October 2024

Monthly Market Outlook

Cracks Warrant Big Chinese Stimulus

Summary

- **Global economic growth slows in Sep-24 following downturn in manufacturing production.** The JPM Global Composite PMI posted 52.0 in Sep-24 (Aug-24: 52.8). Service sector business activity continued to grow for the twentieth consecutive month in Sep-24, albeit at a reduced pace. A decrease in manufacturing output however signalled a wide divergence between the two sectors. At 48.8 in Sep-24 (Aug-24: 49.6), the JPM Global Manufacturing PMI signalled a deterioration in overall operating conditions for the third successive month. Companies scaled back output in response to reduced intakes of new business. New orders fell at the fastest pace since Dec-22. Among the major economies, the Eurozone saw the steepest fall in production, led by Germany. Output also slipped deeper into contraction in the US and a marginal decline was recorded in Japan.
- **APAC market review – The MSCI Asia ex-Japan was up very strongly by 7.5% MoM while MSCI World was only up by 1.7% MoM.** The strong performance of MSCI Asia ex-Japan was mainly contributed by the surge in Chinese equity markets. China and Hong Kong stocks went up strongly as the Chinese government announced a slew of stimulus measures to boost its economy and capital markets. Besides, we also saw the Chinese Yuan strengthens strongly against USD, prompting more shift of money from the West to East.
- **Local Equity market review – The FBMKLCI was down 1.8% MoM in Sep-24 after the strong recovery in prior month.** Local market remained lackluster as all big cap sectors, especially the banks were consolidating. We also saw foreigners taking profit towards the last week of Sep-24, partly due to the MYR was at its recent strongest level and foreigners would be able to gain from both stock prices and currency. The other reason was shifting of funds from Malaysia to laggard markets like China and Hong Kong.
- **Bond market review – The US Treasury yield curve bull steepened as the Fed delivered a jumbo 50bps cut** while pencilling another 50bps by year-end. It has also maintained the 100bps cut for next year. Unemployment rate forecast by the Fed was also revised higher to 4.4% for both 2024 and 2025, from a milder 4.0% and 4.2%. However, local yields did not track the large movements in the global bond markets. Elsewhere, the PBOC announced a CNY2trn of special sovereign bonds to stimulate consumption and help local governments tackle debt problems.
- **Macro – US & Europe Offer Little Support to Asia's Export Demand.** The manufacturing growth of Asian economies in Sep-24 was slowing at a faster rate than in Aug-24. Weakness seems to be concentrating in the key exporting economies in the region – Korea, Malaysia and Vietnam. The cooling of US consumer spending poses a meaningful risk to Asia's exports. Meanwhile, S&P Global's Caixin PMI for China showed activity continued to slow in Sep-24 with new orders contracting further, confirming weak conditions which warrant the announced stimulus measures at the last week of Sep-24.

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- **Local Equity outlook – Further consolidation is expected in Oct-24.** Locally, all eyes would be on the Budget 2025 which will be tabled on the Oct. 18. We are expecting another expansionary budget which will be good for the construction, property and consumer sectors. On the flip side, there should also be further subsidy rationalization measures which could potentially include extension of targeted diesel subsidy to East Malaysia, subsidy cut for Ron95 petrol, revision of food subsidy which include chicken, sugar, rice and cooking oil. Aside from these, there is also market talk of potential mention of value-added tax. Outside Malaysia, investors will be closely monitoring on the Middle East geopolitical tension as it would have impact on oil prices as well as USD strength.
- **APAC Equity outlook – For Oct-24, all eyes would be on the sustainability of recent strong market rally in China and Hong Kong.** Some economists in China expect the Chinese government to further ramp up fiscal support for the economy, reflecting rising expectations for Beijing to expand public spending as part of its stimulus package. Also, investors will observe the Middle East development for safe haven investments should the war escalate. As a result, this may temporary pause new fund flows from the West to the East in general.
- **Fixed Income outlook – The Fed's jumbo cut highlights the shift in focus to tackle unemployment as inflationary pressures eased.** We expect UST yields to rally further in Oct-24 with further steepening given massive cuts ahead. However, we expect local yields to remain range-bound due to lack of catalysts especially for foreign investors given the easing momentum by major and regional central banks. Furthermore, we do not expect major surprises in Budget 2025 although we reckon that there will be a continuous emphasis on fiscal consolidation efforts.