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

GLOBAL BOND MARKETS EASE ON DOVISH FED TONE, MALAYSIAN BONDS REMAIN RESILIENT ON SOLID DOMESTIC FUNDAMENTALS

Eurozone Inflation Near 2% Bolsters Case for ECB Rate Hold. Eurozone inflation edging close to the 2% target has strengthened expectations that the European Central Bank (ECB) will maintain its current policy stance at the upcoming December 18 meeting. Headline inflation is projected to come in at 2.1% for November, with core inflation at 2.4%, providing further evidence of stabilisation. These readings, likely to be the last major data points before the meeting, are expected to reinforce the ECB's inclination to hold rates steady while it shifts its focus to the release of its quarterly economic projections, which will, for the first time, extend the outlook to 2028. Despite this broadly reassuring inflation backdrop, policymakers remain cautious. While Vice-president Luis de Guindos suggested the risk of undershooting the target is limited, and national inflation readings provided ambiguous signals, the lack of a clear consensus on the next policy move is mirrored by conflicting views within the market, with some predicts a resumed deceleration putting pressure on the ECB for rate cuts next year, while others, forecast stronger future growth and inflation, leading them to argue the next move may even be a rate hike.

China's Economic Activity Cooled in November, Highlighting Policy Dilemma. China's economic indicators in November painted a picture of broad deceleration, putting pressure on policymakers who face the dilemma of whether to enact deep structural reforms or issue more stimulus. The Manufacturing Purchasing Managers' Index (PMI) registered 49.2, remaining in contractionary territory for the eighth month, reflecting manufacturers' ongoing difficulty in sustaining recovery amid global headwinds and trade friction. Simultaneously, the Non-Manufacturing PMI fell to 49.5, marking the first contraction in the services and construction sectors since December 2022, primarily due to the fading effect of the October holiday boost. While the resilience of small firms and an optimistic services outlook offer minor bright spots, the overall softness—especially in real estate and household services—highlights the need to address long-standing imbalances and heavy local government debt. Despite the cooling, analysts expect the government to hold off on massive intervention until early next year, as the 2025 growth target remains broadly in sight.

Upcoming Events: Key Economic Data Release

Monday	**Indonesia CPI (Nov)**
Tuesday	**Euro Area Flash Inflation (Nov), Unemployment Rate (Oct)**
Wednesday	**Euro Area PPI (Oct)**
Thursday	**U.S. Initial Jobless Claims (29 Nov), U.S. Trade Data (Sep)**
Friday	**Euro Area GDP Estimate (3Q2025)**

Weekly Changes, basis points (bps)

UST	Yields (%) 14-Nov-25	Yields (%) 21-Nov-25	Change (bps)	Yields (%) 28-Nov-25	Change (bps)
3-Y UST	3.61	3.50	-11	3.49	-1
5-Y UST	3.74	3.62	-12	3.59	-3
7-Y UST	3.92	3.82	-10	3.78	-4
10-Y UST	4.14	4.06	-8	4.02	-4
MGS	**Yields (%) 14-Nov-25**	**Yields (%) 21-Nov-25**	**Change (bps)**	**Yields (%) 28-Nov-25**	**Change (bps)**
3-Y MGS	3.04	3.03	-1	3.03	0
5-Y MGS	3.21	3.23	2	3.24	0
7-Y MGS	3.41	3.44	3	3.44	0
10-Y MGS	3.45	3.45	0	3.46	1
GII	**Yields (%) 14-Nov-25**	**Yields (%) 21-Nov-25**	**Change (bps)**	**Yields (%) 28-Nov-25**	**Change (bps)**
3-Y GII	3.10	3.11	0	3.11	0
5-Y GII	3.22	3.24	2	3.25	1
7-Y GII	3.33	3.35	2	3.35	0
10-Y GII	3.51	3.52	2	3.53	1

Sources: Federal Reserve Board, BNM, Bank Islam

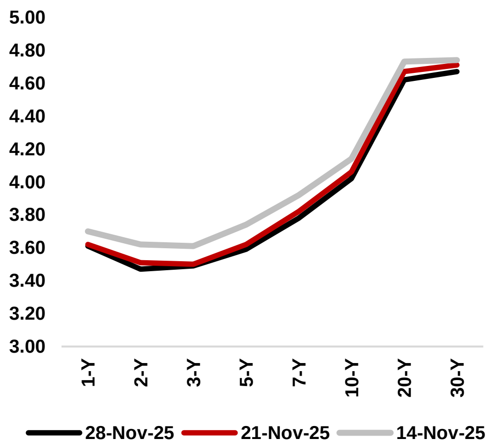
Commentaries

UST Yields The U.S. Treasury (UST) yields edged lower in the range of 1bp to 4bps w-o-w for the week ending November 28 (November 21: -8bp to -12bps) on rising odds of further monetary easing from the Fed.

