# Monthly Fixed Income Perspective –

## Jan 22 review & Feb 22 outlook

### US Bond Market

- **In January**, US Treasuries (UST's) continued to witness selling pressure on concerns over the frequency and quantum of rate hikes due to soaring inflation despite the tepid NFP/jobs) data for December. The curve flattened sharply as benchmark UST yields jumped further between 21-45bps. The FOMC meeting on the 27th saw Fed Chair Powell signaling that the central bank is set to raise interest rates in March and may shrink its balance sheet faster than the previous cycle. **The UST 2Y yield spiked 45bps to 1.18% whilst the 10Y jumped 27bps to 1.78%, the highest seen since December 2019 during the month**. (At the time of writing, yields have spiked further to 1.93% levels). The yield curve saw the 2s10s spread further tighten 17bps to ~60bps as at end-January.

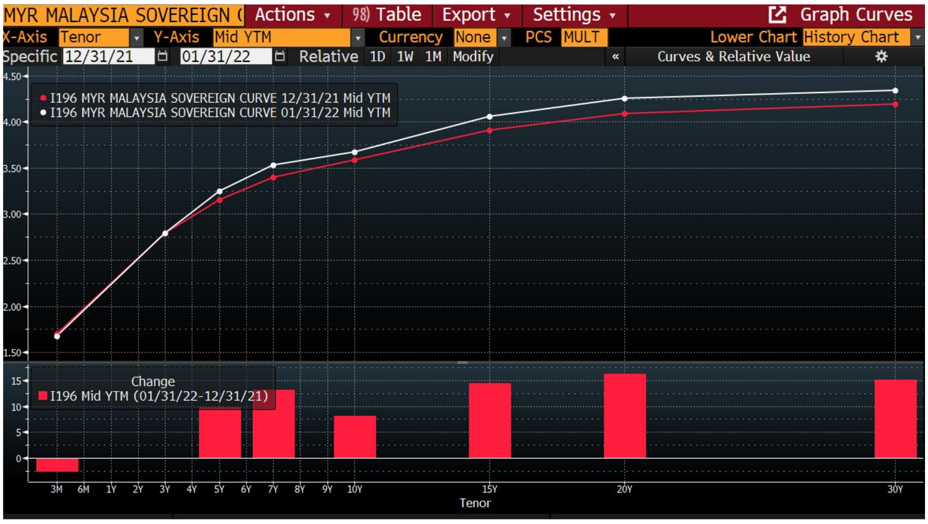
- **For February**, expect UST yields to move to the upside as concerns abound over the higher anticipated hikes in 2022 that could total up to five (5) instead of four (4) as previously thought. The solid jobs report for January coupled with higher wages due to labor tightness has fueled additional inflationary pressures as seen in the latest blowout January CPI data of 7.5% y/y. **The 10-year UST is expected to range between 1.80-2.00%; finding support at key 2.00% levels for this month.** We are neutral 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 five (5) rate hikes of at least 25bps each in 2022. The IG issuances within the 5-7Y duration are our preferred choice along the curve, namely in sectors covering communications, basic industry, energy and technology.

### MYR Bond Market

- **In January**, overall MYR government bonds ended weaker between 1-16bps save for the 30Y GII. The govvies curves shifted higher with the belly pressured the most. **The benchmark 5Y MGS 11/26 yield rose 10bps to 3.26% whilst the 10Y MGS 4/31 jumped 12bps m/m to 3.68% each**. Foreign holdings of MYR government bonds (MGS + GII + SPK) saw strong inflows of RM4.2b to RM238.2b (representing 25.5% of total outstanding). Factors impacting MYR bonds were driven mostly by views over the US Fed's possible measures to be taken going forward, with some influence from IRS movements. The three (3) auctions in January 2022 saw average BTC ratios improve above the 2.0x handle i.e. at 2.29x (Nov: 1.91x; Dec: 1.63)

