Monthly Fixed Income Perspective –

November 22 review & December 22 outlook

US Bond Market

- **In November**, US Treasuries (UST) gained in November in what was the 3rd monthly advance for 2022 and the largest rally since March 2020; compared to prior month's "sell-off" as inflation moderated to 7.9% y/y from 8.2% prior month. Policy-makers flagged a less-than-aggressive pace of rate hikes following the 75bps hike in the Fed Funds Rate to between 3.75-4.00% in its November FOMC meeting. The jobs market remained strong despite notching lower numbers during past (3) consecutive months. The curve bull-flattened as benchmark UST yields declined between 18-49bps, led mainly by the intermediates. **The 2Y UST yield ended 18bps lower at 4.31% whilst the 10Y rallied with yields ending 44bps lower at 3.61%.** At the time of writing, these yields have however moved lower to 4.20% and 3.47% levels with the 2s10part of the yield curve remaining deeply inverted at 77 bps.

- **For December**, expect USTs to be given a lift following the just-released CPI for November which came in lower than expected at 7.1% y/y from 7.7% prior month (+0.1% m/m vs +0.4%), marking the lowest level since end-2021. Nevertheless, due to strong employment, Fed Chair Powell mentioned that "dot plot" may chart a higher terminal rate than shown in September. A key gauge of investors' inflation expectations, i.e.; the 5Y breakeven inflation rate on 5Y TIPS, has fallen by ~20bps to the 2.30% threshold, and off the high of 3.00% seen in April (Note: The Fed is keen to anchor its policy at 2.00% levels). **The UST 10Y is expected to range between 3.60-3.80%; much lower compared to our previous month forecast; finding support at key 3.80% levels for this month.** We maintain a slightly positive bias for nominal UST as concerns eventually abate over persistently stubborn inflation. We favor IG credits that come with strong balance sheets with especially in basic materials and industry, energy and telecommunications which have higher adjusted spreads.

MYR Bond Market

- **In November**, MYR government bonds outperformed; with some correlation seen with UST movements. The curve bull-flattened as overall benchmark yields declined between 19-43bps across (save for the short end MGS/GII). **The benchmark 5Y MGS 11/27 yield declined 25bps to 3.83%, whilst the 10Y MGS 7/32 settled 27bps lower at 4.10%. Total MYR Government bonds (MGS+GII+SPK) holdings saw net inflows of RM1.2b instead to RM223.5b (representing 22.1% of total outstanding).** The primary factors which drove bond movements were a culmination of factors; ranging from expectations of easing inflations in the US, stronger MYR along with the conclusion of GE 15 and its uncertainties. Elsewhere, the three (3) auctions saw average BTC ratios drop further to @ 1.67x (Oct: 1.86x); well below the 2.0x handle.

- **For December,** expect decent support albeit on lower volumes as fund-managers embark on book-closing activities. The potential low-staffing levels in view of year-end holidays and festivities may easily contribute to gapping levels for the month. MYR is expected to remain stable following further clarity in the new government's monetary and fiscal policy matters going forward with expectations of a slight revision to the recent release of National Budget 2023. Expect attention to focus on the release of the govvies auction calendar for next year. We have revised our full-year 2022 growth to 8.2% whilst maintaining 4Q2022 growth at 4.5%. **The Sukuk/Corporate Bond space is expected to see demand as yield pick-up remains attractive whilst credit quality remains steadfast under the current steady economic climate. We expect the 10Y MGS yield to maintain its higher trading range between 4.00-4.20% support pegged at 4.20% levels.** The 3Y MGS and 7-10Y MGS/GII sectors currently reflect relative value from term-premium perspective. In the corporate bonds/Sukuk space, we favor the 2-3Y GG (18-20 bps), 3-5Y AAA (49-54bps) and 7-10Y AA2-rated bonds (82-92bps), within sectors comprising utilities i.e.; water/electricity, highway/toll and port operators, telecommunications, and power/energy sectors

MYR sovereign curve (MGS)

Source: Bloomberg

Jobs market beats estimates in November; pointing to continued strong consumer spending that could maintain inflationary pressures…

November Non-Farm Payrolls ("NFP") beat consensus estimates of 200k by notching a solid monthly gain of 263k. This followed previous month's upward revision at +284k. Job gains were concentrated in few categories, led by growth in government, healthcare, leisure, and hospitality whilst service-providing sectors such as retail, transportation and warehousing saw job cuts. Meanwhile, the unemployment rate however maintained at 3.7% in November i.e.; higher than the 50-year low of 3.5%; yet still reflecting a healthy labor market despite earlier back-to-back quarterly GDP contraction. The participation rate, continued to ease a tad lower to 62.1% from prior month's 62.2%. However, the average m/m hourly earnings, a gauge of wage inflation and a key metric tracked by the Fed rose 0.6% in November with the y/y increase in wages jumping higher to 5.1% (higher than 4.7% in October); which is expected to be a norm in a mid-cycle economy. Nevertheless, we opine that fears of present tightness in labor market spurring higher wages and inflation may not persist going forward.

