UST and MGS Tracked Higher Due to Rising Risk Premia

Mar-26 Fixed Income Review



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Economic Review

- The US Treasury (UST) yield curve shifted significantly higher in Mar-26, as the yield curve saw a bear flattening movement, with the 10-year yield increasing by +38bps to 4.32%. The UST10y increased to the highest level of 4.43% for the month towards the end of the month, and yield eased slightly lower before closing the month.
- MGS yields closed generally higher in Mar-26, with the MGS10Y closing the month at 3.63% (end-Feb-26: 3.49%). The yield curve experienced upward pressure throughout the month and closed higher across the yield curve, tracking the changes in US treasury yields, and the MGS curve bear flattened last month.
- Foreign funds registered inflows from Malaysia's debt market in Mar-26 as foreign holdings of Malaysian bond increased by +RM6.1b to RM305.3b (Feb-26: RM299.2b). The size of foreign holdings tracked back to above the RM300b level last month

US TREASURY & MALAYSIAN GOVERNMENT BONDS

UST shifted higher last month amid rising geopolitical tensions

The US Treasury (UST) yield curve shifted significantly higher in Mar-26, as the yield curve saw a bear flattening movement, with the 10-year yield increasing by +38bps to 4.32%. The UST10y increased to the highest level of 4.43% towards the end of the month, and yield eased slightly lower before closing the month. Throughout last month, we saw demand for the US dollar-denominated assets such as the UST due to the rising uncertainties, and taking cover from the rising geopolitical tension in the Middle East. In the early Mar-26, demand for safe heaven assets increased, added with the uncertainty surrounding the closure of Straits of Hormuz and Qatar's decision to cut gas production; which led to a domino effect on the global inflation expectations. Towards the end of the month, demand for safe assets continued to increase as the Secretary of War Pete Hegseth signalled further intensification of "Operation Epic Fury", announcing the largest wave of US-Israeli attacks on Iran. After that, the FOMC meeting increasing caution among the members, as the dot plot suggested one rate cut for 2026, while the probability distribution has shifted towards keeping the current Fed Fund rate level. Meanwhile, the Fed also revised its 2026 PCE inflation forecast upwards to +2.7% (previous: +2.4%), indicating concerns of the upside risk towards inflation. Adding to that, given the latest development, we expect major central banks to rethink their policy setting and its outlook to be on a cautious mode as risk on inflation heightens. At the moment, investors continue to price in a no rate cut scenario for the year, and which will also provide upward pressure on the US dollar and the also the UST yield curve, while risk premiums remain high. 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

At the moment, we continue to expect that the UST yield would trend lower in the medium term, supported by the Fed's slightly dovish tone based on the latest FOMC meeting outlook, but remain cautious of balancing risk between inflation and the labour market condition. However, in the short term, the UST may continue to remain elevated on the back of higher demand for risk premium spreads as the energy crisis is escalating, until there is a sign of

stability in the Middle East conflict. Investors are increasingly wary of long-term fiscal risks; including a projected 134% debt-to-GDP ratio by 2035 and a potential spike in defence spending to USD 1.5t by 2027. We remain sanguine regarding the downward trajectory of yields in the medium term, as the conflict may ease within this period.

MGS10Y rose tracking the movement of the UST

MGS yields closed generally higher in Mar-26, with the MGS10Y closing the month at 3.63% (end-Feb-26: 3.49%). The yield curve experienced upward pressure throughout the month and closed higher across the yield curve, tracking the changes in US treasury yields, and the MGS curve bear flattened last month. The MGS10Y yield hovered between the range of 3.500–3.627% last month, while the UST10Y was trading at a wider range of 4.03–4.43%. Similarly, the MGS3Y yield also shifted higher last month, closing at 3.24% (end-Feb-26: 3.02%). The MGS bond yield were also tracking the movement of the UST market, as the yield increased due to the demand of rising risk premium on the back of the geopolitical uncertainty. In the early part of the month, we saw foreign funds have been entering Malaysia's capital market via the equity market, but outflows from the domestic debt market, amid the continued appreciation of the ringgit.

