FICC Research

Emerging Asia (ex China) government bonds monthly

MONTHLY REPORT | **SEPTEMBER 2026**

Modest inflation & low G7 correlation help EM Asia bonds

Despite a difficult global bond backdrop, EM Asia (ex China) markets stabilized in August with yields falling in Philippines and Indonesia, on lower inflation and weaker Philippines growth. Evidence of a more modest inflation shock in 2026 is reducing expectations for EM Asia terminal policy tightening rates in 2026-27, dampening the yield impact. Low correlation of Indian and US Treasury yield levels continues, reflecting low foreign ownership of Indian government debt, despite an increase to 3% since 2022 on global bond index inclusion.

Macro & policy backdrop – inflation within target, ex Philippines, despite energy shock

With energy prices in ranges, and limited evidence of 2nd round effects, 2026's inflation shock more modest than 2021-22. Weaker Philippines growth is helping reduce expectations of terminal rate.

Emerging Asia govt bond markets – Markets stabilised, including high yielders

Malaysian and Indian curves remain the most stable, which may reflect investor confidence with policy regimes. Philippines and Indonesia rallied, after inflation fell, and rupiah stabilized.

Spotlight on India – Lower food weighting should limit monsoon impact on CPI

2024 Cpi re-weights may reduce inflation volatility, and term premia. Modest foreign holdings of Indian debt a factor in low correlation with G7. June moves suggest higher foreign holding potential.

Yield levels and changes – Energy shock, what energy shock ?

Indonesian and Philippines yields fell in August, helped by Indonesian inflation within target, but remain 60 – 130 bp higher on 12M. Other markets show more modest moves on 12M.

Emerging Asia and global bond returns – JGBs weakest performers, despite brief yen rally

Difficult global backdrop of rising G7 yields continues, led by longer JGBs, and higher term premia, but low correlation of EM Asia debt with G7 has reduced impact, notably on Indian returns.

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Chart 1: The BSP raised rates for the 3rd successive meeting on August 27th though Philippines growth weakened in Q2, and inflation fell modestly. Other central banks held rates unchanged in August, aided by inflation within target.

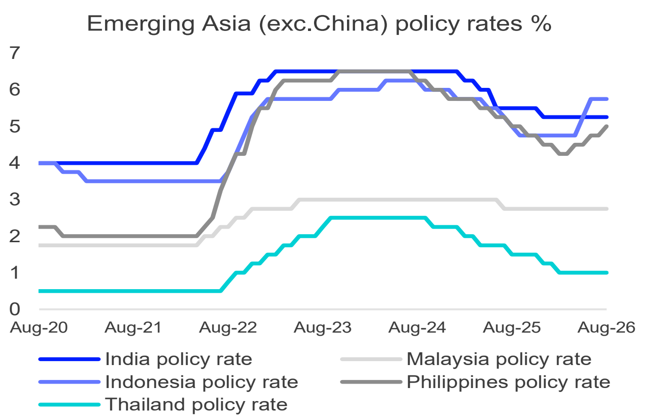
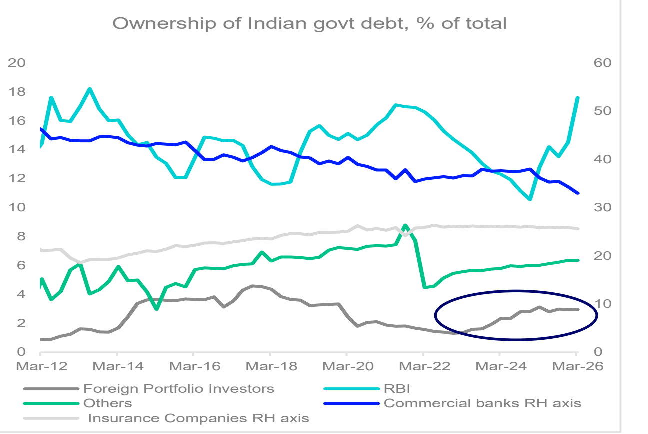


Chart 2: Foreign ownership of Indian govt debt has increased since 2022, helped by global index inclusion. But it is still only 3% of total govt debt, and 7% of FAR-eligible bonds - very low by EM standards.



Macro-economic backdrop & outlook – More modest inflation shock than 2022.

