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YIELD PRESSURES PERSIST AS GLOBAL POLICY CLARITY REMAINS ELUSIVE

Powell Navigates Deep Dissent as Fed Seeks Pause on Rate Cuts. The Federal Reserve's recent decision to cut interest rates by 25 bp for a third consecutive meeting was marked by a deeply divided Committee, reflecting sharp differences among officials over the relative risks of persistent inflation versus a softening labour market. This division was highlighted by two outright dissents against the cut, alongside four "soft dissents" from members forecasting higher year-end rates, and one vote from Governor Stephen Miran for a larger, half-point cut. Chicago Fed President Austan D. Goolsbee, who dissented, argued that given four and a half years of above-target inflation and stalled recent progress, the "more prudent course" would have been to wait for more data, a decision complicated by delayed economic reports due to the government shutdown. Kansas City Fed President Jeffrey R. Schmid, who dissented for a second consecutive meeting, reiterated his view that the U.S. economy still has strong "momentum" and that inflation remains "too hot," arguing that monetary policy is "not overly restrictive." This assessment was echoed by incoming voter Cleveland Fed President Beth Hammack. Conversely, Anna Paulson of the Philadelphia Fed expressed greater concern about potential labour market weakening than inflation re-acceleration, suggesting a readiness to support future cuts if employment deteriorates. Against this backdrop of internal divisions, and with his term set to end in May, Fed Chair Jerome Powell sought to steady expectations by emphasising that the central bank is "well positioned to wait and see how the economy evolves." Additionally, the political backdrop remains tense, with President Trump vowing to pick a successor who favours substantially lower rates, even as the reappointment of most regional Fed presidents helped alleviate concerns about political interference.

Malaysia Targets Upper-End 4.8% GDP Growth in 2025 on Strong Investment and Resilience. The Malaysian government, through Finance Minister II Datuk Seri Amir Hamzah Azizan, has expressed strong confidence that the nation's economic growth will hit the upper end of its 4.8% target for 2025, a position supported by continued economic resilience and rising investor trust. This optimism is underpinned by a significant total of RM663.7 billion in approved investments over the 21-month period ending September 2025, alongside a moderating inflation rate of 1.3% in October 2025. Looking ahead to 2026, the government forecasts a GDP growth of 4.0% to 4.5%, driven primarily by strong domestic spending, stable incomes from a sound labour market, and contained inflation. To sustain this momentum and ensure that spending yields tangible benefits, the government is strengthening its fiscal position through the Public Finance and Fiscal Responsibility Act 2023 and aligning the annual Budget 2026 fully with the 13th Malaysia Plan (13MP) and the MADANI economic framework. A key focus is on capitalising on high-growth sectors, particularly the semiconductor industry, which has seen RM5.54 billion in approved strategic investments from both international and local companies since 2024, aiming to boost the production of high-value "Made by Malaysia" goods and services.

Upcoming Events: Key Economic Data Release

Monday	China Retail Sales, IPI (Nov)
Tuesday	U.S. Unemployment Rate (Nov), Non-farm payroll (Oct, Nov)
Wednesday	Bank Indonesia, Bank of Thailand meetings

Thursday	U.S. CPI (Nov), Bank of England, European Central Bank meetings
Friday	Malaysia External Trade (Nov), Bank of Japan meeting

Weekly Changes, basis points (bps)

UST	Yields (%)	Yields (%)	Change (bps)	Yields (%)	Change (bps)
	28-Nov-25	5-Dec-25		12-Dec-25	
3-Y UST	3.49	3.59	10	3.58	-1
5-Y UST	3.59	3.72	13	3.75	3
7-Y UST	3.78	3.90	12	3.95	5
10-Y UST	4.02	4.14	12	4.19	5
MGS	Yields (%)	Yields (%)	Change (bps)	Yields (%)	Change (bps)
	28-Nov-25	5-Dec-25		12-Dec-25	
3-Y MGS	3.03	3.03	0	3.04	1
5-Y MGS	3.24	3.25	2	3.29	3
7-Y MGS	3.44	3.45	1	3.49	3
10-Y MGS	3.46	3.49	2	3.57	8
GII	Yields (%)	Yields (%)	Change (bps)	Yields (%)	Change (bps)
	28-Nov-25	5-Dec-25		12-Dec-25	
3-Y GII	3.11	3.12	1	3.13	2
5-Y GII	3.25	3.26	1	3.29	3
7-Y GII	3.35	3.35	0	3.37	2
10-Y GII	3.53	3.53	0	3.56	3

Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

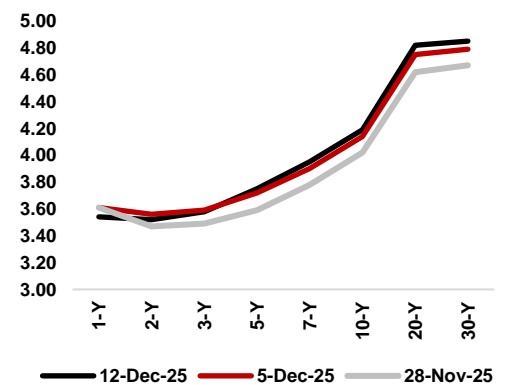
UST Yields

The U.S. Treasury (UST) yields edged higher in the range of 3bps to 5bps w-o-w for the week ending December 12 (Dec 5: +10bps to +13bps), except for 3-Y UST which declined by 1bp to close at 3.58%. Recent remarks from Fed officials reveal a notable split on the path for interest rates following the third consecutive 25bp rate cut. Chicago Fed President Goolsbee, is now wary of "front-loading too many" more cuts and is concerned that current inflation progress might be fleeting, suggesting the Fed "should have waited" for more data. A more aggressive stance was taken by dissenter Kansas City Fed President Schmid, who believes inflation is "too hot" and policy needs to remain somewhat restrictive. Looking ahead, Philadelphia Fed President Paulson showed a more dovish tilt, stating she is more concerned about weakness in the labor market than inflation. In the latest dot-plot, the Fed currently projects just one more cut in 2026.

Economic uncertainty, blamed largely on tariffs, is reflected in the latest labor data. According to the U.S. JOLTS report, job openings unexpectedly rose in October to 7.670 million, above the 7.150 million forecast. However, this marginal gain followed a September surge and was offset by indicators of cooling of hiring remained weak, and the number of workers quitting their jobs hit a five-year low.

Short-term outlook: UST yields are expected to face upward pressure, driven by cautious sentiment from the BoJ and the ECB, which may trigger some selling activity. However, this upward movement is likely to be limited by market anticipation that Kevin Hassett, if appointed as Fed Chair, would adopt a more dovish stance. The key to the 2026 rate outlook lies in forthcoming U.S. labor and inflation data, including Non-Farm Payrolls (NFP), the unemployment rate, and core CPI. A downside surprise in these figures would significantly influence the Fed's policy path toward potential rate cuts.

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

MGS/GII Yields

Yields on both Malaysian Government Securities (MGS) and Government Investment Issues (GII) surged on a w-o-w basis by between 1bp and 8bps for the week ending December 12 (Dec 5: 0bp to +2bps). Hawkish global forces, including the Fed's tightening outlook going into 2026 and anticipated Bank of Japan (BoJ) tightening, kept MGS yields on an upward path. Yields also saw a temporary lift when the final auction for the year, a RM3.0 billion 10-year MGS issuance was announced in the 2025 auction calendar by BNM.

Remarkably, strong domestic fundamentals provided a stabilising influence. This resilience was supported by Fitch's reaffirmation of Malaysia's 'BBB+' rating with a stable outlook, steady labor market conditions, and optimism surrounding the government's target of achieving 4.8% GDP growth.

Short-term Outlook: Malaysian yields face upward pressure from external forces, notably the anticipated BoJ rate hike, but the increase should be contained by the country's resilient domestic economy. Investors will also be watching closely the upcoming U.S. labor data for clearer signals on the Fed's future policy path. Domestically, market attention on domestic data will be on November's trade figures which will be released on December 19.

Foreign Flows into Local Bonds Market.

The local bond market saw net foreign inflows of RM6.1 billion in November (Oct: +RM4.4 billion), reflecting strong confidence in Malaysia's economic fundamentals. Investor sentiment has been supported by BNM's stable policy stance and a resilient Ringgit. Recent economic data reinforces this optimism, with 3Q2025 GDP expanding 5.2% and October exports surging 15.7%, exceeding expectations. Additional factors such as stable inflation, robust industrial activity, sustained retail demand, and low unemployment at 3.0% further underpin the positive market outlook. The accumulated total foreign holdings of Malaysia debt securities declined further to RM297.8 billion in November (Oct: RM291.7 billion).

