Bond Market Weekly Outlook

Local yields edge higher as tariffs and trade tensions cloud outlook

Malaysian Government Securities (MGS) and Government Investment Issues (GII)

- **Yield Movement:** MGS and GII yields rose modestly this week, climbing between 2.0 to 9.9 basis points (bps) across the curve. The 10-Y MGS edged up by 4.2 bps to 3.445%, while the 10-Y GII rose by 6.9 bps to 3.490%.
- **Key drivers**: The 10-year MGS yield rose after a weak auction, which drew a 1.52x bid-to-cover (BTC) ratio, far below the YTD average of 2.66x. August's inflation edged up to 1.3% YoY (July: 2.0%) but had little impact. Sentiment turned cautious after the US announced steep tariffs on pharmaceutical imports and kitchen cabinetry, effective October 1, prompting broad selling across Asia, including local bonds. Geopolitical risks also weighed, with the Israel-Palestine conflict intensifying despite growing international recognition of Palestine's statehood. Meanwhile, S&P's reaffirmation of Malaysia's sovereign rating with a stable outlook helped cushion the pressure, preventing yields from spiking more sharply.
- **Flows and outlook**: Domestic bond yields are likely to rise modestly, driven by renewed tariff uncertainty and global trade volatility following Trump's latest tariff announcement. Domestically, the rollout of Budi95 and the upcoming PMI release may lend some support to yields.

United States Treasuries (UST)

- **Yield Movement:** UST yields continued their upward trend this week, rising between 2.4 and 10.8 bps. The 10-Y increased 6.5 bps to 4.170% while the 2-Y rose 9.2 bps to 3.655%.
- **Key drivers**: The 10-year UST yield climbed as US data beat expectations. Jobless claims fell to 218k, lowest since mid-July, signalling labour market strength, while 2Q25 GDP was revised up to 3.8% on strong consumer spending. Upbeat housing data added to the momentum. In addition, durable goods rebounded (+2.9% MoM in Aug; core capex +0.6%), signalling capex resilience. Powell's cautious tone and hawkish Fedspeak reduced expectations of deeper Fed cuts in the near term, pushing yields higher.
- **Outlook:** Today's PCE release will be closely watched. A stronger print could spark further selling in bonds. Upcoming labour data, including JOLTS job openings, non-farm payrolls and the unemployment rate, will be key to gauging the labour market outlook. Trade policy also remains in focus, as Trump's tariff plans heighten trade tensions and uncertainty, which may weigh on sentiment and push yields higher. In short, watch PCE and auctions for confirmation of a mild bear-steepening into quarter-end.

Table 1: 10Y MGS, 10Y UST, Ringgit and OPR Outlook

	Long Term*				
	Q2-25	Q3-25F	Q4-25F	Q1-26F	Q2-26F
MGS	3.51	3.35	3.43	3.45	3.45
UST	4.23	4.53	4.50	4.38	4.30
USDMYR	4.21	4.16	4.08	4.05	4.02
OPR	3.00	2.75	2.75	2.75	2.75

**F=Forecasts for end of period*
Source: Kenanga Research, Bloomberg

Table 2: Annual Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2024	2025	2024	2025
Reopening	82.5	48.0	78.0	49.0
New Issuances	10.0	15.0	9.5	24.5

Source: Kenanga Research, BNM, Macrobond

Graph 1: USDMYR and 10Y MGS-UST Yield Differential

Source: Kenanga Research, Bloomberg

Auction Result

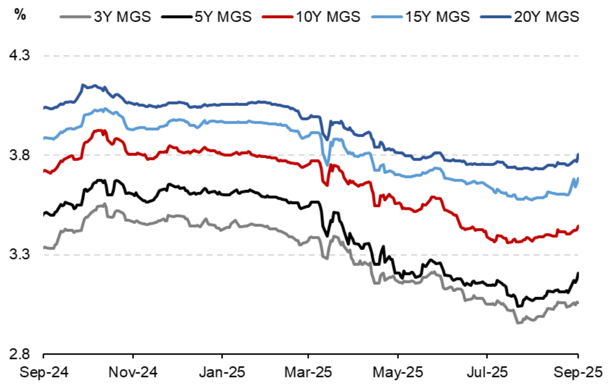
- The 15y MGS 04/39 reopened with RM4.5b issuance, averaging a yield of 3.638%. Demand remained tepid for the fifth consecutive auction, with a BTC ratio of 1.52x (YTD BTC: 2.66x).
- The next auction will be the reopening of 3y GII 07/28 with an expected issuance of RM4.5b and no private placement.

