

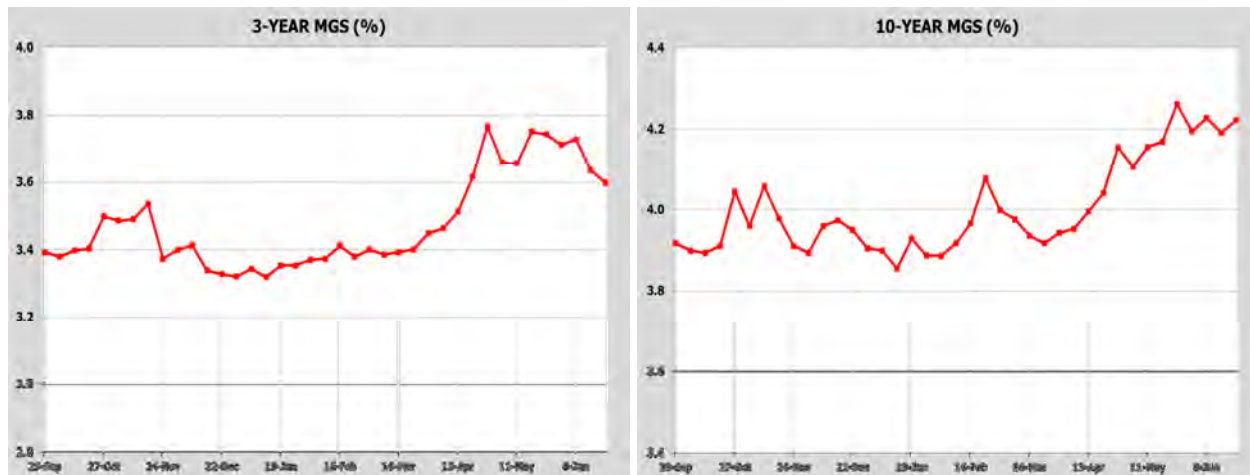
MIDF Strategy | 25 June 2018

Week Ended 22 June

- UST rallied (prices up; yields down) last week attributable to (i) the heightened trade spat between the US and China as well as with the EU which may negatively impact the world's economy, and (ii) the US flash manufacturing and services PMI fell to 54.6 and 56.5 points respectively in Jun-18.
- Domestically, the prices of MGS benchmark issues ended the review week mixed attributable to policy uncertainty and mixed inflation data. The 3-year yield shed -3.7bps while the 10-year yield edged higher by +3.1bps to close the week at 3.60% and 4.22% respectively.
- Total trading value for Government Bonds (MGS/MII) increased to RM7.4b in the review week compared to RM6.8b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 52% of the overall Government Bonds trades in the week under review (vis-à-vis ~53% in the week before). In addition, 6 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 RM834m in the review week compared to RM737.0m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 41% of the overall Corporate Bonds trades (from ~42% in the week before).
- Total foreign holdings of Government Bonds stood at RM171.7b as at end-May 2018, a decline of RM9.82b from the April 2018 figure of RM181.5b. It was the biggest monthly decline since March 2017.
- Similarly, total foreign holdings of Corporate Bonds decreased by RM803.5m in the month of May 2018 to RM14.3b.

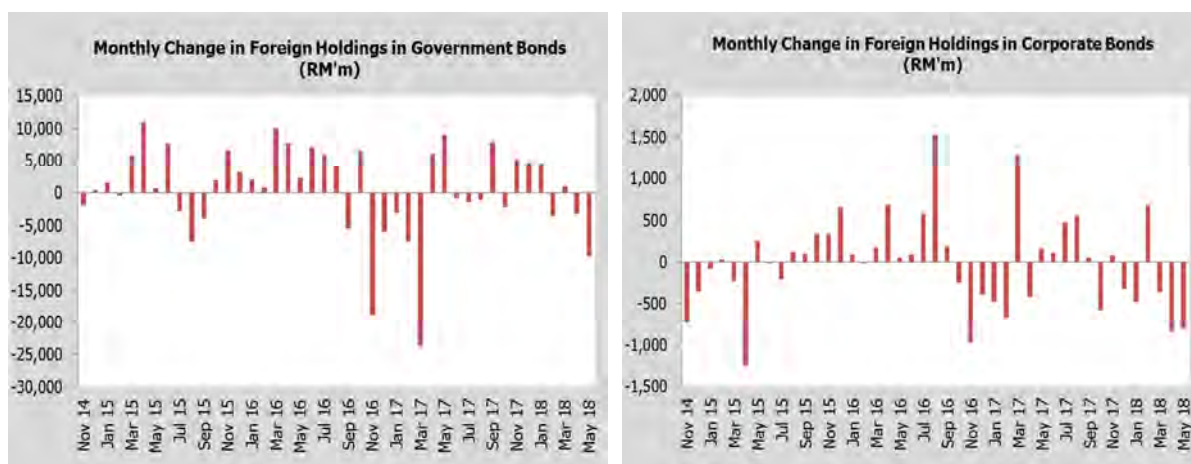
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