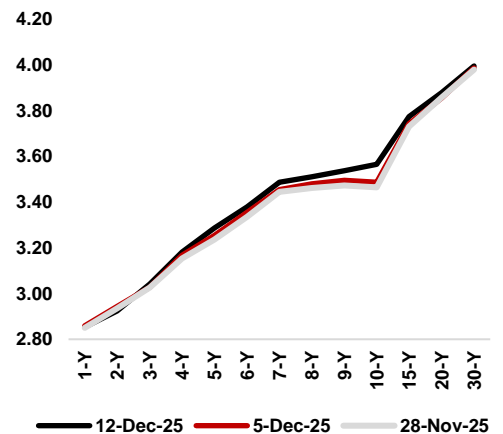
In November, almost all local bond market segments recorded net foreign inflows, with MGS as the main driver. Breaking it down, MGS led the inflows with net foreign inflows of RM5.0 billion (Oct: +RM0.7 billion). In addition, corporate bonds and Malaysia Islamic Treasury Bills (MITB) also in the positive territory with net foreign inflows of RM2.1 billion (Oct: +RM0.9 billion) and RM26 million (Oct: +RM14 million). On the contrary, GII and Malaysia Treasury Bills (MTB) slumped with net outflows of RM1.1 billion (Oct: +RM2.3 billion) and RM59 million (Oct: +RM0.4 billion).

Of note, total foreign holdings' share to total outstanding in MGS climbed to 33.9% in November (Oct: 33.3%). Corporate bonds and MITB also surged to 2.2% (Oct: 2.0%) and 12.5% (Oct: 8.8%) of total outstanding in November. Meanwhile, GII dipped marginally to 8.0% in November (Oct: 8.3%) and MTB declined to 13.9% in November (Oct: 17.1%). Overall, the percentage of foreign holdings to total outstanding in local govies bonds also surged to 21.4% in November (Oct: 21.2%). The foreign holdings' share of total outstanding edged higher to 13.3% in November (Oct: 13.1%).

Total cumulative foreign holdings in Malaysia's local bond market reached RM22.6 billion over the first eleven months of 2025, a substantial increase compared with the cumulative net foreign inflows of RM6.2 billion recorded from January to November 2024.

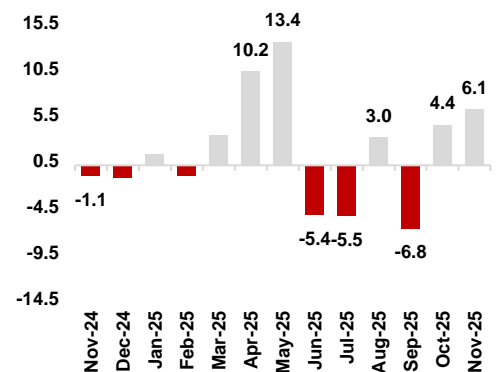
Short-term outlook: Malaysian bond demand is expected to remain strong in the near term, driven by both international and domestic factors. Soft U.S. economic data are pushing investors toward stable markets like Malaysia, which is considered a well-positioned emerging market with strong fundamentals. Domestically, demand is underpinned by solid growth prospects, a stable sovereign rating outlook, and BNM's policy rate hold at 2.75%. This outlook is reinforced by strengthening trade ties, expectations of a firmer Ringgit, structural reforms, and a commitment to fiscal discipline, making the attractive yields ripe for further foreign inflows as global liquidity improves.

MGS Yield Curves, %



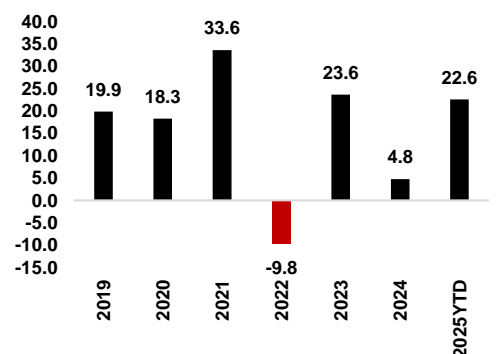
Sources: BNM, Bank Islam

Foreign Fund Flows in Local Bond Market, RM Billion



Sources: BNM, Bank Islam

Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



Sources: BNM, Bank Islam