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FED'S RATE CUT UNCERTAINTY SPURS YIELD UPTICK, ASEAN DIPLOMACY ANCHORS MALAYSIAN BONDS

Fed's Rate Cut Future Uncertain Amid Data Gaps and Policy Splits.

Federal Reserve (Fed) Chair Jerome Powell has significantly dampened expectations for another interest rate cut this year, emphasizing a growing internal policy divide and the challenge of navigating the economy without key federal government data due to the ongoing shutdown. On October 26, the Fed executed a widely-anticipated 25bp rate cut, lowering the benchmark rate to the 3.75%-4.00% range to address risks to a softening job market. However, Powell's post-meeting comments struck a cautious tone. He acknowledged that the lack of official job and inflation reports, caused by the prolonged government shutdown, makes future policy moves risky. He used the analogy, "What do you do if you're driving in the fog? You slow down," indicating that the data vacuum necessitates a more measured, non-aggressive approach to rate-setting. Furthermore, Powell explicitly pointed to "strongly differing views" among his Fed colleagues regarding the appropriate path for monetary policy. He noted a "growing chorus" of officials who believe it is time to "at least wait a cycle" before cutting rates again. This split was dramatically underscored by the rate vote itself, which saw two dissents in opposite directions: one member advocating for a deeper cut and another opposing any reduction entirely, a rare sign of central bank disagreement. Powell was unusually direct in stating that a further reduction at the December meeting is "not a foregone conclusion—far from it," making it clear that policy is not on a predetermined course. Financial markets reacted immediately by reducing their bets on a year-end rate cut. The Fed also announced it will end its balance sheet reduction and begin limited Treasury security purchases to ensure financial market liquidity, a technical move aimed at maintaining stability. Despite the mixed signals—downside risks to employment but still-elevated inflation—the Fed maintains its goal of achieving a healthy labor market with inflation returning to its 2% target.

ASEAN Summit Strengthens Unity and Global Partnerships Amid Rising Geopolitical Tensions.

The 47th ASEAN Summit, held from October 26–28 in Kuala Lumpur, came at a pivotal time of heightened geopolitical rivalry and economic uncertainty across Southeast Asia. The meeting reaffirmed ASEAN's central role in balancing major-power competition while promoting inclusivity, regional stability, and sustainable growth. Timor-Leste's long-awaited admission as ASEAN's 11th member marked a historic milestone, completing the Southeast Asian map and reinforcing the bloc's commitment to inclusivity—Malaysia's central theme as chair. Beyond the region, Finland's accession to the Treaty of Amity and Cooperation extended ASEAN's diplomatic reach to Europe, strengthening cooperation on shared principles of trust and a rules-based international order. The signing of the Kuala Lumpur Accord between Thailand and Cambodia was among the summit's key achievements, committing both sides to a ceasefire, weapons withdrawal, and joint de-mining operations. The accord, witnessed by the U.S. and Malaysia, highlighted ASEAN's role as a quiet mediator in regional conflicts. On Myanmar, modest progress was noted as the junta agreed to aspects of ASEAN's Five-Point

Consensus, including a ceasefire and reduced bombings, though implementation remains uneven. The economic agenda saw renewed engagement from major powers. Malaysia and the U.S. signed a Reciprocal Trade Agreement (ART) granting tariff exemptions for over 1,700 Malaysian exports and strengthening cooperation in critical minerals and supply-chain resilience. The U.S. also reaffirmed its commitment to long-term partnership with the region. Meanwhile, ASEAN deepened economic ties with China through the ASEAN-China Free Trade Area 3.0 Upgrade Protocol and advanced discussions under the Regional Comprehensive Economic Partnership (RCEP) framework to strengthen regional trade governance. Overall, the summit underscored ASEAN's determination to preserve unity and centrality amid shifting global dynamics, advancing its vision of an inclusive, stable, and resilient regional order.

