

MIDF Strategy | 6 July 2020

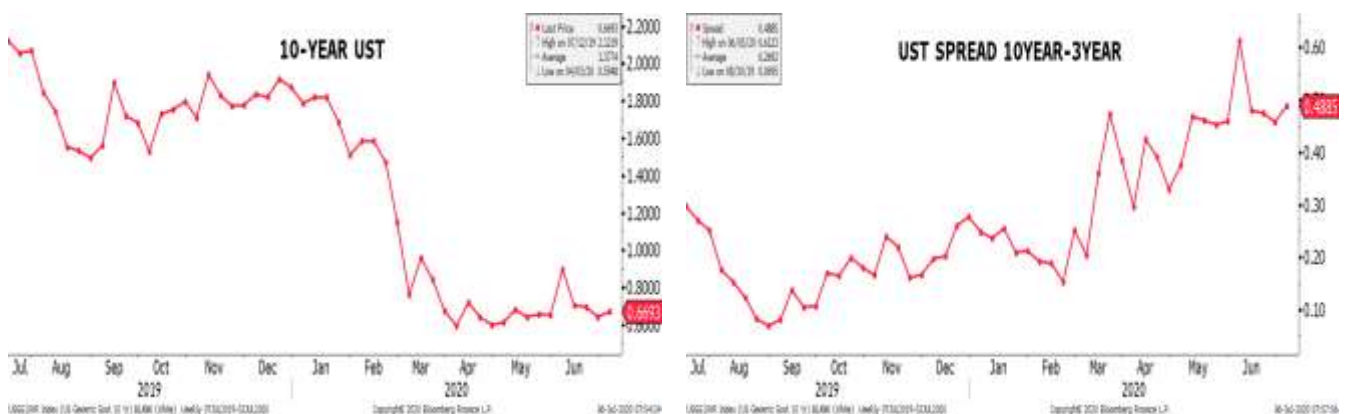
Week Ended 3 July 2020

- The longer duration UST yields edged higher (prices down) last week with the benchmark 10-year closed at 0.67% as better than expected nonfarm jobs number in June was moderated by the rise in jobless claims. Meanwhile, the 10y-3y yield spread expanded (i.e. yield curve steepened) to +49bps from +46bps a week earlier.
- On the other hand, the price of domestic MGS issues ended the review week higher with the benchmark 3-year and 10-year yields declined -12.5bps and -6.9bps to close at 2.15% and 2.81 respectively%. Moreover, the 10y-3y yield spread steepened from +60bps to +66bps as the short-end outperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM28.7b in the review week compared to RM17.1b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues dropped (higher trading breadth) to 46% compared to 54% 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.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) dropped to RM3.19b in the review week compared to RM3.21b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 28% compared to 24% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

