Global Markets Research
Fixed Income

Monthly Fixed Income Perspective –

Apr 22 review & May 22 outlook

US Bond Market

- **In April**, US Treasuries (UST) 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 a substantial 50bps to between 0.75-1.00%. Higher commodity prices particularly in energy and food which were partly due to sanctions on Russia's exports, and supply-chain bottlenecks continued to impact prices and stir inflationary pressures. The curve shifted sharply higher as benchmark UST yields spiked. between 38-60bps. **The UST 2Y yield jumped 38bps to 2.72% whilst the 10Y spiked the most by 60bps to 2.94%, the highest since 2018**. At the time of writing, yields have eased slightly to 2.91% levels, having hit closing levels of 3.13% in the first week of May. Parts of the yield curve spreads i.e., 5s10s were inverted but the prominent yield curve between the 2-year and 10-year has remained in positive territory and risen from 22bps to circa 30bps currently.

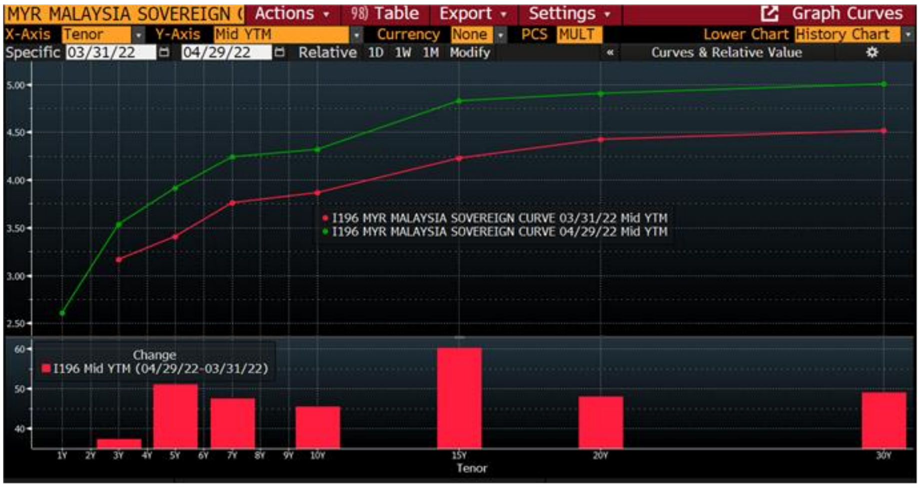
- **For May**, expect UST yields to range sideways-to-higher as concerns remain over further hefty market anticipated hikes totaling another 215bps in 2022. **The 10-year UST is expected to range between 2.80-3.00%; finding support at key 3.00% levels for this month.** We have a neutral view for nominal USTs amid stubborn inflation resulting in the Fed embarking on faster and bigger quantum of rate increases coupled with its upcoming balance sheet run-off effective June. However, we favor TIPS especially within the 10y sector. Whilst we see lesser impact from the anticipated decline in Russia-Ukraine war, we prefer to ride with IG issuances within the 3-7Y duration, namely in sectors covering financials, telecommunications, staples, and technology.

MYR Bond Market

- **In April**, overall MYR government bonds were sold off sharply between 31-65bps with the 7Y sector pressured the most. **Both the benchmark 5Y MGS 11/26 and 10Y MGS 7/32 yields jumped 53bps higher to 3.92% and 4.38% each on the month.** The foreign holdings of MYR government bonds (MGS + GII + SPK) saw outflows of RM2.6b to RM233.6b (representing 24.5% of total outstanding). The primary factors driving bond movements were fears of aggressive Fed rate-hiking exercises and the Fed's balance sheet run-off. The four (4) auctions in April 2022 saw average BTC ratios surge above the 2.0x handle i.e., at 2.19x (Mar: 1.80x)

