

Performance and Key Highlights of Bursa Malaysia Derivatives (BMD) Products in Q3 2019

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Global Highlights



1. The Unresolved US-China Trade War

- The trade tension between the two world largest economies continued to be the main highlight in third quarter of 2019 as both countries failed to reach concrete consensus yet.
- Right after trade talks in Beijing in early August, US President Donald Trump announced 10% tariffs on \$300 billion worth of Chinese goods, on top of 25% already imposed on \$250 billion worth of goods.
- Although US administration decided to delay the tariffs on about half of the Chinese products, China however retaliated with imposition of additional tariffs of 10% against about \$75 billion worth of US goods.
- In response, US had announced that Washington were raising all current tariffs from 25% to 30% and the upcoming tariffs will be increased to 15% from 10%.
- Nevertheless, both US and China have agreed to meet for another senior-level trade talks, hoping that the two world largest economies could make progress in ending the tit-for-tat tariff war.



2. The Federal Reserve's Interest Rates Cut

- After exercising the hawkish stance last year where the benchmark federal fund rate were increased four times, Federal Reserve (Fed) had cut the interest rates twice in Q3 2019.
- The first reduction occurred in late July, which marked the Fed's first move in more than a decade, to a range of 2% - 2.25%, where the Fed chairman, Jerome Powell, cited "muted inflationary pressures" and "implications of global developments" as factors of the decision.
- Although Powell had stressed that Fed is in no rush for further easing of interest rates, the central bank cut rates for a second time in September to a range of 1.75% - 2%.
- Powell again stressed that the cut is aimed at shoring up the US economy amid uncertainties about future growth.



Global Highlights



3. The US Yield Curve Inversion

- On 14th August 2019, all major stock markets tumbled following the news of US yield curve inversion for the first time in 12 years.
- The yield curve, which was defined as the spread between long and short dated US treasury bonds, turned negative on August as the near term treasury yields more than their long term counterparts as most investors flock to long term bonds as they see the economy is falling in near future.
- The phenomenon is widely viewed as a reliable recession indicators as all nine major US recession since 1950 have been preceded by an inversion of yield curve.



4. The Appointment of Boris Johnson as New United Kingdom Prime Minister

- Following the resignation of Theresa May, Boris Johnson has been appointed as the new United Kingdom's (UK) prime minister.
- UK was initially due to leave the European Union (EU) on March 29, but the failure of Theresa May to win the divorce deal had forced the country's departure to be delayed twice, making her to give up and resigned.
- Johnson has made a promise to deliver the Brexit by Oct 31 on whatever cost, even without a deal, in which has triggered the members of parliament in London to stop him.



5. The Escalation of Hong Kong Protests

- Anti government protest had hit Hong Kong for months and the situation shows no sign of alleviation.
- The protests was begun in June 2019, when people were against the controversial legislation that would allow extradition to those convicted of crimes to mainland China and Taiwan.
- In response to the unrest, the city leader, Carrie Lim agreed to withdraw the bill, but the demonstrations had continued and developed to include demands for full democracy.
- According to Hong Kong economic data, various sectors have reportedly been affected due to the protest most notably airline, retail and real estate sectors.
- Some economist also believe a recession is possible if the protest continue although the government has vowed to take measures to shore up the economy.

Malaysia Highlights



1. Malaysia Recorded Stronger Q2 2019 GDP Growth

- Despite the global economic slowdown due to uncertainties in global developments, Malaysia had surprisingly recorded a strong growth of 4.9% for its second quarter of 2019, compared with GDP growth of 4.5% in Q1 2019 and Q2 2018 respectively.
- According to Bank Negara Malaysia (BNM), the local growth performance was mainly driven by the higher household spending and private investments.
- Moving forward, the central bank is retaining its 2019 Malaysia GDP projection of between 4.3% and 4.8%.



2. Bank Negara Malaysia Left its Overnight Policy Rate Unchanged

- Unlike other central banks which took accommodative approach in reducing the interest rates, Bank Negara Malaysia (BNM) decided to maintain its Overnight Policy Rate (OPR) at 3% at its September Monetary Policy Committee (MPC) meeting.
- BNM governor, Datuk Nor Shamsiah said the global economy has been expanding at a more modest pace amid slower growth in most advanced and emerging economies.
- Nevertheless, BNM reiterated that the stance of monetary policy remains accommodative and supportive of economic activity.



3. FTSE Russell Retained Malaysian Government Bond on its Watch List

- Malaysia was retained on a watch list for exclusion from World Government Bond Index (WGBI) by index provider FTSE Russell for another 6 months.
- Earlier in April, the local currency and bonds were under pressure when FTSE Russell had placed Malaysia on the fixed income watch list for at least 6 months on its fixed-income country classification review.
- In response, BNM had announced several measures to provide more flexibility to foreign investors in trading Ringgit and for resident businesses to hedge their foreign currency risks.
- FTSE Russell will provide another update after an interim review in March next year, which would provide opportunity to BNM in enhancing the liquidity in order to stay in the index.

