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GLOBAL YIELDS DRIFT HIGHER AMID OIL SHOCKS AND POLICY UNCERTAINTY

Oil Retreat Sparks Global Market Relief Amid Hormuz Tensions. Global markets staged a cautious rebound, supported by a pullback in oil prices that eased pressure across both equities and fixed income. Sentiment improved after reports that a limited number of tankers have resumed transit through the Strait of Hormuz, despite the ongoing conflict, alongside indications that the International Energy Agency (IEA) stands ready to release additional supply beyond its already record deployment of over 400 million barrels from emergency stockpiles. Although the key waterway remains largely constrained, the modest improvement in supply expectations helped cool crude prices, with U.S. WTI settling at USD93.50, retreating from recent highs. The easing in energy costs provided a tailwind for risk assets, lifting the S&P 500 by 1%. Gains were led by the technology sector, with Nvidia rising 1.6% after projecting at least USD1 trillion in cumulative AI-related revenue through 2027, reinforcing optimism around the sector's structural growth outlook. The geopolitical landscape remains tense, however, as President Donald Trump has intensified pressure on key allies to deploy naval assets to safeguard commercial shipping through the Strait of Hormuz. However, response from partners has been cautious. At the same time, escalation risks remain elevated. Following recent U.S. strikes on military targets at Kharg Island, a critical node in Iran's oil export infrastructure, Trump has signalled that further action, including potential strikes on energy facilities, remains on the table if disruptions to shipping persist. Treasury Secretary Scott Bessent has signalled a pragmatic stance, stating that the U.S. is currently "fine" with certain ships—including Iranian tankers—traversing the Strait to ensure global supply. While markets suggest that oil prices should eventually normalize as tensions subside, the Bank for International Settlements (BIS) warned that a prolonged conflict could still trigger severe fiscal instability. As the Federal Reserve (Fed) prepares for its upcoming meeting, officials are expected to hold rates steady, carefully weighing the persistent energy shock against softening labor data.

Malaysia -U.S. ART Framework Collapses Following Legal Challenge. The Agreement on Reciprocal Trade (ART) between Malaysia and the U.S. has effectively been rendered void following a February 2026 ruling by the U.S. Supreme Court, which struck down the use of broad, blanket tariff measures. Investment, Trade and Industry Minister Johari Abdul Ghani confirmed that the pact is no longer applicable, as the court ruled that the U.S. executive branch lacks the authority to impose tariffs without clear, case-specific justification grounded in evidence. In response, Washington is recalibrating its trade enforcement approach toward a more targeted and rules-based framework. This includes the interim use of a 10% tariff under Section 122 of the Trade Act of 1974, providing short-term flexibility while more comprehensive investigations are undertaken. Looking ahead, greater emphasis is likely to be placed on Section 301 reviews, which allow the U.S. to assess and respond to "unreasonable or discriminatory" trade practices on a country-specific basis. These upcoming reviews will specifically scrutinize issues such as industrial dumping, forced labor, environmental violations, and export subsidies. With

Malaysian exports to the U.S. reaching RM233 billion in 2025, the stakes are particularly high for the E&E, oil and gas, and plantation sectors. Minister Johari emphasized that Malaysian companies must now ensure strict compliance with international labor and environmental standards to maintain market access, as the era of broad exemptions under the ART has ended. While the U.S. investigations extend to approximately 60 other nations, Malaysia's ability to anchor its macroeconomic stability will depend on how quickly local exporters adapt to these new, rigorous compliance requirements.

Upcoming Events: Key Economic Data Release

Tuesday	Bank Of Indonesia meeting
Wednesday	E.U. Inflation (Feb), U.S. PPI (Feb)
Thursday	Malaysia CPI (Feb), U.K. Unemployment Rate (Jan)
Friday	Thailand External Trade (Feb)

Weekly Changes, basis points (bps)

