Bond Market Weekly Outlook

Geopolitics and Fed repricing weigh on local bonds; May flows turn negative

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

- **Yield Movement:** MGS and GII yields mostly declined this week, moving in a range of -5.0 to +2.0 bps range. The 10-Y MGS fell 1.3 bps to 3.560%, while the 10-Y GII decreased 0.5 bps to 3.604%.
- **Key drivers**: Local yields remained relatively stable despite renewed global volatility. Investors tracked fragile US-Iran negotiations and persistent Strait of Hormuz disruptions, which kept oil prices elevated and global inflation concerns in play. Growing expectations that the Fed will maintain restrictive policy stance supported higher global yields and capped downside in the local curve. Domestically, May PMI softened to 49.9, while renewed uncertainty surrounding the proposed US Section 301 tariff on Malaysian exports added to investor caution, though external developments remained the dominant market driver.
- **Flows and outlook:** Foreign flows turned negative, with government bonds recording RM6.7b in outflows during May. Bursa Malaysia also saw RM3.6b in foreign equity outflows driven by MSCI rebalancing and cautious investor positioning. Next week, domestic focus shifts to labour market, IPI and retail sales data. Investors will also monitor developments on the proposed US tariff measures and the upcoming Johor state election. Externally, US inflation, labour market data and US-Iran negotiation progress remain the key drivers. Stable domestic conditions should keep MGS yields broadly range-bound, but external risks continue to bias yields modestly higher.

United States Treasuries (UST)

- **Yield Movement:** UST yields rose this week, gaining between 0.2 and 3.4 bps. The 10-Y yield increased 2.6 bps to 4.473%, while the 2-Y rose 2.3 bps to 4.043%
- **Key drivers**: Treasury yields moved higher as resilient US economic data reinforced expectations that the Fed will keep policy restrictive for longer. Markets continued to track US-Iran negotiations closely, with the lack of tangible progress keeping oil prices elevated and inflation concerns persistent. Investors also reassessed the likelihood of further Fed tightening as labour market conditions stayed firm and inflation risks remained skewed to the upside. Beyond near-term geopolitical developments, rising bond supply and elevated real yields continued to exert an underlying upward pressure on longer-dated UST yields.
- **Outlook:** Treasury markets will focus on tonight's payrolls report and unemployment rate, alongside next week's US inflation data. Labour market resilience and a stable unemployment rate near 4.3% would reinforce expectations for a prolonged restrictive Fed stance, especially given elevated oil-driven inflation risks. Investors will also continue to assess whether negotiations can deliver meaningful progress towards restoring normal energy flows through the Strait of Hormuz. We expect the 10-Y UST yield to remain biased higher near term, though incoming data will determine whether yields can decisively break recent highs or remain range-bound.

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

	Long Term*				
	Q1-26	Q2-26F	Q3-26F	Q4-26F	Q1-27F
MGS	3.64	3.48	3.43	3.40	3.43
UST	4.32	4.28	4.30	4.30	4.21
USDMYR	4.05	4.00	3.98	3.95	4.00
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	25.0	61.5	25.0
New Issuances	15.0	15.0	24.5	10.0

Source: Kenanga Research, BNM, Macrobond

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

Source: Kenanga Research, Bloomberg

Auction Result

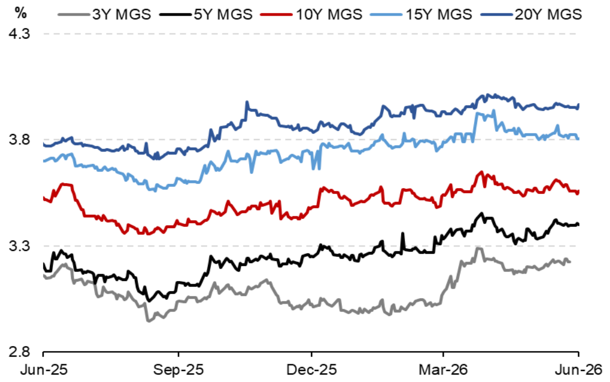
- 3-Y MGS 03/29: The reopening saw lukewarm demand, with RM5.0b issued at an average yield of 3.243%; bid-to-cover ratio of 1.93x (2025 average: 2.55x).
- Upcoming Auction: Reopening of the 15-Y MGII; RM5.0b to be issued, with no private placement.

