

MIDF Strategy | 18 November 2019

Week Ended 15 November 2019

- The UST market rallied last week as some investors took the opportunity to scoop up cheapened issues in the aftermath of prior week's selloff. The 10y-3y yield spread slightly flattened (long-end outperformed) to +22bps from +23bps a week earlier.
- Nonetheless, the weekly price gain was moderated by the re-emergence of selling momentum on Friday due to rising optimism over a US-China trade deal (Larry Kudlow, President Trump's economic advisor, remarked on Thursday that a trade deal with China is getting close).
- On the other hand, the price of domestic benchmark MGS issues continued to move in the opposite directions. At the front-end of the curve, the 3-year yield ended the review week lower by -4.7bps. While at the back-end, the 10-year yield ended the review week higher by 2.3bps. Moreover, the benchmark 10y-3y yield spread steepened as the long-end underperformed.
- Not unlike in the US and other bond markets, the local MGS is also gradually undergoing a re-steepening phase. The probable short- to mid-term implications of this phenomenon to the equity market are as discussed in our previous Strategy reports.
- Total foreign holdings of Government Bonds stood at RM169.1b as at end-October 2019. It was a decline of -RM391.6m from the September 2019 figure of RM169.5b. On the contrary, total foreign holdings of Corporate Bonds increased by RM172.6m in the month of October 2019 to RM12.2b.
- In comparison to equities, the bonds market saw a total net outflow worth -RM219.0m in October 2019 while the former saw a total net inflow worth -RM485.0m. 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.

Weekly Money Review

A. FIXED INCOME

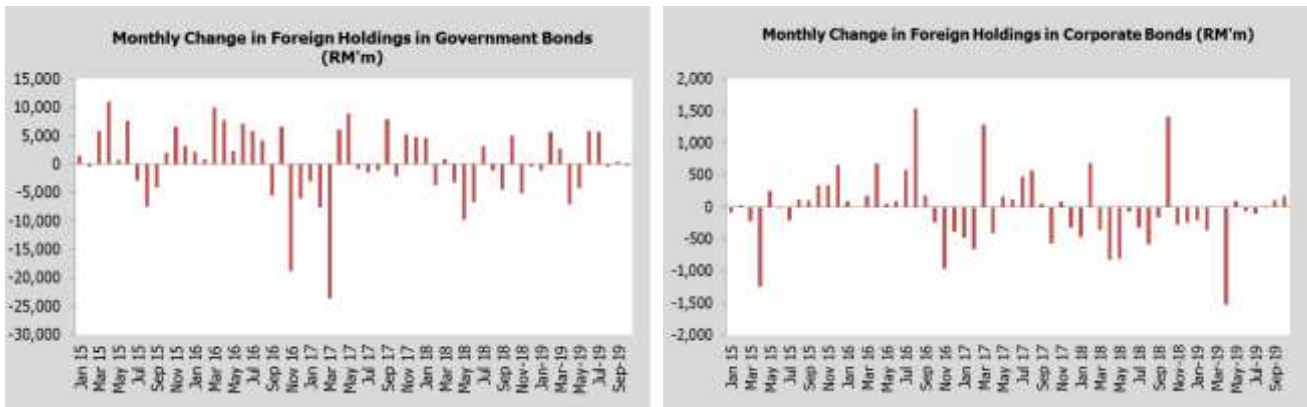
- The UST market rallied last week as some investors took the opportunity to scoop up cheapened issues in the aftermath of prior week's selloff. The 10y-3y yield spread slightly flattened (long-end outperformed) to +22bps from +23bps a week earlier. Nonetheless, the weekly price gain was moderated by the re-emergence of selling momentum on Friday due to rising optimism over a US-China trade deal (Larry Kudlow, President Trump's economic advisor, remarked on Thursday that a trade deal with China is getting close).
- On the other hand, the price of domestic benchmark MGS issues continued to move in the opposite directions. At the front-end of the curve, the 3-year yield ended the review week lower by -4.7bps. While at the back-end, the 10-year yield ended the review week higher by 2.3bps. Moreover, the benchmark 10y-3y yield spread steepened as the long-end underperformed.



