FICC Research

Emerging Asia (ex China) government bonds monthly

MONTHLY REPORT | **AUGUST 2026**

Indian yields fall despite rupee weakness

Policy divergence amongst EM Asia (ex China) economies continues, with Malaysia best placed of the peer group to withstand energy shocks, given external surpluses, stable inflation, and safe haven characteristics. Indian govt bonds benefit from strong carry, inflation within target, policy stability, and an undervalued rupee for overseas investors, despite RBI FX intervention. Uncertainty about policy regimes in Indonesia and Philippines drove yields above Indian levels. Thai bonds failed to benefit from the June rate cut, beyond the very front end.

Macro & policy backdrop – Indian and Malaysian stability as policy diverges elsewhere

Energy prices remain the dominant macro driver, though the inflation impact has varied across EM Asia economies. The resignation of Indonesian central bank Governor increases policy uncertainty.

Emerging Asia govt bond markets – India rallies to trade through Indonesia and Philippines

Bifurcation between high and low yield groups continues. India outperforms amongst high yielders.

Spotlight on Malaysia – External surpluses, and favourable terms of trade protect economy

Stable inflation, near 2%, external surpluses and Malaysia's net energy exporter status insulated the economy from the recent energy shock, and allowed the authorities to keep rates unchanged.

Yield levels and changes – Broadly stable yields in July apart from Philippine yield reversal

All markets show yields below 2026 highs, with Indian 10-year yields 30 bp lower on 3M, helped by RBI measures. India now trades through Indonesia and Philippines. Malaysia remains a safe haven.

Emerging Asia and global bond returns – Oil price rebound stalls June rally, but India gains

Globally, most markets fell modestly on higher oil prices and hawkish Fed comments in July, though Indian govt bonds (IGB) have gained 2-3% on 3M, helped by RBI measures. Fears of higher debt issuance and inflation weighed on long JGBs, KTBs, Thai, Philippine and Indonesian govt bonds.

CONTENTS

AUTHOR

Robin Marshall, MA, MPhil
Head of FICC Research
FTSE Russell
Robin.Marshall@lseg.com

Chart 1: The scale of 2026's Indonesian policy tightening (125bp) exceeds others, partly driven by the rupiah, but is dwarfed by the 2022-24 tightening (275bp). Malaysian rates remain stable, with lower energy shock exposure.

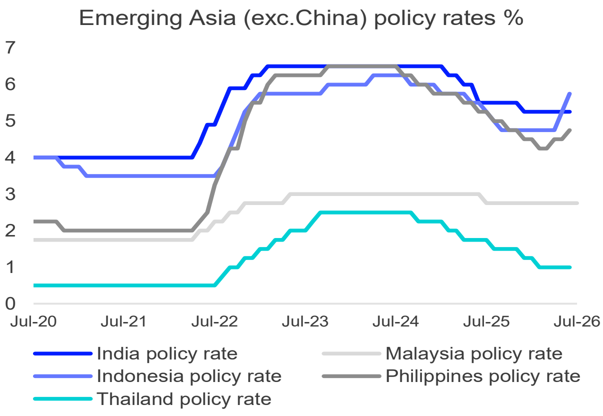
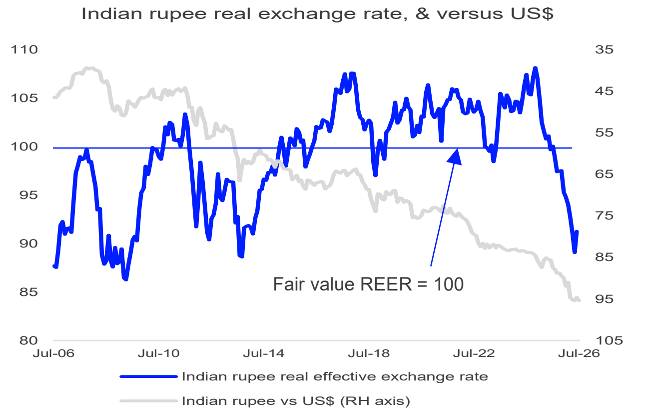


Chart 2: Recent weakness in the Indian rupee means the currency is approximately 10% undervalued on the real effective exchange rate. FX intervention in July suggests the RBI now regards this as excessive.



