

MIDF Strategy | 2 March 2020

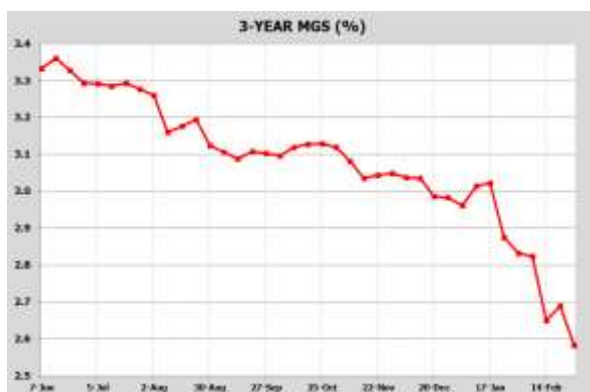
Week Ended 28 February 2020

- The UST market went ballistic last week as yields tumbled (prices up) with the benchmark 10-year closed at an all-time low level of 1.15% as heightened concerns over the coronavirus outbreak continued to drive investors into so-called safe haven assets. Meanwhile, the 10y-3y yield spread expanded (i.e. yield curve steepened) to +25bps from +15bps a week earlier.
- Likewise, the price of domestic MGS issues ended the review week higher amid local political impasse with the benchmark 3-year and 10-year yields slumped -10.6bps and -8.2bps respectively to close at 2.58% and 2.82%. Moreover, the 10y-3y yield spread steepened as the short-end outperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM29.6b in the review week compared to RM23.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues dropped (higher trading breadth) to 50% compared to 53% 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.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.29b in the review week compared to RM3.99b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 35% compared to 30% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

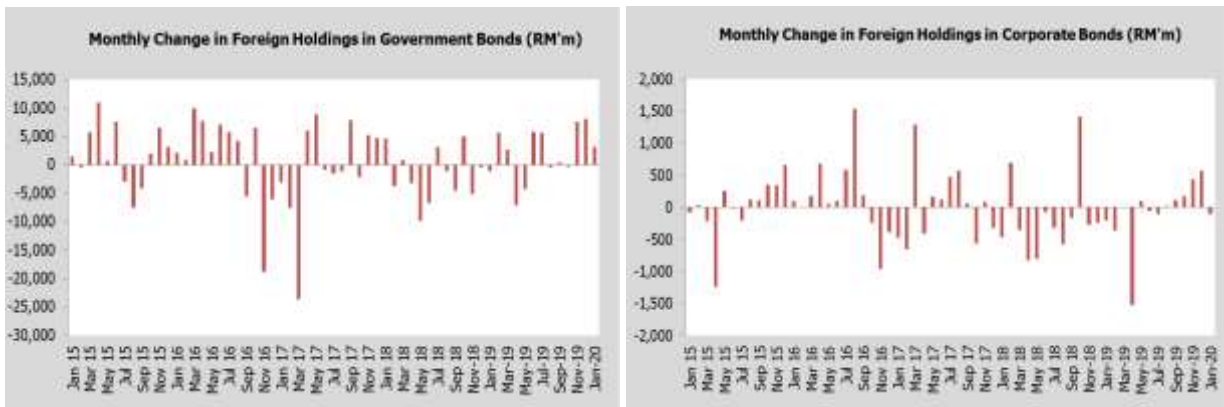
A. FIXED INCOME

- The UST market went ballistic last week as yields tumbled (prices up) with the benchmark 10-year closed at an all-time low level of 1.15% as heightened concerns over the coronavirus outbreak continued to drive investors into so-called safe haven assets. Meanwhile, the 10y-3y yield spread expanded (i.e. yield curve steepened) to +25bps from +15bps a week earlier.
- Likewise, the price of domestic MGS issues ended the review week higher amid local political impasse with the benchmark 3-year and 10-year yields slumped -10.6bps and -8.2bps respectively to close at 2.58% and 2.82%. Moreover, the 10y-3y yield spread steepened as the short-end outperformed.



