Hong Leong Bank

# Quarterly Market Outlook 2Q2023

## Global Markets

April 2023

# Content

- Macro Landscape
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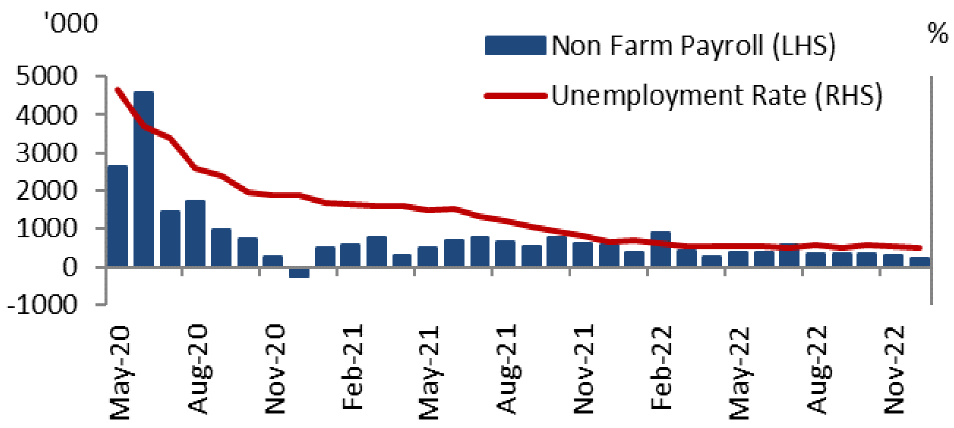
- Fixed Income Outlook

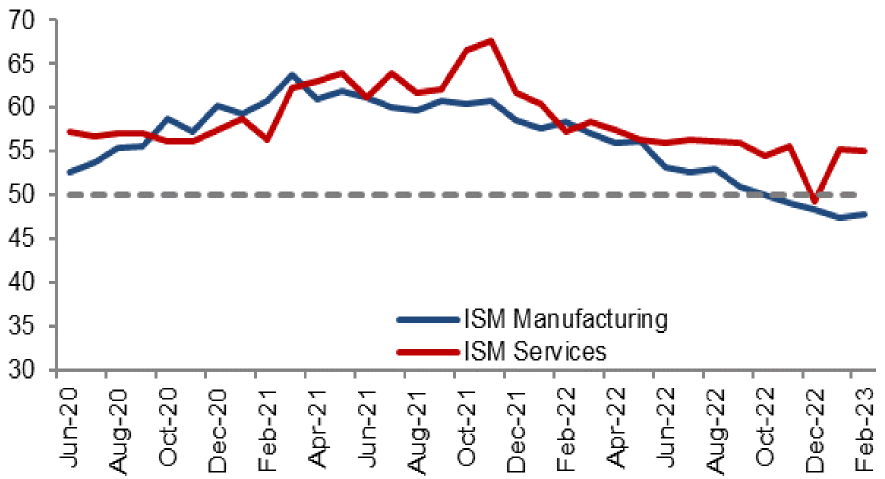
# Global Central Banks Policy Rates Outlook

| | Current | 2Q23 | 3Q23 | 4Q23 | 1Q24 | Remarks |
|---|---|---|---|---|---|---|
| **United States**<br>Federal Reserve<br>*Fed Funds Rate* | 4.75-5.00 | 5.00-5.25 | 5.00-5.25 | 5.00-5.25 | 5.00-5.25 | **+25bps by year end** |
| **Eurozone**<br>European Central Bank<br>*Deposit Rate* | 3.50 | 4.00 | 4.00 | 4.00 | 4.00 | **+50bps by year end** |
| **United Kingdom**<br>Bank of England<br>*Bank Rate* | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | **No change** |
| **Japan**<br>Bank of Japan<br>*Policy Balance Rate* | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | **No change** |
| **Australia**<br>Reserve Bank of Australia<br>*Cash Rate* | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | **No change** |
| **New Zealand**<br>Reserve Bank of New Zealand<br>*Official Cash Rate* | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 | **No change** |
| **Malaysia**<br>Bank Negara Malaysia<br>*Overnight Policy Rate* | 2.75 | 3.00 | 3.00 | 3.00 | 3.00 | **+25bps by year end** |
| **Thailand**<br>The Bank of Thailand<br>*1-Day Repurchase Rate* | 1.75 | 2.00 | 2.00 | 2.00 | 2.00 | **+25bps** |
| **Indonesia**<br>Bank Indonesia<br>*7-day Reverse Repo Rate* | 5.75 | 5.75 | 5.75 | 5.75 | 5.50 | **No change** |

*Source: Bloomberg, Global Markets Research*

# US – Tightening financial conditions after banking turmoil



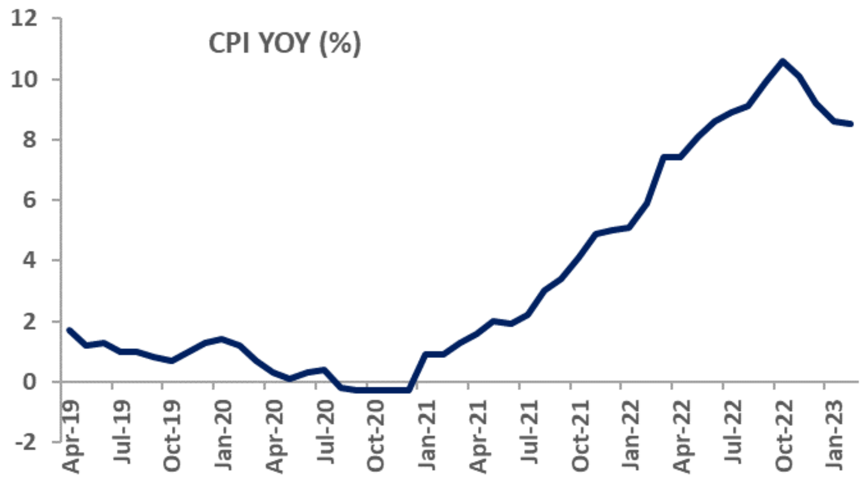




| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 5.9 | 2.1 | 0.4 |
| Core PCE Inflation (%) | 3.5 | 5.0 | 3.6 |
| Fed Funds Rate (%) | 0-0.25 | 4.25-4.50 | 5.00-5.25 |
| Dollar Index (End of period) | 95.67 | 103.52 | 97.96 |

*Source: Fed, Bloomberg, HLBB Global Markets Research*

- Recent indicators point to softer growth. Contraction in manufacturing PMI and ISM worsened, while the services sector stayed above the 50 threshold. Housing data has held up thanks to some easing in mortgage rates and home prices
- Unemployment rate has ticked up, but remain low. Inflation rates have eased, but remains elevated due to services inflation
- Recent banking fiasco may result in tighter credit conditions for households and businesses and to weigh on economic activity. Consumer sentiment has already been affected, with the Uni of Michigan consumer sentiment unexpectedly falling for the first time in 4 months in March
- The Fed is near the tail-end of rate hike cycle, potentially with one more 25bps increase ahead

