Monthly Fixed Income Perspective –

Nov 20 review & Dec 20 outlook

US Bond market

- In November, US Treasuries (UST's) ended stronger compared to prior month's levels as the focus on the US elections diverted attention away from the initial negotiations over the potential economic stimulus bill. The mixed job data signaled a loss of momentum as weaker-than-expected NFP report intertwined with the strong average hourly earnings whilst continuing claims fell to 5.5 million for week ended 21st Nov. US PMI and ISM manufacturing data above 50 dented bids for bonds. The curve bull-flattened as benchmark **UST yields declined between 0-9bps across the curve (prior month the curve bear-steepened MOM between 2-20bps).** The UST 2Y yield closed within 1bps lower at 0.15% whilst the 10Y yield closed 4bps lower at 0.84% (at the time of writing yields have risen to 0.93% levels (whilst the yield curve reveals the widest 2s10s and 5s30s spreads of 81bps and 132bps respectively.

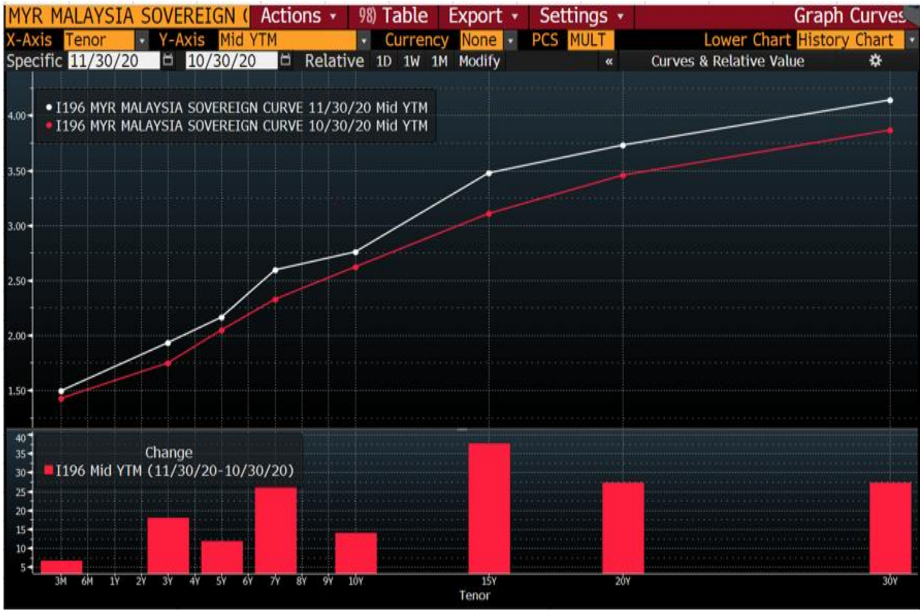
- **For December**, the Democratic win in the US elections may further drive risk-on bids with more fiscal spending and increased debt sales expecting to lift yields higher. A slower recovery for 4Q2020 GDP is expected following the earlier rebound amid muted inflation. The weaker-than-expected jobs numbers for November provides impetus for the Fed to expand its purchases of longer-dated UST's whilst urging Congress to pass another stimulus measure to minimize the lapse in economic momentum. Larger-sized auctions for UST's coupled with the continued strengthening of the economy could exert steepening-bias of the yield curve. **10-year UST is expected to flirt at the 1.00% levels whilst ranging between 0.90– 1.10%; finding support at key 1.10% levels for this month. Our preferred IG bond issuances remain within the 3-7Y tenures in sectors** that support essential services such as **energy, water, sewerage and telco.**

MYR Bond Market

- In November, MYR govvies curve shifted higher with **MGS/GII bonds reversing prior month's gains by closing between 13-29bps higher.** The benchmark 5Y MGS 9/25 yields spiked 20bps to 2.20% from prior month's historical low of 2.00% whilst the 10Y MGS 8/29 yields rose 13bps at 2.75%. Foreign holdings of MYR government bonds (MGS + GII + SPK) saw a 7th consecutive month of increase amounting to RM2.67b at a 4-year high of RM198.4b (i.e. 23.9% of net issuance outstanding). The auctions in November involving 7Y GII along with both the 15Y and 30Y MGS re-openings however saw tepid BTC ratios ranging between 1.48-1.99x

