# *Monthly Fixed Income Perspective –*

## *Aug 21 review & Sep 21 outlook*

### *US Bond market*

- **In August**, US Treasuries (UST's) closed weaker; with the intermediates being pressured the most amid speculation about when the Fed will start paring back its debt purchases based on Fed Chair Powell's comments at Jackson Hole. The curve shifted higher as benchmark **UST yields rose between1-9bps across the curve**. The UST 2Y yield edged 1bps up at 0.20% whilst the 10Y spiked 6bps to 1.28% (at the time of writing yields have risen further to 1.32% levels). In its refunding announcement, the US Treasury said that it planned to sell $673b in new bonds this quarter as part of a $1.5 trillion second-half funding target that is dependent on lawmakers lifting the suspension on debt ceiling of $22 trillion which expired end-July). The yield curve saw the 2s10s spread widen 7bps at ~110bps; whilst the 5s30s spreads tightened by 5bps at ~115bps.

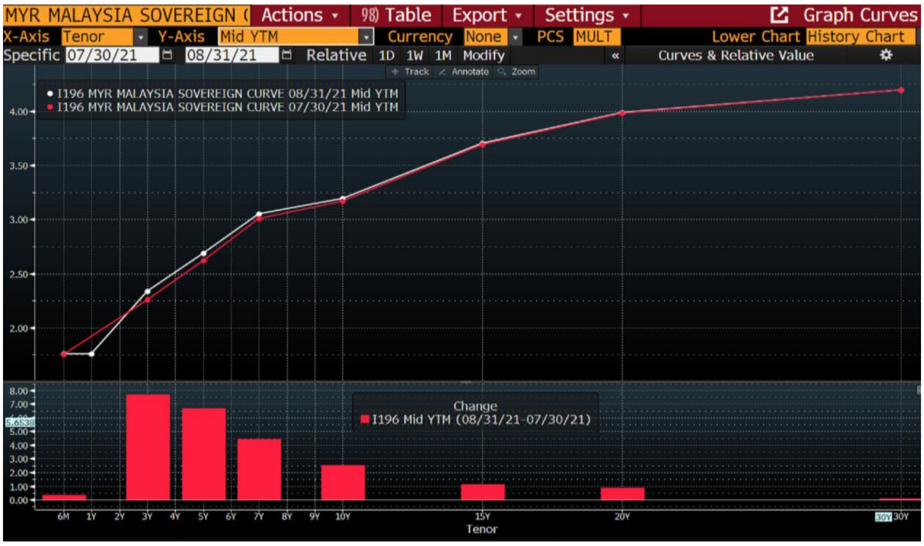
- **For September**, expect USTs to be **pressured** despite the FOMC assessing whether the US labor market growth stalls, complicating the Fed's decision on the timing of the tapering. Given the ongoing impact of COVID-19 and variants uncertainty, the Fed may be expected to delay tapering decision. The rates market may be pressured amid a deluge of government and corporate bond sales in both the US and Europe whilst some support is likely from demand by foreign investors. **The 10-year UST is expected to range between 1.35-1.55%; finding support at key 1.55% levels for this month. We are mildly positive on IG issuances within the 4-7Y sector** that reflect better value along the curve and roll-down purposes **in sectors covering energy, financials and utilities.**

### *MYR Bond Market*

- **In August**, MYR government bond curve bear-flattened, **with MGS yields settled mostly mixed with overall benchmark yields extending out until 20Y mostly higher between 1-6bps whilst the longer-end remained resilient. Bonds saw returns retreat 0.2% m/m and 4.5% y/y in August.** The benchmark 5Y MGS 9/25 yield rose the most by 6bps m/m to 2.68% whilst 10Y MGS 4/31 edged 2bps up at 3.19%. Foreign holdings of MYR government bonds (MGS + GII + SPK) bounced back up to a new high @ RM226.1b with net inflows circa RM6.3b (representing 25.2% of total outstanding). All three (3) auctions saw participation deteriorate to an average BTC ratio of ~ 2.02x compared to prior month's 2.46 cover.

