

MIDF Strategy | 3 August 2020

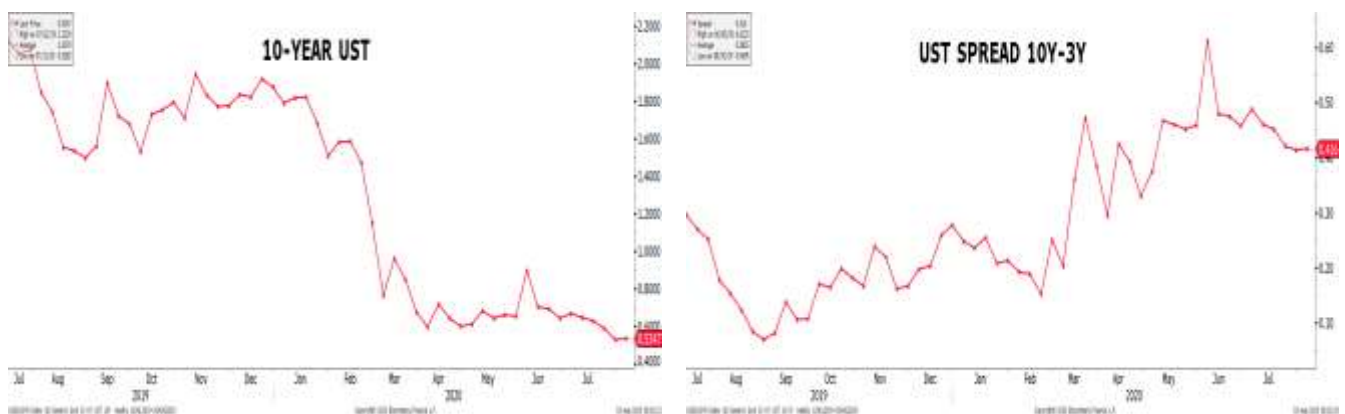
Week Ended 31 July 2020

- The UST yields edged lower (prices up) across the board last week with the benchmark 10-year closed at an all-time low level of 0.53% as investors were worried about the pace of economic recovery with the US initial jobless claims remained stubbornly high. Moreover, the 10y-3y yield spread slightly narrowed (i.e. yield curve flattened) to +41bps from +42bps 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 -6.5bps and -4.9bps to close at 1.91% and 2.55% respectively. However, the 10y-3y yield spread expanded from +63bps to +64bps as the short-end outperformed.
- Total trading value for Government Bonds (MGS/MII) declined to RM22.2b in the review week compared to RM31.1b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 50% compared to 48% of the overall Government Bonds trades in the week before. In addition, 8 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) declined to RM2.78b in the review week compared to RM3.61b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 37% compared to 34% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

A. FIXED INCOME

- The UST yields edged lower (prices up) across the board last week with the benchmark 10-year closed at an all-time low level of 0.53% as investors were worried about the pace of economic recovery with the US initial jobless claims remained stubbornly high. Moreover, the 10y-3y yield spread slightly narrowed (i.e. yield curve flattened) to +41bps from +42bps a week earlier.



Source: Bloomberg, MIDFR

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Source: Bloomberg, MIDFR

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- Furthermore, the top 3 actively traded Government Bonds were dominated by issues of short residual tenors. The top 3 most actively traded were MII 3.799% 8/27/20 at RM1.90b, MGS 4.048% 9/30/21 at RM1.40b, and MGS 3.659% 10/15/20 at RM1.27b.

- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.78b in the review week compared to RM3.61b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 37% compared to 34% 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 RM170m, Danainfra 3.87% 7/19/24 at RM135m, and Danainfra 4.32% 11/26/25 at RM110m.