- **For May,** less volatility in bonds is expected as projections over the US Fed's projected frequency, quantum of hikes coupled with its balance sheet runoffs have been digested. Nevertheless, BNM's assessment of firmer growth backdrop of the Malaysian economy may be a tad early for investors to immerse into govvies, taking into account the lukewarm MYR levels seen of late. Sukuk/Corporate Bonds may see slightly better pick-up as demand for yield pick-up gathers momentum. **We expect the 10Y MGS yield to maintain its upward trading range between 4.30-4.50%, with support pegged at 4.50% levels**. The 7Y, 20 MGS and also the 5-10Y GII space currently reflect decent relative values along the curve. In the corporate bonds/Sukuk space, we favor basic utilities, logistics i.e., shipping, toll operations and also the commodity sector particularly entities within the plantation sphere given the positive impact due to commodity prices. Our preferred tenures include i.e., 3Y, 7Y for AAA/AA (spreads ~ 33-41bps), and also the 5-7Y, 20Y GG-sector (spreads of 15-25bps).

MYR sovereign curve (MGS



Source: Bloomberg

NFP registered solid gain in April but an acute labor shortage showed little improvement and may threaten to add to the highest inflation in 40 years…

April Non-Farm Payrolls ("NFP") beat consensus estimates of 380k by notching a hefty gain of 428k, matching the advance in March with broad-based gains seen across industries. Although many occupations that require face-to-face personal contact have been slow to recover from the pandemic, other sectors like transportation, warehousing including last-mile deliveries have stepped-up hiring. However, the largest job gains were seen in the professional and business services such as legal, accounting, engineering, technical and scientific. Meanwhile, the unemployment rate was unchanged at 3.6%, just a few ticks above the a 54-year low. The participation rate dropped to 62.2% from prior month's 62.4%. The US economy is just 1.2m jobs below the pre-COVID peak and may be on track to exceed that in months to come. Nevertheless, the average hourly wages growth eased to 0.3% m/m (Mar: +0.4% m/m), and the y/y figures softened to 5.5% (Mar: +5.6% y/y).

Moving on to other economic data, the slightly weaker manufacturing PMI for April @ 59.2 (Mar: 59.7) and ISM manufacturing of 55.4 (Mar: 57.1) was a continuing result of the supply logistics and bottlenecks primarily due to the Russia-Ukraine war and China localized lockdown. Nevertheless, data remains expansionary as the barometer remains above the 50-mark level. Separately, the Fed's preferred inflation measure i.e., core PCE in March maintained at 0.3% m/m, whereas the y/y figures, eased to 5.2% (previous month 5.3%). Nevertheless, the headline numbers still reveal persistent inflationary pressures which may impinge on UST yields.

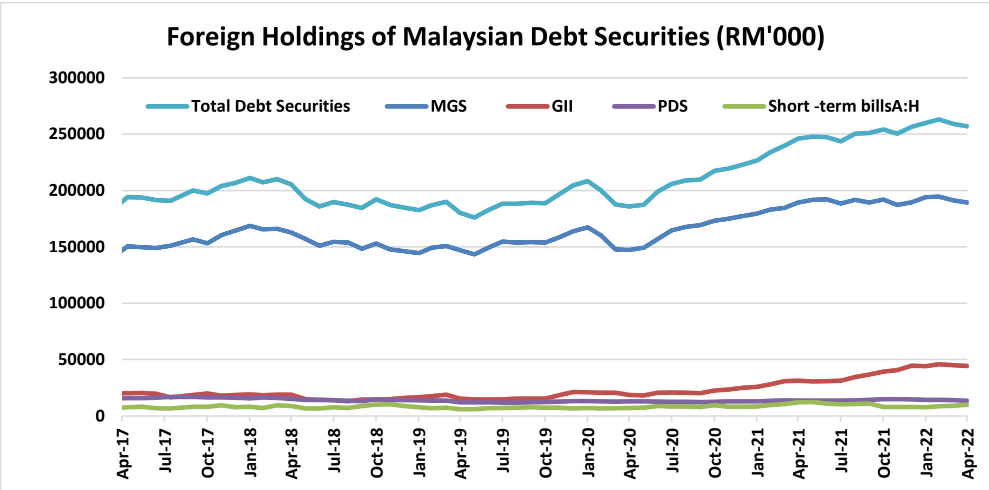
The Fed lifted the Fed Fund Rates for the 2nd time at its last FOMC by a whopping 50bps on 5th May following the first 25bps rate hike on 17th March in 2022. The Fed's dot plot pins median rates between 1.75-2.00% from 18 officials who have advocated several rate hikes totaling another 100bps in 2022 back in March. Nevertheless, additional data from the Fed Fund Futures now reflect traders' hypothetical expectations of 72% odds of a 75bps rate hike in the next FOMC meeting on 15th June whilst CME FedWatch Tool targets a 90.5% probability of a 50bps rate hike. The Fed's earlier completion in the purchase of bonds of $80b a month in Treasuries and $40b a month in agency MBS has now seen its balance sheet stay pat at ~$8.94 trillion as at end-April 2022.

