FICC Research

Emerging Asia (ex China) government bonds monthly

MONTHLY REPORT | **JULY 2026**

Prospect of less severe oil shock helps some yields fall

Emerging Asian (ex China) govt bonds enjoyed relief rallies in June, helped by weaker energy prices, apart from Indonesia. Evidence of high energy supply and demand elasticities eased fears of a 1970s oil shock and stagflation, given the lower OPEC share of production, and of external debt in Emerging Asia. Policy uncertainty persists in Indonesia after the rate increase, so yields diverged from other high yielders like India and the Philippines. New RBI measures may have helped Indian yields to decline, with strong support at 7% in Q2.

Macro & policy backdrop – A less stagflationary oil shock?

Pressure to tighten further eased in June, as energy prices fell. Meanwhile, evidence of the RBI's desire to increase portfolio inflows can be found in the measures announced on June 5.

Emerging Asia govt bond markets – Some spread narrowing in higher beta markets

Residual uncertainty in Indonesia after surprise rate move, but yields fell in higher yield, higher beta markets, helped by lower oil prices. More energy-exposed economies showed biggest declines.

Spotlight on Indonesia – Bank Indonesia prepared to use higher rates to defend rupiah

Rupiah stability key for authorities despite inflation within target. Bank Indonesia faces less stagflation risk than the Philippines authorities, given growth at 5% trend.

Yield levels and changes – Yields fell with oil prices in June, led by higher yielders

Signs the oil market is more flexible in the face of supply shocks helped yields decline in most markets in June, apart from Indonesia where yields rose 40-60 bp after the 50bp May policy tightening.

Emerging Asia and global bond returns – India and the Philippines outperform

India and the Philippines provided the best global returns in June, with gains of up to 7% in local and USD terms, while Indonesian, Eurozone, Korean and JGB yields increased after rate increases.

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Chart 1: Both Philippines and Indonesian central banks have now raised rates, to stabilise currencies and protect the inflation outlook. The RBI has more policy freedom, given the relative stability of Indian inflation.

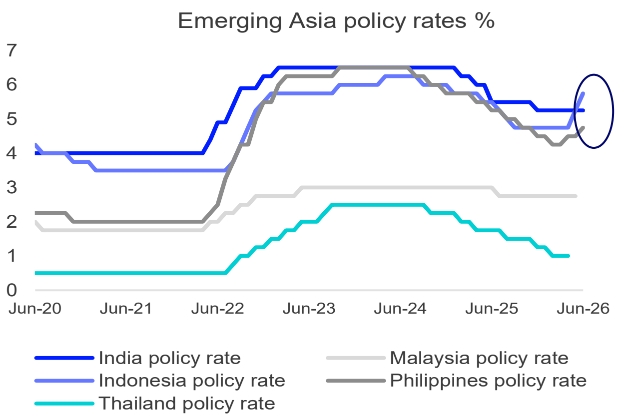
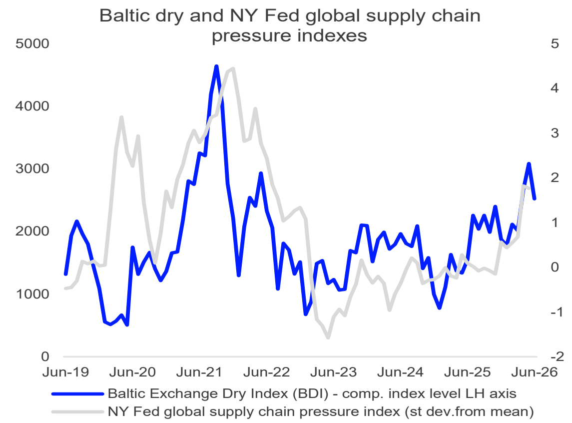


Chart 2: Shipping costs (Baltic dry index) and global supply chain pressures have increased sharply since the energy shock. Supply chain pressures globally are still well below the levels reached after Covid.



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

Recent easing in oil prices should reduce upward pressure on headline inflation, depending on pass-through rates to final inflation. These are particularly high in the Philippines, due to low energy subsidies, where the stagflationary impact has been greatest (Charts 1 & 2). Reflecting the inflation dynamics, the correlation of 10 yr govt bond yields to oil prices remains high in the big regional net energy importers, including India, as Chart 3 shows, even if the RBI has held policy unchanged since end-February, despite the energy shock.

