

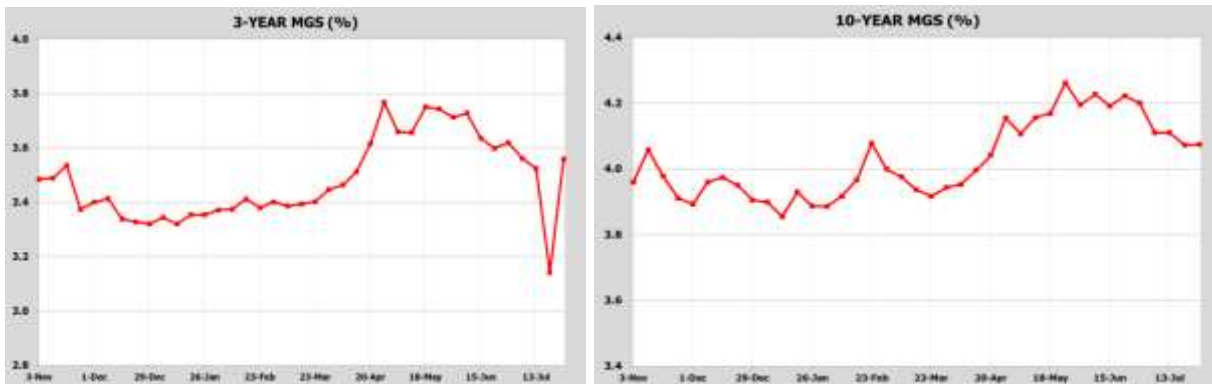
MIDF Strategy | 30 July 2018

Week Ended 27 July

- UST retreated (prices down; yields up) last week attributable to US buoyant output performance of 4.1% in the second quarter of this year, the fastest rate in almost four years, underpinned by robust consumer spending.
- It is also notable that the yield curve further flattened as the long-end outperformed. The 10y-3y yield spread dropped to only +19bps, the lowest since July 2007. As stated earlier, it seems the bond market is intuiting slower growth foreseeable ahead notwithstanding the still upbeat recent economic numbers.
- Likewise, the prices of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields respectively higher at +41.7bps and +0.1bps to close the week at 3.56% and 4.07%. However, buying interests were seen in other tenors (i.e. 5-, 7-, 20-year) as evident by their lower week-on-week yields.
- Total trading value for Government Bonds (MGS/MII) increased to RM13.5b in the review week compared to RM11.2b in the prior week. The total trading value of 10 most actively traded issues increased to 66% of the overall Government Bonds trades in the week under review (vis-à-vis ~60% in the week before). In addition, 8 out of the 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM2.98b in the review week compared to RM3.45b in earlier week. The total trading value of 10 most actively traded issues was higher at 30% of the overall Corporate Bonds trades (vis-à-vis ~29% in the week before).

