

Developments in Regional Financial Conditions

Emerging East Asian financial conditions were broadly stable between 1 September and 31 October.¹ Reduced trade tensions, ongoing monetary easing in the United States (US), and sound economic fundamentals balanced lingering global uncertainty (**Table A**). Bond yields in most regional markets rose on stronger-than-expected growth in many regional economies and a pause in rate cuts as most regional central banks adopted a wait-and-see stance. Regional equity markets gained and risk premiums narrowed on trade deals between several regional economies and the US. Excluding the People's Republic of China (PRC), regional equity markets recorded net equity inflows of USD7.5 billion during the review period. The PRC's equity market witnessed capital outflows following the release of weak economic data. Market-specific factors and progress on trade deals also drove inflows to regional bond markets during the review

period. Meanwhile, regional currencies depreciated slightly against the US dollar on less-dovish-than-expected US monetary policy and uncertainty over its future path. Risks to the outlook for regional financial conditions appear broadly balanced amid easing global trade tensions, ongoing US monetary easing, and lingering downside risks, including potential setbacks in the implementation of trade agreements, uncertainty over the US Federal Reserve's (Fed) future monetary policy path, possible increased turbulence in the housing market in the PRC, and geopolitical risks.

During the review period, both the 2-year and 10-year yields declined in the US; the 10-year yield in the European Union-20 (EU-20) also fell. Yields rose marginally in Japan over persistent inflation and the [likelihood](#) of a policy rate hike before the end of 2025.

Table A: Changes in Financial Conditions in Major Advanced Economies and Select Emerging East Asian Markets from 1 September to 31 October 2025

	2-Year Government Bond Yield (bps)	10-Year Government Bond Yield (bps)	5-Year Credit Default Swap Spread (bps)	Equity Index (%)	FX Rate (%)
Major Advanced Economies					
Euro Area	1	(12)	-	5.5	(1.5)
Japan	4	4	0.3	8.6	(4.4)
United States	(4)	(15)	-	5.9	-
Select Emerging East Asian Markets					
People's Republic of China	0.3	2	(3.6)	2.0	0.3
Hong Kong, China	27	(10)	-	1.1	0.3
Indonesia	(44)	(34)	1.7	5.5	(1.3)
Republic of Korea	27	21	2.3	30.7	(2.6)
Malaysia	10	12	(1.0)	2.2	0.9
Philippines	(22)	(8)	(2.8)	(3.4)	(2.8)
Singapore	(8)	4	-	3.6	(1.3)
Thailand	17	43	0.8	5.2	(0.1)
Viet Nam	17	27	5.6	(2.5)	0.1

() = negative, - = not available, bps = basis points, FX = foreign exchange.

Note: FX rates are presented against the United States dollar. A positive (negative) value for the FX rate indicates the appreciation (depreciation) of the local currency against the United States dollar.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

¹ Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

The 2-year and 10-year bond yields in the US continued to fall during the review period on expectations of another rate cut in December. The US economy recorded solid growth in the second quarter (Q2) of 2025, albeit with some indicators showing signs of softening. The Fed's latest [Beige Book](#), published on 15 October, noted a challenging environment amid weakening demand and higher tariffs.

- Annualized US gross domestic product (GDP) growth in Q2 2025 was revised upward to 3.8% from a second estimate of 3.3%, reversing the 0.6% contraction in the first quarter. This brought GDP growth in the first half of 2025 up to 1.6%, which was still below the 2.2% expansion in the first half of 2024. In September, the Fed revised up its 2025 and 2026 GDP forecasts to 1.6% and 1.8%, respectively, from June forecasts of 1.4% and 1.6%. These estimates reflect moderation from 2024 GDP growth of 2.8%. The federal government shutdown, which started on 1 October over congressional disagreement on spending, could weaken growth if government expenditures remain curtailed.
- The government shutdown led to the delayed release of some key economic indicators, adding to the uncertainty. For example, September nonfarm payroll data, which was expected to be released in October, was released on 20 November.² The data showed an additional 119,000 jobs in September, following a decline of 4,000 in August, while the unemployment rate rose to 4.4% from 4.3% over the same period. The Fed's September unemployment rate forecast for 2025 was unchanged from its June forecast at 4.5%.
- S&P Global's Manufacturing Purchasing Managers Index (PMI) posted a reading of 52.0 in September and 52.5 in October, down from 53.0 in August. US consumer sentiment, as reflected in the University of Michigan's Survey of Consumers, also fell to 55.1 in September and 53.6 in October from 58.2 in August.
- Inflation remained persistently above the Fed's 2.0% target during the review period, partly driven by tariff-related price pressures. September consumer price inflation rose to 3.0% year-on-year (y-o-y) from 2.9% y-o-y in August and 2.7% y-o-y

in July. Core consumer price inflation fell slightly to 3.0% y-o-y in September from 3.1% y-o-y in both August and July. The Fed's September 2025 Personal Consumption Expenditures inflation forecast was left unchanged from its June estimate at 3.0%, while the 2026 forecast was revised upward to 2.6% from 2.4%. Similarly, the core Personal Consumption Expenditures inflation projection for 2025 was maintained at 3.1% for 2025, with an upward revision for 2026 to 2.6% from 2.4%.

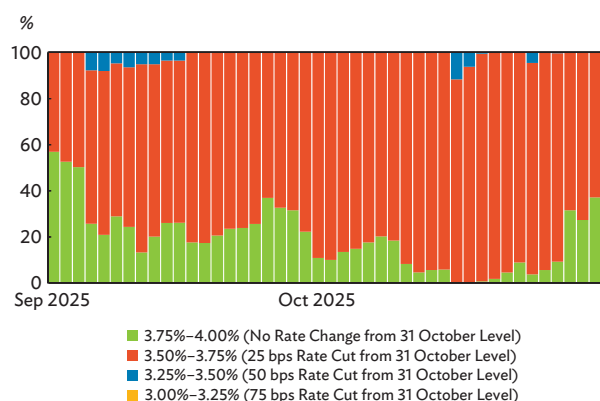
The Fed reduced the federal funds target rate range by 25 basis points (bps) to 4.00%–4.25% at its 16–17 September Federal Open Market Committee (FOMC) meeting. During its [press conference](#), the Fed described the move as a “risk management cut” amid a mixed economic outlook, weakening labor markets, and elevated inflation. The updated federal funds target rate forecast (or “dot plot”) reflected the increasingly divided opinions among Fed officials regarding additional rate cuts before the end of 2025. Fed officials noted that the balance of risks had shifted, with downside risks to employment rising as inflation risks continued to persist, resulting in mixed views on further rate cuts.³ The Fed again cut the target rate by 25 bps as widely expected at the FOMC meeting on 28–29 October and also announced a halt to its balance sheet reduction program starting 1 December. However, divisions among Fed officials were evident in the voting, with one member voting for a 50 bps rate cut while another voted for no change in the policy rate. At a [press conference](#) on 29 October, Chair Jerome Powell stated that a December rate cut was not a “foregone conclusion.”

