# *Monthly Fixed Income Perspective –*

## *Mar 21 review & Apr 21 outlook*

### *US Bond market*

- **In March**, US Treasuries (UST's) ended weaker in similar fashion compared to prior month over earlier concerns about the easy and anticipated withdrawal of easy monetary policy as vaccine rollouts and movement restrictions accelerated. The curve shifted higher as benchmark **UST yields spiked between 3-33bps across the curve with the intermediates and longer-ends pressured the most (prior month saw yields also rise between 2-34bps across).** The UST 2Y yield moved 3bps up at 0.16% whilst the 10Y spiked 33bps at 1.74% (at the time of writing yields have fallen back to 1.64% levels) as the yield curve portends the widest 2s10s and 5s30s spreads of ~148bps levels since September 2015.

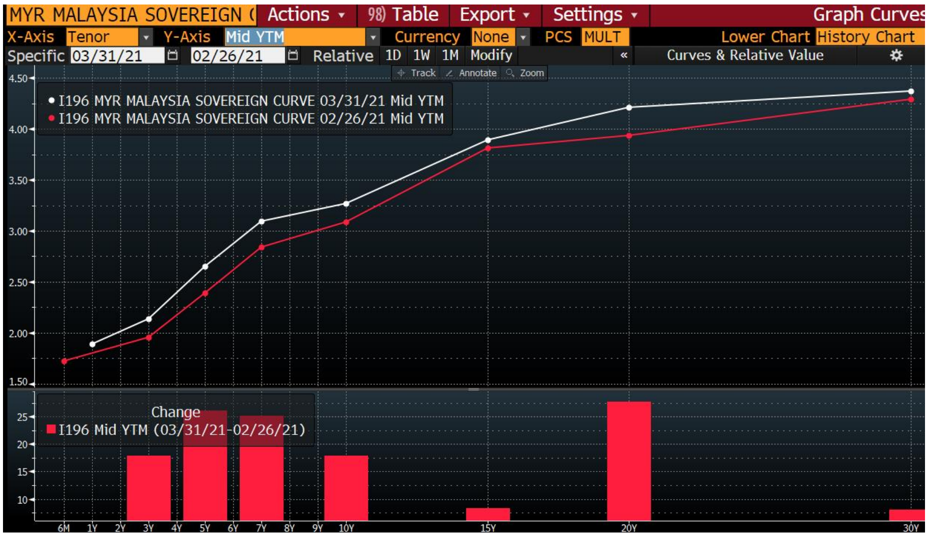
- **For April**, the solid US labor market coupled with the improving economic outlook is expected to result in higher yields spikes with some implied volatility arising from potential ongoing comments by Fed officials. The unveiling of $2.25 trillion infrastructure and economic recovery package may exacerbate further pressure on bonds with steady supply coming onstream and fan inflationary concerns despite assurances from Fed officials that monetary policy will remain easy going forward due to the uneven and incomplete economic recovery. We note the recent rise up of IRS levels by 17bps as at end-2022 and 80bps by end-2023 may also impinge on yields going forward. **The 10-year UST is expected to stay elevated ranging between 1.65-1.85%; finding support at key 1.85% levels for this month. Our preferred IG bond issuances are within the shorter duration 5-7Y tenures in basic materials, energy and capital goods.**

### *MYR Bond Market*

- **In March**, MYR government bond curve shifted higher; pivoted closely along the 15Y tenures with both **MGS/GII bonds spiking between 11-38bps; with MGS bearing the brunt in the intermediates whilst GII's pressured in the long-ends.** The more-positive outlook on the economy coupled with positive FTSE Russell decision helped reduce the pressure on govvies towards the end-of March. The benchmark 5Y MGS 9/25 yield shot 35bps higher m/m to 2.66% whilst the 10Y MGS 4/31 yield rose 16bps at 3.24%. Foreign holdings of MYR government bonds (MGS + GII + SPK) rose further in March; with net inflows circa RM4.5b to RM215.4b (representing 25.0% of total outstanding). All four (4) auctions saw weaker participation with average BTC ratio of only ~ 1.95x.

- **For April,** expect slight recovery with BNM's encouraging 2021 GDP growth forecast of 6.0-7.5% and its pledge to maintain monetary policy support, softening views of potential rate hikes. The recent liberalized foreign exchange policy benefitting mainly exporters effective 15th April is expected to augur well for FDI and portfolio capital flows into the country. Nevertheless, rising UST yields coupled with anticipated reduction in secondary market activities by EPF may influence the movements of MYR bonds. **The 7Y and 20Y MGS/GII space reflect decent relative values along the curve. We expect the 10Y to range slightly between 3.20-3.40% as per our previous month's projection** with support pegged at 3.40% levels. **We also like the 10Y, 20Y GG-AA space, in addition to the shorter-end 2Y tenures.**

**MYR sovereign curve (MGS)**




*Source: Bloomberg*

### *NFP jumped at the fastest pace since August last year driving UST yields up; aided further by President Biden's new additional $2.25 trillion infrastructure and economic recovery package….*

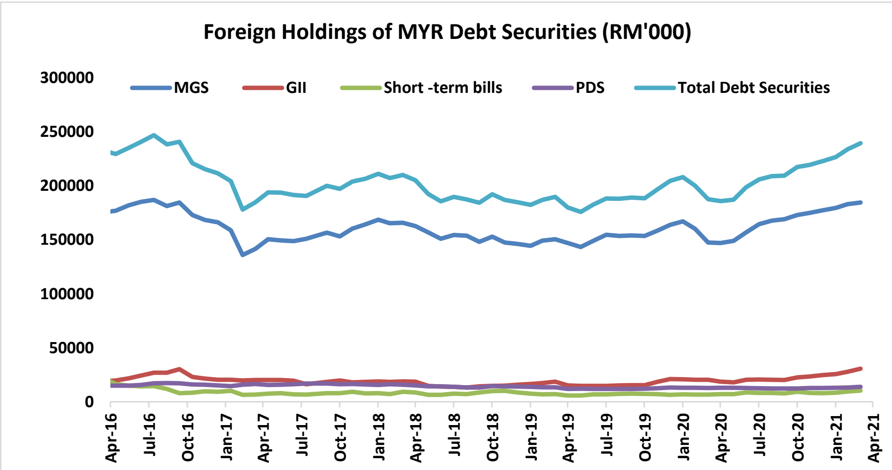
**March Non-Farm Payrolls ("NFP")** beat consensus estimates of 660k by adding 916k as the labor market gathered steam with the ongoing distribution of COVID-19 vaccines and loosening movement restrictions allowing for both social and business activities (job gains for February was revised higher by 89k~ meaning the US gained just more than 1.0m jobs). The unemployment rate which fell to 6.0% (Feb: 6.2%) was admirable as the US recovery gathered momentum. Recovery in the labor market got a boost especially in leisure and hospitality followed by construction and education sector. The participation rate ticked slightly higher at 61.5% though it remained relatively close to the most depressed levels since the 1970's. Nevertheless the average hourly wages growth fell 0.1% m/m whilst the y/y figures eased substantially to 4.2% (previous month 5.3%). President Biden's new additional $2.25 trillion infrastructure and economic recovery package proposal comes hot on the heels of the earlier $1.9 trillion stimulus approved and is expected to boost US economy.  According to the monthly survey of households, 3.8m Americans were unemployed as at end-March 2021 down from the peak of 23.1m in May 2020. US PMI and ISM manufacturing data for March also turned stronger; denoting fast expansion (PMI is fastest since 1983) @ between 59-65, compared to the previous month. Separately, the Fed's preferred inflation measure i.e. core PCE fell m/m at 0.1% but rose 1.4% y/y in February which is beginning to fan inflationary pressures and impinge on UST yields.

To recap, the Fed left the Fed Fund Rates unchanged between 0.00- 0.25% at its last FOMC on 18th March following total rate cuts amounting to 150bps in 2020. The **Fed's current dot plot still pins rates unchanged at current level through 2023. Nevertheless, data from the Fed Fund Futures now reflect traders' hypothetical expectations of 1.6% odds of a hike in the next FOMC meeting on 28th April whilst CME FedWatch Tool continues to maintain a 98.3% chance of a rate pause.** The Fed's robust ongoing purchase of bonds of $80b a month in Treasuries and $40b a month in agency MBS has now boosted its balance sheet to ~$7.69 trillion as at end-March 2021 ($7.56 trillion end-February 2021. Nevertheless, the likelihood of further stimulus bill is unlikely based on President's Biden's latest proposal of another $2.25 trillion infrastructure and may still weigh on the curve.

### *Foreign holdings of overall MYR bonds rose further by 2.5% or RM5.8b in March for the 11th consecutive month despite stronger USDMYR @ 4.1450*

Foreign holdings of overall MYR bonds rose in March by RM5.8b or 2.5% to RM239.6b. Non-resident holdings of MGS rose by RM1.5b from RM183.1b to RM184.6b (representing 40.8% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM4.5b to RM215.4b (representing 25.0% of total outstanding) amid lower net issuances of +RM7.0b for the month (Feb: net issuances of +RM8.5b). Earlier supply concerns arising from the higher fiscal deficit seemed somewhat dissipated following the recent FTSE Russel decision to maintain the nation's bond weightage in WGBI whilst removing it from the watchlist first accorded in April 2019.

The appetite for yield-carry in Asian Rates asset class saw real-money investors purchasing MYR government bonds in March. **Overall MYR govvies saw cumulative net inflows of RM4.5b for March 2021 whilst 12-month rolling inflows notched an impressive RM47.2b. Equity outflows amounted to RM100m in March 2021 compared to the 12-month rolling outflows of RM18.8b.** On the currency side, the MYR weakened substantially against USD to 4.1450 as at end-March but strengthen lately to 4.1365 levels thereafter at the time of writing.




*Source: BNM, HLBB Global Markets Research*

### *To re-cap, OPR stayed pat at 1.75% at the MPC meeting in March, neutral stance reaffirming our view for an unchanged OPR this year...*

The 2021 macro outlook from BNM Economic and Monetary Review report released recently sees an encouraging GDP growth forecast of 6.0-7.5% in line with MOF's earlier projection with services expected to lead the charge, followed by manufacturing and construction.

Earlier, BNM in its 2nd monetary policy committee (MPC) meeting for the year on 4th of March, left the OPR unchanged at 1.75%. In what was its 4th consecutive meeting since the last cut, the tone of monetary policy statement sounded a slightly more upbeat on the global economy, highlighting that global economic recovery is gaining momentum, supported by steady improvement in manufacturing and trade activity. BNM assessed that risks to growth outlook have abated slightly as vaccination rollouts gather pace and economic activities grind faster. Despite economic contraction for the 3rd straight quarter in 4Q2020, the modest gain of 1.2-1.5% y/y in industrial production for January-February (Dec: 1.7%) and upside surprise in exports of 17.6% in February, may in our opinion be insufficient and still result in a small contraction in 1Q2021 due to the possibility of pockets of weaknesses in selected service segments in the wake of MCO 2.0/CMCO.

Inflation forecast by BNM is revised sharply higher to between 2.5-4.0% for 2021; more bullish than our house view of 2.2%. CPI rebounded to +0.1% y/y in February (Jan: -0.2%) and put to end to the 11th consecutive month of transitory "deflation" whilst being poised for further upticks above 4.0% in 2Q2021. Inflation rose at a moderate pace of 0.3% m/m in February, pulling back from the +1.2% seen in January. Core CPI was stable at 0.7% y/y in February for the 4th consecutive month. Although we expect CPI readings to trend higher going forward, peaking at 4.3-4.5% y/y in April-May period distorted by the base effect, we expect a pullback in subsequent months. Further rallies in global crude oil prices are not expected to massively impact CPI as retail pump prices of both RON95 and diesel are capped.

BNM highlighted that the MPC will be mindful of premature withdrawal of policy support, which should soften talks on any potential rate hike, given that the spike in inflation and hence negative real interest rates, will also be transitory. **Nevertheless, following the neutral policy statement**, **we reaffirm our house view that BNM would keep OPR unchanged at 1.75% this year**

### *MYR government bond auctions saw weaker bidding metrics in March….*

The four (4) government bond tenders concluded for the month of March 2021 under the auction calendar saw a pullback in BTC ratios to below the 2.0x handle i.e. 1.95x (Feb: 2.14x). The new issuance of 20.5Y GII 9/41 saw the strongest BTC ratio of 2.57x; but attracting a total sum of bids of only RM5.15b due to the relatively small issuance of RM2.0b (with a Private Placement of RM2.0b). The other re-openings involved both the 5Y MGS 9/25 and 30Y MGS 6/50 which recorded BTC ratios of 1.79x and 2.02x; followed by the reopening of 10Y GII 10/30 which notched 1.80x BTC. These three (3) auctions saw total bids amounting to between a wide range of RM4.0-8.0b. We note at the time of writing, the recently-concluded auction involving the re-opening of 7Y MGS 6/28 in early-April saw tepid bidding metrics i.e. BTC ratio of a mere 1.59x; but tailing only 1.8bps as total bids submitted reached RM7.15b~ tracking the recent weak UST 7Y auctions during the past two months. The table below summarizes the recent tenders and also our projected sizes for MGS/GII auctions in 2021.

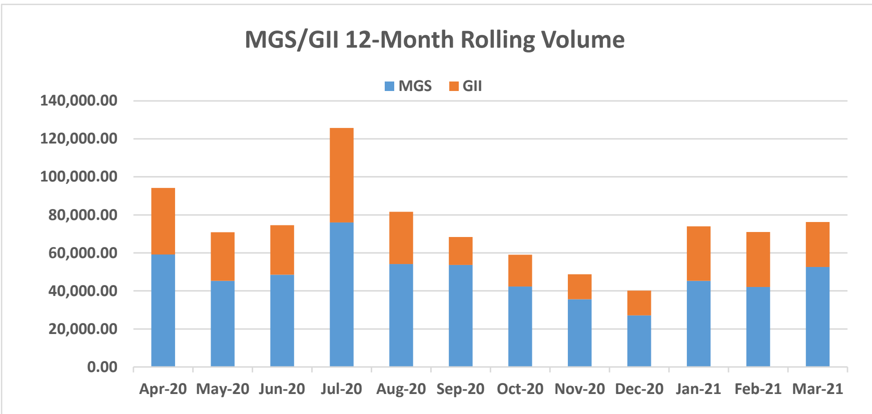
MGS/GII issuance pipeline in 2021

| No | Stock | Tenure (yrs) | Tender Month | Quarter | Tender Date | Projected Issuance Size (RM mil) | Actual Auction Issuance (RM mil) | Actual Private Placement | Actual Issuance YTD | BTC (times) | Low | Average | High | Cu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 7-yr reopening of MGS (Mat on 06/28) | 7 | Jan | Q1 | 6/1/2021 | 3,500 | 3,500 | | 3,500 | 2.026 | 2.406 | 2.449 | 2.463 | |
| 2 | 15.5-yr new Issuance of GII (Mat on 7/36) | 15 | Jan | Q1 | 14/1/2021 | 4,500 | 3,000 | 1,500 | 8,000 | 2.917 | 3.385 | 3.447 | 3.475 | |
| 3 | 10-yr Reopening of MGS (Mat on 04/31) | 10 | Jan | Q1 | 21/1/2021 | 4,000 | 4,000 | | 12,000 | 1.992 | 2.684 | 2.714 | 2.730 | |
| 4 | 5-yr Reopening of GII (Mat on 03/26) | 5 | Feb | Q1 | 3/2/2021 | 4,500 | 4,500 | | 16,500 | 2.067 | 2.230 | 2.252 | 2.260 | |
| 5 | 20-yr Reopening of MGS (Mat on 05/40) | 20 | Feb | Q1 | 17/2/2021 | 4,500 | 2,000 | 2,000 | 20,500 | 2.224 | 3.901 | 3.969 | 4.010 | |
| 6 | 7-yr Reopening of GII (Mat on 09/27) | 7 | Feb | Q1 | 24/2/2021 | 3,500 | 3,500 | | 24,000 | 2.196 | 2.792 | 2.806 | 2.824 | |
| 7 | 30-yr Reopening of MGS (Mat on 06/50) | 30 | Mar | Q1 | 5/3/2021 | 4,000 | 2,000 | 2,000 | 28,000 | 2.023 | 4.443 | 4.486 | 4.549 | |
| 8 | 10-yr Reopening of GII (Mat on 10/30) | 10 | Mar | Q1 | 11/3/2021 | 4,000 | 4,000 | | 32,000 | 1.799 | 3.500 | 3.561 | 3.589 | |
| 9 | 5-yr Reopening of MGS (Mat on 09/25) | 5 | Mar | Q1 | 22/3/2021 | 4,500 | 4,500 | | 36,500 | 1.789 | 2.751 | 2.764 | 2.783 | |
| 10 | 20.5-yr New Issue of GII (Mat on 09/41) | 20 | Mar | Q1 | 30/3/2021 | 4,500 | 2,000 | 2,000 | 40,500 | 2.575 | 4.390 | 4.417 | 4.435 | |
| 11 | 7-yr Reopening of MGS (Mat on 06/28) | 7 | Apr | Q2 | 7/4/2021 | 4,000 | 4,500 | | 45,000 | 1.590 | 2.933 | 2.963 | 2.981 | |
| 12 | 15-yr Reopening of GII (Mat on 7/36) | 15 | Apr | Q2 | | 4,000 | | | | | | | | |
| 13 | 3-yr Reopening of MGS (Mat on 06/24) | 3 | Apr | Q2 | | 4,000 | | | | | | | | |
| 14 | 30-yr Reopening of GII (Mat on 11/49) | 30 | May | Q2 | | 4,000 | | | | | | | | |
| 15 | 15-yr Reopening of MGS (Mat on 05/35) | 15 | May | Q2 | | 4,500 | | | | | | | | |
| 16 | 5-yr Reopening of GII (Mat on 03/26) | 5 | May | Q2 | | 4,000 | | | | | | | | |
| 17 | 10-yr Reopening of MGS (Mat on 04/31) | 10 | Jun | Q2 | | 4,500 | | | | | | | | |
| 18 | 3-yr Reopening of GII (Mat on 10/24) | 3 | Jun | Q2 | | 4,500 | | | | | | | | |
| 19 | 20-yr Reopening MGS (Mat on 05/40) | 20 | Jun | Q2 | | 4,000 | | | | | | | | |
| 20 | 15-yr Reopening of GII (Mat on 07/36) | 15 | Jul | Q3 | | 4,500 | | | | | | | | |
| 21 | 5-yr Reopening of MGS (Mat on 11/26) | 5 | Jul | Q3 | | 4,000 | | | | | | | | |
| 22 | 10-yr Reopening of GII (Mat on 10/30) | 10 | Jul | Q3 | | 4,000 | | | | | | | | |
| 23 | 30-yr Reopening of MGS (Mat on 06/50) | 30 | Aug | Q3 | | 4,500 | | | | | | | | |
| 24 | 7-yr Reopening of GII (Mat on 08/28) | 7 | Aug | Q3 | | 4,500 | | | | | | | | |
| 25 | 3-yr Reopening of MGS (Mat on 06/24) | 3 | Aug | Q3 | | 4,000 | | | | | | | | |
| 26 | 20-yr Reopening of GII (Mat on 09/41) | 20 | Sep | Q3 | | 4,500 | | | | | | | | |
| 27 | 10-yr Reopening of MGS (Mat on 04/31) | 10 | Sep | Q3 | | 4,500 | | | | | | | | |
| 28 | 5-yr Reopening of GII (Mat on 03/26) | 5 | Sep | Q3 | | 4,000 | | | | | | | | |
| 29 | 7-yr Reopening of MGS (Mat on 06/28) | 7 | Oct | Q4 | | 4,000 | | | | | | | | |
| 30 | 30-yr Reopening of GII (Mat on 11/49) | 30 | Oct | Q4 | | 4,000 | | | | | | | | |
| 31 | 5-yr Reopening of MGS (Mat on 11/26) | 5 | Oct | Q4 | | 4,000 | | | | | | | | |
| 32 | 10-yr Reopening of GII (Mat on 10/30) | 10 | Oct | Q4 | | 4,000 | | | | | | | | |
| 33 | 15-yr Reopening of MGS (Mat on 05/35) | 15 | Nov | Q4 | | 4,500 | | | | | | | | |
| 34 | 3-yr Reopening of GII (Mat on 10/24) | 3 | Nov | Q4 | | 4,000 | | | | | | | | |
| 35 | 20-yr Reopening of MGS (Mat on 05/40) | 20 | Nov | Q4 | | 4,000 | | | | | | | | |
| 36 | 7-yr Reopening of GII (Mat on 08/28) | 7 | Dec | Q4 | | 3,500 | | | | | | | | |
| 37 | 3-yr Reopening of MGS (Mat on 06/24) | 3 | Dec | Q4 | | 3,000 | | | | | | | | |
| | Gross MGS/GII supply in 2021 | | | | | 152,500 | 37,500 | 7,500 | 36,500 | PROJECTED TOTAL ISSUANCE SIZE = 152,500 | | | | |

*Source: BNM, HLBB Global Markets Research*

### *MGS/GII sees secondary market activity improve in March*

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds jumped by 10.3% m/m to ~RM79.0b in March compared to prior month's RM71.6b due to resumption of investor confidence due to attractive yields following the earlier sell-off. We opine that the secondary market volume for local govvies may continue to see decent activity in April laced with intermittent profit-taking activities on the removal of uncertainty of the earlier FTSE Russell event coupled with the February-March sell-off may see attractive valuations. We note that volatility has been on the rise for local govvies as the nation's bonds is also exposed to the global reflation trade and vaccine rollout initiatives. Nevertheless, opportunities for relative yield-carry differentials in Malaysian govvies will face competition from neighboring ASEAN countries and EM Asia generally.

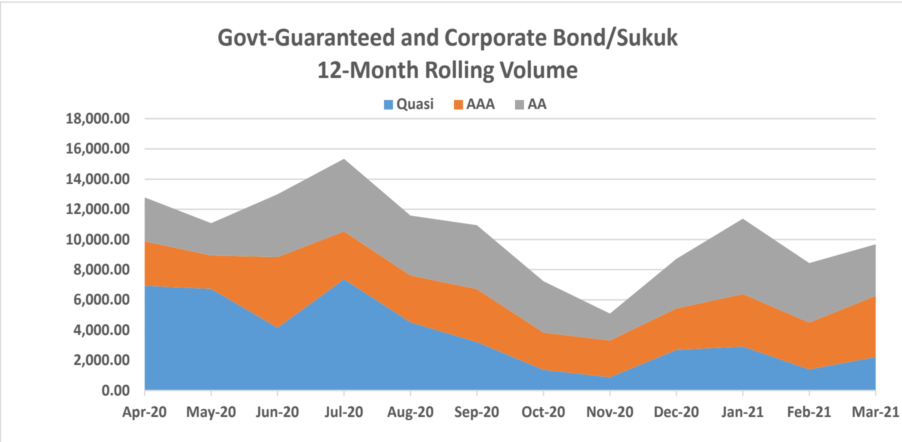



*Source: BPAM, Bloomberg, HLBB Global Markets Research*

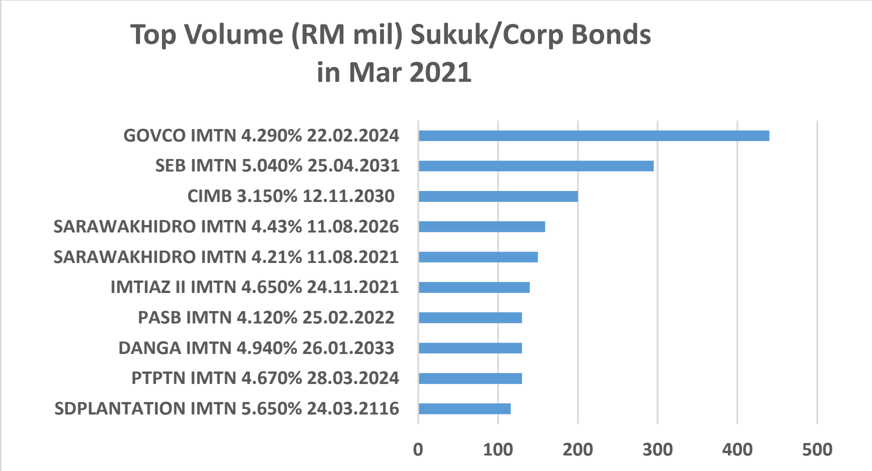
### *Corporate Bonds/Sukuk activity took cue from stronger government bonds as trading activity ramped up in March…*

Similar to local govvies, overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) saw secondary market trading volume increase to ~RM10.16b in March (i.e. 18.0% rise) compared to RM8.61b in February. The stronger momentum was partly due to knock-on effects from govvies as many fund managers looked to boost their portfolios and also engage in yield-carry activities. The higher portfolio turnover by institutional buyers, inter-bank players, lifers and asset management companies should augur well despite the perceived passive role by EPF in the secondary market. Yield spreads settled mostly wider especially in the belly i.e. between 32-61bps for the GG-segment with most meat found in the 10Y and 30Y sectors. The AAA-rated bonds saw spreads also drift higher @~70-96bps whilst the AA2-segment spreads were 73-118bps (tenures extending out from 1-10Y tenures saw the most increase in yields). We note that foreign holdings for both GG and pure Credits notch up slightly by RM0.56b at ~ RM13.85b.

Total transactions for GG bonds rose m/m to form ~22.8% of overall volume; similar to percentage rises in AAA-rated bonds in the secondary market. AAA-rated papers saw a 30.5% increase in volume m/m resulting ultimately in 41.8% of overall trades whilst AA-rated ones saw activity decline by 12.7%; forming 35.4% of overall investor interest. The GG-space was again mainly centered on DANAINFRA, PRASARANA, LPPSA bonds followed by quasi-govt entity i.e. CAGAMAS Bhd. **Bonds that garnered top volume for the month were GOVCO 2/24 (GG) that spiked 68bps at 2.78% followed by SEB 4/31 (AAA) which closed a whopping 92bps higher at 4.21%. Third was CIMB 2030NC25 (AA) which rose 77bps at 3.74%.** Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DANUM 25-34's, DANGA 26-33's, KLK 22-34's, Genting 29-34's, YTL Corp 26-36's, MMC 25-28's and infrastructure-cum construction/property/toll (i.e. PLUS 22-37's, GAMUDA 22-23's, IJM 23-28's, Putrajaya 21-26's, UEM SUNRISE 22-24's), utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 21-24's, TENAGA 21-40's, TNB WE 24-33's, CTX 22-27's, MANJUNG 21-31's, SARAWAKHIDRO 21-29's, AA-rated EDRA 22-33's, Southern Power 25-35's, SEB 21-31's, YTL Power 21-28's, TCMH 21's and TG Excellence. The banking sector saw increase in trading activity on names involving SABAH DEV 24-26's, MAYBANK callable bonds and its perps, Alliance Bank 2035NC30 and 2030NC25, AFFIN Islamic perps and BPMB 22-35's bonds traded. Odd-lot denominated trades involving banking names and also unrated ECO World 21-23's, YNH PROPERTIES perps, Tropicana 23-25's & perps were also prevalent.




*Source: BPAM, Bloomberg, HLBB Global Markets Research*




*Source: BPAM, Bloomberg, HLBB Global Markets Research*

### *Primary issuance prints in March driven by the following:*

| Notable issuances in Mar-21 | Rating | Amount Issued (RM mil) |
|---|---|---|
| Federal Land Development Authority | GG | 900 |
| Lembaga Pembiayaan Perumahan Sektor Awam | GG | 4,000 |
| Perbadanan Tabung Pendidikan Tinggi Nasional | GG | 1,000 |
| Cagamas Berhad | AAA | 175 |
| Danum Capital Berhad | AAA | 400 |
| Glacier Assets Berhad | AAA | 662 |
| MUFG Bank (Malaysia) Berhad | AAA | 250 |
| Petroleum Sarawak Exploration & Production Sdn Berhad | AAA | 2,500 |
| Toyota Capital Malaysia Sdn Berhad | AAA | 155 |
| Sabah Credit Corporation | AA1 | 100 |
| Cellco Capital Berhad | AA2 | 500 |
| OSK Rated Bond Sdn Berhad | AA2 | 120 |
| Country Garden Real Estate Sdn Berhad | AA3 | 100 |
| Tanjung Bin Energy Sdn Berhad | AA3 | 2,970 |
| UiTM Solar Power Dua Sdn Berhad | AA3 | 100 |
| AmBank (M) Berhad | A1 | 400 |
| George Kent (Malaysia) Berhad | A1 | 132 |
| Atrium REIT Capital Sdn Berhad | NR | 36 |
| BGMC BRAS Power Sdn Berhad | NR | 3 |
| BGRB Venture Sdn Berhad | NR | 3 |
| Chellam Plantations (Sabah) Sdn Berhad | NR | 4 |
| Damansara Uptown Retail Centre Sdn Berhad | NR | 7 |
| Eco World Capital Services Berhad | NR | 180 |
| Glenealy Plantations Sdn Berhad | NR | 40 |
| Idiwan Solar Sdn Berhad | NR | 3 |
| Laksana Positif Sdn Berhad | NR | 1 |
| Liziz Standaco Sdn Berhad | NR | 68 |
| Maxis Broadband Sdn Berhad | NR | 300 |
| Pavilion REIT Bond Capital Berhad | NR | 300 |
| Sunway Parkview Sdn Bhd | NR | 499 |
| Sapura TMC Sdn Berhad (fka SapuraKencana TMC Sdn Berhad) | NR | 6,380 |
| SunREIT Unrated Bond Berhad | NR | 200 |
| Tanco Holdings Berhad | NR | 4 |
| Tumpuan Azam Sdn Berhad | NR | 6 |
| Techna-X Berhad (fka Sino Hua-An International Berhad) | NR | 9 |
| Tradewinds Plantation Capital Sdn Berhad | NR | 936 |
| True Ascend Sdn Berhad | NR | 50 |
| West Coast Expressway Sdn Berhad | NR | 11 |
| | | 23,502 |

*Source: BPAM, Bloomberg, HLBB Global Markets Research*

Total fresh issuances of Corp Bonds/Sukuk jumped to RM 23.5b; its highest since May 2019 (Feb 21: RM5.34b) with Lembaga Pembiayaan Perumahan Sektor Awam i.e. LPPSA and Tanjung Bin Energy Sdn Bhd (TBEI) being the more prominent ones. LPPSA issued 5-30Y bonds (GG) totaling RM4.0b with coupons between 3.07-4.91% whilst TBEI Bin Islamic successfully arranged 1-11Y papers (AA3) amounting to RM2.97b at coupons ranging between 5.13-6.20%.

## *Outlook for April 2021*

### *Expect bonds to be supported as levels are expected to remain range-bound...*

The MYR bond market saw weaker-than-expected bidding metrics for three (3) out of five (5) of its auction exercises in March and the latest one early-April consisting of the reopening of 7Y MGS 6/28 which notched a mere BTC ratio of 1.59x); tailing at 1.8bps but with a respectable sum of bids amounting to RM7.16b.

