

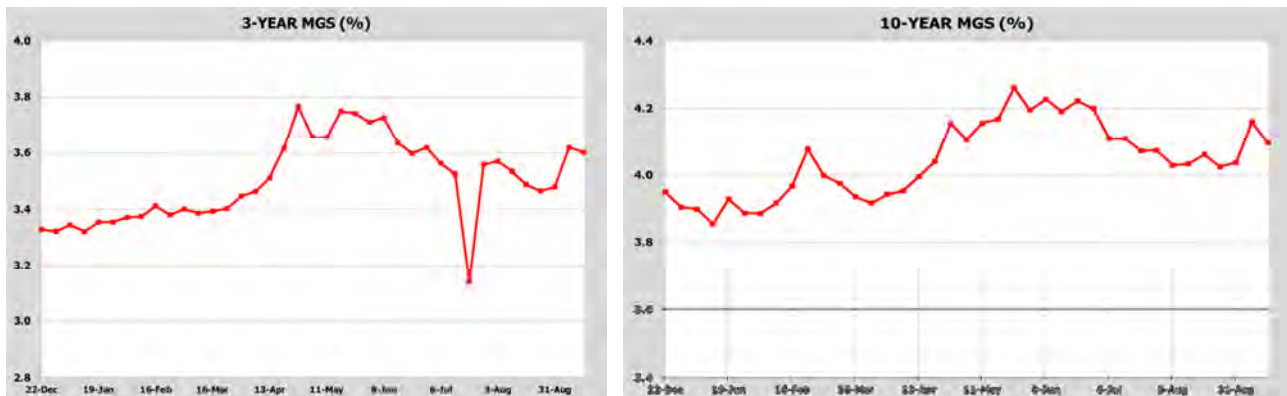
MIDF Strategy | 18 September 2018

Week Ended 14 September

- UST tanked (prices down; yields up) for the third week in a row last week with benchmark 10-year touched the psychological 3% level for the first time since early August. The latest yield spurt was attributable to (i) an upward revision in July's retail figure to 0.7% (earlier 0.5%) despite a muted 0.1% rise in August, (ii) core PCE (a US Fed's favourite inflation gauge) touched the target line of 2%, and (iii) IPI and manufacturing grew by 4.9%yoy (4-year high) and 3.1%yoy (6-year high) in August respectively.
- On the other hand, the local MGS saw technical buying support last week after the prior week's drubbing. The price of benchmark issues ended the review week higher with the 3-year and 10-year yields lower at -1.7bps and -6.3bps respectively to close the week at 3.60% and 4.10%.
- Total trading value for Government Bonds (MGS/MII) declined to RM9.8b in the holiday-shortened review week compared to RM17.8b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 66% of the overall Government Bonds trades in the week under review vis-à-vis ~59% in the week before. In addition, 9 out of the 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) decreased to RM1.78b in the review week compared to RM2.31b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 47% of the overall Corporate Bonds trades from ~33% in the week before.

