

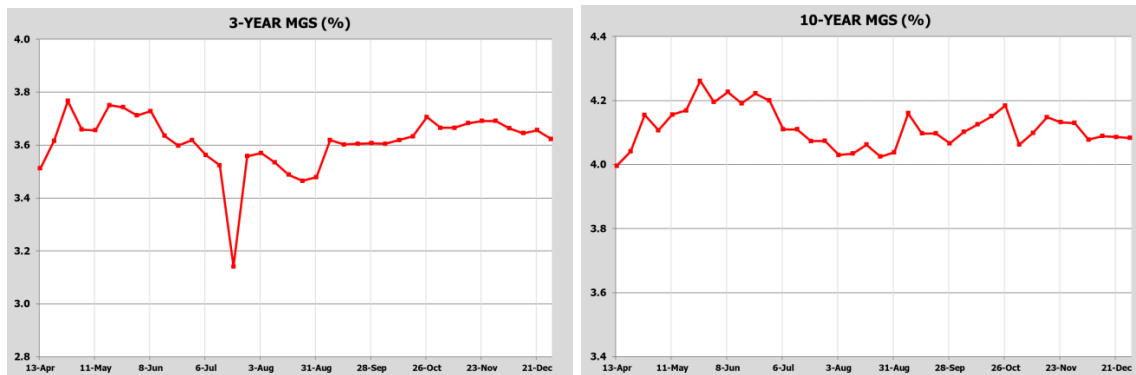
MIDF Strategy | 31 December 2018

Week Ended 28 December

- UST rallied (prices up; yields down) last week investors rotated some of their exposures into the safety of government credit amid volatile equities and crude oil prices as well as weak economic data (i.e. lower than expected pending US home sales).
- Nonetheless, the UST yield curve steepened as the short-end outperformed. The 10y-3y yield spread widened to +22bps from +17bps a week earlier. However, we reckon the yield curve retains its flattening bias until and unless the US Fed declares a cessation to the current hiking cycle.
- Likewise, the price of MGS benchmark issues ended the review week higher while the curve steepened with the 3-year and 10-year yields declined -3.3bps and -0.3bp respectively to close at 3.62% and 4.08%.
- Total trading value for Government Bonds (MGS/MII) decreased to RM5.6b in the holiday-shortened review week compared to RM11.7b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 59% of the overall Government Bonds trades in the week under review vis-à-vis 54% in the week before. In addition, 6 out of 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.9b in the review week compared to RM3.1b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 49% of the overall Corporate Bonds trades from 31% in the week before.

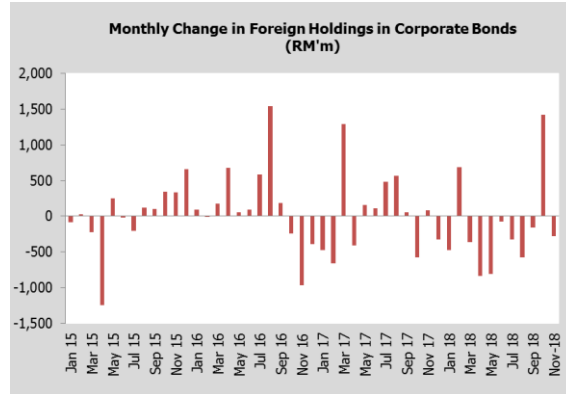
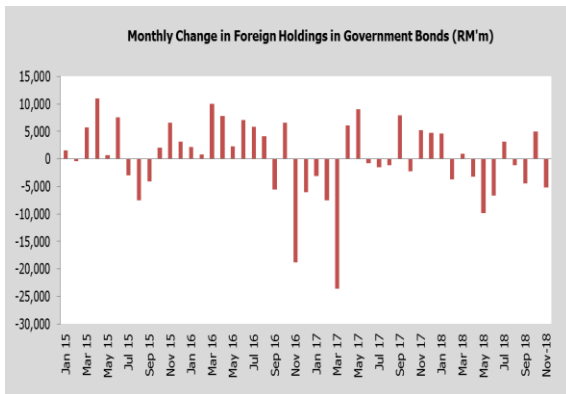
Weekly Money Review

