MGS Yields Trend Higher Despite Solid Domestic Fundamentals

Aug-26 Fixed Income Review



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Economic Review

- The US Treasury (UST) yield curve shifted higher in Aug-26, particularly across the short- to intermediate-tenor segment, as markets increased expectations of further Fed tightening. The 10-year UST yield averaged around 4.68% in Aug-26, up from 4.60% in Jul-26, reflecting persistent inflation concerns and expectations that the Fed will resume rate hikes.
- The MGS yield curve closed higher across all tenors in Aug-26. The 10-year MGS yield rose by +16bps mom to 3.86%, reflecting persistent upward pressure during the month and broadly tracking the rise in UST yields, particularly towards month-end.
- Foreign holdings of Malaysian bonds increased strongly in Aug-26, rising by +RM15.8b to RM320.1b from RM304.2b in Jul-26.

US TREASURY & MALAYSIAN GOVERNMENT BONDS

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

The US Treasury (UST) yield curve shifted higher in Aug-26, particularly across the short- to intermediate-tenor segment, as markets increased expectations of further Fed tightening. The 10-year UST yield averaged around 4.68% in Aug-26, up from 4.60% in Jul-26, reflecting persistent inflation concerns and expectations that the Fed will resume rate hikes. Inflation remained elevated despite some moderation, with headline CPI easing to +3.4%yoy in Jul-26 (Jun-26: +3.5%yoy), while core CPI moderated to +2.5%yoy (Jun-26: +2.6%yoy). Producer-price pressures also eased, with PPI slowing to +4.7%yoy in Jul-26 (Jun-26: +5.5%yoy). Meanwhile, the US Treasury announced that it would at least double the size of liquidity-support buybacks for longer-dated nominal securities from 9 September 2026, aimed at improving liquidity in the long end of the Treasury market. This partly explains why the 10-year UST yield eased to 4.63% on 25 August. However, toward month-end, sentiment turned more hawkish following Fed Chair Kevin Warsh's Jackson Hole remarks, which highlighted persistent inflation and reaffirmed the Fed's commitment to its 2% inflation objective. The hawkish signal and renewed rate-hike expectations subsequently pushed the 10-year UST yield higher to 4.76% by end-August.

To remain cautious even on the longer-term prospect

Persistent inflation and a still-resilient labour market are expected to keep upward pressure on UST yields in the near term. The latest Aug-26 job market report showed nonfarm payrolls rising sharply by +162K (Jul-26: +21K), significantly above expectations, while the unemployment rate remained steady at 4.1%, reinforcing expectations that the Fed would tighten policy further. Market pricing consequently shifted towards a higher probability of a rate hike at the upcoming FOMC meeting. Over the longer term, investors are likely to remain cautious over US fiscal sustainability, elevated government borrowing requirements and rising defence expenditure, which could maintain upward pressure on longer-term yields.

MGS10Y closed higher, tracking the volatile UST yields

The MGS yield curve closed higher across all tenors in Aug-26. The 10-year MGS yield rose by +16bps mom to 3.86%, reflecting persistent upward pressure during the month and broadly tracking the rise in UST yields, particularly towards month-end. The 10-year MGS

yield breached the 3.80% level during the month, trading within a range of 3.714%–3.864%, while the longer end of the curve also moved higher, with the 30-year yield rising by around +15bps to 4.11%. The 10-year UST yield similarly traded at elevated levels, within a range of 4.615%–4.759%. During the first half of the month, foreign holdings of Malaysian government bonds gradually recovered to above RM310b by mid-August. However, non-resident inflows moderated in the third week, coinciding with firmer global yields and increasingly hawkish Fed expectations. Fed Chair Kevin Warsh's comments highlighting persistent inflation and the possibility of further tightening subsequently reinforced upward pressure on global yields. Near term, MGS yields are expected to remain closely correlated with UST movements, particularly at the short- to medium-tenor segment, amid persistent inflation risks, Middle East uncertainties and the prospect of further Fed tightening.

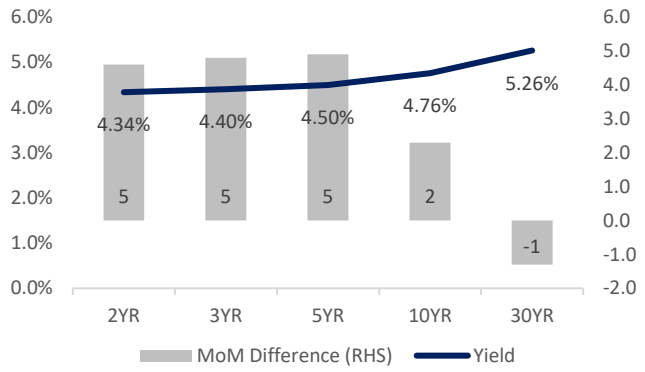
Auction demand last month was slightly weaker

Gross MGS/GII issuance increased to RM15.5b in Aug-26 (Jul-26: RM13.5b), including RM4.0b of additional issuance. Auction demand was marginally softer, with the average bid-to-cover ratio easing to 2.05x from 2.06x previously. Meanwhile, outstanding government bonds increased to RM1.38t as at end-Aug-26.

