# Interest Rates Monthly

22 July 2025

## Liquidity in focus: US TGA rebuild; flush SGD liquidity; HKD liquidity drainage


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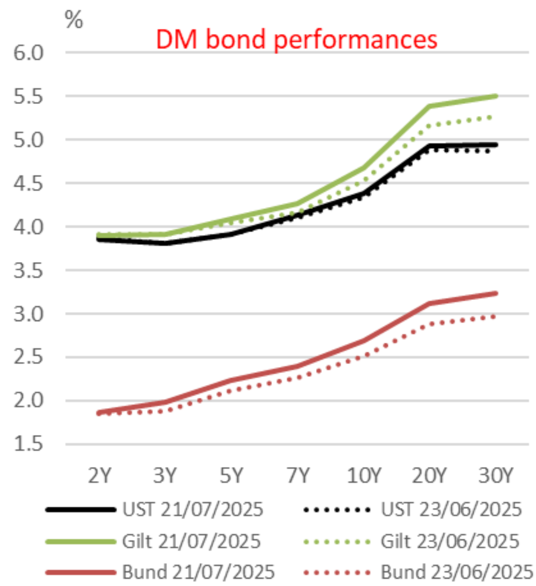
- **USD rates**. 10Y breakeven at above 2.4% level appears on the high side. A subdued growth outlook, a neutral supply outlook for the next 2 quarters, and eased SLR are supportive factors for USTs. 10Y UST yield last traded near the lower end of the 4.34-4.52% range, while our year-end expectation is 4.10%. US Treasury is to replenish its cash position after the debt ceiling has been raised. The expected increases in TGA balance can be matched by decreases in a few items on the liability side of the Fed balance sheet, likely leaving bank reserves at above USD3.0trn level. At US Treasury's next quarterly refunding update, we expect coupon auction sizes to be kept unchanged for the Aug-Oct period at least, and probably for another three-month period (Nov-Jan).

- **SGD rates**. SGD liquidity has been flush and SGD OIS outperformed USD OIS across the curve month-to-date. With S$NEER staying near the top end of the band, and before additional bill issuances that mop up liquidity, SGD liquidity may stay flush. That said, we note front-end SGD interest rates including SORA the overnight itself can be volatile, and caution against extrapolating the downtrend in SGD rates. On cash side, our view has been that foreign demand may stay even with narrower pick-up as SGS stand to benefit from safe-haven and diversification flows. This view stays, with some investor interest probably shifting to the shorter end.

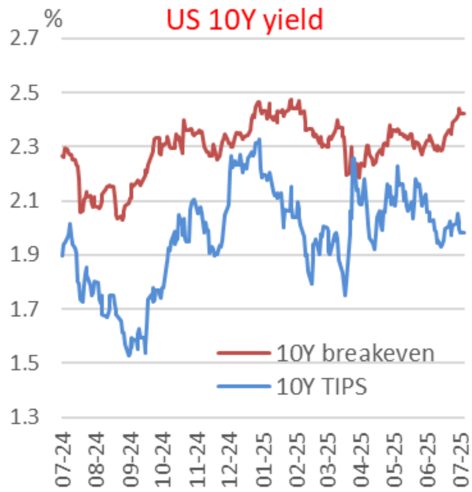
- **HKD rates**. Liquidity drainage thus far amounted to HKD87.2bn, more than half of the HKD129.4bn of injections in May. HIBORs and HKD interest rates rebounded from the lows attained in late June, but the upward momentum appears to be losing some steam. The next round of FX intervention and hence liquidity drainage is now seen as less imminent. We maintain an upward bias to short-end HKD rates and to HKD-USD rates spreads, but this expected upward normalisation may take a while longer to achieve.




