OPINION

Hyunju Kang

Rising Government Bond Yields across Advanced Economies and the Response of the Korean Treasury Bond Market

Long-term yields in major advanced economies have risen in tandem over the past year, but the causes differed from country to country. The rise was driven by a repricing of the monetary policy path and a higher term premium in the United States, by a term premium transmitted from the United States in the United Kingdom, by a risk premium reflecting fiscal and political risks in France, and by monetary policy normalization in Japan. This article examines whether the rise in the 10-year Korea Treasury Bond (KTB) yield over the same period was transmitted from abroad or stemmed from domestic factors. The analysis shows that only a limited part of the increase in the KTB term premium is explained by the term premiums of major economies, and no outflow of foreign funds was observed, indicating that domestic factors played the larger role. Among domestic factors, the rise in the nominal neutral rate associated with expanding semiconductor exports was small, whereas the increase in the term premium was pronounced, and shifts in supply and demand conditions were evident, particularly at the ultra-long end of the curve. This diagnosis suggests that there is room for supply-side responses. However, since the effects of issuance cuts are temporary, the priority should be to make the supply path more predictable, and over the medium to long term to build an institutional framework for managing supply and demand across maturities, including the introduction of short-term KTBs and a broader long-term demand base among pension funds. In addition, the turmoil in major sovereign bond markets that has spread to France could be transmitted to Korea not only through the exchange rate, as during the past sovereign debt crisis, but also through the term premium, so preparations against external risks are also needed.

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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Over the year since end-September 2025, the 10-year KTB yield rose by 146bp, from 2.95% to 4.41%. Over the same period, 10-year government bond yields also rose in Japan (140bp), France (131bp), the United States (114bp), Germany (87bp) and the United Kingdom (73bp), as the rise in long-term yields spread across advanced-economy bond markets.[1] After the 10-year yield reached 4.6% on September 15, its highest level since October 2022, the government decided to cut October KTB issuance by KRW 5 trillion from the plan and to conduct buybacks of about KRW 3.5 trillion.[2] How effective this response will be, however, depends on where the rise in yields came from. First, if the rise in domestic yields was transmitted from abroad, domestic policy alone can do little, and the focus of policy should be on buffering volatility originating abroad. Second, if the neutral rate itself has been repriced because long-term growth prospects have improved owing to, among other things, the recent expansion of AI investment, higher yields represent a new equilibrium reflecting persistently higher rates and cannot easily be reversed by adjusting issuance volumes. In that case, both the monetary policy stance and the outlook for government interest costs would need to be reassessed on the premise of higher rates. Third, if the term premium has widened because of a supply-demand imbalance in the domestic government bond market, adjusting the size and maturity composition of issuance and broadening the demand base for long-term bonds become effective policy tools.

Since the prescription differs depending on the cause, judging the nature of the rise in yields is the starting point for setting policy tasks. To summarize the findings up front: the rise in KTB yields reflected domestic factors more than contagion from abroad; among domestic factors, the increase in the term premium was more pronounced than a repricing of the neutral rate; and demand has weakened, particularly at the ultra-long end. Accordingly, this article focuses on supply and demand in proposing policy tasks. The following sections compare the causes of rising yields across major economies, then examine in turn whether the rise in KTB yields reflects contagion from abroad, the nature of the domestic factors, and supply-demand conditions, before discussing policy tasks for the debt management authorities.

1) KTB yields are from Bank of Korea ECOS and those of other economies are Datastream 10-year benchmark yields; changes are from September 30, 2025 to September 30, 2026.

2) Ministry of Finance and Economy, 2026. 10. 1, “October 2026 KTB Issuance Cut by KRW 5 Trillion from the Original Plan; KRW 12.0 Trillion in Competitive Auctions, KRW 1.0 Trillion in Won-denominated Foreign Exchange Stabilization Fund Bonds, No Fiscal Cash-management Bills,” Press release (in Korean).

Rising Long-term Yields in Major Economies: Same Direction, Different Causes

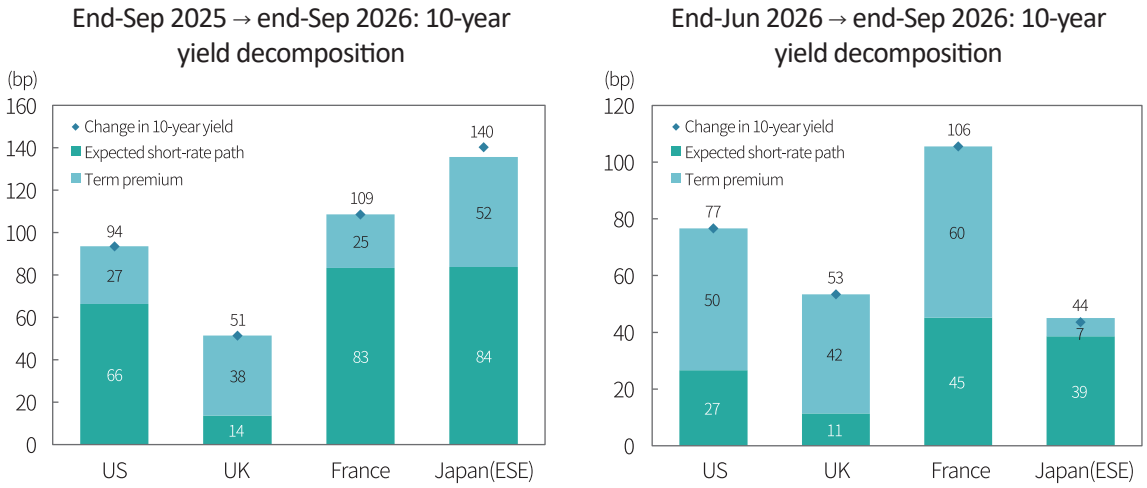
Decomposing long-term yields into the expected path of future short-term rates (monetary policy) and the term premium shows that the rise in yields in major economies stemmed from different causes (Figure 1).[3] First, in the United States, a repricing of the monetary policy path and a higher term premium worked together. Over the past year, the 10-year yield (zero-coupon basis) rose by 94bp, of which the expected short-rate path accounted for 66bp and the term premium for 27bp; in the third quarter, the two components rose by 27bp and 50bp, respectively. While expected short-term rates rose on inflation concerns stemming from the Iran war, the increase in the term premium cannot be fully explained by the crowding-out effect of bond issuance by AI companies or by an erosion of the safe-asset status of US Treasuries alone. Rather, it can be interpreted as related to a change in the structure of demand, in which the share of price-insensitive official holders has declined and private investors have come to bear more duration risk.[4] The Federal Reserve raised its policy rate to 3.75–4.00% in September, and the median of FOMC participants' projections for the policy rate at end-2027 rose from 3.6% in June to 4.1%. The longer-run projection, however, edged up only from 3.1% to 3.2%, indicating that the assessment of the neutral rate itself did not change much.[5]