Source: FTSE Russell and LSEG. All data as of July 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 the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices.

Macro-economic backdrop & outlook – Indonesian activism drives curve moves ?

The Middle East conflagration and energy price volatility remain the dominant macro drivers, though stable central bank monetary policies in India and Malaysia may be dampening the impact of oil price moves a little. Energy prices show strongest correlation with inflation rates in India, Indonesia and Philippines, even if India, Indonesia, Malaysia and Thailand all have inflation within target ranges (Charts 1 and 2). Indeed, Thailand cut rates to 1% on June 24. Low price subsidies mean Philippines inflation is more sensitive to oil price moves, reflected in the high correlation of the Philippines 10 yr yield to the oil price (Chart 3).

Monetary policy and market responses have varied. In contrast to India, Malaysia and Thailand, markets priced in a faster policy reaction function in Indonesia, after the tightening in April 2026, and the importance of rupiah stability for Bank Indonesia (BI). This led to 100bp of tightening in Q2 and drove a more volatile Indonesian curve, since 10yr yields also rose, but less, on the view inflation would be higher (Chart 4). Finally, after the June surge in foreign portfolio inflows into IGBs, in response to RBI measures, July data shows some reaction but gross purchases remain positive.

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.

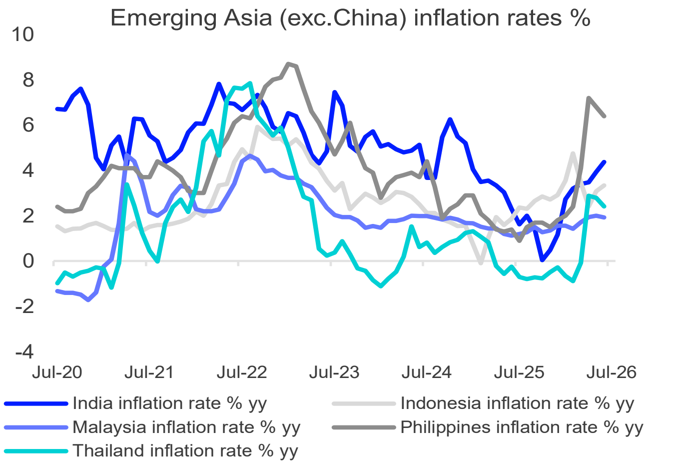


Chart 2: Inflation rates remain within target ranges, ex Philippines, and fell on lower energy prices in June. Indian inflation moved above the 4% y/y mid-point but is well within the 6% y/y upper band.

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	3.3% y/y	Headline
Malaysia	2026 forecast range = 1.3 to 2%	1.9% y/y	Headline forecast, no target
Philippines	2 to 4% target range 2026	6.4% y/y	Headline
Thailand	1 to 3% target	2.4% y/y	Headline

Chart 3: Philippines remains the most exposed to the recent energy shock, and 10 yr yields have shown strong correlation with oil prices, though more directionally on raw levels (0.74) than 1st differences (0.05).

