Monthly Fixed Income Perspective –

Oct 23 review & Nov 23 outlook

US Bond market

- **In October**, US Treasuries (UST's) saw a turbulent month and pressured sharply lower over the Fed's elevated interest rate outlook and growth in the supply of bonds. The large US Treasury's coupon offerings of, 2Y, 3Y, 5Y, 7Y, 10Y, 20Y and 30Y via auctions totaling $255b coupled with the FedSpeak events tinged with hawkish-led statements dented bonds. The curve continued to bear-steepen again as overall benchmark yields saw a hefty surge between 5-40bps (prior month: 18-49bps higher). **The UST 2Y yield rose 5bps to 5.09% whilst the UST 10Y spiked 35bps to 4.93%.** At the time of writing, these levels are trading lower at 4.85% and 4.45% respectively. Meanwhile, foreign holdings of USTs rose by 0.6% in August to ~$7.71 trillion, the highest since December 2021 with Cayman Islands, Ireland and Luxembourg and increasing their holdings (quantum-wise) the most by $40 trillion and China cutting further to $805 trillion. Meanwhile, the 2s10s part of the curve became less inverted from -48bps as at end-September to -16bps as at end-October, but presently widened again to -40bps. Overall, US bond funds saw $5.3b outflows (prior month: -$1.5b) in IG, and higher outflows of $7.2b (prior month: -$2.5b) in HY; revealing investors' concern for both categories of credit.

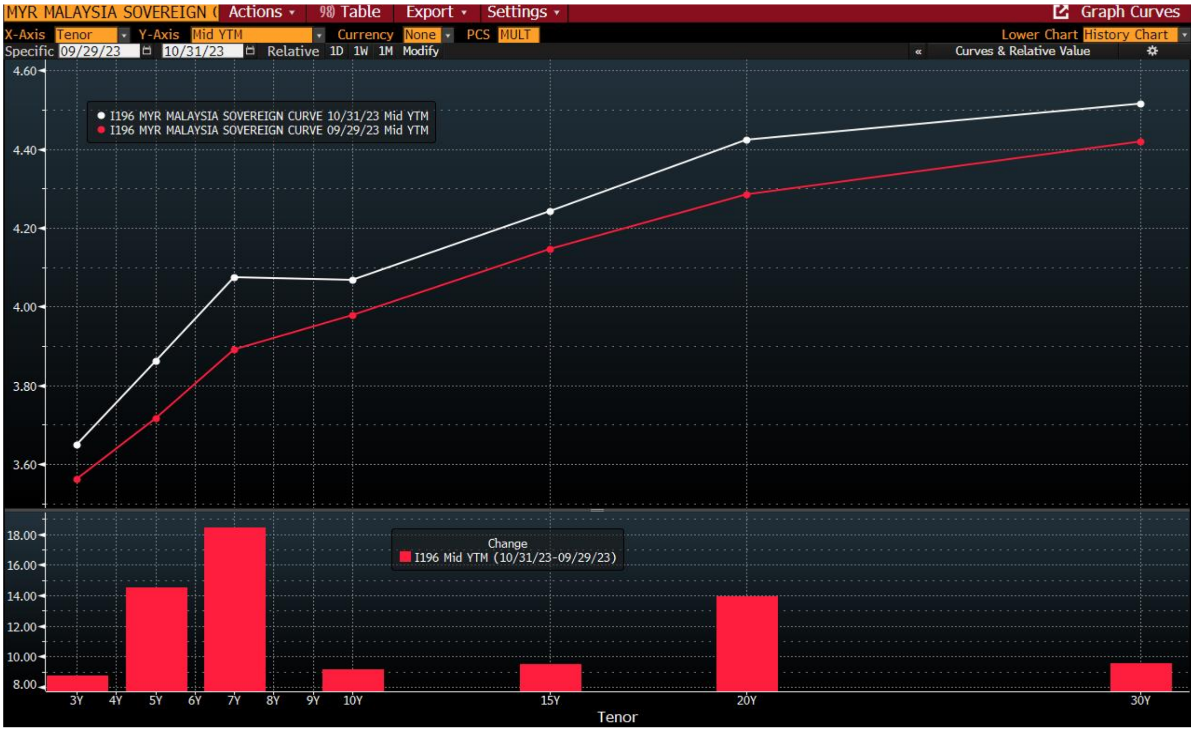
For November, expect USTs to rally amid intermittent profit-taking activities and be well-supported following the latest US CPI data and NFP jobs data for October which came in lower-then-expected. Support for bonds is also expected due to safe-haven appeal arising from Middle-East geopolitical situation. **The yield curve is expected to steepen as policy-sensitive shorter-ends react to the narrative that the US interest rate has peaked,** following a smaller-than-expected Treasury refunding announcement, weaker domestic data, and a dovish-like-pause at the last FOMC meeting. The Fed kept rates on hold, as expected, and made minor changes to the statement, which read dovish. The ensuing press conference was also dovish, with the Chair underlining the ways tighter financial conditions could weigh on economic activity. **The UST 10Y is still expected to range lower between 4.30-4.50%, with support at 4.50% equivalent levels for this month.** We remain averse to HY credits as tighter credit conditions and higher funding costs become challenging. **We still prefer to maintain long duration within the IG universe to within 7-10Y in energy, utilities, consumer staples and industrial sub-sector.**

