

Asia FX Outlook for Q4 2026

AI-led outperformance amid USD and energy headwinds

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Asia FX Outlook | Executive Summary

We expect Asia FX to post a modest aggregate appreciation in Q4 2026, but performance across Asia FX pairs will remain highly differentiated. Near-term USD resilience and elevated US yields remain headwinds, while the AI-led export cycle, external balances, energy exposure and domestic policies will drive relative performance.

The AI and semiconductor cycle remains the key source of regional FX differentiation. Taiwan and South Korea are the clearest beneficiaries, with strong technology exports, capital expenditure and benign terms of trade supporting TWD and KRW. Korea's semiconductor upturn has been predominantly more price-driven, while Taiwan's has been more volume-led, suggesting different transmission channels but similarly constructive currency implications. Malaysia also benefits from technology exports and relatively strong external buffers. SGD should remain resilient, supported by electronics exports, refined-fuel trade and a firm S\$NEER policy.

China's outlook remains two-speed. Advanced manufacturing, high-technology exports and digital services continue to outperform, while property activity, household confidence and traditional credit demand remain subdued. Strong exports, a large trade surplus, additional fiscal implementation and reduced tariff risks following the Xi-Trump meeting, like continue to support CNY. Meanwhile, recent stronger-than-expected PBoC fixings suggest the authorities remain reluctant to tolerate meaningful RMB depreciation. We forecast USD/CNY declining to 6.65 by end-2026 and 6.50 by Q3 2027. However, persistent softness in property sector and overall domestic demand is likely to limit the extent of RMB gains, suggesting a measured pace of appreciation rather than a one-way move lower in USD/CNY.

External vulnerabilities remain more evident. Indonesia faces pressure from elevated oil prices, high US yields and volatile foreign portfolio flows despite Bank Indonesia's tightening. Thailand's weak growth, deteriorating terms of trade, seasonal softness in tourism and limited policy space should leave THB vulnerable. India's FX measures have rebuilt RBI intervention capacity and reduced the risk of disorderly depreciation, but FDI repatriation, domestic issuance and persistent structural dollar demand should keep INR on a gradual weakening path. PHP also faces elevated food and energy inflation, although additional BSP tightening and an eventual improvement in external conditions should support stabilization.

Inflation and monetary-policy paths will consequently diverge. Energy price pass-through differs across Asia due to varying fuel subsidies, price controls and market-pricing regimes. A potentially strong El Niño, alongside elevated fertilizer and energy costs, adds further food-inflation risk. China and Thailand remain focused on supporting growth, while India, Indonesia, Philippines and South Korea retain tightening biases. Singapore's firm FX policy should continue cushioning imported inflation, whereas Taiwan and Malaysia have less urgency to adjust policy.

Overall, In Q4, we expect MYR, CNY and KRW to outperform, appreciating by 1.3%, 0.9% and 0.7%, respectively, expect TWD and SGD to deliver smaller gains, while INR remains broadly unchanged. IDR and THB are expected to underperform, depreciating by 2.0% and 1.5%, respectively, followed by VND and PHP. Key downside risks include renewed energy disruption, further increases in US yields, weaker global risk sentiment and a sharper slowdown in AI investment.

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Asia: Forecast summary

Asia FX outlook | Forecast summary

Currency pair	Forecasts
USD/CNY	We expect USD/CNY to grind lower towards 6.65 by end-2026. Our appreciation bias is supported by China's robust exports, resilient high-tech and new economy, easing US-China tariff risks, and the PBoC's continued commitment to maintaining broad RMB stability. A favorable balance-of-payments position and reduced depreciation expectations should also provide underlying support. However, persistent softness in property sector and overall domestic demand is likely to limit the extent of RMB gains, suggesting a measured pace of appreciation rather than a one-way move lower in USD/CNY.
USD/INR	We are forecasting USD/INR at 96.00 by Dec 2026 and 97.50 by Sep 2027, implying a gradual depreciation in INR against the Dollar and a modest underperformance against other Asian currencies. From an FX perspective, we continue to think that RBI's measures have significantly reduced the left tail risk of sharp INR depreciation. Nonetheless, given still strong underlying Dollar demand including from gross FDI repatriation and a strong IPO issuance pipeline, we are still forecasting USD/INR to move higher. We continue to forecast RBI hiking rates by 50bps in total, with 25bps each in the Dec 2026 and Feb 2027 meetings, bringing the repo rate to 5.75%.
USD/IDR	We maintain our upside bias on USD/IDR, targeting 18,350 in 3 months and 18,600 in 12 months. Elevated US yields, Brent above USD100/bbl and renewed portfolio outflows are reinforcing depreciation pressure. Higher oil prices are eroding Indonesia's trade buffer, while a smaller coal surplus and weaker non-oil and gas balance limit offsets. Fiscal risks also persist if elevated oil prices require further spending restraint. BI's FX toolkit and cheaper hedging can smooth volatility, but are unlikely to reverse sustained external pressure.
USD/MYR	We forecast USD/MYR at 4.03 in 3 months and 3.98 in 12 months, with near-term volatility giving way to medium-term MYR strength. Malaysia's electronics surplus and strong ICT-led investment continue to cushion the oil shock, while resilient wages and low unemployment support domestic demand. Fiscal pressures from higher energy subsidies remain manageable, with consolidation still on track. Meanwhile, contained inflation gives BNM room to hold at 2.75%. Despite elevated global yields, Malaysia's resilient external position, improving capital flows and attractive valuations leave us constructive on MYR.
USD/PHP	We have shifted our USD/PHP profile slightly higher, and now forecast USD/PHP trading above the 62.50 levels in 2H2026 before moving lower towards 62.00 in 2027. Nonetheless, our key message to clients is that PHP should still strengthen gradually over time in our base case. From a policy rate perspective, we forecast BSP hiking rates twice more, likely in the October and December 2026 meetings, and bringing the policy rate to 5.50% from 5.00% currently. From a rates perspective, we are neutral on Philippines local currency bonds.
USD/SGD	We forecast USD/SGD at 1.2750 in 3 months and 1.2600 in 12 months, with Singapore's strong external buffers supporting SGD resilience. The electronics upcycle, sizeable tech surplus and broadly balanced mineral-fuel trade position help cushion the oil shock. Meanwhile, easing labour-cost pressures should help cushion against broader inflation pass-through, while the firm S\$NEER to remain an effective policy buffer against imported inflation. We remain constructive on SGD over next 12 months, though near-term dollar strength to temporarily stall the SGD's appreciation.
USD/KRW	We forecast USD/KRW at 1,350 by end-2026 and 1,300 by September 2027, as semiconductor-led exports and their spillover effects should continue to support Korea's fundamentals. The BoK is likely to remain hawkish to contain inflation, which should lend support to the KRW, especially as expansionary fiscal policy in 2027 adds to inflationary pressures. While there remains room for further KRW appreciation, global risk sentiment will remain an important driver and could pose a headwind in the near term, particularly as the Fed is expected to raise rates in Q4, supporting the US dollar.
USD/TWD	We forecast USD/TWD at 31.80 by end-2026 and 30.90 by September 2027, supported by Taiwan's position as a key beneficiary of the ongoing AI advancement. Lower oil prices from current elevated levels would improve Taiwan's terms of trade and provide further support to the trade balance. That said, Taiwan's yield disadvantage relative to the US is likely to remain a near-term headwind for the TWD, limiting the degree of appreciation.
USD/THB	We forecast USD/THB at 34.10 in 3 months before easing to 33.50 in 12 months. Near-term risks remain tilted towards THB weakness as higher oil prices worsen Thailand's terms of trade and widen the oil deficit, while softer tourism receipts reduce an important FX buffer. The electronics boom provides less support than headline exports suggest given high imported content. Weak growth, limited fiscal space and persistent foreign portfolio outflows add to the pressure. With the BoT likely holding at 1.0%, Thailand's wide rate disadvantage against the US should keep THB under pressure near term.
USD/VND	We are forecasting USD/VND to be more stable. We see USD/VND at 26,000-26,100 over the next few months into end-2026, before moving towards 26,200-26,300 levels later in 2027. With a more stable USD/VND FX rate, we also expect SBV to keep rates on hold through 2027. We correspondingly also expect the 3-month interbank rate to move gradually lower below 7% over time.

Source: MUFG GMR

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Asia FX outlook | Quarterly forecasts

Currency pair	Q4 2026	Q1 2027	Q2 2027	Q3 2027
USD/CNY	6.6500	6.6000	6.5500	6.5000
USD/HKD	7.8200	7.8200	7.8200	7.8200
USD/INR	96.000	95.500	97.000	97.500
USD/IDR	18350	18500	18700	18600
USD/MYR	4.0300	4.0000	4.0000	3.9800
USD/PHP	62.800	62.500	62.300	62.000
USD/SGD	1.2750	1.2700	1.2700	1.2600
USD/KRW	1350.0	1330.0	1315.0	1300.0
USD/TWD	31.800	31.500	31.200	30.900
USD/THB	34.100	34.000	33.800	33.500
USD/VND	26100	26200	26300	26400
DXY	102.19	100.58	98.880	97.270
EUR/USD	1.1200	1.1400	1.1600	1.1800
USD/JPY	155.00	153.00	151.00	149.00
GBP/USD	1.3100	1.3180	1.3330	1.3490
USD/CAD	1.4200	1.4000	1.3800	1.3600
USD/SEK	10.179	9.9120	9.5690	9.3220
USD/CHF	0.8480	0.8290	0.8060	0.7840
AUD/USD	0.7000	0.7100	0.7200	0.7300
NZD/USD	0.5700	0.5800	0.5900	0.6000

Source: MUFG Research (latest FX forecast update: 1 October 2026); USD/HKD unchanged as not listed

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Asia economic outlook | Forecasts for key macro indicators

Country / Region	Real GDP (%yoy)				Current Account (% of GDP)				10-Yr Bond (% , EOP)				Inflation (%yoy, average)				Inflation (%yoy, EOP)				Policy Rate (% , EOP)			
	2024	2025	2026F	2027F	2024	2025	2026F	2027F	2024	2025	2026F	2027F	2024	2025	2026F	2027F	2024	2025	2026F	2027F	2024	2025	2026F	2027F
China	5.0	5.0	4.7	4.7	2.3	3.8	3.4	3.3	1.7	1.9	1.75	1.9	0.2	0.1	1.2	1.2	0.1	0.8	1.0	1.2	1.50	1.40	1.40	1.40
India**	6.5	7.6	7.2	7.0	-0.7	-1.3	-1.3	-1.2	6.6	6.9	7.2	7.6	4.6	1.6	5.0	4.4	4.0	2.4	4.8	4.3	6.25	5.25	5.75	5.75
Indonesia	5.0	5.1	5.3	5.0	-0.6	-0.1	-2.0	-1.0	7.0	6.1	7.2	6.9	2.3	1.9	3.0	2.8	1.6	2.8	3.0	2.8	6.00	4.75	6.25	5.50
Malaysia	5.1	5.2	5.2	5.0	1.7	1.6	2.0	1.8	3.8	3.5	4.0	3.7	1.8	1.6	1.7	1.8	1.7	1.5	1.7	1.9	3.00	2.75	2.75	2.75
Philippines	5.6	4.7	3.2	5.0	-4.0	-3.0	-3.8	-3.2	6.2	5.8	7.2	6.8	3.2	1.8	5.4	3.9	2.9	2.2	5.9	3.7	5.75	4.50	5.25	4.50
Singapore	4.4	5.0	5.0	3.0	17.5	16.7	17.5	17.0	2.9	2.1	2.5	2.2	2.4	0.9	2.0	2.0	1.6	1.2	2.0	2.0	3.07	1.23	1.36	1.40
South Korea	2.1	1.0	3.6	2.8	5.3	6.6	12.0	8.0	2.9	2.8	4.5	3.8	2.3	2.1	2.7	2.1	1.9	2.1	2.7	2.0	3.00	2.50	3.25	3.25
Taiwan	4.6	8.6	11.6	6.5	14.1	19.7	23.0	20.0	1.6	1.4	1.9	1.8	2.2	1.5	2.0	1.7	2.1	1.6	1.8	1.7	2.00	2.00	2.00	2.00
Thailand	2.5	2.4	2.0	2.0	2.2	2.8	-1.0	2.2	2.3	1.6	2.3	2.0	0.4	-0.1	2.1	1.4	1.2	-0.5	1.5	1.4	2.25	1.25	1.00	1.00
Vietnam	7.1	7.7	8.8	8.2	5.9	5.5	2.5	1.5	3.0	3.9	4.6	5.0	3.6	3.3	4.7	4.6	2.9	3.8	5.1	4.7	4.50	4.50	4.75	5.00

Source: MUFG GMR; Note: **Forecasts for India are based on financial year starting April ending March.

Asia FX outlook | Policy rate forecasts

	Policy Rate Forecasts			
Country	4Q2026	1Q2027	2Q2027	3Q2027
China	1.40%	1.40%	1.40%	1.40%
India	5.50%	5.75%	5.75%	5.75%
Indonesia	6.25%	6.25%	6.00%	5.75%
Malaysia	2.75%	2.75%	2.75%	2.75%
Philippines	5.25%	5.50%	5.50%	5.25%
Singapore	1.36%	1.40%	1.40%	1.40%
South Korea	3.25%	3.25%	3.25%	3.25%
Taiwan	2.00%	2.00%	2.00%	2.00%
Thailand	1.00%	1.00%	1.00%	1.00%
Vietnam	4.50%	4.50%	4.50%	4.50%
United States	4.13%	4.13%	4.13%	3.88%
Eurozone	2.75%	3.00%	3.00%	2.75%
Japan	1.50%	1.75%	2.00%	2.00%

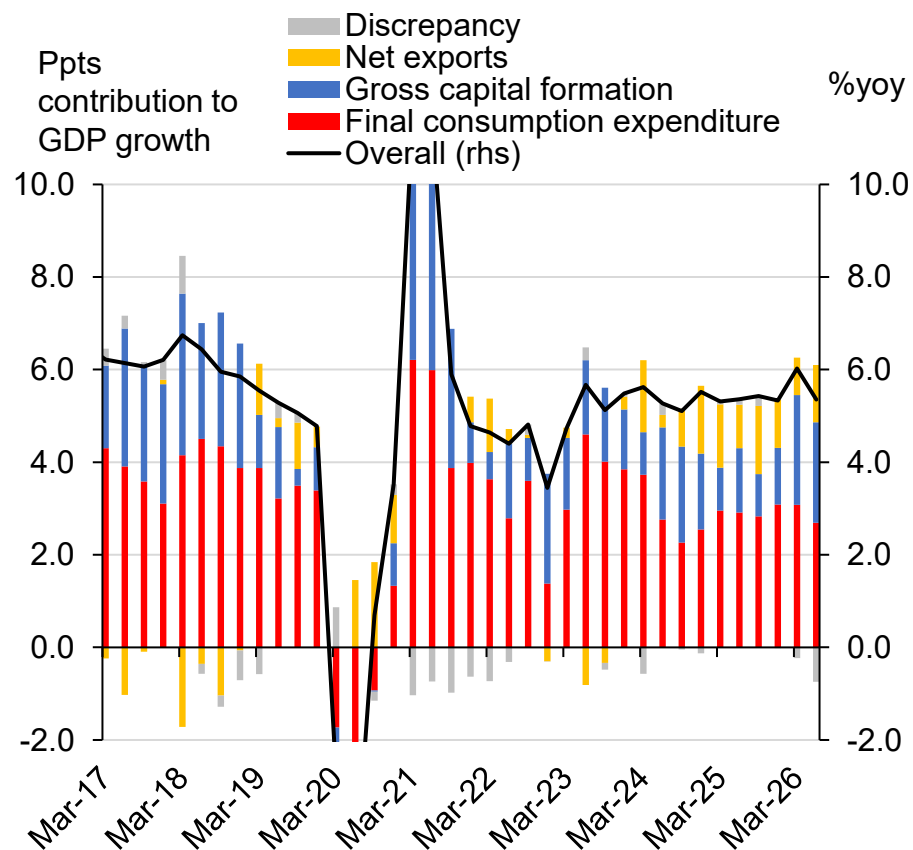
Source: MUFG GMR. *7-day reverse repo rate for China. Refinancing rate for Vietnam, 3-month compounded SORA for Singapore

Macro and currency themes

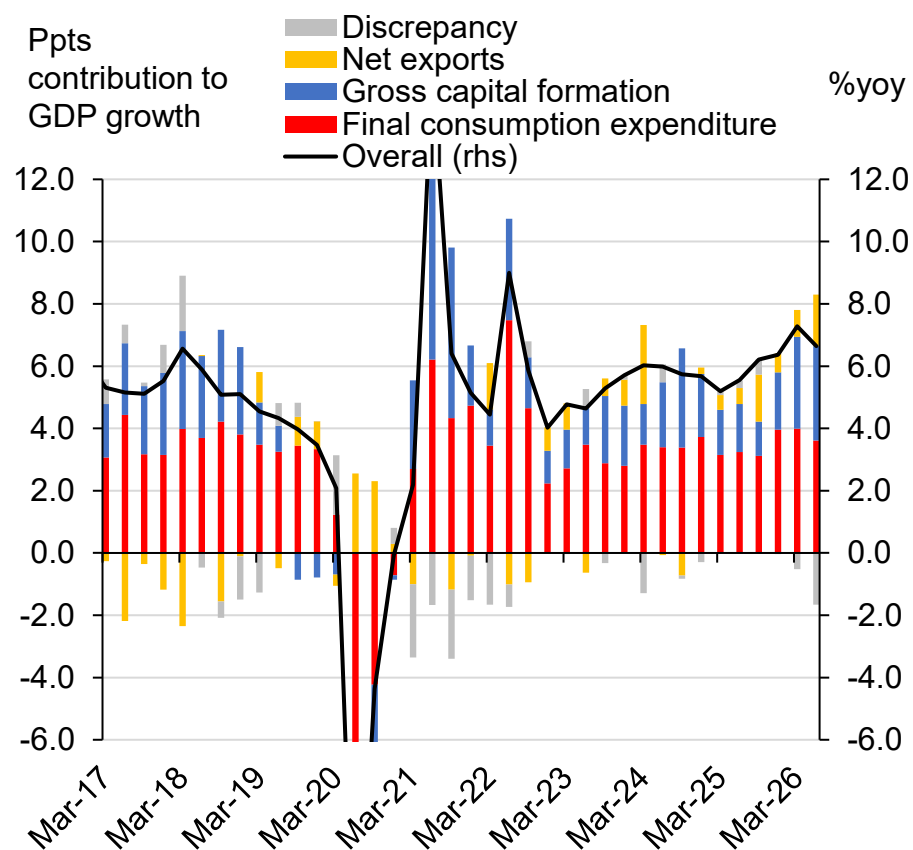
Asia's growth to remain firm benefitting from global investment cycle

Asia's growth momentum has remained broadly resilient in recent quarters despite the drag from China's transition toward more quality-driven growth. Excluding China, GDP growth in Asia accelerated from a recent trough of 5.2% YoY to 6.6% YoY in Q2 2026, supported by a tech-driven export and investment cycle, alongside a continued recovery in domestic consumption.

Asia ex Japan and Vietnam real GDP growth



Asia ex China, Japan and Vietnam real GDP growth



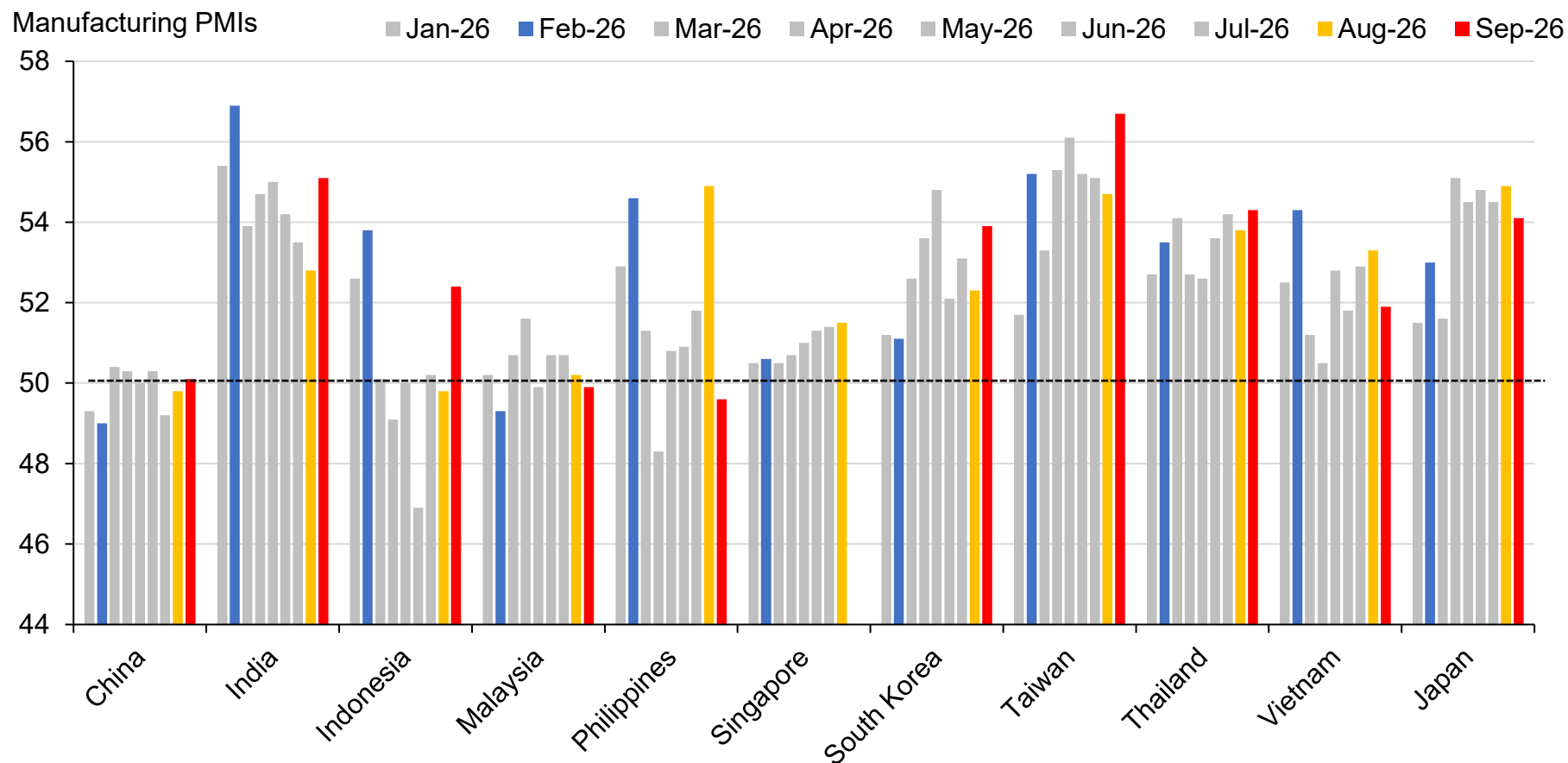
Source: CEIC, Bloomberg, MUFG GMR.

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Asia's Tech upcycle benefits remain uneven across economies

Among the early reporters of September's manufacturing PMI readings, 7 out of 9 Asian economies reported expansionary activities with China posting a rebound. The PMI reading for Philippines was volatile as its reading dropped drastically from its recent high to below 50-level dragged by subdued demand and international competition. Lastly, Taiwan's PMI reading stands out the most, highlighting the positive impact from the ongoing AI tech upcycle

Asian manufacturing PMIs are broadly in expansion



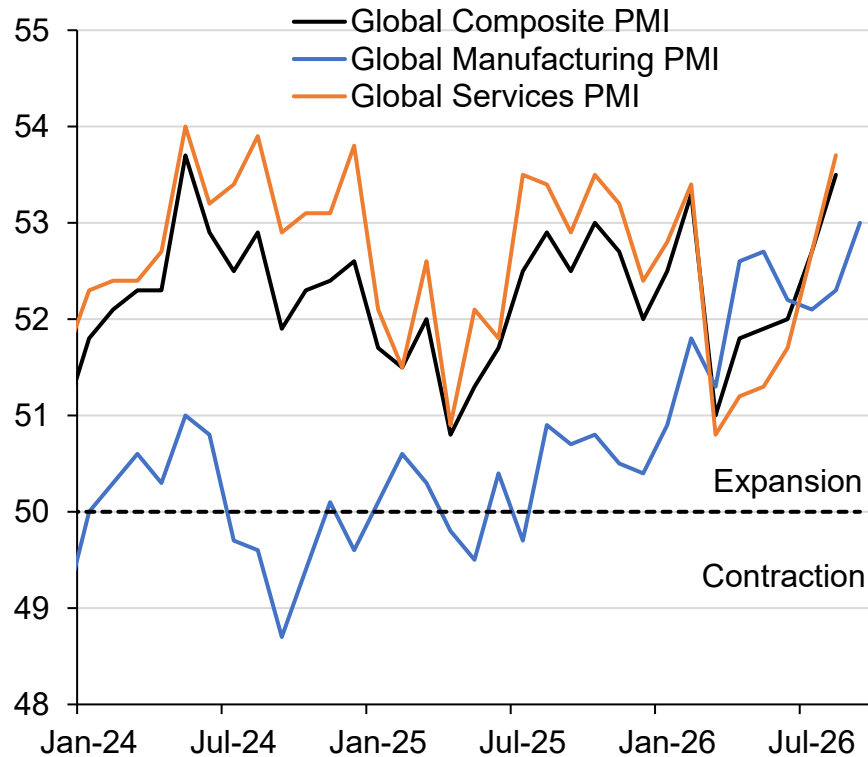
Source: CEIC, Bloomberg, MUFG GMR.

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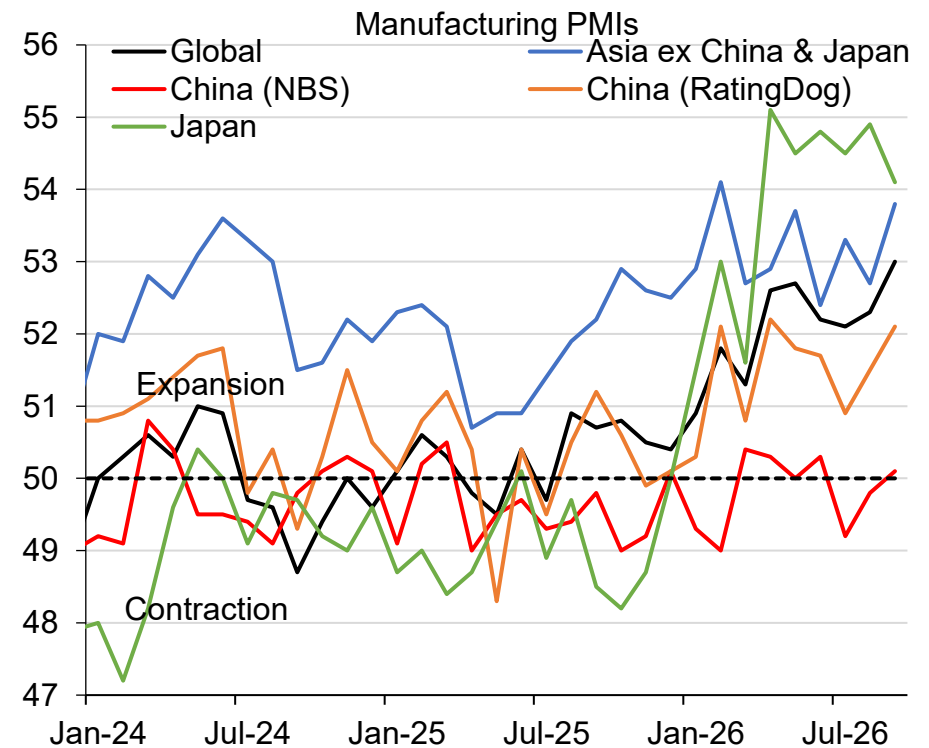
Q4 Asia growth supported by recovering manufacturing activity

The global composite PMI fell sharply by 2.3 points to 51.0 in March following the US-Iran conflict but has since fully recovered to its pre-war level. Encouragingly, manufacturing activity continues to outperform, supported by resilient demand and stronger industrial momentum across Asia, suggesting that global growth has so far remained largely insulated from geopolitical headwinds.

Global activity has recovered sharply since the outbreak of the US-Iran war



Stronger Asia ex China manufacturing activities than the global benchmark



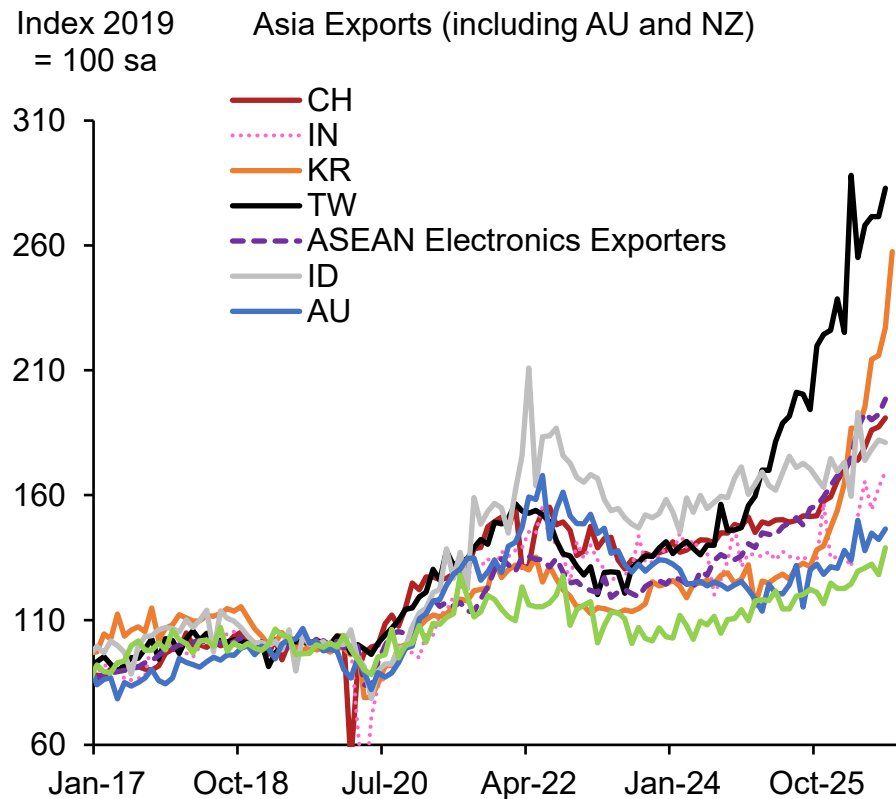
Source: CEIC, Bloomberg, MUFG GMR.

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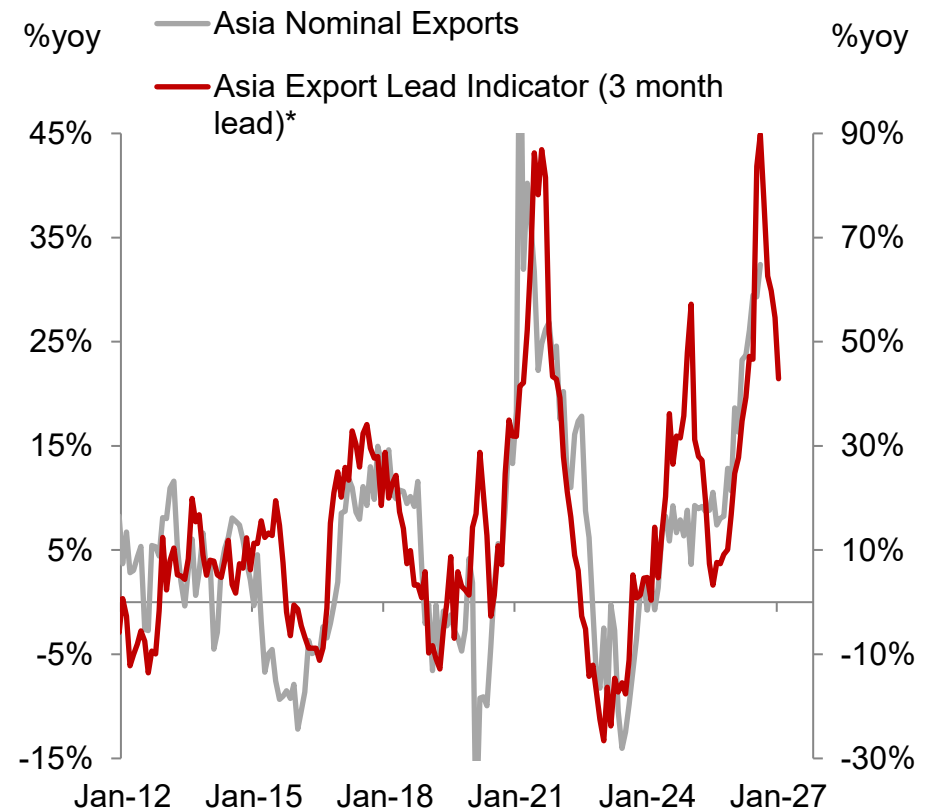
Asia exports likely to continue doing well though with some moderation

Asia's exports growth has remained robust, led by continued strength in technology-related exports amid the ongoing AI investment boom. In particular, Korea's tech export growth has been driven primarily by higher prices, whereas Taiwan's has been largely volume-driven. Nevertheless, we expect the pace of growth to gradually normalize as base effects become less favorable.

Korea and Taiwan's growths are leading the rest of Asia



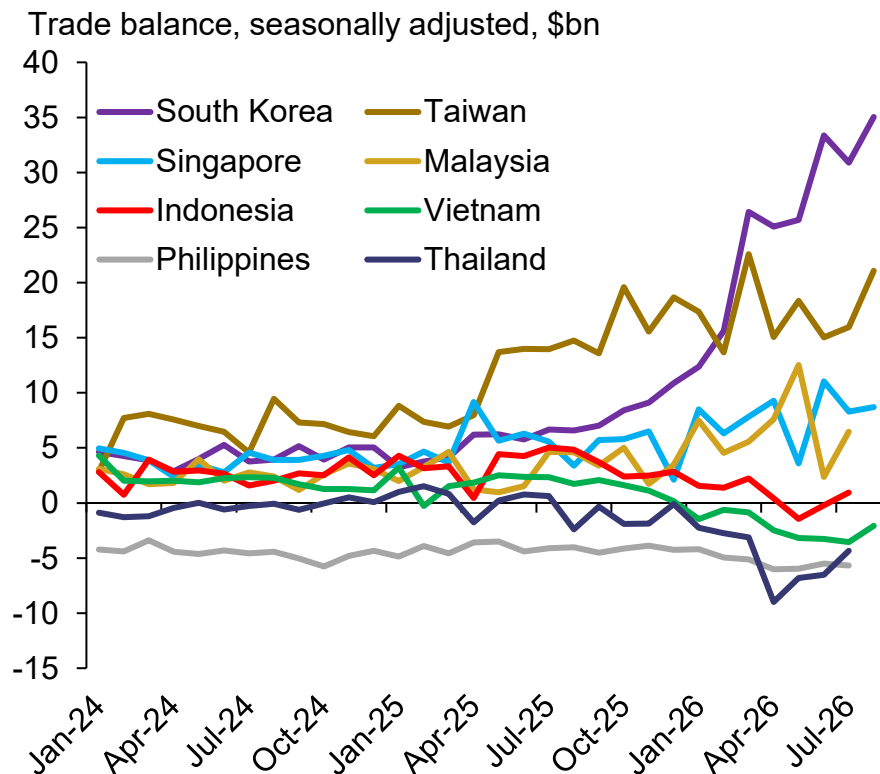
Export lead indicator points to some moderation



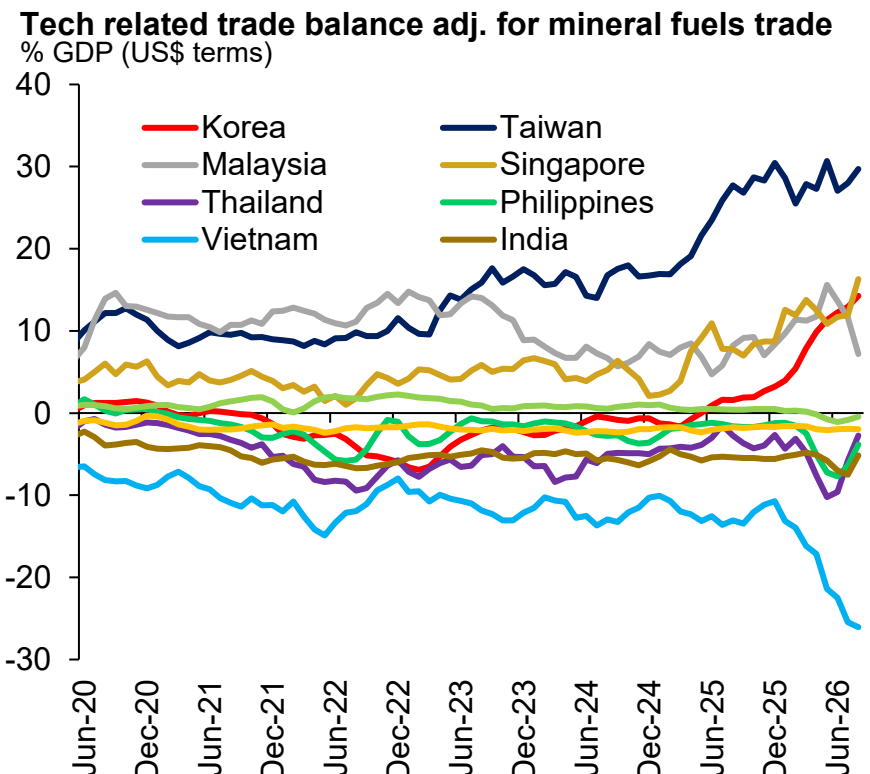
Tech surpluses are widening Asia's external divide

Asia's trade performance is increasingly split by exposure to the technology cycle. Taiwan, Korea, Singapore and Malaysia continue to run trade surpluses, as technology-related gains more than offset the drag from higher mineral-fuel imports. By contrast, trade balances have weakened across Indonesia, Vietnam, the Philippines and Thailand, leaving their currencies more exposed to an oil shock and shifts in capital flows.

Tech-linked economies retain stronger external buffers



Tech related trade surpluses absorb higher fuel bill in Korea, Taiwan, Malaysia, and Singapore



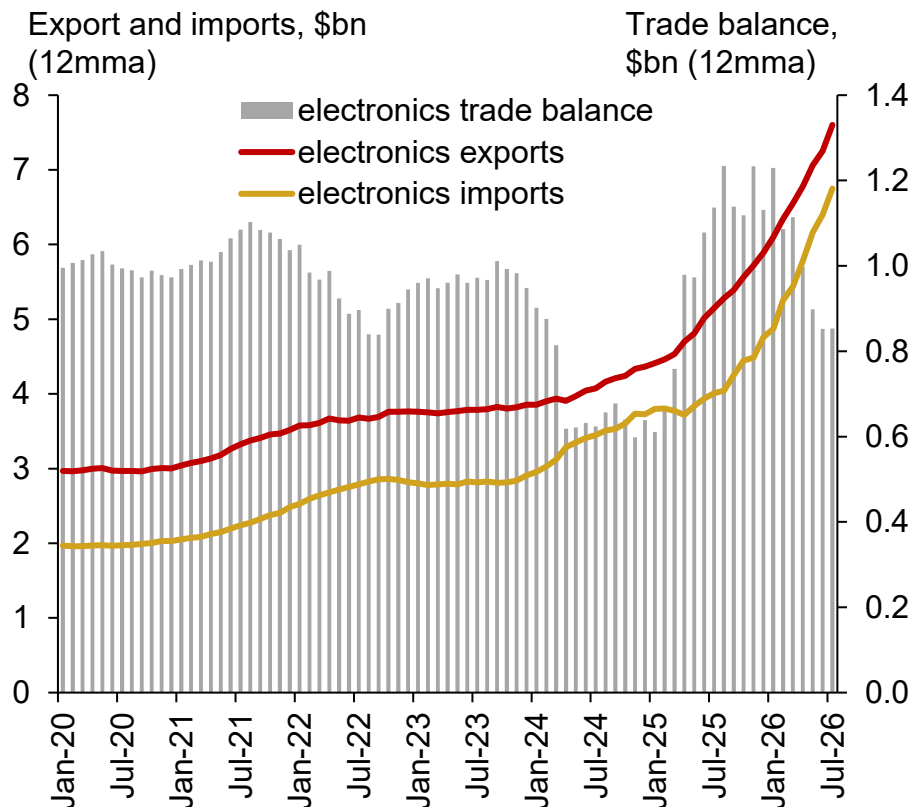
Sources: CEIC, MUFG GMR

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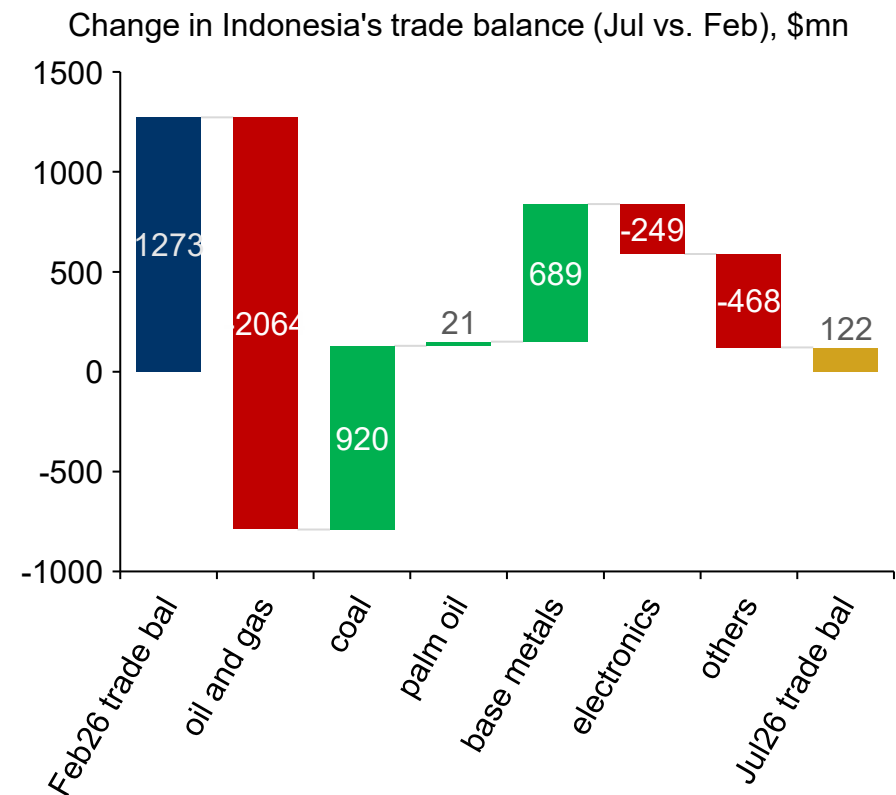
The Tech boom is not an equal FX buffer

The tech upcycle does not translate one-for-one into stronger FX fundamentals. Thailand's electronics exports are rising, but heavy semiconductor import content limits the improvement in its net electronics balance. Indonesia has no comparable technology buffer; its commodity surplus provides some protection, but is insufficient to fully offset the deterioration from higher oil costs.

Thailand's import-heavy electronics cycle dilutes the net trade gain



Indonesia lacks a tech offset, while its commodity buffer only partly absorbs the oil shock

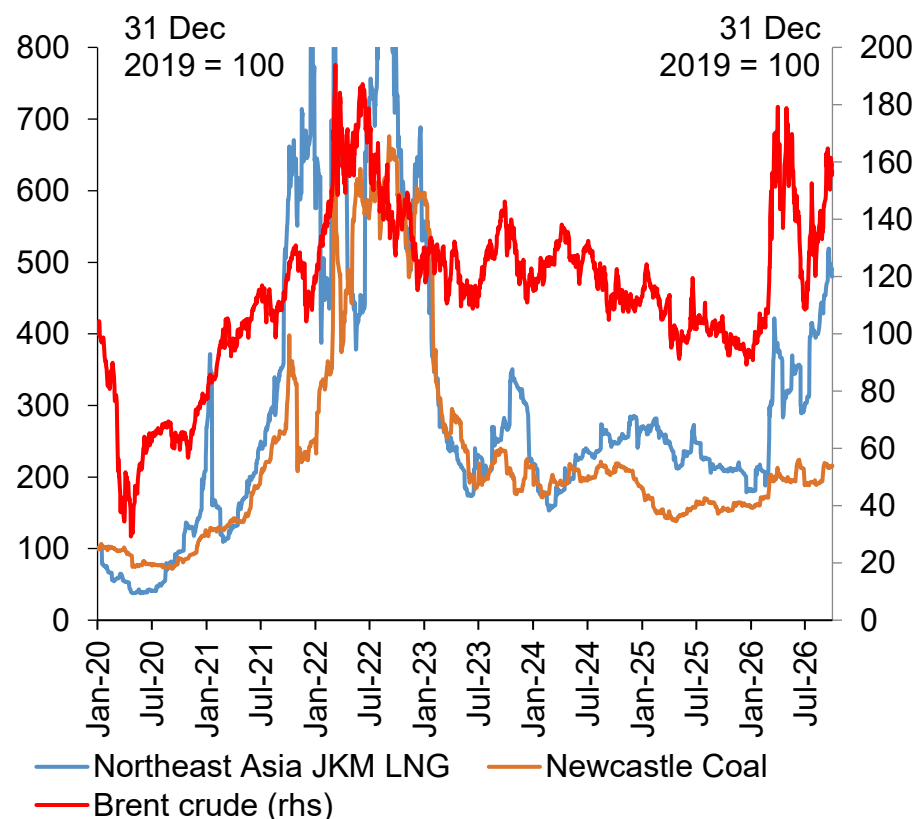


Sources: CEIC, MUFG GMR

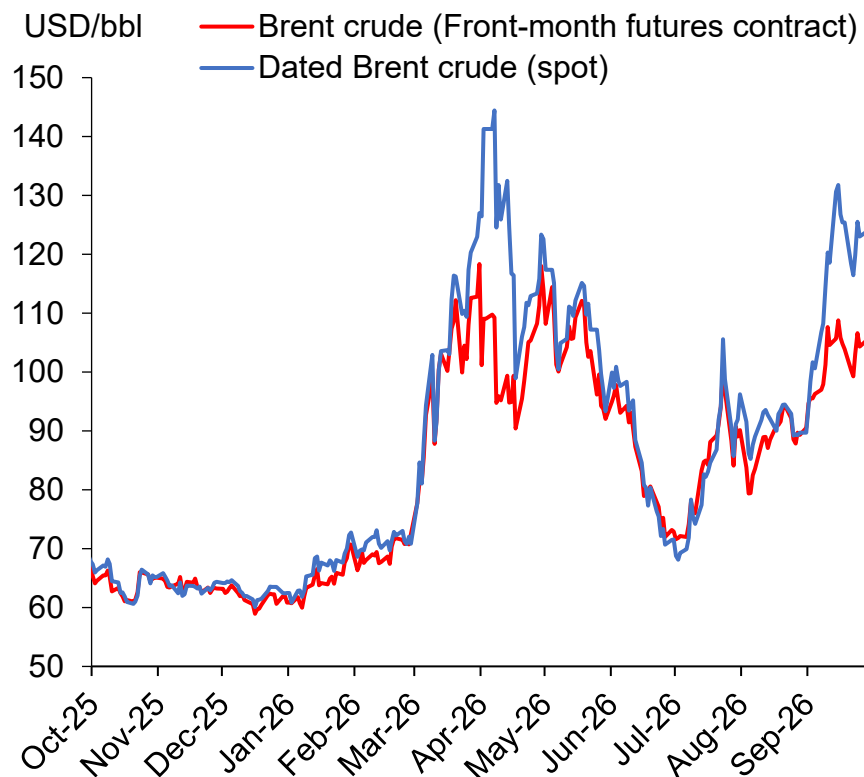
Energy price volatility remains a key risk for Asia economy and FX

While the US and Iran have resumed indirect negotiations to end the conflict, meaningful progress remains limited and geopolitical risks remain elevated. For Asia, the conflict is primarily being transmitted through energy prices and global risk sentiment, with any escalation likely to lift inflation and weigh on terms of trade and regional equities for instance.

Asia's energy supply disruption risks still remain



The gap between spot and futures contract prices for Brent crude has widened again

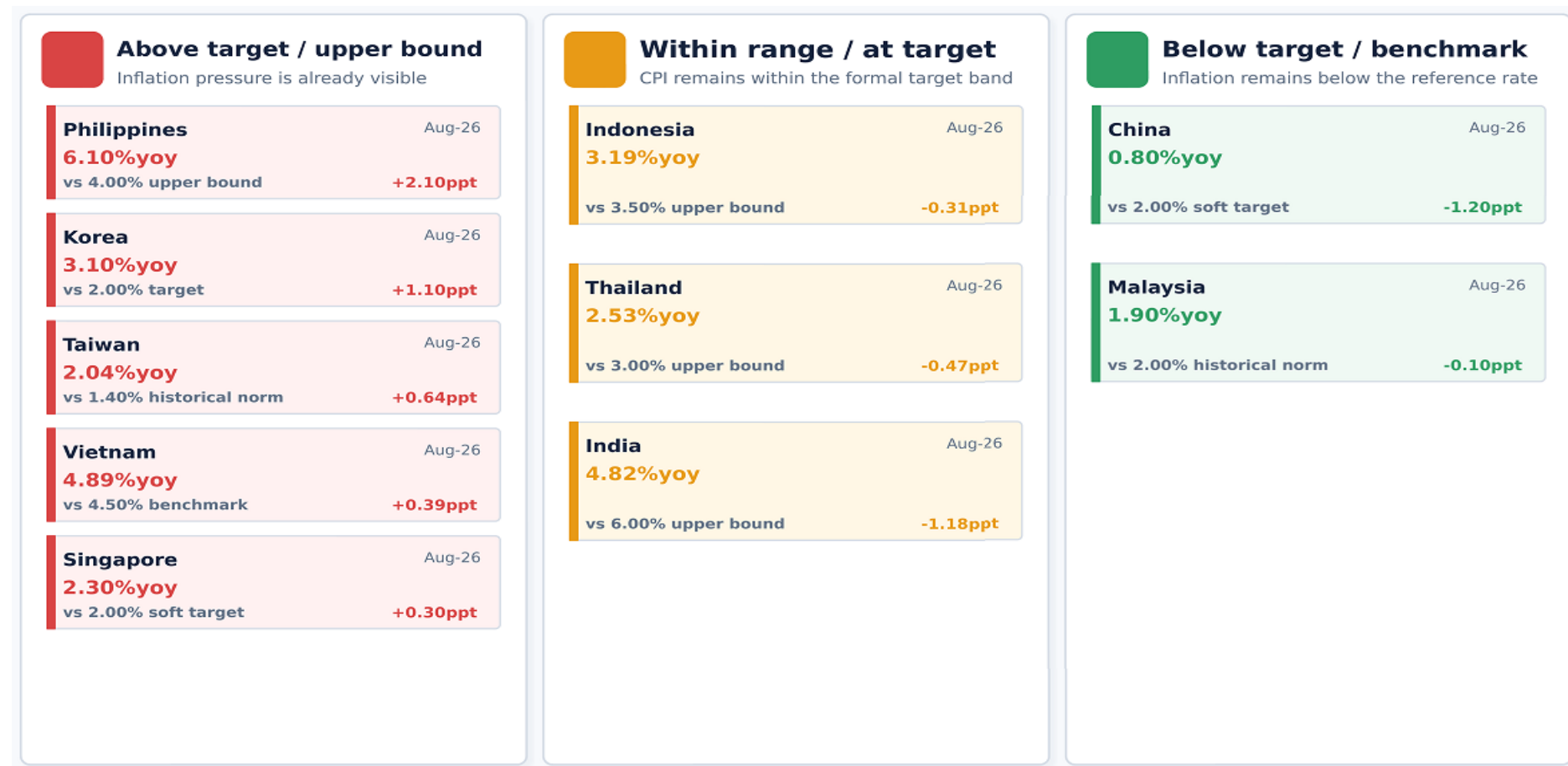


Source: CEIC, Bloomberg, MUFG GMR.

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A common oil shock but diverging inflation outcomes across Asia

The oil shock is producing increasingly divergent inflation outcomes across Asia. Inflation is now above the relevant target, upper bound or historical benchmark in the Philippines, Korea, Taiwan, Vietnam and Singapore, while inflation remains more contained in China and Malaysia and within target ranges in Indonesia, Thailand and India. This divergence suggests that the inflationary impact of higher energy costs is not being transmitted uniformly across the region.



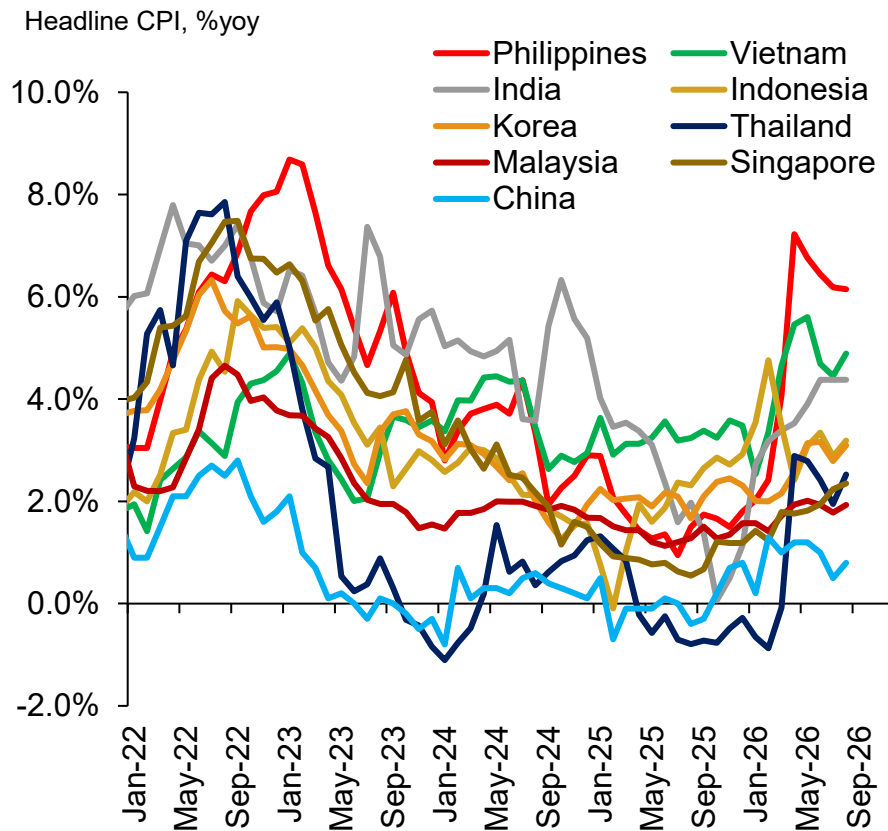
Sources: Bloomberg, MUFG GMR

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Oil price pass-through varies widely across Asia

The different inflation responses partly reflect substantial variation in domestic fuel-pricing regimes. Economies with subsidies, price controls or stabilisation mechanisms can initially cushion the impact of higher global oil prices on consumers, while market-based pricing allows the shock to feed through more quickly. The result is a different speed and magnitude of inflation adjustment across Asia.

The same energy shock produces different inflation paths across Asia



Subsidies and managed pricing delay pass-through; market pricing accelerates it

Country	Gasoline price (US\$/litre)	Pricing regime	Pass-through of higher oil prices
Malaysia	0.49	Heavy Fuel Subsidies	Low
Indonesia	0.56	Heavy Fuel Subsidies	Low
Vietnam	1.04	Fuel Price Stabilisation Fund	Medium
India	1.06	Market Pricing + Govt Support	Medium-High
US	1.18	Market-Based Pricing	High
Thailand	1.19	Oil Fund Stabilisation Mechanism	Medium
China	1.37	Managed Pricing	Medium
South Korea	1.37	Market Pricing + Govt Support	Medium-High
Philippines	1.50	Market-Based Pricing	High
Singapore	3.48	Market Pricing + High Fuel Taxes	Very High

Low = government largely absorbs/blocks the shock Medium = prices follow global oil, but government can smooth/cap the adjustment High = global oil movements feed relatively directly into retail prices.

Sources: Bloomberg, MUFG GMR, various sources for gasoline prices

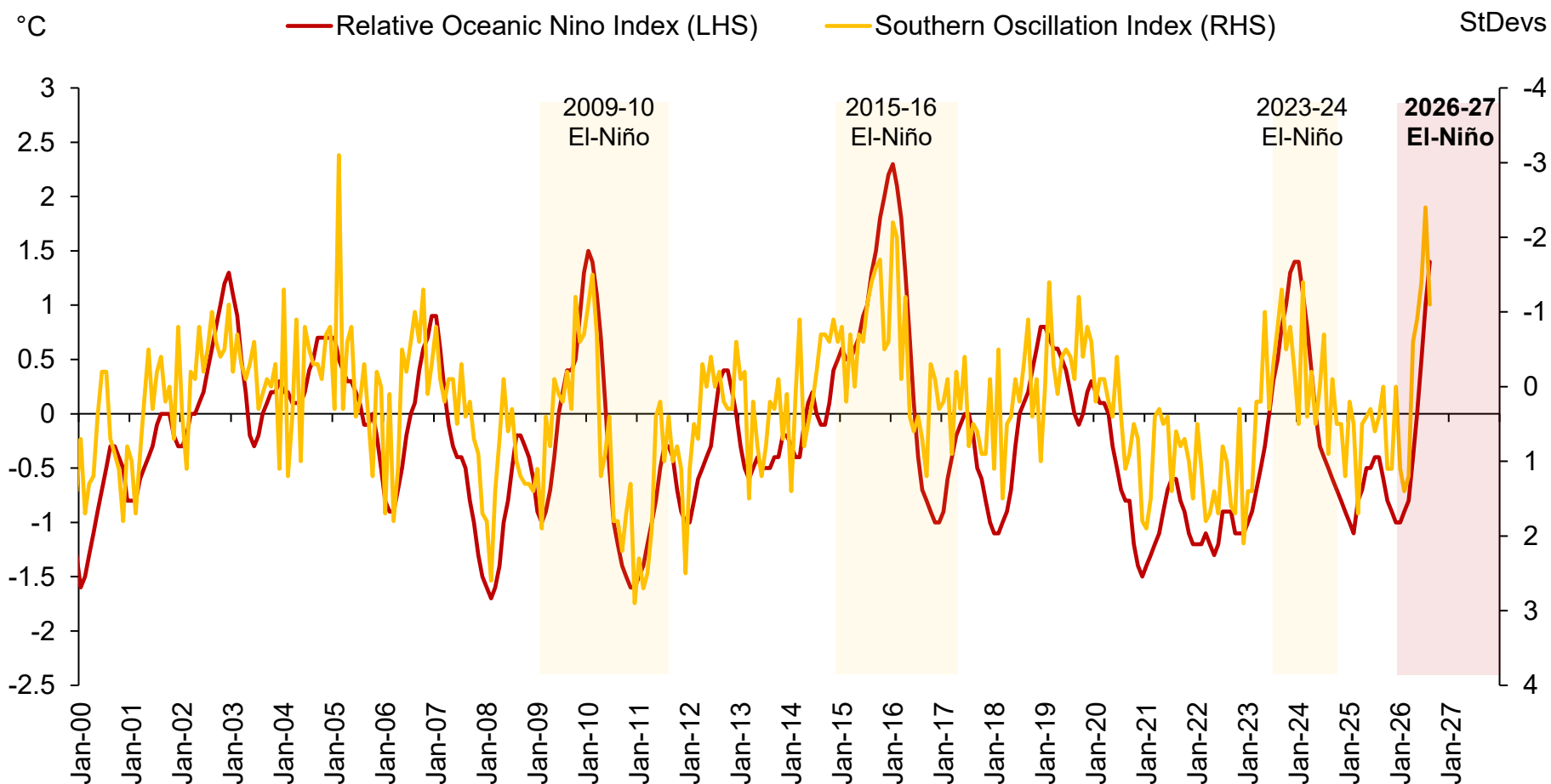
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Weather Shocks: 2026-27's El-Niño

- Likely to be one of the worst in recorded history

Relative Oceanic Nino Index (RONI) captures El-Niño related ocean warming, while Southern Oscillation Index (SOI) captures the atmospheric response. Their alignment signals stronger El-Niño conditions.

2026-27's El Niño has recorded the fastest early-stage RONI increase among the episodes shown



Source NOAA, MUFG Research

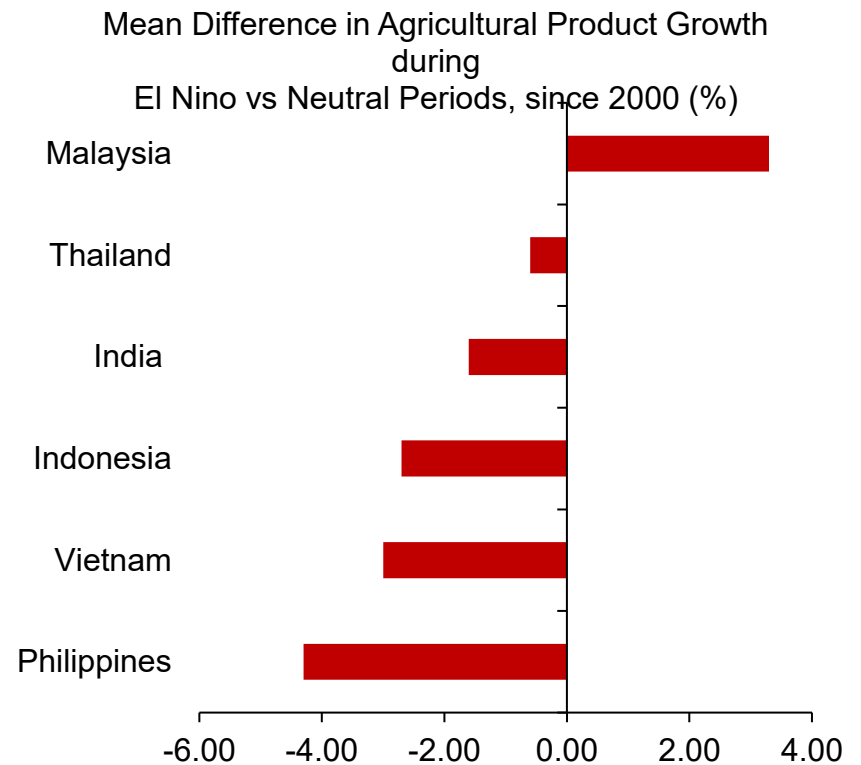
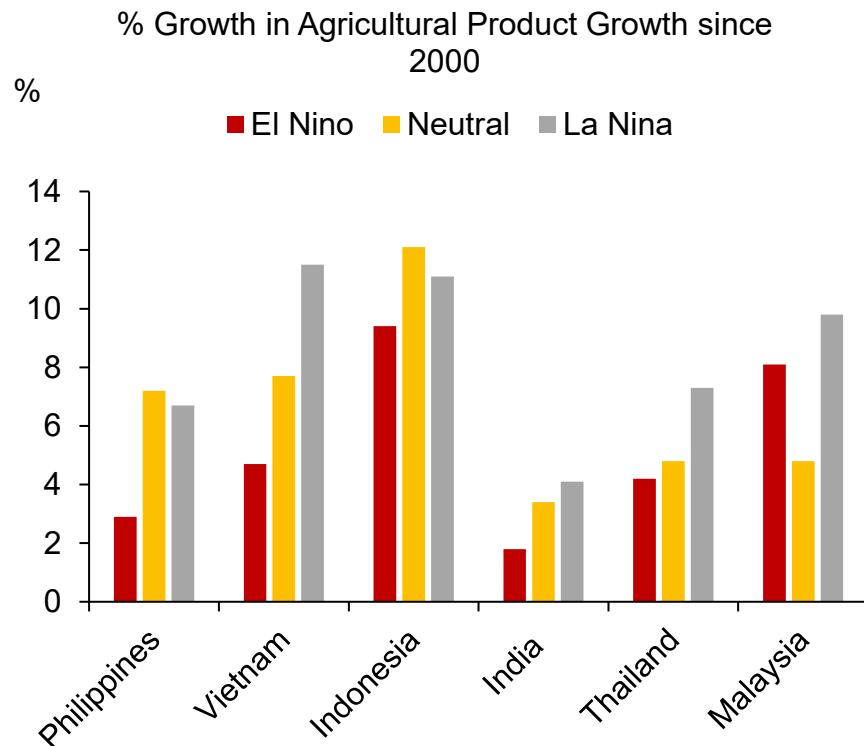
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Weather Shocks: 2026-27's El-Nino

- El Nino impact on agriculture production?

El Niño has generally been associated with weaker agricultural growth across Asia, although the impact may vary by country. Since 2000, the likes of Indonesia, Vietnam and The Philippines saw weaker agricultural production during El Niño periods.

El Niño has historically weighed on agriculture across Asia, including the likes of Vietnam, The Philippines, Indonesia and India.



Source: Bloomberg, NOAA, MUFG GMR.

