# MGS Tracking UST Higher as Risk Premia Widens

## Jan-26 Fixed Income Review




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- The US Treasury (UST) yield curve shifted higher in Jan-26, especially at the belly of the curve, with the 5-year and 10-year yields by +11bps to +3.79% and +4.24%, respectively. The UST10Y increased by +2.9bps to +4.29% in the first 20 days of the month, which gradually declined to 4.24% towards the end of the month.
- MGS yields generally closed higher in Jan-26, but the MGS10Y closed the month flat at 3.51% vis-à-vis end-Dec-25. The curve experienced upward pressure during the first half of the month, hitting the highest level of 3.57% before retracing lower towards the month-end, tracking the UST10Y. The MGS10Y yield hovered between the range of 3.49% to 3.57% for the month.
- Foreign funds registered inflows into Malaysia's debt securities in Jan-26 as foreign holdings of Malaysian bond increased by +RM0.95b to RM301.7b (Dec-25: RM300.7b). The size of foreign holdings remained above the RM300b level for the second month, and the second highest since 2025 (May-25: RM302.0b).

### US TREASURY & MALAYSIAN GOVERNMENT BONDS

**UST shifted higher last month amid rising geopolitical tensions and less dovish signal after the FOMC decision**

The US Treasury (UST) yield curve shifted higher in Jan-26, especially at the belly of the curve, with the 5-year and 10-year yields by +11bps to +3.79% and +4.24%, respectively. The UST10Y increased by +2.9bps to +4.29% in the first 20 days of the month, which gradually declined to 4.24% towards the end of the month. Throughout last month, we saw weak market sentiment on the US dollar-denominated assets such as the UST due to the rising uncertainties. The UST faced several headwinds in Jan-26 as institutional confidence was shaken by the DOJ subpoenas targeting Fed members, sparking a debate over the central bank's independence. This fragility was exacerbated by President Trump's intensified rhetoric regarding the annexation of Greenland and the potential use of military force. On top of that, the US attempts at intervention in Iran due to the nationwide demonstration, which later in the month led to the US and UK mobilizing military assets to the Middle East. By month-end, the prospect of European trade retaliation triggered a 'sell-America' trade, as global investors sought to de-risk by rotating out of USD-denominated assets. In addition, the FOMC removed language regarding "downside risks to employment," signalling that the labour market is resilient enough, therefore aggressive cuts are not necessary. Meanwhile, on the final day, Donald Trump announced Kevin Warsh as the potential next Fed chair, as the market sees this as a signal of the preservation of the Fed's independence and not a political appointee.

**To remain cautious on the longer-term prospect**

UST yields are expected to trend lower in the medium term, supported by the Fed's dovish tone. However, the latest FOMC meeting indicated that economic activity expanded at a solid pace, stabilisation in the job market and still somewhat elevated inflation. Investors remain wary of a projected 134% debt-to-GDP ratio by 2035 and the further risk of a potential increase in US defence spending to USD1.5t in 2027. We remain sanguine on the easing of yields as the Fed navigates a slowing growth environment and evolving trade dynamics.

**MGS10Y rose and then eased lower towards end-month**

MGS yields generally closed higher in Jan-26, but the MGS10Y closed the month flat at 3.51% vis-à-vis end-Dec-25. The curve experienced upward pressure during the first half of the month, hitting the highest level of 3.57% before retracing lower towards the month-end, tracking the UST10Y. The MGS10Y yield hovered between the range of 3.49% to 3.57% for the month. However, the MGS3Y tracked higher, closing at 3.015% (Dec-25: 2.997%). Meanwhile, the UST10Y was trading between the 4.13% - 4.29%. The UST10y and the MGS10Y later decoupled after the mid-month as the MGS10Y yield declined, while the UST10Y continued to move higher towards the end of last month.

