MGS Yields Moved Higher, in Contrast to Lower UST Yields

Sep-25 Fixed Income Review



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Economic Review

- The US Treasury (UST) yield curve generally shifted lower except for the 3-year and the 5-year space. In the early part of the month, the 10-year UST yield shifted lower and hit the lowest level for the month at 4.02%, just before the Sep-25 FOMC meeting. The decline was driven by expectations for the Fed to resume its rate cut cycle.
- The MGS yield curve moved higher last month, particularly the 5-year tenor, which increased by +14bps to 3.22%. Meanwhile, the 10-year MGS yield rose by +6bps to 3.45%, as it oscillated between 3.38% to 3.45%, recording a gradual increase throughout the month and closing the month at the highest level in Sep-25.
- Foreign funds registered outflows from Malaysia's debt securities in Sep-25 as reflected by the decline in foreign holdings of Malaysian bonds by -RM6.8b to RM287.3 (Aug-25: RM294.1b).

US TREASURY & MALAYSIAN GOVERNMENT BONDS

UST yield curve shifted lower last month as investors pricing in further rate cuts

The US Treasury (UST) yield curve generally shifted lower except for the 3-year and the 5-year space. In the early part of the month, the 10-year UST yield shifted lower and hit the lowest level for the month at 4.02%, just before the Sep-25 FOMC meeting. The decline was driven by expectations for the Fed to resume its rate cut cycle. However, yields move back higher post-FOMC meetings, taking cues from the latest dot plot and Jerome Powell's speech, warning that inflation will continue to build through the rest of this year and into 2026, with the dot plot indicating the PCE inflation to peak this year before moderating in 2026. This caused bond players to expect higher yields. In addition, the higher headline PCE inflation and stronger 2QCY25 GDP growth also led to some easing in the expectations for faster rate cuts. Currently, the market consensus indicates probability of 90% or higher for rate cuts in the Oct-25 and Dec-25 FOMC meetings; thus, expecting a total of three rate cuts in 2025.

UST yields may continue to move slightly lower

US bond investors remained cautious due to long-term debt concerns (debt-to-GDP projected at 134% by 2035) and new trade tariffs that risk slowing growth and keeping inflation elevated. However, weaker job growth (as shown by the revised nonfarm payrolls) also shifted market expectations to a more dovish view on the Fed's future policy direction. We anticipate the Fed will resume its rate-cutting cycle in 2HCY25, leading to lower Treasury yields.

MGS yield curve rebounded with easing sentiment on further OPR cut

In contrast, the MGS yield curve moved higher last month, particularly the 5-year tenor which increased by +14bps to 3.22%. Meanwhile, the 10-year MGS yield rose by +6bps to 3.45%, as it oscillated between 3.38% to 3.45%, recording a gradual increase throughout the month and closing the month at the highest level in Sep-25. The broad increments reflect the easing expectations for further OPR cuts Although the MGS market remained somewhat disconnected from recent volatility in the US Treasury markets, we foresee its outlook remains closely tied to changes in the global financial markets. Last month's performance, however, was predominantly influenced by domestic drivers. On the back of foreign fund outflows, positive net issuance, and rebound in yields after the compression previously due to the rate cut sentiment, the volume of government bonds traded also came down to RM119.3b in Sep-25 (Aug-25: RM142.3b). On another note, the top traded government bonds accounted for a slightly higher share of 61.2% in Sep-25 (Aug-25: 60.2%) of government bonds traded last month.

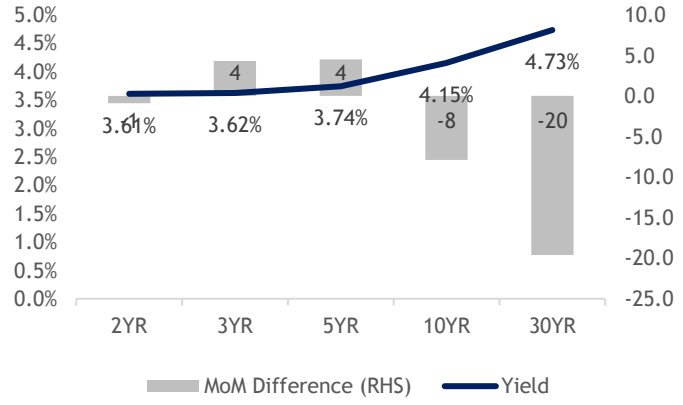
Higher new MGS/GII issuance

Gross issuance of the MGS/GII was higher at RM16.5b in Sep-25 (Aug-25: RMM13.5b, with the RM3.0b additional issuance (Aug-25: 5.0b), from four issuances. Auction demand was relatively lower with an average BTC of 2.065x (Aug-25: 2.32x), dragged down by the weak demand with BTC less than 2.0x for the 3-year, 30-year, and the 15-year auction at 1.93x, 1.93x, and 1.52x respectively. Meanwhile, the value of outstanding government bonds was lower at RM1.29t at the end of Sep-25. The volume of government bonds traded in Sep-25 was lower at RM119.3m (Aug-25: RM142.2m), much lower than the RM190.4m recorded in Apr-25.

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

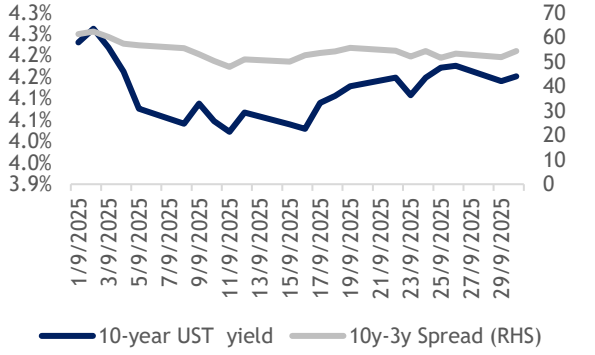
We are holding our 2025 year-end forecast for the 10-year MGS yield at approximately 3.40%. This projection accounts for an expected modest normalisation of the current MGS-OPR spread (presently around +50-60bps) to revert to marginally above +60bps as expectations for rate cuts by BNM diminish. However, this normalisation will be constrained by the Fed's anticipated continuation of its rate-cutting cycle, which maintains an anchor effect on MGS yields due to the persistent, though more moderate, correlation with the movement in UST yields. The resulting divergence in monetary policy settings will gradually narrow the interest rate differential, thereby limiting significant upward pressure on MGS yields.

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



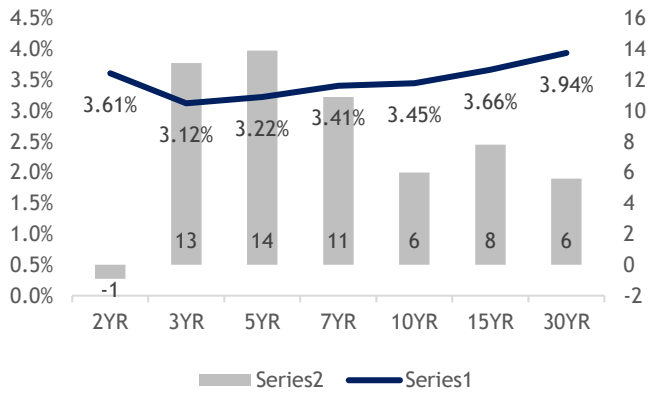
Source: Macrobond, MBSBR

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



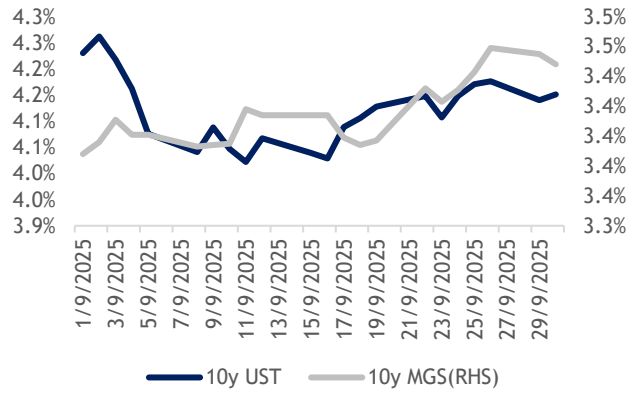
Source: Macrobond, MBSBR

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



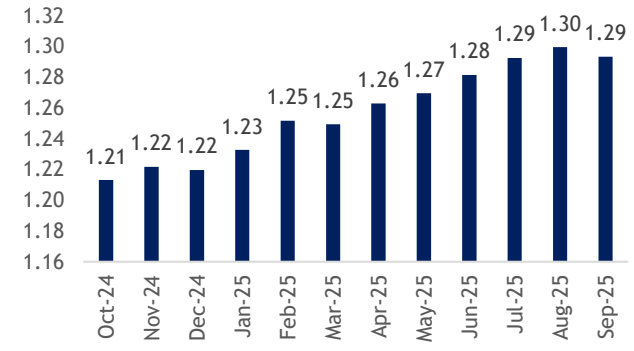
Source: Bloomberg, MBSBR

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



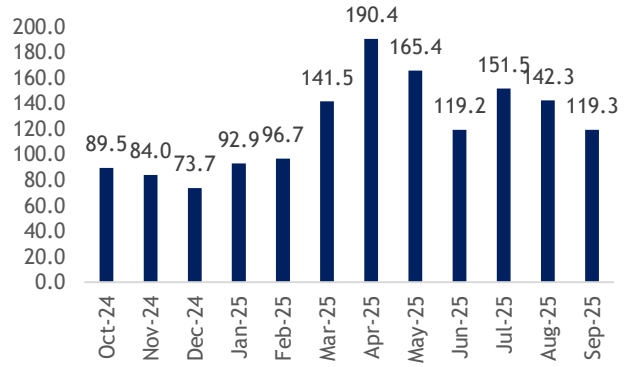
Source: Bloomberg, MBSBR

Chart 5: Outstanding Malaysia Government Bonds (RM t)



Source: Bondstream, MBSBR

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



Source: Bondstream, MBSBR

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

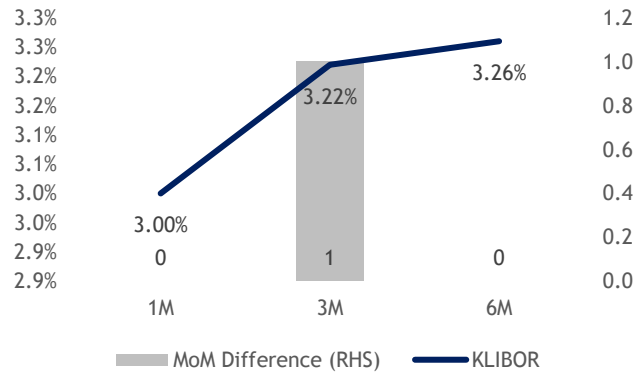
	1Q25	2Q25f	3Q25f	4Q25f
Exchange Rate, vs USD (average)	4.44	4.32	4.21	4.10
Exchange Rate, vs USD (end-period)	4.43	4.38	4.20	4.09
10Y Government Bond Yield (average)	3.79	3.57	3.51	3.45
10Y Government Bond Yield (end-period)	3.77	3.55	3.35	3.40

INTERBANK MONEY MARKET

KLIBOR increased slightly in Sep-25

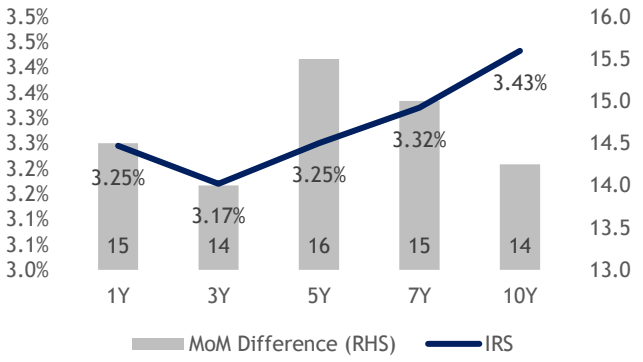
KLIBOR interbank rate for the 1m, and the 6m remained unchanged at 3.00% and 3.26%, while the 3m shifted lower by -1bps to 3.21%. Meanwhile, the Sep-25 IRS market reversed from the decline in Aug-25, where the 1-year, 30-year, 5-year, 7-year, and 10-year all increased by +15bps, +14bps, +16bps, +15bps, and +14bps respectively. The movement of the IRS continued to trend higher from last month, tracking the movement in 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

Slight easing in the volume of corporate bonds traded

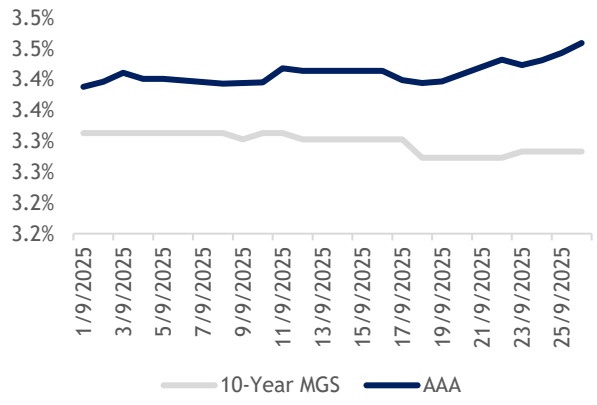
The value of traded corporate bonds was lower at RM17.5B in Sep-25 (Aug-25: RM23.1b) but still showing a more active trading than the average of RM15.4b a month in 2024. This contributed to the total traded corporate bonds of RM166.9b in the first 9 months this year. The corporate rate bond rallied last month, with yields for rated securities declining roughly at a similar rate across the yield curve, especially for the A1 rated bonds, which fell by -89bps in the 30-year space. Within the non-rated securities, the yield also moved lower, with the 5-year yield declining the most by -70bps to 5.27%.

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.36	3.418	3.482	3.556	3.648	3.755
AA1	3.41	3.468	3.532	3.6	3.693	3.789
A1	3.911	4.059	4.186	4.351	4.507	4.756
BBB1	5.405	5.928	6.378	6.986	7.537	8.29
Non-rated	5.347	5.639	5.311	5.275	5.303	5.73
MOM Difference (bps)						
AAA	-27	-26	-25	-26	-26	-23
AA1	-28	-28	-27	-29	-27	-30
A1	-43	-49	-54	-65	-78	-89
BBB1	-34	-38	-48	-53	-75	-90
Non-rated	-13	-70	-3	-70	-13	-24

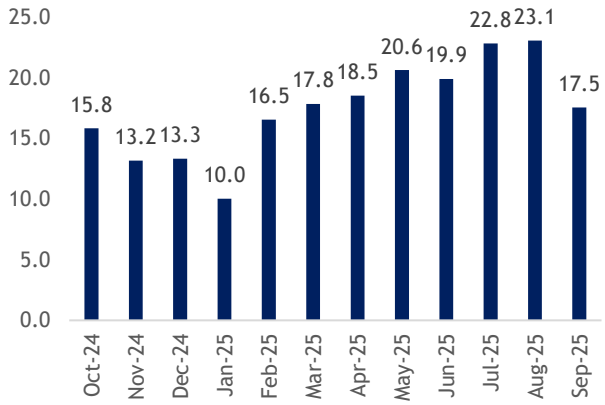
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



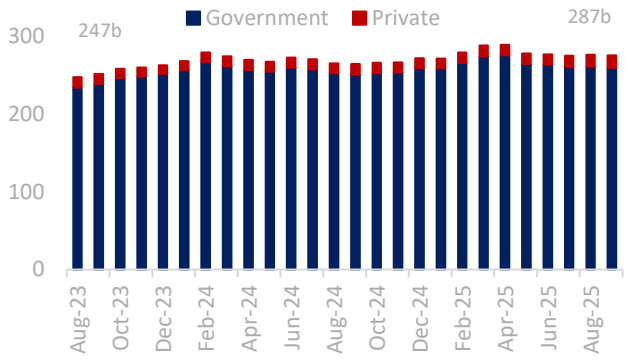
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds declined in Sep-25

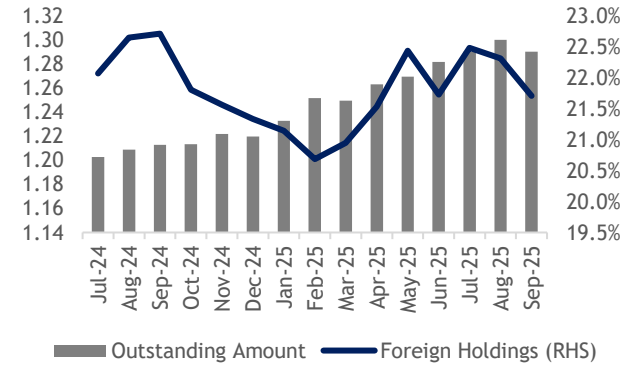
Foreign funds registered outflows from Malaysia's debt securities in Sep-25 as reflected by the decline in foreign holdings of Malaysian bonds by -RM6.8b to RM287.3 (Aug-25: RM294.1b). The latest reading in Sep-25 marked the largest monthly outflow this year, pushing foreign holdings to the lowest level since Apr-25. As a result, we estimate that the ratio for foreign holdings out of the total outstanding government bonds, including the MGS and sukuk, moved lower to 21.7% in Sep-25 (Aug-25: 22.3%), below the pre-pandemic level (2018 average: 23.1%) and 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	Sep	09/09/2025	5,000.00		1.93
17/09/2025	30-year Reopening of MGII 03/54	3QCY25	Sep	17/09/2025	3,00000	2,000.00	1.93
23/09/2025	15-year Reopening of MGS 04/39	3QCY25	Sep	23/09/2025	3, 500.00	1,000.00	1.52
30/09/2025	3-year Reopening of MGII 07/28	3QCY25	Sep	30/09/2025	5, 000.00		2.88
07/10/2025	30-year Reopening of MGS 07/55	4QCY25	October	07/10/2025	3,000.00	2,000.00	1.38

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
MGS 1/2019 3.906% 15.07.2026	2,160.20
MGS 1/2019 3.906% 15.07.2026	1,559.05
GII MURABAHAH 1/2023 3.599% 31.07.2028	1,296.22
MGS 2/2023 3.519% 20.04.2028	1,235.60
GII MURABAHAH 1/2024 4.280% 23.03.2054	1,201.30
MGS 1/2019 3.906% 15.07.2026	1,132.67
MGS 1/2024 4.054% 18.04.2039	1,120.83
MGS 1/2019 3.906% 15.07.2026	1,067.44
MGS 2/2023 3.519% 20.04.2028	926.57
GII MURABAHAH 2/2024 3.804% 08.10.2031	921
Total	12,620.88

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