

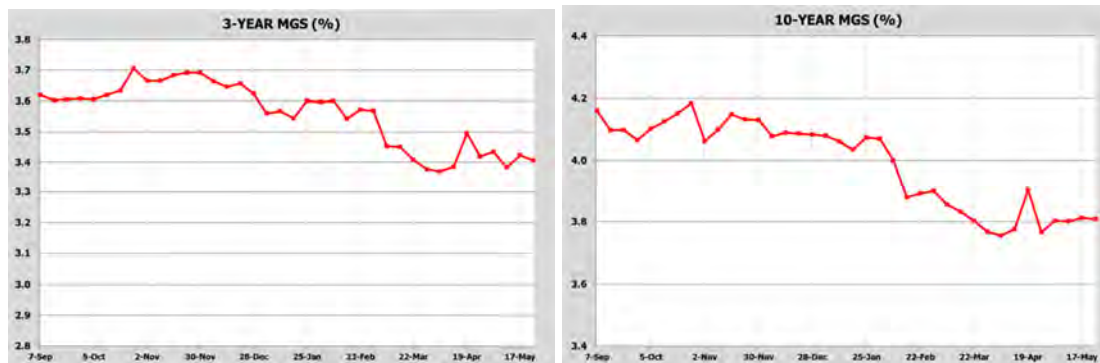
MIDF Strategy | 27 May 2019

Week Ended 24 May 2019

- UST rallied (prices up; yields down) for the third consecutive weeks arguably in reaction to the opening of a tech dimension in the ongoing US-China trade war. Recall, US President Donald Trump added China tech behemoth, Huawei, to the so-called Entity List hence barring US companies from conducting business dealings with the former without prior permission. Accordingly, the 10y-3y yield spread flattened (as the long-end outperformed) to +22bps from +25bps a week earlier. Perhaps the market is now expecting the spat to get worse before it ever gets better.
- Likewise, the price of MGS benchmark issues ended higher last week as the 3-year and 10-year yields shed -1.7bp and -0.4bp respectively to close at 3.41% and 3.81%. However, the curve steepened as the short-end outperformed. While it is too early to tell, we share the opinion that Southeast Asian region may eventually end up being one of the collateral beneficiaries of the US-China spat (as it likely results in the remake of world's production value chain).
- Total trading value for Government Bonds (MGS/MII) declined to RM11.9b in the review week compared to RM19.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded was higher (lower trading breadth) at 49% of the overall Government Bonds trades in the week under review as compared to the week before which was at 45%. 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) decreased to RM1.83b in the review week compared to RM3.12b in earlier week (based on Bloomberg data). Moreover, the total trading value of the 10 most actively traded issues increased (lower trading breadth) to 33% of the overall Corporate Bonds trades in the review week as compared to 27% in the week before.

