Mapping out Asia …

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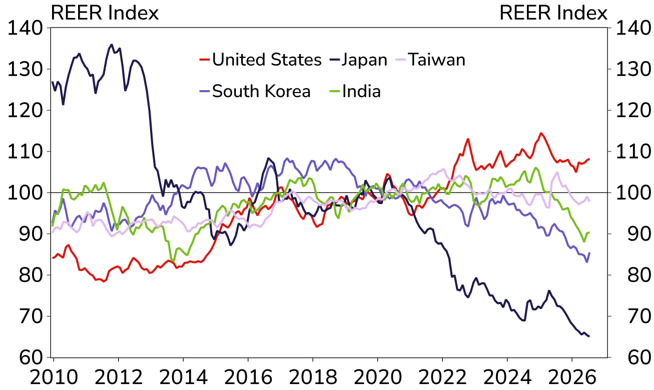
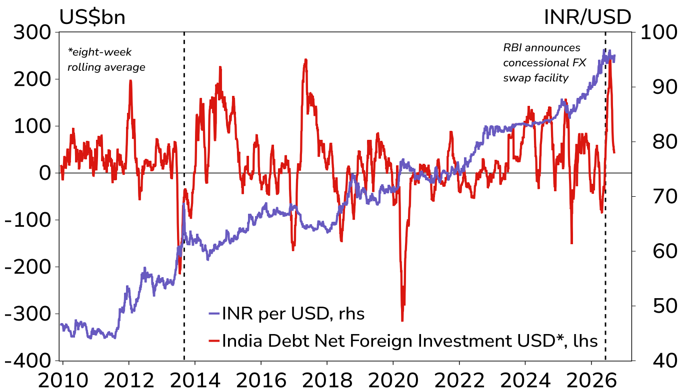
- Asian growth forecasts have generally been revised higher over the past year, supported by resilient domestic demand and export growth, with the tech sector a dominant contributor to production and investment.
- Exchange rates have largely failed to reflect these economic fundamentals. The INR has depreciated 7.1% against the USD over the past year, while the JPY has fallen 4.1%. KRW is up 3.7%, but these gains are nascent.
- Regional FX performance is also weak in real effective terms despite the strength in trade and the potential for regional economic development.
- Increasingly, capital allocation decisions are offsetting the support provided by economic fundamentals.

Asia FX remains weak despite fundamentals



Source: BIS, Macrobond, Westpac Economics

India uses its diaspora to court foreign inflows

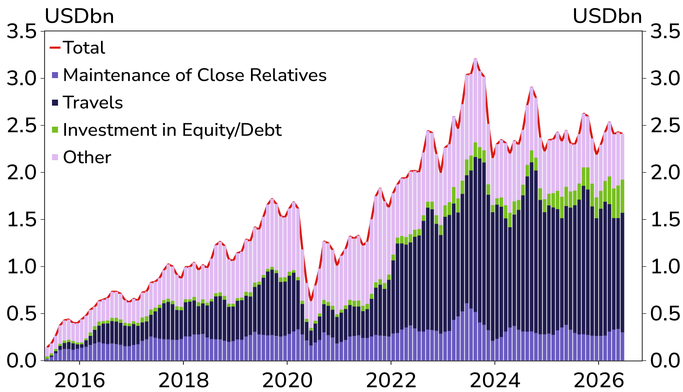


Source: Macrobond, Westpac Economics

- India's response has been to actively attract foreign currency savings back into the domestic financial system. In June, the RBI introduced a concessional FX swap facility and removed interest rate ceilings on FCNR(B) deposits.
- By lowering hedging costs, banks were able to offer deposit rates approaching 7%, creating a powerful incentive for funds held overseas to be repatriated to India.
- The scheme was successful, with deposits reaching US$127.2bn and the programme closing a month earlier than planned due to strong demand.
- The inflows have helped support the INR while reducing pressure on the RBI to intervene.
- However, the FCNR(B) deposits mature within three to five years, creating a risk of future capital outflows.

- India faced a similar challenge when around US$34bn of funds raised during the 2013 taper tantrum matured in 2016.
- Sizeable outflows occurred, but they did not trigger a disorderly adjustment in INR as the RBI accumulated reserves and prepared for the maturities in advance.
- The more important development is the changing nature of India's external financing. Remittance flows are increasingly sourced from higher-income migrants in advanced economies, and these funds are being deployed as investment capital rather than household savings and spending.
- As financial markets deepen, future maturities are increasingly likely to be invested into other domestic assets rather than repatriated offshore.