Table 3: 2025 Auction Calendar

Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
Sep	3-yr Reopening of MGS 04/28 3.519%	09/09/2025	5,000.00	-	5,000.00	1.93	3.036%	3.041%	3.025%
	30-yr New Issue of MGII (09/55) (Khadamat)	17/09/2025	3,000.00	2,000.00	5,000.00	1.93	3.927%	3.930%	3.918%
	15-yr Reopening of MGS 04/39 4.054%	22/09/2025	3,500.00	1,000.00	4,500.00	1.52	3.638%	3.674%	3.619%
	3-yr Reopening of MGII 07/28 3.599%	-	-	-	4,500.00	-	-	-	-
Oct	30-yr Reopening of MGS 07/55	-	-	-	-	-	-	-	-
	5-yr Reopening of MGII 08/30	-	-	-	-	-	-	-	-
	20-yr Reopening of MGS 05/44 4.180%	-	-	-	-	-	-	-	-

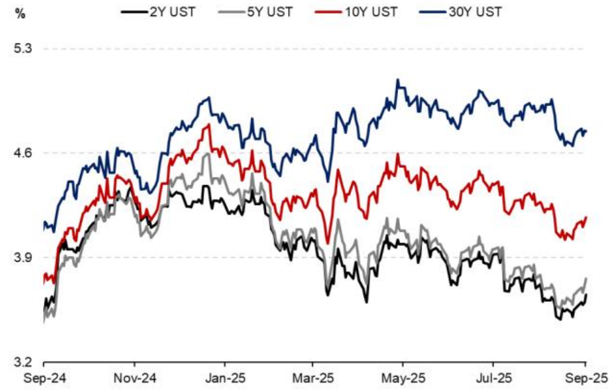
*Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio*

Graph 2: MGS Yield Trend



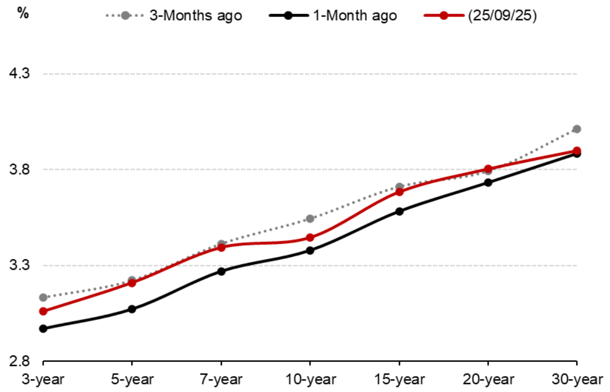
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



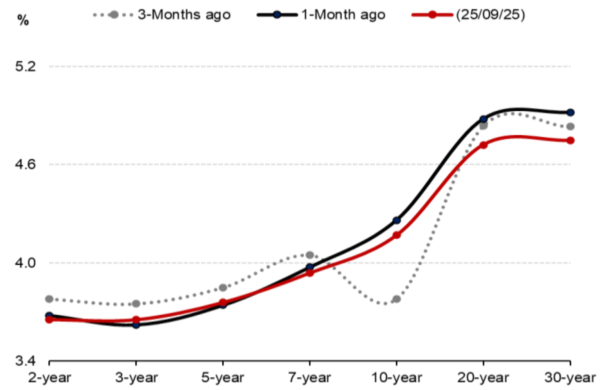
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



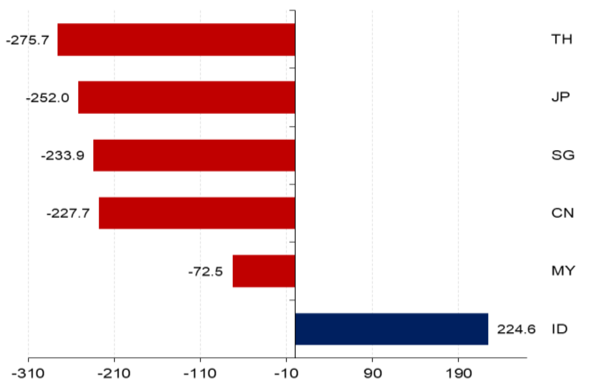
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

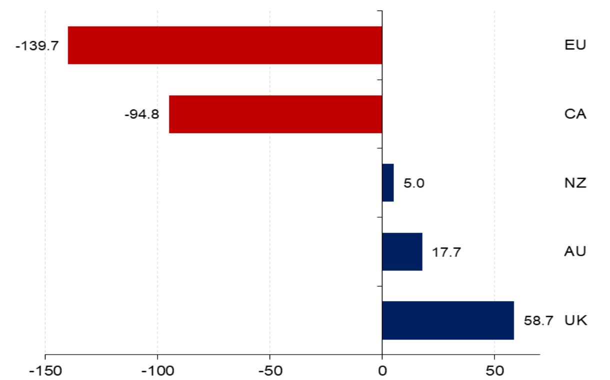
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



Source: Kenanga Research, Bloomberg

Note: Yield spread with 10-year UST

Graph 7: Selected Global 10-Year Bond Yield Spread (bps)



Source: Kenanga Research, Bloomberg

Note: Yield spread with 10-year UST

Table 3: Bond Yield Movements

Bonds	01/01/25 YTD	25/09/24 Last Year	26/08/25 Last Month	18/09/25 Last Week	25/09/25 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.183	4.178	3.882	3.868	3.899	-28.40	-27.90	1.70	3.10
20Y MGS	4.060	4.037	3.731	3.750	3.803	-25.70	-23.40	7.20	5.30
15Y MGS	3.969	3.886	3.581	3.599	3.683	-28.60	-20.30	10.20	8.40
10Y MGS	3.814	3.721	3.378	3.403	3.445	-36.90	-27.60	6.70	4.20
7Y MGS	3.768	3.683	3.269	3.312	3.393	-37.50	-29.00	12.40	8.10
5Y MGS	3.621	3.507	3.072	3.110	3.209	-41.20	-29.80	13.70	9.90
3Y MGS	3.479	3.334	2.970	3.039	3.059	-42.00	-27.50	8.90	2.00
GII									
20Y GII	4.084	4.045	3.726	3.767	3.804	-28.00	-24.10	7.80	3.70
10Y GII	3.830	3.744	3.404	3.421	3.490	-34.00	-25.40	8.60	6.90
7Y GII	3.742	3.681	3.244	3.273	3.337	-40.50	-34.40	9.30	6.40
3Y GII	3.423	3.315	3.016	3.061	3.126	-29.70	-18.90	11.00	6.50
UST									
30Y UST	4.781	4.140	4.919	4.724	4.748	-3.35	60.79	-17.16	2.35
20Y UST	4.858	4.185	4.879	4.691	4.721	-13.71	53.56	-15.76	2.99
10Y UST	4.569	3.785	4.262	4.104	4.170	-39.92	38.49	-9.17	6.54
7Y UST	4.479	3.644	3.974	3.852	3.940	-53.93	29.54	-3.40	8.81
5Y UST	4.382	3.525	3.741	3.663	3.760	-62.22	23.45	1.84	9.68
3Y UST	4.273	3.489	3.622	3.547	3.655	-61.79	16.55	3.29	10.76
2Y UST	4.242	3.559	3.679	3.564	3.655	-58.63	9.61	-2.36	9.18
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.364	2.173	2.722	2.724	2.773	40.86	59.96	5.05	4.90
10Y UK	4.568	3.990	4.740	4.676	4.757	18.87	76.67	1.65	8.07
10Y JP	1.101	0.815	1.630	1.603	1.650	54.90	83.50	2.00	4.70
10Y CN	1.675	2.038	1.768	1.782	1.893	21.82	-14.48	12.49	11.09
10Y SG	2.861	2.566	1.839	1.768	1.831	-103.04	-73.56	-0.82	6.24
10Y ID	6.997	6.440	6.331	6.276	6.416	-58.10	-2.40	8.50	14.00
10Y TH	2.305	2.473	1.322	1.369	1.413	-89.13	-105.96	9.13	4.41

Source: Kenanga Research, Bloomberg

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880   Website: www.kenanga.com.my   E-mail: research@kenanga.com.my