Monthly Fixed Income Perspective –

Sep 21 review & Oct 21 outlook

US Bond Market

- **In September**, US Treasuries (UST's) weakened considerably amid speculation over asset-tapering exercise and also the Fed's dot plot which saw the majority of Fed officials embrace a hawkish tilt. Bond yields also gained due to buoyant energy prices. The curve shifted higher as benchmark **UST yields rose between 7-19bps across, with the intermediate tenures pressured the most.** The UST 2Y yield rose 7bps to 0.27% whilst the 10Y spiked 18bps to 1.49%, rising the most since March. At the time of writing, yields have risen further to 1.61% levels. The temporary lifting of the cap on US debt ceiling of $28.4 trillion until 3rd December provided some relief. The yield curve saw the 2s10s spread widen 11bps at ~121bps; whilst the 5s30s spreads tightened by 8bps at ~107bps.

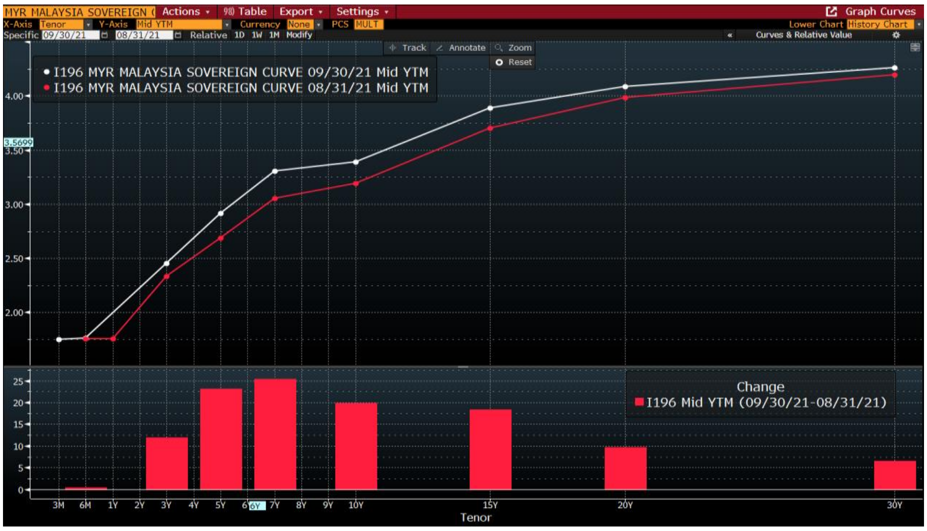
- **For October**, expect USTs to drift weaker despite weaker-than-expected NFP as unemployment rate hovers a mere 40bps above pre-pandemic levels of 4.40%. The constant market chatter over asset-taper and inflationary concerns due to supply chain bottlenecks may validate the Fed's decision to commence the tapering in our view by December. The rates market may be pressured due to the above whilst some temporary relief is obtained from debt ceiling extension until 3rd of December. **The 10-year UST is expected to range between 1.55-1.75%; finding support at key 1.75% levels for this month. We are mildly positive on IG issuances within the 5-7Y sector** that reflect better value along the curve and pick-up in economic activity, namely **in sectors covering industrials, energy and financials.**

MYR Bond Market

- **In September**, MYR government bond curve shifted higher, **as** both **MGS yields spiked between 6-26bps whilst GII were pressured even more between 10-35bps (save for the 20Y). The curve bear-flattened with slightly lesser deviation seen in the longer-ends extending out from 20Y tenures.** The benchmark 5Y MGS 11/26 yield spiked the most by 24bps m/m to 2.92% whilst 10Y MGS 4/31 yield jumped 18bps up at 3.37%. Foreign holdings of MYR government bonds (MGS + GII + SPK) eased back to RM225.9b with net outflows circa RM216m (representing 25.1% of total outstanding). All three (3) auctions saw participation maintain at an average BTC ratio of ~ 2.06x compared to prior month's 2.02 cover.

