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Interest Rates Thoughts

Short-end UST yields rose on FOMC outcome

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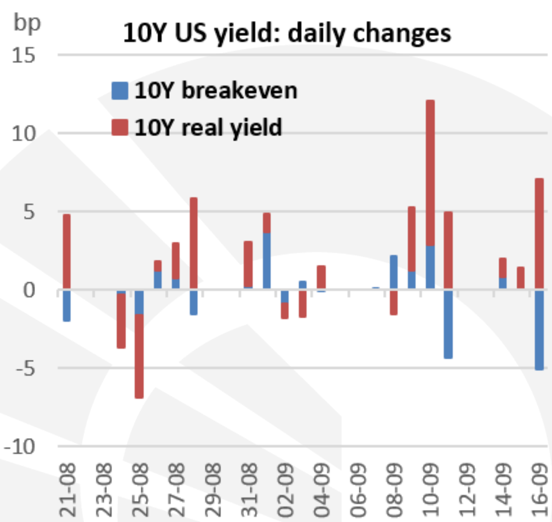
- **USD rates**. 2Y UST yield jumped by 14bps from session low to intra-day high of 4.74%, upon FOMC decision and the post-meeting press conference which carried a few hawkish elements. Fed funds futures more than fully priced additional three hikes by mid-2027. First, the 25bp rate hike decision was unanimous. Second, on the dot-plot, the 2026 median dot reflects one more hike, while the 2027 median dot no longer reflects a cut. The 2027 median level is 50bps higher than that on the June dot-plot, which does not appear to be entirely justified by the adjustments in 2027 economic forecasts – 2027 GDP growth forecasts is a tad higher and unemployment forecast is lower, but 2027 PCE and core PCE inflation projections remain the same as that projected in June. As such, we see it as pointing to a more hawkish reaction function against a higher perceived neutral rate. Third, on Warsh's comments, "we removed a dose of accommodation" suggests that he sees the policy as accommodative, which is subject to argument. While we have no more hike in our forecast profile for now, we acknowledge that the more hawkish reaction function keeps the risk of further tightening alive.

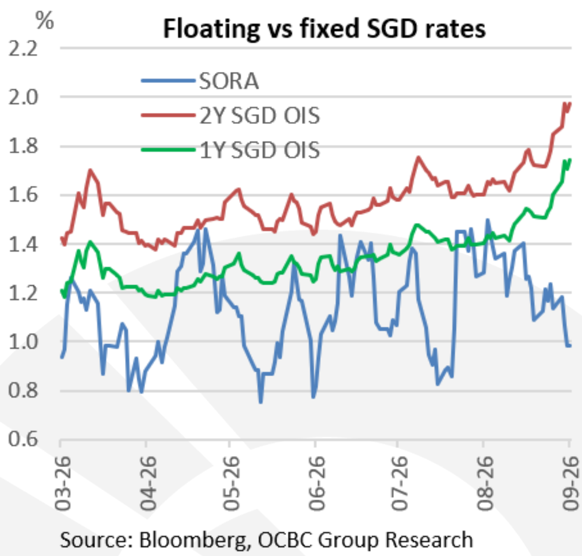


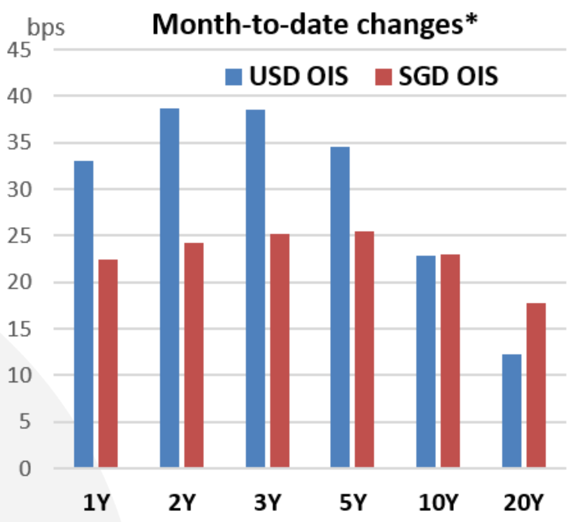
Source: Bloomberg, OCBC Group Research

- Market had already priced in almost four hikes (including last night's hike) on a one-year horizon before the FOMC decision; the further increase in 2Y UST yield might have been an overreaction –

we will observe how the market further digests the FOMC outcome. Further out the curve, 10Y UST yield was little changed as the fall in breakeven offset the increase in real yield, while 20Y and 30Y yields were trading a tad lower this morning in Asia session. The delivery of the rate hike appears to have had the desired impact. As the 2s10s segment is flat against our newly expected range of 30-45bps, any meaningful easing in the 10Y yield will likely hinge on a fall in the 2Y yield.

- **SGD rates**. Month-to-date (as of this morning) SGD rates have been paid up by cumulative 22-26bps across 1Y-10Y tenors, taking cue from the USD rates market. Nevertheless, SGD rates outperformed USD rates across 1-5Y tenors, as USD rates rose on idiosyncratic factors – hawkish repricing of Fed policy rate outlook. SORA fixings even eased in recent days, last at 0.9822% on 16 September and it averaged 1.16% month-to-date (as of 16 September) versus 1.28% in August. This is in line with our view that the expected upward move in SORA is likely to be non-linear. We maintain our expectation for SORA to edge higher to 1.4% level by year-end – still with two-way volatilities. Before SORA move up at a more rapid pace, further upward move in SGD OIS from here may be more gradual.





Source: Bloomberg, OCBC Group Research
*as of 17 September Asia open

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