Asia heatmap: straddling the fault lines

- **We believe the combination of US yields at multi-year highs, US equities near record highs and elevated oil prices adds to the sense of markets on thin ice – a fragile equilibrium that the 3 November US midterms could disrupt.**
- **A Democrat congressional sweep is our base case, but legislative gridlock under Donald Trump's veto is likely to leave him unconstrained on trade and foreign policy, keeping tariff uncertainty and geopolitical risk alive for Asia.**
- **We recommend being overweight the KRW & TWD and underweight the PHP & THB.**



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Straddling the fault lines

Markets are sending different signals entering the final quarter, with US yields at multi-year highs, US equities near record highs and oil prices staying elevated. Some pieces of good news have helped push back on the negativity – despite the Fed rate hike in September, investors have latched on to weaker US data and more dovish Fed commentary, while the US-China summit delivered a constructive outcome framed around "strategic stability". Yet this is still a bit like a prelude to something bigger.

Higher yields continue to pose a meaningful risk to equities, which have held up remarkably well – tech in particular remains a bright spot despite mounting negative newsflow. The USD has climbed to its highest level in over a year, with the EUR in particular under pressure.

There is a growing sense that the US midterms could represent a defining near-term marker for the current market conundrum. A Democrat sweep (as is currently being priced) would bring changes to fiscal policy, equity market sentiment and geopolitical risk. This includes the trajectory of US-Iran tensions, which remain a key reason why oil prices are unlikely to correct meaningfully before the vote. The midterms, in short, are not just a political event; they could be the catalyst for the market's next directional move.

Midterms a near-term support but longer-term concern

With one month to go until the 3 November midterm elections, Democrats are heavily favoured to retake the House. The fate of the Senate remains a close call, though our base case is for the Democrats to sweep both chambers especially as high gas and diesel prices increasingly fuel discontent towards Trump and the Republican party. President Trump may make a final push to prevent Republicans from major Congressional losses, including attempts to ease high gas and diesel prices, which could result in an artificial propping up of the equity market.

In the event of a sweep by Democrats of both chambers, we still expect a divided government as President Trump's veto power results in legislative gridlock. Trump's domestic agenda will be curbed, leaving him to pursue his trade and foreign policy goals unabated. The concern here is that he may be even more hawkish on this front. So Asian economies should expect continued tariff uncertainty and unpredictable US relations.

That said, despite potential for a more hawkish Trump, we remain constructive on more stable US-China relations. The Trump-Xi summit on 24 September delivered a constructive outcome framed around "strategic stability", with both leaders expressing intent to attend the APEC and G20 summits in November and December. The key outcome was a two-month trade truce extension through 10 January 2027 and mutual tariff relief on a subset of goods. The US also said China committed to purchasing 10MMT of coal annually in 2027 and 2028. This

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should allow the CNY to remain a key anchor for Asian currencies amidst any turmoil.

US-Iran and the midterm countdown

While indirect negotiations between US and Iranian representatives took place on the sidelines of the UN in late September, talks between both sides remain stalled. President Trump has also rejected an Iranian truce roadmap. Given the sensitivity of the US voter to gas and energy prices, there is a view that the Trump administration could be reluctant to escalate the Iranian conflict further heading into the midterms, and markets have largely priced in a post-midterm escalation as the base case. However, this consensus view may itself carry risk – a deterioration in negotiations or an Iranian provocation could force the administration's hand ahead of the midterms, regardless of the political cost. The timing of any escalation therefore remains highly uncertain, and the chances of a significant move rise materially once the midterms have passed.

For Asia, the main focus here remains the level of oil prices. While oil prices have climbed over the past month, the climb has been tempered somewhat by reports of an improvement in oil supply along the Strait of Hormuz. Regional crude exports have rebounded to c.80% of pre-war levels (16.3m bpd in September vs 19.5m bpd in February), supported by Saudi Arabia exporting up to 4m bpd through the Red Sea via Yanbu and the UAE & Oman increasing export and ship-to-ship transfer at ports outside of the Strait of Hormuz. Whether this can be sustained is a question, with Iran warning of renewed efforts to close the Strait.

We also remain concerned though as the structural problems around the oil market have not been resolved. Amidst declining strategic oil reserves and a lowering of refining capacity, any escalation in US-Iran tensions or a US diesel export ban would compound supply pressures, adding further risk to inflation and weighing on Asian terms of trade & currency performance. In this context, we think both the PHP and THB remain exposed.

US yields and US equities at record highs

The climb in US yields has continued, with the UST 10Y yield climbing to a high of 5.37% in early October, up sharply from 3.75% at the end of August. The yield surge is being driven by a combination of persistent inflation pressures, elevated energy prices, and growing concern over government debt burdens globally. In the US, while short-end yields have eased off for now amidst more dovish comments from the Fed and weaker US data, long-end yields have shown fewer signs of stalling. US Treasury Secretary Scott Bessent has so far been unable to address the pressure in long-end yields.

