

## MIDF Strategy | 4 November 2019

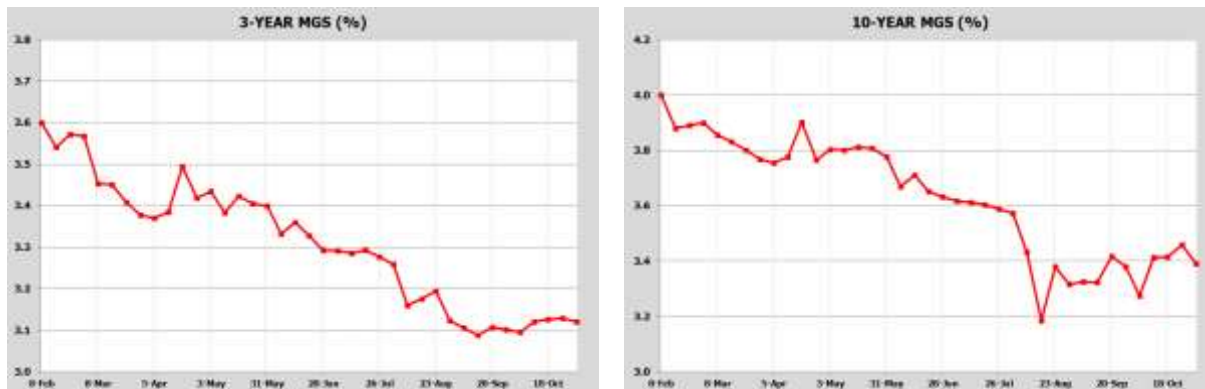
### Week Ended 1 November 2019

- As expected, the US Fed cut overnight interest rate for the third time this year last week while indicating that they are done for now. UST rallied (prices up; yields down) and erased prior week's losses but the gains were moderated on Friday after the release of nonfarm payrolls for the month of October which increased at a markedly higher rate than anticipated.
- Likewise, the price of domestic MGS issues ended the review week higher with the 3-year and 10-year yields shed -0.9bp and -6.9bps respectively to close at 3.12% and 3.39%. Moreover, the benchmark 10y-3y yield spread slightly flattened as the short-end underperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM20.1b in the review week compared to RM17.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged at 60% of the overall Government Bonds trades in the week under review. In addition, 9 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 RM1.25b in the review week compared to RM1.60b in earlier week (based on Bloomberg data). Moreover, the total trading value of 10 most actively traded issues increased (lower trading breadth) to 50% compared to 37% of the overall Corporate Bonds trades in the week before.

## Weekly Money Review

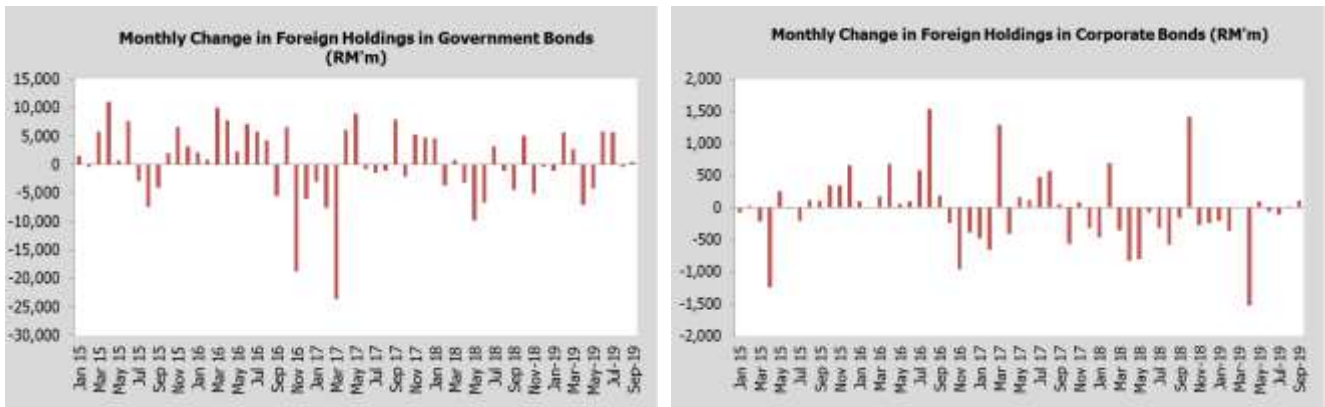
### A. FIXED INCOME

- As expected, the US Fed cut overnight interest rate for the third time this year last week while indicating that they are done for now. UST rallied (prices up; yields down) and erased prior week's losses but the gains were moderated on Friday after the release of nonfarm payrolls for the month of October which increased at a markedly higher rate than anticipated.



