Monthly Fixed Income Perspective –

Sep 23 review & Oct 23 outlook

US Bond market

- **In September**, US Treasuries (UST's) saw a turbulent month and pressured lower over the Fed's "higher for longer" stance, inflation worries, deluge of supply, and worries over US credit rating which left buyers sidelined. The large US Treasury's coupon offerings of 2Y, 3Y, 5Y 10Y and 20Y via auctions totaling $189b coupled with both higher US September preliminary manufacturing and services PMI and steady final reading of 2Q2023 GDP did not support bonds either. The curve bear-steepened again as overall benchmark yields saw a hefty surge between 18-49bps (prior month: 0-20bps higher). **The UST 2Y yield jumped 18bps higher to 5.05% whilst the UST 10Y spiked 46bps to 4.57%.** At the time of writing, these levels are trading mixed at 4.97% and 4.64% respectively. Meanwhile, foreign holdings of USTs rose in July to ~$7.65 trillion, the highest since February 2022 with Cayman Islands and Japan increasing their holdings (quantum-wise) most to $296b and $1.11 trillion each. Meanwhile, the 2s10s part of the curve became less inverted from -76bps as at end-August to -48bps as at end September, and presently narrowed further to -32bps.

- **For October**, expect USTs to continue with volatile movements due to constant "flux' in news on inflation reading, jobs data & potential recessionary conditions that could be hastened due to elevated interest rate regime. Support for bonds is expected due to safe-haven bids arising from Israel-Hamas war in the Middle-East. **The yield curve may steepen as policy-sensitive shorter-ends react to the narrative that the nearing of peak terminal rates is within easy reach; taking account the effects of earlier rates increase into the economy**. The barometer of investors' inflation expectations i.e.; the 5Y breakeven inflation rate for 5Y TIPS, which rose 8bps m/m to 2.25% as at end-September); has faded again to ~2.20% levels again. Fed-dated OIS pricing currently reveals a mere 12% chance of a 25bps rate hike November FOMC, despite ongoing Middle-east conflict that could reignite inflation risks. **The UST 10Y is still expected to range between 4.50-4.70%, key with price support 4.70% equivalent levels for this month.** We remain averse to HY credits as tighter credit conditions and higher funding costs become a bane. We foresee mild appetite for yield pick-up within the IG universe in October. **We still prefer to long duration to within 7-10Y in banking/finance companies, communications, and consumer non-cyclicals sectors.**

MYR Bond Market

- **In September**, the curve shifted up as benchmark govvies closed higher between 10-17bps. The benchmark 5Y MGS 4/28 yield closed 11bps higher at 3.71% whilst the 10Y MGS 11/33 spiked 13bps to 3.97%. At the time of writing however both yields are higher @ 3.79% and 4.07% respectively. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings remained constant representing 23.0% of total outstanding to RM252.1b.** The primary factors which drove bond movements were hawkish interest rate outlook in the US emanating from elevated inflationary pressures and strong economic data coupled with a weaker MYR against the greenback. OPR stayed pat as per our expectations. The three (3) auctions in September 2023 saw average BTC ratios fell to ~ 1.80x (Aug: 2.04x) thus, falling below the 2.0x handle.

- **For October,** expect range-bound trading with attention on the upcoming unveiling of National Budget 2024 with concerns over the deluge of supply making it an arduous task for the government to rein in fiscal deficit. However local institutions are expected to be unfazed; thus, providing momentum for govvies in both primary and secondary markets. We foresee stronger demand for corporate bonds/sukuk for yield-carry requirements. **The 5Y GII, 7Y MGS and 20Y MGS sectors reflect decent term premium along the curve. We expect the 10Y to inch slightly higher within a range of 3.90-4.10% with support pegged at 4.10% levels. We expect the Sukuk/Corporate Bond space to attract relatively strong demand on yield pick-up requirements as credit and liquidity conditions remain steady with a dearth of supply.** We favor the 10Y GG (~15bps), 5Y AAA (~35bps) and 15-20Y AA2-rated bonds (~60-67bps) in banking cum finance, utilities, and infrastructure sectors.

