Monthly Fixed Income Perspective –

May 22 review & June 22 outlook

US Bond Market

- **In May**, US Treasuries (UST) recovered lost ground as fears of slowing growth overshadowed inflationary pressures as investors mulled that the Fed may have overswung the pendulum on rate hikes with initial Fed Funds Rate rising by a substantial 75bps in just over two (2) months to between 0.75-1.00%. The curve ended steeper as benchmark UST yields settled between -20 to +5bps. **The 2Y UST yield declined 20bps to 2.65% whilst the 10Y eased 9bps to 2.85%.** At the time of writing, these yields have however spiked to 3.06% and 3.16% levels. Several parts of the yield curve reveal inverted spreads i.e., 5s10s and 5s30s. The prominent yield curve between the 2-year and 10-year tightened sharply from 30bps to 10bps currently.

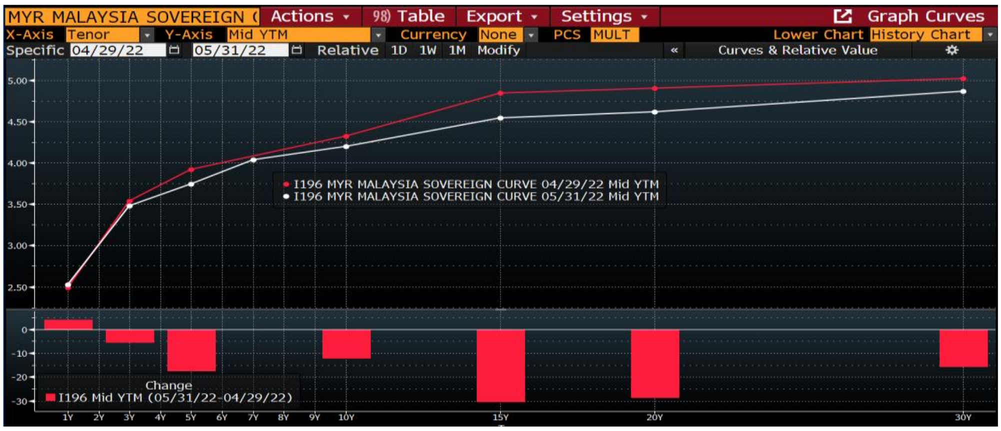
- **For June**, expect UST yields to range sideways-to-higher as concerns remain over quantum of anticipated rate hikes which could total another ~240bps in arriving at an implied rate of ~3.25% levels as at end-2022. **The 10-year UST is expected to range slightly higher between 2.90-3.10%; finding support at key 3.10% levels for this month.** We continue to maintain a neutral view for nominal USTs amid high May headline inflation data of 8.6% as the bond market sends a grim message to the Fed that their efforts to catch up with inflation may increase the prospect of an economic hard landing. The $47.5b balance sheet run-off beginning June may also add pressure to bonds. Meantime, we favor TIPS especially within the 10y sector. However, we favor MBS and also 10Y TIPS. We also prefer to ride with IG issuances within the 5-8Y duration, namely in sectors covering financials, consumer staples, pharmaceuticals and energy.

MYR Bond Market

- **In May**, overall MYR government bonds recovered lost ground m/m and rallied between 3-34bps with the intermediates gaining the most. **The benchmark 5Y MGS 11/26 yield declined 18bps to 3.74%, whilst the 10Y MGS 7/32 rallied to close 21bps lower to 4.17%.** Foreign holdings of MYR government bonds (MGS + GII + SPK) saw small inflows of RM383m to RM234.0b (representing 24.2% of total outstanding). The primary factors driving bond movements were centered between "stagflation" fears in the US, the Fed's continued aggressive rate-hiking exercises and also the impact of its balance sheet run-off. The three (3) auctions in May 2022 saw average BTC ratios spike above the 3.0x handle i.e., at 3.02x (Apr: 2.19x).

