External Spillovers Push MGS Yields Higher Following UST Selloff

Jul-26 Fixed Income Review



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Economic Review

- The US Treasury (UST) yield curve shifted higher in Jul-26, mostly in the medium to long term of the curve, with the 10-year increasing by +27bps to 4.74%. The UST10Y yield increased higher towards the end of the month, amid the increasing expectations for policy tightening by the Fed, hitting the highest level since Jan-25.
- The MGS yield curve generally closed higher in Jul-26, across all tenors. The MGS10Y closed the month higher by +27bps to 4.74%. The yield curve saw a gradual upward pressure during the month and closed higher, tracking the selloff in the UST yields.
- Foreign funds registered outflows in Jul-26 with foreign holdings of Malaysian bonds declined by -RM5.6b to RM304.2b (Jun-26: RM309.8b).

US TREASURY & MALAYSIAN GOVERNMENT BONDS

UST shifted higher on the hawkish expectation, but easing inflation concern

The US Treasury (UST) yield curve shifted higher in Jul-26, mostly in the medium to long term of the curve, with the 10-year increasing by +27bps to 4.74%. The UST10Y yield increased higher towards the end of the month, amid the increasing expectations for policy tightening by the Fed, hitting the highest level since Jan-25. Oil prices experienced a temporary reprieve early in the month as traders reacted to reported progress in US-Iran peace talks. However, that dip was swiftly wiped out by fresh retaliatory strikes, and the pullback was erased almost immediately. With the durability of any truce in serious doubt, energy markets continue to trade with a heavy risk premium. However, during the month, inflation expectations eased lower on the back of moderate inflation readings and weaker PPI, which reduced the probability for an aggressive rate hike. Nevertheless, the UST yields remain elevated due to the ongoing geopolitical uncertainty, as supply side risk continue to escalate as the Iran-backed Houthis expanded the conflict towards the Red Sea. In turn, the surging oil prices have reignited inflation concerns globally. However, inflation expectations weakened in the final week of the month, particularly due to the PCE price inflation eased in Jun-26, on top of the weaker-than-expected US GDP growth in 2QCY26. In the final week, the FOMC held the Federal Funds target rate steady at 3.50%–3.75%. However, a 9–3 vote revealed a strong hawkish minority, as three voting members (Hammack, Kashkari, and Logan) dissented in favor of an immediate +25 bps rate hike.

To remain cautious even on the longer-term prospect

We foresee upside pressure on the UST yields to continue at least in the short term, given the elevated inflation concerns. Market expectations continued to expect 1 rate hike this year, potentially delayed towards 4QCY26. On the other hand, latest labour market data showed some weakness as the nonfarm job growth came in weaker than expected, and data in the prior months were also revised significantly lower. While unemployment rate crept lower, it was mainly due to labour force shrinkage. This indicates softer labour market conditions, but we expect policymakers would focus more on addressing inflation risk. In the longer term, investors would continue to be cautious with the long-term prospects of the US fiscal

sustainability, in view of the projected 134% debt-to-GDP ratio by 2035 and a looming surge in defence expenditures, which are expected to reach USD1.5tn by 2027.

MGS10Y closed higher tracking the volatile UST yields

The MGS yield curve generally closed higher in Jul-26, across all tenors. The MGS10Y closed the month higher by +27bps to 4.74%. The yield curve saw a gradual upward pressure during the month and closed higher, tracking the selloff in the UST yields. The MGS10Y yield traded between the range 3.608% to 3.706% last month, while the UST10Y was trading in a bigger range of 4.54% to 4.736%. Similarly, the MGS3Y yield increased last month, closing at 4.35% (end-Jul-26: 4.18%). In the first half of the month, we saw strong outflows from the debt market for both government and corporate debts, hitting a low of RM300.1b. Later in the month, the non-resident inflows picked up, driven by increased holdings of government securities. Concurrently, a more hawkish outlook for the US fed funds rate has led markets to price in a 'higher-for-longer' policy stance. Investors now anticipate a +25bps rate hike as early as the current quarter, or the latest by 4QCY26. On that note, we expect MGS yields will continue to mirror the movement in UST yields in the short- to medium-term, subject to inflationary risk and the Middle East conflicts, on top of the possibility of a further rate hike by the Fed.

