

MIDF Strategy | 13 January 2020

Week Ended 10 January 2020

- The UST yields rebounded (prices down) from prior week's fall as the US-Iran tit-for-tat actions in Iraq de-escalated. Nonetheless, the 10y-3y yield spread slightly flattened (long-end outperformed) to +24bps from +25bps a week earlier.
- The price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields gained 5.2bps and shed -1.3bps respectively to close at 3.01% and 3.28%. Moreover, the 10y-3y yield spread slightly flattened as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) jumped to RM22.3b in the review week compared to RM11.6b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 45% compared to 53% of the overall Government Bonds trades in the week before. In addition, 5 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 RM2.93b in the review week compared to RM1.35b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 28% compared to 45% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

A. FIXED INCOME

- The UST yields rebounded (prices down) from prior week's fall as the US-Iran tit-for-tat actions in Iraq de-escalated. Nonetheless, the 10y-3y yield spread slightly flattened (long-end outperformed) to +24bps from +25bps a week earlier.
- The price of domestic MGS benchmark issues ended the review week mixed with the 3-year and 10-year yields gained 5.2bps and shed -1.3bps respectively to close at 3.01% and 3.28%. Moreover, the 10y-3y yield spread slightly flattened as the long-end outperformed.



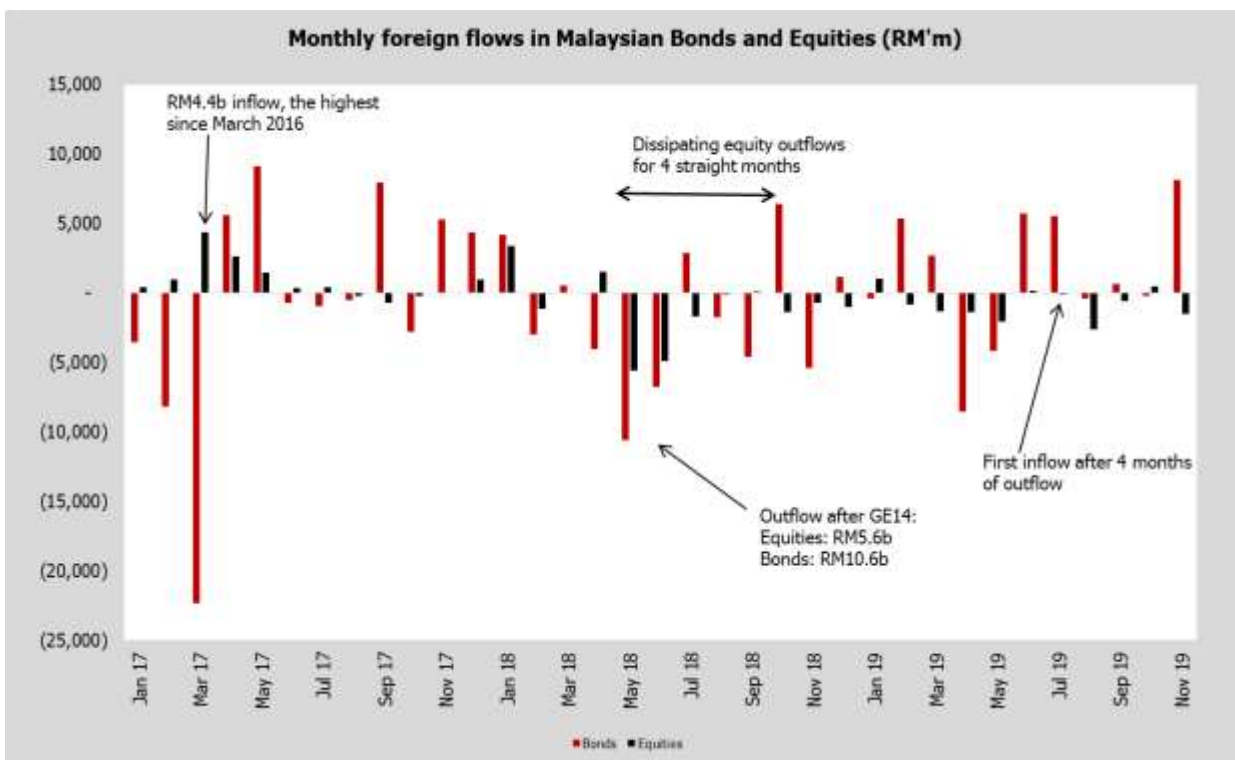
Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) jumped to RM22.3b in the review week compared to RM11.6b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 45% compared to 53% of the overall Government Bonds trades in the week before. In addition, 5 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 mid and long residual tenors. The top 3 most actively traded were MGS 3.502% 5/31/27 at RM2.14b, MII 4.13% 7/9/29 at RM1.97b, and MII 4.755% 8/4/37 at RM1.13b.
- Similarly, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM2.93b in the review week compared to RM1.35b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 28% compared to 45% of the overall Corporate Bonds trades in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues of long residual tenor. The largest trading values were seen in PTPTN 4.58% 2/28/34 at RM180m, Prasarana 4.84% 12/2/33 at RM80m, and Maybank 4.13% Perp. at RM80m.
- 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