- **For June,** expect some volatility in bonds as projections over the US Fed's projected frequency, quantum of hikes coupled with its balance sheet runoffs have been digested. Nevertheless, Finance Minister Tengku Zafrul's projected firmer strength of the local economy partly due to reopening of borders in April but is acutely aware of soaring food costs and domestic supply chain disruptions aggravated by the weak MYR. **Sukuk/Corporate Bonds may see slightly better pick-up as demand for yield pick-up improves. We expect the 10Y MGS yield to maintain its trading range a tad lower i.e.; between 4.20-4.40%, with support pegged at 4.40% levels**. The 7Y, 15Y sector for MGS and also the 5-7Y, 15Y GII space currently reflect decent relative values along the curve. In the corporate bonds/Sukuk space, we favor local bonds tied to infrastructure-related, logistics and transportation, toll operations and also the plantation-related sector. Our preferred tenures include i.e., 3Y, 7Y for AAA/AA (spreads ~ 43-49bps), and also the 7Y, 15Y GG-sector (spreads of 20-24bps).

MYR sovereign curve (MGS)



Source: Bloomberg

NFP registered strong gains in May, pointing to a tight labor market that could keep the Fed on an aggressive path of interest rate hikes…

May Non-Farm Payrolls ("NFP") beat consensus estimates of 318k by notching a 17th straight monthly gain of 390k, but underperformed prior month's soaring numbers. There were no broad-based gains as hiring was seen "tempered across most industries". The retail sector too cut 61,000 jobs despite being 159k higher than February 2020 before the commencement of the pandemic. Meanwhile, the unemployment rate held steady at 3.6%, just a few ticks above the a 54-year low. The participation rate inched slightly higher to 62.3% from prior month's 62.2%. The average hourly wages growth maintained at 0.3% m/m (Apr: +0.3% m/m), whilst the y/y figures softened to 5.2% (Apr: +5.5% y/y). Under the backdrop of tight labor market and elevated inflation, monthly job gains are gaining closer to pre-pandemic levels. The US economy is seen sturdier than Europe's; especially after the Russian oil embargo which is expected to hurt the Eurozone economy.

Moving on to other economic data, the mixed but strong data covering manufacturing PMI for May @ 57.0 (April: 57.5) and ISM manufacturing of 56.1 (Apr: 55.4) resulted from increase in demand for goods that were not readily available due to supply logistics breakdown and persistent bottlenecks in shipments. Data remains expansionary as the barometer remains above the 50-mark level. Separately, the Fed's preferred inflation measure i.e., core PCE in April maintained at 0.3% m/m, whereas the y/y figures, eased to 4.9% (previous month 5.2%). Although the headline numbers showed inflationary pressures easing slightly, the latest release of elevated May inflation data suggests otherwise and may impinge UST yields going forward.

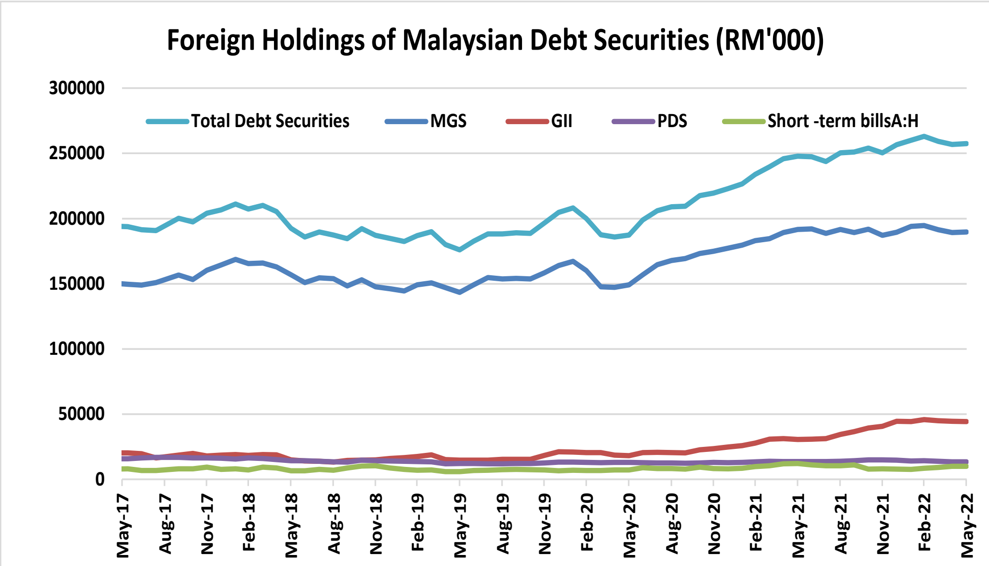
The Fed lifted the Fed Fund Rates for the 2nd time at its last FOMC by a substantial 50bps on 5th May (following the first 25bps rate hike on 17th March in 2022). The Fed's dot plot pins median rates and/or implied Fed Funds rate at 1.875% from 16 officials. Nevertheless, additional data from the Fed Fund Futures now reflect traders' hypothetical expectations of 76% odds of a 75bps rate hike instead in the next FOMC meeting on 15th June whilst CME FedWatch Tool targets a 96% probability of only a 50bps rate hike. We note that the Fed's ~$8.94 trillion balance sheet run-off effective June is a another fresh factor expected to impact the movement of yields going forward.

