Monthly Fixed Income Perspective –

June 23 review & July 23 outlook

US Bond market

- **In June**, US Treasuries (UST's) posted a loss, reflecting anticipation of additional rate hikes by the Fed; with no cuts until 2024 amid ongoing hawkish comments and sentiments from FedSpeak events. The curve bear flattened as overall benchmark yields jumped higher between 18-45bps save for the long bonds, led by the front end. The strong May jobs report, surprise BOC rate hike and upward revision to 1Q2023 GDP, dented bonds. **The 2Y UST yield spiked the most by 45bps to 4.90% whilst the 10Y rose 15bps to 3.84%.** At the time of writing, these levels are trading higher at 4.93% and 4.07% respectively. Meanwhile, the 2s10s part of the curve has maintained its inversion at about 85bps presently despite hitting a high of 108bps earlier. Whilst the Fed left rates unchanged at its June meeting, revised quarterly forecasts for the economy and dot plot showed Fed officials expect rates to be increased twice more before the year-end. Elsewhere, the sale of ~$90b of coupon offerings of 3Y, 10Y and 30Y tenures witnessed strong participation m/m for the long bond alone.

- **For July**, expect range-bound trading with mixed-bias on yields for USTs following the just-released June inflation prints which was lower-than-consensus. **The yield curve could steepen as policy-sensitive shorter-ends react positively to near-end of the Fed's rate hiking era; taking note of the spillover effect of earlier quick-paced rate increases to the economy**. The barometer of investors' inflation expectations i.e.; the 5Y breakeven inflation rate for 5Y TIPS, has risen slightly by 9bps m/m to 2.19% as at end-June (from 2.10% as at end-May); and is presently at those levels. Fed-dated OIS pricing currently reveals a higher 90% chance of a July 25bps rate hike in arriving at an implied peak terminal rate at 5.40% in the November's FOMC meeting. **The UST 10Y is expected to range higher between 3.80-4.00%, with support at key 4.00% levels for this month.** We remain averse to HY credits as credit conditions tighten. Although refinancing costs of maturities for the remainder of 2023 are expected to cost additional RM7b, we foresee improved appetite for yield pick-up within IG universe with July being seasonally strong. **Our preferred IG bond issuances are within the 5-7Y tenures in utilities, basic materials.**

MYR Bond Market

- **In June**, MYR government bond curve was flatter; with the longer-ends seeing lesser deviation as both **MGS/GII bonds ended 1-18bps higher save for the 20Y GII.** The benchmark 5Y MGS 11/27 yield jumped 13bps higher m/m to 3.60% whilst the 10Y MGS 7/32 spiked 15bps to 3.85%. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings rose by RM5.2b (representing 23.3% of total outstanding).** The primary factors which drove bond movements were BNM's decision to stay pat on the OPR and easing inflationary expectations in the US. The three (3) auctions in June 2023 saw average BTC ratios fell to ~ 1.81x (May: 2.07x); below the 2.0x handle.

- **For July,** expect similar range-bound trading from local institutions for govvies in both primary and secondary markets with dip-buying opportunities but see better demand for corporate bonds/sukuk. The recent liquidity-mopping exercises from the inter-bank market via issuances of BNIB's was only expected to tighten inter-bank market conditions whilst OPR and bank-lending conditions remain intact. **The 10-15Y MGS and 8-10Y GII sectors reflect decent relative values along the curve. We expect the 10Y to range a tad higher between 3.80-4.00% compared to our previous month's projection** with support pegged at 4.00% levels. **We opine that the Sukuk/Corporate Bond space will continue to witness decent demand on yield pick-up requirements as credit and liquidity conditions remain steadfast for now.** We favor the 10Y GG (~19bps), 5-7Y AAA (~40-44bps) and 15-20Y AA2-rated bonds (~77-93bps) in insurance, banking, tolling and utilities such as telco, power and water-related sectors.

MYR sovereign curve (MGS)

Source: Bloomberg

Higher wage growth and lower unemployment rate are expected to outweigh softer headline NFP; prompting further Fed rate hikes…

June Non-Farm Payrolls ("NFP") was way lower than consensus estimates of 230k. However, the unemployment rate eased to 3.6% (May: 3.7%). Private payrolls were boosted in education and health services followed next by construction, professional and business services and finally leisure and hospitality sector. The participation rate remained unchanged at 62.6%. The average hourly wages growth showed steady growth of 0.4% m/m 4.4% y/y. The worrisome sustained growth in hourly earnings coupled with lower unemployment rate are expected to keep the Fed rate hike path intact. Overall, despite "slight cracks" emerging in the labor market, the latest payroll report may prompt the Fed to put on the brakes from July onwards after one (1) last hike later this month.

