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Monday, bloody Monday

The FBM KLCI tumbled 4.63% to 1,536.48 points, with the tech sector experiencing sharp declines as investors rushed to exit positions amid increasing uncertainty (pic: MUHD AMIN NAHARUL/TMR))

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On what was dubbed as Black Monday, Aug 5 saw a confluence of adverse events that triggered a cascade of selling

by GLORIA HARRY BEATTY & RUPINDER SINGH

ON AUG 5, a seismic sell-off rippled through global financial markets, creating a bloodbath that left few indices unscathed.

The FTSE Bursa Malaysia KLCI (FBM KLCI) was notably affected, tumbling to 1,536.48 points — a stark 4.63% drop from its previous close of 1,611.05 on Aug 2.

The sharp decline not only underscores the intense market anxiety but also illustrates the deep interconnectedness of the global financial system.

Catalysts for Market Decline

The market upheaval was driven by multiple factors with central to the turmoil was the growing fear of a looming recession in the US.

Economic indicators and market signals suggested that the US might be on the brink of a recession, prompting widespread panic among investors.

The spectre of a US recession, particularly one forecasted for 2025, fuelled concerns that economic conditions would deteriorate further, leading to a wave of sell-offs in global markets.

Compounding the situation was a significant sell-off in technology stocks, which had been a major driver of market growth in recent years.

The tech sector, often seen as a barometer for broader market sentiment, experienced sharp declines as investors rushed to exit positions in the face of increasing uncertainty.

This sell-off was exacerbated by the rising Japanese yen, which further strained investor confidence and contributed to the broader market decline.

The timing of the market plunge was particularly notable.

On what was dubbed “Black Monday”, Aug 5 saw a confluence of adverse events that triggered a cascade of selling.

One key factor was the unwinding of Japanese yen carry trades, which had been a popular investment strategy due to Japan’s prolonged low interest rates.

The Bank of Japan’s (BOJ) unexpected interest rate hike rattled these trades, leading to a rapid and large-scale sell-off.

Additionally, concerns about the Federal Reserve’s (Fed) potential response to the looming recession added to the market’s unease.

Investors worried that the Fed might implement aggressive rate cuts in an attempt to stave off a downturn.

Such moves, while intended to stimulate the economy, often lead to increased market volatility and uncertainty, further compounding the negative sentiment.

Geopolitical tensions also played a role in exacerbating the market decline.

The assassination of a Hamas leader and the potential escalation of the Middle East conflict between Iran and Israel added a layer of geopolitical risk, contributing to the market’s already fragile state.

Investors were particularly sensitive to these developments, as they have the potential to disrupt global economic stability and affect market performance.

The combination of these factors created a perfect storm of market volatility.

Aug 5’s market turmoil began with a dramatic plunge abroad that echoed the catastrophic crash of 1987.

The sell-off, which started in Asia, quickly spread worldwide, severely impacting Wall Street.

The S&P 500 experienced its worst day in nearly two years, plummeting 3%.

The Dow Jones Industrial Average fell 1,033 points, or 2.6%, while the Nasdaq composite dropped 3.4%, as technology giants like Apple Inc and Nvidia Corp continued their downward slide.

The global sell-off, which began two weeks ago, saw Japan’s Nikkei 225 plunge 12.4%, marking its worst day since the infamous Black Monday crash of 1987.

Treasury yields initially fell but later stabilised after reports indicated that growth in US services was slightly stronger than expected, driven by sectors like arts, entertainment and food services.

Despite this, MSCI's global stock gauge fell 3.25%, its biggest one-day percentage drop since September 2022, while Europe's STOXX 600 Index ended the day down 2.17%.

