Monthly Fixed Income Perspective –

July 21 review & August 21 outlook

US Bond market

- **In July**, US Treasuries (UST's) closed stronger; with the belly and long-ends markedly richer**,** as fears of the reflation trade abated. The curve shifted lower as benchmark **UST yields declined between 6-20bps across the curve** with the short-end UST 2Y yield easing 6bps at 0.19% whilst the 10Y rallied pushing yields down 19bps to 1.22% (at the time of writing yields have risen instead to 1.36% 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 (which expired at $22 trillion end-July). The yield curve saw the 2s10s spread ease 17bps at ~103bps; whilst the 5s30s spreads maintained ~120bps.

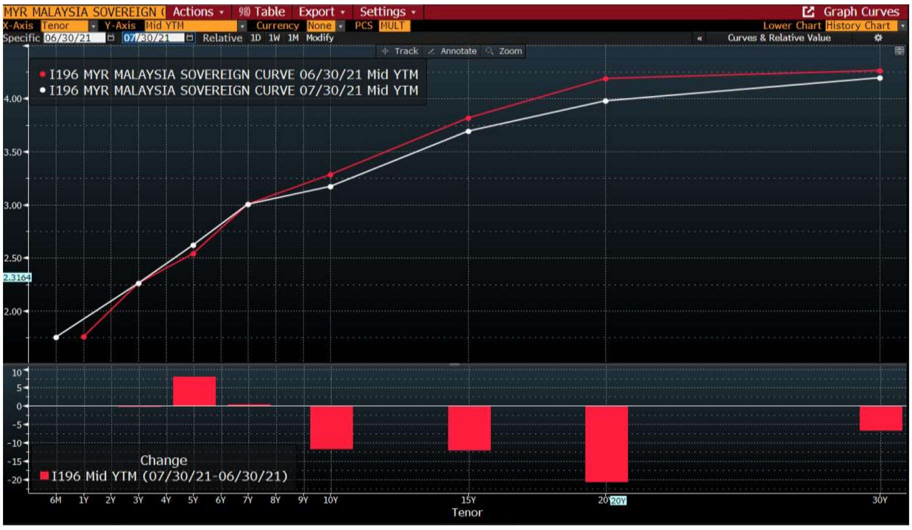
- **For August**, expect USTs to undergo **slight pressure** as the FOMC assesses whether the US labor market would have made "substantial further progress" for another month i.e. August before deciding on tapering asset purchases coupled with fanning inflationary pressures. This is despite the earlier resilience of USTs due to the requirement to hedge against declines in risk assets arising from resurgent virus infections coupled with demand by foreign investors for currency-hedged yields. **The 10-year UST is expected to range between 1.30-1.50%; finding support at key 1.50% 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 July**, MYR government bond curve flattened, **with MGS yields settled mostly mixed with the long-ends extending out from 10Y higher between 9-20bps whilst the belly was pressured higher between 1-8bps.** The benchmark 5Y MGS 9/25 yield was pressured the most spiking 8bps m/m to 2.62% whilst 10Y MGS 4/31 rallied instead to 3.17%. Foreign holdings of MYR government bonds (MGS + GII + SPK fell for the 1st time since April 2020 in July; with net outflows circa RM3.2b to a total of RM219.8b (representing 24.7% of total outstanding). All three (3) auctions saw participation improve at an average BTC ratio of ~ 2.46x compared to prior month's 2.10 cover.

- **For August,** we are hopeful that the Malaysian economy gets a boost from the ramp-up in vaccination rates which are hovering around 400,000 daily coupled with the slow and eventual easing of movement restrictions in line with the National Recovery Plan. However, this may prompt risk-on mode. In addition to that, the government's twin-intention to increase both the fiscal deficit to between 6.5-7.0% and also the statutory debt ceiling to easily 65% may pressure bonds levels. Nevertheless, MYR assets are unlikely to react strongly to political shifts unless significant policy swings emerge. **We expect the 10Y to remain in a similar range of between 3.20-3.40%** with support pegged at 3.40% levels. **The 10-20Y GII and 7Y, 15Y MGS space reflect decent relative values along the curve. We also like the short 2-5Y AAA-AA papers for liquidity and longer tenured 7-10Y GG bonds for yield-carry.**

MYR sovereign curve (MGS)



Source: Bloomberg

NFP for July showed solid momentum for US labor market; notching the largest job gains in nearly a year, whilst raising the prospect of a more hawkish Fed…

