

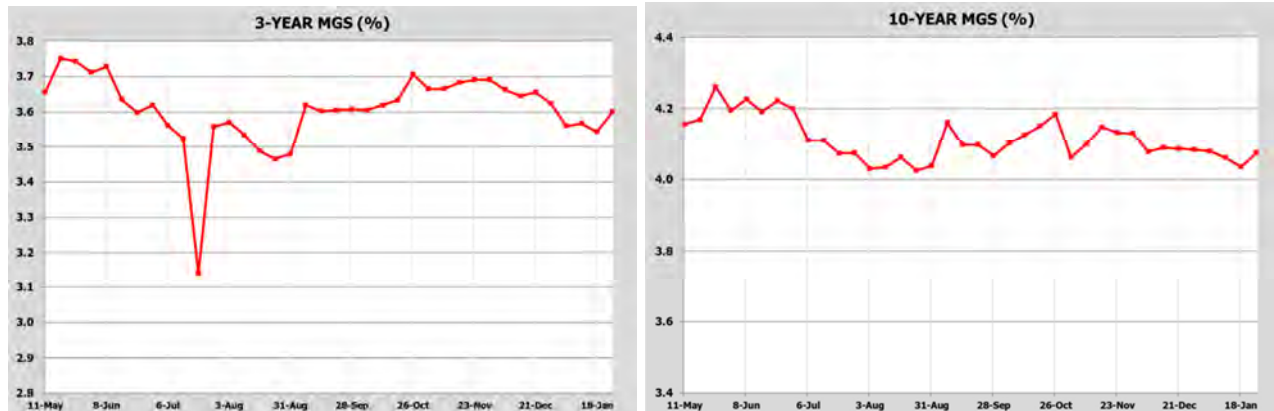
MIDF Strategy | 28 January 2019

Week Ended 25 January 2019

- UST rebounded (prices up; yields down) last week as bargain hunting activities emerged after two consecutive weeks of losses. However, the weekly price gain was moderated by profit taking on Friday after President Donald Trump announced that he had secured a deal to end government shutdown for three weeks.
- The UST yield curve flattened slightly as the long-end outperformed. The 10y-3y yield spread narrowed to +17bps from +19bps a week earlier. We reckon the yield curve shall retain its flattening bias until and unless the US Fed signals a pause to the current hiking cycle.
- On the other hand, the price of MGS benchmark issues ended the review week lower while the curve flattened slightly with the 3-year and 10-year yields increased +5.6bps and +3.9bps respectively to close at 3.60% and 4.07%.
- Total trading value for Government Bonds (MGS/MII) dropped to RM15.7b in the review week compared to RM22.1b in the previous week. The total trading value of 10 most actively traded issues increased (lower trading breadth) to 56% of the overall Government Bonds trades in the week under review vis-à-vis 43% in the week before. In addition, 9 out of 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.16b in the review week compared to RM2.90b in earlier week. The total trading value of 10 most actively traded issues increased (lower trading breadth) to 41% of the overall Corporate Bonds trades from 31% in the week before.