# Eurozone – Better than expected but still weak



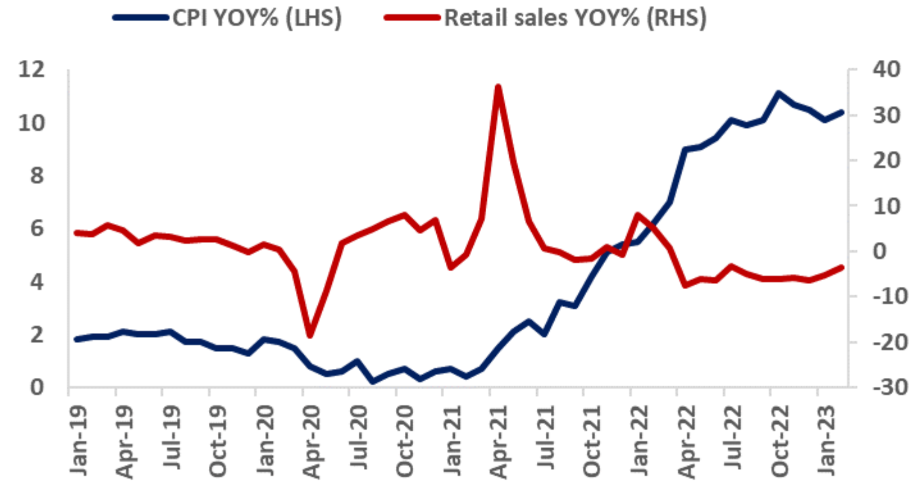


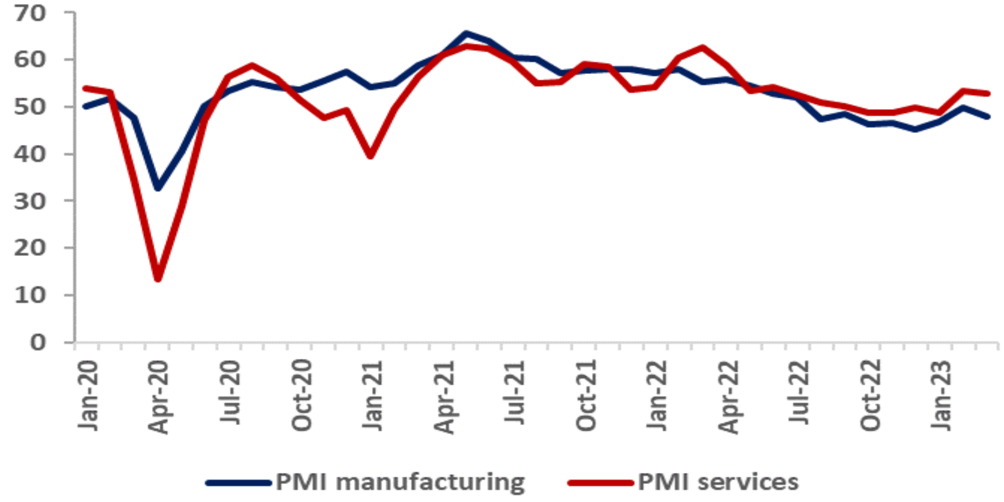
| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 5.3 | 3.5 | 1.0 |
| Inflation (%) | 2.6 | 8.4 | 5.3 |
| Deposit Facility Rate (%) | -0.5 | 2.50 | 4.00 |
| EUR/USD (End of period) | 1.1370 | 1.0705 | 1.12 |

*Source: ECB, Bloomberg, HLBB Global Markets Research*

- The economy is doing better than expected but remained weak. Business and consumer confidence has improved
- Labour market remains strong with unemployment rate still low and steady at 6.6%. New jobs are being created and with higher wages.
- Inflation has decelerated sharply due to lower energy prices, but core-CPI an all time high at 5.7%. Pressures coming from food, industrial goods and services. ECB stays hawkish possibly with another 50bps hike in the pipeline.
- Heightening uncertainties stemming form recent tension in financial markets

# UK – Potentially a marginal contraction in GDP



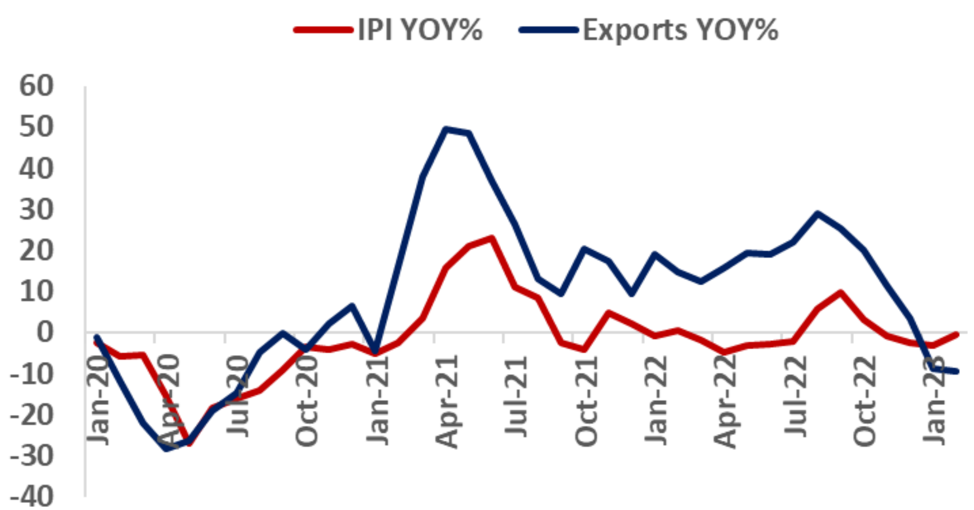



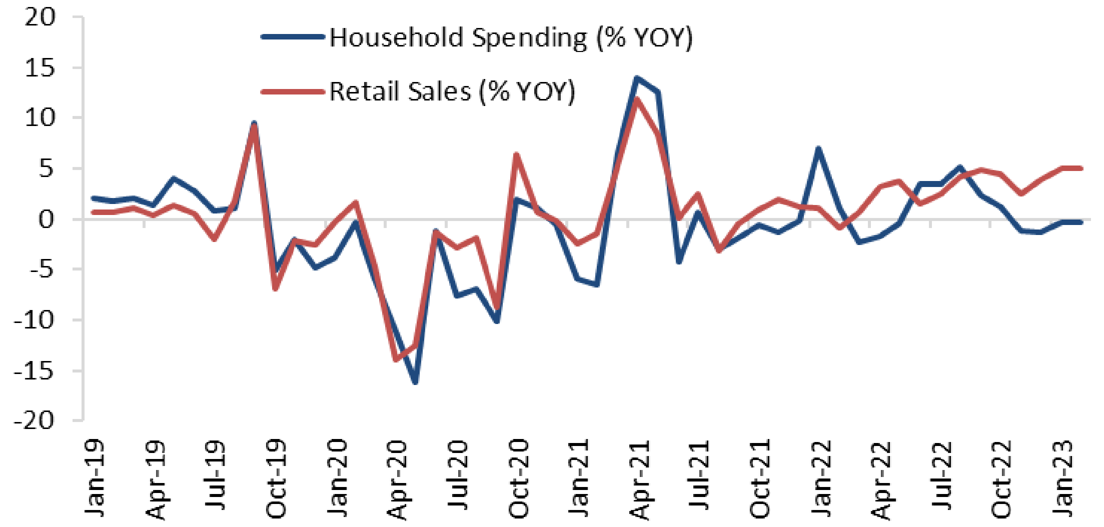

| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 8.5 | 4.0 | -0.2 |
| Inflation (%) | 2.6 | 9.1 | 6.1 |
| Bank Rate (%) | 0.25 | 3.50 | 4.25 |
| GBP/USD (End of Period) | 1.3532 | 1.2083 | 1.24 |