Source: Bloomberg, MIDFR

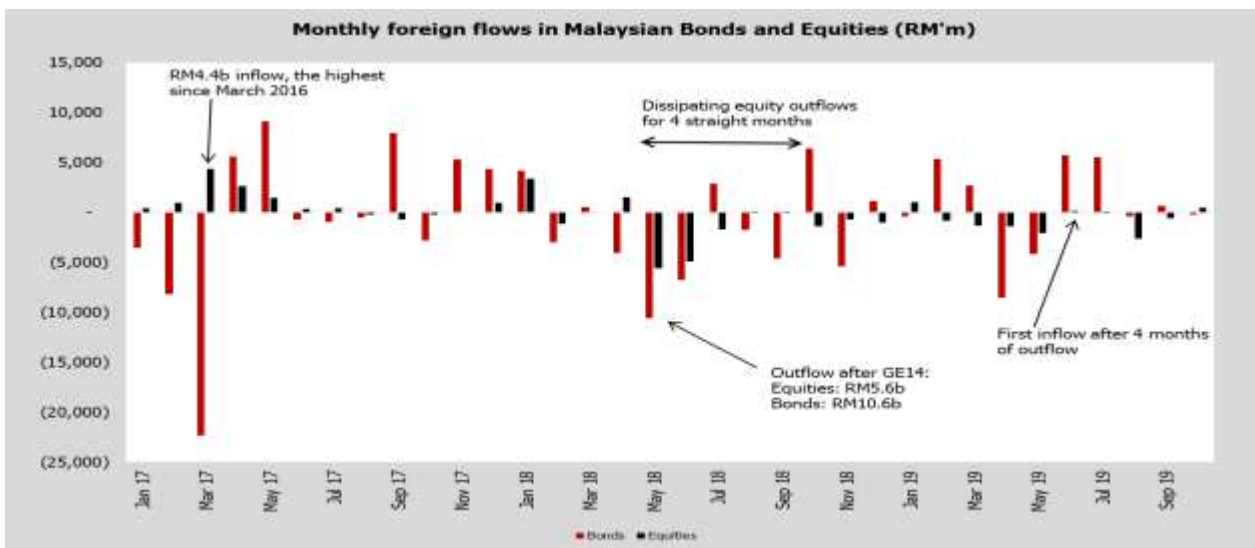
- Looking at the charts above, not unlike in the US and other bond markets, the local MGS is also gradually undergoing a re-steepening phase. The probable short- to mid-term implications of this phenomenon to the equity market are as discussed in our previous Strategy reports ([here](#), [here](#), [here](#)).
- Total trading value for Government Bonds (MGS/MII) declined to RM13.4b in the review week compared to RM21.1b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 57% compared to 54% of the overall Government Bonds trades in the week before. In addition, 7 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 3.226% 4/15/20 at RM1.44b, MGS 3.492% 3/31/20 at RM1.18b, and MGS 3.885% 8/15/29 at RM1.04b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.28b in the review week compared to RM2.36b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 45% compared to 32% 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 CGN Power 4.5% 11/11/17 at RM154m, Danainfra 4.03% 4/1/26 at RM150m, and Turus Pesawat 4.32% 3/10/28 at RM130m.

- Total foreign holdings of Government Bonds stood at RM169.1b as at end-October 2019. It was a decline of -RM391.6m from the September 2019 figure of RM169.5b. On the contrary, total foreign holdings of Corporate Bonds increased by RM172.6m in the month of October 2019 to RM12.2b.



Source: BNM

- In comparison to equities, the bonds market saw a total net outflow worth -RM219.0m in October 2019 while the former saw a total net inflow worth -RM485.0m. 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

