Monthly Fixed Income Perspective –

February 23 review & March 23 outlook

US Bond Market

- **In February**, US Treasuries ended weaker in February as the stronger-than-expected set of economic data seen in NFP, inflation, jobless claims, and PPI spooked markets. Hawkish FedSpeak also continued to overwhelm. The curve shifted sharply higher as overall benchmark yields spiked between 36-62bps higher, led mainly by the front-ends **The 2Y UST yield jumped 62bps higher to 4.82% whilst the 10Y spiked 36bps to 3.51%.** However, at the time of writing, these have plunged to ~4.02% and 3.46% respectively whilst the 2s10part of the curve has unwound its earlier deeply inverted territory exceeding 100bps to about 58bps.

- **For March**, expect the recent turnaround in sentiment to prevail with flight-to-safety USTs being much sought after following the recent collapse of several banking institutions such as Silvergate Capital, Silicon Valley Bank (SVB) and Signature Bank. Expect USTs to march higher amid February's somewhat mixed U.S. jobs report and despite lingering expectations of elevated inflation seen in both core and headline CPI for February. Another important barometer of investors' inflation expectations, the 5Y breakeven inflation rate on 5Y TIPS, has eased by ~25bps to the 2.34% threshold presently, from Feb-month end levels of 2.59%, **The UST 10Y is expected to range lower between 3.40-3.60%, with support at key 3.60% levels for this month.** We currently are risk averse to both IG and HY credits; pending further clarity and unfolding of the collapse of several banks in the US.

MYR Bond Market

- **In February**, MYR government bonds ended weaker; with correlation seen alongside UST movements. The curve shifted higher as overall benchmark yields jumped 0-13bps higher across with MGS bearing the brunt of selling. **Both the benchmark 5Y MGS 11/27 and 10Y MGS 7/32 yields rose 11bps each to 3.65% and 4.03% respectively. Total MYR Government bonds (MGS+GII+SPK) holdings saw impressive net m/m inflows of RM5.0b to RM233.9b (representing 22.4% of total outstanding).** The primary factors which drove bond movements were the re-emergence of hawkish rhetoric by Fed officials and the re-tabling of National Budget 2023 which saw a further increase of DE from RM94.3b to RM96.3b which overwhelmed the government's good efforts to bring down the fiscal deficit from 5.6% of GDP in 2022 to 5.0% of GDP in 2023. Meanwhile, the three (3) auctions in February 2022 saw average BTC ratios plunge to ~ 1.99x (Jan: 2.79x); just below the 2.0x handle.

- **For March,** expect continued institutional interest and decent secondary market volumes following risk-off mode as uncertainties abound in the US over the financial collapse of several banks mentioned above. Meanwhile, the government's efforts to reduce the fiscal deficit to 5.0% of GDP (2022: 5.6% of GDP) are lauded despite the budget being the largest tabled on record. **We opine that the Sukuk/Corporate Bond space will continue to see demand on yield pick-up as credit conditions remain robust for now.** The 7-10Y MGS/GII sectors reflect relative value from a term-premium perspective. **We expect the 10Y MGS yield to maintain its slightly higher trading range between 3.80-4.00% with support pegged at 4.00% levels**. In the corporate bonds/Sukuk space, we favor the 3Y,7Y GG (24-30 bps), 7-10Y AAA (54-56bps) and 7Y AA2-rated bonds (86bps), within sectors comprising logistics, infrastructure such as utilities - telco, electricity, sewerage and energy-related bonds.