- **For February,** despite our expectations for economic recovery to register a small positive of 3.1% y/y for 4Q2021 bringing full-year 2021 GDP growth to 3.5%, we note the higher infections in the past weeks from the infectious Omicron variant. This may provide some support for the save-haven of bonds with influence likely to be driven more by foreign news and subject to the vagaries of both the US and global bond yield movements. The Fed's rapid rate-hiking cycle will be a primary factor. **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, 7Y MGS and 20Y GII space currently reflect better relative values along the curve. In the corporate bonds/Sukuk space, we still favor telco/tolling/logistics sector and are positive on the shorter-end i.e. 2Y, 10Y tenures in AAA/AA (spreads ranging from 20-70bps), and also the 7Y, 15Y GG-sector (spreads of 10-22bps).**

**MYR sovereign curve (MGS)**




*Source: Bloomberg*

## ***US January payrolls produced a blowout job report, surpassing estimates and highlights that Fed policy instead of slowing growth may be the main risk to markets this year…***

**January Non-Farm Payrolls ("NFP")** rose 467k (above the consensus of 125k), whilst adding a bigger upward revision from 199k to 510k for December. The jobs market continued to make rapid improvements with a strong start to 2022 despite the wave of Omicron-variant infections, but the strong wage growth reflected the tough hiring and inflation outlook. The leisure and hospitality sectors led the gains, while professional and business services and also retail posted big additions. The unemployment rate inched slightly higher to 4.0% (Dec: 3.9%), breaking the downtrend seen in the past few months. Nevertheless the strong labor participation rate which notched 0.3ppts to 62.2%, a new high since March 2020 (Dec: 61.9%) may be strong factor over-riding the above. The average hourly wages jumped to 0.6% m/m (previous month 0.3%) whereas the y/y figures eased slightly to 4.7% (previous month 4.8%).

Meanwhile, the mixed data emanating from both higher Markit US manufacturing PMI for January @ 55.5 (Dec: 55.0) and lower ISM manufacturing data of 57.6 (Nov: 58.7) may indicate steady continued economic expansion despite logistical supply-chain bottlenecks. The Fed's preferred inflation measure i.e. core PCE in December however maintained at 0.5% m/m whilst y/y traction jumped again to +4.9% (Nov:4.7%); justifying another main catalyst for higher rates.

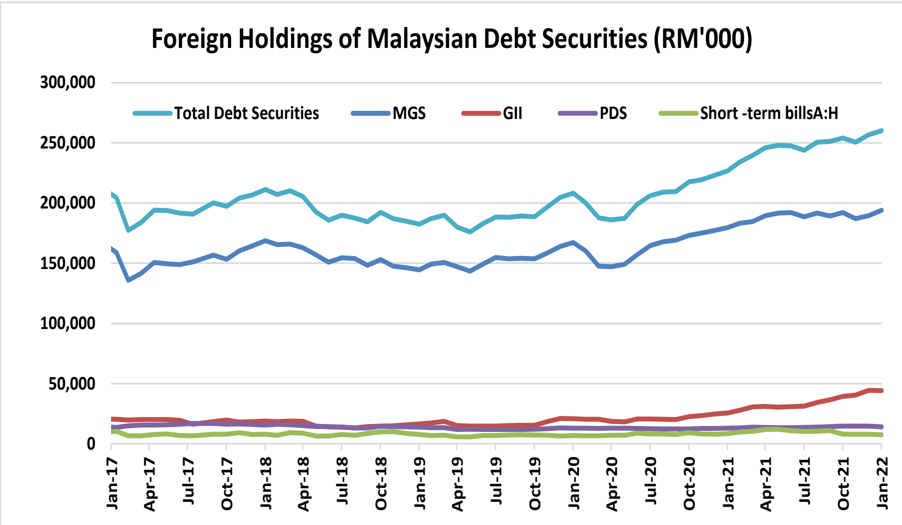
The Fed Fund Rates was left unchanged at 0.00-0.25% at the latest FOMC on 27th January. To recap, the Fed has earlier embarked on its asset tapering that involves winding-down monthly bond purchases from $15b in USTs in November to $30b per in December, January, February and finally ending with $15b in March**.** Meanwhile, its current balance sheet reveals total assets rose further to $8.77 trillion as at 3rd February 2022 ($8.87 trillion @ 31st Jan). The Fed's current dot plot sees 12 out of 18 officials advocating between three (3) and four (4) rate hikes in 2022 with the rest between one (1) and two (2) rate hikes instead. Additional data from the **Fed Fund Futures reflect traders' hypothetical expectations of a higher 100% odds of a hike (-8.9% prior month) in the next FOMC meeting on 16th March** with an equal 100% chance of a rate hike in its subsequent May 2022 meeting at the time of writing. **CME FedWatch Tool meanwhile, maintains a ~77% chance of a 25bps hike in March and 23% chance of a 50% bps hike instead.**

