UST Demand Increase Due to Increasing Uncertainty

Feb-26 Fixed Income Review



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Economic Review

- The US Treasury (UST) yield curve shifted lower in Feb-26, especially from the belly to the longer end of the curve, with the 10-year yield declining by -29bps to +3.94%, respectively. The UST10Y increased to the highest level 3.56% for the month in the first 6 days, and later yield eased lower towards the end of the month. Throughout last month, we saw demand on the US dollar-denominated assets such as the UST due to the rising uncertainties.
- MGS yield closed generally lower in Feb-26, with the MGS10Y closing the month at 3.49%, slightly lower from the Jan-26 close. The curve experienced upward pressure during the first 10 days of the month, hitting the highest level of 3.567% before retracing lower towards the month-end, tracking the UST10Y but at a moderate pace.
- Foreign funds registered outflows from Malaysia's debt market in Feb-26 as foreign holdings of Malaysian bonds declined by -RM2.5b to RM299.2b (Jan-26: RM301.7b). The size of foreign holdings tracked back below the RM300b level last month.

US TREASURY & MALAYSIAN GOVERNMENT BONDS

UST shifted lower last month amid rising geopolitical tensions

The US Treasury (UST) yield curve shifted lower in Feb-26, especially from the belly to the longer end of the curve, with the 10-year yield declining by -29bps to +3.94%, respectively. The UST10Y increased to the highest level 3.56% for the month in the first 6 days, and later yield eased lower towards the end of the month. Throughout last month, we saw demand on the US dollar-denominated assets such as the UST due to the rising uncertainties. Markets reacted to a more hawkish outlook early in the month as Kevin Warsh was nominated to replace Jerome Powell. The move signaled a potential pivot toward higher-for-longer rates, leading traders to price in fewer cuts expectation. Later in the month, geopolitical tension escalated as risk premium increase and demand for safe-haven assets increased, including the demand for the UST, which caused the yield curve to decline. Adding to the volatility, the US Supreme Court's decision which struck down the President's reciprocal tariff regime. However, the administration immediately pivoted to a different legal authority to impose a 15% global tariff. This is being rolled out in stages, as we saw the first 10% hit on February 24th, with the full 15% target at a later stage. At the moment, investors continue to price in two rate cuts for the year, and which will also provide downward pressure on the US dollar and the also the UST yield curve. Apart from the uncertainty from the geopolitical risks, we are closely monitoring trade policy developments; any pivot in this area could significantly alter dollar sentiment and introduce notable volatility to our bearish outlook.

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, added with the increasing demand for safer assets, especially the UST, causing the bond yields to remain compressed, in the short term, until there is sign of stability in the Middle East conflict. Meanwhile, the latest FOMC meeting highlighted a resilient US economy, characterized by solid growth, a stabilizing labor market, and lingering inflation. Investors are increasingly wary of long-term fiscal risks; including a projected 134% debt-to-GDP ratio by 2035 and a potential spike in defense spending to USD 1.5t by 2027. We remain sanguine

regarding the downward trajectory of yields. We believe the Fed will successfully navigate the dual challenges of cooling growth and shifting trade dynamics.

MGS10Y rose and then eased lower towards end-month

MGS yield closed generally lower in Feb-26, with the MGS10Y closing the month at 3.49%, slightly lower from the Jan-26 close. The curve experienced upward pressure during the first 10 days of the month, hitting the highest level of 3.567% before retracing lower towards the month-end, tracking the UST10Y but at a moderate pace. The MGS10Y yield hovered between the range of 3.500-3.567% last month, while the UST10Y was trading between wider range of 3.976-4.279%. In contrast, the MGS3Y shifted higher last month closing at 3.02% (Jan-26: 3.015%).

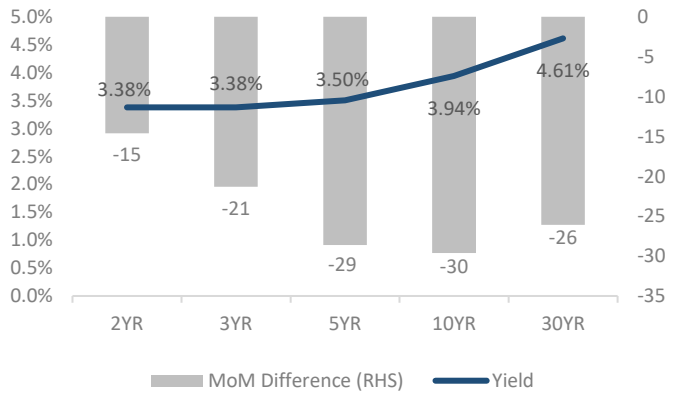
Auction demand last month was quite solid

Gross issuance of MGS/GII was higher at RM15.0b in Feb-26 (Jan-26: RM11.5b), and RM2.0b of additional issuance last month. Auction demand was relatively higher, with the auctioned garnering an average BTC of 2.51x (Jan-25: 2.10x), as demand for the MG 20-year GII issuance of was strong and above 3.0x. Meanwhile, the value of outstanding government bonds was slightly higher at RM1.33t at the end of Feb-26.