Foreign holdings of overall MYR bonds fell ~RM2.2b or 0.8% in April amid weaker MYR against the greenback @ 4.35 levels

Foreign holdings of overall MYR bonds fell again i.e., back-to-back (albeit lower than prior month) by RM2.2b or 0.8% in April to RM256.9b. Likewise, non-resident holdings of MGS dropped by RM2.1b or 1.1% (prior month: -RM3.2b) to RM189.3b, whilst forming sharply lower i.e., 37.6% of total outstanding. **Total MYR Government bonds (MGS+GII+SPK) holdings saw net outflows of RM2.6b to RM233.6b (representing 24.5% of total outstanding) versus prior month's -RM4.1b;** amid the elevated net issuances of +RM8.5b for the month (March: -RM4.7b). Meantime, **12-month cumulative rolling inflows fell substantially to RM13.2b (prior month: +RM20.9b).** Investors were 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 quantum of rate increases coupled with the balance sheet runoff commencing in June. Investors preferred to stay on the sideline despite having lower bond maturity proceeds of RM11.0b compared to prior month's RM18.2b. The utilization of T-bills may not necessitate further increase in debt issuances. Although one may argue that this augurs well in terms of supply-demand metrics; and the emergence of attractive yield-carry for local govvies due to the recent sell-off, compression in US-MYR sovereign spreads will also be a closely watched-factor.

Foreign participation in auction exercises were still muted. Unlike before, the continuing drag from the Russia-Ukraine war does not seem to be correlated with the shift of foreign funds into EM especially South-East-Asia for now. Nevertheless, 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 are expected to further boost support.

Equity inflows continued for the 2nd month in a row amounting to RM800m in April 2022 compared to the 12-month rolling inflows of RM7.0b. On the currency side, the MYR weakened substantially against USD to 4.3538 as at end-April and has dropped further to 4.3848 levels thereafter at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM raised OPR to 2.00% at the latest MPC meeting on 11th of May from the record low of 1.75%, reiterating the need to adjust the degree of monetary accommodativeness...

BNM in its 3rd Monetary Policy meeting (MPC) of the year made a surprise move to 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.

We are of the opinion that 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. Given the upbeat 1Q GDP print of 5.0% y/y, we now expect full year 2022 GDP growth to exceed BNM's forecast range of 5.3-6.3%.

The month of April saw stronger interest in several new coupon offerings amid maturity rollover opportunities…

The four (4) auctions in April 2022 saw average BTC ratios lunge above the 2.0x handle, at 2.19x (March: 1.80x). The highest BTC of 2.503x among the four auctions recorded was notched by the new issuance of 10Y GII 10/32 which saw strong demand from a wide spectrum of parties that included insurance companies, inter-bank institutions, asset management companies, GLC's and pension funds, resulting in a relatively short tail of 1.0bps. The other auctions consisted of the new issuance of both the 20Y MGS 10/42 and 7Y MGS 4/29 and also the 15Y GII 7/36 which saw decent covers of between 1.92-2.20x. However, the most recent new auction of RM2.5b 30Y GII 5/52 notched a solid BTC ratio of 2.57x. The smaller-than-expected issuance size of RM3.0b (inc. private placement of RM500m) saw total bids record bids totaling RM6.42b. Altogether, the four (4) auctions in April mentioned earlier saw individual sum of bids amounting to between RM4.7-11.0b. **Since there are no maturity windows in May, we expect little assistance from easy reinvestments** into the MYR government bond space in both fresh auctions and secondary market. To recap, total combined MGS/GII maturities for 2022 amounts to circa RM78.2b versus RM73.7b in 2021, whereas our projected gross issuances remain at RM167b 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		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	52,500	10,500	63,000	PROJECTED TOTAL ISSUANCE SIZE = 167,000,000				

