Bond Market Weekly Outlook

Local yields hold steady post-FOMC; geopolitical risks emerge as key driver

Malaysian Government Securities (MGS) and Government Investment Issues (GII)

- **Yield Movement:** MGS and GII yields fell sharply across the curve, declining between 4.5 bps to 28.9 bps. The 10-Y MGS yield fell 26.7 bps to 3.917%, and the 10-Y GII yield dropped 21.4 bps to 3.939%.
- **Key drivers**: MGS yields reversed sharply lower after the FOMC's anticipated 25 bps hike removed event risk and fuelled duration demand. Brent eased as Saudi Arabia restored part of its East-West pipeline capacity, easing inflation concerns. August exports surged 45.5% YoY, signalling strong domestic fundamentals. Bilateral swap arrangement with Japan and initiatives on local currency settlements and India market access added support. The government's decision to raise the electricity relief threshold also reinforced the domestic macro backdrop, encouraging renewed buying across the MGS curve.
- **Flows and outlook**: Foreign investors turned net sellers, pulling RM2.0b from Malaysian bonds last week. Foreign institutions also remained net sellers of Bursa Malaysia, posting RM160.3m of net outflows from Bursa Malaysia. We expect local yields to remain largely rangebound in the near term amid the absence of major domestic catalysts. Investor focus will instead remain on external developments, particularly the evolving US-Iran conflict and the upcoming Trump-Xi meeting. Any trade or de-escalation breakthrough would likely reduce UST duration demand.

United States Treasuries (UST)

- **Yield Movement:** UST yields showed mixed movements across the curve, moving between -2.7 bps to 11.8 bps. The 10-Y UST yield rose 2.9 bps to 4.996%, and the 2-Y UST yield rose 11.8 bps to 4.743%.
- **Key drivers:** UST yields drifted higher, contrasting with the MGS rally, as the Fed and BoJ delivered widely anticipated rate hikes into lighter pre-hike positioning. Strong August retail sales and a surprise decline in initial jobless claims suggest the Fed may hold rates steady for an extended period. Softer Brent prices capped yield gains after Saudi Arabia restored part of its East-West pipeline capacity, easing energy inflation concerns.
- **Outlook:** UST yields will likely trade within a narrow range in the week ahead, pending fresh direction from US labour market data (ADP employment and weekly jobless claims) and Fed guidance. Market sentiment will also remain highly sensitive to geopolitical and trade developments, particularly US-Iran tensions and the Trump-Xi meeting. While these events may generate volatility bouts, our base case is that the latest Fed hike marks the end of the tightening cycle. We expect policy rates expected to remain unchanged through end-2027.

Table 1: 10Y MGS, 10Y UST, Ringgit and OPR Outlook

	Long Term*				
	Q2-26	Q3-26F	Q4-26F	Q1-27F	Q2-27F
MGS	3.60	3.95	3.88	3.87	3.78
UST	4.47	4.85	4.80	4.75	4.69
USDMYR	4.08	4.05	3.95	4.00	4.02
OPR	2.75	2.75	2.75	2.75	2.75

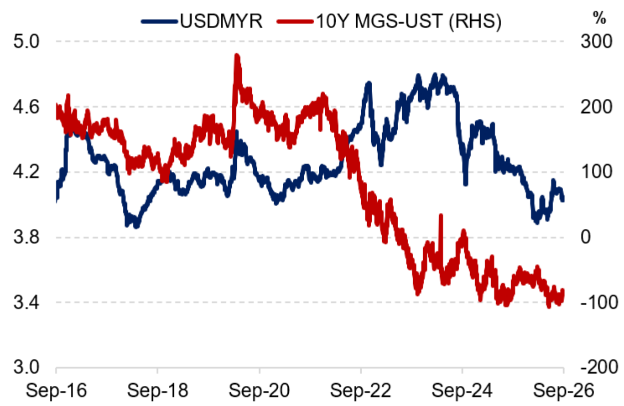
**F=Forecasts for end of period*
Source: Kenanga Research, Bloomberg

Table 2: Annual Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2025	2026	2025	2026
Reopening	67.5	50.0	61.5	50.0
New Issuances	15.0	15.0	24.5	15.0