- **For September,** the Malaysian economy is expected to gradually recover from the eventual opening up of the economy for more states under the National Recovery Plan; thanks to the rapid vaccine rollouts. However, the perceived risk-on mode coupled with the government's move to increase both the fiscal deficit to between 6.5-7.0% and also the statutory debt ceiling to easily 65% may reduce support for bonds. On the flip side, the pleasant portfolio inflows in to the MYR debt space along with the well-diversified base of local investment institutions may yet be a forthcoming factor to arrest declines in bond valuations. **We expect the 10Y to remain in a similar range of between 3.20-3.40%** with support pegged at 3.40% levels. **The 7Y, 15Y MGS/GII space reflect decent relative values along the curve. We also like the short 2-5Y, 10Y AAA-AA papers for liquidity and longer tenured 10Y-15Y GG bonds for yield-carry.**

**MYR sovereign curve (MGS)**




*Source: Bloomberg*

### *Weaker NFP for August showed that US hiring slowed as surging Delta variant dented the pace of economic recovery; raising the prospect of a more neutral Fed…*

**August Non-Farm Payrolls ("NFP")** added a mere 235k (far below the consensus of 733k) following both June's and July's upward revised additional print of 134k. This came in below this year's monthly job growth average of 586k. Notably, job gains stalled in leisure and hospitality sector amid a resurgence in COVID-19 cases whilst on the other hand professional and business services coupled with manufacturing surprised on the upside. The unemployment rate dropped further to 5.2% (July: 5.4%), still chalking higher compared to the start of the pandemic at 4.4% in March 2020 whilst the participation rate was flat at 61.7%. Pandemic unemployment benefits are envisaged to have just expired with many states having ended the $300 weekly payment. The average hourly wages grew 0.6% m/m (previous month: 0.4%) whereas the y/y figures spiked to 4.3% (previous month 4.0%). The weaker-than-expected employment data may lead some Fed officials to argue for a pushback to bond-buying efforts (the Fed has been purchasing $120 billion worth of USTs and MBS a month, which in turn keeps bond yields suppressed). Recent comments from Fed Chair Powell during the annual Jackson Hole conference suggested a dovish tint in the context of recent Fedspeak but kept the Fed on the path to an asset tapering exercise.

Meanwhile, the still expansionary US PMI and ISM manufacturing data for August indicates sustained economic expansion which in turn may result in capacity constraints. The Fed's preferred inflation measure i.e. core PCE in July eased to +0.4% m/m but inched higher @ 3.6% y/y. This, along with the robust CPI data may apply upward pressure in UST yields. Fewer job gains may not change the Fed's policy path yet but push back its actual asset tapering exercise to possibly December this year.

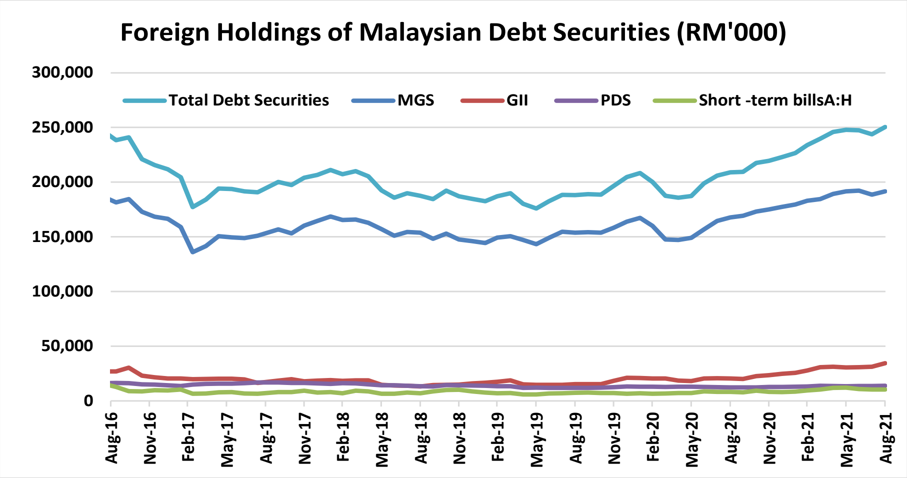
To re-cap, total rate cuts of 150bps took place in 2020 with the Fed leaving the Fed Fund Rates unchanged at 0.00-0.25% at its last FOMC on 28th July. The Fed's ongoing purchase of bonds of $80b a month in USTs and $40b a month in agency MBS has now boosted its balance sheet to ~$8.35 trillion as at 30th August 2021 ($8.22 trillion @ 26th July). The US Treasury in its recent quarterly refunding announcement said that it plans to sell $673b in new bonds this quarter as part of a $1.5 trillion 2nd-half funding target that is dependent on lawmakers lifting the suspension on debt ceiling.

