

UST YIELDS RIDE ROLLERCOASTER AMID TRUMP'S TRADE CLAIMS AND COOLER ECONOMIC DATA

Trump's Tariff Hike Ignites Trade War, Rattles Markets. Global trade tensions intensified on May 30 as U.S. President Donald Trump declared his intent to double tariffs on steel and aluminium imports to 50% starting June 4. This announcement immediately drew criticism from major trading partners like the E.U., who cautioned it would derail attempts at a diplomatic resolution. The impending tariff hike, coupled with existing worries about demand, kept Chinese steel rebar futures near eight-month lows of CNY 3,020 per tonne at the end of May. Further compounding potential downward pressure on steel prices is a significant new Chinese government policy: a ban on selling homes before completion. This measure is expected to severely impact real estate developers' funding and could worsen financial stress within China's property sector, a critical consumer of steel, thereby threatening to further reduce steel demand in the coming months. Meanwhile, minutes from the Federal Reserve's (Fed's) May 6-7 meeting reveal officials were deeply concerned that tariffs could worsen inflation, potentially complicating their interest rate policy. Despite solid economic growth, a largely balanced job market, and continued consumer spending, policymakers chose to keep interest rates steady in the range of 4.25%-4.50% due to increased economic uncertainty.

Diversification Drives Inflows into Asian Bonds in April Amidst US Fiscal Woes. April saw a notable shift in global investment patterns, with investors channeling USD8.92 billion into Asian bonds, marking the highest such inflow since August. This move was primarily driven by their search for diversification from the U.S., coupled with the appeal of stable and appreciating currencies in Asian markets. Regional interest rate cuts further sweetened the deal, boosting bond prices. South Korea was the biggest beneficiary, drawing USD7.91 billion in bond investments. Malaysia (USD2.37 billion) and Thailand (USD1.6 billion) also saw substantial inflows. In contrast, Indonesia experienced outflows of USD1.4 billion, attributed to fiscal worries, and India recorded USD1.55 billion in outflows, largely due to a brief military conflict. The market pointed to a calming of U.S.-China trade tensions throughout April and May as a factor in improving investor confidence. However, the global bond market continues to face headwinds from soaring long-dated UST yields and concerns about the U.S. fiscal outlook.

Upcoming Events: Key Economic Data Release

Monday	Global Manufacturing PMI, Indonesia CPI & External Trade (May)
Tuesday	Euro Area Flash CPI & Unemployment Rate (May)
Wednesday	U.S. ADP Employment Change (May)
Thursday	ECB Interest Rate Decision, U.S. Initial Jobless Claims & External Trade
Friday	U.S. Non-Farm Payroll & Unemployment Rate (May)

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Weekly Changes, basis points (bps)

UST	Yields (%) 16-May-25	Yields (%) 23-May-25	Change (bps)	Yields (%) 30-May-25	Change (bps)
3-Y UST	3.95	3.96	1	3.87	-9
5-Y UST	4.06	4.08	2	3.96	-12
7-Y UST	4.24	4.29	5	4.18	-11
10-Y UST	4.43	4.51	8	4.41	-10
MGS	Yields (%) 16-May-25	Yields (%) 23-May-25	Change (bps)	Yields (%) 30-May-25	Change (bps)
3-Y MGS	3.20	3.17	-2	3.15	-2
5-Y MGS	3.31	3.22	-9	3.19	-3
7-Y MGS	3.49	3.43	-6	3.39	-4
10-Y MGS	3.59	3.57	-2	3.53	-4
GII	Yields (%) 16-May-25	Yields (%) 23-May-25	Change (bps)	Yields (%) 30-May-25	Change (bps)
3-Y GII	3.20	3.18	-2	3.17	-1
5-Y GII	3.36	3.34	-2	3.29	-4
7-Y GII	3.50	3.46	-4	3.40	-5
10-Y GII	3.59	3.55	-4	3.53	-2

Sources: Federal Reserve Board, BNM, Bank Islam

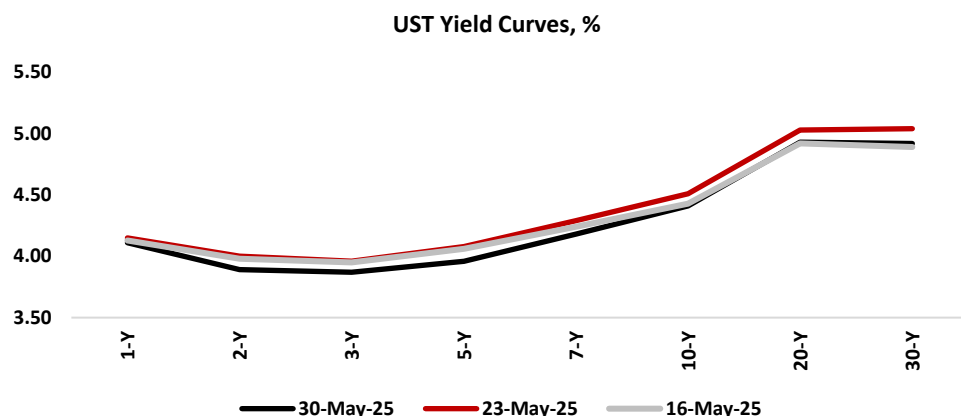
Commentaries

UST Yields

The U.S. Treasury (UST) yields declined in the range of 9bps to 12bps w-o-w for the week ending May 30 (May 23: +1bp to +8bps). Traders are closely monitoring the evolving trade tensions between the U.S. and China, alongside the latest economic indicators. President Trump recently accused China of "totally violating" their trade agreement in a social media post, although specifics were not provided. This comes after a federal appeals court temporarily reinstated Trump's tariffs, overturning a previous trade court ruling that had deemed his actions as exceeding presidential authority.

