Monthly Fixed Income Perspective –

Nov 23 review & Dec 23 outlook

US Bond market

- **In November**, US Treasuries (UST's) fueled a dramatic rebound and outperformed to record one of the best months in nearly 40 years on growing optimism that the hiking cycle has ended. The large US Treasury's coupon offerings of, 2Y, 3Y, 5Y, 7Y, 10Y, 20Y and 30Y via auctions totaling $291b did not dampen demand as the lower yields in the secondary market signified gains for bondholders. The Dow Jones Industrial Average and Nasdaq 100 surged to records, while bonds soared, credit boomed and risky assets around the world rallied. The curve reversed and bull-flattened as overall benchmark yields saw a hefty fall between 40-60bps (prior month: 5-40bps lower). **The UST 2Y yield fell 40bps to 4.68% whilst the UST 10Y plunged the most i.e. by 60bps to 4.33%.** However, at the time of writing, these levels are trading lower at 4.42% and 3.91% respectively. Meanwhile, foreign holdings of USTs dropped by ~$102b or 1.3% in September to ~$7.61 trillion, snaping three (3) straight months of increases with Japan, China and UK registering falls whilst Cayman Islands bucked the trend. Meanwhile, the 2s10s part of the curve became more inverted from -16bps as at end-October to -36bps as at end-November, but presently at -37bps.

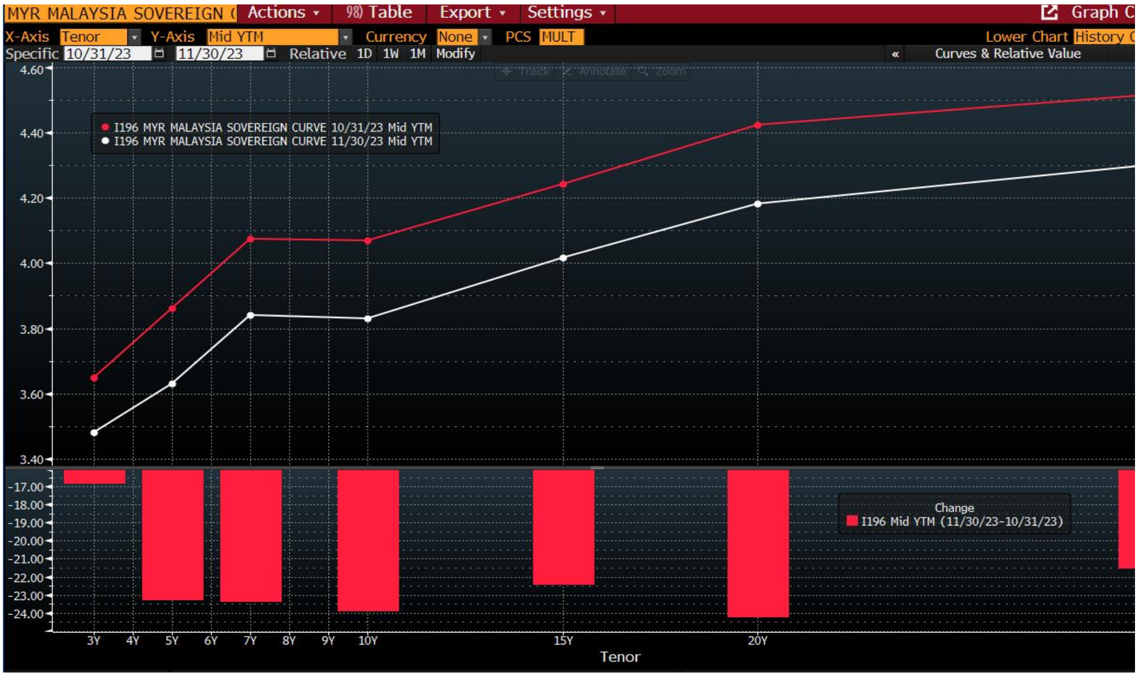
- **For December**, expect USTs to continue to be well-bid with intermittent profit-taking following the Fed's signal to end its historic monetary-tightening campaign with a dovish 2024 pivot on growing optimism about interest rate cuts by the Fed next year. Support for bonds is also expected due to safe-haven appeal arising from Middle-East geopolitical situation and the sustenance of strength in USD. **Bull steepening may become a feature of the rates market in 2024 as policy-sensitive shorter-ends react to the narrative that the US interest rate has peaked,** following low unemployment rate, moderating job gains, and easing inflation which are consistent with a potential soft landing. **The UST 10Y is still expected to range lower between 3.80-4.00%, with support at 4.00% equivalent levels for this month.** We have a positive outlook on Agency MBD on light supply and potential spread compression. We are slightly averse to HY credits as tight credit conditions and elevated funding costs remain a bane. **We prefer to maintain long duration within the IG universe to within 7-10Y in industrials, communications, transportation, and utilities.**

