Monthly Fixed Income Perspective –

June 21 review & July 21 outlook

US Bond market

- **In June**, US Treasuries (UST's) closed mixed; with the short-ends pressured whereas bonds extending out from 10-year tenures **declined,** defying earlier inflation expectations following hawkish changes in the Fed's dot plot. The curve flattened as benchmark **UST yields settled mixed between -19 to +10bps across the curve** with the short-end UST 2Y yield spiking 10bps at 0.25% whilst the 10Y rallied 13bps instead at 1.47% (at the time of writing yields have fallen further to 1.36% levels) Short-covering and also the potential for auction-size cuts drew support for bonds. The yield curve saw the 2s10s spread ease 22bps at ~120bps; off the high seen in mid-June whilst the 5s30s spreads narrowed 30 bps to ~120bps as well.

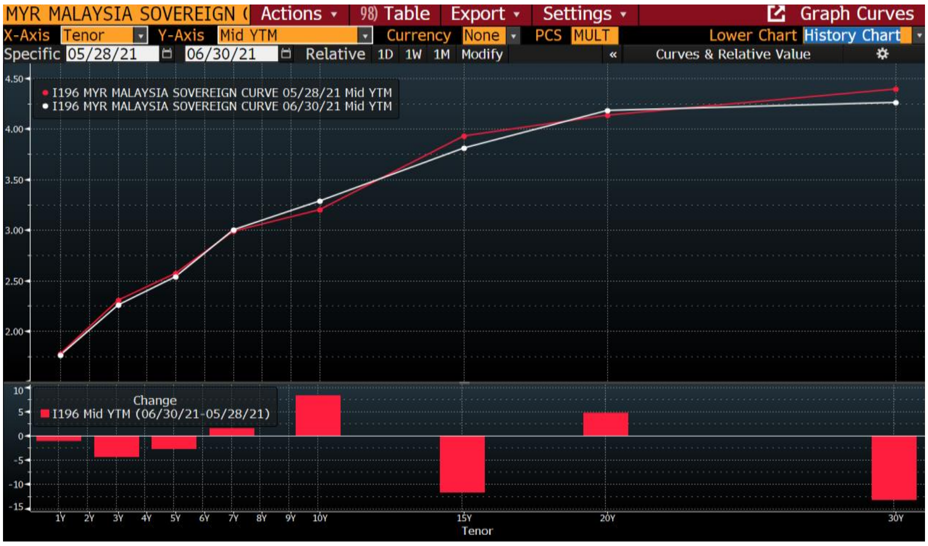
- **For July**, expect USTs to continue being supported despite the Fed's recent hawkist tilt which removes the tail risk that inflation may spiral above the 2.0% annual target. The reflation trade is seen to remain firmly out of favor for now as the UST 30Y yield has dipped below 2.0% for the 1st time since February. **The 10-year UST is expected to range slightly lower between 1.30-1.50%; finding support at key 1.50% levels for this month. Meanwhile the 4-7Y sector may reflect better value along the curve. We are mildly positive on IG issuances with interest in the 5Y sector for roll-down purposes and also 7Y consumer cyclicals, followed by energy and financials for relative outperformance and resilience.**

MYR Bond Market

- **In June**, MYR government bond curve ended flatter, **extending out from the 7Y-tenures**; with both **MGS/GII yields settling mostly lower between 2-9bps; save for the 10Y sector.** The benchmark 5Y MGS 9/25 yield declined 5bps m/m at 2.54% whilst 10Y MGS 4/31 yield rose 5bps instead at 3.28%. Foreign holdings of MYR government bonds (MGS + GII + SPK) inched to another new high in June; with net inflows circa RM686m to a total of RM223b (representing 25.1% of total outstanding). All three (3) auctions saw participation ease at an average BTC ratio of ~ 2.10x compared to prior month's 2.22 cover.