- **For December, expect the recent spike in yields due to the Fitch Ratings downgrade on Malaysia sovereign rating to taper-off with levels range-bound as the year comes to a close.** Bets on OPR cut have diminished but downside growth risks triggered by the resurgence of Covid-19 cases remain. Risk-on appetite for EM Asia following the change in the US government leadership may continue to see equities outclass government bonds. The initial approval of the National Budget 2021 by parliament is positive; pending debate at the committee stage. **The 7Y, 15-20Y space for MGS/GII reflect decent relative values along the curve. We expect the 10Y to range slightly higher between 2.70-2.90%** with support pegged at 2.90% levels. **We continue to like the 7Yand 20Y GG-space, in addition to the shorter-end AAA and AA1-rated papers in the 1-3Y bucket.**

MYR sovereign curve (MGS)



Source : Bloomberg

NFP data for November signals loss of momentum; showing employment slowed amid a worrisome decline in American participation in the labor force resulting in UST's being well-bid…

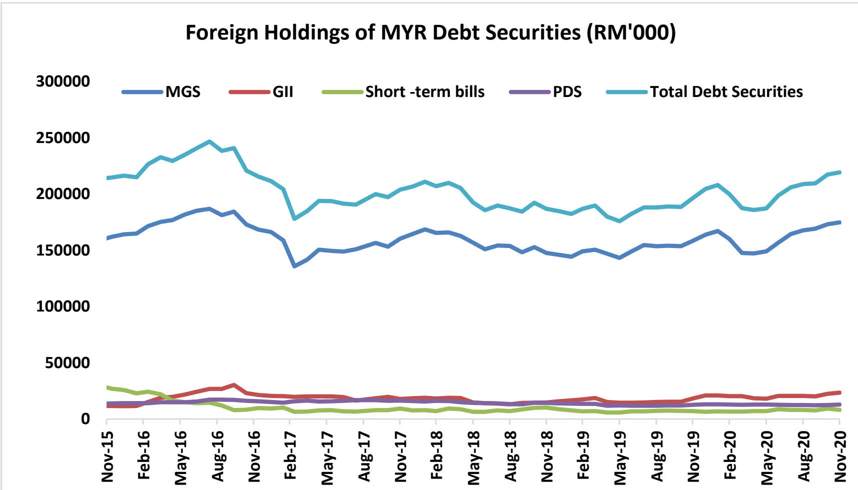
November Non-Farm Payrolls ("NFP") missed consensus estimate by notching a weaker-than-expected rise of 245K vs the consensus of 460K and the prior month's print of 610K. The unemployment rate brought some cheer; showing an improvement to 6.7% in November (prior month: 6.9%) but believed to be due to the discouragement of those who stopped searching for jobs. The slightly lower participation rate of 61.5% vs prior month's 61.7% indicates that job-finding remained decent for the month although it remained far below pre-pandemic levels of around 63%. Nevertheless, the average hourly wages growth picked up by +0.3% MOM (previous month: +0.1%) whilst the YOY figures steadied at 4.4%. Recovery in the labor market still has a long way to go depending on a fully-recovered economy, expected in 2H20201 thanks to vaccines. Separately, the Fed's preferred inflation measure PCE core tapered off from +0.2% to +0.0% MOM in October, and inched lower to +1.4% YOY from previous +1.6%, which may put less upside pressure on UST yields.

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 6th November** with total YTD rate cuts amounting to 150bps (Fed Funds Rate currently remains between 0.00- 0.25%). The next scheduled FOMC meeting is on 16th Dec. The **Fed's current dot plot still pins rates unchanged at current level through 2023. Nevertheless, data from the Fed Fund Futures now reflect traders' lower expectations of a 2.3% hypothetical probability of a 25bps rate cut (previous month: 7.8%) whilst CME FedWatch Tool continues to maintain a 100% chance of a rate pause in the upcoming FOMC on 16th December.** The above action along with the **Fed's robust ongoing purchase of bonds** across the curve by $80b a month in Treasuries and $40b a month in agency MBS (boosting its balance sheet to ~$7.2 trillion levels as at end-Nov vs ~$4.2 trillion end-Feb) and also a slew of lending and market support programs have been critical to improvements in the economy so far.