There is evidence of headline inflation rates stabilising with oil prices entering a trading range, though higher food inflation remains another risk. Only Philippines inflation is above central bank target ranges of the five economies, 6 months after the energy shock occurred, and was weaker than expected for July, suggesting 2nd round effects are more modest than feared in March. The Philippines yield curve has anticipated inflation shocks since Covid, steepening in advance, before bear flattening when policy tightening occurs. This was particularly evident in the post-Covid inflation cycle in 2021-2022, when markets generally priced in higher inflation before central banks both in EM and globally (Charts 1,2 & 3).

Evidence a weaker rupiah now has a stronger correlation with higher Indonesian inflation may help explain why Bank Indonesia has already raised rates 100bp in 2026. This has occurred despite inflation within target, albeit above the mid-point (Chart 4). The overall scale of the surge in import prices in 2026 remains more modest than the 2021-22 post-Covid inflation shock, particularly in Thailand and Malaysia, which have less net energy exposure (Chart 5).This may explain the stability of final inflation and policy rates.

Chart 1: Malaysia shows the most stable inflation of the EM peer group, and Philippines faces the biggest inflation challenges since the energy shock. India's long experience with inflation targeting enhances credibility.

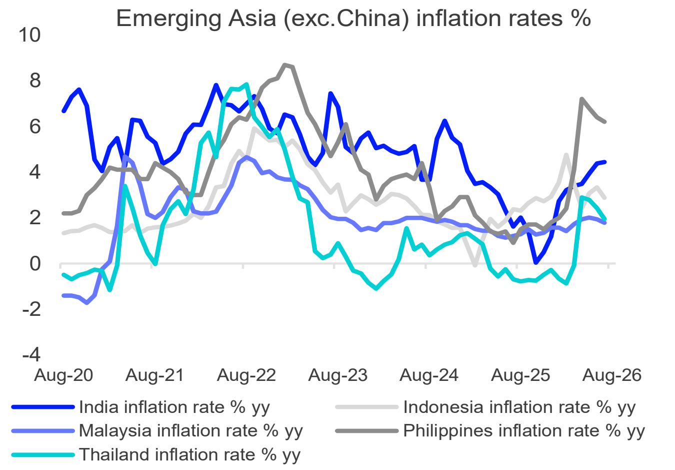


Chart 2: With oil prices settling into trading ranges, after the big spike in March/April, inflation rates have stabilised, and only Philippines inflation is above target. But food inflation poses another threat.

Country	Inflation target & range	Current inflation rate	Target measure
India	4% target 2 to 6% range	4.4% y/y	Headline
Indonesia	2.5% target 1.5 to 3.5% range	2.9% y/y	Headline
Malaysia	2026 forecast range = 1.3 to 2%	1.8% y/y	Headline forecast, no target
Philippines	2 to 4% target range 2026	6.2% y/y	Headline
Thailand	1 to 3% target	2.0% y/y	Headline

Chart 3: Philippines joined the higher yield group in EM Asia in the aftermath of the Covid and inflation shocks. The 10s/2s curve spread tends to anticipate inflation shocks and policy tightening moves.

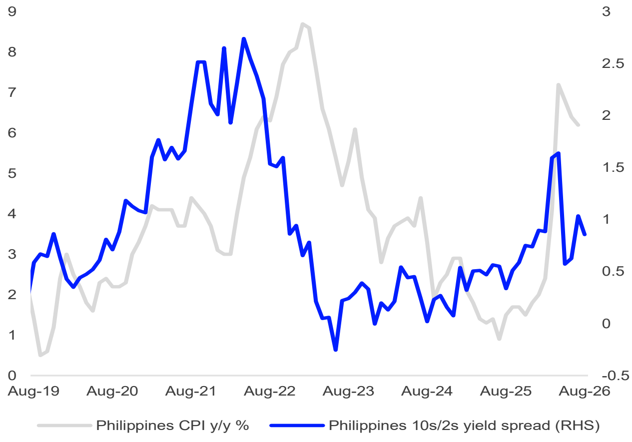
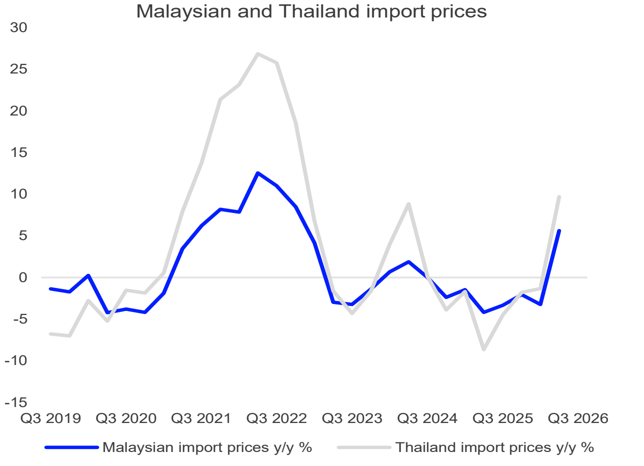