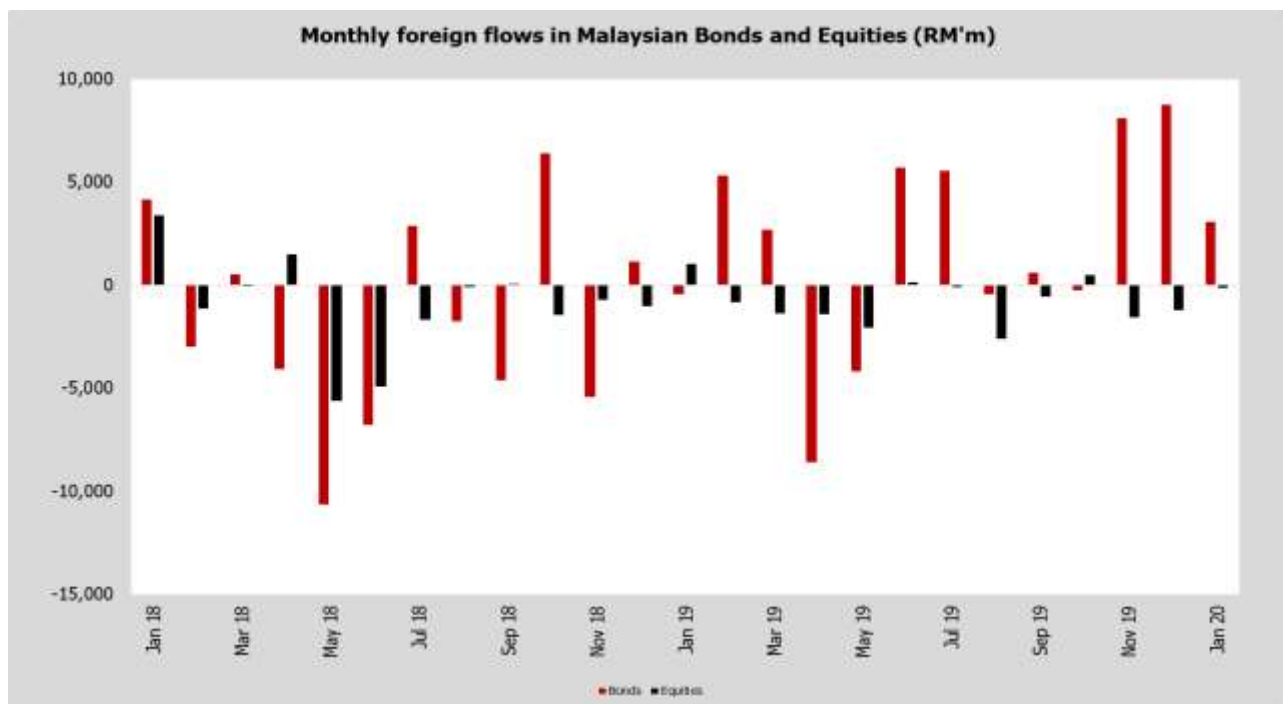
Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM29.6b in the review week compared to RM23.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues dropped (higher trading breadth) to 50% compared to 53% 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 mid and long residual tenors. The top 3 most actively traded were MGS 3.885% 8/15/29 at RM3.00b, MII 4.13% 7/9/29 at RM2.84b, and MGS 3.502% 5/31/27 at RM1.91b.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.29b in the review week compared to RM3.99b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 35% compared to 30% of the overall Corporate Bonds trades in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues of short and long residual tenors. The largest trading values were seen in Danum Capital 3.42% 2/21/35 at RM130m, Danainfra 4.33% 11/15/24 at RM130m, and Danainfra 3.87% 7/19/24 at RM115m.
- Total foreign holdings of Government Bonds stood at RM188.1b as at end-January 2020. It was an increase of RM3.20b from the December 2019 figure of RM185.0b. In contrast, total foreign holdings of Corporate Bonds decreased by -RM106.5m in the month of January 2020 to RM13.1b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM3.1b in January 2020 while the former saw a total net outflow worth -RM138.3m. For 2019, the bonds market saw a total net inflow of RM22.9b while the equity market saw a total foreign net outflow of -RM10.0b.