Dovish remarks from Fed officials Williams and Waller reignited expectations of a potential rate cut in December. This shift in sentiment has been reinforced by a series of softer economic indicators, including a moderation in September retail sales growth to 4.3% from 5.0% in August, a sharp decline in the November Consumer Confidence Index to 88.7, a drop of 6.8 points from October, and the latest Beige Book, which highlighted cooling employment conditions, softer wage gains, and weakening spending patterns. With the release of 3Q2025 GDP data delayed, these high-frequency indicators have become the key market proxies for assessing the current trajectory of U.S. economic activity.

Short-term outlook: UST yields are expected to continue easing this week, supported by the firm market conviction in a December Fed rate cut. Investors will closely watch the ADP employment report and initial jobless claims for insight into the labor market's momentum, alongside the ISM Manufacturing PMI and the core PCE Price data for clues on manufacturing health and inflation.

UST Yield Curves, %



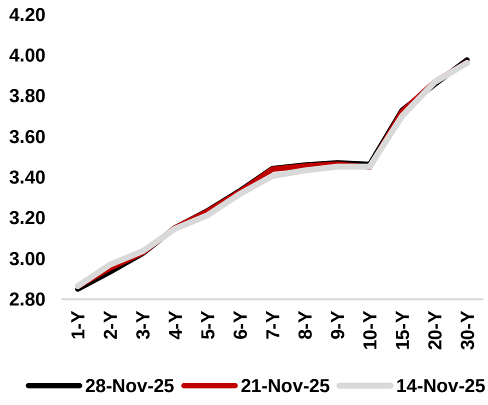
Sources: Federal Reserve Board, Bank Islam

MGS/GII Yields Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were little changed, moving within a narrow range of 0bp to 1bp for the week ending November 28 (November 21: -1bp to +3bps) amid cautious market sentiment.

Market sentiment was initially weighed down by persistent China–Taiwan geopolitical tensions and renewed uncertainty over the likelihood of a December Fed rate cut, while domestic concerns about monsoon-related flooding added a mild drag. Even so, upward pressure remained contained, supported by stable domestic fundamentals, including steady inflation and robust trade performance. Malaysia's October exports surprised on the upside for the second consecutive month, rising 15.7% y-o-y, buoyed by stronger demand from key markets such as Singapore, Hong Kong, and the E.U., alongside a notable rebound in electrical and electronics (E&E) shipments. The strong bid-to-cover ratio of 2.34x at the latest Malaysian Government Investment Issue (MGII) auction in November 2026 further anchored yields by reflecting resilient investor appetite for government securities.

Short-term Outlook: We anticipate local yields to remain broadly stable in the coming week, with the upcoming PMI release likely to be the key market driver. The sustained expectation of a December Fed rate cut should further help ease upward pressure on local yields, reinforcing a generally steady rate environment in the near term. We are monitoring the scheduled December reopening of the 10-Y MGS, as its potential cancellation would tighten supply and offer marginal support to the securities. The main swing factors remain geopolitical risks and the impact of ongoing flood risks on agriculture and overall economic activity. As such, our 10-Y MGS forecast currently stands at 3.45% for end-2025.

MGS Yield Curves, %



Sources: BNM, Bank Islam

Auction Results (November 2025)

Of note, a total of RM12.0 billion was raised through three public offerings: a RM5.0 billion 10-Y Reopening of GII, a RM4.0 billion 7-Y Reopening of MGS and a RM3.0 billion 20-Y Reopening of GII. 10-Y and 20-Y MGS bonds logged robust demand with bid-to-cover (BTC) ratio of above 2.0x. Meanwhile, 7-Y MGS gained a slightly tepid demand with a BTC of 1.9x.

Issues	Amount (RM mil)	Amount Applied (RM mil)	BTC (x)	Private Placements (RM mil)
10-yr Reopening of MGII 04/35	5,000	12,825	2.6	-
7-yr Reopening of MGS 07/32 3.582%	4,000	7,635	1.9	-
20-yr Reopening of MGII 05/45	3,000	7,017	2.3	-

Sources: BNM, Bank Islam

Upcoming auction (December 2025)

There will only be one issuance scheduled for December which is a 10-Y reopening of MGS. Nevertheless, the issuance is highly anticipated to be cancelled as the latest issuance of 20-Y reopening of GII showed a lower issued amount of RM3,000 and without private placements despite it being a long tenure bond (longer than 15-Y).

YTD, total gross issuances of MGS and GII have reached RM165.5 billion (MGS: RM79.5 billion; GII: RM86.0 billion). If the final auction scheduled for December is cancelled, full-year gross issuance will remain at RM165.5 billion, slightly above our earlier forecast range of RM160.0 billion to RM165.0 billion for 2025.

Issues	Month	Private Placements
10-yr Reopening of MGS 07/35	December	No

Sources: BNM, Bank Islam