Monthly Fixed Income Perspective –

Mar 22 review & Apr 22 outlook

US Bond Market

- **In March**, US Treasuries (UST's) posted one of its most severe losses in nearly 2 decades as fears of more rate hikes due to soaring inflation prompted the Fed to hike the Fed Funds Rate by 25bps to between 0.25-0.50% for the 1st time since 2018. The higher commodity prices namely in oil and food partly due to sanctions on Russia's exports, and supply-chain bottlenecks continued to impact markets. The curve bear-flattened sharply as benchmark UST yields spiked between 29-97bps. **The UST 2Y yield spiked the most by 97bps to 2.30% whilst the 10Y jumped 51bps to 2.34%, the highest seen since 2018**. At the time of writing, yields have spiked further to 2.71% levels. Parts of the yield curve i.e. 5s10s and 5s30s were inverted towards the later part of the month but the important spread between the 2-year and 10-year remained positive.

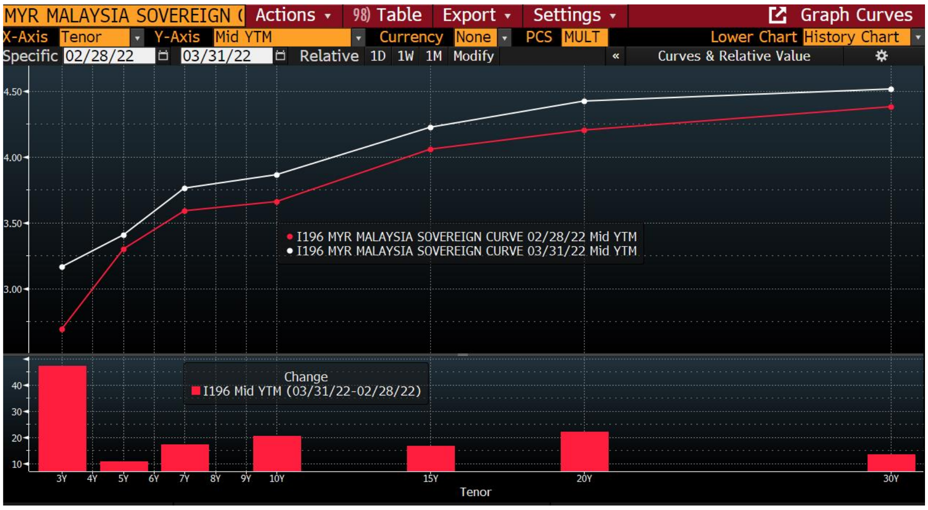
- **For April**, expect UST yields to move higher as concerns abound over the aggressive anticipated hikes in 2022 that could total up to eight (8) instead. **The 10-year UST is expected to range between 2.70-2.90%; finding support at key 2.90% levels for this month.** We have a slightly negative bias for nominal USTs amid stubborn inflation resulting in the Fed embarking on faster and higher quantum of rate increases coupled with its upcoming balance sheet run-off. Also the anticipated easing in Russia-Ukraine geopolitical worries going forward may boost risk sentiment as well. The IG issuances within the 3-7Y duration are still our preferred spread pick-up choice along the curve, namely in sectors covering communications, staples, technology and staples.

MYR Bond Market

- **In March**, overall MYR government bonds were sold off between 6-47bps with the 3Y and the longer-ends pressured the most. **The benchmark 5Y MGS 11/26 yield jumped 10bps higher to 3.39% whilst the 10Y MGS 7/32 yield spiked 18bps to 3.85% m/m.** The foreign holdings of MYR government bonds (MGS + GII + SPK) saw outflows of RM4.1b to RM236.2b (representing 25.0% of total outstanding). The primary factors driving bond movements were fears of aggressive Fed rate-hiking exercises. The three (3) auctions in March 2022 saw average BTC ratios maintain below the 2.0x handle i.e. at 1.80x (Feb: 1.88x)

- **For April,** volatility in bonds is expected to persist as constant updates over the Fed's projected frequency and quantum of hikes coupled with its balance sheet runoff makes its rounds. Nevertheless, BNM's economic and monetary review that showed bias towards slightly lower growth for 2022 vs earlier MOF's projection may provide a shot in the arm for bonds. Corporate entities getting back on track as the economy continues to re-set amid hiccups due to the Russia-Ukraine war may also see some positive movements in Sukuk/Corporate Bonds. **We expect the 10Y MGS yield to maintain its trading range between 3.85-4.05%, with support pegged at 4.05% levels.** The 5-7Y MGS and 20YGII space currently reflect decent relative values along the curve. In the corporate bonds/Sukuk space, we still favor logistics/tolling/commodity sectors and are positive on entities within the plantation sphere given their sensitivity to commodity prices with no changes in our preferred tenures i.e. 2Y, 5Y for AAA/AA (spreads ~ 32-43bps), and also the 7-10Y GG-sector (spreads of 15-23bps).

