

Emerging Asia (ex China) govt. bonds monthly

MONTHLY REPORT | APRIL 2026

Energy shock threat but relative value in 10 yr yields ?

Emerging Asia (exc.China) govt bond returns have fallen on the energy shock in 2026 – a bigger shock for APAC than Ukraine in 2022, given energy supply logistics. Central banks must now gauge recession risks against inflation. Bond markets reacted to inflation risks swiftly, led by Philippines and Indonesia, and all govt bonds have discounted higher inflation rates in 2026, already. But slower growth on the energy shock would enhance the appeal of yields near 7% in 10 yrs in some markets, even if the energy shock proves to have a long tail.

Macro and policy backdrop – Thailand, Philippines & India more exposed to an energy shock

An energy shock would worsen growth/inflation trade-offs in Thailand, Philippines & India, though it comes when inflation rates are generally low. Indonesia and Malaysia are less exposed (page 2).

Emerging Asia govt bond markets – Curves steepen to 2023-24 levels

Curve steepening in India & Indonesia in 7-10 yrs gives more yield protection in longs, and relatively high outright yields, above 6.5% in 10 yrs. Surprise Thai rate cut drives yields to cycle lows (page 3).

Spotlight on India – Inflation rebound and exchange rate weakness delay rate cuts

GDP growth of 7.8% in Q4 y/y, and rupee weakness reduce pressure on the RBI to ease policy further, with inflation returning to the 2-6% target range in February at 3.2% y/y (page 4).

Yield levels and changes – Yields backed up on energy shock in Q1, led by Philippines

Yields have generally risen in March, although Indian and Malaysian yields moved less. Philippine yields rose the most, across the yield curve, reflecting high net energy exposures (page 5).

Emerging Asia bond returns – Most returns now negative on 12 months, after Q1 turnaround

Only Malaysia and Thailand show positive returns on 12M, helped by exchange rate gains. But Thailand and Philippines suffered the biggest 1M losses on higher net energy exposures (page 6).

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Chart 1: Central banks of Thailand and Philippines eased policy rates most ahead of the energy shock. But macro-economic conditions are transformed by the shock, and central banks firmly on hold, assessing stagflation impact.

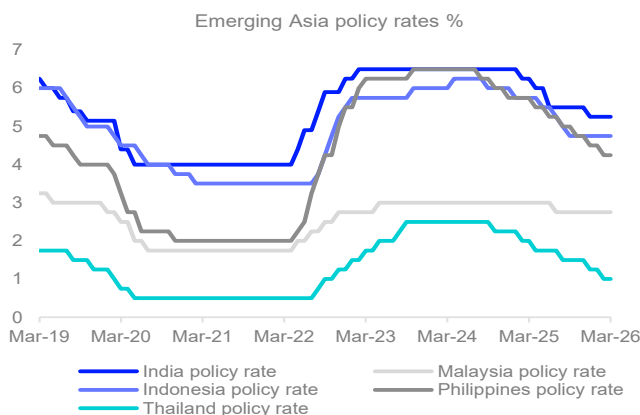
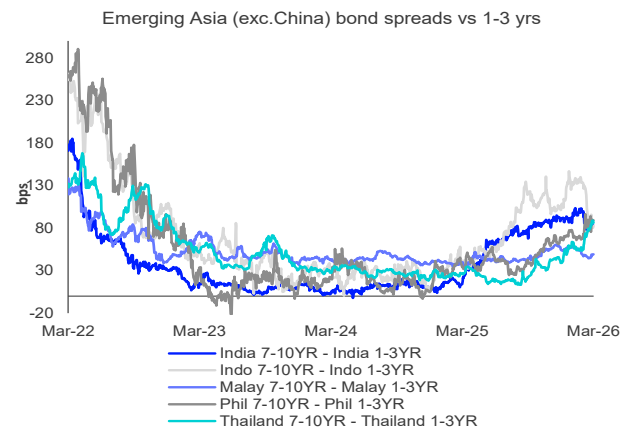


Chart 2: Curves steepened in Em. Asia (exc.China) bonds in 2025-26, due to lower policy rates, but also higher issuance in longs. The energy shock has driven more curve volatility as stagflation risks predominate.



