July Outlook – More Cheap Money ahead

SUMMARY

- **Global PMI rose for a second month as economies opened up.** The JPM Global Composite PMI jumped by a record 11.4 index points in Jun-20 to 47.7 (May-20: 36.3), pushing the index to a five-month high. Improved output gauges seen in all countries and all 26 sectors, led by China and by banking services. Despite the rise, PMI remained below 50 level, indicating a fifth successive monthly deterioration of output across the combined manufacturing and service sectors.
- **BNM delivered a further 25bps OPR cut in July to 1.75%.** The MPC statement highlighted increasing downside risk on economic growth due to pandemic fears as well as low crude oil prices and that it will "continue to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery".
- **Equity market review -** To recap, our local market had had a good run since May. But, as it headed toward end June, we noticed liquidity among retailers were gradually drying up and this could potentially due to retail investors going back work post MCO lifted and some 'newbie' retailers backed off from the market after suffering some losses from the recent market retracement.
- **Bond market review -** It was a volatile bond market in June. The first week saw a major sell-off in global bond markets as stronger-than-expected jobs data in the US. However, local yields recovered towards month-end as "risk-on" optimism was dampened by the unrelentless rise in Covid19 cases globally. Meanwhile, foreigners staged a strong comeback in the local debt market with RM11.6bn inflows seen in June. The Negative outlook on Malaysia's sovereign rating by S&P did little to pressure local yields as it was overshadowed by rising expectations of a further OPR cut on 7 July.
- **Macro – USD weakness and market corrections ahead will lead to a fresh round of money printing.** Of late, we notice that the Fed's balance sheet has quietly shown signs of shrinking mainly due to slowdown in crisis lending as well as lower central bank liquidity swaps. As such, the front-end of US Treasury yield curve is at edge of inverting again as seen in early 2019. While the Fed is not necessary cutting rates to negative but a new round of money printing is foreseeable towards 3Q20.
- **Equities – Retailers' liquidity drying up?** The good news to our equity market is starting July, we notice institutional investors are taking over the market lead and hence market is going back to fundamental investment, thus making any rally more sustainable or any sell down more structured rather than volatile which may drive away long term and value investors. But nothing is solid proof as risk to market includes us entering into 3Q which traditionally is a profit taking quarter before a rally in 4Q whilst local political uncertainties remains.
- **Fixed Income – The dovish monetary policy stance leads us to pencil in another 25bps cut in Sep-20 to 1.50%.** Thus, we are revising our year-end 10y MGS target lower. While we are cautious on potential rating downgrade on Malaysia, we reckon that this will likely be in 2021/2022. New waves of Covid-19 continues to add to market fears while US-China trade tensions are expected to keep a lid on global yields.

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