*Source: Office for Budget Responsibility (OBR), Bloomberg, HLBB Global Markets Research*

- High inflation put pressure on the budgets of households and businesses The OBR, nevertheless, said that it is on track to halve inflation by 4Q23.
- Household disposable income has fallen by 2.6% between 3Q21 and 3Q2, and households have cut back on spending. The uptick in February retail sales was supported by discounts in department stores and may be a blip.
- Output in the private sector industries has seen a recovery; offset by disruption in public sector, especially health and education.

# Japan – BOJ will remain an outlier despite change in leadership



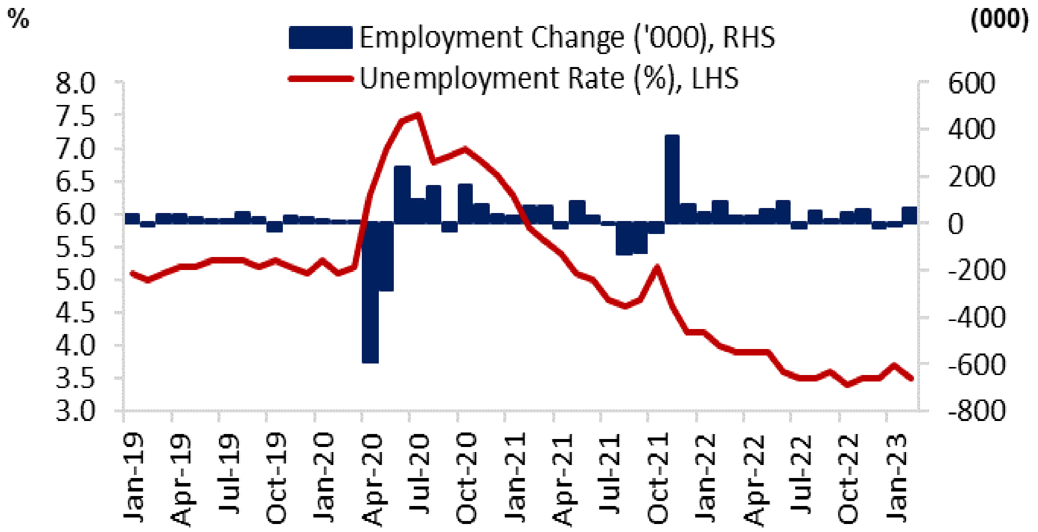



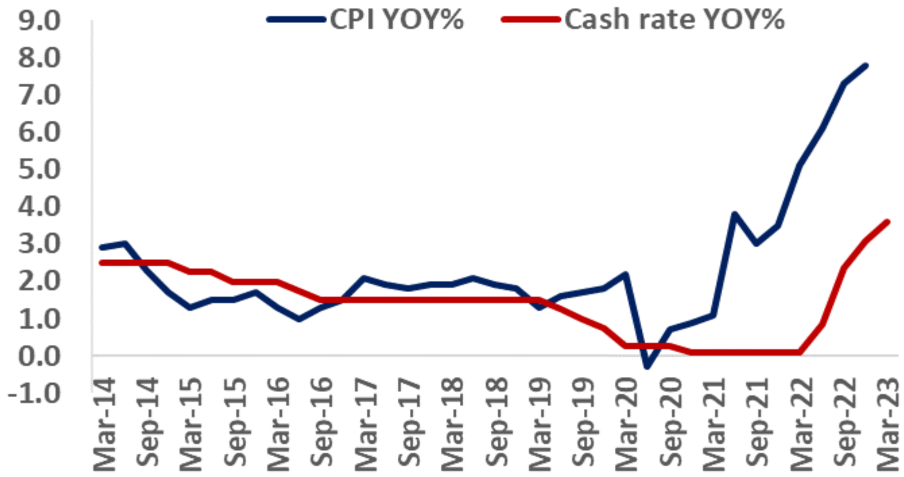

| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 2.3 | 1.0 | 1..7 |
| Core Inflation (%) | 0.0 | 3.0 | 1.6 |
| Policy Balance Rate | 0.0 | -0.1 | -0.1 |
| USD/JPY | 115.08 | 131.12 | 128.00 |

*Source: BOJ, Bloomberg, HLBB Global Markets Research*

- Policy makers continued to stress that is still early to discuss policy exit
- BOJ signaled its continued concern over the economy by downgrading its view on exports and production although it left is overall economic assessment unchanged.
- Household spending rose for the first time in 3 months, but the softer than expected y/y spending, coupled with contraction in PPI reinforced BOJ’s stance that the economy still requires policy support.
- Any shift in the BOJ policy stance will likely be gradual hence limiting the impact on repatriation of Japanese funds.

# Australia – RBA stood pat as inflation has peaked



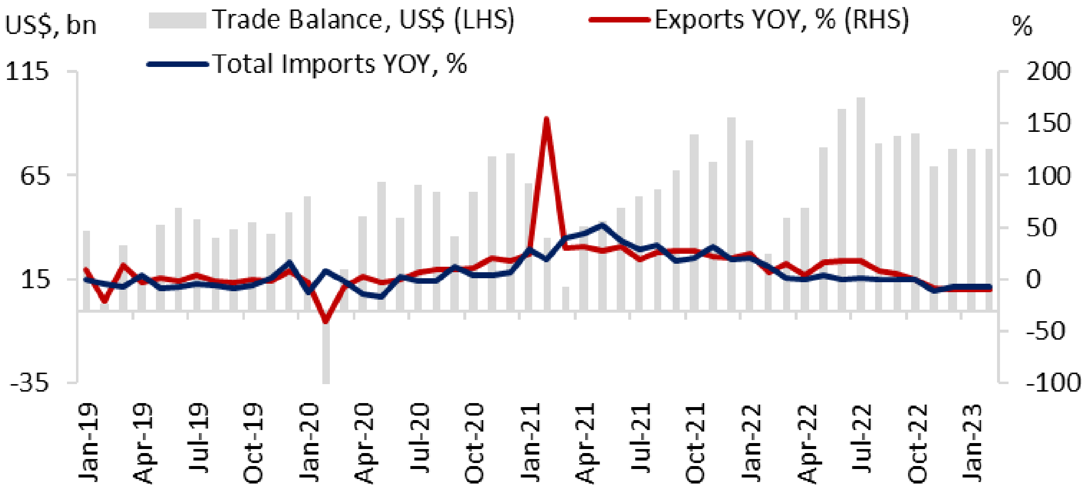




| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 5.3 | 3.7 | 2.3 |
| Inflation (%) | 2.9 | 6.6 | 4.8 |
| Cash Rate (%) | 0.10 | 3.10 | 3.60 |
| AUD/USD | 0.7263 | 0.6813 | 0.69 |

