Market commentary

Fixed income market review and outlook

December 2025

Review

- The Federal Reserve (“Fed”) cut the federal funds rate by 25 basis points (“bps”) to 3.50%-3.75%, marking its third consecutive cut of the year, to mitigate employment risk amid a cooling labour market, elevated inflation, and limited data visibility following the recent government shutdown. US nonfarm payrolls rose by 64k in November (Oct: -105k), driven by health care and construction hiring, despite continued federal job losses and declines in transportation and warehousing. The unemployment rate climbed to 4.6% in November (Sept: 4.4%). December headline PCE price index data is pending (expected late January); September headline and core PCE price indexes were both at 2.8% y-o-y in September, while alternative November inflation data released in mid-December indicated further easing with headline inflation at 2.7%. The University of Michigan Consumer Sentiment index improved to 52.9 in December (Nov: 51.0) on better personal finance and business outlooks. Manufacturing PMI contracted further to 47.9 in December (Nov: 48.2), while Service PMI expanded strongly to 54.4 (Nov: 52.6), indicating weakness in factory activity but robust growth in service sector.

- The Bank of England cut its Bank Rate by 25 bps to 3.75% at 4.0% at the December meeting, citing easing inflation and economic strain. Headline inflation slowed to 3.2% in November (Oct: 3.6%), driven by declines in food, alcohol, tobacco and clothing prices, while core inflation eased to 3.2% (Oct: 3.4%). Retail sales rose 0.6%y-o-y in November (Oct: revised to 0.6% from 0.2%%), supported by extended Black Friday discounts. Meanwhile, industrial production fell 0.8% y-o-y in October (Sept: -2.5%), and manufacturing production declined 0.8% y-o-y (Sept: - 2.2%).

- The European Central Bank kept its key policy rates unchanged in December, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%, maintaining a data-dependent stance amid uncertainty. Growth is projected at 1.4% for 2025 and 2027, 1.2% for 2026, while inflation averages 2.1% in 2025 and slightly higher in 2026 due to services. Inflation rate eased to 2.0% in December (Nov: 2.1%) and core inflation rate fell to 2.3% (Nov: 2.4%). Industrial production rose 2.0% y-o-y in October (Sept: 1.2%), driven by stronger output in capital and intermediate goods, while manufacturing production increased 1.5% in October (Sept: 1.2%).

- The Reserve Bank of Australia kept its cash rate unchanged at 3.60% in December. In Asia, the Central Bank of the Philippines and Bank of Thailand cut their interest rates by 25bps to 4.5% and 1.25%, respectively, to support growth amid weak demand and economic pressures. Meanwhile, the Bank of Japan raised its interest rate by 25bps to 0.75%, signaling a gradual policy shift while projecting sub-2% inflation through early 2026. Bank Indonesia maintained its rate rates at 4.75%, while the Bank of South Korea and Bank Negara Malaysia (“BNM”) did not hold monetary policy committee meetings in December 2025.