MYR Bond Market

- **In October**, the curve shifted further up as benchmark govvies closed higher between 8-19bps. The benchmark 5Y MGS 4/28 yield spiked 15bps to 3.86% whilst the 10Y MGS 11/33 jumped 13bps higher to 4.10%. However, at the time of writing both yields are lower @ 3.65% and 3.86% respectively. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings fell to RM250.3b, representing a lower 22.6% of total outstanding.** The primary factors which drove bond movements were deluge of supply and belief that the Fed will hold rates "higher for longer" in the US. To recap, BNM maintained OPR at 3.00%, as per our expectations in October. The three (3) auctions in October 2023 saw average BTC ratios jumped to ~ 2.00x (Sep: 1.80x); perched at our much-watched 2.0x handle.

- **For November,** expect wider range movements with trading opportunities despite the higher gross issuances of up to RM186b for 2023 which was recently unveiled in the run-up to the unveiling of 2024 National Budget in October. Local institutions are expected to be active in both the govvies and corporate bond/Sukuk space; for both primary and secondary markets. We foresee stronger demand for corporate bonds/sukuk for yield-carry requirements. **The 7-15Y GII and 7Y, 20Y MGS sectors reflect decent term premium along the curve. We expect the 10Y to inch slightly higher within a range of 3.70-3.90% with support pegged at 3.90% levels. We expect the Sukuk/Corporate Bond space to attract relatively strong demand on yield pick-up requirements with emphasis on primary participation followed by secondary market.** We continue to favor the 10Y GG (~18bps), 3Y AAA (~40bps) and 15-20Y AA2-rated bonds (~62-82bps) in utilities, infrastructure, and banking sectors.

MYR sovereign curve (MGS)



Source: Bloomberg

NFP data in October showed job growth slowed more than expected, indicating that strong demand for workers is beginning to cool…

October Non-Farm Payrolls ("NFP") of 150k was lower than consensus estimates of 180k and pre-pandemic gains of just under 200k but with previous two month's net revisions lower by 101k. The unemployment rate inched a tad higher at 3.9%. Payroll gains were seen in healthcare and social assistance, as well as government sectors; but manufacturing payrolls fell, largely a reflection of the strikes by United Auto Workers (UAW) union against Detroit's "Big Three" car-makers. The participation rate decreased slightly to 62.7%. The average hourly wages maintained similar growth of 0.2% m/m and a mild easing to 4.1% y/y (prior month: 4.2%) as easing demand put downward pressure on wage growth. An important take-away from the jobs report card is that the labor market is normalizing due to improvement in labor supply coupled with a tempering in the pace of hiring. Hence, this suggests that the data is weak enough to reduce the chances of a rate hike thus, cementing the end of the tightening cycle.

The Fed maintained the Fed Funds Target Rate at 5.25- 5.50% at its recent FOMC meeting on 2nd November, after eleven (11) earlier hikes totaling 525bps between 17th March 2022 and 26th July 2023. To recap, t**he Fed's median FOMC dot plot pins target rate at ~5.63% for 2023. Data from the Fed Fund Futures and CME FedWatch Tool's analysis now reflect traders' hypothetical expectations of a mere 3% chance for a 25bps rate hike at the next FOMC meeting on 13th of December with peak terminal rate of ~5.34% in December.** Meantime, we note that the Fed's ~$8.00 trillion balance sheet as at end-September inched lower to $7.91 trillion as at end-October.

