Fixed Income Market Outlook 2023

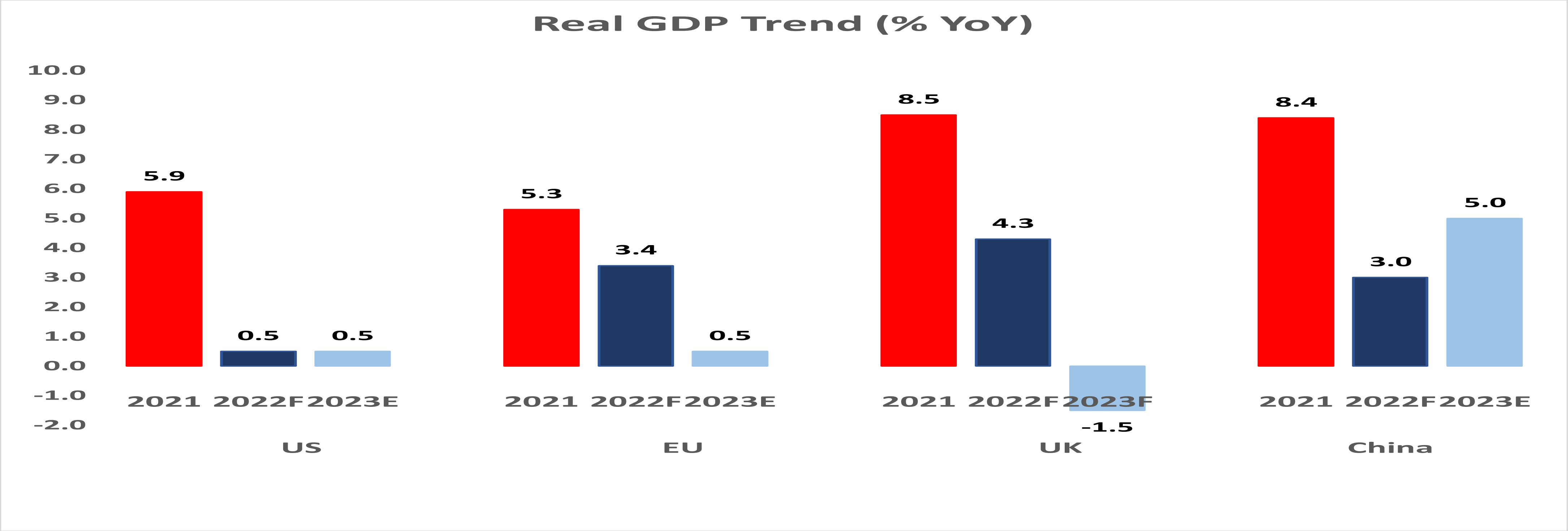
Global Markets

Jan 2023

Key Themes and Outlook for 2023

- Monetary policy path closely intertwined with inflation and growth outlook
- Re-opening of China's borders may be a double-edged sword
- Normalization of supply chain logistics
- Geopolitical risks
- Fixed Income should break away from the carnage seen in 2022
- Expect bond yields to decline amidst ongoing volatility
- Lower UST yields - easing inflationary conditions and weaker peripheral economic data
- Lower MGS/GII yields - expectations for OPR hike to taper off; support from myriad of local investment institutions
- Lower SGS yields – inflation; AAA-rated sovereign status a bright spot

