

MNI Asia Pac Weekly Macro Wrap

27 Feb 2026 – By Jon Cavenagh, Jaime Grant, Stephen Petrie & Gavin Stacey

JAPAN

- Tokyo CPI was above market expectations, with core-core sticky at 2.5%/y, while services inflation edged up. Interesting trends continue to emerge in the weekly offshore flow data, with offshore investors continuing to buy Japan bonds, while local investors sell offshore bonds. We also looked at the risks that offshore investors become a bigger driver of JGB yields this year.

AUSTRALIA

- Australian Jan monthly CPI data was a touch above market forecasts and showed few signs of slowing inflation pressures. Underlying measures of inflation remain above the top-end of the RBA's 2-3% target band.

NEW ZEALAND

- NZ retail sales were firmer than forecast for Q4, consistent with recent better activity/spending outcomes. Confidence measures for the consumer and businesses continued to move off recent highs, but are still suggesting a firmer growth backdrop.

SHORT TERM RATES

- Over the past week, interest-rate expectations across the \$-bloc through December 2026 were broadly unchanged, with the exception of Canada, where pricing firmed by 9bps.

CHINA

- We saw a step up from the PBoC around aiming to curb one-way yuan appreciation pressures. The PBoC made it cheaper to short the yuan, while also vowing to keep the currency basically stable. Markets will also focus on the Two Sessions, with the NPC scheduled to open on March 5. Premier Li Qiang is expected to announce a GDP growth target of 4.5%-5% and a fiscal deficit ratio steady at 4% of GDP.

SOUTH KOREA

- The BoK kept rates on hold this week, as widely expected, but had a slightly dovish tilt in terms of the outlook. Data outcomes continue to point to a better growth backdrop, with the BoK nudging up its growth forecast for this year.

ASIA

- The BoT surprised markets and sell-side economists by cutting rates this week. Still, there isn't much room left to ease policy further.

ASIA EQUITY FLOWS

- Taiwan equity inflows continue to outpace South Korea, where strong outflows were present through February. Thailand net inflows remained positive as the government and BoT look to boost domestic growth.

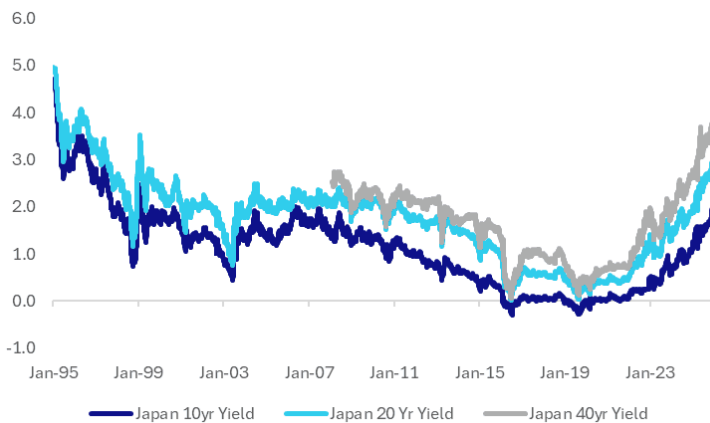
JAPAN

JAPAN: Foreign Inflows Could Be Key Driver for JGB Yields in 2026

The 2025 to early 2026 surge in JGB yields created levels not seen in a generation. Even with the recent correction off recent highs for longer dated yields, we are still very elevated by historical standards (see the chart below). As a perpetual underweight for global bond investors, valuation has rarely been a driver for JGB investors due to low yields. Now perhaps this tide is close to turning (or has perhaps already begun). Weekly investment flow data shows net offshore inflows returning to JGBs in 2026, but this only brings cumulative inflows to marginally positive versus early 2022 levels, see the second chart below. BBG also notes: "Futures are signaling sustained demand from overseas money managers who account for more than 70% of trading volume. Foreign investors were net buyers of 4,717 JGB futures contracts in the week of Feb. 9, following an even larger 8,626-contract purchase the week before which the most since mid-October, data from the Osaka Exchange show."

- Market pricing in terms of the BoJ outlook, has around 2 rates hiked priced by year end, which would take the policy rate to 1.25%. The IMF sees BoJ neutral rates around 1.50% and expects the central bank to get there by around mid next year.
- Given much of the rate hikes are priced in, easing out of perpetual underweights could be fortuitous to performance in 2026. Moving (at the very least) to a more neutral view on Japan bonds is carry positive for investors.
- The USD/JPY outlook/trend will also be important. The consensus for USD/JPY to end 2026 at 149.00, versus current level around 155.00. The most commonly used global bond indexes had a return profile in 2025 that reflected movements in global government bond markets and the impact of currency translation for international investors.
- US dollar investors with unhedged exposure to these indexes (the largest cohort of users of these indexes) saw a positive returns of 7.5-8.00% during the year, whilst euro-based unhedged investors saw negative returns in the region of -4-5%. 80% of WGBI investors are USD based.
- Currency-hedged results were more tightly clustered across base currencies. The comparison underscores how, in a year marked by shifting rate expectations and active currency markets, the decision to hedge or remain unhedged was a meaningful driver of realized performance outcomes across different investor perspectives.

Fig 1: JGB Yields, Long Run Trends



Source: Bloomberg Finance L.P./MNI

Fig 2: Cumulative Offshore Net Inflows To Japan Bonds - JPY Bn

Source: Bloomberg Finance L.P./MNI

JGBs: Curve Bull-Flattens As Investors Buy Value At Long-End

In early 2025, the JGB 2/40 yield curve broke above the well-established range that had been in place since late 2022. Following the initial steepening, the curve reverted to range trading, a pattern that has persisted to the present. It is now testing the lower bound of that range.

- Since late last year, steepening has been most pronounced in the 2/5 segment, with the 5-year sector viewed as relatively unattractive. Expectations of fiscal expansion under a Takaichi administration implied heavier debt issuance, reinforcing pressure on intermediates.
- In recent weeks, however, fiscal concerns appear to have eased following Prime Minister Sanae Takaichi's historic election victory, prompting long-end buying and a flattening of the curve.
- Recent price action suggests investors have favoured the long end, taking advantage of the curve's relative steepness. Weekly flow data indicate that offshore investors have returned as net buyers of JGBs in 2026, lending support to that move.
- A simple regression of the US–JP 30-year yield differential against the US–JP 1Y3M swap spread — a useful proxy for expected relative policy paths over the coming 12 months — over the past two years suggested the 30-year spread was around 50bps too low in mid-January. That valuation gap has since been largely unwound as investors accumulated 30-year JGBs, with the US–JP 30-year spread now close to fair value (see chart).