Source: Kenanga Research, BNM, Macrobond

Graph 1: USDMYR and 10Y MGS-UST Yield Differential



Source: Kenanga Research, Bloomberg

Auction Result

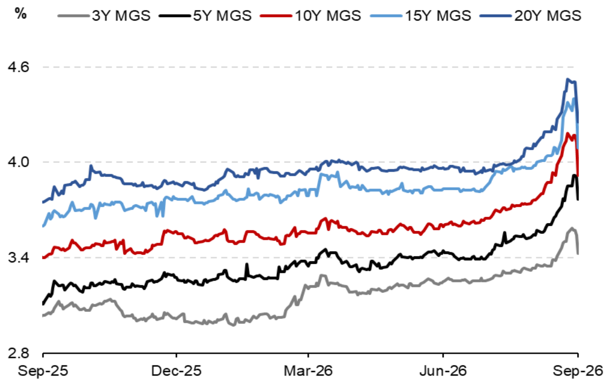
- There was no reopening or issuance this week.
- **Upcoming Auction**: Reopening of the 7-Y MGS, with RM5.0b to be issued without any private placement.

Table 3: 2026 Auction Calendar

Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%	Highest Yield (%)	Lowest Yield (%)
Aug	5-yr Reopening of MGII 10/31 3.804%	05/08/2026	-	-	5,000.00	2.40	3.529	3.534	3.518
	30-yr Reopening of MGS 7/55 3.917%	12/08/2026	3,000.00	2,000.00	5,000.00	2.02	4.213	4.225	4.199
	7-yr Reopening of MGII 3/33	19/08/2026	-	-	5,000.00	2.15	3.696	3.704	3.685
	20-yr Reopening of MGS 4/46	27/08/2026	3,500.00	1,500.00	5,000.00	1.64	4.189	4.200	4.169
Sep	10-yr Reopening of MGII 7/36 3.447%	10/09/2026	-	-	5,000.00	2.29	4.149	4.160	4.138
	7-yr Reopening of MGS 4/33 3.844%	-	-	-	-	-	-	-	-
	30-yr Reopening of MGII 1/56	-	-	-	-	-	-	-	-

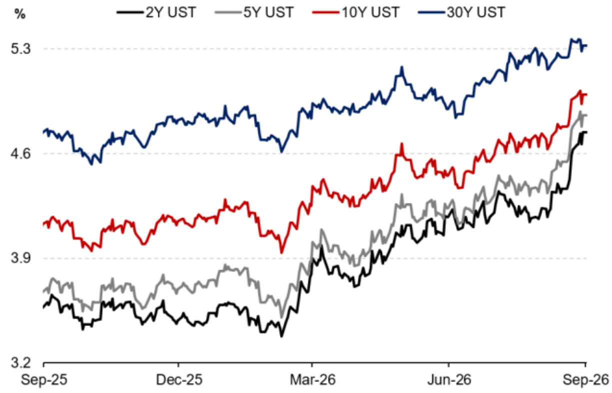
*Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio*

Graph 2: MGS Yield Trend



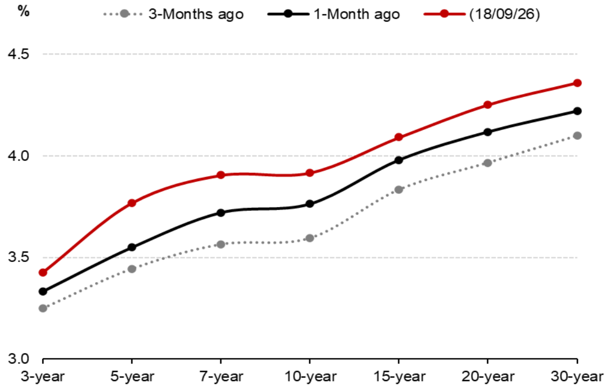
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



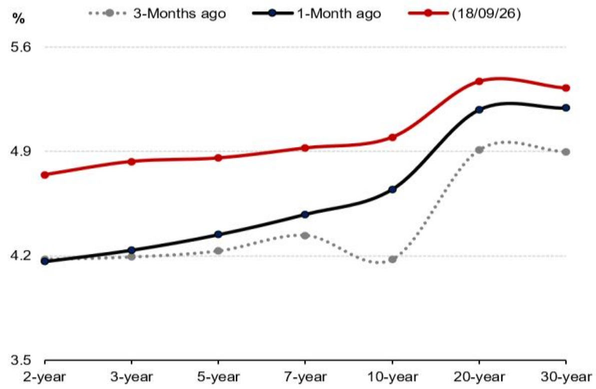
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