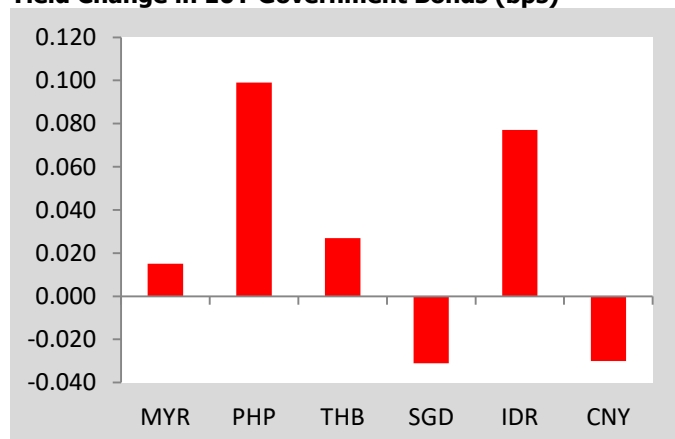
- DXY slight deterioration. Headline CPI rose slightly to 3-month high at 1.8% in Oct-19. Core CPI eased to 2.3% while core PCE inflation remains below the 2% target line of the Fed. On different note, White House economic adviser Larry Kudlow updates that the US and China are very close to seal a deal. However, market uncertainty remains.
- EURUSD remains steady. Second estimate of GDP 3Q19 is at 1.2%, higher by 0.1% point than the first estimate. Inflationary pressure continues easing as headline CPI at 3-year low of 0.7% while core CPI at 4-month high of 1.1%.
- Ringgit – Depreciate as GDP weakens. 3Q19 GDP growth weakened to 4.4%yoy. Private consumption stays resilient while government spending, investments and external trade deteriorated. The slowdown may lead to intervention of further easing monetary policy in 2020. We maintain our call MYR to average and register year-end target at 4.15 in 2019.

Currencies Changes (Week Ended 15/11) and Quarterly Forecasts

	Close (15/11)	Prev Close (08/11)	Change	% Change	1Q19	2Q19	3Q19	4Q19F
DXY Index	98.19	98.35	-0.002	1.1%	96.46	97.26	98.00	100.03
EURUSD	1.10	1.10	0.000	-1.3%	1.13	1.12	1.11	1.09
GBPUSD	1.29	1.28	0.008	-1.3%	1.30	1.28	1.23	1.21
USDJPY	108.56	109.26	0.006	-1.0%	110.15	109.82	107.19	110.31
USDMYR	4.15	4.14	-0.004	0.7%	4.09	4.15	4.16	4.10
GBPMYR	5.35	5.30	-0.009	1.8%	5.32	5.33	5.13	5.20
JPYMYR	3.83	3.78	-0.011	1.7%	3.72	3.78	3.88	3.91

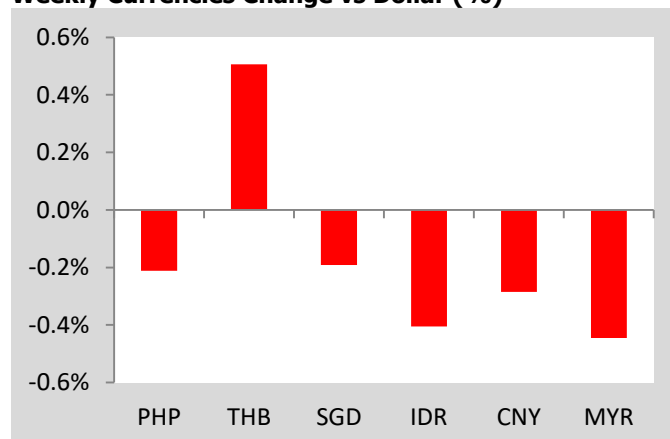
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)