Surprisingly though, the rise in US yields has not shaken US equities off their pedestal. The resilience of US equities is in part being driven by a resurgence in the AI-trade and robust performance by mega-cap tech names. We continue to take the view that the rise in US yields poses a risk to US equities. The negative equity risk premium (earnings yield of S&P 500 – the UST 10Y yield) could deteriorate further should earnings disappoint and/or UST yields continue to push higher. While this does not automatically mean a correction in US equities, it does highlight rising risks especially in a still uncertain geopolitical environment. This concern similarly feeds through into Asian equity performance and financial flows in the region. We do not think the region will be immune to any major slip in US equities. At the same time, there is also a rising risk to the regional Asia tech sentiment. While Samsung Electronics and TSMC both reported strong results, share prices dipped, reflecting inflated market expectations. This price reaction, however, reflects a valuation and sentiment issue rather than any deterioration in fundamentals.

The underlying operational picture remains a positive story: Samsung's numbers showed that memory demand continues to exceed supply, while TSMC also pointed to robust and unrelenting demand for AI chips. In our view, whatever the near-term noise in equity markets, Asian chipmaker production is likely to continue unabated and will remain a strong pillar for growth through the end of the year. This underpins our overweight on the TWD and KRW this month.

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EUR pressures support Asia FX differentiation

In recent weeks, the correction in France OAT markets and potential for contagion to the broader Eurozone government bond market has fanned sovereign credit risks that have weighed on EUR valuation, with EUR/USD falling from 1.16 to below 1.12. The lack of clarity on the French political outlook, with presidential elections looming in 2027, is also putting the EUR on the back foot. Against this backdrop, the USD is benefiting from the rise in UST yields, a widening rate differential and energy-price support, cementing its status as the higher-yielding, safer alternative. In this context, we expect the USD to remain broadly supported though with limited upside from current levels. Therefore, this in turn reinforces the need to differentiate between Asian currencies, as their divergent exposures to US rate dynamics, capital flow pressures and domestic growth trajectories mean that USD strength will not impact the region uniformly – with some currencies better insulated through current account surpluses or active central bank management, while others remain more vulnerable to outflow-driven depreciation – and the need to stay nimble should the narrative shift.

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Our latest FX weightings

In September, the stronger USD worked to our advantage resulting in gains for our underweight in the PHP, SGD and THB. This resulted in a small loss for our TWD overweight which was offset by the VND overweight as it bucked the rise in the USD. For the month, we are returning the SGD and VND short-term weightings to neutral. We also raising the KRW short-term weighting to overweight from neutral.

Weightings reflect our views on currency performance relative to forwards over the specified time period

	Short Term (0-3M)	Medium Term (3-12M)	Rationale
CNY	⇔	⇔	CNY gains still supported by large external balance with focus on upcoming US-China summit. Some signs of weakening in tolerance for CNY appreciation though in the fixing with FX settlement numbers also easing amidst weak mid-year seasonality.
HKD	⇔	⇔	USD/HKD could test 7.85 in early Q4 amid the widening US-HK rate gap, October dividend outflows and weak equity sentiment. The US-HK rate gap will remain a structural headwind for the HKD with the US expected to raise rates at least two more times and still-subdued HKD loan growth.
INR	⇔	↑	RBI will hike rates to fight inflation, not to support the INR. Indeed, we think that market is too aggressively priced for rate hikes and a neutral-sounding MPC could weigh a little on the INR. Oil prices remain elevated and a weight on the INR but RBI has a large store of reserves topped up by the FCNR program that it can use to lean against INR weakness.
IDR	⇔	⇔	After its 100bp of hikes in Q2, BI has started to utilise non-rate policy tools to attract foreign capital inflows and not solely depend on higher yields. Despite a partial August recovery, the IDR remains one of Asia's weakest YTD, with a widening current account deficit and fragile foreign confidence continuing to weigh.
MYR	⇔	↑	While elevated global energy prices are a support for the MYR, rising global yields, political and fiscal policy uncertainty remain weights on the currency. The 2027 Budget to be presented in early October will be a test of the government's ability to balance fiscal prudence with enough spending to hold the coalition government together.
PHP	↓	⇔	Elevated oil prices would continue to weigh on the Philippines' trade balance. The BSP's potential rate hike on 22 October would support the PHP, while the BSP's forward guidance on whether it would hike further or stop after the October decision could impact the PHP in both ways.
SGD	⇔	⇔	The SGD is underpinned by Singapore's strong macro backdrop amid a global tech upcycle and foreign portfolio inflows, while the negatives from trade tensions have been less than expected. Potential for the MAS to tighten in October could support the SGD.
KRW	↑	↑	We expect the KRW to be supported by exporters continuing to sell USD. But foreign investors selling Korean equities amid higher yield environment, the BOK's potential decision to remain on hold on 22 October and signals of easing tolerance for KRW gains by Korean FX authorities suggest more moderate moves.
TWD	↑	↑	The TWD remains a relative laggard in Asia given robust external balance from tech trade. Continued strong AI-driven export demand, positive roll-down and favourable seasonality should drive further TWD gains. The TWD has a relatively lower beta to the USD index, making it more immune to USD volatility.
THB	↓	↓	Weak fundamentals will likely continue to weigh on the THB. We expect the BoT to maintain a neutral stance regarding the balance between containing inflation expectations and supporting growth. The weaker THB could benefit the recovery of the tourism sector as long as the cost of energy imports remains manageable.
VND	⇔	⇔	While we expect imports of electronics, machinery and energy to continue considering increased public and private investment, weighing on the VND, stronger-than-expected Q3 GDP growth and monthly trade balance returning to a surplus in September would suggest some support for the VND.

