MGS Moved Lower Tracking UST as Market Players are on A Risk-Off Mode

APR-25 FIXED INCOME REVIEW



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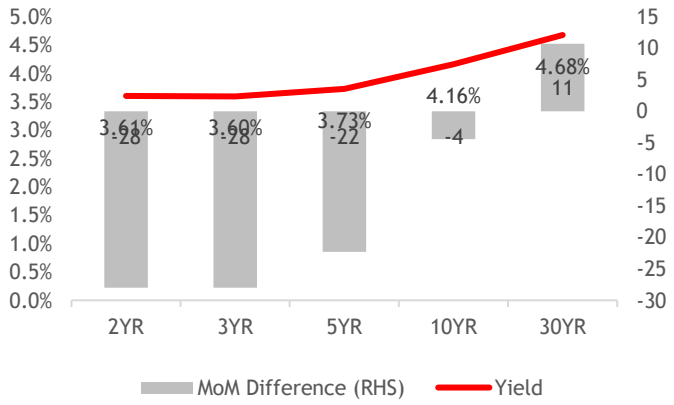
Economic Review

- The UST yield curve bull steepened last month as market players were in a risk-off mode**.** The UST yield curve shifted lower last month, especially in the short end of the curve, as the 2-year yield declined the most by -27.8bps lower to 3.60%. Meanwhile, the 10-year UST yield declined by -0.7bps to 4.16%.
- The MGS yield curve shifted lower. The MGS yield curve also shifted lower last month, generally tracking the movement in the UST yields, which declined by in the 5-year tenor by -23.4bps to 3.33%. Meanwhile, the 10-year MGS yield declined by -12.1bps to 3.651%.
- We continue to expect 10-year MGS to move towards +3.60% by year-end. Our projection maintains that the 10-year 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 +RM10.2b to RM288.6b (Mar-25: RM278.4b).

US Treasury

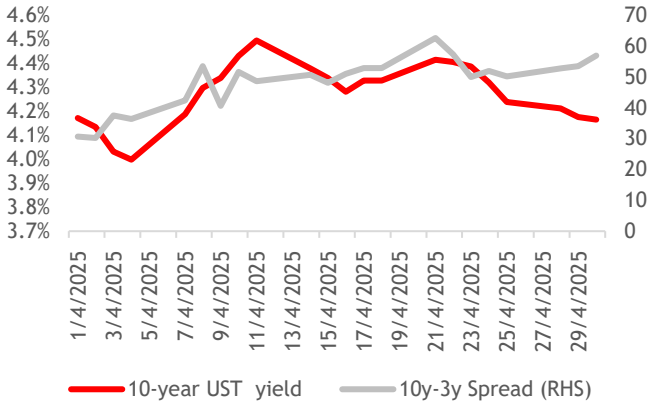
UST yield curve bull steepened last month as market players were in a risk-off mode. The UST yield curve shifted lower last month, especially in the short end of the curve, as the 2-year yield declined the most by -27.8bps lower to 3.60%. Meanwhile, the 10-year UST yield declined by -0.7bps to 4.16%. The 10-year yields moved higher in the early part of the month, peaking at 4.49%, and later falling towards 4.16% at the end of the month. As a result, the 3Y-10Y yield spreads widened to 56.7bps. The shifting market expectations during the month were primarily driven by the expectation of higher inflation going forward and potential slower economic activities stemming from the Trump's administration imposing reciprocal tariffs against its trading partners, especially China; and the growing tension basically led to deteriorating sentiment. Meanwhile, market expectations towards the fed funds rate path have also shifted between 2 to 3 rate cuts for the year, less than 4 rate cuts back in Mar-25.