Source: Bloomberg, OCBC Research

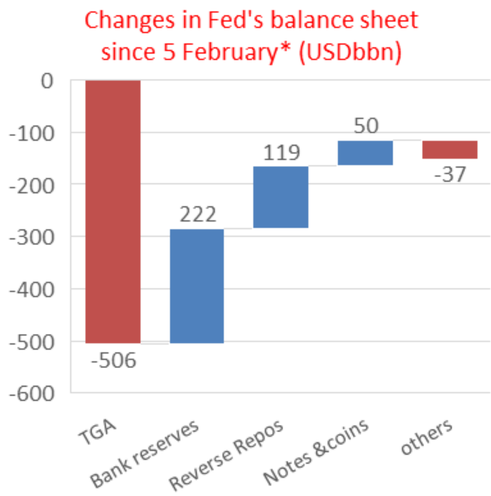
**USD:**

UST yields rebounded from recent lows as payroll and labour market report came in firmer than expected. Yields have partially eased back in recent days. The 10Y and 30Y coupon bond auctions earlier in the month went well, removing part of the concerns over demand for long-end bonds. Our view has been that while US fiscal position remains a concern especially for foreign investors, for domestic investors USTs remain as safe havens. Given impact of tariff on inflation is generally seen as one-off, 10Y breakeven at above 2.4% level appears on the high side. And while the SLR outcome was not the most favourable one for USTs, it nevertheless points to higher capacity to hold bonds. These, together with a subdued growth outlook and a neutral supply outlook for the next 2 quarters, are supportive factors for USTs. We have a mild downward bias to UST yields. 10Y UST yield last traded near the lower end of the 4.34-4.52% range, while our year-end expectation is 4.10%.



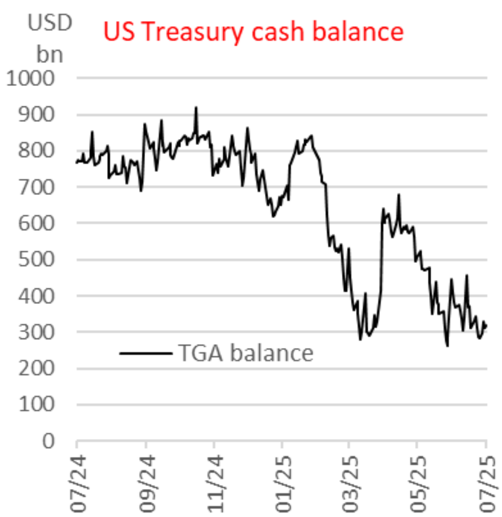
Source: Bloomberg, OCBC Research

**A divided FOMC.** Incoming Fed official commentaries and FOMC minutes underline a divided Committee, in line with the June dot plot which covers four different scenarios for 2025 alone – no cut, one cut, two cuts, and three cuts. Nevertheless, "most participants assessed that some reduction in the target range for the federal funds rate this year would likely be appropriate". The varying opinions within the Committee mainly emanate from the assessment on whether upside risk to inflation or downside risk to the labour market is the predominant concern. Hence, data remain the key. The latest CPI and PPI prints are however inconclusive, unlikely to shift the stance of the wait-and-see camp or of the dovish camp within the FOMC. Our base-case is for three cuts (25bps each) this year and one cut in 2026, while market is pricing in roughly two and three cuts respectively.



Source: Bloomberg, OCBC Research
*5 Feb marked the recently weekly high in TGA balance; as of 16 July

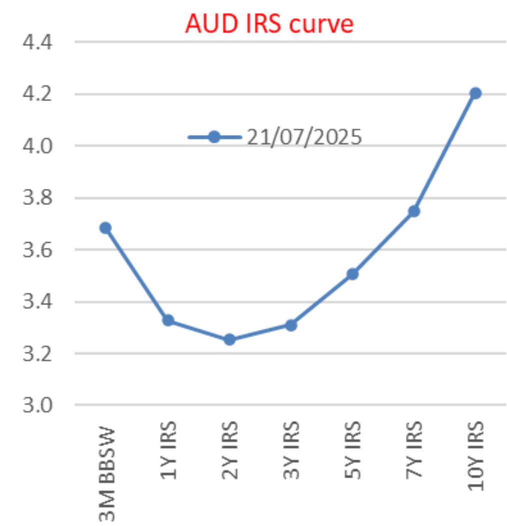
**USD liquidity**. US Treasury is to replenish its cash position after the debt ceiling has been raised, mostly through net bill issuances after previous bill paydown. This has been well anticipated. TGA balance was at USD316bn as of 18 July, while the target is USD850bn for end Q3 and end Q4. The expected increases in TGA balance can be matched by decreases in a few items on the liability side of the Fed's balance sheet – mainly bank reserves and reverse repos. Bank reserves stood at USD3.4trn as of 16 July while we see room for reverse repos (all tenors) to fall by more than USD120bn. Bank reserves are likely to stay above USD3.0trn level when US Treasury replenishes cash to target. Next focus is the quarterly refunding update, including as to whether US Treasury will keep the phrase "Treasury anticipates maintaining nominal coupon and FRN auction sies for at least the next several quarters". We expect coupon auction sizes to be kept unchanged for the Aug-Oct period at least, and probably for another three-month period (Nov-Jan), with much lesser impact of SOMA redemption.