The market still expected another rate cut in December, albeit with varying probabilities given the uncertainty (**Figure A**). After the September FOMC meeting, markets had largely expected two more rate cuts by the end of the year, with the likelihood at 78.6% on 19 September per CME FedWatch. The probability of two rate cuts by year's end fell to 60.5% on 25 September after an upward GDP growth revision for Q2 2025. This probability rose to 89.2% on 1 October after the release of Automated Data Processing, Inc.'s jobs report, which showed a decline of 32,000 jobs in September following a much smaller decline of 3,000 in August. Market participants

² The [US Bureau of Labor and Statistics](#) will not release October data as it was not able to gather all the data needed for payroll additions and the Consumer Price Index.

³ Some Fed officials called for more caution, including Federal Reserve Bank of Chicago President [Austan Goolsbee](#), Federal Reserve Bank of Dallas President [Lorie Logan](#), Federal Reserve Bank of Kansas President [Jeffrey Schmid](#), and Federal Reserve Governor [Michael Barr](#). Some kept a wait-and-see approach such as Federal Reserve Bank of Minneapolis President [Neel Kashkari](#). There were also some Fed officials advocating for further rate cuts, including Federal Reserve Bank of New York President [John Williams](#), Federal Reserve Bank of St. Louis President [Alberto Musalem](#), Federal Reserve Governor [Christopher Waller](#), Federal Reserve Bank of Philadelphia President [Anna Paulson](#), and Federal Reserve Bank of Boston President [Susan Collins](#).

Figure A: Daily Probability of Year-End Federal Reserve Target Rate Range



bps = basis points.

Note: Data are as of 31 October 2025.

Source: CME FedWatch Tool.

relied on this report as an alternative data source given the delayed release of official jobs data amid the government shutdown. On 14 October, Fed Chair [Jerome Powell](#) reiterated that there are downside risks to labor markets, leading to the probability of two rate cuts before the end of the year to rise to 94.4% on the same day. The probability of two rate cuts stayed at around 90% until Fed Chair Jerome Powell pushed back against the certainty of another rate cut in December during the 29–30 October FOMC meeting. After the meeting, on 31 October, the probability of a December rate cut fell to 63.0% from 90.4% on 28 October, while the chance of no rate cut rose to 37.0%. Comments on 4 November from Fed Reserve Bank of San Francisco President [Mary Daly](#) that Fed officials should be open to a rate cut in December reduced this likelihood to 31.4%. Subsequent reporting from Automated Data Processing, Inc. released on 5 November showed that 42,000 jobs were gained in October, which raised the probability of no rate cut to 38.0%.

During the review period, the 2-year bond yield in the euro area rose marginally as the European Central Bank (ECB) remained in a wait-and-see stance regarding the impact of tariff-related uncertainty. Meanwhile, the 10-year bond yield fell on increased demand for European bonds driven by investor concerns over the US government shutdown.

- The euro area's economy remained resilient with healthy GDP growth and inflation hovering just above the ECB's target. GDP growth in the euro area slowed slightly to 1.4% y-o-y in the third quarter (Q3) of 2025 from 1.5% y-o-y in Q2 2025, but still exceeded the market forecast of 1.2% y-o-y. The HCOB Manufacturing PMI fell slightly from 50.7 in August to 49.8 in September and 50.0 in October. After holding steady at 2.0% y-o-y each month from June through August, inflation in the euro area inched up to 2.2% y-o-y and 2.1% y-o-y in September and October, respectively. The unemployment rate was unchanged at 6.3% in August, September, and October. In September, the ECB revised its 2025 GDP forecast upward to 1.2% from 0.9% in June, while lowering its 2026 GDP forecast to 1.0% from 1.1% in June. The ECB revised upward its inflation target for 2025 and 2026 to 2.1% and 1.7%, respectively, from June estimates of 2.0% and 1.6%.
- The ECB adopted a wait-and-see stance amid ongoing uncertainty over the impacts of trade tensions. At its September meeting, the ECB kept policy rates unchanged, noting that the euro area's economy continues to evolve as expected, with inflation staying around the target level, economic growth remaining resilient, and risks becoming more balanced. The ECB, however, noted that the inflation outlook remained uncertain over the volatile global trade policy environment. The ECB [minutes](#) released on 9 October and officials' statements confirmed the wait-and-see stance.⁴ As expected, the ECB left its policy rates unchanged at its 30 October meeting, highlighting the uncertain outlook and global trade and geopolitical risks.

The 2-year and 10-year yields in Japan rose partly on expectations that the Bank of Japan (BOJ) would raise rates before the end of 2025, despite some weakening in the economy, to curb inflation.

- Japan's economic growth outlook remained modest, clouded by persistent inflation and a challenging external environment. The S&P Global's Japan Manufacturing PMI fell to 48.2 in October and 48.5 in September from 49.7 in August. Unemployment in September was unchanged from the prior month

⁴ Several ECB officials agreed that the ECB is in a good place, including ECB Vice President [Luis de Guindos](#), Bank of Latvia Governor [Martins Kazaks](#), National Bank of Belgium Governor [Pierre Wunsch](#), Deutsche Bundesbank President [Joachim Nagel](#), Bank of Spain Governor [Jose Luis Escriva](#), Croatian National Bank Governor [Boris Vujcic](#), and Central Bank of Ireland Governor [Gabriel Makhlof](#). On 3 October, ECB President [Christine Lagarde](#) stated that the ECB does not expect significant movements in inflation.