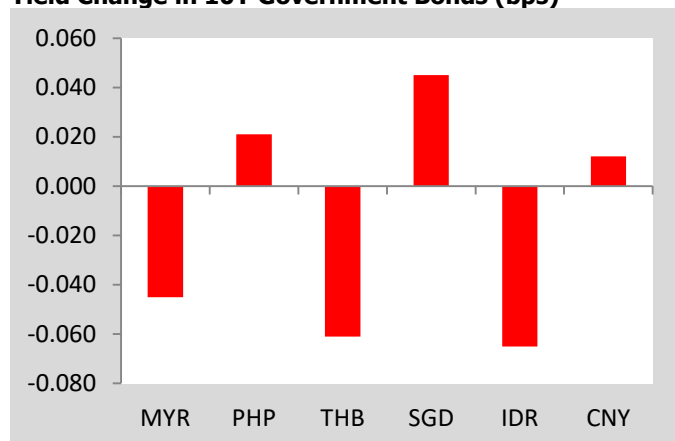
- DXY improved as conflict de-escalated. Two days after Iran announced USD\$80 million bounty for Donald Trump, the US President called for easing and de-escalating the Middle East conflict. The president signalled no new military strikes by the US. However, he stated that new sanction will be imposed on Iran.
- EURUSD depreciated following USD strengthening. From macro standpoint, the recent unemployment rate in Eurozone maintained at 11-year low of 7.5%. As for the whole European Union, the rate is 6.3%, lowest ever recorded. By country, Germany had the lowest at 3.1% whereas Spain held the highest at 14.1%.
- Ringgit – Continuous appreciation amid better IPI & distributive trade. MYR improved to 4.08 among others due to better IPI and manufacturing sales performances. Overall IPI grew by 2%yoy, biggest gain in 5-month and manufacturing sales rose by 5.3%yoy, fastest growth in 4-month. Distributive trade expanded by 5.3%yoy, better than the previous month. We expect MYR to average at 4.18 and year-end at 4.20 in 2020.

Currencies Changes (Week Ended 10/01) and Quarterly Forecasts

	Close (10/01)	Prev Close (03/01)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	97.41	96.84	0.575	0.6%	96.81	97.24	96.61	97.19
EURUSD	1.11	1.12	-0.005	-0.5%	1.12	1.12	1.13	1.12
GBPUSD	1.31	1.31	0.000	0.0%	1.32	1.32	1.29	1.31
USDJPY	109.58	108.09	1.490	-1.4%	107.56	107.06	106.84	108.39
USDMYR	4.08	4.10	-0.024	0.6%	4.12	4.16	4.18	4.20
GBPMYR	5.34	5.37	-0.037	0.7%	5.38	5.36	5.29	5.36
JPYMYR	3.72	3.80	-0.074	2.0%	3.80	3.81	3.85	3.79

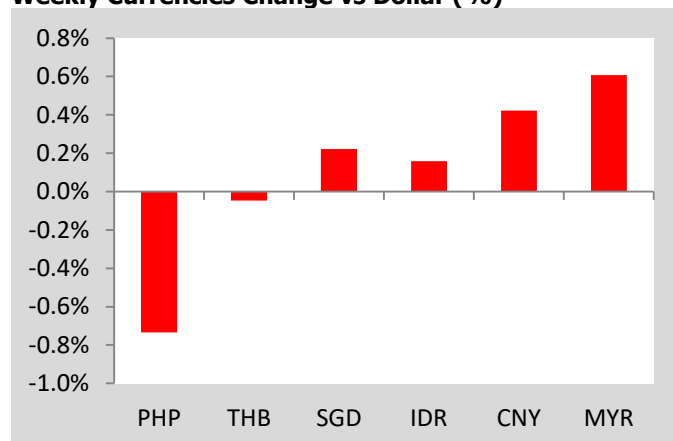
Source: Bloomberg, MIDFR

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 IPI growth at 2%yoy in Nov-19, fastest in 5-month. Manufacturing, mining and electricity outputs increased by 2.5%yoy, 0.5%yoy and 1.6%yoy respectively. Manufacturing sales up by 2.3%yoy.
- Malaysia's distributive trade expanded by 5.3%yoy, supported by wholesale, retail and motor vehicles sales by 4.3%yoy, 7%yoy and 3%yoy respectively in Nov-19.
- 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 1Q2020.

