Monthly Fixed Income Perspective –

Feb 22 review & Mar 22 outlook

US Bond Market

- **In February**, US Treasuries (UST's) posted a loss despite seeing a late-rally towards the month-end that amplified safe-haven demand due to sanctions on Russia following its invasion into Ukraine. Earlier in the month, bonds were weak mainly due to larger-than-expected surge in consumer inflation reported on 10th February as futures priced-in a 50bps hike then for March. The higher commodity prices namely in oil, strong jobs data and supply-chain bottlenecks continued to impact markets. The curve flattened further as benchmark UST yields jumped up by smaller margin i.e. between 5-25bps. **The UST 2Y yield spiked 25bps to 1.43% whilst the 10Y rose 5bps to 1.83%, off-the-recent peak seen during mid-February**. At the time of writing, yields have spiked further to 1.94% levels). The yield curve saw the 2s10s spread further tighten 21bps to ~38bps as at end-February.

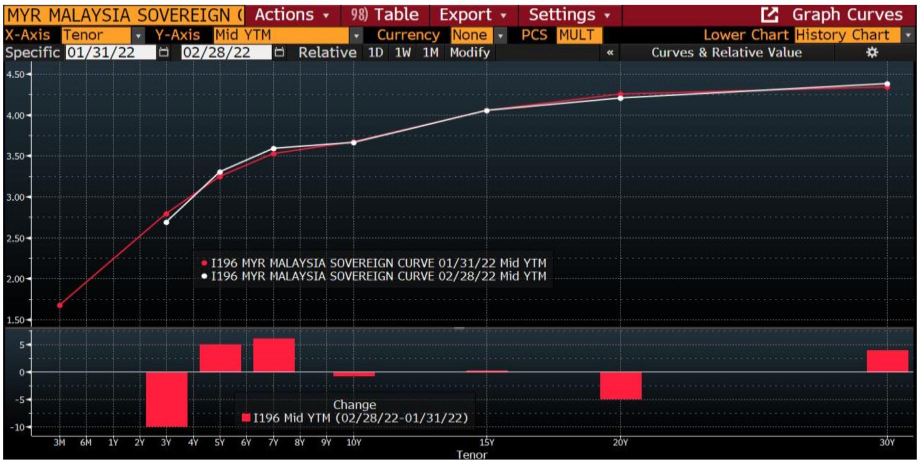
- **For March**, expect UST yields to move slightly to the upside as concerns abound over the higher anticipated hikes in 2022 that could total up to six (6) instead. The strong jobs report for February coupled with higher wages due to labor tightness may add to inflationary pressures. **The 10-year UST is expected to continue ranging between 1.80-2.00%; finding support at key 2.00% levels for this month.** We are neutral over nominal UST's despite seeing less coupon offerings over the next few months but foresee pressure in the front-ends ahead of the all-important March FOMC meeting as we foresee this to overwhelm the present Russia-Ukraine geopolitical factor. The IG issuances within the 5-7Y duration are still our preferred choice along the curve, namely in sectors covering financial institutions, technology and consumer cyclicals.

MYR Bond Market

- **In February**, overall MYR government bonds ended mixed between -11 to +6bps with the belly pressured the most. The govvies curves were little changed especially extending out from 10-year tenures. **The benchmark 5Y MGS 11/26 yield edged 2bps higher to 3.26% whilst the 10Y MGS 7/32 edged 1bps instead m/m to 3.67%**. Foreign holdings of MYR government bonds (MGS + GII + SPK) saw strong inflows of RM2.2b to RM240.4b (representing 25.3% of total outstanding). The primary factors driving bond movements were fanning inflationary pressures in the US coupled with Russia-Ukraine war. The three (3) auctions in January 2022 saw average BTC ratios weaken below the 2.0x handle i.e. at 1.88x (Jan: 2.29x)

- **For March,** the government's recent announcement to declare the pandemic as an endemic whilst opening up the international borders come 1st April may boost further economic activity but still provide support in the safety of bonds as foreign-related news continue to dominate. Nevertheless, volatility is expected to ensue as the FOMC meeting looms with MYR bonds taking cue from UST movements. **We expect the 10Y MGS yield to maintain its trading range between 3.70-3.90%, with support pegged at 3.90% levels.** The 5Y and 15Y MGS/GII space currently reflect better relative values along the curve. In the corporate bonds/Sukuk space, we still favor logistics/tolling/commodity sectors and are positive on the shorter-end and belly i.e. 2Y, 5Y tenures in AAA/AA (spreads ranging from 28-50bps), and also the 7-10Y GG-sector (spreads of 16-32bps).

