Monthly Fixed Income Perspective –

Oct 21 review & Nov 21 outlook

US Bond Market

- **In October**, US Treasuries (UST's) sold-off considerably amid bouts of concern over various factors that included asset-tapering, inflationary pressures and also surging commodities. The curve flattened as benchmark **UST yields spiked between 7-22bps extending up to 20Y; whilst the long bond declined 10bps instead.** The UST 2Y yield jumped 22bps to 0.50% whilst the 10Y rose 7bps to 1.56%, off the high seen during the month. At the time of writing, yields have settled at 1.55% levels. The yield curve saw the 2s10s spread tighten 16bps at ~105bps; whilst the 5s30s spreads tightened by 32bps at ~75bps.

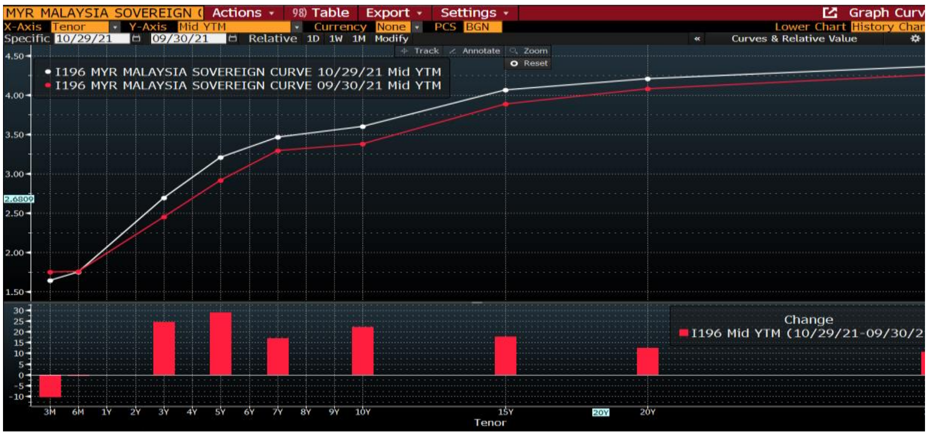
  For November, expect USTs to range sideways with slight upward bias despite a temporary end to the asset-tapering uncertainty. The Fed's solid jobs data coupled with falling unemployment rate of a mere 20bps above pre-pandemic levels of 4.40% may cause the Fed's "transitory" inflation narrative to be shrugged off by investors with the rates market expected to be pressured. The $1.2b bipartisan infrastructure stimulus bill was passed by Congress whilst asset tapering details reveal a $15b monthly cut; i.e. from $120b to $105b. **The 10-year UST is expected to range between 1.50-1.70%; finding support at key 1.70% levels for this month. We are positive on IG issuances within the 3-7Y sector that reflect value along the curve, namely in sectors covering communications, namely cable satellite, media entertainment and wireless along with financials**.

MYR Bond Market

- **In October**, overall MYR government bonds ended weak, with **MGS yields spiking between 11-27bps whilst GII were pressured even more between 15-26bps (save for the 30Y). The curve shifted higher with the intermediates seeing larger deviation.** The benchmark 5Y MGS 11/26 yield spiked the most by 27bps m/m to 3.19% whilst 10Y MGS 4/31 yield jumped 21bps to 3.58%. Foreign holdings of MYR government bonds (MGS + GII + SPK) climbed to an all-time high of RM231.3b with net inflows circa RM5.4b (representing 25.4% of total outstanding). All four (4) auctions saw weaker participation at an average BTC ratio of only ~ 1.96x compared to prior month's 2.06 cover.

- **For November,** we expect the Malaysian economy to register a slightly negative print for 3QGDP; but expect improved domestic recovery outlook amid successful adult vaccination rates of ~95%. However, the recently announced expansionary Budget 2022 may momentarily dampen bids for the bond asset class with our projected auction calendar for 2022 totaling ~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. However, the mitigating factors to the above include high yield differentials and potential support from the depth of local investment institutions. **We expect the 10Y MGS yield to range slightly lower between 3.50-3.70%, with support pegged at 3.70% levels. The 5-7Y, 15Y MGS/GII space reflect decent relative values along the curve. We favor the logistics and utilities sector and are positive on 1Y, 5-25Y tenures in AAA sectors that provide yield-spreads of between 27-57bps.**

MYR sovereign curve (MGS)



Source: Bloomberg

US payrolls climb, outstripping estimates for October but mild disappointment arises as labor reply remains tight with an unimpressive 61.6% participation rate…

