Interest Rates Focus

23 January 2025

2Y SGS auction preview; SGD-USD rates spreads

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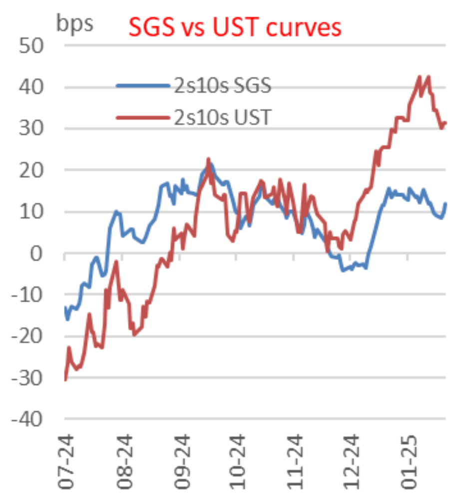
- **2Y SGS auction**. The size of the upcoming 2Y SGS (MD) (SIGB 3.5% 1 March 2027) reopening auction on 27 January has been announced at SGD2.7bn, with MAS intending to take SGD300mn. We expect the auction to be well received. First, the offer amount is at the low end of expected range; the sizes of the two 2Y SGS auctions in 2024 were SGD3.0bn and 2.9bn as a reference. Second, the SGS curve is relatively flat across the 2s10s segment compared to the UST curve (although the UST curve itself is steep for a reason). Third, while 2Y bond/swap spread (OIS minus SGS yield) at -17bps was not particularly low compared to some of the recent levels, it was around 6-month median level and was a tad lower than longer-tenor BSS. Fourth, the broader bond investment environment has stabilised somewhat over recent days in hope for an incremental approach in terms of US tariff policy despite uncertainty remains high. On balance, a cut-off which is 17-23bps above OIS may be seen as comfortable.



Source: Bloomberg, OCBC Research

- **2025 gross supply**. For the full year, we have put our preliminary expectation of gross SGS supply at SGD26-27bn which corresponds to outstanding SGS growth of 3.5-4.0%. The supply outlook is supportive of SGS as usual, as MAS can calibrate the issuance sizes of each bond depending on prevailing market demand and market liquidity.

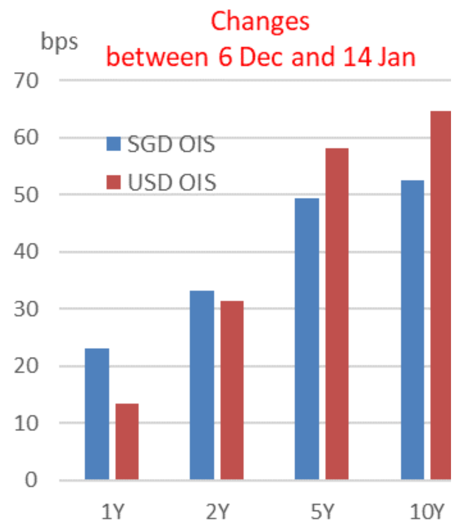
- **T-bills and MAS bills auctions**. The latest 4W, 12W and 36W MAS bills cut-offs came in at 3.10%, 3.07% and 2.89% respectively, at the auctions on 21 January. Spreads between cut-offs and implied SGD rates stayed at around the 18-22bps range for the 4W and 12W tenors, after having narrowed from the wider levels seen in December. The corresponding 36W spread widened somewhat from a very narrow level at its first auction on 7 January. 1Y T-bills cut off at 2.95% today, with the spread over the 12M implied SGD rate at around 23bps which was wider than the level at the last 1Y T-bills auction on 17 October. Bid/cover ratio was lower at 1.87x versus 2.83x prior. On bills side, the 1Y tenor is probably seen as long and today's demand may reflect preference for 6M T-bills. Bill yield spreads over implied rates in the range of 15-25bps appear to be the acceptable levels for now.

Source: Bloomberg, OCBC Research

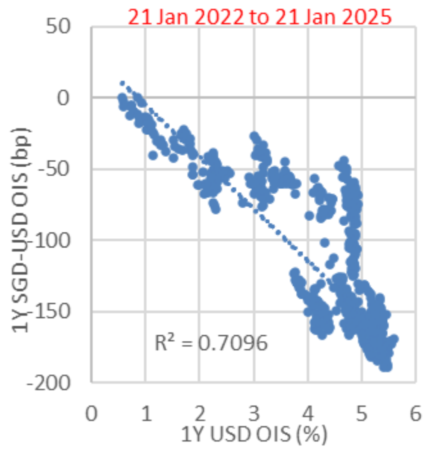
- **Asset swap**. Asset swap pick-up into SGS has improved from recent lows, alongside the movements in bond/swap spreads while SGD basis have been relatively stable. Asset swap pick-up was last at around SOFR+17bps (before bid/offer spreads) at 2Y

SGS, around SOFR+43bps at 10Y SGS and around SOFR+66bps at 20Y SGS. Pick-up remains wider at the longer end as the SGS basis curve has stayed inverted although the SGD OIS is now mildly upward sloping.

- **SGD-USD rates spreads and MAS expectation**. In the broad upward move in rates between early December and mid-January, the passthrough from USD rates onto SGD rates was relatively high with the 1Y and 2Y SGD OIS even having mildly underperformed USD OIS. Although this added to our SGD rates underperformance view, the mechanic through which it was achieved was not what we had looked for. Immediate focus is MAS policy decision on Friday. Our base-case is a slight reduction in the S$NEER policy slope (but still with a mild appreciation stance). Impact on SGD rates from a change in S$NEER policy is mainly through the FX swap dynamics, especially if there is a change in the slope. A slope reduction *per se* may exert a mild upward pressure on the forward points and hence some upward pressure on short-end SGD interest rates. Granted, the actual movements in SGD rates depend on how spot versus forward outright reacts upon and following policy announcement, and on USD rates performance around that time. In the scenario where spot reaction is timid and USD rates are relatively stable, then there is room for a slope reduction to translate into mildly higher short-end SGD rates. This, combined with our lower USD rate view, underlines our medium-term view for short-end SGD-USD OIS spreads to become less negative.



Source: Bloomberg, OCBC Research



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