Despite the energy price shock, inflation rates are within target ranges, apart from the Philippines (Chart 4) and core inflation more stable. This suggests that despite Gulf oil supply exposure, this is a manageable shock with strong policy regimes in place.

RBI measures announced on June 5 seem likely to increase foreign portfolio inflows into India. These extend the FAR (fully accessible route) to all new 15, 30 & 40 yr bond issues, and lift other limits on foreign holdings (June 5). The Indian tax authorities also removed the taxation of income and capital gains on govt. bonds for foreigners, raising post-tax yields for foreigners, and foreign inflows have increased (Chart 5).

Chart 1: Philippines inflation has accelerated to 6.8% yy since Q1, with very little subsidy for energy prices. Thai inflation jumped in April, partly on base effects. Malaysian inflation remains the most stable since the energy shock.

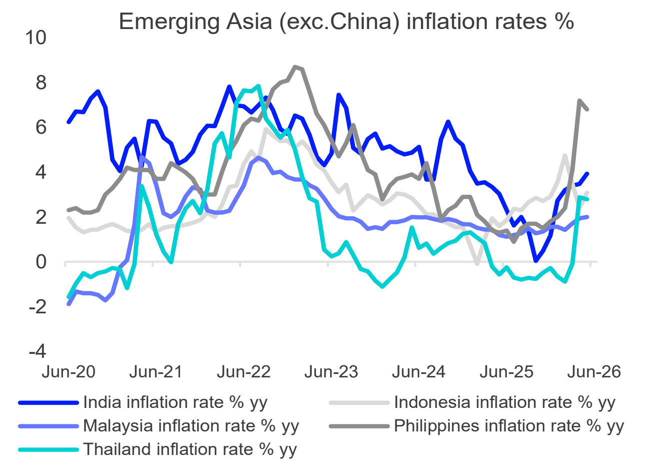


Chart 2: Only Philippines shows a significant IMF growth forecast downgrade since the oil shock, reflecting complete dependence on imported oil. Other EM Asia economies show modest upgrades.

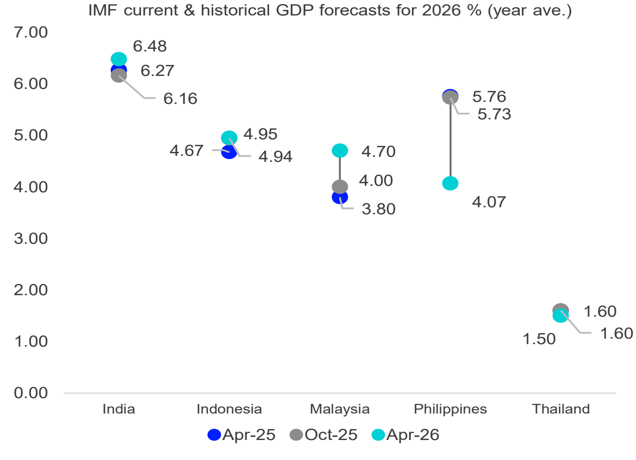


Chart 3: Indian 10 yr yield levels have shown notable positive correlation to the oil price level, of 0.51 over the last 5 yrs. As a result, recent declines in oil price levels bode well for further declines in Indian yields.