- UST rallied (prices up; yields down) last week attributable to (i) the heightened trade spat between the US and China as well as with the EU which may negatively impact the world's economy, and (ii) the US flash manufacturing and services PMI fell to 54.6 and 56.5 points respectively in Jun-18.
- Domestically, the prices of MGS benchmark issues ended the review week mixed attributable to policy uncertainty and mixed inflation data. The 3-year yield shed -3.7bps while the 10-year yield edged higher by +3.1bps to close the week at 3.60% and 4.22% respectively.
- Total trading value for Government Bonds (MGS/MII) increased to RM7.4b in the review week compared to RM6.8b in the review week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 52% of the overall Government Bonds trades in the week under review (vis-à-vis ~53% in the week before). In addition, 6 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 medium residual tenors. The top 3 most actively traded were MII 4.39% 07/07/23 at RM625.0m, MGS 4.05% 09/30/21 at RM433.1m and MGS 3.8% 08/17/23 at RM424.3m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM834m in the review week compared to RM737.0m in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 41% of the overall Corporate Bonds trades (from ~42% 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 Bank Islam Malaysia Bhd 5.08% 11/12/27 at RM60m, YTL Power International 5.05% 05/03/27 at RM50.5m and Bank Muamalat Malaysia 5.50% 11/25/21 at RM45.8m.
- Total foreign holdings of Government Bonds stood at RM171.7b as at end-May 2018, a decline of RM9.82b from the April 2018 figure of RM181.5b. It was the biggest monthly decline since March 2017.



Source: BNM

- Similarly, total foreign holdings of Corporate Bonds decreased by RM803.5m in the month of May 2018 to RM14.3b.

B. FOREIGN EXCHANGE

- DXY Index contracted amid of fell in business confidences. Flash manufacturing and services PMI of the US in Jun-18 fell to 54.6 and 56.5 points respectively, lower than May-18. The slight slowdown is partly due to the looming trade war between the US, China, Canada, Mexico and EU. Trump-led administration threatens to impose tariffs on EU's car following the levies charged by EU on several products of the US. Nevertheless, business environment in the US remains optimistic given that both PMI figures stay above expansionary line of 50 points.
- EURUSD gains little despite of trade war and less optimistic PMI. EU imposed levies worth of \$3.4bn on several products from the US as a retaliation against the earlier tariffs imposition on EU's steel and aluminium. Flash manufacturing PMI for EU went down to 18-month low at 55 points as widely expected by market.

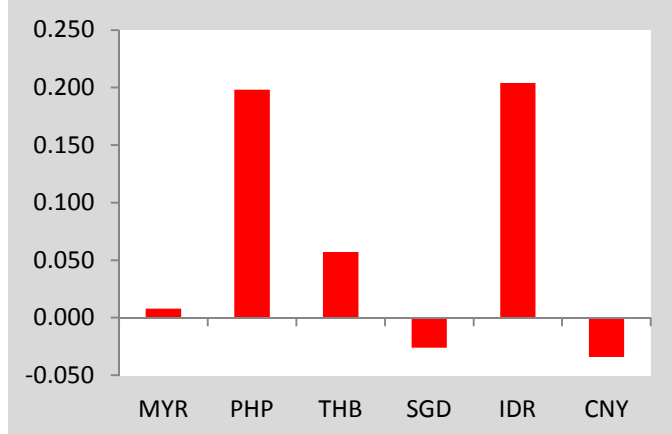
Currencies Changes (Week Ended 22/06) and Quarterly Forecasts

	Close (22/06)	Prev Close (15/06)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	94.542	94.788	-0.246	-0.3%	90.07	90.69	91.91	95.98
EURUSD	1.165	1.161	0.004	0.4%	1.23	1.22	1.20	1.16
GBPUSD	1.329	1.328	0.002	0.1%	1.39	1.25	1.15	1.09
USDJPY	110.200	110.660	-0.460	0.4%	108.09	100.29	95.10	102.27
USDMYR	4.003	3.985	0.018	-0.4%	3.92	3.95	4.00	3.95
GBPMYR	5.321	5.290	0.032	-0.6%	5.46	4.89	4.53	4.58
JPYMYR	3.632	3.601	0.031	-0.9%	3.63	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

