

Bond Market Weekly Outlook

Higher-for-longer Fed narrative keeps yield elevated

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

- Yield Movement:** MGS and GII yields mostly increased this week, rising between 0.3 and 4.8 bps. The 10-Y MGS yield rose 4.0 bps to 3.600%, while the 10-Y GII yield increased 2.9 bps to 3.633%.
- Key drivers:** Local bond yields moved higher as investors adjusted to a firmer US rates outlook. Foreign investors turned net sellers of Malaysian bonds in May, recording RM4.3b of outflows (Apr: +RM3.8b), as stronger US data and rising expectations of a higher-for-longer Fed reduced the appeal of duration assets. While Malaysia's unemployment rate edged up to 3.0% in April, broader macro conditions remain supportive, with domestic growth showing resilience. Geopolitical uncertainty and elevated oil prices also kept inflation risks in focus, contributing to upward pressure on yields.
- Flows and outlook:** Foreign investors returned as marginal buyers of government bonds in the first week of June, recording RMO.3b of inflows. Focus now shifts to Malaysia's IPI, retail sales, CPI and trade data for further confirmation of domestic growth momentum. Externally, markets will closely watch next week's FOMC meeting for signs that policymakers are moving towards a more neutral policy stance rather than signalling imminent easing. We expect local yields to remain biased higher in the near term as elevated US yields and cautious investor positioning continue to shape market sentiment.

United States Treasuries (UST)

- Yield Movement:** UST yields were mixed this week, ranging from -1.9 to +1.9 bps. The 10-Y UST yield declined 1.2 bps to 4.461%, while the 2-Y yield rose 1.9 bps to 4.062%.
- Key drivers:** Treasury markets continued to reflect a higher-for-longer policy narrative. While softer-than-expected CPI and signs of gradual labour market moderation provided support to longer-dated Treasuries, markets continued to price restrictive policy settings amid resilient economic activity and persistent inflation concerns. Expectations that the Fed will remain on hold for an extended period kept front-end yields elevated, while uncertainty surrounding energy prices and geopolitical developments limited the decline in longer-dated yields.
- Outlook:** Attention will centre on next week's FOMC meeting, alongside retail sales and industrial production data, for further clues on the Fed's reaction function. Our baseline remains that the Fed stays on the sidelines rather than pivoting towards either rate cuts or hikes in the near term. However, stable employment conditions and lingering inflation risks suggest policy easing faces a high hurdle, which should keep Treasury yields elevated. We continue to expect the 10-Y UST yield to trade around the 4.50% area in the coming months, with risks skewed towards 4.75% should energy-related inflation pressures intensify.

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

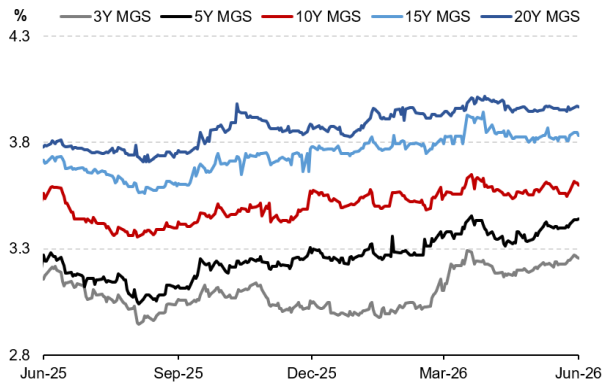
- There was no reopening or issuance this week
- Upcoming Auction: Reopening of the 15-Y MGII; RM3.5b to be issued, with an additional of RM1.5b to be privately placed.

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% | - | 3,500.00 | 1,500.00 | 5,000.00 | - | - | - | - |
| | 5-yr Reopening of MGS 6/31 4.232% | - | - | - | - | - | - | - | - |
| | 20-yr Reopening of MGII 5/45 3.775% | - | - | - | - | - | - | - | - |

