

MIDF Strategy | 3 February 2020

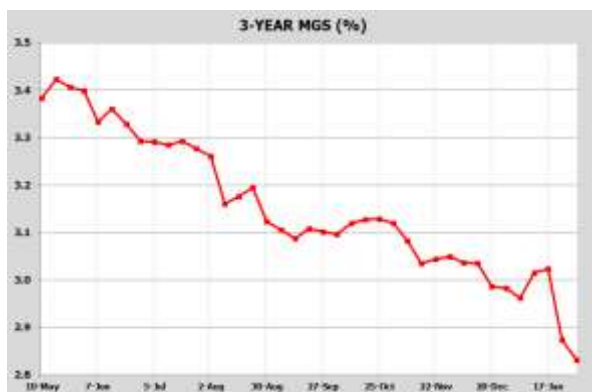
Week Ended 30 January 2020

- The UST benchmark 10-year yield tumbled (price up) as the coronavirus outbreak heightened risk-off stance among investors to the benefits of haven assets such as government debts. Moreover, the 10y-3y yield spread slightly flattened (long-end outperformed) to +19bps from +23bps a week earlier.
- Similarly, the price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields closed at 2.83% and 3.13% respectively. In addition, the 10y-3y yield spread slightly flattened as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) declined to RM26.0b in the review week compared to RM31.0b in the previous week. The total trading value of 10 most actively traded issues declined (higher trading breadth) to 39% compared to 45% 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.
- Total foreign holdings of Government Bonds stood at RM185.0b as at end-December 2019. It was an increase of RM8.17b from the November 2019 figure of RM176.8b. Similarly, total foreign holdings of Corporate Bonds increased by RM570.4m in the month of December 2019 to RM13.2b.
- In comparison to equities, the bonds market saw a total net inflow worth RM8.7b in December 2019 while the former saw a total net outflow worth -RM1.2b. 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.

Weekly Money Review

A. FIXED INCOME

- The UST benchmark 10-year yield tumbled (price up) as the coronavirus outbreak heightened risk-off stance among investors to the benefits of haven assets such as government debts. Moreover, the 10y-3y yield spread slightly flattened (long-end outperformed) to +19bps from +23bps a week earlier.
- Similarly, the price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields closed at 2.83% and 3.13% respectively. In addition, the 10y-3y yield spread slightly flattened as the long-end outperformed.



