

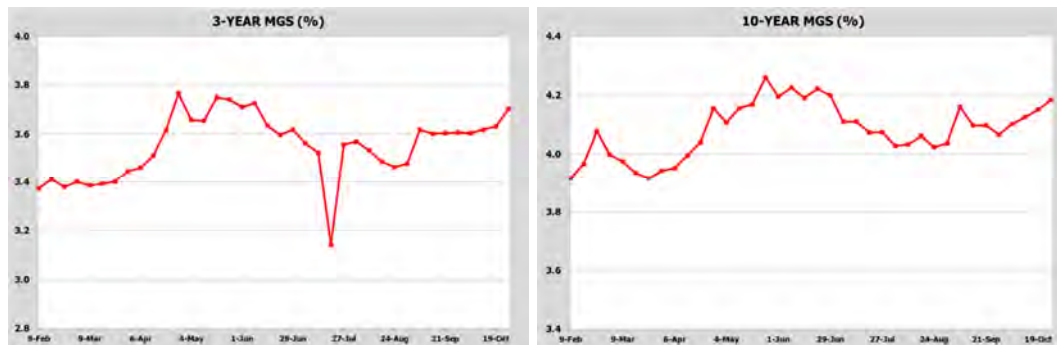
MIDF Strategy | 29 October 2018

Week Ended 26 October

- UST rallied (prices up; yields down) last week as investors reacted to the lower than expected inflation figure. The personal consumption expenditures (PCE) index increased by 1.6% last quarter, lower than 2.2% expected by economists.
- Furthermore, the yield curve slightly steepened as the short-end outperformed. The 10y-3y yield spread widened to +22bps from +21bps a week earlier. Nevertheless, we reckon the yield curve flattening trend is well intact in view of further monetary tightening by the US Fed.
- Contrastingly, the price of domestic MGS benchmark issues ended the review week lower and the curve flattened with the 3-year and 10-year yields added +7.3bps and +3.3bps respectively to close the week at 3.71% and 4.18%.
- Total trading value for Government Bonds (MGS/MII) increased to RM10.0b in the review week compared to RM9.4b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues decreased (higher trading breadth) to 56% of the overall Government Bonds trades in the week under review vis-à-vis 58% in the week before. In addition, all of the 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) increased to RM4.6b in the review week compared to RM3.4b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged at 36% of the overall Corporate Bonds trades vis-à-vis the week before.