Source: Bloomberg, OCBC Research

**AUD:**

RBA kept OCR unchanged at 3.60% at its July meeting, against consensus and market pricing of a 25bp cut. Bank bill futures fell (implied rates went up) in response. The overall outcome was however not as hawkish as at first sight – the status quo decision came with a split vote of 6-3. The statement commented "June quarter inflation…were, at the margin, slightly stronger than expected. With the cash rate 50 basis points lower than five months ago… could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis". While we had expected a cut at the July meeting, our overall forecast profile has been less dovish than market pricings – we expect additional 50bps of cuts for the rest of the year versus previous market pricing (before July meeting) of 75bps or more cuts. Governor Bullock during the press conference said the Bank decided to wait a few weeks, when it had more data. This "a few weeks" has reinforced market expectation for an August cut. The information that the RBA is waiting for is likely Q2 CPI to be released on 30 July, as they see the monthly gauge as volatile. Cash rate futures last priced additional 64bps of cuts for the rest of the year, after June labour market data came in soft. **We expect BBSW to trend lower as additional rate cuts materialise, but with 3M BBSW normalising back to a level that is a tad above OCR towards year end**.



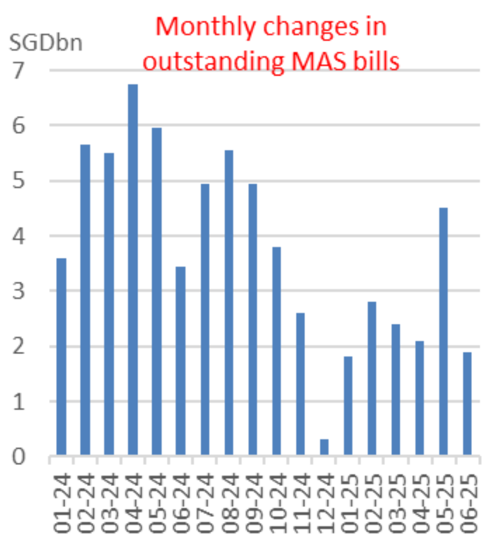
Source: Bloomberg, OCBC Research

| Interest rates forecasts | Q325 | Q425 | Q126 | Q226 |
|---|---|---|---|---|
| RBA OCR | 3.60 | 3.35 | 3.35 | 3.35 |
| 1M BBSW | 3.55 | 3.40 | 3.40 | 3.40 |
| 3M BBSW | 3.55 | 3.45 | 3.45 | 3.45 |

**SGD:**

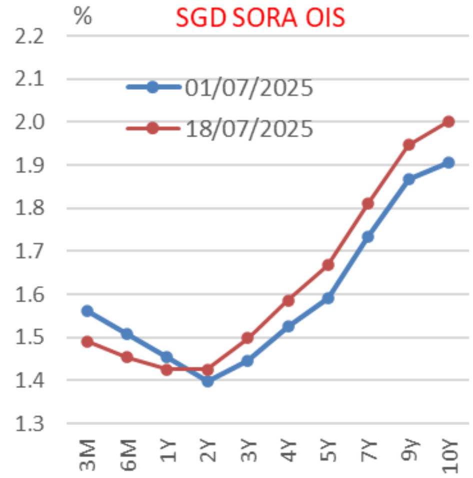
SGD liquidity has been flush and SGD OIS outperformed USD OIS across the curve month-to-date. With S$NEER staying near the top end of the band, risk is for further liquidity injections. On the other hand, net MAS bill issuances were on the low side for most of past months, compared to 2024 amounts. Net T-bills issuances in 1H-2025 were also lower than those in 1H-2024. Before additional bill issuances that mop up liquidity, SGD liquidity may stay flush.

SGS of tenors 5Y and beyond outperformed swaps, with bond/swap spreads (OIS – bond yield) moving near par last Friday before falling mildly back. **Our view has been that foreign demand may stay even with narrower pick-up as SGS stand to benefit from safe-haven and diversification flows. This view stays, with some investor interest probably shifting to the shorter end**. Asset swap pick-up was last at around SOFR+53bps at 20Y SGS (with 10Y hedge) versus 1-year average of SOFR+63bps, at around SOFR+43bps at 10Y SGS versus 1-year average of SOFR+58bps, at around SOFR+30bps at 2Y SGS versus



Source: CEIC, OCBC Research

1-year average of SOFR+33bps. Asset swap pick-up remains wider further out the curve on the inverted SGD basis curve, but pick-up at 2Y is similar to 1-year average while pick-up at 5Y and beyond are slightly more below 1-year average. For domestic investors, 2Y bond/swap spread is relatively appealing.

