

MIDF Strategy | 24 February 2020

Week Ended 21 February 2020

- The UST yields tumbled (prices up) with the benchmark 10-year broke below 1.50% mark due to heightening concerns about the coronavirus outbreak. Meanwhile, the 10y-3y yield spread narrowed to +15bps from +19bps a week earlier.
- On the other hand, the price of domestic MGS issues ended the review week lower due to profit taking activities after massive gains in earlier week with the benchmark 3-year and 10-year yields added +3.9bps and +2.8bps respectively to close at 2.69% and 2.90%. Moreover, the 10y-3y yield spread flattened as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) declined to RM23.2b in the review week compared to RM32.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 53% compared to 44% of the overall Government Bonds trades in the week before. In addition, 8 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM3.99b in the review week compared to RM4.49b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 30% compared to 37% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

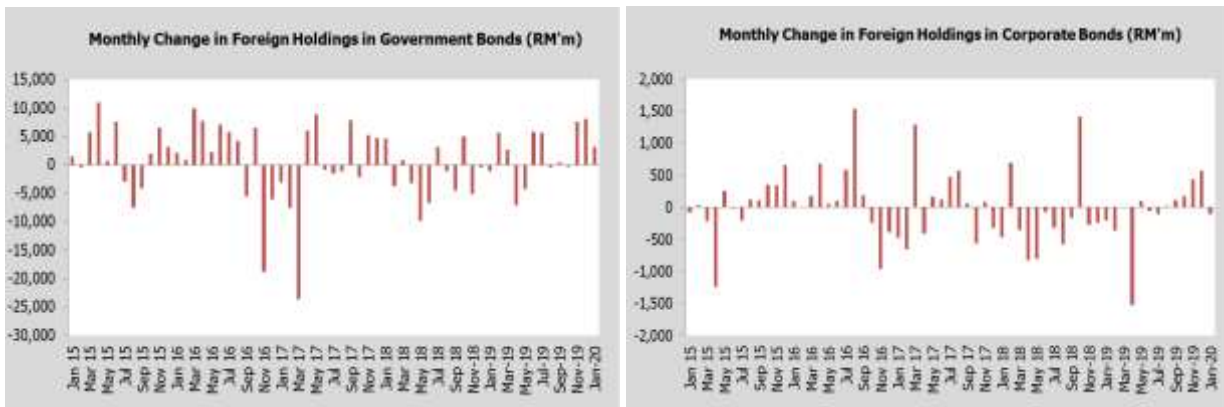
A. FIXED INCOME

- The UST yields tumbled (prices up) with the benchmark 10-year broke below 1.50% mark due to heightening concerns about the coronavirus outbreak. Meanwhile, the 10y-3y yield spread narrowed to +15bps from +19bps a week earlier.
- On the other hand, the price of domestic MGS issues ended the review week lower due to profit taking activities after massive gains in earlier week with the benchmark 3-year and 10-year yields added +3.9bps and +2.8bps respectively to close at 2.69% and 2.90%. Moreover, the 10y-3y yield spread flattened as the long-end outperformed.



