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Can resilience in Asia continue with higher US yields?

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MUFG Bank, Ltd.
A member of MUFG, a global financial group

Ahead Today

G3: *US CPI*

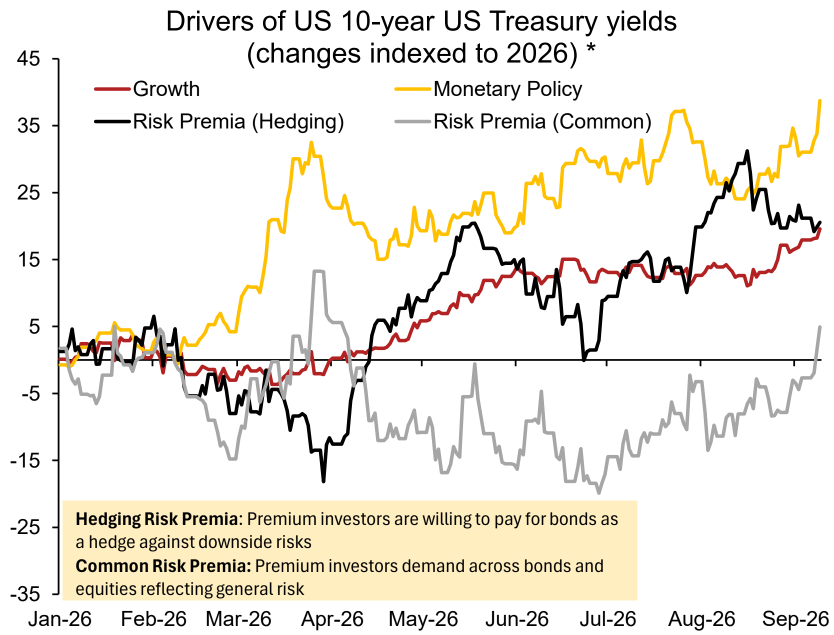
Asia: *India Foreign Reserves*

Market Highlights

Global Developed Market bond yields rose sharply with some bear flattening in yield curves, driven by a surge in Brent oil prices to US$109/bbl, a more hawkish tone from the European Central Bank, coupled with disappointing US Treasury buyback operation plans.

In particular, US 10-year Treasury yields spiked by more than 10bps and is now a whisker from 5%, with short-term rates market now fully pricing in a Fed rate hike by October. What's important to note is that the drivers behind the increases in US Treasury yields have increasingly been shaped by expectations of tighter monetary policy coupled with a risk-premia common to both stocks and bonds, even as growth expectations have remained resilient (see Chart 1 below).

CHART 1: US YIELDS INCREASINGLY DRIVEN BY EXPECTATIONS OF TIGHTER MONETARY POLICY AND HIGHER RISK PREMIUM



*Source: Bloomberg, MUFG GMR estimates. * Note: Drivers based on Structural Vector Autoregression model by Cieslak and Pang (2021).*

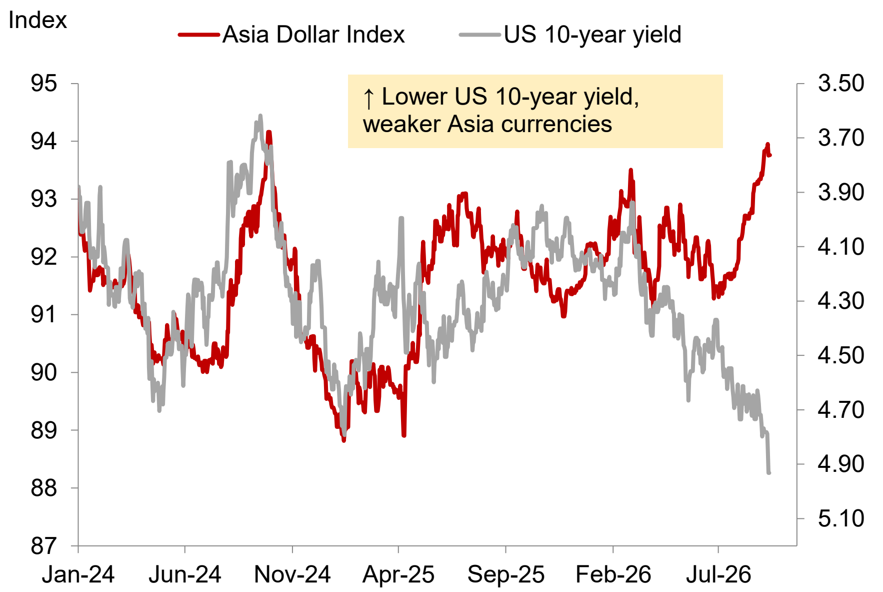
Ultimately, it's not just whether US yields are rising, but why they are rising which matters for the spillover impact including to Asia, as our previous analysis and framework shows (see Asia – why US yields rise matter for Asia). As such, the fact market moves have been increasingly driven by tighter policy and importantly higher risk premia with some initial signs of risk-off is concerning.