MYR sovereign curve (MGS)

Source: Bloomberg

Blow-out NFP data in September but finer details reveal weaker household employment, soft increase in wages and flat reading for hours worked…

September Non-Farm Payrolls ("NFP") of 336k was higher than consensus estimates of 170k but with previous two month's figures revised higher by 119k, reflecting a still strong economy unperturbed by the Fed 's steep rate hikes. The unemployment rate remained at 3.8%. Payroll gains were broad-based led by the seasonal gains due to consumption binge on leisure and hospitality sectors, healthcare, professional followed by technical services. The participation rate also held steady at 62.8%. The average hourly wages saw similar growth of 0.2% m/m and a mild easing to 4.2% y/y (prior month: 4.3%) as more people were believed to have returned to the labor force. An important take-away from the jobs report card is that part-time workers formed almost half of the increase compared to what was seen in recent months, suggesting that potential recessionary conditions cannot be discounted in months to come.

To recap, the Fed maintained the Fed Funds Target Rate at 5.25- 5.50% at its recent FOMC meeting on 21st September, after eleven (11) earlier hikes totaling 525bps between 17th March 2022 and 26th July 2023. **The Fed's median FOMC dot plot pins target rate at ~5.63% for 2023. However, data from the Fed Fund Futures and CME FedWatch Tool's analysis now reflect traders' hypothetical expectations of 30% and 14% each for a 25bps rate hike at the next FOMC meeting on 1st of November with peak terminal rate of ~5.45% in December.** Meantime, we note that the Fed's ~$8.12 trillion balance sheet as at end-August inched lower to $8.00 trillion as at end-September.

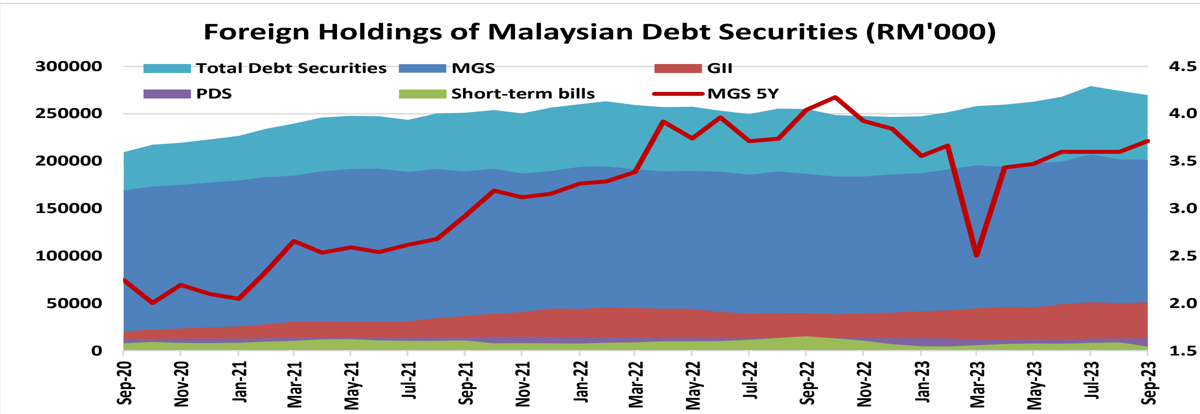
Moving on to other economic data, we note the jump in both September manufacturing data i.e.; US manufacturing PMI at 48.2 (Aug: 47.9) and solid gains in ISM manufacturing data at 49.0 in September versus 47.6 in August. Separately, the Fed's preferred inflation measure, the core PCE eased to 0.1% m/m (July: 0.2%) and fell to +3.9% y/y in August (July: +4.2%). Hence, when viewed together with the NFP jobs data; one could be pardoned for the confusion on the uncertain outlook for interest rates which may induce further volatility for both USTs and corporate bonds.