MYR sovereign curve (MGS)



Source: Bloomberg

Despite missing headline number, US March payrolls strengthens the Fed's case in embarking on interest rate-hikes to stem inflation…

March Non-Farm Payrolls ("NFP") rose 431k (below the consensus of 490k), but received a hefty 72k upward revision for the month of February; more than making up for the 59k miss on the March headline estimates. The strength in hiring and the extension in working hours helped boost data; especially in the leisure and hospitality sectors, followed by professional and business services. The unemployment rate impressed coming in lower at 3.6% (Feb: 3.8%), sitting just slightly higher than the pre-pandemic low of 3.5% in early 2020. Nevertheless as millions return to work it is possible for the rate to rise as the government counts more jobseekers as unemployed. The labor participation rate inched 0.1ppts higher to 62.4% compared to February's 62.3% but is still lower than pre-pandemic levels and is hinting that the labor shortage is fading and employers may find it easier finding workers. The average hourly wage increased 0.4% m/m (previous month: unchanged) whereas wages quickened to 5.6% y/y (previous month 5.2%). All in all it seemed a positive report despite the miss in headline nonfarm job gains.

Meanwhile, the slightly weaker data covering both Markit US manufacturing PMI for March @ 56.6 (Feb: 57.3) and ISM manufacturing data of 57.1 (Feb: 58.6) was a function of the supply logistics and bottlenecks due to the Russia-Ukraine war. Otherwise the data remains steadfast as the index remains above the 50-mark level. The Fed's preferred inflation measure i.e. core PCE in February eased to 0.4% m/m (Jan: +0.5%) whilst y/y traction jumped higher to 5.4% (Jan: 5.2%); reaffirming concerns over persistent inflationary conditions.

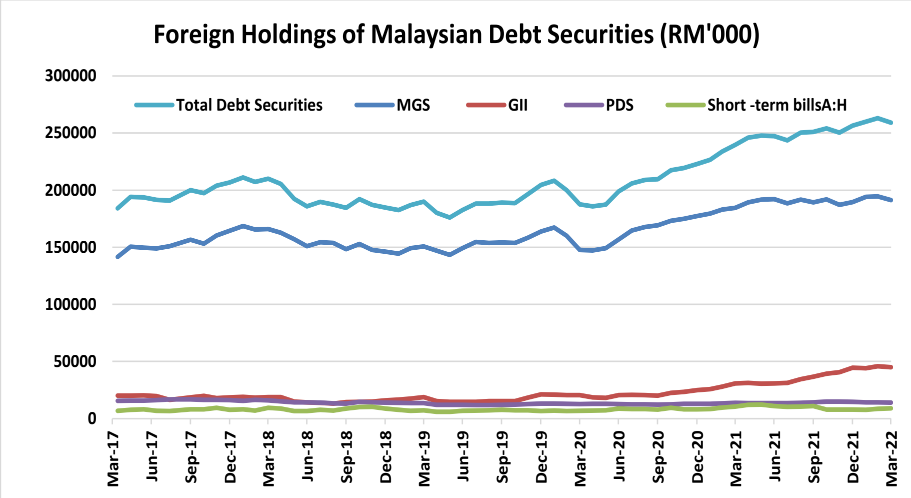
Expect attention to shift to the all-important FOMC meeting on the 5th of May. At the March FOMC meeting, we had the 1st Fed rate hike of 25bps since 2018 with Fed Chair Powell stating that a strong labor force was a main force in pushing for more hawkish policy, along with the 40-year high inflation evidenced by the recent PCE deflator. The Fed is expected to embark soon on its balance sheet reduction that encompasses $60b in USTs and $35b in MBS on a monthly basis come May**.** Meanwhile, its current balance sheet reveals total assets rose further to $8.94 trillion as at 4th April 2022 versus $8.91 trillion @ 7th March. To recap the Fed's dot plot sees the median from 18 officials advocating six (6) rate hikes in 2022. Additional data from the **Fed Fund Futures reflect swap traders' hypothetical expectations of a higher 93% odds of a 50bps** hike (with 25bps hike a given already in the next FOMC meeting in May) at the time of writing. **CME FedWatch Tool meanwhile, maintains a 20% chance of a 25bps rate hike with a whopping 80% chance of a 50bps upward move instead in May.**