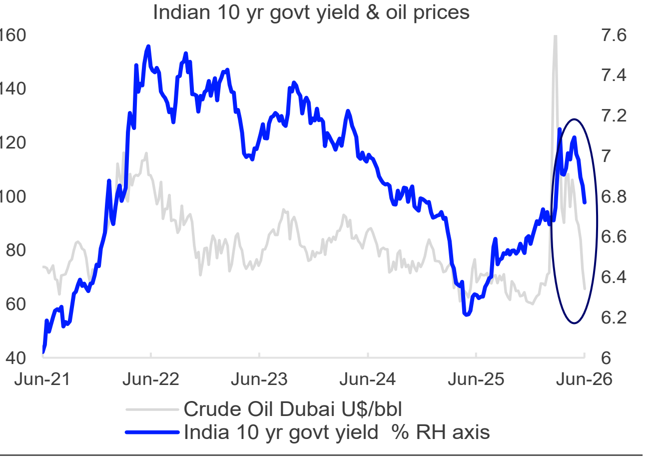
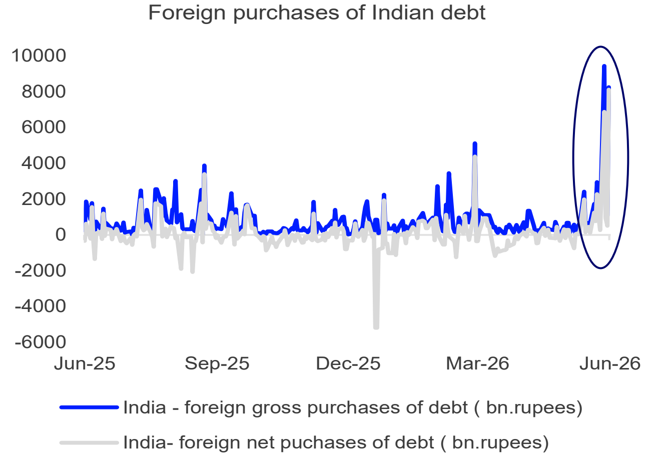


Chart 4: Most inflation rates remain within target ranges, apart from the Philippines, which creates the biggest central bank policy challenge. Indonesia's rate increase in May was mainly FX driven.

Country	Inflation target & range	Current inflation rate	Target measure
India	4% target 2 to 6% range	3.9% yy	Headline
Indonesia	2.5% target 1.5 to 3.5% range	3.1% yy	Headline
Malaysia	2026 forecast range = 1.3 to 2%	2% yy	Headline forecast, no target
Philippines	2 to 4% target range 2026	6.8% yy	Headline
Thailand	1 to 3% target	2.8% yy	Headline

Chart 5: In response to low foreign participation in the Indian govt bond market (3-4%), the RBI announced measures to increase foreign inflows (June 5), and there has been a surge in foreign inflows.



Source: FTSE Russell, LSEG & IMF. All data as of June 30 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

Apart from Indonesia, where the govt bond market remained uneasy after the central bank's 50bp rate increase on May 26th, other higher yield markets rallied in June, as bond yields fell with oil prices. The lower yielders Thailand and Malaysia reacted less, though Thai yields fell modestly on the month. Higher oil supply and demand price elasticity globally, and the Middle East ceasefire appeared the main drivers of a reassessment of the yield outlook, even if the increase in headline inflation takes a few months to work through CPI indexes (Charts 1, 2 & 3).

Although bear flattening of yield curves has been the dominant trend since March (Chart 4), there were some early signs in June of this beginning to unwind, as markets began to scale back any near term tightening expectations in economies like India, where inflation is within target.

At present, these look like relief rallies in bond markets, in the Philippines and Indonesia particularly, rather than major turning points, with the risk of more policy tightening and deterioration in the terms of trade intact. But the risk of a 1990s sovereign debt & FX crisis is much lower, given improved fundamentals, and shown in lower and stable spreads versus the US (Chart 5).

Chart 1: 3 yr yields remained volatile in June, with the higher yield grouping benefitting most from the fall in energy prices, led by India and Philippines. Indonesian yields fell less, as markets remained uncertain about the outlook.

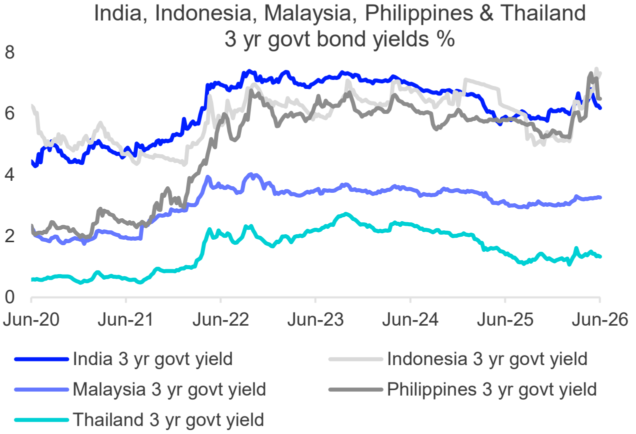


Chart 2: Philippines 5 yr yields fell with the oil price in June, and yields fell across the peer group, as inflation fears eased. The lower yielders, Thailand and Malaysia, proved less sensitive to lower energy prices.

