# Monthly Fixed Income Perspective –

## January 23 review & February 23 outlook

### US Bond Market

- **In January**, US Treasuries weakened considerably as the stunning January nonfarm job data caught markets by surprise. Hawkish FedSpeak continued to overwhelm (despite policy-makers eventually raising rates by a mere 25bps to between 4.50-4.75% in its recent FOMC meeting on 2nd February. The curve steepened slightly as overall benchmark yields spiked between 23-40bps higher, led mainly by the longer-ends. **The 2Y UST yield jumped 23bps higher to 4.20% whilst the 10Y spiked 36bps to 3.51%.** However, at the time of writing, these have spiked sharply to ~4.552% and 3.70% respectively whilst the 2s10part of the yield remains deeply inverted at ~70bps.

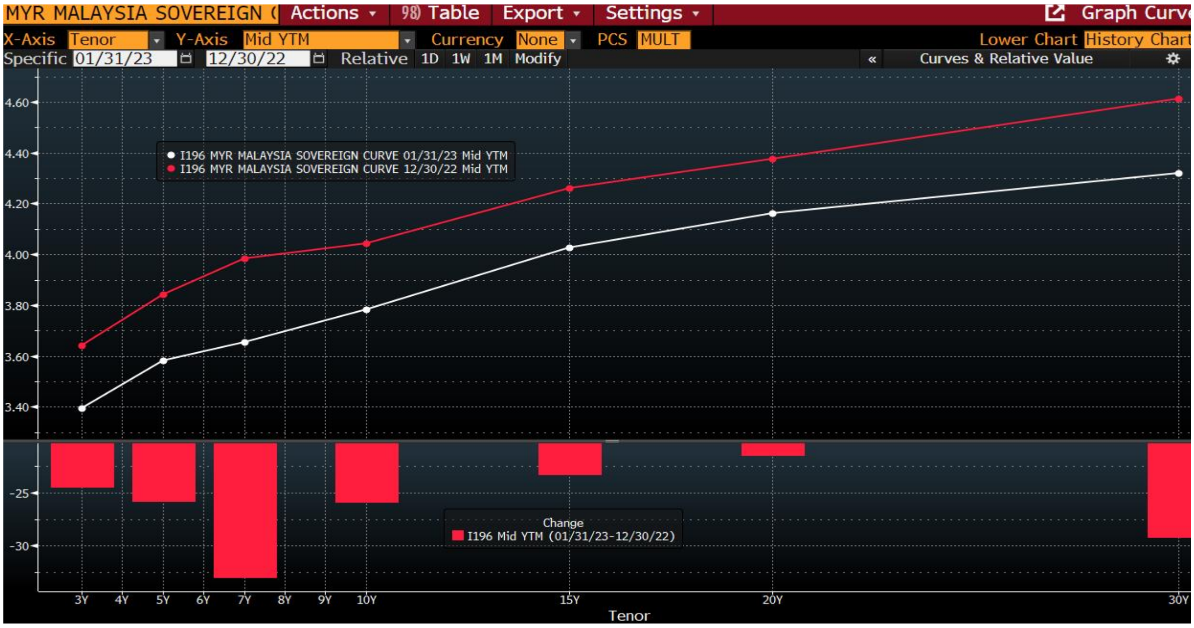
- **For February**, expect USTs to move range-bound with some slight downward-bias as January's stunning U.S. jobs report and elevated inflation seen in both core and headline CPI for January may see inflationary conditions linger longer. Another important barometer i.e.; a key gauge of investors' inflation expectations, the 5Y breakeven inflation rate on 5Y TIPS, has crept up by ~17bps to the 2.49% threshold, but is off a high reading of 2.70% seen in October last year. **The UST 10Y is expected to range higher i.e.; between 3.65-3.85%; with forecast finding support at key 3.85% levels for this month.** We maintain a slightly positive bias for nominal Municipalities in view of decent spreads and demand coupled with limited maturities as concerns over persistently stubborn inflation ease. We favor IG credits with strong balance sheets fortified by refinancing debts at lower rates; especially in Financials and Communications which have decent adjusted spreads. We see better value in duration of between 5-10Y tenures under current interest rate environment.

