Bond Market Weekly Outlook

Yields to stay range-bound as domestic resilience offsets global noise

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

- **Yield Movement:** MGS and GII yields showed mixed movements this week, moving between -1.3 to 2.5 basis points (bps). The 10-Y MGS rose modestly 1.6 bps to 3.508%, while the 10-Y GII fell 1.3 bps to 3.511%.
- **Key drivers**: The 10-Y MGS yields edged higher as global volatility intensified amid renewed geopolitical strains, including political uncertainty in Venezuela and rising tensions between China and Japan. These pressures were partly offset by Malaysia's resilient macro backdrop and steady investor participation. December saw strong foreign inflows of RM3.0b, underscoring sustained demand for local debt. Sentiment also improved after Prime Minister Anwar reaffirmed the government's commitment to governance reforms, fiscal support, and wage adjustments. Strategic cooperation with Türkiye in high-tech sectors added to the constructive tone, while a well-received GII auction, with a bid-to-cover (BTC) ratio of 2.30x, provided additional support.
- **Flows and outlook**: Net foreign bond buying slowed in December (RM3.0b; Nov: RM6.1b) but remained healthy. While MGS recorded a mild outflow of RM0.2b, GII saw large net inflows of RM2.4b in December (Nov: -RM1.1b), reflecting investors' preference for Shariah-compliant assets amid rising global risk and uncertainty. Local yields are likely to remain range-bound, underpinned by supportive domestic fundamentals. Today's labour, IPI, and retail sales data, along with next week's 4Q25 advance GDP release, should reinforce confidence in Malaysia's growth outlook. While geopolitical risks warrant monitoring, the balance of risks suggests limited upside pressure on yields, keeping conditions favourable for sustained investor interest. A stable sovereign rating outlook, along with the expectation that BNM would hold the OPR steady, reinforced Malaysia's appeal over the next six to 12 months.

United States Treasuries (UST)

- **Yield Movement:** UST yields also moved within a narrow range, ranging between -1.5 to 1.5 bps. The 10-Y remained broadly unchanged at 4.167%, while the 2-Y rose 1.5 bps to 3.488%.
- **Key drivers**: The 10-Y UST yield held steady as conflicting economic signals tempered volatility. Dovish remarks from Fed official Miran, who advocated substantial rate cuts in 2026, alongside softer-than-expected ADP employment data and a sharp contraction in manufacturing activity, were offset by resilient ISM services readings. By contrast, the rise in the 2-Y yield reflected heightened geopolitical risk, driven by geopolitics.
- **Outlook:** UST yields may edge modestly higher in the week ahead as markets digest key US data releases. Today's unemployment rate and non-farm payrolls will set the tone, while upcoming CPI and PPI prints, alongside Fed speakers' commentary, will shape rate expectations. Persistent geopolitical tensions remain a key risk, alongside the US Supreme Court's ruling on tariffs expected tomorrow.

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

	Long Term*				
	Q4-25	Q1-26F	Q2-26F	Q3-26F	Q4-26F
MGS	3.49	3.44	3.38	3.33	3.30
UST	4.17	4.15	4.18	4.20	4.20
USDMYR	4.06	4.05	4.02	3.99	3.95
OPR	2.75	2.75	2.75	2.75	2.75

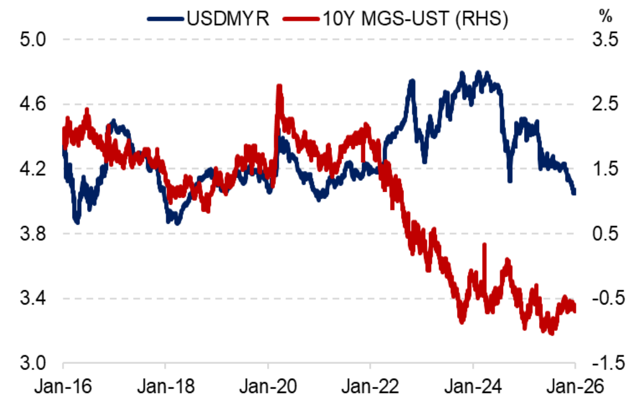
**F=Forecasts for end of period*
Source: Kenanga Research, Bloomberg

Table 2: Annual Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2025	2026	2025	2026
Reopening	67.5	-	61.5	5.0
New Issuances	15.0	-	24.5	-

