

Global Markets Research

Fixed Income

Monthly Fixed Income Perspective -

Mar 23 review & Apr 23 outlook

US Bond market

- In March, US Treasuries (UST's) went through one of the most turbulent periods, witnessing huge volatility. Yields oscillated between fears of a contagion from the shutdown of Silver gate Capital, Silicon Valley Bank (SVB) and Signature Bank, interspersed with re-emergence of rate hike fears due to strength see in recent economic data. The curve bull-steepened as overall benchmark yields fell between 27-79bps, led mainly by front-ends). The 2Y UST yield plunged 79bps to 4.03% whilst the 10Y declined 45bps to 3.47%. At the time of writing, these levels are trading at 4.05% and 3.44% respectively. The sale of ~\$90b of coupon offerings which included the 3Y, 10Y and 30Y tenures surprisingly saw strong participation. Meanwhile, the 2s10part of the curve has unwound its earlier deeply inverted territory of 90-100bps to about 60bps presently.
- For April, expect positive buying interest in USTs amid the flight-to-safety to continue, in addition to the belief that the Fed's rate hiking cycle is nearing its end. Expect USTs to march higher amid March's slower rise in headline inflation and NFP job gains seen in a somewhat "goldilocks-like" US jobs report. Another important barometer of investors' inflation expectations i.e.; the 5Y breakeven inflation rate on 5Y TIPS, has eased by ~27bps m/m to the 2.42% threshold presently, from March month-end levels of 2.48%, Fed-dated OIS pricing currently reveals a 42% chance of a last 25bps hike in the FOMC meeting scheduled in May; followed by cuts thereafter. The UST 10Y is expected to range lower between 3.20-3.40%, with support at key 3.40% levels for this month. We are still averse to HY credits but foresee decent yield pick-up for IG; depending whether the potential impact of the recent collapse of several banks in the US may cause tightening of financial conditions. Our preferred IG bond issuances are within the extended duration of 7-10Y tenures in utilities, communication and capital goods.

MYR Bond Market

• In March, MYR government bond curve ended steeper with both MGS/GII bonds settling mixed-to-lower between -17 to +2bps across; with the long-ends slightly pressured. The more-positive outlook following the pause on OPR by BNM in its March MPC meeting was felt whilst the government reiteration to reduce the fiscal deficit from 5.6% of GDP in 2022 to a lower revision of 5.0% for 2023 augured well for bonds. The benchmark 5Y MGS 11/27 yield fell 17bps m/m to 3.50% whilst the 10Y MGS 7/32 yield rose 16bps at 3.24%. Total foreign MYR Government bonds (MGS+GII+SPK) holdings saw huge net m/m inflows of RM6.6b to RM240.5b (representing 22.9% of total outstanding). The primary factors which drove bond movements were safe-haven bids arising from fears of contagion from the US bank rout which overwhelmed prior month's hawkish rhetoric by Fed officials. However, the three (3) auctions in March 2023 saw average BTC ratios plunge further to ~ 1.70x (Feb: 1.99x); way below the 2.0x handle.

For April, expect strong institutional interest and support for bonds in both primary secondary markets following risk-off mode as uncertainties pertaining to the financial collapse of several banks in the US and economic growth mentioned above. We opine that the Sukuk/Corporate Bond space will continue to see demand on yield pick-up as credit conditions remain steadfast for now. The 7-15Y MGS/GII sectors reflect decent relative values along the curve. We expect the 10Y to range slightly between 3.75-3.95% as per our previous month's projection with support pegged at 3.95% levels. In the corporate bonds/Sukuk space. We favor the 3-7Y GG (24-26 bps), 2-5Y AAA (57-70bps) and 20Y AAA (60bps) and 3-10Y AA2-rated bonds (~85bps) in sectors comprising utilities (telco, electricity, sewerage), logistics (ports) and highway/toll.



MYR sovereign curve (MGS)



Source: Bloomberg

The sustenance of 200k+ increase in NFP numbers for March is still regarded decent given that the US added an average of 173k new jobs a month in the year before the onset of COVID pandemic....

