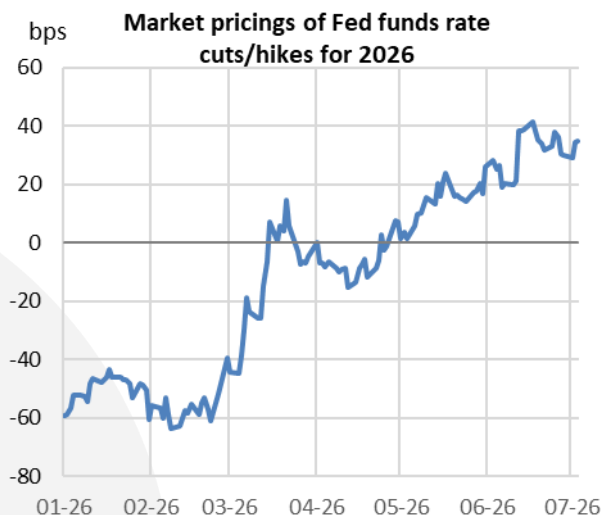
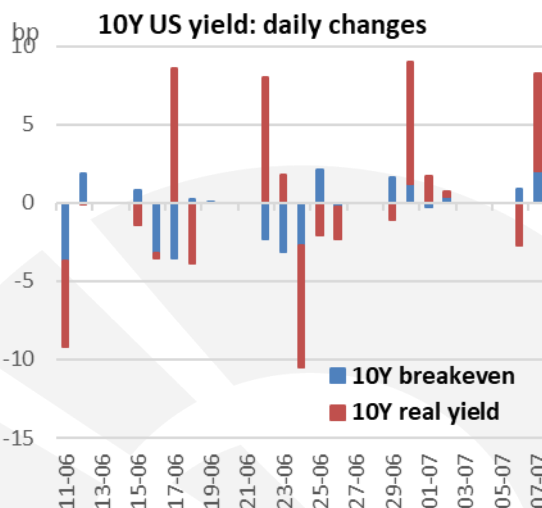


Interest Rates Thoughts

SGD rates and MAS bills; CNH CCS

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- USD rates.** UST yields rose across the curve in a mostly parallel manner, upon latest developments in the Strait of Hormuz. The uptick in 10Y UST yield was however driven more by higher real yield than breakeven, which may be better seen as representing the (bearish) performance of the linker itself. Fed funds futures added back to rate hike expectations, pricing in 35bps of hikes by year end. We have opined short-end yields are sticky downward as investors prefer to hold onto hawkish pricings to guard against rate hike risks as suggested by the June dot-plot, although our base-case is for the Fed funds rate to be kept unchanged for the rest of the year. NY Fed’s measure of 1-year inflation expectation edged up to 3.67% in June versus 3.46% in May; 3-year inflation expectation was also higher at 3.34% versus 3.13% prior, while 5-year inflation expectation was steady at 3.00% similar to 3.02% prior. Meanwhile, the 3Y coupon bond auction went well, with direct accepted and indirect accepted both higher, while bid/cover ratio was steady at 2.60x. Near-term range for 10Y UST yield is seen at 4.45-4.60%.

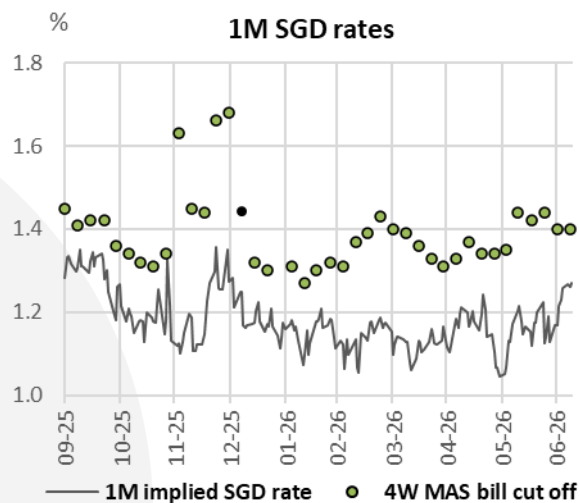
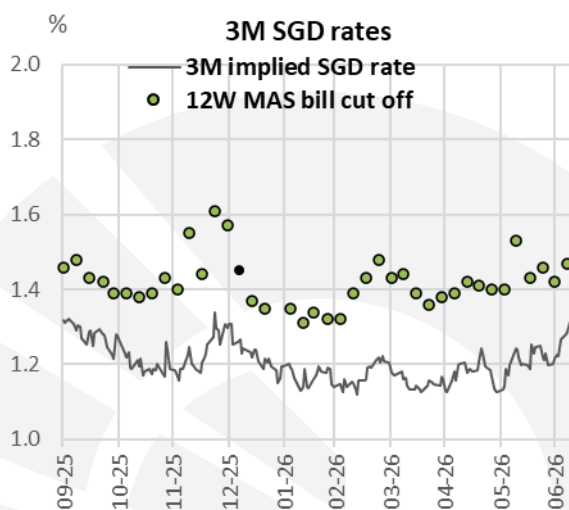


