

Bond Market Weekly Outlook

Budget 2027 sets the tone for October: long end anchored, front end pinned by Fed and BNM

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

- Yield Movement:** MGS and GII yields fell across most of the curve, moving between -9.4 bps to 1.2 bps. The 10-Y MGS yield fell 8.3 bps to 3.947%, while the 10-Y GII declined 3.2 bps to 4.021%.
- Key drivers:** Domestic investors positioned ahead of Budget 2027, helped by a mild recovery in global bonds after strong UST auctions. Gains were concentrated in the 7-Y to 10-Y MGS. The 3-Y GII edged higher despite a robust 3.02x bid-to-cover (BTC) ratio at the 3.5-Y GII reopening. Expectations of contained fiscal slippage in Budget 2027 anchored sentiment. The World Bank's upgrade of Malaysia's 2026 GDP growth forecast to 5.1% from 4.4% on AI-related investment, added further support.
- Flows and outlook:** Foreign investors sold a net RM3.0b of Malaysian bonds last week and RM0.8b of Bursa Malaysia equities, their second straight week of net equity selling. That left domestic investors to lead the rally. Budget 2027's deficit target is the key swing factor. Signs of minimal fiscal slippage should keep the long end anchored. Today's labour market, industrial production and retail trade data, followed by next week's 3Q26 advance GDP estimate, will test domestic growth momentum. We expect MGS yields to stay supported with a mild downward bias. A December Fed hike and BNM's expected 1Q27 normalisation should keep the front end sticky.

Auction Result

- 3.5-Y MGII 10/29 (reopening):** Demand was strong, with a BTC ratio of 3.02x. The auction raised RM5.0b at an average yield of 3.506%.
- Upcoming Auction:** Reopening of the 15-Y MGS, with RM3.5b on tender, with an additional RM1.5b to be privately placed.

United States Treasuries (UST)

- Yield Movement:** UST yields fell across the curve by 0.1 bps to 3.4 bps. The 10-Y UST yield fell 1.4 bps to 5.227%, while the 2-Y UST yield declined 3.4 bps to 4.758%.
- Key drivers:** French fiscal and political turmoil drove safe-haven demand for USTs. Strong 10-year and 30-year auctions confirmed that buyers step in at current yield levels. President Trump's pledge not to strike Iran before the November midterms briefly eased oil prices, but reports of US strike plans kept Brent above USD100/barrel. Hawkish September FOMC minutes, which signalled another hike by year-end, capped the decline.
- Outlook:** UST yields are likely to remain rangebound ahead of next week's key inflation releases. September US core CPI is the main focus. Consensus is converging on 0.2% MoM, which should support expectations of an October pause. We maintain our call for a 25 bps December hike to 4.00-4.25%. PPI and retail sales will give further reads on underlying momentum. Sticky oil prices and lingering geopolitical risk tilt inflation risks higher, which should limit any meaningful decline in UST yields.

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

	Long Term*				
	Q3-26	Q4-26F	Q1-27F	Q2-27F	Q3-27F
MGS	3.99	3.88	3.87	3.78	3.65
UST	5.28	4.80	4.75	4.69	4.58
USDMYR	4.08	4.00	4.05	4.02	3.95
OPR	2.75	2.75	3.00	3.00	3.00

*F=Forecasts for end of period

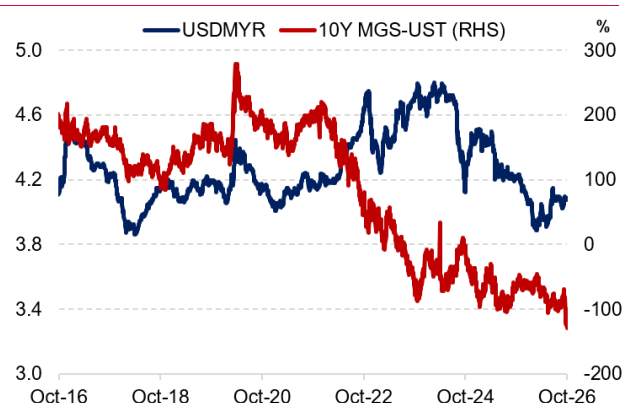
Source: Kenanga Research, Bloomberg

Table 2: Annual Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2025	2026	2025	2026
Reopening	67.5	60.0	61.5	55.0
New Issuances	15.0	15.0	24.5	15.0

