

MIDF Strategy | 10 February 2020

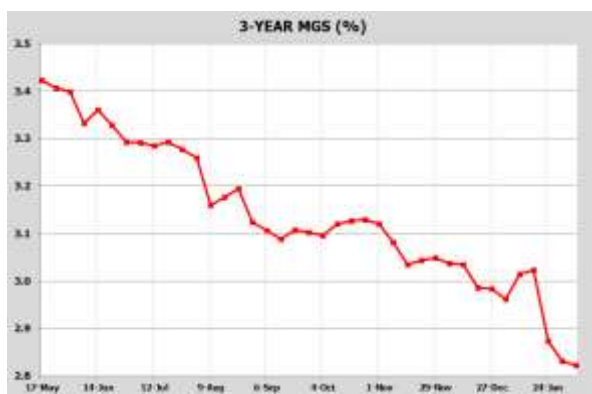
Week Ended 7 February 2020

- The UST yields recovered (price down) from earlier week losses, which was precipitated the coronavirus outbreak in China, as (1) services PMI hits 10-month high and BD/TIPP Economic Optimism Index registered at 16-year high in January, and (2) US jobs increased at better than expected rate in January. Week-on-week, the 10y-3y yield spread however 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 shed -0.9bp and -3.7bps respectively to close at 2.82% and 3.09%. Moreover, the 10y-3y yield spread slightly flattened as the long-end outperformed.
- Total trading value for Government Bonds (MGS/MII) increased to RM32.4b in the review week compared to RM26.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 43% compared to 39% 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.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.77b in the review week compared to RM2.24b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 44% compared to 39% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

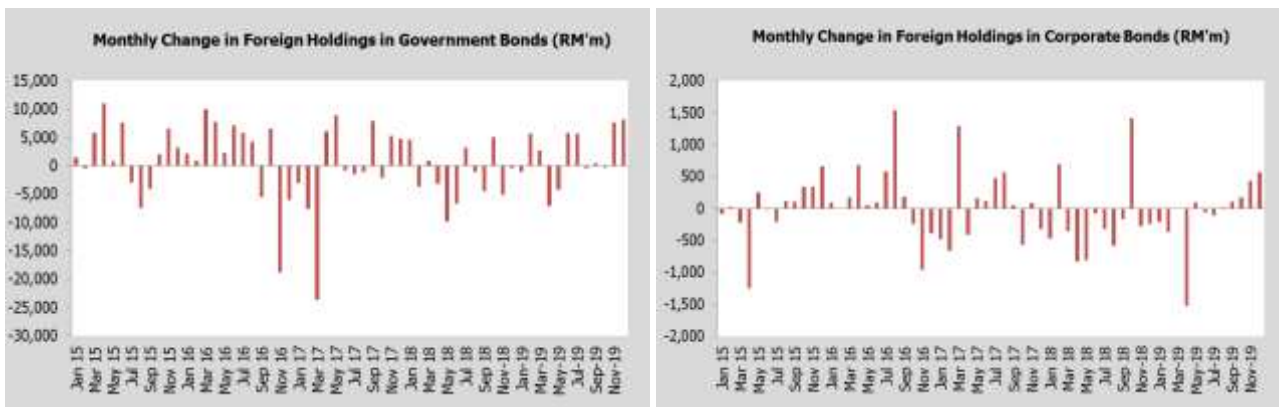
A. FIXED INCOME

- The UST yields recovered (price down) from earlier week losses, which was precipitated the coronavirus outbreak in China, as (1) services PMI hits 10-month high and BD/TIPP Economic Optimism Index registered at 16-year high in January, and (2) US jobs increased at better than expected rate in January. Week-on-week, the 10y-3y yield spread however 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 shed -0.9bp and -3.7bps respectively to close at 2.82% and 3.09%. Moreover, the 10y-3y yield spread slightly flattened as the long-end outperformed.