### MYR Bond Market

- **In January**, MYR government bonds rallied; with positive correlation seen with UST movements. The curve shifted sharply lower as overall benchmark yields declined between 21-49bps across. **The benchmark 5Y MGS 11/27 yield fell 31bps to 3.53%, whilst the 10Y MGS 7/32 yield ended 28bps lower at 3.79%. Total MYR Government bonds (MGS+GII+SPK) holdings saw sustained m/m net inflows of RM2.7b to RM228.9b (representing 22.1% of total outstanding);** The primary factors which drove bond movements were a culmination of factors; ranging from lower readings of US inflation readings believed to allow the Fed to lift its pedal off earlier aggressive rate-hiking exercises, strengthening of MYR as well as the belief that the Malaysian government will present a prudent fiscal management in the upcoming re-tabling of National Budget 2023, hence potentially a lower projected fiscal deficit of 5.5% of GDP for 2023. Meanwhile, the three (3) auctions in January 2023 saw average BTC ratios sustained high at ~ 2.79x (Dec: 2.88x); just below the 3.0x handle

- **For February,** expect continued institutional interest and decent volumes as confidence builds up to the re-tabling of the National Budget 2023. Given that the recently-elected government will revisit the earlier expansionary budget on the 24th of February, we opine that there could be some adjustments to both DE and OPEX on the fiscal side, to stem the rise in government and/or statutory debt & ensure lower fiscal deficit of 5.5% of GDP (2022E: 5.8%) is achieved for this year. **We opine that the Sukuk/Corporate Bond space will continue to see strong demand as yield pick-up is prioritized under present steady credit climate.** The 3-4, 7-10Y MGS sectors and 7Y, 15Y GII sectors currently reflect relative value from a term-premium perspective **We expect the 10Y MGS yield to maintain its lower trading range between 3.70-3.90% with support pegged at 3.90% levels**. In the corporate bonds/Sukuk space, we favor the 5Y,7Y GG (17-19 bps), 20Y AAA (59bps) and 5Y AA2-rated bonds (77bps), within sectors comprising utilities i.e.; energy, power, telco, sewerage tolling sectors.

## MYR sovereign curve (MGS)




*Source: Bloomberg*

## *US January job reports were stunning with sustained hourly wage growth*

January Non-Farm Payrolls ("NFP") beat consensus estimates of 188k by notching a massive monthly gain of 517k. This followed previous two month's upward add-ons of 71k. Notable job gains were broad-based, as factories, retailers and restaurants added jobs. Even construction industry increased employment despite the slump in housing. Meanwhile, the unemployment rate fell to a 53-year low at 3.4% (Dec: 3.5%); reflecting a healthy labor market despite earlier back-to-back quarterly GDP contraction. The participation rate, continued to improve a tad higher to 62.4% from prior month's 62.3%. Average m/m hourly earnings, a gauge of wage inflation and a key metric tracked by the Fed stayed pat at 0.3% in January with the y/y increase in wages slowing further to 4.4% (Dec: +4.6%). January's job report paints a picture of an incredibly robust labor market that might keep inflation persistently high, especially in the services sector, which saw the most gains last month which saw the ISM services index climb out of contractionary territory to 55.2 in January versus a median estimate of 50.5.

