

Emerging Asia (ex.China) government bonds monthly

MONTHLY REPORT | JUNE 2026

Malaysia outperforms as intra-region spreads widen

Emerging Asia (ex China) gov't bonds remain in high and low yield groups, in response to the energy shock. Malaysia remains the strongest performer, reflecting a stable policy regime, attractive carry and roll-down. But Thailand's low growth and deflation risks raise concerns about bond issuance, given fiscal policy uncertainty. Within the higher yielders, India outperformed in May, as pressure to tighten policy is more modest, with inflation on target. In contrast, the spike in Philippines inflation makes further tightening likely.

Macro & policy backdrop - Indonesian move signals strong defence of low inflation regime

Indonesia follows the Philippines in raising rates, seeking to defend rupiah, pre-empt 2nd round inflation effects, and reinforce credibility. RBI has more policy options, helped by lower inflation.

Emerging Asia gov't bond markets – Spreads widen between low and high yielders

Yield differentials between low yielders (Malaysia and Thailand), and high (India, Indonesia and the Philippines) widened further in May. But note Indian yields fell within the higher yield group.

Spotlight on Thailand – A different type of deflation risk the enduring legacy of Covid

Weak domestic demand, high debt service costs & low inflation drove deflation fears, as the economy remains in a low growth trap. But low external debt, and stable funding make 1990-crisis risks low.

Yield levels and changes – Yields backed up further in May, led by Philippine shorts

Markets priced in more Philippine & Indonesian tightening, after rate increases. Malaysia continues to perform well on roll-down, stable policy and lower inflation. India outperformed in higher yield group.

Emerging Asia and global bond returns – Malaysia strongest performer, Philippine weakest

Global gov't returns mainly weaker on 1-3 months, on stagflation risks. Some 12M returns positive on legacy of H1, 2025 easing, led by US and Malaysia. Other markets show regime shift, notably Korea.

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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.

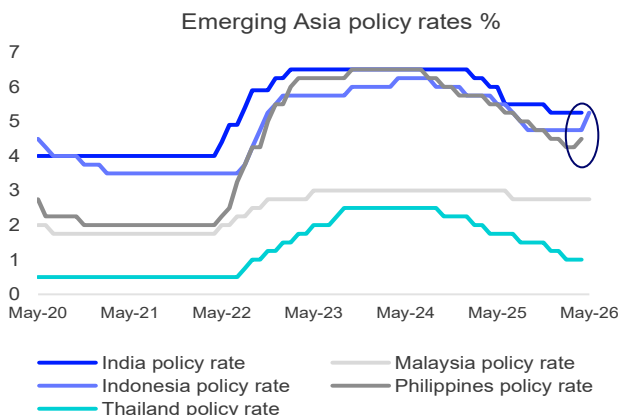
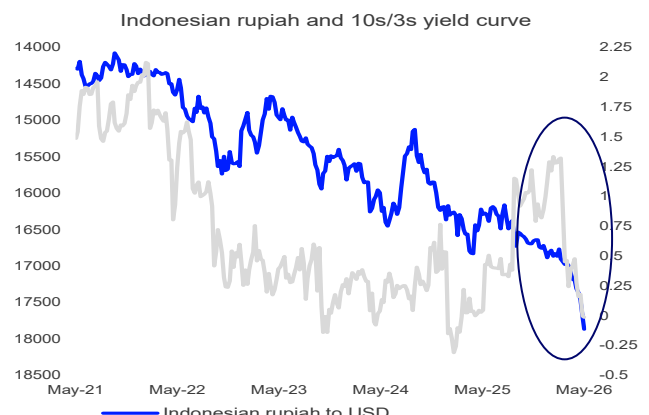


Chart 2: Rupiah weakness and the energy shock drove a steeper Indonesian curve in 2025-26 on inflation fears, but this has become a bear flattening after the central bank's 50bp rate increase (May 20).



