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Interest Rates Thoughts

Yields stay at elevated levels ahead of FOMC

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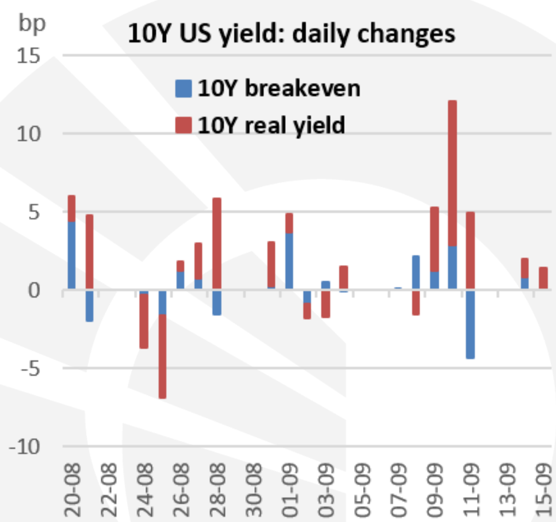
- **USD rates**. UST yields were little changed on Tuesday, staying at elevated levels, as investors awaited FOMC decision. A 25bp Fed funds rate hike is almost fully priced. The split of votes, if any, and the updated SEP (summary of economic projections) which includes the dot-plot will be watched. 1/ On the forecasts, any downward revision to PCE inflation projections may mean the Fed take into account the methodology change which is due out 30 September. 2/ On the dot-plot, investors watch as to whether the 2026 median dot will point to additional hikes, and whether the 2027 and 2028 median dots still suggest room for cuts. 3/ In terms of the rhetoric, if Warsh focuses on explaining the September policy decision while striking a more balanced tone, then there is room for market to pare back rate hike expectations – where Fed funds futures last priced 94bps of hikes on a one-year horizon. If Warsh continues to sound hawkish, then market is likely to maintain current pricing profile.

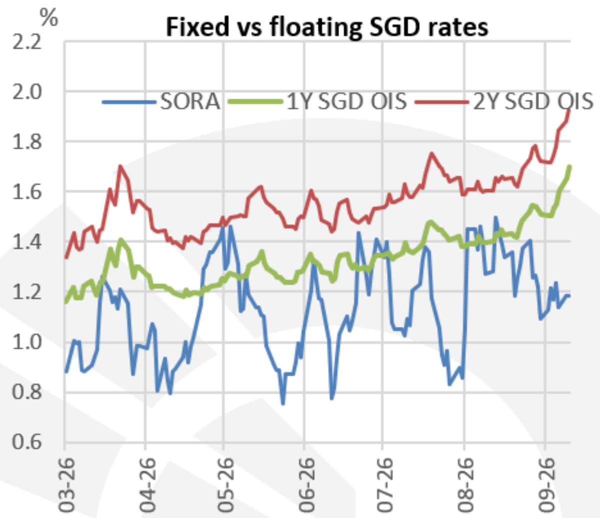
- At the long end, demand at Tuesday's 20Y coupon bond auction was fair, which garnered a bid/cover ratio of 2.57x versus 2.53x prior, but indirect accepted was lower at 52.5% versus 62.9% prior; the bond sales failed to benefit more from the outright yield level.

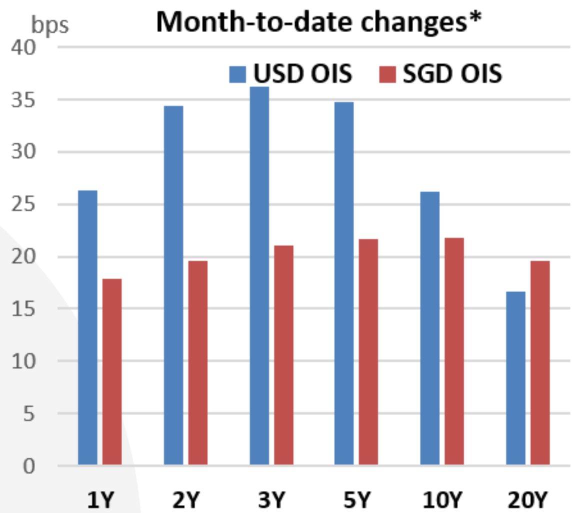


Source: Bloomberg, OCBC Group Research

- **SGD rates**. Month-to-date (as of 15 September) SGD rates have been paid up by cumulative 18-22bps, taking cue from the USD rates market. Nevertheless, SGD rates outperformed USD rates across most tenors thus far this month, as USD rates rose on idiosyncratic factors – hawkish repricing of Fed policy rate outlook. SORA fixings even eased on some of the recent days, averaging 1.18% month-to-date (as of 15 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.

- On cash side, MAS bills and T-bills cut offs have been on an uptrend, following implied SGD rates which did not ease but have risen further. At Tuesday's auctions, 4W, 12W and 36W MAS bills cut off at 1.73%, 1.74% and 1.77% respectively. SGS outperformed swaps, with bond/swap spreads (OIS – SGS yield) having moved higher across tenors. This is in line with our view, as we previously wrote "light supply is likely to lend some support to SGS, potentially leading to SGS outperformance against swaps". Next focus is the size of the reopening of 15Y SGS (Infra), to be announced on 28 September. We expect a modest size of around SGD1bn as year-to-date gross issuance amount is already at the high end of expectation.





Source: MAS, Bloomberg, OCBC Group Research
*as of 15 September Asia close

- **HKD rates.** Following our change in Fed policy rate call – now expecting a 25bp hike at the upcoming September FOMC meeting versus an on-hold expectation previously, we are revising upward our HIBOR forecasts. We expect 1M and 3M HIBOR to edge higher to 3.00% and 3.15% by year end, versus expectation for some easing previously. Still, we do not see too much upside room from current HIBOR levels, given the upward move thus far, while HKD liquidity stays mostly supportive (outside of periods of interim flow-driven liquidity demand). In addition, OCBC economists see subdued loan demand and the HKD LDR (loan-to-deposit ratio) may not have bottomed.

Forecasts for Interest Rates	4Q26	1Q27	2Q27	3Q27	4Q27
1M HKD HIBOR	3.00	3.00	3.00	2.90	2.80
3M HKD HIBOR	3.15	3.15	3.15	3.05	2.95
6M HKD IRS	3.20	3.20	3.20	3.10	3.00
1Y HKD IRS	3.50	3.40	3.30	3.15	3.10
2Y HKD IRS	3.70	3.60	3.50	3.30	3.20
5Y HKD IRS	3.80	3.70	3.60	3.45	3.35
10Y HKD IRS	3.95	3.85	3.75	3.55	3.50

Source: OCBC Group Research

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