Monthly Fixed Income Perspective –

June 22 review & July 22 outlook

US Bond Market

- **In June**, US Treasuries (UST) lost ground as fears of inflationary pressures overshadowed growth impediments with investors mulling if the Fed may continue to hike the Fed Funds Rate again by another 75bps in its upcoming July FOMC meeting to between 2.25-2.50%. The curve bear-flattened as benchmark UST yields jumped between 8-48bps higher across led by the front end. **The 2Y UST yield spiked the most by 48bps to 2.96% whilst the 10Y rose 17bps to 3.02%.** At the time of writing, these yields have however moved to 3.07% and 2.99% levels, thus reflecting an inverted yield curve which is believed to be a good predictor of a possible recession in the near future. Meantime, the fast-paced increases in interest rates saw elevated usage of the Fed's overnight Reverse Repo Agreement facility to as high as ~$2.3 trillion.

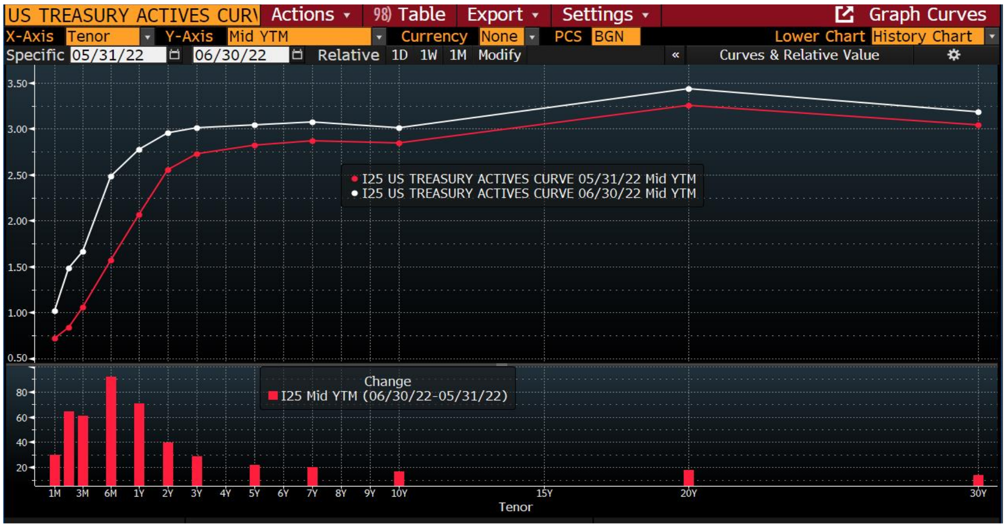
- **For July**, expect UST yields to range sideways-to-higher as concerns remain over the upcoming CPI data for June on 13th July presumed to be considerably high above the 8.0% threshold. The quantum of anticipated rate hikes now could total up to another ~180bps in arriving at an implied rate of ~3.40% levels as at end-2022. **The 10-year UST is expected to range slightly higher between 3.00-3.20%; finding support at key 3.20% levels for this month.** We continue to maintain a neutral view for nominal USTs amid high inflation data in the 8-9% range, with bouts of stagflation fears gripping the market for the month. Meantime, we favor 10Y TIPS and also MBS. We also prefer to ride with IG issuances within the 5-10Y duration, as relative spreads are attractive versus the shorter-dated tranches; namely in sectors covering banking, technology and energy.

MYR Bond Market

- **In June**, overall MYR government bonds under-performed m/m and rose between 5-34bps with the intermediates pressured the most. **The benchmark 5Y MGS 11/26 yield rose again by 22bps to 3.96%, whilst the 10Y MGS 7/32 settled 13bps higher at 4.30%.** Foreign holdings of MYR government bonds (MGS + GII + SPK) saw outflows of RM4.3b to RM229.7b (representing 23.4% of total outstanding). The primary factors driving bond movements were mainly foreign-led i.e., surrounded by alternating fears between inflation and recession in the US, the Fed's continued aggressive rate-hiking exercises and also impact of its balance sheet run-off. The three (3) auctions in May 2022 saw average BTC ratios fall below the 3.0x handle i.e., at 2.69x (May: 3.02x).