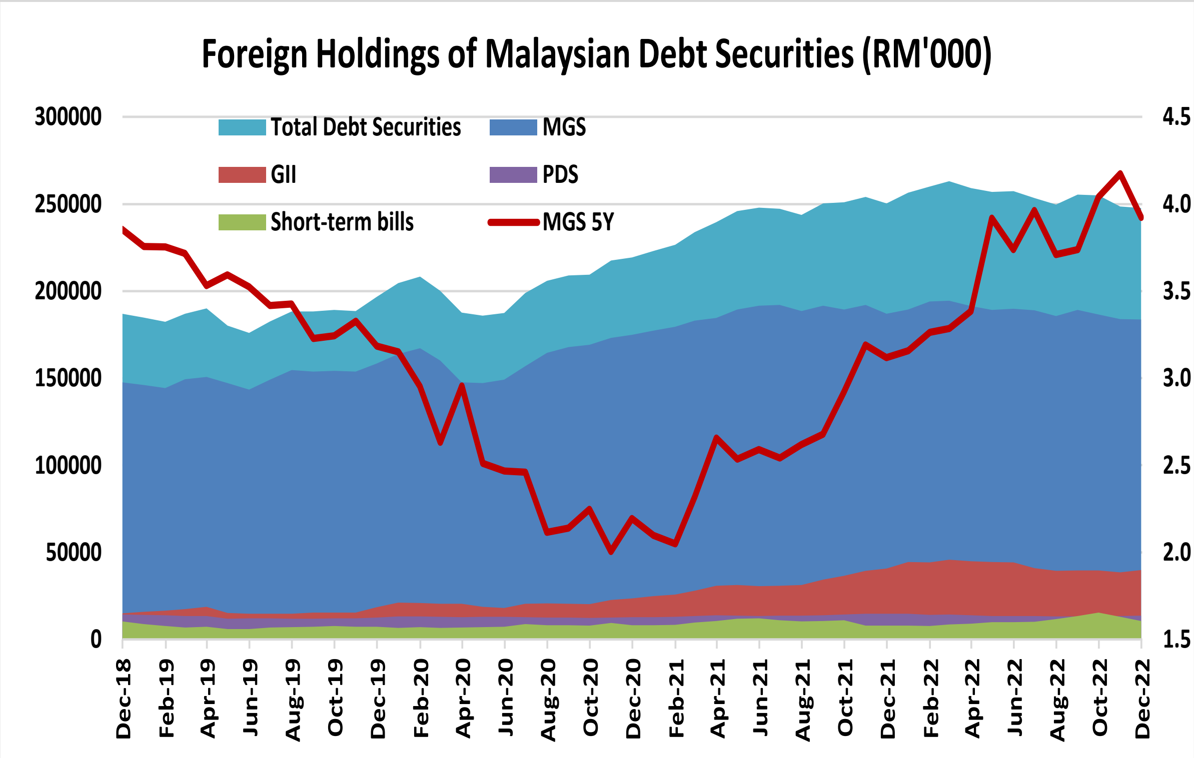
Moving on to other economic data, the possibility of conditions contracting in both the manufacturing PMI for November @ 47.7 (Aug: 47.6) and ISM manufacturing dip to 49.0 from prior month's 50.2, may put less pressure on supply chain logistics shipments. The ISM's index of services employment recovers and lingers at higher levels than that of October's, suggesting companies are still having greater success in hiring. Separately, the Fed's preferred inflation measure i.e., core PCE in October eased to +0.2% m/m and +5.0% y/y (prior month +0.5% m/m and +5.1% y/y). Hence, there could be signs that potentially easier inflationary pressures may prompt UST and corporate bond yields to decline going forward.

The Fed lifted the Fed Fund Rates for the 6th time at its last FOMC by another substantial 75bps on 3rd November (for the record there were five earlier hikes i.e.; consisting of 25bps rate hike on 17th March in 2022, 50bps hike on 5th May, 75bps on 16th June, 75bps on 28th July and 75bps on 22nd September and another 75bps on 2nd November). The Fed's dot plot pins median rates and OIS-implied Fed Funds rate at an average ~4.375-4.378% by end of this year; rising through 4.505% in 2023. Additional data from the Fed Fund Futures now reflect traders' hypothetical expectations of fully pricing-in 67% odds of a 75bps rate hike instead in the next FOMC meeting on 15th December. CME Fed Watch Tool meanwhile, targets an 78% probability of a 50bps rate hike. Elsewhere, we note that the Fed's ~$8.256 trillion balance sheet as at 2nd November has eased further to $8.177 trillion as at 1st December with the ongoing run-off impacting the movement of yields only slightly.