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Macro-economic backdrop and policy outlook – energy shock dominates outlook

Geo-political conflagration in the middle east has unleashed a major energy supply shock. Thailand, Philippines and India are more vulnerable to higher energy prices than Indonesia particularly and Malaysia (Chart 1), importing about 50% of their crude oil from the middle east.

The 2026 energy shock is far more pronounced than 2022's Ukraine shock, which was mainly a European shock. Philippines has declared a state of emergency, given it imports 98% of its oil from the middle east. The shock supersedes IMF forecasts, which at least confirm the timing is not disastrous, with inflation subdued, apart from Indonesia, where inflation was boosted by food prices and base effects (Chart 2 & 3). Inflation is within or below target ranges in the other Asean economies (Chart 4), reducing the risks an energy shock destabilizes inflation expectations.

Much depends on how long the conflagration continues, how weak GDP becomes, and whether demand and employment enter a self-feeding contraction. A prolonged energy shock carries major stagflation risks, with a 2-way pull on central bank rates, making unchanged policy more likely in Q2 (Chart 5).

Chart 2: IMF forecasts show little change in 2026 inflation for Emerging Asia since tariff turbulence began, with only Indonesia raised notably, after weather shocks & higher food prices.

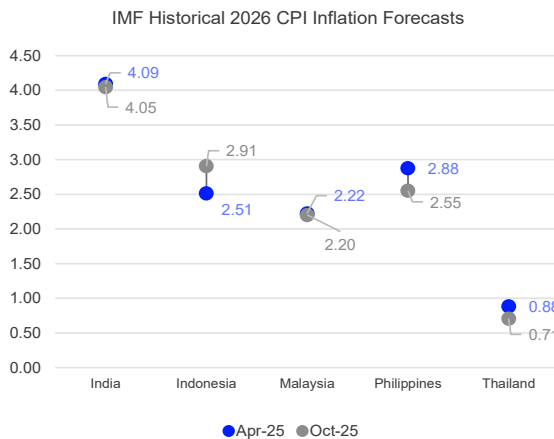


Chart 4: Inflation rates are within target ranges in the 5 APAC economies, exc. Indonesia, where adverse base effects and higher food prices caused Q1 inflation to move above target.

Country	Inflation target & range	Current inflation rate	Target measure
India	4% target 2 to 6% range	3.2% yy	Headline
Indonesia	2.5% target 1.5 to 3.5% range	4.8% yy	Headline
Malaysia	2026 forecast range = 1.3 to 2%	1.4% yy	Headline forecast, no target
Philippines	2 to 4% target range 2026	2.4% yy	Headline
Thailand	1 to 3% target	-0.9% yy	Headline

Chart 1: Thailand, Philippines, and India remain the biggest net energy importers of the Asean 5, so are more exposed to an energy shock. Indonesia is a substantial energy exporter (led by thermal coal & LNG).

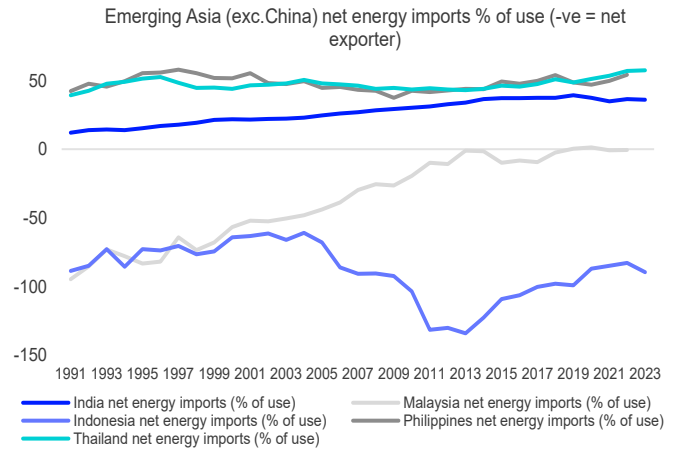


Chart 3: Inflation fell in 2025, helped by lower energy and food prices, exc. Indonesia. Lower Philippines & Indian inflation give more room for easing but base effects are now less favourable.