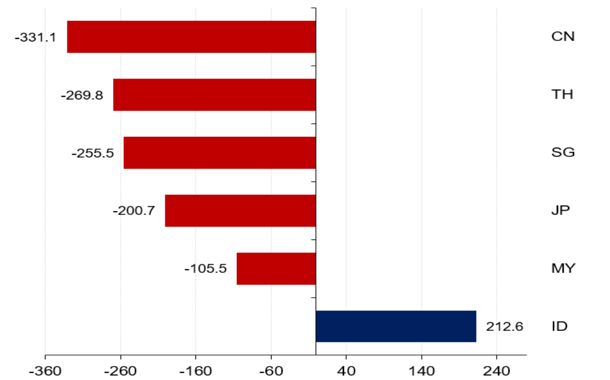
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



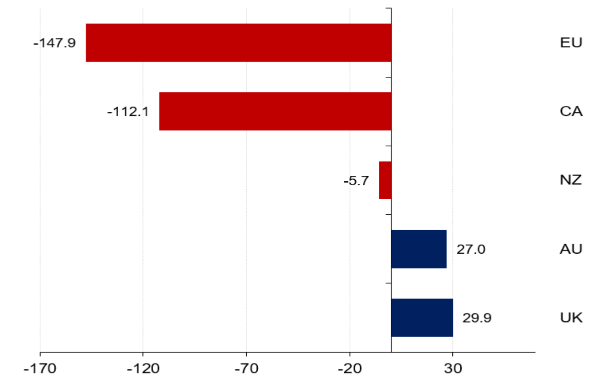
Source: Kenanga Research, Bloomberg

Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



Source: Kenanga Research, Bloomberg
Note: Yield spread with 10-year UST

Graph 7: Selected Global 10-Year Bond Yield Spread (bps)



Source: Kenanga Research, Bloomberg
Note: Yield spread with 10-year UST

Table 3: Bond Yield Movements

Bonds	01/01/26 YTD	18/09/25 Last Year	19/08/26 Last Month	11/09/26 Last Week	18/09/26 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.980	3.868	4.219	4.505	4.360	38.00	49.20	14.10	-14.50
20Y MGS	3.840	3.750	4.117	4.525	4.252	41.20	50.20	13.50	-27.30
15Y MGS	3.746	3.599	3.979	4.380	4.091	34.50	49.20	11.20	-28.90
10Y MGS	3.492	3.403	3.763	4.184	3.917	42.50	51.40	15.40	-26.70
7Y MGS	3.367	3.312	3.720	4.145	3.905	53.80	59.30	18.50	-24.00
5Y MGS	3.256	3.110	3.549	3.852	3.769	51.30	65.90	22.00	-8.30
3Y MGS	2.998	3.039	3.333	3.557	3.428	43.00	38.90	9.50	-12.90
GII									
20Y GII	3.862	3.767	4.085	4.391	4.288	42.60	52.10	20.30	-10.30
10Y GII	3.524	3.421	3.773	4.153	3.939	41.50	51.80	16.60	-21.40
7Y GII	3.341	3.273	3.709	4.066	3.892	55.10	61.90	18.30	-17.40
3Y GII	3.101	3.061	3.352	3.524	3.479	37.80	41.80	12.70	-4.50
UST									
30Y UST	4.844	4.724	5.191	5.352	5.325	48.16	60.10	13.41	-2.70
20Y UST	4.793	4.691	5.180	5.384	5.372	57.90	68.08	19.16	-1.18
10Y UST	4.167	4.104	4.647	4.967	4.996	82.91	89.17	34.95	2.92
7Y UST	3.939	3.852	4.479	4.867	4.924	98.43	107.22	44.47	5.65
5Y UST	3.725	3.663	4.343	4.782	4.856	113.08	119.30	51.34	7.39
3Y UST	3.539	3.547	4.239	4.717	4.833	129.36	128.54	59.40	11.59
2Y UST	3.473	3.564	4.162	4.625	4.743	127.03	117.98	58.10	11.79
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.854	2.724	3.260	3.503	3.517	66.30	79.30	25.70	1.40
10Y UK	4.479	4.676	5.044	5.343	5.295	81.60	61.90	25.10	-4.80
10Y JP	2.066	1.603	2.902	2.987	2.989	92.30	138.60	8.70	0.20
10Y CN	1.855	1.782	1.694	1.689	1.685	-17.00	-9.70	-0.90	-0.40
10Y SG	2.117	1.768	2.358	2.456	2.441	32.47	67.29	8.37	-1.47
10Y ID	6.070	6.276	7.106	7.151	7.122	105.20	84.60	1.60	-2.90
10Y TH	1.659	1.369	2.134	2.346	2.298	63.95	92.93	16.49	-4.74

Source: Kenanga Research, Bloomberg

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