Market commentary

Fixed income market review and outlook

July 2026

Review

- The Federal Reserve ("Fed") kept the federal funds rate unchanged at 3.50% to 3.75% for a fifth straight meeting in July 2026, citing solid economic growth, a resilient labour market, strong productivity and investment, and inflation that remains above its 2% target. Nonfarm payrolls unexpected shed 23,000 jobs in July 2026, following a downwardly revised gain of 20,000 in June, as losses in education, retail trade and financial activities outweighed gains in healthcare. Meanwhile, the unemployment rate eased slightly to 4.1% (Jun: 4.2%), largely due to a further decline in the labour force participation rate rather than stronger hiring demand. Inflation moderated but remained elevated, with the headline PCE Price Index increased 3.7% y-o-y in June (May: 4.1%), and the core PCE Price Index at 3.3% (May: 3.4%), both well above the Fed's 2% target. Consumer sentiment improved, with the University of Michigan Consumer Sentiment index rose to 55.2 in July (Jun: 49.5), supported by lower energy prices following an earlier geopolitical-driven spike. Business activity remained robust, with the Manufacturing PMI rose to 55.6 (Jun: 53.3), its highest level since May 2022, reflecting stronger factory output and resilient new orders, while Service PMI edged up to 54.1 (Jun: 54.0), continuing to signal expansion in the services sector.

- The Bank of England ("BoE")'s Bank Rate was unchanged at 3.75% at its July 2026 meeting, as easing inflation and softer labour market conditions were balanced against persistent upside inflation risks stemming from higher energy prices and geopolitical uncertainty. Headline inflation eased to 2.6% y-o-y in June (May: 2.8%), driven by moderating transport inflation, while core inflation remained unchanged at 2.6% (May: 2.6%). Retail sales growth accelerated to 4.2% y-o-y in June (May: revised 3.5%), supported by exceptionally hot weather, a major soccer tournament and aggressive promotional discounts. Meanwhile, industrial production expanded by 1.1% y-o-y in May (Apr: revised 0.0%), and manufacturing production growth accelerated to 2.3% y-o-y (Apr: 1.0%).

- The European Central Bank ("ECB") left its key interest rate unchanged at its July meeting, with the deposit facility rate at 2.25%, the main refinancing rate at 2.40% and the marginal lending facility at 2.65%. The ECB adopted a cautious wait-and-see stance as inflation and economic pressures eased, while remaining alert to the risk that persistently high energy prices could trigger broader inflationary effects. Headline inflation accelerated to 2.9% y-o-y in July (Jun: 2.8%), remaining above the ECB's 2.0% target, largely due to a renewed increase in energy prices, while core inflation edged up to 2.5% (Jun: 2.4%). Economic activity remained subdued, with industrial production contracting by 1.2% y-o-y in May (Apr: revised 0.4%) and manufacturing production decreased 1.3% y-o-y (Apr: revised 0.4%).

- The Reserve Bank of Australia kept its cash rate at 4.35%. In Asia, the Bank of Korea raised its policy rate by 25 basis points (bps) to 2.75% in July 2026, citing rising inflation amid elevated oil prices and a weaker won. Elsewhere, Bank Indonesia unexpectedly kept its key interest rate at 5.75%, while the Bank of Japan and Bank Negara Malaysia ("BNM") kept their policy rates unchanged at 1.0% and 2.75%, respectively. Meanwhile, the Central Bank of Philippines and the Bank of Thailand did not hold monetary policy committee meetings in July 2026.