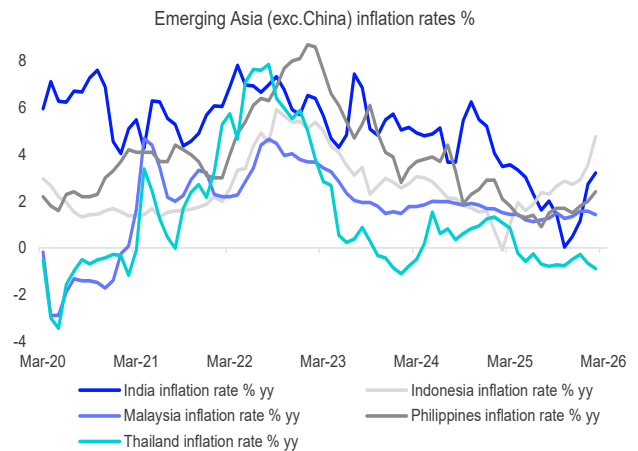


Chart 5: IMF growth forecasts for 2026 show few downgrades for Emerging Asia since tariff turbulence began, but Thailand, Philippines and India are more vulnerable to an energy shock.



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

There is a two way pull on govt bond yields from the energy shock. Government bonds benefit from weaker growth prospects and safe haven buying, as uncertainty spikes and risk appetite declines in equities. But the threat of higher inflation from an energy shock reduces the probability of policy easing, particularly for large energy importers, like India and the Philippines, so yields have not declined after the energy shock, but increased. The scale of the shock in Philippines has driven sharper increases in yields, as investors fret more about govt. debt capacity. In contrast, Malaysian yields moved least (Charts 1,2 & 3).

Yield curves have also de-stabilized as investor sentiment oscillates. Only the Indian and Indonesian curves show discernible steepening, as Chart 4 shows, which was underway earlier in Q1, 2026. Spreads versus US Treasuries edged out, but that largely reflects initial safe haven buying of US Treasuries in early March (Chart 5).

In the near term, global energy pricing dynamics remain a threat to all bond markets. This may change as the growth impact of the shock starts to emerge in economic data.

Chart 1: Philippines' State of Emergency drove 3 yr yields sharply higher, alongside Indonesian, and above Indian levels. Lower inflation in Thailand and less Malaysian energy exposure restricted yield moves.

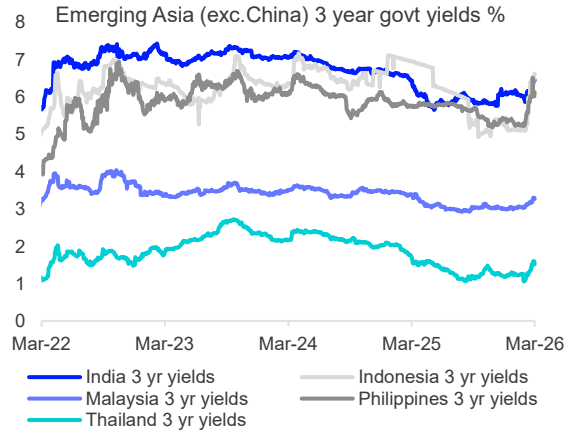


Chart 2: Philippines 5 yr yields also increased most, on the State of Emergency, and above Indian levels. Indonesian yields rose sharply, on higher inflation rates. Thailand and Malaysia have moved less.