Chart 4: Bank Indonesia signalled above target inflation and a rapid fall in the rupiah are unwelcome, and raised rates 100bp response in 2026. Negative correlation of inflation to the rupiah has increased since 2024.

Chart 5: The scale of the import price increase in 2026 in Thailand and Malaysia particularly, is more modest than the 2021-22 surge, helping to explain why inflation rates remain within target, despite the oil shock.



Source: Refinitiv, FTSE Russell, & LSEG. All data as of August 31, 2026, unless shown. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see end of report for important legal disclosures.

Emerging Asia (ex China) govt bond markets, yields, curves and spreads

EM Asia yields remain split between the higher yielders – India, Indonesia and Philippines – and the lower yielding Malaysia and Thailand. Indonesian and Philippines yields fell in August and the 3rd successive Philippines rate increase (Aug 27) was well discounted. Nonetheless, the economy suffered severe disruption from Covid, and its aftermath,and commodity and energy price exposure in 2026. Faster population growth than the peer group, and persistent higher inflation and current account deficits since 2021, may explain the higher term premia now in Philippines govt bonds.

India continues to trade through Philippines and Indonesia in all maturities, despite buoyant growth and hints from the RBI of a rate increase in 2026-27(Charts 1,2 & 3). Global bond index inclusion, high real yields and stable domestic institutional demand are key factors supporting the market, plus the strong carry with yields near 7%. Both the Indian and Malaysian curves remained more stable than other markets since the energy shock, suggesting more investor confidence with policy regimes. Chinese bond yields escaped much impact from the energy shock, partly because of inflation near zero and high strategic energy reserves (Charts 4 & 5).

Chart 1: Malaysian short yields edged higher in August, despite less exposure to higher oil prices, as expectations of further easing fell. But Philippines and Indonesian yields fell, helped by slightly lower oil prices.

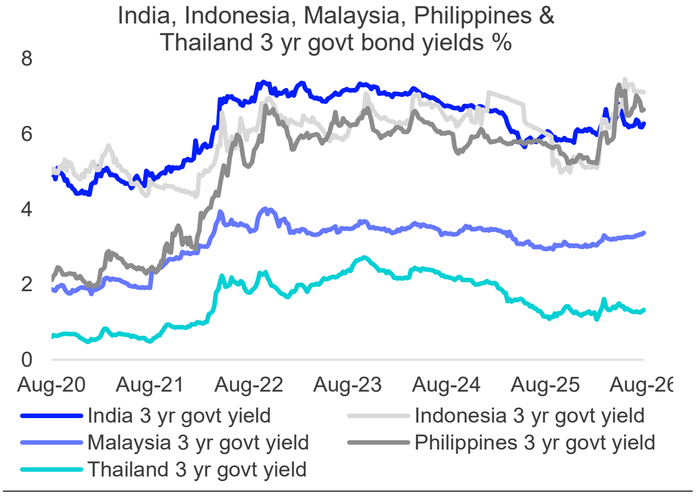


Chart 2: As in 3 yrs, Philippines and Indonesian yields fell back, as market fears of more tightening eased. Indian yields barely moved despite hawkish signals from the RBI about higher rates in 2026-27.

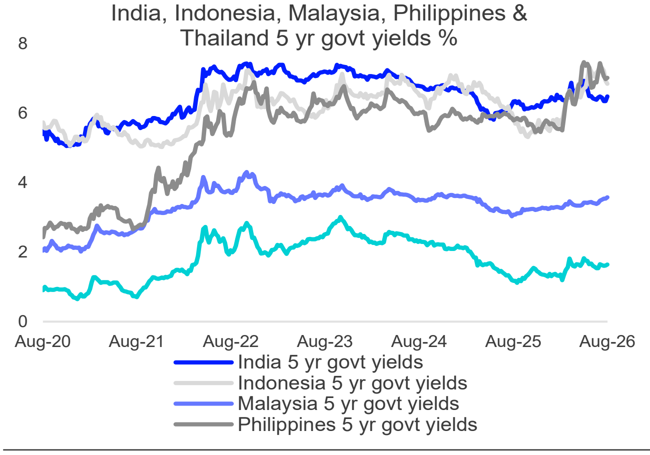


Chart 3: 10 year yields also fell in Philippines and Indonesia, unwinding some of the big increases in July, despite US Treasury yields rising. Yields moved little elsewhere, with Indian yields lower on 3 months.