- Post-pandemic spending has run its course; consumer sending has moderated due to a combination of higher interest rates, high household debt, and falling house prices
- China’s reopening expected to boost Australia’s economy, further supported by savings buffer
- Labour market remained tight, but have eased
- Inflation has peaked; supporting the case for RBA pause

*Source: RBA, Bloomberg, HLBB Global Markets Research*

# China – Pent-up demand and growth supportive policies in focus

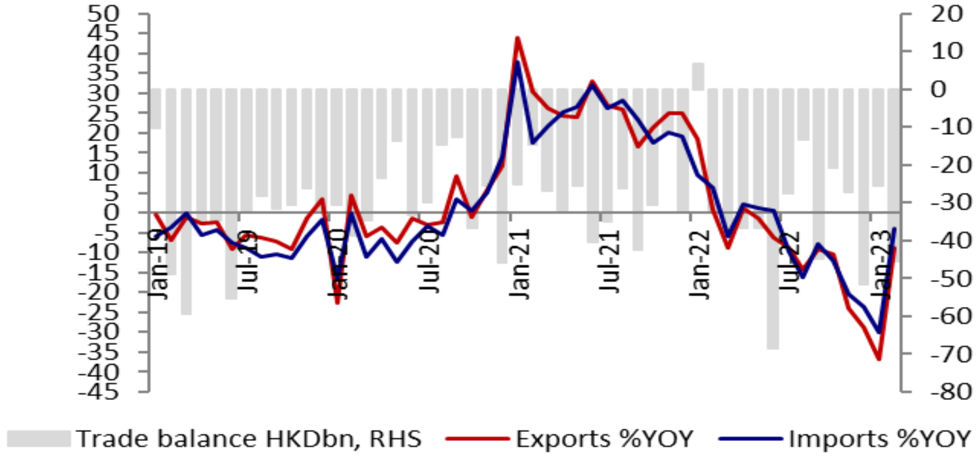



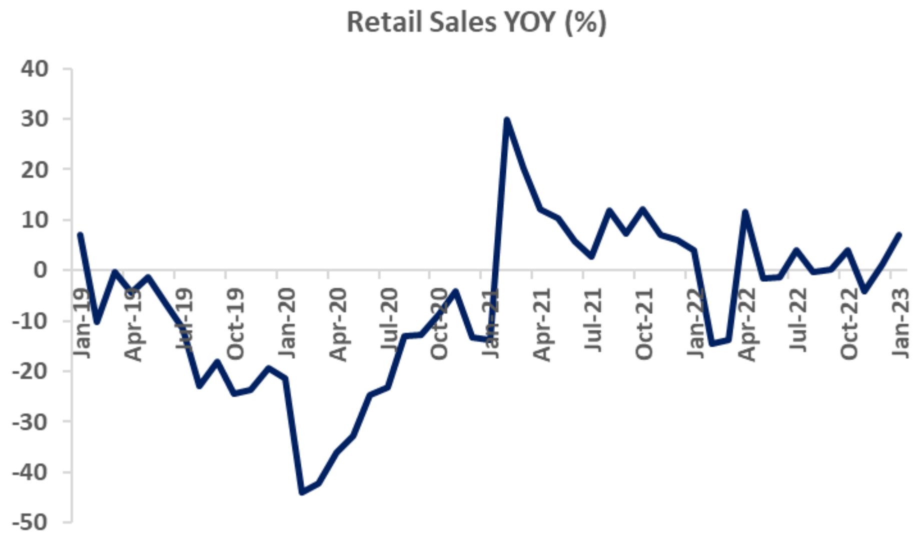

| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 8.4 | 3.0 | 5.0 |
| Inflation (%) | 0.9 | 2.0 | 2.3 |
| 1Y LPR (%) | 3.80 | 4.30 | 4.30 |
| USD/CNY | 6.3561 | 6.9220 | 6.70 |

*Source: PBOC, Bloomberg, HLBB Global Markets Research*

- Easing in manufacturing PMIs: But official non-manufacturing PMI shot up to a 12-year high of 58.2, led by the construction and services sub-indices
- Recovery in economic activities as the most recent wave of Covid-19 infections subsided; should support momentum at least in 2Q in view of pent-up demand post reopening as well as growth supportive policies.
- We expect policy makers to focus on ensuring sufficient liquidity to support the economy, especially since recent indicators like exports remained weak