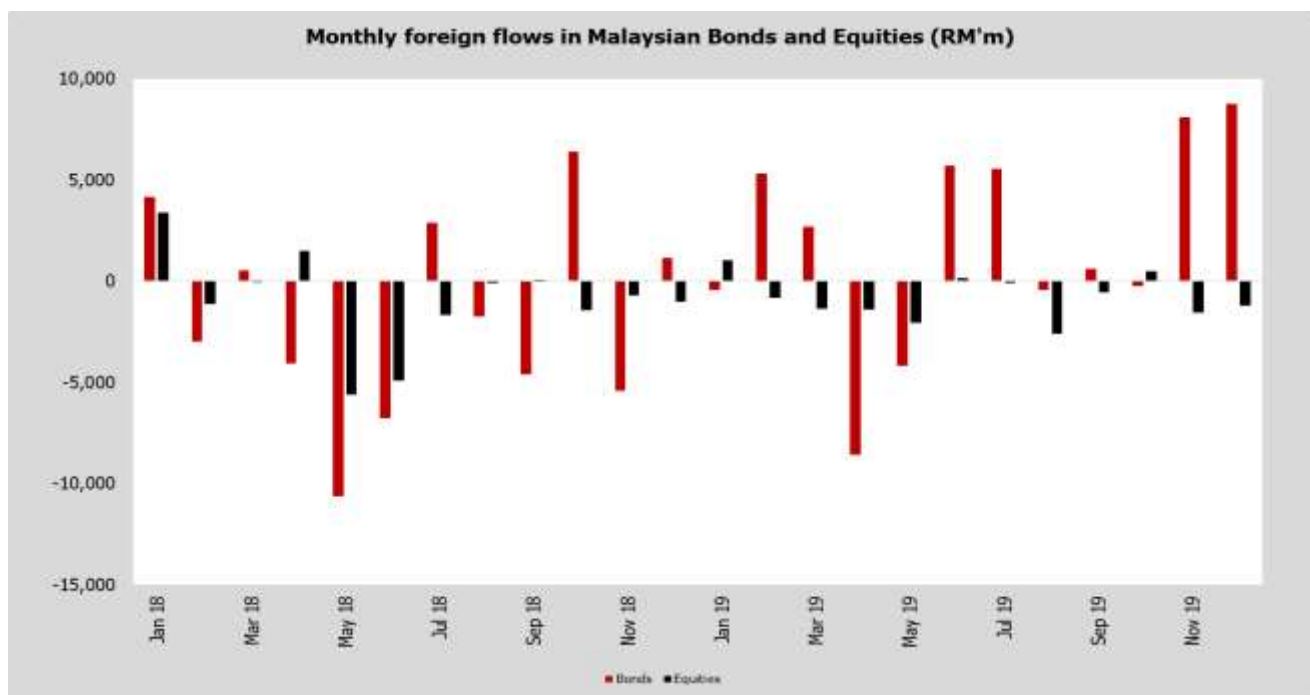
Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) increased to RM32.4b in the review week compared to RM26.0b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 43% compared to 39% 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 4.13% 7/9/29 at RM2.79b, MGS 3.885% 8/15/29 at RM1.92b, and MGS 3.48% 3/15/23 at RM1.68b.
- Likewise, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.77b in the review week compared to RM2.24b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 44% compared to 39% 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 Danainfra 3.92% 10/20/23 at RM315m, Sunway Berhad 5.8% PERP at RM300m, and Khazanah 0% 9/2/2022 at RM260m.
- Total foreign holdings of Government Bonds stood at RM185.0b as at end-December 2019. It was an increase of RM8.17b from the November 2019 figure of RM176.8b. Similarly, total foreign holdings of Corporate Bonds increased by RM570.4m in the month of December 2019 to RM13.2b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM8.7b in December 2019 while the former saw a total net outflow worth -RM1.2b. 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

