Monthly Fixed Income Perspective –

Apr 23 review & May 23 outlook

US Bond market

- **In April**, US Treasuries (UST's) cruised through a calmer month (unlike previous month's turbulent period), witnessing lesser wild volatility and swings. The curve was steeper as overall benchmark yields fell between 2-9bps, save for the long bond which rose 3bps. **The 2Y UST yield edged 2bps lower to 4.01% whilst the 10Y declined 4bps to 3.43%.** At the time of writing, these levels are trading lower at 3.99% and 3.39% respectively. Another bank besieged by interest rate risk i.e.; First Republic Bank was forced into a takeover by JP Morgan Chase. Treasury Secretary Yellen's warned of financial "chaos" if the Federal Government's $31.4 trillion borrowing limit is not increased and this may impact bonds. The sale of ~$96b of coupon offerings which included the 3Y, 10Y and 30Y tenures witnessed strong participation. Meanwhile, the 2s10part of the curve has reduced its earlier inversion from 56bps to ~ about 53bps presently.

- **For May**, expect range-bound trading in USTs as uncertainty regarding the FOMC rate path takes prominence along with recessionary fears amid dissipating fears of further bank contagion. We expect USTs to drift sideways with a slight upside bias on yields. The labor market surprisingly remains "hot" as indicated by a trifecta of strength in April-employment, unemployment rate and average hourly earnings. Another important barometer of investors' inflation expectations i.e.; the 5Y breakeven inflation rate on 5Y TIPS, has eased further by ~23bps m/m to 2.25% as at end-April from 2.48% in March; and is presently at 2.13% threshold. The debt-ceiling standoff may see the US run out of cash at some point in time within the first two weeks of June. Fed-dated OIS pricing currently reveal a mere 13% chance of a 25bps in arriving at an implied peak terminal rate at 5.11% in the upcoming FOMC meeting on 14th June 2023. **The UST 10Y is expected to range higher between 3.45-3.66%, with support at key 3.65% levels for this month.** We remain averse to HY credits as credit conditions tighten, but foresee decent appetite and pick-up for IG; **Our preferred IG bond issuances are within the 10Y tenures in banking and energy sectors.**

MYR Bond Market

- **In April**, MYR government bond curve reversed and bull-flattened instead with both **MGS/GII bonds settling lower between 7-24bps across; with the long-ends rallying the most.** The positive vibes on the economy prior to the release of 1Q2023 GDP of 5.6% coupled with March rate pause on OPR by BNM, augured well for bonds. The benchmark 5Y MGS 11/27 yield eased 5bps m/m to 3.43% whilst the 10Y MGS 7/32 yield fell 18bps to 3.73%. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings remained stagnant m/m at RM240.5b (representing 22.9% of total outstanding).** The primary factors which drove bond movements were expectations of no further OPR rate hike, government's strong resolve to cap government's debt limit and stable political climate. However, the three (3) auctions in April 2023 saw average BTC ratios spike to ~ 2.35x (Mar: 1.70x); way above the 2.0x handle.

For May, expect decent support and interest from local institutions for bonds in both primary and secondary markets following fading fears over the earlier financial collapse of several banks in the US and expectations of no further hike in OPR. **The 7Y,15Y MGS and 7-10Y GII sectors reflect relative values along the curve. We expect the 10Y to range slightly lower between 3.60-3.80% compared to our previous month's projection** with support pegged at 3.80% 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, 15Y GG (~20-22 bps), 7Y AAA (~53bps) and 15-20Y AA2-rated bonds (~100-112bps) in sectors comprising banking, tolling operations, logistics and utilities (i.e.; telco, electricity).

