Bond Market Weekly Outlook

Stability expected despite uncertainty, supported by strong domestic demand

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

- **Yield Movement:** MGS and GII yields declined this week, falling between 0.4 and 1.8 basis points (bps). The 10-year MGS eased by 0.9 bps to 3.788%, while the 10-year GII slipped 0.6 bps to 3.807%.
- **Key drivers**: Local yields fell amid a resilient domestic growth outlook, stable inflation, and optimism over Malaysia's investment prospects. The latest MITI announcement of RM20.0b in investment commitments from US and EU investors, reinforced confidence. Despite external uncertainties, foreign investors continued buying Malaysian debt, albeit at a slower pace of RM0.7b.
- **Flows and yields outlook:** Volatility from impending US tariffs on Mexico, Canada, and China, along with shifting Fed expectations, may trigger some foreign outflows. However, the 10-year MGS is expected to remain stable around 3.800%, supported by strong domestic demand. BNM's likely hold on the OPR at 3.00% should help limit outflows.

United States Treasuries (UST)

- **Yield Movement:** UST yields fell sharply this week, falling between 21.4 and 27.0bps. The 10-year UST dropped 24.5 bps to 4.260% while the 2-year UST fell by 21.9 bps to 4.051%.
- **Key drivers:** The 10-year UST yield declined as signs of slowing US growth —including a weaker February flash services PMI, a cooling housing market, fragile consumer confidence, and rising layoff concerns—led markets to price in two Fed rate cuts this year, boosting demand for UST. Additionally, favourable Treasury debt plans added further downward pressure on yields.
- **Outlook:** The 10-year UST is set for volatility next week as markets assess US core PCE and labour data, particularly weekly jobless claims, for further signs of economic softening. Meanwhile, Trump's tariffs on Mexico, Canada, and China could stoke inflation concerns. While heightened uncertainty may drive yields lower on safe-haven demand, inflation risks could limit the downside.

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

	Long Term*				
	Q4-24	Q1-25F	Q2-25F	Q3-25F	Q4-25F
MGS	3.81	3.84	3.79	3.81	3.83
UST	4.57	4.30	4.36	4.43	4.50
USDMYR	4.472	4.571	4.530	4.490	4.449
OPR	3.00	3.00	3.00	3.00	3.00

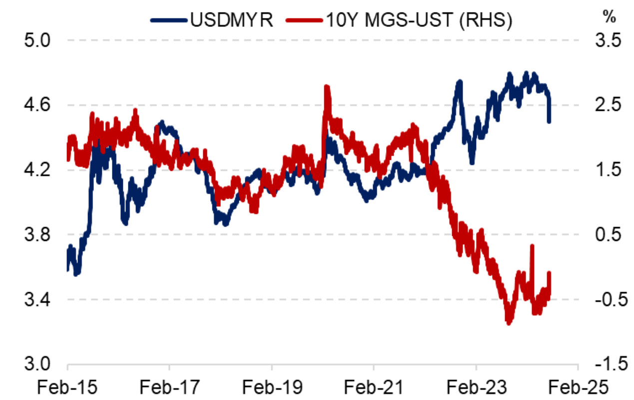
**F=Forecasts for end of period*
Source: Kenanga Research, Bloomberg

Table 2: Annual Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2024	2025	2024	2025
Reopening	82.5	12.0	78.0	16.0
New Issuances	10.0	-	9.5	4.0

Source: Kenanga Research, BNM, Macrobond

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



Source: Kenanga Research, Bloomberg

Auction Result

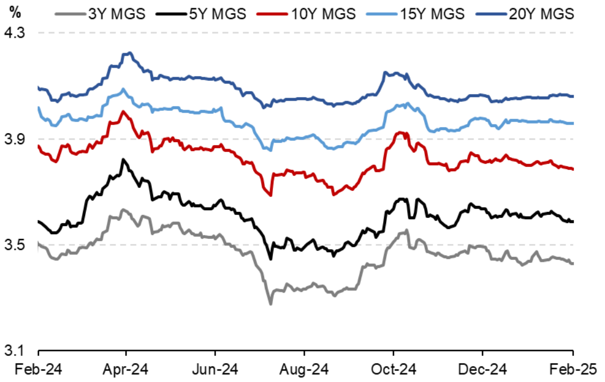
- The 5.5-yr MGII 08/30 reopened with a larger-than-expected total issuance of RM5.5b, yielding an average of 3.635%
- Demand was strong, with a bid-to-cover (BTC) ratio of 3.16x (2024 average BTC: 2.37x).
- The next auction will be the reopening of 15-yr MGS 04/39 at an expected issuance of RM2.5b, with an additional RM2.0b to be privately placed.