Source: FTSE Russell and LSEG. All data as of May 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 and policy outlook – energy shock dominates outlook

The energy shock still dominates the macro and policy outlook in Emerging Asia (ex China). Inflation data now shows some impact of the cost-push from the energy shock, most notably in the Philippines, where energy prices are not subsidized (Chart 1). Base effects were also unfavourable in April y/y data, so the headline y/y moves may overstate underlying inflation pressures, ie, Thailand's core inflation is only 0.8% y/y, versus 3.9% y/y headline inflation. Overall, there is little evidence of inflation expectations de-stabilizing and the surprise 50bp Indonesian tightening was a strong signal to defend the rupiah and central bank credibility, even if inflation is within target (Charts 3 & 4).

The other side of the energy shock is the negative growth impact, with the biggest IMF downgrades to Philippines growth for 2026 (Charts 3 & 4). Much depends on policy responses, and whether other central banks follow the pre-emptive rate increases in the Philippines and Indonesia. A tightening move in Thailand would court deflation risks, and increase pressure on consumers (see page 4 Spotlight). Finally, current account balances confirm the exposure of the Philippines to the energy shock, and relative safety of Thailand and Malaysia (Chart 5).

Chart 1: Philippines inflation accelerated most since Q1, as consumers are fully exposed to higher energy prices. Thai inflation jumped in April, partly on base effects. Malaysian inflation is the most stable since the shock.

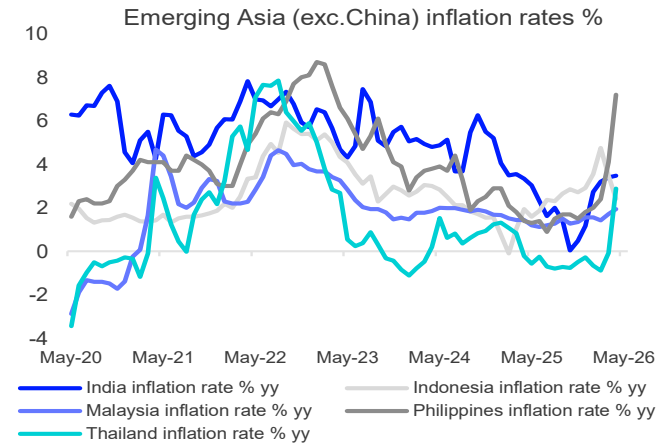


Chart 2: The Indian 10s/3s curve steepened in 2024-25, despite lower inflation. Increased issuance in longs may have driven the steepening, before the recent energy shock drove higher short rate expectations.

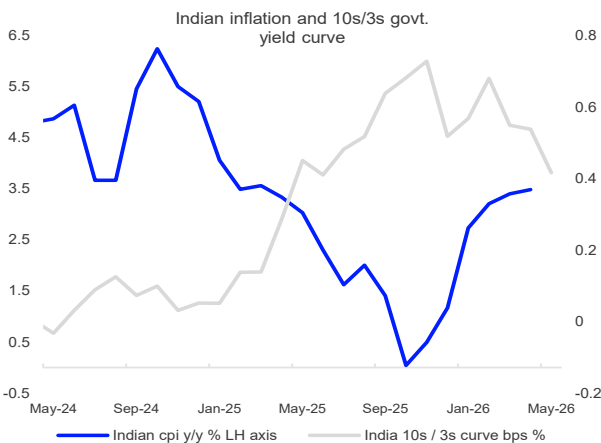


Chart 3: The biggest growth downgrade in the IMF's April forecasts is for the Philippines. Malaysian growth was revised up, after strong growth in 2025-26 raised the baseline for 2026, and buoyant domestic demand.

