

MIDF Strategy | 13 July 2020

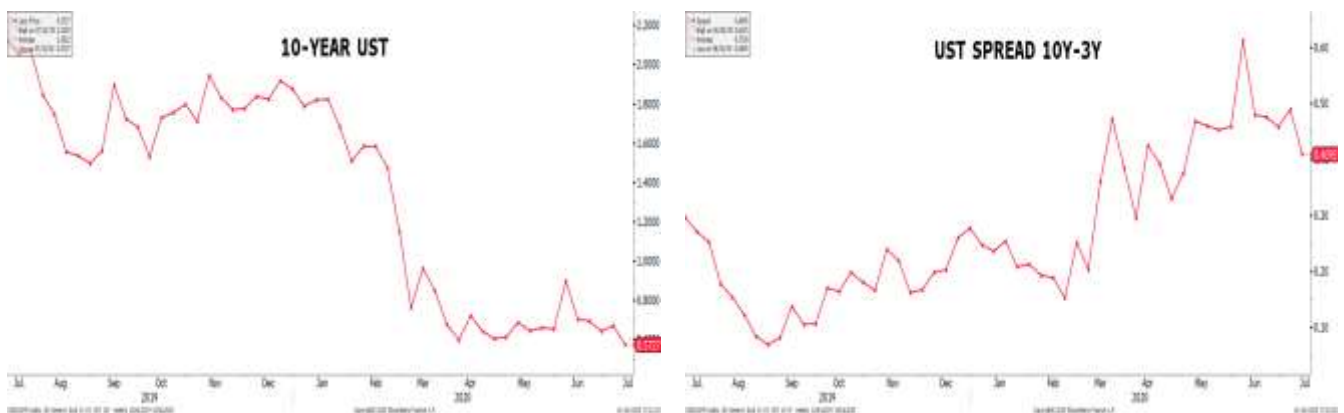
Week Ended 10 July 2020

- The longer duration UST yields edged lower (prices up) last week with the benchmark 10-year closed at 0.64%. The benchmark yield was nonetheless off its Thursday low after positive Covid-19 virus treatment news from Gilead. Meanwhile, the 10y-3y yield spread narrowed (i.e. yield curve flattened) to +46bps from +49bps a week earlier.
- Likewise, the price of domestic MGS issues ended the review week higher with the benchmark 3-year and 10-year yields declined -14.2bps and -16.8bps to close at 2.01% and 2.64% respectively. Moreover, the 10y-3y yield spread flattened from +66bps to +63bps as the short-end underperformed. It is notable that the BNM again cut the OPR by 25bps last week and cautioned that "broad-based weakness in labour markets and precautionary behaviour by households and businesses could affect the recovery going forward."
- Total trading value for Government Bonds (MGS/MII) increased to RM35.0b in the review week compared to RM28.7b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 58% compared to 46% of the overall Government Bonds trades in the week before. In addition, 10 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) increased to RM3.30b in the review week compared to RM3.19b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 32% compared to 28% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