## *Foreign holdings of overall MYR bonds jumped ~RM3.5b or 1.3% in January amid weaker MYR against the greenback @ 4.19 levels*

Foreign holdings of overall MYR bonds jumped in January by RM3.5b or 1.3% to RM260.0b. Non-resident holdings of MGS rose by RM4.7b or 1.3% to RM194.1b, a historical high and formed 39.6% of total outstanding. **Total MYR Government bonds (i.e. MGS+GII+SPK) holdings saw net inflows of RM4.2b to RM238.2b (representing 25.5% of total outstanding) versus prior month's +RM6.29b;** despite the sharp rise in net issuances of +RM12.5b for the month (December: +RM8.0b). Meantime, **12-month rolling inflows notched a higher cumulative amount of RM32.9b (prior month: +RM31.8b).** Investors surprisingly brushed aside concerns over the US Fed's asset-tapering exercise and imminent rate hikes in the immediate future on attractive yield-carry and levels following the recent movement in tandem with global bond yields spike.

Auction exercises were pleasantly well-subscribed, contributing to the confidence and attraction of decent yields as bonds sold off over the months. The active participation of large pension funds such as EPF in both the primary and secondary markets provided support and reduced volatilities as has been noted with the depth, breadth and appetite of local investment Institutions and GLIC's. The earlier 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 continued to be on the back-burner in January. Both local institutional and offshore investors led the momentum.

Elsewhere, equities reversed the RM1.14b outflow seen in December, with RM332m inflow in January; whilst the cumulative 12-month rolling outflows fell to RM1.99b (prior month: RM3.15b). On the currency side, the MYR weakened against USD to 4.1855 as at end-January from 4.1660 prior month, and is seen consolidating at current levels hereafter at the time of writing.




*Source: BNM, HLBB Global Markets Research*

## *BNM stayed pat at 1.75% at January MPC meeting as expected...*

BNM in its 1st Monetary Policy Committee (MPC) meeting for the year on 20th of January, left the OPR unchanged at 1.75% for the 9th consecutive meeting in tandem with our projection. Overall policy tone remained neutral although we observed fewer mentions of downside risks in the central bank's statement. The world economy continues to recover while recent indicators also showed the Malaysian economy rebounded from the double-dip in 3Q of 2021. The common positive attribute noted in both the global and domestic front was the improvement in the labor market that is expected to help spur consumption.

**Economic activity rebounded in 4Q following the relaxation of containment measures with full year 2021 growth expected to fall within the 3.0-4.0% projected range (HLB: 3.5%). We project that growth will to accelerate in 2022 (HLB's 6.1% vs MOF's 5.5-6.5%),** mainly driven by expansion in global demand and private consumption amid improvement in the labor market and continued policy support. Inflation is expected to play a less prominent role due to expected moderation**.**

**We therefore expect BNM to begin normalizing by hiking 25bps in 2H2022, and as early as July,** should the current recovery momentum continue. Expect future rate hike path to remain measured and gradual in our view.

## *The month of January see auctions blitz a trail of higher activity and investor participation on impressive BTC ratios…*

The three (3) government bond tenders concluded for the month of January 2022 under the auction calendar saw **average BTC ratios rise to 2.29x** (Nov: 1.91x since Dec had only one auction with a poor BTC of 1.158x). The highest BTC among the three auctions recorded was the 15Y reopening of GII 7/36 at 2.574x; with a strong sum of bids totaling RM7.72b with no private placement of RM2.0b. Both the other auctions consisted of the re-opening of 5Y MGS 11/26 and new issuance of 10.5Y MGS 7/32 which saw strong cover of between 2.04-2.33x. Nevertheless the recent reopening of 5Y GII 9/27 last week saw weaker bidding metrics on a cover of only 1.733x. Nevertheless considering the rather large issuance size of RM5.0b, total bids received was an impressive RM8.67b. Altogether, the three (3) auctions mentioned earlier saw individual sum of bids amounting to between RM7.7-11.6b.

