



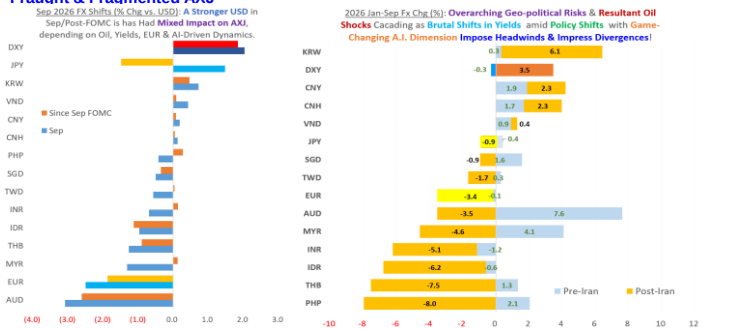
Economic Calendar

Date	Country	Event	Period	Survey*	Prior
05 Oct	US	ISM Services Index/Prices Paid	Sep	55.2/73.0	55.4/72.6
	EZ	Sentix Investor Confidence	Oct	--	5.1
	EZ	PPI YoY	Aug	--	5.8%
06 Oct	US	Trade Balance	Aug	-\$89.8b	-\$88.6b
	EZ	Retail Sales YoY	Aug	--	0.6%
07 Oct	US	NY Fed 1-Yr Inflation Expectations	Sep	3.6%	3.6%
	US	FOMC Meeting Minutes			
	JP	Coincident/Leading Index CI	Aug P	--	120.6/117.7
	JP	Real/Labor Cash Earnings YoY	Aug	1.6%/3.8%	2.0%/4.3%
08 Oct	US	Initial Jobless Claims		--	197k
	US	Wholesale Inventories MoM	Aug F	--	0.7%
	JP	BoP Current Account Balance	Aug	¥3172.3b	¥2988.9b
	JP	Eco Watchers Survey Current/Outlook SA	Sep	46.7/--	46.4/48.3
09 Oct	US	U. of Mich. Sentiment/Expectations	Oct P	48.0/--	48.1/46.3
	US	U. of Mich. 1/5-10 Yr Inflation	Oct P	--	4.6%/3.4%
	JP	Machine Tool Orders YoY	Sep P	--	64.7%
	JP	Household Spending YoY	Aug	-3.6%	-3.6%

Week-in-brief: Hawkish Patience, Persistent Risks

- Oil prices remained volatile amid unresolved US-Iran tensions and disruptions around key shipping routes. While Brent initially eased as Middle East crude flows recovered toward pre-war levels, prices later rebounded on potential US military escalation after the November elections.
- Refined fuel markets also showed signs of strain, with Chinese refiners suspending October fuel exports to preserve domestic inventories, while US urged Europe to release emergency diesel reserves as its stockpile releases fell short of pledged amounts.
- US core PCE inflation surprised to the downside, prompting markets to pare expectations of an October rate hike. However, rising oil prices continue to pose upside risks to inflation, while an upward revision to Q2 GDP, driven by stronger consumer spending and business investment, reinforced the view that further Fed tightening remains on the table.
- UST yields initially rose in a bear-steepener but fell later in the week as a sharp rise in EU borrowing costs, boosted demand for haven assets.
- Fed commentary reinforced a hawkish but patient stance. Officials highlighted AI as a source of productivity gains, but cautioned any disinflationary benefits remain uncertain and could take time to materialise, while AI-related investment is already contributing to higher costs.
- Policymakers generally viewed the labour market as resilient, supporting the case for vigilance against inflation risks. While Logan continued to advocate additional tightening, Williams, Jefferson and Bowman emphasised patience and data dependence following September's rate hike.
- Elsewhere, the JPY weakened after the BoJ's September Summary of Opinions disappointed hawkish expectations, though firm Tokyo inflation continues to support gradual policy normalisation.
- China unveiled additional targeted easing measures to support domestic demand and local government debt resolution, while the RBA delivered a widely expected 25bp hike but signaled a period of assessment ahead.
- Looking ahead, markets will scrutinise FOMC minutes for further signals of Fed's inclination, though recent Fed commentary means further rate hikes remain on the table. Developments in the US-IRAN conflict remain key for energy markets and inflation expectations.
- RBI will have to confront the inevitable and is expected to hike amid heightened inflationary pressures from energy, food and "chip-flation". For Malaysia's 2027 Budget, we expect a slower pace of fiscal consolidation amid political constraints.
- All in, while lower UST yields may offer near-term respite, elevated oil prices and lingering tightening risks keep EM-Asia FX under pressure amid external and fiscal vulnerabilities.

