Monthly Fixed Income Perspective –

Sep 20 review & Oct 20 outlook

US Bond market

- In September, US Treasuries (UST's) saw little change compared to prior month's levels. The rather elevated US initial jobs claims for week ended 26th coupled with the lower US ISM Manufacturing PMI was not convincing as job growth is seen sluggish even as the economy had reopened. The curve bear-steepened as benchmark **UST yields ended between a mere -2 to +1 bps across the curve (prior month the curve bear-steepen MOM as yields close between 1-30bps higher across the curve).** The UST 2Y yield closed unchanged at 0.13% whilst the much-watched 10Y yield edged 2bps lower at 0.68% (at the time of writing yields have spiked to 0.79% levels). The yield curve saw both the 2s10s and 5s30s spreads inch steeper by 2bps month-end to 55bps and 118bps.

- **For October**, the slowing momentum in the labor market, current stale-mate in additional fiscal stimulus and also upcoming US election in Nov may help support UST's despite the slow lapse in economic momentum arising from recent jobs data as a resurgence in COVID-19 infections may continue to force the govt to re-impose containment measures. Bigger-than-expected auction sale sizes is expected to see steepening pressure on the long-end due to oncoming supply and potential reflation. **10-year UST is still expected to range between 0.70 - 0.90%; finding support at 0.90% levels for this month. The 5-10 Y tenures are believed to offer better risk-reward posture at this juncture. Our preferred IG bond issuances remain in the 3-7Y tenures in recommended sectors i.e. healthcare, utilities and telecommunications.**

MYR Bond Market

- In September, MYR govvies curve shifted higher and continued to steepen with **MGS/GII bonds yields closing between 5-19bps higher save for the 20Y** The benchmark 5Y MGS 9/25 spiked 11bps at 2.25% whilst the 10Y MGS 8/29 yields rose 5bps at 2.67%. Foreign holdings of MYR government bonds (MGS + GII + SPK) saw a 4th month of inflows i.e. RM1.07b net inflows to YTD high of RM189.4b (i.e. 23.1% of net issuance outstanding). The auctions in September involving 5Y MGS and 30Y GII notched weak BTC ratios whilst the final auction for the month involving the 5Y MGS saw solid appetite as overall BTC ratios ranged between a 1.358-3.093x.

- **For October, we expect range-trading levels with strong support on price weakness. Odds are rising for another cut in the OPR in November** amid increased in downside growth risks triggered by the resurgence of Covid-19 cases nationwide. As FTSE Russell decides to maintain the nation's weightage in the WGBI while keeping it on watch-list until March 2021, expect attention to focus on the events leading up to the Budget 2021 in November, the delicate economic situation and news updates on the resurgence of COVID-19 infections. **The 7Y, 15-20Y GII and 5Y, 10Y MGS space reflect some relative values along the curve for this month. We expect the 10Y to range slightly lower between 2.55-2.75%** with support pegged at 2.75% levels. **We also like the 5, 7Yand 20Y GG-space (current spreads are ~18-45bps) and also the 3Y and 15-20Y AA1-rated papers (current spreads are ~42-55bps.**

MYR sovereign curve (MGS)

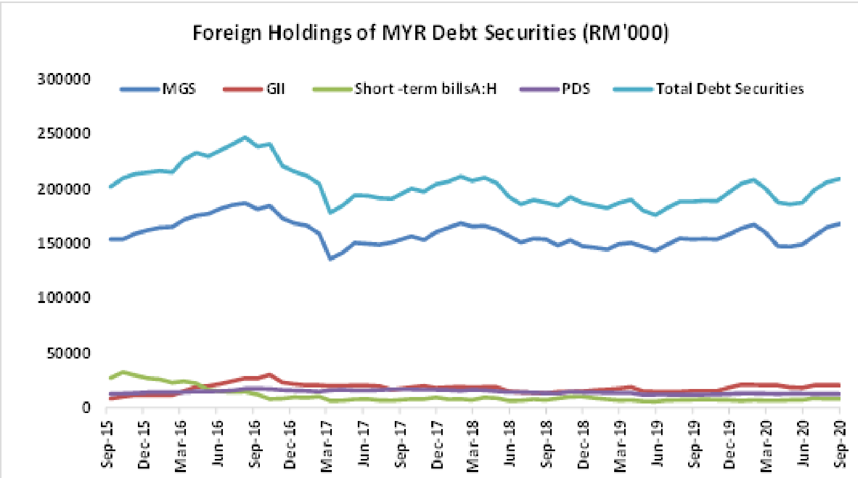
Source : Bloomberg

NFP data for September underpins ongoing US economic recovery from the impact of COVID-19 virus outbreak; UST yields little changed as markets were distracted by President Trump's health and also new fiscal stimulus agreement…

