

Interest Rates Monthly

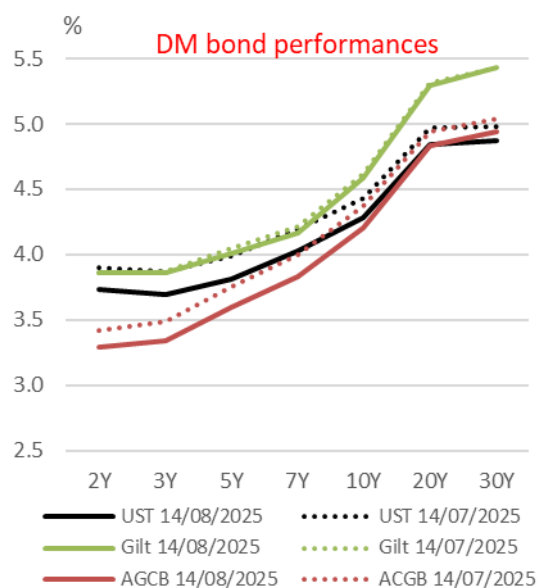
15 August 2025

Central Bank Outlook; SGD and HKD liquidity

- USD rates.** UST yields were lower by around 20bps month-on-month at most tenors, in line with our mild downward bias. The fall in the 10Y yield was mostly driven by lower real yield. Given impact of tariff on inflation is generally seen as one-off, 10Y breakeven at around 2.4% level is on the high side. Near-term range for 10Y yield is at 4.20-4.34% while our year-end expectation stays at 4.10%. A 25bp cut at September FOMC is seen as the more likely outcome by the market, which is also our base case.
- GBP rates.** Four members voting for a hold was more hawkish than expected. BoE's assessment on inflation and the labour market nevertheless remains consistent with a gradual and careful approach. We continue to expect one 25bp Bank Rate cut in Q4-2025, and another 25bp cut in Q1-2026. We also expect the central bank to slow QT pace for the next 12-month period.
- AUD rates.** The RBA's assumption of OCR for their forecasting exercise is, as usual, based on market implied rate which does not necessarily reflect the central bank's own expectation. Our base case remains for one additional 25bp cut in Q4, which will bring the OCR to 3.35% by year end.
- SGD rates.** We have been of the view that SGD liquidity may stay flush as S\$NEER stays near the top end of the band and there has not been more bill issuances that mop up the liquidity. That said, instead of chasing short-end SGD OIS lower, we continue to see 2Y bond/swap spread provides relative value. On asset swap, while pick-up at SGS is similar to or a tad narrower than that at USTs, SGS remains appealing to foreign investors.
- HKD rates.** HIBORs have turned more responsive to additional liquidity drainage, in line with our view. Investors appear to have turned more cautious as reflected by spot USD/HKD not recovering back to near 7.8500 level as it did shortly after previous rounds of intervention, which may again mean the next liquidity drainage is further away. Still, we continue to expect HIBORs to normalise upward over time.

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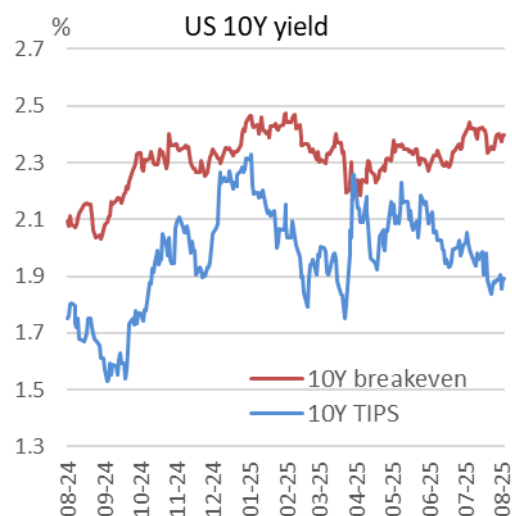


Source: Bloomberg, OCBC Research

USD:

UST yields were lower by around 20bps month-on-month at most tenors, in line with our mild downward bias. The fall in the 10Y yield was mostly driven by lower real yield. Given impact of tariff on inflation is generally seen as one-off, 10Y breakeven at around 2.4% level is on the high side. Near-term range for 10Y yield is seen at 4.20-4.34% while our year-end expectation stays at 4.10%. 2Y yield at 3.70% level is consistent with market pricing of Fed funds rates for the current cycle - although this is a tad more dovish than our base-case, the bond valuation does not appear overly stretched. US Treasury has started rebuilding its cash positions earlier in July after the debt ceiling had been raised. TGA balance was at USD515bn as of 13 August, USD335bn away from the target of USD850bn. The increase in TGA balance has thus far been mostly matched with the decrease in reverse repos, leaving bank reserves little changed at USD3.32trn as of 13 August. We have been of the view that bank reserves will likely stay at above USD3trn when US Treasury replenishes cash to target. Chance of persistent USD liquidity tightness is seen as low, although transient tightening cannot be ruled out. While we expect additional T-bills supply to replenish TGA balance to be readily absorbed, any plan beyond this to further increase bills' share in refunding may not be well received.

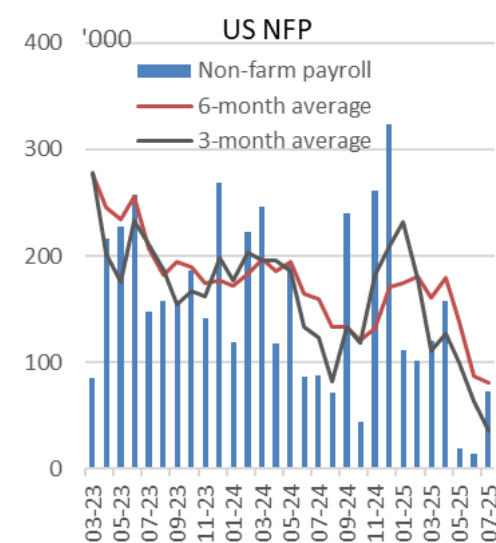
September FOMC. A 25bp cut is seen as the more likely outcome by the market, which is also our base case. July headline CPI and core CPI inflation were in line with expectations. Core goods YoY inflation edged up further, but in a mild way suggesting that tariff impact may be contained. PPI surprised to the upside though. Meanwhile, three-month and six-month averages of non-farm payroll were low at 35K and 81K respectively; other indicators also pointed to a softening labour market. Powell said after August FOMC that if the risks to the two mandates (inflation and employment) were more in balance, that would imply that policy shouldn't be restrictive. Now the risk appears to have come to more in balance, if not skewed to the downside risk in the labour market. Recent Fed official comments have erred on the dovish side, but these do not reflect a material change in stance, as after all, the median dot on the June dot-plot pointed to two 25bp cuts this year. We continue to see up to 75bps of cuts before year end, followed by one 25bp cut in Q1-2026, i.e. a total of four 25bp cuts. Market is pricing in slightly more than five 25bp cuts between now and end-2026. Risk to our Fed funds rate forecast profile is that a majority of the FOMC members may stick with their wait-and-see approach; that said, if there is any further delay in rate cuts, chance is the Fed may have to play catch-up later in the year or in 2026. There is still one round of inflation and labour market data before September FOMC meeting, which may shift the balance of risk.



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

GBP:

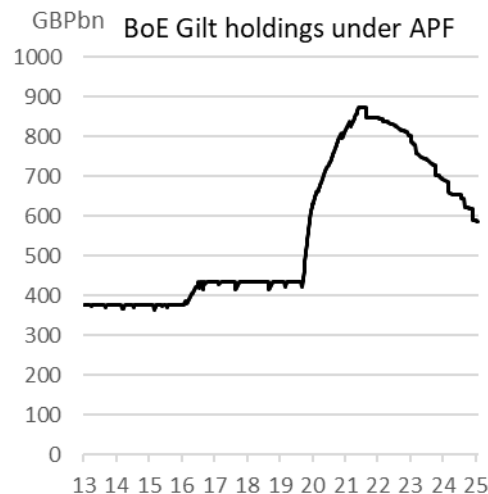
The BoE cut the Bank Rate by 25bps to 4.00% at its August meeting. Opinions were split within the MPC, with the decision voted by a majority of 5-4 (four members voted for no change) in a second round of voting. In the first round of voting, the split was 4-4-1 (no change – 25bp cut – 50bp cut). **Four members voting for a hold was more hawkish than expected.** The central bank's assessment on inflation and the labour market nevertheless remains consistent with a gradual and careful approach. We continue to expect one 25bp Bank Rate cut in Q4-2025, and another 25bp cut in Q1-2026. Factors supporting some further easing include: 1/ as the MPS opined, "the path of disinflation in underlying domestic price and wage pressures has generally continued". 2/ "Underlying UK GDP growth has remained subdued, consistent with a continued, gradual loosening in the labour market. A margin of slack is judged to have emerged in the economy". 3/ the current level of the Bank Rate remains restrictive, although "the restrictiveness of monetary policy has fallen".

