Monthly Fixed Income Perspective –

Aug 23 review & Sep 23 outlook

US Bond market

- **In August**, US Treasuries (UST's) were pressured lower due the possibility of the Fed keeping rates "higher for longer" and the Jackson Hole symposium which drove sentiments for much of the month under review. The large corporate issuance slate and US Treasury's coupon offerings of 2Y, 5Y and 7Y auctions coupled with both higher US July PPI and Retail Sales also dented bonds. The curve bear-steepened again as overall benchmark yields rose between 0-20bps (prior month: 2-15bps higher). The slightly stronger NFP data (despite the slower wage growth and higher unemployment rate) had a more negative impact on bonds. **The UST 2Y yield was unchanged at 4.87% whilst the UST 10Y spiked by 15bps to 4.11%.** At the time of writing, these levels are trading higher at 5.01% and 4.28% respectively. Elsewhere, foreign holdings of USTs rose in June to ~$7.56 trillion from ~$7.52 trillion; with Japan increasing its portfolio by ~$1.11 trillion. Meanwhile, the 2s10s part of the curve became less inverted from -92bps as at end-July to -76bps as at end August, and presently narrowed further to -73bps. Elsewhere, Treasury's huge coupon offerings of ~$217b consisting of 2Y, 3Y, 5Y, 7Y, 10Y, 20Y and 30Y tenures (this excludes TIPS), added to the deluge of supply.

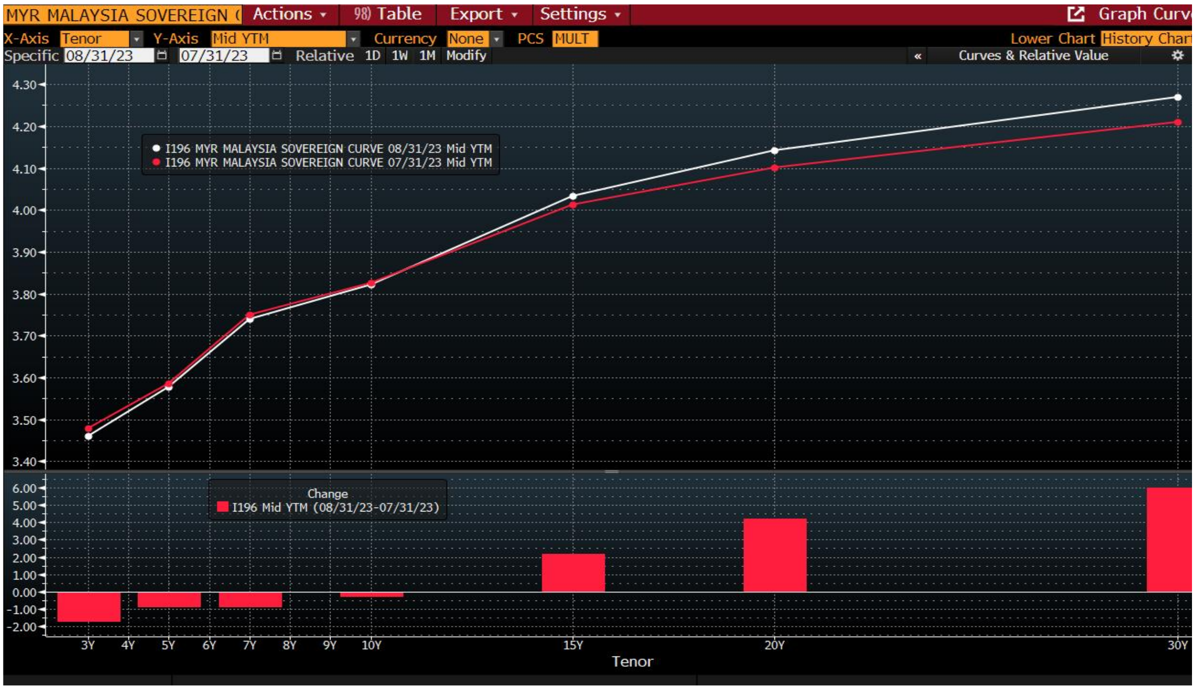
- **For September**, expect USTs to undergo volatilities with intermittent rallies as the renewed spike in US headline inflation is not expected to shift the Fed away from a hold at its September meeting this week. **The yield curve could steepen as policy-sensitive shorter-ends react to the narrative that the hiking cycle is likely almost over; 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 fell 14bps m/m to 2.17% as at end-August (from 2.31% as at end-July); has jumped back higher to ~2.31% levels again. Fed-dated OIS pricing currently reveals a near-certainty of rates staying pat in the upcoming September FOMC. **The UST 10Y is still expected to range between 4.00-4.20%, with key support at 4.20% levels for this month.** We remain averse to HY credits as credit conditions tighten amid higher funding costs for banks. We foresee improved appetite for yield pick-up within the IG universe in September. **We prefer to long duration to within 7-10Y in banking/finance, communications and consumer non-cyclical sectors.**