A. FIXED INCOME



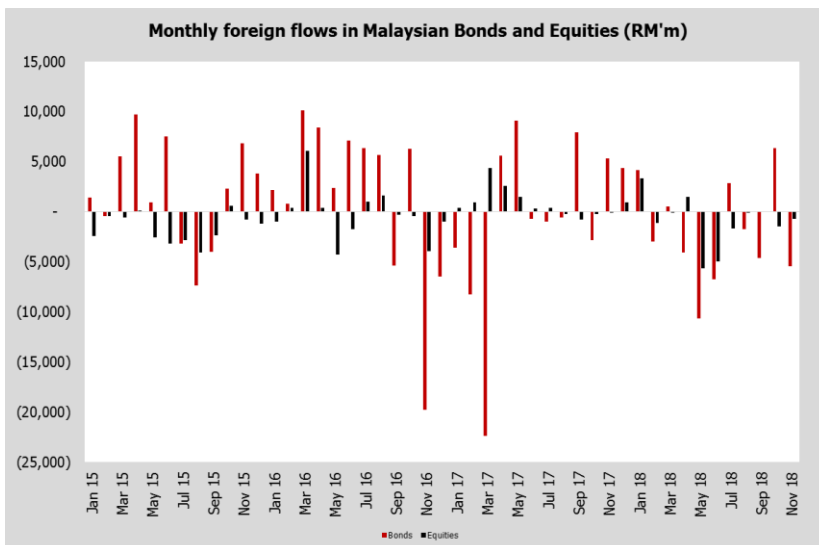
Source: Bloomberg

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- Furthermore, the top 3 actively traded Government Bonds were represented by issues with short and long residual tenors. The top 3 most actively traded were MGS 3.502% 05/31/27 at RM580m, MII 4.369% 10/31/28 at RM371m and MGS 3.759% 03/15/19 at RM356m.
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.9b in the review week compared to RM3.1b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 49% of the overall Corporate Bonds trades from 31% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues with short and long residual tenors. The biggest trading values were seen in Danainfra Nasional 4.12% 03/21/22 at RM230m, Sarawak Energy Bhd 5.18% 04/25/36 at RM150m and Affin Islamic Bank Bhd 5.05% 10/23/28 at RM100m.
- Total foreign holdings of Government Bonds stood at RM162.5b as at end-Nov 2018. It was a decline of -RM5.1b from the Oct 2018 figure of RM167.6b.
- In tandem, total foreign holdings of Corporate Bonds dropped by -RM276m in the month of November 2018 to RM14.3b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM5.4b in November 2018 while the former saw a total net outflow worth -RM0.7b. Furthermore, year-to-date (Jan-Nov), both equities and bonds markets remained in the red with total net outflows of -RM10.7b and -RM28.6b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

- DXY Index depreciates on government shutdown concerns and weak economic data. The partial US government shutdown entered the seventh day on last Friday and could extend well into 2019 as there have been little negotiations so far on the new budget blueprint that includes funding for Trump's proposed border wall. Such political uncertainty drove investors into the safety of govies and precious metals. On the economic data, pending US home sales slumped 7.7%yoy in Nov-18, the eleventh consecutive month of declines and the steepest since Apr-14. On a monthly basis, sales fell 0.7% in contrast to market expectations of a 0.7% increase. In addition, the MNI Chicago Business Barometer for the US fell to 65.4 in Dec-18 from an 11-month high of 66.4 in the previous month.
- EURUSD gain despite tepid German inflation. Preliminary estimates showed that German's headline inflation rose by less-than-expected in Dec-18 at an eight-month low of 1.7%yoy (2.3%yoy in Nov-18), citing a slowdown in gains to energy prices. On a monthly basis, consumer prices are expected to increase by 0.1%. Meanwhile, the harmonised index of consumer prices for Germany is expected to increase by 1.7%yoy in Dec-18 (1.9%yoy estimated by the market). Besides that, Euro also benefited from dollar weakness.
- Ringgit – Economic fundamentals remain strong. MYR appreciates as USD weakens following political uncertainty in the US. Domestically, the annual change of Malaysian leading index (LI) for Oct-18 showed an improvement to -0.7% from -1.7% in Sep-18. Concurrently, the monthly change of LI augmented during the same month,

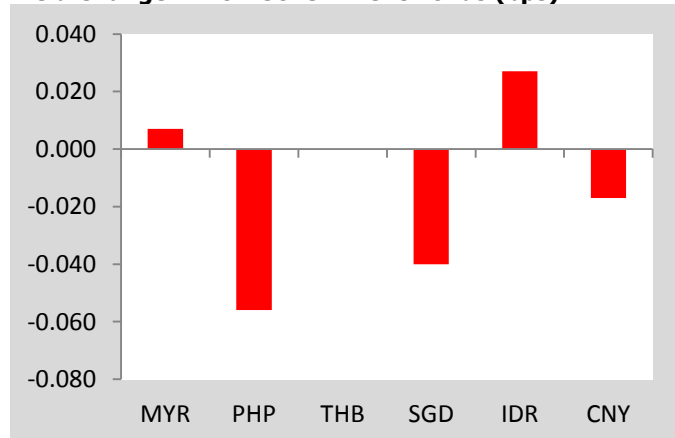
registering a growth of 1.2%. As the LI is designed to monitor the economic performance in average of 4-6 months ahead, it suggests that Malaysia's economy is likely to grow in Feb to Apr-19. We maintain our call MYR to average at 4.00 and register year-end target at 4.10.