To recap, the Fed maintained the Fed Funds Target Rate in its just-concluded FOMC meeting on 15th June 2023 at 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 90% odds of a 25bps hike in the next FOMC meeting on 26th of July; similar as well to CME FedWatch Tool's analysis.** Meantime, we note that the Fed's ~$8.49 trillion balance sheet as at end-May inched lower to $8.39 trillion as at end-June.

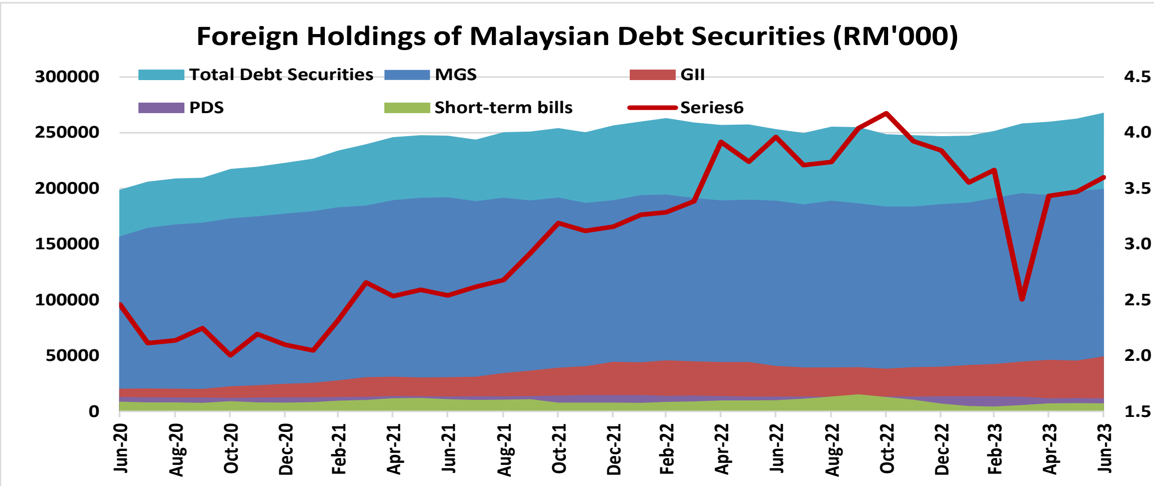
Moving on to other economic data, we note the sustenance in June manufacturing data i.e.; US PMI at 46.3 and weaker ISM manufacturing data (46.0 vs 46.9 in May). Separately, the Fed's preferred inflation measure, the core PCE eased to +0.3% m/m and +4.6% y/y in May. This, when read together with the easing in just-released headline June CPI may be seen as a tad more influential over Fed policy outlook than the NFP jobs data seen last Friday thus, ultimately providing some relief for USTs and corporate bonds.

Another sharp increase of RM5.2b in foreign holdings of overall MYR bonds as offshore appetite remains steady…

Foreign holdings of overall MYR bonds saw a bigger increase circa RM5.2b or 2.0% m/m in June (May: +RM3.0b or 1.2%) to RM267.9b mainly due to the jump in GII followed by MGS which offset the lower conventional T-Bills holdings. Non-resident holdings of MGS rose RM1.6b or 0.8% to RM199.4b (prior month: +RM3.8b or 2.0%), thus forming a 35.9% of total outstanding. Foreign holdings of GII saw a pleasant spike by a whopping RM3.7b m/m to RM49.3b. Upward bond yields were less influential than expected with decent demand from safe-haven bids for the bond asset class and relatively pro-active portfolio management activities. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings rose RM5.2b (representing 23.3% of total outstanding);** despite a spike in net issuances of RM15.5b for the month (May: net issuances of RM2.0b); for which the lack of excess funds from rollovers surprisingly did little to dampen appetite for primary issuances. Meantime, **12-month cumulative rolling inflows surged higher to RM18.9b (prior month: RM9.4b).**

We note that the secondary market saw robust foreign participation compared to the rather weak appetite for coupon offerings via auction exercises in June; as MYR fixed income space lured investors despite its tight yield spreads compared to some of its peers in the region such as Indonesia and Philippines sovereign debts. 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 June @ RM1.35b (May: RM728m outflows) whilst the 12-month rolling outflows edged higher from RM5.9b in May to RM6.0bn in June. On the currency side, the MYR weakened against USD to 4.6665 as at end-June (end-May: 4.6130) but has recovered currently hovering at 4.5315 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