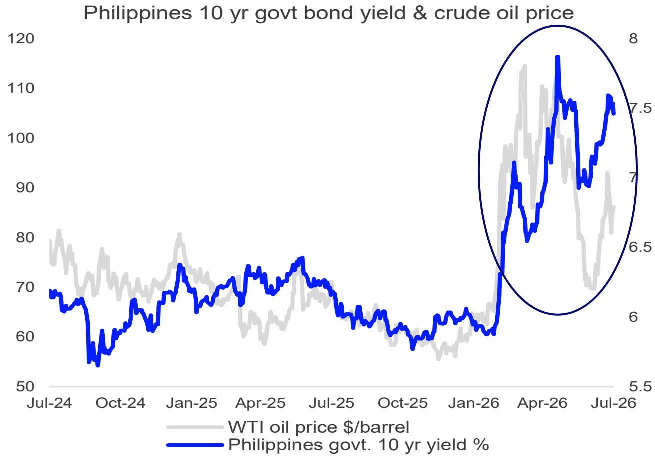


Chart 4: Since mid-2022, the Indonesian yield curve has become more sensitive to the inflation rate, flattening as inflation fell in 2023-24, before the curve steepened as inflation accelerated in 2025-26.

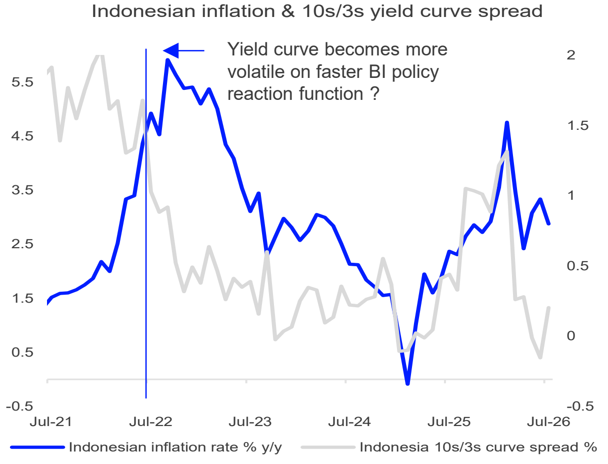
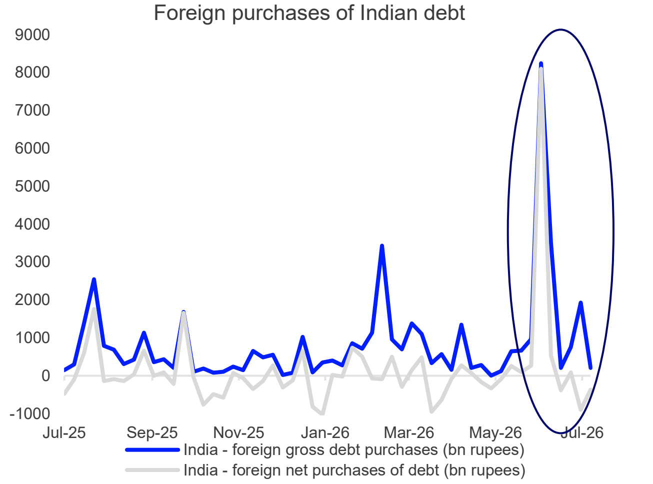


Chart 5: Perhaps inevitably, foreign inflows into Indian debt slowed sharply in July, after the surge following the RBI's measures (June 5) increasing the attractiveness of Indian government debt.



Source: Refinitiv, FTSE Russell, & LSEG. All data as of July 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

The split in 3yr yields between relative stability in Thailand and Malaysia and the more volatile and higher yielding Indonesian and Philippines markets persists. Indian yields are also higher, but more stable, reflecting unchanged RBI rates since the energy shock in Q1. Short yields may remain more volatile in Indonesia and Philippines until markets have adjusted to new central bank reaction functions there. Bear flattening is the key trend in higher yielders, led by Indonesia, after 100bp of tightening. India now trades through Philippines and Indonesia. Thailand is the outlier with 3yr yields reflecting 1% short rates since February, but longer yields increasing on fears of higher debt issuance and duration risk, causing bear steepening, though 7-10yr yields moved less than longs (Charts 1,2,3,4).

Malaysian yields show least sensitivity to the energy shock because of the economy's external surpluses, net energy exporter status and more stable inflation. This has reinforced Malaysia's position as a safe haven within the peer group (also see page 4). As a result, 7-10yr yields in Malaysia and Thailand trade even further through US Treasuries (though long Thailand yields increased in 2025-26), while spreads have stabilised in India, Indonesia and the Philippines (Chart 5).

