

## MIDF Strategy | 27 July 2020

### Week Ended 24 July 2020

- The UST yields edged lower (prices up) across the board last week with the benchmark 10-year closed at 0.59% as investors reacted to the worst than expected initial jobless claims which accelerated for the first time in nearly four months to 1.4 million. Meanwhile, the 10y-3y yield spread narrowed (i.e. yield curve flattened) to +42bps from +45bps 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 -1.0bp and -3.2bp to close at 1.97% and 2.60 respectively. Moreover, the 10y-3y yield spread narrowed from +65bps to +63bps as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM31.1b in the review week compared to RM21.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 48% compared to 50% of the overall Government Bonds trades 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.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM3.61b in the review week compared to RM4.68b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues dropped (higher trading breadth) to 34% from 41% of the overall Corporate Bonds trades in the week before.

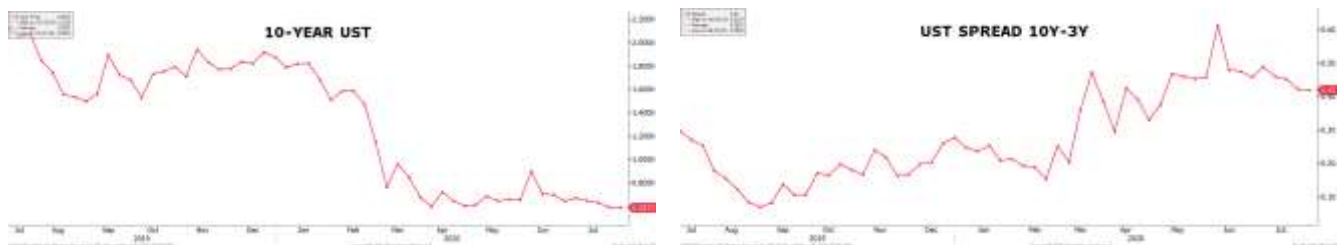
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## Weekly Money Review

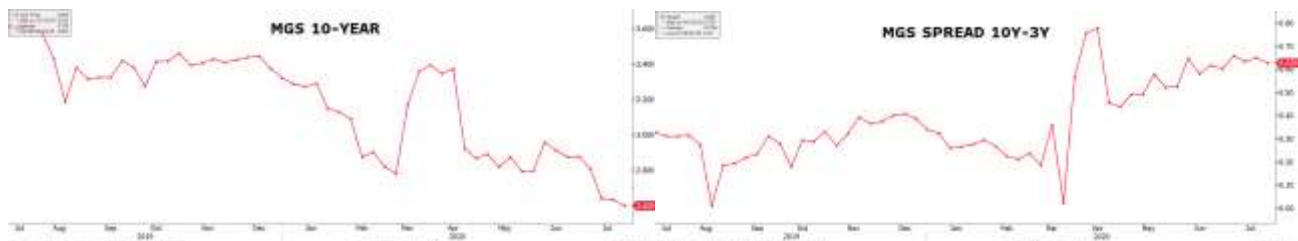
### A. FIXED INCOME

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Source: Bloomberg, MIDFR

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Source: Bloomberg, MIDFR

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### B. FOREIGN EXCHANGE

- DXV weakened on recovery hopes. The US dollar weakened to the lowest level since January 2020, with the DXY dollar index falling by 1.7% and closing at USD94.395 on 24 July 2020 (17 July 2020: USD95.942), marking the fourth straight week of declines. The continued weakness was due to reduced demand for the US dollar following news on the progress of Covid-19 vaccine development, increasing hopes for better economic recovery.

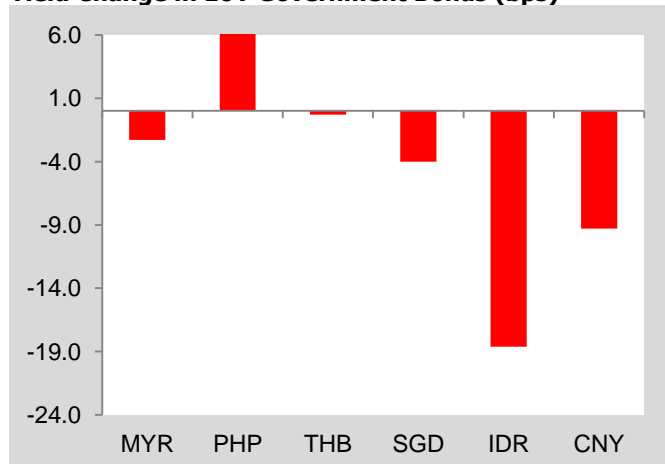
- EUR strengthened to 2018 high. The euro currency continued to appreciate, closing the week at USD1.1656 the highest level since September 2018. The strength was supported by optimism following the decision by the European Union leaders to provide 750 billion euros of EU recovery fund to support for a stronger recovery for the EU nations, emerging from the Covid-19 fallout. In addition, confidence on growth also improved underpinned by the positive news from the development of Covid-19 vaccine.
- MYR – relatively unchanged from previous week. The Malaysian ringgit was generally unchanged from last week’s closing, ending the week at USD4.263 per dollar (17 July 2020: USD4.265). During the three days until 22 July 2020, ringgit strengthened to USD4.252 per dollar benefiting from the rise in crude oil prices, with the Brent crude rising to USD44.29 per barrel (17 July 2020: USD43.14/barrel). However, the ringgit lost its support and depreciated to USD4.263 per dollar after sentiment deteriorated with the escalation in the US-China tension.

