Economic Review

MGS Resilience Amid Rising UST Yields

Apr-26 Fixed Income Review



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- The US Treasury (UST) yield curve shifted higher in Apr-26, and saw a slight bear flattening movement last month, with the 10-year yield increasing by 10bps to 4.42%. The UST10Y yield increased to the highest level of 4.42% for the month towards the end of the month.
- MGS yields curve generally closed lower except for the 2-year yield in Apr-26, with the MGS10Y closing the month at 3.56% (end-Mar-26: 3.63%). The yield curve experienced downward pressure throughout the month and closed lower across the yield curve, despite the higher yield movement in the UST yield.
- Foreign funds registered inflows from Malaysia's debt market in Apr-26 as foreign holdings of Malaysian bonds increased by +RM3.8b to RM309.2b (Feb-26: RM305.3b), being the highest level since 2005.

US TREASURY & MALAYSIAN GOVERNMENT BONDS

UST shifted higher last month amid rising risk premiums

The US Treasury (UST) yield curve shifted higher in Apr-26, and saw a slight bear flattening movement last month, with the 10-year yield increasing by +10bps to 4.42%. The UST10Y yield increased to the highest level of 4.42% for the month towards the end of the month. Throughout last month, we saw higher demand for the US dollar-denominated assets such as the US treasuries due to the rising uncertainties, taking cover from the rising geopolitical tension in the Middle East. In the middle of the month, UST yields retreated as intensifying geopolitical risks drove a flight to safety. This downward shift followed President Trump's renewed threats against Iranian critical infrastructure, occurring alongside a sharp escalation of hostilities across the region. However, the UST yield later moved higher as demand for a higher risk premium for the UST, as reflected in the ongoing uncertainty from the Middle East conflict, continues to increase risk perception among investors due to the lack of progress in the peace talks and the continued blockade of the Strait of Hormuz. Meanwhile, towards the end of the month, bond yields continue to pick up as a result of the FOMC meeting decision to keep rates, added with investors' concerns on the policymakers' signal on the challenge of balancing the threats of higher inflation and softer labour market conditions; while market player continue to price in that the Fed fund rates to remain unchanged for the rest of the year.

To remain cautious on the longer-term prospect

At the moment, we continue to expect that the UST yield will 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. UST yields may face sustained upward pressure in the short term, driven by a higher 'term premium' as markets price in an escalating energy shock. We expect yields to hold these levels until geopolitical risks in the Middle East show clear signs of slowdown. Investors are growing increasingly cautious regarding long-term fiscal sustainability, concerns include a projected 134% debt-to-GDP ratio by 2035 and a looming surge in defence expenditures, which are expected to reach USD1.5tn by 2027. We remain sanguine regarding the downward trajectory of yields in the medium term, as the conflict may ease within this period.

MGS yields generally shifted lower in Apr-26

MGS yields curve generally closed lower except for the 2-year yield in Apr-26, with the MGS10Y closing the month at 3.56% (end-Mar-26: 3.63%). The yield curve experienced downward pressure throughout the month and closed lower across the yield curve, despite the higher yield movement in the UST yield. The MGS10Y yield hovered between the range of 3.54 – 3.63% last month, while the UST10Y was trading at a tighter range of 4.25 – 4.43%, Similarly, the MGS3Y yield also shifted higher last month, closing at 3.20% (end-Mar-26: 3.27). In the first few weeks in Apr-26, we foresee weaker inflows into the domestic debt market for both the government and corporate debt, relative to the previous month.

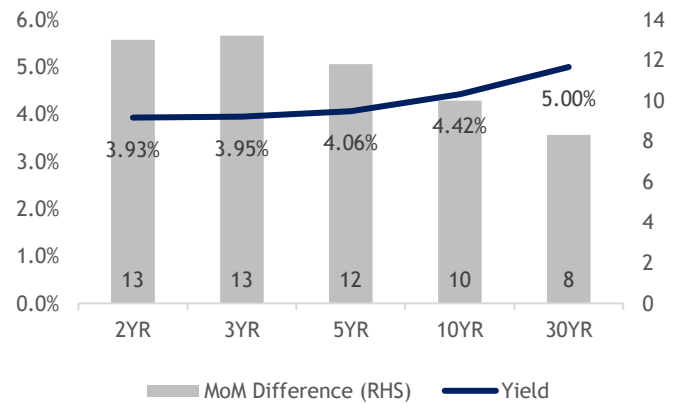
Auction demand last month was strong

Gross issuance of MGS/GII was at RM9.5b in Apr-26 (Mar-26: RM13.5b), and RM3.5b of additional issuance last month. Auction demand was relatively higher, with the auctioned garnering an average BTC of 2.84x (Mar-26: 2.07x), as demand for the 20-year MGS issuance was strongly oversubscribed at 3.56x (previous 20-year auction: 2.92x). Meanwhile, the value of outstanding government bonds was slightly higher at RM1.33t at the end of Apr-26 (Mar-26: RM1.32t).