BNM left OPR unchanged at 3.00% as expected amid moderating growth and inflation outlook…

BNM maintained the OPR at 3.00% in line with our house view; at the MPC meeting on 6th of July amid moderating domestic growth and inflation outlook. It continued to see limited risks of future financial imbalances since its last rate hike in May (which was the 5th rate hike totaling 125bps since May-2022). In its assessment on the domestic economy, BNM no longer said the balance to growth risks is relatively balanced, while it also stopped short of saying the balance of risks on inflation outlook is tilted to the upside; hence our view towards a more neutral stance. As we expect growth to slow further in 2Q and decelerate sharply in 2H, with inflation expected to taper off to the 2.0% levels, **we reiterate our view for OPR to stay unchanged at 3.00% for the remainder of 2023.**

Muted participation for June auctions amid high net maturities of RM15.5b…

The three (3) auctions in June 2023 saw average BTC ratios fell to ~ 1.81x (May: 2.07x); below the 2.0x handle. The highest BTC of 1.877x among the three (3) auctions was notched by the reopening of 20-year MGS 10/42 which saw better participation mainly from GLC's, insurance companies and pension funds resulting in a short-tail of a mere 1.3bps. The other auctions consisted of the re-opening of 3Y GII 9/26 and 5Y GII 7/28. Together, all three (3) auctions in June saw slightly lower individual sum of bids amounting to between RM5.6 -10.0b. Demand for auctions were weaker amid private placement offered which may have sapped some appetite from the larger investment institutions. The continued shortage of rollover maturity benefits (June net issuances of RM15.5b versus May net issuances of RM2.0b) in the Malaysian government bond space likely dampened primary participation. Nevertheless, the absence of the abovementioned rollover funds in the primary market did little to deter participation seen in the secondary market with offshore funds piling into both shorter-tenured off-the-runs and existing 3-10Y benchmarks resulting in higher foreign holdings. 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 RM101.0b

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	21/6/2023	4,500	3,000	2,500	90,000	1.877	4.168	4.195	4.208	11.8%
19	5-yr Reopening of MGII 07/28	5	Jun	Q2	28/6/2023	5,000	5,500		95,500	1.813	3.657	3.677	3.691	100.0%
20	10-yr Reopening of MGS 11/33	10	Jul	Q2	13/7/2023	4,500	5,500		101,000	2.641	3.830	3.860	3.868	50.3%
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	82,000	19,000	101,000	PROJECTED TOTAL ISSUANCE SIZE = 168-172b				

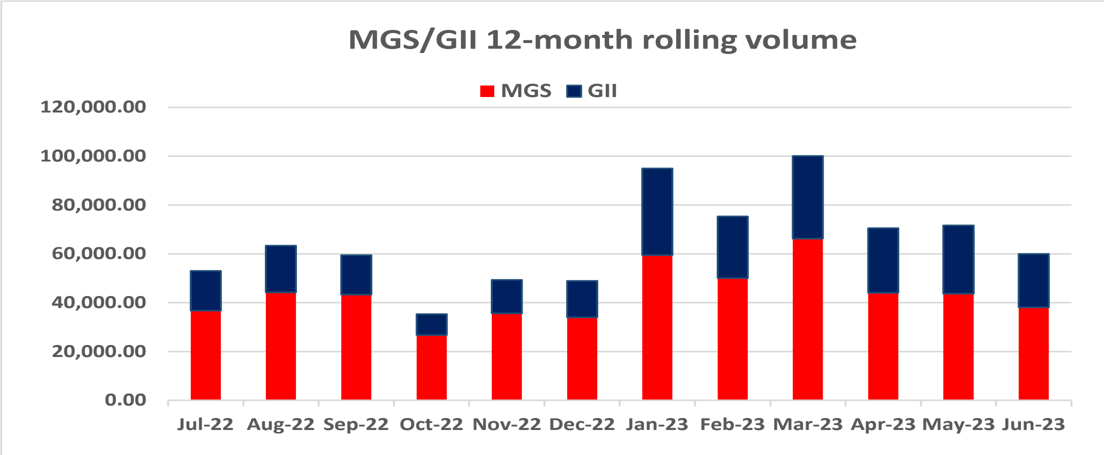
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity eased in June…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds saw a 10% pullback to RM64.5b in June compared to prior month's RM71.8b. 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 US interest rate outlook punctuated by the steady jobs data. The weaker MYR and upcoming state elections added to some uncertainty. The wider inversion in the US yield curve m/m (which serves as a precursor of a potential recession) nevertheless formed a different opinion for some investors and encouraged appetite in the safety of sovereign debt.

