

MIDF Strategy | 25 November 2019

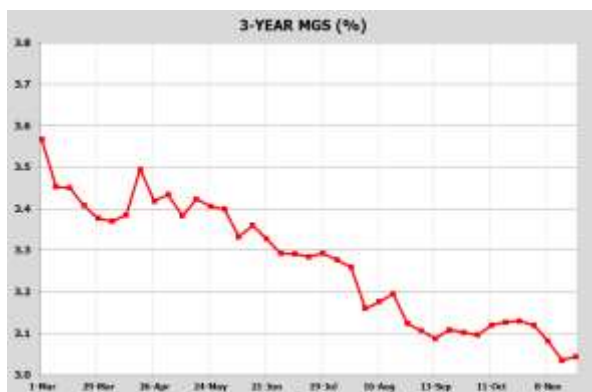
Week Ended 22 November 2019

- The UST market rallied again last week as some investors were unnerved by doubts over the so-called phase one trade deal between US and China. The 10y-3y yield spread further flattened (long-end outperformed) to +16bps from +22bps a week earlier. Nonetheless, the weekly price gain was moderated by the re-emergence of selling momentum on Friday after President Trump said that a trade deal with China is "potentially very close".
- On the other hand, the price of domestic benchmark MGS issues continued to move in the opposite directions albeit reversing the course of prior week. At the front-end of the curve, the 3-year yield ended the review week higher by +0.9bp to close at 3.04%. While at the back-end, the 10-year yield ended the review week lower by -1.8bps at 3.41%. Moreover, the benchmark 10y-3y yield spread flattened as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM17.0b in the review week compared to RM13.4b 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 57% 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) declined to RM2.14b in the review week compared to RM2.28b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 35% compared to 45% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

A. FIXED INCOME

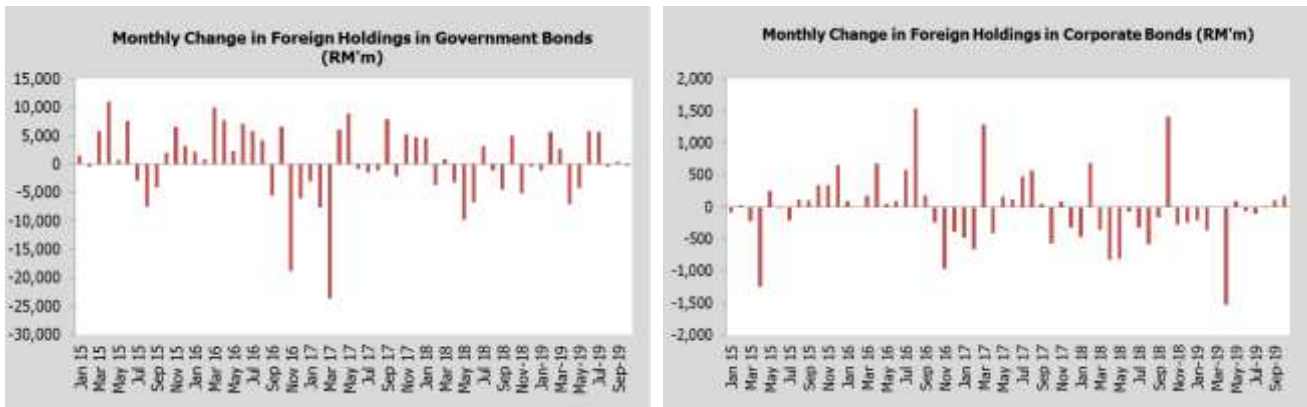
- The UST market rallied again last week as some investors were unnerved by doubts over the so-called phase one trade deal between US and China. The 10y-3y yield spread further flattened (long-end outperformed) to +16bps from +22bps a week earlier. Nonetheless, the weekly price gain was moderated by the re-emergence of selling momentum on Friday after President Trump said that a trade deal with China is “potentially very close”.
- On the other hand, the price of domestic benchmark MGS issues continued to move in the opposite directions albeit reversing the course of prior weeks. At the front-end of the curve, the 3-year yield ended the review week higher by +0.9bp to close at 3.04%. While at the back-end, the 10-year yield ended the review week lower by -1.8bps at 3.41%. Moreover, the benchmark 10y-3y yield spread flattened as the long-end outperformed.



