Monthly Fixed Income Perspective –

December 22 review & January 23 outlook

US Bond Market

- **In December**, US Treasuries underperformed as FedSpeak hawkish rhetoric events overwhelmed; despite earlier views of ebbing inflationary pressures which subsequently moderated to 6.5% y/y from 7.1% prior month. Policy-makers raised rates by 50bps in the Fed Funds Rate to between 4.25-4.50% in its December FOMC meeting. The curve bear-steepened as benchmark yields ended between 8-27bps higher, led mainly by the intermediates onwards. **The 2Y UST yield rose 8bps to 4.43% whilst the 10Y jumped 27bps higher to 3.88%.** However, at the time of writing, these have rallied strongly with yields sharply lower at ~4.24% and 3.50% respectively whilst the 2s10part of the yield remains deeply inverted at -97bps.

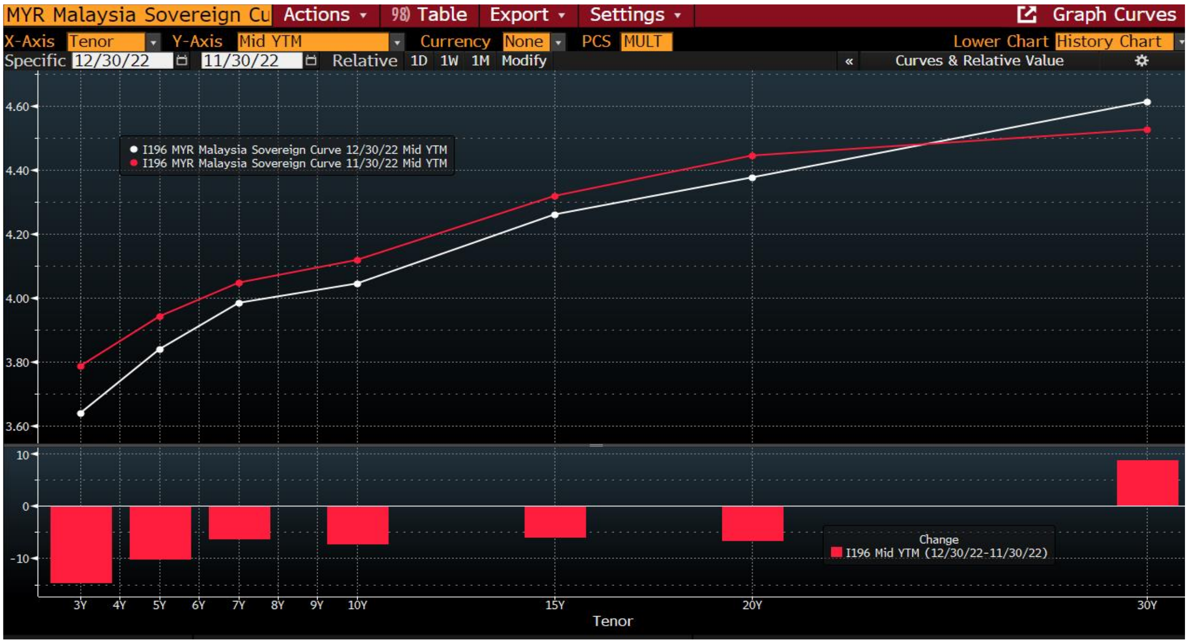
- **For January**, expect USTs to be given a boost following the recent `CPI for December which came in line with consensus at 6.5% y/y and -0.1% m/m (Nov: +7.1% y/y and +0.1% m/m), marking the lowest level since late-2021. A key gauge of investors' inflation expectations, i.e.; the 5Y breakeven inflation rate on 5Y TIPS, has also fallen by ~20bps to the 2.25% threshold, and is off a high reading of 2.70% seen in October last year (Note: The Fed is keen to anchor its inflation at 2.00% levels). **The UST 10Y is expected to range lower between 3.45-3.65%; compared to our previous month forecast finding support at key 3.65% levels for this month.** We maintain a slightly positive bias for nominal UST as concerns eventually abate over persistently stubborn inflation. We favor IG credits that come with strong balance sheets fortified by refinancing debts at lower rates; especially in Basic Industry, Communications, Energy and Financials which have decent adjusted spreads.