Foreign holdings of overall MYR bonds saw mild reduction of a mere RM1.04b or 0.4% in November despite stronger Ringgit…

Foreign holdings of overall MYR bonds ended lower by RM1.04b or 0.4% in November to RM254.9b. Non-resident holdings of MGS inched slightly lower by a mere RM89m (prior month: -RM2.7b) or 1.5% to RM183.7b, whilst forming lower i.e., 34.4% of total outstanding. This was due to earlier concerns that inflation especially in US has not peaked and that narrowing interest rate differentials was an impediment for investments. Added to that was the delicate political landscape leading up to GE15 which was held in November, posing uncertainties despite attractive emerging values for MGS/GII. **However, total MYR Government bonds (MGS+GII+SPK) holdings saw net inflows of RM1.2b instead to RM223.5b (representing 22.1% of total outstanding) versus prior month's substantial fall of RM3.9b;** amid net issuances of RM6.0b for the month (Oct: RM15.0b). Meantime, **12-month cumulative rolling outflows recovered partially to RM4.20b (prior month: -RM9.06b).** Foreign participation in both secondary market and auction exercises were muted amid the lower foreign holdings as investors stayed sidelined as EM bond yields surged higher despite the backdrop of stronger ASIA FX levels. Nevertheless, the well-diversified base and appetite of local investment Institutions namely GLIC's, pension funds, insurance companies and the likes of asset management companies is provided support in the Fixed Income space; resulting in lower overall yields for the month.

Separately, equity inflows saw a smaller outflows in November @ RM282m (Oct 2022: -RM594m) whilst the 12-month rolling inflows fell from RM4.99b to RM4.54b. On the currency side, the MYR strengthened further against USD to 4.4445 as at end-November (end-Oct: 4.7267) and currently trading at 4.4165 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM raised OPR to 2.75% as expected; leaving the door open for further hikes in 1Q2023…

To recap, BNM made its 4th straight 25bps rate increase in the OPR to 2.75% on 3rd November, as per our house projection. We opine that the decision was predicated upon continued positive growth prospects in the Malaysian economy, emerging signs of demand-pull inflation and second round price effects, as well as higher volatility in the financial markets due to insistent rate hikes by major central banks specifically the Fed.

However, although BNM acknowledged downside risks to growth due to rising cost pressures, tighter global financial conditions, and containment measures in China; it stopped short of highlighting any concerns of potential global recession. It expects many central banks to continue raising rates to manage persistently high and stubborn inflationary conditions and is wary of the increased volatility in the financial markets and its implications to the major and also emerging economies.

Given that the newly-elected government may continue to implement many aspects of the expansionary National Budget 2023 which was unveiled earlier, we opine that there is greater policy flexibility for further normalization in monetary policy to tackle inflation. Hence, we are expecting further OPR hike at a measured pace of 25bps, bringing the OPR to 3.00% by 1Q2023. The Ministry of Finance (MOF) expects the Malaysian economy to register a stronger recovery in 2022, in the range of 6.5-7.0%. This marked an upward revision from the 5.5-6.5% levels first projected last October during National Budget 2022, and was above the 5.3-6.3% growth range projected by BNM back in March this year. **This latest forecast by MOF is a tad below our inhouse revised forecast of +8.2**% (2021: +3.7%).

Jaded interest seen for new coupon offerings in November despite relatively low net issuances of RM6.0b compared to prior month's RM15.0b…

The three (3) auctions in September 2022 saw average BTC ratios drop further to @ 1.67x (Oct: 1.86x); well below the 2.0x handle. The highest BTC of 2.243x among the three (3) auctions was notched by the relatively new reissuance of 30Y GII 5/52 which saw strong participation from insurance companies and pension funds, resulting in a relatively decent tail of 4.2bps. The other auctions consisted of the re-opening of 7Y GII 7/29 and the re-opening of 5Y MGS 11/27 which saw weaker covers of between 1.46-1.59x. Nevertheless, the three (3) auctions in November mentioned herewith saw slightly higher individual sum of bids amounting to between RM5.6-8.0b. Since there were RM8.5b worth of maturities in November compared to actual issuances of RM14.5b, demand for auctions were decent as issuances had the benefit of maturities being ploughed back into the MYR government bond space to take advantage of the elevated interest rate environment for potential accretive yield-carry requirements. Our YTD projection of gross issuances of RM162.5b is lower than the actual issuances of RM167.5b for 2022. To recap, total govvies maturities for 2022 are RM78.2b (2021: RM73.7b), with our projected gross issuances at RM167.0b for this year. We opine from the change in government post GE-15, the prior unveiling of National Budget 2023 may still see elevated deficit and necessitate high gross issuances of ~RM172b next year.

