

## MIDF Strategy | 17 February 2020

### Week Ended 14 February 2020

- The UST yields recovered (prices down) for a second week running due to higher inflationary pressure as underlying (core) consumer prices rose in January. Week-on-week, the 10y-3y yield spread nonetheless remained at +19bps.
- On the other hand, the price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields tumbled -17.3bps and -21.7bps respectively to close at 2.65% and 2.87% attributable to the release of a weaker than expected 4Q19 GDP figure at 3.6% (against MIDFR expectation of 4.3%). Moreover, the 10y-3y yield spread flattened as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) declined marginally to RM32.2b in the review week compared to RM32.4b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 44% compared to 43% 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.
- Total foreign holdings of Government Bonds stood at RM188.1b as at end-January 2020. It was an increase of RM3.20b from the December 2019 figure of RM185.0b. In contrast, total foreign holdings of Corporate Bonds decreased by -RM106.5m in the month of January 2020 to RM13.1b.
- In comparison to equities, the bonds market saw a total net inflow worth RM3.1b in January 2020 while the former saw a total net outflow worth -RM138.3m. For 2019, the bonds market saw a total net inflow of RM22.9b while the equity market saw a total foreign net outflow of -RM10.0b.

## Weekly Money Review

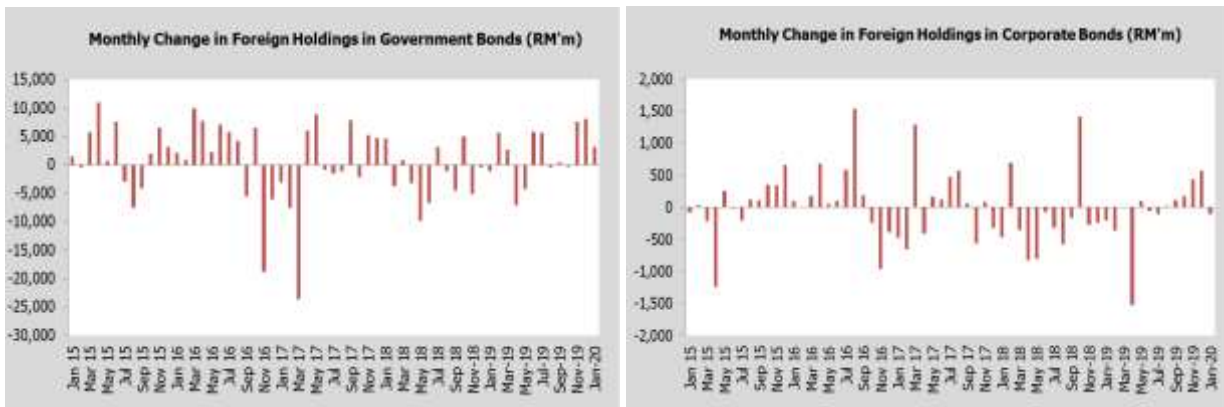
### A. FIXED INCOME

- The UST yields recovered (prices down) for a second week running due to higher inflationary pressure as underlying (core) consumer prices rose in January. Week-on-week, the 10y-3y yield spread nonetheless remained at +19bps.
- On the other hand, the price of domestic MGS benchmark issues ended the review week higher with the 3-year and 10-year yields tumbled -17.3bps and -21.7bps respectively to close at 2.65% and 2.87% attributable to the release of a weaker than expected 4Q19 GDP figure at 3.6% (against MIDFR expectation of 4.3%). Moreover, the 10y-3y yield spread flattened as the long-end outperformed.