Yellow highlight and underline *indicate where weightings have changed relative to before*

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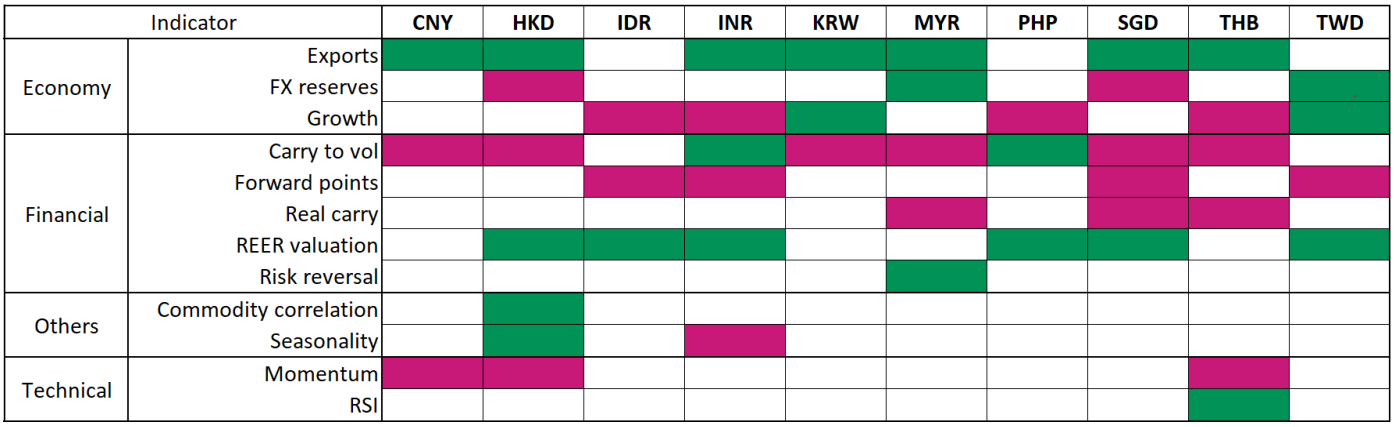
The Asia FX heatmap for October

Asia macroeconomic indicators in October present a resilient picture. Exports remain a primary driver of surpluses for most currencies in the region. On the economic growth front, the KRW and TWD sustained their strong performance from the previous month, whereas the IDR, INR, PHP and THB stayed in the red Meanwhile, FX reserves signals are unchanged from September levels.

In the financial domain, REER signals point to attractive valuations for the HKD, IDR, INR, PHP, SGD and TWD with risk reversals signalling positively exclusively for the MYR. Conversely, forward points leaned negative for the IDR, INR, SGD and TWD. Similarly, real carry metrics are negative for the MYR, SGD and THB. Carry-to-volatility ratios presented a mixed outlook, showing strength for the INR and PHP but lagging across most other regional pairs.

From a technical standpoint, the signals are more muted this month. Momentum indicators though are negative for the CNY and HKD while momentum and RSI point to different directions for the THB. Finally, seasonality is positive for the HKD but negative for the INR in October.

Asia FX heatmap for October



** Green represents positive for the domestic currency, red is negative, white is neutral; see p3 for a table summarising our indicators*
Source: CEIC, Bloomberg, Crédit Agricole CIB