Source: Bloomberg, OCBC Group Research

- SGD rates.** SGD liquidity is on the tight side, with SORA fixing last at 1.4019% on Tuesday. MAS bills cut-offs, while higher than previous levels at the 12W and 36W, were at the low end of expected range; the spread between cut-offs and implied rates narrowed, reflecting solid investor demand and/or expectation that the liquidity tightness may not last. In particular, 4W MAS bills cut off at 1.4%,

the same as last week's cut-off, notwithstanding the higher 1M implied SGD interest rate. Our medium-term view remains for gradual upward normalization in SGD interest rates, but the move is unlikely to be a one-way train. SORA has been volatile over the days and is likely to stay so. Over time, we expect SORA to fluctuate in a higher range nearer the 1.4% level. We do not have direct forecasts on MAS bill cut-offs as these cut-offs depend a lot on the prevailing market conditions. Nevertheless, we expect the spreads between 12W MAS bills cut-offs and the 3M implied SGD rate to be mostly in the range of 20-25bps. This spread may be wider at quarter-end, or when absolute rate levels are low. Given our short-end SGD rates forecasts, we will be looking for 12W MAS bills cut-offs to move towards the 1.6% level at year end.

Further out the curve, market awaits the announcement (if any) of a new 20Y Green SGS (infra) via syndication subject to market conditions. The SGS curve has steepened across various segments, including 10s15s and 10s20s, partly as a preparation for the potential 20Y supply. In addition to the potential 20Y syndication, there are four auctions scheduled for 2H2026 (2Y, 10Y, 15Y, 5Y), plus an optional mini auction. If both the mini auction and the syndication go ahead, full-year gross SGS issuances may come in at the high end of or higher than our initial expected range of SGD27.5-28.0bn. We expect the overall amount will be well manageable as there is the flexibility to calibrate sizes in view of demand.

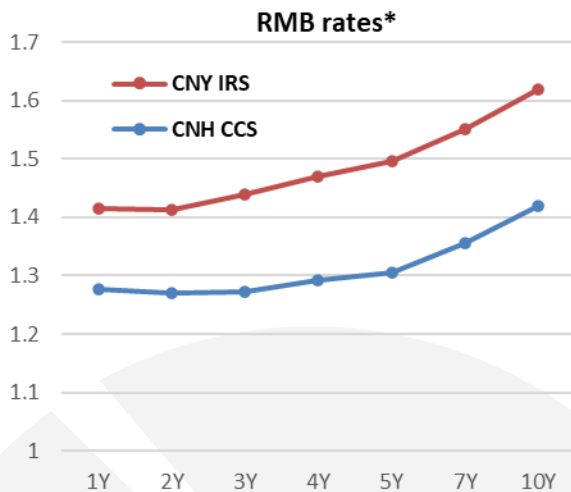


Source: MAS, Bloomberg, OCBC Group Research

- CNY rates.** CNH CCS edged lower on Tuesday, upon the announcement of measures to support offshore RMB business. PBoC, HKMA and the SFC jointly announced measures to support the development of Hong Kong's fixed income and currency market

and offshore RMB business. With regards to offshore RMB business, measures include, among others, increasing the Southbound Bond Connect annual quota to RMB800bn from RMB500bn. This may further push up dim sum bond issuances, which have already been active in 1H2026 compared to last year, as issuers can tap more flows from onshore. More offshore RMB bond issuances with onshore investor participation will add to the CNH liquidity pool. Further reaction in CNH CCS is however unlikely for now, before the additional flows come. Nevertheless, current CCS levels continue to provide opportunities for entities to swap into CNH for funding, with CNH CCS at 14-18bps below onshore CNY IRS.

Other measures include increasing the size of RMB Business Facility (RBF) to RMB500bn from RMB200bn; exploring to introduce a tendering mechanism of 7-day offshore RMB liquidity; exploring issuance of offshore RMB short-term debt instruments. Measures mainly aim to improve liquidity to facilitate the use of RMB and to set up a complete yield curve in the offshore market.



Source: Bloomberg, OCBC Group Research

- NZD rates.** RBNZ hiked OCR by 25bps to 2.5% in line with expectations. Bank bills futures fell (implied yields higher) as the forward guidance points to additional rate hikes down the road. The central bank opined, although energy prices have decreased, “the effects of the shock will linger for some time”. While growth lost momentum in the June quarter, RBNZ expect growth to resume in the September quarter. In terms of forward guidance, “with inflation still above target and economic activity expected to strengthen, some further reduction in monetary stimulus is likely to be required”. We keep one 25bp hike each in 4Q2026 and 1Q2027 in our forecast profile which will then bring OCR to 3.00%.

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