MYR sovereign curve (MGS)

Source: Bloomberg

Stronger-than-expected NFP of 253k in April with higher wages; indicating no let-up in demand for labor even as economy slows…

April Non-Farm Payrolls ("NFP") was marginally better than consensus estimates of 160k but some gloss could be taken off by new data showing hiring was less strong in February and March than previously reported. The unemployment rate fell a notch to 3.4% (Mar: 3.5%); matching a cycle-low in January. Hiring was fairly broad with gains seen in professional businesses, health-care providers, restaurants/bars, financial firms and government. The participation rate remained unchanged at 62.6%. The average hourly wages growth was higher at 0.5% m/m whilst the y/y figures rose to 4.4% (previous month 4.2%). June FOMC meeting decision is expected to be less tough as the Fed may give more prominence to the slowing economy over inflationary conditions.

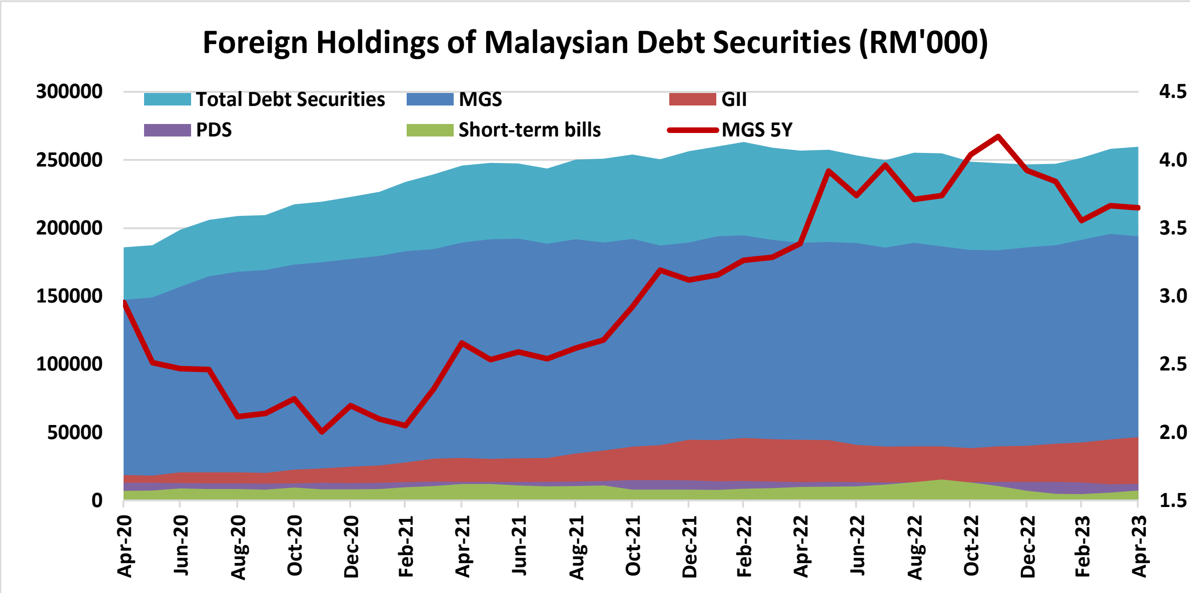
To recap, the Fed raised the Fed Funds Target Rate for the 10th time at its last FOMC meeting on 4th May 2023, by 25bps to 5.00- 5.25%. For the record there were nine (9) earlier hikes totaling 475bps between 17th March 2022 and 2nd March 2023. **The Fed's current median FOMC dot plot pins target rate at ~5.13% for 2023. Data from the Fed Fund Futures now reflect traders' hypothetical expectations of a mere 11% odds of a hike in the next FOMC meeting on 14th of June whilst CME FedWatch Tool has maintained an 85% probability of a rate pause.** Elsewhere, we note that the Fed's ~$8.69 trillion balance sheet as at 31st March inched lower to $8.59 trillion as at 3rd May.

Moving on to other economic data, we note the steady US PMI in April (50.2 vs 50.4 in March) along with stronger ISM manufacturing data for April (47.1 vs 46.3 in March). Separately, the Fed's preferred inflation measure, the core PCE in February was unchanged at +0.3% m/m and +4.6% y/y but nevertheless, the easing of headline April CPI may reduce the negative impact on USTs and corporate bonds and prevent a substantial spike in UST yields.

