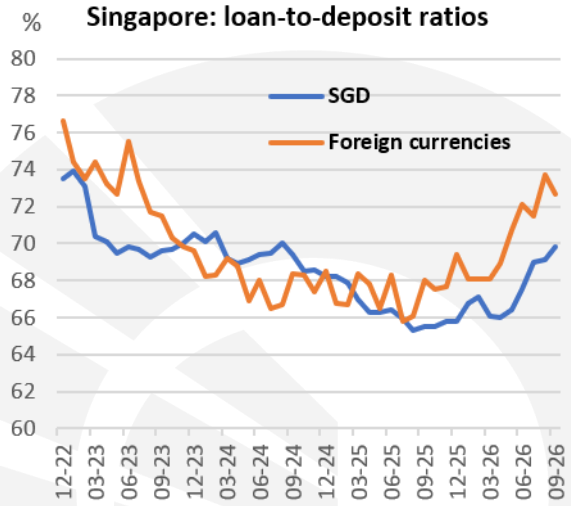
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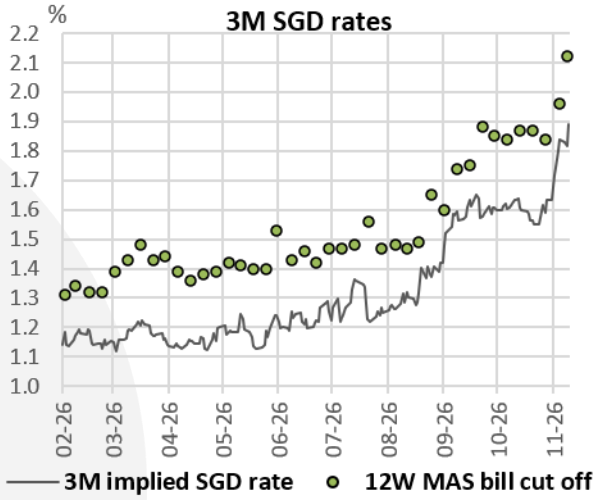
Interest Rates Thoughts

Recent high SORA fixings

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- **SGD rates**. SORA have been fixed on the high side in recent days, rising to a high of 1.9594% on Monday before easing to 1.6103% on Tuesday. In the absence of an interest rate policy, SORA the overnight rate fluctuates over the days, depending on the prevailing liquidity conditions which is affected by factors including market demand, FX operations and money market operations. At the background, SGD liquidity has become less flush, partly reflected by the higher SGD loan-to-deposit ratio. SGD LDR stood at 69.8% at end September, versus 66.0% at end April. In more recent days, apart from some SGD issuances, SORA may also be playing catch-up with implied SGD interest rates which have been on a steady uptrend mostly on the higher USD interest rates with the forward points little changed. Higher implied SGD rates have also pushed up MAS bills and T-bills cut-offs. At Tuesday's auctions, 4W and 12W MAS bills cut off at 1.87% and 2.12%, respectively. The 16bps uptick in the 12W MAS bills cut-off compared to the previous auction was more than the increase in implied rate during the period, i.e. the spread between 12W MAS bills cut-off and 3M implied SGD interest rates widened, probably reflecting investors demanding higher returned and/or a tighter liquidity condition.



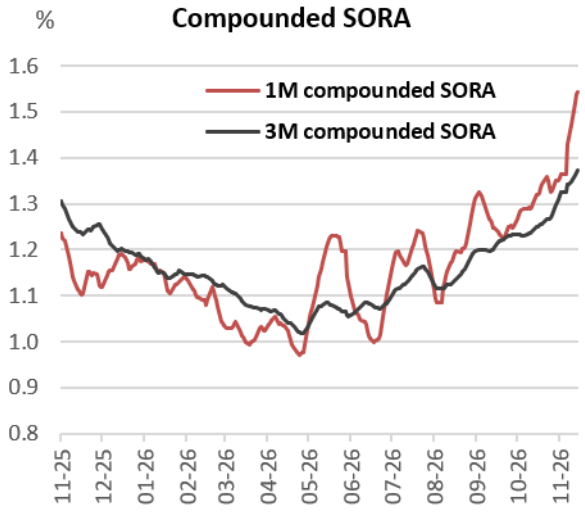


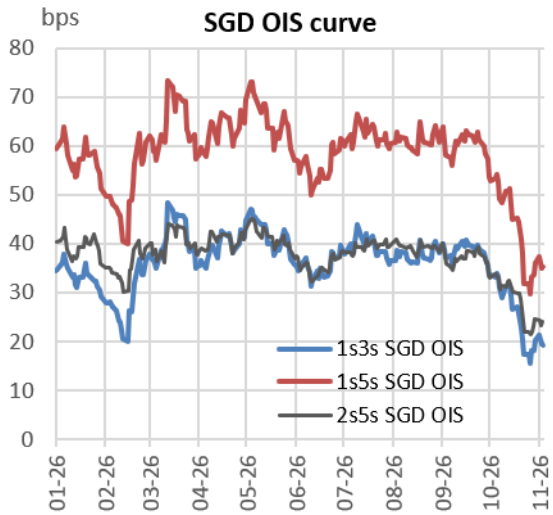
Source: MAS, Bloomberg, CEIC, OCBC Group Research

