November Outlook – RORO (“Risk-On/Risk-Off”)

SUMMARY

- **Another global growth downgrade from IMF** where it forecast growth to fall to 3% in 2019, the slowest pace since 2008 financial crisis, warning there are no room for policy mistakes and an urgent need for policymaker to de-escalate the trade and geopolitical tensions. The US Oct-19 manufacturing remains in contraction territory for the 3rd month while the Eurozone economy maintains cruising speed of 0.2% in 3Q19. Meanwhile, China’s economy grew by 6% YoY in 3Q19, the slowest since 1992, as the trade war took its toll.
- **Malaysia’s Budget 2020 – Driving growth and equitable outcomes toward shared prosperity**. The 2020 fiscal deficit is projected to be further reined in at 3.2% (2019e: 3.0%) while the government expects 2020 GDP growth to accelerate to 4.8% (2019e: 4.7%). Notably, broad money (M3) eased for the fourth straight month as banking system’s total loan growth moderated and the country reported sharpest exports decline in 3 years for Sep-19.
- **Oct-19 was an interesting month for domestic stocks; local govvy yields rose across tenures especially in the belly and longer-end of the curve**. The small- and mid-cap stocks were risk on starting mid of Oct, led by O&G and technology counters. The big-caps, especially the banks outperformed mainly on the last 2 hours of the last trading day of the month, supported by window dressing activities. Over to debt market, global risk-on sentiment due to US-China trade optimism caused US Treasury yields to rise. Also, the Fed sent signal of a rate cut pause at least in the near term led to yield upticks in domestic bond market.
- **Macro – Risk-On, Risk-Off play as correlation has risen.** To large extent of late, not only have cross-asset correlations risen but we are starting to observe much more market commentary about either risk-on or risk-off price action. Notably, the market ignores fundamental characteristics of assets and instead puts assets into either a risk-on or risk-off block. We saw a strong risk-on environment in Oct-19 where EM assets have outperformed in the recent risk rally. Another factor that has been driving asset price returns is the weakening USD trend. However, the recently updated tactical pullback indicator is a concern. These indicator aim to predict the likelihood of equities falling over the coming 4-weeks where the probability spike up to around 61%.
- **Equities – All eyes on 3QCY19 results while continue turning risk on.** November should be a tradable month and we expect big-caps to lead the way and lift the overall sentiment of the KLCI. There could also be for window dressing activities towards end-Nov and 2nd as well as last week of Dec-19, if history were to repeat itself. Aside from the big-caps, there could be rotational thematic play on the high beta sectors such as the property and construction sectors since the O&G and technology sectors had had their good run last month.
- **Fixed Income - Rising optimism on US-China trade deal and US macro data to lift global yields.** Looking ahead, local yields are expected to trend higher partly tracking global yields to range towards our year-end target of **3.50%-3.60%** for the 10y MGS. This is underpinned by the absence of catalysts as major central banks take a breather aside from renewed optimism on US-China trade talks and signs of economic strength in the US. Locally, in terms of govvy supply, we foresee slightly higher issuances of RM122.5bn next year to fund the fiscal deficit of RM51.7bn and refinance RM70.7bn maturing tranches.

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