Weekly Money Review

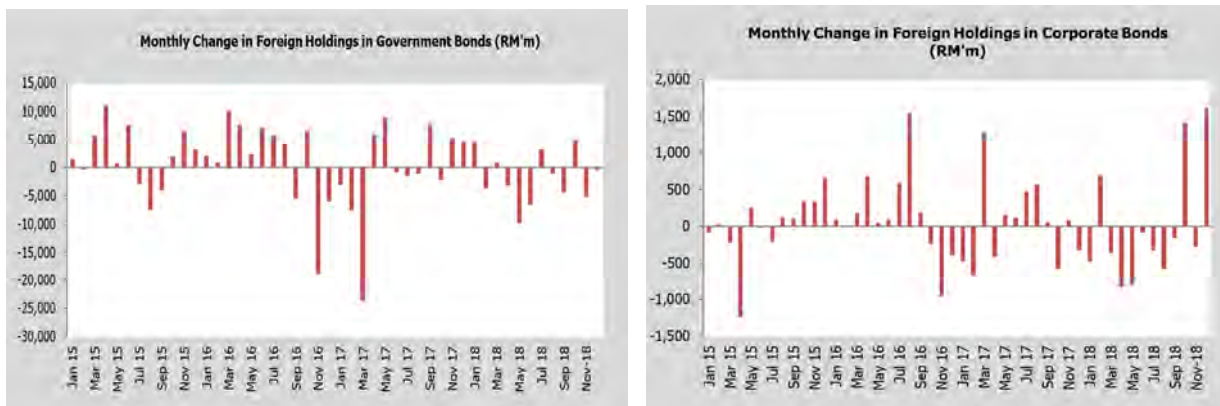
A. FIXED INCOME



Source: Bloomberg

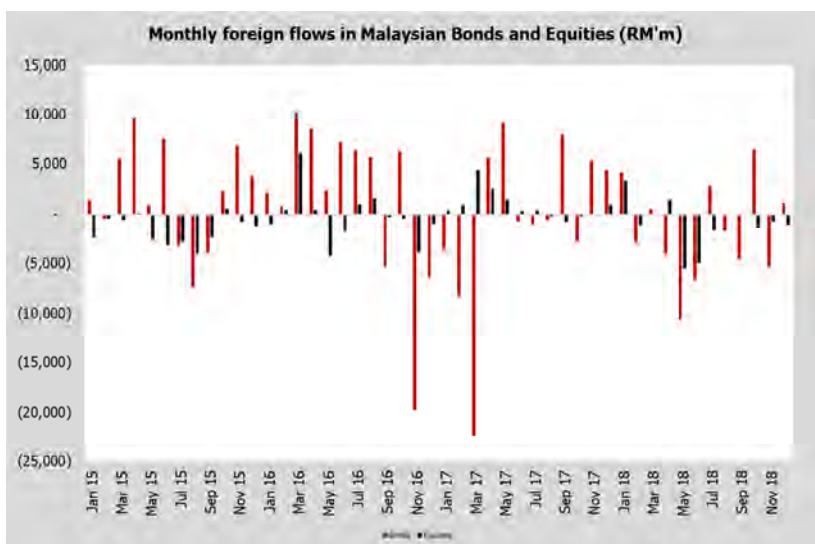
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- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short and mid residual tenors. The top 3 most actively traded were MII 4.128% 08/15/25 at RM1.30b, MGS 4.378% 11/29/19 at RM1.24b, and MGS 3.955% 09/15/25 at RM932.8m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.16b in the review week compared to RM2.90b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 41% of the overall Corporate Bonds trades from 31% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues with varied residual tenors. The biggest trading values were seen in Cagamas Berhad 5.28% 07/17/19 at RM250m, Hong Leong Bank Berhad 4.5% 06/21/24 at RM110m, and Govco Holdings Bhd 4.88% 09/28/32 at RM110m.
- Total foreign holdings of Government Bonds stood at RM162.0b as at end-Dec 2018. It was a decline of -RM466m from the November 2018 figure of RM162.5b.

- On the other hand, total foreign holdings of Corporate Bonds increased by RM1.6b in the month of December 2018 to RM15.9b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM1.1b in December 2018 while the former saw a total net outflow worth -RM1.0b. 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 weakened amid government reopening. The US government shutdown began on December 22, 2018 and ended after 35 days on January 25, 2019. Trump has signed bill to end the shutdown but just a temporary measure for three weeks as it does not include border wall funds demanded by him. The longest shutdown in the US history has affected circa 800K employees besides causing many grounded and delayed flights on the US east coast. The greenback however has not reacted strongly on the reopening as uncertainty remains.
- EURUSD remain steady despite the dovish ECB. The ECB cautioned that economic risks to the Euro Area had worsened on protectionism, Brexit and sluggish China. The ECB is expected to trim growth forecasts in the disclosure of its latest quarterly projections on March 7, 2019. The dovish stance signals that the interest rate will be kept unchanged at record lows even after the summer. Nevertheless, in regards to the end of a major bond-buying stimulus scheme last month, ECB stressed that there are other tools to support the Euro Area. On the macro side, Germany Ifo Business Climate Index fell 1.9 points to 99.1 in Jan-19, the lowest reading since Feb-16. The gauge of current conditions and business expectations sub-index declined to 104.3 and 94.2 respectively. Besides that, Euro was also influenced by weakening dollar.

