

Market commentary

Fixed income market review and outlook

September 2026



Review

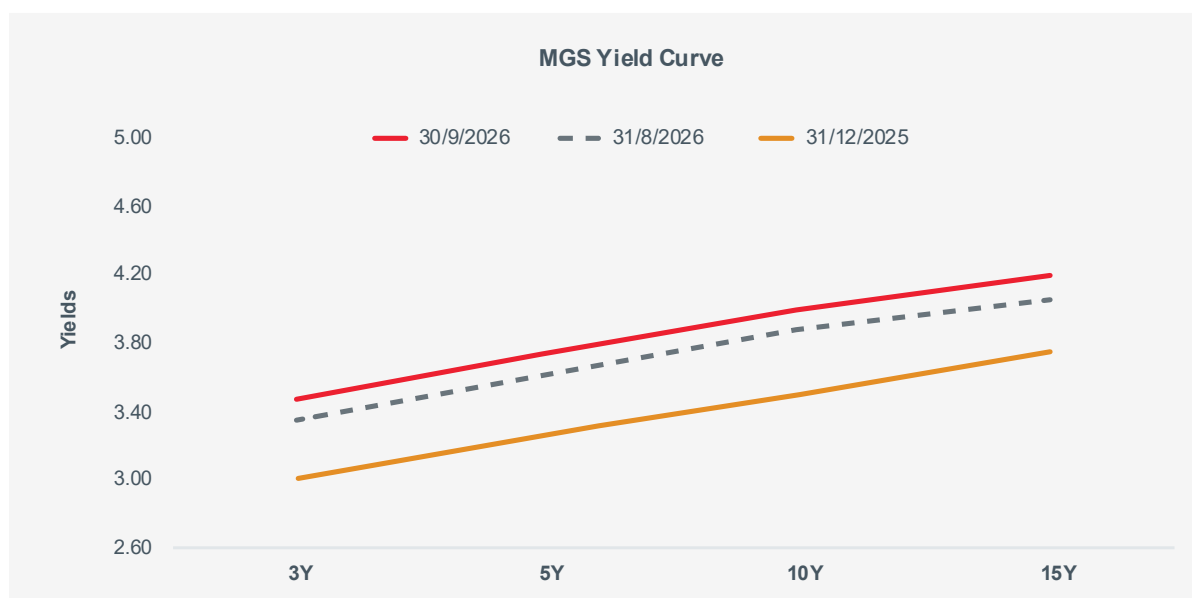
- In September 2026, the Federal Reserve (“Fed”) raised its target range for the federal funds rate by 25 basis points (“bps”) to 3.75% to 4.00%, citing persistent inflationary pressures and reaffirming its commitment to bringing inflation back to its 2% target. Meanwhile, the US labour market showed signs of moderation, with nonfarm payrolls increased by only 29,000 (Aug: revised 133,000; forecast: 90,000) amid broad-based weakness in hiring a cumulative 60,000 downward revision to July-August employment data. The unemployment rate edged up to 4.2% (Aug: 4.1%). Inflation remained elevated, with headline PCE Price Index held at 3.4% y-o-y in August 2026 (Jul: 3.7%) and core PCE Price Index increased 3.0% y-o-y (Jul: 3.3%), well above the Fed’s target. Consumer sentiment remained weak, with the University of Michigan Consumer Sentiment Index dropped to 48.1 in September (Aug: 51.7), reflecting heightened inflation concerns, rising fuel prices and a weaker outlook for business conditions amid global trade tensions. On the business activity front, the Manufacturing PMI edged slightly to 54.5 (Aug: 54.6), while the Service PMI stood at 54.9 (Aug: 55.4), with both indices remaining above 50-point threshold and indicating continued expansion in the manufacturing and services sectors.
- The Bank of England (“BoE”) kept its Bank Rate unchanged at 3.75% in September 2026 amid heightened uncertainty stemming from rising energy prices and persistent inflationary pressures, while continuing to assess the impact of the energy shock on the inflation outlook. Headline inflation accelerated to 3.1% in August 2026 (Jul: 2.9%), driven mainly by higher transport costs as motor fuel inflation surged to 23% (Jul: 15.5%) amid rising petrol and diesel prices, while core inflation remained elevated at 2.6% (Jul: 2.6%). Meanwhile, retail sales rose 2.4% y-o-y in August (Jul: revised 2.4%). On the production side, industrial production increased 0.6% y-o-y in July (Jun: revised -0.20%), while manufacturing production increased by 2.6% y-o-y (Jun: 0.5%), indicating an improvement in industrial activity.