Foreign holdings of overall MYR bonds plunged ~RM4.0b or 1.5% in March despite a weaker MYR against the greenback @ 4.20 levels

Foreign holdings of overall MYR bonds fell for the first time since November 2021 by RM4.0b or 1.5% in March to RM259.1b. Likewise, non-resident holdings of MGS dropped by RM3.19b or 1.6% (prior month: +RM494m) to RM191.4b, whilst forming 38.8% of total outstanding. **Total MYR Government bonds (i.e. MGS+GII+SPK) holdings saw net outflows of RM4.1b to RM236.2b (representing 25.0% of total outstanding) versus prior month's RM2.2b inflows;** amid the elevated net issuances of +RM13.5b for the month (Feb: +RM14.5b). Meantime, **12-month cumulative rolling inflows fell substantially to RM20.9b (prior month: +RM29.5b).** Investors were a tad bearish on EM bonds including MYR bonds amid ongoing fears of inflationary pressures in the US and the Fed's potential decision to embark on aggressive i.e. 50bps-like quantum of rate increases coupled with the projected balance sheet runoff likely to commence in May. Some concerns over the Russia-Ukraine war also caused investors to consider staying sidelined despite having bond maturity proceeds for the month. Nevertheless, higher oil revenue arising from the spike in commodities will benefit the nation's finances and may not necessitate further debt issuances. This will augur well in terms of supply-demand metrics. We also note that the attractive yield-carry for local govvies will also be another motivating factor following the recent spike in bond yields.

Foreign participation in auction exercises were generally muted. 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 is another plus factor. The additional oil revenue from elevated commodity prices may temporarily alleviate the government's elevated fiscal deficit position (projected at ~ 6.0% of GDP) whilst statutory debt limit of 65% of GDP is manageable via the avenue of T-bills utilization. Due to the fallout from Russia-Ukraine, we expect some shift of foreign funds into EM especially South-East-Asia, benefitting MYR bonds as well.

Elsewhere, equities improved from the RM2.84b inflows seen in February, with the highest inflows since January 2018 seen in March totaling RM3.29b; whilst the cumulative 12-month rolling inflows recorded RM5.04b (prior month: outflows of RM1.72b). On the currency side, the MYR weakened slightly against USD to 4.2035 as at end-March from 4.1933 in February, and is seen drifting weaker to 4.2210 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM expected to maintained OPR at 1.75% at least for 1H2022

To recap, BNM in its 2nd Monetary Policy Committee (MPC) meeting for the year on 3rd of March maintained the OPR at a historical low of 1.75% as per our house view. Save for the comments and assessment on Russia-Ukraine-related risks, the government's shift from pandemic to endemic pertaining to COVID situation will give a further shot in the arm to the retail, leisure and hospitality and travel sector which has reopened international borders from 1st April in lieu of the less dangerous Omicron variant and high vaccination rate.

We are maintaining our house view for the Malaysian economy to expand 5.8% y/y in 2022, well within BNM's projection range of 5.3-6.3% (earlier HLB: 6.1%; MOF: 5.5-6.5%). The key risk to tis outlook will hinge on the pick-up in inflation which would consequently result in a second round of price increases that may dampen consumption and domestic growth outlook. **We therefore maintain our view of a possible rate lift-off in 2H2022 to the tune of 25bps.**

The month of March saw muted interest in MYR government auctions despite maturity rollover opportunities…

