

Interest Rates Monthly

06 October 2025

USTs in ranges; IndoGB/MGS/SGS supply

- USD rates.** We do not expect a material rally in the 2Y UST from here as a slew of rate cuts are already in the price. 10Y yield in the range of 4.00-4.20% looks fair, which is consistent with breakeven at 2.3-2.4% and real yield at 1.7-1.8%; we maintain year-end forecast at 4.10%. During previous incidents of government shutdown, market impact was modest.
- MYR rates.** Despite the recent cheapening in the bonds, we prefer to be neutral MGS at current bond/swap spread levels. Q4 gross supply of MGS+MGII is expected at MYR31-34bn, with T-bills and FX bond (if any) issuances being the swing factors.
- IndoGBs.** The upsized auctions in Q3-2025, together with a few international transactions, will provide a buffer to the overall funding positions. Still, IndoGB-UST yield differentials probably need to widen somewhat for bond inflows to make a strong comeback. 2026 bond financing requirement is estimated to be roughly consistent with individual auction size of IDR30-32trn for conventional bonds and of IDR12-14trn for sukuk.
- SGD rates.** Our rates forecasts have assumed some upward normalisation in SGD rates, and this view has partially panned out. Investors may continue to focus on bond/swap and asset swap pick-up. YTD gross SGS issuances amount is at the low end of our expected range; there are two auctions (including the mini auction) left for the rest of the year.

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Global Markets Research and Strategy

Past incidents of US Government Shutdown	Days	2Y UST yield (bps)			10Y UST yield (bps)		
		Ts-3 days*	During	Td+3 days*	Ts-3 days*	During	Td+3 days*
Dec 2018	35	-0.50	-3.26	-9.82	-2.73	-3.17	-8.10
Jan 2018	3	5.05	-0.39	1.15	12.21	-0.92	-1.27
Sep 2013	16	-2.34	-0.21	-1.97	-1.80	3.88	-6.19
Dec 1995	21	-0.90	-20.80	6.70	3.50	-8.00	14.40
Nov 1995	5	-0.10	-7.90	6.70	2.70	-9.10	3.00
Average		0.24	-6.51	0.55	2.78	-3.46	0.37

*Ts represents the start date of government shutdown, Td represents the end date of government shutdown. Source: Bloomberg, OCBC Research

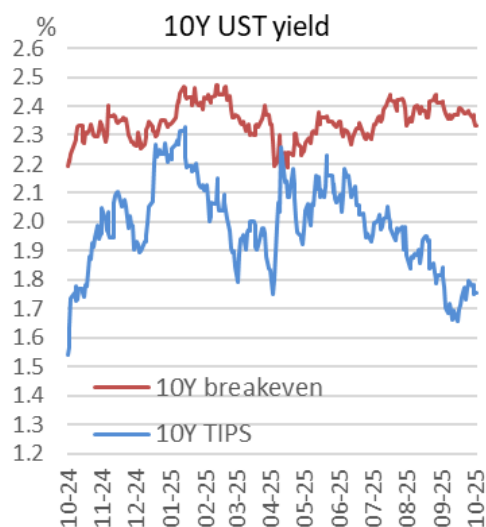
USD:

After having risen from the lows seen on 8 September, UST yields have mostly traded in ranges on mixed data prints while the US government is in shutdown. During previous incidents of government shutdown, market impact was modest in the form of safe-haven flows. The last US government shutdown started in December 2018 during Trump's first term, and that lasted for 35 days. 2Y UST yield and 10Y yield both fell by a cumulative 14bps (from 3 days ahead of shutdown to three days after reopening). But past reactions had not been regular. During the 2013 shutdown, for example, net changes in 2Y and 10Y UST yields were small. At present, with USD rates already dovish, further downside to rates and yields appear limited.

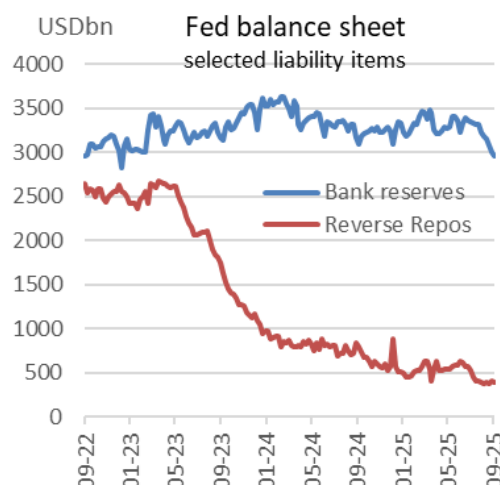
Fed funds futures last priced additional 46bps of cuts for the rest of this year, and 64bps of cuts for 2026. We continue to expect one 25bp Fed funds rate cut each at the October and at the December meeting this year, followed by one 25bp cut in Q1-2026, which will then bring the target range for the Fed funds rate to 3.25-3.50%. Further cuts from 3.25-3.50% level will probably require inflation to move nearer the 2% target. The FOMC remains split over the outlook for the Fed funds rate, with the distribution of the dots on the dot-plot skewed to the upside. Risk to our Fed funds rate call is that rate cuts may be more paced out.

UST yields. 2Y UST yield at below 3.60% level is roughly consistent with market-priced Fed funds rate trajectory. Although such pricing is more dovish than our baseline expectations, as additional Fed funds rate cuts materialise, the lower rate will be increasingly factored into the valuation in short-end bonds. Hence, on balance, we expect 2Y UST yield to trade in a range of 3.55-3.70%, while maintaining our year-end forecast of 3.60%. We do not expect a material rally in the 2Y bond from here as a slew of rate cuts are already in the price. Meanwhile, we continue to see 10Y yield in the range of 4.00-4.20% as fair, which is consistent with 10Y breakeven at 2.3-2.4% range and 10Y real yield at 1.7-1.8% range, and we maintain our year-end forecast of 10Y UST yield at 4.10%.

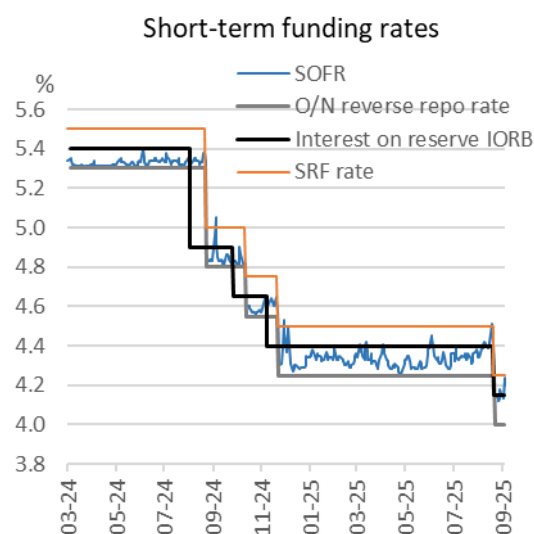
USD liquidity. Latest weekly data showed that bank reserves dipped below the USD3trn mark, to USD2.9661trn as of 1 October. We earlier noted that SOFR hit 4.51% on 15 September, which was above SRF rate of 4.50%, and DVP rate rose to 4.55% on the same day. Although according to the September update of NY Fed's reserve demand elasticity (RDE), "reserves remain abundant", we note that liquidity is unlikely to be evenly distributed across entities. At current bank reserves level, front-end funding rates may become a tad more sensitive to any interim increase in liquidity demand.



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

IDR:

Our preference for 2Y IndoGB had panned out well over the past months, although we turned neutral earlier in September which missed the most recent rally. After the BI policy rate cut in September, OCBC economists have added to rate cut expectation, now expecting additional 50bps of cuts in this cycle, which will then bring BI target rate to 4.25%. The IndoGB curve has steepened and 2Y IndoGB-UST yield differential are narrow at the low-end of the two-year range. Notwithstanding, 2Y IndoGB is likely to stay supported, given the favourable monetary policy backdrop, while SRBI rates and implied IDR rates have also fallen.