October Non-Farm Payrolls ("NFP") rose 531k (above the consensus of 450k), whilst adding a chunky upward revision of 235k for prior months i.e. August and September. This came in slightly below this year's higher monthly job growth average of 582k. Notably, job gains showed probable signs of labor market recovering from the Delta variant. Solid job growth was seen in manufacturing, professional/business services and leisure cum hospitality sector. The unemployment rate dropped to 4.6% (Sep: 4.8%), continuing the downtrend seen past few months and getting closer to the start of the pandemic at 4.4% in March 2020. Employment is still some 4.2m below February 2020's pre-pandemic levels. Labor participation rate was maintained at 61.6%. The average hourly wages dipped to 0.4% m/m (previous month 0.6%) whereas the y/y figures rose further to 4.9% (previous month 4.6%). Fed officials have agreed to a $15b reduction in monthly bond-buying comprising $105 billion worth of USTs and MBS for November and December 2021.

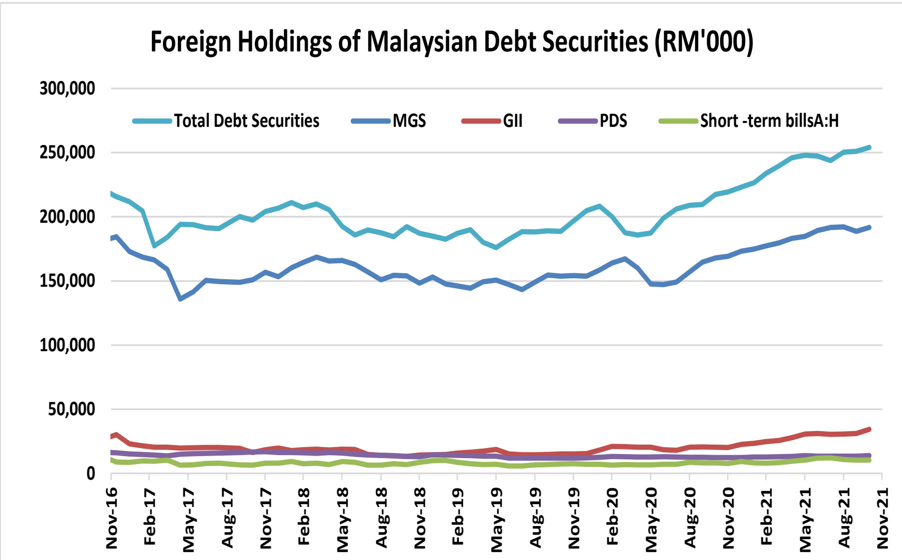
Meanwhile, the slightly lower but still decent Markit US manufacturing PMI for October @ 58.4 (Sep: 59.2) and slight easing of ISM manufacturing data of 60.8 (Sep: 61.1) nevertheless indicate sustained economic expansion despite supply-chain bottlenecks. The Fed's preferred inflation measure i.e. core PCE in September closed mixed with its m/m easing slightly at +0.2% whilst y/y traction stayed pat @ +3.6%. This coupled with the just released elevated core CPI data of 0.9% m/m and 4.6% y/y for October may drive rates higher.

The Fed left the Fed Fund Rates unchanged at 0.00-0.25% at its latest FOMC on 4th November, but **confirmed that its ongoing monthly purchase of $80b in USTs and $40b in agency MBS has now been reduced to $70b and $35b respectively effective November; as projected in our previous month's report.** Meanwhile, its current balance sheet reveals total assets of $8.57 trillion as at 1st November 2021 ($8.46 trillion @ 4th Oct). The **Fed's current dot plot released in September sees 9 officials (out of a total 18) preferring at least one (1) rate hike in 2022**. Also, a higher number of participants i.e. 17 altogether, continue to project higher rates in 2023, maintaining the median dot at 1.00% with at least two (2) rate hikes in 2023. Alternate data from the **Fed Fund Futures now reflect traders' hypothetical expectations of meagre 0.8% odds of a cut at the time of writing** (prior month: cut of 0.6% instead) in the next FOMC meeting on 15th December with two (2) rate hikes in 2H2022. **CME FedWatch Tool meanwhile, maintains a 100% probability of current target rate being maintained at least until March 2022.**

Foreign holdings of overall MYR bonds jumped by a whopping ~RM3.0b or 1.2% in October amid a stronger MYR against the greenback @ 4.14 levels

