From the Desk of the
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MONTHLY FIXED INCOME UPDATE (APRIL 2025): Local Bond Market Saw Continued Wave of Demand for Safe-Haven Assets

- **Foreign holdings in the local bond market remained in positive territory with a net foreign inflow of RM10.2bn in April**
- **Economic worries drive UST yields lower, fueling rate cut bets**
- **Global factors propelled gains in MGS during April**
- **Steady MGS and GII bond issuances in April**

Foreign holdings in the local bond market remained in positive territory with a net foreign inflow of RM10.2bn in April.

- President Trump's 'reciprocal' tariffs have led to a surge in investor interest in emerging market bonds, a shift away from the U.S. market as part of their diversification effort. Consequently, the accumulated total foreign holdings of Malaysia debt securities soared to RM288.7bn in April (Mar: RM278.5bn).

- Foreign investors showed net buying interest in most of the domestic bond segments. Malaysian Government Securities (MGS) and Government Investment Issues (GII) logged net inflows of RM9.1bn (Mar: +RM1.7bn) and RM0.6bn (Mar: +RM1.4bn) in March, respectively. In addition, Malaysia Islamic Treasury Bills (MITB) and corporate bonds also logged net foreign inflows of RM0.5bn (Mar: -RM0.4bn) and RM2.4mn (Mar: +RM0.4bn) in April. On the contrary, Malaysia Treasury Bills (MTB) plunged to the negative territory with net outflows of RM30.0mn (Mar: +RM0.2bn).

- Total foreign holdings' share to total outstanding in MGS edged higher to 34.6% (Mar: 33.7%) in April. Improvements extended to other segments of the local government bond market with the share of foreign holdings of GII and MITB climbed to 9.1% (Mar: 8.8%) and 9.1% (Mar: 5.9%). In contrast, the percentage of foreign holdings to total outstanding in MTB declined marginally to 42.2% in April (Mar: 42.7%). Overall, the foreign holdings' share of total outstanding trended upwards to 13.7% in April (Mar: 13.2%).

- Total cumulative foreign holdings in the local bond market grew to RM13.5bn for the first four months of 2025 and stronger compared to the cumulative net foreign outflows of RM4.0bn from January to April 2024.

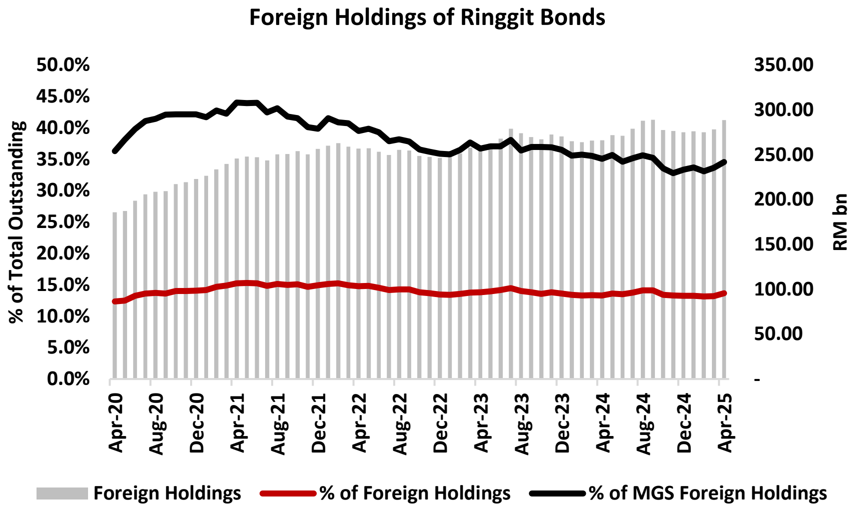
Table 1: Foreign Holdings of Malaysia Total Debt Securities

	Foreign Holdings (RM Billion)		Foreign Flows (RM billion)		Composition (%)	
	Mar-25	Apr-25	Mar-25	Apr-25	Mar-25	Apr-25
MGS	207.7	216.8	1.7	9.1	33.7	34.6
GII	50.6	51.3	1.4	0.6	8.8	9.1
PDS^	16.8	16.8	0.4	0.0	1.9	1.9
Others*	3.3	3.8	-0.3	0.5	-	-
Total	**278.5**	**288.7**	**3.2**	**10.2**	**13.2**	**13.7**