Our criteria behind the currency indicators

Currency indicators and criteria

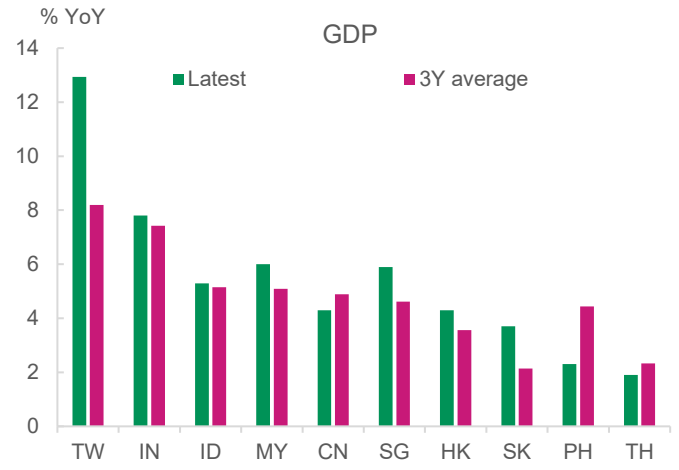
	Indicator	Criteria
Economy	Exports	Difference between the latest exports YoY growth and the 12-month average
	FX Reserves	Difference between latest reserves as a percentage of GDP and the three-year average
	Growth	Difference between latest real GDP YoY growth and the three-year average
Financial Indicators	Carry to vol ratio (Yield Sharpe)	Domestic 3M forward implied yield adjusted by 3M volatility of total return
	Forward points	1M forward points
	Real Carry	Domestic-US real interest rate gap
	REER valuation (BIS valuation)	Latest BIS REER vs 60M average, %
	Risk reversal (Volatility)	3M 25-delta risk reversal
Others	Commodity correlation	Correlation between the local currency and the crude oil price, the score will be adjusted by the direction of the crude oil price over the past month. Only applied when correlation above a threshold.
	Seasonality*	Analysis of monthly return over past decade ** For the CNY, analysis is since 2016*
Technical	Momentum	Difference between the MACD and signal line as a gauge of momentum
	RSI	14D RSI

Source: Crédit Agricole CIB

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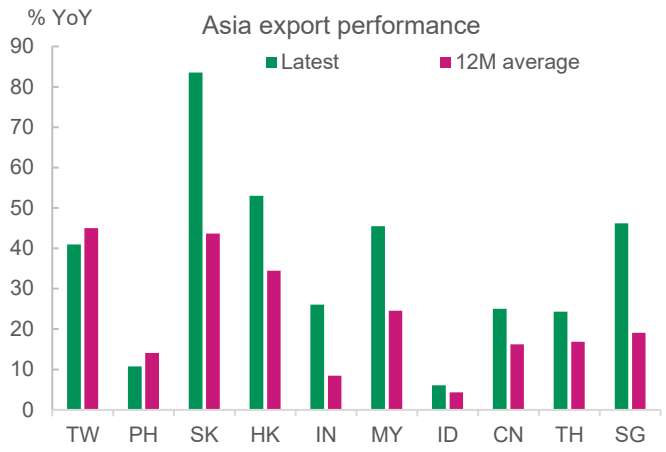
Asia Monthly Charts – Macro