Foreign holdings of overall MYR bonds jumped in October by RM3.0b or 1.2% to RM254.0b. Non-resident holdings of MGS rose by RM2.66b or 1.4% to RM192.0b, however dropping to form 40.1% of total outstanding due to the larger net issuance. Total MYR Government bonds (i.e. MGS+GII+SPK) holdings saw net inflows of RM5.4b to RM231.3b (representing 25.4% of total outstanding) despite a **spike in net issuances of +RM11.0b** for the month (September: +RM2.3b). Investors who were initially worried over bond supply metrics due to the government's indication of elevated fiscal deficit, higher statutory debt limit of 65% of GDP and also PEMERKASA+ and PEMULIH fiscal stimulus packages requiring RM15b fiscal injection. Auction exercises were nevertheless weaker compared to previous month.

However the burst in net purchases of both MGS and GII in October by offshore parties were believed to have stemmed from recent attractive yield-carry opportunities seen following the elevated global bond yields coupled with the relative liquidity for Malaysian govvies. **Overall MYR govvies saw the second largest monthly inflows amounting to RM5.44b for October 2021 (prior month: -RM216m) whilst 12-month rolling inflows notched a lower cumulative amount of RM35.6b (prior month: RM36.5b). Equity saw net inflows for the 3rd straight month; albeit at a bigger amount of RM1.57b in October 2021 (prior month: +RM740m) whilst the cumulative 12-month rolling outflows fell to RM3.80b (prior month: RM6.04b).** On the currency side, the MYR strengthened against USD to 4.1403 from 4.1862 as at end-September and is seen consolidating at 4.1775 levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

MPC meeting in November sees BNM stay pat at 1.75% as per our expectations...

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. The key difference is probably in terms of the contributing factors to the downside risks i.e. prolonged global supply chain disruptions, potential risk of heightened financial market volatility following the policy adjustments by major central banks, where more join the normalization/ tightening bandwagon amid fanning inflationary pressures. As for the Malaysian economy, BNM 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.

Our house view remains for BNM to leave OPR unchanged at 1.75% going into 2022; with a possibility of a rate hike in 2H2022 on the cards should recovery momentum improves better-than-expected. We believe that while downside risks remain, the Malaysian economy is expected to gradually recover notwithstanding supply chain issues**. Whilst we expect a small contraction in 3Q2021 GDP, we see upside risks to our full year GDP growth forecast of 2.7%** and will be reviewing it post 3Q GDP release scheduled on 12th of November**.**

Weaker bidding metrics for MYR govvies bond auctions in tandem with concerns over rising bond yields (see YTD auction calendar below)

The four (4) government bond tenders concluded for the month of October 2021 under the auction calendar saw average BTC ratios fall below the 2.0 handle i.e. at 1.96x (Sep: 2.06x). The highest BTC among the three auctions recorded was the 30Y reopening of GII 11/49 at 2.521x; with a decent sum of bids received at RM5.04b with sizeable private placement of RM2.0b. Both the reopening of 5Y MGS11/26 and 10Y reopening of GII 10/30 also saw decent results with both seeing a cover just above the 2.0 handle. Nevertheless the reopening of 7Y MGS 6/28 saw one of the lowest YTD BTC ratios at a mere @1.598x. Altogether, the four (4) auctions saw individual sum of bids amounting to between RM5.04-9.19b. The table below summarizes YTD tenders with **total projected MGS/GII issuance size totaling RM160.5b for 2021.**