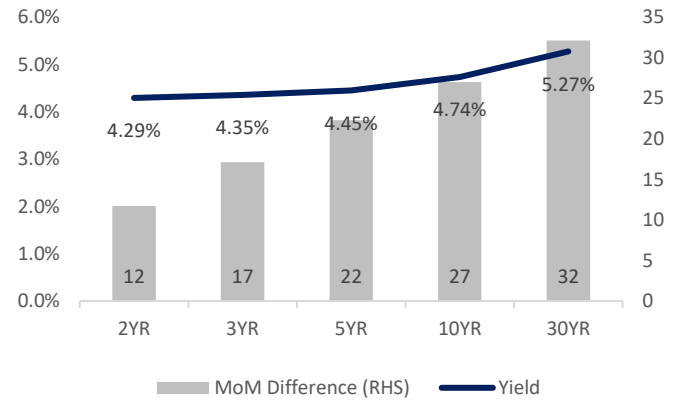
Auction demand last month was weaker

Gross issuance of MGS/GII was lower at RM13.5b in Jul-26 (Jun-26: RM22.5b), with RM1.5b of additional issuance. Auction demand was relatively weaker, with average BTC of 2.06x (Jun-26: 3.26x). Meanwhile, the outstanding government bond were unchanged at RM1.36t at the end of Jul-26.

10-year MGS may end the year around the 3.56% level, but upside risks still intact

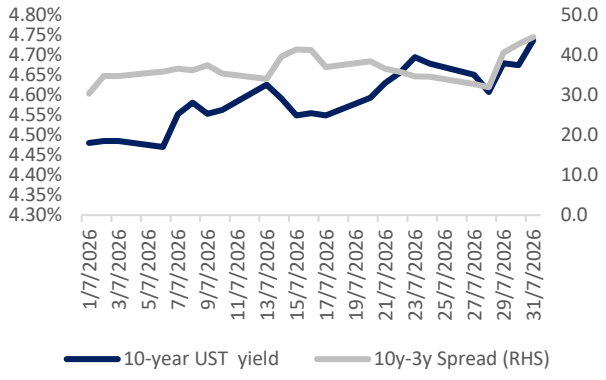
At the moment, we are keeping our 2026 year-end projection for the 10-year Malaysian Government Securities (MGS) yield at 3.56%. However, we foresee an upside bias to this forecast as the global debt market volatility, especially in the UST market, may cause an upside surprise. The spread between MGS yield and OPR has widened and normalized. This spread has expanded from its previously tight range between +50-60bps to around +80-90bps, nearing closer to long-term historical average of +98bps recorded over the 2015 to 2025 period. MGS yields are expected to maintain a high correlation with UST movements in the near term amid sustained Fed hawkishness. However, the recent upward pressure on domestic yields should prove temporary. As market participants price in Malaysia's strengthening fiscal position and solid growth fundamentals, domestic yields are well-positioned to ease. Near-term market fluctuations will likely persist, however, as investors continue to digest ongoing global trade uncertainties, elevated inflation risks, and the evolving forward guidance of the Federal Reserve.

