AmBank Group

AmBank Economics

#WhatWeThink

MGS+GII auction demand expected to remain firm rest of year

14 July 2025

Summary

MGS yields fell considerably in 1H2025, reaching their lowest since early-2022. The boost to the MGS market during the half-year came from:

- Outlook for a BNM interest rate cut,
- Declining global rates, especially the in UST yields alongside Fed rate cut expectations,
- MYR upside,
- Positive fiscal outlook, which brought a conducive MGS+GII supply outlook,
- Continued positive investor demand.

The same drivers boosted the primary market during 1H2025. We note the bid-to-cover (BTC) ratio at the 1H2025 MGS+GII auctions averaged a strong 2.89 times (x) vs. 2.62x in 1H2024. The lower gross issuance in 1H2025 of MYR86.0 billion vs. a higher MYR94.5 billion contributed to the better average BTC.

We maintain a positive view of Malaysia's government bond market in 2H2025; **this will flow into continued firm demand at MGS+GII auctions**. Lessening MGS+GII supply amid fiscal consolidation will add to firm primary demand.

Smaller gross issuances in 2H2025 vs. 1H2025 will aid demand. After the MYR86 billion issued in 1H2025, gross issuance in 2H2025 is expected to total a smaller MYR79 billion. Average issuance in 1H2025, at the 18 auctions done was about MYR4.78 billion. In 2H2025, we calculate average issuance to be about MYR4.39 billion per auction. There will be another 18 MGS+GII auctions in 2H2025.

What auctions to look for. Our expectation is for the MGS curve to steepen in 2H2025. We think lower yields on the shorter end could deter very firm BTCs at auctions, but more attractive yields on the bellies to the longer tenors are likely to support demand and BTCs on longer duration auctions. That being said, for shorter duration MGS+GII, yield levels (i.e., WI) would be key. Our expectation is for the 10Y MGS to close out 2025 at 3.50%, thus yields above 3.60% should aid demand at auctions. 10Y GII auctions are slated for July and November, while the 10Y MGS is scheduled for December. We expect the 3Y MGS to test 3.90-95% by end-year. Thus, WI above 3.10% may offer attractive returns. Further up the curve, we think the long 30Y MGS and GII could offer opportunity for yield pickup in the primary market. There was already a new issue of 30Y MGS maturing July 2055 this month but there will be a reopening scheduled for October. If yields on the 30Y MGS again tests 4.00%, then we think there should be ample demand from institutional investors. Also, look out for new 30Y GII auction due September.

Exhibit 1: MGS+GII auction schedule in 2H2025

Issue	Target Quarter	Target Month
7-yr Reopening of MGII 10/31 3.804% *	Third	July
30-yr New Issue of MGS (Mat on 07/55)	Third	July
10-yr Reopening of MGII 04/35	Third	July
20-yr Reopening of MGS 05/44 4.180%	Third	August
15-yr Reopening of MGII 07/40	Third	August
5-yr Reopening of MGS 5/30	Third	August
20-yr Reopening of MGII 05/45	Third	August
3-yr Reopening of MGS 04/28 3.519%	Third	September
30-yr New Issue of MGII (Mat on 09/55) (Khadamat)	Third	September
15-yr Reopening of MGS 04/39 4.054%	Third	September
3-yr Reopening of MGII 07/28 3.599%	Third	September
30-yr Reopening of MGS 07/55	Fourth	October
5-yr Reopening of MGII 08/30	Fourth	October
20-yr Reopening of MGS 05/44 4.180%	Fourth	October
10-yr Reopening of MGII 04/35	Fourth	November
7-yr Reopening of MGS 07/32 3.582%	Fourth	November
20-yr Reopening of MGII 05/45	Fourth	November
10-yr Reopening of MGS 07/35	Fourth	December

*Note: * Auction closed on 3 July. Issuance size MYR5.0 billion with no private placement. BTC was 2.92x at 36.367% average yield.*
Source: Bank Negara Malaysia

Exhibit 2: AmBank Economics' updated MGS yield forecasts

	3Q 2025	4Q 2025	1Q 2026	2Q 2026	3Q 2026	4Q 2026
3Y MGS	3.00	2.95	2.95	2.95	3.00	3.00
10Y MGS	3.55	3.50	3.50	3.45	3.45	3.50

RECAP OF MGS+GII PRIMARY MARKET IN 1H205

MGS+GII posted strong secondary market performance in 1H2025

The outlook for lower OPR, declining global rates, firm MYR, a positive fiscal outlook, and positive investor demand supported the MGS+GII market in 1H2025.

