



MARKET UPDATE

Equity Review Outlook

- The KLCI had a strong month in November, closing at its highest level for the year at 1080.66 points. For the first time in many months, the KLCI outperformed the MSCI AP ex-Japan, surging 9.3% month-on-month vs. 7.6% for the latter as the KLCI played catch up with the region. The major movers for the month were blue chips like Tenaga, Bumiputra-Commerce, Telekom and Maxis. The rise came on the back of healthy volumes, with the average trading value up 45% vs. the average volume for the first ten months of the year. The MSCI AP ex-Japan also finished the month at its 52-week high as liquidity continued to slosh through the markets.
- The market appears to be shrugging off a series of weak economic data, focusing instead on expected resulting rate cuts which should further fuel the already abundant liquidity. This is despite the US Federal Reserve Chairman's recent policy speech which highlighted his continued hawkishness on inflation and the Fed's biasness towards tightening. The labour market shows some signs of softening, with an above-trend jump in unemployment claims. Consumer confidence showed a surprising dip, while the housing market appears to have bottomed, although it may remain weak for some months. The key saviour of the market remains consumer spending, which appears to be chugging along, offsetting weaknesses in the other parts of the US economy. The recent mixed economic data has heightened the debate about the likelihood of a significant slowdown, and we remain mindful of this as we formulate our investment strategy.
- On the domestic macro-economic front, September exports softened to a +10.4% y-o-y growth vs. 14.8% in August, reflecting a slowdown in the demand for electronic products. Imports also moderated, increasing by +6.8% y-o-y, a substantial slowdown from +17.7% in the previous month. The CPI, which had been flaring up because of high oil prices, became more subdued in October, up 3.1% y-o-y vs. 3.3% in September. The overnight policy rate remained stable at 3.5% as Bank Negara remained comfortable with rates with inflation coming down.
- November was a fantastic month for palm oil prices, with spot CPO prices rising by 24% to finish the month at RM1874, slightly below its 52-week high of RM1891. Multiple factors caused the surge: biodiesel plants begin to source for feedstock, soy prices were buoyant and uncertainties about the weather and a possible El-Nino continued to drive prices. Not surprisingly, many plantation companies hit their 52-week highs.
- It was an interesting month of newsflow and corporate developments. In a significant development, Bank Negara announced that banks were free to negotiate with multiple parties, in merger and acquisition (M&A) deals. This ignited interest in banking stocks, with investors chasing the M&A angle. Soon after Bank Negara's announcement, Australian-based ANZ bank emerged as a strategic shareholder into AMMB, with a shareholding of 24.9% upon full conversion of the convertible preference shares and exchangeable bonds. Tan Sri Dato' Azman Hashim retains a substantial 16.9% stake on a fully diluted basis. M&A activity is expected to intensify, with RHB Capital purportedly as the next target.
- Another major development was the proposed "mega-plantation" merger, involving the PNB group of companies: Sime Darby, Golden Hope, Kumpulan Guthrie, Highlands and Lowlands, and Guthrie Ropel. This will create the largest plantation company in the world and has the firm support of the government. Execution and cost-savings extraction remains the key.
- We believe the market should maintain its buoyancy for the remaining part of this year and possibly into early next year. Liquidity remains very strong and we cannot underestimate its capacity to continue to lift the markets. Key catalysts are an imminent peak in global inflation allowing central banks to pause or even cut rates earlier than expected; a soft landing in the US property market, a reduction in geopolitical risks and thus oil prices, which should translate to lower inflationary expectations and higher risk appetite. In terms of investment strategy, we will continue to take profit and raise cash on market strength.

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MARKET UPDATE

Fixed Income Review Outlook

- The Fed Fund Rate (“FFR”) remained at 5.25% as there was no FOMC meeting in November. The US economy data published during the month continues to be mixed. The housing data remained weak and the University of Michigan confidence index came in lower at 92.3, compared to the consensus of 93.6. However, 3Q GDP came in stronger than expected at 2.2% versus the market expectation of 1.8%. Fed’s statement during the month continue to highlight the central bank’s concern over inflationary risks and the (Fed’s is blas to tightening bias in terms of monetary policy setting despite the October CPI yoy coming in lower at 1.3% compared to expectations of 1.5%). Nevertheless, the bond market does not share the same view as the market continues to rally in November. Market participants started to factor in higher probability of rate cut next year due to the slowing US economy. International crude oil price was trading within the USD 55-65 per barrel range during November. The US Treasuries yield curve showed further inversion during the month. The 2, 5 and 10-year UST ended at 4.61% (-7bps), 4.44% (-8bps) and 4.46% (-14bps) respectively.
- In November, the RM bond market continued its bullish trend on the back of the bond bull run in US and the appreciating Ringgit. The appreciating Ringgit has attracted huge foreign inflows and as a result, local bond yields continue to be driven down further. The October CPI fell to a 15 month low of 3.1% compared to the expected CPI of 3.3%. The lower inflation number has largely supported the positive sentiment in the RM bond bull run. Consequently, and as expected, Bank Negara kept the Overnight Policy Rate unchanged at 3.50% during the Monetary Policy Meeting (“MPC”) meeting on 24 November. The Ringgit yield curve flattened where the 3, 5 and 10-year MGS ended at 3.60% (-12bps), 3.70% (-12bps) and 3.79% (-19bps) respectively.
- During the month, the only sovereign issuance was the new issuance of the 10-year GII with an issue size of RM 3 billion. The issue drew strong interests with a bid-to-cover ratio of 2.5 times and was issued with an average yield of 3.82%. On the PDS front, the corporate bond market rallied in tandem with the strong performance of the MGS. On rating news, Kuala Lumpur Sentral’s Islamic bond was upgraded to A+ from A previously reflecting the support provided by Bank Pembangunan Malaysia by way of a standby revolving credit facility. Kamdar Group was the major downgrade for the month, with its rating downgraded from A3 to BBB2 during the month.
- Going forward, we expect some profit taking in December as we approach year end and the festive seasons. Nonetheless, the tone for the bond market continues to be quite bullish given that interest rate has peaked and we do not expect any changes in monetary policy in the near term. On the PDS front, primary issue is also slowing down and secondary trading would be thin. Our strategy would be to stay defensive while seeking out opportunities to enhance yield once the market has corrected.

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