

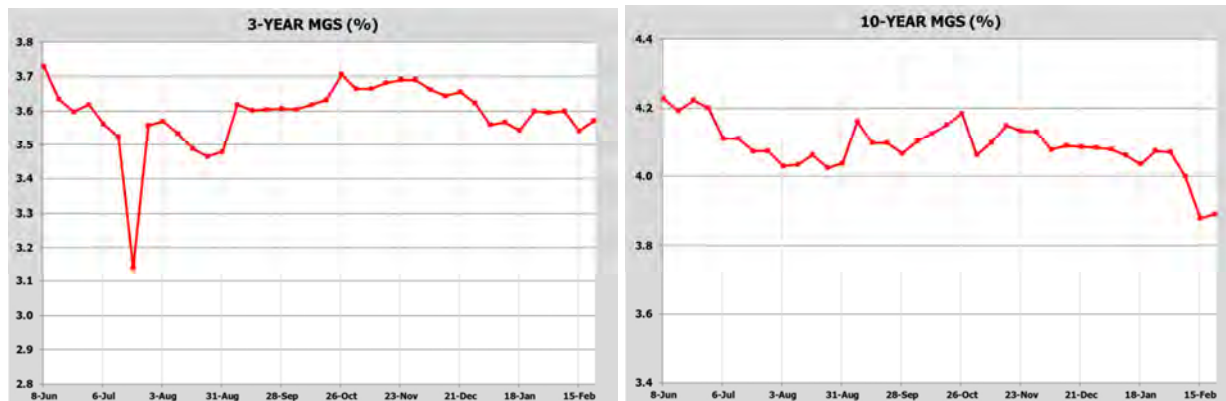
MIDF Strategy | 25 February 2019

Week Ended 22 February 2019

- UST registered all around gains (prices up; yields down) last week as the market rebounded from prior week's losses. While the market is sanguine over the progress of US-China trade talks thus far, however the most contentious subject (i.e. intellectual property) is yet to be resolved.
- The UST yield curve steepened slightly as the short-end outperformed. The 10y-3y yield spread widened to +19bps from +17bps a week earlier. Nonetheless, we reckon the yield curve shall retain its flattening bias until and unless the US Fed signals a pause to the current hiking cycle.
- Domestically, the price of MGS benchmark issues ended the review week lower while the curve continued to flatten as the long-end outperformed with the 3-year and 10-year yields gained 3.0bps and 1.2bps respectively to close at 3.57% and 3.89%.
- Total trading value for Government Bonds (MGS/MII) declined to RM22.0b in the review week compared to RM36.7b in the previous week. The total trading value of 10 most actively traded issues dropped (higher trading breadth) to 50% of the overall Government Bonds trades in the week under review as compared to 53% in the week before. In addition, 5 out of 10 most actively traded bonds saw lower yields hence higher prices during the review week.
- Meanwhile, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.21b in the review week compared to RM4.12b in earlier week. The total trading value of 10 most actively traded issues remained unchanged at 29% of the overall Corporate Bonds trades vis-à-vis the week before.

