January Outlook – 2019 To Start From A Shaky Ground

SUMMARY

- **Increasing jitters on global growth slowdown; Fed slows future tightening path.** Global equity markets fell in Dec- 18, as markets worry higher interest rate in the US could exacerbate an economic slowdown. Meanwhile, IMF says trade war is already hurting Asia, and it may further cut global growth forecasts in Jan-19. Indeed, economic data for Nov-18 in the Asian countries mostly disappointed. Meanwhile, the Fed hiked interest rates for a fourth time in Dec-18 as expected and cut its forecast to 2 hikes in 2019, from 3.
- **Malaysia's sovereign outlook concern eases for now from Moody's.** Moody's affirms Malaysia's A3 ratings but it recognizes that Malaysia's fiscal strength has weakened. However, the headline Nikkei Malaysia Manufacturing PMI fell to 46.8 in Dec-18 from 48.2 in Nov-18 to reach the lowest level since the survey started in Jul-12. Likewise, Nov-18 exports was below forecast and grew a marginal 1.6% YoY.
- **Equity market partly saved by window dressing activities while bond market rallied in Dec-18.** Although we did not experience window dressing activities on the last day of the year, we did see some action during mid-Dec on some of the big cap stocks. Window dressing activities last year were not as active as prior years partly due to US markets finally crashed in Dec-18. On the other hand, the local yield curve shifted lower across all tenures in tandem with the rally in US Treasuries as macro data from all regions highlighted ongoing concerns on global growth ahead.
- **Macro – Be braced for more challenging and volatile environment.** With risks such as interest rate hikes from the Fed and an escalation in US-China trade tensions at the top of many people's minds, the possible impeachment of Trump has rarely been discussed. Apart from the developed economies, there is also a number of crucial macro events to be unfold in Asia in 2019 with 3 big polls to be held in Indonesia, India, and Australia. Separately, to touch on our first 2019 investment thesis where we foresee a synchronised growth moderation in Asia, new export orders contracted nearly everywhere in Dec-18 in Asia and was down sharply in the Eurozone.
- **Equity – Expect a volatile start to 2019.** This is because of the lack of domestic catalysts to drive the market higher. But, starting Jan-19, the only likely good news aside from positive development from global events, if any, would be technical rebound post aggressive selling late last year or so called 'CNY rally'. However, our KLCI would not be spared from the high volatility swings from global markets. Hence, we recommend to adopt trading stance again for 2019.
- **Fixed Income & FX – 2019 new govvy issuance skews towards 10y and above tenure.** Based on the auction calendar, the bulk of issuance will be for the 10y tenure with RM25.5bn followed by the 15y with RM22bn. As such, yields for these 2 tenures may face upward pressure in certain months. The underlying risk to our sovereign rating outlook is still prevalent amid subdued oil prices and moderating growth. This supports our higher yield expectations in 1H19, thus, providing a buying opportunity into higher yield levels. Over to FX, the recent dovish messages from the Fed Chair J. Powell have set a weakening trend to the USD at least in the next 3-6 months, of which lead to stronger foot in regional currencies, including the ringgit.

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