Overall BMD Performance

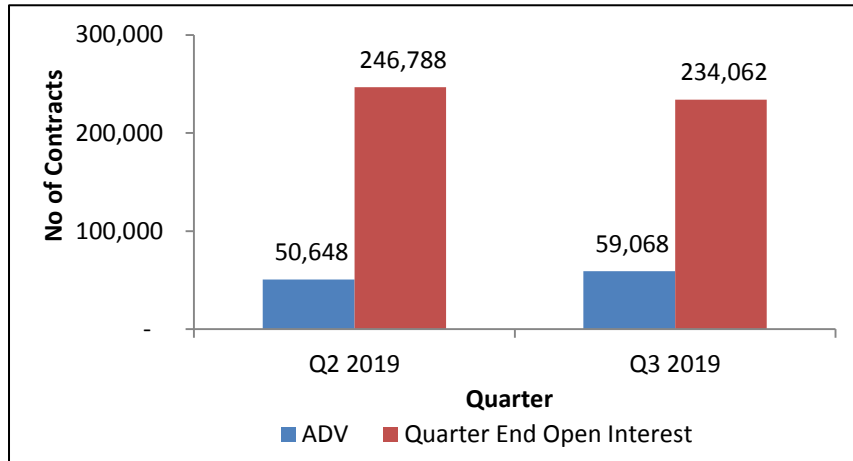
No of Trading Days

Q2 2019 : 61

Q3 2019 : 61

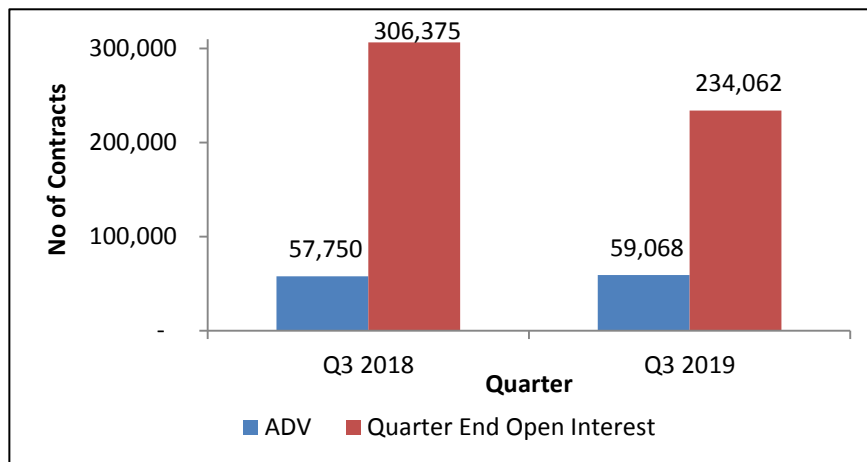
Q3 2018 : 60

QoQ Performance



- Q3 2019 saw overall BMD products continue to record improvement, where ADV had grown 17% from 50,648 contracts in Q2 2019 to 59,068 contracts in Q3 2019, largely driven by increase in FCPO volume.
- However, the quarter-end open interest slipped marginally 5% on QoQ basis from 246,788 in Q2 2019 to 234,062 in Q3 2019.

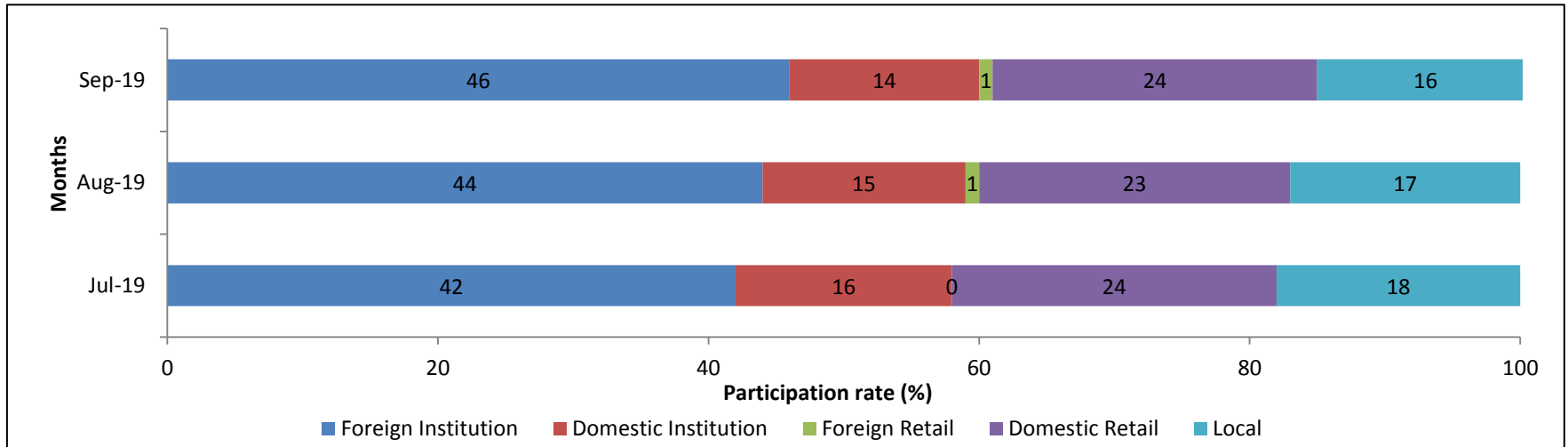
YoY Performance



- On YoY basis, both ADV and quarter-end open interest for overall BMD products performance registered lacklustre performance.
- In terms of ADV performance, a marginal 2% growth was recorded in Q3 2019 where 59,068 contracts were traded, up from 57,750 contracts in the same quarter last year.
- Meanwhile, the quarter-end open interest in Q3 2019 fell to 234,062 contracts, a 24% decline from 306,375 contracts in Q3 2018.