Bloomberg Finance LP

[JAPAN DATA] Tokyo CPI Above Forecasts, Core-Core Sticky At 2.5% y/y :

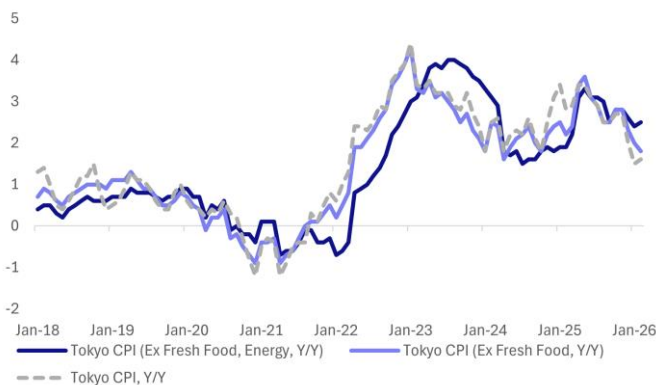
Tokyo Feb CPI was above market consensus forecasts, with headline y/y at 1.6%, versus 1.4% forecast and 1.5% prior. The ex fresh food measure was 1.8% in y/y terms (1.7% forecast and 2.0% prior). The core ex fresh food and energy measure was 2.5%/y/y (2.3% was forecast and 2.4% was the Jan outcome). The chart below plots these three inflation measures (in y/y terms), with the ex fresh food, energy measure unchanged from Sep levels last year (but still off earlier 2025 highs above 3.0%). Service prices edged up to +1.5%/y/y from 1.4% in Jan.

* Today's data helps negate some of the recent downside surprises on inflation, although is unlikely to shift broader BoJ thinking around the next rate hike timing.

* Our Tokyo Policy team noted: The decline in headline core CPI was in line with the BOJ's projection that inflation would temporarily dip below 2% in the first half of the year due to subsidies aimed at lowering electricity and gas charges. The bank expects the moderation in energy costs to help push real wages back into positive territory, supporting its stance of gradually raising the policy rate.

* In m/m terms, headline CPI was down 0.1%, while goods prices fell -0.6%, services ticked up 0.2%/m/m. Both food and fresh food were negative m/m (fresh food off 2.3%). Utilities fell 9.2%/m/m, with energy subsidies impacting. Household goods, +1.1%/m/m, clothing and footwear, +0.7%/m/m, and entertainment, +0.7%/m/m were the main positives.

Fig 1: Tokyo CPI Y/Y - Core, Ex Fresh Food, Energy Remains Above 2%



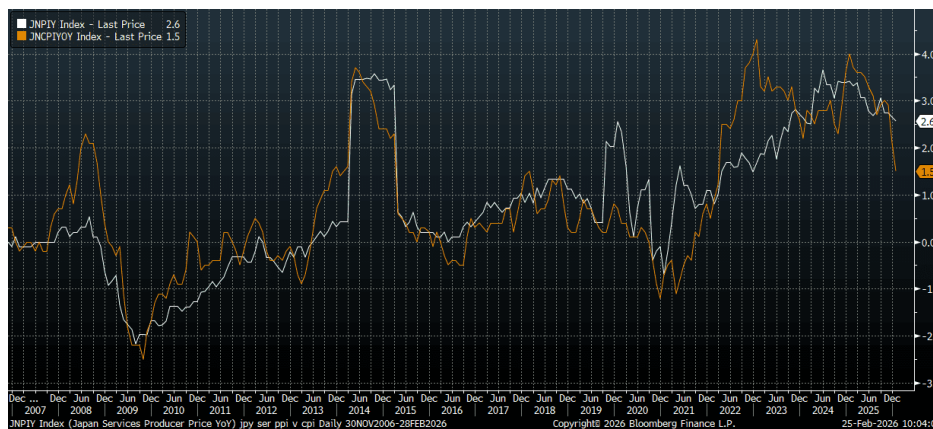
Source: Bloomberg Finance L.P./MNI

JAPAN DATA: Jan Services PPI As Expected, Sitting Higher Than Headline CPI

The Japan Jan services PPI print came in as expected, 2.6%/y/y, which was also the Dec outcome. We fell -0.5% in m/m terms, after a flat outcome in Dec. Jan tends to be a weak seasonal month for the services PPI, where it tends to fall. The rolling 12 month average for the services PPI in m/m terms still sits above +0.20%, down only slightly from earlier 2025 highs. The chart below plots the services PPI (the white line) versus headline CPI (orange line), which has fallen sharply in recent months. The services PPI is suggesting that the extent of the recent softening in headline CPI is probably overstating the weakening in underlying trends.

- Note on Friday we get the Feb Tokyo CPI print. The market expects further headline softening to 1.4%/y/y (from 1.5%), but core-core, ex fresh food and energy, is forecast at 2.3%/y/y (2.4% was the Jan outcome).

Fig 1: Japan Services PPI Y/Y & Headline CPI Y/Y



Source: Bloomberg Finance L.P./MNI

[JAPAN DATA] Offshore Inflows Into Bonds Returns, Locals Sell Offshore Bonds :

Offshore appetite for Japan bonds rebounded last week, with just under 1.9trln in fresh inflows. This ends two consecutive weeks of outflows. It also brings the YTD net inflow total for this segment to just over 6.2trln. It will be interesting to see this week's flow update, given JGB yields have risen amid fresh concerns around government push back on the BOJ tightening outlook and perceived dovish BOJ board candidates put forward. We noted earlier this week that offshore investors could be a key driver for JGB yields in 2026 (with the elevated yield levels potentially attracting overweight's), see this link: <https://www.mnimarkets.com/articles/foreign-inflows-could-be-key-driver-for-jgb-yields-in-2026-1771898694834>

* Offshore investors also continued to buy local stocks, albeit at a reduced pace compared to the prior week. This brings YTD offshore net inflows into local stocks of just under 5.4trln. Local equity indices continue to surge higher.

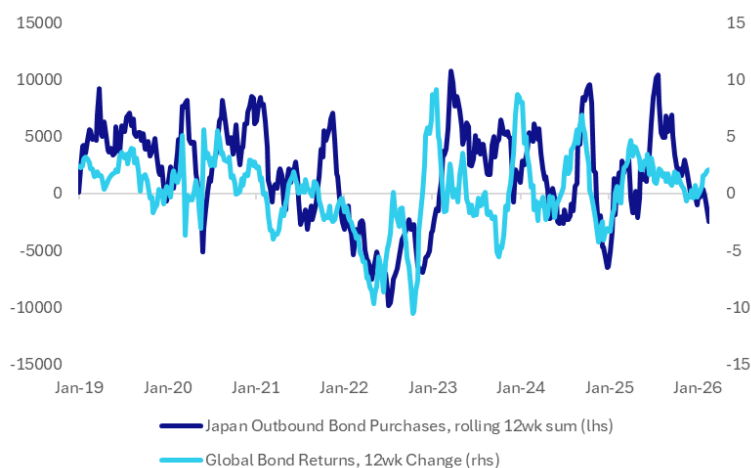
* In terms of Japan outbound flows, we saw further net selling of overseas bonds, which was the third straight week. YTD we have net outflows by local investors for this segment. The chart below shows such flow weakness continues to diverge from a generally more supportive global bond return backdrop.