- **For October,** the Malaysian economy is expected to chalk some progress from further phased migration in the National Recovery Plan and decision to allow inter-state movements for fully vaccinated people. However, the government's move to increase the statutory debt ceiling to 65%, coupled with indication of a higher budget deficit of 6.5-7.0% of GDP, may find bonds on the back-foot. The heavy auction calendar for the month may cause a further blip. However the mitigating factors to the above include potential support and appetite from the well-diversified buy-side entities. **We expect the 10Y MGS yield to be elevated in a similar range of between 3.60-3.80%** with support pegged at 3.80% levels. **The 3Y, 7Y, 20Y MGS and also the 7-10Y GII space reflect decent relative values along the curve. We favor utilities involved in sewerage, water, electricity, telecommunications and also the logistics sector. We are positive on AAA sectors that provide yield-carry of between 38-57bps.**

MYR sovereign curve (MGS)



Source: Bloomberg

Weak NFP data for September poses questions whether the Fed will stick to its plan of reducing bond purchases in November…

September Non-Farm Payrolls ("NFP") added a mere 194k (far below the consensus of 500k) despite the upward revised additional print of 131k for August. This came in below this year's monthly job growth average of 551k. Notably, job gains stalled especially due to a seasonal-adjusted slump in education employment whilst a slight improvement was seen in the leisure and hospitality sector amid the reopening of the economy. Nevertheless, solid job growth was however seen in the professional and business services, retail, transportation and warehousing sectors. The unemployment rate however dropped to 4.8% (Aug: 5.2%), trending lower compared and not far off from the start of the pandemic at 4.4% in March 2020. Participation rate eased marginally at 61.6%. The average hourly wages maintained a 0.6% m/m increase whereas the y/y figures spiked further to 4.6% (previous month 4.0%). The latest NFP report was the first full month of jobs data following the expiration of the enhanced unemployment benefits offered throughout the pandemic. Fed officials may accede to a reduction in monthly bond-buying comprising $120 billion worth of USTs and MBS. Fed Chair Powell indicated recently that asset tapering could potentially begin in November and conclude by mid-2022. The lesser job gains may not change the Fed's policy path yet, and that the Fed is still on track for a November taper.

Meanwhile, the slightly lower but still elevated US manufacturing PMI @ 60.7 (Aug: 61.1) and expansionary ISM manufacturing data of 61.1 for September (Aug: 59.9) indicate sustained economic expansion despite supply-chain bottlenecks due to logistical constraints. The Fed's preferred inflation measure i.e. core PCE in July maintained both its m/m and y/y traction at +0.3% and 3.6% respectively. This, along with the robust CPI data may drive rates higher.

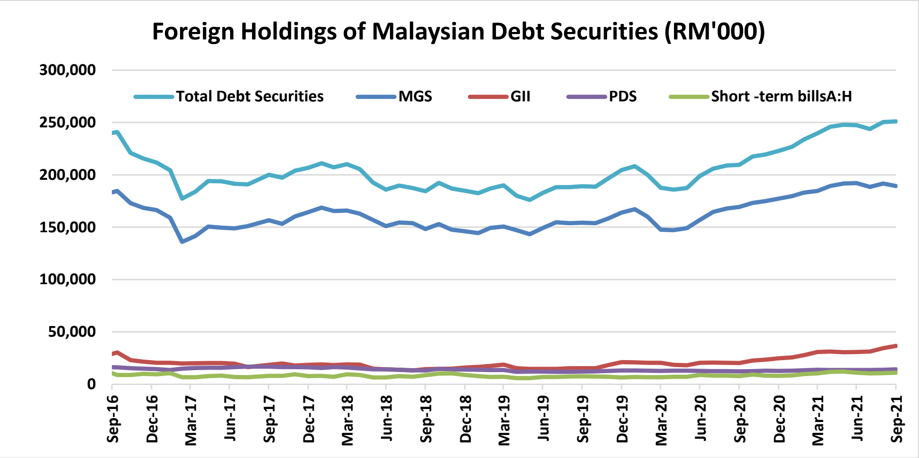
To re-cap, total rate cuts of 150bps took place in 2020 with the Fed leaving the Fed Fund Rates unchanged at 0.00-0.25% at its last FOMC on 23rd September. The Fed's ongoing monthly purchase of $80b in USTs and $40b in agency MBS has now boosted its balance sheet to ~$8.46 trillion as at 4th October 2021 ($8.35 trillion @ 30th Aug). Although Fed Chair Powell said that the latest NFP cum jobs report needed to be "reasonably good" to taper in November, we are of the opinion that it may proceed a month later albeit at a slower pace from $20b to $15b instead.