Fraught & Fragmented AXJ



- A cocktail of oil shocks fueling, but not solely driving, a surge UST yields amid hawkish Fed threaten to pose persistent headwinds for most of EM Asia.
- In September alone, a distinctly stronger USD (+2%) alongside a staggering 54-55bp surge in UST yields, with oil surging ~15% (to back above \$100) has underpinned AXJ pullback.
- Whereas 2026 – with oil surging ~70%, USD up UST yields up ~75bp (since Iran) and USD up 3-4% as – has been a more distinct version of September's AXJ pain
- But general AXJ deference to a firmer USD and surging yields amid Fed hawks and Oil shocks* (on Middle East flare-up) was neither even nor ubiquitous. For one, the beneficiaries of AI capex demand bonanza – such as KRW and TWD – have managed to deflect post-iran headwinds to varying degrees. Hence, the divergence between highly AI-sensitive economies (such as Korea and Taiwan) and less sensitive economies such as Philippines, India and Philippines remain acute.
- Especially so, as "twin deficit" IDR, INR and PHP, already predisposed to higher-beta "risk off", have pressures further accentuated by eye-watering high UST yields.
- K-shaped conundrum and fiscal strains – that may be substantially alleviated by "AI windfall" or aggravated by "chip-flation" – could also mount disproportionately.
- In turn, potentially driving highly discriminated risk re-pricing at some point. Meanwhile, EM Asia central banks may be facing sharper stability-growth trade-off as hawkish Fed expectations entrench after the September hike.

*Survey results from Bloomberg, as of 02 Oct 2026. The lists are not exhaustive and only meant to highlight key data/events

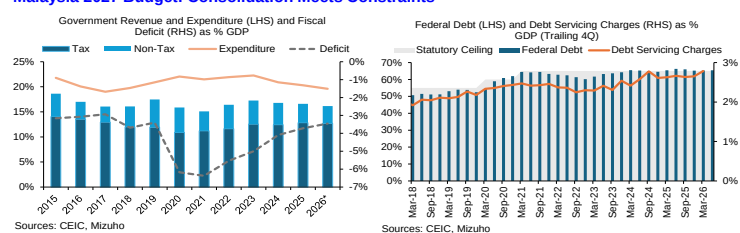
Asia

Date	Country	Event	Period	Survey*	Prior
05 Oct	SG	Retail Sales/Ex Auto YoY	Aug	--	1.5%/1.5%
	AU	Melbourne Institute Inflation MoM	Sep	--	0.5%
06 Oct	PH	CPI YoY	Sep	6.7%	6.1%
	TH	CPI/Core YoY	Sep	3.1%	2.5%
07-14 Oct	TH	Consumer Confidence Economic	Sep	--	46.6
07 Oct	IN	RBI Repurchase Rate		5.50%	5.25%
	PH	Unemployment Rate	Aug	--	6.0%
	TW	PPI YoY	Sep	--	16.8%
	TW	CPI/Core YoY	Sep	2.4%/2.5%	2.0%/2.3%
08 Oct	ID	Consumer Confidence Index	Sep	--	118.5
	KR	BoP Current Account Balance	Aug	--	\$42078.0m
	TW	Exports/Imports YoY	Sep	42.1%/41.8%	41.0%/44.3%
09 Oct	MY	Industrial Production YoY	Aug	5.1%	4.7%
	MY	Budget 2027			
09-15 Oct	CH	Agg. Financing/New Yuan Loans CNY YTD	Sep	--/11443b	23910b/10440b

RBI: How Much (Further), How Soon?!

- The RBI has probably run out of road to kick the can on rate hikes and is now confronting the Q4 hike that we have long-flagged.
- In fact, the pertinent questions now are
 - o "how much further?" the RBI may hike, and;
 - o "how soon" the RBI will get there.
- Point being, indefinitely averting a hike was never really an option from the outset. Admittedly, the RBI was not wrong about the conflicting nature – both inflationary and demand destructive – of the "Iran-Hormuz" shocks.
- But inflationary pressures have overtaken as the key risk. Especially as energy shocks have persisted beyond the ability of inventory to buy time.
- Making matters worse, the unfavourable crop impact from El Niño-driven monsoon shortfall warns of impending intensification of inflation via food pressures.
- Further compounded by AI capex demand-driven "chip-flation", which now proliferates more widely via consumer goods.
- All of which conspire to compel the RBI to address the inevitable (and woefully sharper) near-term growth trade-offs to anchor inflation (expectations) and the rupee.
- Crucially, as renewed (near-record) rupee weakness (above 96) – now that the expensive FCNR rupee support has fizzled – highlights threats to policy credibility, which is disproportionately costlier to reclaim.
- More so, when juxtaposed against a distinctly/aggressively more hawkish Fed.
- All said, if the RBI desires rupee stability, alongside policy credibility, the RBI will need to convey a hawkish hike that signals an additional ~50bp in store by early-2027.
- Falling short of which may cost the RBI rupee stability and yield anchor.

Malaysia 2027 Budget: Consolidation Meets Constraints



- Malaysia will unveil its 2027 Budget next Friday. The administration made encouraging progress in fiscal consolidation since the pandemic, with the deficit narrowing from above 6% of GDP during COVID to 3.7% in 2025, though still slightly above the 2015-19 average of 3.4%.
- The improvement was driven primarily by expenditure restraint via fuel subsidy reforms, though SST expansion also provided higher revenue inflows.
- Nevertheless, public finances remain constrained. Federal debt stood at 64.2% of GDP in 2025, close to the 65% statutory ceiling, while debt servicing costs have continued to rise.
- For 2026, we expect expenditures to come in 6-7% higher than initial official projections as fuel subsidies bill is estimated to surge from RM15b to RM40b.
- That said, revenue collections are also likely to benefit from commodity and growth tailwinds via higher SST collections as well as the potential of special dividends from Petronas, albeit a moderation from the 2022 high after adjusting for projection.
- On balance, we expect the 2026 fiscal deficit to come in slightly wider than the government's target at around 3.6-3.7% of GDP.
- As for Budget 2027, even though the upcoming political calendar may constrain appetite for fiscal consolidation, we expect the fiscal deficit to narrow towards 3.5%.
- Revenue collections are likely to expand at a record 10-13% pace relative to Budget 2026 to offset significant increases in expenditures via cost-of-living subsidies, wage support and household transfers to lower income segments and AI related initiatives.
- Development expenditures for infrastructure are likely to retain a similar proportion of GDP though higher base implies that infrastructure related projects such as expressways, water related infrastructure will still be a key pillar of Budget 2027
- Admittedly, the projected deficit falls short of the previous 3.3% target.
- The slower pace of fiscal consolidation is likely to be a mild drag on sentiments and the MYR, which remains more sensitive to UST yields, while federal debt near statutory ceiling is likely to keep modest upward pressure on MGS yields.

Forex and Regional Focus

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	157.56	-0.570	-0.36%	156.00	~	159.30
EUR/USD	1.1259	-0.0130	-1.14%	1.140	~	1.115
USD/SGD	1.2783	0.000	0.01%	1.2690	~	1.2880
USD/THB	33.528	0.138	0.41%	33.30	~	33.90
USD/MYR	4.0833	0.0121	0.30%	4.050	~	4.110
USD/IDR	17875	-18	-0.10%	17,700	~	18,050
JPY/SGD	0.8113	0.003	0.37%	0.803	~	0.820
AUD/USD	0.6945	-0.008	-1.12%	0.688	~	0.703
USD/INR	96.32	0.474	0.49%	95.4	~	96.9
USD/PHP	62.548	0.069	0.11%	62.0	~	63.1

^Weekly change.

FX: USD Holds Firm Amid Flight to Safety

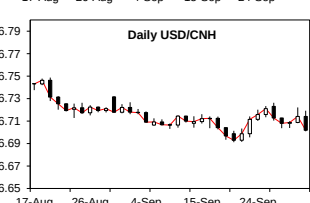
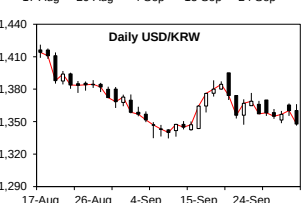
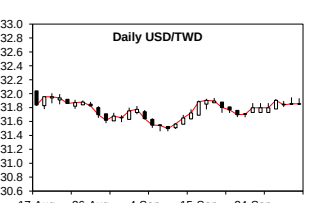
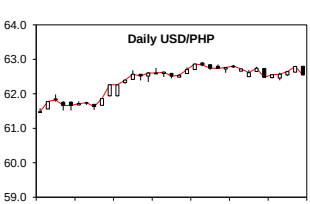
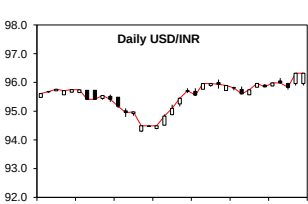
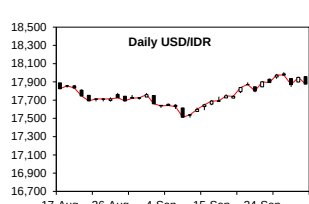
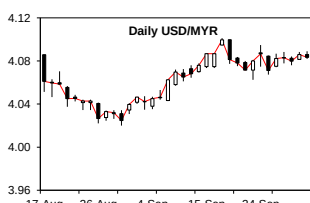
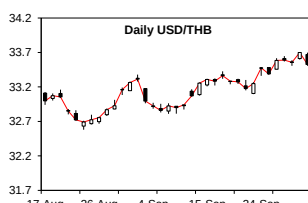
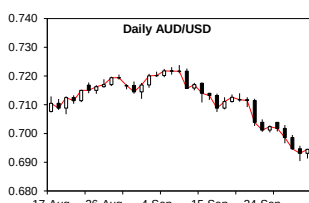
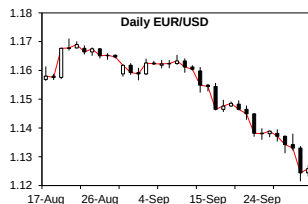
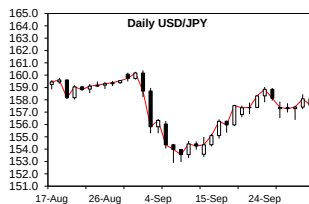
- Despite the pullback in UST yields this week, the USD remained well supported as rising oil prices and escalating Middle East tensions sustained demand for defensive assets. The prospect of further US military deployment to the region reinforced broader risk aversion.
- At the margin, the **sell-off in French government bonds** on fiscal concerns likely added to the appeal of both the USD and USTs as **relative safe havens**. Against this backdrop, EUR underperformance was unsurprising, with the currency slipping below the mid-1.12 level.
- The AUD was another laggard after softer-than-expected CPI data tempered expectations for back-to-back RBA rate hikes, reducing yield support for the currency.
- Amid broader capital flight, intra-European rotation may have helped limit downside in both GBP and CHF. Switzerland's core inflation momentum remained relatively firm, while upward revisions to UK Q2 GDP growth provided some support for sterling.
- The JPY was also among the better performer on both lower UST yields and safe-haven flows. Additional support stemmed from Prime Minister Takichi's efforts to reassure markets that fiscal policy would not undermine economic stability following the BoJ's dovish Summary of Opinions.

EM-Asia FX: Relative Resilience

- Across Asia, FX weakness was comparatively modest as lower UST yields provided some relief from the depreciation pressures that had intensified in recent weeks.
- Nevertheless, IDR underperformed on elevated oil prices, and lower SRBI yields eroded support for the currency. THB underperformed as softer gold prices and continued foreign outflows from both equity and bond markets weighed on sentiment.
- Elsewhere, performance was largely clustered in the middle of the pack. SGD, KRW and MYR weakened by around 0.3-0.4%, with modest CNH appreciation continuing to provide an important regional anchor against renewed USD strength.
- INR and PHP fared slightly worse, highlighting the extent to which higher oil prices have become a key differentiating factor. Looking ahead, the RBI's anticipated rate hike next week is a more of INR backstop than a catalyst for a meaningful INR recovery, as oil prices remain elevated.
- All in, lower UST yields provided some respite for Asia FX, but not enough to overcome the combined headwinds from elevated oil prices, safe-haven demand for USD assets and pockets of capital outflows. Consequently, while depreciation pressures have moderated, the region remains vulnerable to renewed

FX Brief:

- 1) JPY: Lower UST yields and haven flows temper weakness. Heading into thin liquidity, JPY bears may be cautious in challenging above 159.
- 2) EUR: Another leg down to below mid-1.12 as fiscal concerns in France mount and oil prices rose towards the end of the week. EUR to remain pressured as these fiscal concerns could typically linger for a few weeks.
- 3) AUD: Underperformed against as modest CPI print pare back hopes of a rate hike in November. Recovery above 70 cents unlikely in week ahead with consolidation on both sides of 69 cents expected.
- 4) CNH: Despite targeted stimulus having modest impact on asset markets, CNH continued to gain amid favourable early week CNH fixing.
- 5) INR: Even as the RBI is price for a rate hike, depreciation pressures for INR are unlikely to fade. USDINR likely to maintain above 96 for week ahead though intervention to check testing 97.
- 6) SGD: Rose to above 1.28 on USD strength. Consolidation on both sides of 1.28 expected as we approach mid-Oct MAS meeting.
- 7) IDR: Region's worst performer on elevated oil prices, and lower SRBI yields eroded support. Persistent oil strength could see USDIDR test the key 18000 level more consistently in the coming week.
- 8) THB: Outflows from equities and bonds featured alongside softer gold prices. Economic drag from flood will be a setback for potential BoT hike to lean against depreciation pressures. Intervention expected to keep testing above 33.9 feeble while buoyancy above 33.5 retain in week ahead.
- 9) MYR: Mild appreciation amid softer UST yields. USDMYR likely to remain buoyant above 4.08, especially if UST yields rebound next week.
- 10) PHP: Depreciated earlier in the week on higher oil prices but found reprieve later in the week as UST yields fell. Likely to see further weakness next week if inflation print accelerates as expected.
- 11) KRW: Foreign outflows from equities weighed on the KRW this week, expect buoyancy above 1350 in the week ahead with potential for testing above 1370 if UST yields see another leg up on higher oil prices.
- 12) TWD: Similarly, modest slippage amid outflows from equities and stresses from higher oil prices. For week ahead, USDTWD expected to stay buoyant above 31.6 while testing 32 remain shallow.



Bond Yield (%)

2-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.781	-7.1	5.230	7.0	Steepening
GER	2.992	-27.8	3.447	-15.2	Steepening
JPY	1.898	-1.3	3.076	2.5	Steepening
SGD	1.928	1.3	2.424	-3.0	Flattening
AUD	4.901	-11.0	5.336	0.1	Steepening
GBP	4.731	-10.4	5.333	-3.2	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	7,666.45	-0.99
Nikkei (JP)	68,309.46	2.93
EuroStoxx (EU)	6,217.75	-1.35
FTSE STI (SG)	5,631.21	-1.40
JKSE (ID)	6,035.78	-3.30
PSEI (PH)	5,629.03	-3.38
KLCI (MY)	1,633.77	-2.26
SET (TH)	1,569.64	-2.36
SENSEX (IN)	71,909.70	-2.69
ASX (AU)	8,682.07	0.20

USTs: Twisted Fears

- This week, front-end Treasury yields declined **amid softer-than-expected macro signals, including benign PCE inflation and weaker job openings data**, while safe-haven demand linked to the French OAT sell-off also lent support to USTs.
- Despite the decline in front-end yields, 10Y UST yields remained resilient around the 5.4% mark, underscoring **persistent concerns about inflation, fiscal sustainability and debt supply**.
- Elevated oil prices and the prospect of additional US military deployments to the Middle East have **reinforced both medium-term inflation concerns and expectations of wider fiscal deficits**, limiting the scope for a sustained decline in longer-dated yields.
- While a dismal NFP print could see further slippages in front-end UST yields tonight, long-end yields are less sensitive to near-term macro disappointments with investors demanding a greater term premium to absorb growing debt issuance and fiscal risks.
- All in, the curve appears poised to steepen further. 2Y UST yields could drift in the 4.70-4.90% range and 10Y yields are likely to remain buoyant above 5.3%.

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