By Global Markets | 16 January 2026

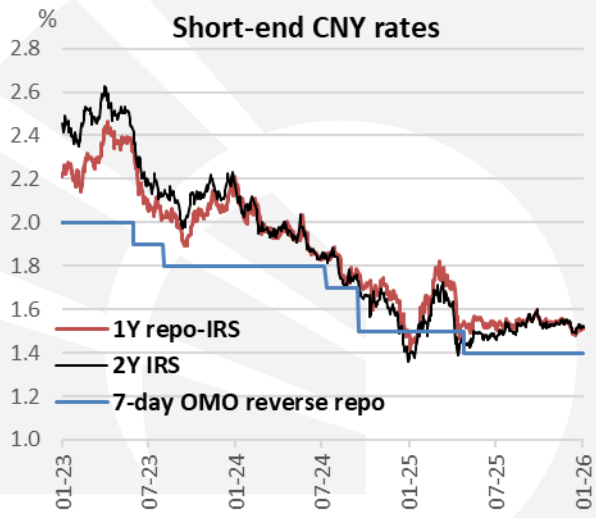
# Interest Rates Thoughts

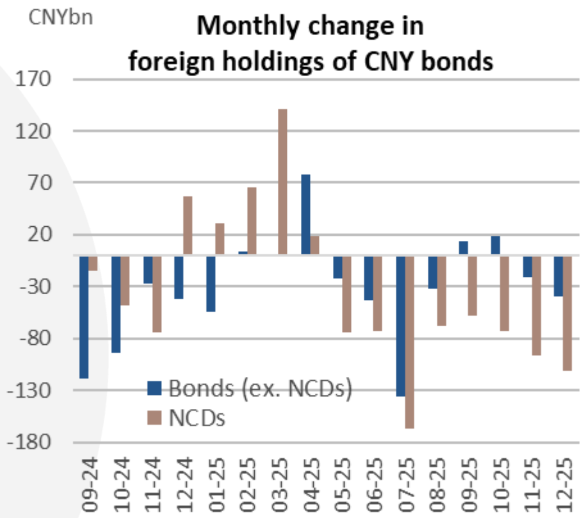
## PBoC rate cut; CNY bond and FX flows

**Frances Cheung, CFA**
Head of FX and Rates Strategy

- **CNY rates.** Repo-IRS edged lower but overall reaction was muted, upon Thursday's announcement of cuts in the interest rates of structural monetary policy tools. The 1Y re-lending rate will be reduced by 25bps, from 1.50% to 1.25%, while rates on other tenors will also be adjusted lower accordingly. These are not key policy rates, which may explain the muted market reaction. One interpretation may even be that the likelihood of a near-term policy rate cut has become lower now, although vice governor said there is room for interest rate and RRR cut this year. Earlier on Thursday, PBoC conducted CNY900bn of 6M outright reverse repo, net injecting CNY300bn of medium-term liquidity. Next week, CNY200bn of MLF matures and we expect at least a rollover with the potential of a small net-injection. Liquidity support serves as a buffer amid bond supply, but unlikely to be enough to exert a stronger downward pressure on short-end rates for now. We continue to see 1.5% as an interim floor for 1Y and 2Y repo-IRS.

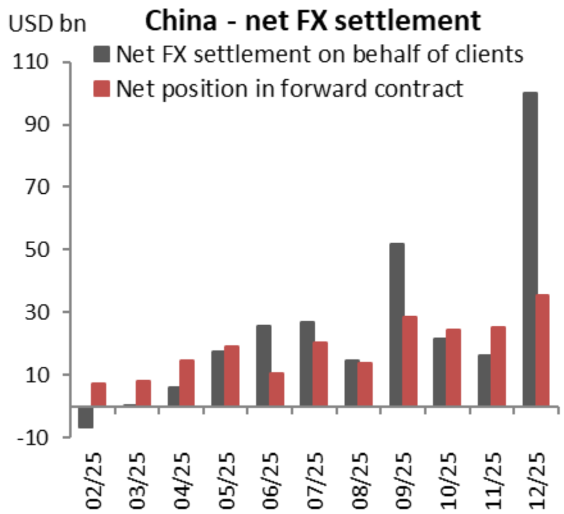
- **Bond flows.** December marked another month of bond and NCD outflows from onshore China. The NCD outflow was not a surprise, as asset swap pick-up for foreign investors was negative. Foreign holding of NCDs was at CNY575.6bn at end-2025, while pick-up is still negative; risk remains for further NCD outflows. Outflows from CGBs amounted to CNY20.3bn in December, bigger than the CNY16.6bn in October. For a strong comeback of bond inflows, CGB-UST yield differentials probably need to widen.