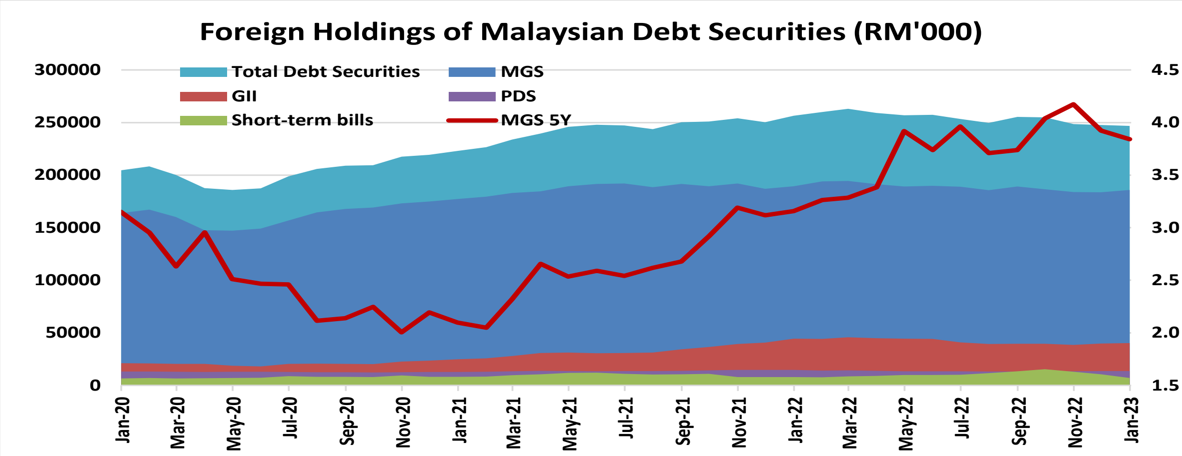
Moving on to other economic data, the improvement in S&P Global Manufacturing PMI for January at 46.9 (Dec:46.8) but weaker ISM manufacturing (47.4 vs 48.4), may be seen mixed and adds to the uncertainty due to supply chain logistics and subsequent inflationary pressures. Both indicators which stay below the 50-threshold levels, may flag downside risks ahead in the US. Separately, the Fed's preferred inflation measure i.e., core PCE in December saw slight increase to 0.3% m/m from prior month's +0.2%, but y/y data slipped to +4.4% y/y (Nov: +4.7% y/y). Although there are signs receding inflation will serve as a catalyst to propel UST and corporate bond yields lower, we take cognizance of the awesome strength seen in jobs data that may prompt an aggressive hawkish Fed stance going forward.

To recap, the Fed lifted the Fed Fund Rates for the 8th time at its recent FOMC meeting by 25bps on 2nd February (for the record there were seven earlier hikes i.e.; consisting of 25bps rate hike on 17th March in 2022, 50bps hike on 5th May, 75bps on 16th June, 75bps on 28th July, 75bps on 22nd September, 75bps on 4th November and another 50bps hike on 15th Dec). The Fed's dot plot pins median rates and OIS-implied Fed Funds rate at an average ~5.125% for 2023; rising through 4.375% seen in 2022. Additional data from the Fed Fund Futures now reflect traders' expectations of fully pricing-in 49% odds of a 50bps rate hike instead in the next FOMC meeting on 22nd of March with peak terminal rates of 5.11% in June. CME Fed Watch Tool meanwhile, targets a mere 3% probability of a 50bps rate hike post January CPI release. Elsewhere, we note that the Fed's ~$8.551 trillion balance sheet as at 28th December has eased further to $8.483 trillion as at 1st February with the ongoing monthly run-off of ~$95b (USTs: $60b; MBS: $35b) being absorbed by market.

## *Slightly higher overall foreign holdings of MYR bonds in January augurs well…*

Foreign holdings of overall MYR bonds rose slightly higher by RM498m or 0.2% in January to RM247.3b mainly due to the increase in both MGS and GII. Non-resident holdings of MGS rose by a respectable RM1.3b (prior month: -RM2.2b) or 1.2% to RM187.3b, whilst forming lower i.e., 34.5% of total outstanding. GII also saw a jump of RM1.4b m/m to RM41.6b. Easing inflationary pressures especially in US coupled with investor confidence in the GOM's ability to ensure prudent monetary and fiscal policies were catalysts for bonds investments. The attractive relative values for MGS/GII following earlier weakness were also an added factor. **Total MYR Government bonds (MGS+GII+SPK) holdings saw sustained m/m net inflows of RM2.7b to RM228.9b (representing 22.1% of total outstanding);** despite higher net issuances of RM15.0b for the month (Dec: RM8.5b). Meantime, **12-month cumulative rolling outflows ended higher at RM9.33b (prior month: -RM7.78b).** There was improved foreign participation in both secondary market and auction exercises amid the increase in MGS and GII foreign holdings whilst EM bond yields eased against the backdrop of stronger ASIA FX levels. Also, the availability of well-diversified base and appetite of local investment Institutions namely GLIC's, pension funds, insurance companies and asset management companies in the Fixed Income space added credence to the Fixed Income space.

Separately, equity saw smaller outflows in January @ RM348m (Dec 2022: -RM1.4b) whilst the 12-month rolling inflows fell from RM4.32b to RM3.64b. On the currency side, the MYR rallied further against USD to 4.2740 as at end-January (end-Dec: 4.4040) but currently trading higher at 4.3720 levels at the time of writing.