Small increase in foreign holdings of overall MYR bonds by RM1.5b in April is testament to resilience of local bond market…

Foreign holdings of overall MYR bonds saw a lower increase circa RM1.5b or 0.6% in April (Mar: RM6.6b or 2.6%) to RM259.7b mainly due to the jump in GII and Bills which offset the lower MGS holdings. Non-resident holdings of MGS fell RM1.7b or 2.3% (prior month: +RM4.4b or +5.2%) to RM194.0b, thus forming a 35.9% of total outstanding. Foreign holdings of GII however increased RM1.6b m/m to RM46.4b. Bonds yields declined due to higher demand from safe-haven bids for the bond asset class and resumption in trading activities following the calmer markets post-US banking rout seen earlier in March. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings almost remained constant; with a net marginal inflow of a mere RM32m m/m to RM240.5b (representing 22.9% of total outstanding);** amid net issuances of RM3.7b for the month (Mar: net maturities instead of RM6.6b); for which the lack of excess funds from rollovers did little to dampen appetite and was not a telling factor. Meantime, **12-month cumulative rolling inflows surged higher to RM6.8b (prior month: -RM4.2b).** With the improved appetite for coupon offerings; the secondary market too was given a boost as participation was robust amid the increase in MGS and GII foreign holdings. Malaysian debt did lure investors although its yields are relatively low compared to its peers in the region. The continued appetite and availability of a well-diversified and deep pockets of 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 lesser outflows in April @ RM300m (Mar: RM1.4b) whilst the 12-month rolling outflows rose further from RM4.0bn in March to RM5.1bn in April. On the currency side, the MYR weakened against USD to 4.4622 as at end-April (end-Mar: 4.4152) and currently hovering at 4.5210 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

OPR raised by 25bps in line with our house view; rate pause expected going forward for the year…

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 2H of the year (Figure 3), **support our view for OPR to stay unchanged at 3.00% for the remaining of 2023.**

Reversal sees solid interest for new coupon offerings in April amid net maturities of RM3.2b…

The three (3) auctions in April 2023 saw average BTC ratios spike to ~ 2.35x (Mar: 1.70x); way above the 2.0x handle. The highest BTC of 2.43x among the three (3) auctions was notched by the new issuance of 5-year MGS 4/28 which saw strong participation mainly with demand seen mainly from pension funds, inter-banks, and insurance companies resulting in a short-tail of 0.9bps. The other auctions consisted of the re-opening of 10Y GII 10/32 and 30Y reopening of GII 5/52. Together, all three (3) auctions in April saw slightly higher individual sum of bids amounting to between RM5.4-12.2b. Demand for auctions were stronger partly due to the relatively lesser private placement offered which did not sap appetite from the larger investment institutions. Surprisingly, the absence of rollover maturity benefits (April net issuances of RM3.7b versus March net maturities of RM6.6b instead) in the Malaysia government bond space did not dampen appetite in terms of primary participation. The benefit of these projected rollover funds of circa RM3.2b may likely made its way especially into shorter-tenured off-the-run and existing benchmarks in the secondary markets in lieu of the higher foreign holdings noted.

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		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	52,500	12,500	65,000	PROJECTED TOTAL ISSUANCE SIZE = 168-172b				

Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity grinds lower in April…

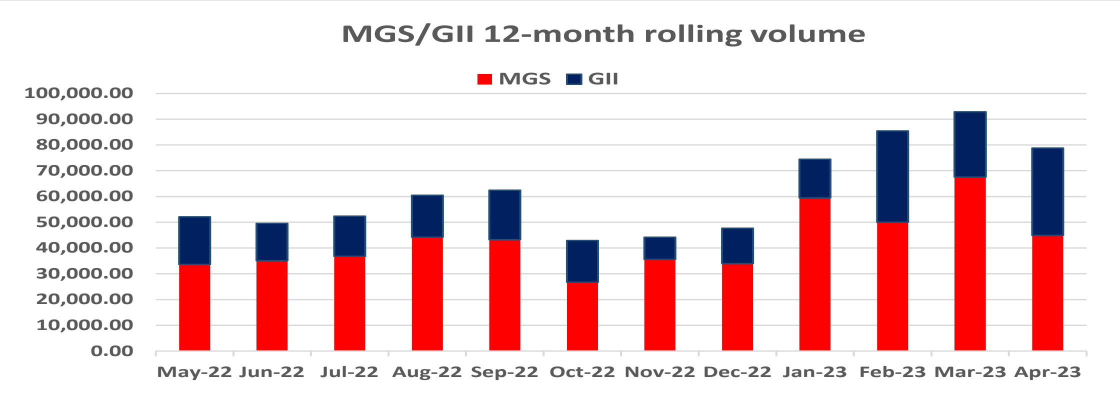
Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds fell sharply by 30% m/m to RM70.7b in April compared to prior month's RM100.5b. The cautious stance which saw many investors somewhat sidelined was triggered by uncertain FOMC interest rate pathway, fresh memories of recent bank failures and expectations of weaker MYR on the local front. The narrower inversion in the US yield curve (which serves as a precursor of a potential recession) improved appetite in other risky asset classes. The GOM still intends in reducing its overall debt, including liabilities of ~RM1.44 trillion and statutory debt of RM1.08 trillion (60.4% of GDP) which is a mammoth task given higher-than-projected YTD gross govvies issuances of RM70b. We foresee the reduction in the fiscal deficit from the expected 5.6% in 2022 to 5.0% of GDP in 2023 is potentially due to higher GDP numbers expected instead.

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/foreign entities. Notable movements during the month under review included the following:

- Both MGS/GII curves underwent downward shifts with prominent movements seen in the 15Y and 30Y sectors.

- MYR IRS levels fell between 16-24bps for 1-10Y tenures.
- Bulk of the volume was more spread out across the term structure with prominent trades seen more in the benchmarks 10Y MGS/GII (19.5%), benchmarks 3Y MGS (5.6%) and short-ends such as off-the-run MGS 23-24's (7.1%) which together accounted for circa 32% of overall volume.

Expect lower bouts of volatility as the March collapse of Silvergate Capital, Silicon Valley Bank and Signature Bank along with the takeover of Credit Suisse and First Republic by larger banking giants UBS and JP Morgan Chase has calmed nerves of investors whilst the US tightens parameters and steps-up monitoring and surveillance. On the local front, we expect higher receiving interest in IRS following BNM's recent "dovish hike", implying that the current OPR rate hike cycle is nearing to its end.



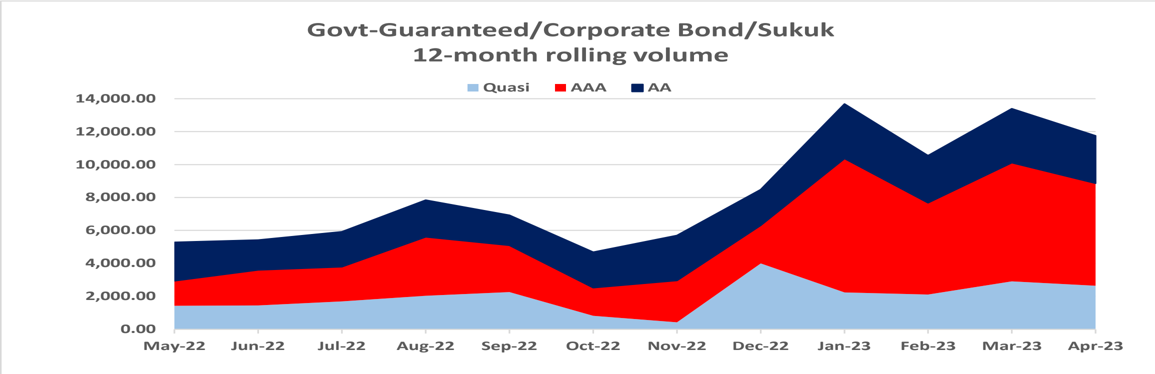
Source: BPAM, Bloomberg, HLBB Global Markets Research

