Economic Review

MGS Yield Surges in Tandem with UST; Local Fundamentals Remain Solid

Sep-26 Fixed Income Review



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- The UST yield curve shifted higher in Sep-26, as the selloff is seen across the yield curve, as markets increased expectations of further Fed tightening. The 10-year UST yield averaged around 4.98% in Sep-26, up from the 4.68%, reflecting persistent inflationary risks and growing market expectations of a prolonged hawkish Fed stance, including the number of additional policy tightening.
- The MGS yield curve closed higher in Sep-26 across the curve, with the MGS10Y ending the month +16bps higher at 4.02%. Yields faced gradual upward pressure towards month-end, largely tracking movements in UST yields, which rose sharply after the FOMC meeting signalled a more hawkish rate path than markets had expected.
- Foreign holdings of Malaysian bonds declined in Sep-26 following the strong increase in Aug-26, falling by -RM1.7b to RM318.3b from RM320.1b previously.

US TREASURY & MALAYSIAN GOVERNMENT BONDS

UST shifted higher on the hawkish expectations post FOMC

The UST yield curve shifted higher in Sep-26, as the selloff is seen across the yield curve, as markets increased expectations of further Fed tightening. The 10-year UST yield averaged around 4.98% in Sep-26, up from the 4.68%, reflecting persistent inflationary risks and growing market expectations of a prolonged hawkish Fed stance, including the number of additional policy tightening. The UST yields saw severe sell-off, as the UST10Y surpassed the psychological level of 5.00% mid-month and continued to rise towards the end of the month, closing at 5.29%. The UST30Y also climbed higher, reaching 5.64% at one point which was the highest during the month. Meanwhile, the Fed raised the FFR by +25bps to 3.75-4.00% range at mid-month. Consequently, market players reacted to the hawkish tilt by the FOMC, with the latest FOMC projections pointed to a firmer economic projection, while the elevated inflation trajectory remained a concern. In addition, the updated projections showed the possibility of at least one more +25bps rate hike later this year. Hawkish commentary from Fed officials, alongside sticky core PCE price metrics (at +3.0%yoy) and strong ISM services data, prompted markets to reprice expectations towards a higher terminal rate and a higher-for-longer policy stance.

To remain cautious even on the longer-term prospect

Persistent inflation and a robust labour market are expected to keep upward pressure on UST yields in the near term. The latest Sep-26 job market report showed that nonfarm payroll growth moderated to +29k (Aug-26: +138k), below market expectations, while the unemployment rate edged slightly higher to 4.2%. Nevertheless, the labour market remained relatively resilient. Over the longer term, sentiment towards long-dated US Treasuries will likely remain constrained by fiscal sustainability concerns, substantial government debt issuance and expanding defence spending, factors that should continue to exert upward pressure on long-term yields and term premiums.

MGS10Y closed higher, tracking the volatile UST yields

The MGS yield curve closed higher in Sep-26 across the curve, with the MGS10Y ending the month +16bps higher at 4.02%. Yields faced gradual upward pressure towards month-end, largely tracking movements in UST yields, which rose sharply after the FOMC meeting

signalled a more hawkish rate path than markets had expected. The UST10Y subsequently breached the 5.0% threshold and continued higher, closing the month +54bps higher at 5.29%.

The hawkish FOMC dot plot reinforced expectations that the Fed could remain on a relatively hawkish policy path, with another rate hike possible this year and potentially another next year. The Fed's latest projections also pointed to a firmer economic outlook, while elevated inflation remained a concern. Against this backdrop, we expect upward risks to our forecast for 10-year MGS yields in the near term, particularly if UST yields remain elevated. Nevertheless, the outlook remains subject to changes in inflation, developments surrounding the Middle East conflict and expectations over the Fed's policy direction.

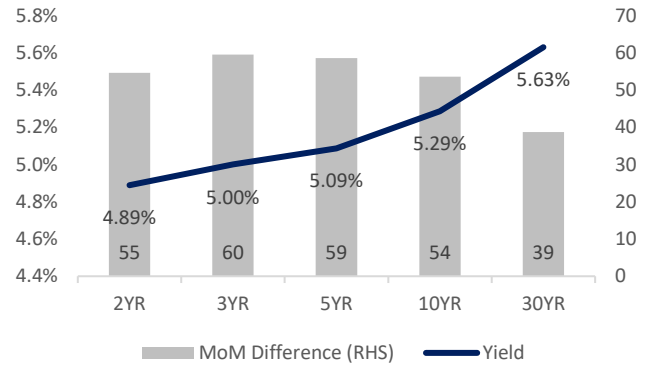
Auction demand last month was slightly stronger

Gross MGS/GII issuance increased to RM15.0b in Sep-26 (Aug-26: RM15.5b), including RM2.0b of additional issuance. Auction demand was marginally stronger, with the average bid-to-cover ratio rising to 2.15x from 2.05x previously. Meanwhile, outstanding government bonds declined to RM1.36t as at end-Sep-26.