3) Estimates for the United States, the United Kingdom and France are the author's own, obtained by applying the ACM model to month-end Bloomberg zero-coupon curves (January 2003–September 2026). For reference, the correlation between the New York Fed's ACM estimate for the United States and the author's estimate is 0.86 (weekly changes, 2003–2026). For Japan, where prolonged zero interest rates make ACM estimates unstable, the estimated shifting endpoint (ESE) model of Bauer & Rudebusch (2020), which jointly estimates the long-run trend in interest rates from yield data, was applied. Neither model accounts for the lower bound on interest rates (zero rates), and the estimation samples include periods of zero or negative rates in the United States, the euro area and Japan. However, re-estimating the Japanese model with yields of maturities of two years or less (0.1% or below) treated as missing during the zero and negative rate periods produced the same decomposition for the past year. Adrian, T., Crump, R., Moench, E., 2013, Pricing the term structure with linear regressions, Journal of Financial Economics 110(1), 110-138; Bauer, M. D., Rudebusch, G. D., 2020, Interest rates under falling stars, American Economic Review 110(5), 1316-1354.

4) Kang, H., 2026, "Structural Background and Implications of the Rise in Long-term US Treasury Yields," Capital Market Focus 2026-18, Korea Capital Market Institute (in Korean).

5) Federal Reserve, 2026. 9. 16, FOMC Statement and Summary of Economic Projections.

Figure 1. Decomposition of the Rise in 10-year Yields in Major Economies



Note: For the United States, the United Kingdom and France, the author's ACM model estimates; for Japan, fitted values from the Bauer & Rudebusch (2020) model. Based on zero-coupon curves and may therefore differ from the changes in 10-year benchmark yields cited in the text.

Source: Bloomberg, author's estimates

The United Kingdom is a case of contagion from the US term premium. Over the past year, the 10-year yield (zero-coupon basis) rose by 51bp, a relatively modest increase compared with other countries. Applying the sensitivity to the US term premium estimated from weekly data over the past year (0.68, t=3.3), 34bp of the 42bp rise in the UK term premium in the third quarter is explained by US factors.[6] France is a case in which a risk premium reflecting fiscal and political risks widened on top of euro-area-wide monetary tightening. Of the 109bp rise over the year on a zero-coupon basis, the 83bp expected component reflects the shift to tightening, including the two rate hikes by the European Central Bank (ECB) in June and September, but 33bp of the 60bp rise in the French term premium in the third quarter is not explained by the rise in the US term premium.[7] The OAT–Bund spread, the yield gap between French and German 10-year government bonds, also widened from 75bp at end-June to 141bp on October 2, reaching its highest level on an early-October average basis since the first half of 2012, during the European sovereign debt crisis. Compared with this widening, the change in fiscal conditions was small. The 2026 deficit projection that the French government

6) The sensitivity was estimated from weekly changes over October 2025–September 2026 (52 weeks). Sensitivities estimated over February 2003–December 2024 are similar, at 0.62 (weekly) and 0.76 (monthly).

7) The sensitivity to the US term premium estimated in the same way as for the United Kingdom (0.55, t=7.8) was applied.

presented on October 1 together with the 2027 budget was 5.4% of GDP, only 0.3 percentage points higher than the European Commission's May projection (5.1%). The widening of the spread thus appears to reflect a risk premium amplified by political deadlock over the budget and uncertainty ahead of the presidential election rather than a deterioration in fiscal fundamentals.[8] Over the same period, Italy's spread over Germany also widened from 69bp to 117bp, so the rise in French yields is more accurately viewed as the strongest reaction, by France, which faces the greatest fiscal and political risks, amid a general rise in sovereign risk across the euro area. Japan, meanwhile, was driven by monetary policy normalization. Of the 140bp rise in the 10-year yield over the year, the expected component accounted for 84bp. The 2-year yield also rose by 99bp, and 10-year breakeven inflation (BEI) increased by 58bp, pointing to an upward shift in the nominal anchor as the inflation target has become entrenched. This contrasts with US 5-year, 5-year-forward inflation expectations, which rose by only 6bp. In sum, although higher energy prices caused by the Iran war exerted common inflationary pressure across countries, the size and composition of the rise in yields diverged substantially depending on monetary policy responses and fiscal and political conditions. The recent rise in yields is best viewed as a common shock that exposed the different vulnerabilities of each country.