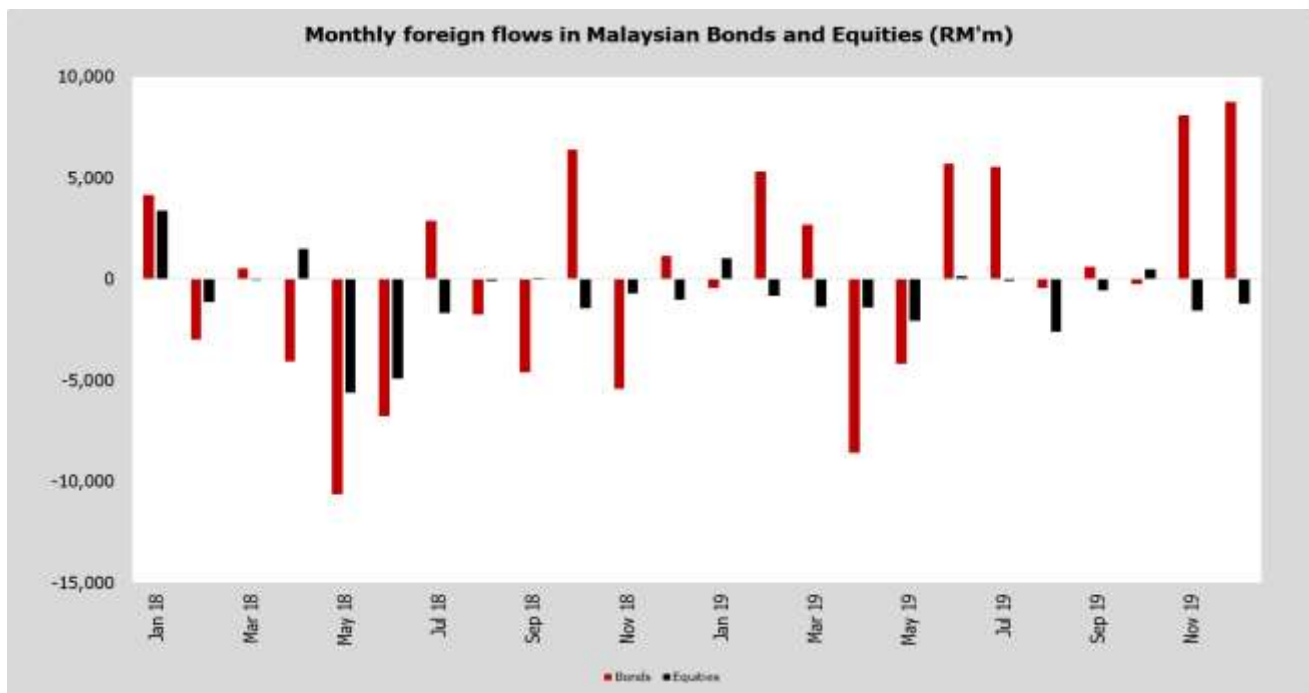
Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM26.0b in the review week compared to RM31.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 39% compared to 45% 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.
- Furthermore, the top 3 actively traded Government Bonds were dominated by issues of varied residual tenors. The top 3 most actively traded were MII 4.13% 7/9/29 at RM1.66b, MGS 3.48% 3/15/23 at RM1.28b, and MGS 3.906% 7/15/26 at RM1.10b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.24b in the review week compared to RM4.34b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 39% compared to 41% of the overall Corporate Bonds trades in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues of mid and long residual tenors. The largest trading values were seen in PLUS 4.86% 1/12/38 at RM300m, Bank Pembangunan 4.5% 11/4/26 at RM80m, and Genting RMTN 4.18% 11/8/29 at RM75m.
- Total foreign holdings of Government Bonds stood at RM185.0b as at end-December 2019. It was an increase of RM8.17b from the November 2019 figure of RM176.8b. Similarly, total foreign holdings of Corporate Bonds increased by RM570.4m in the month of December 2019 to RM13.2b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM8.7b in December 2019 while the former saw a total net outflow worth -RM1.2b. 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

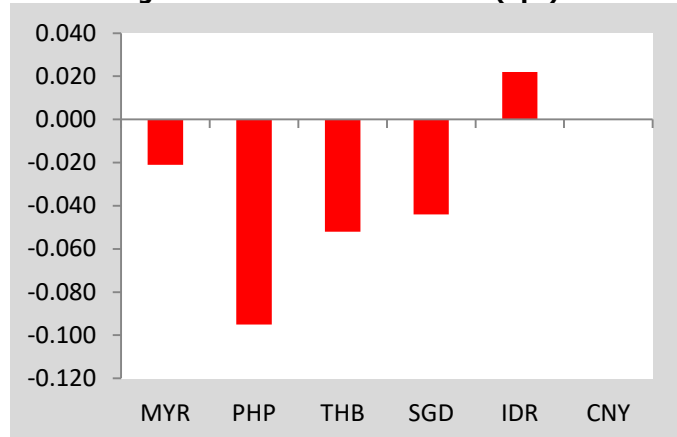
- DXY slight appreciation. Unchanged Fed's funds rate during its first policy meeting of 2020 is widely expected. The central bank highlights its concerns on inflation given that its referred core PCE inflation remains below target line of 2% since Feb-19. Macro indicators are signalling the economy is moderating especially IPI, external trade and retail sales.
- EURUSD unchanged. Flash 4Q19 GDP of Euro Area recorded at 6-year low, 1%yoy and 0.1%mom. Among others contractions of France and Italy's economies caused the slowdown. Headline CPI rose to 9-month high at 1.4% in the first month of 2020. On political side, UK was officially left the European Union on 31st Jan-20.
- Ringgit – Depreciation amid virus attack. Novel Coronavirus a virus attack in China causes domestic demand slowdown and poor consumer sentiment in the world's second largest economy in the world. As a major trading partner to Malaysia, negative news in China would affect external trade flows. We expect MYR to average at 4.18 and year-end at 4.20 in 2020.

