Asia FX Talk

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Regional FX faces dual headwinds from rising US yields and oil prices

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MUFG Bank, Ltd.
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Ahead Today

G3: *US ADP employment, factory orders, durable goods orders*

Asia: *Singapore PMI*

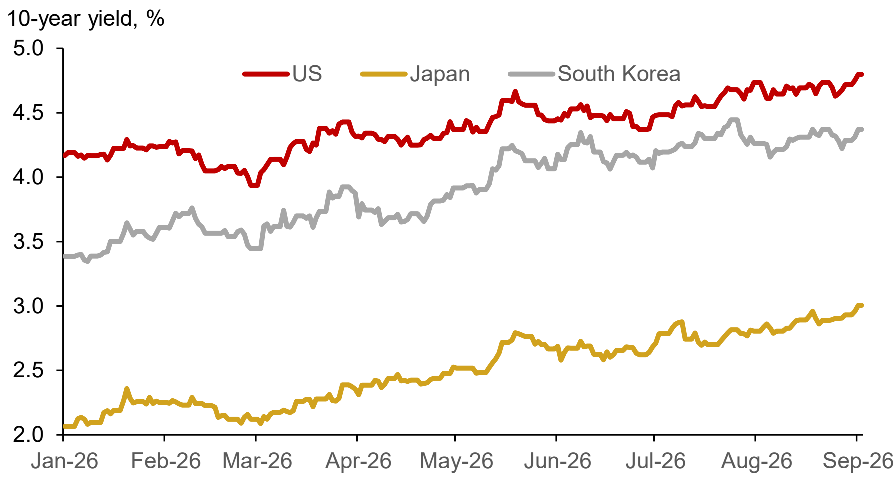
Market Highlights

Markets have repriced the US rates outlook following Fed Chair Warsh's Jackson Hole speech last Friday, increasingly embracing a "high-for-longer" narrative amid persistent inflation pressures and renewed supply-side shocks. Markets now price a 66% probability of a September Fed rate hike and roughly 1.5 hikes by end-2026. Since Jackson Hole on 28 August, US Treasury yields have surged across the curve, with the 2y yield up 16.8bp, the 10y yield up 12.2bp and the 30y yield up 8.0bp.

The repricing is occurring against an increasingly challenging inflation backdrop. Brent crude surged 4.6% overnight to almost $95/bbl following renewed strikes between the US and Iran. At the same time, agricultural commodity prices continue to trend higher, adding further upside risks to global food inflation. These developments have partly helped push global bond markets back into a broad selloff, with the US 10y Treasury yield climbing to 4.80%, while Japan's 10y JGB yield touched 3%.

Inflation data continue to validate these concerns. South Korea's headline inflation accelerated to 3.1%yoy in August from 2.8% in July and core inflation jumped sharply to 3.4%yoy from 2.6%.

CHART 1: PERSISTENT GLOBAL BOND SELL-OFF



Source: Bloomberg, MUFG GMR

Asian currencies face headwinds from rising US yields and oil prices. Rising oil prices worsen the terms of trade for net energy importers such as Thailand, the Philippines, India, and Korea, while simultaneously boosting inflation expectations.

Meanwhile, we remain cautious on the rupiah. August CPI inflation accelerated to 3.19%yoy and with GDP growth continuing to exceed 5%, inflation risks remain skewed to the upside. July's trade balance returned to a modest surplus of $0.12bn after two months of deficits, largely due to a narrowing in the oil and gas trade deficit to $2.9bn from $3.5bn previously. Nonetheless, the trade balance remains substantially below 2025 averages, highlighting the ongoing drag from higher oil and gas imports. Bank Indonesia's policy support and intervention framework should continue to provide near-term support for the rupiah, but sustained Brent prices above $90/bbl would place increasing pressure on both Indonesia's fiscal and external balances.

INDICATIVE RATES 1-Sep-2026

FOREIGN EXCHANGE

	Asia	% Chg	London close 6pm	New York close 5pm		Close	% Chg
USDJPY	159.93	0.13	160.16	160.18	INDU	52766.88	-0.79
EURJPY	185.42	0.12	185.56	185.68	NKY	66215.34	-0.15
EURUSD	1.1594	0.00	1.1586	1.1593	DAX	25970.11	-1.10
GBPUSD	1.3541	0.00	1.3515	1.3516	UKX	10789.28	-0.32
USDSGD	1.2732	0.02	1.2734	1.273	STI	5710.37	-0.78
USDTHB	33.260	0.38	33.282	33.307	SET	1588.68	-0.41
USDMYR	4.0395	0.37	**OTHER INDICATORS**		KLCI	1700.54	-1.47
USDIDR	17726	0.03	DXY Curncy	99.677	JCI	6599.94	1.14
USDPHP	62.398	0.22			PSEi	6093.89	2.31
USDINR	94.9500	-0.24	GT2 Govt	4.401	SENSEX	76944.28	-0.02
USDKRW	1372.80	0.32	GT10 Govt	4.799	KOSPI	6835.80	0.23
USDTWD	31.654	-0.07	GTJPY2Y Govt	1.803	TWSE	46948.72	1.78
AUDUSD	0.7144	-0.20	GTJPY10Y Govt	2.996	AS51	9066.70	-0.10
USDHKD	7.8403	0.02	GTDEM10Y Govt	3.343	HSI	25329.73	-0.93
USDCNY	6.7218	0.03	CO1 Comdty	94.65	SHCOMP	3979.89	-0.16
USDVND	26074	0.00	XAU Curncy	4328.82	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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