- The European Central Bank (“ECB”) raised its key interest rates by 25 bps in September 2026, citing persistent inflationary pressures stemming from the Middle East conflict, which are expected to keep inflation above its 2% target despite the euro area’s resilient economic growth outlook. The deposits facility rate was increased to 2.50%, the main refinancing rate to 2.65% and the marginal lending facility to 2.90%. Headline inflation accelerated to 3.8% y-o-y in September (Aug: 3.2%), remaining well above the ECB’s target, driven largely by a surge in energy prices amid continued tensions in the Middle East, while core inflation edged up to 2.5% (Aug: 2.4%). On the production side, industrial production was unchanged in July (Jun: revised -0.3%) while manufacturing production contracted by 0.6% y-o-y (Jun: revised -0.3%), indicating continued weakness in the manufacturing sector.
- The Reserve Bank of Australia raised its cash rate target by 25 bps to 4.60% in September 2026, citing higher global energy prices, stronger-than-expected inflation and persistent domestic capacity constraints that continue to add to inflationary pressures, while signalling that further policy tightening may be required to ensure inflation returns sustainably to target. Meanwhile, Bank of Japan raised its policy rate by 25 bps to 1.25%, citing persistent inflationary pressures, including higher energy prices, and signalling support for further policy normalisation as inflation is expected to remain above the 2% target over the coming years. In contrast, Bank Indonesia and Bank Negara Malaysia (“BNM”) kept their policy rates at 5.75% and 2.75%, respectively. Meanwhile, the Central Bank of Philippines, Bank of Korea and Bank of Thailand did not hold monetary policy committee meetings in September 2026.
- The People’s Bank of China kept its key lending rates unchanged in September 2026, maintaining the 1-year and 5-year loan prime rates steady at 3.0% and 3.5%, respectively, reflecting a cautious stance amid uncertainties arising from the Middle East conflict and weak domestic credit demand, despite resilient export performance supported by AI-related demand. In USD terms, China’s trade remained robust in August, with exports rising 25% y-o-y (Jul: 23.9%) and imports increasing 28.2% y-o-y (Jul: 27.5%), supported by strong AI-related demand and commodity trade activity. Meanwhile, retail sales growth moderated to 0.4% y-o-y in August (Jul: 0.6%), while industrial production grew by 4.5% y-o-y (Jul: 4.5%). Fixed asset investment declined by 7.2% y-o-y in Jan-Aug 2026 (Jan-Jul: -6.7%), weighed down by weak housing demand, falling home prices and persistent financing constraints among developers. Excluding the property sector, fixed-asset investment declined by 4.2%.
- In August, Malaysia’s headline inflation rose to 1.9% y-o-y in August 2026 (Jul: 1.8%), driven by higher transport, housing and food costs, while core inflation eased to 1.7% (Jul: 1.8%). Labour condition remained stable, with the