Source: Kenanga Research, BNM, Macrobond

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



Source: Kenanga Research, Bloomberg

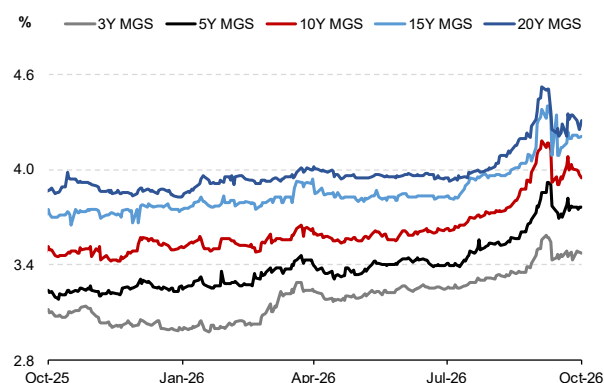
Table 3: 2026 Auction Calendar

Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
Sep	10-yr Reopening of MGII 7/36 3.447%	10/09/2026	5,000.00	-	5,000.00	2.29	4.149	4.160	4.138
	7-yr Reopening of MGS 4/33 3.844%	21/09/2026	5,000.00	-	5,000.00	2.17	3.983	3.999	3.959
	30-yr Reopening of MGII 1/56	30/09/2026	3,000.00	2,000.00	5,000.00	2.01	4.508	4.520	4.495
Oct	3.5-yr Reopening of MGII 10/29	09/10/2026	5,000.00	-	5,000.00	3.02	3.506	3.519	3.493
	15-yr Reopening of MGS 1/41	-	-	-	-	-	-	-	-
	20-yr Reopening of MGII 5/45 3.775%	-	-	-	-	-	-	-	-
	10-yr New Issue of MGS (Mat on 10/36)	-	-	-	-	-	-	-	-

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

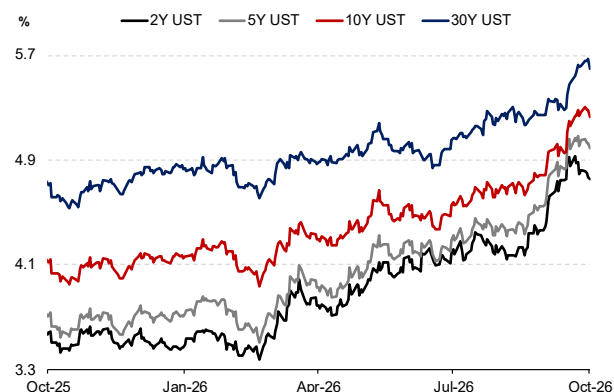
09 October 2026

Graph 2: MGS Yield Trend



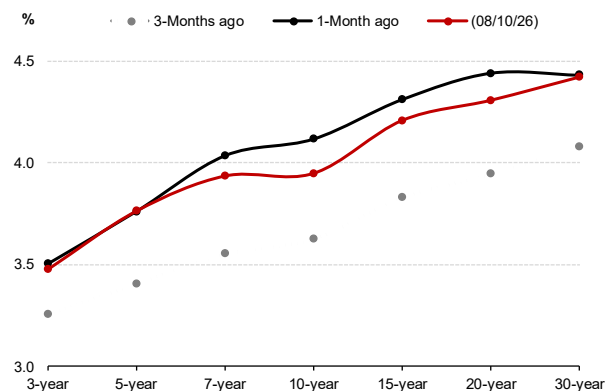
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



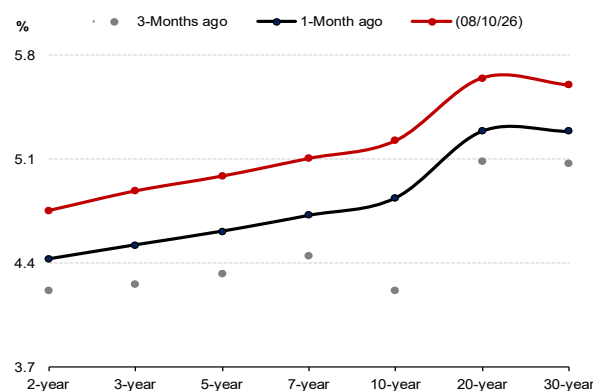
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



