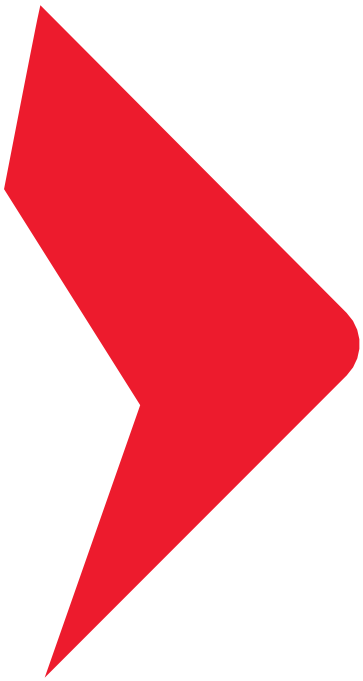
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Market commentary

Fixed income market review and outlook

October 2026



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Review

- In October 2026, the Federal Reserve ("Fed") kept the target range for the federal funds rate unchanged at 3.75%-4.00%, following a 25 basis points (bps) hike in September. Resilient economic activity and a stable labour market provided the Fed with room to maintain a cautious stance while assessing whether inflation is returning sustainably toward its 2% target. The US labour market strengthened in October, with nonfarm payrolls rising by 165,000 (Sept: revised 60,000; forecast: 65,000), supported by broad-based gains in professional services, healthcare, transportation and manufacturing. The unemployment rate eased to 4.1% (Sept: 4.2%). Meanwhile, inflation remained elevated, with headline PCE Price Index accelerating to 3.6% y-o-y in September 2026 (Aug: 3.4%), while core PCE Price Index edged up to 3.1% y-o-y (Aug: 3.0%), remaining well above the Fed's 2% target. Consumer sentiment showed some improvement, with the University of Michigan Consumer Sentiment Index rising to 50.0 in November from 48.0 in October, amid easing short- and long-term inflation expectations, despite persistent cost-of-living concerns. On the business activity front, the Manufacturing PMI climbed to 55.5 in October (Sept: 54.5), driven primarily by stronger output growth, while the Services PMI eased to 54.5 (Sept: 54.9), reflecting a moderation in services activity.

- The Bank of England ("BoE") raised its Bank Rate by 25 bps to 4.0% in November 2026, its first hike since August 2023, as stronger-than-expected economic activity and expectations of higher near-term inflation warranted a modest tightening of monetary policy. Headline inflation rose to 3.5% in September (Aug: 3.1%), driven mainly by higher motor fuel costs, while rising core inflation pointed to broader underlying price pressures. Core inflation increased to 2.8% from 2.6%. Meanwhile, retail sales growth slowed to 0.8% y-o-y in September (Aug: revised 2.7%). On the production side, industrial production increased by 1.6% y-o-y in August (Jul: revised 0.8%), while manufacturing production rose by 3.0% y-o-y (Jul: 2.2%), above forecasts of 2.3%.

- The European Central Bank ("ECB") kept its key interest rates unchanged in October, as underlying inflation remained broadly stable amid limited wage pressures, despite upside inflation risks from elevated energy prices. The deposits facility rate remained at 2.50%, the main refinancing rate at 2.65% and the marginal lending facility at 2.90%. Headline inflation accelerated to 4.0% y-o-y in October (Sept: 3.8%), driven primarily by a sharp rise in energy prices amid continued fighting in the Middle East, while core inflation remained stable at 2.5% (Sept: 2.5%). On the production side, industrial production fell by 1.1% y-o-y in August (Jul: revised -0.3%), while manufacturing production declined by 1.7% y-o-y (Jul: revised -0.8%).

- The Reserve Bank of Australia raised its cash rate by 25 bps to 4.85% in November 2026, as persistent and broad-based inflationary pressures, coupled with the risk of inflation expectations becoming entrenched, outweighed concerns over slowing growth and rising unemployment. The Bangko Sentral ng Pilipinas raised its policy rate by 50 bps to 5.50% to contain renewed inflationary pressures and support the weakening peso, amid higher oil prices and mounting upside risks to inflation. In contrast, the Bank of Japan, Bank Indonesia, Bank of Korea and Bank of Thailand kept their respective policy rates unchanged at 1.25%, 5.75%, 3.00% and 1.00%. Meanwhile, Bank Negara Malaysia ("BNM") did not hold a monetary policy committee meeting in October 2026.