July Non-Farm Payrolls ("NFP") rose 943k (above consensus of 870k) following June's print of an upwardly revised 938k job gain. Notable job gains occurred in leisure and hospitality, local government and in professional and business services. The unemployment rate dropped to 5.4% (June: 5.9%), and still remains higher compared to 3.5% in February 2020 i.e. the onset of the pandemic at 4.4% in March 2020 whilst the participation rate edged a mere 0.1% up at 61.7% and remains etched within a narrow range between 61.4-61.7% since June 2020. We foresee little changes due to the rigid structural factors; for example older people that have withdrawn from the labor market since the pandemic and are unlikely to return. The average hourly wages grew 0.4% m/m (previous month: 0.3%) whereas the y/y figures spiked to 4.0% (previous month 3.6%). Recent strong employment data may lead some Fed officials to argue more forcefully for an earlier end to bond-buying efforts. The Fed has been purchasing $120 billion worth of USTs and MBS a month, which has helped keep bond yields suppressed. Officials have also signaled that they won't raise short-term interest rates until after they are done tapering bond buying. Recent comments from Fed board members Richard Clarida and Christopher Waller suggested that a run of stronger jobs growth would be enough to meet the central bank's threshold of "substantial further progress" before the central bank reduces its bond purchases.

Meanwhile, the strong US PMI and ISM manufacturing data for July indicates continuous expansion but may pose questions on capacity constraints. Separately, the Fed's preferred inflation measure i.e. core PCE in May eased to +0.4% m/m but inched higher @ 3.5% y/y, shows the potential strength in inflation going forward and may yet impinge on UST yields. While the economy added 943k jobs and the unemployment rate fell, these factors may not change the Fed's policy path yet but potentially "kick-start" its asset tapering process as early as November this year.

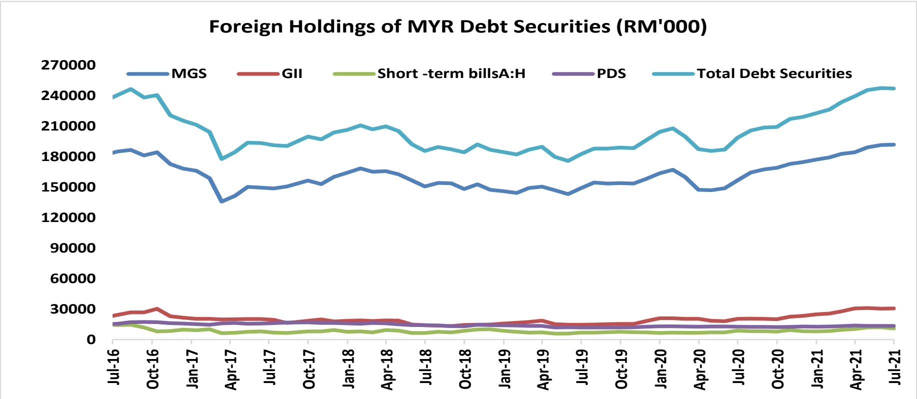
To re-cap, the Fed left the Fed Fund Rates unchanged at 0.00-0.25% at its recent FOMC on 28th July (To recap, total rate cuts of 150bps took place in 2020). The FOMC statement showed little changes, with asset purchases unchanged. The Fed's ongoing purchase of bonds of $80b a month in USTs and $40b a month in agency MBS has now boosted its balance sheet to ~$8.22 trillion as at 26th July 2021 ($8.08 trillion @ 28th June). It will also continue to conduct overnight Repo operations with a minimum bid rate of 0.25% and offer rate of 0.05%. Meanwhile 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.

To recap, the **Fed's current dot plot as previously mentioned saw 7 officials (out of a total 18 officials) preferring a hike earlier than 2023** on. Also,13 participants continue to project higher rates in 2023, moving the median dot to 0.6%, showing two rate hikes in 2023. Alternate data from the **Fed Fund Futures now reflect traders' lower hypothetical expectations of a higher 3.6% odds of a cut** (prior month: cut of 1.7% 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 declined for the 2nd consecutive month by ~RM3.64b or 1.5% in July amid spike in USDMYR @ 4.2205

Foreign holdings of overall MYR bonds declined in July by a prominent RM3.64b or 1.5% to RM243.8b. Non-resident holdings of MGS fell by RM3.58b from RM192.1b to RM188.6b (representing 40.4% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net outflows of RM3.2b to RM219.8b (representing 24.7% of total outstanding) amid net issuances of +RM1.5b for the month (June: +RM13.5b). Supply concerns due to higher fiscal deficit arising from the last PEMULIH stimulus package announcement dampened investors' appetite due to fears of additional fiscal injection to the tune of RM10.0b via local govvies.

