

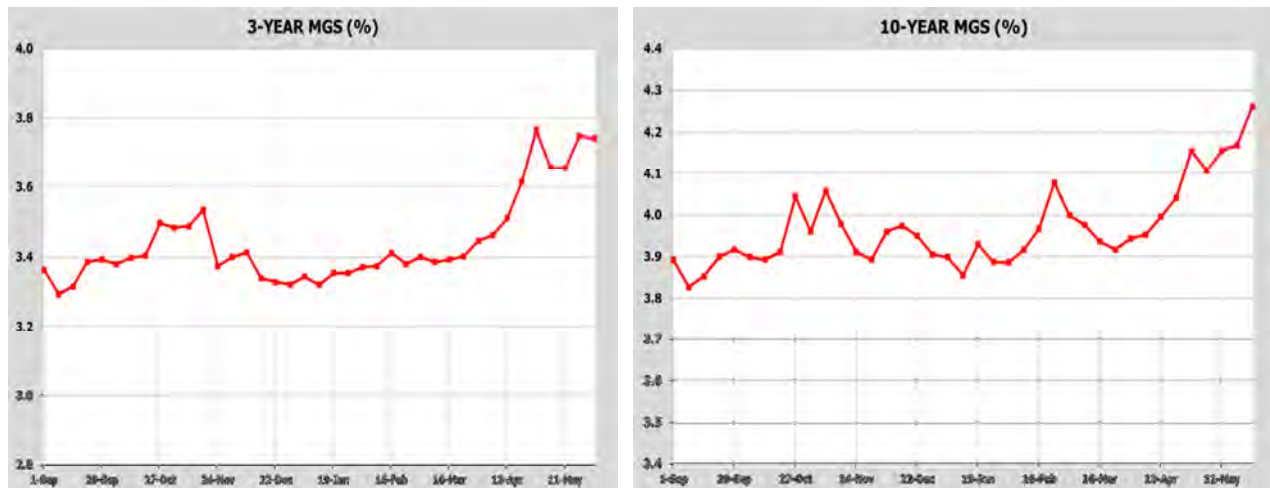
## MIDF Strategy | 28 May 2018

### Week Ended 25 May

- UST rallied (prices up; yields down) last week attributable to (i) 'dovish' medium-term signal in Fed minutes, and helped by risk-off stance after President Trump (ii) orders probe into auto imports, as well as (iii) cancels a scheduled meeting with the leader of North Korea (but later changed his mind).
- It is also notable that the yield curve further flattened as the long-end outperformed with the 10y-3y yield spread dropped to +32bps. It seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers. On this score, the latest Fed minutes signals a 'dovish' medium-term signal and some FOMC members view an inverted yield curve as an alarming warning.
- On the other hand, the yields of local MGS benchmark issues headed in separate directions during the review week. The 3-year issue outperformed as its yield ended the week lower by -0.8bp to close at 3.74%. In contrast, the 10-year issue saw selling pressure with its yield jumped +9.2bps week-on-week to close at 4.26%.
- Total trading value for Government Bonds (MGS/MII) declined to RM16.0b in the review week compared to RM20.5b in the prior week. The total trading value of 10 most actively traded issues decreased to 50% of the overall Government Bonds trades in the week under review (vis-à-vis ~61% in the week before).
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.67b in the review week compared to RM1.02b in earlier week. The total trading value of 10 most actively traded issues decreased to 37% of the overall Corporate Bonds trades (from ~47% in the week before).