Global Growth Outlook

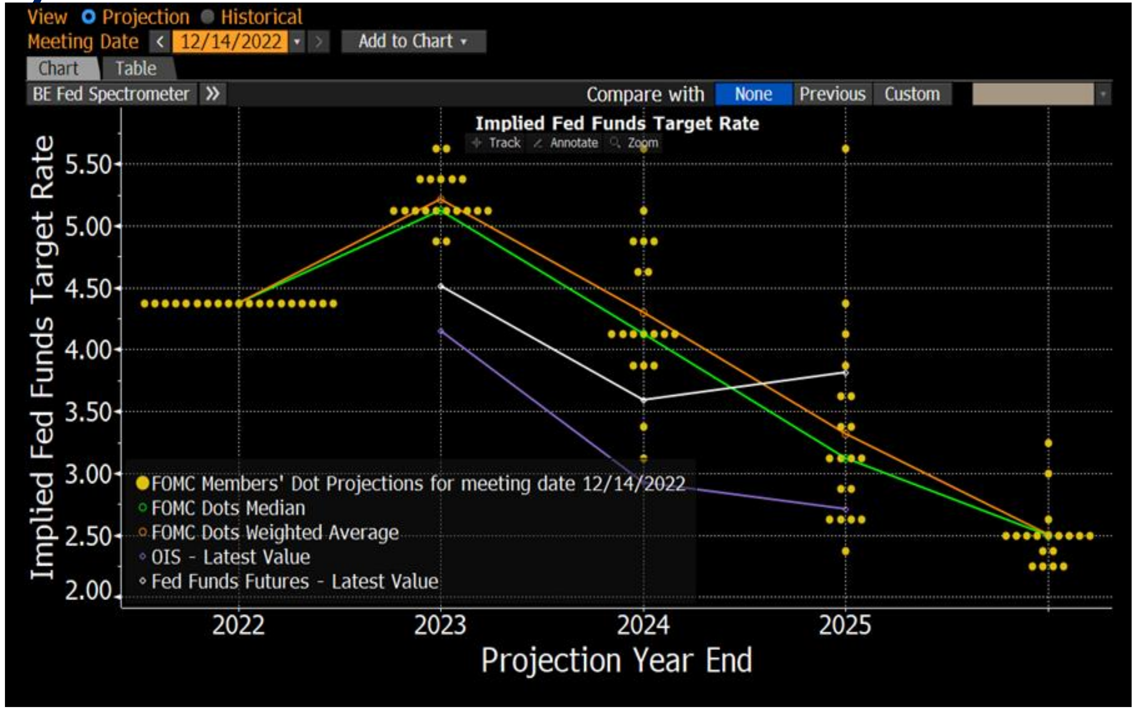


Source: Bloomberg, Global Markets Research

- Growth is expected to be slower in 2023 as economic activity is experiencing a broad-based slowdown, with inflation higher than seen in several decades. China however may be an exception as its reopening may help support world growth. The cost-of-living crisis, tightening financial conditions in most regions, Russia-Ukraine war, and the lingering aftermath of the COVID-19 pandemic all weigh heavily on the outlook.

- According to the IMF, global growth is forecast to slow from 6.0% in 2021 to 3.2% in 2022 and taper off further to 2.7% in 2023. Global inflation is forecast to rise from 4.7% in 2021 to 8.8% in 2022 but to decelerate to 6.5% in 2023.

US Fixed Income - Easing inflationary expectations and rising recession fears to drive bond yields lower