The **Fed's current dot plot as previously mentioned saw 7 officials (out of a total 18 officials) preferring a hike earlier than 2023**. Also,13 participants continue to project higher rates in 2023, moving the median dot to 0.625%, maintaining two rate hikes in 2023 as indicated in our previous report. Alternate data from the **Fed Fund Futures now reflect traders' hypothetical expectations of a lower 2.0% odds of a cut** (prior month: cut of 3.6% instead) in the next FOMC meeting on 22nd September whilst **CME FedWatch Tool maintains a 100% chance of a rate pause again.**

## *Foreign holdings of overall MYR bonds rebounded sharply by ~RM6.7b or 2.7% in August amid stronger MYR against the greenback @ 4.1552*

Foreign holdings of overall MYR bonds jumped in August by a prominent RM6.62b or 2.7% to RM250.4b. Non-resident holdings of MGS recouped back prior month's RM3.58b fall, by rising RM3.13b (i.e. from RM188.6b to RM191.7b, representing 40.3% of total outstanding). Total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM6.3b to RM226.1b (representing 25.2% of total outstanding) amid higher net issuances of +RM6.5b for the month (July: +RM1.5b). Investors surprisingly brushed aside the uncertain political situation that culminated in the change in Prime Minister and cabinet reshuffle during the month and prior month's supply concerns arising from the PEMULIH stimulus package requiring additional fiscal injection of RM10.0b.

However improvement in net purchases in August by offshore parties were believed to have resulted in substantial portfolio turnover activity especially in the shorter off-the-run bonds whilst having appeal for liquidity and relative yield-carry requirements for Malaysian govvies falling under the EM Asia rates category. **Overall MYR govvies saw the highest net inflows since October 2020 totaling RM6.31b for August 2021 (prior month: -RM3.15b) whilst 12-month rolling inflows notched a sharply higher cumulative amount of RM37.8b (prior month: RM34.5b). Net equity inflows were evident for the 1st time since June 2019 by RM1.1b in August 2021 (prior month: -RM1.34b) compared to the cumulative 12-month rolling outflows of RM9.85b (prior month: RM11.18b).** On the currency side, the MYR strengthened considerably against USD to 4.1552 from 4.2205 as at end-July and is seen consolidating at 4.1482 levels thereafter at the time of writing.




*Source: BNM, HLBB Global Markets Research*

## *MPC meeting in September sees BNM stay pat at 1.75% for the OPR...*

BNM in its 5th Monetary Policy Committee (MPC) meeting for the year on 9th of September, left the OPR unchanged at 1.75% in line with our projection. The central bank highlighted that the global growth outlook continues to recover but overall, the balance of risks is tilted to the downside. As for the Malaysian economy, the recent gradual relaxations to lift containment measures and allow for more economic sectors to re-open and continued policy support; is expected to mitigate earlier adverse impact. This is largely due to the rapid vaccine rollouts. We note that the latest MPC policy statement was earlier preceded by BNM's revision of its projected GDP growth forecast from 6.0-7.5%, to between 3.0-4.0%.

**Our house view is for BNM to leave OPR unchanged at 1.75% going forward; as we believe that while downside risks remain, the Malaysian economy is expected to gradually recover from here. We have revised our full year 2021 GDP growth projection down to 2.7% y/y (prior +3.7%), and foresee a bumpy ride ahead as infection rates remain high and virus variants continue to evolve.**

### *Weaker bidding metrics in MYR government bond auctions in August…*

The three (3) government bond tenders concluded for the month of August 2021 under the auction calendar saw average BTC ratios fall sharply to 2.02x (July: 2.46x). The highest BTC among the three auctions recorded was the 30Y reopening of MGS 6/50 at 2.28x; with a lower sum of bids received at $M4.56b due to the sizeable private placement of RM2.0b. Both the 7Y reopening of GII 10/28 and 3Y reopening of MGS 6/24 notched softer covers below the 2.0x handle i.e. between 1.98-95x. Altogether, the three (3) auctions saw total bids amounting to between a range of only RM4.56-9.75b. The table below summarizes the recent tenders as we are **in the process of re-evaluating** our current total projected MGS/GII issuance sizes of RM152.5b to a higher amount for 2021.