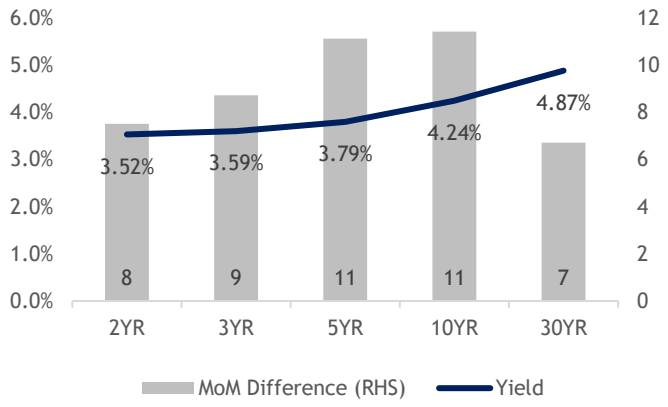
**Auction demand last month was quite solid**

Gross issuance of MGS/GII was higher at RM 11.5b in Jan-25 (Dec-25: RM3.0b), and RM3.5b additional issuance last month after 2 months of no additional issuances. Auction demand was relatively higher, with the auctioned garnering an average BTC of 2.10x (Dec-25: 1.92x), as demand for the MGII issuance of the 5-year and 10-year was quite solid. Meanwhile, the value of outstanding government bonds was slightly higher at RM1.31t at the end of Jan-26.

**Maintain our view; 10-year MGS to end the year around 3.50%**

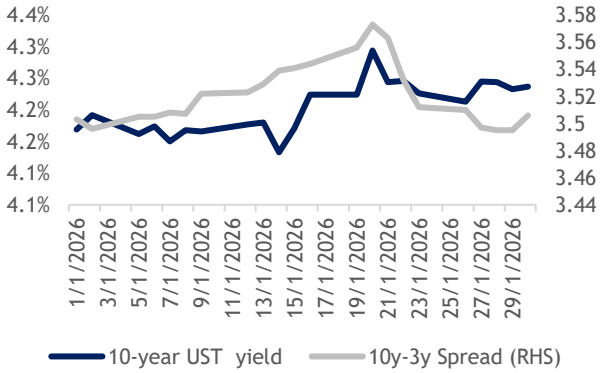
We foresee the 10-year MGS yield moving towards normalisation this year, with our year-end 2026 forecast for the 10-year MGS yield at 3.50%. While yields are expected to ease slightly due to the market expectation of further Fed rate cuts; the current MGS-OPR spread (+50-60bps) continues to trade well below its 10-year historical norm, with the spreads typically at around +98bps, indicating a period of unusual compression in the Malaysian bond market. We do not anticipate further yield compression below the +50bps spread vs. OPR for the remainder of the year. Although the Fed is expected to persist with its easing cycle, the sensitivity between MGS and UST movements weakened significantly last year, suggesting that domestic yields may remain decoupled from US Treasury trends. We expect the interest rate gap to narrow as the Fed keeps cutting rates. This creates a stabilising anchor for MGS yields; while the link between MGS and UST yields is more moderate than before, the correlation is still strong enough to guide the MGS yield curve. 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 Jan-26**



