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Interest Rates Focus

10Y SGS Auction Preview

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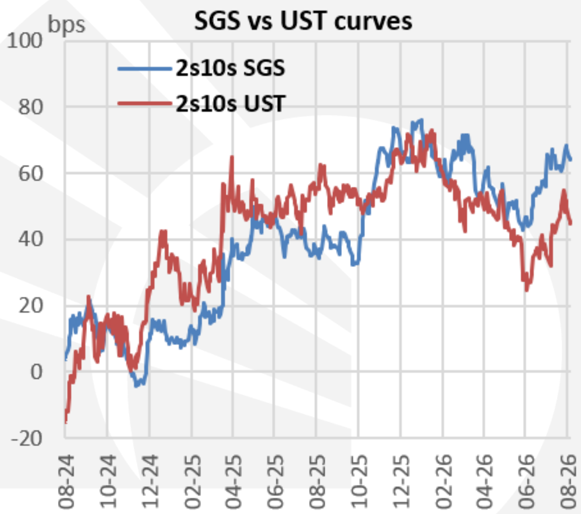
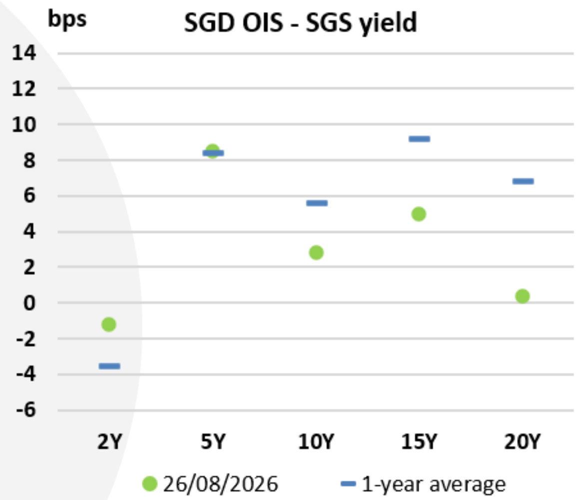
- **Auction size.** The size of the 10Y SGS (reopened) (01 Aug 2036) auction on 27 August is SGD1.8bn, with MAS intending to take SGD200mn. The size is within our expected range of SGD1.8-2.0bn, as we earlier noted YTD SGS issuances had already been on the high side and hence likelihood was for modest auction sizes for the remaining three auctions (including the 10Y) of the year. Outstanding amount is currently at SGD11.6bn and remaining tenor is approximately 9 years and 11 months.

- We expect demand at the auction to be solid, with the 2s10s segment relatively steep compared to own history and to the UST curve. A bond/swap spread (OIS - yield) at 5bps or below is likely seen as supportive.

- **SGS curve and bond/swap spread**. SGS rallied on Monday following the announcement of the size last Friday, with the 10Y and 15Y SGS outperforming on the SGS curve, suggesting the size was smaller than market expectation. The 2s10s segment is still relatively steep, at more than one standard deviation wider than 3-month average. In comparison, the long end part of the curve - 10s20s and 10s30s spreads are narrow as usual. The 2s10s SGS segment is also steeper than the 2s10s UST segment. 10Y bond/swap spread (OIS – SGS yield) is mildly positive, not as high as levels observed during April-June. The bond was last quoted at 2.307%/2.216% as per Bloomberg, with bond/swap spread at around 3bps (mid).





Source: Bloomberg, OCBC Group Research

- **Supply**. After this upcoming 10Y SGS auction, there are two more auctions scheduled for the remainder of the year (15Y reopened and 5Y new), plus an optional mini auction. Assuming the October mini-auction does not go ahead and modest sizes of the remaining auctions, gross issuance may still amount to around SGD28.5bn, representing a quicker pace of growth in outstanding SGS than that of last year. We therefore expect modest auction sizes ahead.

- **Recent bills auctions**. At the MAS bills auction this week, 4W MAS bills cut off at 1.40%, versus 1.42% at last week's auction, in line with implied rate move. 12W MAS bills cut off at 1.49%, versus 1.47% at last week's auction, widening its spread with implied rate to around 18bps, nearer our assumption of 20-25bps. On a multi-month horizon, our expectation has been for MAS bills cut-offs to edge higher towards the 1.6% level by year end, but the expected upward move is unlikely to be linear. Similarly, 6M T-bill cut-off has been on a broad uptrend over the past months, but the most recent cut-off of 1.56% was 3bps lower than this year's high of 1.59%. Cut-off at the 6M T-bill auction on 27 Aug is expected at 1.55-1.60% as per this morning's implied rate level.

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