

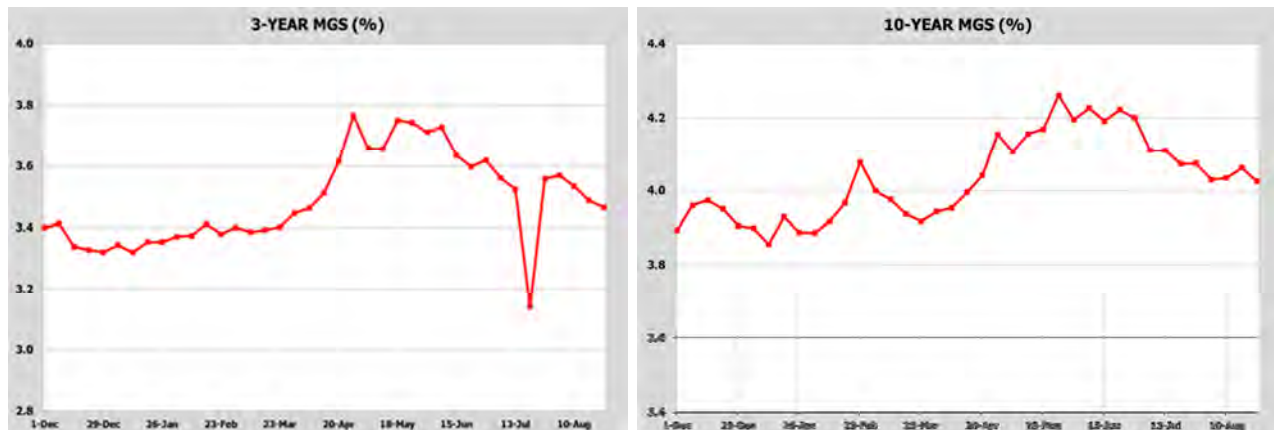
MIDF Strategy | 27 August 2018

Week Ended 24 August

- UST rallied (prices up; yields down) last week partly attributable to a statement by the Chairman of US Federal Reserve signalling “further, gradual” rate hikes which is arguably viewed by the market as rather dovish.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +14bps, the lowest since June 2007, from +18bps a week earlier. As asserted before, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Likewise, the price of local MGS benchmark issues ended the holiday-shortened review week higher with the 3-year and 10-year yields lower at -2.3bps and -3.7bps respectively to close the week at 3.46% and 4.02%.
- Total foreign holdings of Government Bonds stood at RM168.3b as at end-July 2018. It was an increase of RM3.21b from the June 2018 figure of RM165.0b. On the other hand, total foreign holdings of Corporate Bonds decreased by RM326.8.0m in the month of July 2018 to RM13.9b.
- In comparison to equities, the bonds market saw a total net inflow worth RM2.88b in July 2018 (reversing 3 consecutive months decline), while the former saw a total net outflow worth -RM1.68b (smallest outflow in 3 months). Nonetheless, year-to-date, both equities and bonds markets remained in the red with total net outflows of -RM8.6b and -RM16.9b respectively.