*Source: BNM, HLBB Global Markets Research*

## *BNM maintained the OPR at 2.75%; catching markets by surprise…*

BNM stayed pat and maintained the OPR at 2.75% at the MPC meeting on 19th January; its first pause after four (4) consecutive hikes totaling 100bps since May-2022. Taking cue from the re-emergence of hawkish Fed statement signaling intention for further policy normalization, coming from the perspective of stunning US jobs data in January, we believe BNM stands ready to raise the OPR to pre-pandemic level of 3.00-3.25%, barring any abrupt changes in circumstances (such as bigger than expected slowdown in the Malaysian economy). **Hence, we expect a further OPR hike at a measured pace of 25bps, bringing the OPR to 3.00% by 1Q2023.**

## *Strong follow-through interest for new coupon offerings in January despite absence of rollover from maturities…*

The three (3) auctions in January 2022 saw average BTC ratios sustained at ~ 2.79x (Dec: 2.88x); just below the 3.0x handle. The highest BTC of 3.395x among the three (3) auctions was notched by the new issuance of 5-year GII 7/28 which saw strong participation from GLC's, insurance companies, pension funds and asset management companies, resulting in a short tail of a mere 1.1bps. The other auctions consisted of the re-opening of 10Y GII10/32 and 15-year reopening of MGS 6/38. Together, all three (3) auctions in January saw slightly higher individual sum of bids amounting to between RM9.4-17.0b. Demand for auctions were surprisingly strong despite the absence of maturities in January to provide the benefit of rollovers into the Malaysia government bond space; when compared to actual sizeable issuances of RM15.0b (Dec: RM8.5b). Our YTD projection of gross issuances of ~RM172.0b for 2023 remains for now and almost like previous year's actual issuances of RM171.5b in 2022. Despite the re-tabling of the National Budget 2023 on 24th February, we do not foresee substantial changes to our gross issuances projection of RM172b this year due to continuous expansionary fiscal stance.

**MGS/GII issuance pipeline in 2023**

| 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 | 10-yr reopening of MGII (Mat on 10/32) | 10 | Jan | Q1 | 6/1/2022 | 4,500 | 4,500 | | 4,500 | 2.093 | 4.109 | 4.135 | 4.147 | 58.3% |
| 2 | 15-yr Reopening of MGS (Mat on 6/38) | 15 | Jan | Q1 | 13/1/2022 | 4,500 | 3,000 | 2,500 | 10,000 | 2.825 | 4.110 | 4.151 | 4.160 | 73.3% |
| 3 | 5.5-yr New Issue of MGII (Mat on 07/28) | 5 | Jan | Q1 | 27/1/2022 | 5,000 | 5,000 | | 15,000 | 3.395 | 3.580 | 3.599 | 3.610 | 80.8% |
| 4 | 7-yr Reopening of MGS (Mat on 04/30) | 7 | Feb | Q1 | 3/2/2022 | 4,500 | 5,000 | | 20,000 | 2.460 | 3.610 | 3.656 | 3.660 | 25.0% |
| 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 | | | | | | | | |
| 22 | 10-yr Reopening of MGII (Mat on 08/33) | 10 | Oct | Q4 | | 4,500 | | | | | | | | |
| 22 | 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 2023 | | | | | 172,000 | 17,500 | 2,500 | 20,000 | PROJECTED TOTAL ISSUANCE SIZE = 172,000,000 | | | | |