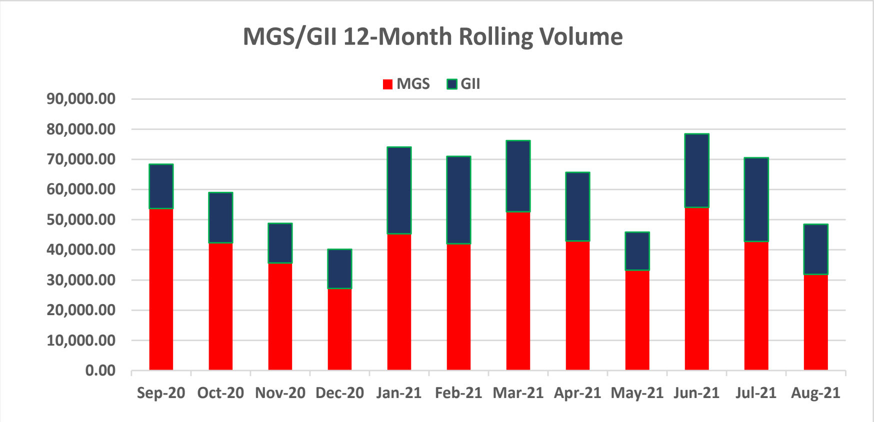
MGS/GII issuance pipeline in 2021

| No | Stock | Tenure (yrs) | Tender Month | Quarter | Tender Date | Projected Issuance Size (RM mil) | Actual Auction Issuance (RM mil) | Actual Private Placement | Total Issuance YTD | BTC (times) | Low | Average | High | Cut-off |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 7-yr reopening of MGS (Mat on 06/28) | 7 | Jan | Q1 | 6/1/2021 | 3,500 | 3,500 | | 3,500 | 2.026 | 2.406 | 2.449 | 2.463 | 50.0% |
| 2 | 15.5-yr new Issuance of GII (Mat on 7/36) | 15 | Jan | Q1 | 14/1/2021 | 4,500 | 3,000 | 1,500 | 8,000 | 2.917 | 3.385 | 3.447 | 3.475 | 95.5% |
| 3 | 10-yr Reopening of MGS (Mat on 04/31) | 10 | Jan | Q1 | 21/1/2021 | 4,000 | 4,000 | | 12,000 | 1.992 | 2.684 | 2.714 | 2.730 | 91.7% |
| 4 | 5-yr Reopening of GII (Mat on 03/26) | 5 | Feb | Q1 | 3/2/2021 | 4,500 | 4,500 | | 16,500 | 2.067 | 2.230 | 2.252 | 2.260 | 63.2% |
| 5 | 20-yr Reopening of MGS (Mat on 05/40) | 20 | Feb | Q1 | 17/2/2021 | 4,500 | 2,000 | 2,000 | 20,500 | 2.224 | 3.901 | 3.969 | 4.010 | 90.0% |
| 6 | 7-yr Reopening of GII (Mat on 09/27) | 7 | Feb | Q1 | 24/2/2021 | 3,500 | 3,500 | | 24,000 | 2.196 | 2.792 | 2.806 | 2.824 | 82.5% |
| 7 | 30-yr Reopening of MGS (Mat on 06/50) | 30 | Mar | Q1 | 5/3/2021 | 4,000 | 2,000 | 2,000 | 28,000 | 2.023 | 4.443 | 4.486 | 4.549 | 20.0% |
| 8 | 10-yr Reopening of GII (Mat on 10/30) | 10 | Mar | Q1 | 11/3/2021 | 4,000 | 4,000 | | 32,000 | 1.799 | 3.500 | 3.561 | 3.589 | 15.0% |
| 9 | 5-yr Reopening of MGS (Mat on 09/25) | 5 | Mar | Q1 | 22/3/2021 | 4,500 | 4,500 | | 36,500 | 1.789 | 2.751 | 2.764 | 2.783 | 30.0% |
| 10 | 20.5-yr New Issue of GII (Mat on 09/41) | 20 | Mar | Q1 | 30/3/2021 | 4,500 | 2,000 | 2,000 | 40,500 | 2.575 | 4.390 | 4.417 | 4.435 | 85.7% |
| 11 | 7-yr Reopening of MGS (Mat on 06/28) | 7 | Apr | Q2 | 7/4/2021 | 4,000 | 4,500 | | 45,000 | 1.590 | 2.933 | 2.963 | 2.981 | 30.0% |
| 12 | 15-yr Reopening of GII (Mat on 7/36) | 15 | Apr | Q2 | 14/4/2021 | 4,000 | 2,500 | 2,000 | 49,500 | 2.545 | 3.975 | 4.010 | 4.034 | 96.0% |
| 13 | 3-yr Reopening of MGS (Mat on 06/24) | 3 | Apr | Q2 | 21/4/2021 | 4,000 | 4,500 | | 54,000 | 2.086 | 2.346 | 2.363 | 2.373 | 62.4% |
| 14 | 30-yr Reopening of GII (Mat on 11/49) | 30 | May | Q2 | 7/5/2021 | 4,000 | 2,000 | 2,000 | 58,000 | 2.433 | 4.540 | 4.568 | 4.581 | 30.0% |
| 15 | 15-yr Reopening of MGS (Mat on 05/35) | 15 | May | Q2 | 19/5/2021 | 4,500 | 2,500 | 2,000 | 62,500 | 2.445 | 3.930 | 3.956 | 3.970 | 21.4% |
| 16 | 5-yr Reopening of GII (Mat on 03/26) | 5 | May | Q2 | 28/5/2021 | 4,000 | 4,500 | | 67,000 | 2.003 | 2.700 | 2.728 | 2.739 | 100.0% |
