Asia FX Talk

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Regional FX gets a breather as Fed repricing weighs on the USD

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MUFG Bank, Ltd.
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Ahead Today

G3: *US FOMC minutes*

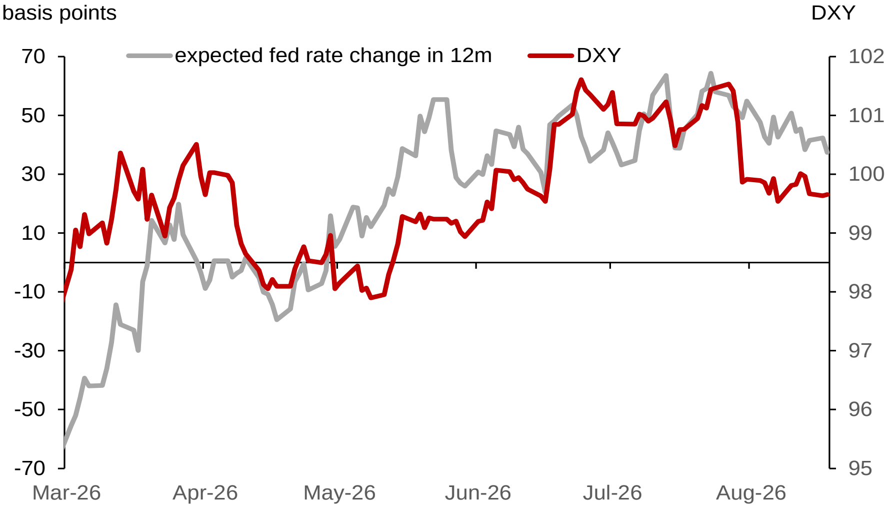
Asia: *BI policy decision, Philippines BOP*

Market Highlights

Markets have scaled back US rate hike expectations following softer US economic and inflation data for July. The convergence in expected relative rates, previously supportive of USD gains, appears to have run its course in the near term. But the softer US macro data are still insufficient to shift market expectation towards outright Fed policy easing. The August US employment and inflation reports will be particularly important in shaping expectations for the Fed's next policy move. Meanwhile, the US-Iran conflict continues to drag on, with Brent crude rebounding above US$90/bbl and average US retail gasoline prices staying above $4 per gallon, keeping upside inflation risks alive.

In Japan, however, markets have continued to price in more BOJ tightening for the next 12 months. Together with recent yen intervention, this has helped stabilize USDJPY around the 160.00 level and contained further yen depreciation for now. But Japan’s weaker-than-expected Q2 GDP growth raises questions about how aggressively the BOJ can tighten policy over the coming months, potentially challenging the extent of rate hikes currently being priced in by markets.

CHART 1: FED TIGHTENING EXPECTATIONS MODERATE, BUT MARKETS STOP SHORT OF PRICING EASING



Source: Bloomberg, MUFG GMR

August price action thus far suggests that markets are becoming increasingly selective in their Asia FX outlook. The strongest gains were concentrated in KRW and TWD, pointing to investor preference for currencies leveraged to a softer US rates environment and a resilient global technology cycle.

In contrast, JPY remained the region's laggard despite BOJ tightening expectations. The burden of proof remains on stronger wage, inflation, and activity data.

Meanwhile, several ASEAN currencies have strengthened month to date despite Brent crude prices staying around $90/bbl, suggesting that lower front-end US yields are partly supportive of regional FX gains. That said, any renewed surge in Brent prices would likely pose headwinds for the baht and peso – both of which are experiencing an economic slowdown. In Indonesia, the recent rupiah stabilisation, partly helped by BI policy measures, is likely to give room for BI to keep the policy rate unchanged at 5.75% today. But Indonesia's weakened trade balance and still tight dollar liquidity conditions warrant caution on the rupiah's outlook.

INDICATIVE RATES 18-Aug-2026

FOREIGN EXCHANGE

	Asia	% Chg	London close 6pm	New York close 5pm		Close	% Chg
USDJPY	159.67	0.34	159.57	159.61	INDU	53343.40	-0.22
EURJPY	184.84	0.15	184.78	184.76	NKY	67460.73	-2.54
EURUSD	1.1576	-0.20	1.1580	1.1576	DAX	26128.36	-0.80
GBPUSD	1.3532	-0.16	1.3541	1.3532	UKX	10728.04	0.07
USDSGD	1.2778	0.15	1.2782	1.278	STI	5701.40	-1.16
USDTHB	33.083	0.28	33.090	33.094	SET	1621.62	-0.30
USDMYR	4.0597	-0.03	**OTHER INDICATORS**		KLCI	1733.36	0.43
USDIDR	17857	0.18	DXY Curncy	99.657	JCI	6449.83	0.75
USDPHP	61.776	0.48			PSEi	6264.70	0.05
USDINR	95.6813	0.07	GT2 Govt	4.172	SENSEX	77235.46	-0.63
USDKRW	1410.85	-0.23	GT10 Govt	4.705	KOSPI	6869.83	-1.55
USDTWD	31.955	0.37	GTJPY2Y Govt	1.685	TWSE	45308.68	-1.20
AUDUSD	0.7104	-0.22	GTJPY10Y Govt	2.944	AS51	9070.04	-0.04
USDHKD	7.8436	-0.02	GTDEM10Y Govt	3.258	HSI	25471.15	0.07
USDCNY	6.7427	0.07	CO1 Comdty	91.02	SHCOMP	3990.30	0.19
USDVND	26177	-0.10	XAU Curncy	4334.50	VNINDEX	1732.02	0.26

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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