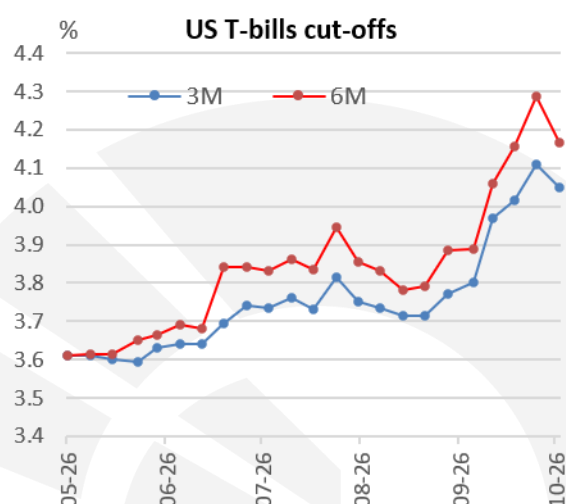


Interest Rates Thoughts

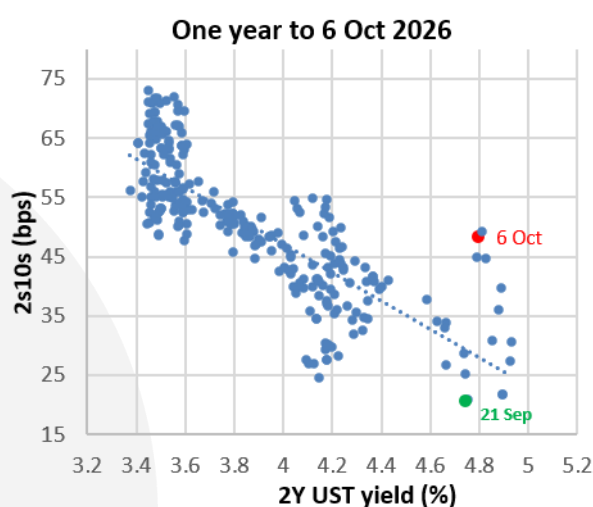
Views on short-end SGD and HKD rates

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- USD rates.** There was a relief rally in bonds on Tuesday as OAT yields fell by around 10bps across most tenors while oil prices initially fell. During NY hours, USTs pared back some of the initial gains, to end the day with yields a tad lower, as oil prices rebounded from intra-day lows while the 3Y UST auction result was mixed. The 3Y coupon bond sales stopped through at 4.932%, but with soft auction parameters – bid/cover ratio at 2.62x vs 2.72x prior while indirect accepted was also lower at 57.6% vs 62.1% prior. There are 10Y and 30Y coupon bond auctions tonight and tomorrow, which will be a test to investor demand for the longer end. At the front end, earlier on Monday, the 3M and 6M bills cut off at 4.05% and 4.165% respectively, 6bps and 12bps lower than those at the 28 September auctions; the spread between the 6M and 3M cut-offs narrowed mildly to 11.5bps from 17.5bps, representing reduced rate hike expectations. Bills issuance sizes are getting bigger over the coming weeks, which has been planned at the quarterly refunding because of expected seasonal fiscal outflows. TGA balance was last at USD883bn on 5 October, versus year-end target of USD850bn.



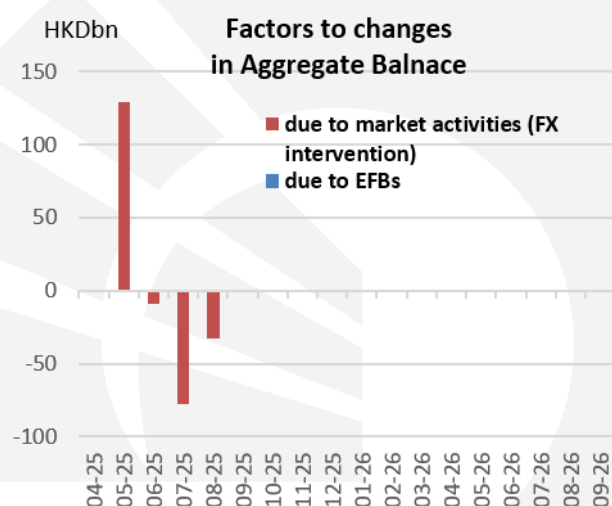
Source: Bloomberg, OCBC Group Research



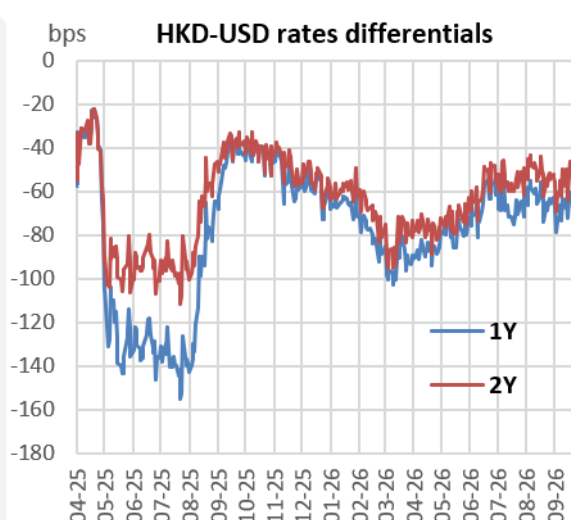
- HKD rates.** As spot t/t moved higher and was at 20pips away from 7.85 at one point, investors are watchful for the potential liquidity implications. As we have written multiple times, the dynamics could be different from that of last year. As a reference, FX intervention at the weak-side Convertibility Undertaking during

June to August 2025 amounted to HKD120bn. Aggregate Balance was last at HKD54bn. Liquidity may potentially need to be shifted from the bills market to the interbank market should FX intervention be triggered, to facilitate such operations, unless HKD rates spike up in a swift way. These operations may cause two-way fluctuations in HKD rates.