- The People's Bank of China kept its key lending rates unchanged in July, maintaining the 1-year and 5-year loan prime rates steady at 3.0% and 3.5%, respectively, amid uncertainties surrounding the Middle East conflict and slowing economic growth. In USD terms, imports rose 27.5% y-o-y in July (Jun: 36%), supported by strong demand from key trading partners, although the slower pace of growth pointed to softer domestic demand amid weather-related disruptions, persistent weakness in the property sector and renewed US-China trade tensions. Exports increased 23.9% y-o-y (Jun: 27.0%), driven by strong demand for AI-related technology products and front-loading of shipments ahead of potential new US tariffs. Domestic activity showed modest improvement, with retail sales rose 1.0% y-o-y in June (May: 0.6%), and industrial production grew 5.3% y-o-y (May: 4.6%). However, fixed asset investment declined by 5.7% y-o-y in Jan-Jun 2026 (Jan-May: -4.1%), weighed down by continued weakness in the property sector. Excluding property sector, fixed-asset investment fell 2.7%, compared with a 1.2% decline in the first five months of the year.

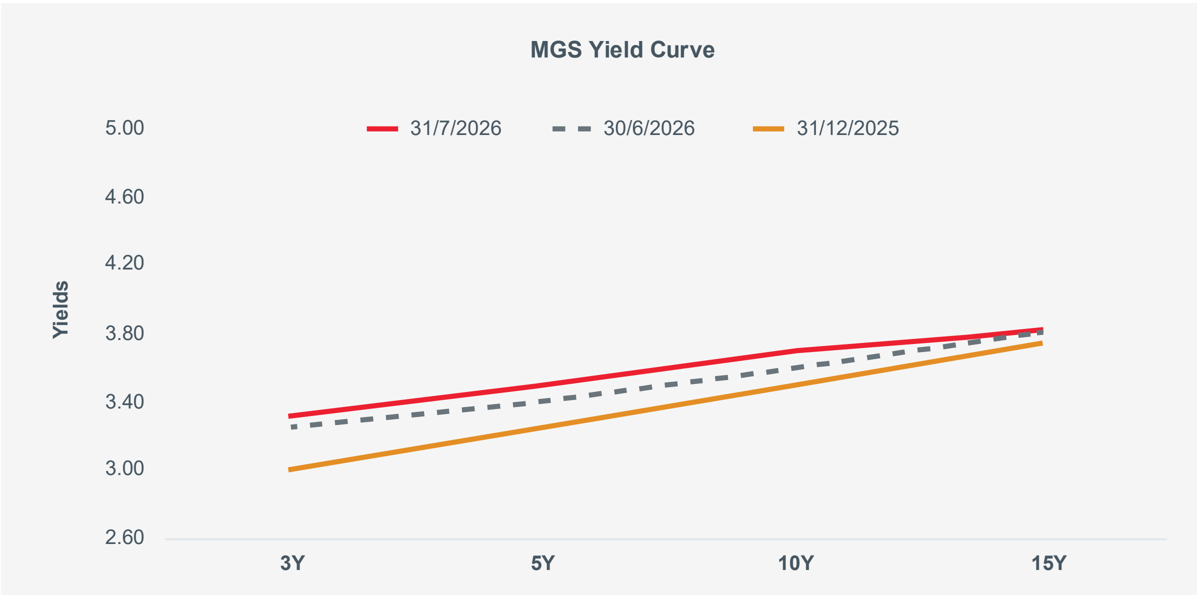
- In June, both headline and core inflation moderated slightly to 1.9% (May: 2.0%), largely due to lower retail fuel inflation. The unemployment rate remained unchanged at3.0% in May (Apr: 3.0%). BNM's international reserves amounted to US$132.1bn as of 31 July 2026 (30 June 2026: US$132.6bn), sufficient to finance 4.7 months of retained imports and cover 0.9x of short-term external debt. Meanwhile, the Ringgit weakened marginally by 0.05% m-o-m against the US dollar to 4.086 at end-July (end-June: 4.084), amid continued US dollar strength.

- Three auctions were held in July 2026, reopening of 10Y MGS 7/35, reopening of 3.5Y MGII 10/29 and reopening of 15Y MGS 1/41. The auctions received an average bid-to-cover ratio of 2.061x.
  - RM5.0b reopening of 10Y MGS 7/35 averaging yield of 3.630% at a bid-to-cover ratio of 1.867x;
  - RM5.0b reopening of 3.5Y MGII 10/29 averaging yield of 3.287% at a bid-to-cover ratio of 2.260x; and
  - RM5.0b (including RM1.5b private placement) reopening of 15Y MGS 1/41 averaging yield of 3.903% at a bid-to-cover ratio of 2.056x.