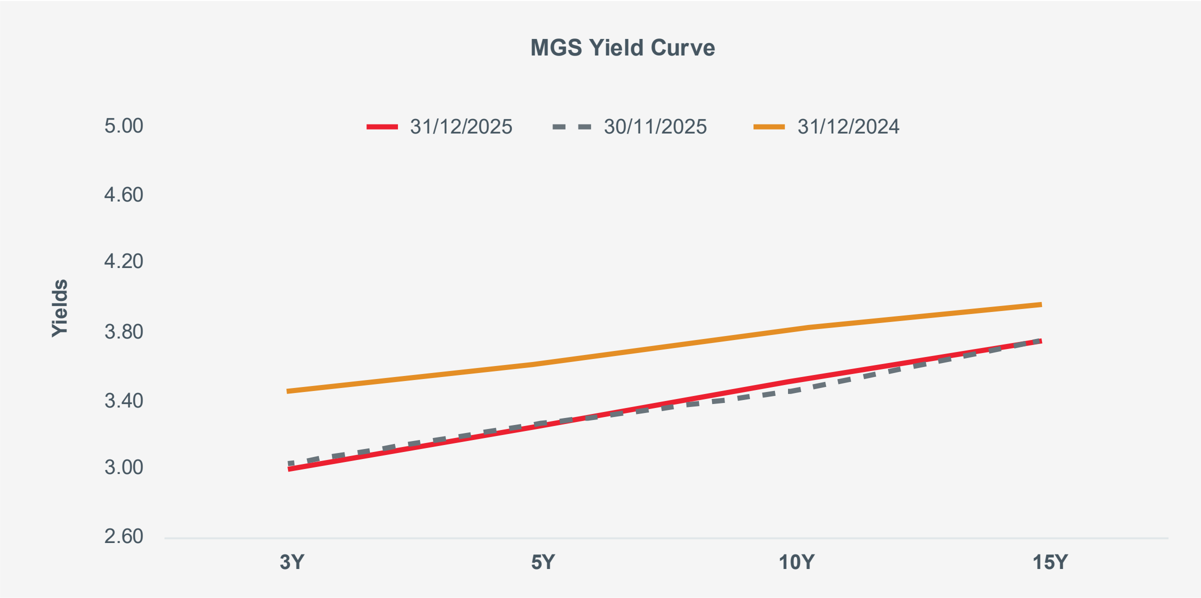
- The People's Bank of China kept its key lending rates unchanged in December, signaling less urgency for stimulus amid easing growth and weak credit demand. The 1-year and 5-year loan prime rates remained at 3.0% and 3.5%, respectively. In November, imports rose 1.9% YoY in USD terms (Oct: 1.0%) while exports surged 5.9% YoY (Oct: -1.0%). Retail sales grew 1.3% YoY (Oct: 2.9%%), and industrial production expanded 4.8% YoY (Oct: 4.9%). Meanwhile, fixed asset investment fell 2.6% YoY in January-November (Jan-Oct: -1.7%), driven by property and infrastructure declines. Excluding property, fixed-asset investment rose 0.8% during the same period.

- In November, headline inflation rose to 1.4% (Oct: 1.3%), driven by higher cigarette and food-at-home prices, while core inflation held steady at 2.2% (Oct: 2.2%). The unemployment rate remained stable at 3.0% in October (Sept:3.0%). BNM’s international reserves amounted to US$125.5bn as of 31 December2025 (28 Nov: US$124.1bn). The reserves position is sufficient to finance 4.7 months of imports and is 0.9x of the total short-term external debt. The Ringgit appreciated by 1.7% m-o-m against USD, closing at 4.060 at end December (Nov: 4.1310), supported by a weaker US dollar and robust domestic fundamentals.

- In December 2025, one auction was held for the reopening of 10Y MGS 07/35 with an auction size of RM3 billion, which drew bid-to-cover ratio of 1.924x and an average yield of 3.572%. During the month, Malaysia's MGS and GII yields moved within a range of -2 to +6 bps, influenced by strong foreign inflows and improved sentiment. Foreign fund flows remained firm with a net inflow of RM3.0 billion (Oct: RM6.06 billion), driven by expectations of fed easing and Ringgit strength. YTD, the net foreign fund flows totalled at RM25.6 billion. Meanwhile, the 10Y UST yield rose to 4.167% as at end-December (Nov: 4.02%) on the back of a resilient labour market and a "hawkish" Fed stance with fewer anticipated rate cuts.

BENCHMARK	Dec 2024 Yield	Nov 2025 Yield	Dec 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.02%	3.00%	-2 bps	-47 bps
5-year MGS	3.62%	3.25%	3.26%	0 bp	-36 bps
10-year MGS	3.82%	3.44%	3.49%	6 bps	-33 bps
15-year MGS	3.97%	3.74%	3.75%	0 bp	-22 bps

