Monthly Fixed Income Perspective –

Nov 21 review & Dec 21 outlook

US Bond Market

- **In November**, US Treasuries (UST's) sold-off considerably amid bouts of concern over the impact of a 4th wave of the COVID pandemic in parts of Europe and the US; slightly brushing aside the pace of asset-tapering and inflationary pressures. The curve flattened as benchmark UST yields rallied between 3-14bps extending out from the belly. **The UST 2Y yield rose 3bps to 0.53% whilst the 10Y rose 7bps to 1.56%, off the high seen during the month**. At the time of writing, yields have settled at 1.50% levels. The yield curve saw the 2s10s spread further tighten 18bps to ~87bps; whilst the 5s30s spreads narrowed by 11bps to ~63bps. The return of debt-ceiling anxiety saw T-bill maturities in mid-December cheapen as investors sought compensation for risks.

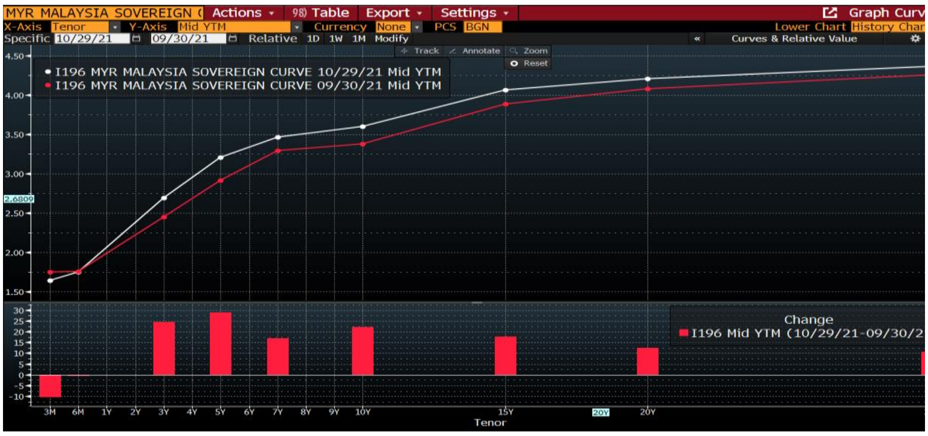
- **For December**, expect USTs to see slight upside bias as concerns over fanning inflationary pressures and pace of asset-tapering outweigh the safe-haven bids due to the Omicron variant and its potential impact on the economy. The still-decent albeit lower jobs data when taken into account with the stronger employment and participation rate may cause the rates market to be volatile for this month and stifle any strength that USTs may endure. Expect potential revision to the current asset tapering details that comprise a $15b monthly cut; i.e. from $120b to $105b. **The 10-year UST is expected to range between 1.45-1.65%; finding support at key 1.65% levels for this month.** We are positive on IG issuances within the 5-10Y sector that reflect value along the curve, namely in sectors covering technology, communications, namely cable satellite, media entertainment along with transportation.

MYR Bond Market

- In November, overall MYR government bonds ended stronger, with MGS yields declining between 1-7bps whilst GII saw yields ease between 0-16bps (save for the 30Y). Both curves shifted lower with the longer-end generally better-bid; resulting in larger movements**. Both the benchmark 5Y MGS 11/26 and 10Y MGS 4/31 yields fell 7bps m/m to 3.12% and 3.51% each**. 3Q2021 GDP printed -4.5% y/y and -3.6% q/q. Foreign holdings of MYR government bonds (MGS + GII + SPK) saw net outflows of RM3.6b to RM227.7b (representing 24.9% of total outstanding). BNM successfully carried out an MGS switch auction totaling RM3.5b from market participants via principal dealers. The three (3) auctions in November saw **average BTC ratios** fall below the 2.0 handle i.e. at 1.91x (Oct: 1.96x).