*Source: BNM, HLBB Global Markets Research*

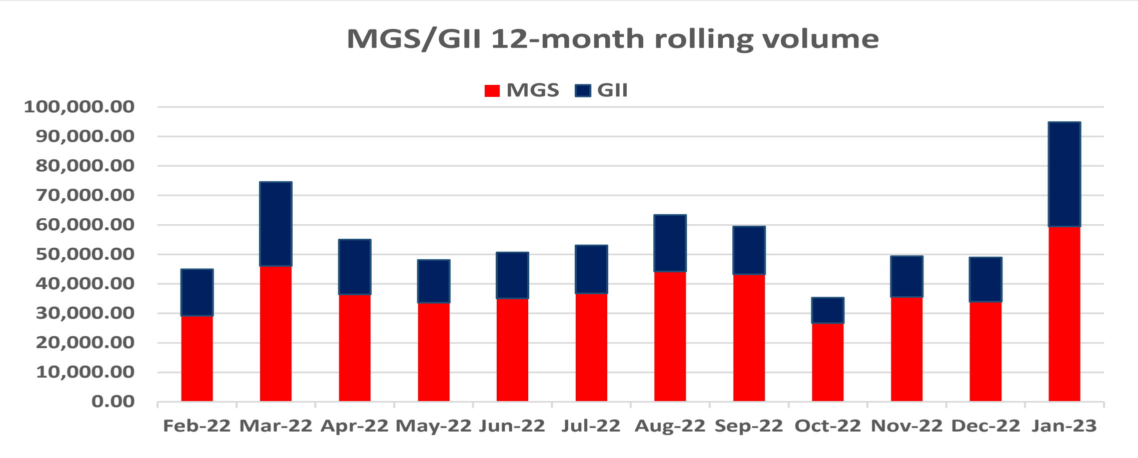
## *MGS/GII secondary market activity rebounds strongly in January…*

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds more than doubled m/m to RM95.0b in January compared to prior month's RM46.1b. The strong activity was triggered by the belief that inflationary pressures were easing especially in the US that resulted in the recent rate hike of 25bps in the last FOMC meeting. Easing inflationary pressures and some weaker economic data (despite the continued mixed views from FedSpeak events) were positive for bonds. The potential threat of and concerns over a potential US economic slowdown as reflected by the deep inversion in the US yield curve rubbed-off in the local market and saw bonds better-bid. On the local front, investors continued to digest comments by the Prime Minister cum Finance Minister on the GOM's intentions in improving its overall debt (including liabilities of ~RM1.5 trillion, statutory debt of RM1.2 trillion) and also reducing the fiscal deficit from the expected 5.8% in 2022 to 5.5% of GDP in 2023. This is expected to prevent further build-up in debt via additional govvies issuances.

Strong secondary market activities were seen among both local institutions (that included pension funds, inter-bank participants, local GLIC's, Lifers) and offshore parties. The increase in foreign-buying was testament to that. Meanwhile, some notable movements during the month under review were as follows:

- The MGS curve shifted lower in almost parallel fashion save for the larger move seen in the 7Y. The GII curve however saw largest positive movements in the 3Y and 15Y sectors which saw yields plunging the most.
- MYR IRS levels declined sharply between 25-36bps for 1-10Y tenures.
- Bulk of the volume was seen in the short-ends such as off-the-run MGS/GII 23's (13.9%), benchmarks 3Y MGS/GII (11.7%) and 10Y MGS/GII (15.5%); which together accounted for almost 41% of overall volume.

Expect lesser bouts of volatility as bonds are believed to be supported by its safe-haven asset class and projected peaking of interest rates which would encourage strong participation. We also expect greater receiving interest in IRS causing yield movements to drift lower.