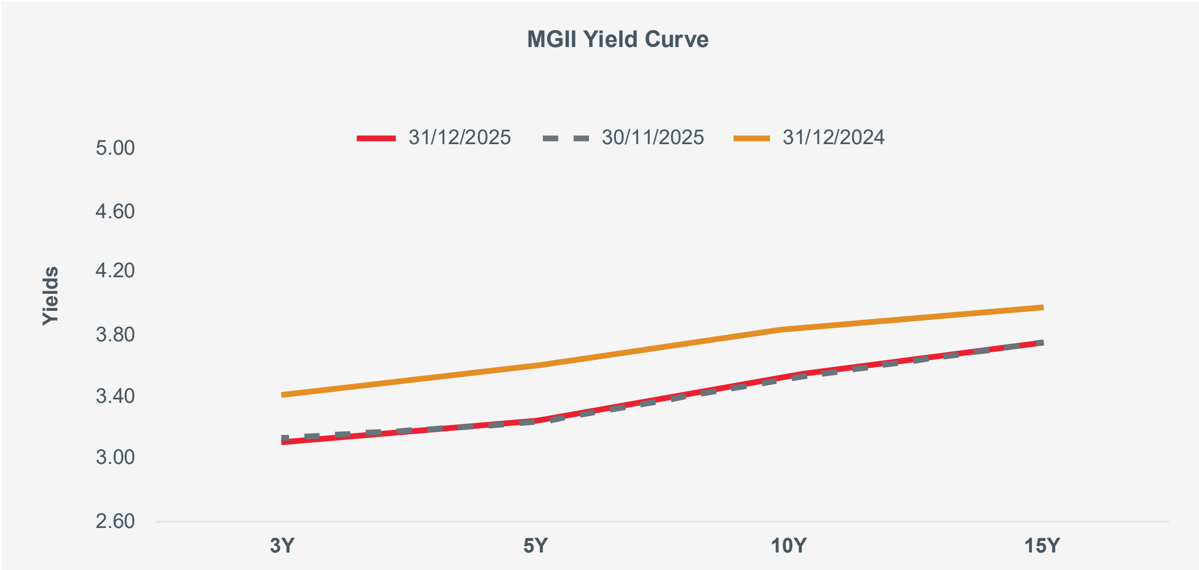
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Nov 2025 Yield	Dec 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.10%	3.09%	-1 bp	-33 bps
5-year MGII	3.62%	3.26%	3.25%	-1 bp	-37 bps
10-year MGII	3.83%	3.54%	3.52%	-2 bps	-32 bps
15-year MGII	3.98%	3.75%	3.74%	-1 bp	-24 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- The Fed delivered its third consecutive 25 bps cut in December, as part of a gradual easing cycle to support growth amid moderating labour markets and sticky inflation. Despite data gaps from a government shutdown and uncertainty around the neutral rate, FOMC agreed to initiate reserve management purchases of short-term treasuries and enhance standing repo operations to support rate control without altering its policy stance. Markets expect two rate cuts in 2026, while the Fed's official medial projection is for just one cut, reflecting differing views on the labour market resilience and inflation persistence. Policy will remain data-dependent, subject to evolving economic landscape and could be influenced by potential changes in Fed leadership, as Jerome Power's term as chairman ends in May 2026. The CME Group's FedWatch tool indicates that the market largely anticipates the Fed to keep rate unchanged during its January meeting. Meanwhile, easing US-China trade tensions offer temporary relief, but tariff legality challenges, China's structural economic shift toward high-tech self-reliance, long-term US fiscal sustainability concerns, and geopolitical risks continue to weigh on the global outlook.

- Malaysia's Budget 2026 projects GDP growth of 4.0-4.5%, 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.

- BNM has scheduled 37 auctions for 2026, with more short-tenor supply and new benchmarks across the curve. Three auctions are expected in the month of January 2026, reopening 5-yr MGII 8/30, new 15-yr MGS 01/41) and new 30-yr MGII 01/56. 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-Dec-25
MBB O/N*	1.00
MBB 1-Week*	1.10
MBB 1-Mth FD*	1.80
MBB 6-Mth FD*	2.05
MBB 1-Year FD*	2.05
1-mth BNM MN	2.82
3-mth BNM MN	2.84
3-mth KLIBOR	3.28
CP	
1-mth (P1)	3.47
3-mth (P1)	3.60

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.10	3.30	3.47	3.49	3.77
GII	3.14	3.29	3.41	3.56	3.76
Swap rate*	3.26	3.33	3.41	3.55	3.73
AAA	3.54	3.63	3.72	3.80	3.96
AA1	3.62	3.71	3.79	3.89	4.06
AA2	3.69	3.78	3.86	3.97	4.20
AA3	3.77	3.86	3.93	4.04	4.33
A1	4.56	4.83	5.05	5.36	5.84
A2	5.20	5.60	5.91	6.33	6.91
A3	5.84	6.36	6.74	7.26	7.98

Source: Bloomberg*/Bondstream

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