The decision on QT pace for the next 12-month period is to be made at the September MPC meeting. The latest review of the process of quantitative tightening underlines market and our expectation for a slower QT pace. The report commented that shifts in the gilt market "could pose a risk that QT has a greater impact on market functioning than previously" and "in an environment with lower demand for long-term assets, for example, QT could have a larger impact on market liquidity". **We expect BoE to slow QT pace, potentially to GBP60-80bn.** First, APF holdings have come a long way down from the peak of GBP875bn in February 2022 to an expected GBP558bn by end-September. Second, gilt maturity under the APF during the Oct 2025 – Sep 2026 period is at GBP49bn compared to GBP87bn during the Oct 2024 - Sep 2025 period. This means if QT pace were to be kept unchanged, bigger active gilt sales at GBP51bn amounts would be required.

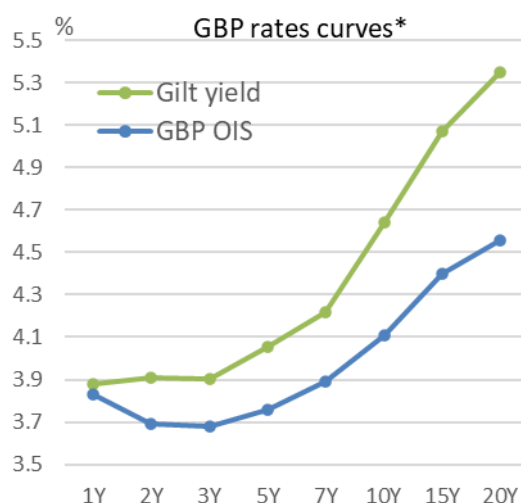
Interest rates forecasts	Q325	Q425	Q126	Q226
Base Rate	4.00	3.75	3.50	3.50
SONIA	3.95	3.70	3.45	3.45
3M GBP OIS SONIA	3.95	3.70	3.50	3.50

AUD:

RBA cut the OCR by 25bps to 3.60% at its 12 August meeting as widely expected; the decision was unanimous. The central bank cited "underlying inflation continuing to decline back towards the midpoint of the 2–3 per cent range and labour market conditions easing slightly" as the reason for the policy rate cut. Governor Bullock said at the post-meeting press conference that there was a tension because they were overestimating GDP and consumption forecasts. The RBA downgraded GDP forecasts for 2025 through to 2027, more notably for 2025 to a



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

*14 August 2025

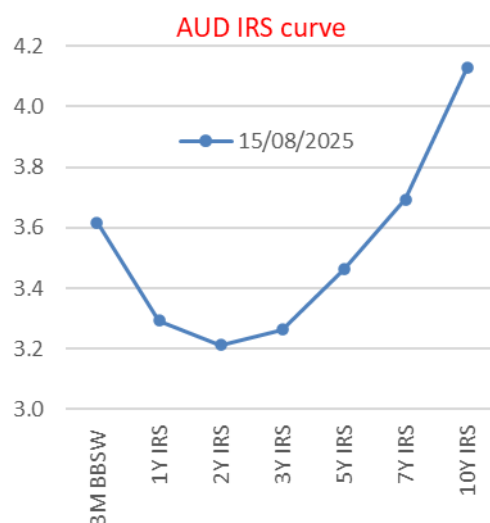
year-average of 1.6% from 1.9% prior. She also said RBA's forecasts "are conditioned on a couple more cuts...If we didn't cut then there would be implications for our forecasts". The RBA's assumption of OCR for their forecasting exercise is, as usual, based on market implied rate which does not necessarily reflect the central bank's own expectation. Although given OCR assumption at as low as 2.9%, if this didn't materialise, that would post downside risk to RBA's GDP forecasts. On the other hand, strong growth in business debt may be an obstacle to aggressive rate cuts. On balance, **our base case remains for one additional 25bp cut in Q4, which will bring the OCR to 3.35% by year-end.**