- **For July,** we project the Malaysian economy to portray some uncertainties surrounding the pandemic path; and expect contraction in industrial production, wholesale & retail sales data. We have downgraded our full-year GDP growth forecasts to 3.7% for 2021. Expect the proposal to increase both i.e. the debt ceiling to at least 65% and also the fiscal deficit to between 6.50-7.00% to weigh on the curve. S&P Global Ratings negative outlook on the long-term rating despite its **affirmation** of Malaysia's "A-" long-term and "A-2" short-term sovereign credit ratings on Malaysia may also have slight bearing on the direction of govvies. The announcement of RM10b fiscal injection due to the latest PEMULIH stimulus totaling RM150b may spook investors but support can be derived from relatively strong investor pool from both foreign and locals. **The 5Y GII, 7Y MGS and also 15-20Y MGS/GII space reflect decent relative values along the curve. We expect the 10Y to remain in a similar range of between 3.20-3.40%** with support pegged at 3.40% levels. **We also like the short 2Y AAA-AA papers and longer tenured 10-20Y GG-AAA bonds.**

MYR sovereign curve (MGS)



Source: Bloomberg

NFP for June showed an accelerating recovery for US labor market; total employment rises 15.6% since April 2020 but remains ~6.5m (prior month -7.6m) below its pre-pandemic peak…

June Non-Farm Payrolls ("NFP") rose 850k following May's print of a revised 583k job gain; below expectations of 675k. Notable job gains occurred in leisure and hospitality, public and private education, professional and business services, retail trade, and other services. The unemployment rate inched up to 5.9% (May: 5.8%), and remains higher compared to 4.4% in March 2020 whilst the participation rate was constant at 61.6%. The average hourly wages grew 0.3% m/m (previous month: 0.5%) whereas the y/y figures spiked to 3.6% (previous month 2.0%) due to the lower base effect in the earlier cycle of the pandemic. The US Senate had struck an agreement for a $1.2 trillion infrastructure bill in June compared to President Biden's originally proposed $2.3 trillion infrastructure and economic recovery package. This coupled with the Families Plan stimulus of $1.9 trillion in April and boost in higher corporate taxes (and also wealthy Americans) is expected to assist in gearing levels and boost economic activities. US PMI and ISM manufacturing data for June was still at elevated levels; despite pulling back from recent peak. Separately, the Fed's preferred inflation measure i.e. core PCE in May eased to +0.5% m/m but rose 3.4% y/y, may not yet have a meaningful impact on UST yields due to inflationary concerns. While the economy added 850k jobs, the household survey saw employment actually decreasing, causing the unemployment rate to tick up. Overall, the data which showed solid growth may not change the Fed's policy path, hitting a sweet spot for markets as it was akin to a" goldilocks" type of report, because hiring accelerated -- which is a positive sign for the recovery - but not so much that it would trigger a reaction of an accelerated timeline for the Fed to start tapering.

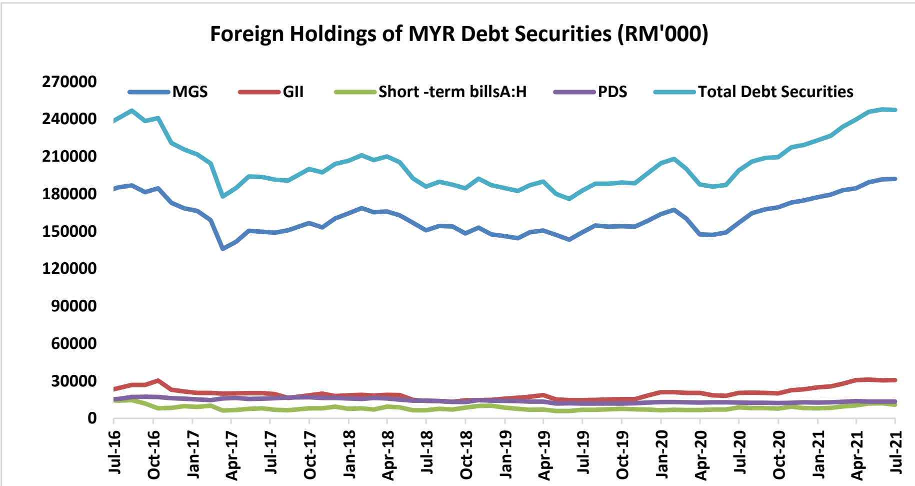
To re-cap, the Fed left the Fed Fund Rates unchanged at 0.00-0.25% at its recent FOMC on 17th June (To recap, total rate cuts of 150bps took place in 2020). The FOMC statement showed no unexpected changes, with rates and asset purchases unchanged and a more upbeat assessment of the economy due to vaccines. The **Fed's current dot plot has shifted from earlier levels mentioned in our last monthly report ~ with about 7 officials (prior: 4) gunning for a hike earlier than 2023** (There were 7 FOMC participants that see the 1st rate increase possible in 2022, compared with 4 in the March projection. In addition, now 13 participants see higher rates in 2023, up from 7 in the previous projection, and moving the median dot to 0.6%, showing two rate hikes in 2023.