MYR sovereign curve (MGS)



Source: Bloomberg

US February headline payrolls continued to impress, surpassing estimates but stalling wage growth needs to be monitored…

February Non-Farm Payrolls ("NFP") rose 678k (above the consensus of 423k), whilst adding a bigger upward revision of 92k for the months of December and January. The strength in hiring and the extension in working hours helped boost data; especially in the leisure, hospitality, education, healthcare and also transportation and warehousing sectors. However wage growth was seen to have stalled possibly due to seasonal adjustment process seen in earlier months. The unemployment rate improved to slightly higher to 3.8% (Jan: 4.0%), resuming the trend seen in prior to January. Nevertheless the strong labor participation rate which notched 0.1ppts to 62.3%, a new high since March 2020 (Jan: 62.2%) is a strong factor that may over-ride the mundane wage growth. The average hourly wages were surprisingly unchanged m/m (previous month 0.7%) whereas the y/y figures fell to 5.1% (previous month 5.7%).

Meanwhile, the strong data emanating from both Markit US manufacturing PMI for February @ 57.3 (Jan: 57.5) and higher ISM manufacturing data of 58.6 (Nov: 57.6) is set to reaffirm steady and continued economic expansion despite supply-chain bottlenecks. The Fed's preferred inflation measure i.e. core PCE in January maintained at 0.5% m/m whilst y/y traction jumped further to 5.2% (Dec:4.9%); potentially justifying the cause for higher rates.

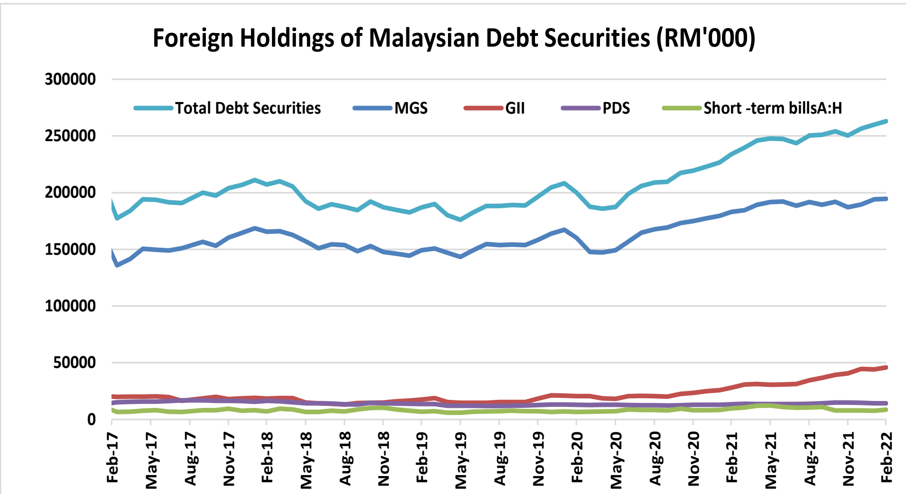
Expect attention to shift to the all-important FOMC meeting during the 16-17th of March (to recap, the Fed Fund Rates was left unchanged at 0.00-0.25% at the latest FOMC on 27th January whilst embarking on its asset tapering that involved winding-down monthly bond purchases from $15b in USTs in November to $30b per in December, January, February and finally ending with $15b in March)**.** Meanwhile, its current balance sheet reveals total assets rose further to $8.90 trillion as at 28th February 2022 ($8.87 trillion @ 31st Jan). The Fed's dot plot sees 10 out of 18 officials advocating three (3) rate hikes in 2022 with another 2 predicting four (4) rate hikes instead. Additional data from the **Fed Fund Futures reflect traders' hypothetical expectations of a higher 98% odds of a hike (100% prior month) between 25-50bps in the next FOMC meeting in March** with an 100% chance of another rate hike in its subsequent May 2022 meeting at the time of writing. **CME FedWatch Tool meanwhile, maintains a ~94% chance of a 25bps hike of between 25-50bps in March instead.**