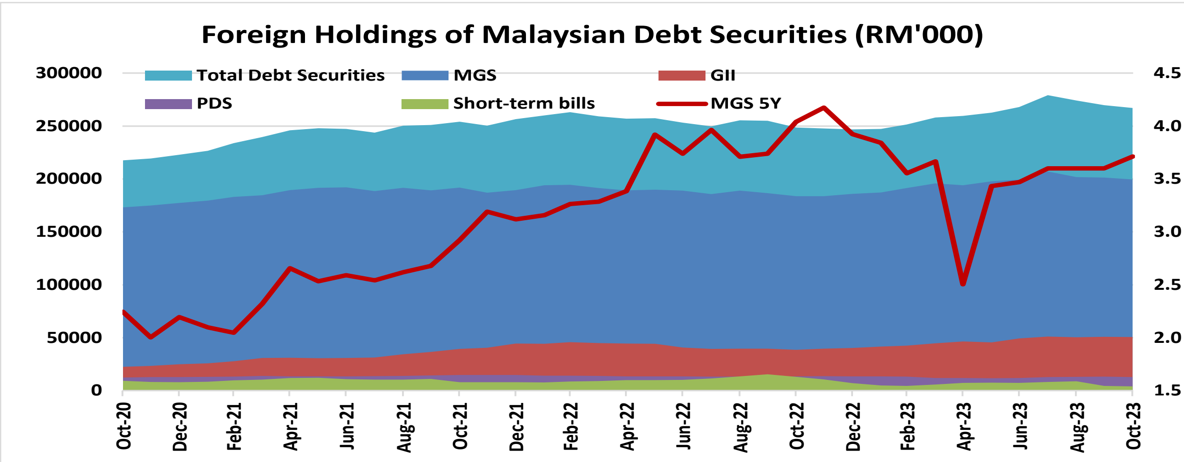
Moving on to other economic data, we note the sustenance in both October manufacturing data i.e.; US manufacturing PMI at 50.0, but smaller gain in ISM manufacturing data at 46.7 versus 49.0 in September. Separately, the Fed's preferred inflation measure, the core PCE jumped to 0.3% m/m (Aug: 0.1%) but fell to +3.7% y/y in September (Aug: +3.9%). Hence, when viewed together with the NFP jobs data; the outlook for higher interest rates may dissipate and yet maintain volatility for both USTs and corporate bonds.

Offshore interest eased following further pullback in foreign holdings of overall MYR bonds by RM2.6b…

Foreign holdings of overall MYR bonds saw a decrease of RM2.6b or 1.0% m/m in October (Sep: -RM4.4b or 1.6%) to RM267.2b mainly due to the fall in MGS and MITB's. Non-resident holdings of MGS eased by RM1.7b or 0.8% to RM199.7b (prior month: -RM535m or 0.3%), thus forming an eye-catching drop to 34.4% of total outstanding. Foreign holdings of GII only saw a mild drop of RM191m to RM50.6b; still hovering close to the historical high to RM51.0b seen in July. Movements in bond yields were largely tied to the hawkish interest rate outlook in the US and underlying strength seen in USDMYR. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings fell to RM250.3b, representing a lower 22.6% of total outstanding;** amid elevated net issuances of RM12.0b for the month (Sep: net issuances of RM14.5b); for which the absence of rollover from maturities was believed to have dampened appetite for primary issuances. Meantime, **12-month cumulative rolling inflows rose to RM28.0b (prior month: RM25.9b).**

However, we note that the secondary market did not disappoint with regards to foreign participation; similar to the auction exercises in October, as several of its peers like Korea, Thailand and Singapore reveal 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, equities saw higher outflows of RM2.3b in October (Sep: +RM674m) whilst the 12-month rolling outflows increased to RM5.9b in October from RM4.2b in September. On the currency side, the MYR weakened against USD at 4.7632 as at end-October (end-Sep: 4.6953) but has strengthened back to 4.6875 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM left OPR unchanged again at 3.00% for the third straight meeting…