Chart 1: A split between relative stability in Thai and Malaysian 3-year yields and the more volatile higher yielding group continues. Indonesian and Philippines short yields are most volatile after recent tightening moves.

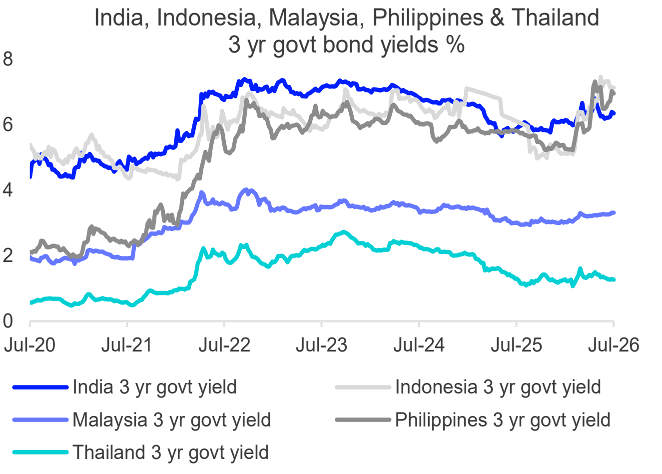


Chart 2: As in 3yrs, Indian 5 yr yields have now moved below both Indonesia and Philippines, reflecting the different policy responses since the energy shock, and India's more stable inflation performance.

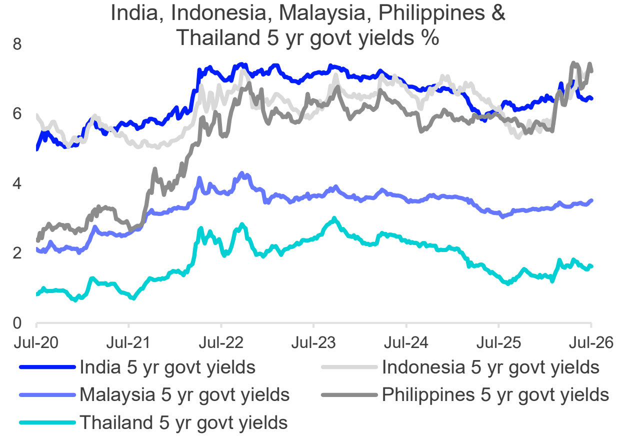


Chart 3: Again, Indian 10yr yields now trade through other high yielders. Yields on longer dated Thai govt bonds fell a little in July, but remain much higher YTD and on 12M, causing sharp losses, because of duration effects.

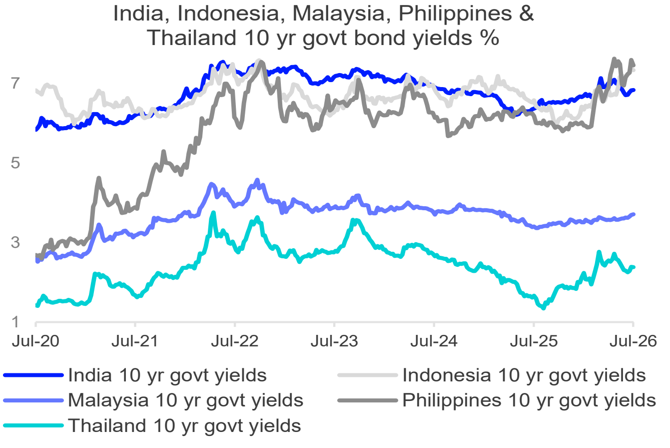


Chart 4: The INDOGB curve destabilised after Q2 BI hikes. Other curves flattened but less. The Thai curve steepening is an exception, with short yields staying low on 1% policy rates but long yields hit by issuance fears.

