eTiQa

Research Malaysia

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April Outlook – General Election Overshadows Trade War Worries?

SUMMARY

- **Stocks fell globally on rising global trade tensions.** Global equities mostly declined for a second month in March as fears of global trade war intensified. Amid volatility in global markets, both the US Conference Board consumer confidence index and the Eurozone's economic sentiment fell in March. However, the Fed raised rates by 25bps and penciled in a total of three rate increases for this year as largely expected. In contrast, January-February saw Chinese industrial production and urban fixed asset investment coming in above estimates.
- **BNM kept the OPR unchanged at 3.25%, as widely expected while** giving an upbeat assessment of the domestic and global outlook. Key takeaway from BNM's Annual Report 2017 is the upward revision in the official 2018 real GDP growth forecast to 5.5-6.0% from 5.0-5.5% made in Oct 2017 while headline inflation is expected to moderate to 2-3% in 2018 from the earlier expected 2.5-3.5%. Interestingly, the government sought for Parliament's approval for a RM8.83bn supplementary budget for spending in 2017. Among the largest sum sought is for the Contribution to Statutory Funds amounting to RM2.71bn.
- **Domestic equity market experienced volatile yet V-shape performance while the MGS yield curve bullish flattened** aided by strong buying interest in auctions. The KLCI was well supported on the back of the top 5 index stocks (FBM5) which made up close to 50% index weightage but market breath remained negative most of the time. For 1Q18, RM25bn of local govvies were issued on top of the RM7.7bn that were privately placed. BTC was a healthy 2.16x for the quarter.

- **Macro – The US and China have engaged in 2 rounds of import tariffs so far** where in the second round, the inclusion of soybeans in China's tariff list is a surprise to many economists given the fact that while China is seeking to hurt US exporters, it will also substantially and materially impair its own domestic producers and supply chains. Hence, China is probably looking to resolve this trade war in a precise and fast manner. However, there are certain Malaysian businesses may benefit from the displacement of demand for product categories that competes directly with China/US. Notably, in the context of Bursa Malaysia, the export sector is not well represented with a relatively insignificant proportion of the broader market – the tech sector is just 1.3% of the market, while gloves constitute 2.4%.
- **Equities – Expect a volatile trading month**. As the Parliament was dissolved in early April, the 14th GE to be held in end-Apr or early May before Ramadan month. We think the GLCs will continue to support the 'FBM5' stocks while some investors will start to nibble on selective oversold and attractively valued stocks. If BN were to continue as ruling party as per our base case assumption, we see the KLCI going up by 100-150 points or +0.5 standard deviation. However, should the opposite happen, then we may see our market crashing down by over 300 points or -1 standard deviation since this event has never happened before in our market.
- **Fixed Income & FX –** While heightened trade protectionism tends to keep UST yields low as evident in 2002 Bush steel tariff episode, we opine that this should see a muted impact on yields this round amid a rising rate environment and expectations that both nations would come to an amicable solution. As such, we expect the 10y MGS/UST spread to remain range-bound or slightly widen. Demand for local govvies should be supported by sustained MYR strength against the weaker USD, positive economic growth differentials and benign inflation. Over to FX, for Apr-May, we do not discount the possibility of the ringgit to shoot pass below the psychological USDMYR3.80 level towards 3.70 mark should the incumbent government secure a more favourable results in the forthcoming general election.

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