Monthly Fixed Income Perspective –

July 23 review & Aug 23 outlook

US Bond market

- **In July**, US Treasuries (UST's) underperformed, 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-steepened as overall benchmark yields rose between 2-15bps save for the front-end. Despite the weaker NFP data…strong wage gains, lower unemployment, and the surprising downgrade of US Long-Tern Foreign Currency Issuer Default Rating (IDR) by Fitch Ratings from "AAA" to "AA+" dented bonds. **The UST 2Y yield edged 2bps lower at 4.88% whilst the UST 10Y spiked by 12bps to 3.96%.** At the time of writing, these levels are trading higher at 4.93% and 4.21% respectively. Meanwhile, the 2s10s part of the curve became less inverted from -106bps as at end-June to -92bps as at end July, and presently at 76bps. Elsewhere, Treasury's huge coupon offerings of ~$179b consisting of 2Y, 3Y, 7Y, 10Y, 20Y and 30Y tenures added to the deluge of supply.

- **For Aug**, expect range-bound trading with potential for lower UST yields following lower risks of inflation spiraling higher for now; based on the recent release of July's somewhat mild inflation data and higher jobless claims. **The yield curve could steepen as policy-sensitive shorter-ends react quickly to the nearing of peak-terminal rates by the Fed; taking note of the filtration of earlier quick-paced rate increases into the economy**. The barometer of investors' inflation expectations i.e.; the 5Y breakeven inflation rate for 5Y TIPS, which rose by 11bps m/m to 2.31% as at end-July (from 2.19% as at end-June); has eased to ~2.28% levels now. Fed-dated OIS pricing currently reveals a mere 12% chance of a 25bps rate hike in September in arriving at an implied peak terminal rate at 5.42% in the November's FOMC meeting. **The UST 10Y is expected to range between 4.00-4.20%, key with support at 4.20% levels for this month.** We remain averse to HY credits as credit conditions tighten amid higher funding costs for banks. We foresee improved appetite for yield pick-up within the IG universe in August. **Our preferred IG bond issuances are within the 5-7Y tenures in banking, energy, utilities and transportation.**

MYR Bond Market

- **In July**, MYR government bond curve saw the long ends steeper whilst the front-end were literally unchanged as both **MGS/GII bonds ended mixed between -5 to +7bps across.** The benchmark 5Y MGS 4/28 yield closed unchanged m/m at 3.60% whilst the replacement of previous 10Y MGS 7/32 to benchmark MGS 11/33 saw yields edge 1bps down at 3.84%. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings rose RM9.4b (representing 24.0% of total outstanding).** The primary factors which drove bond movements were views that the OPR would stay pat along with easing inflationary expectations in both the US and Malaysia. The three (3) auctions in July 2023 saw average BTC ratios spike to ~ 2.31x (June: 1.81x); back above the 2.0x handle.

- **For Aug,** expect range-bound trading with slight positive undertone as local institutions increase the tempo and momentum for govvies in both primary and secondary markets on dip-buying opportunities post-state elections. However, we foresee better demand for corporate bonds/sukuk for yield-carry requirements. **The 3Y, 5Y MGS and 5-7Y GII sectors reflect decent relative values along the curve. We expect the 10Y to maintain its range between 3.80-4.00%;** akin to our previous month's projection **with support pegged at 4.00% levels. We expect the Sukuk/Corporate Bond space to attract relatively strong demand on yield pick-up requirements as credit and liquidity conditions remain steady.** We favor the 5-10Y GG (15~20bps), 3-5Y AAA (~40bps) and 7-15Y AA2-rated bonds (~55-65bps) in tolling operations, utilities (like telco) and banking cum finance sectors.

MYR sovereign curve (MGS)

Source: Bloomberg

US economy added fewer jobs than expected; but strong wage gains and lower unemployment rate points to labor market tightness…

July Non-Farm Payrolls ("NFP") of 187k was way lower than consensus estimates of 200k whilst job gains in May and June were also revised lower; suggesting that demand for labor was slowing in line with the Fed's aggressive rate hikes. However, the unemployment rate eased to 3.5% (June: 3.6%). Payrolls gains were led by the healthcare sector, followed by the financial, construction and finally leisure and hospitality sector. The participation rate remained unchanged again for the 3rd month in a row at 62.6%. The average hourly wages maintained a steady growth of 0.4% m/m and 4.4% y/y. The sustained growth in hourly earnings coupled with lower unemployment rate may allow the Fed rate-hike narrative intact for now despite the latest hike of 25bps late last month.