September Non-Farm Payrolls ("NFP") ended weaker-than-expected with a smaller increase of 661k (consensus 859k) having earlier notched a solid 1.37m in August (whose numbers were revised higher by 118k). It is believed that the reduction was due to the sizeable decline in state and local education jobs due to a switch to virtual education, while gains in retail and temporary workers slowed. Unemployment rate however brought some cheer; showing a vast improvement at 7.9% in September (prior month: 8.4%) but the slightly lower participation rate of 61.4% vs prior month's 61.7% tells us that the numbers have yet to stabilize and reach its post-2008 financial crisis mean levels of ~63%. Nevertheless, the average hourly wages fell to +0.4% MOM (previous month: 0.2%) despite staying at +4.7% YOY. The overall labor market picture paints one where the pace of improvement is slowing compared to previous months but bearing in mind that employment numbers remain etched within ~11-12 million; well below pre-pandemic levels. There was no change in interest rates since our last monthly report with the Fed having last left rates unchanged at its latest **FOMC on 17th Sep.** (To recap, total YTD rate cuts amounted to 150bps with the Fed Funds Rate between 0.00- 0.25%). The next scheduled FOMC meeting is on 6th Nov. The **Fed has been diligently smoothening the market by purchasing bonds** across the curve by $80b a month in Treasuries and $40b a month in agency MBS; thus expanding its balance sheet to ~$7.1 trillion from ~$4.7 trillion on 18th of March. Separately, the Fed's preferred inflation measure for Aug maintained +0.3%; with personal consumption expenditure (PCE) core index which the Fed officially targets for 2.0% yanking up YOY at +1.6% from previous 1.4%; its largest increase in 5 months (MOM: inching up slightly from +0.3% to +0.4%); which could put a little upside pressure on UST yields. This core index strips out the volatile food and energy costs and is reputed to be a better gauge of underlying price trends. The **Fed's current dot plot still pins rates at zero through 2023. Nevertheless, data from the Fed Fund Futures now reflect traders' lower expectations of a mere 1.8% hypothetical probability of a 25bps rate cut whilst CME FedWatch Tool continues to maintain a 100% chance of a rate pause in the upcoming FOMC on 5th November.**

Foreign holdings of MYR bonds inched up again for the 4th month-in-row by a 0.3% margin or RM547m in September as MYR maintains stability at ~4.1500 levels at the time of writing…

Foreign holdings of overall MYR bonds saw levels edged higher in September by RM547m or 0.3% to RM209.5b. Non-resident holdings of MGS jumped by RM1.4b from RM167.8b to RM169.2b (representing 38.8% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM1.07b to RM189.4b (representing 23.1% of total outstanding) amid a large net issuances of +RM12.0b for month (Aug: net issuances of +RM1.8b). The FTSE Russell WGBI announcement on the nation's weightage which remained on watch-list as announced on 24th Sep, was shrugged-off due to the risk-on appetite for Asian Rates asset class and potential yield-carry requirements by real money investors. Also, expectations of current low rates are being anchored due to the economic threat by ongoing COVID-19 virus infections. **Overall MYR bonds saw cumulative 12-month rolling net foreign inflows maintain at RM20.4b (YTD Aug: RM4.8b) whilst cumulative 12-month net equity outflows was reduced to RM25.5b (YTD Aug: RM22.2b).** On the currency side, the MYR ended stronger against USD at 4.1565 as at end-Sep and advanced further to 4.1500 levels at time of writing.



Source: BNM, HLB Research

Our house view sees rising odds of another OPR cut in November as the government make attempts for the economy to recover from the full-blown economic impact of COVID-19 infections…

BNM in its latest 5th monetary policy committee (MPC) meeting on the 10th of Sep maintained the OPR at 1.75%; following four (4) successive rate cuts totaling 125bps this year. BNM commented that there was improvement in growth outlook and that the less dovish policy tone by the MPC was appropriate and accommodative for now. However, the sharp spikes in new infection cases have significantly increased the downside risks to growth, hence we see **increasing odds of another OPR cut by BNM in November**. BNM did reiterate its cautious tone and warning of downside risks in the last monetary policy statement, suggesting its readiness to act further if required. **We maintain our full year estimate for 2020 GDP growth at -4.9%** (2019A: +4.3%) **but reckon there are downside risk to this forecast.**

MYR government bond auctions however saw weaker bidding metrics for two (2) out of three (3) auctions in September…..

