Market commentary

Fixed income market review and outlook

August 2025

Review

- In August 2025, the U.S. economy added 22,000 jobs, significantly below July's upwardly revised 79,000 and market expectations of 75,000, signaling a cooling labour market. The unemployment rate rose to 4.3% (July: 4.2%). In July 2025, the headline PCE price index remained steady at 2.6% y-o-y (Jun: 2.6%), while Core PCE price index increased by 2.9% y-o-y (Jun: 2.8%), driven by higher rising services costs and the impact of new tariffs. Consumer sentiment weakened, with the University of Michigan Consumer Sentiment index dropped to 58.2 in August 2025, from 61.7 in July 2025, reflecting inflation concerns and deteriorating buying conditions for durable goods. The Manufacturing PMI edged up to 48.7 in August 2025 (Jul: 48.0), reflecting continued contraction driven by a sharp drop in production and weaker demand. The Service PMI rose to 52 in August 2025 from 50.1, driven by stronger business activity and new orders.

- The Bank of England cut its Bank Rate by 25 basis points (bps) to 4.0% in August 2025 to support a weakening economy and labour market, despite persistent inflation pressures. The central bank signaled a "gradual and careful" easing path, with markets expecting one more cut in 2025 and rates stabilising around 3.5% in 2026. In July 2025, UK headline inflation rose to 3.8% (Jun: 3.6%), driven by higher airfares linked to school summer holidays, while its core Inflation rose to 3.8% (Jun: 3.7%). Retail sales increased by 1.1% July 2025 (Jun: 1.7%), driven by better sales volumes from non-store retailers and clothing stores. In June 2025, industrial production increased by 0.2% (May: -0.3%), though manufacturing production stalled (May: 0.3%).

- The European Central Bank ("ECB") maintained its key policy rates in August 2025, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%. In August 2025, Eurozone's inflation rate rose to 2.1% (Jul: 2.0%), while core inflation rate held steady at 2.3%. In June 2025, the Eurozone's industrial production decreased by 1.3% m-o-m, though it rose 0.2% y-o-y (May: 3.7%). This decline was driven by reduced production on most goods categories, particularly capital and consumer goods, and a broad weakening of industrial resilience following a first quarter surge linked to USUS tariff-related demand.

- The Reserve Bank of Australia cut its cash rate by 25 bps to 3.60% at its August meeting, citing easing inflation, a softer labour market and weaker domestic demand, while remaining cautious amid global uncertainties. In Asia, Bank Indonesia, the Central Bank of Philippines and the Bank of Thailand each reduced their benchmark interest rates by 25 bps, to 5.00%, 5.00% and 1.50%, respectively, during their August meeting. The rate cuts in Indonesia and Philippines were aimed at supporting economic growth, underpinned by easing inflation and resilient domestic demand, while Thailand's decision was driven by subdued inflation, weakening consumer confident, and rising vulnerabilities in SMEs and tourism. Meanwhile, the Bank of Korea kept its interest rate unchanged at 2.50%. Bank Negara Malaysia ("BNM") and the Bank of Japan did not hold any monetary policy committee meetings in August 2025.

- The People's Bank of China kept its key lending rates unchanged in August 2025 to maintain financial stability while supporting a moderately loose monetary policy stance. The 1-year and 5-year loan prime rates was at 3.0% and 3.5%, respectively. In August 2025, China's imports rose 1.3% YoY in USD terms (Jul: 4.1%), reflecting weak domestic demand, sluggish industry activity and the lingering impact ongoing US tariffs. Exports grew 4.4% YoY (Jul: 7.2%), slowing due to a temporary easing of tariff pressures and waning demand from key consumer market. In July 2025, retail sales increased by 3.7% YoY (Jun: 4.8%) and industrial production expanded by 5.7% YoY (Jun 2025: 6.8%). Meanwhile, fixed asset investment rose by 1.6% YoY from January-July 2025 (Jan-Jun 2025: 2.8%), indicating a moderation in investment momentum.