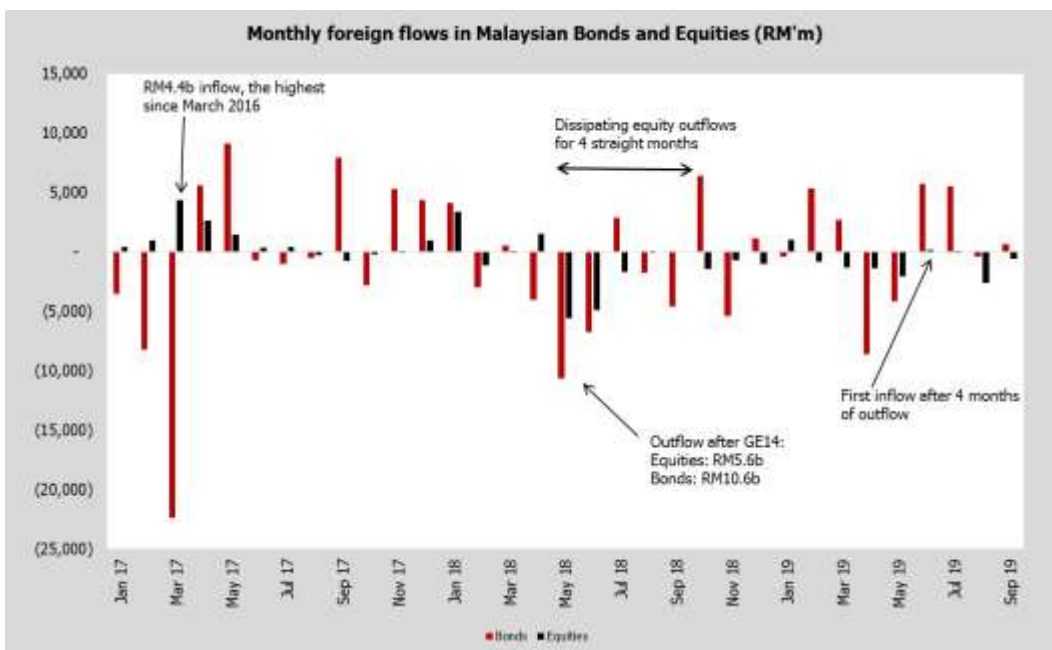
Source: Bloomberg, MIDFR

- Likewise, the price of domestic MGS issues ended the review week higher with the 3-year and 10-year yields shed -0.9bp and -6.9bps respectively to close at 3.12% and 3.39%. Moreover, the benchmark 10y-3y yield spread slightly flattened as the short-end underperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM20.1b in the review week compared to RM17.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues was unchanged at 60% of the overall Government Bonds trades in the week under review. 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 short to mid residual tenors. The top 3 most actively traded were MGS 3.478% 6/14/24 at RM2.65b, MGS 3.492% 3/31/20 at RM1.87b, and MII 4.128% 8/15/25 at RM1.73b.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM1.25b in the review week compared to RM1.60b in earlier week (based on Bloomberg data). Moreover, the total trading value of 10 most actively traded issues increased (lower trading breadth) to 50% compared to 37% of the overall Corporate Bonds trades in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues of short to mid residual tenors. The largest trading values were seen in Brecin Synergy Float% 7/29/26 at RM200m, Sunway Treasury 0% 11/18/19 at RM80m, and CGN Power 4.5% 11/11/17 at RM50m.
- Total foreign holdings of Government Bonds stood at RM169.5b as at end-September 2019. It was an increase of RM516.0m from the August 2019 figure of RM169.0b. Similarly, total foreign holdings of Corporate Bonds increased by RM111.1m in the month of September 2019 to RM12.0b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM627.4m in September 2019 while the former saw a total net outflow worth -RM559m. For 2018, the net flows of both equities and bonds markets were in the red with total net outflows of -RM11.7b and -RM21.1b respectively.



