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MONTHLY FIXED INCOME UPDATE (MARCH 2025): Foreign Investors Returned to the Local Bond Market amid Flight-to-Safety Demand

- **Foreign investors returned as the net buyers in the local bond market with a net foreign inflow of RM3.3bn in March**
- **Tariffs sparked safe-haven rush, pushing UST yields down**
- **Domestic government bond yields also edged lower tracking the gains in UST yields**
- **March saw tepid issuances in the MGS and declines in the GII**

Foreign investors returned as the net buyers in the local bond market with a net foreign inflow of RM3.3bn in March.

- Foreign flows of the local bond market returned to positive territory in March amid foreign investors' flight-to-safety demand following US tariff jitters and looming threat of a trade war's economic fallout. Consequently, the accumulated total foreign holdings of Malaysia debt securities elevated to RM278.5bn in March (Feb: RM275.2bn).

- All segments in the domestic bond market saw net foreign inflows. Malaysian Government Securities (MGS) and Government Investment Issues (GII) recorded net inflows of RM1.7bn (Feb: -RM0.2bn) and RM1.4bn (Feb: -RM1.4bn) in March, respectively. Additionally, Malaysia Treasury Bills (MTB) and corporate bonds also logged net foreign inflows of RM0.2bn (Feb: -RM0.1bn) and RM0.4bn (Feb: +RM0.6bn) in March. In contrast, Malaysia Islamic Treasury Bills (MITB) remained in the negative territory with net outflows of RM0.4bn (Feb: -RM38mn).

- In March, total foreign holdings' share to total outstanding in MGS ended higher to 33.7% (Feb: 33.1%). Other segments of local government bonds also improved with the share of foreign holdings of GII and MTB edged marginally higher at 8.8% (Feb: 8.7%) and 42.7% (Feb: 39.5%). On the other hand, the percentage of foreign holdings to total outstanding in MITB dropped to 5.9% in March (Feb: 9.0%). Overall, the foreign holdings' share of total outstanding remained at 13.2% in March (Feb: 13.2%).

- Total cumulative foreign holdings in the local bond market expanded to RM3.3bn for the first three months of 2025 and stronger compared to the cumulative net foreign outflows of RM4.6bn from January to March 2024.

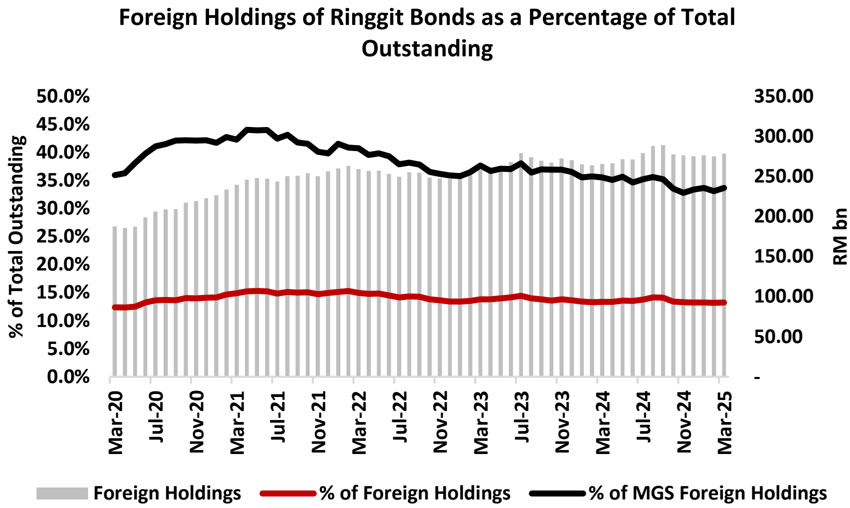
Table 1: Foreign Holdings of Malaysia Total Debt Securities

	Foreign Holdings (RM Billion)		Foreign Flows (RM billion)		Composition (%)	
	Feb-25	Mar-25	Feb-25	Mar-25	Feb-25	Mar-25
MGS	206.1	207.7	-0.2	1.7	33.1	33.7
GII	49.2	50.6	-1.4	1.4	8.7	8.8
PDS^	16.3	16.8	0.6	0.4	1.9	1.9
Others*	3.6	3.3	-0.1	-0.3	-	-
Total	**275.2**	**278.5**	**-1.1**	**3.2**	**13.2**	**13.2**