To recap, there will be **sizeable maturity windows in 3Q** 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. Total combined MGS/GII maturities for 2022 amounts to circa RM78.2b (2021: RM73.7b). **The issuance supply for 2022 is slightly targeted towards the longer tenures i.e. 15Y with slight reduction seen in the 5-7Y sector. Our projected quarterly issuances remain equally spread out within the first nine (9) months between RM41.5-44.5b with a smaller print of RM37.0b for 4Q2022.**

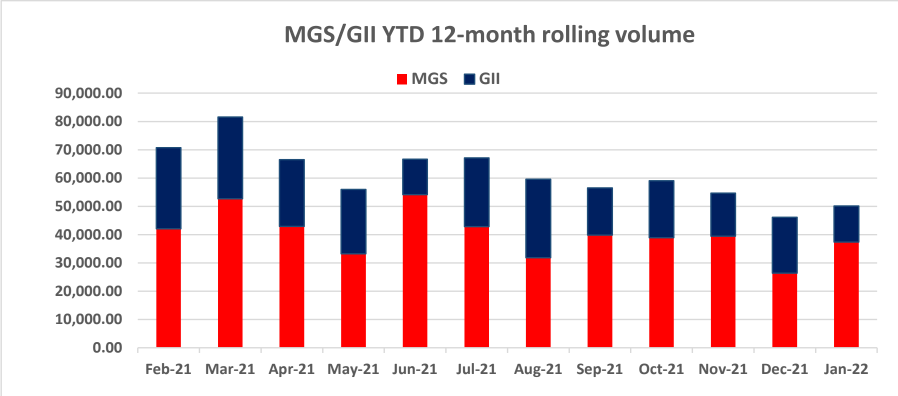
MGS/GII issuance pipeline in 2022

| 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 | 6/1/2021 | 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 | 13/1/2021 | 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 | 28/1/2021 | 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 | 7/2/2021 | 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 | | 4,500 | | X | | | | | | |
| 6 | 7-yr Reopening of GII (Mat on 10/28) | 7 | Feb | Q1 | | 4,500 | | | | | | | | |
| 7 | 15-yr Reopening of MGS 04/37 | 15 | Mar | Q1 | | 4,500 | | | | | | | | |
| 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 | 17,500 | - | 17,500 | PROJECTED TOTAL ISSUANCE SIZE = 167,000,000 | | | | |

*Source: BNM, HLBB Global Markets Research*

## *MGS/GII secondary market activity much stronger in January…*

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds spiked m/m by 47.4% to ~RM57.8b in January compared to prior month's RM39.2b. This was slightly surprising as investors were deemed net sellers amid these high volumes for the month as yields within 5-20Y tenures ended higher between 8-16bps for the month under review. Both traders and investors seemed unperturbed by foreign news over the Fed's balance-sheet runoff (i.e. $15b in November and $30b each in December, January, February and finally ending with $15b in March). The bright spark despite the slightly higher global yields was the improved secondary market volumes as the main highlight for the month under review; unlike the previous month. We opine that trading activities in the secondary market for local govvies may continue to maintain decent interest in February despite the low-staffing levels due to the Lunar New Year holidays as portfolio management activities make its usual routine. The rise in cases for the "more infectious but less deadly Omicron variant" is expected to boost support for bonds going forward 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.