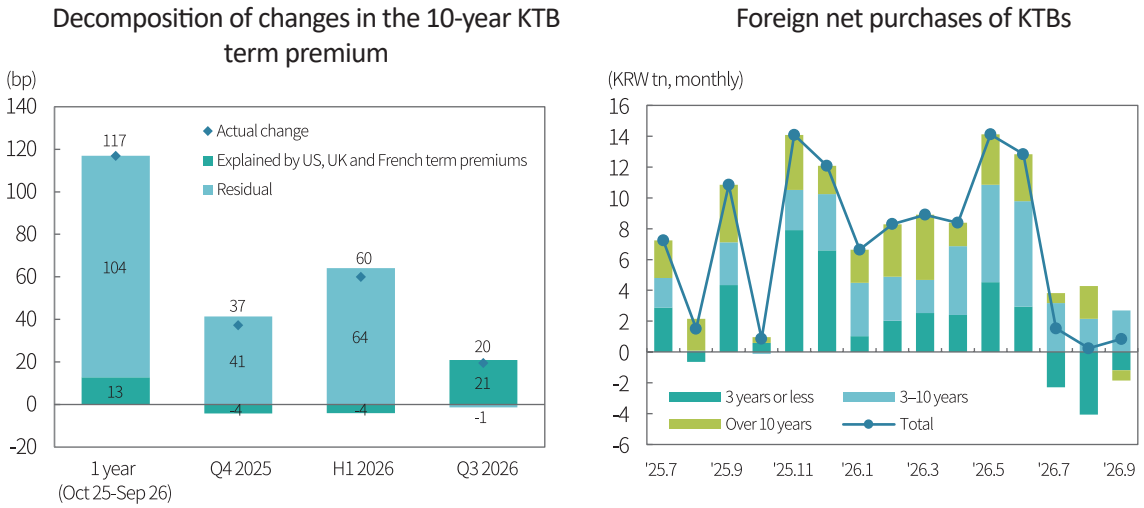
Was the Rise in KTB Yields Contagion from Abroad?

Since contagion among major economies operates through term premiums, KTBs were examined in the same way. Regressing weekly changes in Korea's 10-year term premium over the past year on changes in the US, UK and French term premiums shows that only 13bp of the 117bp rise over the year is explained by foreign factors (Figure 2, left).[9] The increases in the fourth quarter of 2025 and the first half of 2026 stemmed almost entirely from domestic factors, and foreign factors were the main driver only in the third quarter, when US and European term premiums surged.

8) The Governor of the Banque de France recently warned that the country risks being “strangled by interest rates” unless it puts its public finances in order (Financial Times, 2026. 10. 6, French central bank head warns country at risk of being ‘strangled by interest rates’).

9) For Korea, the coefficients of the ACM model estimated from month-end Bloomberg zero-coupon curves since 2000 were applied to weekly data, and the sensitivities were estimated from weekly changes over October 2025–September 2026 in the same way as for the United Kingdom.

Figure 2. Contribution of Foreign Factors to Changes in the KTB Term Premium and Foreign Net Purchases of KTBs



Note: The left panel shows the contribution of foreign factors in each period, calculated using sensitivities to changes in US, UK and French term premiums estimated from weekly data over the past year (October 2025–September 2026) (ACM model, Bloomberg zero-coupon curves). The right panel shows OTC net purchases by remaining maturity.

Source: Bloomberg, Yonhap Infomax, author's estimates

No outflow of foreign funds was observed either. Foreign investors continued to make net purchases of KTBs in the third quarter, but the amount fell sharply from KRW 35.3 trillion in the second quarter to KRW 2.6 trillion in the third (Figure 2, right).[10] More than half of the decline came from a shift to net sales of bonds with remaining maturities of three years or less (from KRW 9.9 trillion to −KRW 7.5 trillion). The Bank of Korea assessed that the slowdown in foreign bond investment was attributable more to foreign currency funding conditions, such as a reversal of short-term arbitrage incentives, than to concerns over fundamentals.[11] However, net purchases also declined in the 3–10-year segment, which directly affects the 10-year yield, from KRW 17.6 trillion to KRW 8.0 trillion, and in the segment with remaining maturities of over 20 years, from KRW 6.3 trillion to KRW 0.6 trillion. Thus, even if this was not typical contagion through capital outflows, the slowdown in foreign buying may have contributed to weaker demand for KTBs.

10) The large net purchases in the second quarter likely included inflows associated with the inclusion of KTBs in the World Government Bond Index (WGBI) in April.

11) Bank of Korea, 2026. 8. 27, “Background of the Recent Weakness in Foreign Investment in Domestic Bonds,” Financial and Economic Issues for the Monetary Policy Meeting, pp. 16-19 (in Korean).