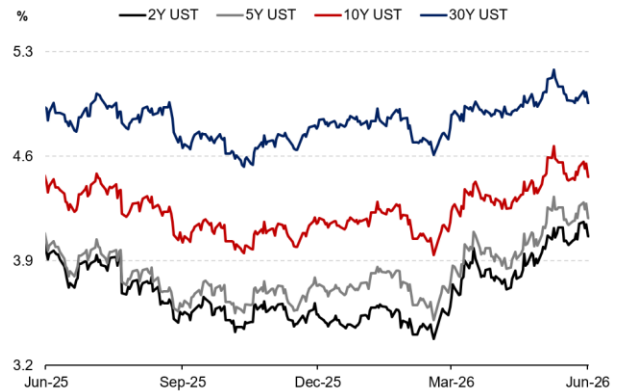
Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio

Graph 2: MGS Yield Trend



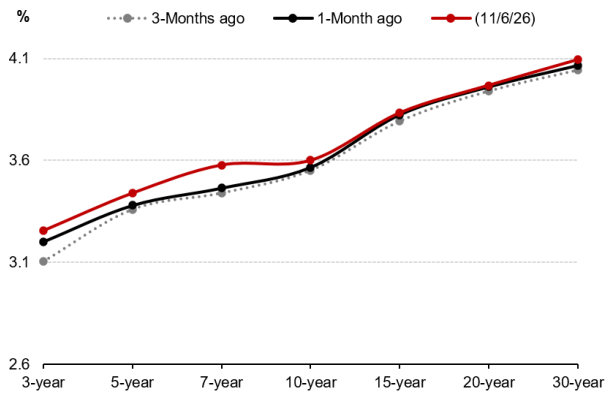
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



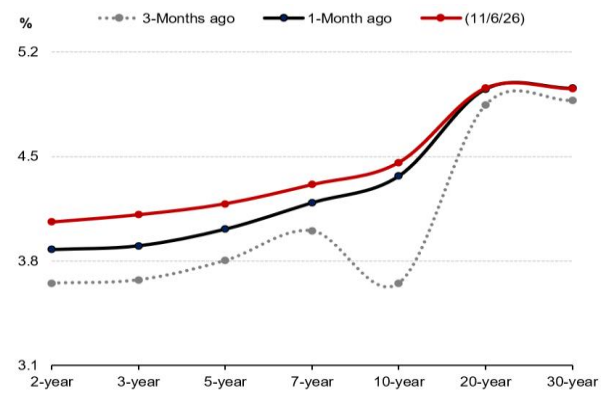
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



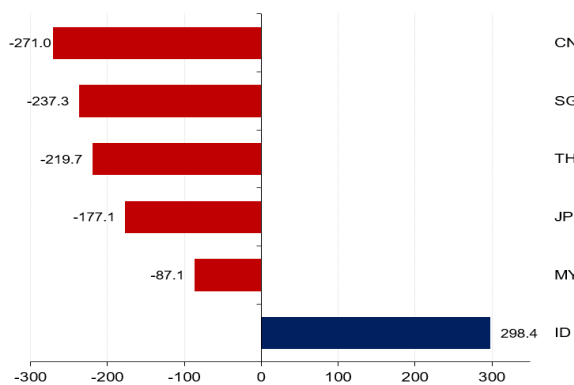
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