## Weekly Money Review

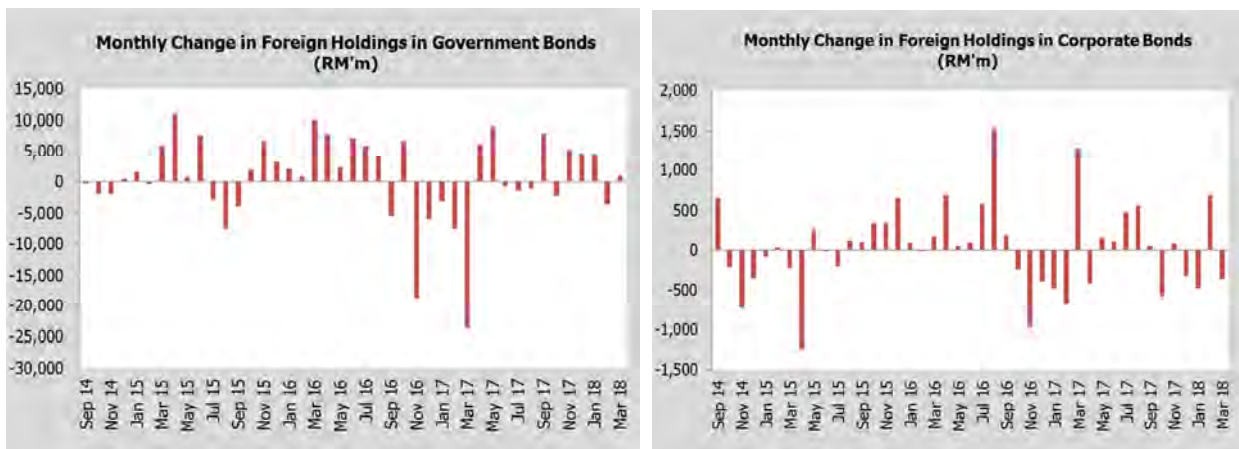
### A. FIXED INCOME



Source: Bloomberg

- UST rallied (prices up; yields down) last week attributable to (i) 'dovish' medium-term signal in Fed minutes, and helped by risk-off stance after President Trump (ii) orders probe into auto imports, as well as (iii) cancels a scheduled meeting with the leader of North Korea (but later changed his mind).
- It is also notable that the yield curve further flattened as the long-end outperformed with the 10y-3y yield spread dropped to +32bps. It seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still buoyant recent economic numbers. On this score, the latest Fed minutes signals a 'dovish' medium-term signal and some FOMC members view an inverted yield curve as an alarming warning.
- On the other hand, the yields of local MGS benchmark issues headed in separate directions during the review week. The 3-year issue outperformed as its yield ended the week lower by -0.8bp to close at 3.74%. In contrast, the 10-year issue saw selling pressure with its yield jumped +9.2bps week-on-week to close at 4.26%.
- Total trading value for Government Bonds (MGS/MII) declined to RM16.0b in the review week compared to RM20.5b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 50% of the overall Government Bonds trades in the week under review (vis-à-vis ~61% in the week before). In addition, 5 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Furthermore, the top 3 actively traded Government Bonds were represented by issues with both short and long residual tenors. The top 3 most actively traded were MGS 3.58% 09/28/18 at RM1.12b, MGS 3.73% 06/15/28 at RM1.12b and MII 3.40% 11/30/18 at RM1.02b.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.67b in the review week compared to RM1.02b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased to 37% of the overall Corporate Bonds trades (from ~47% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with both short and long residual tenors. The biggest trading values were seen in YTL Power 5.05% 05/03/27 at RM105m, Sunway Treasury Sukuk 0% 06/28/18 at RM105m and Malakoff Power 4.90% 12/17/18 at RM80.0m.

- Total foreign holdings of Government Bonds stood at RM184.8b as at end-March 2018. It was an increase of RM899m from the February 2018 figure of RM183.9b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds decreased by RM359.8m in the month of March 2018 to RM15.9b.

## B. FOREIGN EXCHANGE

- DXY Index continues strengthening. Even though consumer sentiment and durable goods orders missed market expectations, the greenback currency remains strong as the Fed via its minutes meeting in May-18 hints high possibility of a rate hike in the upcoming FOMC meeting in Jun-18. The US consumer sentiment recorded 4-month low at 98 points in May-18 while durable goods orders slumped by -1.7%mom in Apr-18, missed market estimates of -1.4%mom. We maintain our call for another two rate hikes by the Fed, one in Jun-18 and another one in Dec-18.
- EURUSD worries over political situations in Spain and Italy. Spain is likely to have snap election as opposition parties call for vote of no confidence to Prime Minister Mariano Rajoy over corruption scandals. The new Italy government, a Eurosceptic coalition would ramp up fiscal spending and thus pressuring fiscal deficit and national debt. In Germany, the largest economy in EU, IFO business climate index remains flat at 11-month low of 102.2 points in May-18.