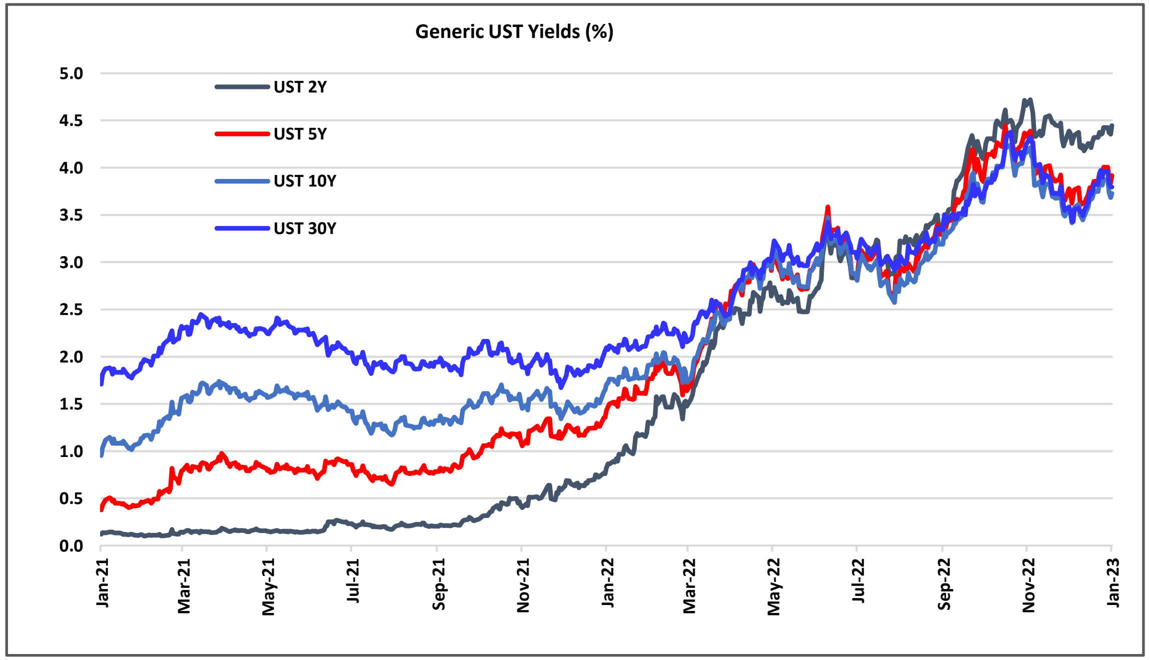


Source: Fed, Bloomberg, HLBB Global Markets Research

- The Fed's dot plot reflects cumulative rate hikes of 75bps for 2023, bringing the Fed Funds Rate to 5.00-5.25% by end 2023; following rapid hikes from zero in March to 4.00-4.25% in December 2022
- Key areas to watch in 2023 include:
  - Central bank interest rate decisions weighed by the constant flux between inflation and economic growth
  - Normalization of supply chain logistics.
  - Geopolitical situation i.e. the ongoing Russia-Ukraine war
  - The opening up of China's borders which may be a double-edged sword

- Yield curve is a precursor and reliable predictor of recession and remains deeply inverted since early-July; and is presently at -70bps.
- Nevertheless, policy rates "may stay higher for longer"
- Jobs data remains robust but wage growth seen slowing in sign of ebbing inflation pressures
- If the Fed gets it right, a Goldilocks scenario may emerge whereby it vanquishes inflation without causing a recession

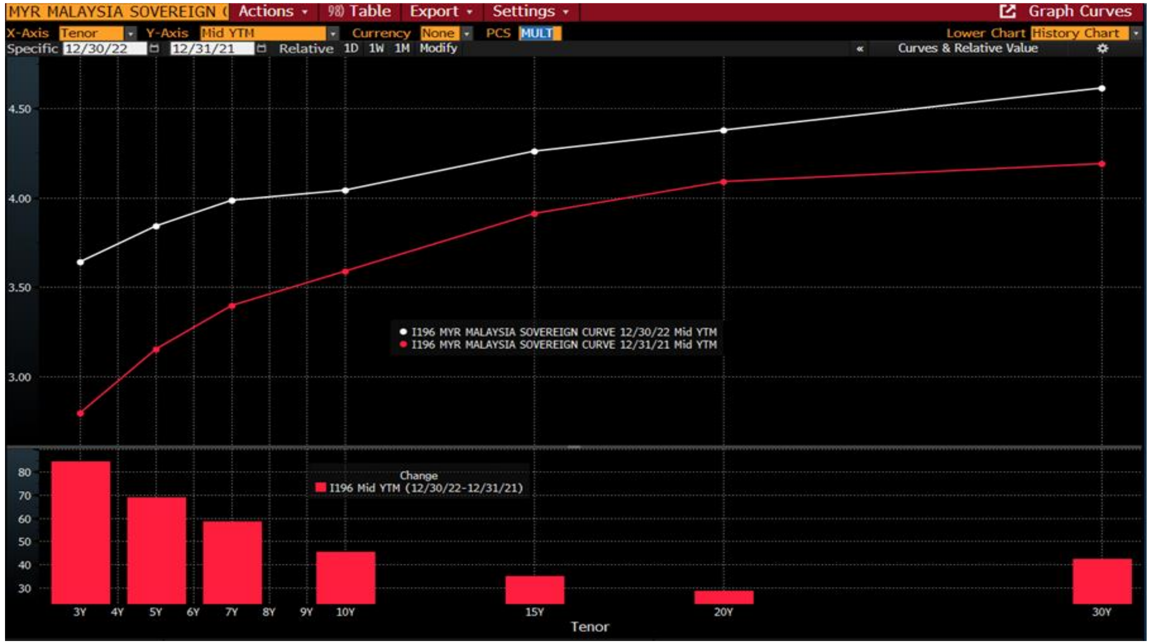
US Fixed Income – UST's to see yields drift lower; Investment Grade credit looks slightly brighter

