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BOND MARKETS IN WAIT-AND-SEE MODE AS GLOBAL POLICY AND POLITICS COLLIDE

Monetary Policy Meets Political Storm: Powell Defends Independence as Rates Hold. In a significant shift from its recent easing cycle, the Federal Reserve (Fed) held interest rates steady at 3.5%–3.75% during its January 28 meeting, pausing a string of three consecutive cuts to address the dual challenges of sticky inflation and a cooling labor market. This decision was the first since the disclosure of a federal criminal investigation into Fed Chair Jerome Powell regarding his past congressional testimony on office renovations—a probe Powell has publicly rebuked as a politically motivated attempt to compromise the bank's autonomy. While Powell characterized the economy as expanding at a "solid pace" and noted the unemployment rate's stabilization at 4.4%, he acknowledged the "challenging situation" of navigating potential stagflation, where cutting rates to boost hiring risks reigniting inflation. Despite intensifying pressure from President Trump for aggressive rate reductions and looming questions about his successor as his term expires in May, Powell reaffirmed his steadfast commitment to the Fed's political independence, even as futures markets now delay expectations for the next rate cut until June.

Trump Nominates Kevin Warsh to Lead Fed Amid Rising Institutional Tension. U.S. President Donald Trump has nominated former Fed Governor Kevin Warsh to succeed Jerome Powell, whose term concludes this May. Warsh, a familiar candidate from Trump's first term and a frequent critic of the central bank, is anticipated to favor a more dovish, low-rate policy. The nomination arrives amid a turbulent period for the Fed; Powell has faced intensifying criticism from the White House and a recent Department of Justice (DOJ) investigation into his Senate testimony regarding building renovations—probes that Powell and global central bankers have strongly condemned. Trump praised Warsh on Truth Social as a potentially "great" chairman, though the appointment now heads to the Senate, where it may face a rigorous confirmation process amidst concerns over the Fed's future independence.

Upcoming Events: Key Economic Data Release

Thursday	Indonesia 4Q2025 GDP, BOE meeting, ECB meeting
Friday	U.S. Labor Data

Weekly Changes, basis points (bps)

UST	Yields (%)	Yields (%)	Change	Yields (%)	Change
	16-Jan-26	23-Jan-26	(bps)	30-Jan-26	(bps)
3-Y UST	3.67	3.67	0	3.60	-7
5-Y UST	3.82	3.84	2	3.79	-5
7-Y UST	4.02	4.03	1	4.01	-2
10-Y UST	4.24	4.24	0	4.26	2
MGS	Yields (%)	Yields (%)	Change	Yields (%)	Change
	16-Jan-26	23-Jan-26	(bps)	30-Jan-26	(bps)
3-Y MGS	3.01	3.04	3	3.03	-1
5-Y MGS	3.28	3.30	2	3.28	-2
7-Y MGS	3.45	3.47	2	3.44	-3
10-Y MGS	3.54	3.53	-2	3.50	-2
GII	Yields (%)	Yields (%)	Change	Yields (%)	Change
	16-Jan-26	23-Jan-26	(bps)	30-Jan-26	(bps)
3-Y GII	3.11	3.13	2	3.12	-1
5-Y GII	3.28	3.30	2	3.27	-3
7-Y GII	3.36	3.39	3	3.37	-2
10-Y GII	3.54	3.55	1	3.53	-2

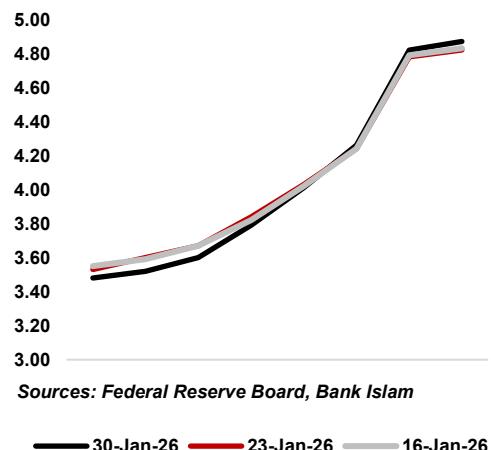
Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

