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Why US yields rise matter for Asia

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MUFG Bank, Ltd.
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Ahead Today

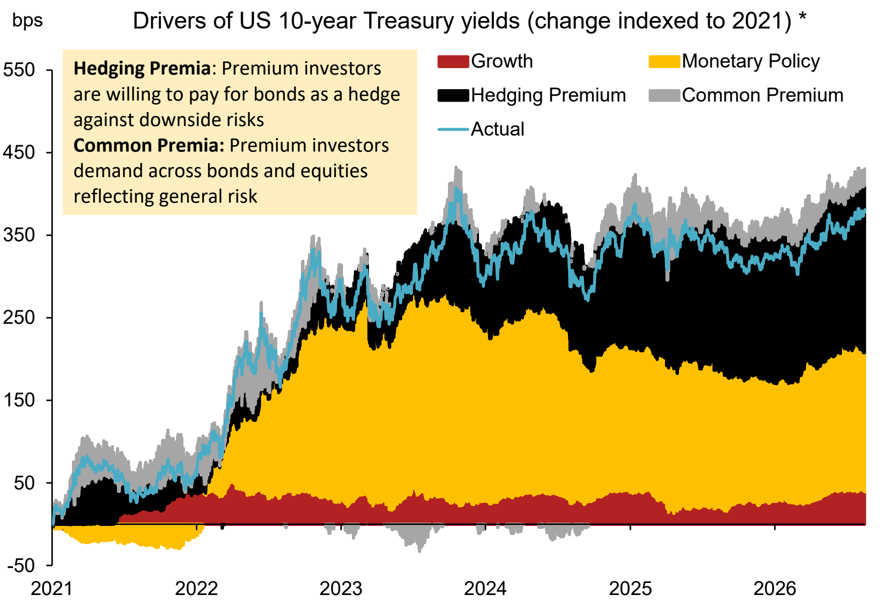
G3: *US Housing Starts, US Industrial Production*

Asia: *Indonesia External Debt*

Market Highlights

The big focus in global macro is the increase and stickiness in longer-end developed market yields, and in particular a relentless sell-off in US Treasuries with the 10-year yield rising above 4.7% as we speak and the 30-year above 5.3% - the highest seen since 2007. There are a multitude of factors driving this, including some near-term developments such as a possible resumption in the US-Iran conflict driving up Brent oil prices closer to the US$90/bbl mark. In addition, the recent muddied communication from Fed Chair Kevin Warsh left markets unclear about the Fed's reaction function and commitment to fight inflation, while a deluge in credit supply in the AI space might be leading to some competition for capital, all of which are lending itself to some indigestion in duration risk in the US Treasury market.

CHART 1: LONGER-END US TREASURY YIELDS HAVE REMAINED STICKY, DRIVEN BY HIGHER RISK PREMIA AND POTENTIALLY A REDUCED ROLE FOR DOWNSIDE PROTECTION IN PORTFOLIOS AND AS A SAFE HAVEN



*Source: Bloomberg, MUFG GMR estimates. * Note: Drivers based on Structural Vector Autoregression model by Cieslak and Pang (2021): "Common shocks in stocks and bonds".*

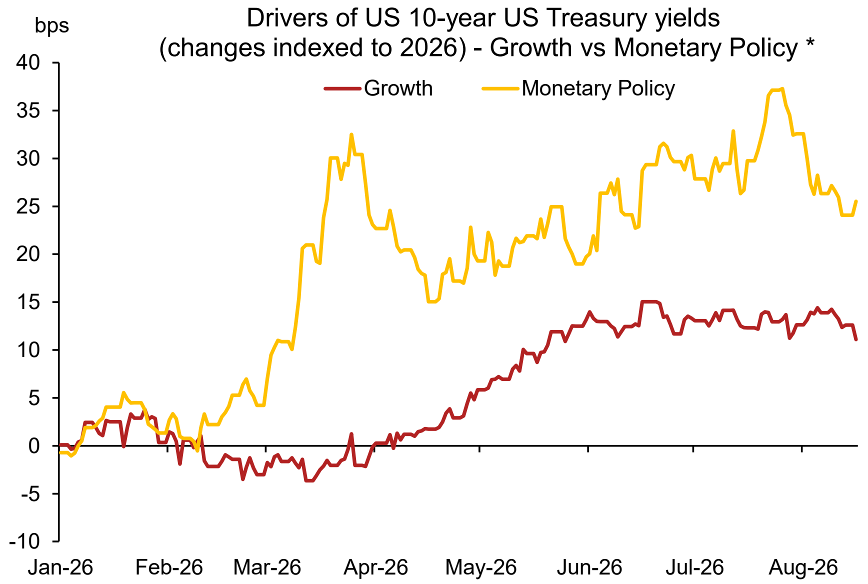
Ultimately, why US yields are rising matter just as much, if not more, than whether they do in gauging the spillovers to other markets including Asia FX

