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U.S. DISINFLATION SUPPORTS RATE CUT BETS, MALAYSIA POSTS ROBUST 4Q2025 GROWTH

U.S. Inflation Eases to 2.4% in January as Fed Cut Hopes Rise.

U.S. inflation cooled more than expected in January 2026, with the annual rate dropping to 2.4%, the lowest reading since May 2025 and a notable decline from December's 2.7%. This deceleration was largely fueled by significant monthly drops in energy prices (-1.5%), led by a 3.2% slide in gasoline, alongside a 1.8% decline in used car and truck costs. Grocery inflation also showed relief, highlighted by a massive 34% year-over-year drop in egg prices. These figures provided a victory lap moment for the Trump administration, which cited the report as proof that its "America First" agenda and tariff policies have not triggered the feared inflationary spike. However, the report also revealed sticky pockets of inflation that may keep the Federal Reserve (Fed) cautious. While goods prices moderated, service-sector costs remained firm; personal services surged 7% year-over-year, and airline fares jumped 6.5% in January alone. Additionally, shelter costs—the largest component of the index—rose 0.2% for the month. While the White House is lobbying for "long-overdue" rate cuts to "turbocharge" growth, many analysts warn that a 43-day government shutdown late last year created data collection gaps that might be artificially suppressing the current headline numbers. Despite these nuances and a resilient January jobs report (+130k), the softer CPI print has bolstered market conviction for a pivot, with the probability of a June 2026 interest rate cut now sitting near 50.5%.

Malaysia Beats Forecasts as 4Q2025 Growth Hits Three-Year High.

Malaysia's economy delivered a standout performance in late 2025, with fourth quarter GDP surging 6.3%—well above the 5.7% advance estimate. This momentum propelled full-year growth to 5.2%, comfortably beating the official 4.0%–4.8% forecast and marking the strongest expansion since 2022. According to Bank Negara Malaysia (BNM), this resilience was anchored by a healthy labor market that bolstered household spending, alongside a surge in tech-related investment, particularly in data centers and E&E manufacturing. From a supply perspective, growth was led by the services and manufacturing sectors, while the current account surplus was supported by a recovery in electronics exports and tourism. On the pricing front, 2025 ended with a stable inflation profile; headline inflation averaged 1.4% for the year, as government subsidies helped offset rising costs in other categories. While credit growth to the private sector moderated slightly to 5.4% at year-end, investment-related lending remained robust. Looking ahead to 2026, BNM expects the growth trajectory to remain firm, catalysed by Visit Malaysia Year 2026 and continued export demand.

Upcoming Events: Key Economic Data Release

Monday	Thailand 4Q2025 GDP
Tuesday	U.K. Labor Data (Dec)
Wednesday	U.K. Inflation (Jan), U.S. IPI (Jan)
Thursday	Malaysia CPI (Jan)
Friday	Malaysia External Trade (Jan), U.S. Advance 4Q2025 GDP

Weekly Changes, basis points (bps)

UST	Yields (%)	Yields (%)	Change	Yields (%)	Change
	30-Jan-26	6-Feb-26	(bps)	13-Feb-26	(bps)
3-Y UST	3.60	3.57	-3	3.43	-14
5-Y UST	3.79	3.76	-3	3.61	-15
7-Y UST	4.01	3.98	-3	3.81	-17
10-Y UST	4.26	4.22	-4	4.04	-18

MGS	Yields (%)	Yields (%)	Change	Yields (%)	Change
	30-Jan-26	6-Feb-26	(bps)	13-Feb-26	(bps)
3-Y MGS	3.03	3.04	1	3.06	2
5-Y MGS	3.28	3.30	2	3.30	0
7-Y MGS	3.44	3.45	1	3.46	1
10-Y MGS	3.50	3.57	7	3.55	-2

GII	Yields (%)	Yields (%)	Change	Yields (%)	Change
	30-Jan-26	6-Feb-26	(bps)	13-Feb-26	(bps)
3-Y GII	3.12	3.12	0	3.10	-2
5-Y GII	3.27	3.28	1	3.28	1
7-Y GII	3.37	3.38	1	3.37	0
10-Y GII	3.53	3.55	2	3.54	-1

Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

UST Yields

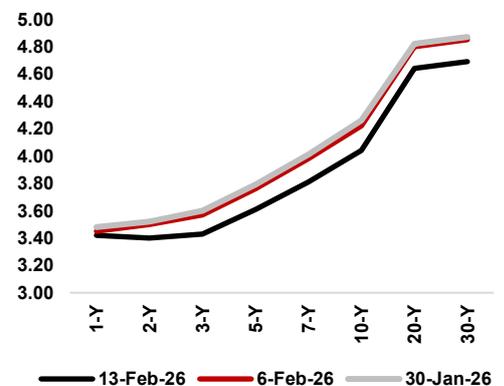
The U.S. Treasury (UST) yields edged lower in the range of 14bps to 18bps w-o-w for the week ending February 13 (Feb 6: -3bps to -4bps). UST yields softened as a wave of dovish signals and mixed economic data weighed on the market. Stagnant December retail sales and rising household delinquency rates pointed to cooling consumption, while concerns over a widening 2026 fiscal deficit added to the downward pressure.

Dovish rhetoric from Fed officials with Daly highlighting labor market fragility and Miran suggesting scope for further easing—overshadowed a surprise January payrolls gain of 130k and a dip in unemployment to 4.3%. Yields were further anchored by improved global sentiment following the U.S. House vote to rescind tariffs on Canada.

Short-term outlook:

A packed calendar of high-impact releases—including CPI, core PCE, and the Fed’s January meeting minutes—is expected to anchor UST yields within a relatively narrow range. Any downside bias in yields should be further supported by the Fed’s ongoing liquidity operations. As noted by New York Fed official Julie Remache, active Treasury bill purchases will continue through mid-April to replenish system reserves, a move aimed at cushioning potential market volatility during an event-heavy week.

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

MGS/GII Yields

Yields on both Malaysian Government Securities (MGS) and Government Investment Issues (GII) were little changed on a w-o-w basis, fluctuating within a narrow range of -2bps and 2bps for the week ending February 13 (Feb 6: 0bp to +7bps). The 10-year MGS eased as robust domestic data reinforced Malaysia's economic resilience. Distributive trade sales jumped 7.6% in December (Nov: 6.4%)—a peak since March 2023—while December's 4.8% (Nov: 4.3%) Industrial Production Index (IPI) growth further bolstered the outlook.

Malaysia's economy outperformed full-year expectations in 2025, culminating in a strong 6.3% y-o-y expansion in 4Q2025, underpinned primarily by resilient domestic demand. For the year as a whole, GDP growth reached 5.2%, comfortably exceeding the initial forecast range of 4.0%–4.8%. This marks the country's strongest annual performance since the 9.0% expansion recorded in 2022.

Short-term Outlook: Moving forward, local bond yields are projected to remain rangebound as the Chinese New Year festivities lead to thinner trading volumes and softened buying interest. However, market sentiment may find a fresh catalyst in this week's external trade data, which has the potential to provide further support to the current positive momentum.

Foreign Flows into Local Bonds Market.

The local bond market saw net foreign inflows of RM1.0 billion in January 2026 (Dec: +RM3.0 billion). Despite a volatile start to the month, triggered by escalating geopolitical tensions, a sell-off in Japanese government bonds, and a more hawkish tone from the Fed, the Malaysian market mounted a firm recovery. The rebound was underpinned by Malaysia's solid macroeconomic fundamentals and renewed investor confidence, following the government's reaffirmed commitment to fiscal discipline and governance reforms. Supported further by robust 2025 GDP growth and BNM's steady interest rate policy, Malaysia's strong economic fundamentals enabled it to navigate the episode of heightened global volatility effectively. The accumulated total foreign holdings of Malaysia debt securities climbed slightly to RM301.7 billion in January (Dec: RM300.8 billion).