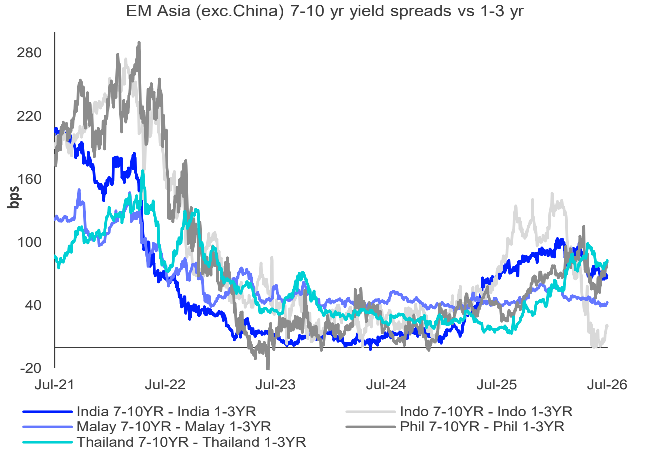
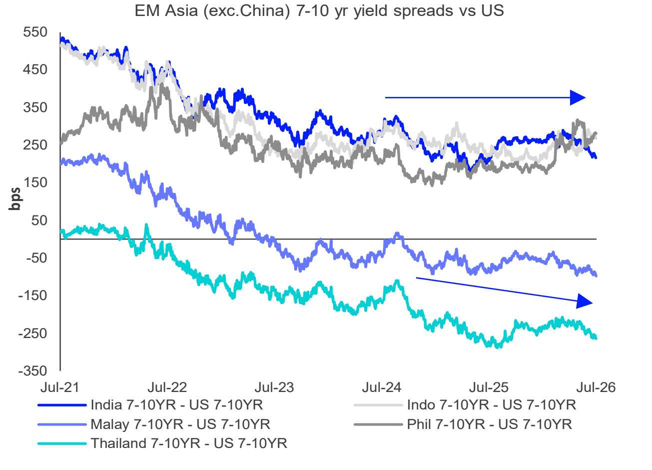


Chart 5: Thai and Malaysian 7-10yr yields reflect low policy rates from fragile domestic demand in Thailand, and stable, low inflation in Malaysia, near 2%. This has caused further spread compression versus Treasuries.



Source: FTSE Russell , LSEG, Thai Bond Market Association. All data as of July 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 Malaysia – external surpluses, terms of trade and AI protect economy

Stable inflation, near 2%, external surpluses and Malaysia's net energy exporter status have all insulated the economy from the worst of the recent energy shock, and allowed the authorities to keep rates unchanged. Indeed, policy rates have remained in a narrow nominal range between 1.75% and 3.25% over the last 10 years (Charts 1 & 2). Monetary and financial conditions have also remained relatively stable since 2016, excluding the surge in M1 growth, driven by Covid and the demand for precautionary balances, as interest rates fell, monetary velocity collapsed, and the economy was locked down (Chart 3).

GDP growth is projected to slow a little to 4-5% in 2026, by Bank Negara Malaysia, after the energy shock in 2026. But favourable terms of trade effects from Malaysia's net energy exporter status have underpinned private consumption growth, and prevented a sharp slowdown in 2026. Malaysia also has exposure to the global AI boom, via electronics, semiconductors and AI related expenditures. These have been important drivers of capex, even if it has slowed from the rapid growth rates in 2024-25. Capex is still growing at over 7% y/y (Charts 4 & 5). Overall, the economy has acquired some safe haven status within the peer group.

Chart 1: Stable inflation has reduced pressure on the Malaysian authorities to raise rates since the Q1 energy shock, and insulated Malaysia from the energy shock, helped by net energy exporter status.