Foreign holdings of overall MYR bonds jumped ~RM3.1b or 1.2% in February despite weaker MYR against the greenback @ 4.20 levels

Foreign holdings of overall MYR bonds continued to rise in February by RM3.1b or 1.2% to RM263.2b. However, non-resident holdings of MGS rose by a mere RM494m or 0.3% (prior month: RM4.7b) to RM194.6b, another new high whilst forming 39.3% of total outstanding. **Total MYR Government bonds (i.e. MGS+GII+SPK) holdings saw net inflows of RM2.2b to RM240.4b (representing 25.3% of total outstanding) versus prior month's +RM4.3b;** despite the even sharper rise in net issuances of +RM14.5b for the month (January: +RM12.5b). Meantime, **12-month rolling inflows notched a lower cumulative amount of RM29.5b (prior month: +RM32.9b).** Investors were a tad bullish on MYR bonds on safe-haven purchases amid geopolitical tensions and projected increase in the nation's coffers due to higher oil revenue arising from the spike in commodities. We note that concerns over the US Fed's asset-tapering exercise and imminent rate hikes in the immediate future took a back-seat momentarily on decent yield-carry and levels following the spike in global bond yields in February.

Auction exercises were generally muted, due to fanning inflationary pressures in the US and potential rate-hiking exercises set to commence in March. However, the active participation of large pension funds such as EPF in both the primary and secondary markets were seen to provide support and smoothen volatilities. The notable depth and appetite of local investment Institutions namely GLIC's, fund management and asset management companies via proactive guidance and encouragement from the likes of BNM and Securities Commission was another plus factor. Nevertheless, concerns over the government's elevated fiscal deficit expectations of at least 6.0% of GDP, and higher statutory debt limit of 65% of GDP may make its rounds again in the near future. Until then we expect foreign counter-parties to take the opportunity from the fallout of Russia-Ukraine to make their foray into South-East Asian markets, benefitting MYR bonds as well.

Elsewhere, equities improved on the RM332m inflow seen in January, with the highest YTD inflow of RM2.8b seen for February; whilst the cumulative 12-month rolling inflows recorded RM1.68b (prior month: outflows of RM1.99b). On the currency side, the MYR weakened slightly against USD to 4.1993 as at end-January from 4.1855 prior month, and is seen strengthening to 4.1800 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

No surprises as BNM maintained OPR at 1.75% @ March MPC meeting...

BNM in its 2nd Monetary Policy Committee (MPC) meeting for the year on 3rd of March delivered another rate pause at today's MPC meeting, and the decision to keep OPR unchanged at a historical low of 1.75% was widely expected. The accompanied statement was by and large unchanged from the previous statement in January, save for the comments and assessment on Russia-Ukraine-related risks. The statement remained overall neutral, suggesting there is no immediate plan for any rate hike. BNM reaffirmed that whilst the world economy continues to recover from Omicron-wave of infections, the overall trajectory remains intact. The government has just announced the shift from pandemic to endemic which will give a further shot in the arm to the retail, leisure and hospitality sector when re-opening the international borders from 1st April.

We reiterate our earlier view that growth will accelerate in 2022 (HLB: 6.1%; MOF: 5.5-6.5%), Given prevailing uncertainties surrounding both the pandemic as well as the Russia-Ukraine crisis, we believe BNM would continue adopt a neutral and cautious stance while closely monitoring the spill-over effects from higher inflation on growth.

We therefore maintain our view of a possible rate lift-off in 4Q 2022 to the tune of 25bps amid broad underlying inflationary pressures which may make its presence felt sooner than later.

