

Emerging Asia (ex China) government bonds monthly

MONTHLY REPORT | MAY 2026

Energy shock persists but improved sovereign debt dynamics

After the sell-offs in March on the energy shock, EM Asia (exc China) govt bond markets steadied and rallied modestly in April. Yields near 7% appeared to attract investor interest, but the Philippine rate increase reminded investors regional central banks will act quickly if required to safeguard inflation targets. At least govt bond markets, including the Philippines, face a low inflation backdrop as the energy shock unfolds, and lower external debt, versus domestic. This is the opposite of the perilous debt situation in the 1990s.

Macro and policy backdrop – Energy shock predominates, as Philippines tightens policy

Central banks are anxious to prevent 2nd round effects, and inflation expectations de-stabilizing after the oil shock, hence Philippine tightening move. Lower inflation backdrop to energy shock important.

Emerging Asia govt bond markets – Yields stabilised in April. High/low yield split continues

Some de-coupling of Thai & Malaysian yields from India, Indonesia & Philippines with Malaysia the most robust since energy shock, due to lower impact on inflation and lower net energy exposures.

Spotlight on the Philippines – Perfect storm drives tightening but low external debt important

High energy imports and rapid pass-through to consumer prices increases inflation risks, explaining tightening move. But low external debt, and favourable debt service ratio defuse solvency risk.

Yield levels and changes – Yields settled in April, but are higher on 3M, due to energy shock

Yields are higher throughout EM Asia (exc.China), since end-February, but Malaysia held up best.

Emerging Asia bond returns – Bond returns stabilized in April; Malaysia strongest performer

After the March sell-off, govt bonds steadied in April, and generally showed positive returns, led by long Malaysian and Thailand government bonds.

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Chart 1: The Philippines central bank broke ranks and was the first EM Asia central bank to raise rates (April 23) since the energy shock occurred. Other central banks are expected to hold rates in Q2, given inflation within target.

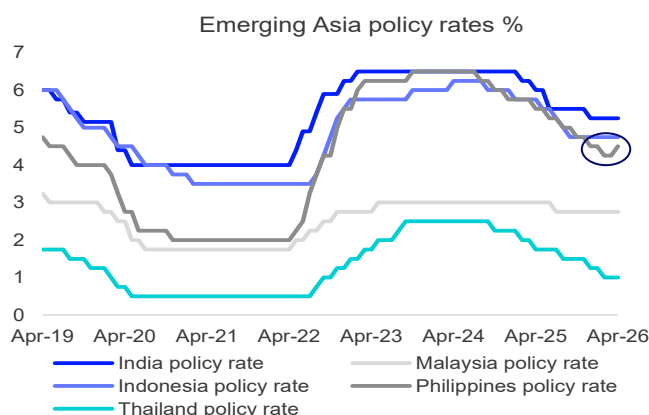
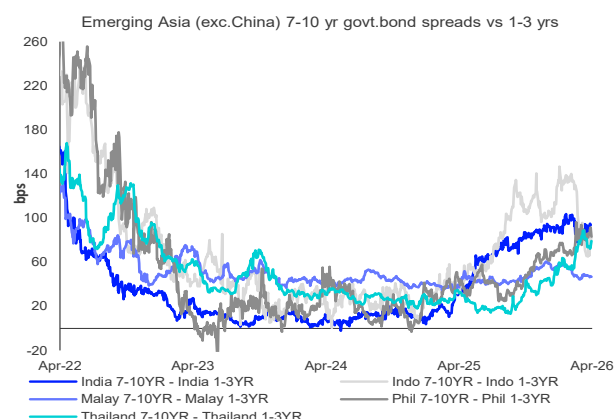


Chart 2: Yield curves remain volatile on the energy shock & central bank reactions, though higher short rate expectations caused some bear flattening. The Philippines central bank tightening move reinforced this.



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

Geopolitical supply restrictions in the Straits of Hormuz have focused attention on strategic petroleum reserves (SPRs) in the EM Asia region. Partly due to the cost of SPRs and storage space, but also Malaysia's previous net exporter status, Indonesia, Malaysia and Philippines have no SPRs and rely on commercial stocks (Chart 1), whereas Thailand is well provisioned. IMF inflation forecasts have risen most in economies with lower fuel subsidies and faster pass-through of higher energy prices (Philippines), and the increased dispersion of inflation rates in 2026 shows that impact.

In contrast to the inflation rebound elsewhere, low Thailand inflation remains an outlier, reflecting a strong exchange rate, weaker growth and demand, ageing demographics and heavy fuel subsidies (Charts 2, 3 & 4). These structural forces in Thailand suggest similarities with Japan's deflation era, and the authorities are aware of the risks of a deflation mindset gripping consumers, with some discussion of raising the inflation target. IMF 2026 growth forecasts have not been revised significantly lower (apart from the Philippines), with Malaysian growth revised higher. This reflects a strong end to 2025 and buoyant growth in Q1, 2026, before the energy shock.

Chart 2: The energy shock impacted IMF 2026 inflation forecasts most for India and the Philippines, due to higher food and energy price sensitivity, exchange rate weakness and strong growth in India.

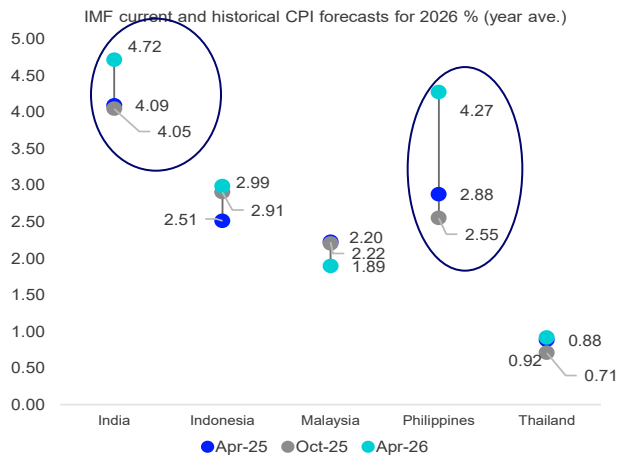


Chart 4: Although inflation has rebounded from the 2025 lows in most economies, only in the Philippines is inflation above target, and this is largely due to energy prices, rather than excess demand.

Country	Inflation target & range	Current inflation rate	Target measure
India	4% target 2 to 6% range	3.4% yy	Headline
Indonesia	2.5% target 1.5 to 3.5% range	3.5% yy	Headline
Malaysia	2026 forecast range = 1.3 to 2%	1.7% yy	Headline forecast, no target
Philippines	2 to 4% target range 2026	4.1% yy	Headline
Thailand	1 to 3% target	-0.1% yy	Headline

Chart 1: The cost of maintaining strategic energy reserves, lack of storage space, and Malaysia's previous status as a net exporter explain the absence of SPRs in Indonesia, Malaysia and Philippines.

Country	Strategic reserves (days)	Industry stocks (days)	Total oil cover (days)	% of IEA 90 days cover*
India	c 9.5	c 64-66	c 74	c 82%
Indonesia	0	c 21-23	c 23	c 26%
Malaysia	0	c 30-40	c 40	c 39%
Philippines	0	c 45-60	c 50-60	c 55-67%
Thailand	38-61	c 22-34	c 90-95	100-105%

* Note none of the five countries are full IEA members, and therefore not obliged to keep 90 days cover, as full members are.

Chart 3: The dispersion of inflation rates has increased in 2026, with Indonesia, Philippines and India showing the biggest rebound, largely due to higher food, and now energy prices, given their high CPI weights.

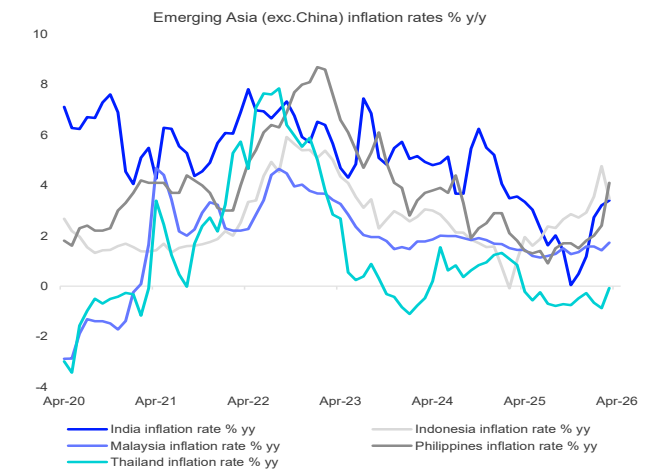
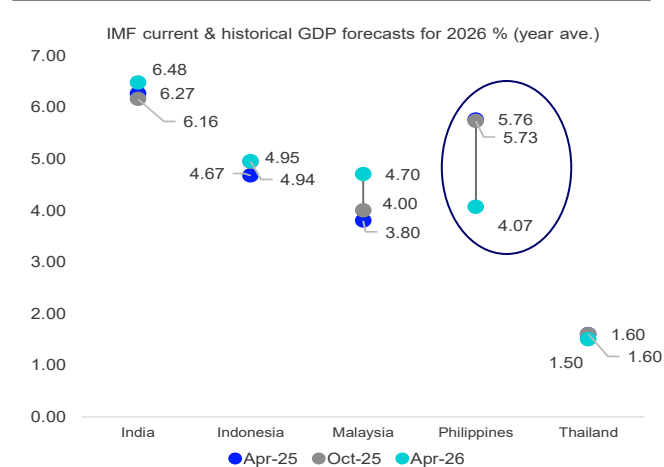


Chart 5: The biggest downgrade in the IMF's April forecasts is for the Philippines. Malaysian growth was revised up, due to strong growth in 2025-26 raising the baseline for 2026, and buoyant domestic demand.



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

APAC's energy supply shock and its inflation and policy implications remain the key themes. Bifurcation between lower yielding Malaysia and Thailand and other countries became more marked in April, led by short yields (Charts 1, 2 & 3). The Philippines rate increase (April 23) showed central banks are prepared to tighten policy if inflation targets are jeopardized, even if the reason is cost-push inflation from energy, rather than excess demand. But yield moves are modest compared with the crises of the 1990s, reflecting reduced debt service ratios and lower inflation. Yields increased most in the Philippines since the energy shock, due to faster pass-through to final prices (see page 4), even if the macro timing of the shock is less unfavourable than the 2022 Ukraine shock was for Europe.

Yield curves are volatile but bear flattening a dominant narrative (Chart 4), particularly after the rate increase in the Philippines. However, Thailand is an outlier with the curve steepening, with little prospect of higher rates, given weak growth, a strong Thai baht and very low inflation. EM Asia spreads have made a modest counter-trend widening versus Treasuries since the energy shock, but the moves are modest (Chart 5).

Chart 2: 5 yr yields also show some bifurcation between the Thai & Malaysian markets, and the others. But all markets are exposed to the energy shock, and recent increases in Thailand yields reflect that.

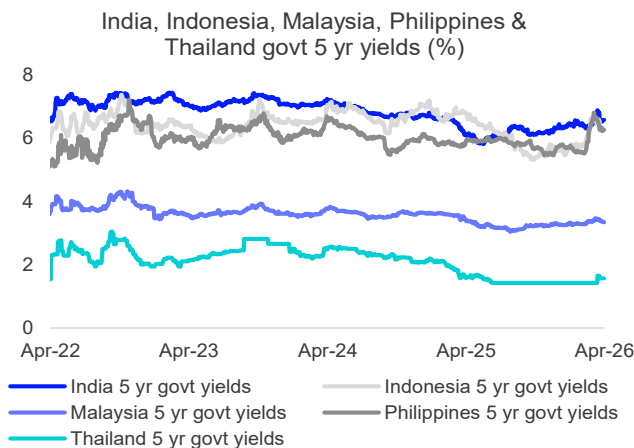
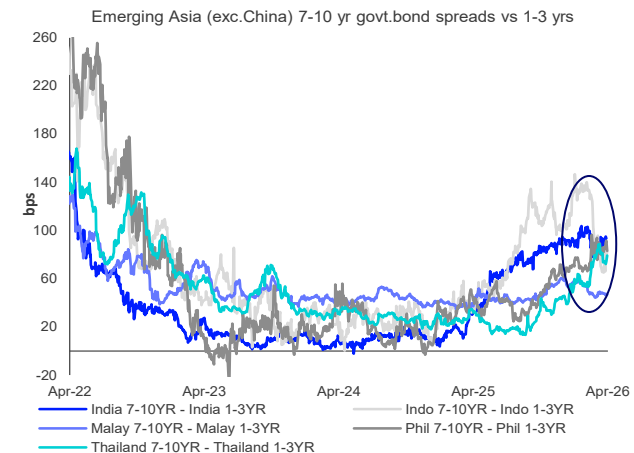


Chart 4: Yield curves remain volatile on the energy shock & central bank reactions, though higher short rate expectations caused some bear flattening. The Philippines central bank tightening move reinforced this.



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Chart 1: 3 yr yields proved volatile in April, on energy price moves but trended higher. Malaysia and Thailand remained more insulated due to less energy & inflation exposure. Philippines tightening move significant.

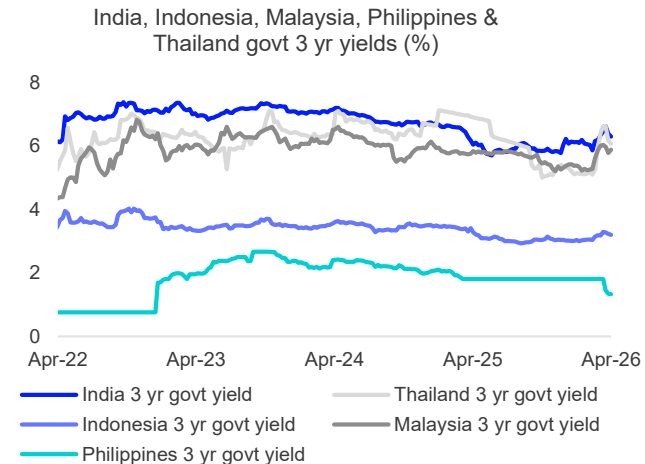


Chart 3: Malaysian 10 yr yields moved least, because of Malaysia's better net energy position. Yields also rose in Thailand, after weaker long auctions, and as the market scaled back easing expectations.

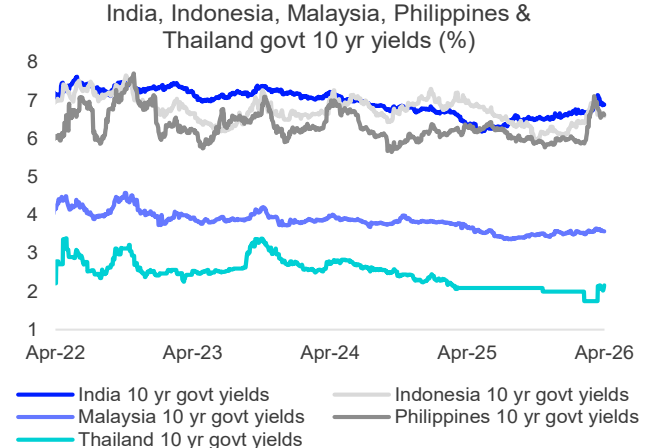
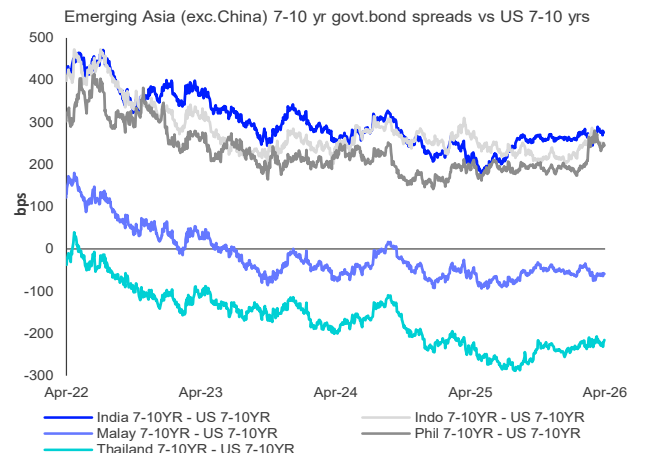


Chart 5: Yield spreads versus US show major longer term convergence, reflecting low inflation and stronger policy regimes. However, there has been some counter-trend widening on the 2026 energy shock.



Spotlight on the Philippines – survivable energy shock rather than 1990s-type crisis ?

The Philippines became the first EM Asia economy to raise rates (by 25bp) since the negative energy supply shock from the Gulf conflagration (Chart 1). With high energy sensitivity via oil imports, few energy subsidies for consumers, and rapid pass-through to final inflation, the Philippines is more exposed to energy shocks than most APAC economies (Charts 2 & 3), so the central bank has reacted quickly, hinting that another 25bp move in June is quite possible. The lack of strategic oil reserves is another sensitivity (see chart 1, page 2).

Indeed, the central bank is now forecasting inflation above the 3% target for the next 2 years, and is anxious to prevent inflation expectations from de-stabilizing, or a self-feeding spiral lower in the Philippines peso (Chart 4). Despite the stagflation risks, the good news is that the profile of Philippines sovereign debt has been transformed since the Asian debt crises of 1997-98, with external debt falling from about 60% of total debt to 30%, and peso debt doing the opposite. The debt maturity profile is also relatively long (Chart 5), and fx reserves exceed short term external debt by about 4 times, so risks of a solvency crisis are very low.

Chart 2: Philippines inflation is strongly correlated with Gulf (Dubai) oil prices, given import routes, & rapid pass-through to consumer prices. Unlike Indonesia, energy subsidies for consumers are modest.

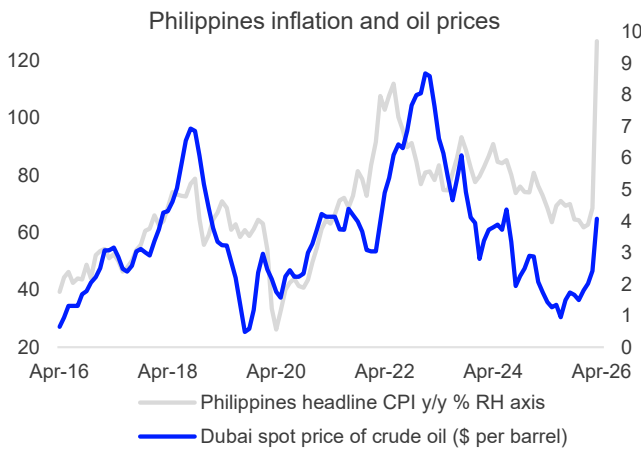
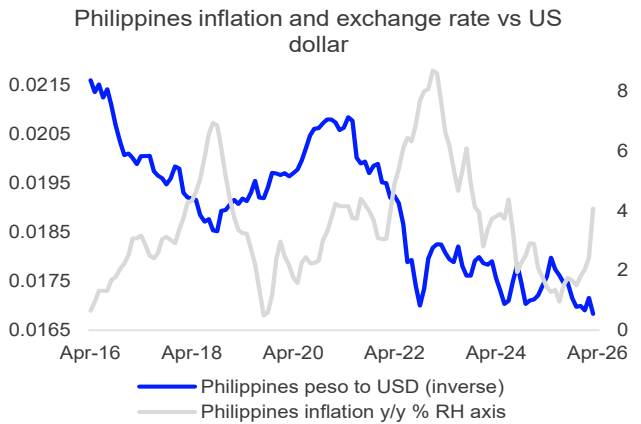


Chart 4: Negative correlation between the peso and Philippines inflation broke down in 2023-24, when inflation fell steadily despite a weak peso. But given energy prices are dollar denominated, this may re-assert itself.



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 April 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. See Appendix for list of indices used for each market.

Chart 1: The Philippines central bank only has one formal target – inflation of 3% y/y. Thus rates were raised by 25 bp on April 23, after the recent inflation rebound to over 4% y/y, with a 50bp increase debated.

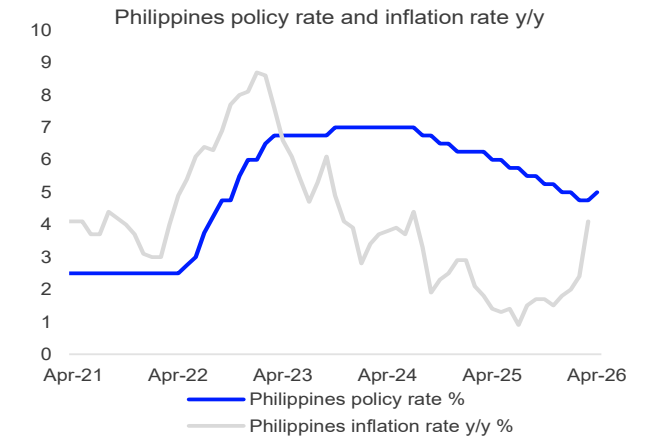


Chart 3: Evolution in CPI weights, based on spending, shows a steady fall in food's weight, and sharp increases in transport, housing & utilities. These are energy-intensive, and may drive more inflation persistence.

Evolution of Philippines CPI weights	2000*	2006*	2012	2018	2024 ** re-weight likely in 2027.
Food	47-50%	46%	38-40%	35-36%	Food expected to fall.
Housing & utilities	15-17%	18-19%	21-22%	23-24%	Expected to increase
Transport	7-9%	10%	12-13%	13-14%	Expected to increase

*There was no national Philippines CPI pre-2012, but several parallel weighting structures, hence estimated ranges in some cases.
** The 6-yearly re-weighting due in 2024 was delayed by Covid distorting expenditure patterns, and is now expected in 2027.

Chart 5: Philippine's debt profile shows a long wghtd. average maturity, and a lower share of external debt in overall sovereign debt since the 1990s. So only one rating agency has the country on negative outlook.

Country	Domestic sov. debt % of total	External sov. debt % of total	Weighted ave. maturity of debt (yrs)	Notes
Philippines	68-70	30-32	11-13 (FY 2024-25)	Debt shares = end-Feb 2026.
India	96-97	3-4	c 11 (FY 2024-25)	Debt shares = FY 2024-25
Indonesia	60-62	38-40	7.5-8.0 (End 2024)	Debt shares = Q1 2026
Malaysia	90-92	8-10	9.3 (End 2024)	Debt shares = Q1 2026
Thailand	c 99	c 1	8.1 (End 2024)	Debt shares= Q1 2026

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

After EM Asia (exc.China) bond markets fell sharply on the energy shock in March, markets stabilised and yields fell a little in April, after a Middle East cease-fire. But yields increased on 3M, led by economies with the highest economic exposure, like Indonesia and the Philippines. Thailand and Malaysian yields show less movement in all periods.

Yields near 7% in 7-10 yrs in Indonesia and Philippines drew some interest from investors in April with markets unwinding some of the March increases, though yields were close to unchanged on the month, and Indonesian yields increased.

On 12M, yields are still lower in some parts of the curve, but it is a more mixed picture and 7-10 yr yields are 50 - 90bp higher in India, and the Philippines, even if they stabilised in April. Thailand remains an outlier, with much lower yields on deflation risks.

Decrease Increase

1-3 yr maturity	Current yield April 30, 2026	1M change	3M change	12M change
India	6.157	-0.014	0.319	0.156
Indonesia	6.333	0.279	1.270	-0.115
Malaysia	3.107	-0.057	0.153	-0.059
Philippines	5.909	-0.158	0.733	0.140
Thailand	1.225	-0.040	0.003	-0.330
3-5 yr maturity	Current yield April 30, 2026	1M change	3M change	12M change
India	6.570	-0.008	0.290	0.469
Indonesia	6.647	0.104	0.980	0.088
Malaysia	3.262	-0.105	0.026	-0.049
Philippines	6.777	0.125	1.254	0.921
Thailand	1.461	-0.124	0.136	-0.128
7-10 yr maturity	Current yield April 30, 2026	1M change	3M change	12M change
India	7.063	0.053	0.325	0.709
Indonesia	6.860	-0.021	0.472	0.004
Malaysia	3.570	-0.085	0.043	-0.063
Philippines	6.920	-0.039	0.970	0.743
Thailand	2.077	-0.050	0.216	0.225

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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 were mainly weaker on 1-3 months, as the energy shock and exposures to it overpowered other factors, though Malaysia outperformed. Long Philippines and Thailand govt bonds suffered from foreign investor outflows YTD, though 1M returns show gains of 4% in April in Thai longs.

US Treasuries have held up quite well during the energy shock, helped by a stronger US dollar, and the US being a net energy exporter, even if US inflation is higher. JGB returns suffered most from the energy shock, given high energy imports, and weak yen.

Weaker exchange rates squeezed Indian and Indonesian returns for overseas investors, particularly Indian, reflecting India's net energy imports. In contrast, a stronger exchange rate helped Malaysian govt bond returns 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	0.20	0.20	0.29	0.29	0.49	0.49	3.16	3.16
	7-10	-0.11	-0.11	0.01	0.01	-0.39	-0.39	2.90	2.90
	20+	-0.83	-0.83	-0.61	-0.61	-1.15	-1.15	0.21	0.21
Japan	1-3	1.63	0.11	-1.42	0.15	0.14	0.11	-8.97	0.01
	7-10	0.57	-0.94	-2.97	-1.43	-2.35	-2.37	-15.28	-6.92
	20+	0.23	-1.28	-3.44	-1.91	-6.05	-6.07	-25.49	-18.14
Germany	1-3	2.02	0.20	-1.82	-0.43	-0.28	-0.16	3.62	0.42
	7-10	1.96	0.15	-2.38	-1.00	-0.50	-0.38	1.72	-1.43
	20+	0.72	-1.07	-1.43	-0.03	-0.23	-0.12	-6.53	-9.43
Korea	1-3	3.52	0.25	-2.85	0.11	-2.77	0.11	-3.25	0.95
	7-10	3.43	0.16	-3.78	-0.85	-5.17	-2.36	-9.98	-6.07
	20+	3.86	0.58	-6.63	-3.79	-10.65	-8.00	-23.92	-20.62
Indonesia	1-3	-1.53	0.29	-3.47	-0.45	-3.56	0.12	1.99	6.36
	7-10	-1.17	0.66	-4.31	-1.32	-5.79	-2.20	2.55	6.94
	20+	-0.72	1.13	-3.37	-0.34	-3.45	0.23	5.14	9.63
India	1-3	0.49	0.56	-2.16	0.95	-4.12	1.25	-5.87	5.75
	7-10	0.15	0.22	-3.44	-0.36	-5.68	-0.39	-9.05	2.18
	20+	1.22	1.29	-4.23	-1.18	-6.84	-1.62	-13.97	-3.35
Malaysia	1-3	2.32	0.36	-0.25	0.50	2.96	0.76	12.27	3.34
	7-10	2.84	0.87	-0.19	0.56	2.85	0.66	13.10	4.10
	20+	2.91	0.94	-0.30	0.45	2.38	0.19	12.82	3.84
Philippines	1-3	-0.38	0.81	-4.21	0.01	-3.59	0.74	-4.21	5.43
	7-10	-0.34	0.85	-8.57	-4.54	-7.54	-3.38	-7.56	1.75
	20+	-0.48	0.71	-9.34	-5.35	-9.06	-4.97	-9.45	-0.34
Thailand	1-3	1.53	0.35	-3.09	0.40	-3.02	0.34	4.56	2.04
	7-10	1.70	0.52	-4.55	-1.12	-6.68	-3.44	2.59	0.11
	20+	4.30	3.09	-7.36	-4.02	-13.67	-10.68	-4.42	-6.74

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