| 17 | 10-yr Reopening of MGS (Mat on 04/31) | 10 | Jun | Q2 | 8/6/2021 | 4,500 | 4,500 | 500 | 72,000 | 1.966 | 3.287 | 3.313 | 3.333 | 87.0% |
| 18 | 3-yr Reopening of GII (Mat on 10/24) | 3 | Jun | Q2 | 22/6/2021 | 4,500 | 4,500 | | 76,500 | 2.001 | 2.330 | 2.341 | 2.350 | 58.2% |
| 19 | 20-yr Reopening MGS (Mat on 05/40) | 20 | Jun | Q2 | 29/6/2021 | 4,000 | 2,000 | 2,000 | 80,500 | 2.651 | 4.223 | 4.254 | 4.268 | 86.0% |
| 20 | 15-yr Reopening of GII (Mat on 07/36) | 15 | Jul | Q3 | 14/7/2021 | 4,500 | 2,500 | 2,000 | 85,000 | 3.056 | 3.969 | 3.982 | 3.992 | 96.0% |
| 21 | 5-yr Reopening of MGS (Mat on 11/26) | 5 | Jul | Q3 | 22/7/2021 | 4,000 | 5,000 | | 90,000 | 1.505 | 2.585 | 2.616 | 2.644 | 47.8% |
| 22 | 10-yr Reopening of GII (Mat on 10/30) | 10 | Jul | Q3 | 30/7/2021 | 4,000 | 3,500 | 2,000 | 95,500 | 3.403 | 3.273 | 3.286 | 3.297 | 2.1% |
| 23 | 30-yr Reopening of MGS (Mat on 06/50) | 30 | Aug | Q3 | 5/8/2021 | 4,500 | 2,000 | 2,000 | 99,500 | 2.280 | 4.259 | 4.289 | 4.300 | 55.3% |
| 24 | 7-yr Reopening of GII (Mat on 10/28) | 7 | Aug | Q3 | 17/8/2021 | 4,500 | 4,500 | | 104,000 | 1.980 | 3.145 | 3.163 | 3.178 | 100.0% |
| 25 | 3-yr Reopening of MGS (Mat on 06/24) | 3 | Aug | Q3 | 25/8/2021 | 4,000 | **5,000** | | 109,000 | 1.950 | 2.338 | 2.355 | 2.363 | 90.0% |
| 26 | 20-yr Reopening of GII (Mat on 09/41) | 20 | Sep | Q3 | 2/9/2021 | 4,500 | **2,500** | 2,000 | 113,500 | 2.687 | 4.165 | 4.178 | 4.191 | 87.3% |
| 27 | 10-yr Reopening of MGS (Mat on 04/31) | 10 | Sep | Q3 | | 4,500 | | | | | | | | |
| 28 | 5-yr Reopening of GII (Mat on 03/26) | 5 | Sep | Q3 | | 4,000 | | | | | | | | |
| 29 | 7-yr Reopening of MGS (Mat on 06/28) | 7 | Oct | Q4 | | 4,000 | | | | | | | | |
| 30 | 30-yr Reopening of GII (Mat on 11/49) | 30 | Oct | Q4 | | 4,000 | | | | | | | | |
| 31 | 5-yr Reopening of MGS (Mat on 11/26) | 5 | Oct | Q4 | | 4,000 | | | | | | | | |
| 32 | 10-yr Reopening of GII (Mat on 10/30) | 10 | Oct | Q4 | | 4,000 | | | | | | | | |
| 33 | 15-yr Reopening of MGS (Mat on 05/35) | 15 | Nov | Q4 | | 4,500 | | | | | | | | |
| 34 | 3-yr Reopening of GII (Mat on 10/24) | 3 | Nov | Q4 | | 4,000 | | | | | | | | |
| 35 | 20-yr Reopening of MGS (Mat on 05/40) | 20 | Nov | Q4 | | 4,000 | | | | | | | | |
| 36 | 7-yr Reopening of GII (Mat on 08/28) | 7 | Dec | Q4 | | 3,500 | | | | | | | | |
| 37 | 3-yr Reopening of MGS (Mat on 06/24) | 3 | Dec | Q4 | | 3,000 | | | | | | | | |
| Gross MGS/GII supply in 2021 | | | | | | 152,500 | 89,500 | 24,000 | 113,500 | PROJECTED TOTAL ISSUANCE SIZE = 152,500 | | | | |