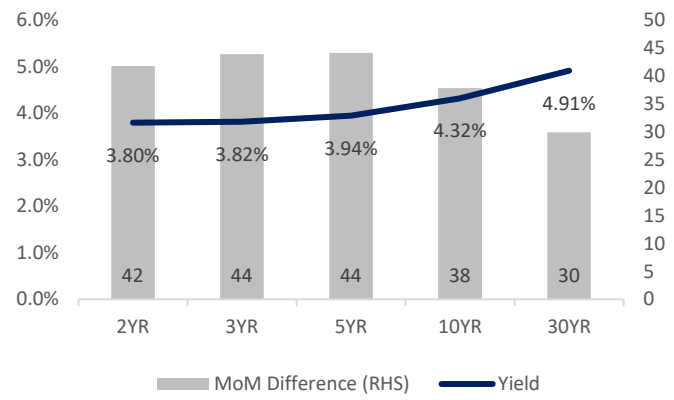
Auction demand last month was well supported

Gross issuance of MGS/GII was at RM13.5b (Feb-26: RM15.0b), and RM1.5b of additional issuance last month. Auction demand was relatively lower, with the auctioned garnering an average BTC of 2.07x (Feb-26: 2.51x), as demand for the 15-year GII issuance was strong at 2.30x (previous 15-year auction: 1.94x). Meanwhile, the value of outstanding government bonds was slightly lower at RM1.32t at the end of Mar-26 (Feb-26: 1.33t).

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

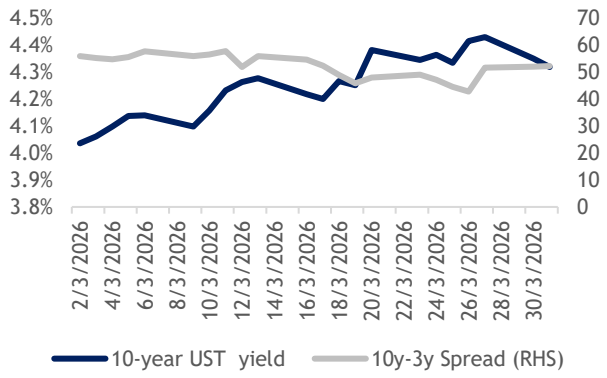
We expect the +50bps spread over the OPR to serve as a firm floor for yield compression through the end of the year. However, in the short term, we expect that the MGS spreads against the OPR to widen, as the MGS may continue to track the movement of the UST, though the correlation between MGS and the UST yield has weakened, therefore the MGS upward movement may be limited. 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 medium term, 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 expect the MGS market to remain largely insulated, supported by Malaysia's stable domestic environment. The government's commitment to fiscal consolidation, notably through SST expansion and subsidy rationalisation, which serves as a primary driver for investor confidence. This strengthened fiscal position, combined with economic resilience and a healthy current account surplus, underscores the compelling risk-reward profile of MGS for both domestic and international investors.

