Market Review and Outlook

December 2022

Market Review

For equities, the MSCI World Index slumped by 4.3% mom to close at 2,603 points for the month of December. Similarly, the Dow Jones Index declined by 4.2% mom due to fear of recession risk, rate hiking cycle and rising Covid-19 cases around the world as China eases its zero-Covid policy. On the US' economic front, retail sales in November eased by 0.6% mom as compared to a gain of +1.3% mom in October. Its November industrial production tapered by 0.2% mom as compared to a decline of 0.1% mom in the previous month. US S&P Composite PMI's contraction widened to 46.4 in November as compared to 48.2 in October. Over in Europe, the Stoxx 50 Index dipped by 4.3% mom during the same period following a contractionary Eurozone S&P Composite PMI reading of 47.8 in November albeit an improvement from 47.3 in October. Its industrial production contracted by 2.0% mom in October as compared to a growth of +0.9% mom in the previous month. Moreover, its October retail sales slumped by 1.8% mom as compared to an increase of +0.4% mom in the previous month. Similarly, China's Shanghai Composite Index fell by 2.0% mom in December following a deterioration in Caixin China Composite PMI reading of 47.0 in November as compared to 48.3 in October. Market sentiment was hampered by rising Covid-19 cases after the government eased its zero-Covid policy. After further cuts in August 2022 for its 1-year and 5-year Loan Prime Rates, the People's Bank of China kept it stable at 3.65% and 4.30%, respectively, in its December 2022 meeting.

In December, Brent oil increased slightly by 0.6% mom to USD85.91/bbl as OPEC+ agreed to keep oil production unchanged in its December meeting while China progressed towards reopening. Crude palm oil (CPO) price gained by 1.8% mom to RM4,171/MT as Indonesia unveiled its new biofuel mandate of B35 (35% mix) as compared to B30, effective January 2023.

On the ASEAN front, equity markets closed the month under review with mixed performances. Malaysia's FBMKLCI rose by +0.4% mom due to clarity on the political front as PM Anwar won the parliament confidence vote and cabinet members were successfully nominated. The new Budget 2023 is expected to be unveiled on 24 Feb 2023. December saw a monthly net foreign equity withdrawal of RM1,359m, bringing YTD inflows to approximately RM4.4b. From an economic standpoint, Malaysia's October industrial production growth slowed to +4.6% yoy from a growth of +10.8% yoy in the previous month. November manufacturing PMI also weakened to 47.9 as compared to 48.7 a month ago. The Stock Exchange of Thailand advanced by 2.0% mom as China's loosening of its zero-Covid policy will benefit the tourism sector in Thailand. Its November S&P Global manufacturing PMI weakened to 51.1 as compared to 51.6 in October. The Bank of Thailand hiked its Benchmark Interest Rate by 25bps to 1.25% in its November meeting. Conversely, Indonesia's Jakarta Composite Index fell by 3.3% mom following a lower S&P Global manufacturing PMI reading of 50.3 in November as compared to 51.8 in the previous month. The Indonesian central bank further raised its 7 - day repo rate by 25bps in its December meeting to 5.50%. Similarly, the Singapore's Straits Times Index eased by 1.2% mom following an industrial production decline of 1.2% mom in November, as compared to a growth of +0.9% mom in October. Its November PMI reading was slightly stronger at 49.8 as compared to 49.7 in October but its Non-oil Domestic Exports experienced a larger decline of 9.2% mom in November as compared to a decline of 3.7% mom in October.

During the recent FOMC meeting in December 2022, the Fed raised rates for the 7th time in the year but only by 50bps, marking an easing of the rate hike momentum. However, the Fed Chairman stressed that they were not at a sufficiently restrictive policy stance and warned that ongoing rate hikes were appropriate. He also signals that the terminal rate would trend higher than anticipated, at 5 – 5.25%, which was last seen in 2007. The FOMC minutes explained that the public should not construe the decision to move to smaller rate increases as weakening the Fed's commitment to bring inflation back to its 2% target. US Treasuries (UST) posted a loss in December as yields were pushed higher during the second half of the month by a selloff in euro-zone and UK government bonds, as well as Japanese bonds after the Bank of Japan (BOJ) unexpectedly doubled its cap on 10-year rates. BOJ Governor, Kuroda said the move was aimed at ironing out distortions in the shape of the yield curve and ensuring the benefits of the bank's stimulus program are directed to markets and companies. MoM, the UST yield curve shifted higher by 17 - 26bps as the 2yrs UST rose 12bps to 4.43% and the 10yrs UST climbed 26bps to 3.87%. Meanwhile, the November consumer price index (CPI) rose just 0.1% from the previous month, and increased 7.1% from a year ago, compared with respective estimates of 0.3% and 7.3%.

Malaysian Government Securities (MGS) yields continued their rally from November but remained in thin trading volume as the market approached the end of 2022. MoM, yield movements were mostly lower by 3 - 14bps except for the 30yrs MGS which rose 6bps to 4.59%. The 10yrs MGS declined 3bps to 4.07%. MYR appreciated against the USD at 4.4045 (end-Nov: 4.4460). December saw the release of the 2023 auction calendar with the number of auctions at 37 (comprising 19 issuances of GII and 18 issuances of MGS), compared to 36 in 2022 (comprising 18 equal issuances of MGS and GII bond issuances).

Market Outlook

Globally, inflation and the counteracting rise in rates remains to be the focus. In the most recent FOMC minutes, officials stressed that the slowdown in interest rate hike is not an indication of any weakening of the committee's resolve to achieve its price-stability goal. The Fed also warned not to underestimate their resolve to keep inflation under control. The Fed median forecast suggests the rate to be at 5.1% in 2023 and 4.1% in 2024. Locally, focus will be on the direction of the new government and the new Budget 2023 scheduled to be tabled on 24 Feb 2023.

For equities, we would continue to adopt a prudent yet sensible posture towards our equity market's longer term growth trajectory and, where opportunities arise, would direct monies into fundamentally good investments. In the near term, we would await the policy direction and Budget 2023 from our new Unity government. As always, we may engage in a modicum of trading activity to capitalize on any market volatility.

Bond yield volatility will persist in 2023 as the combined effects of the pace and magnitude of interest rate hikes stemming from inflationary pressures remains. While we expect more rate hikes in the US, the quantum of increase would likely be lesser. Meanwhile, BNM in November maintained its assessment that the current monetary policy stance is accommodative and supportive of economic growth. They added that the Monetary Policy Committee (MPC) is not on any pre-set course and any rate hike would be done at a measured and gradual pace.

The risk-reward of MGS has improved with the Ringgit rates market priced for BNM normalisation. Still, we are mindful of the bond market volatility arising from external and internal fronts, which would impact local yields. We would however maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names.