MGS yields fell considerably in 1H2025, reaching their lowest since early-2022. The boost to the MGS market during the half-year came from:

1. Outlook for a BNM interest rate cut;
2. Declining global rates, especially decline in UST yields alongside Fed rate cut expectations;
3. MYR upside;
4. Positive fiscal outlook which brought conducive MGS+GII supply outlook; and
5. Continued positive investor demand.

There was some profit taking pressure seen in mid-June 2025. This owed to threat of rising oil prices, recent announcement of SST expansion, and new domestic power tariffs. Nevertheless, by the end of 1H2025, sustained outlook for weak economic growth and alongside the unexpected release of lower inflation numbers for May 2025, raised the outlook for a BNM rate cut thus aided the MGS market as we stepped into 2H2025.

… As did the primary market as traditional investors kept up purchases; average BTCs at 1H2025 auctions was 2.89 times (x) vs. 2.62x in 1H2024

In the primary market for MGS+GII, average BTCs at 1H2025 auctions was 2.89 times (x) vs. 2.62x in 1H2024

The same above drivers which caused the MGS+GII secondary market rally in 1H2025 similarly boosted the primary market during the half year. We note the ***bid-to-cover (BTC)*** ratio at the 1H2025 MGS+GII auctions averaged a strong 2.89 times (x) vs. 2.62x in 1H2024. The lower gross issuance in 1H2025 of MYR86.0 billion vs. a higher MYR94.5 billion in 1H2024 contributed to the higher BTC.

Collected auction data points to sustained pickup by traditional MGS+GII investors. Net issuance in 1Q2025 we estimate at MYR31.3 billion. Out of this total, data suggest that the EPF added to their holdings by MYR4.9 billion, insurance companies by MYR2.7 billion, and foreign investors by MYR2.9 billion. Average BTC in 1Q2025 MGS+GII was a strong 2.88x (aided by 3.20x average BTC at GII auctions in 1Q2025).

Deceleration in *gross* MGS+GII issuances in 1H2025

Supply was lower in 1H2025.

We tallied the total gross issuance of MGS+GII to MYR86.0 billion for 1H2025. In contrast, the total MGS+GII issued in 1H2024 was higher at MYR94.5 billion. This is a reduction of 9% y/y in 1H2025. We note that our 2025 full-year MGS+GII gross issuance forecast is MYR165.0 billion, down from MYR175 billion in 2024, or an expected annual reduction of 5.7%. Hence, the pace of reduction in MGS+GII gross issuance is ahead of schedule.

Recall that our target of MYR165 billion gross MGS+GII issuance is commensurate with the expected financing of Malaysia's fiscal deficit, MYR80 billion (3.8% of GDP fiscal deficit in 2025), and refinancing of 2025's MGS+GII maturities, MYR83.5 billion. In 2024, fiscal deficit financing was MYR84.3 billion.

There'll be a much smaller net issuance in 2H2025.

Large net issuances in 1H2025; there'll be a much smaller ***net*** issuance in 2H2025

Net issuance totalled MYR69.3 billion in 1H2025 after MGS 03/25 maturity of MYR16.7 billion in March 2025. However, MGS+GII maturities are set to total a much larger MYR66.8 billion in 2H2025, which means net issuance in the second half of 2025 is expected to be much smaller, which we estimate to be just MYR12.2 billion.

Fiscal consolidation reportedly on track

The quarterly fiscal deficit at the end of March 2025 declined to MYR21.9 billion (end-March 2024: MYR26.4 billion), suggesting that the GOM's fiscal consolidation plan is on track.

Fiscal balances improve. According to the MOF, the Federal Government's quarterly fiscal deficit as at end-May 2025 declined to MYR33.8 billion (end-May 2024: MYR46.0 billion), suggesting the fiscal consolidation plan of the GOM (Government of Malaysia) was on track in 1H2025. Malaysia's fiscal-deficit-to-GDP target is 3.8% in 2025 from 4.1% in 2024. The MOF said in 1Q2025 the lower fiscal deficit was attributed to better revenue collection and expenditure optimisation alongside its fiscal consolidation initiatives. MOF said revenue rose by 3% to MYR72.1 billion in 1Q2025 vs. 1Q2024, driven by higher tax collection, particularly from a surge in Sales Tax and Service Tax (SST) receipts and the collection of individual income tax. This came alongside real GDP growth of 4.4% for the quarter, vs 4.2% in 1Q2024.