MGS/GII issuance pipeline in 2022

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	5-yr reopening of MGS (Mat on 11/26)	5	Jan	Q1	6/1/2022	5,000	5,000		5,000	2.329	3.235	3.273	3.290	39.4%
2	10.5-yr new Issue of MGS (Mat on 7/32)	10	Jan	Q1	13/1/2022	4,500	4,500		9,500	2.044	2.615	3.582	3.598	51.6%
3	15-yr Reopening of GII (Mat on 07/36)	15	Jan	Q1	28/1/2022	4,500	3,000		12,500	2.574	4.147	4.161	4.180	30.0%
4	5-yr Reopening of GII (Mat on 09/27)	5	Feb	Q1	7/2/2022	4,500	5,000		17,500	1.733	3.470	3.495	3.512	47.6%
5	30-yr Reopening of MGS (Mat on 06/50)	30	Feb	Q1	14/2/2022	4,500	2,500	2,500	22,500	2.423	4.488	4.505	4.520	34.1%
6	7-yr Reopening of GII (Mat on 10/28)	7	Feb	Q1	21/2/2022	4,500	4,500		27,000	1.750	3.587	3.612	3.629	50.0%
7	15-yr Reopening of MGS 04/37	15	Mar	Q1	4/3/2022	4,500	3,000		30,000	1.986	4.048	4.064	4.078	87.6%
8	20-yr Reopening of MGII 09/41	20	Mar	Q1	17/3/2022	4,500	2,500	2,500	35,000	1.884	4.375	4.401	4.427	88.0%
9	3-yr Reopening of MGS 03/25	3	Mar	Q1	30/3/2022	5,000	5,500		40,500	1.666	3.210	3.239	3.255	69.2%
10	10.5-yr New Issue of MGII (Mat on 10/32)	10	Apr	Q2	6/4/2022	4,000	4,500		45,000	2.503	4.165	4.193	4.203	30.7%
11	20.5-yr New Issue of MGS (Mat on 10/42)	20	Apr	Q2	12/4/2022	5,000	2,500	2,500	50,000	1.918	4.653	4.696	4.730	32.0%
12	15-yr Reopening of MGII 07/36	15	Apr	Q2	21/4/2022	4,000	2,500	2,500	55,000	1.879	4.750	4.826	4.869	50.0%
13	7-yr New Issue of MGS (Mat on 04/29)	7	Apr	Q2	28/4/2022	4,500	5,000		60,000	2.196	4.470	4.504	4.520	96.8%
14	30-yr New Issue of MGII (Mat on 05/52)	30	May	Q2	12/5/2022	5,000	2,500	500	63,000	2.570	5.255	5.357	5.400	49.0%
15	10-yr Reopening of MGS (Mat on 07/32)	10	May	Q2	23/5/2022	5,000	4,500		67,500	2.598	4.243	4.294	4.310	10.0%
16	3-yr Re-issuance of MGII 10/25	3	May	Q2	30/5/2022	4,500	5,000		72,500	3.632	3.511	3.539	3.550	100.0%
17	15-yr Reopening of MGS 04/37	15	Jun	Q2	8/6/2022	4,000	3,000	2,500	78,000	2.211	4.565	4.599	4.618	4.6%
18	5-yr Reopening of MGII 09/27	5	Jun	Q2	22/6/2022	4,000	4,500		82,500	3.133	4.135	4.155	4.167	100.0%
19	30-yr Reopening of MGS 06/50	30	Jun	Q2	29/6/2022	4,000	2,500	2,500	87,500	2.459	4.930	4.959	4.974	30.0%
20	10-yr Reopening of MGII (Mat on 10/32)	10	Jul	Q3	14/7/2022	5,000	3,500	2,500	93,500	3.105	4.090	4.117	4.129	58.3%
21	20-yr Reopening of MGS (Mat on 10/42)	20	Jul	Q3	21/7/2022	5,000	2,500	2,500	98,500	2.656	4.585	4.598	4.607	37.0%
22	7-yr Re-issuance of MGII 07/29	7	Jul	Q3	28/7/2022	5,000	4,500		103,000	2.403	3.900	3.917	3.927	43.3%
23	5-yr Re-issuance of MGS 11/27	5	Aug	Q3	4/8/2022	5,000	5,000		108,000	2.044	3.770	3.798	3.808	38.3%
24	20-yr Reopening of MGII 09/41	20	Aug	Q3	12/8/2022	5,000	3,000	2,500	113,500	2.742	4.383	4.410	4.435	81.4%
25	15-yr Reopening of MGS 04/37	15	Aug	Q3	29/8/2022	5,000	2,500	2,500	118,500	2.244	4.210	4.249	4.272	85.0%
26	3-yr Reopening of MGII 10/25	3	Sep	Q3	14/9/2022	4,500	5,000		123,500	1.836	3.450	3.474	3.483	66.4%
27	7-yr Reopening of MGS (Mat on 04/29)	7	Sep	Q3	22/9/2022	5,000	5,000		128,500	1.662	4.190	4.232	4.275	37.5%
28	15.5-yr New Issue of MGII (Mat on 03/38)	15	Sep	Q3	29/9/2022	5,000	4,500		133,000	2.383	4.600	4.662	4.690	80.3%
29	3-yr Reopening of MGS 03/25	3	Oct	Q4	6/10/2022	5,000	5,000		138,000	1.920	3.800	3.823	3.837	5.7%
30	10-yr Reopening of MGII (Mat on 10/32)	10	Oct	Q4	13/10/2022	5,000	3,500	2,500	144,000	1.739	4.480	4.506	4.533	16.7%
31	20-yr Reopening of MGS (Mat on 10/42)	20	Oct	Q4	28/10/2022	5,000	2,500	1,500	148,000	1.913	4.750	4.795	4.810	86.1%
32	7-yr Reopening of MGII 07/29	7	Nov	Q4	7/11/2022	4,500	5,000		153,000	1.457	4.430	4.486	4.530	55.6%
33	5-yr Reopening of MGS 11/27	5	Nov	Q4	14/11/2022	4,500	5,000		158,000	1.593	4.250	4.281	4.300	71.1%
34	30-yr Reopening of MGII (Mat on 05/52)	30	Nov	Q4	29/11/2022	4,000	2,500	2,500	163,000	2.243	4.726	4.768	4.810	56.7%
35	10-yr Reopening of MGS (Mat on 07/32)	10	Dec	Q4	7/12/2022	4,500	4,500		167,500	1.707	4.009	4.063	4.090	40.5%
36	3-yr Reopening of MGII 10/25	3	Dec	Q4		4,500								
	Gross MGS/GII supply in 2022					167,000	135,500	32,000	167,500	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