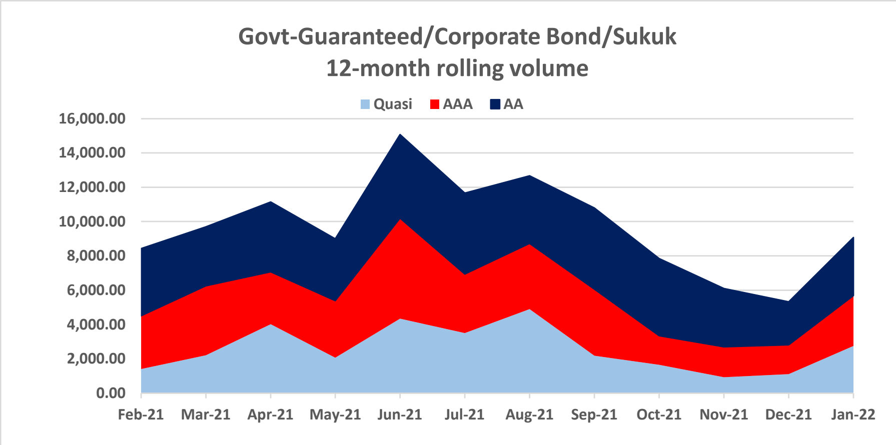



*Source: BPAM, Bloomberg, HLBB Global Markets Research*

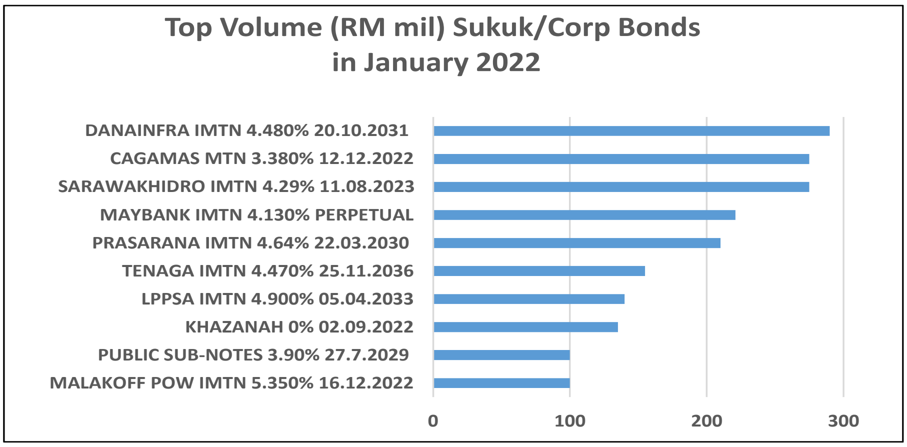
## *Corporate Bonds/Sukuk activity saw huge jump in investor activity for January…*

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market saw trading volume jump a whopping 60%% to ~RM9.41b in January (Dec: RM5.88b). The strong momentum was due to fresh portfolio adjustments, capacity and appetite for yield carry that commenced in 2022 on the back of a full-strength in staffing levels. The dearth of primary issuances may have also whet investors' appetite to indulge in secondary market activities. Overall yields for the GG-segment, with the 3-25Y tenures widening between 4-12bps to between 3.20-4.70%. The AAA-rated bonds however saw tenures between 3-25Y cheaper between 6-10bps; with levels around 3.35-4.80%. The AA2-segment similarly saw yields rise between 3-7bps save for the 10Y sector which jumped 10bps to end within the ranges of 3.55-4.15% area. Bonds in diverse ends i.e. 1-2Y and also longer duration i.e. 10Y tenures were pressured the most, resulting in larger deviations in yields. Nevertheless this augurs well for portfolio managers in search of higher yield-carry, amid the higher liquidity during the month. We note that foreign holdings for both GG and pure Credits eased more by ~RM595m to RM14.1b.

Total transactions for GG bonds rose m/m to form ~30.3% (Dec: 20.9%) of overall volume. AAA-rated papers saw total trades maintain volume-wise m/m with its total market share at ~ 32.3% of overall trades. Meanwhile, the AA-space saw secondary market trades somewhat decline further to 37.4% share of overall investor interest (Nov: 47.0%). The GG-space was spread among names like DANAINFRA, LPPSA, PRASARANA and PTPTN. **Bonds that garnered top volume for the month were DANA 10/31 (GG) that rose 7bps at 3.99% followed by CAGAMAS 12/22 (AAA) which settled unchanged at 2.12% and subsequently SARAWAK Hidro 8/23 (AAA) which moved 5bps higher to 2.56%.** Frequency and volume of trades in the pure credit space were mainly seen in CAGAMAS 22-24's, DRB 22-28's, MMC Corp 23-28's, Genting-related 22-28's, MAHB 26-31's, Khazanah-related SPV's (i.e. DANGA 27-33's, DANUM 23-30's), construction/property entities (i.e. PUTRAJAYA 22-24's, UEM SUNRISE 22-26's, GAMUDA 22-29's, IJM 22-29's, toll-operator KESTURI 23-29's, PLUS 23-33's), utilities i.e. telco/water/power (i.e. TENAGA 28-38's, TNB WE 24-34's, EDRA 25-36's, JEP 25-29's, SEB 24-35's, QSPS Green 23-34's, EDRA Solar 22-27's, Sarawak Hidro 23-24's, Southern Power 22-32's and YTL Power 22-27's), LAFARGE cement 23's, Fortune Premier 22-26's, IMTIAZ 22-28's, and Press Metal 24-28's. The banking/finance sector saw traded names like MAYBANK perps and CIMB 2022 papers. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2030, 2032 callable bonds, MCIS 31NC26 and Sabah DEV 23-26's, DIALOG perps, unrated ECO World 23's, Eco world capital 26's, IJM Land perps, YNH Property perps, Tropicana 23-25's, its perps and finally UMW Holdings 22-26's and its perps.