To recap, the Fed raised the Fed Funds Target Rate in its recent FOMC meeting on 26th July to between 5.25- 5.50%. For the record there were eleven (11) earlier hikes totaling 525bps between 17th March 2022 and 26th July 2023. **The Fed's current median FOMC dot plot still pins target rate at ~5.63% for 2023. However, data from the Fed Fund Futures now reflect traders' hypothetical expectations of a mere 12% odds of a 25bps hike in the next FOMC meeting on 20th of September; similar as well to CME FedWatch Tool's analysis.** Meantime, we note that the Fed's ~$8.34 trillion balance sheet as at end-June inched lower to $8.24 trillion as at end-July.

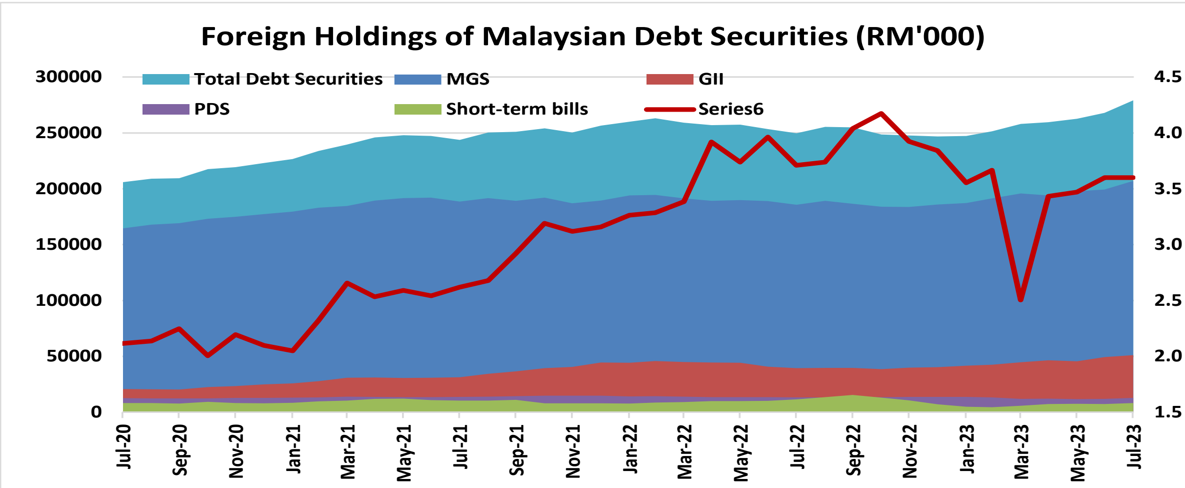
Moving on to other economic data, we note the sustenance in June manufacturing data i.e.; US PMI at 49.0 and improvement in ISM manufacturing data at 46.4 in July versus 46.0 in June. Separately, the Fed's preferred inflation measure, the core PCE eased to +0.2% m/m (May: +0.3%) and +4.1% y/y in June (May: +4.6%). Hence, when read together with the easing in the just-released headline June CPI and NFP jobs data which came slightly below consensus last Friday could provide some relief for USTs and corporate bonds.

Sharp jump in foreign holdings of overall MYR bonds by RM11.3b as offshore interest remains elevated…

Foreign holdings of overall MYR bonds saw a huge increase circa RM11.3b or 4.2% m/m in July (June: +RM5.2b or 2.0%) to RM279.2b mainly due to the jump in MGS followed by GII and subsequently MITB's which more than offset the slight drop in conventional MTB holdings. Non-resident holdings of MGS rose RM7.6b or 3.8% to RM207.0b (prior month: +RM1.6b or 0.8%), thus forming a 36.6% of total outstanding. Foreign holdings of GII saw a new historical high by RM1.8b m/m to RM51.4b. Movements in bond yields in certain sectors reacted to demand from safe-haven bids for the bond asset class. **Total foreign MYR Government bonds (MGS+GII+SPK) holdings rose RM9.4b (representing 24.0% of total outstanding);** amid a sharp drop in net issuances to RM4.5b for the month (June: net issuances of RM15.5b); for which rollover from maturities was believed to heighten appetite for primary issuances. Meantime, **12-month cumulative rolling inflows surged higher to RM33.0b (prior month: RM18.9b).**

We also note that the secondary market saw robust foreign participation which complimented the appetite for coupon offerings via auction exercises in July; as MYR fixed income space lured investors, considering many of its peers (save for Philippines and Indonesia) have tighter spreads than Msia sovereign debt. 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 seen to provide support in the fixed income space.