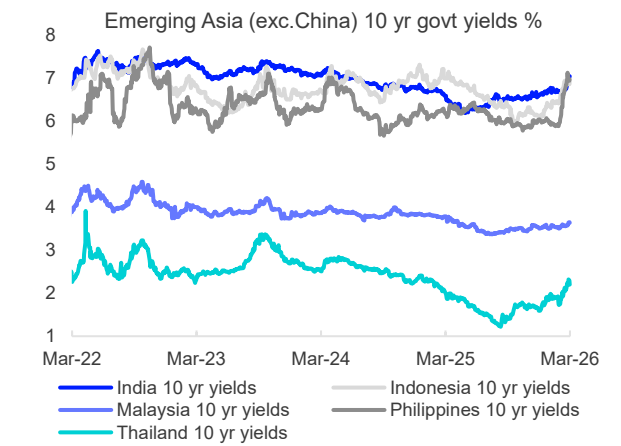
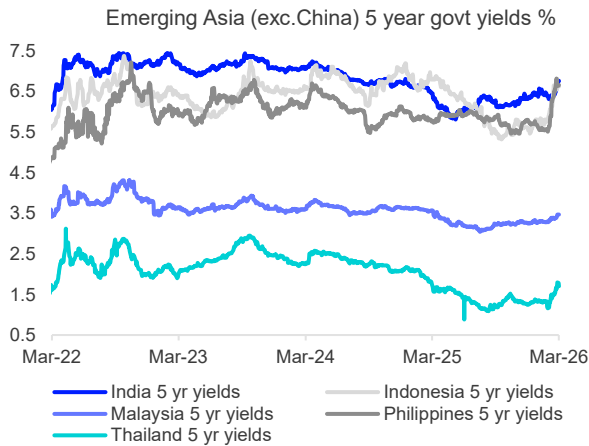
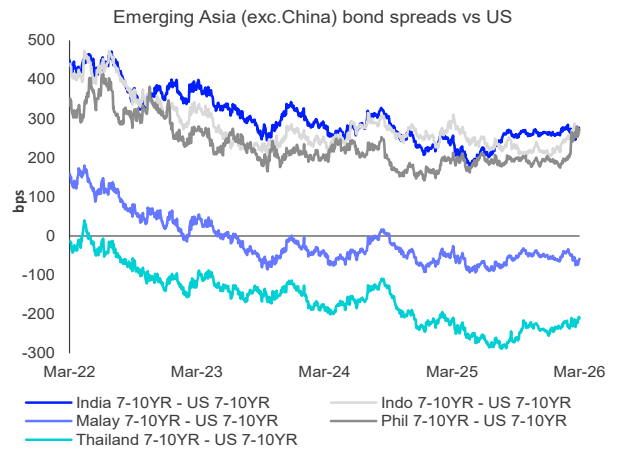
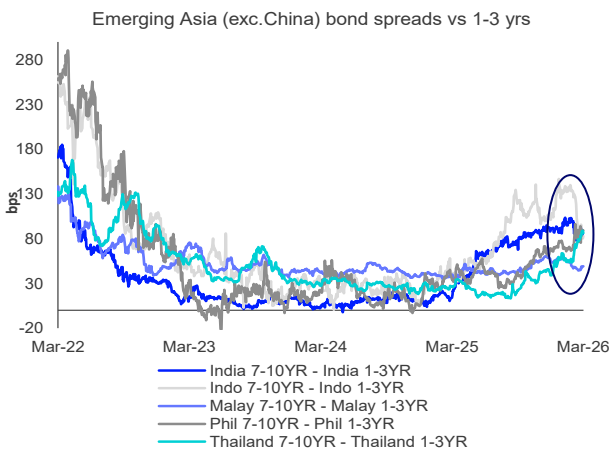


Chart 4: Higher Indonesian inflation drove curve steepening, though the curve has flattened as short rate expectations increased. The Indian curve steepened due to the weak rupee & higher long issuance.

Chart 5: Yield spreads versus US Treasuries show major longer term convergence, reflecting low inflation and stronger policy regimes. Malaysian spreads tightened in Q1, due to lower energy shock exposure.



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Spotlight on India – energy shock, inflation rebound & weak rupee put RBI on hold

The energy shock, and exchange rate reaction now dominate the Indian macroeconomic, policy and bond market outlook. Even before the energy shock, the Reserve Bank of India was cautious on easing further, reflecting robust growth, and the weak rupee, and allowed real policy rates to rise (Chart 1).