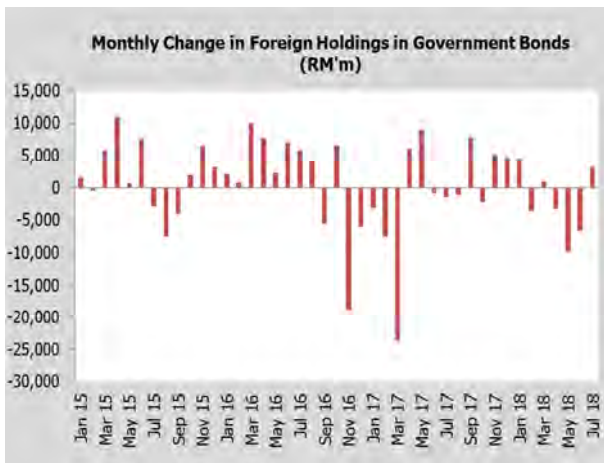
Weekly Money Review

A. FIXED INCOME



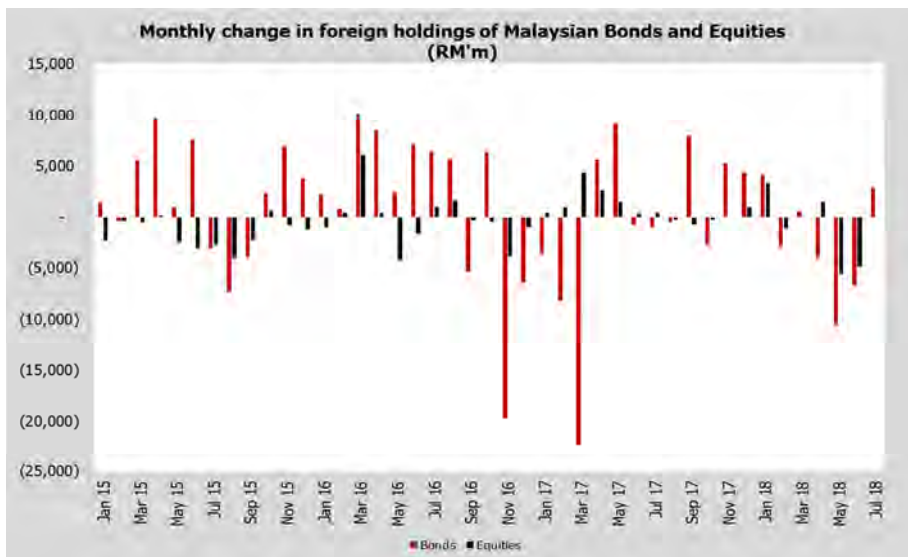
Source: Bloomberg

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- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +14bps, the lowest since June 2007, from +18bps a week earlier. As asserted before, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers.
- Likewise, the price of local MGS benchmark issues ended the holiday-shortened review week higher with the 3-year and 10-year yields lower at -2.3bps and -3.7bps respectively to close the week at 3.46% and 4.02%.
- Total trading value for Government Bonds (MGS/MII) increased to RM17.5b in the review week compared to RM13.5b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decline (higher trading breadth) to 60% of the overall Government Bonds trades in the week under review (vis-à-vis ~60% in the week before). In addition, 9 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 varied residual tenors. The top 3 most actively traded were MII 3.56% 04/30/19 at RM1.75b, MGS 3.76% 04/20/23 at RM1.73b and MII 4.37% 10/31/28 at RM1.34b.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.76b in the review week compared to RM4.03b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 39% of the overall Corporate Bonds trades (from ~35% 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 Sarawak Hidro Sdn Bhd 4.58% 10/13/28 at RM100m, Jambatan Kedua Sdn Bhd 4.30% 05/28/25 at RM90.0m and Prasarana Malaysia Bhd 4.75% 02/26/31 at RM75.0m.
- Total foreign holdings of Government Bonds stood at RM168.3b as at end-July 2018. It was an increase of RM3.21b from the June 2018 figure of RM165.0b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds decreased by RM326.8.0m in the month of July 2018 to RM13.9b.



Source: BNM, Bursa Preliminary Statistics

- In comparison to equities, the bonds market saw a total net inflow worth RM2.88b in July 2018 (reversing 3 consecutive months decline), while the former saw a total net outflow worth -RM1.68b (smallest outflow in 3 months). Nonetheless, year-to-date, both equities and bonds markets remained in the red with total net outflows of -RM8.6b and -RM16.9b respectively.

B. FOREIGN EXCHANGE

- DXY Index depreciated after Powell's speech at Jackson Hole. Over the weekend, most central bankers across the globe gathered at the Jackson Hole Economic Policy Symposium. In his speech, the Fed's chairman reaffirmed gradual pace of rate hikes remains appropriate and indirectly confirm two rate hikes in Sep-18 and Dec-18 as expected. On macro data, flash manufacturing and services PMI for Aug-18 descended to 5-month and 4-month low respectively.
- EURUSD improved by 1.1%. Appreciation of EUR is due to weakening USD. On macro data, flash manufacturing PMI for Aug-18 registered at 54.6 points, lowest since Nov-16. Services PMI on the other hand performed better than Jul-18. Consumer confidence decreased to -1.9 points, weakest since May-17.

