, inflationary pressure is expected to moderate in the upcoming months taking into consideration the impact of recent policy move by the government.
- Domestic consumption is also expected to remain robust amid tax holiday period and stable labor market. This is positive to domestic growth.
- For domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike- 3.25%) for 2018 barring any unforeseen circumstances.

C. BNM FOREIGN RESERVES

- As at 13 July 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD104.6b.



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	13-Jul Fri	16-Jul Mon	17-Jul Tue	18-Jul Wed	19-Jul Thu	20-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.524	3.565	3.571	3.571	3.571	3.141	-38.3
5-Y	3.775	3.768	3.768	3.768	3.768	3.768	-0.7
7-Y	3.957	3.957	3.957	3.957	3.957	3.985	2.8
10-Y	4.11	4.11	4.104	4.098	4.098	4.073	-3.7
20-Y	4.787	4.787	4.787	4.794	4.798	4.798	1.1
RINGGIT IRS							
1-Y	3.71	3.705	3.7017	3.7061	3.7039	3.7061	-0.39
3-Y	3.745	3.745	3.75	3.76	3.765	3.7475	0.25
5-Y	3.855	3.845	3.905	3.86	3.86	3.84	-1.5
7-Y	3.965	3.97	3.98	3.985	3.98	3.97	0.5
10-Y	4.15	4.15	4.16	4.1675	4.1665	4.16	1
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	2.6523	2.6769	2.6851	2.6879	2.6605	2.6771	2.48
5-Y	2.7249	2.7522	2.7625	2.7676	2.7336	2.7645	3.96
7-Y	2.7946	2.8246	2.8296	2.8346	2.8022	2.8473	5.27
10-Y	2.8271	2.8582	2.86	2.8692	2.838	2.8931	6.6
30-Y	2.9315	2.9616	2.9694	2.9857	2.9585	3.0258	9.43
USD LIBOR							
1-M	2.07325	2.0785	2.08175	2.08625	2.081	2.069	-0.425
2-M	2.17338	2.1735	2.17313	2.179	2.17963	2.17938	0.6
3-M	2.336	2.33263	2.34194	2.3475	2.34706	2.34156	0.556

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	13-Jul Yield	20-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.215	4.217	0.2	2,390.4
MALAYSIA GOVERNMENT	3.733	06/15/28	4.110	4.073	-3.7	1,051.5
MALAYSIA GOVERNMENT	4.059	09/30/24	3.989	4.016	2.7	855.0
MALAYSIA GOVERNMENT	3.759	03/15/19	3.385	3.374	-1.1	526.0
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.464	3.421	-4.3	369.0
MALAYSIA GOVERNMENT	3.58	09/28/18	3.250	3.373	12.3	343.5
MALAYSIA GOVERNMENT	4.642	11/07/33	4.558	4.542	-1.6	296.6
MALAYSIA GOVERNMENT	3.882	03/10/22	3.707	3.712	0.5	292.1
MALAYSIA GOVERNMENT	4.378	11/29/19	3.409	3.409	0.0	287.7
MALAYSIA GOVERNMENT	3.757	04/20/23	3.775	3.768	-0.7	262.5
TOTAL VOLUME (TOP 10)						6,674.2
TOTAL VOLUME (Overall)						11,215.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	13-Jul Yield	20-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYAN BANKING BHD	6.3	09/25/68	4.323	4.091	-23.2	244.0
PUBLIC BANK BERHAD	4.8	09/25/23	4.188	3.956	-23.2	115.0
PRASARANA MALAYSIA BHD	4.35	08/04/26	4.480	4.387	-9.3	100.0
PENGURUSAN AIR SPV BHD	4.41	06/06/23	4.333	4.238	-9.5	95.0
MALAYAN BANKING BHD	4.9	01/29/24	4.337	4.401	6.4	85.0
SARAWAK ENERGY BHD	5.32	12/03/32	5.223	5.188	-3.5	80.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	N/A	4.344	N/A	80.0
DANAINFRA NASIONAL	4.37	02/21/25	N/A	4.272	N/A	70.0
PRASARANA MALAYSIA BHD	5.01	09/14/37	4.978	4.948	-3.0	70.0
DANAINFRA NASIONAL	5.35	11/15/47	5.168	5.148	-2.0	70.0
TOTAL VOLUME (TOP 10)						1,009.0
TOTAL VOLUME (Overall)						3,452.9

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.