MYR Bond Market

- **In November**, the curve shifted down as benchmark govvies rallied with yields closing lower between 19-29bps. The benchmark 5Y MGS 4/28 yield fell 25bps to 3.61% whilst the 10Y MGS 11/33 yield plunged the most i.e.; by 29bps to 3.81%. However, at the time of writing both yields are lower @ 3.55% and 3.75% respectively. The higher gross issuances of up to RM186b for 2023 was not a deterrent **as total foreign MYR Government bonds (MGS+GII+SPK) holdings spiked to RM255.9b, representing a higher 23.0% of total outstanding in November**. The primary factors which drove bond movements were the conclusion that the US had reached peak terminal rates coupled with local factors that included moderate inflation and an improved 3Q2023 GDP (for which our full-year 2023 GDP forecast is @ 3.6%). The three (3) auctions in November 2023 saw average BTC ratios jumped to ~ 2.33x (Oct: 2.00x); surging past the much-watched 2.0x handle.

- **For December,** expect tighter range movements with lesser trading opportunities amid low staffing levels due to the year-end festivities and holidays. Local institutions are expected to slowly wind-down in both the govvies and corporate bond/Sukuk space; for both primary and secondary markets. Nevertheless, we foresee ongoing appetite in corporate bonds/sukuk for yield-carry requirements. **The 7-15Y MGS/GII sectors provide decent opportunities and reflect decent term premium along the curve. We expect the 10Y to inch slightly higher within a slightly lower range of 3.60-3.80% with support pegged at 3.80% levels. We expect the Sukuk/Corporate Bond space to draw strong demand on yield pick-up requirements with emphasis on primary participation followed by secondary market.** We favor the 10Y GG (~17bps), 5-7Y AAA (~35bps) and 20Y AA2-rated bonds (~80bps) in tolling, utilities, construction, property and banking sectors.

MYR sovereign curve (MGS)



Source: Bloomberg

Despite strong headline NFP data print in November, job growth was mainly driven by government and health care; hence implied underlying pace of job growth may taper off…

November Non-Farm Payrolls ("NFP") of 199k was higher than consensus estimates of 185k and prior month's unrevised 150k with previous two month's downward net revisions of 35k. The participation rate increased one notch higher to 62.8%, thus the unemployment rate fell from 3.9% to 3.7%%. The average hourly wages bumped up from 0.2% to 0.4% m/m whilst the y/y figures grew 4.0% (prior month: 4.2%) most of the payroll gains came from government, health care, and the resolution of strikes by United Auto Workers and Hollywood writers; which don't necessarily reflect underlying conditions in the labor market.

The Fed maintained the Fed Funds Target Rate at 5.25- 5.50% at its recent FOMC meeting on 14th December, 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 ~5.38% for 2023 (from 5.68% earlier) and 4.63% for 2024 (from 5.13% earlier). Data from the Fed Fund Futures and CME FedWatch Tool's analysis now reflect traders' hypothetical expectations of a 97% chance for rates t be maintained at the next FOMC meeting on 31st January.** Meantime, we note that the Fed's ~$7.91 trillion balance sheet as at end-October inched lower to $7.80 trillion as at end-November.

