Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

16 JULY 2025

Bond Market Watch: Macro Stability Supports Long-Term MGS Demand Despite External Risks

Auction Insight – 30-yr New Issue of MGS (Mat on 07/55)

Malaysia's latest government bond auction — the first issuance of a new ultra-long 30-year MGS benchmark — drew moderate but steady demand, with a **bid-to-cover ratio of 2.00x**. The auction attracted total bids of **RM6.0 billion** for an issuance size of **RM3.0 billion**, indicating stable investor interest in long-duration government securities.

The **cut-off yield of 3.92%** came in lower than recent 30-year issuances (4.01–4.19%), signaling improved investor confidence in ultra-long duration exposure. This suggests that **expectations of an easing interest rate environment and steady macro fundamentals** are encouraging greater duration appetite — a notable shift from more cautious positioning earlier this year. This outcome reinforces the view that demand for government bonds remains healthy, supported by:

- ✓ Investor confidence in Malaysia's long-term fiscal consolidation and macro stability;
- ✓ Improved rate outlook post-OPR cut, supporting demand for longer-tenor papers;
- ✓ Ample domestic liquidity, which continues to underpin primary market strength.

MGS/GII auctions (April-July 2025)

Issue	Issue Date	Maturity Date	Amount (RM Million)	BTC (times)	Avg yield (%)
15-yr Reopening of MGII 07/40 3.974%	08-Apr-25	16-Jul-40	3,000	3.36	3.75
15-yr Reopening of MGII 07/40 Pvt. Placement	08-Apr-25	16-Jul-40	1,000		
3-yr Reopening of MGS 04/28 3.519%	15-Apr-25	20-Apr-28	5,000	3.18	3.47
10-yr New Issue of MGII (Mat on 04/35)	30-Apr-25	30-Apr-35	5,000	2.00	3.61
5-yr New Issue of MGS (Mat on 05/30)	15-May-25	31-May-30	5,000	2.13	3.34
20-yr New Issue of MGII (Mat on 05/45)	30-May-25	31-May-45	3,000	3.32	3.78
20-yr New Issue of MGII (Mat on 05/45) Pvt. Placement	30-May-25	31-May-45	2,000		
15-yr Reopening of MGS 04/39 4.054%	10-Jun-25	18-Apr-39	3,000	2.86	3.71
15-yr Reopening of MGS 04/39 4.054% Pvt. Placement	10-Jun-25	18-Apr-39	1,000		
30-yr Reopening of MGII 03/54 4.280%	16-Jun-25	23-Mar-54	3,000	3.30	4.01
30-yr Reopening of MGII 03/54 4.280% Pvt. Placement	16-Jun-25	23-Mar-54	2,000		
10-yr New Issue of MGS (Mat on 07/35)	30-Jun-25	02-Jul-35	5,000	3.01	3.48
7-yr Reopening of MGII 10/31 3.804%	04-Jul-25	08-Oct-31	5,000	2.92	3.37
30-yr New Issue of MGS (Mat on 07/55)	15-Jul-25	15-Jul-55	3,000	2.00	3.92
30-yr New Issue of MGS (Mat on 07/55) Pvt. Placement	15-Jul-25	15-Jul-55	2,000		

Source: FAST BNM, BMMB Economics

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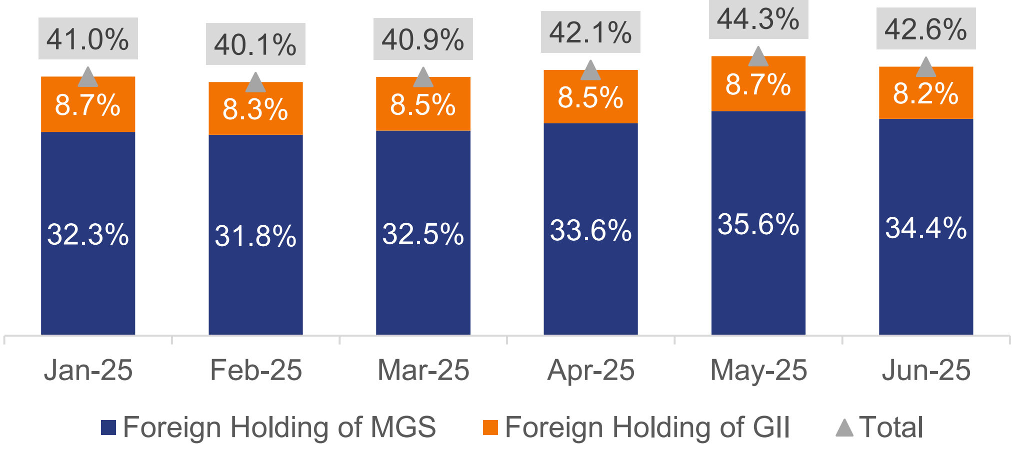
Supply-Demand Dynamics: Softer Issuance Meets Strong Bid Momentum

Federal Govt. Fiscal Position (RM bn)

	2024	5M2024	1Q 2025	5M 2025
Revenue	324.6	118.5	72.1	124.8
% yoy	*3.1*	*-5.5*	*3.1*	*5.3*
Total Expenditure	403.8	164.5	94.0	158.5
% yoy	*-0.6*	*4.2*	*-2.4*	*-3.6*
Operating Expenditure	321.5	-	76.5	-
% yoy	*3.3*	-	*-1.5*	-
Current Balance	3.1	-	-4.4	-
% of GDP	*0.2*	-	*0.0*	-
Gross Development Expenditure	84.0	-	-	-
% yoy	*-12.6*	-	-	-
Net Development Expenditure	82.3	-	17.6	-
% yoy	*-13.5*	-	*-6.0*	-
Overall Balance	**-79.2**	**-46.0**	**-21.9**	**-33.8**
% of GDP	***-4.1***		***-4.5***	