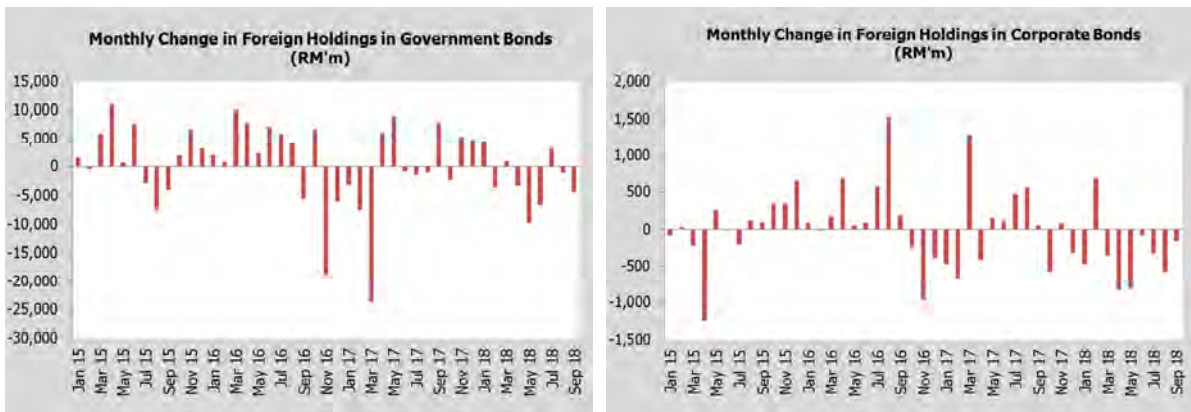
Weekly Money Review

A. FIXED INCOME



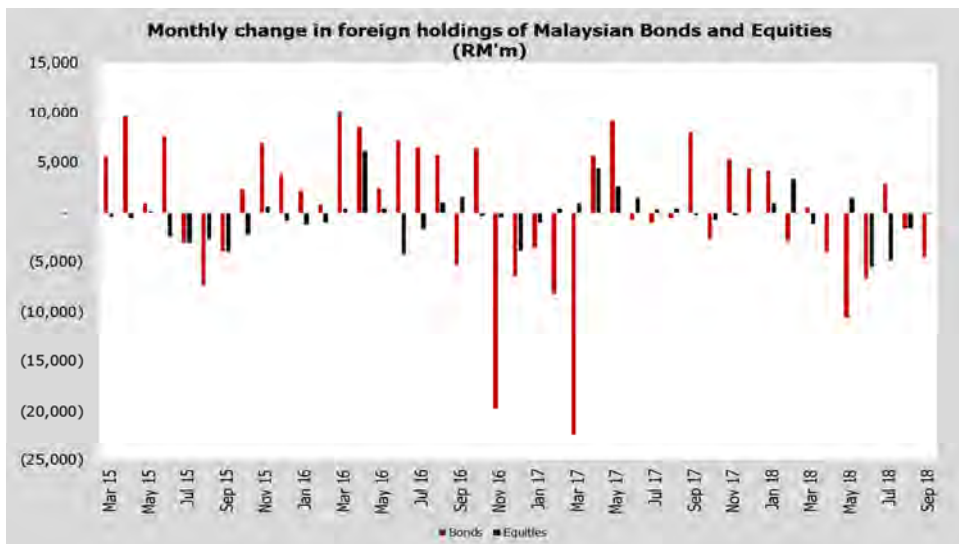
Source: Bloomberg

- UST rallied (prices up; yields down) last week as investors reacted to the lower than expected inflation figure. The personal consumption expenditures (PCE) index increased by 1.6% last quarter, lower than 2.2% expected by economists.
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- Furthermore, the top 3 actively traded Government Bonds were represented by issues with varied residual tenors. The top 3 most actively traded were MII 3.558% 4/30/19 at RM1.67b, MII 4.369% 10/31/28 at RM644m and MGS 3.757% 4/20/23 at RM618m.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.6b in the review week compared to RM3.4b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged at 36% of the overall Corporate Bonds trades vis-à-vis 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 MKD Kencana 4.43% 2/21/25 at RM260m, Sarawak Energy 5.18% 4/25/36 at RM215m and Public Bank 4.20% 4/15/19 at RM200m.
- Total foreign holdings of Government Bonds stood at RM162.7b as at end-Sept 2018. It was a decline of -RM4.4b from the Aug 2018 figure of RM167.1b.
- In tandem, total foreign holdings of Corporate Bonds decreased by -RM160.8m in the month of September 2018 to RM13.2b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM4.6b in September 2018 while the former saw a total net inflow worth RM66.3m (first inflow in 5 months). Furthermore, year-to-date (Jan-Sep), both equities and bonds markets remained in the red with total net outflows of -RM8.5b and -RM23.2b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

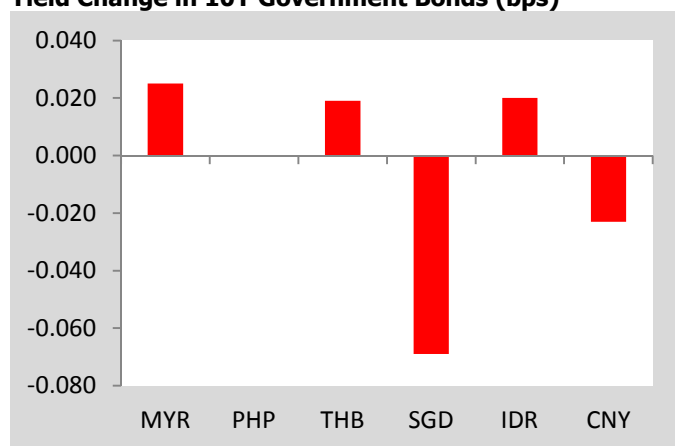
- DXY Index continues appreciate due to robust GDP growth. The US economy grows at annualised 3.5% in 3Q18, beating market estimates of 3.3%. Private consumption, government spending and investments remain supporting the growth while external trade slows amid escalating trade tension. In addition, the University of Michigan's consumer sentiment fell to 98.6 points in Oct-18, lower than the previous month of 100.1 points.
- EURUSD declines over Merkel's poor election result. Angela Merkel's CDU/CSU coalition suffers losses in voter confidence in a key regional election in German state of Hesse. The loss sends negative signals particularly to the political stability in EU. On monetary stance, ECB confirms its QE program will end by Dec-18 and may consider other tools if needed to stimulate the economy. The central bank also reaffirm that the most possible of rate hike would be in summer 2019.
- Ringgit – Slides to 4.18 amid easing inflationary pressure. Despite of SST 2.0 implementation, inflation rate in Sep-18 recorded at 0.3%, lower than market estimates of 0.7%. Core inflation improves to 0.3%, after two-consecutive months of contractions. We maintain our call MYR to average at 4.00 and register year-end target at 4.00.