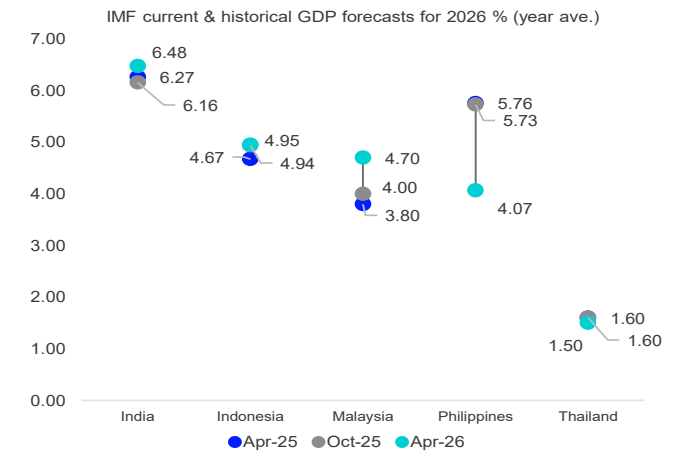
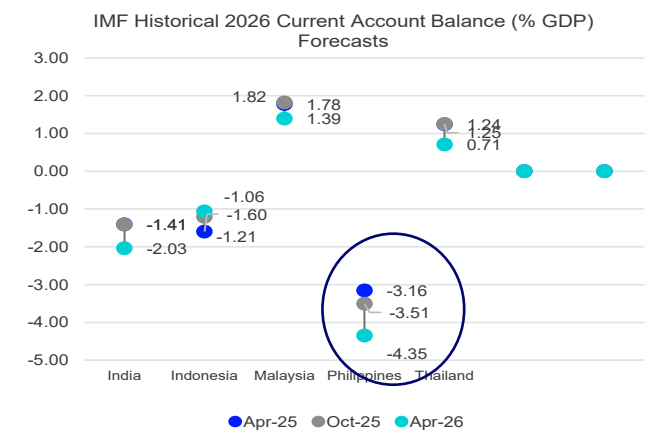


Chart 4: The lack of energy subsidies for consumer prices has meant the biggest spike is in Philippines' inflation, from energy. Thai inflation also spiked, partly on base effects.

Country	Inflation target & range	Current inflation rate	Target measure
India	4% target 2 to 6% range	3.5% yy	Headline
Indonesia	2.5% target 1.5 to 3.5% range	2.4% yy	Headline
Malaysia	2026 forecast range = 1.3 to 2%	1.9% yy	Headline forecast, no target
Philippines	2 to 4% target range 2026	7.2% yy	Headline
Thailand	1 to 3% target	3.9% yy	Headline

Chart 5: The latest IMF current account forecasts for 2026 reflect net energy exposures and policy responses to the shock. Philippines' high imported oil dependency drove the biggest forecast downgrade.



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

Yield differentials between low yielders Malaysia and Thailand and the higher yield grouping of India, Indonesia and Philippines widened further in May (Charts 1-3). Higher net exposure to the energy shock and rapid central bank tightening moves have been key factors in spread widening between the two groups. Further tightening moves are also expected in the Philippines with inflation now at 7% y/y, making real rates negative, the peso still weak and a higher share of external government debt to fund (though still well below 1990s levels).

Within the higher yield group, only the Reserve Bank of India has not raised rates, helped by inflation within target (3.5% y/y vs 4% target mid-point), and on the view that the global energy supply shock has driven higher inflation in 2026, not domestic over-heating. There is less urgency for the RBI to move, even though the rupee remains weak, since the RBI prefers to smooth rupee moves by intervention, rather than rates, and Indian real rates are strongly positive. The back-up in Indian yields may reflect robust growth, and more bond issuance, rather than expectations of an imminent tightening cycle. Also note that yields have fallen relative to Philippines and Indonesian levels since the energy shock started 3 months ago.

Chart 1: 3 yr yields were volatile in May. A 50 bp tightening in Indonesia proved larger than expected. Bifurcation between the low yielders Thailand and Malaysia, and the high yielders, led by Philippines, continues.

