Monthly Fixed Income Perspective –

May 23 review & June 23 outlook

US Bond market

- **In May**, US Treasuries (UST's) saw a relatively turbulent month, unnerved by concerns over the debt-ceiling limit and fears of elevated inflation from FedSpeak events. The curve bear flattened as overall benchmark yields jumped higher between 18-40bps led by the front end. **The 2Y UST yield spiked the most by 40bps to 4.41% whilst the 10Y rose 22bps to 3.65%.** At the time of writing, these levels are trading higher at 4.66% and 3.81% respectively. Meanwhile, the 2s10s part of the curve has deepened its earlier inversion from 58bps to ~ about 85bps presently. The signing of the debt ceiling bill which removed the ceiling at least until 1st January, 2025 brought relief to the bond markets. Elsewhere, the sale of ~$90b of coupon offerings which included the 3Y, 10Y and 30Y tenures witnessed strong participation.

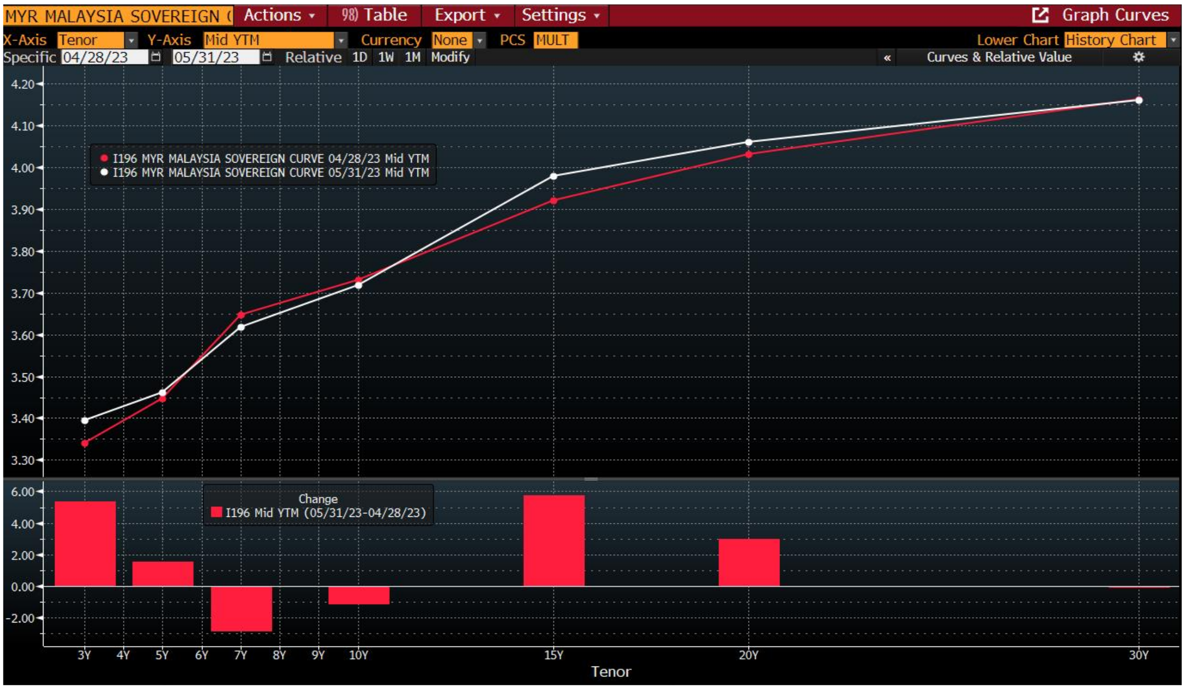
- **For June**, expect range-bound trading with upward-bias on yields for USTs following the just-concluded FOMC meeting that saw the Fed Fund Rates stay pat for now. Uncertainty may spark interest rate volatility as investors flip between flight-to-safety and risk-on mode. The robust labor market but easing inflation; which is still deemed high and above the Fed's preferred 2.0% target may take precedence over recessionary concerns for now. The barometer of investors' inflation expectations i.e.; the 5Y breakeven inflation rate on 5Y TIPS, has eased slightly by ~10bps m/m to 2.15% as at end-May from 2.25% as at end-April; and is presently at 2.18% threshold. Fed-dated OIS pricing currently reveals a mere 62% chance of a July 25bps rate hike in arriving at an implied peak terminal rate at 5.30% in the September's FOMC meeting. **The UST 10Y is expected to range higher between 3.70-3.90%, with support at key 3.90% levels for this month.** We remain averse to HY credits as credit conditions tighten, but foresee improved appetite for yield pick-up for IG universe. **Our preferred IG bond issuances are within the 5-10Y tenures in insurance, banking, and REITS.**

MYR Bond Market

- **In May**, MYR government bond curve had a combination of both flattening and steepening moves; pivoted along both the 5Y and 10Y sectors with both **MGS/GII bonds ending mixed between -4 to +16bps across; with 7-10Y seeing better-bids instead.** The benchmark 5Y MGS 11/27 yield rose 4bps m/m to 3.47% whilst the 10Y MGS 7/32 yield eased 3bps to 3.70%. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings rose RM3.0b after remaining constant prior month (representing 23.1% of total outstanding).** The primary factors which drove bond movements were IRS yield movements and expectations that OPR may stay pat, in addition to the delicate political climate. The three (3) auctions in May 2023 saw average BTC ratios fell to ~ 2.07x (Apr: 2.35x); yet still above the 2.0x handle.

For June, expect range-bound trading from local institutions for govvies in both primary and secondary markets but better demand for corporate bonds/sukuk. **The 7Y MGS/GII and 15Y MGS sectors reflect relative values along the curve. We expect the 10Y to range slightly higher between 3.70-3.90% compared to our previous month's projection** with support pegged at 3.90% levels. **We opine that the Sukuk/Corporate Bond space will maintain decent demand on yield pick-up requirements as credit and liquidity conditions remain supportive for now.** We favor the 7Y GG (~20bps), 7-15Y AAA (~35-45bps) and 10-20Y AA2-rated bonds (~75-90bps) in sectors comprising banking, tolling operations, logistics and utilities.).

MYR sovereign curve (MGS)



Source: Bloomberg

Robust NFP of 339k in May with higher revision in previous prints do not indicate any sign of a tilt into recession but wages were a little softer nevertheless…

May Non-Farm Payrolls ("NFP") was way better than consensus estimates of 195k (vs an upward revision from 253k to 294k in April). However, the unemployment rate jumped to 3.7% (April: 3.4%); off the cycle-low seen prior month. Private payrolls were driven by hiring in skilled services like professional and business services and health care. But construction, transportation and warehousing, and social assistance also boosted job gains in May. The participation rate remained unchanged at 62.6%. The average hourly wages growth rose lesser by 0.3% m/m with the previous print revised down to 0.4%, whilst the y/y figures rose to 4.3% (previous month 4.4%). Overall, the latest payroll report suggests that despite the pickup in the unemployment rate, labor market fundamentals remain strong which, at this stage of the cycle should keep the Fed wary of high inflation. Nevertheless, despite a strong headline, some sectors shed jobs. The decline in manufacturing and information jobs, as well as slower job creation in financial activities, will continue to weigh on the overall pace of job growth. Overall, the conflicting signals on a robust labor market and disappointingly slow easing in inflation interspersed with a potential slowing of the economy may see the Fed embark on a rate hike in the July FOMC meeting instead.

To recap, the Fed maintained the Fed Funds Target Rate in its just-concluded FOMC meeting on 15th June 2023 between 5.00- 5.25%. For the record there were ten (10) earlier hikes totaling 500bps between 17th March 2022 and 4th May 2023. **The Fed's current median FOMC dot plot pins target rate higher at ~5.63% for 2023. However, data from the Fed Fund Futures now reflect traders' hypothetical expectations of 62% odds of a 25bps hike in the next FOMC meeting on 26th of July whilst CME FedWatch Tool has predicted a 69% probability of a similar rate hike.** Meantime, we note that the Fed's ~$8.62 trillion balance sheet as at end-April inched lower to $8.49 trillion as at end-May.

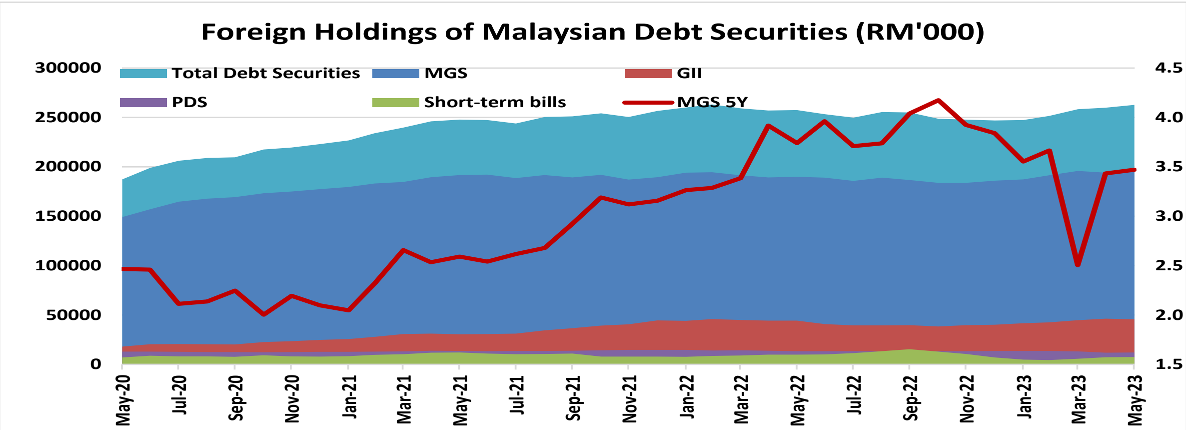
Moving on to other economic data, we note further pullback in manufacturing data i.e.; US PMI in May (50.0 vs 50.2 in April) coupled with ISM manufacturing data for May (46.9 vs 47.1 in April). Separately, the Fed's preferred inflation measure, the core PCE in February remains a tad higher +0.4% m/m and +4.7% y/y but nevertheless, the easing of the just-released headline May CPI may see lesser negative impact on USTs and corporate bond yields.

Sharp increase of RM3.0b in foreign holdings of overall MYR bonds is proof of local bond market resilience…

Foreign holdings of overall MYR bonds saw a higher m/m increase circa RM3.0b or 1.2% in May (April: +RM1.5b or 0.6%) to RM262.7b mainly due to the jump in MGS which offset the lower GII holdings. Non-resident holdings of MGS rose RM3.8b or 2.0% (prior month: -RM1.7b or -0.9%) to RM197.9b, thus forming a 36.0% of total outstanding. Foreign holdings of GII however dropped by RM790m m/m to RM45.6b. Upward bond yields were less pronounced than expected with decent demand from safe-haven bids for the bond asset class and resumption in trading activities following the US banking fallout seen earlier in March. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings rose RM3.0b after remaining constant prior month (representing 23.1% of total outstanding);** amid lower net issuances of RM2.0b for the month (Apr: net issuances of RM3.7b); for which the lack of excess funds from rollovers did little to dampen appetite for primary issuances. Meantime, **12-month cumulative rolling inflows surged higher to RM9.4b (prior month: RM6.8b).**

With the improved appetite for coupon offerings; the secondary market too saw sustained interest and participation was equally robust amid the increase in MGS and GII foreign holdings; as Malaysian debt lured investors despite its tighter yield spreads compared to its peers in the region such as Singapore, Thailand, Indonesia and Philippines sovereigns. The continued appetite and availability of a well-diversified and availability of funds by local investment institutions namely GLIC's, pension funds, insurance companies and asset management companies are expected to provide support to the fixed income space.

Separately, equity saw bigger outflows in May circa @ RM728m (Apr: RM251m outflows) whilst the 12-month rolling outflows rose further from RM5.1b in April to RM5.9bn in May. On the currency side, the MYR weakened against USD to 4.6130 as at end-May (end-Apr: 4.4622) and currently hovering at 4.6200 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

To recap, the OPR was raised by 25bps in line with our house view; rate pause expected ahead…

BNM resumed a 25bps hike in the OPR from 2.75% to 3.00%; citing resilient domestic growth prospect at the MPC meeting on 3rd May; in what was seen as its 5th rate hike totaling 125bps since May-2022. BNM commented that "the MPC has withdrawn the monetary stimulus intended to address the COVID-19 crisis in promoting economic recovery" while the current stance of monetary policy has turned "slightly accommodative", a less hawkish tone compared to "accommodative" in the previous statements, implying that the current OPR rate is near neutral level. Global macro indicators and financial conditions are showing increasing signs that continuous policy tightening is having undesirable effects on growth outlook, with risk of a global recession around the corner. With moderating growth and inflation trajectory especially in 2H2023, **we reiterate our view for OPR to stay unchanged at 3.00% for the remainder of 2023.**

Easing interest for new coupon offerings in May amid net maturities of RM2.0b…

The three (3) auctions in May 2023 saw average BTC ratios fell to ~ 2.07x (Apr: 2.35x); yet still above the 2.0x handle. The highest BTC of 2.201x among the three (3) auctions was notched by the reopening of 15-year MGS 6/38 which saw strong participation mainly with demand seen mainly from pension funds and insurance companies resulting in a short-tail of a mere 1.0bps. The other auctions consisted of the re-opening of 7Y MGS 4/30 and 20Y GII 8/43. Together, all three (3) auctions in May saw slightly lower individual sum of bids amounting to between RM5.2 -10.9b. Demand for auctions were weaker amid the higher private placements offered which may have sapped some appetite from the larger investment institutions. The continued shortage of rollover maturity benefits (May net issuances of RM2.0b versus April net maturities of RM3.7b) in the Malaysian government bond space did dampen appetite in terms of primary participation. Nevertheless the absence rollover funds in the primary market was unlike the improved participation seen in the secondary market with offshore funds piling into both shorter-tenured off-the-runs and existing 3-10Y benchmarks in the secondary markets in lieu of the higher foreign holdings noted.

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	14/3/2023	4,500	5,000		45,500	1.586	3.760	3.792	3.814	100.0%
10	30-yr New Issue of MGS 03/53	30	Mar	Q1	30/3/2023	5,000	2,500	2,500	50,500	1.970	4.370	4.457	4.489	65.5%
11	10-yr Reopening of MGII (Mat on 10/32)	10	Apr	Q2	7/4/2023	4,500	4,500		55,000	2.367	3.922	3.936	3.948	15.0%
12	5-yr New Issue of MGS (Mat on 04/28)	5	Apr	Q2	19/4/2023	5,000	5,000		60,000	2.434	3.500	3.519	3.528	72.4%
13	30-yr Reopening of MGII 05/52	30	Apr	Q2	26/4/2023	4,500	2,500	2,500	65,000	2.153	4.270	4.294	4.308	51.8%
14	7-yr Reopening of MGS (Mat on 04/30)	7	May	Q2	11/5/2023	4,500	5,000		70,000	2.183	3.590	3.604	3.615	81.7%
15	20-yr Reopening of MGII (Mat on 08/43)	20	May	Q2	23/5/2023	5,000	3,000	2,500	75,500	1.747	4.155	4.182	4.207	28.0%
16	15-yr Reopening of MGS (Mat on 06/38)	15	May	Q2	30/5/2023	4,500	3,000	1,500	80,000	2.201	3.990	4.023	4.033	48.4%
17	3-yr Reopening of MGII 09/26	3	Jun	Q2	7/6/2023	4,500	4,500		84,500	1.759	3.420	3.435	3.447	15.6%
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	68,000	16,500	84,500	PROJECTED TOTAL ISSUANCE SIZE = 168-172b				

Source: BNM, HLBB Global Markets Research

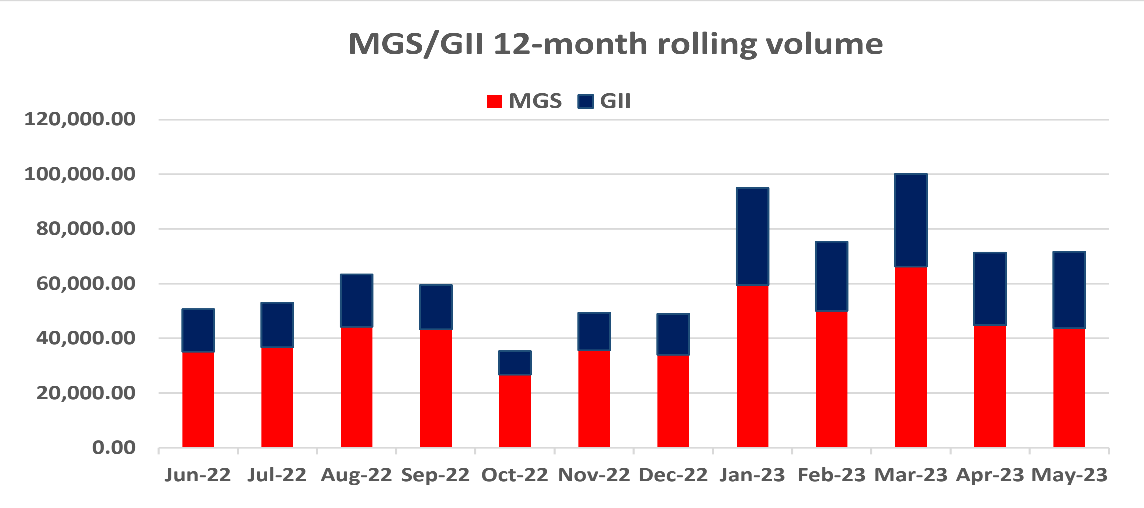
MGS/GII secondary market activity maintains momentum in May…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds sustained with a marginal 2% m/m increase to RM71.8b in May compared to prior month's RM70.7b. The cautious stance which saw many investors somewhat sidelined was triggered by conflicting signals from mixed economic data emanating out from the US coupled with hawkish FedSpeak events resulting in uncertain FOMC interest rate pathway. The weaker MYR and delicate local political landscape were added factors. The wider inversion in the US yield curve (which serves as a precursor of a potential recession) encouraged some appetite in the safety of bond asset class. Elsewhere, the GOM's intention to reduce its overall debt, including liabilities of ~RM1.44 trillion and statutory debt of RM1.08 trillion (60.4% of GDP) is a mammoth task given higher-than-projected YTD gross govvies issuances of RM84.5b.

Secondary market flows were particularly seen among both local institutions i.e.; pension funds, inter-bank participants, local GLIC's, Lifers and asset management companies along with offshore funds. Notable movements during the month under review included the following:

- MGS curve generally flattened save for the 10-15Y sector with the 6-10Y well-bid resulting in lower yields. GII curve however saw a steepening-bias within the 7-10Y sector.
- MYR IRS levels fell between 3-12bps for 1-10Y tenures.
- Bulk of the volume was scattered more on the front-end and belly in terms of term structure with prominent trades seen more in the benchmarks 10Y MGS/GII (17.1%), benchmarks 7Y MGS (10.0%) and short-ends such as off-the-run MGS 23-25's (10.1%) which together accounted for circa 37.1% of overall volume.

Expect higher bouts of volatility despite fears over easing inflation as the Fed may be expected to embark on a "hawkish-hold." The US banking system is seen to tread into calmer waters amid investors' confidence over the US authorities monitoring and surveillance capabilities. On the local front, we expect range-bound bond movements with eyes on current MYR weakness.



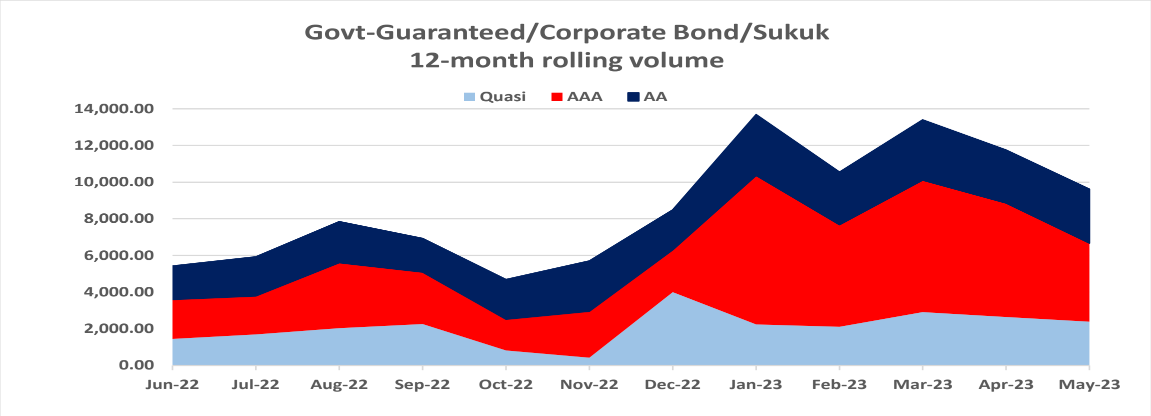
Source: BPAM, Bloomberg, HLBB Global Markets Research

Corporate Bonds/Sukuk sees pullback in secondary market activity…

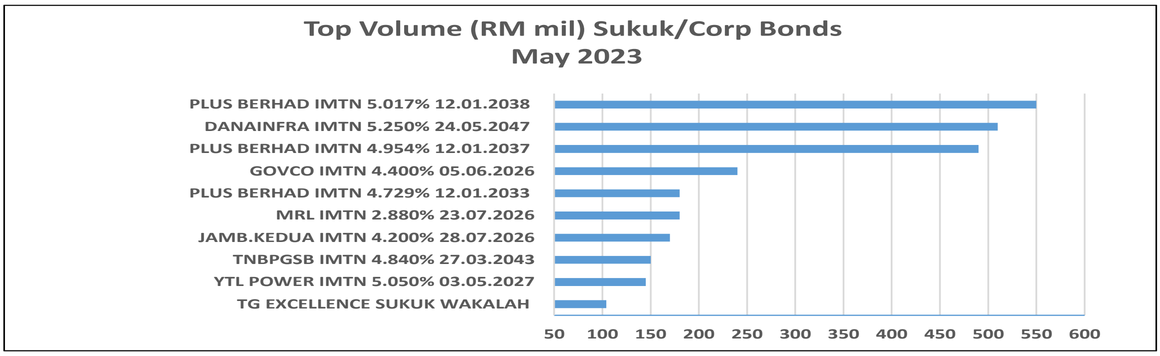
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) however saw lower momentum and participation as trading volume fell by 18% in the secondary market to RM9.9b in May (Apr: RM12.1b). Appetite for yield-carry activities took a back-seat as primary driver i.e.; govvies yields turned in a mixed performance for the month under review. The relatively strong m/m primary issuances witnessed strong take-up rates limiting interest into the secondary market. The Govt-Guaranteed (GG)-segment saw the 5-10Y tenures tightening between 2-10bps to between 3.68-4.03% levels. The AAA-rated space similarly saw tenures between 2-20Y tenures richer between 2-20bps; with levels around 3.82-4.60%. The AA2-segment too saw yields settle lower between 7-10bps for 5-20Y tenures; resulting in yields closing within the ranges of 4.23-5.10% area. The sweet spot area is seen between 5-15Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits inched lower to RM11.7b in May (Apr: RM12.0b).

Total transactions for GG bonds eased by 10% in May (Apr: -9.0%) to form 24.8% of overall trades. AAA-rated papers too similarly saw total trades fall to form ~44.4% of overall trades (Mar: +52.8%). The AA-space however saw its secondary market share increase to ~30.8% of overall investor interest in May. The GG-space continued to be spread among names like DANAINFRA and PRASARANA. **Bonds that garnered top volume for the month were dominated by PLUS 1/38 (GG) which declined 19bps compared to previous-done levels to 4.52%. Next was DANA 5/47 (GG) which fell 22bps instead to 4.23%, followed by another tranche of PLUS i.e.; the 2037 bonds which settled 28bps lower at 4.45%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 24-33's, MAHB 25-27's and perps, Khazanah-related funding conduits i.e.; SPV's (i.e., DANUM 25-27's), utilities provider i.e. telco/water/power, (DIGI 26-29's, AIR SELANGOR 27-43's, PASB 24-33's, TENAGA 32-47's, TNB Power 32-43's), construction/property/plantation (i.e., KLK 25-34's), energy and power (i.e.; MALAKOFF 24-31's, PLNG 29-33's, SPETCHEM 26-33's,YTL Power 23-33's), toll operators (i.e. AMANAT Lebuhraya (ALRB) 24-32's, PLUS 28-38's, BPMB 25-31's, CIMB 2030 callable and perps, edotco 25-32's, INFRACAP 28-36's, PMETAL 24-35's, DRB-HICOM 24-30's, KAJV 24-25's, TG Excellence perps, IMTIAZ 24-29's. There were also frequent odd-lot denominated trades in Alliance Bank 2030, 2035 callable, AmBank 2031, 2032, 2033 callable, MCIS 31's, HLBB perps, CIMB 2032, 2033 callable, AFFIN Islamic bank 27's, SABAH Development Bank 23-29's, UOB 2030, 2032 callable bonds, DIALOG perps, UEM Sunrise 23-26's, GENTING-related bonds 25-34's, UMW 25-26's and perps, IJM perps, Eco Capital 24's, Eco World capital 26's, YNH Properties 25-27's and perps and finally Tropicana 23-25's and perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in May driven by the following:

Notable issuances in May-23	Rating	Amount Issued (RM mil)
Cagamas Berhad	AAA	2,130
Danum Capital Berhad	AAA	600
DiGi Telecommunications Sdn Berhad	AAA	1,000
Small Medium Enterprise Development Bank Malaysia Berhad	AAA	1,000
Toyota Capital Malaysia Sdn Berhad	AAA	150
GENM Capital Berhad	AA1	500
RHB Bank Berhad	AA1	1,500
Perbadanan Kemajuan Negeri Selangor	AA3	325
UDA Holdings Berhad	AA3	500
Sabah Credit Corporation	A2	150
Singer (Malaysia) Sdn Berhad	A2	1
BGRB Venture Sdn Berhad	NR	15
GBT Forestry Sdn Berhad	NR	46
Harapan Bangga Sdn Berhad	NR	6
Hektar Black Sdn Berhad	NR	40
Impiana Hotels Berhad (fka Bio Osmo Berhad)	NR	3
KYS Assets Sdn Berhad	NR	5
Naza TTDI Capital Berhad	NR	33
Radimax Group Sdn Berhad	NR	23
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	9
Sunway Healthcare Treasury Sdn Berhad	NR	1
Tumpuan Azam Sdn Berhad	NR	14
Tanjung Pinang Development Sdn Berhad	NR	4
West Coast Expressway Sdn Berhad	NR	5
		8,059

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances rose marginally from RM7.9b in April to RM8.1b in May. Some of the prominent issuances consisted of CAGAMAS Bhd's AAA-rated, 1-10Y papers totaling RM2.1b with coupon rates between 3.67-4.20% and DiGi Telecommunications Sdn Bhd's AAA-rated 7Y bonds amounting to RM1.0b with a coupon rate of 4.05%.

Outlook for June 2023

Expect USTs to engage in higher bouts of volatility as a potential "hawkish-hold" vs potential recessionary fears play out…

The Federal Reserve will have its next **FOMC meeting on 26th of July for which we forecast the Fed Funds Rate to increase by 25bps**. However, the lower May CPI at 4.0% y/y (Apr: +4.9% y/y) and 0.1% m/m (Apr: +0.4% m/m) and robust NFP jobs data, may leave the Fed with mixed thoughts about the continued threat of inflation. The Treasury implied volatility, denoted by the ICE BofA MOVE index which rose to a 2-month high in late-May has surprisingly begun to ease at the time of writing. Nevertheless, we opine that interest rate volatility may flare up again as investors flip between flight-to-safety and risk-on mode. Current swaps-pricing reveal a whopping 62% chance of a July 25bps rate hike in arriving at an implied peak terminal rate at 5.30% in the September's FOMC meeting. **We opine that the yield curve could flatten slightly as yields react to the perceived "hawkish-hold" interest rate outlook thus taking precedence over recessionary concerns for now.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw loss of 1.4% in May 2023 (April: +0.8 %); despite the sustenance in OAS spreads at 135bps; which remains the same at the time of writing. We expect gross issuances to be in the region of $70-80b in June (May surprised on the upside @: $150b) whilst maturities are lower at circa $50b 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) also maintained to also post a small 0.9% loss in May (April: +1.0%) whilst spreads rose from 447bps to 465bps. However, at the time of writing spreads have collapsed to ~407bps. Overall, US bond funds which saw $3.55b inflows (prior month: -$2.75b) in IG but higher outflows of$ 4.3b in HY instead reveal investors preference for higher credit.

The UST 10Y is expected to range higher between 3.70-3.90%, with support at key 3.90% levels for this month. We remain averse to HY credits as credit conditions tighten, but foresee improved appetite for yield-pick for IG universe. **Our preferred IG bond issuances are within the 5-10Y tenures in insurance, banking, and REITS.**

Expect MYR govvies to be range-bound on dearth of catalysts despite our projection of peak OPR rates for now; demand for credits expected to continue…

Demand for govvies at bond auctions in June are expected to maintain at ~ 2.0x handle. The subsequent auction at the time of writing in June consisted of the reopening of RM4.5b of 3Y GII 9/26 on 7th of June saw weak participation by institutional investors and inter-bank participants with a mere BTC ratio of 1.759x. The month of June 2023 is expected to see huge net issuances **(projected gross issuances > maturities)**; **of RM14.0b compared to May's RM2.0b; with absence of funding rollover opportunities available to boost bond liquidity**. We however expect adequate support and interest in secondary market space by the well-diversified profile and depth of local investment institutions; whilst inter-bank participants continue to be selective on their duration requirements.

The Malaysian economy, however, is still expected to chart decent growth, likely within the official forecast range of 4.0-5.0% in 2023, supported by favorable domestic demand. That said, we are maintaining our full year GDP growth forecast to 4.0% (2022: 8.7%), staying wary of prevailing downside growth risks and sluggish China economy. While there may still be room for a further 25bps OPR hike as any subsidy rationalization on some food items may exert some upside pressure on CPI**, we expect inflation to be muted and manageable whilst moderating growth outlook would allow OPR to be left unchanged at 3.00% for the rest of the year**.

The shorter-ends are expected to experience slight pressure when with minimal buffer against OPR. Malaysia's 3Y yields are currently 45bps above the OPR, compared with an average gap of ~92bps in the past year and about 52bps in the past 5 years**.** Nevertheless, **the 7Y MGS/GII and 15Y MGS sectors reflect relative values along the curve. We expect the 10Y to range slightly higher between 3.70-3.90% compared to our previous month's projection** with support pegged at 3.90% levels. **We opine that the Sukuk/Corporate Bond space will maintain decent demand on yield pick-up requirements as credit and liquidity conditions remain supportive for now.** We favor the 7Y GG (~20bps), 7-15Y AAA (~35-45bps) and 10-20Y AA2-rated bonds (~75-90bps) in sectors comprising banking, tolling operations, logistics and utilities.

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