Higher crude oil prices carry an obvious stagflation risk, even if govt. estimates suggest 60% of crude oil imports now exclude the Straits of Hormuz. Weakness in the rupee also works against further reductions in policy rates, since the weaker currency eases financial conditions in its own right (Chart 2).

Increased long bond issuance and rate cuts in 2025 caused the yield curve to steepen (Chart 3) but this has partially reversed and the lower current account and fiscal deficits, and inflation within target put India in a stronger position to withstand this energy shock (see Chart 4), than previous shocks. The high share of consumer spending in GDP has also reduced the impact of the delay in reaching a trade tariff deal with the US (Chart 5).

Chart 1: The RBI eased rates, but only cautiously, as headline inflation fell, driven by food prices, since GDP growth has remained robust (Chart 4) and core services inflation is higher at 3% y/y.

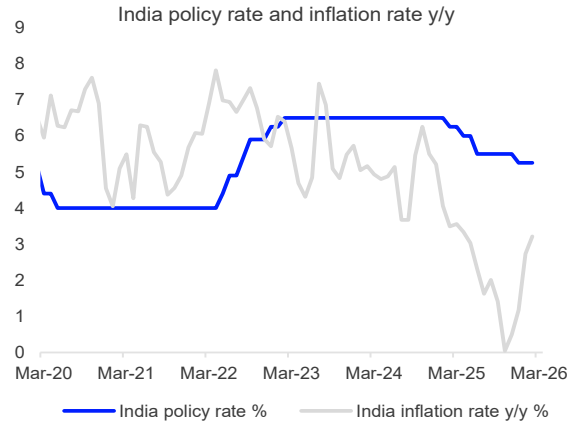


Chart 3: The Indian yield curve steepened through 2025, as short rates declined, and longer yields backed up. Curve steepening stabilised in Q1, as the RBI held rates firm.

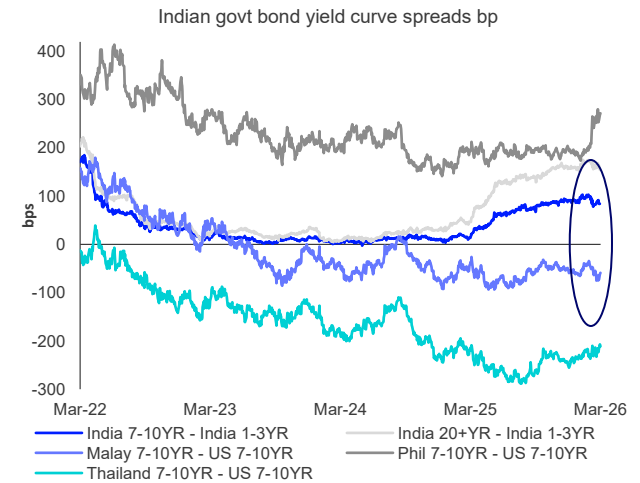


Chart 5: Private consumer expenditure represents about 62% of Indian GDP, so it tends to drive growth. This is more like a G7 economy, and makes consumer confidence key to growth.

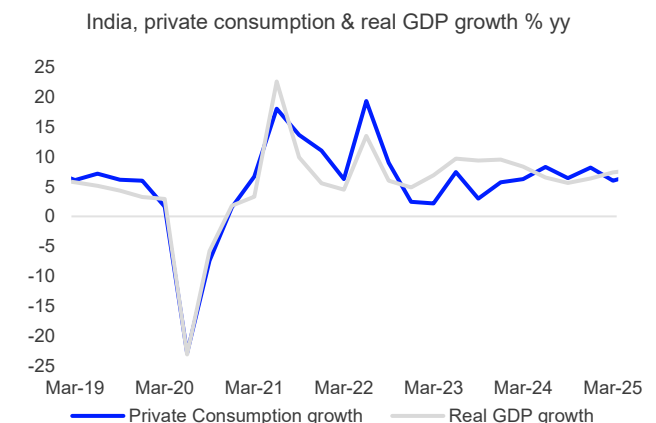


Chart 2: Recent weakness in the rupee, which fell over 4% in March versus the USD, drove RBI curbs on speculative activity. India's high net energy imports seem a bigger rupee driver than short yield differentials.