Currencies Changes (Week Ended 19/10) and Quarterly Forecasts

	Close (26/10)	Prev Close (19/10)	Change	% Change	1Q18	2Q18	3Q18	4Q18F
DXY Index	96.63	95.71	0.921	1.0%	90.07	92.79	95.02	96.99
EURUSD	1.14	1.15	-0.014	-1.2%	1.23	1.19	1.16	1.14
GBPUSD	1.28	1.31	-0.026	-2.0%	1.39	1.37	1.30	1.28
USDJPY	111.99	112.55	-0.560	0.5%	108.09	109.24	111.48	114.72
USDMYR	4.18	4.16	0.018	-0.4%	3.92	3.95	4.10	4.00
GBPMYR	5.35	5.42	-0.069	1.3%	5.46	5.37	5.33	5.40
JPYMYR	3.73	3.69	0.034	-0.9%	3.63	3.62	3.67	3.70

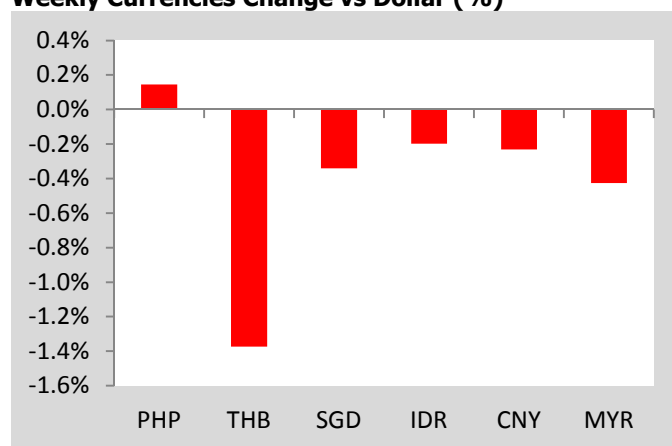
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.75	5.25	5.25	5.50	5.75	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.25	3.25	4.00	4.50	4.50
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	1.75	1.75	1.75	2.00	2.00	2.00	2.25	2.25

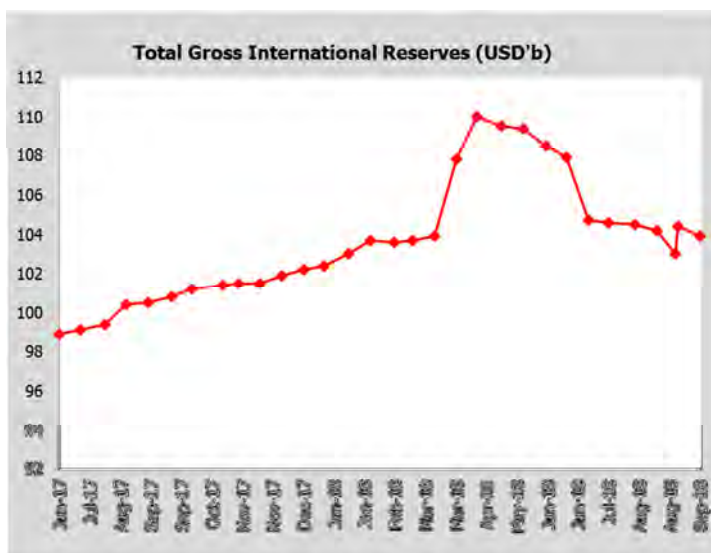
Source: CEIC, MIDFR

- Global economy is under threat by various dragging factors and is expected to experience growth moderation in the medium term.
- Prolong trade tension, geopolitical instability, political uncertainties, tightening monetary policy, are some of the main external factors affecting global trade and growth.

- Latest leading macroeconomic indicators for both developed and emerging economies are pointed toward moderation in the medium term with business and consumer sentiments showing signs of slowing down.
- Domestic leading indicators for businesses and consumers pointing toward moderation after reaching new high in 2Q18.
- The faster than expected pace of tightening in the US generates financial volatility which is could trigger capital flight from emerging economies.
- Shift in risk appetite boost dollar strength which is negative to EM currencies - the trend observed in the last couple of months.
- Increasing oil prices and heightens policy uncertainty help to exacerbate the situation especially for net energy importer countries.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth. Distributive trade figures continued to validate the upbeat consumer sentiments but the trend is expected to moderate.
- Headline inflation in the upcoming months is expected to remain tepid amid cost related policy measures. The trend is expected to continue despite the end of tax holiday period in September.
- Our base case scenario for OPR remains unchanged (single rate hike - 3.25%) for 2018. Current monetary policy remains accommodative to support growth in the domestic economy.