Corporate Bonds/Sukuk too sees a slight pullback in secondary market activity…

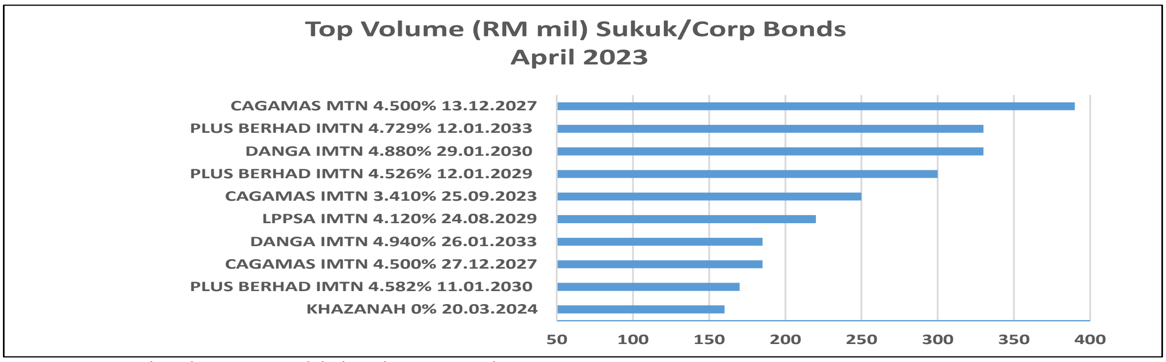
Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) similarly took cue from lower momentum and activity in the govvies space but saw trading volume ease by a mere 5% in the secondary market to RM12.1b in March (Mar: RM12.7b). Appetite for yield-carry activities was nevertheless spurred by stronger-than-expected sovereign bond performance due arising from "fight-to-safety" mode coupled with the belief that inflationary expectations have peaked and set to ease eventually. The slight dip in primary issuances for the month caused strong take-up rates. Subsequently, the spill-over into the secondary market helped maintain activity. The Govt-Guaranteed (GG)-segment saw the 2-10Y tenures tightening prominently between 13-18bps to between 3.41-4.06% levels. The AAA-rated space similarly saw tenures between 2-15Y tenures richer between 3-11bps; with levels around 3.87-4.53%. The AA2-segment too saw yields settle lower between 8-13bps for 2-10Y tenures; resulting in yields closing within the ranges of 4.06-4.68% area. The sweet spot area is seen between 7-10Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits inched higher to RM12.0b in April (Mar: RM11.9b).

