MGS Yields Climbed, UST Fell Amid Uncertain Dec-25 FOMC Decision

Oct-25 Fixed Income Review



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Economic Review

- The US Treasury (UST) yield curve flattened in Oct-25 as the 2-year yield fell by -3bps to 3.58% while the 30-year yield declined sharper by -8bps to 4.65% (Sep-25: 4.73%). In the early part of the month, the 10-year UST yield shifted higher and hit the highest closing point for the month at 4.15%.
- The MGS yield curve moved slightly higher last month, continuing another month of decoupling from the UST yield movement in the early part of the month. The 10-year MGS yield increased gradually, especially towards the end of the month, partly influenced by the FOMC forward guidance that resulted in diminished expectations for another rate cut in Dec-25 due to concerns on the upside risk to the inflation outlook.
- Foreign funds registered an inflow into Malaysia's debt securities in Oct-25 as reflected by the increase in foreign holdings of Malaysian bonds by RM4.4b to RM291.7b (Sep-25: RM287.3b).

US TREASURY & MALAYSIAN GOVERNMENT BONDS

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

The US Treasury (UST) yield curve flattened in Oct-25 as the 2-year yield fell by -3bps to 3.58% while the 30-year yield declined sharper by -8bps to 4.65% (Sep-25: 4.73%). In the early part of the month, the 10-year UST yield shifted higher and hit the highest closing point for the month at 4.15%, which later declined gradually up to the FOMC meeting and closed below the 4.00% level. However, the 10-year yield spiked higher after the meeting and continued to close the month at 4.08%. While the decision to cut fed funds rate by -25bps was widely anticipated, the spike in the UST yield was mostly motivated by the cautious remarks by the Fed Chair after the meeting which suggested that another rate cut in Dec-25 is far from certain. As a result, market expectations priced in a lower probability for another rate cut in Dec-25. On top of that, the de-escalation of geopolitical uncertainty and trade tensions following positive outcome from the US-China trade negotiations also eased the demand for safe-haven assets, particularly the UST.

Longer term continues to remain a concern

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 mentioned by the Fed Chair, Jerome Powell) 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 1HCY26, and on that note we expect Treasury yields would go lower.

MGS yield curve rebounded with better sentiment and resilient economy

The MGS yield curve moved slightly higher last month, continuing another month of decoupling from the UST yield movement in the early part of the month. The 10-year MGS yield increased gradually, especially towards the end of the month, partly influenced by the FOMC forward guidance that resulted in diminished expectations for another rate cut in Dec-25 due to concerns on the upside risk to the inflation outlook. The 10-year MGS yield increased by +6bps to 3.50% (Sep-25: 3.44%), which it traded sideways within a tight range of 3.43% to 3.48% for the majority part of the month. However, in the final days of the period, following the FOMC meeting, the yield experienced a notable breakout, surpassing the 3.50% level. This movement, which pushed the yield to its highest level since Jul-25, primarily tracked the broader directional shift seen in the 10-year UST yield. Improving market sentiment is the result of BNM's positive commentary on the economic outlook, which has helped temper speculation regarding further OPR cuts. This stability was also supported by resilient domestic economic activity, as highlighted by the stronger-than-expected 3QCY25 GDP growth, continued healthy labour market conditions, and robust external trade performance. Meanwhile, the government's latest Budget 2026 is also seen to be supportive of economic performance for next year. 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 came down to RM114.3b in Oct-25 (Sep-25: RM119.5b). On another note, the top traded government bonds accounted for a slightly higher share of 62.7% in Oct-25 (Sep-25: 61.2%) of government bonds traded last month.

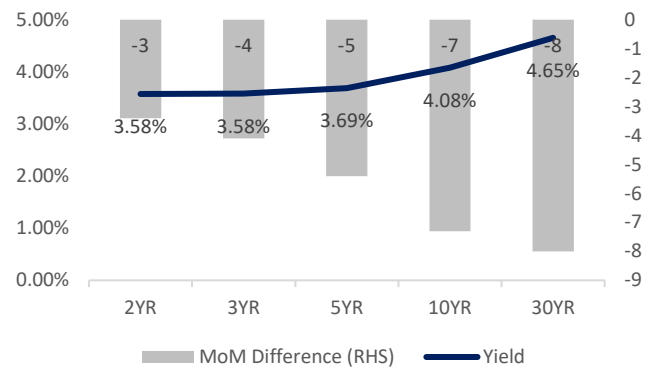
Lower new MGS/GII issuance

Gross issuance of the MGS/GII was lower at RM10.5b in Oct-25 (Sept-25: RM16.5b), with the RM4.0b additional issuance (Sep-25: RM3.0b), from three issuances. Auction demand was relatively lower with an average BTC of 1.96x (Sep-25: 2.06x), dragged down by weak demand with the BTC lower than 2.0x for the 30-year and 20-year auction at 1.38x and 1.70x, respectively. Meanwhile, the value of outstanding government bonds was unchanged at RM1.29T at the end of Oct-25. The volume of government bonds traded in Oct-25 was lower at RM114.5m (Sep-25: 119.5m), much lower than the RM190.4m recorded in Apr-25.

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

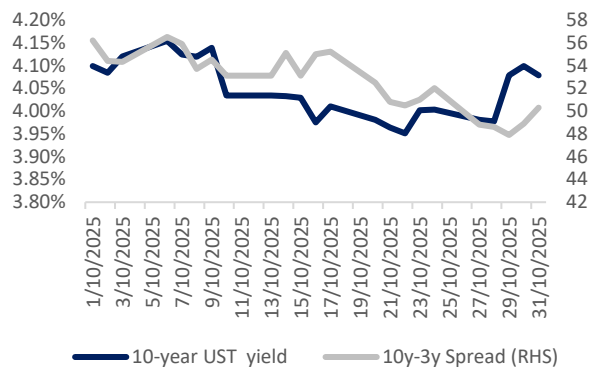
We are maintaining our year-end 2025 forecast for the 10-year Malaysian Government Securities (MGS) yield at 3.40%**.** This projection is fundamentally anchored to the expected normalisation of the MGS-OPR spread**.** With the spread currently compressed at around +50 to +60 basis points (bps), we foresee a modest reversion to marginally above +60 bps. However, we think that the recent increase of the MGS moving higher was temporary as market are reacting to the possibility of the Fed of a no rate cut scenario in Dec-25, but based on the latest market probability, the FFR will continue its cutting cycle in Jan-26, therefore market will be pricing in the rate cut earlier, putting downward pressure on the UST. This 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. This widening of the spread is predicated on the market adjusting its stance as expectations for any further monetary easing (rate cuts) from Bank Negara Malaysia (BNM) diminish.

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



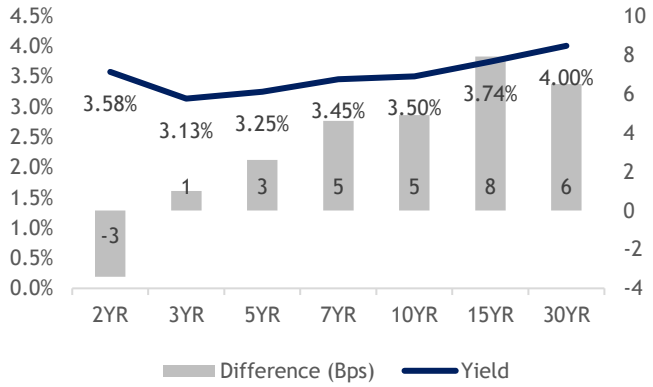
Source: Macrobond, MBSBR

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



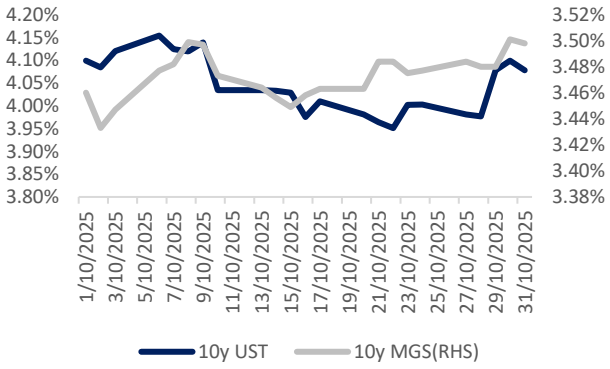
Source: Macrobond, MBSBR

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



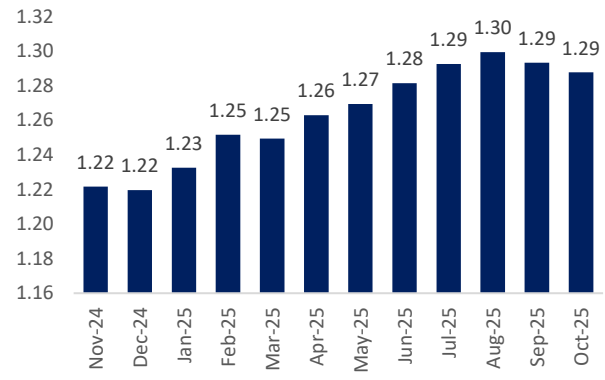
Source: Bloomberg, MBSBR

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



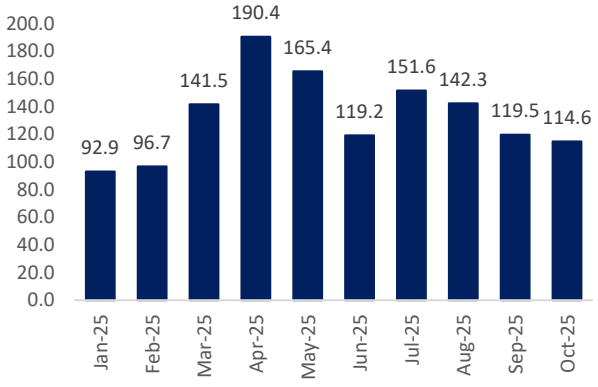
Source: Bloomberg, MBSBR

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

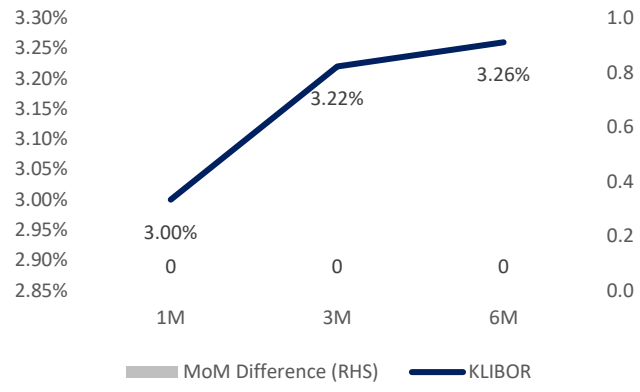
	1Q25	2Q25f	3Q25f	4Q25f
Exchange Rate, vs USD (average)	4.44	4.32	4.21	4.10
Exchange Rate, vs USD (end-period)	4.43	4.38	4.20	4.09
10Y Government Bond Yield (average)	3.79	3.57	3.51	3.45
10Y Government Bond Yield (end-period)	3.77	3.55	3.35	3.40

INTERBANK MONEY MARKET

KLIBOR was stable in Oct-25

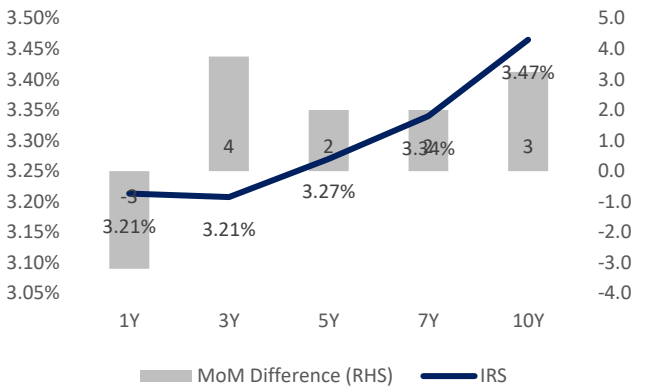
KLIBOR interbank rate for the 1m, 3m, and 6m remained unchanged at 3.00%, 3.22%, and 3.26%, respectively. Meanwhile, the Oct-25 IRS market continued to pick up slightly from last month, where they 2-year, 3-year, 5-year, 7-year, and 10-year all increased by +4bps, +2bps, +2bps, and +3bps, respectively. Meanwhile, the 2-year IRS turned lower by -3bps to 3.25%. 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

Higher volume of corporate bonds traded last month

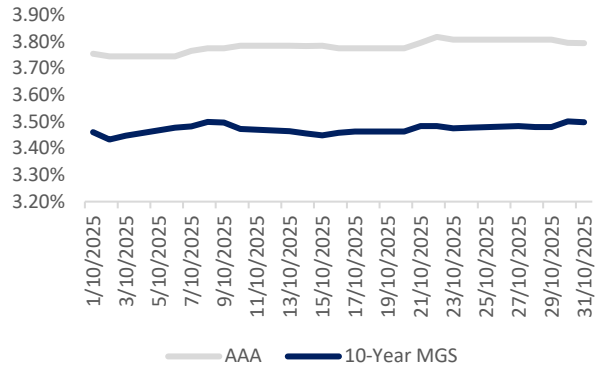
The value of the traded corporate bonds was higher at RM22.7b in Oct-25 (Sep-25: RM17.5b), still more active than the average of RM15.4b a month back in 2024. This contributed to the total traded corporate bond of RM223.7b in the first 10 months of this year. The corporate bond yield declined across the yield curve last month, with the yield for rated securities between the medium to longer end of the curve moving lower than the shorter term, especially for the BBB1-rated bonds, which fell by -91bps 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-Oct-25

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.431	3.488	3.521	3.595	3.687	3.795
AA1	3.471	3.527	3.566	3.645	3.732	3.846
A1	3.936	4.058	4.175	4.34	4.519	4.762
BBB1	5.4	5.897	6.337	6.956	7.519	8.278
Non-rated	5.435	5.689	5.385	5.276	5.278	5.793
MOM Difference (bps)						
AAA	-20	-19	-21	-22	-22	-19
AA1	-22	-22	-24	-24	-24	-24
A1	-41	-49	-56	-66	-77	-89
BBB1	-35	-41	-52	-56	-76	-91
Non-rated	-4	-65	+5	-70	-15	-18

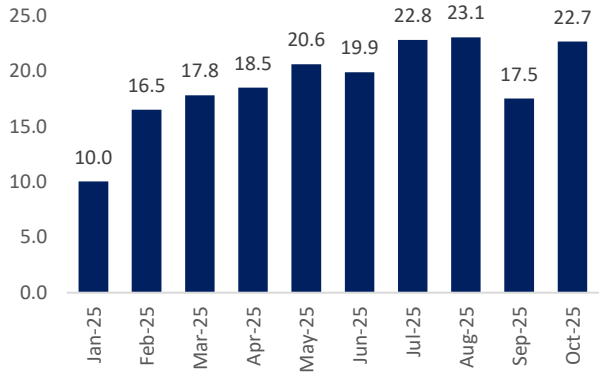
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



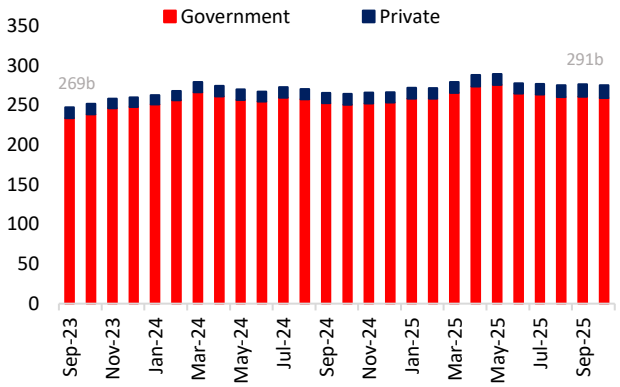
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds increased in Oct-25

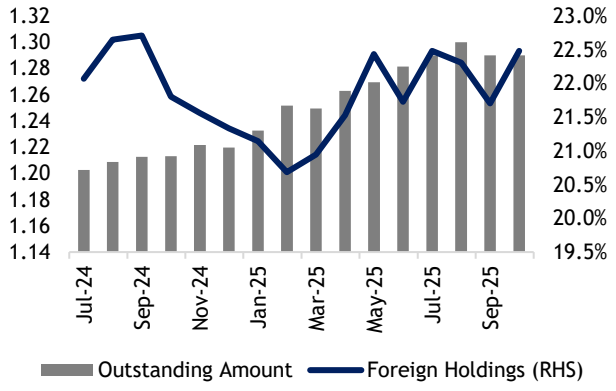
Foreign funds registered inflows into Malaysia's debt securities in Oct-25 as the foreign holdings of Malaysian bonds increased by +RM4.4b to RM291.7b (Sep-25: RM287.3b). The size of inflows in Oct-25 is the third lowest for this year, pushing the foreign holding to the fourth highest level for the year. As a result, we estimate that the ratio for foreign holdings out of the total outstanding government bonds, including the MGS and sukuk, moved up to 22.5% in Oct-25 (Sep-25: 21.7%), still below the pre-pandemic level (2018 average: 23.1%) but higher than 21.6% 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
15/10/2025	5-year Reopening of MGII 08/30	4QCY25	October	15/10/2025	5,000.00		2.81
22/10/2025	20-year Reopening of MGS 05/44	4QCY25	October	22/10/2025	2,500.00	2,000.00	1.70

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
MGS 1/2019 3.906% 15.07.2026	2,011.63
MGS 1/2019 3.906% 15.07.2026	1,676.23
GII MURABAHAH 1/2023 3.599% 31.07.2028	1,334.66
MGS 2/2023 3.519% 20.04.2028	1,144.61
GII MURABAHAH 3/2019 3.726% 31.03.2026	1,069.31
MGS 1/2019 3.906% 15.07.2026	964.3
MGS 1/2019 3.906% 15.07.2026	876.78
MGS 1/2019 3.906% 15.07.2026	821.4
GII MURABAHAH 2/2025 3.635% 30.08.2030	793.77
MGS 3/2018 4.642% 07.11.2033	793.17
Total	11,485.86

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