The three (3) auctions in March 2022 saw average BTC ratios maintain below the 2.0x handle i.e. at 1.80x (Feb: 1.88x). The highest BTC of 1.987x among the three auctions recorded was notched by the 15Y MGS 4/37 which saw decent demand from foreign institutions, local banks and also insurance companies, resulting in a relatively short tail. Both the other auctions consisted of the re-opening of both the 20Y GII 9/41 and also the re-issue of 3Y MGS 3/25 which saw weaker slightly weaker covers of between 1.67-1.88x. However, the most recent new issuance of RM4.5b 10.5Y GII 10/32 notched a BTC ratio of 2.503x. The larger-than-expected issuance size of RM4.5b saw total bids record the 2nd highest YTD bids totaling RM11.26b with no private placement. Altogether, the three (3) auctions in February mentioned earlier saw individual sum of bids amounting to between RM4.7-11.2b. **Despite sizeable maturity windows in April amounting to RM11.0b, we expect** rollover of maturities back as reinvestments into the MYR government bond space be it either in fresh auctions or secondary market. (Total combined MGS/GII maturities for 2022 amounts to circa RM78.2b versus RM73.7b in 2021).

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	17/3/2022	4,500	2,500	2,500	35,000	1.884	4.375	4.401	4.427	88.0%
9	3-yr Reopening of MGS 03/25	3	Mar	Q1	30/3/2022	5,000	5,500		40,500	1.666	3.210	3.239	3.255	69.2%
10	10.5-yr New Issue of MGII (Mat on 10/32)	10	Apr	Q2	6/4/2022	4,000	4,500		45,000	2.503	4.165	4.193	4.203	30.7%
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	40,000	5,000	45,000	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

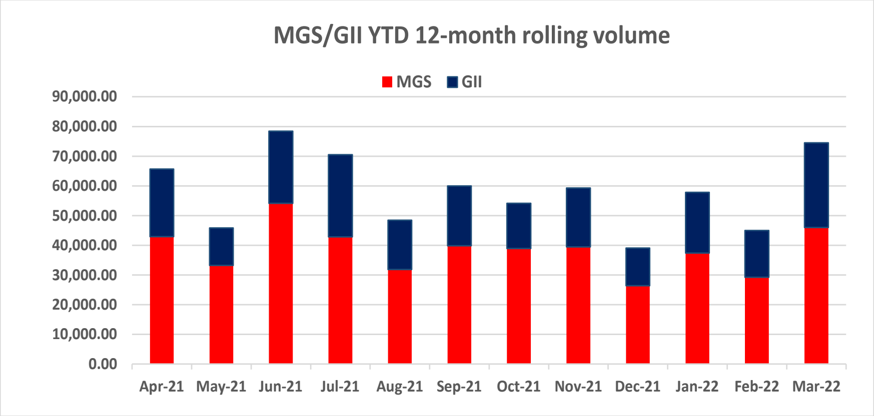
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity surged in March…

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds spiked m/m by ~66% to ~RM78.9b in March compared to prior month's RM47.5b despite the volatilities seen prior and post-FOMC meeting which saw a 25bps rate hike in the Fed Funds Rate month. The prominent factors that contributed to the volume were mainly foreign-driven, and triggered the revision of projections pertaining to the frequency and quantum of rate hikes which were ultimately seen pushing global rates upwards. Local news seldom influenced movements save for the eye-catching RM5.5b issuance size for the re-issue of the 3Y MGS 3/25 which saw govvies sell-off just after the auction announcement. BNM's MPC meeting saw no surprises regarding the monetary policy path going forward. Although offers outnumbered bidders, support was forthcoming by institutional investors that included pension funds (such as EPF, KWAP), inter-bank participants, local GLIC's and also real money investors like lifers and asset management companies Some notable movements during the month under review:

- MGS saw the front-end spike the most followed by parallel movements within the 7-30Y sectors.
- GII were more resilient up to 2-year tenures with the 7-20Y sectors seeing yields rising in tandem between 18-2bps
- Bulk of volume seen in the short-ends such as MGS 4/22, 8/22, GII 4/22, 7/22 followed by benchmark 5Y, 10Y MGS.

Traders and investors were equally active with bids supported mostly by local institutions whereas foreign institutions were keen sellers as they dialed back their investments temporarily amid the interest rate lift-off in US and initial uncertainties pertaining to the end of the Russia-Ukraine war. However we opine that portfolio management activities may resume its usual routine this month with some bargain-hunting activities emerging following the recent local govvies sell-off. Nevertheless, mitigating factors to the above the lifting of movement restrictions and the opening of Malaysia's international borders which is expected to produce a risk-on sentiment.