MYR Bond Market

- **In December**, MYR government bonds outperformed; with negative correlation seen with UST movements. The curve bull-steepened (extending out to 20Y) as overall benchmark yields declined between 3-20bps across (save for the long-end MGS/GII). **The benchmark 5Y MGS 11/27 yield declined 8bps to 3.84%, whilst the 10Y MGS 7/32 settled 3bps lower at 4.07%. Total MYR Government bonds (MGS+GII+SPK) holdings saw the doubling of net inflows to the tune of RM2.7b to RM226.2b (representing 22.2% 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 plus the belief that gross issuances by the GOM will not increase substantially in 2023 premised on the lower projected fiscal deficit of 5.5% for 2023. Elsewhere, the two (2) auctions saw average BTC ratios jump to @ 2.88x (Nov: 1.67x); just below the 3.0x handle

- **For January,** expect continued institutional interest on decent volumes before the lunar new year festivities see low-staffing levels close to the month-end. MYR is expected to remain firm on a strengthening bias following expected weakening in the greenback and confidence in the government's ability to rein in debt levels and ensure lower fiscal deficit of 5.5% (2022E: 5.8%) is achieved going forward. for this year. We are maintaining our 4Q and full year GDP growth projection at 4.9% and 8.2% y/y at this juncture. **We opine that the Sukuk/Corporate Bond space will see demand as yield pick-up remains on the agenda of portfolio managers, whilst credit conditions remain strong under the present economic climate. We expect the 10Y MGS yield to maintain its higher trading range between 3.90-4.10% support pegged at 4.10% levels**. The 5-7 MGS and 15-20Y MGS/GII sectors currently reflect relative value from term-premium perspective. In the corporate bonds/Sukuk space, we favor the 3-5Y GG (22-25 bps), 7Y AAA (43bps) and 20Y AA2-rated bonds (97bps), within sectors comprising utilities i.e.; sewerage, telco), logistics, energy and highway/toll sectors.

MYR sovereign curve (MGS)



Source: Bloomberg

US added robust jobs in December; but wage growth points to signs of ebbing inflation pressures…

December Non-Farm Payrolls ("NFP") beat consensus estimates of 205k by notching a solid monthly gain of 223k. This followed previous two month's downward slice of -28k. Notable job gains occurred in few leisure and hospitality, health care, construction, and social assistance. Meanwhile, the unemployment rate fell back to its 50-year low of 3.5% in December; reflecting a healthy labor market despite earlier back-to-back quarterly GDP contraction. The participation rate, recovered a tad higher to 62.3% from prior month's 62.1%. However, the average m/m hourly earnings, a gauge of wage inflation and a key metric tracked by the Fed fell 0.3% in December (Nov: 0.6%) with the y/y increase in wages slowing to 4.6% (Nov: +5.1%). Nevertheless, we opine that there are no fears of overheating in the labor market whilst inflation is seen easing.