Foreign holdings of MYR bonds rose by 0.9% or RM1.93b for the 7th month-in-row in November whilst MYR strengthens to ~4.0700 levels at the time of writing…

Foreign holdings of overall MYR bonds rose in November by RM1.93b or 0.9% to RM219.4b. Non-resident holdings of MGS rose by RM1.8b from RM173.2b to RM175.0b (representing 40.1% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM2.67b to RM198.4b (representing 23.9% of total outstanding) amid a jump in net issuances of +RM7.5b for the month (Oct: net issuances of +RM2.76b). Concerns over the fiscal deficit faded whilst the initial approval of the National Budget 2021 (pending further debate at the policy stage) in parliament was lauded by investors who were sidelined earlier.

The risk-on appetite for Asian Rates asset class did not deter real-money investors from engaging in local govvies for November. Expectations of current low rates being anchored due to the economic threat by ongoing COVID-19 containment measures may lend support for bonds. **Overall MYR govvies saw cumulative 12-month rolling net foreign inflows fell to RM21.6b from RM26.6b (YTD Nov: net inflows of RM13.4b) whilst cumulative 12-month net equity outflows edged slightly lower at RM25.3b from RM25.7b (YTD Nov: RM24.1b).** On the currency side, the MYR rallied against USD to 4.0738 as at end-Nov and advanced further to 4.0690 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM maintained OPR at 1.75% in November for the 2nd straight meeting whilst moving away from its earlier dovish tilt...

To recap, BNM in its 6th and final monetary policy committee (MPC) meeting on 3rd of Nov, left the OPR unchanged at 1.75%. The tone of monetary policy statement was sanguine; moving gradually away from the previous downbeat outlook. It turned slightly optimistic on growth assessment but did highlight that downside risks to growth continues to persist amid recent resurgence in COVID-19 cases which have also resulted in major economies re-introducing containment measures although less restrictive compared to earlier measures. These downside risks to growth remain as further resurgence of infections could lead to weaker business, employment and income conditions.

On inflation outlook, headline CPI continued to see negative print for the 8th consecutive month in October, falling 1.5% YOY (Sep: -1.4%). Nevertheless, core CPI showed underlying inflation remained positive despite moderating from 1.0% YOY in September to 0.8% in October. We expect CPI to hover around current levels for the remaining two (2) months of the year before settling the year at an average -1.0%. Going forward official headline inflation in 2021 is projected to be ~2.0-3.0%; our estimate shows CPI will likely undershoot 2.0% amid the relatively soft global crude oil prices and also subdued supply and demand side factors.

On balance, BNM may have room for further policy easing, with the degree of monetary policy response to remain data dependent. The 3Q GDP print for Malaysia rebounded strongly; registering a smaller-than-expected contraction of 2.7% (2Q2020: -17.1%) spurred by a hefty turnaround in net exports and encouraging improvement in domestic demand.

With the MPC reaffirming that the stance of monetary policy is appropriate and accommodative, **we opine that another OPR cut by BNM is not forthcoming in the immediate future. We are revising our full year estimate for 2020 GDP to between -5.3% to -5.8%** (YTD: -6.4% YOY; 2019A: +4.3%) but reckon there are downside risk to this forecast based on softer labor market conditions, consumer and business sentiments arising from the imposition and continuation of Conditional MCO in selected states throughout the nation.

MYR government bond auctions however saw tepid bidding metrics for the three (3) auctions in November…..

All three (3) government bond tenders concluded for the month of November 2020 under the auction calendar saw weak BTC ratios below the 2.0x handle. Overall average BTC ratio for the month notched 1.69x (Oct: 2.34x). The 7Y GII reopening saw weak BTC ratio of 1.62x with total bids amounting to only RM6.5b. Both the longer-tenured re-openings involving the 15Y MGS 7/34 and 30Y MGS 6/50 and 5Y GII 11/49 reopening similarly saw total sum of bids received of only between RM4.4-5.9b; premised on BTC ratios of 1.48x and 1.99x respectively. A private placement of RM500m was seen for the long bond. The relatively long tails of 7-8bps for these longer-tenors were reflective of weaker participation from both onshore and offshore institutions.