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



Source: Macrobond, MIDFR

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



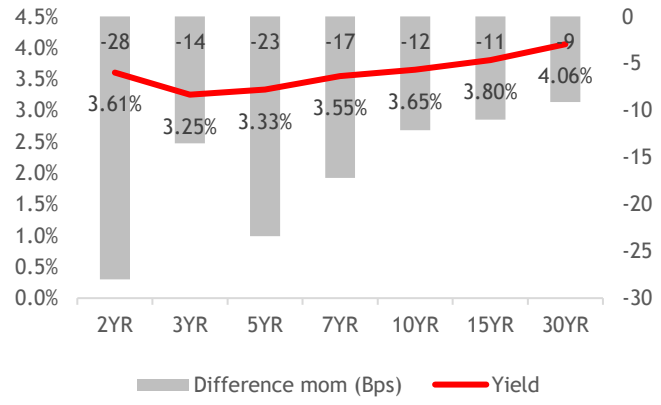
Source: Macrobond, MIDFR

UST yields may move higher 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. However, President Donald Trump's 90-day pause on reciprocal tariffs offers a potentially positive development that could lead to lower price pressures than previously anticipated. Consequently, we believe investors might adopt a risk-on approach in the short term, at least during this pause. Market participants may become less cautious and shift capital from US Treasuries to the equity market. Furthermore, the expected fed funds rate trajectory has shifted downwards, with two rate cuts now anticipated. We recognize the recent rate pause and the willingness of China and the US to negotiate as positive signals for the global economy. 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

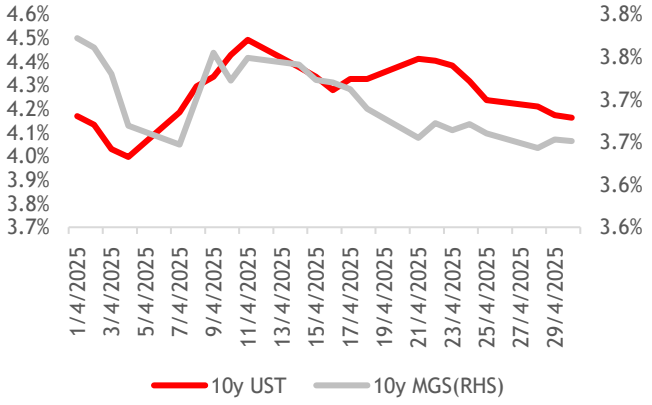
The MGS yield curve shifted lower. The MGS yield curve also shifted lower last month, generally tracking the movement in the UST yields, which declined by in the 5-year tenor by -23.4bps to 3.33%. Meanwhile, the 10-year MGS yield declined by -12.1bps to 3.651%. The 10-year yield was rather volatile throughout last month, while it averaged the month at 3.69% (Mar-25: 3.80%). Despite expectations of stable domestic factors such as OPR and inflation, the MGS market outlook remains tied to global financial market dynamics, notably the volatile UST market. The MOVE Index continued to remain elevated, indicating the high volatility in the UST market since the implementation of the US reciprocal tariff announcement and the fluid development from the changing trade policy. On the back of foreign fund inflows, positive net issuance and slightly lower yields, the volume of government bonds traded increased to RM190.3b in Apr-25 (Mar-25: RM141.5b). In addition, the top 10 traded government bonds accounted for a bigger share of 60.5% (Mar-25: 58.6%) of total government bonds traded last month.