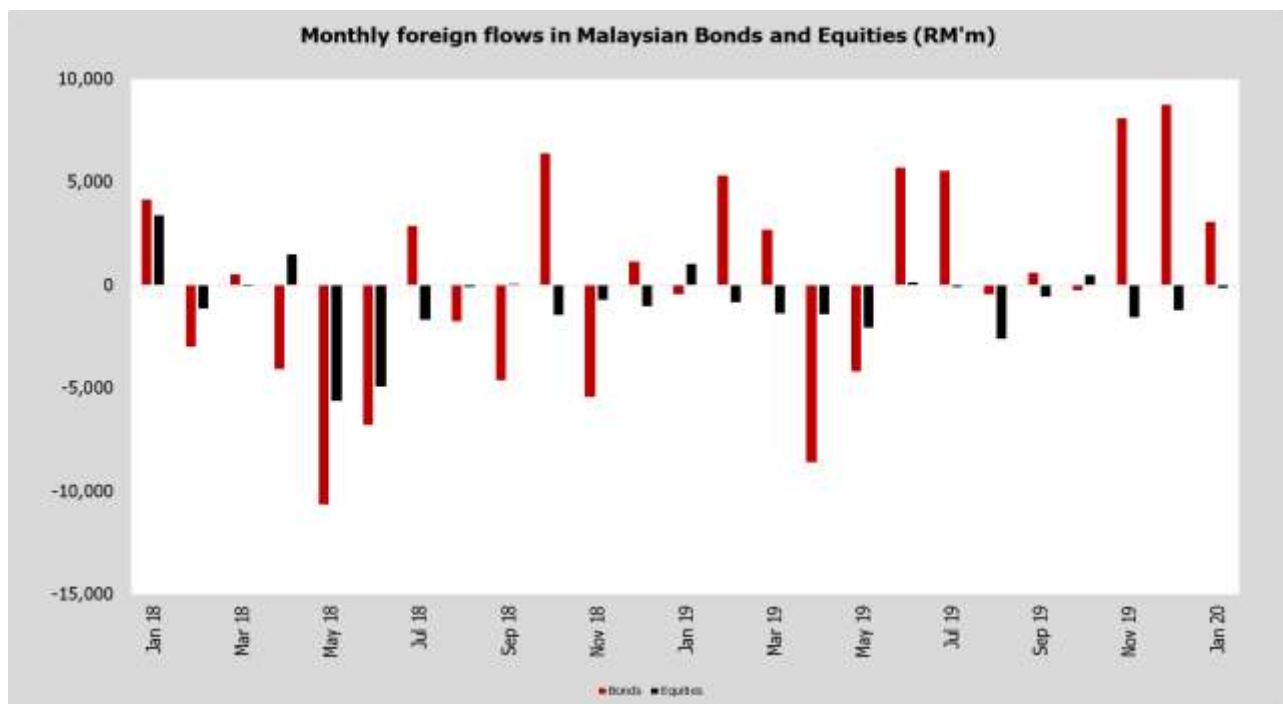
Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM23.2b in the review week compared to RM32.2b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 53% compared to 44% of the overall Government Bonds trades in the week before. In addition, 8 out of the 10 most actively traded bonds saw higher yields hence lower 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 3.885% 8/15/29 at RM2.68b, MII 4.13% 7/9/29 at RM1.46b, and MGS 3.492% 3/31/20 at RM1.30b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM3.99b in the review week compared to RM4.49b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 30% compared to 37% 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 Danainfra 4.03% 4/1/26 at RM200m, Danainfra 4.09% 10/20/26 at RM140m, and PTPTN 3.85% 6/15/22 at RM110m.
- 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

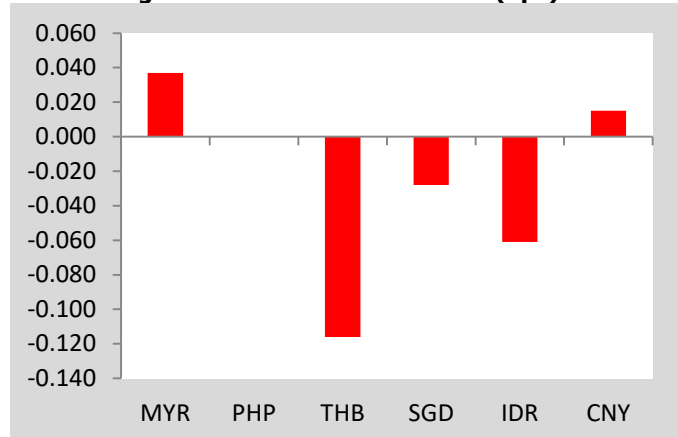
- DXY appreciated as investors search for safe-havens. Covic-19 fear remains in global economy especially in Asian region. However, the virus effects are waning given that recovery rate is hovering at above 20% while death rate stays low below 3%. Minutes of meeting showed the Fed is maintaining interest rate at this juncture while monitoring the development of Covic-19 effects.
- EURUSD weakened due to less optimism among investors. ZEW economic sentiment in EU's largest economy fell by 18 points in Feb-20. The decline is mainly caused by the Covic-19 fear and slowdown in global demand. President of ECB Christine Lagarde has called for fiscal measures to intervene to avoid greater risks to the economy.
- Ringgit – Depreciation amid bleak growth trajectory. Expected domino downward effects of Covic-19 fear would impede the progression of Malaysian economy. In addition, possibility of the exclusion of Malaysian bonds by FTSE Russell from its World Government Bond Index is another factor driving down MYR currently. We expect MYR to average at 4.18 and year-end at 4.20 in 2020.

