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From The Desk of CIO

Bursa to Recover from US Rate Cut

There is a high likelihood that the Malaysian market will recover strongly in 2024. After falling for past three years, mainly due to foreign fund selling, most Malaysian stocks have become attractive in terms of valuations. There is a high probability of an impending interest rate cut in US following clearer signs that US inflation is now under control. A reversal is going to happen as the aggressive US rate hikes over the past two years causing USD to appreciate strongly will be reversed, resulting in a weaker USD from falling interest rates. A normal consequence of a weaker USD is the reverse flow of funds from US to emerging markets and the Malaysian market will also benefit from such a reversal.

Every research house will be busy at the end of the year to predict the direction of the market for the coming year. The various uncertainties are always a challenge in making such predictions. One factor that is very obvious in 2024 is the expected rate cut in US. This becomes possible as inflation in US is coming under control (*see Exhibit 1*), thanks to the US aggressive rate cut.

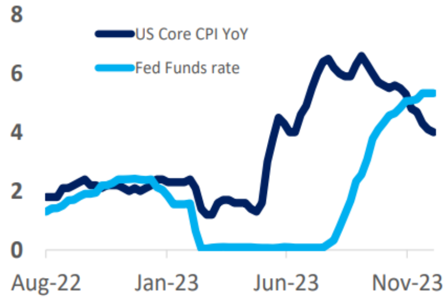
Updated quarterly forecasts showed that US Federal Reserve (Fed) will lower rates by 75 basis points in 2024, a sharper pace of rate cuts than indicated in September. The median expectation for the Fed funds rate at the end of 2024 is 4.6%. The rate cut may happen as in Mar 2024, earlier than the initial expectation of mid-2024.

When the Fed raised rates by 5.25% over the past two years, the higher rates attracted substantial funds into US and that led to a strong USD vis-à-vis most other currency. The weaker non-US currencies including the ringgit resulted in out-flow of foreign funds from our equity market.

A reversal is going to happen in 2024 when USD is expected to weaken and analysts are predicting the strengthening of most currencies against USD. For example, OCBC expects ringgit to recover to RM4.5/USD by end of 2024 (*see Exhibit 2*).

More foreign funds are going to flow back to emerging markets including Malaysia. The inverse correlation between US dollar index (DXY) against MSCI Emerging Market index is about 70% accurate from past patterns (*see Exhibit 3*). Currency is one of the main driving forces behind the flow of foreign funds. Foreign fund inflow will normally benefit the big-cap stocks such as blue chips especially banking stocks and that will lift the benchmark FBMKLCI higher. A rising market as measured by a rally in the FMBKLCI will change the market sentiment. A broader market recovery will be seen as both retail and local institutional investors will take the opportunity to ride the market trend, not to mention that our market has fallen substantially over the past few years of sell-offs. Valuations now are also fairly attractive as many stocks are trading way below net asset value and have single-digit price-earnings ratios.

Exhibit 1: US inflation will continue to trend lower



Source: Bloomberg, PCM, Dec-23

Exhibit 2: Currencies to be buoyed in 2024

Asian currencies seen buoyed in 2024

Singapore dollar's expected value against Asian currencies

	End-Nov 2023	End-Dec 2024
Malaysian ringgit	3.5	3.47
Chinese renminbi	5.31	5.3
Indonesian rupiah	11,561	11,439
Thai baht	26.09	26.06
Philippine peso	41.54	40.9
Taiwan dollar	23.3	23.18
South Korean won	966.83	931.82
Japanese yen	110.34	104.55

*End-Dec forecasts from OCBC Bank

US dollar's expected value against Asian currencies

	End-Nov 2023	End-Dec 2024
Singapore dollar	1.33	1.26
Malaysian ringgit	4.67	4.5
Chinese renminbi	7.01	6.9
Indonesian rupiah	15,407	15,200
Thai baht	34.8	34
Philippine peso	55.2	55
Taiwan dollar	31.07	31.2
South Korean won	1,288.36	1,230

*End-Dec forecasts from Bank of America

STRAITS TIMES GRAPHICS

Source: Straits Times, Dec'23

Exhibit 3: Inverse correlation of USD and MSCI EM

Source: Bloomberg, PCM Dec'23

For Phillip Capital Management Sdn Bhd

Nona Salleh
Executive Chairperson