At the time of writing, BNM maintained the OPR at 3.00% in line with our house view at the MPC meeting on 2nd of November amid little change in upside or downside risks to growth and inflation. The key takeaway from the policy statement is BNM's comment that the persistently stronger US dollar arising from expectations for a higher for longer interest rate environment in the US has affected both major as well as emerging market currencies including the Ringgit, but these are not expected to derail Malaysia's growth prospects. The central bank continues to assure that domestic financial conditions remain conducive to sustain credit growth. Hence, this should quell speculations that BNM would resort to raising interest rates to stem currency weakness. In its assessment, BNM said that the world economy continues to expand, it no longer said this was driven by "resilient" domestic demand and it noted slowing growth momentum in several major economies Final 3Q GDP data suggests the Malaysian economy has seen its trough in 2Q, growing 3.3% y/y in 3Q. We reiterate our view that to sustain economic growth and ensure price stability, **BNM will keep OPR unchanged at 3.00% for an extended period likely through 2024.**

Stronger participation seen for October auctions amid higher net issuances of RM12.0b…

The three (3) auctions in October 2023 saw average BTC ratios jumped to ~ 2.00x (Sep: 1.80x); perched at our much-watched 2.0x handle. The highest BTC of 2.733x among the auctions was notched by the re-opening of 10-year GII 8/33 which saw demand mainly from diverse participants like pension funds, Lifers, inter-bank participants, GLIC's and asset management companies, resulting in a short tail of a mere 0.6bps. The other auctions consisted of the re-opening of 20Y MGS 10/42 and 7Y MGS 4/30. Together, all three (3) auctions in October however saw slightly higher individual sum of bids amounting to between RM6.2-15.0b. Demand for auctions were better amid limited private placement offerings which did not sap appetite from the larger investment institutions. Surprisingly, the unavailability of rollover maturity benefits in October (similar in September) in the Malaysian government bond space failed to dampen primary participation. Hence, fresh funds which made its way into both primary and secondary market were evident especially with offshore funds showing higher interest in shorter-tenured off-the-runs and existing 3Y, 7Y and 10Y benchmarks.

The GOM announced huge govvies issuances to the tune of RM186b for the remainder of 2023 in October. The surprise extension of duration from maturing T-Bills to fresh issuances MGS/GII has caused many strategists to revise higher the remaining gross issuances to between RM5.0-5.5b per exercise for the remainder of 2023. Elsewhere, we project gross issuances of between RM173-178b for 2024 taking into account the lower federal govt deficit and its intention to reduce the fiscal deficit further from the projected 5.0% in 2023 to 4.3% in 2024.

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				

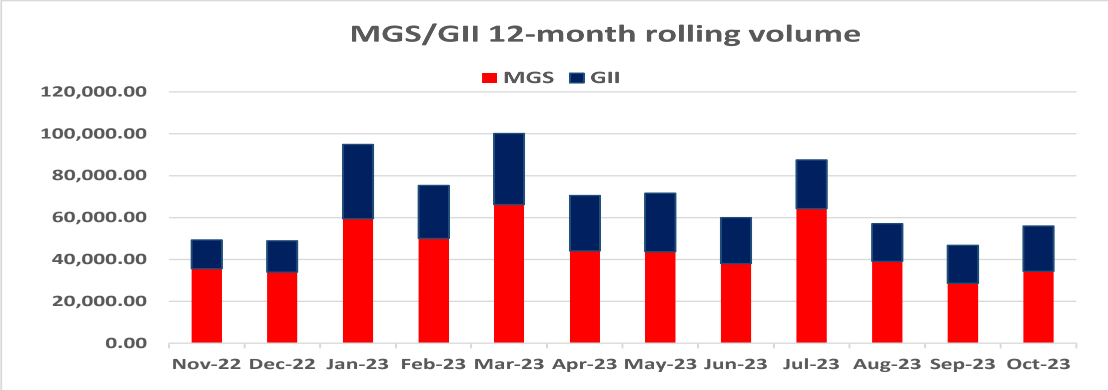
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity surprisingly picked-up in October…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds jumped by 20% to RM56.1b in October compared to prior month's RM46.9b. The higher volumes seen was due to several factors that saw the conclusion of BNM's MPC meeting which saw rates stay pat.

Secondary market flows were mainly seen among local institutions i.e.; Lifers, pension funds, inter-bank participants, asset management companies, GLIC's and GLC's, not forgetting some interest from 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 6-19bps across the curve.
- MYR mid-IRS levels rose 6-11bps for tenures up to 10Y tenures compared to previous month which saw levels rise 8-20bps instead.
- Bulk of the secondary market trades was skewed more to the front-ends and belly in terms of term structure with prominent trades seen more in the off-the-run 24-25's (18.5% of overall volume), followed by benchmarks 3Y MGS/GII (8.2%) and then 10Y MGS/GII (7.9%) which altogether accounted for easily 3~5% of overall trades.