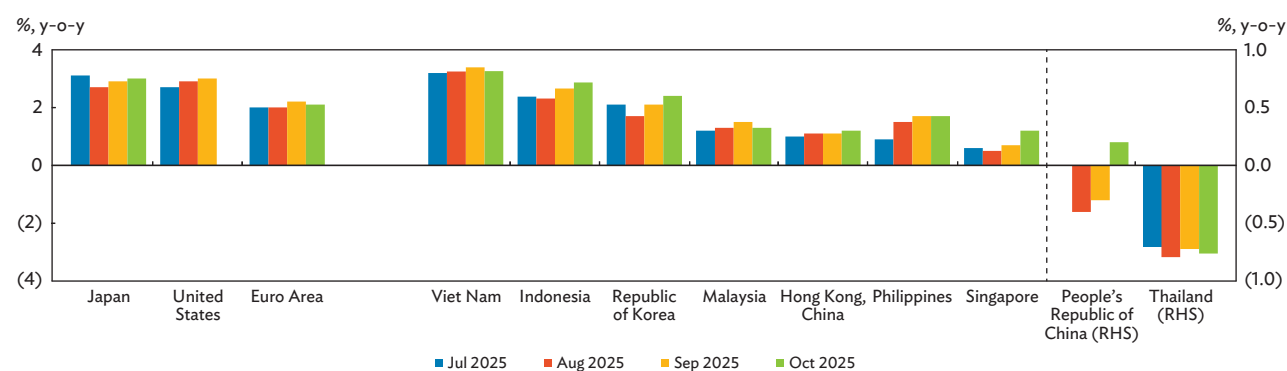
at 2.6%. Meanwhile, industrial production increased 3.8% y-o-y in September, following a contraction of 1.6% y-o-y in August, and retail sales also recorded a 0.5% y-o-y increase in September after a decline of 0.9% y-o-y in August. Inflationary pressure persisted during the review period. Consumer price inflation rose to 3.0% y-o-y in October and 2.9% y-o-y in September from 2.7% y-o-y in August. Producer price inflation inched up to 2.7% y-o-y in October and 2.8% y-o-y in September, compared with 2.6% y-o-y in August. In October, the BOJ raised its 2025 GDP forecast to 0.7% from a 0.6% forecast made in July. The central bank left the 2026 GDP forecast unchanged at 0.7%. While the BOJ's 2025 and 2026 consumer price inflation forecasts were maintained at 2.7% and 1.8%, respectively, the 2026 core inflation forecast was raised to 2.0% from 1.9% in July, and the 2025 forecast was kept at 2.8%.

- The BOJ proceeded with monetary policy normalization amid persistent inflationary pressure and global uncertainty. The BOJ held the policy rate unchanged at its September meeting, noting a rise in inflationary expectations, economic recovery in the medium term, and global uncertainty (especially in trade). At this meeting, two members voted for an interest rate hike. The BOJ's September meeting [summary](#), released on 30 September, revealed a hawkish stance. Officials noted that if the economy continued to evolve as expected,

it would be appropriate to continue with policy rate hikes, although global uncertainties made it necessary to maintain the current policy rate.⁵ At its October meeting, the BOJ again left its policy rate unchanged. During the press conference, BOJ Governor [Kazuo Ueda](#) said that while trade policy uncertainty has slightly eased it yet remains, and they would therefore like more time to further assess its impact on the Japanese economy. In addition, the BOJ announced a plan to reduce its holdings of exchange-traded funds by JPY620 billion per year and of Japanese real estate investment trusts by JPY5.5 billion per year.⁶ The announcement was not expected by the market and affirmed the central bank's move toward policy normalization. The amount of assets to be sold per year is relatively small so as not to disrupt market liquidity. Estimates show that it would take over 100 years to completely unload the BOJ's holdings at the proposed rate of reduction.⁷

Bond yields rose in most emerging East Asian economies during the review period amid strengthened GDP growth and a wait-and-see monetary policy stance by most regional central banks. While inflation in most regional markets remained within central bank targets, some markets such as Hong Kong, China; Indonesia; the Republic of Korea; and Singapore witnessed a rise in inflation during the review period (**Figure B**).

Figure B: Inflation in Major Advanced Economies and Select Emerging East Asian Markets



() = negative, RHS = right-hand side, y-o-y = year-on-year.

Note: For the People's Republic of China, inflation was at 0.0% year-on-year in July 2025.

Sources: Various local sources.

⁵ On 17 October, BOJ Governor [Kazuo Ueda](#) indicated that the central bank could continue to normalize monetary policy if confidence in the economic outlook increased. On 20 October, BOJ board member [Hajime Takata](#) noted that it was an opportune time to raise policy rates.

⁶ Amounts are based on market values.

⁷ K. Nishio, E. Eguchi, and C. Inagaki. 2025. [BOJ's ETF Exit: A Century of Uncertainty Looms for Japan](#). *The Asahi Shimbun*. 20 September.

- Bond yields in Indonesia and the Philippines declined following continued rate cuts by Bank Indonesia and the Bangko Sentral ng Pilipinas (BSP) during the review period (**Table B**). Bank Indonesia reduced policy rates at its September meeting, the fifth time this year, citing the need to strengthen economic growth as domestic demand softened. The BSP unexpectedly lowered its policy rate by 25 bps for the fourth time this year on 9 October, noting the weakened domestic economic outlook due to a decline in business confidence amid corruption scandals involving public infrastructure spending. BSP Governor [Eli Remolona Jr.](#) disclosed on 9 October that there was room to cut rates further, viewing the “sweet spot” to be at 4.00%–5.00%. Other central banks left monetary policy unchanged during the review period.
- Bond yields rose in Malaysia and the Republic of Korea following an uptick in inflation in September while their respective central banks kept policy rates unchanged. Bank Negara Malaysia held the policy rate steady at its 4 September and 6 November meetings, citing that economic growth and inflation were both on track. The Bank of Korea left the policy rate unchanged at its 23 October meeting, citing uncertainty over the economic outlook and

the need to assess the impact of recently passed property stabilization measures on housing markets and household debt. The 2-year and 10-year yields rose in Thailand during the review period after the monetary policy rate was unexpectedly kept unchanged on 8 October. Government stimulus policies to boost growth generated expectations of increased bond supply, which also pushed up yields. [Bond yields](#) rose in Viet Nam amid strong economic growth and a concerted government push to further accelerate economic expansion. In October, the Government of Viet Nam set an annual 10.0% growth target for 2026–2030, up from an 8.0% target for 2025. Prime Minister Pham Minh Chinh later met with various government officials to seek support for an 8.4% y-o-y growth target in the fourth quarter (up from 8.2% y-o-y in Q3 2025). This may increase the bond supply and accelerate credit expansion in the future.