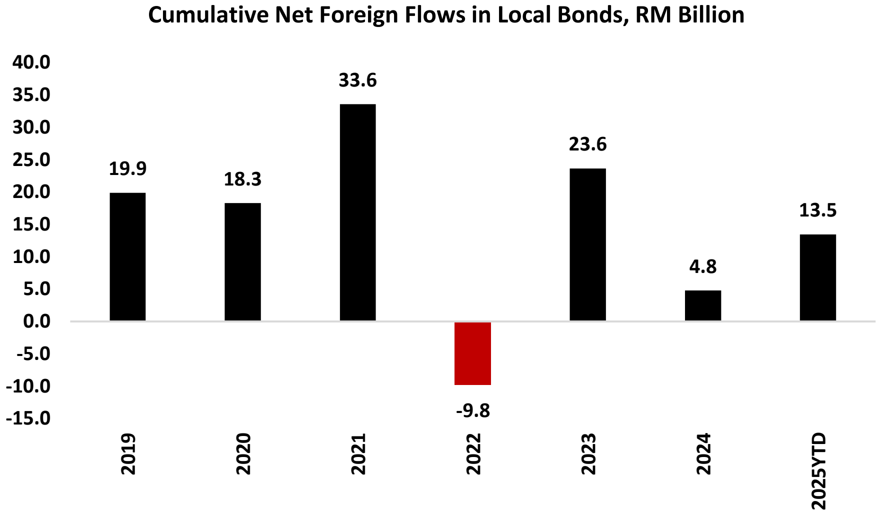
Sources: Bank Negara Malaysia (BNM), Bank Islam

^ Private sector conventional and sukuk

**Includes BNM notes and treasury bills (conventional and Islamic)*



Sources: BNM, Bank Islam

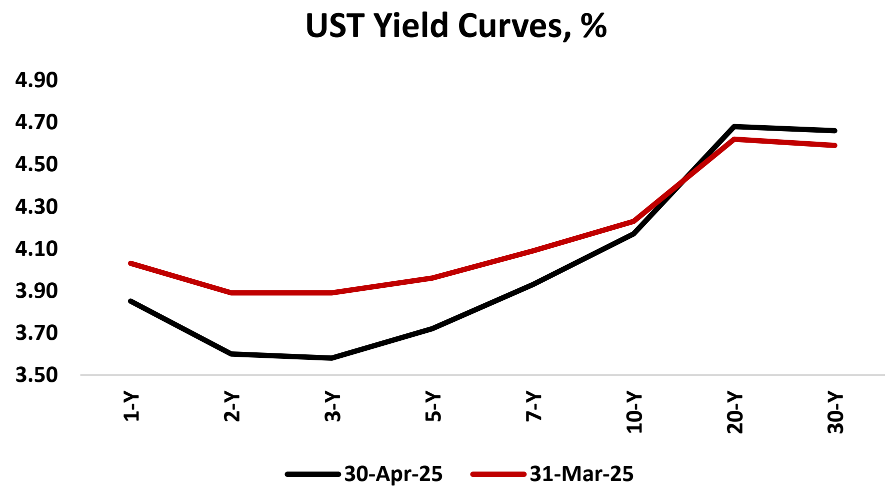


Sources: BNM, Bank Islam

Economic worries drive UST yields lower, fueling rate cut bets.

- US Treasury (UST) yields fell by 6bps to 31bps across the curve, with the front end seeing steeper declines than the belly. However, the 20-Y UST yield bucked the trend, rising by 6bps to close at 4.68%.

- Mounting concerns about the worsening macroeconomic outlook have solidified market bets on multiple Federal Reserve (Fed) rate cuts this year. The March Job Openings and Labor Turnover Survey (JOLTS) reported 7.19 million job openings, falling short of the expected 7.48 million and raising concerns about the strength of the labour market. Concurrently, leading indicators highlighted the adverse effects of economic policy uncertainty on sentiment, as reflected in the Conference Board (CB) survey, which showed a marked rise in pessimism. Despite the Fed's warnings about potential inflationary pressures from tariffs on US goods and services, current market sentiment reflects expectations of a 25bp rate cut in July, with a total of 75bp rate cut anticipated by the close of the year based on CME Fedwatch tool. Adding to the uncertainty, the US Treasury unexpectedly announced a larger-than-expected increase in its 2Q2025 borrowing plans, marking a sharp departure from earlier signals of deficit reduction previously associated with the Trump administration.



Sources: Federal Reserve Board, Bank Islam

Table 2: UST Benchmark Yields (%)

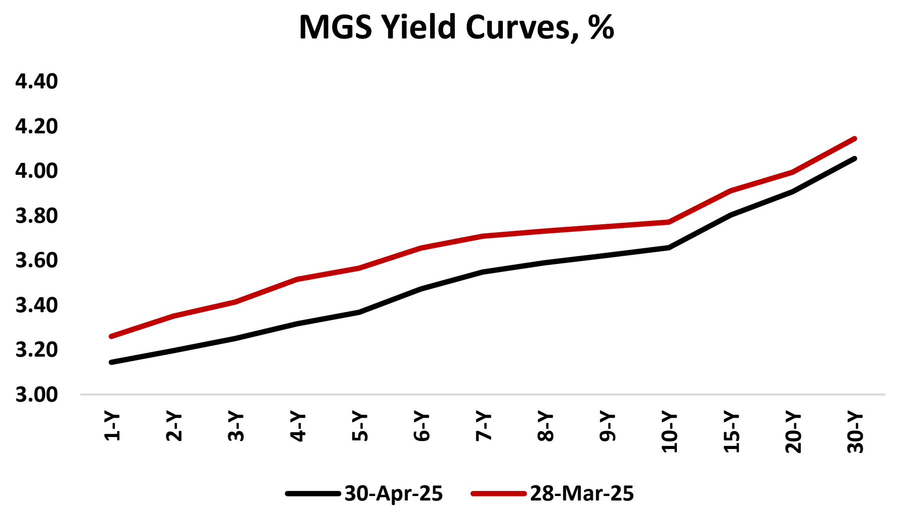
UST	Mar-25	Apr-25	Change (bps)
3-Y UST	3.89	3.58	-31
5-Y UST	3.96	3.72	-24
7-Y UST	4.09	3.93	-16
10-Y UST	4.23	4.17	-6
20-Y UST	4.62	4.68	6