	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Malaysia	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	5.75	5.50	5.25	5.00	5.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00
Thailand	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.25
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.00	6.00	6.00
South Korea	1.75	1.75	1.75	1.75	1.50	1.50	1.25	1.25	1.25
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.20	4.20
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	2.50	2.25	2.25	2.00	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.
- China and the US are very close to trade agreement claimed by White House economic adviser Larry Kudlow.
- 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.
- 3Q19 GDP at 1-year low, 4.4%yoy and 3.3%qoq.
- Private consumption and services sector remain supportive while government spending, investments and external trade deteriorated.
- Global trade war affected manufacturing sector to moderate and flattening crude oil prices cause mining sector to contract.
- 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 31 October 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves was slightly lower at USD103.2b (from USD103.3b).
- 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	8-Nov Fri	11-Nov Mon	12-Nov Tue	13-Nov Wed	14-Nov Thu	15-Nov Fri	Change (WoW bp)
MGS							
3-Y	3.082	3.019	3.047	2.54	3.023	3.035	-4.7
5-Y	3.194	3.208	3.178	3.196	3.2	3.199	0.5
7-Y	3.393	3.358	3.366	3.382	3.513	3.337	-5.6
10-Y	3.405	3.387	3.443	3.439	3.434	3.428	2.3
20-Y	3.822	3.804	3.804	3.797	3.807	3.755	-6.7
RINGGIT IRS							
1-Y	3.295	3.29	3.29	3.29	3.285	3.285	-1
3-Y	3.3	3.295	3.295	3.295	3.295	3.29	-1
5-Y	3.33	3.315	3.335	3.325	3.315	3.315	-1.5
7-Y	3.375	3.345	3.365	3.355	3.355	3.35	-2.5
10-Y	3.4	3.39	3.41	3.405	3.4	3.395	-0.5
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	3.33	3.33	-1
3-M	3.38	3.38	3.38	3.37	3.37	3.36	-2
UST							
3-Y	1.7026	1.7026	1.6919	1.6544	1.5929	1.6116	-9.1
5-Y	1.7456	1.7456	1.7391	1.6911	1.6284	1.6468	-9.88
7-Y	1.8579	1.8579	1.8459	1.7952	1.7278	1.7448	-11.31
10-Y	1.9417	1.9417	1.9347	1.886	1.8186	1.8308	-11.09
30-Y	2.4243	2.4243	2.4162	2.3648	2.2997	2.3047	-11.96
USD LIBOR							
1-M	1.759	1.76325	1.76163	1.76538	1.7625	1.73325	-2.575
2-M	1.85	1.8385	1.84188	1.84575	1.84075	1.8325	-1.75
3-M	1.90063	1.90463	1.90925	1.90988	1.90413	1.90263	0.2

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	8-Nov Yield	15-Nov Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISS	3.226	04/15/20	3.033	2.967	-6.6	1,437.0
MALAYSIA GOVERNMENT	3.492	03/31/20	2.925	2.844	-8.1	1,183.4
MALAYSIA GOVERNMENT	3.885	08/15/29	3.405	3.428	2.3	1,041.5
MALAYSIA GOVERNMENT	4.378	11/29/19	3.124	3.171	4.7	974.8
MALAYSIA GOVERNMENT	3.882	03/10/22	3.082	3.035	-4.7	792.8
MALAYSIA GOVERNMENT	3.478	06/14/24	3.194	3.200	0.6	788.7
MALAYSIA INVESTMNT ISS	4.245	09/30/30	3.623	3.595	-2.8	500.0
MALAYSIA GOVERNMENT	3.659	10/15/20	3.026	2.968	-5.8	320.8
MALAYSIA GOVERNMENT	3.906	07/15/26	3.393	3.337	-5.6	306.4
MALAYSIA GOVERNMENT	4.921	07/06/48	4.049	4.025	-2.4	270.9
TOTAL VOLUME (TOP 10)						7,616.3
TOTAL VOLUME (Overall)						13,368.1

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	8-Nov Yield	15-Nov Yield	Change (WoW bp)	Weekly Volume (RM mn)
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	153.9
DANAINFRA NASIONAL	4.03	04/01/26	3.571	3.527	-4.4	150.0
TURUS PESAWAT SDN BHD	4.22	03/10/28	3.758	3.691	-6.7	130.0
IJM CORPORATION BERHA	4.64	06/02/23	#N/A N/A	3.865	#VALUE!	100.0
DANAINFRA NASIONAL	4.85	05/03/41	4.039	4.149	11.0	95.0
PUTRAJAYA HOLDINGS BH	4.4	04/11/25	3.638	3.642	0.4	90.0
IMTIAZ SUKUK II BHD	4.65	11/24/21	#N/A N/A	3.561	#VALUE!	90.0
TURUS PESAWAT SDN BHD	4.12	11/19/27	3.707	3.705	-0.2	80.0
DANAINFRA NASIONAL	4.95	03/19/32	3.720	3.843	12.3	70.0
CIMB GROUP HOLDINGS B	5.4	PERP	4.217	4.214	-0.3	70.0
TOTAL VOLUME (TOP 10)						1,028.9
TOTAL VOLUME (Overall)						2,280.6

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.