Many regional economies posted stronger-than-expected GDP growth in Q3 2025 despite tariff-related pressures. Buoyed by strong domestic consumption, Viet Nam posted the region’s highest GDP growth rate in Q3 2025 at 8.2% y-o-y, up from 8.0% y-o-y in Q2 2025 and the fastest pace since 2011 (**Table C**). Malaysia also posted

Table B: Changes in Monetary Stances in Major Advanced Economies and Select Emerging East Asian Markets

Economy	Policy Rate	Rate Change (%)												Policy Rate	Change in Policy Rates (basis points)		
	1-Oct-2024 (%)	Oct-2024	Nov-2024	Dec-2024	Jan-2025	Feb-2025	Mar-2025	Apr-2025	May-2025	Jun-2025	Jul-2025	Aug-2025	Sep-2025	Oct-2025		31-Oct-2025 (%)	
Euro Area	3.50	↓0.25		↓0.25		↓0.25	↓0.25	↓0.25		↓0.25						2.00	↓ 150
Japan	0.25				↑0.25											0.50	↑ 25
United Kingdom	5.00		↓0.25			↓0.25			↓0.25				↓0.25			4.00	↓ 100
United States	5.00		↓0.25	↓0.25										↓0.25	↓0.25	4.00	↓ 100
People’s Republic of China	1.50								↓0.10							1.40	↓ 10
Indonesia	6.00				↓0.25				↓0.25		↓0.25	↓0.25	↓0.25			4.75	↓ 125
Republic of Korea	3.50	↓0.25	↓0.25			↓0.25			↓0.25							2.50	↓ 100
Malaysia	3.00										↓0.25					2.75	↓ 25
Philippines	6.25	↓0.25		↓0.25				↓0.25		↓0.25		↓0.25		↓0.25		4.75	↓ 150
Singapore	–				↓			↓								–	↓ –
Thailand	2.50	↓0.25				↓0.25		↓0.25				↓0.25				1.50	↓ 100
Viet Nam	4.50															4.50	♦ 0

– = no data.

Notes:

1. Data coverage is from 1 October 2024 to 31 October 2025.

2. For the People’s Republic of China, the data used in the chart are for the 7-day reverse repurchase rate.

3. For the United States, the upper bound of the policy rate target range is reported on the table.

4. An arrow up (down) indicates a policy rate hike (cut). A diamond indicates no change in the policy rate.

5. For Singapore, the up (down) arrow signifies monetary policy tightening (loosening) by its central bank. The Monetary Authority of Singapore utilizes the Singapore dollar nominal effective exchange rate to guide its monetary policy.

Sources: Various central bank websites.

Table C: Gross Domestic Product Growth in Select Emerging East Asian Economies (y-o-y, %)

Economy	2025			Forecast for Q3 2025
	Q1	Q2	Q3	
PRC	5.40	5.20	4.80	4.60
HKG	3.00	3.10	3.80	2.40
INO	4.87	5.12	5.04	4.80
ROK	0.00	0.60	1.70	1.20
MAL	4.40	4.40	5.20	3.80
PHI	5.40	5.50	4.00	5.60
SIN	4.10	4.70	4.20	1.00
THA	3.20	2.80	1.20	1.30
VIE	6.93	7.96	8.23	6.20

PRC = People's Republic of China; HKG = Hong Kong, China; INO = Indonesia; ROK = Republic of Korea; MAL = Malaysia; PHI = Philippines; Q1 = first quarter; Q2 = second quarter; Q3 = third quarter; SIN = Singapore; THA = Thailand; VIE = Viet Nam; y-o-y = year-on-year.

Notes:

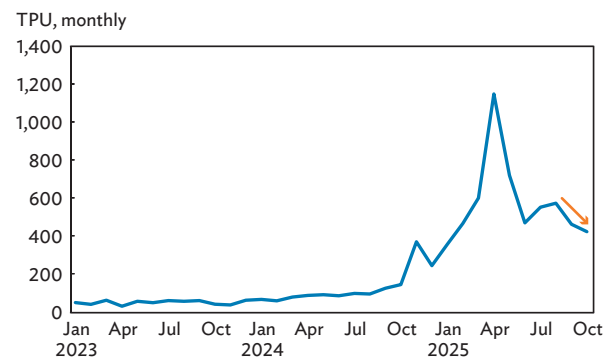
1. Forecast for Q3 2025 are taken from Focus Economics Consensus Forecast published on 16 September 2025.

2. Q3 2025 data for the Republic of Korea is based on advanced estimates.

Sources: Various local sources.

strong growth in Q3 2025, with GDP rising 5.2% y-o-y after a gain of 4.4% y-o-y in the previous quarter, due to strong domestic demand buoyed by government stimulus measures. The Republic of Korea's GDP expanded 1.7% y-o-y in Q3 2025, up from 0.6% y-o-y growth in the previous quarter, driven by strong consumption and exports. Singapore's GDP growth moderated to 4.2% y-o-y in Q3 2025 from 4.7% y-o-y in the previous quarter, but still exceeded the market forecast of 1.0% y-o-y. Following the better-than-expected GDP growth in Q3 2025, the Ministry of Trade and Industry revised its full-year 2025 growth forecast from 1.5%–2.5% to around 4.0%. Dampened by weak demand, the PRC's economic growth moderated to 4.8% y-o-y in Q3 2025 from 5.2% y-o-y in Q2 2025, but remained higher than the market forecast. Both the Philippines and Thailand reported weaker-than-expected GDP growth in Q3 2025. In the Philippines, growth eased to 4.0% y-o-y from 5.5% y-o-y in the previous quarter. The expansion in Q3 2025 was well below the market estimate of 5.6% y-o-y due to a slowdown in domestic consumption and a contraction in government spending and investments. In Thailand, weakening in all sectors resulted in GDP growth slowing to 1.2% y-o-y in Q3 2025 from 2.8% y-o-y in Q2 2025, which was slightly lower than the market estimate of 1.3% y-o-y.