# Hong Kong – Piggybacking on China reopening



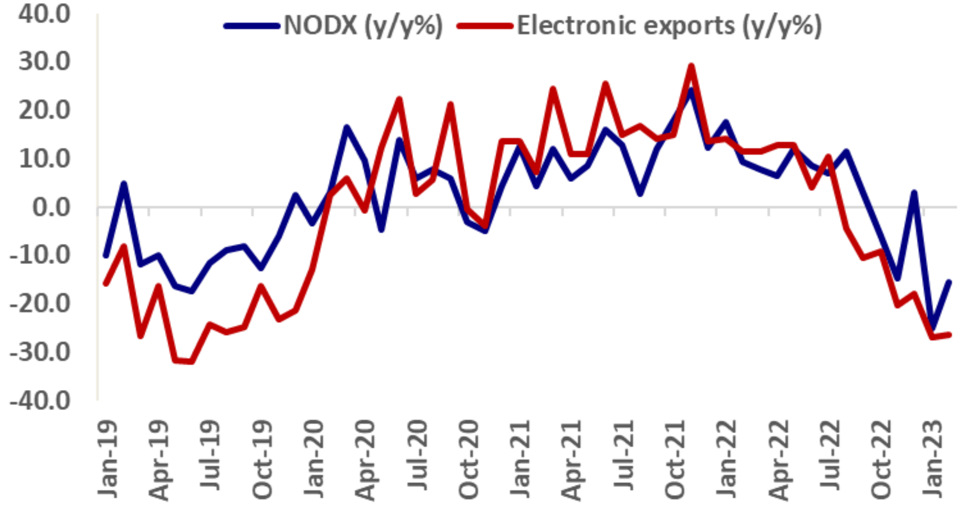



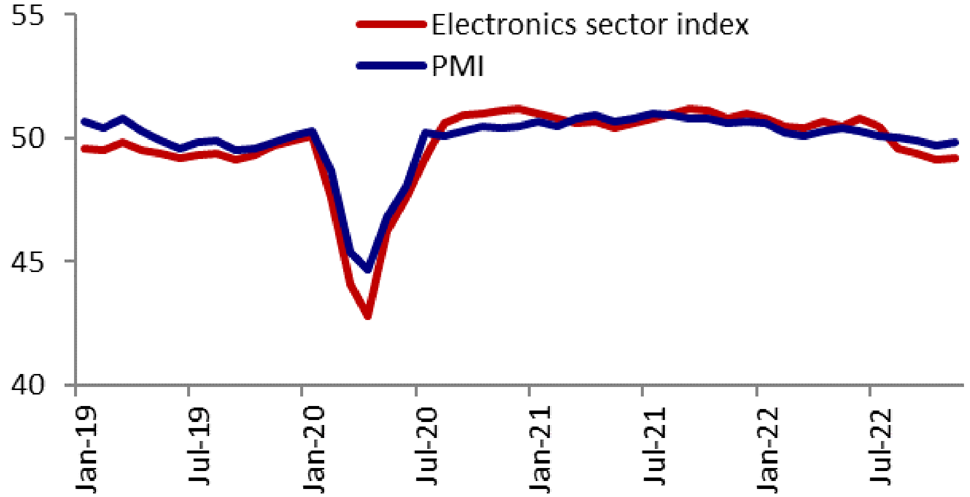

| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 6.4 | -3.5 | 3.5-5.5 |
| Inflation (%) | 1.6 | 1.9 | 2.9 |
| Base Rate | 0.50 | 4.75 | 4.50 |
| USD/HKD | 7.7966 | 7.8016 | 7.80 |

*Source: HK Economy, Bloomberg, HLBB Global Markets Research*

- Softer growth in advanced economies will continue to pose significant headwind, but will be supported by recovery in the China economy, relaxation of cross-boundary truck movement restrictions and removal of quarantine arrangements for visitors, especially land travel to China.
- Retail sales volume has been choppy. While a favourable labour market and a return to normalcy for both social distancing and resumption in travel will provide boost to spending; this is not a given especially since tightened financial conditions may partly offset the positive effects.

# Singapore – At risk of spillover from external demand slowdown



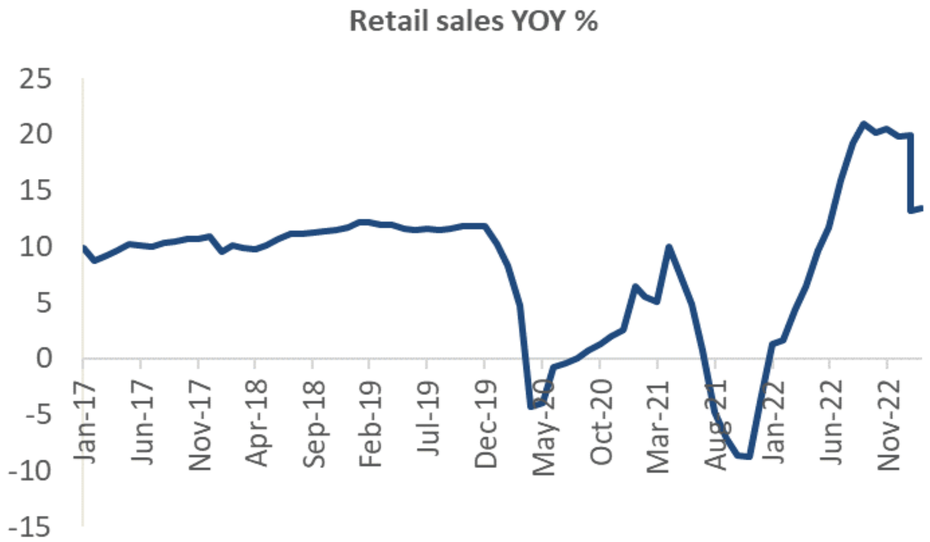




| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 7.9 | 3.7 | 0.5-2.5 |
| Inflation (%) | 2.3 | 6.1 | 5.5-6.5 |
| 3m SIBOR (%) | 0.44 | 4.25 | 4.23 |
| USD/SGD | 1.35 | 1.3395 | 1.27 |

*Source: MTI, Bloomberg, HLBB Global Markets Research*

- Growth will likely stay muted in 2Q against contraction in global semiconductor sales. Export and PMI data remain sluggish
- Support from domestic-oriented sectors, but weakness in trade-related cluster could spillover to overall health of the economy
- Labour demand is expected to remain firm in travel and domestic-oriented sectors, offsetting softening demand in trade and tech related sectors
- MAS expects inflation to stay above 5% in 1Q; remain elevated in 1H before slowing in 2H on easing domestic labour market and moderated global inflation