The three (3) government bond tenders concluded for the month of September 2020 under the auction calendar saw a better average BTC ratios which ended above the 2.0x handle at 2.04x (Aug: 1.65x). Both the 7Y MGS 5/27 and 30Y GII 11/49 reopening saw the lowest sum of bids received YTD at ~RM4.1-5.4b on tepid BTC ratios of 1.54x and 1.36x each whilst the last tender for the month consisting of 5Y MGS 9/25 notched slightly solid BTC ratio of 2.80x in the absence of private placement exercise. We note at the time of writing, the recently-concluded auction involving the re-opening of 3Y GII 5/23 in early-Oct also saw strong bidding metrics (BTC ratio:3.09x); tailing a mere 0.5bps with total bids submitted amounting to RM13.9b.

MGS/GII issuance pipeline in 2020

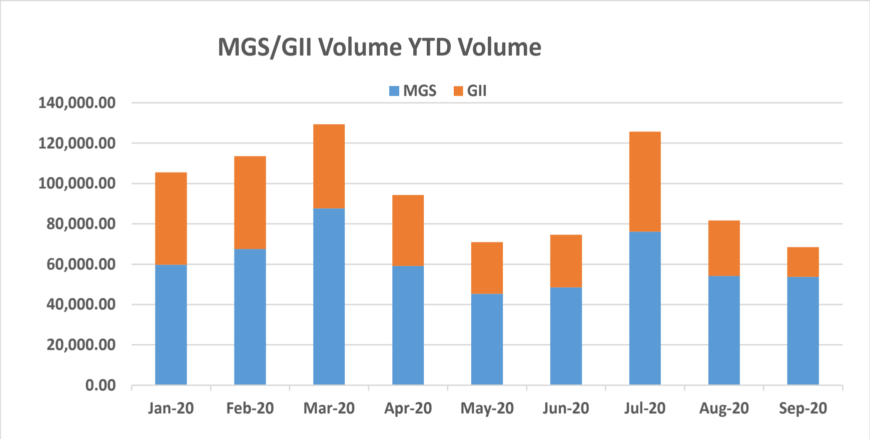
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement X	Auction Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 05/27)	7	Jan	Q1	8/1/2020	4,000	3,500		3,500	2.498	3.259	3.281	3.288	57.1%
2	15-yr Reopening of GII (Mat on 11/34)	15	Jan	Q1	14/1/2020	4,000	2,500	1,000	6,000	3.396	3.500	3.507	3.513	42.9%
3	3-yr Reopening of MGS (Mat on 3/23)	3	Jan	Q1	23/1/2020	3,000	3,000		9,000	2.183	2.837	2.858	2.875	80.0%
4	30-yr Reopening of GII (Mat on 11/49)	30	Feb	Q1	4/2/2020	3,000	2,500	1,500	11,500	2.328	3.747	3.780	3.792	66.7%
5	10-yr Reopening of MGS (Mat on 08/29)	10	Feb	Q1	13/2/2020	3,000	4,000		15,500	2.036	2.860	2.888	2.898	80.0%
6	5-yr Reopening of GII (Mat on 10/24)	5	Feb	Q1	20/2/2020	3,000	4,000		19,500	2.776	2.817	2.845	2.852	46.2%
7	15-yr Reopening of MGS (Mat on 07/34)	15	Mar	Q1	5/3/2020	4,000	3,500	500	23,000	2.247	3.008	3.027	3.036	80.0%
8	20-yr Reopening of GII (Mat on 09/39)	20	Mar	Q1	12/3/2020	4,000	2,800	1,500	25,800	2.182	3.295	3.344	3.373	91.7%
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	20/3/2020	3,000	4,000		29,800	2.080	3.372	3.450	3.494	80.0%
10	7.5-yr New Issue of GII (Mat on 09/27)	7	Mar	Q1	30/3/2020	4,000	3,500	1,000	33,300	2.874	3.391	3.422	3.454	100.0%
11	20-yr Reopening of MGS (Mat on 05/40)	20	Apr	Q2	6/4/2020	4,000	3,500	1,500	36,800	1.973	3.828	3.855	3.888	14.3%
12	10.5-yr New Issue of GII (Mat on 10/30)	10	Apr	Q2	14/4/2020	5,000	4,000	1,000	40,800	3.118	3.439	3.465	3.479	13.9%