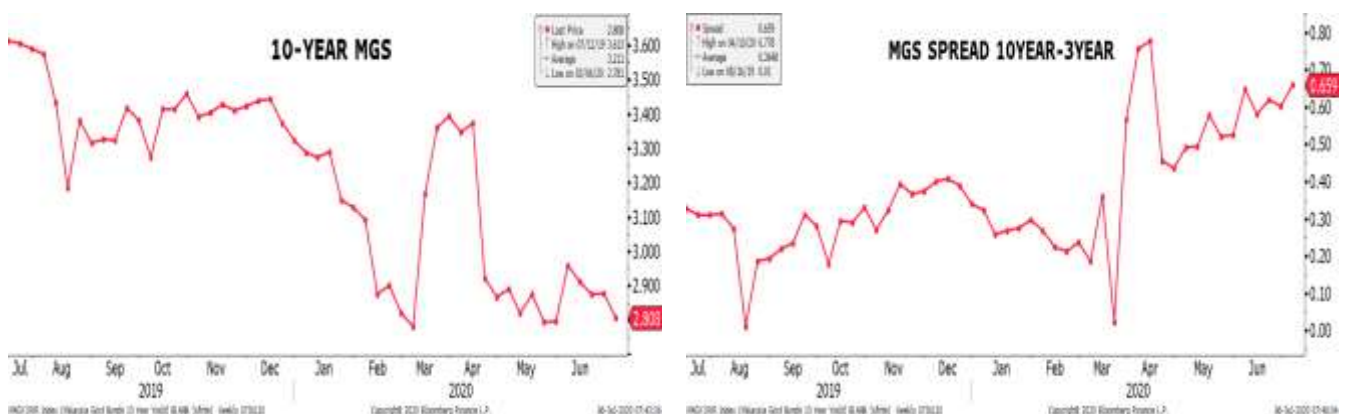
A. FIXED INCOME

- The longer duration UST yields edged higher (prices down) last week with the benchmark 10-year closed at 0.67% as better than expected nonfarm jobs number in June was moderated by the rise in jobless claims. Meanwhile, the 10y-3y yield spread expanded (i.e. yield curve steepened) to +49bps from +46bps a week earlier.



Source: Bloomberg, MIDFR

- On the other hand, the price of domestic MGS issues ended the review week higher with the benchmark 3-year and 10-year yields declined -12.5bps and -6.9bps to close at 2.15% and 2.81% respectively. Moreover, the 10y-3y yield spread steepened from +60bps to +66bps as the short-end outperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM28.7b in the review week compared to RM17.1b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues dropped (higher trading breadth) to 46% compared to 54% 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 short and long residual tenors. The top 3 most actively traded were MGS 4.16% 7/15/21 at RM2.06b, MGS 3.48% 3/15/23 at RM2.04b, and MII 4.13% 7/9/29 at RM1.24b.
- On the other hand, the total trading value for Corporate Bonds (Conventional & Sukuk) dropped to RM3.19b in the review week compared to RM3.21b in earlier week (based on Bloomberg data). The total trading value of 10

most actively traded issues increased (lower trading breadth) to 28% compared to 24% 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 Rantau Abang 4.3% 12/3/20 at RM110m, Danainfra 4.41% 7/24/24 at RM105m, and Public Bank 3.9% 7/27/29 at RM100m.

B. FOREIGN EXCHANGE

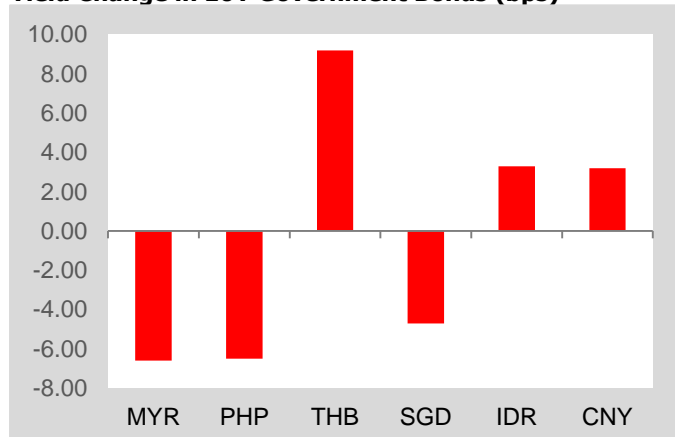
- The US dollar DXY Index weakened amid encouraging macro releases. The risk sentiment improved as macro data signals that the US economy is recovering. The US job market improved in June, adding the non-farm payrolls rose better-than-expected by 4.8 million in June with the US unemployment rate fell to 11.1% (May: 13.3%). In addition, the US manufacturing sector returned to growth as the ISM manufacturing PMI. Despite the growing confidence on the economy, the pace of recovery remains uncertain as the number of Covid-19 cases in the US continues to increase rapidly.
- EURUSD appreciated on better economic releases. The euro strengthened as the positive economic data boosted confidence that the slowdown from the Covid-19 lockdown may not be as severe as expected. Retail sales in Germany rose 3.9%yoy in May (April: -6.5%yoy) indicating a rebound in consumer spending after lockdown was lifted. The manufacturing activities in Germany and the Eurozone as a whole also reported improvement. The manufacturing PMI for the Eurozone increased to 47.4 in June (May: 39.4) backed by recovery in production activity with expectations for improving demand in coming months.
- Ringgit – increased confidence on the economy. MYR appreciated against the US dollar in view of upbeat data releases. Activities in Malaysia’s manufacturing sector expanded in June, with the PMI index rose to 51 (May: 45.6). The improvement was due to factories restarting their operations and rising new orders. On another note, ringgit also gained supported by the increase in the oil prices. The Brent oil benchmark closed higher at USD42.13 per barrel on 3 July 2020 (26 July 2020: USD41.02/barrel) following upbeat US job report.

