eTiQa

Research Malaysia

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May Outlook – Monetary Easing Still Warranted

SUMMARY

- **Hopeful on economic stability.** The JPM global manufacturing output PMI edged up 0.2 points to 50.5 in Apr-19 which underscored improvement in the global industry. China's economic growth beat forecasts as it remained steady in 1Q19 at 6.4% YoY, where factory activity recovered in Apr-19 in parts of Asia but still appeared to be on shaky ground as global demand remained subdued.
- **Likewise, slight improvement was seen in Malaysia but downside risk remains.** Manufacturing PMI rose to 7 month high in Apr-19 which was buoyed by new export orders while the revival of ECRL and Bandar Malaysia projects signals that the PH government is ready to restart part of its fiscal spending engine to support Malaysian economy. Negatively, Malaysian govvies are on FTSE Russell watch list and at risk of being removed from the World Government Bond Index.
- **Both local equity and bond markets experienced selldown on negative news flows.** Despite lackluster trading during most days in Apr-19, we saw more sellers than buyers on the KLCI stocks, causing the index to fall during most trading days of the month. However, with the confirmation of mega project revival, this has increased the trading interest in construction stocks. Over to the debt market, April saw yields inching up on 3 negative headlines starting with the exit of Norwegian sovereign fund from EM bonds, followed by the potential FTSE Russell index withdrawal and Moody's concern on the government's RM6.2bn bailout of Felda.
- **Macro – Economies appear stabilised but easing still warranted.** Despite the US's 1Q19 GDP growth at 3.2% QoQ annualized which beat consensus expectation, the banking system has shown signs of liquidity squeeze where banks are paying higher rates to get funding. Also, the Asian headline PMIs were mixed in Apr-19 with some up, some down while leading indicator for the region suggests that thinning inventory may support production over the near term. That said, there seems to be room and urgency for G3 as well as Asian central bankers to adjust its policy stance as the exports outlook remains challenging especially now US-China trade talks are still flip-flopping.
- **Equity – Sell in May & go away happening?** We see 50% probability of this happening. But, on the positive side, it might not happen because: 1) our market is still flushed with liquidity; 2) KLCI is the only underperformer in the region YTD; and 3) most importantly, we have positive news flow on mega projects revival. For May, we have Overweight on the construction, consumer, rubber glove and O&G sectors, Underweight on auto and utilities sectors while keeping the rest at Market Weight.
- **Fixed Income – Risk of potential WGBI exclusion in Sep-19.** The possible exclusion of Malaysia from the FTSE-Russell WGBI come Sep-19 could see potential outflows between RM25bn and RM33bn from MGS foreign holdings. This is on top of the potential USD2bn outflows stemming from Norway sovereign fund's intention to exit from emerging bond market. The potential outflows could cause a knee-jerk spike in MGS yields but we expect local funds to be able to partially absorb the impact in view of the large govvy maturities in the months of September to November.

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