

MIDF Strategy | 20 July 2020

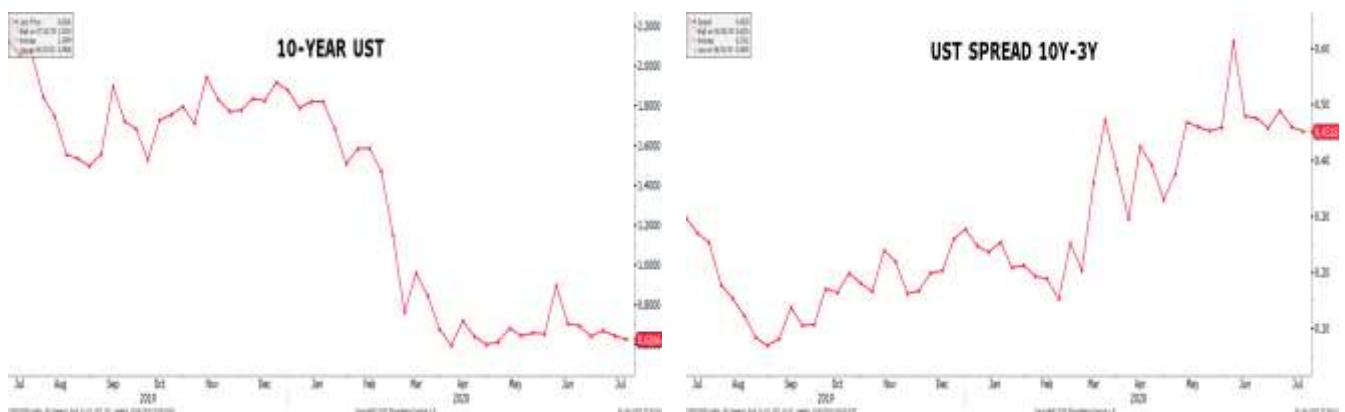
Week Ended 17 July 2020

- The UST yields edged lower (prices up) across the board last week with the benchmark 10-year closed at 0.63%. The benchmark yield briefly dipped below the 0.60% level in early Friday trading as investors reacted to the continued rise in new Covid-19 cases in the US. Meanwhile, the 10y-3y yield spread narrowed (i.e. yield curve flattened) to +45bps from +46bps a week earlier.
- Likewise, the price of domestic MGS issues ended the review week higher with the benchmark 3-year and 10-year yields declined -2.5bps and -0.8bp to close at 1.98% and 2.63 respectively. However, the 10y-3y yield spread expanded from +63bps to +65bps as the short-end outperformed.
- Total trading value for Government Bonds (MGS/MII) dropped to RM21.0b in the review week compared to RM35.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 50% compared to 58% 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.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.68b in the review week compared to RM3.30b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 41% compared to 32% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