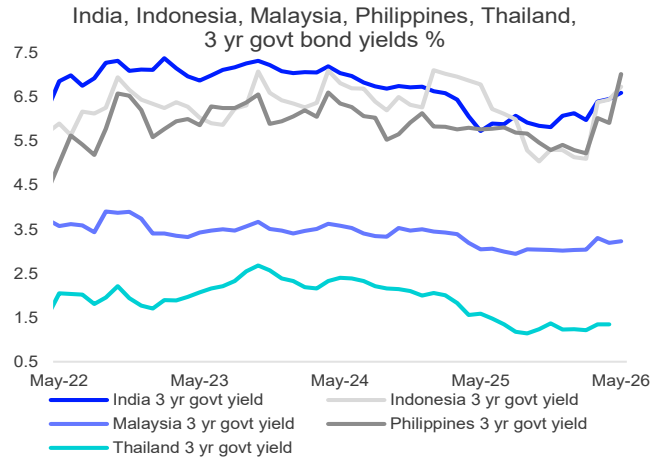


Chart 2: It is a similar story in 5 yr yields, with the biggest yield increases since the energy shock occurring where central banks have made front-loaded policy tightenings, in the Philippines and Indonesia respectively.

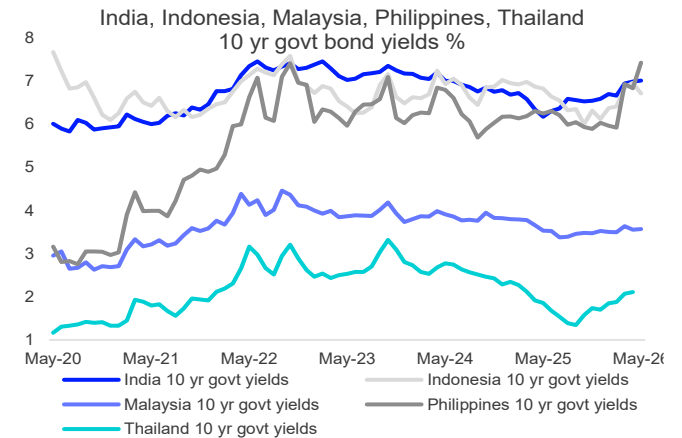
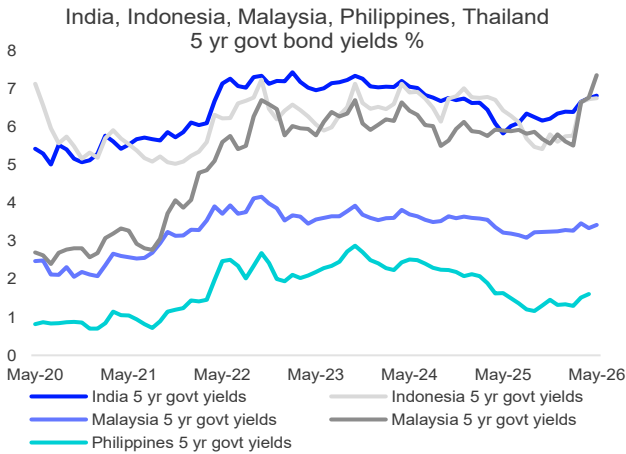
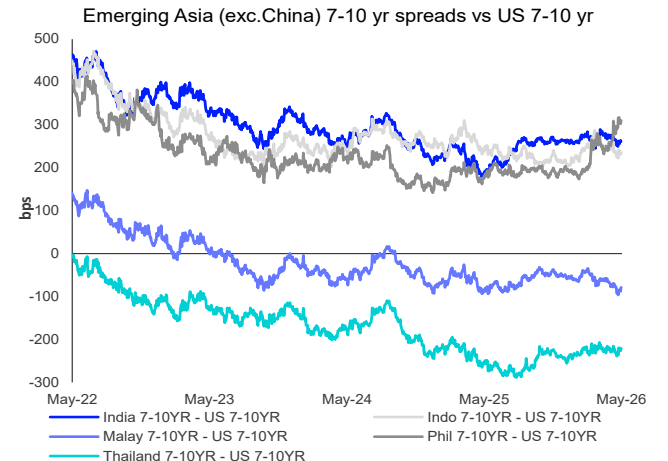
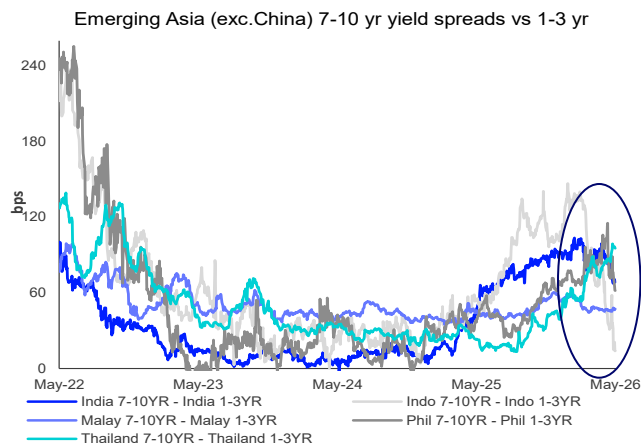