March Non-Farm Payrolls ("NFP") was marginally better than consensus estimates of 230k by adding 236k as the labor market reflected a "goldilocks-like" situation. This was evident from the slower yet steady employment, with unemployment dipping slightly; whilst wage growth moderated as almost 500k people sitting on the sidelines earlier decided to gain employment instead. The unemployment rate fell to 3.5% (Feb: 3.6%). Nevertheless, the job report was uneven with largest gains seen concentrated in leisure and hospitality sectors. The participation rate ticked slightly higher at 62.6%, off from the recent low of 62.2% seen in October last year and off the April 2020 low of 60.1%. The average hourly wages growth inched higher to 0.3% m/m whilst the y/y figures eased substantially to 4.2% (previous month 4.6%). May FOMC meeting decision is expected to be tough as the Fed will grapple with both mixed jobs report and inflation numbers.

Moving on to other economic data, the stronger US PMI in March (49.2 vs 47.3 in February) was offset by weaker ISM manufacturing data for March (46.3 vs 47.7 in February). Separately, the Fed's preferred inflation measure, the core PCE in February saw a smaller gain of +0.3% m/m from prior month's +0.6%, whilst y/y data inched a tad lower to +4.6% y/y (Jan: +4.7% y/y). which may provide relief against higher UST yields. These along with the easing in headline March CPI may lend bonds a bid allowing UST and corporate bond yields to drift lower. Also, possible contagion from the recent collapse of several banking institutions, although believed to be contained at this juncture, could put the brakes on the Fed's continued hawkish policy path.

To recap, the Fed raised the Fed Fund Rate for the 9th time at its last FOMC meeting on 23rd March 2023 by 25bps to between 4.75-5.00%. For the record there were eight (8) earlier hikes totaling 450bps between 17th March 2022 and 2nd February 2023. **The Fed's current median FOMC Dots data pins target rate at ~5.13% for 2023. Data from the Fed Fund Futures now reflect traders' hypothetical expectations of 66% odds of a hike in the next FOMC meeting on 3rd of May whilst CME FedWatch Tool has reduced its indication to 39% probability of a rate pause. Elsewhere, we note that the Fed's ~\$8.34 trillion balance sheet as at 1st March bucked the lower trend by climbing to \$8.71 trillion as at 29th March due to bank term-funding program to address earlier liquidity pressures from the failure of SVB and Signature Bank. Nevertheless, at the time of writing figures have eased back again to ~\$8.6 trillion.**

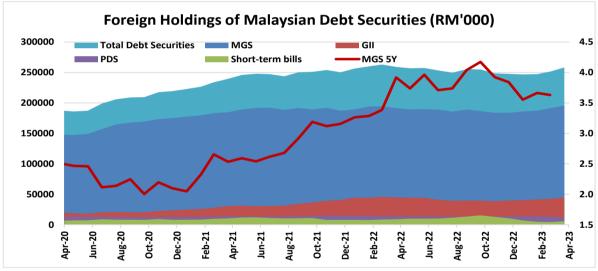
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Increase in foreign holdings of overall MYR bonds surprises on the upside by 2.6% or RM6.6b in March...

Foreign holdings of overall MYR bonds saw a higher jump circa RM6.6b or 2.6% in March to RM258.2b mainly due to the substantial jump in MGS, GII and MITB's. Non-resident holdings of MGS rose by a commendable RM4.4b (prior month: +RM4.0b) or 2.3% to RM196.7b, thus forming higher share (36.0%) of total outstanding. GII saw a jump of RM2.2b m/m to RM44.8b. Bonds yields declined due to higher demand from safe-haven bids for the bond asset class in the US coupled with relief on the local front as the government remained committed to pare down the fiscal deficit. Total foreign MYR Government bonds (MGS+GII+SPK) holdings saw huge net inflows of RM6.6b m/m to RM240.5b (representing 22.9% of total outstanding); amid net maturities of -RM6.6b for the month (Feb: net issuances: +RM21.5b); for which the lack of ample funds from rollovers is believed to be a telling factor. Meantime, 12-month cumulative rolling inflows surged higher to RM4.2b (prior month: -RM6.5b). Despite weaker foreign participation in auction exercises; secondary market participation was robust amid the increase in MGS and GII foreign holdings. The attractive relative values for MGS/GII following earlier weakness and the availability of well-diversified base and appetite of local investment institutions namely GLIC's, pension funds, insurance companies and asset management companies is expected to provide support to the fixed income space.