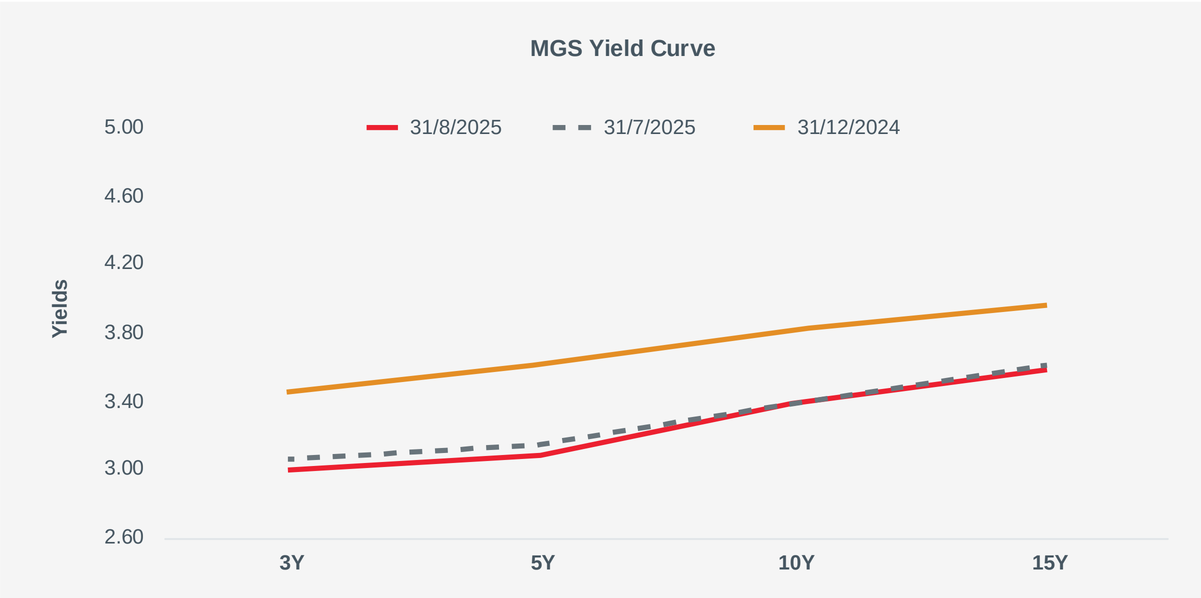
- The Malaysian economy expanded by 4.4% in the 1Q2025 (1Q2025: 4.4%), supported by robust domestic consumption and steady manufacturing growth, despite headwinds from weaker exports and global uncertainties. In July 2025, the headline inflation edged up slightly to 1.2% (Jun: 1.1%), while core inflation remained unchanged at 1.8% (Jun: 1.8%). The unemployment rate held steadied at 3.0% in June 2025(May:3.0%). BNM international reserves amounted to US$122.0bn as of 15 August2025 (15 Jul: US$120.9bn). 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 1.01% against USD, closing at 4.2114 at end August 2025 (Jul: 4.2543).

- Four auctions were held in August 2025, reopening of 20Y MGS 05/44, reopening of 15Y MGII 07/40, reopening of 5Y MGS 05/30 and reopening of 20Y MGII 05/45. The auctions received an average bid-to-cover ratio of 2.3203x.
  - RM4.5b (including RM2.0b private placement) reopening of 20Y MGS 05/44 averaging yield of 3.750% at a bid-to-cover ratio of 2.725x;
  - RM4.0b (including RM1.0b private placement) reopening of 15Y MGII 07/40 averaging yield of 3.577% at a bid-to-cover ratio of 2.848x;
  - RM5.0 b reopening of MGS 05/30 averaging yield of 3.086% at a bid-to-cover ratio of 1.867x; and
  - RM5.0b (including RM2b private placement) reopening of 20Y MGII 05/45 averaging yield of 3.755% at a bid-to-cover ratio of 1.841x.

- In August 2025, Malaysia's MGS and GII yields were mixed, fluctuating between +2 to -8 bps across the curve, influenced by developments in US trade policy and resilience of domestic fundamentals. Foreign fund flows reserved their two-month selling trend, recorded a net foreign fund inflow of RM3.05 billion in August 2025 (Jul: -RM5.53 billion). YTD, the net foreign fund inflows stood at RM18.96 billion. Meanwhile, the 10Y UST yield declined to 4.23% as at end-August 2025 (July: 4.37%), following Fed Chair Jerome Powell's signal of a possible rate cut in Sept 2025, citing increasing risks in the labour market.

BENCHMARK	Dec 2024 Yield	Jul 2025 Yield	Aug 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.06%	3.00%	-6 bps	-47 bps
5-year MGS	3.62%	3.15%	3.08%	-7 bps	-53 bps
10-year MGS	3.82%	3.37%	3.39%	2 bps	-43 bps
15-year MGS	3.97%	3.62%	3.59%	-3 bps	-38 bps