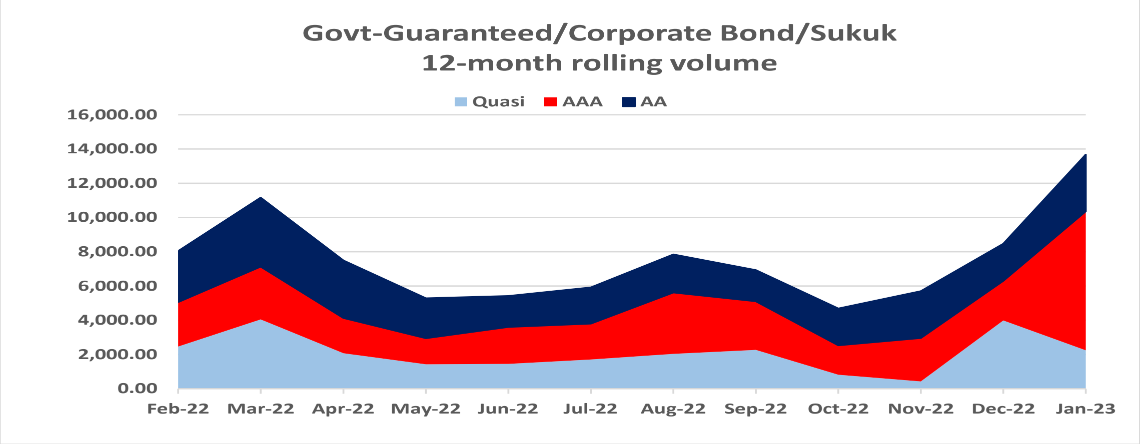

*Source: BPAM, Bloomberg, HLBB Global Markets Research*

## *Corporate Bonds/Sukuk see further spike in secondary market activity…*

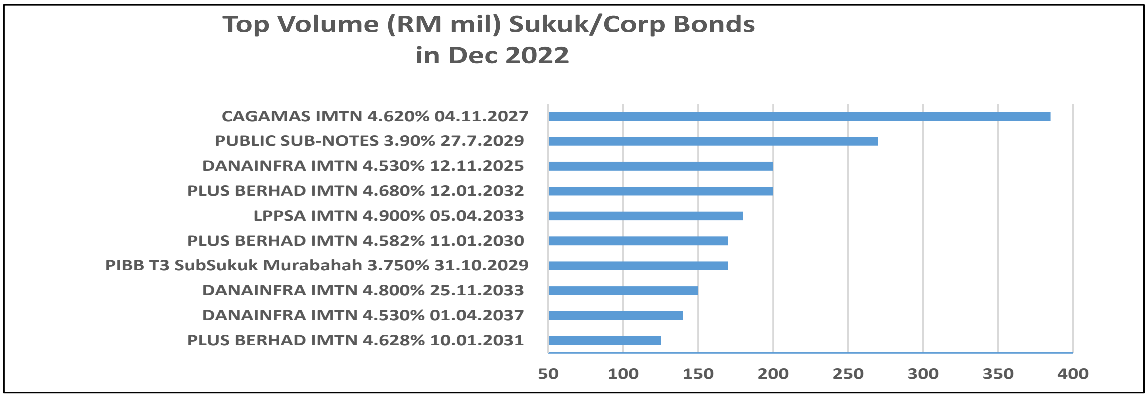
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) took cue from upbeat momentum and activity in the govvies space and saw trading volume jump by a whopping 40% in the secondary market to RM12.2b in January (Dec: RM8.7b). The strong appetite for yield-carry was triggered by positive sovereign bond movements as the interest rate environment both in the US and in Malaysia was seen to be peaking soon. The sharp drop in primary issuances for the month saw strong take-up rates and were fully subscribed. The Govt-Guaranteed (GG)-segment saw the 3-15Y tenures tightening the most between 28-34bps to between 3.62-4.48%. The AAA-rated space similarly saw tenures between 3-20Y richer between 20-36bps; with levels around 3.96-4.82%. The AA2-segment too saw yields settle lower between 17-31bps for 3-20Y tenures; resulting in yields closing within the ranges of 4.24-5.26% area. The sweet spot area is seen in the 3-5Y and 15-20Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits maintained at RM13.6b offsetting maturities seen in January.

Total transactions for GG bonds in January fell sharply again to form a mere 16.4% (Dec: 47.0%) of overall volume. AAA-rated papers however saw total trades spike to form ~59.3% of overall trades (Dec: 27.2%). The AA-space saw its secondary market share somewhat steady at 24.3% share of overall investor interest The GG-space continued to be spread among names like DANAINFRA, LPPSA and PRASARANA. **Bonds that garnered top volume for the month were long-ends CAGAMAS 11/27 (AAA) which rallied with yields pulling back 50bps lower compared to previous-done levels to 4.01%, followed by PUBLIC Bank 29NC24 (AA1) which declined 8bps to 4.08%, and DANA 11/25 (GG) tranche which fell 11bps to 3.81%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-33's, conglomerates (e.g.; UMW 25-26's, perps, GENM Capital 28's and other Genting-related 29-34's bonds), AMAN 23-27's, Khazanah-related funding conduits i.e.; SPV's (i.e., DANGA 26-28's, DANUM 23-27's), utilities provider i.e. telco/water/power, PASB 26-36's, TELEKOM 23-27's, TENAGA 32-42's, TNB WE 24-33's), construction/property/plantation (i.e., KLK 29-37's, LCSB 23's, MRCB 23-31's, PKNS 23's, WCT 23's, UEM Sunrise 23-26's), energy and power (i.e. Sarawak Petchem 28-37's, BGSM 23-27's, JEP 25-31's, QSPS Green 23-31's, TBEI 25-32's, UITM Solar 27-35's, YTL Power 23 and 28's, SEB 24-35's), toll operators i.e. AMANAT Lebuhraya (ALRB) 29-35's, PLUS 24-38's), PTP 25-30's, eDotco 29-32's, Fortune Premier 23-25's, IMTIAZ 25-29's, MYEG 27's, Infracap 26-36's, PONSB 26-29's, KAJV 23-25's. There were also frequent odd-lot denominated trades in AIBB 27's, AmBank 2031, 2032 callable, MAYBANK 2031, 2032 callable and perps, MCIS 2031 callable, PUBLIC Islamic 27's and 2029 callable, CIMB 2032 callable, SABAH Development Bank 23-26's and UOB 2030, 2032 callable bonds. Other odd-lot denominated trades were seen in DRB Hicom 24's, 29's, perps, MMC 23-32's, YNH Properties and its perps, Eco World International 23's, Tropicana 23-27's and its perps.




