Maybank

FIXED INCOME

Malaysia

MY Fixed Income Outlook 4Q23

Weathering the UST Storm

MGS: Local Factors Supportive, But UST Risk

In the absence of domestic market-moving event, UST became the main driver to local yields. Supported by BNM-Fed divergence and neutral supply profile, MGS continued to show better resilience with the 10y yield holding near 4.00% despite the relentless rise in 10y UST to c.4.60%, and we think 10y MGS will continue to trade at a low 20-30% beta vs. UST. We maintain that the OPR has peaked at 3.00% in this cycle. Real GDP growth has slowed considerably as the Covid reopening tailwind fades, while inflations are manageable though upside risks still linger. The deficit target of 5% over GDP in 2023 is achievable given the fiscal outperformance YTD, providing buffers to potentially higher fuel subsidy bill if oil prices stay high. Budget 2024 will likely sustain the fiscal consolidation path and we expect lower net MGS+GII supply next year. While higher USDMYR spot hasn't affected foreign demand for Ringgit bonds due to favourable USD-hedged returns, CNY stability serves as an important anchor to regional sentiment, losing which regional risk assets would come under pressures, in our view. We maintain our MGS outlook at mildly bullish. From the hindsight, neutralizing the outlook would have worked better, but we still prefer to adopt a strategy of switching between mildly bullish and bullish on our bond positioning recommendation in late cycle. We tend to turn bullish to take advantage of market dislocations (we did so twice last year in late-April and late-September), but such opportunities are not evident currently. Front-end MGS offers value as the 3y MGS-OPR spread is wide. Interbank liquidity appears somewhat tight resulting in higher 3M KLIBOR fixing and we will monitor the development. To be realistic, we revise up our 10y MGS yield forecast to 3.80% by end-2023 given the prevailing "higher for longer" belief in developed market rates pricing, but we still see the 10y MGS yield falling to 3.50% in 6-9 months when the lagged effect of global central bank tightening on the economy becomes more evident.

PDS: Healthy Issuances, Tight Credit Spreads

Issuances totaled MYR84.4b in 9M23. We maintain our full-year forecast at MYR110b considering good pipeline visibility, slower but healthy economic activity and still conducive domestic funding conditions. Rating migration trend was roughly balanced. While we expect MYR credit conditions to remain stable, the continued tightening in credit spreads has exceeded our expectations to levels near/at the bottom end of historical range, which may not appropriately compensate for potential risks in future.

UST: Growth Optimisms May Lower Bar to Disappoint

UST selloffs have been unexpectedly sharp and persistent, led by long durations due to surprisingly strong US economy, higher coupon supply and lingering inflation fears amid the oil price rebound. Against our previous expectation of Fed rate cut to <5.00% in 1H24, rates pricing has pushed higher. But the UST 2y10y curve has steepened to about -50bp as expected from -105bp three months ago, although the steepening wasn't due to rate cut pricing but corrections at the long-end. Previously we preferred curve trade over outright long UST as the 2y10y inversion was too deep, but at current yields we think the risk-reward of long 10y UST is favourable: seeing 20-25bp upside risk to yields near term but a much bigger decline later. From a pure rates expectation standpoint, implied forwards of UST curve have priced in for rate staying >4.00% in the long term seemingly "high for much longer" compared to the FOMC long-run median 2.5% (Min: 2.4%, Max: 3.75%). We prefer to exercise extra caution amid increased market and Fed growth optimisms as this may lower the bar to disappoint.

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SEE PAGE 17 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Bond Performance 3Q23: Dominated by UST Risk

Developed Markets: "Treading Water" → "Underwater". Surprisingly strong US growth, higher coupon supply and renewed inflation concerns following the jump in oil prices weighed heavily on UST. US Treasuries total return decreased to -1.5% in 9M23. Recession risk has taken a back seat and the US high-yield corporate spread remained tight at c.400bp. Meanwhile, the BOJ lifted the 10y YCC ceiling further. Overall, market pricing still shows a hawkish tilt although most DM rates are near/at the peak. UK Gilts outperformed as the UK economy is losing steam with the S&P Global PMIs pointing to contraction led by the services sector, and GBP rates market has dialled back greatly the peak rate pricing from 6.5% to 5.4%, with the BOE probably the first among DM central banks to cut rate, in our view.

EM Asia: Offers No Refuge. Mid-yielders China and Malaysia held up better, but high-yielder Indonesia bonds were sold off amid FX weakness, while low-yielders Korea, Singapore and Thailand all repriced higher in yields given their inherently higher sensitivity to UST plus local factors such as Thailand's bond supply concern. Most EM Asia government bonds still managed to post positive total return YTD in local currency except for Singapore and Thailand, led by Philippines (+6.7%), Indonesia (+6.1%) and India (+6.0%), followed by Malaysia (+4.0%), China (+3.4%) and Korea (+1.0%), while Thailand (-0.02%) and Singapore (-1.3%) turned negative.

MYR Govt Bonds: Bond total return (+4.0%) still outperformed equity (-1.1%) and cash (+2.1%) YTD, but the gap of outperformance reduced as equity trimmed losses while bond returns were pared in 3Q23. The MGS curve bear-steepened moderately in 3Q23, as investors demand for larger risk premiums on long duration in a bearish environment while the front-end held up better as the Sep MPC statement gave a clearer signal of extended hold in OPR. Now the 2023 full-year MYR government bond total return looks likely to undershoot our 6-8% forecast (2022: 1.3%).

Figure 1: G4 and EM Asia: 10y Government Bond Yields

Region	Country	Last	Change (%/bp)			
			1W	1M	3M	YTD
10y Government Bond Yield (%)						
G4	US	4.57	13	46	73	69
	Germany	2.91	17	44	52	34
	Japan	0.76	3	12	37	35
	UK	4.48	24	13	10	82
EM Asia	China	2.67	-2	9	4	-16
	India	7.20	5	3	9	-13
	Indonesia	6.88	14	52	64	-4
	Korea	4.01	2	19	35	28
	Malaysia	3.97	-0	13	13	-7
	Philippines	6.46	-4	13	18	-51
	Singapore	3.41	1	28	35	33
	Thailand	3.14	0	38	58	51

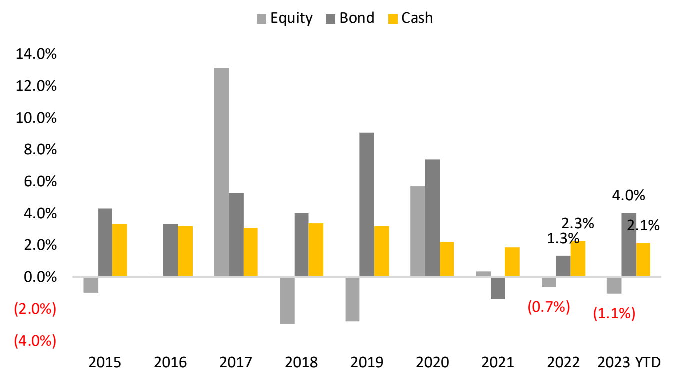
Sources: Bloomberg, Maybank IBG Research
**As of 29 Sep*

Figure 2: G4 and EM Asia: 2y10y Sovereign Curves

Region	Country	Last	Change (%/bp)			
			1W	1M	3M	YTD
2y10y Sovereign Curve (bps) - (Flatten)/Steepen						
G4	US	(49)	19	27	57	6
	Germany	(35)	16	-1	29	-63
	Japan	71	0	9	15	9
	UK	(44)	10	24	9	-100
EM Asia	China	45	1	-1	-7	-6
	India	6	5	-0	-15	-30
	Indonesia	62	10	48	18	-41
	Korea	15	2	5	20	21
	Malaysia	41	0	3	4	1
	Philippines	28	-6	10	38	-74
	Singapore	(28)	-6	8	23	-27
	Thailand	58	-2	11	16	-44

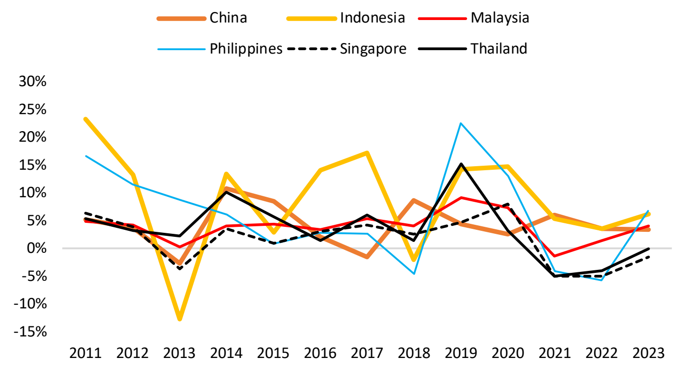
Sources: Bloomberg, Maybank IBG Research
**As of 29 Sep; Malaysia 3y10y curve*

Figure 3: MYR Govt Bond Total Return: 2015-2023 YTD



Sources: Bloomberg, Maybank IBG Research
**Total return measurement: Bond = Ringgit government bonds, Equity = KLCI, Cash = Monthly weighted 12-month fixed deposit rates*

Figure 4: ASEAN5+: Govt Bond Total Return: 2011-2023 YTD



Sources: Bloomberg, Maybank IBG Research
**Local currency government bond return in domestic currencies*

Govt Bond: Lighter Supply in 4Q23

Supply Update and 4Q Outlook: Gross MGS+GII supply totaled MYR144b in 9M23. The YTD run rate is slightly ahead of our full-year forecast of MYR172b, which we imputed a small positive fiscal surprise of MYR2-3b, without which full-year supply would likely be higher at MYR175b. Monthly supply is expected to decline gradually into Nov-Dec due to lower scheduled auctions. There are only two ultra-long supply left: 20y MGS 10/42 reopening (early Oct) and 30y GII 5/52 (early Nov). Another key auction to watch for is the GII 8/33 reopening (mid-Oct), which will replace the existing GII 10/32 as the new 10y GII benchmark bond.

Budget Realisation: The deficit ratio target of 5.0% for 2023 is achievable. The 8M23 budget deficit showed a -9% YoY improvement at MYR47.2b, and the run-rate is ahead of the full-year target of MYR94b, although these are preliminary figures, and some expenditures may be back-loaded as last year a big sum of deficit was incurred in 4Q and is unclear whether this will repeat. Also, fuel subsidy spending may rise given higher Brent prices (YTD average: USD82/bbl, Budget assumption: USD80/bbl), and full-year average can rise to USD85-86/bbl if oil prices stay high. We will update our bond supply forecast after the tabling of Budget on 13 October.

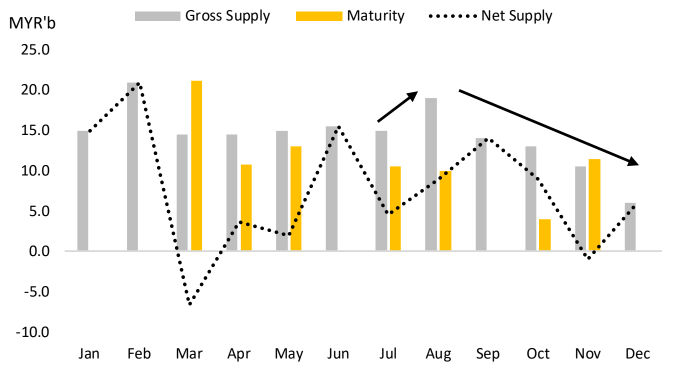
Auction Demand: Auction bid-to-cover ratios averaged a healthy 2.13x in 3Q23 (2Q23: 2.16x, 1Q23: 2.23x). Private placements remained a key anchor, absorbing 17.4% of the gross MGS+GII supply in 9M23, although the absorption ratio fell slightly compared to 18.7% in 2022.

Figure 5: MGS+GII: Monthly Supply Profile, Oct-Dec 2023

Month /Date	Stock Name	Gross Supply	Maturity Amount	Net
Oct	20-yr Reopening of MGS 10/42 4.696%	4,000		
Oct	10-yr Reopening of MGII 08/33 4.582%	4,500		9,000
Oct	7-yr Reopening of MGS 04/30 4.498%	4,500		
31-Oct	PROFIT-BASED GII 2/2013 31.10.2023		(4,000)	
Nov	30-yr Reopening of MGII 05/52 5.357%	3,500		
Nov	5-yr Reopening of MGS (Mat on 04/28)	3,500		(1,000)
Nov	7-yr Reopening of MGII 09/30 4.245%	3,500		
30-Nov	GII MURABAHAH 3/2018 4.094%		(11,500)	
Dec	3-yr Reopening of MGII 09/26 4.070%	3,000		6,000
Dec	10-yr Reopening of MGS 11/33 4.642%	3,000		
	4Q22 Total	**29,500**	**(15,500)**	**14,000**

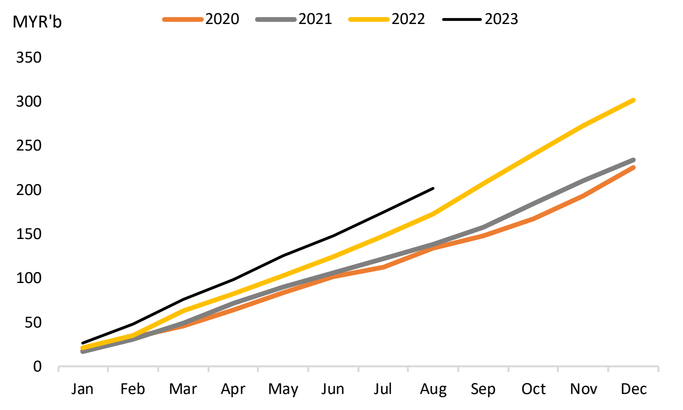
Sources: BNM, Maybank IBG Research
**Estimates for Gross Supply*

Figure 6: MGS+GII: Monthly Supply Profile 2023



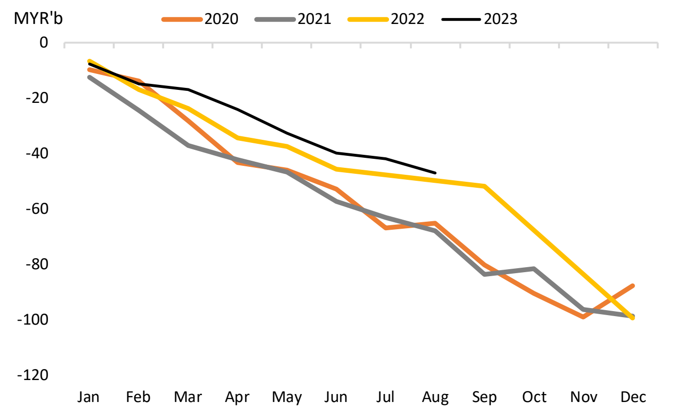
Sources: BNM, Maybank IBG Research
**Estimates for gross supply in Oct-Dec*

Figure 7: Government Revenue: Yearly Cumulative



Sources: CEIC, Maybank IBG Research

Figure 8: Government Budget Deficit: Yearly Cumulative

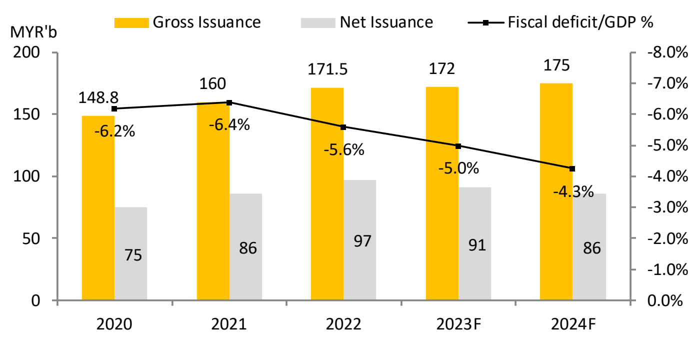


Sources: CEIC, Maybank IBG Research

Preview: Govt Bond Supply 2024

Assuming a fiscal deficit to GDP ratio of 4.25% for 2024 (our economic research estimates 4.0-4.3%), which is close to the target under the Medium Term Fiscal Framework, budget deficit amount may be cut to around MYR86b in 2024 (2023E: MYR94b). Refinancing of maturities is expected to total MYR93b. This means gross funding requirement of MYR179b. Considering that BNM may conduct debt switches to trim bond maturities in 2024, we tentatively pencil in gross MGS+GII supply of MYR175b and net supply of MYR86b in 2024 (Figure 9). Net supply should be lower YoY.

Figure 9: Government Bond Issuance: 2020-2024F



Sources: CEIC, BPAM, Maybank IBG Research

Figure 10: Government Bond Maturities 2024

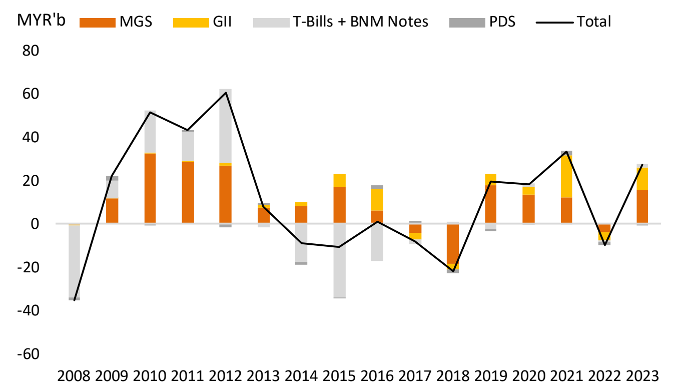
Maturity	Stock	MYR'b
21-Feb-24	SPK 1/2014 4.731% 21.02.2024	5.5
22-May-24	GII MURABAHAH 8/2013 22.05.2024	12.5
14-Jun-24	MGS 3/2019 3.478% 14.06.2024	21.5
15-Jul-24	MGS 1/2014 4.181% 15.07.2024	11.0
15-Aug-24	GII MURABAHAH 2/2017 4.045% 15.08.2024	12.0
30-Sep-24	MGS 2/2017 4.059% 30.09.2024	11.0
15-Oct-24	GII MURABAHAH 4/2019 3.655% 15.10.2024	19.5
	Subtotal - MGS	43.5
	Subtotal - GII	44.0
	Subtotal - SPK	5.5
	Total Maturity	**93.0**

Sources: BPAM, Maybank IBG Research

Foreign Demand: Choppy Flows

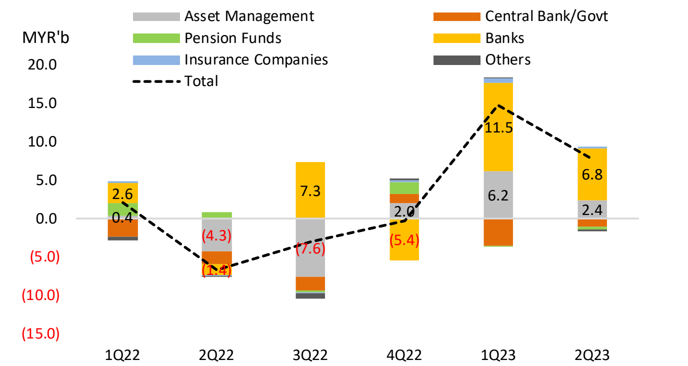
Foreign inflows to Ringgit bonds totalled a surprisingly large MYR27.4b in 8M23, although the momentum of flows had turned negative in August after seven straight months of net gain. Despite weaker Ringgit, which lost 6.2% vs. the USD YTD as of 29 Sep and underperformed most EM Asia peers, USD-hedged MGS yields offer attractive enhanced returns due to the negative USDMYR forward points. The USD-hedged 3y MGS yields still provide close to 6% annualised yield using 3-month rolling FX forward, by our estimate (Figure 14), one of the highest in EM Asia. We think the favourable FX-hedged returns to foreign funds will continue until either 1) the Fed starts to cut rate thereby narrowing back the MYR-USD rate differential, or 2) a major risk-off event that disrupts the current market dynamics such as a sharp downturn in China's economy dampening the appeal of regional risk assets.

Figure 11: Ringgit Debt: Yearly Foreign Flows, 2008-8M2023



Sources: CEIC, BNM, Maybank IBG Research

Figure 12: Foreign Composition: Offshore Banks and Asset Management Companies Drove Inflows in 1H23

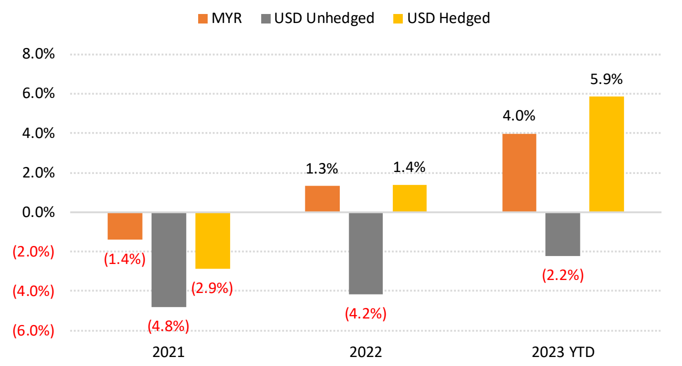


Sources: CEIC, BNM, Maybank IBG Research

Looking ahead, we have a neutral outlook on foreign demand, but the flow pattern could turn choppy with reversal risks arising from the high uncertainty in US rates path and China macro headwinds.

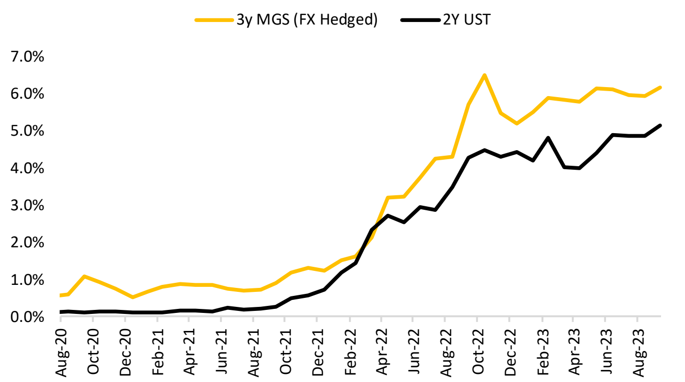
- By debt instrument, the foreign holdings of Ringgit short-term instruments (BNM notes + Treasury bills) is very low at <MYR10b, therefore unlikely to be a source vulnerability to flows.
- But by type of foreign holder, offshore banks accounted for MYR18.3b/81% of the net inflow to Ringgit government bonds in 1H23, and their holdings are deemed less sticky. Malaysia's membership in major bond indices are expected to remain stable in the next 3-6 months. New additions to the FTSE Russel WGBI shouldn't affect much the index weight of Malaysia. On the GBI-EM Global Diversified index, the planned inclusion of India from Jun 2024 to Mar 2025 may reduce Malaysia's index by about 0.5ppt from 10% currently which could be worth USD1.0-1.25b in total foreign flow by our estimate, but is not expected to cause sudden and large outflows from Ringgit bonds given a long phase-in window of 10 months, and active funds probably started adjusting positions ahead of the change, lengthening the window of rebalancing.

Figure 13: MYR Govt Bond Total Return Comparison: FX Hedging Crucial to Foreigners in Ringgit Bonds



Sources: Bloomberg, Maybank IBG Research

Figure 14: USD-hedged MGS Yields Remain Attractive vs. Front-end UST



Sources: Bloomberg, Maybank IBG Research

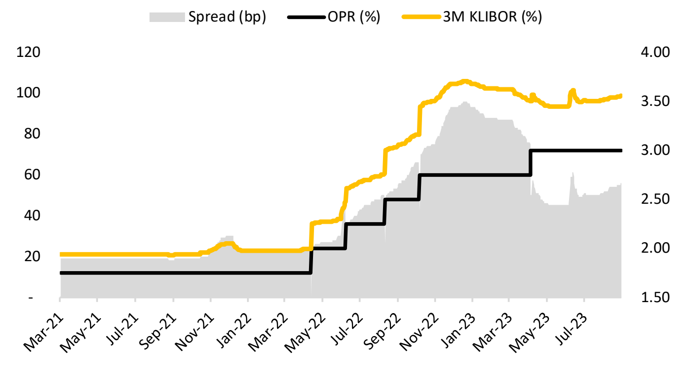
OPR: Interest Rate Views and Interbank Liquidity

OPR: Likely Extended Pause at 3.00%. At the last policy meeting in September, important changes were made to the MPC statement where the policy stance was no longer described as "*slightly accommodative*" and the "*financial imbalances*" wordings have been removed. This gives a clearer signal of extended pause in OPR, in our view. The MPC considered the balance of risks to both the growth and inflation outlook as roughly even, although there remains upside risks to inflation depending on global commodity prices and domestic policy on subsidies and price controls. We maintain that OPR will be kept unchanged at 3.00% for the rest of 2023 (one more meeting on 1-2 Nov), and into 2024. Malaysia's real GDP growth slowed further to 2.9% YoY in 2Q23 (1Q23: 5.6%, 2022: 8.7%) as reopening tailwind faded. Our economic research expects full-year growth of 4.0%, which implies additional moderation in economic activity to sub-4% in 2H23 compared to 4.2% in 1H23; monthly GDP growth estimate was still a sluggish 2.4% YoY in July.

Interbank Liquidity: Some Tightness. Following a short period of sudden liquidity tightness from late-June to early-July which caused a 14-28bp jump in KLIBOR fixings, interbank liquidity conditions stabilized but some tightness has reappeared from late-August, pushing up 3m KLIBOR by 7bp in total to 3.57%. In comparison, the 1m KLIBOR fixing has been more stable rising by 2bp in total to 3.29% thus far. The monthly banking statistics showed that deposit growth slowed to just 2.5% YoY in August (Jul: 3.5%), undershooting the 4.2% YoY loan growth by 1.7ppt, although CASA ratio increased slightly to 29.3% (Jul: 29.0%) compared to 32.9% at the peak in Apr 2022 and 26.5% at end-Dec 2019 pre-Covid. OMO activities via BNIB have turned more supportive and we estimate a fairly sizeable net injection in

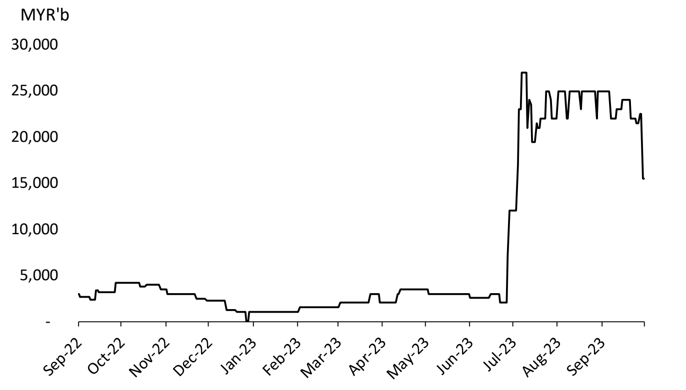
September. Meanwhile, BNM reverse repo operations saw increase in bid for 1m liquidity, resulting in uptick in auctioned rates to levels higher than the unsecured 1m interbank fixing. BNM reverse repo operations turned net injections in September, compared to net drains between February and July. We don't expect a repeat of the substantial widening in KLIBOR-OPR spreads like last year but would monitor the interbank liquidity conditions for signs of additional tightness going forward especially into the year-end.

Figure 15: We Don't Expect A Repeat of Substantial Widening in KLIBOR-OPR Spreads Like 2H22 but Will Monitor Situation



Sources: Bloomberg, Maybank IBG Research

Figure 16: Total Outstanding BNIBs: Release of Some Liquidity Amid Some Tightness in Interbank Market



Sources: Bloomberg, Maybank IBG Research

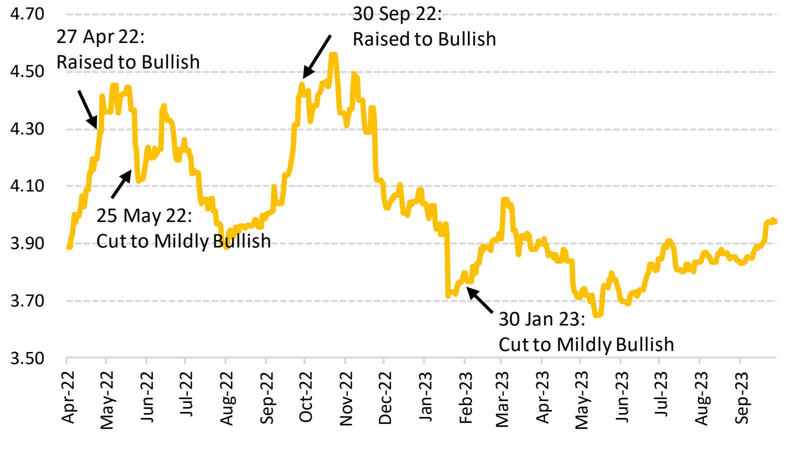
MGS Outlook: Local Factor Supportive, But UST Risk Persists

Sensitivity to UST. While the unexpectedly sharp and persistent UST selloff had inevitably weighed on local bond, MGS continued to show better resilience. Overall in 3Q23, 10y MGS yield rose by a relatively mild 13bp to 3.97% compared with a 73bp increase in 10y UST yield to 4.57%. In the absence of major local event, UST became the key driver to local yields. We think 10y MGS will continue to trade on a low beta of 20-30% to 10y UST given BNM-Fed policy divergence. The OPR has been stable with a narrow range of 125bp between the peak and the trough, and the terminal MYR rate is more predictable, unlike the Fed which has a history of adopting aggressive policy in both the easing and tightening directions. On the sensitivity of 10y MGS to 10y UST, we still expect 1) 10y MGS yield of 4.00% if 10y UST rises to 4.50% and, 2) 10y MGS yield of 4.25% if 10y UST rises to 5.00%. That means, if UST yields continue to push higher, the negative spread for 10y MGS-UST could widen to 75-100bp; it actually went wider than >100bp pre-GFC, although foreign participation was much lower that time.

MGS Outlook: Maintain at Mildly Bullish. Local factors remain supportive of MGS given slower GDP growth, moderate inflation, stable interest rate and a neutral supply profile. We have maintained MGS outlook at mildly bullish after reducing it from bullish since late-Jan when 10y MGS fell to 3.75-3.80%. From the hindsight, neutralizing the call would have worked better. But we still prefer to adopt a strategy of switching between mildly bullish and bullish at the late stage of the economic cycle. UST yields continue to test new highs, but the MGS curve is still 40-50bp off the peaks in 2022. We turned bullish twice since 2022: 1) bullish in late-Apr 2022 then cut back to mildly bullish late-May 2022 after the revenge rally and 2) bullish in late-September then cut to mildly bullish in late-January. We tend to turn bullish to take advantage of market dislocations, which are not evident. We are neutral duration. Curve steepness at the long-end looks fair.

There may be pockets of concerns among investors on supply risk going into the Budget day (13 Oct), as the government has set a higher GDP growth target under the long-term plan, intends to spend more on development expenditure and likely bigger fuel subsidy bill due to rising oil prices. Also, auction sizes had come in larger than our expectations recently. We think the 5% deficit target for 2023 will likely be achievable, and 2024 should maintain fiscal consolidation with additional decline in budget deficit amount (not just the ratio) especially when Budget 2023 included allocations for the repayment of 1MDB USD bonds which is non-recurring.

Figure 17: 10y MGS Yield vs. Our Outlook: Maintain at Mildly Bullish; on bond positioning recommendation, we still prefer to adopt a strategy of switching between mildly bullish and bullish in late cycle



Sources: Bloomberg,
Reports with MGS outlook changes or reaffirmation:

- *25 Nov 2021: 2022 Outlook: Rate Normalisation, Flatter Curve - Reaffirmed Neutral*
- *28 Jan 2022: ASEAN+ Rates Views - Reaffirmed Neutral*
- *4 Mar 2022: Malaysia Rates Update - Reaffirmed Neutral*
- *31 Mar 2022: 2Q22 Outlook - Raised to Mildly Bullish*
- *27 Apr 2022: Trade Idea: Buy MGS 6/28 - Raised to Bullish*
- *13 May 2022: ASEAN+ Rates Views - Reaffirmed Bullish*
- *25 May 2022: Malaysia Rates: MGS Revenge Rally - Reduced to Mildly Bullish*
- *30 Jun 2022: 2H22 Outlook - Reaffirmed Mildly Bullish*
- *31 Aug: ASEAN+ Rates Views - Reaffirmed Mildly Bullish*
- *30 Sep 2022: 4Q22 Outlook - Raised to Bullish*
- *25 Nov 2022: 2023 Outlook: Reaffirmed Bullish*
- *30 Jan 2023: Malaysia Rates Update: Reduced to Mildly Bullish*
- *3 Apr 2023: 2Q23 Outlook: Reaffirmed Mildly Bullish*
- *25 Jun 2023: 2H23 Outlook: Reaffirmed Mildly Bullish*

Views on MGS Curve:

- **At the ultra-long end**, the MGS 10y30y curve steepened to c.50bp (1-year mean: 47bp) after the 3/53 reopening. If sentiment remains weak, pressures will likely build the 20y MGS (early-Oct) and 30y GII (early-Nov) going into auctions, but we don't expect significant spillovers into neighbouring tenors. That means: 1) the MGS 20y30y spread may narrow to 5bp from 15bp currently due to the repricing in 20y MGS, 2) the 30y GII-MGS spread may widen to 10-15bp temporarily due to the repricing in 30y GII. We expect decent dip-buying demand for 30y MGS, holding near 4.50% if 10y MGS yield rises to 4.10% if bearishness persists.

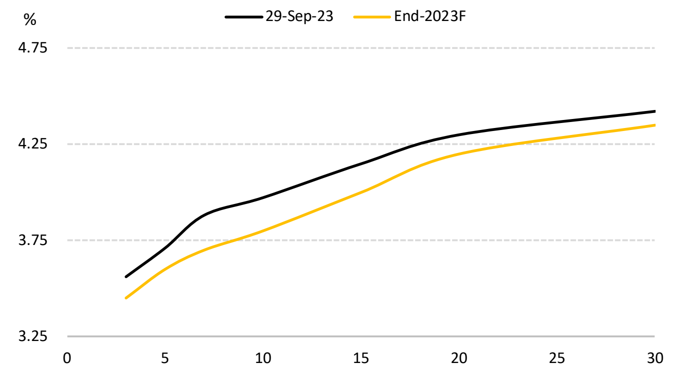
- At 15y point, however, the MGS 10y15y spread of 15bp is tight compared to the 1-year mean of 21bp. On GII curve, the 10y15y curve is even tighter at just c.10bp, likely due to premiums (i.e. lower yields) attached to 15y GII 3/38 which is the only sustainability-linked Ringgit government bonds with limited supply. Sustainability GII issuances totaled only MYR4.5b in 2022 and MYR5.5b in 2023.

- The MGS 3y10y spread of c.40bp appears fair. The 7y10y spread of 10bp looks reasonable (1-year mean: 9bp). Under bearish scenario, curve dislocation could happen going into the MGS 4/30 reopening late-Oct.

- **Front-end.** We think front-end MGS offers value with the 3y MGS-OPR spread at around 60bp as we write (1-year mean: 55bp). The 3y MGS-OPR spread tends to be tighter at the late/end stage of BNM tightening cycle (Average: about 25bp, when OPR ≥3.00%). The current 3y MGS yields of close to 3.60% offer decent carry for banks' funded positions. On the interbank funding curve, both the 1-day and 1-week rates remain stable at levels close to the overnight policy rate, but the 1-month rate has increased. Measured by 2y/3y yields vs. policy rates, MGS curve screens one of the steepest in EM Asia, while in the developed markets this part of the curve has been very flat or inverted.

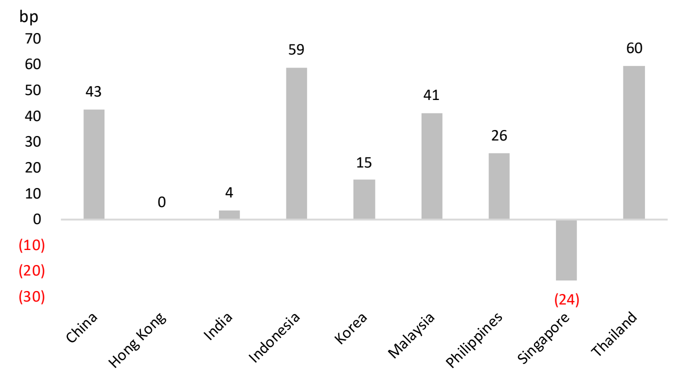
MGS Yield Forecast: We revise our MGS yield forecast for end-2023 higher due to the unexpectedly sharp increase in UST yields. We now forecast: 1) 10y MGS yield of 3.80% by end-2023 and we expect the yields to average 3.95% in 4Q23. 2) MGS Curve by end-2023: 3y: 3.45%, 5y: 3.60%, 7y: 3.70%, 10y: 3.80%, 15y: 4.00%, 20y: 4.20%, 30y: 4.30%.

Figure 18: MGS: Yield Curve Forecast (%)



Sources: Bloomberg, Maybank IBG Research

Figure 19: Curve Steepness: MGS 3y10y Spread of c.40bp Looks Fair and Above Average vs. EM Asia Peers



Sources: Bloomberg, Maybank IBG Research
**2y10y spreads except Malaysia 3y10y*

UST: Growth Optimisms May Lower the Bar to Disappoint

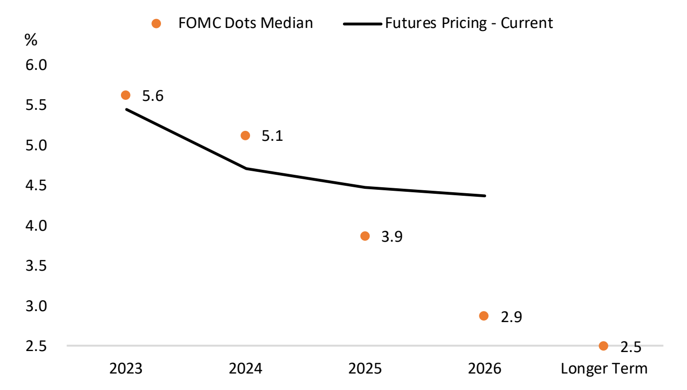
UST yields jumped in the last quarter. Long durations led selloffs, bear-steepening the curve as market consensus has shifted from expecting a recession to now a soft-landing i.e. no recession. US GDP surprised positively and the FOMC Summary of Economic Projections in September on GDP growth was revised higher: to 2.1% from 1.0% in 2023 and to 1.5% from 1.1% in 2024. Compared to March at the depth of the US regional banking crisis when the market was pricing for rate cuts to below 4% by the end of 2023, this is a big change. Not only that the timing of rate reductions has been pushed back from 2023 to 2024, the amount of cut has also been substantially reduced. To risk assets, recession is in the backseat.

As a result, the “higher for longer” narrative gained more traction. The FOMC median dots are still guiding for another 25bp hike to 5.6%, although market is not entirely convinced, pricing for a coin-flip chance of more hike. However, over the longer time horizon, we think rates market has gone significantly ahead of the Fed curve. The Fed funds futures are pricing in Fed rate staying >4.00% in 2025-2026, well above the FOMC medians of 3.9% in 2025 and 2.9% in 2026. From a pure rates expectation standpoint, the implied forwards of UST curve are pricing in long-run rate of >4.00% which is substantially higher than the FOMC long-run median of 2.5% (Min: 2.4%, Max: 3.75%), although other factors such as higher inflation volatility and larger coupon supply might have altered the curve dynamics and raised the term premiums.

In the next few weeks, key data include the US jobs report (6 Oct) and CPI (12 Oct) before the FOMC meeting on 31 Oct-1 Nov. Over the weekend, the US congress passed a bill and averted a government shutdown which had the risks of causing data delays and complicating the decision of a data-dependent Fed, but the measure would only fund the government until 17 November. The Bloomberg economic surprise index, which shows the normalized difference between actual and consensus, are still trending positive in the upper range of historical trend.

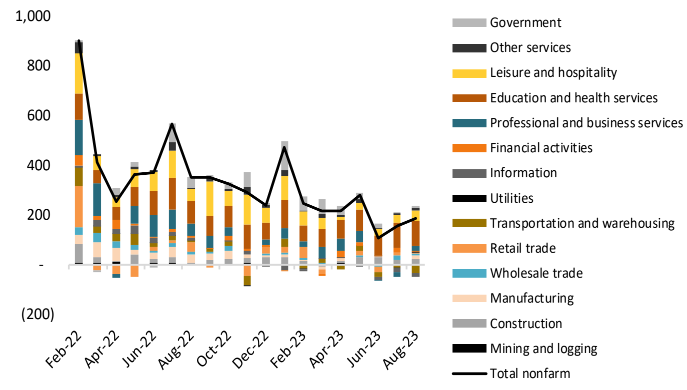
The lagged effect of Fed tightening on the economy is expected to become more evident in the next 6-9 months, amid depleting excess Covid savings, resumption of student loan repayment and squeeze from higher oil prices. Housing sector did show tentative sign of rebound, but will likely be dampened again by the rebound in mortgage rates with the 30y fixed reaching a new cycle’s high of 7.8% which is the highest in over 20 years since 2000. Home prices are holding up due to a lack of supply despite worsened affordability, as many still benefit from the long-term low fixed rates obtained in 2020-2021, thanks to overstimulation by the Fed, but things could change when jobs market soften further. On nonfarm payrolls, the Education & Health Services and Leisure & Hospitality sectors, which have a total weight of 27% in payrolls, contributed to 85% of the gains in the last three months; excluding these two sectors, the monthly payroll increases looked subdued – well below 50k a month on a 3mma basis.

Figure 20: Market Pricing Has Shifted Notably More Hawkish Than the FOMC Dots on Medium to Long Term Horizon



Sources: Bloomberg, Maybank IBG Research
**Current = as of 28 Sep*

Figure 21: US Nonfarm Payrolls: Education & Health and Leisure & Hospitality Accounted for >80% of Net Payroll Gain in the Last 3 Months While Other Sectors Weakened Notably



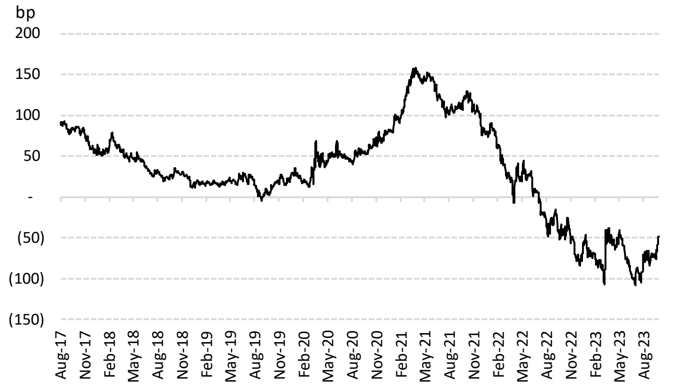
Sources: Bloomberg, Maybank IBG Research

UST Outlook: Bullish. We raised UST outlook to bullish from mildly bullish after the major selloffs in 3Q23. While the prevailing bearish momentum still poses upsides to UST yields due to overshoot risks, we think this opens up a window of buying opportunity. The risk-reward on 10y UST has turned favourable, probably with still near-term risk of 20-25bp upside in yields but we forecast significant declines in 6-9 months, expecting the 10y UST yield to fall below 4.00% by end-1Q24 and to 3.50-3.75% by end-2Q24. The US economy has surprised strongly thus far, but we would exercise extra caution amid increased market and Fed optimisms as this may lower the bar to disappoint.

Trade Idea: The results of our previous trade recommendations were mixed. The implied rate of Mar 2024 Fed funds futures increased to c.5.4%, against our expectation that it would fall below 5.0%. But the 2y10y curve has steepened to about -50bp from -105bp 3 months ago as expected, although it wasn't due to recession but a hawkish repricing at the long-end – a risk that stopped us from having an outright long UST recommendation. But after the bear-steepened 2y10y curve recently, we prefer outright long on 10y UST (4.55-4.80% area) rather than trading on curve steepness, because we think there is a risk that the 2y10y curve could re-flatten first, although we believe the curve can get steeper in the medium term – overall lower conviction on curve trade. The volatility in 10y UST may continue to be higher than that of 2y UST, as currently the 10y UST yields capture a higher sensitivity to changing market views on economic cycle, while the 2y UST yields have steadied at slightly below the Fed funds rate and will only begin to fall drastically when an economic downturn becomes clear and rate cuts imminent.

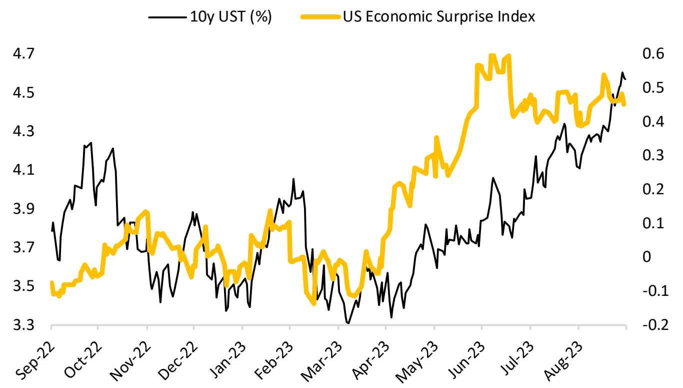
UST Yield Forecast: We forecast 10y UST yield of 3.90% by end-2023, and 3.50% by end-1H24.

Figure 22: UST 2y10y: Expect Steeper Curve Medium-term, But Flattening Risk Into Year-End→ Lower Conviction. Prefer Outright Long 10y UST (4.55-4.75) Rather Than Curve Trade



Sources: Bloomberg, Maybank IBG Research

Figure 23: Increased Market and Fed Optimisms on Growth Outlook Might Lower the Bar to Disappoint



Sources: Bloomberg, Maybank IBG Research

PDS: Issuances

YTD Gross Issuance: MYR84.4b (as of 29 Sep). PDS issuance remained robust in 3Q23 totaling MYR32b as of 29 Sep (2Q23: MYR32b). Monthly volume was the strongest in July before higher UST yields weighed on local sentiment. YTD issuance of MYR84.4b slightly exceeds the MYR83.8b in 9M22.

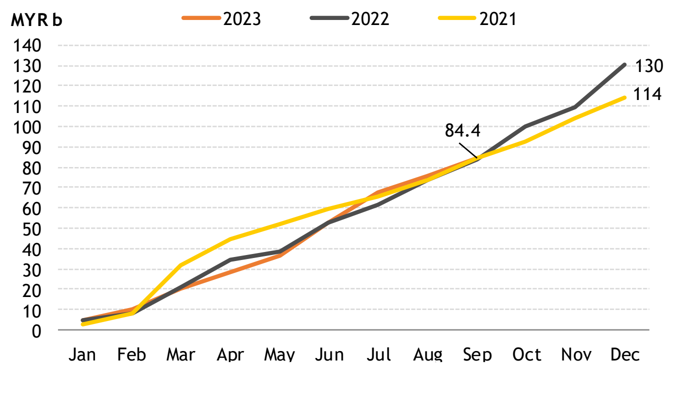
- Major issuers in 3Q23 were LPPSA (MYR4b), Cagamas (MYR3.9b), Sarawak Energy (MYR3.5b), Seaport Terminal (Johore) (MYR3.1b), PTPTN (MYR1.5b), Johor Corp (MYR1.5b), YTL Power (MYR1.4b) and RP Hydro Kelantan (MYR1b). OSK Rated Bond (AA/stable) saw very strong demand with orderbook exceeding MYR1.9b, or >3x cover over the MYR500m issuance size, and final pricing tightened 13bp on average from IPG.

- By rating, main drivers of YTD issuance were AAA (32.1%) and AA (28.9%) bonds. Unrated bonds contributed 18%, GG 17.2% and A or lower 3.7%.

- The sector with the most issuance YTD remained infrastructure & utilities (31.2%). Compared to 1H23, contribution from CAGA, LPPSA, PTPTN rose to 19.5% while real estate and financial dipped to 15.9% and 14.5%.

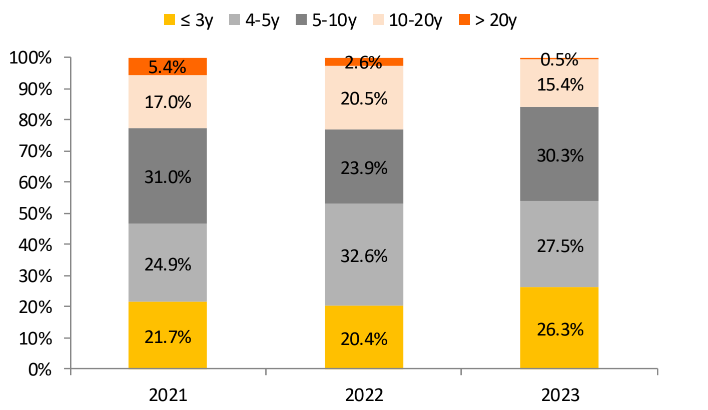
Supply Forecast 2023: Maintain at MYR110b. YTD run rate is on track to meet our full-year gross issuance forecast of MYR110b. We expect PDS issuance to remain robust in 4Q23 on good pipeline visibility, slowing but still healthy economy, refinancing needs (MYR24b maturities in 4Q23). A late surge of issuances could push full-year supply higher than our forecast. Key downside risk is external uncertainty on interest rate and economic growth which could indirectly affect local funding conditions and issuance appetite.

Figure 24: PDS Issuance: YTD Run Rate vs. 2022 and 2021



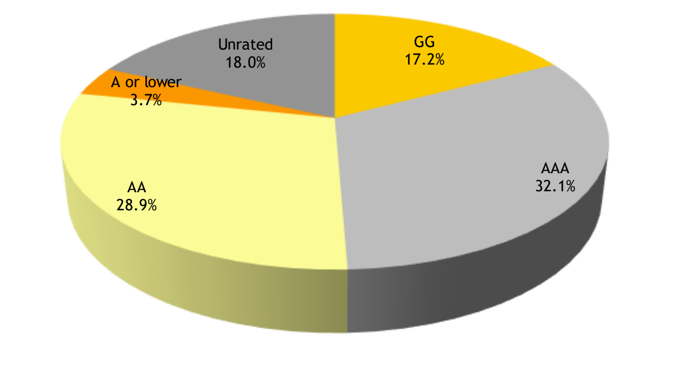
Sources: BPAM, Maybank IBG Research
**Cumulative issuance as of 29 Sep*

Figure 25: PDS Issuance By Tenor: 2021 - 2023 YTD



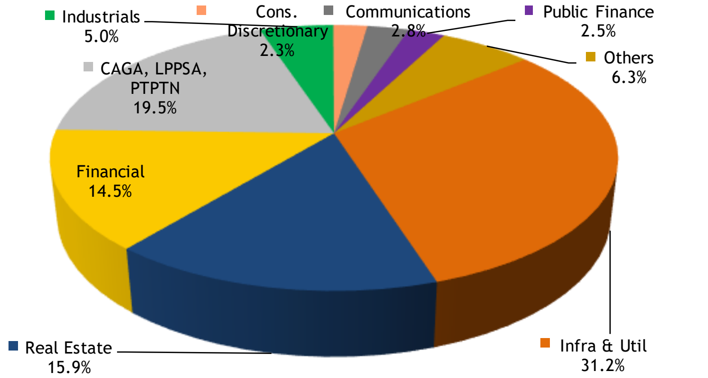
Sources: BPAM, Maybank IBG Research
**As of 29 Sep*

Figure 26: PDS Issuance by Rating - 2023 YTD



Sources: BPAM, Maybank IBG Research
**As of 29 Sep*

Figure 27: PDS Issuance by Sector - 2023 YTD



Sources: BPAM, Maybank IBG Research
**As of 29 Sep*

PDS: Credit Condition and Spreads

Rating activity in 3Q23 was balanced comprising a total of 7 upgrades/outlook increases vs 7 downgrades/outlook decreases. Positive rating actions were primarily idiosyncratic factors such as clarity on supplemental concession agreement, stronger parental support and a merger. Negative rating actions were related to weak operating conditions in specific sector or country, persistent high leverage, corporate exercises and legal dispute.

- Rating upgrade for UEM Group was due to expectation of extraordinary support from Khazanah, and for Celcom Networks was due to the stronger credit profile of the merged entity, CelcomDigi. Segi Astana's standalone rating was lifted by one-notch on business and financial improvements.

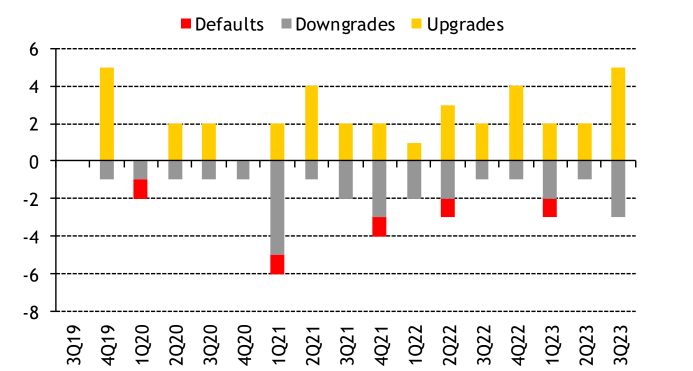
- UiTM Solar's positive outlook was attributed to improving operating performance and liquidity position since the solar power plant resumed full operations. Konsortium ProHAWK's had its outlook reverted to stable following a supplemental concession agreement.

- The downgrade in Top Glove's rating was because of continued weak financial performance amid the challenging glove sector. CGRE's rating was cut several notches in line with the rating action on the ultimate parent, China-based Country Garden Holdings Company Ltd.

- CMS' outlook was changed back to stable due to an ongoing legal dispute with SESCO. WCT's negative outlook was premised on its persistently high leverage and weak liquidity position.

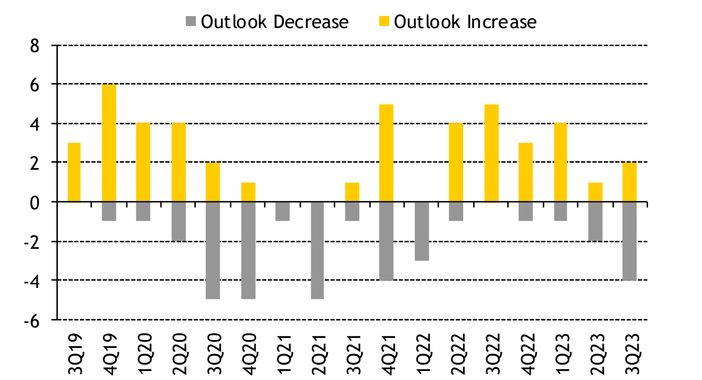
Credit spreads tightened further in 3Q23: Based on the BPAM composite spreads, 5y spreads narrowed by 5-23bp while 10y spreads narrowed by5-18bp, giving a very tight range of 30-60bp across the AAA-AA3 spectrums. While the recent tightening could in part be driven by higher MGS yields because the MTMs of PDS tend to lag, MYR credit have largely been on a gradual tightening trend this year. The net supply of PDS was moderate YTD while domestic credit condition remained stable. MYR credit spreads are near/at the tighter end of historical range, giving thinner buffers to protect investors from potential downside risks.

Figure 28: Rating Upgrade vs. Downgrade



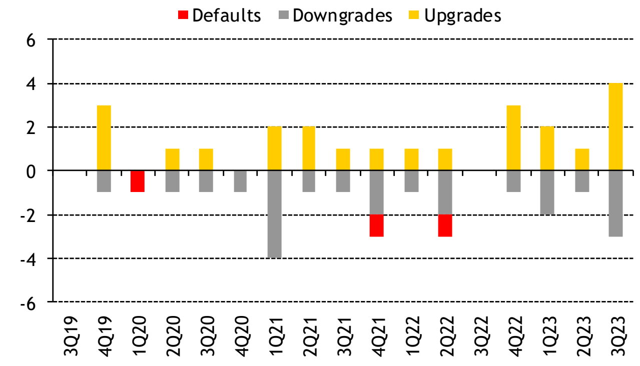
Source: MARC, RAM, Maybank IBG Research
**As of 29 Sep*
***Defaults: KMCOB Capital, Cendana Sejati, MEX II, Serba Dinamik, Menara ABS (Tranche A)*

Figure 29: Outlook Increase vs. Decrease



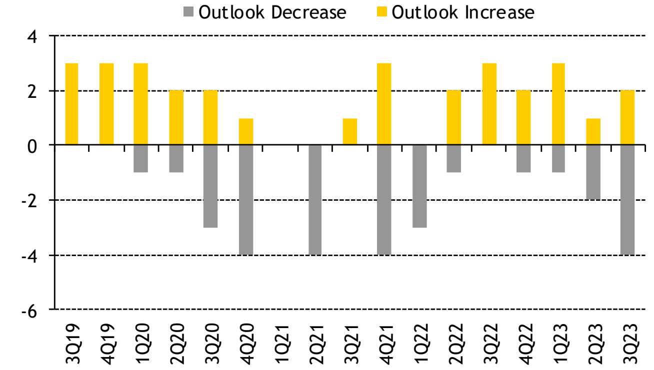
Source: MARC, RAM, Maybank IBG Research
**As of 29 Sep*

Figure 30: Rating Upgrade vs. Downgrade (exclude Structured/FIs)



Source: MARC, RAM, Maybank IBG Research
**As of 29 Sep*
***Defaults: KMCOB Capital, MEX II, Serba Dinamik*

Figure 31: Outlook Increase vs. Decrease (exclude Structured/FIs)



Source: MARC, RAM, Maybank IBG Research
**As of 29 Sep*

Figure 32: Rating Change: 2023 YTD

Quarter	Name	Rating Action
1	Alpha Circle Sdn Bhd (Senior Sukuk)	Downgrade
	Besraya (M) Sdn Bhd	Upgrade
	Menara ABS (Tranche A1)	Default
	Pacific & Orient Insurance Co. Bhd	Downgrade
	Pelabuhan Tanjung Pelepas Sdn Bhd	Upgrade
2	Salvare Assets Bhd (Senior Class A)	Upgrade
	Tropicana Corporation Berhad	Downgrade
	UniTapah Sdn Bhd	Upgrade
3	Celcom Networks Sdn Bhd	Upgrade
	Cenergi SEA Bhd	Upgrade
	Country Garden Real Estate Sdn Bhd	Downgrade
	Malaysian Industrial Development Finance Bhd (MIDF)	Downgrade
	MBSB Bank Structured Covered Sukuk (Tranche 3)	Upgrade
	Segi Astana Sdn Bhd	Upgrade
	Top Glove Corporation Bhd	Downgrade
	United Growth Berhad	Upgrade

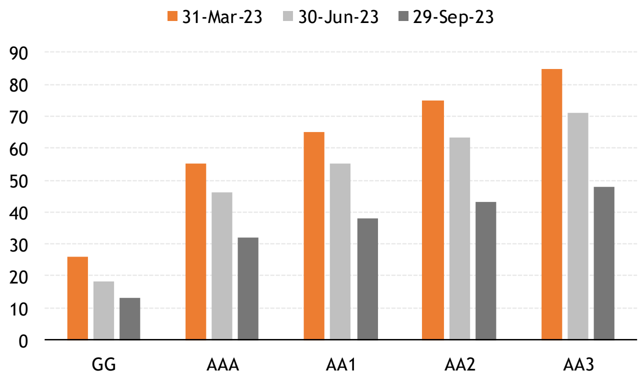
Source: MARC, RAM, Maybank IBG Research
**Rating actions on related entities and multiple tranches on the same date only counted once (i.e. Menara ABS, Tropicana, Cenergi SEA, MIDF Amanah)*

Figure 33: Outlook Change: 2023 YTD

Quarter	Name	Outlook Change
1	AmBank (M) Bhd	Increase
	Top Glove Corporation Bhd	Decrease
	YTL Corporation Bhd	Increase
	UiTM Solar Power Sdn Bhd	Increase
	Dar Al Arkan Real Estate Development Company	Increase
2	Anih Bhd	Decrease
	Cahya Mata Sarawak Bhd	Increase
	Malaysian Industrial Development Finance Bhd (MIDF)	Decrease
3	Segi Astana Sdn Bhd	Decrease
	WCT Holdings Bhd	Decrease
	UiTM Solar Power Sdn Bhd	Increase
	Konsortium ProHAWK Sdn Bhd	Increase
	Cahya Mata Sarawak Bhd	Decrease
	Kuala Lumpur Kepong Bhd	Decrease

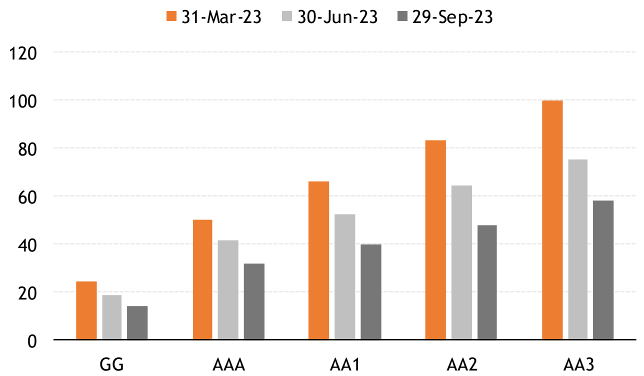
Source: MARC, RAM, Maybank IBG Research
**Outlook changes on related entities and multiple tranches on the same date only counted once (i.e. AmBank, YTL Power International, MIDF Amanah, WCT, Batu Kawan)*

Figure 34: Credit Spreads (bp) - 5y Tenor



Source: BPAM, Maybank IBG Research

Figure 35: Credit Spreads (bp) - 10y Tenor



Source: BPAM, Maybank IBG Research

Figure 36: Rating and Outlook Changes in 3Q23 (as of 29 Sep)

Rating Action	Issuer	Commentary
Upgrade	UEM Group Bhd (UEM) / United Growth Berhad	**The ratings of UEM and its funding vehicle, United Growth, were raised to AA1/stable** from AA2/stable by RAM on expectation of higher level of extraordinary support from its parent Khazanah, which has identified UEM as its green investment vehicle. Khazanah's sustainable energy arm, Cenergi SEA Bhd, was recently consolidated under UEM and the latter signed a MOU for the 1GW solar plant and RE industrial park under the National Energy Transition Roadmap (NETR). Additionally, Khazanah continued to maintain full ownership of UEM and has board representation.
	Cenergi SEA Bhd (Cenergi)	**Its senior/perpetual ratings were upgraded to AA3/A2** from A1/A3 by RAM, citing the close relationship with UEM and importance of Cenergi's experience and capability in the local RE space. UEM's rating was earlier upgraded by one-notch to AA1/stable in a prior week, and Khazanah is the common ultimate shareholder of both entities. Moderating Cenergi's ratings are its small business scale and nascent financial footing. The rating agency is watchful of Cenergi's expansion appetite that could necessitate more borrowings, though UEM has plans to make equity injections.
	Celcom Networks Sdn Bhd (CNSB)	**CNSB's rating was upgraded to AAA/stable** from AA+/stable by MARC on the back of CelcomDigi Bhd's stronger credit profile and CNSB's continuing importance to the merged entity.
	MBSB Bank Structured Covered Sukuk (Tranche 3)	**MBSB Bank's Tranche 3 Structured Covered Sukuk rating was raised to AAA/stable** from AA1/stable following a full cash-collateralised position.
	Segi Astana Sdn Bhd	**Segi Astana's rating was raised to AA-** from A+ by MARC following an upgrade of the standalone rating (to A+ from A) as business and financial performances have recovered in line with the improvements in gateway@klia2 occupancy and car park fee income at KLIA2.
Downgrade	Top Glove Corporation Bhd	**Top Glove's rating was downgraded one-notch to AA from AA+ and the rating of its perpetual sukuk under TG Excellence also followed suit down to A+ from AA-**, premised on continued weak financial performance. The outlook remains on negative given the weak sector outlook. Top Glove needs to demonstrate CFO/debt cover of at least 0.2x to have its outlook revert to stable. The ratings could be further downgraded if there is no meaningful recovery in its business and financial performances.
	Country Garden Real Estate Sdn Bhd (CGRE)	**CGRE saw a steep rating downgrade of 6 notches to BBB3** from AA3 in line with RAM's rating action on the ultimate parent company, China-based Country Garden Holdings Company Ltd (Country Garden). The downgrade is premised on Country Garden's stressed liquidity position which led to missed coupon payments on offshore bonds and if not remedied within the 30-day grace period, it would trigger a cross-default on CGRE's notes. The rating has also been placed on Negative Watch, implying possible further negative rating action. Even if the missed coupons are remedied, Country Garden would still face significant debt repayment for the remainder of the year while prospect of a turnaround is uncertain given China's weak housing market. CGRE has MYR110m cash to help meet the MYR12m profit payments due in September and November; failure to pay the coupons may trigger a default.
	Malaysian Industrial Development Finance Bhd (MIDF)	**RAM lowered the ratings of MIDF and MIDF Amanah Investment Bank Bhd to A2/stable** from A1/Negative Watch to equalize the ratings to that of Malaysia Building Society Bhd (A2/stable) as the latter will soon complete its acquisition of the former. Subsequent to the lowered rating, the Negative Rating Watch was lifted and the outlooks reverted to stable.
Outlook Increase	UiTM Solar Power Sdn Bhd	**UiTM Solar's outlook was raised to positive** from stable by MARC, citing the solar power plant's improved operating performance since resuming full operations on 10 Aug 2022 with a high availability of 99.2% in 1H23 and energy generation returning to P90 estimates from Apr 2023 onwards. Revenue improved to MYR14.7m in 1H23. Liquidity has been restored close to pre-outage levels after UiTM Solar received the maximum amount of MYR20m obtainable under its insurance policies, which largely covered equipment costs and revenue losses, and impact from the MYR10.4m payable to TNB is expected to be minimized by staggered payments. Cash balance stood at MYR28.1m as at end-Jun 2023. Minimum and average FSCRs are 2.11x and 2.26x respectively under the project's base case projections.
	Konsortium ProHAWK Sdn Bhd	**RAM reverted Konsortium ProHAWK's outlook back to stable** from negative premised on the materialization of the supplementary concession agreement which entitles the concessionaire to additional revenues for wider scope of works and will improve its debt servicing ability.
Outlook Decrease	WCT Holdings Bhd	**WCT's outlook was cut to negative** from stable by MARC, citing persistently high leverage and weaker liquidity position. The AA-/A senior/perp ratings could be lowered if there is no meaningful improvement in WCT's financial performance and debt metrics. 1Q23 results were weak with lower revenue and operating profit down 54% YoY, though 1Q22 was boosted by land sales. Outlook for the construction and property development segments are challenging given slow replenishment of order book (c.MYR3.3b), low construction margin against higher costs, modest unbilled property sales of MYR299m end-Mar 2023 and deferred new launches while clearing completed inventory. Asset disposals and collection of construction receivables would help address leverage and liquidity risks, but execution risk remains; if these exercises are not completed on a timely basis, there is increased downgrade risk in the next six months.
	Cahya Mata Sarawak Bhd (CMS)	**CMS' outlook reverted to stable** from positive by RAM following the temporary stoppage of electricity supply for Cahya Mata Phosphates Industries Sdn Bhd (Cahya Mata Phosphates), its phosphates manufacturing division amid ongoing legal dispute with Syarikat SESCO Berhad. The earlier positive outlook

	was premised on Cahya Mata Phosphates transitioning to full commercial operations and becoming a substantial earnings contributor from 2024 onwards. Uncertainty remains on the resumption of electricity supply, start of commercial operations, and possible impairments, if any.
Segi Astana Sdn Bhd	As Segi Astana's rating incorporates a one-notch uplift from WCT Holdings Bhd's (WCT) liquidity support undertaking, its **outlook follows that of WCT (rated AA-) which is negative**.
Kuala Lumpur Kepong Bhd (KLK)	**RAM placed the ratings of KLK and Batu Kawan on Negative Watch** premised on KLK's proposed acquisition and joint mandatory take-over offer of Boustead Plantations Bhd (BPlant). Although the acquisition will strengthen KLK's already strong position in upstream plantations, KLK's financial metrics are expected to deteriorate with a significant increase in debt level of about MYR2.88b. Gearing could rise to around 0.7x and FFODC could weaken to around 0.2x, according to the rating agency. RAM will assess KLK's integration strategy of BPlant and any deleveraging plans, and expects to resolve the Negative Rating Watch upon completion of the corporate exercises, likely by Dec 2023.

Source: MARC, RAM, Maybank IBG Research

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