Source: Kenanga Research, BNM, Macrobond

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



Source: Kenanga Research, Bloomberg

Auction Result

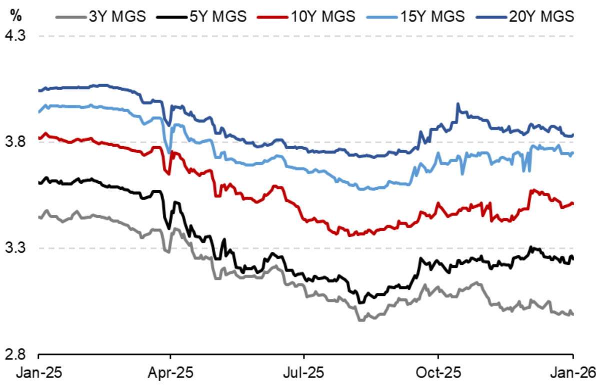
- The reopening of 5yr MGII 08/30 drew solid demand, with RM5.0b issued at an average yield of 3.268%, recording a BTC of 2.30x.
- The next issuance will be a new 15-year MGS maturing in January 2041, with RM4.0b on offer and an additional RM1.0b expected to be privately placed.

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 (%)
Dec	10-yr Reopening of MGS 07/35	12/12/2025	3,000.00	-	3,000.00	1.92	3.572%	3.579%	3.560%
Jan	5-yr Reopening of MGII 8/30 3.635%	8/1/2026	5,000.00	-	5,000.00	2.30	3.268%	3.272%	3.260%
	15-yr New Issue of MGS (Mat on 01/41)	-	4,000.00	1,000.00	5,000.00	-	-	-	-
	30-yr New Issue of MGII (Mat on 01/56)	-	-	-	-	-	-	-	-

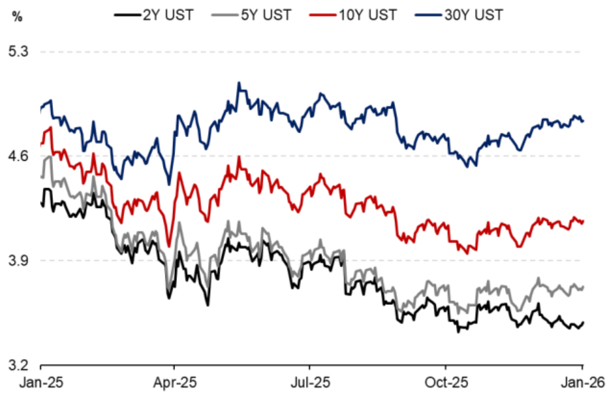
*Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio*

Graph 2: MGS Yield Trend



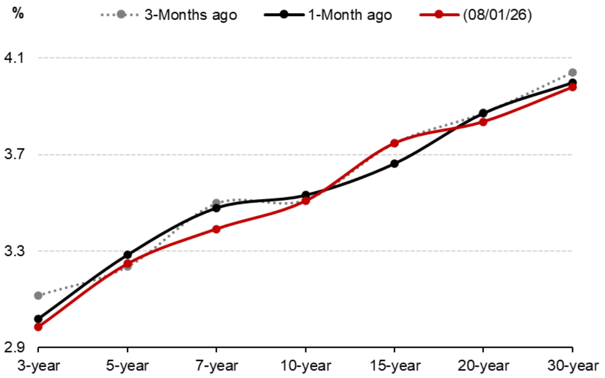
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



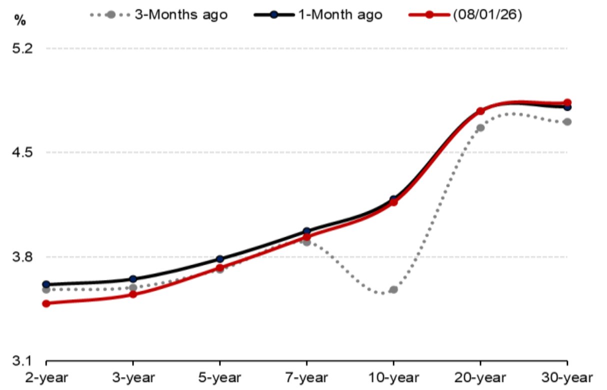
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