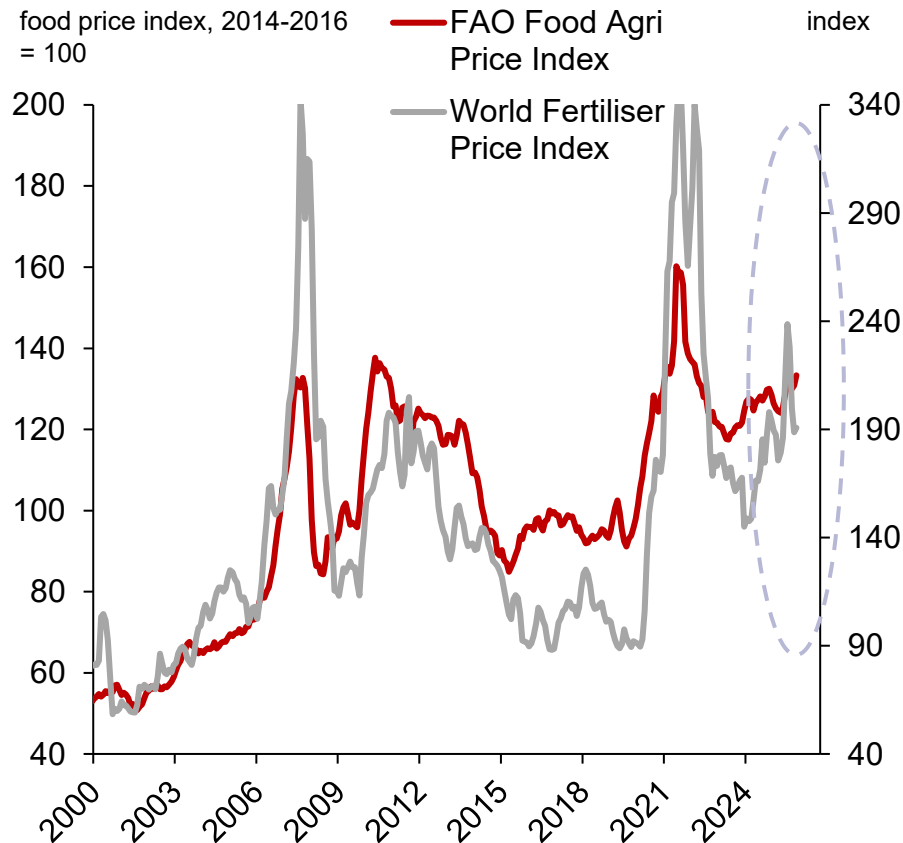
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Weather Shocks: 2026-27's El-Nino

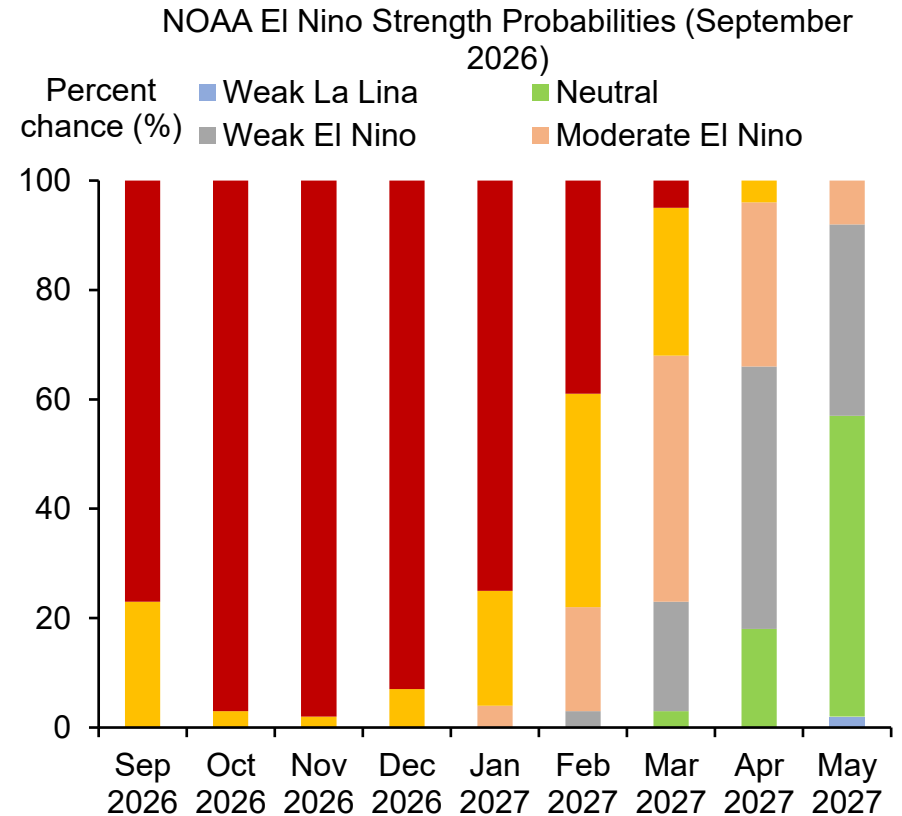
- Risks of El Nino-driven food inflation in Asia

There is a very high chance of a very strong El-Nino, and this is also important in the broader context of higher fertilizer and energy prices driven by the Strait of Hormuz closure.

Food prices remain vulnerable to weather and input-cost shocks



El Niño risks could keep Asian food inflation elevated



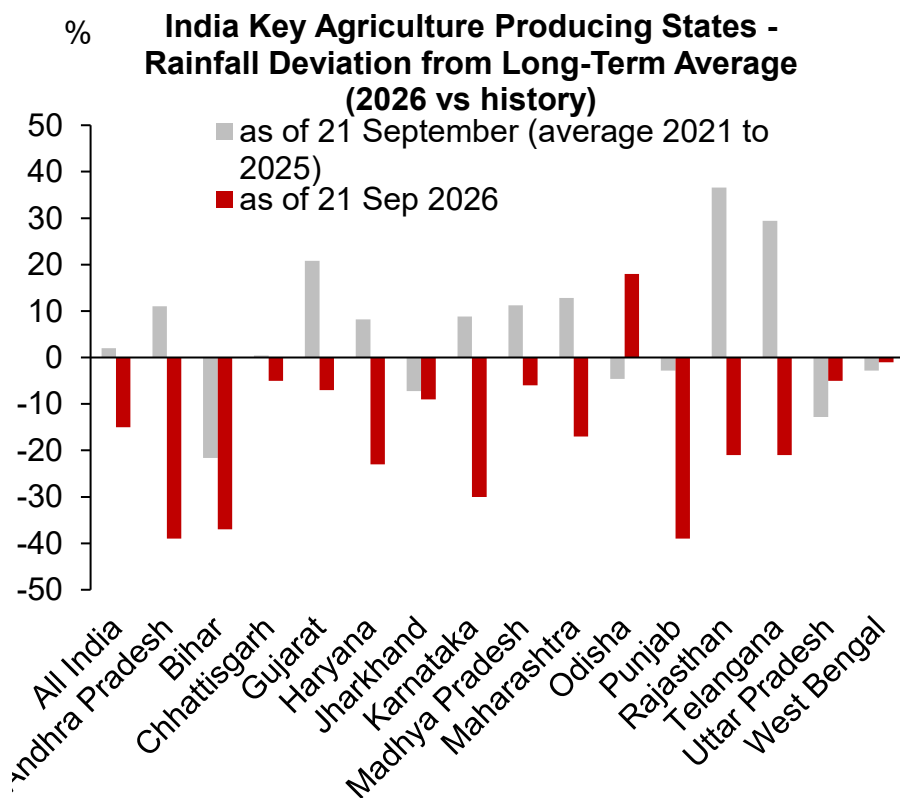
Source: CEIC, Bloomberg, MUFG GMR

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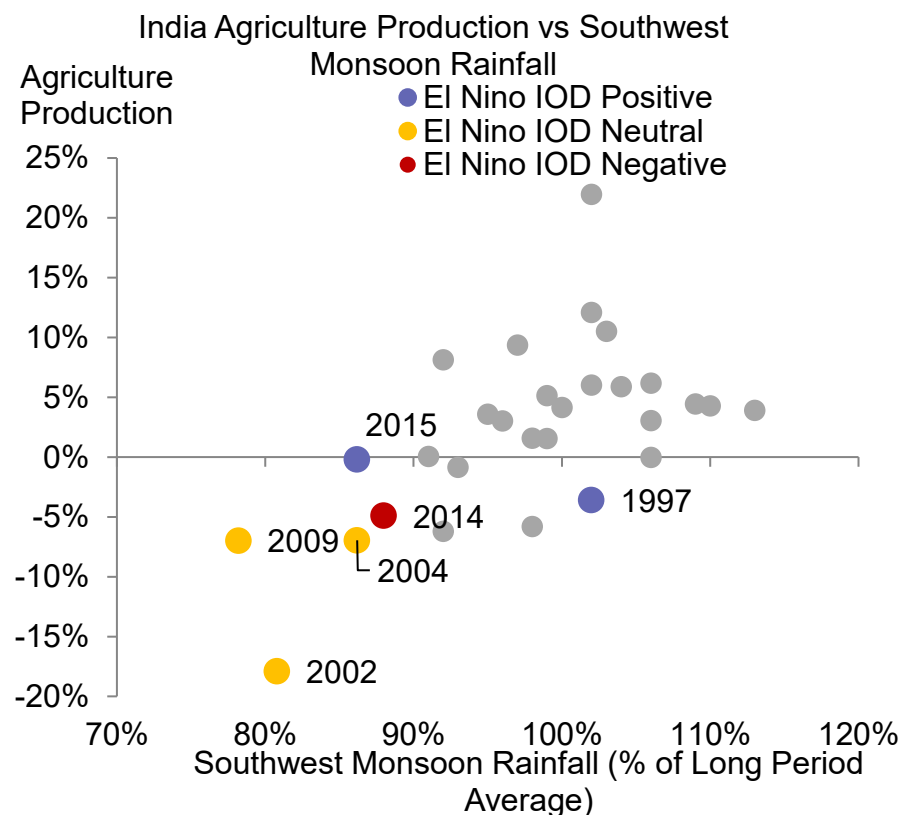
Weather Shocks: weak India Southwest Monsoon can spillover to Asia

India's Southwest Monsoon remains a key swing factor for regional food supply. Weak rainfall across major agricultural states would raise risks to crop output, rural incomes and food prices, with potential spillovers to Asian inflation through rice, wheat and other staple-food channels.

Rainfall shortfalls in key Indian agricultural states bear watching



India's farm output remains closely tied to the Southwest Monsoon



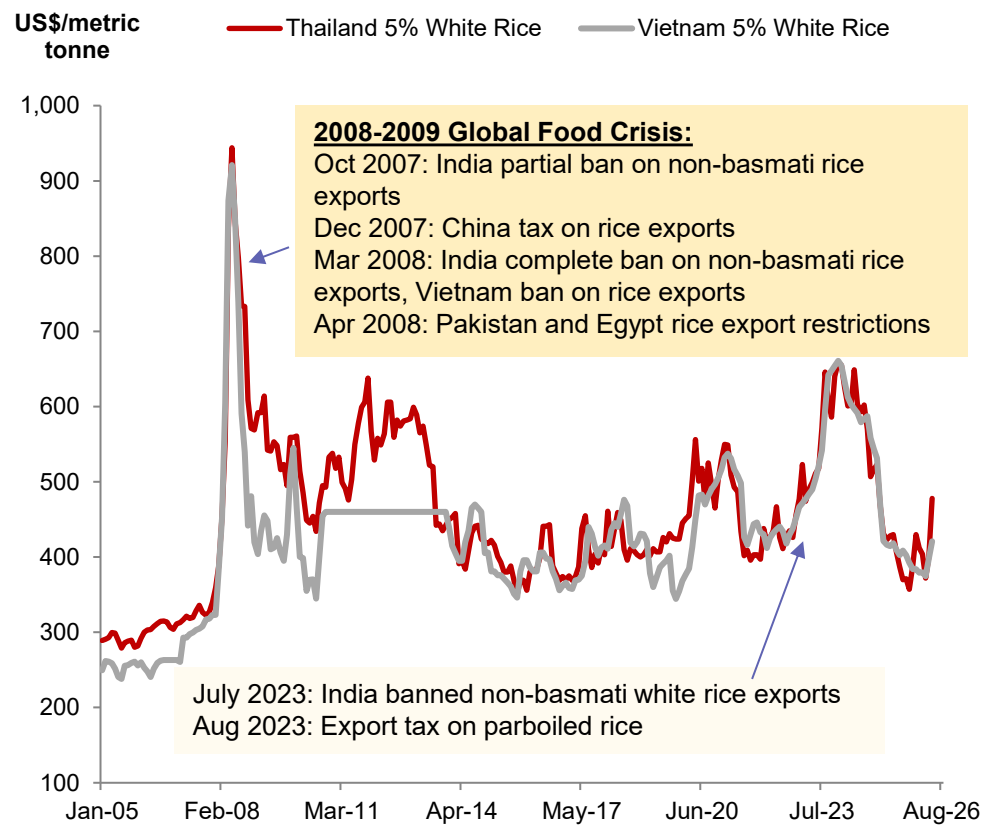
Source: CEIC, Bloomberg, MUFG GMR

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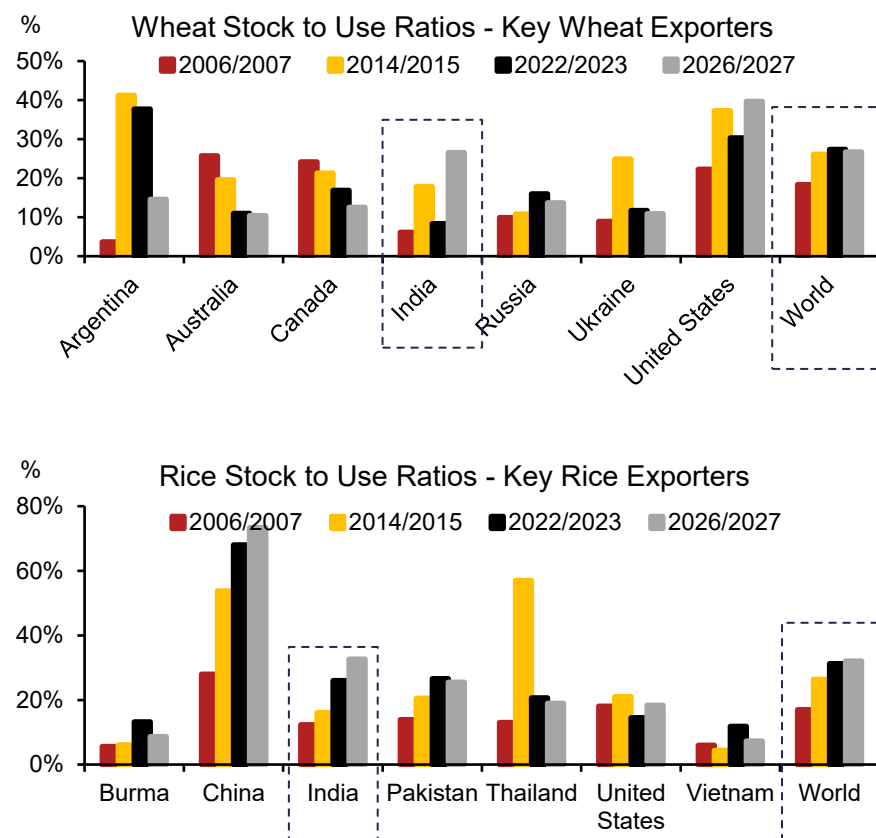
Food prices: historically, food crisis was accelerated by export restrictions

Food shocks can become more significant when governments respond with export restrictions. Past episodes show that tight stock positions and policy intervention can amplify price moves in rice and wheat, leaving Asia exposed to inflation volatility when supply buffers are thin.

Low stock buffers can magnify food-price shocks



Export restrictions can quickly transmit stress to regional prices



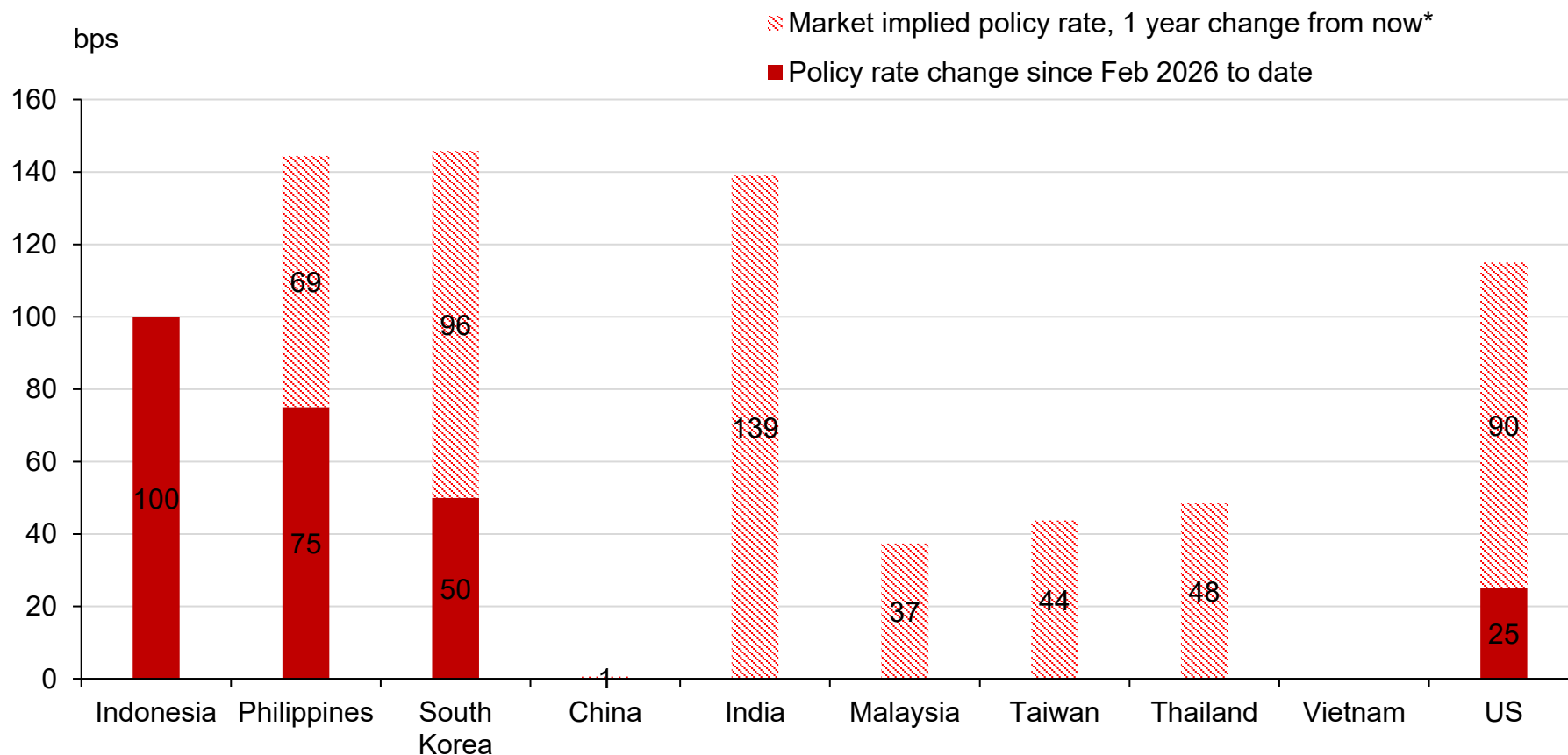
Source: CEIC, Bloomberg, FAO, USDA, MUFG GMR

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Markets are pricing in policy rate hikes in most of Asian economies

While we agree that the monetary policy bias is largely towards tightening in Asia (except China), current market pricing appears overly aggressive, as excessive tightening could weigh on growth and, in turn, pose some headwinds to Asian FX.

Four Asian economies including Singapore, have tightened the monetary policy since US-Iran war started



Note: *For Indonesia and Vietnam, market implied policy rate data are not available on Bloomberg

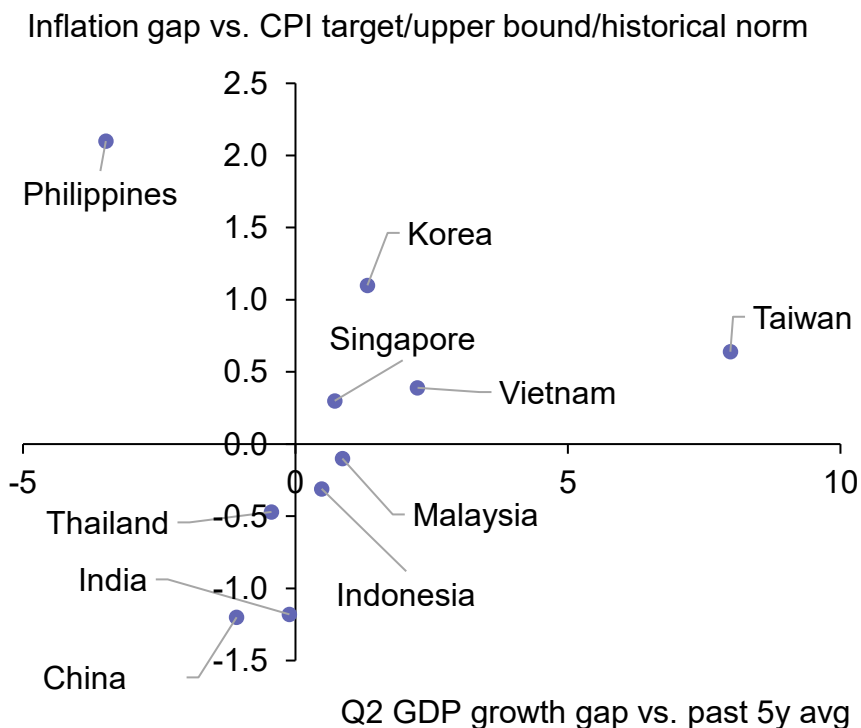
Source: CEIC, Bloomberg, MUFG GMR. Data as of 30 September

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Monetary policy divergence is set to widen across Asia in Q4

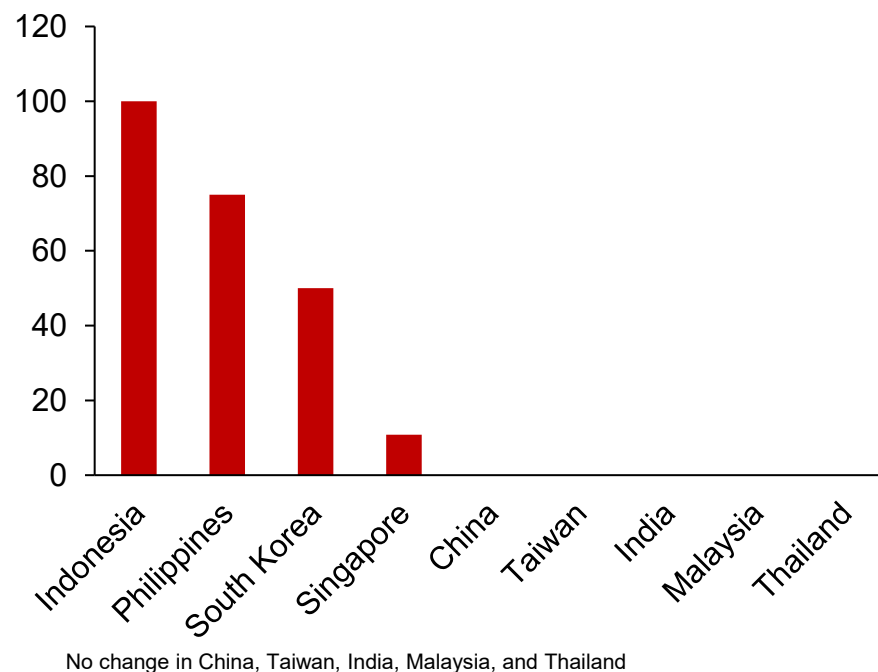
Asian economies face different challenges. Weak growth and negative inflation gap leave China and Thailand focused on supporting growth, limiting the scope for rate hikes. Taiwan and Malaysia appear to be in a sweet spot, with strong growth and contained inflation, reducing the urgency to hike. By contrast, Indonesia and the Philippines have tightened policy to support their currencies and help contain inflation pressures, while Korea and Singapore have also tightened, with Singapore operating through the S\$NEER framework. Policy tightening in several economies should provide some FX cushion, but may not fully offset the scale of the external shock from rising US yields and oil prices.

Growth-Inflation Divergence Points to Different Policy Pressures



Policy Tightening Provides a Partial FX Cushion

Change in policy settings since Middle East conflict began, basis points



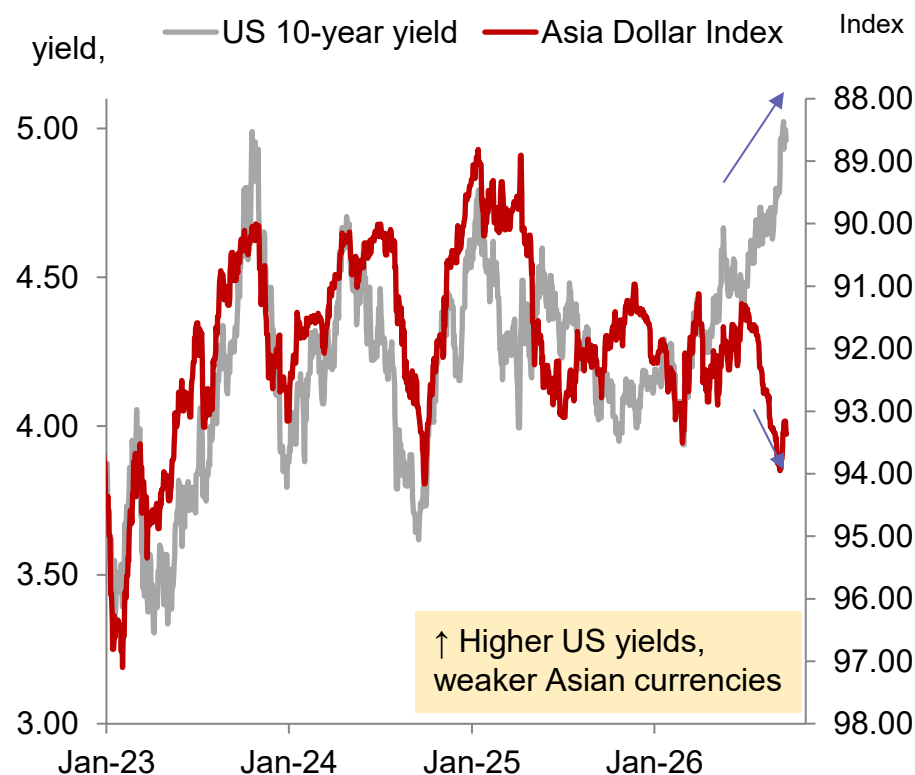
Sources: Bloomberg, MUFG GMR

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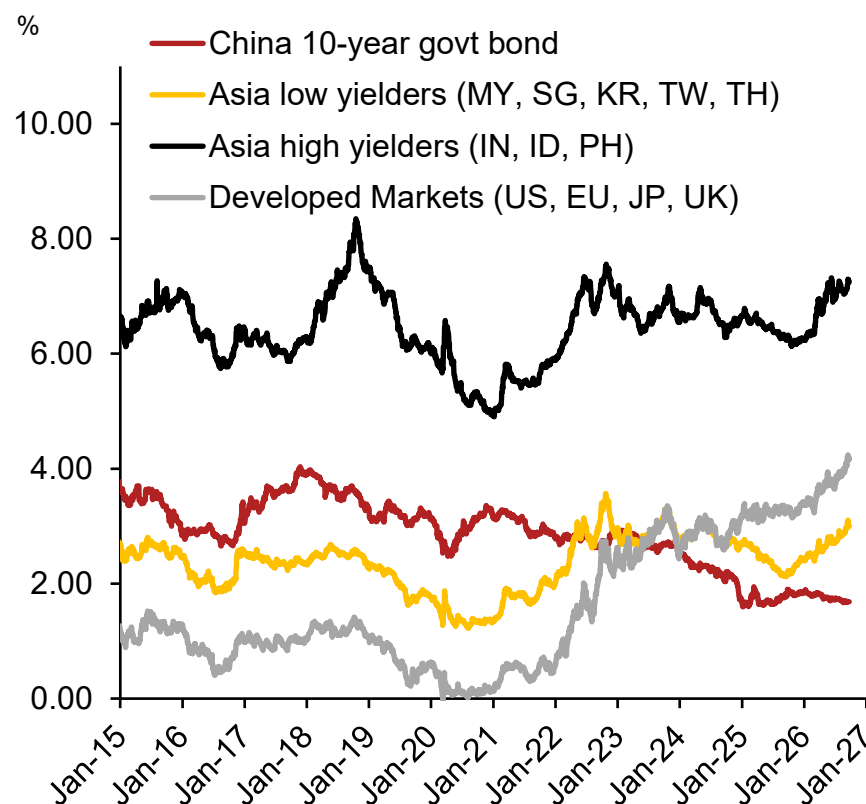
Recent disconnect between yield spread and Asia FX performances

Asia Asian FX has become less sensitive to yield differentials, supported by robust current-account positions, strong tech- and AI-related export performance, ample FX reserves, and improved policy credibility across the region. In addition, investors are increasingly focusing on growth prospects, and structural capital inflows rather than yield differentials alone.

Diverging paths of Asia FX and US government bond yield since early July



Asian bond yields have risen less sharply than developed-market yields



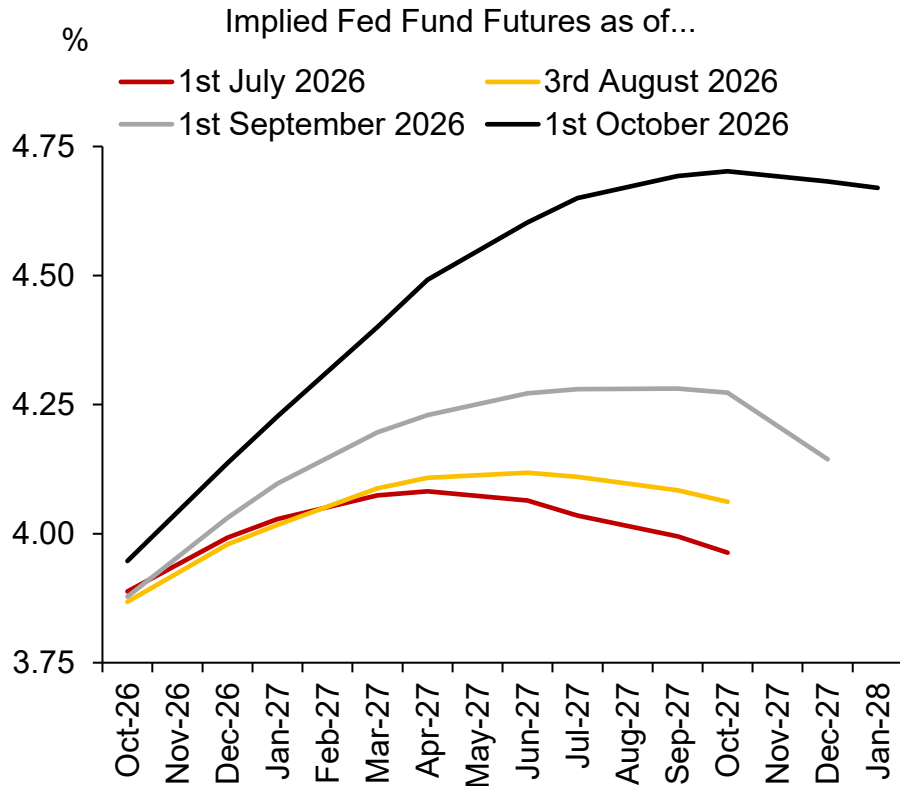
Source: CEIC, Bloomberg, MUFG GMR

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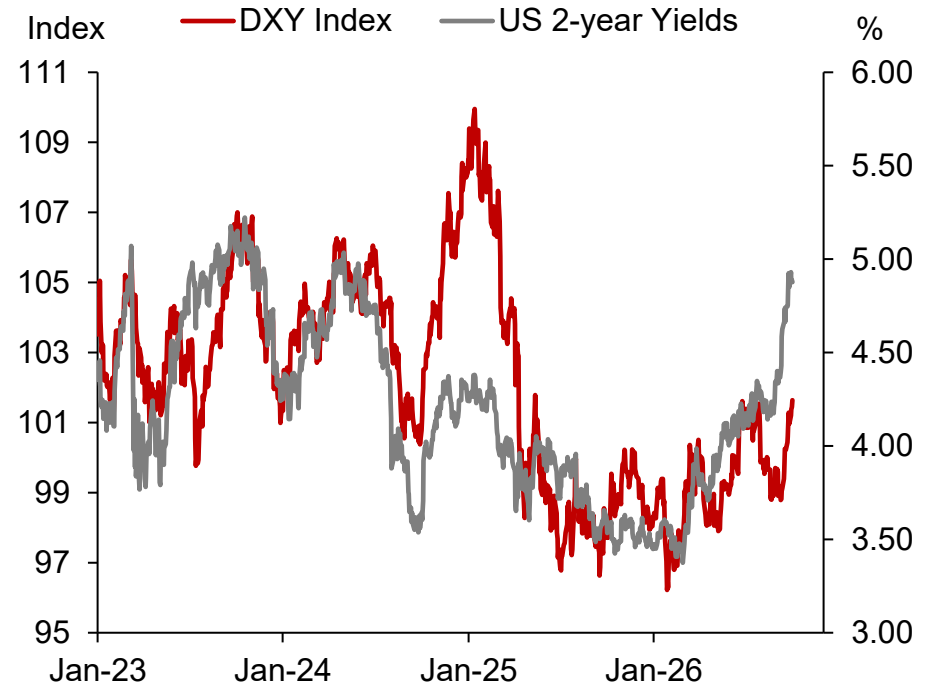
The US dollar assumption: Fed policy repricing supports near-term USD resilience, but upside appears limited

The sharp repricing of the Fed outlook since September has pushed the implied policy path and US 2-year yields materially higher. However, the USD has responded only modestly, suggesting diminishing currency support from further Fed repricing. While elevated yields should keep the dollar resilient in the near term, we expect the USD to retrace as the tightening cycle approaches completion.

Markets priced in a much more aggressive Fed hiking cycle in September, and we think it's excessive



The relatively muted USD response to higher US yields means that aggressive Fed tightening is increasingly priced in



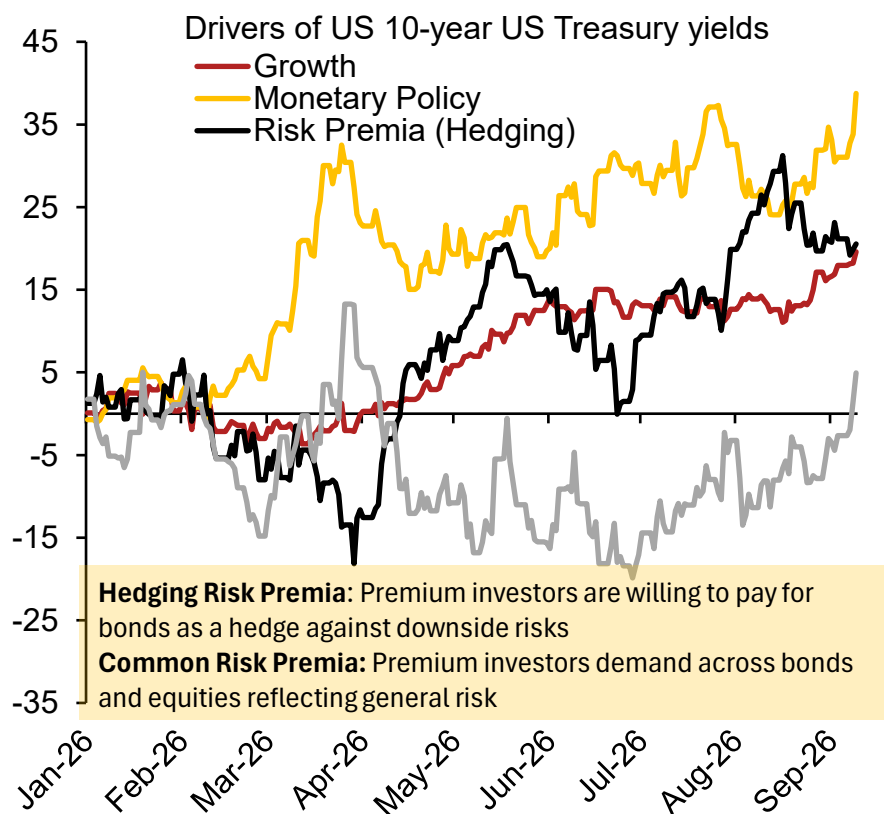
Sources: Bloomberg, MUFG GMR

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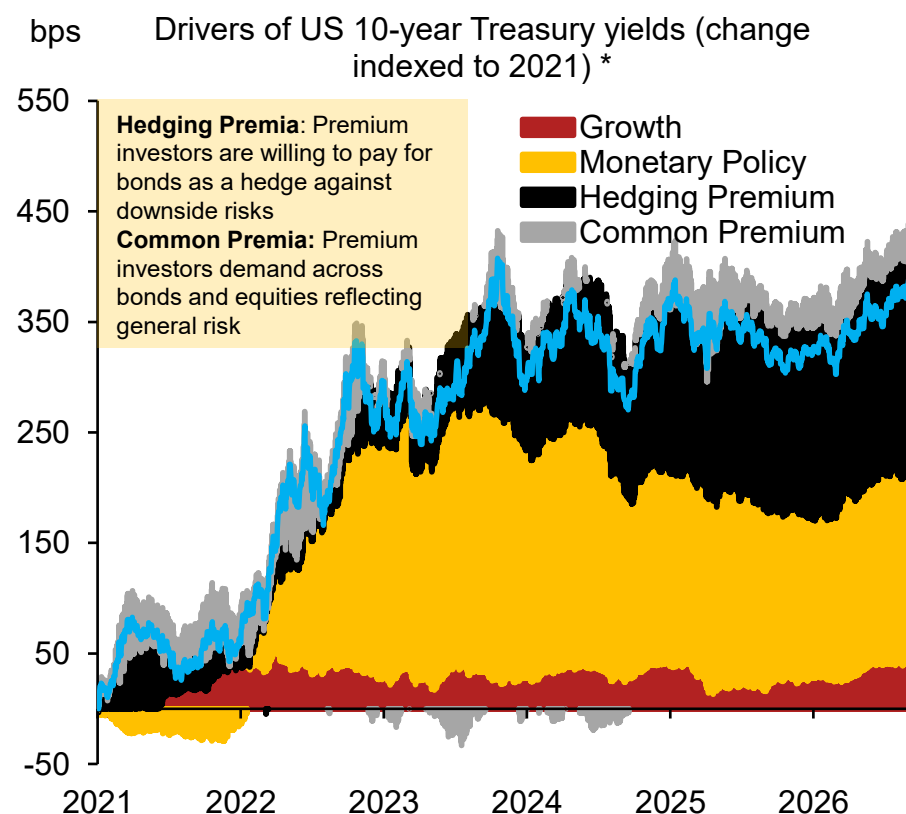
US yields are a headwind, not the primary driver of Asia FX in Q4

The market impact of higher US yields depends on the underlying driver. Growth-led increases may support risk sentiment, while monetary-policy or risk-premia shocks typically tighten financial conditions and generate more challenging spillovers for Asian currencies and rates.

Growth-driven yield increases tend to be less disruptive for Asia FX



Policy and risk-premia shocks create more adverse spillovers



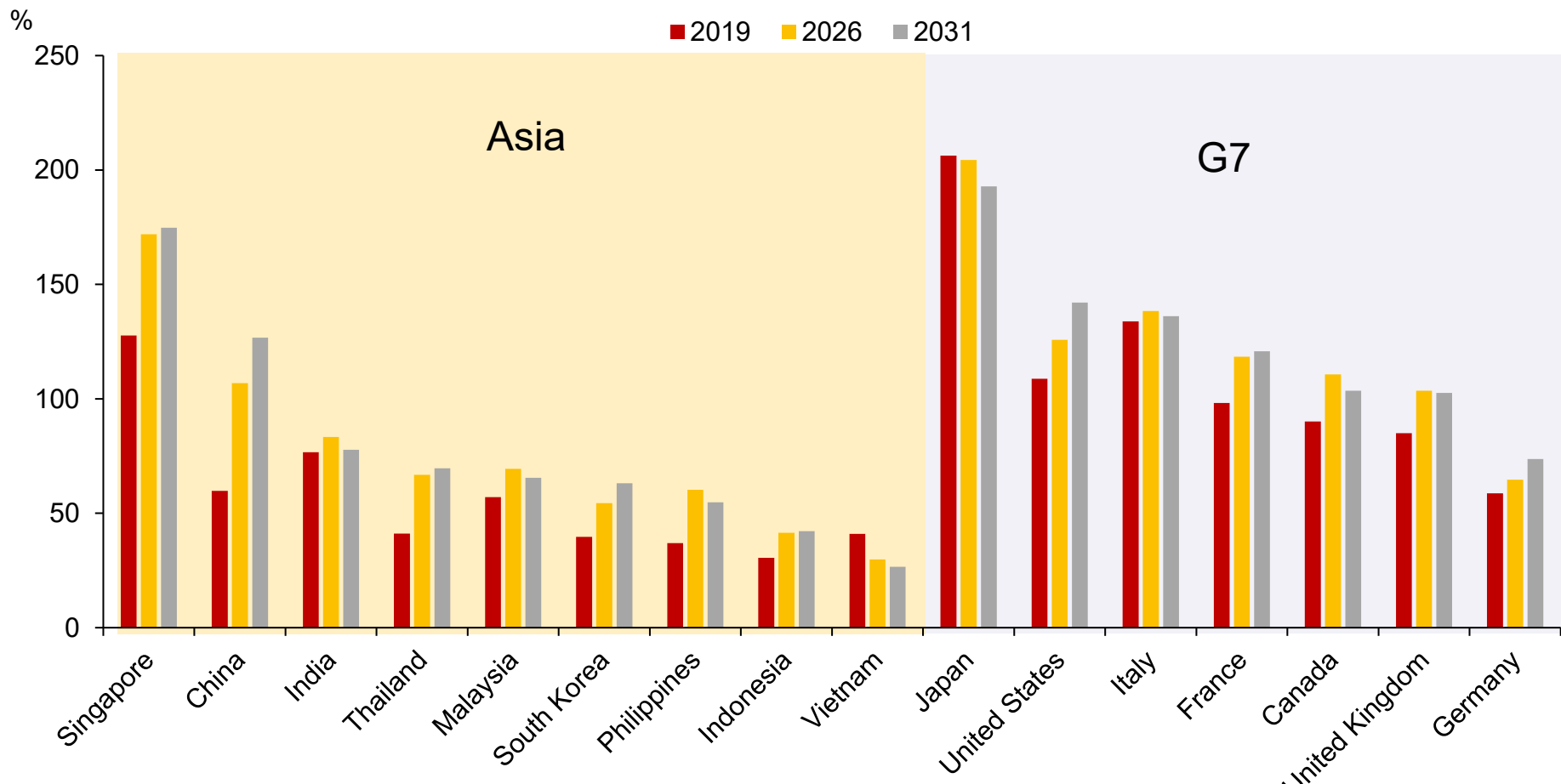
Source: CEIC, Bloomberg, MUFG GMR. Note: Drivers based on Structural Vector Autoregression model by Cieslak and Pang (2021)

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Asian economies retain significantly more fiscal space than G7

Asia's public debt levels remain well below those of most G7 economies. Compared with their highly indebted G7 counterparts, many Asian governments face fewer fiscal sustainability and debt-servicing concerns, leaving them better positioned to deploy countercyclical policy support, particularly as rising interest costs increasingly constrain fiscal flexibility in advanced economies.

Asia's Public Debt % of GDP is substantially lower than its G7 counterparts



Source: IMF, CEIC, MUFG GMR.

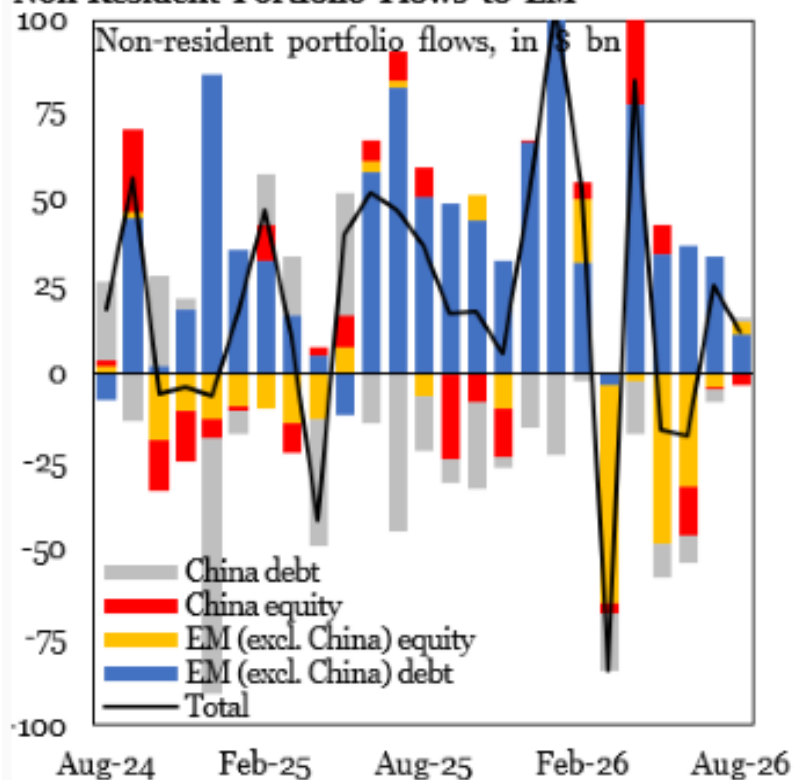
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Asian FX has been increasingly being driven by portfolio flows

As of August, the IIF data showed two consecutive months of net foreign portfolio inflow into EM, even amidst higher US yields, as sentiment towards equity recovered somewhat. The net capital flows into EM, which also capture residents and all other flows, also turned to a small positive in July but we remained cautious given the volatile pattern.

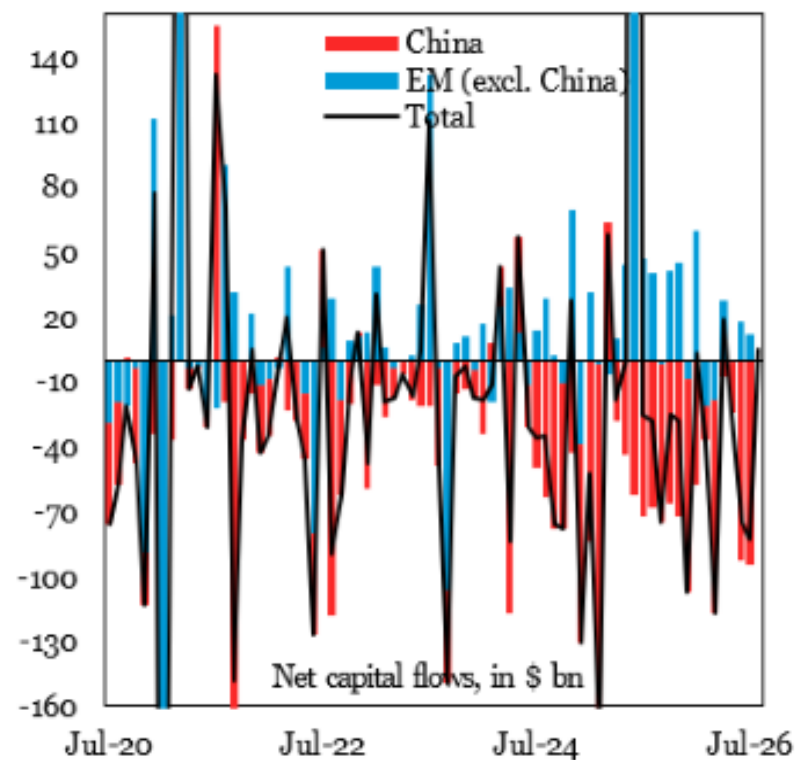
Positive net foreign inflow into EM in July and August

Non-Resident Portfolio Flows to EM



Net capital flows into EM remain volatile

Net Capital Flows to Emerging Markets



Source: IIF, MUFG GMR.

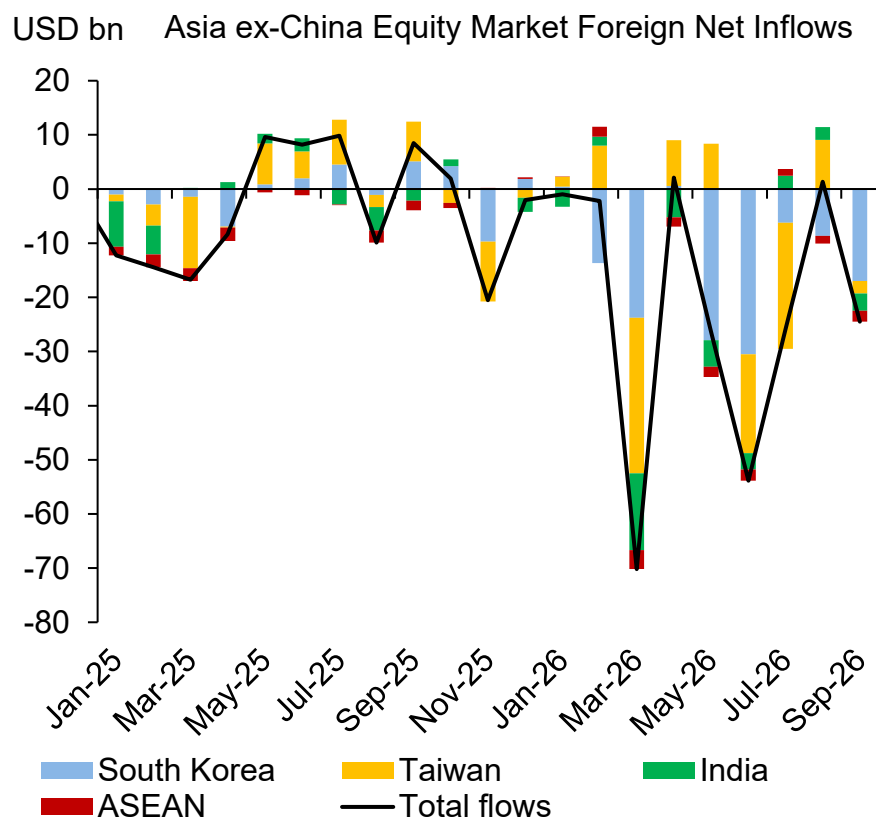
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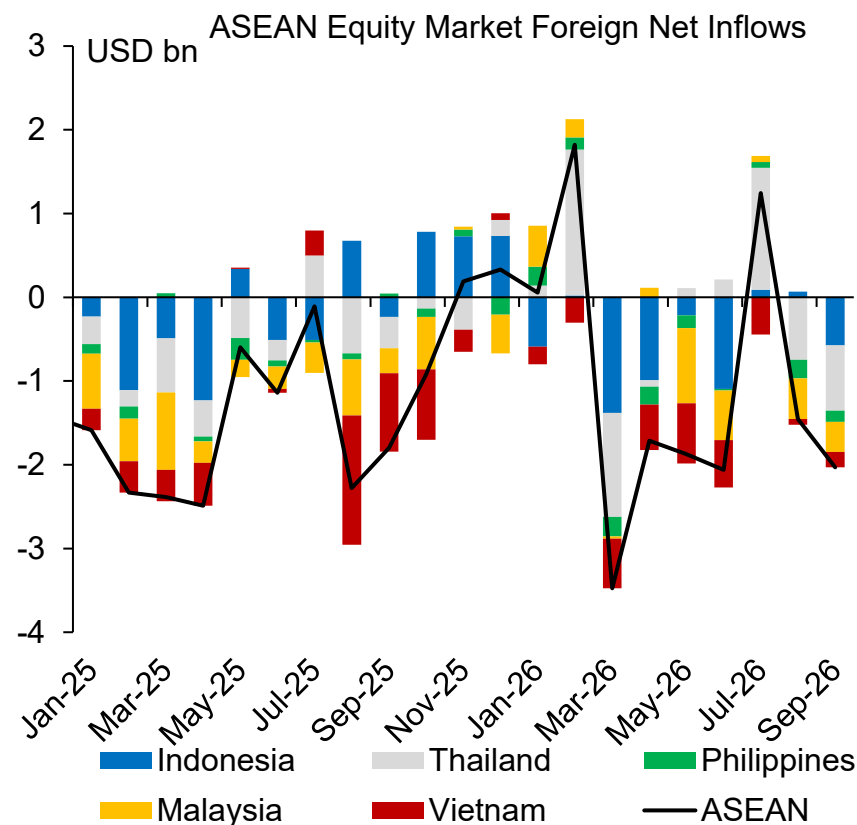
Asian equity flows remain sensitive to global risk sentiment

Asia is often a key beneficiary of improving global risk appetite, attracting portfolio inflows when growth expectations strengthen. However, the sharp repricing of Fed rates path, ongoing uncertainty surrounding the US-Iran conflict and calls for a slowdown in AI development continue to weigh on regional sentiment.

Volatile risk sentiment in 2H thus far



ASEAN remained under pressure from foreign equity outflow

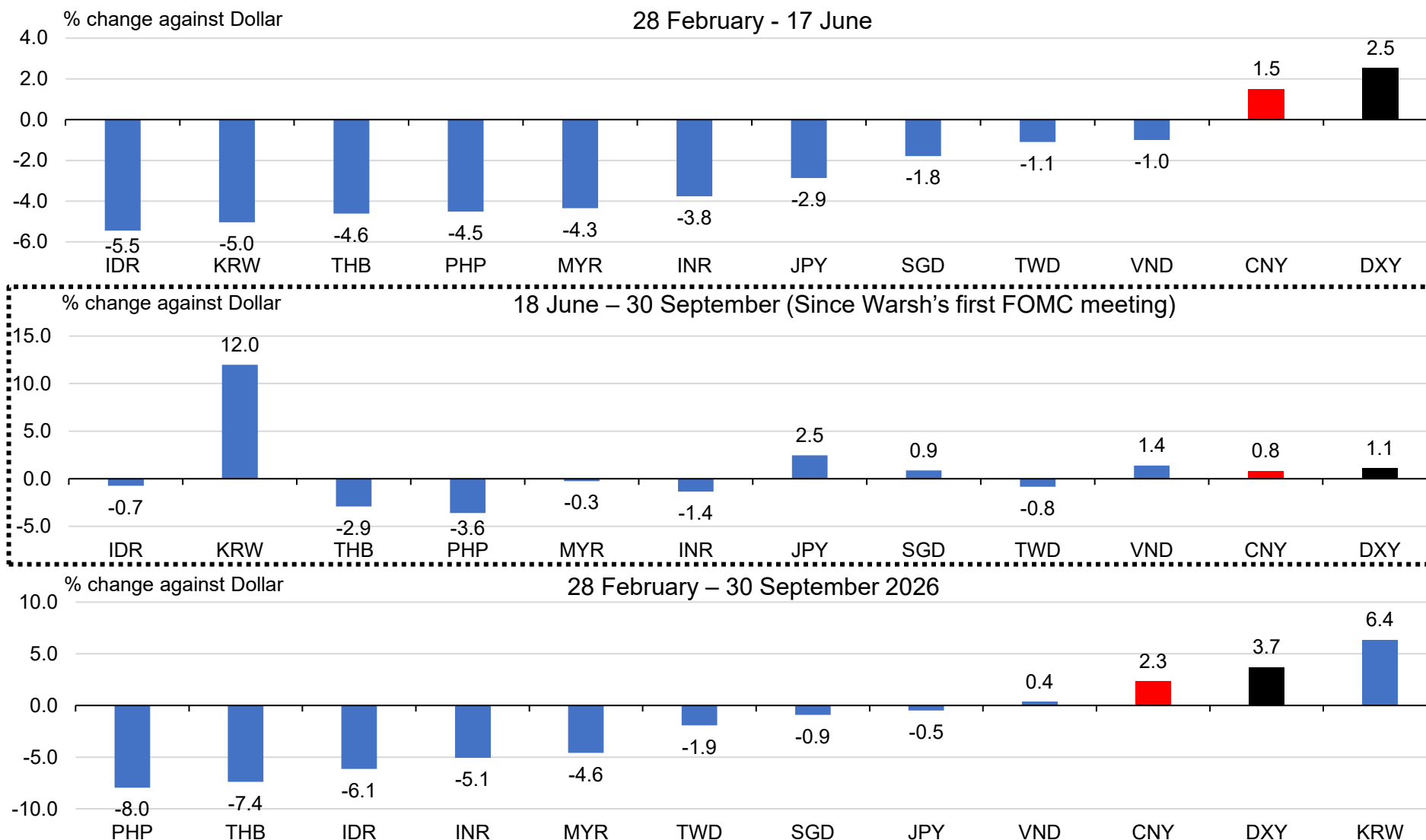


Source: CEIC, Bloomberg, MUFG GMR.

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Domestic factors drove the divergence in Asia FX performance in Q3



Source: Bloomberg, MUFG GMR.

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Asia FX outlook by currency

CNY: Modest gain despite a strong Dollar

CNY | Modest gain despite a strong Dollar

We forecast USD/CNY at 6.65 for 4Q2026, 6.60 for 1Q2027, 6.55 for 2Q2027, and 6.50 for 3Q2027.

Property and credit headwinds remain, while new-economy resilience continues to offset some of drag. In recent months, growth continued to show a clear two-speed pattern. Strong exports, resilient manufacturing activity and investment in high-tech sectors such as AI, semiconductors, advanced manufacturing, and digital services continued to support growth, while the property downturn, household deleveraging, and subdued consumer confidence weighed on domestic demand. Recent data suggest exports and industrial production have held up relatively well, but weak credit demand and soft property activity indicate that private-sector risk appetite remains cautious. Overall, the new economy continues to outperform the old economy, with the key question now being whether the latest property-support measures and potential additional fiscal stimulus in Q4 can generate a more broad-based recovery.

Property support has become the key policy priority lately. After the 28 August housing reform which aims to shift China's property sector away from the pre-sale model toward completed-home sales, government rolled a new round of measures in September, including first mortgage-interest subsidy (providing a 1% interest subsidy for up to five years on eligible first-home mortgages of up to RMB 1 million), lower PSL rates (to channel cheaper policy funding into property-related projects and infrastructure investment), expanded relending facilities, and targeted support for developer financing. Near-term risk is that the 8/28 housing reform likely weighs on developers' funding, land purchases and housing starts in the near term, although longer-term improving delivery certainty and a more sustainable property market.

China's fiscal spending is back-loaded so far, Q4 likely to see a push. Beijing has yet to deploy a full-scale fiscal stimulus package. From January to August of this year, while general public budget revenue grew by 5.7%, general public fiscal expenditure increased by only 1.2%, lagging behind revenue growth by 4.5 percentage points. Latest policy direction, as signaled on September 28, 2026, the State Council mentioned "boosting the effectiveness of macro policies and promoting effective investment" and the need to "intensify efforts to ensure the full implementation of all policies". In Q4, we expect government to further enhance the implementation effectiveness of existing policies and roll out practical incremental policies if needed. It is still with high probability that China will realize a full year growth within the targeted range.

The 24 September Xi-Trump meeting helped reduce near-term tariff risks by extending the trade truce through January 2027 and announcing targeted tariff reductions on selected non-sensitive goods. The two sides also agreed to establish institutional dialogue mechanisms, including a new trade negotiation platform and AI safety consultations, providing greater policy predictability ahead of the APEC and G20 summits. While the meeting lowered geopolitical risk premiums and improved the outlook for trade and business confidence, key structural issues, including advanced semiconductor restrictions, rare-earth controls and broader strategic competition, remain unresolved.

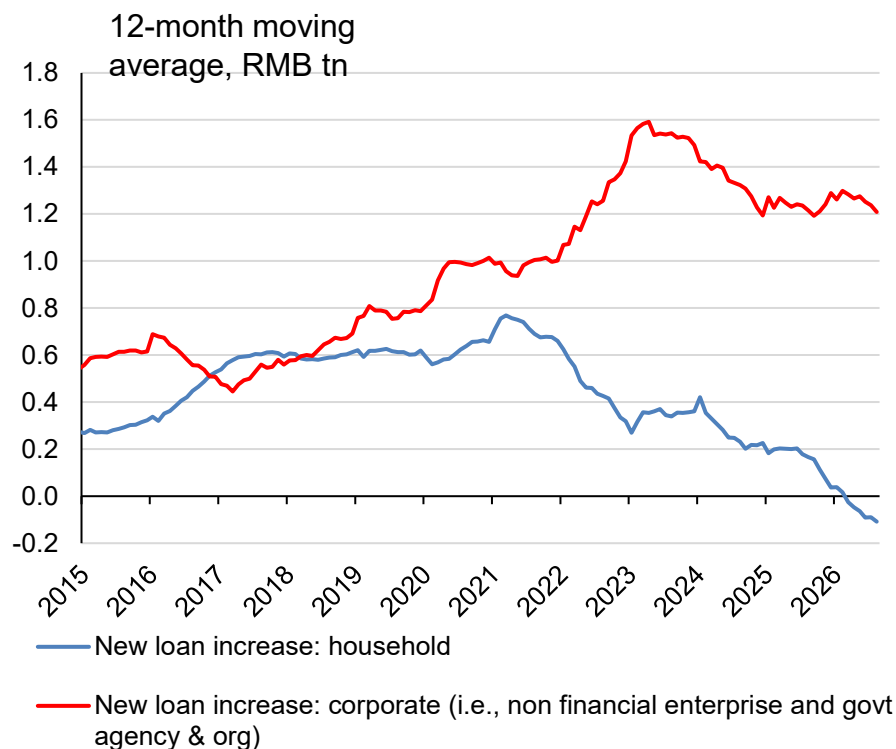
An appreciation bias for CNY against the dollar, supported by export competitiveness in high-tech sectors, reduced geopolitical risks following the Xi-Trump meeting, although ongoing property-sector weakness and soft domestic demand are likely to limit the pace of RMB gains. Recent USD/CNY fixings have consistently come in stronger than market estimates, signaling the PBoC's preference to anchor RMB stability and discourage one-way depreciation expectations. It also suggests that policymakers are biased against excessive RMB weakness, amid its broader objectives of maintaining financial stability, supporting capital inflow and advancing RMB internationalization.

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CNY | Households deleveraging deepens as corporate financing demand remains weak

Households continued to deleverage in both July and August whereas corporates loan demand was soft especially on medium-to-long term loan. That said, the PBoC recently played down the sole focus on loans to gauge corporates' financing demand and pointed to a broader metric including also bond & equity financing, which suggests a still-resilient borrowing demand instead YTD

Household deleveraging mode is intensifying

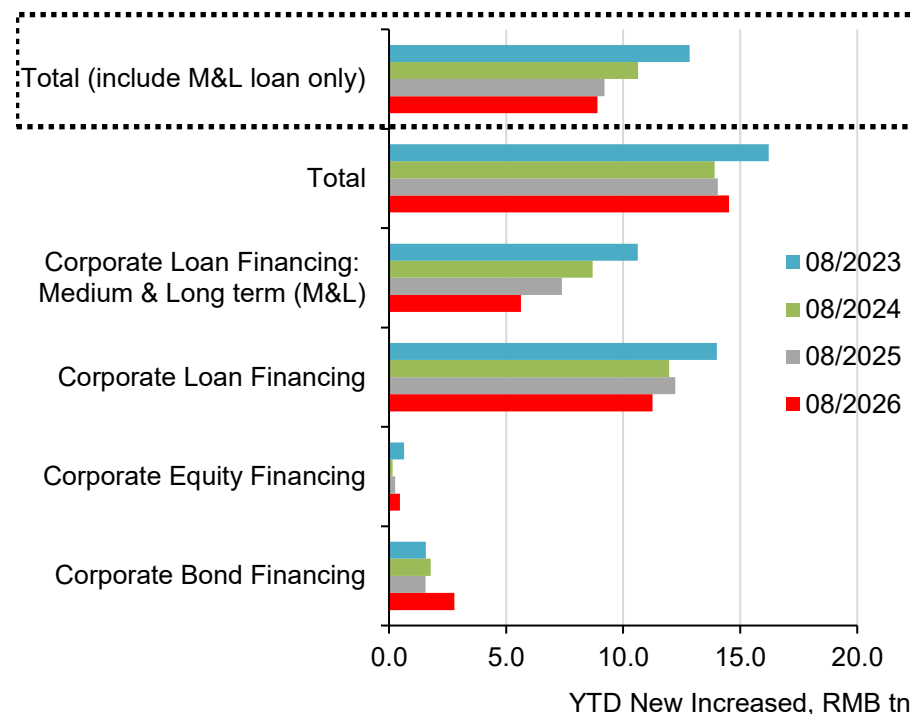


Note: Total refers to the sum of corporate loan, equity and bond financings

Source: CEIC, Bloomberg, MUFG GMR.

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Corporate investment demand is holding up better than implied by the loan data alone

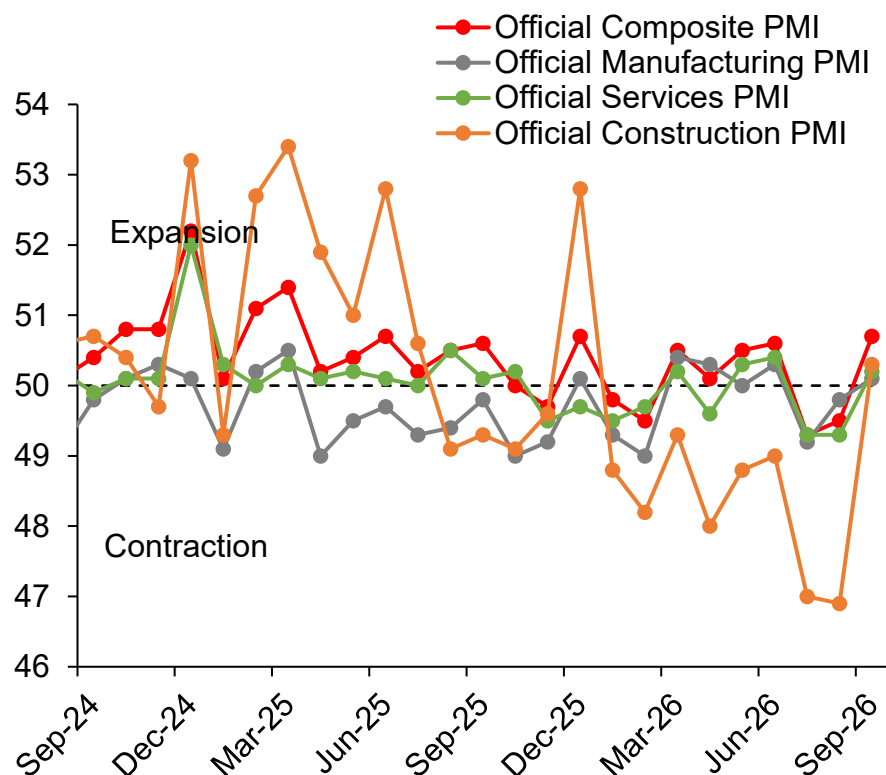


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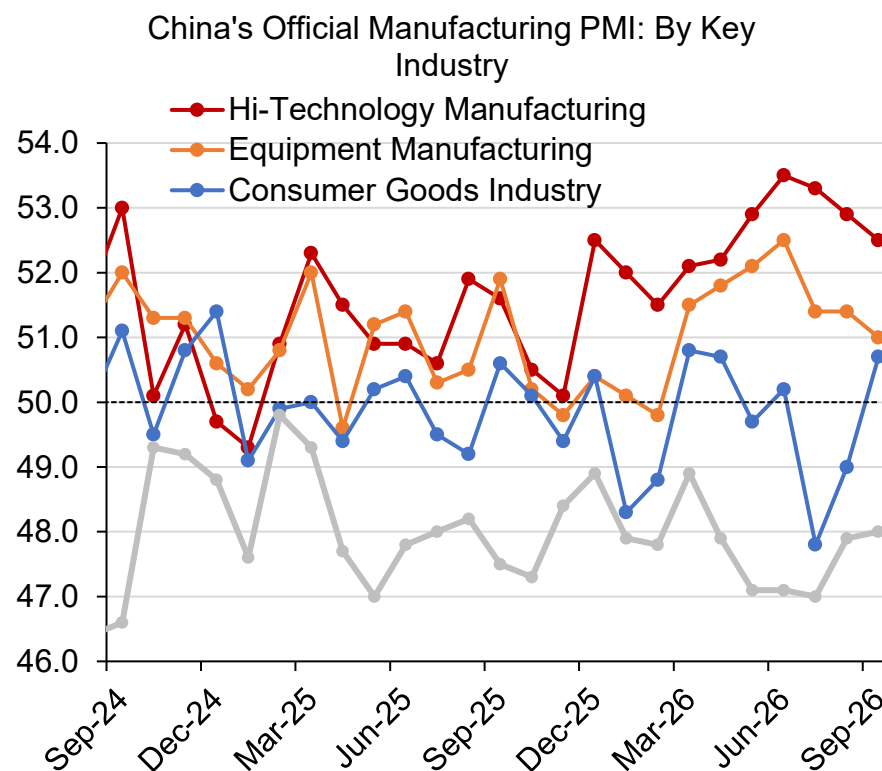
CNY | Positive signs in construction sector

Official construction PMI reading rebounded to expansionary territory in September, with the business expectation sub-index also markedly improved. This suggests that the pace of policy implementation has picked up especially from the new RMB 800bn policy-based financial instrument, although underlying demand conditions remain uneven and consistent with ongoing K-shaped dynamics.