Upcoming Events: Key Economic Data Release

Monday	Indonesia CPI (October),
Tuesday	U.S. JOLTS (September)
Wednesday	Singapore Retail Sales (September)
Thursday	U.K. BoE Interest Rate Decision
Friday	China External Trade data (October), U.S. Jobs Data (October)

Weekly Changes, basis points (bps)

UST	Yields (%) 17-Oct-25	Yields (%) 24-Oct-25	Change (bps)	Yields (%) 31-Oct-25	Change (bps)
3-Y UST	3.47	3.49	2	3.60	11
5-Y UST	3.59	3.61	2	3.71	10
7-Y UST	3.78	3.79	1	3.89	10
10-Y UST	4.02	4.02	0	4.11	9
MGS	Yields (%) 4-Sep-25	Yields (%) 24-Oct-25	Change (bps)	Yields (%) 31-Oct-25	Change (bps)
3-Y MGS	3.03	3.10	7	3.12	2
5-Y MGS	3.11	3.23	12	3.24	1
7-Y MGS	3.32	3.43	10	3.44	2
10-Y MGS	3.41	3.48	7	3.50	2
GII	Yields (%) 4-Sep-25	Yields (%) 24-Oct-25	Change (bps)	Yields (%) 31-Oct-25	Change (bps)
3-Y GII	3.06	3.11	4	3.13	3
5-Y GII	3.14	3.24	9	3.24	1
7-Y GII	3.28	3.36	8	3.37	1
10-Y GII	3.43	3.49	6	3.51	3

Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

UST Yields The U.S. Treasury (UST) yields edged higher in the range of 9bps to 11bps w-o-w for the week ending October 31 (October 24: 0bp to +2bps). UST yields climbed despite the Fed's 25 basis point rate cut, as Chair Powell downplayed market expectations for another reduction in December. The rise in yields reflected the continued resilience of US household spending and business investment, with markets now pricing roughly a 70.0% probability of a December reduction.

Adding to the upward pressure and market uncertainty was the ongoing US government shutdown. On the global front, the European Central Bank (ECB) and Bank of Japan (BoJ) maintained their policy rates, underscoring the divergence in monetary policy stances. This divergence further supported UST yields, although improved sentiment following the U.S.–China trade truce helped partially offset the impact.

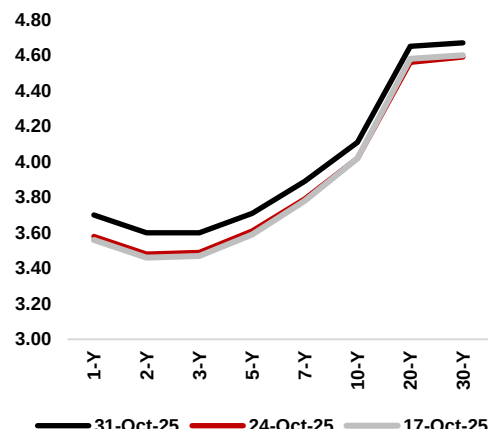
Short-term outlook: Near-term UST yields are expected to remain high, primarily due to the ongoing fiscal debate in Washington. Prolonged political dysfunction and budget/debt ceiling concerns increase the term premium—the extra compensation investors demand to hold longer-term U.S. debt, which is perceived as riskier due to high debt issuance and political uncertainty. Nevertheless, continued positive developments in trade negotiations between the US and China can act as a counterbalance. Easing trade tensions reduces global economic uncertainty and generally dampen inflation and growth concerns that might otherwise drive yields higher.

MGS/GII Yields Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were little changed, moving within a narrow range of -1bp to 3bps for the week ending October 31 (October 24: +4bps to +12bps).

The Malaysian bond market effectively absorbed the modest upward pressure on 10Y MGS yields following remarks by Fed Chair Powell suggesting a potential pause in U.S. rate hikes. Malaysia's proactive foreign policy and trade diversification strategy provided a strong buffer against volatility. Positive sentiment stemming from the ASEAN Summit, highlighted by the signing of the Malaysia-U.S. Agreement on Reciprocal Tariffs (ART) and renewed trade commitments under China's Belt and Road Initiative (BRI), as well as ongoing reviews with New Zealand, South Africa, and Canada, further bolstered investor confidence. This diplomatic success anchored the local yield curve and minimized the impact of global market fluctuations.