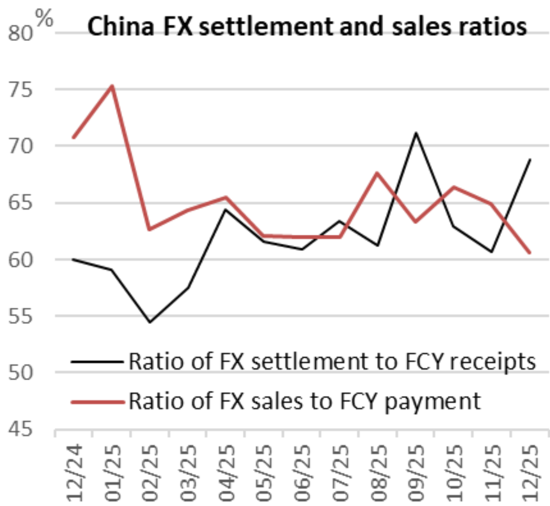



Source: CEIC, Bloomberg, OCBC Group Research

- **FX settlement.** The broader measure of cross-border flows reflects a healthy picture. Net FX settlement by banks on behalf of clients amounted to USD100bn in December, mainly via the usual goods trade account which itself saw relatively big positive balance in December. Net FX settlement under forward contracted was another USD35bn. Willingness to convert foreign currency receipt into RMB increased, with the ratio of FX settlement to foreign currency receipt at 68.8%, which was at the high end of the multi-month range of 61-71%. We note this ratio fluctuates over the months, and may reflect onshore RMB sentiment to some extent.

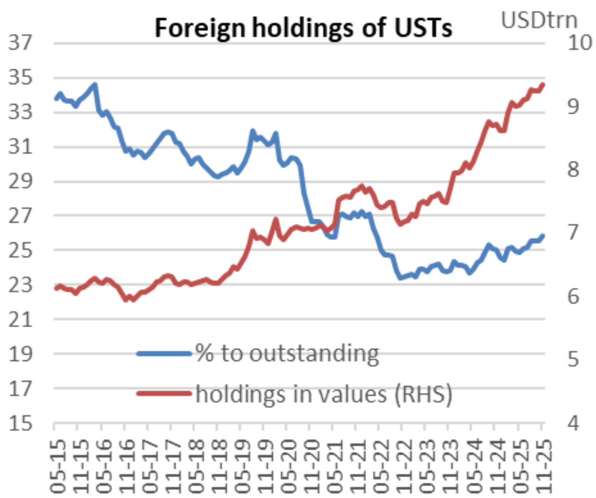



Source: CEIC, OCBC Group Research

- **KRW rates**. KRW IRS were paid up by 7-9bps on Thursday after BoK monetary policy decision, and rates continued to trade on the firm side this morning. The decision to keep the Base Rate unchanged at 2.5% was widely expected, but the MPC statement turned more hawkish. First, the January statement removed the phrase "leaving room for potential cuts" from the last paragraph. Focus is on financial stability, risk related to housing prices in Seoul, and exchange rate volatility. Second, it said "upside risks to the growth path [have] increased somewhat" versus citing both upside and downside risks in the November statement. At the post-meeting press conference, Governor Rhee revealed that five members saw a high chance that rate will be held steady cover the next three months. Our base case is for the Base Rate to stay at 2.50% this year, with the next policy action more likely to be a hike rather than a cut. That said, a rate hike does not appear looming. Governor Rhee preferred to wait for more data and decide based on those data, instead of "making a call now on where the next six months are headed". KRW IRS fully price a 25bp hike on a 9-month horizon. New near-term range for 3Y KTB yield is seen at 3.00-3.15%.

- **USD rates**. The UST curve bearish flattened overnight, as short-end yields rose upon the better-than-expected jobless claims outcome. Fed funds futures pared back rate cut expectation to 48bps this year, while our base-case is for one 25bp cut as the labour market is cooling but not deteriorating rapidly, and inflation is above target while rates have moved nearer neutral estimates. The 10Y UST yield remain in our expected range of 4.00-4.20%. According to TIC data, foreign holdings of US treasury securities rose by USD112.8bn during November, supported by increased holdings by investors from Canada, Norway, Saudi Arabia, Belgium and the UK. Holdings by investors from China fell by a moderate USD6.1bn. As of end November, foreign holdings accounted for 25.8% of outstanding; within foreign holdings, share of foreign official sector edged further lower, to 41.9%.




Source: Bloomberg, OCBC Group Research

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

**Disclaimers**

This material is being made available to you through an arrangement between Bank of Singapore Limited (Co Reg. No.: 197700866R) (the "Bank") and Oversea-Chinese Banking Corporation Limited ("OCBC Bank") (Co Reg. No.: 193200032W). The Bank and OCBC Bank shall not be responsible or liable for any loss (whether direct, indirect or consequential) that may arise from, or in connection with, any use of or reliance on any information contained in or derived from this material, or any omission from this material, other than where such loss is caused solely by the Bank's or OCBC Bank's wilful default or gross negligence.

Please refer to https://www.bankofsingapore.com/Disclaimers_and_Disclosures.html for cross-border marketing disclaimers and disclosures.