B. FOREIGN EXCHANGE

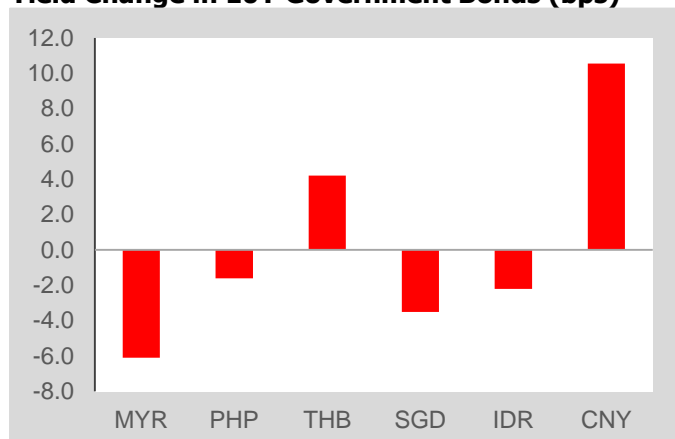
- DXY – US dollar continued to weaken. The DXY US dollar index fell further and closed the week at 93.35 the lowest level since May 2018 (24 July 2020: 94.44) and marking the fourth straight week of declines. In particular, the US dollar weakened further after the Fed announced at its July FOMC meeting to keep interest rates low and reiterated its commitment to support the economy, warning that the trend in Covid-19 cases remains the key factor that will affect the path of US economic growth. The DXY index, however, gained some support rising from 93.02 to 93.35 on 31 July 2020 following concern over US economic growth in view of a record decline in the US GDP in 2Q20 with a contraction of -32.9%qoq at annualized rate (1Q20: -5.0%qoq).
- EUR strengthened amid dollar weakness. The euro currency benefited from the weakness in the US dollar, appreciating further to USD1.178 the highest level since May 2018 (24 July 2020: USD1.166). Although the euro currency had been supported by optimism over the eurozone economic recovery, progress in Covid-19 vaccine development and the ECB’s monetary stimulus support, the currency lost some support during the week after Germany reported a worse-than-expected GDP growth with a decline of -10.1%yoy in 2Q20 marking the worst contraction on record (1Q20: -2.0%yoy).
- MYR benefited from the weak dollar. The Malaysian ringgit appreciated during the week and ended trading at USD4.239 per dollar (24 July 2020: USD4.263). Like other currencies, the Malaysian ringgit benefited from the persistent weakness in the US dollar. In addition, the positive economic release also supported the ringgit following the rebound in Malaysia’s trade activity in Jun-20.

Currencies Changes (Week Ended 31/07) and Quarterly Forecasts

	Close (31/07)	Prev Close (24/07)	Change	% Change	1Q20	2Q20	3Q20F	4Q20F
DXY Index	93.35	94.44	-1.086	-1.1%	98.32	99.00	98.36	98.95
EURUSD	1.178	1.166	0.012	+1.0%	1.10	1.10	1.11	1.10
GBPUSD	1.309	1.279	0.029	+2.3%	1.28	1.24	1.21	1.23
USDJPY	105.83	106.14	0.310	+0.3%	108.94	107.63	107.41	108.96
USDMYR	4.239	4.263	0.024	+0.6%	4.17	4.32	4.36	4.35
GBPMYR	5.565	5.428	-0.137	-2.5%	5.36	5.36	5.30	5.37
JPYMYR	4.005	4.017	0.012	+0.3%	3.83	4.02	4.06	3.99

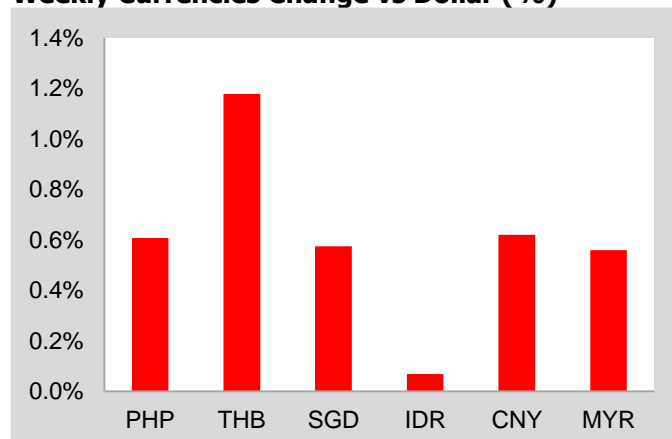
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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)
UK	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.
- At the July's FOMC meeting, The US Fed unanimously decided to maintain its low interest rates and expressed its commitment to keep supporting the economy with existing asset purchase and lending programmes, recovering from the COvid-19 pandemic. However, the Fed highlighted that the continued spread of the Covid-19 cases will be a key risk to the US economy.
- 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.

- The government had announced that the loan repayment moratorium will be extended for additional 3 months for borrowers who lost their jobs due to Covid-19 pandemic. In addition, Malaysian banks have agreed to provide targeted assistance in the form of flexible repayment plans for borrowers who were impacted by salary reduction and struggled with loan repayment.
- External trade was encouraging in Jun-20 as the strong rebound in exports and weak imports resulted in a record trade balance of RM20.9 billion. Exports rose by 8.8%yoy in Jun-20 (May-20: -25.5%yoy) while imports continued to decline albeit at slower pace of -5.6%yoy (May-20: -30.4%yoy). The rebound in exports was mainly supported by growth in exports of manufactured goods and agriculture goods, in contrast to a decline in exports of mining goods during the month.

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	24-Jul Fri	27-Jul Mon	28-Jul Tue	29-Jul Wed	30-Jul Thu	31-Jul Fri	Change (WoW bp)
MGS							
3-Y	1.972	1.976	1.969	1.916	1.907	1.907	-6.5
5-Y	2.116	2.125	2.114	2.115	2.114	2.114	-0.2
7-Y	2.312	2.317	2.288	2.277	2.245	2.245	-6.7
10-Y	2.6	2.612	2.598	2.575	2.551	2.551	-4.9
20-Y	3.176	3.189	3.195	3.158	3.175	3.175	-0.1
RINGGIT IRS							
1-Y	1.895	1.875	1.88	1.87	1.865	1.865	-3
3-Y	1.925	1.895	1.885	1.88	1.87	1.87	-5.5
5-Y	2.09	2.065	2.055	2.065	2.045	2.045	-4.5
7-Y	2.34	2.345	2.335	2.327	2.31	2.31	-3
10-Y	2.575	2.55	2.57	2.57	2.54	2.54	-3.5
KLIBOR							
1-M	1.91	1.91	1.91	1.91	1.9	1.9	-1
2-M	1.99	1.99	1.99	1.99	1.98	1.98	-1
3-M	2.02	2.02	2.02	2.02	2.01	2.01	-1
UST							
3-Y	0.1672	0.1779	0.162	0.1488	0.1303	0.1144	-5.28
5-Y	0.2756	0.2852	0.2642	0.2516	0.2311	0.2044	-7.12
7-Y	0.4427	0.4633	0.4289	0.4272	0.4045	0.3818	-6.09
10-Y	0.5888	0.6151	0.579	0.5741	0.5462	0.5282	-6.06
30-Y	1.2293	1.2601	1.2168	1.2362	1.2068	1.1925	-3.68
USD LIBOR							
1-M	0.17263	0.16625	0.16688	0.16113	0.15563	0.15488	-1.775
2-M	0.21775	0.21113	0.21888	0.2135	0.20525	0.19613	-2.162
3-M	0.24675	0.26963	0.26825	0.26063	0.251	0.24875	0.2

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	24-Jul Yield	31-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISS	3.799	08/27/20	1.754	1.758	0.4	1,900.0
MALAYSIA GOVERNMENT	4.048	09/30/21	1.795	1.780	-1.5	1,397.8
MALAYSIA GOVERNMENT	3.659	10/15/20	1.748	1.692	-5.6	1,267.6
MALAYSIA GOVERNMENT	3.885	08/15/29	2.600	2.551	-4.9	1,152.1
MALAYSIA GOVERNMENT	3.48	03/15/23	1.972	1.907	-6.5	1,138.7
MALAYSIA GOVERNMENT	3.828	07/05/34	2.974	2.959	-1.5	1,117.7
MALAYSIA GOVERNMENT	3.882	03/10/22	1.860	1.787	-7.3	967.8
MALAYSIA GOVERNMENT	3.889	07/31/20	1.792	1.851	5.9	760.0
MALAYSIA INVESTMNT ISS	3.151	05/15/23	2.011	1.969	-4.2	739.5
MALAYSIA INVESTMNT ISS	3.422	09/30/27	2.366	2.282	-8.4	734.7
TOTAL VOLUME (TOP 10)						11,175.9
TOTAL VOLUME (Overall)						22,242.8

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	24-Jul Yield	31-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
PROJEK LEBUHRAYA USAHA	4.86	01/12/38	3.579	3.528	-5.1	170.0
DANAINFRA NASIONAL	3.87	07/19/24	#N/A N/A	2.292	#VALUE!	135.0
DANAINFRA NASIONAL	4.32	11/26/25	2.457	2.417	-4.0	110.0
DANAINFRA NASIONAL	3.93	11/27/34	#N/A N/A	3.219	#VALUE!	100.0
DANAINFRA NASIONAL	4.03	04/01/26	#N/A N/A	2.449	#VALUE!	100.0
BANK PEMBANGUNAN MALA	4.5	11/04/26	2.958	2.818	-14.0	100.0
EDRA ENERGY SDN BHD	6.27	07/05/32	4.101	3.873	-22.8	80.0
EDRA ENERGY SDN BHD	6.23	01/05/32	3.897	3.832	-6.5	80.0
BANK PEMBANGUNAN MALA	4.62	03/02/27	#N/A N/A	2.848	#VALUE!	80.0
DANAINFRA NASIONAL	4.29	04/30/26	2.817	2.448	-36.9	80.0
TOTAL VOLUME (TOP 10)						1,035.0
TOTAL VOLUME (Overall)						2,781.9

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.