The Nature of Domestic Factors: A Higher Term Premium Rather Than a Repricing of the Neutral Rate

Of the 146bp rise in the 10-year yield, most of the increase other than the 13bp of term premium explained by foreign factors is due to domestic factors. Domestic factors can be divided according to whether the bond market revised up the level of the long-run policy rate itself or whether the term premium, the compensation for the risk of holding long-term bonds, increased. This distinction matters because, if the neutral rate has been repriced, higher yields reflect a rise in the equilibrium rate itself driven by long-term growth and are not something to be reversed through supply measures, whereas if the term premium has widened, supply-demand measures may have room to work. According to the ACM model, which decomposes yields using the yield curve alone, 117bp of the 146bp rise in the 10-year yield over the past year was a rise in the term premium. The observed shifting endpoint (OSE) model of Bauer & Rudebusch (2020), which uses the nominal neutral rate estimated with a macroeconomic model as the long-run trend in interest rates, likewise classified 111bp as a rise in the term premium (Figure 3).[12] The nominal neutral rate rose from 1.84% at end-2019 to 3.17% in the third quarter of 2026. The Bank of Korea, in its reassessment of the neutral rate reported to the Monetary Policy Board in August, also estimated that the neutral rate had declined over a long period before rebounding after the pandemic.[13] In particular, expectations of stronger growth driven by expanding semiconductor exports appear to have pushed up the neutral rate somewhat in recent months. Indeed, in its August 2026 Economic Outlook, the Bank of Korea raised its 2026 growth forecast to 3.3% and projected growth well above potential in both 2026 and 2027, and the National Assembly Budget Office also raised its 2027 potential growth projection from 1.8% in its previous medium-term outlook to 2.3%.[14] Despite the improvement in potential growth, however, the upward revision of the neutral rate has been gradual. The

12) The nominal neutral rate is the sum of the real neutral rate estimated with the semi-structural model of Kang & Baek (2024) and the model's trend inflation; growth from the third quarter of 2026 onward follows the quarterly path in the Bank of Korea's August 2026 Economic Outlook. The OSE model of Bauer & Rudebusch (2020) takes the trend in interest rates from external information, whereas the ESE model applied earlier to the Japanese yield curve estimates the trend from government bond yields alone, without external information. By using macroeconomic information, the OSE model has the advantage that the long-run trend in interest rates can be interpreted in connection with economic fundamentals. Kang, H., Baek, I. S., 2024, "Assessing the Possibility of a Return to Low Interest Rates following the Monetary Policy Pivot," Issue Paper 24-07, Korea Capital Market Institute (in Korean).

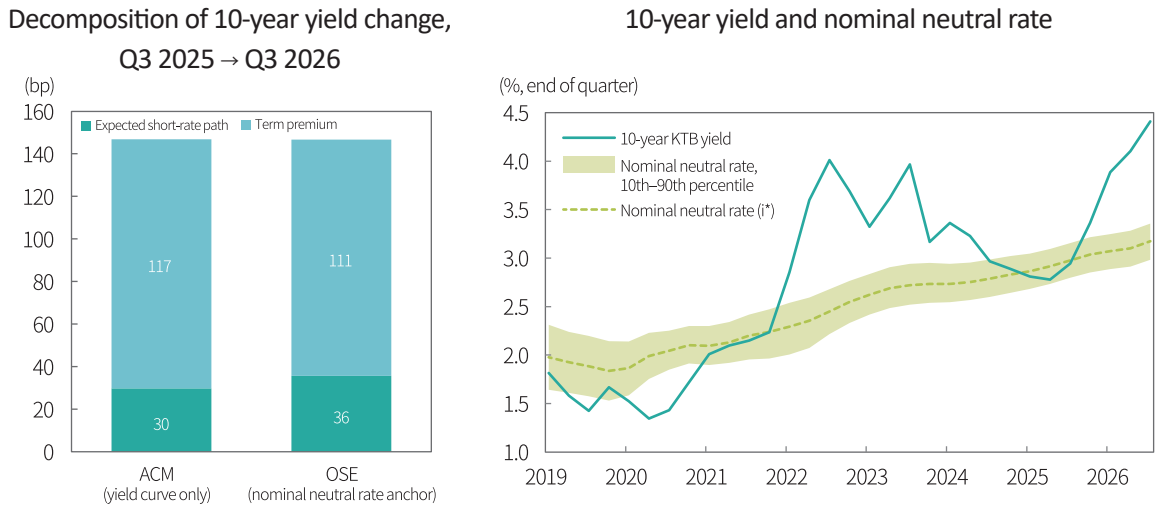
13) Bank of Korea, 2026. 9. 15, "Minutes of the 16th Monetary Policy Board Meeting (Regular) of 2026" (held on August 27, 2026) (in Korean).

14) National Assembly Budget Office, 2026. 9, 2027 NABO Economic Outlook: 2026~2030 (in Korean).

rise in the nominal neutral rate over the past year (2.98% → 3.17%, 19bp) was far smaller than the widening of the term premium, and the rise in KTB yields is judged to have been driven by a higher term premium rather than by a repricing of the neutral rate on growth expectations.

Of course, a gradual repricing of the neutral rate may continue. With the Base Rate raised to 3.00% after successive hikes in July and August, major forecasters in a recent Bloomberg survey expected the Base Rate to remain in the mid-3% range through end-2027 after two more hikes, yet the 3-year yield stood at 4.01% at end-September, well above this path. This gap may reflect the possibility of prolonged tightening, but it cannot be ruled out that the market is pricing in a further upward revision of the neutral rate in advance.[15] How much the neutral rate has actually risen should be judged by watching whether market rates remain high even after the Base Rate hiking cycle comes to an end.

Figure 3. Model-based Decompositions of the Rise in the 10-year KTB Yield and the Nominal Neutral Rate



Note: In the left panel, the expected short-rate path is the expected component for ACM and the actual yield minus the term premium for OSE. The nominal neutral rate is the estimate from the Kang & Baek (2024) model. The shaded area in the right panel is the 10th–90th percentile range of the nominal neutral rate estimate (based on the posterior distribution of parameters).

Source: Bloomberg, author's estimates

15) The ESE model, which estimates the long-run trend in interest rates from government bond yields alone, estimates that the trend rose by 104bp over the past year, a result that differs from the ACM and OSE models. However, the gap between the ESE trend and the macro-based neutral rate has historically moved with the monetary policy stance, widening during tightening periods when the Base Rate is above the macro-based neutral rate and narrowing during easing periods, which suggests that the rise in the ESE trend also largely reflects the market's assessment that the tightening stance will persist.