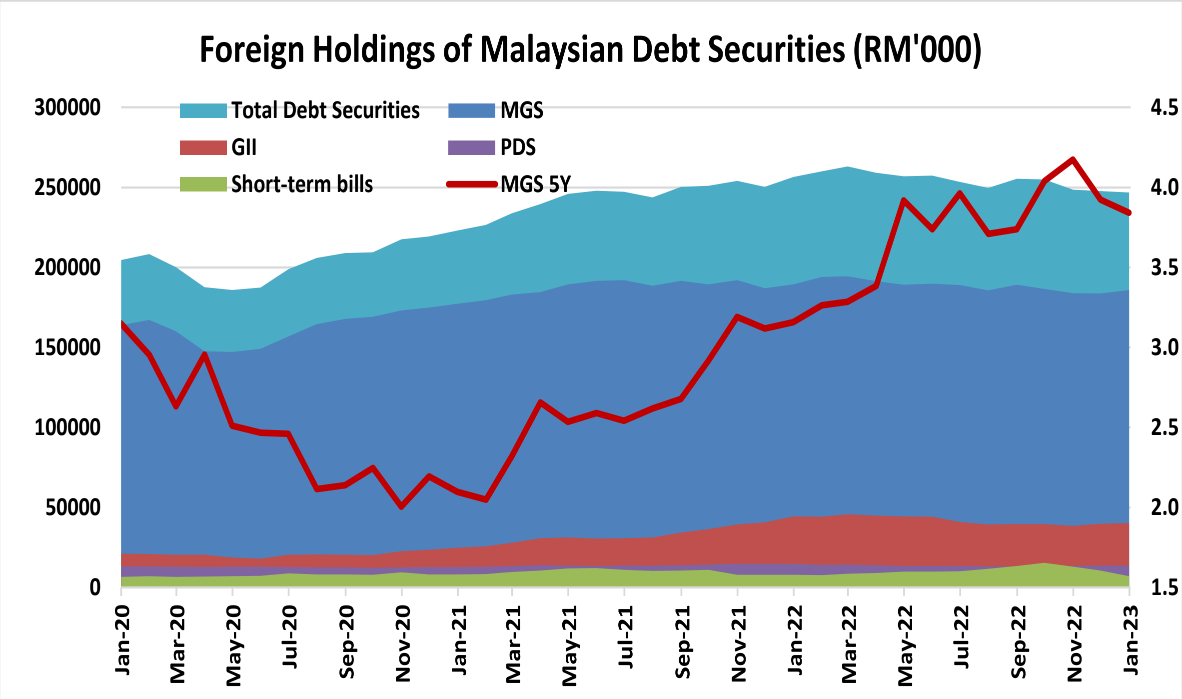
Moving on to other economic data, the sustenance in the manufacturing PMI for December at 46.2 but weaker ISM manufacturing based from 49.0 to 48.4 may be seen as to exert less pressure on supply chain logistics seen earlier last year. The ISM services is similarly weaker and has breached below the 50-levels compared to November, flagging downside risks ahead in the US. Separately, the Fed's preferred inflation measure i.e., core PCE in November saw sustained increase of +0.2% m/m but decelerated to +4.7% y/y (Oct: +5.0% y/y). Hence, there are signs receding inflation is believed to take root and may provide a catalyst to propel UST and corporate bond yields lower going forward.

The Fed lifted the Fed Fund Rates for the 7th time at its last FOMC by 50bps on 16th December (for the record there were six 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, another 75bps on 4th November). 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 55% odds of a 50bps rate hike instead in the next FOMC meeting on 2nd of February with peak terminal rates 0f 4.92% in June. CME Fed Watch Tool meanwhile, targets a mere 7% probability of a 25bps rate hike post December CPI release. Elsewhere, we note that the Fed's ~$8.585 trillion balance sheet as at 30th November has eased further to $8.551 trillion as at 28th December with the ongoing monthly run-off of ~$60b being easily absorbed.

Lower overall foreign holdings of MYR bonds (which eased by a mere RM870m or 0.4%) in December paints a different picture…

Although foreign holdings of overall MYR bonds ended lower by RM870m or 0.4% in December to RM246.8b mainly due to the substantial fall in both conventional and Islamic Treasury Bills; non-resident holdings of MGS rose by a solid RM2.2b (prior month: -RM1.0b) or 1.2% to RM186.0b, whilst forming lower i.e., 34.4% of total outstanding. GII also saw a mild increase of RM460m m/m. Easing inflationary pressures especially in US coupled with investor confidence in the new GOM's ability to ensure steady monetary and fiscal policies were catalysts for bonds investments. The attractive emerging values for MGS/GII following earlier weakness were also an added factor. **Total MYR Government bonds (MGS+GII+SPK) holdings saw higher m/m net inflows of RM2.7b to RM226.2b (representing 22.2% of total outstanding) versus prior month's lower increase of RM1.2b;** despite higher net issuances of RM8.5b for the month (Nov: RM6.5b). Meantime, **12-month cumulative rolling outflows ended higher at RM7.78b (prior month: -RM4.20b).** Foreign participation in both secondary market and auction exercises were better amid the increase in MGS and GII foreign holdings as investors were slightly upbeat whilst EM bond yields eased against the backdrop of stronger ASIA FX levels. Additional plus factor was the availability of well-diversified existing base and appetite of local investment Institutions namely GLIC's, pension funds, insurance companies in the Fixed Income space.