- In July, Malaysia's MGS and GII yields edged higher, rising between 5 bps and 10 bps in line with global yields movements. Foreign investors were net sellers during the month, recording net outflows of RM5.6 billion (June: RM4.9 billion net inflow), which brought YTD net inflows to RM3.4 billion. Meanwhile, the 10Y UST yield rose sharply to 4.75% (Jun: 4.44%) as escalating Middle East tensions fuelled concerns over supply disruptions, driving oil prices higher and reviving inflations concerns.

Benchmark	Dec 2025 Yield	Jun 2026 Yield	Jul 2026 Yield	MOM Change	YTD Change
3-year MGS	3.00%	3.26%	3.30%	5 bps	30 bps
s5-year MGS	3.26%	3.40%	3.49%	10 bps	24 bps
10-year MGS	3.49%	3.60%	3.70%	10 bps	10 bps
15-year MGS	3.75%	3.82%	3.82%	0 bp	7 bps

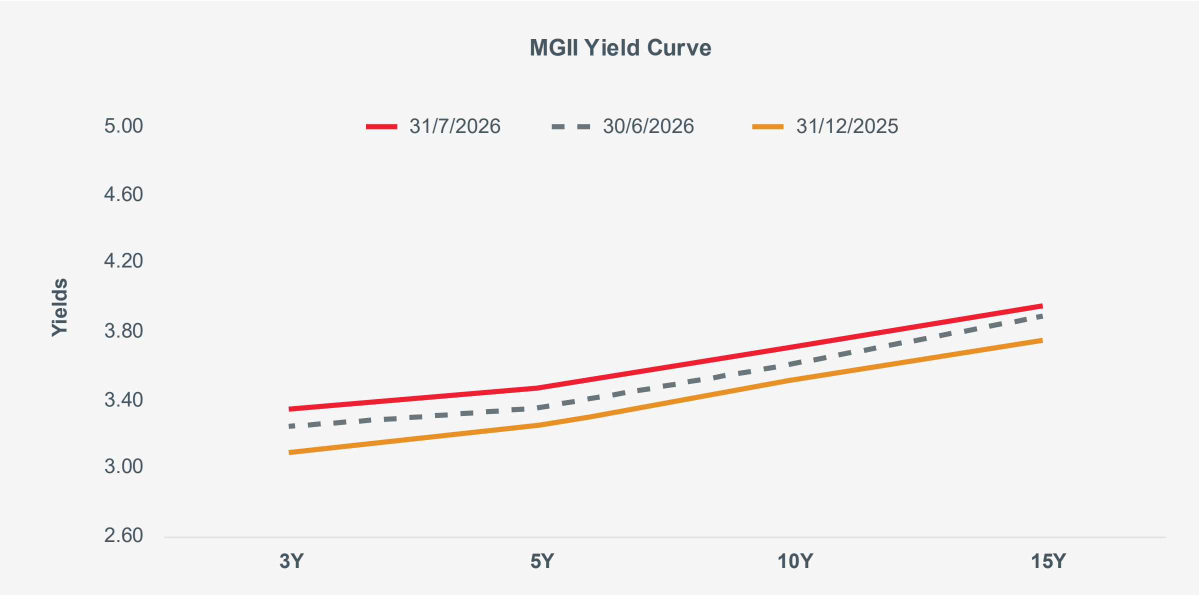
Source: Bloomberg



Source: Bloomberg

Benchmark	Dec 2025 Yield	Jun 2026 Yield	Jul 2026 Yield	MOM Change	YTD Change
3-year MGII	3.09%	3.24%	3.35%	11 bps	26 bps
5-year MGII	3.25%	3.35%	3.48%	12 bps	23 bps
10-year MGII	3.52%	3.61%	3.70%	9 bps	18 bps
15-year MGII	3.74%	3.89%	3.95%	6 bps	21 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- The Federal Reserve kept its benchmark federal funds rate unchanged at 3.5% to 3.75% at its July 2026 meeting, marking a fifth consecutive pause. Led by newly appointed Chairman Kevin Warsh, the committee noted that economic activity continued to expand at a solid pace, while inflation remained elevated and uncertainty surrounding the economic outlook persisted amid Middle East tensions and energy supply disruptions. Although three FOMC members dissented in favour of a rate hike, the Fed emphasised that future policy decisions would remain data-dependent, with the path of interest rate determined by incoming economic and inflation data. The Fed's overall messaging nevertheless led markets to scale back expectations of near-term tightening. This view was reinforced by the unexpectedly decline of 23,000 in nonfarm payrolls in July 2026, compared with expectations for an increase of 80,000 to 85,000 jobs. Nevertheless, markets continue to price in the possibility of further policy tightening later in 2026, given elevated inflation and energy prices. Geopolitical tensions, particularly the conflict in the Middle East, remain fluid, while concerns over AI-related debt issuance and stretched valuations have added pressure on financial markets. Rising oil and gas prices could add to inflationary pressures if sustained, particularly through their impact on transportation, utilities and production costs. Beyond the Fed outlook and Middle East tensions, additional risks include escalating tariff and trade frictions, persistent supply chain disruptions, US fiscal concerns, China's structural deflationary pressures, and rising geoeconomic fragmentation.