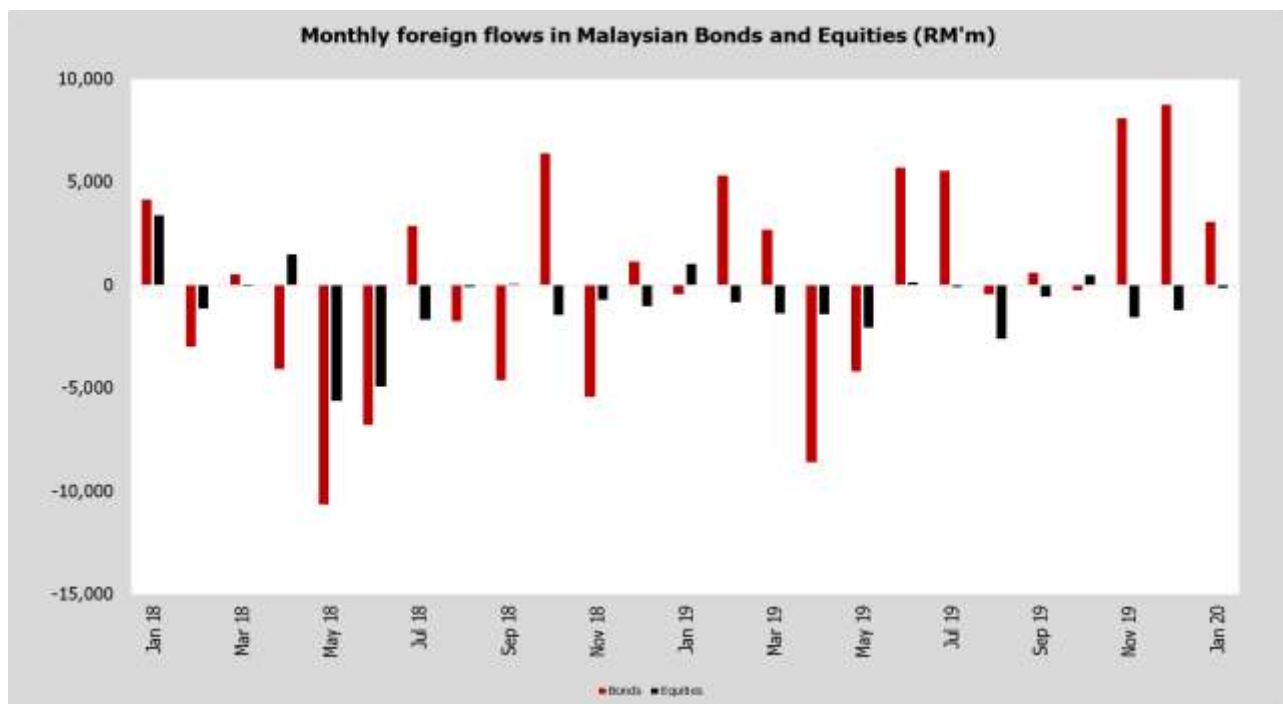
Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined marginally to RM32.2b in the review week compared to RM32.4b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 44% compared to 43% 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 long residual tenors. The top 3 most actively traded were MII 4.13% 7/9/29 at RM3.58b, MGS 3.885% 8/15/29 at RM1.68b, and MII 4.724% 6/15/33 at RM1.45b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined marginally to RM4.49b in the review week compared to RM4.77b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 37% compared to 44% 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 UMW Holdings 6.35% PERP at RM407m, Sarawak Energy 5.65% 6/23/26 at RM286m, and PTPTN 4.29% 8/17/23 at RM180m.
- Total foreign holdings of Government Bonds stood at RM188.1b as at end-January 2020. It was an increase of RM3.20b from the December 2019 figure of RM185.0b. In contrast, total foreign holdings of Corporate Bonds decreased by -RM106.5m in the month of January 2020 to RM13.1b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM3.1b in January 2020 while the former saw a total net outflow worth -RM138.3m. For 2019, the bonds market saw a total net inflow of RM22.9b while the equity market saw a total foreign net outflow of -RM10.0b.



Source: BNM, Bursa Preliminary Statistics

## B. FOREIGN EXCHANGE

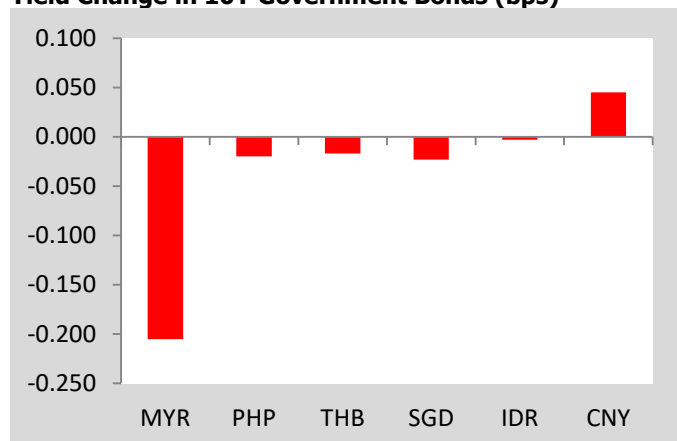
- DXY appreciated amid higher inflationary pressure. Headline CPI rose to 2.5% in the first month of 2020, thanks to 12.8% soar in gasoline cost. Core CPI maintained at 2.3% for 4-consecutive months. However, core PCE inflation remains below the target line of 2% since Feb-19.
- EURUSD weakened due to tumbling IPI. Overall IPI in Euro Area plunged by -4.1%yoy in the final month of 2019, the lowest in a year and matching with a decade low result recorded in Dec-18. Manufacturing output shrank the most by -4.5%yoy while mining down by -8.4%yoy. At this juncture, European Commission maintained its GDP forecast for 2020 and 2021 at 1.2% for both periods.
- Ringgit – Depreciation amid poor GDP results. 4Q19 GDP recorded at 10-year low of 3.6%yoy, well below market estimates of 4.1%yoy. Among others the slowdown was due to supply disruption in agriculture and mining sectors. On top of that, continuous weak exports performance contributed to the weak GDP expansion rate. On a flip side, domestic demand remains firm except government investment stays in negative growth rate. We expect MYR to average at 4.18 and year-end at 4.20 in 2020.

