Bond Market Weekly Outlook

RM7.2b October inflows anchor MGS, but Fed hike risk caps the rally

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

- **Yield Movement:** MGS and GII yields fell 1.2 bps to 11.5 bps across the curve. The 10-Y MGS declined 8.7 bps to 3.841% and the 10-Y GII fell 6.9 bps to 3.886%.
- **Key drivers:** MGS yields fell after the Democrats secured a decisive victory in the US mid-term elections, regaining control of both chambers of Congress and reducing policy uncertainty. The resulting decline in US Treasury yields narrowed the attractiveness gap between USTs and MGS, lending support to local bonds. Reports of renewed US-Iran diplomacy pushed Brent crude below USD95/bbl midweek, easing inflation concerns and weighing on yields. At home, sentiment remained supportive, with the Manufacturing Purchasing Managers' Index (PMI) rebounding to 51.0 in October (Sep: 49.9), signalling a return to expansion. BNM's recent decision to hold the OPR at 2.75% also reinforced confidence in the growth outlook, although expectations of gradual policy normalisation remain intact.
- **Flows and outlook**: Foreign investors turned net buyers of government bonds in October, with RM2.9b of inflows. Corporate bonds drew a further RM4.3b, lifting total bond inflows to RM7.2b for the month. Focus now turns to upcoming retail sales, industrial production and labour market data for clues on domestic growth momentum. US inflation prints will stay pivotal for Fed expectations. US-Iran developments will also be closely watched for their impact on energy prices and global risk sentiment. Even so, we expect local yields to stay broadly rangebound in the near term, supported by resilient foreign inflows and a stable domestic backdrop, though we see limited room for a further rally.

United States Treasuries (UST)

- **Yield Movement:** UST yields fell sharply, by 4.6 bps to 14.2 bps across the curve. The 10-Y fell 10.2 bps to 4.835%, while the 2-Y dropped 13.6 bps to 4.462%.
- **Key drivers:** UST yields fell after the Democrats' decisive mid-term win handed them control of both chambers of Congress, easing concerns over further policy uncertainty under President Trump. Reports of renewed US-Iran diplomacy added support, pushing Brent crude below USD95/bbl midweek and easing inflation concerns. These factors outweighed a still-resilient labour market. ISM services employment was firm, ADP payrolls rose 86k and weekly jobless claims fell to a 57-year low, keeping expectations alive for a December Fed rate hike.
- **Outlook**: We expect 10-Y UST yields to edge higher next week on resilient US activity and persistent inflation risks. October nonfarm payrolls are expected to rebound to around 70k from 29k, with unemployment steady at 4.2%, pointing to a still-firm labour market. Markets are pricing around a 70% chance of a December rate hike, so any upside surprise in CPI or PPI could strengthen tightening bets and push yields higher. US-Iran developments remain a key watchpoint given their impact on energy prices and inflation.

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	5.00	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

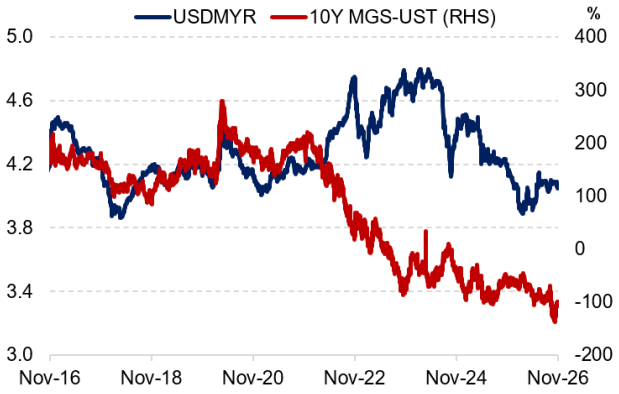
*F=Forecasts for end of period
Source: Kenanga Research, Bloomberg

Table 2: Annual Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2025	2026	2025	2026
Reopening	67.5	65.0	61.5	60.0
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