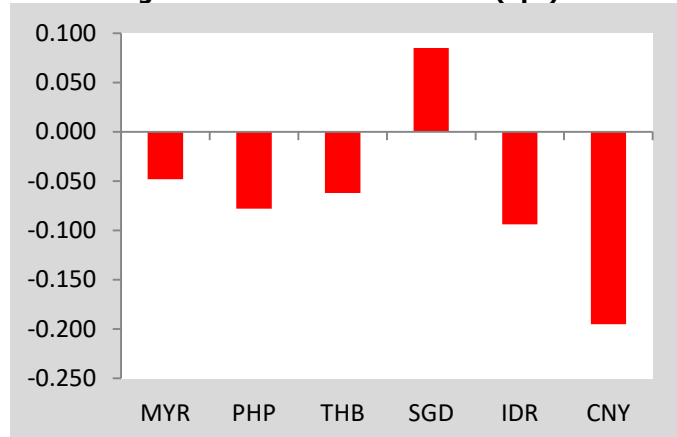
- DXY appreciated amid 10-month high services PMI. Domestic demand in the US is seen strong and optimistic as services PMI hits 10-month high and BD/TIPP Economic Optimism Index registered at 16-year high in Jan-20. Low inflationary pressure and full-employment condition support the strong optimism.
- EURUSD weaken despite improvement in manufacturing PMI. Manufacturers in Euro Area remain pessimistic despite "Phase One" trade deal signing in Jan-20. Political uncertainties remain as vital challenges to the economic block. EU lost its member in Jan-20 as UK officially left. On a side note, services PMI recorded at 52.5 points in the first month of 2020.
- Ringgit – Depreciation as PMI returns to contraction. Markit's manufacturing PMI figure fell to 48.8 points in Jan-20 from 15-month high recorded in the previous month at 50 points. Weak exports sales and new orders are among downside factors. On a flip side, overall IPI and manufacturing sales rose by 1.3%yoy and 5.2%yoy respectively. We expect MYR to average at 4.18 and year-end at 4.20 in 2020.

Currencies Changes (Week Ended 07/02) and Quarterly Forecasts

	Close (07/02)	Prev Close (31/01)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	98.53	97.39	1.141	1.2%	96.81	97.24	96.61	97.19
EURUSD	1.10	1.11	-0.013	-1.1%	1.12	1.12	1.13	1.12
GBPUSD	1.29	1.32	-0.028	-2.1%	1.32	1.32	1.29	1.31
USDJPY	109.87	108.35	1.520	-1.4%	107.56	107.06	106.84	108.39
USDMYR	4.14	4.10	0.039	-0.9%	4.12	4.16	4.18	4.20
GBPMYR	5.35	5.38	-0.030	0.6%	5.38	5.36	5.29	5.36
JPYMYR	3.77	3.78	-0.017	0.4%	3.80	3.81	3.85	3.79

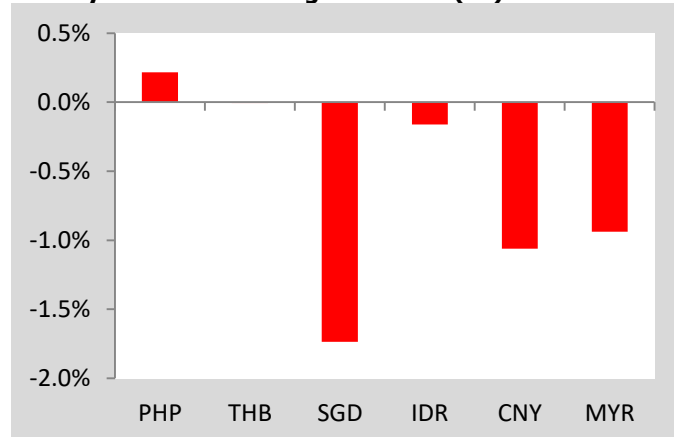
Source: Bloomberg, MIDFR

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.
- Novel Coronavirus is causing fear to global economic sentiment. We may see slight moderation in 1Q20 especially economies that are geographically close to China.
- Malaysia's labor market strengthens. Labor force and employment grew strongly by 2%yoy and 2yoy respectively in Dec-19. Jobless rate at low of 3.3%.
- Overall IPI rose by 1.3%yoy while manufacturing output and sales jumped at 5-month high in Dec-19. Positive sentiment due to easing trade tension supports the rebound.