### Currencies Changes (Week Ended 25/05) and Quarterly Forecasts

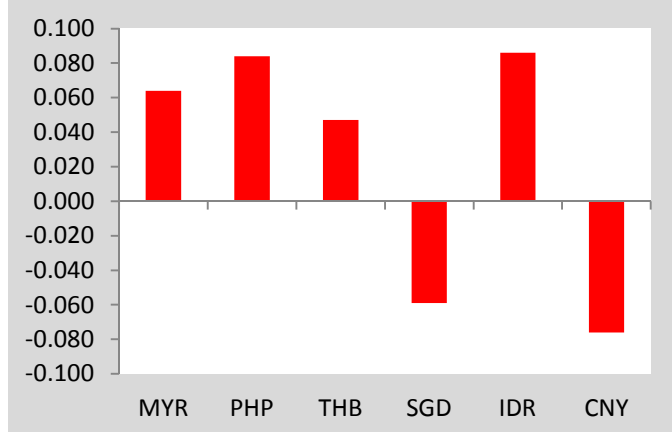
	Close (25/05)	Prev Close (18/05)	Change	% Change	1Q18	2Q18F	3Q18F	4Q18F
DXY Index	93.937	93.637	0.300	0.3%	90.07	90.69	91.91	95.98
EURUSD	1.170	1.177	-0.007	-0.6%	1.23	1.22	1.20	1.16
GBPUSD	1.335	1.347	-0.012	-0.9%	1.39	1.25	1.15	1.09
USDJPY	109.360	110.780	-1.420	1.3%	108.09	100.29	95.10	102.27
USDMYR	3.985	3.972	0.013	-0.3%	3.92	3.95	4.00	3.95
GBPMYR	5.320	5.363	-0.043	0.8%	5.46	4.89	4.53	4.58
JPYMYR	3.644	3.586	0.058	-1.6%	3.63	3.89	4.14	4.13

Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

- Ringgit – Depreciated amid of debt-fear environment. The newly-appointed Finance Minister confirmed the federal government of Malaysia has committed debt over RM1 trillion, inclusive of official federal government debt, government guarantees and leases. However, the official government debt as defined by most economic scholars is still below RM1 trillion and the government debt-to-GDP ratio stands at 50.9% in 2017, the lowest in 9 years.

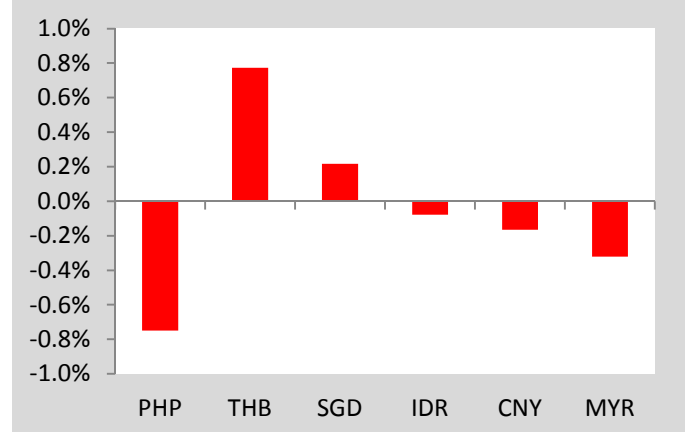
On macro data, inflation in Apr-18 recorded at 1.4%, lower than market estimates of 1.6%. We maintain our call MYR to average at 4.00 and register year-end target at 3.95.

