FIXED INCOME

Potential fiscal upside may curb supply

- *Federal government's cash buffer increased in recent months, supported by a smaller fiscal deficit than net MYR sovereign bill and bond supply.*
- *Fiscal disbursements typically surged in 4Q, though we note that sustained revenue momentum may result in fiscal outperformance for the full year.*
- *If this materializes, the final 10Y MGS 07/35 auction may be cancelled — which is supportive of a flatter curve towards year-end — as prefunding for the next fiscal year is rare.*

Govvie issuance lifts cash balances as fiscal deficit narrows

- Malaysia's cumulative fiscal deficit narrowed by a sharp 14% yoy to -RM49.8bn in 9M25 (9M24: -RM58.2bn). This was supported by a solid 6.7% growth in government revenue, which outpaced a 2.4% yoy increase in government expenditure.
- The deficit was smaller than the net MGS, GII, MTB and MITB supply of RM68bn in 10M25 (9M25: RM73.5bn), bolstering the cash buffer of the federal government. Federal government deposits in the banking system rose to a near 3-year high of RM58.6bn in Sep (end-2024: RM36.2bn), while federal government deposits placed with BNM remained steady at RM5.5bn as of 31 Oct 2025 (end-2024: RM5.2bn).

What if the fiscal deficit outperforms the target?

- Fiscal disbursements tend to accelerate in 4Q, as development expenditure is typically backloaded. Nonetheless, we also note the strong momentum in revenue collection (3Q25: RM31bn/month, +27% qoq, +8% yoy), which was ahead at 72.3% of the full-year target (2015-2024: 70.7%). As such, there is a possibility that the 4Q25 deficit may be narrower than -RM27bn (3Q25: -RM9bn, 1H25: -RM40bn) needed to meet the revised target of RM76.7bn.
- If a narrower-than-expected fiscal deficit materializes:
  1) **Cancellation of the final auction (10Y MGS 07/35)**
     We saw a similar incident back in 2024: BNM cancelled the final 3Y GII auction; the 10Y MGS auction was deferred from Nov to Dec, and the auction size was downsized in a follow-up release. At that time, the 9M24 fiscal deficit hit 69% of the full-year target (vs. 9M25: 65%). The yield curve bull-steepened in the following two weeks post the announcement.
     Concentration on duration bond supply in recent months has widened the spread for 3s10s to 43bps (1-year mean: 37bps) and 5s30s to 75bps (1-year mean: 69bps). As such, the yield curve may flatten into year-end if the 10Y MGS 07/35 auction scheduled for Dec — with an estimated auction size of RM2.5bn — is cancelled. Front-end bonds have seen stronger support from exceptional MYR strength recently, compressing the 3Y-OPR spread to 32bps (1-year mean: 34bps), but we take note of the spillover from a modest 3M KLIBOR increase led by rising competition for corporate deposits into year-end.
  2) **Maintaining the three remaining auctions to ease supply headwinds in 2026**
     We noted in our report on 10 Oct that bond-to-bill substitution will be used to mitigate rollover risk in 2026 due to greater refinancing needs from higher MGS and GII maturities (2026: RM108.7bn, 2025: RM83.5bn), keeping gross MGS and GII supply in the range of RM173-178bn (Figure 4). Prefunding — although not a strategy typically utilized by BNM, unlike its neighbour Indonesia — could ease supply headwinds, though the yield implication into 2026 is dependent on whether BNM reduces 1) outstanding T-bills or 2) MGS/GII issuance. The former is supportive of front-end, especially as we see a potential 25bps OPR rate cut as early as 2Q26, while the latter could flatten the yield curve.
- With the US shutdown nearing an end, larger US T-bill issuance starting in Jan—as outlined in the Treasury's Quarterly Refunding Announcement—is expected to have limited impact on front-end yields (Figure 2). The scale of issuance will depend on fiscal outlays, which are set to spike as federal spending resumes. Consequently, the spillover effect on MYR sovereign front-end yields is likely to be negligible.