Source: BNM, Bursa Preliminary Statistics

B. FOREIGN EXCHANGE

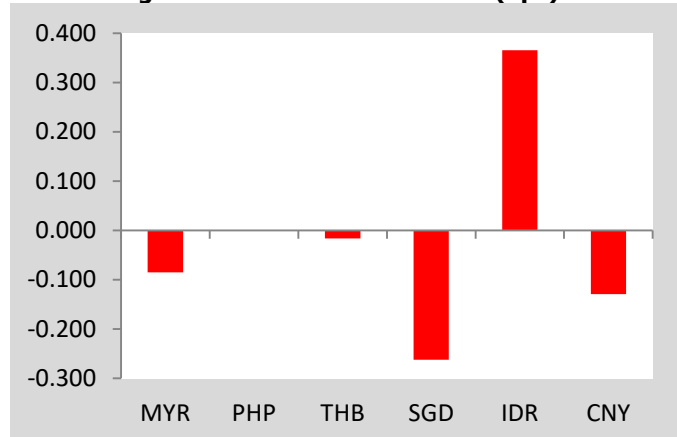
- DXY depreciated as Covic-19 push for rate cuts. Covic-19 fear remains in global economy as WHO warns every country will not be spared from the virus outbreak. US Treasury Yields plunged and this may lead to further interest rate cuts by the Fed.
- EURUSD appreciated following possible Fed's cuts. The currency improved significantly amid possible further rate cuts by the Fed due to Covic-19 spread. On a different note, Eurozone economic sentiment rose to 103.5 points in Feb-20, the highest since May-19.
- Ringgit – Political turmoil slapped MYR. Within a week, MYR breached 4.20 levels amid sudden political turmoil and the collapse of PH-led government. There are three main options; (i) Minority Government, (ii) Unity Government and (iii) Snap Election. We expect MYR to average at 4.18 and year-end at 4.20 in 2020.

Currencies Changes (Week Ended 28/02) and Quarterly Forecasts

	Close (28/02)	Prev Close (21/02)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	98.45	99.26	-0.816	-0.8%	96.81	97.24	96.61	97.19
EURUSD	1.10	1.08	0.016	1.5%	1.12	1.12	1.13	1.12
GBPUSD	1.29	1.30	-0.009	-0.7%	1.32	1.32	1.29	1.31
USDJPY	108.88	111.61	-2.730	2.5%	107.56	107.06	106.84	108.39
USDMYR	4.22	4.19	0.026	-0.6%	4.12	4.16	4.18	4.20
GBPMYR	5.43	5.42	0.014	-0.3%	5.38	5.36	5.29	5.36
JPYMYR	3.87	3.76	0.115	-3.0%	3.80	3.81	3.85	3.79

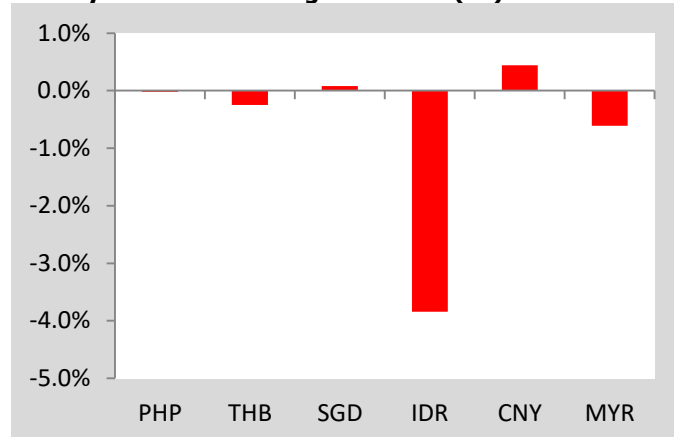
Source: Bloomberg, MIDFR

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 (%)


	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75
Indonesia	6.00	5.75	5.50	5.25	5.00	5.00	5.00	5.00	5.00
Philippines	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.50	4.50
Thailand	1.75	1.75	1.50	1.50	1.50	1.25	1.25	1.25	1.25
Vietnam	6.25	6.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00
South Korea	1.75	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.25
India	5.75	5.75	5.40	5.40	5.15	5.15	5.15	5.15	5.15
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
UK	0.75	0.75	0.75	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
USA	2.25	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50

Source: CEIC, MIDFR

- Covic-19 outbreak, trade tension, geopolitical instability, policy and political uncertainties, loosening monetary policy, volatility in commodities prices remain as key factors affecting growth trajectory.
- Global economy in 2020 is expected to continue in moderation due to trade war tension, virus outbreak, political instability in developed economies and volatility in commodity prices.

- Plunge in US Treasury Yields leads to higher expectation of further rate cuts by the Fed.
- WHO stated that no country will be spared from Covid-19. All countries must prepare for the worse.
- Business Tendency Survey for 1Q20 recorded at 1-year low, -2.1%. Commodity-based sectors and services sector are the main downward factors. GDP growth during the quarter to remain weak.
- Political turmoil continues as no simple majority can be formed after the collapse of PH government.
- There are three options; (i) Minority Government, (ii) Unity Government and (iii) Snap Election.
- RM20 billion stimulus package is expected to support the economic growth especially private consumption via the reduction in EPF Employee's contribution from 11% to 7%.
- Business activities particularly tourism industries to benefit the most from the stimulus package.

