Bond Market Weekly Outlook

Yields rise as "Duration Risk" triggers reassessment as war premium builds

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

- **Yield Movement:** MGS and GII mostly rose this week, moving between -0.5 to 8.8 basis points (bps). The 10-Y MGS increased 4.8 bps to 3.603%, while the 10-Y GII rose 4.9 bps to 3.586%.
- **Key drivers**: Domestic yields tracked firmer global rates as the "prolonged war" narrative gained traction. Resilient fundamentals and semiconductor optimism provided some support, but the ringgit's depreciation toward 4.00 against the USD weighed on sentiment. Escalating Middle East tensions and US troop deployments sustained upside risks to energy-driven inflation elevated. Consequently, the festive-shortened week, investors turned defensive as they assessed risks from a potential massive disruption to the Strait of Hormuz.
- **Flows and outlook:** Foreign investors remained net buyers with RM5.1b in inflows last week. Momentum may ease as the MYR nears the 4.00 psychological handle. MGS yields are likely to face upward pressure next week as markets price in a conflict extending into late 2026. Domestic focus will be on the BNM Economic and Monetary Review 2025 and potential fuel subsidy adjustments. We expect yields to trend higher alongside a hawkish Fed until clearer signs of de-escalation emerge.

United States Treasuries (UST)

- **Yield Movement:** UST yields surged across the curve, rising between 9.5 to 21.3 bps. The 10-Y rose 16.2 bps to 4.412% while the 2-Y increased 19.3 bps to 3.986%.
- **Key drivers**: Yields climbed on rising Middle East tensions and mixed signals on US–Iran negotiations. Inflation concerns resurfaced after the largest rise in import prices in four years, while low jobless claims confirmed labour market tightness. Hawkish Fed rhetoric, including Chair Powell's emphasis on inflation resolve, reinforced the "higher-for-longer" narrative. Weak demand at the USD69.0b 2-year auction added pressure to the front end as investors demanded higher term premium.
- **Outlook:** UST yields are likely to remain on an upward trajectory as tensions sustain energy-driven inflation risks. A cautious Fed remains the base case, with markets watching upcoming JOLTS and nonfarm payrolls data. That said, the 10-day strike extension window may limit near-term volatility. We expect the UST curve to stay under pressure until the Fed sees clear signs of cooling demand or geopolitical tension ease.

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	3.54	3.48	3.43	3.40
UST	4.17	4.25	4.28	4.30	4.30
USDMYR	4.06	3.95	3.88	3.90	3.95
OPR	2.75	2.75	2.75	2.75	2.75

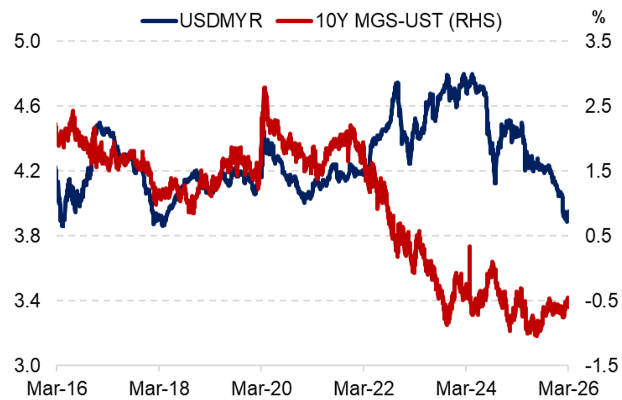
**F=Forecasts for end of period*
Source: Kenanga Research, Bloomberg

Table 2: Annual Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2025	2026	2025	2026
Reopening	67.5	10.0	61.5	15.0
New Issuances	15.0	10.0	24.5	5.0

Source: Kenanga Research, BNM, Macrobond

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



Source: Kenanga Research, Bloomberg

Auction Result

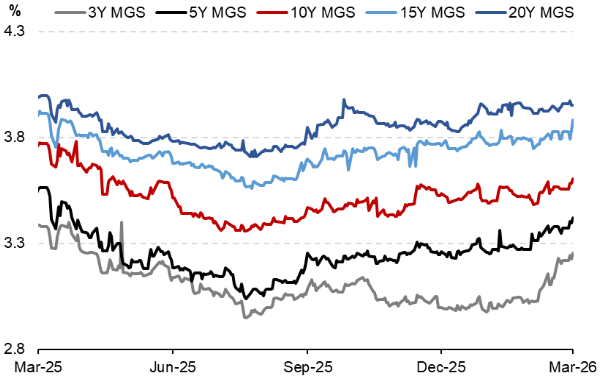
- There was no reopening or issuance this week
- The next auction will be a new 7-year MGII issuance, with RM5.0b to be issued and no private placement.