Regional financial markets rebounded toward the end of the review period as global trade uncertainties ebbed. The Trade Policy Uncertainty Index declined to 426

Figure C: Trade Policy Uncertainty (monthly index)

Note: Data are as of October 2025.

Source: Trade Policy Uncertainty Index. <https://www.matteociacoviello.com/tpu.htm> (accessed 10 November 2025); Caldara, D. et al. 2020. *The Economic Effects of Trade Policy Uncertainty*. *Journal of Monetary Economics*. 109: pp. 38–59.

in October and 465 in September from 576 in August (Figure C). Trade tensions between the PRC and the US flared at the start of October over the PRC's announced export controls on rare earth metals. This was balanced by a slew of trade deals and agreements reached between the US and several regional economies ahead of and during President Donald Trump's attendance at the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Council summits, leading to a reduction in trade policy uncertainty. On 26 October, the US released the bilateral memorandums it had signed with Cambodia, Malaysia, Thailand, and Viet Nam. On 29 October, the Republic of Korea and the US announced a trade and investment deal. On 30 October, the US announced that a trade agreement with the PRC had been reached, with the full details released on 1 November. Below is a summary of these trade agreements.

- **Cambodia.** The US will maintain a 19% tariff on Cambodian goods while continuing negotiations on a list of products for tax exemption. Cambodia will remove all tariffs on US food, agricultural, and industrial imports.
- **Malaysia.** The US will maintain a 19% tariff on Malaysian imports, excluding those products granted tariff exemption under the revised schedule. Malaysia is set to extend preferential market access to US agricultural, industrial, and fuel exports.
- **Thailand.** The US will keep a 19% tariff on Thai products while engaging in discussions on a list of products for tax exemption. Thailand is set to remove tariffs on 99% of US goods.

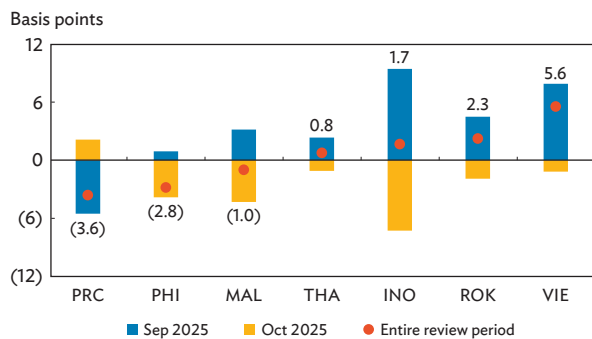
- **Viet Nam.** The US will keep a 20% tariff on imports from Viet Nam, while continuing negotiations on a list of products that will be granted tax exemption. Viet Nam is set to grant preferential market access for US agricultural and industrial exports.
- **PRC.** The US will postpone the imposition of some previously announced tariffs by 1 year, extending the existing trade pause that was set to expire in November. The US also agreed to lower the fentanyl tariff from 20% to 10% effective 10 November 2025. The PRC will suspend controls on rare earth exports, remove some retaliatory tariffs, and resume US soybean purchases.
- **Republic of Korea.** US tariffs will be maintained at 15% on imported goods, while tariffs on autos and auto parts will be lowered from 25% to 15%. The Republic of Korea agreed to establish a USD350 billion investment fund that includes cash payments in installments capped at USD20 billion per year and USD150 billion worth of investment in US shipbuilding.

Credit default swap (CDS) spreads narrowed in the region during the review period as investment sentiment improved after the US signed trade deals in October with the PRC, the Republic of Korea, and several ASEAN economies. Between 1 September and 31 October, the region’s GDP-weighted average CDS spread narrowed by 2.5 bps. (Figure D). Most of the region saw a decline in the CDS spread, while in some cases economy-specific factors pushed up risk premiums.

The largest widening was observed in Viet Nam due to concerns that the government’s growth target may lead to rapid credit expansion, risking financial stability. In the Republic of Korea, the CDS spread rose by 2.3 bps during the review period as concerns mounted over growing household debt. Indonesia saw its CDS spread widen in September amid both political unrest and fiscal deficit concerns following the replacement of the finance minister.

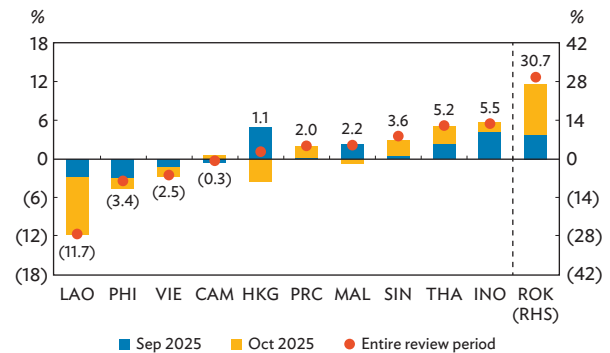
Regional equity markets posted gains during the review period on expectations of additional Fed rate cuts. Recent trade agreements between the US and regional economies further contributed to equity gains. Between 1 September and 31 October, the region’s equity markets posted a return of 4.9% (simple-average) and 4.7% (market-weighted average) (Figure E). Equity market movements were also shaped by market-specific factors. For example, the continued boom in the AI sector fueled gains in several regional equity markets, most notably in the Republic of Korea (30.7%). The Philippines and Viet Nam were the only two markets that recorded losses during the review period. In the Philippines, the pullback was largely due to the recent investigation of corruption in public infrastructure projects. Finance Secretary **Ralph Recto** said the scandal has delayed the Philippines’ credit rating upgrade from S&P Global. In Viet Nam, the market declined over concerns that meeting the government’s economic growth targets could pose risks to financial stability.