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 (%)
Feb	30-yr Reopening of MGS 03/53 4.457%	06/02/2025	2,500.00	-	2,500.00	2.36	4.186%	4.191%	4.160%
	7-yr Reopening of MGII 10/31 3.804%	13/02/2025	5,000.00	-	5,000.00	2.87	3.785%	3.790%	3.777%
	20-yr Reopening of MGS 05/44 4.180%	21/02/2025	2,500.00	2,000.00	4,500.00	2.99	4.068%	4.071%	4.060%
	5.5-yr New Issue of MGII (Mat on 08/30)	28/02/2025	5,500.00	-	5,500.00	3.16	3.635%	3.639%	3.620%
Mar	15-yr Reopening of MGS 04/39 4.054%		2,500.00	2,000.00	4,500.00				
	30-yr Reopening of MGII 03/54 4.280%								
	10-yr Reopening of MGS 07/34 3.828%								

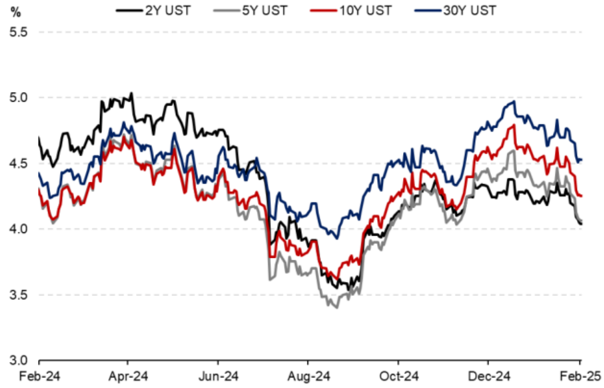
*Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio*

Graph 2: MGS Yield Trend



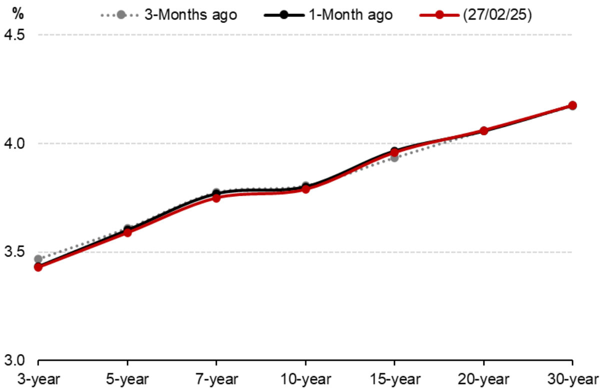
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



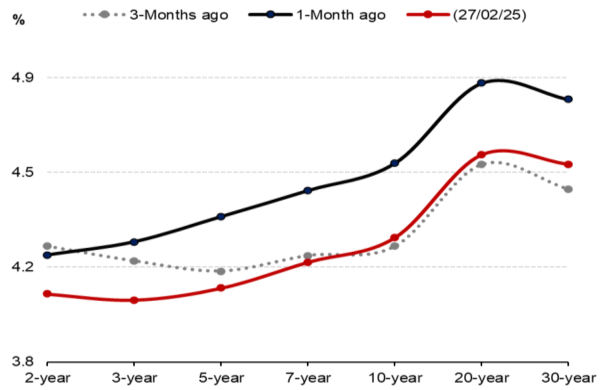
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



