MGS Yields Closed Higher, Tracking the UST Ahead of 2026

Dec-25 Fixed Income Review



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Economic Review

- The US Treasury (UST) yield curve bear steepened in Dec-25, except that the 2-year yield which fell by -2bps to 3.48%. Meanwhile, the 3-year yield increased by +5bps to 3.54%, and the 10-year yield increased by +15bps to 4.17%. In the first 9 days of the month, the UST10Y yield was trading at a higher range between 4.09% to 4.19%.
- MGS yields also closed higher in Dec-25, with the MGS10Y closing the month (and the year 2025) at 3.526% (Nov-25: 3.485%). The curve experienced upward pressure during the mid-month period, with benchmark yields reaching a high of 3.60% before retracing lower toward the month-end.
- Foreign funds registered inflows into Malaysia's debt securities in Dec-25 as the foreign holdings of Malaysian bonds increased by +RM2.9b to RM300.7b (Oct-25: RM297.7b). The number of foreign holdings tracked back higher to above the RM300b mark, and hit the second highest for 2025 (May-25: RM302.0b).

US TREASURY & MALAYSIAN GOVERNMENT BONDS

UST bear steepened last month on the back of the FOMC rate decision

The US Treasury (UST) yield curve bear steepened in Dec-25, except that the 2-year yield which fell by -2bps to 3.48%. Meanwhile, the 3-year yield increased by +5bps to 3.54%, and the 10-year yield increased by +15bps to 4.17%. In the first 9 days of the month, the UST10Y yield was trading at a higher range between 4.09% to 4.19%, hitting the highest level for the month, which later tracked lower towards the end of the month within the range of 4.12% to 4.17%. Despite the FOMC's decision to cut its rates in the Dec-25 meeting, investors were also assessing the latest 'dot plot' projection, which signals only one more rate cut for 2026, which is slightly less dovish bias. However, investors largely disregarded the relatively more hawkish guidance, continuing to price in a relatively more aggressive easing cycle. Over a longer horizon, market sentiment is pivoting toward a more accommodative Fed stance. This shift is largely fueled by speculation that Kevin Hassett—widely regarded as a more dovish candidate than Jerome Powell—as the frontrunner to take the helm of the Fed in May 2026. Meanwhile, geopolitical friction between the US and Venezuela is currently the primary driver of the bid for safety in the fixed-income market. We are seeing significant yield compression on the short end of the curve as the 'fear trade' takes hold, with investors seeking shelter in liquid US government debt.

To remain cautious on the longer-term prospect

UST bond investors remain defensive as long-term fiscal sustainability risks—headlined by a 134% debt-to-GDP projection for 2035; added with the risk of new trade tariffs that may risk slowing growth and keeping inflation elevated. However, following the Dec-25 FOMC meeting's dovish pivot, we maintain our medium-term forecast for a continued easing of the UST yields.

MGS10Y closed higher albeit easing lower towards end-Dec-25

MGS yields also closed higher in Dec-25, with the MGS10Y closing the month (and the year 2025) at 3.526% (Nov-25: 3.485%). The curve experienced upward pressure during the mid-month period, with benchmark yields reaching a high of 3.60% before retracing lower toward the month-end. The MGS10Y yield hovered between the range of 3.464% to 3.578% for the

month. The MGS10Y movement saw a gradual increase throughout the month, slightly tracking the movement of the UST10Y. Meanwhile, the UST10Y was trading between the range of 4.021% - 4.210%. The UST also saw a similar movement, as it hit its highest monthly level of 4.210% from 4.021% at the beginning of the month, but later trended lower towards the end of the month and closed at 4.169%. The MGS tracked the downward trend in UST yields but at a more moderate pace. We expect foreign funds to have returned to the domestic debt market, given the continued appreciation of the ringgit and the narrowing of the interest rate differentials between the OPR and the FFR amid the continued foreign net selling in the equity market last month. On the back of foreign fund outflows, positive net issuance, and the decline in yield and the latest cut sentiment, the volume of government bonds traded declined to RM81.7b in Dec-25 (Nov-25: RM128.7b).