## Currencies Changes (Week Ended 14/02) and Quarterly Forecasts

	Close (14/02)	Prev Close (07/02)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	99.10	98.68	0.414	0.4%	96.81	97.24	96.61	97.19
EURUSD	1.08	1.09	-0.010	-1.0%	1.12	1.12	1.13	1.12
GBPUSD	1.31	1.29	0.016	1.2%	1.32	1.32	1.29	1.31
USDJPY	109.80	109.75	0.050	0.0%	107.56	107.06	106.84	108.39
USDMYR	4.14	4.14	0.000	0.0%	4.12	4.16	4.18	4.20
GBPMYR	5.40	5.35	0.056	-1.0%	5.38	5.36	5.29	5.36
JPYMYR	3.77	3.77	-0.002	0.0%	3.80	3.81	3.85	3.79

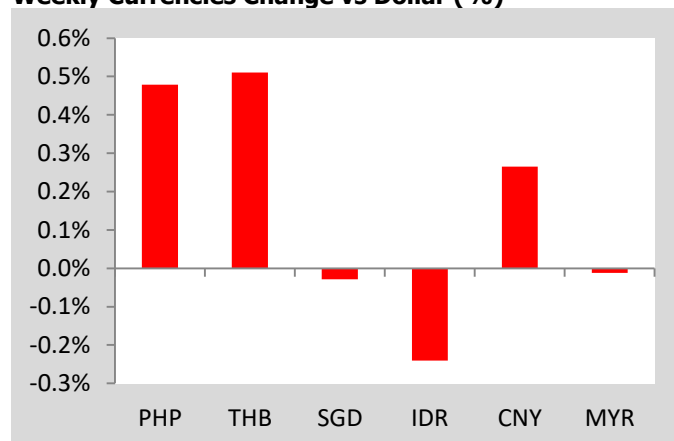
Source: Bloomberg, MIDFR

## 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 (%)


	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75
Indonesia	6.00	6.00	5.75	5.50	5.25	5.00	5.00	5.00	5.00
Philippines	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.50
Thailand	1.75	1.75	1.75	1.50	1.50	1.50	1.25	1.25	1.25
Vietnam	6.25	6.25	6.25	6.25	6.00	6.00	6.00	6.00	6.00
South Korea	1.75	1.75	1.50	1.50	1.50	1.25	1.25	1.25	1.25
India	6.00	5.75	5.75	5.40	5.40	5.15	5.15	5.15	5.15
China	4.35	4.35	4.35	4.25	4.20	4.20	4.15	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	2.25	2.25	2.00	1.75	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.
- Amid virus attack, China is set to halve tariff imposed on the US's import goods. This is seen as to boost market sentiment especially consumer and investor.
- Number of cases and deaths reported are showing downward trends. Fatality rate remains below 3% and SARS's level.
- Malaysia's 4Q19 GDP registered at a decade low of 3.6%yoy, lower than market consensus of 4.1%yoy.
- Supply disruption in agriculture and mining sectors and continuous weak exports market are the downside reasons for the slowdown in GDP growth.
- We do not think BNM to consider another rate cut in the near term as we believe the central bank does not want to send a panic signal to the financial market.
- We expect stimulus package worth of RM5-10 billion to be announced soon in order to stimulate domestic spending particularly via private consumption and government investment.