Currencies Changes (Week Ended 31/01) and Quarterly Forecasts

	Close (31/01)	Prev Close (24/01)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	97.93	97.85	0.073	0.1%	96.81	97.24	96.61	97.19
EURUSD	1.10	1.10	0.000	0.0%	1.12	1.12	1.13	1.12
GBPUSD	1.31	1.31	0.002	0.2%	1.32	1.32	1.29	1.31
USDJPY	109.03	109.28	-0.250	0.2%	107.56	107.06	106.84	108.39
USDMYR	4.09	4.06	0.030	-0.7%	4.12	4.16	4.18	4.20
GBPMYR	5.36	5.34	0.020	-0.4%	5.38	5.36	5.29	5.36
JPYMYR	3.75	3.71	0.036	-0.9%	3.80	3.81	3.85	3.79

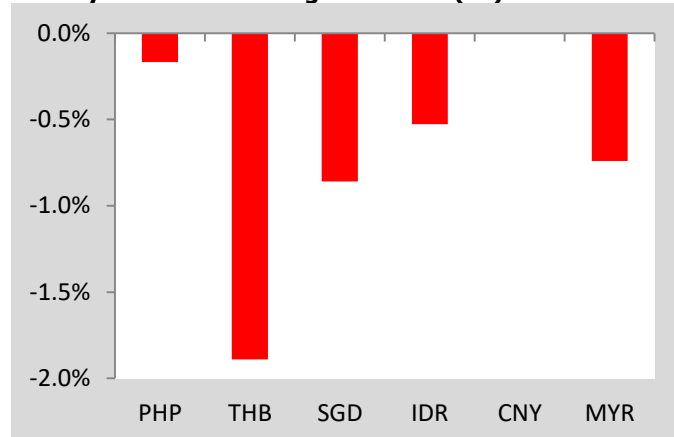
Source: Bloomberg, MIDFR

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 (%)


	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75
Indonesia	6.00	6.00	5.75	5.50	5.25	5.00	5.00	5.00	5.00
Philippines	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.50
Thailand	1.75	1.75	1.75	1.50	1.50	1.50	1.25	1.25	1.25
Vietnam	6.25	6.25	6.25	6.25	6.00	6.00	6.00	6.00	6.00
South Korea	1.75	1.75	1.50	1.50	1.50	1.25	1.25	1.25	1.25
India	6.00	5.75	5.75	5.40	5.40	5.15	5.15	5.15	5.15
China	4.35	4.35	4.35	4.25	4.20	4.20	4.15	4.15	4.15
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	2.50	2.50	2.25	2.25	2.00	1.75	1.75	1.75	1.75

Source: CEIC, MIDFR

- 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, political instability in developed economies and volatility in commodity prices.

- The Phase One trade deal does not commit to any tariff roll-back. Hence, no certainty of stabilization in global trade war activities. U-turn move by Trump-led administration is highly possible especially when election campaign kicks-off.
- Novel Coronavirus is causing fear to global economic sentiment. We may see slight moderation in 1Q20 especially economies that are geographically close to China.
- Malaysia's labor market strengthens. Labor force and employment grew strongly by 2.4%yoy and 2.5%yoy respectively in Nov-19, recording 1-year high. Jobless rate at 9-month low of 3.2%.
- Announcement of possible PLUS's toll rate deduction may cause transport inflation to contract and hence taper down overall CPI pressure.
- Macro indicators namely external trade, IPI, manufacturing sales and distributive trade are signaling moderating trends in 3Q19 and 4Q19.
- We expect BNM to slash further OPR by 25 basis points in 2020, possibly the earliest in 1Q20.