Weekly Money Review

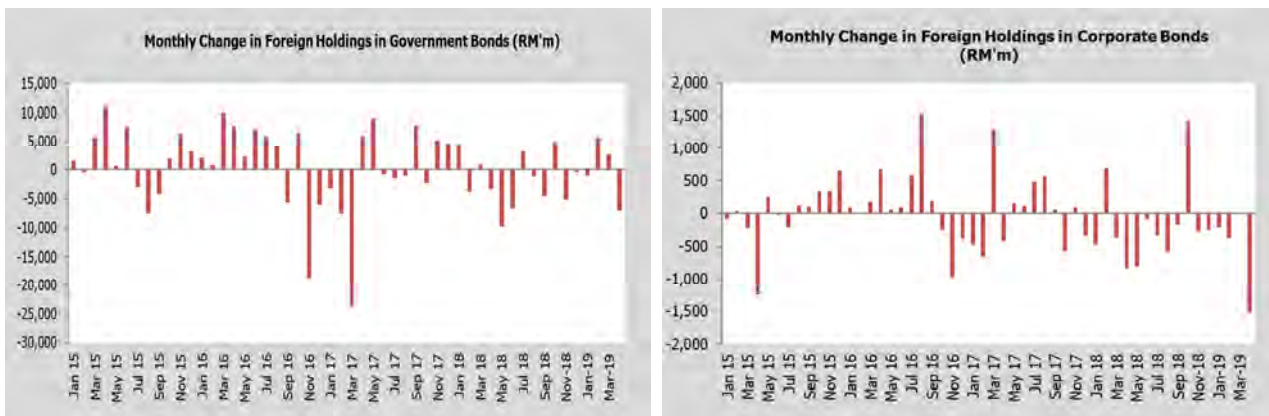
A. FIXED INCOME



Source: Bloomberg, MIDFR

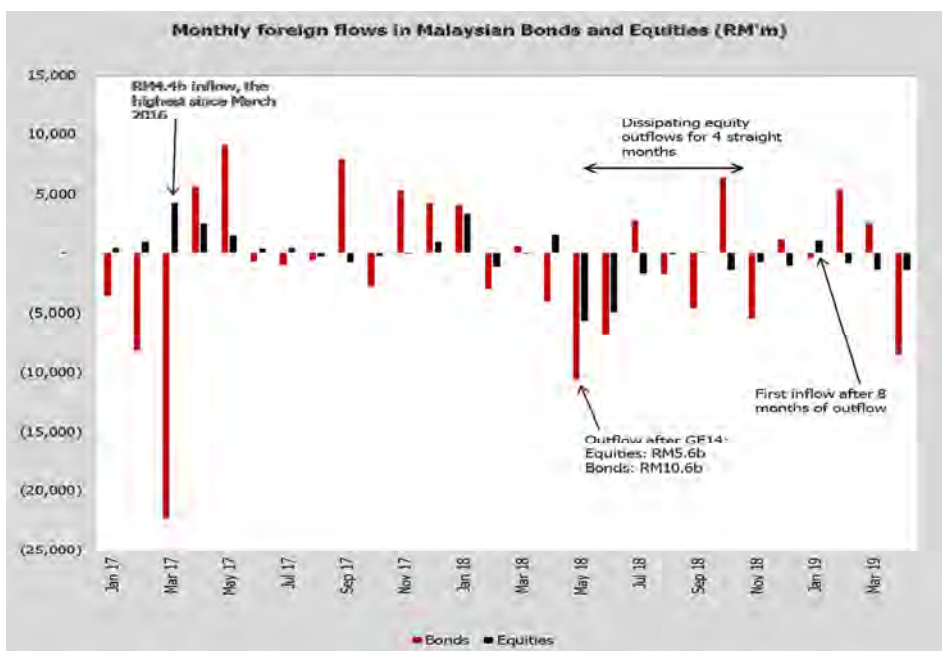
- UST rallied (prices up; yields down) for the third consecutive weeks arguably in reaction to the opening of a tech dimension in the ongoing US-China trade war. Recall, US President Donald Trump added China tech behemoth, Huawei, to the so-called Entity List hence barring US companies from conducting business dealings with the former without prior permission. Accordingly, the 10y-3y yield spread flattened (as the long-end outperformed) to +22bps from +25bps a week earlier. Perhaps the market is now expecting the spat to get worse before it ever gets better.
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- Total trading value for Government Bonds (MGS/MII) declined to RM11.9b in the review week compared to RM19.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded was higher (lower trading breadth) at 49% of the overall Government Bonds trades in the week under review as compared to the week before which was at 45%. 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 of short and mid residual tenors. The top 3 most actively traded were MGS 3.885% 8/15/29 at RM1.54b, MGS 4.059% 9/30/24 at RM715m, and MGS 4.642% 11/07/33 at RM693m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.83b in the review week compared to RM3.12b in earlier week (based on Bloomberg data). Moreover, the total trading value of the 10 most actively traded issues increased (lower trading breadth) to 33% of the overall Corporate Bonds trades in the review week as compared to 27% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenors. The biggest trading values were seen in Danainfra Nasional 4.33% 11/15/24 at RM120m, Khazanah Nasional 0% 8/14/23 at RM80m, and Danainfra Nasional 3.9% 10/20/23 at RM65m.
- Total foreign holdings of Government Bonds stood at RM162.3b as at end-April 2019. It was a decline of -RM7.1b from the March 2019 figure of RM169.4b.