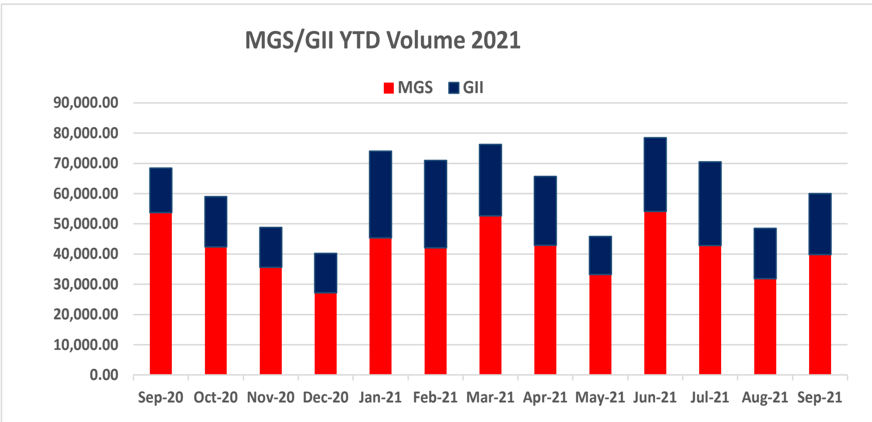
MGS/GII issuance pipeline in 2021

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-
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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.
33	15-yr Reopening of MGS (Mat on 05/35)	15	Nov	Q4		5,000		X						
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		4,500		X						
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		3,500								
	Gross MGS/GII supply in 2021					160,500	112,000	28,000	140,000	PROJECTED TOTAL ISSUANCE SIZE = 160,500				

Source: BNM, HLBB Global Markets Research

MGS/GII see pullback in October secondary market activity

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds jumped ~13% m/m to ~RM54.3b in October compared to prior month's RM62.6b. Investors were net sellers amid lower volumes for the month as yields spiked between 11-27bps for the month under review. However, we opine that trading activities in the secondary market for local govvies may see improved momentum in November partly due to attractive values seen arising from earlier selling pressure due to bond supply concerns arising from the higher fiscal deficit and statutory debt ceiling. Local govvies also took cue from rising UST and global bond yields. Buying support by a wider base of investors that include the 13th largest sovereign pension fund in the world i.e. EPF followed by offshore parties, local institutions like GLIC's, real money investors like lifers, asset management, fund management companies and also the inter-bank participants is a expected to be forthcoming.

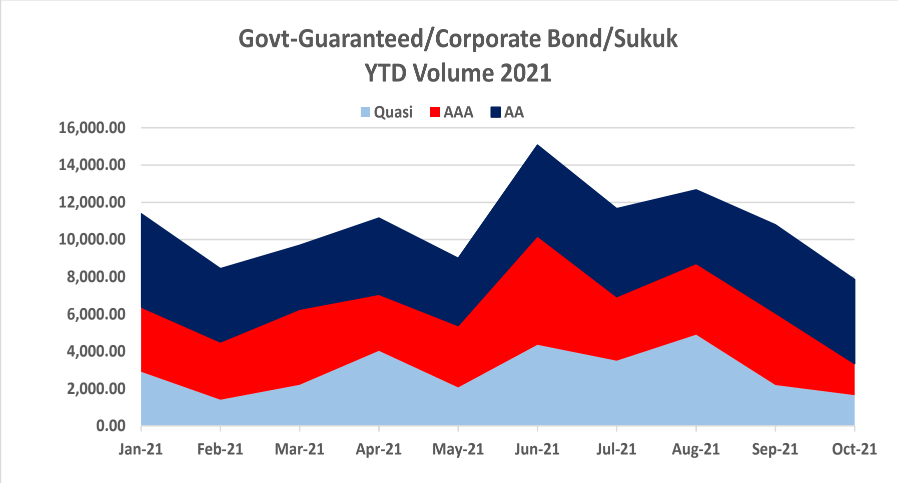


Source: BPAM, Bloomberg, HLBB Global Markets Research

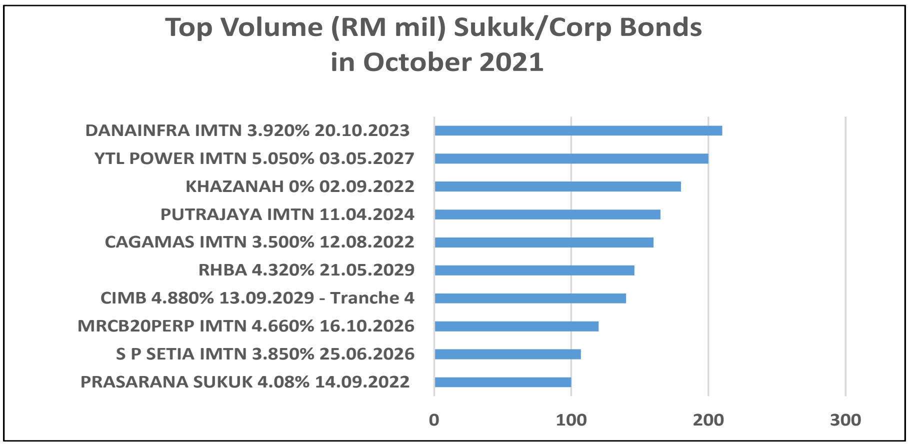
Corporate Bonds/Sukuk activity saw investor interest and momentum fall sharply in October…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market trading volume decline sharply by 32.0% to ~RM8.0b in October (Sep: RM11.7b). The weaker momentum was due to spillover effect from govvies which saw yields spike; prompting investors to either remain side-lined or display smaller appetite. The sharp decrease in primary issuances was surprisingly a negligible factor. Overall yields widened between 1-28bps for the 1-30Y GG-segment, with the 3-10Y tenures experiencing higher yield spreads of between 17-28bps instead to MGS. The AAA-rated bonds saw overall spreads also widen between 2-34bps for the 2-30Y sector with 5-15Y tenures spiking between 23-34bps. The AA2-segment however saw spreads mostly widen more than the AA1 and AA3 space with spreads widening between 6-35bps as yield-enhancement opportunities arose. We note that foreign holdings for both GG and pure Credits inched higher by ~RM550m to RM14.8b.

Total transactions for **GG bonds maintain** m/m to form ~21.0% (Sep: 20.3%) of overall volume. AAA-rated papers saw total trades drop drastically volume-wise m/m with its total market share ultimately easing to form 21.7% (Sep: 35.9%) of overall trades. Meanwhile, the **AA-space saw secondary market trades spike** with a high 57.4% share of overall investor interest (Sep: 43.9%). The GG-space was widely spread among DANAINFRA, PRASARANA, LPPSA and PTPTN. **Bonds that garnered top volume for the month were KHAZANAH 9/22 (GG) that jumped 17bps higher to 2.42% for the month under review,** followed by energy-related bonds YTL Power 5/27 (AA1) which spiked 26bps to 4.72%. Third was KHAZANAH 9/22 (GG) which rose 7bps to 2.02%. Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. MMC 23-28's, WCT 22-25's, Genting and its related- entities i.e. GENM Cap 23-28's, GLT 28's, Sarawak state SPV i.e. Infracap Resources 22-36's, Khazanah-related SPV's i.e. DANGA 26-34's, infrastructure-cum construction/property (i.e. GAMUDA 22-26's, UEM SUNRISE 23-25's, MRCB 23-31's, Fortune Premier 23-25's), utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 24-28's, TELEKOM 24-28's, TENAGA and its related-entity bonds 29-38's, AA-rated BGSM 22-27's, MALAKOFF 26-31's, EDRA 23-32's, YTL Power 24-28's, JEP 24-31's, SEB 22-35's, KLK 22-29's, PKNS 21-23's, and QSPS green 25-35's. The banking/finance sector saw activity on names involving ALLIANCE 2030, 2032 and 2035 callable bonds, CIMB 2029NC24, MAYBANK 2031NC26, SABAH development Bank 24's, 26's. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2030, 2032, 2035 callable bonds, CIMB perps, DIALOG perps, TG Excellence, Sabah DEV 22-26's, unrated ECO World 23's, ECO Capital 24's, YNH Property perps, Tropicana 23-28's, perps and IJM perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in October driven by the following:

Notable issuances in Oct-21	Rating	Amount Issued (RM mil)
DanaInfra Nasional Berhad	GG	1,900
Pengurusan Air Selangor Sdn Berhad	AAA	1,000
Bank Pembangunan Malaysia Berhad	AAA	450
Bank Simpanan Nasional Berhad	AAA	750
Cagamas Berhad	AAA	1,000
Maybank Ageas Holdings Berhad	AA2	1,000
Gamuda Land (T12) Sdn Berhad	AA3	250
Malaysian Resources Corporation Berhad	AA3	600
BGRB Venture Sdn Berhad	NR	16
Cypark Renewable Energy Sdn Berhad	NR	7
MAG Holdings Berhad (fka Xinghe Holdings Berhad)	NR	3
Mah Sing Group Berhad	NR	300
Potensi Angkasa Sdn Berhad	NR	22
Perdana ParkCity Sdn Berhad	NR	262
Sunway Treasury Sukuk Sdn Berhad	NR	350
Tumpuan Azam Sdn Berhad	NR	7
West Coast Expressway Sdn Berhad	NR	5
		7,922

Source: BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk in September dropped from RM10.7b to RM7.9b. The more prominent issuances consisted of Danainfra Nasional Berhad which issued 7-30Y bonds (GG) totaling RM1.9b with coupons between 3.70-4.70% and also MAYBANK Ageas AA2-rated 2031NC5Y with a coupon of 3.95%.

Outlook for November 2021

Expect local govvies to range sideways as attractive relative yield-carry and lower local net issuance offsets the impact from the rise in UST yields following the spike in US CPI print for October…

The MYR bond market saw weaker bidding metrics for all four (4) of its auction exercises in October whilst the latest one involving the announcement of RM2.0b +RM2.0b (private placement) of the 15Y MGS 5/35 on 15th of November which is **seen to display relative value on the curve.** We expect the remainder auctions for reopening of 15Y MGS, 3Y GII and 20Y MGS auctions in November to produce shorter tailing support. Despite the recently announced expansionary Budget 2022 and reduction in US asset-tapering which may momentarily dampen bids for the bond asset class; we foresee some demand for MYR bonds due to high-yield differentials. Our projected auction calendar for 2022 reveals gross issuance of ~RM167b being skewed towards the towards the short i.e. 3Y, medium-term i.e. 10Y and also longer end of the curve i.e. 20Y tenures. However the mitigating factors to the above include high yield differentials and potential support from the depth of local investment institutions.

Despite the earlier additional supply concerns, 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, increase in dividends from GLC's, reallocation and optimization of expenditure by various ministries and also additional dues and fines pertaining to 1MDB.

The push for vaccination resulted in ~76% of entire population being fully-vaccinated whereas the adult population has reached ~95% with adolescents aged 12-17 reaching 77% vaccination rates. This has seen the ramp-up and resumption of economic activities which will augur well for the economy and also risk-assets. The strong US jobs data amid inflationary pressures which has allowed the Fed to reduce its asset tapering exercise from the monthly purchase of $120b to $105b; resulting in concerns over potential rate hikes going forward and putting upward pressure on global bond yields. The ongoing i-CITRA withdrawal facility where RM30b withdrawals are targeted is unlikely to dent EPF's secondary market activities. Bond purchases and market-making activities in the secondary market by the wide investor base especially within the country, is expected to continue at a decent pace. We also note that net govvies issuances for the month is expected to fall substantially from RM11.0b in October to RM3.5b in November and may ease pressure on yields due to rollover activities.

We expect the 10Y MGS yield to range lower between elevated in a similar range of between 3.50-3.70% with support pegged at 3.70% levels. The 5-7Y, 15Y MGS/GII space reflect decent relative values along the curve. We favor the logistics sector along with utilities involved in telecommunications, sewerage, water and electricity. We are positive on 1Y, 5-25Y tenures in AAA sectors that provide yield-spreads of between 27-57bps.

Expect USTs to be slightly pressured in November due to confluence of factors i.e. supply concerns from the recent Congress approval of bipartisan bill and inflationary pressures…

The Federal Reserve will have its next FOMC meeting on **16th of December**. At the recent FOMC meeting press conference, in response to a question about whether the markets were wrong in pricing in hikes next year, Chair Powell noted that "The time for lifting rates and beginning to remove accommodation will depend on the path of the economy". Hence, the path of policy will depend on the lift-off conditions rather than the calendar. Unlike the ECB, which sees lift off next year as "very unlikely" or "off the chart", the Fed likely sees it as possible depending upon the outlook. The $1.2b bipartisan infrastructure stimulus bill was passed by Congress potentially giving rise to further supply concerns whilst asset tapering details reveal a $15b monthly cut; i.e. from $120b to $105b. **We expect a calmer market for USTs with room for upticks in yields as volatility ebbs and policy makers would not rush into hiking rates aggressively.** Nevertheless, the Fed's solid jobs data with falling unemployment of a mere 20bps above pre-pandemic levels of 4.40% coupled with a spike in October inflation may cause the Fed's "transitory" inflation narrative to be shrugged-off by investors with the rates market expected to be pressured.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a meagre gain of 0.2% in October (Sep: -1.1%) despite OAS spreads marginally wider and trending at ~ 87bps from prior month's 84bps. Expect gross primary issuances to reach a total of ~$100b in November versus $115b sold in October. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) however recorded a meagre 0.02% loss (Sep: parrish) with spreads tightening by 13bps instead to ~280bps. Cheap funding costs are expected to unleash a pile-on of debt issuance in excess of the $30b seen for October.

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 1.50-1.70%; finding support at key 1.70% levels for this month. We are positive on IG issuances within the 3-7Y sector that reflect value along the curve, namely in sectors covering communications, namely cable satellite, media entertainment and wireless along with financials.**

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