

MIDF Strategy | 20 January 2020

Week Ended 17 January 2020

- The UST benchmark 10-year yield gained (price down) for the second week in a row after data showed US home starts jumped to a 13-year high in December 2019. Moreover, the 10y-3y yield spread slightly steepened (long-end underperformed) to +25bps from +24bps a week earlier.
- Similarly, the price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields gained 0.9bp and 1.7bps respectively to close at 3.02% and 3.29%. Moreover, the 10y-3y yield spread slightly steepened as the long-end underperformed.
- Total trading value for Government Bonds (MGS/MII) declined to RM20.4b in the review week compared to RM22.3b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 52% compared to 45% of the overall Government Bonds trades in the week before. In addition, 4 out of the 10 most actively traded bonds saw higher yields hence lower prices during the review week.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.81b in the review week compared to RM2.93b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 30% compared to 28% of the overall Corporate Bonds trades in the week before.

Weekly Money Review

A. FIXED INCOME

- The UST benchmark 10-year yield gained (price down) for the second week in a row after data showed US home starts jumped to a 13-year high in December 2019. Moreover, the 10y-3y yield spread slightly steepened (long-end underperformed) to +25bps from +24bps a week earlier.
- Similarly, the price of domestic MGS benchmark issues ended the review week lower with the 3-year and 10-year yields gained 0.9bp and 1.7bps respectively to close at 3.02% and 3.29%. Moreover, the 10y-3y yield spread slightly steepened as the long-end underperformed.



