April Outlook – Macro-Markets Disconnection

SUMMARY

- **Covid-19 leads to growth nightmare.** The world is currently experiencing the fastest and deepest economic contraction since the 1930s, with global GDP likely to fall by around 8% in 1H20 (more than twice as bad as the worst six months during the Great Recession). China is leading the rest of the world through the Covid nightmare by around two months, with the recovery in the month of March providing comfort that even a modest relaxation will see growth return. However, we do not expect a sharp V-shape recovery in 2H20.
- **BNM expects Malaysia's GDP growth to be between -2% and +0.5% in 2020.** Global growth is likely to contract, leading to weak exports. Domestically, economic activity should be supressed by policy measures for much of 1H20. Support will come from extensive fiscal and monetary stimulus. Meanwhile, we might face zero inflation if not deflation this year, considering the increasingly negative outlook on global commodity prices as well as the extension of the MCO.
- **Macro – Macro-financial markets disconnection.** When investors should start paying close attention to how long this bear market rally will actually last. Investor sentiment has been picking up, most noticeably in the US. However, given how much uncertainty the coronavirus pandemic is still causing downside risks to the real economy and the political sphere, many observers have doubts as to the longevity of a stock market rebound that looks wholly dependent on massive monetary easing.
- **Equities – Rebounding before "sell in May".** Fundamentals for the domestic equity market remain weak and stay bearish so far, however, the local sentiment has been recovering alongside global trend so as technically, the FBMKLCI chart looks bullish in the near term. On the other hand, we are still very concerned on corporate earnings downgrade ahead especially during May-20 results season, which could lead to another round of sell down in local equities. Thus, we remain very cautious towards the equity market.
- **Fixed Income – Govvy yields might go lower on OPR cut expectations.** In view of the pro-longed negative impact from the extended MCO on our local economic performance, bond market tends to price in the next OPR cut could be as soon as during the May-20 MPC meeting of which we are also on the same page. Therefore, there is room for govvy yields to go lower in the near term before concerns of more supply will flood the market to finance the Government's fiscal deficits in the medium term.

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