Separately, equity saw inflows in July @ RM1.4b (June: RM1.3b outflows instead) whilst the 12-month rolling outflows fell to RM4.7b in July from RM5.9b in June. On the currency side, the MYR strengthened against USD to 4.5070 as at end-July (end-June: 4.6665) but has weakened considerably to 4.6395 levels at the time of writing.



Source: BNM, HLBB Global Markets Research

To recap 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. We are also maintaining our full year 2023 GDP growth forecast of 4.0% at this juncture, awaiting 2Q GDP report which has now been rescheduled to 18th of August from the initial 11th August timeline. CPI increased 3.3% y/y YTD June and we expect the CPI prints to nudge lower to the 2.0% handle towards the end of the year. This would also suggest positive real interest rate will pick up from here, **supporting the case for BNM to keep OPR steady at 3.00% for the remainder of 2023.**

Pleasant turn-around seen in participation for July auctions amid low net issuances of RM4.5b…

The three (3) auctions in July 2023 saw average BTC ratios spike to ~ 2.31x (June: 1.81x); back above the 2.0x handle. The highest BTC of 2.641x among the three (3) auctions was notched by the re-issue of 10-year MGS 11/33 which saw strong participation from a myriad of investors that included inter-bank participants, insurance companies, GLC's and pension funds, resulting in a short tail of a mere 0.8bps. The other auctions consisted of the re-opening of 7Y GII 9/30 and 3Y MGS 7/26. Together, all three (3) auctions in July saw slightly higher individual sum of bids amounting to between RM7.7-8.6b. Demand for auctions were strong in the absence of private placement offered which could have otherwise sapped some appetite from the larger investment institutions. The continued availability of rollover maturity benefits (Aug maturities of RM10.0b versus July's maturities of RM10.5b) in the Malaysian government bond space helped boost primary participation. Both fresh and rollover of funds were seen in both the primary and the secondary market with offshore funds showing keen interest in 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 challenge given higher-than-projected YTD gross govvies issuances of RM120.5b versus our run-rate of RM112.0b

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 09/30)	7	Jul	Q3	20/7/2023	4,500	5,000		106,000	2.295	3.760	3.788	3.798	65.0%
22	3-yr Reopening of MGS (Mat on 07/26)	3	Jul	Q3	30/7/2023	4,500	4,500		110,500	1.908	3.455	3.483	3.498	75.9%
23	30-yr Reopening of MGII 05/52	30	Aug	Q3	7/8/2023	4,500	3,000	2,000	115,500	2.557	4.318	4.362	4.378	61.5%
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	94,500	21,000	101,000	PROJECTED TOTAL ISSUANCE SIZE = 168-172b				

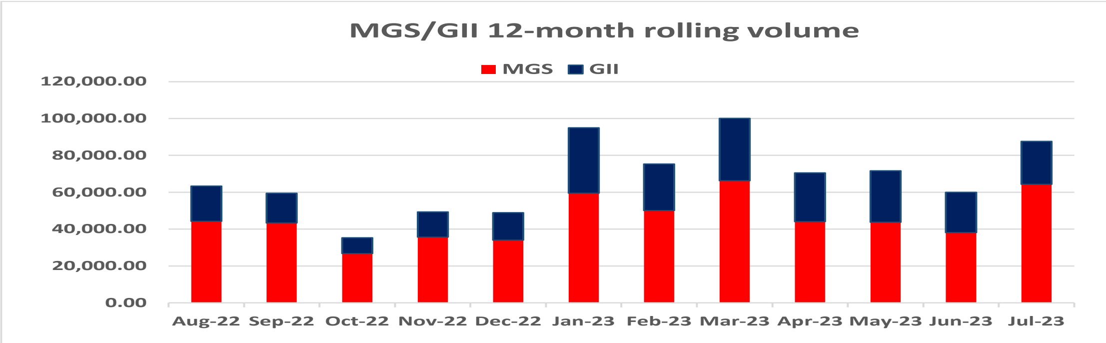
Source: BNM, HLBB Global Markets Research

MGS/GII secondary market activity surpasses expectations in July…

Trading volume for MYR govvies i.e.; MGS + GII + SPK bonds saw a 36% jump to RM88.0b in July compared to prior month's RM64.5b. The positive and confident stance by saw many investors somewhat was triggered by signals from mixed economic data emanating out from the US coupled with the belief both Malaysia and the US were at the tail-end of interest rate hike exercises. The somewhat weaker MYR against the greenback and early uncertainties over the recently concluded state elections were surprisingly brushed aside with some traders taking the opportunity to thrive on volatilities amid the stable but weak MYR which provided a cheaper entry. The lesser inversion in the US yield curve m/m (which serves as a precursor of a potential recession) also boosted enthusiasm in the sovereign bonds.