Early signs of growth bottoming out in September



Hi-tech/ equipment manufacturing sectors outperform consumer goods sector

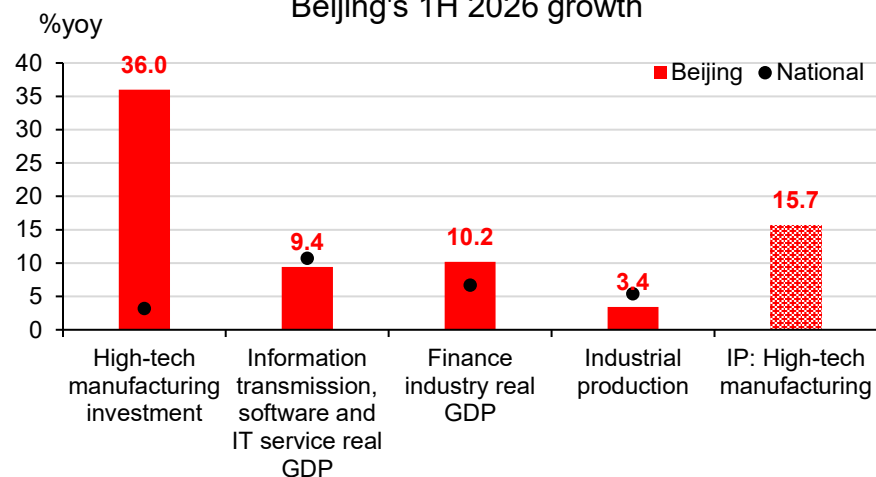


Source: CEIC, Bloomberg, MUFG GMR.

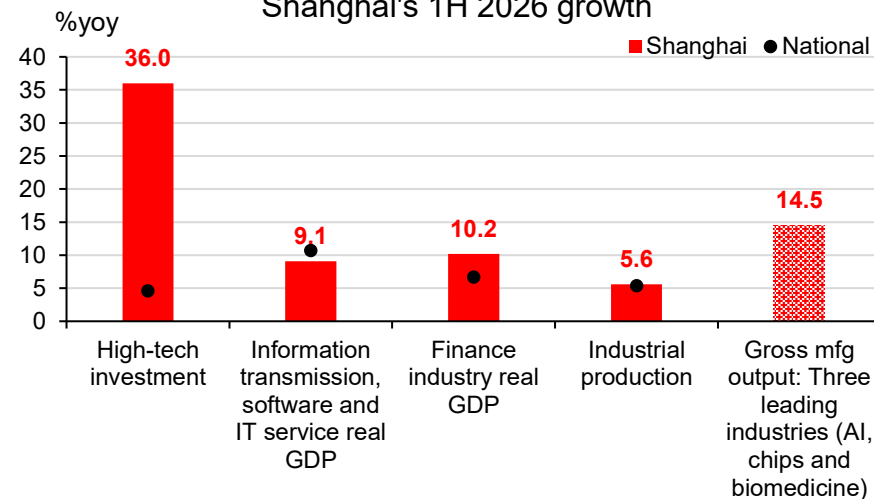
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CNY | Tier-1 Cities benefit more from China's Two-Speed economy, led by new-economy growth

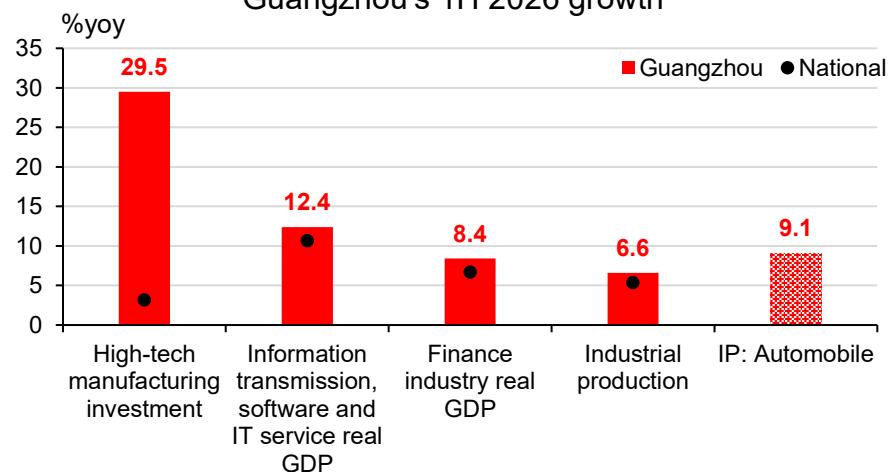
Beijing's 1H 2026 growth



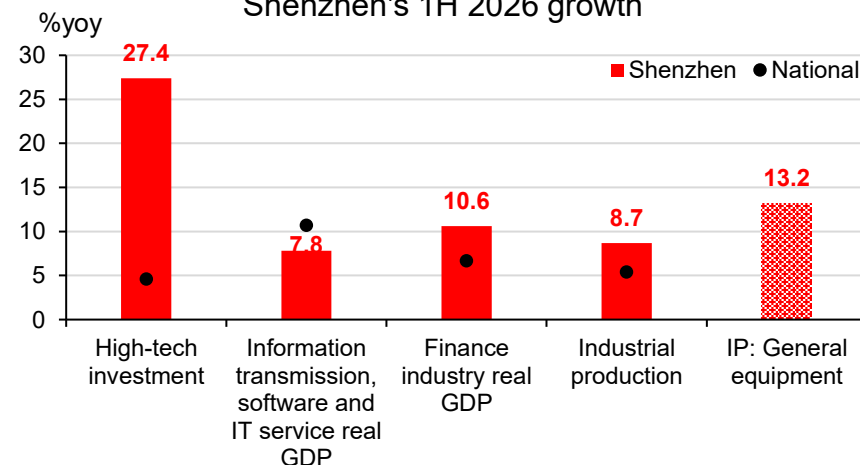
Shanghai's 1H 2026 growth



Guangzhou's 1H 2026 growth



Shenzhen's 1H 2026 growth



Source: CEIC, MUFG GMR.

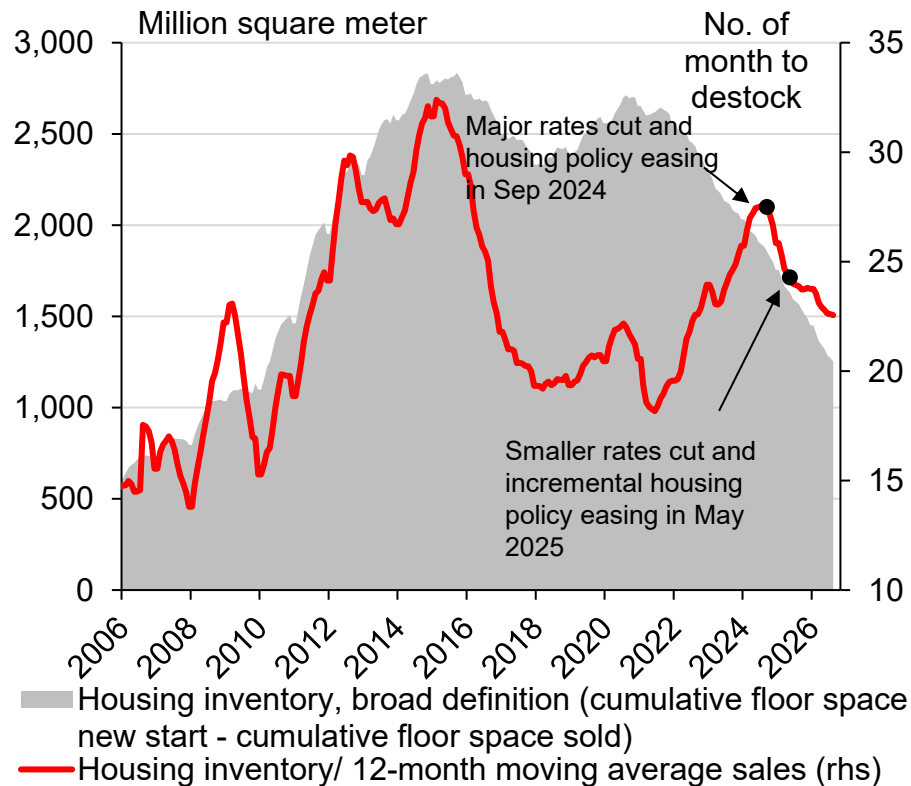
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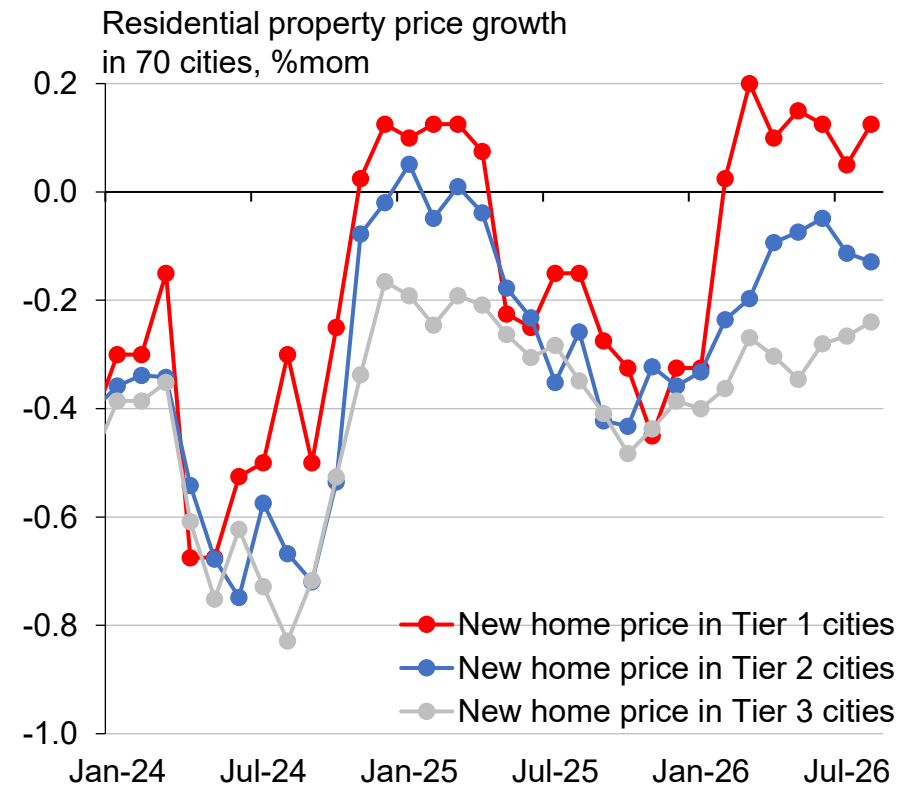
CNY | Property sector remains a drag, with destocking continuing. Tier-1 cities show positive sign with new home price improvement

Compared with its 2020 peak of 2.7 billion square meters, housing inventory continued to decline, falling to around 1.3 billion square meters as of August 2026. Further destocking progress will depend on a recovery in new-home sales too, which remained weak, declining 12.1%yoy YTD. Meanwhile, new-home prices in tier-one cities have begun to recover for few consecutive months.

Housing destocking is continuing with gradual policy fine-tuning over the time



Uneven new home prices recovery across cities



Source: CEIC, Bloomberg, MUFG GMR.

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CNY | Details of the housing policies announced on 28 August

Policy area	Detailed description
Promoting completed-home sales	Newly granted residential-land projects and previously granted projects that had not yet obtained construction-project planning permits, should give priority to completed-home sales . Projects that already held planning permits were encouraged to adopt completed-home sales.
Standardizing presale requirements	Where commodity-housing projects continue to use presales, each individual building must have completed its main structural framework, meaning the structure must be topped out, before presales.
Delaying mortgage disbursement to developers	For newly built homes sold as completed properties , personal mortgages are disbursed after the sales filing . For presold homes , mortgages must be disbursed only after the project has completed its completion filing , so buyers begin servicing the loan after the home is ready rather than during the early construction phase.
Matching developer loan tenor with project lifecycle	Development-loan term must match project construction and sales cycles and cover the period through completion filing. Presale-project loans are generally capped at three years, and at five years maximum; completed-home projects are generally capped at five years, and at seven years maximum ; commercial-property development loans are generally capped at seven years. The first principal repayment should generally occur after completion filing.
Establishing a lead-bank system for development projects	Each real-estate project must have one lead bank , either the sole lender or the lead institution in a syndicated loan. The project company must open its project account with that bank, which conducts closed-loop management of development loans, project equity, completed-home sales receipts and other project-related funds.
Strengthening oversight of presale funds	Buyers' downpayments, personal mortgage proceeds and other purchase funds must be deposited in a designated fund-supervision account opened at the project's lead bank . Supervision is lifted after project completion acceptance and after utilities and other supporting facilities meet delivery conditions.
Extending personal mortgage tenor	The maximum term for personal housing loans was extended from 30 years to 40 years .
Expanding capital-market support for the property sector	Shift the financing model away from one predominantly reliant on developers' corporate creditworthiness toward a project-based framework; Enhance access to refinancing, corporate bond, and other asset-backed financing instruments; Optimize the regulation of securities issuance, disclosure practices, and the use of funds, while reinforcing mechanisms for managing property-related risks.

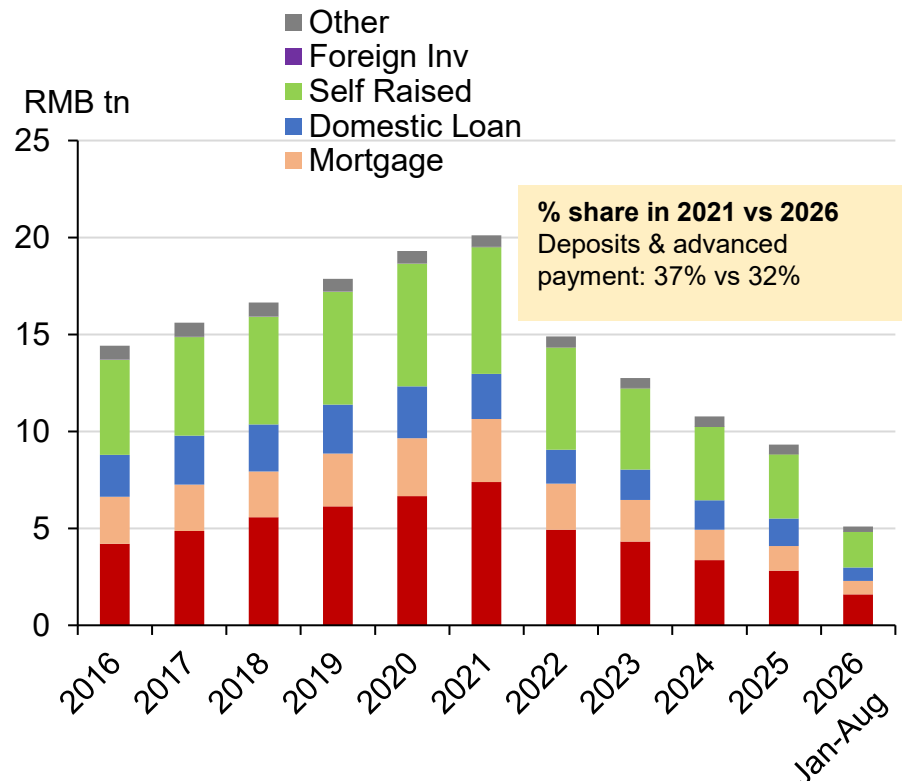
Source: PBOC, CSRC, MOHURD, government websites, MUFG GMR.

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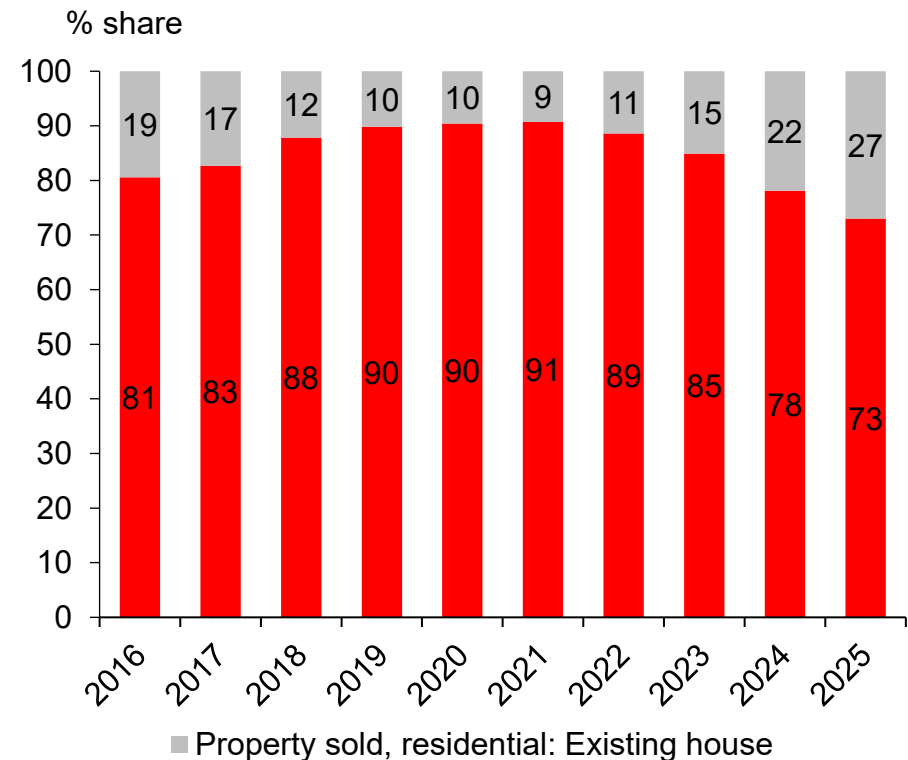
CNY | New property policies are positive for medium- to long term structural benefits, but with near-term risks of fund strain

On 28 August, MOHURD, the PBOC, the NFRA and other government agencies jointly announced a broad package of property-support measures spanning housing sales, credit conditions and financing for developers. Among the measures announced, the shift to prioritizing completed-home sales, delaying the mortgage fund disbursement to developers will create stress on developers' cash flow management. China developers have remained reliant on pre-sales home for funds and development.

Real Estate Developers' Funding Source for Development



Pre-sales vs completed home sales



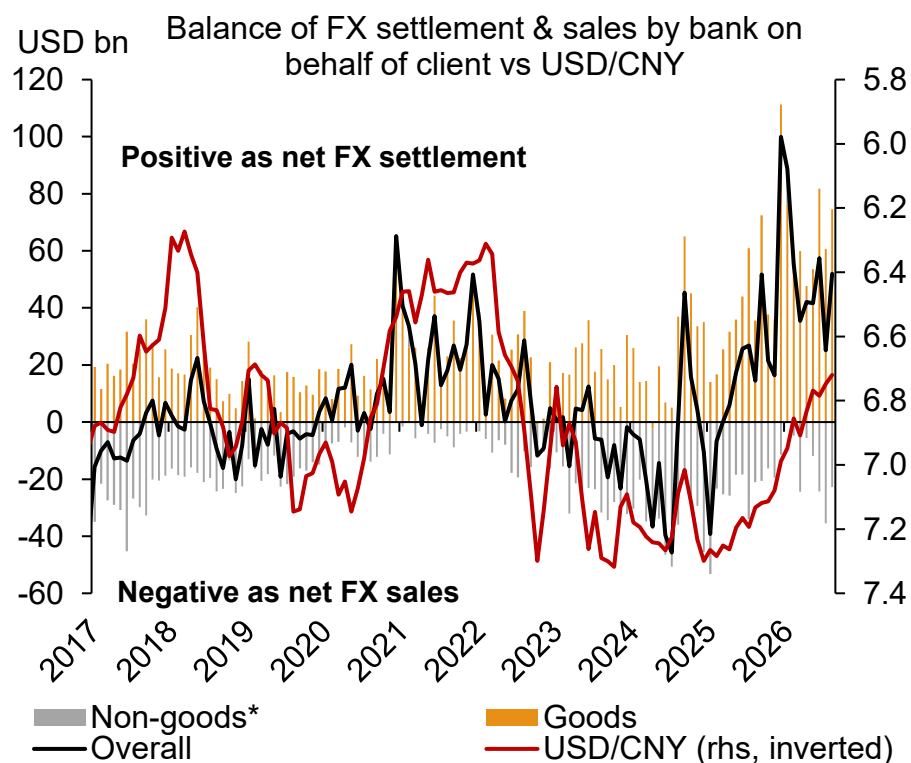
Source: CEIC, Bloomberg, MUFG GMR.

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CNY | Exports strength and robust trade surplus remain supportive for CNY

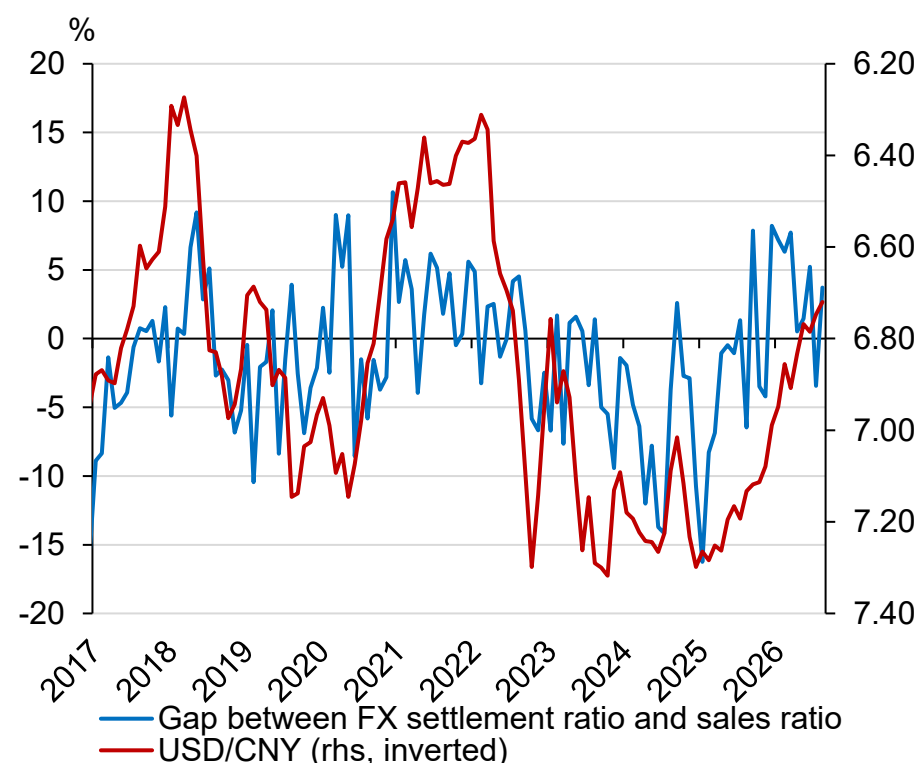
Beyond tech exports, China's non-tech exports are also strong with four straight months of low-teen to high-teen y-o-y growth supported by demand for general machine and motor vehicle for instance, which helps to sustain an elevated trade surplus. In January-August period, China's trade surplus has reached USD 806bn, roughly USD 25bn more than the same period last year.

Trade proceeds provided strength to CNY



Note: Non-goods include other current account items, as well as capital & financial account items

SAFE data implies more share of clients selling foreign currencies, relative to clients who buy



Source: CEIC, Bloomberg, MUFG GMR.

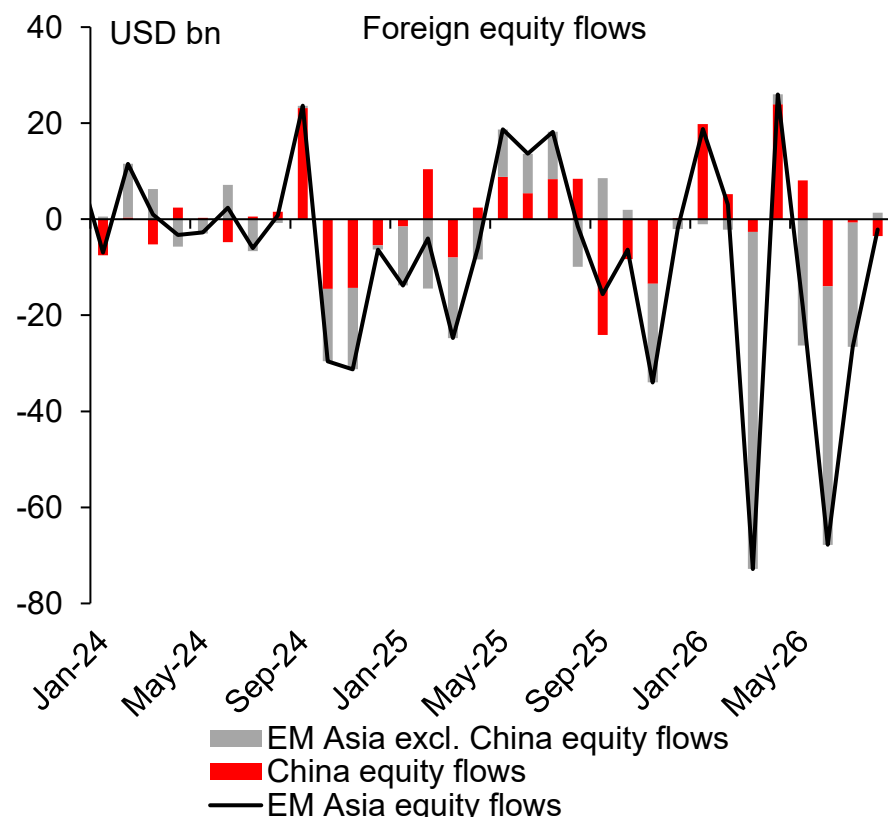
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CNY | A clear policy preference of PBOC for a stable (not a weakening) CNY

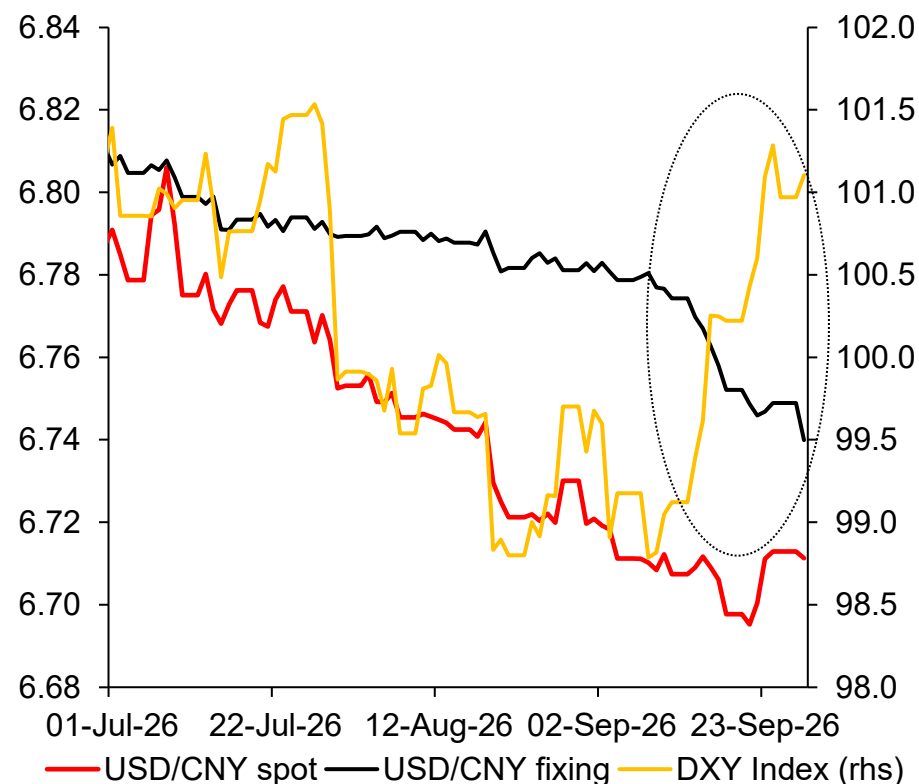
- Marginally improving fundamentals and flows conditions provide support for CNY

The IIF data showed foreign investors turned net buyers of EM Asia ex China equities in August but remained net sellers of Chinese equities. This suggests a more cautious stance towards Chinese assets as the domestic economic headwind intensified and industrial profit growth slowed

Foreign investor sentiment towards Chinese equities weakened



Lower USD/CNY fixing level despite both stronger DXY index and higher USD/CNY pair lately



Source: CEIC, Bloomberg, IIF, MUFG GMR.

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INR: Too much of a good thing?

INR | Too much of a good thing?

We are forecasting USD/INR at 96.00 by Dec 2026 and 97.50 by Sep 2027, implying a gradual depreciation in INR against the Dollar and a modest underperformance against other Asian currencies. From an FX perspective, we continue to think that RBI's measures have significantly reduced the left tail risk of sharp INR depreciation. Nonetheless, given still strong underlying Dollar demand including from gross FDI repatriation and a strong IPO issuance pipeline, we are still forecasting USD/INR to move higher.

The dictum that too much of a good thing may well be a problematic issue could certainly apply to the situation that India is facing right now. Following RBI's FX measures announced in June 2026 to support the Indian Rupee, the amount of Dollars attracted through the various facilities including FCNR(B) deposits now stands at more than US\$140bn, and likely still rising as we speak. With this huge deluge of money, it made sense in retrospect for RBI to have closed the FCNR(B) facility earlier than expected.

Note that there is no immediate US dollar selling transaction in the market from RBI's FX measures, but it does result in a larger stock of FX reserves on RBI's balance sheet. As such it's not surprising that USD/INR did not move much immediately in the first instance. These Dollar inflows do give RBI far bigger firepower to defend against INR weakness, but they also bring about their own set of challenges, namely INR liquidity management.

RBI's most immediate challenge is to deploy its suite of tools to mop up this excess liquidity as a side effect of the inflows from these FX measures. Importantly this is coming at a time when credit growth in India is accelerating, domestic demand and growth is resilient, fiscal policy is supportive, and inflation looks to be picking up into 2027 in part due to possible adverse weather events and elevated global oil prices.

As such, we continue to think the risks tilt towards inflation in India rising faster than expected, with the significant boost to INR liquidity from RBI's FX measures a potential additional impetus pushing inflation higher over the course of 2027, especially if it is not managed well from a credit growth perspective.

We as such continue to forecast RBI to hike rates by 50bps in total, with 25bps each in the December 2026 and February 2027 meetings, and our conviction level is now higher especially post the hawkish tilt from RBI's Minutes in August. We see some risk that the RBI could deliver 75bps of hikes in this cycle. Overall, this would bring RBI's repo rate to 5.75% by end-FY2026/27.

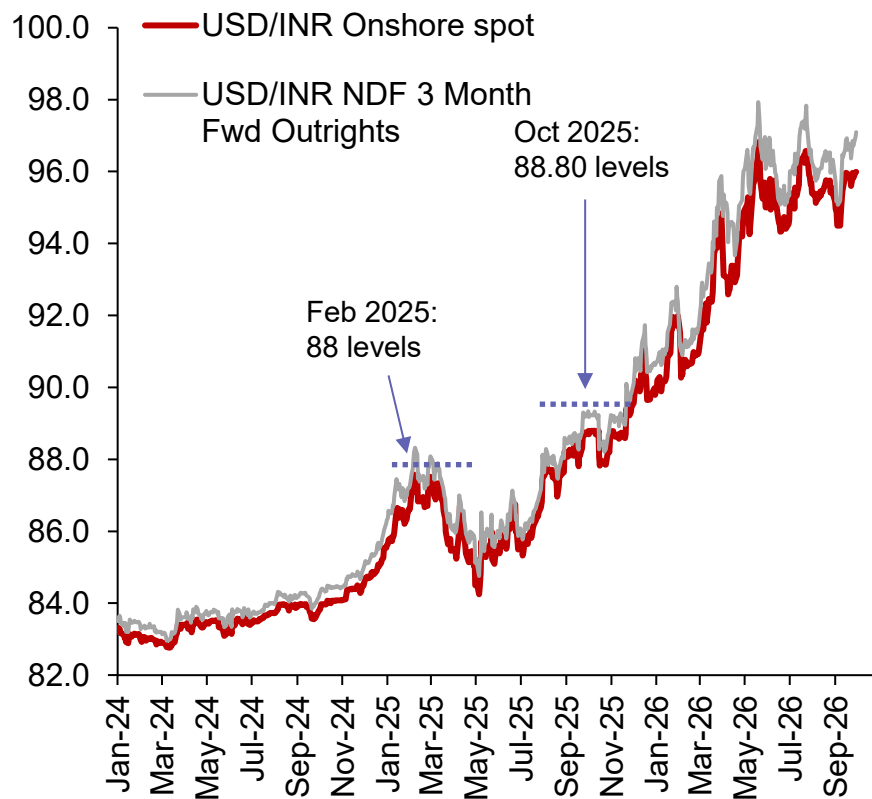
Our base case is for a shallow rate hike cycle given the much better starting point for India's macro stability – and rightfully so. Nonetheless, there is some left-tail risks that RBI may eventually be forced to hike rates at a faster pace down the road, especially if credit growth and abundant liquidity conditions are not managed well. We however stress this outcome is not very likely and hence it is more a risk to watch out for rather than a central scenario. Looking longer-term, we ultimately do not think RBI will deliver the number of hikes and risk premia currently priced into INR OIS markets through the cycle, save in a left tail scenario. For corporate clients thinking about fixing interest rate exposure, the decision may as such boil down to whether and at what rate one can continue to borrow at the front-end of the curve over the next few years.

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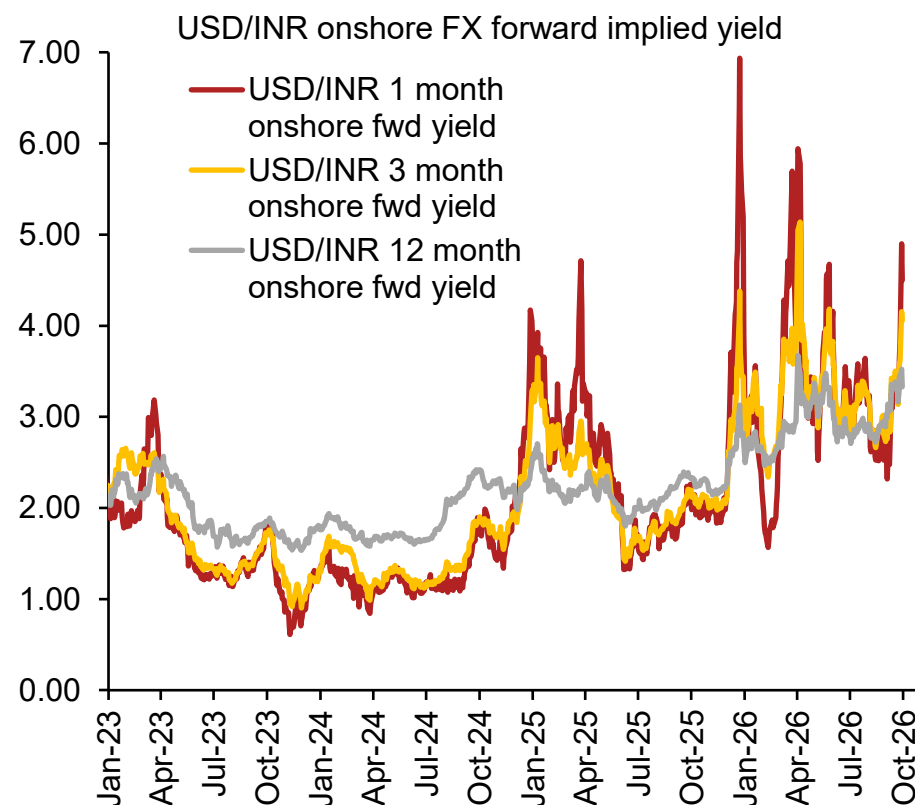
INR | The Indian Rupee was under pressure, but RBI's FX measures helping

USD/INR has been on a rollercoaster ride even before the Iran conflict, driven by a combination of weak capital inflows and also rising Foreign Direct Investment repatriation. Nonetheless, RBI's FX measures have started to stabilise the Indian Rupee, and as such USD/INR is now trading in a narrower range relative to 1H2026.

RBI's FX measures have been effective in stabilizing the Indian Rupee since June



Beyond spot FX, risk premia in forwards has risen given global factors such as higher oil prices



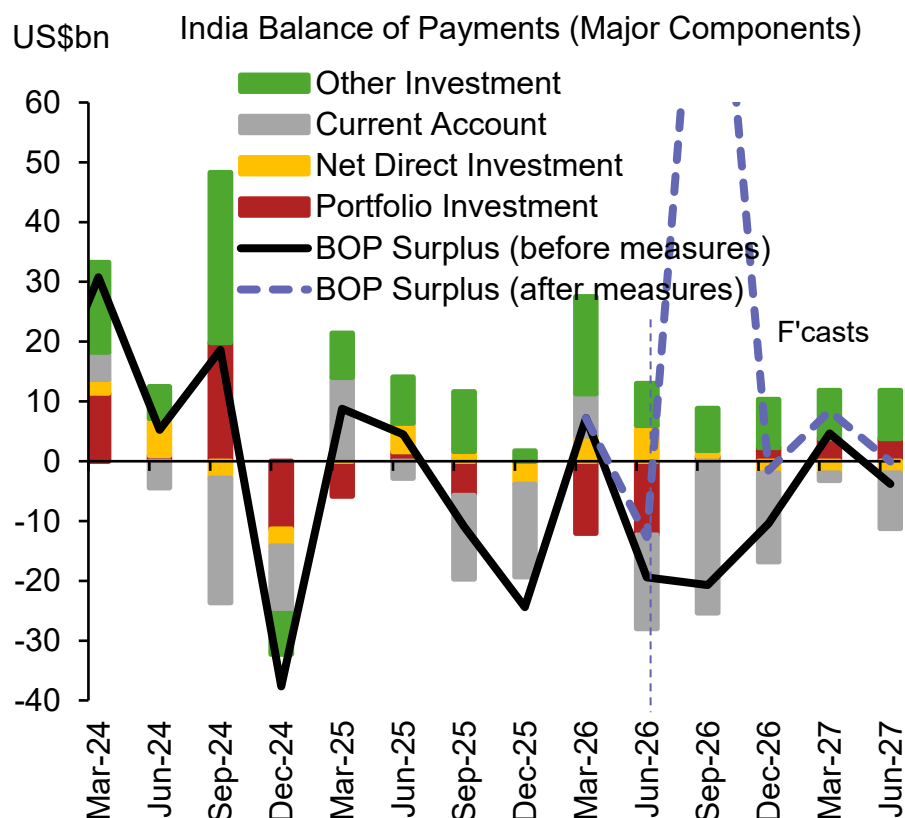
Source: CEIC, Bloomberg, MUFG GMR

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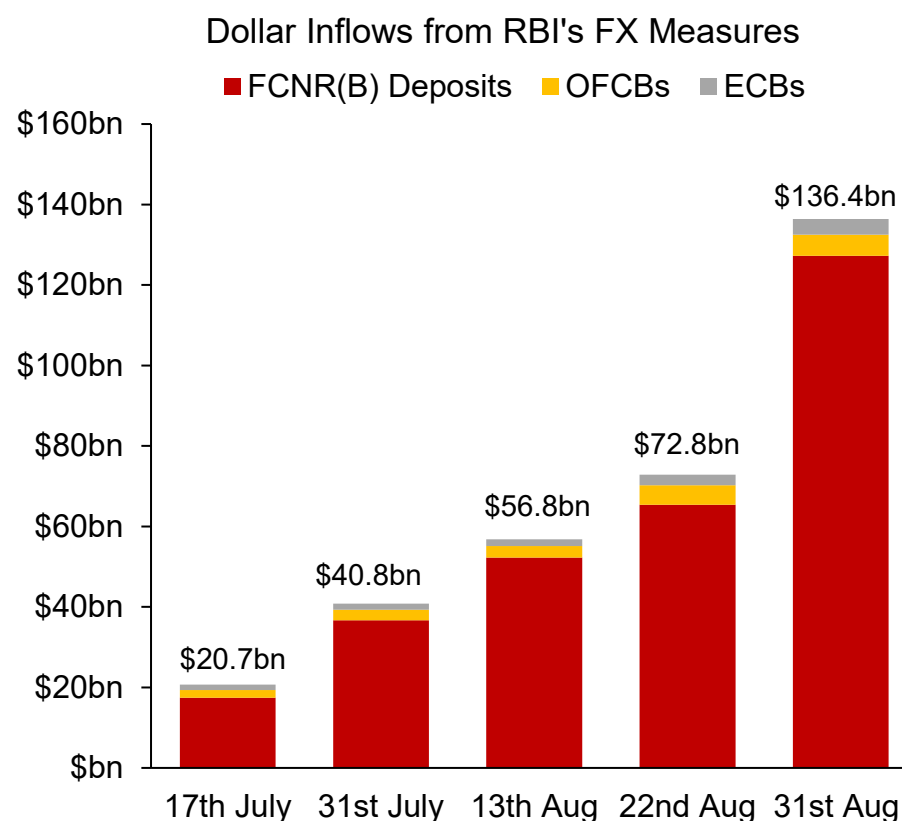
INR | >US\$150bn of additional inflows may be expected

RBI's June support package should materially improve India's external financing position by pulling in NRI deposits, bond flows and concessional ECB-related funding. Our updated estimates point to potential inflows above US\$150bn, with upside if index-related bond demand accelerates.

BoP swing improves as policy support draws in dollar inflows



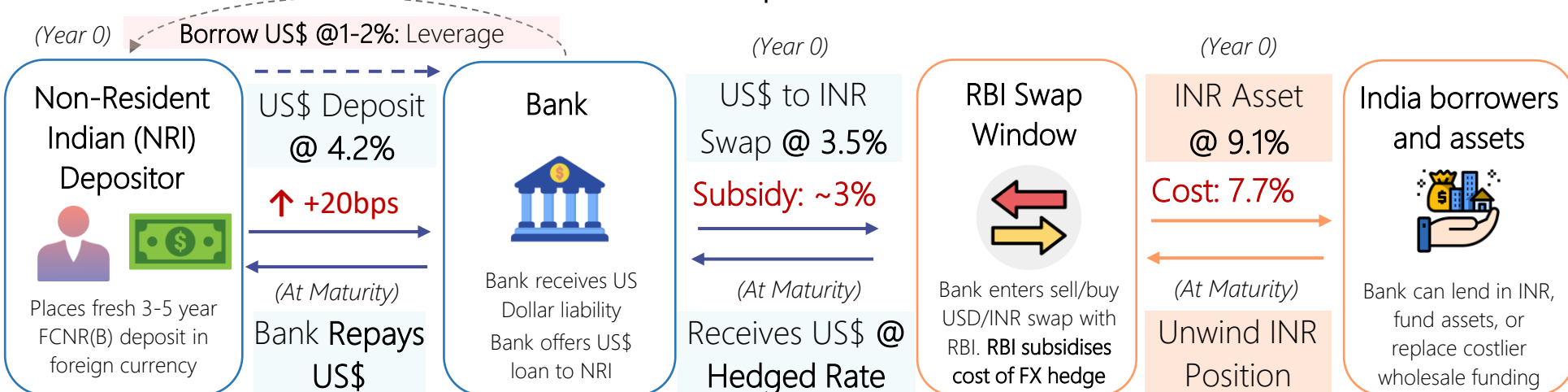
FCNR(B), bond and ECB channels drive the largest estimated boost



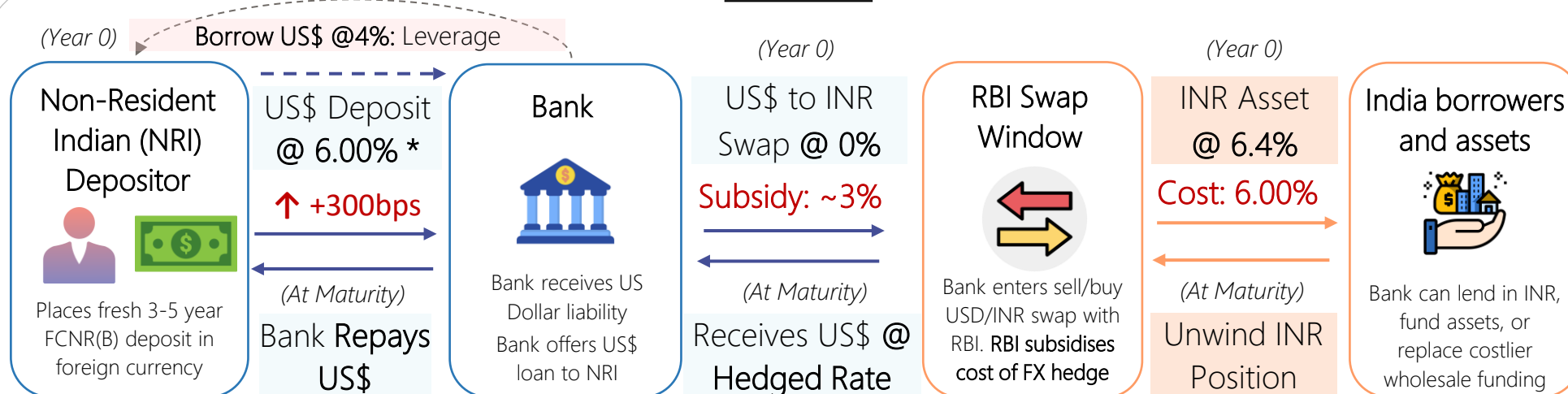
Source: CEIC, Bloomberg, MUFG GMR.

INR | RBI's FX measures do not generate an immediate USD selling transaction

Sep 2013



June 2026



Source: CEIC, Bloomberg, MUFG GMR.

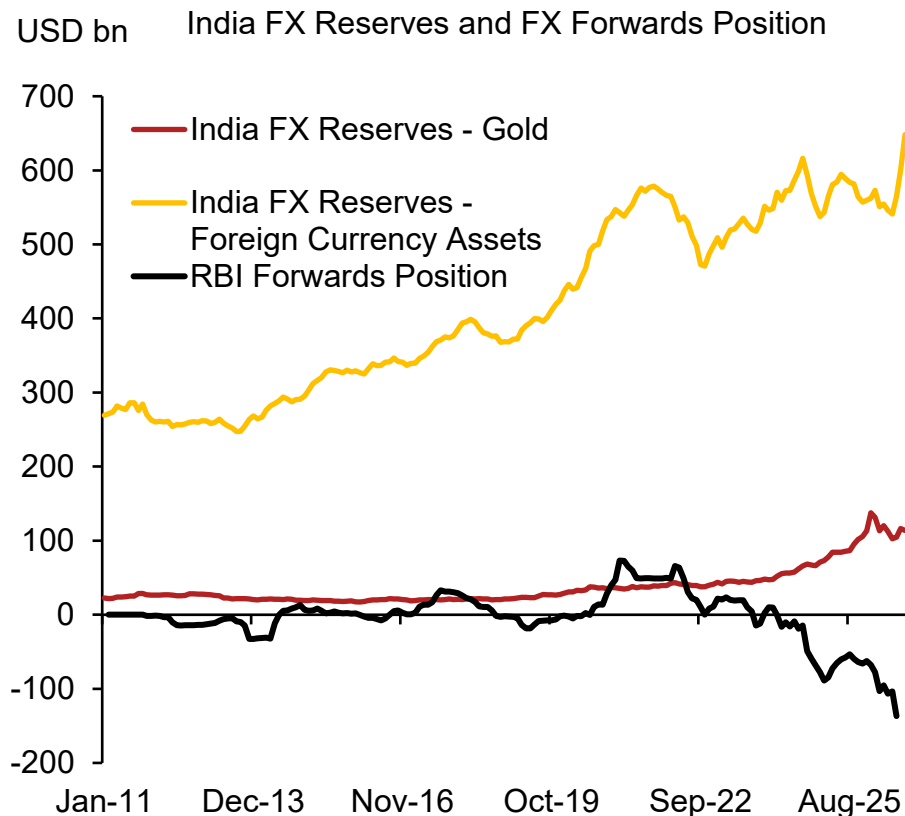
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INR | Too much of a good thing?

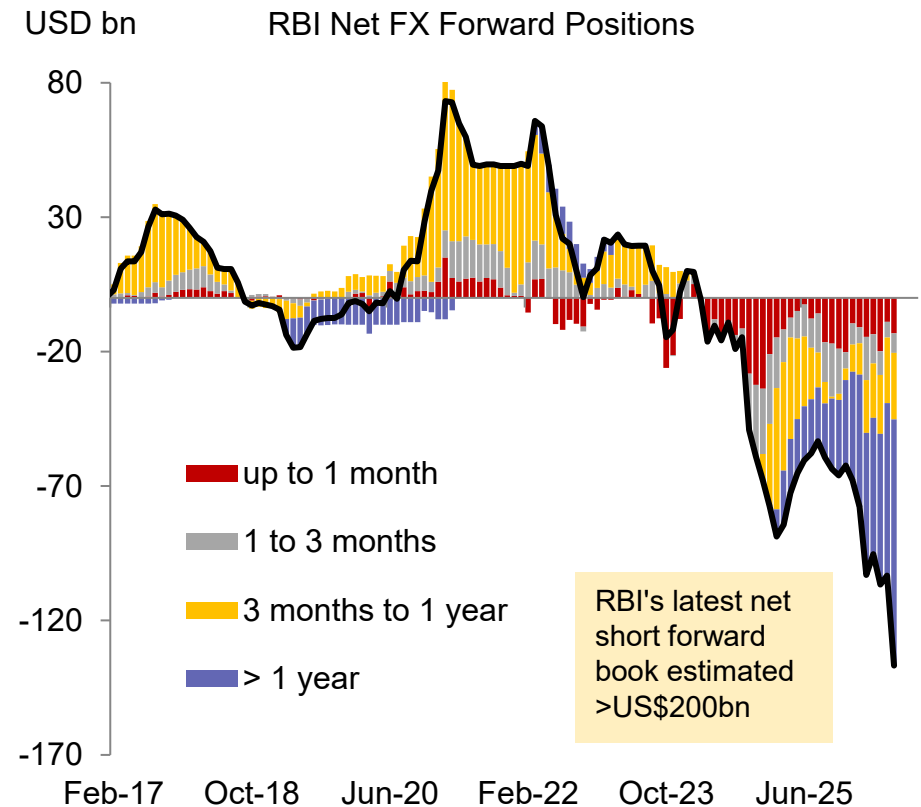
- RBI's FX reserves and short forwards rose

RBI's FX measures have rebuilt intervention capacity, lifting headline reserves while increasing the short forward position. This gives the central bank greater scope to smooth INR weakness, although the forward book remains an important balance-sheet consideration.

FX reserves rise as RBI absorbs policy-driven dollar inflows



Forward dollar sales also increase as RBI smooths INR volatility



Source: CEIC, Bloomberg, MUFG GMR.

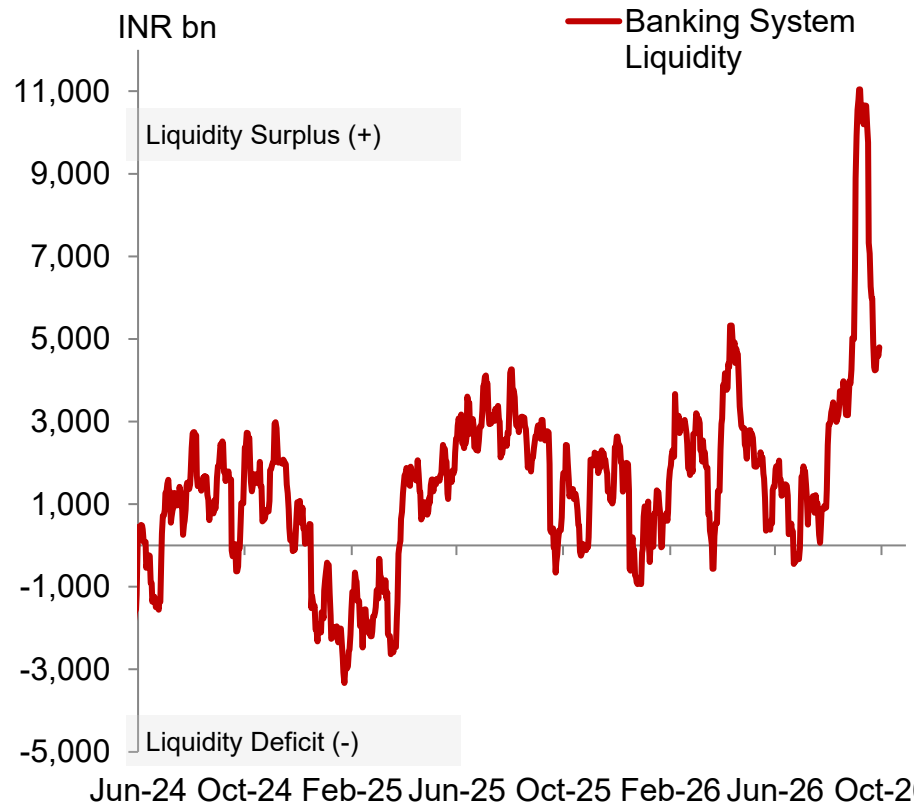
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INR | Too much of a good thing?

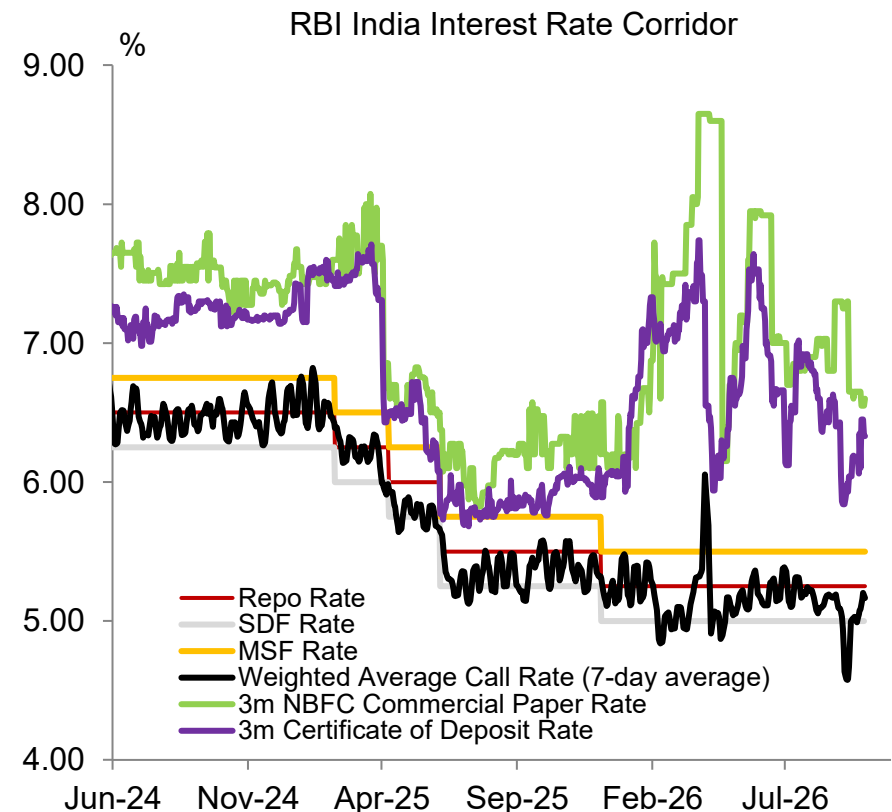
- A flood of INR liquidity as a counterpart

The counterpart to stronger foreign-currency inflows is a sizeable injection of INR liquidity into the banking system. Without adequate sterilisation, easier liquidity could reinforce credit growth, weaken policy transmission and add to medium-term inflation risks.

FX inflows translate into a sharp rise in rupee liquidity



Sterilisation becomes critical to preserve monetary control



Source: CEIC, Bloomberg, MUFG GMR.

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INR | Too much of a good thing?

- RBI's challenge – mop up excess liquidity

The RBI's immediate challenge is to sterilise durable excess liquidity without creating unnecessary volatility in short-term rates. A mix of reverse repos and other absorption tools should help keep money-market conditions aligned with the policy stance.

Tool	Tenor	Mechanism and Remarks
Variable Rate Reverse Repo (VRRR) - shorter-term	Up to 14 days	RBI borrows from banks at rates set by auction and backed up by collateral
Variable Rate Reverse Repo (VRRR) - longer-term	>14 days to 30 days or even longer	RBI borrows from banks at rates set by auction and backed up by collateral, for tenors longer than 14 days
Sell-Buy FX Swaps	1 month all the way to 3 years	RBI sells US dollars and buys INR from banks in the near leg, mopping up INR liquidity, and commits to buy US Dollars and sell INR from banks in the far-leg
Spot FX Intervention	Spot	RBI sells US Dollars and buys INR in the spot market, generating an impact on spot USD/INR and also reducing INR liquidity at the same time if this intervention is unsterilised
Market Stabilisation Scheme Bonds (MSS)	1 to 2 years	RBI issues MSS bonds on behalf of the government, with the government bearing the interest cost
Open Market Operation Sales (OMO)	Depends on bond sale	RBI sells government securities that it holds on its balance sheet to the market, and as such reducing INR liquidity in the market. The impact to the INR yield curve may also depend on specific bond RBI chooses to sell
Incremental Cash Reserve Ratio	Immediate to phased over time	Incremental Cash Reserve Ratio is implemented as an additional percentage of cash the banks must place with the central bank. As with the CRR, this is non-renumerated, and so entails an effective additional cost for commercial banks
Cash Reserve Ratio	Immediate to phased over time	Cash Reserve Ratio is the minimum percentage of total customer deposits banks must place with the central bank. The CRR is non-renumerated and so entails an effective additional cost for commercial banks

Source: CEIC, Bloomberg, MUFG GMR.

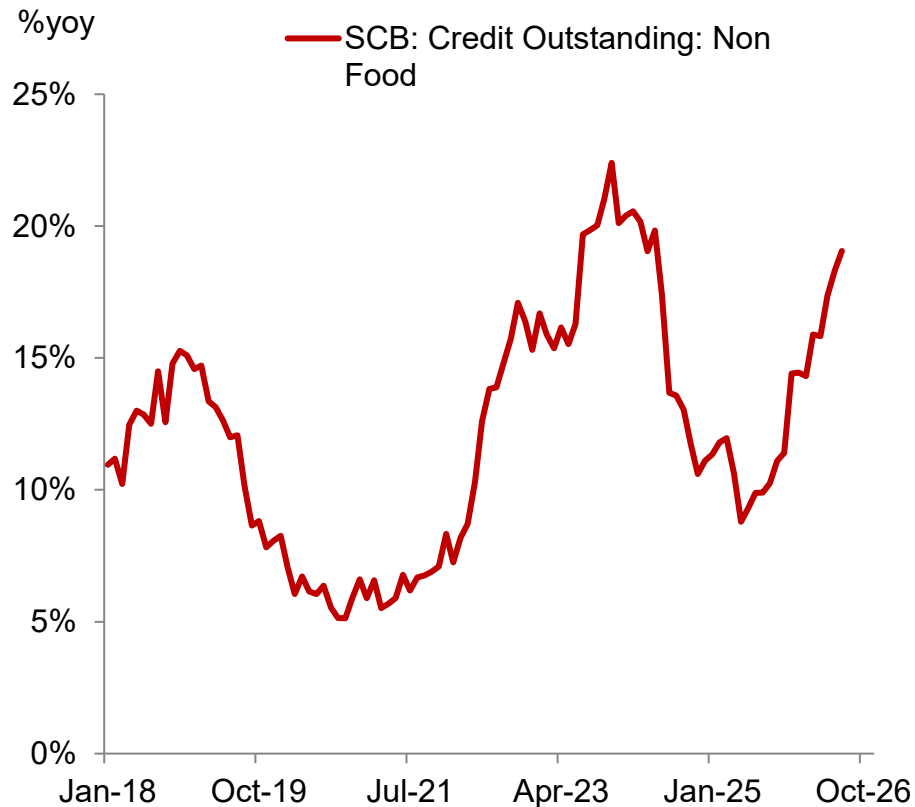
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INR | Too much of a good thing?

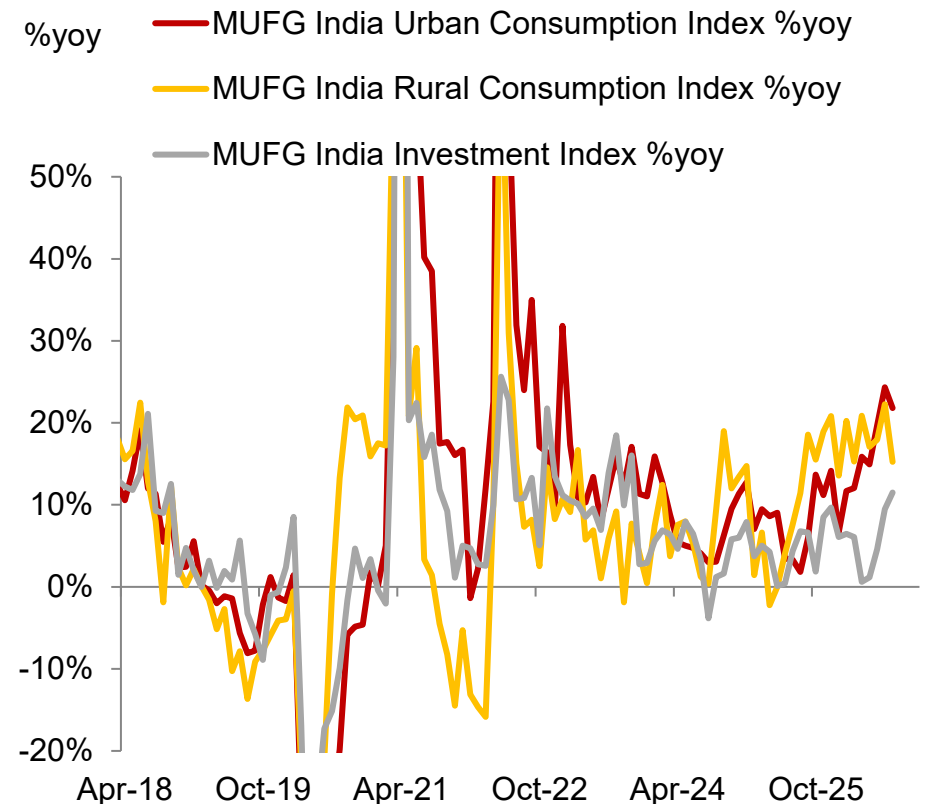
- Credit growth and domestic demand strong

Faster credit growth is supporting household and corporate demand at a time when fiscal policy remains supportive. The combination of strong activity and abundant liquidity increases the risk that inflation proves more persistent than currently anticipated.

Bank credit growth is strengthening across the economy



Resilient domestic demand raises the risk of overheating



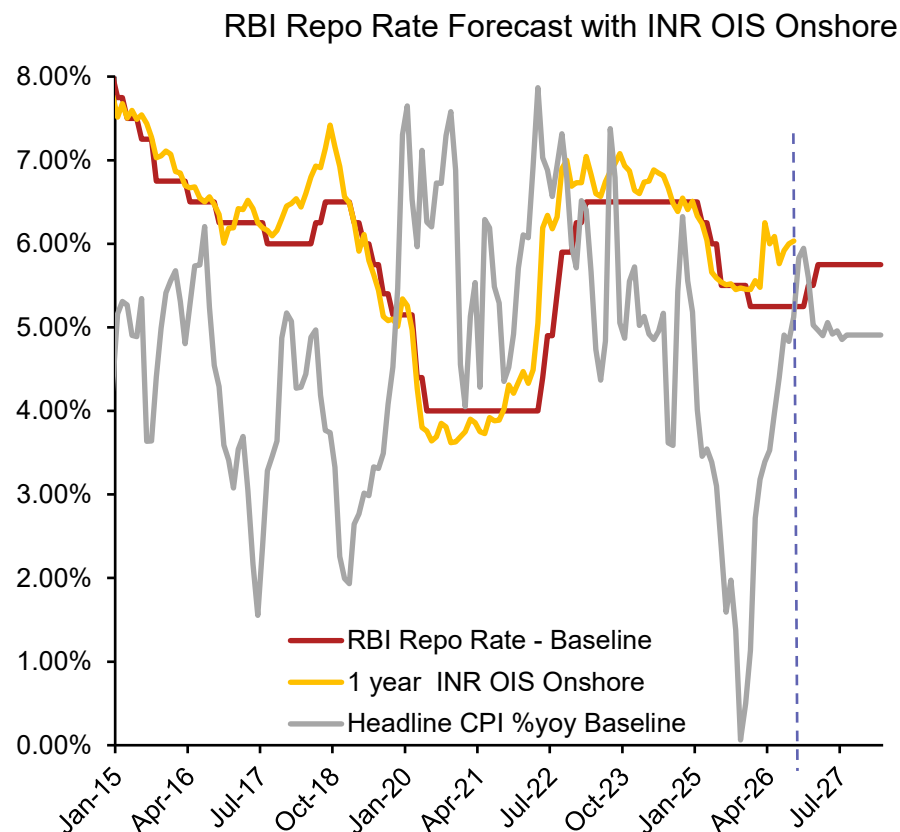
Source: CEIC, Bloomberg, MUFG GMR.

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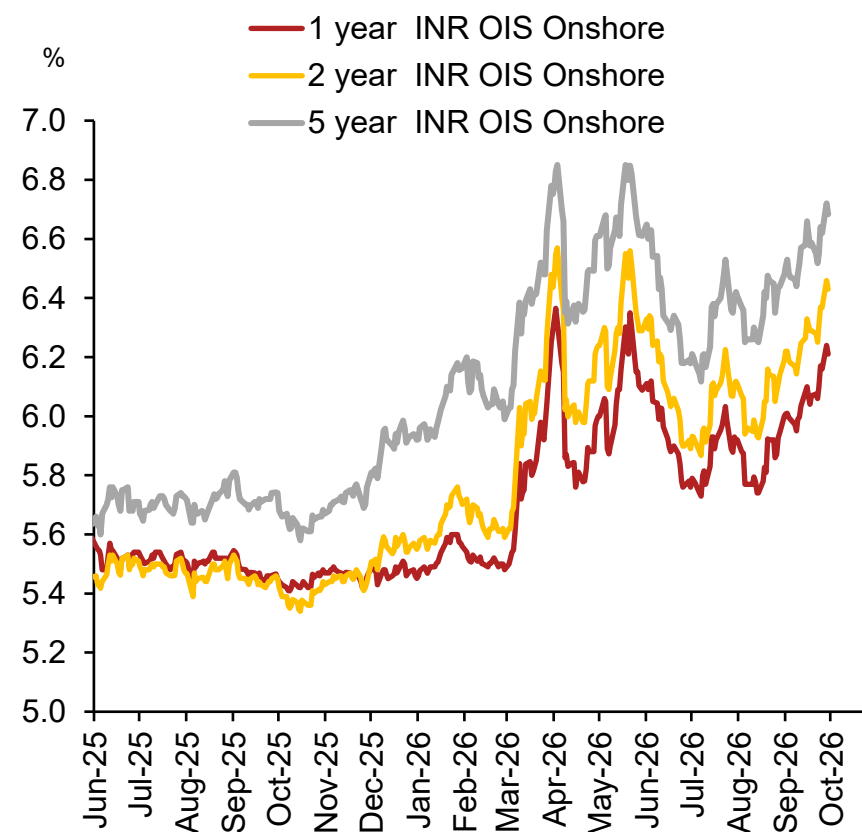
INR | RBI to hike by 50bps, INR yields to rise as RBI tightens liquidity

We forecast two 25bp hikes, in December 2026 and February 2027, taking the repo rate to 5.75%. Active liquidity absorption should reinforce the tightening signal and keep upward pressure on front-end yields, with a 75bp cycle an upside risk. The key for markets is also what further steps RBI will take to mop up liquidity.

We expect 50bps of RBI hikes by February 2027



Tighter liquidity should place upward pressure on INR yields



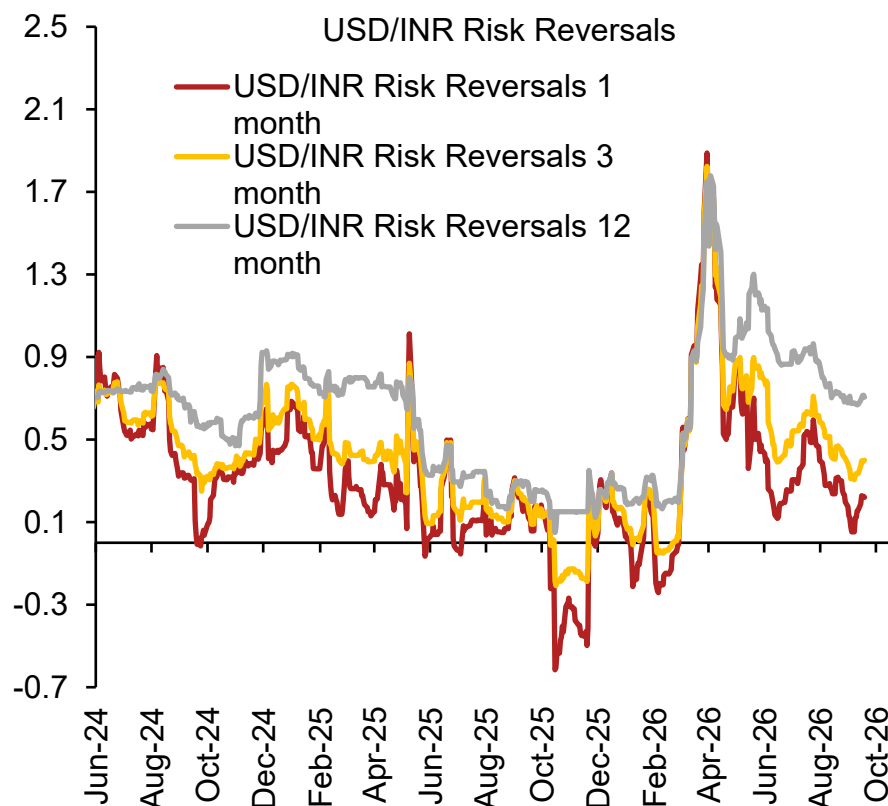
Source: CEIC, Bloomberg, MUFG GMR.

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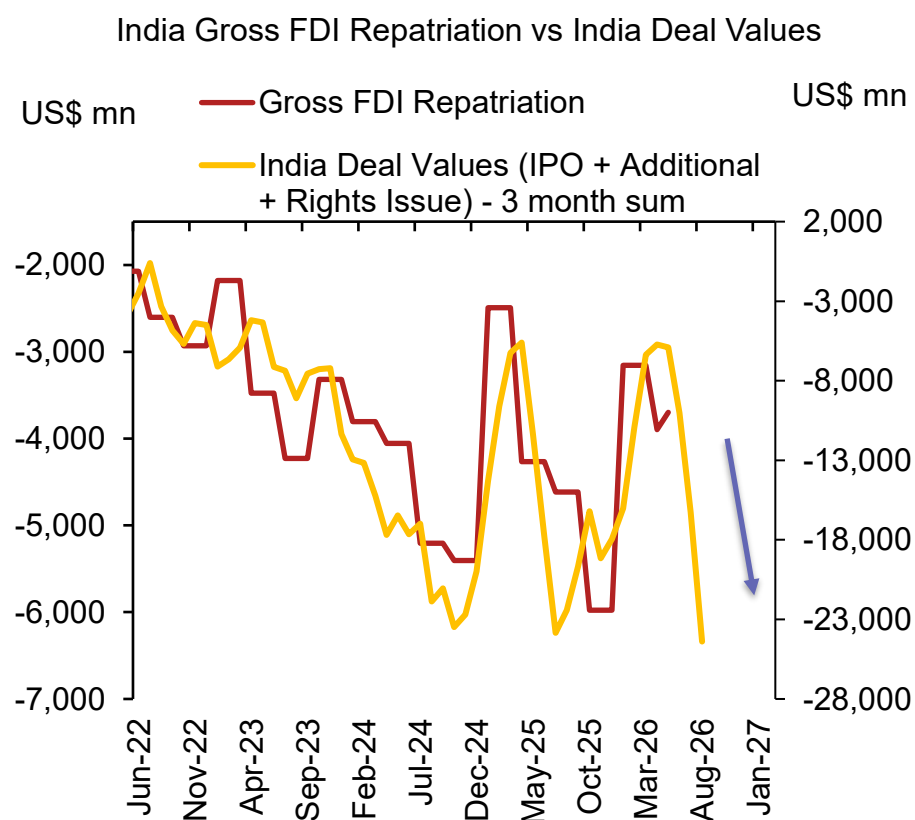
INR | Gradual INR depreciation. RBI has firepower but USD demand high

RBI's larger FX buffer materially reduces the left-tail risk of a sharp INR sell-off. Nonetheless, FDI repatriation, a strong domestic issuance pipeline and other structural dollar demand support our forecast for a general rise in USD/INR. There are nonetheless factors outside of India's control such as oil prices and higher US yields.

Stronger reserves reduce the risk of disorderly INR weakness



Persistent dollar demand still points to gradual depreciation



Source: CEIC, Bloomberg, MUFG GMR.

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IDR: The limits of oil shock buffers for the rupiah

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IDR | The limits of oil shock buffers for the rupiah

We maintain our upside bias on USD/IDR, with 18,3500 in 3 months and 18,600 in 12 months.

External headwinds reinforce our bearish IDR bias: The external backdrop has become materially more challenging for Indonesia, with three pressures increasingly reinforcing each other: elevated US Treasury yields, Brent above USD100/bbl and renewed portfolio outflows. USD/IDR has rebounded back towards 17,900 after recent reprieve, while a stronger USD, higher oil import bill and weaker foreign demand for Indonesian assets leave the near-term balance of risks tilted towards further rupiah depreciation. The US 10Y yield remains above 5%, with the 30Y above 5.4%, as resilient US activity and elevated oil prices reinforce inflation concerns and expectations of Fed tightening.

Higher oil is eroding Indonesia's external buffer: Brent above USD100/bbl presents an increasingly important vulnerability, particularly as Middle East supply risks threaten alternative Saudi export routes through Yanbu. For Indonesia, sustained high oil prices would worsen the oil trade deficit, while stronger non-oil commodity exports, including coal, palm oil, and base metals, are not able to offset the oil shock impact. This reduces the trade-balance buffer, putting downward pressure on the IDR during periods of external stress. Importantly, coal surplus is smaller than during the 2022 Russia-Ukraine war, offering a smaller buffer against the oil shock. In addition, it is not just the oil shock impact on the trade balance, but the non-oil and gas trade surplus has also declined.

Fiscal concerns remain with Brent above \$100/bbl: The government has cut the budget for the free school lunch meal, which should help keep the budget deficit this year within the 3% of GDP deficit cap. In addition, the government has proposed a smaller budget deficit target of 2.4% for next year, offering some positive fiscal signals. That said, the main concern is if oil prices stay above \$100/bbl for the remainder of this year, which might necessitate further budget spending cuts to keep the deficit within 3% of GDP. Meanwhile, the removal of Purbaya as finance minister, replacing him with his deputy Nazara, also adds another layer of uncertainty.

BI is leaning on its broader FX toolkit rather than further rate hikes: BI held the policy rate at 5.75% in September and continues to deploy offshore NDF, domestic spot and DNDF intervention alongside measures to attract foreign capital. The increase in the 12-month FX swap discount to as much as 25% should lower hedging costs and improve the risk-adjusted attractiveness of Indonesian assets. However, cheaper hedging cannot fully compensate for global uncertainties, higher oil prices, or lingering MSCI investability concerns. September saw net foreign equity outflows of USD110mn and bond outflows of USD188mn, underscoring continued investor concerns. Also, issuing SRBI at elevated yields has helped to bring in foreign inflows, but the ability to bringing in more inflows and strengthening the rupiah has limits.

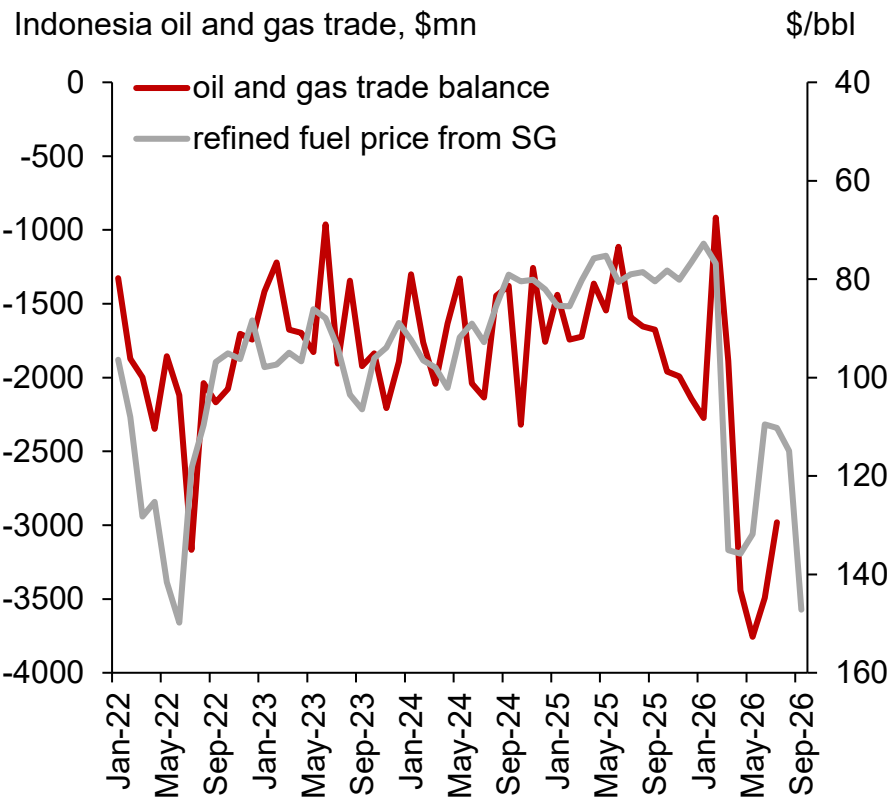
BI can smooth the adjustment, but reversing IDR weakness requires external relief: Our USD/IDR bias therefore remains higher. BI's policy toolkit can contain volatility, but is better suited to managing the pace of adjustment than reversing a persistent external shock. If US yields and oil remain elevated while portfolio outflows continue, pressure for additional monetary tightening should increase. We still look for BI-rate to end the year at 6.25%. Until at least one of these external headwinds reverses, we would remain cautious about calling a sustained turn lower in USD/IDR.

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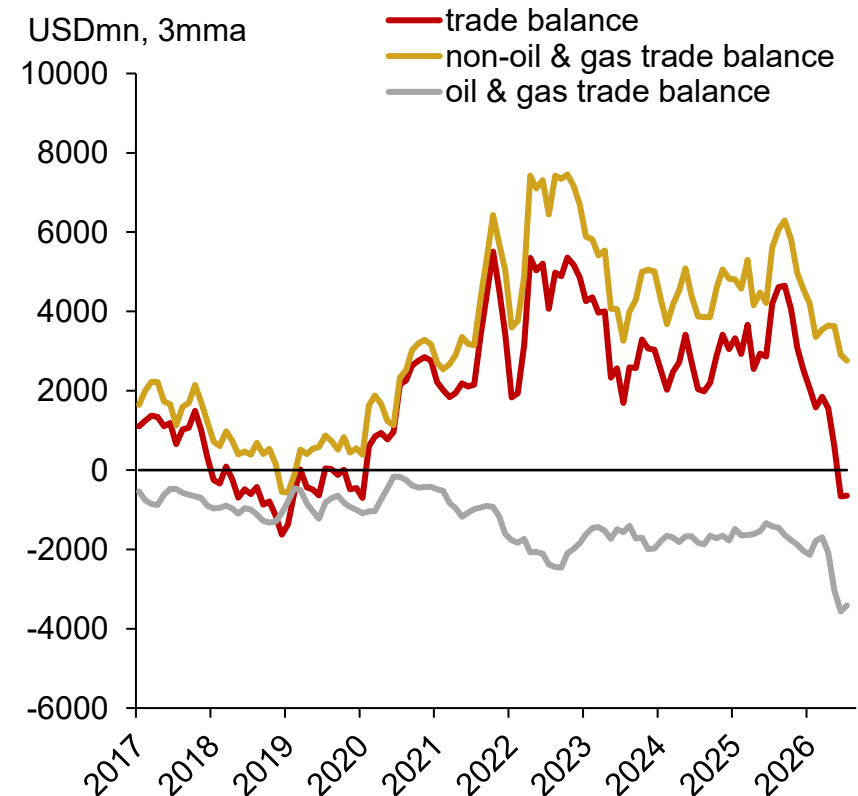
IDR | Oil shock to keep trade balance under pressure

In Aug-Sep, refined fuel prices have risen along with the increase in brent prices. This implies that Indonesia's oil and gas trade deficits are likely to have widened. This will keep the rupiah under pressure. And it is not just the oil shock weighing on the trade balance. Non oil and gas trade surplus has also declined.

Oil and gas trade deficits likely to widen in Aug and Sep



Trade balance hurt by oil shock



Source: Bloomberg, MUFG GMR.

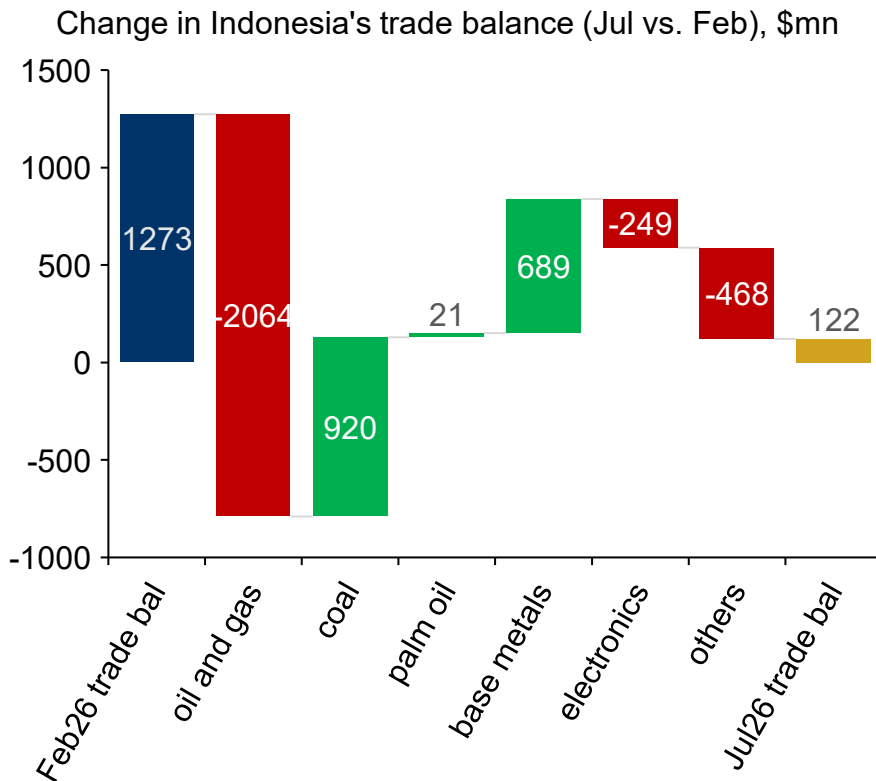
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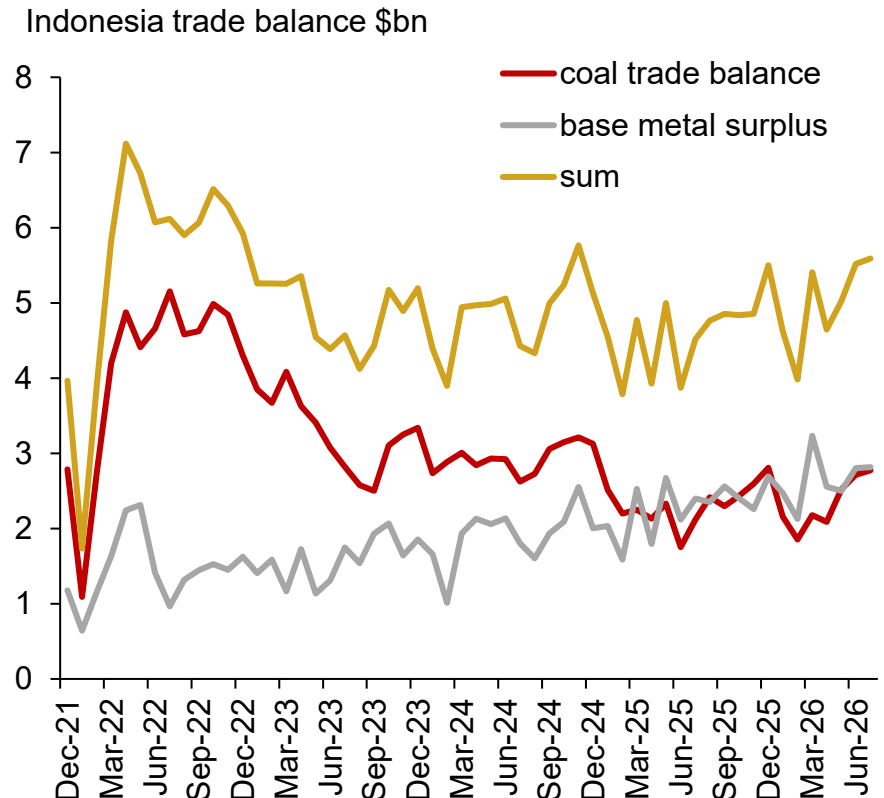
IDR | Commodity exports can only partly cushion the oil shock

Comparing July trade balance with that in Feb, we find that the oil shock has led to about \$2bn of wider trade deficits, and this is only partly offset by a larger surplus in coal, palm oil and base metals. Importantly, coal is now less supportive than before. This makes base metal an increasingly important buffer.

Oil and gas deficits only partially offset by larger coal and metal surpluses



Coal less supportive than before, base metal an increasingly important buffer



Source: Bloomberg, MUFG GMR.

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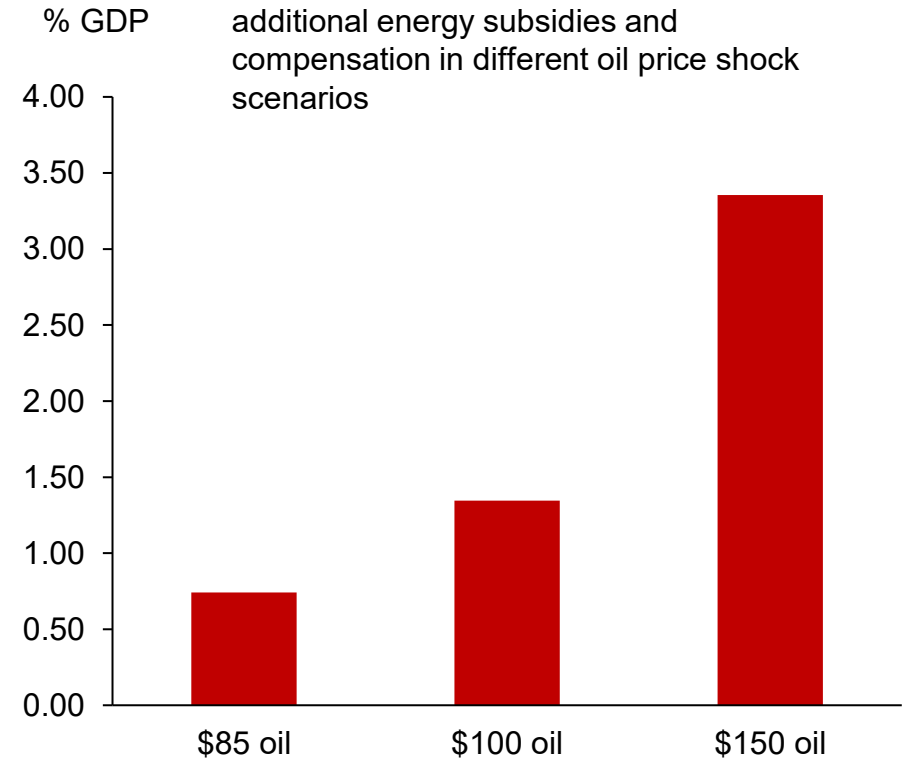
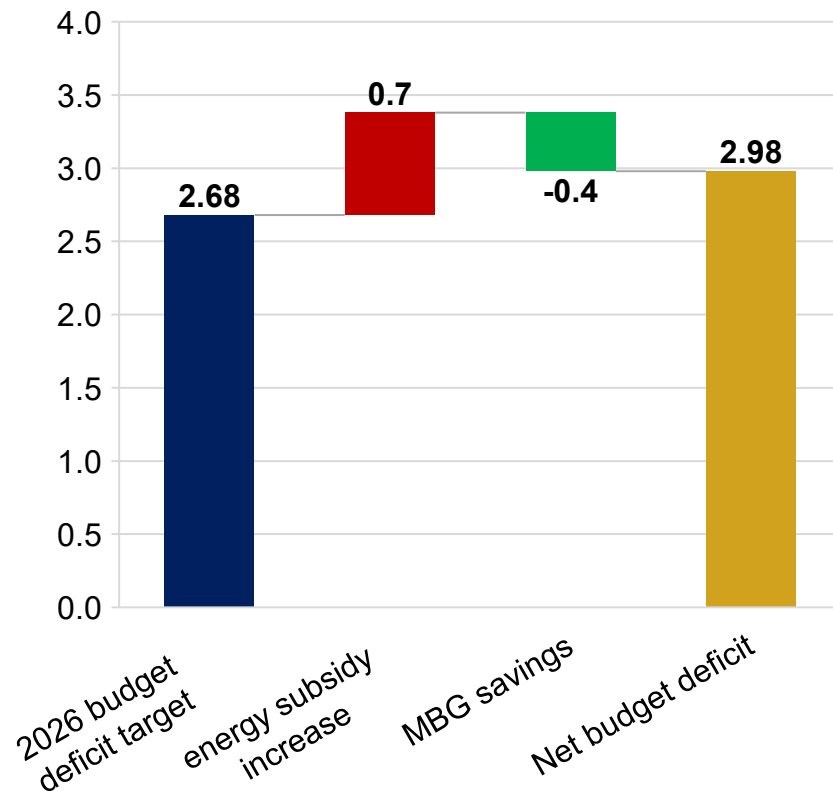
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IDR | More fiscal spending cuts may be needed if oil shock persists

The government decided to cut back free lunch programme – that is critical to keep the budget deficit below 3%, and if revenues permit, fiscal deficit could be 2.8-2.9%. The risk is that Brent prices remain around \$100 in remaining months of this year or higher, which would require additional fiscal spending cuts.

MBG savings partially offset energy subsidy increases, keeping the fiscal deficit below 3% ceiling

Further spending cuts may be needed if Brent stays above \$100/bbl in remaining months of 2026



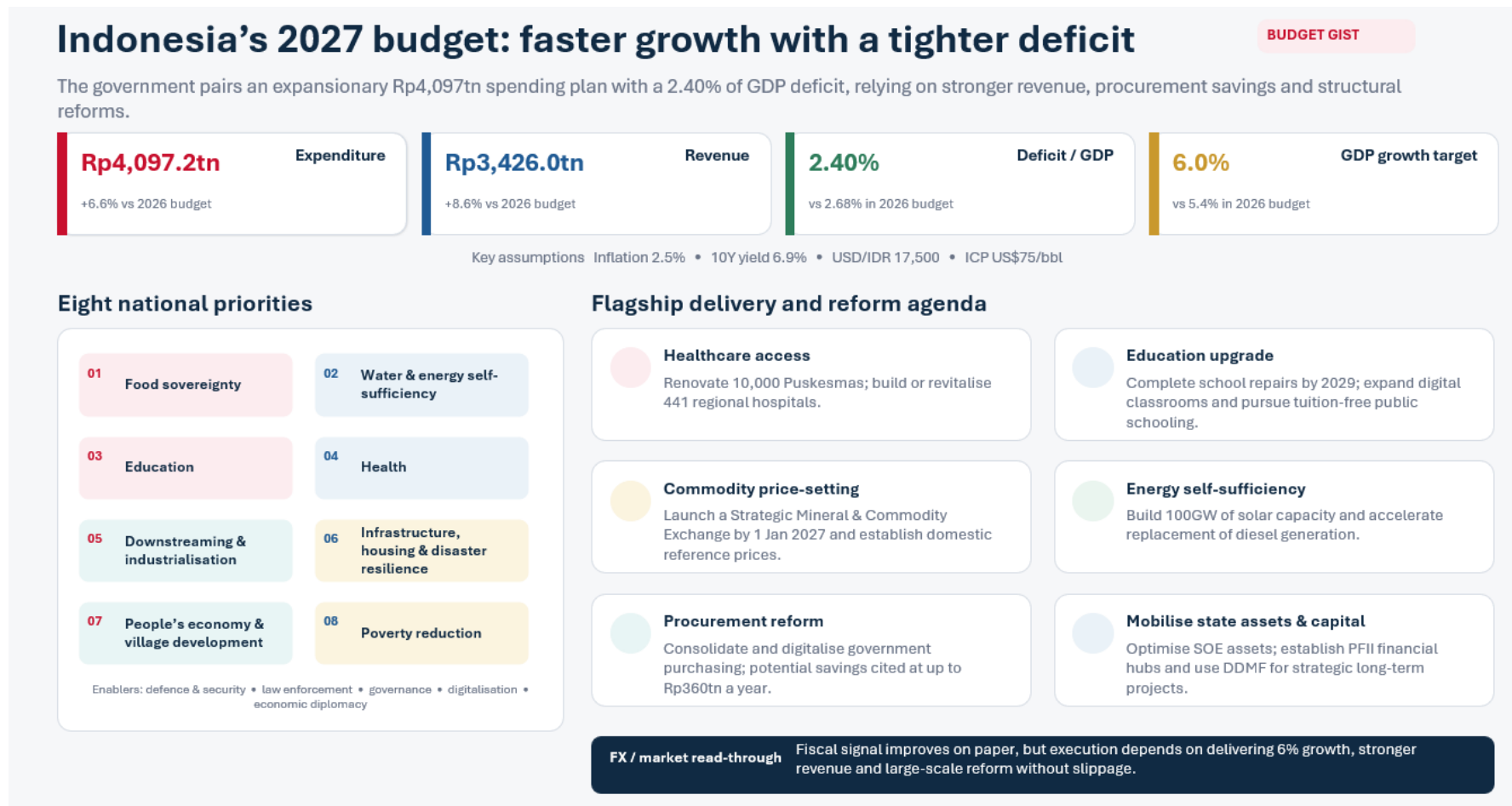
Source: Bloomberg, Bank Indonesia, MUFG GMR

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IDR | Positive fiscal signal from proposed budget, but execution is a risk

Proposed 2027 budget has eased fiscal concerns, with the government signalling a smaller budget deficit target of 2.4% for 2027. But this rests on achieving 6% GDP growth. Meanwhile, Purbaya has been removed as finance minister, replaced by his deputy Nazara, while government officials are mulling over revising the 3% fiscal deficit and 60% govt debt to GDP rules.



Source: Bloomberg, MUFG GMR

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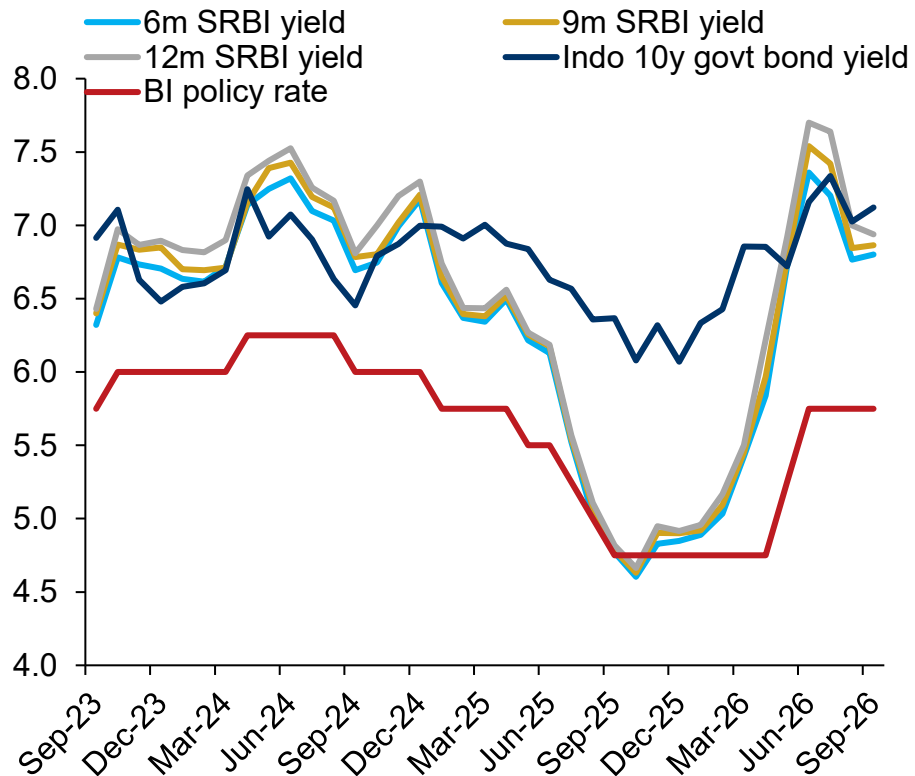
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IDR | BI has defended the rupiah, but this buffer may be nearing its limits

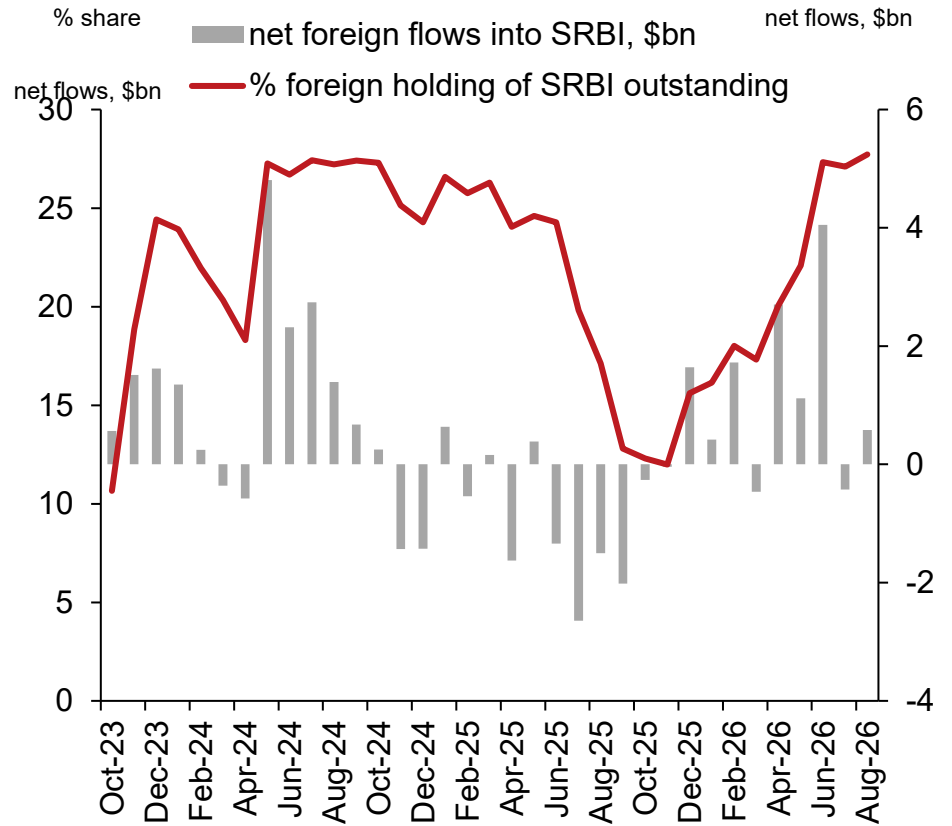
BI has defended the rupiah through measures such as raising the yield on SRBI. BI has also raised the policy rate and Indo bond yields rising above 7%. Foreign holding of SRBI outstanding has already risen back to 2024 highs of around 27%, helping to stabilize rupiah, but the ability to deliver further rupiah gains is fading.

BI has increased the return on portfolio capital

SRBI and 10y govt bond yields, %



Foreign share of SRBI has risen back to 2024 highs



Source: Bloomberg, Bank Indonesia, MUFG GMR.

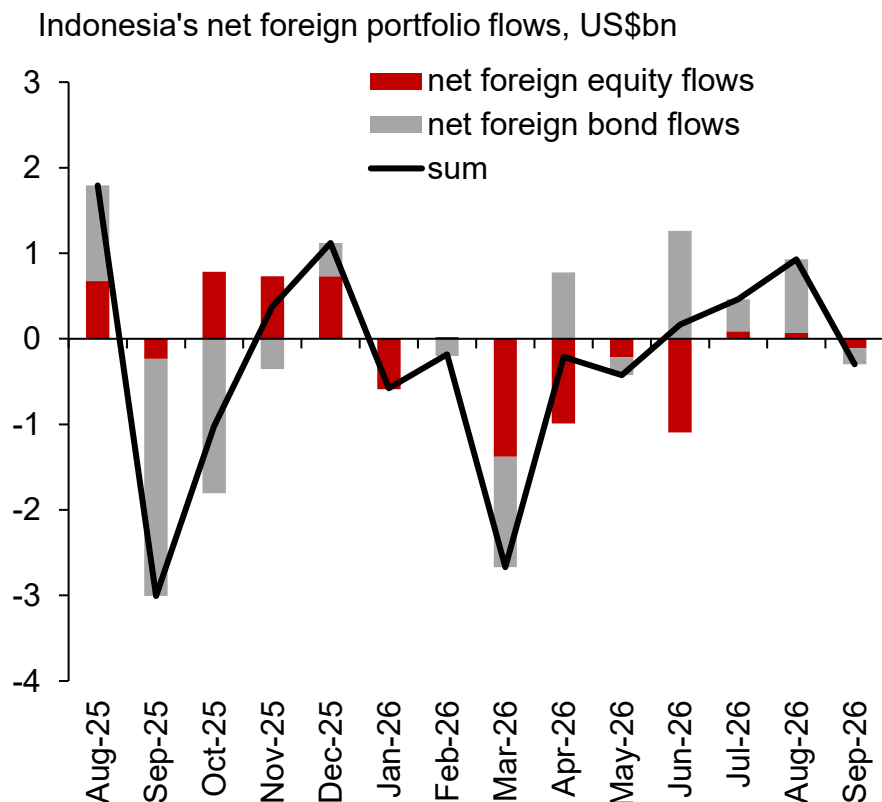
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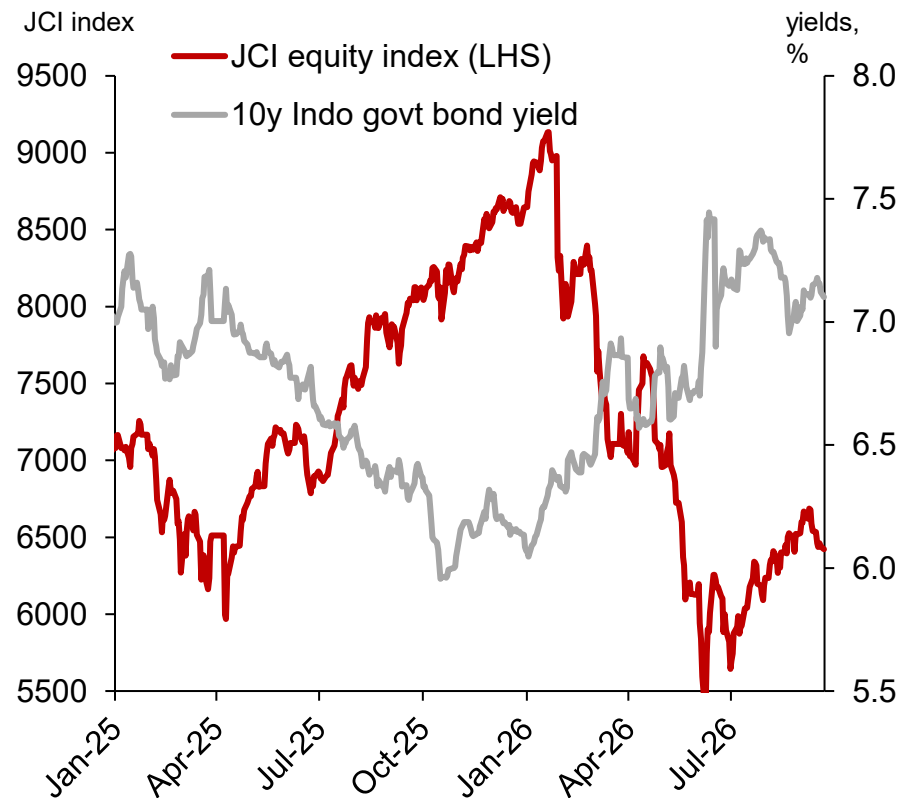
IDR | Foreign investors appear to have stayed cautious

Net foreign portfolio flows are under pressure again. Net foreign equity outflows were \$110mn in September, while net foreign bond outflows were \$188mn. There appears to be relatively subdued foreign participation in the recent domestic equity rebound, while investors remain cautious about the local government bond market due to inflation and fiscal risks.

Renewed net foreign portfolio outflows in Sep



Indo equities still down >25% year to date, while yields remain elevated > 7%



Source: Bloomberg, Bank Indonesia, MUFG GMR.

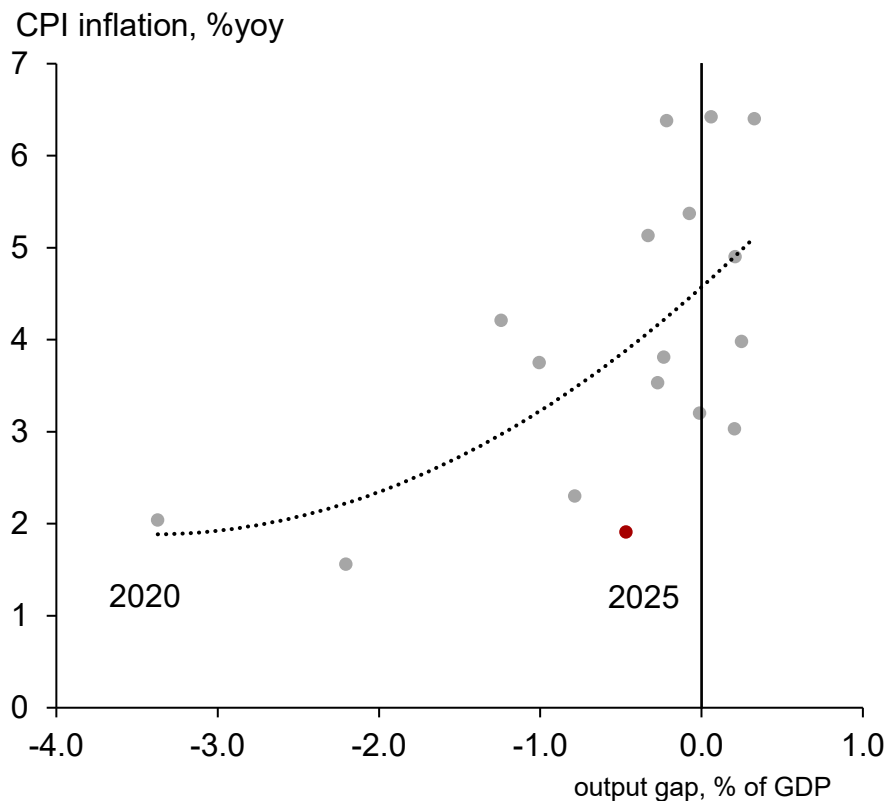
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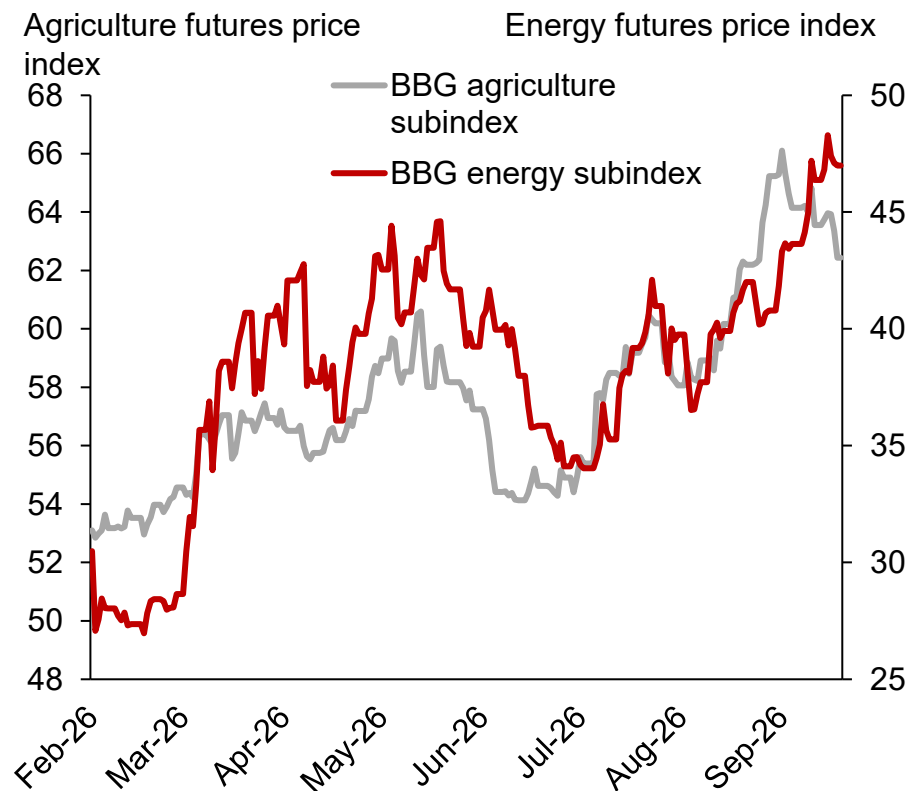
IDR | Inflation pressures remain, BI could still tighten further

Indonesia's headline inflation rose to 3.2%yoy in August, still within the BI inflation target range. But inflation risks are still skewed to the upside with broadly higher energy and agricultural prices. Moreover, faster growth in H1 2026 implies that inflation could be 3% of higher. The room for BI to keep rates on hold at 5.75%, which it did in Sep, is becoming narrower.

Positive output gap suggests inflation 3% or higher



Rising Brent and agricultural prices keep inflation risks alive



Source: Bloomberg, CEIC, MUFG GMR

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IDR | MSCI's investability concerns remain with removal of GoTo shares

MSCI has announced in Aug to remove GoTo shares from the Indonesia index, effective end of Aug, citing extremely low liquidity. GoTo shares have reached the Rp50/share floor and transaction volumes are subdued. This reflects MSCI concerns about market accessibility and liquidity concerns. MSCI retained Indonesia's EM status in June but extended its review till Nov.



Source: Bloomberg, MUFG GMR.

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MYR: Ringgit fundamentals still intact despite oil shock

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MYR | Ringgit fundamentals still intact despite oil shock

We forecast USD/MYR at 4.03 by end-2026, with near-term volatility giving way to medium-term ringgit strength.

Malaysia's electronics surplus continues to cushion the oil shock. The technology cycle remains an important domestic and external buffer, with the electronics trade surplus offsetting the increase in petroleum-related imports. This makes Malaysia's external position more resilient than the headline oil narrative suggests and reinforces the case that higher energy prices are a headwind, not a break in the medium-term MYR story.

Robust services investment driven by ICT. Services investment approvals have remained robust in H1 2026, up by more than 20%yoy, supporting overall growth in total investment approvals. Services investment is mainly driven by ICT subsector, underpinned by investments in data centres and cloud computing. A sustained rise in US business investments in computers has also helped supported the strong surge in Malaysia's electrical and electronics exports. Importantly, Malaysia's net exports contribution to GDP growth increased to 2.4pp in Q2.

Labour market resilience reinforces the case for steady domestic demand and a neutral BNM stance. Wage growth remains healthy. Services wage growth adjusted for inflation is running at 2.9%yoy, still resilient though slowing from 3.2%yoy, while manufacturing wages picked up, and unemployment remains at a multi-year low of 2.9% and across various age group cohorts. Domestic demand remains intact.

MYR fundamentals remain intact despite higher oil prices and the recent bond sell-off. Near-term volatility may persist as markets focus on fuel-subsidy costs and elevated global yields. But Malaysia's resilient external position, improving capital-flow backdrop, attractive bond and FX valuations, and the prospect of a weaker US dollar leave us constructive on the ringgit over the medium term. Malaysia's GDP grew 6%yoy in Q2, outpacing the 2015-2019 pre-Covid pace of 4.9%, while emerging as the 4th best performing economy in the Asia region.

Fiscal pressures are rising but remain manageable. Higher energy-subsidy costs and the restoration of larger subsidised fuel quotas could slow fiscal consolidation. Even so, strong nominal GDP growth has kept government debt broadly stable at around 65% of GDP, while fuel subsidies continue to absorb part of the inflation shock. Stable sovereign ratings and favourable market access further reduce the risk of fiscal stress becoming destabilising. We expect the government to remain on track to consolidate its fiscal deficit to 3.5% of GDP this year, down from 3.7% deficit in 2025.

Contained inflation gives BNM room to hold at 2.75%. Inflation was around 1.9%yoy in August and inflation expectations remain anchored near 2%, despite elevated oil prices, thanks to fuel subsidies. As such, the recent sell-off in Malaysia's local government bonds appear to be excessive in our view. Net foreign bond inflows rose MYR11bn in Aug, reflecting that foreign investors were willing to re-engage when valuations turn attractive.

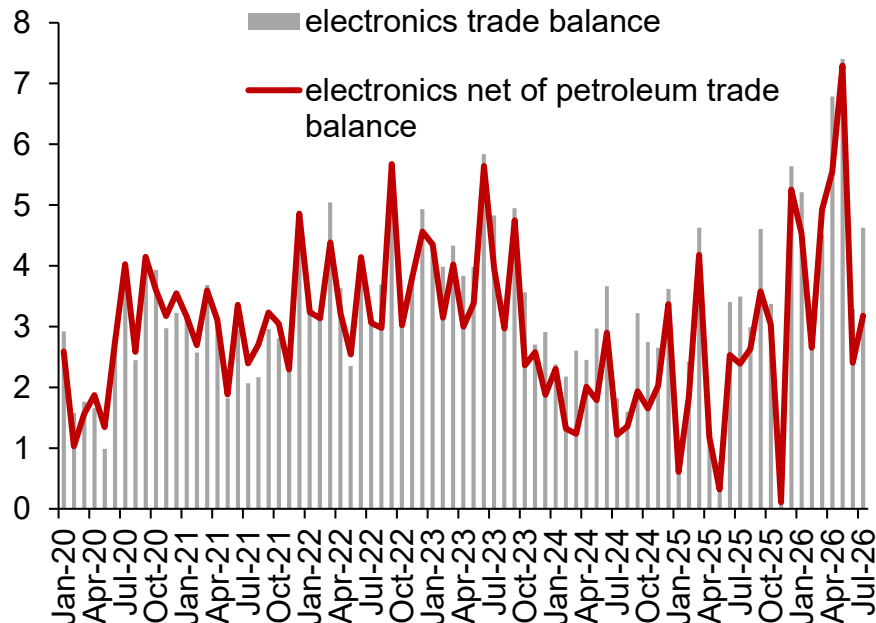
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MYR | The tech upcycle provides an important buffer

Malaysia's trade balance has held up comparatively well despite the US-Iran conflict. The resilient trade surplus has been underpinned by strong electronics upcycle and exports of palm oil. This external strength should bode well for economic growth and provide some buffer for the ringgit.

Electronics trade surplus more than offset any drag from higher petroleum imports

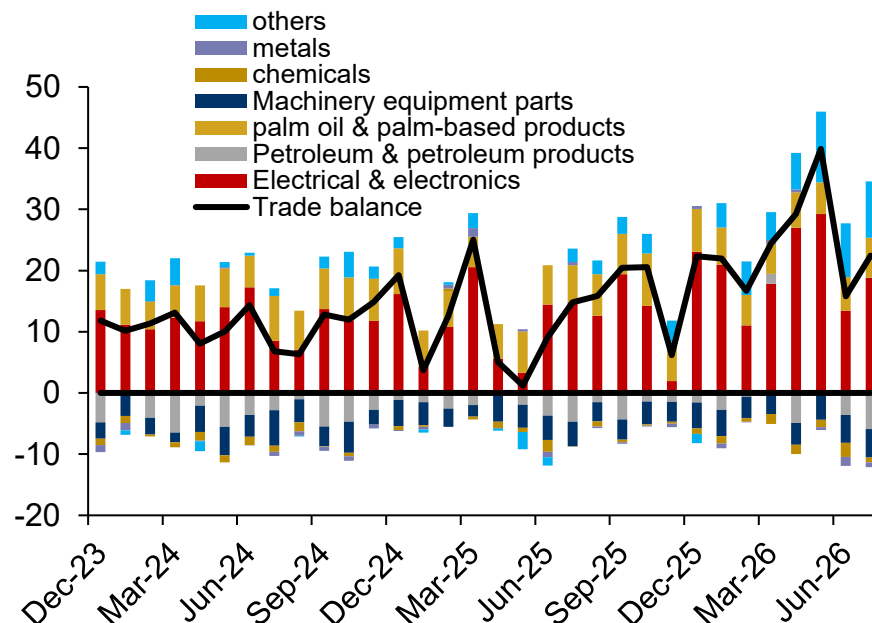
Trade balance, \$bn



*manufacturing investment by a single basic metal project worth RM6.6bn approved in Q1 2025. Excluding that project, manufacturing investment was up 1%yoy in Q1 2026

Electronics and palm oil continue to support the trade surplus

Malaysia's trade balance by products, MYRmn



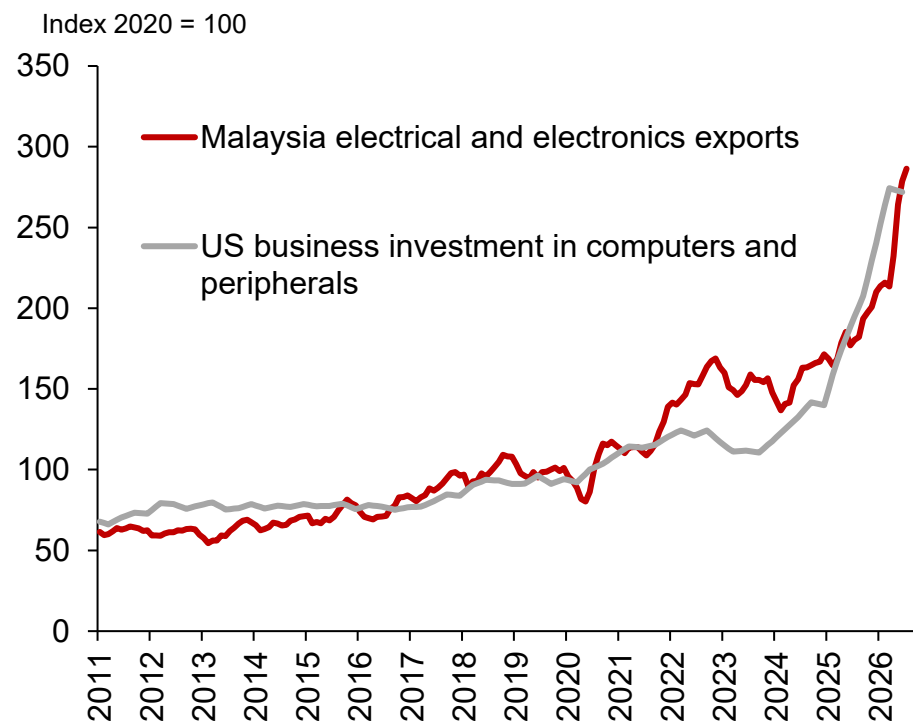
Source: CEIC, Bloomberg, MUFG GMR.

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MYR | ICT still dominates services investments

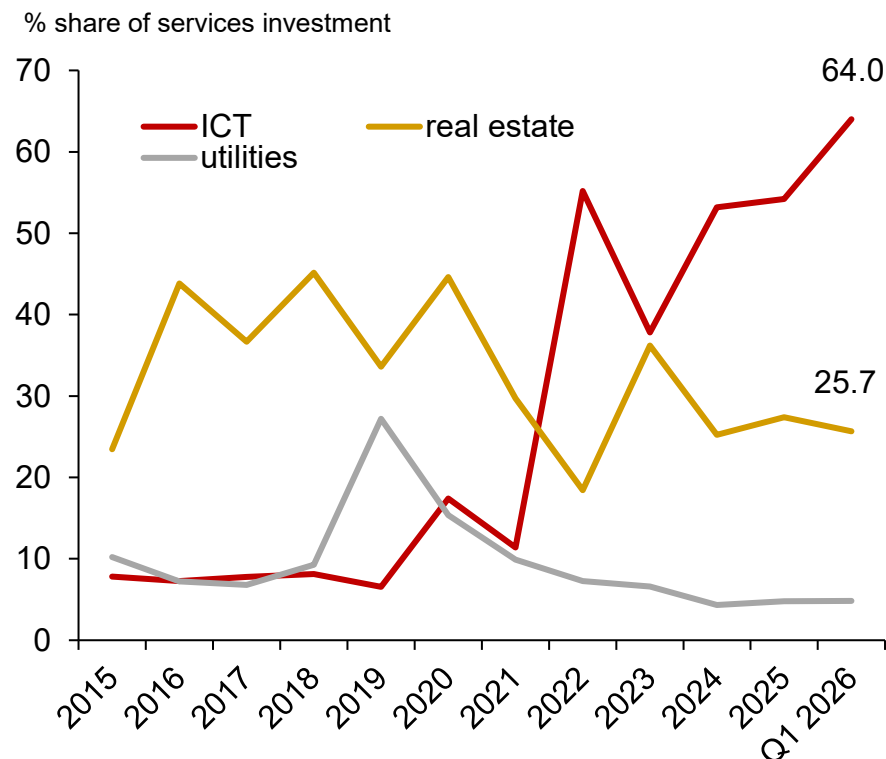
Given Malaysia's important role in the global semiconductor and electronics supply chain, stronger US spending on computing equipment tends to support demand for Malaysian electrical and electronics exports. The resilient services investment cycle, especially ICT / data-centre-related investment, is a demand-supporting macro backdrop for urban income and business confidence.

Rising US spending on computing equipment supports Malaysia's electronics sector



Source: MIDA, CEIC, MUFG GMR.

Services investment driven by ICT subsector, underpinned by investments in data centres and cloud computing



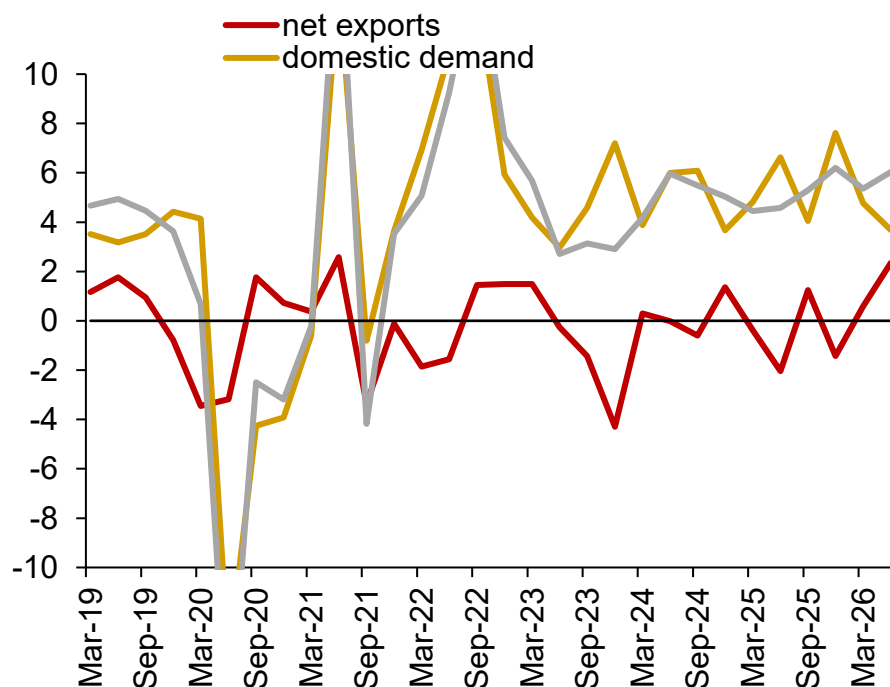
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MYR | Robust services investments and net exports

Domestic demand contribution to GDP growth has eased, but still resilient, while net exports contribution has risen, providing support for Malaysia's economy. Importantly, services investment approvals remained robust in H1 2026, up more than 20%yoy, offsetting the drag from manufacturing investment approvals, which fell by about 25%yoy. Overall investment approvals still increased 4.6%yoy in H1 2026.

Lower domestic demand contribution to GDP growth, but still resilient, while net export contribution rise

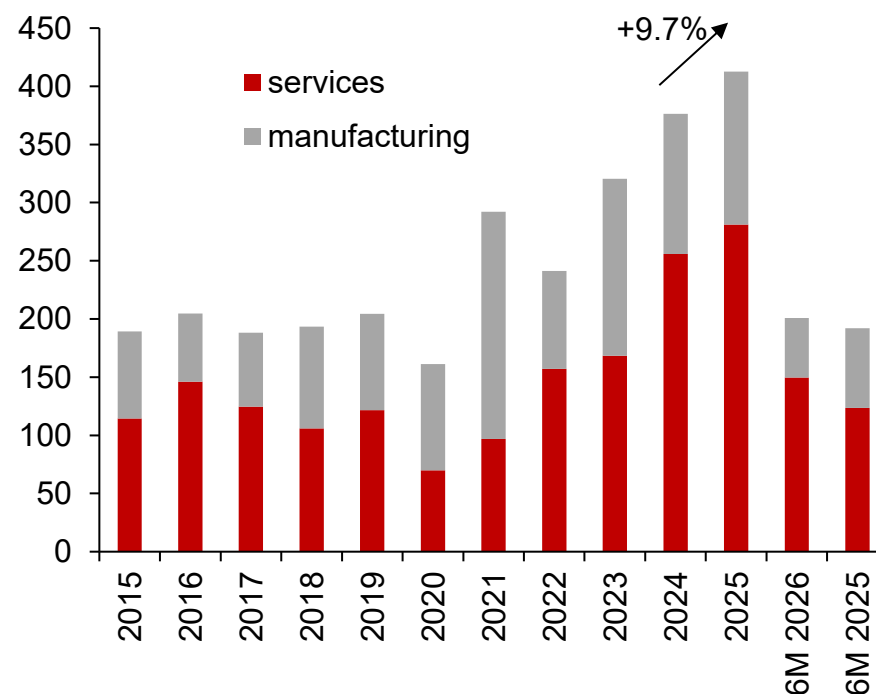
Contribution to Malaysia's yoy GDP growth, ppt



Services investment approvals remain robust

MYRbn

Malaysia investment approvals



Source: CEIC, Bloomberg, MUFG GMR.

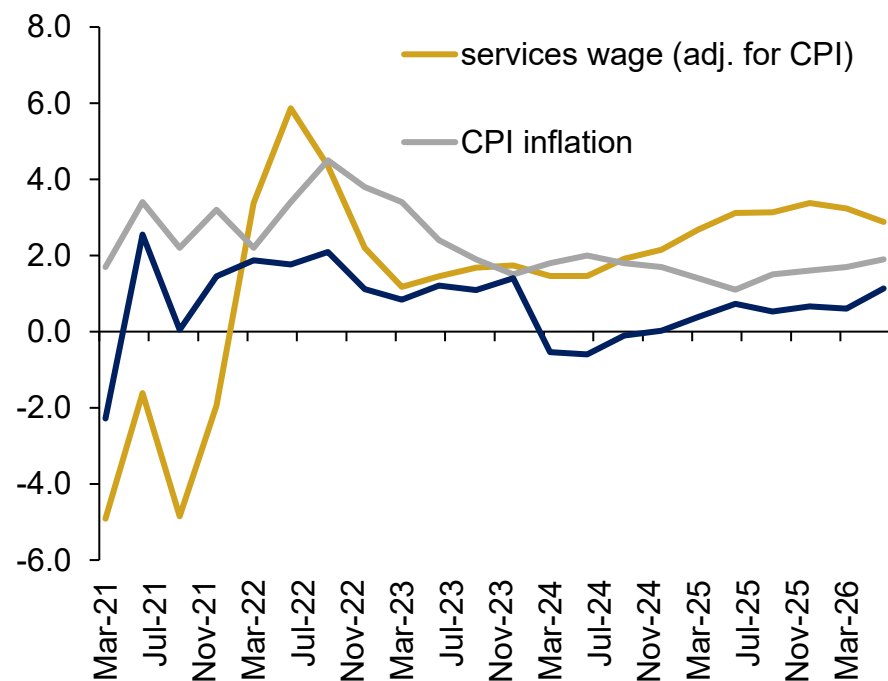
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MYR | Labour market conditions are still resilient

The labour market remains healthy: Services wages adjusted for inflation grew 2.9%yoy in Q2, still resilient although slowing from 3.2%yoy in Q1, while manufacturing wages gathered pace, growing at 1% after adjusting for inflation. At the same time, the unemployment rate is at multi-year lows of 2.9%, with low unemployment rate seen across different age group cohorts too. Domestic demand remains intact, reinforcing a neutral BNM policy stance.

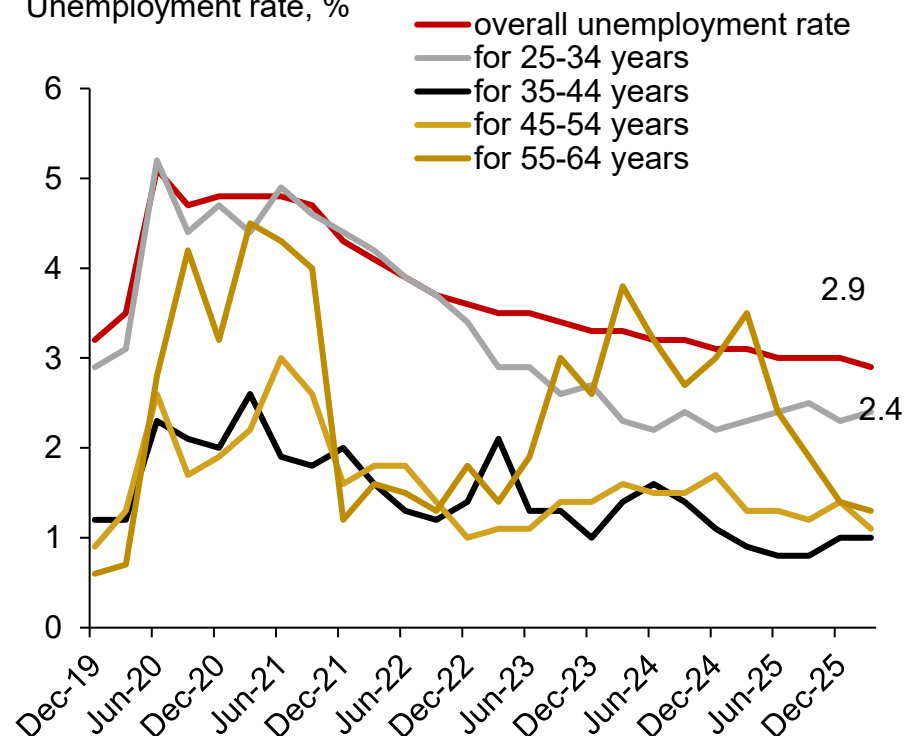
Services wage growth remains robust, while manufacturing wage gathers pace

Malaysia manufacturing and services wage, %yoy



Unemployment rate stays at multi-year lows

Unemployment rate, %



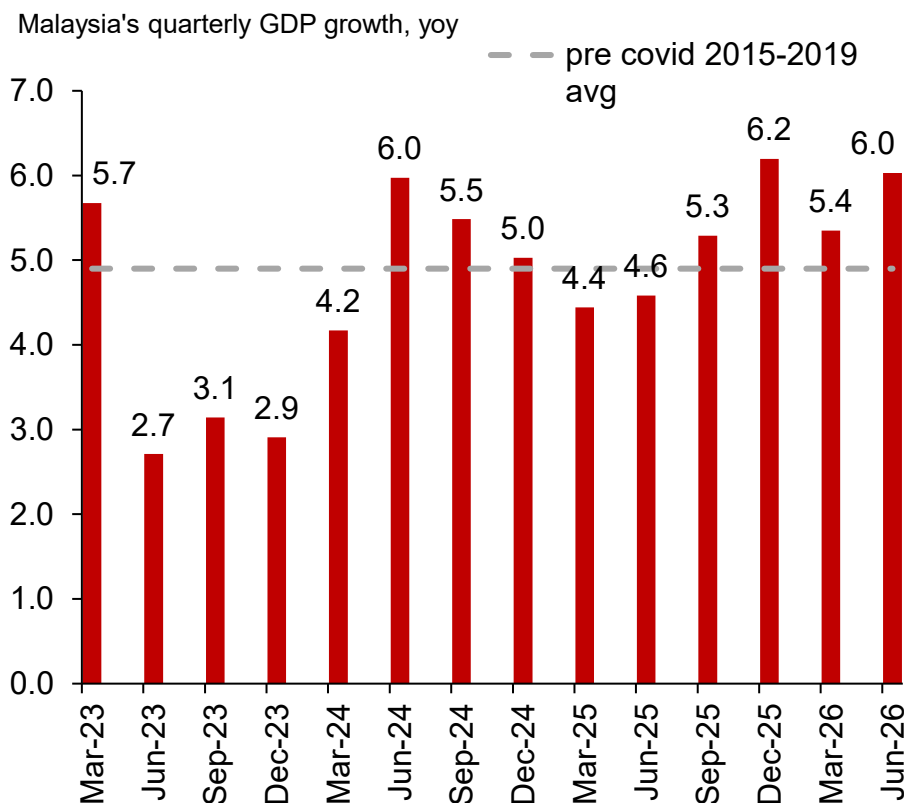
Source: CEIC, MUFG GMR.

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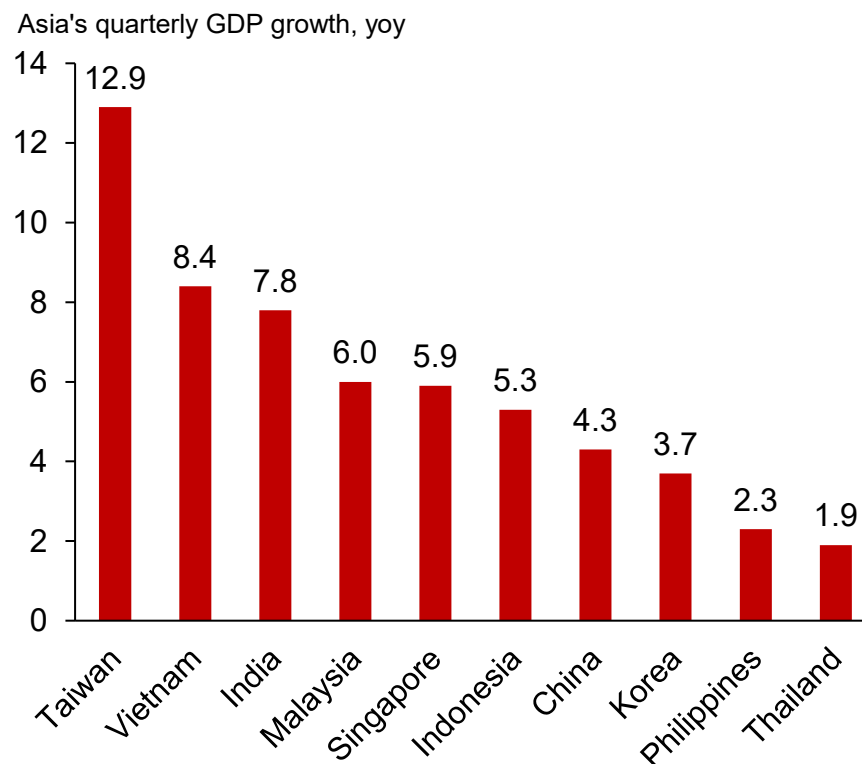
MYR | Malaysia's growth fundamentals remain robust

Malaysia's economy grew 6%yoy in Q2, picking up from 5.4% in Q1, despite the Middle East conflict. Notably, Malaysia's economy has been operating above 4.9% trend growth for the last 4 quarters. Comparing across the region, Malaysia emerges as the best performing economy in Asia.

Malaysia's economy continues to operate above trend growth



Malaysia emerges as the 4th best-performing economy in Asia in Q2



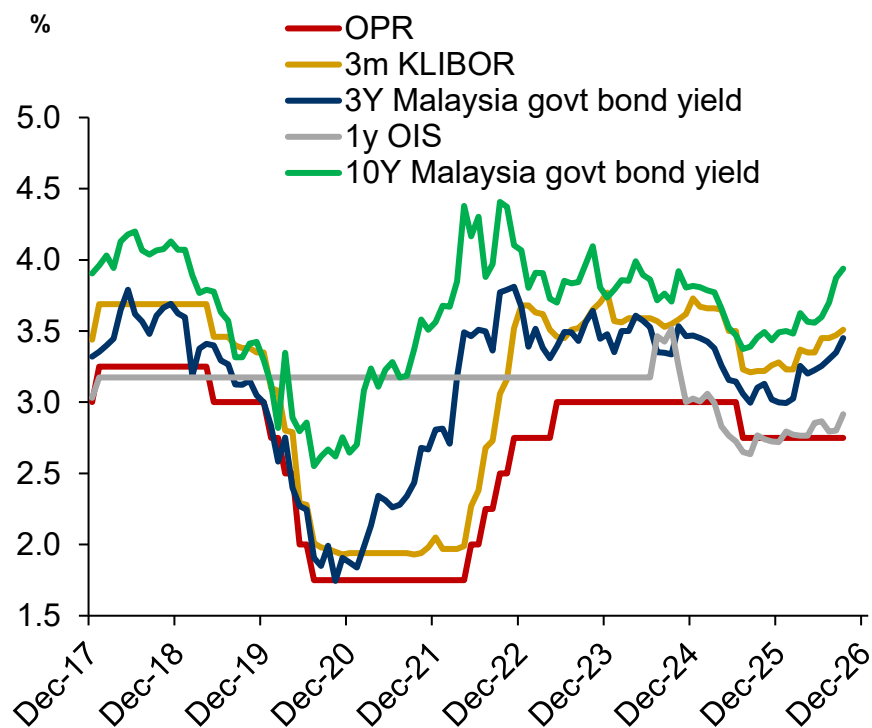
Source: Bloomberg, CEIC, MUFG GMR.

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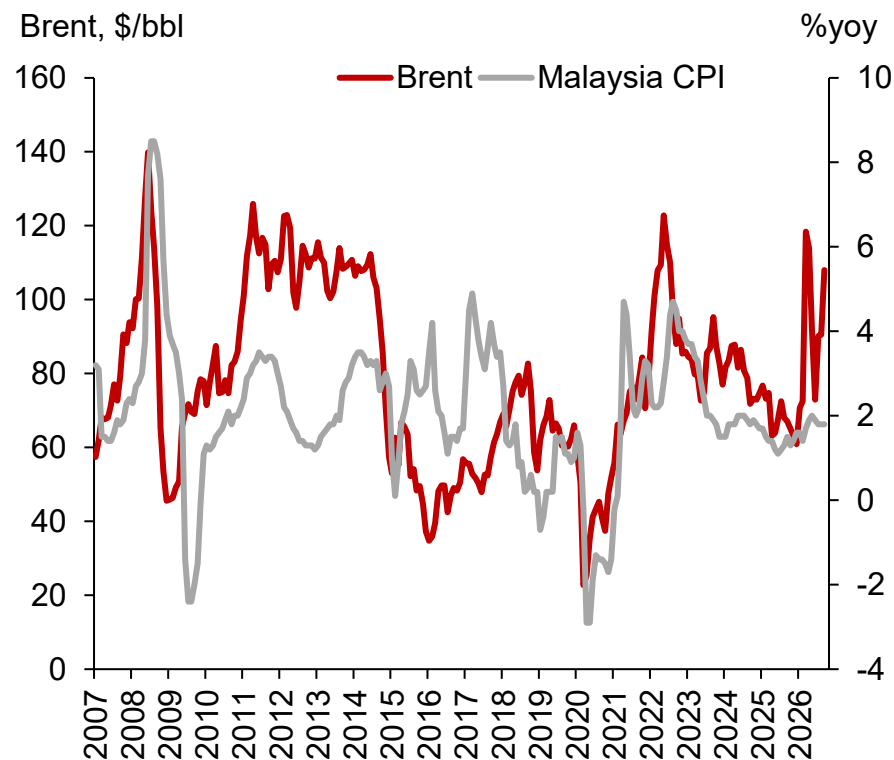
MYR | BNM could stay on hold

Markets seem to overprice BNM rate hike prospects. We take the view that BNM can keep rates at 2.75%. Malaysia's inflation remains contained, at 1.9%yoy in Aug, thanks in part to fuel subsidies. Inflation expectations have also remained well anchored at around 2%. RON95 fuel subsidies can stay, helping to offset increases in oil import bills.

Markets may have overpriced the likelihood of BNM hikes



Fuel subsidies keep inflation contained despite higher Brent



Source: Bloomberg, CEIC, MUFG GMR.

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MYR | BNM policy support limits disorderly MYR weakness

BNM has other ways to effectively support ringgit, rather than rate hikes. BNM has revived its 2024-style FX measure that encourage government linked corporates to repatriate their overseas income. That measure has helped to reduce MYR volatility and contain USDMYR below 4.15 level.



In early 2024, BNM encouraged GLCs and GLICs to repatriate and convert foreign investment income to support ringgit

BNM has reintroduced FX support measures similar with those implemented in 2024

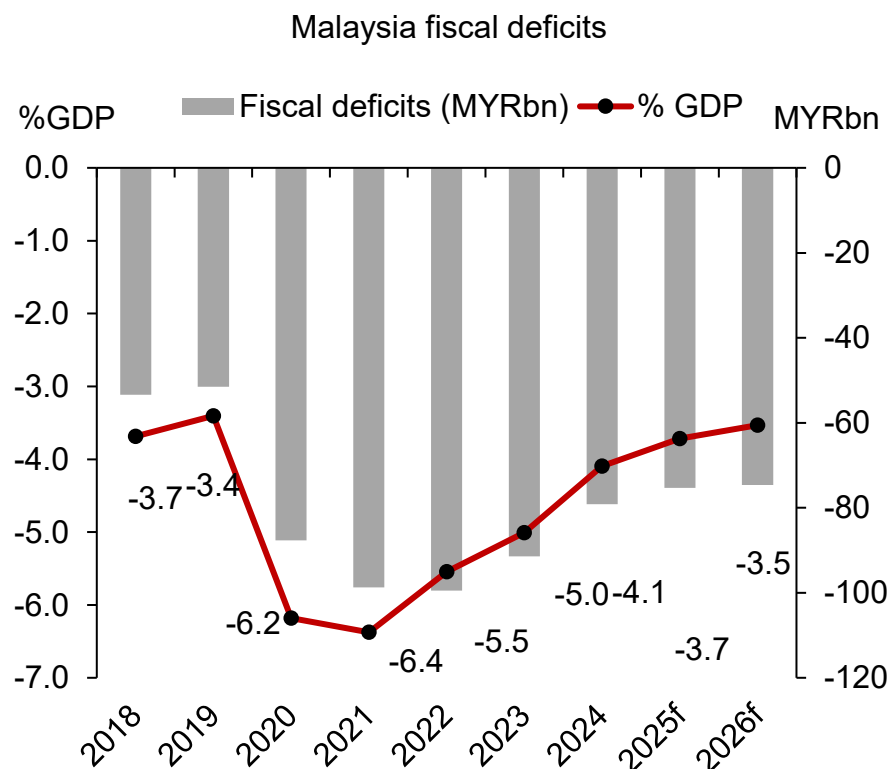
Source: Bloomberg, MUFG GMR.

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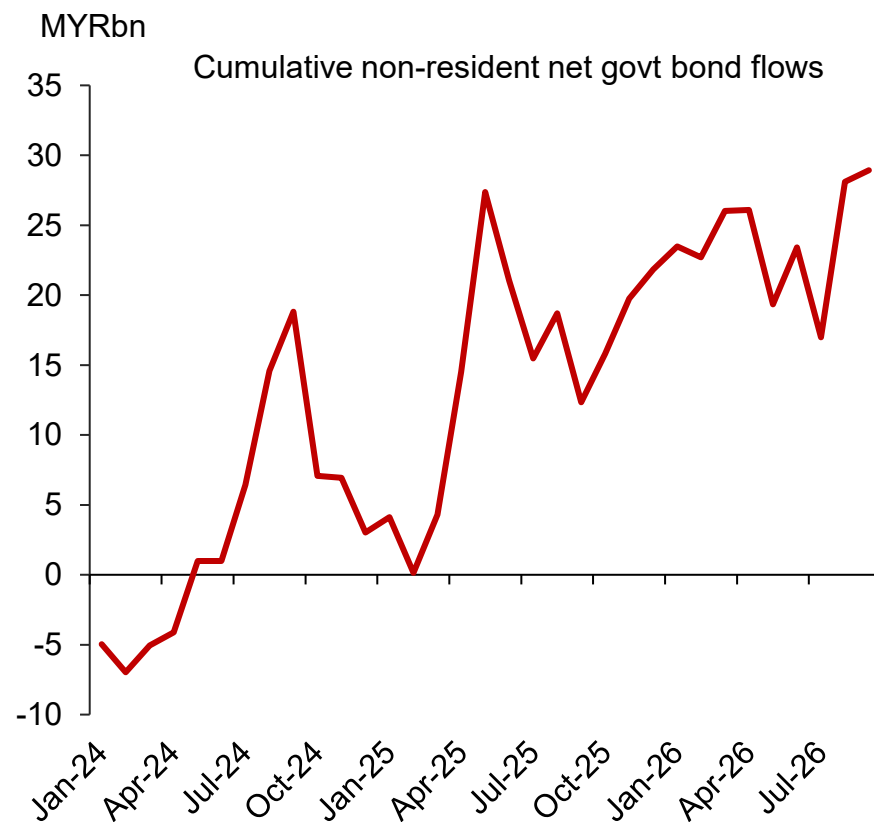
MYR | Foreign bond inflows will be supportive of ringgit

The government has remained committed to fiscal consolidation and appears to be on track to narrow the deficit to 3.5% of GDP this year. This should help to underpin the fundamental attractiveness of the local government bond market. Net foreign bond inflows were MYR11bn in August, the largest since May 2025. We expect foreign bond inflows to be supportive of the ringgit.

Fiscal consolidation is still on track



Strong pickup in foreign bond inflows in August



Source: Bloomberg, MUFG GMR.

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PHP: Keeping an eye on inflation

PHP | Keeping an eye on inflation

We have shifted our USD/PHP profile slightly higher, and now forecast USD/PHP trading above 62.50 levels in 2H2026 before moving lower towards 62.00 in 2027. Part of our forecast change reflects USD/PHP recently breaking above 62.00 levels, and also driven by global factors salient to PHP such as spikes in oil prices coupled with the rise and stickiness in US yields so far.

Nonetheless, our key message to clients is that PHP should still strengthen gradually over time in our base case for several reasons.

First, we are forecasting the Philippines' trade deficit to narrow and short-end rates in the Philippines to widen against the US moving forward. We expect oil prices to move gradually lower, the Philippines' non-oil trade deficit to stop widening with some support for exports, coupled with our expectation for BSP to remain hawkish relative to the Fed moving forward.

Second, while headline GDP growth has been relatively soft, what's important is that we expect some improvement as the worst of fiscal contraction fades, while we think domestic policy uncertainty is unlikely to worsen. Some of this reflects our expectation for a gradual pickup in government spending, coupled with plans to introduce tax relief in expanding personal income tax exemptions and exempting small businesses from the minimum corporate income tax. The details of the final tax package will matter for the overall impact to the economy, but our current assessment is that it should be net-positive to growth over time.

Third, while there are significant risks from a severe El Nino event, the good news is that we have seen domestic rice prices move into better balance between supply and demand at least over the past 2 months. This could very well change of course depending on weather patterns and food import policies, and is one important risk to our view.

Lastly, our model suggests PHP is now slightly undervalued against the Dollar. Of course in FX, using valuation alone to trade is a fool's errand, and we never just base our directional FX view solely on that. The broader point remains that we see the fundamental drivers combined with undervaluation giving us some confidence on our modal forecasts for USD/PHP to move lower over time towards the 62.00 handle over the next 12 months.

From a policy rate perspective, we forecast BSP hiking rates twice more, likely in the October and December 2026 meeting, and bringing the policy rate to 5.50% from 5.00% currently. Looking further ahead, we are forecasting BSP to cut rates next year but the timing is likely to be later in 2H2027 after BSP gets greater confidence on a year-on-year moderation in inflation. The timing of these cuts could be pushed out to a later date if upside risks from a severe El Nino and food prices materialise.

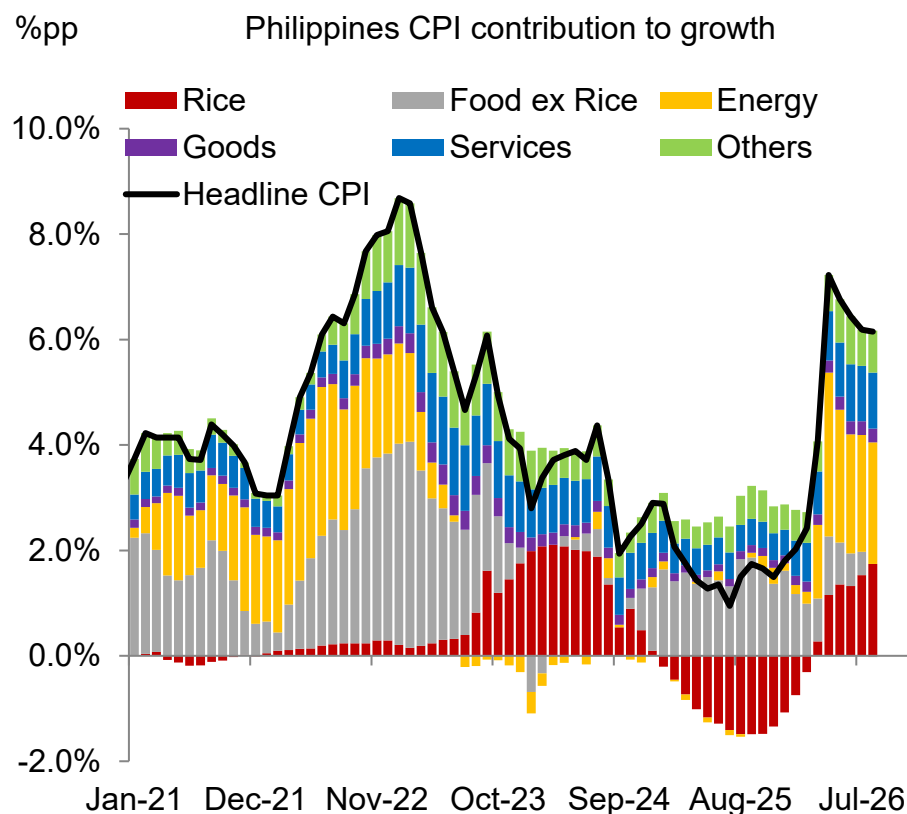
From a rates perspective, we are neutral on Philippines local currency bonds. While there has already been quite a bit of sell-off on local bonds far, a hawkish BSP, a slower pace of fiscal consolidation, coupled with uncertain inflation trajectory makes us hesitant to take a strong view on PH bond yields at current levels. We see 10-year PH yields remaining sticky at around 7% through our forecast horizon.

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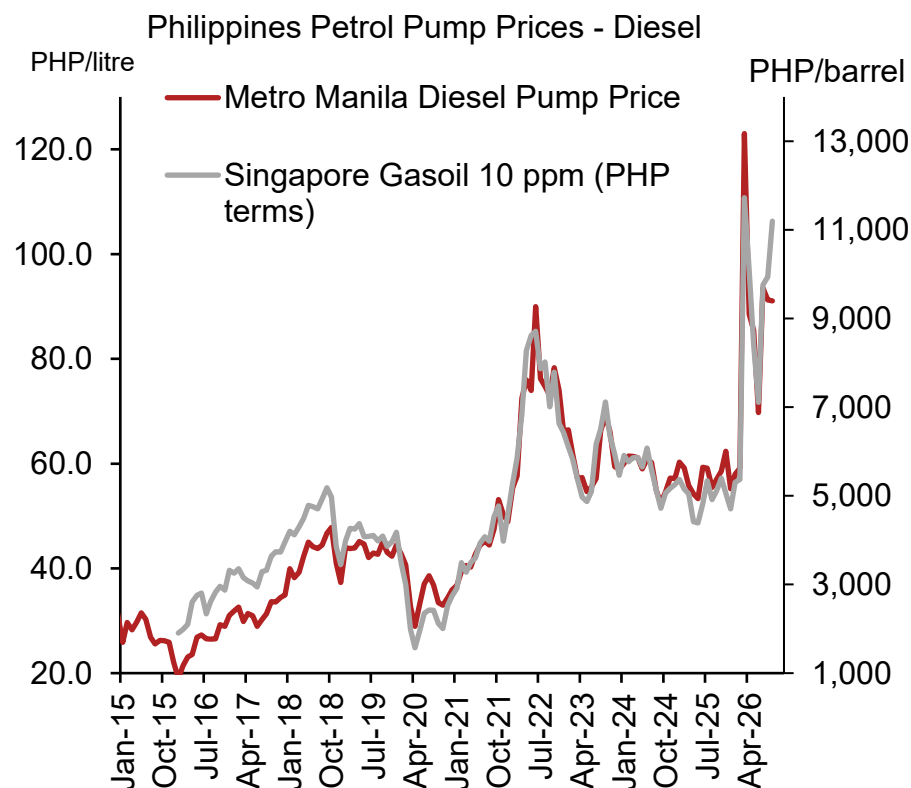
PHP | Sharp inflation pickup with spillovers, but lower oil prices over time help

PHP inflation has broadened beyond food and energy, but lower oil prices over time should cushion transport and pump-price pressures. The risk is that second-round effects become more persistent. The key here is also diesel prices which is important for a variety of factors including transportation costs and logistics.

Inflation breadth has increased across key CPI components



Oil prices have been volatile but our base case is for oil to move lower over time



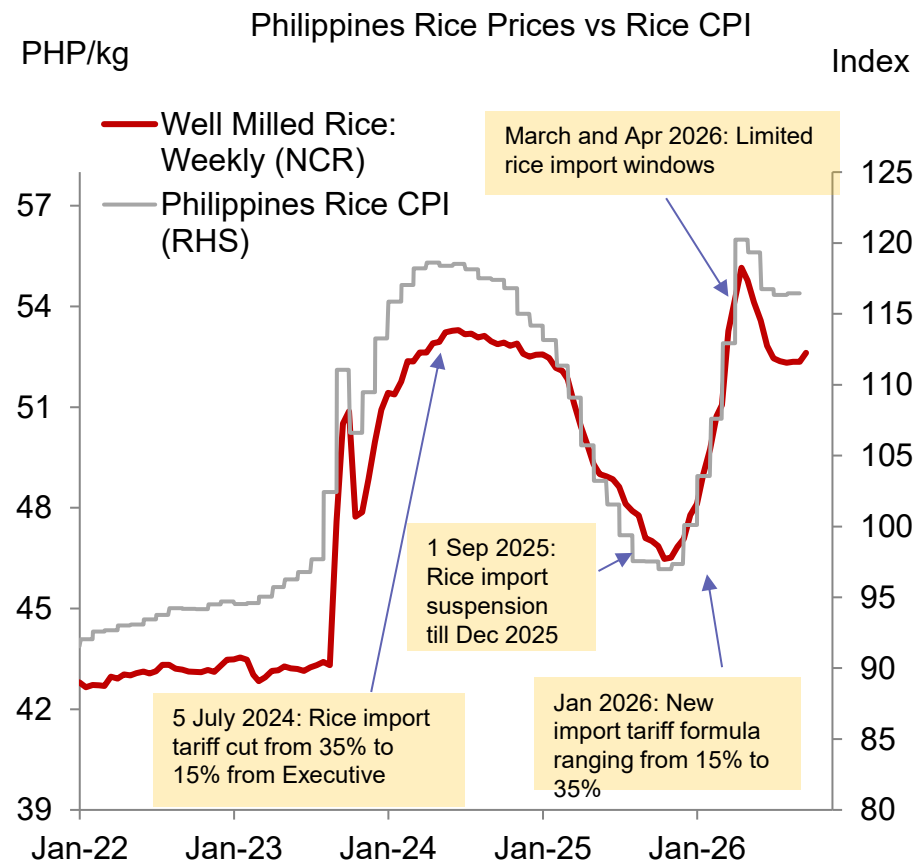
Source: CEIC, Bloomberg, MUFG GMR

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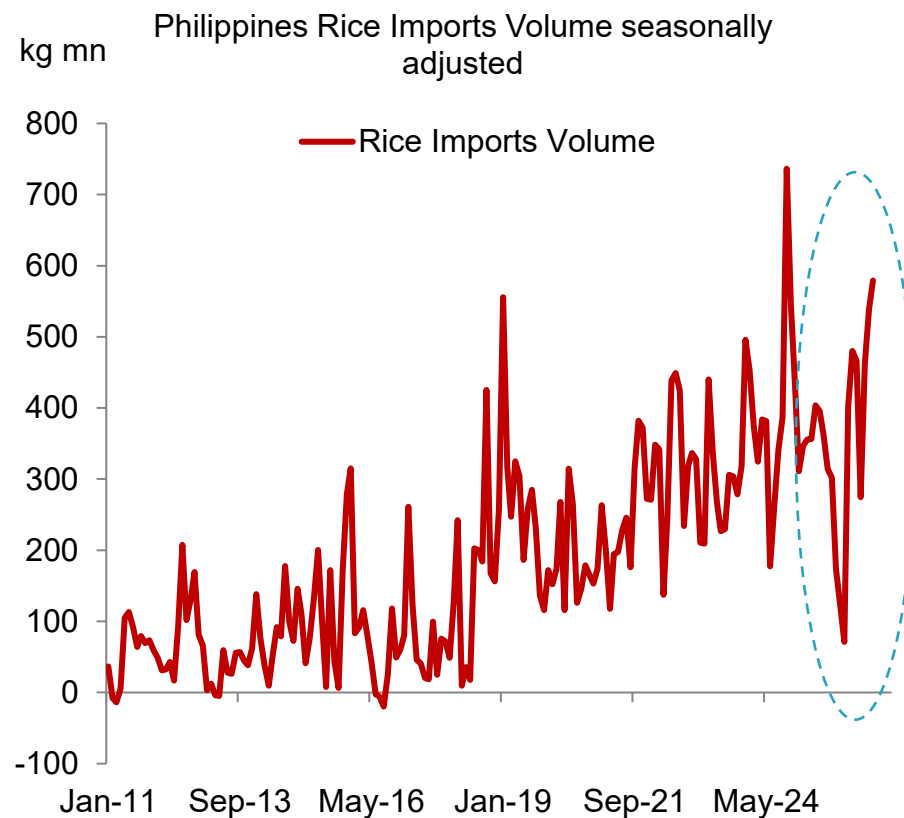
PHP | Domestic rice prices, imports, and “Super El-Nino” key risks

Rice remains the key domestic inflation swing factor. Softer imports or weather-driven supply shocks could keep rice prices elevated and complicate BSP’s inflation management. The good news is that in the near-term, the domestic rice market seems to be in better balance in terms of demand and supply.

Rice prices remain a central driver of food CPI



Import volumes will be critical for supply-side relief



Source: CEIC, Bloomberg, MUFG GMR

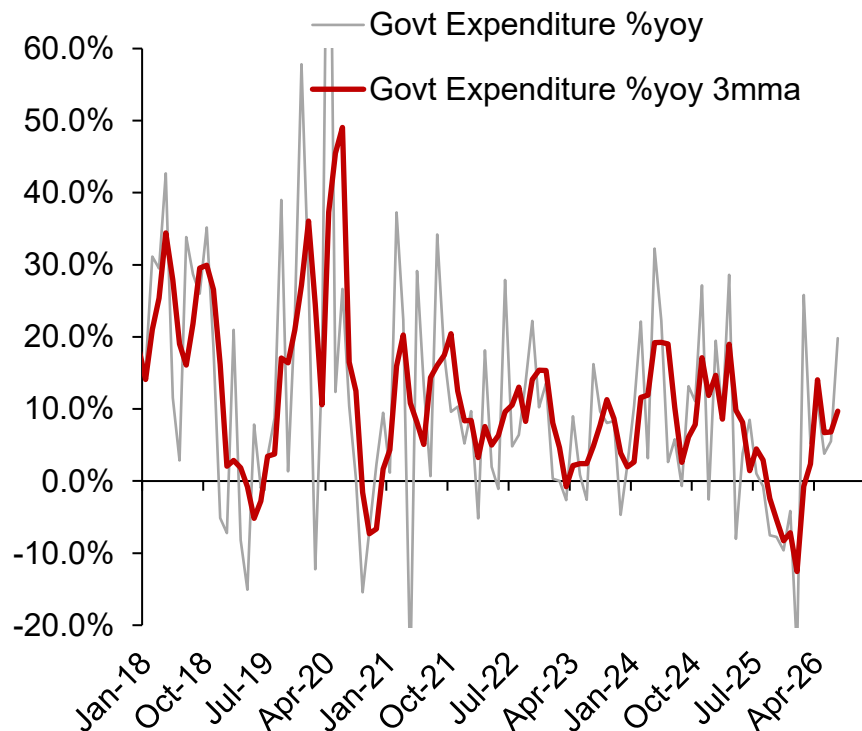
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PHP | Some tentative signs of improvement in government spending

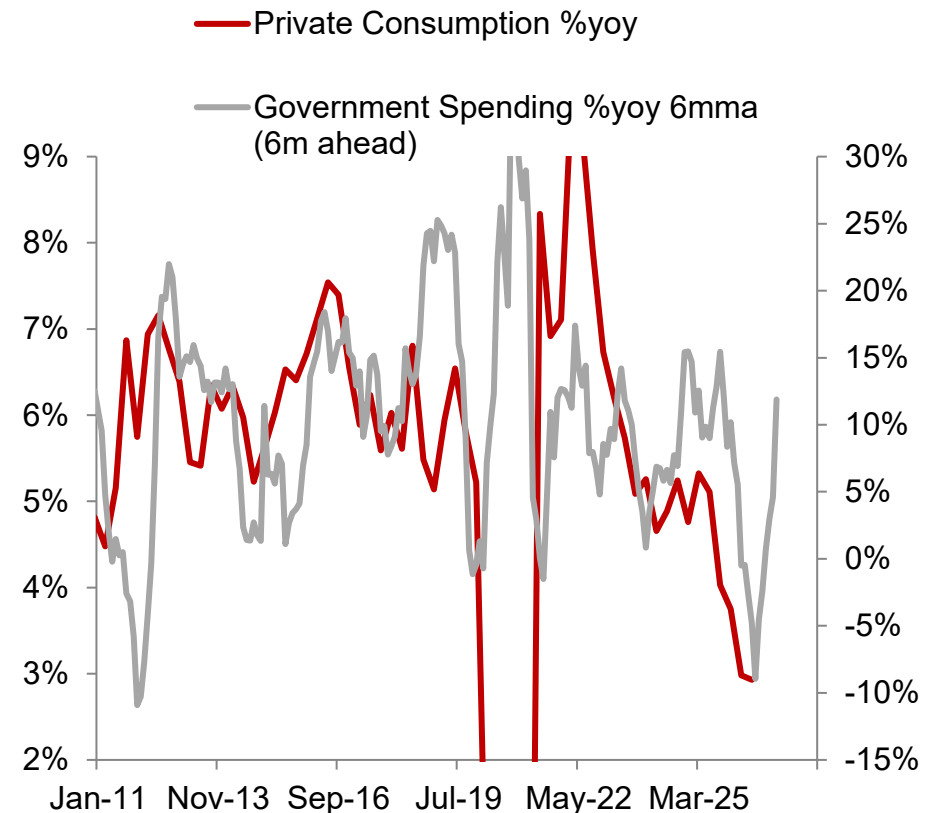
Government spending has shown tentative signs of recovery after earlier delays. If disbursement momentum is sustained, fiscal execution should provide a clearer support to domestic demand and growth. This should over time provide some offset to external risks such as US yields and volatile oil prices.

Government expenditure is starting to stabilise

Philippines Govt Expenditure



Public works and budget execution show early improvement



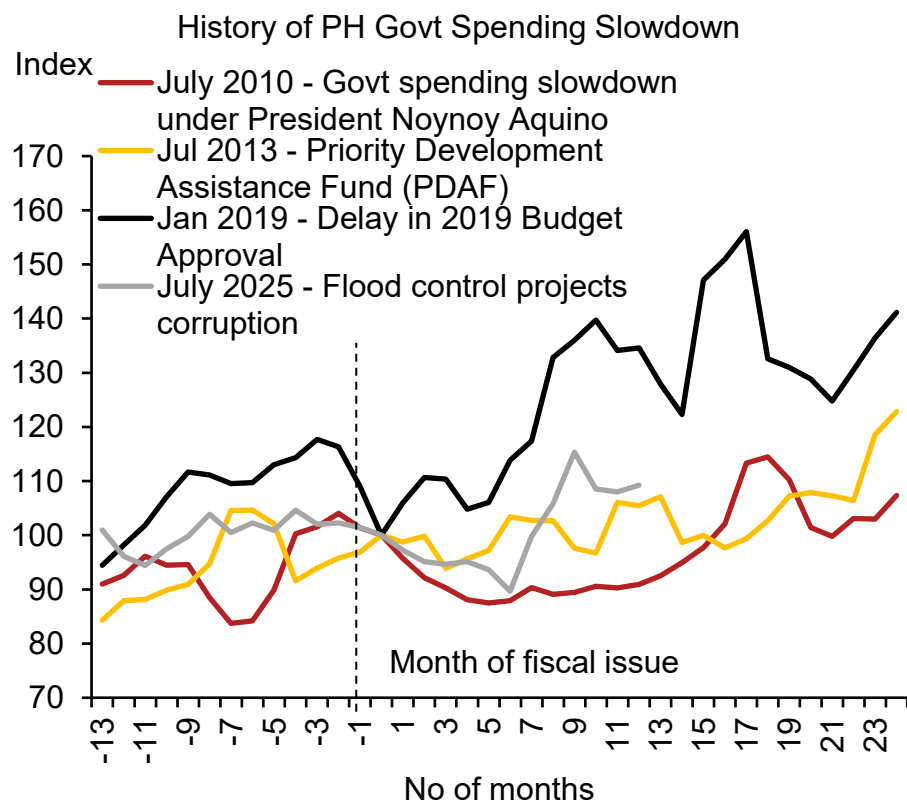
Source: CEIC, Bloomberg, MUFG GMR

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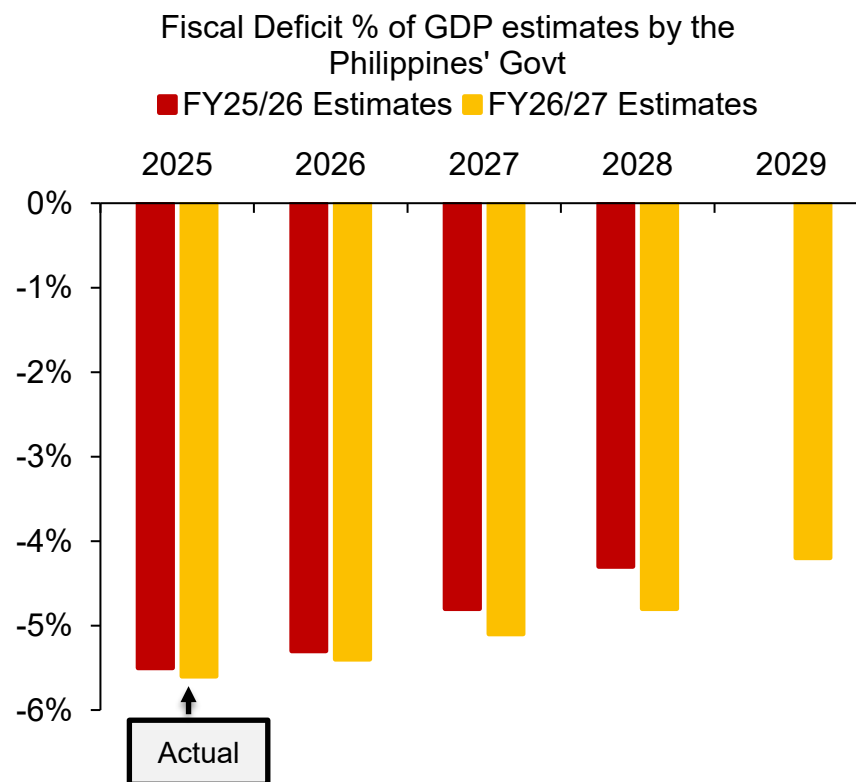
PHP | Government spending to improve in 2026 but not full recovery

Spending should improve in 2026 as implementation normalises, but the rebound is unlikely to fully reverse the earlier undershoot. Fiscal support should therefore be positive overall. There will likely be some support for households through more tax relief in 2027 based on proposals, while an improvement in spending into 2027 can be a medium-term support.

Past spending slowdowns show recovery can be gradual



Budget allocation points to some support for growth including through some tax cuts



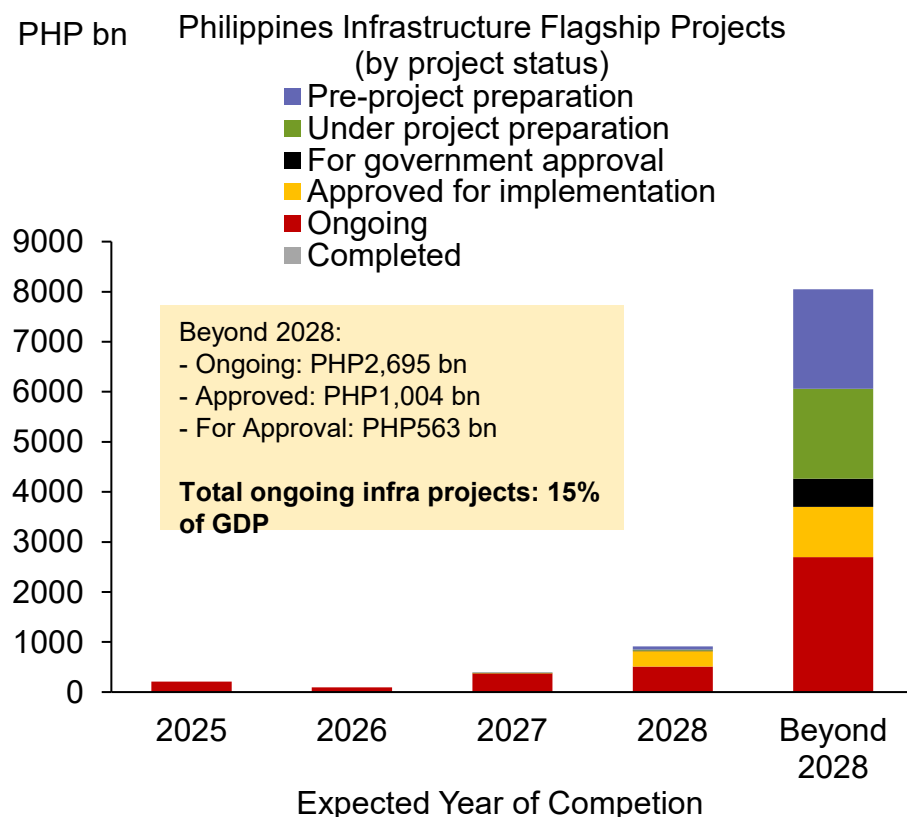
Source: CEIC, Bloomberg, MUFG GMR

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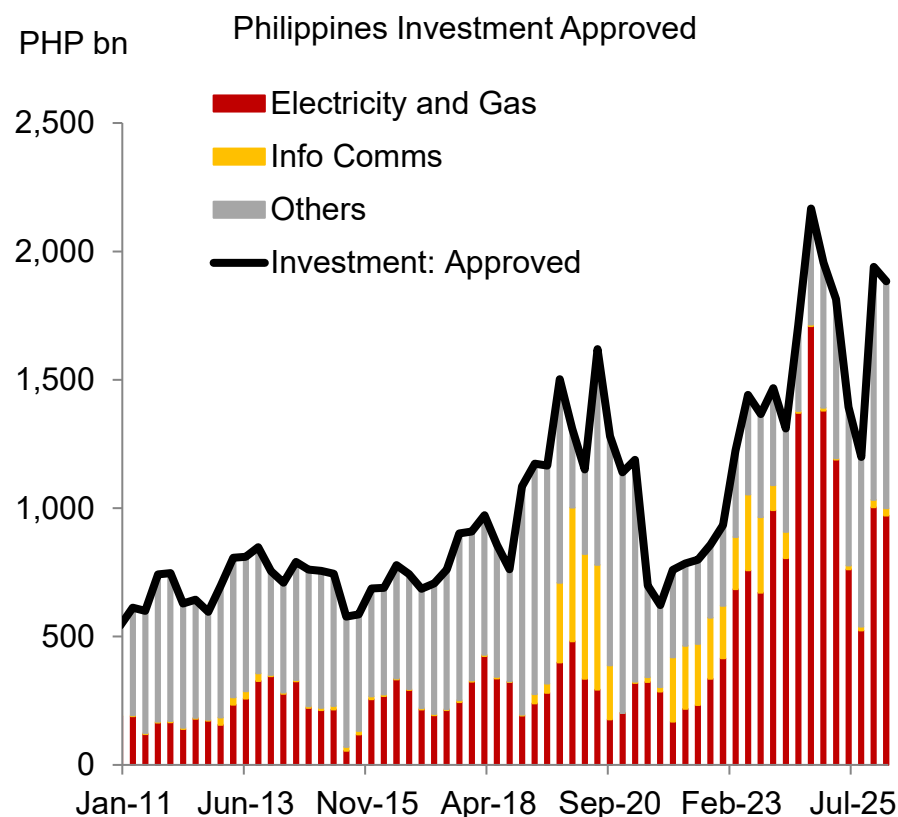
PHP | Let's not forget the positives – strong investment including for renewables

Beyond cyclical headwinds, the Philippines still has supportive medium-term anchors from infrastructure, investment approvals and renewable energy projects, which should help underpin growth. Domestic policy support remains strong for those key sectors, and will be key pillars of medium-term growth for the Philippines.

Infrastructure pipeline remains a medium-term growth support



Investment approvals, especially renewables, remain constructive



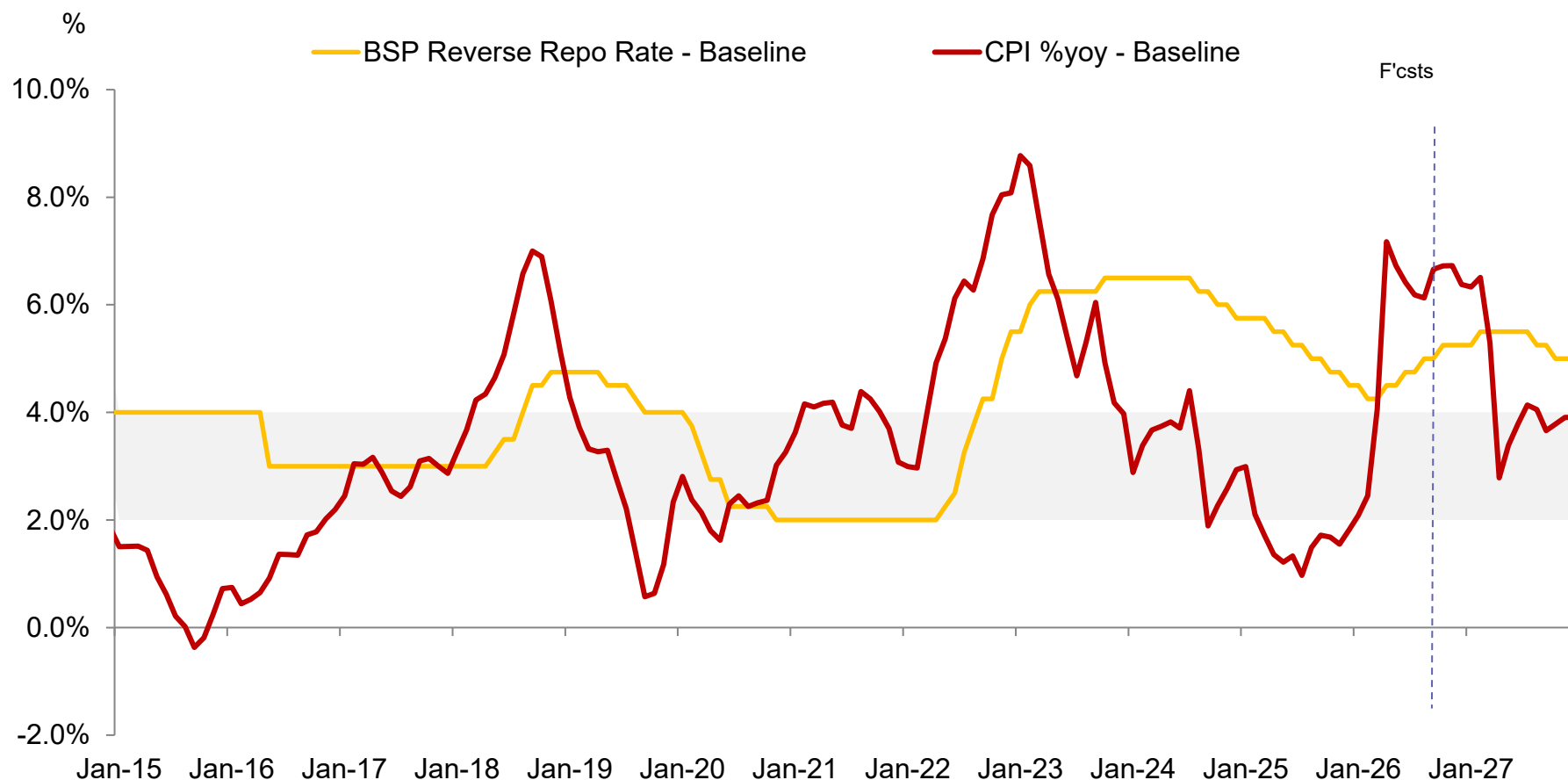
Source: CEIC, Bloomberg, MUFG GMR

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PHP | BSP to hike by another 50bps to 5.50% to cap second-round inflation

BSP is likely to retain a hawkish bias to prevent second-round inflation pressures, with additional hikes aimed at anchoring expectations and supporting PHP through the rates channel. We see BSP hiking rates twice more, while potentially having some space to cut rates in 2H2027.

Policy tightening needed to cap second-round effects

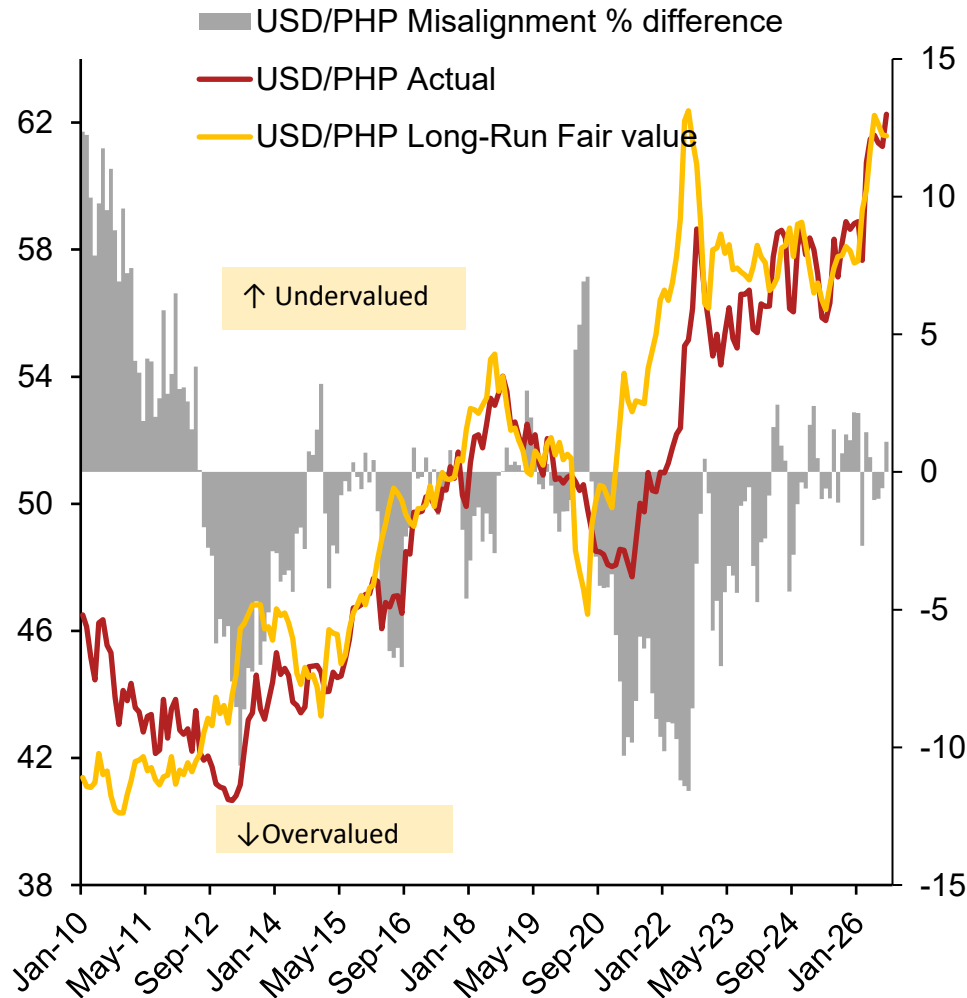


Source: CEIC, Bloomberg, MUFG GMR

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PHP | PHP slightly undervalued in our model

USD/PHP Model



Key Drivers of USD/PHP based on our model

Long Run

USD/PHP takes ~7 months to close half of the gap with fair value



Trade Deficit

↑+US\$100mn => ↓ 0.5% PHP



Interbank rate
diff with US

↑+25bps => ↑ 1.2% PHP



Sovereign CDS

↑10bps => ↓ 0.3% PHP



US 10-year

↑10bps => ↓ 0.1% PHP



PCOMP

↑10% => ↑ 0.7% PHP



Oil

↑10% => ↓ 0.1% PHP



Rice

↑10% => ↓ 0.7% PHP



Uncertainty
Index

↑10% => ↓ 0.3% PHP



Govt Spend

↑10% => ↑ 0.1% PHP

Source: CEIC, Bloomberg, MUFG GMR. Note: USD/PHP as dependent variable. Autoregressive distributed lag model, with error correction specification (ARDL-ECM)

MUFG Bank, Ltd.

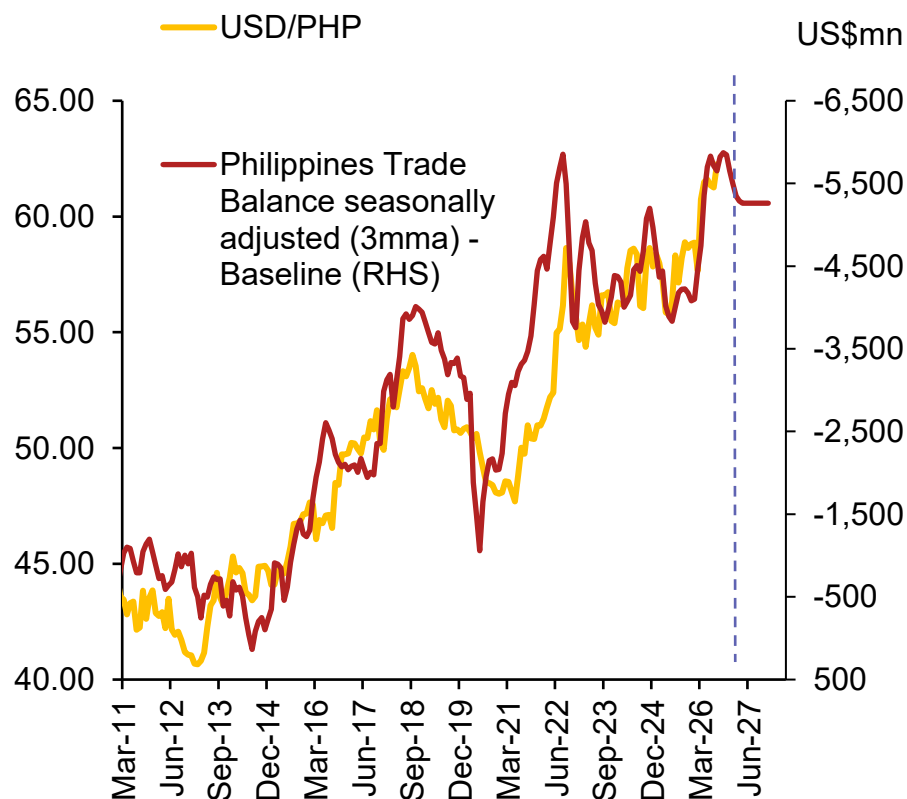
A member of MUFG, a global financial group

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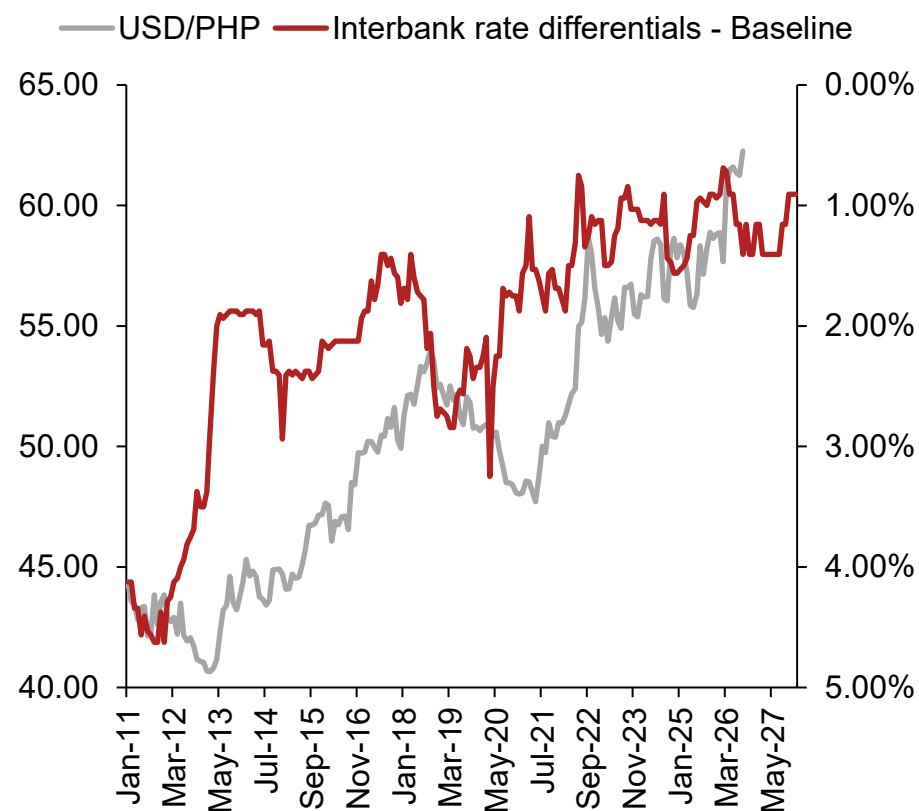
PHP | USD/PHP gradually lower with hawkish BSP and lower oil

PHP should benefit from lower oil prices over time and a hawkish BSP. This is nonetheless dependent on our assumptions on the trade deficit, Fed and US dollar, and domestic inflation trajectory. On the global front, we are assuming the Fed hikes rates once more, while for oil prices to gradually trend lower over time albeit in a more volatile fashion.

Lower oil prices over time and BSP hikes provide near-term support for PHP



Our USD/PHP forecast path reflects our view for BSP to deliver slightly more rate hikes than the Fed



Source: CEIC, Bloomberg, MUFG GMR

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SGD: Strong buffers, but external headwinds persist

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SGD | Strong buffers, but external headwinds persist

We forecast USD/SGD at 1.2750 in 3 months and 1.2600 in 12 months.

Singapore's external buffers remain a key source of SGD resilience: Manufacturing momentum has strengthened alongside improving export orders and NODX. PMI export-orders sub-index was in expansionary territory of above 50, along with firmer new orders and output. This reflects strong external demand, despite heightened global uncertainties. In particular, the ongoing electronics upcycle has become an increasingly important driver of export growth, strengthening Singapore's external buffers. Electronics are increasingly driving Singapore's NODX growth, and the electronics PMI has also risen sharply above 50.

Tech and refined fuel surplus are important buffers: Singapore's tech trade surplus has increased while the mineral-fuel trade balance remains broadly balanced-to-positive, reflecting Singapore's role as a major refining and fuel-export hub. Singapore's RON92 fuel price remains elevated, supported by higher Brent crude prices. As a result, the combined trade buffer remains sizeable, providing an important buffer against higher oil prices and US yields.

Falling unit labour cost to cushion against imported inflation: Singapore's labour market is showing signs of cooling, with slower vacancies and hiring. This is also accompanied by falling unit labour costs, partly due to still relatively resilient services productivity. This helps offset some of the imported cost pressure from higher oil prices. Singapore's headline and core inflation have both risen above the 2% soft benchmark, but the increase remains relatively concentrated in private transportation costs, and to a smaller extent, food costs, rather than pointing to a broad-based acceleration in prices.

Firm S\$NEER provides an important policy buffer against higher oil prices: Singapore's economy is exposed to renewed imported inflation as oil prices rise. However, the S\$NEER remains near the upper end of the policy band, allowing SGD appreciation on a trade-weighted basis to absorb part of the increase in foreign-currency import costs. This should help cushion the imported inflation impact and supports the case for MAS to maintain a firm SGD policy stance into year-end.

External headwinds limit the scope for stronger bilateral SGD appreciation: Despite Singapore's favourable domestic and external fundamentals, USD/SGD has struggled to sustain a move below 1.2600 as renewed USD strength offsets support from the firm exchange-rate policy. The widening US-Singapore short-term rate differential also increases the relative carry disadvantage of SGD. We therefore see a distinction between continued SGD resilience on a trade-weighted basis and more contained appreciation against the USD, particularly while US rates and the broader dollar remain elevated.

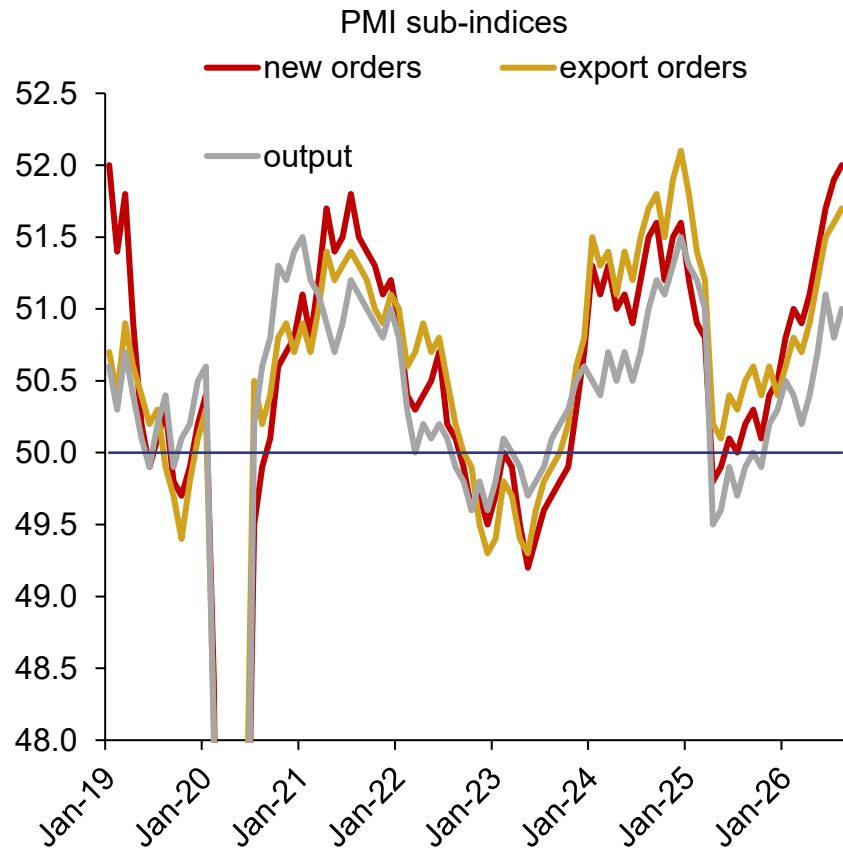
Key risks for SGD: The main downside risks are a further rise in US yields and broad USD strength, which could reinforce the already-wide US-Singapore rate gap. A more persistent oil shock would also raise imported inflation pressures, although Singapore's firm S\$NEER, strong export cycle and external trade buffers should provide greater insulation than for many regional currencies.

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SGD | Export upcycle strengthens Singapore's external buffer

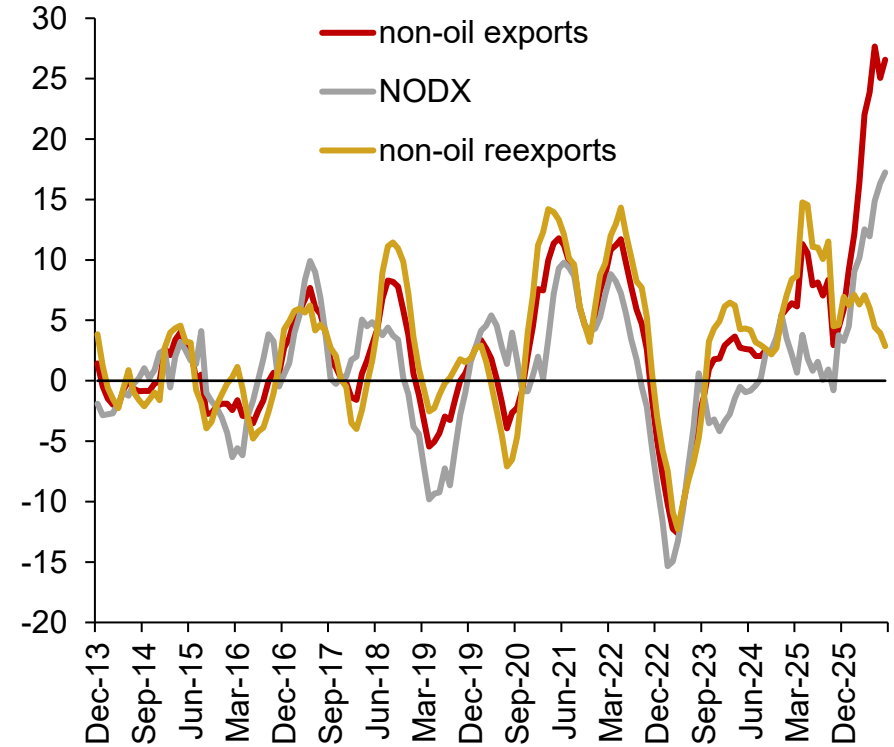
Manufacturing momentum has strengthened, with the PMI export-orders sub-index rising sharply above 50 alongside firmer new orders and output, pointing to continued support from external demand. This, along with improving NODX, suggests that the export upcycle retains momentum, providing an important growth and trade buffer for SGD against higher oil prices and US yields.

Strong surge in export orders



NODX driving the export boom

Singapore's exports, 6m-6m %chg



Source: CEIC, Bloomberg, MUFG GMR.

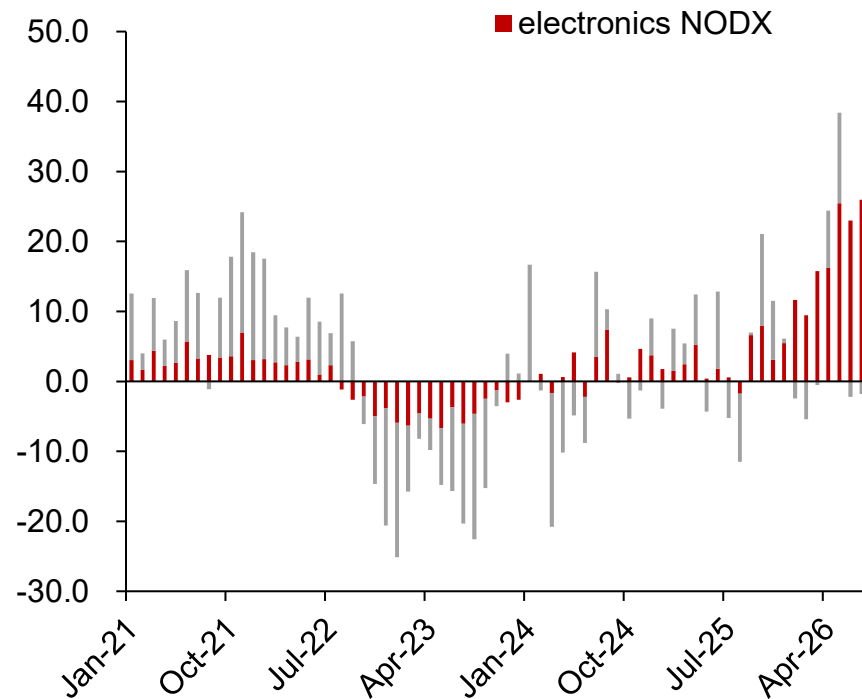
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SGD | Electronics cycle reinforces Singapore's export strength

Singapore's electronics upcycle is gathering momentum, strengthening an important external buffer for SGD. Electronics are making an increasingly large contribution to NODX growth, with the latest surge accounting for a substantial share of NODX. Importantly, the improvement looks to have further momentum: the electronics PMI sub-index has risen sharply above 50 and outperforming the broader manufacturing PMI.

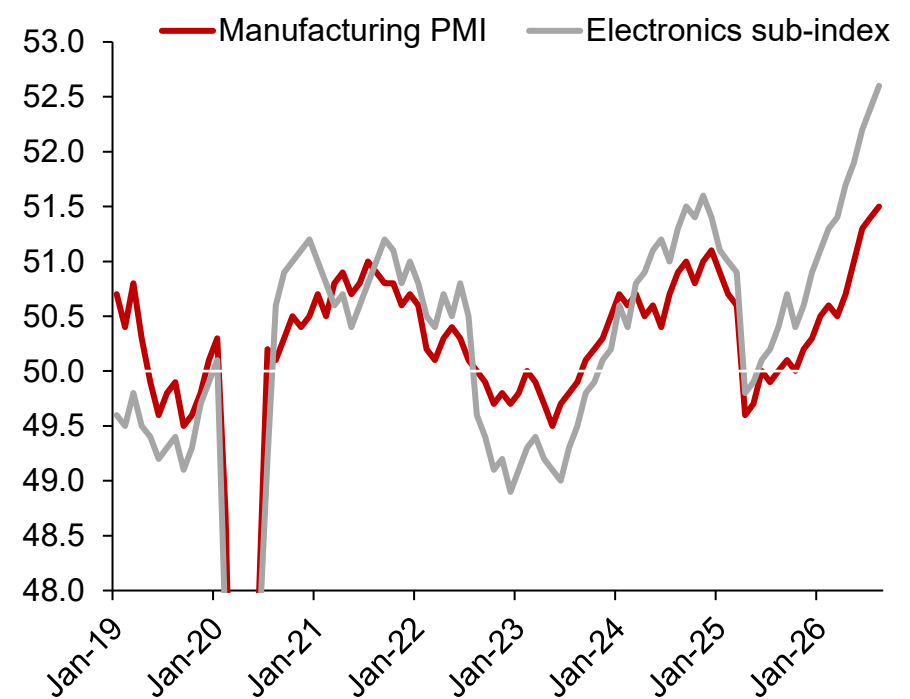
Electronics increasingly drive Singapore's NODX growth

ppt yoy contributions



Electronics upcycle gathers momentum

Manufacturing PMI, 50 = neutral



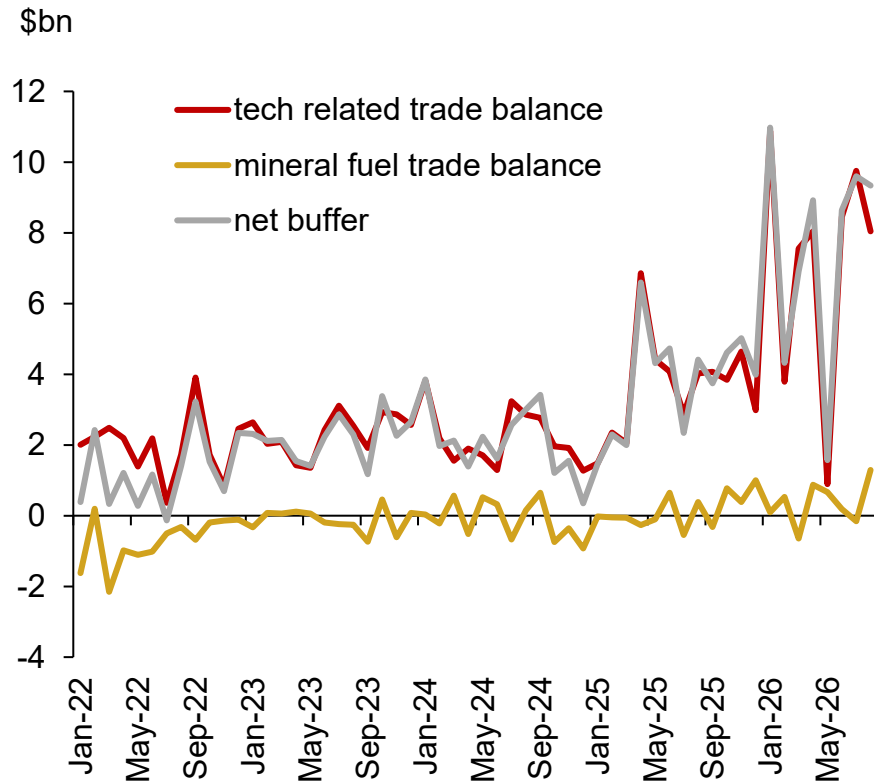
Source: CEIC, Bloomberg, MUFG GMR.

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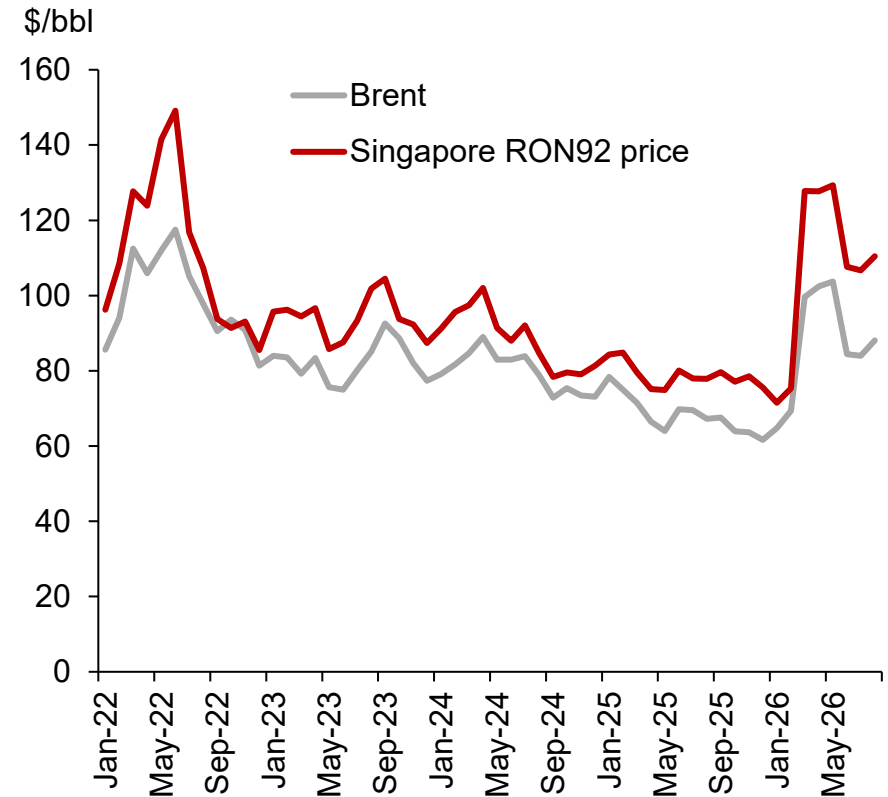
SGD | Electronics and refined fuel are important buffers

The tech-related trade surplus has risen sharply alongside the electronics upcycle, while the mineral-fuel balance has remained broadly balanced to positive despite elevated energy prices, reflecting Singapore's role as a major refining and fuel-export hub. As a result, the combined trade buffer remains sizeable.

Singapore gains from exports of electronics and refined fuels



Singapore's RON92 fuel prices stay elevated



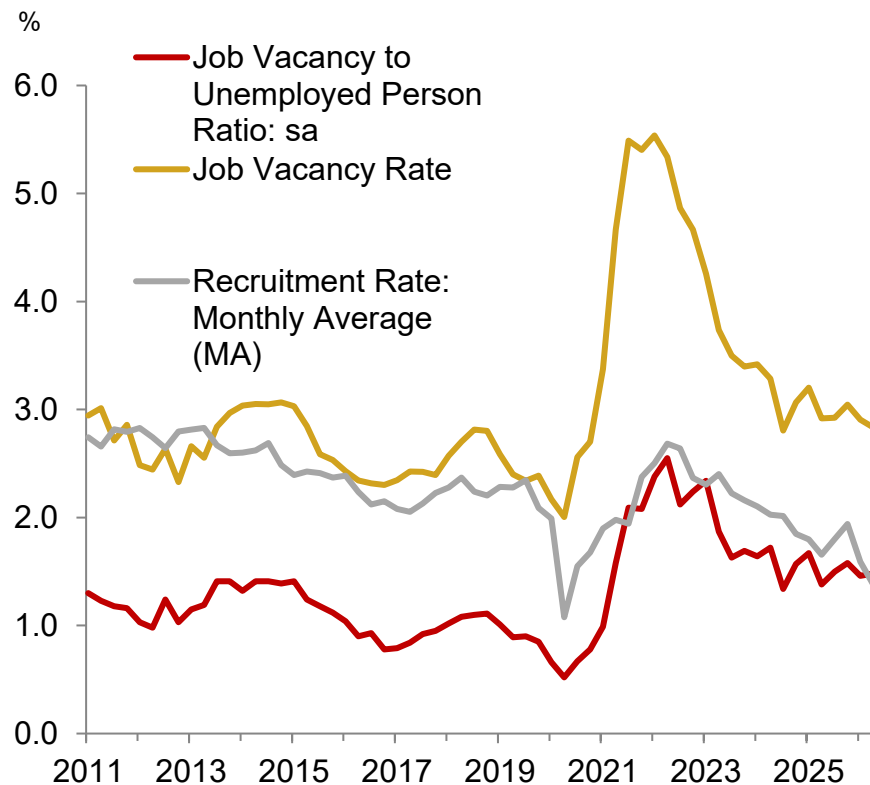
Source: CEIC, Bloomberg, MUFG GMR.

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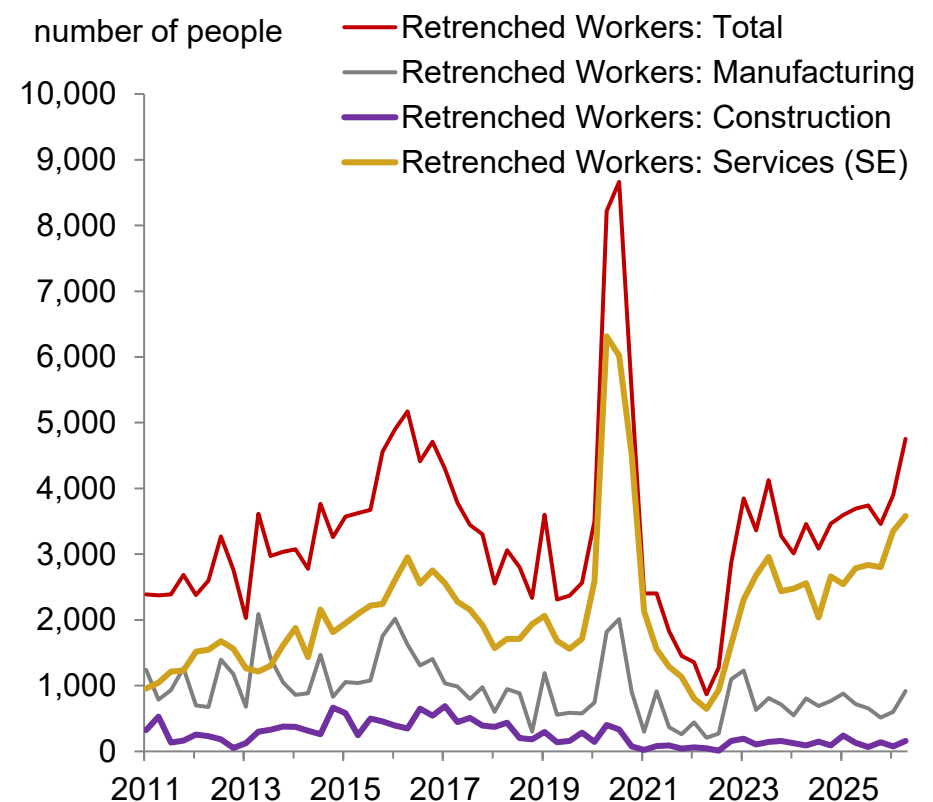
SGD | Labour market softens as hiring slows and retrenchments rise

Singapore's labour market is showing clearer signs of cooling despite continued strength in the external sector. The job vacancy rate and recruitment rate have all moved lower from their post-pandemic highs, pointing to softer labour demand and a slower pace of hiring. At the same time, retrenchments have risen noticeably, led by the services sector, reinforcing signs that employment conditions are becoming less supportive.

Job openings and hiring pace have continued to slow



Retrenchments jumped higher



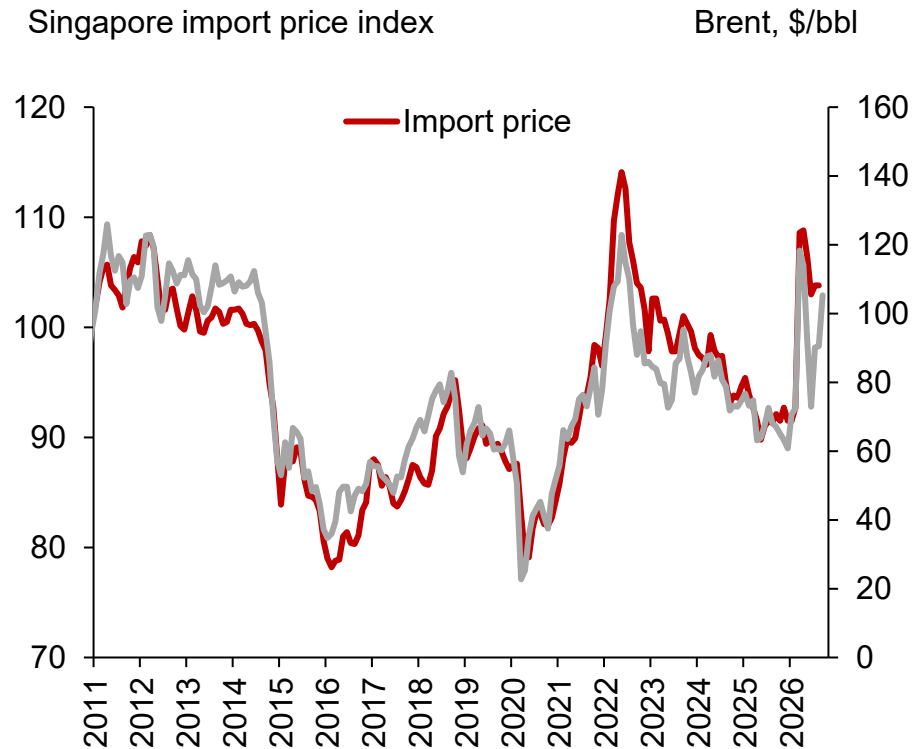
Source: CEIC, Bloomberg, MUFG GMR.

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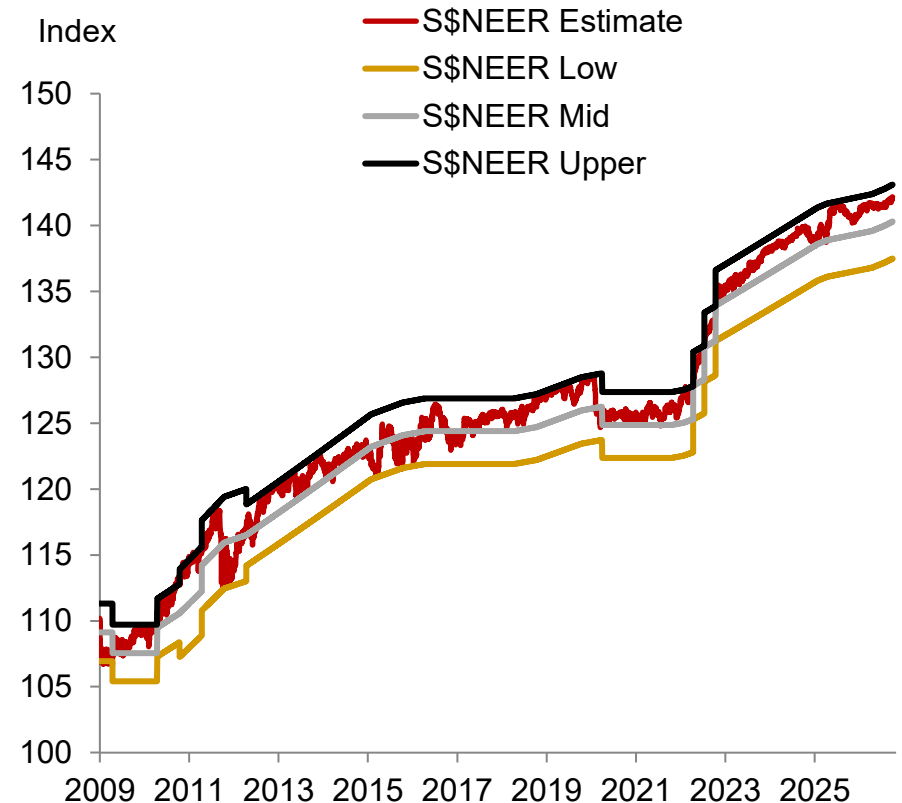
SGD | Firm S\$NEER provides a buffer against renewed oil shock

The renewed rise in oil prices is likely to keep Singapore's imported cost pressures elevated. However, the inflation pass-through should be partly cushioned by Singapore's tight exchange-rate policy. The S\$NEER remains near the upper end of its policy band, allowing SGD appreciation to absorb part of the increase in import costs. MAS is set to keep a firm SGD policy stance.

Renewed oil price rise to keep imported cost pressures elevated



Tight MAS policy provides a buffer against imported inflation



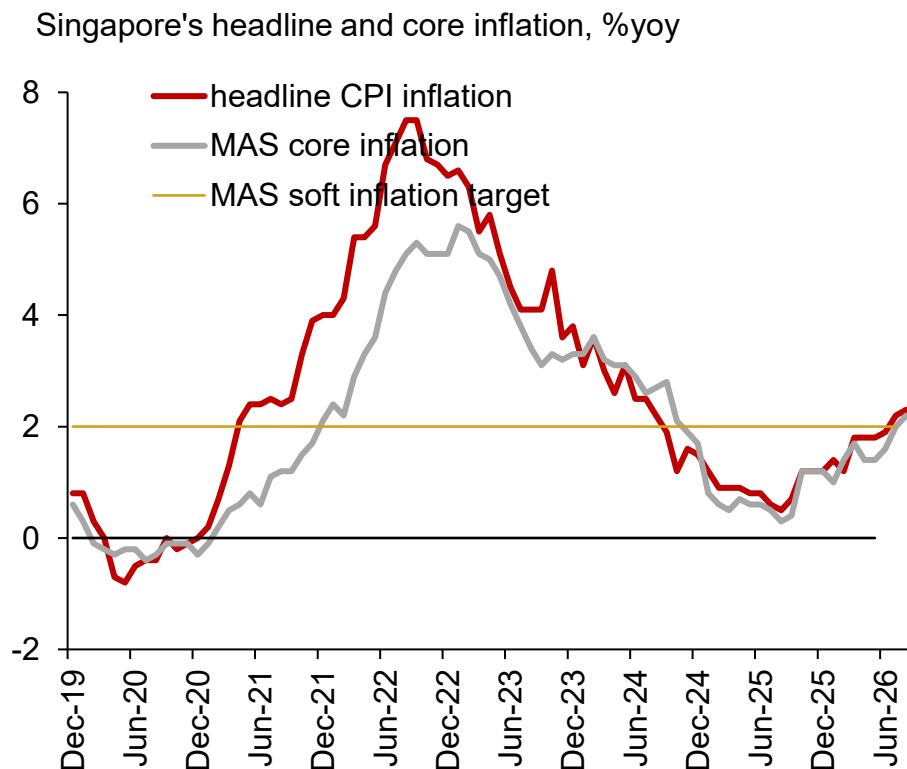
Source: CEIC, Bloomberg, MUFG GMR.

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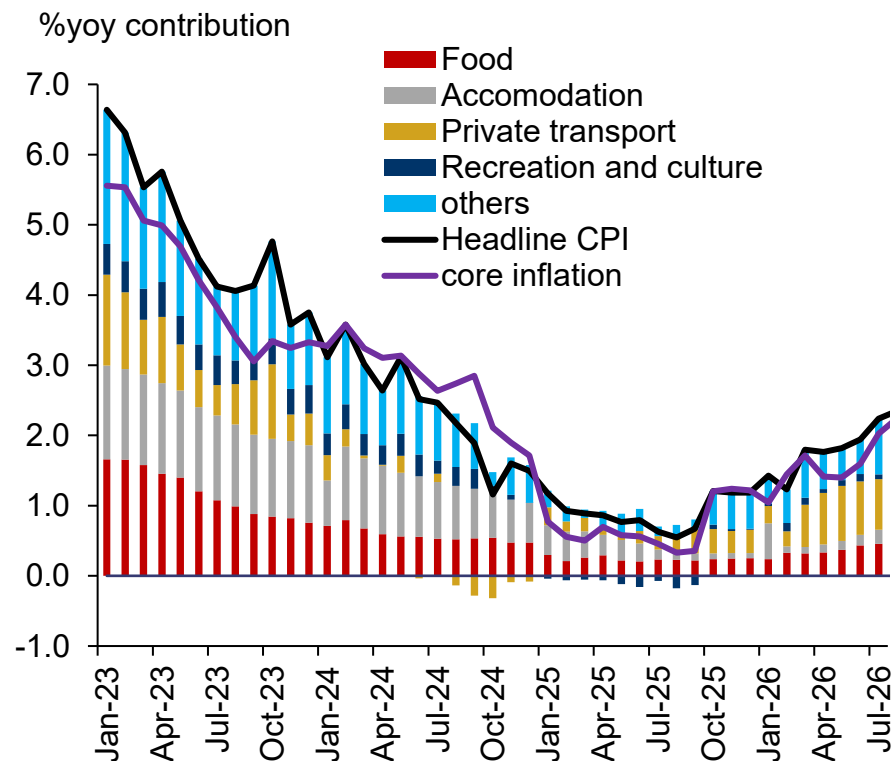
SGD | Oil lifts inflation, but limited broadening keeps risks contained

Singapore's inflation upturn warrants monitoring, but price pressures have yet to broaden materially. Headline CPI has moved back above the 2% soft benchmark, while core inflation has also risen, although the recent increase in headline inflation appears to be driven disproportionately by private transport costs.

Headline and core inflation rise above the 2% soft benchmark



Oil shock is feeding through mainly via private transport costs



Source: CEIC, Bloomberg, MUFG GMR.

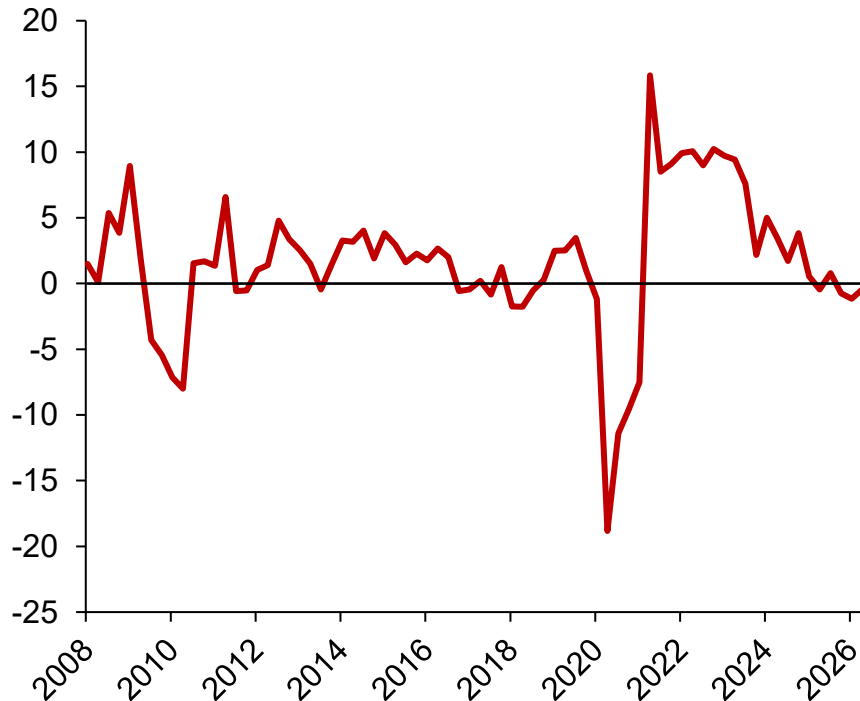
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SGD | Labour cost pressures ease as productivity holds up

Singapore's labour-cost pressures are easing as productivity remains relatively resilient. Services-sector productivity growth remaining positive and holding up better than in the goods-producing sector. Together with the slowdown in vacancies and hiring, lower unit labour costs point to a normalisation in labour-market tightness and softer domestic cost pressures, providing some offset to the renewed imported inflation risks from higher oil prices

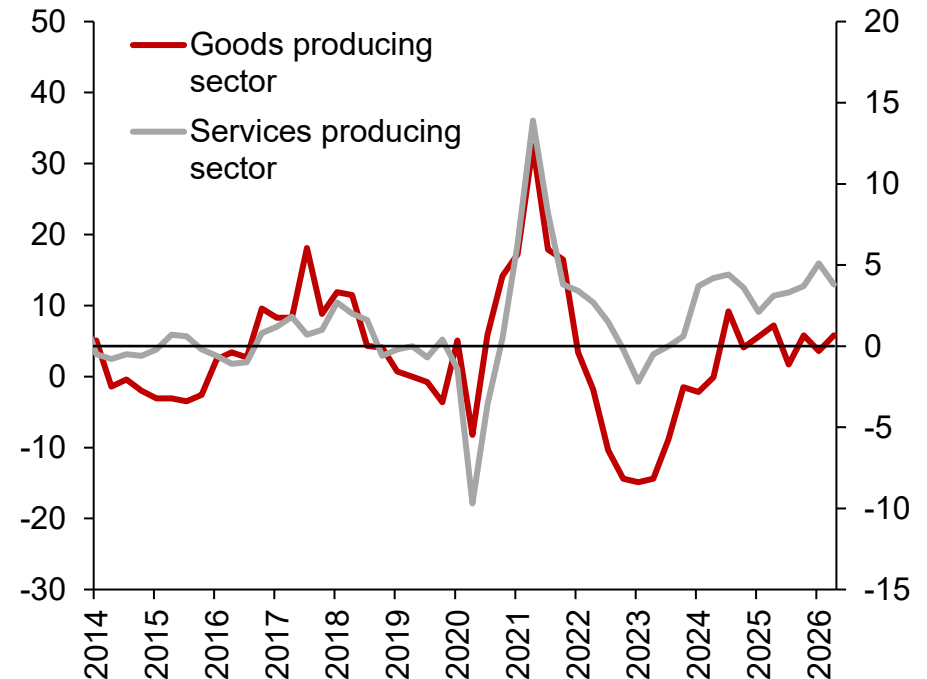
Unit labour costs have fallen vs. a year ago

Unit labour costs, %yoy



Services productivity still holding up

Productivity growth, %yoy



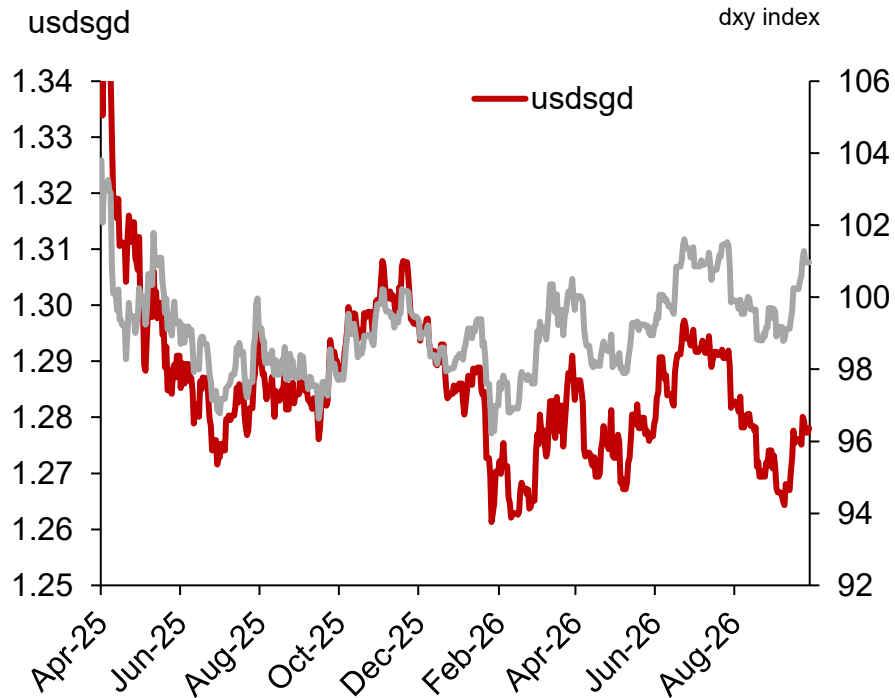
Source: CEIC, Bloomberg, MUFG GMR.

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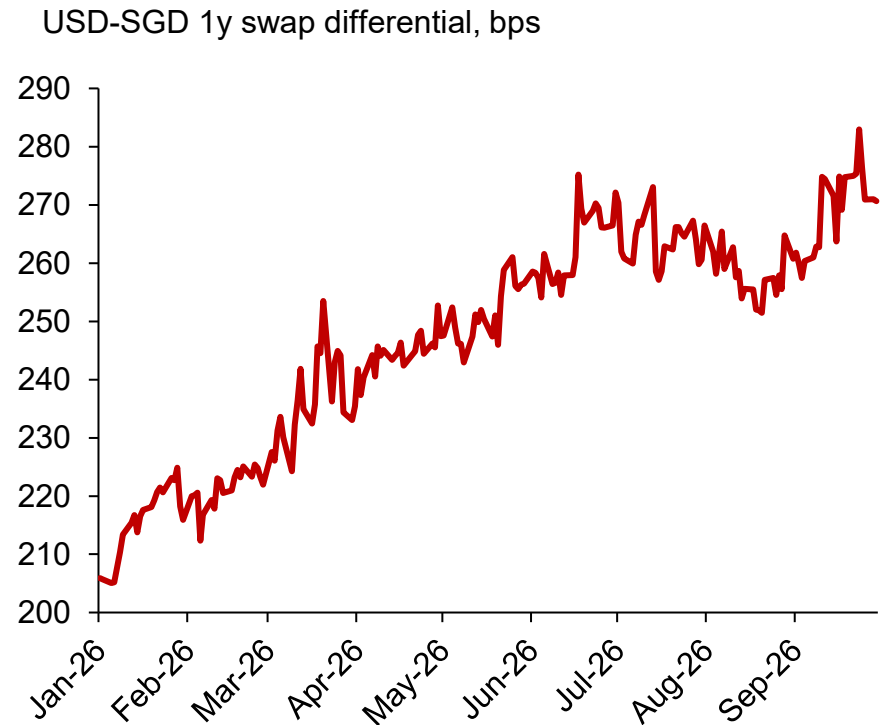
SGD | Firm policy support offset by USD and rate headwinds

SGD appreciation is likely to remain constrained despite the relatively firm domestic policy backdrop. USD/SGD has struggled to sustain a move below 1.2600 as renewed USD strength offsets support from Singapore's tight exchange-rate policy. At the same time, the widening US-Singapore short-term interest-rate differential has increased the relative carry disadvantage of holding SGD, adding another headwind to appreciation

USD strength stalls SGD appreciation



Wider US-Singapore rate gap remains a drag on SGD strength



Source: Bloomberg, MUFG GMR.

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KRW: Firmer domestic fundamentals remain supportive of KRW

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KRW | Firmer domestic fundamentals remain supportive of KRW

We forecast USD/KRW at 1350 for 4Q2026, 1330 for 1Q2027, 1315 for 2Q2027 and 1300 for 3Q2027

Korea's growth momentum is building up strongly. In Q2, we noted a clearer sign of spilling over effect of external demand into fixed investment, as it benefitted from stronger facilities and R&D related investment. In real GDP term, the growth printed strongly above 3%yoy in two straight quarters as growth broadened to domestic demand and benefitted from stronger exports. Real gross domestic income on the other hand, which measures the purchasing power of the total incomes generated by domestic production (accounting for changes in the terms of trade), the growth accelerated further to 15.7%yoy from 13.2%yoy previously. This showed that the semiconductor price gains linked to global demand for advanced memory chips are also boosting Korea's terms of trade despite elevated oil prices in Q2.

The price-driven semiconductor upswing fuels continued exports growth acceleration. As of August, the semiconductor exports growth surged to 209%yoy with the unit price growing by 182%yoy coupled with relatively soft 11% volume growth. Beyond semiconductor itself, the semiconductor-based storage product solid-state drive (SSD) also posted exceptional growth this year, reflecting strong global demand and tight memory supply. On a positive note, the BoK's recent research report suggests that South Korea is likely to remain its competitive edge over China in terms of memory chip production as Samsung Electronics and SK Hynix ramp up their domestic production and China may still face yield issues and technological constraints. In its latest forecast released at the August meeting, the BoK raised its GDP growth projections to 3.3% for this year and 2.9% for next year, markedly above its May forecasts of 2.6% and 2.1%, respectively.

Wages growth are mixed but supportive backdrop. Regular wages growth has stabilized this year supported by sectors such as manufacturing, accommodation and food services, and wholesale & retail trades. Including Overtime and bonus pay, manufacturing 1H jumped to 5.7%yoy (vs 3.4%yoy in full-year 2025) as it reflects the profit distribution to employees from Samsung Electronics and SK Hynix. Looking ahead, the further broadening of wages growth to other sectors will be key to watch as it is cited as the demand-side pressure that risks fueling further inflation by the BoK, amidst continued supply-side pressure. Accordingly, the BoK judges that the inflation will remain above the 2% target level for some time and adjusted the core inflation outlook slightly higher to 2.5% for both 2026 and 2027. We expect the further monetary tightening to cool the housing sector and household loan more broadly as the loan majority remains float-based (57% share)

A continuation of expansionary fiscal policy into 2027. The 2027 budget planned spending is set to reach KRW 820.9tn, translating into a 12.8%yoy growth (vs this year's original budget), the highest year-over-year increase in recent years. Even factoring in the supplementary budget in 2026, the 2027 spending growth is set to accelerate to 9.0%yoy. The budget is not only focused on industrial investment which includes doubling the spending to KRW 21.3tn for 3 Mega-projects and AI but also support for domestic sectors and household.

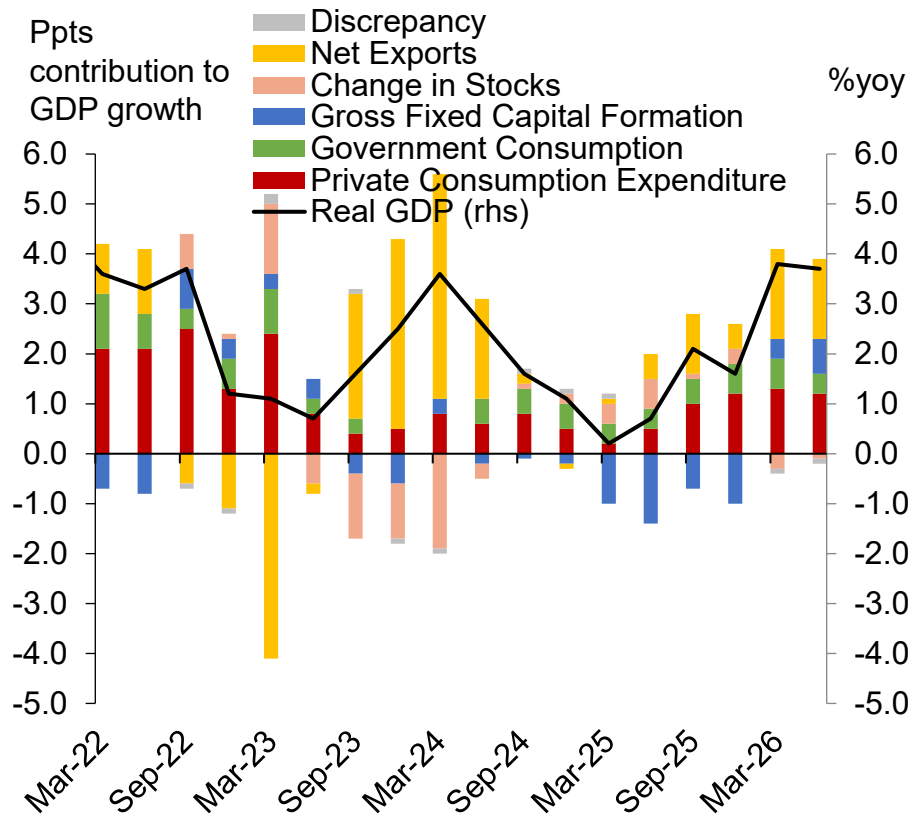
Narrower path for KRW to appreciate. The continued AI tailwind and the solid underlying domestic growth momentum will remain supportive of Korea's fundamentals, which we believe the current USD/KRW level is not fully reflective yet despite the sizable repricing in Q3 thanks to the increased exporter dollar conversion. Looking ahead, the weak global risk sentiment from elevated US rates and looming US-Iran conflict will present headwind to KRW and may trigger further portfolio outflow from both residents and foreigners.

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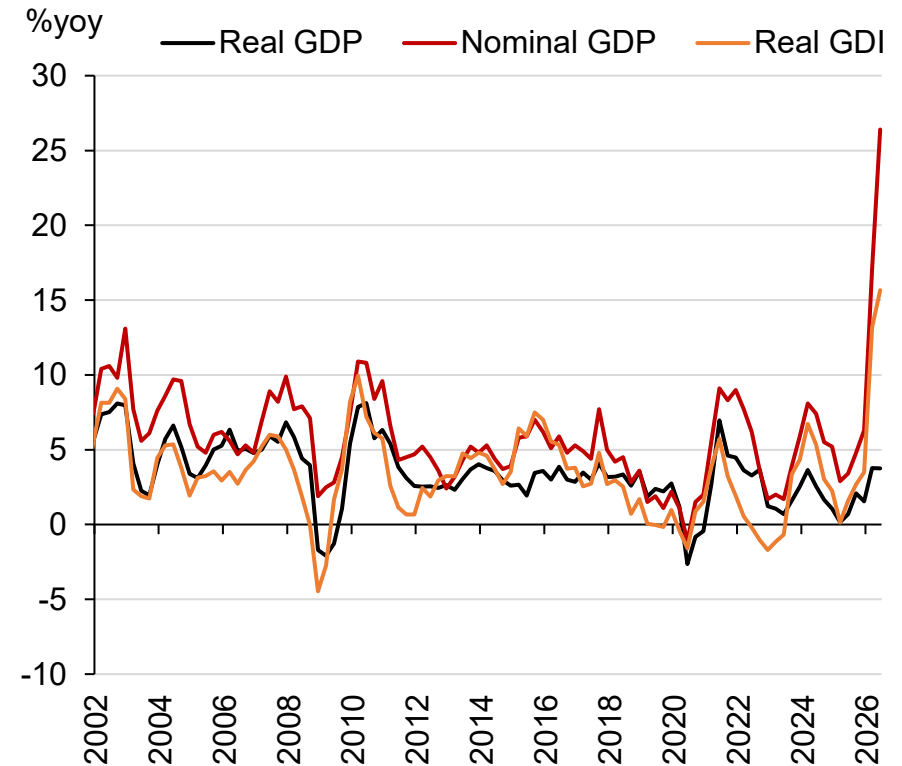
KRW | Economic growth is broadening as domestic activity improves alongside resilient tech exports.

South Korea's growth is broadening out, with stronger external demand spilling over into investment and consumption. While construction investment remained in year-over-year contraction, growth accelerated in both facilities investment and intellectual property products investment.

Korea's real GDP growth has been robust this year



Real GDI and nominal GDP growths capture the surge in semiconductor prices



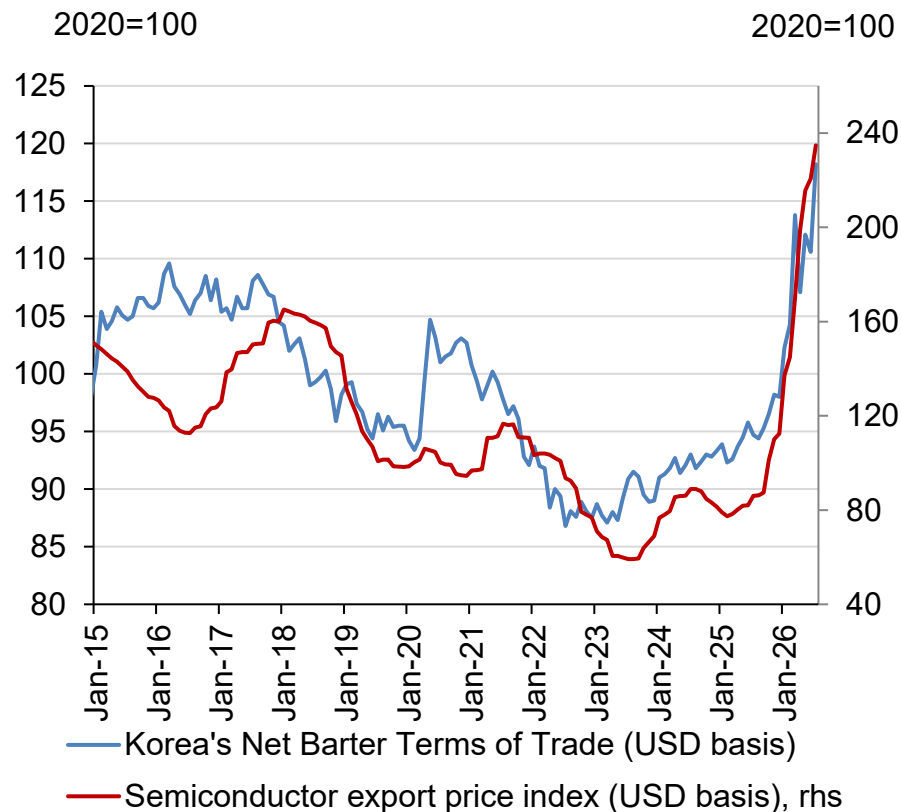
Source: CEIC, Bloomberg, MUFG GMR.

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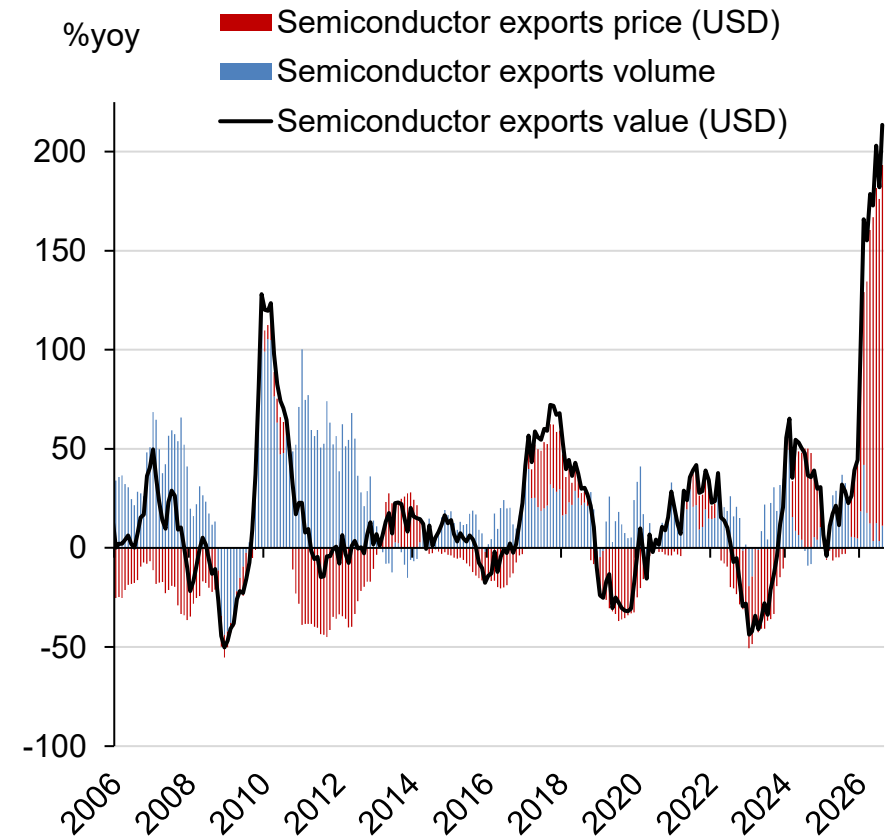
KRW | Strong terms of trade as demand for memory chips outstrips supply

Despite South Korea being a net energy importer, its terms of trade continues to improve even as US-Iran war drags on and keeps the oil price elevated. The improvement in ToT can be mainly attributed to the surge in semiconductor price, benefitting from the global demand for advanced memory chips in building AI infrastructure.

Semiconductor provides a lift to terms of trade



The current semiconductor upcycle is price driven



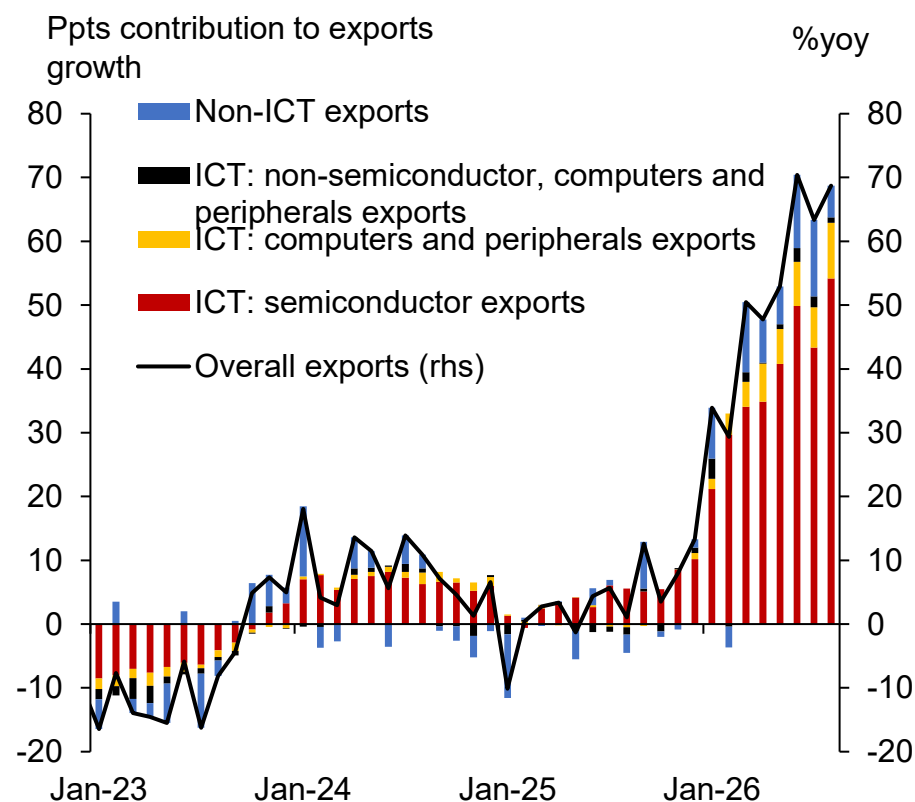
Source: CEIC, Bloomberg, MUFG GMR.

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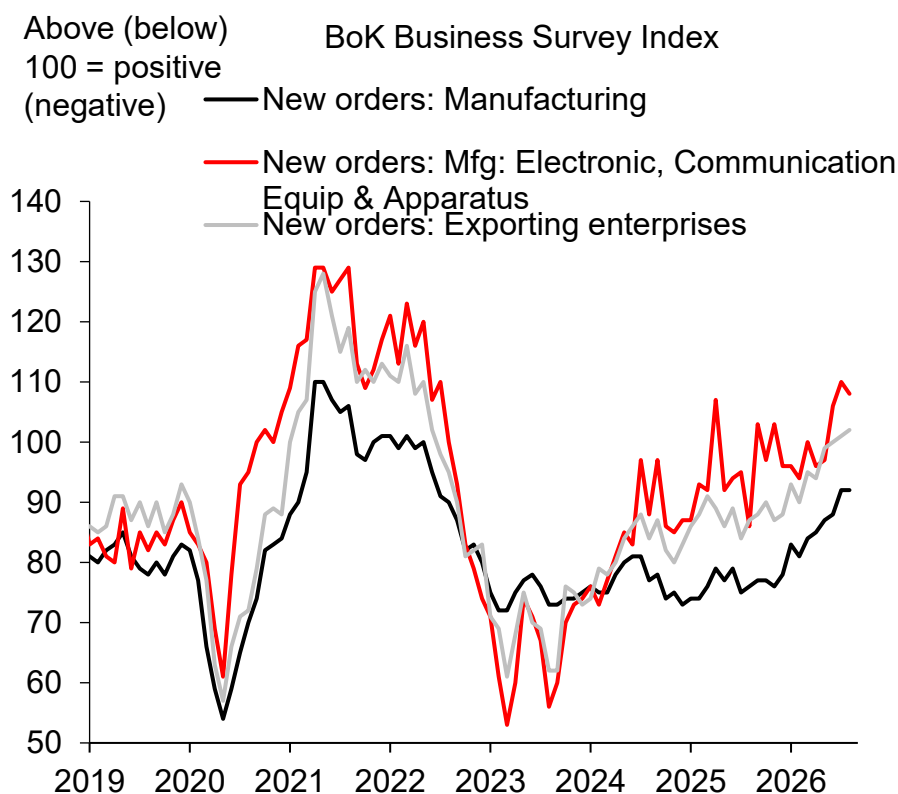
KRW | Remain positive on Korea's exports in remaining 2026

Beyond semiconductor exports, which now accounts for more than 40% of total exports, the semiconductor-based storage product solid-state drive (SSD) saw its exports surging by triple digits this year thus far, helping the broader computers and peripherals exports contribution to headline growth increasing from merely 0.9ppts in end-2025 to as high as 8.7ppts in August.

Semiconductor alone is driving most of exports growth



New orders continue to recover for exporters/manufacturers according to BoK survey



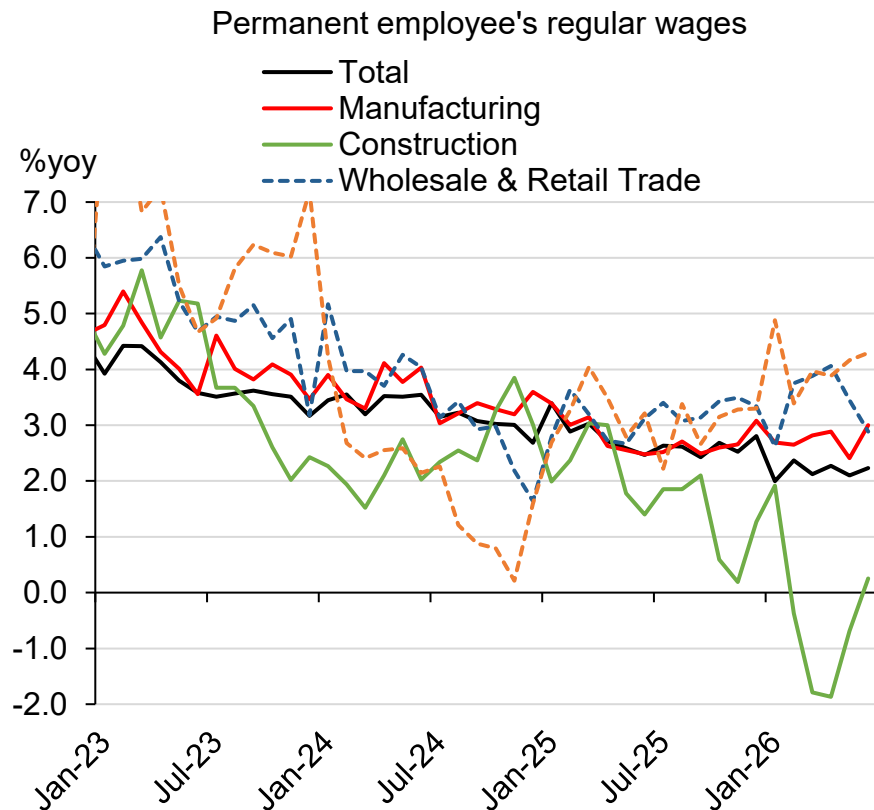
Source: CEIC, Bloomberg, MUFG GMR.

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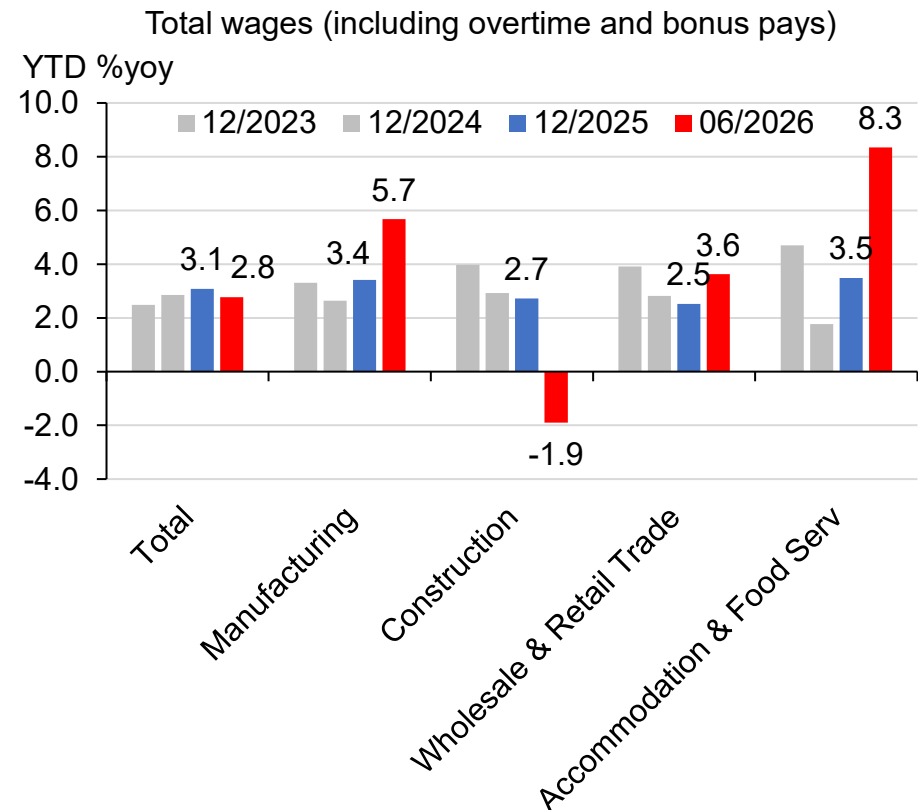
KRW | Wages are growing in manufacturing and sectors linked to domestic consumption but not widespread yet across all industries

With South Korea's economy growing strongly, the regular wages growth has stabilized with accommodation and food services sector outperforming as construction sector remained the drag. Including overtime and bonus pays, manufacturing sector's YTD total wages growth accelerated to 5.7%yoy, partly due to substantial semiconductor bonus distributed to employees.

Overall regular wages growth is stabilizing after a persisted downtrend



In terms of total wages, the YTD growth performance diverged across industries

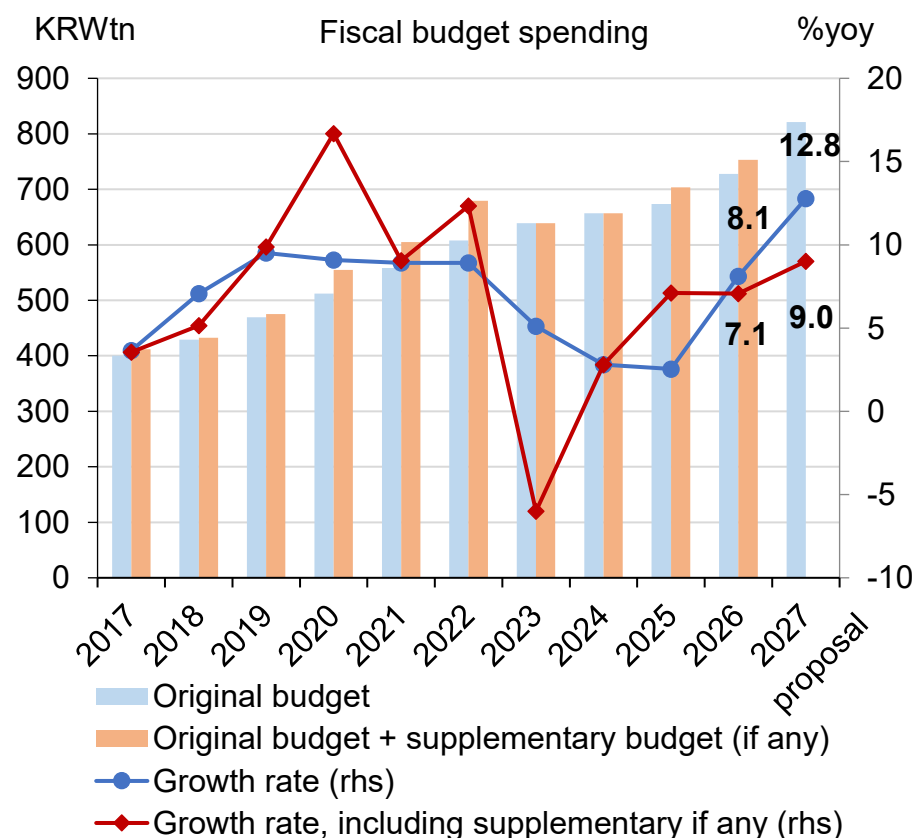


Source: CEIC, Bloomberg, MUFG GMR.

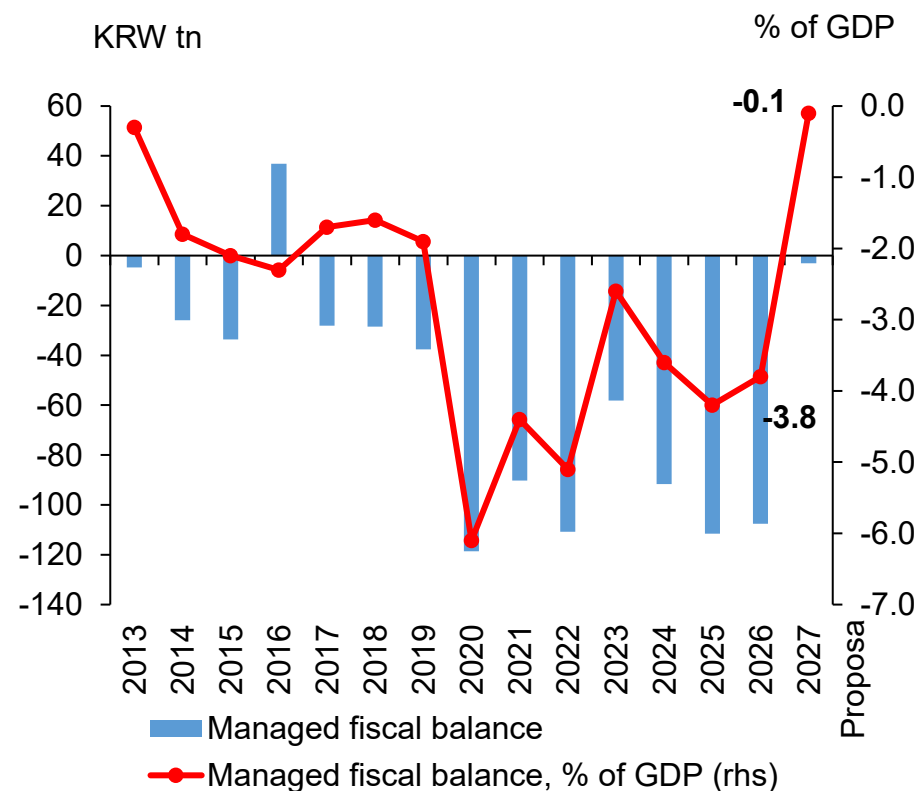
KRW | Expansionary fiscal stance: larger spending, smaller deficit

Thanks to the semiconductor boom, the government revenue is expected to grow by 25.7%yoy to KRW 880.8tn in 2027 derived from stronger corporate and income tax receipts. That supports a more sizable fiscal spending in 2027 while also consolidating its fiscal position.

Government expenditure growth is projected to accelerate in 2027



Fiscal deficit expected to narrow significantly to -0.1% of GDP



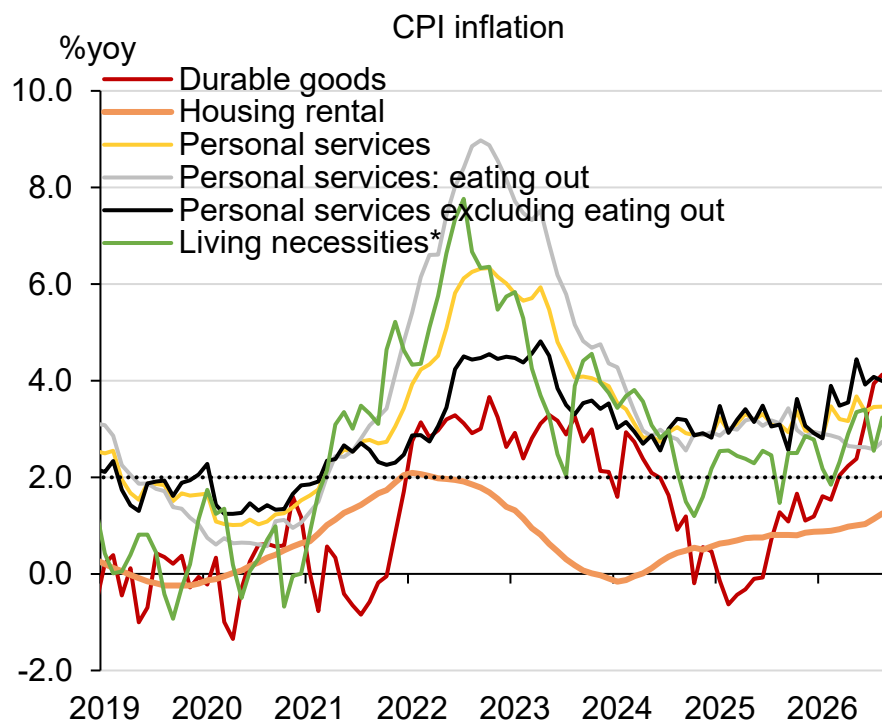
Source: CEIC, MOEF, MPB, National Assembly Budget Office, Various news sources, MUFG GMR.

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KRW | Demand-side inflation pressure is building up, BoK to continue hiking

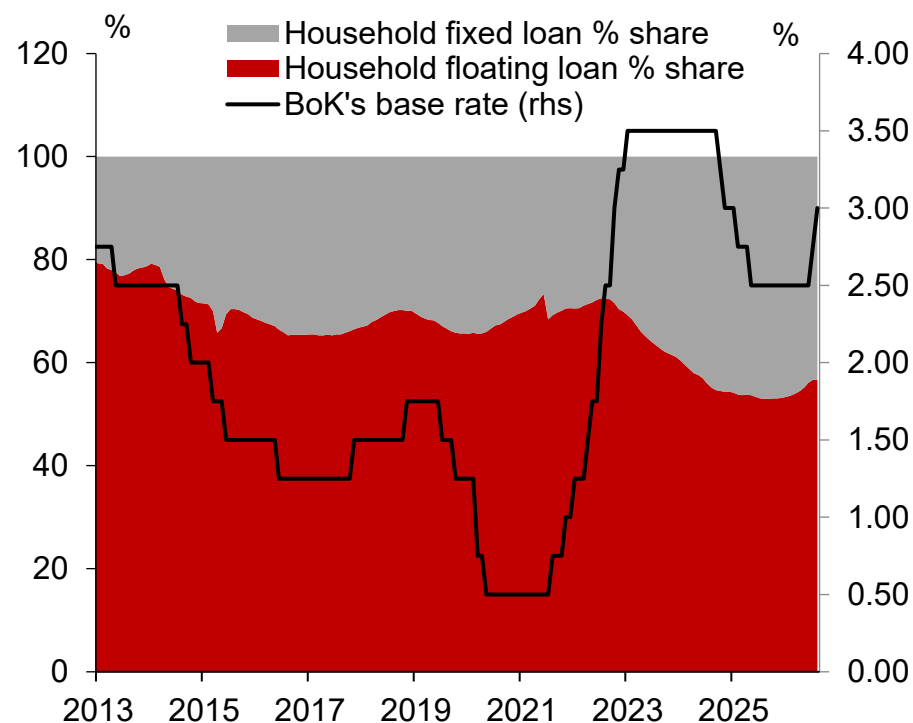
The BoK delivered a pre-emptive 25bps hike at its August meeting amid rising inflation risks, with the back-to-back rate hike marking a departure from its usual policy approach. The BoK appears intent on keeping financial conditions restrictive until inflation is firmly on track to return to target.

Inflation pressure is evident across durable goods and personal services this year thus far



Note: Living necessities is a standalone CPI item, which may have overlapped with other CPI categories above

Household's share of floating loan has declined



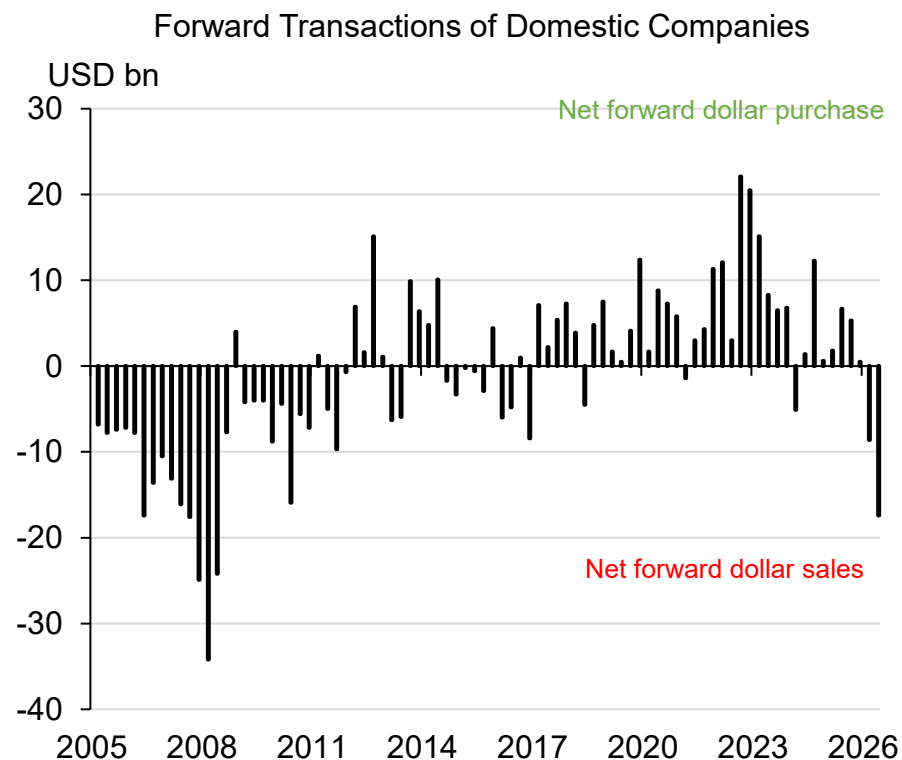
Source: CEIC, Bloomberg, MUFG GMR.

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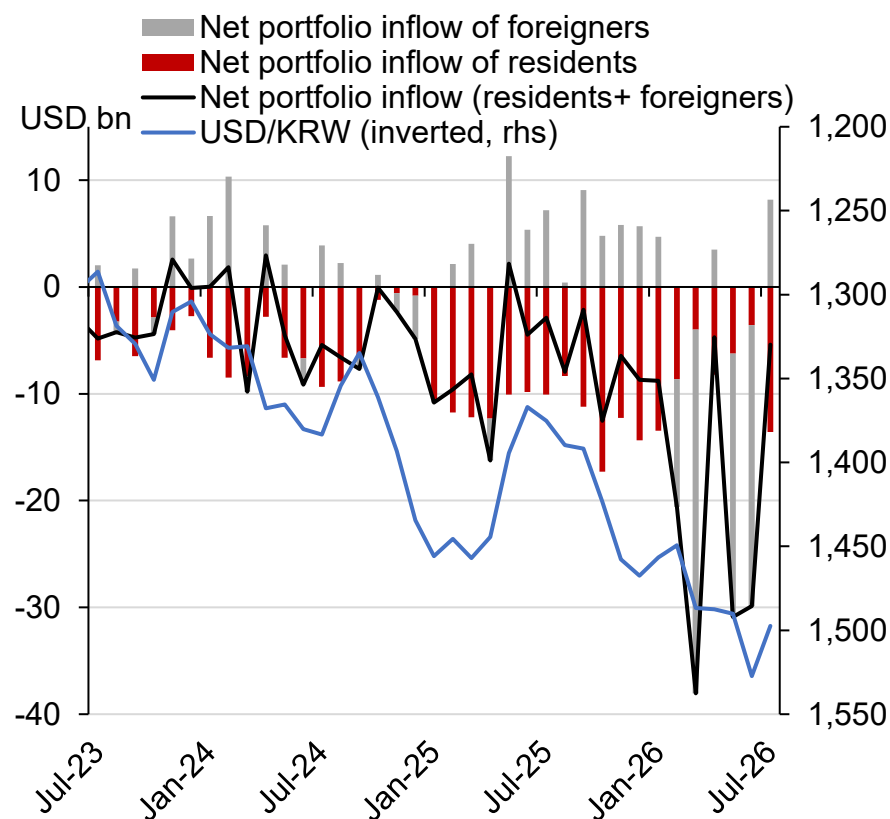
KRW | Exporters and portfolio flows will continue to dominate the currency

The KRW's Q3 outperformance reflected a favourable mix of cyclical and structural factors. Strong AI-driven semiconductor demand continued to support Korea's external balances, while higher exporter dollar conversion and possibly hedging activity contributed to sustained KRW demand despite persistent portfolio outflows.

Net forward dollar sales by domestic companies expanded further to USD 17.4bn in Q2 2026



Portfolio flows typically drive USD/KRW pair

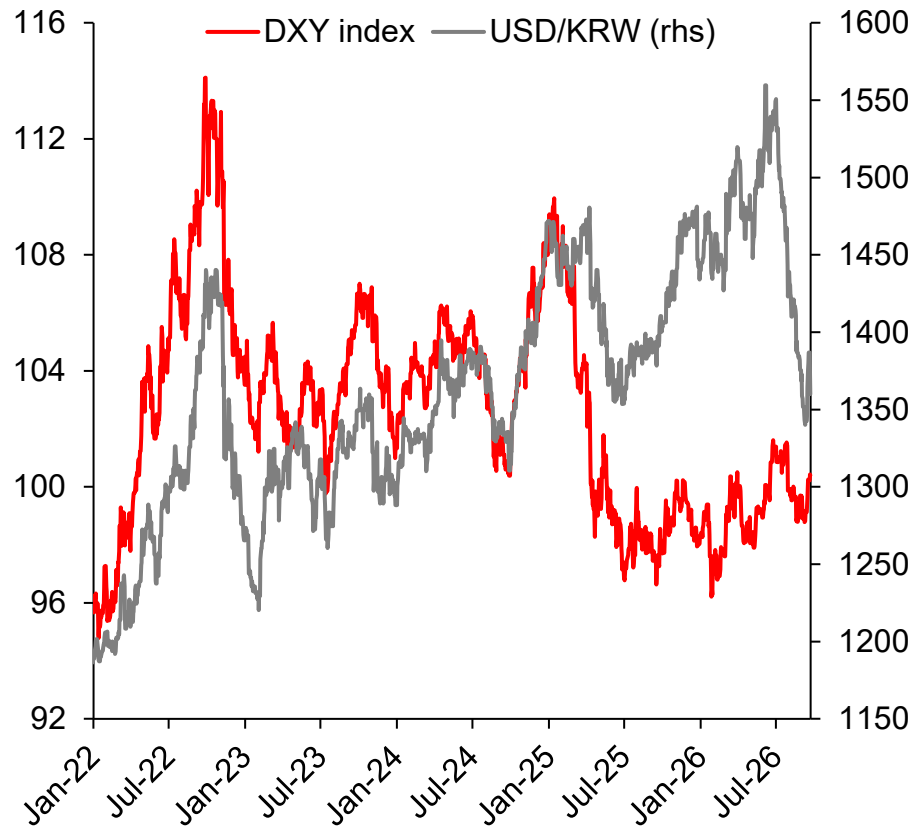


Source: CEIC, Bloomberg, MUFG GMR.

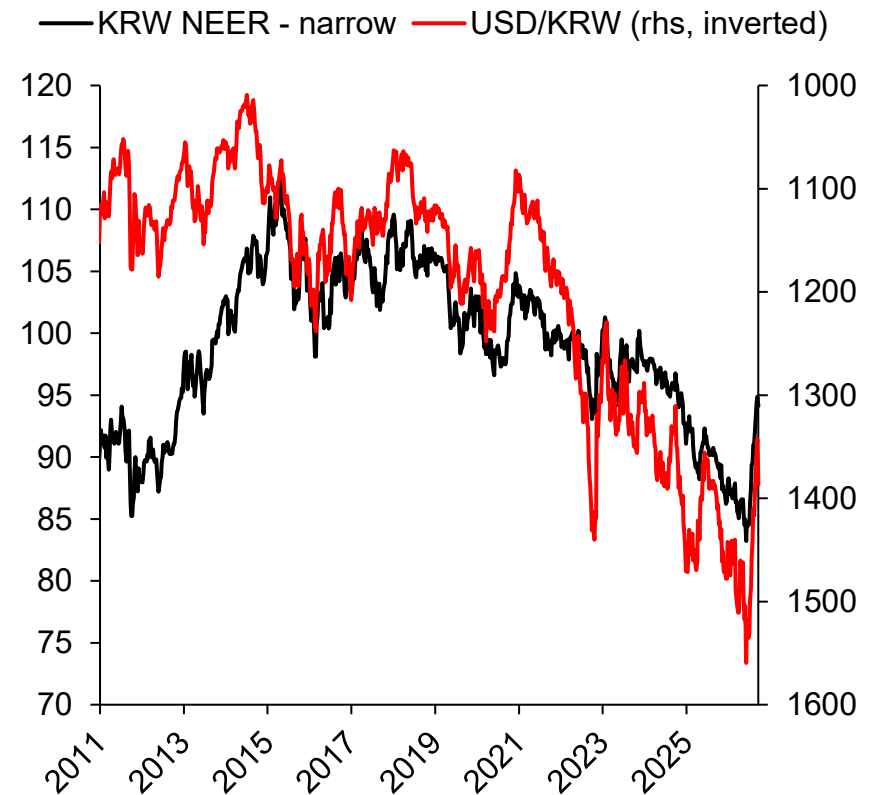
KRW | Current KRW valuation is still cheap given the structural theme on AI

In August BoK meeting, Governor Shin commented that the Korean won has stabilized meaningfully but remains weak historically speaking, and he thinks there is space for the won to gain further through early and pre-emptive monetary policy action.

KRW sharp appreciation in Q3 helped to pare meaningfully losses in recent years



KRW may still have room to catch up albeit more slowly



Source: CEIC, Bloomberg, MUFG GMR.

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TWD: Mild appreciation for TWD as external headwinds persist

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TWD | Mild appreciation for TWD as external headwinds persist

We forecast USD/TWD to reach 31.800 for 4Q2026, 31.500 for 1Q2027, 31.200 for 2Q2027 and 30.900 for 3Q2027

Taiwan's robust economy stays export-led, and enters Q4 2026 with exceptionally strong growth. The AI-driven export boom is feeding into semiconductor investment, financial activity and household consumption. In particular, net exports grew firmly by 33%yoy and fixed investment growth reaccelerated to a double-digit growth of 11.4%yoy in Q2, together contributing 8.7ppts of the headline 12.9%yoy GDP growth. By industry, manufacturing remains the principal growth engine, with spillovers broadening into selected domestic services such as wholesale sector (greater supply-chain distribution activities) and financial sector (strong stock market trading).

Export leading indicators point to sustained momentum, although the composition may start to evolve. August export orders rose 71%yoy, setting a new record high helped by electronic and ICT products. TSMC continued to signal that supply would fall short of overwhelming demand well into next year, despite the fact that they are building new factories at home and overseas 4x or 5x times faster than the typical pace. The company also ramped up their procurement of chipmaking tools since end-2025, which is consistent with the semiconductor equipment imports growth pick-up. While the production is catching up, the TSMC is reportedly considering hiking chip prices of as much as 10% in 2027, providing another leg of support for Taiwan's export. Given the positive outlook on AI-driven demand, the CBC projected a robust growth of 5.82%yoy for 2027, moderating from this year's estimated 11.5%yoy growth due to a high base effect.

Consumption is recovering, but the improvement seems uneven. The headline private consumption growth has rebounded to a level even higher than pre-covid 19 at 5.9%yoy, supported by relatively firm income growth and equity-market wealth effects. However, income growth (including bonuses and overtime pay) diverged in Q2, with manufacturing regaining momentum while the services sector softened. Looking at CPI by disposable income group, inflation has been higher for the top 20% income group than for the middle 60% and bottom 20% groups so far this year, suggesting stronger demand driven by income growth. At an aggregate level, the retail trade non-manufacturing index (NMI) tracking the business 6-month outlook points to sustained consumption growth ahead.

CBC is likely to stay on hold in Q4. While remaining optimistic on growth, the CBC expects the inflation to ease to 1.83% in 2027 from 2.03% in 2026. The CBC also chose to remain patient in monitoring the inflation developments despite the upside risk, and voiced concerns about the K-shape economy in September policy meeting. We think the inflation is likely to remain around 2% level with also the assumption of marginally lower oil prices from current level, and as such the CBC to hold rates steady in Q4 unless the domestic growth unexpectedly broadens out meaningfully to other sectors. The magnitude and the pace of Fed's further rate hiking is also a risk to our call.

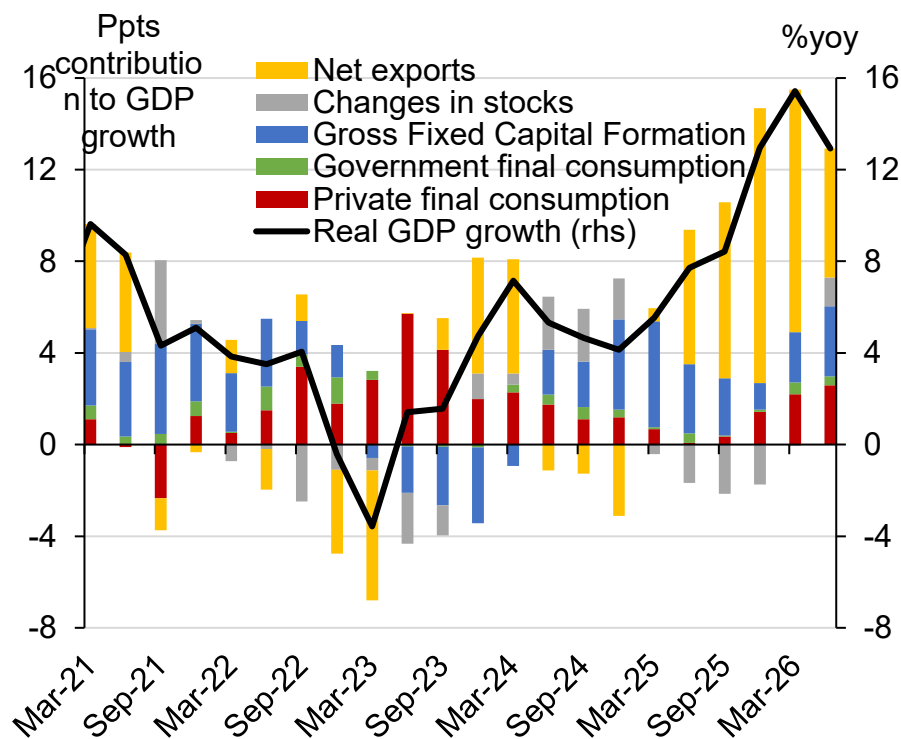
Strong trade surplus supports TWD but external headwind persists. We think the continued AI theme will remain supportive of Taiwan's exports/ trade surplus, and that a potential improvement of terms of trade from current level due to higher chip prices/ lower oil prices can provide a lift. However, the near-term headwinds for a stronger TWD stem from high-for-longer US interest rates and a strong US dollar, which place low-yielding currencies such as the TWD at a disadvantage. The risks to the TWD are two-sided, with upside risks stemming from a more hawkish CBC and downside risks arising from a slower pace of advanced AI development.

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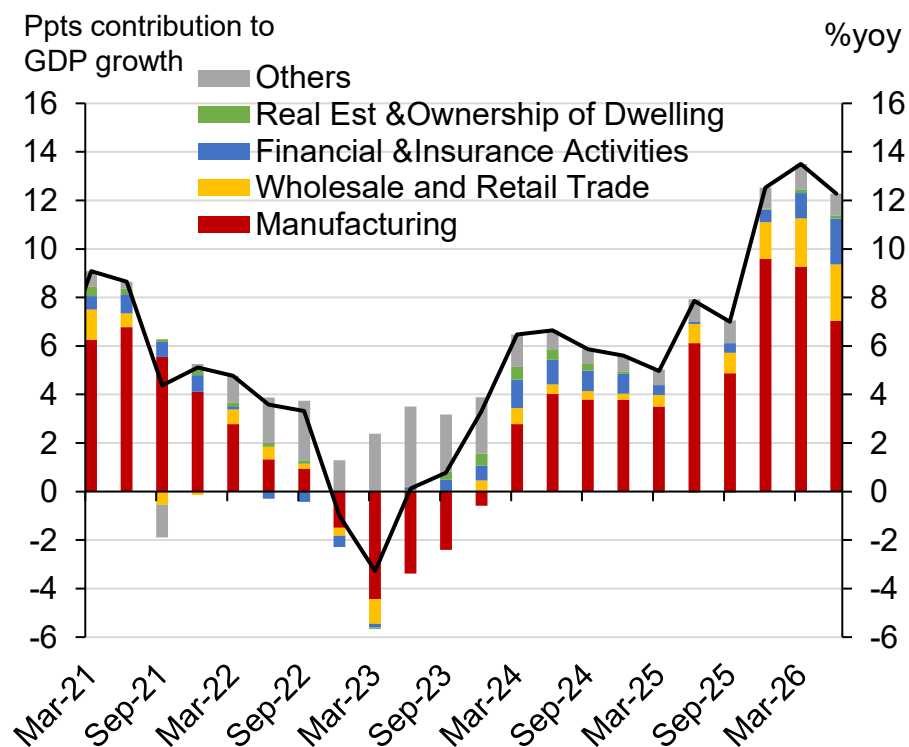
TWD | Robust growth underpinned by exports and investment

Besides robust semiconductor-led exports and investment growth, private consumption growth accelerated to 5.9%yoy in Q2, contributing 2.6ppt to headline GDP growth. On the production side, the wholesale sector benefited from the strong electronics cycle, while retail activity also improved, lifting the combined wholesale and retail sector growth to 18.5%yoy in Q2.

Net exports remained strong, fixed investment is regaining strength



Manufacturing sector is driving growth with positive spillover to wholesale and retail trade as well



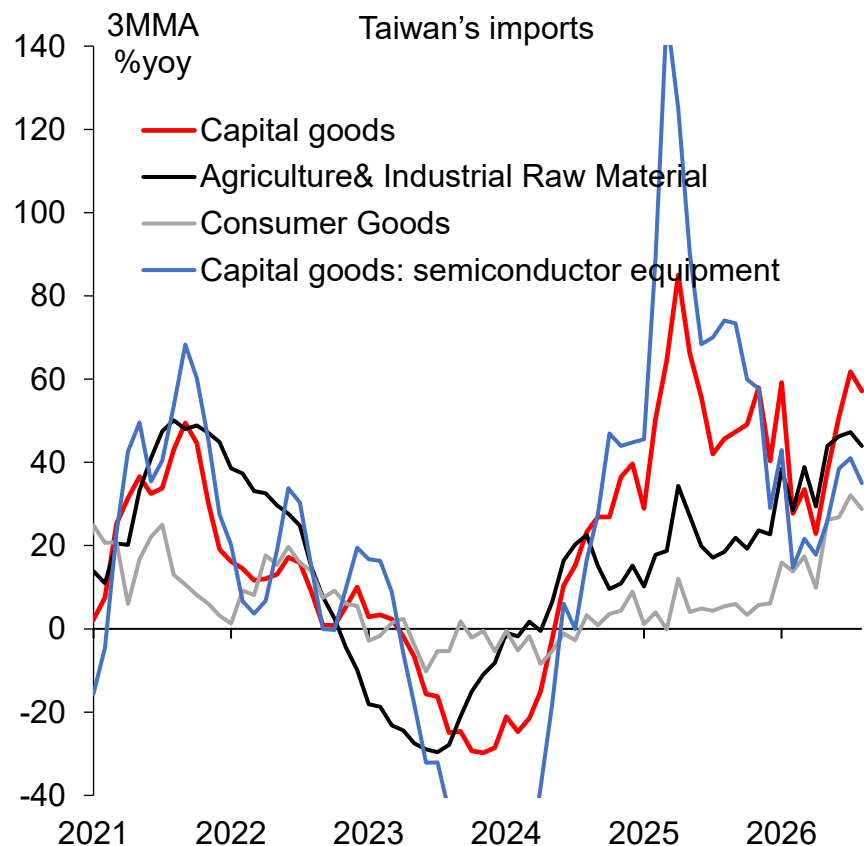
Note: * There are some discrepancy with GDP calculated using expenditure approach

Source: CEIC, Bloomberg, MUFG GMR.

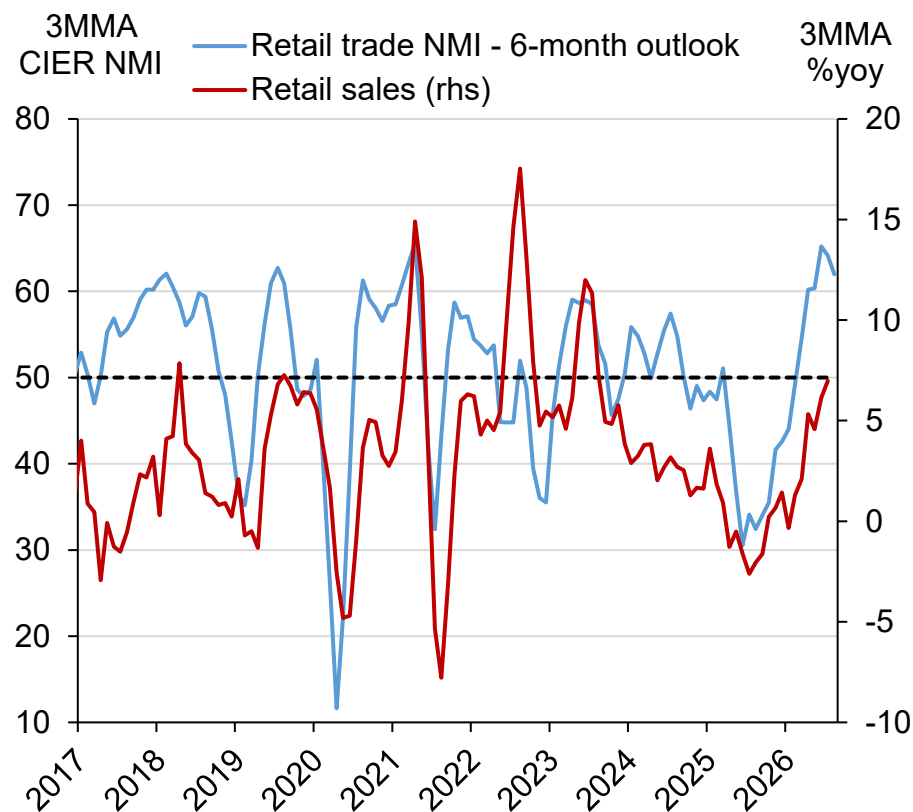
TWD | Consumption recovery likely to sustain but may be somewhat uneven

Taiwan's consumption momentum has continued to improve, supported by relatively firm wage growth and wealth effects from strong equity market performance. That said, the overall consumer confidence index has remained at a low level, suggesting that the recovery in consumption may have been uneven across income groups.

Strong imports momentum in consumer goods too



Retail business outlook has improved meaningfully



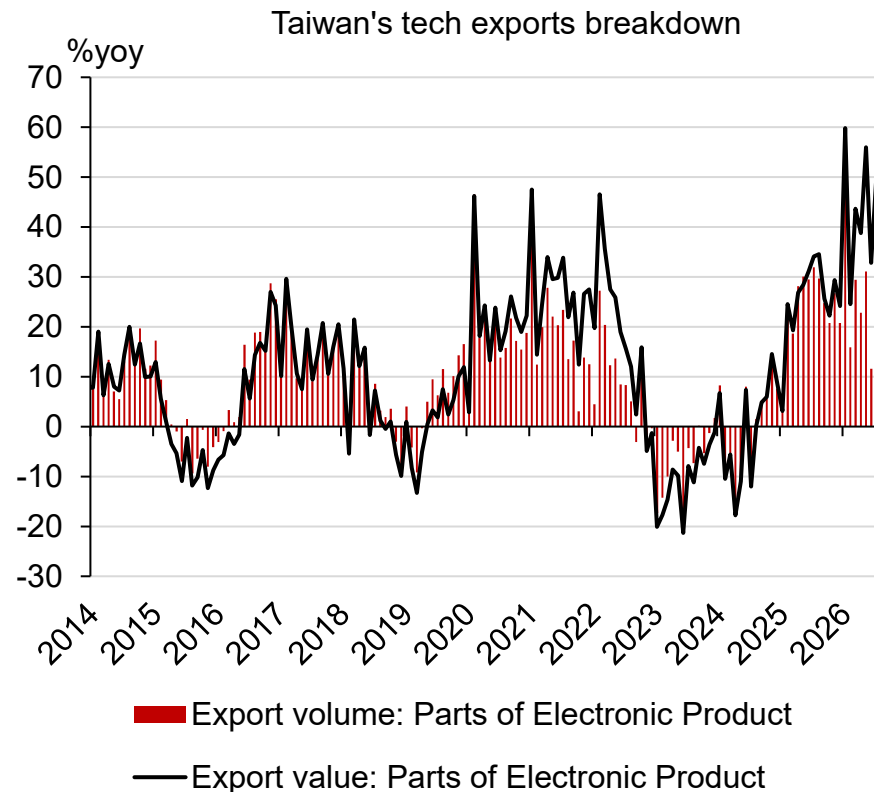
Source: CEIC, Bloomberg, MUFG GMR.

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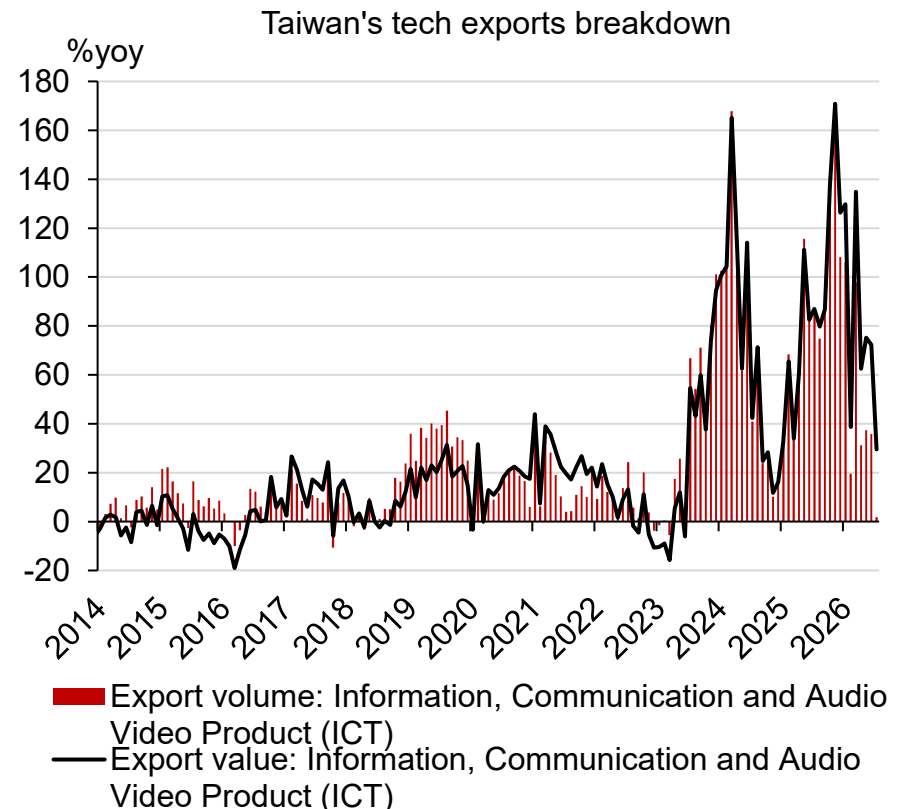
TWD | Volume-driven tech exports but price is increasingly driving growth too

While Taiwan's exports growth is mainly driven by quantity rather than price (vs South Korea), the volume growth has clearly moderated across chips and ICT products. Looking ahead, price component may play a bigger role as TSMC is reportedly planning to hike chip prices by as much as 10% in 2027.

Taiwan's chips exports are driven by volume but also benefit somewhat from higher memory price recently



The ICT exports volume has moderated following a period of substantial growth



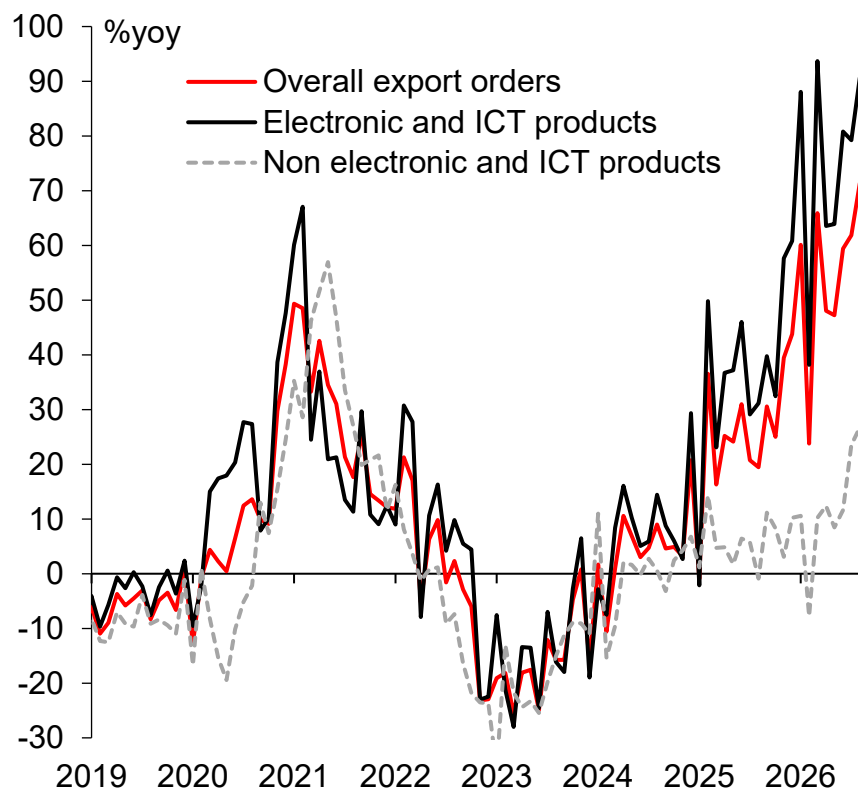
Source: CEIC, Bloomberg, MUFG GMR.

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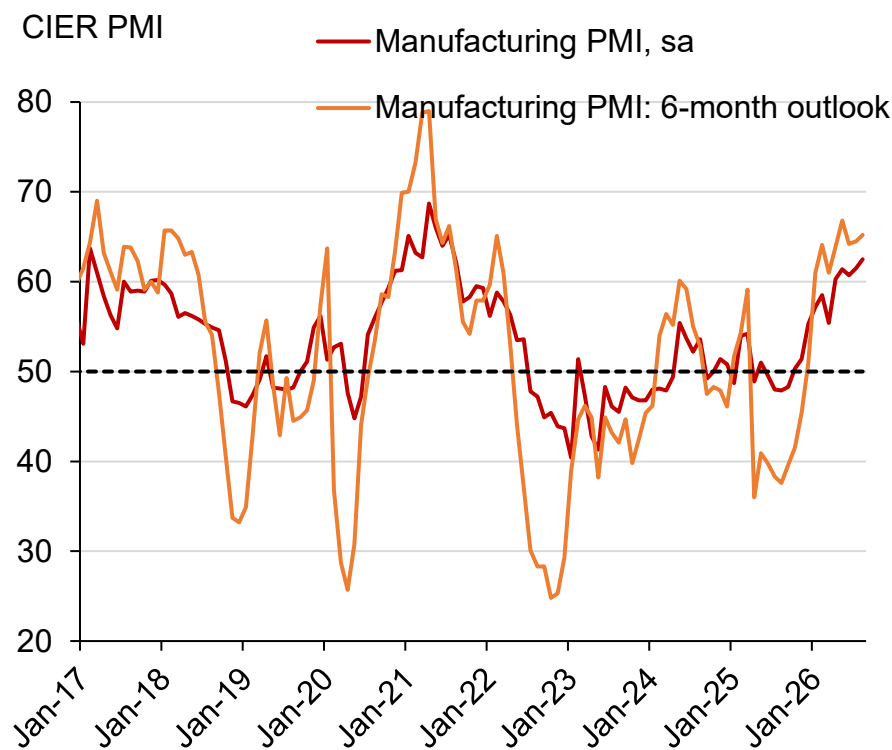
TWD | Export leading indicators suggest sustained strength ahead

Taiwan's manufacturing sector continues to stand out in Asia, and its strong exports/ PMI performance underscores the economy's competitive position in the global technology supply chain and points to resilient manufacturing momentum. In particular, the S&P Global September manufacturing PMI for Taiwan marched higher to 56.7ppts, outperforming the rest of Asia.

August's export orders growth reached another recent new high at 71%yoy



CIER manufacturing PMI remains firmly in expansionary territory while continuing its uptrend



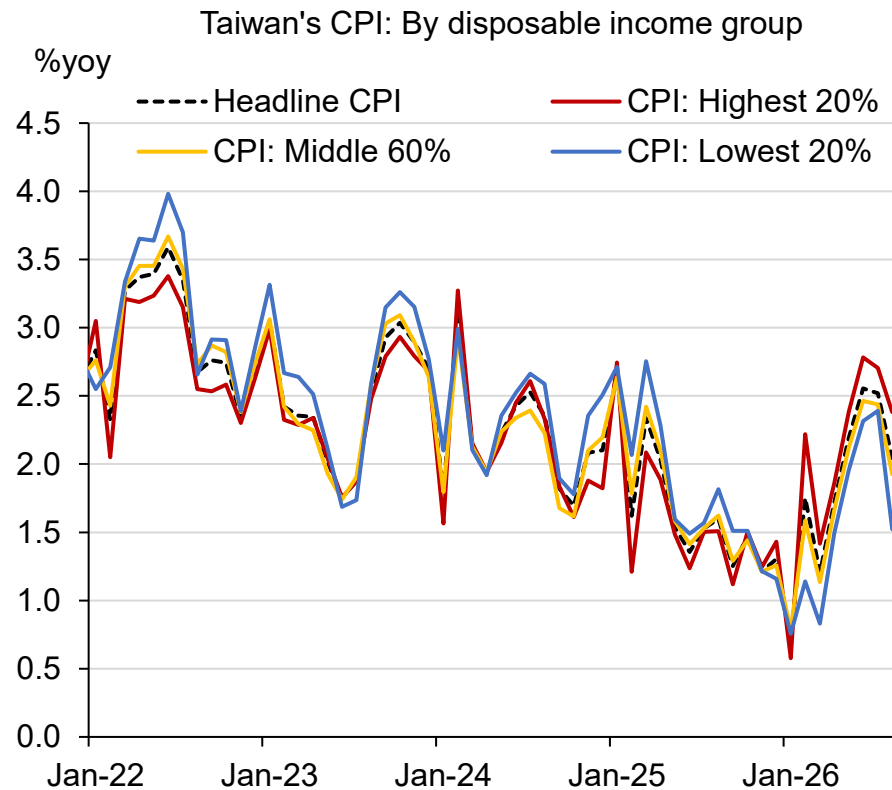
Source: CEIC, Bloomberg, MUFG GMR.

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TWD | CBC is likely to hold again in Q4 with inflation being the key to watch

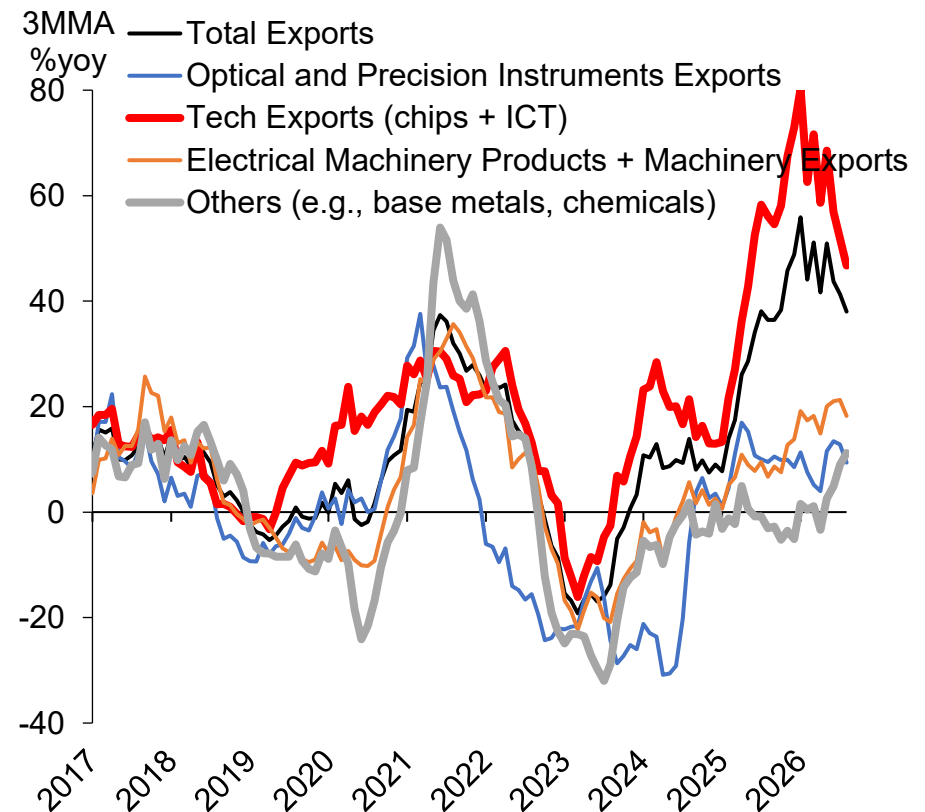
At its September meeting, the CBC left the policy rate unchanged at 2.00% despite the Fed starting the hiking cycle. While CPI inflation has exceeded the 2% alert threshold in recent months, the CBC believes it has room to remain on hold and assess whether disinflation will happen in the period ahead.

High income group is driving the CPI inflation this year



Source: CEIC, Bloomberg, MUFG GMR.

The exports of traditional sectors started to perform better but the K-shape dynamics remain intact

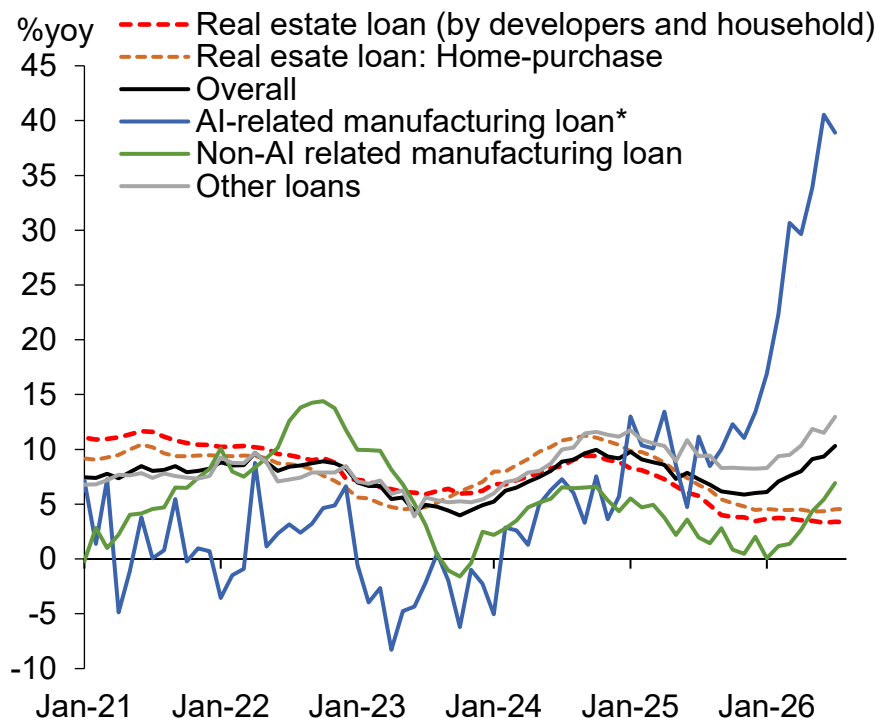


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TWD | Divergent dynamics also appeared in the bank loan portfolio mix

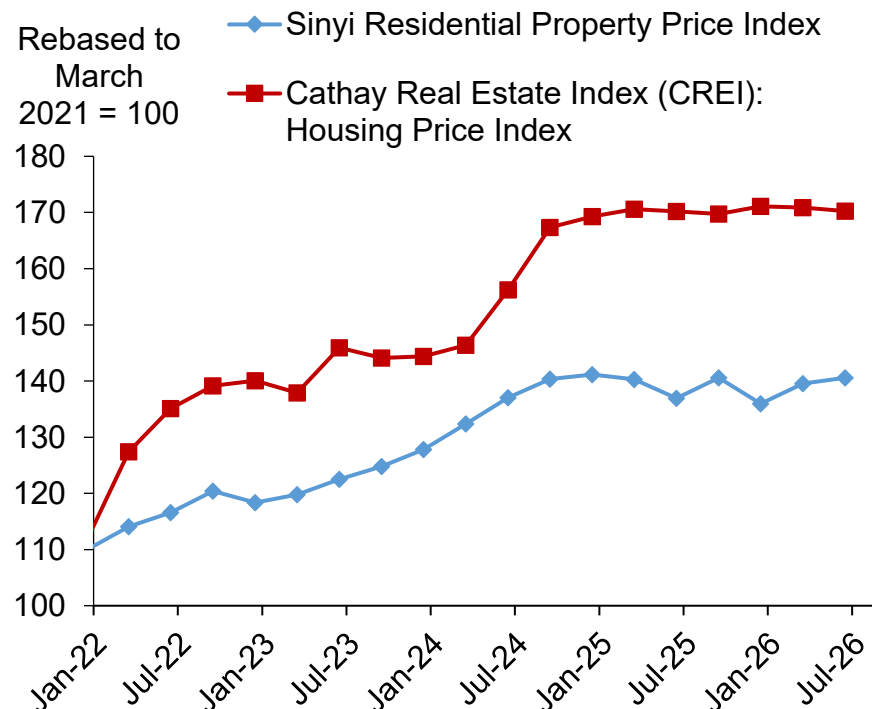
As the real estate loan concentration within bank's portfolio declined from its peak and housing prices also stabilized, the CBC slightly relaxed the selective credit controls further in the September meeting, increasing the maximum loan-to-value (LTV) ratio for a second home purchase by individual buyers nationwide from 60% to 70%, among others.

Strong loan growth in AI-related manufacturing vs subdued real estate lending



Note: *Electronics parts, computer, electronic and optical products

Housing price has stabilized following previous round of stricter credit control measures



Note:

Sinyi residential property price index is referring to second-hand residential units
Cathay real estate index is referring to presold and new residential units

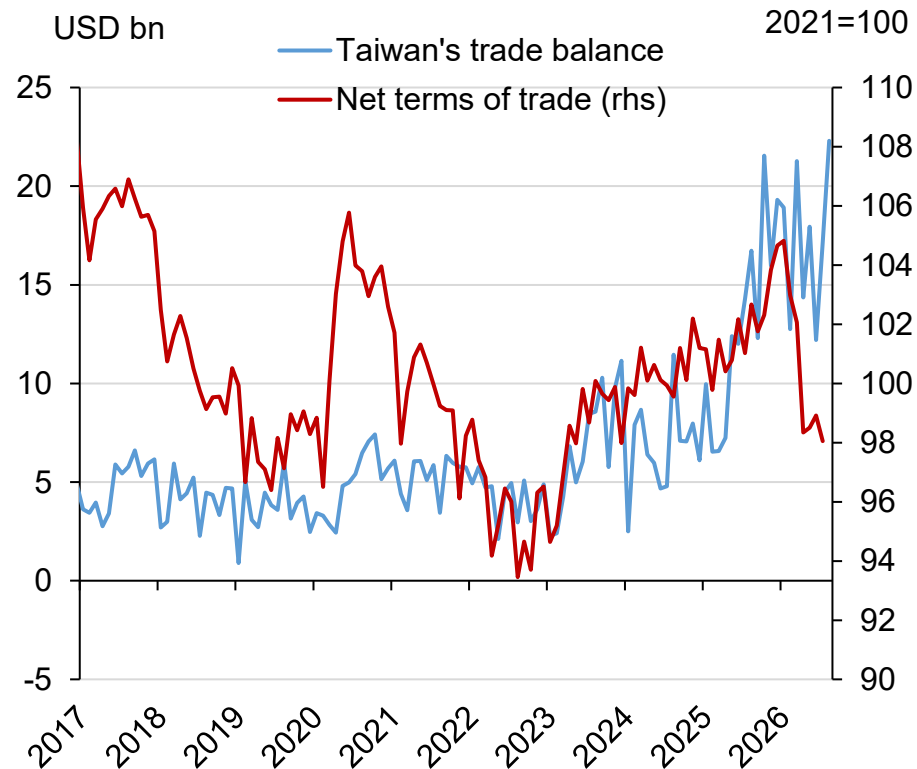
Source: CEIC, Bloomberg, MUFG GMR.

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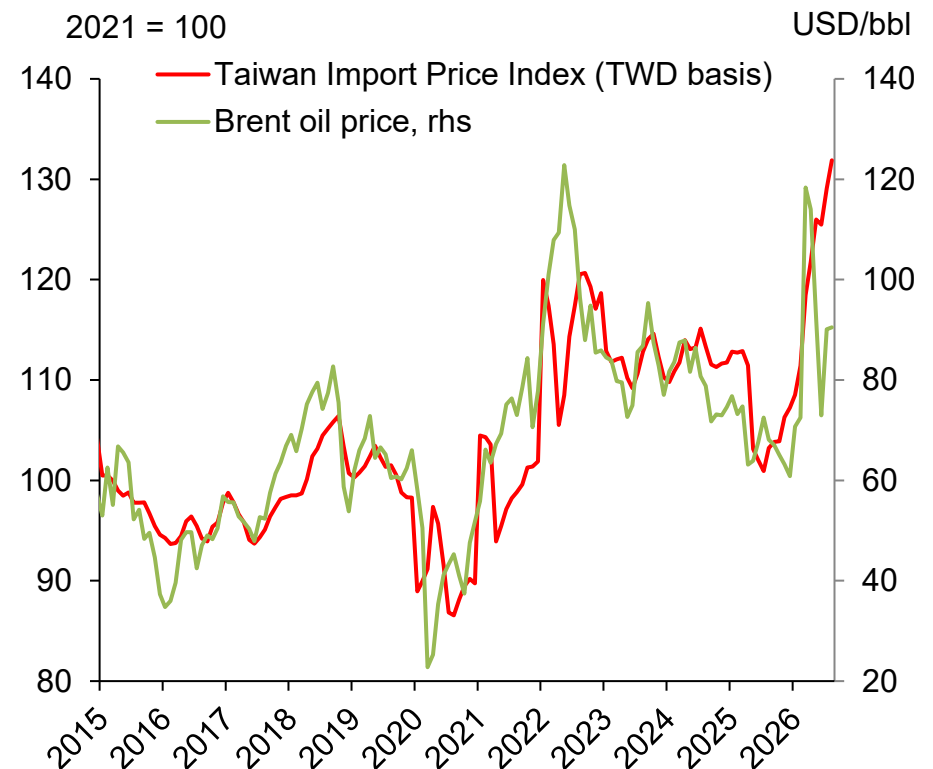
TWD | Any shift lower in oil prices can boost Taiwan's trade surplus further

Although Taiwan's terms of trade have been weighed down by higher energy prices following the US-Iran war, its trade surplus surged to a record monthly high of USD 22.3 billion in August. Over January-August, the cumulative trade surplus reached USD 137bn, already close to the full-year total of USD 155bn in 2025.

Terms of trade deteriorated recently but trade surplus has remained strong



Higher oil prices lifted Taiwan's overall import price



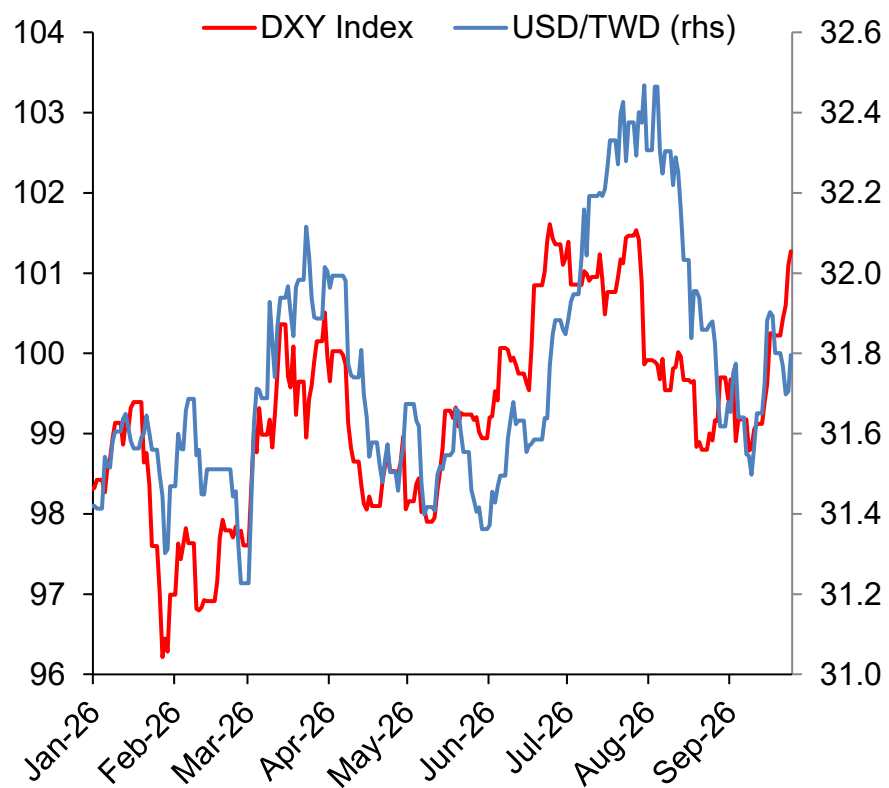
Source: CEIC, Bloomberg, MUFG GMR.

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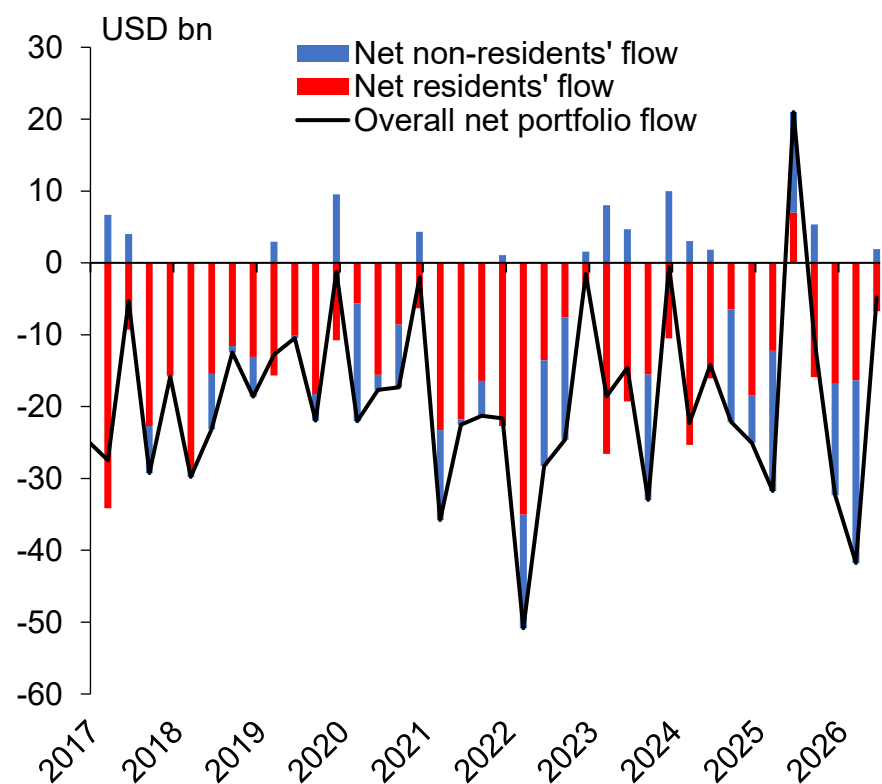
TWD | Driven by economic fundamentals, external factors and portfolio flows

While the TWD continues to be supported by strong AI-driven exports and solid equity market performance, external factors such as the US dollar and global risk sentiment, together with portfolio flows will remain important drivers of the currency, given their historically strong correlation with TWD movements.

Dollar trend remains a major driver for USD/TWD pair



Residents' net portfolio outflow eased in Q2 whereas foreigners turned net buyers



Source: CEIC, Bloomberg, MUFG GMR.

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THB: Baht needs more than an electronics boom

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THB | Baht needs more than an electronics boom

We forecast USD/THB to reach 34.10 in 3 months before easing to 33.50 in 12 months.

Thailand's electronics boom is generating less FX support than headline export growth suggests. Exports of computers, servers and other electronics products have strengthened alongside the global technology investment cycle, but production remains heavily dependent on imported semiconductors and components. Rising chip prices and imported content have lifted the electronics import bill, limiting the sector's net trade gains and reducing the support to THB from stronger headline exports. Notably, the electronics import to export ratio has risen above 90%, reflecting the high import dependence, implying limited net gains in the electronics trade.

Lower tourism receipts add to oil-shock pressures: Off-peak tourism has led to lower visitor arrivals in recent months, which will likely dampen travel services receipts. This would in turn temporarily soften the FX buffer against the oil shock.

Higher commodity prices are weakening Thailand's external balance: Thailand's terms of trade have fallen to multi-decade lows as import prices rise relative to export prices. Notably, the sharp widening of the oil trade deficit has been a major driver of the deterioration in the overall trade balance. The deterioration also extends beyond the oil trade balance, with widening deficits also seen in metals, electrical equipment, and chemicals. Stronger electronics exports have been insufficient to offset the drag from more expensive commodity and intermediate-goods imports.

Thailand's weak macro cycle reinforces the case for further THB underperformance: GDP growth slowed to 1.9%yoy in Q2 from 2.8%yoy in Q1, with net exports making a significant negative contribution as imports outpaced exports. Elevated household debt, slowing consumption and limited spillovers from investment point to continued below-potential growth, widening Thailand's growth disadvantage relative to the US and favouring USD over THB.

The BoT is constrained between oil-driven inflation and the need to remain growth-supportive: Higher energy prices would ordinarily strengthen the case for tighter policy, but the weak domestic economy likely limits the BoT's ability to respond. Indeed, raising rates could weigh on growth amidst global uncertainties, higher oil import bill, and underlying financial stress amongst SMEs, while keeping rates on hold may lead to inflationary consequences. For now, there is only modest market pricing for BOT rate hikes. Our base case is that the BOT will keep the policy rate at 1.0% into early 2027, leaving Thailand with a substantial rate and yield disadvantage against the US. Limited fiscal space, including a State Oil Fund deficit and public debt approaching the government's ceiling of 70% of GDP, further reduces policymakers' capacity to cushion the oil shock.

Unfavourable rates and net foreign portfolio outflows should keep THB under pressure. Lower relative rates vs. US will continue to put downward pressure on the baht, while foreign equity and bond outflows continued in August and September. Combined with elevated US yields, market expectations for further Fed tightening, Thailand's weak domestic growth and deteriorating terms of trade, these macro conditions leave the balance of risks tilted towards a further rise in USDTHB.

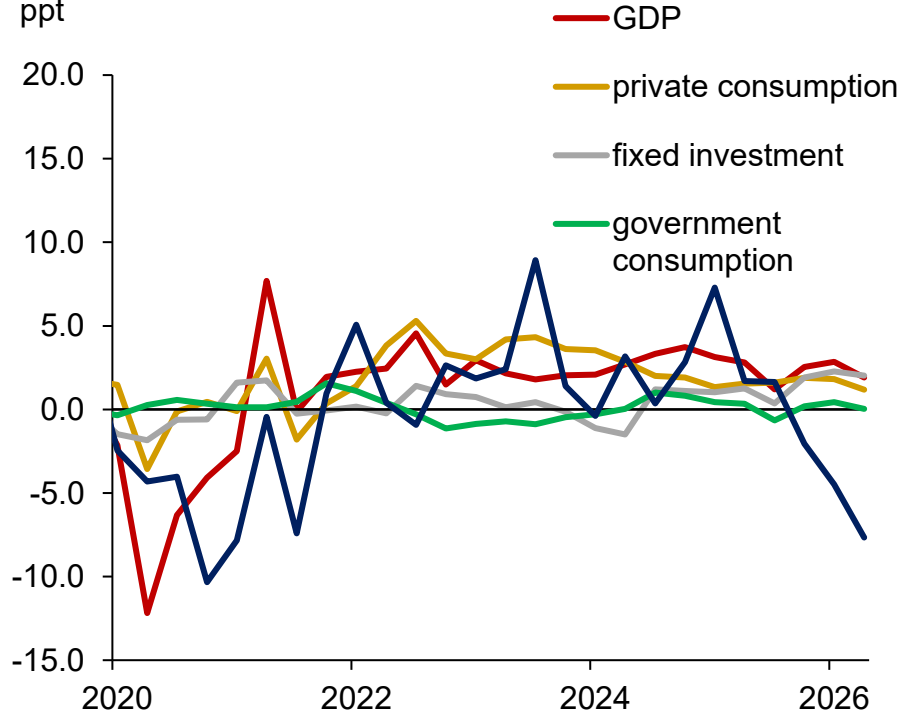
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THB | Growth backdrop is less supportive for the baht

Thailand's economy slowed in Q2 amidst global uncertainties, with GDP growth moderating to 1.9%yoy from 2.8%yoy in Q1. Notably, net exports made a significant negative contribution to growth as imports continued to outpace exports. While investment growth remains strong, the spillovers to the broader economy stay limited because of high import dependence.

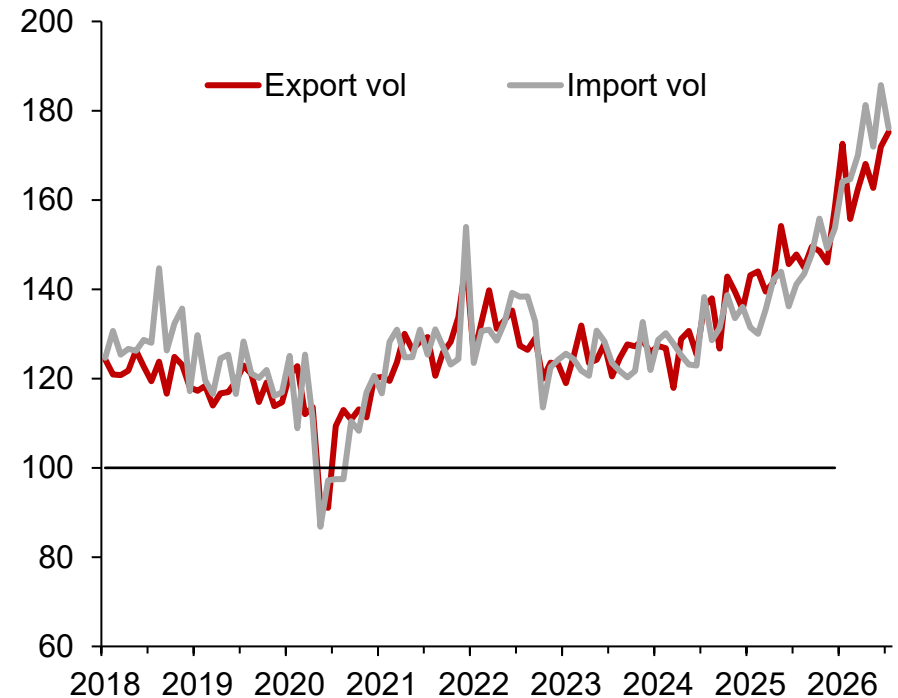
Thailand's net exports were a larger drag on growth in Q2

Contributions to y/y GDP growth, ppt



Strong export growth offset by import dependence

Activity indicators, index, 2010=100, seasonally adjusted



Source: CEIC, MUFG GMR

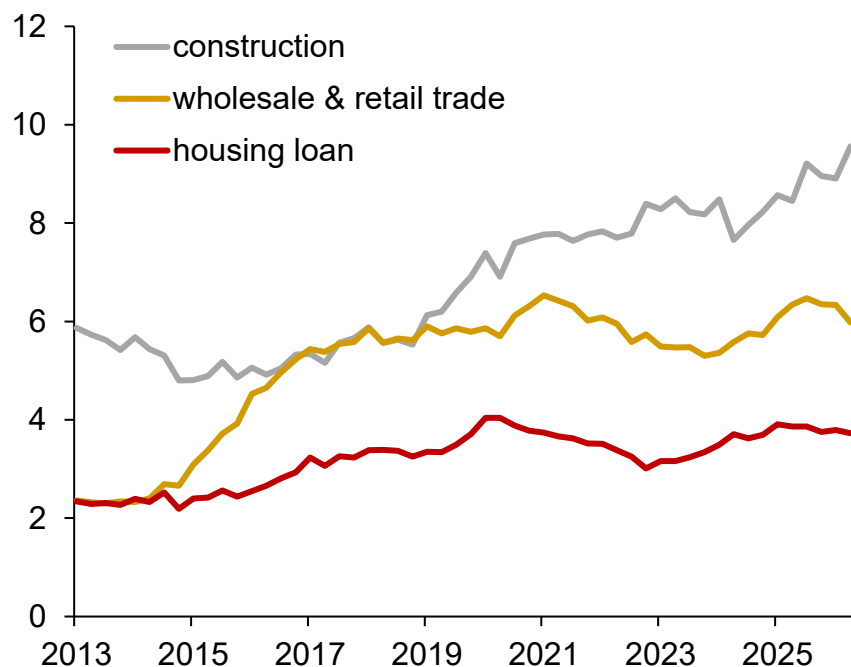
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THB | SME NPLs ease, but underlying financial stress remains

SME financial stress remains a key vulnerability despite some easing in headline NPLs. The SME NPL ratio has edged lower but remains elevated, while the continued rise in special mention loans suggests underlying repayment stress has yet to meaningfully improve. Sectoral trends are also diverging: trade-related NPLs have eased amid strong trade activity, while construction NPLs have continued to rise.

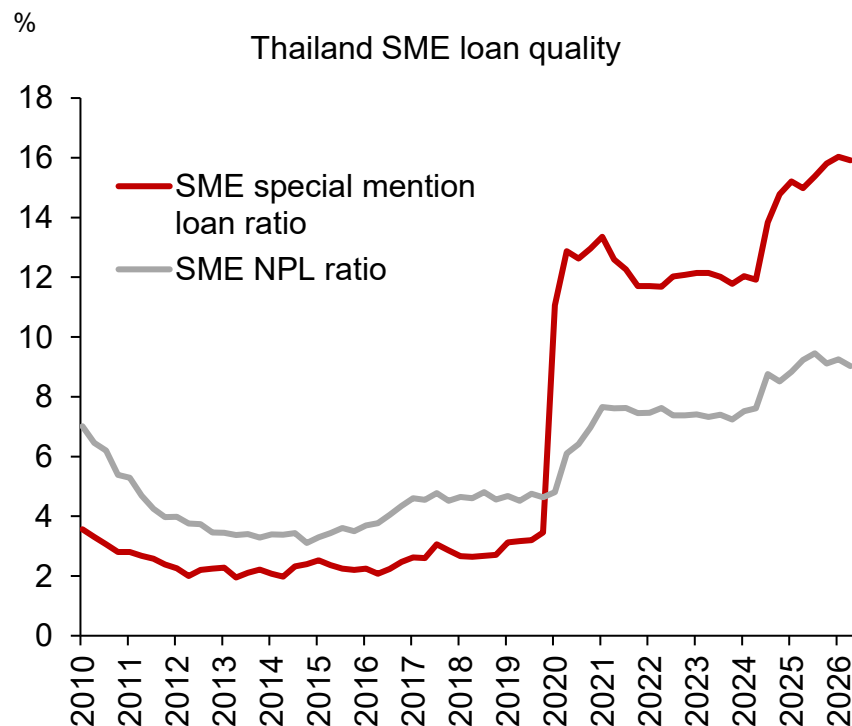
Easing NPL in trade sectors, but worsening in construction

Thailand's commercial bank NPL ratio, %



Some easing of SME NPL ratio, but special mention loan ratio stays elevated

Thailand SME loan quality



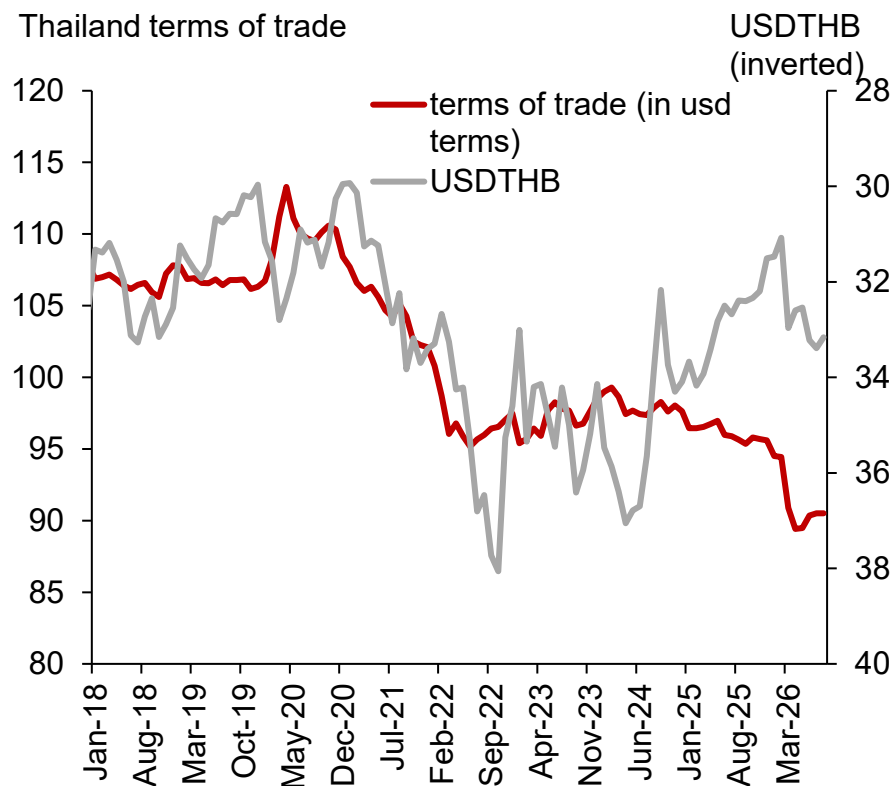
Source: CEIC, MUFG GMR

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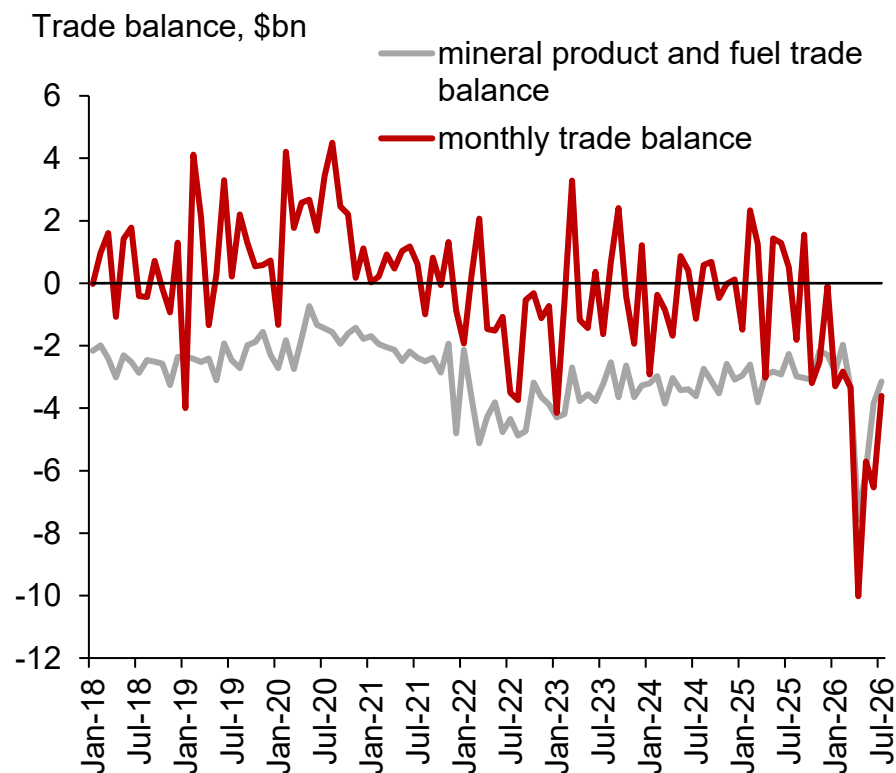
THB | Thailand's terms of trade have fallen to multi-year lows

Thailand's terms of trade have fallen to a 27-year low in USD terms, reflecting the sharp increase in import prices relative to export prices. The weaker terms of trade have been closely associated with a weaker baht in recent years. The oil shock has significantly worsened the trade balance, weighing on the baht's outlook.