*Source: BPAM, Bloomberg, HLBB Global Markets Research*




*Source: BPAM, Bloomberg, HLBB Global Markets Research*

## *Primary issuance prints in January driven by the following:*

| Notable issuances in Jan-23 | Rating | Amount Issued (RM mil) |
|---|---|---|
| Prasarana Malaysia Berhad | GG | 1,500 |
| Cagamas Berhad | AAA | 550 |
| Projek Lebuhraya Usahasama Berhad | AAA | 600 |
| RHB Bank Berhad | AA2 | 500 |
| Guan Chong Berhad | AA3 | 300 |
| MY E.G. Services Berhad | AA3 | 100 |
| UEM Sunrise Berhad | AA3 | 255 |
| BGMC BRAS Power Sdn Berhad | NR | 50 |
| BGRB Venture Sdn Berhad | NR | 30 |
| Impiana Hotels Berhad (fka Bio Osmo Berhad) | NR | 1 |
| Idiwan Solar Sdn Berhad | NR | 50 |
| Magnum Corporation Sdn Berhad | NR | 125 |
| Malayan Cement Berhad (fka Lafarge Malaysia Berhad) | NR | 85 |
| Maxis Broadband Sdn Berhad | NR | 500 |
| Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad) | NR | 13 |
| Tumpuan Azam Sdn Berhad | NR | 16 |
| TTDI KL Metropolis Sdn Berhad | NR | 80 |
| Toyota Capital Malaysia Sdn Berhad | NR | 150 |
| Tanjung Pinang Development Sdn Berhad | NR | 21 |
| West Coast Expressway Sdn Berhad | NR | 14 |
| XL Holdings Berhad (fka Xian Leng Holdings Berhad) | NR | 4 |
| | | 4,943 |

*Source: BPAM, Bloomberg, HLBB Global Markets Research*

Fresh Corporate Bonds/Sukuk issuances plunged sharply from a whopping RM38.2b in December to a mere RM4.9b in January; the lowest since February 2022. Some of the prominent issuances consisted of PRASARANA Bhd's govt-guaranteed, 13-25Y bonds totaling RM1.5b with coupons ranging between 4.28-4.61% and RHB Bank Bhd's AA2-rated 10NC5 bonds amounting to RM500m, with a coupon of 4.51%.

## *Outlook for February 2023*

### *Expect USTs to find light support as peak terminal rates are revised slightly higher…*

The Federal Reserve will have its next FOMC meeting on **23th of March for which we see an even chance of a 25bps rate hike**. January's CPI at 6.4% (y/y) and 0.5% (m/m) compared to previous month's 6.5% (y/y) and 0.1%, will be monitored for further clues as to the inflationary pressures and conditions which may eventually moderate as energy prices remain range-bound and supply chain improves both in the US and globally may surprise on the upside. The Treasury implied volatility, denoted by the ICE BofA MOVE index is still at 5-month lows since October although it has started creeping higher in February. The job data (NFP payrolls) remains unusually solid but on the flipside; potential slowing of wage growth going forward may allow for a less-aggressive stance in interest rates hikes by the Fed.