Further pullback in foreign holdings of overall MYR bonds by RM4.4b as offshore interest eased…

Foreign holdings of overall MYR bonds saw a decrease of RM4.4b or 1.6% m/m in September (Aug: -RM5.0b or 1.8%) to RM269.7b mainly due to the fall in MITB's which more than offset the slight increase in GII holdings. Non-resident holdings of MGS eased by a mere RM500m or 0.2% to RM201.3b (prior month: -RM5.2b or 2.5%), thus forming a lower 35.8% of total outstanding. Foreign holdings of GII however rose slightly by RM500m to RM50.8b; reaching close to the historical high to RM51.0b seen in July. Movements in bond yields were largely tied to the underlying USDMYR levels and interest rate outlook in the US. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings remained constant at RM252.1b, representing 23.0% of total outstanding;** amid the rise in net issuances to RM14.5b for the month (Aug: net issuances of RM9.0b); for which the absence of rollover from maturities was believed to have dampened appetite for primary issuances. Meantime, **12-month cumulative rolling inflows decreased to RM25.9b (prior month: RM23.5b).**

However, we also note that the secondary market disappointed with regards to foreign participation; similar to coupon offerings via auction exercises in September, despite several of its peers like Thailand and Singapore seeing tighter spreads than Malaysia sovereign debt. Nevertheless, the presence of well-diversified investor-base and local investment institutions namely GLIC's, pension funds, GLC's, insurance companies, asset management and unit trust companies with sizeable funds are seen to provide support in the fixed income space.

Separately, equity saw higher inflows of RM674m in September (Aug: +RM141m) whilst the 12-month rolling outflows decreased to RM4.2b in September from RM6.5b in August. On the currency side, the MYR weakened against USD at 4.6953 as at end-September (end-Aug: 4.6385) and has further weakened to 4.7315 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM left OPR unchanged again at 3.00% as expected amid moderating growth and inflation outlook…

BNM maintained the OPR at 3.00% in line with our house view at the MPC meeting on 7th of September amid moderating domestic growth and inflation outlook. The policy statement continued to mirror July's statement but the largest takeaway is the removal of the "slightly accommodative" phrase which highlights that the current OPR level is consistent with the current assessment and supportive of the economy (to recap BNM embarked on five (5) rate hikes totaling 125bps since May-2022). In its assessment, BNM said the world economy continues to expand, underpinned by resilient domestic demand but slower than expected recovery in China is weighing on the global economy. Global trade is also affected by the shift in spending from goods to services, in addition to the downcycle in the E&E sector. Domestically, the Malaysian economy is expected to see continued growth moderation in the second half of the year amid lingering weakness in external demand and telltale signs domestic consumption is levelling off, compounded by the high base in the second half of last year. This, coupled with softening inflationary outlook, reinforced our view that **BNM will keep OPR unchanged at 3.00% for the rest of the year.**

Muted participation seen for September auctions amid high net issuances of RM9.0b…

The three (3) auctions in September 2023 saw average BTC ratios fall to ~ 1.80x (August: 2.04x); slipping below the 2.0x handle. The highest BTC of 2.167x among the auctions was notched by the re-opening of 3-year GII 9/26 which saw demand mainly from participants such as inter-banks, DFI's, insurance companies and offshore FI's, resulting in a short tail of a mere 0.7bps. The other auctions consisted of the re-opening of 30Y MGS 3/53 and 5Y GII 7/28. Together, all three (3) auctions in September however saw slightly higher individual sum of bids amounting to between RM6.6-9.8b. Demand for auctions were muted despite private placement offerings which did sap some appetite from the larger investment institutions. The unavailability of rollover maturity benefits in September (similar in August) in the Malaysian government bond space dampened primary participation. Nevertheless, fresh funds were still seen more in the secondary market compared to the primary auction market; with offshore funds showing some interest in shorter-tenured off-the-runs and existing 3-10Y benchmarks. Elsewhere, the GOM has an arduous task to reduce its overall debt, including liabilities covering guarantees of almost RM1.5 trillion and statutory debt of ~ RM1.1 trillion (60.4% of GDP); given higher-than-projected YTD gross govvies issuances of RM149.5b versus our run-rate of RM140.5b