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

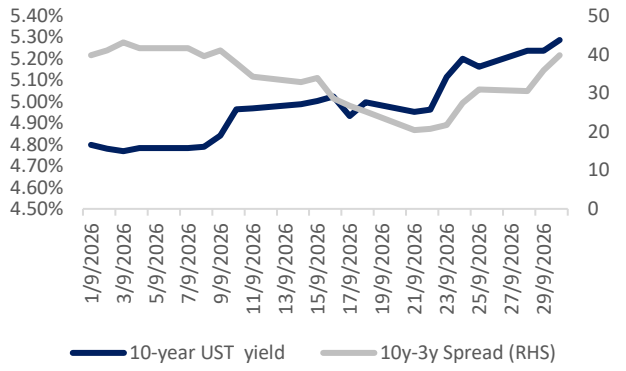
Given the recent rise in global bond yields, including the MGS yields, we expect that the 10-year MGS to end the year around the 3.76% level. Nevertheless, we anticipate a gradual moderation in yields toward year-end. This path is anchored by Malaysia's solid domestic economic fundamentals and a anticipated cooling in global yields as central bank trajectories clarify. Furthermore, we expect the 10-year MGS–UST yield differential to realign toward its historical mean of 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 Sep-26



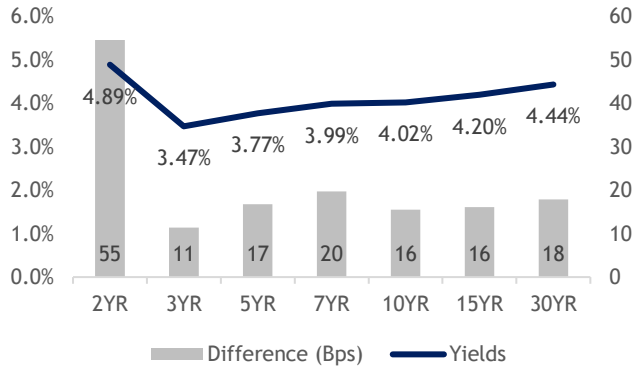
Source: Macrobond, MBSBR

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



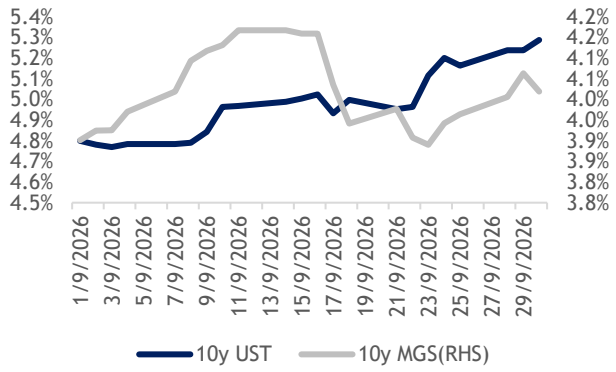
Source: Macrobond, MBSBR

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



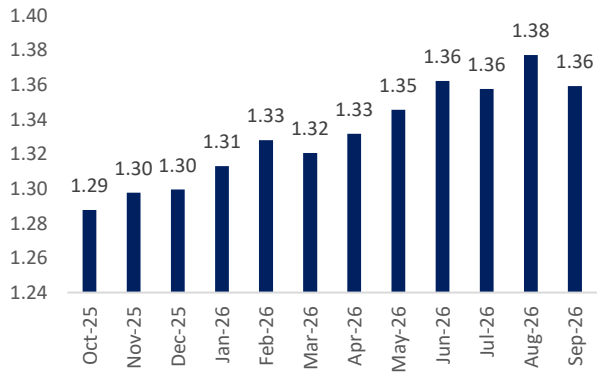
Source: Bloomberg, MBSBR

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



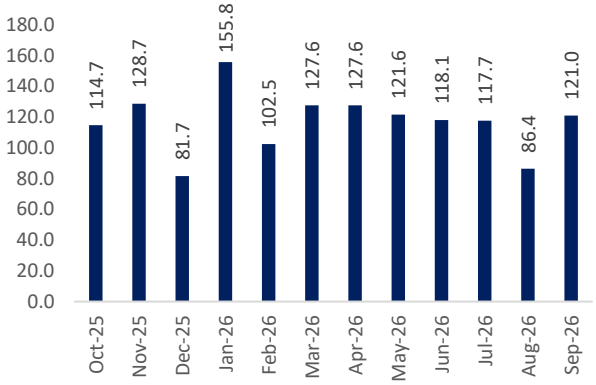
Source: Bloomberg, MBSBR

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

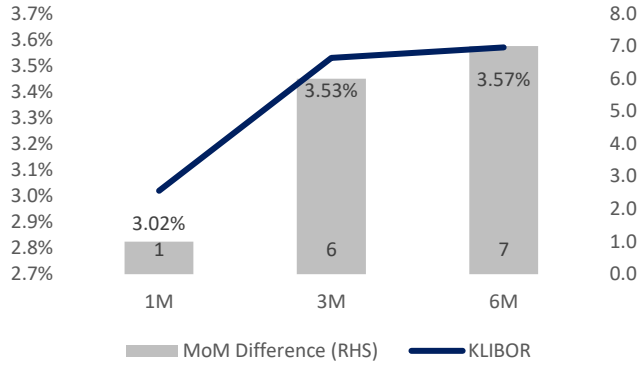
	1Q26	2Q26	3Q26f	4Q26f
Exchange Rate, vs USD (average)	3.96	3.99	4.08	4.04