Figure D: Changes in Credit Default Swap Spreads in Select Emerging East Asian Markets (senior 5-year)



() = negative; PRC = People’s Republic of China; INO = Indonesia; ROK = Republic of Korea; MAL = Malaysia; PHI = Philippines; THA = Thailand; VIE = Viet Nam.
 Note: The numbers above (below) each bar refer to the change in spreads between 1 September 2025 and 31 October 2025.
 Source: AsianBondsOnline calculations based on Bloomberg LP data.

Figure E: Changes in Equity Indexes in Select Emerging East Asian Markets



() = negative; CAM = Cambodia; PRC = People’s Republic of China; HKG = Hong Kong, China; INO = Indonesia; ROK = Republic of Korea; LAO = Lao People’s Democratic Republic; MAL = Malaysia; PHI = Philippines; RHS = right-hand side; SIN = Singapore; THA = Thailand; VIE = Viet Nam.
 Note: The numbers above (below) each bar refer to the percentage change between 1 September 2025 and 31 October 2025.
 Source: AsianBondsOnline calculations based on Bloomberg LP data.

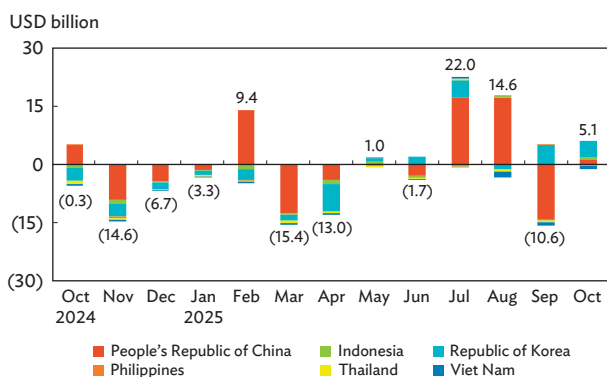
Market-specific factors also shaped capital flows in regional equity markets during the review period, which saw net foreign equity inflows of USD7.5 billion (excluding the PRC). The PRC experienced net outflows of USD13.0 billion during the review period, with USD14.2 billion of outflows in September following the release of weak economic data (Figure F). Net equity inflows of USD1.1 billion were recorded in the PRC in October as trade tensions with the US eased toward the end of the month. The Republic of Korea recorded net equity inflows (USD9.3 billion) during the review period on positive investor sentiment in the semiconductors industry and continued AI investments. ASEAN markets recorded net outflows of USD1.79 billion, due almost entirely to outflows of USD1.78 billion from Viet Nam over heightened concerns that the government’s growth push would negatively affect debt levels.

Regional bond markets recorded net portfolio inflows of USD1.1 billion during the review period amid improved sentiment over easing trade tensions and market-specific factors. In September, regional bond markets saw net portfolio outflows of USD4.6 billion on a combination of individual market conditions and a less-dovish-than-expected monetary stance from the Fed, which described its September rate cut as a “risk management cut.” The planned weight rebalancing in JP Morgan’s EM Global

Diversified Index contributed to the September outflows in the bond markets of the PRC (USD0.8 billion), Malaysia (USD1.5 billion), and Indonesia (USD2.8 billion) (Figure G). The bond sell-off in Indonesia, which was the largest in the region, exacerbated by negative sentiment surrounding anti-government protests and fiscal concerns triggered by a widening deficit and the replacement of the finance minister in September.⁸ Meanwhile, the Republic of Korea posted net inflows of USD0.6 billion in September on expectations of its inclusion in the FTSE Russell World Government Bond Index starting in April 2026.

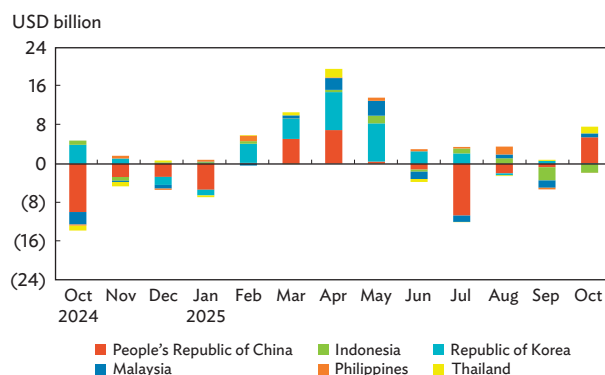
In October, net inflows of USD5.7 billion were recorded in emerging East Asian bond markets amid progress on trade deals with the US in some regional markets. The PRC recorded inflows of USD5.4 billion in October following the extension of its trade truce with the US and the expansion of access for foreign institutional investors to the interbank repo market. Thailand and Malaysia recorded bond inflows of USD1.4 billion and USD0.8 billion, respectively, following announcement of their trade agreements with the US. On the other hand, Indonesia posted outflows of USD1.8 billion in October

Figure F: Foreign Capital Flows in Select Emerging East Asian Equity Markets



() = negative, USD = United States dollar.
 Notes:
 1. Data coverage is from 1 October 2024 to 31 October 2025.
 2. The numbers above (below) each bar refer to net inflows (net outflows) for each month.
 3. Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations (ASEAN) plus the People’s Republic of China; Hong Kong, China; and the Republic of Korea.
 Source: Institute of International Finance.

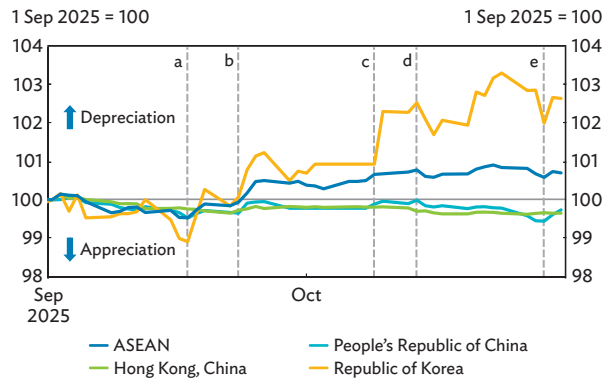
Figure G: Foreign Capital Flows in Select Emerging East Asian Local Currency Bond Markets



() = negative, USD = United States dollar.
 Notes:
 1. The Republic of Korea and Thailand provided data on bond flows. For the People’s Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
 2. Data are as of 31 October 2025.
 3. Figures were computed based on 31 October 2025 exchange rates and do not include currency effects.
 Sources: People’s Republic of China (Bloomberg LP); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance); Republic of Korea (Financial Supervisory Service); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); and Thailand (Thai Bond Market Association).