UST	Yields (%)	Yields (%)	Change (bps)	Yields (%)	Change (bps)
	27-Feb-26	6-Mar-26		13-Mar-26	
3-Y UST	3.39	3.59	20	3.74	15
5-Y UST	3.51	3.72	21	3.87	15
7-Y UST	3.72	3.93	21	4.07	14
10-Y UST	3.97	4.15	18	4.28	13
MGS	Yields (%)	Yields (%)	Change (bps)	Yields (%)	Change (bps)
	27-Feb-26	6-Mar-26		13-Mar-26	
3-Y MGS	3.06	3.11	5	3.20	9
5-Y MGS	3.31	3.35	3	3.37	2
7-Y MGS	3.42	3.45	3	3.47	2
10-Y MGS	3.50	3.55	5	3.56	1
GII	Yields (%)	Yields (%)	Change (bps)	Yields (%)	Change (bps)
	27-Feb-26	6-Mar-26		13-Mar-26	
3-Y GII	3.10	3.14	4	3.19	5
5-Y GII	3.27	3.30	3	3.32	2
7-Y GII	3.36	3.37	2	3.40	3
10-Y GII	3.51	3.54	2	3.56	2

Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

UST Yields

The U.S. Treasury (UST) yields edged higher by between 13bps to 15bps w-o-w for the week ending March 13 (Mar 6: +18bps to +21bps). Spiking energy prices and the uncertainties of the ongoing U.S.–Iran conflict have reignited inflation fears and raised concerns over the fiscal burden of a prolonged war. Although February’s CPI data came in as expected, holding steady at 2.4%, markets have scaled back expectations for Fed rate cuts, fearing that energy costs could trigger a new inflationary wave.

Labor market data has further complicated the outlook. While the unemployment rate ticked up to 4.4% and non-farm payrolls unexpectedly dropped by 92K, weekly jobless claims have stayed relatively low. This suggests a "no-hire, no-fire" dynamic that, while highlighting a strained labor market, has helped prevent immediate recession panic—keeping the Fed on a more hawkish, cautious path.

Short-term outlook:

UST yields are likely to remain on an upward trajectory, as the ongoing conflict continues to keep energy prices elevated and, in turn, anchors inflation expectations at higher levels. The sustained sell-off in Treasuries points to a more nuanced shift in investor positioning, rather than a wholesale retreat from U.S. assets, markets are increasingly pricing in the reality of growing fiscal pressures and the fading prospect of near-term rate cuts. Unless a sharp equity market correction triggers a classic “flight to quality”, pulling real yields lower through safe-haven demand, the path of least resistance for yields appears skewed to the upside. Attention now shift to the upcoming PPI data, alongside critical central bank decisions, to determine if this hawkish momentum has further room to run.

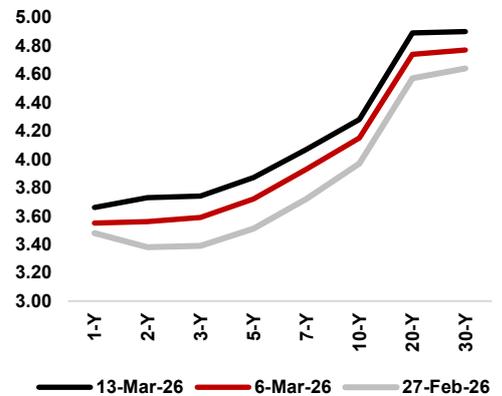
MGS/GII Yields

Yields on both Malaysian Government Securities (MGS) and Government Investment Issues (GII) surged on a w-o-w basis, in the range of 1bp and 9bps for the week ending March 13 (Mar 6: +2bps to +5bps).

The MGS yields edged slightly higher, tracking a rise in global yields as the intensifying U.S.–Iran conflict pushed energy prices upward and reignited inflation fears. While January’s softer distributive trade data introduced mild selling pressure, sentiment was bolstered by robust industrial performance. Specifically, the Industrial Production Index (IPI) climbed 5.9% y-o-y, fuelled by a surge in electrical and electronics (E&E) output. Furthermore, the government provided a stabilizing anchor for the market by reaffirming its 2026 GDP growth forecast of 4.0% to 4.5%.

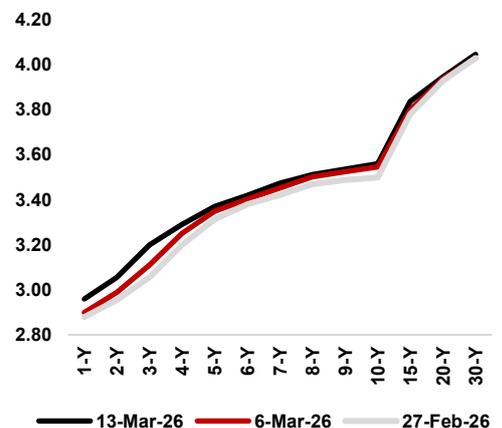
Short-term Outlook: Looking ahead, domestic bond yields may face upward pressure as the Middle East conflict continues and markets brace for a potentially hawkish Federal Open Market Committee (FOMC) meeting. Nevertheless, Malaysia’s strong domestic fundamentals are expected to act as a natural ceiling on further yield increases, helping to cushion the impact of external volatility. Upcoming releases of trade and CPI data will be pivotal, potentially offering the necessary support to stabilize the market and prevent a significant surge in yields.