Exchange Rate, vs USD (end-period)	4.04	4.09	4.07	4.03
10Y Government Bond Yield (average)	3.54	3.58	3.78	3.81
10Y Government Bond Yield (end-period)	3.55	3.60	3.90	3.76

INTERBANK MONEY MARKET

KLIBOR rates edged higher in Sep-26, with the 1M, 3M and 6M tenures rising by +1bp, +6bps and +7bps to 3.02%, 3.53% and 3.57%, respectively. Meanwhile, the IRS curve shifted higher across all tenors, with the 1Y, 3Y, 5Y, 7Y and 10Y rates increasing by +13bps, +16bps, +18bps, +18bps and +18bps to 3.72%, 3.80%, 3.87%, 3.94% and 4.06%, respectively.

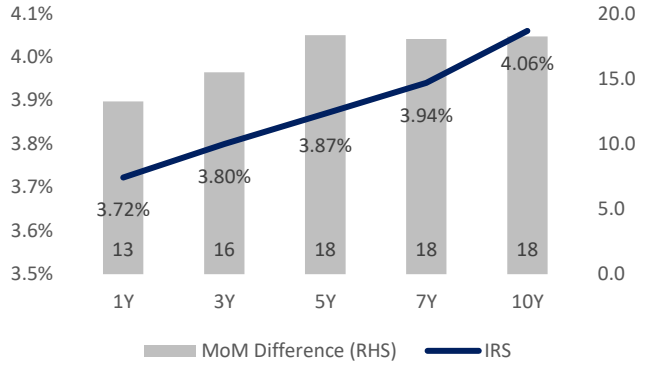
The IRS curve increased by double digits across the curve

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 increased to RM14.9b in Sep-26 (Aug-26: RM12.5b), marking the second-lowest monthly level so far this year. Corporate bond yields generally moved higher, particularly for lower-rated securities. A1 and BB1 yields increased across all tenors, with the largest increases seen at the longer end of the curve. Meanwhile, yields for non-rated bonds increased across most tenors, except for the 2Y yield, which declined by -7bps, while the 10Y yield increased by +16bps.

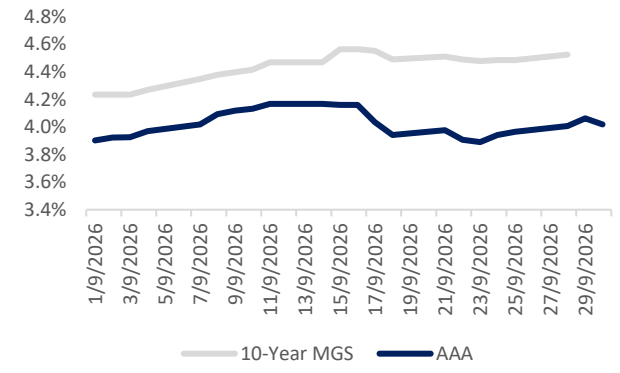
Corporate bond trading volume edged slightly higher but remained weak