- **For December,** we expect the ongoing economic recovery to register a small positive for 4Q2021; but are wary of the impact from the infectious Omicron variant. The recently announced expansionary Budget 2022 along with our projected auction size for 2022 totaling ~RM167b may be on the back-burner for now but expect bond market to be driven more by foreign news, led by further updates on the Fed's asset-tapering exercise. **We expect the 10Y MGS yield to continue ranging between 3.50-3.70%, with support pegged at 3.70% levels. The 3Y GII, 7Y MGS/GII and 15Y MGS/GII space reflect better relative values along the curve. As for the corporate bonds/Sukuk, we favor the telco, tolling/highway and logistics sector and are positive on 10-20Y tenures in GG/AAA sectors and also 2Y papers in the AA category that provide yield-spreads of between 33-60bps.**

MYR sovereign curve (MGS)



Source: Bloomberg

US November payrolls disappointed, but cushioned by substantial drop in the unemployment rate along with steady labor force and participation rate

November Non-Farm Payrolls ("NFP") rose a mere 210k (below the consensus of 550k), whilst adding a small upward revision of 15k for prior month i.e. October and 82k total for prior two (2) months. The shortfall in hiring in November arose due to the hospitality business i.e. restaurants and hotels creating merely 23k new jobs; and is still far from recovery. Nevertheless the biggest job gains took place in white-collar professional jobs, warehouse and transportation. The unemployment rate fell to 4.2% (Oct: 4.6%), continuing the downtrend seen past few months and dropped below the start of the pandemic at 4.4% in March 2020; with around 1.14m people finding work in November. Labor participation rate edged 2 ticks higher from 61.6% to 61.8%. The average hourly wages dipped to 0.3% m/m (previous month 0.4%) whereas the y/y figures eased slightly to 4.80% (previous month 4.90%).

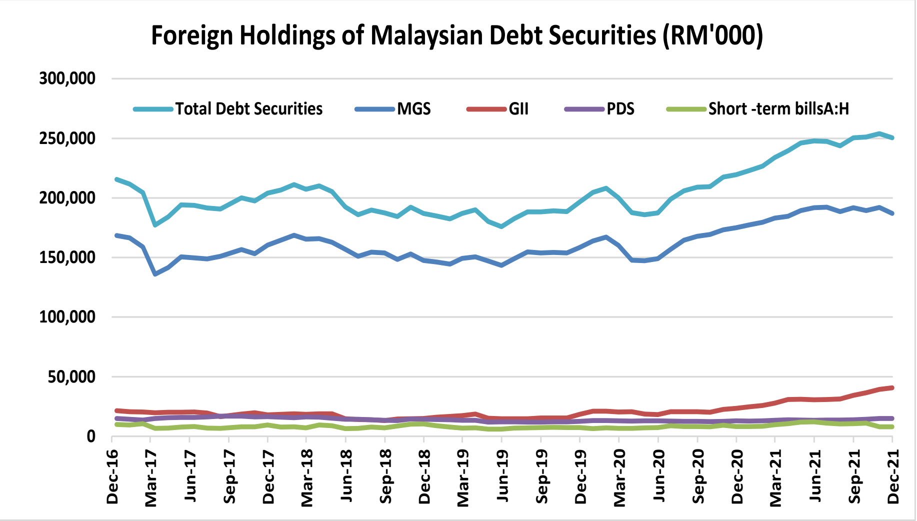
Meanwhile, the mixed signals from the slightly lower but still decent Markit US manufacturing PMI for November @ 58.3 (Oct: 58.4) and improvement in ISM manufacturing data of 61.1 (Oct: 60.8) indicate sustained economic expansion despite supply-chain bottlenecks mainly in logistics. The Fed's preferred inflation measure i.e. core PCE in October however jumped with the m/m up at +0.5 % whilst y/y traction rose @ +4.9%. This coupled with the just projected yet elevated core CPI data of 0.7% m/m and 4.9% y/y for November may be a catalyst for rising rates.

The Fed left the Fed Fund Rates unchanged at 0.00-0.25% at its latest FOMC on 4th November, but **confirmed that its asset tapering will witness the reduction of $80b in USTs and $40b in agency MBS, to $70b and $35b respectively effective November.** Meanwhile, its current balance sheet reveals total assets of $8.65 trillion as at 29th November 2021 ($8.57 trillion @ 1st Nov). To recap, the Fed's current dot plot released in September saw 9 officials (out of a total 18) advocating at least one (1) rate hike in 2022. Additional fluid data from the **Fed Fund Futures now reflect traders' hypothetical expectations of a higher 3.4% odds of a cut at the time of writing (prior month: cut of 0.8% instead) in the next FOMC meeting on 16th December** with one (1) rate hike in May 2022, total of two (2) rate hikes by September 2022 and finally a sum of three (3) hikes by February 2023. **CME FedWatch Tool meanwhile, maintains a 100% probability of current target rate being maintained at least until May 2022 whereby the odds for a 25bps hike, rise sharply to ~45% whilst a 50bps rate hike sees a ~15% probability for the upcoming FOMC meeting.**

