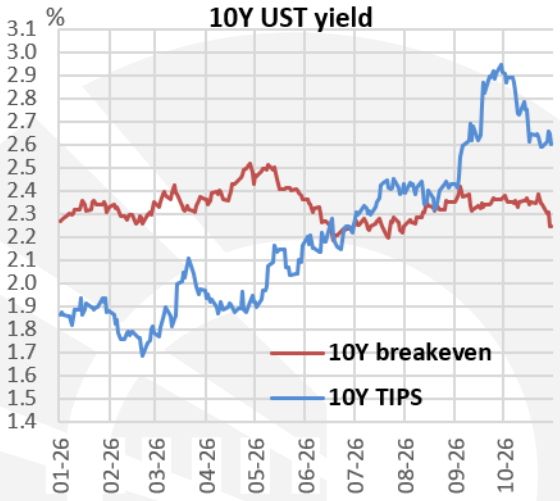
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Interest Rates Thoughts

Rates: market reaction to midterms and Treasury refunding

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- **USD rates**. USTs extended rallies after midterm elections, with the tweak in US Treasury's guidance on future issuance plans adding to the overnight moves. While USTs performances over the past weeks were in line with our directional bias, yields have undershot our near-term expectation moving nearer our multi-month targets. Much optimism is already built into the bond market riding on the implications of a Democratic sweep and on US Treasury's issuance plan, namely, potential for a less expansionary fiscal path and prospect of some reduction in long-end coupon bond supply. 10Y breakeven at 2.25% is at the low end of range; while 10Y real yield at above 2.6% still appears high, with the US economy remaining resilient, further downside to real yield appears limited for now. After post-event reactions, investors likely shift the focus back to the data, with initial jobless claims tonight, payrolls on Friday, and October CPI next week. Yields may consolidate in lower ranges near-term, with 10Y yield seen at 4.85-5.00%. 2Y UST yield at 4.57% appears not more hawkish than current Fed funds futures pricing of 58bps of additional hikes; i.e. downward move from here would likely require market to further pare back rate hike expectations.

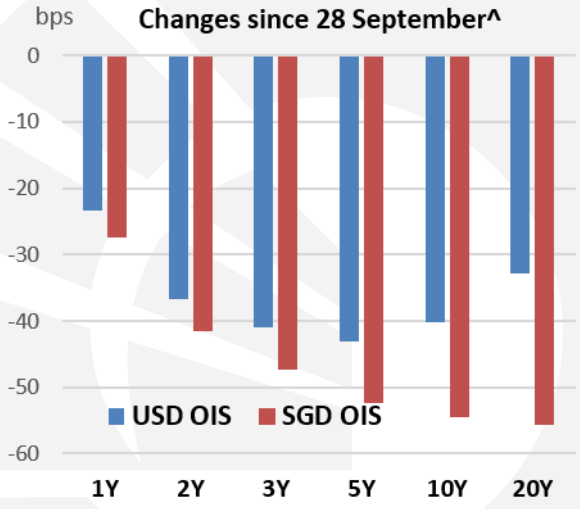


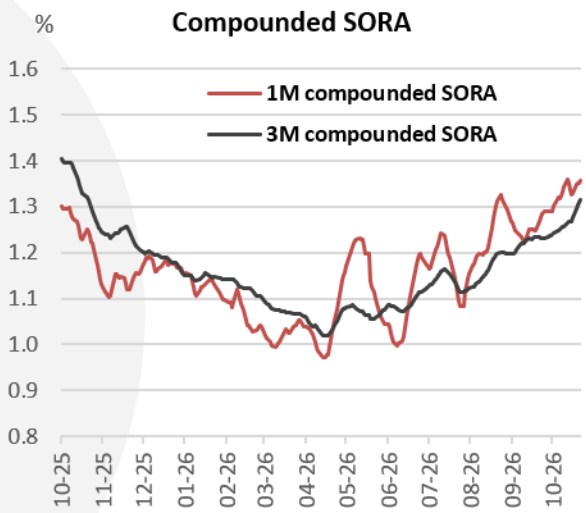
Source: Bloomberg, OCBC Group Research

- **US Treasury Refunding**. In the latest quarterly refunding statement, US Treasury said it "anticipates maintaining nominal coupon and FRN auction sizes for the next several quarters",

removing "at least" from the phrase. The statement maintained that it would evaluate potential "future changes" to nominal coupon and FRN auction sizes, since it last switched to the "changes" word at August statement. The statement added, as part of the process of this evaluation, "Treasury will engage with a variety of market participants to better understand evolving Treasury supply and demand dynamics. In considering any changes, Treasury will be guided by the objective of financing the government at the lowest cost over time". These tweaks in the wordings reinforce expectation that there will be some reduction in long-end supply starting from one of the subsequent quarterly refunding reviews. We do not expect much further market reaction to this prospect at this juncture, with 30Y bond/swap spreads hovering around a high level already.

- **SGD rates**. SGD rates have outperformed USD rates in the downward move which started in late September, resulting in more negative SGD rates – USD rates spreads. Meanwhile, SORA has continued to fluctuate over the days, but it remains on a gradual upward trajectory, on track with our long-end expectation for it to average around 1.4% by year end. Compounded SORA illustrate this trend, with 1M compounded SORA last at 1.3561% and 3M compounded SORA at 1.3157%. The spread between 2Y SGD OIS and 3M compounded SORA has narrowed to 39bps, versus 3-month average of around 61bps. Further out on the SGD OIS curve itself, the 1s5s and 2s5s segments have narrowed, to 38bps and 27bps respectively, versus 3-month averages of 51bps and 34bps. 2Y SGD OIS at around 1.7% and 5Y SGD OIS at below 2% level, together with narrowing in various segments of the curve may attract some corporate hedging flows, potentially limiting further downside to SGD rates.





Source: Bloomberg, OCBC Group Research
^as of 5 November Asia morning

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