**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 (%)**

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.25
Indonesia	4.75	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.50
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	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	1.25	1.25	1.25	1.25	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	0.25	0.25	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	1.25	1.25	1.50	1.50	1.50	1.75

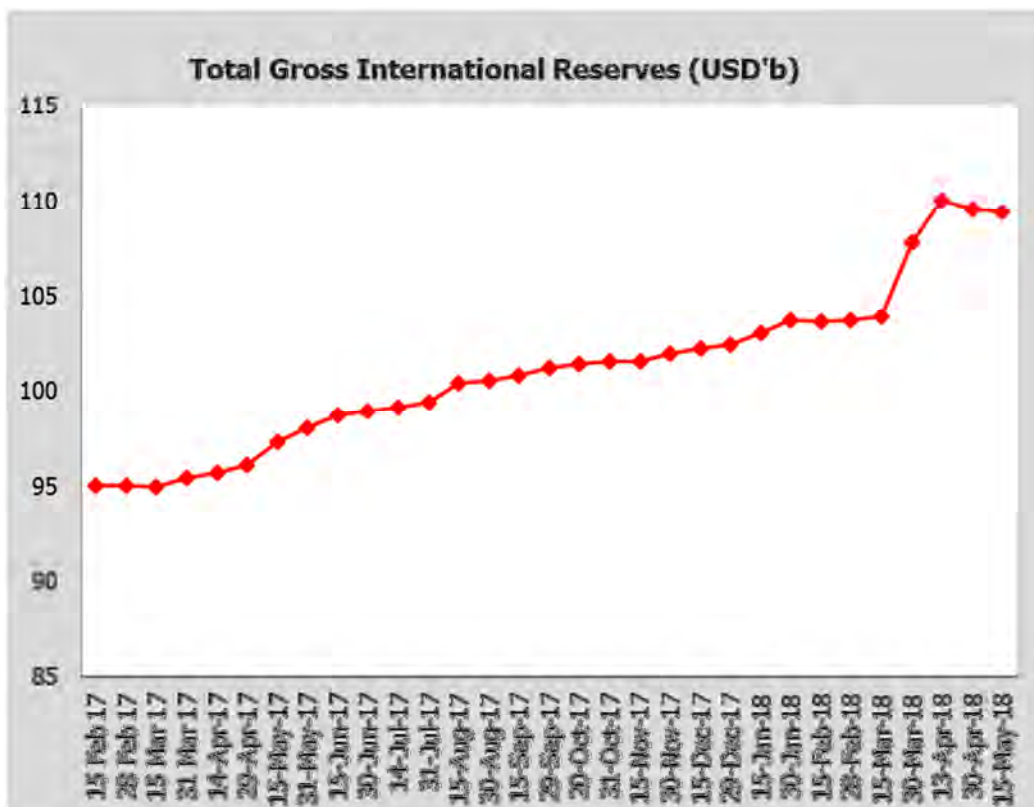
Source: CEIC, MIDFR

- Geopolitical threats remain prevalent in influencing the pace off global growth in the near term.
- Risks related to geopolitical uncertainties determine the portfolio positioning of global capital seeking for yield.
- Iran nuclear deal issue could emerge as a threat which will influence the commodities prices especially crude while developments in Korean Peninsular also add to the geopolitical instability.
- Globally, monetary policy stance in general is seen as accommodative to support growth as well as providing favorable financial environment for the sustainable economic expansion.
- Nevertheless, move toward normalization and tightening in certain economies are expected in the medium term as growth pick-up and inflationary pressure seep in.
- Major economies such as US and China still expanding at respectable pace in the past quarter.
- Commodities prices continue trending upward signaling inflationary pressure to start kick-in in both developed and emerging economies. Negative outcomes from Iran nuclear deal could push up the crude prices even further.


- 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. Recent reading for April stood at 1.4%yoy bringing the first 4 months inflation rate at 1.7%yoy.
- As for domestic monetary policy, our base case scenario for OPR remains unchanged (single rate hike) for the full year.

## C. BNM FOREIGN RESERVES

- As at 15 April 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD109.4b.