Separately, equity saw higher outflows in March @ RM1.4b (Feb: -RM170m) whilst the 12-month rolling inflows fell from RM632m to heavy outflows of RM4.1b. On the currency side, the MYR strengthened against USD to 4.4152 as at end-March (end-Feb: 4.4873) and currently hovering at 4.4037 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

OPR projected to have one last leg upwards from 2.75% to 3.00%...

To re-cap, BNM stayed pat and maintained the OPR at 2.75% at the MPC meeting on 9th March; in what is seen as its 2nd pause after four (4) consecutive hikes totaling 100bps since May-2022. Whilst taking cognizance of inflationary conditions in the US on the back of recent stronger-than-expected economic data, BNM is of the opinion that the stance of monetary policy on the local front remains accommodative and supportive of economic growth although the balance of risk to inflation outlook is tilted to the upside. Nevertheless, amid renewed pledges from Prime Minister Anwar to cut down government subsidies, we reiterate out view that a further measured OPR hike of 25bps is on the cards; bringing the OPR to 3.00% for the year.



Continued muted interest for new coupon offerings in March amid net issuances of RM6.6b...

The three (3) auctions in March 2023 saw average BTC ratios plunge further to ~ 1.70x (Feb: 1.99x); way below the 2.0x handle. The highest BTC of 1.97x among the three (3) auctions was notched by the new issuance of 30-year MGS 3/53 which saw strong participation mainly with demand seen mainly from pension funds and insurance companies resulting in a relatively long- tail of 3.2bps. The other auctions consisted of the re-opening of 10Y MGS 7/32 and 7Y reopening of GII 9/30. Together, all three (3) auctions in March saw slightly lower individual sum of bids amounting to between RM4.9-7.9b. Demand for auctions were somewhat muted also due to the relatively large private placement offered which may have sapped appetite from the larger investment institutions. The prevalence of higher rollover maturity benefits (March net maturities of RM6.6b vs Feb net issuances of RM21.0b) into the Malaysia government bond space disappointed and was not up to expectations in terms of primary participation. Nevertheless, going forward, the benefit of these projected rollover funds of circa RM3.2b may likely made its way especially into shorter-tenured off-the-run and existing benchmarks in the secondary markets in lieu of the higher foreign holdings noted. We maintain our projection of gross issuances for 2023 at between RM168-172b to account for lower fiscal deficit and GOM's intention to rein in government debt going forward based on the re-tabling of the National Budget 2023 on 24th February.