Separately, equity inflows saw larger outflows in December @ RM1.5b (Nov 2022: -RM282m) whilst the 12-month rolling inflows fell from RM4.54b to RM4.18b. On the currency side, the MYR strengthened further against USD to 4.4040 as at end-December (end-Nov: 4.4445) and currently trading at 4.3337 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM may be expected to raise OPR to 3.00%; reaching the pinnacle of the present rate hike cycle in 2023…

To recap, BNM made its 4th straight 25bps rate increase in the OPR to 2.75% on 3rd November, as per our house projection. We opine that the decision was predicated upon continued growth prospects in the Malaysian economy, emerging signs of demand-pull inflation and second round price effects, as well as higher volatility in the financial markets due to insistent rate hikes by major central banks specifically the Fed. **We expect a further OPR hike at a measured pace of 25bps, bringing the OPR to 3.00% by 1Q2023.**

Given that the recently-elected government will revisit the earlier expansionary National Budget 2023 on the 24th of February, we opine that there could be some adjustments to both DEVEX and OPEX on the fiscal side, to stem the rise in government and/or statutory debt.

Strong interest seen for new coupon offerings in December absence of rollover from maturities…

The two (2) auctions in December 2022 saw average BTC ratios spiked to @ 2.88x (Nov: 1.67x); just below the 3.0x handle. The highest BTC of 4.205x among the two (2) auctions was notched by the reopening of 3-year GII 10/25 which saw strong participation from inter-bank participants, insurance companies and asset management companies, resulting in a short tail of a mere 0.7bps. The other auction consisted of the re-opening of 10Y MGS 7/32. Together, both the two (2) auctions in December saw slightly higher individual sum of bids amounting to between RM7.7-16.8b. Despite there being no maturities in December to provide the benefit of rollovers into the Malaysia government bond space compared to actual issuances of RM8.5b, demand for auctions were surprisingly strong. Our YTD projection of gross issuances of ~RM172.0b for 2023 is a tad higher than the actual issuances of RM171.5b for 2022. Despite the probable slight potential revision in another reading of the previous unveiled National Budget 2023 on 24th February; gross issuances may continue to remain elevated at ~RM172b this year due to the elevated fiscal deficit.

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		5,000								
4	7-yr Reopening of MGS (Mat on 04/30)	7	Feb	Q1		4,500								
5	20.5-yr New Issue of MGII (Mat on 08/43)	20	Feb	Q1		5,000								
6	3-yr Reopening of MGS (Mat on 07/26)	3	Feb	Q1		4,500								
7	15-yr Reopening of MGII 03/38	15	Feb	Q1		5,000								
8	10-yr Reopening of MGS 07/32	10	Mar	Q1		4,500								
9	7-yr Reopening of MGII 09/30	7	Mar	Q1		4,500								
10	30-yr New Issue of MGS 03/53	30	Mar	Q1		5,000								
11	10-yr Reopening of MGII (Mat on 10/32)	10	Apr	Q2		4,500								
12	5-yr New Issue of MGS (Mat on 04/28)	5	Apr	Q2		5,000								
13	30-yr Reopening of MGII 05/52	30	Apr	Q2		4,500								
14	7-yr Reopening of MGS (Mat on 04/30)	7	May	Q2		4,500								
15	20-yr Reopening of MGII (Mat on 08/43)	20	May	Q2		5,000								
16	15-yr Reopening of MGS (Mat on 06/38)	15	May	Q2		4,500								
17	3-yr Reopening of MGII 09/26	3	Jun	Q2		4,500								
18	20-yr Reopening of MGS 10/42	20	Jun	Q2		4,500								
19	5-yr Reopening of MGII 07/28	5	Jun	Q2		5,000								
20	10-yr Reopening of MGS 11/33	10	Jul	Q2		4,500								
21	7-yr Reopening of MGII (Mat on 07/30)	7	Jul	Q3		4,500								
22	3-yr Reopening of MGS (Mat on 07/26)	3	Jul	Q3		4,500								
23	30-yr Reopening of MGII 05/52	30	Aug	Q3		4,500								
24	5-yr Reopening of MGS 04/28	5	Aug	Q3		5,000								
25	20-yr Reopening of MGII 08/43	20	Aug	Q3		5,000								
26	15-yr Reopening of MGS 06/38	15	Aug	Q3		4,500								
27	3-yr Reopening of MGII 09/26	3	Sep	Q3		4,500								
28	30-yr Reopening of MGS (Mat on 03/53)	30	Sep	Q3		5,000								
29	5-yr Reopening of MGII (Mat on 07/28)	5	Sep	Q3		5,000								
30	20-yr Reopening of MGS 10/42	20	Oct	Q4		4,500								
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	7,500	2,500	10,000	PROJECTED TOTAL ISSUANCE SIZE = 172,000,000				