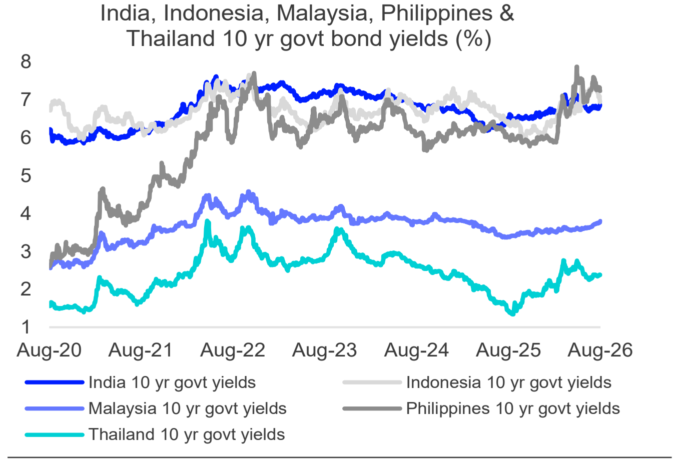


Chart 4: After bear flattening in July, the Indonesian curve stabilized, though investors seek clarity on Bank Indonesia's policy reaction function. The Malaysian curve has remained stable through the energy shock.

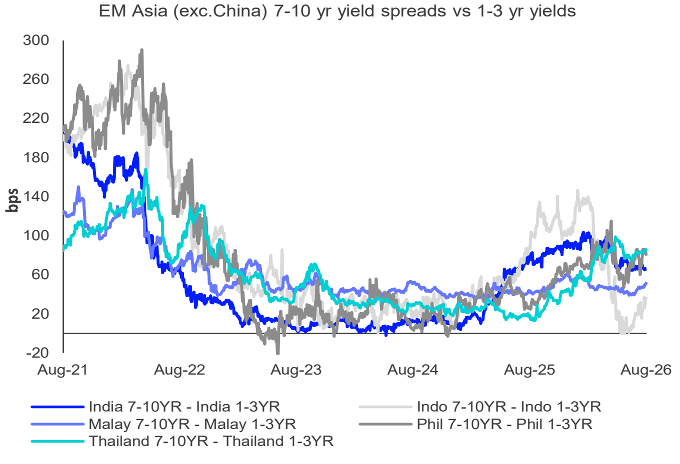
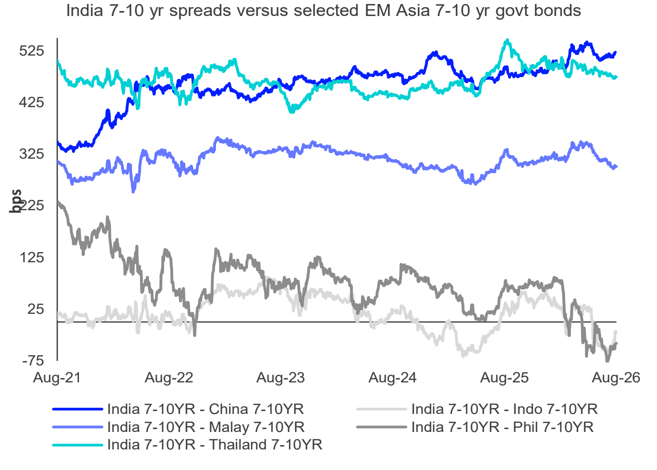


Chart 5: Indian 7-10 yr spreads have edged in against Thailand, due to debt issuance and sustainability concerns in Thailand. Deflation risks and less middle-east oil dependency insulated Chinese yields from the shock.



Source: FTSE Russell , LSEG, Thai Bond Market Association. All data as of August 31, 2026. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see end of report for important legal disclosures. Bond market index data is derived from FTSE Fixed Income Indices.

