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## GEOPOLITICAL TENSIONS DRIVE MARKET VOLATILITY AMID SHIFTING RATE EXPECTATIONS

### **Trump Signals No Ceasefire Extension as US–Iran Talks Resume**

President Donald Trump indicated he is unlikely to extend the two-week ceasefire with Iran beyond its scheduled expiry on Wednesday (22 April) evening unless a deal is finalized, increasing pressure on negotiators to make progress quickly. While he said the deadline could theoretically allow a bit more time for talks, Trump stressed that he would not prolong the truce without concrete agreement, adding that he would not be rushed into accepting unfavourable terms. Negotiations are expected to resume imminently, potentially as early as Tuesday night or Wednesday, with U.S. Vice President JD Vance leading the American delegation alongside Jared Kushner and special envoy Steve Witkoff. Iran has also confirmed that it will dispatch a negotiating team, despite lingering hesitation and internal divisions over reengaging with Washington. President Trump has struck an optimistic tone regarding the talks, while maintaining a firm stance on leverage, reiterating that the Strait of Hormuz would remain closed until a formal agreement is reached. The ongoing standoff over the strait, coupled with broader uncertainty surrounding a ceasefire, has intensified market volatility. Equity markets have retreated, while oil prices have surged sharply as investors assess the likelihood of a resumption in global energy flows. Recent developments have further underscored the deep mistrust between the parties: Iran has walked back an earlier commitment to reopen the Strait of Hormuz, while the U.S. has continued its blockade of Iranian ports and seized an Iranian vessel. Both sides have issued warnings ahead of the negotiations, highlighting persistent divisions, particularly over Iran's nuclear program and the continuation of U.S. sanctions and maritime restrictions. Nonetheless, despite escalating rhetoric and elevated geopolitical risks, officials from both sides suggest there remains a realistic prospect of reaching an agreement in the coming days that could ultimately bring an end to the conflict.

### **Malaysia's 1Q2026 Growth Slows as Middle East Conflict Weighs on Economy.**

Malaysia's economic growth slowed more than expected in the first quarter of 2026, as the Middle East conflict began to affect key sectors such as manufacturing and services. Advance estimates from the Department of Statistics Malaysia released on April 17 showed GDP grew 5.3% y-o-y between January and March. This was below the 5.5% median forecast in a Bloomberg survey and down from 6.3% expansion in the previous quarter. The figures offer an early indication of the economic spillovers from the Iran war, now in its seventh week. Even so, Malaysia's performance exceeded the government's full-year growth target of 4.0% to 4.5% and remains stronger than that of many regional peers. Officials pointed to artificial intelligence-related activities as a key bright spot, with rising demand for data centres and generative AI. The Malaysian economy continues to show resilience despite increasing global uncertainty, particularly higher oil prices linked to geopolitical tensions. The conflict has disrupted the Strait of Hormuz, a crucial route for oil, gas and petrochemical shipments to Asia, raising risks of supply shortages and higher costs. In Malaysia, inflation rose to 1.7% in March, the fastest pace in over a

year, partly driven by transport costs. While fuel prices are heavily subsidised, the government reduced fuel quotas in March after Brent crude climbed above USD100 a barrel. Malaysia is nevertheless seen as relatively well positioned to weather the shock, supported by domestic natural gas production and strong global demand for chips. Bank Negara Malaysia has projected 2026 growth of 4% to 5% and will announce its next policy decision on May 7.

#### Upcoming Events: Key Economic Data Release

Tuesday	U.K. Unemployment Rate (Feb), U.S. Retail Sales (Mar)
Wednesday	U.K. Inflation (Mar), U.K. PPI (Mar)
Thursday	Singapore CPI (Mar)
Friday	Japan Inflation (Mar), U.K. Retail Sales (Mar)