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 (%)
Feb	10-yr Reopening of MGS 7/35 3.476%	05/02/2026	5,000.00	-	5,000.00	1.60	3.572	3.581	3.559
	20-yr Reopening of MGII 5/45 3.775%	16/02/2026	3,000.00	2,000.00	5,000.00	2.90	3.990	3.994	3.959
	5-yr Reopening of MGS 6/31 4.232%	26/02/2026	-	-	5,000.00	2.92	3.359	3.361	3.350
Mar	15-yr Reopening of MGII 7/40 3.974%	09/03/2026	3,000.00	2,000.00	5,000.00	2.30	3.895	3.905	3.875
	3-yr New Issue of MGS (Mat on 03/29)	13/03/2026	-	-	5,000.00	2.22	3.237	3.242	3.230
	7-yr New Issue of MGII (Mat on 03/33)	-	-	-	-	-	-	-	-

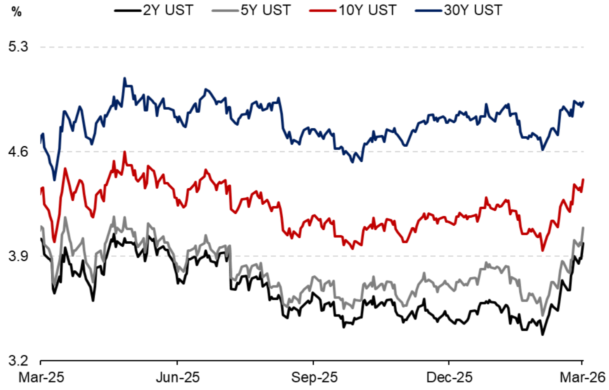
*Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio*

Graph 2: MGS Yield Trend



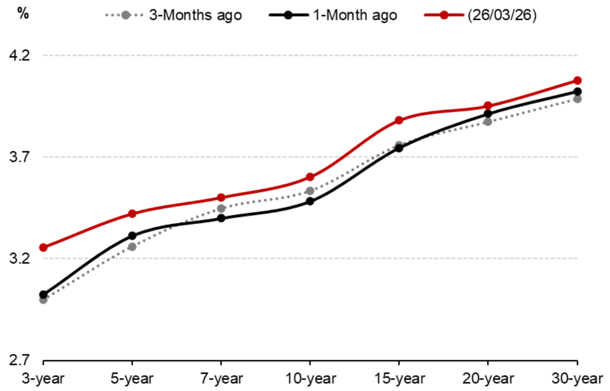
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



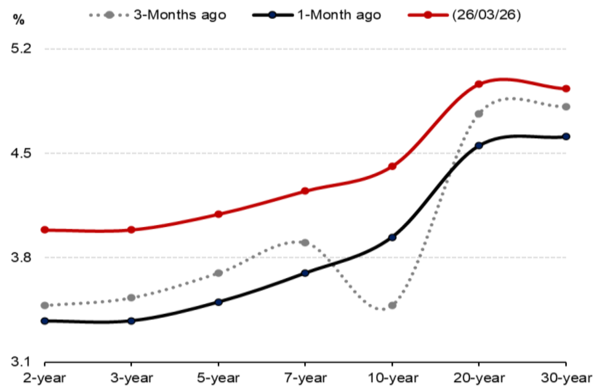
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



