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FED'S FIRST CUT IN NINE MONTHS RIPPLES THROUGH THE GLOBAL BOND MARKETS

The Fed Cuts Rates to Address a Slowing Labor Market. The U.S. Federal Reserve (Fed) has announced its first interest rate cut since December 2024, lowering the target range to 4.00% to 4.25%. The Fed's move reflects growing concerns over a softening labor market, even as Donald Trump's tariffs continue to exert upward pressure on prices. While widely anticipated, the decision signals a notable shift in the central bank's focus. After months of prioritizing the inflation fight, recent data showing weaker job creation and a rise in the unemployment rate to 4.3% pushed policymakers to act. Fed Chair Jerome Powell acknowledged the delicate balancing act, stressing the need to weigh risks to both employment and inflation. He described the labor market as showing a "curious kind of balance," with both worker demand and supply slowing. On tariffs, Powell noted they represent a "one-time shift" in prices but warned of the risk that these effects could prove more persistent, potentially embedding into inflation dynamics. The vote to cut rates was not unanimous. Stephen Miran, a new Fed governor and former chairman of the Council of Economic Advisors, was the sole dissenter, arguing for a more aggressive 0.5 percentage point cut. His dissent aligns with President Trump's repeated demands for much larger rate cuts. The Fed's projections now indicate that two more rate cuts are possible before the end of the year. This complex situation puts the Fed in a challenging position as it tries to navigate a "risk-free" path. The central bank's actions are aimed at preventing a further deterioration in the labor market while ensuring that tariff-driven price increases do not lead to a broader, more permanent inflation problem.

China's Central Bank Holds Rates Steady, Signalling Caution. The People's Bank of China (PBoC) has opted to keep its key benchmark lending rates—the Loan Prime Rates (LPRs)—unchanged for the fourth consecutive month. This decision comes despite recent economic data that points to a clear slowdown, and it suggests a cautious "wait-and-see" approach from Chinese authorities. The one-year LPR remains at 3.0%, while the five-year LPR, which is the benchmark for mortgage loans, stays at 3.5%. This move was largely anticipated and aligns with the consensus forecast from a Reuters survey of market experts. While the U.S. Fed recently lowered its own benchmark rate, China's central bank is holding firm. This is in contrast to May, when the PBoC cut the LPR for the first time in seven months. The decision to pause on further stimulus is supported by a few positive economic signals, including a recent rally in the stock market and a relative recovery in exports. Even with the current pause, some analysts believe more stimulus is on the way. Markets are now pricing in another 0.1 percentage point cut by year-end, as persistently weak July and August data give policymakers room to act. The focus remains on meeting the annual growth target without overshooting it, making gradual policy fine-tuning more likely than a broad-based stimulus package. For now, the PBoC appears to be holding its cards close, watching to see if existing policies can successfully stabilize the economy.

Upcoming Events: Key Economic Data Release

Monday	PBoC China Interest Rate (Sep)
Tuesday	Malaysia CPI (August), Singapore CPI
Wednesday	Fed Chair Powell Speech
Thursday	Thailand Trade Balance (August)
Friday	ECB President Lagarde Speech

Weekly Changes, basis points (bps)

UST	Yields (%) 5-Sep-25	Yields (%) 12-Sep-25	Change (bps)	Yields (%) 19-Sep-25	Change (bps)
3-Y UST	3.48	3.52	4	3.56	4
5-Y UST	3.59	3.63	4	3.68	5
7-Y UST	3.80	3.81	1	3.88	7
10-Y UST	4.10	4.06	-4	4.14	8
MGS	**Yields (%) 4-Sep-25**	**Yields (%) 12-Sep-25**	**Change (bps)**	**Yields (%) 19-Sep-25**	**Change (bps)**
3-Y MGS	3.03	3.05	2	3.04	-1
5-Y MGS	3.11	3.13	2	3.12	-1
7-Y MGS	3.32	3.34	1	3.32	-2
10-Y MGS	3.41	3.42	1	3.40	-2
GII	**Yields (%) 4-Sep-25**	**Yields (%) 12-Sep-25**	**Change (bps)**	**Yields (%) 19-Sep-25**	**Change (bps)**
3-Y GII	3.06	3.07	1	3.06	-1
5-Y GII	3.14	3.16	1	3.15	-1
7-Y GII	3.28	3.28	0	3.27	-1
10-Y GII	3.43	3.43	-1	3.42	-1

Sources: Federal Reserve Board, BNM, Bank Islam

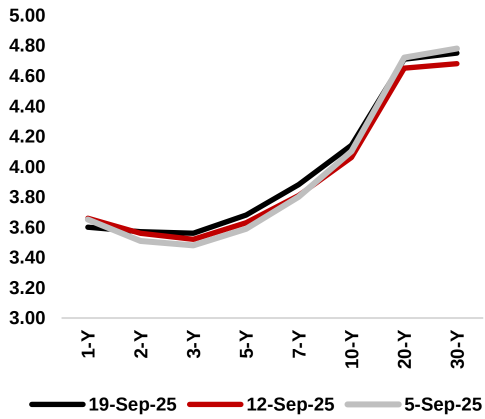
Commentaries

UST Yields The U.S. Treasury (UST) yields ended higher in the range of 4bps to 8bps w-o-w for the week ending September 19 (September 12: -4bps to +4bps), as investors assessed the Fed's first rate cut of the year alongside its updated economic projections. On September 17, the Fed lowered the funds rate by 25 bps as anticipated and signaled a further 50 bps of cuts in 2025, followed by an additional 25 bps reduction in 2026.