Source: BNM, Bursa Preliminary Statistics

## B. FOREIGN EXCHANGE

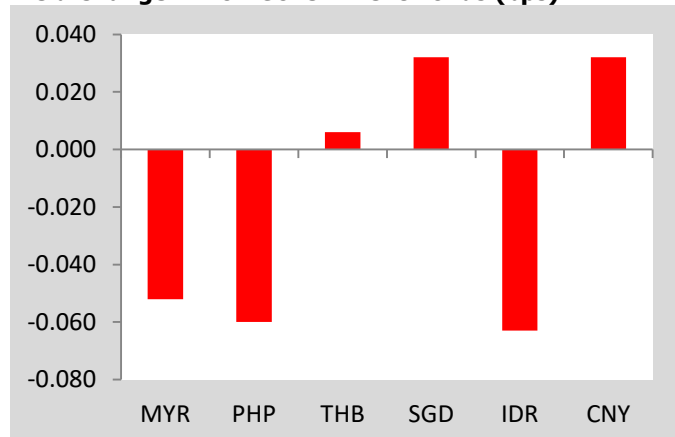
- DXY depreciates after three times of rate cut in 2019. Apart from the rate cuts, GDP growth in 3Q19 registered at 1.9%, weakest pace so far in 2019. Private consumption increased by 2.9% while business investment remains in contractionary for two-consecutive quarters. Government spending rose by 2% and exports rebounded from -5.7% in 2Q19 to 0.7% in 3Q19.
  - EURUSD strengthens despite GDP 3Q19 weakens. GDP growth in 3Q19 softens at 1.1%yoy, weakest gain since 5-year. On top of that, headline CPI declined to 0.7%, lowest since Nov-16 while core CPI surged to 1.1%, highest in 4-month. Business and consumer confidences remain pessimistic.
  - Ringgit – Appreciate firmly. High expectations on BNM to consider another cut next week during its MPC meeting. The second cut among others due to expected-economic slowdown and to compensate the global trade war effects. We maintain our call MYR to average and register year-end target at 4.15 in 2019.

## Currencies Changes (Week Ended 01/11) and Quarterly Forecasts

	Close (01/11)	Prev Close (25/10)	Change	% Change	1Q19	2Q19	3Q19	4Q19F
DXY Index	97.21	97.83	-0.621	-0.6%	96.46	97.26	98.00	100.03
EURUSD	1.12	1.11	0.009	0.8%	1.13	1.12	1.11	1.09
GBPUSD	1.30	1.28	0.014	1.1%	1.30	1.28	1.23	1.21
USDJPY	107.94	108.67	-0.730	0.7%	110.15	109.82	107.19	110.31
USDMYR	4.16	4.18	-0.021	0.5%	4.09	4.15	4.16	4.10
GBPMYR	5.40	5.37	0.027	-0.5%	5.32	5.33	5.13	5.20
JPYMYR	3.86	3.85	0.007	-0.2%	3.72	3.78	3.88	3.91

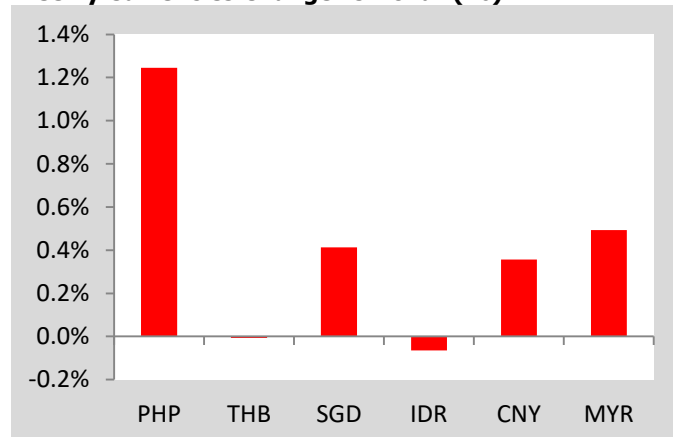
Quarterly figures are forecast by MIDFR  
Source: Bloomberg, MIDFR

### 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 (%)


	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Malaysia	3.25	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00	5.75	5.50	5.25	5.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00
Thailand	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.00	6.00
Korea	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.25	1.25
China	4.35	4.35	4.35	4.35	4.35	4.35	4.25	4.20	4.20
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	0.75	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
United States	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.00	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.
- China and the US are working toward a partial trade deal.
- The Fed cuts its interest rate three times in 2019. The current rate is 1.50-1.75%.

- Developed and emerging economies are predicted to follow similar steps in loosening monetary policy to boost economic growth.
- Concerns over Malaysia-India relationship intensify following an Indian trade body's advice to its members not to buy palm oil from Malaysia until clarity given by the Indian government.
- Malaysia's economic prospect remains resilient amid firming domestic demand, stable job market, low inflationary pressure and recovery in commodity-based sectors.
- Malaysia's headline inflation slowed to 4-month low of 1.1%yoy in Sep-19 from 1.5%yoy in the previous month as inflation of two biggest components (F&B and housing & utilities) in overall CPI basket moderated. In addition, transport inflation, third largest contributor to overall CPI, fell slightly harder to -2.2%yoy.
- Current monetary policy remains accommodative at present to support growth in the domestic economy.
- We expect no further changes in monetary policy which OPR maintains at 3.00% in 2019.

## **C. BNM FOREIGN RESERVES**

- As at 15 October 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves was slightly higher at USD103.3b (from USD103.0b).
- The amount of reserves is sufficient to finance 7.6 months of retained imports and is 1.1 times the short-term external debt. 

