Portfolio Managers' View

As at 1 December 2020

Fund Management Department

Malaysia

1. The KLCI closed at 1,602 @ 1.12.20. The stock market has risen by 9.2% since the end of the previous month. YTD-2020, the KLCI has increased by a meagre 0.8%.

2. OPEC+ will meet to discuss whether to extend or maintain its production cut strategy in 2021. Currently, the oil production cut stands at 7.7mil barrels per day (bpd) and is expected to ease by 2mil Bpd to 5.7mil bpd in Jan 2021. However, if OPEC+ extend the current production cut level at 7.7mil bpd for another 3-4 months due to weak oil demand, this will be encouraging for oil prices. In particular, this will be positive for the Malaysia government's petroleum-related revenues as the oil price assumption in Budget 2021 is based on USD$ 42 per barrel (vs US$ 47.6 per barrel currently). Our top oil and gas holding is Dialog Group.

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3. Budget 2021 was passed in Parliament at the *policy stage* on 26th November. The House meets from 30th November to approve the allocation to the Ministries at the *committee level*. This was a relief for the market as a rejection of Budget 2021 in Parliament would have resulted in political uncertainty and a delay in the implementation of economic measures to revive the economy. Meanwhile, in line with the strength of the Chinese Yuan and a weaker USD, the MYR strengthened to 4.08 vs USD (from 4.16 on 30/9/20).

4. Finance Minister Tengku Zafrul has proposed that EPF members who have suffered pay cuts or job losses will be eligible to withdraw their retirement savings under the i-Sinar facility. This scheme will allow members to withdraw a maximum of RM 10,000 (vs RM 6,000 previously) from their EPF Account 1. The Ministry of Finance (MoF) estimates that this will enable approximately 8 mil EPF members (vs 600K members previously) to tap their retirement funds. MoF expects an outflow of approximately RM 45bil to RM 50bil. This is a significant amount of redemptions and raises the risk that EPF may need to liquidate some of its listed holdings on Bursa to meet the potential withdrawals.

Regional

1. Let's be ready for a volatile December end to 2020! Last week, we had the out-going Treasury Secretary Steve Mnuchin put an end to some emergency lending facilities that may create a short-term vacuum of available funds for any potential financial fall-outs. This week, the out-going Secretary of State Mike Pompeo continued his relentless assault on China putting various Chinese entities including SMIC and CNOOC amongst others on its national security watchlist. Well, he may not stop until he is truly out the door. And unfortunately, this will create a tougher start for the incoming Administration to go soft on China. Irregardless, sanity is better than the irrational and the equity markets having gone through a tumultuous 3-year US-China trade tension will adjust over time with more clarity.

2. The nomination of Janet Yellen as the next Treasury Secretary is now official. We do not see the nomination to be an issue as Janet Yellen is likely to get bipartisan approval. It is worth repeating again (double emphasized!) that a Treasury 'put' in tandem with a Fed 'put' would be a dream tag-team.

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3. We also said last week that it may be the case that the US Fed in its upcoming FOMC meeting in mid-December may have to deliver a stronger statement on its dovish stance. And while monetary action certainly has its limitations, the US Fed is more likely to have to do more and early than less and later. And in the latest November FOMC minutes released, this was very much confirmed, that "participants noted that the Committee could provide more accommodation, if appropriate, by increasing the pace of purchases or by shifting its Treasury purchases to those with a longer maturity without increasing the size of its purchases,.... alternatively, the Committee could provide more accommodation, if appropriate, by conducting purchases of the same pace and composition over a longer horizon."

4. Well, Mr Powell and the US Fed, the "appropriate" time may be now? There cannot be more significance than this December's FOMC meeting; the markets will force the Fed's hand. Walk the talk, man.....

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