MYR Bond Market

- **In August**, benchmark govvies closed mixed between -6 to +9bps with the front-ends and belly better-bid; whilst the longer-ends were pressured (prior month -5 to +7bps). Both the benchmark 5Y MGS 4/28 and 10Y MGS 11/33 yields closed unchanged m/m at 3.60% and 3.80% respectively. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings fell RM5.9b to RM252.2b (representing 23.3% of total outstanding)**. The primary factors which drove bond movements were slight contrarian views that the OPR may not stay pat and concerns over inflationary pressures in US. The four (4) auctions in August 2023 saw average BTC ratios ease to ~ 2.04x (July: 2.31x); maintaining above the 2.0x handle nonetheless.

- **For September,** expect range-bound trading with attention on the lack of fresh catalysts seen in MYR. However local institutions are expected to be unfazed; thus, providing momentum for govvies in both primary and secondary markets. However, we foresee stronger demand for corporate bonds/sukuk for yield-carry requirements. **The 15Y MGS and 7Y, 20Y GII sectors reflect decent term premium along the curve. We expect the 10Y to maintain its range between 3.80-4.00% for the 3rd consecutive month; with key support pegged at 4.00% 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 whilst supply pipeline remains low.** We favor the 10Y GG (~13bps), 3Y, 5Y AAA (~28-31bps) and 15-20Y AA2-rated bonds (~53-80bps) in sectors encompassing utilities, banking cum finance and tolling sectors.

MYR sovereign curve (MGS)



Source: Bloomberg

Despite US hiring picking-up in August, wage growth slowed suggesting that the Fed may pause its rate-hike cycle for now…

August Non-Farm Payrolls ("NFP") of 187k was higher than consensus estimates of 170k but with downward revisions of 110k seen for prior two (2) months. However, the unemployment rate jumped to 3.8% (July: 3.5%). Payroll gains were broad-based led by the gains in the healthcare sector, leisure and hospitality and construction sectors whilst manufacturing payrolls increased the most since October. The participation rate rose for the first time in 4 months to 62.8%. The average hourly wages saw smaller growth of 0.2% m/m and 4.3% y/y as more people were believed to have returned to the labor force. The jobs report card seemed more mixed compared to what was seen in recent months, with cross-currents signaling perhaps that the labor market is cooling and that the Fed could have reached the end of its policy tightening cycle.

To recap, the Fed raised the Fed Funds Target Rate in its recent FOMC meeting on 26th July to between 5.25- 5.50%. For the record there were eleven (11) earlier hikes totaling 525bps between 17th March 2022 and 26th July 2023. **The Fed's current median FOMC dot plot still 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 rates staying pat at the next FOMC meeting on 20th of September with peak terminal ratee of ~5.45% in December.** Meantime, we note that the Fed's ~$8.24 trillion balance sheet as at end-July inched lower to $8.12 trillion as at end-August.