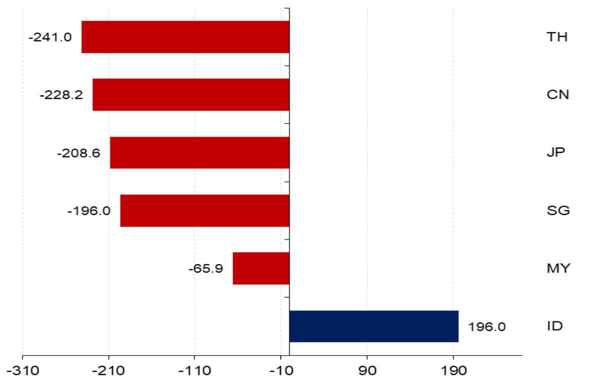
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

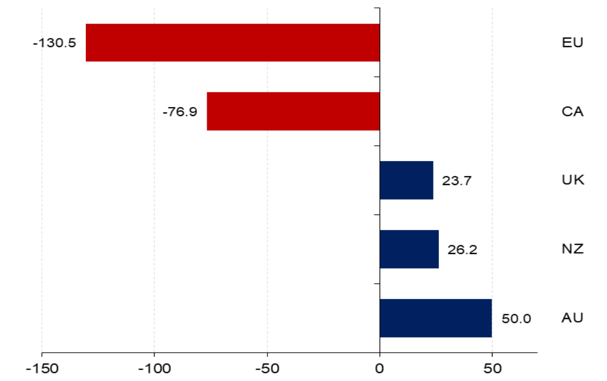
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



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	01/01/26 YTD	08/01/25 Last Year	09/12/25 Last Month	31/12/25 Last Week	08/01/26 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.980	4.174	3.999	3.980	3.979	-0.10	-19.50	-2.00	-0.10
20Y MGS	3.840	4.042	3.872	3.840	3.836	-0.40	-20.60	-3.60	-0.40
15Y MGS	3.746	3.940	3.663	3.746	3.747	0.10	-19.30	8.40	0.10
10Y MGS	3.492	3.819	3.532	3.492	3.508	1.60	-31.10	-2.40	1.60
7Y MGS	3.367	3.768	3.479	3.367	3.392	2.50	-37.60	-8.70	2.50
5Y MGS	3.256	3.609	3.284	3.256	3.248	-0.80	-36.10	-3.60	-0.80
3Y MGS	2.998	3.447	3.019	2.998	2.987	-1.10	-46.00	-3.20	-1.10
GII									
20Y GII	3.862	4.076	3.890	3.862	3.854	-0.80	-22.20	-3.60	-0.80
10Y GII	3.524	3.834	3.543	3.524	3.511	-1.30	-32.30	-3.20	-1.30
7Y GII	3.341	3.758	3.359	3.341	3.338	-0.30	-42.00	-2.10	-0.30
3Y GII	3.101	3.392	3.124	3.101	3.091	-1.00	-30.10	-3.30	-1.00
UST									
30Y UST	4.844	4.931	4.808	4.844	4.837	-0.71	-9.44	2.85	-0.71
20Y UST	4.793	4.992	4.779	4.793	4.778	-1.48	-21.39	-0.10	-1.48
10Y UST	4.167	4.689	4.188	4.167	4.167	0.02	-52.20	-2.06	0.02
7Y UST	3.939	4.576	3.972	3.939	3.934	-0.51	-64.21	-3.81	-0.51
5Y UST	3.725	4.461	3.787	3.725	3.727	0.20	-73.42	-5.95	0.20
3Y UST	3.539	4.351	3.653	3.539	3.547	0.85	-80.36	-10.51	0.85
2Y UST	3.473	4.283	3.615	3.473	3.488	1.51	-79.47	-12.66	1.51
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.854	2.546	2.848	2.854	2.862	0.84	31.62	1.38	0.84
10Y UK	4.479	4.796	4.505	4.479	4.404	-7.43	-39.16	-10.04	-7.43
10Y JP	2.066	1.178	1.965	2.066	2.081	1.50	90.30	11.60	1.50
10Y CN	1.855	1.609	1.836	1.855	1.886	3.09	27.65	4.96	3.09
10Y SG	2.117	3.012	2.117	2.117	2.207	9.07	-80.42	9.05	9.07
10Y ID	6.086	7.178	6.210	6.086	6.127	4.10	-105.10	-8.30	4.10
10Y TH	1.659	2.346	1.711	1.659	1.757	9.84	-58.89	4.68	9.84

Source: Kenanga Research, Bloomberg

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