Weekly Money Review

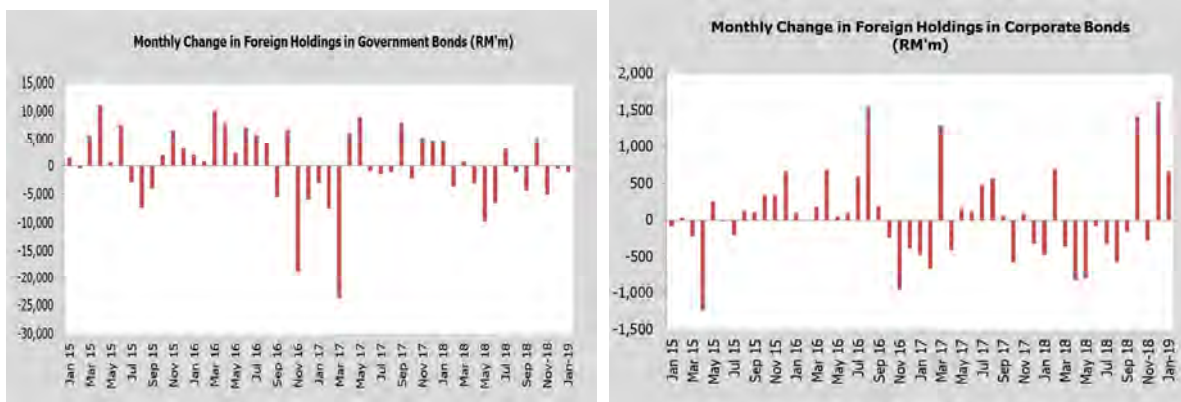
A. FIXED INCOME



Source: Bloomberg

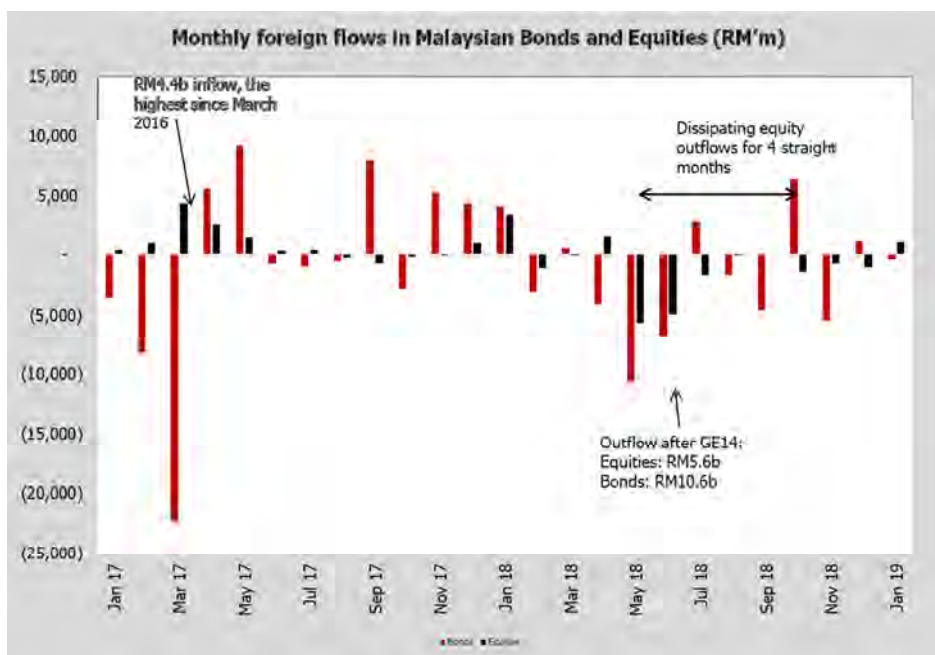
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- Furthermore, the top 3 actively traded Government Bonds were represented by issues with varied residual tenors. The top 3 most actively traded were MII 3.547% 08/27/20 at RM1.9b, MII 4.369% 10/31/28 at RM1.58b, and MII 4.128% 08/15/25 at RM1.37b.
- Meanwhile, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.21b in the review week compared to RM4.12b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues remained unchanged at 29% of the overall Corporate Bonds trades vis-à-vis 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 Cagamas Berhad 3.65% 08/09/19 at RM205m, Sunway Berhad 0% 03/18/19 at RM200m, and Telekom Malaysia Berhad 4.68% 10/31/28 at RM140m.
- Total foreign holdings of Government Bonds stood at RM161.0b as at end-Jan 2019. It was a decline of -RM1.0bm from the December 2018 figure of RM162.0b.

- On the other hand, total foreign holdings of Corporate Bonds increased by RM661m in the month of January 2019 to RM16.6b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM417m in January 2019 while the former saw a total net inflow worth RM1.0b. For 2018, the net flows of both equities and bonds markets were in the red with total net outflows of -RM11.7b and -RM21.1b respectively.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

- DXY Index weakens amid slower rate hikes. As guided by the latest Fed's minutes, many officials were unsure on the appropriate time for rate hikes this year. Increased downside risks and decline in business optimism are among reasons for the Fed to be cautious. Flash manufacturing PMI in Feb-19 declined further to 53.7 points, lowest since Sep-18. On a flip side, services PMI surged to 8-month high at 56.2 points, reflecting continuous optimistic consumers in the US.
- EURUSD remains in cloudy outlook. Germany's GDP grew by 0.9%yoy in 4Q18, lowest since 3Q13. On quarterly basis, contraction by -0.2%, first shrank since 2015. Flash manufacturing PMI touched almost 6-year low at 49.2 points. Geopolitical stress within the region is the main downside risk for EU. Future of Brexit and France-Italy spat are among the cases.
- Ringgit – MYR on strong footing. Apart of strengthening global oil prices, supportive macroeconomic environment such as progressive trade talks and steady domestic demand are putting Malaysian economic on upward path.