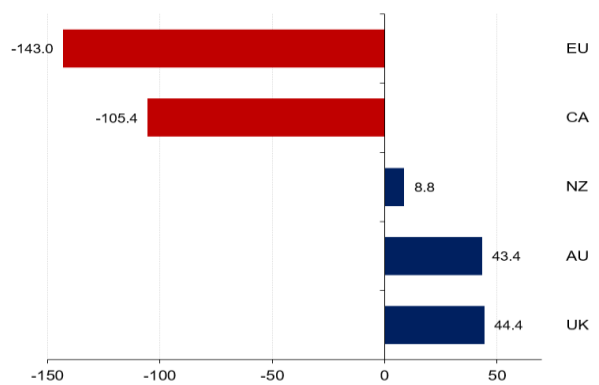
Source: Kenanga Research, Bloomberg

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

12 June 2026

Table 3: Bond Yield Movements

| Bonds | 01/01/26 YTD | 12/06/25 Last Year | 01/05/26 Last Month | 04/06/26 Last Week | 11/06/26 Yesterday | ytd (bps) | yoy (bps) | mom (bps) | wow (bps) |
|-----------------------------------|-----------------|-----------------------|------------------------|-----------------------|-----------------------|-----------|-----------|-----------|-----------|
| MGS | | | | | | | | | |
| 30Y MGS | 3.980 | 4.015 | 4.066 | 4.076 | 4.094 | 11.40 | 7.90 | 2.80 | 1.80 |
| 20Y MGS | 3.840 | 3.785 | 3.961 | 3.965 | 3.968 | 12.80 | 18.30 | 0.70 | 0.30 |
| 15Y MGS | 3.746 | 3.700 | 3.824 | 3.806 | 3.833 | 8.70 | 13.30 | 0.90 | 2.70 |
| 10Y MGS | 3.492 | 3.535 | 3.566 | 3.560 | 3.600 | 10.80 | 6.50 | 3.40 | 4.00 |
| 7Y MGS | 3.367 | 3.441 | 3.464 | 3.529 | 3.577 | 21.00 | 13.60 | 11.30 | 4.80 |
| 5Y MGS | 3.256 | 3.240 | 3.379 | 3.401 | 3.439 | 18.30 | 19.90 | 6.00 | 3.80 |
| 3Y MGS | 2.998 | 3.173 | 3.201 | 3.244 | 3.255 | 25.70 | 8.20 | 5.40 | 1.10 |
| GII | | | | | | | | | |
| 20Y GII | 3.862 | 3.772 | 3.958 | 3.968 | 3.980 | 11.80 | 20.80 | 2.20 | 1.20 |
| 10Y GII | 3.524 | 3.556 | 3.554 | 3.604 | 3.633 | 10.90 | 7.70 | 7.90 | 2.90 |
| 7Y GII | 3.341 | 3.416 | 3.482 | 3.542 | 3.562 | 22.10 | 14.60 | 8.00 | 2.00 |
| 3Y GII | 3.101 | 3.176 | 3.179 | 3.226 | 3.254 | 15.30 | 7.80 | 7.50 | 2.80 |
| UST | | | | | | | | | |
| 30Y UST | 4.844 | 4.841 | 4.959 | 4.975 | 4.955 | 11.18 | 11.42 | -0.31 | -1.92 |
| 20Y UST | 4.793 | 4.856 | 4.953 | 4.979 | 4.960 | 16.71 | 10.44 | 0.73 | -1.87 |
| 10Y UST | 4.167 | 4.359 | 4.370 | 4.473 | 4.461 | 29.41 | 10.19 | 9.13 | -1.18 |
| 7Y UST | 3.939 | 4.148 | 4.191 | 4.326 | 4.313 | 37.33 | 16.45 | 12.14 | -1.30 |
| 5Y UST | 3.725 | 3.967 | 4.014 | 4.184 | 4.185 | 45.93 | 21.80 | 17.01 | 0.01 |
| 3Y UST | 3.539 | 3.869 | 3.903 | 4.096 | 4.111 | 57.21 | 24.16 | 20.83 | 1.48 |
| 2Y UST | 3.473 | 3.908 | 3.878 | 4.043 | 4.062 | 58.89 | 15.42 | 18.44 | 1.88 |
| MAJOR 10Y GOVERNMENT BONDS | | | | | | | | | |
| 10Y EU | 2.854 | 2.475 | 3.035 | 3.021 | 3.031 | 17.70 | 55.60 | -0.40 | 1.00 |
| 10Y UK | 4.479 | 4.477 | 4.964 | 4.898 | 4.905 | 42.60 | 42.80 | -5.90 | 0.70 |
| 10Y JP | 2.066 | 1.452 | 2.518 | 2.674 | 2.690 | 62.40 | 123.80 | 17.20 | 1.60 |
| 10Y CN | 1.855 | 1.703 | 1.752 | 1.710 | 1.751 | -10.40 | 4.80 | -0.10 | 4.10 |
| 10Y SG | 2.117 | 2.286 | 2.105 | 2.089 | 2.088 | -2.83 | -19.79 | -1.67 | -0.02 |
| 10Y ID | 6.070 | 6.686 | 6.853 | 6.813 | 7.445 | 137.50 | 75.90 | 59.20 | 63.20 |
| 10Y TH | 1.659 | 1.686 | 2.199 | 2.251 | 2.264 | 60.47 | 57.80 | 6.47 | 1.25 |

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

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

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