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Growing inflation risks as Brent crosses $100/bbl

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MUFG Bank, Ltd.
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Ahead Today

G3: *US initial jobless claims, PPI; ECB policy rate decision*

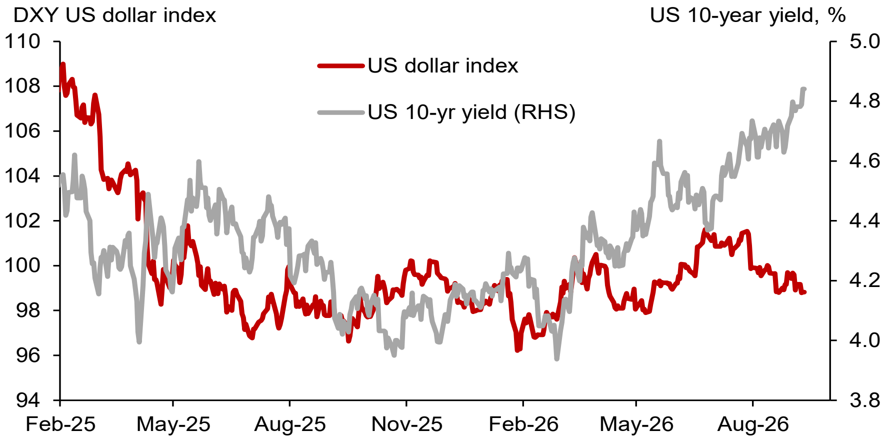
Asia: *-*

Market Highlights

US Treasury yields continued to push higher despite Treasury Secretary Scott Bessent's announcement of plans to repurchase up to US$6bn of longer-dated debt. The 10-year Treasury yield rose by a further 5bps to 4.84%. The move higher in yields has also been broad-based globally. The combination of tighter financial conditions and a rising term premium remains a challenging backdrop for risk assets.

Meanwhile, inflation risks remain elevated. Brent crude has climbed back above US$100/bbl amid escalating tensions between the US and Iran and ongoing risks surrounding the Strait of Hormuz. Agricultural commodity prices have also trended higher. Against this backdrop, today's US PPI release will be closely watched after the recent rebound in energy prices. A firmer-than-expected producer price print would reinforce concerns that inflation pressures remain sticky. This leaves the Fed in a difficult position. While higher inflation may warrant tighter policy, additional rate hikes would also increase government borrowing costs at a time when fiscal deficits and debt servicing burdens are already under scrutiny. The prospect of a Fed caught between inflation control and debt sustainability concerns could contribute to continued volatility across rates, equities, and FX markets.

CHART 1: GROWING DIVERGENCE BETWEEN YIELDS AND DOLLAR



Source: Bloomberg, MUFG GMR

Asian currencies nevertheless displayed resilience. The Chinese yuan strengthened further toward 6.70 against the dollar, helping support a broader rally in North Asian currencies. The Korean won and Taiwan dollar were among the strongest performers, both appreciating 0.4% against the dollar yesterday. Since Jackson Hole, the yen has been the standout performer with USDJPY down 3.8%, while KRW has strengthened by 3.0%, reflecting both expectations of a softer US dollar trend and growing confidence in the region's technology export cycle.

The Malaysian ringgit has underperformed, but domestic economic fundamentals remain constructive, which should provide some cushion. Malaysia's industrial production expanded 4.7%yoy in July, supported by the ongoing electronics upcycle. Continued strength in electronics exports and relatively resilient domestic growth should remain supportive for the ringgit over the medium term despite near-term volatility from rising oil prices and higher global yields.

The rupiah has extended its gains amid a softer dollar backdrop, unwinding of long USD positioning, and cheap rupiah valuations. However, the resurgence of oil prices above US$100/bbl represents a growing challenge. While higher commodity prices continue to provide a buffer, the cushion becomes thinner as oil price rises further.

In Thailand, rising agricultural commodity prices should support Thailand's agro and agro-industrial exports. However, higher oil import costs remain a significant headwind, especially given Thailand's energy dependence and imported input requirements for its electronics sector. The baht stayed under 33.00 level against the US dollar, but it remains one of the more vulnerable currencies should oil prices and US yields remain elevated.

INDICATIVE RATES 9-Sep-2026

FOREIGN EXCHANGE

	Asia	% Chg	London close 6pm	New York close 5pm		Close	% Chg
USDJPY	153.64	-0.34	153.58	153.56	INDU	52380.66	-0.77
EURJPY	178.73	-0.16	178.70	178.65	NKY	65142.78	-0.19
EURUSD	1.1633	0.19	1.1636	1.1633	DAX	25576.45	-1.66
GBPUSD	1.3543	0.13	1.3552	1.3547	UKX	10670.06	-1.31
USDSGD	1.2645	-0.15	1.2641	1.264	STI	5729.63	-0.66
USDTHB	32.875	-0.20	32.917	32.923	SET	1617.89	-0.25
USDMYR	4.0697	0.18	**OTHER INDICATORS**		KLCI	1714.34	0.00
USDIDR	17513	-0.66	DXY Curncy	98.817	JCI	6678.20	-0.12
USDPHP	62.515	-0.18			PSEi	6116.53	0.17
USDINR	95.1012	0.29	GT2 Govt	4.432	SENSEX	74764.23	-1.08
USDKRW	1340.00	-0.24	GT10 Govt	4.842	KOSPI	7051.64	1.40
USDTWD	31.498	-0.15	GTJPY2Y Govt	1.833	TWSE	47183.36	0.16
AUDUSD	0.7224	0.19	GTJPY10Y Govt	2.879	AS51	8911.42	-0.11
USDHKD	7.8420	0.01	GTDEM10Y Govt	3.442	HSI	25274.96	-0.17
USDCNY	6.7079	-0.04	CO1 Comdty	101.21	SHCOMP	3951.51	0.28
USDVND	25918	-0.30	XAU Curncy	4398.83	VNINDEX	1827.12	-0.18

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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