## Currencies Changes (Week Ended 24/07) and Quarterly Forecasts

	Close (24/07)	Prev Close (17/07)	Change	% Change	1Q20	2Q20	3Q20F	4Q20F
DXY Index	94.44	95.94	-1.597	-1.7%	98.32	99.00	98.36	98.95
EURUSD	1.166	1.143	0.023	2.0%	1.10	1.10	1.11	1.10
GBPUSD	1.279	1.257	0.023	1.8%	1.28	1.24	1.21	1.23
USDJPY	106.14	107.02	0.880	0.8%	108.94	107.63	107.41	108.96
USDMYR	4.263	4.265	0.002	0.0%	4.17	4.32	4.36	4.35
GBPMYR	5.428	5.359	0.069	1.3%	5.36	5.36	5.30	5.37
JPYMYR	4.017	3.985	0.032	0.8%	3.83	4.02	4.06	3.99

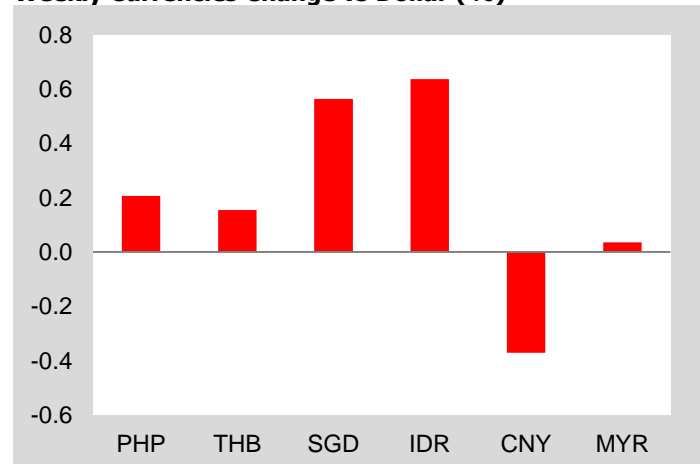
Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

### 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 (%)


	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Malaysia	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00	1.75
Indonesia	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.00
Philippines	4.00	4.00	4.00	3.75	3.25	2.75	2.75	2.25	2.25
Thailand	1.25	1.25	1.25	1.00	0.75	0.75	0.50	0.50	0.50

Vietnam	6.00	6.00	6.00	6.00	5.00	5.00	4.50	4.50	4.50
Korea	1.25	1.25	1.25	1.25	0.75	0.75	0.50	0.50	0.50
India	5.15	5.15	5.15	5.15	4.40	4.40	4.00	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	0.10	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	1.50-1.75	1.50-1.75	1.50-1.75	1.50-1.75	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25

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.
- The escalation of US-China tension adds to the downside risk to global economic recovery. The tensions between the two nations escalated during the week as China ordered the US to close its consulate in Chengdu. The move was in response to the decision by the US instructing China to close the Chinese consulate in Houston, Texas.
- On 21 July 2020, in move to bolster support to the recovery for the EU nations, the EU leaders agreed to provide 750 billion euros for the EU recovery fund. The recovery fund will provide 390 billion euros in grants and 360 billion euros in low-interest loans particularly to nations hardest hit by the Covid-19 outbreak.
- 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.
- According to BNM, the 6-month loan-repayment moratorium will not be extended. However, Malaysian banks can offer targeted financial assistance through restructuring and rescheduling (R&R) for borrowers who continue to struggle with loan repayments.
- The decline in Malaysia's consumer price index (CPI) slowed to -1.9%yoy in Jun-20 (May-20: -2.9%yoy), mainly due to slower decline in prices of fuel-related items. Rising crude oil prices and recovery in consumer spending will gradually increase price pressure. However, the current low level of international crude oil prices will contribute to muted inflationary pressure. In addition, consumer spending plans can be limited by concerns over future personal finances and outlook for the job market. For the year, CPI forecast remained at -0.5% (2019: +0.7%).

