Allianz

Market Review and Outlook

August 2023

Market Review

In August 2023, a selloff in global equity markets reversed some of its previous month's gains as reflected by the 2.55% mom decline in the MSCI World Index. The drop was triggered by heightened volatility, which stemmed from the weaker – than – expected recovery from China as well as stresses in their property market. Consequently, the Chinese Shanghai Composite Index fell 5.20% mom with setbacks reported at some of their largest property developers, e.g. Country Garden and Evergrande, which served to highlight the weaknesses permeating the Chinese real estate market. On its economic front, its August manufacturing Purchasing Manager's Index (PMI) was still a contractionary reading at 49.7 albeit above the previous month's reading and consensus' expectations. Its retail sales momentum appeared to be weaker as it only grew +2.5% yoy in July versus +3.1% yoy in June and was below consensus growth expectation of +4.0% yoy. The weakness was also echoed by its inflation reading, which contracted 0.3% yoy in July 2023, its first contraction since February 2021. To curtail further deflationary concerns, the People's Bank of China (PBOC) lowered its 1 – year Medium – Term Lending Facility Rate to 2.50% in August 2023 from 2.65% in July 2023 and its 1 – year Prime Loan Rate to 3.45%. In US, the Dow Jones Index fell by 2.36% mom as Fitch downgraded the US government's credit rating to AA+ from AAA. However, US exhibited considerable resilience with regards to its economic data for the month under review. The country's July unemployment rate was stable at 3.5%, -0.1 ppt yoy and flat qoq with the average hourly earnings rate growing by +4.4% yoy, which was above consensus estimates. Its July retail sales was also robust growing +0.7% mom and also surpassed consensus estimates of +0.4% mom. However, US inflation worsened slightly in July to 3.2%, +0.2 ppt mom, due to food and energy price escalation. The Federal Reserve's (Fed) July Jackson Hole meeting's minutes released in August alluded that the Fed was keeping a watchful eye on inflation and that its policy was still very much data dependent. In Europe, the Stoxx 50 Index dropped 3.90% mom as the Eurozone's economic outlook remained somewhat uncertain as shown by the July Eurozone Composite PMI reading of 48.6, which was a deterioration from 49.9 reading in June and below consensus expectations. Its Inflation, though falling slightly, proved to be somewhat stubborn with the Euro Area Monetary Union Index of Consumer Prices (MUICP) All Items growing by +5.3% yoy, -0.2 ppt mom, but still above the European Central Bank's (ECB) target inflation rate.

During the month under review, Brent oil price rose +1.5% mom to USD86.86/ bbl. The hike was on the back of a 1.2m bbl/ day oil supply reduction by OPEC+, led by Saudi Arabia, which cut its supply by 1.0m bbl/ day. Crude palm oil (CPO) also buoyed by +1.8% mom to RM3860/ MT as it tracked higher soybean oil price, which was in turn driven by the hot weather.

Over in the ASEAN region, the Stock Exchange of Thailand went up by +0.63% mom as Khun Srettha Thavisin from Pheu Thai had managed to secure enough senatorial votes to become Thailand's 30th prime minister, thereby ending the country's post – general election short period of political uncertainty. The Thai GDP grew by +1.8% yoy in 2Q23 and was below consensus expectations. It was dragged by declines in government spending, public investments and exports. Apart from that, the Bank of Thailand raised its key interest rate by 25 bps to 2.25%, which was its highest rate since 2014, to allow itself some policy manoeuvring space amidst outlook uncertainty. Indonesia's Jakarta Composite Index also edged up +0.32% mom due to its rising 2Q23 GDP growth momentum, which came in at +5.17% yoy, ahead of its 1Q23 growth of +5.03% yoy and consensus expectations. Bank Indonesia also opted to keep its 7 – day reverse repo rate steady at 5.75% for the 7th straight month. On the other hand, Malaysia's FBMKLCI took a breather after its stellar +6.01% mom surge in July 2023 by easing 0.51% mom. Its 2Q23 GDP growth of +2.90% yoy trailed its 1Q23 reading of +5.60% yoy and market expectations. Bank Negara Malaysia (BNM) attributed the moderating growth to sluggish external demand. June industrial production had also worsened by 2.2% yoy, which was below consensus expectations. However, Malaysia's July Consumer Price Index (CPI) managed to grow by +2.00% yoy, which was lower than the previous month's +2.40% yoy growth and consensus expectation of +2.10% yoy. Other than that, there were a slew of policy developments that would, over the longer term, help to steer the nation's economic growth. Among them were the National Energy Transition Roadmap (NETR) for which more details were given as Malaysia resolutely moved towards its 2050 net – zero target and the announcement of a special economic zone to be set up in Forest City, Johor to spur economic growth in Iskandar Malaysia. Despite its lacklustre economic data, foreign net equity inflow during the month under review amounted to RM140.84m, which brought the YTD sum to a net outflow of RM2636.89m. Lastly, Singapore's Straits Times Index plunged 4.17% mom spurred by uncertainties encompassing China's economic recovery in the region. Its July 2023 Non – Oil Domestic Exports (NODX) contracted 20.20% yoy and 3.40% mom, which was a deterioration from the previous month and worse than market estimates.

