



Fixed Income Update: Despite War-risk, short-term MGS outlook holds promise

2 March 2026

Short-term MGS outlook holds promise despite negative drivers

Our expectation remains that by end 1Q2026, 10Y MGS will be at 3.50% but will see decline to 3.40%-3.45% in 2Q2026. Our modest bullish view for MGS+GII rests on factors being 1) steady GDP and inflation outlook 2) no change to OPR, 3) Positive fiscal policy direction, and 4) Continued strong real money demand. Meanwhile, we note that end-February 2026 showed signs of improvements in the MGS+GII market, in secondary trading and the primary. Yields fell 1-3 bps w/w while bid-ask spreads tightened such as the 10Y MGS bid-offer difference at 1-2 bps. Downside to our view is the ongoing Middle East war. However, we remain upbeat on MYR bonds due to 1) possible safe-haven demand and 2) global central bank monetary easing remains on path thereby boosting global bond markets.

Recent MGS performance was mixed. Recent MGS performance has not been encouraging but not discouraging at the same time. In the past month; yields had been mixed and gyrating within a narrow range. On m/m basis, the 3Y MGS is up 2 bps while the 10Y MGS was unchanged. On a year-to-date (YTD) basis, yields had also been on an upward movement, though the upside since the start of 2026 had been less than 10 bps. There are a few factors that have contributed to the modest YTD uptick in MGS+GII yields.

- **Upbeat economic data releases.**
 - Malaysia reported 4Q2025 GDP growth of 6.3% y/y, way up from 5.4% in 3Q2025, driven by the services (6.3% vs 5.5% in 3Q2025) and manufacturing (6.1% vs 4.1% in 3Q2025) sectors.
 - There's a sustained rise in Malaysia's CPI inflation, at 1.6% y/y in December and January, compared with 1.4% in November. Core inflation was 2.3% in January, similar to December's 2.3%, but only slightly higher than November's 2.2%.
 - External trade activity remained firm. In January 2026, total merchandise trade expanded by 12.6% y/y to MYR272.4 billion. This pushed total exports up by 19.6%, while imports expanded 5.3% y/y. The trade balance, at MYR21.4 billion, showed a surplus that widened by MYR17.7 billion from January 2025.
- **Lack of risk appetite in global markets.** MGS market was stuck amid risk aversion, even as the UST market rallied, with the 2Y UST note down 13 bps since a month ago and the 10Y down 20 bps. US-Iran tensions contributed to the risk aversion, as did global markets' aversion to the USD in response to the US administration's policies, such as threats against Fed independence. The USD's weakness contributed to the USD/MYR pair falling below 3.900.

But we foresee a positive trend for the MGS over the next 2-3 months, with yields down 5-10 bps. The 3Y MGS is currently within 3.00-3.05%, and the 10Y MGS is within 3.50-3.55%. By the end of 1H2026, our forecast remains for the 3Y MGS to hit 2.95% and the 10Y MGS 3.45%. Our opinion rests on the following assumptions:

- 1) **Malaysia's economy.** Despite the outperformance in 4Q2025 GDP, we think economic growth will remain firm, but with no sign of overheating. Our forecast for Malaysia's 2026 GDP growth is 4.5%. This marks a moderation from 5.2% in 2025, though at the upper bound of the official projection range of 4.0%-4.5%.

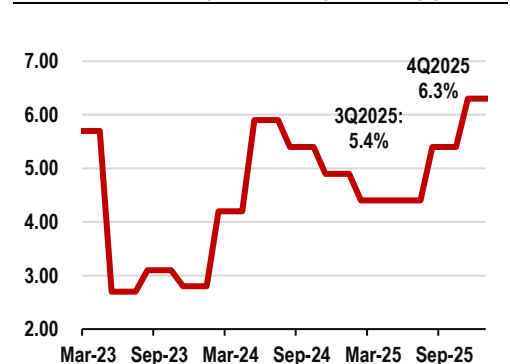
Our modest bullish view for MGS+GII rests on factors being 1) steady GDP and inflation outlook 2) no change to OPR, 3) Positive fiscal policy, 4) continued strong real money demand, 5) safe haven demand and 6) global monetary easing remains on path.