Chart 4: The Indonesian yield curve flattened sharply after the large 50 bp increase in rates from the central bank on May 20. The Philippines yield curve has also bear flattened since the April tightening move.

Chart 5: Yield spreads versus US show major longer-term convergence, reflecting low inflation and stronger policy regimes. However, there has been some counter-trend widening on the 2026 energy shock.



Source: FTSE Russell, LSEG, Thai Bond Market Association. All data as of May 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 Thailand – a different type of deflation threat ?

Weak domestic demand, high debt service costs and very low inflation rates have driven fears of deflation in Thailand. The economy has never recovered properly from Covid. The spike in April inflation (Chart 1) looks an aberration, driven by the energy shock, and base effects. Core inflation is only 0.8% y/y (Chart 2).

Similarly, money supply data showing faster M1 growth may be a build-up of Keynes' precautionary balances in a very low-rate environment. Bank lending and broader M3 growth remain subdued and have never recovered to pre-Covid levels, as Chart 3 shows. Households remain confronted by high debt service costs, with the debt service ratio at 14.6% (BIS data, Q3 2025) - a core vulnerability identified by the IMF and central bank.

Even though growth remains weak, the Thai baht has benefitted from the ongoing trade surplus, strong gold prices and limited capital outflows, despite central bank efforts to weaken the Baht. The strong baht dampened inflation, and the key drivers are food and energy (Chart 4). Thailand's low external debt and stable funding model attracted some foreign investors (Chart 5), but the low growth trap and uncertain fiscal outlook pushed long yields higher on issuance fears (see page 6 returns).

Chart 1: Inflation below the 1-3% target allowed rates to be reduced until Q1. The recent spike to 2.9% y/y is a cost-push effect from energy prices, and not demand-pull driven, so more easing is conceivable later in 2026.



Chart 3: Faster M1 growth than M3 reflects weak bank lending in M3, and higher precautionary M1 demand deposits. But this has not boosted savings significantly since the deposits are being spent on debt-service.



Chart 2: Thai personal savings fell sharply during Covid, as consumers preserved living standards, and never recovered as debt service costs grew. This slowed cons. spending and growth, increasing deflation risks.

Thai personal savings and consumer expenditure (annual data)

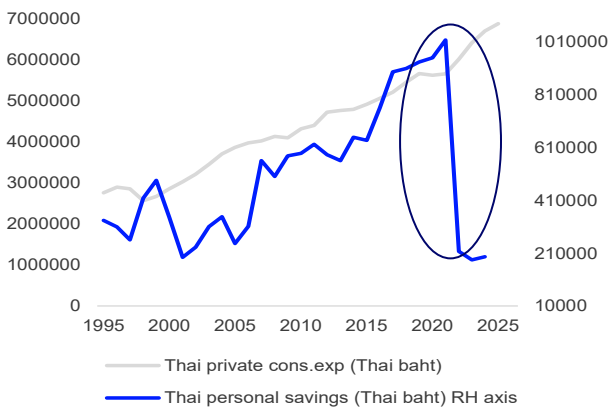


Chart 4: There is a small negative correlation between Thai baht moves and inflation of 0.09 since 2021, but the main drivers are cost-push from energy & food price shocks, and subsequent unwinding of these effects.