Overall BMD Market Demography Q3 2019



Review :

- Similar to the previous 6 months of 2019, overall BMD markets displayed little change in its demographic composition in Q3 2019, foreign institution remained to be the largest participants in BMD market, with participation rate range of 42 to 46%.
- The domestic retail participants continued to be the second largest participants in Q3 2019, accounting for 23-24% of overall BMD market share.
- However, unlike in the first half of this year, local participants had surpassed the domestic institution in claiming the third spot of participation rate in Q3 2019, indicating a growing interest among local participants in trading derivatives market in Malaysia.

FCPO Performance

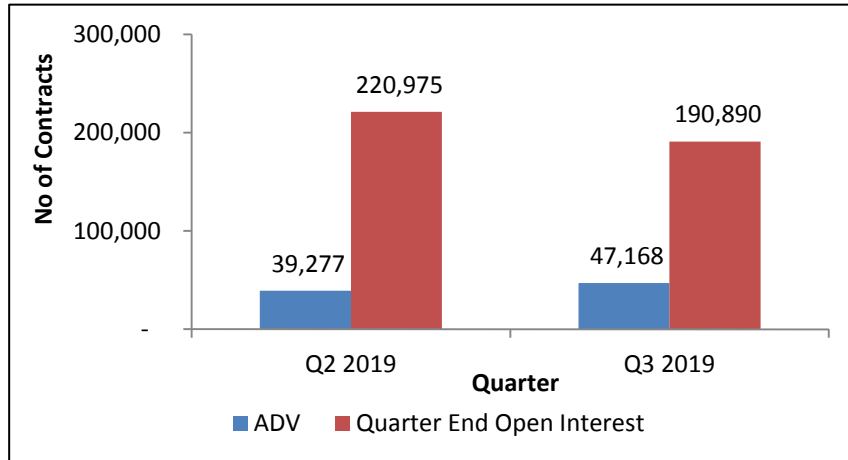
No of Trading Days

Q2 2019 : 61

Q3 2019 : 61

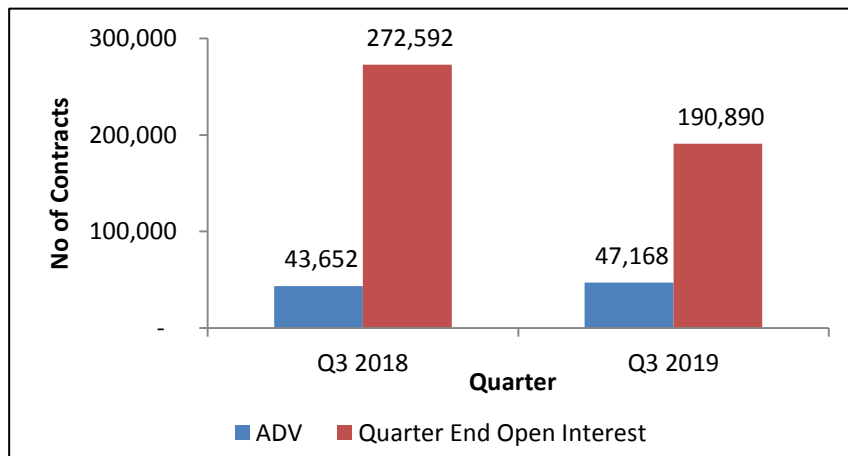
Q3 2018 : 60

QoQ Performance



- An impressive performance was recorded in terms of ADV growth in FCPO market on QoQ basis.
- The ADV had risen 20% from 39,277 contracts in Q2 2019 to 47,168 contracts in Q3 2019.
- Nevertheless, the quarter end open interest in FCPO market had dropped 14% to 190,890 contracts in Q3 2019, compared to 220,975 contracts recorded in the previous quarter.