Foreign holdings of overall MYR bonds recovered with a modest increase of ~RM470m or 0.2% in May amid weaker MYR…

Foreign holdings of overall MYR bonds rose by RM470m or 0.2% in May to RM257.5b. Likewise, non-resident holdings of MGS inched higher by RM535m or 0.3% (prior month: -RM2.1b) to RM189.8b, whilst notching slightly lower i.e., 37.4% of total outstanding. **Total MYR Government bonds (MGS+GII+SPK) holdings saw net inflows of RM383m to RM234.0b (representing 24.2% of total outstanding) versus prior month's drop of RM2.6b;** amid the elevated net issuances of +RM12.5b for the month (April: +RM8.5b). Meantime, **12-month cumulative rolling inflows eased to RM11.8b (prior month: +RM13.2b).** Foreign participation in auction exercises improved as investors emerged from the sidelines during prior month i.e.; April's bearish view on EM (including MYR) bonds due to ongoing fears of the Fed's potential decision to embark on aggressive quantum of rate increases coupled with the balance sheet runoff commencing in June. Hence, the month of May saw some keen participation vide smaller amounts despite the unavailable rollover opportunities; there being no bond maturity proceeds unlike prior month's RM11.0b maturities.

The continuing saga from the Russia-Ukraine war may correlate with the flow of foreign funds into EM, especially South-East-Asia for now as the impact if any is expected to affect mostly the EU. The notable depth and appetite of local investment Institutions namely GLIC's, fund management and asset management companies further boosted support. 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.

Equity inflows continued for the 3rd month in a row amounting to RM77m in May 2022 compared to the 12-month rolling inflows of RM7.2b. On the currency side, the MYR weakened substantially against USD to 4.3770 as at end-May and has dropped further to 4.4150 levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM raised OPR by 25bps to 2.00% at the last MPC meeting on 11th of May, underlining the need to adjust the degree of monetary accommodation...

To recap, BNM in its 3rd Monetary Policy meeting (MPC) of the year raise the OPR earlier-than-expected by 25bps from 1.75% to 2.00%. Based on BNM's assessment, global economic activities continued to recover, supported by sustained economic reopening and improvement in the labor market, which served to partially cushioned the adverse impact from Russia-Ukraine conflict and potential Covid-induced economic fallout from China. On the domestic front, BNM commented that the Malaysian economy is on firmer footing, driven by improving domestic demand and sustained exports performance.

BNM is merely adjusting the degree of monetary accommodativeness, and not tightening, to ensure monetary policy remains supportive of economic growth. We therefore expect BNM to deliver another 50bps increase in the OPR in the second half of the year, after having just embarked on its policy normalization cycle. However, we are aware that this measure is expected to be carried out in a gradual and measured manner, to safeguard the growth trajectory. That said, overall headline inflation is expected to remain subdued, averaging 2.7% y/y this year before moderating into the next. Barring significant untoward development on the geopolitical front and a sharp slowdown in the major economies, we expect full year 2022 growth to exceed the official forecast range of 5.3-6.3%.