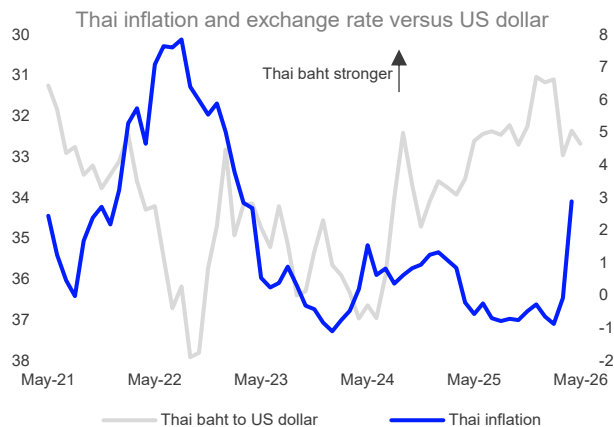


Chart 5: Decomposition of Thailand's government debt shows virtually no external debt, reducing exposure to fx shocks, and quite low foreign holdings. This creates a relatively stable, domestic-led funding model.

Country	Debt/ Gdp ratio	Currency weights (gvt.debt)	Wgtd. 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 May 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 backed up further in May, in EM (ex China) Asia govt bonds, led by Philippine shorts, as the market priced in more tightening moves, and Indonesian shorts, after a 50bp rate increase by Bank Indonesia. Since the energy shock 3M ago, yields increased everywhere on the stagflation risks, but Malaysia out-performed on rolldown and lower pass-through to final prices.

Curves bear flattened a little in May, with Indonesia the most pronounced, after the shock 50 bp tightening move. 7-10 yr bonds found support around 7% yields in India and Indonesia, but Philippine yields surged towards 7.5% after the inflation spike to 7% y/y. Thai yields barely moved in May, despite the spike in inflation to 3.9% y/y in April, since core inflation remains below 1% y/y.

On 12M, 7-10 yr yields are higher throughout, although Malaysian yields show little movement overall, reflecting stable inflation and policy rates, even if external holdings are 20-25%. The Malaysian curve also has attractive roll-down of nearly 50 bp in 10s/2s.

Decrease Increase

1-3 yr maturity	Current yield May 29, 2026	1M change	3M change	12M change
India	6.346	0.189	0.687	0.614
Indonesia	6.576	0.243	1.502	0.335
Malaysia	3.153	0.046	0.139	0.094
Philippines	6.822	0.913	1.610	1.079
Thailand	1.221	-0.005	0.187	-0.358
3-5 yr maturity	Current yield May 29, 2026	1M change	3M change	12M change
India	6.726	0.155	0.561	0.865
Indonesia	6.705	0.058	1.111	0.307
Malaysia	3.342	0.080	0.109	0.090
Philippines	7.211	0.434	1.725	1.378
Thailand	1.507	0.047	0.408	-0.101
7-10 yr maturity	Current yield May 29, 2026	1M change	3M change	12M change
India	7.014	-0.049	0.326	0.798
Indonesia	6.809	-0.051	0.394	0.011
Malaysia	3.591	0.022	0.087	0.096
Philippines	7.489	0.569	1.603	1.333
Thailand	2.160	0.083	0.594	0.353

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

Global and Emerging Asia (ex China) government bond returns were mainly weaker on 1-3 months, since the energy shock unfolded on stagflation risks, and central banks deferred policy easing, or tightened. Some 12M returns still show the legacy of H1, 2025 policy easing, led by Treasuries and Malaysia in USD terms, with gains of 4-11%. But other markets show evidence of regime shift, notably Korea where the correlation with US Treasuries in longs has fallen sharply.