10-year MGS to end the year around 3.76%, upside risks still intact

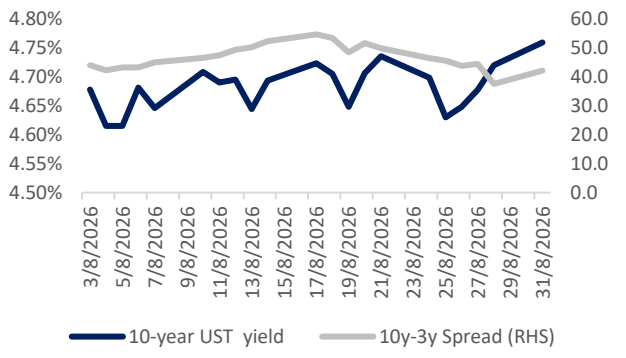
Given the recent rise in global bond yields, including MGS yields, we revise our end-2026 forecast for the 10-year MGS yield higher to 3.76%. However, we continue to expect some moderation towards year-end, supported by Malaysia's relatively firm domestic fundamentals and an eventual easing in global yields once markets gain greater clarity on the Fed's policy path. The 10-year MGS–UST spread is also expected to gradually normalise towards around 85–95bps, closer to its longer-term historical range. Nevertheless, near-term volatility is likely to remain elevated as investors continue to assess global trade uncertainty, inflation risks, geopolitical tensions and the Fed's evolving forward guidance, which could sustain a higher risk premium in bond yields.