Surprising interest in new coupon offerings in May despite no maturity rollover opportunities…

The three (3) auctions in May 2022 saw average BTC ratios notch above the 3.0x handle, at 3.02x (Apr: 2.19x). The highest BTC of 3.632x among the three (3) auctions recorded was notched by the re-issuance of 3Y GII 10/25 which saw strong demand from both onshore and offshore financial institutions, resulted in a relatively short tail of 1.1bps. The other auctions consisted of the new issuance of 30Y GII 5/52 and 10Y reopening of MGS 7/32 which saw decent covers of between 2.57-2.60x. However, the most recent new auction of RM3.0b 15Y MGS 4/37 notched lower BTC ratio of 2.21x, raking in total bids of RM6.63b. The larger-than-expected issuance size of RM5.5b (inc. private placement of RM2.5b) is believed to dampen appetite slightly. Altogether, the three (3) auctions in May mentioned earlier saw individual sum of bids amounting to between RM6.4-18.1b. **Since there are also no maturity windows in May, we expect less assistance from easy reinvestments** into the MYR government bond space in both fresh auctions and secondary market participation. Our YTD projection of gross issuances of RM77.5b for 2022 is on track when compared to actual gross amounts issued to-date @ 78.0b. To recap, total govvies maturities totals RM78.2b (2021: RM73.7b), with our projected gross issuances remaining at RM167.0b for this year.

MGS/GII issuance pipeline in 2022

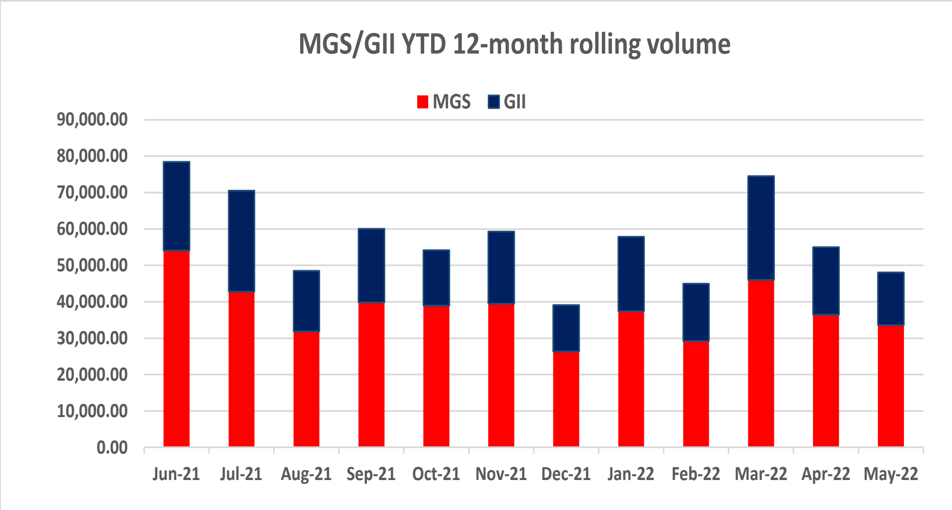
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Actual Private Placement	Total Issuance YTD	BTC (times)	Low	Average	High	Cut-off
1	5-yr reopening of MGS (Mat on 11/26)	5	Jan	Q1	6/1/2022	5,000	5,000		5,000	2.329	3.235	3.273	3.290	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	12/4/2022	5,000	2,500	2,500	50,000	1.918	4.653	4.696	4.730	32.0%
12	15-yr Reopening of MGII 07/36	15	Apr	Q2	21/4/2022	4,000	2,500	2,500	55,000	1.879	4.750	4.826	4.869	50.0%
13	7-yr New Issue of MGS (Mat on 04/29)	7	Apr	Q2	28/4/2022	4,500	5,000		60,000	2.196	4.470	4.504	4.520	96.8%
14	30-yr New Issue of MGII (Mat on 05/52)	30	May	Q2	12/5/2022	5,000	2,500	500	63,000	2.570	5.255	5.357	5.400	49.0%
15	10-yr Reopening of MGS (Mat on 07/32)	10	May	Q2	23/5/2022	5,000	4,500		67,500	2.598	4.243	4.294	4.310	10.0%
16	3-yr Reopening of MGII 10/25	3	May	Q2	30/5/2022	4,500	5,000		72,500	3.632	3.511	3.539	3.550	100.0%
17	15-yr Reopening of MGS 04/37	15	Jun	Q2	8/6/2022	4,000	3,000	2,500	78,000	2.211	4.565	4.599	4.618	4.6%
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	65,000	13,000	78,000	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity continue to fall in May…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds fell ~25% m/m to RM47.6b in May compared to prior month's RM59.4b amid the volatilities seen in post 50bps hike at the FOMC meeting in May. The prominent factors that contributed to the drop in volume were offset by rallying yields due to thoughts that the Fed may have been over-zealous in its Fed tightening measures and stir an economic slowdown instead along with uncertainties on yields due to the commencement of the Fed's balance-sheet runoff (The Fed's balance-sheet run-off is initially at $30b per month June, July and August followed by the increase to $60b per month for USTs; whilst for MBS it will be $17.5b per month and after three (3) months will increase to $35b per month for MBS). Also, attractive yields from the MYR bond sell-down in April provided traders with buying opportunities. Foreign participation was apparent more in auction exercises rather than secondary market. The dearth of local news saw little influence in the rates market save for the confidence arising from the faster-than-expected acceleration in 1Q2022 GDP. BNM's MPC meeting in May which came as a surprise however turned into relief for bond investors who were mildly positive on the monetary policy path going forward. Although they were less active; levels were still supported mostly by local institutions with foreign institutions seen nibling on mainly the shorter-tenured off-the-runs and benchmark 7Y, 10Y bonds. It was observed that local institutional support appeared on days when govvies drifted weaker. Some of these included pension funds, inter-bank participants, local GLIC's and also some real money investors like lifers. Some notable movements during the month under review were as follows:

- Both MGS and GII saw a flatter curve with the MGS 10-30Y sector and GII extending out from the 5Y tenures seeing the largest deviation.
- MYR IRS rose 6-24bps for 1-3Y tenures whereas tenures extending out from 4Y declined between 5-23bps
- Bulk of the volume was seen in the short-ends such as MGS 9/22, GII 7/22, followed by benchmark 7Y MGS/GII and 10Y MGS/GII.

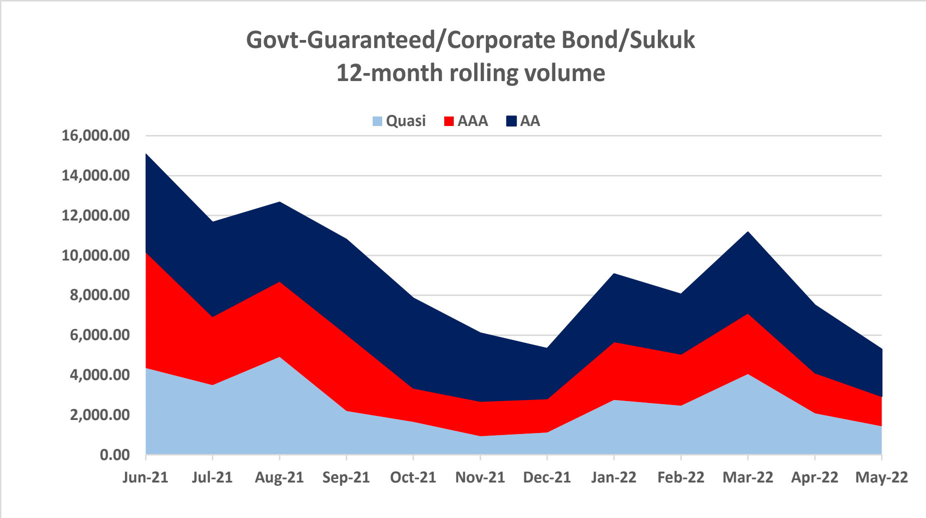


Source: BPAM, Bloomberg, HLBB Global Markets Research

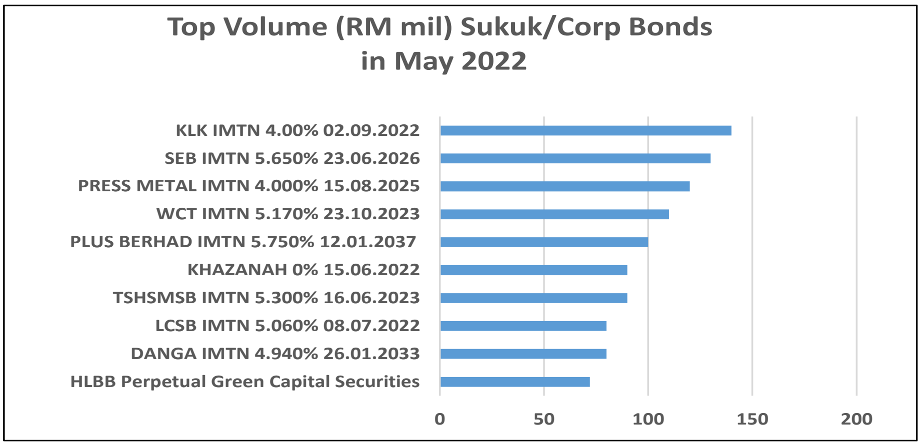
Corporate Bonds/Sukuk interest continued to dwindle in May…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) took cue from govvies and saw trading volume fall in the secondary market by 25.6% to RM5.48b in May (Apr: RM7.37b). The weak appetite and momentum caused investors to forego attractive yield carry propositions for the month due to fears over hawkish sentiment in US. Elsewhere, the prominent oil and gas entity SERBA DINAMIK International Ltd which defaulted on paying interest on its $222m outstanding senior Sukuk on 9th of May along with reports on SAPURA Energy Bhd's long-standing debt woes were watched keenly by investors. There was muted interest overall in the secondary market amid the near-halving in primary issuances despite yields turning more attractive. The GG-segment saw the 5-25Y tenures widening the most between 8-23bps to between 4.21-5.11%. The AAA-rated space similarly saw tenures between 7-20Y richer between 40-56bps; with levels around 5.04-5.73%. The AA2-segment saw yields settle higher between 64-83bps for 5-20Y tenures; resulting in yields closing within the ranges of ~4.52-5.52% area. The sweet spot area was seen in the 10Y sector overall which ended richest. We note that foreign holdings for both GG and pure Credits rose by RM76m to RM13.5b.