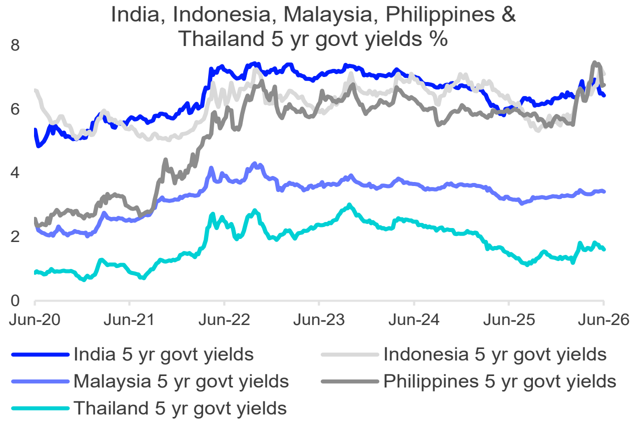


Chart 3: 10 yr yields followed a similar pattern in June. The main gainers proved to be the Philippines and India. The RBI and Indian tax measures to boost foreign inflows into Indian bonds also helped Indian yields decline.

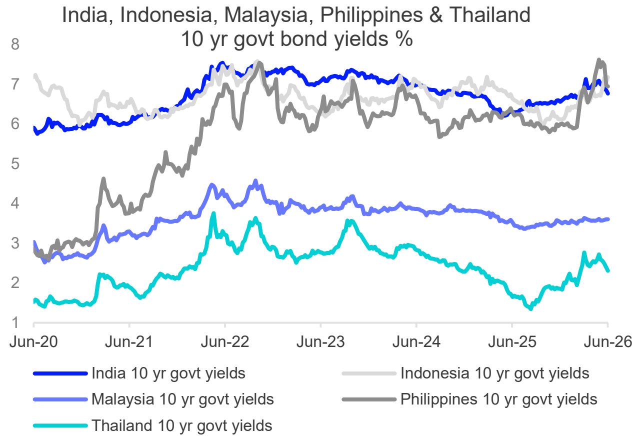


Chart 4: The Indonesian curve is close to inverting in 10s/2s after the surprise rate increase in May, with the markets discounting a possible further rate increase. All curves have flattened since the energy shock.

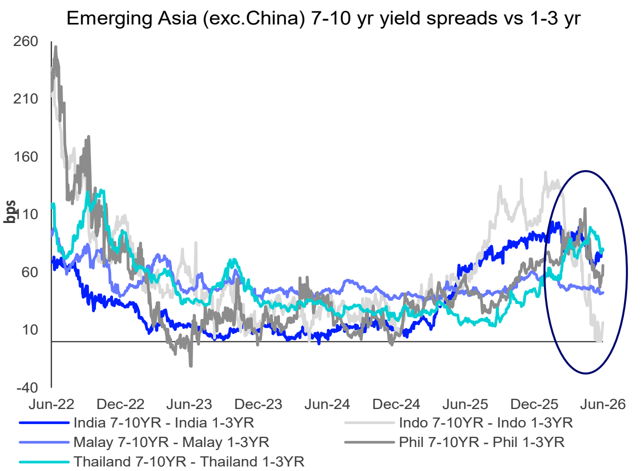
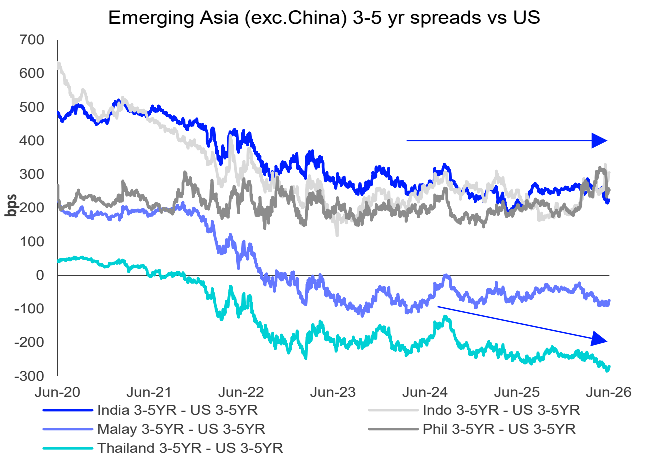


Chart 5: The split between the high and low yielders in the EM peer group is very notable in the 3-5 yr spreads versus US Treasuries, and more pronounced than during Covid, when all spreads were positive.