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



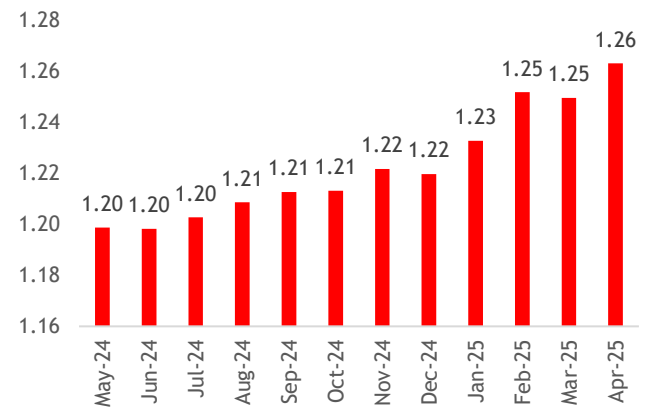
Source: Bloomberg, MIDFR

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



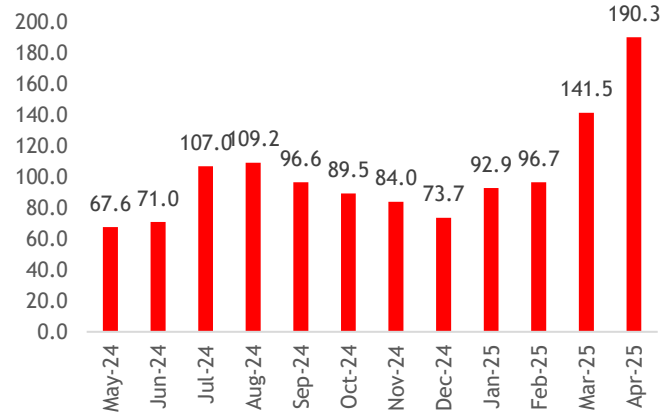
Source: Bloomberg, MIDFR

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 Apr-25. Gross issuance of MGS/GII was slightly lower at RM13.0b in Apr-25 (Mar-25: RM15.5b), with RM3.0b additional issuances (Mar-25: RM5.0b), from 3 issuances. Auction demand was relatively higher, with an average BTC of 2.84x (Mar-25: average 2.59x), but it was dragged lower due to the weak demand of the 10-year auction with a BTC of 2.0x issuance. Meanwhile, the value of outstanding government bonds remained around RM1.26t at the end-Apr-25. The volume of government bonds traded in Apr-25 was higher at RM190.3b (Mar-25: RM141.4m), 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 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 Fed's anticipated monetary easing will lead to foreign capital inflows into the Malaysian debt market. This expectation is predicated on the narrowing interest rate differential between emerging markets and developed economies. However, recent developments in the US would indicate that inflation expectations to keep on an upward trajectory this year, albeit less steeply. This may lead the Federal Reserve to hold interest rates higher for the year and potentially delay rate cuts. Malaysia's continued dedication to structural reforms and fiscal consolidation, alongside a favourable economic forecast, is projected to further attract foreign investment. However, potential risks to this outlook should be considered. A delay in Federal Reserve rate cuts, a persistently strong US dollar, and renewed inflationary pressures could sustain current yield levels for a longer period, particularly in the short term. Conversely, recent futures market trends indicate global investors anticipate a slower pace of Federal Reserve rate cuts, with only two expected this year. This suggests a potential decrease in UST yields, which would likely put downward pressure on MGS yields, consistent with our end-2025 forecast.

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

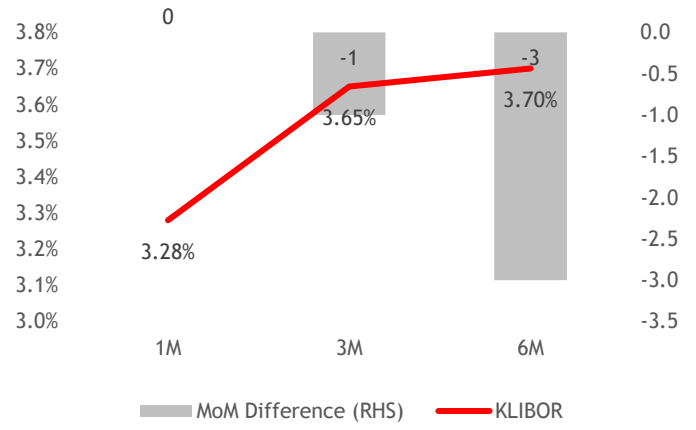
	1Q25	2Q25f	3Q25f	4Q25f
Exchange Rate, vs USD (average)	4.44	4.32	4.19	4.08
Exchange Rate, vs USD (end-period)	4.43	4.38	4.29	4.25
10Y Government Bond Yield (average)	3.79	3.78	3.71	3.64
10Y Government Bond Yield (end-period)	3.77	3.74	3.69	3.60