The **Fed's current dot plot as previously mentioned saw an increase from 7 to 9 officials (out of a total 18) preferring a hike earlier than 2023**. Also, a higher number of participants i.e. 17 altogether, continue to project higher rates in 2023, moving the median dot to 1.00% from 0.625% earlier, maintaining at least two rate hikes in 2023 as indicated in our previous report. Alternate data from the **Fed Fund Futures now reflect traders' hypothetical expectations of 0.6% odds of a hike** (prior month: cut of 2.0% instead) in the next FOMC meeting on 3rd November whilst **CME FedWatch Tool maintains a 100% chance of continuing rate pause yet again.**

Foreign holdings of overall MYR bonds inched up by a mere RM644m or 0.3% in September amid a weaker MYR against the greenback @ 4.18 levels

Foreign holdings of overall MYR bonds moved slightly higher in September by RM644m or 0.3% to RM251.1b. Non-resident holdings of MGS however fell by RM2.39b or 1.2% to RM189.3b, maintaining 40.3% of total outstanding. Total MYR Government bonds (i.e. MGS+GII+SPK) holdings saw slight net outflows of RM216m to RM225.9b (representing 25.1% of total outstanding) amid higher net issuances of +RM6.8b for the month (August: +RM6.5b). Investors surprisingly were undeterred over the government's indication of higher budget deficit and plan to raise the statutory debt limit from 60% to 65% of GDP, which has now been approved by the Parliament. Auction exercises were surprisingly resilient despite ongoing supply concerns arising from the earlier PEMERKASA + followed by the PEMULIH stimulus package requiring additional fiscal injection totaling RM15b.

However a decline in net purchases of MGS in September by offshore parties were believed to have resulted from concerns arising from rising global bond yields despite the attractive liquidity and relative yield-carry benefits for Malaysian govvies. **Overall MYR govvies saw the smallest net outflows since August 2013 amounting to a mere RM216m for September 2021 (prior month: +RM6.31b) whilst 12-month rolling inflows notched a lower cumulative amount of RM36.5b (prior month: RM37.8b). Equity saw net inflows for the 2nd straight month; albeit at a smaller margin of RM740m in September 2021 (prior month: +RM1.05b) whilst the cumulative 12-month rolling outflows was lower at RM6.04b (prior month: RM8.75b).** On the currency side, the MYR weakened against USD to 4.1862 from 4.1552 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 September sees BNM stay pat at 1.75% for the OPR...

To recap, BNM in its 5th Monetary Policy Committee (MPC) meeting for the year on 9th of September, left the OPR unchanged at 1.75% for the 7th consecutive meeting in tandem 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, there is no change in BNM assessment on financial conditions and that the overall balance of risks remains titled to the downside, given uncertainties surrounding the pandemic and new virus variants, as well as potential risks from QE unwinding in the major economies.

Our house view is for BNM to leave OPR unchanged at 1.75% for the remainder of the year; as we believe that while downside risks remain, the Malaysian economy is expected to gradually recover as more and more economic sectors recommence. We maintain our recently revised full year 2021 GDP growth projection at 2.7% y/y amid a bumpy ride ahead despite confidence that key economic sectors that have kick-started may help support the Malaysian economy as a whole.