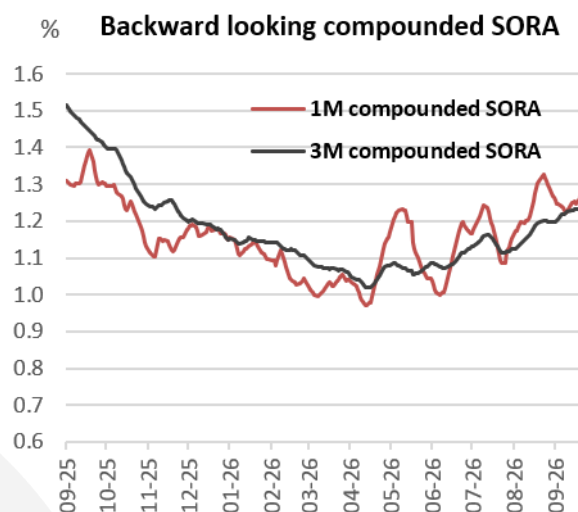
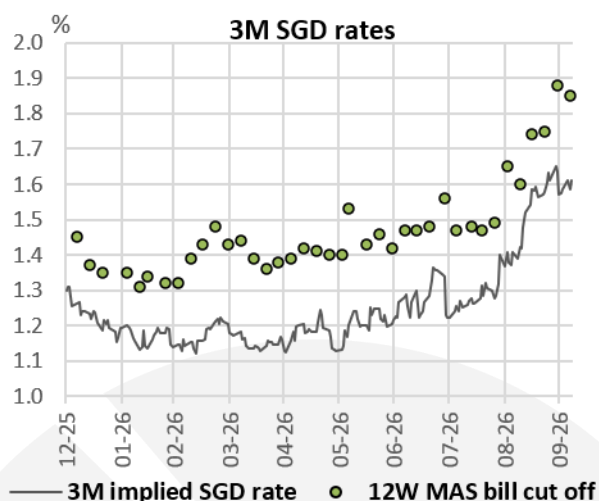
- Over the years, there were episodes where liquidity was shifted from the interbank market to the bills market upon additional bills issuances, but not the other way round (except negligible changes due to interest payment etc.) Shifting of liquidity from the bills market to the interbank market can be done via not rolling over matured bills (there is weekly maturity at the tune of HKD80-90bn), or via active buyback if time is tight. However, this shift of liquidity, if happens, will be counterproductive to the impact of FX intervention, potentially lengthening the process with two-way fluctuations in HKD rates. This would be different from the mechanics in 2025 where rates moved in one direction over a period of time.
- Outside periods of interim fluctuations in liquidity, we see upside to HIBORs as mild on a multi-quarter horizon, given the upward move thus far, while HKD liquidity stays mostly supportive. OCBC economists see subdued loan demand and the HKD LDR (loan-to-deposit ratio) may not have bottomed. Our near-term HKD IRS forecasts are higher than our HIBOR forecasts would have implied, as market pricings may stay on the hawkish side with market expectation for HIBORs higher than ours and the outlook being uncertain. On HKD-USD rates spreads, we continue to expect these spreads to revert to ranges after breaking out on either side. The range for 1Y HKD-USD rates spread is seen at -55/-70bps, 2Y HKD-USD rates spread at -45/-60bps.



Source: Bloomberg, CEIC, OCBC Group Research



- SGD rates.** 4W and 12W MAS bills cut off at 1.70% and 1.85% respectively, 9bps and 3bps lower than those at the previous auctions as implied SGD rates edged lower. We expect 12W MAS cut-off to move to 1.90-1.95% over the coming weeks and further towards 2.0-2.05% level by mid-2027. The expected upward moves are unlikely to be a straight line. Singapore's SGD loan-to-deposit ratio has risen further to 69.1% at end-August; the pace of increase in the LDR has slowed and the ratio was still not particularly high. A supportive liquidity environment may mean SORA is not rising more rapidly. SORA was last fixed at 1.3152% on Tuesday, mildly lower than the levels in the previous two days. SORA movements over the past months are in line with our view for a non-linear upward move in SORA, towards 1.4% this quarter. Compounded SORA illustrates this: 3M compounded SORA has been on a slow uptrend, while 1M compounded SORA saw higher lows and highs and was on most of the days above 3M compounded SORA. We expect SORA to continue to grind higher in 2027 and have an initial target of 1.6% for the latter part of 2027 – this is better seen as the central tendency around which SORA is expected to fluctuate.



Source: MAS, Bloomberg, OCBC Group Research

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