Table 1: Japan Weekly Offshore Investment Flows

Billion Yen	Week ending Feb 20	Prior Week
Foreign Buying Japan Stocks	402.0	1428
Foreign Buying Japan Bonds	1887.2	-393.1
Japan Buying Foreign Bonds	-1898.8	-487.9
Japan Buying Foreign Stocks	408.5	-26.2

Source: Bloomberg Finance L.P./MNI

Fig 1: Japan Outbound Net Bond Flows & Global Bond Returns



Source: Bloomberg Finance L.P./MNI

AUSTRALIA:

AUSTRALIA DATA: Jan Inflation Sees Y/Y Momentum Edge Up, Few Signs Of Cooling

The Jan inflation report was slightly above market expectations in y/y terms and its difficult to find signs of softening underlying inflation pressures. The headline printed at 3.8%/y/y, unchanged from Dec (3.7% was the forecast), while the trimmed mean, the RBA's preferred measure of underlying inflation rose 3.4%/y/y (against a 3.3% forecast, which was also the Dec outcome). The trimmed mean rounded to two decimal places was 3.36% in Jan, from 3.34% in Jan, so only a marginal increase. In m/m terms headline inflation was 0.4% firmer, after a 1.0% rise in Dec, while the trimmed mean rose 0.3% (after a 0.2% rise in Dec).

- The table below is from the ABS and highlights the m/m and y/y changes for Jan. The second column is y/y changes and shows outside of tradables inflation (1.9%/y/y), other measures of inflation are comfortably above the top end of the RBA's 2-3% target band (even if they saw m/m falls in Jan).
- By sub-sector we had falls in household furnishings, transport and recreation (the largest fall at -3.4%). In y/y terms, household furnishings, transport and communication are 1.1-1.4% but all other segments are higher than 2.0%, with housing the strongest at +6.8%/y/y.
- The ABS noted: "Annual Housing inflation was 6.8 per cent to January, up from 5.5 per cent to December. This reflects cost rises in Electricity, New dwellings and Rents. Electricity costs rose 32.2 per cent in the 12 months to January, up from 21.5 per cent to December. The increase in electricity costs over the year is mostly related to households using up both the extended Commonwealth Energy Bill Relief Fund (EBRF) and various State Government rebates. The higher increase in the year to January compared to December reflects the cessation of the EBRF rebates."

Table 1: Australian Bureau of Statistics Inflation Series , M/M & Y/Y

Analytical series	Dec 25 to Jan 26(% change)	Jan 25 to Jan 26(% change)
Trimmed mean	0.3	3.4
Weighted median	0.3	3.6
CPI excluding volatile items*	0.5	4.1
CPI excluding volatile items* and holiday travel	1.1	4.1
Tradables	-1.2	1.9
Non-tradables	1.2	4.9
Goods	1.3	3.8
Services	-0.7	3.9
Discretionary	-0.5	3.5
Non-discretionary	1.0	4.1
All groups CPI, seasonally adjusted	0.5	3.8

*Volatile items are Fruit and vegetables and Automotive fuel

Source: Australian Bureau of Statistics, Consumer Price Index, Australia January 2026

AUSTRALIA DATA: Q4 Capex Up, But Off Q3 Pace As Equipment Slows, Firm Outlook

Australia Q4 capex was slightly above market forecasts, rising 0.4%q/q, versus a flat expectation, although we slowed notably from the Q3 pace of +6.4%q/q. In y/y terms, capex was up 7.8%, versus a 6.9% rise in Q3. Building and structures investment rose 2.3%q/q, matching the Q3 gain, while plant and equipment fell by 1.7%, unwinding part of Q3's 11.2% surge. The plant and equipment outcome tends to feed into the overall GDP print, which for Q4 will be out next Wednesday (there are no consensus forecasts at this stage).

- The ABS noted for today's print: "The lift in investment was the result of strength in buildings and structures, particularly renewable energy projects. 'This was offset by a fall in equipment and machinery, following the record high investment from data centres in the previous quarter'.
- Also note via the ABS: "Businesses revised their expected capex for 2025-26 to be up by 4.3 per cent since their last estimate. This release also publishes the first estimate for planned capex in 2026-27, which was up 7.3 per cent on the first estimate for 2025-26."
- Notably, the estimate for capex in plant and equipment in 2026-27 is 14.3% higher than Estimate 1 for 2025-26.

NEW ZEALAND

[NEW ZEALAND] Consumer Confidence Unwinds Jan Bounce, Still Above 2025 Lows :

The ANZ consumer confidence index fell 6.6%m/m in Feb to 100.1, this unwinds the Jan bounce (the Dec reading for the index was 101.5). Sentiment is still above lows from 2025 around 92.0, but the uptrend has stalled. The chart below plots the consumer sentiment index (the orange line) versus final private consumption q/q from the national accounts (the white line). It a similar theme to yesterday's ANZ business activity/confidence outcomes, which also moved off recent highs. Consumer sentiment is still pointing to improving spending but it will be a watch point for the RBNZ, particularly if we see more downside outcomes.

* At the most recent RBNZ decision, the central bank emphasized the need for consumer spending to support the economic recovery and that spending was more likely to be reliant on labour income rather than housing wealth (generated by rising prices), which was a departure from previous cycles.

* In terms of the detail on today's sentiment outcome, all the sub indices fell. Buy major household item eased to -4 from +1 in Jan. The economy 1yr ahead fell to -8 from -1, but remains above early Q4 2025 lows.