1 10-yr reopening of MGII (Mat on 10/32) 10 Jan Q1 6/1/2023 4,500 4,500 4,500 2,093 4,109 4, 30 5,57 New Issue of MGII (Mat on 07/28) 5 Jan Q1 3/1/2023 4,500 5,000 2,500 15,000 2,250 3,395 3,580 3, 3,7 New Issue of MGII (Mat on 08/43) 7 Feb Q1 3/2/2023 4,500 5,000 5,000 2,500 2	1	Stock	Tonuro												
15-yr Reopening of MGS (MAt on 6/38) 5 Jan Q1 31/1/2023 4,500 3,000 2,500 10,000 2,825 4,110 4,					Quarter	Tender Date	Issuance Size	Auction Issuance	Private	Issuance		Low	Average	High	Cut-off
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4 7-yr Reopening of MGS (Mat on 04/30) 7 Feb Q1 3/2/2023 4.500 5.000 2.000 2.460 3.610 3.7 20.5-yr New Issue of MGI (Mat on 08/43) 20 Feb Q1 13/2/2023 4.500 2.500 2.500 2.500 2.500 2.662 4.257 4.6 3-yr Reopening of MGS (Mat on 07/26) 3 Feb Q1 12/2/2023 4.500 5.500 3.0.500 1.991 3.438 3.7 15-yr Reopening of MGS (MGS (Mat on 07/26) 10 Mar Q1 27/2/2023 4.500 4.500 4.500 1.986 4.160 4.7 15-yr Reopening of MGS (MGS (MGS (MGS (MGS (MGS (MGS (MGS	2	15-yr Reopening of MGS (Mat on 6/38)	15	Jan	Q1	13/1/2023	4,500	3,000	2,500	10,000	2.825	4.110	4.151	4.160	73.3%
20.5 yr New Issue of MGII (Mat on 08/43) 20 Feb Q1 13/2/2023 5.000 2.500 2.500 2.500 2.500 2.602 4.257 4.	3	5.5-yr New Issue of MGII (Mat on 07/28)	5	Jan	Q1	27/1/2023	5,000	5,000		15,000	3.395	3.580	3.599	3.610	80.8%
6 3-yr Reopening of MGS (Mat on 07/26) 3 Feb Q1 27/2/2023 4,500 5,500 30,500 1.691 3,438 3,7 15-yr Reopening of MGI 03/38 15 Feb Q1 27/2/2023 4,500 3,000 2,500 3,000 1.601 3,438 4,8 10-yr Reopening of MGI 03/30 7 Mar Q1 3/3/2023 4,500 4,500 40,500 1.670 4,035 4,9 7-yr Reopening of MGI 05/30 7 Mar Q1 30/3/2023 4,500 5,000 2,500 3,500 1.586 3,760 3,3 0 Mar Q1 30/3/2023 4,500 5,000 2,500 5,000 1.586 3,760 3,760 3,3 0 Mar Q1 30/3/2023 4,500 5,000 45,500 1.586 3,760 3,3 0 Mar Q1 30/3/2023 4,500 4,500 5,000 5,000 1.586 3,760 3,3 0 Mar Q1 30/3/2023 4,500 4,500 5,000 2,500 5,500 1.586 3,760 3,3 0 Mar Q1 30/3/2023 4,500 4,500 5,000 2,500 5,500 1.586 3,760 3,3 0 Mar Q1 30/3/2023 4,500 4,500 5,000 5,500 1.586 3,760 3,3 0 Mar Q1 30/3/2023 4,500 4,500 5,000 5,500 1.586 3,760 3,3 0 Mar Q1 4,500 4,500 4,500 5,000 5,500 1.586 3,760 3,3 0 Mar Q1 4,500	4	7-yr Reopening of MGS (Mat on 04/30)	7	Feb	Q1	3/2/2023	4,500	5,000		20,000	2.460	3.610	3.656	3.660	25.0%
T5-yr Reopening of MGII 03/38	5	20.5-yr New Issue of MGII (Mat on 08/43)	20	Feb	Q1	13/2/2023	5,000	2,500	2,500	25,000	2.662	4.257	4.291	4.308	87.5%
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10 30-yr New Issue of MGS 03/53 30 Mar Q1 30/3/2023 5.000 2,500 50,500 1.970 4.370 4. 10-yr Reopening of MGI (Mat on 10/32) 10 Apr Q2 7/4/2023 4,500 55,000 55,000 2.367 3.922 3. 13 30-yr Reopening of MGI (MS) (Mat on 04/28) 5 Apr Q2 4,500 14 7-yr Reopening of MGI (MS) (Mat on 04/30) 7 May Q2 4,500 15 20-yr Reopening of MGI (MS (Mat on 06/38) 15 May Q2 4,500 16 15-yr Reopening of MGI (MS) (MS (MS) (MS) (MS) (MS) (MS) (MS)	8	10-yr Reopening of MGS 07/32	10	Mar	Q1	3/3/2023	4,500	4,500		40,500	1.670	4.035	4.066	4.089	28.3%
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Gross MGS/Gil supply in 2023 172,000 45,000 10,000 55,000 PROJECTED TOTAL ISSUA	٠,							45,000	10.000	55,000	PROJE	CTED TOTA	L ISSUANCE	SIZE = 168	-172k

Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity tapers-off in February...

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds jumped higher by 22% m/m to RM95.9b in March compared to prior month's RM78.8b. The surge in activity was triggered by safe-haven bids and leads reflected by positive UST movements due to the recent bank failures. This outweighed earlier concerns over persistent inflationary pressures mentioned above earlier the re-emergence of inflationary pressures. On the local front, the absence of negative news especially on the political front in itself was testimony of good corporate governance being put in place along with the government's strong efforts to woo foreign investments seeing some success especially in China with RM170b. The lesser inversion in the US yield curve (which serves as a precursor of a potential recession) did not spur risk-on appetite in non-fixed income asset classes. The GOM's intentions in reducing its overall debt, including liabilities of ~RM1.44 trillion and statutory debt of RM1.08 trillion (60.4% of GDP) along with the reduction in the fiscal deficit from the expected 5.6% in 2022 to 5.0% of GDP in 2023 is expected to augur well in the months ahead.