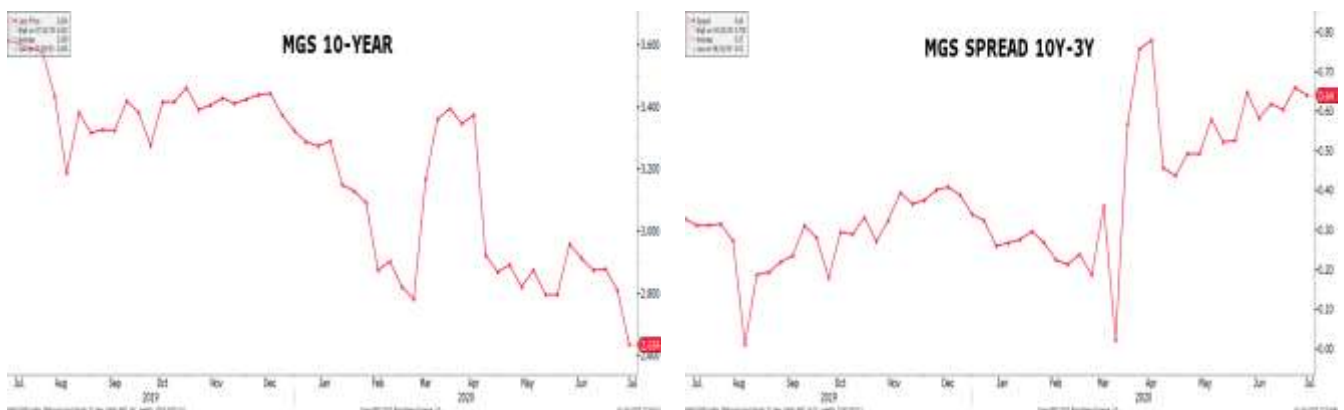
A. FIXED INCOME

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Source: Bloomberg, MIDFR

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Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM35.0b in the review week compared to RM28.7b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 58% compared to 46% of the overall Government Bonds trades in the week before. In addition, 10 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 dominated by issues of short and long residual tenors. The top 3 most actively traded were MGS 3.48% 3/15/23 at RM3.24b, MGS 3.889% 7/31/20 at RM2.45b, and MII 4.13% 7/9/29 at RM2.42b.
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM3.30b in the review week compared to RM3.19b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 32% compared to 28% of the overall Corporate Bonds trades in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and mid residual tenors. The largest trading values were seen in Danainfra 4.33% 11/15/25 at RM245m, Danainfra 4.33% 4/44/25 at RM155m, and YTL Corp 4.38% 4/25/23 at RM135m.

B. FOREIGN EXCHANGE

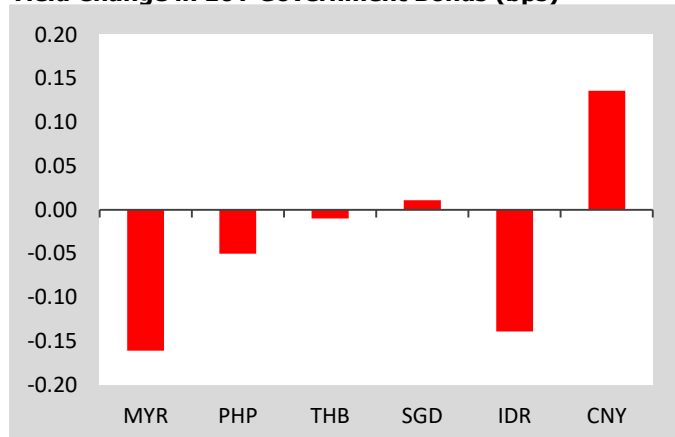
- US dollar DXY Index depreciated amid more positive news. The US dollar DXY index fell further during the week on the back of improved sentiment in view of encouraging economic data. The US ISM non-manufacturing index rose to 57.1 in June (May-20: 45.4), attributable to the expanding business activities and growing new orders for the US services industry. In addition, US weekly jobless claims declined for the 14th straight week, decreasing by 99,000 claims to 1.31 million.
- GBP appreciated on optimism. The GBP appreciated against the US dollar supported by the positive news that the UK government will continue to provide more support to the economy, recovering from the slowdown caused by the Covid-19 outbreak.
- Ringgit strengthened on signs of economic recovery. MYR strengthened further, ending the week at RM4.267 per US dollar. Recent economic releases signaled more signs of recovery; with distributive trade and industrial production registering a slower decline in May-20. On another note, ringgit also appreciated supported by increase in the oil prices, with the Brent crude oil benchmark closing at USD43.24 per barrel on 10 July 2020 (3 July 2020: USD42.80/barrel).

Currencies Changes (Week Ended 10/07) and Quarterly Forecasts

	Close (10/07)	Prev Close (03/07)	Change	% Change	1Q20	2Q20	3Q20F	4Q20F
DXY Index	96.65	97.17	-0.520	-0.5%	98.32	99.00	98.36	98.95
EURUSD	1.130	1.125	0.006	0.5%	1.10	1.10	1.11	1.10
GBPUSD	1.264	1.248	0.015	1.2%	1.28	1.24	1.21	1.23
USDJPY	106.91	107.51	0.600	0.6%	108.94	107.63	107.41	108.96
USDMYR	4.267	4.287	0.021	0.5%	4.17	4.32	4.36	4.35
GBPMYR	5.376	5.343	0.033	0.6%	5.36	5.36	5.30	5.37
JPYMYR	3.992	3.988	0.004	0.1%	3.83	4.02	4.06	3.99