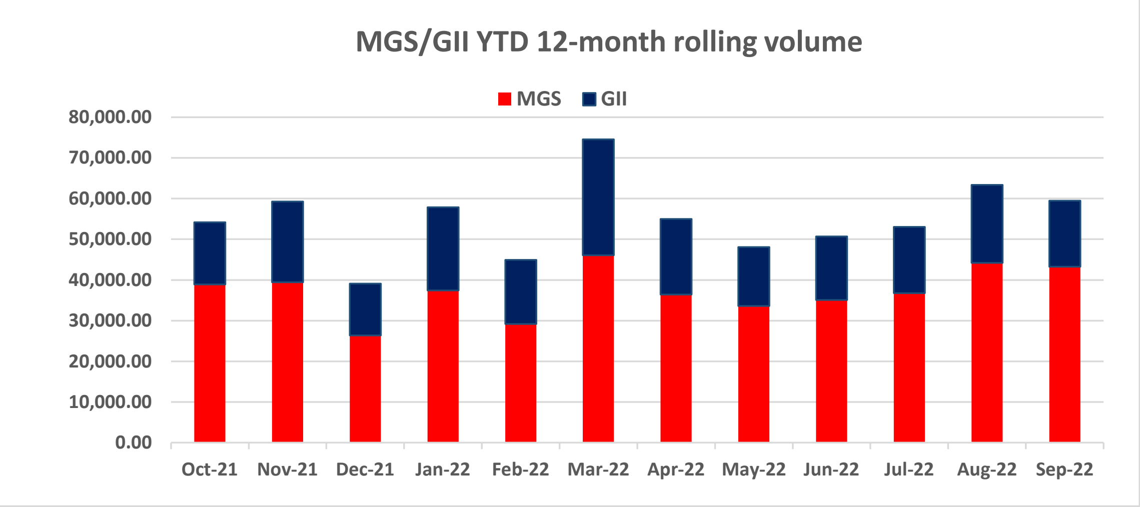
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market saw robust activity in November…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds jumped higher by 58.2% m/m to RM51.9b in November compared to prior month's RM32.8b. Activity was strong despite the earlier hawkish FedSpeak rhetoric which tapered off post November's 75bps rate hike as talk of recessionary fears made its rounds instead. Bonds were well-bid over potential fears over a possible economic slowdown as indicated by the deeper inversion in the yield curve. Many investors initially were sidelined ahead of the GE 15 which was concluded with the new coalition successfully forming a unity government. Nevertheless, confidence returned with a strong initial knee-jerk reaction seen in both fixed income and equities markets. The relatively strong GDP (14.2% y/y 3Q), coupled with lower trajectory in inflation (Oct: +4/0% y/y) was positive for bonds. The new government is expected to exercise fiscal prudence with the likelihood of maintaining the projected reduction in the fiscal deficit expected at 5.8% of GDP this year; improving to 5.5% in 2023. Strong secondary market activities were still led and supported by both local institutions that included pension funds, inter-bank participants, local GLIC's and real money investors that include Lifers and foreign financial institutions. Some notable movements during the month under review were as follows:

- Both MGS/GII curves shifted lower in almost parallel fashion extending out from 5Y, with the largest deviation yield-wise seen in both 20Y sectors.
- MYR IRS levels declined 3-6bps for 1-10Y tenures.
- Bulk of the volume was seen in the short-ends such as MGS 3/23, 4/23 and 8/23 which accounted for almost 22% of overall volume; followed by the 5Y benchmark MGS 11/27.