Interest rates forecasts	Q325	Q425	Q126	Q226
RBA OCR	3.60	3.35	3.35	3.35
1M BBSW	3.57	3.40	3.40	3.40
3M BBSW	3.63	3.45	3.45	3.45

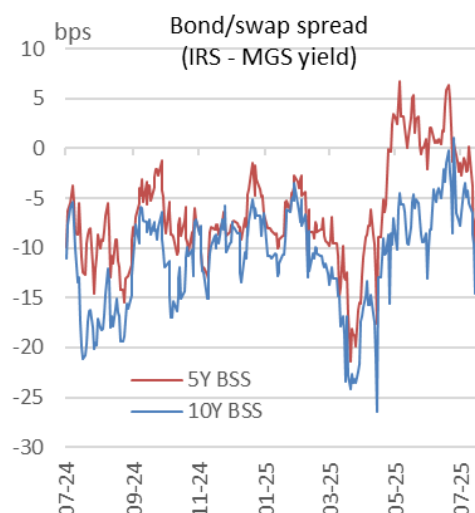
MYR:

MGS underperformed MYR IRS over the past weeks as market added to BNM rate cut expectation. Another 25bp cut on a 6-month horizon is almost fully priced. The spread between 3Y MGS yield and OPR has also widened back since the policy rate cut in July. At current bond/swap spreads levels, MGS may look appealing again. MGS+MGII saw outflows for a second month, at MYR5.27bn in July after the outflows of MYR5.30bn in June. These outflows nevertheless mostly represented a payback to the hefty inflows in earlier months. And there may have since been some recovery in terms of foreign flows. Asset swap pick-up was last at around SOFR+32bps at 3Y MGS, around SOFR+33bps at 5Y MGS and around SOFR+53bps at 10Y MGS.

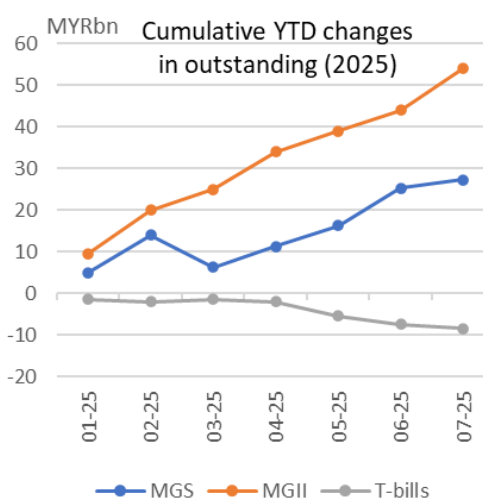
Demand at auctions stayed solid. The recent 15Y MGII garnered a bid/cover ratio of 2.85x, and the 20Y MGS had a bid/cover ratio of 2.73x. There was a total of MYR8.5bn of net bill paydown during the first seven months of the year which means gross issuances of MGS+MGII may be slightly higher than our initial estimates of MYR163-164bn, but this is not a concern given solid demand. We have been of the view that demand from major domestic investors including banks and EFP is likely to stay steady given organic growth in deposits and contributions, respectively. Indeed, contributions to EPF have been increasing, to MYR31.21bn during Q2 versus the MYR27.42bn during Q1. In addition, starting October (November in terms of contribution month), contribution to NPF for non-citizens is mandatory. The amount is estimated at an annual MYR2.2bn using the often-quoted average monthly income of MYR1,834 (2023 data). This amount is small compared to EFP total asset at MYR1310bn at end Q2-2025, but nevertheless further supports the notion of organic growth.



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research



Source: CEIC, OCBC Research

SGD:

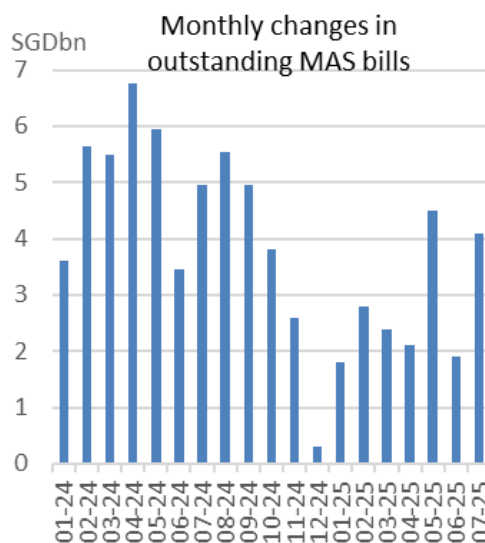
SGD OIS were down by 20-22bps across the curve over the past month, with short-end rates mostly matching the moves in USD rates while long-end SGD OIS outperformed USD OIS. We have been of the view that SGD liquidity may stay flush as S\$NEER stays near the top end of the band and there has not been more bill issuances that mop up the liquidity. Still, SGD OIS have broken below levels that we had seen as a floor. 2Y SGD OIS dipped below 1.30% at one point, and it has stayed as the lowest point on the SORA curve.