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



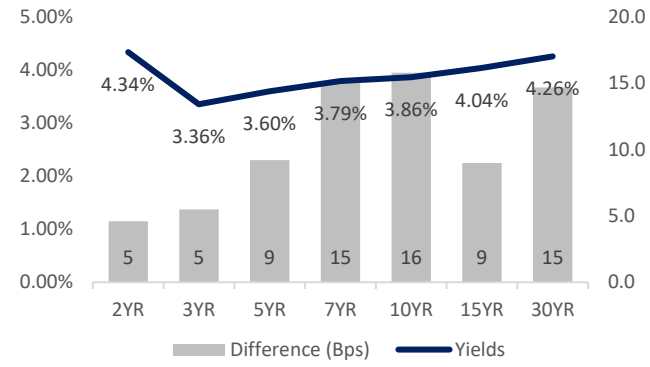
Source: Macrobond, MBSBR

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



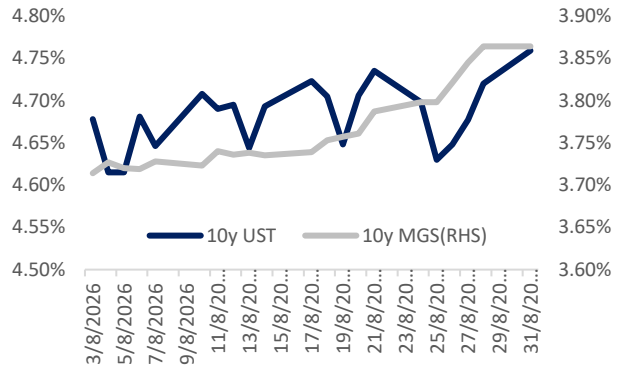
Source: Macrobond, MBSBR

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



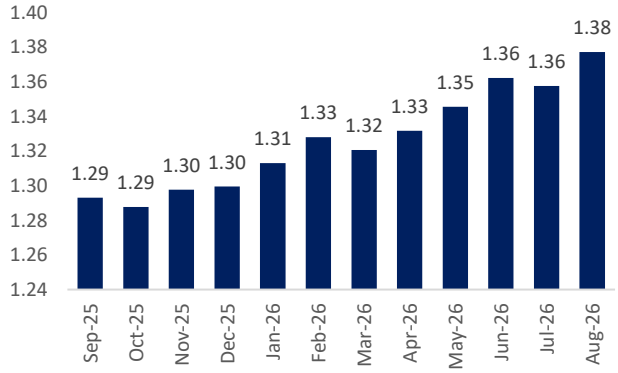
Source: Bloomberg, MBSBR

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



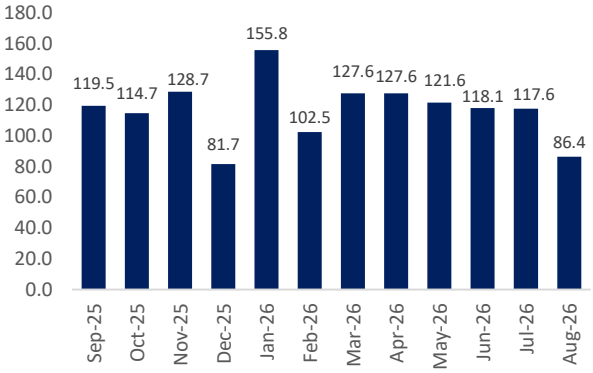
Source: Bloomberg, MBSBR

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

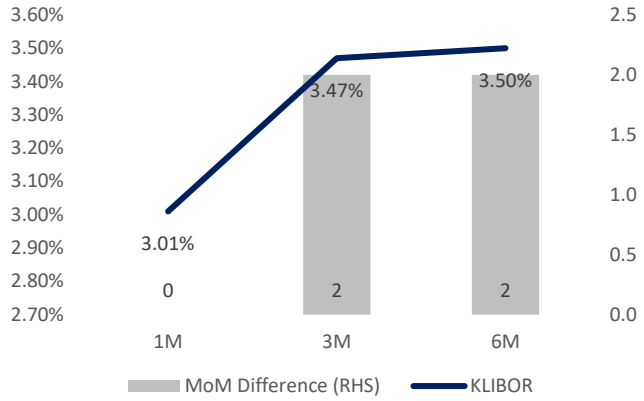
	1Q26	2Q26	3Q26f	4Q26f
Exchange Rate, vs USD (average)	3.96	3.99	4.08	4.04
Exchange Rate, vs USD (end-period)	4.04	4.09	4.07	4.03
10Y Government Bond Yield (average)	3.54	3.58	3.78	3.81
10Y Government Bond Yield (end-period)	3.55	3.60	3.90	3.76

INTERBANK MONEY MARKET

KLIBOR rates edged higher in Aug-26, with the 3M and 6M tenures rising by +2bps each to 3.47% and 3.50%, respectively. Meanwhile, the IRS curve shifted higher across all tenors, with the 1Y, 3Y, 5Y, 7Y and 10Y rates increasing by +6bps, +8bps, +7bps, +7bps and +7bps to 3.59%, 3.65%, 3.69%, 3.76% and 3.88%, respectively.

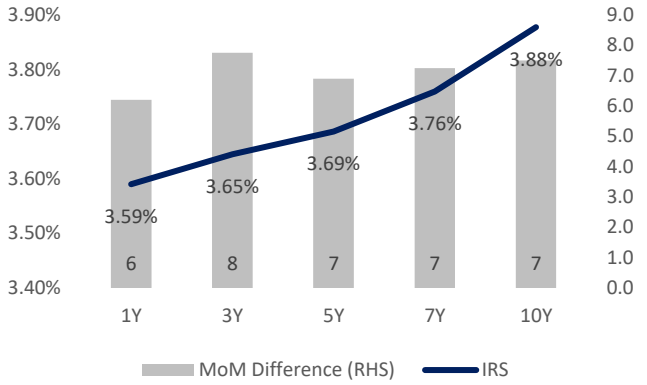
The IRS curve shifted higher across the curve

Chart 7: KLIBOR and MOM Difference (bps)



Source: Macrobond, MBSBR

Chart 8: IRS and MOM Difference (bps)



Source: Macrobond, MBSBR

CORPORATE BONDS

Corporate bond trading volume declined sharply to RM12.5b in Aug-26 (Jul-26: RM21.1b), marking the lowest monthly level so far this year. Corporate bond yields generally moved higher, particularly for higher-rated securities. AAA and AA1 yields increased across all tenors, with the largest increases seen at the longer end of the curve. Meanwhile, movements in non-rated bonds were mixed, although the 1Y yield rose sharply by +38bps to 5.564%.

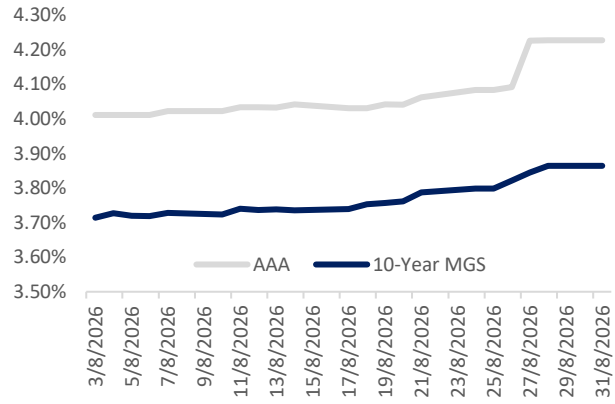
Corporate bond trading volume fell to the lowest level this year