While some foreign investors may stay cautious towards the long-end given uncertainty on the fiscal front for now, we remain of the view that the upsized auctions in Q3-2025, together with a few international transactions, will provide some buffer to the overall funding positions. Fund-raising through international bonds (including prefunding) amounted to IDR156trn equivalent as of 23 September. Still, some re-widening of IndoGB-UST yield differentials are probably required for foreign inflows to make a strong comeback. During September, foreign investors reduced holdings of IndoGBs (including bills) by IDR45.8trn. Demand from domestic investors, including both bank and non-bank investors, more than made up for the slack.

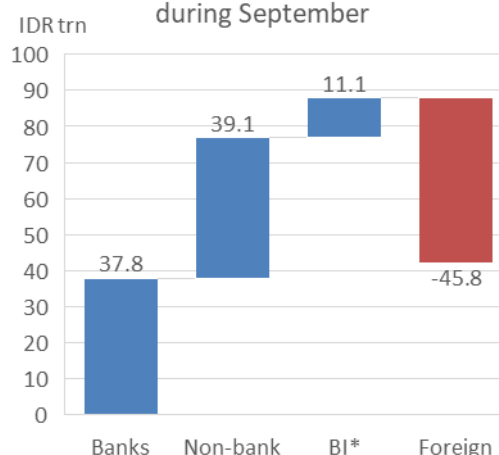
2026 Budget has been passed by Parliament. 2026 deficit financing is planned at IDR689trn, or 2.68% to GDP. Bond financing requirement is estimated to be roughly consistent with individual auction size of IDR30-32trn for conventional bonds and of IDR12-14trn for sukuk. These can be readily digested if bond demand stays strong as what is observed over recent months; otherwise, there is also buffer from the fund-raising activities this year. In Q4-2025, there are 6 conventional and 5 sukuk auctions.

MYR:

MGS were sold off by 7-14bps in September, while market had earlier pared back rate cut expectation not pricing in another policy rate cut for the rest of the year. MGS showed some sign of stabilisation entering October. Despite the recent cheapening in the bonds, we prefer to be neutral 3Y and 5Y MGS here. First, 3Y MGS yield – OPR spread appears to be settling at around 30-35bp levels, not showing momentum for much compression for now. Second, OCBC economists now expect another 25bps cut in the OPR to come in H1-2026, not during the remainder of this year. Third, since we opined “at current bond/swap spreads levels, MGS may look appealing again” in August, MGS have since outperformed IRS and bond/swap spreads (IRS – yield) have moved back up across the curve. 3Y bond/swap spread last at +8bps and 5Y bond/swap spread at +3bps do not look

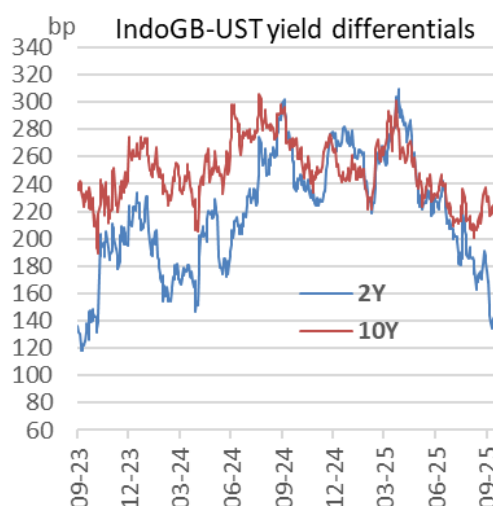
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Changes in IndoGB holdings during September



Source: Bloomberg, OCBC Research *not include holdings under monetary operations

IndoGB-UST yield differentials



Source: Bloomberg, OCBC Research

particularly appealing. There is a lack of impetus for MGS to rally from here. On the other hand, impact of the lowering of threshold cap under GBI-EM index to 9% from 10% (over a five-month period in H1-2026) is manageable, estimated at USD1.4bn assuming AUM tracking the index at USD200bn.

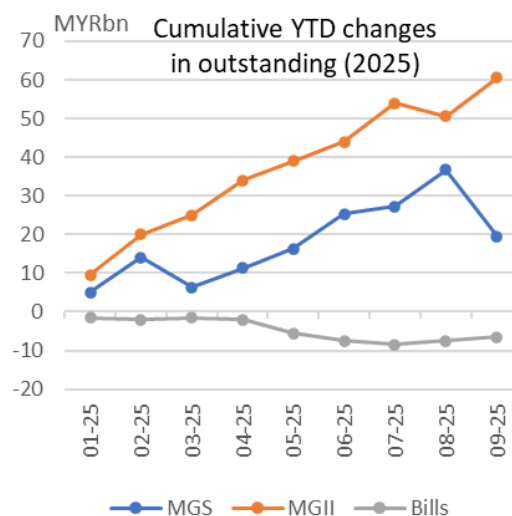
On issuances, there was a net MGS paydown in September upon heavy maturity. Year to end-Q3, net MGS+MGII+T-bills issuances amounted to MYR73.5bn (comprising net MGS+MGII issuances of MYR80bn but net bills paydown of MYR6.5bn), versus budget deficit of MYR80bn. Bond maturity is at MYR24.5bn in Q4, while an FX bond matured back in April. Q4 gross supply of MGS+MGII is expected at MYR31-34bn, with T-bills and FX bond (if any) issuances being the swing factors.

SGD:

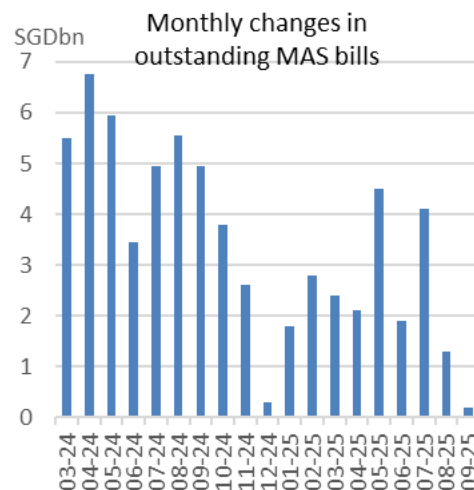
Our rates forecasts have assumed some upward normalisation in SGD rates, and this view has partially panned out. SGD OIS are off the lows seen on 8 September, with pockets of liquidity tightness seen on some of the recent days. MAS bills and T-bills cut-offs are off lows as well, primarily on the back of higher implied SGD rates, while less overwhelming investor demand at lower yield levels might have been another factor. Bid/cover ratio was mildly lower at 1.94x at the latest 12W MAS bill auction and was relatively low at 1.75x at the recent 6M T-bills auction. We maintain our upward bias to SGD rates despite our long-held call for additional Fed funds rate cuts over the coming months. First, SGD rates have shown a fair bit of decoupling from USD rates so far this year; spillover from USD rates onto SGD rates is not automatic. Second, for USD rates themselves, since a slew of rate cuts are already in the price, further downside to USD rates may be limited even upon materialisation of additional Fed funds rate cuts.

SGD NEER has fallen and was last at around 1.41% above our model-implied mid, which may reflect increased MAS easing expectation. With SGD NEER having moved away from the top end, risk of imminent liquidity injections is low. That said, liquidity stays in the system unless being mopped up. For one, net change in MAS bills was minimal in September while SGD LDR edged further lower to 65.3% at end August. SORA fixing failing to move higher on a more sustained basis may constrain the speed at which SGD OIS adjust.

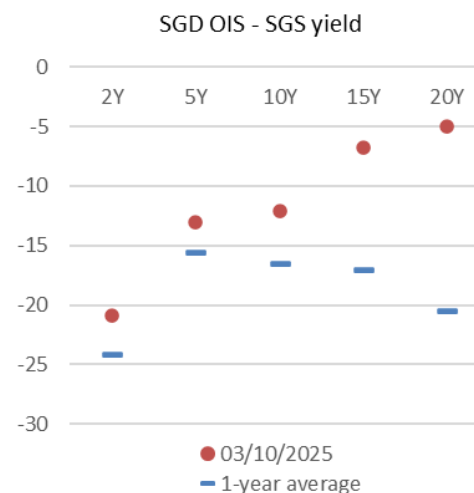
The optional mini auction scheduled for 29 October will go ahead with the 5Y bond (1 April 2030), with the size to be announced on 23 October. On 29 October, there is also the reopening of 10Y SGS (MD). Year-to-date SGS gross issuances amounted to SGD22.2bn, on the low side of our expected range. There is room for the market to absorb the mini auction. Investors may continue to focus on bond/swap and/or asset



Source: CEIC, OCBC Research



Source: CEIC, OCBC Research



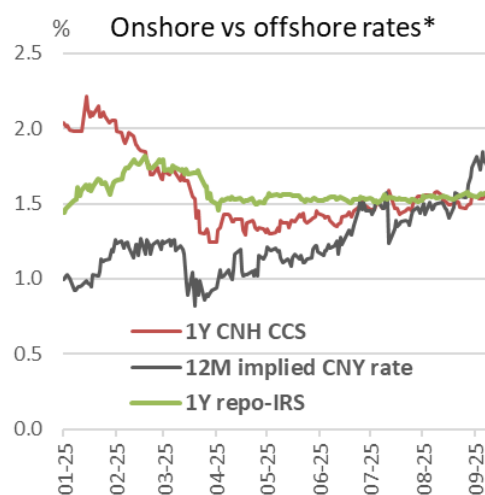
Source: Bloomberg, OCBC Research

swap pick-up. 2Y bond/swap spread (OIS – yield) has remained more negative than other tenors. Asset swap pick-up was last at around SOFR+50bps at 10Y SGS and 20Y SGS (10Y hedge). Corporates may look to partially lock in funding costs; we continue to see the 2Y SGD OIS as the sweet spot.

CNY / CNH:

PBoC has stayed supportive of liquidity, having net injected CNY600bn of medium-term liquidity via outright reverse repo and MLF. For this month, PBoC already announced it would conduct CNY1.1trn of 91-day reverse repo when they are back from holidays on 9 October, more than rolling over the CNY800bn of outright reverse repos with original maturity of 91-day mature in the month. There is also CNY500bn of outright reverse repo of originally maturity of 182-day maturing this month, where a rollover is expected. Liquidity injections meet demand, not exerting material downward pressure on interest rates. Short-end repo-IRS are likely to stay floored at 1.50% level before the next interest rate cut.

China has launched cross-boundary bond repurchase (repo) business, expanding **onshore repo access** to all foreign institutional investors who hold bonds under CIBM Direct or Bond Connect. 1/ Access to onshore repo renders onshore RMB bonds more appealing to foreign investors, all else equal. At this juncture, a strong comeback of bond inflows does not look imminent as pick-up is still not attractive. 2/Bonds used as collaterals will be transferred to the repo buyers and can be re-used, aligning with international practices. 3/ The liquidity obtained can be remitted for offshore use under existing quota management, fostering cross-boundary flows. While this could mean more RMB liquidity for offshore, near-term impact is likely to be limited given that onshore funding costs are not necessarily cheaper than offshore. But given potential cross-border flows, the offshore curve will likely stay more aligned with the onshore curve, and the wide “yield/rate premium” on the offshore CNH rates curve may not come back.



Source: Bloomberg, OCBC Research *data up to 30 September

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