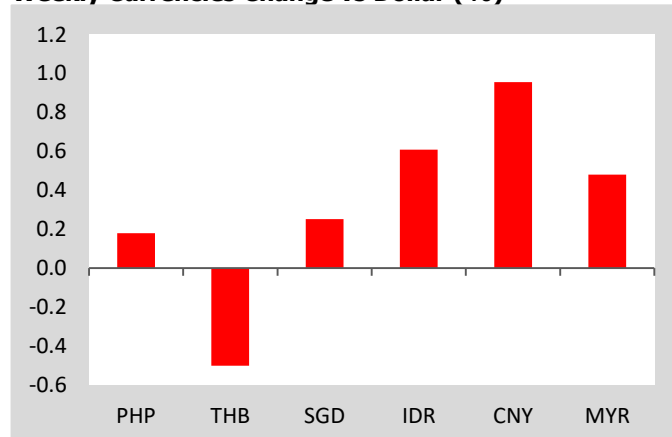
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)


	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Malaysia	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00
Indonesia	5.00	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25
Philippines	4.50	4.50	4.50	4.50	4.25	3.75	3.25	3.25	2.75
Thailand	1.50	1.25	1.25	1.25	1.00	0.75	0.75	0.50	0.50
Vietnam	6.00	6.00	6.00	6.00	6.00	5.00	5.00	4.50	4.50
Korea	1.25	1.25	1.25	1.25	1.25	0.75	0.75	0.50	0.50
India	5.15	5.15	5.15	5.15	5.15	4.40	4.40	4.00	4.00
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
United Kingdom	0.75	0.75	0.75	0.75	0.75	0.10	0.10	0.10	0.10
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.83	1.55	1.55	1.55	1.58	0.63	0.05	0.05	0.08

Source: CEIC, MIDFR

- The global economy is expected to recover in 2H20 as more countries began to ease restrictions and lockdowns that were in place to control the spread of Covid-19. Recent economic releases signaled that economic activities started to improve recovering from the sharp contraction in April 2020 as a result of Covid-19 lockdowns.
- However, the balance of risk for the global economy remains on the downside as the recovery process will take time to return the levels before the Covid-19 outbreak. Downside risks to growth could come from another wave of coronavirus outbreak, escalation of geo-political risk, and the prolonged weakness in the global demand condition.
- The IMF slashed its global growth projection as the impact from the Covid-19 lockdowns on the global economy was more severe particularly in 1H2020. The global economy is expected to fall by 3.9% in 2020, even worse than the Global Financial Crisis in 2008-2009. The loss in global output is estimated to be more than USD12 trillion due to disruptions to the global supply chain and weak aggregate demand.

- Several US Fed officials highlighted concerns that the recent recovery in May-June 2020 may not last. Americans will face difficulty to support their spending when their unemployment benefit ends. Meanwhile, businesses will also struggle if they do not receive new orders on the back of weak demand.
- On 7 July 2020, BNM reduced OPR by 25bps to 1.75% to provide additional stimulus to Malaysia's economy. Cumulatively, BNM had reduced a total 125bps since January 2020 as economic activities slowed down especially after the Government imposed Movement Control Order (MCO) in response to the Covid-19 outbreak.
- BNM stated that while inflationary pressure is expected to be muted this year. We expect BNM to pause from further easing and assess the recovery in economic activities after the expected sharp contraction in growth during the second quarter this year. On the other hand, BNM has more rooms to cut should the economy weaken as growth outlook could be constrained by persistent weakness in the labour market, another wave of Covid-19 outbreak and slow recovery in the external demand.
- Latest releases pointed to more signs of recovery as more sectors allowed to restart their business activities. The decline in IPI also slowed in May-20 (-22.1%yoy; Apr-20: -32.0%yoy) supported by recovery in manufacturing output and electricity generation. In addition, consumption also picked up in May-20, as distributive trade fell at slower pace of -23.8%yoy in May (Apr-20: -36.6%yoy). Retail trade and sales of motor vehicles recorded a strong rebound from the previous month.