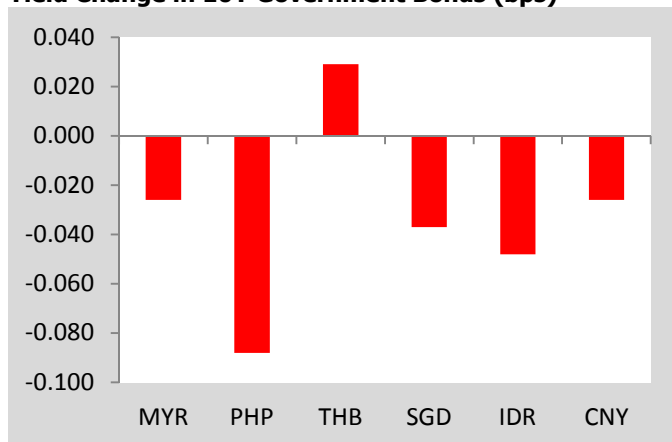
Currencies Changes (Week Ended 24/08) and Quarterly Forecasts

	Close (24/08)	Prev Close (17/08)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	95.55	96.10	-0.552	-0.6%	90.07	92.79	91.76	93.66
EURUSD	1.16	1.14	0.012	1.1%	1.23	1.19	1.21	1.19
GBPUSD	1.28	1.27	0.008	0.7%	1.39	1.37	1.34	1.32
USDJPY	111.40	110.50	0.900	-0.8%	108.09	109.24	107.54	110.66
USDMYR	4.11	4.11	0.005	-0.1%	3.92	3.95	4.09	4.05
GBPMYR	5.27	5.22	0.055	-1.0%	5.46	5.37	5.46	5.52
JPYMYR	3.69	3.71	-0.025	0.7%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

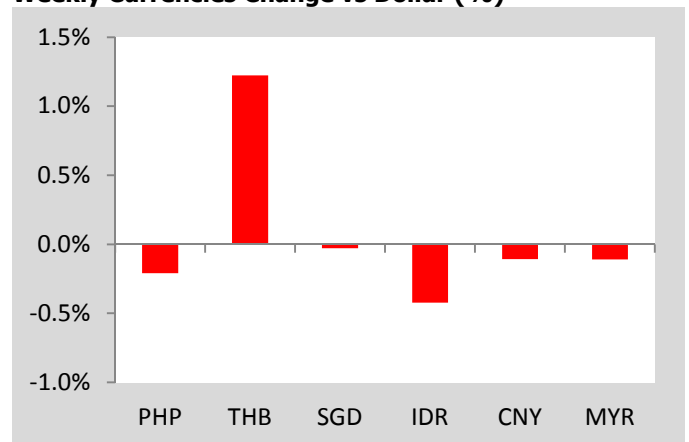
- Ringgit – Stay above 4.10 for 2 consecutive weeks. Amid of tax holiday period, headline inflation remains below 1% in Jul-18. Food inflation hits its lowest points at 0.7% while core inflation for the first time recording deflationary rate. We reduce our inflation forecast from 2.6% to 1.3% for 2018. 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 (%)

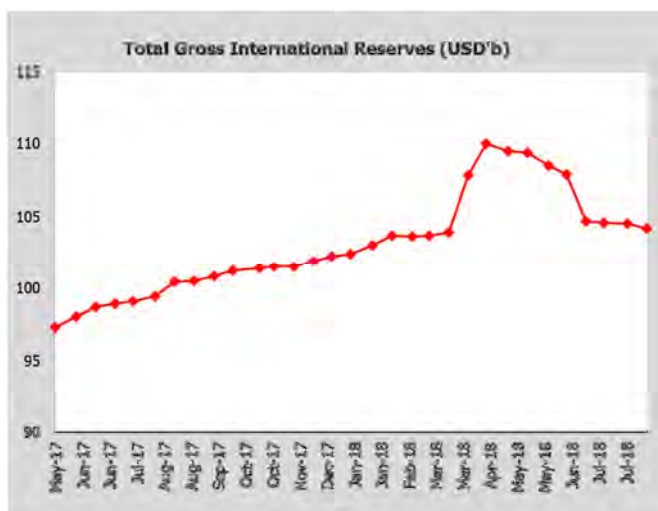
	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.75	5.25	5.25	5.50
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	4.00
Thailand	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	1.50	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	1.50	1.75	1.75	1.75	2.00	2.00	2.00

Source: CEIC, MIDFR

- Nothing solid came out of the last week trade meeting between US and China official as another round of tariff hike on USD16 billion worth of goods from both side each took effect.
- Ongoing trade tension, tightening monetary policy, policy uncertainties, geopolitical worries, and upward price pressure are some of the factors that can derail global growth trajectory in both near and medium term.
- Nevertheless, we discount the possibility of full blown trade war as ongoing trade talks will at least resolve some of the contentious points.
- However, the prolong tension impacted sentiment which adversely affected emerging markets and currencies.
- Regional currencies are expected to come under pressure amid hawkish Fed, stronger dollar and ongoing trade tension which move capital to safe haven.
- Economic Symposium held at Jackson Hole last week discuss about the ongoing trade tension but Fed as expected will remain on course for its normalization move, third to be in September.
- Domestically, consumption is expected to remain robust amid tax holiday period and stable labor market. This is positive to domestic growth.
- Inflation release last week marked 2 consecutive months of headline inflation went below 1% amid this tax holiday period.
- 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 15 August 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD104.2b.



