

EM Alpha

Closing receive 2y US vs HK IRS

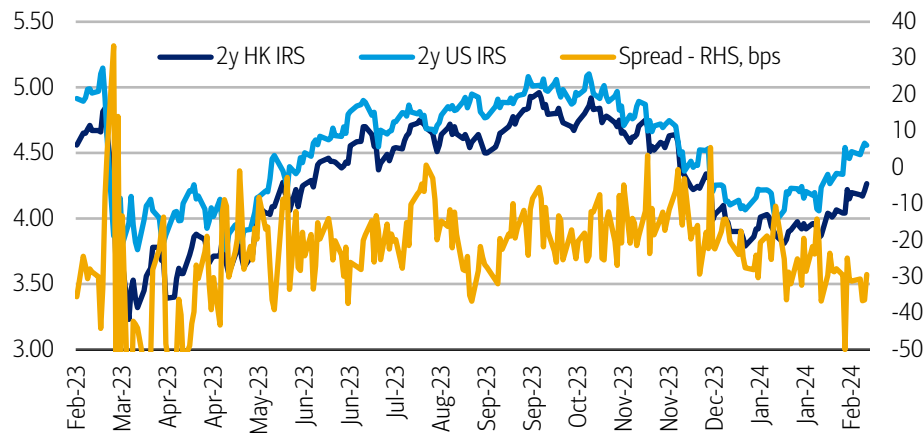
Delay of Fed cuts result in underperformance of US rates vs HK rates.

The continuation of above-target inflation and the resilience of the US labor market has led the market to push back the timing of the expected Fed cutting cycle. The operation of Hong Kong's Linked Exchange Rate System (LERS) requires the Fed to be near cutting for Hong Kong rates to underperform US rates.

The delay of the Fed cutting cycle resulted in front-end US rates to selling off. Moreover, for reasons tied to Hong Kong's domestic liquidity situation (see: [Asia FI & FX Strategy Viewpoint: Four questions for HKD in the Year of the Dragon 19 February 2024](#)), the 3-month HIBOR fixing also fell over the past two months. This resulted in the outperformance of Hong Kong rates versus US rates. Because of the negative carry profile, we close this trade and will consider re-engaging at a time closer to the Fed cut. (close: -28bps; entry: -18bps; stop: -35bps).

Exhibit 1: 2y HK versus US IRS

The continuation of strong US data has resulted in US rates to underperform HK rates



Source: Bloomberg

BofA GLOBAL RESEARCH

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IRS – interest rate swap

For a complete list of our trade recommendations, see: [Global Emerging Markets Weekly: What if the Fed doesn't cut? 23 February 2024](#)

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