Foreign holdings of overall MYR bonds dropped by ~RM3.6b or 1.4% in November amid a weaker MYR against the greenback @ 4.20 levels

Foreign holdings of overall MYR bonds fell in November by RM3.6b or 1.4% to RM250.4b. Non-resident holdings of MGS plunged by RM4.9b or 2.5% to RM187.1b, forming only 39.3% of total outstanding despite the smaller net issuance. Total MYR Government bonds (i.e. MGS+GII+SPK) holdings saw net outflows of RM3.6b to RM227.7b (representing 24.9% of total outstanding) despite a sharp fall in net issuances of +RM2.0b for the month (October: +RM11.0b). Investor concerns and uneasiness over confirmation of the US Fed's asset-tapering exercise by ~$15b per month saw global bond yields spike as local govvies were not spared from the global sell-off. The government's elevated fiscal deficit expected between 6.5-7.0% of GDP, and higher statutory debt limit of 65% of GDP were supporting arguments that impacted bond yields as well. This translated into weaker auction exercises as well compared to previous month.

However buying interest late in the middle of the month as attractive yield-carry proposition following "beaten-down" values for both MGS and GII in November helped stem some of the slide seen. Both local institutional and offshore investors led the momentum but yields swayed between profit-taking activities, re-emergence of potential rate hikes in the US next year due to asset-tapering exercises and discovery of new COVID-19 Omicron variant. **Overall MYR govvies saw the largest monthly outflow seen YTD amounting to RM3.6b for November 2021 (prior month: +RM5.4b) whilst 12-month rolling inflows notched a lower cumulative amount of RM29.3b (prior month: RM35.6b). Equity saw net inflows for the 4th straight month; albeit at a smaller amount of only RM100m in November 2021 (prior month: +RM1.57b) whilst the cumulative 12-month rolling outflows fell to RM2.67b (prior month: RM3.80b).** On the currency side, the MYR weakened considerably against USD to 4.2038 as at end-November from 4.1403 prior month, and is seen consolidating at 4.2230 levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

There was no new development post-MPC meeting in November which saw BNM stay pat at 1.75% as per our projection...

To recap, BNM in its 6th and final Monetary Policy Committee (MPC) meeting for the year on 3rd of November, left the OPR unchanged at 1.75% for the 8th consecutive meeting in tandem with our projection. Whilst the central bank concurred that the recovery remains intact, it also reiterated that overall growth risks remained tilted to the downside. Whilst the Malaysian economy contracted by 4.5% y/y in 3Q2021, the country was technically in recession following two (2) successive contractions q/q, i.e. -3.6% for 3Q2021 (2Q2021: -1.9%). BNM has acknowledged that economic activity has weakened in 3Q2021, dragged by the nationwide containment measures but remains optimistic that recovery momentum will improve, driven by global demand, higher private sector expenditure and continued policy support.

Nevertheless, against the backdrop whereby growth is expected to take precedence over inflation, our house view remains for BNM to leave OPR unchanged at 1.75% going into the 1H2022. Despite some possible downside risks, the Malaysian economy is expected to gradually recover notwithstanding bottlenecks in global supply chain**. We are cautiously optimistic that the Malaysian economy will rebound in 4Q2021 for which we are penciling in a small positive growth; thereby bringing full year 2021 GDP growth to 3.1%.** This upward revision from our earlier estimate of 2.7% is due to the faster than expected transition to the exit phases of the National Recovery Plan (NRP), which entailed the relaxation of movement restrictions and reopening of more economic sectors earlier than we initially projected.