- **For July,** expect some strength in bonds as fears over the inflation narrative may have been excessive although soaring food costs and domestic supply chain disruptions may have been aggravated by the weak MYR. Finance Minister Tengku Zafrul's statement that the government is optimistic of the nation's positive growth expected between 5.3-6.3% for 2022 is expected to provide comfort. The **Sukuk/Corporate Bond space may see 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 4.10-4.30%, with support pegged at 4.30% levels**. The 7Y, 15Y sector for both MGS/GII currently reflect decent relative values along the curve. In the corporate bonds/Sukuk space, we favor local bonds tied to tolling, logistics and utilities sector such as electricity/telecommunications/sewerage. Our preferred tenures include i.e., 3Y AAA (~48bps spreads), 15Y AA (~60-80bps spreads), 20Y AA (spreads ~ 70-90bps), and also the 7Y, 10Y GG-sector (spreads of 37-45bps).

MYR sovereign curve (MGS)



Source: Bloomberg

NFP maintained solid pace in June with overall takeaway is that the labor market remains strong despite the Fed raising interest rates with concerns over possible recession…

June Non-Farm Payrolls ("NFP") beat consensus estimates of 265k by notching a monthly gain of 372k, but underperformed prior month's soaring numbers which were revised to 390k. Although, wage growth generally didn't keep pace with inflation; it did manage to impact the leisure and hospitality sectors positively. The healthcare sector along with professional and business services were also seen fueling June jobs numbers as well. Meanwhile, the unemployment rate held steady again for another month at 3.6%, just a few ticks above the a 54-year low. The participation rate inched slightly lower to 62.2% from prior month's 62.3%. The average hourly wages growth maintained again at 0.3% m/m (May: +0.3% m/m), whilst the y/y figures softened slightly to 5.1% (May: +5.2% y/y). Under the backdrop of tight labor market and elevated inflation, monthly job gains are inching closer to pre-pandemic levels. Fears of possible recession stoked by inflation and an aggressive Fed are being brushed aside by the reality that employers can't hire rapidly enough to meet demand.

Moving on to other economic data, the mixed but nevertheless strong data covering manufacturing PMI for May @ 52.7 (May: 52.4) and ISM manufacturing of 53.0 (May: 56.1) continued to go unabated due to persistent demand for goods that were not readily available due to supply logistics breakdown and bottlenecks in shipments. We note that data remains expansionary with the barometer remaining well-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 4.7% (previous month 4.9%). Although the headline numbers showed inflationary pressures easing mildly, the latest release of elevated May inflation and upcoming June data may suggest otherwise and continue to maintain elevated UST and bond yields going forward.

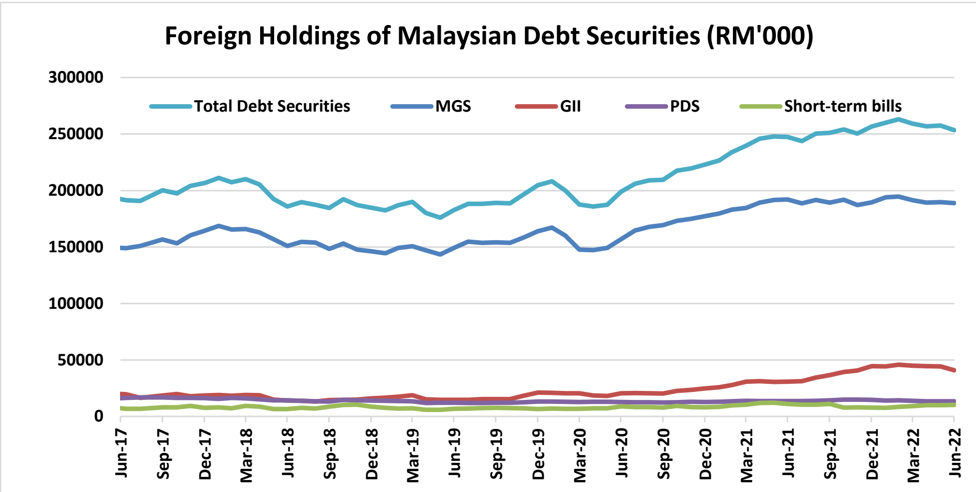
The Fed lifted the Fed Fund Rates for the 3rd time at its last FOMC by a substantial 75bps on 16th June (following the first 25bps rate hike on 17th March in 2022 and 50bps hike on 5th May). The Fed's dot plot pins median rates and/or implied Fed Funds rate from 16 officials at average ~3.40% by end of this year; rising through average 3.80% in 2023. Additional data from the Fed Fund Futures now reflect traders' hypothetical expectations of 98% odds of a 75bps rate hike instead in the next FOMC meeting on 28th July whilst CME FedWatch Tool targets a 93% probability of a 75bps rate hike. We note that the Fed's ~$8.941 trillion balance sheet as at 6th of July with ongoing run-off is a continuing factor expected to impact the movement of yields.