- We continue to see the upward moves in SORA to be non-linear with daily fluctuations. Over the coming months, we expect SORA to move higher to fluctuate around 1.60% level. This target is better seen as a trend expectation - compounded SORAs, albeit being

backward-looking, illustrate the trend. 3M compounded SORA was last at 1.372%, on track to our long-held target of around 1.4% towards year-end.

- After the earlier retracement lower, albeit with some more recent upticks, SGD OIS are still below the highs in late September. The spread between SGD OIS and SORA, and various segments on the SGD OIS curve have narrowed over the past weeks. The 1s3s, 1s5s and 2s5s segments were last at around two standard deviations narrower than 3-month averages. Current SGD OIS levels and a relatively flat OIS curve may attract some corporate hedging flows up to the 5Y tenor.



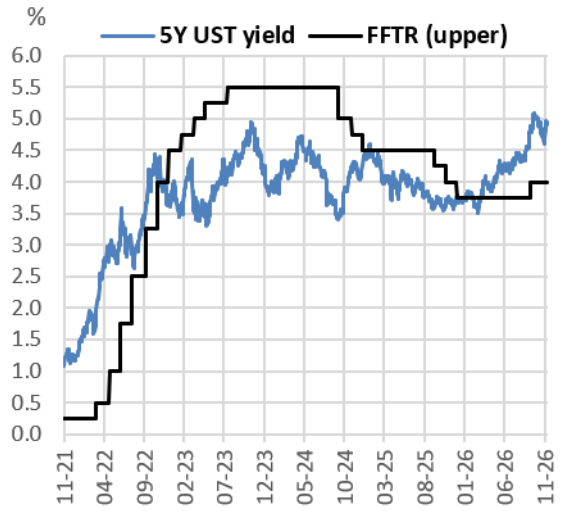


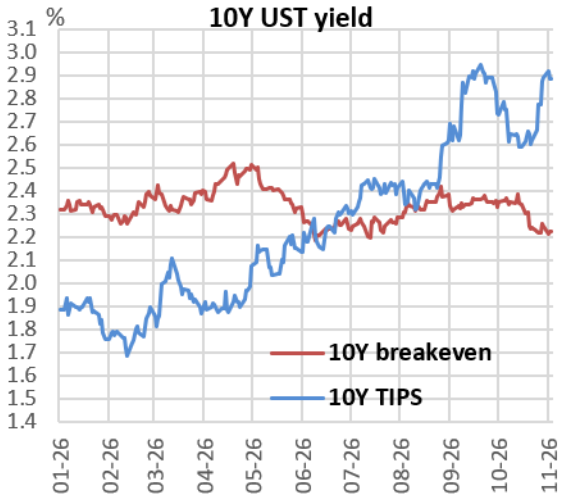
Source: Bloomberg, OCBC Group Research

- **USD rates**. UST yields retraced from session highs to end the day 2bps lower, on safe-haven demand. Fed rhetoric has remained hawkish. Williams' comments suggested that he supports rate hike(s) – albeit not an outsized move – down the road, while Hammack said she favours "slow, steady increments, consistently, successively at meetings". Tonight's FOMC minutes may provide more details on the thoughts and rationale among the hawkish members. Our base-case is a 25bp hike at December FOMC meeting, to be followed by an extended hold, on expectedly easing inflation mostly from 2Q2027 onwards. Near-term risk to our Fed funds rate call is to the upside with inflation data in the next couple of months testing patience of the more hawkish FOMC members. Nevertheless, market pricing is already on the hawkish side, with Fed funds futures pricing in additional 83bps of hikes by September 2027, which likely helps cap short end yields around current levels.

- 5Y UST may continue to be preferred on the curve. First, 5Y UST yield at 4.93% remains not far away from 2023 high when the Fed

funds rate peaked at 5.50%, suggesting the 5Y bond pricing is even more hawkish than Fed funds futures. Second, the 5s10s segment is flat at within 20bps, hence investors may not be incentivised to go for longer duration for now. Long term inflation expectations have stayed anchored, with 10Y breakeven hovering around the low end of the 2.2-2.4% range. Any fall in the 10Y nominal yield would require real yield to ease. Near-term range for 10Y yield is seen at 5.05-5.15%.





Source: Bloomberg, OCBC Group Research

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