

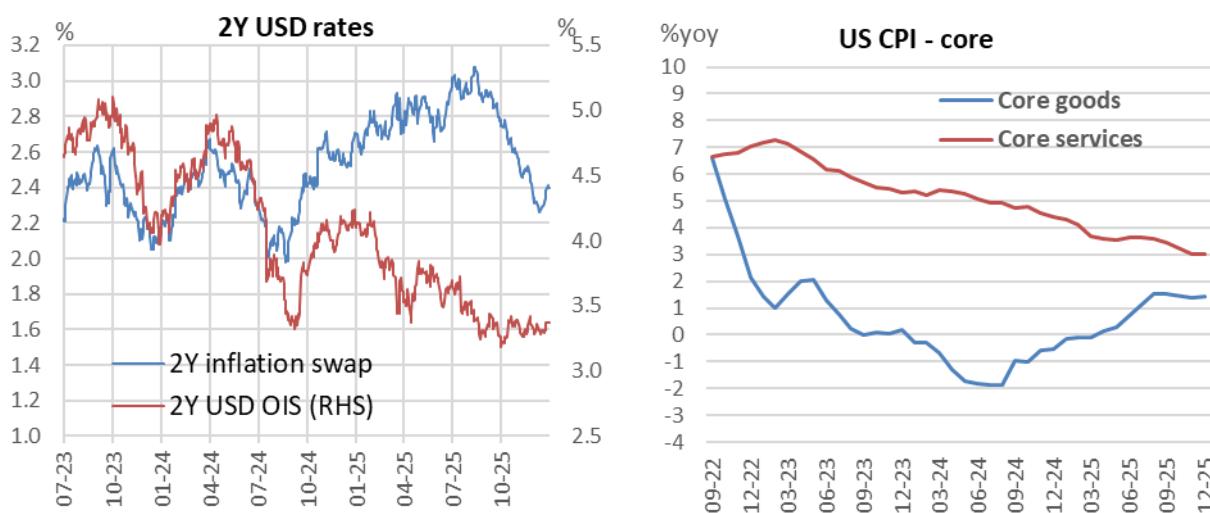
Interest Rates Thoughts

Muted reaction to US CPI; JGBs under pressure

- **USD rates.** The dip lower in UST yields in response to the CPI release was brief. Yields ended the day little changed. Headline CPI was in line with expectation, while core CPI inflation was a tad softer than expected. On balance, the inflation outcome sustains, but does not add to, market rate cuts expectation. Our base-case remains for one 25bp Fed funds rate cut this year, as the labour market is cooling but not rapidly deteriorating, economic activities have remained resilient, while inflation is still above target when interest rates are probably within the range of neutral estimates. Short-term inflation expectation has picked up mildly over recent days, after the rapid easing in earlier months. Downside to short-end inflation swap, 2Y last at 2.4%, appears limited before the data shows further easing in inflation.
- There may be some spillover from higher JGB yields given asset swap pick-up (USD funded perspective, same-tenor hedge) at JGBs is mostly wider than at USTs (compared to bond/swap). Long-end UST yields may trade in higher ranges in the interim; next support for 10Y UST is at 4.22% in terms of yield but we still see the yield to stay in the range of 4.0-4.2% for most of the time on a multi-month horizon. Domestically in the US, the bond market environment appears to be constructive. Coupon bond auctions this week went well, with the 3Y, 10Y and 30Y bond sales all stopping through. Net coupon bond settlement this week is on the low side, at USD23.4bn; meanwhile, there is net bills paydown of USD12bn.
- **JPY rates.** Long-end JGBs are under pressure amid the risk of a snap election. The Immediate impact of heightened political risks is a steepening bias on the curve via a wider term premium, but beyond that, the longer-term impact on yields is ambiguous, depending on the actual fiscal policies to come. For now, investors may want to keep their positions at 10Y tenor and below. The individual auction sizes of 40Y and 30Y JGBs for FY2026 have already been reduced to JPY300bn and JPY600bn, respectively, versus JPY400-500bn and JPY700-800bn for FY2025. Room for further reduction, if need be, has become smaller. Meanwhile, the BoJ has been following a planned step-down approach in terms of JGB purchases. This quarter, JGB purchases per month has been scheduled at JPY2.9trn. The reduction in purchases amounts has been through reductions in the purchases of bonds with tenors at and below 25Y, while BoJ has kept the monthly purchases of JGBs of tenors >25Y at

Frances Cheung, CFA
Head of FX and Rates Strategy

JPY1500bn. In comparison, JGB supply for FY2026 has been scheduled at JPY1.8trn at 40Y and JPY7.2trn for 30Y, totalling JPY9trn. Assuming BoJ keeps monthly purchase amount of JGBs of tenors >25Y unchanged, then purchase amount will be at JPY1.8trn in a full year, which provide a partial buffer to supply.



Source: Bloomberg, CEIC, OCBC Group Research

- **SGD rates.** SGD OIS traded on the firm side this morning. While we have earlier flagged chance of interim retracement lower in SGD rates, our medium-term views remain for short-end rates (up to 2Y tenor) to settle into the 1.45-1.60% area after dips – if any. Against the economic backdrop, a rate below 2.0% is still likely to be supportive of economic activities, while a rate at 1.3% or below may look overly stimulative. 1Y SGD OIS rate has been better anchored as the SORA overnight rate itself has stayed soft. There is the usual 6M T-bills auction tomorrow. 6M implied SGD rate last traded at 1.21% this morning; 6M T-bills cut-off may come in the range of 1.39-1.44%. We have a flattening bias on the SGS curve across 2s10s segment. The SGS curve has steepened alongside the UST curve in the absence of fiscal concerns in Singapore. Bond/swap spreads (SGD OIS – SGS yields) are positive across tenors, but the 10Y SGS may still exhibit some relative value due to the steepness of the SGS curve and an absence of supply (next 10Y SGS auction is in April). The 2s10s segment can potentially narrow to the 60-65bps area.

By Global Markets | 14 January 2026

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

Disclaimers

This material is being made available to you through an arrangement between Bank of Singapore Limited (Co Reg. No.: 197700866R) (the "Bank") and Oversea-Chinese Banking Corporation Limited ("OCBC Bank") (Co Reg. No.: 193200032W). The Bank and OCBC Bank shall not be responsible or liable for any loss (whether direct, indirect or consequential) that may arise from, or in connection with, any use of or reliance on any information contained in or derived from this material, or any omission from this material, other than where such loss is caused solely by the Bank's or OCBC Bank's wilful default or gross negligence.

Please refer to https://www.bankofsgp.com/Disclaimers_and_Dislosures.html for cross-border marketing disclaimers and disclosures.