MGS Rallies Alongside UST Amid Stronger Foreign Demand

Oct-26 Fixed Income Review



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Economic Review

- The US Treasury (UST) yield curve experienced a flattening in Oct-26. The 10-year UST yield averaged around 5.12% in Oct-26, on the back of the heightened geopolitical risk and expectations for a delayed rate hike.
- The MGS yield curve closed lower in Oct-26, across all tenors, as most of the decline was towards the longer end of the curve, indicating a bull flattening of the yield curve. The MGS10Y yield traded between the range of +3.799% to +4.028% during the month, while the MGS3Y yield declined and closed at +3.402%.
- Foreign holdings of Malaysian bonds increased in Oct-26, registering a strong inflow during the month. The outstanding value moved higher by +RM7.2b to RM325.5b (end-Sep-26: RM318.3b). We estimated that the share of foreign holdings in total outstanding government debt edging higher to 21.0% (Sep-26: 20.7%).

US TREASURY & MALAYSIAN GOVERNMENT BONDS

UST reversed lower despite the hawkish expectations post FOMC

The US Treasury (UST) yield curve experienced a flattening in Oct-26. The 10-year UST yield averaged around 5.12% in Oct-26, on the back of the heightened geopolitical risk and expectations for a delayed rate hike. In early October, a sharp sell-off temporarily pushed the 10-year UST yield to a multi-decade high of 5.342%. However, yields steadily eased lower through the remainder of the month. Downward momentum accelerated following the post-FOMC announcement, where the committee voted 10–2 to hold the fed funds target rate steady at 3.75%–4.00%. The split decision signalled a hawkish hold, reinforced the possibility of further monetary tightening, although the Fed opted to assess incoming economic data before its next policy decision. Nevertheless, market expectations remain tilted toward a potential +25bps rate hike at the upcoming FOMC meeting in Dec-26

To remain cautious even on the longer-term prospect

The elevated UST yields are likely to persist in the near term, anchored by sticky inflation and a resilient labour backdrop, and the expectation for another rate hike by the end of this year. Inflation outlook remains persistently elevated given the prolonged supply disruptions to the global oil market. On another note, the US labour market conditions remained relatively solid, with nonfarm payrolls rising faster than expected in Oct-26, thus offering little impetus for a sharp, sustained retreat in benchmark US Treasury yields. Over the longer term, sentiment towards long-dated US Treasuries will likely remain constrained by fiscal sustainability concerns and substantial government debt issuance, which remain among factors exerting upward pressure on long-term yields and term premiums.

MGS10Y closed higher, tracking the volatile UST yields

The MGS yield curve closed lower in Oct-26, across all tenors, as most of the decline was towards the longer end of the curve, indicating a bull flattening of the yield curve. The yield curve initially declined during the early part of the month, but later closed relatively higher, broadly tracking the movement of the UST yields. The MGS10Y yield traded between the range of +3.799% to +4.028% last month, while the UST10Y was trading lower within the range of +4.930% to +5.307%. Similarly, the MGS3Y yield also declined last month, closing at +3.402% (end-Sep-26: +3.470%).

Concurrently, we expect the continuous hawkish outlook for the US fed funds rate has led markets to price in a hawkish and 'higher-for-longer' policy stance. Investors anticipate a +25bps rate hike in the upcoming FOMC meeting in Dec-26. 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 FOMC.

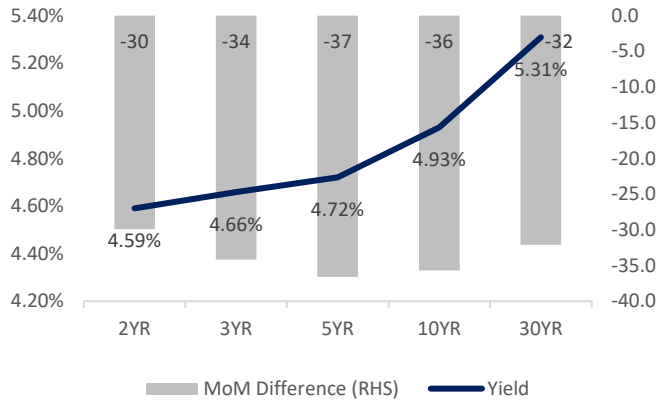
Auction demand last month was slightly stronger

Gross MGS/GII issuance increased to RM16.5b in Oct-26 (Sep-26: RM15.0b), including RM3.0b of additional issuance. Auction demand was marginally stronger, with the average bid-to-cover ratio rising to 2.54x from 2.15x, previously. Meanwhile, outstanding government bonds increased to RM1.38t as at end-Oct-26.