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

- MGS saw a prominent rise in the 1-10Y part of the curve whereas the GII curve generally moved up in almost parallel fashion save for the 5Y sector; resulting in higher yields.
- MYR IRS levels jumped between 13-19bps for 1-10Y tenures, reversing the 3-12bps slide seen prior month.
- 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 (9.0%), benchmarks 3Y MGS (9.7%) and short-ends such as off-the-run MGS 23-24's (14.1%) which together accounted for a third of all trades.



Source: BPAM, Bloomberg, HLBB Global Markets Research

Expect lower bouts of volatility despite easing concerns over inflation in both US and Malaysia as the Fed may be expected to embark on its last leg of a hiking cycle. Whilst the US banking system is seen to tread into calmer waters amid investors' confidence over the US authorities tighter rein in terms of monitoring and surveillance; we expect range-bound bond movements in the local scene with eyes on current MYR weakness.

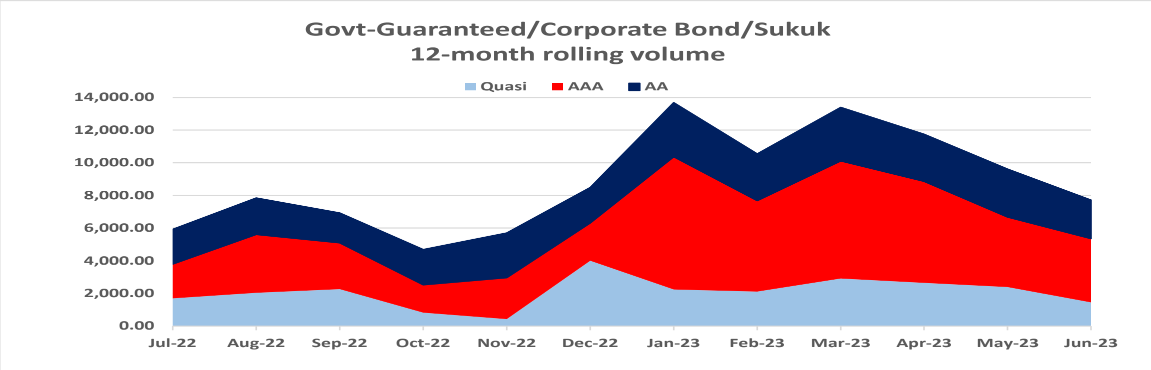
Corporate Bonds/Sukuk volumes too grind lower in June…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) however saw lower momentum and participation as trading volume fell by 15% in the secondary market to RM8.4b in June (May: RM9.9b).

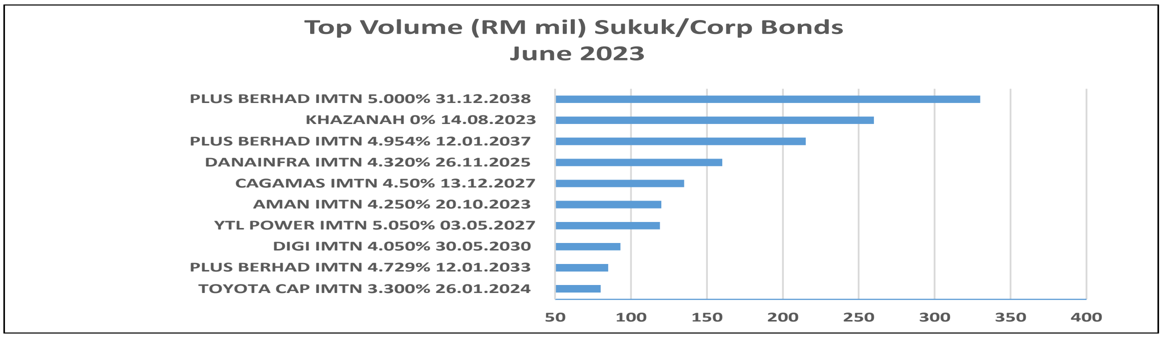
Trading in Corporate Bonds/Sukuk space took cue from the primary driver i.e.; govvies on the back of lower secondary market participation as yields ended mostly mixed for the month under review. However, the relatively high m/m primary issuances witnessed strong take-up rates which is believed to have impacted interest in the secondary market. The Govt-Guaranteed (GG)-segment saw the 3-10Y tenures widening between 4-13bps to between 3.68-4.10% levels. The AAA-rated space similarly saw tenures between 3-7Y tenures, cheaper between 3-5bps; with levels around 3.96-4.20%. The AA2-segment too saw yields settle higher at ~2bps 7-10bps for 3-5Y tenures; resulting in yields closing within the ranges of 4.13-4.25% area. The sweet spot area was surprisingly seen at the 15Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits crept higher to RM11.9b in June (May: RM11.7b).

