WEEKLY MONEY REVIEW

midf RESEARCH

MIDF AMANAH INVESTMENT BANK BERHAD

MIDF Strategy | 6 January 2020

Week Ended 3 January 2020

- The benchmark 10-year UST yield fell (price up) below 1.8% level as some investors fled for the safety of government bonds in the aftermath of a US military strike in Iraq that killed General Qassem Soleimani, neighbouring Iran's top military commander. The 10y-3y yield spread slightly flattened (long-end outperformed) to +25bps from +26bps a week earlier.

- Likewise, the price of domestic MGS issues ended the review week higher with the 3-year and 10-year yields shed -2.1bp and -3.7bps respectively to close at 2.96% and 3.29%. Moreover, the benchmark 10y-3y yield spread slightly flattened as the long-end outperformed.

- Total trading value for Government Bonds (MGS/MII) jumped to RM11.6b in the review week compared to RM2.8b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 53% compared to 55% 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.

- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.35b in the review week compared to RM1.06b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 45% compared to 48% of the overall Corporate Bonds trades in the week before.

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Weekly Money Review

A. FIXED INCOME

- The benchmark 10-year UST yield fell (price up) below 1.8% level as some investors fled for the safety of government bonds in the aftermath of a US military strike in Iraq that killed General Qassem Soleimani, neighbouring Iran's top military commander. The 10y-3y yield spread slightly flattened (long-end outperformed) to +25bps from +26bps a week earlier.

- Likewise, the price of domestic MGS issues ended the review week higher with the 3-year and 10-year yields shed -2.1bp and -3.7bps respectively to close at 2.96% and 3.29%. Moreover, the benchmark 10y-3y yield spread slightly flattened as the long-end outperformed.

Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) jumped to RM11.6b in the review week compared to RM2.8b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 53% compared to 55% 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 short and long residual tenors. The top 3 most actively traded were MII 4.12% 7/9/29 at RM1.49b, MGS 3.492% 3/31/20 at RM1.04b, and MGS 3.659% 10/15/20 at RM667m.

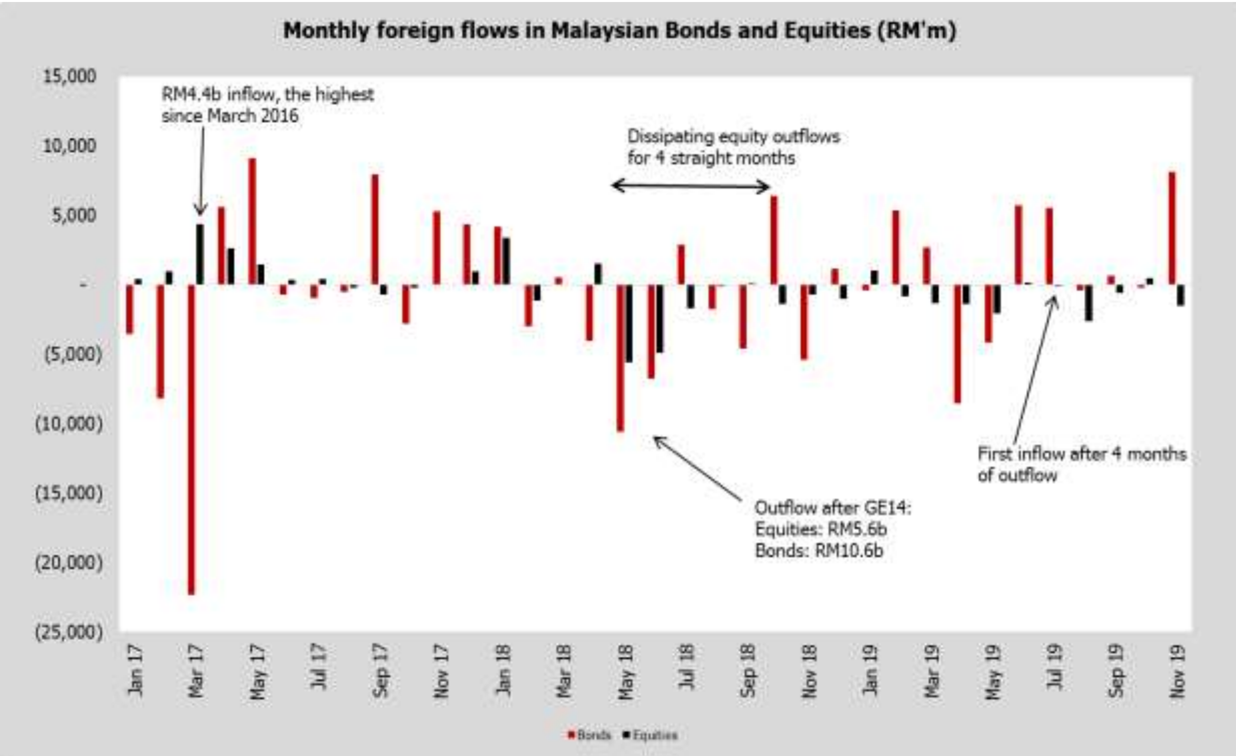
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM1.35b in the review week compared to RM1.06b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 45% compared to 48% of the overall Corporate Bonds trades in the week before.