YoY Performance



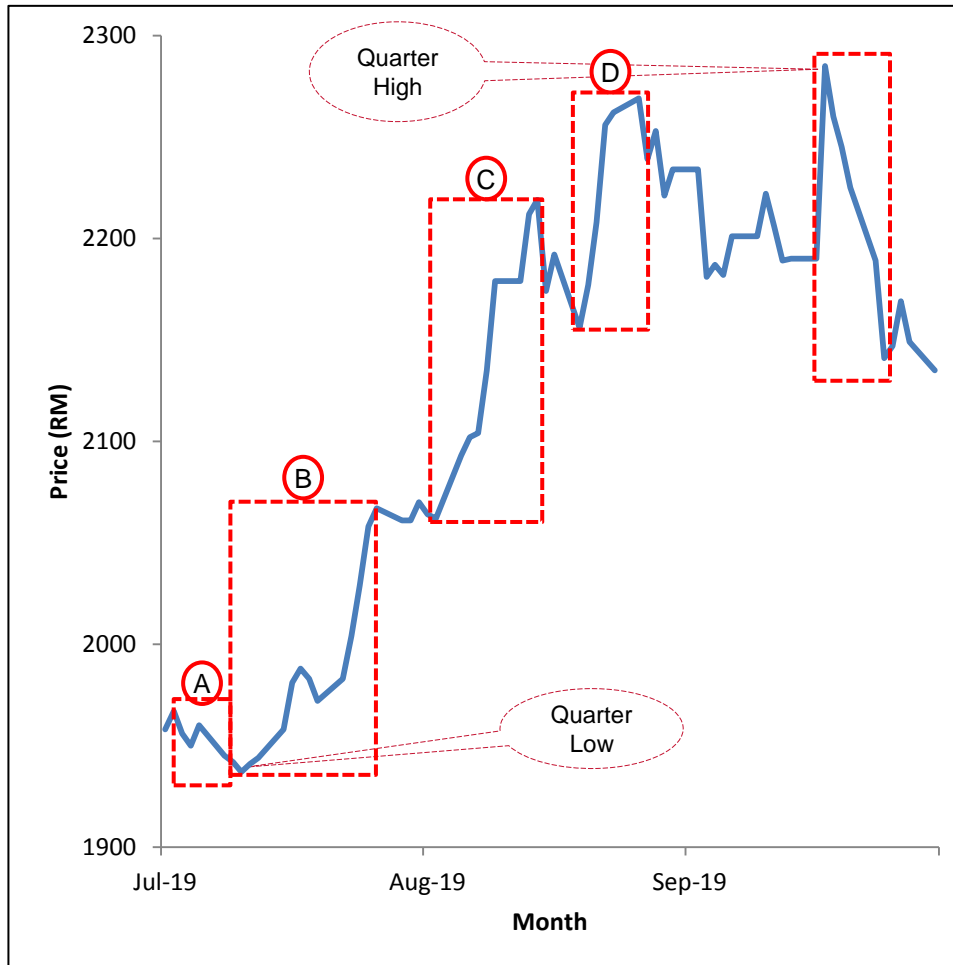
- On YoY comparison, a moderate growth of 8% was registered in ADV from 43,652 contracts in Q3 2018 to 47,168 contracts in Q3 2019.
- Like overall BMD market performance, the quarter end open interest in FCPO market had also slipped on YoY basis, from 272,592 contracts in Q3 2018 to 190,890 contracts in the same quarter this year, a drop of 30%.



FCPO Q3 2019 Price Performance

Snapshot of FCPO Performance

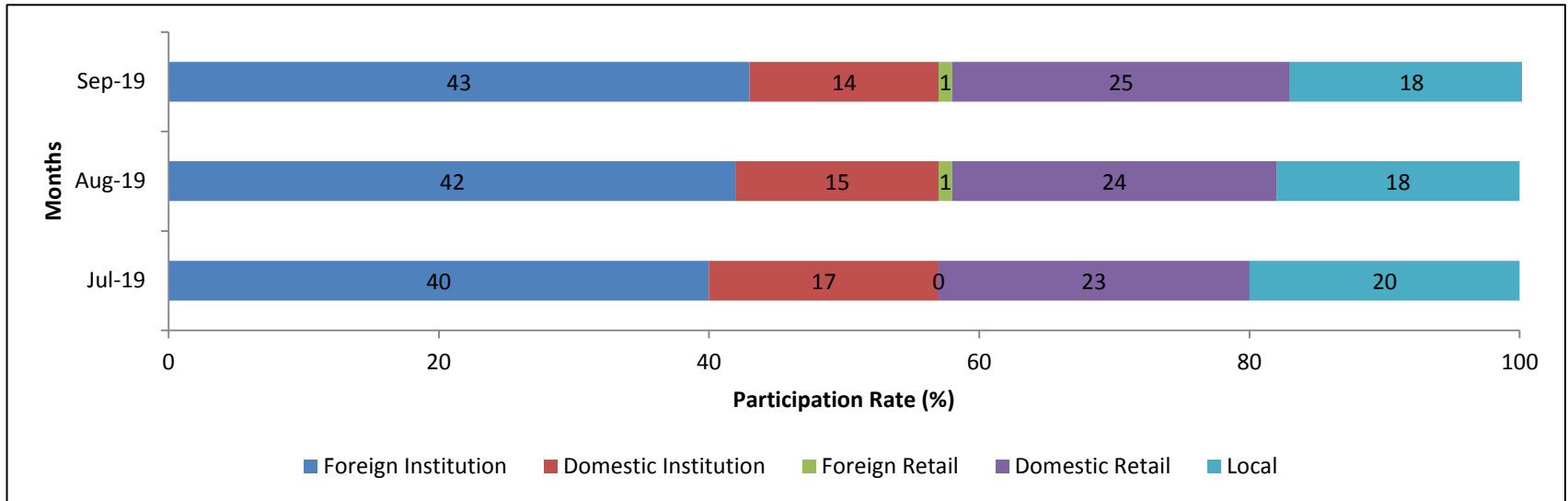
Price as at 30/09/2019 (Last trading day) : **2,135** Quarter High : 2,285 (17/09/2019) Quarter Low : 1,937 (10/07/2019) Q2 2019 Performance (% Change) : **+9.04**



Period	Remarks
A	2 Jul 19 – 10 Jul 19 (-1.53%) FCPO market kick-started its Q3 with lacklustre performance, tracking the fall in rival oil markets and on concerns over Indian government's potential announcement on changes to its import tariffs.
B	10 Jul 19 – 26 Jul 19 (+6.71%) Palm oil market was on an uptrend on the back of continuous recovery in US soy oil market due to unfavourable US weather forecast, which could dampen the crop plantings.
C	2 Aug 19 – 14 Aug 19 (+7.61%) Market continued to rise, tracking gains in related edible oils market and weaker Malaysian ringgit following US Federal Reserve's interest rate cut decision, while the lingering concerns over dry weather in Indonesia also boosted the market.
D	19 Aug 19 – 26 Aug 19 (+5.24%) The gains in FCPO market was aided by the stronger palm oil export data for Aug 1-20 period and on expectation of weaker September production.
E	16 Sep 19 – 24 Sep 19 (-2.24%) Market dropped, tracking the softer related vegetable oils markets and on prospects of firm output and slowing demand for the Sep 1-25 period.



