



EM Rates: Time to re-think China allocations

- **All 10y yield models within Qi's universe of EM rates are in regime, & expensive to macro model value.** That is especially true in Asia, & China in particular.

Model Name ▲	ST/LT ▲	Asset Class ▲	Confidence(%) ▲	Val Gap	Val Gap (σ) ▲
CNH 10Y Swap	LT	Rates	81%	-14.1...	-1.34
HKD 10Y Swap	LT	Rates	95%	-29.6...	-1.08
SGD 10Y Swap	LT	Rates	91%	-32.6...	-1.03
THB 10Y Swap	LT	Rates	91%	-22.8...	-0.98
HUF 10Y Swap	LT	Rates	74%	-34.0...	-0.89
TWD 10Y Swap	LT	Rates	67%	-2.29...	-0.75
INR 10Y Swap	LT	Rates	96%	-16.1...	-0.39
MXN 10Y Swap	LT	Rates	89%	-15.1...	-0.38
RUB 10Y Swap	LT	Rates	92%	-11.4...	-0.25
PLN 10Y Swap	LT	Rates	96%	-5.02...	-0.16
KRW 10Y Swap	LT	Rates	94%	-0.15...	-0.01

- After months of substantial inflows, there has been a pause in foreign buying of Chinese government bonds. The [WSJ](#) cites valuations, especially narrower yield spreads versus US Treasuries, plus an end to the Renminbi's 9 month rally as reasons for the hiatus.
- Qi's analysis agrees – our model of [10y CNH interest rate swaps](#) is in regime, shows yields as 1.3 sigma (14bp) too low & that global growth is the dominant driver. Such significant FVGs when in regime are rare. Since 2009 there have been only six occasions & the hit rate on pay signals in that time is 83%.
- It is not only a China phenomenon. 10y Singapore swaps are also rich to model & if we broaden the search to all EM rates across all maturities, [5y SGD](#) is notable. It **is the richest point across all EM yield curves**, & it has just triggered a Qi Divergence signal – the sharp fall in yields is in contrast to macro model value which has risen over the last 10 days.
- **Asset allocators wanting Asian interest rate exposure should instead consider Taiwan, Korea & Indonesia** looking at Qi valuations across all points of the yield curve.

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