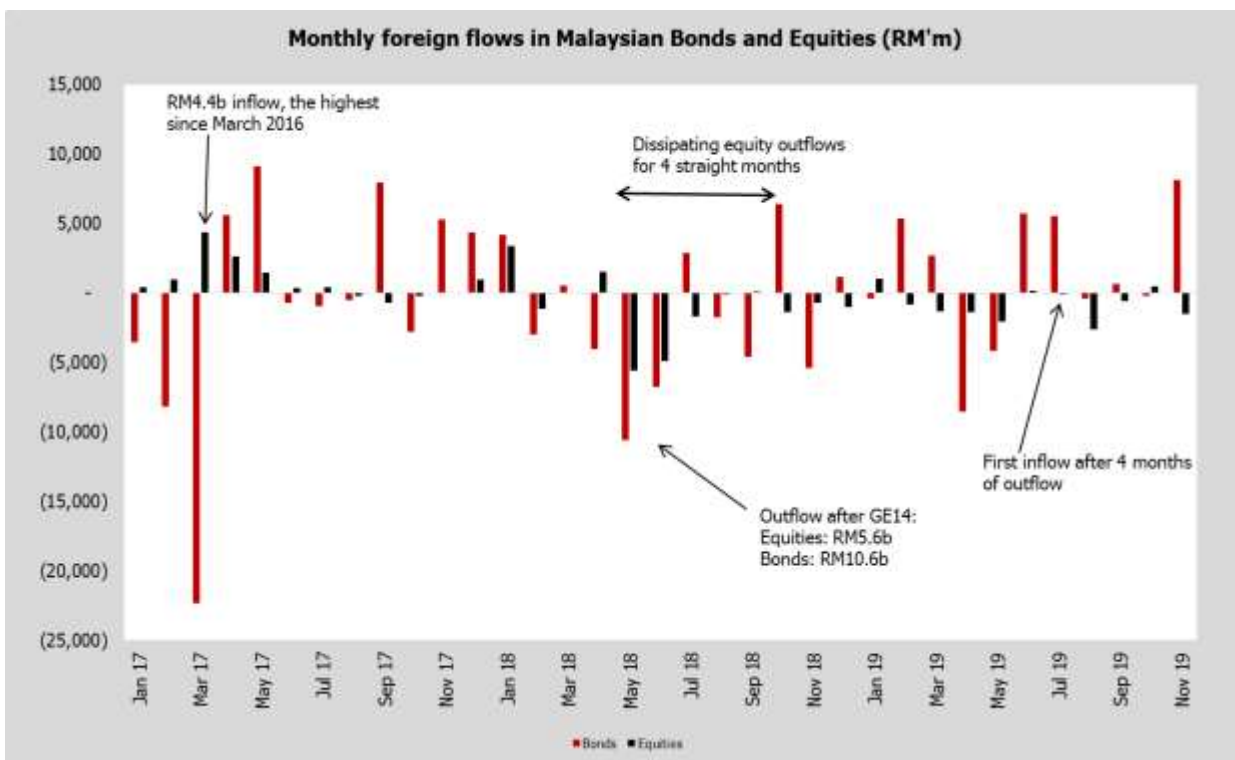
Source: Bloomberg, MIDFR

- Total trading value for Government Bonds (MGS/MII) declined to RM20.4b in the review week compared to RM22.3b in the previous week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 52% compared to 45% of the overall Government Bonds trades in the week before. In addition, 4 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 3.659% 10/15/20 at RM1.61b, MII 4.13% 7/9/29 at RM1.42b, and MII 4.119% 11/30/34 at RM1.27b.
- Conversely, the total trading value for Corporate Bonds (Conventional & Sukuk) increased to RM4.81b in the review week compared to RM2.93b in earlier week (based on Bloomberg data). The total trading value of 10 most actively traded issues increased (lower trading breadth) to 30% compared to 28% of the overall Corporate Bonds trades in the week before.
- The top 3 actively traded Corporate Bonds were dominated by issues of long residual tenor. The largest trading values were seen in Manjung Island 4.9% 11/25/31 at RM230m, PLUS 4.86% 1/12/38 at RM220m, and TNB 4.78% 8/29/33 at RM150m.
- Total foreign holdings of Government Bonds stood at RM176.8b as at end-November 2019. It was a decline of -RM7.67b from the November 2019 figure of RM169.1b. On the contrary, total foreign holdings of Corporate Bonds increased by RM437.9m in the month of November 2019 to RM12.6b.



Source: BNM

- In comparison to equities, the bonds market saw a total net inflow worth RM8.1b in November 2019 while the former saw a total net outflow worth -RM1.5b. 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 depreciation.** The US and China signed the Phase One trade deal but no announcement of tariff roll-back. The deal highlights each economy agrees to trade more goods on specific sector. The deal does not inject long-term certainty on the global trade trajectory. On macro data, economic optimism index surged to 8-month high in Jan-20, reflecting the solid strength of the US domestic economy and in addition, retail sales growth reached 16-month high at 5.8%yoy in Dec-19.
- EURUSD appreciates marginally following IPI growth.** Overall IPI improved on monthly basis at 0.2%mom, biggest gain since Sep-19. On annual term, the production remains in contractionary for the past 13-month. ECB's policy meeting minutes under Christine Lagarde in Dec-19 showed the meeting members were optimistic on 2020 outlook for the region as business surveys were pointing towards stabilisation since end of 3Q19.
- Ringgit – Continuous appreciation amid stable labour market.** Labour force and employment increased by 2.4%yoy and 2.5%yoy respectively in Nov-19, recording 1-year high. Jobless rate maintained at 9-month low of

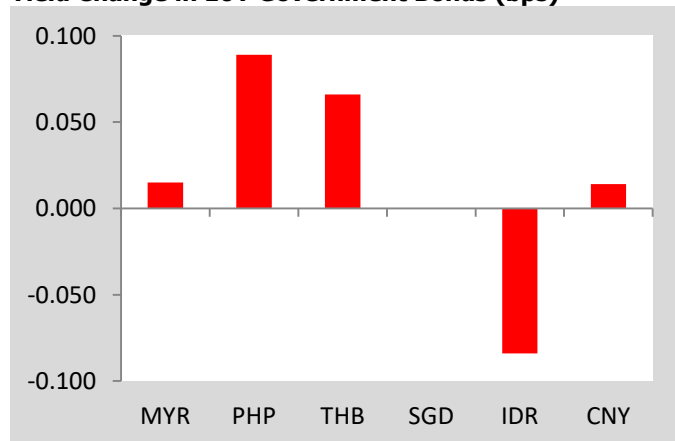
3.2%. The positive development in the labour market cements stronger foundation for Malaysia's domestic demand. On a different note, BNM is expected to cut its OPR by 25 basis points next week. We expect MYR to average at 4.18 and year-end at 4.20 in 2020.