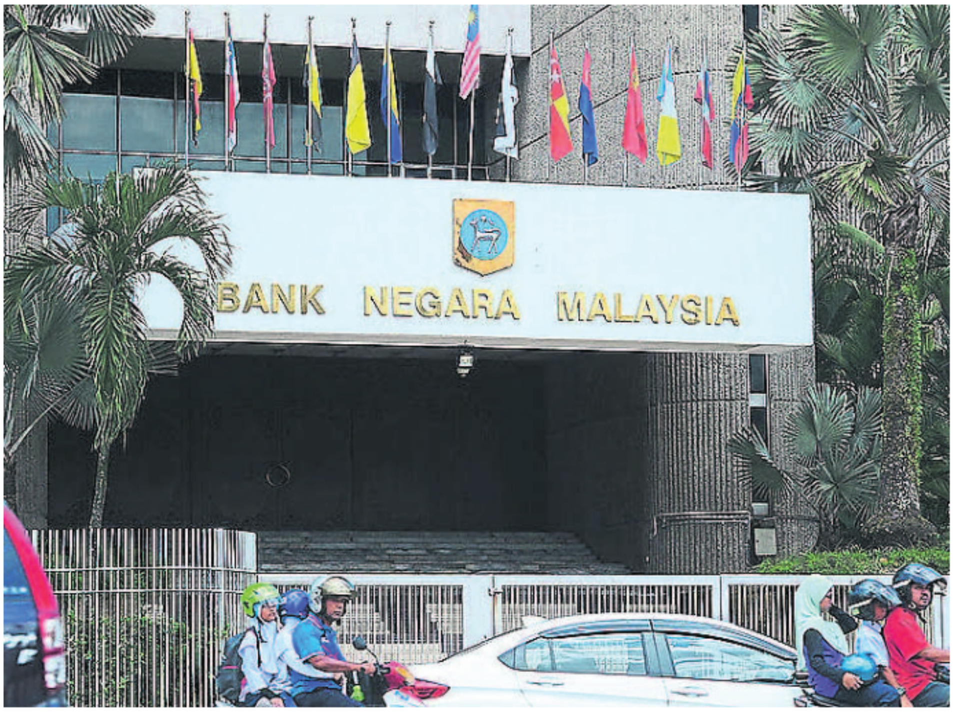
In Malaysia, the effects were sharply felt as regional stock markets were battered.

A stunning cascade of declines among 22 stocks on Bursa Malaysia set off a dramatic chain reaction, leading to an immediate suspension of intraday short selling (IDSS).

As the market plunged into chaos, the IDSS was halted when the prices of approved securities plummeted past the daily threshold.

For stocks priced above RM1, this limit is set at a staggering 15%, while for those under RM1, it's a sharp 15 sen.

The market's turmoil reached a fever pitch, forcing a sudden freeze on these trading activities as fear and uncertainty gripped investors.



Even if the US Fed implements rate cuts, Tan doubts BNM will lower Malaysia's OPR without careful consideration of the implications on the economy (pic: TMR)

Market Stabilisation Expectations

Tradeview Capital CEO Ng Zhu Hann anticipates that the FBM KLCI and other indices will undergo a stabilisation period following recent fluctuations.

Ng attributes the current market volatility to a global adjustment phase, where markets are adapting to various economic conditions.

While the US and Europe have experienced prolonged high interest rates, he said Japan has been in a low-interest rate environment. This, he noted that divergence is contributing to market instability as investors grapple with policy uncertainties.

Despite the downturn, Ng highlights the FBM KLCI's resilience over the past year, stating, "The FBM KLCI has rebounded from 1,400 to nearly 1,600 points, showing strong performance. While there is potential for further gains, the current macroeconomic conditions present challenges. Our firm's target for the FBM KLCI remains at 1,650 though some analysts are optimistic with targets above 1,700."

Ng reassures that the recent negative market breadth does not reflect underlying issues within Malaysia's domestic market, noting, "The sell-off appears to be driven by global macro events rather than domestic factors. Most companies on the Bursa Malaysia are in a strong liquidity position, although we do need to be cautious about potential liquidity issues for stocks used as collateral for margin facilities."

However, he expresses concern about potential liquidity issues for stocks used as collateral for margin facilities.

Ng also emphasises the importance of monitoring foreign fund flows and suggests that strong corporate earnings, consistent foreign investment and a stable ringgit could help counteract the current bearish sentiment.

He notes that high-profile stocks like Tenaga Nasional Bhd, YTL Power International Bhd and CIMB Group Holdings Bhd have experienced significant declines, which may offer opportunities for profit-taking.

Regarding investment strategies, Ng advises, "In the current volatile environment, it's prudent to avoid overvalued growth stocks and focus on safer, low beta and dividend-yielding equities or fixed income. We are increasing our cash positions and locking in gains as the market recovers."

Looking ahead, Ng expects robust corporate earnings, supported by a strong GDP performance in the previous quarter, particularly in sectors such as consumer goods, renewable energy, utilities, banking and construction.