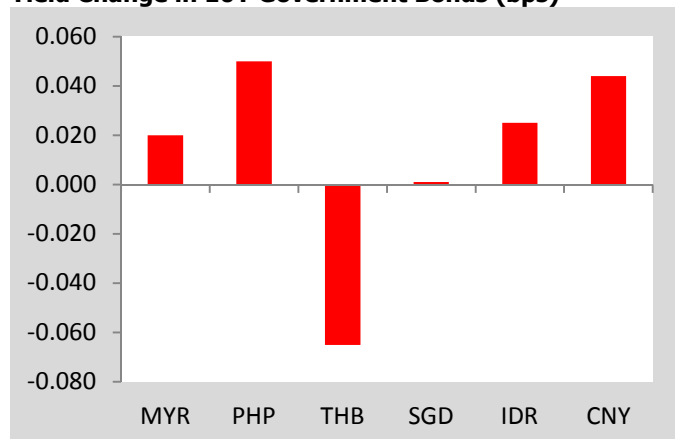
- Ringgit – Economic fundamentals remain strong. MYR depreciated against dollar despite rising crude oil prices which was recorded above USD61 per barrel. Besides that, BNM’s decision to cap the OPR rate at 3.25% did not provide much support for the local note as it was within market expectation. We forecast MYR to average at 4.05 and register year-end target at 4.00 in 2019.

Currencies Changes (Week Ended 25/01) and Quarterly Forecasts

	Close (25/1)	Prev Close (18/1)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	95.79	96.34	-0.542	-0.6%	96.78	95.26	94.20	96.15
EURUSD	1.14	1.14	0.004	0.4%	1.14	1.16	1.18	1.16
GBPUSD	1.32	1.29	0.032	2.5%	1.25	1.27	1.25	1.22
USDJPY	109.55	109.78	-0.230	0.2%	111.76	109.13	107.42	110.55
USDMYR	4.13	4.11	0.013	-0.3%	4.12	4.07	4.05	4.00
GBPMYR	5.39	5.32	0.067	-1.2%	5.23	5.21	5.29	5.36
JPYMYR	3.77	3.75	0.020	-0.5%	3.74	3.76	3.95	3.97

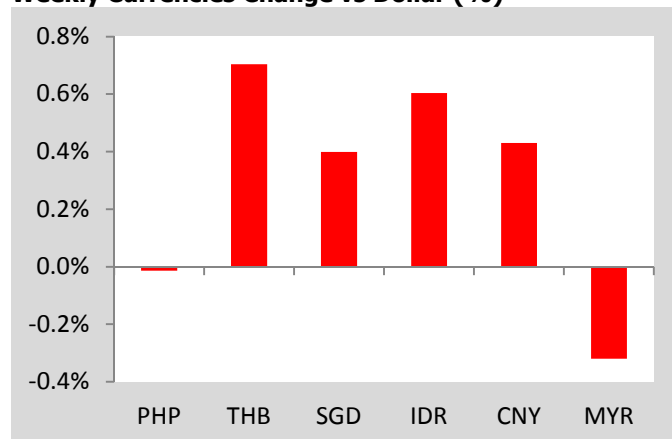
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.75	5.25	5.25	5.50	5.75	5.75	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.25	3.25	4.00	4.50	4.50	4.75	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	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	1.50	1.50	1.50	1.50	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	0.50	0.50	0.50	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	1.75	2.00	2.00	2.00	2.25	2.25	2.25	2.50	2.50