FCPO Market Demography Q3 2019



Review :

- Foreign institution maintained to be the major participants in FCPO market for Q3 2019, able to consistently make up around 40 to 43% of participation rate, followed by domestic retail as second largest participant with participation rate range of 23 to 25%.
- Meanwhile, local participants were able to retain their momentum to be the third largest participant in FCPO market in Q3 2019 with participation rate range of 18 to 20%, a position that they overtook from domestic institution since Q2 this year, making domestic institution to be the fourth largest participants in FCPO market with participation rate range of 14 to 17%.

FKLI Performance

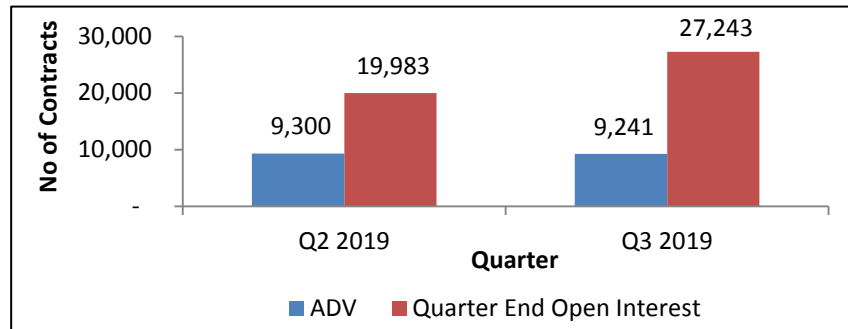
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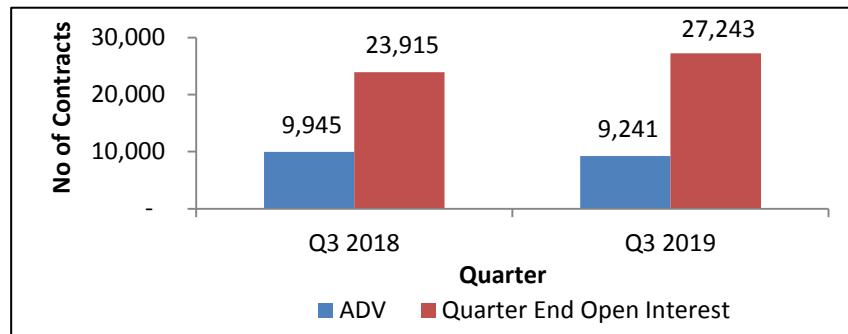
Q3 2018 : 60

QoQ Performance



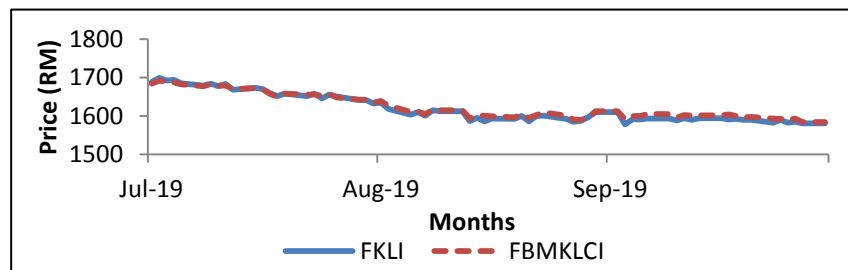
- Unlike the FCPO market, FKLI market had shown a mere contraction on its ADV performance when QoQ comparison is made.
- The ADV shrank 1% to 9,241 contracts in Q3 2019 from 9,300 contracts in Q2 2019.
- However, the quarter end open interest had expanded 36% from 19,983 contract in Q2 2019 to 27,243 contracts in Q3 2019.

YoY Performance



- On YoY wise, the ADV in FKLI market had declined 7% from 9,945 contracts in Q3 2018 to 9,241 contracts registered in the same quarter this year.
- Nevertheless, the quarter end open interest had grown 14% from 23,915 contracts in Q3 2018 to 27,243 contracts in Q3 2019.