SGD liquidity. While there is not a single gauge of the aggregate liquidity level, the outcome itself – front-end SGD rates, the forward curve and points trading heavy – reflect a flush liquidity condition. A number of factors have been in play. First, S\$NEER staying near the top end of the band points to past and potential liquidity injections. Second, net bill issuances have been on the low side. Net MAS bills issuance in July picked up to SGD4.1bn, but for the first seven months of the year, net MAS bills issuance was relatively low at SGD19.6bn versus SGD35.85bn during the same period last year, unlikely to be enough to mop up excess liquidity. Net T-bill issuance has not been high either, amounting to SGD9.5bn in the first seven months of the year versus SGD15.1bn during the same period last year. Third, SGD loan-to-deposit ratio has stayed low, last at 66.4% at end June, after having fallen over the previous months.

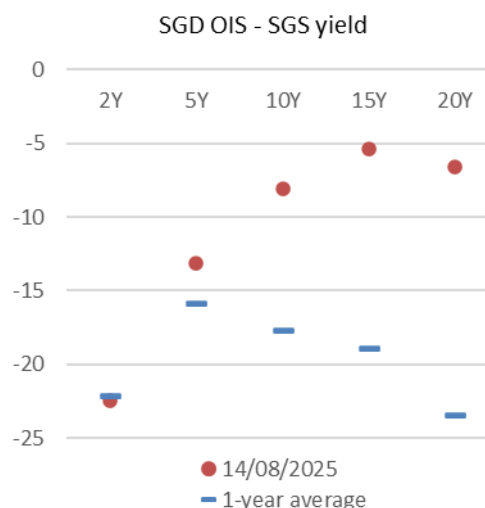
That all being said, instead of chasing short-end SGD OIS lower, **we continue to see 2Y bond/swap spread provides relative value** compared to other tenors vis-à-vis historical levels, thanks to the depressed 2Y OIS. 2Y bond/swap spread (OIS - yield) was last at around -22bps which was similar to 1-year average, while bond/swap spreads at other tenors were higher and above/well above their own 1-year averages.

T-bills cut-offs fell further and came in at 1.59% at the latest 6M T-bill auction on 14 August which garnered a decent bid/cover ratio of 2.39x. Cut-offs mostly fell alongside implied SGD interest rates, with the latest 6M T-bill cut-off around 26bps above implied rate which was within range.

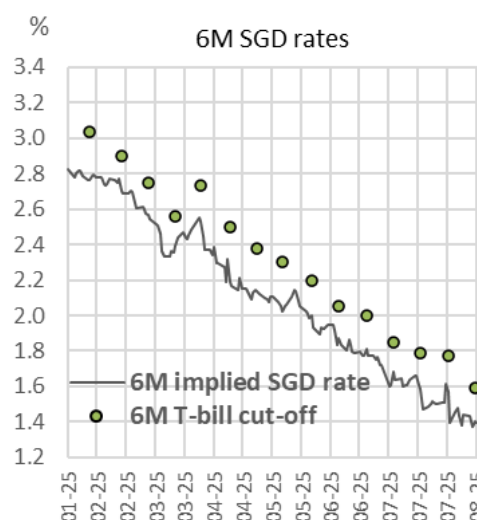
Asset swap pick-up remains wider further out the curve because of the inverted SGD basis curve, but the difference in the pick-up is not as wide as previously. Pick-up was last at around SOFR+30bps at 2Y SGS, around SOFR+42bps at 10Y SGS and around SOFR51bps at 20Y SGS (10Y hedge). While the pick-up is similar to or a tad narrower than that at USTs, SGS remains appealing to foreign investors who look to diversify their portfolios and after all, Singapore is AAA-rated.