## C. BNM FOREIGN RESERVES

- As at 15 July 2020, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD104.0b (30 June: USD103.4b).
- The amount of reserves is sufficient to finance 8.5 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	17-Jul Fri	20-Jul Mon	21-Jul Tue	22-Jul Wed	23-Jul Thu	24-Jul Fri	Change (WoW bp)
MGS							
3-Y	1.982	1.981	2.018	1.966	1.973	1.972	-1
5-Y	2.155	2.145	2.169	2.127	2.101	2.116	-3.9
7-Y	2.405	2.389	2.372	2.342	2.317	2.312	-9.3
10-Y	2.632	2.637	2.625	2.616	2.6	2.6	-3.2
20-Y	3.357	3.321	3.321	3.314	3.208	3.176	-18.1
RINGGIT IRS							
1-Y	1.87	1.875	1.895	1.885	1.8925	1.895	2.5
3-Y	1.875	1.885	1.9125	1.915	1.915	1.925	5
5-Y	2.055	2.08	2.084	2.09	2.095	2.09	3.5
7-Y	2.355	2.3495	2.37	2.35	2.35	2.34	-1.5
10-Y	2.57	2.57	2.57	2.57	2.57	2.575	0.5
KLIBOR							
1-M	1.91	1.91	1.91	1.91	1.91	1.91	0
2-M	1.99	1.99	1.99	1.99	1.99	1.99	0
3-M	2.03	2.02	2.02	2.02	2.02	2.02	-1
UST							
3-Y	0.1749	0.1749	0.1644	0.1724	0.1724	0.1672	-0.77
5-Y	0.2834	0.2787	0.2643	0.2739	0.2707	0.2756	-0.78
7-Y	0.4657	0.4588	0.4473	0.4473	0.4382	0.4427	-2.3
10-Y	0.6266	0.6102	0.6004	0.5971	0.5774	0.5888	-3.78
30-Y	1.3289	1.3116	1.309	1.293	1.2311	1.2293	-9.96
USD LIBOR							
1-M	0.17988	0.17563	0.17575	0.179	0.17163	0.17263	-0.725
2-M	0.21738	0.215	0.21513	0.219	0.22013	0.21775	0.037
3-M	0.27138	0.25775	0.2555	0.2635	0.2445	0.24675	-2.463

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	17-Jul Yield	24-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISSUE	4.119	11/30/34	3.152	3.045	-10.7	2,030.5
MALAYSIA GOVERNMENT	3.828	07/05/34	3.087	2.974	-11.3	1,931.0
MALAYSIA GOVERNMENT	3.659	10/15/20	1.741	1.748	0.7	1,585.6
MALAYSIA GOVERNMENT	3.955	09/15/25	2.155	2.116	-3.9	1,578.3
MALAYSIA INVESTMNT ISSUE	4.13	07/09/29	2.720	2.675	-4.5	1,517.5
MALAYSIA GOVERNMENT	3.885	08/15/29	2.632	2.600	-3.2	1,319.5
MALAYSIA GOVERNMENT	3.48	03/15/23	1.982	1.972	-1.0	1,300.9
MALAYSIA INVESTMNT ISSUE	4.467	09/15/39	3.418	3.316	-10.2	1,247.0
MALAYSIA GOVERNMENT	3.502	05/31/27	2.405	2.312	-9.3	1,227.8
MALAYSIA GOVERNMENT	4.16	07/15/21	2.197	1.776	-42.1	1,144.5
TOTAL VOLUME (TOP 10)						14,882.5
TOTAL VOLUME (Overall)						31,068.8

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	17-Jul Yield	24-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
PROJEK LEBUHRAYA USAHASA	4.86	01/12/38	3.641	3.579	-6.2	195.0
PRASARANA MALAYSIA BHD	5.02	12/03/38	3.598	3.530	-6.8	185.0
DANAINFRA NASIONAL	5.02	05/03/46	#N/A N/A	3.848	#VALUE!	150.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	139.1
AFFIN BANK BHD	5.45	02/05/27	2.914	3.163	24.9	120.0
PERBADANAN TABUNG PENDID	4.22	02/28/28	#N/A N/A	2.771	#VALUE!	110.0
CIMB GROUP HOLDINGS BHD	4.88	09/13/29	3.072	3.036	-3.6	90.0
YTL POWER INTERNATIONAL	5.05	05/03/27	3.456	3.398	-5.8	80.0
BENIH RESTU BHD	4.62	06/05/25	3.349	3.142	-20.7	80.0
SARAWAK ENERGY BHD	4.85	01/19/27	2.859	2.805	-5.4	71.0
TOTAL VOLUME (TOP 10)						1,220.1
TOTAL VOLUME (Overall)						3,607.6

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 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.