Foreign holdings of overall MYR bonds plunged by ~RM4.1b or 1.6% in June amid weakening Ringgit…

Foreign holdings of overall MYR bonds fell by RM4.1b or 1.6% in June to RM253.3b. Likewise, non-resident holdings of MGS dropped by RM864m or 0.5% (prior month: +RM535m) to RM188.9b, whilst notching substantially lower i.e., 36.5% of total outstanding. This was due to both the twin-effects of lower foreign holdings coupled with higher issuances of MGS. **Total MYR Government bonds (MGS+GII+SPK) holdings saw substantial outflows of RM4.3b to RM229.7b (representing 23.4% of total outstanding) versus prior month's small rise of RM383m;** amid the elevated net issuances of +RM15.0b for the month (May: +RM12.5b). Meantime, **12-month cumulative rolling inflows plunged to RM6.8b (prior month: +RM11.8b).** Foreign participation in auction exercises were mixed (despite the lower foreign holdings) as investors preferred to stay sidelined due to higher EM bond yields coupled with the still weak MYR due to ongoing fears of the Fed's potential decision to embark on aggressive quantum of rate increases coupled with the balance sheet runoff started in June. Furthermore, there being no bond maturity proceeds; the unavailability of rollover opportunities did impact auction participation as well.

There is very little to suggest that the ongoing Russia-Ukraine war may correlate with the flow of foreign funds into EM, especially South-East-Asia presently and impact (if any) is expected to affect mainly the EU. Nevertheless, the well-diversified profile and appetite of local investment Institutions namely GLIC's, pension funds, insurance companies and asset management companies is expected to bolster further support in the Fixed Income space and smoothen volatilities.

Separately, equity inflows saw a reversal following five months of inflows. June registered a RM1.28b outflow (May 2022: +RM77m) whilst the 12-month rolling inflows eased slightly to RM7.13b. On the currency side, the MYR weakened further against USD to 4.4085 as at end June (end- May: 4.3770) and has depreciated further to 4.4335 (levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM continued to raise OPR by another 25bps to 2.25% as expected supported by improving growth outlook

BNM at its monetary policy meeting on 6th of July raised the OPR by a further 25bps to 2.25% as widely expected based on improving growth prospects of the Malaysian economy, and in line with the central bank's earlier guidance back in May for a gradual and measured policy normalization path. BNM acknowledged that global growth was driven by economic reopening and recovery in the labor market, but the recovery has been partly curbed by rising cost pressures arising from the Ukraine conflict and supply chain disruption. The domestic economy continued to see positive growth momentum recently, supported by an improving labor market and income level. Going forward, domestic demand will be the key growth engine as exports are expected to moderate in line with a softening global economy.

Hence BNM was seen adjusting the degree of monetary accommodativeness, and not tightening per se, to ensure monetary policy remains supportive of economic growth. A comparatively moderate inflationary condition given the heavily subsidized consumer staples are also expected to allow BNM to take on less aggressive moves compared to other central banks in our view. **We therefore maintain our view for a further 25-50bps increase in the OPR to 2.50-2.75% this year, seeking to minimize the gap with the Fed whilst ensuring longer term growth and price stability.** That said, inflation trajectory is penning out as expected and well within the forecast range of 2.2-3.2%. Barring significant untoward development on the geopolitical front and a sharp slowdown in the major economies, we continue to expect further pick-up in 2Q and 3Q GDP, underpinned by favorable domestic demand with full-year 2022 GDP pegged at 7.4% (2021: 3.7%)

Strong interest seen for new coupon offerings in June despite zero maturity rollover opportunities…