Source: MIDFR

Interbank Money Market

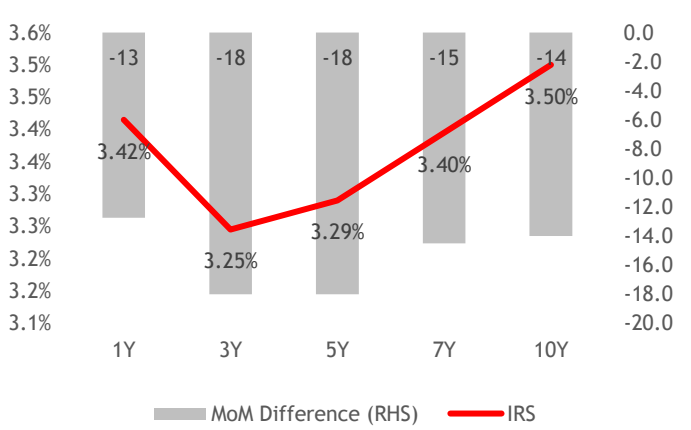
KLIBOR was stable in Apr-25. The KLIBOR interbank rate for the 1m remained unchanged while the 3m and 6m declined by -1bps and 3bps, respectively. Meanwhile, the Apr-25 IRS market was broadly lower, where the medium-term duration declined faster, with the 1-year, 3-year, 5-year, 7-year, and 10-year duration all declining by -13bps, -18bps, -18bps, -15bps, and -14bps, respectively. The decline in the IRS rates also reflects a similar movement to 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

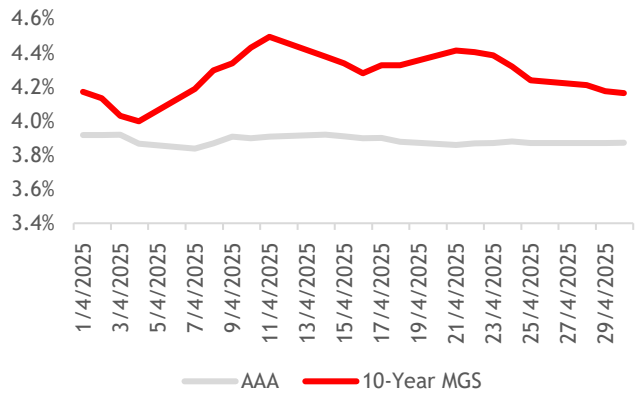
The volume of corporate bonds traded increased. The volume of traded corporate bonds was higher at RM 18.5b in Apr-25 (Mar-25: RM17.8b), generally higher than the average of RM15.4b a month in 2024. The MGS rallied in Apr-25, as the yields for rated securities broad declined, especially in the BBB1 space for the 2-year and above tenor, falling up to -77bps in the 10-year space. Within the non-rated securities, the yield moved significantly lower across all tenors, with the 5-year yield declining the most by -48bps, closing at 5.49%.

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.581	3.627	3.661	3.703	3.785	3.871
AA1	3.621	3.677	3.711	3.758	3.84	3.938
A1	4.081	4.218	4.346	4.499	4.674	4.924
BBB1	5.485	5.998	6.459	7.055	7.652	8.419
Non-rated	6.811	5.898	5.636	5.499	5.48	5.869
MOM Difference (bps)						
AAA	-5	-5	-7	-11	-12	-11
AA1	-7	-7	-9	-13	-13	-15
A1	-26	-33	-38	-50	-62	-73
BBB1	-26	-31	-40	-46	-63	-77
Non-rated	+134	-45	+30	-48	+5	-10

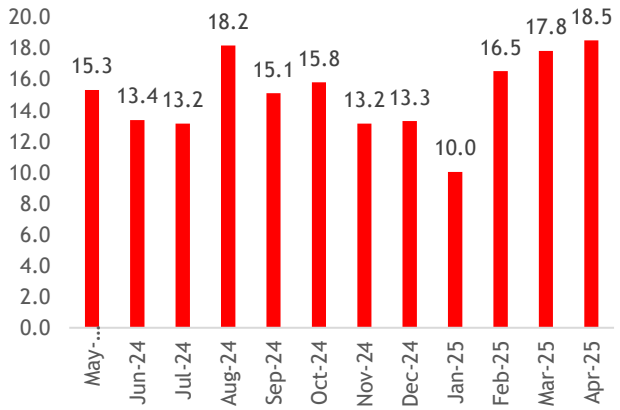
Source: Bondstream, MIDFR

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



Source: Macrobond, MIDFR

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



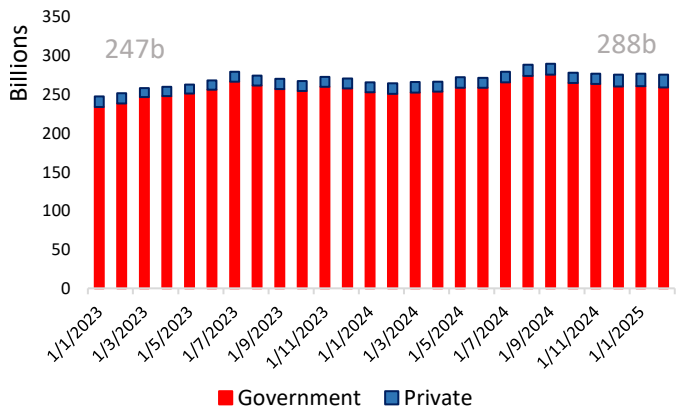
Source: Macrobond, MIDFR

Corporate bond yields are set to move lower, mirroring govvies. Market expectations shifted further in Apr-25, leading to lower government debt security yields. Our analysis shows a strong and consistent link between corporate bond yields and MGS yield movements. Therefore, with MGS yields expected to fall, we predict a similar downward trend for Malaysian corporate bond yields this year. This should be further supported by the anticipated return of foreign capital, which is expected to improve liquidity in the local debt market, especially after the Federal Reserve is projected to start easing monetary policy in the 2HCY25. However, several risks could keep MGS yields high for an extended period. These include the possibility of renewed inflationary pressures from a strong US economy and recent policy changes by the Trump's administration, which have caused a rise in US treasuries. At the same time, market sentiment indicates expectations of a weaker medium-term economic outlook. Furthermore, a decline in the global growth outlook presents a downside risk to our current yield projections.

Foreign Holdings of Malaysian Bonds

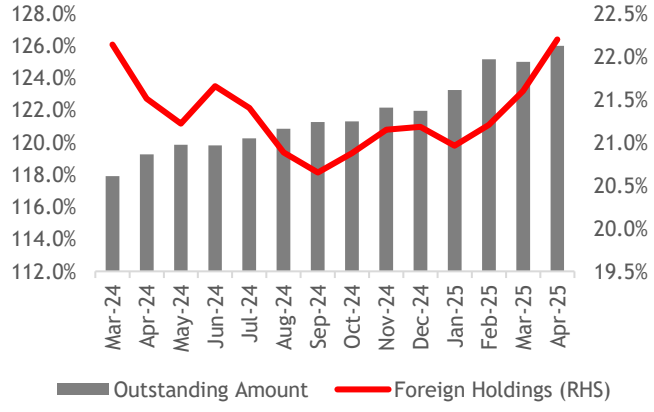
Foreign holdings of Malaysian bonds were higher in Mar-25. MGS foreign holding increased in Mar-25, foreign holdings of Malaysian bonds rose +RM10.2b to RM288.6b (Mar-25: RM278.4b). The latest reading in Apr-25 was also higher than RM278.4b recorded in Feb-24. As a result, we estimated that the ratio of foreign holdings out of the total outstanding government bonds including both MGS and sukuk, increased to 22.2% (Mar-25: 21.2%), remaining below the pre-pandemic level (2019 average: 23.1%) and higher than 21.5% 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	2QCY25	April	08/04/2025	3,000.00	1,000.00	2.89
15/04/2025	3-year Reopening of MGS 04/28	2QCY25	April	15/04/2025	5,000.00	-	3.46
30/04/2025	10-year New Issue of MGII 05/30	2QCY25	April	30/04/2025	5,000.00	-	2.00
15/05/2025	5-year New issue of MGS 04/35	2QCY25	May	15/05/2025	5,000.00		

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
MGS 1/2015 3.955% 15.09.2025	2,209.53
MGS 1/2015 3.955% 15.09.2025	2,186.17
MGS 4/2019 3.828% 05.07.2034	1,986.85
MGS 1/2015 3.955% 15.09.2025	1,798.90
MGS 1/2015 3.955% 15.09.2025	1,756.60
MGS 3/2010 4.498% 15.04.2030	1,700.28
GII MURABAHAH 2/2025 3.635% 30.08.2030	1,340.40
MGS 1/2015 3.955% 15.09.2025	1,321.63
MGS 4/2019 3.828% 05.07.2034	1,280.22
MGS 3/2007 3.502% 31.05.2027	1,273.76
Total	16, 854

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