Fig 1: NZ ANZ Consumer Sentiment & NZ Private Consumption Q/Q



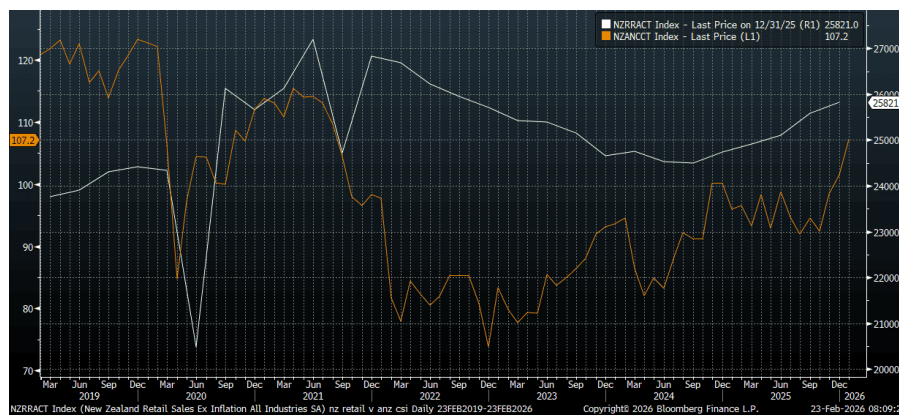
Source: Bloomberg Finance L.P./MNI

NEW ZEALAND: Retail Up For Fifth Straight Qtr, Broad Based Spending Increases

New Zealand Q4 retail sales (ex inflation) rose 0.9%q/q, above the 0.6% consensus estimate and versus +1.9% in Q3. This marked the fifth straight quarter of positive q/q retail sale rises (back to Q4 of 2024). In y/y terms we were up 4.4%, virtually unchanged from Q3's 4.5% outcome. This is around the strongest pace of spending in y/y terms since Q3 2022. It will add, at the margin, to the RBNZ's confidence in the economic outlook, particularly as they highlighted last week that consumer spending was a watch point and needed to drive the economic recovery. The chart below plots retail sales, in levels terms (the white line), versus the NZ ANZ consumer sentiment index (the orange line). Note we get the ANZ consumer sentiment index for Feb this Friday.

- Stats NZ noted in terms of today's print: "Spending on discretionary items helped drive an overall increase in retail activity," economic indicators spokespersons Michelle Feyen said. "Twelve of the 15 retail industries had higher sales volumes in the December 2025 quarter compared with the September 2025 quarter."
- Department stores, super markets and motor vehicle categories saw falls. In terms of the biggest rises: "Pharmaceutical and other store-based retailing, electrical and electronic goods, and hardware, building, and garden supplies saw the largest increases in activity this quarter." via NZ Stats

Fig 1: NZ Retail Sales (Ex-Inflation) & NZ ANZ Consumer Confidence



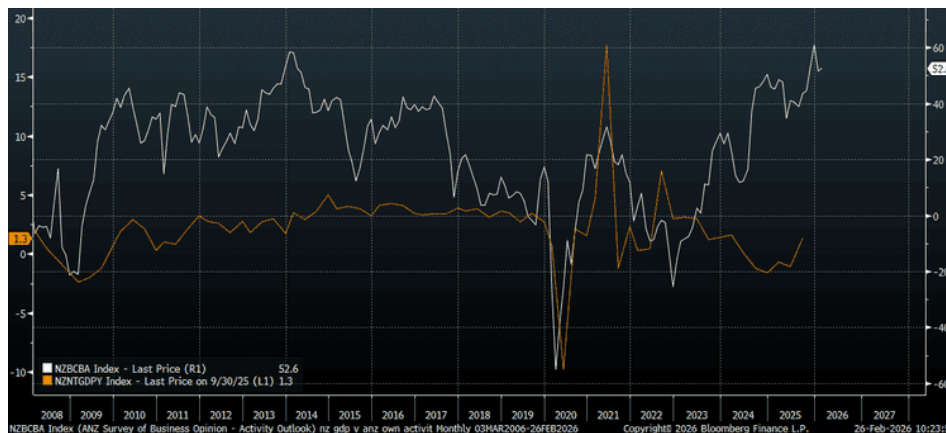
Source: ANZ/Bloomberg Finance L.P./MNI

NEW ZEALAND: Business Activity & Confidence Mixed, Inflation Expectations Firmer

The ANZ Feb business activity outlook and confidence prints were mixed. The activity outlook edged up to 52.6 from 51.6 in Jan. We remain off Dec 2025 highs of 60.9. On the confidence side in Feb we continued to move off Dec highs as well, printing at 59.2, versus 64.1 in Jan (the Dec 2025 read was 73.6). Both indices are still at very elevated levels from an historical standpoint and pointing to improved growth momentum. The activity outlook (the white line) is plotted below versus NZ GDP y/y (the orange line).

- Some of the detail will be a watch point for the RBNZ, with inflation expectations pushing up 2.93% (from 2.77%). This is highs back to late 2024, but well under the 2022 highs above 6%. Ease of credit also fell to 7.5 from 16.3 in Jan. Other sub indices mostly held close to Jan levels although residential construction eased to 41.4 from 58.8.
- ANZ also noted (via BBG): "It's fair to say that (wage indicators) are starting to challenge the RBNZ's forecast that wage inflation will be flat or ease this year": ANZ
- Note tomorrow we get the ANZ Feb consumer confidence print.

Fig 1: NZ ANZ Activity Outlook & NZ GDP Y/Y



Source: ANZ/Bloomberg Finance L.P./MNI

SHORT-TERM RATES \$-Bloc Pricing Little Changed Over Past Week, Except For Canada's Firming:

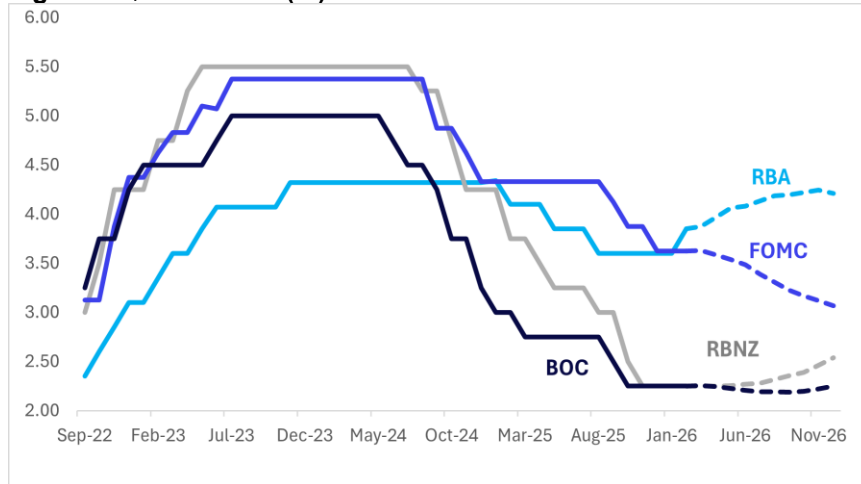
Over the past week, interest-rate expectations across the \$-bloc through December 2026 were broadly unchanged, with the exception of Canada, where pricing firmed by 9bps.

* On the data front, Canada's December retail sales exceeded expectations, while the Raw Materials Price Index surged in January. Business sentiment also strengthened, rising to its highest level in nearly four years, with notable gains in the manufacturing and transport sectors - both heavily impacted by U.S. tariffs. The Canadian Federation of Independent Business (CFIB) Business Barometer climbed 5.5 points to 64.8 this month, extending its rebound from a March low of 25.5 and moving back above its long-run average of around 60.

* The next major regional policy events are the RBA meeting on 17 March and the FOMC and BOC meetings on the 18 March. 13% probability of a 25bp tightening by the RBA is priced, while the US and Canadian markets attach a 5% and 3% probability of a 25bp easing.