The three (3) auctions in June 2022 saw average BTC ratios ease but nevertheless maintain solid metrics @ 2.69x (May: 3.02x); well above 2.0x handle. The highest BTC of 3.133x among the three (3) auctions was notched by the re-issuance of 5Y GII 9/27 which saw strong participation mainly from inter-banks and insurance companies, resulting in a relatively short tail of 1.2bps. The other auctions consisted of the new issuance of 15Y MGS 4/37 and 30Y reopening of GII 6/50 which saw decent covers of between 2.21-2.46x. However, the latest new announcement of the huge RM6.0b 10Y GII 4/37 issuance (comprising RM3.5 auction + RM2.5b private placement) is expected to dampen appetite and garner weaker-than-expected participation. Altogether, the three (3) auctions in June mentioned earlier saw individual sum of bids amounting to between RM6.1-14.1b. Since there are RM19.0b worth of maturities in July compared to lesser projected issuances, easier reinvestments into the MYR government bond space for both fresh auctions and/or secondary market participation is expected to be a boon. Our YTD projection of gross issuances of RM90.5b is slightly lower than the actual issuances of RM93.5b for 2022. 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

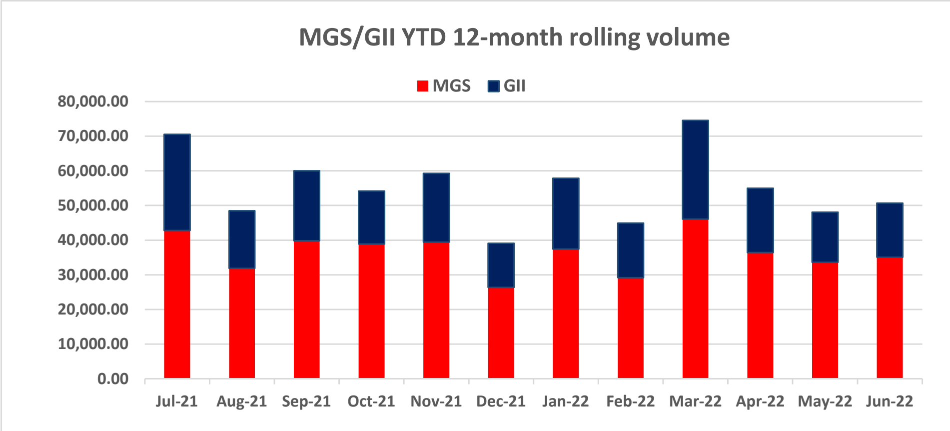
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Actual Private Placement	Total Issuance YTD	BTC (times)	Low	Average	High	Cut-off
1	5-yr reopening of MGS (Mat on 11/26)	5	Jan	Q1	6/1/2022	5,000	5,000		5,000	2.329	3.235	3.273	3.290	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 Reissuance 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	22/6/2022	4,000	4,500		82,500	3.133	4.135	4.155	4.167	100.0%
19	30-yr Reopening of MGS 06/50	30	Jun	Q2	29/6/2022	4,000	2,500	2,500	87,500	2.459	4.930	4.959	4.974	30.0%
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	72,000	15,500	87,500	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity sustained in June…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds rose 7% m/m to RM50.8b in June compared to prior month's RM47.6b partly due to the additional holidays in May. The volatilities seen post 75bps hike at the FOMC meeting in May did not deter investors who believed that that the Fed may have been over-zealous in its tightening measures and may trigger an economic slowdown instead. The challenges due to uncertainties on yield movements following the commencement of the Fed's balance-sheet runoff saw lukewarm reception. Foreign participation was lower for the month in review (save for the 15Y MGS 4/37 auction) together with a rather muted secondary market. The lack of local market-related news was not unexpected. However, bouts of volatility punctuated by volatile MYR IRS movements ensued in the secondary market. Bond activity were still led and supported mostly by local institutions with foreign institutions seen nibling on mainly the shorter-tenured off-the-runs and benchmark 5Y, 10Y bonds. Some of these included pension funds, inter-bank participants, pension funds, local GLIC's and also some real money investors like lifers and asset management companies. Some notable movements during the month under review were as follows:

- Both MGS and GII saw a flatter curve for with MGS between 7-10Y and GII between 5-10Y sectors. The largest deviation yield-wise was seen in the 4-7Y sector for both MGS and GII.
- MYR IRS jumped 16-33bps higher for 1-2Y tenures whereas tenures extending out from 3Y onwards rose between 10-14bps.
- Bulk of the volume was seen in the short-ends such as MGS 8/22, 9/22, 3/23, along with benchmark 5Y GII, 7Y MGS, 10Y MGS.