Source: CEIC, OCBC Research



Source: Bloomberg, OCBC Research



Source: MAS, Bloomberg, OCBC Research

CNY / CNH:

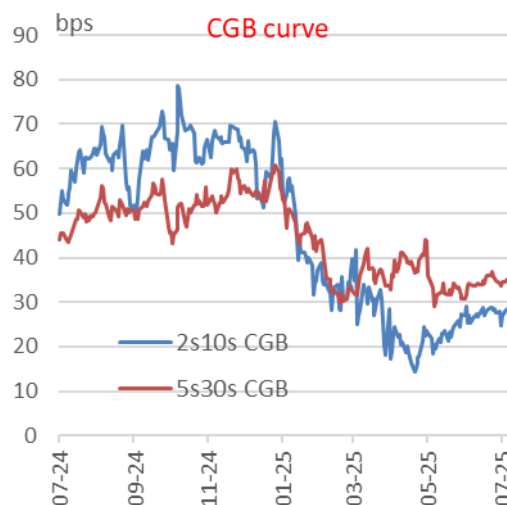
Our **mild steepening bias on the CGB curve** across 2s10s and 2s30s segments panned out over the past month, as long-end yields edged higher amid a better risk sentiment and continued bond supply, while the liquidity condition has stayed supportive. PBoC auctioned CNY700bn of 3M and CNY500bn of 6M outright reverse repos thus far this month, while maturity is at CNY900bn, i.e. net injecting CNY300bn. There have been net injections via MLF over the past four months, and this month MLF maturity is at CNY300bn – we expect either a full roll-over or a mild net injection. That said, on IRS side, short end repo-IRS have been consolidating around the 1.5% level, with the 1.4% OMO reverse repo rate setting an interim floor.

In offshore, the CNH CCS curve has steepened in line with our expectation, but the move was very mild and seems to be losing steam. CNH rates may be anchored across tenors, and we turn neutral on the CCS curve for now.

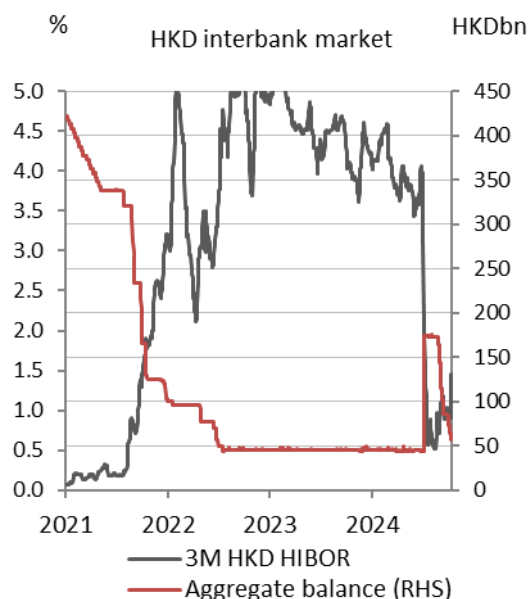
HKD:

FX intervention at weak side Convertibility Undertaking since late June amounted to HKD120bn, reversing almost all of the HKD129.4bn of liquidity injected in May. Aggregate Balance (interbank HKD liquidity) has fallen to HKD53.7bn, near the tipping point which may generally be seen at around the HKD45-50bn level. HIBORs have turned more responsive to additional liquidity drainage, in line with our view. The benchmark 3M HIBOR was fixed higher over recent days by cumulative 26bps, to the latest 1.86%, on track with our expectation for the rate to normalise to 2.0-2.5% area. 1M HIBOR was last fixed at 1.45% versus as low as 0.88% just earlier in the month. That said, investors appear to have turned more cautious as reflected by spot USD/HKD not recovering back to near 7.8500 level as it did shortly after previous rounds of intervention, despite T/N staying at around -8pips per day. This may again mean the next liquidity drainage is further away. Still, we continue to expect HIBORs to normalise upward over time. Investors have also turned more cautious towards swaps, with HKD-USD rates spreads edging higher over recent days, in line with our upward bias.

Apart from FX intervention at weak side convertibility undertaking, other factors which may tighten HKD liquidity include 1/ HKMA shifting liquidity from the interbank market to the bills market - we do not expect HKMA to proactively shift liquidity at this juncture, as the authority may still want to be prepared for potential need for further FX intervention, which will then automatically drain liquidity; 2/ additional equity or bond-related inflows - prospect is for continued inflows into the HKD market; or 3/ recovery in HKD loan demand – OCBC Economists expect a slow recovery only.



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

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