- Likewise, total foreign holdings of Corporate Bonds decreased by -RM1.52b in the month of April 2019 to RM11.9b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM8.6b in April 2019 while the former saw a total net outflow worth -RM1.41b. 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 slightly weakens due to poor PMI result. Following the breakdown of trade talks, the flash IHS Markit PMI for the US in May-19 declines to 50.6 points, lowest in almost 10-year. It is a broad-based slowdown particularly on expansion of output, employment and pre-production inventories.
- EURUSD remains steady despite parliament election. Flash manufacturing PMI falls to 47.7 points in May-19, slightly lower the previous month of 47.9 points. Political affairs stay as downside risk especially with the recent announcement of resignation by the UK Prime Minister Theresa May. The result of EU's parliament elections will determine the future direction of the union.
- Ringgit – Depreciate further as oil price dip below \$70pbd. After 7-consecutive weeks, Brent crude oil price went down to \$68.6 partly due to pessimistic global demand over trade war effects. In addition, Malaysia's CPI for Apr-

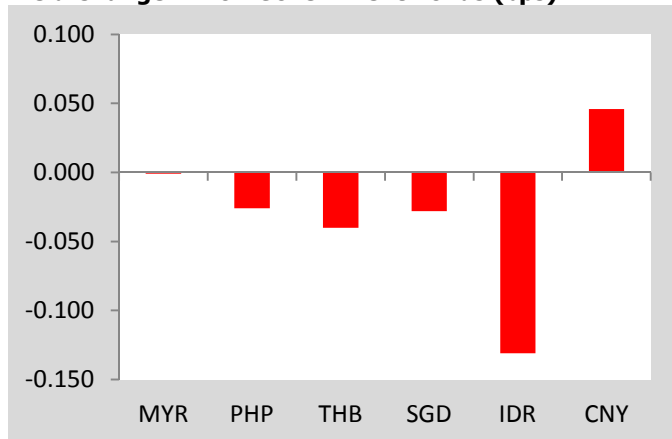
19 registered at 0.2%, less than market estimates of 0.4%. Core CPI and food CPI maintained at 0.5% and 1.1% respectively. We maintain our call MYR to average at 4.12 and register year-end target at 4.10 in 2019.

Currencies Changes (Week Ended 24/05) and Quarterly Forecasts

	Close (24/05)	Prev Close (17/05)	Change	% Change	1Q19	2Q19F	3Q19F	4Q19F
DXY Index	97.82	98.00	-0.180	-0.2%	96.46	94.94	93.88	95.83
EURUSD	1.12	1.12	0.003	0.2%	1.13	1.15	1.17	1.15
GBPUSD	1.27	1.27	-0.004	-0.3%	1.30	1.32	1.30	1.27
USDJPY	109.61	110.08	-0.470	0.4%	110.15	107.55	105.87	108.95
USDMYR	4.19	4.18	0.016	-0.4%	4.09	4.15	4.10	4.10
GBPMYR	5.32	5.34	-0.022	0.4%	5.32	5.29	5.38	5.45
JPYMYR	3.82	3.79	0.030	-0.8%	3.72	3.73	3.92	3.95

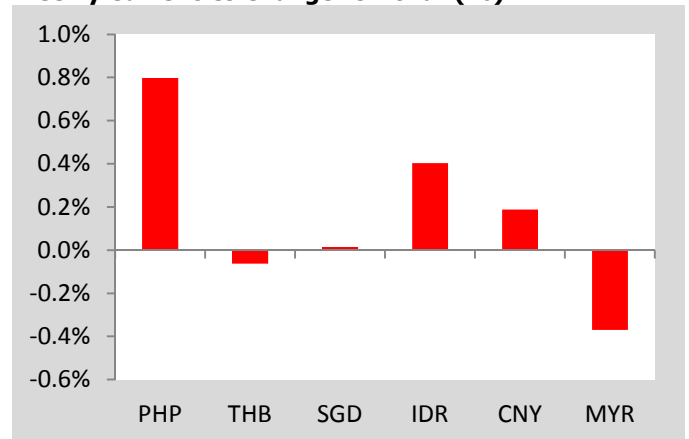
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.00
Indonesia	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.00	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.50
Thailand	1.50	1.50	1.50	1.50	1.75	1.75	1.75	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	1.75	1.75	1.75	1.75	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	0.75	0.75	0.75	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	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50

