

# STRATEGY

**FBM KLCI 2020 Target: 1,680 pts**

## BNM rate cut: First reactions

### KEY INVESTMENT HIGHLIGHTS

- **BNM cut the OPR by 25bps to 2.75%**
- **This move was (mostly) unanticipated by the market, except us**
- **First reactions by the forex and broader equity market were favorable**
- **We reckon the negative knee-jerk reaction by banking stocks as short-lived**
- **Maintain FBM KLCI 2020 baseline target at 1,680 points**

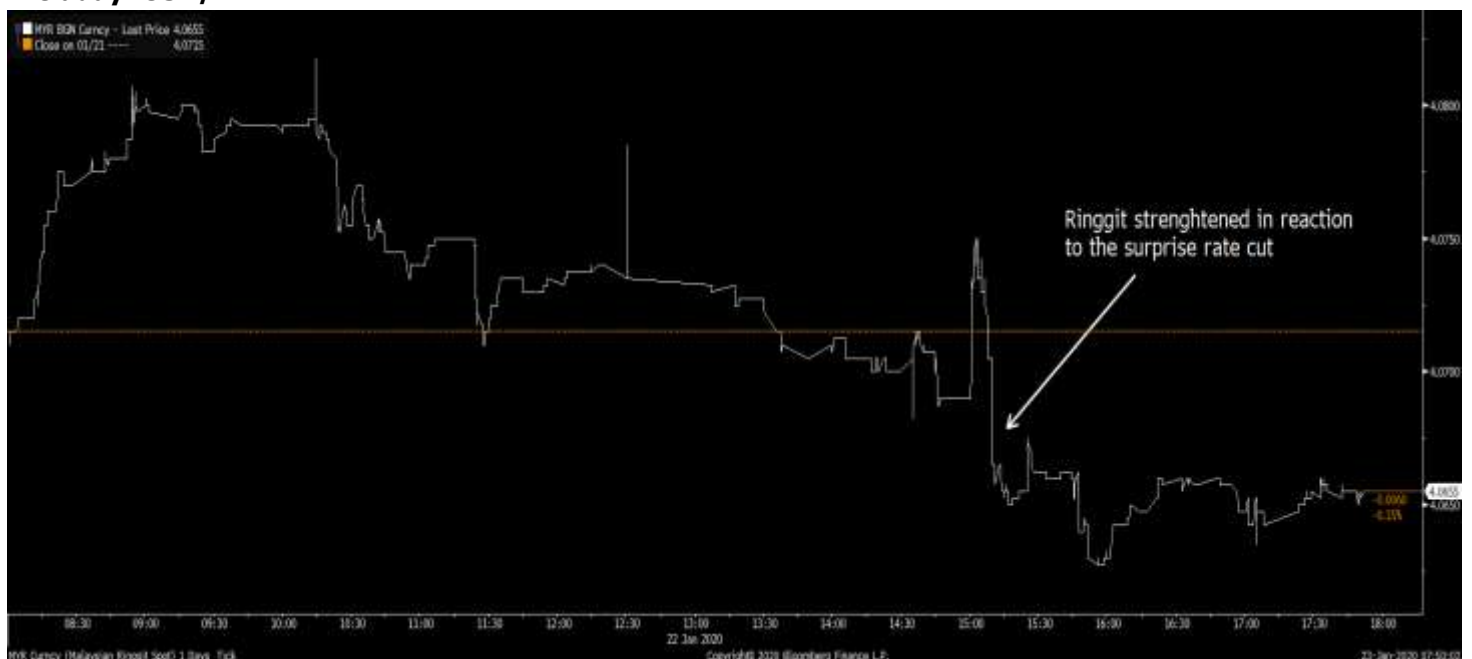
In a Reuters’ survey, all economists were expecting Bank Negara Malaysia (BNM) to stay put except MIDF Research which was anticipating a rate cut. Lo and behold, the central bank announced a 25bps reduction in the OPR to 2.75% on 22 January 2020.

In its own words, the BNM sees the rate cut as “a pre-emptive measure to secure the improving growth trajectory amid price stability.”

### FIRST REACTIONS

Despite the surprise (to most) rate cut, the Ringgit found support. The forex market reacted favorably with USD/MYR closed the Asian trading day at 4.0655, vis-à-vis 4.0690 prior to the rate announcement.

### Intraday: USD/MYR



Source: Bloomberg, MIDFR

Basing on the first reaction, we could argue that the forex market sees the rate cut as ‘value accretive’ to the economy.

Meanwhile in the equity market, the FBMKLCI was dragged down by the weakness in banking stocks with losses led by Public Bank and Hong Leong Bank.


However, the broader equity market reacted positively to the reduction in the key interest rate with FBM70 and FBMSC both climbed to close higher.

## Intraday: FBMKLCI, FBM70 &amp; FBMSC



Source: Bloomberg, MIDFR

We see the weakness in banking stocks as a short-lived knee jerk reaction to the rate cut. The banking stocks in general are relatively undervalued and any price weakness attributed to the rate cut could be a buying opportunity. Majority of the banks are trading below its 3-year historical average.

We reiterate our year-end 2020 baseline target for the FBM KLCI at 1,680 points which equates to -1.0SD (standard deviation) of its 5-year (2014-18) historical average. 

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.