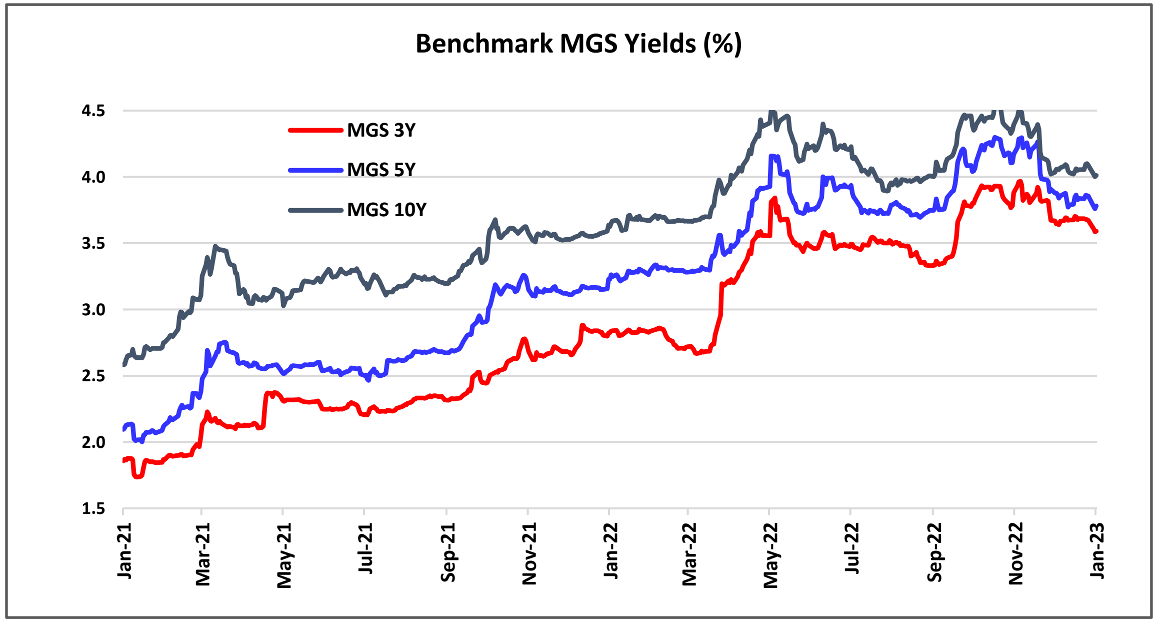


Source: Bloomberg, HLBB Global Markets Research

- Global bonds and equities fell 16% and 18% in 2022 (using Bloomberg aggregate bond and global indices), a rare phenomenon in a sell-off that only occurred in 2015 and 2018. The curve bear-flattened as UST's spiked between 205-370bps led by the front end.
- We expect a flatter yield curve indicating falling expectations for future inflation; thus causing higher demand for duration.
- IG credit can hold-up in a recession with companies having fortified their balance sheets by refinancing debt at lower yields. Nevertheless concerns may arise over lack of liquidity due to uncertainty if the Fed would continue tightening monetary policy . We are mildly positive on IG in sectors such as; in Basic Industry, Communications, Energy and Financials; whilst extending duration to 5-10Y
- Recent BIS comments on ~$65 trillion of off-balance sheet liabilities in the non-bank financial sector warrants some attention .

Malaysia Fixed Income – Lower yields on optimism over fiscal deficit reduction and potential peaking of rates cycle due to easing inflationary print





	2021	2022E	2022F
GDP (%)	3.1	8.2	4.2
Inflation (%)	2.5	3.3	2.1
OPR (%)	1.75	2.75	3.00
USD/SGD	4.2000	4.4040	4.2700

Source: BNM, Bloomberg, HLBB Global Markets Research

- In 2022, both MGS/GII spiked between 23-87bps as at end-Dec 2022 amid rising interest rate cycle initiated by the Fed due to hot inflation.
- The front-ends led the carnage as BNM raised the OPR by 25bps at four consecutive meetings, to 2.75% at end-December 2022.
- We expect another 25bps hike to 3.00% in 2023.
- Strategy wise, for Corporate Bods/Sukuk, we are positive duration on high grade papers, non-cyclical and defensive sectors like utilities (sewerage, telco, power) and banks.