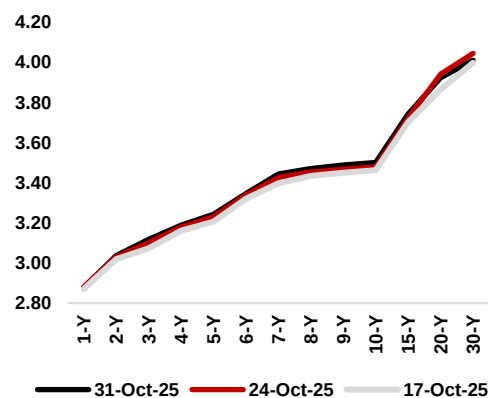
Short-term Outlook: Malaysian domestic bond yields are expected to remain largely stable, hovering around the 3.50% level. Bank Negara Malaysia (BNM) is widely expected to maintain the Overnight Policy Rate (OPR) at 2.75% during its final Monetary Policy Committee (MPC) meeting on November 6. Upcoming industrial production and PMI releases may lift market sentiment, potentially causing a slight uptick in yields if the data surpass expectations. At this juncture, we revised our 10-Y MGS yield to 3.53% for end-2025.

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

MGS Yield Curves, %



Sources: BNM, Bank Islam

Auction Results (October 2025)

Of note, a total of RM14.5 billion was raised through three public offerings: a RM5.0 billion 30-Y Reopening of MGS, a RM5.0 billion 5-Y Reopening of GII and a RM4.5 billion 20-Y Reopening of MGS. October saw tepid demand for 20-Y and 30-Y MGS bonds with bid-to-cover (BTC) ratio of below 2.0x. Meanwhile, 5-Y GII gained a robust demand of 2.8x amid a shorter bond tenure.

In October 2025, total gross issuances of MGS and GII amounted to RM153.5 billion (MGS: RM75.5 billion, GII: RM78.0 billion). For 2025, we anticipate gross issuances of MGS and GII to hover by between RM160.0 to RM165.0 billion.

Issues	Amount (RM mil)	Amount Applied (RM mil)	BTC (x)	Private Placements (RM mil)
30-yr Reopening of MGS 07/55	3,000	4,140	1.4	2,000
5-yr Reopening of MGII 08/30	5,000	14,071	2.8	0
20-yr Reopening of MGS 05/44 4.180%	2,500	4,243	1.7	2000

Sources: BNM, Bank Islam

Upcoming auction (November 2025)

The MGS/GII auction calendar showed a total of three issuances scheduled for the month of November. Breaking it down, 7-Y MGS and 10-Y GII will be issued without private placement and 20-Y will be issued via MGS with private placements.

Issues	Month	Private Placements
10-yr Reopening of MGII 04/35	November	No
7-yr Reopening of MGS 07/32 3.582%	November	No
20-yr Reopening of MGII 05/45	November	Yes

Sources: BNM, Bank Islam

MGS/GII Gross Issuance Forecast Post Budget 2026

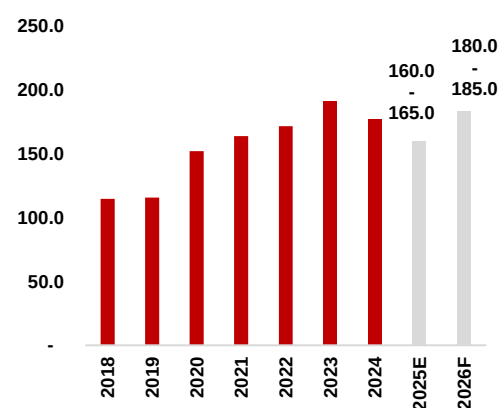
For 2026, we foresee that the gross issuances of MGS and GII will be at around the range of RM180.0 to RM185.0 billion. Despite lower fiscal deficit amount of RM74.6 billion in Budget 2026 (2025E: RM76.7 billion), the total maturity of MGS and GII will tick higher to RM108.7 billion in 2026 (2025: RM83.5 billion).

MGS/GII Maturities in 2026

Maturity date	Stock	RM billion
31-Mar-26	GII 03/2026	25.5
15-Apr-26	MGS 04/2026	8.4
15-Jul-26	MGS 07/2026	20.0
15-Sep-26	MGS 09/2026	2.3
30-Sep-26	GII 09/2026	29.5
30-Nov-26	MGS 11/2026	23.0
Total Maturity		108.7

Sources: Bloomberg, Bank Islam

Gross Issuances



Sources: BNM, Bank Islam