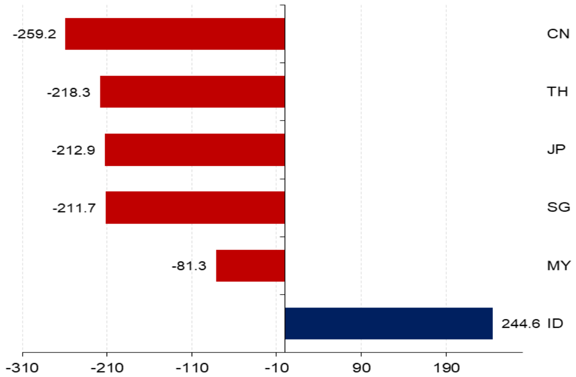
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

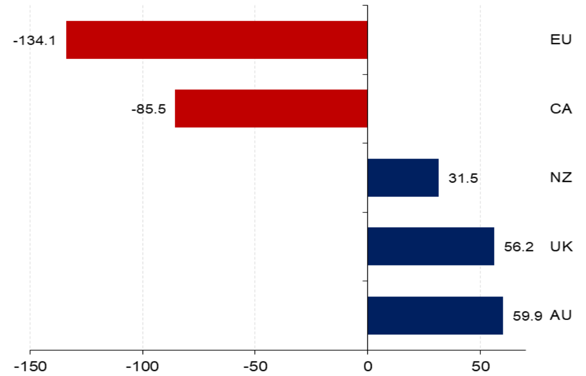
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



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	26/03/25 Last Year	27/02/26 Last Month	19/03/26 Last Week	26/03/26 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.980	4.140	4.023	4.046	4.079	9.90	-6.10	5.60	3.30
20Y MGS	3.840	3.988	3.913	3.958	3.953	11.30	-3.50	4.00	-0.50
15Y MGS	3.746	3.905	3.746	3.828	3.882	13.60	-2.30	13.60	5.40
10Y MGS	3.492	3.763	3.483	3.555	3.603	11.10	-16.00	12.00	4.80
7Y MGS	3.367	3.703	3.399	3.444	3.501	13.40	-20.20	10.20	5.70
5Y MGS	3.256	3.554	3.313	3.370	3.421	16.50	-13.30	10.80	5.10
3Y MGS	2.998	3.385	3.025	3.219	3.255	25.70	-13.00	23.00	3.60
GII									
20Y GII	3.862	4.004	3.944	3.949	3.971	10.90	-3.30	2.70	2.20
10Y GII	3.524	3.759	3.527	3.537	3.586	6.20	-17.30	5.90	4.90
7Y GII	3.341	3.697	3.376	3.391	3.479	13.80	-21.80	10.30	8.80
3Y GII	3.101	3.501	3.106	3.187	3.219	11.80	-28.20	11.30	3.20
UST									
30Y UST	4.844	4.702	4.611	4.837	4.933	8.90	23.06	32.20	9.54
20Y UST	4.793	4.726	4.551	4.830	4.962	16.92	23.56	41.15	13.18
10Y UST	4.167	4.352	3.938	4.249	4.412	24.47	5.98	47.42	16.24
7Y UST	3.939	4.227	3.696	4.054	4.246	30.68	1.93	54.99	19.19
5Y UST	3.725	4.098	3.502	3.878	4.091	36.60	-0.72	58.95	21.33
3Y UST	3.539	4.013	3.377	3.790	3.987	44.82	-2.56	61.06	19.69
2Y UST	3.473	4.017	3.375	3.792	3.986	51.28	-3.08	61.09	19.34
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.854	2.794	2.643	2.957	3.071	21.70	27.70	42.80	11.40
10Y UK	4.479	4.728	4.233	4.843	4.974	49.50	24.60	74.10	13.10
10Y JP	2.066	1.586	2.120	2.277	2.283	21.70	69.70	16.30	0.60
10Y CN	1.855	1.804	1.809	1.840	1.820	-3.50	1.60	1.10	-2.00
10Y SG	2.117	2.752	0.000	2.147	2.295	17.80	-45.76	229.46	14.74
10Y ID	6.070	7.126	6.427	6.865	6.858	78.80	-26.80	43.10	-0.70
10Y TH	1.659	2.074	1.707	2.099	2.229	56.98	15.46	52.19	12.95

Source: Kenanga Research, Bloomberg

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