However net purchases in July by onshore institutions, inter-bank participants and also real-money investors (such as lifers) were believed to have ensured healthy portfolio turnover and continued appeal for yield-carry requirements for MYR government bonds. **Overall MYR govvies saw higher net outflows for the first time since April 2020 totaling RM3.15b for July 2021 (prior month: +RM686m) whilst 12-month rolling inflows notched a sharply lower cumulative amount of RM34.5b (prior month: RM45.5b). Net equity outflows fell by RM1.34b in July 2021 (prior month: RM1.17b) compared to the cumulative 12-month rolling outflows of RM11.3b (prior month: RM12.5b).** On the currency side, the MYR weakened substantially against USD to 4.2205 from 4.1490 as at end-June and is seen slipping further to 4.2397 levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

MPC meeting in July sees BNM stay pat at 1.75% for the OPR...

To recap, BNM in its 4th Monetary Policy Committee (MPC) meeting for the year on 8th of July, left the OPR unchanged at 1.75%. The central bank highlighted that the growth outlook remains subject to "significant downside risk", a tweak from "downside risk" in the last statement. We are of the opinion that this last MPC policy statement will necessitate a revision of its earlier projected GDP growth forecast from 6.0-7.5%, closer to 4.0% handle.

In a report released lately, industrial production for June surprised on the upside with a small 1.4% gain y/y; but is considered moving towards a normalization path when compared to the 26.0% growth y/y in May, and the peak seen in April. Growth in manufacturing production was underpinned by export-oriented sectors. We are penciling in a 14.6% y/y growth in 2Q GDP, barring any surprises from the services sectors.

Our house view is for a 25bps cut in OPR (which currently stands at 1.75%) as we are concerned over potential economic impact of pandemic due to the virus and its variants despite the rapid ongoing vaccination progress. Hence, we foresee BNM possibly embarking on a rate cut as early as September this year. We maintain our recently revised full year 2021 GDP growth projection down to 3.7% y/y (prior +5.0%), and foresee further downside risks should infection rates remain elevated, causing prolonged lockdown.

Vast improvement in MYR government bond auction bidding metrics

The three (3) government bond tenders concluded for the month of July 2021 under the auction calendar saw average BTC ratios push higher i.e. 2.46x (June: 2.10x). The highest BTC among the three auctions recorded was the 10Y reopening of GII 10/30 @ 3.403x; with the highest YTD sum of bids received of RM11.91b; supported by wide category of participants i.e. foreign/local institutions and also inter-bank players. The 15Y reopening of GII 7/36 also notched a solid cover of 3.056x whereas the 5Y MGS 11/26 reopening (which was a previous off-the-run) recorded a poorer BTC of 1.505x, Altogether, the three (3) auctions saw total bids amounting to between a wide range of RM7.5-11.9b. The table below summarizes the recent tenders as we maintain our projected issuance sizes for MGS/GII auctions in 2021 @ RM152.5b.

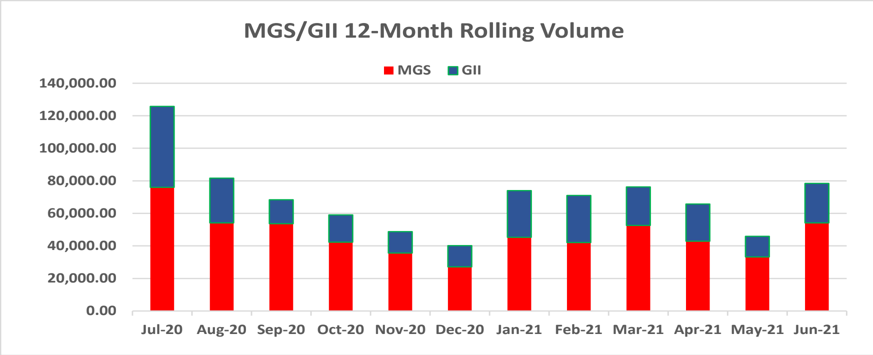
MGS/GII issuance pipeline in 2021

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 08/28)	7	Aug	Q3		4,500								
25	3-yr Reopening of MGS (Mat on 06/24)	3	Aug	Q3		4,000								
26	20-yr Reopening of GII (Mat on 09/41)	20	Sep	Q3		4,500								
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	77,500	22,000	99,500	PROJECTED TOTAL ISSUANCE SIZE = 152,500				