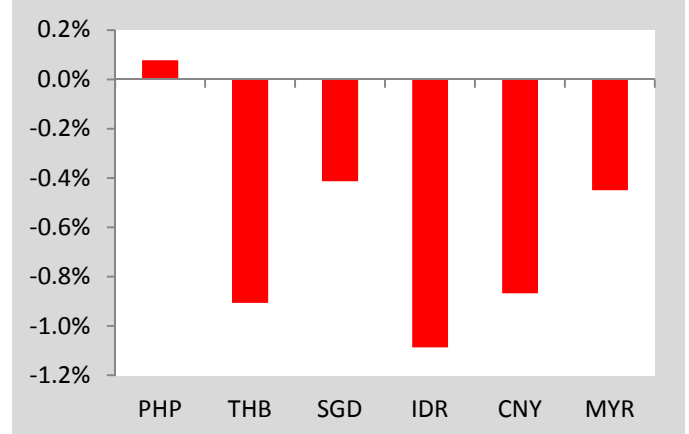
- Ringgit – Depreciate due to policy uncertainties continue. Policy uncertainty environment continues in Malaysia and further revision in several government-backed mega projects. On macro data, Malaysia's headline inflation rose to 4-month high at 1.8% while core inflation stayed at its lowest point of 1.5% in May-18. 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 (%)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Malaysia	3.00	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
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	3.00	3.00
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	1.25	1.25	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	0.25	0.25	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	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75

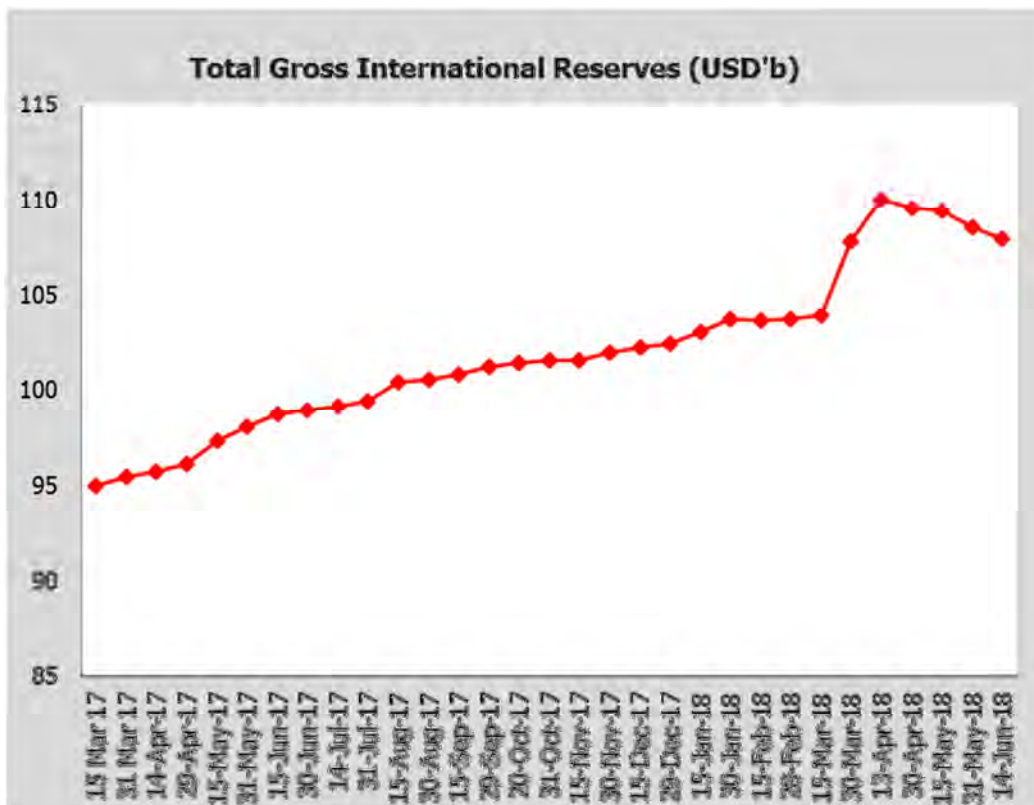
Source: CEIC, MIDFR

- Global growth experiencing a hiccup with escalating trade tension between US and its trading partners. The development posed serious threat to global trade.
- US recent stance on global trade has instigated countermeasures by its targeted allies and elevated uncertainty for the market.
- Geopolitical threats on the other hand, remain prevalent in influencing the pace of global growth in the near term. Political uncertainty in Europe is the latest addition to the list.
- Growing risks related to trade tension, geopolitical uncertainties and policy uncertainty determine the positioning of global capital seeking for yield hence affecting monetary stance especially for emerging economies.
- Nevertheless, move toward normalization and tightening in developed economies are expected in the near term as growth pick-up and inflationary pressure start kicking in.
- Regionally Bank Indonesia will be deciding on monetary policy this week as pressure mounting to curb exodus of foreign fund.
- Commodities prices continue its upward momentum signaling inflationary pressure to start kick-in in both developed and emerging economies
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance as well as commodities prices.