- The top 3 actively traded Corporate Bonds were dominated by issues of varied residual tenors. The largest trading values were seen in Danainfra 4.1% 5/3/23 at RM170m, CGN Power 4.5% 11/11/17 at RM60m, and Public Bank 3.9% 7/27/29 at RM60m.

- Total foreign holdings of Government Bonds stood at RM176.8b as at end-November 2019. It was a decline of -RM7.67b from the November 2019 figure of RM169.1b. On the contrary, total foreign holdings of Corporate Bonds increased by RM437.9m in the month of November 2019 to RM12.6b.

Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM8.1b in November 2019 while the former saw a total net outflow worth -RM1.5b. 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 depreciated modestly. Labour market in the US economy remains stable as unemployment benefits claims are decreasing. Hence, several Fed officials are hinting for no need of rate cuts this year. In addition, Midde East tension turned sour as the US air strike killed key Iranian and Iraqi military personnels.

- EURUSD remains flat. Business confidence in EU remains pessimistic. Markit's Manufacturing PMI for Germany recorded at 43.7 points in Dec-19, marking 12-straight months of contractionary signs. The PMI for overall EU at 46.3 points in the final month of 2019, registering 11-consecutive months of below 50 points mark.

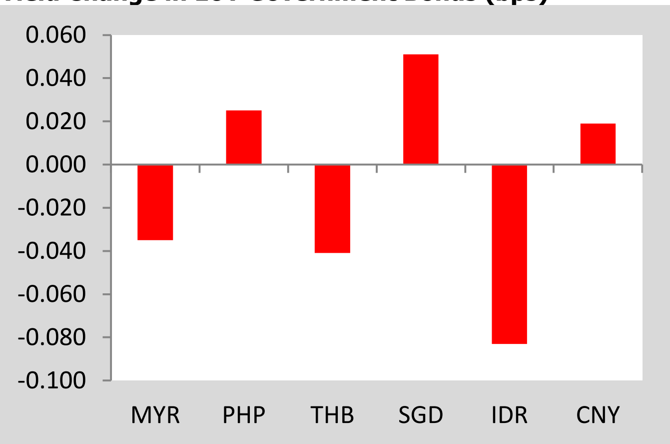
- Ringgit – Continuous appreciation despite poor external trade performance. MYR improved to 4.09 among others due to strengthening Brent crude oil price nearing $70pbd and China's NBS manufacturing PMI maintained at 8-month high in Dec-19. However, Malaysia continued recording negative rates for total trade, exports and imports in Nov-19. We expect MYR to average at 4.18 and year-end at 4.20 in 2020.