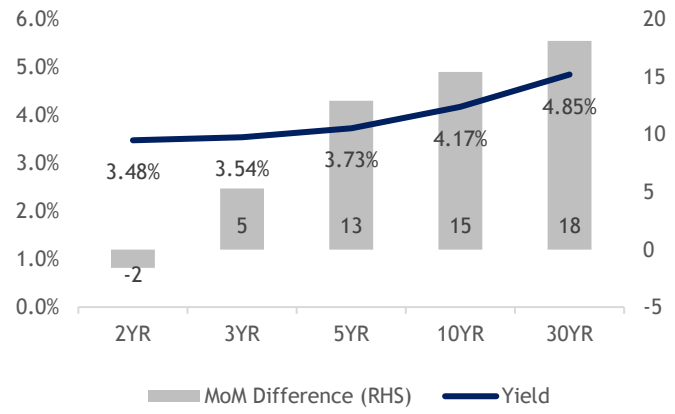
Only one bond auction last month, and no additional issuances

Gross issuance of MGS/GII was lower at RM3.0b in Dec-25 (Nov-25: RM12.0b), and no additional issuance last month, similar to the Nov-25 issuance. Auction demand was relatively lower, with the auctioned garnering an average BTC of 1.92x (Nov-25: 2.27x), as the demand for the MGS issuance 10-year issuance remained solid. Meanwhile, the value of outstanding government bonds was similar at RM1.30t at the end of Dec-25.

We maintain our view 10-year MGS to end the year around 3.50%

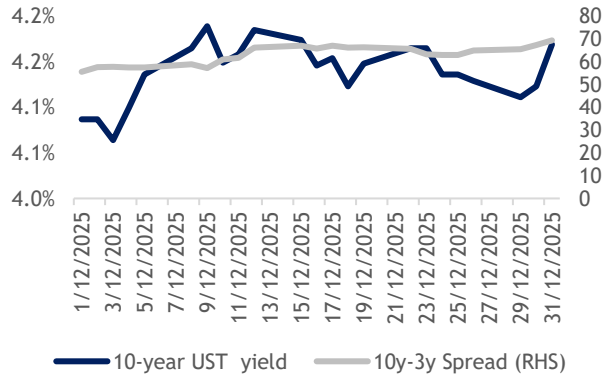
We foresee the 10-year MGS yield moving towards normalisation this year, with our year-end 2026 forecast for the 10-year MGS yield at 3.50%. While yields are expected to ease slightly due to the market expectation of further Fed rate cuts; the current MGS-OPR spread (+50-60bps) continues to trade well below its 10-year historical norm, with the spreads at around +98bps, indicating a period of unusual compression in the Malaysian bond market. We do not expect further yield compression for a long period (going below 50bps spreads vs OPR) this year, despite the Fed is expected to continue its rate cut cycle, as we seen that the break in terms of the sensitivity between the movement of the MGS and the UST was weaker last year. With the Fed continuing its policy easing, we expect the interest rate differential to gradually narrow next year. 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 downward pressure on MGS yields. We anticipate a limited impact on the MGS market, underpinned by Malaysia's stable domestic landscape. The government's fiscal consolidation efforts, specifically SST expansion and subsidy reforms, are key catalysts for investor confidence and capital inflows. This improved fiscal outlook, paired with a resilient economy, stable inflation, and a healthy current account surplus, reinforces the attractive risk-reward profile of MGS for both local and foreign investors.