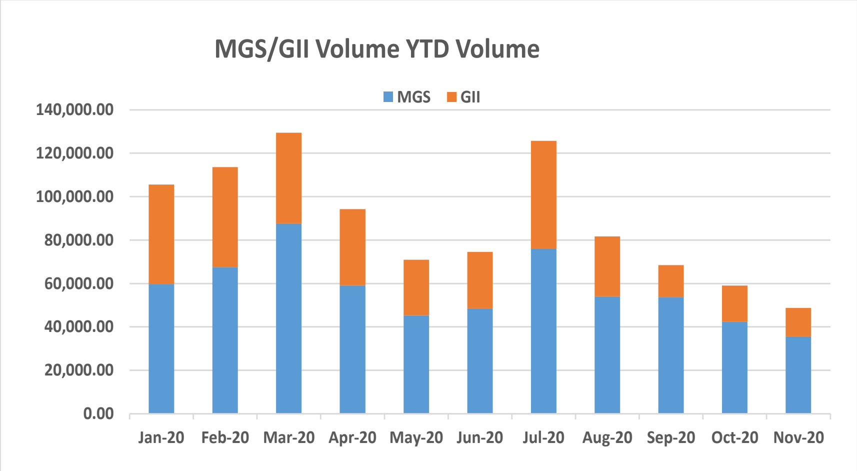
MGS/GII issuance pipeline in 2020

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	14/10/2020	5,000	5,000		111,800	1.994	2.600	2.632	2.652	40.9%
30	5-yr Reopening of GII (Mat on 03/26)	5	Oct	Q4	27/10/2020	4,500	5,000		116,800	1.996	2.191	2.204	2.213	97.1%
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4	12/11/2020	4,000	3,000	500	119,800	1.994	3.950	4.049	4.130	2.4%
32	**7-yr Reopening of GII (Mat on 09/27)**	**7**	**Nov**	**Q4**	**13/11/2020**	**4,000**	**4,000**		**123,800**	**1.616**	**2.490**	**2.521**	**2.541**	**68.8%**
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4	**27/11/2020**	4,000	**3,000**		**126,800**	1.481	3.348	3.432	3.500	30.0%
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		4,500	4,000	500	**130,800**	2.619	2.950	2.986	3.008	50.0%
	Gross MGS/GII supply in 2020					147,500	130,800	18,000						

Source: BNM, HLBB Global Markets Research

MGS/GII sees secondary market activity grind lower…

Trading volume for MYR govvies i.e. MGS + GII bonds fell further by 13.3% MOM to ~RM51.4b in November compared to prior month's RM59.3b due to the earlier concerns over fiscal deficit concerns and the ruling government's edge to push through the National Budget 2021 in Parliament. Interest was seen across the short-end and the belly with substantial and frequent trades done predominantly in MGS/GII off-the-run 21-22's (altogether RM12.3b or 24% of overall volume of RM51.4b; slightly lower compared to prior month), 24's, 26's and also the 29's. This was followed by tremendous interest in the 5Y (RM7.0b) and also the 7Y and 10Y benchmarks which churned a solid secondary market volume of RM4.8b and RM3.4b respectively which altogether maintained a similar 30% of overall volume for the month. Investors were active mainly in the belly with some spillover seen in the 15Y; pivoted along the 5Y and 15-20Y part of the curve. We opine that the secondary market volume for local govvies may continue to maintain at current levels in December due to low staffing levels during the year-end holidays and festivities and absence of further catalysts whilst BNM is expected to stay pat on interest rates for now.

