Market Review and Outlook

April 2022

Market Review

For equities, the MSCI World Index slumped by 8.4% mom to close at 2,796 points for the month of April. Similarly, the Dow Jones Index declined by 4.9% mom, a reversal from the previous month over uncertainties on the pace of rate hikes for the upcoming US Federal Open Market Committee (FOMC) meeting as well as its forward guidance on rates. On the US' economic front, retail sales in March grew at a faster pace by +0.5% mom as compared to +0.3% mom in February. Similarly, its March industrial production increased by +0.9% mom as compared to +0.5% mom in the previous month. US S&P Composite PMI growth strengthened slightly to 57.7 in March as compared to 55.9 in February. Over in Europe, the Stoxx 50 Index dipped by 2.6% mom during the same period following a lower Eurozone S&P Composite PMI reading of 54.9 in March as compared to 55.5 in February and amidst the ongoing conflict in Ukraine. Nonetheless, its February retail sales grew by +0.3% mom as compared to +0.2% mom in the previous month. Its industrial production growth was also higher by +0.7% in February as compared to a flat reading mom in the previous month. China's Shanghai Composite Index also dipped by 6.3% mom in April following a lower Caixin China Composite PMI reading of 43.9 in March as compared to 50.1 in February. Market sentiment was also affected by disruptions arising from lockdowns in certain parts of China as officials attempted to contain Covid – 19 outbreaks. After cutting its 1-year Loan Prime Rates twice in December 2021 and January 2022 to bolster its economic growth, the People's Bank of China kept it stable at 3.70% in its April 2022 meeting. The 5-year Loan Prime Rate was also kept stable in its April 2022 meeting.

In April, Brent oil continued surging by +1.3% mom to USD109.34/bbl amid concerns on supply following European Union's threat to completely phase out reliance on Russian energy supplies by the end of the year. Crude palm oil (CPO) price rebounded by gaining +20.2% mom to RM7,683/MT after Indonesia decided to enact a temporary ban on palm oil exports effective 28 April, as it attempted to lower the prices of domestic bulk cooking oil. Subsequently, the ban caused demand to shift to Malaysian palm oil products.

On the ASEAN front, equity markets closed the month under review with mix performances. Malaysia's FBMKLCI rose by +0.8% mom, led by positive sentiment towards relaxation of Covid-19 restrictions (e.g. no longer mandatory to wear mask outdoors), borders reopening, and higher CPO price after Indonesia banned palm oil exports. April saw the fourth month of consecutive monthly net equity buying amounting to RM825m, bringing YTD inflows to approximately RM7.3b. From an economic standpoint, Malaysia's February industrial production growth weakened to +3.9% yoy from a growth of +4.3% yoy in the previous month. March manufacturing PMI also weakened to 49.6 as compared to 50.9 a month ago. Indonesia's Jakarta Composite Index climbed by +2.2% mom following a higher S&P Global manufacturing PMI reading of 51.3 in March as compared to 51.2 in the previous month. The Indonesian central bank held its 7 - day repo rate stable at 3.5% in its April meeting, unchanged since February 2021. On the other hand, the Stock Exchange of Thailand tapered by 1.6% mom following a lower S&P Global manufacturing PMI reading of 51.8 in March, from 52.5 in the previous month. The Bank of Thailand kept its Benchmark Interest Rate at 0.50%, unchanged since May 2020. Singapore's Straits Times Index eased by 1.5% mom following a contraction in industrial production of 12.6% mom in March, a reversal from a growth of +16.6% mom in February. Its March PMI reading was also slightly weaker at 50.1 as compared to 50.2 in February. Nonetheless, its March Non-oil Domestic Exports improved, albeit still contractionary, to a decline of 2.3% mom as compared to a dip of 2.8% mom in the previous month.

US Treasuries (UST) yields rose +38-59bps mom across the curve to their highest levels in more than three years over anxiety from the elevated inflation. US headline Mar'22 CPI rose by +8.5% yoy which is the highest monthly gain since Dec 1981 as food and energy prices soared from the Russia-Ukraine conflict. The 3-4 May 2022 FOMC meeting saw Fed deliver its largest interest rate hike since 2000 by +50bps as expected, to bring the fed funds rate range to 0.75-1.0% after a +25bps hike in March. Fed signaled it would continue the aggressive rate hike pace over the next few meetings to combat the soaring inflation.

Following the UST movements, the Malaysia Government Securities (MGS) yields rose +31-59bps mom across the curve as some tenures reached levels unseen since 2008. The 10y MGS reached a high of 4.44% before closing the month at 4.38% (+53bps mom). Auctions during the month (7y, 10y, 15y and 20y) however saw decent bidding (between 1.9x to 2.5x) as valuations turned attractive following the selloffs. On 5 April, the World Bank trimmed Malaysia's 2022 GDP expansion to 5.5% from 5.8% previously largely due to economic uncertainties and cascading effects arising from the Russia-Ukraine conflict. Malaysia's Mar'22 CPI rose +2.2% yoy (survey: +2.3% yoy) which was unchanged from Feb'22. This was mainly driven by the +4% yoy increase in the food and non-alcoholic beverages segment as prices for food such as chicken and specific vegetables subgroup spiked as much as +10.5% yoy and +14.5% - 24.1% yoy respectively according to the Department of Statistics Malaysia.

Foreign funds net sold Ringgit bond holdings by another RM2.2b in April (March: -RM4.0b), reversing all the inflows YTD. Foreign share of both MGS and MGS+MGII decreased to 37.6% (March: 38.8%) and 25.0% (March: 25.5%) respectively. Foreign reserves decreased by USD3.1b mom to USD112.5b as of end-April 2022.

Market Outlook

Globally, key events continue to be centered around FOMC's upcoming rate decisions for the rest of the year to combat inflation as well as the ongoing geopolitical tensions between Russia and Ukraine. China's zero Covid-19 policy continues to be in effect as lockdown at parts of China continues. China signaled that it might loosen its monetary policy as authorities seek to combat an escalating Covid-19 outbreak, a slumping property market and spiking commodity prices. Locally, the Umno Supreme Council unanimously proposed party vice-president Datuk Seri Ismail Sabri Yaakob as the Prime Minister candidate for the 15th general election. Malaysia government is also likely to introduce a targeted fuel mechanism for the lower income group to combat rising crude oil prices.

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. That said, during this period of nascent economic recovery, we would be partial towards robust growth sectors but should remain watchful for any changes in market environment which might necessitate a realignment of investment direction. We might also at times assume a degree of trading bias to take advantage of any market volatility.

Locally, bond yields are expected to trend higher in tandem with the UST yields. The markets have been jittery over the aggressive Fed rate hike path as upside risks to inflation looms, while there are downside risks to growth as the ongoing Ukraine conflict is set to further worsen the global supply chain constraints. Although our monetary policy is expected to remain accommodative to support a sustainable economic recovery, BNM is cognizant of the consequences of keeping interest rates low for an extended period. Hence, BNM is keeping a watchful eye on inflation during this recovery. Consequently, any potential adjustment to the degree of accommodation will remain data-dependent and undertaken in a measured and gradual way to preserve an appropriate level of support to the economy. Following the recent selloff, we think the risk-reward of MGS has improved with the MYR rates market well priced for BNM normalisation. We remain cautious of the bond market volatility arising from both external and internal fronts, which would impact local yields. We would maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names but will only extend duration in liquid papers at fair valuations.

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