13	7-yr Reopening of MGS (Mat on 05/27)	7	Apr	Q2	29/4/2020	4,500	4,000		44,800	2.239	2.668	2.679	2.689	61.9%
14	15-yr Reopening of GII (Mat on 11/34)	15	May	Q2	14/5/2020	5,000	3,500	1,500	48,300	2.171	3.210	3.235	3.269	50.0%
15	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2	21/5/2020	4,500	4,500		52,800	1.732	2.777	2.799	2.820	43.5%
16	3-yr Reopening of GII (Mat on 05/23)	3	Jun	Q2	3/6/2020	4,500	4,500		57,300	2.502	2.285	2.306	2.318	50.0%
17	30-yr New Issue of MGS (Mat on 06/50)	30	Jun	Q2	12/6/2020	5,000	3,000	2,500	60,300	2.167	4.013	4.065	4.098	78.0%
18	20-yr Reopening GII (Mat on 09/39)	20	Jun	Q2	29/6/2020	5,000	3,500	2,000	63,800	2.055	3.707	3.761	3.797	100.0%
19	3-yr Reopening of MGS (Mat on 03/23)	3	Jul	Q3	9/7/2020	5,000	5,000		68,800	2.512	1.987	2.002	2.010	15.7%
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3	16/7/2020	5,000	5,000		73,800	2.591	2.650	2.665	2.679	90.9%
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3	23/7/2020	5,000	5,000		78,800	2.105	2.950	2.970	2.985	13.7%
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3	1/8/2020	5,000	4,000		82,800	2.045	2.265	2.280	2.285	76.5%
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3	13/8/2020	5,500	4,000	1,500	86,800	1.469	3.200	3.240	3.273	20.0%
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3	26/8/2020	5,500	4,000	1,000	90,800	1.423	2.995	3.032	3.080	38.0%
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3	3/9/2020	5,000	3,500		94,300	1.538	2.254	2.291	2.340	63.3%
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3	17/9/2020	5,000	3,000	500	97,300	1.358	3.985	4.178	4.351	90.0%
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3	29/9/2020	4,000	5,000		102,300	2.803	2.360	2.389	2.405	33.0%
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4	5/10/2020	4,000	4,500		106,800	3.093	1.973	1.981	1.986	80.0%
29	10.5-yr New Issue of MGS (Mat on 04/31)	10	Oct	Q4		5,000								
30	5-yr Reopening of GII (Mat on 03/26)	5	Oct	Q4		4,500			`					
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4		4,000		X						
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4		4,000								
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4		4,100								
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		4,500		X						
	Gross MGS/GII supply in 2020					149,900		17,000						