The month of February see auctions participation lose momentum with no availability of rollover on existing maturities for the month…

The three (3) government bond tenders concluded for the month of February 2022 under the auction calendar saw **average BTC ratios plunge to 1.88x** (Jan: 2.29x). The highest BTC among the three auctions recorded was the 30Y reopening of MGS 6/50 at 2.423x; with a strong sum of bids totaling RM6.06b with a sizeable private placement of RM2.5b. Both the other auctions consisted of the re-opening of both the 5Y GII 9/27 and also the 7Y GII 10/28 which saw weaker covers of between 1.73-1.75x. However, the recent reopening of 15Y MGS 4/37 last week saw improved bidding metrics with BTC ratio rising to 1.986x. The rather smaller-than-expected issuance size of a mere RM3.0b saw total bids received at a YTD low of only RM5.96b. Altogether, the three (3) auctions in February mentioned earlier saw individual sum of bids amounting to between RM6.1-8.7b.

Going forward, we note that **maturity windows commence in March with a total of RM18.2b with the largest seen in 3Q2022** from scheduled MGS/GII maturities. Nevertheless, funds from maturing MGS/GII are expected to be ploughed back as reinvestments into the MYR government bond space. To recap, total combined MGS/GII maturities for 2022 amounts to circa RM78.2b (2021: RM73.7b).

MGS/GII issuance pipeline in 2022

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	5-yr reopening of MGS (Mat on 11/26)	5	Jan	Q1	6/1/2022	5,000	5,000		5,000	2.329	3.235	3.273	3.290	39.4%
2	10.5-yr new Issue of MGS (Mat on 7/32)	10	Jan	Q1	13/1/2022	4,500	4,500		9,500	2.044	2.615	3.582	3.598	51.6%
3	15-yr Reopening of GII (Mat on 07/36)	15	Jan	Q1	28/1/2022	4,500	3,000		12,500	2.574	4.147	4.161	4.180	30.0%
4	5-yr Reopening of GII (Mat on 09/27)	5	Feb	Q1	7/2/2022	4,500	5,000		17,500	1.733	3.470	3.495	3.512	47.6%
5	30-yr Reopening of MGS (Mat on 06/50)	30	Feb	Q1	14/2/2022	4,500	2,500	2,500	22,500	2.423	4.488	4.505	4.520	34.1%
6	7-yr Reopening of GII (Mat on 10/28)	7	Feb	Q1	21/2/2022	4,500	4,500		27,000	1.750	3.587	3.612	3.629	50.0%
7	15-yr Reopening of MGS 04/37	15	Mar	Q1	4/3/2022	4,500	3,000		30,000	1.986	4.048	4.064	4.078	87.6%
8	20-yr Reopening of MGII 09/41	20	Mar	Q1		4,500		X						
9	3-yr Reopening of MGS 03/25	3	Mar	Q1		5,000								
10	10.5-yr New Issue of MGII (Mat on 10/32)	10	Apr	Q2		4,000								
11	20.5-yr New Issue of MGS (Mat on 10/42)	20	Apr	Q2		5,000		X						
12	15-yr Reopening of MGII 07/36	15	Apr	Q2		4,000		X						
13	7-yr New Issue of MGS (Mat on 04/29)	7	Apr	Q2		4,500								
14	30-yr New Issue of MGII (Mat on 05/52)	30	May	Q2		5,000		X						
15	10-yr Reopening of MGS (Mat on 07/32)	10	May	Q2		5,000								
16	3-yr Reopening of MGII 10/25	3	May	Q2		4,500								
17	15-yr Reopening of MGS 04/37	15	Jun	Q2		4,000		X						
18	5-yr Reopening of MGII 09/27	5	Jun	Q2		4,000								
19	30-yr Reopening of MGS 06/50	30	Jun	Q2		4,000		X						
20	10-yr Reopening of MGII (Mat on 10/32)	10	Jul	Q3		5,000		X						
21	20-yr Reopening of MGS (Mat on 10/42)	20	Jul	Q3		5,000		X						
22	7-yr Reopening of MGII 07/29	7	Jul	Q3		5,000								
23	5-yr Reopening of MGS 11/27	5	Aug	Q3		5,000								
24	20-yr Reopening of MGII 09/41	20	Aug	Q3		5,000		X						
25	15-yr Reopening of MGS 04/37	15	Aug	Q3		5,000		X						
26	3-yr Reopening of MGII 10/25	3	Sep	Q3		4,500								
27	7-yr Reopening of MGS (Mat on 04/29)	7	Sep	Q3		5,000								
28	15.5-yr New Issue of MGII (Mat on 03/38)	15	Sep	Q3		5,000								
29	3-yr Reopening of MGS 03/25	3	Oct	Q4		5,000								
30	10-yr Reopening of MGII (Mat on 10/32)	10	Oct	Q4		5,000		X						
31	20-yr Reopening of MGS (Mat on 10/42)	20	Oct	Q4		5,000		X						
32	7-yr Reopening of MGII 07/29	7	Nov	Q4		4,500								
33	5-yr Reopening of MGS 11/27	5	Nov	Q4		4,500								
34	30-yr Reopening of MGII (Mat on 05/52)	30	Nov	Q4		4,000		X						
35	10-yr Reopening of MGS (Mat on 07/32)	10	Dec	Q4		4,500								
36	3-yr Reopening of MGII 10/25	3	Dec	Q4		4,500								
	Gross MGS/GII supply in 2022					167,000	27,500	2,500	30,000	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