Taiwan set for double-digit growth in 2026



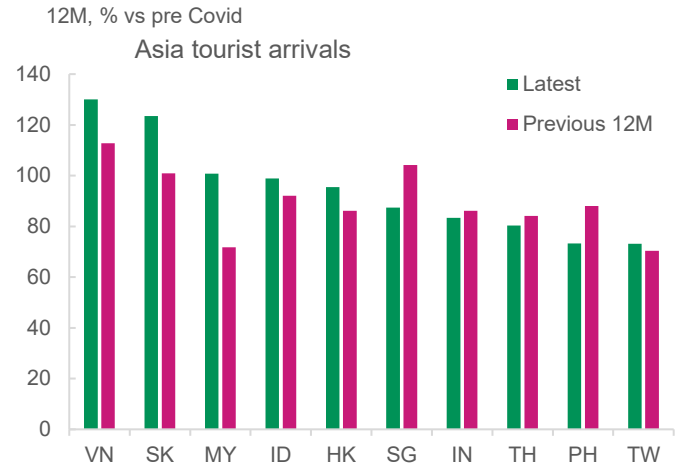
Source: Bloomberg, Crédit Agricole CIB

South Korea exports growing at a record pace



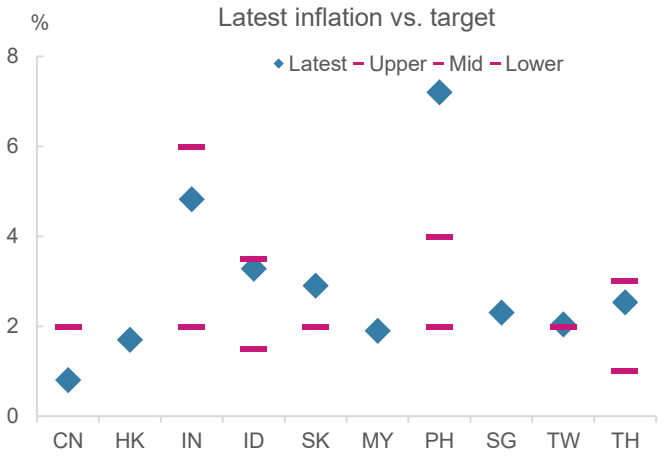
Source: Bloomberg, Crédit Agricole CIB

Vietnam and Korea tourism numbers leading the pack



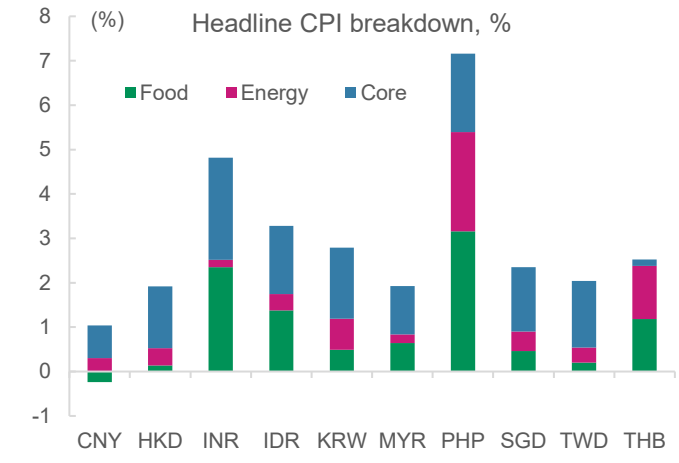
Source: Bloomberg, CEIC, Crédit Agricole CIB

Philippines stands out with inflation above target



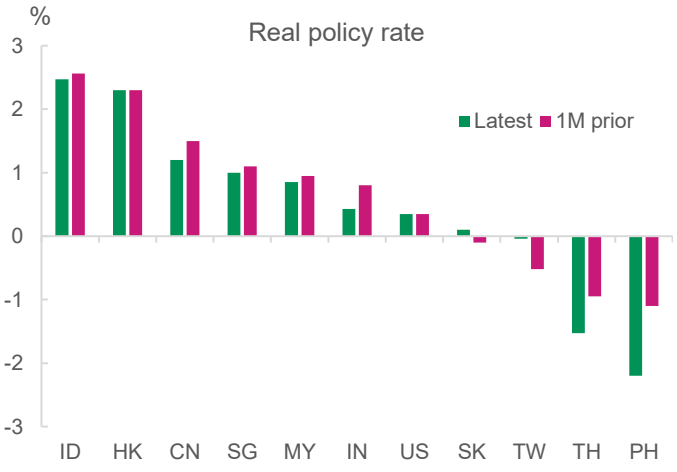
Source: CEIC, Bloomberg, Crédit Agricole CIB

Food price impact on inflation creeping higher



Source: Bloomberg, Crédit Agricole CIB

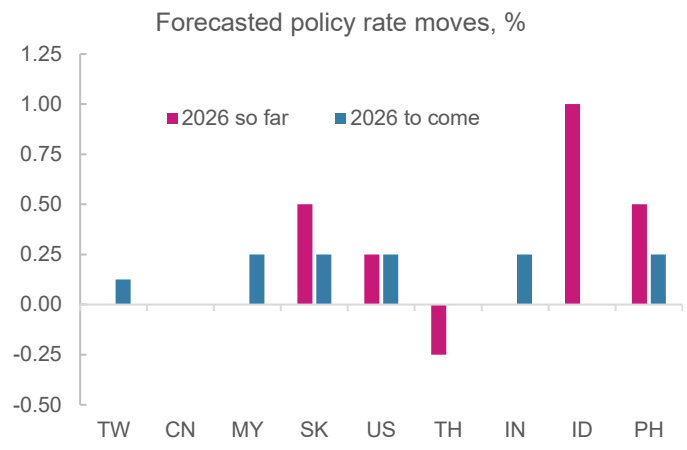
Real policy rates mostly declining across Asia



Source: Bloomberg, Crédit Agricole CIB

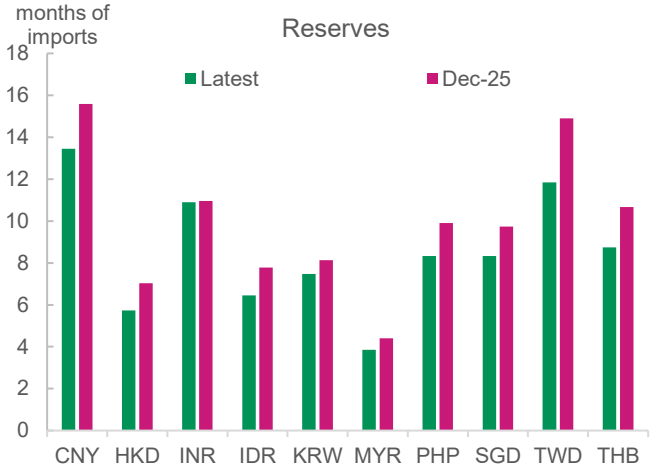
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Still room for rate hikes into year-end