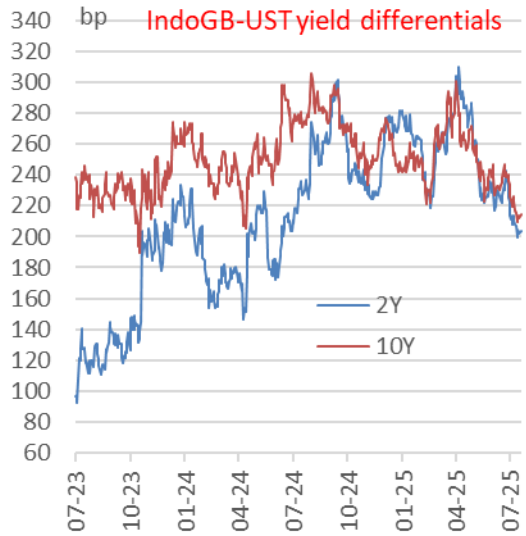


Source: Bloomberg, OCBC Research

MAS bills and T-bills cut-offs fell further. In addition, the spreads between the latest MAS bills cut-offs (15 July auction) and implied SGD rates narrowed, reflecting strong demand. At the 17 July auction, 6M T-bills cut off at 1.79%, versus 1.85% at the 3 July auction. The fall in 6M T-bills cut-off mostly matched the decline in market 6M SGD interest rate during the period. Bid/cover ratio was slightly lower but remained decent at 2.04x, suggesting investors have accepted the lower ranges of SGD interest rates. That said, we note front-end SGD interest rates including SORA the overnight itself can be volatile. Overnight implied rate fell to below 1% at one point on 17 July and was back to 1.4-1.5% levels subsequently. We therefore caution against extrapolating the downtrend in SGD rates. On the SORA OIS curve, 2Y rate has stayed as the lowest point incorporating the view for an extended period of flush liquidity situation.

**IDR:**

IndoGBs have extended their outperformances over USTs which started in early April on foreign inflows (sentiment towards IDR assets improved), a favourable domestic monetary policy outlook, and easing SRBI rates. Compared to end Q1, banks increased positions the most (+IDR142trn as of 16 July), followed by non-bank domestic investors (+IDR69trn, and then foreign investors (+IDR41trn).



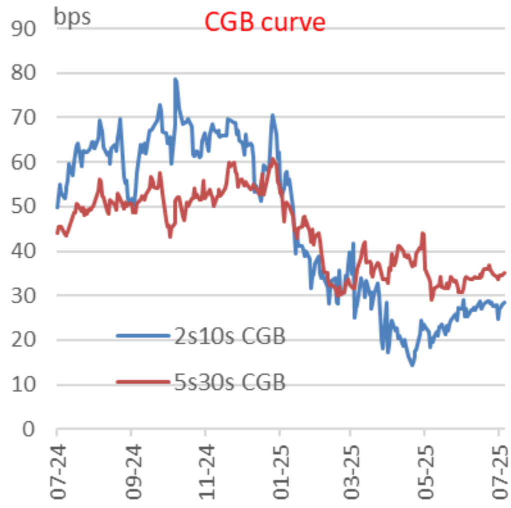
Source: Bloomberg, OCBC Research

Bond auctions this month thus far have been upsized amid strong demand, in line with our view. Incoming bids at the 1 July and 15 July conventional bond auctions were strong at IDR121.7trn and IDR109.0trn respectively. Q3 gross issuance target has been set at IDR252trn; individual auction size of IDR27trn for conventional and of IDR9trn for sukuk will be consistent with the quarterly target. Actual awarded amounts thus far were IDR32trn and IDR12trn respectively, i.e. 22% more. Gross issuances (including international bonds) amounted to IDR748.8trn as of 15 July (including prefunding in 2024), leaving the funding position comfortable.

Although the IndoGB curve has steepened, **shorter-end may be preferred: 1/ on prospect of further monetary easing** – OCBC Economists have added to rate cut expectation, now expecting additional 50bps of cuts before year-end; 2/ while IndoGB-UST yield differentials have fallen across the curve, **the 2Y spread at 200bps level versus 10Y spread at 210 level appears to provide better value**.