⁸ G. Dogra. 2025. *Asian Bond Outflows in September Hit 3-1/2-Year High on Slowdown Concerns*. Reuters. 21 October.

Figure H: Currency Exchange Rates Against the United States Dollar in Select Emerging East Asian Markets



ASEAN = Association of Southeast Asian Nations, US = United States.

Notes:

- Corresponding dates of the following events:
 - Fed Chair Jerome Powell described the September rate cut as a “risk management cut.”
 - Fed Chair Jerome Powell employs a cautious tone over aggressive easing.
 - Some Fed officials urge caution on cutting rates amid risks to the labor market.
 - Fed Chair Jerome Powell signals another rate cut amid weak hiring data.
 - Fed Chair Jerome Powell expressed uncertainty about further easing at the next meeting.
- ASEAN comprises the markets of Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.
- Data are as of 31 October 2025.
- An increase (decrease) in the value indicates depreciation (appreciation) of the currency against the US dollar.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

on continued concerns over public financing and the independence of Bank Indonesia.⁹

Regional currencies slightly weakened against the US dollar by 0.7% (simple average) and 0.1% (GDP-weighted average) during the review period amid uncertainty in the Fed’s future monetary stance. As shown in **Figure H**, regional currencies mostly weakened in September on the Fed chair’s less-dovish-than-expected comments on monetary policy. Among regional currencies, the Philippine peso declined the most (2.8%) amid a corruption scandal in public infrastructure projects, continued monetary easing, and expectations of further rate cuts. The Korean won weakened by 2.6% during the review period amid uncertainty over sources of funding for the Republic of Korea’s USD350 billion investment commitment under its trade deal with the US.¹⁰

The risk outlook for regional financial conditions appears broadly balanced.

- The easing of global trade tensions and continued monetary easing in the US are supporting the regional financial outlook. The trade deals reached by the PRC and several regional economies with the US in late October reduced near-term economic uncertainty, bolstered investor confidence, and lowered the likelihood of renewed escalation that could disrupt supply chains and/or dampen manufacturing activity. These trade deals with the US strengthened regional trade prospects and investment flows, potentially also supporting credit growth. Nevertheless, any implementation delays or setbacks could undermine investor sentiment and reintroduce uncertainty into regional markets.
- Monetary easing by the Fed is providing a favorable backdrop for Asian markets. The Fed reduced its policy rate twice in 2025 and will halt its balance sheet reduction program starting 1 December. These actions are giving regional central banks greater flexibility to maintain accommodative monetary stances, thereby supporting domestic growth while inflation remains within target levels. However, uncertainty over the Fed’s future policy path remains, and possible tariff-related inflation and persistent price pressures could delay further easing in 2026.
- The PRC’s property market has shown signs of stabilization but remains fragile, with persistent weakness in prices, investment, and household demand despite recent policy easing. New home prices across 70 cities in the PRC fell 2.2% y-o-y in September 2025, marking the 27th consecutive month of declining prices, albeit at a slower pace than August’s 2.5% y-o-y decline and the smallest dip since March 2024. Policy support measures—such as the easing of mortgage interest rates, lower minimum down-payment requirements for home purchases (e.g., reduction of first-home down payments to about 15%), and city-specific policies on property transaction restrictions—helped cushion the downturn. Despite policy easing, new and existing home prices continued to fall, declining 0.4% month-on-month and 0.6% month-on-month, respectively, in September, alongside declining residential property sales (–7.6% year-to-date) and property investment (–13.9%). A prolonged weakness in the property market could

⁹ P. Wirayani. 2025. *Indonesian Bonds Hit by Foreign Fund Outflows on Policy Woes*. Bloomberg LP. 4 November.

¹⁰ *The Straits Times*. 2025. *How Trump is Extracting US\$900 billion from Japan and South Korea*. 29 October.

dampen sentiment, reduce domestic demand, and heighten financial stress among developers and related sectors. Such pressures could weaken investor confidence, increase risk premiums, and reduce bank credit availability, with potential spillovers to banking systems and capital markets across the region.

- Moreover, persistent geopolitical tensions pose a downside risk to the outlook for regional financial conditions by dampening investor sentiment and risk-taking activities. **Box 1** highlights how episodes of amplified geopolitical risks pose challenges to financial markets and exacerbate capital flow volatility.

Box 1: How Does Geopolitical Risk Affect Capital Flow Volatility and Global Asset Markets?

Geopolitical risk has emerged as a major factor affecting global financial markets and economic prospects. Episodes of amplified geopolitical tensions can raise global risk aversion, with spillovers to asset prices and capital flows. Recent work in this growing literature has highlighted investor sentiment (Banerjee et al. 2024) and market liquidity (Abdel-Latif and El-Gamal 2020) as key channels through which geopolitical risk impacts financial markets, with emerging markets particularly affected (Das et al. 2019).

While the literature has tended to focus on the macroeconomic consequences of geopolitical risk, less examined are the spillover effects on capital flow volatility and asset markets. Against this backdrop, Beirne and Renzhi (2025) employ a set of panel analyses and a panel structural vector autoregression model to estimate the impacts of geopolitical risk on capital flow volatility and asset markets in 29 advanced and emerging economies from 2000 to 2023. To explore whether the heterogeneity in economy-specific characteristics across the sample could affect domestic

financial market responses to the impact of geopolitical risk, the panel regressions are conditioned on various structural and macroeconomic characteristics—such as financial development, central bank independence, public debt levels, and regional differences.

To measure economy-specific geopolitical risk, a monthly economy-specific Geopolitical Risk (GPR) Index is used (Caldara and Iacoviello 2022), which offer two advantages. First, the GPR Index provides monthly data dating back to 1985. Second, unlike many other uncertainty proxies, the index does not consistently rise during recessions or financial crises but spikes in response to events like wars or terrorist attacks. This makes the GPR Index particularly useful for isolating the effects of geopolitical risk from other forms of uncertainty, thereby addressing endogeneity concerns. The main results for the impacts of geopolitical risk on capital flow volatility and asset markets are shown in **Table B1**.