Source: Bloomberg, Crédit Agricole CIB

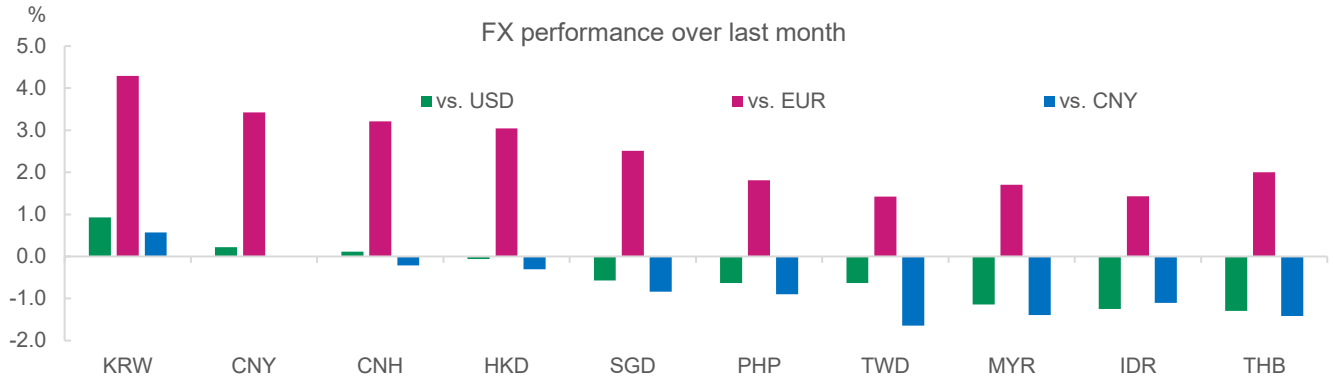
Asian reserve buffer decline driven by rise in imports



Source: Bloomberg, Crédit Agricole CIB

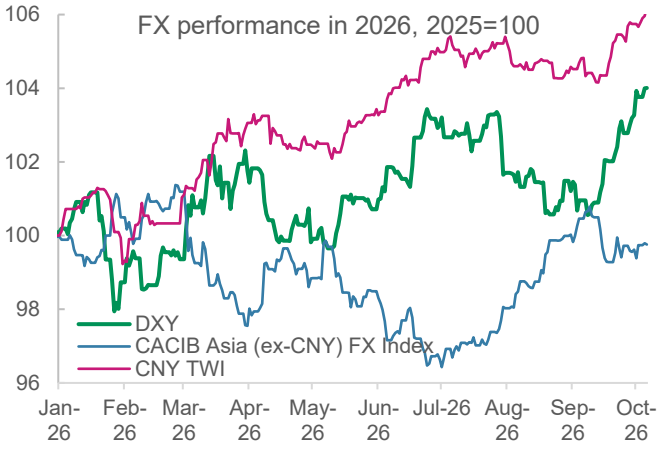
Asia Monthly Charts - Markets

EM Asia currencies improved against the EUR in September but broadly underperformed against the USD