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



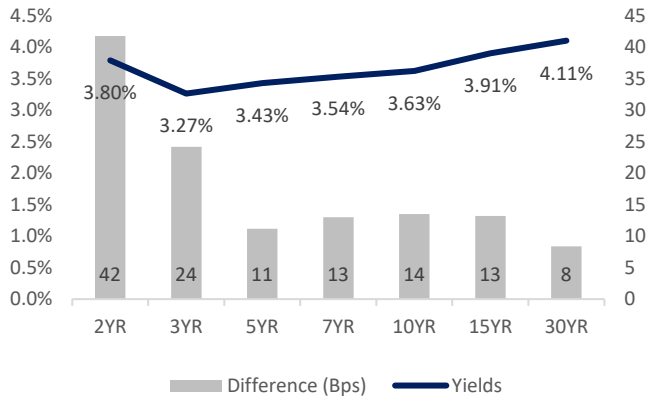
Source: Macrobond, MBSBR

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



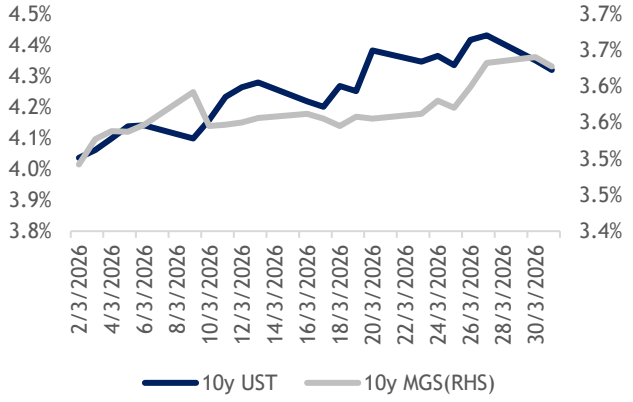
Source: Macrobond, MBSBR

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



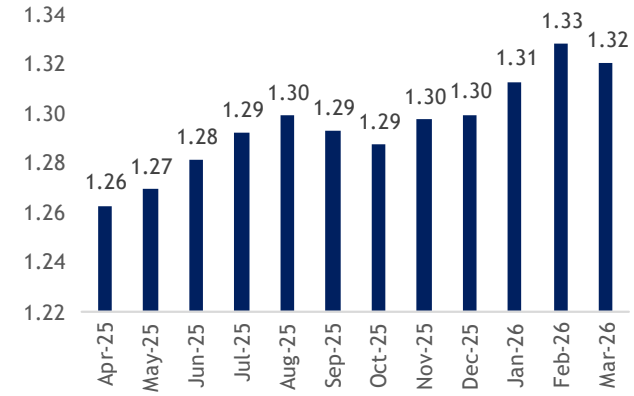
Source: Bloomberg, MBSBR

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



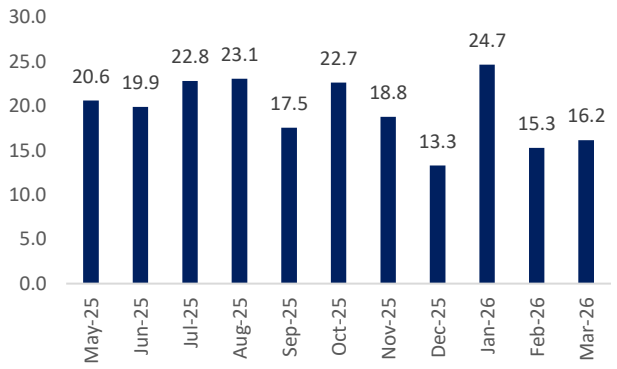
Source: Bloomberg, MBSBR

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

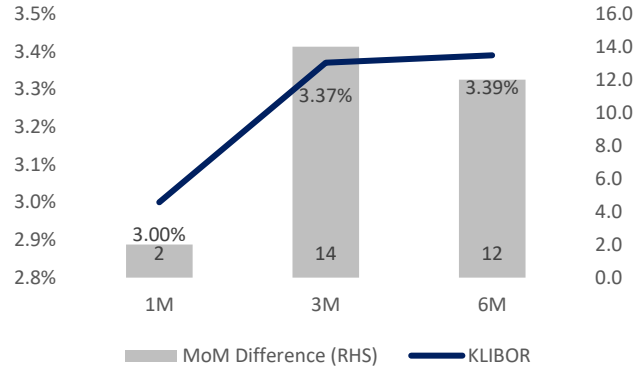
	1Q26f	2Q26f	3Q26f	4Q26f
Exchange Rate, vs USD (average)	3.96	3.95	3.91	3.87
Exchange Rate, vs USD (end-period)	4.01	3.92	3.92	3.85
10Y Government Bond Yield (average)	3.54	3.51	3.47	3.51
10Y Government Bond Yield (end-period)	3.52	3.50	3.46	3.50

INTERBANK MONEY MARKET

KLIBOR shifted higher in Mar-26

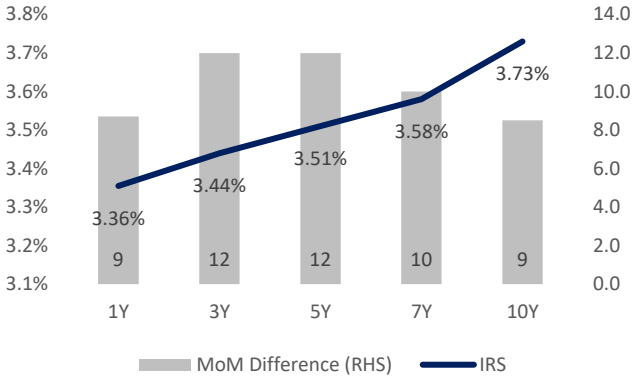
KLIBOR interbank rates for the 1M, 3M, and 6M shifted higher last month by +2bps, +14bps, and +12bps to 3.0%, 3.37%, and 3.39%, respectively. In addition, the Mar-26 IRS market saw a broad-based increase from last month as the 1-year, 3-year, 5-year, 7-year, and 10-year increased by +9bps, +12bps, +12bps, +10bps, and +9bps to 3.36%, 3.44%, 3.51%, 3.58%, and 3.73%, 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 slightly increased to RM16.2b in Mar-26 (Feb-26: 15.3b), easing from the Jan-26 high of RM24.7b. The corporate bond yield declined across the yield curve, with the BBB1 declining within a range of -38bps to -23bps. Meanwhile, in the AAA space, the decline was more moderate within the range of -7bps to -19bps. Within the non-rated securities, the yield curve was mixed, as the 1-year to 3-year yield shifted higher, while the 5-year and the 7-year yield declined.