C. BNM FOREIGN RESERVES

- As at 28 September 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD103.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 0.9 times the short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	19-Oct Fri	22-Oct Mon	23-Oct Tue	24-Oct Wed	25-Oct Thu	26-Oct Fri	Change (WoW bp)
MGS							
3-Y	3.633	3.647	3.647	3.624	3.609	3.706	7.3
5-Y	3.794	3.776	3.798	3.789	3.806	3.843	4.9
7-Y	4.008	4.043	4.044	4.025	4.043	4.066	5.8
10-Y	4.151	4.164	4.145	4.145	4.157	4.184	3.3
20-Y	4.813	4.813	4.807	4.807	4.807	4.799	-1.4
RINGGIT IRS							
1-Y	3.715	3.715	3.715	3.71	3.715	3.715	0
3-Y	3.785	3.785	3.78	3.78	3.7845	3.78	-0.5
5-Y	3.88	3.884	3.885	3.885	3.895	3.89	1
7-Y	4.015	4.005	4.005	4.01	4.015	4.005	-1
10-Y	4.2	4.1925	4.205	4.2	4.21	4.2015	0.15
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	2.9824	2.9853	2.9522	2.8831	2.9024	2.8554	-12.7
5-Y	3.0463	3.0498	3.012	2.9398	2.9596	2.9071	-13.92
7-Y	3.1335	3.1361	3.0981	3.0275	3.0426	2.9975	-13.6
10-Y	3.1921	3.1978	3.1676	3.1035	3.1167	3.0755	-11.66
30-Y	3.3758	3.3881	3.3679	3.3305	3.3427	3.3098	-6.6
USD LIBOR							
1-M	2.28188	2.2865	2.28138	2.29406	2.29494	2.29669	1.481
2-M	2.35538	2.36113	2.35613	2.36463	2.37975	2.38531	2.993
3-M	2.47719	2.48738	2.48988	2.508	2.50925	2.52038	4.319

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	19-Oct Yield	26-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.299	3.356	5.7	1,670.0
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.196	4.275	7.9	644.0
MALAYSIA GOVERNMENT	3.757	04/20/23	3.794	3.843	4.9	617.6
MALAYSIA INVESTMNT ISSUE	3.729	03/31/22	3.735	3.766	3.1	540.0
MALAYSIA GOVERNMENT	4.048	09/30/21	3.613	3.657	4.4	394.0
MALAYSIA GOVERNMENT	3.654	10/31/19	3.432	3.445	1.3	379.4
MALAYSIA GOVERNMENT	3.733	06/15/28	4.151	4.184	3.3	344.0
MALAYSIA GOVERNMENT	3.62	11/30/21	3.633	3.706	7.3	337.6
MALAYSIA GOVERNMENT	5.734	07/30/19	3.372	3.384	1.2	325.0
MALAYSIA GOVERNMENT	3.8	08/17/23	3.879	3.880	0.1	306.7
TOTAL VOLUME (TOP 10)						5,558.3
TOTAL VOLUME (Overall)						10,016.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	19-Oct Yield	26-Oct Yield	Change (WoW bp)	Weekly Volume (RM bn)
MKD KENCANA SDN BHD	4.43	02/21/25	#N/A N/A	4.278	#VALUE!	260.0
SARAWAK ENERGY BHD	5.18	04/25/36	4.999	5.013	1.4	215.0
PUBLIC BANK BERHAD	4.2	04/15/19	#N/A N/A	3.882	#VALUE!	200.0
CAGAMAS BERHAD	4.1	02/04/19	3.681	3.635	-4.6	200.0
FORTUNE PREMIERE SDN BHD	5.05	09/05/25	5.007	4.995	-1.2	180.0
RANTAU ABANG CAPITAL	5	01/16/32	#N/A N/A	4.689	#VALUE!	160.0
TENAGA NASIONAL BERHAD	5.18	08/03/37	4.887	4.908	2.1	135.0
PRASARANA MALAYSIA BHD	4.62	03/08/28	4.360	4.388	2.8	120.0
DANAINFRA NASIONAL	4.5	11/16/27	4.349	4.345	-0.4	105.0
PENGURUSAN AIR SPV BHD	4.41	06/06/23	4.048	4.041	-0.7	100.0
TOTAL VOLUME (TOP 10)						1,675.0
TOTAL VOLUME (Overall)						4,616.2

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.