Source: FTSE Russell , LSEG, Thai Bond Market Association. All data as of June 30, 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 Indonesia – central bank moves to defend rupiah despite inflation at target

The Bank of Indonesia's surprise rate increase, on May 26, largely driven by rupiah weakness, has left markets wary about the risk of another tightening move, even if both core and headline inflation are within the 1.5% - 3.5% target range (Charts 1 & 2). Previous tightening moves have often coincided with bear raids on the currency, or portfolio outflows.

With Indonesian GDP and consumer expenditure growth tracking near 5%, (Chart 3) and about in line with estimates of potential growth, the central bank has freedom to move rates to defend the inflation rate or rupiah if required. Stability of the rupiah remains an implicit central bank objective, given Indonesian rupiah debt has a higher share of foreign ownership than most of the peer group, making the exchange rate more vulnerable to de-stabilizing portfolio outflows. After the crises of the 1990s, the authorities have also been anxious to build up FX reserves as a buffer against external shocks (Chart 4).

This helps to explain central bank policy on rates, even if local currency rupiah debt is now 85% of total debt, rather than the reverse during the crises of the 1990s (Chart 5).

Chart 1: Bank of Indonesia rate increases are often driven by FX moves, as the chart shows, though there is no FX target, only an inflation target. Rate moves have been driven by portfolio flows & risk-off episodes.

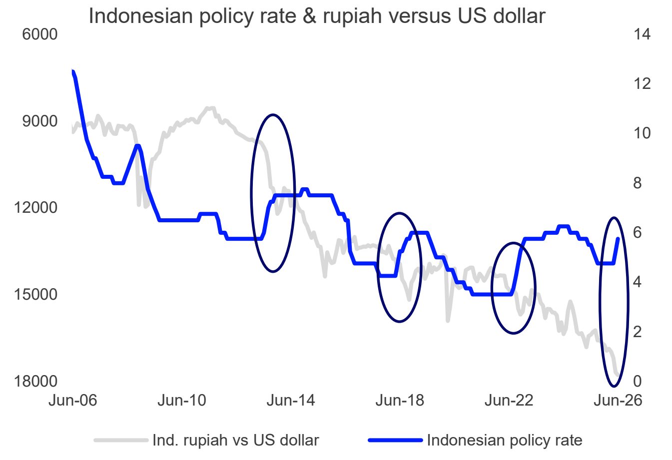


Chart 2: Core inflation in Indonesia excludes both food and administered prices, and is designed to measure demand-driven inflation. Headline inflation is still within the 1.5-3.5% target range, despite the oil shock.

Chart 3: The share of consumption in Indonesian GDP just exceeded 50% in Q1 2026, and the single biggest share in GDP. This is lower than India's consumer expenditure share but still dominates GDP growth.

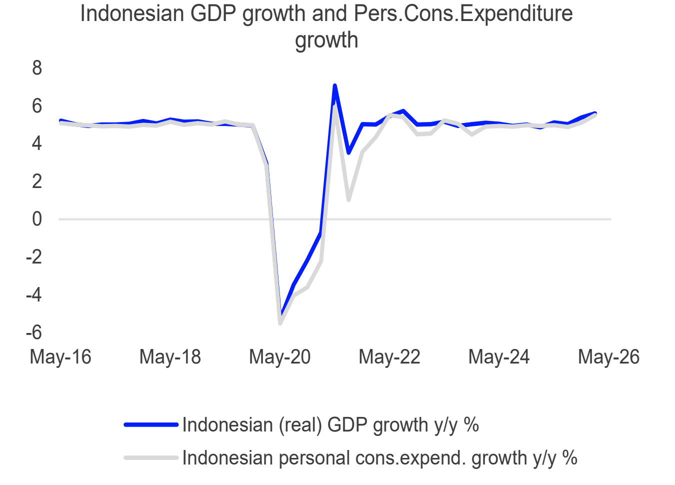


Chart 4:.Indonesia has high levels of FX reserves – the legacy of the 1997-98 crisis- though in terms of import cover, Indonesia's buffer of about 6 months is near the average of the EM Asia 5, ex China.