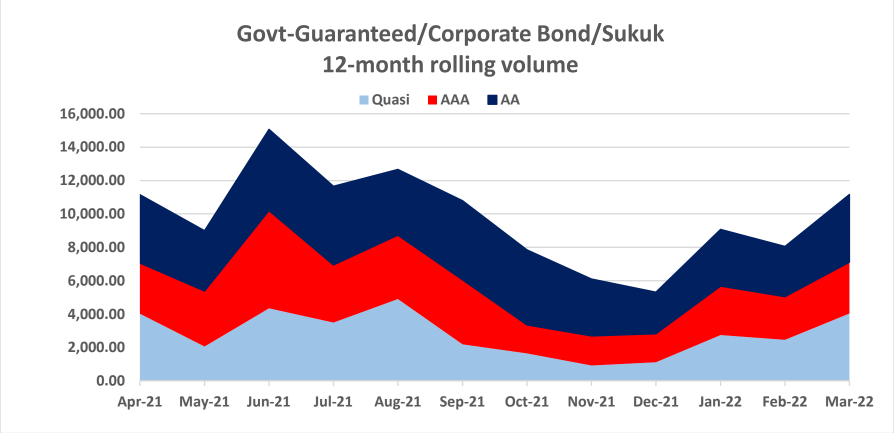


Source: BPAM, Bloomberg, HLBB Global Markets Research

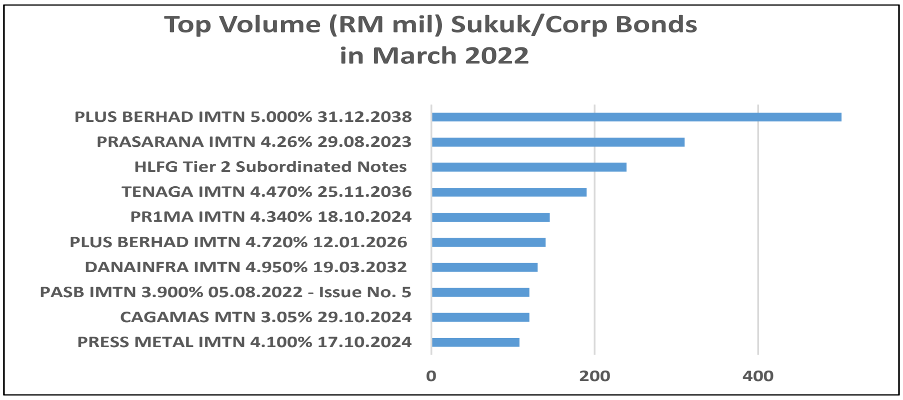
Corporate Bonds/Sukuk saw strong investor interest in March…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) in the secondary market saw trading volume surprisingly spike by 44.2% to ~RM12.17b in March (Feb: RM8.44b). Strong appetite and momentum for yield carry returned for the month due to further easing of Omicron infections, high vaccinations completed and the positive impact to corporates as more economic sectors operated in full-mode. Despite the jump in primary issuances, there was positive interest overall in the secondary market as yields turned attractive. The GG-segment saw the 2-7Y tenures widening the most between 18-25bps to between 2.97-4.03%. The AAA-rated space saw tenures between 5-20Y cheapen between 14-21bps; with levels around 3.93-5.03%. Similarly the AA2-segment too saw yields settle higher between 14-18bps for tenures within 5 to 20-year sectors; resulting in yields closing within the ranges of ~4.17% and 5.31% area. Bonds at both ends of the curve generally saw lesser deviations due to some risk-aversion for those duration. We note that foreign holdings for both GG and pure Credits eased by ~RM386m to RM13.8b.