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/GII yields saw a prominent rise in the 20-30Y part of the curve whereas the front-ends and belly saw decent bids throughout the month. Both curves were pivoted along the 7Y and 15Y sectors.
- MYR IRS levels rose lesser than previous month by a mere 2-6bps for 1-10Y tenures.
- Bulk of the secondary market volume was skewed more to the front-ends and belly in terms of term structure with prominent trades seen more in the off-the-run 23's (21.8% of overall volume), 24's (21%), 25's (8.9%) and benchmarks 5Y MGS/GII (9.4%) and 10Y MGS/GII previous and new benchmark (11.3%), which altogether accounted for a little more than two-thirds of overall 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 be perched on its last leg of a hiking cycle. Whilst there remains no further deterioration in the US banking system presently due to strict monitoring and surveillance by the US authorities; we expect range-bound bond movements in the local bond markets with focus on the current MYR weakness.

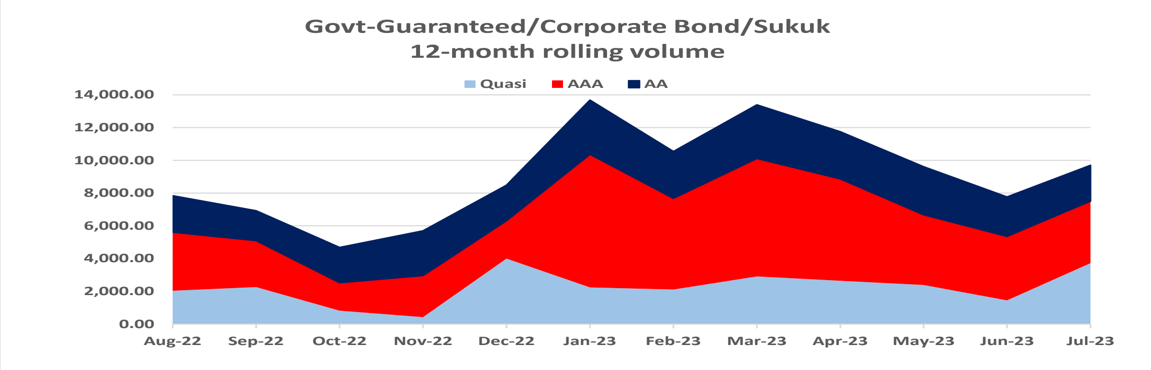
Corporate Bonds/Sukuk volumes too ramp-up higher in July…

Overall Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) also saw higher momentum and participation as trading volume jumped by 23% in the secondary market to RM10.3b in July (June: RM8.4b).

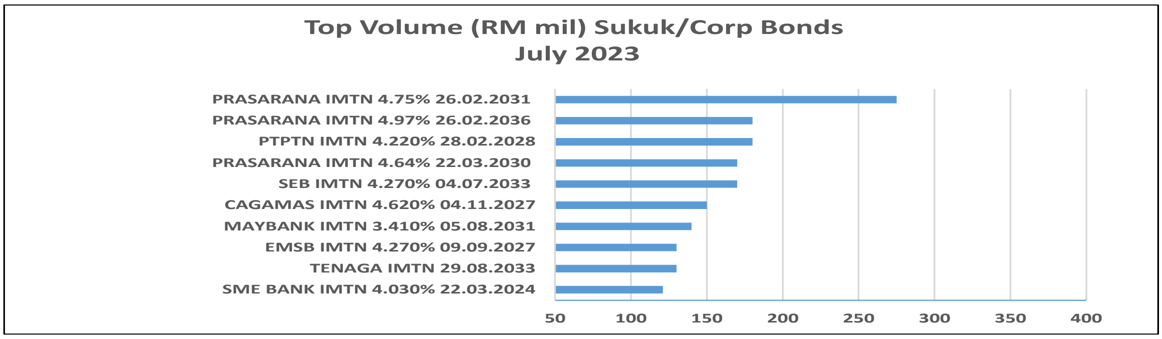
Trading in Corporate Bonds/Sukuk space took cue from govvies as the primary driver on the back of higher secondary market participation as yields ended mostly mixed-to-lower for the month under review. Also, the relatively high m/m primary issuances witnessed strong take-up rates which is believed to be on par with the strong interest seen in the secondary market. The Govt-Guaranteed (GG)-segment saw the 2-10Y tenures tightening between 1-6bps to between 3.56-4.04% levels. The AAA-rated space similarly saw tenures between 3-15Y tenures, richer between 5-9bps; with levels around 3.87-4.35%. The AA2-segment too saw yields settle lower between 5-9bps for the 3-15Y sector; resulting in yields closing within the ranges of 4.04-4.80% area. The sweet spot area was interestingly seen at the 10Y sector overall. Elsewhere, we note that foreign holdings for both GG and pure credits crept higher to RM12.9b in July (June: RM11.9b).

