May Outlook – May the Force with Us

SUMMARY

- **Geopolitical noises clouding outlook.** US equities were flattish in Apr-18 as steady economic expansion was mired over uncertain outlook from trade tensions. Meanwhile, the ECB kept policy rates unchanged with chief Mario Draghi played down concern over the softness in the Eurozone economy, leaving the door open to ending lavish bond purchases by Sep-18. Over to Asia, China's 1Q18 GDP growth was stable and sustained by external demand as well as transition to domestic consumption growth, albeit some sluggish momentum seen in Japan.
- **Malaysia's slower but resilient growth amid benign inflation.** MIER revised upwards its real GDP growth projection for Malaysia this year by 0.1% to 5.5%, while its consumer sentiment index rose firmly in 1Q18 to the highest since 3Q14 but the business condition index fell mainly due to the threat of trade war and GE14. Notably, Malaysia's manufacturing PMI deteriorated for the third month in Apr-18 driven by faster declines in output and new orders. Separately, inflation fell to a 20-month low in Mar-18 as transport inflation continued to decline.
- **KLCI was well supported by GLCs and foreign buying but MGS yields spiked across all tenures in Apr-18,** tracking the rise in US Treasury yields as well as the stronger USD. Interestingly, foreigners came back to our equity market in a bigger manner with net buying position as geopolitical tensions in North Korea and Syria have temporarily eased. Notably, a further easing Malaysia's Mar-18 inflation failed to excite the bond market with mixed govvy auction results while corporate credit spreads narrowed MoM due to higher govvy yields.
- **Macro - After a decent run-up, headline PMIs globally, especially in developed economies, have pulled back in Apr-18.** Some worrying signs occur when we shift focus to new export orders in emerging Asia, which have stalled in March-April. If Nomura's proprietary Asia export leading index falls for a third straight month in June we will become more concerned of the repeat of export driven growth in 2018. We shall continue monitor these indicators as a sharp export downturn can over time drag down local activity, raising risks to overall growth.
- **Equity - Our base case is for the current government to win simple majority**, but it is a mixed views within the investment community with various market strategies. If the current government wins as per our expectations, we believe the big cap stocks will take a back seat while the small and mid-cap stocks will rally but if opposition wins, we expect all stocks to fall due to knee jerk reaction. May's historical performance is negative but this year could be different, especially if the current government wins the GE.
- **Fixed Income & FX – MGS yields to stay elevated in May.** As widely expected, the Fed left the benchmark rates unchanged while giving a dovish indication since the Fed signals it is willing to allow inflation to run above its target. Separately, the US quarterly refunding program (May-July) came in short of market expectations, thus, we opine the 10y US Treasury yields to remain range-bound at below 3% while the 2y10y UST spread to remain around 50bps in May. However, local govvies is expected to stay elevated (ranging between 4.10% and 4.15% for the 10y MGS) due to the large incoming supply of govvies and continued USD strength. Over to FX, we keep our view that 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 GE14.

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