Marginally better bidding metrics for MYR govvies bond auctions not in tandem with weaker appetite in secondary market…

The three (3) government bond tenders concluded for the month of September 2021 under the auction calendar saw average BTC ratios inch up to 2.06x (Aug: 2.02x). The highest BTC among the three auctions recorded was the 20Y reopening of GII 9/41 at 2.687x; with a decent sum of bids received at RM6.72b with private placement of RM2.0b. Both the 7Y reopening of MGS 4/31 and 5Y reopening of GII 3/26 saw mixed results with the former seeing a softer cover below the 2.0x handle @ 1.606x whilst the latter notched a BTC ratio of 2.133x. Altogether, the three (3) auctions saw individual sum of bids amounting to between RM6.42-8.53b. The table below summarizes the recent tenders whilst **we have revised our current total projected MGS/GII issuance sizes from RM152.5b to a higher amount of RM160.5b for 2021.**

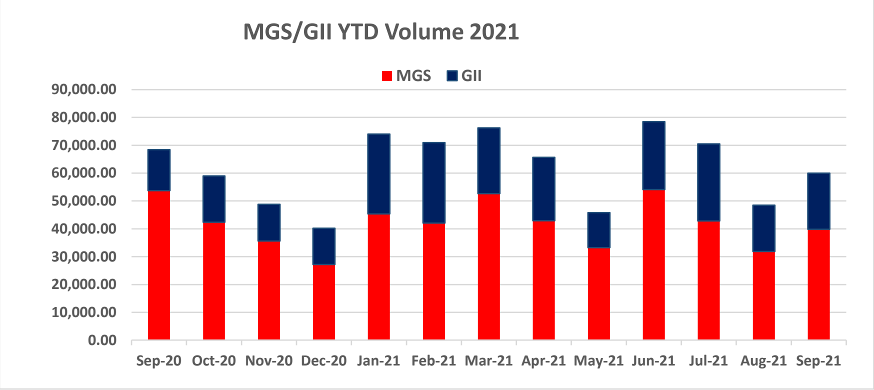
MGS/GII issuance pipeline in 2021

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		4,500		X						
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		4,500		X						
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	102,000	25,500	127,500	PROJECTED TOTAL ISSUANCE SIZE = 160,500				

Source: BNM, HLBB Global Markets Research

MGS/GII see pleasant jump in September secondary market activity

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds jumped 28.9% m/m to ~RM62.6b in September compared to prior month's RM48.6b amid the stable political landscape. The political leadership under the new Prime Minister Ismail Sabri of the ruling Perikatan Nasional coalition prioritized the push for vaccination resulting in ~65% of entire population being fully-vaccinated whereas the adult population has reached ~90%. Investors were net sellers resulting in higher volumes for the month as yields spiked for the month under review. However, we opine that trading activities in the secondary market for local govvies may continue to sustain momentum in October partly due to beaten down values arising from selling pressure due to bond supply concerns arising from the higher fiscal deficit and statutory debt ceiling. Local govvies also took cue from UST performance. The buying momentum and/or support 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 is a crucial factor for this month going forward.