Currencies Changes (Week Ended 28/12) and Quarterly Forecasts

	Close (28/12)	Prev Close (21/12)	Change	% Change	1Q18	2Q18	3Q18	4Q18F
DXY Index	96.39	96.96	-0.566	-0.6%	90.07	92.79	95.03	97.00
EURUSD	1.14	1.14	0.007	0.6%	1.23	1.19	1.16	1.14
GBPUSD	1.27	1.26	0.005	0.4%	1.39	1.37	1.30	1.27
USDJPY	110.27	111.22	-0.950	0.9%	108.09	109.24	111.50	114.74
USDMYR	4.15	4.18	-0.025	0.6%	3.92	3.95	4.10	4.24
GBPMYR	5.26	5.30	-0.037	0.7%	5.46	5.37	5.33	5.40
JPYMYR	3.77	3.76	0.010	-0.3%	3.63	3.62	3.67	3.70

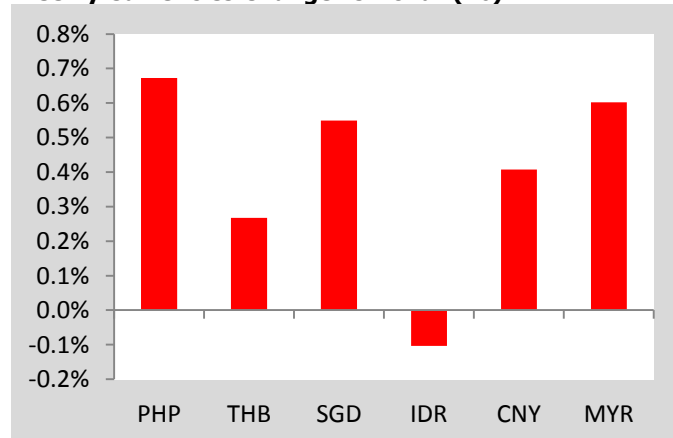
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.75	5.25	5.25	5.50	5.75	5.75	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.25	3.25	4.00	4.50	4.50	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	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	1.50	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	0.50	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	1.75	2.00	2.00	2.00	2.25	2.25	2.25	2.50

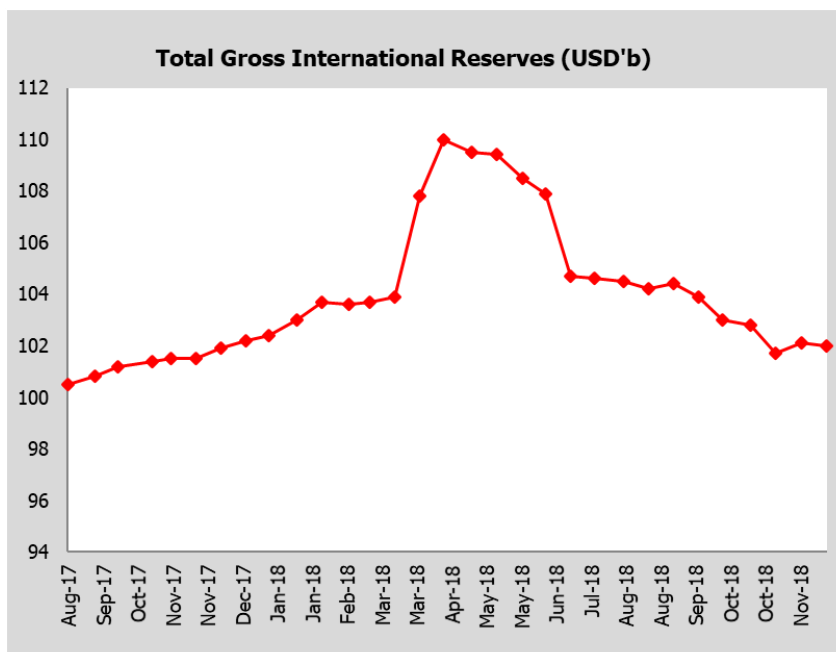
Source: CEIC, MIDFR

- Economic outlook in 2019 is shaping up to be a challenging year for world economy.


