July Outlook – Back For 2H21

SUMMARY

- **Global manufacturing remained in a strong growth phase.** The JPM Global Manufacturing PMI dipped slightly to 55.5 in Jun-21, down from May-21's 11-year high of 56.0 with output, new orders and employment all rising and business optimism at robust levels. Europe remained a bright spot while Asia continued to underperform compared to the global average. Meanwhile, the JPM Global Composite Output Index posted at 56.6 in Jun-21, down from May-21's 58.5. The reading was still among the best registered over the past 15 years. The service sector outperformed its manufacturing counterpart for the third successive month.
- **The extension of MCO and further lockdowns in the Klang Valley will cause further erosion to GDP and fiscal deficit.** The road to fiscal and debt consolidation continues to be an uphill task, more so amid keener political uncertainties.
- **Bond market review - For 1Q21, pension funds returned to the local bond market** with net purchases of RM4.3bn after 3 consecutive quarters of selling in 2020. In Jun-21, the 3y MGS yield slipped MoM amid rising OPR cut noises but the 10y yield rose on fiscal concerns vis-à-vis the additional RM10bn pump priming needed under the new RM150bn PEMULIH stimulus package. Separately, as at end-June, foreign investors held a respective 40.4% and 7.9% of outstanding MGS and GII.
- **Macro – China has monetary policy room to cushion growth headwinds ahead**. Of late, weakness in the Chinese manufacturing sector is exaggerated by the slowdown in services industry, which is mainly attributed to the May-June lockdown in Guangdong province amidst rising Covid-19 cases. As such, ASEAN countries' economic activity was affected by weakness in China's manufacturing as well as domestic lockdowns due to Covid-19 concerns. However, according to the bond issuance data compiled by WIND, in order to make up lower Chinese government bond issuance in 1H21, the bond supply will likely peak in 3Q21 coupled with the recently announced liquidity injection to the financial system, which should help cushioning regional growth headwinds in 2H21.
- **Equities – Expect a 'roller coaster' trading month with small cap in focus.** To recap, July historically has been one of the best trading month for small cap stocks since the last 5 years. We expect small cap stocks to still hog the trading limelight in July but the small cap return could be a different story. This is because our market sentiment is affected by EMCO in Selangor and Kuala Lumpur amid rising Covid cases despite lockdown and political uncertainties. As a result, we recommend to invest selectively on the economic re-opening stocks should there be any intraday aggressive sell down for their share prices recovery play in the coming months.
- **Fixed Income – Real yields in Malaysia have turned negative as inflation prodded to 4.4% in May.** Compared to certain high-yielding emerging markets, real yields are still in positive territory as some countries like Brazil and Russia have front-loaded policy normalization while Mexico , Hungary , Czech, Korea and South Africa have started or intend to hike rates as inflation runs higher than central banks' targets. Also, the Fed's taper talks in coming months will add pressure to foreign flows in EM and local govvies.

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