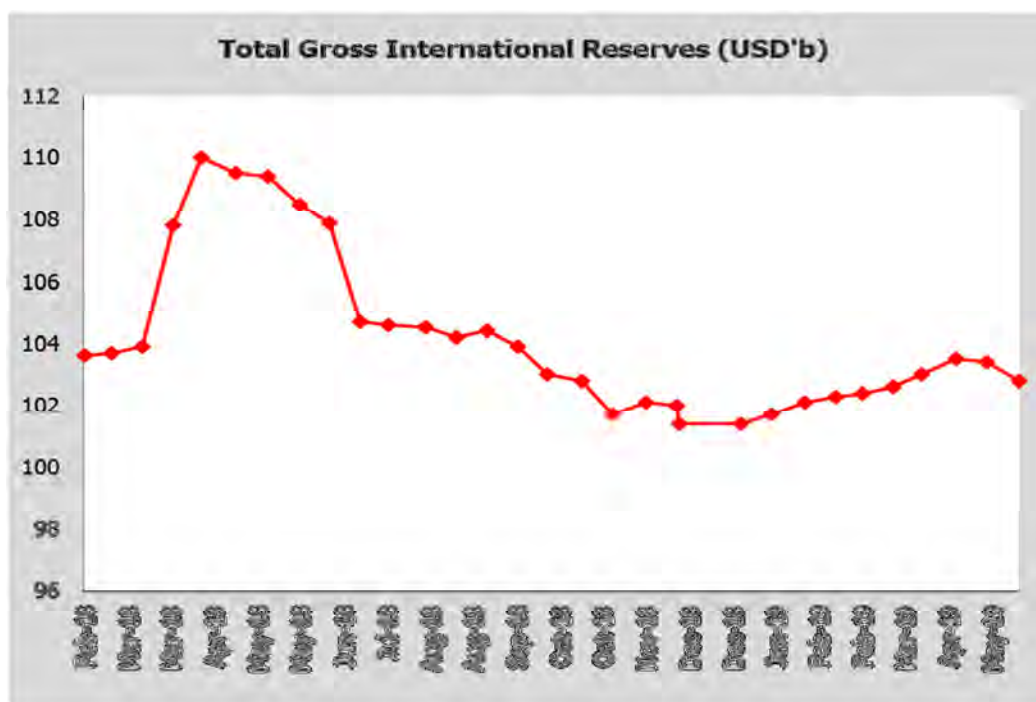
Source: CEIC, MIDFR

- China has signaled its lack of interest to continue trade talks with the US.

- Trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.
- Global demand and trade flows are expected to moderate following the imposition of tariff hikes by both the US and China.
- On the monetary policy space, as guided by the latest projection, the Fed will maintain its interest rate at current range in 2019.
- The Fed predicts slower GDP growth, higher jobless rate while Core PCE inflation stays at 2%.
- ECB sees no rate hike in 2019.
- Malaysia's GDP growth at 4.5%yoy in 1Q19, outpaced market expectations of 4.3%yoy.
- Domestic demand remains intact and solid, contributed towards the 1Q19 GDP growth.
- Commodity-based sectors are predicted to pick-up, in line with commodity prices.
- Headline CPI remained unchanged in Apr-19 at 0.2%. Similar to core CPI and food CPI at 0.5% and 1.1% respectively.
- Current monetary policy remains accommodative at present to support growth in the domestic economy.
- We expect no further changes in monetary policy which OPR maintains at 3.00% in 2019.

C. BNM FOREIGN RESERVES

- As at 15 May 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD102.8b.