Source: BNM, HLB Research

MGS/GII sees secondary market activity loses some traction…

Trading volume for MYR govvies i.e. MGS + GII bonds fell sharply by 16% to ~RM68.8b in September compared to prior month's RM82.1b due to govvies supply concerns and FTSE Russell WGBI news. Interest was still seen across the short-end of the bellies with substantial and frequent trades done predominantly in MGS off-the-run 20-21's followed by GII (altogether RM18.4b for these tenures; at 27% of overall volume; higher than the RM13.5b transacted for the previous month). This was followed by tremendous interest in the 3Y (RM5.8b), 7Y and 10Y benchmarks which churned a solid secondary market volume of RM5.4b and RM4.3b respectively which altogether maintained a similar 22.5% of overall volume for the month. Investors were also long duration pivoted along the 10Y;

amid a differing views in immediate interest rate outlook. Despite the continued placement of MYR bonds weightage on watch-list in the WGBI by FTSE Russell, we opine that the secondary market volume for local govvies may continue to maintain at current lower levels in October following upcoming US election outcome uncertainties, supply concerns following the recent “KITA PRIHATIN” fiscal stimulus package and also the delicate political balance in favor of the present ruling coalition.

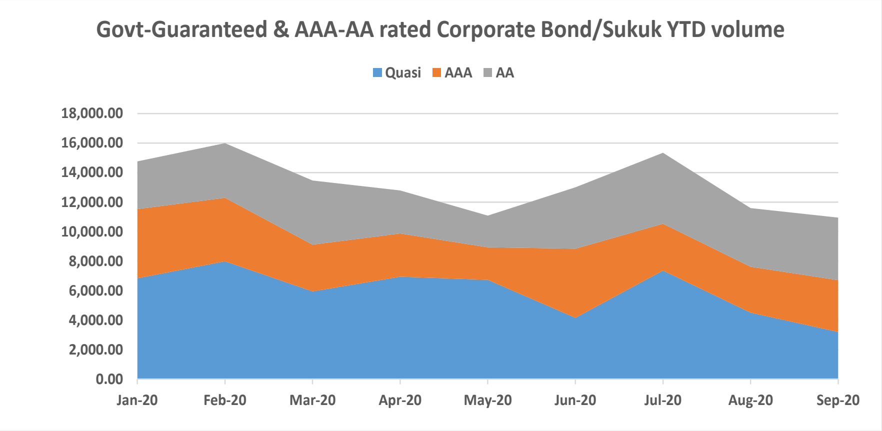


Source : BPAM, Bloomberg, HLB Research

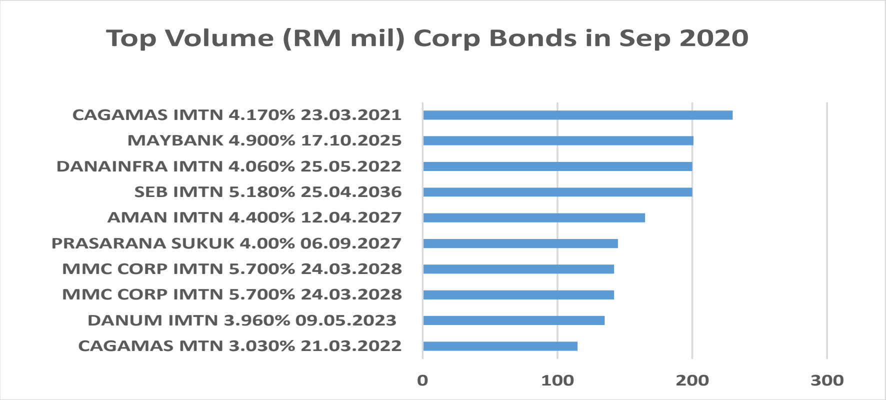
Corporate Bonds/Sukuk activity eased in September…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) similarly notched lower secondary market trading volume of ~RM11.2b in Sep (albeit a smaller 11% drop vs 16% for govvies) compared to RM12.6b in Aug. The weaker momentum was also due to weaker govvies as fund managers were more inclined to be reluctant buyers. Yield spreads ended between 13-22bps in the GG-segment (save for the longer ends > 20Y; spreads wider between 33-45bps), wider between 37-51bps for AAA-rated bonds and also wider between 63-93bps in the AA2-segment which altogether saw the steep declines in the shorter 1-5Y tenures. We note that foreign holdings for both GG and pure Credits fell marginally by RM80m to RM12.4b.

Total transactions for GG bonds fell by 10% to form ~29% of overall volume compared to AAA-rated ones which rose to form ~32% of overall secondary market volume. Bulk of investor interest in the GG-space was again mainly centered on DANAINFRA, PRASARANA, LPPSA, PTPTN, PASB bonds along with quasi-govt i.e. CAGAMAS bonds. Bonds that garnered top volume for the month were govt-guaranteed CAGAMAS 3/21 followed by MAYBANK 25NC20. Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DRB 24-29’s, YTL Corp 23-30’s, KLK 22-29’s, PTP 25-30’s, MMC 27-28’s, DANUM 23-35’s, TCMH 21’s, and infrastructure-cum construction/property (i.e. WCT 22-26’s, PUTRAJAYA 21-26’s, AMAN 21-27’s, WESTPORT 22-26’s, UEM Sunrise 20-25’s), utilities encompassing power/energy/water (i.e. AAA-rated TENAGA 30-40’s, PASB 22-34’s, AA-rated BGSM 21-27’s, EDRA 25-37’s, SEB 22-36’s, Sarawak Hidro 25-31’s, Southern Power 22-35’s, TADAU 22-32’s, YTL Power 22-28’s), toll-operators (i.e. PLUS 21-32’s, DUKE (LDF3) 29-39’s), telcos i.e. (TELEKOM 21-27’s). The banking sector saw AFFIN, MAYBANK, BPMB, MBSB and also UOB bonds traded. Odd-lot denominated trades involving unrated Mah Sing perps, YNH PROPERTIES perps, ECO World International 21-23’s, Eco Capital 24’s, Tropicana 23-25’s, perps and also IJM land perps were also prevalent