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



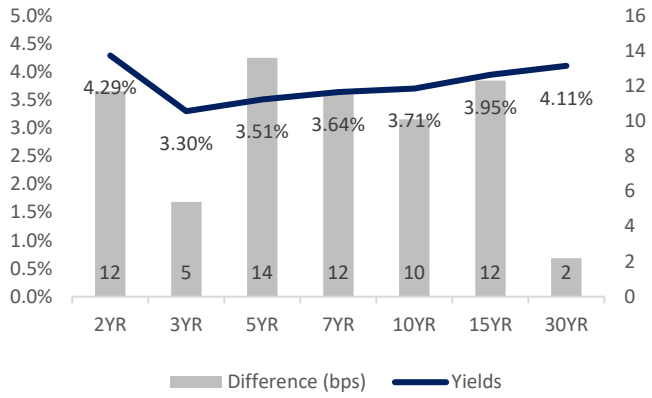
Source: Macrobond, MBSBR

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



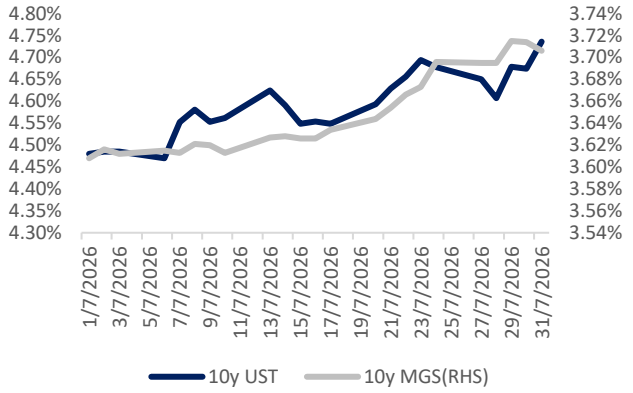
Source: Macrobond, MBSBR

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



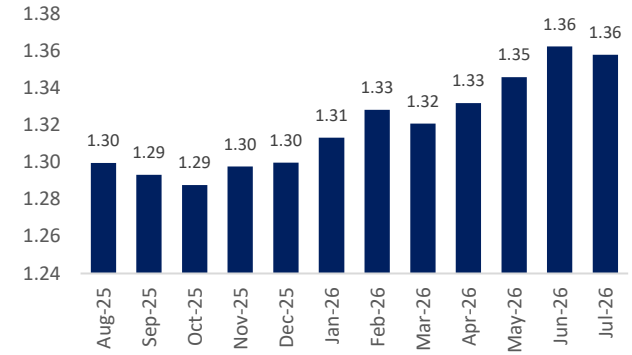
Source: Bloomberg, MBSBR

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



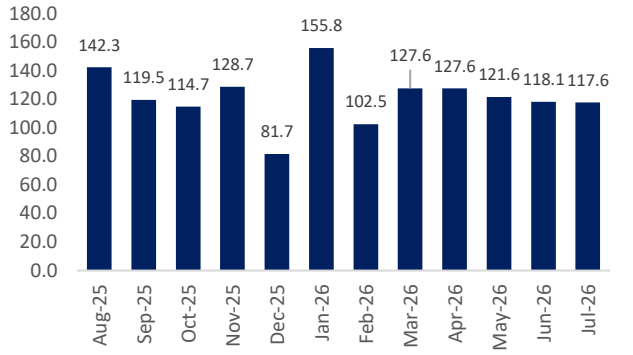
Source: Bloomberg, MBSBR

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

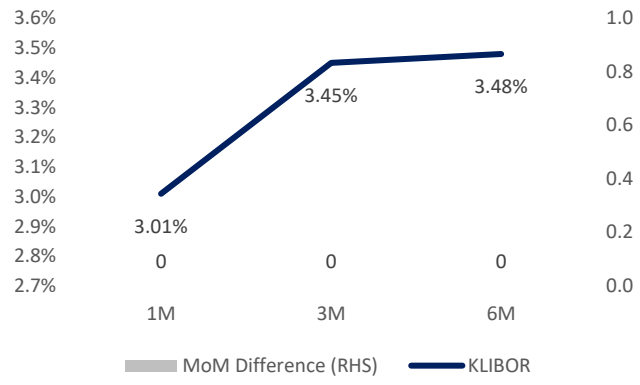
	1Q26f	2Q26f	3Q26f	4Q26f
Exchange Rate, vs USD (average)	3.96	3.99	4.08	4.04
Exchange Rate, vs USD (end-period)	4.04	4.09	4.13	4.03
10Y Government Bond Yield (average)	3.54	3.58	3.62	3.57
10Y Government Bond Yield (end-period)	3.55	3.60	3.65	3.56

INTERBANK MONEY MARKET

KLIBOR interbank rates were unchanged across the 1M, 3M, and 6M tenures last month at 3.01%, 3.45%, and 3.48%, respectively. However, the IRS market increased across all the tenors, particularly the longer end, as the 1Y, 3Y, 5Y, 7Y, and the 10Y moved higher by +8bps, +9bps, +11bps, +11bps, and +11bps to 3.53%, 3.57%, 3.62%, 3.69%, and 3.80%, respectively.