Auction Result

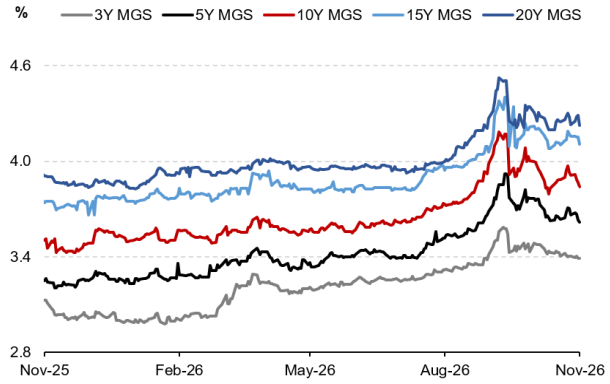
- There was no reopening or new issuance this week.
- Upcoming Auction: Reopening of the 15-Y MGII, with RM3.5b on tender and a further RM1.5b via private placement.

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 (%)
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	15/10/2026	3,500.00	1,500.00	5,000.00	2.28	4.087	4.095	4.070
	20-yr Reopening of MGII 5/45 3.775%	22/10/2026	3,000.00	1,000.00	4,000.00	2.29	4.270	4.280	4.255
	10-yr New Issue of MGS (Mat on 10/36)	29/10/2026	5,000.00	500.00	5,500.00	2.58	3.920	3.928	3.890
Nov	15-yr Reopening of MGII 7/40 3.974%	-	-	-	-	-	-	-	-
	3-yr Reopening of MGS 3/29	-	-	-	-	-	-	-	-
	10-yr Reopening of MGII 7/36 3.447%								

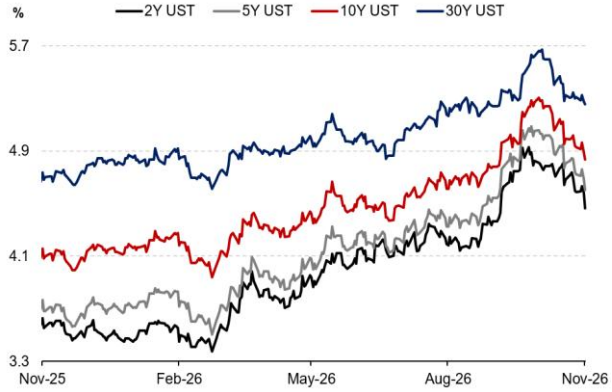
Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio

Graph 2: MGS Yield Trend



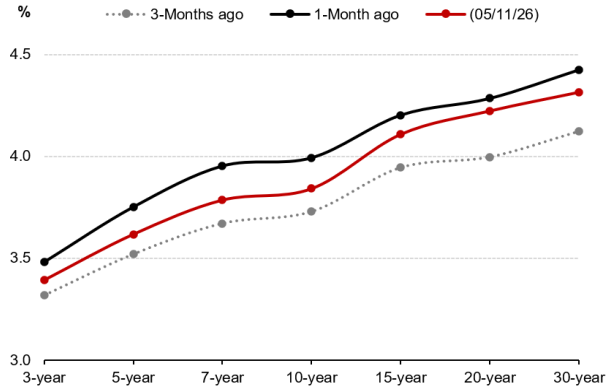
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



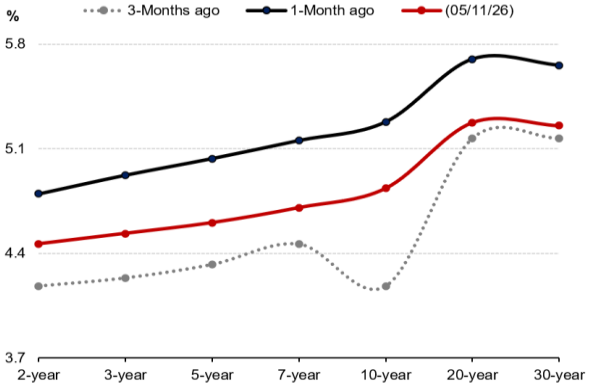
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



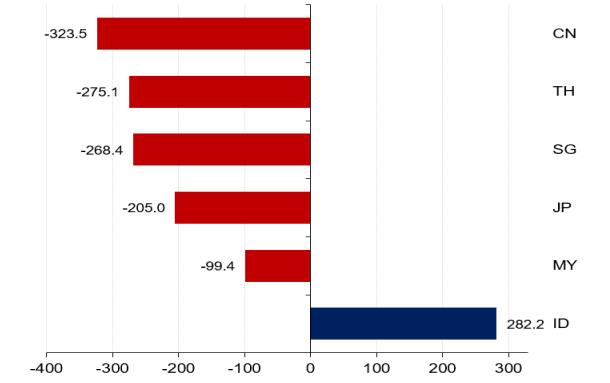
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