Total transactions for GG bonds in May maintained to form ~26.9% (Apr: 27.6%) of overall volume. AAA-rated papers too saw total trades inch slightly higher to form share of ~ 28.5% of overall trades. The AA-space continued to form the highest market share compared to other credits with secondary market trades sustaining to form 44.6% share of overall investor interest (Apr: 45.1%). The GG-space was well spread among names like DANAINFRA, PRASARANA LPPSA and PTPTN. **Bonds that garnered top volume for the month were KLK 9/22 (AA1) that edged 2bps up at 2.62% followed by SEB 6/26 (AAA) which spiked 43bps to 4.15% and subsequently P METAL 8/25 (AA3) which jumped 39bps higher to 4.18%.** Frequency and volume of trades in the pure credit space were mainly seen in CAGAMAS 22-25's, MMC Corp 25-28's, plantation-based i.e., KLK 26-37's, Khazanah-related SPV's (i.e. DANGA 26-33's, DANUM 23's 35's), construction/property entities (i.e. UEM Sunrise 23-24's), toll-operator i.e. PLUS 23-37's, 31NC26 and 30NC25, MAHB 26-28's, MAHB perps, utilities i.e. telco/water/power (i.e. TENAGA 37-41's, TNB WE 25-34's, PASB 26-32's, JEP 24-29's, Southern Power 23-30's and SEB 25-28's. INFRACAP 31-36's, QSPS Green 28-33's, PRESS Metal 25-28's, TG Excellence perps. The banking/finance sector saw traded names in MAYBANK perps. There were frequent odd-lot denominated trades involving banking names like ALLIANCE Bank 2030, 2035 callable bonds, HLFG perps, CIMB perps, MBSB 31NC26, SABAH Development Bank 23-27's, TG Excellence perps, GENM Capital 25-28's, CRE perps, LBS BINA perps, YNH Property perps, Tropicana 23-26's and its perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in May driven by the following:

Notable issuances in May-22	Rating	Amount Issued (RM mil)
Cagamas Berhad	AAA	4,025
Sabah Development Bank Berhad	AA1	310
Sabah Credit Corporation	AA1	65
Imtiaz Sukuk II Berhad	AA2	1,500
Perbadanan Kemajuan Negeri Selangor	AA3	100
Tanjung Bin Energy Sdn Berhad	AA3	710
BGRB Venture Sdn Berhad	NR	4
Hektar Black Sdn Berhad	NR	40
KYS Assets Sdn Berhad	NR	5
Laksana Positif Sdn Berhad	NR	2
Radimax Group Sdn Berhad	NR	26
RH Consortium Sdn Berhad (fka Progressus Group Sdn Berhad)	NR	16
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	8
SunREIT Unrated Bond Berhad	NR	100
Tumpuan Azam Sdn Berhad	NR	13
True Ascend Sdn Berhad	NR	50
West Coast Expressway Sdn Berhad	NR	9
YTL REIT MTN Sdn Berhad	NR	80
		7,062

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances in May plunged by 47% from RM13.4b to RM7.06b. Some of the prominent issuances consisted of CAGAMAS Bhd's AAA-rated 1Y papers totaling RM4.025b with coupons between of 3.66-67% and also Tanjung Bin Energy Sdn Bhd's AA3-rated 3-13Y bonds with coupons ranging from 5.30 to 6.31%.

Outlook for June 2022

Expect USTs to witness volatility in June as the yield curve flattens with inflation remaining red-hot…

The Federal Reserve will have its next FOMC meeting on 16th of **June for which we maintain our view of another 50bps rate hike** due to high inflation as depicted in its just-released May CPI of 8.6% y/y (Apr: 8.3%) and also the strong jobs market. The US Treasury will continue reducing its coupon issuance across most maturities in the coming quarter, with the largest cut coming in the 7Y and 20Y maturities with issuances concentrated in the 3Y, 10Y and 30Y sectors. Elsewhere, the risk in three (3) of the world's largest economies i.e.; US, EU and China could threaten global growth with implications for export-reliant economies. Some of the factors that may cause volatilities on the risk-on, risk-off flows going forward include:

- wavering views on inflation/growth uncertainties
- Outlook for responses from key central banks
- Volatilities in energy prices
- Ongoing distortions from supply chains partly due to Russia-Ukraine war

These are expected to prompt the Fed to tread cautiously in its quest to normalize policy faster than expected amid a resilient economy. Swaps traders continue to price-in rate hikes which could total another ~240bps in arriving at an implied rate of ~3.25% levels as at end-2022. Elsewhere**,** inversion in parts of the yield curve may signal heightened risks of a recession over the medium-term but the prominent 2s10s spreads still remains in positive territory for now. **Expect the earlier flattening-bias in the yield curve to flatten further as concerns over aggressive rate hikes dominate the theme over a potential slowing of the economy otherwise flagged as stagflation.** The small probability of a rate hike to the tune of 75bps in the upcoming FOMC meeting in June is certain to impact not only USTs but also global bond yields and corporate bond yields as well.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) reversed into a gain of 0.93% in May (Apr: -5.47 %); amid the tightening in OAS spreads from 142bps in April to 130bps in May. Elevated inflation and rate hike woes were brushed aside by investors that were bold to seek for both yield and alpha. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also recorded a small gain of 0.24% for May 2022 whilst spreads inched tighter by a mere 5bps instead to 417bps. The continuation of economic and corporate activities in most sectors has seen a slack in labor and creeping wages which may be passed on to consumers. The impact of the Russia-Ukraine war which has compounded inflation may continue to see demand for products and services in both IG and HY sectors. The month of June is projected to deliver ~$100b in new IG issuances versus the $90b issued in May.