* Looking ahead to December 2026, current market-implied policy rates expected are as follows: US (FOMC): 3.07%, -56bps; Canada (BOC): 2.25%, 0bps; Australia (RBA): 4.13%, +28bps; and New Zealand (RBNZ): 2.54%, +29bps.

Figure 1: \$-Bloc STIR (%)



Source: Bloomberg Finance LP / MNI

CHINA

[CHINA] 10Yr Anchored Near 1.80; NPC Expectations Grow, RRR Cuts Likely :

* Bond futures have drifted steadily lower in a shortened week, having opened stronger Tuesday after Lunar New Year.

* China's 10-Yr future is flat today, but down -0.21 from the pre-LNY close and -0.26 from Tuesday's close, at 108.347.

* The CGB 10-Yr slipped back above 1.80% having moved to a low of 1.77% following the injection of liquidity prior to LNY. This gives a snapshot of things to come as we look ahead to March. Markets will look to :

* NPC Expectations: Markets will focus on the Two Sessions, with the NPC scheduled to open on March 5. Premier Li Qiang is expected to announce a GDP growth target of 4.5%-5% and a fiscal deficit ratio steady at 4% of GDP..

* Monetary Policy Stance: The PBOC has reaffirmed its commitment to a "moderately loose" monetary policy for 2026. Governor Pan Gongsheng has signalled potential further cuts to the Reserve Requirement Ratio (RRR) and interest rates to ensure ample liquidity.

* Today's Currency Policy Shift: Effective March 2, 2026, the People's Bank of China (PBOC) will scrap the 20% foreign exchange risk reserve ratio for forward contracts, lowering it to 0%. This move is intended to make it cheaper for companies to hedge and potentially bet against a strengthening yuan, which could relieve some pressure on the bond market by reducing the need for aggressive yield-suppressing interventions.

* A RRR cut could see the CGB 10-Yr re-establish a 1.70-1.80% range as liquidity releases from RRR cuts often end up in the bond markets.

[CNH] CNY Fixing Unchanged, Error Term Widens Again, May Add To Upside In USD/CNH:

The USD/CNY fixing was unchanged from yesterday's level, but given the lower market consensus estimate we saw a further rise in the error term to +793pips (from +610pips yesterday). This follows the earlier news around cutting the FX reserve ratio on forward sales back to 0%, while the PBoC also noted it will maintain basic stability of the yuan. These moves appear to be designed to curb one-way appreciation trends in the yuan, which have been strong both before and after the LNY break. USD/CNH is near 6.8600 in latest dealings, around session highs. Today's fixing result may add further short covering risks in the pair.

* In terms of upside resistance points, the USD/CNH ended last week just under 6.9000, which also coincides with the 20-day EMA resistance region.

[CNH] Steadies After Earlier PBoC Announcement, USD/CNH Well Under Key Resistance:

USD/CNH sits around 100pips off earlier highs (6.8606), last near 6.8500, as the market digests the earlier changes around FX reverse requirements and vow to keep the yuan basically stable. These moves may help temper recent strong one-sided appreciation pressures. It was also followed up by a steady USD/CNY fixing, which was set +700pips above market forecasts. The largely steady downtrend in the USD/CNY fixing since Dec last year has been a key driver of yuan appreciation expectations, so this will be watched in coming sessions for signs of firmer resistance to yuan gains.

* Still, USD/CNH remains comfortably under all keys EMAs. First resistance looks to be back toward 6.91-94 but it seems unlikely than broader shorts in the pair won't be stressed unless we see a sustained move back above the 7.0000 area (see the chart below). The reaction in implied vols has been fairly modest, with a tick lower across the benchmarks. The 1wk is around 3.30%, versus recent highs around 4%. The 1mth is around 3.17%, after being above 3.50% recently.

* Risk reversals which have been trending higher since the start of the year, and therefore diverging from weaker USD/CNH spot levels, are off recent highs.

* Outside of broader macro watch points, like US Fed outlook, China export growth etc, focus will also be on local exporter FX conversion trends.

* Next week we get PMIs for Feb. The consensus doesn't expect sharp moves relative to Jan outcomes, and in any case PMI prints haven't impact yuan sentiment much in recent months.

Fig 1: USD/CNY Weekly Chart



Source: Bloomberg Finance L.P./MNI

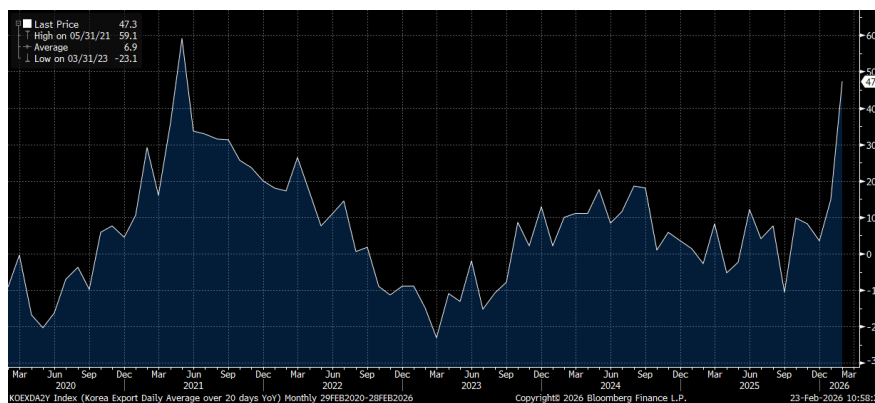
SOUTH KOREA

SOUTH KOREA: Feb Export Surge May Aid BoK Growth Upgrade

South Korea's first 20-days trade figures for Feb surged. On a daily average basis, exports were up 47.3%/y. This is the strongest print since the first half of 2021, see the chart below. BBG notes: "Semiconductor exports climbed 134%, extending solid gains driven by investment in artificial intelligence and data centers." It also came despite softer auto exports. More broadly, this points to on-going global trade volumes growth, although is more narrowly focused on the tech side. It also fits with strong Taiwan export data since the start of the year.

- The BOK meets later this week and as we noted earlier, the central bank is expected to maintain or slightly upgrade its 1.8% GDP growth forecast for 2026, supported by the ongoing semiconductor export boom.

Fig 1: South Korea - First 20day Exports, Y/y (Daily Average)



Source: Bloomberg Finance L.P./MNI

KRW: Will Domestic Portfolio Equity Outflows Slow This Year?

Spot USD/KRW was unable to build on earlier momentum sub 1440, we last tracked near 1443/44, now up only 0.20% in won terms versus end Friday levels. Broader ranges in the pair continue to hold, with moves into the 1420/40 region, drawing buying interest in recent months, while moves into the 1460/80 area drew selling interest. Outside of broader risk trends/macro backdrop, particularly with renewed focus once again on the US tariff outlook, a likely key driver of the won will domestic capital outflow pressures, which were cited as a de-stabilizer in terms of the FX supply/demand backdrop in 2025.