Weak bidding metrics for MYR govvies bond auctions in tandem with rising global bond yields

The three (3) government bond tenders concluded for the month of November 2021 under the auction calendar saw **average BTC ratios** fall below the 2.0 handle i.e. at 1.91x (Oct: 1.96x). The highest BTC among the three auctions recorded was the 15Y reopening of MGS 5/35 at 3.063x; with a strong sum of bids received at RM5.125b with sizeable private placement of RM2.0b. Both the reopening of 3Y GII 10/24 and 20Y MGS 5/40 saw weaker results with both seeing a mere cover of between 1.40-1.90x only. Nevertheless the reopening of 7Y GII 10/28 saw decent BTC ratio of @2.247x. Altogether, the three (3) auctions mentioned earlier saw individual sum of bids amounting to between RM3.78-6.35b. BNM had also conducted a RM3.5b switch auction exercise involving shorter-tenured bonds i.e. MGS 3/22, MGS 8/22 and MGS 9/22 on the 25th of November with the re-issuance of following bonds:

- RM500m MGS 6/50
- RM500m MGS 9/43
- RM1.0b MGS 6/31
- RM1.5b MGS 7/48

Meanwhile, the table below summarizes YTD tenders with **total projected MGS/GII issuance size maintained at RM160.5b for 2021.**

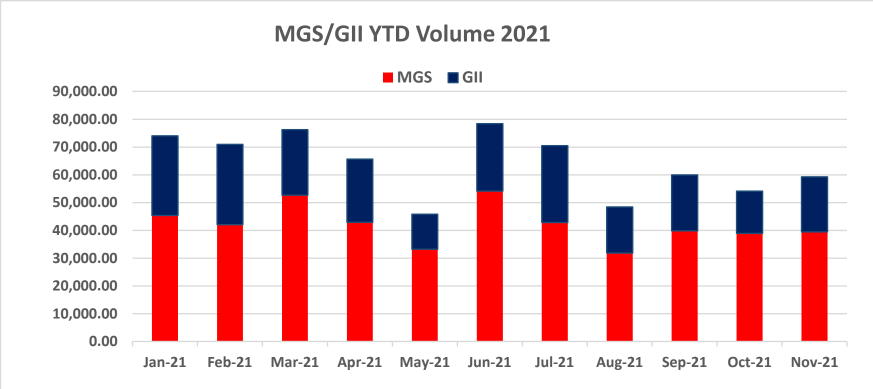
MGS/GII issuance pipeline in 2021

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	14/9/2021	4,500	4,000	1,500	119,000	1.606	3.270	3.292	3.310	20.0%
28	5-yr Reopening of GII (Mat on 03/26)	5	Sep	Q3	29/9/2021	4,000	4,000		123,000	2.133	3.000	3.025	3.040	90.0%
29	7-yr Reopening of MGS (Mat on 06/28)	7	Oct	Q4	6/10/2021	4,000	4,500		127,500	1.598	3.380	3.409	3.439	100.0%
30	30-yr Reopening of GII (Mat on 11/49)	30	Oct	Q4	14/10/2021	4,500	2,000	2,000	131,500	2.521	4.530	4.557	4.584	92.0%
31	5-yr Reopening of MGS (Mat on 11/26)	5	Oct	Q4	21/10/2021	4,000	4,500		136,000	2.042	3.199	3.209	3.218	87.7%
32	10-yr Reopening of GII (Mat on 10/30)	10	Oct	Q4	28/10/2021	4,500	3,500	500	140,000	2.018	3.659	3.682	3.698	92.0%
33	15-yr Reopening of MGS (Mat on 05/35)	15	Nov	Q4	15/11/2021	5,000	2,000	2,000	144,000	3.063	3.976	3.990	4.000	100.0%
34	3-yr Reopening of GII (Mat on 10/24)	3	Nov	Q4	22/11/2021	4,000	4,500		148,500	1.412	2.763	2.787	2.808	97.9%
35	20-yr Reopening of MGS (Mat on 05/40)	20	Nov	Q4	29/11/2021	4,500	2,000	1,500	152,000	1.888	4.125	4.145	4.160	80.0%
36	7-yr Reopening of GII (Mat on 10/28)	7	Dec	Q4	6/12/2021	3,500	3,500		155,500	2.247	3.459	3.481	3.499	63.4%
37	3-yr Reopening of MGS (Mat on 06/24)	3	Dec	Q4		3,500								
	Gross MGS/GII supply in 2021					160,500	124,000	31,500	155,500	PROJECTED TOTAL ISSUANCE SIZE = 160,500				

