MGS Moved Lower Tracking UST as Volatility Picked Up Due to Policy Changes and Faster Rate Cuts Bets

MAR-25 FIXED INCOME REVIEW



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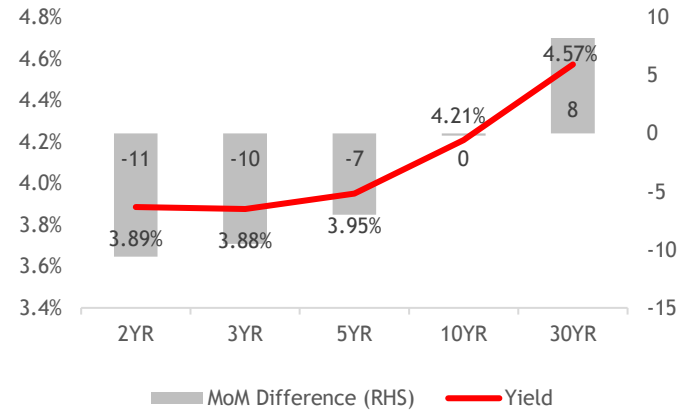
Economic Review

- *The UST yield curve shifted lower as market players priced more rate cuts for the year. The shorter end of the curve moved lower as the 2-year US treasury yield declined by -11bps to 3.89%, while the 3-year yield declined by -10bps to 3.88%. Meanwhile, the 10-year UST yield was unchanged at 4.21% as the yield eased lower towards the end of the month from 4.36% on the 27th of March 2025.*
- *10Y MGS yield declined last month. The MGS yield curve also shifted lower last month, tracking the movement in the UST yields, which saw the biggest -11bps decline in the 2-year tenor to +3.89%. Meanwhile, the 10-year MGS yield declined by -1.0bps to +3.77%. The 10-year yield generally was stable in Mar-25, averaging around 3.80%.*
- *We continue to expect 10-year MGS to move towards +3.60% by year-end. Our projection maintains that the 10-year Malaysian Government Securities (MGS) yield will decrease to 3.60% by the end of 2025.*
- *Foreign holdings of Malaysian bonds were higher in Mar-25. MGS foreign holding increased in Mar-25, foreign holdings of Malaysian bonds rose +RM3.2b to RM278.5b (Feb-25: RM275.2b). The latest reading in Mar-25 was also higher than RM247b recorded in Feb-24.*

US Treasury

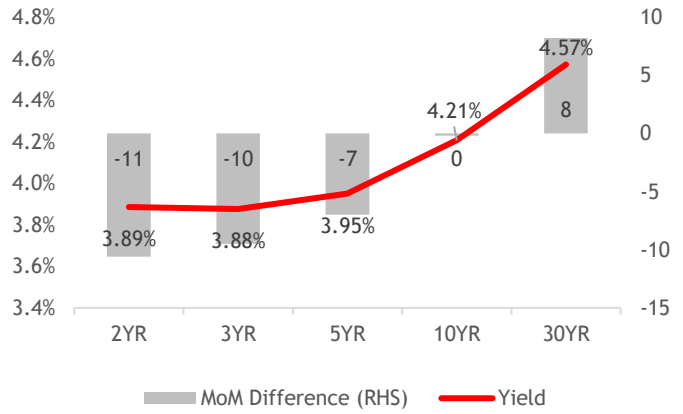
UST yield curve shifted lower as market priced more rate cuts for the year. The shorter end of the curve moved lower as the 2-year US treasury yield declined by -11bps to 3.89%, while the 3-year yield declined by -10bps to 3.88%. Meanwhile, the 10-year UST yield was unchanged at 4.21% as the yield eased lower towards the end of the month from 4.36% on the 27th March 2025. As a result, the 3Y-10Y yield spreads widened to +32bps. The shifting of market expectations towards the Fed Funds rate path has been quite aggressive as investors are now pricing four rate cuts for the year, compared to the end of Feb-25, as market players also reacted defensively on the back of the developments of the protectionist trade measures by the US. Following the retaliations by the US trading partners, sentiments on recession are also looming. Meanwhile, the latest economic data indicates that inflation remained sticky and the US labour market remained resilient.