Source: BNM

- The amount of reserves is sufficient to finance 7.6 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	18-May Fri	21-May Mon	22-May Tue	23-May Wed	24-May Thu	25-May Fri	Change (WoW bp)
MGS							
3-Y	3.751	3.779	3.758	3.742	3.743	3.743	-0.8
5-Y	3.892	3.892	3.813	3.813	3.881	3.881	-1.1
7-Y	4.051	4.025	4.034	4.034	4.034	4.034	-1.7
10-Y	4.169	4.205	4.215	4.222	4.206	4.261	9.2
20-Y	4.872	4.901	4.909	4.901	4.917	4.93	5.8
RINGGIT IRS							
1-Y	3.755	3.755	3.755	3.755	3.755	3.755	0
3-Y	3.845	3.845	3.835	3.835	3.84	3.84	-0.5
5-Y	3.95	3.95	3.93	3.935	3.94	3.94	-1
7-Y	4.055	4.04	4.0225	4.005	4.045	4.035	-2
10-Y	4.175	4.175	4.16	4.165	4.17	4.165	-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	2.7127	2.7293	2.7266	2.6633	2.6496	2.6082	-10.45
5-Y	2.8881	2.895	2.8968	2.8249	2.8141	2.7652	-12.29
7-Y	3.0104	3.013	3.013	2.945	2.9325	2.8849	-12.55
10-Y	3.0559	3.0596	3.0597	2.9935	2.977	2.9313	-12.46
30-Y	3.1974	3.2015	3.2048	3.1517	3.125	3.092	-10.54
USD LIBOR							
1-M	1.95275	1.96125	1.96538	1.95969	1.96827	1.97563	2.288
2-M	2.10375	2.10675	2.1075	2.10105	2.0989	2.09942	-0.433
3-M	2.32938	2.33	2.33	2.33	2.31938	2.31813	-1.125

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	18-May Yield	25-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.58	09/28/18	3.446	3.314	-13.2	1,124.3
MALAYSIA GOVERNMENT	3.733	06/15/28	4.148	4.261	11.3	1,118.2
MALAYSIA INVESTMNT ISSUE	3.399	11/30/18	3.642	3.331	-31.1	1,023.1
MALAYSIA GOVERNMENT	3.899	11/16/27	4.169	4.367	19.8	855.6
MALAYSIA GOVERNMENT	3.759	03/15/19	3.492	3.393	-9.9	831.9
MALAYSIA GOVERNMENT	4.378	11/29/19	3.593	3.493	-10.0	696.5
MALAYSIA GOVERNMENT	3.844	04/15/33	4.770	4.749	-2.1	660.8
MALAYSIA GOVERNMENT	4.048	09/30/21	3.864	3.902	3.8	592.1
MALAYSIA GOVERNMENT	3.955	09/15/25	4.300	4.309	0.9	549.1
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.208	4.241	3.3	490.0
TOTAL VOLUME (TOP 10)						7,941.6
TOTAL VOLUME (Overall)						15,975.5

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	18-May Yield	25-May Yield	Change (WoW bp)	Weekly Volume (RM bn)
YTL POWER INTERNATIONAL	5.05	05/03/27	5.347	5.033	-31.4	105.0
SUNWAY TREASURY SUKUK SD	ZERO	06/28/18	N/A	3.913	N/A	105.0
MALAKOFF POWER BHD	4.9	12/17/18	N/A	4.382	N/A	80.0
MALAYSIA AIRPORTS CAPITA	4.55	08/28/20	N/A	4.385	N/A	60.0
UMW HOLDINGS BERHAD	6.35	PERP	6.280	6.073	-20.7	51.5
BGSM MANAGEMENT SDN BHD	6.6	12/27/19	4.444	4.463	1.9	50.0
PENGURUSAN AIR SPV BHD	4.04	06/15/18	N/A	3.560	N/A	45.0
SIME DARBY BHD	5.65	PERP	N/A	5.443	N/A	44.5
GAMUDA BERHAD	4.825	11/23/22	N/A	4.813	N/A	40.0
TELEKOM MALAYSIA BERHAD	4.55	10/07/24	N/A	4.586	N/A	40.0
TOTAL VOLUME (TOP 10)						621.0
TOTAL VOLUME (Overall)						1,666.1

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.