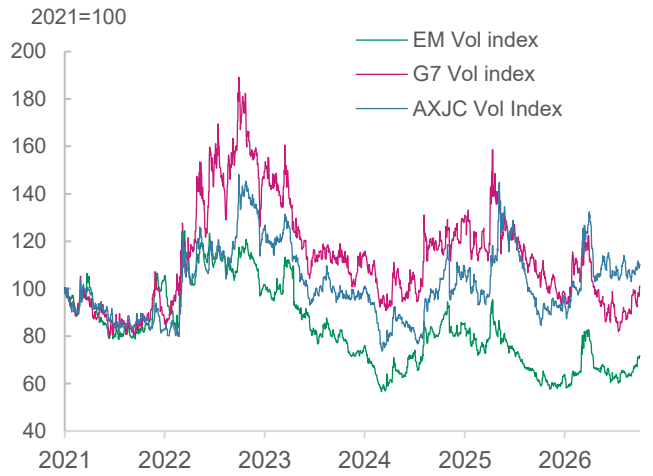
Source: Bloomberg, Crédit Agricole CIB

Asian FX gains stalled while the CNY gained in September



Source: Bloomberg, Crédit Agricole CIB

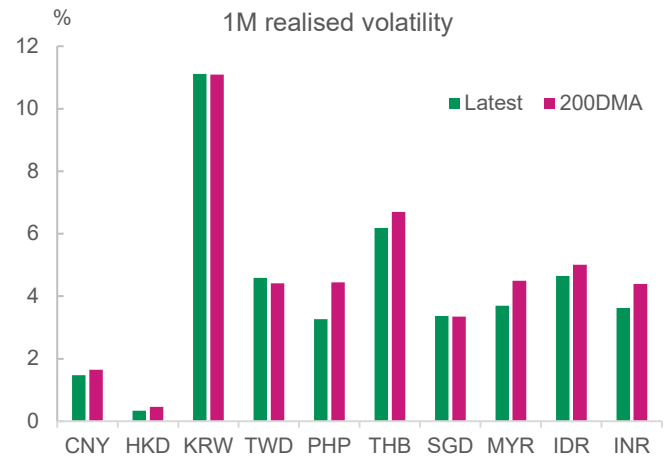
G7 and EM vols edging higher



Source: Bloomberg, Crédit Agricole CIB

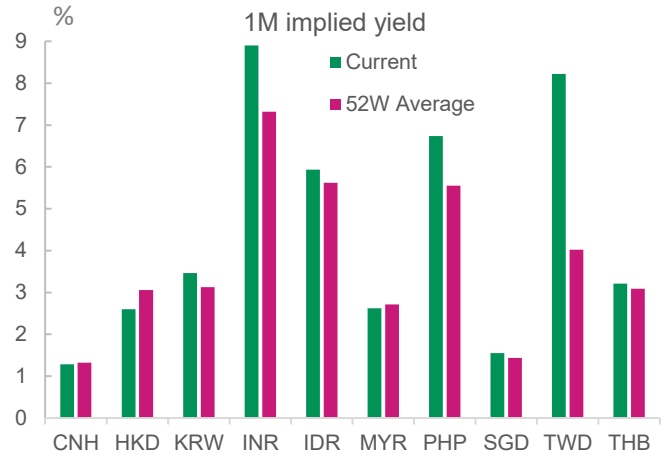
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Realised vols still elevated for the KRW