#### Weekly Changes, basis points (bps)

UST	Yields (%)	Yields (%)	Change	Yields (%)	Change
	3-Apr-26	10-Apr-26	(bps)	17-Apr-26	(bps)
3-Y UST	3.88	3.80	-8	3.72	-8
5-Y UST	3.99	3.94	-5	3.84	-10
7-Y UST	4.17	4.12	-5	4.04	-8
10-Y UST	4.35	4.31	-4	4.26	-5
MGS	Yields (%)	Yields (%)	Change	Yields (%)	Change
	3-Apr-26	10-Apr-26	(bps)	17-Apr-26	(bps)
3-Y MGS	3.25	3.23	-2	3.19	-4
5-Y MGS	3.43	3.39	-4	3.36	-3
7-Y MGS	3.55	3.52	-2	3.48	-4
10-Y MGS	3.62	3.60	-2	3.57	-2
GII	Yields (%)	Yields (%)	Change	Yields (%)	Change
	3-Apr-26	10-Apr-26	(bps)	17-Apr-26	(bps)
3-Y GII	3.23	3.22	0	3.21	-1
5-Y GII	3.40	3.37	-2	3.32	-5
7-Y GII	3.59	3.54	-4	3.50	-4
10-Y GII	3.63	3.61	-2	3.58	-3

Sources: Federal Reserve Board, BNM, Bank Islam

## Commentaries

### UST Yields

The U.S. Treasury (UST) yields edged lower by between 5bps to 10bps w-o-w for the week ending April 17 (Apr 10: -4bps to -8bps). Inflation concerns eased marginally after reports surfaced that the Strait of Hormuz had temporarily resumed operations. Iran's Foreign Minister Abbas Araghchi confirmed that commercial vessels are permitted to transit the waterway during a 10-day ceasefire period.

Oil slid over 10% in the previous week, driven by a wave of cautious optimism, triggering a sharp shift in rate expectations. At the time of writing, traders now see a roughly 36.7% probability of a quarter-point Fed cut by year-end, notable increase from the roughly 6.8% odds of slashing the interest rate by 25bp, a month earlier.

#### Short-term outlook:

In the near term, UST yields movements are dependent on the ongoing development of the U.S.-Iran tensions. The degree of escalation in the geopolitical strain will impact oil prices, putting pressures on the near term inflation expectations and prompting investors to price in higher-for-longer interest rates environment.

### MGS/GII Yields

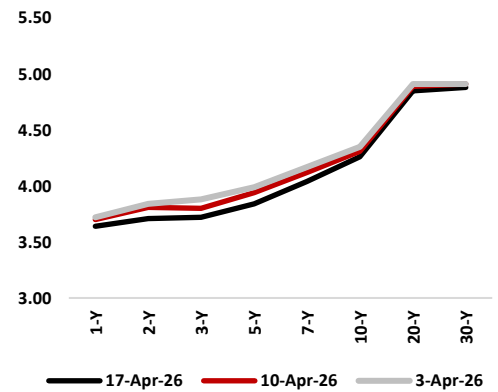
Yields on both Malaysian Government Securities (MGS) and Government Investment Issues (GII) dipped on a w-o-w basis, in the range of 1bp and 5bps for the week ending April 17 (Apr 10: 0bp to -4bps).

Underlying domestic conditions continued to lend support to the local bond market. Local government bond yields softened after the successful placement of a new 3.5-year GII, which drew strong demand and achieved a bid-to-cover ratio of 2.92x. Confidence in the medium-term outlook was further strengthened by the IMF's upward revision of Malaysia's GDP growth forecasts for 2026 to 4.7%, reflecting an upward adjustment of 0.4 percentage point and 4.3% growth in 2027, alongside supportive fiscal initiatives and broader market access. Although global energy prices remain volatile, investors interpreted the U.S. blockade primarily as a negotiating tactic rather than an imminent threat to supply, helping to stabilise local demand.

However, the rally in MGS/GII yields were capped by the slower momentum of GDP growth in 1Q2026 based on DOSM's advance estimates and higher inflation figure in March driven by the spillovers from U.S.-Iran conflicts.