Supply and Demand: Weakening Demand for Ultra-long Bonds

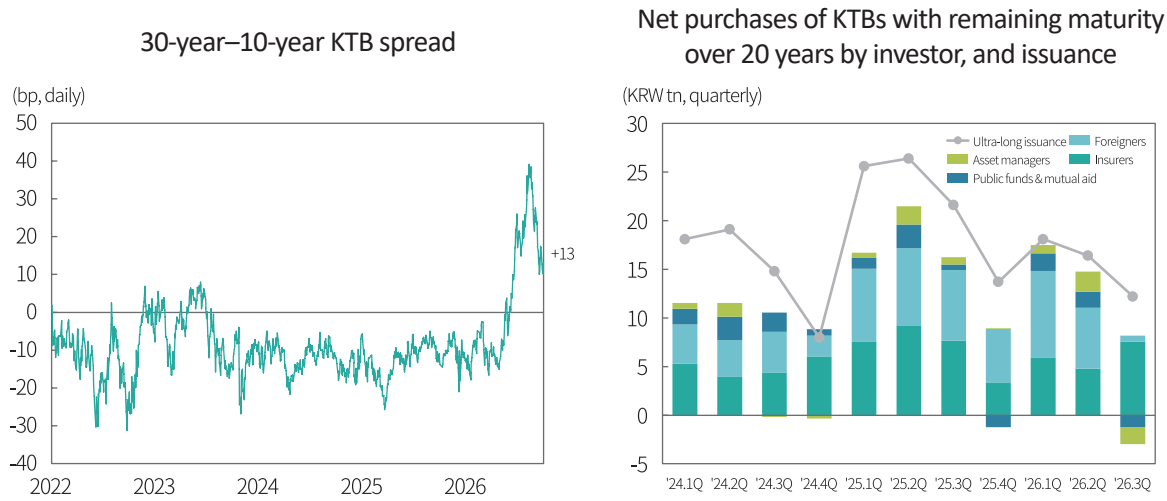
Because the term premium reflects not only supply and demand but also compensation for uncertainty about the future growth path and for inflation risk, it is difficult to isolate quantitatively how much changes in supply and demand raised the term premium. Across maturities, however, yields rose by similar amounts from the 3-year to the 30-year bond, but their composition differed considerably. In the ACM model, the expected short-rate path for the 3-year bond (80bp) rose more than its term premium (66bp), whereas for the 10-year bond the term premium rose by 117bp, accounting for most of the increase in the yield.[16] That the term premium rose more for the 10-year than for the 3-year bond, and that weaker demand and changes in issuance composition are clearly observed at the ultra-long end, where yields rose the most, suggest that supply and demand were an important factor. The 30-year–10-year spread, which was negative on 91% of trading days during 2022–2025, turned positive after June 9 and widened to 39bp on August 12 (Figure 4, left). This weakness at the ultra-long end coincided with slower purchases by insurers, the core investor base for this segment. Because insurers' liability duration exceeds their asset duration, in a rising-rate environment such as the present the interest rate sensitivity of their liabilities falls more than that of their assets, reducing the need to acquire additional long-duration assets and potentially weakening their demand for long-term government bonds. Indeed, insurers' net purchases of KTBs with remaining maturities of over 20 years fell to KRW 3.4–5.9 trillion per quarter in Q4 2025–Q2 2026, well below the same quarters a year earlier (KRW 6.0–9.2 trillion) (Figure 4, right). In the third quarter, insurers' net purchases recovered to the previous year's level (KRW 7.6 trillion), but net purchases by foreign investors and by public funds and mutual-aid associations dropped sharply. Insurers' purchases of bond forwards also slowed, and their outstanding contract amount has stopped growing since reaching KRW 77.5 trillion at end-2025.[17] The Bank of Korea assessed that, as a result, the counterparties to these contracts, foreign commercial

16) Based on model-fitted values from month-end data for September 2025 and September 2026. For the 30-year bond, expected short-term rates over 30 years are estimated to converge to the long-run average, so virtually all yield movements are classified as term premium, and the fitting errors are also large; the decomposition is therefore not shown.

17) Compiled from the derivatives transaction disclosures in insurers' annual, quarterly and semi-annual reports on the Financial Supervisory Service's Data Analysis, Retrieval and Transfer System (DART), covering the 17 companies, out of 13 life insurers and 7 non-life insurers, for which figures could be identified. Only two companies report bond forwards as a separate item; the others report the contract amounts of interest rate forwards, which may partly include forward rate agreements and similar contracts. Insurers that do not file periodic reports or that use different disclosure formats are excluded, so the totals differ from the outstanding amount for the industry as a whole.

banks, reduced their purchases of physical ultra-long bonds for hedging, while contracts concluded since 2021 matured one after another and physical delivery to insurers gathered pace, so that the slowdown in insurers' demand also showed up as a decline in foreign holdings of ultra-long bonds.[18] As demand weakened in this way, on the supply side the government reduced ultra-long issuance from June. Ultra-long issuance in the third quarter was KRW 12.2 trillion on a planned basis, little more than half of the year-earlier amount (KRW 21.6 trillion), and the 30-year–10-year spread, which peaked in mid-August, subsequently narrowed to 12bp at end-September. Because insurers' net purchases also recovered over the same period, this cannot be attributed to the issuance cuts alone, but it suggests that adjusting the composition of issuance can be an effective tool at the ultra-long end.