Risks of rising government debt-to-GDP, but will remain under the limit for now

There remains a risk of rising government debt, but levels remain below self-imposed limits.

Risk of rising debt. The federal government debt-to-GDP ratio rose to 64.6% in 2024, from 64.3% in 2023. The ratio is likely to rise this year, but we think it will be more due to slower GDP growth than a surge in borrowings. The Public Finance and Fiscal Responsibility Act (FRA) 2023 places a ceiling on overall federal government debt at 60% of GDP, but the limit, as per the Bill, will only kick in after 3-5 years.

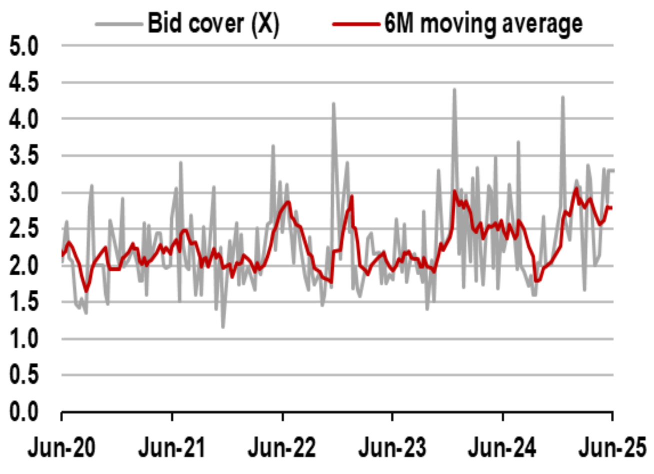
Remains below limits. We expect this year's MGS+GII net supply to rise by MYR80 billion, which, by our calculation, raises the outstanding MGS and GII towards MYR1.288 trillion by end-2025, an increase of 6.6% for the year. Yet, statutory debt (MGS, GII and MITB) at 62.9% of GDP remains below the 65% limit. Also, debt guaranteed by the federal government fell slightly to 17.2% of GDP last year from 18.0% in 2023, below the 25% FRA ceiling and from the 2020 peak of 20.8%.