Maintain our view: 10-year MGS to end the year around 3.50%, with an upside bias

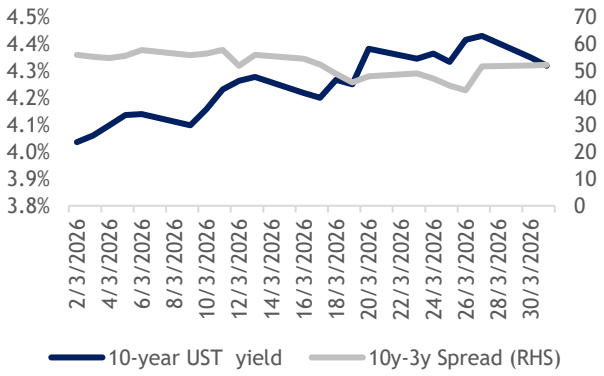
The +50bps OPR spread remains a firm floor for yield compression through the end of 2026. While we expect MGS spreads to widen briefly as they follow the upward trend in UST yields, the historical correlation has weakened. This decoupling should effectively cap the extent of any domestic yield spikes, keeping the upward movement to be moderate. 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, however, the possibility for this year has diminished due to a low rate cut expectation by the FOMC. 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, as the UST yields is expected to be influenced by geopolitical uncertainty in the Middle East. However, on the positive note, the MGS market is projected to retain its resilience, shielded by a stable domestic landscape. Central to this outlook is the government's proactive fiscal consolidation path; specifically, the broadening of the SST and the move toward subsidy rationalisation are viewed as critical catalysts for sustained 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. However, the short-term risk of elevated price pressure may impact the domestic economic outlook.