Data from the Fed Fund Futures now reflect traders' lower hypothetical expectations of 1.7% odds of a cut (prior month: hike of 6.2% instead) in the next FOMC meeting on 28th July whilst CME FedWatch Tool projects a 100% chance of a rate pause (prior month: 97.0%). The Fed's ongoing purchase of bonds of $80b a month in USTs and $40b a month in agency MBS has now boosted its balance sheet to ~$8.08 trillion as at end 28th June 2021 ($7.94 trillion @ 31st May). The Treasury has cut the sizes of upcoming bill auctions for the first time in more than a year to as it aims to shrink its cash balance before the potential reinstatement of the debt ceiling at the end of July.

Foreign holdings of overall MYR bonds continue to see a slight decrease of ~RM500m or 0.2% in June amid higher USDMYR @ 4.1490

Foreign holdings of overall MYR bonds declined in June by a mere RM500m or 0.2% to RM247.4b. Non-resident holdings of MGS rose by RM440m from RM191.7b to RM192.1b (representing 40.4% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net inflows of RM686m to RM223.0b (representing 25.1% of total outstanding) amid the substantial net issuances of +RM13.5b for the month (May: +RM13.0b). Supply concerns due to higher fiscal deficit arising from the latest announcement from PEMULIH may dampen investors' appetite due to an expected fiscal injection of another RM10.0b which is believed to be raised via local debt going forward. Prior to this latest development we had anticipated that part of these additional funding requirements could be absorbed/offset by proceeds from GOM's continued issuances of T-bills, excess proceeds from recent FCY bond issuance, oil gains, additional reimbursements by parties involved in the 1MDB matter together with the reallocation of 2021 budget resources from less critical economic sectors.

Net purchases in June by offshore institutions, inter-bank participants and also real-money investors (such as lifers) underlined the continued appeal for yield-carry requirements for MYR government bonds under the Asian Rates asset class bonds. **Overall MYR govvies saw lower net inflows of RM686m for June 2021 (prior month: RM1.7b) whilst 12-month rolling inflows notched a slightly higher cumulative amount of RM45.5b (prior month: RM55.0b). Net equity outflows fell by a mere RM1.17b in June 2021 (prior month: RM161m) compared to the cumulative 12-month rolling outflows of RM12.5b (prior month: RM14.3b).** On the currency side, the MYR weakened substantially against USD to 4.1490 as at end-June and was seen slipping further to 4.1917 levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

MPC meeting in July sees BNM stay pat at 1.75% for the OPR...

BNM in its 4th Monetary Policy Committee (MPC) meeting for the year on 8th of July, left the OPR unchanged at 1.75%. The central bank highlighted that the growth outlook remains subject to “significant” downside risk, a tweak from “downside risk” in the last statement. It commented that the materialization of these downside risks could undermine the growth recovery; leaving the door open for an OPR cut in the near future. We are of the opinion that latest MPC policy statement will necessitate a revision of its earlier projected GDP growth forecast from 6.0-7.5%, nearer to the 4.0% handle.