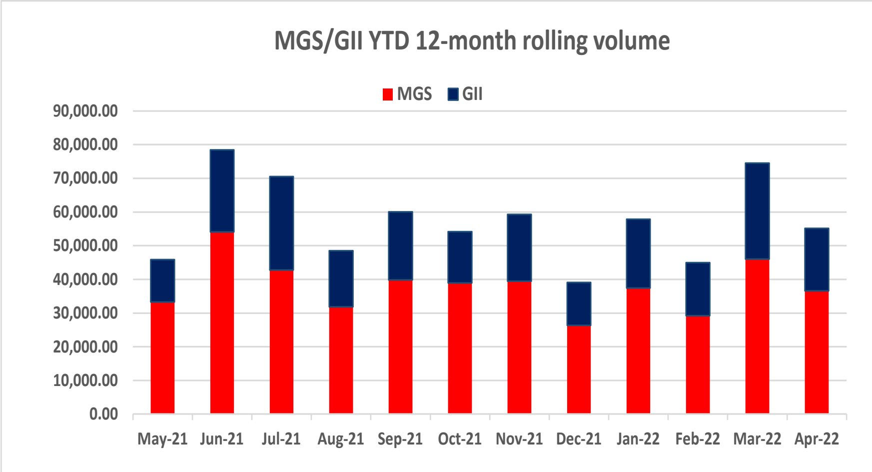
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity fell in April…

Trading volume for MYR govvies i.e. MGS + GII + SPK bonds fell ~25% m/m to RM59.4b in April compared to prior month's RM78.9b amid the volatilities seen between the earlier FOMC meeting (25bps hike) in March and subsequent FOMC meeting (50bps hike) in May. The prominent factors that contributed to the drop in volume were mainly due to less foreign participation, amid expectations over the frequency and quantum of rate hikes which were ultimately seen pushing global rates upwards. The Fed's balance-sheet run-off has been confirmed and set initially at $30b per month beginning in June and after three (3) months will 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). Local news rarely influenced fluctuations save for the higher-than-expected new issuance sizes for both the 10Y GII and 7Y MGS ignited a temporary govvies sell-off. BNM's MPC meeting in May however came as a relief for bond investors as investors were positive regarding the monetary policy path going forward. Local institutional support was soft with 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 preferring to stay sidelined amid the global bond rout. Some notable movements during the month under review were as follows:

- Both MGS and GII saw a parallel upward shift in the curve extending out from the 3Y tenures.
- MYR IRS rose 30-74bps with tenures extending out from 4Y rising the most
- Bulk of the volume was seen in the short-ends such as MGS 3/23, GII 5/24, followed by benchmark 5Y MGS, 7Y MGS, 10YGII.

Traders and investors were less active with levels 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. However, we expect portfolio management activities to improve this month following bargain-hunting activities due to attractive levels emerging from the recent sell-off.