Source: BNM, HLBB Global Markets Research

MGS/GII see huge jump in June secondary market activity

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds decreased 9.4% m/m to ~RM71.1b in July compared to prior month's RM78.5b due to several reasons. Earlier concerns over government's proposed increase in statutory debt levels and higher fiscal deficit coupled with slight fears over the commencement of the nation's first parliamentary sitting and delicate political balance were telling factors. These overcame the prevalent risk-off mode seen due to the higher COVID-19 infections nationwide. The perceived slowdown in secondary market activity by the largest pension fund in the country was possibly another reason that caused yields to drift higher. We opine that momentum and velocity in the secondary market volume for local govvies may taper in August partly due to concerns over GOM's potential revision of both fiscal deficit and statutory debt ceiling anytime soon this month. Local govvies may also succumb if high vaccination roll-outs result in the easing of movement restrictions in line with the National Recovery Plan and boost economic activities. On the flip-side, relative yield-carry differentials in Malaysian govvies under the EM Asia rates category along with the existing high foreign holdings of MYR debt may continue to attract yield-hungry investors with a longer-term view.

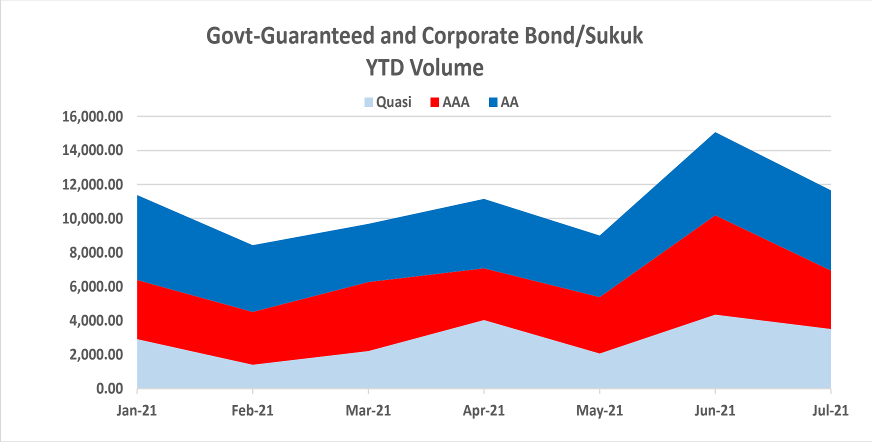


Source: BPAM, Bloomberg, HLBB Global Markets Research

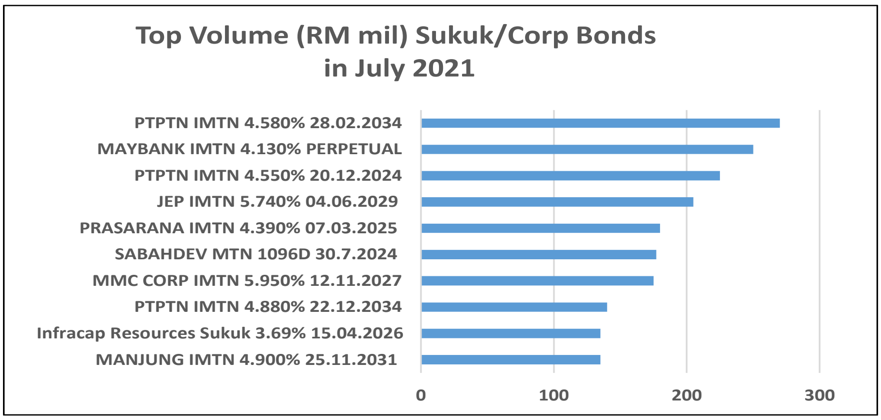
Corporate Bonds/Sukuk activity however displayed "a life of its own" moving away from govvies influence in July…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market trading volume declined by 26.2% to ~RM12.0b in July (June: RM16.25b). The slower momentum was due to portfolio managers and also inter-bank participants maintaining a cautious stance due to some nervy moments earlier on the local political scene. Yields tightened further between 4-16bps for the GG-segment within 1-30Y tenures (save for the 20Y) as yield spreads to MGS settled generally between ~ 12-48bps with most value found between the 10-30Y sectors. The AAA-rated bonds saw spreads also narrow between 6-10bps (save for 20-30Y) to settle at spreads between ~30-62bps whilst the AA2-segment similarly saw tighter spreads of 5-12bps. We note that foreign holdings for both GG and pure Credits inched higher by ~RM60m to RM13.59b.