Expect lesser bouts of volatility as earlier event risk consisting of GE 15 subsides with bonds being supported by either side of views i.e.; being safe-haven or even peaking rates which would encourage strong participation in anticipation of potential capital gains in the bond asset class. We also expect greater receiving interest in IRS movements corelated to potential peaking interest rate outlook.



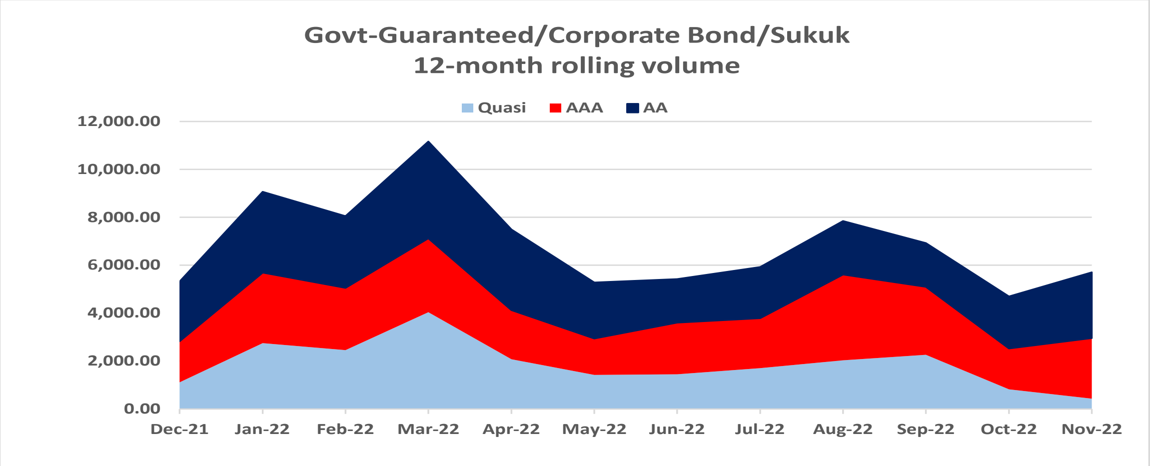
Source: BPAM, Bloomberg, HLBB Global Markets Research

Corporate Bonds/Sukuk see ramp-up in secondary market activity for November…

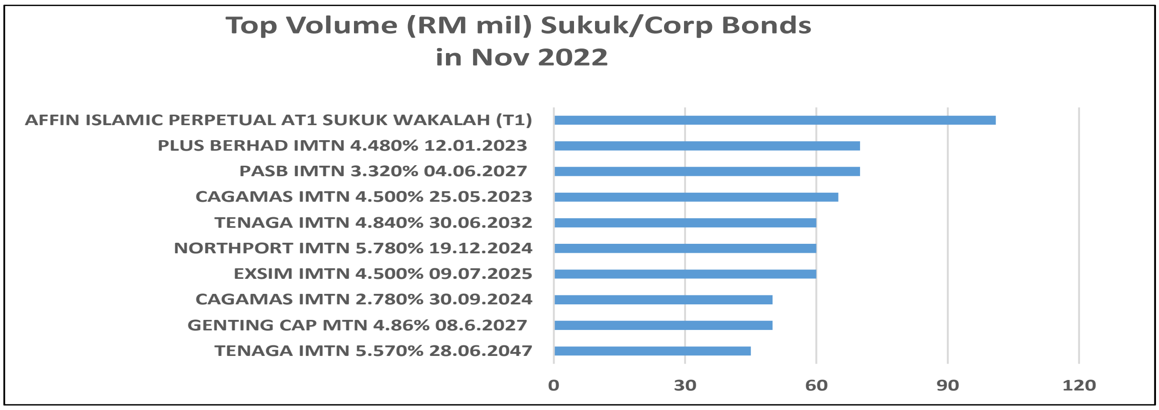
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) took cue from govvies and saw trading volume increase by 4.8% in the secondary market to RM5.43b in November (Oct: RM5.18b). The better appetite and momentum saw appetite for yield-carry overwhelm potential hikes in interest rate environment both in the US and in Malaysia. Interestingly, the higher primary issuances for the month which saw decent take-up rates and were fully subscribed did little to impact appetite in the secondary market. The Govt-Guaranteed (GG)-segment saw the 5-20Y tenures tightening the most between 20-30bps to between 4.22-4.92%. The AAA-rated space similarly saw tenures between 10-20Y richer between 18-25bps; with levels around 4.81-5.26%. The AA2-segment too saw yields settle lower between 17-22bps for 10-20Y tenures; resulting in yields closing within the ranges of 5.10-5.76% area. The sweet spot area is still seen in the 7Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits climb by RM240m to RM13.6b.