Spotlight on India – Reduced food weight should temper monsoon impact on CPI

The Indian economy has withstood the energy shock without a major stagflation to date, helped by buoyant consumer spending, even if inflation has rebounded above the mid-point of the target range. Food and fuel remain key drivers of headline inflation, though the weight of food in the consumer price index was reduced to 37% from 46% in the new weighting, effective Feb.2026 (Charts 1 & 2). This should reduce the impact of seasonal food, and monsoons, and increase the influence of service sector inflation, making the index less volatile, and sensitive to supply-side shocks, and may help to stabilize inflation expectations, reducing term premia at the margin.

Nonetheless, 10 yr government bond yields have increased correlation sharply with oil prices since the energy shock in late-February, as Chart 3 shows. This correlation may start to decline when oil prices finally stabilize. Meanwhile, the RBI's fx intervention earlier in Q3 has helped the rupee stabilize around the 96 level against the US dollar. Finally, the correlation of Indian bond yield levels with US Treasury yield levels is low – 0.08 over the last 20 yrs, as Chart 5 shows, offering portfolio diversification benefits for global fixed income investors.

Chart 1:The RBI hinted at raising rates later in 2026-27, and forecasts inflation above 4% in 2026-27. However, the RBI's history of successful inflation targeting may have eased fears of a major tightening cycle.

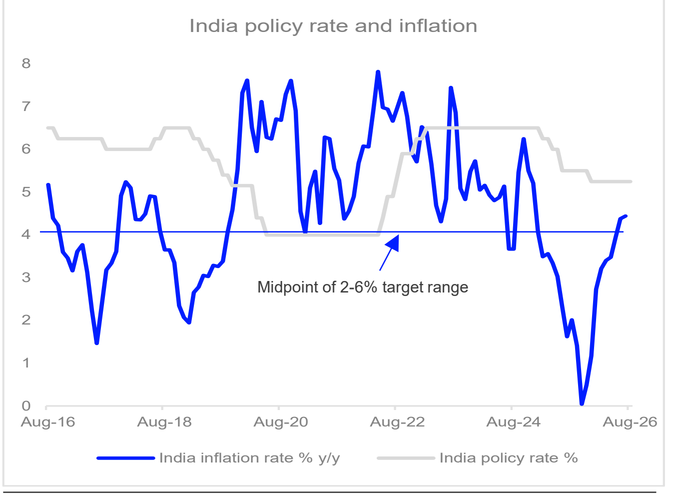


Chart 2: Re-weighting of the CPI recognises shifts in consumption away from food (largely supply-driven), and towards core goods and services, which are more demand-driven, reducing the seasonal food impact.

Indian CPI weights Expenditure category	Old weight (2012)	New weight (2024)	Notes
Food and beverages	45.9%	36.8%	Reduces monsoon impact
Housing, fuel and light	16.9%	17.7%	Combined weight of non-food = 63%
Transport and communication	8.6%	12.4%	Energy impact increases a little
Health	5.9%	6.1%	Virtually unchanged
Clothing & footwear	6.5%	6.4%	Virtually unchanged
Miscellaneous & others	16.2%	20.7%	
Total	100%	100%	

Chart 3: The correlation of changes in Indian 10 yr government bond yields with oil price changes has increased sharply, from 0.25 to 0.65, since end-February (1st differences). This reflects the inflation impact.

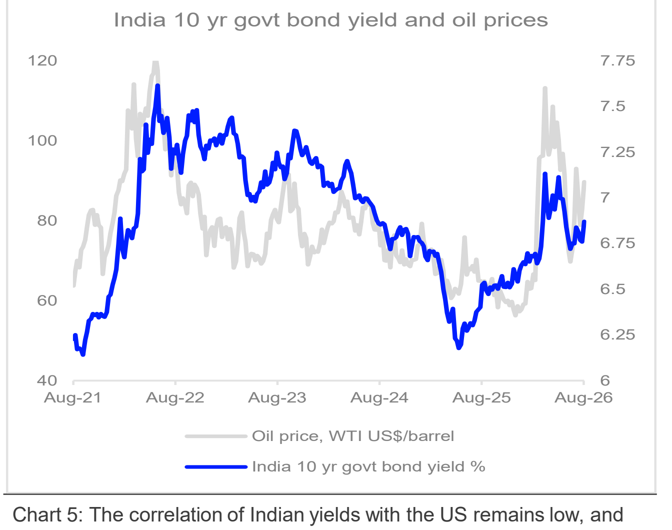


Chart 4: The RBI's fx intervention in July appears to have been successful in stabilising the rupee at the 96 level versus USD, helped by oil prices falling back a little, and increased foreign deposit inflows.