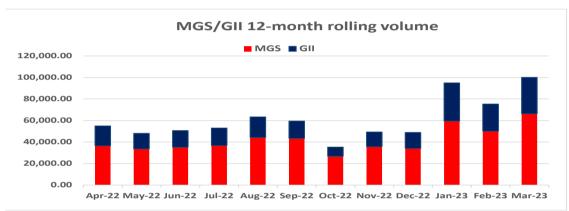
Nevertheless, worthy of mention note were the strong secondary market flows seen among both local institutions (that included pension funds, inter-bank participants, local GLIC's, Lifers and asset management companies), plus offshore



parties. The increase in foreign holdings was testament to the improvement in demand. Some notable movements during the month under review included the following:

- Both MGS/GII curves saw a parallel shift along the 7-15Y sectors whilst turning steeper between 3-6Y and 20-3-Y tenures.
- MYR IRS levels declined between 2-8bps for 2-10Y tenures save for 1Y which jumped 7bps.
- Bulk of the volume was seen in the short-ends such as off-the-run MGS/GII 23-24's (19.4%), benchmarks 3Y MGS/GII (13.6%), benchmarks 7Y MGS/GII (10.8%) and 10Y MGS/GII (11.5%); which together accounted for almost 55% of overall volume.

Expect lower bouts of volatility as the recent collapse of Silvergate Capital, Silicon Valley Bank and Signature Bank in the US has escalated the banking authorities worldwide to tighten parameter and step-up monitoring and surveillance. On the local front, we expect higher paying interest in IRS following BNM's perceived hawkish tilt emanating from hints for further policy normalization; following the release of BNM's annual Economic & Monetary Review.



Source: BPAM, Bloomberg, HLBB Global Markets Research

Corporate Bonds/Sukuk see surge in secondary market activity...

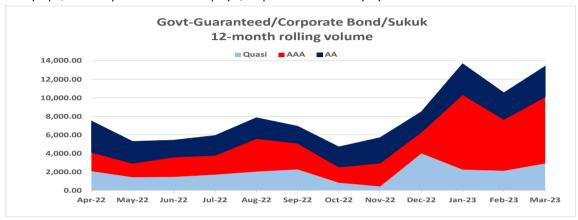
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) similarly took cue from higher momentum and activity in the govvies space and saw trading volume jump by 26.7% in the secondary market to RM12.8b in March (Feb: RM10.1b). The stronger appetite for yield-carry was triggered by solid sovereign bond performance due arising from "fight-to-safety" following the collapse of several banking institutions and softer economic data in the US. Even the sharp rise in primary issuances for the month saw strong take-up rates, resulting in over-subscription rates. Subsequently, there was a spill over into the secondary market was evident. The Govt-Guaranteed (GG)-segment saw the 2-5Y and 20Y tenures tightening prominently between 4-6bps to between 3.55-3.83% and 4.46% levels. The AAA-rated space similarly saw tenures between 3-20Y tenures richer between 1-7bps; with levels around 4.00-4.81%. The AA2-segment too saw yields settle lower between 6-9bps for 3-7Y tenures; resulting in yields closing within the ranges of 4.20-4.56% area. The sweet spot area is seen in the 3Y and 7Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits eased to RM11.9b in March (Feb: RM13.2b).

Total transactions for GG bonds in March climbed slightly to form 21.7% (Feb: 20.0%) of overall volume. AAA-rated papers similarly saw total trades inch higher to form ~53.7% of overall trades (Feb: 52.7%). The AA-space however saw its secondary market share fall from 27.3% in Feb to 24.6% of overall investor interest in March. The GG-space continued to be spread among names like DANAINFRA, JKSB, LPPSA, PASB, PRASARANA and PTPTN. Bonds that garnered top volume for the month were dominated by short-end DANUM 5/23 (AAA) which declined 10bps compared to previous-done levels to 3.35%. Next was CAGAMAS 10/25 (AAA) which rallied with yields ending 50bps lower at 3.85%, followed by another CAGAMAS tranche i.e.; 11/27 which rose 5bps instead to 4.05%.