Source: BPAM, Bloomberg, HLBB Global Markets Research

Expect positive support for bonds amid a certain degree of volatility over easing inflationary pressures and softer job market conditions emanating out of the US; which in turn may see some upside strength in MYR. Also, as there remains no further deterioration in the US banking system presently due to strict monitoring and surveillance by the US authorities coupled with the GOM's resolve to reduce fiscal deficit to 4.3% in 2024; we expect stronger support for local bonds.

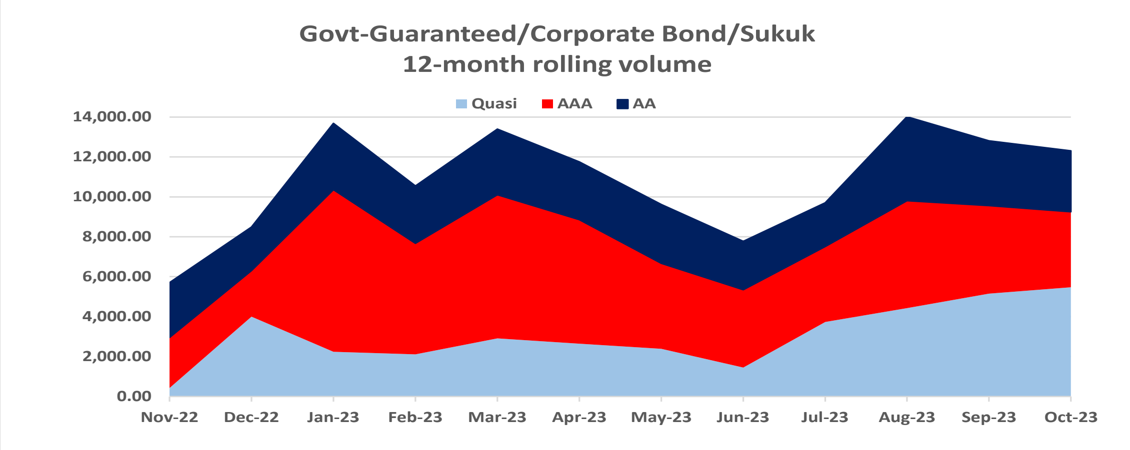
Corporate Bonds/Sukuk volumes however sees volumes dip in October…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) bucked the trend seen in govvies as momentum and activity eased slightly. Trading volume decreased by 6% in the secondary market to RM12.9b in October (Sep: RM13.7b) with yields ended mostly mixed-to-higher.

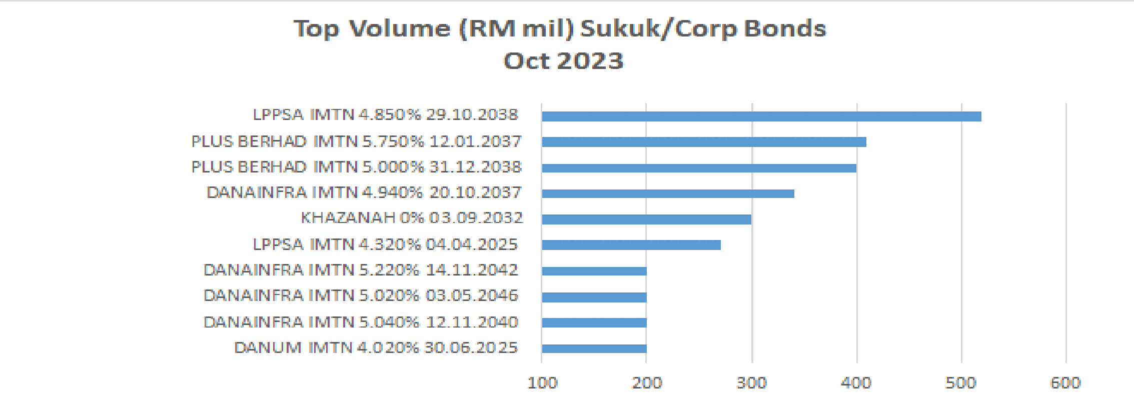
Also, the substantial increase in primary issuances m/m may have sapped some interest and participation in the secondary market. The Govt-Guaranteed (GG)-segment saw the 5-20Y tenures widen between 10-20ps to between 4.05-4.70% levels. The AAA-rated space similarly saw tenures between 5-20Y tenures, cheaper between 17-24bps instead; with levels around 4.25-4.90%. The AA2-segment too saw yields settle higher between 19-21bps for the 5-20Y sector; resulting in yields closing within the ranges of 4.40-5.35% area. The sweet spot area for gains was between 7-10Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits dropped to RM12.8b in September (Sep: RM13.2b).