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

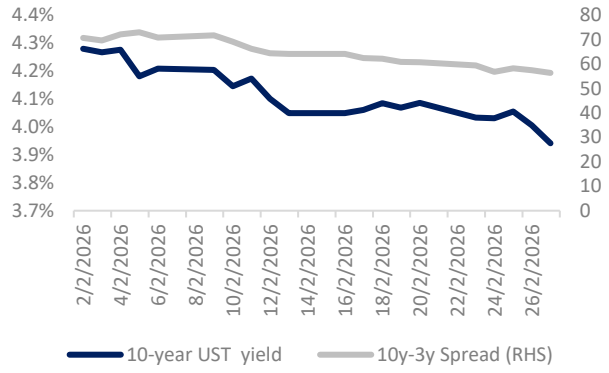
We expect the +50bps spread over the OPR to serve as a firm floor for yield compression through the end of the year. Despite the Federal Reserve's easing cycle, the correlation between MGS and US Treasury (UST) yields weakened notably last year. This suggests that domestic yields have entered a period of relative decoupling, driven more by local liquidity and fiscal fundamentals than by trends in the US interest rates. In the short-term, we also expect demand for safe-haven assets to increase amid the geopolitical uncertainty, causing the UST yields to remain compressed. We expect the interest rate gap to narrow as the Fed continues to cut 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 investor.