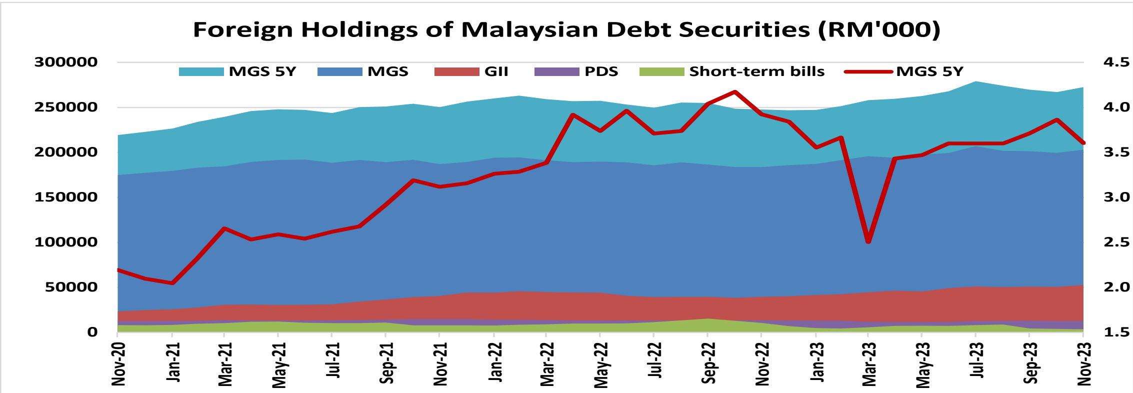
Moving on to other economic data, we note the dip in November US manufacturing PMI to 50.0 in October to 49.4 in November; and subsequently to 48.2 in December as at the time of writing. Meanwhile, ISM manufacturing data maintained at 46.7 in November; way below earlier consensus of 47.8. Separately, the Fed's preferred inflation measure, the core PCE eased to 0.2% m/m (Sep: 0.3%) and fell to +3.5% y/y in October (Sep: +3.3%). Hence, when viewed together with the NFP jobs data; the outlook for higher interest rates has already dissipated and remains a boon for both USTs and corporate bonds.

Offshore foreign holdings of overall MYR bonds spiked by RM5.4b

Foreign holdings of overall MYR bonds saw an increase of RM5.4b or 2.0% m/m in November (Oct: -RM2.9b or 1.0%) to RM272.6b mainly due to the rise in both MGS and GII. Non-resident holdings of MGS increased by RM3.3b or 1.7% to RM203.0b (prior month: -RM1.65b or -0.8%), thus forming a historical high in total outstanding. Foreign holdings of GII however saw a jump of RM2.2b to RM52.9b; a new historical high. Movements in bond yields were largely tied to the volatile interest rate outlook in the US and underlying factor seen in USDMYR. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings spiked to RM255.9b, representing a higher 23.0% of total outstanding;** amid drastic drop in net issuances of RM3.5b for the month (Oct: net issuances of RM12.0b); for which the availability of rollover from maturities was believed to have dampened appetite for primary issuances. Meantime, **12-month cumulative rolling inflows rose to RM38.4b (prior month: RM28.0b).**

We note that the secondary market did not disappoint with regards to foreign participation either; similar to the auction exercises in November, as several of its peers like Indonesia, Thailand and China that registered tighter spreads than Malaysia sovereign debt. 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 inflows of RM1.6b in November (Oct: -RM2.2b) whilst the 12-month rolling outflows fell to RM3.9b in November from RM5.8b in October. On the currency side, the MYR was a tad stronger against USD at 4.6625 as at end-November (end-Oct: 4.7632) but is hovering at 4.6855 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

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

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 November auctions amid lower net issuances of only RM3.5b…

The three (3) auctions in November 2023 saw average BTC ratios jumped to ~ 2.33x (Oct: 2.00x); surging past much-watched 2.0x handle. The highest BTC of 3.304x among the auctions was notched by the re-opening of 7-year GII 9/30 which saw demand mainly from diverse participants like GLC's, inter-bank participants, pension funds, insurance companies and offshore entities, resulting in a short tail of a mere 1.1bps. The other auctions consisted of the re-opening of 3Y GII 9/26 and 30Y GII 5/52. Together, all three (3) auctions in November saw higher individual sum of bids amounting to between RM6.2-16.5b. Demand for auctions were better amid limited private placement offerings which did not sap appetite from the larger investment institutions. However, the unavailability of excess rollover maturity benefits in December (unlike in November) in the Malaysian government bond space is expected to impact primary participation. Nevertheless, some fresh funds are still expected to make its way into both primary and secondary market will be evident; like what was seen earlier i.e.; offshore funds showing higher interest in shorter-tenured off-the-runs and existing 3Y, 7Y and 10Y benchmarks.

