

October Outlook – Illusion of V-shape Recovery

SUMMARY

- **Global manufacturing recovery continues at the end of third quarter.** The JPM Global Manufacturing PMI rose to a 25-month high of 52.3 in Sep-20, up from 51.8 in Aug-20. Output and new orders both rose for the third successive month, while new export business expanded for the first time in over two years. Meanwhile, the JPM Global Composite PMI was down marginally in Sep-20 to 52.1, from 52.4 in Aug-20, as expansion in the services sector ticked lower.
- **A second wave of COVID-19 infections in Malaysia has led authorities to re-impose the Conditional Movement Control Order (CMCO) for two weeks** from 14 Oct. in Kuala Lumpur, Selangor, Putrajaya and from 13 Oct. in Sabah. These states accounted for circa 46.7% of GDP in 2019, hence, it is estimated that the two-week CMCO will subtract circa 0.4% from 2020 headline GDP growth.
- **Bond market review - Local yields rose in reaction to BNM's stance to keep the OPR at 1.75%**, domestic political noises and thin liquidity as investors stayed on the sidelines - ahead of FTSE Russell's verdict on Malaysia's fate in World Global Bond Index (WGBI). BNM performed MGS switch auction totaling RM3.1bn for illiquid tranches just before the FTSE Russell announcement.
- **Macro – Until employment is well restored then we are out of wood.** Despite Global manufacturing PMI has improved over the past few months, weak employment environment persists as corporate confidence remains sluggish. To a large extent, firms are reluctant to start hiring aggressively despite output has recovered much more quickly in recent months. Meanwhile, mobility trends for workplaces and public transport explain the weakness in employment still. On the other hand, China's hotel occupancy rate has normalized back to 2019 level vis-à-vis still sluggish situation in other Asia Pacific countries as well as Europe, the US and UAE.
- **Equities – Expect a lackluster trading month.** In Oct, we have a lot of uncertainties coming from both local and global side. Locally, investors remain concern on Malaysian politics, whether there will be lockdown again as Covid cases rise, the negative impact from expiry of loan moratorium especially on the small businesses and whether retail flows are coming back to the market after being quiet again in September. Globally, there is uncertainties from US Presidential re-election as well as the lackluster in commodities prices which will influence global market. As a result, we expect foreign selling to continue, local institution to stay sidelines and retailers to stay risk off. But, not all is lost. For investors with longer term appetite, they can look forward to invest in stocks / sectors which will benefit from Budget 2021.
- **Fixed Income – A resurgence in Covid19 cases both locally and globally appear to dampen economic recovery efforts.** As such, investors are likely to shift to safe haven investments amid these uncertainties – providing some support for yields. Back in Malaysia, favourable real return amid deflation is expected to remain attractive and moderate the impact of supply risk in the 4Q20 whereby ~RM23bn net supply of govies is expected – barring any unfavourable political news.

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