Spread between FKLI and FBMKLCI

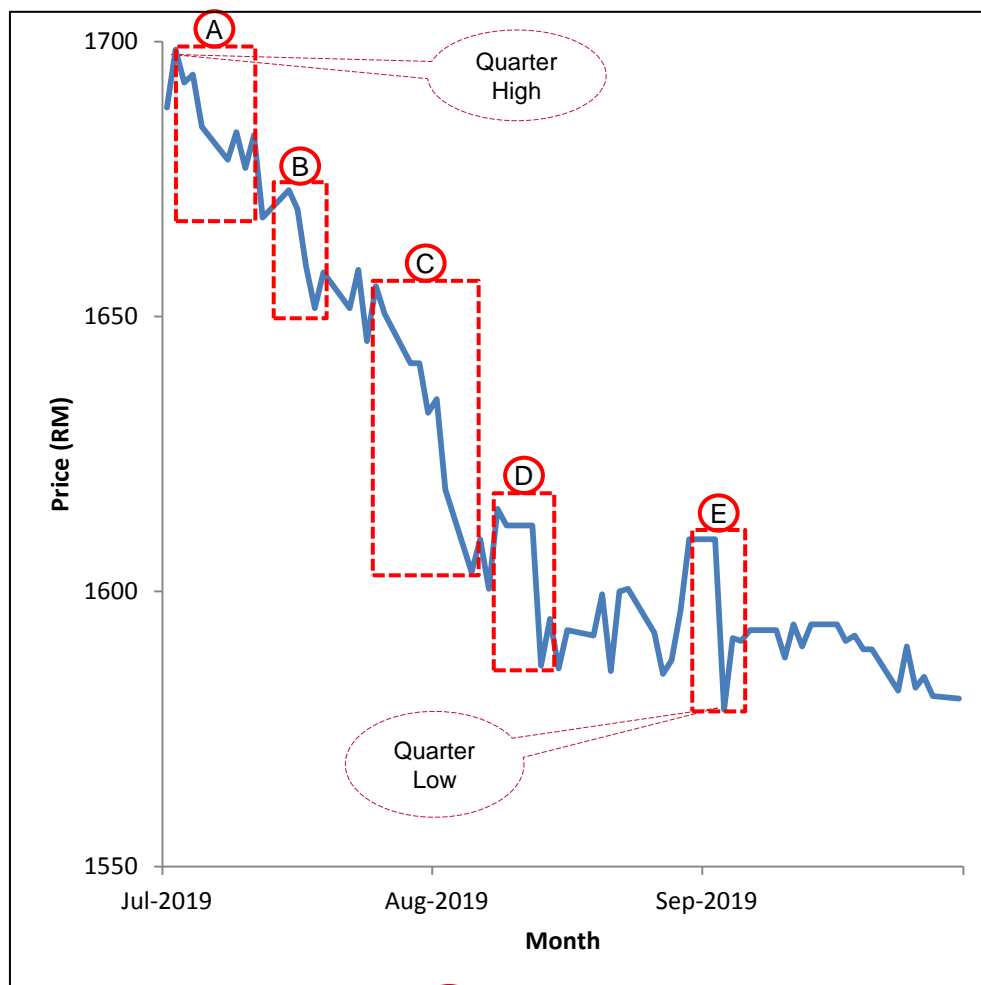


- Widest Premium : +7.50 (02/07/2019)
- Widest Discount : -14.29 (15/08/2019)

FKLI Q3 2019 Price Performance

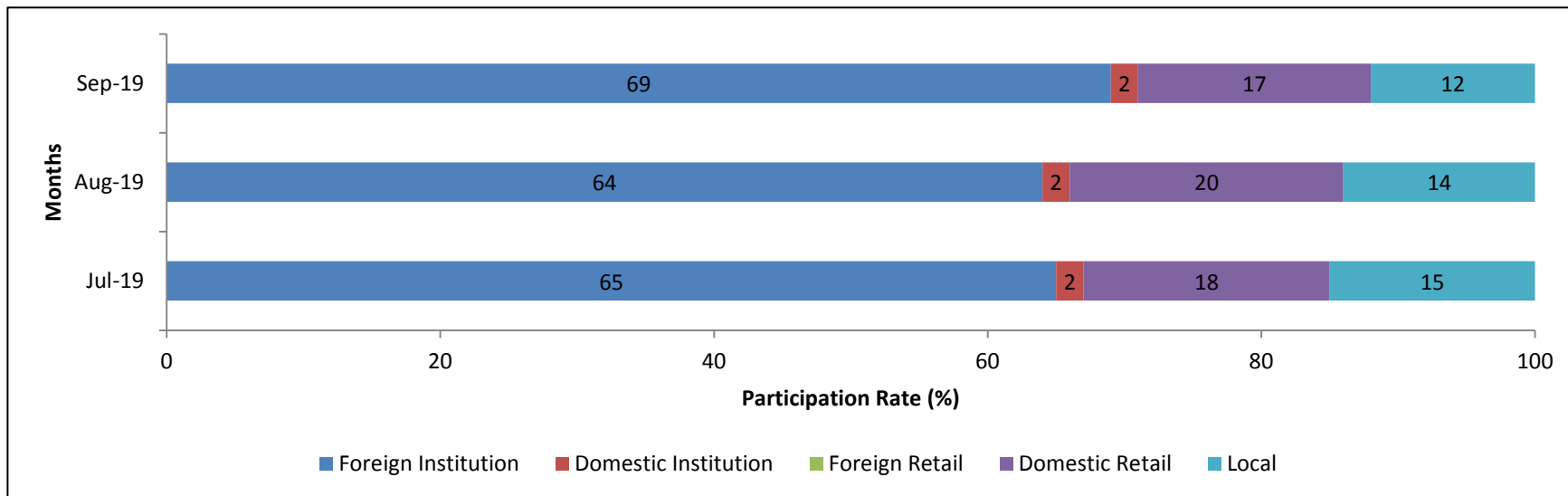
Snapshot of FKLI Performance

Price as at 30/09/2019 (Last trading day) : **1,580.50** Quarter High : **1,698.50** (02/07/2019) Quarter Low : **1,578.50** (03/09/2019) Q2 2019 (% Change) : **-6.37**