Currencies Changes (Week Ended 21/02) and Quarterly Forecasts

	Close (21/02)	Prev Close (14/02)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	99.79	99.12	0.663	0.7%	96.81	97.24	96.61	97.19
EURUSD	1.08	1.08	-0.003	-0.3%	1.12	1.12	1.13	1.12
GBPUSD	1.29	1.30	-0.015	-1.1%	1.32	1.32	1.29	1.31
USDJPY	111.85	109.78	2.070	-1.9%	107.56	107.06	106.84	108.39
USDMYR	4.20	4.14	0.059	-1.4%	4.12	4.16	4.18	4.20
GBPMYR	5.41	5.40	0.015	-0.3%	5.38	5.36	5.29	5.36
JPYMYR	3.75	3.77	-0.018	0.5%	3.80	3.81	3.85	3.79

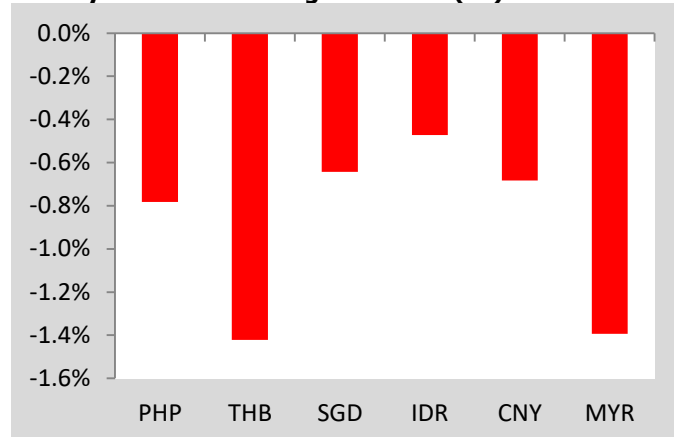
Source: Bloomberg, MIDFR

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, health virus fear, 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.
- Headline CPI rose to 2-year high at 1.6% while core CPI at 5-month high of 1.7% in the first month of 2020. This is due to low-base effect.
- 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 next week in order to stimulate domestic spending particularly via private consumption and government investment.

C. BNM FOREIGN RESERVES

- As at 14 February 2020, compared to previous fortnight, Bank Negara Malaysia's international reserves was higher at USD104.3b (31 Jan: USD104.2b).
- The amount of reserves is sufficient to finance 7.4 months of retained imports and is 1.1 times the short-term external debt. 