The GOM has now completed its huge govvies issuances to the tune of RM185.5b for 2023 primarily to cater for the extension of duration from maturing T-Bills to fresh issuances MGS/GII around the announcement of Malaysia Budget 2024. Elsewhere, we project gross issuances of between RM173-178b for 2024 taking into account for the lower federal govt deficit 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 9/30	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 9/30)	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	2.733	4.085	4.093	4.099	56.3%
22	7-yr Reopening of MGS (Mat on 04/30)	7	Oct	Q4	23/10/2023	5,000	5,000		160,000	1.356	4.090	4.134	4.188	17.0%
33	30-yr Reopening of MGII 05/52	30	Nov	Q4	7/11/2023	5,000	3,000	2,000	165,000	2.076	4.455	4.484	4.497	37.8%
34	3-yr Reopening of GII (Mat on 09/26)	3	Nov	Q4	14/11/2023	5,500	5,000		170,000	1.508	3.580	3.622	3.650	18.8%
35	7-yr Reopening of MGII (Mat on 09/30)	7	Nov	Q4	30/11/2023	5,000	5,000		175,000	3.304	3.880	3.897	3.908	45.0%
36	5-yr Reopening of MGS 04/28	5	Dec	Q4	6/12/2023	5,500	5,000		180,000	2.736	3.582	3.592	3.595	21.3%
37	10-yr Reopening of MGS 11/33	10	Dec	Q4	14/12/2023	5,500	5,000		185,000	2.206	3.680	3.713	3.730	42.0%
	Gross MGS/GII supply in 2023						155,500	29,500	180,000	REVISED PROJECTED TOTAL ISSUANCE = RM184-189b				

Source: BNM, HLBB Global Markets Research

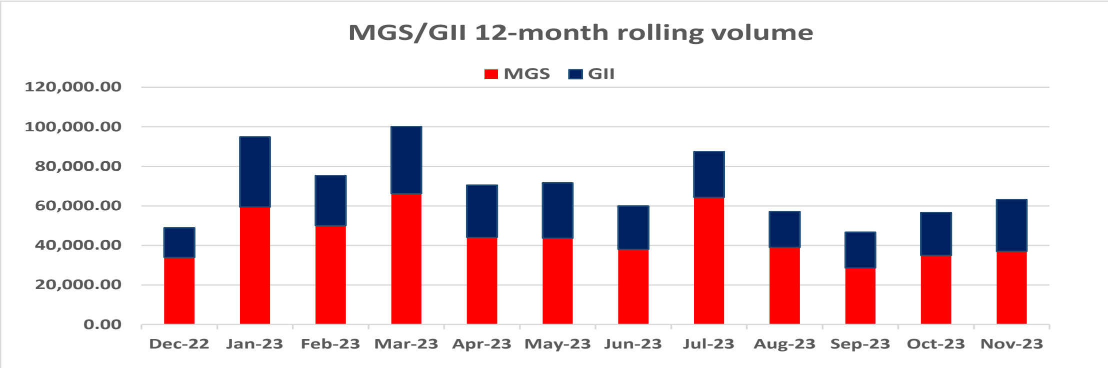
MGS/GII secondary market activity jumped further in November…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds rose further by 11% to RM62.5b in November compared to prior month's RM56.1b. The higher volumes seen was due to the supposed end of peak terminal rates in the US and Malaysia for now.

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

- MGS/GII yields saw the entire curve shift down with prominent declines of between 19-29bps across the curve.
- MYR mid-IRS levels fell 12-30bps for tenures up to 10Y tenures compared to previous month which saw levels rise 6-11bps instead.

- Bulk of the secondary market trades was skewed to the front-ends and belly in terms of term structure with prominent trades seen more in the off-the-run 24-25's (19.8% of overall volume), followed by benchmarks 3Y MGS/GII (13.5%) and then 7Y MGS/GII (9.5%) which altogether accounted for easily 43% of overall trades.