Weekly Money Review

A. FIXED INCOME



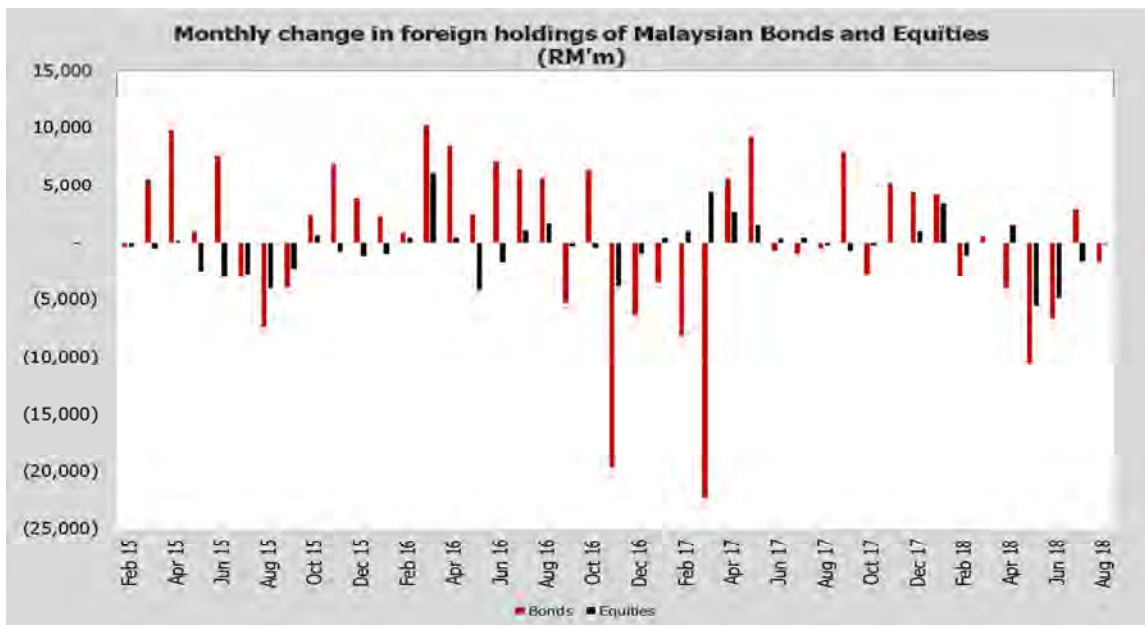
Source: Bloomberg

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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 MGS 3.76% 03/15/19 at RM1.62b, MII 3.56% 04/30/19 at RM1.34b and MGS 3.88% 03/14/25 at RM586.9m.
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) decreased to RM1.78b in the review week compared to RM2.31b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 47% of the overall Corporate Bonds trades from ~33% in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues with short and mid residual tenors. The biggest trading values were seen in Cagamas Berhad 4.05% 09/07/21 at RM200m, BGSM Management Sdn Bhd 4.92% 08/29/25 at RM91.0m and Danainfra Nasional 4.10% 05/03/23 at RM90.0m.
- Total foreign holdings of Government Bonds stood at RM167.1b as at end-August 2018. It was a decline of -RM1.16b from the July 2018 figure of RM168.3b.
- In tandem, total foreign holdings of Corporate Bonds decreased by -RM576.0m in the month of August 2018 to RM13.3b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM1.73b in August 2018 while the former saw a total net outflow worth -RM97.4m. Furthermore, year-to-date (January-August), both bonds and equities markets remained in the red with total net outflows of -RM18.6b and -RM8.6b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

- DXY Index contracts due to lower inflation rate. Headline and core inflation in Aug-18 went down slightly to 2.7% and 2.2% respectively. Nonetheless, core PCE inflation which mostly referred by the Fed has touch the inflation target line of 2%. Hence, the likelihood of a rate hike in this month FOMC meeting is very high. Looking ahead, the US economy remains rosy given that the University of Michigan's consumer sentiment index rose to 6-month high in Sep-18. In addition, IPI and manufacturing in Aug-18 expand strongly by 4.9%yoy (4-year high) and 3.1%yoy (6-year high) respectively.
- EURUSD improves by 0.4%wow. Wage growth in 2Q18 rose by 1.9%yoy, fastest in 1-year. Headline inflation in Germany stays at 2% while core inflation decelerates to 10-month low at 1.3% in Aug-18. Overall economic performance in EU remains sanguine and thus provides support for ECB to continue with its normalisation monetary policy program.

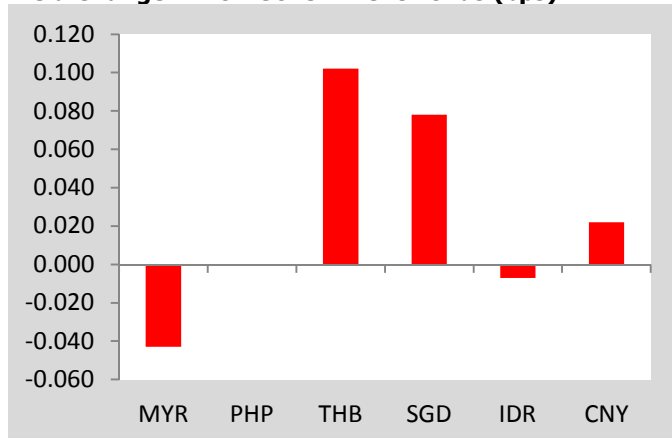
Currencies Changes (Week Ended 14/09) and Quarterly Forecasts