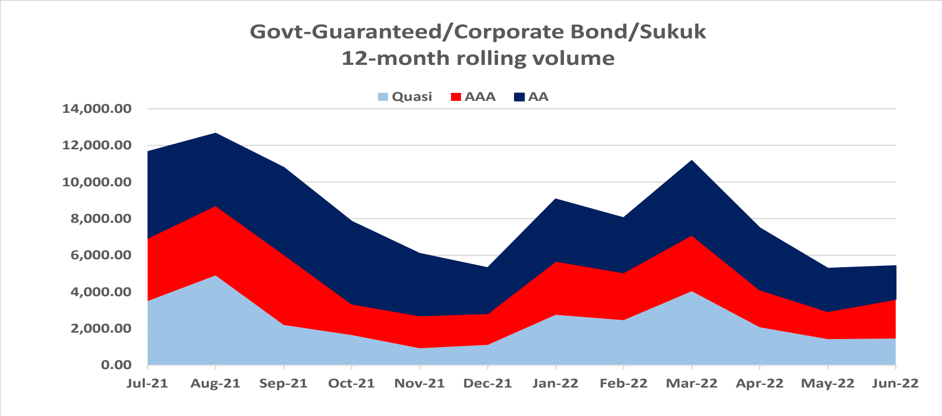
Source: BPAM, Bloomberg, HLBB Global Markets Research

Corporate Bonds/Sukuk saw marginal improvement too in June…

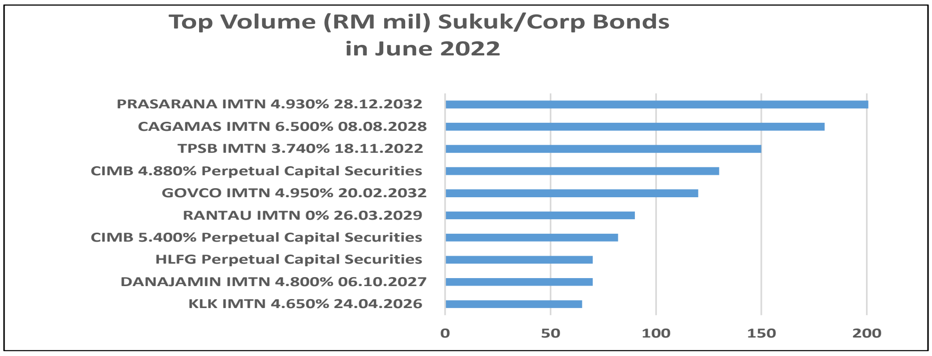
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) also took cue from govvies and saw trading volume inch higher by 8% in the secondary market to RM5.90b in June (May: RM5.48b). The slightly better appetite and momentum was due to yield-carry requirements by investors. The GG-segment saw the 2-10Y tenures widening the most between 6-10bps to between 3.51-4.68%. The AAA-rated space similarly saw tenures between 5-10Y cheaper between 7-10bps; with levels around 4.45-4.90%. The AA2-segment saw yields settle higher between 5-7bps for 2-10Y tenures; resulting in yields closing within the ranges of ~3.86-5.13% area. The sweet spot area was seen in the 3Y sector overall which was affected the least. We note that foreign holdings for both GG and pure credits eased by RM88m to RM13.4b.