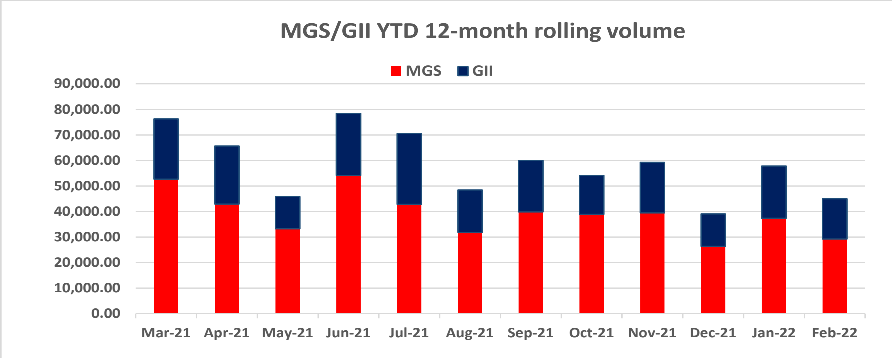
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity dialed back in February…

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds fell m/m by 17.8% to ~RM47.5b in February compared to prior month's RM57.8b partly due to the Chinese lunar holidays and shorter trading month. Some investors were seen sidelined despite BNM's MPC meeting which saw a "sanguine" report regarding the monetary policy path going forward. However rising volatility due to attention oscillating back and forth between news on US inflation/projected rate hikes and Russia-Ukraine conflict; plus it's impact on potential stagflation. Both buyers and sellers were reasonably even in their impact on bond yield movements amid the volumes seen during the month as bond yields for the month under review:

- moved very little within 8-10Y tenures
- rallied between 10-25bps in the short-end 23's
- yields spike the most for the 5-&Y tenures

Traders and investors seemed concerned mainly over foreign news regarding US inflation, interest rate lift-off and also the Russia-Ukraine war. (To recap the Fed's balance-sheet runoff was $30b in February whilst a final tally of $15b in March is still on-going). However we opine that portfolio management activities will resume its usual routine. The easing of movement restrictions and the opening of Malaysia's international borders is expected to provide support for bonds by institutional investors that include pension funds such as EPF, KWAP, inter-bank participants, local GLIC's and also real money investors like lifers and asset management companies.