Total transactions for GG bonds rose to form 44% of overall trades in October (Sep: 40%). AAA-rated papers however eased to form ~31% of overall trades. The AA-space also saw its secondary market sustain to form 25% of total trades for the month of October. The GG-space continued to be spread among names like DANAINFRA, LPPSA, PTPTN, MKD Kenchana and PRASARANA. **Bonds that garnered top volume for the month were dominated by LPPSA 10/38 (GG) which saw yields spike 21bps higher compared to previous-done levels to 4.38%. Next was PLUS 1/37 (AAA) that also jumped 21bps higher to 4.51%, followed by another PLUS (AAA) tranche i.e.; 12/38 bonds which spiked 27bps to 4.42%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 24-28's, Khazanah SPV's (i.e.; DANGA 27-33's, DANUM 25-29's), MAHB 26-31's, JOHCORP 27-38's, PTP 25-30's, Genting-related i.e.; GENM Capital 27-28's, Genting 27-34's, UMW Perps/25-26's, utilities provider i.e. telco/water/power (AIR SELANGOR 30-48's, TNB 35-40's, TNP Power 33, 43, PASB 24-33's, TM Tech 24's, 28's), IMTIAZ 26-28's, INFRACAP 28-36's, PONSB 26-29's, Point Zone 28-33's, SDProperty 26-28's, UEM Sunrise 24-27's, SPSETIA 26-28's, YTL Corp 26-36's, PMETAL 24-30's, energy and power (i.e., SPETCHEM 27-35's, SEB 25-36's, Southern Power 24-36's, YTL Power 24-38's), toll operators (i.e. ALRB 24-32's, PLUS 28-37's), banking (i.e.; CIMB AT1/ 2039, 2030, 20131, 2032 callable, BPMB 25-31's). There were also frequent odd-lot denominated trades in AFFIN Bank perps/2032 callable, AFFIN Islamic perps, MAYBANK perps/2031, 2032 callable, Bank Muamalat perps, IJM perps, Dialog perps, MYEG 26's, Alliance Bank perps/2030, 2032, 2035 callable, RHB 25/2031, 2032 callable, HLBB perps, SABAH Development Bank 23-27's, MCIS 2031 callable, Malaysia RE 2032 callable, Tropicana perp/24-25's, DRB-HICOM perps, Eco Capital 24's, Eco Capital 26-28's, TG Excellence perps and YNH Properties 25-27's/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-23	Rating	Amount Issued (RM mil)
Affin Islamic Bank Berhad	A3,A1	1,000
Pengurusan Air Selangor Sdn Berhad	AAA	1,000
BGRB Venture Sdn Berhad	NR	45
Cagamas Berhad	AAA	3,935
CIMB Group Holdings Berhad	AA2,A1	1,300
CIMB Bank Berhad	AA2,A1	1,300
DanaInfra Nasional Berhad	GG	1,500
Imtiaz Sukuk II Berhad	AA2	1,000
Bank Islam Malaysia Berhad	A1	400
Ideal Water Resources Sdn Berhad	NR	34
Laksana Positif Sdn Berhad	NR	6
Malayan Cement Berhad (fka Lafarge Malaysia Berhad)	AA3	350
Public Bank Berhad	A1	1,000
ParkCity Damansara Sdn Berhad	NR	200
Perbadanan Kemajuan Negeri Selangor	AA3	250
Prasarana Malaysia Berhad	GG	1,000
Radimax Group Sdn Berhad	NR	35
Reneuco Berhad (fka Kumpulan Powernet Berhad)	NR	4
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	NR	13
SMJ Sdn Berhad	AAA	900
SOP Capital Sdn Berhad	NR	200
SunREIT Unrated Bond Berhad	NR	300
Tumpuan Azam Sdn Berhad	NR	18
Toyota Capital Malaysia Sdn Berhad	AAA	150
West Coast Expressway Sdn Berhad	NR	7
WCT Holdings Berhad	AA3	150
YTL REIT MTN Sdn Berhad	NR	140
		16,237

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk saw a near-doubling in gross issuances from RM8.6b in September to RM16.2b in October; i.e.; the highest YTD. Some of the prominent issuances consisted of Cagamas Bhd's 1-15Y AAA-rated papers totaling RM3.94bm with coupon rates between 3.81-4.08% and Pengurusan Air Selangor Sdn Bhd's AAA-rated 7-25Y bonds amounting to RM1.0b with coupon rates between 4.40-5.00%.