APPENDIX

WEEKLY INTEREST RATE MONITOR

Tenor	14-Feb Fri	17-Feb Mon	18-Feb Tue	19-Feb Wed	20-Feb Thu	21-Feb Fri	Change (WoW bp)
MGS							
3-Y	2.65	2.649	2.663	2.675	2.685	2.689	3.9
5-Y	2.7	2.724	2.721	2.757	2.768	2.76	6
7-Y	2.84	2.81	2.827	2.831	2.883	2.842	0.2
10-Y	2.874	2.879	2.897	2.893	2.942	2.902	2.8
20-Y	3.223	3.239	3.275	3.294	3.353	3.366	14.3
RINGGIT IRS							
1-Y	2.87	2.87	2.87	2.875	2.885	2.88	1
3-Y	2.8	2.8	2.8	2.832	2.835	2.805	0.5
5-Y	2.825	2.83	2.845	2.86	2.875	2.8425	1.75
7-Y	2.892	2.895	2.907	2.935	2.9395	2.905	1.3
10-Y	3.04	3.03	3.04	3.07	3.0745	3.07	3
KLIBOR							
1-M	2.94	2.94	2.94	2.94	2.94	2.94	0
2-M	3.05	3.05	3.05	3.05	3.05	3.05	0
3-M	3.09	3.09	3.09	3.09	3.09	3.09	0
UST							
3-Y	1.3964	1.3964	1.3777	1.3911	1.3589	1.3186	-7.78
5-Y	1.4159	1.4159	1.3979	1.4078	1.3635	1.3224	-9.35
7-Y	1.5071	1.5071	1.4833	1.4928	1.443	1.4027	-10.44
10-Y	1.5848	1.5848	1.561	1.5661	1.5152	1.4713	-11.35
30-Y	2.0391	2.0391	2.0111	2.0139	1.9606	1.9147	-12.44
USD LIBOR							
1-M	1.65825	1.64675	1.647	1.63938	1.62888	1.62675	-3.15
2-M	1.6625	1.64575	1.66038	1.68875	1.68163	1.67675	1.425
3-M	1.69175	1.69288	1.69463	1.696	1.68275	1.67925	-1.25

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	14-Feb Yield	21-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.885	08/15/29	2.874	2.902	2.8	2,685.1
MALAYSIA INVESTMNT ISS	4.13	07/09/29	2.918	2.958	4.0	1,459.0
MALAYSIA GOVERNMENT	3.492	03/31/20	2.773	2.699	-7.4	1,295.6
MALAYSIA GOVERNMENT	3.844	04/15/33	3.072	3.178	10.6	1,206.7
MALAYSIA INVESTMNT ISS	3.655	10/15/24	2.756	2.837	8.1	1,194.0
MALAYSIA INVESTMNT ISS	4.755	08/04/37	3.327	3.324	-0.3	1,004.0
MALAYSIA INVESTMNT ISS	4.119	11/30/34	3.104	3.171	6.7	980.5
MALAYSIA GOVERNMENT	3.502	05/31/27	2.829	2.850	2.1	962.5
MALAYSIA GOVERNMENT	3.659	10/15/20	2.589	2.698	10.9	775.0
MALAYSIA GOVERNMENT	3.889	07/31/20	2.626	2.662	3.6	761.6
TOTAL VOLUME (TOP 10)						12,324.1
TOTAL VOLUME (Overall)						23,205.5

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	14-Feb Yield	21-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	4.03	04/01/26	3.229	2.968	-26.1	200.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	153.5
DANAINFRA NASIONAL	4.09	10/20/26	3.003	2.997	-0.6	140.0
PERBADANAN TABUNG PEN	3.85	06/15/22	2.839	2.848	0.9	110.0
COUNTRY GARDEN REAL E	6.4	03/18/22	4.487	4.402	-8.5	110.0
KHAZANAH NASIONAL BHD	ZERO	09/02/22	3.020	2.851	-16.9	100.0
GOVCO HOLDINGS BHD	4.95	02/20/32	3.427	3.179	-24.8	100.0
GOVCO HOLDINGS BHD	4.88	09/28/32	#N/A N/A	3.199	#VALUE!	100.0
PRASARANA MALAYSIA BH	4.39	03/07/25	#N/A N/A	2.970	#VALUE!	100.0
DANAINFRA NASIONAL	4.41	07/24/24	#N/A N/A	2.920	#VALUE!	85.0
TOTAL VOLUME (TOP 10)						1,198.5
TOTAL VOLUME (Overall)						3,987.9

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.