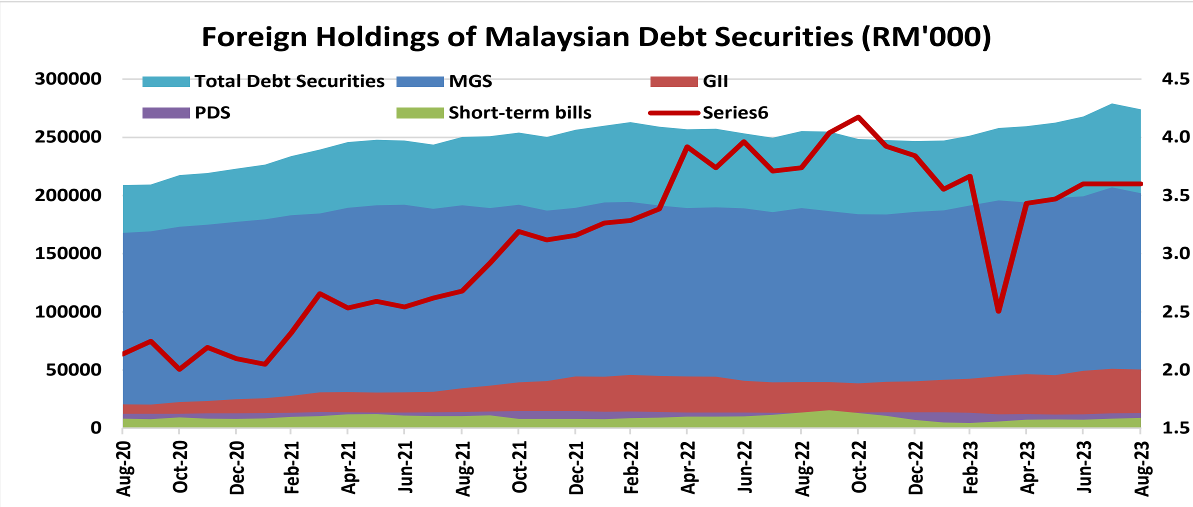
Moving on to other economic data, we note the jump in both August manufacturing data i.e.; US manufacturing PMI at 47.9 (July: 47) and solid gains in ISM manufacturing data at 47.6 in August versus 46.4 in July. Separately, the Fed's preferred inflation measure, the core PCE maintained at +0.2% m/m but inched a tad higher @ +4.2% y/y in July (June: +4.1%). Hence, when read together with the headline August CPI and NFP jobs data; one could be bewildered with the uncertain outlook for interest rates which could indued more volatility for USTs and corporate bonds.

Prominent fall in foreign holdings of overall MYR bonds by RM5.0b as offshore interest eases…

Foreign holdings of overall MYR bonds saw a substantial decrease RM5.0b or 1.8% m/m in August (July: +RM11.3b or 4.2%) to RM274.2b mainly due to the fall in MGS which more than offset the slight increase in conventional MTB holdings. Non-resident holdings of MGS dropped RM5.2b or 2.5% to RM201.9b (prior month: +RM7.6b or 3.8%), thus forming a lower 35.8% of total outstanding. Foreign holdings of GII eased slightly by RM600m to RM50.4b; from prior month's historical high to RM51.4b. Movements in bond yields were largely tied to the underlying USDMYR levels. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings fell RM5.9b (representing 23.3% of total outstanding) to RM252.2b;** amid the rise in net issuances to RM9.0b for the month (July: net issuances of RM4.5b); for which the shortfall in rollover from maturities was believed to have dampened appetite for primary issuances. Meantime, **12-month cumulative rolling inflows decreased to RM23.5b (prior month: RM33.0b).**

However, we also note that the secondary market saw slightly better foreign participation instead compared to coupon offerings via auction exercises in August, despite several of its peers (except for Philippines and Indonesia) seeing tighter spreads than Msia sovereign debt. However, the continued presence of well-diversified and availability of funds by local investment institutions namely GLIC's, pension funds, GLC's, insurance companies, asset management and unit trust companies are seen to provide support in the fixed income space.

