MGS Yields Weighed Down by OPR Cut, Despite the UST Moving Higher

Jul-25 Fixed Income Review



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Economic Review

- The UST yield curve shifted higher last month. The US Treasury (UST) yield curve shifted higher across all tenors, after the UST10Y yields increased and peaked around mid-Jul-25 before moderating lower towards the end of the month.
- The MGS yield curve shifted lower on the back of the rate cut. The MGS yield curve shifted lower last month, continuing the decoupling from the UST yields, with the MGS declining across all tenors except for the 2-year yield, which increased by +24bps to +3.96%.
- We revised our view that the 10-year MGS to end the year at 3.40%. We recently updated our forecast for a 10-year MGS forecast, now expecting the yield to end the year at around 3.40% for 2025. We have revised our projection primarily due to the recent OPR cut.
- Foreign holdings of Malaysian bonds declined in Jun-25. Foreign holdings of Malaysian bonds declined in Jun-25. Inflows of foreign funds into Malaysia's debt securities eased slightly in Jul-25, as foreign holdings of Malaysian bonds declined by -RM5.5b to RM291.1b (Jun-25: 296.6b).

US TREASURY

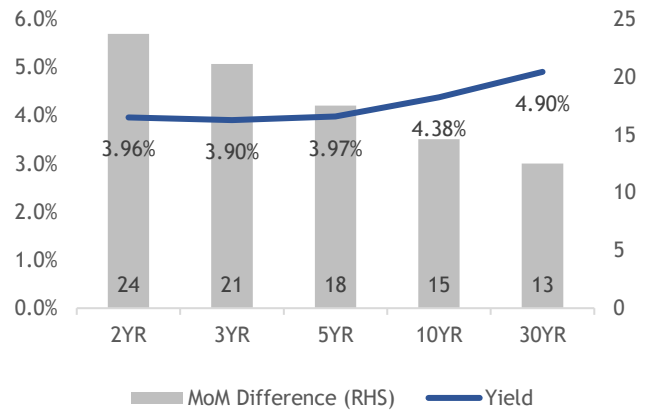
UST yield curve shifted higher last month

The US Treasury (UST) yield curve shifted higher across all tenors, after the UST10Y yields increased and peaked around mid-Jul-25 before moderating lower towards the end of the month. In early Jul-25, the UST yield curve moved higher as investors were concerned over the inflationary pressure in the US driven by the renewed tariff threats against over 20 countries announced by President Donald Trump, which reignited trade tensions. In turn, investors priced a further delay in the rate cuts by the Fed, as inflation is biased towards the high side, which saw a low probability for a Jul-25 cut, and deteriorating expectations of a rate cut for the Sep-25 meeting. However, the yields peaked mid-month at +4.48% but eased lower towards afterwards as the announcement of trade deals or trade frameworks with several countries, including China, Japan, and Indonesia, lowered concerns on the potential price pressure, with the tariff rates to be imposed being lower than previously announced.

Investors were observing trade deals and FOMC meeting unfolding

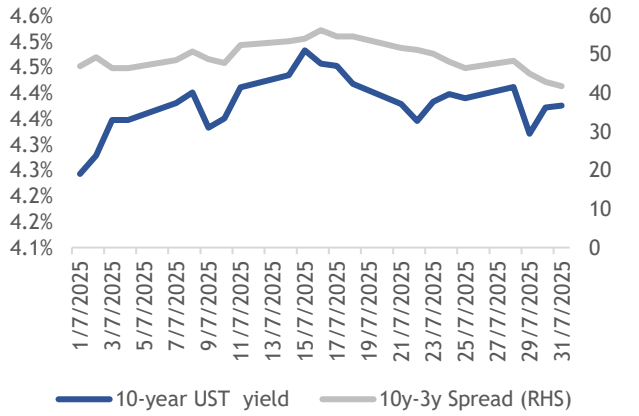
Investors were also observing developments towards the end of the month on the final trade deal before the previously announced tariffs imposed by the US on the 1st of August. Despite these inflation worries, the FOMC left the federal funds rate unchanged at 4.25%–4.50% after its policy meeting at the end of last month but signaled further stagflation risk. Currently, the market consensus indicates about 80%-85% probability for a rate cut in the Sep-25 meeting, while 90% and above for the Oct-25 and Dec-25 FOMC meetings.