- The People's Bank of China kept its key lending rates unchanged in October 2026, with the 1-year and 5-year loan prime rates remaining at 3.0% and 3.5%, respectively, as stronger-than-expected economic growth reduced the urgency for additional monetary stimulus while the central bank maintained an accommodative policy stance. In USD terms, China's imports surged by 31.0% y-o-y in September (Aug: 28.2%), driven mainly by pre-holiday restocking, strong AI-related hardware demand and higher commodity prices, rather than a broad-based recovery in domestic consumption. Meanwhile, exports surged by 36.3% y-o-y to a record high in September (Aug: 25%), supported by robust global demand for electronics, semiconductors and automobiles, alongside stronger shipments to the US, EU and ASEAN. Retail sales rose by 1.1% y-o-y in September (Aug: 0.4%), while industrial production expanded by 5.5% y-o-y (Aug: 5.2%). Fixed asset investment declined by 7.2% y-o-y in Jan-Sept 2026 (Jan-Aug: -7.2%), amid subdued housing demand, declining property prices and ongoing financing challenges for developers. Excluding the property sector, fixed-asset investment declined by 4.2%.

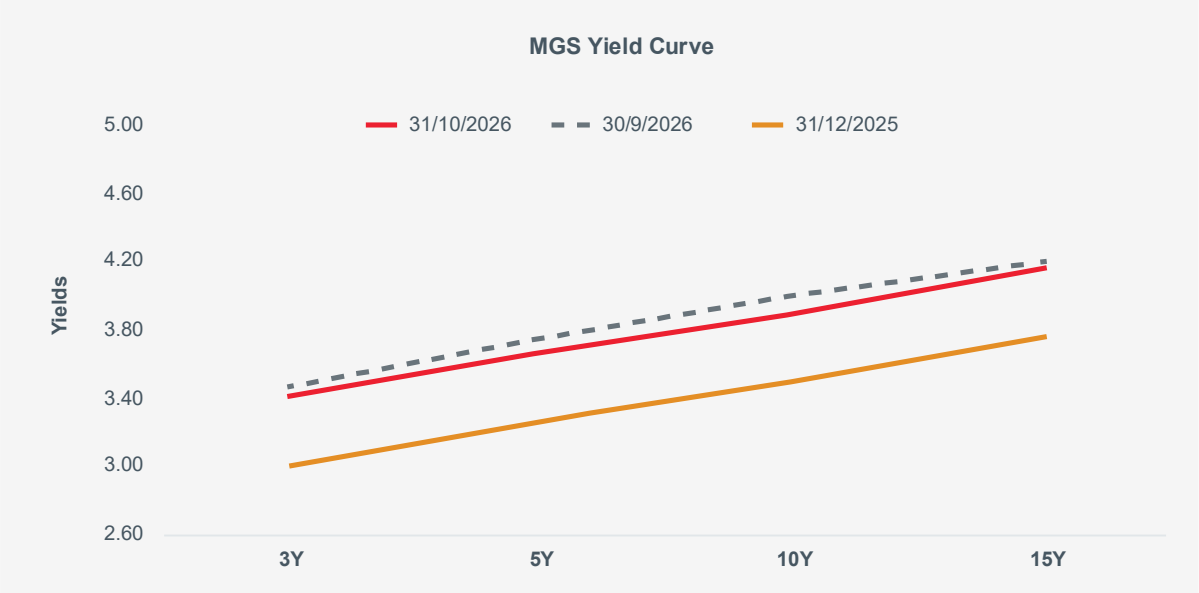
- Malaysia's advance GDP estimate expanded by 5.3% y-o-y in 3Q2026 (2Q2026: 6.0%), driven primarily by the global technology upcycle and resilient domestic conditions. Headline inflation moderated slightly to 1.8% y-o-y in September (Aug: 1.9%), reflecting softer price pressures in food and housing despite higher transport costs, while core inflation remained unchanged at 1.7% (Aug: 1.7%). Labour market conditions remained stable, with the unemployment rate easing to 2.9% in August (Jul: 3.0%). BNM's international reserves amounted to US$132.6bn as of 30 October 2026 (15 Sept 2026: US$131.7bn). Meanwhile, the Ringgit appreciated by 0.5% m-o-m against the US dollar to 4.054 at end-October (end-Sept: 4.074), supported by resilient domestic fundamentals and strong trade data.