Source: BNM, HLBB Global Markets Research

MGS/GII see another pullback in November secondary market activity

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds fell again by ~13.2% m/m to ~RM62.58b in November compared to prior month's RM54.31b. Investors were net sellers amid lower volumes for the month despite yields declining between 0-16bps (save for the 1bps rise in the 30Y GII) for the month under review. The cautious stance by traders and investors alike were driven more by foreign news with concerns and subsequent confirmation by the Fed that it will commence it's asset-tapering exercise of the current $120b in November despite mentioning that interest rate hikes were still "some time-off " Shrinking volumes and rising global yields were very much the mainstay for the month under review. We opine that trading activities in the secondary market for local govvies may see further tapering of momentum in December partly due to perceived low-staffing levels expected during the year-end and also book-closing activities by various portfolio managers. Expect attention to also shift to the updates on the infectious Omicron variant and also details regarding the auction calendar for 2022, set to be unveiled later this month. Nevertheless expect buying support by institutional investors that include EPF followed by local GLIC's and also some nibbling by real money investors like lifers, asset management companies and also inter-bank participants.

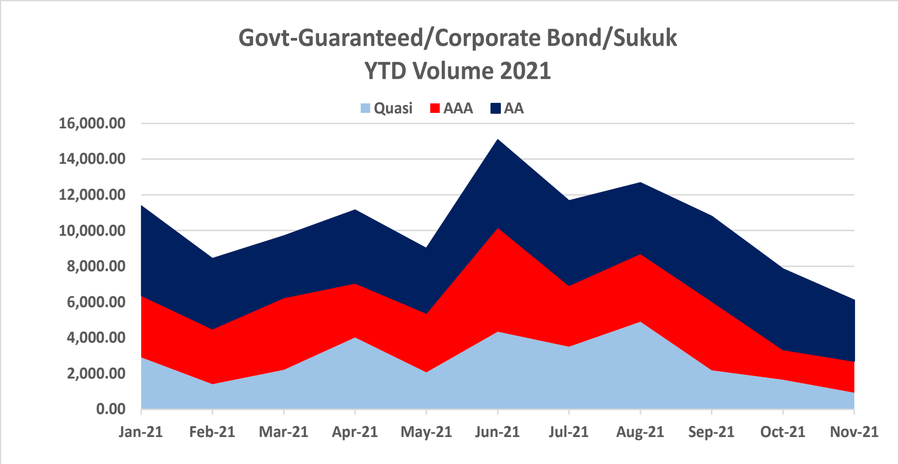


Source: BPAM, Bloomberg, HLBB Global Markets Research

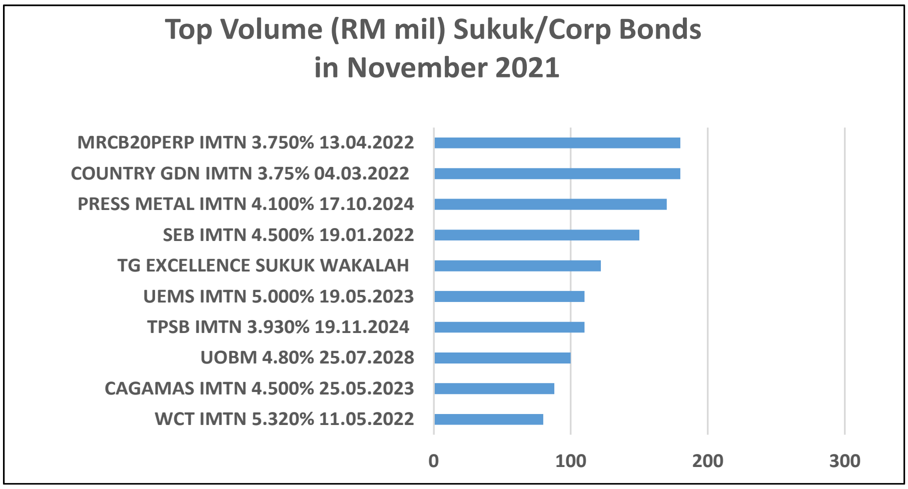
Corporate Bonds/Sukuk activity saw investor activity decline further in November…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market trading volume decline by 20.3% to ~RM6.41b in November (Oct: RM8.04b). The weaker momentum was due to spillover effect from lesser liquidity for govvies transactions coupled with investors funding allocations which are believed to have been cast aside to cater for the increase in primary issuances dampened secondary market activities slightly. Overall yields tightened between 3-9bps for the 4-20Y GG-segment, with the 25-30Y tenures experiencing tighter yield spreads of between 14-23bps instead to MGS. The AAA-rated bonds saw overall spreads also tighten between 2-11bps for the 1-20Y sector (save for the 2Y sector), with 25-30Y tenures rallying between 14-27bps. The AA2-segment similarly saw spreads fall between 3-8bps. Tenures within the 7-15Y were seen better-bid, resulting in larger deviations in yields as the hunt for yields intensified during the month in spite of the lower liquidity. We note that foreign holdings for both GG and pure Credits inched higher by a mere ~RM18m to RM14.82b.

Total transactions for **GG bonds dropped sharply** m/m to form a mere ~15.1% (Oct: 21.0%) of overall volume. AAA-rated papers saw total trades inch up volume-wise m/m with its total market share forming 20.0% (Oct: 21.7%) of overall trades. Meanwhile, the **AA-space saw secondary market trades somewhat maintain** its high 55.8% share of overall investor interest (Oct: 57.4%). The GG-space was spread among DANAINFRA, LPPSA and also PRASARANA. **Bonds that garnered top volume for the month were MRCB20PERP 4/22 (AA3) that edged 2bps lower at 3.22% for the month under review,** followed by property-related bonds Country Garden 3/22 (AA3) which rallied 10bps to 3.47%. Third was PRESS METAL 10/24 (AA3) which also eased 4bps to 3.85%. Frequency and volume of trades in the pure credit space were seen mainly seen in quasi-government bonds i.e. CAGAMAS, conglomerates (i.e. DRB 24-31's, Genting and its related-entities i.e. GENM Cap 23-28's), Sarawak state SPV i.e. Infracap Resources 26-36's, Khazanah-related SPV's i.e. DANGA 24-33's, infrastructure-cum construction/property (i.e. GLT 28's, UEM SUNRISE 23-26's, MRCB20 perps, WCT 22's, PKNS 22-23's, Fortune Premier 22-25's, COUNTRY Garden 22-23's), utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 24-29's, TELEKOM 23-28's, TENAGA 28-41's, and its related-entity i.e. NE and WE bonds 30-33's, AA-rated BGSM 23-25's, EDRA 23-35's, Southern Power 24-31's, TADAU 22-35's, SEB 22-36's, IMTIAZ 22-28's, and QSPS green 24-34's. The banking/finance sector saw activity on names involving ALLIANCE 2030, 2032 and 2035 callable bonds, MAYBANK 2031NC26 and its perps along with SABAH development Bank 23-26's. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2030, 2032, 2035 callable bonds, GLT12 27-28's, GENM Capital 23-28's, DIALOG perps, Sabah DEV 23-26's, unrated ECO World 23's, ECO Capital 24's, YNH Property perps, Tropicana 23-25's and its perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in November driven by the following:

Notable issuances in Nov-21	Rating	Amount Issued (RM mil)
Cagamas Berhad	AAA	85
DanaInfra Nasional Berhad	GG	2,645
Evyap Sabun Malaysia Sdn Berhad	AA3	200
Federal Land Development Authority	GG	715
Bank Islam Malaysia Berhad	A1	300
Idiwan Solar Sdn Berhad	NR	11
Kimlun Corporation Berhad	NR	75
Kulim Technology Park Corporation Sdn Berhad	NR	100
Magnum Corporation Sdn Berhad	NR	90
Naza TTDI Capital Berhad	NR	53
OSK I CM Sdn Berhad	NR	132
Pengurusan Air SPV Berhad	AAA	650
Priceworth International Berhad	NR	1
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	13
Sunway Treasury Sukuk Sdn Berhad	NR	90
Tumpuan Azam Sdn Berhad	NR	7
Tenaga Nasional Berhad	AAA	3,000
Toyota Capital Malaysia Sdn Berhad	AAA	100
UMW Holdings Berhad	AA1	650
West Coast Expressway Sdn Berhad	NR	7
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	8
		8,931

Source: BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk in November rose from RM7.9b to RM8.9b. The more prominent issuances consisted of Tenaga Nasional Berhad which issued 7-30Y bonds (AAA) totaling RM3.0b with coupons between 3.92-4.67% and also DANAINFRA Nasional Berhad bonds (GG) amounting to RM2.645b with coupons ranging between 3.68-4.70%.