- 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.
- Nevertheless, global demand is expected to remain resilience and inflationary pressure is tepid.
- Pace of rate of normalization in the US will have significant influence to the performance of Ems currencies in the near term.
- Growth divergence among developed and developing countries will also cause differences in policy prescription which will have broader impact beyond border.
- Domestic leading indicators are pointing towards slightly better performance leading into 1Q19.
- Latest domestic data on distributive trade and labor market are continued to give a positive signal.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth.
- Headline inflation in the upcoming months is expected to remain modest but tracking upward. The trend is expected to continue.
- Current monetary policy remains accommodative at present to support growth in the domestic economy.
- We expect no changes in monetary policy which OPR maintains at 3.25% in 2019.

C. BNM FOREIGN RESERVES

- As at 30 November 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves decreased to USD102.0b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.0 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	21-Dec Fri	24-Dec Mon	25-Dec Tue	26-Dec Wed	27-Dec Thu	28-Dec Fri	Change (WoW bp)
MGS							
3-Y	3.656	3.656	3.656	3.656	3.656	3.623	-3.3
5-Y	3.799	3.813	3.813	3.789	3.792	3.784	-1.5
7-Y	4.002	4	4	3.991	4.006	3.977	-2.5
10-Y	4.086	4.093	4.093	4.093	4.089	4.083	-0.3
20-Y	4.681	4.681	4.681	4.674	4.674	4.656	-2.5
RINGGIT IRS							
1-Y	3.705	3.705	3.705	3.705	3.708	3.7075	0.25
3-Y	3.745	3.735	3.735	3.735	3.735	3.723	-2.2
5-Y	3.845	3.84	3.84	3.84	3.84	3.825	-2
7-Y	3.96	3.95	3.95	3.935	3.95	3.95	-1
10-Y	4.15	4.15	4.15	4.145	4.15	4.16	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	2.6194	2.5534	2.5534	2.6055	2.5587	2.4951	-12.43
5-Y	2.6386	2.5793	2.5793	2.6483	2.6166	2.5547	-8.39
7-Y	2.7181	2.6562	2.6562	2.7328	2.6758	2.6275	-9.06
10-Y	2.7902	2.7383	2.7383	2.8079	2.7666	2.7182	-7.2
30-Y	3.0308	2.9934	2.9934	3.0645	3.056	3.0222	-0.86
USD LIBOR							
1-M	2.50625	2.50563	2.50563	2.50563	2.52238	2.51988	1.363
2-M	2.61188	2.61175	2.61175	2.61175	2.619	2.6195	0.762
3-M	2.82163	2.81344	2.81344	2.81344	2.803	2.797	-2.463

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	21-Dec Yield	28-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.502	05/31/27	4.194	4.273	7.9	580.0
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.206	4.238	3.2	370.6
MALAYSIA GOVERNMENT	3.759	03/15/19	3.286	3.317	3.1	355.6
MALAYSIA INVESTMNT ISSUE	3.729	03/31/22	3.721	3.711	-1.0	330.8
MALAYSIA GOVERNMENT	4.921	07/06/48	4.914	4.876	-3.8	320.0
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	4.068	4.065	-0.3	314.0
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	3.864	3.845	-1.9	301.4
MALAYSIA INVESTMNT ISSUE	4.194	07/15/22	3.770	3.740	-3.0	300.0
MALAYSIA GOVERNMENT	3.757	04/20/23	3.799	3.784	-1.5	260.1
MALAYSIA GOVERNMENT	4.378	11/29/19	3.445	3.465	2.0	190.2
TOTAL VOLUME (TOP 10)						3,322.7
TOTAL VOLUME (Overall)						5,588.4

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	21-Dec Yield	28-Dec Yield	Change (WoW bp)	Weekly Volume (RM bn)
DANAINFRA NASIONAL	4.12	03/21/22	#N/A N/A	3.982	#VALUE!	230.0
SARAWAK ENERGY BHD	5.18	04/25/36	#N/A N/A	5.020	#VALUE!	150.0
AFFIN ISLAMIC BANK BHD	5.05	10/23/28	4.971	4.970	-0.1	100.0
PERBADANAN TABUNG PENDID	4.2	07/27/26	4.387	4.375	-1.2	90.0
AFFIN BANK BHD	5.45	02/05/27	4.750	4.774	2.4	80.0
PENGURUSAN AIR SPV BHD	4.16	02/07/19	3.519	3.519	0.0	75.0
EDRA ENERGY SDN BHD	6.43	07/05/34	5.900	5.895	-0.5	55.0
DANAINFRA NASIONAL	4.85	05/03/41	#N/A N/A	4.991	#VALUE!	50.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.885	4.874	-1.1	50.0
TENAGA NASIONAL BERHAD	4.98	08/27/38	4.971	4.971	0.0	46.8
TOTAL VOLUME (TOP 10)						926.8
TOTAL VOLUME (Overall)						1,910.8

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.