In a report released lately, industrial production registered lower growth of 26.0% y/y in May, from the 50.1% y/y increase in April. We remain wary that production constraints/ cessation amid tighter lockdown, could exacerbate supply disruption translating into greater supply chain disruption going forward. We expect industrial production and wholesale & retail sales data to turn contractionary in June and recover gradually as and when more economic sectors are reopened. This will spell challenges to exports and overall recovery prospects for the remaining of the year. Exports pulled back from April’s +62.9% y/y high, increasing at a slower but still hefty pace of 47.3% y/y in May, confirming our view that the best print since 1998 seen in April was the peak.

Following BNM’s earlier neutral policy statement, **we reaffirm our house view that BNM would keep OPR unchanged at 1.75% BUT given the fluidity of the pandemic path and vaccination progress, we are of the view that it is leaving the door open for a rate cut as early as September this year. We have also revised our full year 2021 GDP growth projection down to 3.7% y/y (prior +5.0%), and foresee further downside risks should infection rates remain high and lockdown is prolonged.**

Slight dip in bidding metrics for MYR government bond auctions

The three (3) government bond tenders concluded for the month of June 2021 under the auction calendar saw average BTC ratios maintain just above the 2.0x handle i.e. 2.10x (May: 2.22x). Despite the highest BTC among the three auctions being recorded by the 20Y reopening of MGS 5/40 @ 2.651x; the highest sum of bids received of RM9.01b was noted for the 3Y reopening of GII 10/24 which notched 2.001 cover instead. The 10Y MGS 11/49 reopening also recorded a decent BTC of 1.966x, supported by wider category of institutions from both foreign and local funds. These three (3) auctions saw total bids amounting to between a wide range of RM5.3- 9.0b. The table below summarizes the recent tenders as we maintain our projected issuance sizes for MGS/GII auctions in 2021 @ RM152.5b.