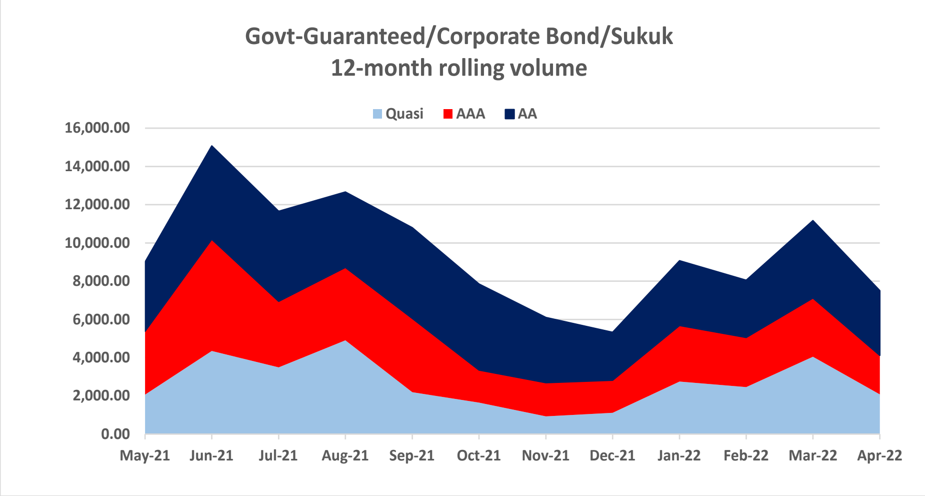


Source: BPAM, Bloomberg, HLBB Global Markets Research

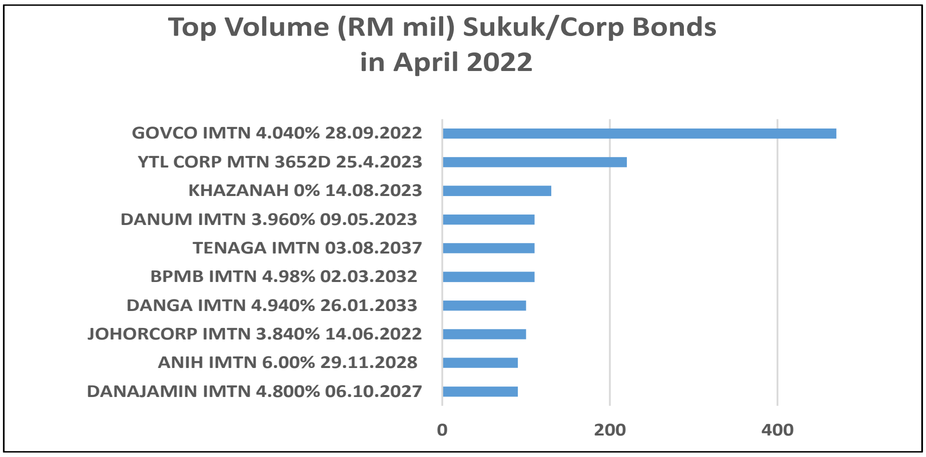
Corporate Bonds/Sukuk saw weaker investor interest in April…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) took cue from govvies and saw trading volume plunge in the secondary market by 39.3% to RM7.4b in April (Mar: RM12.2b). The weaker appetite and momentum overwhelmed yield carry requirements for the month due to fears of widening in spreads mainly due to the hawkish sentient in US. This was despite economic sectors running in full-mode following months of earlier movement restrictions and lockdowns corporates. There was muted interest overall in the secondary market amid the 10% jump in primary issuances despite yields turning attractive. The GG-segment saw the 3-15Y tenures widening the most between 45-60bps to between 3.83-5.24%. The AAA-rated space similarly saw tenures between 3-15Y cheapen between 39-62bps; with levels around 3.92-5.36%. The AA2-segment saw yields settle higher between 52-54bps for 3Y, 7Y and 15Y sectors; resulting in yields closing within the ranges of ~4.11%, 4.98% and 5.56% area. We note that foreign holdings for both GG and pure Credits eased by ~RM488m to RM13.4b.

Total transactions for GG bonds in April fell to form ~27.6% (Mar: 36.2%) of overall volume. However, AAA-rated papers saw total trades maintain volumes to form market share of ~ 27.3% of overall trades. The AA-space saw secondary market trades rise to make up 45.1% share of overall investor interest (Mar: 36.3%). The GG-space was well spread among names like DANAINFRA, LPPSA, PTPTN and PRASARANA. **Bonds that garnered top volume for the month were GOVCO 9/22 (GG) that jumped 19bps higher to 2.45% followed by YTL Corp 4/23 (AA1) which rose 33bps at 3.94% and subsequently KHAZANAH 8/23 (GG) which spiked 62bps higher to 2.92%.** Frequency and volume of trades in the pure credit space were mainly seen in CAGAMAS 22-25's, DRB-Hicom 22-25's, MMC Corp 23-29's, GENTING-related bonds 22-30's, plantation-based (i.e., KLK 26-37's, BKAWAN 23-32's), Khazanah-related SPV's (i.e. DANGA 26-33's, DANUM 23-30's), construction/property entities (i.e. LBS Bina 2120NC26), toll-operator (i.e. ANIH 22-29's, PLUS 23-37's), utilities i.e. telco/water/power (i.e. TENAGA 35-41's, PASB 26-30's, BGSM 22-27's, SEB 26-36's and YTL Power 23-27's), PRESS Metal 24-27's, TG Excellence perps. The banking/finance sector saw traded names in MAYBANK 29NC24, its perps, BPMB 27-32's, MBSB 27-31's and PUBLIC 32NC27 bonds. There were frequent odd-lot denominated trades involving banking names like ALLIANCE 2030 callable bonds, CIMB perps, SABAH Development Bank 24-26's, GENM Capital 25-28's, Eco World Itl' 23's, Eco world capital 26's, LBS BINA perps, IJM Land perps, YNH Property perps, Tropicana 23-28's and its perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in April driven by the following:

Notable issuances in Apr-22	Rating	Amount Issued (RM mil)
Alliance Islamic Bank Berhad	A2	130
Cagamas Berhad	AAA	1,900
Cypark Renewable Energy Sdn Berhad	NR	10
DanaInfra Nasional Berhad	GG	2,500
Danum Capital Berhad	AAA	600
Danum Sinar Sdn Berhad	NR	5
Golden Assets International Finance Limited	AA3	340
Hap Seng Management Sdn Berhad	NR	100
Hong Leong Bank Berhad	A1	900
Laksana Positif Sdn Berhad	NR	3
Liziz Standaco Sdn Berhad	NR	101
Malaysia Airport Holdings Berhad	AAA	800
MBSB Bank Berhad (fka Asian Finance Bank Berhad)	A1	300
MMC Port Holdings Sdn Berhad	AA3	1,000
Malaysian Resources Corporation Berhad	AA3	200
Pavilion REIT Bond Capital Berhad	NR	75
Priceworth International Berhad	NR	16
Parkcity The Spring (Bintulu) Sdn Berhad	NR	150
Public Bank Berhad	AA1	2,000
RHB Islamic Bank Berhad	AA3	250
SP Setia Berhad	AA2	1,200
Sabah Credit Corporation	AA1	140
Sunway Treasury Sdn Berhad	NR	200
SunREIT Unrated Bond Berhad	NR	600-
Tumpuan Azam Sdn Berhad	NR	9
Tropicana Corporation Berhad	A2	130
UEM Edgenta Berhad	AA3	250
UEM Sunrise Berhad	AA3	110
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	8
		13,426

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances in April increased another 10% from RM12.2b to RM13.4b. One of the prominent issuances consisted of DANAINFRA Nasional Bhd's government-guaranteed 7-30Y bonds totaling RM2.5b with coupons ranging between of 3.99-4.8% for all five (5) various tenures.

Outlook for May 2022

Expect USTs to undergo lesser volatility in May with a steepening curve as economic growth concerns potentially outweigh inflationary pressures…

The Federal Reserve will have its next FOMC meeting only on 15th of **June for which we maintain our view of another 50bps rate hike** due to high inflation and strong jobs market and still healthy economic indicators by and large. The US Treasury is expected to continue reducing its coupon issuance across all maturities in the coming quarter, with the largest cut coming in the 7Y and 20Y maturities. Elsewhere, the risk in three (3) of the world's largest economies could threaten global growth with implications for export-reliant economies. These include:

- the impending interest rate increase in the US to stem stubborn inflation
- energy supply disruption in the EU due to Russia-Ukraine war
- lockdowns in China due to the surge in COVID infections, which over time is likely to see the country abandoning its zero-covid policy.