Source: BPAM, Bloomberg, HLBB Global Markets Research

Expect positive support for bonds over the Fed's admission that it has reached peak terminal rates whilst inflationary pressures ease and softer job market conditions emerge out of the US; which may allow upside strength in MYR and other Asian Fx. To add credence, there is no further deterioration in the US banking system currently due to strict monitoring and surveillance by the US authorities. On the local scene, the GOM's firm initiative to reduce fiscal deficit to 4.3% of GDP in 2024 will entail strong support for local bonds.

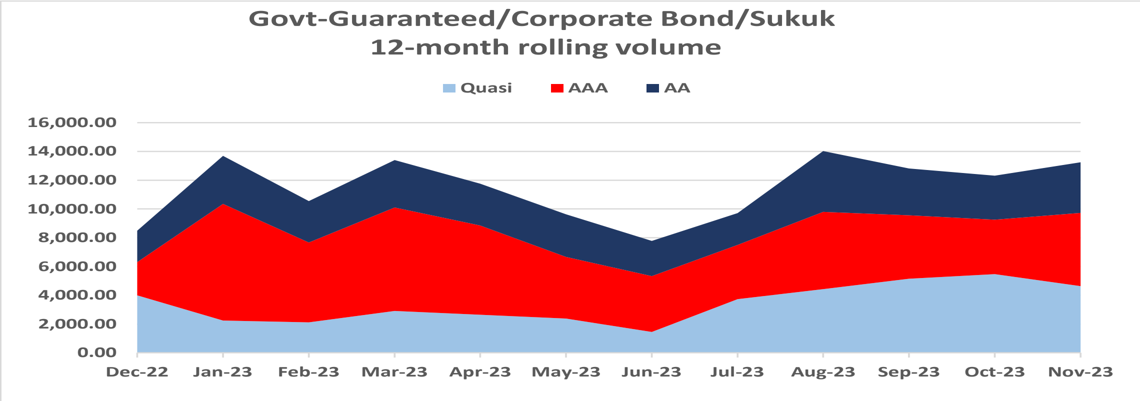
Corporate Bonds/Sukuk volumes jump too in November…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) followed the trend seen in govvies as momentum and activity rose. Trading volume increased by 8% in the secondary market to RM13.9b in November (Oct: RM12.9b) with yields ended mostly lower.

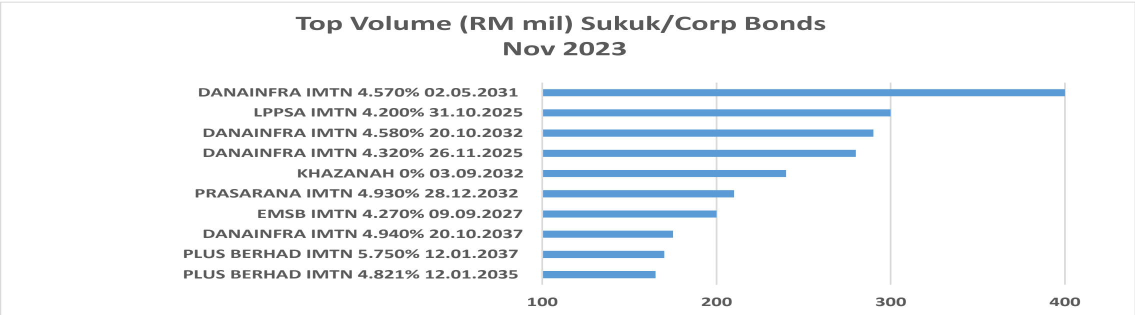
Amid the substantial increase in primary issuances m/m, interest and participation in the secondary market proliferated. The Govt-Guaranteed (GG)-segment saw the 3-10Y tenures tighten between 19-22ps to between 3.65-4.10% levels. The AAA-rated space similarly saw tenures between 3-10Y tenures, richer between 20-27bps; with levels around 3.90-4.25%. The AA2-segment too saw yields settle lower between 16-22bps for the 3-10Y sector; resulting levels closing within the ranges of 4.10-4.50% area. The sweet spot area for gains was between 5-10Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits dropped to RM13.1b in November (Oct: RM12.8b).