The slight easing levels seen in December core PCE for m/m, y/y may have lent credence to the case for a slower pace and magnitude of rate hikes but the just-released inflation data for January as mentioned above may cause the Fed to mull its options instead in the upcoming FOMC meetings in March whilst the unemployment index has yet to register much of an adverse reaction to Fed tightening. Current swap pricing reveal traders anticipating an even chance of either a 25bps or 50bps rate hike (53% of a 50bps rate hike) in arriving at an implied rate of ~4.85% in the upcoming FOMC meeting on 23rd March 2023; whilst peak terminal rates are bumped-up slightly to 5.25% in June. **We opine that the yield curve could flatten slightly instead (from prior month's steepening move) and end slightly higher as the strong jobs data and elevated inflationary conditions overwhelm recessionary fears for now.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) reversed into a solid gain of 4.0% in January 2023 (Dec: -0.4 %); despite the slight narrowing of spreads in OAS spreads at 117bps from 130bps in December. We expect issuance to be lower in the region of $80b in February (Jan: $140b) whilst maturities are highest in 2023, circa $50b with the bulk of it from the financial sector. Meanwhile, the Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also went into positive territory i.e.; with a 3.8% gain in January whilst spreads tightened from 468bps to 421bps (at the time of writing spreads have narrowed further to ~390bps). Overall, US ETF bond funds have seen the return of ~$7b of inflows in January.

**The UST 10Y is expected to range higher i.e.; between 3.65-3.85%; with forecast finding support at key 3.85% levels for this month.** We maintain a slightly positive bias for nominal Municipalities (Munis) in view of decent spreads and demand coupled with limited maturities as concerns over persistently stubborn inflation eventually ease. We favor IG credits with strong balance sheets fortified by refinancing debts at lower rates; especially in Financials and Communications which have decent adjusted spreads. We see better value in duration of between 5-10Y tenures under current interest rate environment.

### *Expect lesser volatility on decent volumes with all eyes on the re-tabling of National Budget 2023 on 24th February…*

The three (3) auctions in January 2022 saw average BTC ratios sustained at ~ 2.79x (Dec: 2.88x); just below the 3.0x handle. The subsequent auctions for the year consisting of the reopening of RM5.0b of 7Y MGS 4/30 on 7th of and 13th of February and the new issuance of 20Y GII 8/43 saw strong participation mainly by wide base on institutional investors. On the local front, February 2023 is expected to see sustained net issuances **(projected gross issuances > maturities)**; **of RM14.5b compared to RM15.0b in January; with possibility of slight impact on bond liquidity**. Nevertheless, expect primary and secondary market support to be forthcoming; judging by the well-diversified profile and depth of local investment institutions whilst inter-bank participants continued to maintain relatively active portfolios. The positive vibes from the upcoming re-tabling of the National Budget 2023 with regards to the prudent management of fiscal finances should augur well with bonds.

We also expect the hunt for alpha and yield-carry to keep investors on their toes and play an active role in bond portfolio management. On the macro front, following the recent release of 4Q2022 and full year GDP growth of 7.0% and 8.7% y/y, we now expect full year 2023 GDP growth to normalize to 4.9%. Overall, the balance of risk remains tilted to the downside, arising primarily from the external environment, namely weaker than expected global growth, further escalation in geopolitical tension, re-emergence of supply chain disruption, more persistent inflation, tighter monetary policy, and uncertainty in the global financial markets. This could limit the room for further monetary policy tightening by BNM back to the pre-pandemic level of 3.25%. Hence, we are expecting just one more 25bps hike in the OPR to 3.00% in 1H2023.

We continue to believe that the Sukuk/Corporate Bond space will see demand as yield pick-up remains on the agenda of portfolio managers whilst credit conditions remain steady under the present economic climate. **We expect the 10Y MGS yield to maintain its lower trading range between 3.70-3.90% with support pegged at 3.90% levels**. The 3-4, 7-10Y MGS sectors and 7Y, 15Y GII sectors currently reflect relative value from a term-premium perspective. In the corporate bonds/Sukuk space, we favor the 5Y,7Y GG (17-19 bps), 20Y AAA (59bps) and 5Y AA2-rated bonds (77bps), within sectors comprising utilities i.e.; energy, power, telco, sewerage tolling sectors.

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