

Interest Rates Focus

26 August 2025

5Y SGS auction preview

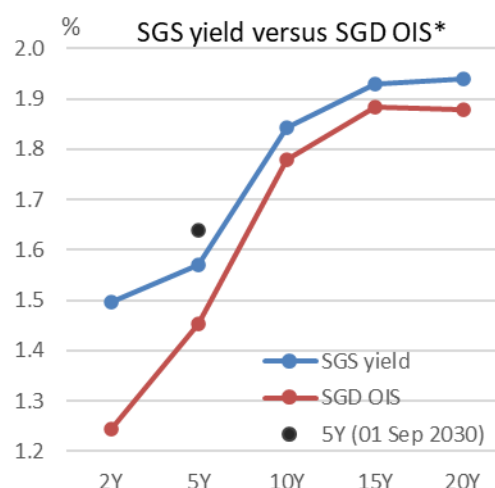
- 5Y SGS auction.** The size of the 5Y SGS (MD) (reopened) auction on 27 August has been announced at SGD2.5bn, with MAS intending to take SGD300mn; the size is at the low end of expectation. This September 2030 bond will become the 5Y benchmark. We expect the bond sales to be readily absorbed given the small size and with the 5Y bond/swap spread supportive of the bond. After this 5Y SGS auction, there are only two SGS auctions left for the year – 50Y Green SGS (Infra) and 10Y SGS (MD). Full-year SGS gross issuances are on track with our estimate of SGD26-27bn.
- Bond/swap spread.** We see relative value in 2Y and 5Y bond/swap spreads on the curve. 5Y bond/swap spread is supportive of 5Y SGS. First, 5Y bond/swap spread (April 2030 bond) was last at -11bps, which has improved from as high as around -6bps in mid-July. Second, 5Y bond/swap spread (September 2030 bond) is even lower at -19bps. Third, bond/swap spreads at 10Y and beyond are further above their respective 1-year averages. Fourth, longer-tenor bond/swap spreads are higher than 2Y or 5Y bond/swap spreads. We expect the bond sales to be readily absorbed. A bond/swap spread at around -20bps appears comfortable, while a bond/swap spread at around -15bps is considered strong.
- Asset swap.** Asset swap pick-up has stabilised of late, after previous narrowing. Asset swap pick-up at 5Y SGS (September 2030 bond) was last at around SOFR+40bps, similar to 1-year average of SOFR+42bps, which appears decent. Pick-up at 10Y SGS was last at around SOFR+40bps versus 1-year average of SOFR+55bps. Our view has been that foreign investors may even accept narrower asset swap pick-up for portfolio diversification while SGS are AAA-rated.

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Source: Bloomberg, OCBC Research
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