

▼ Nor Lyana Zainal Abidin
Economist
nlyanaz@bankislam.com.my

FED TENSIONS, EVOLVING TRADE AND GEOPOLITICAL CONCERNS PUT BOND MARKETS IN THE CROSSFIRE

Trump Clashes with Powell Over Fed Renovations and Interest Rates.

During a rare visit to the Federal Reserve (Fed), President Trump confronted Chair Jerome Powell, criticizing the cost of renovating two historical buildings at the Fed's headquarters and pushing for lower interest rates. Despite calling Powell a "numbskull" earlier in the week, Trump stated he no longer intended to fire him. The tense interaction unfolded at the Fed's construction site, where renovations on two buildings, the Eccles and Martin Buildings, are underway. Trump challenged Powell on the project's estimated cost, claiming it had escalated to USD3.1 billion. Powell, visibly surprised, clarified that the figure seemed to include a third building that was completed years ago. White House budget director Russell Vought and Trump's deputy chief of staff James Blair, who accompanied Trump, continued to express concerns about the renovation's cost and oversight. Trump repeatedly urged Powell to deliver substantial interest rate cuts, reiterating his call for a reduction of three percentage points or more. The visit took place just days ahead of the Fed's upcoming policy decision, where officials are widely expected to keep rates unchanged. The visit underscored the persistent tension between the White House and the Fed, an institution that prides itself on independence. Trump's previous criticisms of Powell, including suggestions of dismissal, have at times unsettled markets and fueled concerns over potential political interference in monetary policy. Despite the heated interaction, Trump later claimed there was "no tension" and that their conversation about rates was productive.

Thailand and Cambodia Border Conflict Escalates. Intense fighting between Thailand and Cambodia marked by heavy artillery exchanges and a rising death toll, despite international calls for a ceasefire. The conflict, the worst in over a decade, has resulted in at least 16 fatalities. Clashes were reported from before dawn in Thailand's Ubon Ratchathani and Surin provinces. The Thai military stated that Cambodian forces utilized heavy weapons, field artillery, and Russian-made BM-21 rocket systems, to which Thai forces responded with "appropriate supporting fire." Approximately 100,000 people have been evacuated from conflict zones on the Thai side of the border. Both nations accuse each other of initiating the conflict, which escalated on July 24 from small arms fire to heavy shelling across at least six locations along the disputed frontier. This border area has been a point of contention for over a century. The renewed violence follows Thailand's recall of its ambassador to Phnom Penh and the expulsion of Cambodia's envoy, prompted by a Thai soldier losing a limb to a landmine that Bangkok claims was recently laid by Cambodian troops—an accusation Cambodia denies. The United States has called for an "immediate cessation of hostilities, protection of civilians and a peaceful resolution." Malaysian Prime Minister Datuk Seri Anwar Ibrahim, as the current chair of ASEAN, urged both countries to find a peaceful resolution, stating that Malaysia is ready to assist in the process. He noted positive signals from both Bangkok and Phnom Penh regarding a path forward.

Upcoming Events: Key Economic Data Release

Monday	Malaysia PPI (June)
Tuesday	U.S. JOLTS (June)
Wednesday	Fed FOMC meeting
Thursday	Bank of Japan (BoJ) meeting
Friday	U.S. NFP and unemployment rate (July)

Weekly Changes, basis points (bps)

UST	Yields (%)	Yields (%)	Change	Yields (%)	Change
	11-Jun-25	18-Jul-25	(bps)	25-Jul-25	(bps)
3-Y UST	3.89	3.84	-5	3.86	2
5-Y UST	4.02	3.96	-6	3.95	-1
7-Y UST	4.21	4.18	-3	4.15	-3
10-Y UST	4.41	4.44	3	4.40	-4
MGS	Yields (%)	Yields (%)	Change	Yields (%)	Change
	11-Jun-25	18-Jul-25	(bps)	25-Jul-25	(bps)
3-Y MGS	3.16	3.08	-8	3.05	-3
5-Y MGS	3.22	3.16	-6	3.15	-1
7-Y MGS	3.43	3.35	-8	3.34	-1
10-Y MGS	3.55	3.43	-12	3.41	-3
GII	Yields (%)	Yields (%)	Change	Yields (%)	Change
	11-Jun-25	18-Jul-25	(bps)	25-Jul-25	(bps)
3-Y GII	3.18	3.13	-5	3.11	-2
5-Y GII	3.32	3.21	-10	3.19	-2
7-Y GII	3.41	3.36	-5	3.34	-2
10-Y GII	3.55	3.48	-7	3.46	-2

Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

UST Yields

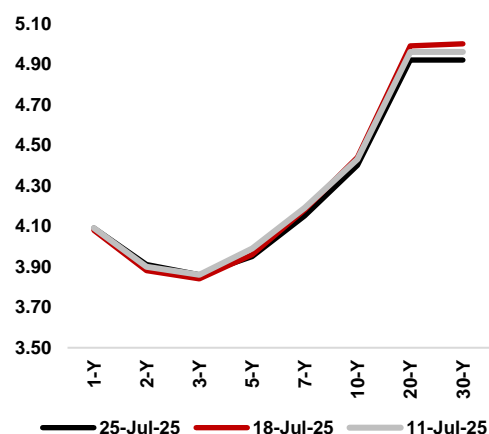
The U.S. Treasury (UST) yields mostly ended lower in the range of 1bp to 4bps w-o-w for the week ending July 25 (July 18: -3bps to 3bps), except for 3-Y UST which climbed by 2bps to close at 3.86% as investors continue to assess trade developments and anticipate the Fed's upcoming policy meeting. The U.S. and E.U. are reportedly close to a trade agreement, which would introduce a 15% tariff on most E.U. goods, mirroring a recent deal with Japan.