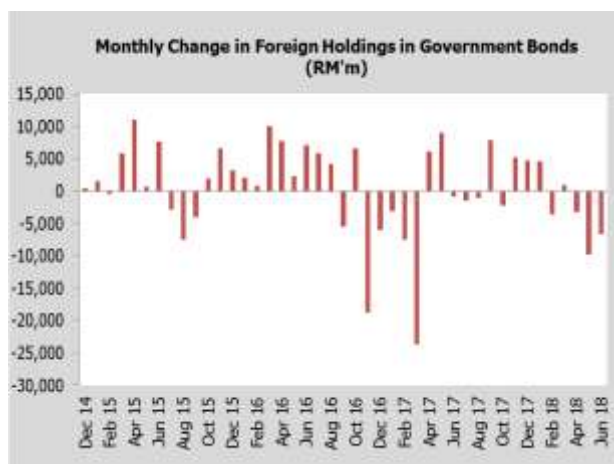
Weekly Money Review

A. FIXED INCOME



Source: Bloomberg

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- Likewise, the prices of local MGS benchmark issues ended the review week lower with the 3-year and 10-year yields respectively higher at +41.7bps and +0.1bps to close the week at 3.56% and 4.07%. However, buying interests were seen in other tenors (i.e. 5-, 7-, 20-year) as evident by their lower week-on-week yields.
- Total trading value for Government Bonds (MGS/MII) increased to RM13.5b in the review week compared to RM11.2b in the prior week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased to 66% of the overall Government Bonds trades in the week under review (vis-à-vis ~60% in the week before). In addition, 8 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 short and long residual tenors. The top 3 most actively traded were MII 4.37% 10/31/28 at RM2.87b, MGS 3.76% 03/15/19 at RM1.43b and MGS 3.73% 06/15/28 at RM1.15b.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM2.98b in the review week compared to RM3.45b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues was higher at 30% of the overall Corporate Bonds trades (vis-à-vis ~29% in the week before).
- The top 3 actively traded Corporate Bonds were dominated by issues with mid to long residual tenors. The biggest trading values were seen in Malayan Banking Bhd 6.30% 09/25/68 at RM140m, Prasarana Malaysia Berhad 4.97% 12/11/30 at RM100.0m and Danainfra Nasional 4.33% 04/04/25 at RM90.0m.
- Total foreign holdings of Government Bonds stood at RM165.0b as at end-June 2018. It was a decrease of RM6.68b from the May 2018 figure of RM171.7b.



Source: BNM

- On the other hand, total foreign holdings of Corporate Bonds decreased by RM79.0m in the month of June 2018 to RM14.2b.

B. FOREIGN EXCHANGE

- DXY Index appreciates amid strong GDP growth in 2Q18. The US economy expanded by 4.1%yoy, the fastest in 4-year. Among others, robust consumer spending remains as the main backbone for the economic growth during the quarter. Looking ahead, consumer sentiment in Jul-18 indicates slight slowdown as it hits 6-month low at 97.9 points amid of rising inflationary pressure in the economy. Strong GDP data will provide the Fed supportive factors to execute its normalising monetary policy this year.
- EURUSD remains at normal level. Post ECB's monetary policy meeting on Thursday, Mario Draghi clarified there would be no monetary action taken until Sep-19. Thus, possibility of a rate hike is minimal this year and also for the first half of next year. On the same time, US's Trump and EU's Juncker agreed on a "new phase" of trade relationship after heighten trade war tension. Trump reversed his decision to impose tariff on car imports and looking forward to work with EU on better trade deals.

Currencies Changes (Week Ended 27/07) and Quarterly Forecasts

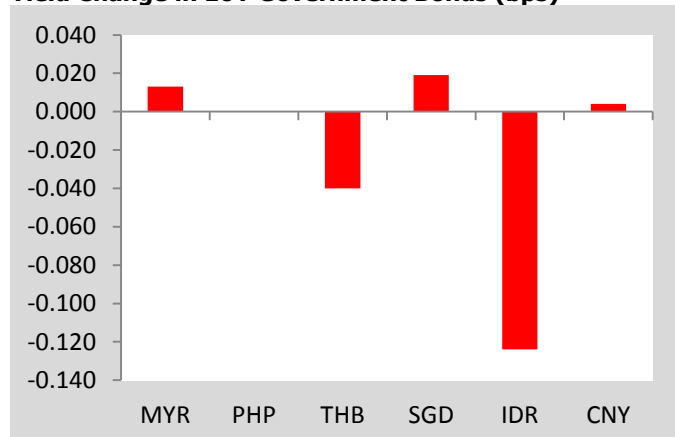
	Close (27/07)	Prev Close (20/07)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	94.78	94.48	0.302	0.3%	90.07	92.79	91.76	93.66
EURUSD	1.16	1.17	-0.010	-0.8%	1.23	1.19	1.21	1.19
GBPUSD	1.31	1.31	-0.004	-0.3%	1.39	1.37	1.34	1.32
USDJPY	111.14	111.41	-0.270	0.2%	108.09	109.24	107.54	110.66
USDMYR	4.06	4.06	0.002	0.0%	3.92	3.95	4.09	4.05
GBPMYR	5.32	5.29	0.037	-0.7%	5.46	5.37	5.46	5.52
JPYMYR	3.66	3.65	0.011	-0.3%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR

Source: Bloomberg, MIDFR

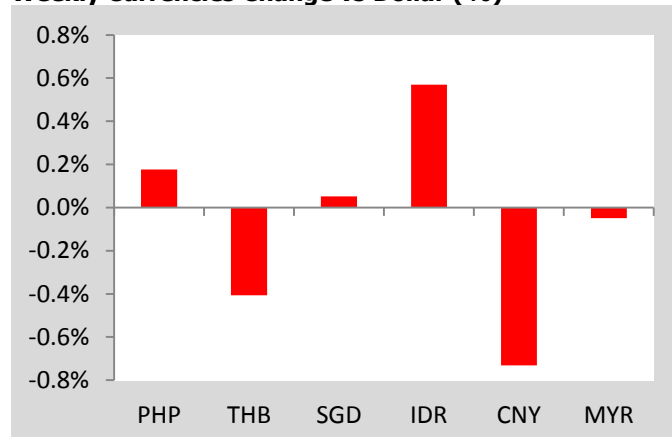
- Ringgit – Remain on uncertainty path. Latest development in Malaysia's political economy is the resignation of all Khazanah's board directors as well as its group managing director. The resignation would allow the PH government more rooms to restructure Malaysia's corporate landscape particularly state-own enterprises. We opine the impacts are minimal and it is part of the economic reform process. 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 (%)

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Malaysia	3.00	3.00	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	4.25	4.75	5.25	5.25
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	3.25	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	1.50	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	1.25	1.50	1.50	1.50	1.75	1.75	1.75	2.00	2.00

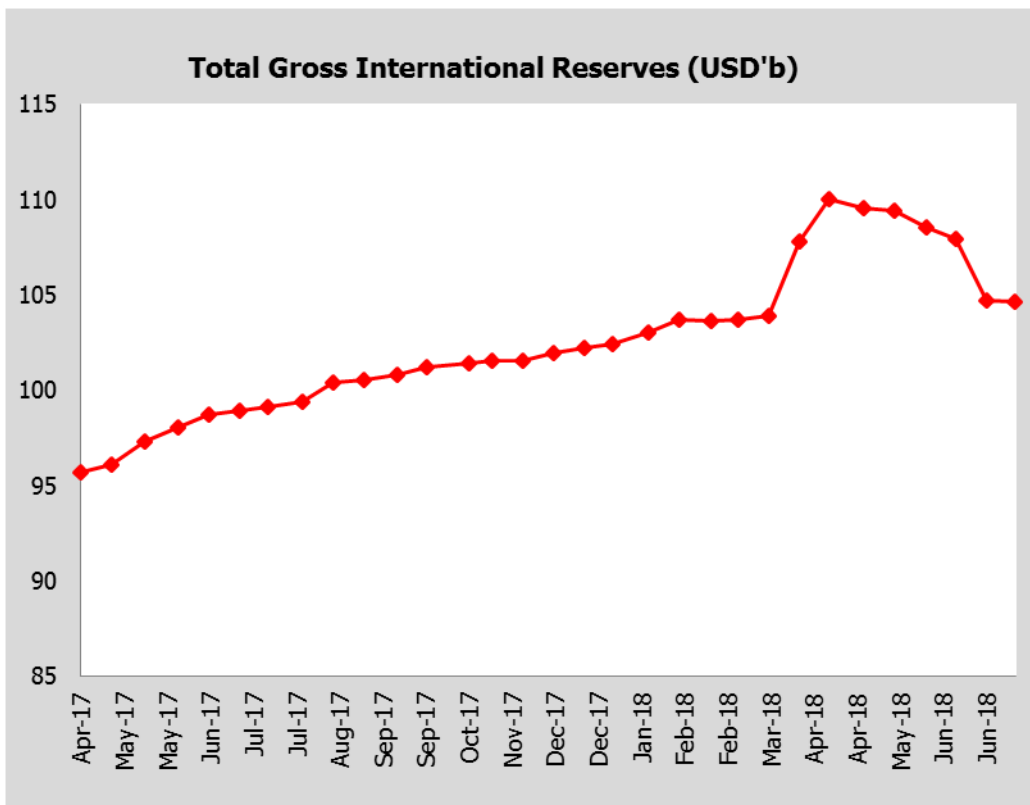
Source: CEIC, MIDFR

- The greatest threat to global trade and growth is trade war. The intertwined global value chain developed over the years posed a vulnerable link to any shock to global trade.
- It could be the tipping point for global growth slowdown should the tension escalate to full blown war.
- However, the prolong tension already impacted sentiment which adversely affected emerging markets.
- The move from rhetoric to action by the US posed serious threat to global trade and growth and continued to hamper investor's sentiment toward emerging economies.
- US recent stance on global trade has elevated uncertainty in the market and highly disruptive.
- Regional currencies are expected to come under pressure amid hawkish Fed, stronger dollar and ongoing trade tension which move capital to safe haven.
- Core inflation is expected to gain traction in developed economy driven by improved labor market and upbeat domestic economic performance.
- US strong economic growth as reported in the 2nd quarter (4.1%) could seal the deal for Fed to hike two more this year.
- Domestically, inflationary pressure is expected to moderate in the upcoming months taking into consideration the impact of recent policy move by the government.