Figure 4. The 30-year–10-year KTB Spread and Supply and Demand of Ultra-long Bonds



Note: The left panel is based on final quoted yields (daily, through October 2, 2026). The right panel shows OTC net purchases of KTBs with remaining maturities of over 20 years by investor and issuance of 20-, 30- and 50-year bonds; 2026 issuance is based on monthly issuance plans. Net purchases are secondary-market transactions and exclude primary-market subscriptions; investors other than the four shown, such as banks and securities firms, are omitted; and newly issued 20-year bonds fall into the segment with remaining maturities of 20 years or less, so total net purchases do not match issuance.

Source: Bank of Korea ECOS, Yonhap Infomax, Ministry of Finance and Economy, author's calculations

Policy Tasks for the Debt Management Authorities

The October issuance cut and buybacks mentioned above were measures funded by excess tax revenues, and a further reduction was also considered, but the government recently

18) Bank of Korea (2026. 8. 27), op. cit.

decided to defer that decision until it has assessed the effects of the October cut and market developments.[19] Since the rise in yields has been concentrated in the domestic term premium, supply measures may have room to work, but their effects may be temporary. An analysis of 126 monthly issuance plan announcements since 2016 shows that when planned issuance of 20-, 30- and 50-year bonds increased by KRW 1 trillion, the 30-year yield rose by about 3bp on the next business day, but the effect largely disappeared within about a week. This may be because monthly adjustments made within a fixed annual issuance total merely shift supply across time, so the market treats them as temporary changes.[20]

Since 2022, however, changes in ultra-long issuance plans have also been significantly reflected in the 30-year–10-year spread (1.8bp per KRW 1 trillion of planned issuance, t=2.6), indicating that the sensitivity of the yield curve to ultra-long supply has increased. In fact, because the October cut was concentrated in 2–10-year bonds, on the day after the plan was announced the 3-year and 10-year yields fell by just over 7bp, whereas the 30-year yield fell by only 4bp. By contrast, in the two days after the Deputy Prime Minister indicated on October 6 that a further reduction was being considered, the 30-year yield fell by 6.2bp and the 30-year–10-year spread narrowed from 14.1bp to 5.3bp. That 30-year bonds rallied on expectations of further cuts alone, even though ultra-long supply had not been reduced, suggests that signals that change expectations about future total supply and maturity composition may have a greater effect on ultra-long yields than month-to-month volume adjustments.

In light of these considerations, the policy tasks for the debt management authorities can be divided according to their urgency. The immediate task is to make the supply path more predictable. Because cuts funded by excess tax revenues are one-off measures, if ultra-long issuance in the 2027 issuance plan to be announced at year-end is not reduced as much as the market expects, ultra-long yields, which have fallen on expectations of further cuts, could rise sharply again. In particular, as the phased additional purchases associated with WGBI inclusion

19) Edaily, 2026. 10. 14, "Government Puts on Hold Plan to Cut Government Bond Issuance by Another KRW 5 Trillion: 'Need to Watch Demand Further'" (in Korean).

20) Regressing the change in the 30-year yield from the close on the announcement day to the close on the next business day on the month-on-month change in planned ultra-long issuance (controlling for changes in planned 2–10-year issuance and in the 10-year US Treasury yield) yields a statistically significant coefficient of 3.1bp per KRW 1 trillion of planned issuance (t=2.9), which shrinks to −0.1bp (t=−0.1) after five business days, effectively disappearing. To check whether yields moved ahead of the announcements, the dependent variable was also replaced with the yield difference between the announcement-day close and each day within the ten business days before the announcement; none of the pre-announcement coefficients were significant.

will end once the inclusion is completed in November, the 2027 issuance plan could have a greater effect on long-term supply and demand as it coincides with a gap in foreign demand. The annual plan should set out clearly the direction of ultra-long supply and signal that subsequent monthly adjustments will be made within that direction.

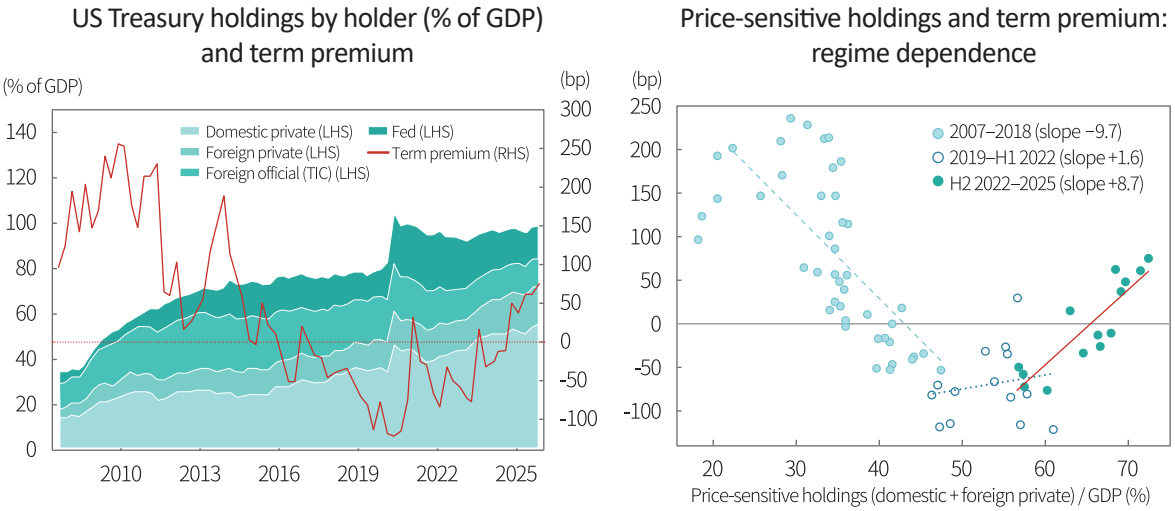
Over the medium to long term, an institutional framework for managing supply and demand across maturities should be put in place. First, on the supply side, short-term KTBs should be introduced to provide a tool for managing the supply of duration. The experience of major economies shows that interest rate shocks can be amplified as the duration borne by private investors increases. In the United States and other major economies, the Federal Reserve's quantitative tightening, the end of the Bank of Japan's yield curve control and the European Central Bank's halt to reinvestment of its asset holdings have shifted the duration risk shed by central banks onto price-sensitive private investors. As a result, in the United States since the second half of 2022, a 1 percentage point increase in price-sensitive private holdings of Treasuries relative to GDP has been associated with a rise of about 8.7bp in the term premium (Figure 5).[21] In France, too, central banks absorbed duration to the extent that Eurosystem purchases exceeded government bond issuance in five years during 2015–2022, but following the reduction of the European Central Bank's balance sheet, private investors are expected to absorb net government bond issuance of as much as 7.5% of GDP in 2026.[22] Moreover, in the United States and Europe, leveraged arbitrageurs are absorbing a growing share of duration risk, and it has been pointed out that position unwinding driven by margin pressures during yield spikes could further amplify rising yields.[23]