Outlook for December 2021

Expect local govvies to see yields range sideways-to-higher as potential revision on the pace of US asset tapering and minimal participation due to potential low staffing levels outweigh attractive relative yield-carry…

The MYR bond market saw weaker bidding metrics for two (2) out of three (3) of its auction exercises in November whilst the latest one involving the issuance of RM3.5b of the 7Y GII 10/28 on 6th of December saw strong participation as per our earlier mention **of the relative value on this part of the curve.** We expect the penultimate auction for the year i.e. 3Y reopening of MGS 6/24 to produce short tailing support on account of appetite by inter-bank participants. The recently announced expansionary Budget 2022 will still be on the minds of traders and investors. As mentioned before, the government is expected to buffer its funding avenues via Bills issuance, availability of KWAN fund maintained by BNM, potential increase in dividends from PETRONAS and GLC's, reallocation and optimization of expenditure by various ministries along with additional dues and fines pertaining to 1MDB findings.

Nevertheless, expect bond market to be driven more by foreign news led by further updates on the Fed's earlier confirmation of its asset-tapering exercise. Our projected auction size for 2022 which totals ~RM167b (being skewed towards the short i.e. 3Y, medium-term i.e. 10Y and also longer end of the curve i.e. 20Y tenures) will be revisited upon release by BNM sometime later this month. We opine that trading activities in the secondary market for local govvies may see further tapering of momentum in December partly due to perceived low-staffing levels expected during the year-end and also book-closing activities by various portfolio managers.

The ramp-up in vaccination resulting in 97% of adults and 78% of total population augurs well for the ongoing resumption of full economic activities and also risk-assets. The US jobs data and inflationary factors are expected to cause the Fed to evaluate and monitor its statements and measures to be taken, resulting in slightly volatile local govvies movements; as has been the recent case for the past couple of weeks. On the flip side, EPF's secondary market-making activities together with the wide local investor base may be forthcoming and provide some stability to yields. We also note that net govvies issuances for the month is expected to spike substantially from RM2.0b in November to RM7.0b in December and may put pressure on yields due to unavailable rollover activities.

We expect the 10Y MGS yield to continue ranging between 3.50-3.70%, with support pegged at 3.70% levels. The 3Y GII, 7Y MGS/GII and 15Y MGS/GII space reflect better relative values along the curve. As for the corporate bonds/Sukuk, we favor the telco, tolling/highway and logistics sector and are positive on 10-20Y tenures in GG/AAA sectors and also 2Y papers in the AA category that provide yield-spreads of between 33-60bps.

Expect USTs to be slightly pressured in December as inflation concerns coupled with a potential change in the pace of asset-tapering exercise may overwhelm impact of the less-deadly Omicron variant…

The Federal Reserve will have its next FOMC meeting on **16th of December**. We envisage no change in the Fed Funds Rate but foresee insights into the finer details and continuing updates on the pace of QE exercise. The FOMC minutes were thought to send vibes that although elevated inflation is likely transitory, its pressures could possibly take longer to subside than previously assessed. President Biden's re-nomination of Powell as the Fed Chair may cause investors to believe that he will be hawkish-centric and be supportive on rate-normalization exercises. We opine that asset tapering to the tune of $15b monthly; i.e. from $120b to $105b may be accelerated in January next year, with the process being completed closer to April/May period. **We expect a volatile market for USTs as yields ebb and oscillate between concerns over inflationary pressures, growth and the impact (if any) over the latest discovery of the Omicron variant that could put a dent in the economy.** Nevertheless, the Fed's decent jobs data with falling unemployment rate to levels lower than the pre-pandemic 4.40% coupled with a potential spike in November inflation may cause the Fed's "transitory" inflation narrative to be frowned upon with the rates market being pressured.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a meagre gain of ~0.06% in November (Oct: +0.25%) despite OAS spreads marginally wider and trending at ~ 94bps from prior month's 87bps. Expect gross primary issuances to reach a total of ~$60b in December versus $110b sold in November. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) however recorded a meagre 0.97% loss (Oct: +0.02%) with spreads wider by 10bps instead to ~290bps. The emergence of Omicron variant may alter demand as safe-haven bids for USTs may not necessarily translate into strong demand for corporates if weak demand and slowing economy rears its head. Nevertheless expect the HY to IG spread ratio to compress during periods of strong economic growth and rising rates.

Our monthly fundamental view suggests the 10-year yield should trend within its current level with slight upward bias**. The 10-year UST is expected to range between 1.45-1.65%; finding support at key 1.65% levels for this month. We are positive on IG issuances within the 5-10Y sector that reflect value along the curve, namely in sectors covering technology, communications, namely cable satellite, media entertainment along with transportation.**

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