Chart 1: UST Yields and MoM Difference (bps) at the end of Mar-25



Source: Macrobond, MIDFR

Chart 2: 10y UST Yield vs 10y-3y Yield Spread (bps) in Mar-25



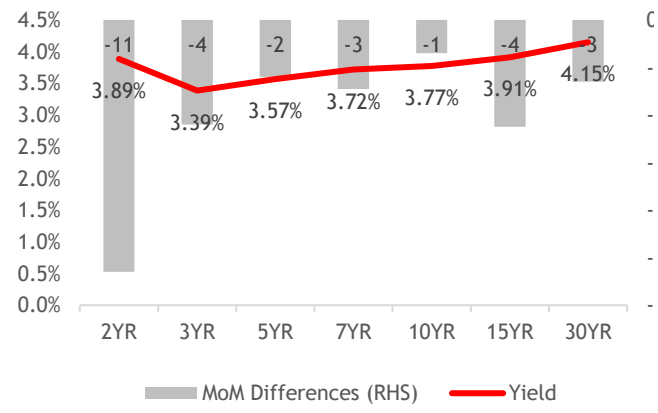
Source: Macrobond, MIDFR

UST yields to ease in the short run. The persistent trade disputes and the imposition of tariffs on goods are generating concerns regarding a potential deceleration of US economic growth and the amplification of inflationary pressures. Concurrently, market sentiment has adopted a more defensive posture, potentially leading to a reallocation of capital from equity markets towards US Treasuries, perceived as a safer asset class. Furthermore, market expectations have shifted towards a lower Federal Funds Rate trajectory, projecting three to four rate reductions in 2025, mostly in the latter half of the year. However, we remain attentive to the enduring inflationary pressures within the US economy. Changing government policies could exacerbate these pressures, and a resilient labour market may present further challenges to the Fed's ability to implement additional rate cuts. Our baseline scenario anticipates the resumption of monetary easing in the second half of 2025, which will result in lower UST yields. Nevertheless, the prevailing uncertainty surrounding forthcoming US government policy changes introduces a significant risk factor, potentially leading to sustained higher yields if inflationary concerns persist and the anticipated rate cuts are delayed.

Malaysian Government Bonds

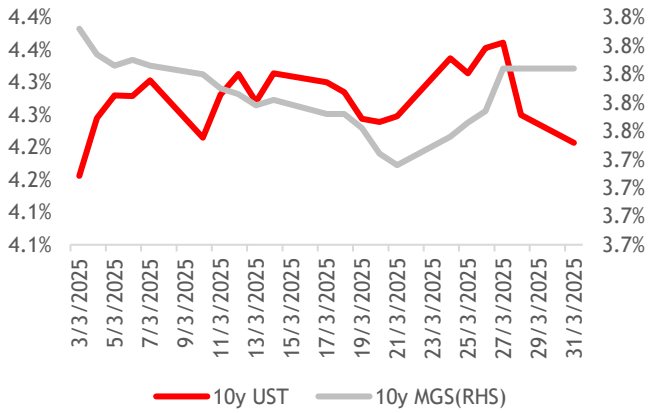
10Y MGS yield declined last month. The MGS yield curve also shifted lower last month, tracking the movement in the UST yields, which saw the biggest -11bps decline in the 2-year tenor to +3.89%. Meanwhile, the 10-year MGS yield declined by -1.0bps to +3.77%. The 10-year yield generally was stable in Mar-25, averaging around 3.80%. While Malaysia's OPR and inflation rate are expected to remain stable, we continue to expect that the MGS market will be influenced by developments in the global financial markets, especially in the UST market, which at the moment quite volatile as the Moved Index has been recently picked up since the US announcement of the reciprocal tariff. On the back of foreign fund inflows, positive net issuance and slightly lower yields, the volume of government bonds traded increased to RM141.4b in Mar-24 (Feb-25: RM97.1b). In addition, the top 10 traded government bonds accounted for a bigger share of 58.6% (Feb-25: 17.6%) of total government bonds traded last month.