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-27's, MAHB 26-27's and perps, Khazanah-related funding conduits i.e.; SPV's (i.e., DANGA 24-33's, DANUM 23-25's), utilities provider i.e. telco/water/power, DIGI 25-29's, AIR SELANGOR 27-42's, PASB 26-33's, TENAGA 32-41's, TNB Power 33-



47's), construction/property/plantation (i.e., MRCB 27-29's, KLK 25-34's, PKNS 24's,33's), energy and power (i.e. Pet Sarawak 29-33's, BGSM 23-27's, EDRA 24-29's, SPETCHEM 28-37's, Sarawak HIDRO 23-31's, Southern Power 24-31's, SEB 25-33's TBEI 28-29's), toll operators i.e. AMANAT Lebuhraya (ALRB) 25-34's, PLUS 25-38's, SUKE 27's), AMAN 23-27's, MERC 26-27's, TG Excellence perps, IMTIAZ 25-78's, TOYOTA 24-28's, Fortune Premier 24-25's, Point Zone 27-33's, PONSB 26-29's and BPMB 26-35's. There were also frequent odd-lot denominated trades in Affin Bank 2032 callable Islamic 27's, Alliance Bank 2030, 2035 callable, AmBank 2028, 2032 2033 callable, MCIS 31's, CIMB 2032, 2033 callable, SABAH Development Bank 23-27's and UOB 2032 callable bonds. Other odd-lot denominated trades were seen in DIALOG perps, DRB Hicom and perps, UEM Sunrise 23-26's, GENTING-related bonds 25-33's, IJM perps, UMW perps, Eco world capital 26's, Eco world international 23's, CRE perps, YNH Properties 25-27's and perps, Tropicana 23-28's and perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in March driven by the following:

Notable issuances in Mar-23	Rating	Amount Issued (RM mil)
Cagamas Berhad	AAA	1,715
Eternal Icon Sdn Berhad	AAA	15
Mercedes-Benz Services Malaysia Sdn Berhad	AAA	350
YTL Power International Berhad	AA1	1,715
CIMB Group Holdings Berhad	AA3	400
Perbadanan Kemajuan Negeri Selangor	AA3	145
BGRB Venture Sdn Berhad	NR	10
Cenviro Sdn Berhad	NR	22
Econas Resource to Energy Sdn Berhad	NR	96
Glenealy Plantations Sdn Berhad	NR	50
Hap Seng Management Sdn Berhad	NR	500
Impiana Hotels Berhad (fka Bio Osmo Berhad)	NR	3
MDSA Resources Sdn Berhad (fka Fuyuu Resources Sdn Bhd)	NR	12
Pavilion REIT Bond Capital Berhad	NR	100
Point Zone (M) Sdn Berhad	NR	555
Potensi Angkasa Sdn Berhad	NR	15
Perak Transit Berhad	NR	250
Sunway South Quay Sdn Berhad	NR	29
Sunway Treasury Sukuk Sdn Berhad	NR	200
Tumpuan Azam Sdn Berhad	NR	9
TNB Power Generation Sdn Berhad	NR	2,000
Tanjung Pinang Development Sdn Berhad	NR	44
UEM Sunrise Berhad	NR	165
West Coast Expressway Sdn Berhad	NR	5
WCT Holdings Berhad	NR	100
		8,505

Source: BPAM, Bloomberg, HLBB Global Markets Research



Fresh Corporate Bonds/Sukuk issuances spike from RM5.5b in February to RM8.5b in March. Some of the prominent issuances consisted of CAGAMAS Bhd's AAA-rated, 1-5Y bonds totaling RM1.715b with coupon rates between 3.77-4.05% and TNB Power Generation Sdn Bhd's AAA-rated 7-20Y bonds amounting to RM2.0b with coupons ranging between 4.30-4.84%.

Outlook for April 2023

Expect USTs to find support as the Fed approaches peak terminal rates...

The Federal Reserve will have its next **FOMC** meeting on 3rd of May for which we continue to see an even chance of a 25bps rate hike. However, the lower March CPI at 5.0% y/y and 0.1% m/m, compared to previous month's 6.0% y/y and 0.4% m/m, may spare the Fed from embarking on aggressive rate hike/s despite the higher energy prices resulted from the OPEC-led production cuts last month. Although the jobs market remained strong, it is beginning to flag slowing economic activity and tightening credit. The Treasury implied volatility, denoted by the ICE BofA MOVE index which was at a high only recently in mid-March has fallen back to levels seen before the bank rout in the US. Although the NFP payrolls remains strong, potential slowing of wage growth going forward will allow for a less-aggressive stance in interest rates hikes by the Fed. Although rates volatility has eased following the reduction in US banking stress, existing movements still underline some uncertainty going forward. Interest rate volatility is seen continuing its retreat from elevated levels seen last week as extreme flight to safety flows reverse. Elsewhere, China's foreign holdings dropped by \$7.7b for the 6th straight month to \$859.4b whilst Japan saw its holdings increase by ~\$28b to \$1.1 trillion. Nevertheless, total foreign holdings of USTs rose ~\$84b to \$7.4 trillion.