- Domestically, inflationary pressure is expected to moderate with upward bias amid rising pressure from commodities prices. However, recent move to maintain the Ron95 pump price and zero-rated GST will help cushion the pressure.
- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for 2018 barring any unforeseen circumstances.

C. BNM FOREIGN RESERVES

- As at 14 June 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD107.9b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.0 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	15-Jun Fri	18-Jun Mon	19-Jun Tue	20-Jun Wed	21-Jun Thu	22-Jun Fri	Change (WoW bp)
MGS							
3-Y	3.635	3.638	3.619	3.613	3.626	3.598	-3.7
5-Y	3.813	3.813	3.825	3.825	3.825	3.871	5.8
7-Y	4.035	4.035	4.042	4.044	4.044	4.042	0.7
10-Y	4.191	4.191	4.216	4.206	4.222	4.222	3.1
20-Y	4.873	4.873	4.873	4.885	4.885	4.885	1.2
RINGGIT IRS							
1-Y	3.73	3.73	3.73	3.73	3.73	3.73	0
3-Y	3.795	3.8	3.8	3.795	3.795	3.795	0
5-Y	3.88	3.885	3.875	3.8738	3.8825	3.885	0.5
7-Y	3.985	3.985	3.982	4	3.985	4	1.5
10-Y	4.16	4.16	4.155	4.1	4.12	4.16	0
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	2.6742	2.6687	2.6496	2.677	2.6441	2.6413	-3.29
5-Y	2.7974	2.7906	2.7702	2.8077	2.7668	2.7668	-3.06
7-Y	2.8873	2.8798	2.8574	2.8973	2.8548	2.8523	-3.5
10-Y	2.9205	2.9169	2.8967	2.9389	2.8967	2.8949	-2.56
30-Y	3.0465	3.0489	3.0323	3.0775	3.0441	3.0394	-0.71
USD LIBOR							
1-M	2.08494	2.08375	2.08788	2.08363	2.09113	2.09775	1.281
2-M	2.15175	2.1505	2.15425	2.16525	2.17231	2.17881	2.706
3-M	2.32594	2.32469	2.33025	2.33188	2.33506	2.33888	1.294

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	15-Jun Yield	22-Jun Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.39	07/07/23	4.069	4.101	3.2	625.0
MALAYSIA GOVERNMENT	4.048	09/30/21	3.752	3.686	-6.6	433.1
MALAYSIA GOVERNMENT	3.8	08/17/23	3.994	3.984	-1.0	424.3
MALAYSIA GOVERNMENT	3.759	03/15/19	3.271	3.427	15.6	404.5
MALAYSIA GOVERNMENT	3.441	02/15/21	3.643	3.639	-0.4	402.5
MALAYSIA GOVERNMENT	3.62	11/30/21	3.635	3.598	-3.7	370.8
MALAYSIA GOVERNMENT	4.254	05/31/35	4.865	4.946	8.1	341.3
MALAYSIA GOVERNMENT	3.844	04/15/33	4.758	4.756	-0.2	287.4
MALAYSIA GOVERNMENT	3.659	10/15/20	3.535	3.589	5.4	278.1
MALAYSIA GOVERNMENT	4.232	06/30/31	4.702	4.656	-4.6	273.0
TOTAL VOLUME (TOP 10)						3,840.1
TOTAL VOLUME (Overall)						7,427.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	15-Jun Yield	22-Jun Yield	Change (WoW bp)	Weekly Volume (RM bn)
BANK ISLAM MALAYSIA BHD	5.08	11/12/27	4.911	4.920	0.9	60.0
YTL POWER INTERNATIONAL	5.05	05/03/27	5.027	5.004	-2.3	50.5
BANK MUAMALAT MALAYSIA	5.5	11/25/21	5.221	5.101	-12.0	45.8
CAGAMAS BERHAD	5.05	09/03/19	N/A	4.167	N/A	40.0
PERBADANAN KEMAJUAN SEL	4.45	10/31/18	N/A	4.310	N/A	30.0
PERBADANAN KEMAJUAN SEL	4.6	08/10/18	N/A	4.223	N/A	30.0
PUBLIC BANK BERHAD	4.73	11/15/23	N/A	4.374	N/A	25.0
TRIPLC MEDICAL SDN BHD	4.75	10/21/22	N/A	4.500	N/A	20.0
DANAINFRA NASIONAL	4.89	05/25/32	N/A	4.927	N/A	20.0
SOUTHERN POWER GENERATIO	4.97	10/30/26	4.891	4.875	-1.6	20.0
TOTAL VOLUME (TOP 10)						341.3
TOTAL VOLUME (Overall)						834.0

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.