Exhibit 1: AmBank Economics quarterly rates forecast (%)

	1Q2026	2Q2026	3Q2023	4Q20226
OPR	2.75	2.75	2.75	2.75
3Y MGS	3.00	2.95	3.00	3.00
10Y MGS	3.50	3.45	3.45	3.50

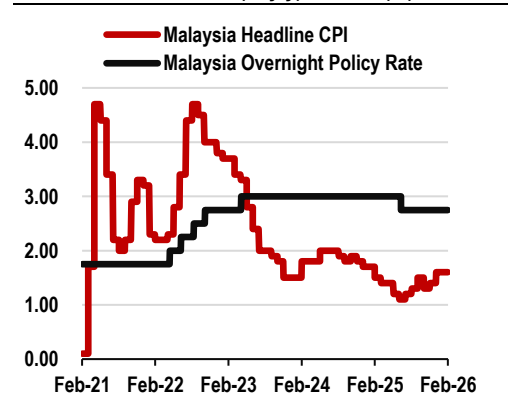
Sources: AmBank Economics

Exhibit 2: Malaysia quarterly GDP (% y/y)



Sources: DOSM, AmBank Economics

Exhibit 3: CPI (% y/y) vs OPR (%)



Sources: DOSM, AmBank Economics

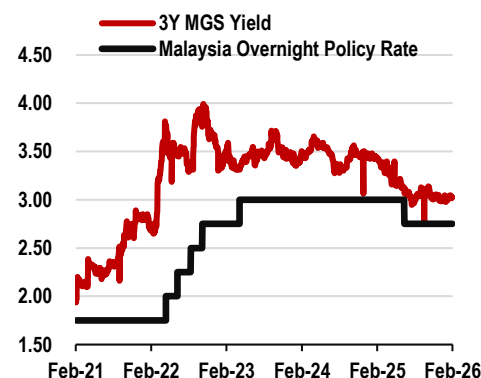
- a. **Inflation.** Meanwhile, we expect inflation to remain manageable and forecast the full-year 2026 rate at 1.8%. We concur with BNM’s view, as per its January MPC statement, that the easing in global cost conditions will contribute to Malaysia’s benign inflationary conditions.
- 2) **Monetary policy direction.** With the aforementioned assumptions of Malaysia’s economic performance and inflation outlook, we continue to expect BNM to hold the OPR steady at 2.75% for the whole of 2026. The 3Y MGS near 3.00% or 25 bps above the OPR suggests the MYR bond market is pricing no change to the OPR. According to Bloomberg, the MIPR (market-implied policy rate derived from the forward curve) suggests no change in the OPR over the next six months to a year as well.
 - a. **Fed will continue to cut**, which should shrink the 10Y UST/MGS spread from 50-55 bps currently (10Y UST near 4.00%). It is already narrowing from a 1Y mean of 70bps and a median of 66bps. Our view is that the Fed has room for two more 50 bps cuts this year.
- 3) **Fiscal policy direction.** We foresee positive MGS+GII auctions for the rest of the year, on the back of the federal government’s fiscal policy direction. As the federal government has targeted a reduction in the fiscal deficit-to-GDP to 3.5% this year, down from 3.7% in 2025, we have forecast MGS+GII issuance this year at MYR185 billion. Though this is higher vs MYR168.5 billion issued in 2025, the projected net issuance (essentially to finance the fiscal deficit) is lower at MYR75.0 billion vs MYR85.0 billion in 2025.
- 4) **Continued strong real money demand.** We foresee continued strong **new monies** entering the MGS market.

- a. In our report “MGS+GII Auction Calendar for 2026: Large supply vs. expected firm demand” published last December, we attempted to estimate the “New Monies” at major investors of fixed income securities in the country. Typically, these “new” cash, i.e., new cash raised by investors (such as insurance premiums and pension contributions, as well as institutions’ profits from investments), should be available to pick up the net issuance of MGS+GII in the coming year. Meanwhile, cash returned to investors because of the redemption of MGS+GII during the year should, we assume, be rolled back into the bond market as well. In any case, based on available data we gathered from General Insurance and Life Insurance companies and the EPF, we estimated that, as of 2024, their total new monies were MYR 183.9 billion (led by EPF at MYR 83.9 billion and Life Insurance companies at MYR 75.9 billion). If the same levels of new monies are seen in 2026, and taking 25% of these new monies, estimated at MYR46 billion, are ploughed into MGS+GII, that will already eat up a huge chunk of the MYR75 billion net MGS+GII issuance estimated for the year 2026. Based on BNM’s monthly data, EPF’s holdings of MGS+GII rose by MYR37.5 billion in the period September 2024-September 2025, while that of insurance companies rose by MYR5.0 billion in the same period.

War Risk: Downside to our View. US-Israel strike on Iran has escalated significantly, triggering immediate asset/market volatility, and raising the spectre of stagflation, energy supply shocks, and financial market volatility. Impact on MYR government bonds will ultimately depend on the magnitude of volatility of commodity prices; if prolonged oil price increases push inflationary pressures globally, they could undermine the current global monetary easing cycle. Then, that could sustain global yields at higher levels and could hamper the current downshift in MYR yields.