C. BNM FOREIGN RESERVES

- As at 30 June 2020, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD103.4b (15 June: USD102.8b).
- The amount of reserves is sufficient to finance 8.3 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	3-Jul Fri	6-Jul Mon	7-Jul Tue	8-Jul Wed	9-Jul Thu	10-Jul Fri	Change (WoW bp)
MGS							
3-Y	2.149	2.17	2.094	2.069	1.994	2.007	-14.2
5-Y	2.389	2.36	2.338	2.217	2.168	2.187	-20.2
7-Y	2.603	2.586	2.55	2.447	2.408	2.426	-17.7
10-Y	2.808	2.789	2.736	2.682	2.634	2.64	-16.8
20-Y	3.601	3.604	3.583	3.449	3.401	3.408	-19.3
RINGGIT IRS							
1-Y	2.075	2.07	2.025	1.945	1.915	1.905	-17
3-Y	2.095	2.091	2.06	1.945	1.932	1.915	-18
5-Y	2.297	2.29	2.225	2.115	2.065	2.075	-22.2
7-Y	2.53	2.53	2.48	2.37	2.35	2.35	-18
10-Y	2.705	2.705	2.65	2.5545	2.55	2.55	-15.5
KLIBOR							
1-M	2.19	2.19	2.19	1.94	1.93	1.92	-27
2-M	2.26	2.26	2.26	2.01	2	2	-26
3-M	2.28	2.28	2.28	2.03	2.03	2.03	-25
UST							
3-Y	0.1808	0.186	0.1806	0.1851	0.1772	0.1851	0.43
5-Y	0.2958	0.3022	0.2864	0.3007	0.2832	0.3055	0.97
7-Y	0.4977	0.5023	0.4772	0.4977	0.4635	0.4931	-0.46
10-Y	0.6693	0.6759	0.6397	0.6644	0.6135	0.6447	-2.46
30-Y	1.4272	1.4392	1.3748	1.3996	1.3134	1.3359	-9.13
USD LIBOR							
1-M	0.16263	0.16588	0.1825	0.18825	0.17825	0.17538	1.275
2-M	0.23375	0.2355	0.23313	0.23638	0.23463	0.23125	-0.25
3-M	0.27588	0.2765	0.26838	0.27288	0.26625	0.26813	-0.775

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	3-Jul Yield	10-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.48	03/15/23	2.149	2.007	-14.2	3,243.1
MALAYSIA GOVERNMENT	3.889	07/31/20	1.988	1.800	-18.8	2,447.8
MALAYSIA INVESTMNT ISS	4.13	07/09/29	2.912	2.764	-14.8	2,424.5
MALAYSIA GOVERNMENT	3.885	08/15/29	2.808	2.640	-16.8	2,417.3
MALAYSIA GOVERNMENT	3.659	10/15/20	2.001	1.773	-22.8	2,307.6
MALAYSIA INVESTMNT ISS	3.151	05/15/23	2.253	2.038	-21.5	2,163.0
MALAYSIA GOVERNMENT	3.502	05/31/27	2.603	2.426	-17.7	1,639.8
MALAYSIA GOVERNMENT	3.955	09/15/25	2.389	2.187	-20.2	1,628.1
MALAYSIA GOVERNMENT	4.16	07/15/21	1.989	1.824	-16.5	1,189.8
MALAYSIA INVESTMNT ISS	4.119	11/30/34	3.335	3.194	-14.1	940.0
TOTAL VOLUME (TOP 10)						20,401.0
TOTAL VOLUME (Overall)						34,983.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	3-Jul Yield	10-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.33	11/15/24	2.657	2.448	-20.9	245.0
DANAINFRA NASIONAL	4.33	04/04/25	#N/A N/A	2.499	#VALUE!	155.0
YTL CORPORATION BERHA	4.38	04/25/23	3.285	3.145	-14.0	135.0
MALAYSIA AIRPORTS CAPIT	4.55	08/28/20	#N/A N/A	2.559	#VALUE!	120.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	106.1
DANAINFRA NASIONAL	4.95	03/19/32	3.272	3.128	-14.4	70.0
JAMBATAN KEDUA SDN BHD	4.3	05/28/25	2.738	2.578	-16.0	70.0
YTL POWER INTERNATIONA	5.05	05/03/27	3.595	3.456	-13.9	60.0
DANAINFRA NASIONAL	3.74	07/20/22	#N/A N/A	2.327	#VALUE!	55.0
DANAINFRA NASIONAL	3.62	09/26/34	3.544	3.449	-9.5	50.0
TOTAL VOLUME (TOP 10)						1,066.1
TOTAL VOLUME (Overall)						3,305.5

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 rise 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 fall 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.