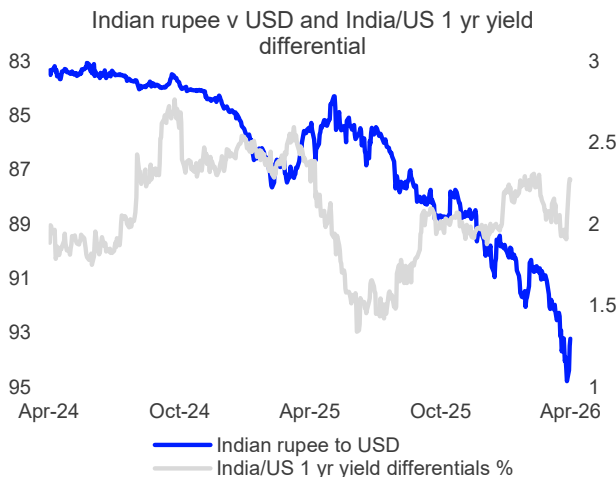
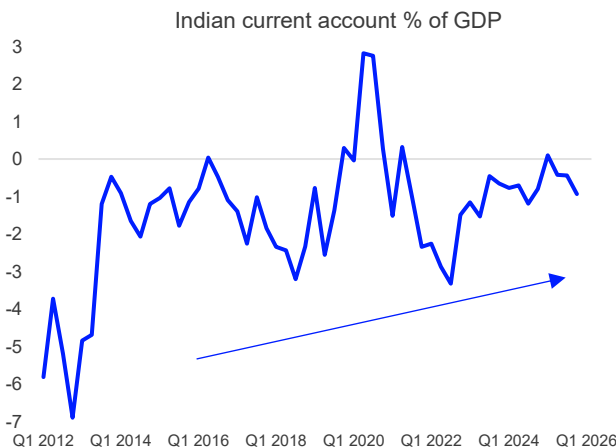


Chart 4: India's current account deficit has contracted sharply since 2012, and is at about 1% of GDP, despite buoyant consumer spending, as the economy faces the current energy shock- an improved position vs 2022.



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

The most striking feature about yield changes in Emerging Asia (exc. China) govt bonds in 2025-26 is that the previous decline in yields has now been reversed, mainly by the energy shock in Q1. In 7-10 yrs, only Indonesia and Malaysia show lower yields on 12M now. Furthermore, India, Indonesia and Philippines all show 7-10 yr yields of close to 7%, despite current inflation of 2.4% to 4.8% y/y. So markets have discounted a significant inflation rebound already.

Philippine yields rose the most on 1 month, in line with the country's high net energy exposure and State of Emergency. Despite being a net energy exporter, Indonesian yields have reversed higher on 1-3 months, reflecting higher food inflation.

Increase Decrease

1-3 yr maturity	Current yield March 31, 2026	1M change	3M change	12M change
India	6.171	0.512	0.443	-0.296
Indonesia	6.054	0.980	0.909	-0.587
Malaysia	3.164	0.151	0.210	-0.203
Philippines	6.067	0.856	0.720	0.316
Thailand	1.265	0.232	0.132	-0.492
3-5 yr maturity	Current yield March 31, 2026	1M change	3M change	12M change
India	6.578	0.414	0.395	0.089
Indonesia	6.543	0.949	0.979	-0.261
Malaysia	3.367	0.135	0.141	-0.164
Philippines	6.652	1.166	0.936	0.840
Thailand	1.585	0.485	0.374	-0.224
7-10 yr maturity	Current yield March 31, 2026	1M change	3M change	12M change
India	7.010	0.322	0.366	0.408
Indonesia	6.881	0.466	0.724	-0.176
Malaysia	3.655	0.150	0.157	-0.111
Philippines	6.959	1.073	0.920	0.863
Thailand	2.127	0.562	0.602	0.106

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

Global and Emerging Asia (exc China) government bond returns all turned negative on 1-3 months, as the energy shock and exposures to it overpowered other factors in driving returns. Long Philippines and Thailand govt bonds were particularly weak. Returns have generally been higher in shorter maturities, even on 12 months, reflecting policy easing, and curve steepening, in India and Indonesia particularly, but also globally, reflecting central bank easing in 2025-26, though differing inflation performances mean de-synchronised easing cycles.