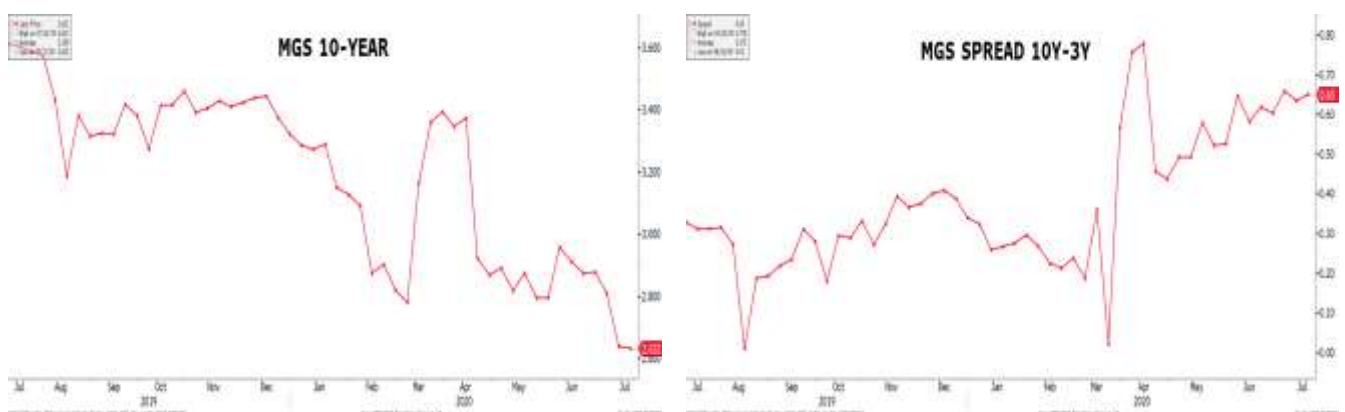
A. FIXED INCOME

- The UST yields edged lower (prices up) across the board last week with the benchmark 10-year closed at 0.63%. The benchmark yield briefly dipped below the 0.60% level in early Friday trading as investors reacted to the continued rise in new Covid-19 cases in the US. Meanwhile, the 10y-3y yield spread narrowed (i.e. yield curve flattened) to +45bps from +46bps a week earlier.



Source: Bloomberg, MIDFR

- Likewise, the price of domestic MGS issues ended the review week higher with the benchmark 3-year and 10-year yields declined -2.5bps and -0.8bp to close at 1.98% and 2.63 respectively. However, the 10y-3y yield spread expanded from +63bps to +65bps as the short-end outperformed.



Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) dropped to RM21.0b in the review week compared to RM35.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 50% compared to 58% 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 MII 4.13% 7/9/29 at RM1.73b, MGS 3.659% 10/15/20 at RM1.36b, and MGS 4.16% 7/15/21 at RM1.17b.

- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.68b in the review week compared to RM3.30b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 41% 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 short and long residual tenors. The largest trading values were seen in Sunway Treasury Sukuk 4.5% 6/6/22 at RM400m, Prasarana 3.75% 3/23/40 at RM305m, and Sunway 4.4% PERP at RM300m.

B. FOREIGN EXCHANGE

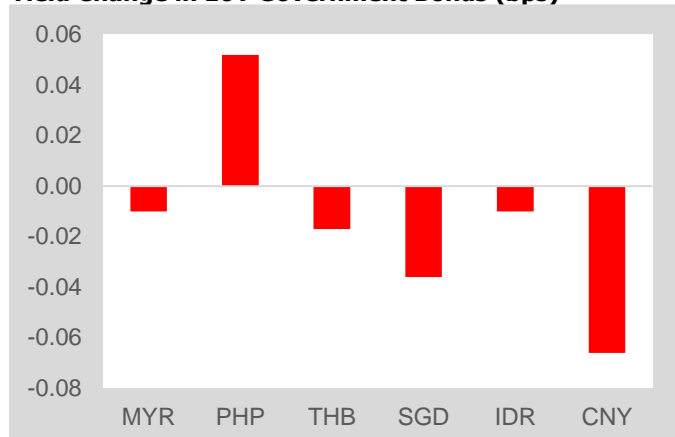
- DXY Index at the lowest since early March-20. The DXY index recorded another weekly decline, as the US dollar weakened further against other currencies. The weak dollar was due to the reduced 'safe-haven' demand for the greenback following positive news on the Covid-19 vaccine development. In addition, the latest economic data also indicated more signs of recovery; the US retail sales and industrial production recorded slower declines in May-20 and June-20, respectively.
- GBP weakened on recovery concerns. GBP depreciated against the US dollar as the latest data pointed towards a weaker recovery as the UK economy reopens after the Covid-19 lockdown. The UK retailers reported that the number of shoppers declined further albeit at slower pace after shops reopened their doors in June-20. In addition, there was continued weakness in the UK labour market, with the number of job vacancies for 2Q20 at the lowest on record and the decline in employment from March-20 to May-20 was the fastest since 2011.
- Ringgit appreciated amid dollar weakness. MYR strengthened against the US dollar, ending the week at RM4.265 per US dollar. Ringgit strengthened during the week as sentiment improved following increase in crude oil prices, as OPEC+ agreed to ease production cuts from August 2020. The Brent crude oil benchmark rose to USD43.79 per barrel on 15 July 2020 (10 July 2020: USD43.24/barrel).