Malaysia – Fiscal consolidation to improve in 2023 towards deficit target of 5.5%; no prominent increase in gross MGS/GII supply projected in 2023 @ circa RM172b

FEDERAL GOVT REVENUE & EXPENDITURE RM (Billion)	2921	2022E	2023F
Revenue	223.8	285.2	272.6
Operating Expenditure	231.5	284.7	272.3
Current balance Surplus/(Deficit)	2.2	0.5	0.2
Gross Development Expenditure	64.3	71.8	95.0
Add:gross lending	1.0	1.4	1.4
less: loan recoverables	1.0	0.6	0.7
Net Development Expenditure	63.3	71.2	94.3
Misc: COVID-19 Fund	37.7	28.8	5.0
Overall surplus/(deficit)	(98.7)	(99.5)	(99.1)
Fiscal Deficit as a % of GDP	6.4	5.8	5.5

RM (Billion)	2021a	2022e	2023f
Federal Govt deficit	98.7	99.5	99.1
MGS/GII Maturities	73.7	78.2	80.9
Projected SPK switch	(6.0)	(9.0)	(3.6)
Misc. cash receipts (inc PETRONAS special dividend)	-	(2.0)	(4.0)
Net Govt Bond Supply (MGS/GII)	86.3	93.3	91.5
Gross Supply (MGS+ GII only)	**160.0**	**171.5**	**172.4**

Source: Bloomberg, HLBB Global Markets Research

- Cautious economic outlook especially in 2H2023 to cause Federal Government's fiscal consolidation to face challenges in meeting the reduced targeted fiscal deficit target of 5.5% of GDP.
- Development expenditure (DE) is expected to spike higher to a record high of RM94.3b; but likely overshadowing the projected fall in operating expenditure (OPEX) as the government lowered allocation for subsidies and social assistance.
- In view of projected sustained fiscal deficit of RM99.1bn in 2023 (2022e: RM99.5bn), gross supply is expected to stay little changed at RM172b.
- The upcoming re-look in to National Budget 2023 by the government on 24th Feb may see concerted efforts to restrain further additional issuances to contain the Federal government debt levels