MGS/GII issuance pipeline in 2023

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	10-yr reopening of MGII (Mat on 10/32)	10	Jan	Q1	6/1/2023	4,500	4,500		4,500	2.093	4.109	4.135	4.147	58.3%
2	15-yr Reopening of MGS (Mat on 6/38)	15	Jan	Q1	13/1/2023	4,500	3,000	2,500	10,000	2.825	4.110	4.151	4.160	73.3%
3	5.5-yr New Issue of MGII (Mat on 07/28)	5	Jan	Q1	27/1/2023	5,000	5,000		15,000	3.395	3.580	3.599	3.610	80.8%
4	7-yr Reopening of MGS (Mat on 04/30)	7	Feb	Q1	3/2/2023	4,500	5,000		20,000	2.460	3.610	3.656	3.660	25.0%
5	20.5-yr New Issue of MGII (Mat on 08/43)	20	Feb	Q1	13/2/2023	5,000	2,500	2,500	25,000	2.662	4.257	4.291	4.308	87.5%
6	3-yr Reopening of MGS (Mat on 07/26)	3	Feb	Q1	20/2/2023	4,500	5,500		30,500	1.691	3.438	3.458	3.472	10.0%
7	15-yr Reopening of MGII 03/38	15	Feb	Q1	27/2/2023	5,000	3,000	2,500	36,000	1.986	4.160	4.177	4.188	27.8%
8	10-yr Reopening of MGS 07/32	10	Mar	Q1	3/3/2023	4,500	4,500		40,500	1.670	4.035	4.066	4.089	28.3%
9	7-yr Reopening of MGII 09/30	7	Mar	Q1	14/3/2023	4,500	5,000		45,500	1.586	3.760	3.792	3.814	100.0%
10	30-yr New Issue of MGS 03/53	30	Mar	Q1	30/3/2023	5,000	2,500	2,500	50,500	1.970	4.370	4.457	4.489	65.5%
11	10-yr Reopening of MGII (Mat on 10/32)	10	Apr	Q2	7/4/2023	4,500	4,500		55,000	2.367	3.922	3.936	3.948	15.0%
12	5-yr New Issue of MGS (Mat on 04/28)	5	Apr	Q2	19/4/2023	5,000	5,000		60,000	2.434	3.500	3.519	3.528	72.4%
13	30-yr Reopening of MGII 05/52	30	Apr	Q2	26/4/2023	4,500	2,500	2,500	65,000	2.153	4.270	4.294	4.308	51.8%
14	7-yr Reopening of MGS (Mat on 04/30)	7	May	Q2	11/5/2023	4,500	5,000		70,000	2.183	3.590	3.604	3.615	81.7%
15	20-yr Reopening of MGII (Mat on 08/43)	20	May	Q2	23/5/2023	5,000	3,000	2,500	75,500	1.747	4.155	4.182	4.207	28.0%
16	15-yr Reopening of MGS (Mat on 06/38)	15	May	Q2	30/5/2023	4,500	3,000	1,500	80,000	2.201	3.990	4.023	4.033	48.4%
17	3-yr Reopening of MGII 09/26	3	Jun	Q2	7/6/2023	4,500	4,500		84,500	1.759	3.420	3.435	3.447	15.6%
18	20-yr Reopening of MGS 10/42	20	Jun	Q2	21/6/2023	4,500	3,000	2,500	90,000	1.877	4.168	4.195	4.208	11.8%
19	5-yr Reopening of MGII 07/28	5	Jun	Q2	28/6/2023	5,000	5,500		95,500	1.813	3.657	3.677	3.691	100.0%
20	10-yr Reopening of MGS 11/33	10	Jul	Q2	13/7/2023	4,500	5,500		101,000	2.641	3.830	3.860	3.868	50.3%
21	7-yr Reopening of MGII (Mat on 09/30)	7	Jul	Q3	20/7/2023	4,500	5,000		106,000	2.295	3.760	3.788	3.798	65.0%
22	3-yr Reopening of MGS (Mat on 07/26)	3	Jul	Q3	30/7/2023	4,500	4,500		110,500	1.908	3.455	3.483	3.498	75.9%
23	30-yr Reopening of MGII 05/52	30	Aug	Q3	7/8/2023	4,500	3,000	2,000	115,500	2.557	4.318	4.362	4.378	61.5%
24	5-yr Reopening of MGS 04/28	5	Aug	Q3	14/8/2023	5,000	5,000		120,500	1.718	3.630	3.647	3.662	41.7%
25	20-yr Reopening of MGII 08/43	20	Aug	Q3	22/8/2023	5,000	3,000	2,000	125,500	1.992	4.240	4.285	4.301	62.5%
26	15-yr Reopening of MGS 06/38	15	Aug	Q3	29/8/2023	4,500	3,000	1,000	129,500	2.118	4.030	4.049	4.062	20.0%
27	3-yr Reopening of MGII 09/26	3	Sep	Q3	12/9/2023	4,500	4,500		134,000	2.167	3.528	3.539	3.546	40.3%
28	30-yr Reopening of MGS (Mat on 03/53)	30	Sep	Q3	21/9/2023	5,000	3,500	1,500	139,000	1.897	4.415	4.454	4.475	100.0%
29	5-yr Reopening of MGII (Mat on 07/28)	5	Sep	Q3	27/9/2023	5,000	5,000		144,000	1.954	3.795	3.808	3.820	15.4%
30	20-yr Reopening of MGS 10/42	20	Oct	Q4	5/10/2023	4,500	3,500	2,000	149,500	1.772	4.455	4.487	4.521	50.0%
22	10-yr Reopening of MGII (Mat on 08/33)	10	Oct	Q4	12/10/2023	4,500	5,500		155,000					
22	7-yr Reopening of MGS (Mat on 04/30)	7	Oct	Q4		5,000								
33	30-yr Reopening of MGII 05/52	30	Nov	Q4		4,500								
34	5-yr Reopening of MGS 04/28	5	Nov	Q4		5,000								
35	7-yr Reopening of MGII (Mat on 09/30)	7	Nov	Q4		4,500								
36	3-yr Reopening of GII (Mat on 09/26)	3	Dec	Q4		4,000								
37	10-yr Reopening of MGS 11/33	10	Dec	Q4		4,000								
	Gross MGS/GII supply in 2023					172,000	127,500	27,500	149,500	PROJECTED TOTAL ISSUANCE SIZE = 168-172b				