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.551	3.638	3.723	3.88	4.039	4.227
AA1	3.581	3.673	3.753	3.905	4.064	4.258
A1	3.946	4.099	4.237	4.455	4.679	4.999
BBB1	5.39	5.898	6.337	6.99	7.603	8.404
Non-rated	5.564	5.646	5.529	5.285	5.328	6.146
MOM Difference (bps)						
AAA	+5	+3	+4	+11	+16	+22
AA1	+5	+3	+4	+11	+15	+22
A1	+3	+3	+3	+6	+10	+17
BBB1	+1	+1	+1	+2	+6	+12
Non-rated	+38	-8	-1	+3	+9	+13

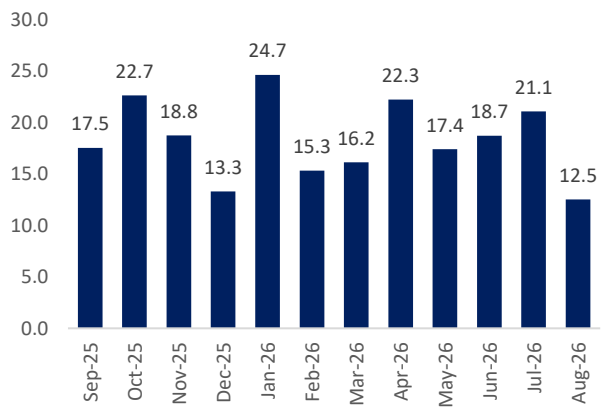
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



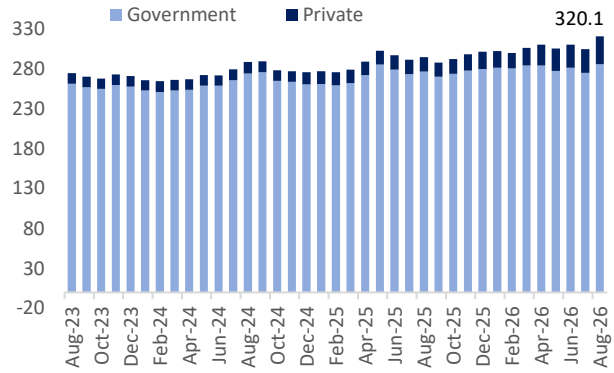
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds increased strongly in Aug-26, rising by +RM15.8b to RM320.1b from RM304.2b in Jul-26. The increase in foreign holdings suggests continued investor confidence in Malaysia's relatively strong economic fundamentals, with the size of foreign holdings returning above RM320b and hitting the highest level recorded. We estimate that the ratio of foreign holdings out of the total outstanding government debt, including MGS and sukuk, also moved higher to 23.1% (Jul-26: 22.1%).

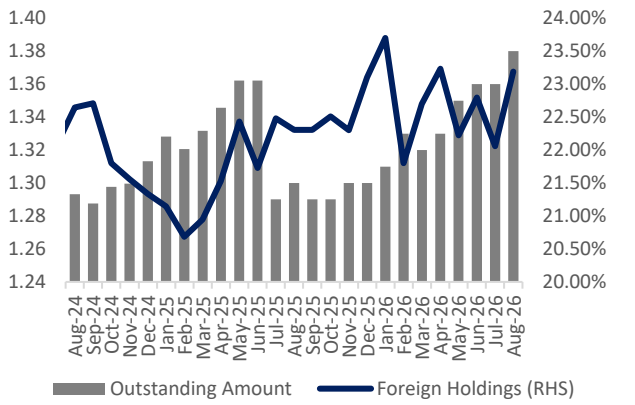
Foreign holdings of Malaysian bonds increased significantly in Aug-26

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)
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	
18/08/2026	7-year Reopening of MGII 03/33	3QCY26	Aug	19/08/2026	5,000.00		2.15
26/08/2026	20-year Reopening of MGS 04/46	3QCY26	Aug	27/08/2026	2,500.00	2,000.00	1.63
10/09/2026	20-year Reopening of MGII 07/36	3QCY26	Aug	10/09/2026	5,000.00		

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
GII MURABAHAH 3/2016 4.070% 30.09.2026	2,202.00
MGS 3/2016 3.900% 30.11.2026	1,725.69
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,719.00
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,662.20
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,558.96
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,315.00
MGS 3/2016 3.900% 30.11.2026	1,194.10
GII MURABAHAH 3/2016 4.070% 30.09.2026	1,120.50
GII MURABAHAH 2/2024 3.804% 08.10.2031	1,070.00
MGS 3/2016 3.900% 30.11.2026	977.13
Total	14,544.58

Source: Bondstream, MBSBR

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