# March Outlook – All Eyes on 14th General Elections

## SUMMARY


- **More hawkish rhetoric seems to appear from the Fed and the BoE.** Equity markets worldwide mostly dropped in Feb-18 as the S&P 500 tumbled by 3.9% MoM, the first monthly decline since Oct-16. Volatility was fuelled by investor worries about rising interest rates and potential inflationary pressure. Meanwhile, steel and aluminum import tariffs announced by the US at the end of the month also attributed to the risk-off sentiment. Meanwhile, Asian economy remains strong with a few countries reporting better-than-expected 4Q17 GDP.
- **Malaysia's GDP growth expanded by 5.9% YoY in 4Q17**, beating market expectations. This is further boosted by strong and better-than-expected exports in Jan-18. Meanwhile, inflation rate in Jan-18 eased to a 13-month low of +2.7% YoY on slower rise in fuel and food prices, while core inflation rate remained at +2.2% YoY. However, the manufacturing PMI fell by 0.6 pts to 49.9 in Feb-18 (Jan-18: 50.5) due to the decline in new orders as well as marginal expansion of output and employment during the month.
- **Domestic equity market experienced post CNY rally but bond market remained bearish as we expected.** When the CNY break was out of the way towards mid-Feb, we saw local investors coming back into the market, nibbling on the banking stocks on expectations of good 4QCY17 results. On the other hand, both the short- and longer-end of govvy curve experienced selling pressure except for the belly of the curve, amid rising yields globally. However, all govvy auctions during the month received decent demand with BTC of more than 2.0x. Positively, foreign investors continued to be net buyers of ringgit debt securities in Jan-18 (+RM4.5bn MoM).
- **Macro – Local stocks and ringgit tend to perform before general elections.** Our base case assumptions for the coming general elections are the voter turnout rate to decline from May-13 while BN is still able to retain a simple majority in the parliament. Given that the FBMKLCI index started this year with a strong momentum, we anticipate the index movement to trace the pattern seen in 1995 where post the announcement of parliament dissolution, the index could retrace circa 5% which would then provide a buying opportunity. Generally, the ringgit tends to strengthen by circa 5% ahead of elections and subsequently weaken towards the end of election year. The same happens to the ringgit YTD where it has appreciated 3-5% against the USD from last year-end closing.
- **Equities – Expect 'V' shape chart in Mar-18,** whereby we expect profit taking activities in 1H Mar-18, followed by some bottom fishing towards the 2H Mar-18 before GE is called. As a result, we recommend investors to trade liquid mid- to big-cap stocks where downside risk is lesser compared to the smaller cap stocks. For KLCI, we expect it to trade range bound between 1,800 and 1,880. On a positive note, 4QCY17 saw more companies surprise consensus on the upside.
- **Fixed Income & FX – As empirical evidence has shown that the impact of rising US Treasury yields to Asian government bond yields is of lesser magnitude** as funds flee the US Treasuries, which tend to buy into Asian bonds, thus, strengthening the Asian currencies which is supported by strong economic growth and exports. In the local content, MGS/GII yields may face upward pressure due to ample govvy issuances from March to May, but we see buying opportunities alongside rising yield path as the MGS/UST spreads are expected to be range-bound despite tighter monetary policies in DMs. Over to the ringgit, we expect the ringgit to hover around USDMYR3.80-4.00 even after the 14th General Elections, supported by the domestic growth and gradual recovery from 2017's drastic depreciation.

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