C. BNM FOREIGN RESERVES

- As at 14 February 2020, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD104.3b (31 Jan: USD104.2b).
- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	21-Feb Fri	24-Feb Mon	25-Feb Tue	26-Feb Wed	27-Feb Thu	28-Feb Fri	Change (WoW bp)
MGS							
3-Y	2.689	2.738	2.661	2.617	2.62	2.583	-10.6
5-Y	2.76	2.782	2.735	2.683	2.683	2.632	-12.8
7-Y	2.842	2.912	2.818	2.803	2.818	2.77	-7.2
10-Y	2.902	3.006	2.895	2.848	2.845	2.82	-8.2
20-Y	3.366	3.42	3.247	3.229	3.222	3.216	-15
RINGGIT IRS							
1-Y	2.88	2.875	2.82	2.785	2.7825	2.755	-12.5
3-Y	2.805	2.83	2.745	2.73	2.735	2.695	-11
5-Y	2.8425	2.86	2.765	2.75	2.763	2.71	-13.25
7-Y	2.905	2.9395	2.85	2.845	2.84	2.7875	-11.75
10-Y	3.07	3.07	2.975	2.99	2.99	2.95	-12
KLIBOR							
1-M	2.94	2.94	2.94	2.94	2.94	2.94	0
2-M	3.05	3.05	3.05	3.05	3.05	3.05	0
3-M	3.09	3.09	3.09	3.09	3.09	3.08	-1
UST							
3-Y	1.3186	1.2032	1.179	1.1467	1.0502	0.8972	-42.14
5-Y	1.3224	1.2096	1.1835	1.159	1.0686	0.9356	-38.68
7-Y	1.4027	1.2919	1.2731	1.2589	1.1631	1.0623	-34.04
10-Y	1.4713	1.3705	1.3521	1.3371	1.2607	1.1486	-32.27
30-Y	1.9147	1.8347	1.8254	1.8241	1.7577	1.6752	-23.95
USD LIBOR							
1-M	1.62675	1.61613	1.61263	1.60338	1.58113	1.51525	-11.15
2-M	1.67675	1.63688	1.63563	1.619	1.59738	1.50263	-17.412
3-M	1.67925	1.64663	1.63763	1.61325	1.58038	1.46275	-21.65

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	21-Feb Yield	28-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.885	08/15/29	2.902	2.820	-8.2	2,999.5
MALAYSIA INVESTMNT ISS	4.13	07/09/29	2.958	2.863	-9.5	2,839.8
MALAYSIA GOVERNMENT	3.502	05/31/27	2.850	2.745	-10.5	1,906.2
MALAYSIA INVESTMNT ISS	3.655	10/15/24	2.837	2.681	-15.6	1,509.7
MALAYSIA GOVERNMENT	3.828	07/05/34	3.140	3.050	-9.0	1,226.2
MALAYSIA GOVERNMENT	3.492	03/31/20	2.699	2.654	-4.5	1,022.8
MALAYSIA GOVERNMENT	3.882	03/10/22	2.689	2.583	-10.6	899.3
MALAYSIA GOVERNMENT	3.478	06/14/24	2.760	2.632	-12.8	795.4
MALAYSIA GOVERNMENT	3.441	02/15/21	2.665	2.532	-13.3	767.0
MALAYSIA GOVERNMENT	3.844	04/15/33	3.178	3.044	-13.4	761.8
TOTAL VOLUME (TOP 10)						14,727.7
TOTAL VOLUME (Overall)						29,572.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	21-Feb Yield	28-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANUM CAPITAL BHD	3.42	02/21/35	3.419	3.410	-0.9	130.0
DANAINFRA NASIONAL	4.33	11/15/24	2.956	2.941	-1.5	130.0
DANAINFRA NASIONAL	3.87	07/19/24	2.901	2.932	3.1	115.0
SARAWAK ENERGY BHD	5.15	06/23/21	3.123	2.999	-12.4	90.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	75.0
PRASARANA MALAYSIA BH	5.05	12/11/35	#N/A N/A	3.328	#VALUE!	60.0
SARAWAK HIDRO SDN BHD	4.43	08/11/26	3.239	3.108	-13.1	60.0
SARAWAK ENERGY BHD	5.65	06/23/26	3.141	3.127	-1.4	50.0
AMBANK MALAYSIA BHD	5.2	03/15/27	3.915	3.170	-74.5	41.5
PRASARANA MALAYSIA BH	4.62	03/08/28	3.071	2.989	-8.2	40.0
TOTAL VOLUME (TOP 10)						791.5
TOTAL VOLUME (Overall)						2,291.1

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.