Bond Market Weekly Outlook

Geopolitical easing meets hawkish repricing: yields stay supported across curves

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

- **Yield Movement:** MGS and GII yields were mostly lower this week, ranging between -3.2 bps and 0.6 bps. The 10-Y MGS yield declined 1.2 bps to 3.596%, while the 10-Y GII yield fell 3.2 bps to 3.601%.
- **Key drivers:** Local government bond yields were mixed but tilted lower, supported by easing geopolitical tensions and sustained demand for duration. The US-Iran agreement and reopening of the Strait of Hormuz contributed to lower oil prices, helping to alleviate inflation concerns and improve risk sentiment. Domestically, stronger-than-expected April IPI growth of 8.2% YoY and robust demand at the 15-Y GII reopening auction, which recorded a bid-to-cover (BTC) ratio of 3.41x, reinforced confidence in Malaysia's economic. While the FOMC's hawkish pivot and policy tightening by the BoJ added some upward pressure through global rates, these effects were largely offset by favourable domestic demand conditions.
- **Flows and outlook:** Foreign investors returned to the government bond market last week with RM3.7b of net inflows, including RM3.0b on 12 June alone, while equities recorded a fifth consecutive week of foreign selling. Attention now turns to Malaysia's export and CPI data, which are expected to point to resilient external demand and stable inflation conditions. Easing geopolitical tensions and continued demand for duration should remain supportive of local bond sentiment. While a more hawkish Fed may generate intermittent volatility through global rates, we expect MGS yields to remain broadly stable to slightly lower, supported by resilient domestic fundamentals and favourable demand-supply dynamics.

United States Treasuries (UST)

- **Yield Movement:** UST yields were mixed this week, ranging from -5.8 to 11.5 bps. The 2-Y UST yield rose 11.5 bps to 4.177%, while the 10-Y UST yield edged 0.8 bps lower to 4.453%.
- **Key drivers**: Treasury yields diverged across the curve following the FOMC's hawkish shift. Front-end yields moved higher as investors pared back easing expectations and repriced the possibility of further tightening under Chair Kevin Warsh. In contrast, longer-dated yields remained relatively contained as rising real yields, rather than inflation compensation, drove the move, suggesting markets viewed the Fed's stance as reinforcing its inflation-fighting credibility. The US-Iran agreement and lower oil prices also helped ease inflation concerns, limiting upward pressure on the long end despite resilient US economic data and a firmer policy outlook.
- **Outlook:** Focus next week will be on core PCE inflation and jobless claims data for further signals on growth and inflation. Our baseline assumes the Fed maintains its hawkish bias while the US-Iran negotiation process remains broadly intact despite lingering uncertainties. The front end remains vulnerable to additional hawkish repricing should inflation remain firm and markets further reduce expectations for policy easing. However, moderating growth, fading geopolitical risk premiums and a credible commitment to price stability should help keep longer-dated yields broadly anchored. We therefore maintain our year-end 10-Y UST yield forecast of 4.30%, although near-term risks remain tilted towards higher yields.

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	4.08	4.03	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	30.0
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

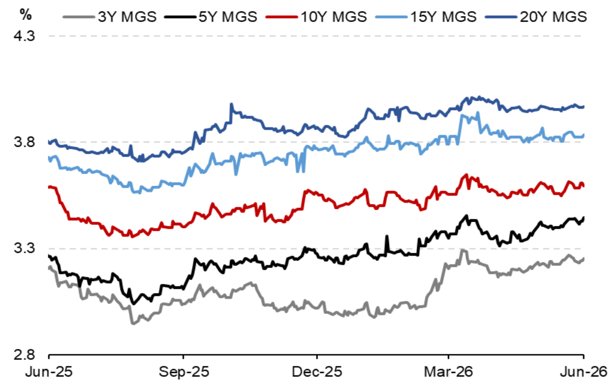
- 15-Y MGII 07/40 (reopening): The reopening attracted strong demand, with RM3.5b issued via auction at an average yield of 3.898%, alongside RM1.5b privately placed. The auction recorded a robust BTC ratio of 3.41x, well above the 2025 average of 2.55x.
- Upcoming Auction: Reopening of the 5-Y MGS; RM5.0b to be issued, without any 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%	12/06/2026	3,500.00	1,500.00	5,000.00	3.41	3.898	3.902	3.891
	5-yr Reopening of MGS 6/31 4.232%	-	-	-	-	-	-	-	-
	20-yr Reopening of MGII 5/45 3.775%	-	-	-	-	-	-	-	-

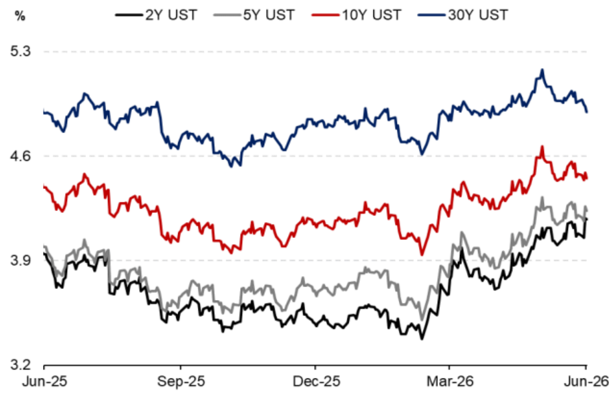
*Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio*

