Market commentary

Fixed income market review and outlook

October 2025

Review

- The Federal Reserve (Fed) lowered interest rates by 25 basis points (bps) to 3.75%-4.00% in October 2025, citing elevated employment risks despite persistent inflation, and announced the end of quantitative tightening starting December 1, while signalling that a December rate cut remains uncertain amid internal policy disagreements. The Chicago Fed's real-time estimate for the US employment rate is 4.36% (Sept: 4.34%) for October 2025. Headline PCE price index increased by 2.1% y-o-y in September (Aug: 2.7%) and Core PCE price index rose 2.7%y-o-y (Aug: 2.9%), primarily due to rising service prices. The University of Michigan Consumer Sentiment index for October was 53.6, a drop from 55.1 in September, amid ongoing concerns about inflation. The Manufacturing PMI fell to 48.7 in October (Sept: 49.1), reflecting weaker production and continued contraction in new orders, inventories and backlog of orders, while the Service PMI rose to 52.4 (Sept: 50), supported by stronger business activity and new orders, though continued employment contraction.

- The Bank of England kept its Bank Rate unchanged at 4.0% in October 2025. UK headline inflation remained steady at 3.8% in September 2025 (Aug: 3.8%), as rising transportation, restaurant and clothing prices were offset by easing inflation in food, recreation and housing, while its core Inflation slowed to 3.5% (Aug: 3.6%). Retail sales rose by 1.5% y-o-y in September (Aug: 0.7%), driven by strong demand for computer and telecommunications goods and significant increase in online demand for gold. Meanwhile, industrial production fell by 0.7% y-o-y in August (Jul: -0.1%), and manufacturing production decreased 0.8% y-o-y (Jul: -0.1%).

- The European Central Bank ("ECB") kept its key policy rates unchanged at its October meeting, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%, reflecting confidence in the eurozone's resilience and easing inflation pressures. While inflation remains near the 2% target, the ECB emphasized a data-dependent, meeting-by-meeting approach amid global uncertainties. The Eurozone's inflation rate eased slightly to 2.1% in October (Sept: 2.2%), while core inflation rate remained stable at 2.4%. Industrial production rose by 1.1% y-o-y in August (Jul: 1.8%), slowing due to declines in most goods categories despite gains in non-durable consumer goods, while manufacturing production increased by 1.3% in August.

- The Reserve Bank of Australia kept its cash rate unchanged at 3.60% in October 2025. In Asia, the Central Bank of Philippines cut its interest rate by 25 bps to 4.75% to support weakening domestic growth amid a benign inflation outlook. Meanwhile, Bank Indonesia, Bank of Thailand, Bank of South Korea and the Bank of Japan maintained their interest rates at 4.75%, 1.5%, 2.5% and 0.5%, respectively. Bank Negara Malaysia ("BNM") did not hold a monetary policy committee meeting in October 2025.

- The People's Bank of China kept its key lending rates unchanged in October 2025 to support stability amid easing US monetary policy and ongoing trade tensions. The 1-year and 5-year loan prime rates was at 3.0% and 3.5%, respectively. In October 2025, China's imports rose 1.0% YoY in USD terms (Sept: 7.4%), while exports unexpectedly fell by 1% YoY (Sept: 8.3%) as temporary boost from front-loading goods to beat US tariffs wore off. Retail sales grew by 3.0% YoY in September (Aug: 3.4%), and industrial production expanded by 6.5% YoY (Aug: 5.2%). Meanwhile, fixed asset investment decreased by 0.5%YoY from January-September 2025 (Jan-August 2025: 0.5%), reversing earlier gains, primarily due to a sharper decline in property investment and slower growth in infrastructure and manufacturing.