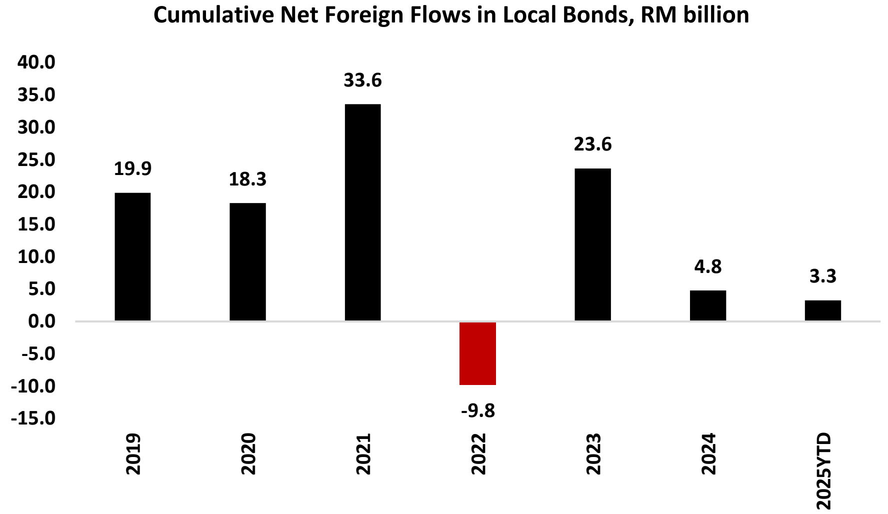
Sources: Bank Negara Malaysia (BNM), Bank Islam

^ Private sector conventional and sukuk

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



Sources: BNM, Bank Islam

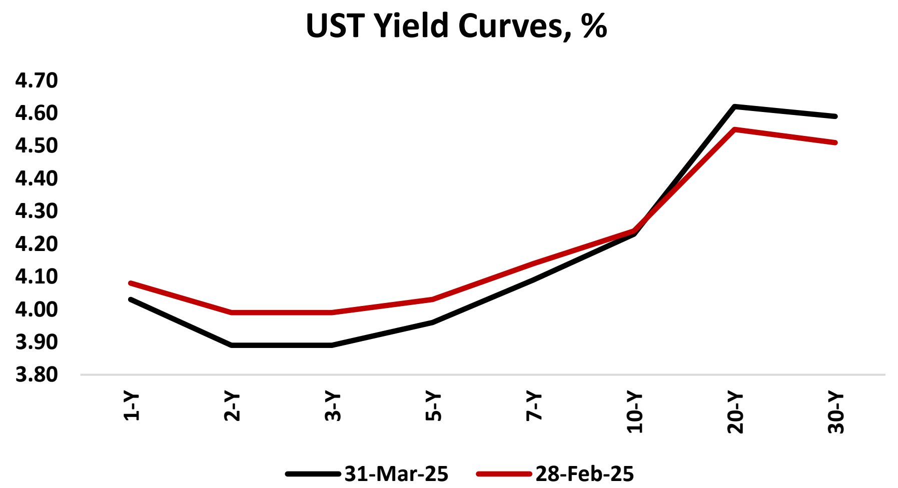


Sources: BNM, Bank Islam

Tariffs sparked safe-haven rush, pushing UST yields down.

- US Treasury (UST) yields plunged in the range of 1bp and 10bps across the curve with yields at the front end of the yield curve declined higher than the belly except for 20-Y UST yield which ended higher by 7bps to finish at 4.62%. Risk aversion, fuelled by tariffs announcement and trade war worries, boosted the demand for USTs. At the March's Federal Open Market Committee (FOMC) meeting, the Federal Reserve (Fed) maintained interest rate in the range of 4.25% to 4.50%. The latest dot-plot released in the Summary of Economic Projections suggests that the Fed foresees two additional rate cuts within the current year.

- The US President Donald Trump characterized his newly announced tariffs on April 2 as a practical and "reciprocal" trade policy aimed at achieving a more balanced trade relationship between the US and its global partners. Nevertheless, tariff implementation on April 9 pushed US Treasuries into sell-off, questioning the USTs safe-haven appeal. The moves in UST yields provide a new challenge to Trump's administration and suggest potential loss of faith in US Treasuries. The recent sell-off shows investors shifting from safe assets to cash amid tariff volatility. Weak demand at a 3-Y UST auction further fuelled US debt concerns. Bond market volatility is likely to persist in the short run given tariff unknowns and potential trade responses.



Sources: Federal Reserve Board, Bank Islam

Table 2: UST Benchmark Yields (%)

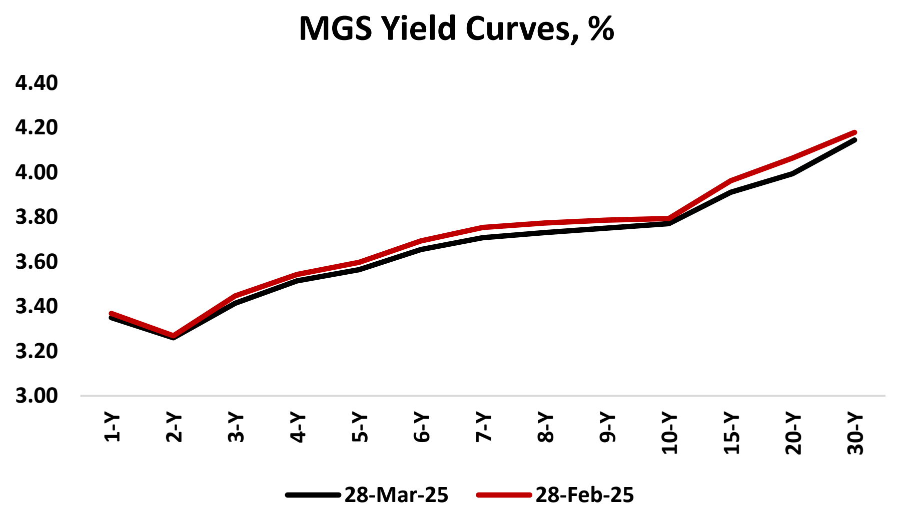
UST	Feb-25	Mar-25	Change (bps)
3-Y UST	3.99	3.89	-10
5-Y UST	4.03	3.96	-7
7-Y UST	4.14	4.09	-5
10-Y UST	4.24	4.23	-1
20-Y UST	4.55	4.62	7

Sources: Federal Reserve Board, Bank Islam

Domestic government bond yields remained relatively stable in February

- Local government bonds finished March on a stronger performance with MGS yields along the 3Y20Y curve were down by between 2bps and 7bps. The 10y/3y spread plateaued at 35 bps in March. On the other hand, the 10y MGS/UST yield differential widened in the negative territory at -50bps in March (February: -45bps).

- In its Economic and Monetary Review 2024, Bank Negara Malaysia (BNM) projects a higher inflation trajectory for 2025, reflecting the anticipated effects of several key policy reforms. Headline inflation, as measured by the Consumer Price Index (CPI), is projected at 2.0%-3.5% (2024: 1.8%) and core inflation at 1.5%-2.5% (2024: 1.8%). The central bank attributed the upward revision to a combination of domestic cost adjustments linked to government policy measures like RON95 subsidy changes, Sales and Service Tax (SST) expansion, and wage measures. BNM noted implementation details will shape inflation's impact, but effects are expected to be temporary and manageable. It added that direct inflation from RON95 price adjustments will fade within a year, and SST expansion targets a small CPI subset. Indirect inflation effects are also expected to be limited. BNM reiterated its commitment to maintaining price stability while supporting sustainable economic growth. It added that inflation expectations remain well anchored, underpinned by a stable labor market and continued policy communication.



Sources: BNM, Bank Islam

Table 3: MGS Benchmark Yields (%)

MGS	Feb-25	Mar-25	Change (bps)
3-Y MGS	3.45	3.41	-4
5-Y MGS	3.60	3.57	-3
7-Y MGS	3.75	3.71	-4
10-Y MGS	3.79	3.77	-2
15-Y MGS	3.96	3.91	-5
20-Y MGS	4.06	3.99	-7

Sources: BNM, Bank Islam

March saw tepid issuances in the MGS and declines in the GII.

- Gross issuance of MGS/GII in March declined to RM14.0bn (February: RM19.5bn) with the MGS segment issuances plateaued at RM9.0bn (February: RM9.0bn). On the other hand, GII papers logged lower issuance of RM5.0bn in March relative to RM10.5bn in the previous month.

- Looking closer, the government raised a total of RM11.0bn via three public offerings, the RM3.0bn 15-Y reopening of MGS, the RM3.0bn 30-Y reopening of GII and the RM5.0bn 10-Y reopening of MGS. Additionally, the remaining RM3.0bn were raised via private placements. 15-Y reopening of MGS and 30-Y reopening of GII saw a strong demand with a bid-to-cover (BTC) ratio of 3.0x and 3.1x, respectively. Meanwhile, 10-Y reopening of MGS was slightly lower with a BTC ratio of 1.7x.

Table 4: Auction Results (March 2025)

Issues	Amount (RM Million)	Amount Applied (RM Million)	BTC (x)	Private Placements (RM million)
15-yr Reopening of MGS 04/39 4.054%	3,000	9,053	3.0	1,000
30-yr Reopening of MGII 03/54 4.280%	3,000	9,232	3.1	2,000
10-yr Reopening of MGS 07/34 3.828%	5,000	8,350	1.7	-

Sources: BNM, Bank Islam

Outlook

- The Fed indicated it feels no urgency to adjust interest rates, explaining that it is too soon to say what will be the appropriate path for monetary policy. Fed Chair, Jerome Powell also highlighted the potential for increased inflation and a deceleration in the US economy stemming from Trump's tariffs, which could be the most significant in over a century. The Fed's dual mandate – full employment and stable prices – presents a key challenge for the Fed, especially if tariffs lead to a predicted economic slowdown. Despite this risk, recent hard data, including March's robust job gains of 228K, a notable increase from February's revised 117K even with a 4.2% unemployment rate (Feb: 4.1%), has yet to signal a major slump. At the time of writing, the CME FedWatch tool indicates a 56.1% probability that the Fed will cut interest rates to 4.00%-4.25% in May FOMC meeting.

- On the domestic front, the latest statement by the BNM Governor mentioned that the central bank is not in rush to lower interest rates as the current environment are still very much fluid and highlighted that the core objective is to pursue a mandate of price stability that will foster continuous economic growth within the country. In BNM's Economic and Monetary Review, the central bank projected that the Malaysian economy to grow between 4.5% and 5.5% in 2025. Amid global yield volatility, Malaysia's domestic bond market has remained relatively stable. The 10-Y MGS yield is projected to end at 3.73% by end-2025. This suggests a balanced outlook where mild upward pressure from global interest rates is countered by BNM's policy stability and contained domestic inflation.