India's remittances are broadening

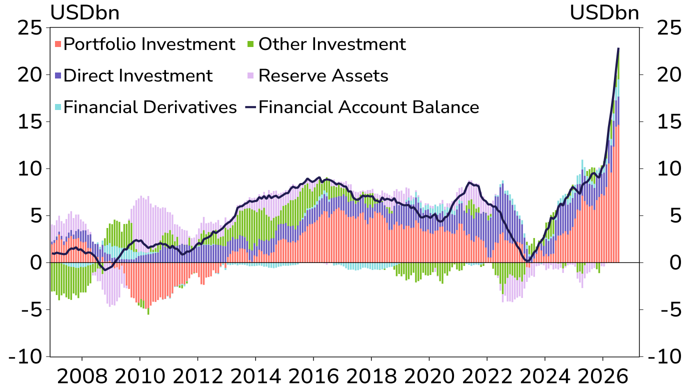


Source: RBI, Macrobond, Westpac Economics

... in charts

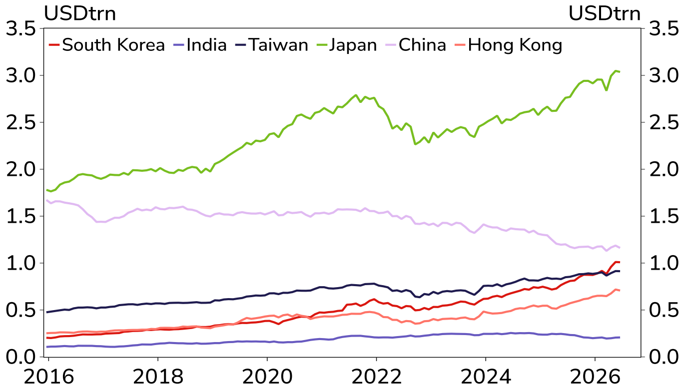
- South Korea's experience highlights how strong economic performance no longer guarantees currency appreciation.
- Export growth remains robust, profitability among major technology firms is near record levels, and AI-related investment continues to support activity.
- Despite this, the KRW has remained weak as Korean households and institutions increasingly allocate capital offshore rather than holding returns domestically.
- Financial account dynamics are therefore becoming an increasingly important determinant of exchange rate outcomes.

Korean savings are flowing offshore



Source: BOK, Macrobond, Westpac Economics

Foreign Holders of US Securities

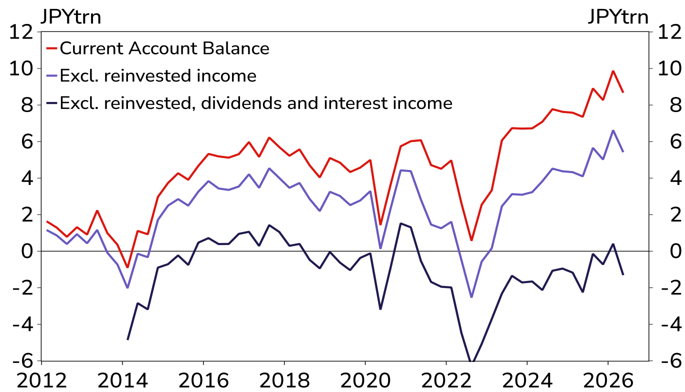


Source: U.S. Treasury, Macrobond, Westpac Economics

- South Korea recorded a US$46.7bn financial account surplus over the past year, including a US$29.9bn surplus in portfolio investment.
- In short, rather than supporting domestic financial markets, a growing share of Korea's excess savings is being invested in international assets.
- Of particular note, Korean holdings of US securities have climbed to almost US$1tn.
- The scale and pace of these flows help explain why the KRW has struggled to appreciate on enduring strength in the trade position. Korea's challenge is not generating savings, but retaining them.

- Japan's headline current account surplus of JPY8.7trn in Q2 2026 is just JPY5.4trn on a cashflow basis, reflecting the growing share of overseas earnings being accumulated offshore.
- At the same time, wide interest-rate differentials have continued to encourage households and institutional investors to allocate savings offshore, reinforcing yen weakness.
- Rising JGB yields and higher FX hedging costs are beginning to reverse these incentives, making domestic assets more attractive relative to the foreign alternatives.
- Still, the gap is wide and inertia is strong. A material appreciation in the yen against the US dollar will take time and the right circumstances.

Japan's current account surplus hides outflows



Source: BOJ, Macrobond, Westpac Economics

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