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APAC bonds rise to the occasion

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Even as the USD's weakness takes a small pause, we think that a combination of Fed cuts and continued doubts about USD assets suggests that de-dollarization will persist. We continue to see the AUD, SGD, and CNY as the main FX beneficiaries, and strong interest in both AUD and SGD credits in the last few months seem to reflect agreement in the market. We see current yield levels on AUD bonds as reasonably attractive, especially with their strong credit ratings, making them suitable for investors looking to diversify away from USD credit. SGD credits have also been seen as a regional safe haven and consequently been in demand.

Since bottoming in early July, the USD (DXY index) was up as much as 3.3% at one point; it is still up about 1% from its trough. With the trade negotiations gradually producing agreements, and the S&P 500 continuing to grind higher, investors might be tempted to think there's at least a pause in the de-dollarization process.

While diversifying away from the USD might be somewhat unfamiliar and discomfiting for some, we would remind investors that other factors continue to argue in favor of de-dollarization. The two key arguments for a weaker USD—both in the nearer and medium term—remain active. In the coming months, the US's weak July nonfarm payrolls and July CPI inflation not exceeding expectations have increased the probability of Federal Reserve cuts beginning in September. While the September cut is now fully priced in, markets are only pricing 100bps of cuts by June 2026—we think this might happen closer to March 2026; so, there is potential for a further dovish shift going forward.

Further out, recent developments are keeping market concerns about data accuracy and Fed independence in the limelight. US policy-making continues to be somewhat mercurial and US-China tariff tensions linger on with the latest 90-day extension. The bigger question might really be where to diversify into. Besides the EUR, as the next most liquid currency afterr the greenback, we believe the Asia-Pacific region provides three key likely beneficiaries that investors should focus on.

AUD looks set to continue benefiting. The latest RBA policy statement suggests it will stay on its "cautious" easing path against the backdrop of a recovery in Australia's "real" economy. We thus maintain our expectation of two more cuts—in November 2025 and February 2026. This should take the total amount of RBA cuts this cycle to 75bps, and the policy rate to 3.1%. With the Fed expected to cut rates by more during this same period, we continue to see the AUDUSD climbing to around 0.68-0.70, and we would go along on dips to 0.64.

Outside of the FX space, AUD-denominated bonds are also enjoying a revival. This is thanks to the de-dollarization drive. Australia boasts a solid sovereign debt profile, and a low net-interest-to-government revenues ratio. Also, Australia's policy-making bodies enjoy a high degree of credibility that helps justify the AAA rating of its sovereign debt. We see the 10-year Australia Government Bond (AGB) yield remaining around 4.20% over the coming 12 months. For AUD investment grade credit, its high average rating of AA is a strong attraction. This is anchored by the solid AA credit ratings of the big four Australian banks, plus the AA-rated Singapore banks and South Korean quasi-sovereigns that have accounted for 94% of AUD credit issuance by Asian issuers this year. On that note, Asian issuance of AUD credit in the first seven months of 2025 already exceeded 2024's full-year issuance, as increased liquidity from a larger market size enticed a broader range of issuers to tap the AUD credit market. We see current yield levels on AUD bonds as reasonably attractive and suitable for investors looking to diversify away from USD credit.

SGD bonds emerging as a regional safe haven. We see the USDSGD moving down to 1.25 in 1H26 and we favor using bouts of USD strength to diversify and hedge USD exposure. For investors looking to hold SGD assets, SGD credits have emerged as a relative safe haven among regional markets. SGD credits will likely continue to be buoyed by resilient corporate fundamentals, rate declines, and strong demand for a perceived safe haven amid structural concerns over the USD. We also believe it is worth taking on subordination risks in order to extract yield within the SGD perpetual space given that non-call risks are generally low at this juncture. Specifically, we see value in select perpetuals with close call dates that offer decent carry over a one-to-two-year horizon.

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