Chart 1: UST Yields and MoM Difference (bps) end Jul-25



Source: Macrobond, MBSBR

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



Source: Macrobond, MBSBR

UST yields may continue to move slightly lower in the medium term as the rate cut cycle starts

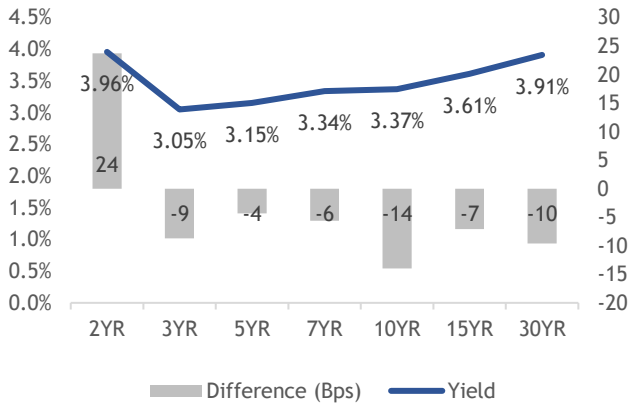
In the longer term, investors continue to remain wary of the US bonds, as increased borrowings would drive the US debt-to-GDP ratio to an estimated 134% by 2035, leading to elevated anxiety over the government's ability to manage its rising interest payments. As a result, market participants are demanding higher yields for the US bonds. Additionally, the start of the new trade tariffs is fueling worries about a potential slowdown in the US economic growth and persistent inflationary pressure. However, the recent significant downward revision to the nonfarm payroll numbers in the past few months which indicates much weaker job market caused investors to price in a more dovish expectations on the Fed future rate move compared to the end of Jul-25. We expect the Fed will continue its rate cuts, with the first cut likely to be in Sep-25 and the second cut would be in Dec-25. Our baseline scenario anticipates the resumption of monetary easing in the 2HCY25, which will result in lower UST yields.

MALAYSIA GOVERNMENT BONDS

The MGS yield curve shifted lower on the back of the rate cut

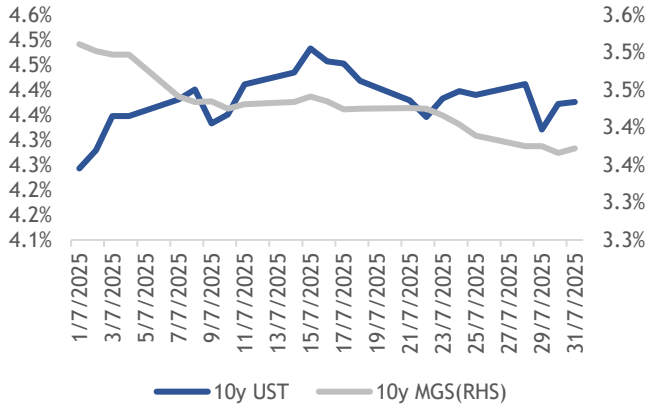
The MGS yield curve shifted lower last month, continuing the decoupling from the UST yields, with the MGS declining across all tenors except for the 2-year yield, which increased by +24bps to +3.96%. The biggest move was at the 10-year tenor, which moved lower by -14bps to 3.37% in Jul-25. The 10-year MGS has been declining gradually and closed the month at 3.37% on the back of the OPR rate cut during the month. Foreign money flows into the MGS market also eased last month. The OPR rate cut after the Jul-25 MPC meeting, in addition to the weaker-than-expected inflation report, were several drivers pushing the yields lower. However, the MGS market outlook remains tied to the global financial market dynamics, even though the volatility in the UST market had a limited impact on the MGS last month, as the movement in the MGS market was driven by domestic factors. The MOVE Index eased in Jul-25 compared to the Jun-25 level, indicating a lower volatility in the UST market. On the back of slower foreign fund inflows, positive net issuance and slightly lower yields, the volume of government bonds traded increased to RM151.4b in Jul-25 (Jun-25: RM119.2b). On another note, the top 10 traded government bonds accounted for a lower share of 8.1% (Jun-25: 61.3%) of total government bonds traded last month.

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



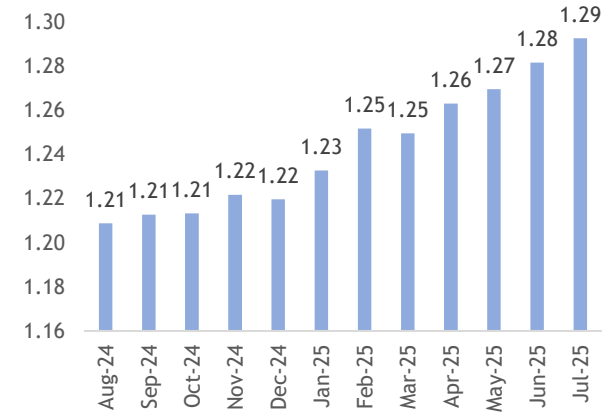
Source: Bloomberg, MBSBR

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



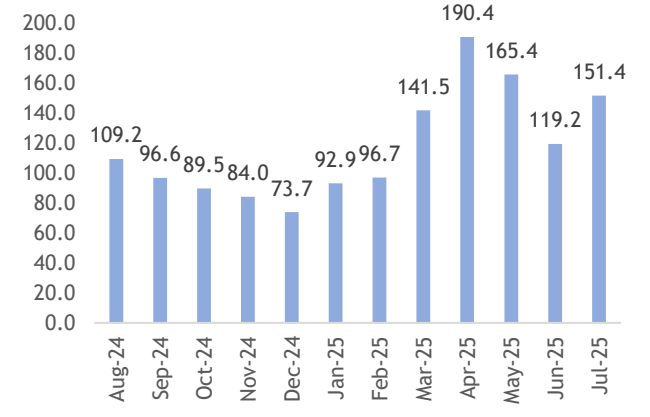
Source: Bloomberg, MBSBR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MBSBR

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



Source: Bondstream, MBSBR

Higher new MGS/GII issuance in Jul-25

Gross issuance of MGS/GII was higher at RM13.0b in Jul-25 (Jun-25: 11.0b), with the RM2.0b additional issuance (Jun-25: RM2.0b), from 1 issuance. Auction demand was relatively lower, with an average BTC of 2.55X (Jun-25: 3.05x) which was dragged down by the weak demand of the 30-year auction being at 2.0x BTC. Meanwhile, the value of outstanding government bonds was higher to RM 1.29t at the end of Jul-25. The volume of government bonds traded in Jul-25 was also higher at RM151.4m (Jun-25: RM119.2m), but slower than RM165.3m recorded in May-25.

We revised our view that the 10-year MGS to end the year at 3.40%

We recently updated our forecast for 10-year MGS forecast, now expecting the yield to end the year at around 3.40% for 2025. We have revised our projection primarily due to the recent OPR cut. We expect the compressed yield spread between MGS and OPR to continue, which is currently hovering around the +50-60bps range. This is significantly lower than the 2015-2025 average of +98bps and suggests the market is anticipating another potential OPR cut this year. The recent rate cut by BNM has increased the differential between the OPR and the FFR. We believe this gap will persist for some time. We are not forecasting any additional OPR cuts later this year, but we expect the Fed to continue lowering the FFR. This trajectory suggests the interest rate differential, which remains a crucial factor influencing our outlook, will gradually narrow. Therefore, we expect that the OPR–MGS spread may normalise as we expect market will react to the reduced probability of another OPR rate cut.

Malaysia's sustained fiscal consolidation efforts

In line with its commitment to improve its fiscal position—highlighted by the recent decision to expand the Sales and Service Tax (SST) coverage effective in Jul-25—will further enhance investor confidence and attract more inflows into the MGS market. Meanwhile, the latest mini stimulus would support domestic consumption, added with the OPR cut. On top of that, the recent 13th Malaysian Plan has also indicated the government's commitment to reduce the government's fiscal deficit to below -3.0% of GDP by 2030. Despite concerns over the impact of higher tariffs and potentially weaker external demand, Malaysia's growth fundamentals remain robust, supported by stable and manageable inflation and strong domestic performance. However, risks persist. A potential delay in the Fed rate cuts, a persistently strong US dollar, and renewed inflationary pressures could sustain current MGS yield levels in the short term. Furthermore, futures market trends currently suggest an additional Fed rate cut (previously: 2 cuts), with three cuts in each meeting remaining for the year, beginning in Sept-25. This suggests potential downward pressure on UST yields, which would likely translate to lower MGS yields, but signs of MGS yield decoupling from the UST, the influence may be limited. Close monitoring of these factors is crucial for the Malaysian debt market outlook.

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	3.57	3.51	3.45
10Y Government Bond Yield (end-period)	3.77	3.55	3.35	3.40

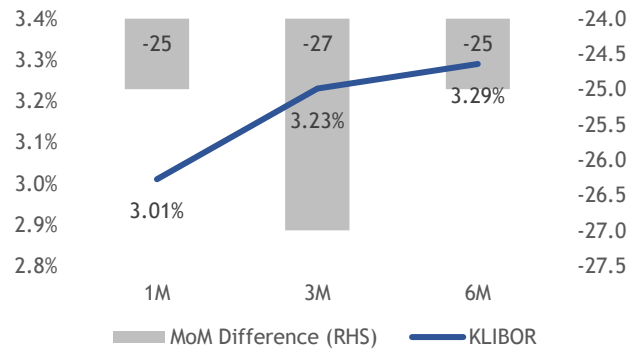
Source: MBSBR

INTERBANK MONEY MARKET

KLIBOR eased slightly lower in Jul-25.

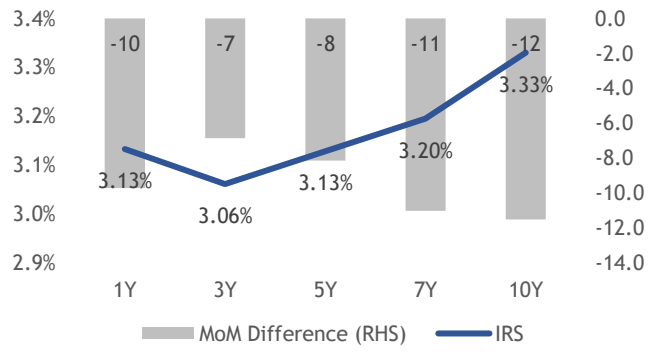
The KLIBOR interbank rates for the 1m, 3m, and 6m shifted lower to 3.01%, 3.23%, and 3.29% by -25bps, -27bps, and -25bps, respectively, on the back of the OPR rate cut during the month. Meanwhile, the Jul-25 IRS market also moved lower across the board, where the 1-year, 3-year, 5-year, 7-year, and 10-year all declined by -10bps, -7bps, -8bps, -11bps, and -12bps, respectively. The movement of the IRS rates reflects a similar movement to the MGS yields.

Chart 7: KLIBOR and MOM Difference (bps)



Source: Macrobond, MBSBR

Chart 8: IRS and MOM Difference (bps)



Source: Macrobond, MBSBR

CORPORATE BONDS

A slightly lower volume of corporate bonds traded.

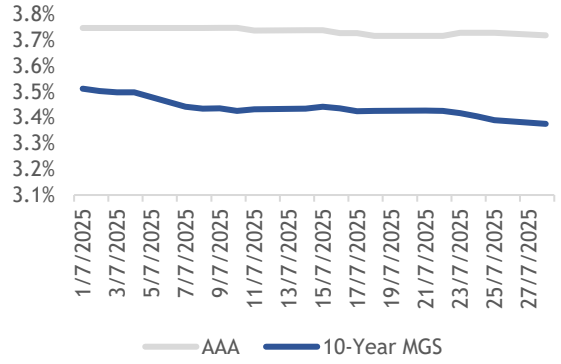
The volume of traded corporate bonds was higher at RM22.8b in Jul-25 (Jun-25: RM19.9b) more active than average of RM15.4b a month in 2024, and making the total traded in the first 7 months this year at RM126.3b. Like the MGS, the corporate rate bond rallied last month, with yield for rated securities broadly declined, especially in the medium to the longer end of the BBB1 rated falling by -83bps in the 10-year space. Within the non-rated securities, the yield also moved mostly lower, with the 5-year yield declining the most by -73bps to 5.2%.

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.441	3.498	3.541	3.583	3.643	3.706
AA1	3.481	3.538	3.586	3.628	3.688	3.751
A1	3.951	4.094	4.232	4.385	4.542	4.785
BBB1	5.42	5.943	6.41	7.011	7.6	8.359
Non-rated	4.971	5.832	5.209	5.246	5.296	5.706
MOM Difference (bps)						
AAA	-19	-18	-19	-23	-27	-28
AA1	-21	-21	-22	-26	-28	-34
A1	-39	-46	-50	-61	-75	-87
BBB1	-33	-37	-45	-51	-68	-83
Non-rated	-50	-51	-13	-73	-14	-27

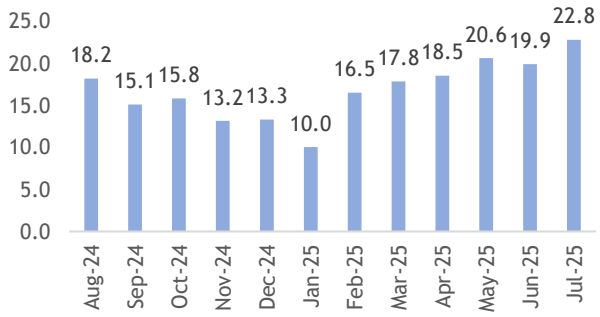
Source: Bondstream, MIDFR

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



Source: Macrobond, MBSBR

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



Source: Macrobond, MBSBR

Corporate bond yields tracked lower, following the MGS market

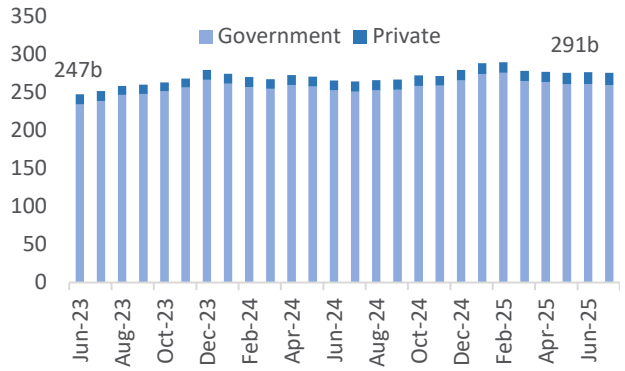
Market expectations shifted lower in Jul-25, as the government debt securities yields moved lower on the back of the rate cut in the Jul-25 meeting, despite the turnaround of foreign inflows into the debt market compared to the previous month. Therefore, given the anticipated decline in MGS yields, we project a similar downward trend for Malaysian corporate bond yields throughout the current year. Our outlook is reinforced by the market's shift in June 2025, which has already led to lower yields on Malaysian government debt. Our internal analysis consistently shows a strong correlation between corporate bond yields and MGS yields, bolstering our forecast for a synchronised decline across both market segments. Conversely, there are several upside risks that could keep MGS yields from falling. A more robust US economy could spark renewed inflationary pressures. Furthermore, recent policy changes from the Trump administration have already pushed US Treasury yields higher, a trend exacerbated by growing concerns about the long-term creditworthiness of the US. Based on market sentiment and a potential slowdown in global growth, there's a downside risk to our MGS yield projections. We'll need to carefully monitor both international and domestic economic factors to accurately forecast the future direction of Malaysian debt yields.

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds declined in Jun-25

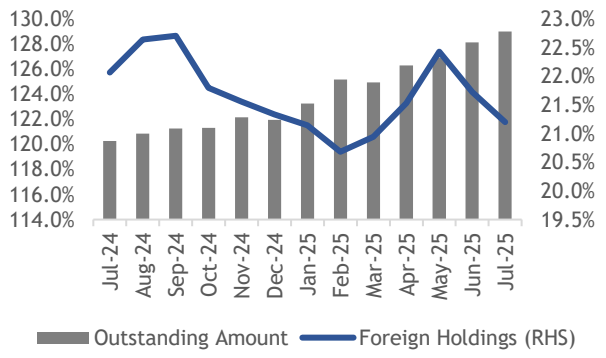
Inflows of foreign funds into Malaysia's debt securities eased slightly in Jul-25, as foreign holdings of Malaysian bonds declined by -RM5.5b to RM291.1b (Jun-25: 296.6b). The latest reading in Jul-25 was still high and the third highest on record after the highest level reached in May-25. As a result, we estimate that the ratio of foreign holdings out of the total outstanding government bonds, including both MGS and sukuk, declined to 21.3% (Jun-25: 21.7%), below the pre-pandemic level (2018 average: 23.1%) but higher than 22.1% a year ago.

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



Source: Macrobond, MBSBR

Chart 12: Share of Foreign Holdings of MGS/GII



Source: Macrobond, MBSBR

APPENDICES

Table 4: MGS/GII Auctions Calendar

Tender Date	Issues	Quarter	Month	Issue Date	Issuance (RM mil)	Private Placement (RM million)	BTC (Times)
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
14/05/2025	5-year New issue of MGS 04/35	2QCY25	May	15/05/2025	5,000.00		2.13
23/05/2025	20-year New issue of MGII 05/45	2QCY25	May	30/05/2025	3,000.00	2,000.00	3.32
10/06/2025	15-year Reopening of MGS 04/39	2QCY25	June	10/06/2025	3,000.00		2.86
16/06/2025	30-year Reopening of MGII 03/54	3QCY25	June	16/06/2025	3,000.00	2,000.00	3.30
30/06/2025	10-year New Issue of MGS 07/35	3QCY25	June	30/06/2025	5,000.00		3.01
04/07/2025	7-year Reopening of MGII 10/31	3QCY25	July	04/07/2025	5,000.00		2.92
15/07/2025	30-year New Issue of MGS 07/55	3QCY25	July	15/07/2025	3,000.00	2,000.00	2.00
22/07/2025	10-year Reopening of MGS 04/35	3QCY25	July	22/07/2025	5,000.00		2.73
08/08/2025	20-year Reopening of MGS 05/44	3QCY25	August	08/08/2025	2,500.00	2,000.00	2.73

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
MGS 1/2015 3.955% 15.09.2025	1,803.69
MGS 1/2015 3.955% 15.09.2025	1,803.66
MGS 1/2015 3.955% 15.09.2025	1,720.11
MGS 1/2015 3.955% 15.09.2025	1,394.86
GII MURABAHAH 3/2025 3.612% 30.04.2035	1,213.37
MGS 1/2015 3.955% 15.09.2025	1,105.69
MGS 1/2015 3.955% 15.09.2025	1,013.23
MGS 1/2015 3.955% 15.09.2025	1,002.80
MGS 1/2015 3.955% 15.09.2025	998.43
MGS 1/2015 3.955% 15.09.2025	927.23
Total	12,983.07

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