## APPENDIX

### WEEKLY INTEREST RATE MONITOR

Tenor	25-Oct Fri	28-Oct Mon	29-Oct Tue	30-Oct Wed	31-Oct Thu	1-Nov Fri	Change (WoW bp)
MGS							
3-Y	3.129	3.129	3.141	3.105	3.151	3.12	-0.9
5-Y	3.266	3.266	3.28	3.364	3.327	3.282	1.6
7-Y	3.458	3.458	3.451	3.447	3.392	3.358	-10
10-Y	3.46	3.46	3.442	3.46	3.412	3.391	-6.9
20-Y	3.886	3.886	3.868	3.886	3.917	3.764	-12.2
RINGGIT IRS							
1-Y	3.265	3.265	3.29	3.29	3.29	3.29	2.5
3-Y	3.265	3.265	3.29	3.3	3.29	3.285	2
5-Y	3.32	3.32	3.335	3.35	3.34	3.32	0
7-Y	3.375	3.375	3.385	3.39	3.39	3.355	-2
10-Y	3.435	3.435	3.435	3.45	3.45	3.45	1.5
KLIBOR							
1-M	3.18	3.18	3.18	3.18	3.18	3.18	0
2-M	3.34	3.34	3.34	3.34	3.34	3.34	0
3-M	3.38	3.38	3.38	3.38	3.38	3.38	0
UST							
3-Y	1.6134	1.6463	1.6492	1.5949	1.5161	1.5438	-6.96
5-Y	1.6192	1.6618	1.6618	1.6061	1.5195	1.5424	-7.68
7-Y	1.7058	1.7488	1.7464	1.6844	1.6037	1.6274	-7.84
10-Y	1.7943	1.842	1.8385	1.7715	1.691	1.7103	-8.4
30-Y	2.287	2.3339	2.3347	2.2521	2.1791	2.1897	-9.73
USD LIBOR							
1-M	1.80488	1.79963	1.78588	1.78138	1.78488	1.77425	-3.063
2-M	1.881	1.88263	1.86313	1.859	1.84	1.83888	-4.212
3-M	1.92813	1.9355	1.92713	1.90913	1.90225	1.8905	-3.763

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	25-Oct Yield	1-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
MALAYSIA GOVERNMENT	3.478	06/14/24	3.266	3.282	1.6	2,651.7
MALAYSIA GOVERNMENT	3.492	03/31/20	3.047	2.995	-5.2	1,869.0
MALAYSIA INVESTMNT ISS	4.128	08/15/25	3.408	3.407	-0.1	1,727.6
MALAYSIA GOVERNMENT	3.906	07/15/26	3.458	3.358	-10.0	1,492.0
MALAYSIA INVESTMNT ISS	3.726	03/31/26	3.437	3.344	-9.3	905.9
MALAYSIA GOVERNMENT	4.378	11/29/19	3.031	2.985	-4.6	787.5
MALAYSIA GOVERNMENT	3.659	10/15/20	3.053	3.048	-0.5	717.0
MALAYSIA GOVERNMENT	3.885	08/15/29	3.460	3.391	-6.9	669.3
MALAYSIA INVESTMNT ISS	4.13	07/09/29	3.498	3.456	-4.2	655.8
MALAYSIA GOVERNMENT	3.899	11/16/27	3.489	3.397	-9.2	644.8
TOTAL VOLUME (TOP 10)						12,120.6
TOTAL VOLUME (Overall)						20,129.8

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	25-Oct Yield	1-Nov Yield	Change (WoW bp)	Weekly Volume (RM bn)
BRECON SYNERGY SDN BH	FLOAT	07/29/26	#N/A N/A	#N/A N/A	#VALUE!	200.0
SUNWAY TREASURY SUKU	ZERO	11/18/19	#N/A N/A	3.235	#VALUE!	80.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	50.1
TANJUNG BIN POWER SDN	4.66	08/14/20	#N/A N/A	3.383	#VALUE!	50.0
DANAINFRA NASIONAL	4.03	04/01/26	3.520	3.571	5.1	50.0
PENGURUSAN AIR SPV BHD	4.15	02/06/26	3.517	3.567	5.0	50.0
GB SERVICES BHD	5.3	11/08/19	#N/A N/A	1.647	#VALUE!	40.0
DANAINFRA NASIONAL	4.57	05/02/31	3.749	3.819	7.0	40.0
SOUTHERN POWER GENER	5.61	10/31/35	#N/A N/A	4.472	#VALUE!	40.0
FIRST RESOURCES LTD	4.35	06/05/20	3.549	3.599	5.0	30.0
TOTAL VOLUME (TOP 10)						630.1
TOTAL VOLUME (Overall)						1,251.7

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.