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

MGS Yield Curves, %



Sources: BNM, Bank Islam

Foreign Flows into Local Bonds Market.

The local bond market saw net foreign outflows of RM2.5 billion in February 2026 (Jan: +RM1.0 billion). Following President Donald Trump's appointment of Kevin Warsh as the new Fed Chair on January 31, UST markets rallied, sparking a strategic rotation out of emerging market debt, including Malaysian bonds. Despite Malaysia's steady domestic fundamentals, the surge in external volatility soured investor sentiment, prompting foreign outflows from local government securities. The accumulated total foreign holdings of Malaysia debt securities declined slightly to RM299.2 billion in February (Jan: RM301.7 billion).

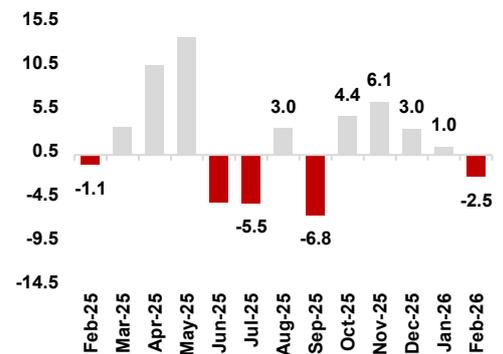
In February, only MGS and Malaysia Treasury Bills (MTB) recorded net foreign inflows of RM0.5 billion (Jan: +RM3.9 billion) and RM38 million (Jan: -RM0.2 billion) respectively. On the other hand, GII logged net foreign outflows of RM1.4 billion in February (Jan: +RM1.8 billion). In addition, corporate bonds also slumped with the net foreign outflows of RM1.5 billion in February (Jan: -RM0.9 billion)

Of note, total foreign holdings' share to total outstanding in MGS slumped to 33.6% in February (Jan: 34.1%). Additionally, GII and corporate bonds dipped to 7.7% (Jan: 8.0%) and 2.0% (Jan: 2.2%) of total outstanding in February. MTB soared to 9.5% (Jan: 8.7%) of total outstanding. Meanwhile, MITB plateaued at 9.9% (Jan: 9.9%) of total outstanding. Overall, the percentage of foreign holdings to total outstanding in local govvies bonds also declined to 21.4% in January (Dec: 21.5%). The foreign holdings' share of total outstanding dropped to 13.0% in February (Jan: 13.3%).

Short-term outlook: Short-term capital inflows into local bonds are expected to remain sluggish as persistent global risks weigh on sentiment. The U.S.-Israeli strike on Iran in late February is likely to accelerate foreign outflows through March, as any further escalation threatens to fracture global supply chains, destabilize energy markets, and reignite inflationary pressures. This risk-off environment typically bolsters the USD, driving investors toward defensive havens and away from emerging market assets like Malaysian bonds. Consequently, foreign demand will likely stay muted until there is more clarity regarding geopolitical and energy price stability.

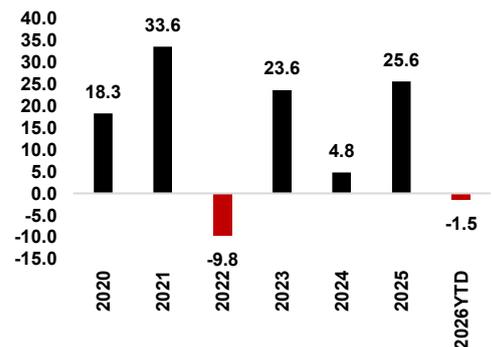
In contrast, Malaysia's domestic landscape remains a reliable anchor. With inflation well contained and household spending remaining resilient, Bank Negara Malaysia (BNM) is anticipated to hold the OPR steady at 2.75% throughout 2026. This policy consistency and robust macroeconomic backdrop should sustain underlying demand for local debt, providing a buffer as the market awaits for global risk premiums to subside and foreign interest to gradually return.

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