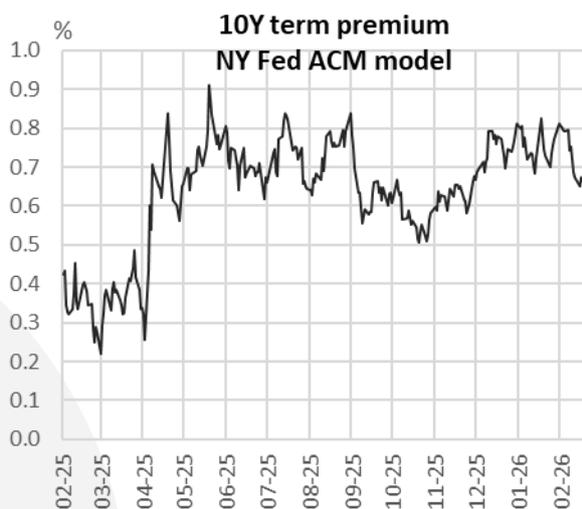
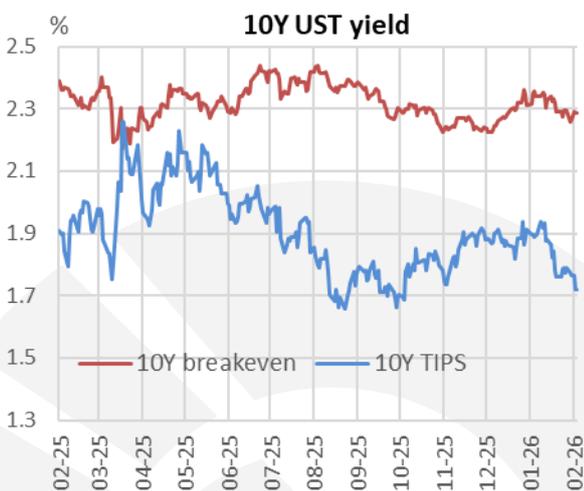


Interest Rates Thoughts

UST rally; off-onshore RMB rates; BoK “dot-plot”

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- USD rates.** USTs rallied across the curve on safe-haven flows, alongside other DM bonds including gilts. The 7Y coupon bond auction went well, cutting off at 3.790% in line with WI level, despite the richening of the bond into the auction. 10Y UST yield has moved towards our multi-month target of 4%, but the driver was not what we had expected. Month to date, 10Y real yield was down by around 18bps and 10Y breakeven was down by around 5bps, while we had expected breakeven would drive the 10Y nominal yield lower. Lower real yields amid resilient US data suggest that the ultimate driver was the term premium. Indeed, the 10Y term premium has been narrowing, and was last at 0.6474% as of 24 February according to the estimate by NY Fed’s ACM model, versus a recent high of 0.8132% on 2 February. Near-term trading range for 10Y UST yield is now seen at 3.95-4.15% (3.95% has been our end-Q3 forecast), but we note the yield may be sticky downward from here as renewed fiscal concerns cannot be ruled out in view of the uncertainty on tariff revenue.

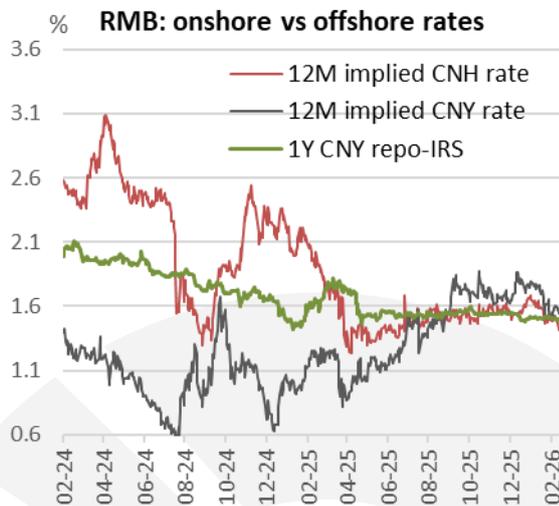


Source: Bloomberg, OCBC Group Research

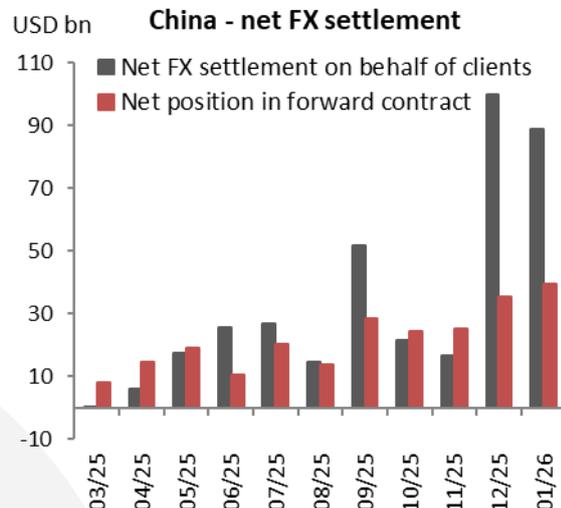
- CNY rates.** On the week, PBoC net withdrew CNY727.4bn of liquidity via daily OMOs, in line with the usual practice after a long holiday. Meanwhile, the central bank stays supportive of medium term (3M to 1Y) liquidity, granting CNY600bn of MLF versus CNY300bn that matured. Reverse repo maturity is still heavy at CNY1.5trn next week, as PBoC paced out the withdrawals, which means we are likely to see another week of drainage. 1Y and 2Y

repo-IRS continues to hover around 1.5% level, floored by the 1.4% OMO reverse repo rate before the next interest rate cut. In turn, 2Y CGB yield appears floored at 1.30% assuming bond/swap spread does not break out of range.