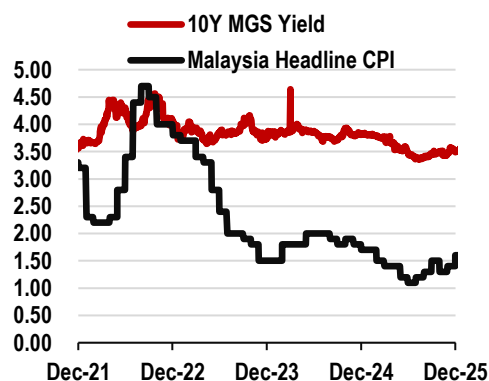
- **Safe haven govies demand.** Yet, our view is that the safety demand for select government bonds worldwide could be boosted. For the time being, we

Exhibit 4: 3Y MGS vs OPR (%)



Sources: DOSM, Bloomberg, AmBank Economics

Exhibit 5: 10Y MGS vs CPI



Sources: DOSM, Bloomberg, AmBank Economics

Exhibit 6: BNM Market Implied Policy Rate 1Y Ahead (%)



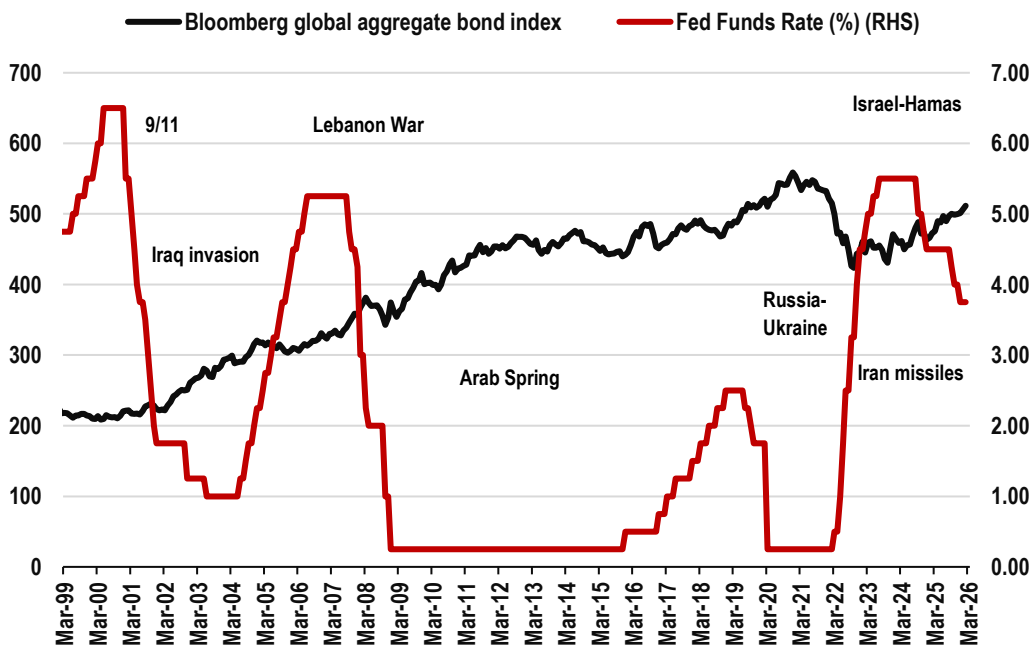
Sources: Bloomberg, AmBank Economics

think MYR government bonds should qualify as safer haven bonds, certainly in the Asia EM space.

- **Rate cuts will support bonds.** Moreover, looking at the more recent and serious Middle East conflicts, we have seen a mixed to positive impact on the EM bond space. The exception was the Ukraine-Russia war (2022) when global bonds faltered, and this was only as the conflict coincided with the period when central banks were aggressively raising interest rates. For now, global monetary policy direction remains on an easing path. Fed Funds futures trading (WIRP on Bloomberg) remains the pricing in of 2-3 interest rate cuts this year.