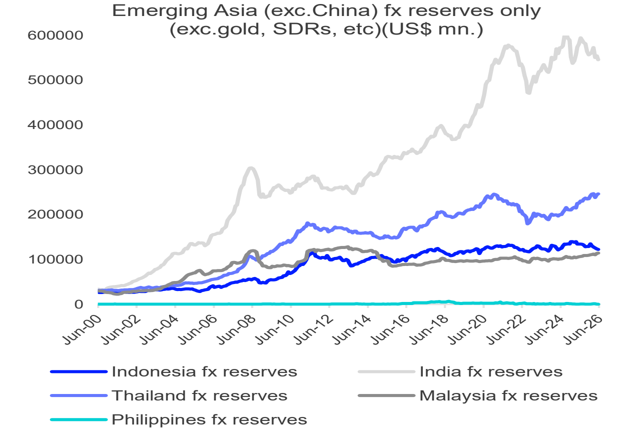


Chart 5: Indonesia has a high share of local currency debt, but also a high share of foreign ownership of domestic debt (25-30%) which increases sensitivity to portfolio outflows, helping explain the rate policy.

Country	Debt/ Gdp ratio	Curreny weights (gvt.debt)	Wghtd. average maturity (yrs)	Foreign ownership	Notes
Thailand	66%	Local 99%	9.5 yrs	8-10%	Domestic funding model
India	55-57%	Local 95-97%	c 11 yrs 2024-25	Low	Stable debt funding
Indonesia	39-41%	Local 85-90%	7.5-8.0 yrs	25-30%	Higher extrnl. debt inc. priv. sector
Malaysia	64-67%	Local 95-97%	9.3 yrs (end 2024)	20-25%	More sensitive to extrnl. flows
Philippines	61-63%	Local 70%	c 11-13 yrs	Moderate	Exposed to fx shocks ?

Sources: FTSE Russell and LSEG, Philippines Treasury, Philippines Statistical Authority, Reserve Bank of India, Bank Indonesia, Indonesia MoF, Bank Negara, Malaysian MoF, Bank of Thailand, World Bank, IMF. All data as of June 30, 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

Indonesian yields increased further in June, after the surprise 50bp rate increase on May 26th from Bank Indonesia. But June may prove a turning point in some markets, since yields fell meaningfully in India and the Philippines, and a little in Thailand, as energy prices fell. In contrast to yield moves elsewhere, Malaysian yields barely moved in June, or on 12M.

Within the higher yielders, Indonesian yields diverged in June, by 60-100 bp, reflecting Bank Indonesia's higher policy rate, and unchanged rates in India. The Philippines rate increase on June 18th was well discounted and yields fell on the month.

Yields are lower in India on 3M now, with 7% yields providing strong support in Q2, and increased foreign inflows in June, after the RBI's extension of the FAR (Fully Accessible Route), and other tax incentives for foreign investors. Philippine govt bonds continue to show highest beta to changes in oil prices, consistent with the bigger terms of trade shock to the economy than elsewhere.

Decrease Increase

1-3 yr maturity	Current yield June 30, 2026	1M change	3M change	12M change
India	6.034	-0.312	-0.136	0.270
Indonesia	7.182	0.606	1.128	1.095
Malaysia	3.192	0.039	0.028	0.124
Philippines	6.346	-0.476	0.278	0.582
Thailand	1.123	-0.098	-0.142	-0.274
3-5 yr maturity	**Current yield June 30, 2026**	**1M change**	**3M change**	**12M change**
India	6.352	-0.374	-0.226	0.363
Indonesia	7.144	0.439	0.600	0.860
Malaysia	3.358	0.016	-0.009	0.110
Philippines	6.717	-0.494	0.066	0.875
Thailand	1.408	-0.099	-0.177	-0.005
7-10 yr maturity	**Current yield June 30, 2026**	**1M change**	**3M change**	**12M change**
India	6.733	-0.281	-0.277	0.344
Indonesia	7.198	0.389	0.317	0.530
Malaysia	3.612	0.021	-0.043	0.122
Philippines	6.935	-0.554	-0.024	0.728
Thailand	1.925	-0.235	-0.202	0.360

Source: FTSE Russell and LSEG. All data as of June 30, 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.