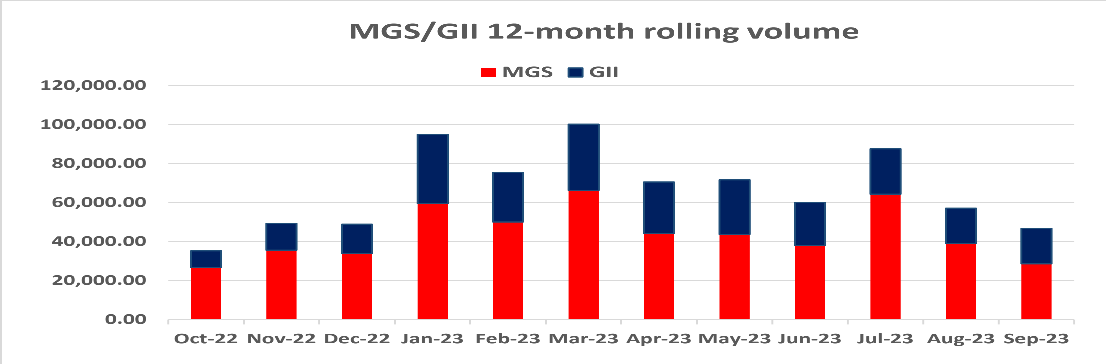
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity fell sharply again in September…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds fell to RM46.9b in September compared to prior month's RM61.7b. The quieter stance seen was due to several factors that exuded cautious stance ahead of BNM's MPC meeting, elevated US inflation, higher yield movements seen for IRS and weaker MYR against the greenback.

Secondary market flows were mainly seen among local institutions i.e.; pension funds, inter-bank participants, asset management companies, GLIC's, GLC's, Lifers with the balance by offshore parties. Notable movements during the month under review included the following:

- MGS/GII yields saw the entire curve shift upwards with prominent rises of between 10-17bps across all parts of the curve.
- MYR mid-IRS levels rose 8-20bps for tenures up to 10Y tenures compared to previous month which saw levels ease 2-5bps instead.
- Bulk of the secondary market volume was skewed more to the front-ends and belly in terms of term structure with prominent trades seen more in the off-the-run 23-25's (21.9% of overall volume), followed by benchmarks 10Y MGS/GII (10.4%) and then 5Y MGS/GII (9.6%) which altogether accounted for easily 44% of overall trades.