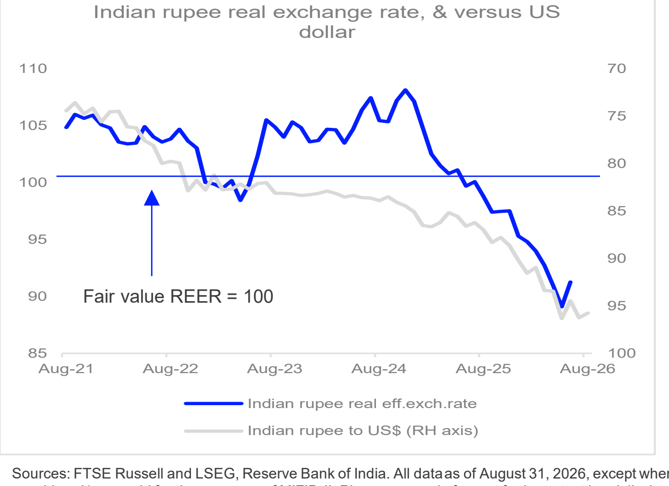
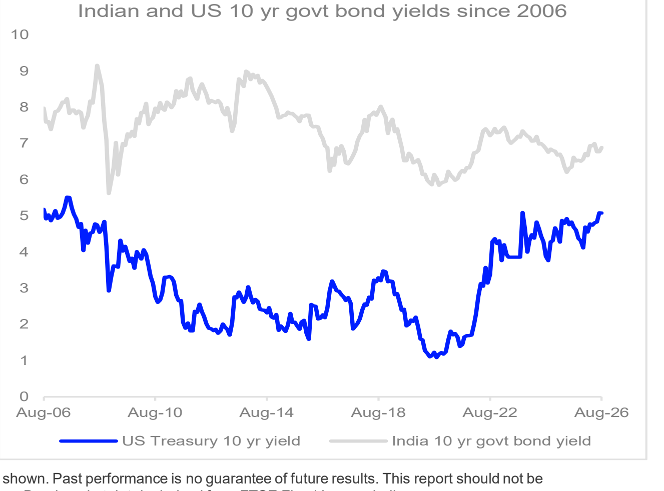


Chart 5: The correlation of Indian yields with the US remains low, and close to zero for yield levels - offering portfolio diversification benefits for global investors. Correlation of yield 1st differences is higher (about 0.3).



Sources: FTSE Russell and LSEG, Reserve Bank of India. All data as of August 31, 2026, except where shown. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see end of report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices.

Emerging Asia (ex China) govt bonds – yield levels and changes in 2025-26

Yields fell about 30bp in the higher yielding Philippines and Indonesian govt bonds in August, helped by inflation below expectations for July and weaker Q2 Philippines growth, and despite a difficult G7 bond market backdrop. Yields fell broadly in line in August across the curve, as markets scaled back tightening expectations. Indian yields barely moved but are still 10-20 bp lower on 3M, and only 20-30bp higher on 12M.

Unlike the volatility in the higher yielders, Malaysian and Thai short yields remain in tight ranges in Q3, with little prospect of early policy moves. Longer yields moved more, however, with yields up about 50-80bp on 12M, compared with only 20 bp in India.

Overall, the low correlation of the EM ex China Asia markets with the G7 has helped them withstand the reversal in US short rate expectations in the last 1-3 months, particularly in India (also see pages 4 and 6).

Decrease	Increase

1-3 yr maturity	Current yield August 31, 2026	1M change	3M change	12M change
India	6.158	0.046	-0.188	0.277
Indonesia	6.700	-0.340	0.124	1.364
Malaysia	3.281	0.030	0.129	0.317
Philippines	6.357	-0.316	-0.465	0.700
Thailand	1.195	0.014	-0.026	0.050
3-5 yr maturity	**Current yield August 31, 2026**	**1M change**	**3M change**	**12M change**
India	6.513	0.096	-0.212	0.205
Indonesia	6.875	-0.372	0.170	1.221
Malaysia	3.556	0.117	0.214	0.445
Philippines	7.010	-0.205	-0.200	1.229
Thailand	1.434	0.023	-0.073	0.276
7-10 yr maturity	**Current yield August 31, 2026**	**1M change**	**3M change**	**12M change**
India	6.884	0.088	-0.130	0.201
Indonesia	7.042	-0.295	0.233	0.667
Malaysia	3.859	0.133	0.268	0.480
Philippines	7.223	-0.234	-0.266	1.262
Thailand	2.062	0.060	-0.098	0.775