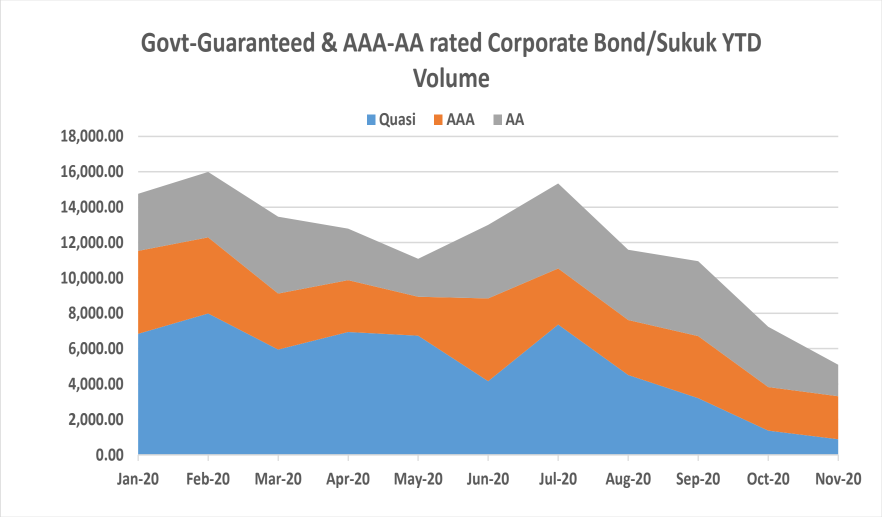


Source : BPAM, Bloomberg, HLBB Global Markets Research

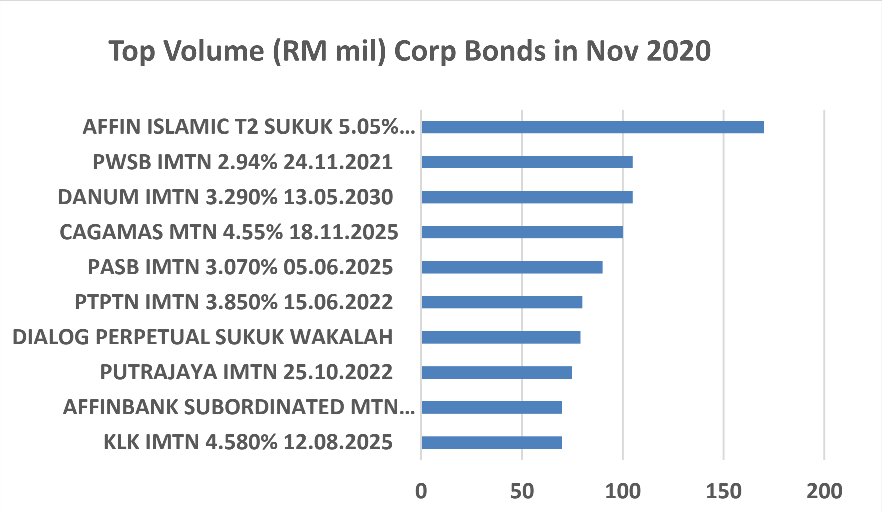
Corporate Bonds/Sukuk activity continues to ease towards the year-end…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) similarly notched lower secondary market trading volume of ~RM6.2b in Nov (albeit a sharper 27% drop vs 13.3% for govvies) compared to RM8.5b in Oct. The weaker momentum was partly due to the influence from govvies as fund managers were inclined to be sidelined following uncertainty over both the national Budget 2021 and continued lockdowns which restricted some economic activities throughout the month. BNM's decision to stay pat on the OPR was a contributing factor as well. Several large institutional buyers were equally reluctant sellers in view of the existing yield-carry benefits for their investment portfolios. Yield spreads ended slightly wider, settling between 20-40bps in the GG-segment (save for the 10y tenures), and also wider between 40-60bps for AAA-rated bonds but tighter between 60-88bps in the AA2-segment which altogether saw the steep increase in both the ultra-short and longer tenures. We note that foreign holdings for both GG and pure Credits inched up marginally by RM415m to RM12.8b.

Total transactions for GG bonds fell sharply by 35% to form a mere ~17% of overall volume compared to AAA-rated ones which maintained ~48% of overall secondary market volume. AA-rated papers however saw an even more drastic pullback in trades by 48%. Bulk of investor interest in the GG-space was again mainly centered on DANAINFRA, PRASARANA, LPPSA bonds along with quasi-govt i.e. CAGAMAS bonds. **Bonds that garnered top volume for the month were AFFIN Islamic 28NC23 that ended 8bps lower at 3.67% and the short-end Puncak Wangi 11/21 which closed unchanged at 2.93%. This was followed by DANUM Capital 5/30 which rose 6bps at 3.11%.** Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. KLK 25-26's, PKPP 23-28's, DANUM 27-34's, MMC 27-28's and infrastructure-cum construction/property (i.e. WCT 21-22's and Perps, AMAN 23-29's, DANGA 27-33's, PUTRAJAYA 21-26's, UEM Sunrise 23-25's), utilities encompassing energy/telco/water/power (i.e. AAA-rated TENAGA 33-40's, TNB NE 29-33's, TELEKOM 21-28's, AA-rated BGSM 21-26's, PASB 21-26's, EDRA 25-37's, CYPARK 31-40's, SEB 21-36's, Southern Power 26-35's) and Fortune Premier 22-26's. The banking sector saw AFFIN-Bank and Affin Islamic-related names, CIMB, BPMB, ALLIANCE and SABAHDEV bonds traded. Odd-lot denominated trades involving unrated YNH PROPERTIES perps, Tropicana 23-75's & perps, IJM land perps, TG excellence and CIMB perps were also prevalent.



