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Oil shock reinforces regional divergence

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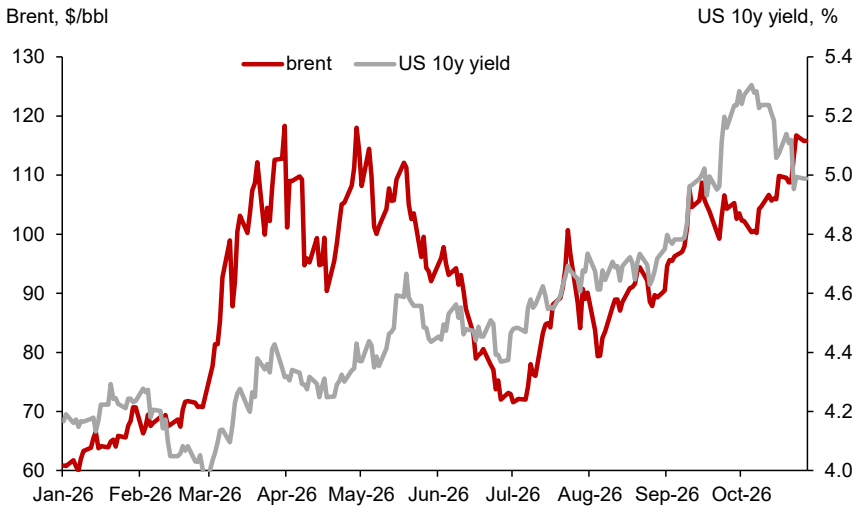
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Market Highlights

Oil and US rates remain the two dominant global forces for Asia FX. Brent is holding around USD116/bbl, with the Middle East geopolitical premium remaining elevated. Markets will be monitoring Israel's election, where Israel Prime Minister Netanyahu has continued to advocate a more aggressive stance towards Iran, while his challenger Gadi Eisenkot has argued for narrower goals such as curbing Iran's nuclear programme. With US President Trump hinting at renewed military action against Iran after the US midterm elections, a renewed escalation that pushes crude materially higher would amplify the adverse terms-of-trade and inflation shock for the region's net energy importers and those with current account deficits.

Markets expect no change to policy rate in the FOMC meeting this week, while still retaining their expectations of one US rate hike in December, leaving the dollar supported by relatively restrictive US rates.

CHART 1: US YIELDS RETREAT, BUT OIL SHOCK IS INTENSIFYING



Source: Bloomberg, MUFG GMR.

Ahead Today

G3: *US Durable Goods Orders, New Home Sales, Conference Board Consumer Confidence*

Asia: *China Industrial Profits*

Within Asia FX, THB remains one of our preferred expressions of the oil shock. Thailand's September trade numbers reinforce this view. The trade deficit widened sharply to USD5.86bn from USD2.48bn in August. Imports surged 50.4%yoy, considerably faster than the still-strong 24.0% expansion in exports. Electronics and AI-related global demand remain important supports for shipments,

but higher energy costs and strong demand for imported electronic components have simultaneously pushed up the import bill. We remain cautious on THB and expect the Bank of Thailand to keep its policy rate at 1.00% on 28 October to support growth. In our view, this leaves USD/THB biased higher while the oil shock persists

USD/IDR rose to 18,124 yesterday, approaching its June record high around 18,190, as investors continue to digest uncertainty surrounding MSCI's review of Indonesian equities alongside broader pressure from foreign portfolio outflows and high oil prices. Indonesian government bonds are also under pressure, with the 10-year yield rising to the 7.48% level. The combination of elevated crude prices, portfolio-flow pressure and MSCI-related uncertainty leaves IDR vulnerable. Investor demand for protection against further rupiah weakness also suggests that the market remains sensitive to tail risks.

INDICATIVE RATES 26-Oct-2026

FOREIGN EXCHANGE

	Asia	% Chg	London close 6pm	New York close 5pm		Close	% Chg
USDJPY	157.27	0.29	157.42	157.50	INDU	52361.58	0.28
EURJPY	176.24	0.44	176.17	176.00	NKY	62189.65	-0.80
EURUSD	1.1206	0.14	1.1191	1.1174	DAX	25410.84	0.91
GBPUSD	1.3347	-0.22	1.3357	1.3342	UKX	10767.33	0.72
USDSGD	1.2798	0.12	1.2803	1.281	STI	5415.91	-0.12
USDTHB	33.796	0.11	33.770	33.775	SET	1579.03	1.05
USDMYR	4.0878	0.05	**OTHER INDICATORS**		KLCI	1604.36	-0.45
USDIDR	18124	0.37	DXY Curncy	101.959	JCI	5373.09	-1.22
USDPHP	63.936	0.51			PSEi	5641.18	-1.53
USDINR	95.1925	0.26	GT2 Govt	4.719	SENSEX	73606.75	0.66
USDKRW	1326.40	0.13	GT10 Govt	4.989	KOSPI	5469.47	-1.46
USDTWD	Closed	Closed	GTJPY2Y Govt	1.880	TWSE	Closed	
AUDUSD	0.7031	0.24	GTJPY10Y Govt	2.792	AS51	8809.93	0.17
USDHKD	7.8447	0.04	GTDEM10Y Govt	3.366	HSI	23211.81	0.51
USDCNY	6.6681	-0.05	CO1 Comdty	115.81	SHCOMP	3697.52	0.19
USDVND	25846	0.02	XAU Curncy	4016.71	VNINDEX	1763.55	-0.60

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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