NOMURA

Asia Insights

Global Markets Research
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Rates - Asia ex-Japan

Asia rates: Some stability likely after recent rally

We expect Korea rates to outperform, with a rebound in Taiwan and India.

After a healthy rally following the interim US-Iran deal, a number of 5y Asia swap rates are back to either similar levels or only slightly (~10bp) higher than just before war started. To some extent this is reasonable as oil prices have also almost returned to end-February levels.

From here, we think a further rally in AeJ rates could be more limited because: 1) the *June FOMC meeting was perceived by the market as a bit hawkish,* though Fedspeak since then has not pushed back much against this pricing. This suggests the reaction could still be stronger towards a strong NFP rather than a weak one this Thursday; 2) while oil prices have almost returned to pre-Iran war levels, some geopolitical premium could persist with daily commercial cargo vessel crossings in the Strait of Hormuz still less than half pre-war levels.

Still, the likelihood of a substantial rise in rates (right-hand tail) is lower than when oil prices were over $100bbl. Hence, we think the risk-reward is better in relative value strategies, though overall with a small lean towards paying.

Expect some more downside in Korea rates even though level no longer extreme

We continue to recommend **receive Sep-5y Korea vs Taiwan with a high conviction level of 4/5**, targeting a move to 150bp by end-August. While Korea rates are no longer at extreme levels, the market is still pricing close to five hikes over the next 18 months and then for rates to stay around that level. With today's weaker-than-expected industrial production data reinforcing K-shaped economic growth, we believe if the BOK actually hikes as much as priced, the curve should meaningfully flatten and rates such as 2yfwd3y might actually come off. By contrast, Taiwan rates are already back to start of the year levels and the CBC might be perceived as behind the curve if growth remains strong and inflation at least stays around 2%.

India rates at technical support levels and could see some consolidation

In India, the ongoing rally in rates led by IGBs is a headwind to our tactical pay view. We thought that the market has already had enough time to react to positive news like FCNR and lower oil prices. Also, some inflation risk such as El Nino is still there, while industrial production data released yesterday show industrial activity remains steady and our economics team sees *an upside risk to its FY27 GDP growth forecast* of 6.6%.

While the current strong rally in IGBs, partly driven by strong foreign purchases, is a risk to pay positions, both 5y NDOIS and the 10y IGB are almost back to their 200-day moving average levels, which have held since last November. Hence, we decided to maintain the pay stance, but have **switched the tenor from Sep-2y to Sep-5y** (current levels 5.96% and 6.20%, respectively). We retain a moderate conviction level of 3/5 and set a stop loss of 10bp for this position.

Separately in **Thailand**, we hold a ***2s10s flattener*** **(conviction level 3/5),** as the BOT meeting last week was neutral but not too dovish (the BOT raised its 2026 GDP growth forecast more than the market expected). Hence, some premium should remain in the front-end. We are more positive on the long-end, as planned bond supply for the July-September quarter (not more than THB345.56bn as announced by the PDMO) looks reasonable and the risk of large issuance from the emergency decree has not materialized.

Finally in **Hong Kong**, we are currently neutral after we *took profit on our pay 10y IRS position* early in June which turned out a bit too early. Right now the market's focus is on whether spot USD/HKD will hit 7.85. With the aggregate balance currently at a low level

Research Analysts

Asia Rates Strategy

Albert Leung - NIHK
albert.leung1@nomura.com
+852 2252 1401

Clair Gao, CFA - NIHK
clair.gao@nomura.com
+852 2252 1081

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(HKD54bn) a further drain should clearly push up the HIBOR fixing and front-end HK swap rates. That said, this is to some extent priced now with 6mfwd6m HK IRS, for example, trading at ~70bp above the 3m HIBOR fixing. Over the medium term, we think a better trade is to re-enter pay long-end, as we expect issuance of HKD bonds by non-financial companies to be structurally higher. The reasons being: 1) funding demand for long-term projects such as Northern Metropolis should pick up; and 2) subsidies by the Hong Kong government to quasi-government entities will likely drop going forward due to fiscal constraints.

Please see Strategy portfolio update (7 May 2026) for our full portfolio.

Appendix A-1

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