Government bond issuances and choice of sector along the curve for 2023

MGS/GII issuance pipeline in 2023

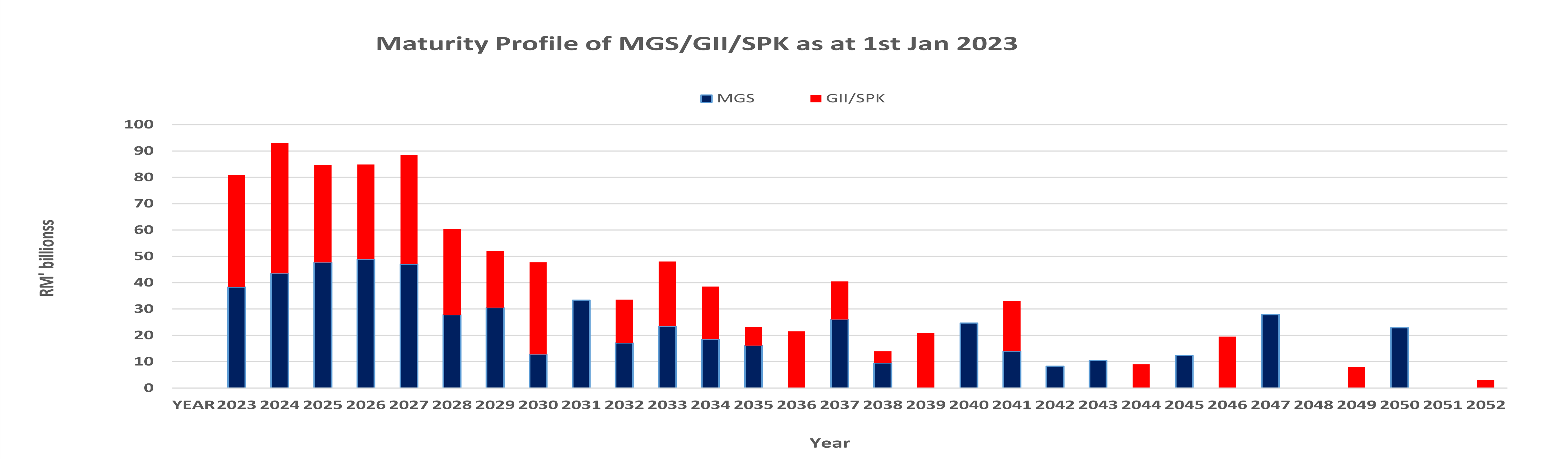
No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement
1	10-yr reopening of MGII (Mat on 10/32)	10	Jan	Q1	4,500	
2	15-yr Reopening of MGS (Mat on 6/38)	15	Jan	Q1	4,500	
3	5.5-yr New Issue of MGII (Mat on 07/28)	5	Jan	Q1	5,000	
4	7-yr Reopening of MGS (Mat on 04/30)	7	Feb	Q1	4,500	
5	20.5-yr New Issue of MGII (Mat on 08/43)	20	Feb	Q1	5,000	
6	3-yr Reopening of MGS (Mat on 07/26)	3	Feb	Q1	4,500	
7	15-yr Reopening of MGII 03/38	15	Feb	Q1	5,000	
8	10-yr Reopening of MGS 07/32	10	Mar	Q1	4,500	
9	7-yr Reopening of MGII 09/30	7	Mar	Q1	4,500	
10	30-yr New Issue of MGS 03/53	30	Mar	Q1	5,000	
11	10-yr Reopening of MGII (Mat on 10/32)	10	Apr	Q2	4,500	
12	5-yr New Issue of MGS (Mat on 04/28)	5	Apr	Q2	5,000	
13	30-yr Reopening of MGII 05/52	30	Apr	Q2	4,500	
14	7-yr Reopening of MGS (Mat on 04/30)	7	May	Q2	4,500	
15	20-yr Reopening of MGII (Mat on 08/43)	20	May	Q2	5,000	
16	15-yr Reopening of MGS (Mat on 06/38)	15	May	Q2	4,500	
17	3-yr Reopening of MGII 09/26	3	Jun	Q2	4,500	
18	20-yr Reopening of MGS 10/42	20	Jun	Q2	4,500	
19	5-yr Reopening of MGII 07/28	5	Jun	Q2	5,000	
20	10-yr Reopening of MGS 11/33	10	Jul	Q2	4,500	
21	7-yr Reopening of MGII (Mat on 07/30)	7	Jul	Q3	4,500	
22	3-yr Reopening of MGS (Mat on 07/26)	3	Jul	Q3	4,500	
23	30-yr Reopening of MGII 05/52	30	Aug	Q3	4,500	
24	5-yr Reopening of MGS 04/28	5	Aug	Q3	5,000	
25	20-yr Reopening of MGII 08/43	20	Aug	Q3	5,000	
26	15-yr Reopening of MGS 06/38	15	Aug	Q3	4,500	
27	3-yr Reopening of MGII 09/26	3	Sep	Q3	4,500	
28	30-yr Reopening of MGS (Mat on 03/53)	30	Sep	Q3	5,000	
29	5-yr Reopening of MGII (Mat on 07/28)	5	Sep	Q3	5,000	
30	20-yr Reopening of MGS 10/42	20	Oct	Q4	4,500	
31	10-yr Reopening of MGII (Mat on 08/33)	10	Oct	Q4	4,500	
32	7-yr Reopening of MGS (Mat on 04/30)	7	Oct	Q4	5,000	
33	30-yr Reopening of MGII 05/52	30	Nov	Q4	4,500	
34	5-yr Reopening of MGS 04/28	5	Nov	Q4	5,000	
35	7-yr Reopening of MGII (Mat on 09/30)	7	Nov	Q4	4,500	
36	3-yr Reopening of GII (Mat on 09/26)	3	Dec	Q4	4,000	
37	10-yr Reopening of MGS 11/33	10	Dec	Q4	4,000	
	Gross MGS/GII supply in 2022				172,000	TBA

Source: BNM, Bloomberg, HLBB Global Markets Research

Number of Issuances			
Tenure	**2022**	**2023**	**Change**
3Y	5	5	0
5Y	5	6	1
7Y	5	6	1
10Y	6	6	0
15Y	6	4	-2
20Y	5	5	0
30Y	4	5	1
Total	**36**	**37**	**1**

- The Gross issuance supply for 2023 is slightly targeted towards two bands - the 5-7Y belly and the long-end 30Y tenure with corresponding reduction see in the 15Y sector.
- We project quarterly issuances to be front-loaded with heavy issuances also seen in 3Q2023 whilst tapering off in the final quarter.
- Investors should look out for sizeable maturity windows in 1H2023 with peak maturities in 2Q2023 tapering-off in 4Q02023

