Market Review and Outlook

June 2023

Market Review

For the month under review, global equity markets rebounded strongly with the MSCI World Index jumping +5.93% mom as US inflation, which had been stubbornly high, showed signs of moderating. The US' Dow Jones Index rose by +4.56% mom as the concern regarding a debt ceiling deadlock evaporated with the Democrats and Republicans agreeing to have legislation suspending the debt ceiling and limiting government spending. This bipartisan move was well received by investors and helped to assuage fears of a government default. US May 2023 Consumer Price Index (CPI) fell to 4.0%, -0.9 ppt mom, showing commendable improvement from its high of 9.1% in June 2022. That said, the easing of inflation came against a backdrop of rising unemployment, which grew +0.3 ppt mom to 3.7% in May 2023, slightly ahead of the market's expectations. Apart from that, its S&P Global US Composite Purchasing Managers' Index (PMI) was still expansionary in May 2023 with a reading of 54.3, +0.9 mom. The Federal Open Market Committee (FOMC), which convened in mid – June 2023, had opted to leave interest rates unchanged to allow assessment of additional information and its implication for monetary policy. However, this was somewhat akin to a hawkish pause as the FOMC had warned that there could be more rate hikes coming later in the year as evinced by the 'dot plot' which would suggest that their median expectation should be for a rate of 5.6% by the year's end. Over in Europe, the Stoxx 50 Index also rallied +4.29% mom, despite the European Central Bank (ECB) taking a diversionary stance vis-à-vis its US counterpart's pause by raising its main rate by 25 bps to 3.5%. The preliminary May 2023 Core CPI for the Eurozone was +5.3% yoy, -0.3 ppt mom which was better than consensus expectations. However, the Eurozone Manufacturing PMI recorded a contractionary May 2023 reading of 44.8, worse than the previous month's 45.8. That said, its May 2023 Services PMI reading was robust with an expansionary reading. From a labour market perspective, the Eurozone's April 2023 unemployment rate remained stable at 6.5%, flat mom, steadily improving from the Covid – 19 era peak of 8.6% in August 2020. On the other hand, China's Shanghai Composite Index declined by 0.08% mom on the back of fading expectations of a strong reopening rally, as shown by its May 2023 industrial production which grew by +3.5% yoy versus +5.6% in the previous month and by its June 2023 manufacturing PMI which recorded a reading of 49.0, its third consecutive contractionary result. To bolster growth, the People's Bank of China (PBOC) cut its benchmark lending rates for the first time in 10 months. The 1 and 5 – year Prime Loan Rates were both lower by 0.1 ppt each to 3.55% and 4.20% respectively.

In June 2023, Brent oil edged up +3.1% mom to USD74.90/ bbl as Saudi Arabia, a member of the Organisation of the Petroleum Exporting Countries (OPEC), chose to cut production by 1m bbl/ day for at least a month starting in July 2023 as part of an effort by OPEC+ producers to support oil prices. Crude palm oil (CPO) had also surged +15.2% mom to RM3751/ MT as soybean oil prices jumped on dry weather concerns and a United States Department of Agriculture (USDA) report showing soybean planted areas in the US would be lower than expected.

On the ASEAN front, Malaysia's FBMKLCI eased 0.75% mom amidst mixed economic data. April industrial production contracted 3.3% yoy after experiencing a +3.1% yoy growth in the previous month but CPI improved to +2.8% yoy, -0.5 ppt mom, better than consensus estimates. The net foreign equity outflow in June 2023 amounted to RM1348.3m, +85.2% mom, which brought its YTD total to RM4192.3m (1H22 recorded a net foreign equity inflow of RM6082.6m). To revitalise the Malaysian equity market, the Prime Minister announced various measures which included a reduction in stamp duty for trading listed shares on Bursa Malaysia to 0.10% from 0.15% starting in July 2023, promotional efforts to woo more sophisticated investors and the streamlining of the initial public offering (IPO) process.

The Stock Exchange of Thailand fell 1.98% mom due to political uncertainty post its general election in May 2023. The political landscape appeared to be in a state of flux during the month under review as the incumbent government was most likely going to be displaced by the opposition parties, Move Forward Party and Pheu Thai. However, the uncertainty could only be resolved in July when a new coalition is formed and Prime Minister is elected. Having said that, the ushering in of a new political coalition could give rise to policy uncertainties in the near – medium term. Despite reporting softer economic data, Singapore's Straits Times Index closed the month +1.49% mom higher. Its May 2023 industrial production fell 10.8% yoy and 3.9% mom, as it underperformed consensus estimates. Its May 2023 Non – Oil Domestic Exports (NODX) also contracted 14.6% mom which was worse than its +2.7% mom growth in April 2023 and consensus expectations of a 7.7% mom contraction. Lastly, the Jakarta Composite Index also rose by +0.43% mom as Bank Indonesia kept its policy rate unchanged at 5.75% during its June meeting, which was considered instrumental in its monetary stance to control core inflation within its 3.0% ± 1.0% target for 2023.