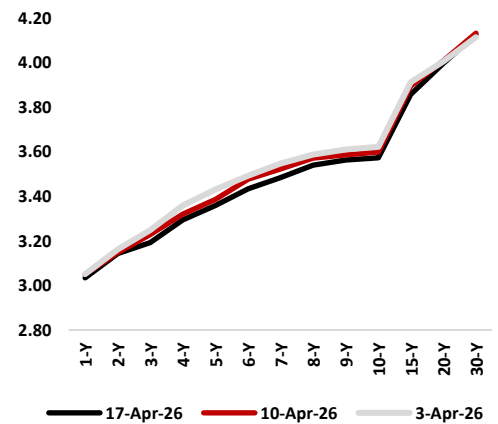
**Short-term Outlook:** Local yields are likely to trade in a narrow range as the development of the Middle East tensions remain fluid. Nevertheless, domestic bonds should remain largely shielded from geopolitical developments supported by strong fundamentals, provided tensions do not escalate materially and risks remain contained.

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 inflows of RM6.1 billion in March 2026 (Feb: -RM2.5 billion). The rebound was underpinned by firm economic fundamentals. Policy clarity helped anchor confidence, with BNM raised their 2026 growth objective of 4.0%–4.5%. External rate dynamics continue to drive domestic bond valuation, leaving the market sensitive to global shocks even amid stable demand. The accumulated total foreign holdings of Malaysia debt securities ticked higher to RM305.4 billion in March (Feb: RM299.2 billion).

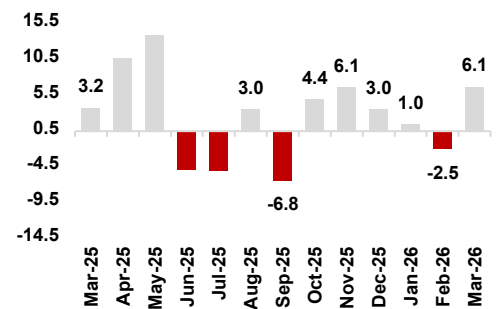
In March, only MGS and corporate bonds recorded net foreign inflows of RM5.1 billion (Feb: +RM0.5 billion) and RM2.8 billion (Feb: -RM1.7 billion), respectively. In contrast, GII logged net foreign outflows of RM1.2 billion in March (Feb: -RM1.4 billion). Additionally, Malaysia Islamic Treasury Bills (MITB) and Malaysia Treasury Bills (MTB) also dipped with the net foreign outflows of RM0.4 billion (Feb: -RM0.8 billion) and RM0.1 billion (Feb: +RM38 million) in March.

Of note, total foreign holdings' share to total outstanding in MGS and corporate bonds surged to 36.0% (Feb: 34.3%) and 2.3% (Feb: 2.0%) in March, respectively. On the other hand, GII and MTB dropped to 7.6% (Feb: 7.9%) and 7.6% (Feb: 14.3%) of total outstanding in March. Overall, the percentage of foreign holdings to total outstanding in local govvnies bonds also went up to 21.9% in March (Feb: 21.6%). The foreign holdings' share of total outstanding rose to 13.5% in March (Feb: 13.2%).

Total cumulative foreign holdings in the local bond market closed at RM4.6 billion as of 1Q2026 and higher relative to the cumulative net foreign inflows of RM3.3 billion in 1Q2025.

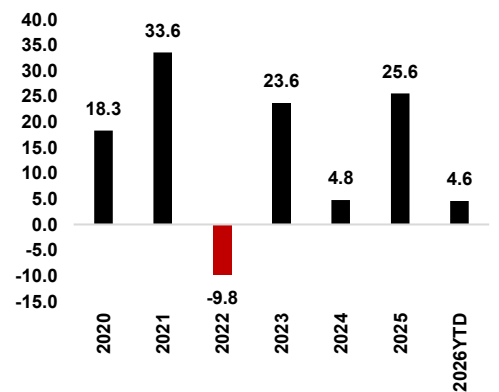
**Short-term outlook:** The oil prices disruptions have prompted a more hawkish repricing along the UST yield curve amid heightened geopolitical risk premiums. Persistent U.S.–Iran tensions, alongside the potential closure of the Strait of Hormuz, have amplified concerns over energy supply, creating near-term pressure for regional fixed income markets. On the bright side, Malaysia's bond market continues to benefit from solid macroeconomic underpinnings. A stable sovereign rating, stable inflation, and a steady overnight policy rate at 2.75% provide a strong anchor for investor demand. While elevated global yields keep domestic rates exposed to U.S. duration volatility, Malaysia's robust fundamentals and net energy exporter status should support sustained foreign participation into the local bond market.

**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