

THOUGHTS ON THE 5-YEAR SGS BOND AUCTION

Tuesday, March 28, 2017

The new 5-year SGS bond auction on 29 March

The auction for the \$2.6b new 5-year SGS bond maturing Apr'22 will close at noon on 29 March. The effective issue size is \$2.4b after netting off MAS' share. The current 5-year SGS bond maturing Oct'21 is yielding below the 1.6% handle, which is trading fairly rich off its recent Dec'16 high of near 2% handle after soaring some 80bps from early Sep'16. There are \$7.5b worth of bonds maturing on 1 April, but the 5-year belly of the curve is unlikely to attract long-term buyers like insurance companies.

Looking back at previous 5-year SGS bond auction results

The last two 5-year SGS bond auctions that fetched cut-off yields of around 1.6% were back in Feb and Oct 2014 which saw relatively modest bid-cover ratios of 1.69x and 1.77x respectively with auction sizes of \$1.8b and \$2.9b. That said, the most recent 5-year SGS bond auction in Oct last year saw a relatively low cut-off yield of 1.32% but still fetched a bid-cover ratio of 2.09x and a short tail with an issue size of \$2.2b.

Fair value for the new 5-year SGS bond is around 1.65-1.7% region.

Given the recent rally in SGS bonds, taking the cue from UST bonds that had benefited from the unwinding of Trump reflation trades, valuations looked a little stretched at this current juncture. Based on historical bond swap spreads and the 6-month extension in duration for the new 5-year SGS bond, fair value should be closer to 1.65-1.7% region. Should the prevailing risk-off in global financial markets persist, then the bid-cover ratio and tail could be affected.

5-year SGS bond auction results

Code	Auction Amount (\$M)	Issue Date	Bid-to-Cover Ratio	Cut-off Yield (%)	Median Yield (%)	Average Yield (%)
N508100V	2,500	01/04/2008	1.62	1.65		1.58
NX03100Z	700	02/10/2008	1.54	2.65		2.42
NX04100F	800	01/04/2009	1.83	1.43		1.34
N509100N	2,200	01/10/2009	1.78	1.39		1.32
N708100S	1,600	01/10/2010	1.84	0.90	0.85	0.85
N511100W	2,500	01/04/2011	1.91	1.20	1.15	1.11
N710100Z	2,300	01/03/2012	1.97	0.68	0.61	0.62
N513100T	3,100	01/04/2013	1.70	0.57	0.48	0.48
NX09100W	1,800	03/02/2014	1.69	1.62	1.52	1.53
N514100H	2,900	01/10/2014	1.77	1.65	1.58	1.56
N515100S	2,800	01/07/2015	1.42	2.03	1.95	1.86
NX11100X	2,100	01/02/2016	1.97	2.03	1.98	1.96
N516100Z	2,200	03/10/2016	2.09	1.32	1.29	1.28

Source: MAS

Treasury Advisory

Corporate FX &

Structured Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured

Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

Selena Ling
+65 6530-4887
LingSSSelena@ocbc.com

This publication is solely for information purposes only and may not be published, circulate distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W