Total transactions for GG bonds in November fell sharply again to form a mere 7.5% (Aug: 17.4%) of overall volume. AAA-rated papers however saw total trades sustain to form ~44.2% of overall trades. The AA-space similarly saw its market share to spike with secondary market trades at 48.3% share of overall investor interest (Oct: 26.6%). The GG-space continued to be spread among names like DANAINFRA, LPPSA and PRASARANA. **Bonds that garnered top volume for the month were Affin Islamic Perp AT1 2117NC23 (A3) which spiked 52bps compared to previous-done levels to 4.59%, followed by PLUS 1/23 (AAA) which rose 6bps to 3.31%. Third was PASB 6/27 (A1) which jumped 21bps higher to 4.40%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-27's conglomerates (e.g.; MMC Corp 27-29's, Genting-related bonds), Khazanah-related funding conduits i.e.; SPV's (i.e., DANGA 24-30's, DANUM 23-35's), utilities provider i.e. telco/water/power (i.e. PASB 23-30's, TENAGA 30-47's), construction/property/plantation (i.e. AMAN 23-29's, UEM Sunrise 23-25's), energy and power (i.e. Sarawak Petchem 28-37's, EDRA 29-36's, BGSM 24-27's, SEB 24-29's), tolling i.e. PLUS 23-37's, IMTIAZ 25-29's, PMETAL 24-28's, WESTPORT 23-27's and TG Excellence perps 2120NC25. The banking/finance sector saw frequent odd-lot denominated trades in Malaysian RE 2032 callable bonds, Alliance Bank 2030, 2035 callable, AmBank 2032 callable, MAYBANK 2031 callable and perps, RHB 2032 callable, CIMB 2032 callable, SABAH Development Bank 23-27's and UOB 2032 callable bonds. Other odd-lot denominated trades were seen in MYEG 27's, YNH Properties 25-27 and its perps, Eco Capital 24's, Eco World Capital 26-27's, LBS Bina perps, Tropicana 23-26'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-22	Rating	Amount Issued (RM mil)
BBT MTN 457D 23.2.2024	NR	310
BGRB VENTURE IMTN T3S3 7.000% 30.11.2023	NR	4
CAGAMAS IMTN 3.580% 27.11.2023	AAA	3,790
CIMB Islamic Bank Berhad	AA1	300
DanaInfra Nasional Berhad	GG	1,250
Imtiaz Sukuk II Berhad	AA2	500
JB Cocoa Sdn Berhad	A1	100
MMC Corporation Berhad	AA3	300
MY E.G. Services Berhad	AA3	150
Pengurusan Air SPV Berhad	AAA	200
Petroleum Sarawak Exploration & Production Sdn Berhad	AAA	1,500
Ranhill Solar Ventures Sdn Berhad	AA3	145
Sunway Treasury Sukuk Sdn Berhad	NR	100
Tumpuan Azam Sdn Berhad	NR	12
Tanjung Pinang Development Sdn Berhad	NR	22
West Coast Expressway Sdn Berhad	NR	6
Yinson Holdings Berhad	NR	250
YTL REIT MTN Sdn Berhad	NR	265
Zamarad Assets Berhad	AA2	219
		9,424

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances fell by 53.6% from RM16.1b in October to RM9.4b in November. Some of the prominent issuances consisted of Danainfra Nasional Bhd's government-guaranteed, 7-30Y bonds totaling RM1.25b with coupons ranging between 4.63-5.29% and Petroleum Sarawak Exploration & Production Sdn Berhad's AAA-rated 5-10Y bonds totaling RM1.5b with coupons ranging between 5.08%-5.39%.

Outlook for December 2022

Expect lesser volatility in USTs as peak terminal rates are deemed nearing its peak with bonds finding better support…

The Federal Reserve will have its next FOMC meeting on **15th of December for which we see a high probability of a 50bps rate hike**. The just-released CPI for November came in lower at 7.1% y/y from 7.7% prior month and 0.1% m/m from prior month 0.4%~ marking the lowest levels since end-2021. Inflationary pressures are believed to be slowly moderating as energy prices ease and supply chain improves. The Treasury implied volatility, denoted by the ICE BofA MOVE index declined from the highs last seen recently in October. The impediment (if any) for a less-aggressive stance in interest rates is the continuous strength in jobs data in the guise of NFP.