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

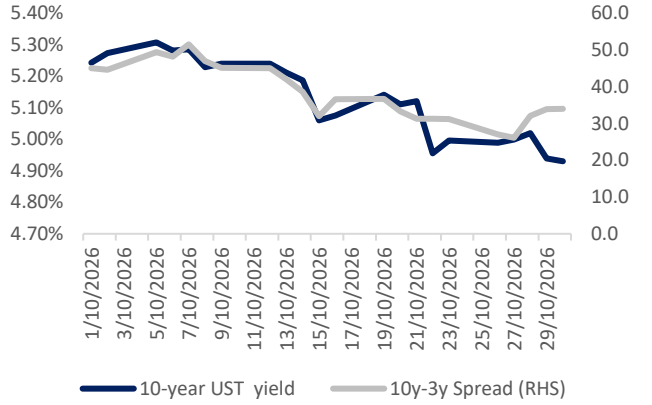
In light of the upward shift in global benchmark yields and domestic MGS, we project the 10-year MGS yield to end the year in 2026 around 3.76%. Nevertheless, we anticipate a gradual moderation toward year-end, anchored by Malaysia's robust domestic economic fundamentals and a broader cooling in global yields as major central bank policy paths become clearer. Consequently, we expect the 10-year UST-MGS yield spread to realign toward its historical mean of 85–95 bps, returning closer to its long-term baseline. 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 monetary policy strategy.