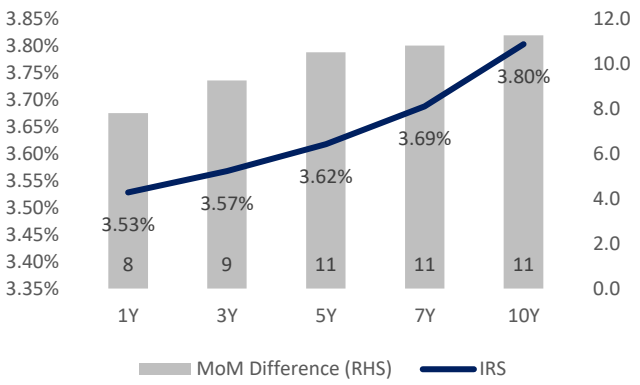
The IRS curve shifted higher across the curve

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 increased

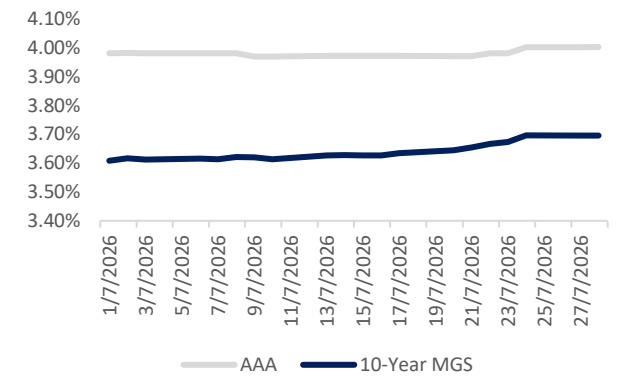
The volume of traded corporate bonds increased to RM21.1b in Jul-26 (Jun-26: RM18.7b), the third highest for the year. The corporate bond yields mostly increased across the yield curve, with the AAA and AA1s space increased across the curve. However, within the non-rated securities, the yield curve declined in the short-term tenor, between the 1Y and the 3Y tenor, while the 5Y and above yields increased between +4bps to +8bps.

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.501	3.608	3.683	3.766	3.881	4.012
AA1	3.531	3.643	3.713	3.796	3.911	4.042
A1	3.916	4.069	4.207	4.392	4.577	4.825
BBB1	5.38	5.888	6.327	6.969	7.544	8.281
Non-rated	5.185	5.726	5.544	5.259	5.242	6.02
MOM Difference (bps)						
AAA	+6	+7	+6	+4	+5	+7
AA1	+6	+7	+6	+4	+5	+7
A1	+2	+4	+5	+2	+2	+3
BBB1	+1	+0	+2	+3	+3	+1
Non-rated	-57	-14	-1	+8	+6	+4

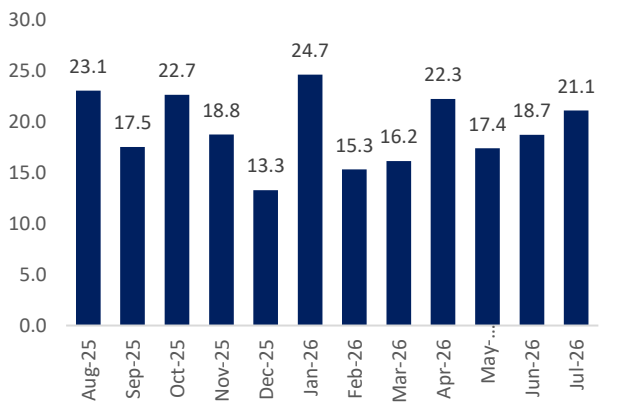
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