unemployment rate unchanged at 3.0% in July (Jun: 3.0%). BNM's international reserves amounted to US\$131.7bn as of 15 September 2026 (31 August 2026: US\$132.0bn), sufficient to finance 4.6 months of retained imports and cover 0.9x of short-term external debt. Meanwhile, the Ringgit depreciated by 1.3% m-o-m against the US dollar to 4.074 at end-September (end-August: 4.022), amid broad US dollar strength and a hawkish stance from the Fed.

- Three auctions were held in September 2026, reopening of 10Y MGII 7/36, reopening of 7Y MGS 4/33 and reopening of 30Y MGII 1/56. The auctions received an average bid-to-cover ratio of 2.158x.
 - RM5.0b reopening of 10Y MGII 7/36 averaging yield of 4.149% at a bid-to-cover ratio of 2.292x;
 - RM5.0b reopening of 7Y MGS 4/33 averaging yield of 3.983% at a bid-to-cover ratio of 2.168x; and
 - RM5.0b (including RM2.0b private placement) reopening of 30Y MGII 1/56 averaging yield of 4.508% at a bid-to-cover ratio of 2.013x.
- In September, Malaysia's MGS and GII yields rose by 10 bps to 20 bps across the curve, driven by a global bond sell-off amid surging US Treasury yields, rising oil prices and a hawkish US Fed. Foreign holdings recorded net outflows of RM1.8 billion (Aug: +RM15.9 billion), bringing YTD net inflows to RM15.5 billion. The 10Y UST yield climbed sharply to 5.29% (Aug: 4.75%) as the US bond market recorded one of its worst monthly performances in years amid expectations of higher-for-longer interest rates, persistent inflationary pressures and increased Treasury issuance to fund fiscal deficits.

BENCHMARK	Dec 2025 Yield	Aug 2026 Yield	Sep 2026 Yield	MOM Change	YTD Change
3-year MGS	3.00%	3.35%	3.47%	12 bps	47 bps
5-year MGS	3.26%	3.61%	3.74%	13 bps	49 bps
10-year MGS	3.49%	3.87%	4.00%	12 bps	51 bps
15-year MGS	3.75%	4.04%	4.20%	15 bps	45 bps