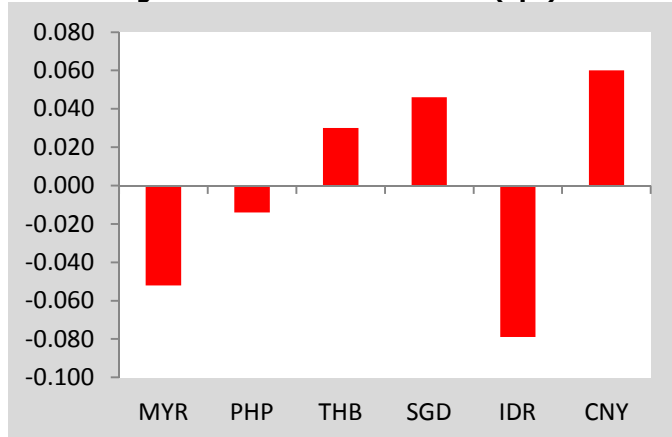
Latest CPI data indicated for the first time Malaysia had deflation at -0.7% since GFC'09. The decline was mainly due to low transport inflation, -7.8% in Jan-19. We maintain our call MYR to average at 4.05 and register year-end target at 4.00 in 2019.

Currencies Changes (Week Ended 22/2) and Quarterly Forecasts

	Close (22/2)	Prev Close (15/2)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	96.55	96.90	-0.353	-0.4%	96.78	95.26	94.20	96.15
EURUSD	1.13	1.13	0.005	0.4%	1.14	1.16	1.18	1.16
GBPUSD	1.30	1.29	0.015	1.1%	1.25	1.27	1.25	1.22
USDJPY	110.75	110.47	0.280	-0.3%	111.76	109.13	107.42	110.55
USDMYR	4.08	4.09	-0.008	0.2%	4.12	4.07	4.05	4.00
GBPMYR	5.32	5.24	0.079	-1.5%	5.23	5.21	5.29	5.36
JPYMYR	3.68	3.70	-0.016	0.4%	3.74	3.76	3.95	3.97

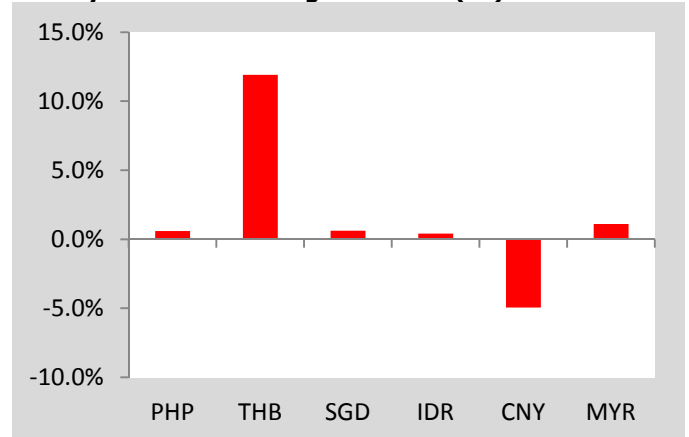
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.75	5.25	5.25	5.50	5.75	5.75	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.25	3.25	4.00	4.50	4.50	4.75	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	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	1.75	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	0.75	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	2.00	2.00	2.00	2.25	2.25	2.25	2.50	2.50

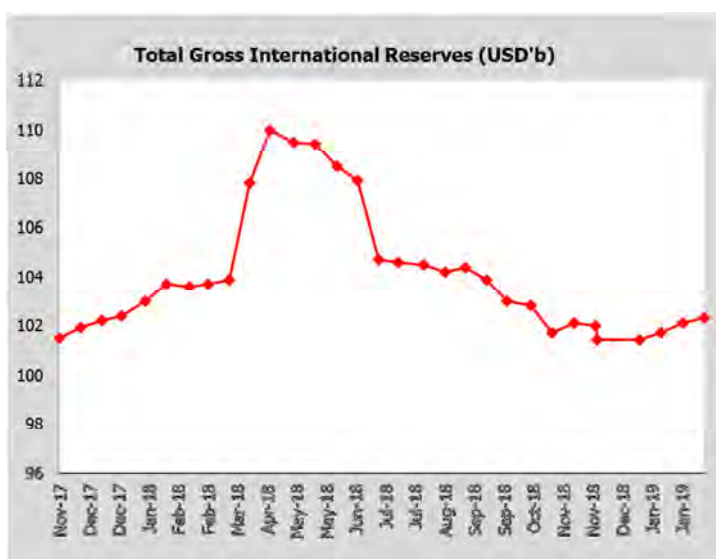
Source: CEIC, MIDFR

- The US and China are still on progressive path towards a trade deal.


- Rebound in China's exports as well as gradual recovery in commodity prices signal positive development to global trade activities.
- 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. Trade deal between the US and China in which on progressive development may provide hope for long term solution and boost market confidence.
- On the monetary policy space, as guided by its latest minutes, the Fed is predicted to slower its normalization pace in 2019 as most of the officials were unsure on the future rate hikes amid increased downside risks.
- We expect two times of rate hike this year.
- Domestic leading indicators on the other hand are pointing towards slightly better performance leading into 1Q19.
- GDP growth for the final quarter of 2018 surprised market expectations, 4.7% vs 4.5%.
- The solid economic growth contributed by private consumption and external market.
- Headline CPI hits 10-year low at -0.7% in Jan-19.
- It is the first time Malaysia had price deflation since GFC'09.
- Core CPI moderates to 0.2%, lowest in 5-month.
- 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 15 February 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves increased to USD102.3b.