Looking forward, Ng is optimistic about corporate earnings, stating, "We expect strong corporate earnings, supported by robust GDP performance in the previous quarter. Sectors like consumer goods, renewable energy, utilities, banking and construction should perform well."

Ng also comments on the potential impact of a US economic slow-down, saying, "A downturn in the US economy could lead to a weaker US dollar, which might benefit emerging market currencies and attract more investment into Asia, including Malaysia. We are closely monitoring risks such as the Middle East conflict, the US presidential election and potential tariffs on China."

Strategic Caution Amid Market Volatility

Meanwhile, SPI Asset Management MD Stephen Innes provided a cautious outlook on Malaysia's market.

"We find ourselves in the midst of a Value-at-Risk market downturn that is both complex to navigate and challenging to predict.

"However, I believe we're not far from hitting the bottom, at which point we could see support rallying from major central banks, particularly through dovish policies from the Fed and possibly BOJ," Innes noted.

Innes highlighted that the current heightened risk-off environment has led traders and investors to retreat from the market.

"This cautious approach reflects a broader strategy to safeguard portfolios against further downturns.

"Global risk managers may instruct trading desks to shift away from risky or even profitable assets to raise cash and cover potential shortfalls, emphasising the market's current volatility and the uncertainty influencing financial strategies worldwide," he explained.

On a macro scale, Innes observed that Malaysian investors are pulling back from the stock market, reflecting the interconnectedness of global economies.

"Economic disturbances in the US often have a ripple effect, influencing ASEAN exporters significantly.

“The saying ‘when the US sneezes, Asia catches a cold’ aptly describes this dynamic,” he said. “The fortunes of the ASEAN market are closely tied to the health of the US economy, impacting local inves- tor sentiment and behaviours.”

Despite the volatility, Innes suggested that the Fed may be poised for more aggressive rate cuts.

“Such a move might initially cause ripples of panic across Wall Street and Asian markets if the Fed is perceived as lagging in its response to economic indicators.

“However, the possibility of aggressive rate cuts has a unique power to boost US stocks. This effect tends to be more pronounced if there is any stabilisation or modest improvement in US economic data, as these cuts could be seen as pre-emptive rather than reactive, bolstering investor confidence and market sentiment,” he noted.

China’s Economic Influence on Malaysia’s Market Outlook

Capital Dynamics Asset Management Sdn Bhd MD Tan Teng Boo remains optimistic about Malaysia’s capital market despite concerns about an impending US recession.

He projects that the FBM KLCI will reach 1,600 points by the end of the year, with a longer-term target of between 2,500 and 3,000 points over the next three to five years.

Tan stated the significance of China’s economic growth for Malaysia.

“China has been Malaysia’s largest trading partner for the past fifteen years.

“We are closely linked to China’s economy, and I believe the Chinese government will likely support Malaysia’s economy during a global slowdown,” he noted.

He anticipated that this support will help cushion Malaysia from global uncertainties.

Tan also highlighted China’s dependence on its export activities and suggests that, if global recession impacts its exports, the Chinese government will likely encourage increased domestic consumption.

“In 2009, China played a crucial role in preventing a global economic collapse.

“Years later, China again helped stabilise the global community during a severe socio-economic crisis characterised by surging inflation,” Tan recalled.

Looking ahead, Tan expects the Malaysian economy to perform better during a US recession compared to other countries.

“Countries like Japan, the European Union, South Korea and the Philippines will face more significant challenges.

“However, with the ongoing decoupling from the US, the resilient Chinese economy is likely to navigate another US-led global financial crisis, similar to its performance in 2008-2009,” he said.

Tan also believes that the current Overnight Policy Rate (OPR) of 3% set by Bank Negara Malaysia (BNM) will remain unchanged.

“Even if the US Fed implements rate cuts, I doubt BNM will lower Malaysia’s OPR without careful consideration of the implications for our local economy,” he said.

Additionally, Tan forecasts that US rate cuts could narrow the interest rate differential between the US and Malaysia, potentially strengthening the ringgit.

He projects the ringgit to be in the range of RM4.40 to RM4.50 by the end of the year.

“The ringgit’s strength will depend not only on the US economy but also on the performance of the Chinese economy,” Tan concluded.