MYR sovereign curve (MGS)

Source: Bloomberg

US February job report has once again confounded expectations by adding a solid 311k gain

February Non-Farm Payrolls ("NFP") beat consensus estimates of 225k by notching a solid monthly gain of 311k. This followed previous two month's downward revision of 34k. Notable job gains were mainly in leisure and hospitality as well as retail. Meanwhile, the unemployment rate unexpectedly rose to 3.6% (Jan: 3.4%); still reflecting a healthy labor market nonetheless. The participation rate, continued to trend a tad higher to 62.5% from prior month's 62.4%. Average m/m hourly earnings, a gauge of wage inflation and a key metric tracked by the Fed grew at a slower pace of 0.2% m/m in February (Jan: 0.3%), but the y/y increase in wages quickened to 4.6% (Jan: +4.4%). February's job report was however mixed. Despite more people joining the workforce with wage growth increasing; job gains were concentrated in fewer industries whilst the number of hours worked on the average declined. Nevertheless, the strong labor market is boosting consumer spending and any impact from tech-sector layoffs is modest.

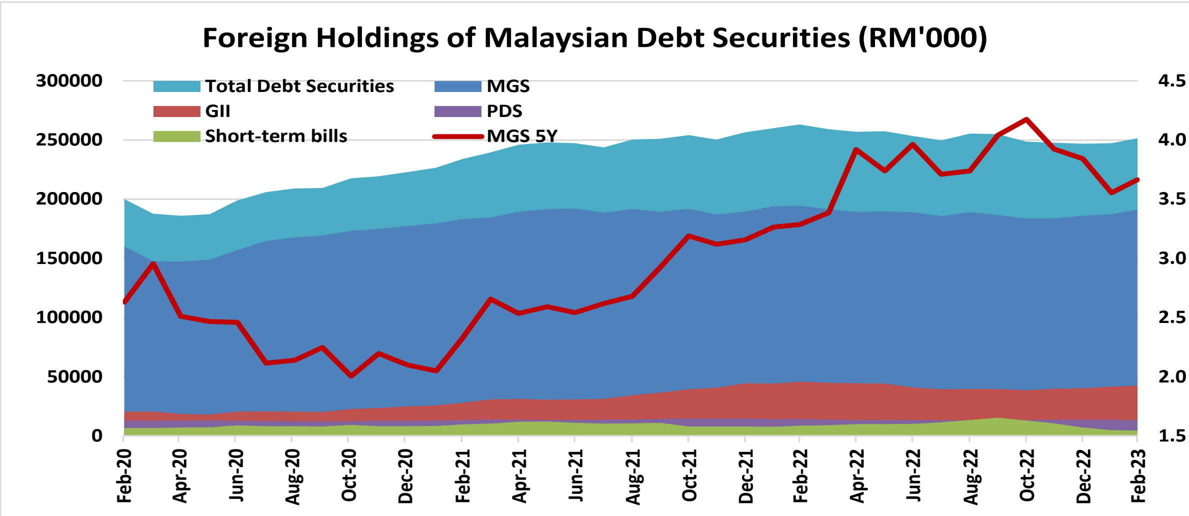
Moving on to other economic data, the improvement in S&P Global Manufacturing PMI for February at 47.3 (Jan: 46.9) and stronger ISM manufacturing (47.7 vs prior month's 47.4), may be seen as adding to the recovery of the economy and inflationary pressures. Both indicators which notched higher are nevertheless below the 50-threshold expansion levels. Separately, the Fed's preferred inflation measure i.e., core PCE in January saw a jump to 0.6% m/m from prior month's +0.3%, but y/y data rose to +4.7% y/y (Dec: +4.4% y/y). These along with the sustained strength in February inflation have fanned the re-emergence of inflationary conditions again and are supposed to propel UST and corporate bond yields higher. However, potential contagion from the recent collapse of several banking institutions, although believed to be contained at this juncture, could add noises to the Fed policy path.

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, 50 bps 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; slipping through to 4.125% in 2024. Additional data from the Fed Fund Futures now reflect traders' expectations of pricing-in a lower 30% odds of a 50bps rate hike and 60% chance of a mere 25bps rate hike instead in the next FOMC meeting on 23rd of March; with peak terminal rates of 4.96% in May. CME Fed Watch Tool meanwhile, targets a mere 65% probability of a 25bps rate hike. Elsewhere, we note that the Fed's ~$8.43 trillion balance sheet as at 1st February has eased further to $8.34 trillion as at 1st March with the ongoing monthly run-off of ~$95b (USTs: $60b; MBS: $35b) being absorbed by market.

Higher overall foreign holdings of MYR bonds in February surprises on the upside…

The increase in foreign holdings of overall MYR bonds almost saw a 10-fold jump circa RM4.3b or 1.7% in February to RM251.6b mainly due to the substantial jump in both MGS and GII. Non-resident holdings of MGS rose by a commendable RM4.0b (prior month: +RM1.3b) or 2.1% to RM191.3b, whilst forming higher i.e., 35.2% of total outstanding. GII saw a jump of RM1.0b m/m to RM42.5b. Bonds yields spiked due to re-emerging inflationary pressures in the US coupled with some earlier concerns over the GOM's increase in DE that may have be setting back the fiscal consolidation path. **Total MYR Government bonds (MGS+GII+SPK) holdings saw sustained m/m net inflows of RM2.7b to reach a 8-month high of RM233.9b (representing 22.4% of total outstanding);** amid net maturities of RM5.1b for the month (Jan: net issuances: RM14.5b); which is believed to provide ample funds from rollovers. Meantime, **12-month cumulative rolling outflows ended lower at RM6.52b (prior month: -RM9.33b).** 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 smaller outflows in February @ RM200m (Jan 2022: -RM348m) whilst the 12-month rolling inflows fell from RM3.64b to a mere RM632m. On the currency side, the MYR weakened against USD to 4.4873 as at end-February (end-Jan: 4.2740) and currently trading thereabouts at 4.4870 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM maintained the OPR at 2.75%; with opinions equally divided between economists…

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 expect a further OPR hike at a measured pace of 25bps, bringing the OPR to 3.00% for the year.**

Muted interest for new coupon offerings in February amid large net maturities of RM14.5b

The three (3) auctions in February 2022 saw average BTC ratios plunge to ~ 1.99x (Jan: 2.79x); just below the 2.0x handle. The highest BTC of 2.662x among the three (3) auctions was notched by the new issuance of 20-year GII 8/43 which saw strong participation mainly from pension funds, insurance companies and some asset management companies, resulting in a short tail of a mere 1.7bps. The other auctions consisted of the re-opening of 3Y MGS 7/26 and 15-year reopening of GII 3/38. Together, all three (3) auctions in February saw slightly lower individual sum of bids amounting to between RM6.7-12.3b. Demand for auctions were somewhat average at best due to the relatively large private placements offered which may have sapped appetite from the larger investment institutions. The non-existence of rollover maturity benefits in February (Net issuances RM14.5b vs Jan's RM15.0b) into the Malaysia government bond space did impact primary participation. Nevertheless, fresh funds likely made its way into shorter-tenured off-the-run and existing benchmarks in the secondary markets in lieu of the higher foreign holdings noted. We have revised our projection of gross issuances for 2023 from earlier ~RM172.0b to between RM168-172b?? to account for lower fiscal deficit and GOM's intention to rein in government debt going forward based on the successful re-tabling of the National Budget 2023 on 24th February.

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	6/1/2023	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	13/1/2023	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	27/1/2023	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	3/2/2023	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	13/2/2023	5,000	2,500	2,500	25,000	2.662	4.257	4.291	4.308	87.5%
6	3-yr Reopening of MGS (Mat on 07/26)	3	Feb	Q1	20/2/2023	4,500	5,500		30,500	1.691	3.438	3.458	3.472	10.0%
7	15-yr Reopening of MGII 03/38	15	Feb	Q1	27/2/2023	5,000	3,000	2,500	36,000	1.986	4.160	4.177	4.188	27.8%
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%
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	33,000	7,500	36,000	PROJECTED TOTAL ISSUANCE SIZE = 168-172k				

Source: BNM, HLBB Global Markets Research

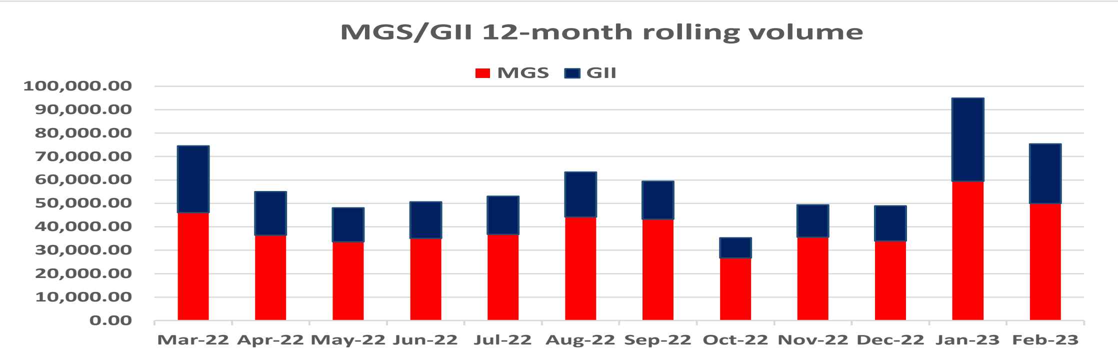
MGS/GII secondary market activity tapers-off in February…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds declined by 17% m/m to RM78.8b in February compared to prior month's RM95.0b. The pullback in activity was triggered by the re-emergence of inflationary pressures especially in the US due to several strong economic data that covered among others, NFP/jobs, inflation, jobless claims and PPI which were negative for bonds. On the local front, the reaffirmation of BBB+ rating and Stable Outlook by Fitch Ratings was neutral at best. The deeper inversion in the US yield curve as a precursor of a potential recession in the US failed to spur a flight-to-safety in bonds. Meanwhile investors continued to digest the impact of the re-tabling of Malaysia National Budget 2023 by the Prime Minister cum Finance Minister. The GOM's intentions in reducing its overall debt, including liabilities of ~RM1.44 trillion, statutory debt of RM1.08 trillion (60.4% of GDP) and reducing the fiscal deficit from the expected 5.6% in 2022 to 5.0% of GDP in 2023 is expected to see a positive lag-effect via lesser net issuances of debt.

Nevertheless, decent 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 holdings was testament to the improvement in demand. Meanwhile, some notable movements during the month under review included the following:

- The MGS curve did not shift higher entirely in parallel fashion due to the 3-5Y and 30Y sectors with the largest upward moves in yields seen within the 7-15Y sectors. The GII curve however saw lesser deviation in upward yield movements within the 10-30Y sector.
- MYR IRS levels declined sharply between 14-26bps for 1-10Y tenures.
- Bulk of the volume was seen in the short-ends such as off-the-run MGS/GII 23's (14.1%), benchmarks 5Y MGS/GII (8.9%), benchmarks 7Y MGS/GII (7.3%) and 10Y MGS/GII (7.6%); which together accounted for almost 38% of overall volume.

Expect higher bouts of volatility as the recent collapse of Silvergate Capital, Silicon Valley Bank and Signature Bank in the US driving a potential need for flight-to-safety versus elevated inflationary conditions may trigger large yield movements in bonds. Nevertheless, we expect greater receiving interest in IRS following BNM's decision to stay pat on the OPR at 2.75%.



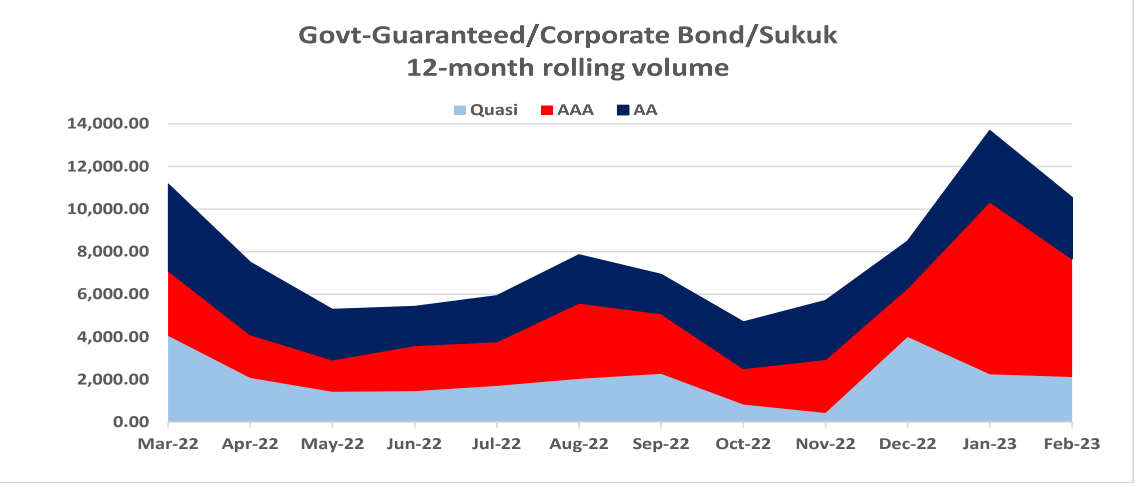
Source: BPAM, Bloomberg, HLBB Global Markets Research

Corporate Bonds/Sukuk see secondary market activity ease…

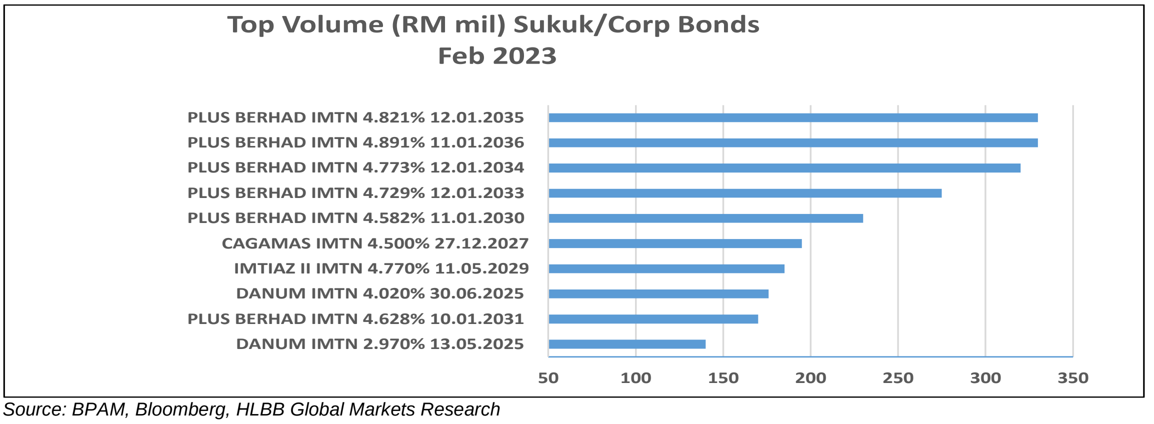
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) similarly took cue from lower momentum and activity in the govvies space and saw trading volume fall by 17% in the secondary market to RM10.1b in February (Jan: RM12.2b). The slightly smaller appetite for yield-carry was triggered by weaker sovereign bond performance due to the revival of higher interest rate environment in the US and eventual policy normalization in Malaysia. Although the sharp rise in primary issuances for the month saw weaker take-up rates, corporate bonds saw better primary participation resulting in over-subscription rates. Nevertheless, this did not see a spillover into the secondary market. The Govt-Guaranteed (GG)-segment saw the 3-15Y tenures widening the most between 5-10bps to between 3.73-4.34%. The AAA-rated space similarly saw tenures between 2-3Y tenures cheaper between 8-9bps; with levels around 3.96-4.05%. The AA2-segment too saw yields settle higher between 3-4bps for 2-3Y tenures; resulting in yields closing within the ranges of 4.15-4.27% area. The sweet spot area is seen in the 3-7Y and 20Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits eased to RM13.2b in February (Jan:RM13.6b).

Total transactions for GG bonds in February climbed slightly to form 20.0% (Jan: 16.4%) of overall volume. AAA-rated papers however saw total trades fall to form ~52.7% of overall trades (Jan: 59.3%). The AA-space saw its secondary market share similarly rise to make up 27.3% 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 dominated by long-ends PLUS 35 (AAA) and PLUS 36 (AAA) which rose between 3-9bps compared to previous-done levels to 4.70% and 4.69% respectively, followed by another PLUS tranche namely the 2034 tranche (AAA) which similarly jumped 9bps to 4.64%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-27's, conglomerates (e.g.; MMC 23-29's, UMW 25-26's, MAHB 25-30's and perps, Khazanah-related funding conduits i.e.; SPV's (i.e., DANGA 24-33's, DANUM 25's, 35's), utilities provider i.e. telco/water/power, PASB 24-33's, TENAGA 31-41's, Pengerang LNG 25-34's), construction/property/plantation (i.e., MRCB 23-29's), energy and power (i.e. Pet Sarawak 27-33's, BGSM 24-27's, EDRA 24-38's, SPETCHEM 26-31's, Southern Power 26-31's, SEB 24-33's), toll operators i.e. AMANAT Lebuhraya (ALRB) 24-35's, PLUS 25-37's), PMETAL 26-29's, TG Excellence perps, IMTIAZ 27's, 29's, Point Zone 27-32's, PONSB 26-28's, KAJV 23-25's and BPMB 26-32's. There were also frequent odd-lot denominated trades in Affin Islamic 27's, Alliance Bank 2030, 2035 callable, AmBank 2032 callable, MAYBANK 2031, 2032 callable, MBSB 27's and 2031 callable, CIMB 2029 callable and perps, SABAH Development Bank 23-26's and UOB 2032 callable bonds. Other odd-lot denominated trades were seen in UEM Sunrise 23-26's, GENTING-related bonds 25-34's, WCT 23-25's, perps, JCORP 27's, CRE perps, YNH Properties 25-27's and perps, Tropicana 23-26's and perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in February driven by the following:

Notable issuances in Feb-23	Rating	Amount Issued (RM mil)
Cagamas Berhad	AAA	120
Chailease Berjaya Credit Sdn Berhad	AA3	10
Cypark Renewable Energy Sdn Berhad	NR	8
DanaInfra Nasional Berhad	GG	600
Danum Sinar Sdn Berhad	NR	9
Hektar Black Sdn Berhad	NR	10
Impiana Hotels Berhad (fka Bio Osmo Berhad)	NR	5
KYS Assets Sdn Berhad	NR	27
Kenanga Investment Bank Berhad	NR	20
Malaysian Resources Corporation Berhad	AA3	450
Pengurusan Air SPV Berhad	AAA	1,500
Potensi Angkasa Sdn Berhad	NR	16
Petroleum Sarawak Exploration & Production Sdn Berhad	AAA	1,500
RH Consortium Sdn Berhad (fka Progressus Group Sdn Berhad)	NR	33
Sabah Development Bank Berhad	AA1	355
Sabah Credit Corporation	AA1	145
Sunway South Quay Sdn Berhad	NR	100
Sunway Treasury Sukuk Sdn Berhad	NR	100
SunREIT Unrated Bond Berhad	NR	300
Tumpuan Azam Sdn Berhad	NR	30
West Coast Expressway Sdn Berhad	NR	17
WCT Holdings Berhad	AA3	100
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	1
		5,457

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances climbed from a 12-month low of RM4.9b in January to RM5.5b in February; Some of the prominent issuances consisted of DANAINFRA Bhd's govt-guaranteed, 7Y bonds totaling RM600m with a coupon rate of 4.15% and Petroleum Sarawak Exploration & Production Sdn Bhd's AAA-rated 5-10Y bonds amounting to RM1.5b, with coupons ranging between 4.31-65%.

Outlook for March 2023

Expect USTs to find light support as peak terminal rates are revised slightly lower…

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**. February's CPI at 6.0% (y/y) and 0.4% (m/m) compared to previous month's 6.4% (y/y) and 0.5%, will be knocking on the inflation door again whilst conditions may eventually moderate as energy prices remain range-bound and supply chain improves both in the US and globally. The Treasury implied volatility, denoted by the ICE BofA MOVE index which only few days ago was at 5-month lows since October has spiked to levels not seen in five years. Although the NFP payrolls remains solid, potential slowing of wage growth going forward may allow for a less-aggressive stance in interest rates hikes by the Fed.

Current swap pricing reveal traders anticipating an 60% chance of a 25bps or a 30% chance of a 50bps rate hike in arriving at an implied rate of ~4.77% in the upcoming FOMC meeting on 23rd March 2023; whilst peak terminal rates are bumped-up slightly to 4.96% in May. **We opine that the yield curve could flatten slightly instead as yields recover from their recent plunge as the strong jobs data and elevated inflationary conditions overwhelm recessionary fears and the eventual fears of contagion over the ongoing fallout from the bank rout.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) reversed into a marginal loss of 3.2% in February 2023 (Jan: +4.0 %); despite the huge widening in OAS spreads at 123bps from 117bps in February. However, at the time of writing spreads have spiked to 152bps. We expect issuance to be lower in the region of $130b in March (Feb: $160b) whilst maturities are high at circa $69b 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 negative territory with a 1.3% loss in February whilst spreads tightened from 421bps to 412bps. However, at the time of writing spreads have also spiked further to ~492bps. Overall, US bond funds which saw ~$3.6b of inflows in IG but massive outflows of 10.4b in HY to witness further outflows in March.

The UST 10Y is expected to range lower i.e.; between 3.40-3.60%; with forecast finding support at key 3.60% levels for this month. We currently are risk averse to both IG and HY credits; pending further clarity and unfolding of the collapse of several banks in US.

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

The three (3) auctions in February 2022 saw average BTC ratios plunge to ~ 1.99x (Jan: 2.79x); just below the 2.0x handle. The highest BTC of 2.662x among the three (3) auctions was notched by the new issuance of 20-year GII 8/43. The subsequent auctions at the time of writing included for the year consisting of the reopening of RM4.5b of 10Y MGS 7/32 on 3rd of March and the re-opening of 7Y GII 9/30 on the 14th of March continued to see muted participation by institutional investors. March 2023 is expected to see lower net issuances **(projected gross issuances > maturities)**; **of RM14.0b compared to RM21.0b in February; with available funding rollover opportunities 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. We also expect the hunt for alpha and yield-carry to allow investors to play an active role in bond portfolio management.

On the macro front, the Malaysian economy is expected to normalize to grow at a more sustainable pace in 2023 (MOF forecast @ 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 to the upside amid lingering demand and cost factors, as evident in the upward revision in the projected inflation range to 2.8-3.8% by MOF (prior 2.8-3.3%). **With the likelihood of inflationary pressure overshadowing growth risks, we see the room for another 25bps increase in the OPR to 3.00% going forward, which could happen as early as May.**

We opine that the Sukuk/Corporate Bond space will see demand as yield pick-up remains a favorite objective of portfolio managers whilst credit conditions remain steady under the present economic climate. **We expect the 10Y MGS yield to maintain its slightly higher trading range between 3.80-4.00% with support pegged at 4.00% levels**. In the corporate bonds/Sukuk space, we favor the 3Y,7Y GG (24-30 bps), 7-10Y AAA (54-56bps) and 7Y AA2-rated bonds (86bps), within sectors comprising of logistics, infrastructure such as utilities - telco, electricity, sewerage whilst energy-related bonds remain a favorite.

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