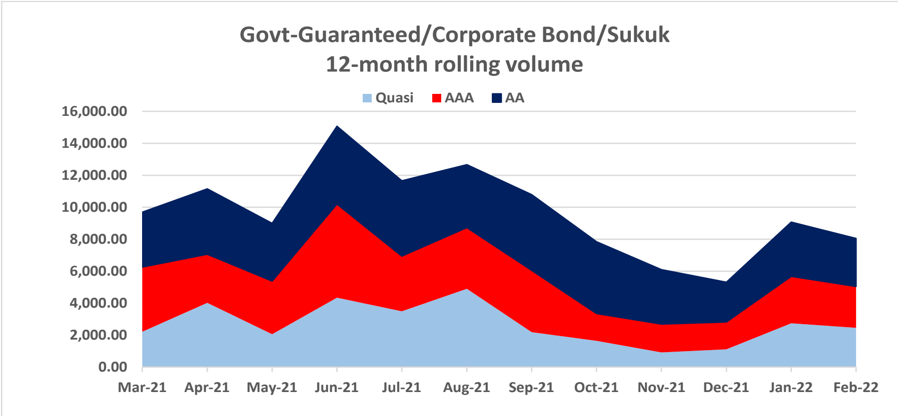


Source: BPAM, Bloomberg, HLBB Global Markets Research

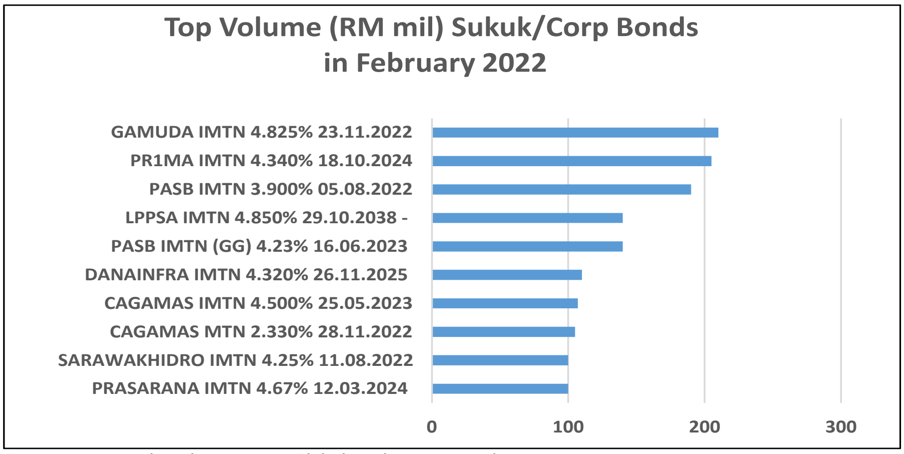
Corporate Bonds/Sukuk saw investor activity ease in February…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market saw trading volume decrease by 10.3% to ~RM8.44b in February (Jan: RM9.41b). Appetite for yield carry took a back-seat with the weaker momentum arising due to concerns over Omicron variant infections and its impact to corporates, elevated inflation in the US, the Fed's intention to hike rates and also the Russia-Ukraine war. Despite the shortage of primary issuances, overall yields for the GG-segment, with the 2Y,3Y and 10Y tenures tightening the most between 3-9bps to between 2.75-4.03%. Similarly, the AAA-rated space saw tenures between 3-10Y richer between 2-6bps; with levels around 3.27-4.24%. The AA2-segment too saw yields slightly tighter between 1-3bps for both the 3Y and 7Y sector; resulting in yields closing within the ranges of ~3.50% and -4.30% area. Bonds at both ends of the curve were generally weaker across the abovementioned ratings with largest deviations seen in the short-ends. However we opine that this represents opportunity for portfolio managers in search of higher yield-carry, on improving liquidity in the coming months. We note that foreign holdings for both GG and pure Credits eased inched up by ~RM114m to RM14.2b.