Period	Remarks
A	2 Jul 19 – 12 Jul 19 (-1.80%) Market kick-off its Q3 2019 in red on profit taking activities as most investors are taking cues on Federal Reserve (Fed) chairman, Jerome Powell remarks on Fed June policy meeting on potential interest rate cut at end of July.
B	15 Jul 19 – 18 Jul 19 (-1.29%) Local market declined in three straight session in line with tumble in global peers on reaction over new trade tariffs by US President Donald Trump against another US\$325 worth of Chinese goods.
C	25 Jul 19 – 5 Aug 19 (-3.14%) Market was affected due to indication made by Fed Chairman, Jerome Powell that there are no guarantee of more rate cuts in future during its FOMC meeting in September and tracking the announcement made by US President Donald Trump to impose new 10% tariff against the remaining US\$300 billion worth of Chinese imports.
D	8 Aug 19 – 13 Aug 19 (-1.76%) Market continued to slip on the back of cloudy US-China trade deals after US President Donald Trump announced he was not ready to make a deal with China and tracking US decision to continue refrain from doing business with Chinese Huawei Technologies.
E	30 Aug 19 – 3 Sep 19 (-1.93%) FKLI dropped as tariffs announced earlier came in force where US began implementing tariffs on more than US\$125 billion worth of Chinese goods while China retaliated with imposition of additional tariffs on US \$75 billion worth of US goods

FKLI Market Demography Q3 2019

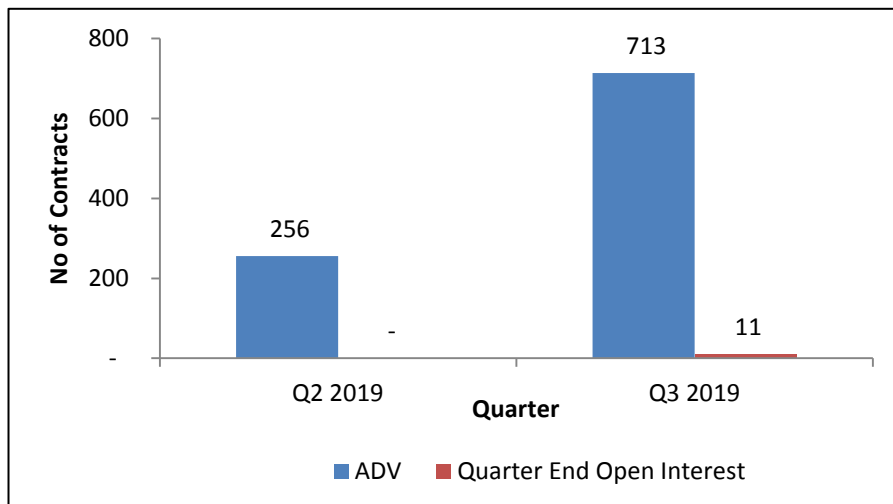


Review :

- Foreign institutions continued to dominate the FKLI market as they accounted for more than 64% of market share in Q3 2019.
- Like FCPO market, domestic retail was the second major player in FKLI market with participation rate range between 17 to 20%.
- Behind foreign institutions and domestic retail is local participants who recorded a participation rate range of 12 to 15% in Q3 2019.
- Lack of interest can be seen among the domestic institution in FKLI market as they only able to claim the fourth spot in FKLI market share with mere participation rate of 2% in every month in Q3 2019.

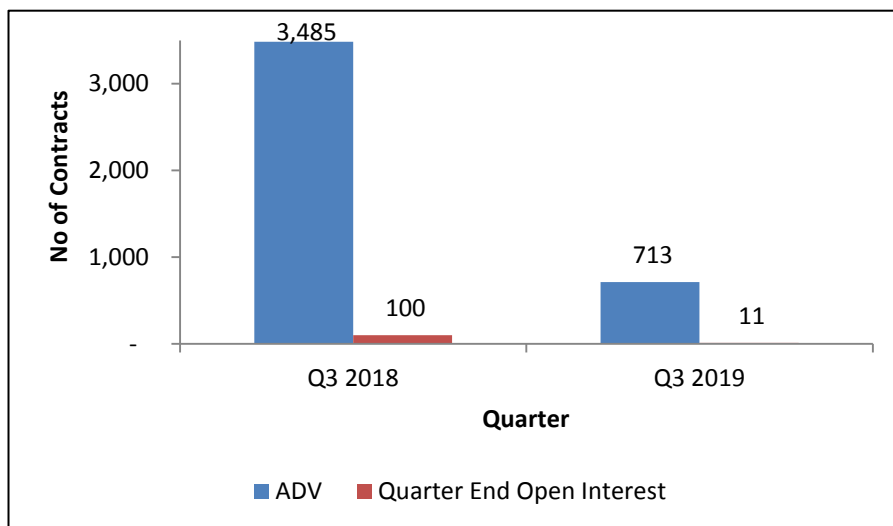
Other Key Products' Performances

FPOL QoQ Performance



- A spectacular growth was seen in FPOL performance on QoQ basis, as the ADV had grown 179% from 256 contracts in Q2 2019 to 713 contracts in Q3 2019.
- In terms of quarter end open interest, an additional 11 contracts were recorded from none in Q2 2019 to 11 contracts at the end of Q3 2019.