Currencies Changes (Week Ended 17/01) and Quarterly Forecasts

	Close (17/01)	Prev Close (10/01)	Change	% Change	1Q19F	2Q19F	3Q19F	4Q19F
DXY Index	97.30	97.36	-0.059	-0.1%	96.81	97.24	96.61	97.19
EURUSD	1.11	1.11	0.002	0.2%	1.12	1.12	1.13	1.12
GBPUSD	1.31	1.31	0.002	0.2%	1.32	1.32	1.29	1.31
USDJPY	110.24	109.45	0.790	-0.7%	107.56	107.06	106.84	108.39
USDMYR	4.06	4.08	-0.019	0.5%	4.12	4.16	4.18	4.20
GBPMYR	5.31	5.33	-0.021	0.4%	5.38	5.36	5.29	5.36
JPYMYR	3.68	3.72	-0.045	1.2%	3.80	3.81	3.85	3.79

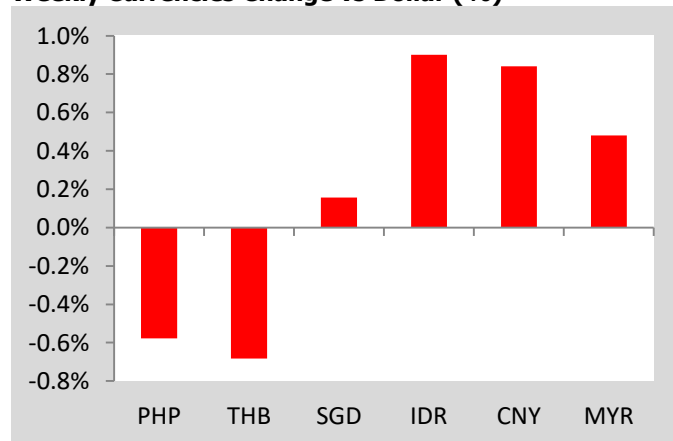
Source: Bloomberg, MIDFR

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 (%)

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Malaysia	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	5.75	5.50	5.25	5.00	5.00	5.00
Philippines	5.25	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.50
Thailand	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.25	1.25
Vietnam	6.25	6.25	6.25	6.25	6.25	6.00	6.00	6.00	6.00
South Korea	1.75	1.75	1.75	1.50	1.50	1.50	1.25	1.25	1.25
India	6.00	6.00	5.75	5.75	5.40	5.40	5.15	5.15	5.15
China	4.35	4.35	4.35	4.35	4.25	4.20	4.20	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	2.50	2.25	2.25	2.00	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.
- The Phase One trade deal does not commit to any tariff roll-back. Hence, no certainty of stabilization in global trade war activities. U-turn move by Trump-led administration is highly possible especially when election campaign kicks-off.
- Developed and emerging economies are predicted to follow similar steps in loosening monetary policy to boost economic growth.
- Malaysia's labor market strengthens. Labor force and employment grew strongly by 2.4%yoy and 2.5%yoy respectively in Nov-19, recording 1-year high. Jobless rate at 9-month low of 3.2%.
- Announcement of possible PLUS's toll rate deduction may cause transport inflation to contract and hence taper down overall CPI pressure.
- Macro indicators namely external trade, IPI, manufacturing sales and distributive trade are signaling moderating trends in 3Q19 and 4Q19.
- We expect BNM to slash further OPR by 25 basis points in 2020, possibly the earliest in 1Q209.

