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## GLOBAL BOND MARKET DYNAMICS: EVOLVING TRADE TENSIONS, POLICY DIVERGENCE AND GEOPOLITICAL HEADWINDS

**The Fed Divided Amid Shifting Economic Data.** Minutes from the latest Federal Reserve (Fed) meeting in July revealed that while the Fed voted to keep interest rates steady, a growing divide is emerging among its policymakers. The decision to hold rates was largely unanimous, with nearly all participants agreeing it was the right move at the time. However, two governors, Michelle Bowman and Christopher Waller, dissented, arguing for a rate cut to protect the job market from further weakness. This marked the first time since 1993 that more than one governor voted against a rate decision. The concerns of the two dissenting governors appeared to be validated just days later by new data showing fewer jobs created in July than expected, an increase in the unemployment rate, and a significant downward revision of job numbers for the previous two months. This data, which cast doubt on the strength of the job market, prompted President Donald Trump to fire the head of the Bureau of Labor Statistics. Since then, however, other economic data has complicated the debate. A rise in underlying consumer and producer inflation in July has strengthened the position of those who are concerned that aggressive tariffs risk reigniting inflation, giving them reason to hold off on cutting rates. The minutes also showed that Fed officials are still actively debating the effects of these tariffs on inflation and the overall economy. Looking ahead, the Fed may face a difficult balancing act if inflation remains high while the job market weakens. Subsequently, all eyes were on Fed Chair Jerome Powell's upcoming speech, which could indicate whether he is leaning toward a rate cut to support the job market or remains more concerned about keeping inflation in check. The president, who has publicly criticized Powell for not cutting rates, is already vetting potential successors for his term, which expires next May.

**Powell Signals September Rate Cut, Citing Shifting Economic Risks.** In a highly anticipated speech at the Jackson Hole symposium, Fed Chair Jerome Powell signaled a potential shift in the central bank's monetary policy, opening the door to an interest rate cut in September. This prospect was immediately embraced by financial markets, triggering a significant rally in both stocks and bonds. Powell's remarks acknowledged that the Fed's "dual mandate" to both maximize employment and maintain price stability has a new balance of risks. He noted that the "shifting balance of risks may warrant adjusting our policy stance." While he recognized that inflation pressures remain "tilted to the upside," he also emphasized that the Fed would watch closely to ensure these price increases don't become an ongoing problem. He also devoted considerable attention to the deteriorating labor market. Powell highlighted a "curious kind of balance" with a marked slowdown in both the supply of and demand for workers. This "unusual situation," he warned, "suggests that downside risks to employment are rising," which could quickly lead to higher layoffs and rising unemployment. This concern is well-founded, given the recent July jobs report, which showed a significant slowdown in job growth. In response to Powell's comments, U.S. stocks soared, with the odds of a 25bp

rate cut at the September Federal Open Market Committee (FOMC) meeting surging close to 90%. This strong market reaction indicates that investors are now highly confident that a September rate cut is forthcoming. This news, along with lower U.S. Treasury yields, provided a significant boost to investor sentiment.

#### Upcoming Events: Key Economic Data Release

Monday	Singapore CPI (July)
Tuesday	U.S. Fed Barkin Speech, U.S. HPI (June)
Wednesday	China Industrial Profit (July)
Thursday	Malaysia PPI (June), Bangko Sentral Ng Pilipinas (BSP) and Bank of Korea (BOK) meetings
Friday	Japan Retail Sales (July), Singapore PPI (July)

#### Weekly Changes, basis points (bps)

UST	Yields (%) 8-Aug-25	Yields (%) 15-Aug-25	Change (bps)	Yields (%) 22-Aug-25	Change (bps)
3-Y UST	3.70	3.73	3	3.64	-9
5-Y UST	3.84	3.85	1	3.76	-9
7-Y UST	4.03	4.07	4	3.98	-9
10-Y UST	4.27	4.33	6	4.26	-7
MGS	Yields (%) 8-Aug-25	Yields (%) 15-Aug-25	Change (bps)	Yields (%) 22-Aug-25	Change (bps)
3-Y MGS	3.03	2.98	-6	2.99	1
5-Y MGS	3.11	3.07	-4	3.09	2
7-Y MGS	3.28	3.26	-2	3.27	2
10-Y MGS	3.37	3.36	-1	3.39	2
GII	Yields (%) 8-Aug-25	Yields (%) 15-Aug-25	Change (bps)	Yields (%) 22-Aug-25	Change (bps)
3-Y GII	3.06	3.02	-4	3.02	0
5-Y GII	3.15	3.13	-2	3.13	-1
7-Y GII	3.26	3.24	-2	3.25	1
10-Y GII	3.40	3.38	-2	3.41	2

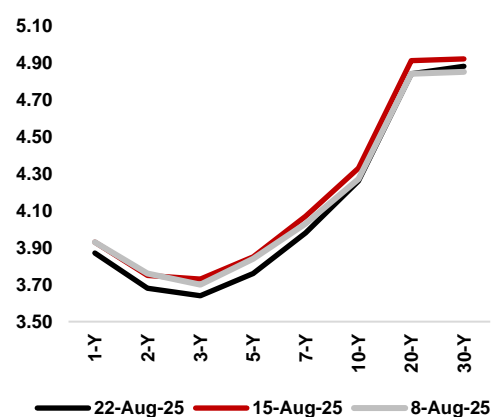
Sources: Federal Reserve Board, BNM, Bank Islam

#### Commentaries

**UST Yields** The U.S. Treasury (UST) yields closed on a lower note in the range of 7bps to 9bps w-o-w for the week ending August 22 (August 15: +1bp to +6bps), following signals from Fed Chair Jerome Powell that the central bank is likely to cut interest rates at its next meeting. Powell highlighted a shift in the balance of risks—from inflation to a weakening labor market—as justification for policy easing. Markets now expect a 25bp rate cut in September with an 87.2% probability, while also increasing bets on additional cuts in the fourth quarter.