Source: BPAM, Bloomberg, HLBB Global Markets Research

Expect some degree of volatility over ongoing concerns over inflation mainly in the US coupled with a softer MYR. Whilst there remains no further deterioration in the US banking system presently due to strict monitoring and surveillance by the US authorities; we expect range-bound bond movements in the local bond markets.

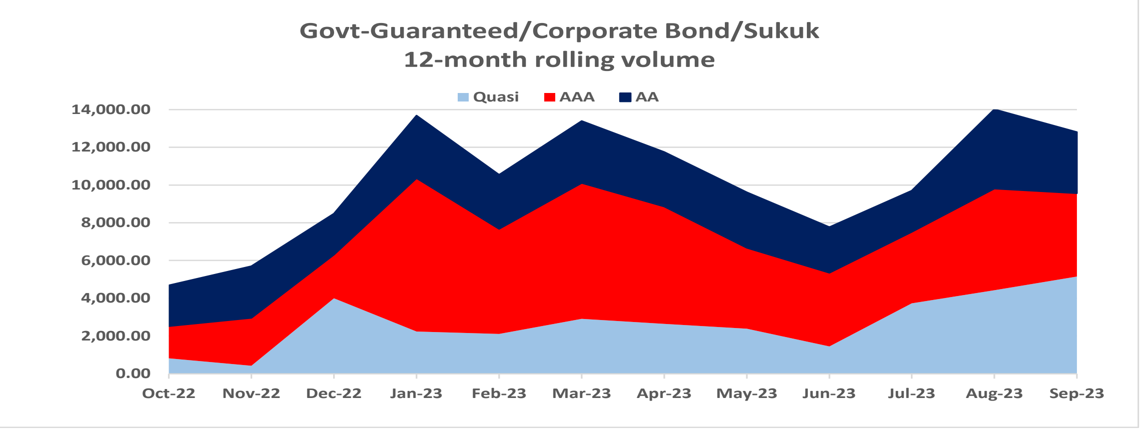
Corporate Bonds/Sukuk volumes too eased, taking cue from lower govvies momentum seen in September…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) took cue from govvies as momentum and activity eased slightly. Trading volume decreased by 7% in the secondary market to RM13.7b in September (Aug: RM14.8b) with yields ended mostly mixed-to-higher.

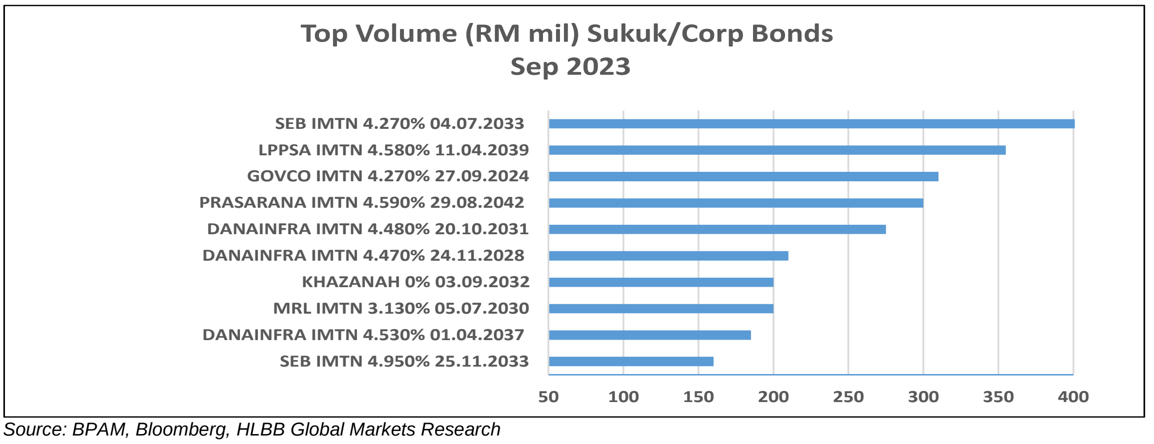
Also, the sustenance in primary issuances m/m benefitted participation and interest in the secondary market. The Govt-Guaranteed (GG)-segment saw the 5-10Y tenures widen between 9-10ps to between 3.90-4.14% levels. The AAA-rated space similarly saw tenures between 3-10Y tenures, cheaper between 8-10bps instead; with levels around 3.96-4.32%. The AA2-segment too saw yields settle higher between 6-7bps for the 3-7Y sector; resulting in yields closing within the ranges of 4.08-4.34% area. The sweet spot area for gains was between 5-7Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits inched higher to RM13.2b in September (Aug: RM13.1b).

