Asia FX Talk

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Jackson Hole revives high-for-longer Fed risks for regional FX

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Ahead Today

G3: *Dallas Fed manufacturing activity, Germany CPI*

Asia: *China PMI, Thailand BOP, India GDP*

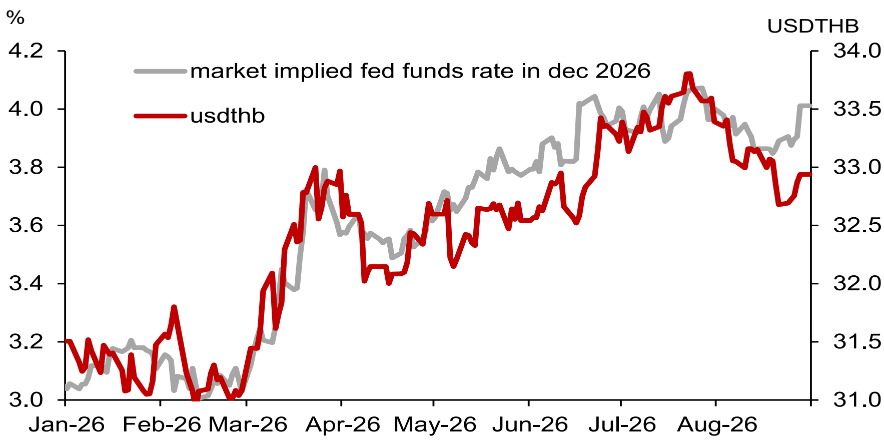
Market Highlights

Markets start the week digesting a hawkish message from the Fed following Fed Chair Warsh's Jackson Hole speech. While stopping short of explicitly backing a September rate hike, Warsh stressed that inflation remains insufficiently contained, reaffirmed the Fed's commitment to its 2% target, and argued that current financial conditions are not restrictive. He also noted that recent improvements in inflation data are not yet enough to signal a meaningful improvement in underlying price trends.

The speech prompted a repricing of US rates. Markets now assign a 58% probability of a September hike and price roughly 1.5 hikes by year-end. Treasury yields moved higher, led by the front end, with the 2-year yield rising 11bp while the 10y-2y curve flattened by almost 7bp. The move lifted the dollar, with DXY gaining 0.5% on Friday, suggesting investors are reassessing expectations for the Fed rate path ahead.

For Asia FX, the key implication is that the market narrative has likely shifted toward whether inflation remains sticky enough to warrant policy tightening. While recent dollar weakness had provided support for Asia FX broadly, Friday's market reaction suggests that several regional currencies could face a tougher backdrop this week if front-end US yield increases prove persistent.

CHART 1: FED REPRICING SUGGESTS RENEWED USDTHB UPSIDE



Source: Bloomberg, MUFG GMR

Among ASEAN currencies, THB and IDR appear particularly exposed to the rise in US rate expectations. Thailand continues to offer limited yield support, while elevated Brent prices are weighing on the external balance. Last week's BOT meeting reinforced that policymakers remain comfortable maintaining a growth-supportive stance despite inflation risks. Meanwhile, recent policy measures to curb gold-related flows could reduce support for the baht.

For Indonesia, higher US yields arrive as investors are increasingly monitoring domestic developments. Recent protests have highlighted concerns over living costs and jobs, while approval ratings for the government have softened. Although BI's currency-supportive stance has helped stabilize the rupiah, a further increase in Treasury yields could reduce support from portfolio inflows and place renewed upward pressure on USDIDR.

The Philippine peso remains the region's weakest link. USDPHP has moved to fresh record highs despite hawkish rhetoric from the BSP. Governor Remolona has signaled willingness to tighten policy further as inflation risks remain elevated, but markets continue to focus on the difficult balance between containing inflation and preserving growth.

In contrast, SGD and MYR continue to look more resilient than implied by US rate differentials alone. Stronger external positions, healthier domestic fundamentals, and policy credibility should help cushion both currencies.

INDICATIVE RATES 28-Aug-2026

FOREIGN EXCHANGE

	Asia	% Chg	London close 6pm	New York close 5pm		Close	% Chg
USDJPY	159.57	0.15	160.20	160.09	INDU	53559.99	-0.02
EURJPY	185.81	0.12	185.62	185.48	NKY	66405.56	0.41
EURUSD	1.1644	-0.03	1.1587	1.1585	DAX	26569.99	0.77
GBPUSD	1.3588	0.06	1.3537	1.3538	UKX	10824.26	0.29
USDSGD	1.2705	-0.06	1.2751	1.274	STI	5699.93	0.28
USDTHB	32.929	0.26	33.145	33.111	SET	1588.22	-0.78
USDMYR	4.0247	-0.21	**OTHER INDICATORS**		KLCI	1725.88	-0.91
USDIDR	17692	-0.19	DXY Curncy	99.702	JCI	6518.12	-0.06
USDPHP	62.260	0.65			PSEi	5956.33	-0.80
USDINR	95.3850	-0.17	GT2 Govt	4.345	SENSEX	77264.51	0.43
USDKRW	1375.40	-0.48	GT10 Govt	4.720	KOSPI	6788.88	-1.79
USDTWD	31.618	-0.25	GTJPY2Y Govt	1.701	TWSE	46331.45	0.77
AUDUSD	0.7193	0.14	GTJPY10Y Govt	2.922	AS51	9092.29	0.60
USDHKD	7.8398	0.01	GTDEM10Y Govt	3.277	HSI	25584.79	0.07
USDCNY	6.7204	0.01	CO1 Comdty	89.31	SHCOMP	3952.18	-0.11
USDVND	26078	-0.02	XAU Curncy	4455.11	VNINDEX	1832.12	0.03

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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