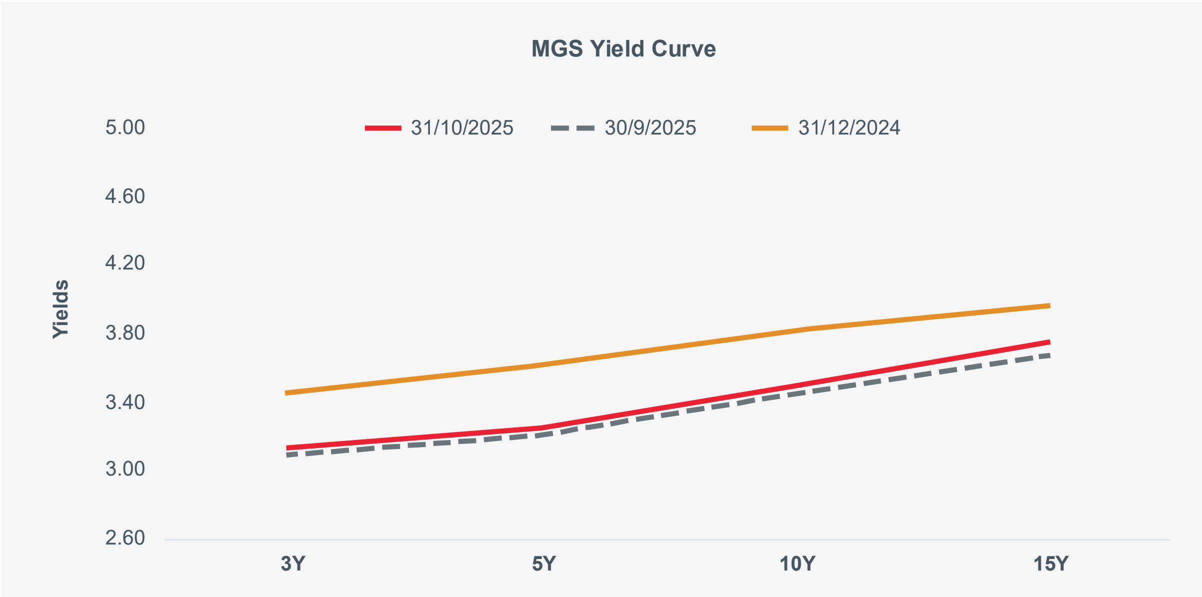
- In September 2025, headline inflation rose to 1.5% (Aug: 1.3%), mainly driven by higher core inflation at 2.1% (Aug: 2.0%). The unemployment rate remained steady at 3.0% in August (Jul:3.0%). BNM's international reserves amounted to US$123.4bn as of 15 October 2025 (30 Sept: US$123.6.0bn). The reserves position is sufficient to finance 4.8 months of imports and is 0.9x of the total short-term external debt. The Ringgit appreciated by 0.4% m-o-m against USD, closing at 4.1890 at end October 2025 (Sept: 4.2072).

- Three auctions were held in October 2025, reopening of 30Y MGS 07/55, reopening of 5Y MGII 08/30 and reopening of 20Y MGS 05/44. The auctions received an average bid-to-cover ratio of 1.754x.
  - RM5.0b (including RM2.0b private placement) reopening of 30Y MGS 07/55 averaging yield of 4.019% at a bid-to-cover ratio of 1.38x;
  - RM5.0b reopening of 5Y MGII 08/30 averaging yield of 3.217% at a bid-to-cover ratio of 2.814x; and
  - RM4.5b (including RM2.0b private placement) reopening of 20Y MGS 05/44 averaging yield of 3.978% at a bid-to-cover ratio of 1.697x.

- In October 2025, Malaysia's MGS and GII moved broadly higher, with yields shifting between -1 to 8 bps across the curve, influenced by weak demand from auctions and escalating US-China trade tension. Foreign fund flows rebounded strongly, recorded a net inflow of RM4.4 billion in October 2025 (Sept: -6.8 billion), supported by resilient domestic fundamentals. YTD, the net foreign fund flows remained positive at RM16.5 billion. Meanwhile, the 10Y UST yield fell to 4.11% as at end-October 2025 (Sept: 4.16%). The Fed cut its interest rate by 25 bps in October.

BENCHMARK	Dec 2024 Yield	Sep 2025 Yield	Oct 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.10%	3.13%	3 bps	-34 bps
5-year MGS	3.62%	3.22%	3.25%	3 bps	-36 bps
10-year MGS	3.82%	3.45%	3.49%	4 bps	-32 bps
15-year MGS	3.97%	3.66%	3.74%	8 bps	-23 bps