21) Kang (2026), op. cit. Beltran & Li (2026) also find that the price sensitivity of the US Treasury market has increased as the share of less price-sensitive foreign official investors has declined and the role of price-sensitive private investors such as hedge funds has grown. Beltran, D., Li, C., 2026. 9, Estimating Yield Impacts of Treasury Demand and Supply Changes, International Finance Discussion Papers 1447, Board of Governors of the Federal Reserve System.

22) Lustig, H., 2026. 10. 3, Le Boomer Spread, The Two Cents (Substack). According to France's debt management agency, Agence France Trésor (AFT), the share of price-insensitive investors such as the central bank and insurers fell from 41.4% at end-2022 to 30.2% in the first quarter of 2026, while the share of non-residents rose from 50.1% to 57.5%.

23) According to the IMF (2026), hedge funds' share of the US Treasury market is estimated to have risen from about 4% in 2022 to 9% in 2025, and their leveraged positions absorb cash-futures price dislocations in normal times but amplify them when funding conditions tighten and dealers' balance sheet capacity is constrained. The ECB estimates that hedge funds account for more than half of trading in the roughly $13 trillion European government bond market, up sharply from 30% in 2020, and French government bonds make up about €100 billion of the €250 billion of euro area government bonds pledged as collateral in the repo market. IMF, 2026. 10, Global Financial Stability Report: Resilience, Risk, and Transformation; Reuters, 2026. 10. 16, Hedge funds' role comes into focus following European bonds turmoil.

Figure 5. Shifts in US Treasury Ownership and the Term Premium



Note: End-of-quarter data. Price-sensitive holdings are holdings by private investors, excluding the Federal Reserve and foreign official institutions, as a percentage of GDP; Treasury debt outstanding is marketable debt (held by the public). Foreign official holdings are TIC figures. Series through Q4 2025. Reproduced from Figure 5 of Kang (2026).

Source: Kang (2026)

With the maturity of KTBs having lengthened and insurers' demand for long-term bonds slowing, the KTB market, too, needs a tool for managing the duration borne by private investors. The United States uses Treasury bills (T-bills) as a shock absorber for issuance. The US Treasury has systematically adjusted the maturity structure by increasing T-bill issuance and shortening maturity when the economy is weak or financing needs are large, and such maturity decisions also affect the real economy: even without a change in total debt, an unexpected shift toward longer maturities raises long-term borrowing costs and dampens investment and consumption, and failing to shorten maturity in step with fiscal expansion substantially weakens its expansionary effect.[24] Korea, by contrast, has no KTBs with maturities of one year or less, so even if ultra-long issuance is reduced as demand for long-term bonds weakens, the volume has to be absorbed by 2–10-year bonds, concentrating the burden of adjustment on this segment. That said, since a larger share of short-term financing raises rollover risk and causes interest costs to rise quickly when rates go up, short-term KTBs should be introduced not as a means of rapidly expanding issuance in response to an immediate rise in long-term yields, but as a buffer whose market is developed in normal times and used to adjust the maturity composition when

24) Endo, H., Raghavan, R., Zanotti, L., 2026. 9, The Treasury Maturity Rule, Working Paper, pp. 1-4. An unexpected one-month increase in the weighted average maturity of government debt is found to lower real GDP by about 0.5% relative to trend after five years.

demand for long-term bonds weakens.

Pursuing these tasks requires institutional reforms first. Temporary cash shortfalls during the year are currently covered by fiscal cash-management bills and temporary borrowing from the Bank of Korea, but both are cash management tools that must be repaid within the fiscal year, so they cannot maintain outstanding balances across years to adjust the maturity composition. In addition, under the current National Finance Act, the ceiling on government bond issuance must be approved by the National Assembly on the basis of total annual issuance, so short-term KTBs that are rolled over several times a year would greatly increase total issuance even if outstanding balances remained unchanged. Only if the law is amended to manage the ceiling on the basis of outstanding amounts or net issuance, as in major economies, can short-term KTBs be operated as a tool for adjusting the maturity composition.[25] Consultation with the Bank of Korea is also needed. Since short-term KTBs overlap in maturity with the Bank of Korea's Monetary Stabilization Bonds and would also shift part of the demand for temporary borrowing to market issuance, their impact on short-term money markets and the issuance plans for the two securities should be coordinated in advance.