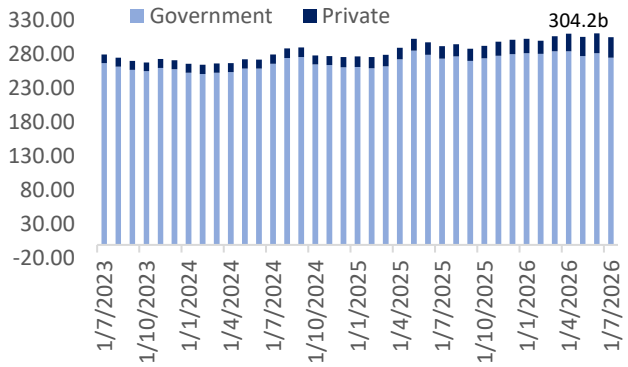
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds declined in Jul-26

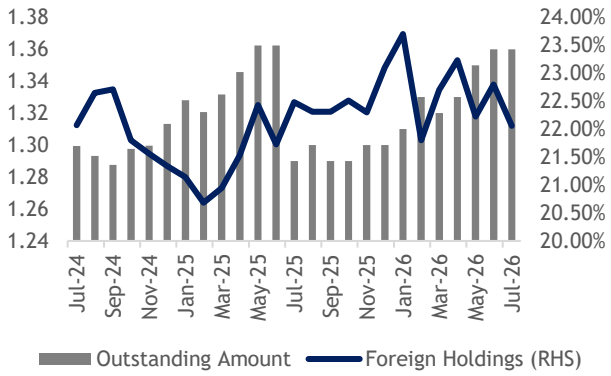
Foreign funds registered outflows in Jul-26 with foreign holdings of Malaysian bonds declined by -RM5.6b to RM304.2b (Jun-26: RM309.8b). The size of foreign holdings tracked back lower to under the RM305b level last month. We estimate that the ratio of foreign holdings out of the total outstanding government bonds, including the MGS and sukuk, was slightly lower at 22.1% (Jun-26: 22.8%).

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)
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	1,500.00	1.94
29/01/2026	30-year New Issue of MGII 01/56	1QCY26	Jan	31/01/2026	3,000.00	2,000.00	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	2,000.00	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	1,500.00	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	2,000.00	2.86
15/04/2026	3.5-year New Issue of MGII 10/29	2QCY26	Apr	08/04/2026	5,000.00		2.92
23/04/2026	20-year New Issue of MGS 04/46	2QCY26	Apr	23/04/2026	3,5000.00	1,500.00	3.56
15/05/2026	10-year Reopening of MGII 04/35	2QCY26	May	15/05/2026	5,000.00		2.87
22/05/2026	7-year Reopening of MGS 04/33	2QCY26	May	22/05/2026	5,000.00		2.59
29/05/2026	30-year Reopening of MGS 01/56	2QCY26	May	29/05/2026	3,000.00	2,000.00	2.29
05/06/2026	3-year Reopening of MGS 03/29	2QCY26	June	05/06/2026	5,000.00		1.93
15/06/2026	15-year Reopening of MGII 07/40	2QCY26	June	15/06/2026	3,500.00	1,500.00	3.41
22/06/2026	5-year Reopening of MGS 06/31	2QCY26	June	22/06/2026	5,000.00		2.28
26/06/2026	20-year Reopening of MGII 05/45	2QCY26	June	26/06/2026	3,000.00	2,000.00	3.14
03/07/2026	10-year Reopening of MGS 07/35	3QCY26	July	03/07/2026	5,000.00		1.87
15/07/2026	3.5-year Reopening of MGII 10/29	3QCY26	July	15/07/2026	5,000.00		2.26
22/07/2026	15-year Reopening of MGS 01/41	3QCY26	July	22/07/2026	3,500.00	1,500.00	2.06
05/08/2026	5-year Reopening of MGII 10/31	3QCY26	July	05/08/2026	5,000.00		2.40
12/08/2026	30-year Reopening of MGS 10/31	3QCY26	July	12/08/2026	3,0000.00	2,000.00	

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
GII MURABAHAH 3/2016 4.070% 30.09.2026	2,026.00
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,722.41
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,699.60
MGS 2/2025 3.476% 02.07.2035	1,491.01
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,488.13
GII MURABAHAH 3/2026 3.227% 15.10.2029	1,363.28
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,315.90
GII MURABAHAH 3/2026 3.227% 15.10.2029	1,276.40
MGS 3/2016 3.900% 30.11.2026	1,071.76
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,063.00
Total	14,517.49

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