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



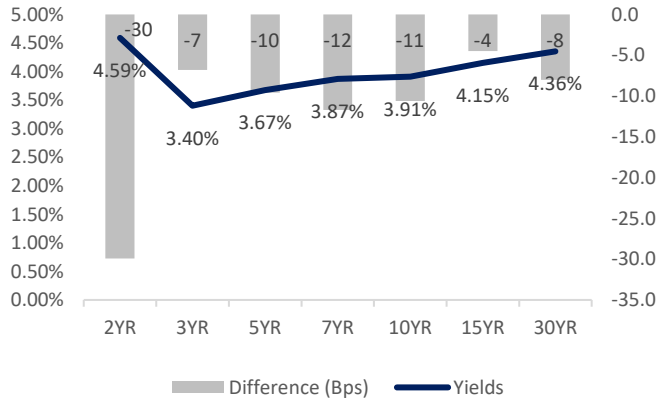
Source: Macrobond, MBSBR

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



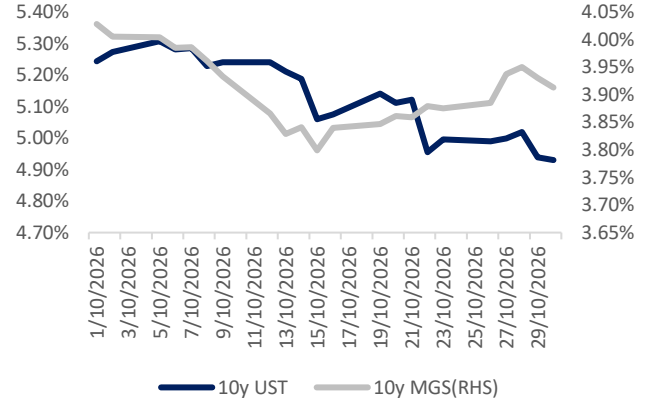
Source: Macrobond, MBSBR

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



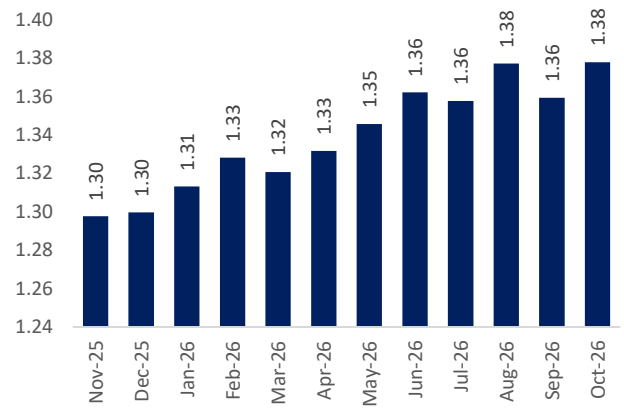
Source: Bloomberg, MBSBR

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



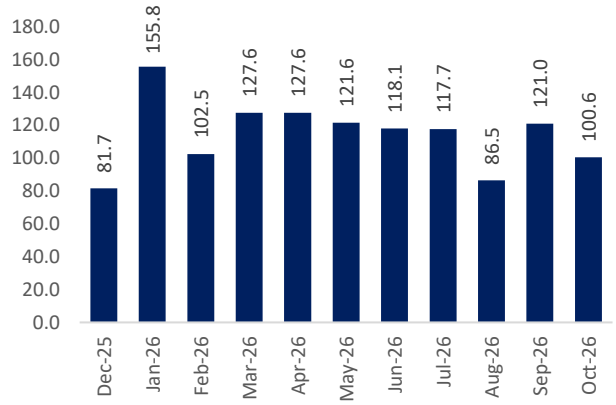
Source: Bloomberg, MBSBR

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

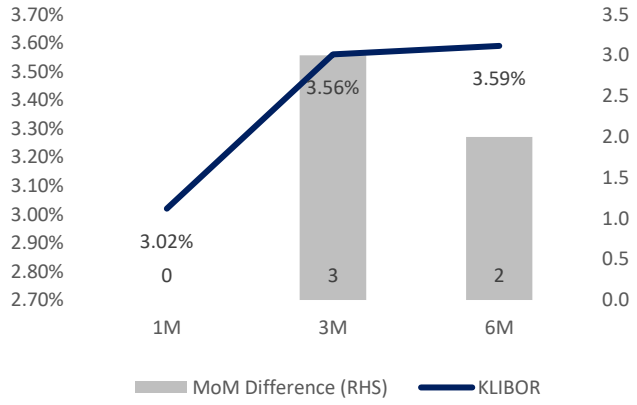
	1Q26	2Q26	3Q26	4Q26f
Exchange Rate, vs USD (average, %)	3.96	3.99	4.08	4.04
Exchange Rate, vs USD (end-period, %)	4.04	4.09	4.07	4.03
10Y Government Bond Yield (average, %)	3.54	3.58	3.78	3.81
10Y Government Bond Yield (end-period, %)	3.55	3.60	3.90	3.76

INTERBANK MONEY MARKET

KLIBOR rates edged higher in Oct-26, with the 3M and 6M tenures rising by +3bps and +2bps to 3.56% and 3.59%, respectively. Meanwhile, the 1M was unchanged at 3.02%. However, the IRS curve shifted lower across all tenors, with the 1Y, 3Y, 5Y, 7Y, and 10Y rates declining by -8bps, -14bps, -16bps, -16bps, and -18bps to 3.64%, 3.66%, 3.71%, 3.79%, and 3.88%, respectively.

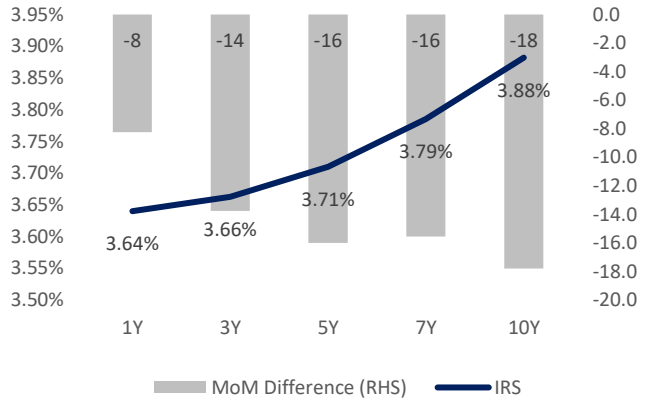
The IRS curve declined across the curve

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 to RM14.3b in Oct-26 (Sep-26: RM14.9b), being the second lowest monthly level so far this year. Corporate bond yields generally moved lower, especially in the lower-rated securities. Meanwhile, yields for non-rated bonds declined across most tenors, except for the 2Y yields which increased by +2bps, while the 1Y yields was unchanged.

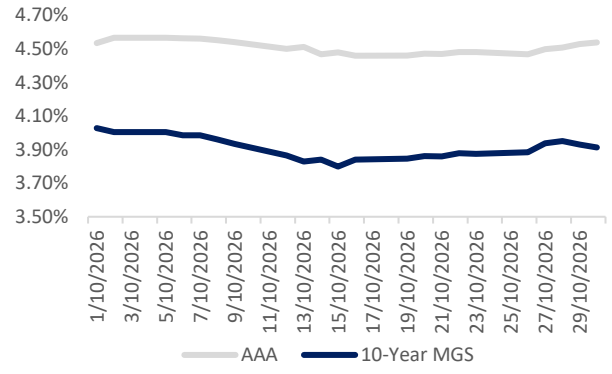
Corporate bond trading volume edged slightly lower and remained low

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	4.001	4.108	4.204	4.316	4.468	4.538
AA1	4.036	4.148	4.255	4.361	4.502	4.578
A1	4.377	4.579	4.76	4.953	5.13	5.326
BBB1	5.706	6.259	6.738	7.355	7.938	8.654
Non-rated	5.832	5.591	5.562	5.366	5.304	6.219
MOM Difference (bps)						
AAA	+11	+10	+7	+4	+3	+2
AA1	+5	+5	+2	+0	-2	-4
A1	-8	-13	-21	-33	-46	-56
BBB1	-24	-30	-37	-47	-62	-74
Non-rated	0	+2	-1	-4	-17	-8

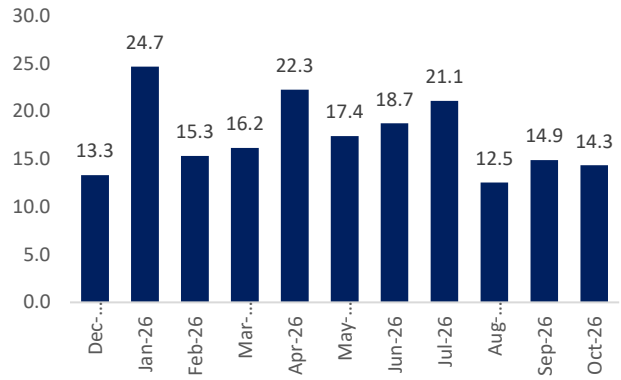
Source: Bondstream, MBSBR

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



Source: Macrobond, MBSBR

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



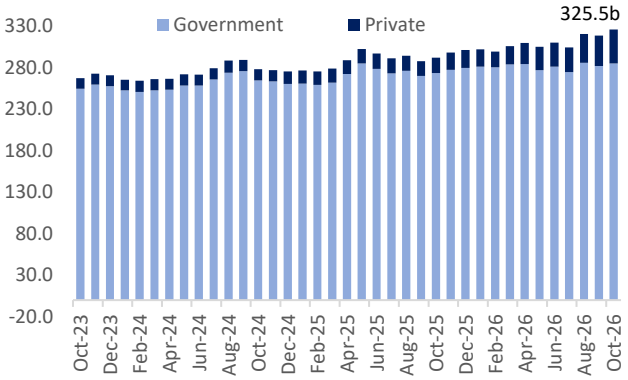
Source: Macrobond, MBSBR

FOREIGN HOLDINGS OF MALAYSIAN BONDS

Foreign holdings of Malaysian bonds spiked in Oct-26

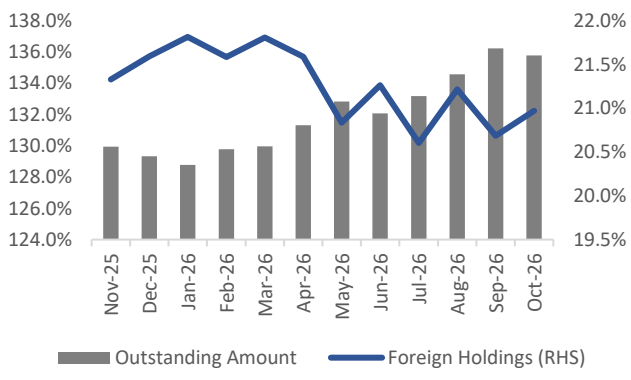
Foreign holdings of Malaysian bonds increased in Oct-26, registering a strong inflow during the month. The outstanding value moved higher by +RM7.2b to RM325.5b (end-Sep-26: RM318.3b). The rise in foreign demand for the domestic sovereign papers; continues to signal confidence in Malaysia's economic fundamentals. Foreign holdings saw a significant increase in the final week of Oct-26, reaching a record high ever recorded. We estimated that the share of foreign holdings in total outstanding government debt edging higher to 21.0% (Sep-26: 20.7%)

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)
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		3.02
15/10/2026	15-year Reopening of MGS 5/45	4QCY26	Oct	15/10/2026	3,500.00	1,500.00	2.28
22/10/2026	20-year Reopening of MGII 5/45	4QCY26	Oct	22/10/2026	3,000.00	1,000.00	2.29
29/10/2026	10-year New Issue of MGS	4QCY26	Oct	29/10/2026	5,000.00	500.00	2.58

Source: Bondstream, MBSBR

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
GII MURABAHAH 3/2026 3.227% 15.10.2029	3,274.44
MGS 3/2007 3.502% 31.05.2027	2,559.61
MGS 3/2016 3.900% 30.11.2026	1,921.95
MGS 4/2026 3.920% 31.10.2036	1,603.26
MGS 3/2016 3.900% 30.11.2026	1,443.17
MGS 3/2016 3.900% 30.11.2026	1,353.61
MGS 3/2016 3.900% 30.11.2026	1,265.95
MGS 1/2026 3.766% 15.01.2041	1,103.24
MGS 3/2007 3.502% 31.05.2027	1,066.60
MGS 3/2007 3.502% 31.05.2027	1,053.48
Total	16,645.31

Source: Bondstream, MBSBR

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