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	31-Jan Fri	3-Feb Mon	4-Feb Tue	5-Feb Wed	6-Feb Thu	7-Feb Fri	Change (WoW bp)
MGS							
3-Y	2.832	3.007	2.815	2.838	2.814	2.823	-0.9
5-Y	2.952	2.984	2.972	2.959	2.949	2.885	-6.7
7-Y	3.056	3.062	3.055	3.034	3.032	3.01	-4.6
10-Y	3.128	3.123	3.115	3.103	3.115	3.091	-3.7
20-Y	3.42	3.393	3.397	3.433	3.423	3.4	-2
RINGGIT IRS							
1-Y	3.05	3.052	3.015	3.015	3.025	2.945	-10.5
3-Y	3.0445	3.03	3.03	3.025	3.015	2.925	-11.95
5-Y	3.085	3.08	3.09	3.08	3.05	2.97	-11.5
7-Y	3.145	3.135	3.145	3.1625	3.105	3.045	-10
10-Y	3.27	3.27	3.28	3.275	3.22	3.15	-12
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	3.06	3.06	0
3-M	3.1	3.1	3.09	3.09	3.09	3.09	-1
UST							
3-Y	1.294	1.3317	1.3966	1.4373	1.4372	1.3906	9.66
5-Y	1.3134	1.3474	1.419	1.4631	1.4615	1.4044	9.1
7-Y	1.4199	1.4481	1.5189	1.5664	1.5616	1.5071	8.72
10-Y	1.5068	1.5272	1.5991	1.6508	1.6422	1.5834	7.66
30-Y	1.9996	2.0069	2.0769	2.1385	2.1089	2.0484	4.88
USD LIBOR							
1-M	1.66188	1.66775	1.66625	1.66963	1.67088	1.66525	0.337
2-M	1.731	1.7235	1.72375	1.72563	1.72788	1.72375	-0.725
3-M	1.75113	1.741	1.73738	1.74163	1.73413	1.73088	-2.025

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	31-Jan Yield	7-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA INVESTMNT ISS	4.13	07/09/29	3.198	3.172	-2.6	2,789.1
MALAYSIA GOVERNMENT	3.885	08/15/29	3.128	3.091	-3.7	1,924.1
MALAYSIA GOVERNMENT	3.48	03/15/23	2.857	2.806	-5.1	1,677.3
MALAYSIA GOVERNMENT	3.659	10/15/20	2.790	2.811	2.1	1,426.6
MALAYSIA GOVERNMENT	3.844	04/15/33	3.296	3.280	-1.6	1,137.2
MALAYSIA GOVERNMENT	3.492	03/31/20	2.750	2.856	10.6	1,068.0
MALAYSIA INVESTMNT ISS	4.724	06/15/33	3.358	3.323	-3.5	1,030.0
MALAYSIA GOVERNMENT	3.882	03/10/22	2.832	2.823	-0.9	960.7
MALAYSIA INVESTMNT ISS	4.094	11/30/23	2.980	2.877	-10.3	930.0
MALAYSIA GOVERNMENT	3.828	07/05/34	3.251	3.252	0.1	846.9
TOTAL VOLUME (TOP 10)						13,790.0
TOTAL VOLUME (Overall)						32,362.9

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	31-Jan Yield	7-Feb Yield	Change (WoW bp)	Weekly Volume (RM mn)
DANAINFRA NASIONAL	3.92	10/20/23	3.106	3.032	-7.4	315.0
SUNWAY BERHAD	5.8	PERP	#N/A N/A	5.114	#VALUE!	300.0
SUNWAY BERHAD	5.8	PERP	#N/A N/A	5.115	#VALUE!	300.0
KHAZANAH NASIONAL BHD	ZERO	09/02/22	#N/A N/A	3.020	#VALUE!	260.0
DANAINFRA NASIONAL	3.93	11/27/34	3.630	3.450	-18.0	230.0
SUNWAY BERHAD	5.8	PERP	#N/A N/A	5.118	#VALUE!	150.0
MALAYAN BANKING BHD	4.9	10/17/25	#N/A N/A	3.338	#VALUE!	140.0
SARAWAK HIDRO SDN BHD	4.16	08/11/20	3.219	3.196	-2.3	140.0
KHAZANAH NASIONAL BHD	ZERO	08/14/23	3.136	3.039	-9.7	130.0
DANAINFRA NASIONAL	4.89	05/25/32	3.729	3.398	-33.1	120.0
TOTAL VOLUME (TOP 10)						2,085.0
TOTAL VOLUME (Overall)						4,768.4

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.