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Emerging Asia (ex China) govt bonds in global context - govt bond returns (%)

Global bond markets ended August on a weak note, after hawkish US Fed signals and indications the BoJ will raise rates at the September meeting. 10 yr JGB yields hit 3% for the 1st time since 1996 on Sept 1. US inflation above target, higher corporate issuance and rising fiscal deficits are the main drivers of higher Treasury yields YTD, as longs underperformed, even if higher carry has protected returns somewhat.

Long JGBs remain the weakest G7 performer, as the curve bear steepens, anticipating higher BoJ rates, and JGB issuance, given Japan's fiscal policy. The yen rallied in August on concerted fx intervention, but fell back again, as markets priced in higher US rates.

Korean and Indonesian govt bonds led returns, gaining 4-4.5% in August, mainly on currency gains. The won drew support from the yen rally, partly due to its high correlation with yen moves, but also due to record semi-conductor exports and fx earnings. But long Korean govt bonds lost 24% on 12M, due to concerns about debt issuance levels and higher term premia. In comparison, both Malaysia and Indian returns show much lower volatility, even if currency weakness reduced Indian returns in USD terms.

Top 15% Bottom 15%

		1M		3M		YTD		12M	
		USD	LOCAL	USD	LOCAL	USD	LOCAL	USD	LOCAL
USA	1-3	0.25	0.25	0.46	0.46	1.08	1.08	2.54	2.54
	7-10	0.15	0.15	-1.00	-1.00	-1.39	-1.39	0.39	0.39
	20+	0.77	0.77	-2.61	-2.61	-3.21	-3.21	-0.16	-0.16
Japan	1-3	-0.54	-0.25	-0.53	-0.21	-1.80	0.05	-8.05	0.01
	7-10	-1.14	-0.85	-1.66	-1.35	-6.02	-4.25	-14.45	-6.96
	20+	-2.36	-2.07	-4.42	-4.11	-14.07	-12.45	-23.17	-16.43
Germany	1-3	1.02	0.06	-0.42	0.04	-0.80	0.30	-0.11	0.66
	7-10	0.32	-0.64	-2.40	-1.95	-2.38	-1.31	-2.34	-1.60
	20+	-0.97	-1.91	-5.49	-5.05	-4.93	-3.88	-6.87	-6.16
Korea	1-3	4.39	0.21	10.96	0.77	6.24	0.93	2.62	1.02
	7-10	4.21	0.04	9.45	-0.60	1.47	-3.60	-5.21	-6.69
	20+	4.48	0.30	2.59	-6.83	-13.16	-17.49	-22.93	-24.13
Indonesia	1-3	2.88	1.29	2.35	1.46	-4.25	1.73	-3.27	3.92
	7-10	4.08	2.46	1.19	0.31	-6.76	-0.95	-4.53	2.56
	20+	4.26	2.65	-0.11	-0.98	-6.30	-0.45	-3.43	3.74
India	1-3	0.62	0.37	1.76	1.95	-2.28	3.48	-1.92	5.81
	7-10	0.26	0.02	2.32	2.51	-2.72	3.02	-2.12	5.60
	20+	0.30	0.05	2.51	2.70	-3.88	1.79	-3.52	4.09
Malaysia	1-3	1.72	0.21	-0.89	0.63	2.42	1.61	7.71	2.64
	7-10	0.90	-0.60	-2.42	-0.92	0.74	-0.05	5.19	0.24
	20+	-0.44	-1.92	-3.22	-1.73	-0.50	-1.29	3.32	-1.55
Philippines	1-3	-0.57	1.11	1.67	2.76	-3.24	2.39	-3.72	4.89
	7-10	0.36	2.06	2.40	3.50	-8.31	-2.97	-9.53	-1.43
	20+	0.80	2.51	5.82	6.96	-11.40	-6.24	-12.16	-4.30
Thailand	1-3	0.78	0.08	-1.38	0.49	-4.07	0.97	-0.97	1.37
	7-10	0.40	-0.30	-0.17	1.72	-7.08	-2.20	-5.75	-3.52
	20+	1.45	0.75	1.11	3.02	-13.28	-8.73	-17.38	-15.43

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