- In offshore, implied CNH rates went up while CNH CCS were relatively stable, as PBoC announced a reduction in the risk reserve ratio to 0% from 20% in the onshore market. As the offshore CNH curve is lower than onshore, flows may start in offshore. The offshore-onshore rate gaps have been closed (as opposed to an offshore “premium”) since mid-2025, suggesting that there might not have been much RHS flows which were subject to the 20% risk reserve requirement. FX settlement and sales data also show that net FX settlement (FX settlement – FX sales) by forward contracts has been increasingly positive. The higher implied CNY rates compared to CNH rates may reflect a loose USD liquidity condition onshore. As the CNH liquidity pool, despite inflows, is after all limited, we do not expect offshore CNH rates to stay sustainably below onshore CNY rates by a wide margin. The offshore and onshore curves are likely to be mostly aligned.



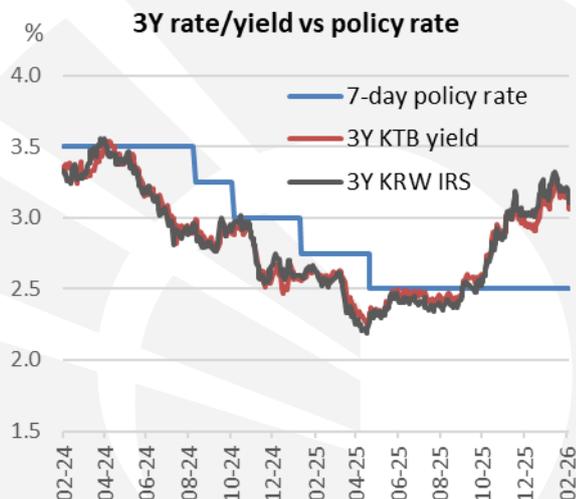
Source: Bloomberg, CEIC, OCBC Group Research



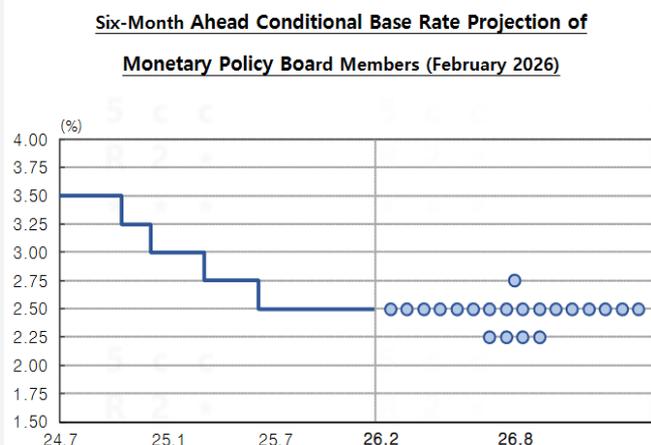
- **KRW rates.** KTBs rallied and KRW IRS fell upon Bank of Korea’s policy rate decision on Thursday. The BoK kept policy rate unchanged at 2.50% as widely expected. The upward revision to 2026 GDP growth to 2.0% from 1.8% was also expected. This is balanced by the 0.1 ppt downward revision to 2027 GDP growth. Meanwhile, BoK introduces their version of “dot-plot” which covers the next 6 months, with the median dot at 2.50%. 3Y KTB rallied by around 6bps on Thursday, and by a further 1-2bps this morning taking cue from the global markets. We had earlier highlighted that the spread between the 3Y yield and policy rate appeared a bit wide even after some recent narrowing. The spread

was last at 54bps, which appeared fair at this juncture. If expectation shifts towards an unchanged policy rate on a 1-year horizon, then there is room for the spread to be further compressed. New range for 3Y KTB yield is seen at 2.95-3.15%. Our base case remains for the BoK to keep policy rate unchanged at 2.50% through this year. Asset swap pick-up was last at around SOFR+38bps at 3Y KTB, and at around SOFR+59bps at 10Y KTB.

- BoK “dot-plot”.** BoK has been providing three-month forward guidance in the form of the number of members being open to a rate cut in three months. Governor Rhee has flagged since late 2025 the central bank was considering publishing a dot-plot. With market starting to ponder the timing of the beginning of a hiking cycle, the central bank probably sees the need to provide a slightly longer forward guidance. There is also a need to address three-way scenarios. Each member presents three dots reflecting his/her probability distribution for the 6-month horizon (not at each individual meeting). Hence, there are a total of 21 dots. The median dot currently sits at 2.50%, while four dots are at 2.25% and one dot is at 2.75%. At the post-meeting press conference, Governor Rhee revealed that members who put dots at 2.25% saw the need to support the k-shaped growth recovery as currency and property market risks subside, while the one dot at 2.75% reflects concerns on currency and oil volatility. Before Thursday’s meeting, market had priced in an unchanged policy rate for a 6-month horizon, and rate hike pricing only started from 9-month onwards. A 6-month guidance may still be somewhat ambiguous. Nevertheless, this guidance, combined with the distribution of the dots, resulted in softer KRW rates as market reaction. KRW rates market continues to price a hike on a 1-year horizon, but the 9-month pricing has turned less hawkish.



Source: BoK, Bloomberg, OCBC Group Research



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