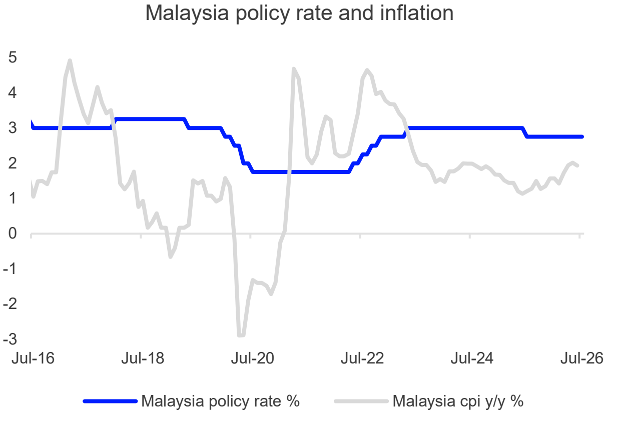


Chart 2: Unlike the Philippines and Indonesia particularly, Malaysia has run a consistent trade and current account surplus since 2017, reducing external funding pressures, and supporting the Malaysian ringgit.

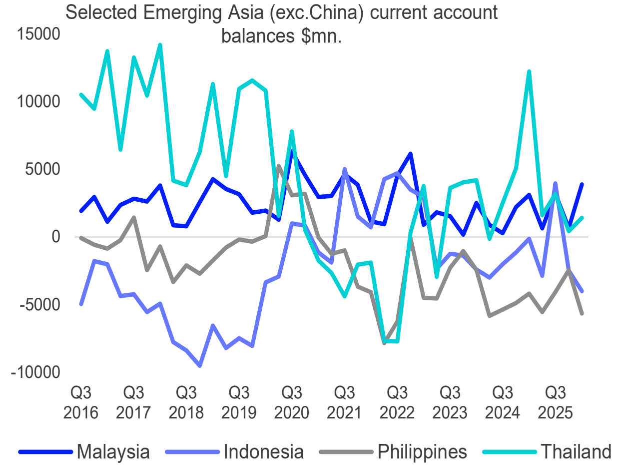


Chart 3: Monetary growth and financial conditions remain stable. M1 growth spiked during Covid, due to a surge in demand for precautionary deposits as rates fell. The recent pick-up in M1 growth is more modest.

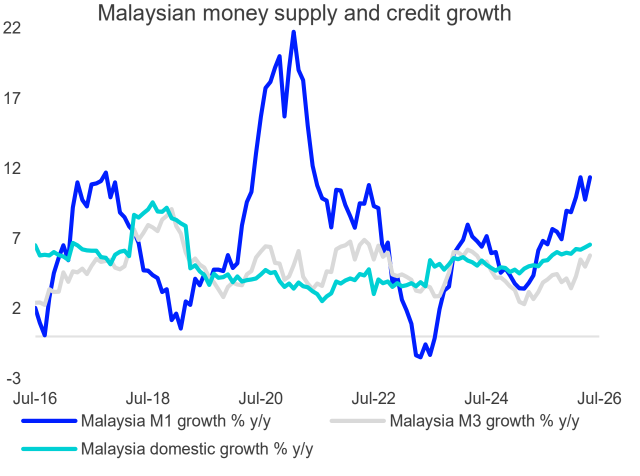


Chart 4: Malaysian terms of trade show strong positive correlation with commodity prices, reflecting Malaysia's strong net exporter status for LNG. Malaysia both exports and imports oil and refined oil products.

