Bond Market Weekly Outlook

MGS shrugs off late-Sep UST rout, but a 125bps gap leaves no room for complacency

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

- **Yield Movement:** MGS and GII yields declined across the curve by 5.1 bps to 19.3 bps. The 10-Y MGS yield fell 17.4 bps to 3.952%, and the 10-Y GII yield decreased 16.6 bps to 3.956%.
- **Key drivers**: MGS yields extended their decline on confidence in Malaysia's growth and investment outlook. Malaysia and China agreed on the proposed extension of the ECRL to Rantau Panjang. This strengthened expectations of better regional connectivity and long-term economic spillovers. Malaysia's pledge to stay open to Chinese investments in digital technology and strategic sectors also bolstered the medium-term growth story. Tourism-related activity remained supportive, with deeper cooperation with the UAE and GCC countries expected to boost visitor arrivals, while domestic tourism spending continued to outpace visitor growth in 2Q26.
- **Flows and outlook**: Foreign demand remained robust, with RM2.7b of net inflows into Malaysian bonds last week. Foreign investors also returned to Bursa Malaysia with RM127.0m of net equity inflows, ending a six-week selling streak. Next week, focus shifts to PPI and PMI data releases and further policy signals ahead of Budget 2027. Externally, markets will watch US labour and PCE inflation data. The extension of the US-China trade truce and ongoing US-Iran negotiations have supported global risk sentiment. Against this backdrop, we expect MGS yields are expected to stay broadly stable and rangebound. However, the widening gap with USTs is a key risk, and any reversal in foreign flows could push local yields higher.

United States Treasuries (UST)

- **Yield Movement:** UST yields rose sharply across the curve by 19.3 bps to 28.0 bps. The 10-Y UST yield rose 26.7 bps to 5.198%, and the 2-Y UST yield edged up 26.0 bps to 4.924%.
- **Key drivers:** UST yields surged higher, diverging from the MGS rally, as stronger-than-expected US economic data reinforced higher-for-longer Fed stance. Initial jobless claims fell, while September's preliminary S&P Global PMIs beat expectations in both manufacturing and services, pointing to resilient economic momentum. Higher oil prices added to inflation worries, while the extension of the US-China trade truce to early 2027 improved the trade outlook. Hawkish remarks from Fed officials further weighed on duration demand. Barkin warned that inflation pressures could persist, Goolsbee highlighted recurring supply shocks, and Collins backed the latest rate hike to bring inflation back to target.
- **Outlook:** We expect UST yields to stay biased higher next week ahead. Direction will come from the Core PCE Price Index and key US releases, including JOLTS, ADP employment, nonfarm payrolls, unemployment rate, GDP growth and ISM manufacturing PMI. Nonfarm payrolls are expected to rise by around 100k, while a consensus 0.3% MoM Core PCE print would reinforce the higher-for-longer narrative. Progress in US-Iran talks to reopen the Strait of Hormuz could ease energy supply concerns and cap further upside in yields.

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

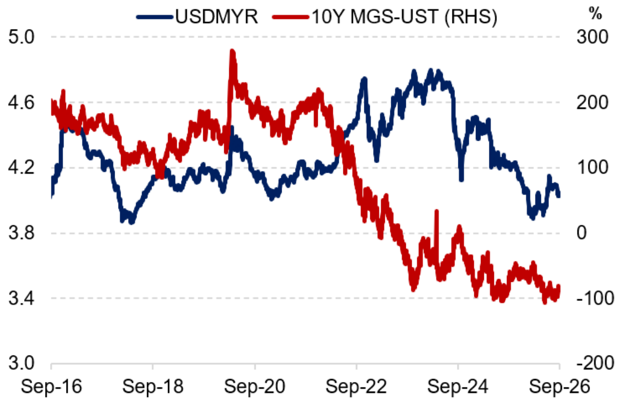
**F=Forecasts for end of period*
Source: Kenanga Research, Bloomberg

Table 2: Annual Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2025	2026	2025	2026
Reopening	67.5	55.0	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