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



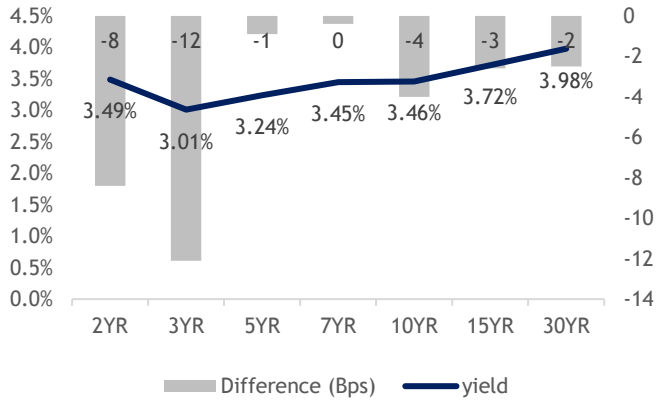
Source: Macrobond, MBSBR

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



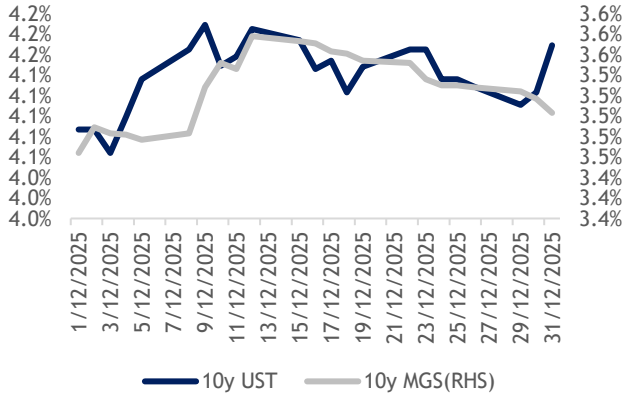
Source: Macrobond, MBSBR

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



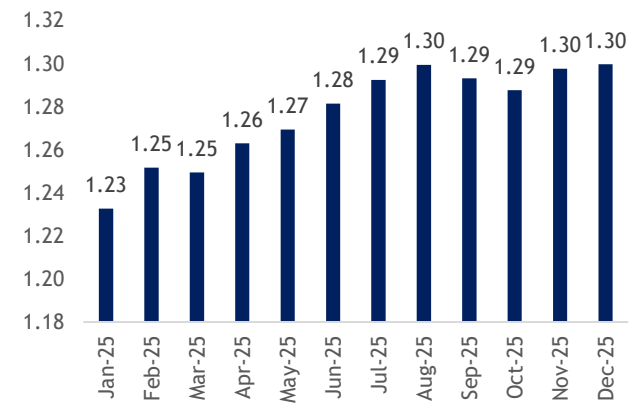
Source: Bloomberg, MBSBR

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



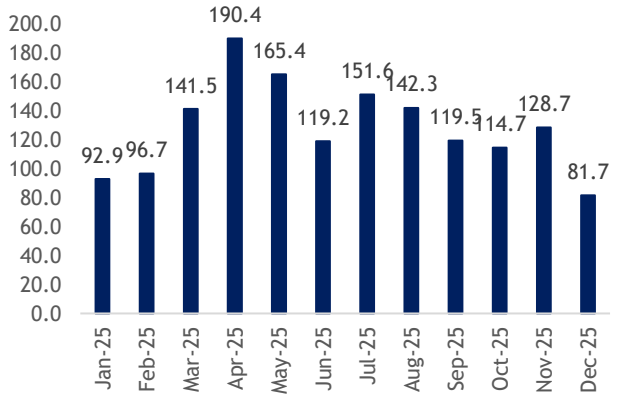
Source: Bloomberg, MBSBR

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

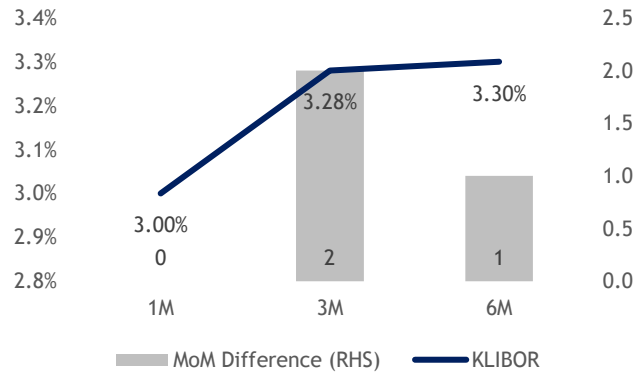
	1Q26f	2Q26f	3Q26f	4Q26f
Exchange Rate, vs USD (average)	4.04	4.01	3.99	3.95
Exchange Rate, vs USD (end-period)	4.03	3.99	4.97	3.95
10Y Government Bond Yield (average)	3.54	3.51	3.47	3.51
10Y Government Bond Yield (end-period)	3.52	3.50	3.46	3.50