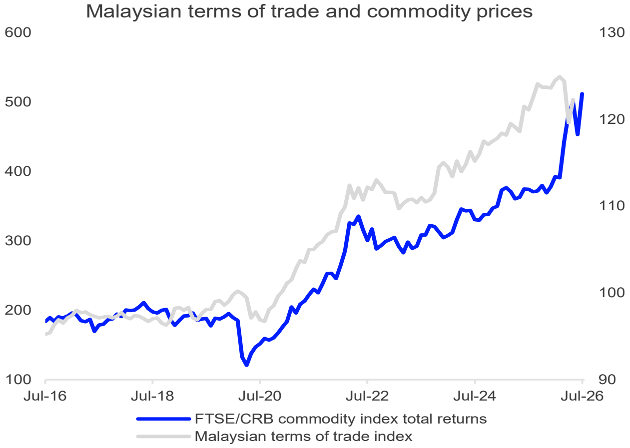
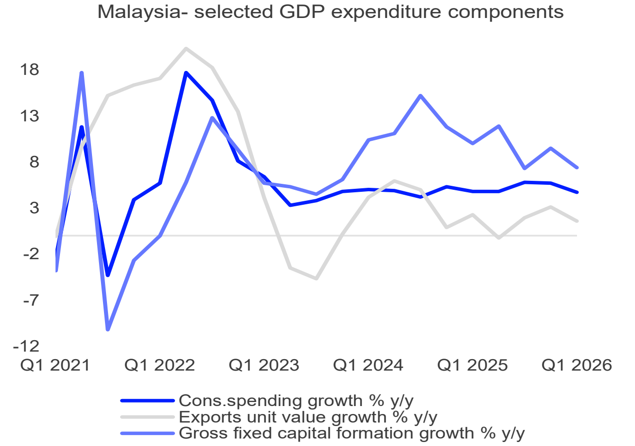


Chart 5: Expenditure components of GDP show consumer spending growth is stable at just under 5%, while capex is still growing robustly at just over 7% y/y, driven by electronics and AI related spending.



Sources: FTSE Russell and LSEG, BNM, Malaysian MoF, World Bank, and IMF. All data as of July 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

Higher energy prices in July caused a modest reversal of the June rallies, but only Philippines yields increased by more than 14bp. All markets show yields below 2026 highs, with Indian 10 year yields nearly 30 bp lower on 3M, and trading through Indonesia and Philippines. Malaysian yields remain the most stable, and have largely escaped oil shock volatility.

Higher energy prices impacted Philippine yields most in July, on a read-through to higher inflation and more tightening, with yields up 20-40 bp, and 80-120 bp on 12M. Indonesia shows similar moves but with more bear flattening after 125 bp of policy tightening.

Indian yields have shown signs of de-coupling from Indonesia and the Philippines, over 3M, though Indonesian yields were more stable in July. Sizeable foreign inflows into Indian govt bonds after the RBI measures in June, and extension of FAR, helped yields decline on 3M as the RBI left policy unchanged. In contrast, policy tightenings in Indonesia and Philippines on 3M drove yields higher.

.

Decrease Increase

1-3 yr maturity	Current yield July 31, 2026	1M change	3M change	12M change
India	6.112	0.078	-0.045	0.362
Indonesia	7.040	-0.143	0.706	1.240
Malaysia	3.252	0.060	0.145	0.234
Philippines	6.673	0.327	0.764	0.922
Thailand	1.181	0.058	-0.044	-0.130
3-5 yr maturity	**Current yield July 31, 2026**	**1M change**	**3M change**	**12M change**
India	6.417	0.065	-0.153	0.398
Indonesia	7.248	0.104	0.601	1.201
Malaysia	3.439	0.081	0.177	0.256
Philippines	7.216	0.498	0.439	1.324
Thailand	1.411	0.003	-0.050	0.099
7-10 yr maturity	**Current yield July 31, 2026**	**1M change**	**3M change**	**12M change**
India	6.797	0.063	-0.266	0.366
Indonesia	7.337	0.139	0.477	0.768
Malaysia	3.727	0.115	0.157	0.317
Philippines	7.457	0.522	0.536	1.308
Thailand	2.002	0.077	-0.075	0.512

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

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

Globally, bond markets mostly fell back on higher oil prices and more hawkish Fed comments in July, even if Indian bonds managed small gains of up to 1% in local currency terms, helped by strong carry, and unchanged RBI policy. YTD, fears of increased debt issuance and inflation weighed on long JGBs, KTBs, Thai, Philippine and Indonesian govt bonds.

A perfect storm of long duration, yields rising from low levels, and weak currencies drove sizeable losses in longs in Japan, Korea, Thai, Philippine and Indonesian govt bonds of 10-17% in USD terms YTD. Very low policy rates of 1% in Thailand and Japan have not prevented major bear steepening in longs. Globally, investors generally required higher term spreads to hold longs in 2025-26.