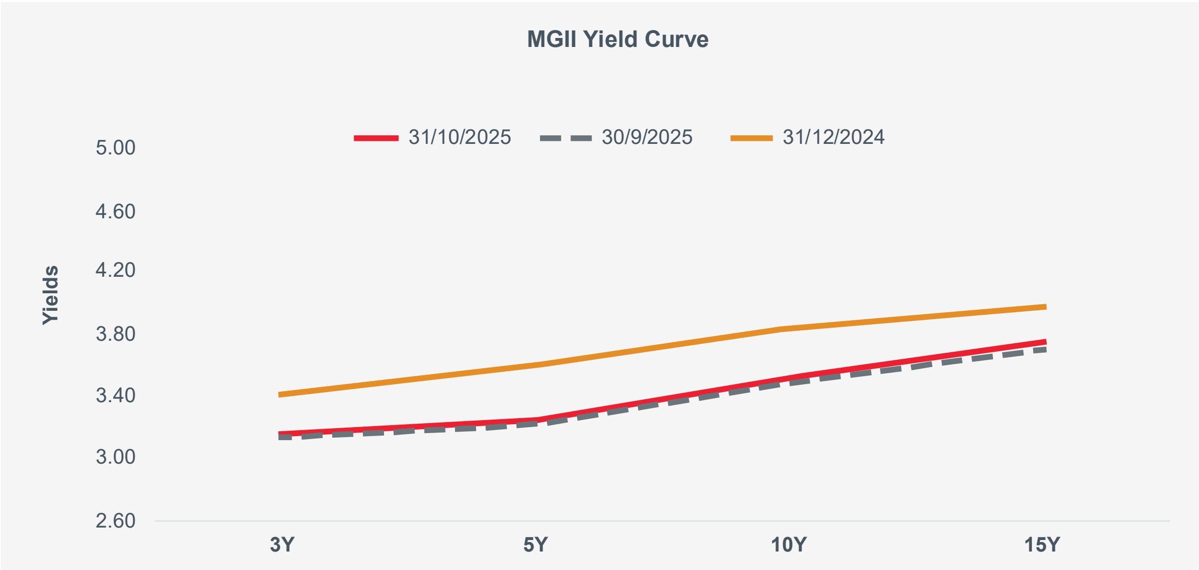
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Sep 2025 Yield	Oct 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.15%	3.14%	-1 bp	-28 bps
5-year MGII	3.62%	3.24%	3.25%	1 bps	-37 bps
10-year MGII	3.83%	3.48%	3.52%	4 bp	-31 bps
15-year MGII	3.98%	3.70%	3.75%	5 bps	-23 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- The Fed delivered a widely expected 25bps rate cut in October, lowering the federal funds rate to 3.75%-4.00%, aiming to support a cooling labour market amid limited official data due to a government shutdown. However, Fed Chair Jerome Powell signalled that a further rate cut in December is uncertain, citing strongly differing views within the FOMC and the challenge of making policy decisions without comprehensive economic data. According to CME Group's FedWatch tool, markets are pricing in a 67.1% probability of another 25bps cut in December, with a 32.9% probability of holding rate steady. Key risks include rising inflation from import tariffs, policy uncertainty due to internal divisions, and the potential for misjudging economic conditions in the absence of reliable government statistics. While recent US-China trade easing offers temporary relief, but ongoing protectionist measures and strategic tensions continue to threaten global growth, inflation and supply chain stability. Boarder concerns over long-term US fiscal sustainability, geopolitical risks, and China's slowing economy further cloud the global outlook.

- Malaysia's Budget 2026 projects GDP growth of 4.0-5.0%, inflation between 1.3-2.0% and a reduced fiscal deficit of 3.5% of GDP, driven by improved tax collection and moderate spending growth. Economic momentum is expected to be supported by resilient domestic demand and government reforms. For 2025, BNM projects GDP growth between 4.0-4.8%, underpinned by steady employment, wage growth, infrastructure projects and structural reforms, with headline inflation is forecasted to remain contained at 1.5-2.3%. At its final meeting of 2025, BNM maintained the OPR at 2.75%, reflecting a neutral stance amid balanced growth and inflation risks. Markets broadly expect OPR to remain unchanged over the 6-12 months, supported by easing global trade tension, domestic fiscal reforms and improving financial stability.

- Three auctions are expected in the month of November 2025, with reopening of 10Y MGII 04/35, reopening of 7Y MGS 07/32 and reopening of 20Y MGII 05/45. While there is ample liquidity in the system, the outcome of these auctions is likely to be influenced by prevailing market sentiment both from local and foreign investors. On the corporate front, we expect demand to remain resilient given institutional demand for bonds even though we have seen spreads being compressed significantly.

Table 1: Indicative Rates (%)

	31-Oct-25
MBB O/N*	1.00
MBB 1-Week*	1.10
MBB 1-Mth FD*	1.85
MBB 6-Mth FD*	2.10
MBB 1-Year FD*	2.10
1-mth BNM MN	2.82
3-mth BNM MN	2.85
3-mth KLIBOR	3.22
CP	
1-mth (P1)	3.52
3-mth (P1)	3.65

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	3.18	3.30	3.47	3.52	3.80
GII	3.17	3.27	3.42	3.55	3.76
Swap rate*	3.21	3.27	3.34	3.47	3.64
AAA	3.52	3.60	3.68	3.78	3.96
AA1	3.61	3.70	3.77	3.88	4.06
AA2	3.69	3.78	3.86	3.97	4.20
AA3	3.77	3.85	3.94	4.06	4.35
A1	4.57	4.83	5.05	5.36	5.85
A2	5.21	5.60	5.91	6.33	6.92
A3	5.84	6.36	6.74	7.26	7.99

Source: Bloomberg*/Bondstream