Total transactions for GG bonds rose to form ~36.2% (Jan: 30.5%) of overall volume. However AAA-rated papers saw total trades ease slightly m/m volume-wise to form market share of ~ 27.5% of overall trades. The AA-space saw secondary market trades sustain its 36.3% share of overall investor interest (Feb: 37.3%). The GG-space was well spread among names like DANAINFRA, LPPSA, PLUS, PTPTN and PRASARANA. **Bonds that garnered top volume for the month were PLUS 12/38 (GG) that spiked 34bps to 4.64% followed by HLFG Tier 2 Sub notes 29NC24 (AA2) which edged 2bps higher at 3.46% and subsequently TNB 11/36 (AAA) which jumped 20bps higher to 4.47%.** Frequency and volume of trades in the pure credit space were mainly seen in CAGAMAS 22-29's, AMAN 22-25's, MMC Corp 23-28's, KLK 22's, 37's, PKNS 23-24's, GENTING-related bonds 22-29's, Khazanah-related SPV's (i.e. DANGA 27-28's), construction/property entities (i.e. WCT 22-25's, LBS Bina 2120NC26, PROHAWK 30-33's, LAFARGE 23's, GAMUDA 22-30's), toll-operator (i.e. DUKE 35-39's, PLUS 24-35's), utilities i.e. telco/water/power (i.e. TENAGA 32-38's, PASB 22-32's, BGSM 22-26's, EDRA 23-38's, JEP 25-31's, SEB 25-33's and YTL Power 22-27's), Cellco 28-31's, PRESS Metal 24-28's, PTP 25-30's, TG Excellence and INFRACAP 28-36's. The banking/finance sector saw traded names in MAYBANK 29NC24, 31NC26, its perps, BPMB 25-32's, and PUBLIC/PUBLIC Islamic 29NC24 bonds. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2030 callable bonds, AEON 2114NC23 perps, SABAH Development Bank 23-26's, CRE 2120NC27, UOB 30NC25, CIMB perps, unrated ECO Capital 24's, Eco World 23's, Eco world capital 26's, EXSIM 26's, IJM Land perps, YNH Property 25-27's, its perps, Tropicana 23-28's, its perps and also 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 March driven by the following:

Notable issuances in Mar-22	Rating	Amount Issued (RM mil)
DanaInfra Nasional Berhad	GG	900
Malaysia Rail Link Sdn Berhad	GG	350
Prasarana Malaysia Berhad	GG	1,450
Perbadanan Tabung Pendidikan Tinggi Nasional	GG	1,500
Cagamas Berhad	AAA	730
Mercedes-Benz Services Malaysia Sdn Berhad	AAA	350
Genting RMTN Berhad	AA1	500
Kuala Lumpur Kepong Berhad	AA1	2,000
Salvare Assets Berhad	AA1	39
Kinabalu Capital Sdn Berhad	AA2	65
Country Garden Real Estate Sdn Berhad	AA3	100
Exsim Capital Resources Berhad	AA3	300
Konsortium KAJV Sdn Bhd	AA3	135
Malaysian Reinsurance Berhad	AA3	50
Perbadanan Kemajuan Negeri Selangor	AA3	120
Point Zone (M) Sdn Berhad	AA3	650
WCT Holdings Berhad	AA3	100
AmBank Islamic Berhad	A1	250
AmBank (M) Berhad	A1	600
Sabah Development Bank Berhad	A1	90
Tan Chong Motor Holdings Berhad	A1	300
BGRB Venture Sdn Berhad	NR	11
Cenviro Sdn Berhad	NR	55
Hap Seng Management Sdn Berhad	NR	400
Pavilion REIT Bond Capital Berhad	NR	300
PESTECH International Berhad	NR	9
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	10
Sunway Parkview Sdn Bhd	NR	200
Sunway Treasury Sukuk Sdn Berhad	NR	200
Tumpuan Azam Sdn Berhad	NR	13
Tanjung Pinang Development Sdn Berhad	NR	27
True Ascend Sdn Berhad	NR	50
Trusmadi Capital Sdn Berhad	NR	77
West Coast Expressway Sdn Berhad	NR	7
Zamarad Assets Berhad	AAA-AA2	255
		12,192

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corp Bonds/Sukuk issuances jumped almost four-fold from RM3.18b to RM12.19b in March. One of the prominent issuances consisted of KLK Bhd's AA1-rated 10Y and 15Y bonds totaling RM2.0b with coupons of 4.17% and 4.55% each.

Outlook for April 2022

Expect USTs to see continued volatility in April on a flatter curve as inflationary concerns "out-maneuvers" the much talked-about stagflation…