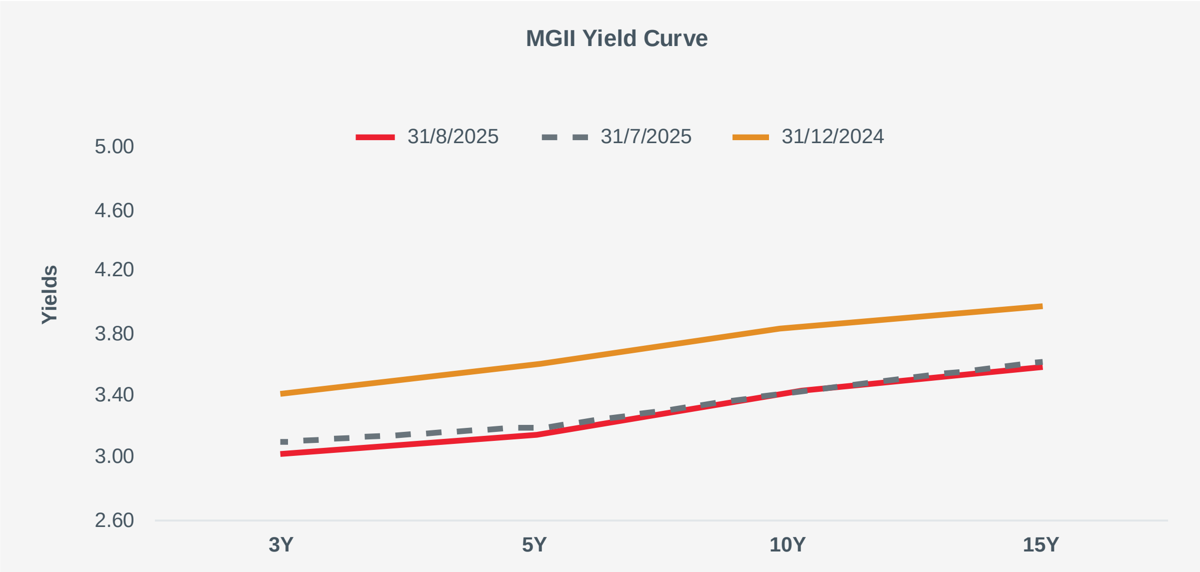
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Jul 2025 Yield	Aug 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.10%	3.02%	-8 bps	-40 bps
5-year MGII	3.62%	3.19%	3.13%	-6 bps	-48 bps
10-year MGII	3.83%	3.41%	3.42%	1 bp	-42 bps
15-year MGII	3.98%	3.63%	3.59%	-4 bps	-39 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- In his Jackson Hole Speech, Fed Chair Jerome Powell acknowledged the resilience of the US economy, with inflation easing and a labour market near full employment but highlighted the rising downside risks to jobs and upside risks to inflation, creating a challenging policy environment. Powell signaled that policy adjustments maybe warranted depending on how inflation and employment risks evolve. This suggests the Fed is preparing for a possibility of a rate cut sooner than previously expected, but only if data continues to show weakening employment and subdued inflation. According to the CME FedWatch tool, there is now a 90.1% probability of a 25-bps cut at the September meeting. Meanwhile, the US has finalised trade agreements with its key trading partners including the UK, China and Japan, while negotiations with India, South Korea and Canada remain ongoing amid unsolved issuers and tariff threats. Partial deals with the EU, Vietnam and Indonesia have allowed for tariff reductions, though key sectors remain unsettled. Overall, the trade landscape remains fluid, shaped by legal challenges to the President's tariff authority and the potential adjustments depending on the outcome of ongoing negotiations and court rulings. Additionally, concerns over long-term US fiscal health, geopolitical tensions, and slower growth in China continue to add uncertainty to global market outlook

- BNM projected GDP growth in 2025 to range between 4% to 4.8%, down from the earlier forecast of 4.5% to 5.5%, reflecting the impact from global uncertainties and tariff effects. Despite this, domestic demand is expected to remain resilient, supported by household spending, employment and wage growth, infrastructure development and structural reforms. Headline inflation is forecasted at 1.5% to 2.3% with cost pressures remaining contained. Following a pre-emptive 25bps cut in July, the Overnight Policy Rate ("OPR") is likely to remain stable, as moderate inflation and steady growth made the current OPR appropriate to support economic activity while maintaining price stability. BNM is expected to stay on hold and adopt a data-dependent approach, adjusting OPR only if there are notable risk to growth or inflation.

- Four auctions are expected in the month of September 2025, with reopening of 3Y MGS 04/28, new issue of 30Y MGII 09/55, reopening of 15Y MGS 04/39 and reopening of 3Y MGII 07/28. 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-Aug-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	2.83
3-mth BNM MN	2.85
3-mth KLIBOR	3.21
CP	
1-mth (P1)	3.55
3-mth (P1)	3.68

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	5yr	7yr	10yr	15yr
MGS	3.02	3.11	3.31	3.40	3.63
GII	3.04	3.14	3.30	3.43	3.61
Swap rate*	3.03	3.10	3.17	3.29	3.46
AAA	3.46	3.53	3.58	3.65	3.78
AA1	3.55	3.62	3.67	3.74	3.89
AA2	3.64	3.71	3.76	3.84	4.07
AA3	3.72	3.79	3.84	3.96	4.28
A1	4.62	4.87	5.09	5.39	5.83
A2	5.26	5.64	5.95	6.36	6.90
A3	5.89	6.40	6.79	7.30	7.97

Source: Bloomberg*/Bondstream

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