The 10-year UST yield briefly slipped below 4.00% before rebounding after Powell highlighted ongoing inflation risks. Robust U.S. retail sales, stronger manufacturing output, and lower jobless claims further lifted yields. While Powell's remarks added to the upward momentum, dovish dot-plot signals indicating two additional rate cuts this year, along with steady foreign demand for U.S. Treasuries, helped limit the rise.

Short-term outlook: Attention will turn to core PCE and weekly jobless claims. Softer readings could strengthen the case for additional rate cuts, dragging yields lower. However, in the months ahead, persistent inflation and a worsening fiscal outlook—with a potential partial government shutdown on October 1—may keep upward pressure on yields.

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

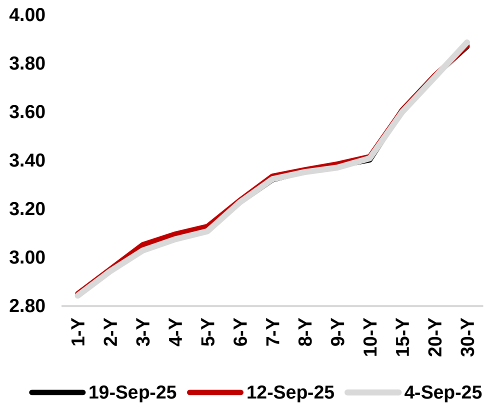
MGS/GII Yields Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were little changed, moving by merely between -1bp to -2bps for the week ending September 19 (September 12: -1bp to +2bps).

The MGS yields declined following the Fed's 25 bps rate cut and expectations of two further cuts this year. Domestically, solid distributive trade sales and an uptick in 2Q2025 tourism strengthened demand, driving yields lower.

Nevertheless, the gains in MGS yields were capped by the weaker-than-anticipated growth in Malaysia's exports which saw a modest increase in August 2025. According to the Ministry of Investment, Trade and Industry (MITI), exports grew by only 1.9% in August, down sharply from July's frontloading surge of 6.5% and below the 3.0% market forecast. While electronics and machinery exports were strong, this growth was tempered by a decline in petroleum exports and weaker demand from key markets, suggesting a softer overall trade environment.

Short-term Outlook: In the near term, we anticipate local yields to stay broadly steady around 3.40%, supported by solid domestic fundamentals. Market attention will center on the upcoming CPI release, while investors also keep a close eye on the U.S. economic outlook as the Fed weighs inflation risks.

MGS Yield Curves, %



Sources: BNM, Bank Islam

Auction Results (September 2025)

Of note, a total of RM14.5 billion was raised through three public offerings: a RM5.0 billion 3-Y Reopening of MGS, a RM5.0 billion 30-Y Reopening of GII and a RM4.5 billion 15-Y Reopening of MGS. Demand for the two offerings was subdued, with bid-to-cover (BTC) ratios below 2.0x.

As per auction calendar, the next auction scheduled on September 23 with issuances of RM3.5 billion and RM1.0 billion in private placements.

In addition, there will be a 3-Y Reopening of GII issuance scheduled for the final week of September. We anticipate a RM5.0 billion public offering without private placement.

As of September 22, 2025, total gross issuances of MGS and GII amounted to RM134.0 billion (MGS: RM66.0 billion, GII: RM68.0 billion).

Issues	Amount (RM mil)	Amount Applied (RM mil)	BTC (x)	Private Placements (RM mil)
3-yr Reopening of MGS 04/28 3.519%	5,000	9,640	1.9	-
30-yr New Issue of MGII (Mat on 09/55)(Khadamat)	3,000	5,785	1.9	2,000
15-yr Reopening of MGS 04/39 4.054%	3,500			1,000
3-yr Reopening of MGII 07/28 3.599%	5,000			-

Sources: BNM, Bank Islam

Upcoming auction (October 2025)

The MGS/GII auction calendar showed a total of three issuances scheduled for the month of October, of which two will be via MGS with private placements and the remaining through GII without private placement.

Issues	Month	Private Placements
30-yr Reopening of MGS 07/55	October	Yes
5-yr Reopening of MGII 08/30	October	No
20-yr Reopening of MGS 05/44 4.180%	October	Yes

Sources: BNM, Bank Islam