The global bond market saw another volatile month in June. US Treasuries (UST) weakened further with yields rising by 20 – 48 bps mom in a flattening manner. In the light of re – emerging hawkish vibes emanating from stronger – than – expected US 1Q23 GDP, persistent inflation in the US and the heightened probability of more rate hikes, this led to the sell – off in USTs. As mentioned earlier, during June FOMC, the Federal Reserve officials left interest rates unchanged, skipping an increase after raising rates 10 times in a row since March 2022. In their policy statement, the Fed said that they were giving themselves time to assess how the economy was reacting to what has been a rapid campaign to slow demand and wrestle fast inflation under control. However, the policymakers also predicted in their economic forecasts that they might raise interest rates even further to 5.6% by the end of 2023. The Fed chairman mentioned that the process of getting inflation down would be gradual, and given how much rates have already risen, stretching out into a more moderate pace would be appropriate.

In June, the Malaysian Government Securities (MGS) yield movements showed signs of weakness in tandem with UST movements. Coupled with the weaker MYR levels against the USD of late, market players were also seen reducing positions before the quarter ended. Mom, the MGS yield curve flattened as yields shifted higher between 10 bps to 15 bps for tenures 10 – year and below, while the 15 – year MGS and above were mostly unchanged due to poor liquidity. The 10 – year MGS closed 15 bps higher at 3.85%. At the Monetary Policy Committee (MPC) meeting on 6 July, Bank Negara Malaysia (BNM) maintained OPR at 3.0% as expected. The statement signals a moderation in domestic growth momentum following a strong first quarter outturn. Meanwhile, headline and core inflation are projected to trend lower in the second half of 2023, broadly within expectations. Risks to the inflation outlook remain highly subject to the degree of persistence in core inflation, changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.

Foreign funds raised Ringgit bond holdings by RM5.2b in June (May: +RM3.0b). Foreign share of MGS dropped marginally to 35.9% (May: 36.0%) while foreign share of MGS + Government Investment Issues (GII) rose to 23.4% (May: 23.2%). Malaysia’s foreign reserves shrunk by USD1.3b to USD111.4b as of end-June 2023 (May: USD112.7b).

Market Outlook

Though we are heartened by nascent signs of recovery, we are cognisant of the myriad risks that still permeate the global and domestic economies. While we acquiesce that the Fed did pause its rate hike momentum in its most recent FOMC meeting, we note the meeting also alludes to more rate hikes to come over 2H23 as per its statement released. On top of that, there are still other concerns such as the geopolitical risk stemming from the Russia – Ukraine conflict, the potential reemergence of new Covid outbreaks and the fizzling of China's economic reopening impetus. On the domestic front, several states will soon undergo state elections, but their results should not likely have any immediate effect on the stability of our federal government and in this regard, we eagerly await the rollouts of their plans to spur the economy.

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 channel monies into fundamentally good investments. There may be times when caution demands that we adjust our stance to adapt to perturbations in the market environment which may necessitate an investment direction shift. In addition, there may also be times when we could engage in a modicum of trading activity to take advantage of any prevailing market volatility.

In 2023, bond yield volatility in the fixed income market will persist due to the sticky inflationary data, uncertainty over the pace of global interest rate tightening and geopolitical risks. The FOMC dot plot for June 2023 shows the median rate at the end of 2023 at 5.6% versus 5.1% in March 2023, while the market implied rate indicates no rate cut by year-end. That would amount to two more quarter – point rate increases over the Fed's four remaining meetings this year. Locally, BNM in its July MPC statement said that its monetary policy stance was slightly accommodative and remains supportive of the economy. They see limited risks of future financial imbalances and remain vigilant to ongoing developments. They will continue to monitor incoming data to make an informed the assessment of the outlook of domestic inflation and growth. The MPC will also ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability. External and internal factors could still contribute to bond market volatility that may affect local yields. However, we will continue accumulating bonds at favorable valuations while prioritising good quality names.