Total transactions for GG bonds spiked to form 38% of overall trades in July (June: 19%). AAA-rated papers however eased to form ~39% of overall trades (June: 50%). The AA-space also saw its secondary market share fall at ~23% of overall investor interest in July. The GG-space continued to be spread among names like DANAINFRA, LPPSA, PRASARANA, PTPTN and SME Bank. **Bonds that garnered top volume for the month were dominated by PRASA 2/31 (GG) which rallied with yields ending 30bps lower compared to previous-done levels to 3.91%. Next was another tranche of PRASA 2/36 (GG) which edged 1bps lower instead at 4.06%. Third was PTPTN 2/28 bonds which rose 3bps to 3.75%.**

Frequency and volume of bond trades in the credit space were mainly seen in CAGAMAS 23-27's, MAHB 25-31's/ perps, JCORP 27-38's, MMC 27-32's, utilities provider i.e. telco/water/power, (DIGI 24-30's, AIR SELANGOR 37-48's, PASB 24-36's, TENAGA 29-40's, TNB Power 33-43's), construction/property/plantation (i.e., KLK 26-37's), PMETAL 24-29's, energy and power (i.e.; PETSARAWAK 27-33's, Sarawak Hidro 26-29's, SPETCHEM 26-33's, SEB 24-35's, BGSM 23-26's, EDRA 25-36's, YTL Power 24-33's), toll operators (i.e. ALRB 25-31's, PLUS 24-37's), banking (i.e.; MAYBANK 2031 callable/perps, MBSB 27-31's), PTP 25-30's, INFRACAP 24-36's, Point Zone 27-33's. There were also frequent odd-lot denominated trades in AFFIN perps, Alliance Bank 2030, 2035 callable/perps, AmBank 2033 callable, CIMB 25's/perps, HLBB 2033 callable/perps, SABAH Development Bank 24-26's, UOB 2030, 2032 callable bonds, MCIS 2031 callable, DRB-HICOM 29's and perps, UEM Sunrise 24-26's, DIALOG perps, TG Excellence perps, UEM 24-27's, YNH Properties 25-27's/perps and finally Tropicana 24-26's/perps.



Source: BPAM, Bloomberg, HLBB Global Markets Research



Source: BPAM, Bloomberg, HLBB Global Markets Research

Primary issuance prints in July driven by the following:

Notable issuances in July-23	Rating	Amount Issued (RM mil)
AEON Co. (M) Berhad	AA2	370
BGRB Venture Sdn Berhad	NR	140
Cagamas Berhad	AAA	1,635
CIMB Bank Berhad	AAA	33
Eternal Icon Sdn Berhad	NR	340
Global Vision Logistics Sdn Berhad	NR	136
Johor Corporation	AAA	1,500
Lembaga Pembiayaan Perumahan Sektor Awam	GG	4,000
MEX I Capital Berhad (formerly known as Bright Focus Berhad)	NR	21
Petronas Dagangan Berhad	AAA	1
Perbadanan Kemajuan Negeri Selangor	AA3	195
Pac Lease Berhad	AA2	50
Perbadanan Tabung Pendidikan Tinggi Nasional	GG	1,500
RP Hydro Kelantan Sdn Berhad	AA3	975
Sarawak Energy Berhad	AAA	3,500
Sunway Treasury Sukuk Sdn Berhad	NR	250
Sunway Berhad	AA3	200
Tumpuan Azam Sdn Berhad	NR	12
Toyota Capital Malaysia Sdn Berhad	AAA	150
Tanjung Pinang Development Sdn Berhad	NR	9
West Coast Expressway Sdn Berhad	NR	12
		15,028