Source: Bloomberg, MIDFR

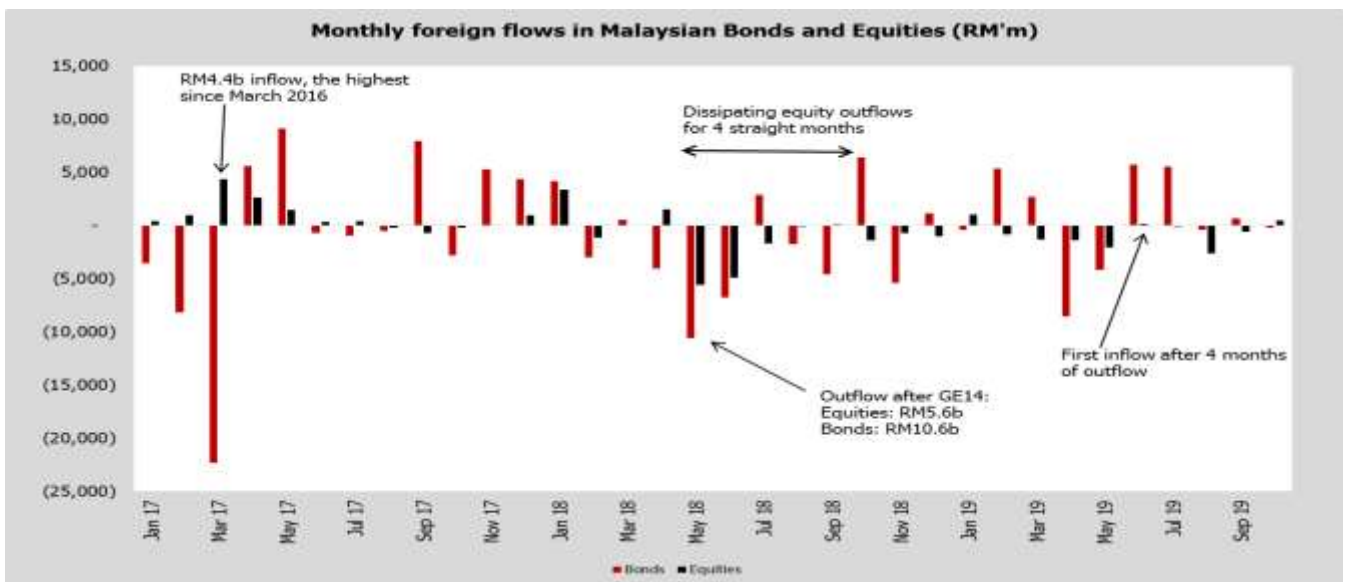
- Looking at the charts above, not unlike in the US and other bond markets, the local MGS curve is also gradually undergoing a re-steepening phase. If intensified, the probable short- to mid-term signal of this phenomenon to the equity market are as discussed in our previous Strategy reports ([here](#), [here](#), [here](#)).
- Total trading value for Government Bonds (MGS/MII) increased to RM17.0b in the review week compared to RM13.4b 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 57% 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 MGS 4.378% 11/29/19 at RM1.66b, MII 3.226% 4/15/20 at RM1.26b, and MII 4.582% 8/30/33 at RM873m.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) declined to RM2.14b in the review week compared to RM2.28b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues declined (higher trading breadth) to 35% 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 short residual tenors. The largest trading values were seen in Gas Malaysia 0% 12/13/19 at RM200m, CGN Power 4.5% 11/11/17 at RM112m, and Sunway Treasury 0% 12/9/19 at RM100m.

- 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

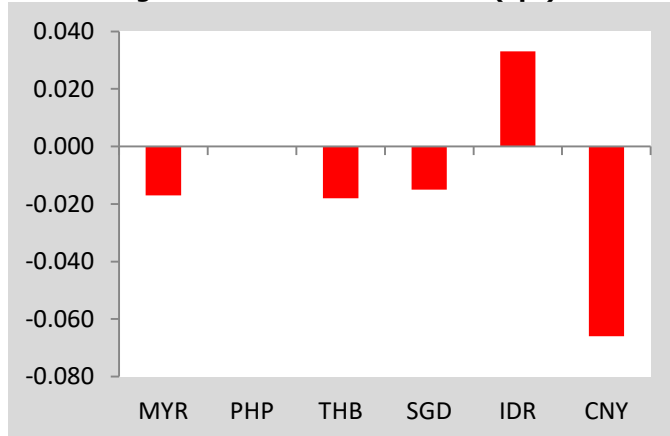
- DXY strengthens as no further rate cut in 2019. Minutes of meeting during the latest FOMC meeting held in Oct-19 indicated the Fed is very likely to maintain the rate at current level. Nevertheless, we view there are possibilities of further cuts next year as economic outlook globally remains cloudy.
- EURUSD weakens despite improvement in business confidence. Flash manufacturing PMI for Nov-19 in EU improved to 46.6 points. However the PMI remains pessimistic zone for the past 10-month. Among the survey components, new orders dropped due to weak external outlook.
- Ringgit – Depreciate amid possibility of cabinet reshuffle. MYR weakens slightly from 4.15 to 4.17 after a week. High chance of cabinet reshuffle among others contributed to the depreciation. Apart from that, headline CPI remains unchanged at 1.1% while core CPI declined to 5-month low at 1.4% in Oct-19. We maintain our call MYR to average and register year-end target at 4.15 in 2019.

Currencies Changes (Week Ended 22/11) and Quarterly Forecasts

| | Close (22/11) | Prev Close (15/11) | Change | % Change | 1Q19 | 2Q19 | 3Q19 | 4Q19F |
|-----------|---------------|--------------------|--------|----------|--------|--------|--------|--------|
| DXY Index | 98.27 | 98.00 | -0.004 | 0.3% | 96.46 | 97.26 | 98.00 | 100.03 |
| EURUSD | 1.10 | 1.11 | 0.003 | -0.3% | 1.13 | 1.12 | 1.11 | 1.09 |
| GBPUSD | 1.28 | 1.29 | 0.010 | -0.5% | 1.30 | 1.28 | 1.23 | 1.21 |
| USDJPY | 108.66 | 108.80 | 0.004 | 0.1% | 110.15 | 109.82 | 107.19 | 110.31 |
| USDMYR | 4.17 | 4.15 | -0.004 | -0.4% | 4.09 | 4.15 | 4.16 | 4.10 |
| GBPMYR | 5.38 | 5.35 | -0.010 | -0.6% | 5.32 | 5.33 | 5.13 | 5.20 |
| JPYMYR | 3.84 | 3.82 | -0.008 | -0.6% | 3.72 | 3.78 | 3.88 | 3.91 |

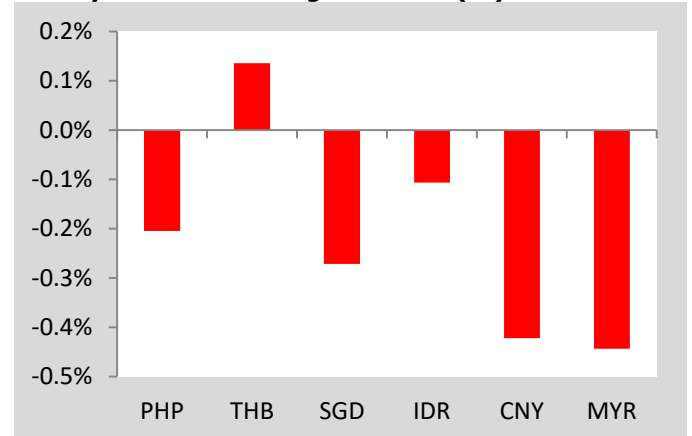
Quarterly figures are forecast by MIDFR
Source: Bloomberg, MIDFR

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 | 15-Nov Fri | 18-Nov Mon | 19-Nov Tue | 20-Nov Wed | 21-Nov Thu | 22-Nov Fri | Change (WoW bp) |
|-------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------|
| MGS | | | | | | | |
| 3-Y | 3.035 | 3.034 | 3.022 | 3.059 | 3.029 | 3.044 | 0.9 |
| 5-Y | 3.199 | 3.205 | 3.228 | 3.221 | 3.197 | 3.185 | -1.4 |
| 7-Y | 3.337 | 3.351 | 3.346 | 3.348 | 3.339 | 3.334 | -0.3 |
| 10-Y | 3.428 | 3.423 | 3.415 | 3.416 | 3.405 | 3.41 | -1.8 |
| 20-Y | 3.755 | 3.762 | 3.783 | 3.815 | 3.797 | 3.779 | 2.4 |
| RINGGIT IRS | | | | | | | |
| 1-Y | 3.285 | 3.285 | 3.285 | 3.27 | 3.24 | 3.235 | -5 |
| 3-Y | 3.29 | 3.28 | 3.285 | 3.275 | 3.225 | 3.225 | -6.5 |
| 5-Y | 3.315 | 3.31 | 3.31 | 3.2875 | 3.26 | 3.265 | -5 |
| 7-Y | 3.35 | 3.35 | 3.345 | 3.31 | 3.295 | 3.305 | -4.5 |
| 10-Y | 3.395 | 3.395 | 3.38 | 3.365 | 3.365 | 3.35 | -4.5 |
| KLIBOR | | | | | | | |
| 1-M | 3.18 | 3.18 | 3.18 | 3.18 | 3.18 | 3.17 | -1 |
| 2-M | 3.33 | 3.33 | 3.33 | 3.33 | 3.32 | 3.31 | -2 |
| 3-M | 3.36 | 3.36 | 3.36 | 3.35 | 3.35 | 3.34 | -2 |
| UST | | | | | | | |
| 3-Y | 1.6116 | 1.6035 | 1.5927 | 1.5658 | 1.5926 | 1.6087 | -0.29 |
| 5-Y | 1.6468 | 1.6353 | 1.6204 | 1.589 | 1.6189 | 1.624 | -2.28 |
| 7-Y | 1.7448 | 1.7328 | 1.7088 | 1.6752 | 1.7064 | 1.7041 | -4.07 |
| 10-Y | 1.8308 | 1.8153 | 1.7826 | 1.7449 | 1.7723 | 1.7706 | -6.02 |
| 30-Y | 2.3047 | 2.299 | 2.2513 | 2.209 | 2.2315 | 2.2209 | -8.38 |
| USD LIBOR | | | | | | | |
| 1-M | 1.73325 | 1.72363 | 1.72163 | 1.71563 | 1.708 | 1.70275 | -3.05 |
| 2-M | 1.8325 | 1.836 | 1.83675 | 1.8335 | 1.841 | 1.83675 | 0.425 |
| 3-M | 1.90263 | 1.8985 | 1.89463 | 1.89875 | 1.9095 | 1.91725 | 1.462 |

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

| Name | Coupon | Maturity | 15-Nov Yield | 22-Nov Yield | Change (WoW bp) | Weekly Volume (RM mn) |
|------------------------|--------|----------|-----------------|-----------------|--------------------|--------------------------|
| MALAYSIA GOVERNMENT | 4.378 | 11/29/19 | 3.171 | 3.085 | -8.6 | 1,657.9 |
| MALAYSIA INVESTMNT ISS | 3.226 | 04/15/20 | 2.967 | 2.953 | -1.4 | 1,260.1 |
| MALAYSIA INVESTMNT ISS | 4.582 | 08/30/33 | 3.838 | 3.810 | -2.8 | 872.7 |
| MALAYSIA INVESTMNT ISS | 4.467 | 09/15/39 | 3.926 | 3.894 | -3.2 | 858.5 |
| MALAYSIA GOVERNMENT | 3.478 | 06/14/24 | 3.200 | 3.185 | -1.5 | 817.5 |
| MALAYSIA INVESTMNT ISS | 4.755 | 08/04/37 | 3.937 | 3.903 | -3.4 | 661.8 |
| MALAYSIA INVESTMNT ISS | 4.094 | 11/30/23 | 3.202 | 3.200 | -0.2 | 649.6 |
| MALAYSIA GOVERNMENT | 3.62 | 11/30/21 | 3.067 | 3.041 | -2.6 | 613.5 |
| MALAYSIA GOVERNMENT | 3.659 | 10/15/20 | 2.968 | 2.953 | -1.5 | 581.3 |
| MALAYSIA GOVERNMENT | 3.492 | 03/31/20 | 2.844 | 2.890 | 4.6 | 434.7 |
| TOTAL VOLUME (TOP 10) | | | | | | 8,407.4 |
| TOTAL VOLUME (Overall) | | | | | | 16,995.0 |

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

| Name | Coupon | Maturity | 15-Nov Yield | 22-Nov Yield | Change (WoW bp) | Weekly Volume (RM mn) |
|------------------------|--------|----------|-----------------|-----------------|--------------------|--------------------------|
| GAS MALAYSIA BERHAD | ZERO | 12/13/19 | #N/A N/A | 3.335 | #VALUE! | 200.0 |
| CGN POWER CO LTD | 4.5 | 11/11/17 | #N/A N/A | #N/A N/A | #VALUE! | 111.6 |
| SUNWAY TREASURY SUKU | ZERO | 12/09/19 | #N/A N/A | 3.294 | #VALUE! | 100.0 |
| MALAYAN BANKING BHD | 4.13 | PERP | 4.179 | 4.115 | -6.4 | 60.0 |
| PERBADANAN KEMAJUAN S | 5.15 | 08/10/23 | #N/A N/A | 3.807 | #VALUE! | 60.0 |
| PRASARANA MALAYSIA BH | 4.09 | 08/05/39 | 3.998 | 4.082 | 8.4 | 50.0 |
| DANUM CAPITAL BHD | 4.3 | 02/13/26 | 3.699 | 3.726 | 2.7 | 45.0 |
| GENM CAPITAL BHD | 5.3 | 07/11/28 | 4.024 | 4.087 | 6.3 | 40.3 |
| PENGURUSAN AIR SPV BHD | 4.07 | 06/04/26 | 3.747 | 3.741 | -0.6 | 40.0 |
| MANJUNG ISLAND ENERGY | 4.5 | 11/25/26 | #N/A N/A | 3.729 | #VALUE! | 40.0 |
| TOTAL VOLUME (TOP 10) | | | | | | 746.9 |
| TOTAL VOLUME (Overall) | | | | | | 2,136.3 |

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. |