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HIGHER-FOR-LONGER NARRATIVE PERSISTS AS CENTRAL BANKS TURN CAUTIOUS

Fed Maintains Rates, but Hawkish Dissent Signals Higher-for-Longer Risks. The Federal Reserve (Fed) kept its policy rate unchanged at 3.50%–3.75%, but the decision revealed unusually deep divisions within the Federal Open Market Committee (FOMC) as policymakers grapple with persistent inflation pressures and an approaching leadership transition. Although financial markets had fully anticipated a pause, the meeting produced an 8–4 vote split, the highest number of dissents in more than three decades, highlighting sharp disagreement over language suggesting the possibility of future rate cuts. Three regional Fed presidents supported holding rates steady but dissented over the inclusion of an easing bias, arguing that inflation remains stubbornly above target, in part due to elevated energy prices. A fourth dissent came from Governor Stephen Miran, who instead favoured an immediate rate cut. The divided vote underscored growing uncertainty over the appropriate policy stance as inflation risks increasingly conflict with a still-resilient labour market. Chair Jerome Powell, who may be nearing the end of his tenure, emphasised upside inflation risks stemming from energy costs while indicating his intention to remain on the Board of Governors following the appointment of his successor. Markets continue to price in an extended policy pause, with limited expectations for near-term easing despite the Fed's longer-run projections pointing to gradual rate cuts. Overall, the meeting highlighted rising internal tensions at the Fed as it navigates persistent inflation, geopolitical cost shocks, and an evolving leadership landscape.

BoE Holds Rates, Warns of Inflation Pressures from Middle East Conflict.

The Bank of England (BoE) has kept its benchmark interest rate unchanged at 3.75% but signalled that further increases may be required later this year as higher inflation risks re-emerge due to the Middle East conflict and surging energy prices. The Monetary Policy Committee (MPC) voted 8–1 in favour of holding rates, marking a third consecutive pause, while cautioning that persistently elevated energy costs could warrant a more aggressive policy response to safeguard price stability. Governor Andrew Bailey emphasised that the future policy path will hinge on the scale and duration of energy price shocks, noting that prolonged disruptions could materially worsen inflation dynamics. While the Bank outlined a severe downside scenario involving oil prices rising above USD130 per barrel, potentially pushing inflation to around 6% and requiring significantly higher interest rates, it stressed that this remains a low-probability outcome. The central case assumes a smaller but still inflationary oil shock, which would keep inflation above target and lift unemployment modestly over the coming years. Despite rising household energy bills and food prices, policymakers believe second-round inflation effects will be limited, given subdued labour demand, weakening bargaining power for wages, and fragile consumer sentiment. The rate hold was described as a deliberate and cautious stance amid geopolitical uncertainty, rather than a clear signal of imminent tightening. In a nutshell, the Bank acknowledged a materially more challenging inflation outlook compared with earlier expectations

of a return to the 2% target, underscoring that policy decisions will remain highly data- and event-dependent.

ECB Signals Watchful Stance as Inflation Rebounds. The European Central Bank (ECB) left its policy rate unchanged at 2% at its April meeting, opting for caution as inflation rebounded sharply following the escalation of the Iran conflict. While its medium-term inflation outlook remains broadly intact, the ECB acknowledged that risks have become increasingly asymmetric, with stronger upside pressures on inflation alongside growing downside risks to economic growth due to higher energy prices. Policymakers emphasized that the ultimate impact on prices and activity would depend on the severity and duration of the energy shock, noting that a prolonged period of elevated energy costs would pose greater risks to both price stability and economic momentum. The ECB reaffirmed its data-dependent, meeting-by-meeting approach and avoided pre-committing to a specific path for interest rates. Recent flash estimates showed euro area inflation rising to 3% in April, largely driven by energy prices, while economic growth slowed markedly. ECB President Christine Lagarde described the outlook as highly uncertain, highlighting that although domestic demand and labor markets remain relatively supportive, the conflict in the Middle East represents a material downside risk to growth. Overall, while the ECB refrained from signaling an imminent rate hike, it left the door open to further tightening should inflation pressures prove persistent, with the June meeting widely viewed as a critical policy juncture.

Upcoming Events: Key Economic Data Release

Monday	Malaysia & Global Manufacturing PMI, Indonesia CPI and Trade Data
Tuesday	Indonesia GDP (1Q2026)
Wednesday	Euro Area PPI (Mar)
Thursday	BNM MPC meeting
Friday	U.S. Labor Data (Apr), Malaysia IPI (Mar)

Weekly Changes, basis points (bps)

UST	Yields (%)	Yields (%)	Change	Yields (%)	Change
	17-Apr-26	24-Apr-26	(bps)	1-May-26	(bps)
3-Y UST	3.72	3.80	8	3.91	11
5-Y UST	3.84	3.92	8	4.02	10
7-Y UST	4.04	4.10	6	4.20	10
10-Y UST	4.26	4.31	5	4.39	8
MGS	Yields (%)	Yields (%)	Change	Yields (%)	Change
	17-Apr-26	24-Apr-26	(bps)	30-Apr-26	(bps)
3-Y MGS	3.19	3.19	-1	3.20	1
5-Y MGS	3.36	3.34	-2	3.34	0
7-Y MGS	3.48	3.47	-1	3.46	-1
10-Y MGS	3.57	3.56	-1	3.56	0
GII	Yields (%)	Yields (%)	Change	Yields (%)	Change
	17-Apr-26	24-Apr-26	(bps)	30-Apr-26	(bps)
3-Y GII	3.21	3.19	-2	3.19	0
5-Y GII	3.32	3.32	0	3.32	0
7-Y GII	3.50	3.50	-1	3.49	-1
10-Y GII	3.58	3.57	-1	3.57	0

Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

UST Yields The U.S. Treasury (UST) yields moved higher across the curve, rising by 8 to 11 bps w-o-w for the period ending 1 May (24 April: +5bps to +8bps), as markets continued to recalibrate expectations for the Fed's policy response following its hawkish rate hold and more cautious inflation assessment. Fed officials have highlighted mounting energy-related price pressures alongside heightened uncertainty linked to developments in the Middle East.