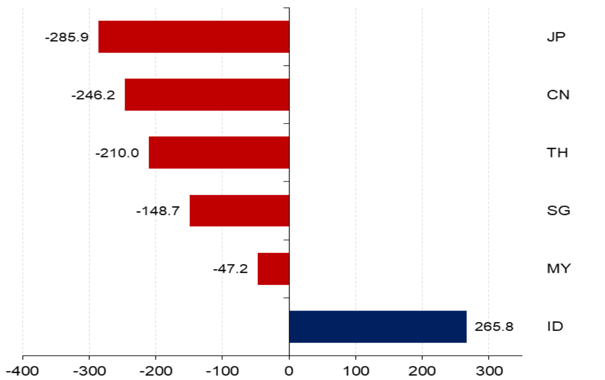
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

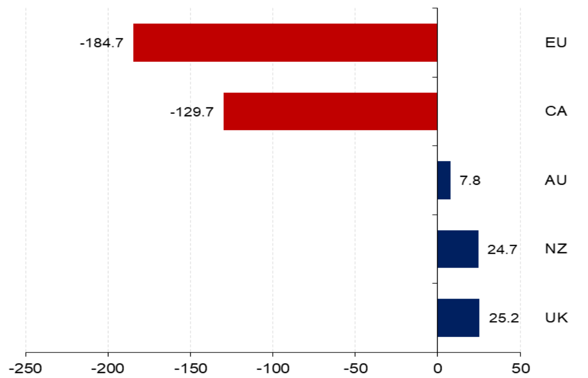
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



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	27/02/24 Last Year	27/01/25 Last Month	20/02/25 Last Week	27/02/25 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.183	4.213	4.176	4.181	4.175	-0.80	-3.80	-0.10	-0.60
20Y MGS	4.060	4.097	4.057	4.065	4.060	0.00	-3.70	0.30	-0.50
15Y MGS	3.969	4.015	3.966	3.965	3.958	-1.10	-5.70	-0.80	-0.70
10Y MGS	3.814	3.868	3.801	3.797	3.788	-2.60	-8.00	-1.30	-0.90
7Y MGS	3.768	3.795	3.769	3.764	3.749	-1.90	-4.60	-2.00	-1.50
5Y MGS	3.621	3.589	3.601	3.600	3.588	-3.30	-0.10	-1.30	-1.20
3Y MGS	3.479	3.511	3.433	3.447	3.429	-5.00	-8.20	-0.40	-1.80
GII									
20Y GII	4.084	4.153	4.080	4.074	4.070	-1.40	-8.30	-1.00	-0.40
10Y GII	3.830	3.883	3.831	3.813	3.807	-2.30	-7.60	-2.40	-0.60
7Y GII	3.742	3.791	3.772	3.774	3.759	1.70	-3.20	-1.30	-1.50
3Y GII	3.423	3.480	3.513	3.554	3.548	12.50	6.80	3.50	-0.60
UST									
30Y UST	4.781	4.427	4.770	4.747	4.531	-25.02	10.41	-23.93	-21.58
20Y UST	4.858	4.559	4.831	4.780	4.566	-29.19	0.74	-26.46	-21.43
10Y UST	4.569	4.303	4.534	4.505	4.260	-30.91	-4.33	-27.44	-24.54
7Y UST	4.479	4.329	4.433	4.427	4.169	-30.98	-16.00	-26.42	-25.83
5Y UST	4.382	4.311	4.337	4.344	4.073	-30.88	-23.82	-26.37	-27.03
3Y UST	4.273	4.486	4.244	4.275	4.029	-24.33	-45.63	-21.45	-24.58
2Y UST	4.242	4.693	4.195	4.270	4.051	-19.05	-64.22	-14.39	-21.88
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.364	2.463	2.530	2.532	2.413	4.90	-5.00	-11.70	-11.90
10Y UK	4.568	4.196	4.585	4.607	4.512	-5.60	31.60	-7.30	-9.50
10Y JP	1.101	0.693	1.213	1.446	1.401	30.00	70.80	18.80	-4.50
10Y CN	1.675	2.378	1.630	1.719	1.798	12.30	-58.00	16.80	7.90
10Y SG	2.861	3.101	2.896	2.885	2.773	-8.81	-32.81	-12.33	-11.18
10Y ID	6.997	6.583	7.051	6.787	6.918	-7.90	33.50	-13.30	13.10
10Y TH	2.305	2.556	2.288	2.286	2.160	-14.50	-39.69	-12.85	-12.63

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