Current swap pricing reveal traders anticipating an 77% chance of a 25bps in arriving at an implied rate of up to 19bps in the upcoming FOMC meeting on 3rd May 2023; whilst peak terminal rates are bumped-up higher to 5.02% We opine that the yield curve could bull-steepen slightly instead as yields reach sharper to recessionary concerns rather than to inflationary pressures which are expected to ease further.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) reversed into a decent gain of 2.8% in March 2023 (Feb: -3.2%); despite the widening in OAS spreads to 138bps from 123bps in March which also remains the same at the time of writing. We expect issuance to be lower in the region of \$110b in April (Mar: \$105b, some \$28b below median since 2008) whilst maturities are lower at circa \$60b with the bulk of it from the financial sector followed by consumer cyclicals. Meanwhile, the Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) recovered to post a small 1.1% gain in March whilst spreads widened substantially from 411bps to 452bps. However, at the time of writing spreads have climbed slightly to ~458bps. Overall, US bond funds which saw ~ -\$500m (prior month: +\$3.6b) in IG but higher outflows of 11.5b in HY is expected to stabilize with inflows in April.

The UST 10Y is expected to range lower between 3.20-3.40%, with support at key 3.40% levels for this month. We are still averse to HY credits but foresee decent yield pick-up for IG; depending whether the potential impact of the recent collapse of several banks in the US may cause tightening of financial conditions Our preferred IG bond issuances are within the extended duration of 7-10Y tenures in utilities, communication and capital goods.



Expect lower volatility on higher trade volumes as flight-to-safety mode gathers momentum amid the current US banking sector stress in the US...

The three (3) auctions in March 2023 saw average BTC ratios plunge further to ~ 1.70x (Feb: 1.99x); way below the 2.0x handle. The highest BTC of 1.97x among the three (3) auctions was notched by the new issuance of 30-year MGS 3/53. The subsequent auction at the time of writing consisted of the reopening of RM4.5b of 10Y GII 10/32 on 7th of April which saw a pleasant jump in participation by institutional investors. April 2023 is expected to see lower net issuances (projected gross issuances > maturities); of RM3.2b compared to net maturities of RM6.6b seen earlier in March; with funding rollover opportunities still available to boost bond liquidity. We also expect primary and secondary market to be well-supported by the well-diversified profile and depth of local investment institutions whilst inter-bank participants continued to maintain relatively active portfolios.

On the macro front, IMF has recently revised slightly downwards the global economy from 2.9% earlier to 2.8% in 2023. The Malaysian economy however is expected to normalize to grow at a more sustainable pace in 2023 (BNM forecast between 4.0-5.0%; MOF @ 4.5%; HLBB @ 4.9%), after expanding strongly by 8.7% last year. Domestic demand will remain the key growth driver as the external environment softens. Implementation of projects from the re-tabled Budget 2023 is expected to provide upside risks to domestic growth outlook. On the inflation front, risk remains tilted slightly to the upside amid lingering demand and cost factors with MOF and BNM's inflation range expectations between 2.8-3.8% versus our house view of 2.8%. This was due to a perceived hawkish tilt emanating from hints for further policy normalization; following the release of BNM's annual Economic & Monetary Review coupled with Financial & Stability Review. With the likelihood policy normalization measures in the midst of fairly balanced growth risks, we see the room for another measured 25bps increase in the OPR to 3.00% going forward, as early as May.

We opine that the Sukuk/Corporate Bond space will continue to see demand on yield pick-up as credit conditions remain steadfast for now. The 7-15Y MGS/GII sectors reflect decent relative values along the curve. We expect the 10Y to range slightly between 3.75-3.95% as per our previous month's projection with support pegged at 3.95% levels. In the corporate bonds/Sukuk space, We favor the 3-7Y GG (24-26 bps), 2-5Y AAA (57-70bps) and 20Y AAA (60bps) and 3-10Y AA2-rated bonds (~85bps) in sectors comprising utilities (i.e.; telco, electricity, sewerage), logistics (ports) and highway/toll.



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