Chart 3: MGS Yield Curve and MoM Difference (bps) as at end-Mar-25



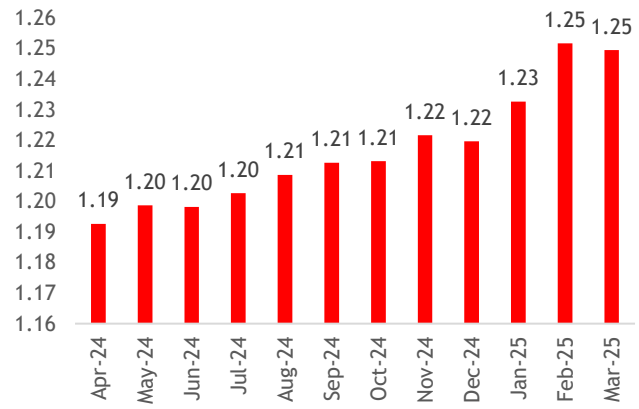
Source: Bloomberg, MIDFR

Chart 4: 10y MGS vs 10y UST Yields (%) in Mar-25



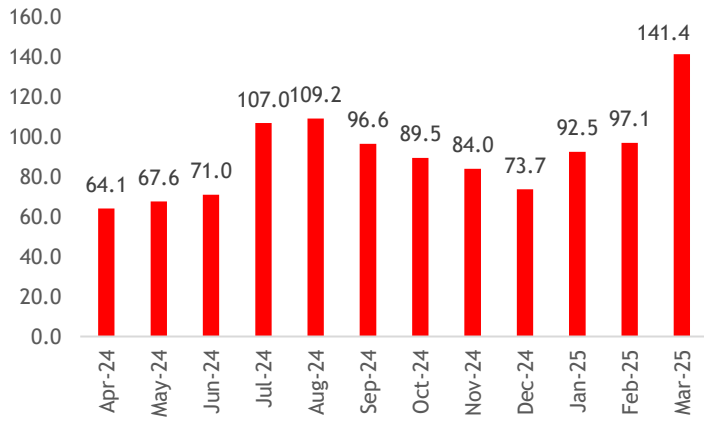
Source: Bloomberg, MIDFR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MIDFR

Chart 6: Volume of Government Bonds Traded (RM b)



Source: Bondstream, MIDFR

Lower new MGS/GII issuance in Mar-25. Gross issuance of MGS/GII was lower at RM15.5b in Mar-25 (Feb-25: RM11.0b), with RM5.0b additional issuance (Feb-25: RM4.0b), from 3 issuances. Auction demand was slightly lower, with an average BTC of 2.59x (Feb-25: average 2.36x), which was dragged lower due to weak demand of the 15-year auction with a BTC of 1.67x issuance. Meanwhile, the value of outstanding government bonds remained around RM1.25t at the end-Mar-25. The volume of government bonds traded in Mar-25 was higher at RM141.4m (Feb-25: RM97.1m), being the highest in the past 12 months.

We continue to expect 10-year MGS to move towards +3.60% by year-end. Our projection maintains that the 10-year Malaysian Government Securities (MGS) yield will decrease to 3.60% by the end of 2025. Given the historically high correlation between MGS and US Treasury (UST) yield movements, we anticipate that the Federal Reserve's anticipated monetary easing will encourage foreign capital inflows into the Malaysian debt market. This expectation is predicated on the narrowing interest rate differential between emerging markets and developed economies. Furthermore, Malaysia's ongoing commitment to structural reforms, fiscal consolidation efforts, and a positive economic outlook are expected to further incentivize foreign investment. However, emerging risks to this forecast warrant consideration. A delay in the Federal Reserve's rate cuts, prolonged strength in the US dollar, and renewed inflationary pressures could maintain yields at approximately current levels for an extended period, particularly in the short term. Conversely, recent developments in the futures market indicate that global investors are pricing in three to four rate reductions by the Federal Reserve for the remainder of the year. This suggests a potential downward trajectory for UST yields, which would likely exert downward pressure on MGS yields, aligning with our end-2025 projection.

Table 1: Quarterly Forecast for MYR and MGS 10-year yield

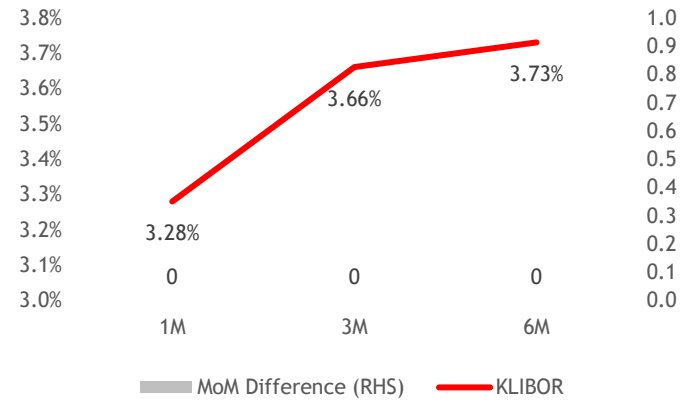
	1Q25f	2Q25f	3Q25f	4Q25f
Exchange Rate, vs USD (average)	4.41	4.32	4.19	4.08
Exchange Rate, vs USD (end-period)	4.43	4.38	4.29	4.25
10Y Government Bond Yield (average)	3.80	3.78	3.71	3.64
10Y Government Bond Yield (end-period)	3.78	3.74	3.69	3.60