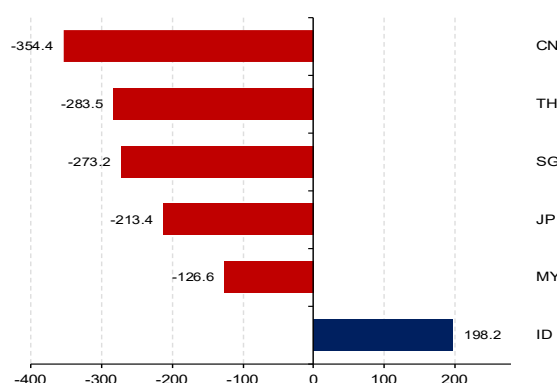
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

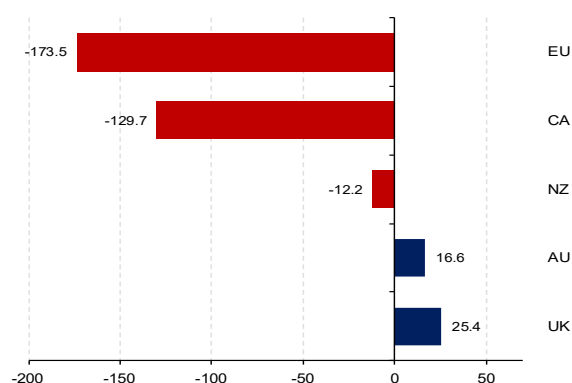
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



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

09 October 2026

Table 3: Bond Yield Movements

Bonds	01/01/26 YTD	08/10/25 Last Year	09/09/26 Last Month	01/10/26 Last Week	08/10/26 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.980	4.041	4.432	4.432	4.420	44.00	37.90	-1.20	-1.20
20Y MGS	3.840	3.873	4.442	4.342	4.306	46.60	43.30	-13.60	-3.60
15Y MGS	3.746	3.748	4.312	4.197	4.207	46.10	45.90	-10.50	1.00
10Y MGS	3.492	3.512	4.117	4.030	3.947	45.50	43.50	-17.00	-8.30
7Y MGS	3.367	3.498	4.035	4.028	3.934	56.70	43.60	-10.10	-9.40
5Y MGS	3.256	3.236	3.760	3.773	3.762	50.60	52.60	0.20	-1.10
3Y MGS	2.998	3.117	3.501	3.482	3.475	47.70	35.80	-2.60	-0.70
GII									
20Y GII	3.862	3.908	4.368	4.352	4.343	48.10	43.50	-2.50	-0.90
10Y GII	3.524	3.515	4.126	4.053	4.021	49.70	50.60	-10.50	-3.20
7Y GII	3.341	3.367	4.046	3.999	3.941	60.00	57.40	-10.50	-5.80
3Y GII	3.101	3.152	3.510	3.497	3.509	40.80	35.70	-0.10	1.20
UST									
30Y UST	4.844	4.708	5.289	5.613	5.600	75.65	89.26	31.12	-1.25
20Y UST	4.793	4.669	5.291	5.649	5.648	85.53	97.91	35.73	-0.11
10Y UST	4.167	4.117	4.841	5.241	5.227	105.98	110.97	38.62	-1.39
7Y UST	3.939	3.898	4.723	5.128	5.107	116.80	120.93	38.45	-2.02
5Y UST	3.725	3.715	4.616	5.011	4.989	126.37	127.39	37.26	-2.17
3Y UST	3.539	3.594	4.524	4.909	4.889	135.03	129.50	36.50	-1.96
2Y UST	3.473	3.580	4.430	4.791	4.758	128.47	117.75	32.82	-3.37
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.854	2.678	3.442	3.507	3.492	63.80	81.40	5.00	-1.50
10Y UK	4.479	4.709	5.261	5.398	5.481	100.20	77.20	22.00	8.30
10Y JP	2.066	1.690	2.886	3.125	3.093	102.70	140.30	20.70	-3.20
10Y CN	1.855	1.871	1.680	1.678	1.683	-17.20	-18.77	0.30	0.50
10Y SG	2.117	1.853	2.363	2.486	2.495	37.81	64.14	13.20	0.86
10Y ID	6.070	6.180	7.099	7.165	7.209	113.90	102.90	11.00	4.40
10Y TH	1.659	1.447	2.290	2.390	2.392	73.29	94.47	10.21	0.21

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