Foreign Holdings of Malaysia's Govt. Securities YTD (% of total outstanding)



Source: CEIC, BMMB Economics

From January to early July 2025, cumulative issuances of MGS and GII amounted to **RM96 billion*** — markedly lower than the **RM109.5 billion** raised in the same period of 2024. This moderation aligns with the government's **ongoing fiscal consolidation efforts**, as reflected in the **reduced fiscal deficit of RM34 billion** for the first five months of 2025 (vs RM46 billion in 5M2024). Lower supply, ample banking system liquidity, and a benign interest rate outlook have underpinned strong demand for government securities. This is reflected in **healthy bid-to-cover (BTC) ratios observed across recent auctions** 3.0× for MGS 2/2025 (2035 maturity), 2.92× for GII 2/2024 (2031), and 3.30× for MGII 03/54 (2054 maturity). While the latest 30-year MGS auction recorded a more moderate BTC of 2.00×, demand remained intact, particularly given the ultra-long tenure. Foreign participation has also improved year-to-date, with **foreign holdings of MGS rising to 34.4% in June from 32.3% in January**. Meanwhile, foreign holdings of **GII hovered within a narrow range** — easing slightly to 8.2% in June from 8.7% in January — but generally remaining stable, underscoring a predominantly domestic-driven demand base for Islamic papers.

**data does not include the scheduled 10-yr Reopening of MGII 04/35 (upcoming, more detail TBA)*

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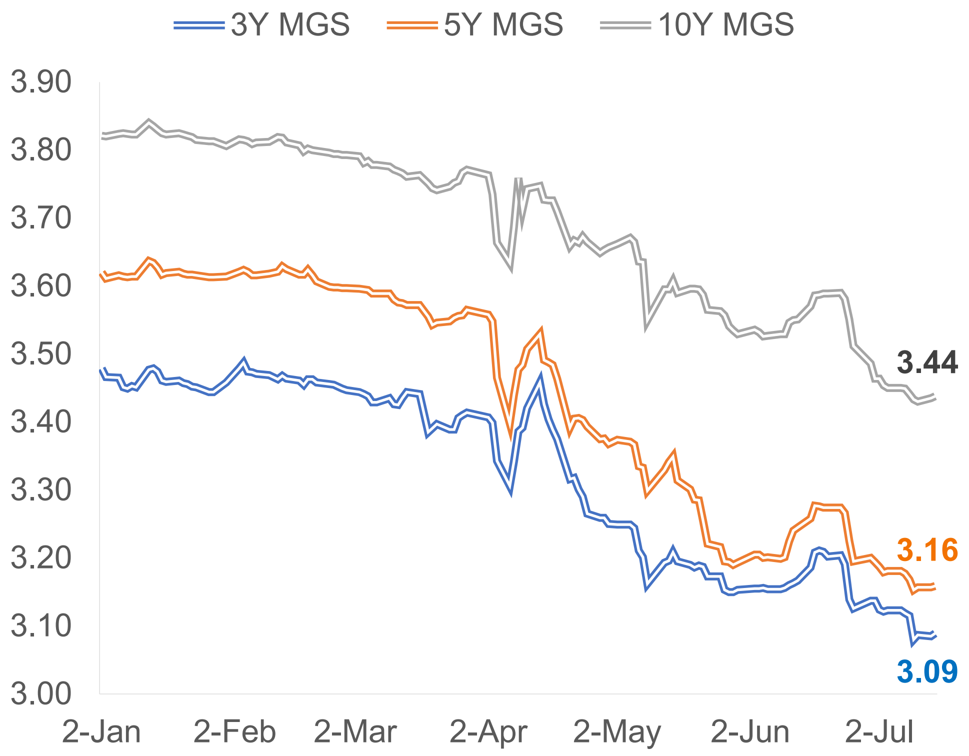
Fiscal Credibility Holds Firm, Supporting Cautious Duration Positioning

MGS Benchmark Yields (3Y, 5Y, 10Y) – YTD (%)



Source: CEIC, BMMB Economics

Malaysia's fiscal position remains broadly on track, with the government well-positioned to achieve its 2025 deficit target of 3.8% of GDP *(our in-house forecast: -4.0%).* This outlook is underpinned by planned revenue-enhancing measures, including the expansion of the Sales and Services Tax (SST), rationalisation of RON95 fuel subsidies, and adjustments to electricity base tariffs. Barring a sharp deterioration in growth, **the risk of higher-than-planned funding needs appears limited** at this stage. Nonetheless, there is some downside risk from potential revenue underperformance in the second half of the year, particularly if tax collections soften in line with a weaker economic trajectory.

From a portfolio strategy perspective, we maintain a **positive but cautious view on bond duration**. While the July OPR cut provides near-term support for the bond market, sentiment is also influenced by external dynamics — particularly the path of US Treasury yields, which historically show a 50–60% correlation with Malaysian yields. This outlook is further supported by July's OPR cut, **amid growing analyst views that further policy easing could be warranted if growth momentum weakens**. Inflation risks — both global (tariff pass-through, geopolitics) and local — continue to influence sentiment.

Conclusion: Reinforcement of fiscal credibility supports longer-term positioning, but selectivity and flexibility remain crucial.