Currencies Changes (Week Ended 17/07) and Quarterly Forecasts

	Close (17/07)	Prev Close (10/07)	Change	% Change	1Q20	2Q20	3Q20F	4Q20F
DXY Index	95.94	96.65	-0.710	-0.7%	98.32	99.00	98.36	98.95
EURUSD	1.143	1.130	0.013	1.1%	1.10	1.10	1.11	1.10
GBPUSD	1.257	1.264	-0.005	-0.4%	1.28	1.24	1.21	1.23
USDJPY	107.02	106.91	-0.090	-0.1%	108.94	107.63	107.41	108.96
USDMYR	4.265	4.267	0.002	0.1%	4.17	4.32	4.36	4.35
GBPMYR	5.359	5.376	-0.017	-0.3%	5.36	5.36	5.30	5.37
JPYMYR	3.985	3.992	-0.006	-0.2%	3.83	4.02	4.06	3.99

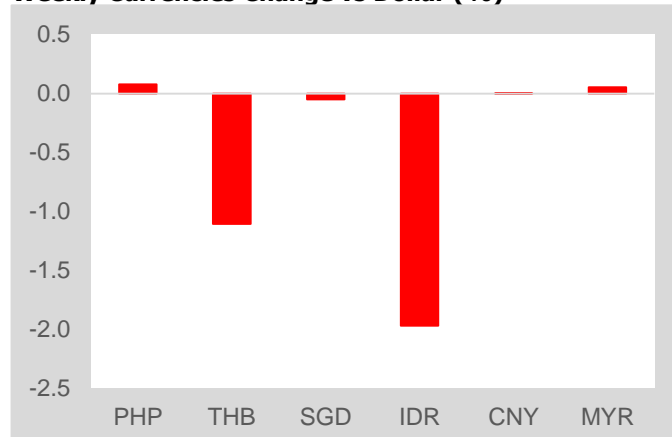
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 (%)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Malaysia	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00	1.75
Indonesia	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.00
Philippines	4.00	4.00	4.00	3.75	3.25	2.75	2.75	2.25	2.25
Thailand	1.25	1.25	1.25	1.00	0.75	0.75	0.50	0.50	0.50
Vietnam	6.00	6.00	6.00	6.00	5.00	5.00	4.50	4.50	4.50
Korea	1.25	1.25	1.25	1.25	0.75	0.75	0.50	0.50	0.50
India	5.15	5.15	5.15	5.15	4.40	4.40	4.00	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	0.10	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	1.50-1.75	1.50-1.75	1.50-1.75	1.50-1.75	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25


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.
- Several US Fed officials highlighted concerns that the recent recovery in May-June 2020 may not last. Americans will face difficulty to support their spending when their unemployment benefit ends. Meanwhile, businesses will also struggle if they do not receive new orders on the back of weak demand.
- On 16 July 2020, the European Central Bank (ECB) kept its monetary policy rate unchanged and without adding any more allocation for its asset purchase programme. The ECB had expanded the Pandemic Emergency Purchase Programme (PEPP) by 600 billion euros in June 2020, increasing the total size of the stimulus programme to 1.35 trillion euros. The PEPP stimulus programme will be utilized until June 2021, or until the ECB affirms that the current crisis is over. The policy interest rates will also be kept at the current low levels, with the main refinancing

rate currently at 0% and the rates for the marginal lending facility and deposit facility remaining at 0.25% and -0.50%, respectively.

- On 7 July 2020, BNM reduced OPR by 25bps to 1.75% to provide additional stimulus to Malaysia's economy. Cumulatively, BNM had reduced a total 125bps since January 2020 as economic activities slowed down especially after the Government imposed Movement Control Order (MCO) in response to the Covid-19 outbreak.
- The latest official release indicated a continued weakness in the labour market even though businesses had restarted their operations following Conditional MCO from early May 2020. Unemployment rate rose further to 5.3% in May-20 from 5.0% in Apr-20, reflecting higher number of unemployment which stood at 826,100 persons (Apr-20: 778,800). In addition, employment declined during the month falling by 45,500 which was not as significant as in the previous month (Apr-20: -299,000 jobs). Although the unemployment rate will remain over few months, the labour market condition is expected to stabilize and improving in the 2H20 as more businesses resume operations amid signs of recovery in consumption and production activities.

