December Outlook – A Year of 2 Halves

SUMMARY

- **Central bankers continue support to growth**. US and Europe equities rose amid some positive economic data, but China's stocks declined in Nov-19 as more signs point to weaker growth ahead, prompting more monetary stimulus by PBOC. Economic data from the US was generally positive while the Eurozone economic sentiment indicator improved in Nov-19, suggesting growth prospects optimism after the ECB unleashed new monetary support in Sep-19.
- **BNM starts with liquidity injection**. Malaysia's 3Q19 GDP growth moderated to 1-year low of 4.4% YoY, matched market estimate. While BNM remains concerned of geopolitical tensions, policy uncertainty and unresolved trade disputes, it kept the OPR unchanged but surprisingly cut SRR to 3.00% from 3.50%, effective 16 Nov 2019 to maintain sufficient liquidity in the system. Notably, Malaysia's PPI remained deflationary for one-solid year up to Oct-19.
- **KLCI down on risk-off trade; bull steepening govvy curve shifts interest to PDS.** Trump signed bills supporting Hong Kong protestors into law despite Beijing's repeated objections. As a result, Asian markets including Malaysia saw some jitters on concern that this signing by Trump would affect phase 1 trade deal. Over to debt market, the MGS yield curve bull steepened last month as local yields were largely tracking the slide in global yields as trade uncertainties between US and China diminished hopes of a Phase 1 trade deal.
- **Macro – Value/Growth stock cycle on the verge to turn.** Bringing us to the 2006-to-date growth cycle, we have seen the first inversion of the US10Y – 2Y yield. If we are to track the behaviour seen ahead of the 1991, 2000, and 2006, we should expect the growth/value cycle to extend into a second US10Y – 2Y inversion that lead to a market correction of 20%+ and accompanied by the initial phases of Value outperformance. Interestingly, the MSCI EM Value/Growth ratio seems to be attempting to base out where EM Currency index would add further support for the EM value/growth ratio basing out earlier than the US growth/value ratio.
- **Equities – Dimming chance for window dressing activities.** Historically, Dec is a window dressing month and same goes for end-Nov too. However, taking a cue from last month, we saw the index closed lower instead, thus dampening our hope that there is high probability history would repeat itself again. Also, with some funds mark to market now and with phase 1 trade war outcome remains uncertain after Trump signed bills to support Hong Kong protestors, this may lead to further profit taking activities among investors instead. Sector call wise, we have just upgraded the plantation sector to Overweight on expectation that the CPO price will go higher next year.
- **Fixed Income – A year of 2 halves for 2020.** Moving into 2020, we expect Malaysia's GDP growth at 4.5%, trending below MoF's estimates of 4.8%. Against a subdued economic backdrop, it is expected that noises of an OPR cut will emerge nearer to Mar-20 and as such local yields should compress slightly further from current levels before moving higher in 2H2020 on potential foreign outflows due to lightening index weightage for MGS coupled with supply growth appears to outweigh demand growth in 2020.

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