FPOL YoY Performance

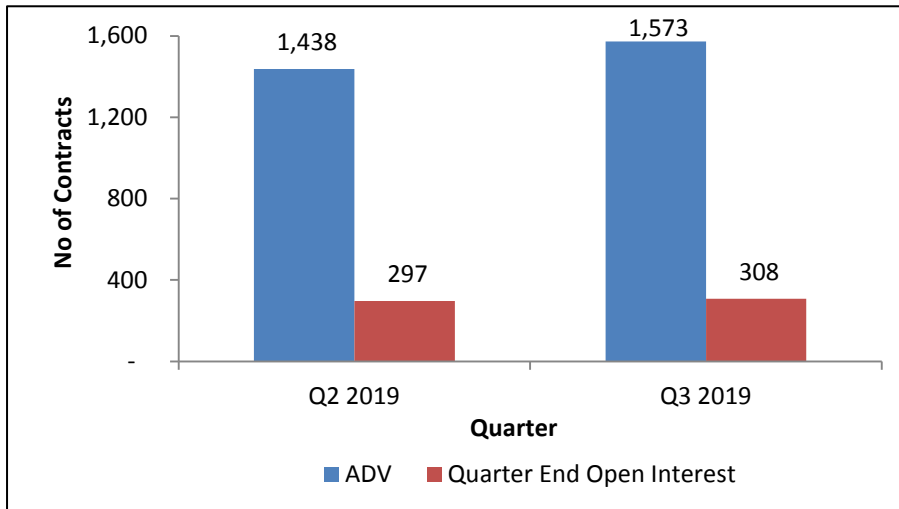


- Despite a splendid performance in FPOL performance on QoQ basis, the ADV had tumbled 80% from 3,485 contracts in Q3 last year to 713 contracts in the same quarter this year.
- Meanwhile, the quarter end open interest had plunged 89% to 11 contracts in Q3 2019, compared to 100 contracts registered in the same quarter last year.



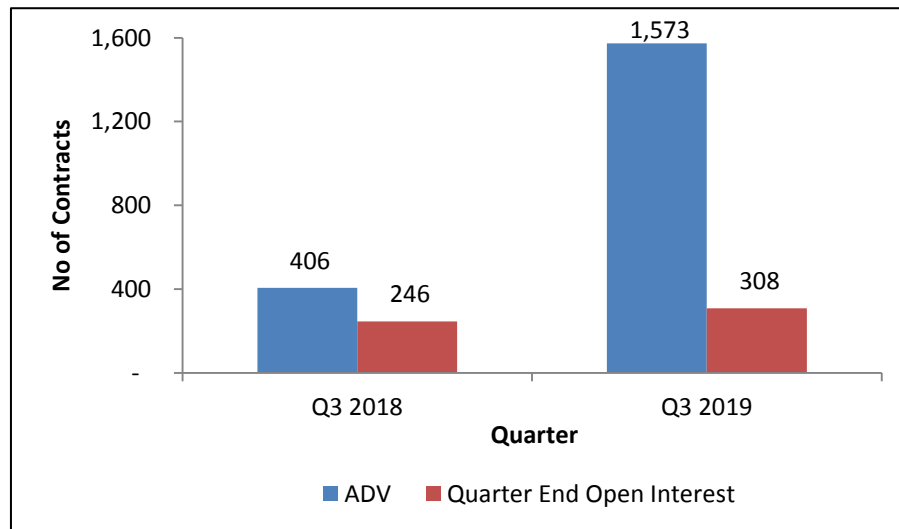
Other Key Products' Performances

FM70 QoQ Performance



- FM70 continued to record a continuous growth in its performance as the ADV had successfully expanded 9% from 1,438 contracts in Q2 2019 to 1,573 contracts in Q3 2019.
- Mirroring the ADV growth, the quarter end open interest had also posted a steady growth of 4% on QoQ basis from 297 contracts in Q2 2019 to 308 contracts in Q3 2019.

FM70 YoY Performance



- Looking at YoY comparison, an outstanding growth was seen in terms of ADV performance where the contracts had risen 287% from 406 in Q3 last year to 1,573 in Q3 this year, given FM70 contracts were only being introduced in August last year.
- On another note, the quarter end open interest had increased 25% from 246 contracts in Q3 2018 to 308 contracts in Q3 2019.



Bursa Malaysia Derivatives Q3 2019 Highlights

Chicago Mercantile Exchange to host Bursa Malaysia Derivatives Products until 2025

- On September 2019, Bursa Malaysia Berhad (BMD) extended its agreement with Chicago Mercantile Exchange (CME) to host Bursa Malaysia Derivatives Bhd's (BMD) products on CME Globex until September 2025.
- Bursa Malaysia Bhd would in turn acquire the remaining 25% equity in BMD from CME Group Strategic Investments LLC (CMEGSI) for RM162.47 million and an additional sum, following the exercise of a put option under an agreement signed in 2009.
- Under the agreement, CME and BMD will explore new products and other business opportunities that will deliver value to their respective customers.
- Meanwhile, the acquisition of BMD by Bursa Malaysia will provide a change to Bursa Malaysia in streamlining its assets and expand its offering in the derivatives business.

IN CASE YOU MISSED IT



The Launch of KF's New Product Offering : Hong Kong Futures Exchange (HKEX)

- In expanding its global product offering, Kenanga Futures has officially launched its inaugural access into Hong Kong Futures Exchange (HKEX) on 3 September 2019.
- For the first phase, KF currently offers four (4) products, namely Hang Seng Index (HSI) futures contracts, Mini HSI futures contracts, Hang Seng China Enterprise Index (HSCEI) futures contract and Mini HSCEI futures contract.
- To trade or enquire more info on these products, please visit our own website www.kenangafutures.com.my or contact us at our general line.



**Thank You
Terima Kasih**



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Prepared by Kenanga Futures Sdn Bhd, a Trading Participant of Bursa Malaysia Derivatives Berhad and a Clearing Participant of Bursa Malaysia Derivatives Clearing Berhad