Graph 2: MGS Yield Trend



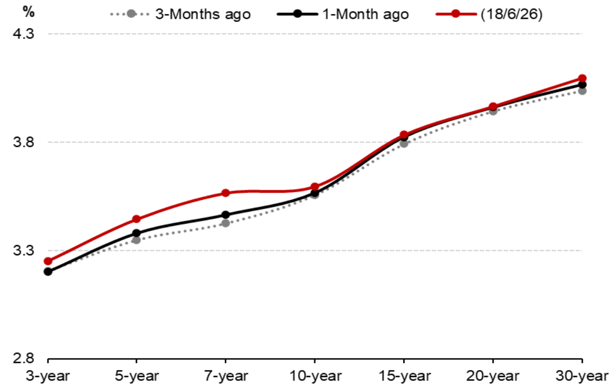
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



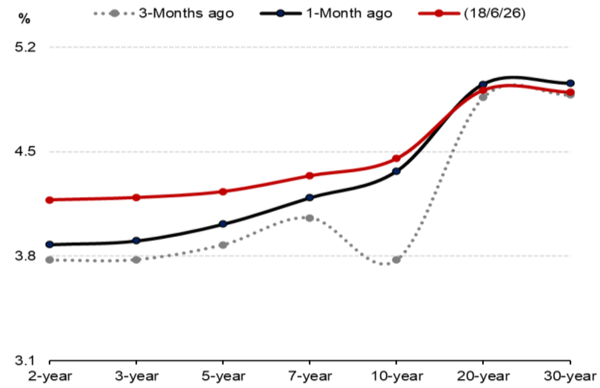
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



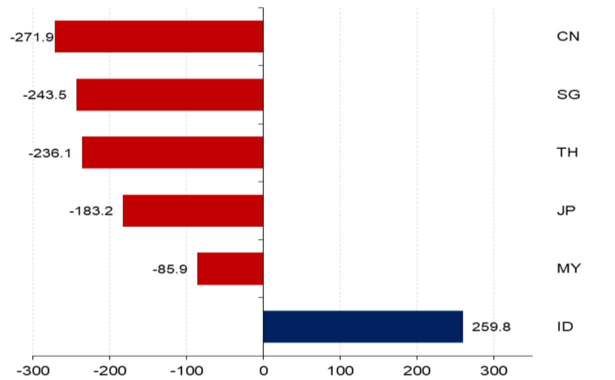
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

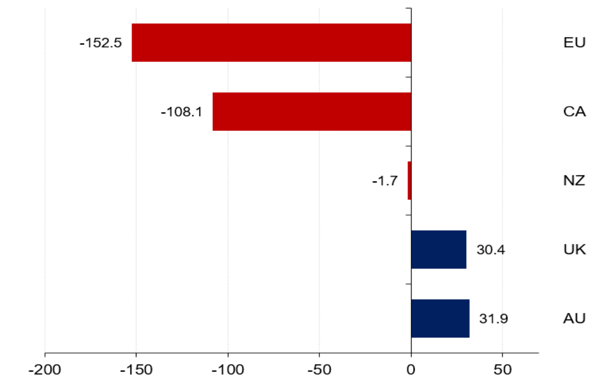
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



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	19/06/25 Last Year	01/05/26 Last Month	11/06/26 Last Week	18/06/26 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.980	4.009	4.066	4.095	4.097	11.70	8.80	3.10	0.20
20Y MGS	3.840	3.795	3.961	3.968	3.966	12.60	17.10	0.50	-0.20
15Y MGS	3.746	3.712	3.824	3.833	3.834	8.80	12.20	1.00	0.10
10Y MGS	3.492	3.590	3.566	3.600	3.596	10.40	0.60	3.00	-0.40
7Y MGS	3.367	3.490	3.464	3.577	3.565	19.80	7.50	10.10	-1.20
5Y MGS	3.256	3.262	3.379	3.439	3.445	18.90	18.30	6.60	0.60
3Y MGS	2.998	3.216	3.201	3.255	3.251	25.30	3.50	5.00	-0.40
GII									
20Y GII	3.862	3.778	3.958	3.980	3.978	11.60	20.00	2.00	-0.20
10Y GII	3.524	3.574	3.554	3.633	3.601	7.70	2.70	4.70	-3.20
7Y GII	3.341	3.441	3.482	3.562	3.551	21.00	11.00	6.90	-1.10
3Y GII	3.101	3.218	3.179	3.254	3.237	13.60	1.90	5.80	-1.70
UST									
30Y UST	4.844	4.889	4.959	4.955	4.898	5.40	0.89	-6.09	-5.78
20Y UST	4.793	4.904	4.953	4.960	4.912	11.88	0.73	-4.10	-4.83
10Y UST	4.167	4.391	4.370	4.461	4.453	28.63	6.24	8.35	-0.78
7Y UST	3.939	4.177	4.191	4.313	4.338	39.84	16.08	14.65	2.51
5Y UST	3.725	3.991	4.014	4.185	4.232	50.72	24.16	21.80	4.79
3Y UST	3.539	3.894	3.903	4.111	4.192	65.34	29.79	28.96	8.13
2Y UST	3.473	3.941	3.878	4.062	4.177	70.37	23.53	29.92	11.48
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.854	2.520	3.035	3.031	2.928	7.40	40.80	-10.70	-10.30
10Y UK	4.479	4.530	4.964	4.905	4.757	27.80	22.70	-20.70	-14.80
10Y JP	2.066	1.419	2.518	2.690	2.621	55.50	120.20	10.30	-6.90
10Y CN	1.855	1.642	1.752	1.751	1.734	-12.10	9.20	-1.80	-1.70
10Y SG	2.117	2.302	2.105	2.088	2.018	-9.82	-28.40	-8.66	-6.99
10Y ID	6.070	6.746	6.853	7.445	7.051	98.10	30.50	19.80	-39.40
10Y TH	1.659	1.669	2.199	2.264	2.092	43.30	42.26	-10.71	-17.17

Source: Kenanga Research, Bloomberg

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