Our monthly fundamental view suggests the 10-year yield should maintain at only slightly higher levels. **The 10-year UST is expected to range slightly higher between 2.90-3.10%; finding support at key 3.10% levels for this month.** We continue to maintain a neutral view for nominal USTs amid high inflation which may result in the Fed embarking on faster and bigger quantum of rate increases coupled with its balance sheet run-off. However, we favor MBS which forms the backbone of the USD$9 trillion mortgage market, backed by home loans with payments supported by the US government and also 10Y TIPS. We also prefer to ride with IG issuances within the 5-8Y duration, namely in sectors covering financials, consumer staples, pharmaceuticals and energy.

Local govvies to continue seeing yields range sideways-to-higher with trading opportunities and intermittent profit-taking dominating overall climate…

The MYR bond market saw **better bidding metrics** for all three (3) auctions conducted in May with BTC ratio levels above the 3.0x handle. However, the higher-than-expected reopening of RM3.0b (+RM2.5b private placement) of 15Y MGS 4/37 on 8th of June was similarly strong with a BTC ratio of 2.211x, with bids submitted totaling @ RM6.63b. Elsewhere, the ongoing Russia-Ukraine war is expected to have lesser impact than previously thought as funds look towards the safe-haven asset class with yield carry despite threat of rising global bond yields. PM Ismail Sabri brushed aside talks of a general election, stating that the government's focus was on taming inflation and cost of living. There were also plans to re-introduce the consumption-based tax system via GST to mitigate the impact from the skyrocketing subsidy bills.

The pace of US balance sheet runoff has been released with initial runoff of $47.5b between June-August 2022 followed by a higher jump to $95b from September 2022 onwards. This coupled with the quantum and number of rate hike exercises in the US may also drive expectations for higher interest thus impacting the performance of the Malaysian fixed income asset class especially in the govvies space. To recap, our projected auction size for 2022 totals ~RM167b with the run-rate of our estimated cumulative issuances YTD of RM77.5b being almost on track with actual issuances of RM78.0b as at the time of writing.

We project full year 2022 growth forecast at 7.5%; exceeding the official government's forecast range of 5.3-6.3%, underpinned by expected incremental increase in consumption stemming from the higher-than expected EPF withdrawal, minimum wage implementation and also improvement in trade especially with China due to the potential easing up of logistic disruptions. **Hence, we expect BNM to raise OPR by a further 50bps in 2H2022.** Local govvies i.e., MGS/GII's are expected to be range-bound with some volatility arising between intermittent concerns over inflation and economic slowdown. However, net govvies issuances for the month is expected to only ease slightly from -RM12.5b in May to **-RM12.0b** in June and may impinge on yields. **Sukuk/Corporate Bonds however may see slightly better pick-up as demand for yield pick-up improves.** Pro-active portfolio management activities which reflect the need for yield and alpha are expected to provide a certain degree of support and stability for yields in the secondary market. Key events to watch are the upcoming June FOMC meeting (14-15th June) and the G7 summit (26-28th June).

We expect the 10Y MGS yield to maintain its trading range a tad lower i.e.; between 4.20-4.40%, with support pegged at 4.40% levels. The 7Y, 15Y sector for MGS and also the 5-7Y, 15Y GII currently reflect decent relative values along the curve. Considering the full swing in economic activities, the resumption and ongoing infrastructure development may see further credit issuances. In the corporate bonds/Sukuk space, we note that the earlier strength in Southeast Asian dollar-denominated corporate bonds may fade as soaring oil prices and aggressive Fed tightening take a toll. The slightly longer-duration circa 7-years versus Asian peers @ 5 years is bound to make them more vulnerable in a rising-rate environment. On the local front, we still favor bonds tied to infrastructure-related, logistics and transportation, toll operations and also the plantation-related sector. Our preferred tenures include i.e., 3Y, 7Y for AAA/AA (spreads ~ 43-49bps), and also the 7Y, 15Y GG-sector (spreads of 20-24bps).

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