Source: MIDFR

Interbank Money Market

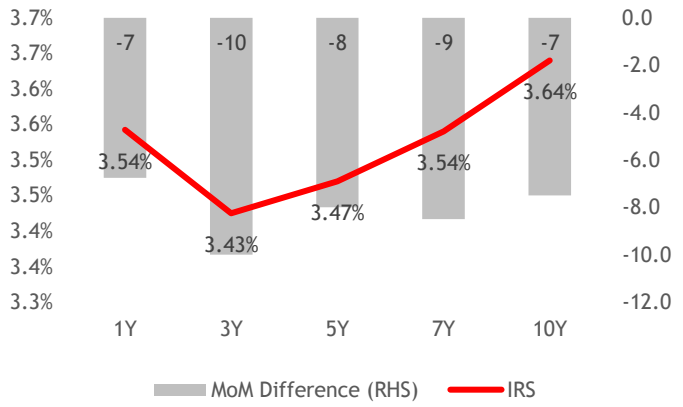
KLIBOR was stable in Mar-25. The KLIBOR interbank rate across the 1m, 3m and 6m remained unchanged. However, the Mar-25 IRS market was broadly lower, where the shorter duration declined faster than the longer end, with the 1-year, 3-year, 5-year, 7-year, and 10-year declined by -7bps, -10bps, -8bps, -9bps, and -7bps, respectively. The decline in the IRS rates also reflects similar movement like the MGS yields.

Chart 7: KLIBOR and MOM Difference (bps)



Source: Macrobond, MIDFR

Chart 8: IRS and MOM Difference (bps)



Source: Macrobond, MIDFR

Corporate Bonds

The volume of corporate bonds traded increased. The volume of traded corporate bonds (and BNM) was higher at RM17.9b in Mar-25 (Feb-25: RM16.5b; Jan-25: RM10.9b), generally higher than the average of RM15.4b a month in 2024. The MGS market rallied in Mar-25, as the yields for rated securities broadly declined, especially in the AAA space for the 5-year and above tenor, falling between -7bps to -8bps lower, while the 10-year came down by -12bps. Within the non-rated securities, the yields moved significantly lower across all tenors, with the 1-year yield declined the most by -39bps closing at 5.74%.

Table 2: Corporate Bond Yield and MOM Yield Change as at End-Mar-25

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.631	3.677	3.731	3.815	3.908	3.981
AA1	3.691	3.747	3.801	3.885	3.967	4.088
A1	4.342	4.549	4.73	4.999	5.29	5.65
BBB1	5.746	6.31	6.859	7.518	8.283	9.188
Non-rated	5.475	6.343	5.338	5.975	5.432	5.972
MOM Difference (bps)						
AAA	-3	-7	-7	-6	-6	-12
AA1	-5	-6	-6	-5	-6	-8
A1	-1	-4	-5	-4	-5	-4
BBB1	+0	-1	-2	-2	-2	-2
Non-rated	-39	-7	-13	-11	-2	-26

Source: Bondstream, MIDFR

Chart 9: 10-Year AAA vs 10-Year MGS Yields (%)