Maturity profile of MGS/GII/SPK for 2023 and beyond

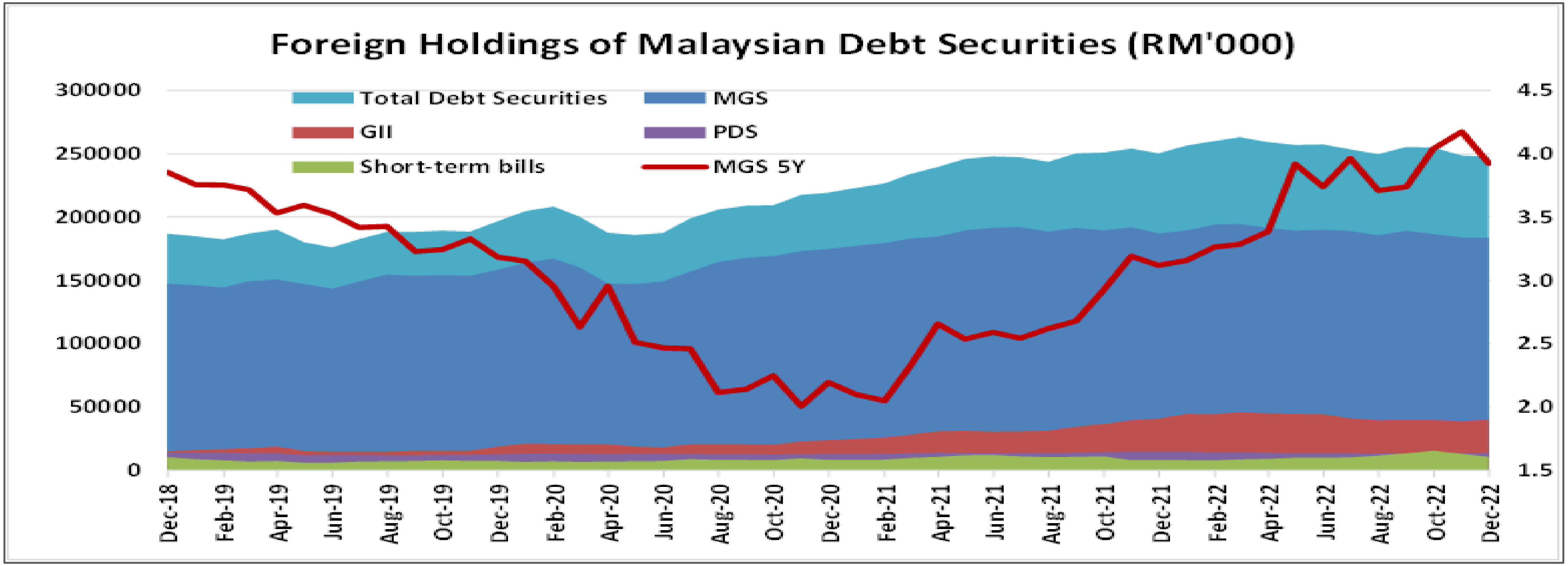


Quarter	2023	Stock	Monthly Maturity (RM'm)	Quarterly Maturity (RM'm)
	JAN			
1	FEB			
	MAR	MGS 3/23 & SPK 3/23	19,420 & 1,700	21,120
	APR	MGS 4/23 & SPK 4/23	8,900 & 1,900	
2	MAY	GII 5/23	13,000	
	JUN			23,800
	JUL	GII 7/23	10,500	
3	AUG	MGS 8/23	10,000	
	SEP			20,500
	OCT	GII 10/23	4,000	
4	NOV	GII 11/23	11,500	
	DEC			15,500
	Total		78,200	80,920

Source: Bloomberg, BPAM, HLBB Global Markets Research

- Attempts to smoothen out the maturity profile extending out from 2027 as the current maturity profile weighs heavy on the shorter-end of the curve i.e.; 2023-2027.
- Re-investments from scheduled bond maturities to be rolled back in line with new GOM's ongoing initiatives in addressing the nation's fiscal and monetary policies
- 2022's record-breaking gross Corporate Bonds/Sukuk issuances totaling RM149b not likely to be repeated; expect RM110-130b in 2023