- Last year saw a surge in domestic investors purchasing offshore equities. The chart below plots such outflows against the MAG 7 US equity index. Domestic outflows slowed towards the end of 2025 (we have data up to Dec of last year), with signs that the strong tech related equity surge in the US was cooling somewhat.
- A recent Chosun Daily article highlighted the preference local investors have for US stock investments. See this [link](#). It notes, quoting Rtrs: "Reuters reported on the 5th that "despite the South Korean government's various stimulus measures to keep capital within the country, Korean individual investors, nicknamed 'ants,' are ignoring these efforts and 'doubling down' on U.S. stock investments." Citing Société Générale strategist Sung Ki-yong, the article analyzed that "even if the KOSPI rebounds, Korean investors' deep-rooted preference for U.S. stocks remains unchanged, and domestic market gains are instead acting as an accelerator for capital outflows to the U.S. market."
- Hence even with signs of US tech equity outperformance waning, we are still seeing strong domestic outflow pressure and may need further government efforts to curb such outflow pressures and help stabilize the FX supply/demand backdrop.

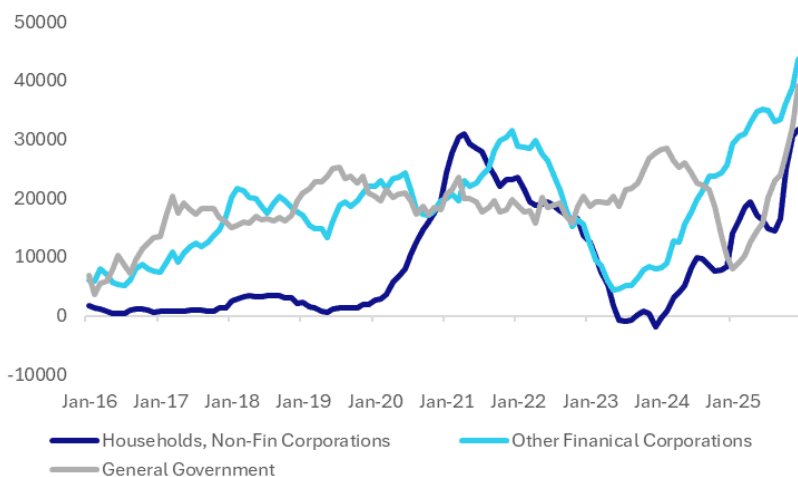
- The second chart breaks down domestic purchases of by segment and while the surge in household related outflows was very strong in 2025, it wasn't along, with other segments in terms of the general government (which is likely to be National Pension Service related) and financial corporations also purchasing more in terms of overseas equities.
- This will also maintain calls for entities such as NPS to continue to look at their FX hedging practices to reduce the impact of their outbound flows.

Fig 1: South Korea Domestic Portfolio Equity Outflows (USD Mn) & Mag 7 US Equity Index



Source: Bloomberg Finance L.P./MNI

Fig 2: South Korea Domestic Portfolio Equity Outflows (USD Mn) - Rolling 12 month Sum



Source: Bloomberg Finance L.P./MNI

SOUTH KOREA: Manufacturing Sentiment Edges Down, Still Implying Better GDP Y/Y

Earlier data showed the South Korean Feb business survey measure for Manufacturing tick down slightly to 97.1 from 97.5 in Jan. The index is still close to mid 2024 highs and below we plot this headline index against South Korean GDP growth y/y. It is implying better growth momentum from late 2025 into early 2026. This is consistent with recent important growth drivers, like exports, which have started off 2026 strongly, while yesterday's consumer

sentiment index rose to 112.1 from 110.8. This is just short of fresh highs back to 2017. We have the BoK outcome tomorrow, with no change forecast but some focus will be on how the central bank views the growth outlook.

- The non-manufacturing index for Feb rose to 92.2 from 91.7 prior. This index sits off late 2025 highs but is well up from early 2025 lows just under 82.0.
- In terms of the detail, the outlook for exporting enterprises rose to 99.4, the highest print since 2022 (the Jan read was 98.3). Larger industries generally saw a firmer rise in conditions than smaller firms.

Fig 1: South Korea Manufacturing Sentiment & GDP Y/Y



Source: Bloomberg Finance L.P./MNI

BOK: On Hold, New 6m Projection Sees 2.50% As Most Likely Outcome Going Forward

As widely expected, the BoK left rates on hold at 2.50% (which was unanimous by the BoK board). The central bank noted in its statement this decision reflected: "With inflation expected to remain stable near the target level, economic growth is projected to continue improving at a stronger than expected pace, and risks to financial stability also remain."

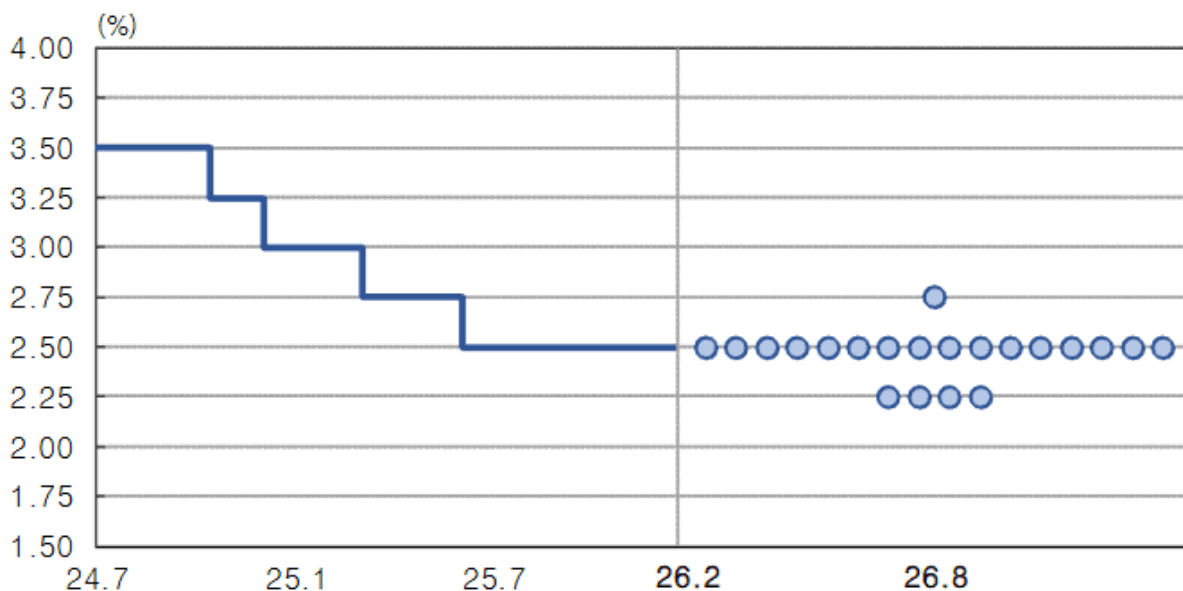
- Focus remains on the outlook and the central bank was fairly neutral in terms of the outlook. "The Board will continue to conduct monetary policy in order to stabilize consumer price inflation at the target level over the medium-term horizon as it monitors economic growth while paying attention to financial stability." On house prices the BOK noted: "Housing price increases in Seoul and its surrounding areas slowed under the influence of the government's real estate market stabilization measures, and their future trajectory warrants close monitoring."
- The central bank also noted: "The Monetary Policy Board decided to improve its conditional Base Rate projection and, beginning with this meeting, to release a six-month-ahead projection at each Monetary Policy Board's policy setting meeting at which the economic outlook is presented (four times a year, in February, May, August, and November)."
- The BoK explains: "The projection refers to the level of the Base Rate that each member judges to be most appropriate, based on the Bank of Korea's economic outlook and the member's own assessment, to ensure that inflation stabilizes at the target level and financial stability is maintained over the medium-term horizon."
- "Each member presents three dots reflecting the probability distribution of his or her Base Rate projection. For example, a member may allocate two dots to one interest rate level and one dot to another; alternatively, all three dots may be placed at the same rate level or each dot may be assigned to a different rate level."