Chart 1: UST Yields and MoM Difference (bps) end Feb-26



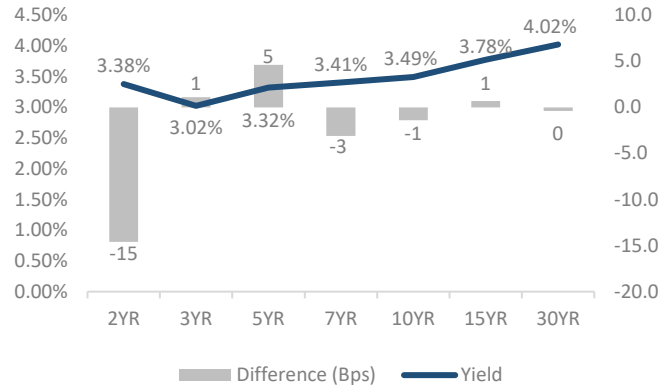
Source: Macrobond, MBSBR

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



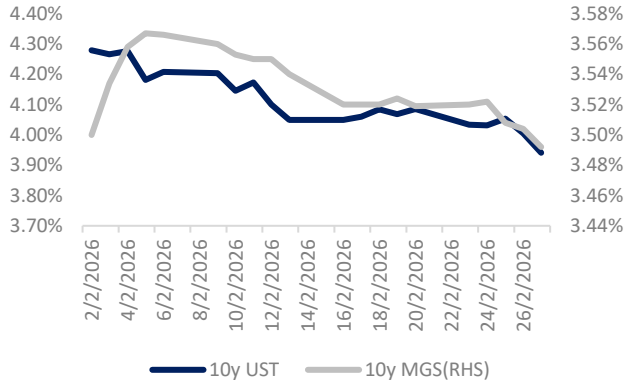
Source: Macrobond, MBSBR

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



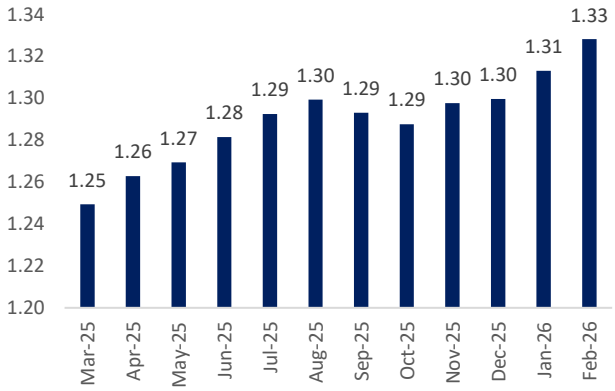
Source: Bloomberg, MBSBR

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



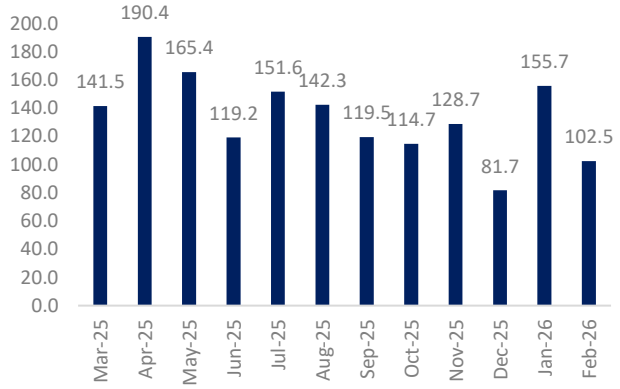
Source: Bloomberg, MBSBR

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

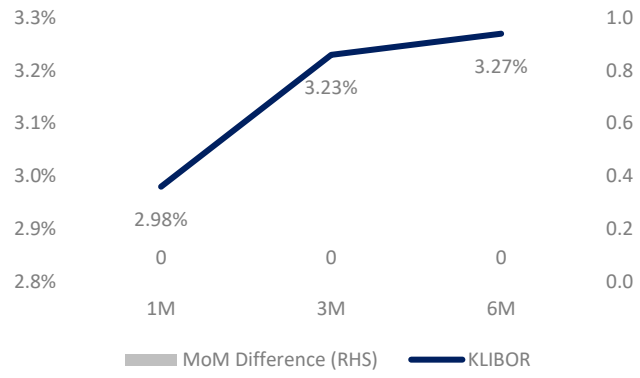
	1Q26f	2Q26f	3Q26f	4Q26f
Exchange Rate, vs USD (average)	4.04	4.01	3.99	3.95
Exchange Rate, vs USD (end-period)	4.03	3.99	4.97	3.95
10Y Government Bond Yield (average)	3.54	3.51	3.47	3.51
10Y Government Bond Yield (end-period)	3.52	3.50	3.46	3.50

INTERBANK MONEY MARKET

KLIBOR was stable in Feb-26

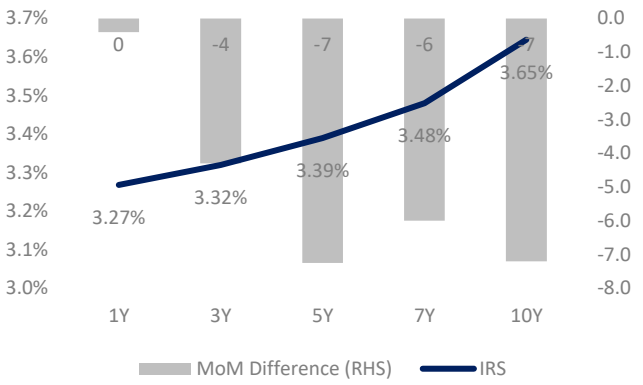
KLIBOR interbank rates for the 1M, 3M, and the 6M were unchanged last month at 2.98%, 3.23%, and 3.27%, respectively. In addition, the Feb-26 IRS market eased lower from last month, showing a broad-based decline of the 3-year, 5-year, 7-year and 10-year by -4bps, -7bps, -6bps, and -7bps to 3.32%, 3.39%, 3.48%, and 3.65%, respectively. 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

The volume of the traded corporate bond eased lower RM15.3b in Feb-26 (Jan-26: RM24.6b), being the second lowest active trading in the past 12 months (Dec-25: 13.3b). The corporate bond yield declined across the yield curve, but the higher rate bonds such as the AAA and the AA1 space saw a broad base decline within a range of -17bps to -23bps. Meanwhile, the A1 and the BBB1 bear steepened last month, especially in the 7-year space, which declined by -79bps and -78bps, respectively. Within the non-rated securities, the yield curve moved lower, with the 5-year yield declining by -93bps to 5.049%.

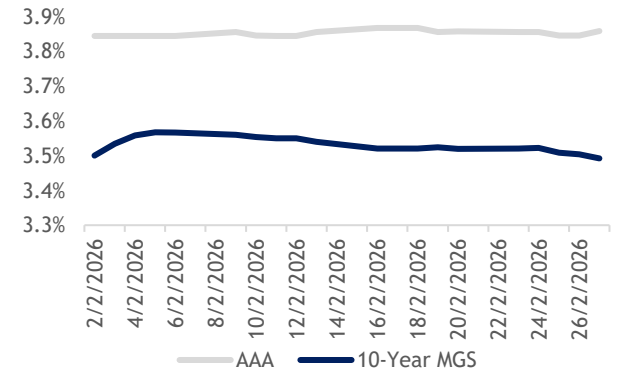
Monthly corporate bond volume declined to the second lowest level within the past 12 months