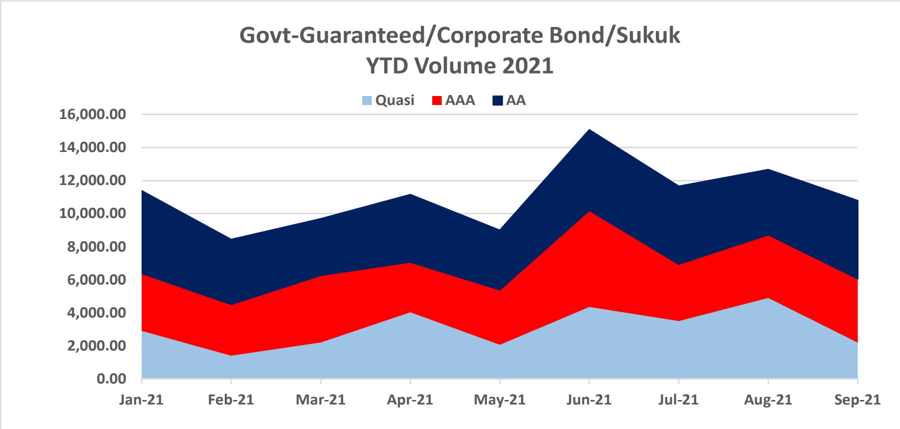


Source: BPAM, Bloomberg, HLBB Global Markets Research

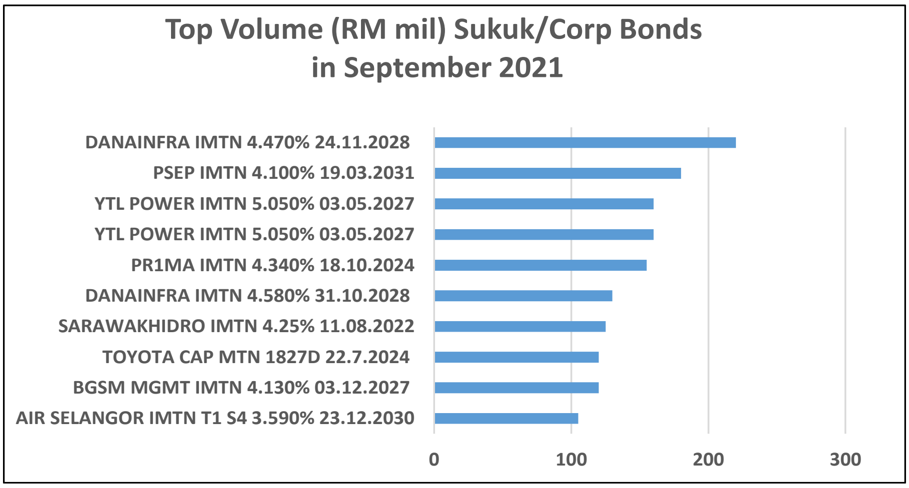
Corporate Bonds/Sukuk activity saw investor interest and momentum taper-off in September…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market trading volume decline 12.0% to ~RM11.7b in September (Aug: RM13.3b). The weaker momentum was due to spillover effect from govvies which saw yields rise; thus spurring portfolio managers and inter-bank participants to stay side-lined or take only small positions. The marked increase in primary issuances was also another contributing factor. Yields widened between 3-8bps for the GG-segment safe for the 3-7Y tenures which experienced higher yields of between 21-29bps instead as yield spreads to MGS settled generally wider between ~ 16-41bps with decent values found between the 5-10Y sectors. The AAA-rated bonds saw spreads also widen between 3-26bps for the 1-20Y sector whereas 25-30Y tenures saw spike between 22-50bps with overall spreads between ~38-57bps. The AA2-segment however saw spreads mostly wider between 3-24bps on yield-enhancement opportunities. We note that foreign holdings for both GG and pure Credits inched higher by RM390m to RM14.25b.