Total transactions for GG bonds in April fell slightly by 9.0% (Mar: 21.7%). AAA-rated papers too similarly saw total trades sustain to form ~52.8% of overall trades (Mar: +53.7%). The AA-space however saw its secondary market share maintain ~24.7% of overall investor interest in April. The GG-space continued to be spread among names like DANAINFRA, LPPSA, PRASARANA and PTPTN. **Bonds that garnered top volume for the month were dominated by CAGAMAS 12/27 (AAA) which declined 10bps compared to previous-done levels to 3.95%. Next was PLUS 1/33 (AAA) which jumped 8bps higher instead to 4.56%, followed by DANGA 1/30 which eased 7bps instead to 4.07%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-28's, MAHB 25-31's and perps, UMW 25-26's, Khazanah-related funding conduits i.e.; SPV's (i.e., DANGA 27-33's), utilities provider i.e. telco/water/power, (DIGI 25-29's, TM TECH 24-28's, AIR SELANGOR 33-48's, PASB 24-31's, TENAGA 30-37's, TNB WE 25-33's, TNB Power 30-43's), construction/property/plantation (i.e., MRCB 23-29's, KLK 25-29's), energy and power (i.e.; MALAKOFF 23-30's, SPETCHEM 27-37's, Sarawak HIDRO 25-31's, Southern Power 24-33's, SEB 27-33's YTL Power 27-33's), toll operators (i.e. AMANAT Lebuhraya (ALRB) 28-29's, PLUS 27-38's, ANIH 23-29's), MERC 23-27's, PMETAL 24-29's, DRB-HICOM 24-30's, perps, TG Excellence perps, IMTIAZ 26-78's, YTL Corp 26-31's, Fortune Premier 23-26's, INFRACAP 24-31's and BPMB 27-34's. There were also frequent odd-lot denominated trades in JohorCorp 27's, Alliance Bank 2030, 2035 callable, AmBank 2032 2033 callable, MCIS 31's, CIMB 2032, 2033 callable, CIMB perps, SABAH Development Bank 23-29's, UOB 2030, 2032 callable bonds, UEM Sunrise 23-26's, GENTING-related bonds 25-34's, IJM perps, LBS Bina perps, Eco Capital 24's, Eco world capital 26's, Eco world international 23's, YNH Properties 25-27's and perps and finally Tropicana 23-28's and perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in April driven by the following:

Notable issuances in Apr-23	Rating	Amount Issued (RM mil)
Pengurusan Air Selangor Sdn Berhad	AAA	700
Cagamas Berhad	AAA	1,100
Malayan Banking Berhad	AAA	24
Pengurusan Air SPV Berhad	AAA	450
YTL Corporation Berhad	AA1	1,200
Solarpack Suria Sungai Petani Sdn Berhad	AA2	285
Alam Flora Sdn Berhad	AA2	1
Perbadanan Kemajuan Negeri Selangor	AA3	75
UEM Sunrise Berhad	AA3	410
DRB-Hicom Berhad	A1	290
BGMC BRAS Power Sdn Berhad	NR	20
BGMC Corporation Sdn Berhad	NR	65
Impiana Hotels Berhad (fka Bio Osmo Berhad)	NR	3
Idiwan Solar Sdn Berhad	NR	20
JKG Land Berhad (fka Keladi Maju Berhad)	NR	220
Kwasa Utama Sdn Berhad	NR	650
Maxis Broadband Sdn Berhad	NR	900
Pavilion REIT Bond Capital Berhad	NR	700
Pac Lease Berhad	NR	100
Potensi Angkasa Sdn Berhad	NR	23
Puncak Selasih Sdn Berhad	NR	30
Seremban Mall Sdn Berhad	NR	33
SunREIT Unrated Bond Berhad	NR	600
Tumpuan Azam Sdn Berhad	NR	15
Tanjung Pinang Development Sdn Berhad	NR	13
West Coast Expressway Sdn Berhad	NR	5
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	2
		7,933

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances fell from RM8.5b in March to RM7.9b in April. Some of the prominent issuances consisted of CAGAMAS Bhd's AAA-rated, 2-3Y papers totaling RM1.1b with coupon rates between 3.72-3.90% and YTL Corporation Bhd's AA1-rated 3-8Y bonds amounting to RM1.2b with coupons ranging between 4.48-4.97%.

Outlook for May 2023

Expect USTs to find mild support as the verdict on whether the Fed is done hiking rates is still not out yet…

The Federal Reserve will have its next **FOMC meeting on 14th of June for which we continue to see a minuscule chance of any rate hike**. However, the lower April CPI at 4.9% (Mar: 5.0% y/y) and strong NFP jobs data, may leave the Fed with more thoughts about inflation. The Treasury implied volatility, denoted by the ICE BofA MOVE index which has eased to a 3-month low in mid-April has begun to ascend at the time of writing. The less-aggressive stance by the Fed will consider potential bank stress as was recently seen in the takeover of First Republic Bank by JP Morgan. Hence interest rate volatility may flare-up again despite having retreated in April as funds flip between flight-to-safety and risk-on mode. Elsewhere, data covering total foreign holdings of USTs is positive as it jumped by ~$230 billion to ~$7.6 trillion in March. China snapped a 7-month decline; rising ~$21b to $870 trillion behind Japan's, which rose $5.9b to $1.1 trillion.