Total transactions for GG bonds in June maintained to form ~26.7% (May: 26.9%) of overall volume. AAA-rated papers too saw total trades rose from 29.5% in May to form share of ~ 39.6% of overall trades. The AA-space however saw its market share drop with secondary market trades at 33.7% share of overall investor interest (May: 44.6%). The GG-space was spread among names like DANAINFRA and PRASARANA. **Bonds that garnered top volume for the month were PRASA 12/32 (GG) that spiked 59bps compared to previous-done levels at 4.60%, followed by CAGAMAS 8/28 (AAA) which rose 12bps to 4.69% and subsequently Turus Pesawat 11/22 (GG) which jumped 39bps higher to 2.91%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-28's, conglomerates like DRB-HICOM 25-31's, Genting-related 25-38's, plantation-based, KLK 22-37's, AMAN 24-25's, Khazanah-related SPV's (i.e. DANUM 23-30's,DANGA 26-33's), construction/property entities (i.e. Putrajaya 23-25's, UEM Sunrise 23-26's, SP SETIA 28-29's), toll-operator i.e. PLUS 23-37's and utilities i.e. telco/water/power (i.e. TENAGA 31-42's, TNB Power 37'-42's, YTL Power 23-28's, JEP 22-30's, Southern Power 23-32's, EDRA 24-38's, SEB 25-32's, BGSM 23-26's, TBEI 24-30's, QSPS Green 22-34's, WESTPORT 25-28's. The banking/finance sector saw trades in BPMB 26-31's and also HLFG, CIMB, MAYBANK perps. There were frequent odd-lot denominated trades in ALLIANCE Bank 2030, 2032, 2035 callable bonds, MBSB 21-31's, SABAH Development Bank 23-26's, LBS Bina perps, DIALOG perps, Eco World and Eco Capital, TG Excellence 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 June driven by the following:

Notable issuances in June-22	Rating	Amount Issued (RM mil)
Cagamas Berhad	AAA	350
Danum Capital Berhad	AAA	2,000
Johor Corporation	AAA	1,560
Pengurusan Air SPV Berhad	AAA	1,335
Tenaga Nasional Berhad	AAA	4,000
TNB Power Generation Sdn Berhad	AAA	1,500
Sabah Credit Corporation	AA1	80
7-Eleven Malaysia Holdings Berhad	AA3	100
Country Garden Real Estate Sdn Berhad	AA3	65
Perbadanan Kemajuan Negeri Selangor	AA3	140
Pac Lease Berhad	AA3	50
PONSB Capital Berhad	AA3	700
Sports Toto Malaysia Sdn Berhad	AA3	300
Alliance Bank Malaysia Berhad	BBB1	150
BGMC Corporation Sdn Berhad	NR	46
BGRB Venture Sdn Berhad	NR	30
Cypark Estuary Solar Sdn Berhad	NR	8
Cove Suria Sdn Berhad	NR	8
Hap Seng Management Sdn Berhad	NR	300
KYS Assets Sdn Berhad	NR	38
Laksana Positif Sdn Berhad	NR	2
NCT Alliance Berhad (fka Grand-Flo Berhad)	NR	26
Neo Platinum Berhad	NR	210
PESTECH International Berhad	NR	9
Potensi Angkasa Sdn Berhad	NR	20
Perdana ParkCity Sdn Berhad	NR	20
Quill Retail Malls Sdn Berhad	NR	230
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	10
Sunway Treasury Sukuk Sdn Berhad	NR	410
Tanco Holdings Berhad	NR	5
Tumpuan Azam Sdn Berhad	NR	11
Tanjung Pinang Development Sdn Berhad	NR	14
West Coast Expressway Sdn Berhad	NR	14
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	2
		13,744

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances in May spiked by 47% from RM7.06b to RM13.74b. Some of the prominent issuances consisted of Tenaga Nasional Bhd's AAA-rated 7-35Y bonds totaling RM4.0b with coupons between of 4.73-5.57% and Khazanah-related SPV i.e.; DANUM Capital Bhd's AAA-rated 3-7Y bonds with coupons of 4.02% and 4.68% respectively.

Outlook for July 2022

Expect UST yields to see volatility with upward-bias in July as a flatter yield curve takes shape…

The Federal Reserve will have its next FOMC meeting on 28th of **July for which we maintain our view of another 50bps rate hike**. The US Treasury is reducing its coupon issuance across most maturities in this quarter, with the largest cut coming in the 7Y and 20Y maturities with issuances concentrated in the 3Y, 10Y and 30Y sectors instead. Elsewhere, any risks in 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 with upward-bias** on yield movements as captured by the MOVE index going forward include:

- Fed's balance-sheet runoff resulting in lesser purchase appetite
- Fanning inflationary pressures from high energy prices, strong demand metrics impacted by supply bottlenecks partly due to ongoing Russia-Ukraine war
- Key central bank decisions to potentially raise interest rates