The Federal Reserve will have its next FOMC meeting only on 5th of **May for which we maintain our view of a minimum 25bps rate hike** due to high inflation, strong jobs market and decent parameters for ISM/PMI manufacturing data above 50. Elsewhere, investors will be eagerly watching the unfolding of the impact of Russia-Ukraine war on commodities and staples i.e. namely oil, metals, grains etc whilst heavy sanctions imposed by Europe and US on Russia impact the banking sector and payments mechanism. We are neutral-to slightly bearish over nominal UST's and foresee more pressure in the front-ends, driven by expectations that the Fed will normalize policy faster than expected amid a resilient economy. Swaps traders continue to price-in an 80% chance of a 50bps rate-hike in May FOMC meeting with a total of up to eight (8) rate hikes totaling ~200bps in 2022. The broad-based inversion in parts of the yield curve may signal heightened risks of a recession over the medium-term. **Expect flattening-bias to persist in yield curve going forward as investors expect rate hikes and expected to purchase the longer-end due to "stagflationary" concerns over the longer-term.** The high probability of a rate hike anywhere between 25-50bps in the upcoming FOMC meeting in May 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 widening to 2.5% in March (Feb: -2.0%; despite OAS spreads narrowing from 122bps to 115bps with the highest @ 144bps seen in mid-March. This was evident as elevated inflation and monetary policy tightening woes saw UST volatility resulting in faster jump in yields. Gross primary issuances of $230b dwarfed earlier expectations of ~$135b, and was the largest in at least 3 years. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also recorded a similar loss of 1.1% for both March and February 2022 but spreads also notably narrowed by 37bps instead to 321bps. The easing of COVID infections is believed to have cemented the further opening up of more economic sectors, namely retail, leisure, travel and hospitality operations and we expect a credit boost for corporates. However, the Russia-Ukraine war which has compounded inflation may yet impact the IG and HY sector but we foresee improvement in geopolitical risks going forward. Nevertheless, April may however still deliver $90-100b in new IG issuances including a jumbo deal from Oracle as current 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 corporate entities getting back on track as the economy continues to re-set despite hiccups due to the Russia-Ukraine war. **The 10-year UST is expected to range between 2.70-2.90%; finding support at key 2.90% levels for this month.** We have a slightly negative bias for nominal USTs amid stubborn inflation resulting in the Fed embarking on faster and higher quantum of rate increases coupled with its upcoming balance sheet run-off. Also the anticipated decline in Russia-Ukraine geopolitical worries going forward may boost risk sentiment as well. The IG issuances within the 3-7Y duration are still our preferred spread pick-up choice along the curve, namely in sectors covering communications, staples, technology and staples.

Local govvies to see yields range sideways with slight upward bias driven mainly by local participation…

The MYR bond market saw **average bidding metrics** for all three (3) auctions conducted in March with levels below our much-watched 2.0x handle. However, the new issuance of RM4.5b 10Y GII 10/32 on 6th of April was better with a BTC ratio of 2.503x, with bids submitted amounting to 2nd highest YTD @ RM11.26b; with support seen by a wide profile of participants that included inter-banks, foreign institutions, GLIC's, asset management companies and insurance companies. We opine that the present Russia-Ukraine war will eventually see funds to make its way to South-East Asian bond markets, potentially benefitting MYR bonds.

The pace of US balance sheet runoff coupled with the quantum and number of rate hike exercises in US is expected to be the primary factors impacting the performance of the Malaysian fixed income asset class. Malaysia is projected to maintain an expansionary fiscal stance this year to support the economic recovery, given the upside potential from both higher commodity prices and recent improvement in tax collection which would help it meet the fiscal target of 6.0% (deficit). To recap, our projected auction size for 2022 totals ~RM167b with the run-rate of our estimated cumulative issuances YTD of RM45.5b being almost on track with actual issuances of RM45.0b as at the time of writing.

BNM's economic and monetary review that showed bias towards slightly lower growth for 2022 may provide a shot in the arm for bonds We expect local govvies i.e. MGS/GII's to still trade within ranges but with more volatility. The active roles played by the depth and breadth of the investing institutions including both the pension funds, life insurance companies, GLIC's and asset management companies will provide a high degree of support and stability for yields in the secondary market. However, net govvies issuances for the month is expected to drop substantially from **-RM4.2b in March to -RM6.5b** in April and may put some pressure on yields. 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 3.85-4.05%, with support pegged at 4.05% levels. The 5-7Y MGS and 20YGII space currently reflect decent relative values along the curve. In the corporate bonds/Sukuk space, we still favor logistics/tolling/commodity sectors and are positive on entities within the plantation sphere given their sensitivity to commodity prices with no changes in our preferred tenures i.e. 2Y, 5Y for AAA/AA (spreads ~ 32-43bps), and also the 7-10Y GG-sector (spreads of 15-23bps).

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