Weaker exchange rates squeezed Indian and Indonesian returns for overseas investors, particularly Indian returns, reflecting India's higher net energy imports. In contrast, the strength of the Malaysian ringgit and Thai baht boosted govt bond returns to 15% on 12 months in USD terms.

Top 15% Bottom 15%

		1M		3M		YTD		12M	
		USD	LOCAL	USD	LOCAL	USD	LOCAL	USD	LOCAL
USA	1-3	-0.44	-0.44	0.28	0.28	0.28	0.28	3.77	3.77
	7-10	-2.31	-2.31	-0.28	-0.28	-0.28	-0.28	4.06	4.06
	20+	-4.14	-4.14	-0.32	-0.32	-0.32	-0.32	-0.30	-0.30
Japan	1-3	-1.94	-0.08	-1.47	0.00	-1.47	0.00	-5.76	0.26
	7-10	-3.43	-1.60	-2.91	-1.45	-2.91	-1.45	-10.05	-4.30
	20+	-7.58	-5.82	-6.26	-4.86	-6.26	-4.86	-24.18	-19.34
Germany	1-3	-3.30	-0.91	-2.25	-0.37	-2.25	-0.37	7.73	1.00
	7-10	-5.03	-2.68	-2.42	-0.54	-2.42	-0.54	7.49	0.77
	20+	-4.95	-2.59	-0.95	0.96	-0.95	0.96	1.97	-4.40
Korea	1-3	-6.60	-0.55	-6.08	-0.14	-6.08	-0.14	-2.42	1.50
	7-10	-8.92	-3.02	-8.32	-2.52	-8.32	-2.52	-8.17	-4.48
	20+	-11.89	-6.19	-13.97	-8.53	-13.97	-8.53	-21.38	-18.22
Indonesia	1-3	-2.47	-1.13	-2.05	-0.18	-2.05	-0.18	4.19	6.92
	7-10	-3.59	-2.27	-4.67	-2.84	-4.67	-2.84	5.35	8.11
	20+	-3.04	-1.72	-2.75	-0.89	-2.75	-0.89	6.84	9.64
India	1-3	-4.46	-0.39	-4.59	0.69	-4.59	0.69	-4.04	6.49
	7-10	-5.41	-1.39	-5.82	-0.61	-5.82	-0.61	-6.19	4.10
	20+	-7.18	-3.23	-7.96	-2.87	-7.96	-2.87	-11.93	-2.27
Malaysia	1-3	-3.90	0.01	0.62	0.40	0.62	0.40	13.56	3.62
	7-10	-4.60	-0.73	0.01	-0.21	0.01	-0.21	14.48	4.46
	20+	-4.79	-0.93	-0.52	-0.74	-0.52	-0.74	14.66	4.62
Philippines	1-3	-6.27	-1.26	-3.22	-0.07	-3.22	-0.07	-1.05	5.05
	7-10	-10.92	-6.15	-7.22	-4.20	-7.22	-4.20	-4.99	0.87
	20+	-10.10	-5.29	-8.62	-5.64	-8.62	-5.64	-5.62	0.20
Thailand	1-3	-6.11	-0.39	-4.48	-0.01	-4.48	-0.01	5.15	2.22
	7-10	-9.42	-3.90	-8.24	-3.94	-8.24	-3.94	3.89	1.00
	20+	-14.67	-9.47	-17.23	-13.36	-17.23	-13.36	-5.17	-7.81

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