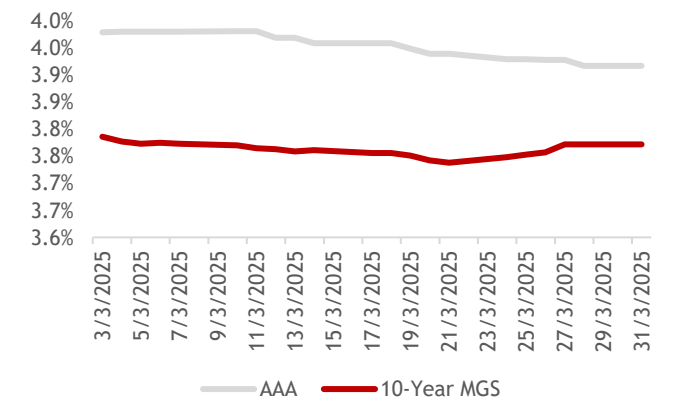
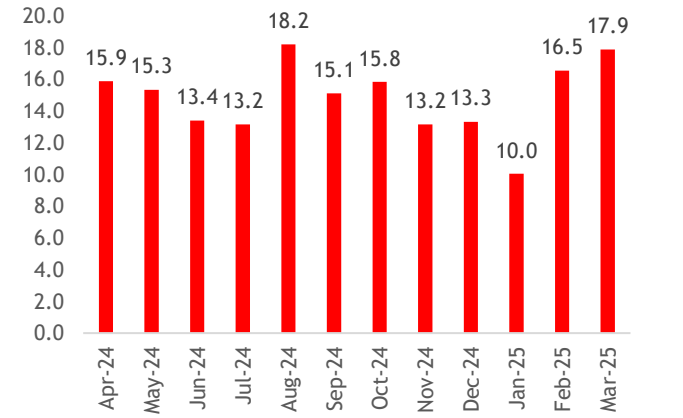


Chart 10: Volume of Corporate Bond Traded (RM b)



Source: Macrobond, MIDFR

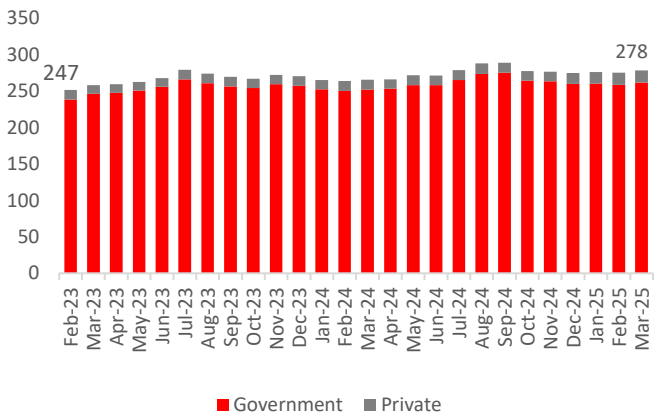
Source: Macrobond, MIDFR

Corporate bond yields to move lower, mirroring govvies. Market expectations underwent a further shift in March 2025, contributing to a decline in government debt security yields. Our analysis indicates a strong and persistent correlation between corporate bond yields and Malaysian Government Securities (MGS) yield movements. Consequently, with MGS yields projected to decline, we anticipate a corresponding downward trajectory for Malaysian corporate bond yields over the coming year. This is expected to be further supported by the anticipated return of foreign capital, which should enhance liquidity within the domestic debt market, particularly after the Federal Reserve is projected to commence monetary easing in the 2HCY25. Despite these projections, several downside risks could maintain debt security yields at elevated levels for a protracted period. These include the potential for renewed inflationary pressures stemming from a resilient US economy and recent policy developments under the US President Donald Trump's administration, which have contributed to a rally in US treasuries. Concurrently, market sentiment reflects expectations of a weaker medium-term economic outlook. Additionally, a deterioration in the global growth outlook poses a downside risk to our current yield projections.

Foreign Holdings of Malaysian Bonds

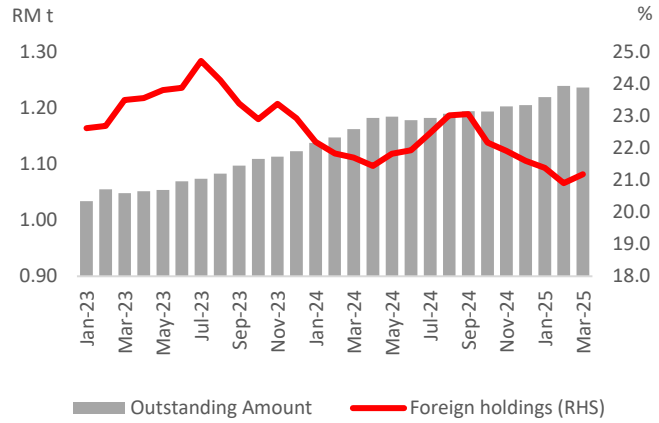
Foreign holdings of Malaysian bonds were higher in Mar-25. MGS foreign holding increased in Mar-25, foreign holdings of Malaysian bonds rose +RM3.2b to RM278.5b (Feb-25: RM275.2b). The latest reading in Mar-25 was also higher than RM247b recorded in Feb-24. As a result, we estimated that the ratio of foreign holdings out of the total outstanding government bonds including both MGS and sukuk increased to 21.2% (Feb-25: 20.9%), remaining below the pre-pandemic level (2019 average: 23.1%) and also lower than 21.7% a year ago.