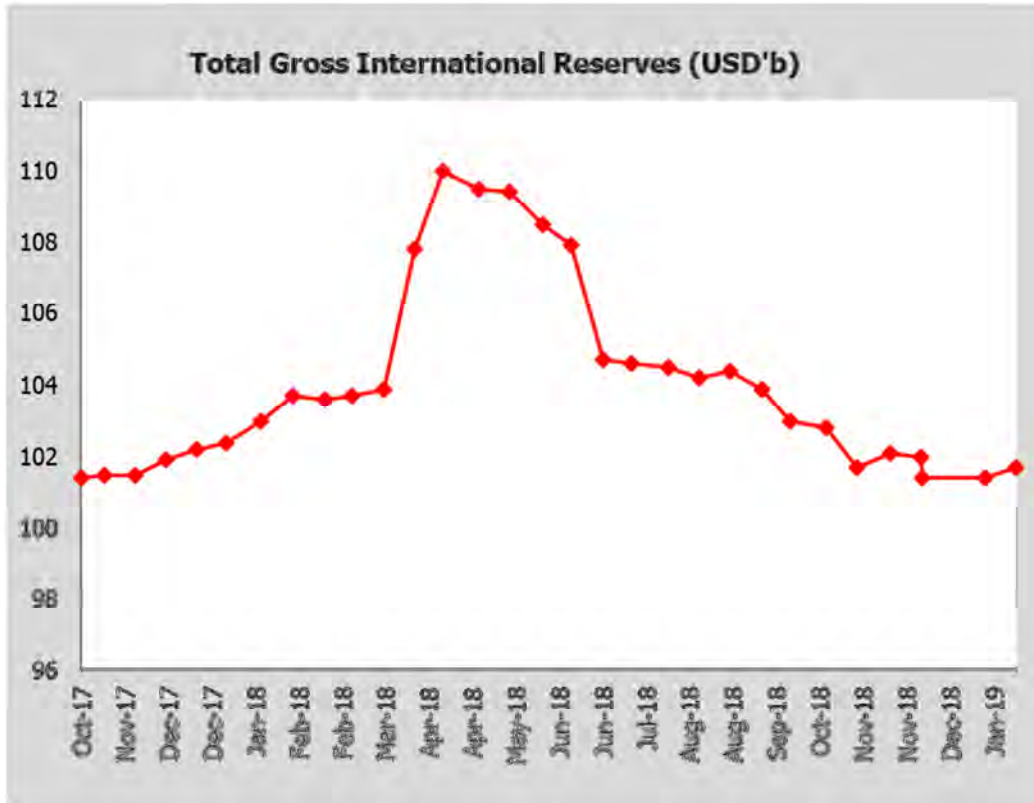
Source: CEIC, MIDFR

- Growth moderation for the global economy is expected in the near term as high frequency leading indicators are showing sign of trending down.


- Ongoing headwinds such as trade tension, geopolitical instability, policy and political uncertainties, tightening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.
- IMF cut its global growth forecasts on the back of US-China trade spat, weakness for German auto manufacturers due to new fuel emission standards, and soft domestic demand in Italy after recent sovereign and financial risks.
- In the recent development of the US government shutdown, Trump accepted deal for temporary end to the shutdown without his proposed border wall.
- Fed is anticipated to engage in a less aggressive approach of rate hikes in 2019, likely to pause hike until at least in the second half.
- We foresee two rate hikes for the US this year.
- Growth divergence among developed and developing countries will also cause differences in policy prescription which will have broader impact beyond border.
- Latest domestic data on inflation showed inflationary pressure remains low. Headline inflation in the upcoming months is expected to remain modest but tracking upward. The trend is expected to continue.
- Amid lower base effects, we foresee headline inflation rate to average at 2.2% this year compared to 1.0% in 2018 driven by inflationary pressure mainly from fuel related items.
- Job market to continue benefiting from the resilience global trade activities and gradual recovery in commodity prices especially in export-reliance and commodity-oriented industries.
- Consumption is expected to remain robust amid stable labor market and positive wage growth.
- BNM held rates at 3.25% in the first MPC meeting of the year, still optimistic on domestic activity.
- We expect no changes in monetary policy which OPR maintains at 3.25% in 2019.

C. BNM FOREIGN RESERVES

- As at 15 January 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD101.7b.