Source : BPAM, Bloomberg, HLB Research



Source : BPAM, Bloomberg, HLB Research

Primary issuance print in September driven by the following

Notable issuances in ASep-20	Rating	Amount Issued (RM mil)
DanaInfra Nasional Berhad	GG	4,000
Malaysia Rail Link Sdn Berhad	GG	800
Projek Smart Holdings Sdn Berhad	GG	10
Mercedes-Benz Services Malaysia Sdn Berhad	AAA	250
Swirl Assets Berhad	AAA	624
Pengurusan Air SPV Berhad	AAA	765
Zamarad Assets Berhad	AAA	127
YTL Corporation Berhad	AA1	240
UEM Sunrise Berhad	AA3	350
DRB-Hicom Berhad	A1	400
Tropicana Corporation Berhad	A1	100
Ara Bintang Berhad	NR	35
Hap Seng Management Sdn Berhad	NR	100
Kanger International Berhad	NR	8
Liziz Standaco Sdn Berhad	NR	19
MAG Holdings Berhad (fka Xinghe Holdings Berhad)	NR	2
Magnum Corporation Sdn Berhad	NR	175
MDSA Resources Sdn Berhad (fka Fuyuu Resources Sdn Bhd)	NR	16
OSK I CM Sdn Berhad	NR	200
Paramount Corporation Berhad	NR	50
Potensi Angkasa Sdn Berhad	NR	10
Sino Hua-An International Berhad	NR	9
Tanco Holdings Berhad	NR	3
Tradewinds Hotels & Resorts Sdn Berhad	NR	2
Cypark Renewable Energy Sdn Berhad	NR	97
Point Zone (M) Sdn Berhad	NR	100
Potensi Angkasa Sdn Berhad	NR	10
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	8
Sunway Treasury Sukuk Sdn Berhad	NR	350
West Coast Expressway Sdn Berhad	NR	138
		8,996

Source : BPAM, Bloomberg, HLB Research

Total fresh issuances of Corp Bonds/Sukuk maintained at ~RM9.0b (Aug: RM8.9b) with Govt-guaranteed DANAINFRA Nasional Berhad and Malaysia Rail Link Sdn Bhd (MRL) being the more prominent ones. DANA issued 7-30Y bonds totaling RM4.0b at coupons between 2.66-4.01% whilst MRL successfully arranged 10-25Y bonds amounting to RM800m at coupons between 2.87-3.89%.

Outlook for Oct 2020

FTSE WGBI decision remains; expect yields to remain range-bound and supported by large institutions and inter-bank players…..

The MYR bond market which saw better bidding metrics (BTC ratio: 2.04x) in September 2020 with the softer auction interest for both the 7Y MGS 5/27 and 30Y GII 11/49 being overwhelmed by the recent two(2) strong auction exercises for the 5Y MGS 9/25 and 3Y GII 5/23. This may be due to evaporating concerns of the nation's FTSE RUSSELL WGBI weightage kept on rating watch on 24th Sep. Nevertheless traders and investors will be mindful over the government's recent approval in raising the country's statutory debt limit to 60% of GDP from 55% in Aug and further economic stimulus package, "KITA PRIHATIN" last month resulting in fiscal injection for the five (5) various economic stimulus packages totaling RM305b or ~21% of GDP.

We maintain our earlier revised projection of 5.9-6.4% (MOF's latest fiscal deficit projection is 5.8-6.0%) despite the lower issuances required based on the above due to the effect of weak GDP output (3Q2020 GDP: -17.1% YOY; -16.5% QOQ). The USDMYR pair which fell to 4.1580 month-end has further weakened to 4.1500 levels at the time of writing as a result of slight improved foreign holdings of MYR debt securities, steady oil prices and part-repayment of 1MDB proceeds of USD2.5b by Goldman Sachs.