Sources: Federal Reserve Board, Bank Islam

Global factors propelled gains in MGS during April

- Local govvies ended April with a stronger performance, as MGS yields along the 3Y20Y curve declined by 8bps to 20bps. The 10Y/3Y spread widened to 41bps in April, up from 35bps in March. Meanwhile, the 10Y MGS/UST yield differential remained slightly deeper in negative territory at -51bps in April, compared to -50bps in March.

- The decline in MGS yields was primarily driven by the overnight announcement on April 9 that the US would delay reciprocal tariffs on 75 countries for 90 days, boosting market confidence. Ongoing concerns about the trajectory of US economic growth could further strengthen expectations of additional monetary policy easing by the Fed, potentially redirecting investment flows toward more stable emerging markets such as Malaysia. Presently, the macroeconomic outlook for Malaysia remains sufficiently compelling to maintain investor interest. Additionally, renewed optimism regarding US-China trade talks spurred improved investor sentiment, which in turn supported a rally in local bonds. This positive movement was further reinforced by a weakening US economy that pushed yields lower.



Sources: BNM, Bank Islam

Table 3: MGS Benchmark Yields (%)

MGS	Mar-25	Apr-25	Change (bps)
3-Y MGS	3.41	3.25	-16
5-Y MGS	3.57	3.37	-20
7-Y MGS	3.71	3.55	-16
10-Y MGS	3.77	3.66	-11
15-Y MGS	3.91	3.80	-11
20-Y MGS	3.99	3.91	-8

Sources: BNM, Bank Islam

Steady MGS and GII bond issuances in April

- Gross issuance of MGS/GII in April remained steady at RM14.0bn. Notably, GII issuance rose to RM9.0bn, up from RM5.0bn in March, while MGS issuance declined to RM5.0bn from RM9.0bn in the previous month.

- Taking a closer look at government debt issuance, a total of RM13.0 billion was raised through three public offerings: a RM3.0bn 15-Y reopening of GII, a RM5.0bn 3-Y reopening of MGS, and a RM5.0bn 10-Y New Issue of GII. Strong appetite from investors seeking higher returns was apparent across all three offerings, as evidenced by bid-to-cover (BTC) ratios surpassing 2.0x. Of note, the 15-Y reopening of GII drew the highest BTC ratio of 3.4x.

Table 4: Auction Results (April 2025)

Issues	Amount (RM Million)	Amount Applied (RM Million)	BTC (x)	Private Placements (RM million)
15-yr Reopening of MGII 07/40	3,000	10,086	3.4	1,000
3-yr Reopening of MGS 04/28 3.519%	5,000	15,883	3.2	-
10-yr New Issue of MGII (Mat on 04/35)	5,000	9,975	2.0	-

Sources: BNM, Bank Islam

Outlook

- Fed Chair, Jerome Powell indicated that the Fed is not planning immediate interest rate adjustments. He highlighted concerns that tariffs could drive inflation, slow economic growth, and increase unemployment. While the inflationary impact of tariffs might be temporary, a more persistent rise in prices is also possible. The Federal Open Market Committee (FOMC) meeting on May 7 unanimously decided to maintain the federal funds rate (FFR) between 4.25% and 4.50%, a level held since December. They acknowledged growing risks of both higher inflation and increased unemployment, reflecting heightened economic uncertainty. Given low unemployment and steady demand, Fed officials, including Powell, believe maintaining current rates is appropriate until the economic outlook becomes clearer. Powell emphasized that the cost of waiting is minimal. Despite President Trump's repeated calls for immediate rate cuts, the Fed is committed to preventing tariffs from causing sustained inflation. Several officials have also signaled opposition to pre-emptive rate cuts aimed at mitigating potential economic slowdowns.

- On the domestic front, BNM is expected to take a cautious and data-driven stance in assessing global and domestic developments before steering any policy adjustments. Given the benign inflation, stable growth and financial markets, there is no immediate impetus for a policy rate change. Nevertheless, BNM is mindful of downside risks, notably the impact of global trade tensions on external demand. While a potential fall in Malaysia's GDP growth below 3.5% in the second half of 2025 might prompt BNM to consider a rate cut, our revised 2025 GDP growth forecast of 4.4% suggests the central bank will likely maintain its current policy. This cautious approach is further supported by near-term uncertainties surrounding external trade, specifically the clarity and impact of tariffs on growth and inflation.