# Mizuho Brief: HIBOR

**Economics & Strategy | Asia ex-Japan**

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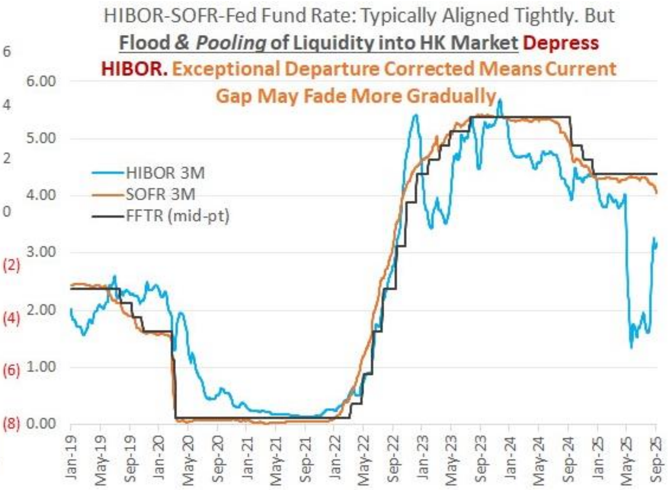
## HIBOR: Upside Risks Controlled

*"Control, control, you must learn control!"* — **Master Yoda, Star Wars, Episode V: The Empire Strikes Back**

In a Nutshell:

- The **brutal squeeze in 3M HIBOR**, doubling to over 3.2% since mid-August, **could understandably raise concerns of a further upside volatility** to over 4% (consistent with SOFR convergence).
- But that may be the **pitfall of "linear fallacy"**. Whereas *lingering liquidity cushion* meeting a *dovish Fed pivot* suggest **controlled upside set to inflect to a controlled capitulation**.
- To be sure, it is more likely than not that **further convergence** with **SOFR** will happen **eventually**, bound by monetary policy/HKD peg links, but *not necessarily imminently.*
- For one, the **brutality of recent HIBOR move was driven by "biting point"** from liquidity drainage that *abruptly re-sensitized HIBOR rates to HKMA's intervention.*
- Whereas with **HIBOR-SOFR deviation tamed to ~85bp from 260bp further convergence** may be **more measured**, *buffered by relative liquidity cushion.*
- Especially **with aggregate balance at HK$54bn** that is *nearly HK$10bn above recent (HK$45bn)* further **underpinned by robust capital inflows**.
- Crucially, **Fed rate cuts lined up** means that **HIBOR will be managed well below 4%**, with an **outlook for 2.3-2.8% coming into view into 2026**.
- And as *HIBOR-SOFR erode further, albeit gradually,* **USD/HKD** could **settle into the 7.76-7.77 range**, **all else equal**.


- The **sharp and abrupt jump in HIBOR** has been **a bit of a jolt** for some parts of the markets.
- Afterall, in just a month *3M HIBOR has nearly doubled to over 3.2% from a hair over 1.6% levels in mid-August.*
- But this is **neither unexpected** given sustained HKMA intervention (liquidity drainage), **nor** is it **necessarily unrelenting**.

- To be sure, we have long warned of a *"biting point" that abruptly re-sensitizes rates* as **liquidity drainage** (**from extraordinarily excessive** levels) **hits a certain threshold**.
- Moreover, when that threshold is triggered, HIBOR catch-up (to the corresponding SOFR) is bound to be *non-linear* (with respect to the pace of liquidity drainage).
- Specifically, **subtle shifts** (tightening) **in the aggregate balance may induce outsized response** (upside) in HIBOR.
- With the **corresponding 3M SOFR at just over 4%**, the **HIBOR-SOFR spread is now at 85-90bp** (averaging ***sub-100bp in September***).
- This is undeniably a ***sharp drop from the over 260bp spread in early August*** that understandably invokes concerns about more to come.
- The key questions are whether this **pace of convergence will persist**, *rapidly closing the remaining ~85bp gap,* and consequently **lift (3M) HIBOR over 4% very soon**.
- The answer is a **qualified "Yes"** (to convergence), and an **effective "No"** (to HIBOR over 4%).
- *Yes*, HIBOR will *eventually* converge more tightly with SOFR. *But* it **need** *not* **close the gap** *imminently*.
- For a start, **with HIBOR-SOFR spreads significantly tamed from exceptional 260bp levels** (5-6 standard deviations) to below 90bp (<2 S.D.), the **pace of convergence is likely to moderate**.
- Especially given that *aggregate balance is reasonably ample*, **at some HK$54bn**, (vis-à-vis recent norms of ~HK$45bn), which provide liquidity cushion for rates.
- What's more, *if asset/capital market inflows remain robust,* as they have in recent months, then **HIBOR could maintain appreciable 30-80bp discount** (vis-a-vis SOFR) **that fades more gradually**.
- Crucially, **given that the Fed is set to lower rates** (and more likely than not, engage in a series of rate cuts), ***HIBOR will effectively not breach, much less endure at/above, 4%***.
- Instead, more carefully **managed liquidity** will likely **dovetail** (no pun intended) **with Fed rate cuts to dampen upside HIBOR volatility**.
- What that means is that an **upward drift from 3.2% in 3M HIBOR will be well managed**, **set to quickly resume a downtrend towards 2.3-2.8% into 2026**.
- All else equal, the **further**, *but managed,* **erosion in HIBOR-SOFR spreads** are likely to be **consistent with USD/HKD settling into the 7.76-7.77 range**.

**Rates Outlook**

| | Q3 2025 | Q4 2025 | Q1 2026 | Q2 2026 | Q3 2026 | Q4 2026 |
|---|---|---|---|---|---|---|
| FFR Assumptions | 4.00-4.25 | 3.50-3.75 | 3.25-3.50 | 2.75-3.00 | 2.25-2.50 | 2.25-2.50 |
| FFR Mid* | 4.125 | 3.625 | 3.375 | 2.875 | 2.375 | 2.375 |
| SOFR | 4.075 | 3.605 | 3.425 | 2.815 | 2.455 | 2.575 |
| 3M HIBOR | 3.30 | 3.01 | 2.98 | 2.54 | 2.28 | 2.45 |
| 1Y IRS | 3.15 | 2.91 | 2.86 | 2.49 | 2.10 | 2.31 |
| USD/HKD | 7.78 | 7.77 | 7.78 | 7.77 | 7.76 | 7.76 |


Persistent "Excess Liquidity" Conditions Mostly Rectified as
Sustained Intervention has Drained Aggregate Balance
Adequately for the "Liquidity Clutch" Bite, Lifting HIBOR & HKD.
~HK$120bn drained, corresponding to the HKMA's intervention* (since late-June) to defend the peg.
*Buying HK$ &selling US$
3M HIBOR-SOFR Spread
Aggregate Balance (HKD bn, LHS)
Re-sensitized HIBOR (and HKD) to HKMA intervention?
Sep-24
Oct-24
Nov-24
Dec-24
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25


Sharp HKD Pressures on Exceptionally Wide SOFR-HIBOR (SH)
Spreads that Underpinned HKD-Funded Carry Trades Now Faded.
USD/HKD on Course to Stabilise 7.76-7.77 in weeks/months ahead.
3M HIBOR-SOFR Spread
USD/HKD
Sep-24
Oct-24
Nov-24
Dec-24
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25