Source: BNM

- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	17-May Fri	20-May Mon	21-May Tue	22-May Wed	23-May Thu	24-May Fri	Change (WoW bp)
MGS							
3-Y	3.423	3.423	3.427	3.427	3.414	3.406	-1.7
5-Y	3.303	3.303	3.593	3.593	3.589	3.573	27
7-Y	3.754	3.754	3.761	3.761	3.748	3.722	-3.2
10-Y	3.812	3.812	3.813	3.813	3.831	3.808	-0.4
20-Y	4.304	4.304	4.304	4.304	4.299	4.319	1.5
RINGGIT IRS							
1-Y	3.47	3.47	3.475	3.475	3.45	3.44	-3
3-Y	3.515	3.515	3.5175	3.5175	3.505	3.475	-4
5-Y	3.575	3.575	3.575	3.575	3.585	3.55	-2.5
7-Y	3.645	3.645	3.665	3.665	3.645	3.62	-2.5
10-Y	3.85	3.85	3.835	3.835	3.81	3.82	-3
KLIBOR							
1-M	3.19	3.19	3.19	3.19	3.19	3.19	0
2-M	3.41	3.41	3.41	3.41	3.41	3.41	0
3-M	3.46	3.46	3.46	3.46	3.46	3.46	0
UST							
3-Y	2.144	2.1739	2.1984	2.1603	2.0895	2.103	-4.1
5-Y	2.1728	2.2046	2.2264	2.1794	2.1141	2.1205	-5.23
7-Y	2.2722	2.3039	2.321	2.2721	2.2112	2.2134	-5.88
10-Y	2.3909	2.4157	2.4264	2.382	2.3185	2.3202	-7.07
30-Y	2.8253	2.8369	2.8439	2.8076	2.7535	2.7512	-7.41
USD LIBOR							
1-M	2.44188	2.436	2.42963	2.437	2.42975	2.42813	-1.375
2-M	2.48788	2.48825	2.49325	2.49725	2.496	2.48663	-0.125
3-M	2.52188	2.52338	2.5235	2.52475	2.52063	2.52488	0.3

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	17-May Yield	24-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.885	08/15/29	3.812	3.808	-0.4	1,537.6
MALAYSIA GOVERNMENT	4.059	09/30/24	3.704	3.667	-3.7	715.1
MALAYSIA GOVERNMENT	4.642	11/07/33	4.094	4.105	1.1	693.0
MALAYSIA GOVERNMENT	3.906	07/15/26	3.754	3.722	-3.2	508.6
MALAYSIA GOVERNMENT	3.882	03/10/22	3.423	3.406	-1.7	441.8
MALAYSIA GOVERNMENT	4.921	07/06/48	4.580	4.565	-1.5	426.1
MALAYSIA INVESTMNT ISSUE	4.284	06/15/20	3.280	3.280	0.0	400.0
MALAYSIA GOVERNMENT	3.48	03/15/23	3.615	3.553	-6.2	388.3
MALAYSIA GOVERNMENT	5.734	07/30/19	3.117	3.303	18.6	369.6
MALAYSIA INVESTMNT ISSUE	3.576	05/15/20	3.280	3.280	0.0	340.0
TOTAL VOLUME (TOP 10)						5,820.0
TOTAL VOLUME (Overall)						11,921.6

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	17-May Yield	24-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
DANAINFRA NASIONAL	4.33	11/15/24	3.834	3.797	-3.7	120.0
KHAZANAH NASIONAL BHD	ZERO	08/14/23	3.800	3.792	-0.8	80.0
DANAINFRA NASIONAL	3.92	10/20/23	#N/A N/A	3.709	#VALUE!	65.0
KHAZANAH NASIONAL BHD	ZERO	02/24/21	#N/A N/A	3.571	#VALUE!	60.0
PERBADANAN TABUNG PENDID	4.58	02/28/34	4.327	4.308	-1.9	55.0
PENGURUSAN AIR SPV BHD	4.43	02/08/21	#N/A N/A	3.457	#VALUE!	50.0
PERBADANAN TABUNG PENDID	4.45	03/12/27	3.988	3.971	-1.7	45.0
PRASARANA MALAYSIA BHD	4.97	12/11/30	4.090	4.090	0.0	45.0
DANAINFRA NASIONAL	4.03	04/01/26	3.889	3.889	0.0	40.0
PERBADANAN TABUNG PENDID	4.2	07/27/26	3.952	3.953	0.1	35.0
TOTAL VOLUME (TOP 10)						595.0
TOTAL VOLUME (Overall)						1,827.8

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.