	Close (14/09)	Prev Close (07/09)	Change	% Change	1Q18	2Q18	3Q18F	4Q18F
DXY Index	94.93	95.37	-0.435	-0.5%	90.07	92.79	91.76	93.66
EURUSD	1.16	1.16	0.005	0.4%	1.23	1.19	1.21	1.19
GBPUSD	1.31	1.29	0.021	1.6%	1.39	1.37	1.34	1.32
USDJPY	111.85	110.99	0.860	-0.8%	108.09	109.24	107.54	110.66
USDMYR	4.14	4.15	-0.007	0.2%	3.92	3.95	4.09	4.05
GBPMYR	5.43	5.36	0.070	-1.3%	5.46	5.37	5.46	5.52
JPYMYR	3.70	3.74	-0.035	0.9%	3.63	3.62	3.80	3.83

Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

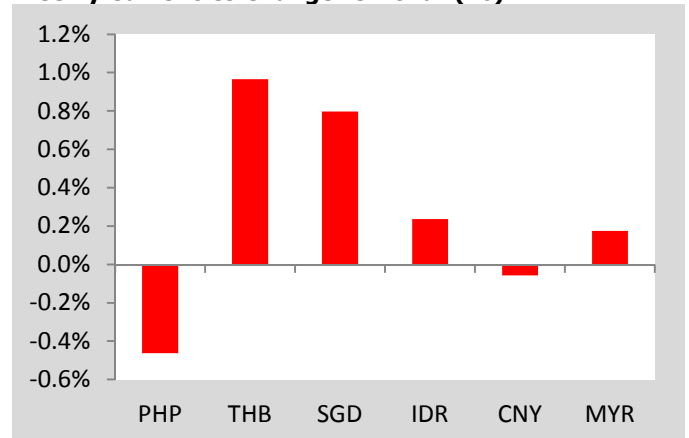
- Ringgit – Appreciates marginally by 0.2%wow. Apart from slight depreciation in USD, MYR gains amid continuous stable labor market in Malaysia. In Jul-18, jobless rate maintains at 3.4% while employment and labor force expand steadily by 2.6%yoy and 2.7%yoy respectively. The expansion is in tandem with the upbeat performances of external trade and industrial production during the month. We maintain our call MYR to average at 4.00 and register year-end target at 4.00.

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 (%)

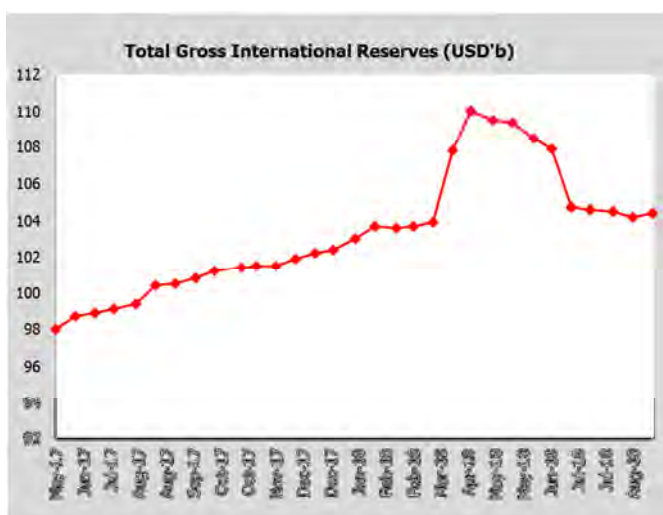
	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.75	5.25	5.25	5.50
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	4.00
Thailand	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	1.50	1.50	1.75	1.75	1.75	2.00	2.00	2.00

Source: CEIC, MIDFR


- Bleaker outlook for global trade as US announced 10 percent tariff on USD200 billion worth of China goods next week which will negatively affect emerging economies.
- Ongoing trade tension, tightening monetary policy, policy uncertainties, geopolitical worries, and upward price pressure are some of the factors that can derail global growth trajectory in both near and medium term.
- Prolonged trade dispute will temper business sentiment which will cause investment to suffer. Contraction in investment will affect medium and long term growth trajectory.
- Global expansion is becoming more uneven between developed and emerging economies.
- Emerging currencies over the past few weeks have been under pressure thanks to mighty dollar and concern about trade tension.
- Countries with weak fundamentals and high exposure to foreign debts are highly vulnerable.
- Last week Bank of England and ECB maintained their respective policy rate amid cautious near term outlook. Central bank of Turkey however raised its key rate by 625bps to 24 percent amid effort to curb inflation and sliding lira.
- Domestically, consumption is expected to remain robust amid stable labor market and positive wage growth. This is positive to domestic growth.
- Headline inflation is expected to remain tepid. 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 barring any unforeseen circumstances in the near term.
- The last MPC meeting is schedule in the second week of November.

