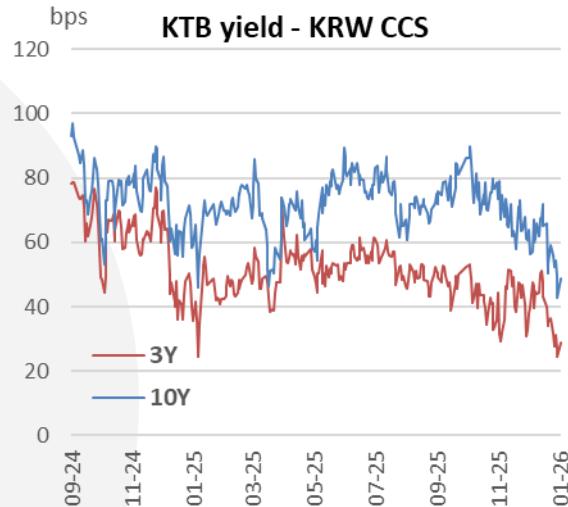
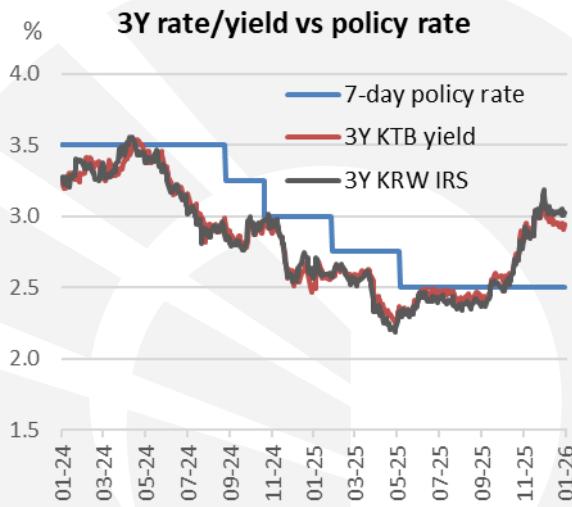


## Interest Rates Thoughts

### BoK on an extended pause; steeper IndoGB curve

- KRW rates.** The BoK is widely expected to keep policy rate on hold at 2.50% this week, which is also our call. The BoK is likely to be on an extended pause, against the resilient growth momentum and lingering inflation pressures. We have earlier removed the final 25bp cut on our forecast profile, now expecting the central bank to keep its policy base rate unchanged at 2.50% through this year. KRW rates market has already priced out rate cuts, and even price in some chance of a hike beyond a 9-month horizon which appears premature at this stage. Given market is already on the hawkish side, short-end KRW rates and yields may be able to stabilise around current levels. The 3Y KTB yield and 3Y KRW rate last traded at 46bps and 52bps higher than the policy rate. Asset swap pick-up, although having narrowed, stays positive; pick-up was last at around SOFR+27bps at 3Y KTBs, and at around SOFR+49bps at 10Y KTBs. Near-term range for 3Y KRW IRS is seen at 2.95-3.15%, and for 3Y KTB yield at 2.85-3.05%. Further ahead, KTBs may garner some support when inclusion into FTSE WGBI starts in April 2026 with full weight reached by November 2026. Depending on AUM assumption, cumulative passive inflows are estimated at USD50-60bn. These expected inflows will help partially buffer the expected increase in issuances.

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



Source: Bloomberg, OCBC Group Research

- **IndoGBs.** The IndoGB curve traded mildly steeper, likely in response to 2025 fiscal outcome. 2025 fiscal deficit was at 2.92% to GDP, wider than the revised target of 2.78%. 2026 fiscal deficit target has been set at 2.68% to GDP. Our expectations for individual auction sizes of IDR31-33trn for conventional bonds and of IDR11-13trn for sukuk is based on deficit financing of IDR689trn, while OCBC economists do not rule out fiscal slippage. We have had a steepening bias on the curve, and we maintain this bias. The 10Y IndoGB-UST yield differential is at the low end of multi-year range, while auctions are expected to be of bigger sizes compared to indicative targets in 2025. At the short end, OCBC economists expect additional 50bps of policy rate cuts in this cycle, although the timing is uncertain. Regardless, 2Y yield at around the 5% level provides pick-up as implied IDR rates remain well behaved. SRBI rates edged further lower, to 4.695%, 4.740% and 4.787% (weighted average accepted) respectively for the 6M, 9M and 12M tenors at the auctions on Friday. Tomorrow's sukuk auction has an indicative target of IDR11trn with the potential to be upsized to IDR22trn. The strategy appears to remain that auctions are upsized as and when the bond market conditions are constructive.
- **USD rates.** The UST curve pivotal flattened on Friday, with Friday's labour market data a mixed bag. December payroll came in on the low side, at 50K, while two-month net revision was -76K, bringing 3-month average down to a negative 22K. Under the household survey, the unemployment rate edged lower to 4.4%, from a downwardly revised 4.5% in November. The underemployment rate was also lower at 8.4% versus 8.7% prior. Fed funds futures mildly pared back rate cut expectation to 52bps for this year, versus 57bps priced previously. We maintain our expectation for one 25bp Fed funds rate cut this year. Our flattening bias on 2s10s UST has partially panned out; we continue to have a mild flattening bias, but this move would probably require 10Y yield to edge lower. Although market pricing of Fed funds rate is more dovish than our base-case, after the recent upward adjustment, the 2Y yield at 3.53% appears to be representing a slightly wider premium compared to market pricing and hence further upside has become more limited before the next surprise – on this, market watch December CPI on Tuesday. Range for 10Y yield remains at 4.00-4.20%.



# OCBC Group Research

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