*Source: BNM, HLBB Global Markets Research*

### *MGS/GII see huge drop in August secondary market activity*

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds nosedived by 31.6% m/m to ~RM48.6b in August compared to prior month's RM71.1b (numbers don't tie) due mainly to the delicate political landscape. The imminent change in the leadership of the ruling Perikatan Nasional coalition took prominence; brushing aside prior month's concerns over government's proposed increase in statutory debt levels and higher fiscal deficit. Investors also preferred to stay sidelined due to the ongoing COVID-19 infections nationwide. However, we opine that trading activities in the secondary market for local govvies may pick-up in September partly due to further clarity over GOM's revision of both fiscal deficit and statutory debt ceiling as witnessed by the recent release of pre-budget statement by MOF. Local govvies may continue to remain well-supported considering high vaccination roll-outs which have surpassed expectations resulting in phase-by-phase easing of restriction movements under the National Recovery Plan; which ultimately is a boost for the resumption of economic activities. The improvement in net purchases going forward by a wide cast of investors that included offshore parties, local institutions like GLIC's, real money investors i.e. lifers, asset management companies and inter-bank participants are expected to contribute to the enhancement of portfolio turnover activity.

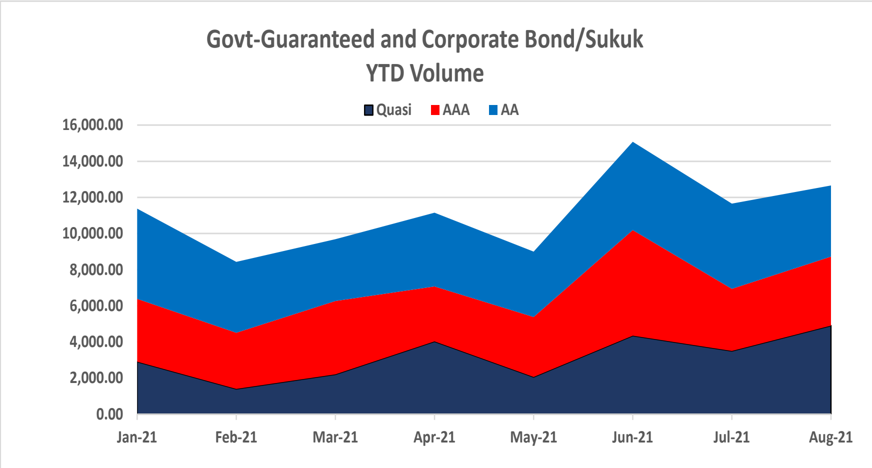



*Source: BPAM, Bloomberg, HLBB Global Markets Research*

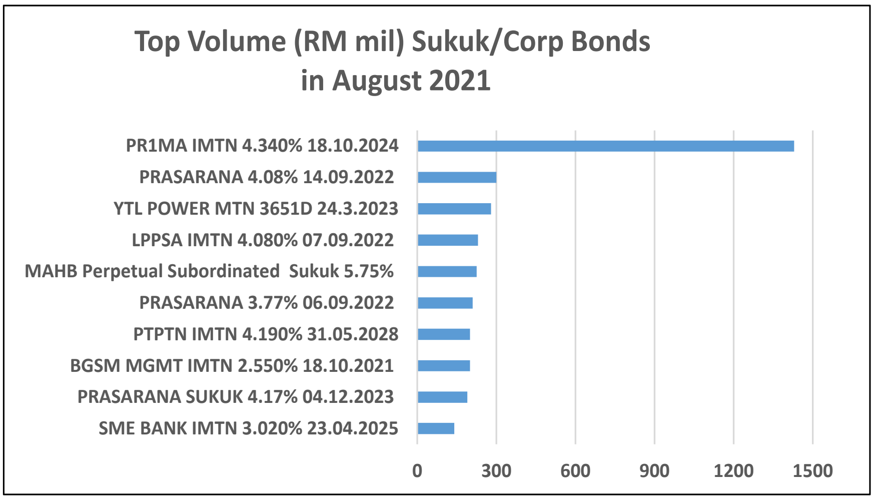
### *Corporate Bonds/Sukuk activity however maintained solid interest and momentum in August…*

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market trading volume rose 10.8% to ~RM13.3b in August (July: RM12.0b). The stronger momentum was due to portfolio managers and inter-bank participants maintaining a strong appetite due to sharp decline in primary issuances despite major political changes on the local front. Yields widened between 1-16bps for the GG-segment within 1-15Y tenures whereas tenures extending further out saw declines of between 4-10bps instead as yield spreads to MGS settled generally between ~ 11-48bps with most value found between the 5-20Y sectors. The AAA-rated bonds saw spreads also widen between 3-5bps for the 1-7Y sector whereas 7-30Y tenures saw yields decline between 1-7bps whilst settling at spreads between ~33-85bps. The AA2-segment however saw spreads mostly tightening between 1-7bps on selective program buying. We note that foreign holdings for both GG and pure Credits inched higher by RM268m to RM13.86b.