Total transactions for GG bonds edged higher m/m to form ~30.0% (June: 28.8%) of overall volume. AAA-rated papers however saw a huge 41.0% fall in volume m/m resulting ultimately in 29.6% (June: 38.8%) of overall trades whilst AA-rated ones saw secondary market volume remain somewhat constant despite forming a higher 40.3% (June: 32.4%) of overall investor interest. The GG-space was again mainly centered on DANAINFRA, PRASARANA, Jambatan Kedua, LPPSA, MKD Kenchana and PTPTN. **Bonds that garnered top volume for the month were PTPTN 2/34 (GG) that rallied 47bps at 3.24% since being traded several times for the month under review, followed by finance/banking-related bonds MAYBANK 2117NC26 perps (AA3) which rose 9bps at 3.50%.** Third was another tranche of PTPTN i.e. 12/24 (GG) which declined 18bps at 2.49%. Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DRB-Hicom 22-29's, MMC 27's, GENM Cap 23-32's, GENTING RMTN 34's, Sarawak state SPV i.e. Infracap Resources 21-36's, Khazanah-related SPV's i.e. DANUM 25-34's, infrastructure-cum construction/property (i.e. PUTRAJAYA 21-25's, UEM SUNRISE 21-26's, SP SETIA 26-28's, IJM 23-29's), property/toll i.e. PLUS 23-35's, WCT 21-26's, PKNS 21-23's, utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 21-34's, Sarawak Hidro 22-31's, TENAGA 33-40's, MANJUNG 25-31's, DIGI 22-29's, TELEKOM 22-28's, AA-rated CTX 22-26, EDRA 24-38's, Southern Power 24-31's, YTL Power 22-27's, TBEI 24-32's, SEB 25-36's, JEP 22-32's, plantation-related KLK 22-34's and also others like 7-Eleven Holdings 24-26's, CYPARK 29-39's and QSPS green 29-31's. The banking sector saw prominent trading activity on names involving MAYBANK perps, 2029NC24, 2031NC26, MBSB 29's 31's and BPMB 22-31's papers. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2030NC25, 2032NC27, 2035NC30, Sabah DEV 23-26's, unrated ECO World 21, 23's, TG Excellence perps, IJM Land perps, Mah Sing Perps, YNH Property perps, Tropicana 23, 25's & perps were also prevalent.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in July driven by the following:

Notable issuances in July-21	Rating	Amount Issued (RM mil)
Malaysia Rail Link Sdn Berhad	GG	3,000
Zamarad Assets Berhad	AAA	124
Sabah Development Bank Berhad	AA1	580
AEON Co. (M) Berhad	AA2	170
CIMB Thai Bank Public Company Limited	AA3	660
Country Garden Real Estate Sdn Berhad	AA3	60
Exsim Capital Resources Berhad	AA3	323
Pac Lease Berhad	AA3	50
BGMC BRAS Power Sdn Berhad	NR	3
Fenghuang Development Sdn Berhad	NR	7
Hektar Black Sdn Berhad	NR	109
Idiwan Solar Sdn Berhad	NR	6
Laksana Positif Sdn Berhad	NR	3
LBS Bina Group Berhad	NR	93
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	13
Sunway Treasury Sukuk Sdn Berhad	NR	550
Tumpuan Azam Sdn Berhad	NR	6,000
THP Suria Mekar Sdn Berhad	NR	300
West Coast Expressway Sdn Berhad	NR	13
		12,064

Source: BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk increased to RM 12.1b; higher than the previous two (2) months in May and June. with Malaysia Rail Link (MRL) being the more prominent one. MRL issued 5-25Y bonds (GG) totaling RM3.0b with coupons between 2.88-4.48%.

Outlook for August 2021

Expect bonds to be pressured due to supply concerns coupled with current delicate political situation…

The MYR bond market saw strong bidding metrics for all three (3) of its auction exercises in July whilst the latest one involving the reopening of the long bond i.e. 30Y MGS 6/50 on Thursday, the 14th of July saw strong bidding metrics on a 2.28 cover, yielding 4.289%. However, we expect the remainder auctions for reopening of 7Y GII and 3Y MGS auctions in August to produce longer tailing support.

