

## January Outlook – Are We Out Of Wood Yet?

### SUMMARY

- Global manufacturing stays strong, but supply-chain pressures grow.** The JPM Global Manufacturing PMI was unchanged in Dec-20 from Nov-20's 33-month high of 53.8. Manufacturing production and new orders remain strong, but world supply chains stay severely stretched, leading to marked delays and disruption to raw material deliveries, production schedules and distribution timetables. Meanwhile, the JPM Global Composite Index was down slightly to 52.7 in Dec-20, from Nov-20's 53.1, as the manufacturing sector outperformed services sector.
- BNM kept the OPR steady in Jan-21 despite the deployment of MCO 2.0.** BNM held the OPR unchanged at 1.75% in the first MPC meeting of 2021 while extending banking institutions' flexibility to meet the SRR compliance using MGS or GII until end-2022. The decision did not come as a surprise as it was in line with Bloomberg's consensus. Meanwhile, Malaysia's CPI decreased by -1.2% YoY in 2020 (2019: +0.7% YoY), not far from the expected range of -1% to -2% YoY, amid Covid-19 pandemic, a fall that was never observed for decades.
- Bond market review - Local yields fell in Dec-20 despite the sovereign rating downgrade by Fitch.** This was premised on the relatively attractive returns amid the weaker USD, coupled with poorer inflation print of -1.7% in Nov-20. As a result, the 3Y and 10Y MGS yields declined by 6bps and 17bps MoM, respectively. 2020 is the second consecutive year of foreign inflows seen totaling RM18.3bn to RM223bn (15.42% of outstanding amount). This was however lower than the total inflows in 2019 of RM19.9bn.
- Macro – 2021 should be a bumpy recovery year and is probably a year of 2 halves.** The resurgence of Covid-19 and waning fiscal support are near-term threats to global growth. However, in 1H21, the mass distribution of effective vaccines should support faster growth as social consumption recovers. Moving into 2H21, we shall see fears of Covid pandemic fade off, thus lifting a synchronised global growth nearer to pre-Covid level. Obviously, a sustainable growth recovery ahead would subsequently bring back cost-push inflation of which we have seen both soft and hard commodity prices are on a rising trend. Therefore, there are risks of fiscal consolidation and the USD to strengthen from structural depreciation followed by a weakness in Emerging Market's asset prices towards 4Q21.
- Equities – Jan is a volatile trading month.** This is following strong window dressing activities in 4QCY20, starting back of restricted short selling on 4 Jan, fear of another MCO as well as political uncertainties. Nevertheless, we do not expect significant pullback as investors look forward for the reopening of economy as vaccine is near the corner. As such, we expect 2021 to be a 'Risk on' year for the equity market and maintain Overweight on cyclical sectors which will benefit from the economic reopening. Our base case KLCI target is 1,700 based on the 5-year mean valuation.
- Fixed Income – For 2021, there will be 37 government bond auctions with an estimated gross issuance of RM160bn (2020: 34, RM148.8bn).** Yields in 1H21 is expected to be bumpy with event risks. The relentless surge in Covid-19 infections locally may elevate yields with a stricter MCO being reintroduced. Depending on the duration of this imposition, this will hamper economic recovery efforts. On the other hand, rising crude oil prices may lead to cost-push inflationary pressures. Come February, the start of mass rollout of vaccinations locally might moderate new infections and stabilize market volatility.

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