MGS Yields Moved Higher, Tracking the UST Movement

Aug-25 Fixed Income Review



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- UST yield curve shifted higher last month as investors are now pricing in a rate cut during the FOMC meeting in Sep-25. The US Treasury (UST) yield curve shifted higher across all tenors except for the 30-year space. The UST10Y yields increased and peaked around mid-Aug-25 before moderating lower towards the end of the month, as yield oscillated between 4.19-4.33% range last month.
- MGS yield curve rebounded due to easing sentiment on OPR cut. The MGS yields moved higher last month. The biggest move was at the 10-year tenor, which moved higher by +21bps to 3.37% in Aug-25.
- We maintain our view that the 10-year MGS to end the year at around 3.40%. We've updated our 10-year Malaysian Government Securities (MGS) yield forecast for 2025, now anticipating it will end the year around 3.40%. This revision is primarily due to the recent Overnight Policy Rate (OPR) cut.
- Foreign holdings of Malaysian bonds increased in Aug-25. Inflows of foreign funds into Malaysia's debt securities increased in Aug-25, as foreign holdings of Malaysian bonds rose by +RM3.05b to RM294.2b (Jul-25: RM291.1b).

US TREASURY

The US Treasury (UST) yield curve shifted higher across all tenors except for the 30-year space. The UST10Y yields increased and peaked around mid-Aug-25 before moderating lower towards the end of the month, as yield oscillated between 4.19-4.33% range last month. In early Aug-25, UST yields shifted slightly higher despite the news that the job gains were revised significantly lower, which led to rising concerns on the US labour market and causing market pricing in a higher chance for a rate cut at the Sep-25 FOMC meeting. Later, the UST10Y moved lower, driven by the market's persistent anticipation of an interest rate reduction which was primarily fuelled by the headline inflation report that undershot consensus forecasts. However, the case for a dovish pivot was complicated by a simultaneous acceleration in core inflation and evidence of rising costs at the producer level. This conflicting data reflects the policy challenge faced by the Federal Reserve. Following the Jackson Hole Symposium, the DXY weakened in response to the Fed Chair Powell's acknowledgement of a potential policy adjustment, and consequently, the UST10Y also moved lower. His remarks, however, maintained a cautious tone, explicitly highlighting the trade-off between a softening labour market and the continued significant threat posed by higher inflation. Currently, the market consensus is indicating about 90%-95% probability for a rate cut in the Sep-25 meeting, while 90% and above probability for the Oct-25 and Dec-25 FOMC meetings; and expecting an additional three rate cuts in 2026.

UST yield curve shifted higher last month as investors are now pricing in a rate cut during the FOMC meeting in Sep-25

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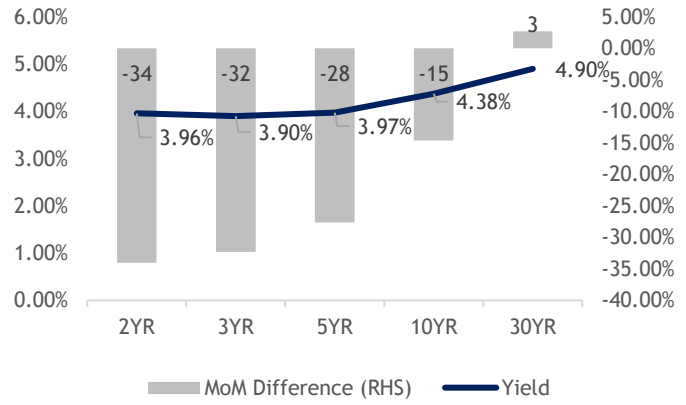
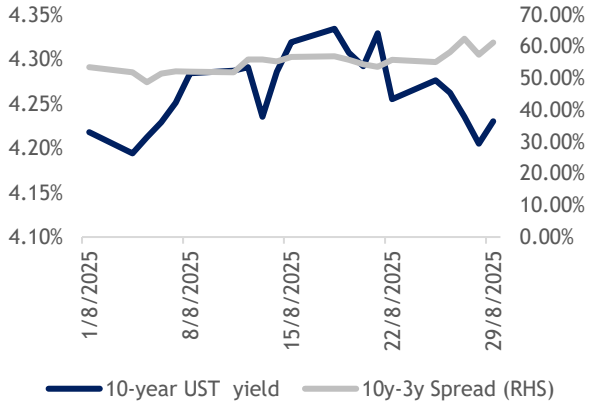
Chart 1: UST Yields and MoM Difference (bps) end Aug-25



Source: Macrobond, MBSBR

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



Source: Macrobond, MBSBR

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

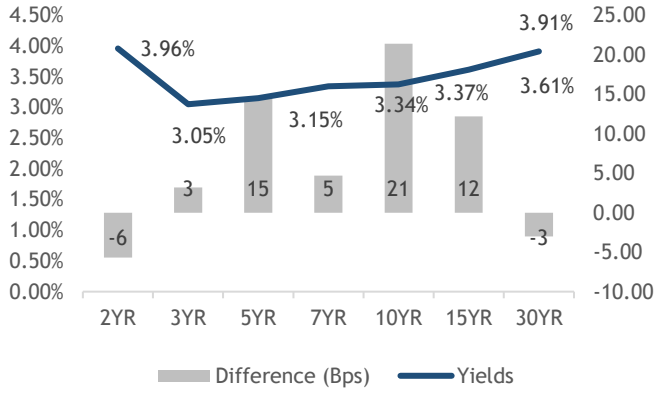
In the longer term, US bond investors remain cautious due to rising debt concerns, as the US debt-to-GDP ratio is projected to reach an estimated 134% by 2035, leading to higher demanded yields. Additionally, new trade tariffs are fuelling worries about a potential slowdown in US economic growth and persistent inflation. However, the significant downward revision of recent nonfarm payroll numbers has shifted market expectations toward a more dovish Fed stance. As a result, we anticipate the Federal Reserve will continue its rate-cutting cycle, with the first cut likely in Sep-25 and a second in Dec-25. Our baseline scenario for the 2HCY25 is a resumption of monetary easing, which should result in lower UST yields.

MALAYSIA GOVERNMENT BONDS

MGS yield curve rebounded due to easing sentiment on OPR cut

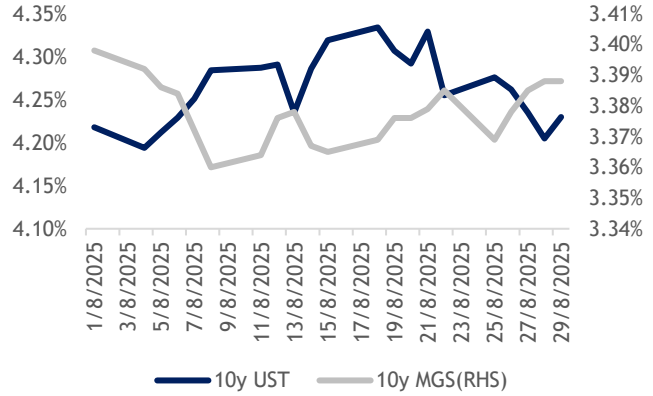
The MGS yields mostly moved higher last month, the biggest move was at the 10-year tenor, which moved higher by +21bps to 3.37% in Aug-25. The 10-year MGS has oscillated within a tight range between 3.36-3.39%, being stable after the decline seen in Jul-25, especially after the OPR cut. Foreign money flows into the MGS market picked up last month. The OPR rate cut after the Jul-25 MPC meeting, in addition to the still weak inflation report, was the few drivers pushing the yields lower. Despite a limited impact from recent volatility in the UST market, the MGS market outlook continues to be closely tied to the broader global financial market. The MGS's performance last month was predominantly influenced by domestic drivers. The MOVE Index eased lower in Aug-25 compared to Jul-25 level, indicating a lower volatility in the UST market. On the back of higher foreign fund inflows, positive net issuance, while yields eased after the compression due to the rate cut sentiment, the volume of government bonds traded came down to RM142.2b in Aug-25 (Jul-25: RM151.4b). On another note, the 10 traded government bonds accounted for a higher share of 60.2% in Aug-25 (Jul-25: 8.1%; Jun-25: 61.3%) of government bonds traded last month.

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



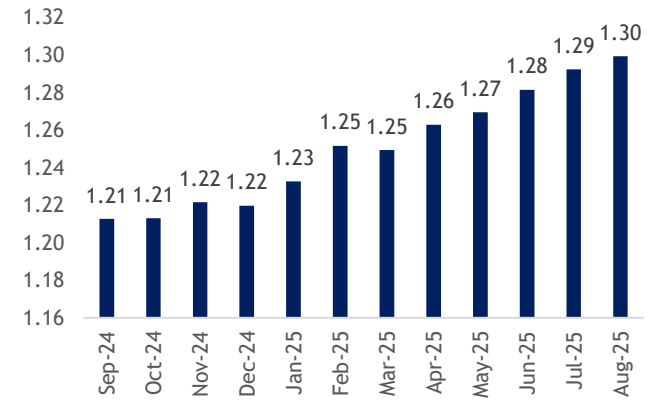
Source: Bloomberg, MBSBR

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



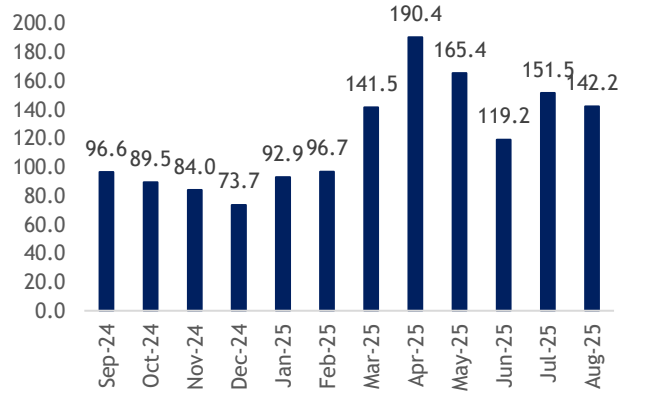
Source: Bloomberg, MBSBR

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 Aug-25

Gross issuance of MGS/GII was higher at RM13.5b in Aug-25 (Jul-25: RM13.0b), with the RM5.0b additional issuance (Jul-25: RM2.0b), from three issuances. Auction demand was relatively lower with an average BTC of 2.32x (Jul-25: 2.55x), which was dragged down by the weak demand for the 5-year and 20-year auction, being at 1.84x and 1.87x BTC. Meanwhile, the value of outstanding government bonds was higher at RM1.3t at the end of Aug-25. The volume of government bonds traded in Aug-25 was lower at RM142.2m (Jul-25: RM151.3m), which is also much lower than the RM190.4m recorded in Apr-25.

We maintain our view 10-year MGS to end the year around 3.40%

We've updated our 10-year Malaysian Government Securities (MGS) yield forecast for 2025, now anticipating it will end the year around 3.40%. This revision is primarily due to the recent Overnight Policy Rate (OPR) cut. We expect the current compressed spread between the MGS and OPR, hovering around +50-60bps, to persist. This lower-than-average spread suggests the market is anticipating another OPR cut this year. Following the latest BNM rate cut, the differential between the Overnight Policy Rate (OPR) and the Fed Funds Rate (FFR) has expanded. We project that this gap will persist in the near term. Our forecast does not include any additional OPR cuts for the remainder of the year; however, we anticipate the Fed will continue its policy adjustment of lowering the FFR. This divergence in policy setting will cause the interest rate differential, a critical component of our market outlook, to gradually decrease. As a result, we expect the OPR-MGS spread to normalise as market participants react to the diminished probability of another OPR rate cut.

Malaysia's sustained fiscal consolidation efforts

Several key developments are poised to strengthen the MGS market and boost investor confidence. The government's recent decision to expand the Sales and Service Tax (SST) in Jul-25 demonstrates a commitment to fiscal improvement. This is further reinforced by the 13th Malaysian Plan, which outlines a clear goal of reducing the fiscal deficit to below -3.0% of GDP by 2030. These measures, combined with the domestic consumption support from a recent mini-stimulus package and the latest OPR cut, create a positive environment for increased MGS inflows. Moreover, we think investors will have eyes on Malaysia's 2026 Budget announcement coming up. 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 still resilient domestic demand. 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 (previous: 2 cuts), with three cuts in each remaining meeting for the year, beginning in Sep-25. While potential downward pressure on UST yields could lead to lower MGS yields, the impact may be limited due to the recent weaker sensitivity of the two markets. Therefore, 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

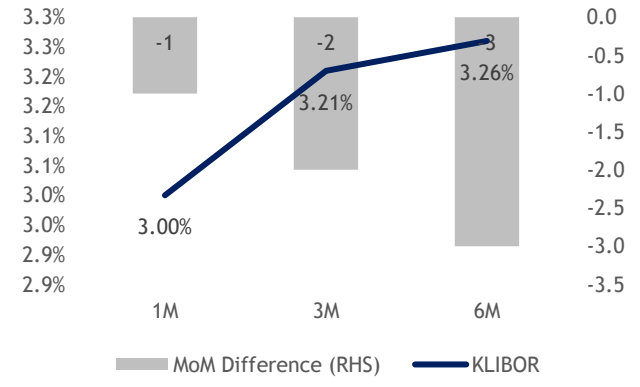
Source: MBSBR

INTERBANK MONEY MARKET

KLIBOR eased slightly lower in Aug-25

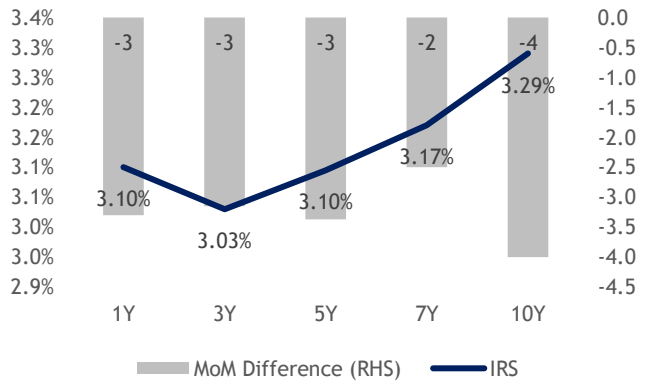
KLIBOR interbank rate for the 1m, 3m, and 6m shifted lower to 3.00%, 3.21%, and 3.26% by -1bps, -2bps, and -3bps, respectively, slower compared to the double-digit decline recorded last month due to the OPR rate cut. Meanwhile, the Aug-25 IRS market also moved lower across the board, where the 1-year, 3-year, 5-year, 7-year, and 10-year all declined by -3bps, -3bps, -2bps, and -4bps. The movement of the IRS continued to decline from last month, which usually tracked the movement of 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 higher volume of corporate bonds traded

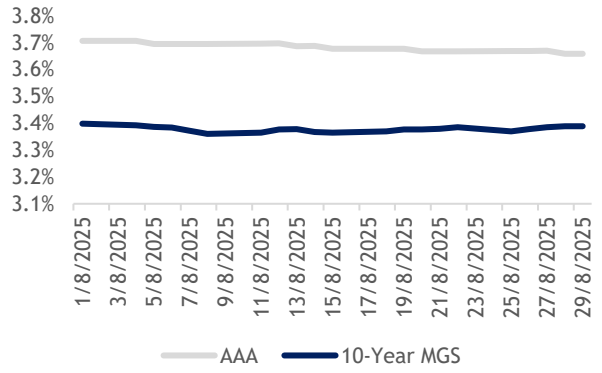
The volume of traded corporate bonds was higher at RM23.1b in Aug-25 (Jul-25: RM22.8b), more active than the average of RM15.4b a month in 2024, and making the total traded in the first 8 months this year at RM149.3b. The corporate rate bond rallied last month, with yield for rated securities declining, especially in the medium to the longer end of the A1 rated, falling by -93bps in the 10-year space. Within the non-rated securities, the yield also moved lower, with the 5-year yield declining the most by -82bps to 5.15%.

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.4	3.427	3.46	3.524	3.584	3.658
AA1	3.446	3.472	3.505	3.569	3.629	3.703
A1	3.931	4.058	4.175	4.33	4.486	4.724
BBB1	5.415	5.928	6.378	6.986	7.575	8.319
Non-rated	5.036	5.647	5.187	5.158	5.21	5.696
MOM Difference (bps)						
AAA	-23	-25	-27	-29	-32	-32
AA1	-25	-28	-30	-32	-34	-39
A1	-41	-49	-56	-67	-80	-93
BBB1	-33	-38	-48	-53	-71	-87
Non-rated	-44	-70	-15	-82	-22	-28

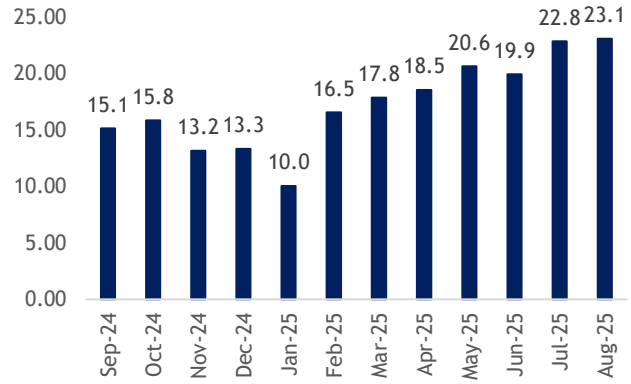
Source: Bondstream, MBSBR

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 in Aug-25, continuing from the OPR cut.

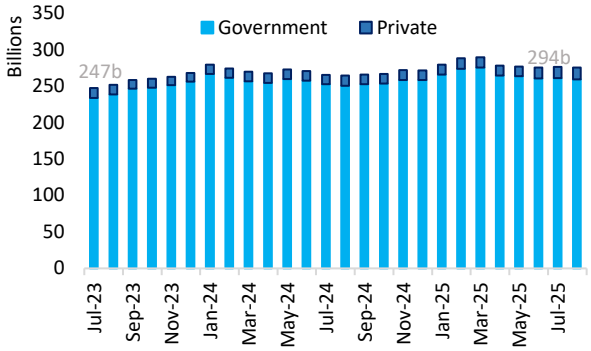
Corporate bond yields tracked lower in Aug-25, despite the government debt securities yields mostly moving higher, while the corporate yields movement was more sensitive to the OPR rate cut in Jul-25, while the foreign inflows into the sovereign debt market last month. As we expect the MGS to remain stable around the current level for the rest of the year, we project a similar pattern for Malaysian corporate bond yields throughout the current year. 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, we see a downside risk to our MGS yield forecasts. A stronger US economy could lead to renewed inflation, which, along with policy shifts from the Trump administration and concerns about the US long-term creditworthiness, is already pushing UST yields higher. This trajectory, coupled with a potential slowdown in global growth, complicates the outlook for the Malaysian debt market.

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds Increased in Aug-25

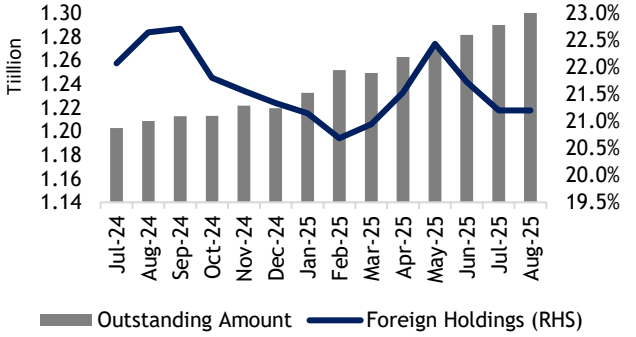
Inflows of foreign funds into Malaysia's debt securities increased in Aug-25, as foreign holdings of Malaysian bonds rose by +RM3.05b to RM294.2b (Jul-25: RM291.1b). The latest reading in Aug-25 was still high and the third highest on record after the highest level reached in May-25. As a result, we estimate that the ratio of foreign holdings out of the total outstanding government bonds, including MGS and sukuk, was unchanged at 21.2% in Aug-25, still 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
15/08/2025	15-year Reopening of MGII 07/40	3QCY25	August	15/08/2025	3,000.00	1,000.00	2.85
22/08/2025	5-year Reopening of MGS 05/40	3QCY25	August	22/08/2025	5,000.00		1.87
29/08/2025	20-year Reopening of MGII 05/45	3QCY25	August	29/06/2025	3,000.00	2,000.00	1.84
09/09/2025	3-year Reopening of MGS 04/28	3QCY25	September	09/09/2025	5,000.00		1.93

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
MGS 1/2015 3.955% 15.09.2025	1,738.20
MGS 1/2015 3.955% 15.09.2025	1,383.89
GII MURABAHAH 2/2024 3.804% 08.10.2031	1,340.56
MGS 1/2015 3.955% 15.09.2025	1,291.90
MGS 1/2015 3.955% 15.09.2025	1,279.54
MGS 1/2019 3.906% 15.07.2026	1,147.79
GII MURABAHAH 2/2024 3.804% 08.10.2031	1,110.00
MGS 1/2019 3.906% 15.07.2026	1,101.98
MGS 1/2019 3.906% 15.07.2026	996.00
MGS 2/2023 3.519% 20.04.2028	958.14
Total	12,348.00

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