To recap, S&P Global Ratings put a negative outlook on Malaysia's long-term rating despite **affirmation** of Malaysia's "A-" long-term and "A-2" short-term sovereign credit ratings on Malaysia, besides also affirming its 'A' long-term and 'A-1' short-term local currency ratings on the country. (Moody's affirmed the GOM's local and foreign currency long-term issue and local currency senior unsecured debt ratings at A3 in March 2021 whereas Fitch Ratings downgraded the country's long-term issuer default rating from A- to BBB+/Stable in December 2020).

GOM's intention to revise and raise both the fiscal deficit and statutory debt this month will necessitate a revision of our earlier YTD projected total gross issuances of RM152.5b for 2021. Also, the last additional RM10.0b fiscal injection arising from the PEMULIH stimulus package may require additional funding via bond issuances despite availability of various alternative modes below:

- Reallocation/optimization of excess funds from other non-critical sectors
- Increase in dividends from statutory bodies and GLC's
- Usage of RM5.0b KWAN fund operated by BNM
- Oil price gains
- Additional USD1.4b from Goldman Sachs due to 1MDB asset disposals
- Miscellaneous fines and repayments pertaining to 1MDB matter.

BNM's earlier GDP forecast of 6.0-7.5% for 2021 is expected to be revised sharply lower this month to circa 4.0% levels in mainly in view of the nationwide lockdown. We continue to maintain our full-year GDP growth forecast at 3.7%.

The potential return of US reflation theme amid strong data encompassing jobs and manufacturing may put upward pressure on yields. Separately, we note the expiry of both i-LESTARI and i-SINAR programmes by EPF is now replaced with a new withdrawal facility called i-CITRA which may require up to RM30b of allocations by the largest pension fund in the country. Hence its secondary market activities may continue to be slightly subdued. We also note that there net govvies issuances for the month is expected to rise from RM1.5b in July to RM7.5b in August which may put 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 10-20Y GII and 7Y, 15Y MGS space reflect decent relative values along the curve**. We also continue to expect robust activity and interest in the shorter-end off-the-runs i.e. 21-23's, the 28's and also benchmark 5Y, 10Y bonds. **We also like the short 2-5Y AAA-AA papers for liquidity and longer tenured 7-10Y GG bonds for yield-carry.** The continued tightening of GG bond names like PRASARANA and DANAINFRA, are expected to spillover to slightly lower credit of the spectrum with investors yearning for a delicate balance between yield-carry, liquidity and credit considerations. We maintain interest in bond issuances by the larger, well-diversified conglomerates involved in sectors encompassing utilities (i.e. telco, sewerage, electricity, water, etc) besides infrastructure and logistics such as power-generation, tolled highway and port operators.

Expect USTs to be mildly pressured in August due to inflationary pressures whilst the Fed may provide hints on asset tapering sooner than later…

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. Both the US ISM Manufacturing PMI which eased to @ 59.5 in July (June: 60.6) and Markit's US Manufacturing PMI which moved higher to 63.4 (May: 63.1) remain strong indicators whilst unemployment rate fell to 5.4% (June: 5.9%). Market participants have been monitoring the impact and pace of Delta variant infections (ongoing concerns over the Delta coronavirus variant were seen to impact economic growth) coupled with the Fed's continued bond-buying program. In its refunding announcement, the US Treasury 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 (which expired at $22 trillion at end-July. The Fed said that it is getting closer to tapering its bond-buying program as the economy progresses towards its goals. It continues to view inflation as transitory and also intends to make permanent the domestic and foreign standing repo facilities it rolled out last year. Nevertheless, we expect UST yields to edge upwards on supply concerns as the $1.0 trillion infrastructure bill is approved by US Senate whilst another estimated $3.5 trillion spending bill is put on the table for debate.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a lower monthly gain of 1.4% in May (June: 1.6%) with OAS spreads wider and traded higher at ~ 85bps from 80bps. IG corporate bonds which displayed rich levels earlier endured pressure resulting in wider spreads. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) managed a mere 0.4% return in (June: 1.3%) with spreads widening by 26bps to ~294bps. Expect gross issuances to reach a total of ~$80b in August versus maturities of ~$30b. We note that US credit ratings have however improved YTD with all three (3) rating companies seeing higher ratings of 1,358 times compared to ratings cut of 731 times as at the time of writing; a departure from 2020 rating exercises.

Our monthly fundamental view suggests the 10-year yield should inch higher from its current level**. The 10-year UST is expected to range between 1.30-1.50%; finding support at key 1.50% 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

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