Chart 11: Foreign Holdings of Malaysian Bonds (RM b)



Source: Macrobond, MIDFR

Chart 12: Share of Foreign Holdings of MGS/GII



Source: Macrobond, MIDFR

APPENDICES

Table 4: MGS/GII Auctions Calendar

Tender Date	Issues	Quarter	Month	Issue Date	Issuance (RM million)	Private Placement (RM million)	BTC (Times)
29/10/2024	7-yr Reopening of MGII (Mat on 10/31)	4QCY24	October	30/10/2024	5,000.00		2.00
21/10/2024	20-yr Reopening of MGS (Mat on 05/44)	4QCY24	October	22/10/2024	3,000.00	2,000.00	2.04
14/10/2024	10-yr Reopening of MGII 11/34 4.119%	4QCY24	October	15/10/2024	4,500.00		1.60
7/10/2024	3-yr Reopening of MGS 05/27 3.502%	4QCY24	October	8/10/2024	4,500.00		1.61
18/11/2024	5-yr Reopening of MGII 07/29 4.130%	4QCY24	November	19/11/2024	4,500.00		2.00
11/11/2024	15-yr Reopening of MGS (Mat on 04/39)	4QCY24	November	12/11/2024	3,000.00	2,000.00	2.67
06/12/2024	10-yr Reopening of MGS 07/34 3.828%	4QCY24	December	9/12/2024	2,000.00		2.02
8/1/2025	7-yr Reopening of MGS 07/32 3.582%	1QCY25	January	8/1/2025	5,000.00		2.80
15/1/2025	15.5-yr New Issue of MGII (Mat on 07/40)	1QCY25	January	15/1/2025	3,000.00	1,000.00	4.28
24/1/2025	3-yr Reopening of MGII 07/28 3.599%	1QCY25	January	24/1/2025	5,500.00		2.62
6/2/2025	30-yr Reopening of MGS 03/53 4.457%	1QCY25	February	6/2/2025	2,500.00	2,000.00	2.36
13/2/2025	7-yr Reopening of MGII 10/31 3.804%	1QCY25	February	13/2/2025	5,000.00		2.86
21/2/2025	20-yr Reopening of MGS 05/44 4.180%	1QCY25	February	21/02/2025	2,500.00	2,000.00	2.99
28/02/2025	5.5-yr New Issue of MGII (Mat on 08/30)	1QCY25	February	28/02/2025	5,500.00		3.16
10/03/2025	15-yr Reopening of MGS 04/39 4.054%	1QCY25	March	10/03/2025	3,000.00	1,000.00	3.02
14/03/2025	30-yr Reopening of MGII 03/54 4.280%	1QCY25	March	14/03/2025	3,000.00	2,000.00	3.08
28/03/2025	10-yr Reopening of MGS 07/34 3.828%	1QCY25	March	28/03/2025	5,000.00		1.67
08/04/2025	15-year Reopening of MGII 07/40	1QCY25	April	08/04/2025	3,000.00	1,000.00	2.89
15/04/2025	3-year Reopening of MGS 04/28	1QCY25	April	15/04/2025	5,000.00		
	10-year New Issue of MGII 05/30	1QCY25	April				

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
MGS 1/2015 3.955% 15.09.2025	1,214.47
GII MURABAHAH 2/2024 3.804% 08.10.2031	1,013.38
MGS 1/2022 3.582% 15.07.2032	1,011.57
GII MURABAHAH 1/2023 3.599% 31.07.2028	995.05
MGS 1/2015 3.955% 15.09.2025	886.61
MGS 1/2015 3.955% 15.09.2025	864.92
MGS 3/2018 4.642% 07.11.2033	856.03
MGS 1/2015 3.955% 15.09.2025	825.8
MGS 1/2022 3.582% 15.07.2032	802.31
GII MURABAHAH 1/2023 3.599% 31.07.2028	800
Total	9, 270.14

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