and rates. For instance if higher US yields predominately reflect expectations of much tighter Fed policy coupled with slowing growth expectations like what we saw during 2022 at the height of the Russia-Ukraine war, this could potentially have a bigger negative impact to our region, relative to a situation where it's driven by stronger expectations for US and global growth.

On this front, our analysis shows that the rise in US Treasury yields has so far been quite benign for Asia and Emerging Markets FX and rates markets for at least two key reasons.

- **First, while policy expectations have been tightening this year, growth expectations have also been moving in the right direction and so in other words it's not just a policy shock to slow the economy down (see Chart 2 below).**
- **Second and more importantly, the rise in US Treasury yields also reflect a US bond market specific risk premium with equity risk sentiment still strong, and especially so since 2025 (see Chart 1 above).** The model we utilise terms this the "hedging premium" and we view this as the market viewing US Treasury bonds as a less effective diversifier of portfolios and a safe haven status, and much less so about an overall loss of appeal in US assets.
- Third, there also seems to be a breakdown in the relationship between higher US yields including the risk premia component and Asia/EM assets, with some Asia FX and rates stronger than implied than what US yields alone would suggest.

CHART 2: WHILE POLICY EXPECTATIONS HAVE BEEN TIGHTENING THIS YEAR, GROWTH EXPECTATIONS HAVE ALSO BEEN RISING PROVIDING SOME OFFSET



*Source: Bloomberg, MUFG GMR estimates. * Note: Drivers based on Structural Vector Autoregression model by Cieslak and Pang (2021): "Common shocks in stocks and bonds".*

Ultimately whether this state of affairs can continue for Asia will depend a lot on whether risk assets remain buoyant in the face of rising US yields. Can this remain so if US 10-year yields continue to march on closer to 5%?

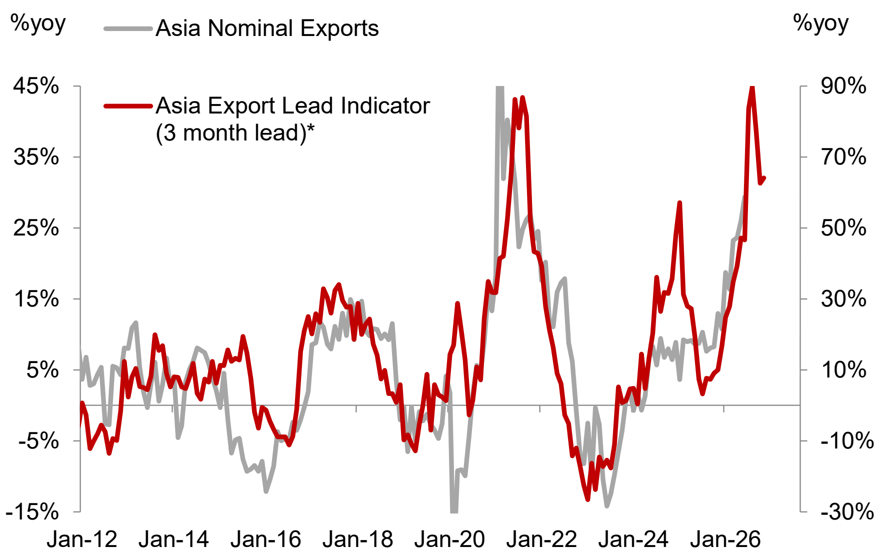
From an Asian FX perspective at least, the good news is that the best lead indicators for Asia industrial activity that we track continue to point towards risk sentiment being supported. These include rising industrial metal prices including copper, positive global economic surprises globally, and some of the tech specific indicators such as the Bank of Korea's manufacturing new orders index and semiconductor stock prices.