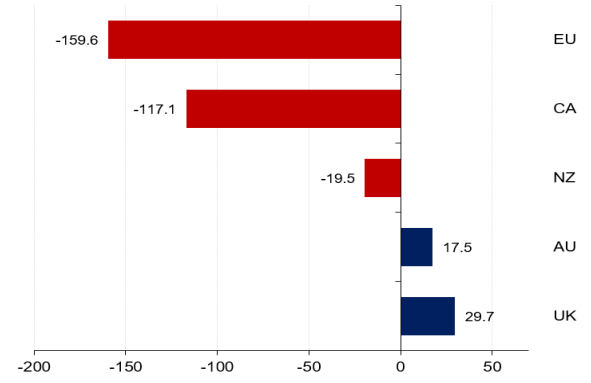
Source: Kenanga Research, Bloomberg

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 4: Bond Yield Movements

Bonds	01/01/26 Start of Year	05/11/25 Last Year	06/10/26 Last Month	29/10/26 Last Week	05/11/26 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.980	4.006	4.424	4.375	4.315	33.50	30.90	-10.90	-6.00
20Y MGS	3.840	3.909	4.284	4.281	4.223	38.30	31.40	-6.10	-5.80
15Y MGS	3.746	3.739	4.202	4.168	4.108	36.20	36.90	-9.40	-6.00
10Y MGS	3.492	3.503	3.993	3.928	3.841	34.90	33.80	-15.20	-8.70
7Y MGS	3.367	3.454	3.953	3.900	3.785	41.80	33.10	-16.80	-11.50
5Y MGS	3.256	3.247	3.752	3.701	3.617	36.10	37.00	-13.50	-8.40
3Y MGS	2.998	3.126	3.482	3.405	3.392	39.40	26.60	-9.00	-1.30
GII									
20Y GII	3.862	3.906	4.350	4.297	4.267	40.50	36.10	-8.30	-3.00
10Y GII	3.524	3.539	4.046	3.955	3.886	36.20	34.70	-16.00	-6.90
7Y GII	3.341	3.381	3.984	3.895	3.792	45.10	41.10	-19.20	-10.30
3Y GII	3.101	3.140	3.520	3.439	3.427	32.60	28.70	-9.30	-1.20
UST									
30Y UST	4.844	4.738	5.658	5.300	5.254	41.03	51.61	-40.36	-4.57
20Y UST	4.793	4.717	5.699	5.332	5.276	48.28	55.90	-42.36	-5.60
10Y UST	4.167	4.159	5.279	4.937	4.835	66.77	67.56	-44.46	-10.22
7Y UST	3.939	3.949	5.155	4.826	4.705	76.58	75.65	-44.95	-12.10
5Y UST	3.725	3.764	5.034	4.743	4.605	87.93	84.09	-42.93	-13.83
3Y UST	3.539	3.646	4.923	4.674	4.533	99.37	88.62	-39.00	-14.16
2Y UST	3.473	3.630	4.798	4.598	4.462	98.93	83.28	-33.52	-13.56
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.854	2.672	3.477	3.354	3.239	38.50	56.70	-23.80	-11.50
10Y UK	4.479	4.463	5.375	5.294	5.132	65.30	66.90	-24.30	-16.20
10Y JP	2.066	1.664	3.110	2.846	2.785	71.90	112.10	-32.50	-6.10
10Y CN	1.855	1.797	1.678	1.616	1.600	-25.50	-19.70	-7.80	-1.60
10Y SG	2.117	1.842	2.498	2.275	2.150	3.37	30.80	-34.77	-12.48
10Y ID	6.070	6.175	7.213	7.635	7.657	158.70	148.20	44.40	2.20
10Y TH	1.659	1.748	2.407	2.167	2.083	42.43	33.53	-32.35	-8.36

Source: Kenanga Research, Bloomberg

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