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




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

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

| Notable issuances in Jan-22 | Rating | Amount Issued (RM mil) |
|---|---|---|
| Cagamas Berhad | AAA | 1,030 |
| Toyota Capital Malaysia Sdn Berhad | AAA | 100 |
| Sabah Credit Corporation | AA1 | 200 |
| Dialog Group Berhad | AA2 | 500 |
| Konsortium KAJV Sdn Bhd | AA3 | 100 |
| Perbadanan Kemajuan Negeri Selangor | AA3 | 200 |
| MEX I Capital Berhad (formerly known as Bright Focus Berhad) | A2 | 1,125 |
| Ekovest Berhad | NR | 150 |
| Kab Energy Power Sdn Berhad | NR | 20 |
| Laksana Positif Sdn Berhad | NR | 3 |
| LBS Bina Holdings Sdn Berhad | NR | 5 |
| Leong Hup Capital Sdn Berhad | NR | 100 |
| MAG Holdings Berhad (fka Xinghe Holdings Berhad) | NR | 2 |
| Maxis Broadband Sdn Berhad | NR | 1,100 |
| OCR Land Holdings Sdn Berhad | NR | 15 |
| PESTECH International Berhad | NR | 33 |
| Semarak Gigih Berhad | NR | 125 |
| SMTrack Berhad | NR | 12 |
| Tumpuan Azam Sdn Berhad | NR | 12 |
| Tanjung Pinang Development Sdn Berhad | NR | 28 |
| West Coast Expressway Sdn Berhad | NR | 13 |
| XL Holdings Berhad (fka Xian Leng Holdings Berhad) | NR | 5 |
| | | 4,878 |

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

Total fresh issuances of Corp Bonds/Sukuk in January plunged from RM9.88b to RM4.88b. The more prominent issuances consisted of CAGAMAS Bhd's AAA-rated 1-3Y papers totaling RM1.03b with coupons between 2.47-3.31% and also RM1.10b of unrated 5-8Y bonds with coupons ranging between 3.76-4.20%, issued by Maxis Broadband Sdn Bhd.

## *Outlook for February 2022*

### *Expect USTs to see continued selling pressure in February as inflationary concerns spur faster pace and higher quantum of rate-hiking exercises…*

The Federal Reserve will have its next FOMC meeting only on **15-16th of March for which we foresee a minimum rate hike of 25bps** due to persistently strong inflationary conditions, solid jobs data that include higher NFP number, labor participation rate and also higher hourly average earnings. The solid jobs report for January coupled with higher wages due to labor tightness may fuel additional inflationary pressures in near term. Fed Chair Powell and his team of officials may allow investors to believe that the Fed will continue to be hawkish-centric and support rate-normalization measures. Elsewhere, investors will also be eagerly watching geo-political development s involving mainly Russia and Ukraine and its impact on oil prices. Expectations going forward are also for several key indicators to be potentially robust with higher wage growth and lower unemployment rate (currently 4.0%) nearing the pre-pandemic levels of 3.50% in February 2020. We are neutral 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 five (5) rate hikes of at least 25bps each in 2022. **Expect a steeper yield curve going forward as investors adopt "negative duration" stance for their portfolio.** The potential spike in January inflation may yet continue 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 substantial loss of ~3.37% in January (Dec: -0.08%; 2021: -1.04%) with OAS spreads rising to a near 12-month high @ ~ 155bps mainly due to the red-hot inflation and monetary policy tightening. Gross primary issuances rose to ~$150b, much higher than out preliminary estimates and higher versus 2021's $135b versus $100b sold in December as borrowers continue to push for issuance in anticipation of a higher interest rate regime. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also recorded a wider loss of 2.73% (Dec: -1.87%) as spreads widened by 30bps instead to ~330bps. The emergence of the less deadly Omicron variant may not impact the economy severely as was previously thought and we do not foresee a mass deterioration in credits and debt-servicing abilities of corporates. However inflationary pressures that may result in higher frequency and quantum of rate hikes rising may yet dampen both the IG and HY sector.