Table 2: Corporate Bond Yield and MOM Yield Change as at End-Feb-26

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.431	3.508	3.562	3.635	3.739	3.858
AA1	3.466	3.538	3.592	3.67	3.774	3.887
A1	3.891	4.018	4.156	4.332	4.504	4.753
BBB1	5.37	5.862	6.312	6.931	7.5	8.265
Non-rated	5.683	5.519	5.503	5.049	5.053	5.92
MOM Difference (bps)						
AAA	-20	-17	-17	-18	-17	-12
AA1	-23	-21	-21	-22	-19	-20
A1	-45	-53	-57	-67	-79	-90
BBB1	-38	-45	-55	-59	-78	-92
Non-rated	+21	-82	+17	-93	-38	-5

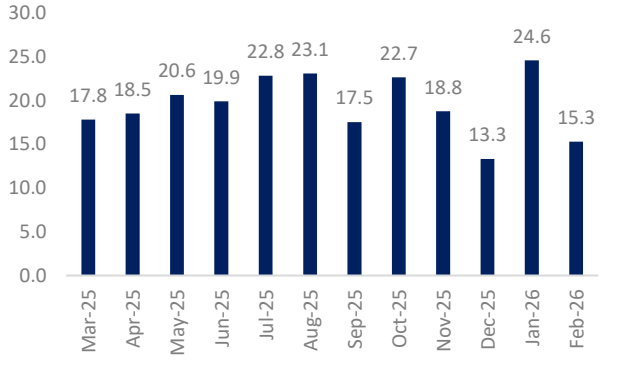
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



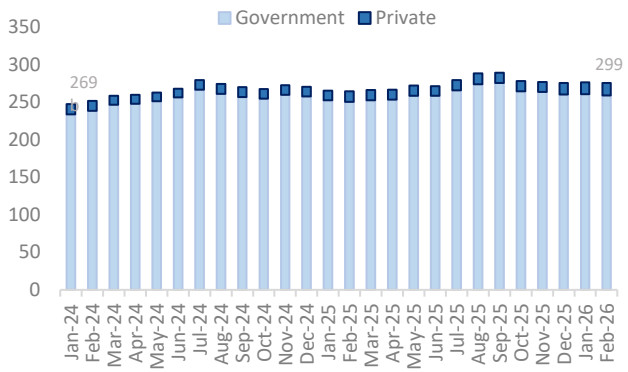
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds declined in Feb-26

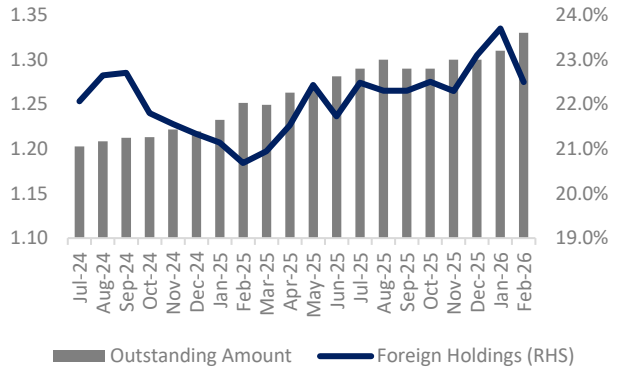
Foreign funds registered outflows from Malaysia's debt market in Feb-26 as foreign holdings of Malaysian bonds declined by -RM2.5b to RM299.2b (Jan-26: RM301.7b). The size of foreign holdings tracked back below the RM300b level last month. The outflows contrasted with solid inflows into the equity market. We estimate that the ratio for foreign holdings out of the total outstanding government bonds, including the MGS and sukuk were slightly lower, declining to 22.5% in Feb-26 (Jan-26: 23.7%).

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		1.60
16/02/2026	20-year Reopening of MGII 05/45	1QCY26	Feb	16/02/2026	3,000.00	2,000	3.04
27/02/2026	5-year Reopening of MGII 06/31	1QCY26	Feb	27/02/2026	5,000.00		2.90
10/03/2026	15-year New Issue of MGII 07/40	1QCY26	Mar	10/03/2026	3,500.00	1,500	
16/03/2026	3-year New Issue of MGS 03/29	1QCY26	Mar	16/03/2026	5,000.00		

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
GII MURABAHAH 1/2023 3.599% 31.07.2028	1,560.00
GII MURABAHAH 3/2019 3.726% 31.03.2026	880
GII MURABAHAH 3/2016 4.070% 30.09.2026	749.15
MGS 3/2016 3.900% 30.11.2026	660
GII MURABAHAH 2/2024 3.804% 08.10.2031	310
GII MURABAHAH 2/2018 4.369% 31.10.2028	280
MGS 1/2024 4.054% 18.04.2039	278.4
MGS 4/2019 3.828% 05.07.2034	242
MGS 3/2018 4.642% 07.11.2033	202.6
MGS 3/2007 3.502% 31.05.2027	201.12
Total	5,563.27

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