The larger-than-expected deceleration in October core PCE and November CPI will lend credence to the case for a more gradual pace of rate hikes at coming FOMC meetings. This came on top of earlier smaller-than-expected rise in October's CPI. FedSpeak event which saw several officials turn less hawkish saw Fed Chair Powell stating that policy-makers could slow the pace of interest rate increases as soon as the December meeting. The Fed's ongoing QT exercise is well-absorbed and non-threatening to existing market operations whilst participation in US Treasury coupon issuances across most maturities in 4Q2022 are expected to be strong. The continuous prominence in yield curve inversion denoted by the 2s10s spread cannot be discounted as a reliable predictor of a potential recession. Swaps traders now continue to price in anticipated rate hike of 50bps in arriving at an implied rate of ~4.35% levels as at end-2022. **We opine that the yield curve could potentially shift slightly lower as pent-up views over aggressive rate hikes may ease as the impact of earlier rate hikes filter into the economy.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) reversed into a gain of 5.2% in November (Oct: -1.0 %); amid the tightening in OAS spreads to 131bps from 154bps in October. Investor concerns over deterioration in credit conditions may are expected in view of persistent elevated rates and the deep inversion in the yield curve eventually impacting the economy. We expect issuance to be in the region of $25b in December, well-below the record-breaking issuances exceeding $100b in November. Maturities are circa $26b with bulk from the financial sector. Meanwhile, the Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also went into positive territory i.e.; with a 2.2% gain in November 2023 whilst spreads maintained at ~462bps. Overall, US bond funds have seen ~$12b of outflows in November, a notable shift from the YTD average of $6b in monthly outflows with financial Institutions, namely banks, insurance and asset management entities being net sellers for now.

The UST 10Y is expected to range between 3.60-3.80%; much lower compared to our previous month forecast; finding support at key 3.80% levels for this month. We maintain a slightly positive bias for nominal UST as concerns eventually abate over persistently stubborn inflation. We favor IG credits that come with strong balance sheets with especially in basic materials and industry, energy and telecommunications which have higher adjusted spreads. We also prefer to remain neutral on MBS sector which forms the backbone of the USD$9 trillion mortgage market as risk/reward appears more balanced after the recent spread tightening of ~35bps in a roaring performance in November (YTD returns remain weak at ~12% amid elevated interest rate environment). Meantime, corporates with stronger balance sheets may allow for the squeeze out extra basis points i.e.; higher yields than USTs which will benefit portfolios. We see better value in rolls down from 7Y to 5Y tenures amid attractive carry proposition. Despite expectations for softening inflationary pressure, we are still comfortable with being slightly overweight on inflation-linked bonds.

Expect volatility as low volumes are expected to dominate due to low staffing levels and book-closing activities…

The three (3) auctions in November 2022 saw average BTC ratios drop further to @ 1.67x (Oct: 1.86x); well below the 2.0x handle. The slightly lower-than-expected final auction for the year consisting of the reopening of RM4.0b of 3Y GII 10/25 on 16th of December is likely to see active participation mainly by inter-bank participants. However, on the local scene, the net govvies issuances for December month is expected to see an increase in net issuances **(projected gross issuances > maturities)**; **of RM8.50b compared to RM6.0b in November; with a slight impact on bond liquidity**. Nevertheless, expect primary and secondary market support to be forthcoming; judging by the well-diversified profile and depth of local investment institutions whilst inter-bank participants continued to maintain relatively active portfolios. This should augur well and is expected to provide some stability for bond yields. The total actual govvies issuances for 2023 @ RM171.5b is higher than our initial forecast of RM167.0b.

Expect decent support albeit on lower volumes as fund-managers embark in book-closing activities. The potential low-staffing levels in view of year-end holidays and festivities may easily contribute to gapping levels for the month. MYR is expected to remain stable following further clarity in the new government's monetary and fiscal policy matters going forward with expectations of a slight revision to the recent release of National Budget 2023. Expect attention to focus on the release of the govvies auction calendar for next year. We have revised our full-year 2022 growth to 8.2% whilst maintaining 4Q2022 growth at 4.5%. On the macro front, the MOF expects the Malaysian economy to expand at a faster pace of 6.5-7.0% this year, before tapering off to 4.0-5.0% in 2023. We have revised upwards our full-year GDP forecast for 2022 to 8.2% but maintain 4Q2022 at 4.5%. (Note: our 2023 projection remains unchanged at +4.2%). Meanwhile, we foresee the focus is on continuous policy tightening, increased volatility, potential fallout in the financial and foreign exchange markets, and China development. Hence, as we believe there is greater policy flexibility for further normalization in monetary policy to tackle inflation; **we therefore expect further OPR hike, probably at a measured pace of 25bps, bringing the OPR to 3.00% by 1Q2023.**

The Sukuk/Corporate Bond space is expected to see demand as yield pick-up remains attractive whilst credit quality remains steadfast under the current steady economic climate. We expect the 10Y MGS yield to maintain its higher trading range between 4.00-4.20% support pegged at 4.20% levels. The 3Y MGS and 7-10Y MGS/GII sectors currently reflect relative value from term-premium perspective. In the corporate bonds/Sukuk space, we favor the 2-3Y GG (18-20 bps), 3-5Y AAA (49-54bps) and 7-10Y AA2-rated bonds (82-92bps), within sectors comprising utilities i.e.; water/electricity, highway/toll and port operators, telecommunications, and power/energy sectors.

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