Total transactions for GG bonds fell to form 35% of overall trades in November (Oct: 44%). AAA-rated papers however rose to from 31% prior month, to form ~38% of overall trades. The AA-space however saw its secondary market sustain to form 26% of total trades for the month of November. The GG-space continued to be spread among names like DANAINFRA, LPPSA, PTPTN and PRASARANA. **Bonds that garnered top volume for the month were dominated by DANA 5/31 (GG) which saw yields spike 17bps higher compared to previous-done levels to 4.05%. Next was LPPSA 10/25 (GG) that also jumped 15bps higher to 3.60%, followed by DANA tranche i.e.; 10/32 (GG) which rallied instead with yields ending 19bps lower at 4.02%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 24-30's, Khazanah SPV conduits (i.e.; DANGA 24-33's, DANUM 25-34's), MMC 25-29's, JOHORCORP 27-38's. Genting-related (i.e.; GENM Capital 25-33's, Genting 27-34's, GLT 25-27's), UMW Perps/25-26's, utilities provider i.e. telco/water/power (AIR SELANGOR 29-43's, TNB 30-47's, TNB NE and WE bonds, TNP Power 33-43's, DIGI 25-27's, PASB 24-33's, IMTIAZ 26-28's, INFRACAP 26-36's, PONSB 27-33's, Renikola 26-39's, Point Zone 29-33's, plantation and property (i.e.; KLK 25-32's, UEM Sunrise 24-27's, SPSETIA 26-32's, energy and power (i.e., SPETCHEM 26-37's, SEB 28-33's, PSEP 27-33's, SMJ Energy 28-38's, Southern Power 24-34's, EDRA 24-38's, TBEI 26-32's, edotco 27-32's, YTL Power 24-38's), toll operators (i.e. ALRB 24-37's, PLUS 24-37's), banking (i.e.; CIMB perps/ 2032/2033 callable), TOYOTA 24's. There were also frequent odd-lot denominated trades in AFFIN Bank perps/2032 callable, AFFIN Islamic perps, Alliance Bank perps/2030/2035 callable, AmBank 2032/2033 callable, MAYBANK perps/2029/2032 callable, HLBB perps, Bank Islam 2030 callable, Bank Muamalat perps, PUBLIC 2033 callable, UOB 2030/2032 callable, LBS Bina perps, Dialog perps, SABAH Development Bank 24-26's, UEM Sunrise 24-26's, Tropicana perp/24-26's, DRB-HICOM perps, 24's, 30's YNH Properties perps/25-27's.



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-23	Rating	Amount Issued (RM mil)
Cagamas Berhad	GG	1,210
Pengurusan Air SPV Berhad	GG	300
CIMB Islamic Bank Berhad	AAA	1,000
Hong Leong Bank Berhad	AAA	100
Hong Leong Islamic Bank Berhad	AAA	200
Impian Ekspresi Sdn Berhad	AAA	450
Inti Universal Holdings Berhad	AAA	165
Toyota Capital Malaysia Sdn Berhad	AAA	150
RHB Bank Berhad	AA1	1,500
ORIX Credit Malaysia Sdn Berhad	AA2	50
AmBank (M) Berhad	AA3	1,000
Exsim Capital Resources Berhad	AA3	365
Konsortium KAJV Sdn Bhd	AA3	110
OCK Group Berhad	AA3	400
Sunway Treasury Sukuk Sdn Berhad	AA3	300
JB Cocoa Sdn Berhad	A1	50
Gabungan AQRS Berhad	A2	30
BGRB Venture Sdn Berhad	NR	5
Cenviro Sdn Berhad	NR	15
Crescendo Corporation Berhad	NR	100
Impiana Hotels Berhad (fka Bio Osmo Berhad)	NR	3
Laksana Positif Sdn Berhad	NR	6
Liziz Standaco Sdn Berhad	NR	9
MY E.G. Services Berhad	NR	25
Perdana ParkCity Sdn Berhad	NR	90
Reneuco Berhad (fka Kumpulan Powernet Berhad)	NR	5
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	NR	13
Sungei Way Corporation Sdn Berhad	NR	300
SunREIT Unrated Bond Berhad	NR	200
YTL REIT MTN Sdn Berhad	NR	25
		8,175

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk saw the halving of gross issuances from a YTD high of RM16.2b in October to only RM8.2b in November. Some of the prominent issuances consisted of Cagamas Bhd's 1-5Y AAA-rated papers totaling RM1.21bm with coupon rates between 3.71-4.27% and Hong Leong Bank Bhd's/Hong Leong Islamic Bank Bhd/s AAA-rated 3Y bonds amounting to RM100m and RM200m each with coupon rates of 4.07% each.