Currencies Changes (Week Ended 03/01) and Quarterly Forecasts

	Close (03/01)	Prev Close (27/12)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	96.80	96.92	-0.119	-0.1%	96.81	97.24	96.61	97.19
EURUSD	1.12	1.12	-0.002	-0.2%	1.12	1.12	1.13	1.12
GBPUSD	1.31	1.31	0.003	0.2%	1.32	1.32	1.29	1.31
USDJPY	108.04	109.44	-1.400	1.3%	107.56	107.06	106.84	108.39
USDMYR	4.10	4.13	-0.027	0.7%	4.12	4.16	4.18	4.20
GBPMYR	5.37	5.39	-0.018	0.3%	5.38	5.36	5.29	5.36
JPYMYR	3.80	3.77	0.024	-0.6%	3.80	3.81	3.85	3.79

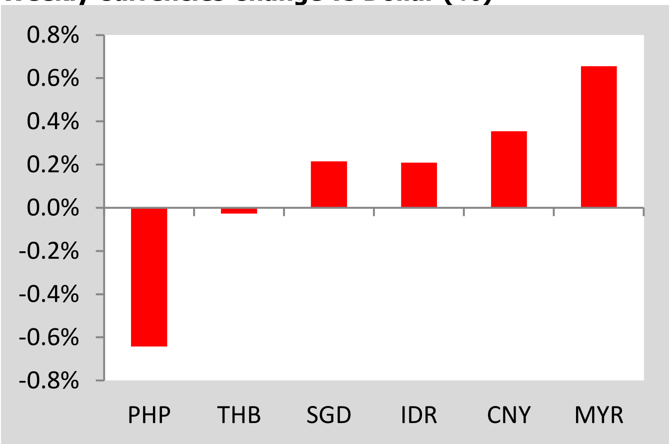
Source: Bloomberg, MIDFR

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 (%)

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Malaysia	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	5.75	5.50	5.25	5.00	5.00	5.00
Philippines	5.25	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.50
Thailand	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.25	1.25
Vietnam	6.25	6.25	6.25	6.25	6.25	6.00	6.00	6.00	6.00
South Korea	1.75	1.75	1.75	1.50	1.50	1.50	1.25	1.25	1.25
India	6.00	6.00	5.75	5.75	5.40	5.40	5.15	5.15	5.15
China	4.35	4.35	4.35	4.35	4.25	4.20	4.20	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	2.50	2.25	2.25	2.00	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.
- We expect the Fed to announce two rate cuts next year amid GDP moderation.
- Developed and emerging economies are predicted to follow similar steps in loosening monetary policy to boost economic growth.
- Malaysia's external trade performance stays sluggish as exports and imports shrank by -5.5%yoy and -3.6%yoy respectively in Nov-19.
- Trade surplus at RM6.5 billion, the lowest since Aug-18.
- Inflationary pressure is set to stay low in 2020 amid the postponement of floating fuel price mechanism. We may revise down our initial 2.4% headline CPI to below 1% levels.
- We expect BNM to slash further OPR by 25 basis points in 2020, possibly the earliest in 1Q209.

C. BNM FOREIGN RESERVES

- As at 13 December 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves was slightly higher at USD103.3b (29 Nov: USD103.2b).
- The amount of reserves is sufficient to finance 7.8 months of retained imports and is 1.1 times the short-term external debt.