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



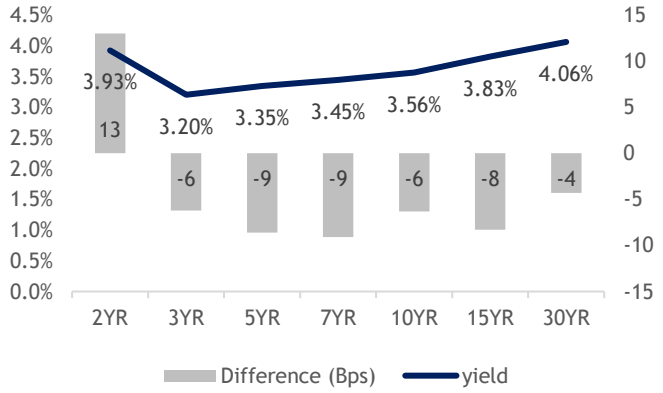
Source: Macrobond, MBSBR

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



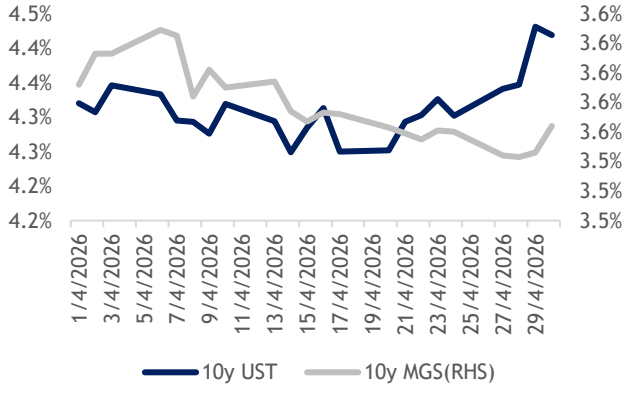
Source: Macrobond, MBSBR

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



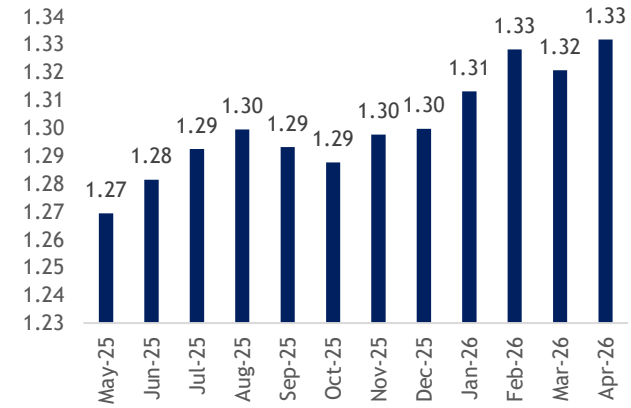
Source: Bloomberg, MBSBR

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



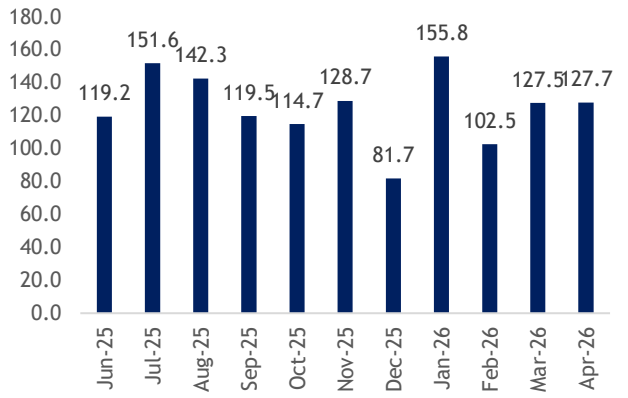
Source: Bloomberg, MBSBR

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

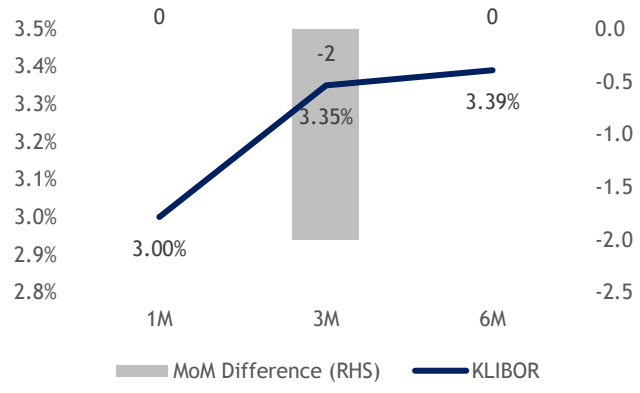
	1Q26f	2Q26f	3Q26f	4Q26f
Exchange Rate, vs USD (average)	3.96	3.95	3.91	3.87
Exchange Rate, vs USD (end-period)	4.01	3.92	3.92	3.85
10Y Government Bond Yield (average)	3.54	3.51	3.47	3.51
10Y Government Bond Yield (end-period)	3.52	3.50	3.46	3.50

INTERBANK MONEY MARKET

KLIBOR shifted lower in Apr-26

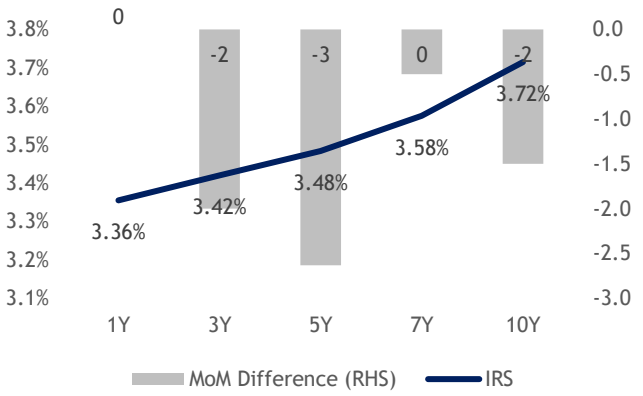
KLIBOR interbank rates for the 3M shifted lower last month by -2bps to 3.35%, while the 1M and the 6M rates were left unchanged at 3.0% and 3.39%, respectively. In addition, the Apr-26 IRS market saw some decline within the 3Y, 5Y, and 10Y tenure that declined by -2bps, -3bps, and -2bps to 3.42%, 3.48%, and 3.72%, respectively. Meanwhile, the 1Y and 7Y rates were unchanged at 3.36% and 3.58%, respectively. The movement of most of the IRS tenors continued to trend lower 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 RM22.3b in Apr-26 (Mar-26: RM16.2h), being the second highest for the year next to Jan-26 RM24.7b. The corporate bond yield mostly declined across the yield curve, with the BBB1 declining within a range of -38bps to -92bps. Meanwhile, in the AAA space, the decline was more moderate, within the range of -6bps to -19bps. Within the non-rated securities, the yield curve was mixed, as the 1-year, 3-year, declined, while the 2-year, 5-year, and 7-year declined.