Total transactions for **GG bonds edged higher** m/m to form ~38.7% (July: 30.0%) of overall volume. Although AAA-rated papers saw an increase in total trades by10.9% in volume m/m; its total market share ultimately eased to form 23.1% (July: 29.6%) of overall trades. Meanwhile, the **AA-space saw secondary market trades fall** with a lower 31.1% (July: 40.3%) share of overall investor interest. The GG-space was widely spread among DANAINFRA, PRASARANA, Jambatan Kedua, LPPSA, PR1MA and PTPTN. **Bonds that garnered top volume for the month were PR1MA 10/24 (GG) that spiked 42bps at 2.59% for the month under review,** followed by PRASA 12/23 (GG) which edged 1bps lower at 2.01%. Third was energy-related bonds i.e. YTL Power 3/23 (GG) which settled unchanged at 3.09%. Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DRB-Hicom 22-29's, MMC 25-28's, GENM Cap 23-28's, Sarawak state SPV i.e. Infracap Resources 22-36's, Khazanah-related SPV's i.e. DANUM 23-35's, infrastructure-cum construction/property (i.e. AMAN 21-26's, PUTRAJAYA 21-25's, UEM SUNRISE 21-26's, Fortune Premier 23-25's), PLUS 23-37's, utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 23-29's, Sarawak Hidro 26-31's, TENAGA 30-38's, MANJUNG 21-31's, DIGI 22-27's, TELEKOM 28's, AA-rated BGSM 21-26's, EDRA 24-38's, YTL Power 23-28's, TBEI 24-32's, SEB 22-36's, JEP 23-30's and QSPS green 24-35's. The banking sector saw activity on names involving MAYBANK perps, 2010NC25, 2029NC24, 2031NC26. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2030NC25, 2032NC27, 2035NC30, Affin Bank perps, Sabah DEV 24-26's, unrated ECO World 21, 23's, 26's, ECO Capital 24's, LBS Bina perps, IJM Land perps, COUNTRY GARDEN 22-23's, YNH Property perps, UMW perps, Tropicana 23, 25's & perps.




*Source: BPAM, Bloomberg, HLBB Global Markets Research*




*Source: BPAM, Bloomberg, HLBB Global Markets Research*

***Primary issuance prints in August driven by the following:***

| Notable issuances in Aug-21 | Rating | Amount Issued (RM mil) |
|---|---|---|
| Prasarana Malaysia Berhad | GG | 2,500 |
| Cagamas Berhad | AAA | 610 |
| F&N Capital Sdn Berhad | AAA | 1 |
| Pengurusan Air SPV Berhad | AAA | 200 |
| Small Medium Enterprise Development Bank Malaysia Berhad | AAA | 500 |
| Agroto Business (M) Sdn Berhad | AA1 | 200 |
| Hong Leong Financial Group Berhad | AA1 | 200 |
| Malayan Banking Berhad | AA1 | 3,000 |
| BGSM Management Sdn Berhad | AA3 | 220 |
| Pac Lease Berhad | AA3 | 50 |
| DRB-Hicom Berhad | A1 | 390 |
| TSH Sukuk Murabahah Sdn Berhad | A1 | 60 |
| BGRB Venture Sdn Berhad | NR | 8 |
| Columbia Asia Sdn Berhad | NR | 33 |
| Fenghuang Development Sdn Berhad | NR | 4 |
| Hap Seng Management Sdn Berhad | NR | 100 |
| Hua Yang Berhad | NR | 5 |
| Laksana Positif Sdn Berhad | NR | 2 |
| Liziz Standaco Sdn Berhad | NR | 20 |
| Perak Transit Berhad | NR | 100 |
| Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad) | NR | 13 |
| Swift Haulage Sdn Berhad | NR | 60 |
| Tumpuan Azam Sdn Berhad | NR | 7 |
| Viva Solar Sdn Berhad | NR | 8 |
| West Coast Expressway Sdn Berhad | NR | 16 |
| | | 8,307 |

*Source: BPAM, Bloomberg, HLBB Global Markets Research*

Total fresh issuances of Corp Bonds/Sukuk in August fell to RM8.31b; lower than the previous month but nevertheless still higher than in both May and June. One of the more prominent issuances consisted of PRASARANA Malaysia Bhd (PRASA) which issued 5-20Y bonds (GG) totaling RM2.5b with coupons between 2.98-4.37%.