S&P Ratings is the only remaining international rating agency that has yet to provide its report on the sovereign status of Malaysia. To re-cap, Moody's affirmed the GOM's local and foreign currency long-term issue and local currency senior unsecured debt ratings at A3. Prior to that, Fitch Ratings however, downgraded the country's long-term issuer default rating from A- to BBB+/Stable in early December.

**Our YTD projected total gross issuances for 2021 of about RM45.0b is on track with YTD actual issuances of RM45.5b; which consist of both auctions and private placements. (Note: Our overall projected issuances for 2021 of RM152b is expected to exceed the actual issuance of RM148.8b in 2020).** Notably, the USDMYR pair which rose to 4.1450 end March has however pulled back to 4.1345 levels at the time of writing as a result of the strong greenback. However, we expect MYR to be supported by USD weakness.

**We reiterate our view for OPR to stay pat at 1.75% as global growth risks have slightly abated whilst domestic growth is expected to improve from 2Q2021. Expect decent institutional support on weakness if pressure exerts on the curve.** BNM's encouraging 2021 GDP forecast of 6.0-7.5% and its pledge to maintain monetary policy support, is expected to soften views of potential rate hikes. The recent liberalized foreign exchange policy benefitting mainly exporters effective 15th April is expected to augur well for FDI and portfolio capital flows into the country. Nevertheless, rising UST yields coupled with **anticipated reduction in secondary market activities by EPF** are expected influence the movements of MYR bonds. Some mitigation is possible from our observations on other well-capitalized institution activities in the country. We note that the RM12.5b GII maturity in April may likely be offset by our projection of similar fresh MGS/GII issuances, thereby alleviating pressure on yields due to our projection of ~ RM12.0b of MGS/GII issuances for this month as per the auction calendar for the year. **The 7Y and 20Y MGS/GII, space reflect decent relative values along the curve. We expect the 10Y to range slightly between 3.20-3.40% as per our previous month's projection** with support pegged at 3.40% levels. We also continue to expect heightened trading activity in the shorter-end i.e. 21-22's for liquidity purposes and the 27's, 29's, 30's, 33's, 34's and benchmark 5Y, 10Y bonds to attract interest.

**We also like the 10Y, 20Y GG-AA space, in addition to the shorter-end 2Y tenures.** The recent sell-off on GG bond names like PTPTN, PRASARANA and DANAINFRA, are expected to attract investors on decent spreads, good liquidity and lesser portfolio slippage. We still prefer names consisting of the larger conglomerates with a well-diversified business structure along with sectors within the utilities (electricity, water etc), port and toll-operators.

## *US curve shifted higher in April amid another fresh $2.25 trillion infrastructure and economic package....*

The Federal Reserve will be having its next FOMC meeting on the 28th of April to decide on its current policy rate which has been pegged between 0.00 - 0.25% since March 2020. Both the US ISM Manufacturing PMI which improved to @ 64.7 in March (Feb: 60.8) and Markit's US Manufacturing PMI which inched up at 59.1 (Feb: 59.0) reflects positive momentum whilst unemployment rate dropped at 6.0%. (Feb: 6.2%). The lifting of containment measures across the US is seeing a revival of economic activities and fan inflationary concerns due to the massive spending bills of $2.9 trillion, $900b, $1.9 trillion and now the proposed $2.25 trillion bill. US-China relations and their respective global trade cannot be under-estimated and attention may soon divert to this issue.

The Fed's neutral view on the rate outlook suggests that potential rate moves (be it up or down) are unlikely for this year. We still opine that the **Fed may embark on forward guidance on the target and future path for the Fed Fund rate and also yield curve control to cap yields on certain maturities**. We opine that t**he UST 7-10Y sectors are currently seen to offer relative value comparatively at this juncture.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a monthly loss of 1.70% in March (February: -1.40%) but OAS spreads nevertheless tightened by 10bps to ~ 89bps. Net Issuances for March came in just above $80b lifting YTD expansion close to $190b (mainly by industrial sector followed by financial sector) with corporates names like Verizon, Oracle, Siemens, Goldman Sachs, Bank of America at the top of the list. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY), bucked the trend and managed 0.40% return for February with spreads compressing 42bps to ~292bps. **The 10-year UST is expected to stay elevated ranging between 1.65-1.85%; finding support at key 1.85% levels for this month. Our preferred IG bond issuances are within the shorter duration 5-7Y tenures in basic materials, energy and capital goods.** Despite the positive performance of the High Yield sector, we advocate a cautious stance due to potentially overstretched balance sheets and impact of a sputtering in economic growth.

**Hong Leong Bank Berhad**
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my