Outlook for November 2023

Expect USTs to be well-bid as the threat of inflation recedes and softer jobs market allow peak terminal rates to eventually ease by March 2024…

The Federal Reserve will have its next **FOMC meeting on 13th of December for which the Fed Funds Rate is expected to stay pat.** The Fed's preferred inflation measure which came in mixed for m/m versus y/y together with the lower CPI inflation in October, coupled with the softer wage/jobs growth is expected to allow the Fed to stay the course and even loosen monetary policy slightly going forward. Also, allowing yields to go higher could be a pre-cursor to a slowing economy The government has averted a shutdown as Congress had successfully passed a spending bill. Current swaps-pricing reveal rates staying almost pat in December's FOMC meeting with a mere 3% chance of a 25bps rate hike. **The yield curve could continue to bull-steepen as policy-sensitive shorter-ends react to the strong belief of the end of the present rate-hiking cycle by the Fed; taking cognizance of prior quantum and frequency of rate increases and its impact on the economy since 2022.** The risks to the above are the oversupply of USTs despite some relief from the Treasury Department's recent decision to slow down bond issuances and Moody's recent cut on the outlook on US credit rating to Negative, from Stable.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) posted a smaller loss of 1.9% in October 2023 (Sep: -2.7%); amid slight widening in m/m OAS spreads from 120bps to 128bps; but fell to ~119bps at the time of writing. We expect gross issuances to be in the region of ~$80-90b in November (October: ~$80b) whilst maturities are circa $42b with the bulk of it from the financial sector again. Meanwhile, the Bloomberg Barclays US Corporate High Yield Total Return Index also sustained a 1.2% loss (Sep: -1.2%) whilst spreads rose from~ 398bps end-September to 432bps as at end-October; but however, plunged to 390bps at the time of writing. Fresh issuances are expected to be ~$25b in November versus $10b in October.

The UST 10Y is still expected to range lower between 4.30-4.50%, with support at 4.50% equivalent levels for this month. We remain averse to HY credits as tighter credit conditions and elevated funding costs become challenging to manage. We foresee appetite for yield pick-up within the IG universe in November. **We still prefer to maintain long duration within the IG universe to within 7-10Y in energy, utilities, consumer staples and industrial sub-sector.**

Expect wider range movements for bonds in October, with trading opportunities with local institutions providing ample support and liquidity…

Final 3Q GDP data suggests the Malaysian economy has seen its trough in 2Q, growing 3.3% y/y in 3Q. We reiterate our view that to sustain economic growth and ensure price stability, **BNM will keep OPR unchanged at 3.00% for an extended period likely through 2024**. Expect wider range movements for bonds in November with trading opportunities despite the higher gross issuances for govvies of up to RM186b for 2023, as unveiled recently in October. The recent primary issuances in early November saw contrasting outcomes with the reopening of RM3.0b (plus private placement of RM2.0b) of 30Y GII 5/52 seeing decent demand on a BTC ratio of 2.076x whilst the 3Y reopening of RM5.0b of GII 9/26 chalked a weaker-than-expected cover of only 1.508x. The month of November 2023 is expected to see **lower net issuances of RM4.0b compared to October's RM12.0b; with ample 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. We opine that Improving growth prospects, stable inflation close to long-term average and accommodative policy stance may warrant a steeper curve in Malaysia. The 3s10s is trading flat when compared to that during similar periods of growth, inflation, and policy rates in the past. However, increasing long-end bond supply, still-high fiscal deficit and global steepening pressures demand more term premium in the curve.

The 7-15Y GII and 7Y, 20Y MGS sectors reflect decent term premium along the curve. We expect the 10Y to inch slightly higher within a range of 3.70-3.90% with support pegged at 3.90% levels. We expect the Sukuk/Corporate Bond space to attract relatively strong demand on yield pick-up requirements with emphasis on primary participation followed by secondary market. We continue to favor the 10Y GG (~18bps), 3Y AAA (~40bps) and 15-20Y AA2-rated bonds (~62-82bps) in utilities, infrastructure, and banking sectors.

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