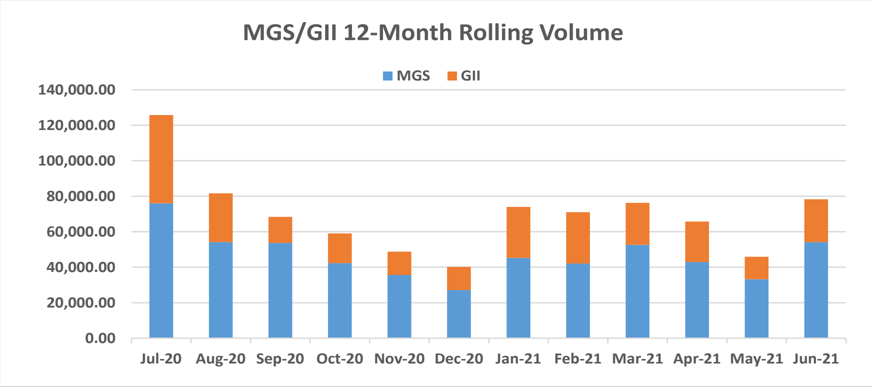
MGS/GII issuance pipeline in 2021

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Actual Private Placement	Total Issuance YTD	BTC (times)	Low	Average	High	Cut-off
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	50.0%
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	95.5%
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	91.7%
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	63.2%
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	90.0%
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	82.5%
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	20.0%
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	15.0%
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	30.0%
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	85.7%
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	30.0%
12	15-yr Reopening of GII (Mat on 7/36)	15	Apr	Q2	14/4/2021	4,000	2,500	2,000	49,500	2.545	3.975	4.010	4.034	96.0%
13	3-yr Reopening of MGS (Mat on 06/24)	3	Apr	Q2	21/4/2021	4,000	4,500		54,000	2.086	2.346	2.363	2.373	62.4%
14	30-yr Reopening of GII (Mat on 11/49)	30	May	Q2	7/5/2021	4,000	2,000	2,000	58,000	2.433	4.540	4.568	4.581	30.0%
15	15-yr Reopening of MGS (Mat on 05/35)	15	May	Q2	19/5/2021	4,500	2,500	2,000	62,500	2.445	3.930	3.956	3.970	21.4%
16	5-yr Reopening of GII (Mat on 03/26)	5	May	Q2	28/5/2021	4,000	4,500		67,000	2.003	2.700	2.728	2.739	100.0%
17	10-yr Reopening of MGS (Mat on 04/31)	10	Jun	Q2	8/6/2021	4,500	4,500	500	72,000	1.966	3.287	3.313	3.333	87.0%
18	3-yr Reopening of GII (Mat on 10/24)	3	Jun	Q2	22/6/2021	4,500	4,500		76,500	2.001	2.330	2.341	2.350	58.2%
19	20-yr Reopening MGS (Mat on 05/40)	20	Jun	Q2	29/6/2021	4,000	2,000	2,000	80,500	2.651	4.223	4.254	4.268	86.0%
20	15-yr Reopening of GII (Mat on 07/36)	15	Jul	Q3	14/7/2021	4,500	2,500	2,000	85,000	3.056	3.969	3.982	3.992	96.0%
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	67,000	18,000	85,000	PROJECTED TOTAL ISSUANCE SIZE = 152,500				

Source: BNM, HLBB Global Markets Research

MGS/GII see huge jump in June secondary market activity

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds spiked 70% m/m to ~RM78.5b in May compared to prior month's RM46.1b due to knock-on effects of UST rally and to a certain extent, the global bond rally. Some concerns over the extended movement restrictions due to the high COVID-19 infections helped lend a bid to the safety of bond asset class. These factors also helped alleviate the passive secondary market presence by the largest pension fund in the country. Nevertheless we opine that support and velocity in the secondary market volume for local govvies may stagnate in July partly due to concerns over GOM's potential revision of both fiscal deficit and debt ceiling. Local govvies may continue to witness some volatility as the nation's bonds are also exposed to the delicate political situation among the coalition parties of the ruling government and also economic data and vaccination updates emanating out from both within and outside of the country. The silver lining however is that relative yield-carry differentials in Malaysian govvies under the EM Asia rates category along with the strong foreign holdings of MYR debt may continue to attract yield-hungry investors.



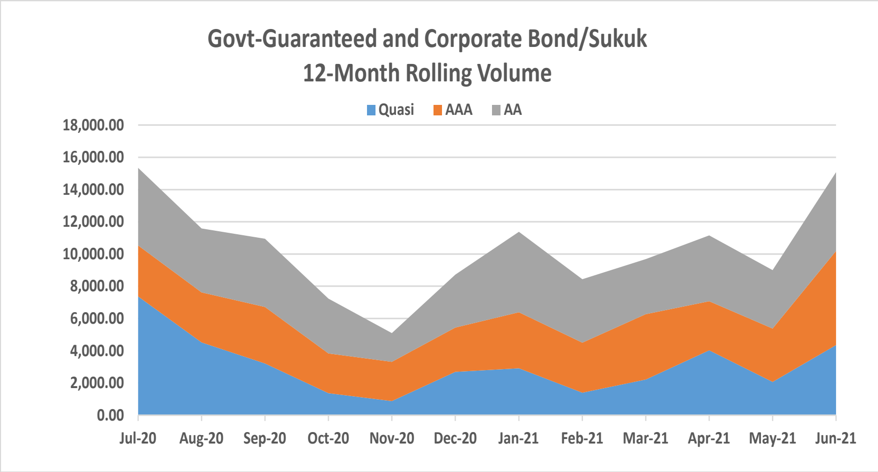
Source: BPAM, Bloomberg, HLBB Global Markets Research