C. BNM FOREIGN RESERVES

- As at 31 December 2019, compared to previous fortnight, Bank Negara Malaysia's international reserves was slightly higher at USD103.6b (13 Dec: USD103.3b).
- 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	10-Jan Fri	13-Jan Mon	14-Jan Tue	15-Jan Wed	16-Jan Thu	17-Jan Fri	Change (WoW bp)
MGS							
3-Y	3.014	3.02	3.009	3.027	3.014	3.023	0.9
5-Y	3.16	3.16	3.172	3.171	3.178	3.171	1.1
7-Y	3.261	3.254	3.246	3.245	3.246	3.226	-3.5
10-Y	3.273	3.279	3.29	3.278	3.28	3.29	1.7
20-Y	3.569	3.593	3.562	3.583	3.572	3.583	1.4
RINGGIT IRS							
1-Y	3.267	3.265	3.265	3.2625	3.26	3.275	0.8
3-Y	3.26	3.26	3.265	3.26	3.261	3.27	1
5-Y	3.279	3.272	3.278	3.2775	3.2845	3.305	2.6
7-Y	3.33	3.33	3.34	3.33	3.3345	3.3345	0.45
10-Y	3.394	3.395	3.405	3.395	3.3995	3.415	2.1
KLIBOR							
1-M	3.17	3.17	3.17	3.17	3.17	3.17	0
2-M	3.3	3.3	3.3	3.3	3.3	3.3	0
3-M	3.33	3.33	3.33	3.33	3.33	3.33	0
UST							
3-Y	1.583	1.5964	1.5776	1.5589	1.5751	1.5672	-1.58
5-Y	1.6315	1.6495	1.6199	1.5985	1.6247	1.6195	-1.2
7-Y	1.7404	1.7643	1.7284	1.7069	1.7332	1.7332	-0.72
10-Y	1.8196	1.8459	1.8109	1.783	1.8074	1.8215	0.19
30-Y	2.2786	2.3015	2.27	2.2359	2.2578	2.2807	0.21
USD LIBOR							
1-M	1.67663	1.67625	1.66963	1.669	1.65775	1.65438	-2.225
2-M	1.8065	1.79513	1.786	1.78663	1.79888	1.7925	-1.4
3-M	1.83775	1.83125	1.84263	1.83613	1.82663	1.81913	-1.862

Source: Bloomberg

10 MOST ACTIVELY TRADED GOVERNMENT BONDS

Name	Coupon	Maturity	10-Jan Yield	17-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MALAYSIA GOVERNMENT	3.659	10/15/20	2.909	2.918	0.9	1,609.9
MALAYSIA INVESTMNT ISS	4.13	07/09/29	3.361	3.358	-0.3	1,421.1
MALAYSIA INVESTMNT ISS	4.119	11/30/34	3.502	3.513	1.1	1,270.0
MALAYSIA GOVERNMENT	3.502	05/31/27	3.271	3.269	-0.2	1,111.4
MALAYSIA GOVERNMENT	3.492	03/31/20	2.794	2.727	-6.7	1,009.0
MALAYSIA GOVERNMENT	3.899	11/16/27	3.286	3.291	0.5	912.8
MALAYSIA INVESTMNT ISS	4.582	08/30/33	3.548	3.524	-2.4	880.0
MALAYSIA GOVERNMENT	4.642	11/07/33	3.536	3.514	-2.2	874.5
MALAYSIA INVESTMNT ISS	4.724	06/15/33	3.548	3.526	-2.2	774.0
MALAYSIA GOVERNMENT	3.882	03/10/22	3.014	3.023	0.9	750.4
TOTAL VOLUME (TOP 10)						10,613.1
TOTAL VOLUME (Overall)						20,377.7

Source: Bloomberg

10 MOST ACTIVELY TRADED CORPORATE BONDS

Name	Coupon	Maturity	10-Jan Yield	17-Jan Yield	Change (WoW bp)	Weekly Volume (RM mn)
MANJUNG ISLAND ENERGY	4.9	11/25/31	#N/A N/A	3.699	#VALUE!	230.0
PROJEK LEBUHRAYA USAH	4.86	01/12/38	3.849	3.811	-3.8	220.0
CGN POWER CO LTD	4.5	11/11/17	#N/A N/A	#N/A N/A	#VALUE!	165.2
TENAGA NASIONAL BERHA	4.78	08/29/33	#N/A N/A	3.769	#VALUE!	150.0
PRASARANA MALAYSIA BH	5.05	12/11/35	#N/A N/A	3.719	#VALUE!	130.0
PRASARANA MALAYSIA BH	5.07	02/26/41	#N/A N/A	3.838	#VALUE!	120.0
DANUM CAPITAL BHD	4.3	02/13/26	3.496	3.475	-2.1	115.0
YNH PROPERTY BHD	6.85	PERP	6.699	7.377	67.8	102.1
MKD KENCANA SDN BHD	4.85	10/01/32	3.751	3.609	-14.2	100.0
DANAINFRA NASIONAL	5.02	05/03/46	4.039	4.009	-3.0	100.0
TOTAL VOLUME (TOP 10)						1,432.3
TOTAL VOLUME (Overall)						4,808.5

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.