Hence, we continue to expect range-trading levels for this month with institutional support on price weakness. Also, the positive interest-rate differentials may attract offshore real money investors like global asset managers, central banks, pension funds and lifers into the local sovereign debt space. We continue to like both the GG due to both liquidity and stronger credit metrics and also the AA-sector for yield pick-up features. The GG bond names like PASB, DANAINFRA, PRASARANA and LPPSA are expected to be well-sought after on lesser portfolio slippage by investors. The 5Y, 7Y and 20Y GG sector (current yield spreads over MGS @ +18bps, +20bps and +45bps respectively) and also the 3Y and 15-20Y AA1-rated papers (current yield spreads over MGS are +55bps and +42-44bps) are seen more attractive in their respective part of the curves. We would avoid retail, auto, leisure, property-backed issuers but prefer those in power, utilities, tolling and also conglomerates with a diversified business profile.

Unrated bonds and perps are also able to provide alternative and juicier yields; especially for retail investors but one has to be mindful of the property-related issuances. **The 7Y, 15-20Y GII and 5Y, 10Y MGS space reflect some relative values along the curve for this month. We expect the 10Y to range slightly lower between 2.55-2.75%** with support pegged at 2.75% levels. We note that there are RM11.8b of govvies maturities falling in October that may weigh on yields with opportunities for rollover into our projected RM13.5b of new MGS/GII issuances. We continue expect the shorter-end i.e. 20-22's and benchmark 5Y, 10Y bonds to entice traders due to better liquidity

Rates markets in Oct may be dictated by continuing updates on the upcoming US election, proposed additional fiscal stimulus and also public health trajectory based on COVID-19 infections….

The Federal Reserve will be having its next FOMC meeting soon on the 6thth of Nov to decide on its current policy rate which has been currently between 0.00 - 0.25% since March. The US economy added 661k jobs in September (Aug: +1.49mil), lesser than analysts' expectation of 859k gains. The US ISM Manufacturing PMI edged lower to 55.4 in September (Aug: 56.0) as new orders growth slowed substantially. Nevertheless investors are seen slightly jittery as the resurgence of 2nd wave of COVID-19 infections in the US may necessitate containment measures again. The tepid inflationary conditions along with the improvement in unemployment rate to 7.9% from 14.7%; a historical high, may help support the rates asset class with safe-haven bids. Additional supply is continually being partly offset by the Fed's asset purchase program with total monthly purchases of $80b of UST's and $40b of MBS. We expect a smaller contraction in growth in the coming months, as the earlier massive $2.9 trillion policy stimulus pierces through to the real economy. Despite the Fed staying pat on interest rates, its neutral view on the rate outlook suggests expectations for further rate cuts are unlikely until 2023. Investors are expected to await further news from the Fed on:

- Yield curve control to cap yields on certain maturities
- Stronger forward guidance on its target and future path for the Fed Fund rate.

The 10-year UST is expected to be range-bound between 0.65-0.85%; finding good support at 0.85% levels for this month. The flipside to our forecast are sudden unprecedented vaccine discovery for COVID-19 virus and also improving global trade especially with an improvement in US-China ties and change in the Fed's interest rate outlook for 4Q2020. The medium-term durations in 4Q2020 potentially offer better risk-reward metrics. Nevertheless uncertainty on a few fronts that include the US election, public health trajectory and also fiscal stimulus is expected to weigh on yields**.**

In the Credit/Corporate space, Investment grade (IG) saw YTD robust debt issuances reached $1.5 trillion YTD with gross new issuances expected to reach $2.0 trillion for 2020 on lower funding costs. (Note that about $147b in US dollar IG Corporate Bonds are due in 4Q2020 with bulk i.e. 50% from the financial sector). The Bloomberg Barclays US Corporate Total Return Value (for IG), which had a market value $6.56 trillion has seen option-adjusted spreads widen slightly to 131bps despite strong investor demand for safer credits and yield. We note that the average returns were -0.2% MOM but +6.6% for YTD. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) however produced a MOM return of -1.0% and also a -3.9% YTD respectively for 2020. IG bonds have seen generic spreads closed tighter at ~137bps on average in September. The Fed's continued capacity to buy up to ~$750b of corporate bonds together with our expectation for continued leverage erosion may cause yields to drift even lower. Nevertheless, we continue to advocate caution on HY bonds that may have volatile earnings capacity and stretched balance sheets. **We are mildly positive on IG issuances in the belly between 3-7Y tenures** on steady credit fundamentals with a preferential bias into sectors that support essential services such as **water, sewerage and power** that ought to maintain steady credit standing. Meanwhile, we prefer to avoid the High Yield sector due to record issuances, heavy fund outflows and mounting worries about the economy and election which has dragged these bonds to its 1st loss since March despite having rallied after the Fed intervened in April.

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