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

India and the Philippines provided the best global returns in June, with gains of 1-9% in local and USD terms, while Eurozone and JGB yields increased after rate increases. US Treasuries managed marginal gains, helped by lower oil prices, despite the Fed's more hawkish tone at the June meeting. Korean Treasuries and JGBs were weakest, and losses on 12M are now up to 32%, as the semiconductor boom pulled capital into Korean equities, and the BoJ moves to normalise policy.

Lower oil prices drove relief rallies in US Treasuries, India and the Philippines, though Fed hawkishness and the rebound in the US jobs market restricted gains, while boosting the dollar, particularly against the yen, Korean won and ringgit in June.

YTD returns show the legacy of the oil shock and dollar strength, with losses of up to 13% in Emerging Asia markets in USD terms, in all maturities, apart from Malaysia. The latter has remained a safe haven throughout, apart from some ringgit weakness in June, as risk appetite returned for higher yielders like India and the Philippines.

Top 15% Bottom 15%

		1M		3M		YTD		12M	
		USD	LOCAL	USD	LOCAL	USD	LOCAL	USD	LOCAL
USA	1-3	0.06	0.06	0.39	0.39	0.67	0.67	2.96	2.96
	7-10	0.25	0.25	0.13	0.13	-0.15	-0.15	2.77	2.77
	20+	1.19	1.19	0.89	0.89	0.57	0.57	2.60	2.60
Japan	1-3	-1.95	0.11	-1.75	0.37	-3.19	0.38	-10.93	0.22
	7-10	-2.00	0.05	-3.54	-1.46	-6.35	-2.89	-17.04	-6.66
	20+	-1.96	0.10	-5.97	-3.94	-11.86	-8.61	-27.04	-17.90
Germany	1-3	-1.83	0.20	0.05	0.83	-2.21	0.46	-1.61	1.02
	7-10	-1.37	0.68	1.10	1.88	-1.35	1.34	-1.67	0.96
	20+	-0.69	1.36	0.85	1.63	-0.11	2.61	-6.27	-3.77
Korea	1-3	-2.40	0.34	-0.50	0.64	-6.55	0.50	-11.90	1.13
	7-10	-2.39	0.35	-1.31	-0.17	-9.51	-2.68	-17.38	-5.16
	20+	-7.25	-4.65	-8.74	-7.69	-21.49	-15.56	-32.62	-22.65
Indonesia	1-3	-0.76	-0.71	-5.21	-0.27	-7.16	-0.45	-5.60	3.97
	7-10	-1.91	-1.85	-5.19	-0.25	-9.62	-3.09	-6.08	3.44
	20+	-4.17	-4.11	-7.56	-2.74	-10.10	-3.61	-6.12	3.39
India	1-3	1.52	1.15	2.18	1.97	-2.51	2.67	-4.17	5.78
	7-10	2.69	2.32	3.67	3.46	-2.37	2.83	-5.21	4.63
	20+	4.35	3.97	6.31	6.09	-2.16	3.05	-6.20	3.54
Malaysia	1-3	-2.56	0.20	0.07	0.77	0.69	1.17	6.36	3.00
	7-10	-2.62	0.15	0.53	1.24	0.54	1.02	6.19	2.84
	20+	-2.63	0.13	0.62	1.33	0.10	0.58	6.29	2.93
Philippines	1-3	2.16	1.78	0.46	1.48	-2.78	1.41	-3.53	5.10
	7-10	4.53	4.14	0.89	1.91	-6.40	-2.37	-6.55	1.81
	20+	9.44	9.04	0.27	1.30	-8.37	-4.42	-7.46	0.82
Thailand	1-3	-1.76	0.28	0.05	0.78	-4.44	0.76	-0.27	1.92
	7-10	-0.07	2.00	1.36	2.10	-6.99	-1.92	-2.80	-0.67
	20+	0.91	3.00	4.56	5.33	-13.45	-8.74	-12.03	-10.10

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