Allianz

US Treasuries (UST) weakened in August from a myriad of factors that included the surprise upside seen in US July Producer Price Index (PPI) and retail sales as well as the renewed chatters that the Fed is not likely done hiking rates based on the minutes of the Federal Open Market Committee (FOMC) meeting. Both US headline and core PPI accelerated to +0.3% mom in July (consensus: +0.2% mom) while July retail sales were up +0.7% mom (consensus: +0.4% mom). Further sell – offs were seen towards month – end following the Fed Chair Jerome Powell's much awaited speech at the Jackson Hole Symposium. Powell's speech implied that further rate hikes would be warranted if the economy continued to grow above trend and put inflation at risk. His hawkish slant left potential bond buyers sidelined.

Longer tenured Malaysian Government Securities (MGS) weakened in early August with some selling pressure following China's surprise rate cut and weaker macro data. The hawkish vibes from the FOMC minutes also did not augur well for the market. Trading started off thin as the market waited for fresh leads and the outcome of the six state elections. The results of the state elections were status quo as expected. However, bargain hunting activities returned on dips especially on the short to belly of the curve with interest from both offshore and onshore players. At the September Monetary Policy Committee (MPC), BNM maintained the Overnight Policy Rate (OPR) at 3.00% as widely expected, amid moderating domestic growth and inflation outlook.

Market Outlook

While there are nascent signs that global inflation pressures might be receding, their risks still appear quite prevalent, and some central banks may have to maintain their tightening stances for the remainder of 2023. Apart from that, we believe that investors would remain vigilant over the economic recovery in China, which is a significant contributor to global economy, bearing in mind that its recovery is supposed to help anchor the world's economic growth in the near – medium term as its western developed counterparts might still be involved trying to rein in inflation. Furthermore, there are geopolitical risks still at large such as the potential resurgence of Ukraine – Russia hostilities. In Malaysia, with the successful conclusion of the state elections and the mid – year reporting season, investors will be turning their attention towards our government's plans to spur the nation's growth and what would be in store for Budget 2024. To that end, the government has recently launched the New Industrial Master Plan 2030 (NIMP 2030), a comprehensive framework designed to catapult Malaysia's manufacturing sector into the Fourth Industrial Revolution.

For equities, we opt to maintain our investment ethos by focusing on fundamentally sound opportunities over longer term horizons. That said, we are also cognizant that volatility may still permeate the market and we would, if necessary, shift our investment stances to adapt to any new market developments. As always, we may also, at times, engage in a modicum of trading activities to capitalise on any prevailing market volatility.

In 2023, bond yield volatility in the fixed income market would likely persist due to the concerns over a potentially lengthy albeit easing inflationary environment in US and geopolitical risks. The latest market – implied rate as of early September suggests that Fed is likely to cut rates starting 2Q24 with rate cuts totalling more than a percentage point by end 2024. Locally, the MPC in September closely mirrored its July statement. The biggest takeaway, in our view, was that BNM had dropped the "slightly accommodative" phrase and highlighted that the prevailing OPR level was consistent with the current assessment of the inflation and growth prospect. Nevertheless, we are cognizant that they will continue to monitor incoming data to better appraise our domestic inflation and growth outlooks. Nonetheless, external and internal factors could still contribute to bond market volatility that may affect local yields. The declining CPI also supports the case for BNM to keep OPR steady at 3.0% for the remainder of the year. However, we will continue accumulating bonds at favourable valuations while prioritising good quality names.

Disclaimer:

This document is prepared by Allianz Life Insurance Malaysia Berhad ("Allianz") for information only. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Allianz assumes no obligation to update any information contained herein. Its content is of a general nature and does not in any way constitute professional advice or the provision of professional services, and shall not be relied on as such. While Allianz endeavours to keep the content and information contained herein accurate, Allianz does not warrant or guarantee the completeness, adequacy or currency of information contained herein. Allianz reserves the right to modify the content and information herein at any time.