Source: BNM

- The amount of reserves is sufficient to finance 7.3 months of retained imports and is 1.0 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	18-Jan Fri	21-Jan Mon	22-Jan Tue	23-Jan Wed	24-Jan Thu	25-Jan Fri	Change (WoW bp)
MGS							
3-Y	3.544	3.544	3.589	3.585	3.57	3.6	5.6
5-Y	3.697	3.697	3.735	3.738	3.756	3.771	7.4
7-Y	3.892	3.892	3.898	3.906	3.899	3.906	1.4
10-Y	4.035	4.035	4.059	4.065	4.072	4.074	3.9
20-Y	4.56	4.56	4.56	4.564	4.576	4.576	1.6
RINGGIT IRS							
1-Y	3.655	3.655	3.66	3.6645	3.665	3.665	1
3-Y	3.685	3.685	3.685	3.69	3.685	3.69	0.5
5-Y	3.7875	3.7875	3.79	3.79	3.79	3.7875	0
7-Y	3.9095	3.9095	3.91	3.905	3.905	3.915	0.55
10-Y	4.065	4.065	4.065	4.075	4.15	4.07	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	2.5986	2.5986	2.5629	2.563	2.5383	2.588	-1.06
5-Y	2.6231	2.6231	2.5773	2.5756	2.5502	2.5992	-2.39
7-Y	2.6944	2.6944	2.6497	2.6497	2.6199	2.6696	-2.48
10-Y	2.7842	2.7842	2.7392	2.7409	2.7157	2.7585	-2.57
30-Y	3.0974	3.0974	3.0594	3.0617	3.0339	3.0662	-3.12
USD LIBOR							
1-M	2.506	2.51225	2.519	2.51	2.50188	2.5	-0.6
2-M	2.62963	2.63438	2.64188	2.627	2.625	2.64638	1.675
3-M	2.761	2.77238	2.77925	2.77063	2.76475	2.75163	-0.937

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	18-Jan Yield	25-Jan Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.023	4.037	1.4	1,295.0
MALAYSIA GOVERNMENT	4.378	11/29/19	3.396	3.413	1.7	1,243.4
MALAYSIA GOVERNMENT	3.955	09/15/25	3.989	4.001	1.2	932.8
MALAYSIA GOVERNMENT	3.654	10/31/19	3.396	3.404	0.8	905.1
MALAYSIA INVESTMNT ISSUE	4.13	07/09/29	4.094	4.088	-0.6	850.0
MALAYSIA GOVERNMENT	4.16	07/15/21	3.577	3.637	6.0	721.6
MALAYSIA GOVERNMENT	3.906	07/15/26	3.892	3.906	1.4	720.0
MALAYSIA GOVERNMENT	3.882	03/14/25	3.952	3.965	1.3	715.7
MALAYSIA GOVERNMENT	3.62	11/30/21	3.544	3.600	5.6	703.6
MALAYSIA GOVERNMENT	4.048	09/30/21	3.561	3.618	5.7	667.7
TOTAL VOLUME (TOP 10)						8,754.9
TOTAL VOLUME (Overall)						15,708.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	18-Jan Yield	25-Jan Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	5.28	07/17/19	3.670	3.720	5.0	250.0
HONG LEONG BANK	4.5	06/21/24	4.085	4.092	0.7	110.0
GOVCO HOLDINGS BHD	4.88	09/28/32	4.651	4.650	-0.1	110.0
CELCOM NETWORKS SDN BHD	3.75	08/29/19	3.949	3.999	5.0	85.0
GB SERVICES BHD	5.3	11/08/19	4.224	4.224	0.0	80.0
DANAINFRA NASIONAL	4.9	04/29/33	#N/A N/A	4.611	#VALUE!	75.0
PUBLIC BANK BERHAD	4.2	04/15/19	#N/A N/A	3.798	#VALUE!	60.0
AFFIN ISLAMIC BANK BHD	5.05	10/23/28	4.917	4.907	-1.0	50.0
PENGURUSAN AIR SPV BHD	4.23	06/16/23	4.020	4.002	-1.8	45.0
CAGAMAS BERHAD	4.1	10/08/21	4.108	4.090	-1.8	40.0
TOTAL VOLUME (TOP 10)						905.0
TOTAL VOLUME (Overall)						2,163.1

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.