Total transactions for GG bonds jumped higher to form 40% of overall trades in September (Aug: 32%). AAA-rated papers however eased to form ~34% of overall trades. The AA-space also saw its secondary market form a lower portion i.e.; 25% of total trades compared to 30% for the month of August. The GG-space continued to be spread among names like DANAINFRA, LPPSA and PRASARANA. **Bonds that garnered top volume for the month were dominated by SEB 7/33 (AAA) which saw yields move 9ps higher compared to previous-done levels to 4.24%. Next was LPPSA 4/39 (GG) that eased 3bps to 4.22%, followed by GOVCO 9/24 bonds which fell 8bps to 3.51%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-28's, Khazanah SPV's (i.e.; DANGA 26-33's), MAHB 26-28's, JOHCORP 27-38's, MMC Port 27-32's, Genting-related i.e.; GLT12, utilities provider i.e. telco/water/power (TNB 30-47's, PASB 26-35's, TM Tech 24-28's), SEP 27-32's, SDProperty 27-30's, UEM Sunrise 23-27's, IJM perps/2025, 2030 callable, SPSETIA 26-30's, JPB 27-32's, PMETAL 24-30's, energy and power (i.e., SPETCHEM 27-37's, SEB 25-36's, Sarawak Hidro 24-31's, YTL Power 24-38's), toll operators (i.e. ALRB 25-32's, LDF 29-39's, PLUS 25-37's), banking (i.e.; MAYBANK 2030, 2031, 2032 callable/perps, RHB 25-26's, 2030, 2031 callable, OSK 28-33), Point Zone 27-33's. There were also frequent odd-lot denominated trades in AFFIN Bank perps/2032 callable, Bank Islam perps/2030/2031 callable, MYEG 26-27's, Alliance Bank 2030, 2032, 2035 callable, HLBB perps, SABAH Development Bank 23-27's, MCIS 2031 callable, GENM Capital 25-33's, Solarvest 26's, DRB-HICOM 25-29's/perps, TG Excellence perps and YNH Properties 27'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-23	Rating	Amount Issued (RM mil)
Acetrend Corporation Sdn Berhad	NR	140
AEON Credit Service (M) Berhad	AA3	250
BGRB Venture Sdn Berhad	NR	4
Cagamas Berhad	AAA	650
Cypark Renewable Energy Sdn Berhad	NR	265
Duopharma Biotech Berhad	NR	364
Hap Seng Management Sdn Berhad	NR	350
Impiana Hotels Berhad (fka Bio Osmo Berhad)	NR	3
Laksana Positif Sdn Berhad	NR	30
LBS Bina Holdings Sdn Berhad	NR	20
Bank Muamalat Malaysia Berhad	BBB2	350
ORIX Credit Malaysia Sdn Berhad	AA2	50
OSK Rated Bond Sdn Berhad	AA2	500
Perbadanan Kemajuan Negeri Selangor	AA3	130
Press Metal Aluminium Holdings Berhad	AA2	500
Puncak Selasih Sdn Berhad	NR	55
Reneuco Berhad (fka Kumpulan Powernet Berhad)	NR	5
reNIKOLA Solar II Sdn Berhad	AA2	390
Sabah Credit Corporation	AA1	80
Singer (Malaysia) Sdn Berhad	A2	100
Solarvest Holdings Berhad	A1	50
Seaport Terminal (Johore) Sdn Berhad	NR	3,062
Sunway Velocity Mall Sdn Berhad	NR	150
Tumpuan Azam Sdn Berhad	NR	16
Toyota Capital Malaysia Sdn Berhad	AAA	150
UEM Sunrise Berhad	AA3	350
West Coast Expressway Sdn Berhad	NR	7
YTL Corporation Berhad	AA1	625
		8,645

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk maintained decent gross issuances from RM8.4b in August to RM8.7b in September. Some of the prominent issuances consisted of Cagamas Bhd's 1-3Y AAA-rated papers totaling RM650m with coupon rates between 3.67-3.86% and YTL Corporation Bhd's AA1-rated 10-12Y bonds amounting to RM625m with coupon rates between 4.48-4.55%.