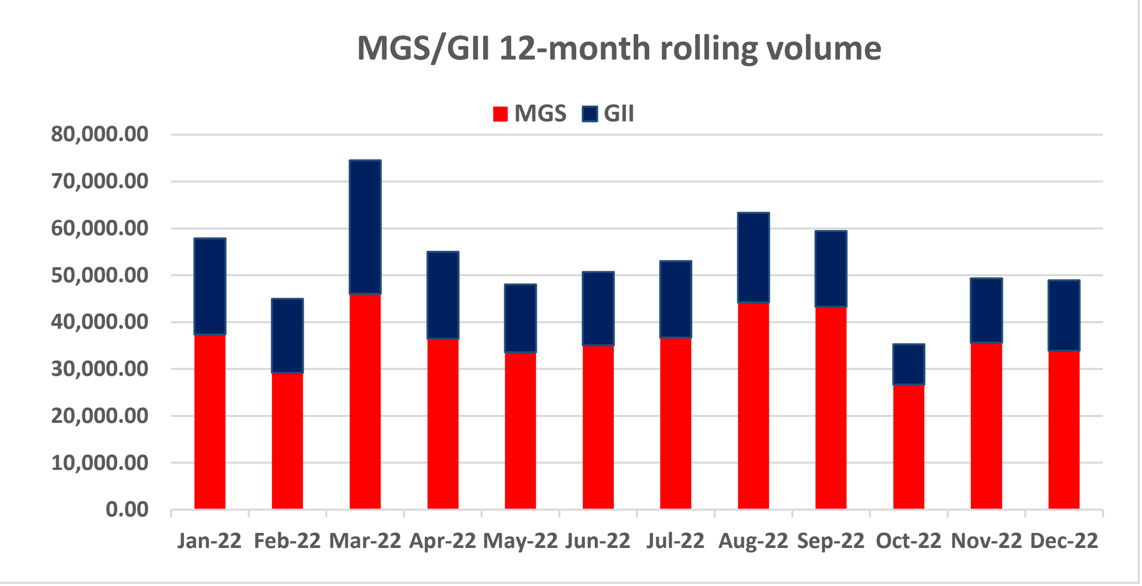
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity tapers in December…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds decreased by 11.2% m/m to RM46.1b in December compared to prior month's RM51.9b. Activity was strong despite the earlier hawkish FedSpeak rhetoric which was brushed aside by the bond market which preferred to view the lesser threat of inflation as a key factor. Bonds were well-bid over concerns over a possible upcoming economic slowdown as indicated by the stubborn inversion in the yield curve. On the local front, investors were believed to have confidence in the GOM's abilities to rein in costs including improving the fiscal deficit from the expected 5.8% in 2022 to 5.5% in 2023. This is expected to prevent further build-up in debt via additional govvies issuances. We are maintaining our 4Q and full year GDP growth projection at 4.9% and 8.2% y/y at this juncture, pending subsequent data for the month of December. Strong secondary market activities were still local-led and supported by both local institutions that included pension funds, inter-bank participants, local GLIC's and real money investors like Lifers. However, we note the increase in foreign-buying. Some notable movements during the month under review were as follows:

- The MGS curve shifted lower in almost parallel fashion extending out until 20Y tenures from 3Y, with the largest deviation yield-wise seen in both ends of the curve. The GII curve however saw largest positive movements within the 5Y and 15Y sectors with yields falling the most.
- MYR IRS levels declined sharply between 4-15bps for 1-10Y tenures.
- Bulk of the volume was seen in the short-ends such as MGS 3/23, benchmarks 3Y MGS/GII and 10Y MGS/GII; which accounted for almost 40% of overall volume.

Expect lesser bouts of volatility as bonds are believed to be supported by either side of views i.e.; being safe-haven or even peaking rates which would encourage strong participation in the bond asset class. We also expect greater receiving interest in IRS movements to pave for the way for yields to follow suit.



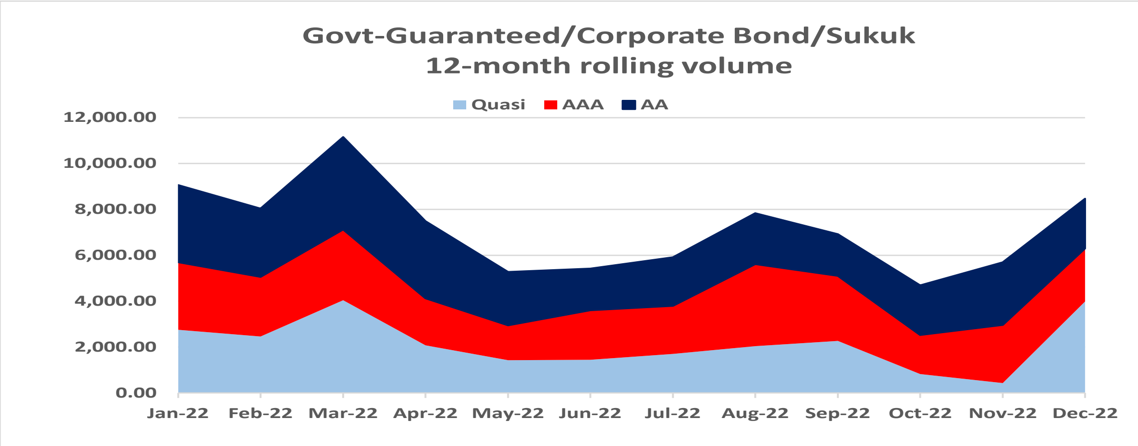
Source: BPAM, Bloomberg, HLBB Global Markets Research

Corporate Bonds/Sukuk see ramp-up in secondary market activity instead…

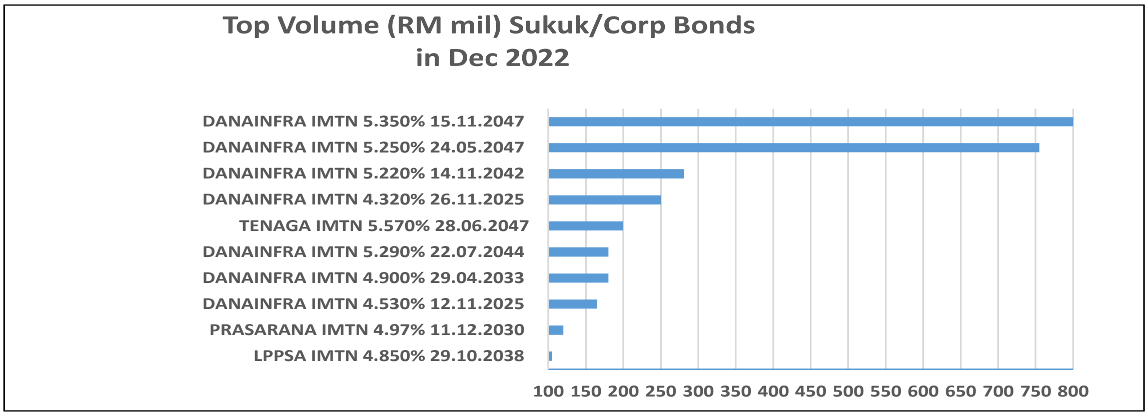
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) ignored govvies and saw trading volume jump by a whopping 60% in the secondary market to RM8.69b in December (Nov: RM5.43b). The stronger appetite and momentum saw appetite for yield-carry following confidence in positive sovereign bond movements as the interest rate environment both in the US and in Malaysia was seen to be reaching peak terminal rates soon. Interestingly, the spike in primary issuances for the month saw decent take-up rates and were fully subscribed. The Govt-Guaranteed (GG)-segment saw the 3-15Y tenures tightening the most between 11-20bps to between 3.95-4.55%. The AAA-rated space similarly saw tenures between 3-15Y richer between 10-20bps; with levels around 4.20-4.90%. The AA2-segment too saw yields settle lower between 11-13bps for 3-15Y tenures; resulting in yields closing within the ranges of 4.43-5.30% area. The sweet spot area is still seen in the 3Y and 7Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits inch slightly down by RM55m to RM13.6b.

Total transactions for GG bonds in December spiked sharply again to form 47.0% (Nov: 7.5%) of overall volume. AAA-rated papers however saw total trades drop to form ~27.3% of overall trades. The AA-space similarly saw its market share to fall with secondary market trades at 25.7% share of overall investor interest (Nov: 48.3%). 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 i.e.; DANA 11/47 (GG) which declined 23bps compared to previous-done levels to 4.79%, followed by its 5/47 tranche (GG) which spiked 26bps to 4.76%. Third was also another of DANA's 11/42 tranche jumped 26bps higher to 4.66%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-27's, conglomerates (e.g.; DRB Hicom perps, Genting-related 25-34's bonds), Khazanah-related funding conduits i.e.; SPV's (i.e., DANUM 23-30s), utilities provider i.e. telco/water/power, DIGI 25-27's, TENAGA (and its-related entities like TNB WE) 24-47's), construction/property/plantation (i.e., WCT 23-26's, UEM Sunrise 23-26's), energy and power (i.e. Sarawak Petchem 26-36's, EDRA 27-38's, BGSM 23-27's, TBEI 25-30's, YTL Power 23 and 28's, SEB 24-32's), toll operators i.e. AMANAT Lebuhraya (ALRB) 24-34's, MYEG 27's, PONSB 26-29's, PMETAL 24-28's, PSEP 27-32;s and PTP 24-30's. The banking/finance sector saw frequent odd-lot denominated trades in Malaysian RE 2032 callable bonds, AIBB 27's, AmBank 2032 callable, MAYBANK 2031 callable and perps, PUBLIC Islamic 27's, CIMB 2032 callable, SABAH Development Bank 23-27's and UOB 2032 callable bonds. Other odd-lot denominated trades were seen in DRB Hicom perps, YNH Properties and its perps, Eco World International 23's, Tropicana 23's and its perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in December driven by the following:

Notable issuances in Dec-22	Rating	Amount Issued (RM mil)
Affin Islamic Bank Berhad	AA3	750
Cagamas Berhad	AAA	4,030
CIMB Group Holdings Berhad	AA2	1,000
CIMB Bank Berhad	AA2	1,000
Danum Sinar Sdn Berhad	NR	9
DiGi Telecommunications Sdn Berhad	AAA	600
Gas Malaysia Distribution Sdn Berhad	AAA	80
Hap Seng Management Sdn Berhad	NR	400
Jana Pendidikan Malaysia Sdn Berhad	NR	220
KYS Assets Sdn Berhad	NR	44
Laksana Positif Sdn Berhad	NR	9
Maybank Islamic Berhad	AAA	2,000
Maybank Islamic Berhad	AA3	1,000
OSK I CM Sdn Berhad	NR	100
Public Islamic Bank Berhad	AAA	1,000
Projek Lebuhraya Usahasama Berhad	AAA	25,200
Sabah Development Bank Berhad	AA1	400
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	9
Silver Sparrow Berhad	AAA	61
Sunway Treasury Sukuk Sdn Berhad	NR	100
Tumpuan Azam Sdn Berhad	NR	14
Tanjung Pinang Development Sdn Berhad	NR	25
UEM Sunrise Berhad	AA3	120
West Coast Expressway Sdn Berhad	NR	15
Yinson Holdings Berhad	NR	10
		38,196

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances jumped a whopping four (4)-fold from RM9.4b in November to RM38.2b in December; the highest seen in almost 5 years. Some of the prominent issuances consisted of CAGAMAS Bhd's AAA-rated, 1-5Y papers totaling RM4.03b with coupons ranging between 3.77-4.71% and Projek Lebuhraya Usahasama Bhd's re-issuance of RM24.3b AAA-rated bonds with coupons ranging between 4.21%-5.75%.

Outlook for January 2023

Expect USTs to find support as peak terminal rates are nearing Fed officials estimates with each FOMC meeting…

The Federal Reserve will have its next FOMC meeting on **3rd of February for which we see an even chance of a 50bps rate hike**. The just-released CPI for December came in lower at 6.5% y/y from 7.1% prior month and -0.1% m/m from prior month 0.1%~ marking the lowest levels since late 2021. Inflationary pressures are believed to be slowly moderating as energy prices ease and supply chain improves both in the US and globally. The Treasury implied volatility, denoted by the ICE BofA MOVE index is still trending at almost 5-month lows since October. The job data (NFP payrolls) remains strong but ebbing wage growth may underline the case for less-aggressive stance in interest rates outlook.

The larger-than-expected deceleration in November core PCE y/y and December CPI will lend credence to the case for a more gradual pace of rate hikes at upcoming FOMC meetings despite general hawkish FedSpeak rhetoric events. However, Fed Chair Powell was relatively quiet on policy matters post CPI-release. The Fed's ongoing QT monthly exercise of ~$60b is well-absorbed and non-threatening to existing market operations whilst participation in US Treasury coupon issuances across most maturities in 1Q2023 are expected to be strong. The continuous prominence in yield curve inversion denoted by the 2s10s spread remains a reliable predictor of a potential recession. Swaps traders however continue to price in anticipated rate hike of about 25bps in arriving at an implied rate of ~4.60% in the upcoming FOMC meeting on 3rd February 2023. **We opine that the yield curve could potentially shift flatten and slightly lower as the impact of earlier rate hikes filter into the economy.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) reversed into a marginal loss of 0.4% in December (Nov: +5.2 %); despite the slight narrowing of spreads in OAS spreads at 130bps from 133bps in November. We expect issuance to be in the region of $110b in January whilst maturities are highest in 2023, circa $80b with bulk 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 small loss of 0.6% gain in December 2022 whilst spreads tightened from 462bps to 428bps. Overall, US bond funds have seen ~$7b of outflows in December, a norm when compared to $6b in monthly outflows.

The UST 10Y is expected to range lower i.e.; between 3.45-3.65%; compared to our previous month forecast finding support at key 3.65% levels for this month. We maintain a slightly positive bias for nominal UST as concerns eventually abate over persistently stubborn inflation. We favor IG credits that come with strong balance sheets fortified by refinancing debts at lower rates; especially in Basic Industry, Communications, Energy and Financials which have decent adjusted spreads. We prefer to remain neutral on MBS sector which forms the backbone of the USD$9 trillion mortgage market as risk/reward appears less certain following the slight widening spreads to ~39bps in a subdued 0.4% loss performance in December amid less-hawkish perception of interest rate environment. We see better value in rolls down from 10Y to 5Y tenures amid attractive carry proposition.

Expect lesser volatility as decent volumes are expected to reduce gapping levels due to emerging presence of more buy-side and sell-side participants…

The two (2) auctions in December 2022 saw average BTC ratios jump to @ 2.88x (Nov: 1.67x); just below below the 3.0x handle. The better-than-expected auctions for the year consisting of the reopening of RM4.5b of 10Y GII 10/32 on 6th of January and the re-issue of 15Y MGS 6/38 saw solid participation mainly by wide repertoire of customers. On the local scene, January 2023 is expected to see an increase in net issuances **(projected gross issuances > maturities)**; **of RM15.0b compared to RM8.5b in December; with possibility of some 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. This should augur well and is expected to provide some stability for bond yields. Our total projected govvies issuances for 2023 @ RM172.0b is a tad higher than actual issuance of RM171.5b for 2022.

Expect the emergence of low-staffing levels in the coming weeks as the nation celebrates the Lunar New Year ahead of the much-anticipated re-look of last November's release of National Budget 2023. On the macro front, we are maintaining our 4Q and full year GDP growth projection at 4.9% and 8.2% y/y at this juncture, pending subsequent data for the month of December. MOF however expects the Malaysian economy to expand at a faster pace of 6.5-7.0% this year, before tapering off to 4.0-5.0% in 2023 (Note: our 2023 projection remains unchanged at +4.2%). Meanwhile, we foresee the focus is on some policy tightening, lesser volatility, steadier MYR with regards to the financial and foreign exchange markets, and China's reopening of borders. There is greater policy flexibility for further normalization in monetary policy to tackle inflation which is likely to average slightly above 2022's full-year projection of 3.3% (2023: 2.1%). **We therefore expect further OPR hike, probably at a measured pace of 25bps, bringing the OPR to 3.00% as early as next week i.e.; 18-19th January or by latest 1Q2023.**

As mentioned in our earlier monthly report, 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 steadfast under the present economic climate. **We expect the 10Y MGS yield to maintain its higher trading range between 3.90-4.10% support pegged at 4.10% levels**. The 5-7 MGS and 15-20Y MGS/GII sectors currently reflect relative value from term-premium perspective. In the corporate bonds/Sukuk space, we favor the 3-5Y GG (22-25 bps), 7Y AAA (43bps) and 20Y AA2-rated bonds (97bps), within sectors comprising utilities i.e.; sewerage, telco), logistics, energy and highway/toll sectors.

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