Total transactions for **GG bonds fall** m/m to form ~20.3% (Aug: 38.8%) of overall volume. AAA-rated papers saw total trades maintain volume-wise m/m; its total market share ultimately eased to form 35.9% (Aug: 23.1%) of overall trades. Meanwhile, the **AA-space saw secondary market trades spike** with a lower 43.9% (Aug: 31.3%) share of overall investor interest. The GG-space was widely spread among DANAINFRA, PRASARANA, PASB, LPPSA and PTPTN. **Bonds that garnered top volume for the month were DANAINFRA 11/28 (GG) that rose 11bps to 3.38% for the month under review,** followed by Petroleum Sarawak 3/31 (GG) which closed 5bps higher at 3.95%. Third was energy-related bonds i.e. YTL Power 3/23 (GG) which spiked 59bps to 4.46%. Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DRB-Hicom 24-31's, MMC 23-28's, UMW 23-26's, GENM Cap 25-28's, Sarawak state SPV i.e. Infracap Resources 24-29's, Khazanah-related SPV's i.e. DANUM 23-35's, IMTIAZ 22-28's, infrastructure-cum construction/property (i.e. IJM 23-28's, PUTRAJAYA 23-25's, UEM SUNRISE 21-25's, Fortune Premier 22-25's), PLUS 24-36's, ANIH 25-28's, TG Excellence, utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 24-36's, Air Selangor 30's, Sarawak Hidro 22-30's, TENAGA 33-40's, TELEKOM 22-28's, AA-rated BGSM 22-27's, Southern Power 25-34's, EDRA 24-38's, UITM Solar 26-28's, YTL Power 23-28's, TBEI 25-27's, SEB 22-36's and QSPS green 23-35's. The banking/finance sector saw activity on names involving HLFG perps, MAYBANK 2031NC26, BPMB 31-32's. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2032NC27, 2035NC30, Affin Bank perps, Sabah DEV 22-26's, unrated ECO World 21, 23's, ECO Capital 24's, YNH Property perps, UMW perps, Tropicana 23, 25's, 28's & perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in September driven by the following:

Notable issuances in Sep-21	Rating	Amount Issued (RM mil)
Lembaga Pembiayaan Perumahan Sektor Awam	GG	4,000
PR1MA Corporation Malaysia	GG	500
Prasarana Malaysia Berhad	GG	150
Cagamas Berhad	AAA	2,050
Hanwha Q CELLS Malaysia Sdn Berhad	AAA	50
Sabah Credit Corporation	AA1	360
Sports Toto Malaysia Sdn Berhad	AA3	30
Sunway Treasury Sukuk Sdn Berhad	AA3	540
UEM Sunrise Berhad	AA3	440
Tropicana Corporation Berhad	A2	270
Axis REIT Sukuk Berhad	NR	210
BGMC BRAS Power Sdn Berhad	NR	1
Crescendo Corporation Berhad	NR	200
Damansara Uptown Retail Centre Sdn Berhad	NR	25
IGB Commercial REIT Capital Sdn Berhad	NR	850
Idiwan Solar Sdn Berhad	NR	4
Liziz Standaco Sdn Berhad	NR	19
Magnum Corporation Sdn Berhad	NR	100
Maxis Broadband Sdn Berhad	NR	700
MDSA Resources Sdn Berhad (fka Fuyuu Resources Sdn Bhd)	NR	13
Perdana ParkCity Sdn Berhad	NR	181
Projek Smart Holdings Sdn Berhad	NR	10
Tumpuan Azam Sdn Berhad	NR	4
Techna-X Berhad (fka Sino Hua-An International Berhad)	NR	3
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	10
		10,720

Source: BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk in September rose from RM8.31b to RM10.7b. The more prominent issuances consisted of LPPSA which issued 7-30Y bonds (GG) totaling RM4.0b with coupons between 3.34-4.58% and also UEM Sunrise Bhd's AA3-rated 4Y and 5Y bonds with coupons of 4.25% and 4.4% each.

Outlook for October 2021

Expect MYR bonds to be pressured due to twin effects of rising UST yields and fiscal slippage coupled with higher statutory debt to GDP with regards to the Malaysian landscape…

The MYR bond market saw steady bidding metrics for all three (3) of its auction exercises in September whilst the latest one involving the reopening of the 7Y MGS 6/28 on 6th of October saw weaker-than-expected bidding metrics on a 1.598 cover, yielding 3.409%. We expect the remainder auctions for reopening of 30Y GII, 5Y MGS and 10Y GII 10/30 auctions in October to produce longer tailing support. Meanwhile reports on additional local debt supply concerns coupled with market chatter over a potential rate hike and also the anticipated withdrawal of asset-tapering exercise in US has made MYR bonds investing a massive challenge.