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	27-Dec Fri	30-Dec Mon	31-Dec Tue	1-Jan Wed	2-Jan Thu	3-Jan Fri	Change (WoW bp)
MGS							
3-Y	2.983	2.977	2.999	2.999	3.005	2.962	-2.1
5-Y	3.187	3.165	3.152	3.152	3.167	3.168	-1.9
7-Y	3.325	3.301	3.348	3.348	3.268	3.296	-2.9
10-Y	3.323	3.304	3.296	3.296	3.298	3.286	-3.7
20-Y	3.75	3.743	3.771	3.771	3.755	3.73	-2
RINGGIT IRS							
1-Y	3.27	3.27	3.272	3.272	3.28	3.275	0.5
3-Y	3.285	3.285	3.28	3.28	3.3	3.275	-1
5-Y	3.32	3.32	3.32	3.32	3.335	3.32	0
7-Y	3.355	3.355	3.36	3.36	3.38	3.355	0
10-Y	3.4	3.395	3.4	3.4	3.425	3.405	0.5
KLIBOR							
1-M	3.17	3.17	3.17	3.17	3.17	3.17	0
2-M	3.32	3.32	3.32	3.32	3.32	3.32	0
3-M	3.35	3.35	3.35	3.35	3.35	3.35	0
UST							
3-Y	1.5978	1.5896	1.6086	1.6086	1.5922	1.5403	-5.75
5-Y	1.678	1.6699	1.691	1.691	1.6665	1.5896	-8.84
7-Y	1.8001	1.7977	1.8313	1.8313	1.793	1.7047	-9.54
10-Y	1.8752	1.8788	1.9175	1.9175	1.8771	1.7881	-8.71
30-Y	2.316	2.3297	2.3896	2.3896	2.3312	2.2444	-7.16
USD LIBOR							
1-M	1.79938	1.78088	1.7625	1.7625	1.73438	1.71425	-8.513
2-M	1.84913	1.83888	1.83313	1.83313	1.82113	1.8105	-3.863
3-M	1.94463	1.90938	1.90838	1.90838	1.90025	1.87388	-7.075

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	27-Dec Yield	3-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISS	4.13	07/09/29	3.448	3.382	-6.6	1,490.2
MALAYSIA GOVERNMENT	3.492	03/31/20	2.779	2.548	-23.1	1,042.0
MALAYSIA GOVERNMENT	3.659	10/15/20	2.932	2.770	-16.2	667.0
MALAYSIA INVESTMNT ISS	3.655	10/15/24	3.245	3.188	-5.7	560.0
MALAYSIA INVESTMNT ISS	4.369	10/31/28	3.455	3.393	-6.2	535.9
MALAYSIA GOVERNMENT	3.757	04/20/23	3.140	3.111	-2.9	431.5
MALAYSIA INVESTMNT ISS	4.119	11/30/34	3.766	3.599	-16.7	380.0
MALAYSIA INVESTMNT ISS	3.576	05/15/20	2.972	2.910	-6.2	350.0
MALAYSIA GOVERNMENT	3.478	06/14/24	3.190	3.168	-2.2	334.6
MALAYSIA GOVERNMENT	4.048	09/30/21	3.024	3.006	-1.8	328.2
TOTAL VOLUME (TOP 10)						6,119.4
TOTAL VOLUME (Overall)						11,620.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	27-Dec Yield	3-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.1	05/03/23	3.303	3.231	-7.2	170.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	60.2
PUBLIC BANK BERHAD	3.9	07/27/29	#N/A N/A	3.685	#VALUE!	60.0
IJM CORPORATION BERHA	4.73	04/10/20	#N/A N/A	3.362	#VALUE!	55.0
DANAINFRA NASIONAL	4.8	10/31/33	3.884	3.801	-8.3	50.0
MKD KENCANA SDN BHD	4.85	10/01/32	3.829	3.751	-7.8	50.0
DANAINFRA NASIONAL	4.89	05/25/32	3.859	3.729	-13.0	45.0
DANAINFRA NASIONAL	4.38	02/08/33	#N/A N/A	3.723	#VALUE!	40.0
SARAWAK HIDRO SDN BHD	4.58	10/13/28	#N/A N/A	3.569	#VALUE!	40.0
DANAINFRA NASIONAL	4.65	02/10/34	#N/A N/A	3.797	#VALUE!	40.0
TOTAL VOLUME (TOP 10)						610.2
TOTAL VOLUME (Overall)						1,347.6

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.