C. BNM FOREIGN RESERVES

- As at 15 January 2020, compared to previous fortnight, Bank Negara Malaysia's international reserves was slightly higher at USD103.7b (31 Dec: USD103.6b).
- 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	23-Jan Fri	26-Jan Mon	27-Jan Tue	28-Jan Wed	29-Jan Thu	30-Jan Fri	Change (WoW bp)
MGS							
3-Y	2.802	2.874	2.874	2.802	2.862	2.833	3.1
5-Y	2.974	2.931	2.931	2.937	2.937	2.948	-2.6
7-Y	3.131	3.101	3.101	3.038	3.038	3.029	-10.2
10-Y	3.164	3.149	3.149	3.158	3.145	3.134	-3
20-Y	3.437	3.407	3.407	3.38	3.393	3.383	-5.4
RINGGIT IRS							
1-Y	3.08	3.08	3.08	3.06	3.06	3.04	-4
3-Y	3.105	3.095	3.095	3.06	3.075	3.035	-7
5-Y	3.14	3.145	3.145	3.105	3.125	3.07	-7
7-Y	3.21	3.2	3.2	3.175	3.1725	3.135	-7.5
10-Y	3.31	3.31	3.31	3.295	3.295	3.28	-3
KLIBOR							
1-M	2.94	2.94	2.94	2.94	2.94	2.94	0
2-M	3.06	3.06	3.06	3.06	3.06	3.06	0
3-M	3.09	3.1	3.1	3.1	3.1	3.1	1
UST							
3-Y	1.5053	1.4756	1.4162	1.454	1.3891	1.3917	-11.36
5-Y	1.5469	1.5038	1.4414	1.4791	1.4058	1.4058	-14.11
7-Y	1.6494	1.6016	1.5279	1.5706	1.5	1.5024	-14.7
10-Y	1.7325	1.6839	1.608	1.6562	1.5839	1.5856	-14.69
30-Y	2.1782	2.1324	2.0567	2.1118	2.0392	2.0506	-12.76
USD LIBOR							
1-M	1.66088	1.6595	1.64925	1.65	1.64525	1.655	-0.588
2-M	1.76575	1.78038	1.77213	1.764	1.76238	1.74125	-2.45
3-M	1.79413	1.79538	1.7745	1.7695	1.77713	1.76325	-3.088

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	23-Jan Yield	30-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISS	4.13	07/09/29	3.227	3.190	-3.7	1,660.5
MALAYSIA GOVERNMENT	3.48	03/15/23	2.860	2.871	1.1	1,284.6
MALAYSIA GOVERNMENT	3.906	07/15/26	3.131	3.029	-10.2	1,097.5
MALAYSIA GOVERNMENT	4.048	09/30/21	3.009	2.814	-19.5	1,052.3
MALAYSIA INVESTMNT ISS	3.655	10/15/24	3.058	3.010	-4.8	920.5
MALAYSIA GOVERNMENT	3.62	11/30/21	2.860	2.808	-5.2	876.8
MALAYSIA INVESTMNT ISS	4.724	06/15/33	3.420	3.337	-8.3	871.5
MALAYSIA GOVERNMENT	3.885	08/15/29	3.164	3.134	-3.0	839.7
MALAYSIA GOVERNMENT	3.757	04/20/23	2.989	2.941	-4.8	809.0
MALAYSIA GOVERNMENT	3.492	03/31/20	2.875	2.750	-12.5	785.5
TOTAL VOLUME (TOP 10)						10,197.8
TOTAL VOLUME (Overall)						26,027.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	23-Jan Yield	30-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
PROJEK LEBUHRAYA USAH	4.86	01/12/38	3.811	3.660	-15.1	300.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	92.2
BANK PEMBANGUNAN MAL	4.5	11/04/26	3.681	3.542	-13.9	80.0
GENTING RMTN BHD	4.18	11/08/29	#N/A N/A	#N/A N/A	#VALUE!	75.0
DANAINFRA NASIONAL	4.91	11/12/35	3.951	3.485	-46.6	70.0
KUALA LUMPUR KEPONG	3.75	09/27/29	#N/A N/A	3.599	#VALUE!	60.0
PENANG PORT SDN BHD	4.68	12/26/31	4.419	4.419	0.0	50.0
MKD KENCANA SDN BHD	4.85	10/01/32	3.609	3.609	0.0	50.0
FORTUNE PREMIERE SDN B	4.85	09/07/23	3.678	3.538	-14.0	50.0
YTL POWER INTERNATIONAL	4.49	03/24/23	#N/A N/A	3.610	#VALUE!	50.0
TOTAL VOLUME (TOP 10)						877.2
TOTAL VOLUME (Overall)						2,244.7

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.