While U.S. economic data remain broadly resilient, supported by firmer consumer confidence, market dynamics has been driven less by demand-side strength and more by supply-driven inflation risks. Limited progress in U.S.–Iran talks and persistently elevated oil prices have intensified concerns that inflationary pressures may remain entrenched. At the same time, hawkish signals from other major central banks at recent policy meetings have reinforced expectations of global rate stickiness, keeping UST yields elevated across the curve.

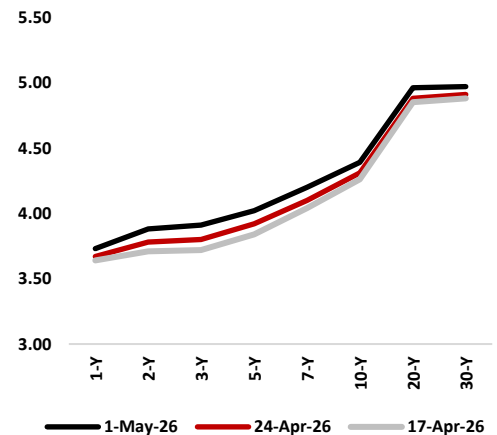
Short-term outlook: UST yields are expected to maintain an upward bias in the near term, supported by persistent geopolitical risks, elevated energy prices, and the Fed's increasingly cautious stance on policy easing. Attention will now turn to upcoming U.S. labour market data, which will be closely scrutinised for further signals on the Fed's interest-rate trajectory.

MGS/GII Yields Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were broadly stable, fluctuating within a tight range of -1bp to +1bp during the week ending April 30 (April 24: -2bps to 0bp).

Malaysian bond yields remain supported by solid domestic fundamentals, supported by robust trade performance and stable macroeconomic conditions. However, global headwinds continue to limit the scope for further yield compression. Persistent geopolitical tensions in the Middle East, coupled with heightened risks surrounding the Strait of Hormuz, have kept oil prices elevated, reinforcing upside risks to global inflation. This has entrenched a higher-for-longer global interest-rate environment, thereby constraining the downside potential for local bond yields despite favourable domestic fundamentals.

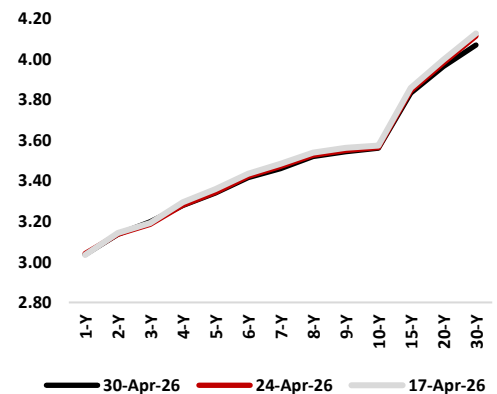
Short-term Outlook: On the domestic front, the forthcoming Malaysia's PMI and IPI data releases this week, as well as the BNM MPC meeting on May 7, are expected to offer near-term support on MGS/GII yields. On the contrary, external factors geopolitical risks such as the fragile U.S.–Iran ceasefire and global central banks cautious outlook will continue to pose upside risks to yield volatility.

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam

MGS Yield Curves, %



Sources: BNM, Bank Islam

Auction Results (April 2026)

In April, a total of RM15.0 billion was raised via three public offerings, comprising a RM5.0 billion 30-Y Reopening of MGS, a RM5.0 billion 3.5-Y New Issue of GII, and a RM5.0 billion 20-Y New Issue of MGS. All offerings attracted strong investor interest, recording bid-to-cover ratios exceeding 2.0x.

As of April 2026, total gross issuances of MGS and GII amounted to RM60.0 billion (MGS: RM30.0 billion, GII: RM30.0 billion) (4M2025: RM62.0 billion).

Issues	Amount (RM mil)	Amount Applied (RM mil)	BTC (x)	Private Placements (RM mil)
30-yr Reopening of MGS 7/55 3.917%	3,000	6,088	2.0	2,000
3.5-yr New Issue of MGII (Mat on 10/29)	5,000	14,605	2.9	-
20-yr New Issue of MGS (Mat on 04/46)	3,500	10,085	2.9	1,500

Sources: BNM, Bank Islam

Upcoming auction (May 2026)

Issuance activity in May will comprise three tranches, 10-Y reopening of GII and 7-Y reopening of MGS, alongside a 30-Y GII tranche to be issued with private placement.

Issues	Month	Private Placements
10-yr Reopening of MGII 4/35 3.612%	May	No
7-yr Reopening of MGS 4/33 3.844%	May	No
30-yr Reopening of MGII 1/56	May	Yes

Sources: BNM, Bank Islam