Looking ahead to monetary policy, the Fed is widely expected to hold interest rates steady at its upcoming meeting. This pause will allow policymakers to evaluate how the new tariffs might impact inflation. However, the market's focus will be entirely on Chair Jerome Powell's statements, as investors seek vital signals about whether rate reductions are on the horizon before year-end. Based on the CME Fedwatch Tool, investors markets are pricing in two 25bps of rate cuts by the end of 2025, with reductions anticipated in both September and December Federal Open Market Committee (FOMC) meeting.

In a notable shift, President Donald Trump appears to have softened his stance on Fed Chair Jerome Powell, stating he has no plans for dismissal after a historic visit to the Fed's headquarters.

Short-term outlook: UST yields could experience a modest uptick next week, driven primarily by market jitters ahead of the impending tariff deadline. Heightened trade-related uncertainty is expected to keep investors cautious,

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

adding to upward pressure on yields. Further contributing to this dynamic is the upcoming Federal Open Market Committee (FOMC) meeting on July 30, where policymakers are widely expected to leave interest rates unchanged at 4.25%–4.50%.

MGS/GII Yields

Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields ended lower, declining by between 1bp and 3bps for the week ending July 25 (July 18: -5bps to -12bps).

With an August 1 deadline looming, Malaysia is actively negotiating with the U.S. to mitigate President Donald Trump's threatened 25% tariff on its goods. Investment, Trade and Industry Minister Zafrul Aziz is hopeful for a deal that would lower this levy to under 20% and conveyed optimism about reaching this deal. Malaysia's Prime Minister Anwar Ibrahim is slated to speak with President Trump once the negotiations finalize.

In addition, Prime Minister Anwar Ibrahim highlighted Malaysia's National Semiconductor Strategy (NSS), launched in May 2024, has already attracted over RM63 billion in semiconductor investments as of March 2025. Foreign investors contributed the majority, with RM58 billion, while domestic sources accounted for RM5 billion.

Short-term Outlook: Malaysian bond yields are expected to largely hold their ground next week, albeit with a slight tendency to increase, largely attributable to the looming August 1 tariff deadline, which may put foreign interest in the local bond market to wane.

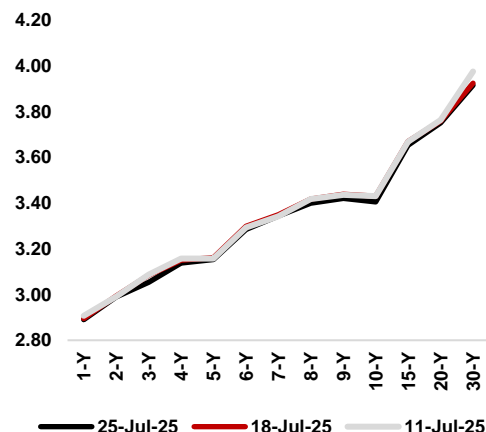
Auction Results (July 2025)

Gross issuance of MGS/GII in July was higher at RM15.0 billion (June: RM14.0 billion) with three issuances scheduled in the month. Looking closer, GII issuance inched higher to RM10.0 billion (June: RM5.0 billion), while MGS issuances dropped to RM5.0 billion in July (May: RM9.0 billion).

Of note, a total of RM13.0 billion was raised through three public offerings: a RM5.0 billion 7-Y Reopening of GII, a RM3.0 billion 30-Y New Issue of MGS and a RM5.0 billion 10-Y Reopening of GII. Investors showed robust demand across all three offerings, with bid-to-cover (BTC) ratios exceeding 2.0x. In July, the 7-Y Reopening of GII drew the highest BTC ratio of 2.9x.

As of the first seven months of 2025, total gross issuances of MGS and GII amounted to RM101.0 billion (MGS: RM47.0 billion, GII: RM54.0 billion) lower relative to RM109.5 billion raised in the corresponding period in the previous year.

MGS Yield Curves, %



Sources: BNM, Bank Islam

Issues	Amount (RM mil)	Amount Applied (RM mil)	BTC (x)	Private Placements (RM mil)
7-yr Reopening of MGII 10/31 3.804%	5,000	14,610	2.9	-
30-yr New Issue of MGS (Mat on 07/55)	3,000	6,001	2.0	2,000
10-yr Reopening of MGII 04/35	5,000	13,640	2.7	-

Sources: BNM, Bank Islam

Upcoming auction (August 2025)

Based on the MGS/GII auction calendar for August 2025, a total of four issuances are scheduled, of which two will be via MGS and the remaining two through GII with private placements.

Issues	Month	Private Placements
20-yr Reopening of MGS 05/44 4.180%	August	Yes
15-yr Reopening of MGII 07/40	August	Yes
5-yr Reopening of MGS 5/30	August	No
20-yr Reopening of MGII 05/45	August	Yes

Sources: BNM, Bank Islam