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GEOPOLITICAL RISKS AND ENERGY SHOCK DRIVE VOLATILITY ACROSS BOND MARKETS

Escalating Conflict Keeps Hormuz Risk and Energy Market on Edge. Iran has rejected a proposed ceasefire ahead of an approaching U.S. deadline to reopen the Strait of Hormuz, as President Donald Trump escalated rhetoric and warned of further strikes on civilian and energy infrastructure. Tehran is demanding a permanent end to hostilities, sanctions relief, reconstruction aid and assurances of safe passage through Hormuz—terms U.S. officials and allies say fall short of a workable deal. Despite last-minute diplomatic efforts by Pakistan, Egypt and Türkiye to secure a temporary truce, fighting has intensified across the region, including attacks on petrochemical facilities and missile strikes affecting Israel and Gulf states. Disruptions to shipping through Hormuz remain severe, with vessel traffic still roughly 90% below normal levels, sustaining a global energy shock. Oil markets remain volatile, with Brent and WTI hovering near triple-digit prices as traders assess real-time supply risks amid mixed signals on negotiations. Rising fuel costs are fuelling inflation concerns globally and worsening political pressure on the U.S. administration as domestic gasoline prices breach USD4 per gallon. With both U.S and Iran holding firm and Israel signalling further military action, prospects for a swift de-escalation remain uncertain, keeping geopolitical and energy-market risks elevated.

Steady Domestic Drivers Offset Softer External Backdrop in 2026. Bank Negara Malaysia (BNM) expects Malaysia's economy to grow by 4.0%–5.0% in 2026, supported by resilient domestic demand and sustained investment momentum. This outlook is slightly more optimistic than the Ministry of Finance's 4.0%–4.5% projection. Economic growth reached 5.2% in 2025, exceeding BNM's forecast and marking the strongest performance since 2022. Growth in 2026 is expected to remain anchored by private consumption, underpinned by stable labour market conditions, income growth and civil servant salary adjustments. Investment activity is projected to stay expansionary, though moderating from the current upcycles, supported by previously approved projects, infrastructure spending and capacity expansion in sectors such as electrical and electronics (E&E) and ICT, alongside ongoing digitalisation. On the sectoral front, services and manufacturing will continue to drive growth, with services projected to expand by 5.2% on the back of consumer activity, tourism linked to Visit Malaysia Year 2026, and growth in ICT and financial services. Manufacturing growth is expected to ease to 4.3%, supported by sustained global demand for E&E products, while agriculture and mining are likely to contract due to normalising commodity output and maturing oil fields. Externally, BNM cautioned that Malaysia's growth outlook faces headwinds from moderating global growth, trade uncertainties, higher tariffs and ongoing geopolitical tensions. However, strong demand for semiconductors and A.I.-related technologies, together with Malaysia's diversified export base, should help cushion the impact. Overall risks to growth remain tilted to the downside amid a softer global trade environment in 2026.

Upcoming Events: Key Economic Data Release

Tuesday	Philippines and Thailand CPI (Mar)
Wednesday	RBNZ meeting
Thursday	Malaysia IPI (Feb)
Friday	Malaysia Labor Data (Feb), U.S. CPI (Mar)

Weekly Changes, basis points (bps)

UST	Yields (%)	Yields (%)	Change	Yields (%)	Change
	20-Mar-26	27-Mar-26	(bps)	3-Apr-26	(bps)
3-Y UST	3.90	3.94	4	3.88	-6
5-Y UST	4.01	4.06	5	3.99	-7
7-Y UST	4.20	4.25	5	4.17	-8
10-Y UST	4.39	4.44	5	4.35	-9

MGS	Yields (%)	Yields (%)	Change	Yields (%)	Change
	19-Mar-26	27-Mar-26	(bps)	3-Apr-26	(bps)
3-Y MGS	3.22	3.26	4	3.25	-2
5-Y MGS	3.36	3.44	7	3.43	0
7-Y MGS	3.47	3.54	7	3.55	1
10-Y MGS	3.56	3.64	8	3.62	-2

GII	Yields (%)	Yields (%)	Change	Yields (%)	Change
	19-Mar-26	27-Mar-26	(bps)	3-Apr-26	(bps)
3-Y GII	3.19	3.23	4	3.23	0
5-Y GII	3.34	3.40	6	3.40	0
7-Y GII	3.39	3.51	12	3.59	8
10-Y GII	3.54	3.61	7	3.63	2

Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

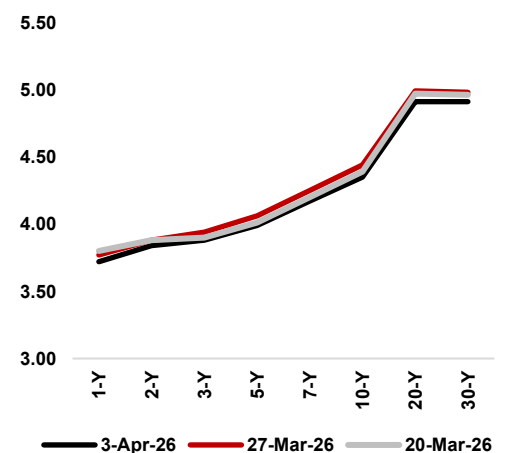
UST Yields The U.S. Treasury (UST) yields edged lower in the range of 6bps to 9 bps w-o-w for the week ending April 3 (March 27: +4bp to +5bps) as some near-term relief emerged following reports that Iran held talks with Oman to develop a protocol to oversee vessel movements through the Strait of Hormuz. Nonetheless, market volatility is expected to remain elevated amid increasingly forceful rhetoric from President Trump and as crude prices continue to hover near their 2022 peaks.