Source : BPAM, Bloomberg, HLBB Global Markets Research



Source : BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance print in November driven by the following:

Notable issuances in Nov-20	Rating	Amount Issued (RM mil)
Lembaga Pembiayaan Perumahan Sektor Awam	GG	5,750
Prasarana Malaysia Berhad	GG	600
Impian Ekspresi Sdn Berhad	AAA	450
Malaysia Airport Holdings Berhad	AAA	700
Pengurusan Air SPV Berhad	AAA	555
Puncak Wangi Sdn Berhad	AAA	175
Projek Lintasan Sungai Besi-Ulu Klang Sdn Berhad	AAA/A1	630
Zamarad Assets Berhad	AAA/AA	115
CIMB Group Holdings Berhad	AA2	2,500
CIMB Bank Berhad	AA2	2,450
UMW Holdings Berhad	AA2	400
Perbadanan Kemajuan Negeri Selangor	AA3	80
RHB Bank Berhad	AA3	500
Dialog Group Berhad	A1	500
BGMC BRAS Power Sdn Berhad	NR	24
BGRB Venture Sdn Berhad	NR	2
Columbia Asia Sdn Berhad	NR	22
Cypark Renewable Energy Sdn Berhad	NR	30
Damansara Uptown Retail Centre Sdn Berhad	NR	25
Idiwan Solar Sdn Berhad	NR	1
Kuantan Port Consortium Sdn Berhad	NR	50
Magnum Corporation Sdn Berhad	NR	100
PESTECH International Berhad	NR	11
Sino Hua-An International Berhad	NR	2
Swift Haulage Sdn Berhad	NR	300
SOP Capital Sdn Berhad	NR	20
Sungei Way Corporation Sdn Berhad	NR	600
Tanjung Pinang Development Sdn Berhad	NR	20
True Ascend Sdn Berhad	NR	50
West Coast Expressway Sdn Berhad	NR	8
		16,670

Source : BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk spiked to a YTD high of ~RM16.7b (Oct: RM15.3b) with Govt-guaranteed Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA) and PRASARANA Berhad being the more prominent ones. LPPSA issued 3-23Y bonds totaling RM5.75b at coupons between 2.02-3.91% whilst PRASA successfully arranged 4-5Y bonds amounting to RM600m at coupons between 2.23-2.47%.

Outlook for Dec 2020

Expect bonds to recover slightly with yields remaining range-bound as we head to low staffing levels during the year-end holidays and festivities...

The MYR bond market which saw weak bidding metrics (BTC ratio: 1.689x) in November 2020 saw fortunes turn for the better in early-December with the penultimate auction for the year i.e. 10Y GII 10/30 notching a solid BTC ratio of 2.619x with total bids amounting to RM10.5b. However, we note that investors earlier concerns over:

- Potential supply concerns due to higher-than-expected fiscal deficit of 6.0% of GDP (our earlier forecast was between 5.9-6.4%) arising from the implementation of the five (5) various economic stimulus packages (ESP's) totaling RM305b or ~21% of GDP.
- Ability to obtain parliamentary approval for the National Budget 2021
- EPF's potential cash-flows going forward arising from the various stimulus measures followed by:

The recent downgrade of the country's long-term issuer default rating from A- to BBB+/Stable by Fitch ratings are however being shrugged-off slowly as evidenced by the recent recovery in bonds. The approval of the National Budget 2021 and affirmation of EPF's ability (please refer to our research alert dated 23rd Nov) has brought confidence in the fixed income space. An added buffer is the likelihood of BNM maintaining the present low OPR rate of 1.75%.

Our projected total gross issuances for 2020 of between RM147.5-148.4b was close to the actual issuance size of RM148.8b of based on the abovementioned deficit arising from the various ESP's. The USDMYR pair which fell to 4.0738 month-end has however strengthened to 4.0690 levels at the time of writing as a result of a weaker greenback.

No change to our view for OPR to stay unchanged at 1.75% in the foreseeable future. Hence, we continue to expect slight recovery and range-trading levels to persist for this month as the month progresses into the usual low staffing levels that coincides with the year-end holidays and festivities. Expect some intermittent institutional support on weakness. The positive interest-rate differentials are expected to maintain offshore real money investor interest like pension funds, central banks, global asset managers and lifers into the local sovereign debt space. We note that there will be very little selling pressure seeing that there are no govvies maturities falling in December that may see outflows coupled with the completion of the auction calendar for the year. **The 7Y, 15-20Y space for MGS/GII reflect decent relative values along the curve. We expect the 10Y to range slightly higher between 2.70-2.90%** with support pegged at 2.90% levels. We continue to expect the shorter-end i.e. 21-22's and benchmark 5Y, 10Y bonds to be the forefront for traders.

We continue to like the 7Yand 20Y GG-space, (current yield spreads over MGS are ~25bps and 34bps respectively). The GG bond names like LPPPSA, DANAINFRA, PRASARANA and even PTPTN are expected to be well-sought after on lesser portfolio slippage by investors. **In addition to that we also prefer the shorter-end AAA** (current yield spreads are ~49-51bps) **and AA1-rated papers in the 1-3Y bracket** (current yield spreads ~ 70-73bps). We continue to advocate caution in sectors involving automobiles, retail, leisure and property-backed issuers but prefer those in conglomerates (with a diversified business profile), power, utilities and also tolling operators.

US rates markets expected to face challenges in December amid potential fiscal stimulus and flight-to-risk mode arising from policies from the newly-elect Democrats...

The Federal Reserve will be having its next FOMC meeting on the 16th of December to decide on its current policy rate which has been pegged between 0.00 - 0.25% since March. The US economy only added 245k jobs in November (Oct: +610k), less than market expectation. The US ISM Manufacturing PMI saw decent levels of 57.5 in November (Oct: 59.3) whilst Markit US Manufacturing PMI picked up strength at 56.7 (Oct: 53.4) whilst unemployment rate improved to 6.7% from 6.9%. Nevertheless, containment measures across the US due to resurgence in COVID-19 infections along with tepid inflationary conditions may help lend a bid to bonds. The risk-on appetite for EM Asia following the change in the US government leadership may see optimism in equities outclass govvies. The earlier massive $2.9 trillion work-in-progress policy stimulus is expected to improve the economic conditions.

The Fed's neutral view on the rate outlook suggests further rate cuts are unlikely until 2023. **We do not discount the possibility of the Fed possibly embarking on yield curve control to cap yields on certain maturities together with stronger forward guidance on the target and future path for the Fed Fund rate**. The flipside to the above include vaccine discovery for COVID-19 virus, improved global trade resulting from better US-China ties and the proposed fiscal stimulus bill which may weigh on yields**.** T**he UST 7Y and 10Y tenures are seen to offer relative value at this juncture The medium-term durations potentially offer better risk-reward metrics.**

In the Credit/Corporate space, US Investment grade (IG) saw YTD robust gross debt issuances reaching almost $1.7 trillion. The Bloomberg Barclays US Corporate Total Return Value (for IG), which has a market value $6.75 trillion has seen option-adjusted spreads tighten from 116bps to 104bps on the back of strong investor demand for safer credits and yield. We expect a slightly higher average returns for December compared to the recent +2.8% MOM and +9.4% YTD returns. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) however produced a MOM return of +3.9% and also a +5.1% YTD respectively for 2020. We continue to advocate caution on HY bonds that may have volatile earnings capacity and stretched balance sheets as these entities navigate their way around the pandemic-struck economic climate. **10-year UST is expected to flirt at the 1.00% levels whilst ranging between 0.90– 1.10%; finding support at key 1.10% levels for this month. Our preferred IG bond issuances remain within the 3-7Y tenures in sectors** that support essential services such as **energy, water, sewerage and telco.** We are averse to the High Yield sector due to record issuances and concerns over stretched balance sheets.

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