Table B1: Impacts of Geopolitical Risk on Capital Flow Volatility and Asset Markets

Panel Cohort	Capital Flow Volatility	Equity Prices	Bond Yields	Exchange Rates
Baseline (full sample)	0.87**	-0.04***	0.13***	0.01
Emerging economies	3.14*	-0.02***	0.09**	-0.01***
Advanced economies	4.47***	-0.03***	0.04*	-0.01*
High financial development	1.09**	-0.02***	0.08***	0.01***
Low financial development	0.21*	-0.25***	1.26***	-0.13***
High central bank independence	1.06	0.01	-0.07	-0.01**
Low central bank independence	3.60**	-0.16***	-0.14**	-0.16***
High public debt	10.03***	-0.09***	0.18***	-0.01***
Low public debt	0.22***	-0.03***	0.09	0.01

Notes: Panel ordinary least squares is used to regress capital flow volatility on geopolitical risk, domestic asset market prices, macroeconomic fundamentals, and global factors. Specifications reported also include economy-fixed effects. The selected economies include Belgium, Brazil, Canada, Chile, the People's Republic of China, Colombia, Germany, Denmark, Spain, Finland, France, Hungary, Indonesia, India, Italy, Japan, the Republic of Korea, Mexico, Malaysia, Netherlands, the Philippines, Poland, Portugal, Sweden, Thailand, Türkiye, Ukraine, the United States, and South Africa. Standard errors in parentheses. *** p<0.01, ** p<0.05, and * p<0.1.

Source: Beirne and Renzhi (2025).

This box was written by John Beirne (principal economist) at the Asian Development Bank in Manila, Philippines and Nuobu Renzhi (assistant professor and assistant dean) at the School of Economics of Capital University of Economics and Business in Beijing, People's Republic of China. It is based on the findings of J. Beirne and N. Renzhi. 2025. Geopolitical Risk, Capital Flow Volatility and Asset Market Spillovers. *ADB Economics Working Paper Series*. No. 820. Asian Development Bank.

Box 1 *continued*

Overall, geopolitical risk is associated with higher capital flow volatility, falling equity prices, and rising bond yields. In emerging economies, geopolitical risk has stronger impacts on bond yields and currency depreciation compared to advanced economies. For capital flow volatility, the average impact is slightly higher in advanced economies.

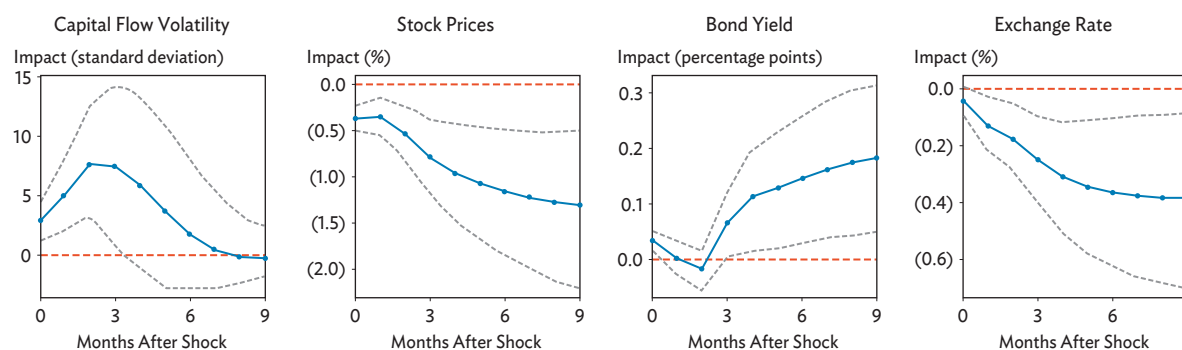
Empirical findings from the heterogeneity analysis further demonstrate that economy-specific characteristics—such as financial development, central bank independence, and public debt levels—play critical roles in moderating the effects of geopolitical risk. Specifically, economies with stronger financial systems and greater central bank independence are better equipped to buffer against the adverse impacts of geopolitical risk, experiencing less severe disruptions in financial markets. Conversely, economies with higher public debt and/or lower levels of financial development face exacerbated vulnerabilities, which can lead to sharper declines in stock prices and exchange rates, as well as increased capital flow volatility.

The dynamic effects of geopolitical risk were also examined, using a panel structural vector autoregression model. This approach allows both the duration and dynamics of the effects to be identified. The findings, illustrated in **Figure B1**, align with the first-stage results. Heightened geopolitical risk significantly increases capital flow volatility and long-term bond yields, while lowering stock prices. Currencies, meanwhile, depreciate relative to trading partners' in response to a positive geopolitical risk shock.

Figure B1 shows that a 1 standard deviation rise in geopolitical risk leads to increased capital flow volatility of around 7 standard deviations after 2 months, with the response no longer significant after 3 months. Bond yields gain around 0.1 percentage points at 3 months after the shock, rising gradually over the horizon until reaching 0.2 percentage points at 9 months after the shock. Significant negative responses are also found for stock prices, falling in the range of around 1.0%–1.5% as a result of a 1 standard deviation positive geopolitical risk shock, with the maximum impact occurring 6–9 months after the shock. Meanwhile, currencies depreciate by around 0.4% on average during this 9-month window.

The findings yield several key policy implications. While geopolitical risk poses significant challenges for financial markets and capital flow volatility, the ability to manage such risk is strongly influenced by the strength of an economy's financial and macroeconomic fundamentals, as well as its institutional structure. Strengthening financial development and promoting greater central bank independence can help to mitigate the effects of geopolitical risk on financial markets, while lower public debt burdens can also reduce its negative impacts. Policymakers should strengthen coordination between monetary and macroprudential policies, which can bolster the response of both monetary and financial authorities in stabilizing markets during episodes of elevated geopolitical risk.

Figure B1: Responses of Capital Flow Volatility and Asset Markets to a Geopolitical Risk Shock



() = negative.

Notes: The figure plots the impulse responses of capital flow volatility and financial market variables to a positive geopolitical risk shock. The grey dashed lines represent 95% confidence intervals generated by 500 Monte Carlo repetitions.

Source: Beirne and Renzhi (2025).

Box 1 *continued*

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