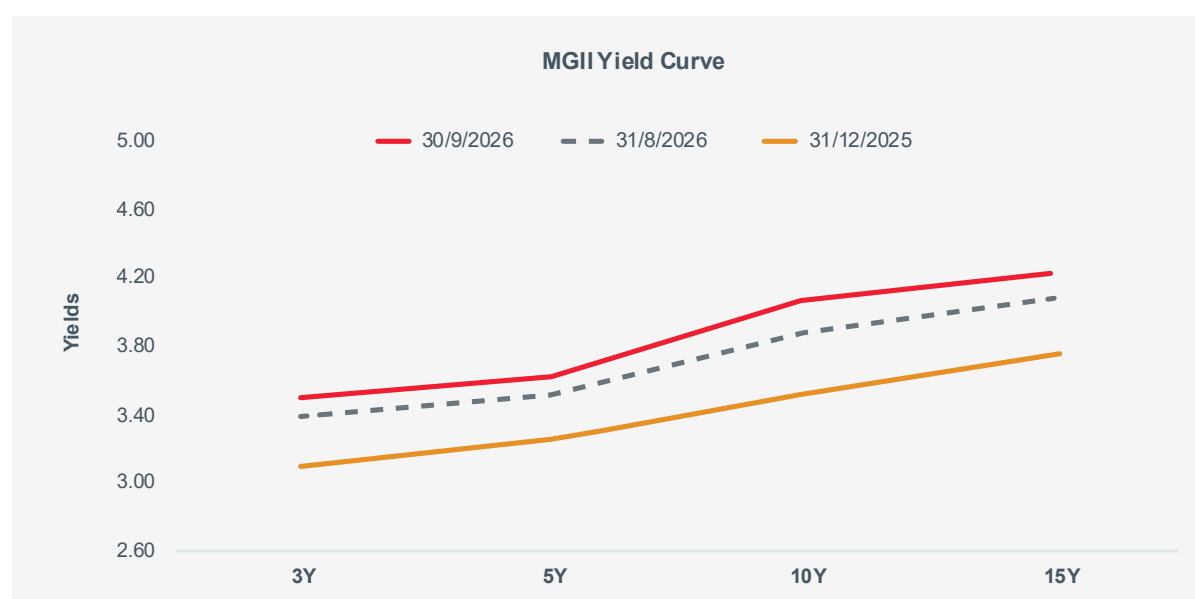
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2025 Yield	Aug 2026 Yield	Sep 2026 Yield	MOM Change	YTD Change
3-year MGII	3.09%	3.38%	3.49%	11 bps	40 bps
5-year MGII	3.25%	3.51%	3.62%	11 bps	37 bps
10-year MGII	3.52%	3.87%	4.06%	19 bps	54 bps
15-year MGII	3.74%	4.06%	4.21%	15 bps	47 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- ▶ The Fed raised the federal funds rate by 25 bps to 3.75% to 4.00% at its September 2026 meeting, marking its first hike in over three years. The decision signalling a renewed focus on containing persistent inflationary pressures, particularly elevated core inflation and the impact of higher energy prices, even at the expense of near-term economic growth. While policymakers reiterated their commitment to returning inflation to the 2% target, they also emphasized a data-dependent approach and indicated no pre-determined path for further rate hikes. Although markets had previously anticipated another increase in October, softer labour market has shifted expectations towards a potential move in December. The CME FedWatch Tool currently indicates a 66% probability of a 25-bp hike at the December 2026 FOMC meeting. Future markets continue to price in a prolonged period of restrictive monetary policy, with the possibility of additional tightening in 2027 if inflation remains elevated. Meanwhile, oil prices have risen above USD100 per barrel amid geopolitical tensions in the Middle East, raising concerns over renewed cost-push inflation. Additional risks to the outlook include elevated Treasury issuance to finance fiscal deficits, potential volatility in longer-dated bond yields, escalating trade tensions, supply chain disruptions, China's structural deflationary pressures and increasing geoeconomic fragmentation.
- ▶ The economy expanded by a robust 5.7% in the first half of 2026 despite a challenging global backdrop, reflecting the strength of both domestic and external demand. The solid growth momentum is expected to support full-year growth around 5%, with Malaysia's sound economic fundamentals continuing to underpin resilience into 2027. While higher global commodity and energy prices stemming from ongoing geopolitical tensions could exert some upward pressure on inflation, BNM expects the overall impact on both headline and core inflation to remain manageable, supported by domestic policy measures and stable demand conditions. Headline inflation is projected to average at 1.5% to 2.5% in 2026. Following the September 2026 MPC meeting, market participants have continued to view BNM's removal of word "appropriate" from its assessment of the current monetary policy stance as a modestly hawkish signal. BNM's view that the current stance is "consistent with the outlook of continued price stability and sustainable economic growth" had reinforced expectations that, should inflationary pressures intensify, a policy rate increase in early 2027 remains a possibility.
- ▶ Four auctions are expected in the month of October 2026, reopening of 3.5-yr MGII 10/29, reopening of 15-yr MGS 1/41, reopening of 20-yr MGII 5/45 and new issuance of 10-yr MGS 10/36. 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 (%)	
	30 Sep 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	2.95
3-mth BNM MN	2.99
3-mth KLIBOR	3.53
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	3.56	3.81	4.02	4.10	4.07
GII	3.48	3.79	4.01	4.03	4.24
Swap rate*	3.80	3.87	3.94	4.06	4.18
AAA	4.13	4.28	4.42	4.50	4.64
AA1	4.18	4.32	4.46	4.55	4.69
AA2	4.28	4.41	4.54	4.63	4.79
AA3	4.37	4.50	4.62	4.71	4.90
A1	4.68	4.91	5.10	5.27	5.58
A2	5.28	5.66	5.96	6.27	6.74
A3	5.93	6.45	6.83	7.22	7.81

Source: Bloomberg*/Bondstream

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