Corporate Bonds/Sukuk took cue from govvies with robust activity seen in June…

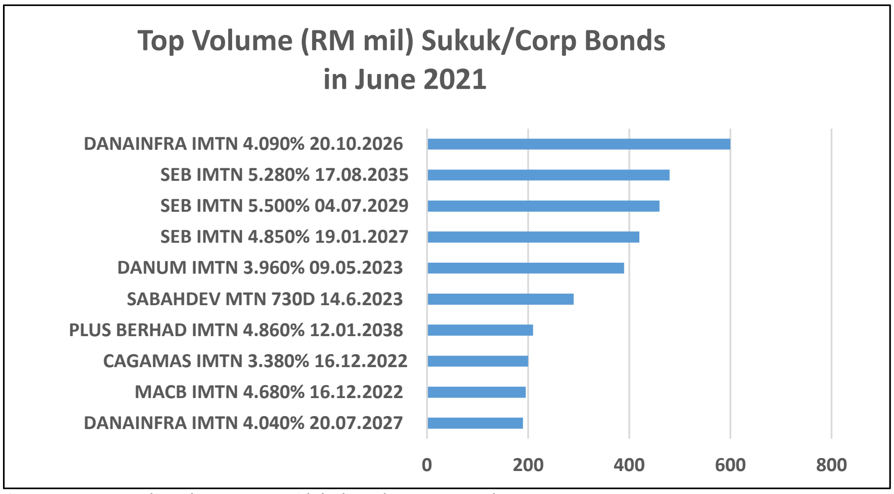
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market trading volume jumped by 62.4% to ~RM16.25b in June (May: RM10.02b). The improved momentum was due to strong yield-carry requirements from portfolio managers and also inter-bank participants. Portfolio turnover was seen carried out by various categories of institutional buyers that included inter-bank players, lifers and asset management companies which shrugged off the perceived temporary passive role by EPF in the secondary market due to withdrawal initiatives such as i-Sinar programme. Yields tightened between 6-12bps for the 1-20Y space for GG-segment with yield spreads to MGS settling generally at ~ 23-42bps with most value found in between the 7-15Y sectors. The AAA-rated bonds saw spreads also narrow between 3-11bps to settle at spreads of ~46-59bps whilst the AA2-segment similarly saw smaller tightening spreads of only 1-5bps. We note that foreign holdings for both GG and pure Credits inched higher by RM50m to RM13.53b.

Total transactions for GG bonds rose m/m to form ~28.8% (May: 22.8%) of overall volume. AAA-rated papers however saw a massive 76.0% jump in volume m/m resulting ultimately in 38.8% (May: 36.0%) of overall trades whilst AA-rated ones saw activity rise by 35.1%; forming 32.4% (May: 40.2%) of overall investor interest. The GG-space was again mainly centered on DANAINFRA, PRASARANA, LPPSA, PTPTN, PLUS GOVCO bonds followed by quasi-govt entity i.e. CAGAMAS Bhd. **Bonds that garnered top volume for the month were DANAINFRA 10/26 (GG) that spiked 65bps at 3.00% since it was last traded some 8 months ago, followed by energy-related bonds SEB 8/35 (AAA) which rose 4bps at 4.52%. Third was another tranche of SEB i.e. 7/29 (AAA) which settled unchanged at 3.68%.** Frequency and volume of trades in the pure credit space were seen mainly seen in conglomerates (i.e. DRB-Hicom 22-29's, MMC 25-28's, GENM Cap 25-28's, GENTING RMTN 34's, Sarawak state SPV i.e. Infracap Resources, Khazanah-related SPV's i.e. DANUM 23's, DANGA 24-30's, UMW Holdings 21-25's, infrastructure-cum construction/property (i.e. AMAN 22-27's, UEM SUNRISE 22-26's, IJM 23's), property/toll i.e. PLUS 22-36's, WCT 21-22's, PKNS 21-23's, utilities encompassing energy/telco/water/power (i.e. AAA-rated PASB 22-35's, TENAGA 33-40's, TNB WE 24-36's, MANJUNG 21-31's, TELEKOM 22-28's, AA-rated EDRA 23-36's, Southern Power 22-35's, SEB 25-35's, JEP 21-32's, plantation-related KLK 22-34's and BUMITAMA 24-26's and also others like MACB 22's, QSPS green 23-32's and INFRACAP resources 22-36's. The banking sector saw prominent trading activity on names involving MAYBANK perps, BPMB 22-35's, IMTIAZ 21-28's and Alliance Bank 2035NC30 and 2030NC25 papers. There were frequent odd-lot denominated trades involving banking names like ALLIANCE mentioned above, CIMB Perps, Sabah DEV 23-26's, unrated ECO World 21, 23's, TG Excellence perps, IJM