# Vietnam – Expect growth to normalize but remain commendable



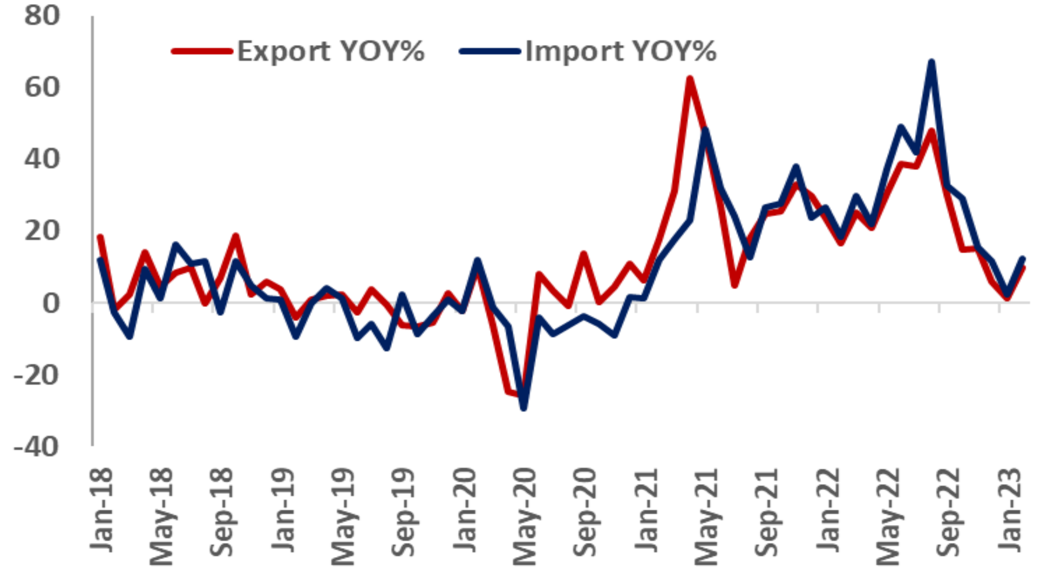


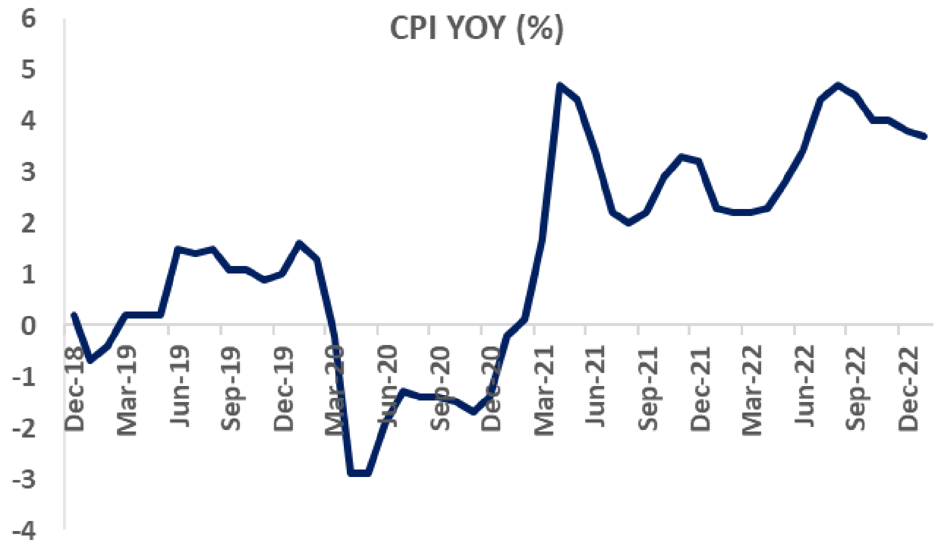
| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 2.6 | 8.0 | 6.0 |
| Inflation (%) | 2.0 | 3.4 | 3.8 |
| SBV Refinancing Rate (%) | 4.00 | 6.00 | 6.00 |
| USD/VND | 22,826 | 23,633 | 23,400 |

- Exports have been weighed down by slowing demand from US and EU; Still double digit albeit softer growth in retail sales, driven by tourism-related sales
- Infrastructure spending is key growth going forward; Government has to speed up disbursement of funds to support growth
- Inflation decelerated sharply below 4.00%, leaving SVB room to maintain rates; key risk from lingering higher input costs

*Source: Bloomberg, HLBB Global Markets Research*

# Malaysia – Normalizing and remained decent




| | 2021 | 2022 | 2023F |
|---|---|---|---|
| GDP (%) | 3.1 | 8.2 | 4.9 |
| Inflation (%) | 2.5 | 3.3 | 2.8 |
| OPR (%) | 1.75 | 2.75 | 3.00 |
| USD/MYR | 4.20 | 4.4040 | 4.31 |

*Source: Bloomberg, HLBB Global Markets Research*

- Risks to the overall growth outlook remain fairly balanced, with downside risks predominantly externally driven stemming from slower global growth, with added potential drag from higher cost of living and input costs.
- Domestic demand to remain firm, supported by improvement in labour market conditions, continued implementation of multi-year investment projects and higher tourism activity, particularly with the reopening of the Chinese border.
- Room for further policy normalization as the current level of OPR remains accommodative and supportive of growth.

# Markets Outlook - FX

## FX – Hinges on inflation outlook, financial conditions, and yield differentials

| | 12-month Outlook |
|---|---|
| + | **EUR**: To exhibit a bullish bias as the USD retreats; shrugging off higher recession risks in the euro region vis-à-vis the US<br>**GBP:** recovery could lag its peers due to weaker growth prospects<br>**AUD, NZD, CAD**: Likely beneficiaries of China reopening story; on expectations of improving demand for commodities from China<br>**JPY:** Potential BOJ's policy pivot away from its decades long ultra-loose monetary policy will be positive for the JPY given narrowing yield discounts with the US, more so if and when the Fed begins cutting rates<br>**MYR**: tandem recovery in line with regional currencies on expectations of a retreat in the USD.<br>**CNY**: Recover along with regional economies but potential outflows from China economic reopening may limit its gains |
| - | **USD:** Expect further pullback in the USD to below the 100 handle as early as 3Q23. The near end of the Fed policy tightening cycle compounded by growing noises on potential Fed rate cuts will be USD negative. However, downside could be limited given its haven appeal should recession risks intensify. |

## FX Forecasts

| | 31-Mar | Q2-23 | Q3-23 | Q4-23 | Q1-24 |
|---|---|---|---|---|---|
| DXY | 102.51 | 100.97 | 99.96 | 97.96 | 96.98 |
| USD/CAD | 1.35 | 1.34 | 1.32 | 1.31 | 1.30 |
| EUR/USD | 1.08 | 1.10 | 1.11 | 1.12 | 1.13 |
| GBP/USD | 1.23 | 1.24 | 1.25 | 1.24 | 1.24 |
| USD/CHF | 0.92 | 0.91 | 0.91 | 0.90 | 0.90 |
| AUD/USD | 0.67 | 0.68 | 0.68 | 0.69 | 0.70 |
| NZD/USD | 0.63 | 0.63 | 0.64 | 0.64 | 0.65 |
| USD/JPY | 133 | 131 | 130 | 128 | 128 |
| USD/MYR | 4.42 | 4.39 | 4.35 | 4.31 | 4.28 |
| USD/SGD | 1.33 | 1.31 | 1.30 | 1.27 | 1.26 |
| USD/CNY | 6.87 | 6.84 | 6.77 | 6.70 | 6.64 |

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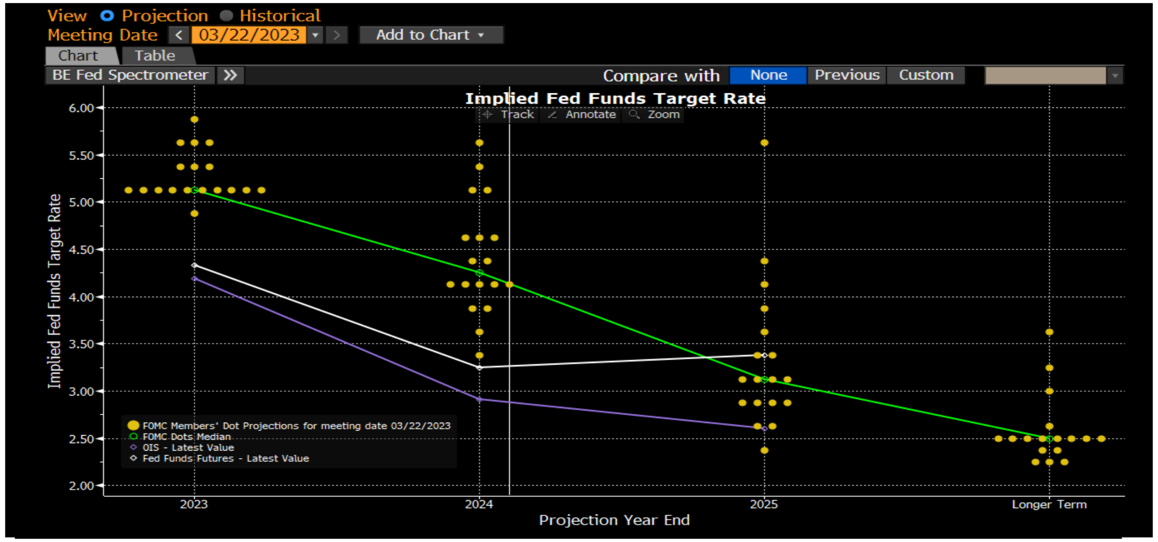
# Markets Outlook – Fixed Income

