

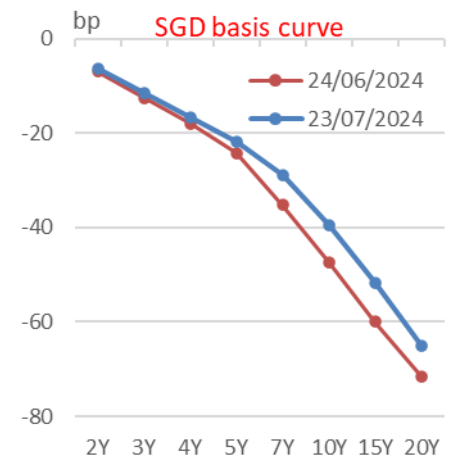
Interest Rates Focus

25 July 2024

15Y SGS auction preview

- The size of the 15Y SGS (reopen) auction on 29 July has been announced at SGD1.7bn, with MAS intending to take SGD200mn; the size is within expected range and keeps gross issuance on track to our full year expectation of SGD28-30bn assuming 4-5% growth in outstanding SGS this year, probably towards the lower end.
- The 15Y SGS supply is likely to be readily absorbed. **First**, as the lower-rate view has become more entrenched, investor appetite for duration may be gradually building up. After this upcoming 15Y SGS auction, there are only 5Y SGS (MD) and 50Y green SGS (infra) sales left for the year, and no more supply in Q4. As such, preference for duration may show up at this upcoming 15Y SGS auction, despite that the 15Y might not have been the most favoured tenor.
- **Second**, asset swap pick-up remains decent, albeit having narrowed mildly. USD-funded investors may prefer longer-tenor SGS as asset-swap becomes more favourable further out the curve given that both the SGD basis curve and SGD SORA OIS curves are inverted. Asset-swap pick-up (before crossing bid/offer spreads) was last at around SOFR+80bps at 15Y SGS and around SOFR+100bps at 20Y SGS.
- **Third**, the 15Y bond/swap spread (OIS minus bond yield) is on the low side. The spread was last at -35bps, compared to a 2-year median of -8bps. Moreover, taking the longer history of bond/IRS spreads, these spreads tended to be higher at higher rates and yields levels – meaning the current 15Y bond/swap spread looks even lower.
- While the auction may suffer from the richening in SGS in the earlier part of the month, the recent performances precisely reflected the lower-rate view and yields have nevertheless gone back up slightly. There is a mild kink on the curve at the 15Y; the 15Y yield was last a tad higher than the 10Y yield and the 20Y yield. The kink is however small and these few bps will likely be reflected at the auction, i.e. we do not expect the kink to be smoothed through the auction.
- On balance, a 15Y cut-off in the range of 3.11-3.16%, or more than 30bps above 15Y SGD OIS may be seen as attractive, barring any material moves in market levels between now and the auction day. Note US PCE/core PCE can be a potential market mover.

Frances Cheung, CFA
 FX and Rates Strategy
FrancesCheung@ocbc.com



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

Interest Rates Focus

25 July 2024

Macro Research

Selena Ling

Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming

Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)

Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong

Hong Kong & Taiwan Economist
herberhtwong@ocbc.com

Lavanya Venkateswaran

Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver

ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng

ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi

ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA

Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong

FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong

Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo

Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei

Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee

Credit Research Analyst
mengteechin@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).