US Treasuries held up quite well during the energy shock, helped by a stronger dollar, being a net energy exporter. JGBs suffered most from the energy shock, given high energy imports, and a weak yen. Korean govts were hit hard as pension funds switched domestic bond demand to domestic equity markets, and very long duration weighed on returns, with losses of 20% on 12M in won.

Malaysia remains the strongest performer in EM Asia (ex China) and Philippines the weakest. Weaker exchange rates squeezed Indian and Indonesian returns for overseas investors, particularly Indian, reflecting India's net energy imports, but both markets stabilised in May, helped by relative yield levels.

Top 15% Bottom 15%

		1M		3M		YTD		12M	
		USD	LOCAL	USD	LOCAL	USD	LOCAL	USD	LOCAL
USA	1-3	0.13	0.13	-0.11	-0.11	0.61	0.61	3.52	3.52
	7-10	-0.01	-0.01	-2.43	-2.43	-0.39	-0.39	4.15	4.15
	20+	0.54	0.54	-4.43	-4.43	-0.62	-0.62	4.11	4.11
Japan	1-3	-1.41	0.16	-1.74	0.19	-1.27	0.27	-9.14	0.24
	7-10	-2.13	-0.58	-4.95	-3.08	-4.43	-2.94	-14.92	-6.14
	20+	-4.31	-2.79	-11.36	-9.62	-10.10	-8.70	-24.43	-16.62
Germany	1-3	-0.10	0.42	-1.45	-0.29	-0.38	0.26	3.67	0.85
	7-10	0.52	1.05	-2.66	-1.51	0.02	0.66	2.62	-0.17
	20+	0.82	1.35	-3.47	-2.33	0.59	1.23	-3.94	-6.55
Korea	1-3	-1.52	0.06	-4.78	-0.24	-4.25	0.17	-7.64	0.88
	7-10	-2.24	-0.67	-7.91	-3.52	-7.30	-3.02	-13.23	-5.22
	20+	-5.26	-3.74	-13.31	-9.18	-15.35	-11.45	-26.79	-20.04
Indonesia	1-3	-2.99	0.14	-6.84	-0.70	-6.44	0.26	-3.78	5.56
	7-10	-2.20	0.97	-6.82	-0.68	-7.86	-1.26	-2.65	6.80
	20+	-2.84	0.30	-6.47	-0.31	-6.19	0.53	-0.82	8.80
India	1-3	0.16	0.25	-3.84	0.42	-3.97	1.50	-5.44	4.98
	7-10	0.80	0.89	-4.51	-0.29	-4.92	0.49	-8.40	1.69
	20+	0.65	0.74	-5.44	-1.25	-6.23	-0.89	-12.60	-2.98
Malaysia	1-3	0.37	0.21	-1.30	0.57	3.34	0.97	10.62	3.04
	7-10	0.38	0.21	-1.52	0.35	3.24	0.87	10.60	3.02
	20+	0.42	0.25	-1.62	0.25	2.80	0.45	10.80	3.21
Philippines	1-3	-1.29	-1.09	-7.83	-1.55	-4.83	-0.36	-6.07	3.70
	7-10	-3.16	-2.97	-14.02	-8.16	-10.46	-6.25	-11.22	-1.99
	20+	-7.93	-7.75	-17.63	-12.01	-16.27	-12.34	-16.36	-7.66
Thailand	1-3	0.30	0.14	-4.39	0.10	-2.73	0.48	2.98	2.09
	7-10	-0.26	-0.42	-8.12	-3.81	-6.92	-3.85	0.05	-0.82
	20+	-0.65	-0.81	-11.58	-7.42	-14.23	-11.40	-7.01	-7.81

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