India and Malaysia have shown strong relative returns, even if Indian bond returns have been squeezed in USD by rupee weakness. Malaysian returns remain positive YTD and on 12M with gains of 6-7% in USD, led by shorts. Strong carry from yields near 7% mean Indian returns have been strongest in local currency, with gains of up to 6% in shorts on 12M, and up to 3.4% on 3M.

Top 15% Bottom 15%

		1M		3M		YTD		12M	
		USD	LOCAL	USD	LOCAL	USD	LOCAL	USD	LOCAL
USA	1-3	0.16	0.16	0.34	0.34	0.83	0.83	3.17	3.17
	7-10	-1.38	-1.38	-1.15	-1.15	-1.53	-1.53	1.93	1.93
	20+	-4.50	-4.50	-2.83	-2.83	-3.95	-3.95	-0.93	-0.93
Japan	1-3	2.00	-0.07	-1.40	0.19	-1.26	0.30	-5.29	0.21
	7-10	1.51	-0.55	-2.64	-1.08	-4.93	-3.43	-11.68	-6.56
	20+	-0.15	-2.18	-6.32	-4.82	-11.99	-10.60	-20.71	-16.11
Germany	1-3	0.41	-0.22	-1.53	0.40	-1.80	0.24	1.32	0.79
	7-10	-1.36	-1.98	-2.20	-0.29	-2.69	-0.67	-0.34	-0.86
	20+	-3.90	-4.50	-3.78	-1.90	-4.00	-2.01	-6.51	-7.00
Korea	1-3	8.91	0.22	4.68	0.62	1.77	0.73	-1.65	1.11
	7-10	7.60	-0.98	2.68	-1.30	-2.63	-3.64	-8.90	-6.35
	20+	5.87	-2.57	-6.98	-10.58	-16.88	-17.74	-27.20	-25.16
Indonesia	1-3	0.24	0.88	-3.50	0.32	-6.93	0.43	-5.03	3.85
	7-10	-0.88	-0.25	-4.91	-1.15	-10.42	-3.33	-6.78	1.94
	20+	-0.03	0.61	-6.92	-3.24	-10.13	-3.02	-6.06	2.73
India	1-3	-0.38	0.42	1.29	1.82	-2.88	3.10	-2.98	5.67
	7-10	-0.62	0.17	2.87	3.41	-2.97	3.00	-4.05	4.52
	20+	-2.06	-1.27	2.87	3.41	-4.17	1.73	-6.57	1.77
Malaysia	1-3	0.00	0.22	-2.20	0.63	0.69	1.40	7.31	2.82
	7-10	-0.69	-0.47	-2.92	-0.11	-0.15	0.55	5.87	1.44
	20+	-0.16	0.06	-2.38	0.45	-0.06	0.64	5.77	1.34
Philippines	1-3	0.10	-0.15	0.94	0.52	-2.69	1.26	-0.49	4.44
	7-10	-2.39	-2.63	-1.19	-1.60	-8.64	-4.93	-6.42	-1.79
	20+	-4.07	-4.31	-3.34	-3.75	-12.10	-8.53	-8.45	-3.92
Thailand	1-3	-0.39	0.13	-1.84	0.55	-4.81	0.89	-0.44	1.73
	7-10	-0.50	0.02	-0.83	1.59	-7.45	-1.91	-3.67	-1.57
	20+	-1.24	-0.72	-0.98	1.43	-14.52	-9.40	-14.62	-12.76

Source: FTSE Russell and LSEG. All data as of July 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 the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices.

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 40 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

To learn more, visit lseg.com/en/ftse-russell; email info@ftserussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810
North America +1 877 503 6437

Asia-Pacific
Hong Kong +852 2164 3333
Tokyo +81 3 6441 1430
Sydney +61 (0) 2 7228 5659