INTERBANK MONEY MARKET

KLIBOR was slightly higher in Dec-25

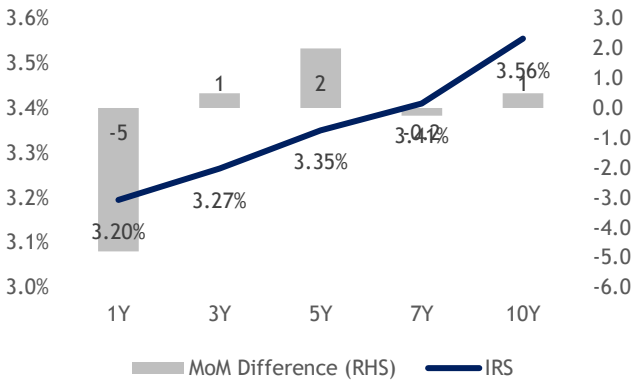
KLIBOR interbank rate for the 1M remained unchanged at 3.00%; meanwhile, the 3M and the 6M increased by +2bps and +1bps, respectively. In addition, the Nov-25 IRS market continued to pick up slightly from last month, where the 3-year, 5-year and 10-year all increased by +1bps, +5bps, and +1bps, respectively. Meanwhile, the 1-year IRS declined by -5bps to 3.20%. The movement of most of the IRS tenors continued to trend higher again last month and tracked 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

Monthly corporate bond volume slips to near record low for the year

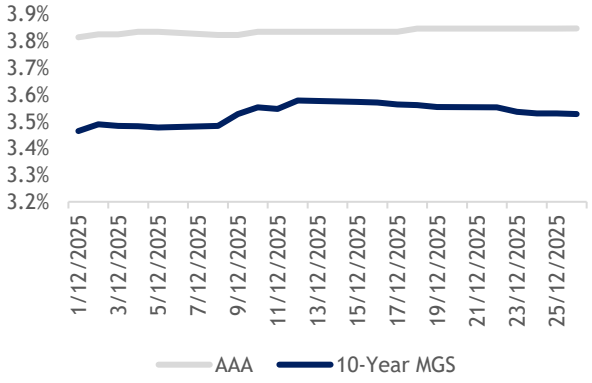
The value of the traded corporate bonds was lower at RM13.3b in Dec-25 (Nov-25: RM18.8b), being the second lowest active trading for 2025 (Jan-25: RM10.0b). This contributed to the total traded corporate bond of RM221.6b for the whole of 2025. The corporate bond yield declined across the yield curve last month, with the yield for securities between the medium to longer end of the curve, moving lower than the shorter term, especially for the A1-rated bonds, which fell by -91bps in the 10-year space. Within the non-rated securities, the yield also moved lower, with the 5-year yield declining the most by -80bps to 5.17%.

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.431	3.518	3.561	3.635	3.728	3.824
AA1	3.466	3.553	3.602	3.67	3.763	3.859
A1	3.926	4.058	4.175	4.34	4.508	4.739
BBB1	5.4	5.897	6.337	6.945	7.508	8.267
Non-rated	5.498	5.734	5.106	5.177	5.209	5.914
MOM Difference (bps)						
AAA	-20	-16	-17	-18	-18	-16
AA1	-23	-19	-20	-22	-20	-23
A1	-42	-49	-56	-66	-78	-91
BBB1	-35	-41	-52	-57	-77	-92
Non-rated	+2	-61	-23	-80	-22	-6