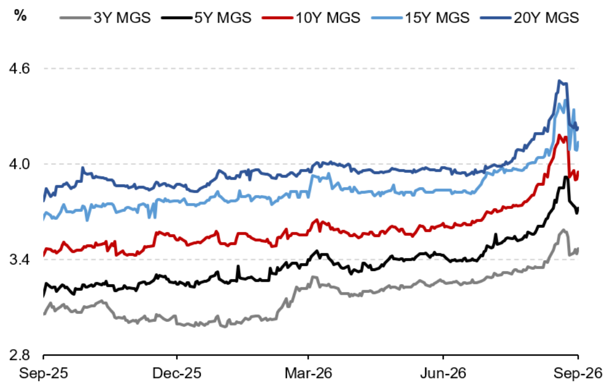
- **7-Y MGS 4/33 (reopening):** Moderate demand, with a BTC ratio of 2.17x. The auction issued RM5.0b at an average yield of 3.983%.
- **Upcoming Auction**: Reopening of the 30-Y MGII, with RM3.0b on tender and an additional RM2.0b via privately placement.

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 (%)
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%	21/09/2026	-	-	5,000.00	2.17	3.983	3.999	3.959
	30-yr Reopening of MGII 1/56	-	-	-	-	-	-	-	-
Oct	3.5-yr Reopening of MGII 10/29	-	-	-	-	-	-	-	-
	15-yr Reopening of MGS 1/41	-	-	-	-	-	-	-	-
	20-yr Reopening of MGII 5/45 3.775%	-	-	-	-	-	-	-	-
	10-yr New Issue of MGS (Mat on 10/36)								

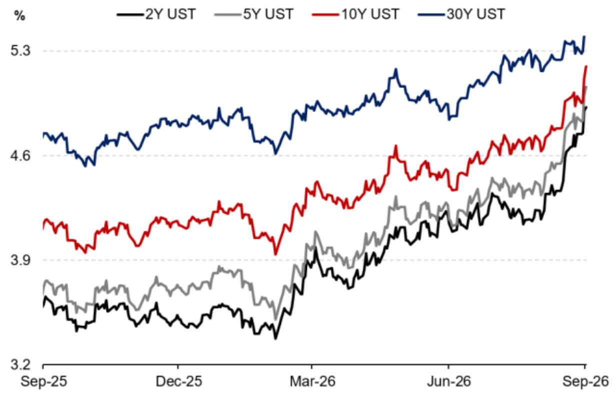
*Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio*

Graph 2: MGS Yield Trend



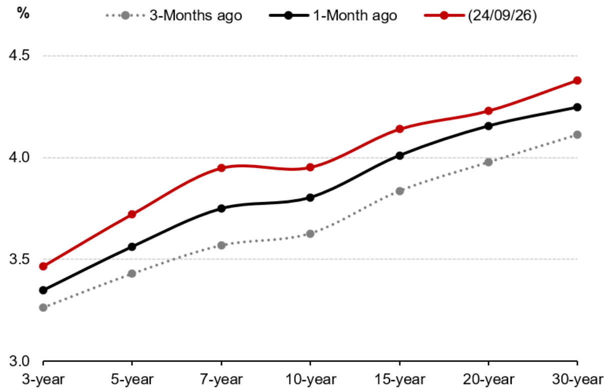
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



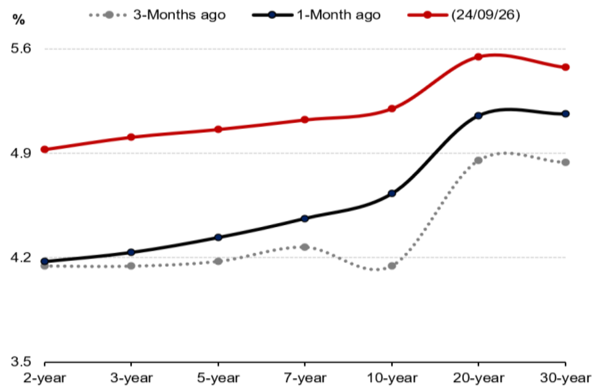
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