Land perps, Mah Sing Perps, YNH Property 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 June driven by the following:

Notable issuances in June-21	Rating	Amount Issued (RM mil)
Bank Pembangunan Malaysia Berhad	AAA	1,250
Cagamas Berhad	AAA	1,850
Pengurusan Air SPV Berhad	AAA	550
Sabah Development Bank Berhad	AA1	290
SP Setia Berhad	AA2	800
7-Eleven Malaysia Holdings Berhad	AA3	500
Mumtaz Rakyat Sukuk Berhad	AA3	300
Sports Toto Malaysia Sdn Berhad	AA3	25
Tropicana Corporation Berhad	A1	110
Bank Muamalat Malaysia Berhad	A3	500
BGMC BRAS Power Sdn Berhad	NR	3
Chellam Plantations (Sabah) Sdn Berhad	NR	155
Glenealy Plantations Sdn Berhad	NR	20
Grand-Flo Berhad (fka Grand-Flo Solution Berhad)	NR	120
Idiwan Solar Sdn Berhad	NR	4
KYS Assets Sdn Berhad	NR	30
Laksana Positif Sdn Berhad	NR	2
Leong Hup Capital Sdn Berhad	NR	100
Liziz Standaco Sdn Berhad	NR	28
Naza TTDI Capital Berhad	NR	86
PNB Merdeka Ventures Sdn Berhad	NR	430
Potensi Angkasa Sdn Berhad	NR	39
Tumpuan Azam Sdn Berhad	NR	9
Techna-X Berhad (fka Sino Hua-An International Berhad)	NR	1
TH Plantations Berhad	NR	300
West Coast Expressway Sdn Berhad	NR	12
		7,515

Source: BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk increased to RM 7.52b; off the March-April peak issuances (Apr 2021: RM12.7b, Mar 2021: 23.5b) with Bank Pembangunan Berhad (BPMB) and CAGAMAS Bhd being the more prominent ones. BPMB issued 5-10Y bonds (AAA) totaling RM1.25b with coupons between 3.25-4.05% whilst CAGAMAS successfully arranged 2-5Y papers (AAA) amounting to RM1.85b at coupons ranging between 2.41-3.15%.

Outlook for July 2021

Expect bonds to be slightly pressured despite weaker GDP output as supply concerns surface with GOM's intention to raise both the fiscal deficit and statutory debt...

The MYR bond market still saw strong bidding metrics for all three (3) of its auction exercises in June whilst the latest one involving the reopening of 15Y GII on Wednesday, the 14th of July saw solid bidding metrics on a 3.056 cover, yielding 3.982%. However we expect the remainder auctions for 5Y MGS and 10Y GII auctions in July to produce longer tailing support.

S&P Global Ratings put a negative outlook on the long-term rating. This was despite **affirmation** of Malaysia's "A-" long-term and "A-2" short-term sovereign credit ratings on Malaysia, besides also affirming its 'A' long-term and 'A-1' short-term local currency ratings on the country. (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 in March 2021 whereas Fitch Ratings downgraded the country's long-term issuer default rating from A- to BBB+/Stable in December 2020).

Our YTD projected total gross issuances for 2021 of about RM83.5b is slightly below actual issuances of RM85.0b; which consist of both auctions and private placements. We are in the process of re-evaluating our overall projected issuances for 2021 of RM152.5b following the recent additional RM10.0b fiscal injection arising from the PEMULIH stimulus package as we opine that reallocation of excess funds from other non-critical sectors as per the 2021 budget along with the RM5.0b KWAN fund operated by BNM may be insufficient. We are mindful of funding benefits accruing from elevated oil prices and miscellaneous fines and repayments pertaining to 1MDB debacle.