Outlook for September 2023

Expect USTs to experience continued volatility as the threat of inflation and strong jobs data is countered by safe-haven bids due to geopolitical factors…

The Federal Reserve will have its next **FOMC meeting on 1st of November for which odds of a further increase remain low at this juncture.** The Fed's preferred inflation measure, the lower core PCE clashes with stronger wage/jobs growth amid higher NFP data above market estimates which may leave the Fed with mixed thoughts over further threat of elevated inflation. The Fed may have room to pause, as the bond market is carrying the load, with higher yields working to slow the economy by making auto loans, mortgages, revolving credit, business loans (cost of capital) all more expensive. The higher yields go, the more potential they wield in slowing the economy. Current swaps-pricing reveal rates staying almost pat in September's FOMC meeting with a mere 12% chance of a 25bps rate hike in November's FOMC meeting. **The yield curve could continue to steepen as policy-sensitive shorter-ends react to the potential nearing of the rate-hiking cycle by the Fed; taking cognizance of prior quantum and frequency of rate increases and its impact on the economy going forward**.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) posted a deeper loss of 2.7% in September 2023 (Aug: -0.8%); amid slight widening in m/m OAS spreads from 117bps to 122bps. We expect gross issuances to be in the region of ~$80-90b in October (September: ~$125b) whilst maturities are circa $45b with the bulk of it from the financial sector. Meanwhile, the Bloomberg Barclays US Corporate High Yield Total Return Index however managed to sustain a 0.3% gain (July: +1.4%) whilst spreads rose from~ 371bps end-August and spiked further to 421bps at the time of writing. Fresh issuances are expected to be ~$20b in October. Overall, US bond funds saw $1.5b outflows (prior month: +$2.3b) in IG, but high outflows of $2.5b (prior month: -$1.7b) in HY instead; revealing investors nervousness for both categories of credit.

The UST 10Y is still expected to range between 4.50-4.70%, with key support at 4.70% equivalent levels for this month. We remain averse to HY credits as tighter credit conditions and higher funding costs become a bane. We foresee mild appetite for yield pick-up within the IG universe in October. **We still prefer to long duration to within 7-10Y in banking/finance companies, communications, and consumer non-cyclicals sectors.**

Expect range-bound trading with slight positive undertone as local institutions provide support and liquidity for govvies …

The Malaysian economy is expected to moderate in 2023 and **we forecast our full year real GDP growth forecast to likely ease below the official forecast range of 4.0-5.0%.** The country is susceptible to slower external demand due to lag effects from policy tightening, tighter financial conditions, ongoing geopolitical standoffs, and weaker-than-expected growth outlook in China. Overall inflation would remain very benign just shy of 2.0% next year barring any massive subsidy reform, reaffirming that positive real interest rate will support the case or BNM to keep OPR steady at 3.00% even through next year.

Demand for local govvies at bond auctions in October may recover to edge above ~ 2.0x handle following decent relative spreads compared to some of its regional peers. The recent primary issuances in October saw muted demand for the reopening plus private placement of massive RM5.5b of 20Y MGS 10/42 which notched a BTC ratio of a mere 1.772x. The month of October 2023 is expected to see **lower net issuances of RM10.0b compared to September's RM14.5b; with better funding rollover opportunities**. Local institutions are expected to be take the lead in providing momentum and adequate support for govvies in both primary and secondary markets. Expect range-bound trading with attention on continued weakness surrounding the MYR.

The 5Y GII, 7Y MGS and 20Y MGS sectors reflect decent term premium along the curve. We expect the 10Y to inch slightly higher within a range of 3.90-4.10% with support pegged at 4.10% levels. We expect the Sukuk/Corporate Bond space to attract relatively strong demand on yield pick-up requirements as credit and liquidity conditions remain steady with a dearth of supply. We favor the 10Y GG (~15bps), 5Y AAA (~35bps) and 15-20Y AA2-rated bonds (~60-67bps) in banking cum finance, utilities, and infrastructure sectors.

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: