

Regional Currency Strength Supports Asian Bond Performance

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Asian bond markets faced a tougher backdrop in July 2026, but currency strength reshaped the return picture. The iBoxx ABF Pan-Asia Bond Index returned 0.92% on a US-dollar unhedged basis, outpacing the US-dollar hedged version, which declined by 0.45%. The gap was almost entirely a currency story, with regional currency appreciation against the US dollar adding 1.36% to unhedged returns and offsetting softer bond prices.

State Street Investment Management Fixed Income Portfolio Strategists

Market overview

On the monetary front, the Bank of Korea raised its benchmark interest rate by 25 basis points to 2.75% – its first hike in over three years – as inflation hit a three-year high, lifting the South Korean 10-year yield by 24 basis points. Bank Indonesia (benchmark interest rate of 5.75%), Bank Negara Malaysia (overnight policy rate of 2.75%) and the People's Bank of China (one-year loan prime rate of 3.0%) all held steady, with no easing anywhere in the region.

Against this backdrop, 10-year government bond yields rose across most markets, led by the Philippines (+41 basis points), Singapore (+32 basis points), South Korea (+24 basis points) and Hong Kong (+21 basis points), with smaller increases in Indonesia (+18 basis points), Malaysia (+10 basis points) and Thailand (+1 basis point).

China was the sole market to ease, with yields edging down by one basis point. Overall, a hawkish policy tone and rising yields weighed on hedged returns, while broad currency appreciation against the US dollar was the decisive driver for unhedged investors – turning a weaker month for bonds into a positive result.

First rate hike in over three years

South Korea (USD Unhedged: 7.7%) South Korea's 10-year government bond yield rose by 24 basis points in July 2026, while the Korean won gained a strong 8.7% over the month. Headline inflation eased to 2.8% year on year (y/y) from 3.2% in June 2026 – the softest pace since April 2026 and below the 3.0% expected – though still above the Bank of Korea's 2.0% target, as transport inflation moderated (7.7% vs 11.1%) on easing fuel prices; core inflation held at near 2.5%. Manufacturing strengthened, with the S&P Global Purchasing Managers' Index (PMI) survey rising to 53.1 from 52.1 – its third-highest reading in four years – as output and new orders accelerated on firmer semiconductor and automotive demand, and export orders grew for the first time in three months. The labor market softened slightly, with unemployment edging up to 2.8% from 2.7%. On 16 July 2026, the Bank of Korea raised its base rate by 25 basis points to 2.75%, its first hike since January 2023, as Governor Shin Hyun-song prioritized price stability and signaled that further tightening may be warranted amid persistent inflation, robust household credit and an improving growth outlook.

China's uneven and export-reliant recovery

China (USD Unhedged: 1.0%) China's growth momentum eased somewhat in July 2026, with activity moderating across manufacturing and services, while external demand remained a steady support. Second-quarter gross domestic product (GDP) growth had already slowed to 4.3% y/y – the weakest in more than three years and down from 5.0% in the first quarter of 2026 – though growth in the first half of 2026 held at 4.7%, broadly on track with Beijing's 4.5%–5.0% target. The official NBS Manufacturing PMI survey slipped back into contraction at 49.2 in July 2026 from 50.3 in June 2026, its first such reading since February 2026, though high-tech (53.3) and equipment manufacturing (51.4) stayed firmly expansionary on the artificial intelligence (AI) investment cycle, while the Caixin (RatingDog) Manufacturing PMI survey eased to 50.9 from 51.7. Broader activity also weakened, with the official Composite PMI survey falling to 49.3 from 50.6 and the Non-Manufacturing PMI survey easing to 49.0 from 50.2. External demand stayed resilient, as exports rose 23.9% y/y to US\$397.85 billion – beating expectations but easing from the 27.0% surge in June 2026 – while imports climbed 27.5%, leaving a US\$112.5 billion trade surplus. The labour market held broadly stable, with the surveyed urban unemployment rate easing to 5.0% in June 2026. The People's Bank of China maintained its accommodative stance, leaving the one-year loan prime rate and five-year mortgage reference rate unchanged at 3.0% and 3.5%, respectively, for the 14th consecutive month, while relying more on reverse repurchase operations to support liquidity. Inflation pressures eased further, with consumer prices rising just 0.5% y/y in July 2026 – a six-month low, down from 1.0% in June 2026. In fixed-income markets, government bond yields were broadly stable, with the two-year yield edging up by around one basis point and the 10-year yield declining by roughly one basis point, producing a modest bull flattening (where long-term interest rates fall at a faster pace than short-term interest rates) amid subdued inflation and continued central bank liquidity support. The Chinese renminbi appreciated by approximately 0.5% against the US dollar during July 2026, ending near 6.75 per dollar, supported by broad dollar weakness, stronger daily fixings by the central bank and China's robust external position.

Growth eases in Hong Kong

Hong Kong (USD Unhedged: -0.4%) Hong Kong's 10-year government bond yield rose by 21 basis points in July 2026, while the Hong Kong dollar was broadly flat. The economy grew by 4.3% y/y in the second quarter of 2026, easing from 5.9% in the first quarter of 2026 on slower private consumption, though external trade and domestic demand stayed resilient. On a seasonally adjusted basis, GDP growth slipped 0.6% quarter on quarter – its first decline since the third quarter of 2022. Headline inflation held steady at 2.0% y/y for a third straight month. The S&P Global PMI survey eased to 51.0 from 52.0 – a third month above 50 – as output hit a five-month high, though softer external demand weighed on new business and firms cut headcount at the sharpest pace in three years. Unemployment was unchanged at 3.7% in the three months to June 2026. On 30 July 2026, the Hong Kong Monetary Authority held its base rate at 4.0%, moving in lockstep with the US Federal Reserve under the Linked Exchange Rate System that keeps financial conditions relatively tight.

Inflation eases but remains within target

Thailand (USD Unhedged: -0.5%) Thailand's 10-year government bond yield was broadly unchanged in July 2026, edging up just one basis point, while the Thai baht weakened modestly, declining by 0.5% over the month. Headline inflation eased to 1.95% y/y from 2.42% in June 2026 – below market expectations of 2.55% and the slowest pace in three months – as a sharp decline in domestic fuel prices weighed on energy costs, though it remained within the Bank of Thailand's 1.0%–3.0% target range, while core inflation accelerated to 1.34% from 1.23%. Manufacturing activity strengthened further, with

the S&P Global Thailand Manufacturing PMI survey rising to 54.2 from 53.6 – its highest level since December 2025 – as production growth accelerated to its fastest pace in 2026 and new export orders rose for a third consecutive month. With no meeting held in July 2026, the Bank of Thailand's benchmark policy rate remained at 1.0% – having earlier raised its 2026 growth forecast to 2.3% – with its next review scheduled for 26 August 2026.

Robust growth in the second quarter of 2026

Malaysia (USD Unhedged: -0.5%) Malaysia's 10-year government bond yield edged up by 10 basis points in July 2026, while the Malaysian ringgit weakened modestly, declining by 0.4% over the month. Inflation remained contained in June 2026, holding at 1.9% y/y – just off the 22-month high seen in May 2026. Core inflation was also at 1.9%. The S&P Global Manufacturing PMI survey stayed at 50.7 as new orders rose to an eight-month high and export demand improved, though output growth was marginal and firms trimmed headcount. Growth remained strong, with GDP for the second quarter of 2026 accelerating to 5.8% y/y from 5.4% in the first quarter of 2026 on resilient domestic demand and stronger electronics exports. Bank Negara Malaysia maintained the overnight policy rate at 2.75% on 9 July 2026 – a sixth consecutive hold – keeping a broadly neutral stance amid contained inflation and resilient growth.

Manufacturing activity picks up in Indonesia

Indonesia (USD Unhedged: -0.7%) Indonesia's 10-year government bond yield rose by 18 basis points in July 2026, while the Indonesian rupiah weakened modestly, falling by 0.7% over the month. Headline inflation eased to 2.88% y/y in June 2026 from 3.34% – the lowest since April 2026 and comfortably within Bank Indonesia's 1.5%–3.5% target range – as food inflation slowed to a six-month low of 2.97%, while core inflation held at 2.76%. Growth remained resilient, with GDP for the second quarter of 2026 expanding by 5.29% y/y – easing from 5.61% in the first quarter of 2026 but beating expectations on strong household consumption and government spending. The S&P Global Manufacturing PMI survey rose sharply to 50.2 from 46.9 – its highest since February 2026 – as output grew for the first time in five months, though export orders fell for a fifth straight month. After 100 basis points of policy tightening in May 2026 and June 2026, Bank Indonesia held its benchmark interest rate at 5.75% on 22 July 2026, opting to expand incentives to attract foreign inflows and stabilize the Indonesian rupiah.

AI-related demand underpins manufacturing growth

Singapore (USD Unhedged: -1.3%) Singapore's 10-year government bond yield rose by 32 basis points in July 2026, while the Singapore dollar strengthened, posting a positive return of 0.9% over the month. Price rises remained contained, with core inflation at 1.5% and headline inflation at 1.9% in June 2026, though the Monetary Authority of Singapore expects price pressures to step up from July 2026 and remain elevated into early 2027 on higher energy and imported costs. Manufacturing activity extended its expansion, with the SIPMM Manufacturing PMI survey edging up to 51.4 from 51.3 – an 11th straight month of growth, led by AI-driven electronics demand – while the S&P Global Singapore PMI survey jumped to a five-month high of 59.2 from 57.4 on strong output and new-order growth. Economic momentum remained robust, with GDP growth for the second quarter of 2026 expanding by 5.9% y/y, easing from 6.3% in the first quarter of 2026. Against this backdrop of persistent imported-inflation risks, the Monetary Authority of Singapore tightened its monetary policy for a second consecutive quarter on 27 July 2026, slightly increasing the rate of appreciation of the Singapore dollar nominal effective exchange rate (S\$NEER) band, while maintaining its 2026 core and headline inflation forecast at 1.5%–2.5%.

Philippines sees robust output and new-order growth

Philippines (USD Unhedged: -2.0%) The Philippines 10-year government bond yield rose by around 41 basis points, while the Philippine peso was broadly flat (+0.1%). Headline inflation eased for a third straight month to 6.2% y/y from 6.4% in June 2026, led by softer transport costs, while core inflation slowed to 4.2% from 4.4% – though both remained above the 2.0%–4.0% target, with year-to-date inflation at 5.0%. Growth, however, weakened notably, with GDP for the second quarter of 2026 expanding by just 2.3% y/y, down from 2.8% in the first quarter of 2026 and the slowest pace since 2009 (excluding the pandemic), weighed down by a sharp drop in investment. Manufacturing remained a bright spot, as the S&P Global Manufacturing PMI survey rose to a five-month high of 51.8 from 50.9, a third month of expansion driven by the fastest new-order and output growth since February 2026. With no policy meeting in July 2026, Bangko Sentral ng Pilipinas held its reverse repurchase rate at 4.75% after hikes in April 2026 and June 2026, keeping the door open to further tightening at its meeting on 27 August 2026 to steer inflation toward the 3.0% target.

Source: State Street Investment Management for commentary, Bloomberg Finance L.P. for economic data, S&P Global (via Bloomberg) for market-specific Purchasing Managers' Index data, iBoxx ABF Pan-Asia Index data, and return data showing in the performance table, as of 31 July 2026.

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