Separately, equity saw only marginal inflows of RM141m in August (July: +RM1.4b) whilst the 12-month rolling outflows increased to RM6.5b in August from RM4.7b in July. On the currency side, the MYR weakened against USD at 4.6385 as at end-August (end-July: 4.5070) but has weakened further to 4.6772 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.

Lower participation seen for August auctions amid high net issuances of RM9.0b…

The four (4) auctions in August 2023 saw average BTC ratios fall to ~ 2.04x (July: 2.31x); yet maintaining above the 2.0x handle. The highest BTC of 2.557x among the auctions was notched by the re-opening of 30-year GII 5/52 which saw strong participation from a myriad of investors that included inter-bank participants, insurance companies, GLC's and pension funds, resulting in a short tail of a mere 1.6bps. The other auctions consisted of the re-opening of 5Y MGS 4/28, 20Y GII 8/43 and 15Y MGS 6/38. Together, all four (4) auctions in August saw slightly higher individual sum of bids amounting to between RM6.0-8.6b. Demand for auctions were decent despite private placement offerings which did not sap appetite from the larger investment institutions. The continued availability of rollover maturity benefits (Aug RM10.0b maturities) versus July's maturities of RM10.5b) in the Malaysian government bond space helped boost primary participation. Both fresh and rollover of funds were still seen in both the primary and the secondary market with offshore funds showing some interest in shorter-tenured off-the-runs and existing 3-10Y benchmarks resulting in higher foreign holdings. 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 RM134.0b versus our run-rate of RM126.0b

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		5,000								
29	5-yr Reopening of MGII (Mat on 07/28)	5	Sep	Q3		5,000								
30	20-yr Reopening of MGS 10/42	20	Oct	Q4		4,500								
22	10-yr Reopening of MGII (Mat on 08/33)	10	Oct	Q4		4,500								
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	110,000	24,000	134,000	PROJECTED TOTAL ISSUANCE SIZE = 168-172b				

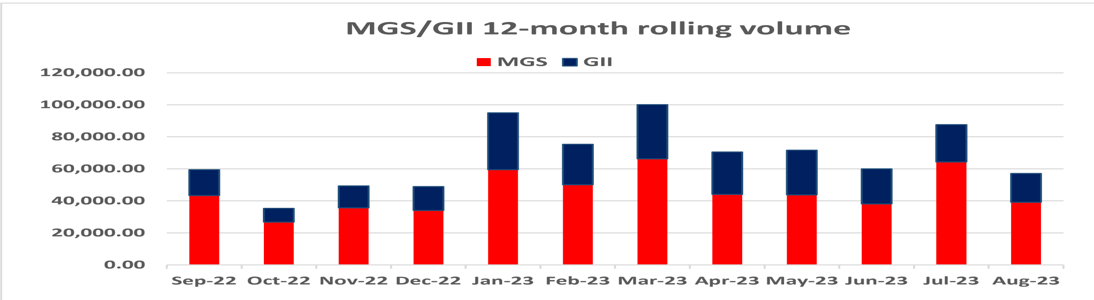
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity underwent a pullback in August…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds fell to RM61.7b in July compared to prior month's RM88.0b. The quieter stance adopted was due to several factors that exuded cautious stance ahead of BNM's MPC meeting, US inflation report, higher movements seen IRS yields, and rise in both the 1-month and 3-minth KLIBOR during the early part-of August. The weaker MYR against the greenback and early uncertainties saw traders and investors either stayed at the sidelines or engaged in profit-taking activities.