Outlook for December 2023

Expect USTs to be well-bid with intermittent rallies as the threat of inflation recedes and softer jobs market allow the Fed to boldly project rate cuts next year…

The Federal Reserve will have its next **FOMC meeting on 31st of January for which the Fed Funds Rate is expected to stay pat.** Despite the elevated monthly headline and core CPI inflation in November, the Fed's preferred inflation measure i.e. PCE which came in lower for both m/m and y/y, coupled with the expectations of softer wage/jobs growth is expected to allow the Fed to loosen monetary policy going forward. Fed-dated swaps-pricing reveal rates staying almost pat in January FOMC meeting but with a 70% chance of a 25bps rate cut in March. We still think that the monetary policy's lagged effects are slowly hitting the labor market, and see dynamics pointing to signs of **a potential soft landing for the economy**. **The yield curve could continue to bull-steepen as policy-sensitive shorter-ends react to the end of the rate-hiking cycle by the Fed; taking cognizance of prior quantum and frequency of rate increases since 2022 and its expected impact.** The risks to the above are the oversupply of USTs, an outlook downgrade on US credit rating, spreading of geopolitical tensions and/or melt-down of prominent financial institutions (as was seen in March).

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) posted a massive gain of 6.0% in November 2023 (Oct: -1.9%); amid slight widening in m/m OAS spreads from 128bps to 103bps; but fell to ~100bps at the time of writing. We expect gross issuances to be in the region of only ~$35-40b in December (November: ~$98b) whilst maturities are circa $35b with the bulk of it from the financial sector. Meanwhile, the Bloomberg Barclays US Corporate High Yield Total Return Index also saw a 4.5% jump (Oct: -1.2%) whilst spreads plunged from~ 432bps end-October to 371bps as at end-November; and further to 335bps at the time of writing. Fresh issuances are expected to be ~$15b in December versus actual $20b in November.

The UST 10Y is still expected to range lower between 3.80-4.00%, with support at 4.00% equivalent levels for this month. We prefer IG over HY credits (as ongoing tight credit conditions and elevated funding costs remain challenging to manage) and foresee appetite for yield pick-up within the IG universe in December. **We prefer to maintain long duration within the IG universe to within 7-10Y in industrials, communications, transportation, and utilities.**

Expect tighter range movements for bonds in December, with lesser trading opportunities as activities wind down due to low staffing levels…

We have revised our full year 2023 growth forecast higher to 3.6% following the better-than-expected 3Q GDP print of 3.3%, and expect growth to pick up to 4.7% in 2024. However, to sustain economic growth and ensure price stability, we opine that **BNM will keep OPR unchanged at 3.00% for an extended period likely through 2024**. Expect tighter range movements for bonds in December with lesser trading opportunities amid low staffing levels due to the year-end festivities and holidays. The recent penultimate and final primary issuances in early November saw strong demand for the re-openings of RM5.0b each of 5Y MGS 4/28 and 10Y MGS 11/33 which saw BTC ratios of 2.736x and 2.206x respectively. The month of December 2023 is expected to see **higher net issuances of RM15.5b compared to November's RM3.5b; with shortage funding rollover opportunities**. Local institutions are expected to slowly wind-down in both the govvies and corporate bond/Sukuk space; for both primary and secondary markets. Nevertheless, we foresee ongoing appetite in corporate bonds/sukuk for yield-carry requirements.

The 7-15Y MGS/GII sectors provide decent opportunities and reflect decent term premium along the curve. We expect the 10Y to inch slightly higher within a slightly lower range of 3.60-3.80% with support pegged at 3.80% levels. We expect the Sukuk/Corporate Bond space to draw strong demand on yield pick-up requirements with emphasis on primary participation followed by secondary market. We favor the 10Y GG (~17bps), 5-7Y AAA (~35bps) and 20Y AA2-rated bonds (~80bps) in tolling, utilities, construction, property and banking sectors.

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