These are expected to prompt the Fed to tread cautiously in its quest to normalize policy faster than expected amid its resilient economy. Swaps traders continue to price-in a 100% chance of a 50bps rate-hike in the June FOMC meeting with a total of up to eight (8) rate hikes totaling ~215bps in 2022. The slight inversion in parts of the yield curve may signal heightened risks of a recession over the medium-term but the prominent 2s10s spreads remains deep in positive territory for now. **Expect the earlier flattening-bias in the yield curve to revert to potential steepening mode instead as investors and traders worry about a potential slowing of the economy otherwise flagged as "stagflation" conditions.** The high probability of a rate hike to the tune of 50bps in the upcoming FOMC meeting in May is certain to impact not only USTs and corporate bond yields but also global 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 5.5% in February (Mar: -2.5%; amid OAS spreads widening from 122bps in March to 142bps in April. This was evident as elevated inflation and rate hike woes infused UST volatility which resulted in yields spiking. The Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also recorded a loss of 3.6% for April 2022 whilst spreads notably widened by 100bps instead to 422bps. The full swing in economic activities have boosted literally all corporate activities including those severely affected earlier by the COVID pandemic; namely retail, leisure, travel and hospitality operations. We foresee lesser impact on both IG and HY sectors than previously thought from the impact of the Russia-Ukraine war which has compounded inflation. Nevertheless, the month of May is projected to deliver ~$120b in new IG issuances as the slightly larger maturity calendar of $48b vs April will be a muted factor against expected changes in monetary policy.

Our monthly fundamental view suggests the 10-year yield should maintain at only slightly higher levels. **The 10-year UST is expected to range between 2.80-3.00%; finding support at key 3.00% levels for this month.** We have a neutral view for nominal USTs amid stubborn inflation resulting in the Fed embarking on faster and bigger quantum of rate increases coupled with its upcoming balance sheet run-off effective June. However, we favor TIPS especially within the 10y sector. Whilst we see lesser impact from the anticipated decline in Russia-Ukraine war, we prefer to ride with IG issuances within the 3-7Y duration, namely in sectors covering financials, telecommunications, staples, and technology.

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

The MYR bond market saw **better bidding metrics** for all four (4) auctions conducted in April with levels above our much-watched 2.0x handle. However, the lower-than-expected new issuance of RM3.0b 30Y GII 5/52 on 12th of May was strong with a BTC ratio of 2.57x, with bids submitted totaling @ RM6.43b. Support was strong, mainly seen by a wide profile of participants that included pension funds, insurance companies and GLC's among others. Elsewhere, the ongoing Russia-Ukraine war is expected to be sidelined as funds look towards yield spread premium in the wake of rising global, particularly US bond yields.

The pace of US balance sheet runoff has been released with a higher runoff of $95b expected commencing September 2022 onwards. This coupled with the quantum and number of rate hike exercises in the US will continue expected to be primary factors impacting the performance of the Malaysian fixed income asset class. To recap, our projected auction size for 2022 totals ~RM167b with the run-rate of our estimated cumulative issuances YTD of RM64.0b being almost on track with actual issuances of RM63.0b as at the time of writing.

Taking cue from Malaysia's upbeat 1Q GDP number, we expect full year 2022 growth forecast to exceed the official forecast range of 5.3-6.3%, underpinned by expected incremental increase in consumption stemming from the higher-than expected EPF withdrawal and minimum wage implementation. Hence, we expect BNM to raise OPR by a further 50bps in 2H2022. Expect local govvies i.e., MGS/GII's to still trade within ranges~ but with lesser volatility. However, net govvies issuances for the month is expected to drop substantially from **RM8.5b in April to -RM14.5b** in May and may impinge on yields. Despite the full swing in economic activities including retail, leisure and property sectors as the Omicron infections are believed to slowly subside, activities in corporate activity which may boost profitability are not expected to drive a strong demand yet for credits. Nevertheless, pro-active portfolio management activities by the varied investing institutions including pension funds, life insurance companies, GLIC's and asset management companies is expected to provide a certain degree of support and stability for yields in the secondary market.

We expect the 10Y MGS yield to maintain its upward trading range between 4.30-4.50%, with support pegged at 4.50% levels. The 7Y,20 MGS and also the 5-10Y GII space currently reflect decent relative values along the curve. In the corporate bonds/Sukuk space, we favor basic utilities, logistics i.e., shipping, toll operations and also the commodity sector particularly entities within the plantation sphere given the positive impact due to commodity prices. Our preferred tenures include i.e., 3Y, 7Y for AAA/AA (spreads ~ 33-41bps), and also the 5-7Y, 20Y GG-sector (spreads of 15-25bps).

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