- Four auctions were held in October 2026, reopening of 3.5Y MGII 10/29, reopening of 15Y MGS 1/41, reopening of 20Y MGII 5/45 and new issue of 10Y MGS 10/36. The auctions received an average bid-to-cover ratio of 2.542x.
  - RM5.0b reopening of 3.5Y MGII 10/29 averaging yield of 3.506% at a bid-to-cover ratio of 3.016x;
  - RM5.0b (including RM1.5b private placement) reopening of 15Y MGS 1/41 averaging yield of 4.087% at a bid-to-cover ratio of 2.282x;
  - RM4.0b (including RM1b private placement) reopening of 20Y MGII 5/45 averaging yield of 4.27% at a bid-to-cover ratio of 2.286x; and
  - RM5.0b (including RM0.5b private placement) reopening of 10Y MGS 10/36 averaging yield of 3.92% at a bid-to-cover ratio of 2.583x.

- In October, Malaysia's MGS and GII yields fell by 4 bps to 14 bps across the curve, driven by strong investor confidence following the market-friendly Budget 2027 that demonstrated a clear commitment to fiscal consolidation, alongside a strong performance and falling yields in US Treasuries (UST). Consequently, foreign holdings recorded net inflows of RM7.2 billion (reversing from a net outflow of RM1.8 billion in August), bringing YTD net inflows to RM24.75 billion. The 10Y UST yield declined to 4.93% (Sept: 5.29%) as flight-to-safety demand intensified amid a global sell-off in artificial intelligence and technology stocks, coupled with growing expectations that the Fed may pause its interest rate hikes.

BENCHMARK	Dec 2025 Yield	Sep 2026 Yield	Oct 2026 Yield	MOM Change	YTD Change
3-year MGS	3.00%	3.47%	3.40%	-7 bps	40 bps
5-year MGS	3.26%	3.74%	3.66%	-8 bps	41 bps
10-year MGS	3.49%	4.00%	3.89%	-11 bps	40 bps
15-year MGS	3.75%	4.20%	4.16%	-4 bps	41 bps

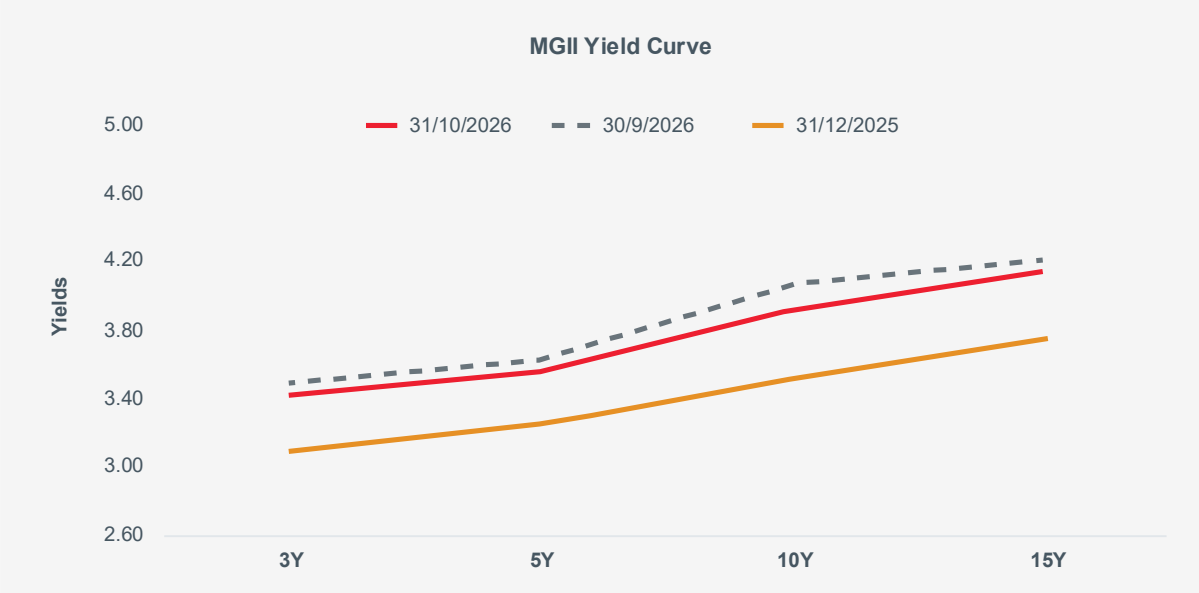
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2025 Yield	Sep 2026 Yield	Oct 2026 Yield	MOM Change	YTD Change
3-year MGII	3.09%	3.49%	3.43%	-6 bps	34 bps
5-year MGII	3.25%	3.62%	3.56%	-6 bps	31 bps
10-year MGII	3.52%	4.06%	3.92%	-14 bps	40 bps
15-year MGII	3.74%	4.21%	4.13%	-8 bps	39 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- The Fed held the federal funds unchanged at 3.75%-4.00% at its October 2026 meeting, allowing policymakers additional time to assess the lagged effects of previous rate hikes amid persistent inflationary pressures and a resilient labour market. With inflation remaining above the Fed's 2% target and labour market conditions holding firm, expectations for further monetary tightening have remained elevated. The CME FedWatch Tool currently indicates a 76% probability of a 25-bp hike at the December 2026 FOMC meeting, while markets continue to anticipate further tightening extending into 2027 as the Fed seeks to contain sticky inflation. Looking ahead, Fed Chair Kevin Warsh announced changes to the Fed's policy-setting framework from 2027, including fewer rate-setting meetings and a dedicated annual meeting focused on broader monetary policy strategy, suggesting a shift away from rigid forward guidance and greater reliance on incoming economic data in shaping the policy path. Meanwhile, oil prices remain elevated at around USD91 to USD98 per barrel, after briefly exceeding USD100 amid persistent geopolitical tensions in the Middle East, sustaining concerns over renewed cost-push inflation. Other key risks include elevated Treasury issuance to finance fiscal deficits, which could sustain volatility in longer-dated bond yields, as well as escalating trade tensions, supply chain disruptions, China's structural deflationary pressures and increasing geoeconomic fragmentation. In addition, the substantial capital expenditure and energy requirements associated with the global technology and AI infrastructure build-out could add to near-term aggregate demand and inflationary pressures, even as productivity gains could provide longer-term economic benefits.

