By Global Markets | 5 January 2026

Interest Rates Thoughts

USTs in ranges; MAS bills auctions

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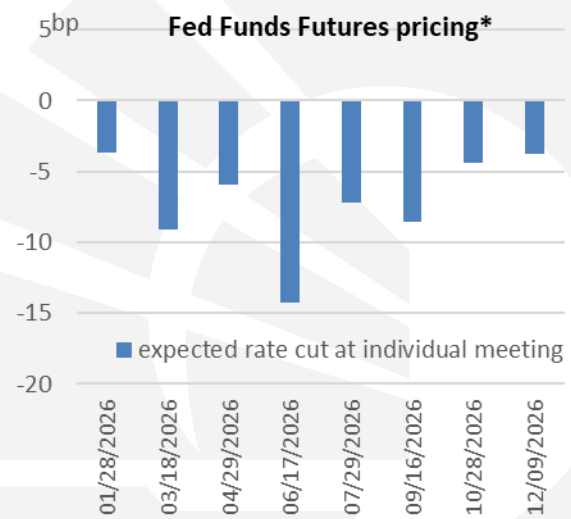
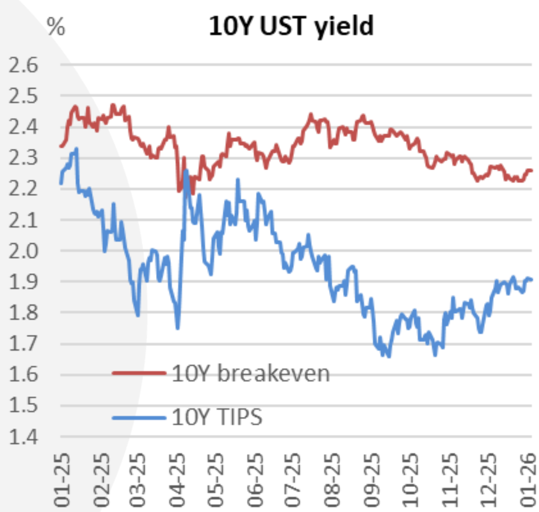
- **USD rates**. The UST curve bearish steepened mildly on Friday. USTs have shown little reaction to the weekend development in Venezuela thus far. Over recent sessions, 2Y UST yield was little changed as market has held onto rate cut expectations, albeit having pushed out slightly the timing of expected cuts. Fed funds futures last priced a total of 57bps of cuts for 2026; although this is more dovish than our base-case for 25bps, such pricing may be sustained given the downside risk in the US labour market, thereby keeping the 2Y yield in the 3.40-3.50% range for now. We do not see material downside to short-end UST yields, and some mild upticks in yields cannot be ruled out. Fed's Paulson opined modest additional rate cuts could be appropriate later this year, if inflation moderates and the labour market stabilizes – which she expects. The December FOMC minutes continued to reflect a divided Committee, given the downside risk to the labour market and upside risk to inflation.

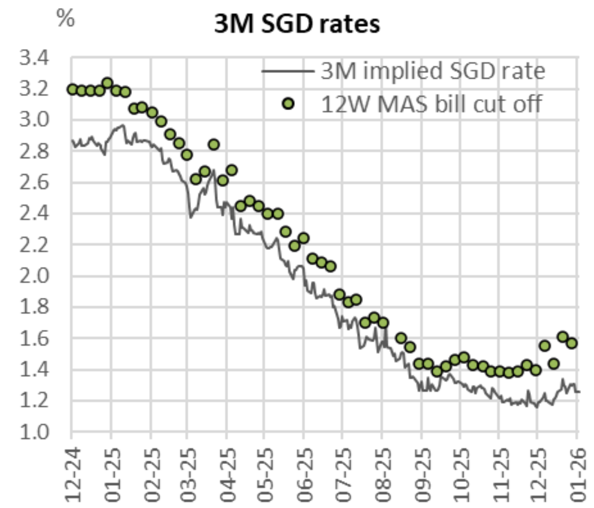
- 10Y UST yield at 4.00-4.20% continues to look fair, which is consistent with breakeven in the range of 2.20-2.30% and real yield in the range of 1.80-1.90%. We have a mild downward bias to 10Y UST yield from current level, amid a neutral supply outlook, but more substantial downside to below our expected range would probably require real yield to break lower; the likelihood of this happening is low at this juncture given the resilience of the US economy. Combining our 2Y and 10Y yield view, we therefore have a flattening bias on the 2s10s segment of the UST curve.

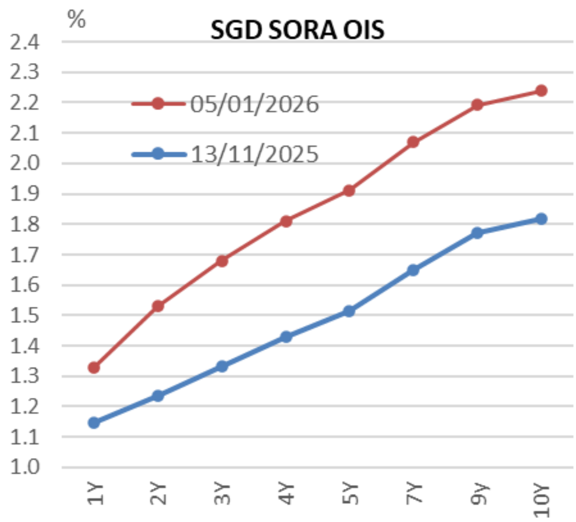




Source: Bloomberg, OCBC Group Research *5 January Asia morning

- **SGD rates**. There are the usual MAS bills auctions on Tuesday 6 January. We expect the spread between cut-offs and implied rates to narrow passing year-end. That said, as 1M implied SGD rate was trading higher at around 1.31% level this morning, the 4W MAS bill cut-off may come in the range of 1.55-1.60%. 12W MAS bill cut-off, meanwhile, is expected at 1.48-1.53%. On SGD OIS, our forecasts have already assumed an upward normalization in SGD rates, but market overshot our expectation for some tenors. Interim retracements in SGD rates cannot be ruled out, especially with SORA the overnight rate itself staying soft.





Source: MAS, Bloomberg, OCBC Group Research

- **CNY rates**. PBoC net withdrew CNY468.8bn of liquidity via daily OMOs this morning, which is not unusual as year-end passed. There are a total of CNY841.3bn of reverse repos maturing for the rest of the week; some further liquidity drainage is likely. More important is the provision of medium-term liquidity. In the month, CNY1700bn of outright reverse repos and CNY200bn of MLF mature. PBoC has net injected liquidity via both instruments over the past months, and we expect the central bank to stay supportive. Short-end repo-IRS are likely to stay anchored around the 1.5% level, although bigger downward move may not happen until the next interest rate cut.