Exhibit 3: Auction results in 1H2025

No	Issue	Quarter	Month	Year	Issue Date	Maturity Date	Amount (MYR million)	BTC (times)	Avg yield (%)
1	7-yr Reopening of MGS 07/32 3.582%	First	January	2025	08-Jan-25	15-Jul-32	**5,000**	**2.81**	**3.799**
2	15.5-yr New Issue of MGII (Mat on 07/40)	First	January	2025	15-Jan-25	16-Jul-40	**3,000**	**4.29**	**3.974**
	15.5-yr New Issue of MGII (Mat on 07/40) Private Placement	First	January	2025	15-Jan-25	16-Jul-40	**1,000**		
3	3-yr Reopening of MGII 07/28 3.599%	First	January	2025	24-Jan-25	31-Jul-28	**5,500**	**2.62**	**3.561**
4	30-yr Reopening of MGS 03/53 4.457%	First	February	2025	06-Feb-25	31-Mar-53	**2,500**	**2.36**	**4.186**
	30-yr Reopening of MGS 03/53 4.457% Private Placement	First	February	2025	06-Feb-25	31-Mar-53	**2,000**		
5	7-yr Reopening of MGII 10/31 3.804%	First	February	2025	13-Feb-25	08-Oct-31	**5,000**	**2.87**	**3.785**
6	20-yr Reopening of MGS 05/44 4.180%	First	February	2025	21-Feb-25	16-May-44	**2,500**	**2.99**	**4.068**
	20-yr Reopening of MGS 05/44 4.180% Private Placement	First	February	2025	21-Feb-25	16-May-44	**2,000**		
7	5.5-yr New Issue of MGII (Mat on 08/30)	First	February	2025	28-Feb-25	30-Aug-30	**5,500**	**3.16**	**3.635**
8	15-yr Reopening of MGS 04/39 4.054%	First	March	2025	10-Mar-25	18-Apr-39	**3,000**	**3.02**	**3.956**
	15-yr Reopening of MGS 04/39 4.054% Private Placement	First	March	2025	10-Mar-25	18-Apr-39	**1,000**		
9	30-yr Reopening of MGII 03/54 4.280%	First	March	2025	14-Mar-25	23-Mar-54	**3,000**	**3.08**	**4.169**
	30-yr Reopening of MGII 03/54 4.280% Private Placement	First	March	2025	14-Mar-25	23-Mar-54	**2,000**		
10	10-yr Reopening of MGS 07/34 3.828%	First	March	2025	28-Mar-25	05-Jul-34	**5,000**	**1.67**	**3.764**
11	15-yr Reopening of MGII 07/40 3.974%	Second	April	2025	08-Apr-25	16-Jul-40	**3,000**	**3.36**	**3.748**
	15-yr Reopening of MGII 07/40 Private Placement	Second	April	2025	08-Apr-25	16-Jul-40	**1,000**		
12	3-yr Reopening of MGS 04/28 3.519%	Second	April	2025	15-Apr-25	20-Apr-28	**5,000**	**3.18**	**3.467**
13	10-yr New Issue of MGII (Mat on 04/35)	Second	April	2025	30-Apr-25	30-Apr-35	**5,000**	**2.00**	**3.612**
14	5-yr New Issue of MGS (Mat on 05/30)	Second	May	2025	15-May-25	15-May-30	**5,000**	**2.13**	**3.336**
15	20-yr New Issue of MGII (Mat on 05/45)	Second	May	2025	30-May-25	31-May-45	**3,000**	**3.32**	**3.775**
	20-yr New Issue of MGII (Mat on 05/45) Private Placement	Second	May	2025	30-May-25	31-May-45	**2,000**		
16	15-yr Reopening of MGS 04/39 4.054%	Second	June	2025	10-Jun-25	18-Apr-39	**3,000**	**2.86**	**3.712**
	15-yr Reopening of MGS 04/39 4.054% Private Placement	Second	June	2025	10-Jun-25	18-Apr-39	**1,000**		
17	30-yr Reopening of MGII 03/54 4.280%	Second	June	2025	16-Jun-25	23-Mar-54	**3,000**	**3.295**	**4.010**
	30-yr Reopening of MGII 03/54 4.280% Private Placement	Second	June	2025	16-Jun-25	23-Mar-54	**2,000**		
18	10-yr New Issue of MGS (Mat on 07/35)	Second	June	2025	30-Jun-25	02-Jul-35	**5,000**	**3.01**	**3.476**

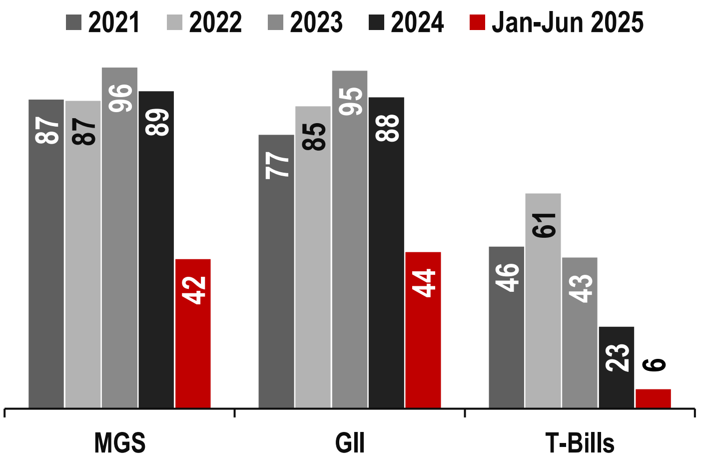
Sources: Bank Negara Malaysia, AmBank Economics

Exhibit 4: Average BTC at MGS/GII auctions (2H2020-1H2025)