Linking this to our region, Asia FX and rates markets have been quite benign so far despite the rise in US Treasury yields, but given the drivers of markets more recently we think the probabilities are that this resilience may not continue at least in the near-term. We can see this resilience thus far in Asia across multiple measures including the divergence between Asia FX with both yield spreads and absolute yields in the US, a general compression in Asia rates with US Treasury yields, coupled with strength and outperformance in certain currencies such as KRW, TWD, and CNY. In addition, implied FX volatility in a pair like USD/CNH has hit multi-decade lows, and while this may certainly be for good reasons, is another indication of how the market is probably positioned right now.

The key focus in global markets today will be on US CPI. Our US rates strategy team expects a 0.23%mom print in core CPI (see US inflation update), and if that is right, will reaffirm our house view that the Fed is likely to remain on hold in September. More broadly however, longer-end yields continue to be driven by multitude of other factors including global oil and energy prices, and also fiscal and debt supply dynamics.

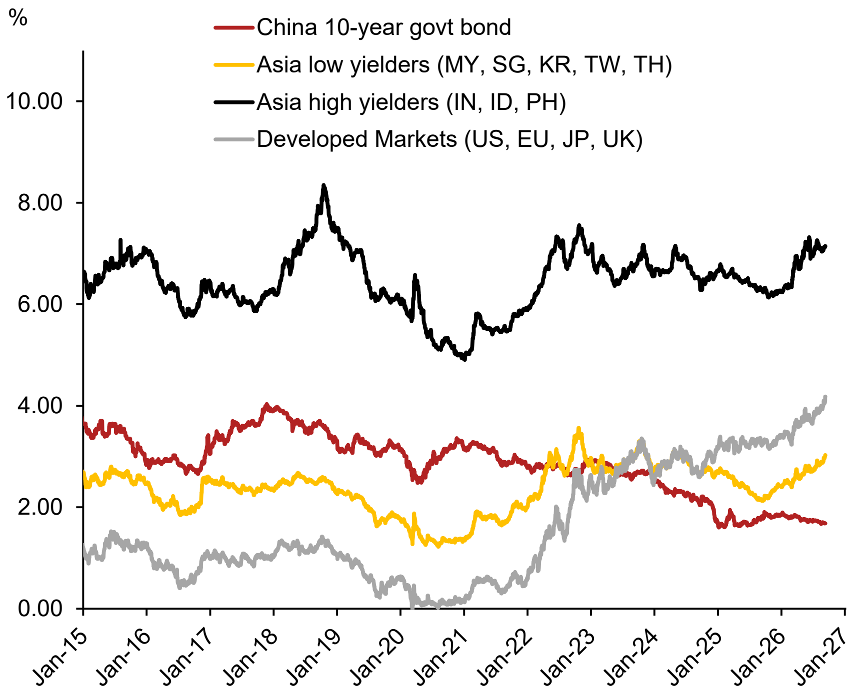
Given all the emerging risks described above, we take profit on our short USD/KRW idea for a notional profit of 10.4%. With significant uncertainty right around global rates markets and ahead of US CPI, we also cut our receive KRW 1y1y rates and THB 1s10s flattener ideas for a small loss on both. We keep our recommendations on short USD/TWD and pay INR 5y NDOIS, but recommend tightening stop losses on both.

CHART 2: ASIA FX HAS BEEN VERY RESILIENT TO THE RISE IN US YIELDS SO FAR, BUT IT IS UNCLEAR WHETHER THIS CAN CONTINUE TO THE SAME EXTENT



Source: Bloomberg, MUFG GMR estimates.

CHART 3: WE ALSO SEE THIS RESILIENCE IN ASIA RATES MARKETS, WITH A GENERAL COMPRESSION BETWEEN ASIA AND US YIELDS



Source: Bloomberg, MUFG GMR estimates.

INDICATIVE RATES 8-Sep-2026

FOREIGN EXCHANGE

	Asia	% Chg	London close 6pm	New York close 5pm		Close	% Chg
USDJPY	154.17	-1.44	154.27	153.98	INDU	52786.07	-1.18
EURJPY	179.01	-1.55	179.32	178.99	NKY	65269.33	-1.70
EURUSD	1.1611	-0.12	1.1624	1.1624	DAX	26007.63	0.00
GBPUSD	1.3526	-0.05	1.3537	1.3541	UKX	10811.66	-0.10
USDSGD	1.2664	-0.05	1.2650	1.265	STI	5767.45	-0.43
USDTHB	32.942	0.09	32.898	32.908	SET	1621.89	0.19
USDMYR	4.0625	0.40	**OTHER INDICATORS**		KLCI	1714.40	-0.02
USDIDR	17630	-0.06	DXY Curncy	98.787	JCI	6686.44	1.01
USDPHP	62.630	0.04			PSEi	6105.99	0.37
USDINR	94.8275	0.36	GT2 Govt	4.395	SENSEX	75577.58	-0.73
USDKRW	1343.20	-0.28	GT10 Govt	4.790	KOSPI	6954.52	-0.58
USDTWD	31.545	-0.01	GTJPY2Y Govt	1.845	TWSE	47105.78	-0.47
AUDUSD	0.7210	0.12	GTJPY10Y Govt	2.891	AS51	8920.81	-1.00
USDHKD	7.8416	0.01	GTDEM10Y Govt	3.365	HSI	25317.18	-0.38
USDCNY	6.7108	0.00	CO1 Comdty	97.92	SHCOMP	3940.55	0.20
USDVND	25997	-0.18	XAU Curncy	4355.99	VNINDEX	1830.44	0.48

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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