August Outlook – USD Weakness To Benefit EM Assets

SUMMARY

- **Global PMI gradually moves back to expansion.** The global manufacturing sector moved back into expansion territory in Jul-20. A revival in output and new orders pushed the JPM Global Manufacturing PMI to a six-month high of 50.3 in Jul-20 (Jun-20: 47.9), putting the index above the 50-mark for the first time since Jan-20. Of the 27 nations for which July data were available, 13 had PMI readings above the 50-mark. The JPM Global Composite PMI was also lifted to a six-month high of 50.8 in Jul-20 (Jun-20: 47.8).
- **Malaysian manufacturing sector returned to growth** in June while BNM has cut the OPR by 25bp (125bp reduction YTD) to the lowest-ever level of 1.75% in July. On the other hand, the loan moratorium by financial institutions (started 1 April 20, ends 30 Sep20), is estimated to be worth RM51.4bn as at 6 July. According to Finance Minister Zafrul, RM17.9bn was utilized by business sector while RM33.4bn was utilized by public.
- **Equity market review -** Investors are back after taking a break in July. Now, we see Bursa retail value surpassing RM4bn/day versus historical average of RM600-RM1bn and also higher than institutional trading value of just over RM3bn. Has our retail participation peak? As long as market continues to be flushed with liquidity, the retail participation in Aug is probably just over 40% versus its all-time high at 59% in 1999.
- **Bond market review** - Global yields rallied strongly in July as the resurgence of Covid19 cases dampened investors' sentiments for riskier assets. Locally, BNM delivered another rate cut in July to 1.75%. The 3Y and 10Y MGS yields saw large MoM decline respectively, as expectations of another rate cut in September arose after MPC's dovish statement.
- **Macro – USD weakness to benefit EM assets.** We have seen China leads global economy returning to growth in 2Q while the Eurozone and the US are still negatively impacted by pandemic. While the Chinese recovery is still on uneven path, we expect continuous targeted easing to come from regulators in China ahead. On top of growth concerns in the US, its negative real returns coupled with presidential election uncertainties have contributed to near-term weakness in the USD. This has nevertheless translated to optimism towards EM Asia assets as well as commodity prices globally.
- **Equities – August is still a liquidity driven month.** For Aug-20, we see 2 macro thematic plays which include the weakening USD and rising commodity prices. We think investors will use weak USD as excuse to sell down exporters when their share prices are ripe for profit taking. As for rising commodity prices, we think there will be thematic play on O&G, plantation and building material sectors. Meanwhile, all eyes also on 2QCY20 results. In general, results should be bad across all sectors due to MCO. Should investors think bad results are better-than-expected, then we may see buying on confirmation of bad results announcement and vice versa. Risk to our market will still be snap election and trade war between the US and China.
- **Fixed Income – Foreigners continued to increase holdings of local govvies** in July by RM7.1bn almost entirely into MGS (June: RM11.6bn) as yields remain attractive amid benign inflation. As another OPR cut is expected in September, the strategy to lengthen duration appear feasible as current spreads for the longer-dated local govvies have widened against its historical mean. In the meantime, the lingering uncertainties on economic recovery, central banks' accommodative policies and ongoing US-China trade tensions will continue to keep yields lower for longer.

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