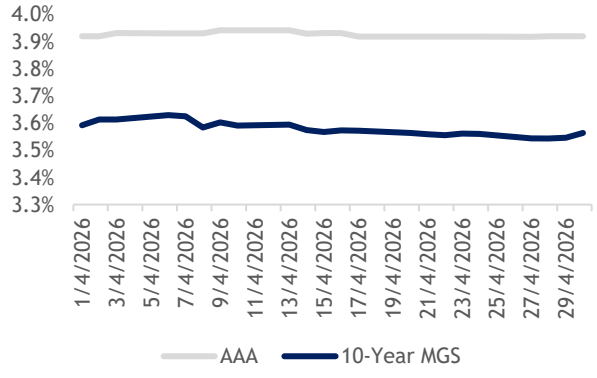
Monthly corporate bond volume increased, marking the second highest for this year

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.441	3.528	3.603	3.707	3.799	3.919
AA1	3.481	3.563	3.638	3.737	3.835	3.96
A1	3.891	4.028	4.156	4.358	4.548	4.79
BBB1	5.37	5.883	6.306	6.937	7.506	8.271
Non-rated	5.74	5.897	5.488	5.102	5.176	5.936
MOM Difference (bps)						
AAA	-19	-15	-13	-11	-11	-6
AA1	-21	-18	-16	-15	-13	-13
A1	-45	-52	-57	-64	-74	-86
BBB1	-38	-43	-55	-58	-78	-92
Non-rated	+27	-45	+15	-87	-26	-4

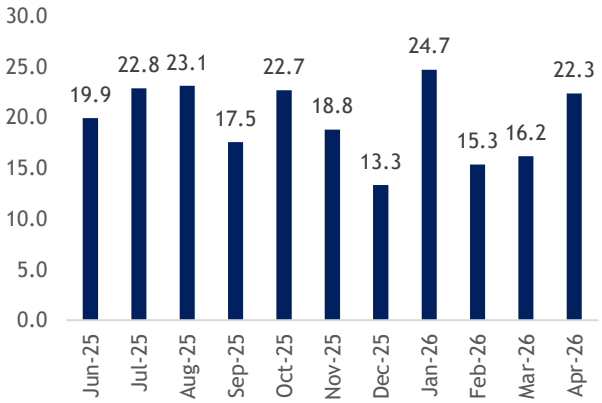
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



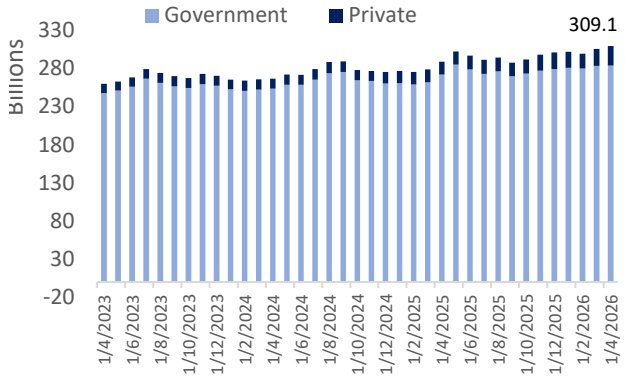
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds mark the highest level

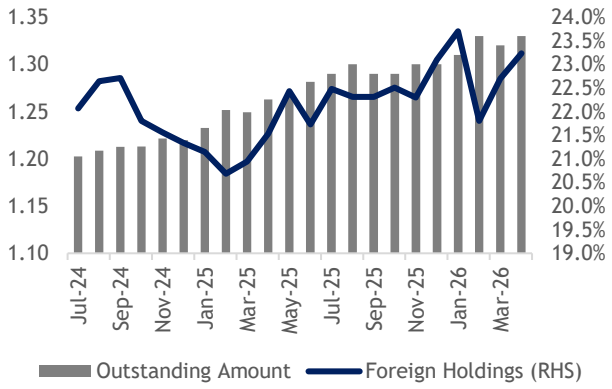
Foreign funds registered inflows into Malaysia's debt market in Apr-26 as foreign holdings of Malaysian bonds increased by +RM3.8b to RM309.2b (Mar-26: RM305.3b), being the highest level since 2005. The size of foreign holdings continued to be above the RM300b level for the second month. We estimate that the ratio for foreign holdings out of the total outstanding government bonds, including the MGS and sukuk were higher at 23.7% in Apr-26 (Mar-26: 22.7%).

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 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
15/04/2026	3.5-year New Issue of MGS 10/29	2QCY26	Apr	08/04/2026	5,000.00		3.56
23/04/2026	20-year New Issue of MGS 04/46	2QCY26	Apr	23/04/2026	3,5000.00	1,500	2.92

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
GII MURABAHAH 3/2016 4.070% 30.09.2026	2,153.81
GII MURABAHAH 3/2016 4.070% 30.09.2026	2,052.00
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,855.11
MGS 1/2019 3.906% 15.07.2026	1,589.89
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,554.80
MGS 1/2019 3.906% 15.07.2026	1,267.80
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,191.12
MGS 3/2025 3.917% 15.07.2055	1,182.53
MGS 3/2026 3.987% 23.04.2046	1,174.81
MGS 1/2019 3.906% 15.07.2026	1,146.84
Total	**15,168.71**

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