Currencies Changes (Week Ended 03/07) and Quarterly Forecasts

	Close (03/07)	Prev Close (26/06)	Change	% Change	1Q20	2Q20	3Q20F	4Q20F
DXY Index	97.17	97.43	-0.261	-0.3%	98.32	99.00	98.36	98.95
EURUSD	1.125	1.122	0.003	0.3%	1.10	1.10	1.11	1.10
GBPUSD	1.248	1.234	0.015	1.2%	1.28	1.24	1.21	1.23
USDJPY	107.51	107.22	-0.290	-0.3%	108.94	107.63	107.41	108.96
USDMYR	4.287	4.291	0.003	0.1%	4.17	4.32	4.36	4.35
GBPMYR	5.343	5.321	-0.022	-0.4%	5.36	5.36	5.30	5.37
JPYMYR	3.988	4.002	0.014	0.3%	3.83	4.02	4.06	3.99

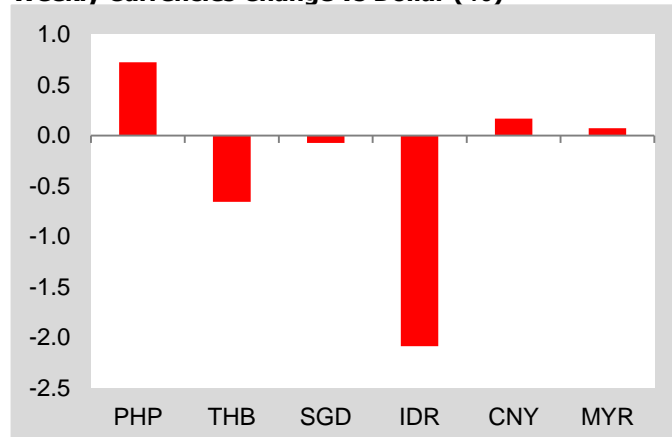
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)


	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Malaysia	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00
Indonesia	5.00	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25
Philippines	4.50	4.50	4.50	4.50	4.25	3.75	3.25	3.25	2.75
Thailand	1.50	1.25	1.25	1.25	1.00	0.75	0.75	0.50	0.50
Vietnam	6.00	6.00	6.00	6.00	6.00	5.00	5.00	4.50	4.50
Korea	1.25	1.25	1.25	1.25	1.25	0.75	0.75	0.50	0.50
India	5.15	5.15	5.15	5.15	5.15	4.40	4.40	4.00	4.00
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	0.10	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	1.83	1.55	1.55	1.55	1.58	0.63	0.05	0.05	0.08

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 June FOMC meeting, the US Fed raised concerns over a potential risk to the US economy from a second wave of Covid-19 outbreak. Such scenario will cause the GDP to decline and unemployment to increase again as governments will have to impose strict controls to limit social interactions and business operations.
- BNM reduced OPR by 50bps to 2.00% in May 2020 to cushion the impact of economic slowdown on Malaysian businesses and households. The decision contributed to a total 100bps in rate cuts since January 2020 to support the economy.

- BNM has rooms to ease monetary policy rate further by 25bps in the latter half this year. In view of muted inflationary pressure, another reduction in the OPR will provide additional stimulus to the economy on top of the fiscal stimulus packages announced by the Federal Government.