Source: BPAM, Bloomberg, HLBB Global Markets Research

Fresh Corporate Bonds/Sukuk maintained the hot streak in gross issuances from ~15.9b in June to RM15.0b in July. Some of the prominent issuances consisted of Lembaga Pembiayaan Perumahan Sektor Awam's 5-20Y govt-guaranteed bonds totaling RM4.0b with coupon rates between 3.75-4.37% and Sarawak Energy Berhad's AAA-rated 5-10Y bonds amounting to RM3.5b with coupon rates between 4.05-4.27%.

Outlook for July 2023

Expect USTs to undergo mild but intermittent rallies as the threat of inflation and strong jobs data tapers off…

The Federal Reserve will have its next **FOMC meeting on 21st of September for which we maintain our forecast for the Fed Funds Rate to remain between 5.25-5.50%**. The Fed's preferred inflation measure, the core PCE which eased to +0.2% m/m in June (May: 0.3%) and +4.1% y/y in June (May: 4.6%) coupled with NFP data that came in below market estimates (June numbers were revised downwards as well), may leave the Fed with mixed thoughts about the continued threat of inflation. However, the Treasury implied volatility, denoted by the ICE BofA MOVE index has crept up m/m (and also at the time of writing). Current swaps-pricing reveal a higher 12% chance of a July 25bps rate hike in arriving at an implied peak terminal rate at 5.42% in November's FOMC meeting. **The yield curve could steepen as policy-sensitive shorter-ends react quickly to the nearing of peak-terminal rates by the Fed; taking note of the filtration of earlier quick-paced rate increases into the economy**.

In the Credit/Corporate space, the Bloomberg Barclays US Corporate Total Return Value (for Investment Grade or IG) managed to eke out a gain of 0.3% in July 2023 (June: +0.4 %); amid further tightening in m/m OAS spreads from 122bps to 112bps. We expect gross issuances to be in the region of $60-70b in July (June: ~$75b) whilst maturities are lower at circa $40b 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 smaller 1.4% gain in July (June: +1.7%) whilst spreads compressed further from 392bps to 368bps. Overall, US bond funds saw $4.0b inflows (prior month: +$7.6b) in IG, but lower inflows of $1.9b in HY instead; revealing investors preference for higher credit.

The UST 10Y is expected to range between 4.00-4.20%, with key support at 4.20% levels for this month. We remain averse to HY credits as credit conditions tighten amid higher funding costs for banks. We foresee improved appetite for yield pick-up within IG universe in August. **Our preferred IG bond issuances are within the 5-7Y tenures in banking, energy, utilities, and transportation.**

Expect range-bound trading with slight positive undertone as local institutions increase the tempo and momentum for govvies …

The Malaysian economy is expected to moderate in 2Q2023 and **we maintain our full year real GDP growth forecast at 4.0%,** with the slow expected recovery in the China economy 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 to 2.0% handle; **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.

Demand for local govvies at bond auctions in July are expected to maintain above ~ 2.0x handle following the eventual easing of political risk premium with the safe and sound completion of the six (6) state elections and decent relative spreads compared to many of its regional peers. The recent two primary issuances in August saw contrasting demand for both the 30Y GII 5/52 and 5Y MGS 4/28 RM5.5b with the former notched a high BTC ratio of 2.557x; whilst the later managed a feeble 1.718 cover. Although the month of August 2023 is expected to see **higher net issuances (projected gross issuances > maturities) of RM9.0b compared to July's RM4.5b; funding rollover opportunities remain 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 hovers over its last leg of policy tightening. Meanwhile, adequate support and interest in secondary market space is expected due to the well-diversified profile and depth of local investment institutions and inter-bank participants.

The 3Y, 5Y MGS and 5-7Y GII sectors reflect decent relative values along the curve. We expect the 10Y to maintain its range between 3.80-4.00% i.e.; similar to our previous month's projection with support pegged at 4.00% levels. **We expect the Sukuk/Corporate Bond space to attract relatively strong demand on yield pick-up requirements as credit and liquidity conditions remain steady.** We favor the 5-10Y GG (15~20bps), 3-5Y AAA (~40bps) and 7-15Y AA2-rated bonds (~55-65bps) in tolling operations, utilities (like telco) and banking cum finance sectors.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: