

Monthly FX & Rates Strategy

Stronger USD & higher rates as Fed embarks on new hiking cycle

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- The Sep FOMC rate hike represents a material change from the previous framework as outlined in our previous 4Q26 Quarterly FX Report dated 4 Sep. This warrants a reassessment of our medium-term bearish USD outlook. The Fed hike signals the start of a renewed US tightening cycle — a development that was not in our base case. Our macroeconomic team now projects two additional 25bp hikes, in Dec 2026 and 1Q27, with the Fed on hold thereafter through the remainder of 2027. This front-loaded tightening trajectory is expected to catalyze a meaningful recovery in US rate differentials relative to G10 peers.
- As such, we revise our near to medium-term USD view from bearish to constructive. We now shift to an upward trajectory for the DXY, with USD gains frontloaded to the immediate two quarters as the Fed delivers the projected rate hikes. The updated DXY forecasts are 102.0 in 4Q26, 102.8 in 1Q27, and 103.6 in 2Q27 and 3Q27.
- Asia FX has demonstrated notable resilience over the past two years, weathering significant headwinds including elevated trade tariffs of 2025 and the Middle East conflict across 2026. However, the resumption of a US tightening cycle introduces a qualitatively different challenge — one that strikes at the heart of rate differential and capital flow dynamics that have underpinned regional currency stability.
- We now believe in a more defensively positioned Asia FX stance. That said, the sharply bifurcated year-to-date performance across Asia FX is likely to persist. Currencies with stronger fundamental buffers — current account surpluses, lower external financing needs, or greater monetary policy flexibility — may prove more resilient to renewed USD strength, and we continue to differentiate accordingly. Specifically, CNY and SGD are now expected to weaken modestly to 6.85 and 1.30 against the USD by 2Q27.
- As for USD rates, consistent with our revised outlook for new Fed hiking cycle, we forecast 3M compounded-in-arrears SOFR at 3.96% in 4Q26, 4.21% in 1Q27, 4.32% in 2Q27 and 4.36% in 3Q27. Concurrently, we raise our 10Y UST yield forecasts to 5.30% in 4Q26, and 5.50% from 1Q27 through 3Q27. In our view, 10Y Treasury yields are likely to remain elevated amid the resumption of the Fed's hiking cycle and persistently high energy prices. The 20 bps increase from 4Q26 to 1Q27 reflects the anticipated transmission of the Fed rate hikes, while yields are expected to remain around 5.50% thereafter, supported by structural fiscal challenges in the US.
- For Singapore, given the broadening price pressures, our macroeconomic team's updated view is now for the MAS to tighten monetary policy further via another “very slight” slope-steepening move (+25bps) at the Oct 2026 MPS, taking the S\$NEER slope to 1.5% p.a. Accordingly, we forecast 3M compounded-in-arrears SORA at 1.40% in 4Q26, 1.50% in 1Q27, 1.57% in 2Q27, and 1.63% in 3Q27. These forecasts represent an upward revision of 5-15 bps relative to our projections published on 4 Sep, reflecting the transmission of a higher US interest rate path and another “very slight” S\$NEER slope steepening in Oct MPS.
- Our forecasts continue to point to higher SGS yields over the projection horizon, driven by the gradual normalisation of Singapore-US interest rate differentials and the transmission of higher US rates. We now forecast the 10Y SGS yield at 2.65% in 4Q26, 2.80% in 1Q27, 2.95% in 2Q27, and 3.00% in 3Q27. These projections represent an upward revision of 25-50 bps relative to our previous forecasts and reflect our expectation that the Fed's renewed hiking cycle will continue to exert upward pressure on Singapore rates.



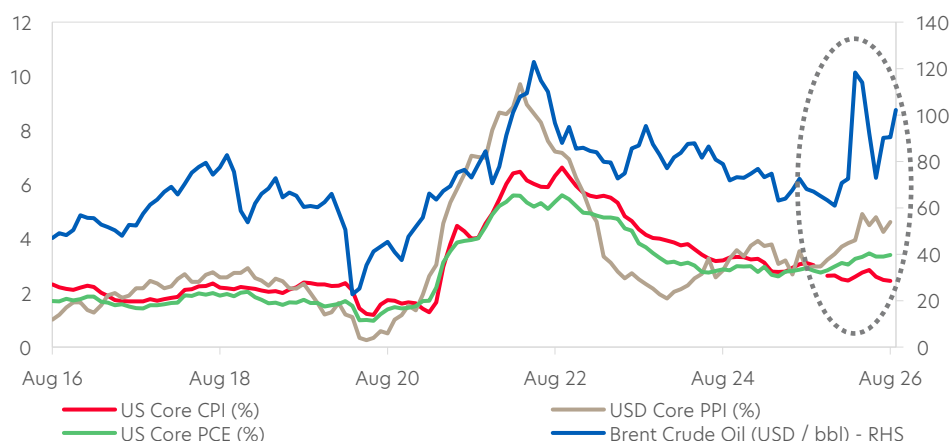
Growing list of worries: higher energy prices, renewed inflation risk, start of Fed hiking cycle and worsening US fiscal stress

Since we published our Quarterly Global Outlook 4Q 2026 on 4th Sep, geopolitical risks in the Middle East have intensified. The Houthis have since joined the widening regional conflict and appear to have gained control of the strategic Bab el-Mandeb Strait. Investors worry that a second key artery for crude oil exports from the Middle East is now at risk of being blocked as well.

As such, Brent crude oil staged a strong rebound, and in a matter of just 2 weeks, jumped from USD 90 / bbl at the beginning of Sep, to almost as high as USD 110 / bbl by mid Sep. In the US, pump prices climbed anew with the national average for gasoline price rising back up to USD 4.5 / gallon and the national average for diesel price shooting up to a new high of USD 6.50 / gallon. In short, it is not just crude oil prices that have rebounded, the on-going inventory drawdown coupled with supply disruption has triggered a rebound in energy prices across the entire energy distillate complex, including jet fuel, liquified natural gas, polyethylene, naptha etc.

Chart 1: Persistent rise in crude oil price triggers renewed inflation risk for US

Source: Bloomberg, UOB Global Economics & Markets Research



This rebound in crude oil and energy prices comes at a rather inconvenient time for the US Federal Reserve. Chairman Warsh did the right thing by leading his Fed officials in making a unanimous 25 bps hike at the 15/16th Sep FOMC, lifting the Federal Funds Rate to 4.0%. Chairman Warsh sounded decidedly hawkish in his post FOMC press conference, warning that the Fed has its eyes on inflation risk with inflation being “too high for too long”. Most tellingly, Chairman Warsh no longer deems interest rates as restrictive as he characterized the Fed’s rate hike as “removing a dose of accommodation”.

As such, our macroeconomic team has revised our FOMC outlook and now expect two more 25 bps rate hikes ahead, in Dec 26 and 1Q27, lifting Fed Fund Rates from 4.0% now to 4.50%. Thereafter, Fed Fund Rates are expected to stay stable at 4.50% throughout the rest of 2027. For more details, kindly refer to Macro Note: [“US Sep 2026 FOMC: A 25 bps hike as Fed focused on inflation”](#) dated 17 Sep 26. In the backdrop, various global central banks have hiked and sounded increasingly hawkish as well. This is especially so for the European Central Bank (ECB) with President Christine Lagarde characterizing the latest hike by the ECB as a “no brainer”.

Chart 2: The unmistakable march in US Treasuries yield higher

Source: Bloomberg, UOB Global Economics & Markets Research

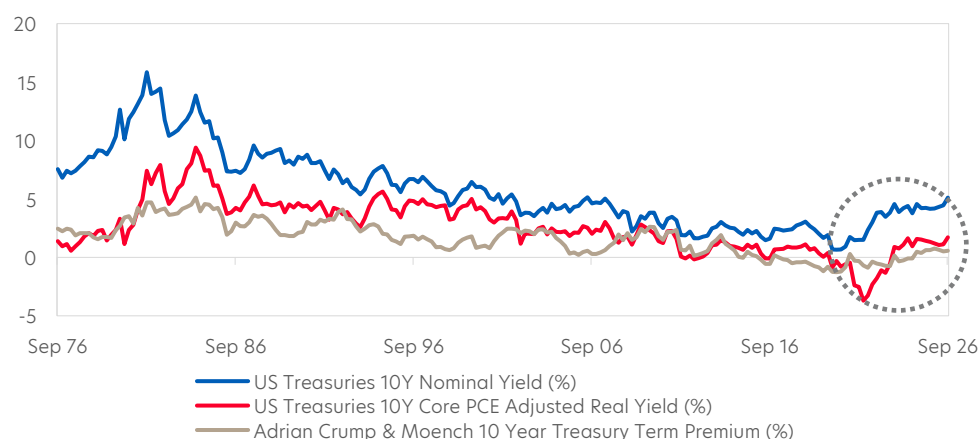


Concurrently, over the past month, US Treasuries encountered heavy selling, leading to the further rise of 10 Year Treasuries yield above 5.0% at the moment of writing by late September. This further climb in Treasuries yield is symptomatic of persistent investor concerns over the increasingly difficult fiscal outlook for the US as well as a lack of investor confidence over Treasury Secretary Scott Bessent's plan to cap the rise in yield with a larger repurchase program which is deemed inadequate.

In addition, there are growing concerns that the Bank of Japan (BOJ) may have resorted to funding its increasingly expensive intervention against JPY weakness with US Treasuries sales. Strictly speaking, there is no concrete evidence as yet that the BOJ is actively selling US Treasuries, although their monthly holdings have started to ease modestly.

Chart 3: Core PCE adjusted 10Y UST real yield is still relatively low on a historical basis

Source: Bloomberg, UOB Global Economics & Markets Research



Taken altogether, all the above constitute a growing list of worries (persistently high energy prices, renewed inflation risk, start of Fed hiking cycle and increasing US fiscal stress) for investors that we may well be entering a new cycle of higher interest rates. Indeed, the Fed's own Adrian Crump & Moench 10 Year Treasury Term Premium has turned positive as well, implying that long term rates will be sticky on the upside.

At the risk of sounding alarmist, while 10Y Treasuries yield looks high at 5% in our current post Covid period, over a much longer 50 year historical horizon, 10Y Treasuries yield had traded above 10% to as high as 15% in the early 1980s. Objectively, the core PCE adjusted 10Y Treasuries yield is still relatively low on a historical basis at “just” 1.71% on a real basis.

We had warned previously in our Quarterly Global Outlook 4Q 2026 that our constructive outlook of Asian FX as well as medium term bearish outlook of the USD are at risk should the Fed embark on a new rate hiking cycle. In addition, the new Fed rate hiking cycle may well push 10Y US Treasuries yield beyond 5.0% while triggering a quicker normalization of the discount between SG Sora and US Sofr. Given the increased concern by investors, we bring forward this FX & Rates Monthly Strategy report for Oct 2026 by about a week with an updated view on the outlook for the USD and rates.

FX Strategy

Shifting to a constructive view on USD as Fed starts tightening cycle

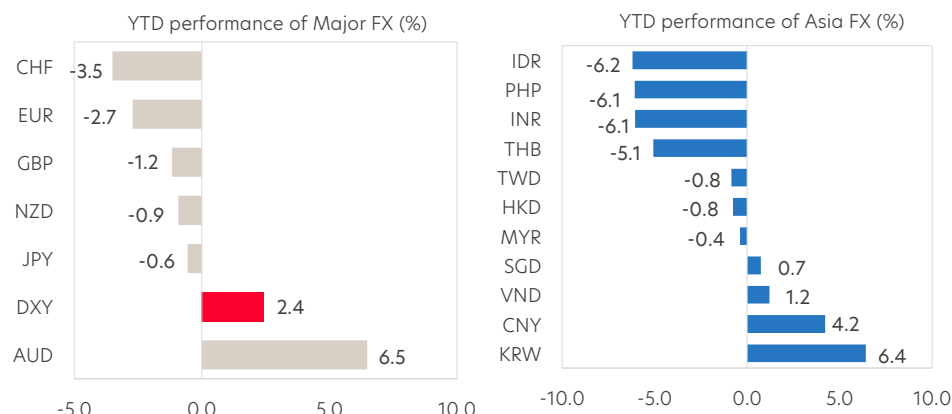
As outlined in our 4Q26 Quarterly FX Report dated 4 Sep, our medium-term bearish USD view was anchored on three pillars: an extended Fed pause through 2026 followed by two rate cuts in 2027; concurrent hawkish repricing across G10 central banks eroding the USD's relative rate advantage; and the expanded Treasury buyback programme, which revived the USD debasement trade and added a further near-term headwind against the dollar.

The Sep FOMC rate hike represents a material departure from this framework and warrants a reassessment of our medium-term bearish USD outlook. The hike signals the start of a renewed US tightening cycle – a development that was not in our base case. Our macroeconomic team now projects two additional 25bp hikes, in Dec 2026 and 1Q27, with the Fed on hold thereafter through the remainder of 2027. This front-loaded tightening trajectory is expected to catalyze a meaningful recovery in US rate differentials relative to G10 peers, particularly given that most other G10 central banks are at a more advanced stage of their respective tightening cycles and are projected to deliver fewer hikes over the same horizon.

On balance, we revise our near to medium-term USD view from bearish to constructive. Therefore, we expect DXY to snap its losing streak since 2Q25 and strengthen anew, driven primarily by a recovering rate differential advantage. The magnitude of the USD rebound will, however, be conditioned by the degree to which renewed rate support can offset the structural headwinds – fiscal deterioration, the buyback-driven debasement narrative, and diminished safe-haven demand – that have weighed on the dollar in recent quarters. The currency-specific dynamics of key G10 pairs, which may serve to amplify or partially offset the broader USD move, are examined in the discussion that follows.

Chart 4: Differentiated Major and Asia FX performance this year likely to persist.

Source: Bloomberg, UOB Global Economics & Markets Research



The Fed's Sep hike materially alters the near-term Asia FX calculus. Our constructive 4Q26 Asia FX thesis had rested on three conditions: consolidating oil prices affording the Fed sufficient cover to hold rates through year-end, a narrowing US rate advantage, and a resumption of Asia regional portfolio inflows. The Fed hike directly undermines the second condition and raises the risk that Asia regional portfolio inflows may stall or worse, reverse. With two further rate increases now projected over the next six months, Asia FX faces a more challenging external environment than our prior baseline assumed.

Asia FX has demonstrated notable resilience over the past two years, weathering significant headwinds including elevated trade tariffs of 2025 and the Middle East conflict in 2026. However, the resumption of a US tightening cycle introduces a qualitatively different challenge – one that strikes at the heart of rate differential and capital flow dynamics that have underpinned regional currency stability.

We now believe a more defensively positioned regional FX stance is warranted. That said, the sharply bifurcated year-to-date performance across Asia FX is likely to persist. Currencies with stronger fundamental buffers – current account surpluses, lower external financing needs, or greater monetary policy flexibility – may prove more resilient to renewed USD strength, and we continue to differentiate accordingly within the region.

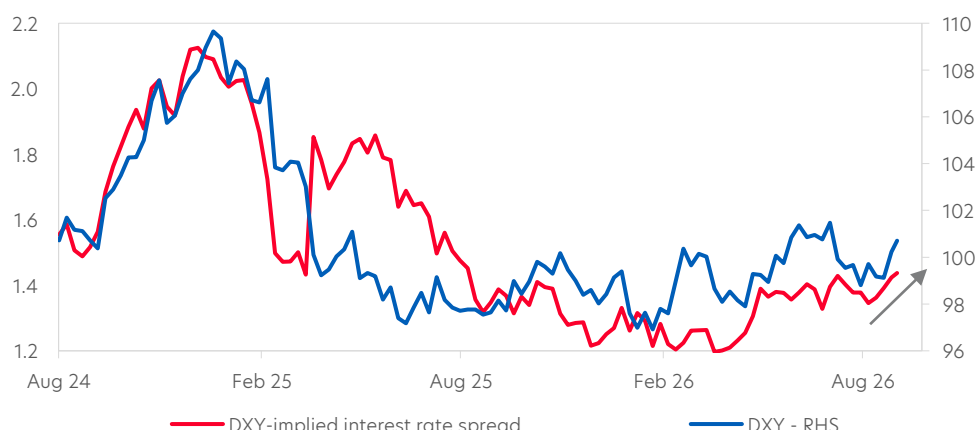
Major FX Strategy

Rate differentials now seen boosting the USD

The Sep FOMC decision to raise the federal funds rate by 25bp to 4.00% – the first hike since Jul 2023 – marks a decisive change in the US monetary policy cycle and serves as the primary catalyst for our revised constructive USD view. The DXY gained 1.1% in the week ending 18 Sep, its strongest weekly performance since Jun, as markets moved to re-price the forward rate path. The futures-implied Fed trajectory as of 23 Sep places the policy rate at approximately 4.21% by Dec 2026, with a 75% implied probability of a Dec hike, and at 4.62% by Dec 2027 – broadly consistent with our macroeconomic team's projection of two additional 25bp hikes in Dec 2026 and 1Q27.

Chart 5: DXY is now expected to rise alongside its rate spread as the Fed embarks on a new tightening cycle

Source: Bloomberg, UOB Global Economics & Markets Research



Monetary policy divergence, which had acted as a persistent headwind for the USD over the preceding two quarters, is now turning into a tailwind. Over the past six months, several G10 central banks – including the ECB, BOJ, RBA, and RBNZ – have tightened policy in response to the inflationary spillover from the global oil shock, while the Fed maintained a patient stance. The Sep hike signals a shift in that posture: Fed Chair Warsh has emphasized that inflation has remained "too high for too long," explicitly opening the door to a sustained tightening sequence. Critically, our macroeconomic team assesses that most G10 peers are at a more advanced stage of their respective tightening cycles and are projected to deliver fewer hikes over the same horizon. The resulting recovery in US rate differentials relative to G10 peers constitutes the central rationale for our revised USD view. On balance, **we shift to a constructive, upward trajectory for the DXY, with USD gains frontloaded to the immediate two quarters as the Fed delivers the projected rate hikes.** The updated DXY forecasts are 102.0 in 4Q26, 102.8 in 1Q27, and 103.6 in 2Q27 and 3Q27.

Chart 6: We pivot to a constructive view on DXY

Source: Bloomberg, UOB Global Economics & Markets Research



Across the G10 complex, the constructive USD view is most pronounced against EUR, GBP, NZD, and CHF, where the respective central banks are furthest from matching the Fed's renewed tightening trajectory and rate differentials are set to widen most materially. JPY presents a more nuanced setup: near-term USD/JPY upside is supported by differential widening, though USD gains are likely to be capped by intervention risk as the pair approaches levels around 160 that have recently prompted MOF action. AUD stands out as the most resilient G10 counterpart, underpinned by the RBA's own active tightening cycle and the AUD's status as the highest-yielding currency within the G10 complex.

EUR/USD

The ECB raised its deposit rate by 25 bps to 2.50% at its 10 Sep meeting – its second hike since the onset of the Iran war – with the accompanying revised projections pointing to greater persistence in underlying inflation. Notwithstanding this, our macroeconomic team expects the ECB to deliver one final 25 bps hike in Dec, bringing the deposit rate to 2.75% and marking the ceiling of the current tightening cycle. This terminal rate assumption is notably more conservative than current OIS market pricing, which implies three additional hikes by Apr 2027, and reflects our view that the Euro area's inflation dynamics do not warrant the same degree of policy response as in the US.

A key structural distinction underpins this divergence: while both the US and the Euro area were subject to the same oil price shock triggered by the Iran war, inflationary pressures have proven to be more pronounced and broad-based in the US than in the Euro area. This asymmetry argues for a longer tightening runway for the Fed relative to the ECB and is central to our expectation that the Fed-ECB rate differential – currently at 135bp (4.00% vs 2.65%) – will widen anew in favour of the USD as the Fed's renewed tightening cycle gathers momentum while the ECB's approaches its terminal stage.

Beyond the rate differential, positioning dynamics reinforce the bearish EUR/USD outlook. Net-short positioning in the currency pair has persisted since Jul, and absent a further material hawkish surprise from the ECB or a deterioration in the US growth outlook, this positioning overhang is likely to amplify downside pressure on the pair rather than unwind. On balance, we revise our EUR/USD forecasts lower, projecting a gradual depreciation path: 1.12 in 4Q26, 1.11 in 1Q27, and 1.10 in 2Q27 and 3Q27.

GBP/USD

The BOE held its Bank Rate at 3.75% at its 17 Sep meeting, with the MPC voting 6-3 in favour of maintaining the current stance. External members Catherine Mann and Megan Greene, alongside Chief Economist Huw Pill, dissented once again in favour of an immediate 25 bps hike. The dovish majority's rationale rests on the assessment that weakening domestic demand and a softening labour market will contain second-round inflation effects, even as headline inflation risks are clearly tilted to the upside. While an extended BOE hold remains our base case, the probability of an "insurance" hike – potentially at the Nov meeting – is rising.

From a rate-differential perspective, GBP/USD faces a structural headwind. The BOE-Fed differential currently stands at -25 bps (3.75% vs 4.00%), and should the Fed deliver two additional 25 bps hikes in Dec 2026 and 1Q27 while the BOE remains on hold or delivers fewer, this gap widens materially against the sterling. The pair's muted YTD performance of -1.2% suggests that markets have yet to fully reprice this dynamic, leaving room for further GBP depreciation as the divergence becomes more apparent. A secondary but increasingly significant pressure point for sterling is the relentless rise in long-dated gilt yields – 30-year is up 55 bps YTD – reflecting growing market concern over the UK's fiscal trajectory. This makes the 28 Oct Autumn Budget a closely watched event. A credible fiscal consolidation plan could provide a partial offset to the rate differential headwind, while any further deterioration in the fiscal outlook risks amplifying gilt yield pressure and compounding GBP weakness.

On balance, we revise our GBP/USD forecasts lower, projecting a sustained depreciation path: 1.31 in 4Q26, 1.29 in 1Q27, and 1.27 in 2Q27 and 3Q27.

USD/JPY

JPY presents the most nuanced setup within the G10 complex, even as we now anticipate broad-based USD strength. The BOJ raised its policy rate by 25 bps to 1.25% on 18 Sep – a 31-year high – with two board members dissenting. From here, our base case is for the BOJ to remain on hold through the remainder of 2026, before delivering a final 25 bps hike in late 2Q27 to bring the policy rate to 1.50%. That said, we assign a meaningful 40% probability to the scenario in which the next hike is brought forward to 4Q26, contingent on a confluence of factors: a further deterioration in the inflation outlook, sustained external pressures, and PM Takaichi's receptiveness to a steeper policy rate trajectory.

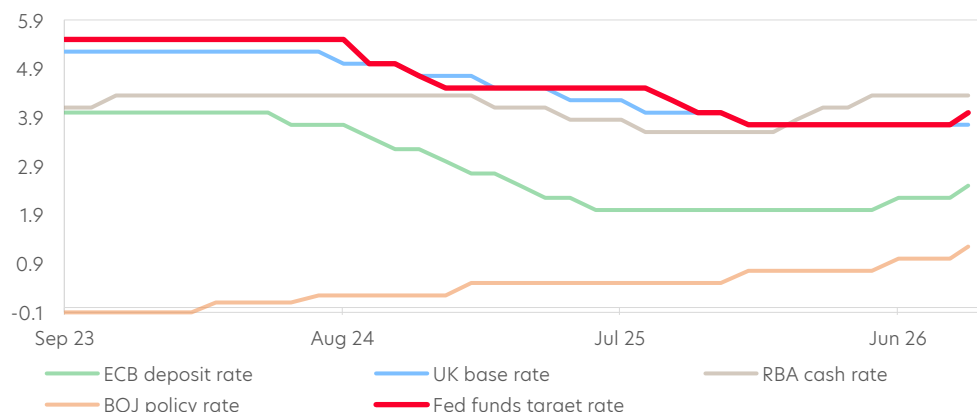
The Fed-BOJ rate differential remains amongst the widest in the G10 at 275 bps (4.00% vs 1.25%), and the yen's sharp depreciation in the week of 14-18 Sep – following successive rate hikes by the Fed and then the BOJ – underscores the pair's acute sensitivity to US rate developments. With the projected Dec 2026 and 1Q27 Fed hikes set to widen the differential further, USD/JPY is biased higher in the near term, and the conditions for a revival of the USD/JPY carry trade are increasingly in place. This dynamic inevitably extends our timetable for USD/JPY normalization beyond our prior projections.

However, further USD/JPY upside may be limited. The pair is likely to encounter meaningful resistance as it approaches previous intervention levels in the vicinity of around 160. Notably, Nikkei reported that the BOJ conducted a rate check at around the 158 level following the 18 Sep hike – a step widely interpreted as a precursor to official intervention. In our base case, we do not expect USD/JPY to trade above the Jul high near 164. A more credible counteracting force to USD strength would be a BOJ decision to accelerate its tightening timeline with an additional hike in 4Q26 – not our base case, but a scenario that would represent the fastest hiking cadence since the current tightening cycle commenced in 2024, and would carry meaningful JPY-positive implications.

On balance, we revise our USD/JPY forecasts higher to reflect the extended carry trade dynamic and the delayed normalization path: 159 in 4Q26, 161 in 1Q27, and 162 in both 2Q27 and 3Q27.

Chart 7: Within G-10, only RBA has established a positive rate cushion against the USD in this tightening cycle

Source: Bloomberg, UOB Global Economics & Markets Research



AUD/USD

The AUD has been the standout G10 performer in 2026, appreciating 5.1% YTD against the USD – a reflection of the RBA's own active tightening cycle. From a trough of 3.60%, the RBA has since delivered three consecutive hikes since Feb 2026, bringing the cash rate back to 4.35%. We expect one further 25 bps hike to a cycle peak of 4.60% at the upcoming 29 Sep meeting, underpinned by resilient economic activity, still-tight labour market conditions, and inflation pressures that remain above target.

Under our revised constructive USD view, AUD/USD is unlikely to be spared from a drawdown. That said, the pair's vulnerability is more limited than most G10 peers, owing to the narrowness of the rate differential. The terminal RBA-Fed differential is projected to compress to just 10 bps – RBA at 4.60% versus a Fed terminal rate of 4.50% from 2Q27 – from 35 bps currently, remaining the tightest spread in the G10 complex. This limits the degree to which rate differential dynamics can act as a sustained headwind for AUD and distinguishes the pair's outlook from the more straightforwardly bearish setups in EUR, GBP, NZD, and CHF.

Beyond the rate channel, AUD retains a meaningful vulnerability to external risk factors. Any deterioration in global risk appetite or a sharper-than-expected slowdown in Chinese growth – Australia's largest trading partner – would override the rate support and could accelerate AUD/USD weakness beyond what the differential alone would imply. This tail risk is non-trivial given the current geopolitical backdrop and the softer China domestic spending and activity conditions that have prompted us to revise our China GDP growth forecast for 3Q26 lower to 4.3% (from 4.7%), missing the 4.5%-5.0% official target for a second straight quarter.

On balance, while the expected pullback in AUD/USD is likely to be shallower than that of other G10 peers – given the RBA's still-active, albeit late-stage, tightening cycle – we believe the pair's best days are behind it for this cycle. We revise our AUD/USD forecasts lower: 0.70 in 4Q26, 0.69 in 1Q27, and 0.68 in 2Q27 and 3Q27.

USD/CHF

The Swiss franc presents the most straightforward case in the G10 complex. The SNB cut its policy rate to 0.00% in Jun 2025 and has remained on hold since, with market pricing implying no rate hike until late 2027. The Fed-SNB differential stands at 400 bps (4.00% vs 0.00%) – the widest in the G10 – and the projected Dec 2026 and 1Q27 Fed hikes would extend this advantage further, making USD/CHF the pair most directly and cleanly exposed to the rate differential thesis underpinning our revised constructive USD view.

Beyond the rate differential, the franc has emerged as the preferred carry funding currency within the G10 complex, displacing the JPY in that role. With SNB rates anchored at zero and no near-term hike expected, CHF offers stable, near-zero funding costs – an increasingly attractive attribute relative to the JPY, where funding costs are set to rise even further as the BOJ continues its rate normalisation and where the risk of intervention to support the yen remains elevated. This structural shift in carry dynamics provides an additional, independent tailwind for USD/CHF that reinforces the rate differential argument.

On the intervention front, the SNB has maintained an explicit bias to sell CHF – framed as an “increased willingness to intervene in FX markets” – since the outbreak of the Iran war. However, the urgency of that bias has likely diminished. Swiss CPI rose to 0.8% YoY in Aug – a two-year high – signalling that the SNB’s tolerance for further CHF weakness may be approaching its limits, while the Swiss NEER has pulled back meaningfully from its Mar peak, reducing the case for active franc-selling at current levels. The “increased willingness” language was also dropped in the 24 Sep SNB policy statement.

The CHF’s traditional safe-haven status remains a potential partial offset to the bullish USD/CHF view. In a risk-off scenario – whether driven by US fiscal deterioration, a global growth slowdown, or an escalation in geopolitical tensions – CHF demand could reassert itself and cap USD/CHF upside. However, absent a significant risk-off catalyst, the carry differential and rate divergence strongly favour USD, and the pair’s YTD gain of 3.5% reflects a dynamic that is likely to extend if the Fed delivers as projected.

Taken together, we shift to an upward trajectory for USD/CHF, with point forecasts of 0.84 in 4Q26, 0.85 in 1Q27, and 0.86 in 2Q27 and 3Q27.

Asia FX Strategy

Defensive pivot warranted as Fed tightening cycle alters regional FX calculus

The Fed’s Sep hike materially alters the near-term regional Asia FX calculus. Our constructive 4Q26 Asia FX thesis had rested on three conditions: consolidating oil prices affording the Fed sufficient cover to hold rates through year-end, a narrowing US rate advantage, and a resumption of regional portfolio inflows. The Fed hike directly undermines the second condition and raises the risk that portfolio inflows stall or even reverse. With two further rate increases now projected over the next six months, Asia FX faces a more challenging external environment than our prior baseline assumed.

Chart 8: Low FX volatility at the beginning of the current tightening cycle indicates that markets may be underestimating depreciation risks across Asian currencies

Source: Bloomberg, UOB Global Economics & Markets Research



Asia FX has demonstrated notable resilience over the past two years, weathering significant headwinds – including elevated trade tariffs in 2025 and the Middle East conflict in 2026. However, the resumption of a US tightening cycle introduces a qualitatively different challenge, one that strikes at the very heart of the rate differential and capital flow dynamics that have underpinned regional currency stability. We now believe a more defensively positioned regional FX stance is warranted.

The renewed Fed tightening cycle is likely to strike Asia FX in a non-uniform fashion. The region's central banks are at markedly different stages of their respective policy cycles, and the degree to which each can absorb or offset the widening USD rate advantage varies considerably.

Three broad groupings emerge:

- 1) **Rate buffer economies**, where domestic policy rates remain above the Fed's and central banks are expected to mirror Fed moves to maintain the carry cushion and stabilise capital flows: India (RBI at 5.25%, two further hikes expected), Indonesia (BI at 5.75%, two further hikes expected), and the Philippines (BSP at 5.00%, on hold). Notably, most economies in this cohort carry current account and fiscal deficits, which may subject their currencies to a larger drawdown during a Fed tightening cycle, notwithstanding the nominal rate buffer.
- 2) **Policy-constrained economies**, where rates are well below the Fed's and central banks have limited room to tighten further without compromising growth: Thailand (BOT at 1.00%, on hold) and Malaysia (BNM at 2.75%, one hike expected in Nov 2026). In this cohort, THB is the most exposed as the BOT has no credible room to hike without inflicting significant damage on an already-sluggish domestic economy. Also, the Fed-BOT differential stands at 300 bps, one of the widest in Asia.
- 3) **AI-semiconductor linked economies**, where currency performance – KRW and TWD – is driven primarily by equity flows and the broader AI investment narrative rather than rate differentials. That said, both economies have delivered strong GDP outperformance, and the prospect of rate hikes in response provides a secondary layer of support.

To a certain extent, the SGD belongs to this category. Singapore's exposure to the AI cycle includes higher-value activities such as wafer fabrication, advanced packaging, memory production, and semiconductor manufacturing equipment.

Our updated base case is premised on the following conditions: the Fed delivers the projected Dec 2026 and 1Q27 hikes; oil prices stabilizing below \$100/bbl; China's 2026 growth holding at 4.5%; and regional central banks respond with targeted FX intervention and selective rate adjustments. Under this scenario, **Asia FX collectively undergoes a controlled, differentiated depreciation against the USD**. The headwinds on Asia FX are expected to be concentrated in the immediate 4Q26 and 1Q27 coinciding with the expected Fed hikes before tapering off.

Any assessment of Asia FX trajectory is incomplete without addressing CNY. A PBOC commitment to CNY stability would serve as a critical anchor for the region, allowing the bifurcation to play out along fundamental lines. In this environment, SGD, TWD, KRW, and MYR are expected to demonstrate relative resilience, supported by stronger external positions and strong exports growth tied to the AI cycle. Conversely, IDR, PHP, INR, and THB are more vulnerable to resurgent USD strength, given their combination of external financing needs and higher energy prices depleting fiscal buffers.

USD/CNY

The immediate spillover from the Fed's renewed tightening cycle to CNY appears contained. The PBOC fixed the yuan at 6.7459 on 22 Sep – the strongest fixing against the USD since Feb 2023 – signalling the authorities' continued commitment to currency stability. Spot CNY continues to trade at a premium to the daily fixing, reflecting underlying investor preference for the currency. This is corroborated by flows data indicating that Chinese banks have been selling USD and buying CNY on behalf of clients for an eighth consecutive month in Aug, underscoring the persistence of domestic and institutional demand for the yuan at current levels.

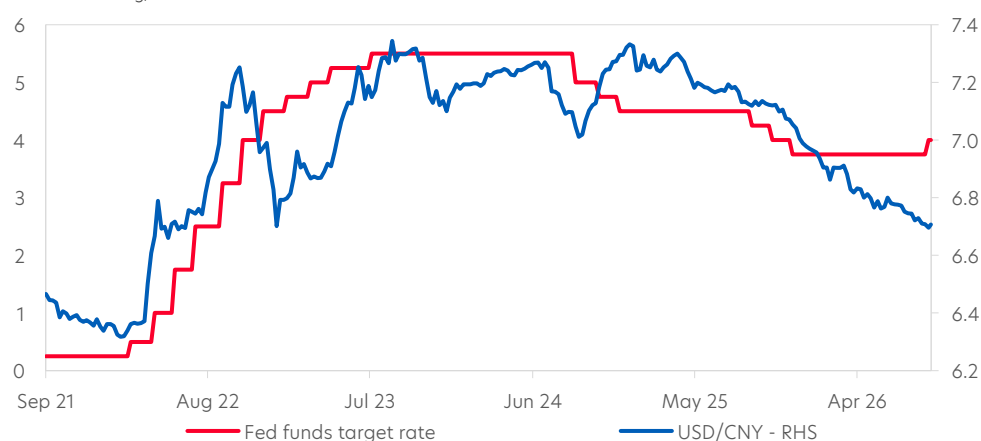
That said, the FX calculus is shifting against the CNY over the medium term. As the Fed's tightening cycle takes shape in the coming months, the resulting broad-based USD strength is likely to eventually spur a reversal of the USD/CNY downtrend – a dynamic that closely mirrors the 2022 episode, when a similarly aggressive Fed tightening cycle catalyzed a sharp CNY depreciation. Against this backdrop, it may be prudent from a risk management standpoint to establish upside USD/CNH hedges at current levels, given the attractive entry point afforded by low spot and the recent decline in swap points – the latter reflecting markets pricing in an increasing monetary policy divergence between a tightening Fed and an accommodative PBOC.

While we shift to a cautious medium-term outlook on the CNY, the pace of depreciation is expected to be measured rather than disorderly. The PBOC's 2026-2030 five-year plan reaffirmed yuan stability and internationalisation as structural policy priorities, providing a credible anchor that is likely to constrain the pace and magnitude of any CNY weakness. The PBOC retains both the intent and the tools – daily fixing management, reserve requirement adjustments, and FX intervention – to ensure that any depreciation remains orderly and consistent with its broader policy objectives.

We revise our USD/CNY forecasts higher to reflect the shifting rate differential and the gradual unwinding of the CNY's recent outperformance: 6.75 in 4Q26, 6.80 in 1Q27, and 6.85 in 2Q27 and 3Q27.

Chart 9: Will the start of the US rate hike cycle trigger a USD/CNY reversal, as it did in 2022?

Source: Bloomberg, UOB Global Economics & Markets Research



USD/KRW and USD/TWD

Within the Asia FX complex, KRW and TWD occupy a structurally distinct position. Unlike the rate buffer and policy-constrained cohorts – where currency performance is primarily a function of rate differential dynamics and external financing needs – KRW and TWD are driven in large part by equity flows and the broader AI investment narrative, a structural tailwind that has proven remarkably durable and is likely to persist through the Fed's renewed tightening cycle. Both currencies are also expected to receive an additional layer of rate support: the BOK and CBC are each projected to deliver a cumulative 25 bps of tightening over the next two quarters, narrowing – though not eliminating – the rate differential disadvantage against the USD and reinforcing the case for relative outperformance within the Asia FX complex. Underpinning both currencies further is a robust macroeconomic backdrop characterized by strong export momentum, above-trend GDP growth, and widening current account surpluses – a combination of fundamental buffers that most Asia peers cannot replicate and that provides a durable anchor against the headwinds of renewed USD strength.

On balance, we expect both TWD and KRW to depreciate modestly against the USD over the forecast horizon. Overall, our updated USD/KRW forecasts are at 1,370 in 4Q26, 1,380 in 1Q27, and 1,390 in 2Q27 and 3Q27 while that of the USD/TWD are 32.0 in 4Q26, 32.3 in 1Q27, and 32.5 in 2Q27 and 3Q27.

USD/SGD

The SGD is likely to maintain its resiliency despite the Fed moving into a tightening phase. The MAS delivered back-to-back slope steepenings in Apr and Jul 2026, raising the rate of appreciation of the S\$NEER policy band to an estimated 1.25% p.a. This appreciation bias functions as an automatic stabiliser for the SGD. By keeping the currency bid against its basket of trading partners – which includes the USD – the MAS's exchange-rate-based framework provides a structural buffer against the headwinds of renewed USD strength

Our updated base case now sees a further 25 bps slope steepening to 1.50% p.a. in the Oct 2026 MPS. This would provide an additional tightening impulse that leans directly against the USD strength dynamic, capping USD/SGD upside in the coming quarter (4Q26).

The SGD's long-term structural support remains firmly intact. Its government's track record of fiscal prudence, a persistent current account surplus, and an AI-driven GDP growth boost collectively distinguish the SGD from regional peers facing oil-driven inflation and softening activity. These structural attributes reinforce the SGD's role as the preferred safe-haven currency within the Asia FX complex, providing a demand anchor that is largely independent of short-term rate differential movements.

Taken together, while USD/SGD is not immune to the broader USD appreciation trend, the SGD's anticipated weakness is expected to be measured and orderly relative to the wider Asia FX complex. We revise our USD/SGD forecasts modestly higher to reflect the shifting external environment: 1.28 in 4Q26, 1.29 in 1Q27, and 1.30 in 2Q27 and 3Q27.

USD/MYR

Despite belonging to the policy-constrained cohort — where BNM rates remain below the Fed's and the central bank is expected to deliver only one further 25 bps hike in Nov 2026, bringing the OPR to 3.00% — the MYR is expected to exhibit relative resilience within the Asia FX complex under the revised constructive USD view. The terminal BNM-Fed differential is assessed at a manageable -150 bps, materially narrower than the -250 bps peak reached during the 2022-2023 tightening cycle. This compression in the differential overhang is the primary reason we expect MYR depreciation to be more contained and orderly in the current cycle than in the prior episode.

Beyond the rate differential, factors that provide structural support for the MYR include resilient domestic demand with ongoing government policy support, continued AI- and data centre-related investments, higher tourism activities, and benign inflationary pressures. PBOC CNY stability — our base case — acts as a regional anchor, preventing contagion-driven MYR weakness beyond what domestic fundamentals would imply.

The primary near-term vulnerability for the MYR is a reversal of bond market flows given the sharp foreign inflow of MYR15.9bn in Aug ([link](#)). Year-to-date foreign funds have bought a net MYR3.8bn of government bonds and MYR13.0bn of private debt securities. Notably, central banks and governments remain the largest foreign holders of Malaysian government bonds, accounting for 36.8% of total outstanding holdings as of 2Q26 (up from 30.2% a year earlier), providing a stable and relatively sticky source of inflows. Malaysia's bonds remain attractive due to strong fundamental drivers, benign inflation outlook and stable policies. However, as the Fed's hawkish repricing drives global yields higher and compresses the carry incentive for foreign holders of Malaysian debt, this raises pressure points particularly if a delay in normalising OPR materializes. Needless to say, any sudden change in the political landscape could also trigger investor caution.

On balance, USD/MYR is biased modestly higher under the revised constructive USD view, but the depreciation path is expected to be shallower and more orderly than the 2022-2023 episode. We revise our USD/MYR forecasts to: 4.11 in 4Q26, 4.16 in 1Q27, and 4.20 in 2Q27 and 3Q27.

USD/THB

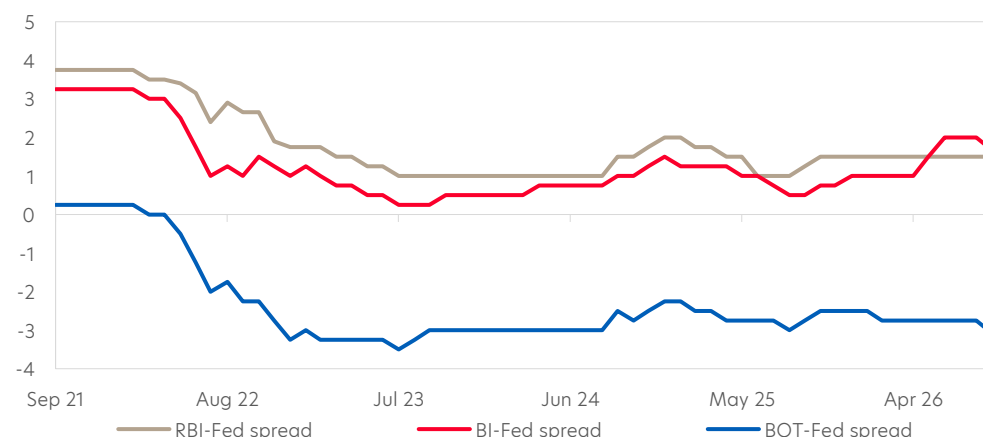
The THB is among the most vulnerable currencies in the Asia FX complex to the renewed Fed tightening cycle. A confluence of domestic constraints — weak private consumption, elevated household debt, an unusually large current account deficit, and a stalled tourism recovery — renders a BOT rate hike untenable. We expect the BOT to maintain its policy rate at 1.00% through to end-2028, the lowest in the region. Should the Fed deliver the projected Dec 2026 and 1Q27 hikes as our macroeconomic team anticipates, the Fed-BOT differential would widen further from 300 bps currently to 350 bps, one of the widest in Asia, with no credible domestic policy offset available.

The combination of sub-par fundamentals and a widening rate differential means the path of least resistance for USD/THB is higher. The primary constraint on USD/THB upside is potential BOT FX intervention, where the central bank has demonstrated a willingness to deploy reserves to smooth excessive moves. In the near term, a seasonal tourism pick-up in 4Q26 and stable gold prices — which the THB is closely correlated — could provide a temporary stabilising force for the baht. However, these are cyclical rather than structural supports and are unlikely to be sufficient to reverse the underlying depreciation bias in a sustained Fed tightening environment.

Accordingly, we revise our USD/THB forecasts higher to reflect the widening differential and the absence of a credible policy offset: 33.8 in 4Q26, 34.2 in 1Q27, and 34.6 in 2Q27 and 3Q27.

Chart 10: The THB is among the most vulnerable currencies in the Asia FX complex due to a widening BOT-Fed rate differential

Source: Bloomberg, UOB Global Economics & Markets Research



USD/IDR

USD/IDR is biased higher under the revised constructive USD view, consistent with the broader USD appreciation trend across Asia. At 5.75%, the BI rate nominally sits above the Fed funds rate of 4.00%, providing a positive carry of 175 bps that places Indonesia in the rate buffer cohort. In our base case, BI is expected to keep pace with the Fed's projected tightening, with both central banks delivering a further cumulative 50 bps over the next two quarters. This would preserve the 175 bps carry buffer – a meaningful improvement over the 2022-2023 tightening cycle, when the differential compressed to as little as 25 bps and triggered an IDR depreciation of approximately 10%. Whether 175 bps proves sufficient to fend off bond outflow pressures in a sustained Fed tightening environment, however, remains to be seen.

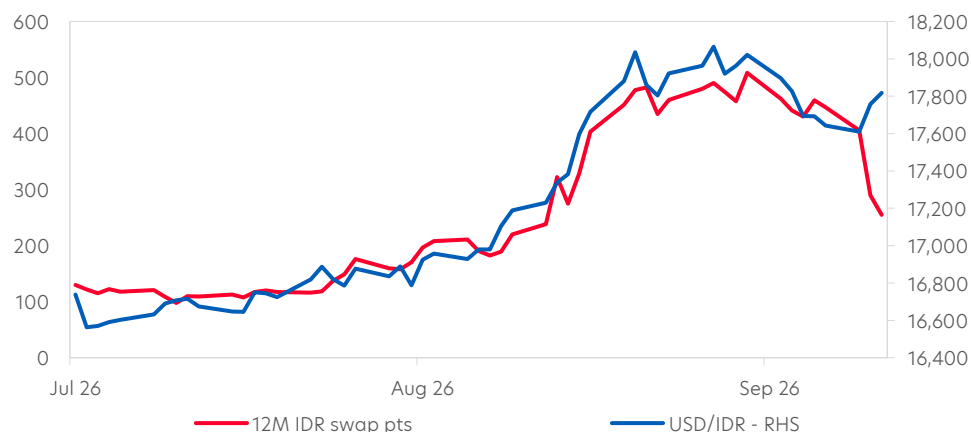
Beyond the rate differential, Indonesia's twin deficit risk remains the structural Achilles heel for the IDR. The current account deficit is projected to remain wide at 2.2% of GDP in 2026 and 2.3% in 2027, driven by elevated energy import costs. Compounding this, the proximity of Indonesia's fiscal deficit to its 3% statutory ceiling has been a persistent and independent source of IDR weakness throughout 2026 – and is likely to remain so into 2027, particularly as deliberations over a potential amendment to the deficit cap rule continue to attract investor scrutiny. Key to the IDR's relative stability is renewed investor confidence in both monetary and fiscal policy, after the effective leadership transition in both Bank Indonesia and the Finance Ministry.

The breadth and persistence some of these headwinds explain why the IDR has underperformed within the Asia FX complex in 2026, despite BI's aggressive 100 bps of rate hikes so far. The structural drivers of foreign outflows from Indonesian bonds and equities remain entrenched, and are likely to be further amplified in a renewed Fed tightening cycle.

Against this backdrop, the 18,000 level in USD/IDR – which had previously served as a significant psychological threshold – may no longer carry the same symbolic weight, and a new trading range above 18,000 would not be surprising in the coming quarters. We revise our USD/IDR forecasts to reflect a gradual but sustained depreciation path: 18,200 in 4Q26, 18,400 in 1Q27, and 18,600 in 2Q27 and 3Q27.

Chart 11: The recent drop in IDR swap points may offer IDR hedging opportunities

Source: Bloomberg, UOB Global Economics & Markets Research



USD/VND

The VND has demonstrated relative resilience in 2026, appreciating approximately 1% YTD to 26,015 against the USD — a notable outperformance relative to other regional peers such as IDR and THB. This stability is, however, the product of deliberate policy management rather than underlying fundamental strength. The SBV raised its USD/VND central reference rate fixing to a record high of 25,640 on 22 Sep, signalling a tolerance for gradual, managed dong weakness in response to the Iran war oil shock, elevated geopolitical risks, and the Fed's renewed tightening cycle.

The SBV is expected to maintain its policy rate on hold at 4.50% through 2027. This stance, while supportive of Vietnam's exceptional growth trajectory, means that the current 50 bps buffer over the Fed funds rate is at risk of being fully erased as the Fed's tightening cycle progresses through Dec 2026 and 1Q27. The elimination of this carry advantage would remove a pillar of support for VND and increase the currency's sensitivity to portfolio flow dynamics.

On balance, USD/VND is biased modestly higher under the revised constructive USD view. However, the VND's depreciation path is expected to be gradual and more orderly than some of its more vulnerable regional peers, underpinned by durable FDI inflows and Vietnam's re-accelerating growth momentum above 8% in the next two years. We revise our USD/VND forecasts to 26,300 in 4Q26, 26,600 in 1Q27, and 26,800 in 2Q27 and 3Q27.

Rates Strategy

Navigating a higher interest rate regime

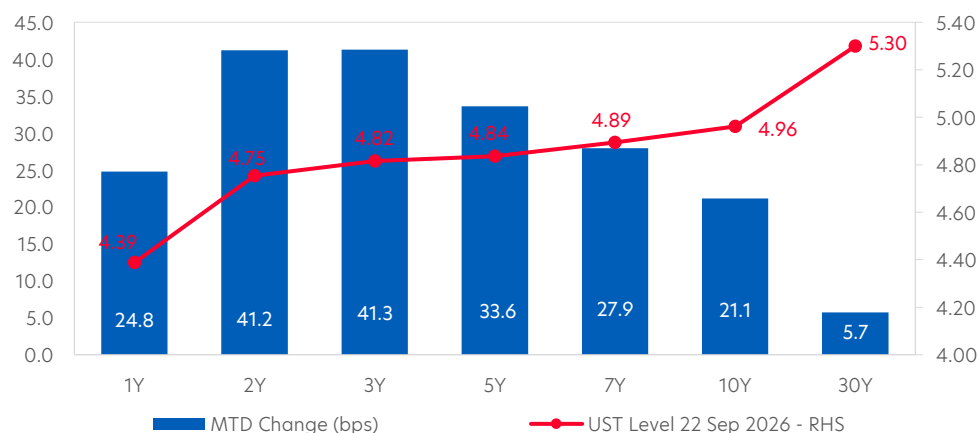
US Rates: A Start of New Hiking Cycle

At the Sep FOMC, the Fed raised its Fed Funds Target Rate (FFTR) by 25 bps to a target range of 3.75-4.00%, the first increase since 2023. The decision also reflected a unified front from the Fed, with the outcome being unanimous (12-0).

As such our macroeconomic team has updated its FOMC outlook and now expects two additional 25 bps rate hikes in Dec 2026 and 1Q27, followed by an extended pause through the remainder of 2027. For more details, please refer to the [Macro Note](#) dated 17 Sep 2026. Consistent with this revised outlook, **we forecast 3M compounded-in-arrears SOFR at 3.96% in 4Q26, 4.21% in 1Q27, 4.32% in 2Q27 and 4.36% in 3Q27.**

Chart 12: UST curve bear flattened in Sep as market started to gauge the extent of additional hikes

Source: Bloomberg, UOB Global Economics & Markets Research



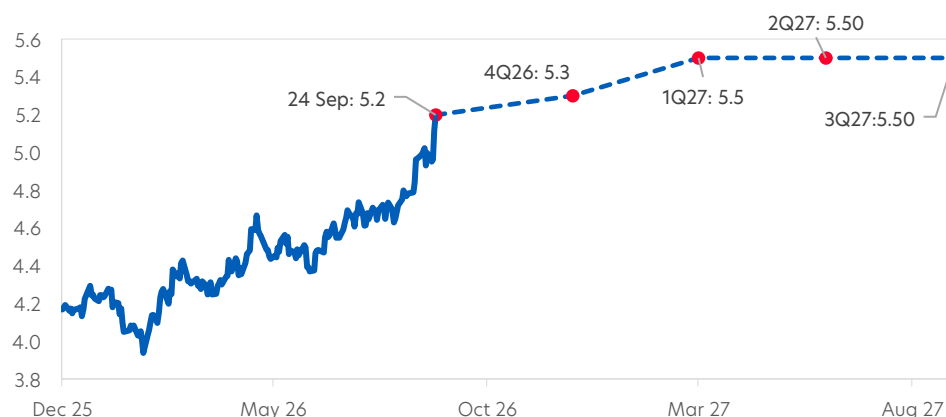
At the long end, markets received the first test of Treasury's long-end buyback programme on 10 Sep, when the Treasury sought to redeem up to USD6bn of bonds in the 10-20 year seg, three times the previous maximum buyback size of USD2bn. However, market reaction suggested that much of the operation had already been priced in. On the day of the buyback, the 30Y Treasury yield rose 7.6 bps to 5.365% from 5.289% in the previous session, despite the Treasury ultimately redeeming only USD5.187bn. Given the still-elevated level of long-dated Treasury yields, Treasury Secretary Scott Bessent's "Treasury Twist" strategy has yet to demonstrate clear success. The box below gives a sense of how significant the long-end Treasury buyback is, compared to the quantum of quarterly long-end issuance and maturing US bills, notes and bonds.

The 10Y UST yield has now decisively broken above the psychologically important 5.0% threshold, as we previously cautioned, and has since level made new highs to 5.20% in recent days. The combination of factors highlighted in our prior outlook has largely materialized, including higher oil prices, a September FOMC rate hike, and the possibility that Treasury's long-end buybacks could prove less effective than intended.

Given our revised Fed outlook, which incorporates two additional 25 bps hikes in Dec 2026 and 1Q27, we raise our **10Y UST yield forecasts** by 45-70 bps over the next four quarters to **5.30% in 4Q26, and 5.50% from 1Q27 through 3Q27**. In our view, 10Y Treasury yields are likely to remain elevated amid the resumption of the Fed's hiking cycle and persistently high energy prices. The 20 bps increase from 4Q26 to 1Q27 reflects the anticipated transmission of the Fed rate hikes, while yields are expected to remain around 5.50% thereafter, supported by structural fiscal challenges in the US and increased term premium. The downside risk could involve an increased long-end Treasury buyback or reduced coupon issuance in the next refunding announcement in Nov.

Chart 13: 10Y UST YTD and UOB projection

Source: Bloomberg, UOB Global Economics & Markets Research



Box 1: Scale of Treasury long-end buybacks, long-end issuance and near-term maturities through 2027

The first upsized Treasury long-end buyback was conducted on 10 Sep, with a maximum purchase amount of USD 6bn, of which USD 5.187bn was ultimately accepted. Similarly, 24 Sep operation only accepted USD 4.1bn out of USD 6bn quota. Assuming the remaining buyback operations are maintained at USD 6bn each and are fully subscribed, the cumulative incremental demand for long-end Treasuries would amount to USD25.3bn.

Relative to the current scheduled long-end coupon issuance of approximately USD111bn (comprising USD42bn in the 20Y sector and USD69bn in the 30Y sector) for Aug to Oct, the buyback programme is meaningful, representing roughly 22.8% of Aug to Oct long-end issuance. In effect, the programme provides a material source of demand support for the long end of the Treasury curve and could be viewed as a form of financial repression aimed at alleviating upward pressure on long-end yields.

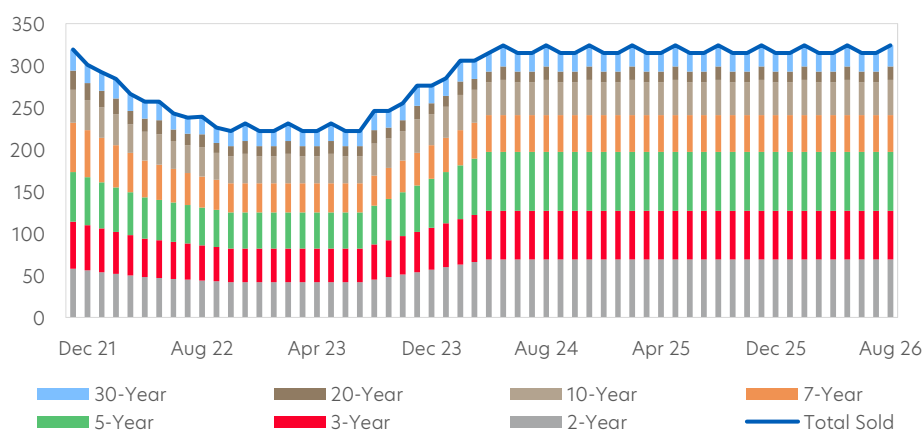
That said, the scale of the buybacks remains modest when compared with the Treasury's broader refinancing needs. Specifically, approximately USD3.76tn of coupon securities are scheduled to mature between Oct 2026 and Dec 2027, while a further USD7.3tn of Treasury bills are due to mature over the next 12 months. As such, the magnitude of the buyback programme is dwarfed by the overall volume of Treasury securities requiring refinancing, suggesting that its impact on long-end yields may ultimately be limited.

Scheduled long-end treasury buyback (Aug - Nov)							
Announcement Date	Operation Date	Purchase Bucket	Previous Max Buyback Amt (USD bn)	New Buyback Amt Guidance (USD bn)	Actual Buyback Quota (USD bn)	Actual Amt Bought back (USD bn)	Forecasted Amt Bought Back (USD bn)
17/08/2026	18/08/2026	20Y-30Y	2.0	As per previous amount	2.0	2.0	2.0
09/09/2026	10/09/2026	10Y-20Y	2.0	At least 4.0	6.0	5.2	5.2
23/09/2026	24/09/2026	20Y-30Y	2.0	At least 4.0	6.0	4.1	4.1
30/09/2026	01/10/2026	10Y-20Y	2.0	At least 4.0			6.0
07/10/2026	08/10/2026	20Y-30Y	2.0	At least 4.0			6.0
14/10/2026	15/10/2026	10Y-20Y	2.0	At least 4.0			6.0
26/10/2026	27/10/2026	20Y-30Y	2.0	At least 4.0			6.0
03/11/2026	04/11/2026	10Y-20Y	2.0	At least 4.0			6.0
Sub-Total			16.0				41.3
Incremental Increased long-end buyback (USD bn)							25.3

Source: US Treasury, Global Economics & Markets Research

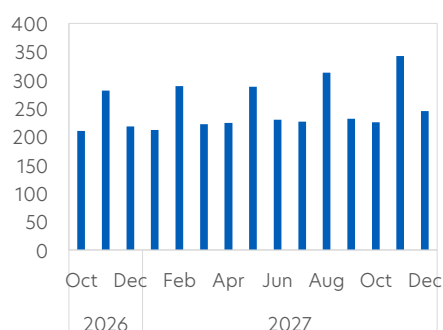
The long-end issuance has been quite stable since Apr 2024, at about USD 111bn

Source: Bloomberg, UOB Global Economics & Markets Research



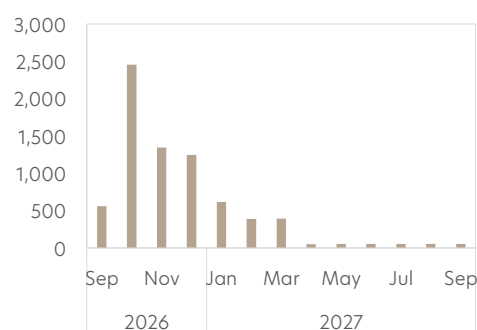
Coupons maturing USD bn
(Oct 26 - Dec 27)

Source: US Treasury, Global Economics & Markets Research



Bills maturing USD bn
(24 Sep 26 - Dec 27)

Source: US Treasury, Global Economics & Markets Research



SG Rates: A clearer move higher in SG rates

Growth and exports remain resilient, with Aug NODX rebounding 10.9% m/m sa, confirming our macroeconomic team's earlier assessment that the weakness in semiconductor exports and industrial production observed in Jun and Jul was likely temporary. Inflation ticked up in Aug as core inflation rises to nearly two-year high of 2.2%. CPI in Aug 2026 rose 0.6% from the previous month and 2.3% from a year earlier. CPI-All Items inflation edged up to 2.3% y-o-y in Aug 2026, from 2.2% in Jul 2026. As such, our macroeconomic team has raised our core inflation forecast for 2026 to 1.8% from 1.7% previously, incorporating a smaller-than-previously anticipated decline in 4Q26 electricity tariffs.

Against this backdrop, our macroeconomic team's updated base case is **for the MAS to tighten monetary policy further via another "very slight" slope-steepening move (+25 bps) in the Oct 2026 Monetary Policy Statement (MPS), taking the S\$NEER slope to 1.5% p.a.** This is a very close call given the broadening price pressures and the soft labor market conditions. The modest S\$NEER appreciation path for the exchange rate should continue to help contain imported inflationary pressures. For more details, refer to [Macro Note](#) dated 23 Sep.

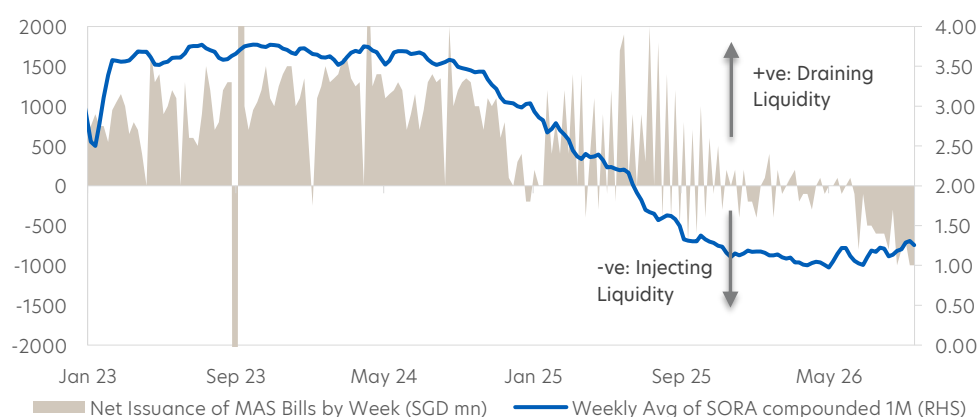
In our previous quarterly outlook, we highlighted several factors supporting a higher SORA trajectory, including: (1) a gradual increase in the banking system's loan-to-deposit ratio (LDR); (2) spillover effects from higher global and US interest rates; and (3) continuing firming in overnight SORA fixings. September developments have provided further confirmation of this view, most notably through the Fed's latest 25 bps rate hike.

Given our view that the recent increase in the Fed Funds Rate represents the resumption of a hiking cycle rather than a "one-and-done" move, with our macroeconomic team expecting an additional 25 bps hike in Dec 2026 and a final 25 bps hike in 1Q27, we view the upward path for SORA as increasingly certain.

Nevertheless, several factors could still exert downward pressure on SORA. These include: (1) continued growth in non-resident deposits, which adds liquidity to the banking system, although Jul recorded a sizeable outflow; and (2) recent MAS bill operations, where negative net issuance has effectively injected liquidity into the financial system.

Chart 14: Recent maturing MAS bills are not fully covered by new issuance, hence injecting liquidity to the banking system

Source: MAS, Bloomberg, UOB Global Economics & Markets Research



On balance, however, we believe the factors supporting higher SORA are likely to dominate. Recent evidence suggests that the underlying trend in SORA fixings has continued to move higher, albeit gradually. Most notably, 3M compounded-in-arrears SORA has recently risen above 1.20%, its highest level since Dec 2025.

While the overall direction of rates appears increasingly clear, the pace of normalisation in Singapore-US interest rate differentials remains considerably more uncertain. We have long maintained the view that SORA-SOFR spreads across tenors should gradually normalise from their historically wide discounts

Accordingly, we forecast **3M compounded-in-arrears SORA at 1.40% in 4Q26, 1.50% in 1Q27, 1.57% in 2Q27, and 1.63% in 3Q27**. These forecasts represent an upward revision of 5-15 bps relative to our projections published on 4 Sep, reflecting the transmission of a higher US interest rate path following the Fed's renewed tightening cycle, and another "very slight" S\$NEER slope steepening in Oct MPS.

Chart 15: Jul saw 15.5bn SGD outflow in non-resident deposit

Source: MAS, UOB Global Economics & Markets Research

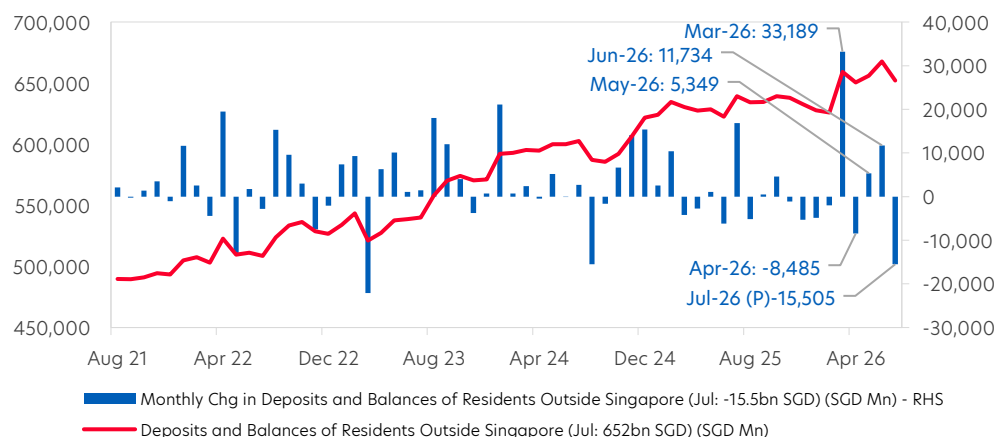
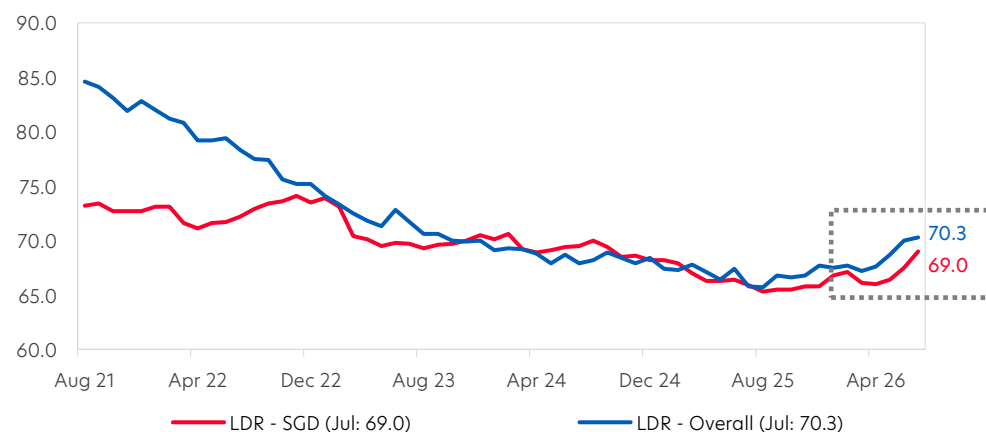


Chart 16: Loan-to-Deposit ratio continues the recent climb in Jul

Source: MAS, UOB Global Economics & Markets Research

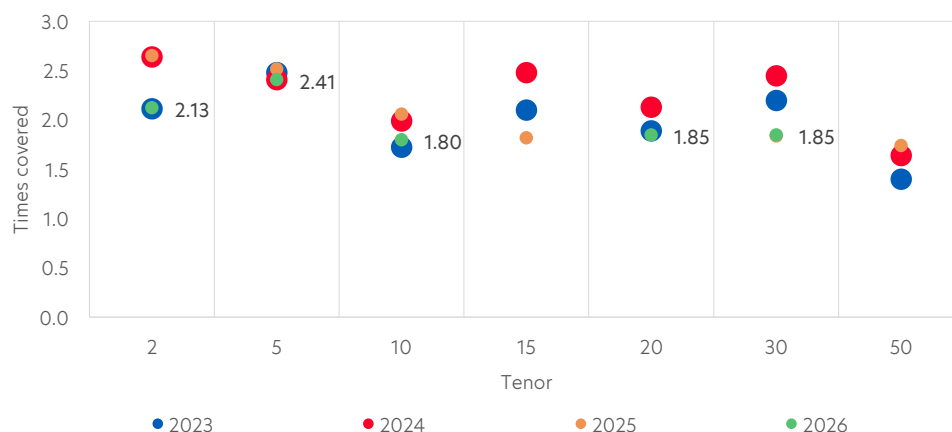


At the long end, the 10Y SGS yield rose from 2.35% at end-Aug to 2.49% as of 24 Sep, outperforming the increase in the 10Y UST yield, which climbed from 4.75% to 5.20% over the same period.

In the near term, investors will closely monitor demand at the upcoming 15Y SGS auction on 28 Sep. This is scheduled to be the final long-end SGS issuance of the year, barring any mini-auctions in Oct. While bid-to-cover ratios have generally been weaker than historical averages, valuations have become more attractive following the recent sell-off.

Chart 17: Average long-end bid-to-cover for SGS issuances is weak compared to recent years

Source: MAS, UOB Global Economics & Markets Research



Our forecasts continue to point to higher SGS yields over the projection horizon, driven by the gradual normalisation of Singapore-US interest rate differentials and the transmission of higher US rates. We now forecast the **10Y SGS yield at 2.65% in 4Q26, 2.80% in 1Q27, 2.95% in 2Q27, and 3.00% in 3Q27**. These projections represent an upward revision of 25-50 bps relative to our previous forecasts and reflect our expectation that the Fed's renewed hiking cycle will continue to exert upward pressure on Singapore rates.

DM and Asian Rates: Not Done with Hiking

Table 1: G10 rates change in Sep till 21 Sep

End 21 Sep Lvl	SOFR OIS	Euribor IRS	SONIA OIS	IRS	IRS	OIS
vs End Aug	USD	EUR	GBP	AUD	NZD	JPY
2y	4.63 (+41)	3.46 (+32)	4.60 (+28)	4.98 (+30)	4.00 (+26)	1.88 (+10)
5y	4.56 (+33)	3.46 (+26)	4.63 (+21)	5.24 (+29)	4.34 (+25)	2.33 (+6)
10y	4.57 (+20)	3.49 (+14)	4.77 (+8)	5.37 (+20)	4.66 (+19)	2.84 (+2)

Source: Bloomberg, Global Economics & Markets Research

Within the G10, our macroeconomic team continues to expect further policy tightening, projecting an additional 25 bps ECB rate hike in 4Q26 following the 25 bps increase delivered in Sep, in line with our expectations. Policymakers emphasized that the Middle East-driven energy shock continues to generate inflationary pressures, with risks to inflation remaining skewed to the upside despite growing uncertainty surrounding the growth outlook. Given the ECB's hawkish communication and upward revisions to its inflation forecasts, our macroeconomic team now views Dec as the base case for a final 25 bps hike, although Oct remains a live meeting given persistent energy-related inflation risks and increasing concerns over second-round effects through wages and underlying prices. For more details, please refer to [Macro Note](#) dated 11 Sep 2026.

In Japan, the BOJ delivered a 25 bps rate hike in Sep, as expected, raising the policy rate to 1.25% on a 7-2 vote. However, we believe Governor Ueda's post-meeting communication was insufficiently hawkish to reinforce market expectations for a faster pace of tightening, as hawkish signals were tempered by dovish nuances. While Ueda noted that the "stage for policy conduct has changed," thereby justifying the latest rate increase as a response to upside inflation risks, he also emphasized that there is no predetermined pace of tightening and no commitment to consecutive rate hikes. Given this mixed message, our macroeconomic team continues to expect the BOJ to remain on hold through the rest of 2026, before delivering another 25 bps hike in late 2Q27, taking the policy rate to 1.50%. For further details, refer to [Macro Note](#) released 18 Sep.

Across Asia, interest rates generally moved higher during the quarter, although the magnitude of the increase was smaller than that observed across most G10 markets. Our macroeconomic team continues to anticipate additional policy tightening across several Asian economies, including Malaysia, Indonesia, India, Korea and Taiwan.

Table 2: Asia rates change in Sep till 21 Sep

End 21 Sep Lvl. vs End Aug	Onshore IRS KRW	Onshore OIS INR	SORA OIS SGD	Onshore IRS MYR	Onshore OIS THB	Onshore IRS CNY	IRS HKD	Onshore IRS TWD	Bonds IDR
2y	4.00 (+24)	6.28 (+9)	1.94 (+21)	3.77 (+14)	1.33 (+6)	1.43 (+1)	4.08 (+41)	2.04 (+16)	6.76 (+15)
5y	4.19 (+21)	6.55 (+7)	2.30 (+19)	3.85 (+17)	1.73 (+6)	1.50 (-)	4.10 (+39)	2.34 (+16)	6.91 (+7)
10y	4.23 (+14)	6.73 (+4)	2.53 (+15)	4.04 (+16)	2.15 (+4)	1.62 (-1)	4.12 (+28)	2.65 (-1)	7.08 (+10)

Source: Bloomberg, Global Economics & Markets Research

Bank Indonesia (BI) kept the BI Rate unchanged at 5.75% at its Sep monetary policy meeting. Policy efforts remain focused on safeguarding the Rupiah, anchoring inflation within the 2.5±1% target range and supporting sustainable growth through accommodative macroprudential measures. During the Q&A, policymakers indicated that the adequacy of the current 5.75% BI Rate to anchor Rupiah stability remains data-dependent, underscoring a cautious policy stance amid persistent external uncertainties. Accordingly, we continue to view the current pause as a temporary pause rather than the conclusion of the tightening cycle. We therefore maintain our baseline forecast for two additional 25 bps rate hikes, in 4Q26 and 1Q27, which would bring the BI Rate to a terminal level of 6.25%, where it is likely to remain thereafter. This reflects a slightly slower hiking path compared to our previous projection of 2x25bps hikes in 4Q26. For more details, refer to [Macro Note](#) dated 23 Sep.

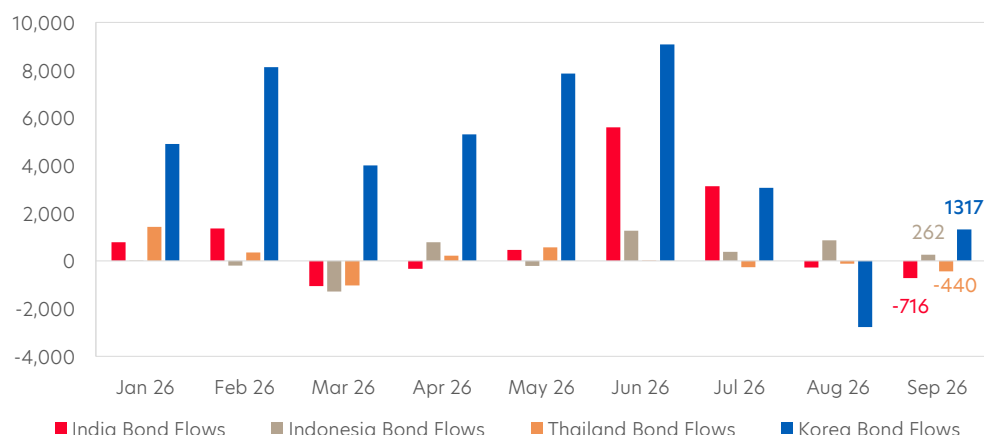
In Malaysia, headline inflation edged up to 1.9% y/y in Aug from 1.8% y/y in Jul, following two consecutive months of moderation. Our macroeconomic team forecasts full-year 2026 inflation at 2.0%, within BNM's 1.5%-2.5% target range, with risks remaining tilted to the upside. In addition, the combination of elevated external interest rates, resilient domestic growth prospects and the anticipated expansionary stance of Budget 2027 is expected to strengthen the case for policy normalisation by Bank Negara Malaysia (BNM). Accordingly, we expect a 25 bps increase in the Overnight Policy Rate (OPR) to 3.00% at the 5 Nov MPC meeting. For more details, refer to Macro Note dated 18 Sep on [inflation](#), [budget](#), and [trade](#).