- Domestic consumption is also expected to remain robust amid tax holiday period and stable labor market. This is positive to domestic growth.
- For 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 13 July 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD104.6b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	20-Jul Fri	23-Jul Mon	24-Jul Tue	25-Jul Wed	26-Jul Thu	27-Jul Fri	Change (WoW bp)
MGS							
3-Y	3.141	3.555	3.577	3.549	3.574	3.558	41.7
5-Y	3.768	3.768	3.784	3.784	3.756	3.754	-1.4
7-Y	3.985	3.985	3.985	3.985	3.985	3.966	-1.9
10-Y	4.073	4.061	4.067	4.082	4.074	4.074	0.1
20-Y	4.798	4.794	4.811	4.811	4.786	4.783	-1.5
RINGGIT IRS							
1-Y	3.7061	3.7061	3.7061	3.705	3.705	3.705	-0.11
3-Y	3.7475	3.7475	3.755	3.745	3.75	3.75	0.25
5-Y	3.84	3.845	3.8535	3.8425	3.845	3.845	0.5
7-Y	3.97	3.97	3.98	3.97	3.98	3.985	1.5
10-Y	4.16	4.175	4.1725	4.1675	4.1725	4.18	2
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	2.6771	2.7239	2.7322	2.7544	2.7711	2.7604	8.33
5-Y	2.7645	2.8176	2.8195	2.8488	2.8597	2.8394	7.49
7-Y	2.8473	2.9076	2.9051	2.9354	2.938	2.9172	6.99
10-Y	2.8931	2.9541	2.9486	2.9746	2.9764	2.9542	6.11
30-Y	3.0258	3.091	3.0758	3.1031	3.0998	3.0822	5.64
USD LIBOR							
1-M	2.069	2.06363	2.07013	2.07688	2.07163	2.07675	0.775
2-M	2.17938	2.16463	2.17238	2.174	2.17138	2.16875	-1.063
3-M	2.34156	2.33531	2.33488	2.33688	2.33888	2.34238	0.082

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	20-Jul Yield	27-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.217	4.201	-1.6	2,870.0
MALAYSIA GOVERNMENT	3.759	03/15/19	3.374	3.347	-2.7	1,428.4
MALAYSIA GOVERNMENT	3.733	06/15/28	4.073	4.074	0.1	1,145.9
MALAYSIA GOVERNMENT	3.882	03/14/25	3.985	3.966	-1.9	941.9
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.421	3.405	-1.6	540.0
MALAYSIA GOVERNMENT	3.844	04/15/33	4.612	4.596	-1.6	525.7
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.067	4.062	-0.5	471.5
MALAYSIA GOVERNMENT	3.62	11/30/21	3.141	3.558	41.7	397.6
MALAYSIA GOVERNMENT	3.58	09/28/18	3.373	3.252	-12.1	344.4
MALAYSIA GOVERNMENT	4.059	09/30/24	4.016	4.003	-1.3	332.8
TOTAL VOLUME (TOP 10)						8,998.2
TOTAL VOLUME (Overall)						13,538.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	20-Jul Yield	27-Jul Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYAN BANKING BHD	6.3	09/25/68	4.091	3.831	-26.0	140.0
PRASARANA MALAYSIA BHD	4.97	12/11/30	N/A	4.659	N/A	100.0
DANAINFRA NASIONAL	4.33	04/04/25	4.247	4.253	0.6	90.0
SARAWAK ENERGY BHD	5.32	12/03/32	5.188	5.158	-3.0	90.0
PRASARANA MALAYSIA BHD	4.97	02/26/36	N/A	4.890	N/A	90.0
MALAYAN BANKING BHD	4.9	01/29/24	4.401	4.201	-20.0	89.0
PUBLIC BANK BERHAD	4.8	09/25/23	3.956	4.217	26.1	82.0
PROJEK LEBUHRAYA USAHASA	5.15	01/12/32	4.912	4.877	-3.5	80.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.937	4.925	-1.2	75.0
PRASARANA MALAYSIA BHD	4.75	02/26/31	4.681	4.683	0.2	60.0
TOTAL VOLUME (TOP 10)						896.0
TOTAL VOLUME (Overall)						2,981.6

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.