- The 5th MADANI Malaysia Budget 2027 was tabled by the Prime Minister on 9 October 2026. Economic growth is projected at 4.2%-5.2% in 2027, following estimated growth of 4.8%-5.3% in 2026. The federal fiscal deficit is expected to narrow to 3.3% of GDP in 2027, from a revised 3.6% in 2026, while headline inflation is projected at 1.8%-2.8% in 2027, compared with 1.5%-2.5% in 2026. BNM maintained the Overnight Policy Rate ("OPR") at 2.75% at its final MPC meeting of the year on 5 November 2026, assessing the prevailing monetary policy stance as appropriate and supportive of price stability and sustainable economic growth. Looking ahead, market expectations have shifted towards the possibility of a rate hike over the next six months, amid potential upside risks to inflation from volatile energy and commodity prices and resilient domestic economic growth, which could increase the need for policy normalisation in 2027.

- Three auctions are expected in the month of November 2026, reopening of 15-yr MGII 7/40, reopening of 3-yr MGS 3/29 and reopening of 10-yr MGII 7/36. 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 Oct 2026
MBB O/N*	1.00
MBB 1-Week*	1.10
MBB 1-Mth FD*	1.65
MBB 6-Mth FD*	1.75
MBB 1-Year FD*	1.80
1-mth BNM MN	2.95
3-mth BNM MN	2.99
3-mth KLIBOR	3.65
CP	
1-mth (P1)	3.81
3-mth (P1)	3.98

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3Yr	**5Yr**	**7Yr**	**10Yr**	**15Yr**
MGS	3.49	3.73	3.89	3.90	4.17
GII	3.44	3.68	3.88	3.93	4.17
Swap rate*	3.66	3.71	3.79	3.88	4.03
AAA	4.20	4.32	4.45	4.52	4.68
AA1	4.30	4.41	4.52	4.60	4.76
AA2	4.39	4.49	4.60	4.68	4.86
AA3	4.49	4.59	4.68	4.76	4.96
A1	5.01	5.31	5.52	5.79	6.21
A2	5.67	6.08	6.36	6.72	7.26
A3	6.31	6.86	7.22	7.68	8.34

Source: Bloomberg*/Bondstream

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