Total transactions for GG bonds eased by 7% to a mere 18% of overall trades in June (May: 25%). AAA-rated papers however jumped to form ~50% of overall trades (May: +44%). The AA-space however saw its secondary market share maintain at ~31% of overall investor interest in June. 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 PLUS 12/38 (GG) which declined 4bps compared to previous-done levels to 4.18%. Next was KHAZANAH 8/23 (GG) which fell 14bps instead to 3.30%, followed by another tranche of PLUS i.e.; the 2037 bonds which edged 1bps higher at 4.46%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-28's, MAHB 25-27's/ perps, JCORP 27's, Khazanah-related funding conduits i.e.; SPV's (i.e., DANGA 24-33's, DANUM 25-35's), AMAN 23-27's, utilities provider i.e. telco/water/power, (DIGI 24-30's, AIR SELANGOR 28-38's, PASB 26-36's, TENAGA 33-47's, TNB Power 33's, 43's), construction/property/plantation (i.e., GAMUDA 26-33's, SPSETIA 26-29's), energy and power (i.e.; SEB 24-33's, YTL Power 23-30's), toll operators (i.e. ALRB 24-33's, DUKE 27-32's, PLUS 29-37's, KESTURI 25-31's), banking (i.e.; BPMB 26-35's, IMTIAZ 25-27's, PTP 25-30's, INFRACAP 28-36's, PONSB 27-29's, BPMB 26-35's, Bank ISLAM 2028 callable/perps, Sabah Credit Corp 28-30's. There were also frequent odd-lot denominated trades in AFFIN perps, Alliance Bank 2030, 2032, 2035 callable, AmBank 2033 callable, MAYBANK 2027, 2029, 2031 callable/perps, Affin Islamic 27's, HLBB 2033 callable/perps, SABAH Development Bank 23-27's, UOB 2032 callable bonds, CRE perps, DRB-HICOM 24's, 29's, UEM Sunrise 23-26's, GENTING-related bonds 27-30's, TG Excellence perps, TCMH 26's, UEM 23-27, WCT 24, 26's/perps, YNH Properties 25-27's/perps and finally Tropicana 24-25's/perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in June driven by the following:

Notable issuances in June-23	Rating	Amount Issued (RM mil)
Affin Bank Berhad	A3	500
AmBank Islamic Berhad	A1	500
AmBank (M) Berhad	A1	500
Cagamas Berhad	AAA	1,405
CIMB Group Holdings Berhad	AA1	350
CLMT MTN Berhad (fka CMMT MTN Berhad)	NR	300
DanaInfra Nasional Berhad	GG	2,380
Exsim Capital Resources Berhad	AA3	300
Farm Fresh Berhad (fka The Holstein Milk Company Sdn Berhad)	AA3	100
Gamuda Berhad	AA3	900
Hong Leong Bank Berhad	AA1	500
Konsortium KAJV Sdn Bhd	AA3	80
Malayan Cement Berhad (fka Lafarge Malaysia Berhad)	AA3	220
Malaysia Rail Link Sdn Berhad	GG	2,100
Pengurusan Air SPV Berhad	AAA	1,810
Pavilion REIT Bond Capital Berhad	NR	1,080
Public Holdings Sdn Berhad	NR	474
Perbadanan Kemajuan Negeri Selangor	AA3	120
Pac Lease Berhad	AA2	130
Potensi Angkasa Sdn Berhad	NR	20
Perdana ParkCity Sdn Berhad	NR	20
Puncak Selasih Sdn Berhad	NR	150
SP Setia Berhad	AA2	1,000
Sabah Development Bank Berhad	AA1	175
Sunway Berhad	AA3	120
Tumpuan Azam Sdn Berhad	NR	14
Tan Chong Motor Holdings Berhad	A1	150
Tomei Gold & Jewellery Holdings (M) Sdn Berhad	NR	40
Tanjung Pinang Development Sdn Berhad	NR	11
UEM Sunrise Berhad	AA3	400
West Coast Expressway Sdn Berhad	NR	9
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	NR	2
YTL REIT MTN Sdn Berhad	NR	85
		15,945

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk issuances almost doubled from RM8.1b in May to RM15.9b in June. Some of the prominent issuances consisted of govt-guaranteed DANAINFRA Bhd's 8-20Y bonds totaling RM2.38b with coupon rates between 3.86-4.30% and SP Setia Bhd's AA2-rated 3-7Y bonds amounting to RM1.0b with a coupon rates between 4.30-4.56%.