Oil prices jumped after Trump signalled a willingness to pursue more aggressive measures against Iran, reinforcing concerns that persistently high energy costs could trigger a renewed inflationary cycle and prompt a more hawkish policy response from the Federal Reserve (Fed).

Fed Chair Jerome Powell acknowledged that policymakers may eventually need to respond to the economic fallout from the conflict, though he stressed that it is premature to act and that current policy settings remain appropriate for a wait-and-see approach. Market pricing continues to indicate expectations for the Fed to hold the federal funds rate steady this year.

Short-term outlook: UST yields are expected to drift slightly higher, with geopolitical risks remaining the dominant influence. Markets currently appear

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

unconvinced that inflationary pressures will persist beyond the conflict, though an extended war could strain the Fed's present "wait-and-see" stance. Attention will focus on the forthcoming FOMC minutes for signals on whether the Fed may ultimately be compelled to deliver more aggressive rate cuts to cushion recession risks should elevated energy prices persist.

MGS/GII Yields Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were mixed, moving within a narrow range of --2bps to 8bps for the week ending April 3 (March 27: -2bps to 0bp) dragged by subdued auction appetite and growing global uncertainty.

Domestic yields moved higher after a poorly received 7-year GII auction, reflected in a subdued bid-to-cover (BTC) ratio of 1.7x. Market sentiment remains tentative amid escalating U.S.-Iran tensions. Adding to the risk backdrop, the International Monetary Fund (IMF) warned of potential spillovers from a global energy price shock, while BNM noted that if the U.S.-Iran conflict lasts over six months and a sustained rise in crude prices above USD110 per barrel could lead to a downward adjustment to Malaysia's 4.0%–5.0% growth outlook.

Short-term Outlook: Domestic bond yields are expected to face near-term upward pressure in line with heightened U.S. duration risk driven by the war. On the domestic front, downside risks could be cushioned if forthcoming industrial production index (IPI) and retail sales releases continue to point to resilient underlying domestic economic activity.

Auction Results (March 2026)

A total of RM15.0 billion was raised through three public offerings: a RM5.0 billion 15-Y Reopening of GII, a RM5.0 billion 3-Y New Issue of MGS and a RM5.0 billion 7-Y New Issue of GII. 15-Y GII and 3-Y MGS bonds logged robust demand with bid-to-cover (BTC) ratio of above 2.0x. Meanwhile, 7-Y GII gained a slightly tepid demand with a BTC of 1.7x.

As of 1Q2026, total gross issuances of MGS and GII amounted to RM45.0 billion (MGS: RM20.0 billion, GII: RM25.0 billion) (1Q2025: RM48.0 billion).

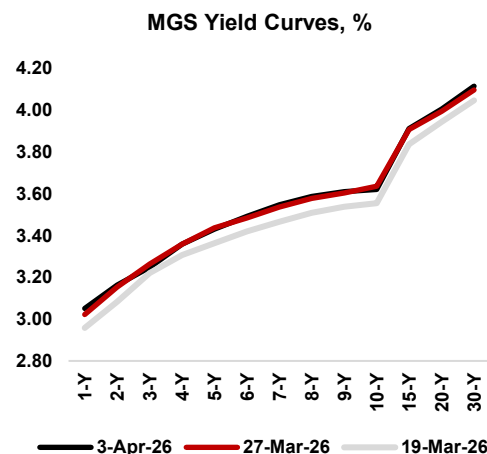
Issues	Amount (RM mil)	Amount Applied (RM mil)	BTC (x)	Private Placements (RM mil)
15-yr Reopening of MGII 7/40 3.974%	3,500	8,034	2.3	1,500
3-yr New Issue of MGS (Mat on 03/29)	5,000	11,090	2.2	-
7-yr New Issue of MGII (Mat on 03/33)	5,000	8,440	1.7	-

Sources: BNM, Bank Islam

Upcoming auction (April 2026)

The April issuance pipeline includes three offerings, namely a 30-Y reopening of MGS and 20-Y New Issue of GII with private placements as well as 3.5-Y New Issue of GII.

Issues	Month	Private Placements
30-yr Reopening of MGS 7/55 3.917%	April	Yes
3.5-yr New Issue of MGII (Mat on 10/29)	April	No



Sources: BNM, Bank Islam

20-yr New Issue of MGS (Mat on 04/46)

April

Yes

Sources: BNM, Bank Islam