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

- MGS/GII yields saw the front-ends and belly extending out to 10Y sector mostly lower i.e.; between -5 to +1bps but a prominent rise of between 3-9bps was noted in the longer-ends. 20-30Y part of the curve whereas the front-ends and belly saw decent bids throughout the month. MGS curve was pivoted at the 10Y sector whilst the GII curve pivoted along the 7-15Y sector instead.
- MYR mid-IRS levels fell 2-5bps to 10Y tenures compared to previous month which saw levels climb 2-6bps.
- 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 (19.4% of overall volume), followed by benchmarks 10Y MGS/GII (10.9%) and then 5Y MGS/GII (7.6%) and 7Y MGS/GII (7.5%), which altogether accounted for almost half of overall trades.



Source: BPAM, Bloomberg, HLBB Global Markets Research

Expect some degree of volatility over ongoing flipping concerns over inflation mainly in US despite views that the Fed is perched on its last couple of legs of a hiking cycle. 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 with eyes on the current MYR levels.

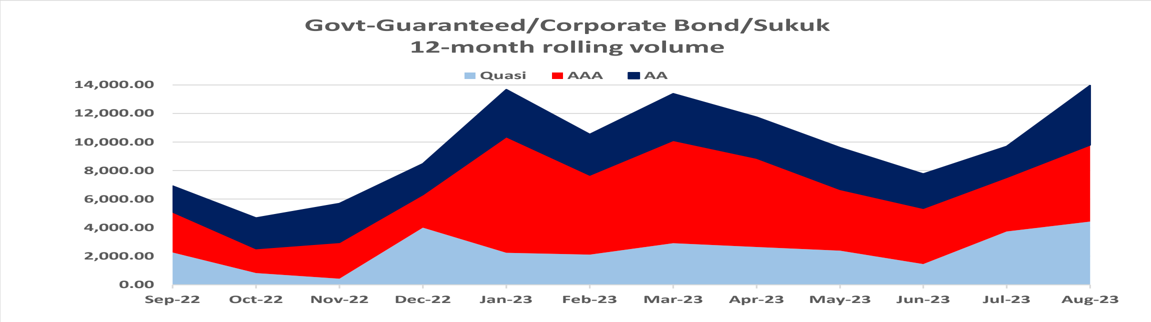
Corporate Bonds/Sukuk volumes however surprised on the upside in August…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) also continued its higher momentum and participation as trading volume jumped higher by 44% in the secondary market to RM14.8b in August (July: RM10.3b).

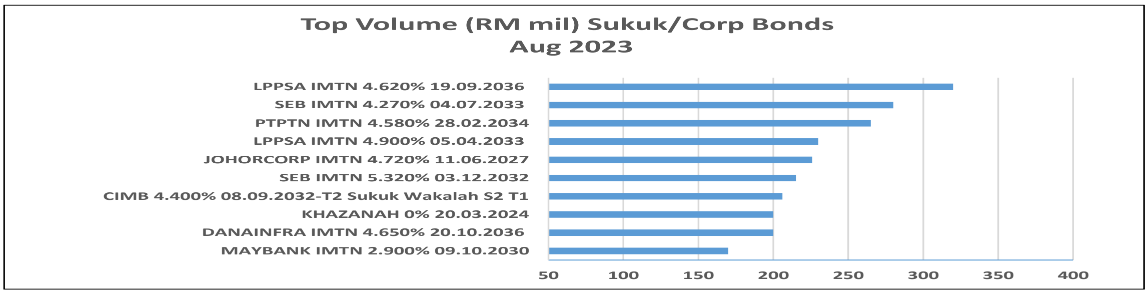
Activity in Corporate Bonds/Sukuk space took a different turn (compared to govvies) on the back of higher secondary market participation as yields ended mostly mixed-to-lower for the month under review. Also, the relatively lower m/m primary issuances witnessed higher participation and interest in the secondary market. The Govt-Guaranteed (GG)-segment saw the 5-20Y tenures wider between 1-2ps to between 3.80-4.40% levels. The AAA-rated space similarly saw tenures between 2-10Y tenures, richer between 1-4bps instead; with levels around 3.78-4.23%. The AA2-segment too saw yields settle lower between 1-5bps for the 2-10Y sector; resulting in yields closing within the ranges of 3.96-4.45% area. The sweet spot area for gains was between 3-7Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits crept higher to RM13.1b in August (July: RM12.9b).