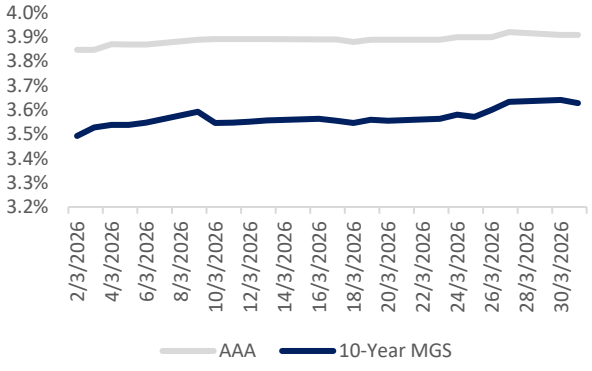
Monthly corporate bond volume increased relative to Feb-26

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.441	3.528	3.613	3.696	3.8	3.907
AA1	3.471	3.558	3.643	3.726	3.83	3.943
A1	3.886	4.023	4.172	4.363	4.547	4.795
BBB1	5.37	5.883	6.333	6.952	7.521	8.287
Non-rated	5.769	5.633	5.595	5.247	5.139	6.001
MOM Difference (bps)						
AAA	-19	-15	-12	-12	-11	-7
AA1	-22	-19	-16	-16	-14	-15
A1	-46	-53	-56	-64	-74	-86
BBB1	-38	-43	-53	-57	-76	-90
Non-rated	+29	-71	+26	-73	-29	+3

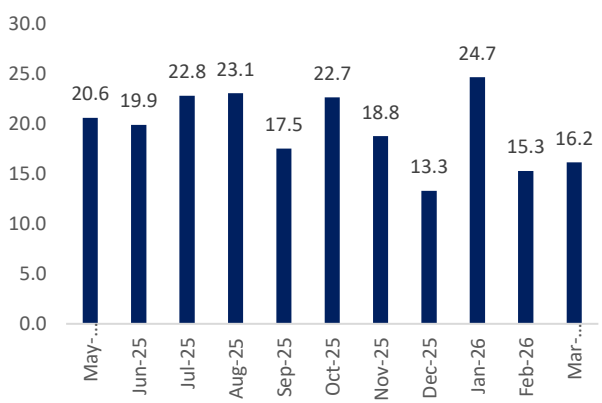
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



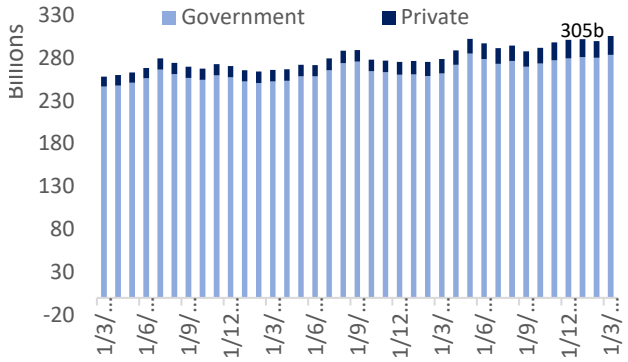
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign funds registered inflows from Malaysia's debt market in Mar-26 as foreign holdings of Malaysian bond increased by +RM6.1b to RM305.3b (Feb-26: RM299.2b). The size of foreign holdings tracked back to above the RM300b level last month. We estimate that the ratio for foreign holdings out of the total outstanding government bonds, including the MGS and sukuk were higher at 22.7% in Mar-26 (Feb-26: 21.8%)

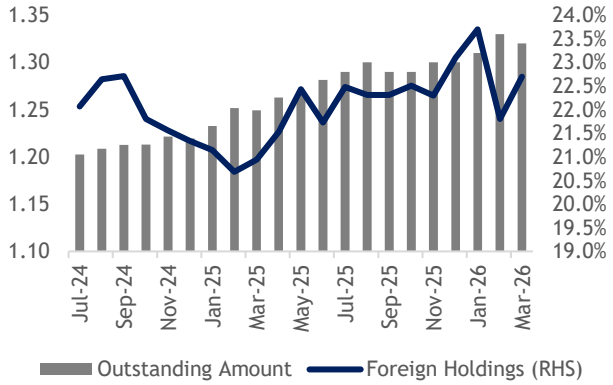
Foreign holdings of Malaysian bonds increased in Mar-26

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 MGS 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	2.30
16/03/2026	3-year New Issue of MGS 03/29	1QCY26	Mar	16/03/2026	5,000.00		2.22
31/03/2026	7-year New Issue of MGII 03/33	1QCY26	Mar	31/03/2026	5,000.00		1.69
08/04/2026	30-year Reopening of MGS 07/55	2QCY26	Apr	08/04/2026	3,000.00	2,000	2.03

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
GII MURABAHAH 3/2016 4.070% 30.09.2026	2,023.53
MGS 1/2019 3.906% 15.07.2026	1,642.66
MGS 1/2019 3.906% 15.07.2026	1,626.53
GII MURABAHAH 1/2023 3.599% 31.07.2028	1,580.00
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,315.05
GII MURABAHAH 1/2023 3.599% 31.07.2028	1,185.00
MGS 3/2025 3.917% 15.07.2055	1,172.53
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,165.60
GII MURABAHAH 1/2025 3.974% 16.07.2040	1,146.98
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,132.75
Total	13,990.63

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