According to the CME FedWatch tool, rate futures suggest a consensus of two total cuts this year, with almost 40% of the market positioning for three. However, the steepening yield curve shows a disconnect between short- and long-term interest rates, indicating that some investors are still concerned about inflation. This is further supported by the recent hot Producer Price Index (PPI) release. The PPI saw a significant jump in July, rising to 3.3% from 2.4% in June.

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

**Short-term outlook:** Looking ahead, markets will be watching for signals from upcoming data releases, including the core Personal Consumption Expenditures (PCE) index and jobless claims. On the international front, geopolitical risks remain a key concern, with any developments in the ongoing Russia-Ukraine negotiations being closely monitored.

**MGS/GII Yields** Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were little changed, moving by merely between -1bp to 2bps for the week ending August 22 (August 15: -1bp to -6bps).

Domestic yields advanced following Trump's threat to impose sweeping 300% tariffs on the global semiconductor sector, which weighed on investor sentiment and heightened concerns over potential trade disruptions. In 2024, Malaysia's electrical and electronics (E&E) exports to the U.S. totaled RM119.86 billion, making up about 20% of the country's total E&E exports.

Nevertheless, the stronger-than-anticipated expansion in Malaysia's exports provided some offsetting support. Following two consecutive months of decline, Malaysia's exports rebounded sharply in July, increasing by 6.8% y-o-y. This growth significantly surpassed market expectations of a 3.2% contraction. The recovery was primarily fueled by a surge in manufactured goods, particularly electronics. At the same time, the lack of tangible progress in Ukraine peace negotiations prompted investors to further scale back their exposure to emerging-market debt.

**Short-term Outlook:** Local bond yields are likely to see a slight increase as markets await clarity on President Donald Trump's position on tariffs, particularly those affecting the semiconductor industry. Global uncertainty is also fueled by slow-moving Russia-Ukraine negotiations. However, steady onshore inflation data should help stabilize yields and protect against external volatility.

#### Auction Results (August 2025)

Of note, a total of RM13.0 billion was raised through three public offerings: a RM2.5 billion 20-Y Reopening of MGS, a RM3.0 billion 15-Y Reopening of GII and a RM5.0 billion 5-Y Reopening of MGS. Investors showed robust demand across two offerings, with bid-to-cover (BTC) ratios exceeding 2.0x. Nevertheless, 5-Y Reopening of MGS drew a slightly lower BTC of 1.9x.

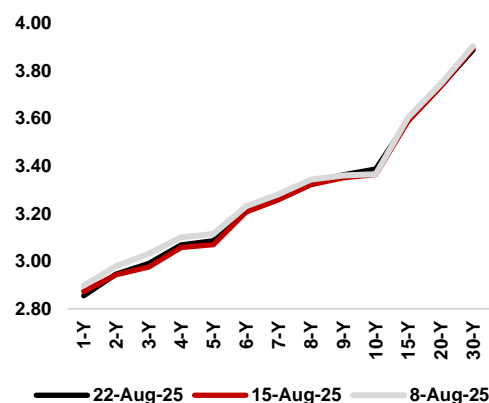
In addition, there will be a 20-Y Reopening of GII issuance scheduled for the final week of August. We anticipate a RM3.0 billion public offering with another RM2.0 billion of private placement.

As of August 22, 2025, total gross issuances of MGS and GII amounted to RM114.5 billion (MGS: RM56.5 billion, GII: RM58.0 billion).

Issues	Amount (RM mil)	Amount Applied (RM mil)	BTC (x)	Private Placements (RM mil)
20-yr Reopening of MGS 05/44 4.180%	2,500	6,813	2.7	2,000
15-yr Reopening of MGII 07/40	3,000	8,544	2.8	1,000
5-yr Reopening of MGS 5/30	5,000	9,336	1.9	-
20-yr Reopening of MGII 05/45	3,000	-	-	2,000

Sources: BNM, Bank Islam

MGS Yield Curves, %



Sources: BNM, Bank Islam

### Upcoming auction (September 2025)

In September, the MGS/GII auction calendar showed a total of four issuances are scheduled, of which two will be via MGS and the remaining two through GII with two private placements.

Issues	Month	Private Placements
3-yr Reopening of MGS 04/28 3.519%	September	No
30-yr New Issue of MGII (Mat on 09/55)(Khadamat)	September	Yes
15-yr Reopening of MGS 04/39 4.054%	September	Yes
3-yr Reopening of MGII 07/28 3.599%	September	No

Sources: BNM, Bank Islam