Overall, this gives us more confidence for the time being that equities should still grind higher, credit spreads should remain contained, although global bond yields may remain volatile given rising term premia but offset by lower expectations for monetary policy tightening.

For Asia FX specifically, the asset class is a relative story of course and not just an absolute one. If we are right about the above, overall resilient relative growth dynamics in Asia vis-a-vis the US and stronger risk sentiment channel supports our modal forecasts for Asia FX to strengthen modestly against the Dollar, even as there remains uncertainty around Fed policy and US yields. There will be local dispersion of course and some beta towards likely bouts of oil gyrations, and this will remain especially important for the likes of higher yielders in Asia such as PHP, INR and IDR. Local factors in these countries such as the recent early closure of the FCNR(B) FX facility in India and the appointment of a new Bank Indonesia Governor will also be important for these currencies.

From a regional FX perspective, we continue to like KRW and CNY, with TWD also potentially catching up more from here having lagged the moves in KRW over the past couple of weeks. Beyond regional factors, the Taiwan dollar could be supported by the fading of dividend outflows after the peak season in August, coupled with a resumption of foreign inflows and perhaps over time exporter conversion activity especially if CBC turns more hawkish moving forward.

CHART 3: THE BEST LEAD INDICATORS WE TRACK SUGGEST THAT ASIA'S INDUSTRIAL ACTIVITY SHOULD REMAIN QUITE ROBUST FOR NOW



Source: Bloomberg, MUFG GMR estimates. Note: lead indicator average of copper prices, semiconductor stock prices, and Bank of Korea technology new orders index

INDICATIVE RATES 17-Aug-2026

FOREIGN EXCHANGE

	Asia	% Chg	London close 6pm	New York close 5pm		Close	% Chg
USDJPY	159.13	-0.03	159.37	159.46	INDU	53459.78	-0.51
EURJPY	184.57	0.34	184.68	184.67	NKY	69220.25	0.74
EURUSD	1.1599	0.38	1.1588	1.1580	DAX	26338.61	-0.38
GBPUSD	1.3554	0.23	1.3559	1.3544	UKX	10720.30	-0.28
USDSGD	1.2759	-0.24	1.2770	1.278	STI	5768.46	0.43
USDTHB	32.992	-0.52	33.018	33.041	SET	1626.44	1.08
USDMYR	4.0610	-0.62	**OTHER INDICATORS**		KLCI	1725.89	-0.09
USDIDR	Closed	Closed	DXY Curncy	99.637	JCI	Closed	
USDPHP	61.480	0.06			PSEi	6261.80	-0.56
USDINR	95.6113	0.18	GT2 Govt	4.177	SENSEX	77728.16	-0.36
USDKRW	1414.05	-0.19	GT10 Govt	4.723	KOSPI	Closed	
USDTWD	31.838	-0.61	GTJPY2Y Govt	1.685	TWSE	45857.27	0.10
AUDUSD	0.7120	0.66	GTJPY10Y Govt	2.914	AS51	9073.18	-0.46
USDHKD	7.8448	-0.03	GTDEM10Y Govt	3.220	HSI	25453.23	1.34
USDCNY	6.7382	-0.06	CO1 Comdty	90.87	SHCOMP	3982.65	1.41
USDVND	26204	0.23	XAU Curncy	4415.99	VNINDEX	1727.46	-0.09

FX estimated closing. % Chg & bps chg indicate daily changes versus prior trading day. Sources: Bloomberg
** As of 4:30pm, Beijing Time*

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