## *Outlook for September 2021*

### *Expect bonds to be pressured due to slight risk-on appetite, fiscal deficit and higher statutory debt concerns…*

The MYR bond market saw weak bidding metrics for all three (3) of its auction exercises in August whilst the latest one involving the reopening of the 20Y GII 9/41 on 2nd of September saw strong bidding metrics on a 2.69 cover, yielding 4.178%. We expect the remainder auctions for reopening of 10Y MGS and 5Y MGS auctions in September to produce longer tailing support.

GOM's intention to revise and raise both the fiscal deficit to between 6.5-7.0% and statutory debt from 60% to 65% this month coupled with the last fiscal injection of RM10.0b for the implementation of the PEMULIH stimulus package may necessitate a higher revision to our projected total gross issuances of RM152.5b for 2021. Nevertheless the mitigating factors that may stem the additional funding requirement via bond issuances are as follows:

- Reallocation/rerouting/optimization of excess funds from other non-critical economic sector allocations
- Increase in dividends from statutory bodies and GLC's
- Utilization of RM5.0b KWAN fund operated by BNM
- Potential oil price gains from initial projections
- Additional USD1.4b from Goldman Sachs due to 1MDB asset disposals
- Miscellaneous fines and/or repayments pertaining to 1MDB matter.

BNM's earlier GDP forecast of 6.0-7.5% for 2021 has been revised sharply lower to between 3.0-4.0% levels due to the impact of the earlier nationwide lockdown on economic activities. We have also lowered our full-year GDP forecast from 3.7% to 2.7%.

The temporary setback to the US jobs data amid strong inflation may yet delay but not postpone asset tapering exercise; resulting in upward pressure on yields. The expiry of both i-LESTARI and i-SINAR programmes by EPF, has been replaced with the i-CITRA withdrawal facility where RM30b withdrawals are targeted. Bond support along with market-making activities in the secondary market may continue to be subdued. We also note that net govvies issuances for the month is expected to ease slightly from RM1.5b in August to RM1.3b in September which may still put slight pressure on yields.

**We expect the 10Y to remain in a similar range of between 3.20-3.40%** with support pegged at 3.40% levels. **The 7Y, 15Y MGS/GII space reflect decent relative values along the curve.** We continue to expect robust activity and interest in the shorter-end off-the-runs i.e. 21-23's and also benchmark 5Y, 10Y bonds. **We also like the short 2-5Y, 10Y AAA-AA papers for liquidity and longer tenured 10Y-15Y GG bonds for yield-carry.** The tightening of liquid GG bond names like PRASARANA and DANAINFRA, are expected to spillover to other parts of the credit spectrum e.g. AAA-AA3 with investors seeking a balance between yield-carry and liquidity. We still prefer bond issuances by the larger, well-diversified business profile and also conglomerates involved in logistics involving port operators, tolled-road operators and also basic utilities such as telco, sewerage, electricity, and water.

### *Expect USTs to be pressured in September due to persistent inflationary pressures whilst temporary setback in jobs data may complicate Fed's decision on the timing of tapering asset purchases.*

The Federal Reserve will be having its next FOMC meeting on **22nd of September** to decide on its current policy rate which has been pegged between 0.00 - 0.25% since March 2020. The latest weak employment data has put the FOMC in a bind as it balances risks of a demand slowdown against tight supply chains and high inflation. We expect an announcement of the much-bandied about asset tapering exercise closer to December instead. Meanwhile, UST yields are projected to drift higher on continuous supply via auctions as the $1.2 trillion bipartisan infrastructure bill is approved by US Senate whilst another estimated $3.5 trillion spending bill is put on the table for debate.

Market participants have been monitoring the impact and pace of Delta variant infections coupled with the upcoming decision by Congress to raise the debt ceiling which has expired at $22 trillion. The US Treasury in its refunding announcement said that it plans to sell $673b in new bonds this quarter as part of a $1.5 trillion second-half funding target that is dependent on lawmakers lifting the suspension on debt ceiling.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a small monthly loss of 0.3% in August (July: 1.4%) with OAS spreads marginally wider and traded higher at ~ 88bps from 85bps. Hence, IG corporate bonds endured some pressure via wider spreads. Expect gross issuances to reach a total of ~$130b in September versus maturities of ~$47b. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) managed to clock similar 0.5% return in August (July: 0.5%) with spreads tightening by 22bps instead to ~282bps.

Our monthly fundamental view suggests the 10-year yield should move higher from its current level**. The 10-year UST is expected to range between 1.35-1.55%; finding support at key 1.55% levels for this month. We are mildly positive on IG issuances within the 4-7Y sector** that reflect better value along the curve and roll-down purposes **in sectors covering energy, financials and utilities.**

**Hong Leong Bank Berhad**
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my