Outlook for June 2023

Expect USTs to witness lower yield deviation in lesser volatility as the tug-of-war tapers off between the bond bulls and the bears…

The Federal Reserve will have its next **FOMC meeting on 26th of July for which we maintain our forecast for the Fed Funds Rate to increase by 25bps**. However, the lower core June CPI at 4.8% y/y (May: +5.3% y/y) and 0.2% m/m (May: +0.4% m/m) and steady 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 has fallen m/m at the time of writing. Current swaps-pricing reveal a higher 92% chance of a July 25bps rate hike in arriving at an implied peak terminal rate at 5.36% in November's FOMC meeting. **We opine that the yield curve could steepen as policy-sensitive shorter-ends react to near-end of the Fed's rate hiking era; taking note of the spillover effect of recent quick-paced rate increases to the economy.**

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) saw gain of 0.4% in June 2023 (May: -1.4 %); despite the tightening in m/m OAS spreads from 135bps to 122bps. We expect gross issuances to be in the region of $70-80b in July (June: ~$100b) whilst maturities are lower at circa $45b with the bulk of it from the financial sector followed by consumer cyclicals. Meanwhile, the Bloomberg Barclays US Corporate High Yield Total Return Index also recovered to post a small 1.7% gain in June (May: -0.9%) whilst spreads were compressed sharply from 465bps to 392bps. Overall, US bond funds saw $7.6b inflows (prior month: +$3.6b) in IG, but lower inflows of $2.7b in HY instead reveal investors preference for higher credit.

The UST 10Y is expected to range higher between 3.80-4.00%, with support at key 4.00% levels for this month. We remain averse to HY credits as credit conditions tighten. Although refinancing costs of maturities for the remainder of 2023 are expected to cost additional ~RM7b, we foresee improved appetite for yield pick-up within IG universe with July being seasonally strong. **Our preferred IG bond issuances are within the 5-7Y tenures in utilities, basic materials.**

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

Demand for govvies at bond auctions in June are expected to improve above ~ 2.0x handle following the solid demand for the latest re-issuance of huge RM5.5b of 10Y MGS 11/33 on with a high BTC ratio of 2.641x. The month of July 2023 is expected to see **lower net issuances (projected gross issuances > maturities) of RM3.0b compared to June's RM15.5b; with more funding rollover opportunities available to boost bond liquidity**. Expect lower bouts of volatility despite easing concerns over inflation in both US and Malaysia as the Fed may be expected to embark on its last leg of policy tightening. We expect range-bound movements for MGS/GII. Nevertheless, expect adequate support and interest in secondary market space by the well-diversified profile and depth of local investment institutions and inter-bank participants.

The Malaysian economy is expected to moderate in 2Q2023 and **we maintain our full year real GDP growth forecast at 4.0%,** as slower than expected recovery in the China economy is compounding the downside risks to overall growth prospect, potentially offsetting resiliency in the US economy. As inflation is also expected to taper off further from here, **we therefore expect OPR to stay unchanged at 3.00% for the rest of the year**, a level which is slightly accommodative and remaining supportive of growth.

Although there is talk that the short-ends are expected to remain steady with our OPR projection staying flat for the year at 3.00%, we note that Malaysia's 3Y yields are currently only 40bps above the OPR, compared with an average gap of ~84bps in the past year and about 52bps in the past 5 years**. The 10-15Y MGS and 8-10Y GII sectors reflect decent relative values along the curve. We expect the 10Y to range a tad higher between 3.80-4.00% compared to our previous month's projection** with support pegged at 4.00% levels. **We opine that the Sukuk/Corporate Bond space will continue to witness decent demand on yield pick-up requirements as credit and liquidity conditions remain steadfast for now.** We favor the 10Y GG (~19bps), 5-7Y AAA (~40-44bps) and 15-20Y AA2-rated bonds (~77-93bps) in insurance, banking, tolling and utilities such as telco, power and water-related sectors.

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