C. BNM FOREIGN RESERVES

- As at 30 June 2020, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD103.4b (15 June: USD102.8b).
- The amount of reserves is sufficient to finance 8.3 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	10-Jul Fri	13-Jul Mon	14-Jul Tue	15-Jul Wed	16-Jul Thu	17-Jul Fri	Change (WoW bp)
MGS							
3-Y	2.007	1.987	2.001	2.003	2.004	1.982	-2.5
5-Y	2.187	2.176	2.161	2.184	2.182	2.155	-3.2
7-Y	2.426	2.422	2.437	2.437	2.408	2.405	-2.1
10-Y	2.64	2.65	2.669	2.658	2.635	2.632	-0.8
20-Y	3.408	3.391	3.395	3.391	3.357	3.357	-5.1
RINGGIT IRS							
1-Y	1.905	1.91	1.89	1.885	1.9	1.87	-3.5
3-Y	1.915	1.915	1.89	1.89	1.905	1.875	-4
5-Y	2.075	2.075	2.055	2.075	2.065	2.055	-2
7-Y	2.35	2.35	2.35	2.35	2.355	2.355	0.5
10-Y	2.55	2.55	2.561	2.57	2.57	2.57	2
KLIBOR							
1-M	1.92	1.92	1.92	1.92	1.91	1.91	-1
2-M	2	2	2	2	2	1.99	-1
3-M	2.03	2.03	2.03	2.03	2.03	2.03	0
UST							
3-Y	0.1851	0.1772	0.1851	0.1799	0.1721	0.1749	-1.02
5-Y	0.3055	0.2849	0.2897	0.2881	0.2754	0.2834	-2.21
7-Y	0.4931	0.4657	0.468	0.4703	0.4589	0.4657	-2.74
10-Y	0.6447	0.6184	0.6233	0.6299	0.6168	0.6266	-1.81
30-Y	1.3359	1.3077	1.3109	1.3321	1.3083	1.3289	-0.7
USD LIBOR							
1-M	0.17538	0.17475	0.17663	0.18088	0.18675	0.17988	0.45
2-M	0.23125	0.24375	0.22725	0.23313	0.22263	0.21738	-1.387
3-M	0.26813	0.275	0.27088	0.27288	0.27175	0.27138	0.325

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	10-Jul Yield	17-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISS	4.13	07/09/29	2.764	2.720	-4.4	1,727.4
MALAYSIA GOVERNMENT	3.659	10/15/20	1.773	1.741	-3.2	1,359.6
MALAYSIA GOVERNMENT	4.16	07/15/21	1.824	2.197	37.3	1,168.2
MALAYSIA GOVERNMENT	3.48	03/15/23	2.007	1.982	-2.5	1,107.4
MALAYSIA GOVERNMENT	3.889	07/31/20	1.800	1.780	-2.0	1,047.0
MALAYSIA INVESTMNT ISS	3.948	04/14/22	1.962	1.933	-2.9	977.4
MALAYSIA INVESTMNT ISS	3.151	05/15/23	2.038	2.020	-1.8	900.0
MALAYSIA GOVERNMENT	3.795	09/30/22	1.975	1.948	-2.7	762.5
MALAYSIA GOVERNMENT	3.885	08/15/29	2.640	2.632	-0.8	745.4
MALAYSIA GOVERNMENT	4.048	09/30/21	1.850	1.810	-4.0	706.9
TOTAL VOLUME (TOP 10)						10,501.8
TOTAL VOLUME (Overall)						21,041.2

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	10-Jul Yield	17-Jul Yield	Change (WoW bp)	Weekly Volume (RM mn)
SUNWAY TREASURY SUKUK	4.5	06/06/22	#N/A N/A	3.319	#VALUE!	400.0
PRASARANA MALAYSIA BHD	3.75	03/23/40	#N/A N/A	3.665	#VALUE!	305.0
SUNWAY BERHAD	4.4	PERP	#N/A N/A	3.565	#VALUE!	300.0
DANAINFRA NASIONAL	4.08	08/18/23	2.298	2.282	-1.6	200.0
PRASARANA MALAYSIA BHD	3.9	03/24/45	#N/A N/A	3.849	#VALUE!	180.0
SUNWAY TREASURY SUKUK	4.9	06/06/22	#N/A N/A	3.317	#VALUE!	140.0
GENM CAPITAL BHD	5.3	07/11/28	3.557	3.596	3.9	130.0
PRASARANA MALAYSIA BHD	5.02	12/03/38	3.599	3.598	-0.1	110.0
DANUM CAPITAL BHD	2.97	05/13/25	#N/A N/A	2.675	#VALUE!	85.0
SARAWAK ENERGY BHD	5.65	06/23/26	3.068	2.802	-26.6	80.0
TOTAL VOLUME (TOP 10)						1,930.0
TOTAL VOLUME (Overall)						4,675.3

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.