Current swap pricing reveal traders anticipating a mere 13% chance of a 25bps in arriving at an implied peak terminal rate at 5.11% in the upcoming FOMC meeting on 14th June 2023. **We opine that the yield curve could bull-steepen slightly instead as yields react to the highly likely scenario of peak interest rate outlook instead of recessionary concerns.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw lesser gain of 0.8% in April 2023 (Mar: +2.8 %); despite the sustenance in OAS spreads at 135bps; which has now risen to 145bps at the time of writing. We expect gross issuances to be higher in the region of $100-120b in May (April: $80b) whilst maturities are high at circa $85b with the bulk of it from the financial sector followed by technology. Meanwhile, the Bloomberg Barclays US Corporate High Yield Total Return Index (for High Yield or HY) also maintained to post a 1.0% gain in April (Mar: 1.1%) whilst spreads eased slightly from 452bps to 447bps. However, at the time of writing spreads have jumped higher to ~478bps. Overall, US bond funds which saw $2.75b outflow (prior month: -$500m) in IG but higher inflows of 7.6b in HY is expected to stabilize with net outflows in May instead.

The UST 10Y is expected to range higher between 3.45-3.66%, with support at key 3.65% levels for this month. We remain averse to HY credits as credit conditions tighten, but foresee decent appetite and pick-up for IG; **Our preferred IG bond issuances are within the 10Y tenures in banking and energy sectors.**

Expect lesser volatility on decent trade volumes as inflationary concerns battle flight-to-safety stance amid tightening of financial and credit conditions…

The three (3) auctions in April 2023 saw average BTC ratios spike to ~ 2.35x (Mar: 1.70x); way above the 2.0x handle. Highest BTC of 2.43x among the three (3) auctions was notched by the new issuance of 5-year MGS 4/28. The subsequent auction at the time of writing consisted of the reopening of RM5.0b of 7Y MGS 4/30 on 11th of May which saw a strong participation by institutional investors with a BTC of 2.183x. May 2023 is expected to see lower net issuances **(projected gross issuances > maturities)**; **of RM1.5b compared to April's RM3.7b; with funding rollover opportunities largely available to boost bond liquidity**. We continue to expect both strong support in both primary and secondary market by the well-diversified profile and depth of local investment institutions; whilst inter-bank participants continued to maintain relatively active portfolios.

On the macro front, Moody's Investor Service has affirmed the GOM's local and foreign currency long-term issuer and local currency senior unsecured debt ratings at A3. This reflected the country's economic diversification and competitiveness along with the government's access to robust sources of domestic financing. 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 as a result of continuous improvement in the labor market, implementation of new and existing investment projects, as well as further recovery in tourism activities. That said, we are trimming our full year GDP growth forecast to 4.0% (prior: +4.9%), in view of increasing uncertainties and more sluggish than expected growth momentum in the world economy including China (Note: 2022: 8.7%). While there may still be room for a further 25bps OPR hike to more neutral level, **we opine moderating growth and inflation outlook would mean OPR will be left unchanged at 3.00% for the rest of the year, and probably through 2024**.

The shorter-ends are expected to maintain a buffer against OPR. **Malaysia's 3Y yields are nearly 60bps above the OPR, compared with an average gap of 25bps in the 5 years ending 2019 before the Covid pandemic. The 7Y,15Y MGS and 7-10Y GII sectors reflect relative values along the curve. We expect the 10Y to range slightly lower between 3.60-3.80% compared to our previous month's projection** with support pegged at 3.80% 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, 15Y GG (~20-22 bps), 7Y AAA (~53bps) and 15-20Y AA2-rated bonds (~100-112bps) in sectors comprising banking, tolling operations, logistics and utilities (i.e.; telco, electricity).

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