UST Yields The U.S. Treasury (UST) yields mostly edged lower in the range of 2bps to 7bps w-o-w for the week ending January 30 (January 23: 0bp to +2bps) as investors focused on the labor market's resilience evidenced by low jobless claims. The Federal Open Market Committee (FOMC) maintained a "wait and see" posture, with Fed Chair Powell highlighting data uncertainty and signaling no immediate pivot; however, a subtle shift toward a less dovish tone in the official statement pushed the 10-year yield up from 4.20% to increase by approximately 5bps. This move reflects a market consensus that near-term rate cuts are unlikely, even as internal policy mechanisms remained steady and escalating U.S.-Iran tensions introduced a layer of geopolitical caution.

Short-term outlook: UST yields are expected to drift higher as a dense schedule of labor data provides a definitive steer for the Fed's March policy trajectory. Markets will be hyper-focused on the Non-Farm Payrolls, unemployment figures, and JOLTs data to gauge labor resilience.

Adding to this upward pressure is the anticipated nomination of Kevin Warsh as the next Fed Chair, a move expected to strengthen the USD and lift market rates. While geopolitical friction and lingering U.S. shutdown risks could spark localized volatility, the prevailing bias for yields remains skewed to the upside as these fundamental and political catalysts converge.

UST Yield Curves, %


Sources: Federal Reserve Board, Bank Islam

— 30-Jan-26 — 23-Jan-26 — 16-Jan-26

MGS/GII Yields Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were little changed, moving within a narrow range of -1bp to -2bps for the week ending January 30 (January 23: -2bps to +3bps) despite continuous global challenges.

Despite lingering global headwinds, MGS yields were stable, buoyed by robust domestic pillars. The 30-year MGII auction underscored this resilience, surfacing a healthy 2.1x bid-to-cover (BTC) ratio that signals sustained appetite for long-term duration. Local sentiment was further reinforced by a rebounding tourism sector amid Visit Malaysia Year 2026. However, a floor was placed under yields by the Fed's hawkish lean and geopolitical caution stemming from U.S.-Iran friction.

Short-term Outlook: Local yields will likely stay rangebound in the immediate term. Domestic fundamentals, underpinned by a steady ringgit and PMI data in the expansionary zone, provide a solid floor for yields. However, global volatility may spike as markets weigh upcoming U.S. labor reports and President Trump's selection for the next Fed chair.

Auction Results (January 2026)

Of note, a total of RM15.0 billion was raised through three public offerings: a RM5.0 billion 5-Y Reopening of GII, a RM5.0 billion 15-Y New Issue of MGS and a RM5.0 billion 30-Y New Issue of GII. 5-Y and 30-Y GII bonds logged robust demand with bid-to-cover (BTC) ratio of above 2.0x. Meanwhile, 15-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)
5-yr Reopening of MGII 8/30 3.635%	5,000	11,480	2.3	-
15-yr New Issue of MGS (Mat on 01/41)	3,500	6,805	1.9	1,500
30-yr New Issue of MGII (Mat on 01/56)	3,000	6,213	2.1	2,000

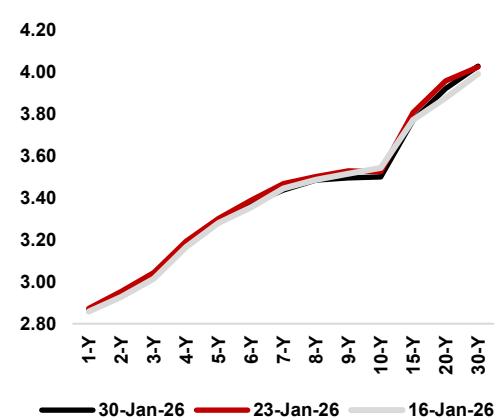
Sources: BNM, Bank Islam

Upcoming auction (February 2026)

There will be three issuances scheduled for in February which is a 10-Y reopening of MGS, 20-Y reopening of GII with private placement and 5-Y reopening of MGS.

Issues	Month	Private Placements
10-yr Reopening of MGS 7/35 3.476%	February	No
20-yr Reopening of MGII 5/45 3.775%	February	Yes
5-yr Reopening of MGS 6/31 4.232%	February	No

Sources: BNM, Bank Islam



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