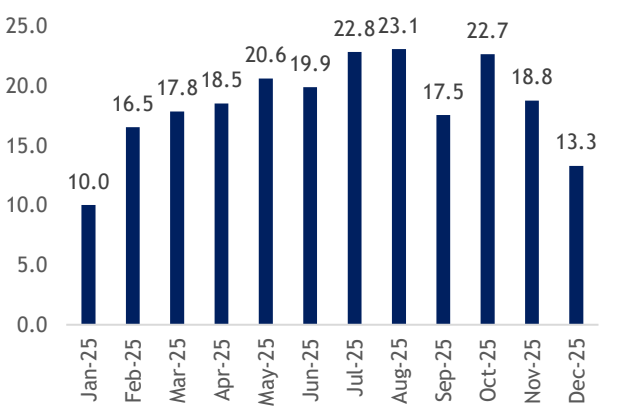
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



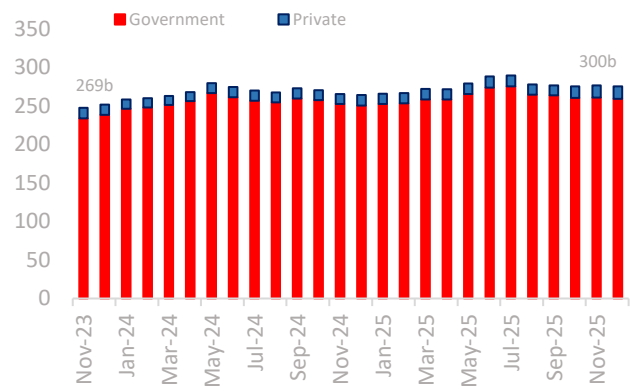
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds increased in Dec-25

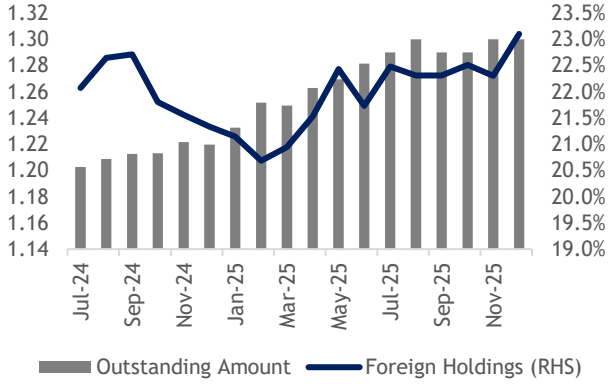
Foreign funds registered inflows into Malaysia's debt securities in Dec-25 as the foreign holdings of Malaysian bonds increased by +RM2.9b to RM300.7b (Oct-25: RM297.7b). The number of foreign holdings tracked back higher to above the RM300b mark and hit the second highest for 2025 (May-25: RM302.0b), despite the lowest inflows in the 2HCY25 period. As a result, we estimate that the ratio for foreign holdings out of the total outstanding government bonds, including the MGS and sukuk were slightly higher, increasing to 23.1% in Dec-25 (Nov-25: 22.3%), reaching the pre-pandemic level (2018 average: 23.1%) and higher than 21.3% 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
12/11/2025	10-year Reopening of MGII 04/35	4QCY25	Nov	12/11/2025	5,000.00		2.57
19/11/2025	7-year Reopening of MGS 07/32	4QCY25	Nov	19/11/2025	4,000.00		1.91
26/11/2025	20-year Reopening of MGII 05/45	4QCY25	Nov	26/11/2025	3,000.00		2.57
15/12/2025	10-year Reopening of MGS 07/35	4QCY25	Dec	15/12/2025	3,000.00		1.92

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
GII MURABAHAH 3/2019 3.726% 31.03.2026	1,636.80
GII MURABAHAH 3/2019 3.726% 31.03.2026	1,298.35
MGS 1/2022 3.582% 15.07.2032	1,250.94
MGS 1/2019 3.906% 15.07.2026	1,029.94
GII MURABAHAH 3/2019 3.726% 31.03.2026	949.62
MGS 1/2019 3.906% 15.07.2026	868.45
MGS 1/2019 3.906% 15.07.2026	845.7
GII MURABAHAH 4/2025 3.775% 31.05.2045	799.04
GII MURABAHAH 3/2019 3.726% 31.03.2026	756
GII MURABAHAH 1/2023 3.599% 31.07.2028	750
Total	10,184.84

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