November Outlook – Are We Into New World Order?

SUMMARY

- **Global manufacturing and services accelerated in Oct-20.** The JPM Global Manufacturing PMI stood at 53.0 in Oct-20, up from 52.4 in Sep-20 to post its best reading for 29 months. New order intakes strengthened, assisted by a further upturn in international trade, while business optimism rose to its highest level since May-18. Meanwhile, the JPM Global Composite PMI rose to a 26-month high of 53.3 in Oct-20, up from 52.5 in Sep-20, signaling expansion for the fourth consecutive month in both manufacturing and services industries.
- **BNM MPC statement on Nov 3rd suggested the end of monetary easing** although resurgence of Covid-19 globally and locally continue to pose downside risks. Separately, the MoF shared that Malaysia's GDP to recover to 6.5-7.5% growth while fiscal deficits to improve marginally to 5.4% of GDP in Budget 2021. At the same time, a slew of cash handouts were tabled to ease burden of B40 and M40 amidst Covid-19 pandemic.
- **Bond market review - Local yields rallied last month, especially in the short-term** amid the rising Covid-19 cases both locally and globally - which eventually led to the imposition of CMCO in the Klang Valley. This was also partially driven by expectations of OPR cut in November as daily new cases reached a high of 1,240 on Oct 29th. However, some selling was seen towards month-end amid political noises of a possible declaration of state of emergency.
- **Macro** – Although it looks likely that Joe Biden will become the President, the US Congress would likely be split with Republican control of the Senate and Democrat control of House of Representatives. As such, the fiscal policy and tax hike proposals from Biden might face hurdle to pass, which could potentially force the Federal Reserve to pursue further QE ahead, by flattening the Treasury curve, boosting stock prices and depressing the dollar.
- **Equities – All eyes on Budget 2021 impact & 3QCY20 results.** In summary, we see Budget 2021 as a market friendly budget as there is more money allocated to fight Covid and to boost the economy as well as no corporate tax hike. Also, most of the local and global market uncertainties which we highlighted last month have somewhat subsided with the exception to the continuous rise in Covid-19 cases. As a result, we see market turned risk on for Budget 2021 beneficiaries and window dressing trade. We expect the big cap to lead the way, initiated by the local GLCs as well as foreigners while retail will soon follow on the small cap stocks thereafter.
- **Fixed Income – The Ministry of Finance under Budget 2021 dictated better growth outlook, narrower fiscal deficit**, higher inflation targets as well as lesser dependence on petroleum revenue for 2021. As such, we expect lesser downward pressure on sovereign rating despite the still elevated debt/GDP ratio of 61% in 2021. However, yield uptick pressure could emerge as net supply of Govvies in 2021 remains high at RM84.8bn to fund deficit coupled with lower inflows into EPF coffers arising from lower contribution/withdrawals from members.

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