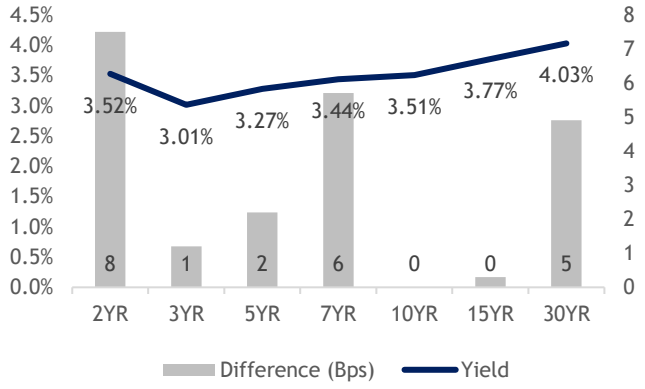

Source: Macrobond, MBSBR

**Chart 2: 10y UST Yield vs 10y-3y Yield Spread (bps) in Jan-26**



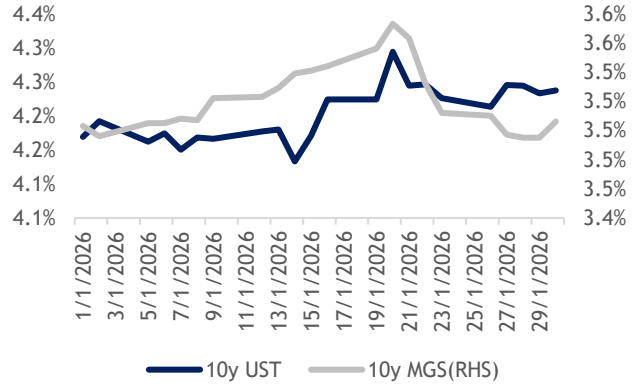

Source: Macrobond, MBSBR

**Chart 3: MGS Yield Curve and MoM Difference (bps) as at end-Jan-26**



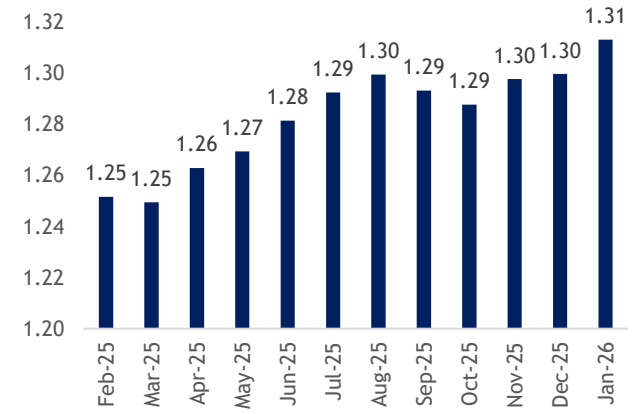

Source: Bloomberg, MBSBR

**Chart 4: 10y MGS vs 10y UST Yields (%) in Jan-26**



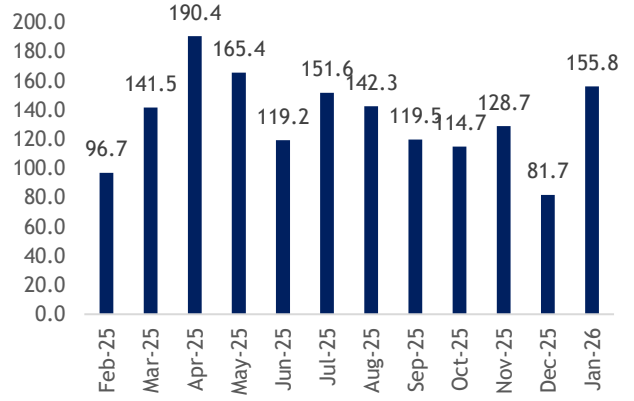

Source: Bloomberg, MBSBR

**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**

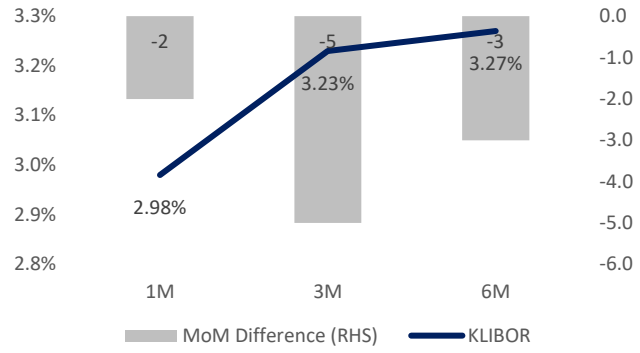
| | 1Q26f | 2Q26f | 3Q26f | 4Q26f |
|---|---|---|---|---|
| **Exchange Rate, vs USD (average)** | 4.04 | 4.01 | 3.99 | 3.95 |
| **Exchange Rate, vs USD (end-period)** | 4.03 | 3.99 | 4.97 | 3.95 |
| **10Y Government Bond Yield (average)** | 3.54 | 3.51 | 3.47 | 3.51 |
| **10Y Government Bond Yield (end-period)**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

## INTERBANK MONEY MARKET

KLIBOR interbank rate for the 1M, 3M and the 6M declined by -2bps, -5bps, and -3bps to 2.98%, 3.23%, and 3.27%, respectively. In addition, the Jan-26 IRS market continued to pick up from last month, showing a broad-based increase of the 1-year, 3-year, 5-year, 7-year, and 10-year by +5bps, +10bps, +11bps, +12bps, and +6bps to 3.27%, 3.36%, 3.46%, 3.54%, and 3.72%, respectively. The movement of most of the IRS tenors continued to trend higher again last month and tracked the movement in the MGS yields.