BNM's 2021 earlier GDP forecast of 6.0-7.5% is expected to be revised sharply lower to circa 4.0% levels in view of the recent lockdown restriction in several key states such as Selangor and Wilayah Persekutuan Kuala Lumpur. We project the Malaysian economy to portray some uncertainties surrounding the pandemic path; and expect contraction in industrial production, wholesale & retail sales data. We have downgraded our full-year GDP growth forecasts to 3.7% for 2021. However, the reversal of US reflation theme and recent strength as evidenced by lower yields due to easing inflationary pressures and lower jobless claims, may help provide support. Nevertheless we are cognizant of EPF's muted secondary market activities beyond the earlier expected date by end of June due to the subsequent and recent government's announcement of additional i-Citra withdrawal facilities, projected up to RM30b. We also note that there are RM13.5b of govvies maturities in July which could potentially put pressure on yields despite the potential rollover based on our estimation of ~ RM12.5b of MGS/GII issuances for this month as per the auction calendar for the year.

The 5Y GII, 7Y MGS and also 15-20Y MGS/GII space reflect decent relative values along the curve. We expect the 10Y to remain in a similar range of between 3.20-3.40% with support pegged at 3.40% levels. We also continue to expect robust activity and interest in the shorter-end off-the-runs i.e. 21-22's, the 24's and also benchmark 5Y, 10Y bonds for both liquidity and relative value purposes.

We also like the short 2Y AAA-AA papers and longer tenured 10-20Y GG-AAA bonds. The recent tightening of GG bond names like LPPSA, PRASARANA and DANAINFRA, are expected to spillover to lesser-liquid names like Turus Pesawat Sdn Bhd, OHOR Corp and also lower credits along the yield curve with investors weighing between yield-carry versus liquidity and credit considerations. We still prefer names consisting of the larger and well-diversified conglomerates involved in sectors encompassing utilities (i.e. power generation, telco, sewerage, electricity, water, etc) and also tolled highway and port operators.

Expect USTs to be mildly supported in July despite expectations of inflationary pressures whilst the Fed is expected to maintain its pace of asset purchases…

The Federal Reserve will be having its next FOMC meeting on **29th of July** 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 eased to @ 60.6 in June (May: 61.2) and Markit's US Manufacturing PMI which also tapered off to 62.1 (May: 62.6) are nevertheless positive indicators whilst unemployment rate remained somewhat steady at 5.9% (May: 5.8%). The Fed is expected to maintain its present pace of asset purchases. The speed at which vaccination rollouts occur together with the various stimulus initiatives from further spending bills is expected to boost economic activities. The employment print today reinforces the concept that the MBS side of the Fed's quantitative easing program may be tapered more aggressively than the Treasury side, with regard to its pace of asset purchases.

The Fed's recent hawkist tilt surprisingly removes the tail risk that inflation may spiral out of control. We expect the current downtrend in Treasury yields to remain somewhat intact. On the flip side, economic momentum and potential news of Fed accommodation taper may turn catalyst for a cyclical move up in July (Note: July is seasonally a quiet period for Treasuries whilst volatility tends to pick up later in the quarter). **The UST 7Y, 20Y sectors are deemed to offer relative value at this juncture.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a higher monthly gain of 1.6% in May (May: 0.8%) with OAS spreads tighter and traded similar at ~ 84bps. IG corporate bonds are looking rich led by UST gains but may however endure modest widening of spreads. Expect gross issuances to reach a total of ~$90 in July. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also managed an impressive 1.3% return in (May: 0.3%) with spreads tightening by 20bps to ~265bps. Issuances for the month which were only $37b in June is expected to increase to $42b (monthly mean of YTD issuances: $47b).

Our monthly fundamental view suggests the 10-year yield should be higher than its current level**. The 10-year UST is expected to range slightly between 1.30-1.50%; finding support at key 1.50% levels for this month. Meanwhile the 4-7Y sector may reflect better value along the curve. We are mildly positive on IG issuances with interest in the 5Y sector for roll-down purposes and also 7Y consumer cyclicals, followed by energy and financials for relative outperformance and resilience.**

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