

February Outlook – High Hope On Covid-19 Vaccines

SUMMARY

- Slower growth of global manufacturing and services at the start of 2021.** The JPM Global Manufacturing PMI eased to a 3-month low of 53.5 in Jan-21 (Dec-20: 53.8), although remaining at one of its highest levels over the past 3 years. Meanwhile, the JPM Global Composite Index posted lower at 52.3 in Jan-21, as rates of expansion eased in both categories, hitting a four-month low in manufacturing, and a six-month low at service providers.
- BNM sees recovery in 2021** more so with expectations that 70%-80% of the population will be inoculated by end-3Q21 as well as the continued expansion in manufacturing facilities especially in electronics, IOT, healthcare and oil and gas sectors. BNM foresees the 125bps OPR cut in 2020 to impact till 2021 besides the additional stimulus packages under RM15bn PERMAI stimulus package to aid recovery.
- Bond market review** - The 3y MGS yield climbed 11bps MoM to 1.97% as at end-Jan '21 after BNM maintained the OPR at 1.75% against market expectations despite the implementation of MCO. The 10y MGS yield was tracking the rise in US Treasuries however some pullback was seen towards month-end after Moody's reaffirmed Malaysia's rating at A3/Stable. Elsewhere, the US Treasury yield curve bear steepened (2y10y: 97bps from 68bps in Nov-20) on reflation trade. There was heavy supply of govies in Jan-21 with a net supply of RM12bn however auctions were well-bid with monthly average BTC of 2.31x.
- Macro – Promising efficacy of Covid-19 vaccines thus far.** The global 7-day moving average daily Covid cases have dropped from the peak of circa 750k cases in early Jan-21 to 500k case in early Feb-21 as vaccines being rolled out since end Dec-20. With this backdrop, as long as the Federal Reserve and regional central banks continue its fiscal stimulus and accommodative monetary policies, the short-term risk-off equity environment (possibly triggered by the short-term stronger USD) provides a buying opportunity for post-pandemic economic re-opening thematic play.
- Equities – A temporary risk-off due to shorter trading month** amidst MCO & 4QCY20 results uncertainties. As a result, we expect Feb-21 to be a profit taking month. Nevertheless, we see any weakness as buying opportunities to ride a stronger market recovery in Mar/Apr as equity market will always react 6 months ahead of fundamentals such as mass vaccination by 2H21 resulting in full opening of our economy. Besides that, our positive view is also in line with the positive momentum of global equities and commodities whereby rising tide will lift all boats, including our KLCI. We remain bullish on consumer, oil & gas, technology, transport and gaming sectors.
- Fixed Income – Moving forward, global yields including that of Malaysia will continue to rise buoyed by 'risk-on' euphoria** as vaccination appears to be able to moderate new infections and better economic outlook. The current spread 10y MGS vs 10y UST of 159bps has narrowed to the pre-Covid historical average of circa 155bps. The successful passing of Biden's stimulus plan will cause the long-end UST yields to rise further, thus, pressuring the 10y MGS yield towards 3.0%.

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