| | CURRENT | 2Q2023 | 3Q2023 | 4Q2023 | 1Q2024 |
|---|---|---|---|---|---|
| UST 10Y | 3.30% | 3.20-3.40% | 3.10-3.30% | 3.10-3.20% | 3.30-3.50% |
| MGS 10Y | 3.85% | 3.70-3.90% | 3.60-3.80% | 3.60-3.80% | 3.80-4.00% |
| SGS 10Y | 2.78% | 2.60-2.80% | 2.50-2.70% | 2.50-2.70% | 2.70-2.90% |

## Sovereigns – Economic slowdown woes, longer-term impact on recent bank rout to spur continued save-haven appeal for bonds

| | |
|---|---|
| **UST** | Yields to drift in lower trajectory in view of the nearing of terminal rates by the Fed in its normalization exercise (another 25bps hike expected either in May or June)<br>Risks – hot inflation, strong jobs data |
| **MGS** | Close correlation to USTs compared to the past<br>Expectations for another 25bps hike in OPR to offset higher yields due to demand from deep appetite and well-diversified local institutions<br>Risks - political factor i.e. upcoming state elections |
| **SGS** | Yields to correlate with lower UST yield movements and sustained strength in SGD.<br>Risks – increase in demand-pull Inflation, prompting MAS to tighten |

# US Fixed Income – Toppish interest rate and slowing economy to drive yields lower

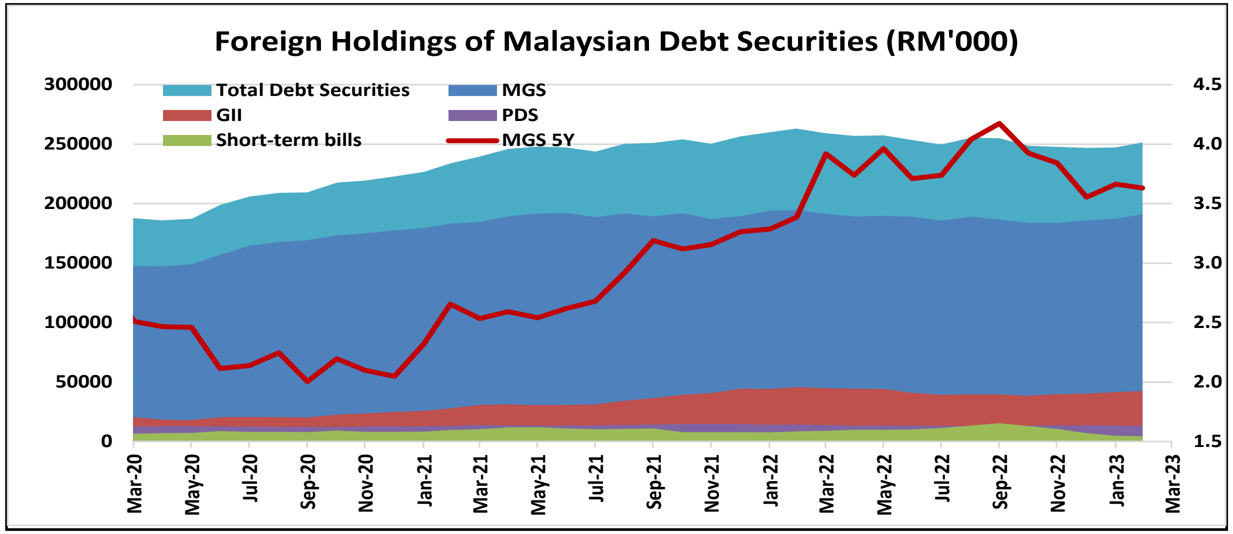

*Source: Bloomberg, HLBB Global Markets Research*

- **UST** -- UST ended stronger despite undergoing one of the most turbulent quarters in years, as overall benchmark yields closed sharply lower between 31-43bps across. The yield curve inversion remained at ~56bps despite shifting deeper in February. The recalibration of expectations for policy rates following the turmoil in the US banking sector last month could see a longer term bull-steepening trend in US yields. We expect the Federal Reserve to raise interest rates in May, and signal that the hiking cycle is over. The Fed's Dot plot median projection brings the Fed Funds Rate to about ~5.125% (range 5.00-5.25%), from current 4.75-5.00%. **We expect 10Y UST to range lower between 3.20-3.40% for 2Q2023 in view of the nearing of the end in rate hikes as inflation may be finally capped. Also, fresh jitters over the state of the economy going forward along with the recent bank rout** that resulted in the collapse of Silvergate, SVB and Signature bank, coupled with the takeover of Credit Suisse AG by UBS. Key areas to watch include key central bank interest rate decisions, bank stress levels in the US and its possible contagion effect, further escalation in US-Ukraine war and/or other geopolitical conflict and the ongoing ramp-up in China's resumption of economic activity. We expect sustained demand for safety of bond asset class amid strong foreign institutional flows.

- **Corporates** – Credit especially, Investment-grade corporate bonds saw improved appetite with the Bloomberg Barclays US Corporate Bond Index posting a sustained gain of 3.5% (4Q2022: 3.6%); with spreads widening slightly from 130bps as at end-Dec to 138bps as at end-March amid tighter monetary policy. **We are positive on IG in sectors such as utilities, communications whilst steering clear of financials for now with a negative-bias on AT1 bonds; whilst maintaining longer duration of between 7-10Y.**

# Malaysia Fixed Income – Steady support/demand seen from local institutions

| 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 | | 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 | 40,500 | 10,000 | 50,500 | PROJECTED TOTAL ISSUANCE SIZE = 168-172k | | | | |