Beyond our expectations for further policy tightening by Bank Indonesia (BI) and Bank Negara Malaysia (BNM), our macroeconomic team also forecasts one final 25 bps hike by the Bank of Korea (BOK) in 4Q26, two 12.5 bps rate hikes by Taiwan's Central Bank (CBC) in 4Q26 and 1Q27, and two 25 bps rate hikes by the Reserve Bank of India (RBI), beginning in Dec 2026.

Elsewhere, we expect the Bank of Thailand (BOT), State Bank of Vietnam (SBV), and Bangko Sentral ng Pilipinas (BSP) to maintain policy rates at 1.00%, 4.50%, and 5.00%, respectively, while the People's Bank of China (PBOC) is expected to keep its 7-day reverse repo rate unchanged at 1.40%.

Chart 18: Bond flows in Sep till 21 Sep is muted in selected Asian countries (USD mn)

Source: Bloomberg, UOB Global Economics & Markets Research



Central Bank Policy Rate Changes: actual so far and UOB forecast ahead												
Economy	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26F	4Q26F	1Q27E	2Q27E	3Q27E	4Q27E
US			-25bp	-50bp			+25bp^	+25bp	+25bp			
Euro Area	-50bp	-50bp				+25bp	+25bp^	+25bp				
UK	-25bp	-25bp	-25bp	-25bp								
Japan	+25bp			+25bp		+25bp	+25bp^			+25bp		
Australia	-25bp	-25bp	-25bp		+50bp	+25bp	+25bp					
New Zealand	-50bp	-50bp	-25bp	-75bp			+50bp^					
Singapore*	-50bp	-50bp				+50bp	+25bp^	+25bp				
Malaysia			-25bp					+25bp				
Thailand	-25bp	-25bp	-25bp	-25bp	-25bp							
Indonesia	-25bp	-25bp	-75bp			+100bp		+25bp	+25bp			-50bp
Philippines		-50bp	-25bp	-50bp	-25bp	+50bp	+25bp^					
India	-25bp	-75bp		-25bp				+25bp	+25bp			
China		-10bp										
Korea	-25bp	-25bp					+50bp^	+25bp				
Taiwan								+12.5bp	+12.5bp			
Vietnam												
Switzerland												

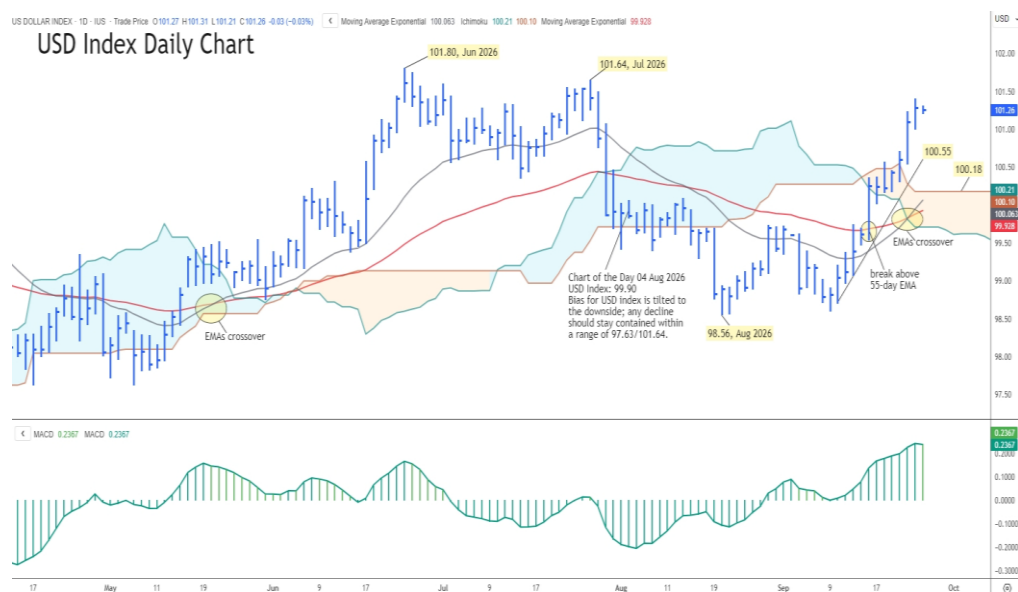
* Estimated adjustment of SGD NEER slope

^ BOK hiked 25bps in Jul, another 25bps in Aug; RBNZ hiked 25bps in Jul, another 25bps in Sep; MAS tightened slope by 25bps in Jul (estimate); BSP hiked 25bps in Aug; ECB hiked 25bps in Sep; Fed hiked 25bps in Sep; BOJ hi

Source: Global Economics & Markets Research

USD index: 101.25

The likelihood of USD index setting a new year-to-date high above 101.80 is increasing.



Source: LSEG Workspace, UOB Global Economics & Markets Research

In our previous [Chart of the Day](#) update from 04 August 2026, when the USD index was at 99.90, we stated: **"The bias for USD index is tilted to the downside, but any decline should stay contained within a range of 97.63/101.64."**

The index subsequently declined to 98.56 before moving sideways until the middle of this month, when it surged above the 55-day EMA. This week, it broke another key resistance level, the upper boundary of the daily Ichimoku cloud. The 21-day EMA has now crossed above the 55-day EMA, reinforcing the positive technical outlook and indicating that upward momentum is continuing to build.

Given the strengthening momentum and EMA crossover, the odds of the USD Index breaking above 101.64 have increased significantly. More importantly, a decisive break above this level would increase the likelihood of the USD Index taking out the June high of 101.80 and setting a new year-to-date high. To sustain the improving momentum, the USD Index must hold above 100.18. Near-term, 100.55 is already a strong support level.

US 10-Year Treasury Yield: 5.191%

The strength of the uptrend is likely to outweigh the deeply overbought conditions; the 10-year yield could rise to 5.300%.



Source: LSEG Workspace, UOB Global Economics & Markets Research

In our previous [Chart of the Day](#) from last Tuesday, 15 Sep 2026, when the 10-year yield was at 5.191%, we reiterated our positive view. We highlighted that **"Convincing break above 4.809% suggests further upside in yield; next resistance is at 5.021%, followed by 5.300%."**

The 10-year yield rose above 5.021% shortly after our update. Yesterday, it rose above 5.200% for the first time since 2007. While the weekly RSI is deeply overbought, the steady rise in the weekly ADX suggests that the uptrend remains firmly intact and is increasing in strength. To put it differently, the strength of the uptrend is likely to outweigh the deeply overbought conditions, and the yield could rise to 5.300%. To sustain the current trend acceleration, the yield should ideally hold above the breakout level near 4.800%. Given the strength of the current uptrend, the key support at 4.685% is unlikely to come under threat over the next one to two months.

FX, INTEREST RATES & COMMODITIES

Forecasts

FX	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
EUR/USD*	1.14	1.12	1.11	1.10	1.10
GBP/USD*	1.32	1.31	1.29	1.27	1.27
USD/JPY*	159	159	161	162	162
USD/CHF*	0.83	0.84	0.85	0.86	0.86
AUD/USD*	0.70	0.70	0.69	0.68	0.68
NZD/USD*	0.57	0.56	0.55	0.54	0.54
DXY*	101.3	102.0	102.8	103.6	103.6

USD/CNY*	6.71	6.75	6.80	6.85	6.85
USD/HKD	7.84	7.84	7.82	7.80	7.80
USD/TWD*	31.8	32.0	32.3	32.5	32.5
USD/KRW*	1,369	1,370	1,380	1,390	1,390
USD/PHP*	62.7	64.0	65.5	66.0	66.0

USD/MYR*	4.08	4.11	4.16	4.20	4.20
USD/IDR*	17,901	18,200	18,400	18,600	18,600
USD/THB*	33.5	33.8	34.2	34.6	34.6
USD/VND*	25,992	26,300	26,600	26,800	26,800
USD/INR*	96.0	97.0	98.0	99.0	99.0

USD/SGD*	1.28	1.28	1.29	1.30	1.30
EUR/SGD*	1.46	1.43	1.43	1.43	1.43
GBP/SGD*	1.69	1.68	1.66	1.65	1.65
AUD/SGD*	0.90	0.90	0.89	0.88	0.88
SGD/MYR*	3.19	3.21	3.22	3.23	3.23
SGD/CNY*	5.25	5.27	5.27	5.27	5.27
JPY/SGDx100*	0.81	0.81	0.80	0.80	0.80

POLICY RATES	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
US Fed Funds Rate*	4.00	4.25	4.50	4.50	4.50
EUR Refinancing Rate*	2.65	2.90	2.90	2.90	2.90
GBP Repo Rate	3.75	3.75	3.75	3.75	3.75
JPY Policy Rate	1.25	1.25	1.25	1.50	1.50
CHF Policy Rate	0.00	0.00	0.00	0.00	0.00
AUD Official Cash Rate	4.35	4.60	4.60	4.60	4.60
NZD Official Cash Rate	2.75	2.75	2.75	2.75	2.75

CNY 7D Reverse Repo	1.40	1.40	1.40	1.40	1.40
HKD Base Rate*	4.25	4.50	4.75	4.75	4.75
TWD Official Discount Rate	2.00	2.13	2.25	2.25	2.25
KRW Base Rate	3.00	3.25	3.25	3.25	3.25
PHP O/N Reverse Repo	5.00	5.00	5.00	5.00	5.00
MYR O/N Policy Rate	2.75	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo*	5.75	6.00	6.25	6.25	6.25
THB 1D Repo	1.00	1.00	1.00	1.00	1.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	5.25	5.50	5.75	5.75	5.75

INTEREST RATES	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
USD 3M SOFR (compounded)*	3.66	3.96	4.21	4.32	4.36
SGD 3M SORA (compounded)*	1.22	1.40	1.50	1.57	1.63
10Y US Treasuries Yield*	5.19	5.30	5.50	5.50	5.50
SGD 10Y SGS*	2.48	2.65	2.80	2.95	3.00

COMMODITIES	25 Sep	4Q26F	1Q27F	2Q27F	3Q27F
Gold (USD/oz)	4,270	4,500	4,800	5,100	5,400
Brent Crude Oil (USD/bbl)	106	90	85	80	80
Copper (USD/mt)	14,621	13,500	13,000	12,500	12,500

Updated as of 25 Sep 2026

* Forecasts updated as compared to previous report dated 04 Sep 2026

Source for spot rates: Bloomberg

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