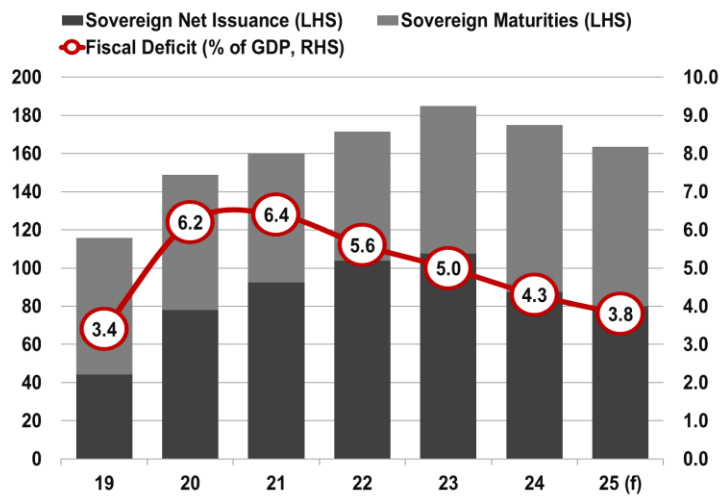
Sources: BNM, AmBank Economics

Exhibit 5: Gross government securities issued (MYR billion)



Sources: BPAM, AmBank Economics

Exhibit 6: MGS/GII Issuance, Maturities & Fiscal Deficits (MYR billion) (2019-2025f)



Sources: MOF, BNM, AmBank Economics

Exhibit 7: MGS/MGII Maturities in 2025

Security	Amount (MYR billion)
MGS 03/2025	16.7
MGS 07/2025	3.0
MGS 09/2025	26.8
GII 08/2025	12.5
GII 10/2025	24.5
Total MGS/GII maturing in fiscal year 2025	**83.5**

Sources: Bloomberg, AmBank Economics

PROSPECTS FOR MGS+GII PRIMARY MARKET IN 2H2025

We maintain a positive view of Malaysia's government bond market, especially the primary segment.

We maintain a positive view on Malaysia's government bond market; this will flow into continued firm demand at 2H2025 MGS+GII auctions. Lessening MGS+GII supply amid fiscal consolidation will add to firm primary demand.

BNM rate cut. We think shorter-dated MGS+GII papers will lead gains, while the medium- to longer-tenors will likely remain supported, though longer-dated MGS yields may continue to hover near current levels. For instance, ***our forecast for the 3Y MGS is for a yield of 2.95% at end-2025 and the 10Y MGS at 3.50%.*** The main boost for the shorter MGS is the BNM rate cut in 2H2025. However, for longer tenors, we think players will sustain pricing of slowly rising inflation (after Malaysia's CPI fell to +1.2% y/y in May, the lowest in four years, from +1.4% in April 2025). **Hence, our expectation is for a steeper MGS+GII curve in 2H2025**.

The onshore bond trend is likely to be aided by falling global rates. We also think a continued rally in the US Treasuries market, as the Fed is expected to resume its rate cut cycle before end-2025, will continue to support inflows in the MGS market, as was seen in 1H2025. Interest rate differentials of USD will progressively be negative for the USD vs. MYR. To recap, our assumption is for the Fed Funds Rate (FFR) to reach 4.00% (upper bound) (now 4.50%) by end-2025 and may reach 3.50% by end-2026 and end-2027 at 3.00%.

MYR outlook supports bonds. We maintain a firm outlook for MYR in 2H2025, and this should support sentiment for shorter to medium-term duration MGS+GII. Our target for USD/MYR by end-year is 4.370, after an expected temporary weakness in MYR as BNM cuts the OPR to 2.75% while the Fed delays its rate cuts. However, before the year ends, we foresee the Fed resuming its rate-cutting cycle, which should drive positive interest rate differentials for MYR.

The primary market will be supported as fiscal consolidation continues.

MGS+GII primary market will be supported as fiscal consolidation continues; new supply will be contained in 2H2025. To recap, fiscal deficit financing for the year 2025 was targeted at MYR80 billion. Meanwhile, we also pencilled in refinancing the maturing MGS+GII of MYR83.5 billion this year. Based on the scenario of continued fiscal consolidation by GOM, and the expectation that the government will be able to maintain the current pace of budgetary spending and revenue into 2H2025, we maintain our current forecast of gross MGS+GII issuance of MYR165 billion for the year.