Meanwhile, economic data offers a more nuanced picture. The Personal Consumption Expenditures (PCE) price index, a key gauge of inflation, rose by a modest 0.1% month-on-month in April for both headline and core measures, in line with market expectations. On an annual basis, headline PCE inflation eased to 2.1% y-o-y from 2.3% previously, while Core PCE, the Federal Reserve's preferred indicator that excludes volatile food and energy components, edged down to 2.5% y-o-y from 2.6%. Additionally, personal spending growth also moderated to 0.2%, consistent with forecasts. This softer inflation and spending data has strengthened market anticipation for potential interest rate cuts by the Federal Reserve later this year.

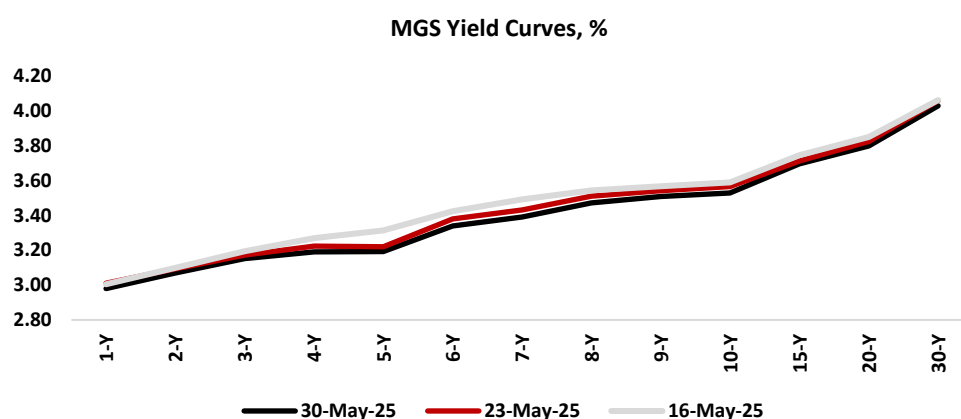
Short-Term Outlook. Persistent fiscal risks suggest UST yields will remain elevated in the near term. Market attention will be fixed on ongoing trade discussions, federal spending policies, and the path of U.S. government debt. Although progress in trade deals might offer a minor relief to yield pressures, the prevailing direction is still upward.



MGS/GII Yields

On weekly basis, both MGS and GII were on buying spree, resulting with yields ending lower by between 1bp and 5bps for the week ending May 30 (May 23: -2bps to -9bps). Investors' confidence on the domestic economy fuelled the rally, stemming from Malaysia's solid economic fundamentals. Malaysia's headline inflation in April 2025 held steady at 1.4%, mirroring March's rate but slightly down from February's 1.5%. Core inflation, however, edged up to 2% in April from 1.9% in March, primarily due to higher prices in personal care, social protection and miscellaneous goods and services; food and beverages (F&B); and restaurant and accommodation services. The Statistics Department noted that while headline inflation remained flat for the second month, key drivers of the overall CPI increase included personal care, social protection and miscellaneous goods and services, education, and housing, water, electricity, gas, and other fuels. On the fiscal side, the latest data saw reduction in fiscal deficit by approximately 17.0% y-o-y in 1Q2025 which also translated to a lower fiscal deficit-to-GDP ratio of 4.5% (1Q2024: -5.7%).

Short-Term Outlook. Capital moving from the U.S. market to emerging markets, including Malaysia, could help lower yields. MGS and GII yields have shown some recent downward trends due to strong demand, stable macro conditions and lingering global uncertainties. Global developments, particularly U.S. economic data and trade policy shifts, alongside Malaysia's ongoing fiscal reforms and domestic economic performance, will be closely monitored to gauge the precise trajectory of MGS and GII yields.



Auction Results (May 2025). Gross issuance of MGS/GII in May was lower at RM10.0 billion (Apr: RM14.0 billion) given that only two issuances were scheduled in the month. Of note, GII issuance logged issuances of RM5 billion (Apr: RM9.0 billion), while MGS issuance declined remained steady with RM5.0 billion in May.

Taking a closer look at government debt issuance, a total of RM13.0 billion was raised through two public offerings: a RM5.0 billion 5-Y New Issue of MGS and a RM3.0 billion 20-Y New Issue of GII. Investors showed robust demand across all two offerings, with bid-to-cover (BTC) ratios exceeding 2.0x. In addition, the 20-Y New Issue of GII drew the second highest BTC ratio of 3.3x.

Auction Results (May 2025)

Issues	Amount (RM'mn)	Amount Applied (RM'mn)	BTC (x)	Private Placements (RM'mn)
5-yr New Issue of MGS (Mat on 05/30)	5,000	10,664	2.1	-
20-yr New Issue of MGII (Mat on 05/45)	3,000	9,953	3.3	2,000

Sources: BNM, Bank Islam

Upcoming Auction (June 2025). Based on the MGS/GII auction calendar for June 2025, a total of three issuances are scheduled, of which one will be via MGS and the remaining via GII with private placements.

Upcoming Auction (June 2025)

Issues	Month	Private Placements
15-yr Reopening of MGS 04/39 4.054%	June	Yes
30-yr Reopening of MGII 03/54 4.280%	June	Yes
10-yr New Issue of MGS (Mat on 07/35)	June	No

Sources: BNM, Bank Islam