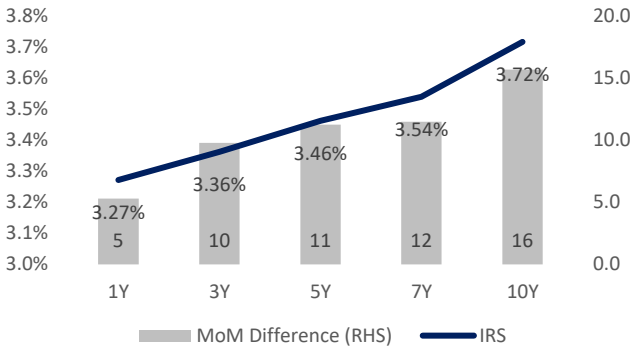
**KLIBOR was slightly higher in Dec-25**

**Chart 7: KLIBOR and MOM Difference (bps)**




Source: Macrobond, MBSBR

**Chart 8: IRS and MOM Difference (bps)**




Source: Macrobond, MBSBR

## CORPORATE BONDS

The value of the traded corporate bond spiked higher to RM24.6b in Jan-26 (Dec-25: RM13.3b), being the highest active trading in the past 12 months (Aug-25: RM23.1b). This contributed to the total trade corporate bond of RM236.2b of the prior 12 months. The corporate bond yield declined across the yield curve last month, with the yield for securities between the short to medium end of the curve, moving slightly lower than the longer term, the curve shifted lower across all tenures, especially for the A1-rated bonds, which fell by -18bps in the 2-year space. Within the non-rated securities, the yield also moved lower, with the 2-year yield declining the most by -82bps to 5.52%.

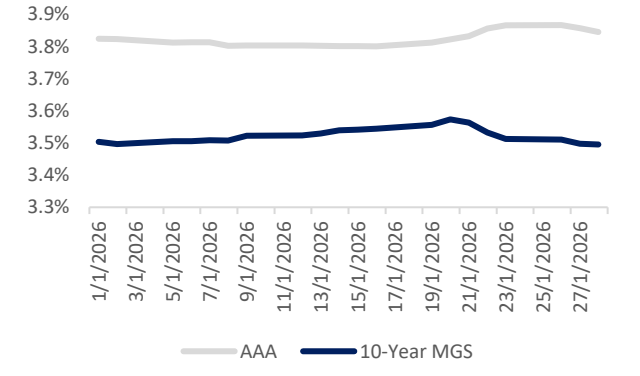
**Monthly corporate bond volume increased to a record high within the past 12-months period**

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

| | 1Y | 2Y | 3Y | 5Y | 7Y | 10Y |
|---|---|---|---|---|---|---|
| AAA | 3.461 | 3.548 | 3.581 | 3.666 | 3.747 | 3.844 |
| AA1 | 3.531 | 3.608 | 3.651 | 3.725 | 3.829 | 3.937 |
| A1 | 4.162 | 4.349 | 4.551 | 4.841 | 5.107 | 5.441 |
| BBB1 | 5.716 | 6.269 | 6.786 | 7.504 | 8.176 | 9.039 |
| Non-rated | 5.683 | 5.525 | 5.093 | 5.166 | 5.247 | 5.95 |
| MOM Difference (bps) | | | | | | |
| AAA | -17 | -13 | -15 | -15 | -16 | -14 |
| AA1 | -16 | -14 | -15 | -16 | -14 | -15 |
| A1 | -18 | -20 | -18 | -16 | -18 | -21 |
| BBB1 | -3 | -4 | -7 | -1 | -11 | -15 |
| Non-rated | +21 | -82 | -25 | -81 | -19 | -2 |