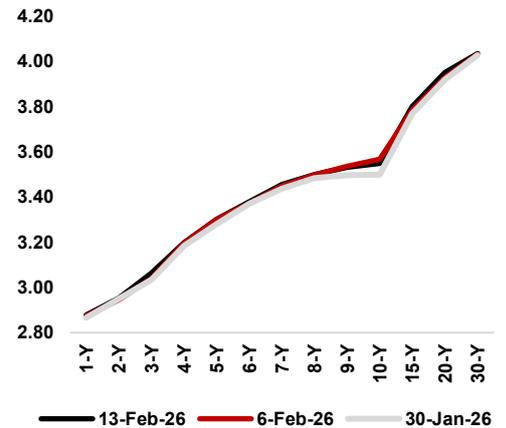
In January, only MGS recorded net foreign inflows of RM3.9 billion (Dec: -RM0.1 billion). On the other hand, GII logged net foreign outflows of RM1.8 billion in January (Dec: +RM2.4 billion). In addition, Malaysia Islamic Treasury Bills (MITB) and Malaysia Treasury Bills (MTB) are in the negative territory with net foreign outflows of RM0.3 billion (Dec: -RM90 million) and RM0.2 billion (Dec: -RM84 million). Corporate bonds also slumped with the net foreign outflows of RM0.7 billion in January (Dec: +RM0.9 billion)

Of note, total foreign holdings' share to total outstanding in MGS climbed to 34.1% in January (Dec: 33.7%). Meanwhile, GII and corporate bonds dipped to 8.0% (Dec: 8.4%) and 2.2% (Dec: 2.3%) of total outstanding in January. MTB and MITB dropped sharply to 8.7% (Dec: 12.0%) and 9.9% (Dec: 13.2%) of total outstanding. Overall, the percentage of foreign holdings to total outstanding in local govvnies bonds also declined to 21.4% in January (Dec: 21.5%). The foreign holdings' share of total outstanding plateaued at 13.3% in January.

Short-term outlook: A hawkish Federal Reserve and a resilient U.S. labor market have dampened hopes for aggressive rate cuts, keeping front-end rates elevated and long-end yields sticky. While U.S.-Iran tensions remain a risk, the recent policy outcome under Japan's Prime Minister Takaichi has mitigated the threat of a Japanese Government Bond (JGB) sell-off, providing some relief to global yields.

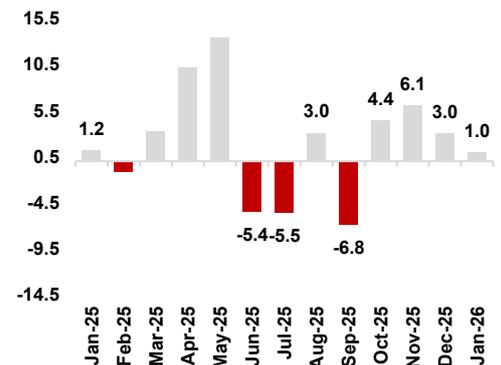
Domestically, Malaysia's private-sector strength and targeted fiscal support continue to drive demand, with robust 4Q2025 GDP confirmed ongoing expansion. Despite subsidy rationalization and wage hikes, inflation remains well-contained. This stable environment allows Bank Negara Malaysia to maintain the OPR at 2.75% through 2026, a move likely to bolster foreign investor confidence in the local bond market.

MGS Yield Curves, %



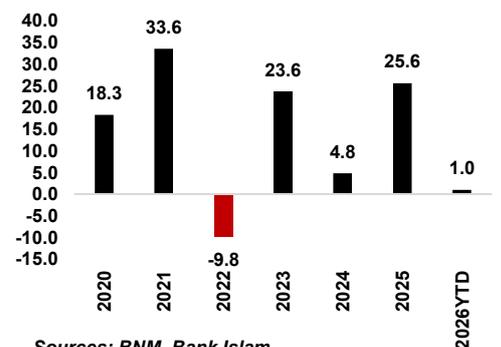
Sources: BNM, Bank Islam

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