Table 3: 2026 Auction Calendar

Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
May	10-yr Reopening of MGII 4/35 3.612%	15/05/2026	5,000.00	-	5,000.00	2.87	3.600	3.607	3.593
	7-yr Reopening of MGS 4/33 3.844%	21/05/2026	5,000.00	-	5,000.00	2.59	3.580	3.583	3.570
	30-yr Reopening of MGII 1/56	28/05/2026	3,000.00	2,000.00	5,000.00	2.29	4.103	4.110	4.095
Jun	3-yr Reopening of MGS 3/29	05/06/2026	5,000.00	-	5,000.00	1.93	3.243	3.249	3.228
	15-yr Reopening of MGII 7/40 3.974%	-	-	-	-	-	-	-	-
	5-yr Reopening of MGS 6/31 4.232%	-	-	-	-	-	-	-	-
	20-yr Reopening of MGII 5/45 3.775%	-	-	-	-	-	-	-	-

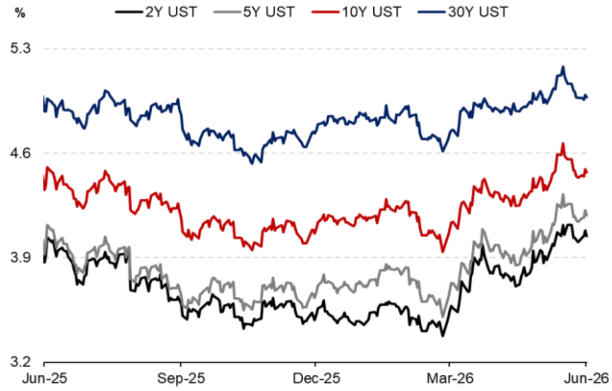
*Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio*

Graph 2: MGS Yield Trend



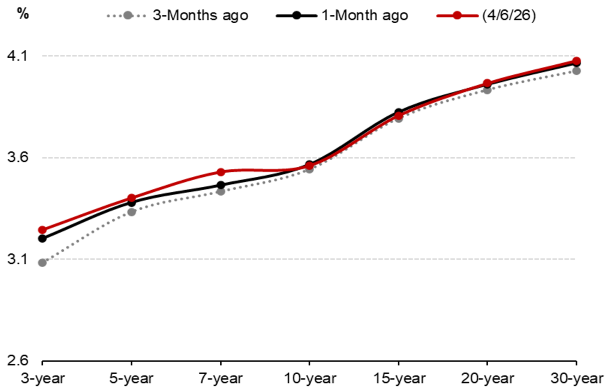
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



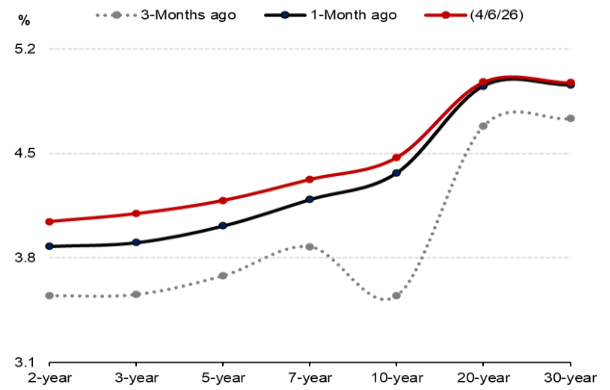
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



