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INR rates likely to rise with strong GDP

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MUFG Bank, Ltd.
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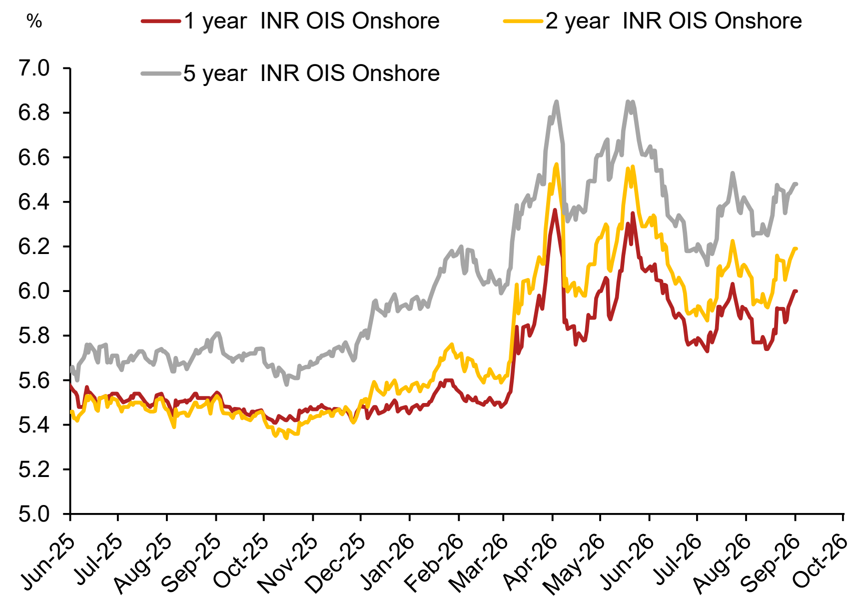
Market Highlights

US 10-year yields rose to 4.76% with a steeper yield curve, stocks and risk sentiment fell modestly, while the Dollar weakened slightly, as markets continue to digest the implications from Kevin Warsh's Jackson hole speech together with renewed tensions in the Middle East. In particular the US and Iran exchanged strikes in the first time in about a month, with American forces hitting an island in the Strait of Hormuz and Iran responding with attacks on the UAE and Jordan. With Brent oil prices still overall contained but inching up above the US$90/bbl, markets remain slightly unsure as to how the war in the Middle East will play out and the impact to Asia FX and rates. Meanwhile, both the OIS and Fed fund Futures markets are now pricing in for around 70% probability of a September hike post Kevin Warsh's Jackson Hole speech. Our view as a global team is that the Fed will keep on hold through 2026, and this is in part predicated by our US rates strategy team's forecast for inflation to remain modest and the US labour market to soften moving forward.

CHART 1: WE SEE A GOOD CHANCE THAT INR RATES MAY MOVE HIGHER MOVING FORWARD



Source: Bloomberg, MUFG GMR.

Ahead Today

G3: *Japan JGB 10-year auction*

Asia: *Indonesia CPI and Trade Balance*

In Asia, we had continued dispersion across currencies driven by the factors mentioned above, with USD/JPY a touch below 160, KRW outperforming with USD/KRW below 1370, with some underperformance in PHP.

NHK reported that US Secretary Scott Bessent told Japanese Finance Minister Katayama and Bank of Japan Governor Ueda that Japan's next step should be to raise interest rates, on the sidelines of the G20 finance minister and central bank governor meeting in North Carolina. Overall, with markets already pricing in a 92% chance of a September rate hike by BOJ, what matters more may not just be the September meeting but also communication about the whole path of rate hikes in upcoming BOJ meetings. Today's 10-year JGB auction by Japan may also be important in gauging sentiment towards the bond market, and in the broader context of rising developed market bond yields globally.

Meanwhile, India's economy grew by 7.8%yoy in Q1 FY2026-27, surprising to the upside by beating consensus expectations of 7.1%yoy consensus. Resilient domestic demand offset geopolitical headwinds, supported by a 12.1%yoy jump in financial and IT services alongside private consumption rising 7.1%yoy. Private capex signalled some improvement, although a weak monsoon weighed slightly on agriculture activity at 3.6%yoy. Meanwhile, the broader set of numbers suggest that overall resiliency in the economy, with a pickup in credit growth to 19%yoy.

From a rates perspective, we continue to see INR rates grinding higher, and we have an existing trade idea to pay INR 5y NDOIS (see Pay INR rates post RBI minutes). Overall we think that with growth remaining robust, early closure of the FCNR(B) measure, credit growth picking up, fiscal policy still expected to be supportive, coupled with a possible strong El Nino moving forward the risk-reward tilts towards rates in India moving higher rather than lower from here.

INDICATIVE RATES **31-Aug-2026**

FOREIGN EXCHANGE

	Asia	% Chg	London close 6pm	New York close 5pm		Close	% Chg
USDJPY	159.73	0.10	159.68	159.74	INDU	53185.90	-0.70
EURJPY	185.20	-0.33	185.50	185.59	NKY	66311.93	-0.14
EURUSD	1.1594	-0.43	1.1617	1.1618	DAX	26258.11	-1.17
GBPUSD	1.3541	-0.35	1.3549	1.3549	UKX	Closed	
USDSGD	1.2729	0.19	1.2713	1.271	STI	5755.36	0.97
USDTHB	33.135	0.63	33.166	33.156	SET	1595.16	0.44
USDMYR	Closed	Closed	**OTHER INDICATORS**		KLCI	Closed	
USDIDR	17720	0.16	DXY Curncy	99.428	JCI	6525.48	0.11
USDPHP	Closed	Closed			PSEi	Closed	
USDINR	95.1738	-0.22	GT2 Govt	4.343	SENSEX	76957.27	-0.40
USDKRW	1368.40	-0.51	GT10 Govt	4.751	KOSPI	6820.02	0.46
USDTWD	31.677	0.19	GTJPY2Y Govt	1.715	TWSE	46128.47	-0.44
AUDUSD	0.7158	-0.49	GTJPY10Y Govt	2.935	AS51	9075.96	-0.18
USDHKD	7.8386	-0.02	GTDEM10Y Govt	3.323	HSI	25566.99	-0.07
USDCNY	6.7198	-0.01	CO1 Comdty	90.49	SHCOMP	3986.30	0.86
USDVND	26075	-0.01	XAU Curncy	4437.38	VNINDEX	Closed	

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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