Source: BNM

- The amount of reserves is sufficient to finance 7.6 months of retained imports and is 0.9 times the short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	17-Aug Fri	20-Aug Mon	21-Aug Tue	22-Aug Wed	23-Aug Thu	24-Aug Fri	Change (WoW bp)
MGS							
3-Y	3.488	3.459	3.472	3.472	3.472	3.465	-2.3
5-Y	3.714	3.685	3.674	3.674	3.678	3.702	-1.2
7-Y	3.934	3.934	3.925	3.925	3.925	3.934	0
10-Y	4.062	4.037	4.025	4.025	4.015	4.025	-3.7
20-Y	4.693	4.682	4.673	4.673	4.666	4.67	-2.3
RINGGIT IRS							
1-Y	3.705	3.685	3.695	3.695	3.695	3.695	-1
3-Y	3.735	3.73	3.725	3.725	3.73	3.73	-0.5
5-Y	3.83	3.8425	3.84	3.84	3.83	3.82	-1
7-Y	3.95	3.955	3.94	3.94	3.995	3.94	-1
10-Y	4.15	4.16	4.155	4.155	4.15	4.155	0.5
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	2.6787	2.6458	2.6621	2.651	2.6729	2.6726	-0.61
5-Y	2.7413	2.6971	2.7107	2.7039	2.7225	2.7122	-2.91
7-Y	2.8076	2.7629	2.7752	2.7652	2.7801	2.7675	-4.01
10-Y	2.8605	2.819	2.8298	2.8189	2.8261	2.8098	-5.07
30-Y	3.0199	2.9849	2.9928	2.9841	2.9802	2.9589	-6.1
USD LIBOR							
1-M	2.06938	2.067	2.06588	2.066	2.06475	2.07275	0.337
2-M	2.18588	2.19125	2.19138	2.1895	2.197	2.196	1.012
3-M	2.31188	2.30963	2.31025	2.31175	2.31138	2.31725	0.537

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	17-Aug Yield	24-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.406	3.371	-3.5	1,744.5
MALAYSIA GOVERNMENT	3.757	04/20/23	3.714	3.702	-1.2	1,730.0
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.142	4.138	-0.4	1,338.0
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.749	3.754	0.5	1,052.0
MALAYSIA GOVERNMENT	3.62	11/30/21	3.488	3.465	-2.3	925.1
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.040	4.010	-3.0	850.0
MALAYSIA GOVERNMENT	3.733	06/15/28	4.062	4.025	-3.7	824.3
MALAYSIA GOVERNMENT	3.58	09/28/18	3.530	3.266	-26.4	793.4
MALAYSIA GOVERNMENT	3.654	10/31/19	3.487	3.406	-8.1	735.4
MALAYSIA GOVERNMENT	4.642	11/07/33	4.486	4.475	-1.1	599.8
TOTAL VOLUME (TOP 10)						10,592.5
TOTAL VOLUME (Overall)						17,514.3

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	17-Aug Yield	24-Aug Yield	Change (WoW bp)	Weekly Volume (RM bn)
SARAWAK HIDRO SDN BHD	4.58	10/13/28	4.457	4.457	0.0	100.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	4.267	4.267	0.0	90.0
PRASARANA MALAYSIA BHD	4.75	02/26/31	4.589	4.589	0.0	75.0
DANAINFRA NASIONAL	4.04	07/20/27	4.337	4.314	-2.3	70.0
MALAYAN BANKING BHD	4.25	05/10/24	4.255	4.255	0.0	70.0
UEM SUNRISE BHD	4.6	12/13/18	4.150	4.119	-3.1	60.0
MKD KENCANA SDN BHD	4.33	04/27/23	4.150	4.150	0.0	60.0
DANAINFRA NASIONAL	4.61	04/05/30	#N/A N/A	4.470	#VALUE!	55.0
GENM CAPITAL BHD	5.3	07/11/28	4.998	5.148	15.0	55.0
SARAWAK HIDRO SDN BHD	4.6	08/18/28	4.471	4.471	0.0	50.0
TOTAL VOLUME (TOP 10)						685.0
TOTAL VOLUME (Overall)						1,755.1

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.