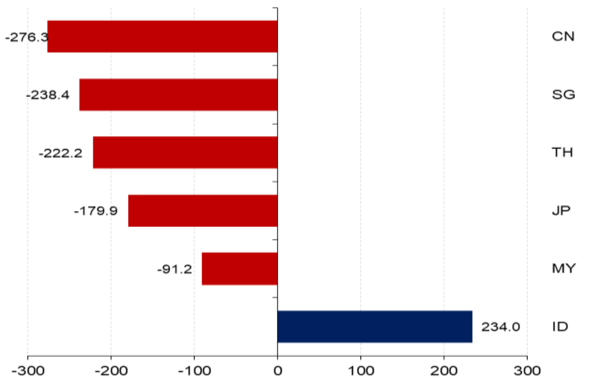
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

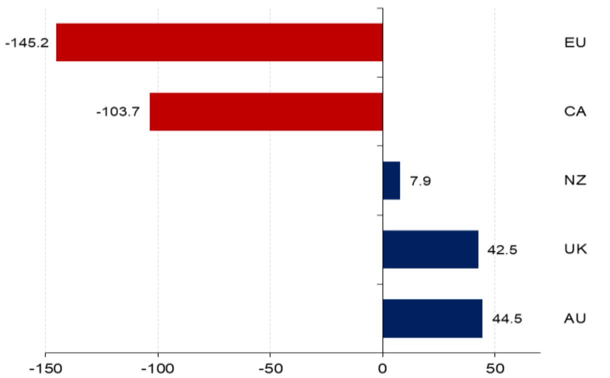
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



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	05/06/25 Last Year	01/05/26 Last Month	28/05/26 Last Week	04/06/26 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.980	4.006	4.066	4.082	4.076	9.60	7.00	1.00	-0.60
20Y MGS	3.840	3.774	3.961	3.959	3.965	12.50	19.10	0.40	0.60
15Y MGS	3.746	3.702	3.824	3.807	3.806	6.00	10.40	-1.80	-0.10
10Y MGS	3.492	3.520	3.566	3.573	3.560	6.80	4.00	-0.60	-1.30
7Y MGS	3.367	3.407	3.464	3.579	3.529	16.20	12.20	6.50	-5.00
5Y MGS	3.256	3.197	3.379	3.393	3.401	14.50	20.40	2.20	0.80
3Y MGS	2.998	3.157	3.201	3.224	3.244	24.60	8.70	4.30	2.00
GII									
20Y GII	3.862	3.765	3.958	3.973	3.968	10.60	20.30	1.00	-0.50
10Y GII	3.524	3.532	3.554	3.609	3.604	8.00	7.20	5.00	-0.50
7Y GII	3.341	3.408	3.482	3.557	3.542	20.10	13.40	6.00	-1.50
3Y GII	3.101	3.167	3.179	3.221	3.226	12.50	5.90	4.70	0.50
UST									
30Y UST	4.844	4.878	4.959	4.973	4.975	13.10	9.71	1.61	0.20
20Y UST	4.793	4.895	4.953	4.972	4.979	18.58	8.39	2.60	0.62
10Y UST	4.167	4.391	4.370	4.447	4.473	30.59	8.23	10.31	2.56
7Y UST	3.939	4.180	4.191	4.292	4.326	38.63	14.62	13.44	3.40
5Y UST	3.725	3.991	4.014	4.153	4.184	45.92	19.33	17.00	3.15
3Y UST	3.539	3.894	3.903	4.070	4.096	55.73	20.22	19.35	2.67
2Y UST	3.473	3.920	3.878	4.021	4.043	57.01	12.30	16.56	2.26
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.854	2.579	3.035	2.961	3.021	16.70	44.20	-1.40	6.00
10Y UK	4.479	4.616	4.964	4.814	4.898	41.90	28.20	-6.60	8.40
10Y JP	2.066	1.467	2.518	2.701	2.674	60.80	120.70	15.60	-2.70
10Y CN	1.855	1.703	1.752	1.724	1.710	-14.50	0.70	-4.20	-1.40
10Y SG	2.117	2.330	2.105	2.057	2.089	-2.81	-24.14	-1.65	3.12
10Y ID	6.070	6.774	6.853	6.709	6.813	74.30	3.90	-4.00	10.40
10Y TH	1.659	1.712	2.199	2.342	2.251	59.22	53.89	5.21	-9.10

Source: Kenanga Research, Bloomberg

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