

## EM Alpha

## Pay 5y CNY NDIRS

## See attractive risk-reward to pay China rates

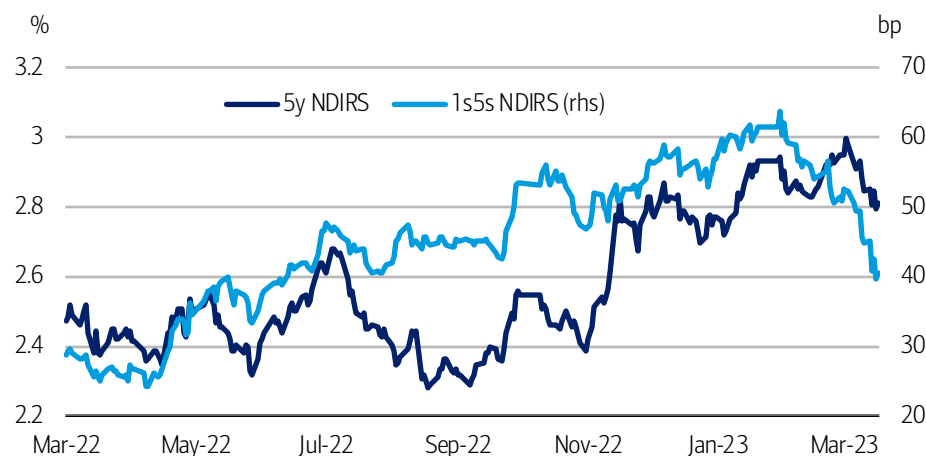
We recommend paying 5y CNY NDIRS (entry: 2.81%, target: 3.1%, stop: 2.65%, carry & roll: -1.5bp/month). On the back of a conservative GDP growth target, soft February CPI print, and prevailing global risk-off sentiment, 5y NDIRS rallied about 20bp over the past two weeks (Exhibit 1). We think this latest sharp move has created a good entry opportunity to pay rates given: 1) our economists see upside risks to their 5.5% GDP growth forecasts with robust investment growth (underpinned by strong credit expansion) complementing consumption revival (see more in [China Watch: Jan-Feb activity data confirmed a solid recovery under way](#)), and 2) higher net government bonds supply could potentially exert upward pressure on back-end yields in 2Q (see more in [China rates – higher net supply not a problem yet](#)).

## Risk – weaker global growth and lower US rates

One key risk to our trade is spillover from weaker global growth outlook and lower US rates. For clients that are more concerned about uncertainties surrounding US bank stress and the Fed's policy path, an alternative expression is through the re-steepening of the 1s5s NDIRS curve. PBoC could turn more accommodative on liquidity condition amid adverse external environment, while continued domestic demand rebound should keep a floor to back-end rates.

## Exhibit 1: CNY NDIRS (5y and 1s5s spread)

5y NDIRS rallied about 20bp over the past two weeks on the back of conservative GDP growth target, soft February CPI print, and global risk-off sentiment



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

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NDIRS – non-deliverable interest rate swap

Fed – Federal Reserve

PBoC – People's Bank of China

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. 12530951

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