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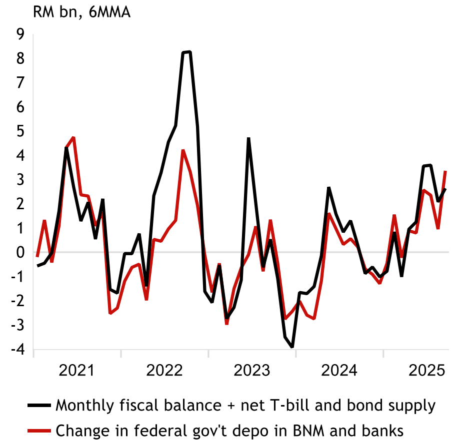
Federal government deposits increase amid a smaller fiscal deficit than net T-bill and bond issuance



YTD government revenue collection has been solid despite

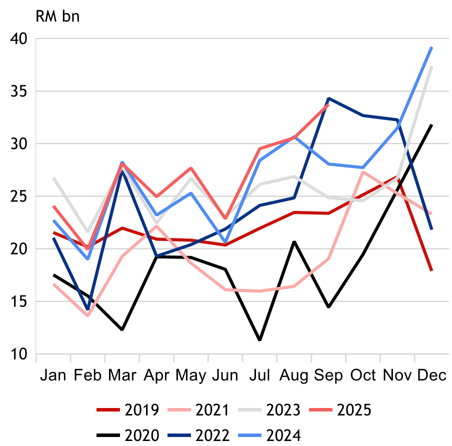
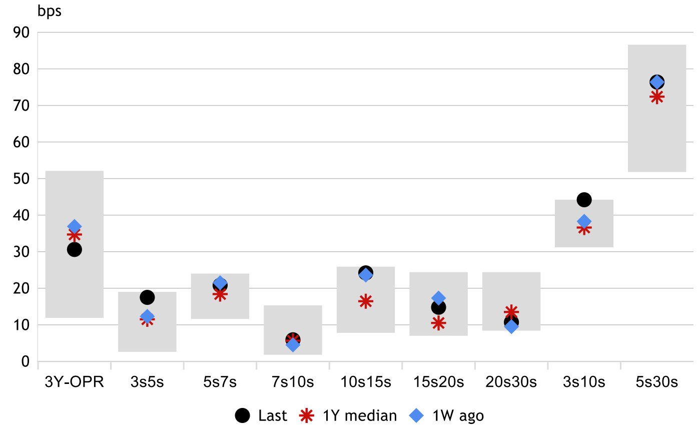
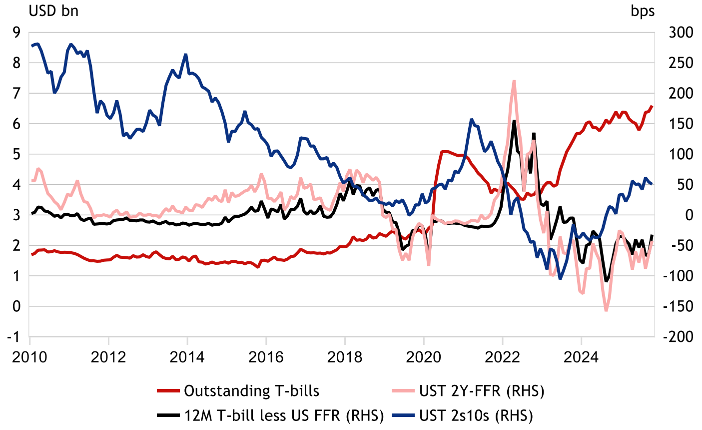


Figure 1: MYR sovereign yield spread



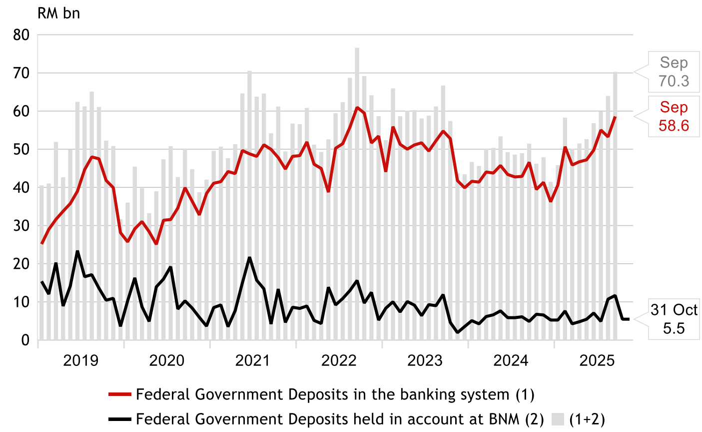
SOURCE: BLOOMBERG, CIMB TREASURY AND MARKETS RESEARCH

Figure 2: Surging US T-bills has limited impact on front-end USTs



SOURCE: MOF, MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 3: Federal government's cash buffer improves



SOURCE: MOF, MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 4: 2026 maturities and supply outlook conditional on T-bill issuance