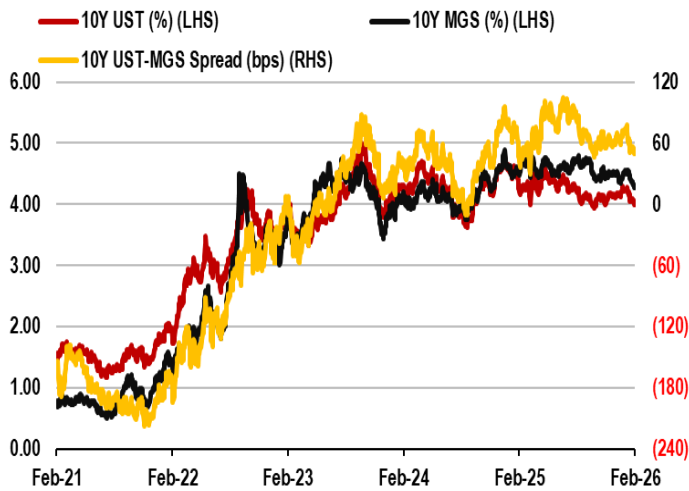
Our short- to medium-term targets and recommendations. Our expectation remains *for 1Q2026 10Y MGS forecast yield of 3.50% and 3Y MGS at 3.00% but will see decline to 3.45% and 2.95% respectively by end of 2Q2026, supported by the factors above. For the 10Y specifically, we think short-term support could be as low as 3.40% before profit taking pressures take hold.* Meanwhile, we note that the end-February 2026 period had shown signs of improvements in the MGS+GII market, in secondary trading and the primary. Yields fell 1-3 bps w/w while average bid-ask spreads are tighter (Exhibit 12) such as the 10Y MGS bid-offer difference at 1-2 bps. Lastly, last two MGS+GII auction demand were exceptional. The 5Y MGS (MGS 06/31) auction last week worth MYR5.0 billion receiving MYR14.6 billion incoming bids for BTC of 2.92x.

Exhibit 7: Bloomberg global aggregate bond index, end-month readings vs. Fed Funds Rate (%)



Sources: Bloomberg, AmBank Economics.

Exhibit 8: 10Y MGS vs 10Y UST



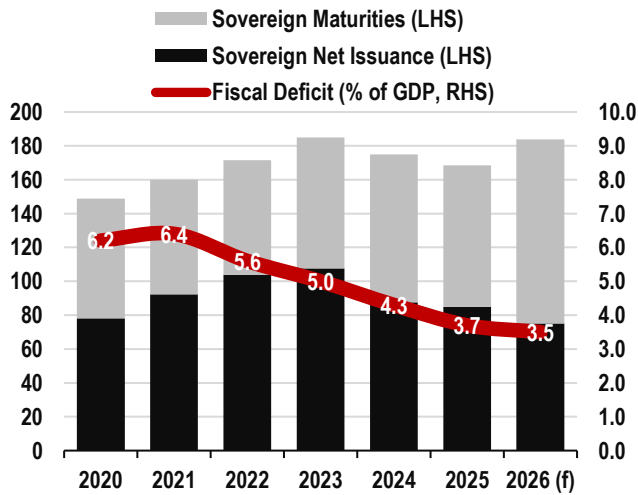
Sources: MOF, AmBank Economics

Exhibit 9: Foreign holdings in MGS+GII vs equity market (MYR billion)

Net Foreign Fund Flow (MYR billion)	Monthly		
	Jan-25	Dec-25	Jan-26
All Fixed Income	1.2	3.0	1.0
Malaysian Government Securities	1.6	(0.2)	3.9
Government Investment Issue	0.4	2.4	(1.8)
Aggregate Sovereign Bonds	2.0	2.3	2.1
Equity	(3.1)	(2.0)	1.0

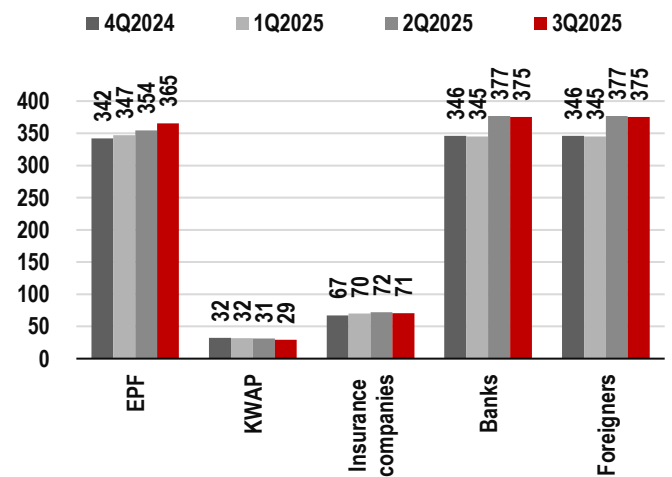
Sources: MOF, AmBank Economics

Exhibit 10: Sovereign issuances vs. fiscal deficits (2020-2026f) (MYR billion)



