April Outlook – All About Macro

SUMMARY

- **Stocks gain as China data lift hopes.** Stocks strengthened worldwide in Mar-19 as strong manufacturing data in China helped allay investors' concern about a slowdown in global growth alongside stabilization of sentiment at Asia's factories. However, the Eurozone's economic sentiment continues to deteriorate. Meanwhile, the FOMC signaled it will not hike rates in 2019 and only once in 2020, reflecting expectations of economic slowdown.
- **Malaysia's BNM revised downward 2019 GDP growth target to 4.3%-4.8%** (2018: +4.7%), and lower than the MoF's official forecast of +4.9%, mainly driven by domestic demand amid the challenging global environment. Also, Malaysia reported a second consecutive month of deflation in Feb-19 due to falling transport and clothing & footwear prices alongside the manufacturing activity which declined to a 3 month low in Mar-19. Separately, the Government tables RM19.6bn Supplementary Budget 2018.
- **Profit taking seen in the Malaysian equity but bond markets remained bullish in Mar-19 on dovish BNM statement.** Following a strong run up in Jan and Feb for the small- and mid-cap stocks, we see investors taking profit since their purchases were merely for short-term trading purposes. Malaysia KLCI is the only index in red YTD, down 2.8%. On the other hand, global bond markets rallied in response to the Fed's dovish stance and a week after the FOMC, the domestic bond market reacted strongly to BNM's meek 2019 growth projections while increasingly pricing in a rate cut in the next MPC meeting in May-19.
- **Macro – All about macro**. There is growing optimism by some that China's economy is bottoming as increasingly citing the jump in Total Social Financing, stimulus measures and the potential for a US-China trade deal. As such, we attribute the current US yield curve inversions to the reversal of QT this year, which might have distorted the recession signals. In addition, the early stage of curve inversions might create false recession signals as evidenced in mid 90s and 2005-06. So far, foreign fund flows within Emerging ASEAN have been mixed where outflows are evident in Thailand and Malaysia but Indonesia and the Philippines have experienced inflows. We gather that should the 10y MGS and KLCI dividend yields converge in 2Q19, we shall consider to take profit from fixed income and increase exposure to equity investment.
- **Equity – Still a small- and mid-cap month.** As for the bigger cap, we expect a lackluster trading month for them. Although fundamental impact of the OPR cut on banks' earnings is minimal, more newsflow of OPR cut will dampen the banks' share prices and sentiment. Furthermore, if global markets were to fall, will Malaysia be spared? Our view is no. Despite our KLCI performance remained negative YTD while the whole global markets were positive, we will likely join the global sell down when it happens. However, with brent oil continue inching up towards USD70-80/barrel level, this should boost the trading sentiment of O&G stocks.
- **Fixed Income – OPR cut expected in May-19.** We are penciling a 25bps OPR cut on 7 May as a pause by the Fed on rate hikes has provided much room for BNM to do so amid a lackluster economic background and benign inflation expected in 2019. BNM now seems more concerned about domestic growth, noting "heightened uncertainties in the global and domestic environment", whereas previously it only referred to the global environment. Therefore, we expect local yields to remain low in 2Q19 and could potentially see a dip further from current levels with the impending rate cut. We project the 3y and 10y expected to range between 3.20%-3.30% and 3.60%-3.80%, respectively.

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