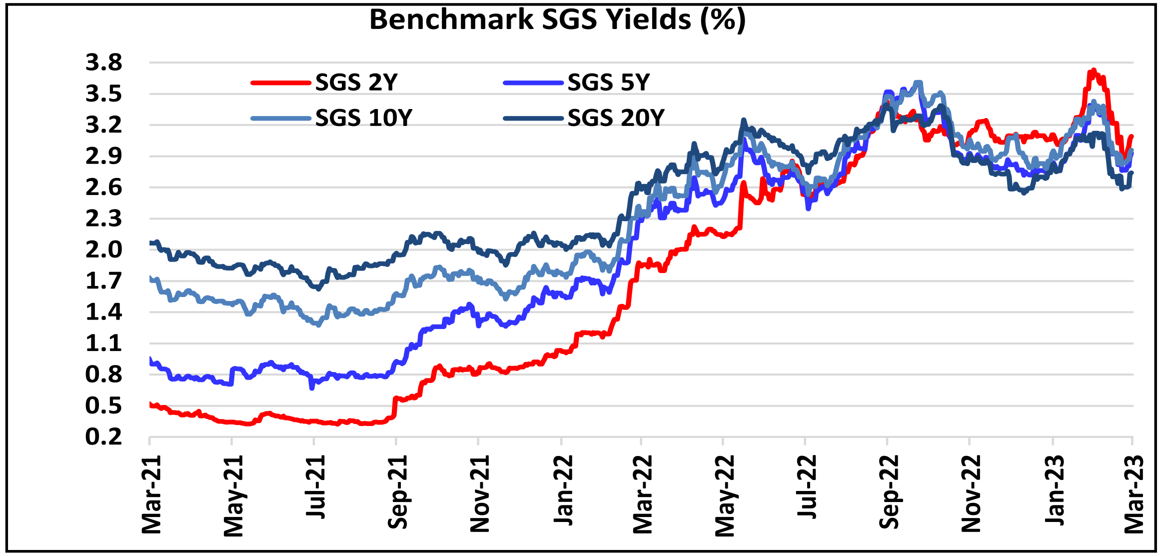


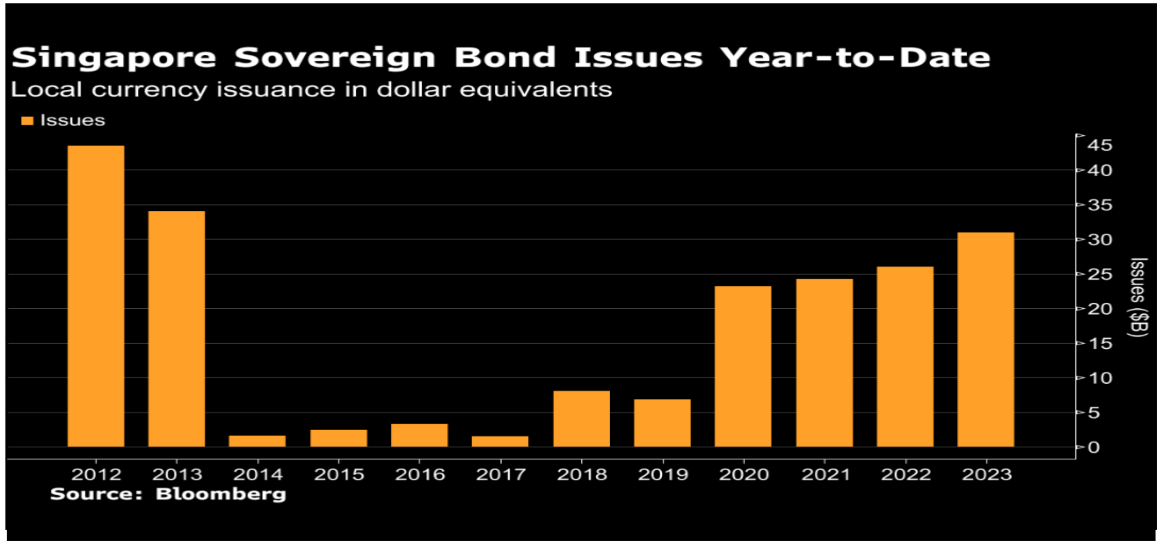

- **Government Bonds** – Both MGS and GII rallied q/q as overall benchmark yields declined between 12-53bps with easing inflationary expectations in US and the recent black swan event involving 3 failed banks and the rescue of Credit Suisse AG by UBS. These events saw flight-to-safety, lending bonds a strong bid. Foreign holdings of overall MYR bonds rose by RM4.8b to RM251.5b as at end-Feb 2022. Participation was decent for government auctions in 4Q2022 with bidding metrics circa ~2.21x for all 10 auctions despite higher gross issuances of RM50.5b (4Q2022: BTC 2.06x; 8 auctions; gross issuances RM38.5b). The well-diversified, appetite and depth of investment institutions is expected to benefit both primary participation and secondary market activities. We project an OPR hike of 25bps as early as 2Q2023; bringing the OPR level to 3.00% for the year. Meanwhile, expect slight political risk premium from upcoming state elections. Nevertheless the thumbs-up from improving corporate governance plus projected reduction in fiscal deficit from 5.6% in 2022 to 5.0% in 2023 via re-tabling of National Budget; may result in gross issuances within RM168-172b for the year. **Our 10Y MGS yield target range for 2Q2023 is revised lower to 3.70-3.90%.**

- **Corporate Bonds/Sukuk** --Corporate bonds/sukuk issuances (including GG-bonds) plunged to RM18.9b in 1Q2023 (4Q2022: RM63.7b) and may miss our projected gross issuances of between RM110-130b for 2023. Demand for primary issuance in 2Q2023 is expected to be strong in view of supply constraints and yield-carry requirements in the absence of a pullback in economy. We favour the 3-7Y GG (24-26 bps), 2-5Y AAA (57-70bps) and 20Y AAA (60bps) and 3-10Y AA2-rated bonds (~85bps) in sectors comprising utilities (i.e. telco, electricity, sewerage), logistics (ports) and highway/toll.

*Source: Bloomberg, BNM, HLBB Global Markets Research*

# Singapore Fixed Income – Short SGS duration preferred, avoid AT1's for now




*Source: Bloomberg, HLBB Global Markets Research*

- **SGS** – SGS outperformed q/q, mirroring UST movements as overall benchmark rallied with yields ending lower between 33-60bps. The magnitude of movement overshadowed those seen in MYR govvies and USTs. However, the Bloomberg Global Singapore Bond Total Return Index notched a mere 0.9% gain in 1Q2023 (4Q2022: +5.7%). The SGS yield curve is now less inverted extending out until 30Y tenure. There are visible signs that the earlier elevated inflation is easing in contrast with the republic's strong PMI for March @ 52.6; its highest levels since November 2022. Hence, we expect attention to shift to MAS Policy Statement in the coming week with expectations of a slight steepening in the S$NEER slope by at least 25bps which may be an indication of a "dovish tightening". **Overall, we are biased in adopting shorter duration for the quarter for both yield-carry coupled with expectations for lower yields due to eventual softening of global inflation pressures**. **We project SGS 10Y to range lower between 2.60-2.80% levels.**

- **Corporate** – Total issuance YTD at end-March was a mere ~S$7.5b; down 25% from previous quarter with financials and statutory bodies making up bulk of issuances. We foresee continuing demand for credits by investors under current tight supply situation. The decision by Swiss authorities to ignore market convention that shareholders are to take the hit before AT1 bonds on losses, prompts us to reduce exposure to junior bank bonds and perpetuals in view of the higher noise levels on call-backs for now. Nevertheless, we favour extending duration for higher yield pick-up on bonds issued by large conglomerates with stronger balance sheets i.e. Temasek, City Developments, CapitaLand and Sembcorp Industries.

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