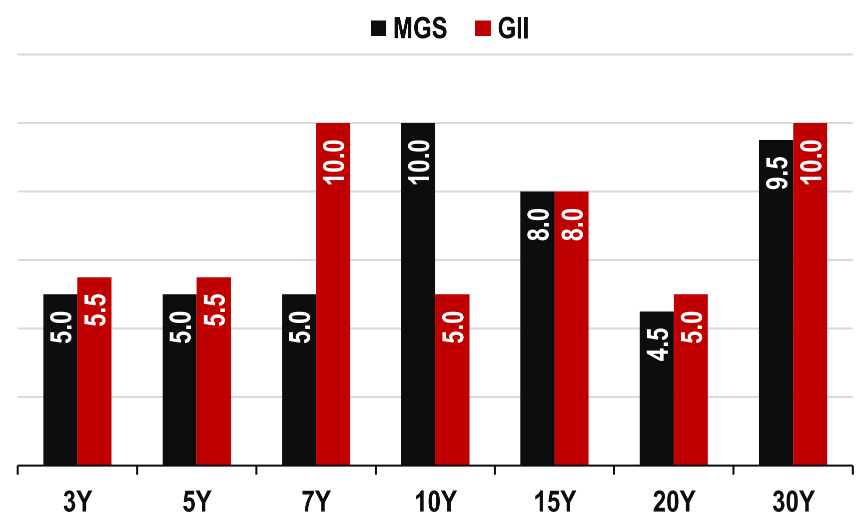
Supply scenario in 2H2025 looks positive

- **Smaller *gross* issuances in 2H2025 vs. 1H2025**. After the MYR86 billion issued in 1H2025, gross issuance in 2H2025 is expected to total a smaller MYR79 billion. Average issuance in 1H2025, at the 18 auctions done, was about MYR4.78 billion. In 2H2025, we calculate average issuance to be about MYR4.39 billion per auction. There will be another 18 MGS+GII auctions in 2H2025.
- **Smaller *net* issuances in 2H2025 vs. 1H2025.** Net issuance totalled MYR69.3 billion in 1H205 after MGS 03/25 maturity of MYR16.7 billion in March 2025. However, MGS+GII maturities are set to total a much larger MYR66.8 billion in 2H2025, which means net issuance in the second half of 2025 is expected to be much smaller, which we estimate to be just MYR12.2 billion.

Longer tenor MGS+GII auctions should lead with firmer BTCs. However, for shorter duration MGS+GII, WI levels would be key.

What auctions to look for. Our expectation is for the MGS curve to steepen in 2H2025. We think lower yields on the shorter end could deter very firm BTCs at auctions, but more attractive yields on the bellies to the longer tenors are likely to support demand and BTCs on longer duration auctions. That being said, for shorter duration MGS+GII, yield levels (i.e., WI) would be key. Our expectation is for the 10Y MGS to close out 2025 at 3.50%, thus yields above 3.60% should aid demand at auctions. 10Y GII auctions are slated for July and November, while the 10Y MGS is scheduled for December. We expect the 3Y MGS to test 3.90-95% by end-year. Thus, WI above 3.10% may offer attractive returns. Further up the curve, we think the long 30Y MGS and GII could offer opportunity for yield pickup in the primary market. There was already a new issue of 30Y MGS maturing July 2055 this month but there will be a reopening scheduled for October. If yields on the 30Y MGS again tests 4.00%, then we think there should be ample demand from institutional investors. Also, look out for new 30Y GII auction due September.

Exhibit 8: Distribution by Tenor of MGS and GII Issued YTD up to 15 July 2025 (MYR billion)



Sources: Bank Negara Malaysia, AmBank Economics

AmBank Economics	
Firdaos Rosli	firdaos.rosli@ambankgroup.com
Nik Ahmad Mukharriz Nik Muhammad	nik-ahmad-mukharriz.n@ambankgroup.com
Lee Si Xin	lee.si-xin@ambankgroup.com
Raja Adibah Raja Hasnan	raja-adibah.r@ambankgroup.com
Aman Nazmi Abd Karim	aman-nazmi.abd-karim@ambankgroup.com
Michael Yim	yim.soon-kah@ambankgroup.com
Group Treasury & Markets	
Corporate Client Group (CCG)	**+603-2059 8700/8600**
Institutional Client Group (ICG)	**+603-2059 8690**
Azli Bin Abdul Jamil	azli-abd-jamil@ambankgroup.com
Jacqueline E. Rodrigues	jacqueline-r@ambankgroup.com
Ho Su Farn	ho-su-farn@ambankgroup.com
Melisa Lim Giok Ling	melisa-lim@ambankgroup.com
Roger Yee Chan Chung	roger-yee@ambankgroup.com
Nadia Binti Hazmi	nadia.hazmi@ambankgroup.com