C. BNM FOREIGN RESERVES

- As at 15 June 2020, compared to previous fortnight, Bank Negara Malaysia's international reserves was lower at USD102.8b (29 May: USD102.9b).
- The amount of reserves is sufficient to finance 8.2 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	26-Jun Fri	29-Jun Mon	30-Jun Tue	1-Jul Wed	2-Jul Thu	3-Jul Fri	Change (WoW bp)
MGS							
3-Y	2.274	2.272	2.245	2.215	2.172	2.149	-12.5
5-Y	2.502	2.478	2.46	2.411	2.386	2.389	-11.3
7-Y	2.72	2.735	2.662	2.652	2.597	2.603	-11.7
10-Y	2.877	2.899	2.857	2.839	2.851	2.808	-6.9
20-Y	3.616	3.618	3.615	3.615	3.58	3.601	-1.5
RINGGIT IRS							
1-Y	2.1105	2.102	2.08	2.0745	2.075	2.075	-3.55
3-Y	2.13	2.125	2.105	2.105	2.095	2.095	-3.5
5-Y	2.3425	2.3245	2.305	2.2825	2.2775	2.297	-4.55
7-Y	2.545	2.545	2.535	2.54	2.53	2.53	-1.5
10-Y	2.705	2.715	2.705	2.695	2.7025	2.705	0
KLIBOR							
1-M	2.19	2.19	2.19	2.19	2.19	2.19	0
2-M	2.26	2.26	2.26	2.26	2.26	2.26	0
3-M	2.28	2.28	2.28	2.28	2.28	2.28	0
UST							
3-Y	0.1838	0.1679	0.1731	0.189	0.1808	0.1808	-0.3
5-Y	0.302	0.2736	0.2878	0.3115	0.2958	0.2958	-0.62
7-Y	0.4886	0.4659	0.4909	0.5114	0.4977	0.4977	0.91
10-Y	0.6413	0.6234	0.6561	0.6758	0.6693	0.6693	2.8
30-Y	1.3701	1.3734	1.4107	1.4232	1.4272	1.4272	5.71
USD LIBOR							
1-M	0.17825	0.171	0.16225	0.16625	0.16375	0.16263	-1.562
2-M	0.24263	0.23725	0.22875	0.23338	0.23375	0.23375	-0.888
3-M	0.30788	0.29613	0.302	0.2985	0.30375	0.27588	-3.2

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	26-Jun Yield	3-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	4.16	07/15/21	2.061	1.989	-7.2	2,059.9
MALAYSIA GOVERNMENT	3.48	03/15/23	2.274	2.149	-12.5	2,045.1
MALAYSIA INVESTMNT ISS	4.13	07/09/29	3.012	2.912	-10.0	1,237.2
MALAYSIA GOVERNMENT	3.955	09/15/25	2.502	2.389	-11.3	1,208.0
MALAYSIA INVESTMNT ISS	4.467	09/15/39	3.678	3.700	2.2	1,186.3
MALAYSIA INVESTMNT ISS	3.151	05/15/23	2.333	2.253	-8.0	1,142.9
MALAYSIA GOVERNMENT	3.502	05/31/27	2.720	2.603	-11.7	1,096.8
MALAYSIA GOVERNMENT	3.899	11/16/27	2.848	2.715	-13.3	1,078.1
MALAYSIA INVESTMNT ISS	3.726	03/31/26	2.623	2.528	-9.5	1,075.0
MALAYSIA GOVERNMENT	3.885	08/15/29	2.877	2.808	-6.9	1,069.9
TOTAL VOLUME (TOP 10)						13,199.2
TOTAL VOLUME (Overall)						28,663.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	26-Jun Yield	3-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
RANTAU ABANG CAPITAL	4.3	12/03/20	2.537	2.519	-1.8	110.0
DANAINFRA NASIONAL	4.41	07/24/24	#N/A N/A	2.610	#VALUE!	105.0
PUBLIC BANK BERHAD	3.9	07/27/29	#N/A N/A	3.375	#VALUE!	100.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	99.7
YTL POWER INTERNATIONAL	5.05	05/03/27	3.617	3.595	-2.2	90.0
MBSB BANK BHD	5.05	12/20/29	3.917	3.983	6.6	81.5
BANK ISLAM MALAYSIA BH	5.15	11/07/28	#N/A N/A	3.512	#VALUE!	80.0
EDRA ENERGY SDN BHD	6.35	07/05/33	#N/A N/A	4.175	#VALUE!	80.0
DANUM CAPITAL BHD	3.42	02/21/35	3.559	3.657	9.8	80.0
BENIH RESTU BHD	4.62	06/05/25	3.525	3.349	-17.6	75.0
TOTAL VOLUME (TOP 10)						901.2
TOTAL VOLUME (Overall)						3,199.6

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 <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.