Total transactions for GG bonds maintained to form ~30.5% (Jan: 30.3%) of overall volume. It was no different for AAA-rated papers which similarly saw total trades maintain volume-wise m/m its total market share at ~ 32.2% of overall trades. Likewise, the AA-space saw secondary market trades sustain its 37.3% share of overall investor interest (Jan: 37.4%). The GG-space was well spread among names like DANAINFRA, LPPSA, PASB, PTPTN and PRASARANA. **Bonds that garnered top volume for the month were GAMUDA 11/22 (AA3) that declined 7bps at 2.54% followed by PR1MA 10/24 (GG) which spiked 47bps to 3.02% and subsequently PASB 8/22 (AAA) which rallied 43bps to 2.42%.** Frequency and volume of trades in the pure credit space were mainly seen in CAGAMAS 22-24's, AMAN 22-25's, MMC Corp 23-27's, GENM Capital 25-27's, MERCEDEZ 22-23's, Khazanah-related SPV's (i.e. DANGA 24-28's, DANUM 25-30's), construction/property entities (i.e. UEM SUNRISE 22-26's, PKNS 22-25's), toll-operator (i.e. DUKE 30-37's, ANIH 24-29's), utilities i.e. telco/water/power (i.e. TENAGA 28-40's, TNB WE 25-34's, PASB 22-30's, BGSM 22-26's, EDRA 22-32's, SEB 25-35's, Sarawak Hidro 23-26's and YTL Power 22-28's) and IMTIAZ 22-28's. The banking/finance sector saw traded names in MAYBANK perps, CIMB 2116NC24 perps, PUBLIC 29NC24, MCIS 31NC26 and RHB Bank/RHB Islamic callable bonds. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2030 callable bonds, SABAH Development Bank 23-26's, unrated ECO World 23-25's, Eco world capital 26's, IJM Land perps, YNH Property 25-27's, its perps, Tropicana 23-26's, its perps and finally UMW Holdings perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in February driven by the following:

Notable issuances in Feb-22	Rating	Amount Issued (RM mil)
Cagamas Berhad	AAA	550
PASB IMTN 4.220% 25.02.2032 - Issue No. 38	AAA	750
Toyota Capital Malaysia Sdn Berhad	AAA	100
Batu Kawan Berhad	AA1	500
Malaysia Debt Ventures Berhad	AA3	2
PKNS IMTN 3.390% 22.02.2023	AA3	230
UEM Sunrise Berhad	AA3	40
WCT Holdings Berhad	AA3	100
YNH Property Berhad	A1	323
BGMC BRAS Power Sdn Berhad	NR	2
BGRB Venture Sdn Berhad	NR	10
Danum Sinar Sdn Berhad	NR	3
Hektar Black Sdn Berhad	NR	10
Idiwan Solar Sdn Berhad	NR	2
KYS Assets Sdn Berhad	NR	26
Laksana Positif Sdn Berhad	NR	3
Potensi Angkasa Sdn Berhad	NR	15
Priceworth International Berhad	NR	20
Semangkuk 2 Berhad	NR	430
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	8
SMTrack Berhad	NR	6
Tumpuan Azam Sdn Berhad	NR	17
West Coast Expressway Sdn Berhad	NR	14
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	20
		3,179

Source: BPAM, Bloomberg, HLBB Global Markets Research

Total fresh issuances of Corp Bonds/Sukuk in January fell from RM4.88b to RM3.18b. The more prominent issuances consisted of CAGAMAS Bhd's AAA-rated 2Y papers totaling RM550m with coupons between 2.86-3.31% and also AAA-rated PASB's RM750m of unrated 8-10Y bonds with coupons ranging between 4.18--4.22%.

Outlook for February 2022

Expect USTs to witness slight pressure in March as inflationary concerns "jostle for attention" with potential stagflation concerns arising from the Russia-Ukraine war…