C. BNM FOREIGN RESERVES

- As at 30 August 2018, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD104.4b.



Source: BNM

- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 0.9 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	7-Sep Fri	10-Sep Mon	11-Sep Tue	12-Sep Wed	13-Sep Thu	14-Sep Fri	Change (WoW bp)
MGS							
3-Y	3.619	3.619	3.619	3.625	3.602	3.602	-1.7
5-Y	3.828	3.828	3.828	3.828	3.816	3.804	-2.4
7-Y	4.05	4.05	4.05	4.05	4.005	4.006	-4.4
10-Y	4.16	4.16	4.16	4.154	4.111	4.097	-6.3
20-Y	4.701	4.701	4.701	4.701	4.701	4.701	0
RINGGIT IRS							
1-Y	3.71	3.71	3.71	3.715	3.715	3.715	0.5
3-Y	3.7475	3.7475	3.7475	3.775	3.765	3.76	1.25
5-Y	3.855	3.855	3.855	3.87	3.8525	3.844	-1.1
7-Y	3.995	3.995	3.995	3.99	3.98	3.985	-1
10-Y	4.165	4.165	4.165	4.1775	4.17	4.16	-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	2.772	2.7776	2.8168	2.8184	2.8239	2.8541	8.21
5-Y	2.8211	2.8228	2.8671	2.862	2.8723	2.9033	8.22
7-Y	2.8919	2.8844	2.9346	2.9221	2.9297	2.9626	7.07
10-Y	2.9388	2.9314	2.9755	2.9626	2.97	2.9959	5.71
30-Y	3.1014	3.081	3.1185	3.1038	3.1071	3.1309	2.95
USD LIBOR							
1-M	2.131	2.13894	2.14794	2.13444	2.15844	2.16469	3.369
2-M	2.21088	2.21725	2.22113	2.21475	2.231	2.23175	2.087
3-M	2.33125	2.33425	2.33425	2.3315	2.33413	2.33713	0.588

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	7-Sep Yield	14-Sep Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.759	03/15/19	3.286	3.228	-5.8	1,622.4
MALAYSIA INVESTMNT ISSUE	3.558	04/30/19	3.344	3.305	-3.9	1,337.8
MALAYSIA GOVERNMENT	3.882	03/14/25	4.050	4.006	-4.4	586.9
MALAYSIA GOVERNMENT	3.62	11/30/21	3.619	3.602	-1.7	571.8
MALAYSIA GOVERNMENT	4.378	11/29/19	3.438	3.404	-3.4	528.4
MALAYSIA INVESTMNT ISSUE	4.094	11/30/23	3.922	3.900	-2.2	483.3
MALAYSIA GOVERNMENT	3.418	08/15/22	3.772	3.749	-2.3	395.6
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.234	4.197	-3.7	370.0
MALAYSIA INVESTMNT ISSUE	3.948	04/14/22	3.776	3.757	-1.9	300.9
MALAYSIA INVESTMNT ISSUE	4.895	05/08/47	4.948	4.978	3.0	270.0
TOTAL VOLUME (TOP 10)						6,467.0
TOTAL VOLUME (Overall)						9,797.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	7-Sep Yield	14-Sep Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	4.05	09/07/21	4.056	4.056	0.0	200.0
BGSM MANAGEMENT SDN BHD	4.92	08/29/25	4.677	4.665	-1.2	91.0
DANAINFRA NASIONAL	4.1	05/03/23	4.026	4.046	2.0	90.0
RANTAU ABANG CAPITAL	4.3	12/03/20	4.048	4.044	-0.4	80.0
KUALA LUMPUR KEPONG BHD	4.65	04/24/26	#N/A N/A	4.529	#VALUE!	80.0
SARAWAK ENERGY BHD	5.32	12/03/32	4.880	4.907	2.7	70.0
PENGURUSAN AIR SPV BHD	4.1	11/05/20	3.894	3.894	0.0	60.0
YTL POWER INTERNATIONAL	5.05	05/03/27	4.894	4.876	-1.8	56.5
PENGURUSAN AIR SPV BHD	4.43	02/03/23	4.045	4.037	-0.8	50.0
BGSM MANAGEMENT SDN BHD	4.67	08/27/21	#N/A N/A	4.476	#VALUE!	50.0
TOTAL VOLUME (TOP 10)						827.5
TOTAL VOLUME (Overall)						1,773.6

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.