Thailand's terms of trade at multi-year lows



The oil shock impact on Thailand's trade balance



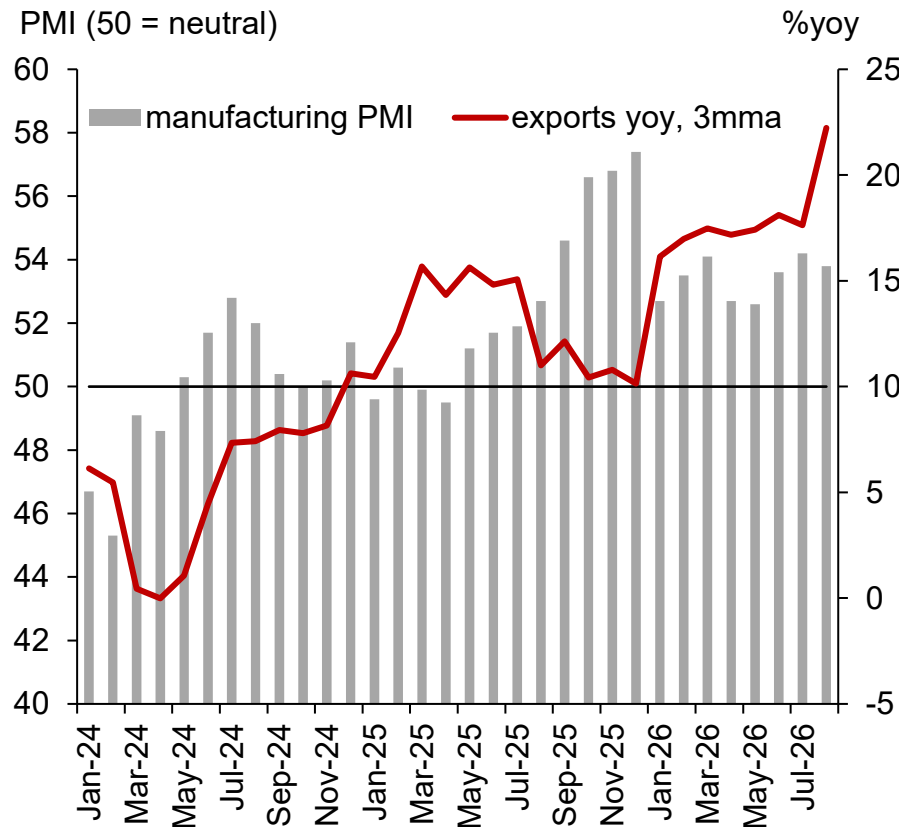
Source: CEIC, Bloomberg, MUFG GMR

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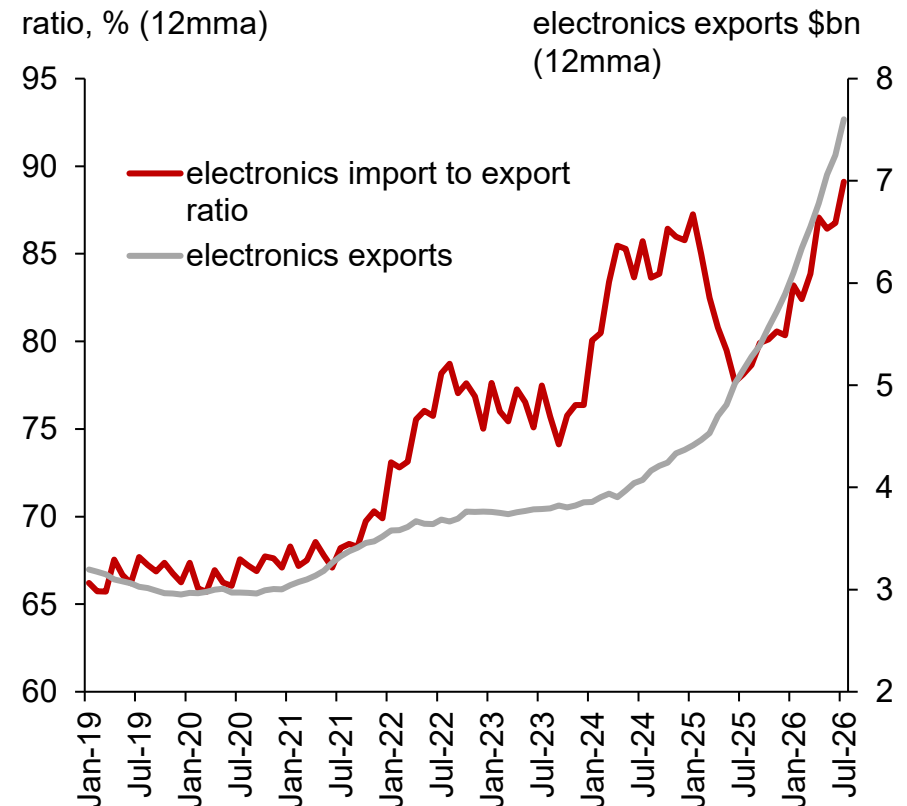
THB | Limited net gains in electronics trade

Thailand's manufacturing PMI remains in expansionary territory (>50 indicates expansion), suggesting that export momentum will likely sustain over the next few months. The issue is that Thailand's electronics exports rely heavily on semiconductor imports. As such, the electronics import to export ratio has been rising sharply, implying limited net gains in the electronics trade.

Exports to US and China showing signs of moderating



PMI survey points to some export moderation



Source: CEIC, MUFG GMR

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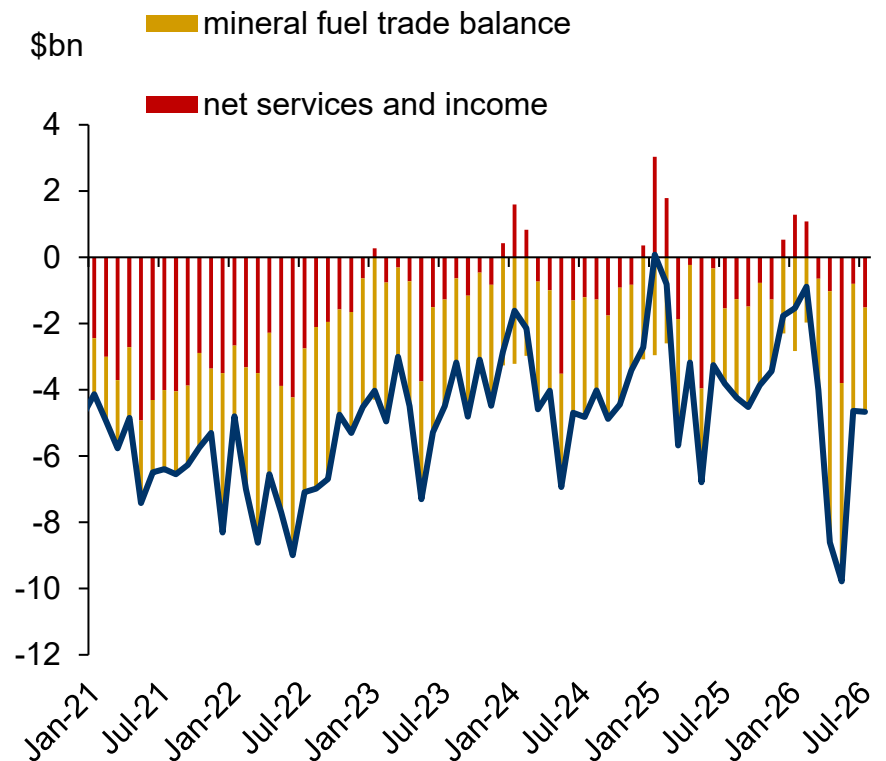
THB | Lower tourism receipts add to oil-shock pressures

Thailand's external buffer is becoming less favourable as the oil shock coincides with the tourism off-season. Visitor arrivals and travel services receipts tend to soften during the seasonal lull, temporarily reducing an important source of services export and FX receipts. At the same time, higher oil prices increase Thailand's mineral fuel import burden, adding pressure to the trade balance

Off-peak tourism softens the FX buffer against the oil shock



Oil shock hits as travel services receipts enter a seasonal lull



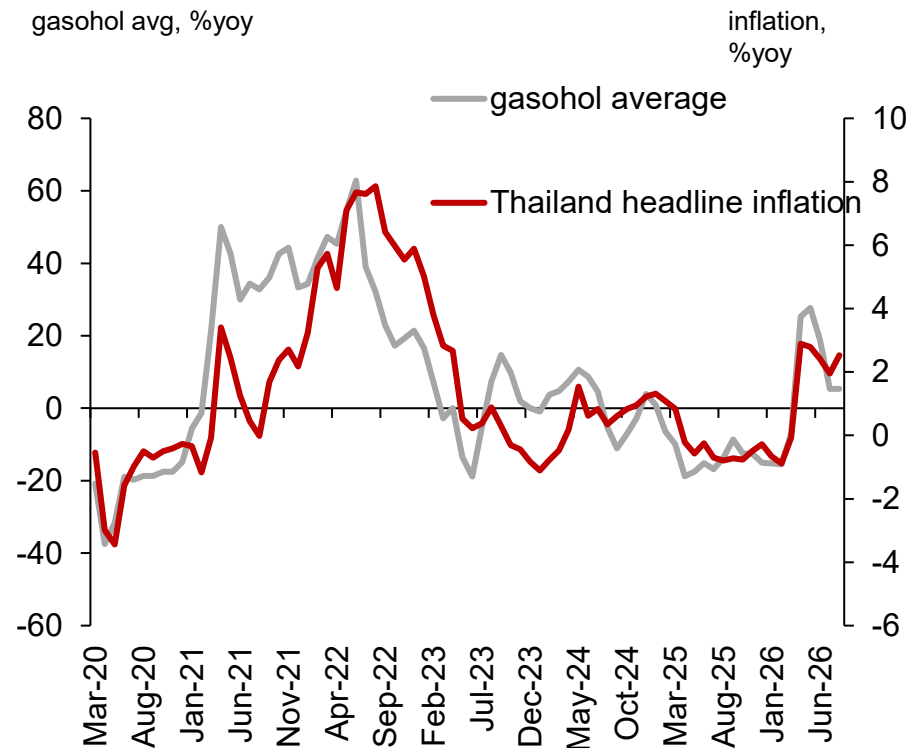
Source: CEIC, MUFG GMR

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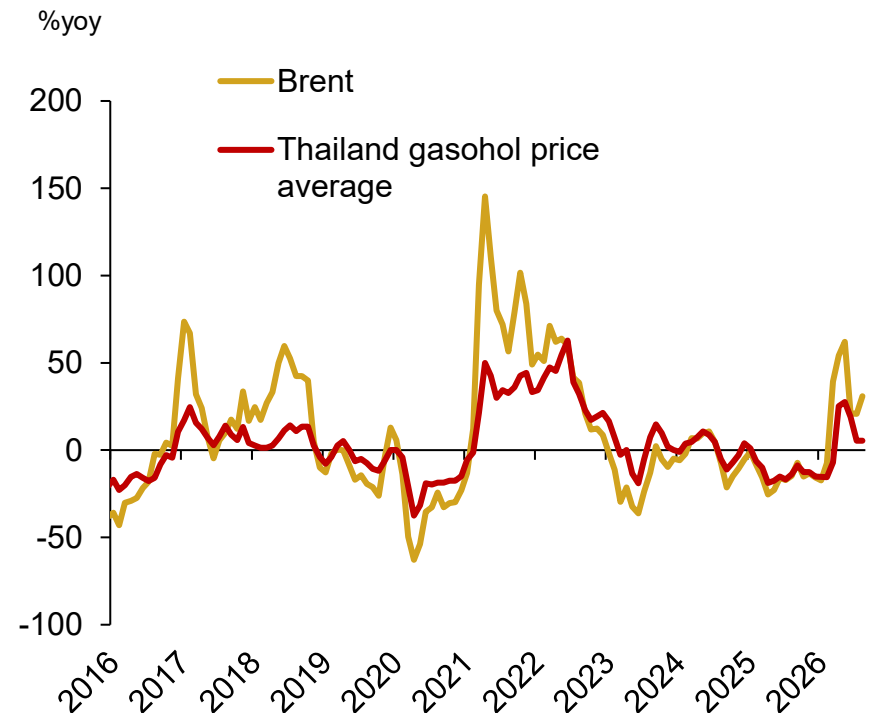
THB | Inflation pressures are building

Inflation risks are skewed to the upside as higher oil prices feed through to domestic fuel costs. Headline inflation has rebounded to around 2.5%yoy, alongside a rise in gasohol prices. With Brent remaining elevated, historical pass-through suggests further upward pressure on fuel inflation is possible. But weak economic growth makes it difficult for BOT to counter oil shock with rate hikes.

Headline inflation still below 3% upper bound target, but upside risks are building



Gasoline price faces upside risk as Brent stays high



Source: Bloomberg, CEIC, MUFG GMR

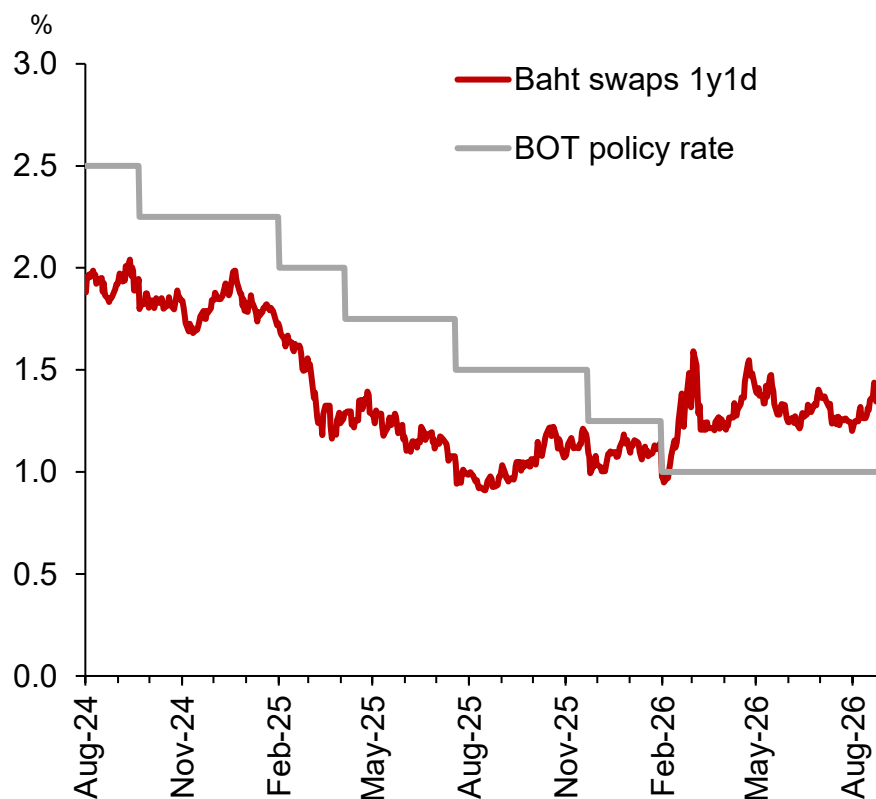
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THB | Low relative rates undercut baht's appeal

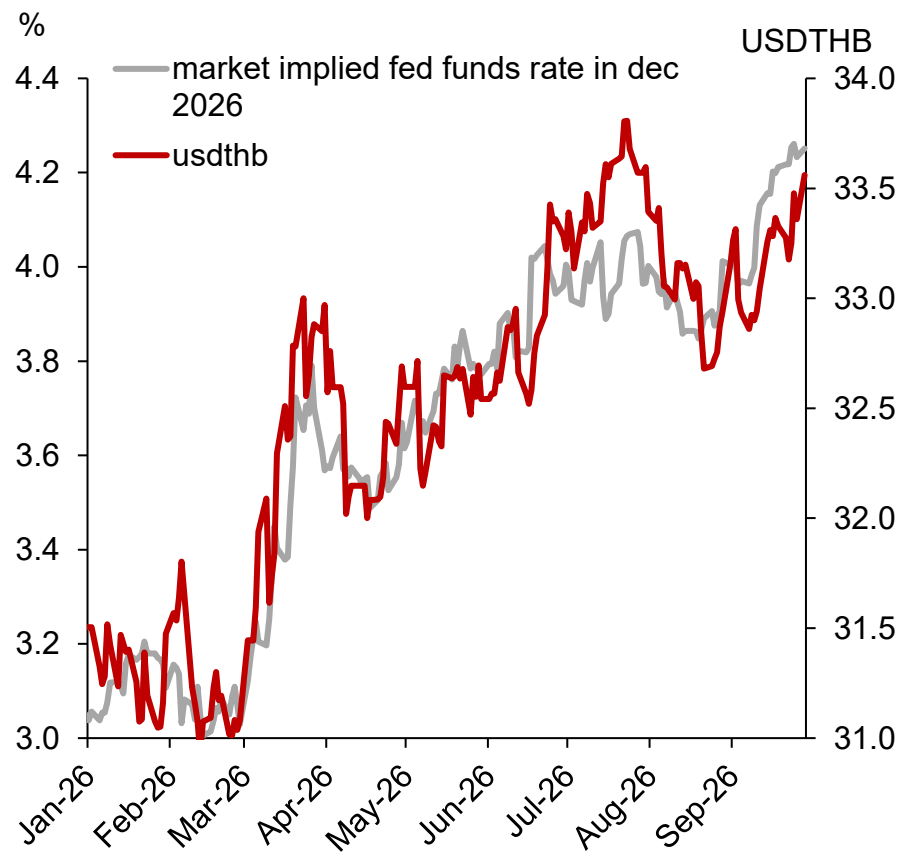
Higher oil-driven inflation would argue for tighter BoT policy, but Thailand's weak growth backdrop limits the scope for rate hikes. This is reflected in only modest repricing of BoT rate-hike expectations. We maintain our view for BoT to keep policy rate at 1%. Meanwhile, rising US rates tighten external financial conditions and widen the relative rates disadvantage.

Only modest repricing of BOT rate expectations

Thailand: swap pricing vs BOT rate



Fed rate hike expectations weighing on the baht



Source: Bloomberg, MUFG GMR

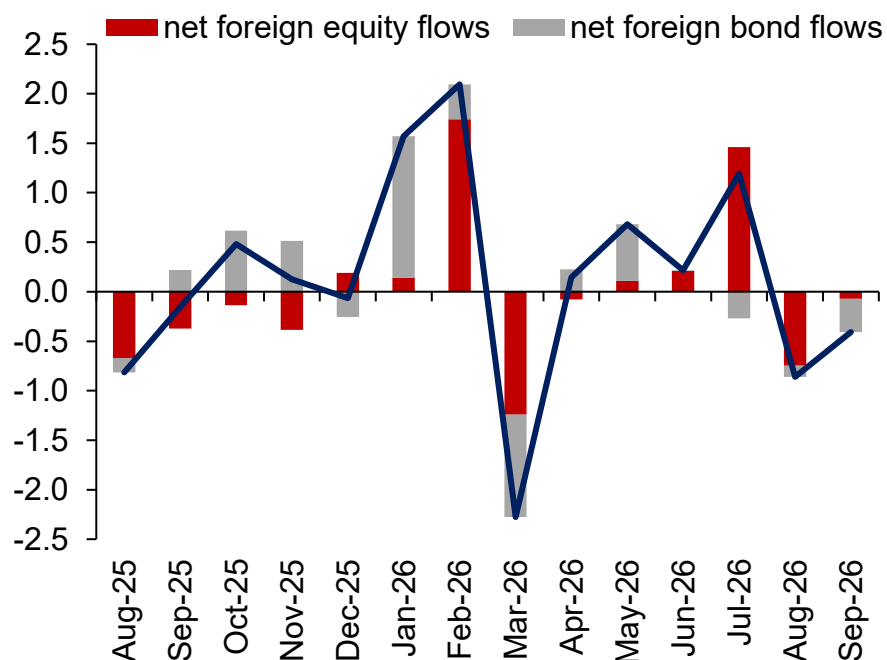
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THB | Foreign portfolio outflows and shrinking fiscal space weaken buffers

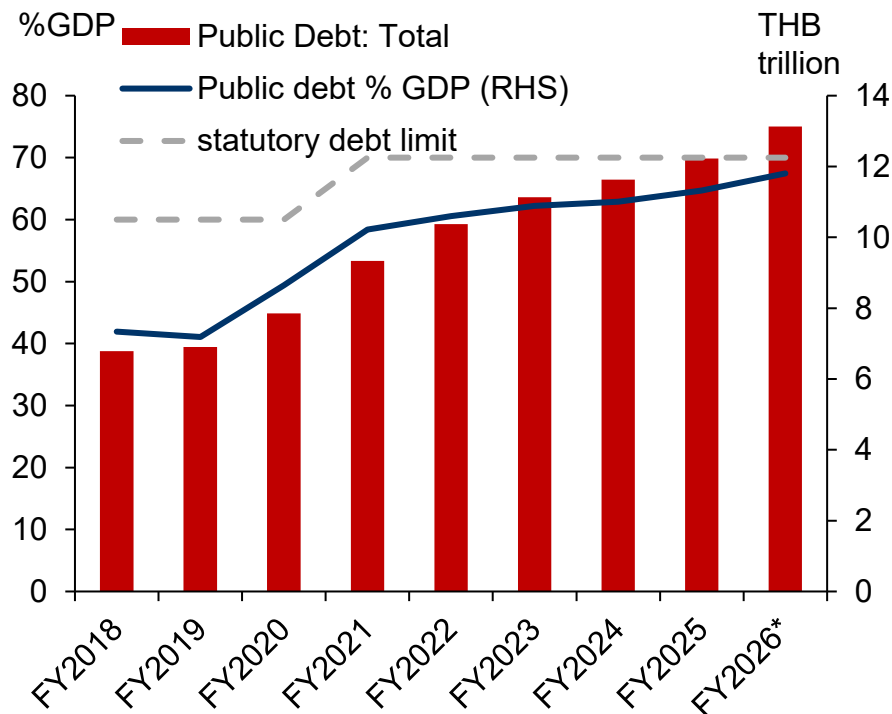
Renewed portfolio outflows in Aug-Sep and diminishing fiscal space leave Thailand with fewer buffers against higher oil prices and US yields, reinforcing downside risks for THB. Thailand's public debt ratio has risen steadily and is approaching the 70% of GDP statutory ceiling, limiting fiscal room to cushion the economy from external shocks.

Renewed net foreign portfolio outflows in Aug-Sep

Thailand's net foreign portfolio flows, \$bn



Thailand's public debt is approaching 70% of GDP ceiling



*FY2026 data up till July

Source: Bloomberg, CEIC, MUFG GMR

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VND: A more stable USD/VND, SBV on hold

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VND | A more stable USD/VND, SBV on hold

We are forecasting USD/VND to be more stable. We see USD/VND at 26,000-26,100 over the next few months into end-2026, before moving towards 26,200-26,300 levels later in 2027. With a more stable USD/VND FX rate, we also expect SBV to keep rates on hold through 2027. We correspondingly also expect the 3-month interbank rate to move gradually lower below 7% over time.

There are a few factors driving our forecast.

First, there have been larger capital inflows than we have anticipated and which looks likely to continue, and this is coming despite the widening of the trade deficit in Vietnam. In particular, implemented FDI rose by 15%yoy on a rolling YTD basis, up from around 9-10% a few months ago. This is also reflected in a pick-up in FDI registrations and commitments, some of which should start to show up and be converted to actual FDI later in 2027.

Second, from a broader balance of payments perspective, we think a combination of lower Dollar deposit outflows by residents, coupled with greater inflows of offshore loans to fund onshore investment can help explain the stronger and more stable performance by USD/VND so far. The balance of payments data overall suggest signs that domestic capital outflows have slowed.

Third, Vietnam received a larger-than-expected weighting in FTSE Russell's semi-annual index review, with a weight of 0.49%, above FTSE's earlier projections. This is estimated to bring around US\$3bn of foreign inflows over time, compared with earlier estimates of US\$2bn, with actual passive flows taking place until September 2027. Together with that, we have also seen a slower pace of foreign selling by foreign portfolio equity investors over the past 2 months in Vietnam, and if continued this should be an additional factor helping to support VND.

Fourth, credit and deposit growth seems to have reached a better balance, even as credit is still overall outpacing deposits. The latest data as of 22 August suggests credit growth of around 16%yoy, but down from close to 20%yoy at the start of the year. In contrast, we are seeing some gradual signs of a pickup in deposit growth, rising to 13%yoy as of 22 Aug, up from 11%yoy previously.

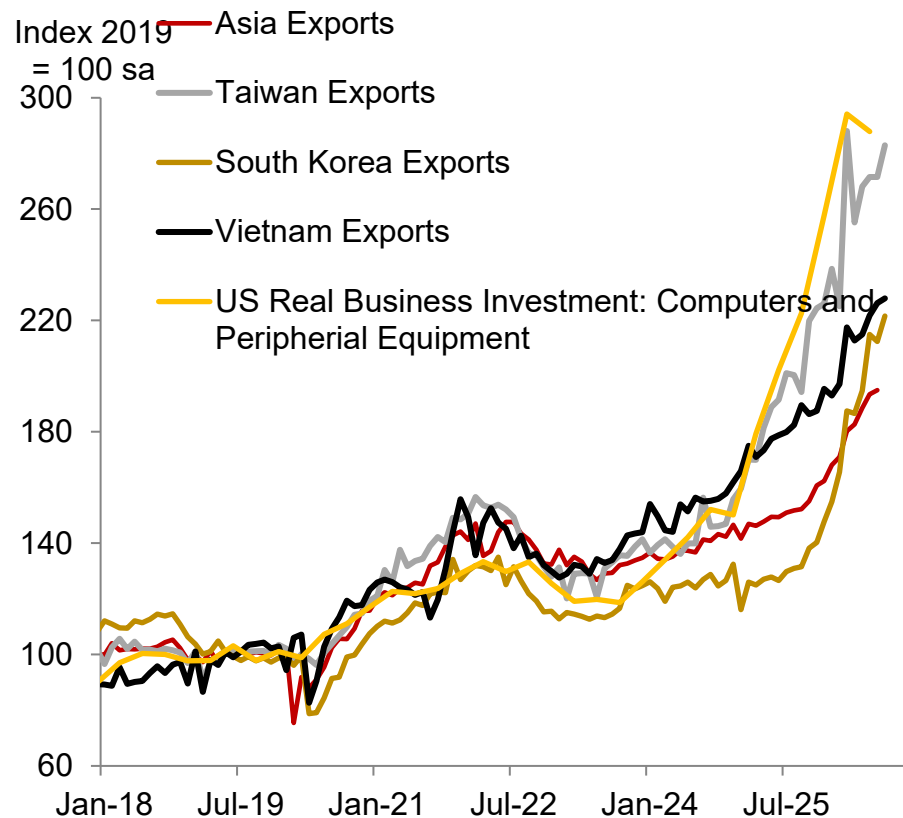
From a fundamental perspective, we think the common thread is that higher domestic VND interest rates coupled with slightly better macro stability have combined to create a better balance in the FX flow picture for USD/VND. In addition, with some key Asian currencies such as the South Korean won and Japanese Yen strengthening significantly, this has also spilled over to some extent to support VND. We still think the direction of travel is for USD/VND to rise from here. State Bank of Vietnam has been gradually raising its USD/VND fixing rate and with that the FX ceiling rate over the past few months, and as such we think this signals more tolerance for FX weakness over the medium-term. There is also some chance that SBV could raise its Dollar buying rate to cap USD/VND downside. In addition, with a high GDP growth target of 10%, we think there will be a greater push by authorities to support the economy through credit and liquidity from here. We expect SBV to keep rates on hold, and see 3-month interbank rates trending lower gradually below 7%.

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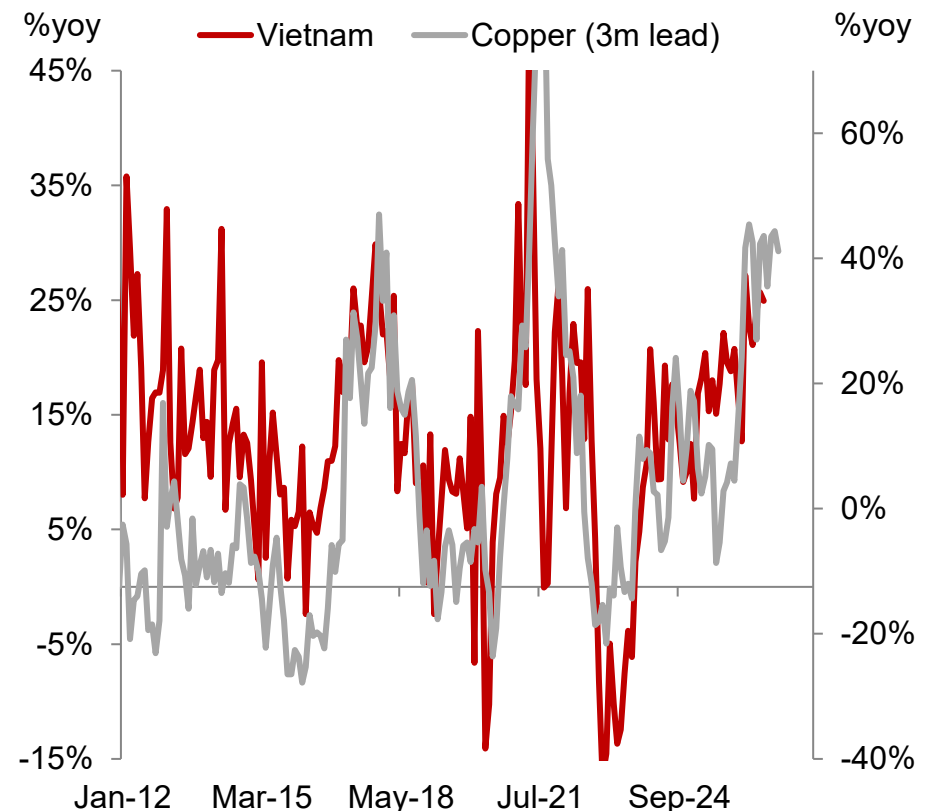
VND | Demand + Diversification + Exemptions: Vietnam helped by AI tech boom

Vietnam remains well placed to benefit from the AI and electronics upcycle as global tech demand recovers and supply chains continue to diversify. That external support does not eliminate near-term energy risks, but it does give the economy a stronger growth buffer than many peers.

US tech demand remains supportive for Vietnam



Diversification and exemptions help Vietnam capture the AI cycle



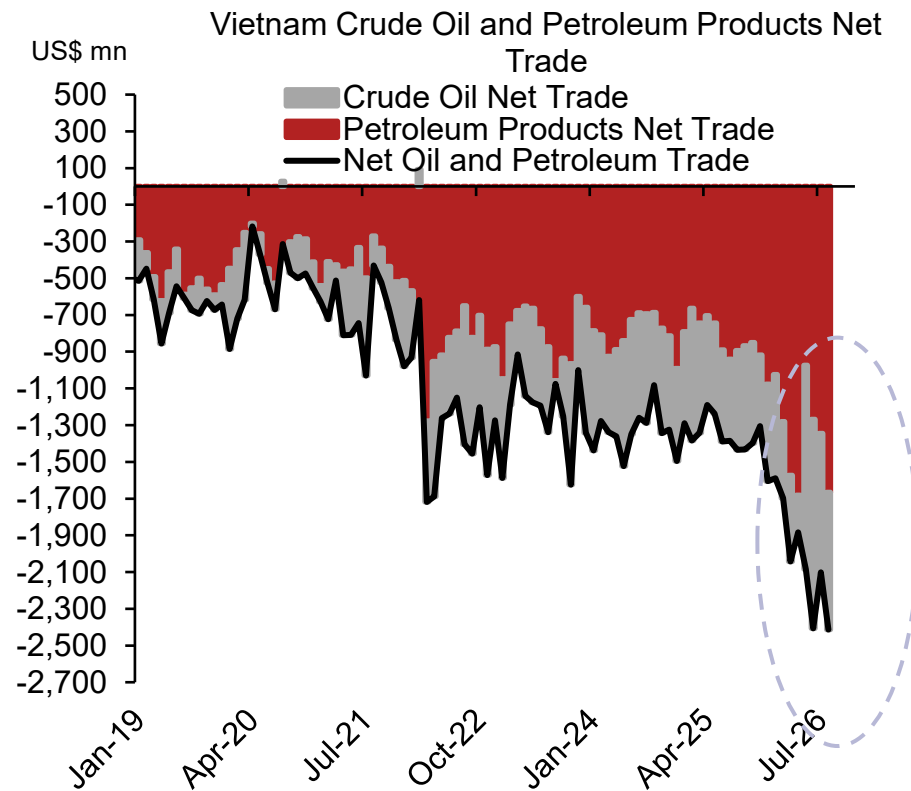
Source: CEIC, Bloomberg, MUFG GMR

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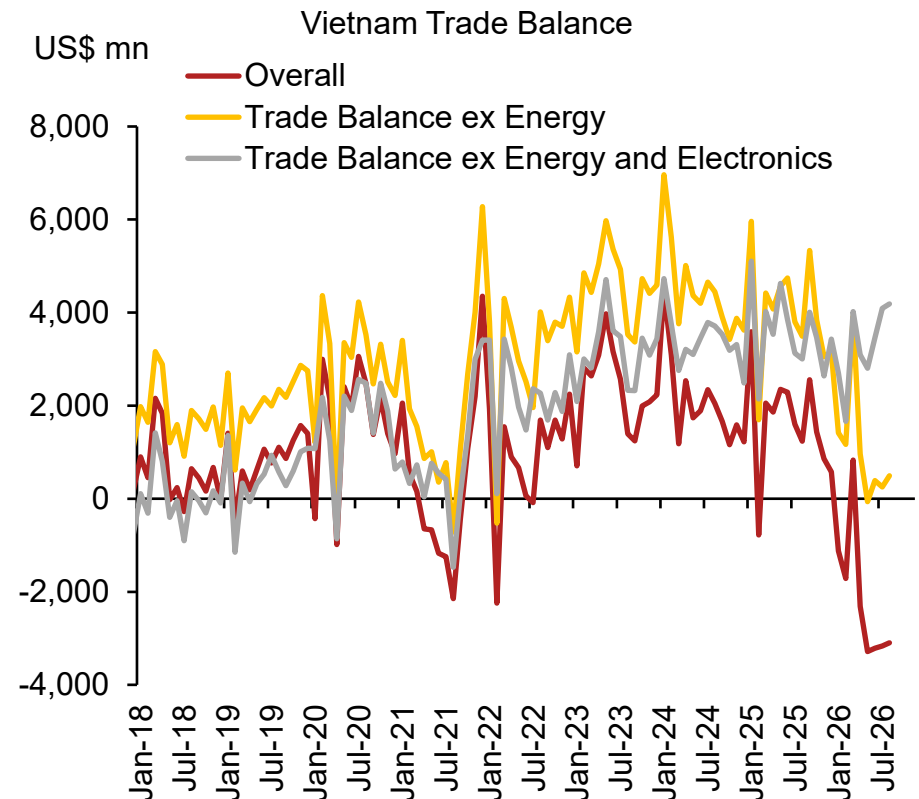
VND | Wider trade deficit – higher import needs from oil and infrastructure

Vietnam's energy position leaves it exposed to global sourcing disruptions, with crude and petroleum trade dynamics particularly important when geopolitical shocks disturb regional supply chains. Vietnam's overall trade balance has been weighed down by higher electronics imports and also infrastructure spending beyond oil trade.

Energy trade balance remains vulnerable to external shocks



Vietnam's wider trade deficit has been driven by oil and also higher capital goods and electronics imports



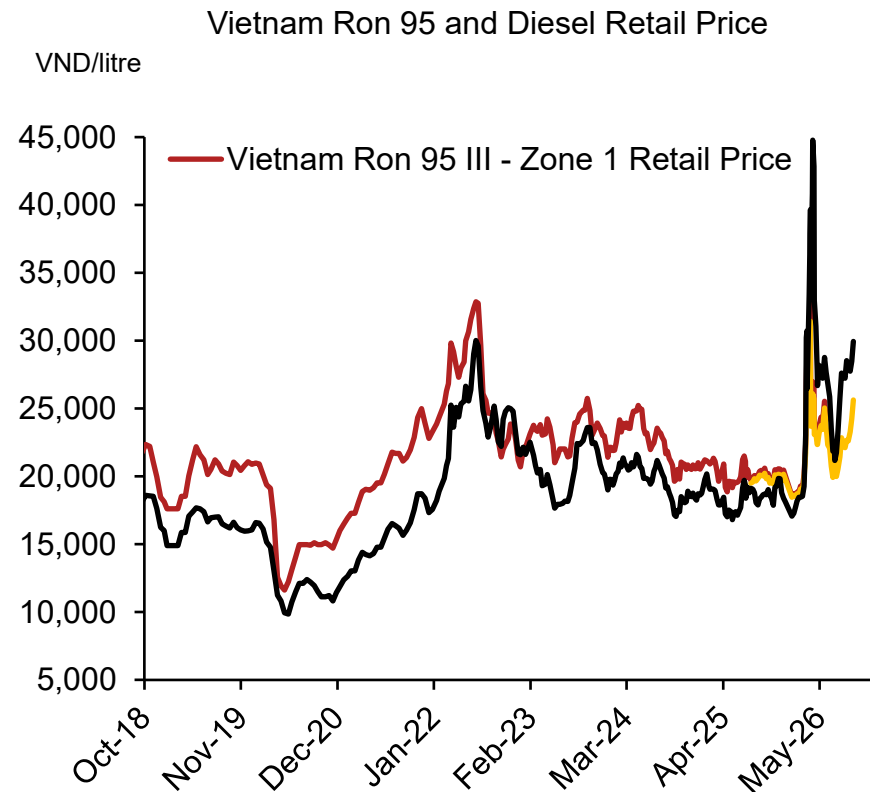
Source: CEIC, Bloomberg, MUFG GMR

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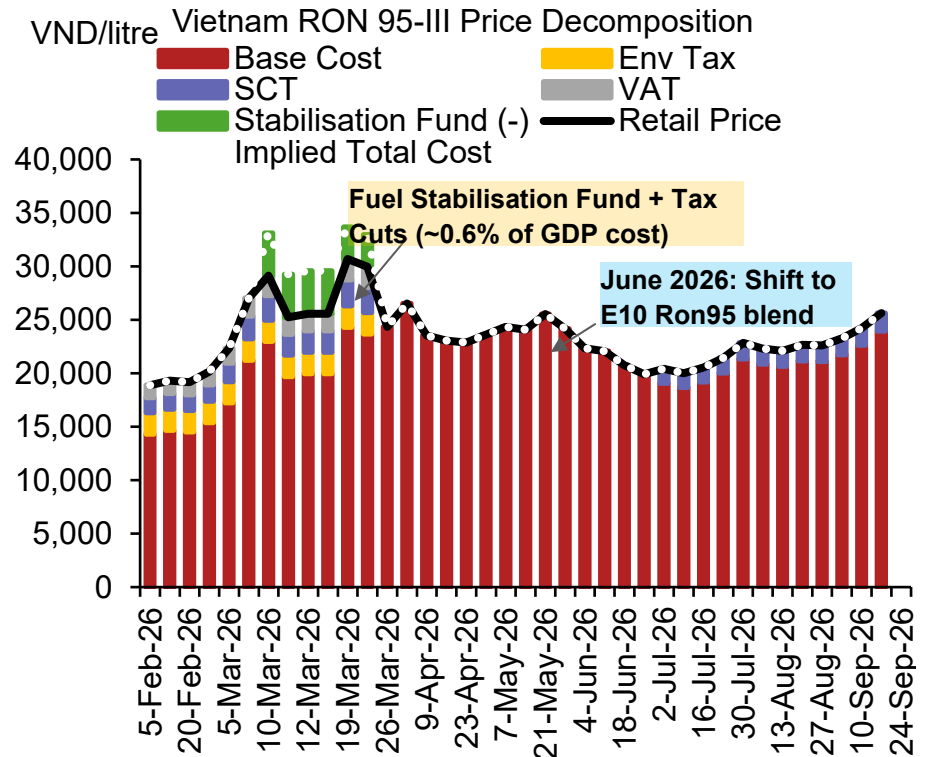
VND | Oil price direction a key uncertainty for Vietnam

Lower oil prices over time and fuel-tax relief should reduce headline inflation pressure, with pump-price pass-through also limiting the direct squeeze on household and business costs. We are assuming oil prices gradually move lower over time albeit in a somewhat more volatile fashion.

Retail fuel prices should ease as oil falls over time



Tax components and base prices affect inflation pass-through



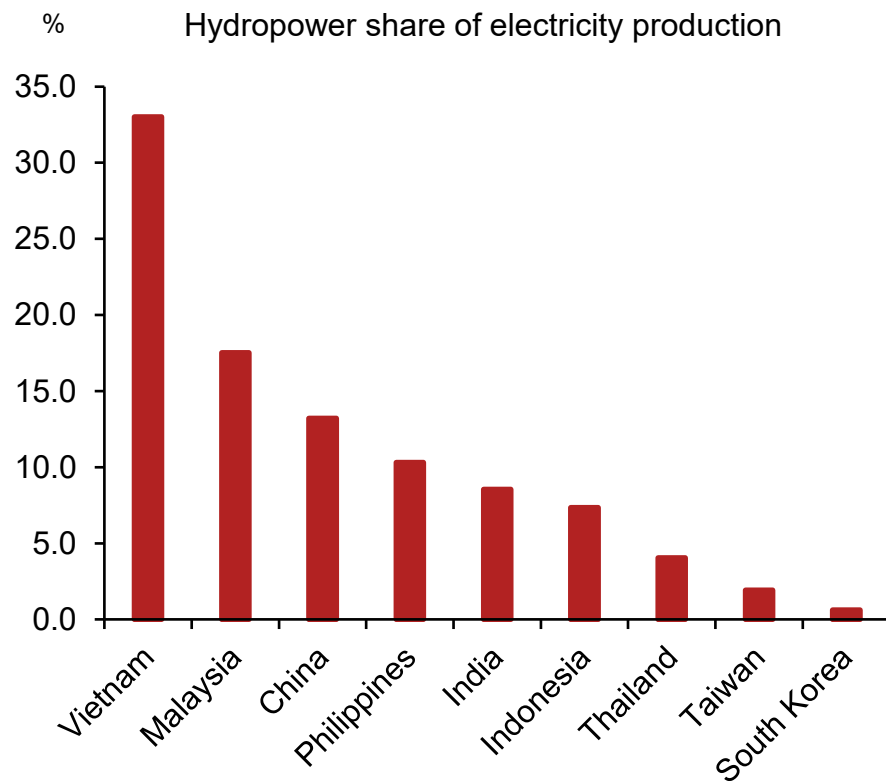
Source: CEIC, Bloomberg, MUFG GMR

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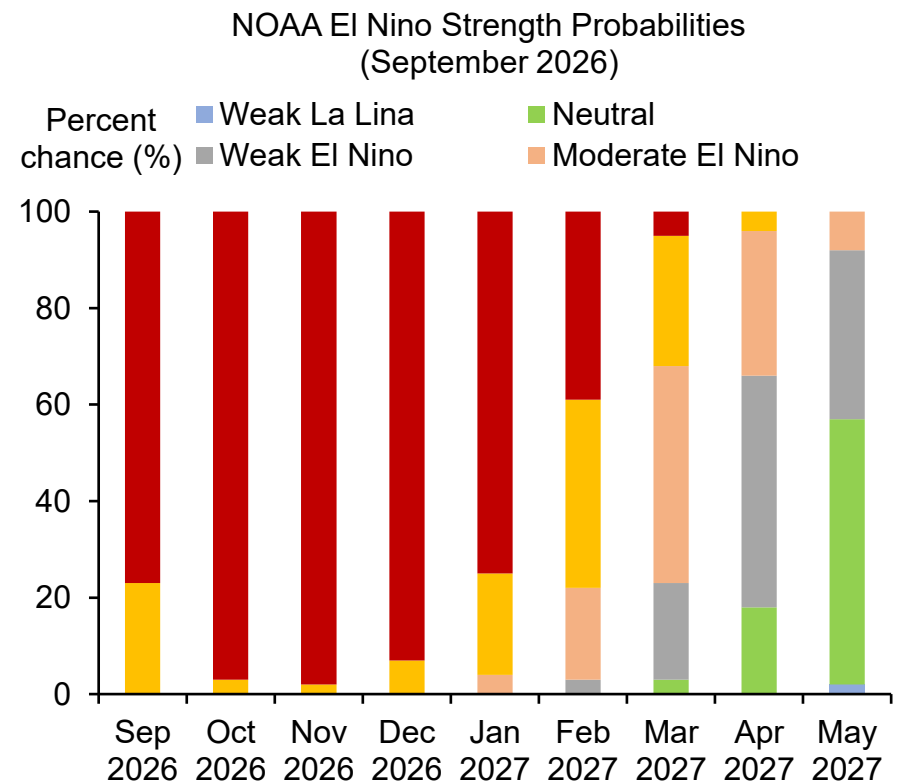
VND | Uh-oh: El Nino – Extreme weather brings food and power inflation risks

Extreme weather is a key upside inflation risk for Vietnam through food production and electricity supply, especially given hydropower's role in the power mix. There are other key transmission mechanisms including agriculture production which would be important for Vietnam as well.

El Nino risks raise weather-related inflation uncertainty



Super El-Nino event looks like a base case scenario over the next few months



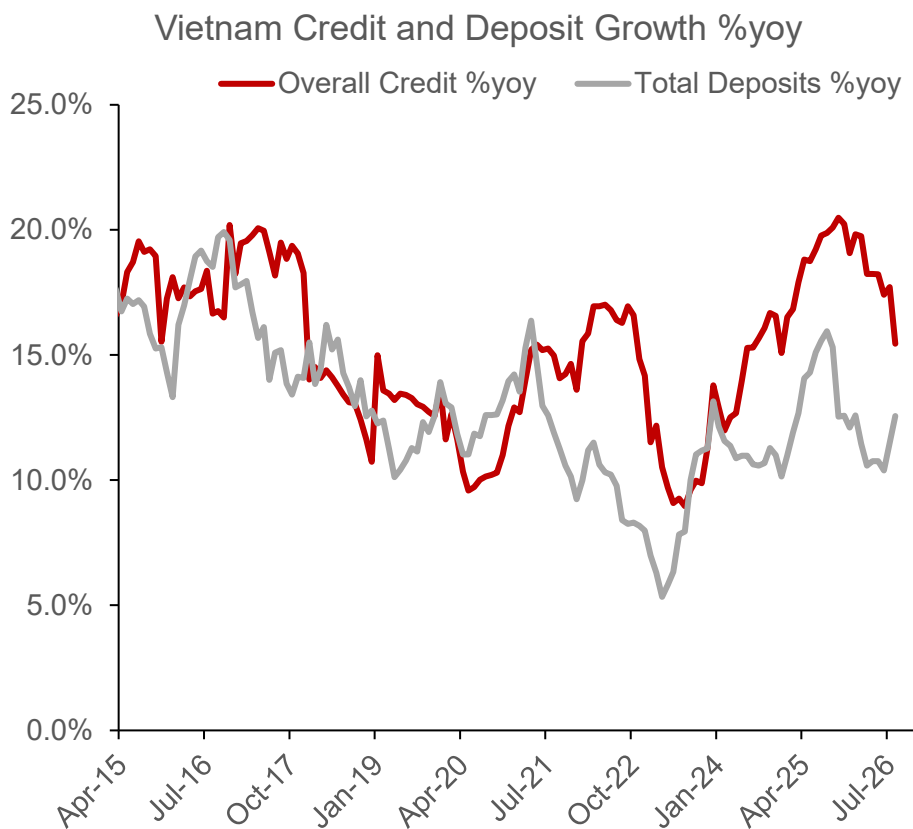
Source: CEIC, Bloomberg, MUFG GMR

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VND | Deposit growth improving, some selective credit easing

Domestic activity remains resilient, supported by stronger credit growth, deposit mobilisation and a broad infrastructure pipeline that can sustain investment momentum. For the banking system, while domestic liquidity conditions remain tight, they are less so than before with an improvement in deposits.

The gap between deposit and credit growth is closing to some extent



Key Drivers of Tight Liquidity and High Interest Rates

Fundamental reasons

Capital outflows, infrastructure needs, strong imports, high reliance on banking sector for credit, shallow capital markets

Deposit trends

Alternative investments (gold, real estate), uneven distribution of deposits across banks including State Treasury funds

Strengthening Banking Sector

Basel III Framework: Effective 10.5% CAR by 2033; buffers phase from 2030. Phases LCR/NSFR in from 2028

Targeted credit and liquidity support in 2026 by government

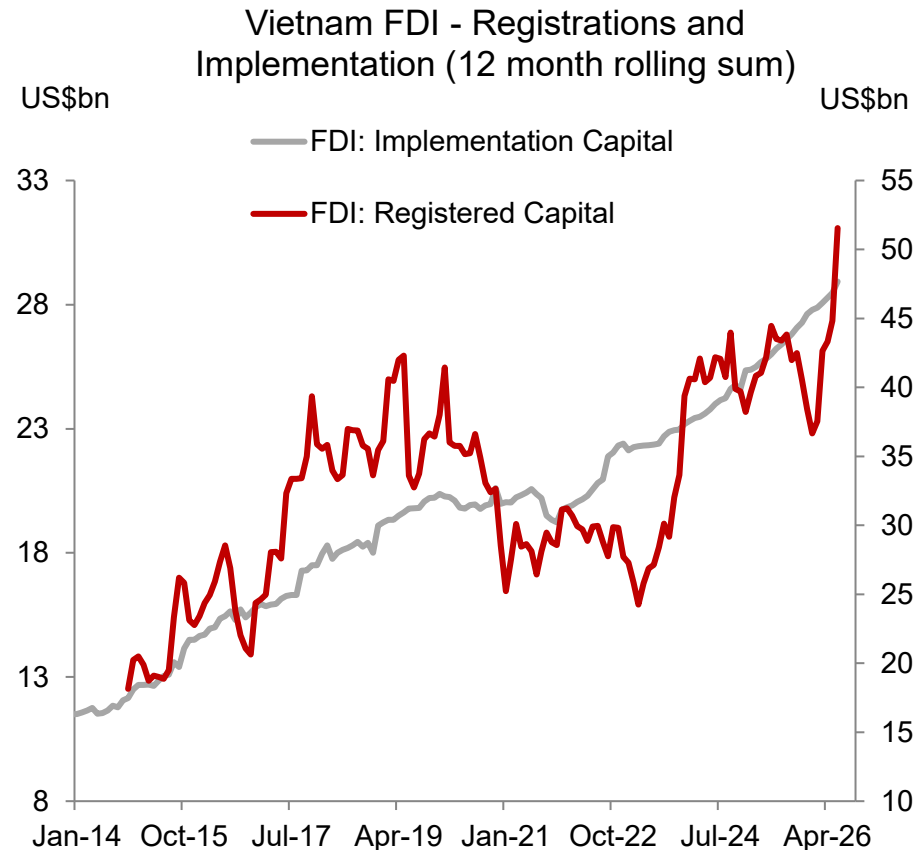
- Allow 20% of State Treasury term deposits to count in the Loan-to-Deposit denominator (previously fully excluded)
- Short-Term Liquidity ratio raised to 40% from 30%
- Incremental lending to social housing and industrial parks excluded from real-estate credit-growth monitoring.
- Loans to 18 designated projects by local firms excluded from overall credit-growth quotas.

Source: CEIC, Bloomberg, MUFG GMR

VND | Vietnam attractive – FDI inflows offset credit growth and helps VND

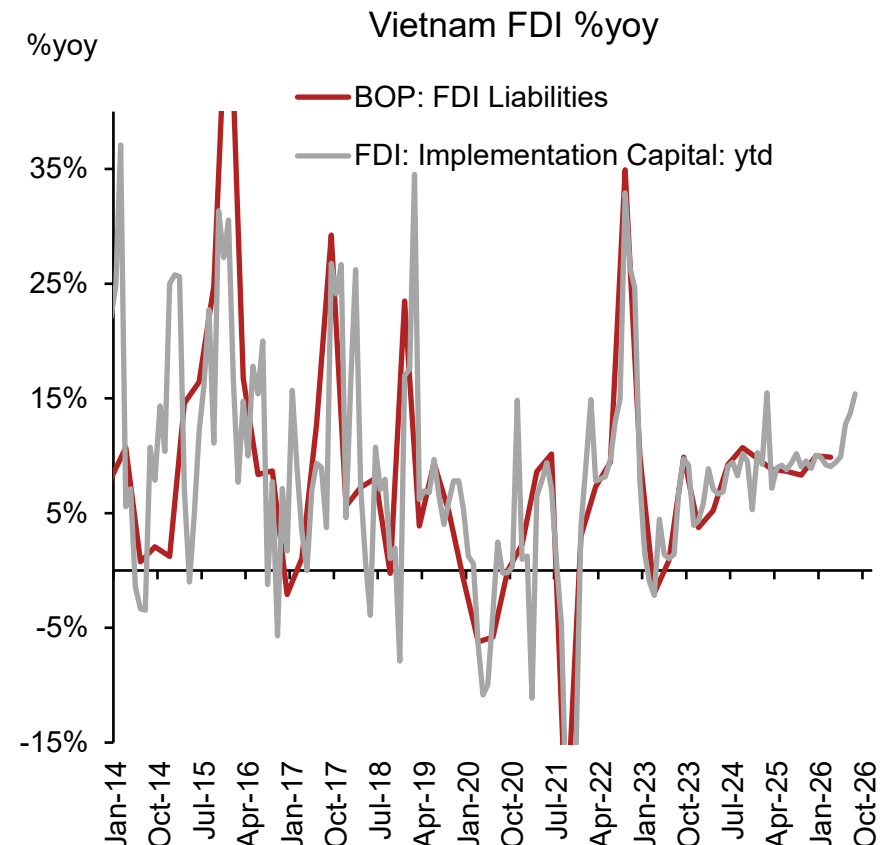
Vietnam's sustained FDI inflows provide an important buffer for the balance of payments, helping to offset stronger credit growth and associated import demand while limiting depreciation pressure on the VND. This also flows through to banking system liquidity and helps fund the strong pipeline of infrastructure growth.

FDI inflows remain a durable source of external support



Source: CEIC, Bloomberg, MUFG GMR

Strong inflows help offset credit-led import demand

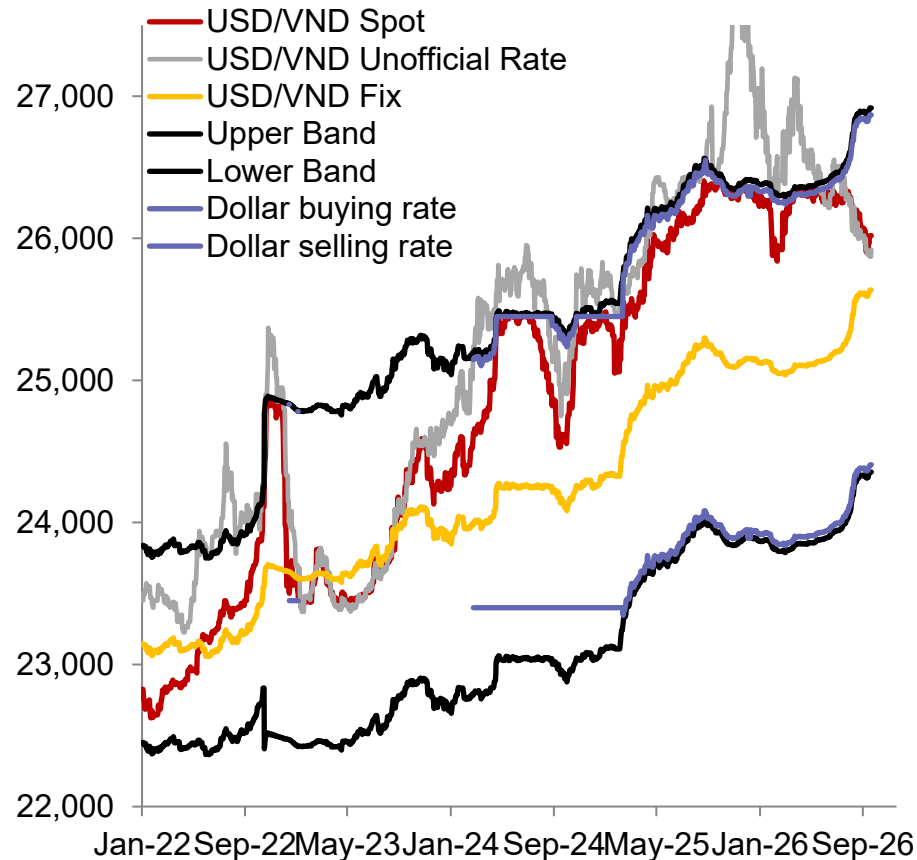


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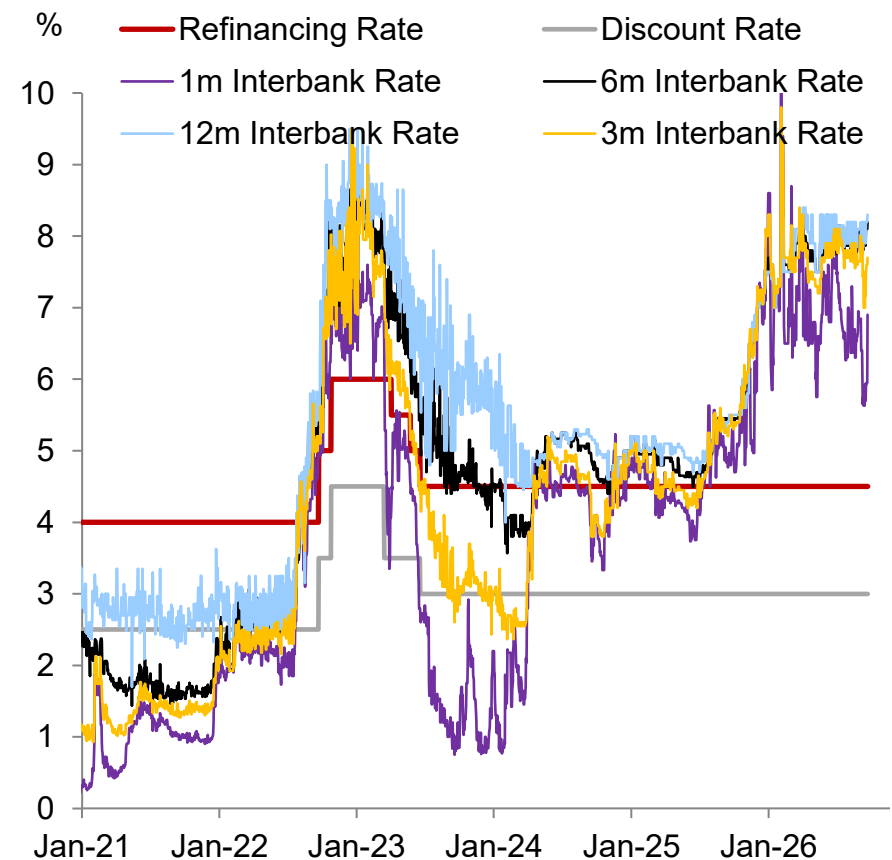
VND | More stable USD/VND – interbank rates moved lower with inflows

Stronger foreign-currency inflows have helped stabilise USD/VND and improve domestic liquidity conditions. The resulting decline in interbank rates reduces near-term funding stress, although the SBV is likely to retain a measured policy stance. External factors including Fed rate hikes remain key constraints.

Dollar inflows have eased pressure on USD/VND



Improved liquidity is pulling interbank rates lower



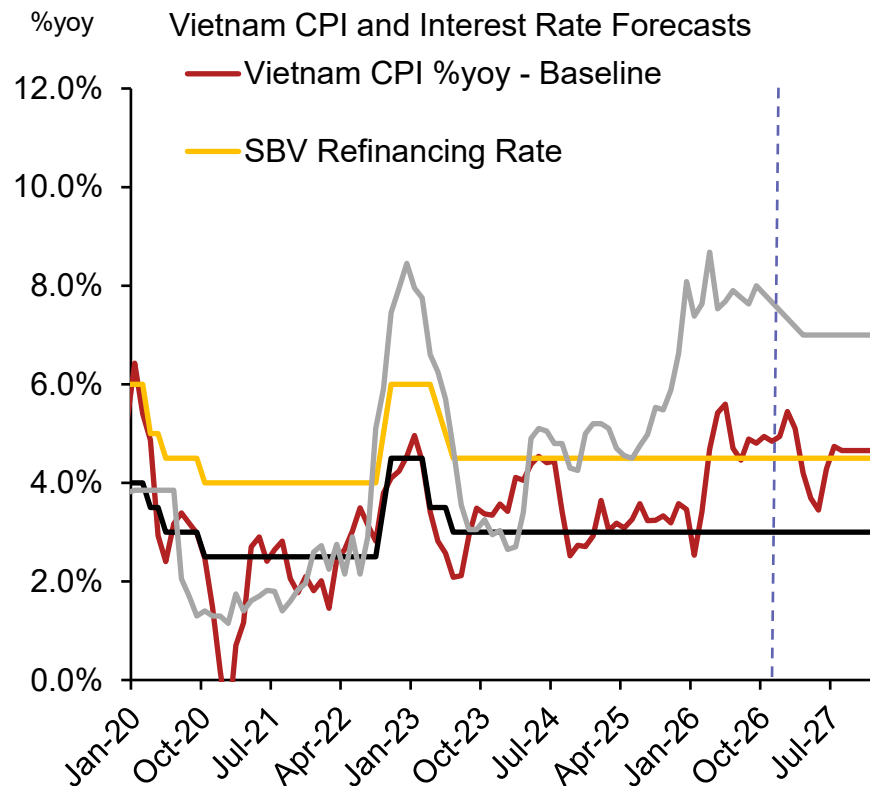
Source: CEIC, Bloomberg, MUFG GMR

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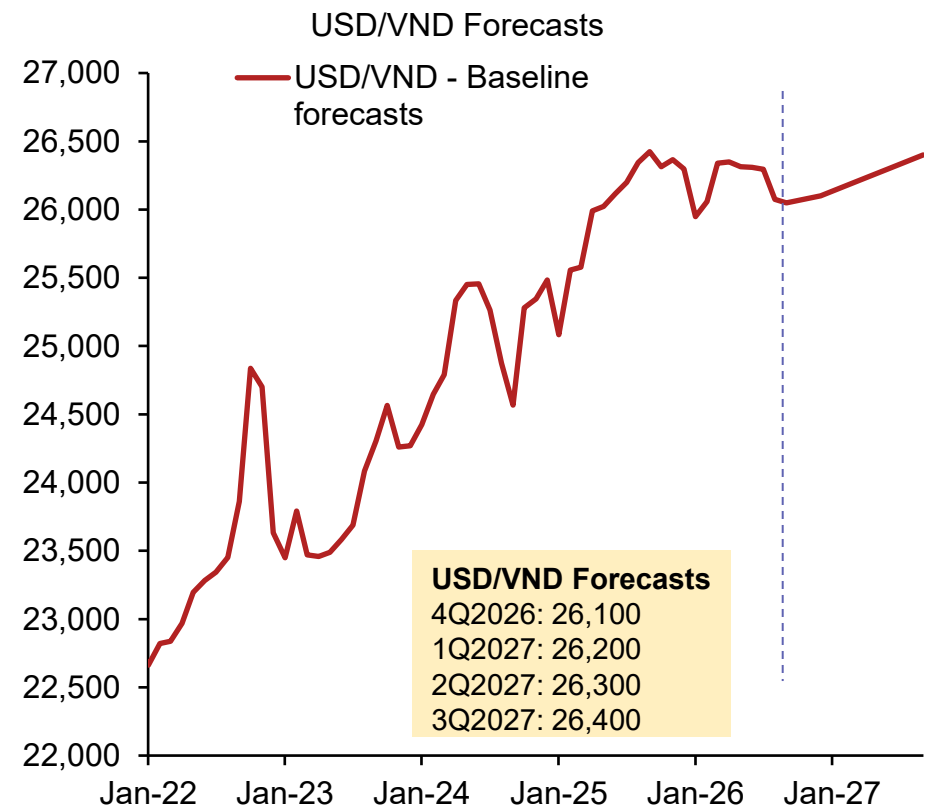
VND | More stable USD/VND – 26,100 end 2026 with lower interbank rates

We forecast USD/VND at 26,100 by end-2026, consistent with a gradual and managed adjustment. Contained inflation, steady policy rates and easing interbank funding costs should help prevent disorderly currency weakness. As a base case, we think interbank rates should move lower over time gradually.

We forecast VND interbank rates to move lower gradually over time and SBV to keep rates on hold



We expect a more stable USD/VND with the pair likely trading at around 26,100 by end 2026



Source: CEIC, Bloomberg, MUFG GMR

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