October Outlook – Supply Chain Challenges & Energy Crisis

SUMMARY

- **Global economic growth edges higher in Sep-21.** The JPM Global Composite Output Index rose to 53.0 in Sep-21, from Aug-21's seventh-month low of 52.5, accelerating for the first time in four months. Manufacturing output and services business activity rose at quicker rates in Sep-21, although in both cases growth remained weaker than that seen during much of the earlier part of the year. Nonetheless, global manufacturing remains constrained by supply chain disruptions and material shortages, resulting in higher input and output prices.
- **APAC market review – MSCI APAC dropped -2.5% while MSCI World dropped even more at -4.3% in Sep-21 on profit taking activities.** Also, there was inflation concern that led to spike in the 10y UST yield towards the end of Sep-21. As a result, the selling was centered on growth stocks with money shifting to value stocks. As for China, trading limelight was shifted to Evergrande due to its debt crisis. Its share price had plunged 80% YTD while its bonds have tumbled to levels that suggest investors are bracing for a default.
- **Local Equity market review – Our KLCI dropped 4% MoM in Sep-21** due to concerns over new taxes in the coming budget, sell down in glove players as well as the potential loan moratorium for B50 which will be negative for banks. Trading volume wise on the other hand was up 20% MoM but fell 32% YoY in Sep-21. Most investors continue to remain sideline to see evidence of a strong recovery in economic activities on reopening.
- **Bond market review – The global bond market witnessed a strong sell-off in Sep-21.** Local MGS yields surged MoM with the 3y and 10y rising 13bps and 17bps, respectively, following the uptick in UST yields. This was largely due to the Fed's hawkish rhetoric at the Sep-21 FOMC meeting, noting that tapering will likely commence in Nov-21.
- **Macro – Supply chain and energy outages to cause stagflation?** Inflationary pressure might not be as transitory as the Fed Chair Powell described it at "frustrating" and may last longer than expected. Should commodity prices continue charge higher then second round inflation effect to kick in. Given the pressure from US tapering, high energy prices and broad USD strength, EM Asia currencies have once again come under depreciation pressure. However, this time around EM Asia currencies are well supported by current account surplus and FDI inflows as the supply chain for various industries are more established compared to the past. Meanwhile, the record low policy rates in EM Asia provide more room to normalize so as to stem foreign outflows, if any.
- **Local Equities outlook – For Oct-21, all eyes will be on Budget 2022.** It will likely be a people friendly budget but investors will focus on whether there will be additional taxes affecting companies' earnings. Besides, investors will be monitoring the movement of 10y UST whereby a spike in yields will result in risk off in the growth sector as well as overall market sentiment. Also, the sentiment in the US and China markets remain important as it will have spillover effect to our local market which is currently dominated by retailers since foreign shareholding remains all time low and local institutions mostly stay sideline.
- **APAC Equities outlook – Oct-21 will likely be a wait-and-see month for the APAC markets.** Investors will monitor developments in China Evergrande Group which might have spiral negative effect to other Chinese developers. On the commodities front, investors will watch closely the outcome of OPEC+ meeting following the rising oil prices.
- **Fixed Income outlook – Moving forward, the 10y MGS could test 3.50-3.60% levels in the near term** tracking the uptick in US Treasuries, coupled with heavy incoming supply in Oct-21 with 4 auctions and an estimated net supply of RM17bn. Elsewhere, the Fed's confirmation to kick start its tapering plans beginning with a USD15bn monthly

reduction in Nov-Dec could see US treasury yields climb further by 10 to 20bps from current levels alongside inflation fears.

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