Source: BNM

- The amount of reserves is sufficient to finance 7.3 months of retained imports and is 1.0 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	15-Feb Fri	18-Feb Mon	19-Feb Tue	20-Feb Wed	21-Feb Thu	22-Feb Fri	Change (WoW bp)
MGS							
3-Y	3.542	3.561	3.55	3.542	3.58	3.572	3
5-Y	3.717	3.722	3.722	3.704	3.714	3.704	-1.3
7-Y	3.843	3.838	3.851	3.852	3.858	3.862	1.9
10-Y	3.879	3.887	3.884	3.887	3.893	3.891	1.2
20-Y	4.457	4.483	4.483	4.483	4.483	4.483	2.6
RINGGIT IRS							
1-Y	3.65	3.66	3.655	3.655	3.655	3.655	0.5
3-Y	3.675	3.675	3.685	3.685	3.685	3.69	1.5
5-Y	3.7625	3.7625	3.77	3.77	3.77	3.77	0.75
7-Y	3.895	3.89	3.89	3.89	3.89	3.895	0
10-Y	4.05	4.05	4.05	4.05	4.05	4.045	-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	2.489	2.489	2.4563	2.4644	2.5054	2.4615	-2.75
5-Y	2.4931	2.4931	2.4576	2.4677	2.5134	2.471	-2.21
7-Y	2.5656	2.5656	2.536	2.5434	2.5952	2.5506	-1.5
10-Y	2.6626	2.6626	2.6339	2.6447	2.6914	2.6518	-1.08
30-Y	2.9936	2.9936	2.9778	2.9952	3.0495	3.0159	2.23
USD LIBOR							
1-M	2.48038	2.48475	2.48225	2.48113	2.48988	2.48438	0.4
2-M	2.58425	2.57813	2.57813	2.5735	2.57063	2.57638	-0.787
3-M	2.68288	2.64363	2.64125	2.66338	2.651	2.64625	-3.663

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	15-Feb Yield	22-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA INVESTMNT ISSUE	3.799	08/27/20	3.547	3.541	-0.6	1,918.4
MALAYSIA INVESTMNT ISSUE	4.369	10/31/28	4.079	4.087	0.8	1,576.9
MALAYSIA INVESTMNT ISSUE	4.128	08/15/25	3.973	3.934	-3.9	1,368.3
MALAYSIA GOVERNMENT	3.654	10/31/19	3.398	3.399	0.1	1,257.2
MALAYSIA INVESTMNT ISSUE	4.13	07/09/29	4.029	4.023	-0.6	1,210.0
MALAYSIA GOVERNMENT	4.378	11/29/19	3.421	3.394	-2.7	1,049.0
MALAYSIA GOVERNMENT	3.757	04/20/23	3.717	3.704	-1.3	749.1
MALAYSIA INVESTMNT ISSUE	4.724	06/15/33	4.365	4.381	1.6	740.0
MALAYSIA GOVERNMENT	3.733	06/15/28	3.952	3.979	2.7	655.8
MALAYSIA INVESTMNT ISSUE	4.258	07/26/27	4.032	4.057	2.5	574.4
TOTAL VOLUME (TOP 10)						11,099.3
TOTAL VOLUME (Overall)						21,963.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	15-Feb Yield	22-Feb Yield	Change (WoW bp)	Weekly Volume (RM bn)
CAGAMAS BERHAD	3.65	08/09/19	#N/A N/A	3.685	#VALUE!	205.0
SUNWAY BERHAD	ZERO	03/18/19	3.912	3.912	0.0	200.0
TELEKOM MALAYSIA BERHAD	4.68	10/31/28	4.611	4.551	-6.0	140.0
PRASARANA MALAYSIA BHD	4.64	03/22/30	#N/A N/A	4.320	#VALUE!	130.0
KHAZANAH NASIONAL BHD	ZERO	08/14/23	4.053	4.074	2.1	130.0
CAGAMAS BERHAD	4.08	10/08/21	#N/A N/A	4.032	#VALUE!	100.0
ANIH BHD	6	11/29/28	4.701	4.692	-0.9	80.0
DANAINFRA NASIONAL	4.58	10/31/28	4.242	4.242	0.0	80.0
DANAINFRA NASIONAL	4.65	02/10/34	4.606	4.575	-3.1	80.0
TENAGA NASIONAL BERHAD	7.1	12/13/21	#N/A N/A	4.028	#VALUE!	60.0
TOTAL VOLUME (TOP 10)						1,205.0
TOTAL VOLUME (Overall)						4,210.6

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.