BOK: ...But with Slight Downside Risks

- The projections are presented below, which has been taken as slightly dovish by the market, as while the base case is clearly for steady policy at 2.50%, lower rates are seen as a slightly greater risk than higher rates in the next 6 months.
- This has weighed on local yields, the 3yr NDIRS is now down close to 6bps, last around 3.14%. This is close to late Jan levels and not far from the 50-day EMA support point. Local rates have mostly been in a firm uptrend since Oct last year.
- The central bank did nudge up its growth forecasts to 2.0% for this year from 1.8% prior. It noted: "the domestic economy is expected to continue a recovery in consumption, while growth in exports and facilities investment is projected to accelerate more than previously expected, supported by a strong semiconductor sector and sound global growth, although construction investment is likely to remain sluggish." Two-way risks were seen in terms of the growth outlook.
- The inflation forecasts were also nudged higher but remain close to the 2% target.

Fig 1: BoK Board Conditional Rate Projections - 6mth Ahead

Six-Month Ahead Conditional Base Rate Projection of Monetary Policy Board Members (February 2026)



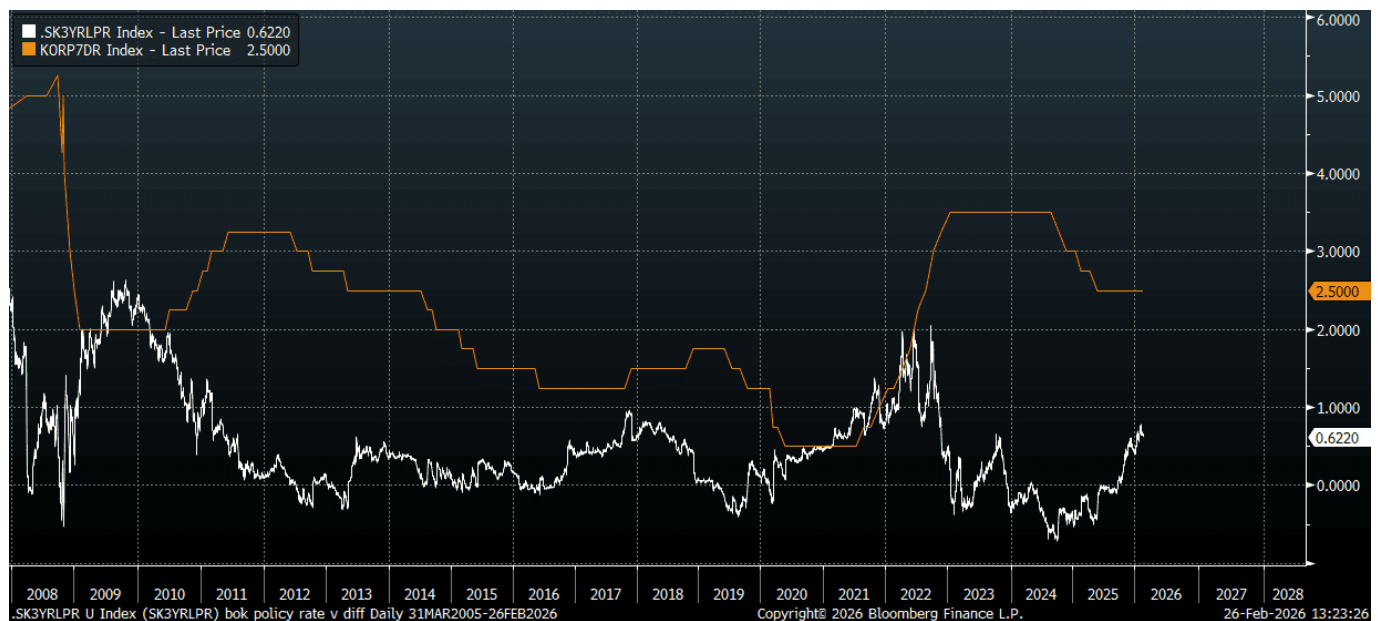
Source: BoK

SOUTH KOREA: Dovish BoK Hold & Rhee Push Back On Yield-Policy Spread Weighs

South Korean yields are holding weaker for the session. In the government bond yield space we are around 2-7bps weaker across the benchmarks led by the 3yr (last around 3.06%). This follows a somewhat dovish BoK hold at the Feb meeting. The central bank's new conditional 6 month ahead rate outlook sees the current 2.50% policy rate as being maintained, but there were slightly more downside than upside risks in the projections. BoK Governor Rhee has also stated during his press conference that the government bond yield to policy rate spread is excessive.

- The chart below plots the rate differential between the 3yr government bond yield and the policy rate (the white line) and the policy rate (the orange line). We should be back under +60bps today on this spread.
- Typically, we see the spread get to +100bps or beyond ahead of a tightening cycle and during (particularly during extended tightening cycles).
- This push back may reflect the BOK's view around tightening risks this year and/or that any tightening may not be the start of an aggressive tightening cycle.
- Still, the market may see renewed interest to short bonds on any moves sub 3.00%, with early Jan lows around 2.90% for the 3yr. There is still fiscal issuance taking place and growth risks likely remain skewed higher not lower at this stage.
- The 3yr NDIRS rate is around 3.14%, off 6bps for the session so far. This puts us back at the 50-day EMA support point, which we haven't been under since Sep last year. Note the 100-day support points is around 2.995%.