- BNM expects the economy to grow by 4% to 5% in 2026, supported by resilient domestic demand, stronger-than-expected export performance, robust E&E demand and sustained investment activity despite external headwinds. While elevated global commodity and energy prices amid ongoing Middle East tensions may exert some upward pressure on inflation, BNM expects the impact on both headline and core inflation to remain contained, supported by domestic policy measures and stable demand conditions. Headline inflation is projected to average at 1.5% to 2.5% in 2026. The current monetary policy stance suggests that the OPR will likely be maintained at 2.75% in the near term, as BNM views the current level as appropriate for balancing price stability with sustainable growth. Going forward, policy decisions are expected to remain data dependent as BNM continues to assess evolving risks to the inflation and growth outlook.

- Four auctions are expected in the month of August 2026, reopening of 5-yr MGII 10/31, reopening of 30-yr MGS 7/55, reopening of 7-yr MGII 3/33 and reopening of 20-yr MGS 4/46. While broad liquidity in the system remains ample, short-term interbank liquidity has shown signs of tightness. The outcome of these auctions is likely to be influenced by prevailing market sentiment from both local and foreign investors facing OPR normalisation risk. On the corporate front, we expect demand to stay resilient despite these factors, driven by ongoing institutional demand for bonds even though spreads being compressed significantly.

Table 1: Indicative Rates (%)	
	31 July 2026
MBB O/N*	1.00
MBB 1-Week*	1.10
MBB 1-Mth FD*	1.75
MBB 6-Mth FD*	1.85
MBB 1-Year FD*	1.90
1-mth BNM MN	2.92
3-mth BNM MN	2.96
3-mth KLIBOR	3.45
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	3.35	3.51	3.66	3.75	3.95
GII	3.33	3.53	3.65	3.76	3.97
Swap rate*	3.57	3.62	3.69	3.80	4.00
AAA	3.68	3.77	3.87	3.99	4.14
AA1	3.71	3.80	3.90	4.02	4.18
AA2	3.77	3.86	3.96	4.08	4.27
AA3	3.83	3.92	4.01	4.14	4.38
A1	4.20	4.39	4.55	4.77	5.15
A2	4.87	5.22	5.49	5.86	6.40
A3	5.52	6.01	6.36	6.81	7.47

Source: Bloomberg*/Bondstream