On the demand side, pension funds should be developed into a stable demand base for long-term government bonds. Insurers and pension funds are investors that buy and hold long-term bonds to match their long-term liabilities, and the deeper their demand base, the less duration price-sensitive private investors have to absorb. That the retirement-pension-type retail investment government bonds introduced in September attracted subscriptions exceeding the planned volume (KRW 230 billion) is a meaningful signal, but the amount is small compared with planned ultra-long issuance in the third quarter (KRW 12.2 trillion).[26] Offsetting the slowdown in insurers' demand will require a broader approach, including greater long-term bond investment by institutional pension funds such as the National Pension Service and defined-benefit retirement pension plans.

25) Jang, B., Jung, H., 2025, Background of the Lengthening of KTB Maturities and Implications for Efficient Management, Issue Paper 25-10, Korea Capital Market Institute (in Korean).

26) Yonhap News, 2026. 9. 17, “Retail Government Bonds Draw Strong Demand through ‘Retirement Pension Investment’… Oversubscribed in September Offering” (in Korean).

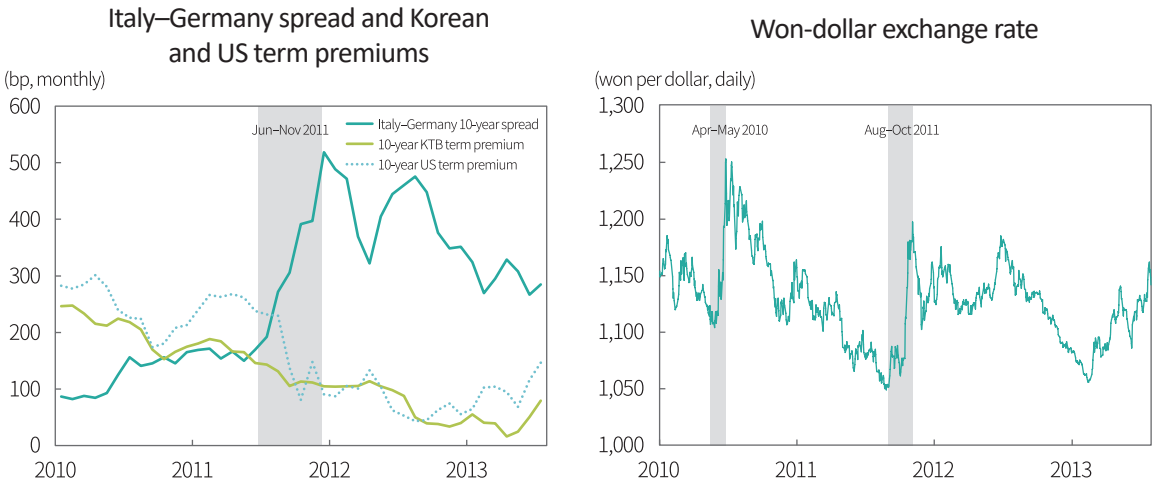
Preparing for Spillovers from Global Bond Market Turmoil

It is also necessary to prepare for external risks beyond the KTB market. Because the recent rise in long-term yields is occurring across major sovereign bond markets rather than in any single country, the tail risk that fiscal instability in one core country could spread into a global surge in yields is growing. The IMF, in its October Global Financial Stability Report, also identifies a surge in government bond yields, together with an AI-driven market correction and cyber threats, as one of the three main near-term risks to financial markets.[27] The turmoil in the French government bond market is a typical example of such risk. Unlike the 2010–2012 European sovereign debt crisis, which was a problem of peripheral countries such as Greece, Italy and Spain, the concern this time is greater because the risk premium is rising in France, the euro area's second-largest economy and one of its core members. During the European sovereign debt crisis, the KTB term premium did not respond to the widening of spreads in the crisis-hit euro area countries and instead declined amid a flight to safety.[28] In contrast, the won-dollar exchange rate jumped by 13% and 14% in April–May 2010 and August–October 2011, respectively, when global risk aversion intensified (Figure 6). At that time, a flight to safety caused long-term yields in major economies to fall together. If, however, a crisis in a core country intensifies while yields in major economies are rising together, as they are now, a flight to safety may not lead to lower global yields; instead, a channel may operate in which KTB yields are pushed up through a joint rise in the term premiums of major economies, as observed in the third quarter. This time, too, the euro fell in early October to its lowest level against the dollar since May 2025. The won-dollar exchange rate, which has fallen substantially since June, could also come under renewed upward pressure if instability from Europe intensifies and the dollar continues to strengthen. The limited influence of foreign factors on the rise in KTB yields so far is not unrelated to continued net purchases by foreign investors and the strength of the won; if global bond market turmoil spreads to won depreciation and foreign capital outflows, external factors could add to yields that have already been raised by domestic factors.

27) IMF (2026), op. cit.

28) Regressing monthly changes in the 10-year KTB term premium over February 2003–December 2024 on changes in the US, UK and French term premiums and in the Italy–Germany 10-year government bond spread yields a spread coefficient close to zero (t=0.1).

Figure 6. The Italy–Germany Spread, Korean and US Term Premiums, and the Won-Dollar Exchange Rate during the European Sovereign Debt Crisis



Note: In the left panel, the spread is a monthly average and term premiums are based on the author's ACM estimates from month-end Bloomberg zero-coupon curves. Shaded areas: left panel, June–November 2011 (spread widening); right panel, April 15–May 26, 2010 and July 29–October 4, 2011 (sharp rise in the exchange rate).

Source: FRED, Bloomberg, author's estimates