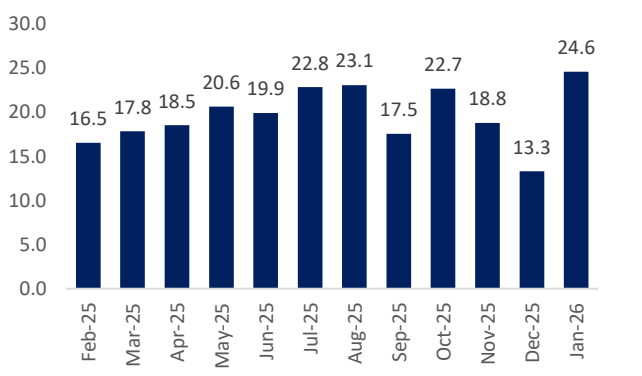
Source: Bondstream, MBSBR

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




Source: Macrobond, MBSBR

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



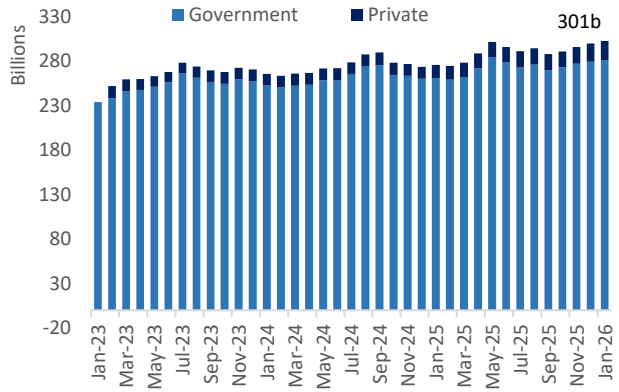

Source: Macrobond, MBSBR

## FOREIGN HOLDINGS OF MALAYSIAN BONDS

**Foreign holdings of Malaysian bonds increased in Jan-26**

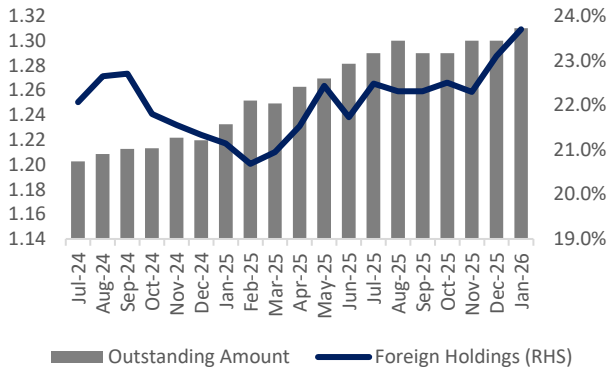
Foreign funds registered inflows into Malaysia's debt securities in Jan-26 as foreign holdings of Malaysian bond increased by +RM0.95b to RM301.7b (Dec-25: RM300.7b). The size of foreign holdings remained above the RM300b level for the second month, and the second highest since 2025 (May-25: RM302.0b), despite the smaller inflows since 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 23.7% in Jan-26 (Dec-25: 23.1%), reaching the pre-pandemic level (2018 average: 23.1%) and higher than 21.1% 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 |
| 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 | | 2.72 |
| 15/12/2025 | 10-year Reopening of MGS 07/35 | 4QCY25 | Dec | 15/12/2025 | 3,000.00 | | 1.92 |
| 07/01/2026 | 5-year Reopening of MGII 08/30 | 1QCY26 | Jan | 08/01/2026 | 5,000.00 | | 2.30 |
| 14/01/2026 | 15-year New Issue of MGS 01/41 | 1QCY26 | Jan | 15/01/2026 | 3,500.00 | 1,500 | 1.94 |
| 29/01/2026 | 30-year New Issue of MGII 01/56 | 1QCY26 | Jan | 31/01/2026 | 3,000.00 | 2,000 | 2.07 |
| 05/02/2026 | 10-year Reopening of MGII 07/35 | 1QCY26 | Feb | 02/07/2026 | 5,000.00 | | |

**Table 5: Top Traded Government Bonds**

| Stock Name | Traded amount (RM m) |
|---|---|
| GII MURABAHAH 3/2019 3.726% 31.03.2026 | 2,736.18 |
| GII MURABAHAH 1/2023 3.599% 31.07.2028 | 1,901.00 |
| MGS 3/2016 3.900% 30.11.2026 | 1,648.43 |
| GII MURABAHAH 3/2019 3.726% 31.03.2026 | 1,640.10 |
| MGS 1/2024 4.054% 18.04.2039 | 1,380.67 |
| MGS 1/2019 3.906% 15.07.2026 | 1,358.00 |
| MGS 3/2016 3.900% 30.11.2026 | 1,311.00 |
| GII MURABAHAH 3/2016 4.070% 30.09.2026 | 1,291.25 |
| GII MURABAHAH 3/2016 4.070% 30.09.2026 | 1,210.00 |
| MGS 3/2016 3.900% 30.11.2026 | 1,193.82 |
| Total | 15,670.45 |

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