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.891	4.008	4.136	4.279	4.441	4.522
AA1	3.981	4.098	4.236	4.358	4.521	4.613
A1	4.452	4.711	4.965	5.285	5.59	5.886
BBB1	5.947	6.561	7.112	7.827	8.559	9.397
Non-rated	5.837	5.574	5.572	5.407	5.471	6.301
MOM Difference (bps)						
AAA	+34	+37	+41	+40	+40	+30
AA1	+40	+43	+48	+45	+46	+36
A1	+51	+61	+73	+83	+91	+89
BBB1	+56	+66	+78	+84	+96	+99
Non-rated	+27	-7	+4	+12	+14	+16

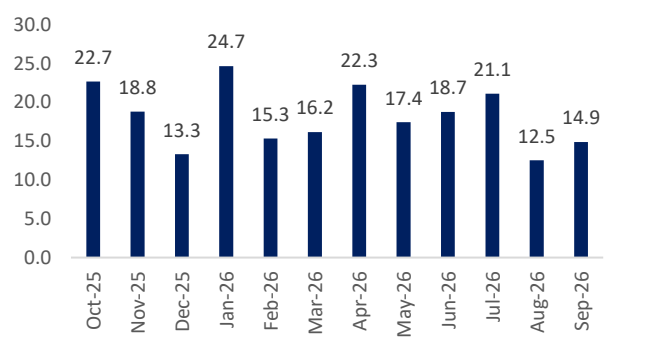
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



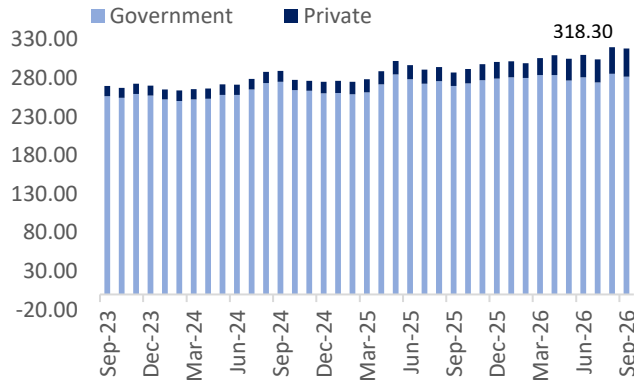
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds declined in Sep-26 following the strong increase in Aug-26, falling by -RM1.7b to RM318.3b from RM320.1b previously. The relatively modest decline, despite the rise in global bond yields, continued to signal confidence in Malaysia's economic fundamentals. Foreign holdings eased in the final week of Sep-26 after reaching a monthly high of RM324.3b. We estimate that the share of foreign holdings in total outstanding government debt, including MGS and GII/sukuk, edged higher to 23.5% (Aug-26: 23.1%).

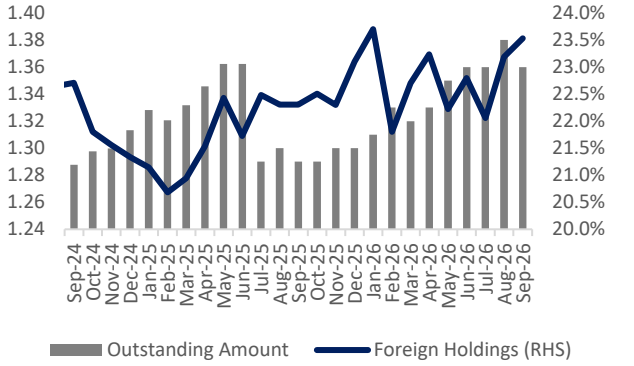
Foreign holdings of Malaysian bonds moderated in Sep-26

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	2.02
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	Sep	10/09/2026	5,000.00		2.29
21/09/2026	7-year Reopening of MGII 04/33	3QCY26	Sep	21/09/2026	5,000.00		2.17
29/09/2026	30-year Reopening of MGS 01/56	3QCY26	Sep	29/09/2026	3,000.00	2,000.00	2.01
09/10/2026	3.5-yr Reopening of MGII 10/29	4QCY26	Oct	09/10/2026	5,000.00		

Source: Bondstream, MBSBR

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
MGS 3/2016 3.900% 30.11.2026	2,347.38
MGS 4/2013 3.844% 15.04.2033	1,759.14
GII MURABAHAH 3/2026 3.227% 15.10.2029	1,580.00
MGS 4/2013 3.844% 15.04.2033	1,529.10
MGS 3/2016 3.900% 30.11.2026	1,519.54
MGS 3/2016 3.900% 30.11.2026	1,340.70
MGS 2/2023 3.519% 20.04.2028	1,335.77
MGS 3/2016 3.900% 30.11.2026	1,290.00
MGS 3/2007 3.502% 31.05.2027	1,256.75
MGS 3/2016 3.900% 30.11.2026	1,225.42
Total	15,183.80

Source: Bondstream, MBSBR

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