Fig 1: South Korea 3yr Bond Yield - Policy Rate, & Outright Policy rate



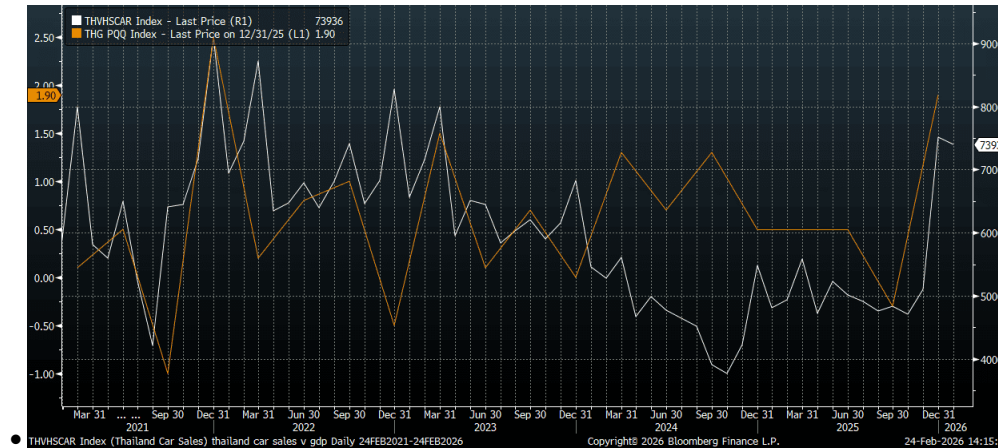
Source: Bloomberg Finance L.P./MNI

ASIA

THAILAND: Domestic Jan Car Sales Hold Bulk Of Dec Gain, Supporting Growth

- Thailand Jan domestic car sales were just under 74k, slightly down on the Dec reading of 75.1k. Still, we are up over 53% in y/y terms. The chart below plots the levels of domestic car sales versus Thailand q/q GDP growth. Whilst there are lots of other components that drive GDP growth, if car sales can stay at a reasonable level (particularly relative to most of 2024/2025) it suggests that q/q growth can also perform better (notwithstanding some risks of a Q1 payback relative to the strong Q4 2025 outturn for growth).
- In the near term it is likely to reinforce an on hold bias from the BoT, as we noted above in terms of the preview of the central bank meeting tomorrow.
- Consensus expectations for 2026 GDP growth in Thailand have edged up in recent weeks to 1.8%, any further upside revisions should be Thailand asset positive, all else equal.

Fig 1: Thailand Domestic Car Sales & GDP Q/Q



Source: Bloomberg Finance L.P./MNI

[THAILAND] BoT Cut Surprises Most, Pushes Emphasis on Government Policy :

- * In its first meeting of 2026, the Bank of Thailand (BoT) unexpectedly cut its benchmark interest rate on Wednesday, with the MPC vote at 4-2 to reduce the repurchase rate by 25 basis points, lowering it from 1.25% to 1.00%.
- * The move caught the market by surprise with only 3 out of 23 economists forecasting a cut on the BBG survey with most expecting a hold after a similar reduction in December 2025.
- * Speculation suggests that the strength in the currency drove the decision. THB has performed strongly since Q4 2025 growth was stronger than expected, though BoT now projects that growth in 2026 and 2027 will remain below potential due to structural impediments and intensified global competition. A strong Thai baht-which rose 9% in 2025-alongside uncertainty regarding U.S. tariffs, has threatened the competitiveness of Thailand's tourism and export sectors even as inflation has remained below the target range of 1%-3% for ten consecutive months, reaching -0.66% in January 2026.
- * The cut is also intended to alleviate the financial burden on households and SMEs currently struggling with high debt levels and tight credit conditions.
- * One of the key drivers for the forecasters advocating no change at this meeting was how low interest rates were in the first place. Other than the extra-ordinary COVID period, interest rates have not been as low as they are now.
- * For many, this leaves the BoT with limited ammunition to fire in the near term and puts added emphasis on the new government's policies to support growth.

[PHILIPPINES] Trade Data Disappoints, Growth Outlook Remains Fragile :

- * The decline in trade data for January may challenge what was a fairly neutral outlook from the BSP at the MPC meeting last week.
- * Following the cutting of rates Governor Remolona indicated that the bar for further easing is now higher, stating that if their current projections are correct, "we don't need further cuts". Future moves will remain strictly data-dependent, specifically monitoring how quickly confidence recovers. Weak trade data won't help confidence
- * Exports rose +7.9% (est. +9.7%, December +23.9%). Whilst missing estimates, it was not viewed as poor given the growth in electronic exports and the legacy frontloading effects from tariffs last year.
- * Imports contracted -3.1% (est -1.6%, December +12.2%). Imports of mineral fuels and lubricants dropped 25%, partly due to lower global prices and reduced industrial activity.
- * Business confidence remained fragile in the Philippines, with many investors adopting a "wait-and-see" attitude due to the governance crisis and political uncertainty.
- * The trade data isn't enough to bring the next BSP meeting to live for rate cuts, but it is a reminder that the growth outlook is fragile in the short term.

ASIA EQUITY FLOWS: [ASIA STOCKS] Taiwan Preferred To SK By Offshore Investors, Thai Inflows Persist:

As Feb draws to an end, a clear pattern emerged through the month in terms of offshore investor preference for Taiwan over South Korean shares. Even with a LNY break, Taiwan flows for this month stand just under \$8bn, adding to the YTD net inflow backdrop. In contrast, South Korea has seen just over \$8.7bn in net outflows in Feb to date. Both local equity bourses have continued to rally and sit just off record highs, but the contrast in offshore flows couldn't be starker. This may reflect broader concerns around the tech/AI related outlook and which key tech bellwether firms in the region could potentially hold up better in a risk off scenario.

* Elsewhere, Indian inflow momentum has remained firm, as YTD outflows continue to be pared back. Local market trends have drifted sideways to slightly lower though through Feb.

* Indonesian net inflows have also recovered ground, with Feb now a modestly positive month for net inflows. The JCI is comfortably up from late Jan lows, albeit with a softer end to Feb trading.

* For other South East Asian economies we have seen generally positive inflow momentum, adding to YTD inflows. Thailand remains the standout, as the BoT and government look to drive stronger local growth outcomes. The SET equity index is above 1530, fresh highs back to 2023.

Table 1: Asian Markets Net Equity Inflows

	Yesterday	Past 5 Trading Days	2026 To Date
South Korea (USDmn)	-1177	-2838	-8391
Taiwan (USDmn)	-306	4837	9808
India (USDmn)*	120	895	-704
Indonesia (USDmn)	20	333	-547
Thailand (USDmn)	43	14	1852
Malaysia (USDmn)	-22	-12	351
Philippines (USDmn)	18	72	354
Total (USDmn)	-1302	3302	2725

* Data Up To Feb 25

Source: Bloomberg Finance L.P./MNI

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