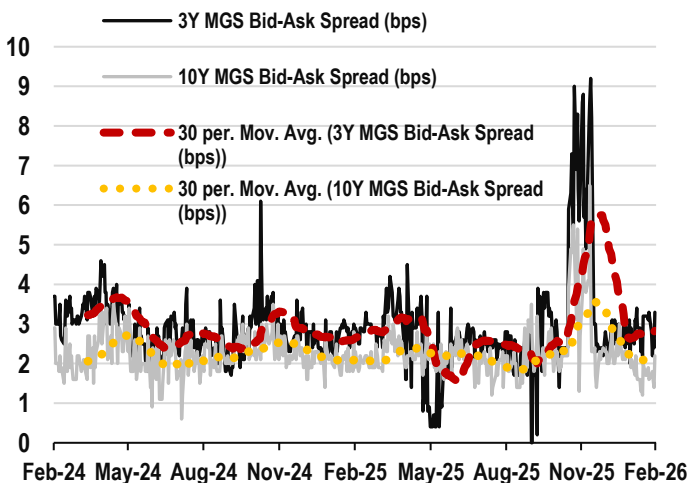
Sources: MOF, AmBank Economics

Exhibit 11: Domestically issued Federal Government Debt: Classification by Holder (MYR billion)



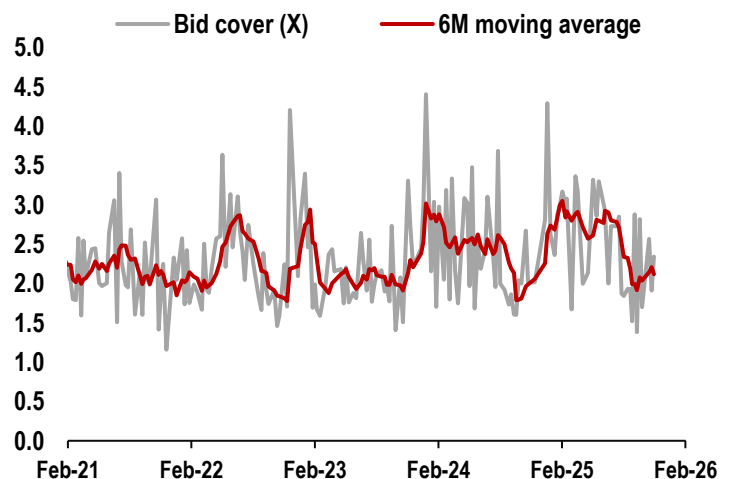
Sources: MOF, AmBank Economics

Exhibit 12: Bid-ask spreads (bps)



Sources: Bloomberg, AmBank Economics

Exhibit 13: Bid-to-cover (BTC) of MGS+GII auctions 2021-2026



Sources: BNM, AmBank Economics

Exhibit 14: AmBank's Estimate of New Monies at local Insurance Companies and EPF, and expected placement in MGS+GII (MYR billion)

	Life Insurance MYR billion	General Insurance MYR billion	Takaful MYR billion	EPF MYR billion
New Monies				
2018	47.50	14.62	5.04	54.32
2019	57.60	14.46	6.39	67.20
2020	57.73	14.27	6.38	58.58
2021	52.38	14.29	8.17	(8.89)
2022	49.62	15.46	9.24	32.49
2023	63.20	16.14	8.46	91.67
2024	75.89	17.05	7.12	83.86
2025 (estimate)	51.01	14.00	7.42	87.76
2026 (forecast)	53.50	15.17	8.81	85.81
Asset Allocation - MGS+GII				
2018	11.72%	14.52%	9.76%	25.24%
2019	10.14%	13.78%	8.62%	24.25%
2020	11.14%	13.64%	8.09%	21.84%
2021	12.32%	14.56%	7.72%	22.07%
2022	13.89%	15.42%	8.48%	24.70%
2023	15.12%	15.75%	8.91%	25.08%
2024	15.52%	16.15%	10.06%	24.90%
2025 (estimate)	13.60%	15.10%	8.65%	23.72%
2026 (forecast)	14.09%	15.40%	8.76%	24.09%
Investable Amounts – MGS+GII				
2018	5.57	2.12	0.49	13.71
2019	5.84	1.99	0.55	16.30
2020	6.43	1.95	0.52	12.79
2021	6.45	2.08	0.63	-1.96
2022	6.89	2.39	0.78	8.03
2023	9.55	2.54	0.75	22.99
2024	11.78	2.75	0.72	20.88
2025 (estimate)	6.94	2.12	0.64	20.81
2026 (forecast)	7.54	2.34	0.77	20.67

Sources: BNM Monthly Statistical Bulletin, EPF Annual Reports, AmBank Economics.

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