(1) 2026 repayment outlook		(2) 2026 supply outlook				
	RM bn		Scenario 1		Scenario 2	
LCY bonds	108.7	MGS+GII	T-bills	FCY bond	T-bills	FCY bond
MGS	53.7	173	20	-	16	4.2
GII	55.0	174	19	-	15	4.2
T-bills	10.0	175	18	-	14	4.2
MTB	4.5	176	17	-	13	4.2
MITB	5.5	177	16	-	12	4.2
FCY bonds*	4.2	178	15	-	11	4.2

**USD1bn global sukuk*

Scenario 1: refinancing of USD1bn global sukuk in USD

Scenario 2: refinancing of USD1bn global sukuk in MYR

SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 5: Government revenue collection hit 72.3% of the full-year target in 9M25, ahead of the realization rate of 70.7% in the last 10 years

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2014	7.7	14.9	22.3	30.6	38.6	46.2	54.2	64.3	73.0	81.9	90.4	100.0
2015	7.9	16.4	23.5	31.7	39.8	48.7	56.9	65.4	74.4	82.8	92.0	100.0
2016	6.7	13.1	23.0	30.3	38.9	45.3	52.5	63.6	71.8	80.8	89.6	100.0
2017	7.0	13.9	21.2	28.1	37.2	44.0	53.3	62.7	70.7	80.5	89.9	100.0
2018	8.1	13.0	23.3	30.9	39.8	45.9	55.0	62.5	71.2	80.6	90.9	100.0
2019	8.1	15.8	24.1	32.0	39.9	47.6	55.9	64.7	73.6	83.1	93.2	100.0
2020	7.8	14.7	20.1	28.7	37.2	45.2	50.2	59.4	65.8	74.5	85.9	100.0
2021	7.1	12.9	21.2	30.7	38.6	45.5	52.4	59.4	67.5	79.2	90.0	100.0
2022	7.2	12.0	21.3	27.9	34.8	42.2	50.4	58.9	70.5	81.6	92.6	100.0
2023	8.5	15.4	24.2	31.3	39.8	47.1	55.4	63.9	71.8	79.6	88.1	100.0
2024	7.0	12.8	21.6	28.7	36.5	42.8	51.6	61.0	69.7	78.2	87.9	100.0
2025	7.2	13.2	21.6	29.1	37.3	44.2	53.0	62.2	72.3			
2015-2024	7.5	14.0	22.3	30.0	38.3	45.4	53.4	62.2	70.7	80.1	90.0	100.0
2020-2024	7.5	13.6	21.7	29.4	37.4	44.6	52.0	60.5	69.1	78.6	88.9	100.0

SOURCE: MOF, MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 6: Government expenditure — made up of operating expenditure and net development expenditure — reached 70.9% of the full-year target in 9M25, slightly lower than the 10-year realization rate of 71.6%

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2014	7.6	15.8	24.1	32.9	39.6	46.9	54.9	62.3	70.5	78.7	87.0	100.0
2015	9.4	16.6	24.7	34.2	40.5	47.8	54.4	62.5	71.5	80.0	88.1	100.0
2016	9.7	17.6	26.5	35.7	43.3	51.4	57.6	66.0	74.6	83.3	91.5	100.0
2017	9.0	17.4	25.6	34.2	43.1	50.3	57.1	64.6	72.5	82.3	92.8	100.0
2018	9.4	14.9	23.0	34.4	44.7	48.1	55.3	62.4	70.0	79.6	89.4	100.0
2019	7.1	14.3	22.4	31.8	40.2	46.9	54.6	63.0	71.7	81.2	89.9	100.0
2020	9.8	16.7	25.9	37.5	44.7	52.6	60.6	66.3	75.4	84.3	94.4	100.0
2021	9.7	18.2	28.5	37.0	44.2	52.2	58.5	64.7	74.8	81.8	93.1	100.0
2022	7.5	14.2	23.4	31.2	37.3	45.0	51.5	58.7	67.2	77.0	87.8	100.0
2023	8.5	15.5	22.9	30.2	38.9	46.3	53.2	61.2	68.3	78.4	88.5	100.0
2024	7.8	15.7	23.9	33.0	40.7	47.2	54.6	62.8	70.4	79.2	88.7	100.0
2025	7.9	14.1	22.9	31.1	38.6	45.8	54.5	62.6	70.9			
2015-2024	8.8	16.1	24.7	33.9	41.8	48.8	55.7	63.2	71.6	80.7	90.4	100.0
2020-2024	8.7	16.1	24.9	33.8	41.1	48.7	55.7	62.7	71.2	80.1	90.5	100.0

SOURCE: MOF, MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

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