GOM's parliamentary approval to revise and raise the statutory debt limit from 60% to 65% of GDP also increase the fiscal deficit to between 6.5-7.0%; coupled with the last two (2) fiscal injection totaling RM15.0b for the implementation of the PERMERKASA+ and PEMULIH stimulus packages has resulted in a revision to our projected total gross issuances from RM152.5b to RM160.5b for 2021 (Please read our report on "Auction Calendar 2021 – A revisit", dated 1st October). Nevertheless the government may have buffer via additional funding avenues such as:

1. Earlier bills issuances of easily RM9b coupled with the excess proceeds of USD1.3b USD Sukuk against maturity of USD800m. This along with oil gains then of ~RM2b was deemed to be sufficient to cater for the above stimulus
2. Availability of KWAN fund of RM5.0b maintained by BNM.
3. Increase in dividends from GLC's
4. Optimization/re-allocation of funds for expenditure from various ministries/agencies.
5. Additional dues of USD1.4b equivalent in the form of asset disposals from Goldman Sachs due to 1MDB (i.e. USD3.9b less USD2.5b received last year).
6. Other proceeds from fines of RM2.83b paid by a local bank and RM330m by an accounting firm.

The temporary setback to the US jobs data amid strong inflation may delay but not postpone asset tapering exercise; resulting in upward pressure on global bond yields; Malaysia included. The ongoing i-CITRA withdrawal facility where RM30b withdrawals are targeted is unlikely to dent EPF's secondary market activities. Hence bond support and market-making activities in the secondary market is expected to be forthcoming along with the multitude and depth of other large investment-based institutions in the country. We also note that net govvies issuances for the month is expected to jump slightly from RM2.3b in September to RM11.5b in October and may still put pressure on yields.

We expect the 10Y MGS to yield to be elevated in a similar range of between 3.60-3.80% with support pegged at 3.80% levels. **The 3Y, 7Y, 20Y MGS and also the 7-10Y GII space reflect decent relative values along the curve. We favor utilities involved in sewerage, water, electricity, telecommunications and also the logistics sector. We are positive on AAA sectors that provide yield-carry of between 38-57bps.**

Expect USTs to be pressured in October due to persistent inflationary pressures and possible commencement of asset-tapering exercise come December as the string of erratic monthly job reports is believed nearing the end…

The Federal Reserve will be having its next FOMC meeting during **7-8th of November** 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 and commencement of the much-bandied about asset tapering exercise in December. Meanwhile, expect UST yields to drift higher on active supply via robust auctions whilst the $3.5 trillion spending bill remains on the table for debate by Congress.

Market participants have been monitoring the triple effect of a **potential aggressive asset-tapering, rising energy prices and improving COVID backdrop** which may drive the “term premium” higher. Senate leaders came to an agreement pertaining to a temporary deal extension to raise the debt ceiling through December to avert a crisis. The agreement is reputed to increase the limit by ~$480b, to allow Treasury to continue paying its bills and commitments smoothly until 3rd of December.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a monthly loss of 1.1% in September (August: -0.3%) despite OAS spreads marginally tighter and trading lower at ~ 84bps from prior month’s 87bps. Expect gross primary issuances to reach a total of ~$100b in October versus lower maturities of ~$21b (Sep: $47b). The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) however was almost parrish at a meagre 0.02% (Aug: 0.5%) with spreads widening by 11bps instead to ~293bps.

Our monthly fundamental view suggests the 10-year yield should be elevated compare its current level**. The 10-year UST is expected to range between 1.55-1.75%; finding support at key 1.75% levels for this month. We are mildly positive on IG issuances within the 5-7Y sector** that reflect better value along the curve and pick-up in economic activity, namely **in sectors covering industrials, energy and financials.**

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