C. BNM FOREIGN RESERVES

- As at 31 December 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves was slightly higher at USD103.6b (13 Dec: USD103.3b).
- The amount of reserves is sufficient to finance 7.5 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	3-Jan Fri	6-Jan Mon	7-Jan Tue	8-Jan Wed	9-Jan Thu	10-Jan Fri	Change (WoW bp)
MGS							
3-Y	2.962	2.977	2.969	3.006	3.012	3.014	5.2
5-Y	3.168	3.163	3.161	3.148	3.17	3.16	-0.8
7-Y	3.296	3.254	3.281	3.247	3.248	3.261	-3.5
10-Y	3.286	3.274	3.274	3.238	3.279	3.273	-1.3
20-Y	3.73	3.679	3.62	3.562	3.603	3.569	-16.1
RINGGIT IRS							
1-Y	3.275	3.2725	3.275	3.26	3.265	3.267	-0.8
3-Y	3.275	3.2675	3.265	3.2475	3.26	3.26	-1.5
5-Y	3.32	3.28	3.29	3.27	3.275	3.279	-4.1
7-Y	3.355	3.33	3.335	3.321	3.352	3.33	-2.5
10-Y	3.405	3.395	3.39	3.375	3.4085	3.394	-1.1
KLIBOR							
1-M	3.17	3.17	3.17	3.17	3.17	3.17	0
2-M	3.32	3.32	3.32	3.31	3.3	3.3	-2
3-M	3.35	3.35	3.35	3.34	3.33	3.33	-2
UST							
3-Y	1.5403	1.5566	1.5565	1.6071	1.5964	1.583	4.27
5-Y	1.5896	1.6058	1.6122	1.6629	1.653	1.6315	4.19
7-Y	1.7047	1.7214	1.7285	1.7811	1.7667	1.7404	3.57
10-Y	1.7881	1.809	1.8177	1.8738	1.8545	1.8196	3.15
30-Y	2.2444	2.2858	2.3052	2.3625	2.3297	2.2786	3.42
USD LIBOR							
1-M	1.71425	1.69213	1.699	1.67713	1.68363	1.67663	-3.762
2-M	1.8105	1.80388	1.81225	1.83688	1.84113	1.8065	-0.4
3-M	1.87388	1.87225	1.878	1.834	1.84788	1.83775	-3.613

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	3-Jan Yield	10-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.502	05/31/27	3.256	3.271	1.5	2,144.2
MALAYSIA INVESTMNT ISS	4.13	07/09/29	3.382	3.361	-2.1	1,965.8
MALAYSIA INVESTMNT ISS	4.755	08/04/37	3.753	3.705	-4.8	1,130.0
MALAYSIA INVESTMNT ISS	4.128	08/15/25	3.258	3.250	-0.8	804.9
MALAYSIA GOVERNMENT	3.659	10/15/20	2.770	2.909	13.9	792.5
MALAYSIA INVESTMNT ISS	3.655	10/15/24	3.188	3.188	0.0	680.6
MALAYSIA INVESTMNT ISS	4.467	09/15/39	3.737	3.642	-9.5	638.7
MALAYSIA GOVERNMENT	3.882	03/10/22	2.962	3.014	5.2	619.7
MALAYSIA GOVERNMENT	3.492	03/31/20	2.548	2.794	24.6	609.9
MALAYSIA GOVERNMENT	3.885	08/15/29	3.286	3.273	-1.3	599.2
TOTAL VOLUME (TOP 10)						9,985.7
TOTAL VOLUME (Overall)						22,344.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	3-Jan Yield	10-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
PERBADANAN TABUNG PEN	4.58	02/28/34	3.841	3.706	-13.5	180.0
PRASARANA MALAYSIA BH	4.84	12/02/33	#N/A N/A	3.650	#VALUE!	80.0
MALAYAN BANKING BHD	4.13	PERP	3.981	3.989	0.8	80.0
PROJEK LEBUHRAYA USAH	4.86	01/12/38	4.028	3.849	-17.9	80.0
DANAINFRA NASIONAL	4.85	05/03/41	4.070	3.859	-21.1	75.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	70.4
GAS MALAYSIA BERHAD	3.52	12/13/22	#N/A N/A	3.456	#VALUE!	70.0
BANK PEMBANGUNAN MAL	4.28	03/02/22	3.524	3.476	-4.8	60.0
PRASARANA MALAYSIA BH	5.11	09/12/42	4.139	3.930	-20.9	60.0
DANAINFRA NASIONAL	4.04	07/20/27	#N/A N/A	3.417	#VALUE!	60.0
TOTAL VOLUME (TOP 10)						815.4
TOTAL VOLUME (Overall)						2,933.8

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.