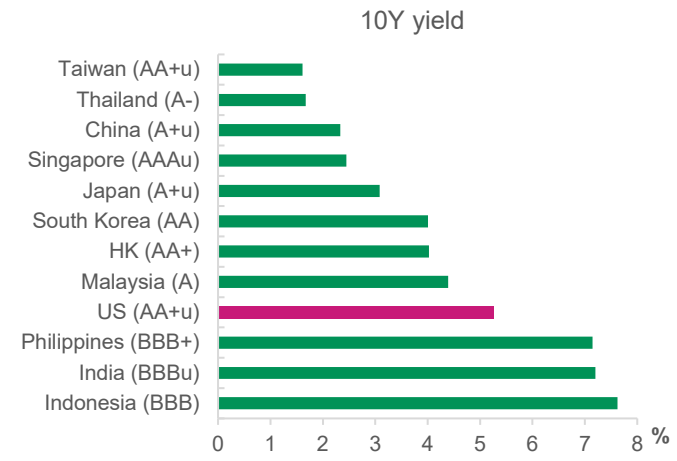
Source: Bloomberg, Crédit Agricole CIB

INR, TWD and PHP implied yields are high



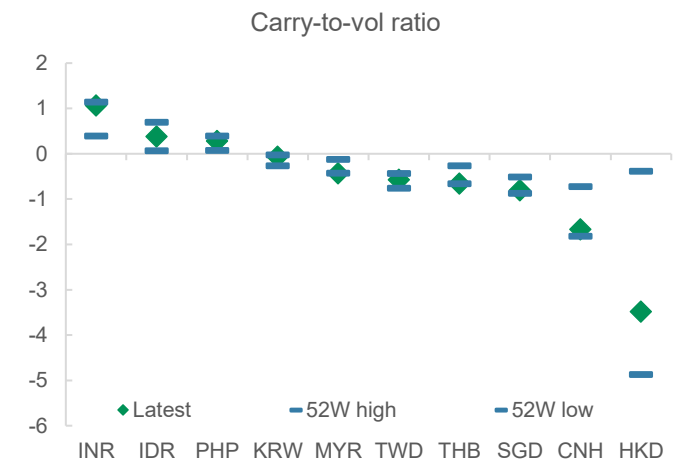
Source: Bloomberg, Crédit Agricole CIB

No changes to credit ratings in September



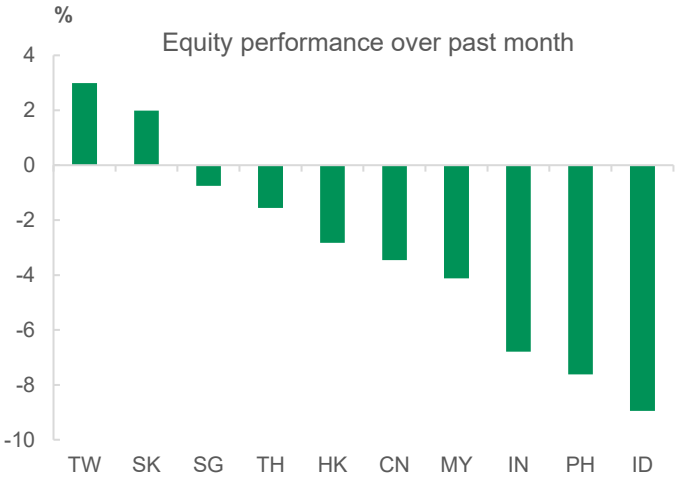
Source: Bloomberg, Crédit Agricole CIB

Carry mostly contained within Asia



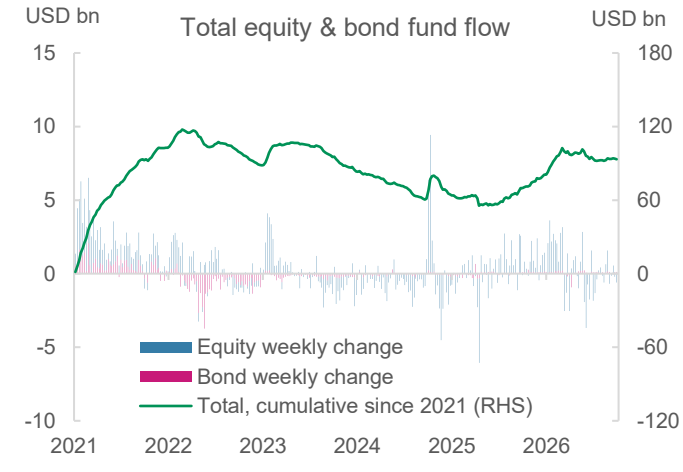
Source: Bloomberg, Crédit Agricole CIB

Taiwan and Korea equities outperformed September



Source: Bloomberg, Crédit Agricole CIB

Bond inflow and equity outflow in September



Source: EPFR, Crédit Agricole CIB

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Asia Forecasts

Economics

	Real GDP (YoY. %)			CPI (YoY. %)			Current Account (% GDP)		
	25	26	27	25	26	27	25	26	27
Asia	**5.2**	**5.1**	**4.8**	**1.0**	**2.4**	**2.3**	**3.1**	**3.4**	**3.5**
China	5.0	4.5	4.5	0.0	1.0	1.2	3.7	4.0	3.9
Hong Kong	3.2	4.1	3.0	1.4	2.0	2.0	12.3	11.2	9.5
India	7.0	6.5	6.7	2.6	5.2	4.5	-1.0	-2.9	-2.1
Indonesia	5.0	5.2	5.0	2.0	3.2	2.8	-0.1	-1.9	-1.7
Korea	1.0	3.5	2.7	2.1	2.7	2.4	6.6	22.0	23.4
Malaysia	4.2	4.5	4.3	2.0	2.2	2.0	1.9	1.8	1.8
Philippines	4.7	2.8	4.1	1.7	5.8	5.3	-2.3	-5.3	-4.8
Singapore	5.0	4.3	2.7	0.9	2.2	2.0	16.7	17.2	17.0
Taiwan	8.4	11.3	3.8	1.7	2.2	1.8	20.0	23.6	22.5
Thailand	2.0	2.1	2.0	-0.1	2.6	2.4	2.8	-4.5	-3.5
Vietnam	6.9	6.9	6.6	3.3	3.5	3.3	5.1	5.3	6.0

Exchange Rate

		Current	Dec-26	Mar-27	Jun-27	Sep-27
Asia						
China	USD/CNY	6.71	6.62	6.60	6.60	6.55
Hong Kong	USD/HKD	7.85	7.81	7.82	7.82	7.82
India	USD/INR	96.30	96.00	94.00	94.00	92.00
Indonesia	USD/IDR	17,920	17,600	17,500	17,500	17,250
Malaysia	USD/MYR	4.09	4.02	4.00	3.98	3.96
Philippines	USD/PHP	62.7	61.2	61.0	60.8	60.5
Singapore	USD/SGD	1.28	1.27	1.27	1.26	1.26
South Korea	USD/KRW	1,345	1,385	1,400	1,390	1,380
Taiwan	USD/TWD	31.8	31.6	31.5	31.5	31.4
Thailand	USD/THB	33.7	33.0	33.0	32.8	32.5
Vietnam	USD/VND	25,999	26,250	26,200	26,200	26,100

Policy Rate

		Current	Dec-26	Mar-27	Jun-27	Sep-27
Asia						
China	7d reverse repo rate	1.40	1.40	1.30	1.30	1.30
Hong Kong	Base rate	4.25	4.50	4.75	4.75	4.75
India	Repo rate	5.25	5.50	5.75	5.75	5.75
Indonesia	7D (reverse) repo rate	5.75	5.75	6.00	6.00	6.00
Korea	Base rate	3.00	3.25	3.25	3.25	3.25
Malaysia	OPR	2.75	3.00	3.00	3.00	3.00
Philippines	Repo rate	5.00	5.25	5.25	5.25	5.25
Singapore	O/N SORA	1.30	1.30	1.40	1.40	1.40
Taiwan	Discount rate	2.000	2.125	2.125	2.125	2.125
Thailand	Repo	1.00	1.00	1.00	1.00	1.25
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50

Source: Crédit Agricole CIB

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Source: RMA by Crédit Agricole CIB

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