The Federal Reserve will have its next FOMC meeting only on **16-17th of March for which we maintain our view of a 25bps rate hike** due to stubborn inflation, strong jobs data and solid ISM/PMI manufacturing data. Fed Chair Powell and his team of officials are expected to portray a hawkish-centric Fed whilst supporting rate-normalization measures. Elsewhere, investors will also be eagerly watching the developments and impact of the Russia-Ukraine war on commodities namely food, oil and also financial institutions involved in Russia that are operating out of US and Europe. Expectations going forward are also for several key indicators to be potentially robust with higher wage growth, lower unemployment rate of currently 3.8% (close to the pre-pandemic levels of 3.50% in February 2020). We are neutral-to slightly bearish over nominal UST's and foresee more pressure in the front-ends ahead of the all-important March FOMC meeting as traders see possibility of up to six (6) rate hikes of at least 25bps each in 2022. **Expect a flatter yield curve going forward as investors expect rate hikes and prepare to purchase the longer-end due to concerns over longer-term economic growth projections.** The high probability of a rate hike anywhere between 25-50bps in the upcoming FOMC meeting in March is certain to impact USTs and corporate bond yields.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw a loss narrowing to 2.0% in February (Jan: -3.37%; with OAS spreads narrowing from the earlier 12-month high of 155bps, to 135bps as elevated inflation and monetary policy tightening woes kept investors on their toes with the volatility seen in UST's. Gross primary issuances were subdued at ~$82b, much lower than preliminary estimates. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also recorded a smaller loss of 1.0% (Dec: -2.71%) but spreads notably widened by 55bps instead to 385bps. The easing Omicron variant infections is seen to have a drastic reduction in impacting the economy and we anticipate less deterioration in credits and debt-servicing abilities of corporates. Corporate credit has weakened slightly this year amid fears that the US Fed may tighten monetary policy too aggressively to fight inflation, potentially hurting growth. The Russia-Ukraine factor may compound the inflation picture for both the IG and HY sector. Nevertheless, March may however deliver $120b in new IG issuance as geopolitical and inflationary cross-currents provide opportunity to price at pre-pandemic levels.

Our monthly fundamental view suggests the 10-year yield should maintain levels i.e. with a slight upward bias as March FOMC rate premium is deemed to be partially priced-in**. The 10-year UST is expected to continue ranging between 1.80-2.00%; finding support at key 2.00% levels for this month.** Russia's invasion of Ukraine has caused commodity prices to spike; thus threatening to keep inflation elevated. Hence inflation-linked government debt i.e. TIPS is expected to outperform amid the recent global debt rally The IG issuances within the 5-7Y duration are still our preferred choice along the curve, namely in sectors covering financial institutions, technology and consumer cyclicals.

Local govvies may see yields trend sideways mainly driven by foreign leads…

The MYR bond market saw **weaker bidding metrics** for all three (3) auctions conducted in February. The re-opening of RM3.0b 15Y MGS 4/37 on 4th of March was "average" at best with a BTC ratio of 1.986x, but bids submitted amounted to a tepid YTD low of RM5.96b; with support seen mainly by local banks, foreign counter-parties and also lifers. The Russia-Ukraine war and the various sanctions imposed and proposed in the pipeline may allow for funds to make its way to South-East Asian bond markets, thus potentially benefitting MYR bonds.

Even if the pace of US asset tapering is revised, the performance of the Malaysian fixed income asset class is expected to boil down to the **quantum and number of rate hike exercises in US**. To recap, our projected auction size for 2022 which totals ~RM167b is slightly optimistic as our estimated cumulative issuances YTD of RM32.0b is slightly larger than the actual issuances of RM30.0b as at the time of writing.

The US Fed's rapid rate-hiking exercises going forward are expected to be countered by the potential severity and **impact of Russia's invasion of Ukraine** which has caused a spike in commodity prices and possibly retarding economic growth. We expect local govvies i.e. MGS/GII's to still trade within ranges but with more volatility. Nevertheless, with the active role played by EPF and the wide local investor base, we foresee some degree of support and stability for yields in the secondary market. Net govvies issuances for the month is expected to drop substantially from **+RM14.5b in February to -RM4.2b** in March and is not expected to put pressure on yields due to sufficient availability and rollover from maturities. We take cognizance of the government's intention to allow for liberalization in economic activities including tourism, leisure, hospitality, travel and retail sectors come April as the Omicron infections are believed to be under control. This may assist in corporate activity and boost profitability.

We expect the 10Y MGS yield to maintain its trading range between 3.70-3.90%, with support pegged at 3.90% levels. The 5Y and 15Y MGS/GII space currently reflect better relative values along the curve. In the corporate bonds/Sukuk space, we still favor logistics/tolling/commodity sectors and are positive on the shorter-end and belly i.e. 2Y, 5Y tenures in AAA/AA (spreads ranging from 28-50bps), and also the 7-10Y GG-sector (spreads of 16-32bps).

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