## **C. BNM FOREIGN RESERVES**

- As at 31 January 2020, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD104.2b (15 Jan: USD103.7b).
- 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	7-Feb Fri	10-Feb Mon	11-Feb Tue	12-Feb Wed	13-Feb Thu	14-Feb Fri	Change (WoW bp)
MGS							
3-Y	2.823	2.782	2.77	2.632	2.652	2.65	-17.3
5-Y	2.885	2.836	2.816	2.731	2.715	2.7	-18.5
7-Y	3.01	2.893	2.942	2.943	2.824	2.84	-17
10-Y	3.091	2.997	2.962	2.869	2.891	2.874	-21.7
20-Y	3.4	3.36	3.36	3.204	3.223	3.223	-17.7
RINGGIT IRS							
1-Y	2.945	2.945	2.93	2.865	2.865	2.87	-7.5
3-Y	2.925	2.92	2.915	2.875	2.875	2.8	-12.5
5-Y	2.97	2.955	2.96	2.875	2.855	2.825	-14.5
7-Y	3.045	3.03	3.035	2.935	2.935	2.892	-15.3
10-Y	3.15	3.15	3.15	3.05	3.05	3.04	-11
KLIBOR							
1-M	2.94	2.94	2.94	2.94	2.94	2.94	0
2-M	3.06	3.06	3.06	3.06	3.05	3.05	-1
3-M	3.09	3.09	3.09	3.09	3.09	3.09	0
UST							
3-Y	1.3906	1.3769	1.3986	1.4205	1.4178	1.3964	0.58
5-Y	1.4044	1.388	1.4207	1.4503	1.4437	1.4159	1.15
7-Y	1.5071	1.4881	1.5189	1.5499	1.538	1.5071	0
10-Y	1.5834	1.5696	1.6006	1.6333	1.6173	1.5848	0.14
30-Y	2.0484	2.0389	2.0659	2.089	2.0706	2.0391	-0.93
USD LIBOR							
1-M	1.66525	1.65788	1.65275	1.65013	1.6585	1.65825	-0.7
2-M	1.72375	1.71275	1.67963	1.67725	1.66825	1.6625	-6.125
3-M	1.73088	1.71313	1.70725	1.70375	1.69163	1.69175	-3.913

Source: Bloomberg

## 10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	7-Feb Yield	14-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISS	4.13	07/09/29	3.172	2.918	-25.4	3,579.6
MALAYSIA GOVERNMENT	3.885	08/15/29	3.091	2.874	-21.7	1,675.0
MALAYSIA INVESTMNT ISS	4.724	06/15/33	3.323	3.076	-24.7	1,454.5
MALAYSIA GOVERNMENT	3.502	05/31/27	3.063	2.829	-23.4	1,449.7
MALAYSIA INVESTMNT ISS	4.119	11/30/34	3.322	3.104	-21.8	1,191.3
MALAYSIA GOVERNMENT	3.492	03/31/20	2.856	2.773	-8.3	1,151.1
MALAYSIA GOVERNMENT	3.659	10/15/20	2.811	2.589	-22.2	973.2
MALAYSIA INVESTMNT ISS	4.369	10/31/28	3.166	3.058	-10.8	961.5
MALAYSIA GOVERNMENT	3.828	07/05/34	3.252	3.091	-16.1	871.3
MALAYSIA INVESTMNT ISS	4.094	11/30/23	2.877	2.708	-16.9	865.6
TOTAL VOLUME (TOP 10)						14,172.9
TOTAL VOLUME (Overall)						32,224.5

Source: Bloomberg

## 10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	7-Feb Yield	14-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
UMW HOLDINGS BERHAD	6.35	PERP	4.648	4.149	-49.9	407.0
SARAWAK ENERGY BHD	5.65	06/23/26	#N/A N/A	3.183	#VALUE!	286.0
PERBADANAN TABUNG PEN	4.29	08/17/23	3.065	2.860	-20.5	180.0
CAGAMAS BERHAD	4.45	11/25/20	3.223	2.811	-41.2	160.5
SARAWAK ENERGY BHD	4.85	01/19/27	3.409	3.299	-11.0	150.0
LEBUHRAYA DUKE FASA 3	5.95	08/23/34	#N/A N/A	4.538	#VALUE!	120.0
LEBUHRAYA DUKE FASA 3	6.43	08/23/39	#N/A N/A	4.808	#VALUE!	100.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	93.4
DANAINFRA NASIONAL	4.33	04/04/25	3.178	2.971	-20.7	90.0
PERBADANAN TABUNG PEN	3.85	06/15/22	#N/A N/A	2.839	#VALUE!	75.0
TOTAL VOLUME (TOP 10)						1,661.9
TOTAL VOLUME (Overall)						4,493.9

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.