These are expected to prompt the Fed to normalize policy faster than expected amid a resilient economy as the "battle to combat inflation takes precedence over the war on maintaining economic growth" for now. Swaps traders now continue to price-in higher rate hikes. The quantum of anticipated rate hikes now could total up to another ~180bps in arriving at an implied rate of ~3.40% levels as at end-2022. The prominent yield curve inversion denoted by the 2s10s spread is deemed to be an accurate predictor of a looming recession ahead. **Expect 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 likelihood of a 50bps rate hike in the upcoming FOMC meeting in July may impact USTs and other global sovereign and corporate bond yields as well but to a lesser degree than previously thought, due to a potential 75bps hike being factored into current levels for now.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) reversed into a loss of 2.80% in June (May: +0.93 %); amid the widening in OAS spreads from 130bps in May to 150bps in June. Elevated inflation and rate hike woes impacted investor appetite being put on hold. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also recorded a heavy loss of 6.73% for June 2022 whilst spreads jumped sharply higher by 130bps instead to 530bps. The incrementally restrictive Fed, continued inflation and geopolitical tensions may increase recession prospects, which could see spreads widen further to about 170bps band.

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 3.00-3.20%; finding support at key 3.20% levels for this month.** We continue to maintain a neutral view for nominal USTs amid high inflation which may result in the Fed persistently "battling" the inflation narrative at the expense of growth coupled with its ongoing balance sheet run-off exercise. We continue to 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 generally within the 5-10Y duration, as relative spreads are attractive versus the shorter-dated tranches; namely in sectors covering banking (which have outperformed on a lower duration profile), technology and energy (which has been consistently providing high compensation per unit of duration).

Local govvies may see yields range sideways-to-lower with trading opportunities amid steady participation by institutional investors…

The MYR bond market saw average BTC ratios ease for the three (3) auctions in June 2022; but still carve out solid metrics @ 2.69x (May: 3.02x); well above 2.0x handle. However, the higher-than-expected reopening totaling a whopping RM6.0b consisting of RM3.5b (+RM2.5b private placement) of upcoming 10Y GII 10/32 on 14th of July is expected to provide the outlook for primary bond appetite. Elsewhere, the ongoing Russia-Ukraine war is expected to have lesser impact than previously thought. The government's focus on taming inflation and cost of living will be looked upon favorably whilst there are also plans to re-introduce the consumption-based tax system via GST to mitigate the impact from the skyrocketing subsidy bills which was reported to have hit RM77bn currently.

The pace of US balance sheet runoff coupled with the quantum and number of rate hike exercises in the US has driven expectations for higher interest which is believed to have been priced-in the local govvies space. On the local scene, the net govvies issuances for July month is expected to see a drastic turnaround **to -RM4.0b in July (meaning maturities > projected gross issuances) from +RM15.0b in June**; thereby providing a boost to liquidity in bonds. The current run-rate of our estimated cumulative issuances YTD of RM90.5b is lower than actual issuances of RM93.5b as at the time of writing, underlining strong requirement for issuances to stem the fiscal deficit for capital expenditure programs. Nevertheless, the well-diversified base, profile and pro-active portfolio management activities by fund managers are expected to provide a certain degree of support and stability for bond yields in the secondary market.

Barring significant untoward development on the geopolitical front and a sharp slowdown in the major economies, **we continue to expect further pick-up in 2Q and 3Q GDP, underpinned by favorable domestic demand with full-year 2022 GDP pegged at 7.4% (2021: 3.7%)**. A comparatively moderate inflationary condition given the heavily subsidized consumer staples are also expected to allow BNM to take on less aggressive moves compared to other central banks in our view. **We therefore maintain our view for a further 25-50bps increase in the OPR to 2.50-2.75% this year**.

We expect the 10Y MGS yield to maintain its trading range a tad lower i.e.; between 4.10-4.30%, with support pegged at 4.30% levels. The 7Y, 15Y sector for both MGS/GII currently reflect decent relative values along the curve. 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 **Sukuk/Corporate Bond space may see better pick-up as demand for yield pick-up improves.** In the corporate bonds/Sukuk space, we favor local bonds tied to tolling, logistics and also utilities sector such as electricity/telecommunications/sewerage. Our preferred tenures include i.e., 3Y AAA (~48bps spreads), 15Y AA (~60-80bps spreads) and 20Y AA (spreads ~ 70-90bps), and also the 7Y, 10Y GG-sector (spreads of 37-45bps).

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