**CNY / CNH:**

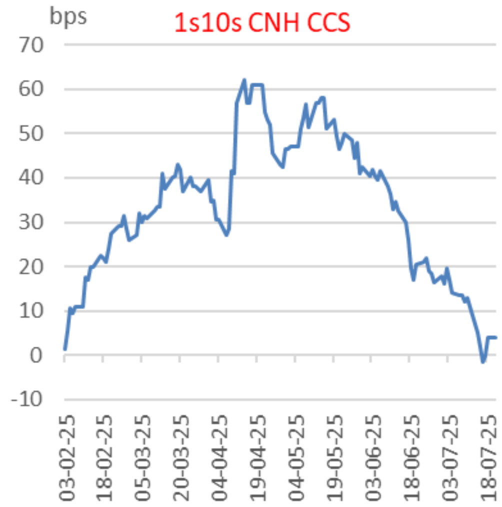
The repo-IRS curve has been steepening across various segments since the start of the month. The 1s5s part ended inversion. The steepening move may reflect an improved economic outlook perceived by the market. **The broader trend remains a steepening one, but near-term downside to short-end CNY rates may be constrained** – with 1.4% OMO reverse repo rate setting an interim floor to short-end CNY rates - before additional interest rate cut materialises; transient reversal to a mild inversion cannot be ruled out. Otherwise, PBoC has stayed supportive of liquidity, net injecting CNY200bn via outright reverse repo in the month thus far, and market watch the amount of MLF granted later in the month. Long-end bond yields appear to be bottoming out. Prospect remains for more fiscal support to come, and hence additional long-end bond supply needs to be digested. Meanwhile, there have been signs that the economy may be turning the corner. Overall, we have a mild steepening bias on the CGB curve across 2s10s and 2s30s segments.




Source: CEIC, OCBC Research

Asset swap pick-up at NCDs has been narrowing since late March as hedging costs rose when NCD rates themselves fell. That helped explain the NCD outflows in May, which have probably been extended into June and July thus far, as pick-up narrowed further. Meanwhile, NCD maturity was heavy in June; if investors simply chose not to re-invest, that would result in outflows.

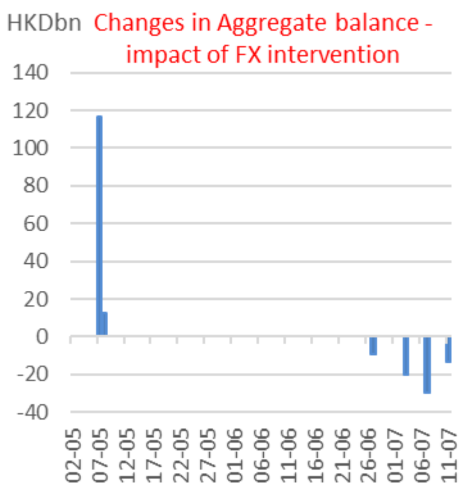
In offshore, the CNH CCS curve had flattened a lot since March, probably amid issuance-related flows at the longer end and as market prepared in anticipation of such flows. The CNH CCS is biased to steepening from here, as front-end CNH rates are to stay anchored on likely additions to the CNH pool and onshore easing prospect, while back-end flows may not be as big as initially thought.




Source: Bloomberg, OCBC Research

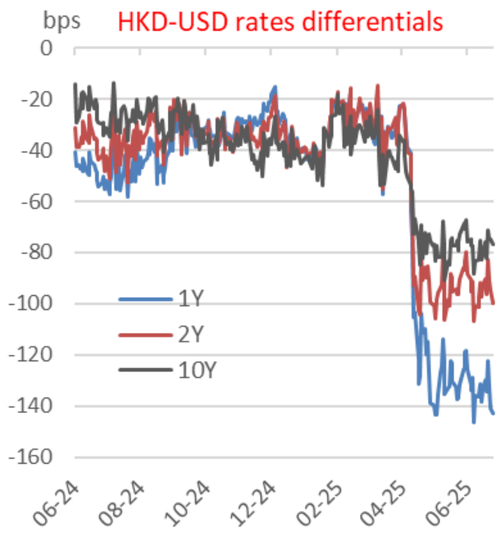
**HKD:**

As spot USD/HKD touched 7.8500 level multiple times over recent weeks, a few rounds of FX intervention were carried out, draining liquidity from the interbank market. Liquidity drainage thus far amounted to HKD87.2bn, more than half of the HKD129.4bn of injections in May. Aggregate Balance (interbank HKD liquidity) fell to HKD86.4bn. HIBORs and HKD interest rates rebounded from the lows attained in mid/late June, but the upward momentum appears to be losing some steam. Spot fell to a low of 7.8424 on 17 July even in the absence of FX intervention. HIBORs were subsequently fixed lower (remained above recent lows). The next round of FX intervention and hence liquidity drainage is now seen as less imminent. Carry remains appealing (still at -9pips per day) but investors may be mindful of potential downward move in spot and therefore positioning may no longer be so lopsided.




Source: CEIC, OCBC Research

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. Overall, **we maintain an upward bias to short-end HKD rates and HKD-USD rates spreads, but this expected upward normalization may take a while longer to achieve**. We expect HIBORs to normalise back to the 2.4-2.7% area but the timing of this happening is uncertain.




Source: Bloomberg, OCBC Research

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