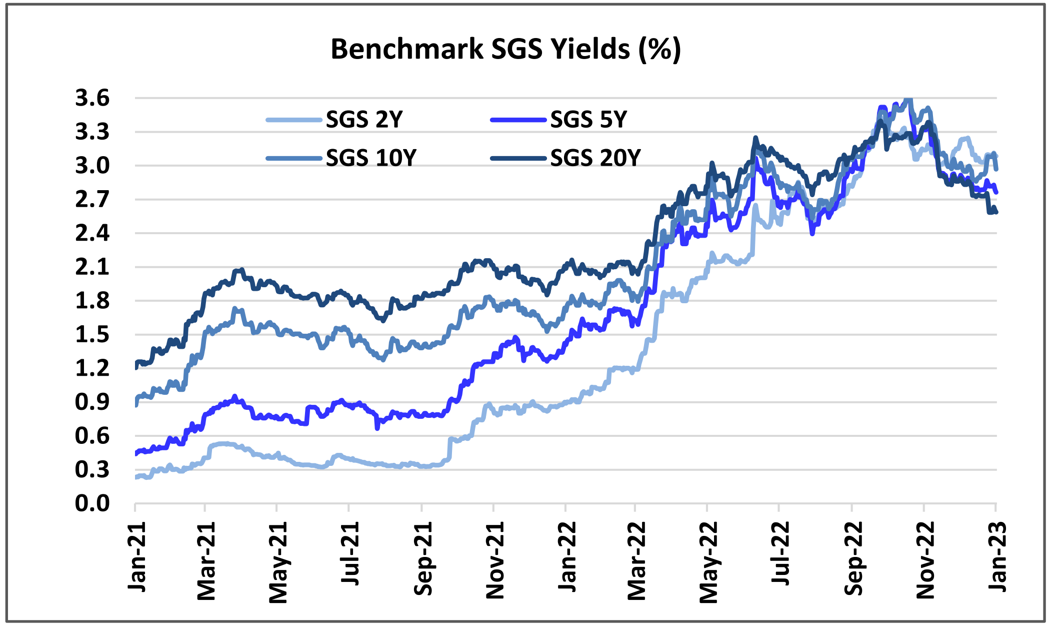
Foreign holdings on MYR Bonds



Source: Bloomberg, HLBB Global Markets Research

- Resilience seen in foreign holdings of both MGS which decreased only 3% or RM3.4b y/y (as at Nov 2023) to RM183.7b whilst foreign holdings in GII eased a mere 2% or RM840m to RM39.7b.
- This represents 34.4% of overall outstanding issuances of RM476.2b for MGS and 8.5% of overall outstanding issuances of GII as at end-November 2022.

Singapore Fixed Income - xxxx



Source: Bloomberg, HLBB Global Markets Research

- We continue to adopt a neutral bias for SGS in 1Q2023 as SGS has witnessed a strong rally in 2022
- Corporate bonds issued by large govt-linked entities and also SGD bank issuances like AT1 and also Tier 2s which are backed by sound capital look favourable with tenure with slight negative duration; preferring papers within 2-5Y sector.
- We foresee further such issuances with financial institutions looking to tap the debt market due to increase in funding costs, relative lack of bank capital instruments and possible revaluation losses on financial instruments.
- Further green bonds premised on the ESG & SRI theme may be issued especially by the government-linked sector
- Risk-aversion to entities in the construction and hospitality sector

Markets Outlook – Fixed Income

	Current	1Q2023	2Q2023	3Q2023	4Q2023
UST 10Y	3.72%	3.50-3.70%	3.40-3.60%	3.20-3.40%	3.10-3.30%
MGS10Y	3.99%	4.00-4.20%	3.90-4.10%	3.70-3.90%	3.60-3.80%
SGS 10Y	3.04%	2.90-3.10%	2.80-2.90%	2.80-2.90%	2.70-2.90%

Sovereigns – global economic slowdown or recessionary fears, ongoing QT, extended geopolitical conflicts and impact of newer COVID variants to spur safe-haven demand for bonds

UST	• Easing inflationary conditions and weaker peripheral data expected to drive yields lower • Risks to the above – strong inflation, steady manufacturing & services along with jobs data
MGS	• Tradionally lower correlation to USTs compared to SGS • Expectations for OPR hike to taper off • Support forthcoming from myriad of local investment institutions
SGS	• Correlation with USTs may take a breather considering sharp rally • Inflation factor may weigh especially when China opens its borders; prompting MAS policy tightening • AAA-rated sovereign status to provide adequate investor interest and support

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