Total transactions for GG bonds fell to form 32% of overall trades in August (July: 38%). AAA-rated papers however sustained to form ~38% of overall trades. The AA-space also saw its secondary market jump 30% higher compared to 23% for the month of July. The GG-space continued to be spread among names like DANAINFRA, LPPSA, PRASARANA and PTPTN. **Bonds that garnered top volume for the month were dominated by LPPSA 9/36 (GG) which rallied with yields ending 13bps lower to 4.09% compared to previous-done levels. Next was SEB 7/33 (AAA) which closed unchanged at 4.15%, followed by PTPTN 2/34 bonds which edged 1bps to 4.01%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-28's, DANUM 25-34's, UMW 25-26's/perps, MAHB 24-30's/perps, JCORP 27-38's, MMC 27-29's, Genting-related i.e.; GLT12, GENM Capital 24-30's, utilities provider i.e. telco/water/power, (DIGI 26-30's, AIR SELANGOR 27-41's, PASB 24-31's, TENAGA 29-42's, TNB Power 33-38's), construction/property/plantation (i.e., KLK 25-34's, BKB 29-32's, Eco World Capital, GAMUDA 28-33's, PKNS 24-35's, SDProperty 27-30's, UEM Sunrise 24-27's, IJM perps, SPSETIA 26-30's, PMETAL 24-29's, energy and power (i.e.; Sarawak Hidro 24-27's, SPETCHEM 25-37's, JEP 23-30's, SEB 24-35's, Southern Power 26-33's, EDRA 24-38's, YTL Power 24-38's), toll operators (i.e. ALRB 24-37's, LDF 26-34's, PLUS 24-38's), banking (i.e.; MAYBANK 2031, 2032 callable/perps, MBSB 29-31's, RHB 25-26's, 2030 callable), Point Zone 28-33's, IMTIAZ 25-29's, INFRACAP 28-36's. There were also frequent odd-lot denominated trades in AFFIN Bank perps/2032 callable, Public Islamic 27-32's, Alliance Bank perps, 2030, 2032, 2035 callable, AmBank 2032, 2033 callable, CIMB 25's, 32 callable, HLBB perps, Malaysian Re 32's, SABAH Development Bank 23-27's, UOB 2030, 2032 callable bonds, MCIS 2031 callable, CRE perps, MYEG 26's, DRB-HICOM 24-30's/perps, DIALOG perps, TG Excellence perps, YNH Properties 25-27's/perps and finally Tropicana 25-26's/perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in August driven by the following:

Notable issuances in Aug-23	Rating	Amount Issued (RM mil)
ALSREIT Capital Sdn Berhad	NR	455
BGRB Venture Sdn Berhad	NR	15
Cagamas Berhad	AAA	1,625
CIMB Bank Berhad	AAA	17
DRB-Hicom Berhad	A3	200
Eco World Capital Berhad	AA3	550
Liziz Standaco Sdn Berhad	NR	17
Malayan Banking Berhad	AAA	27
Mercedes-Benz Services Malaysia Sdn Berhad	AAA	350
Malaysia Rail Link Sdn Berhad	GG	650
MTT Shipping Sdn Berhad	AA3	420
MY E.G. Services Berhad	AA3	300
Perbadanan Kemajuan Negeri Selangor	AA3	230
Pac Lease Berhad	AA2	145
Poseidon ABS Berhad	AA2	320
Sabah Development Bank Berhad	AA1	107
Sime Darby Property Berhad	AA1	600
Silver Formula ABS Berhad	NR	95
Sunway Healthcare Treasury Sdn Berhad	NR	387
Tumpuan Azam Sdn Berhad	NR	29
Toyota Capital Malaysia Sdn Berhad	AAA	150
Tanjung Pinang Development Sdn Berhad	NR	25
West Coast Expressway Sdn Berhad	NR	23
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	3
YTL Power International Berhad	AA1	1,400
Zamarad Assets Berhad	AAA-NR	254
		8,393

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk maintained the hot streak in gross issuances from ~15.0b in July to only RM8.4b in August. Some of the prominent issuances consisted of Cagamas Bhd's 1-50Y AAA-rated bonds totaling RM1.625b with coupon rates between 3.60-4.00% and YTL Power International Bhd's AA1-rated 6-15Y bonds amounting to RM1.4b with coupon rates between 4.30-4.74%.

Outlook for August 2023

Expect USTs to undergo volatilities with intermittent rallies as the continued threat of inflation and strong jobs data is expected to ease…

The Federal Reserve will have its next **FOMC meeting on 21st of September for which we maintain our forecast for the Fed Funds Rate to remain unchanged between 5.25-5.50%**. The Fed's preferred inflation measure, the core PCE which maintained at +0.2% m/m but inched a tad higher @ +4.2% y/y in July (June: +4.1%) **coupled with slowing** wage growth despite higher NFP data that was above market estimates may well leave the Fed with mixed thoughts over further threat of elevated inflation. Current swaps-pricing reveal rates staying almost pat in September's FOMC meeting with a 30% chance of a 25bps rate hike in November's FOMC meeting. **The yield curve could steepen as policy-sensitive shorter-ends react quickly to the potential end of rate-hiking cycle by the Fed; taking note of the effects of prior frequent and quantum of rate increases into the economy in general**.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) reversed to post a loss of 0.8% in August 2023 (July: +0.3 %); amid slight widening in m/m OAS spreads from 112bps to 119bps. We expect gross issuances to be in the region of ~$100-110b in September (August: ~$75b) whilst maturities are lower at circa $40b 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 maintained at~ 368bps. Fresh issuances are expected to be ~$15-20b in September. Overall, US bond funds saw $2.3b outflows (prior month: +$4.0b) in IG, but high outflows of $1.7b (prior month: +$1.9b) in HY instead; revealing investors cautiousness for both categories of credit. September has traditionally delivered negative returns in each of the last 7 years but this may change if economic data disappoints.

The UST 10Y is still expected to range between 4.00-4.20%, key with support at 4.20% levels for this month. We remain averse to HY credits as credit conditions tighten amid higher funding costs for banks. We foresee improved appetite for yield pick-up within the IG universe in September. As inventories of >10Y debt have plummeted whilst buyers emerge with interest in debt with longer maturity, the lack of inventory could push spreads tighter. **Hence, we prefer to long duration to within 7-10Y in banking/fin cos, 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 2H2023 and **we forecast our full year real GDP growth forecast to likely ease below the official forecast range of 4.0-5.0%**. The government is also sticking to the plan to narrow the budget gap to 3.0-3.5% of GDP by 2025 as envisioned by the mid-term review of the 12th Malaysia plan. 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.

Demand for local govvies at bond auctions in September are expected to maintain above ~ 2.0x handle following decent relative spreads compared to many of its regional peers. The recent primary issuances in September saw good demand for the reopening of RM4.5b of 3Y GII 9/26 which notched a BTC ratio of 2.167x. The month of September 2023 is expected to see **higher net issuances (projected gross issuances > maturities) of RM14.5b compared to August's RM9.0b; with funding rollover opportunities believed to be lacking**. However local institutions are expected to be unfazed; thus, providing momentum and adequate support for govvies in both primary and secondary markets. Expect range-bound trading with attention on the underlying weakness seen in MYR.

The 15Y MGS and 7Y, 20Y GII sectors reflect decent term premium along the curve. We expect the 10Y to maintain its range between 3.80-4.00% for the 3rd consecutive month; with support pegged at 4.00% 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 whilst supply pipeline remains low. We favor the 10Y GG (~13bps), 3Y, 5Y AAA (~28-31bps) and 15-20Y AA2-rated bonds (~53-80bps) in sectors encompassing utilities, banking cum finance and tolling sectors.

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