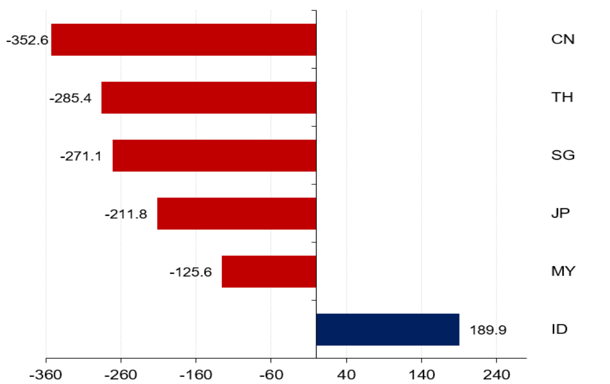
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

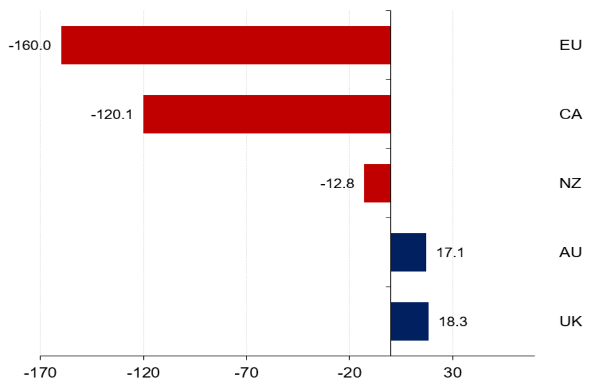
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



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	24/09/25 Last Year	25/08/26 Last Month	17/09/26 Last Week	24/09/26 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.980	3.895	4.247	4.465	4.379	39.90	48.40	13.20	-8.60
20Y MGS	3.840	3.768	4.155	4.369	4.229	38.90	46.10	7.40	-14.00
15Y MGS	3.746	3.658	4.010	4.332	4.139	39.30	48.10	12.90	-19.30
10Y MGS	3.492	3.427	3.804	4.126	3.952	46.00	52.50	14.80	-17.40
7Y MGS	3.367	3.374	3.749	3.999	3.948	58.10	57.40	19.90	-5.10
5Y MGS	3.256	3.176	3.562	3.907	3.722	46.60	54.60	16.00	-18.50
3Y MGS	2.998	3.061	3.348	3.542	3.467	46.90	40.60	11.90	-7.50
GII									
20Y GII	3.862	3.793	4.112	4.449	4.280	41.80	48.70	16.80	-16.90
10Y GII	3.524	3.471	3.789	4.122	3.956	43.20	48.50	16.70	-16.60
7Y GII	3.341	3.307	3.727	4.091	3.920	57.90	61.30	19.30	-17.10
3Y GII	3.101	3.105	3.356	3.580	3.490	38.90	38.50	13.40	-9.00
UST									
30Y UST	4.844	4.751	5.165	5.284	5.476	63.24	72.53	31.09	19.25
20Y UST	4.793	4.717	5.153	5.321	5.547	75.38	82.93	39.40	22.59
10Y UST	4.167	4.147	4.629	4.930	5.198	103.08	105.12	56.90	26.74
7Y UST	3.939	3.903	4.463	4.854	5.123	118.39	122.01	66.01	26.92
5Y UST	3.725	3.717	4.335	4.779	5.059	133.38	134.18	72.37	27.98
3Y UST	3.539	3.604	4.235	4.737	5.007	146.80	140.30	77.15	26.96
2Y UST	3.473	3.604	4.174	4.664	4.924	145.13	132.02	75.02	26.02
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.854	2.747	3.200	3.475	3.598	74.40	85.10	39.80	12.30
10Y UK	4.479	4.669	4.988	5.222	5.381	90.20	71.20	39.30	15.90
10Y JP	2.066	1.646	2.903	2.999	3.080	101.40	143.40	17.70	8.10
10Y CN	1.855	1.905	1.685	1.684	1.672	-18.30	-23.30	-1.30	-1.20
10Y SG	2.117	1.790	2.300	2.503	2.487	37.03	69.68	18.72	-1.58
10Y ID	6.070	6.385	7.012	7.157	7.097	102.70	71.20	8.50	-6.00
10Y TH	1.659	1.355	2.148	2.362	2.344	68.45	98.81	19.55	-1.81

Source: Kenanga Research, Bloomberg

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