June Outlook – Show & Tell

SUMMARY

- **Global downturn moderates in May-20 as lockdown eases.** The JPM Global Composite PMI for May-20 of 36.3 (Apr-20: 26.2) showed global economy contracting for a fourth month, albeit at an easing pace. This reading however, remained even lower than the prior-pandemic record low of 36.8 in Feb-09. Service sector downturn was the second largest in 22 years, while manufacturing continued to fall albeit at a lesser pace. The JPM Global Manufacturing PMI rose to 42.4 in May-20 (Apr-20: 39.6).
- **From CMCO to RMCO on the back of RM35bn PENJANA stimulus.** The government has announced preparations for a transition from the Conditional MCO ending on 9 Jun to the Recovery MCO set to last until 31 Aug amid a gradual decline in new Covid-19 cases. With the economy beginning to emerge from a state of suspension, households and businesses are counting the costs of the damage. To aid the post-MCO rehabilitation, the government has announced the RM35bn National Economic Revival Plan, marking the fourth comprehensive package and bringing the cumulative stimulus to RM295bn or 20% of GDP.
- **Bond market review -** Local yields continued to rally in May after the 50bps OPR cut to 2%. The 3y and 10y MGS saw MoM changes of 13bps and 6bps, respectively, to 2.27% and 2.80%, respectively. (Apr: 2.40% and 2.86%, respectively). Some economists foresee further OPR cuts in 2H 2020 as real returns remain attractive due to deflation. However, foreign investors are expected to remain on the sidelines amid lingering uncertainties as prospects of economic growth remains lethargic aside from fiscal challenges.
- **Macro – Liquidity driven rally amidst protests in the US.** In the past 2 months, we have seen the outperformance of risk assets supported by central banks' ultra-easy monetary policies and policy tweaks. On the other hand, fiscal stimulus globally to sustain employment and keep corporates as going concern instead of boosting the aggregate demand and growth. Re-emergence of the US-China trade friction could further drag down demand and growth. While the current corporate profit impact is expected by the market to be less severe than during the Global Financial Crisis, but corporates are more leveraged now, especially sharp corporate debt gains in Korea and mainland China, which both now exceed the developed market average. Separately, the current violent protests in the US due to George Floyd's death appear to benefit Republican Donald Trump's re-election as he reiterates to restore "Law and Oder" in the US.
- **Equities – Expect another liquidity driven month for local stock market.** Despite MCO being lifted on 9 Jun, we still expect the local stock market to be flushed with liquidity, probably until short selling is re-introduced back into Bursa Malaysia. Meanwhile, expect rotational sectorial trades like plantation, construction, O&G, property, technology, gaming and airlines sectors but all these will come with high volatility following the re-surfacing of trade war between US and China from the HK issue as well as potential bad 1QCY20 results from small mid cap companies which a lot of market makers and retailers have been trading these stocks.
- **Fixed Income** – According to IMF data, debt-funded stimulus plans to combat Covid19 has breached over USD9 trillion globally as at end-May – stoking fears of oversupply and yield pressures especially when economies are expected to gradually reopen in June and shift investors' appetite to riskier assets, i.e. equity markets. Nonetheless, the return of rising geopolitical tensions between US and China on trade, ongoing riots in the US and its impact on the presidential election come Nov-20 as well as Russia and Saudi Arabia's oil spate are expected to keep a lid on yield uptick over the horizon.