Our monthly fundamental view suggests the 10-year yield should trend higher i.e. with a slight upward bias**. The 10-year UST is expected to range between 1.80-2.00%; finding support at key 2.00% levels for this month.** The IG issuances within the 5-7Y duration are preferred choice along the curve, namely in sectors covering communications, basic industry, energy and technology.

## *No changes expected with local govvies may see yields trend sideways-to-higher driven mainly by foreign leads…*

The MYR bond market saw reasonably strong bidding metrics for all three (3) auctions out of a total of three (3) exercises to be fully conducted in January. The re-opening of RM5.0b 5Y GII 9/27 on 7th of February however paled by comparison **a BTC ratio of only 1.733x, but impressive bids submitted totaling RM8.67b;** supported mainly by GLC's and lifers. The earlier unveiling of the expansionary Budget 2022 which is expected to keep the government fiscal deficit at 6.0% of GDP, and higher statutory debt limit of 65% of GDP is seen to be on the back-burner for now. The government is expected to buffer its funding avenues via further Bills issuance (if required) and also via the availability of KWAN fund maintained by BNM, potential increase in dividends from PETRONAS and GLC's, reallocation and optimization of expenditure by various ministries.

Though the pace of US asset tapering may be revised; the main ongoing concerns over the performance of the Malaysian fixed income asset class will trickle down to quantum and number of rate hike exercises. Our projected auction size for 2022 which totals ~RM167b (being skewed towards the short i.e. 3Y, medium-term i.e. 10Y and also longer end of the curve i.e. 20Y tenures) is currently on track with our estimated cumulative issuances YTD of RM18.5b marginally larger than the actual issuances of RM17.5b.

Constant predictions and updates on the US Fed's rate-hiking exercises going forward, along with US jobs data and inflationary conditions in the US are expected to cause local govvies i.e. MGS/GII's to still trade within ranges but with less volatility. We also take cognizance of the higher infections in the past weeks from the infectious but less deadly Omicron variant which may provide some support for the save-haven of bonds with influence likely to be driven more by foreign news and subject to the vagaries of the both the US and global bond yield movements. The Fed's rapid rate-hiking cycle will be a primary factor. Nevertheless, with the expiry of the earlier COVID-19 pandemic relief packages by EPF, we foresee its active role in both the primary and secondary market-making activities as a boon. Also, the wide local investor base will be another anchor of confidence and is expected to provide stability to yields. However net govvies issuances for the month is expected to spike substantially from RM12.5b in December to RM14.0b in February and may put pressure on yields due to unavailable rollover from maturities.

**For February,** despite our expectations for economic recovery to register a small positive of 3.1% y/y for 4Q2021 bringing full-year 2021 GDP growth to 3.5%, we take cognizance of the higher infections in the past weeks from the infectious but less deadly Omicron variant. This may provide some support for the save-haven of bonds with influence likely to be driven more by foreign news and subject to the vagaries of the both the US and global bond yield movements. Trading activities in the secondary market for local govvies may continue to be vibrant in February as full-staffing levels resume post Lunar New Year holidays. Meantime, the Fed's rapid rate-hiking cycle will be a primary factor to watch. **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, 7Y MGS and 20Y GII space currently reflect better relative values along the curve. In the corporate bonds/Sukuk space, we still favor telco/tolling/logistics sector and are positive on the shorter-end i.e. 2Y, 10Y tenures in AAA/AA (spreads ranging from 20-70bps), and also the 7Y, 15Y GG-sector (spreads of 10-22bps).**

**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