Interest Rates Focus

27 August 2024

5Y SGS supply; SGD-USD rates spreads

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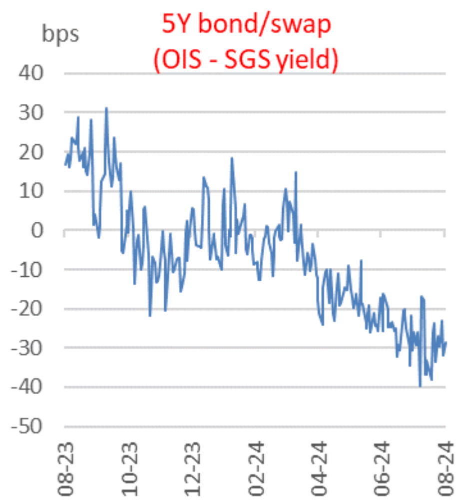
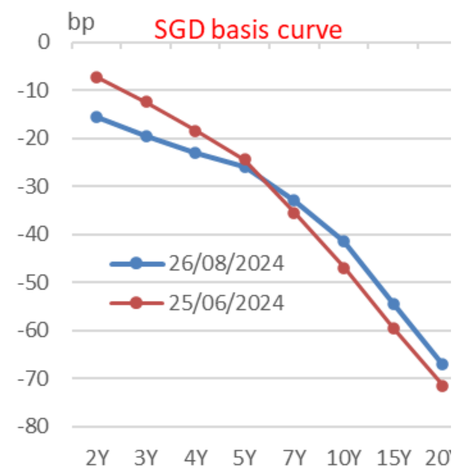
- The size of the upcoming 5Y SGS (reopen) has been announced at SGD2.8bn with MAS intending to take SGD300mn. Total gross SGS issuance this year stays on track with our estimated range of SGD28-30bn made at the start of the year, probably towards the lower end at SGD28bn.

- We expect demand at the 28 August auction of 5Y SGS to be solid. First, **supply is on the low side**. Demand from domestic investors is likely to be decent, as after this auction there remains the re-opening of 50Y Green SGS (Infra), i.e. no more mid-tenor supply for the rest of the year. Second, **bond/swap spreads (OIS - yield) have stayed low**, albeit having become less so. The 5Y bond/swap spread was last at -30bps, having rebounded from the recent low of -36bps. Still, the spread is low in historical context; 2-year median was virtually zero and 3-year median was -3bps. Taking the longer history of bond/SOR-IRS spreads, these spreads tended to be higher at higher rates and yields levels. With the 5Y SGS yield at around the 2.7-2.8% handle, the 5Y bond/swap spread shall be higher than 2Y or 3Y median level if history is a guide. The downside is that the 5Y rate and yield represent a low point on the swap and bond yield curves, though it is partially justified by the lower rate-view. On balance, a cut-off at more than 28bps above 5Y SGD OIS shall be seen as appealing.



Source: Bloomberg, OCBC Research

- Meanwhile, foreign investors may still prefer longer tenor-SGS for better asset swap pick-up, with the SGD basis curve staying fairly inverted. Asset swap pick-up was last at around 85bps (before bid/offer spreads) at 15Y SGS and around 105bps at 20Y SGS.



Source: Bloomberg, OCBC Research

Auction/pricing date	Tenor	New/Reopen	SGS type	Amount Allotted/offered (SGD mn)
29/01/2024	2-year	Reopen	MD	3000
27/02/2024	20-year	Reopen	MD	2100
26/03/2024	5-year	New	MD	2800
26/04/2024	10-year	New	MD	2900
21/05/2024	30-year	New via Syndication	Green Infra	2500
29/05/2024	2-year	Reopen	MD	2900
26/06/2024	5-year	Reopen	MD	2600
29/07/2024	15-year	Reopen	MD	1700
28/08/2024	5-year	Reopen	MD	2800
26/09/2024	50-year	Reopen	Green Infra	
Mini auction				
27/02/2024	5-year	Reopen	MD	1500

Source: MAS, OCBC Research

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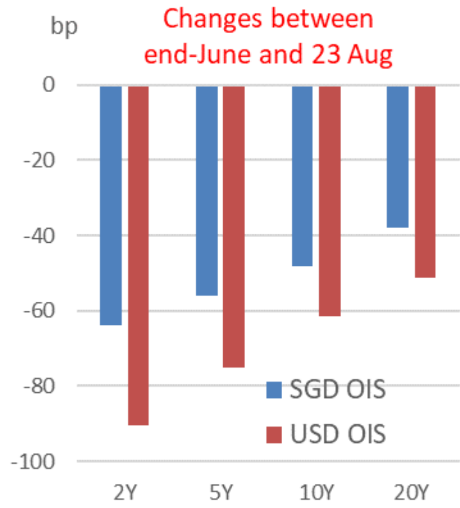
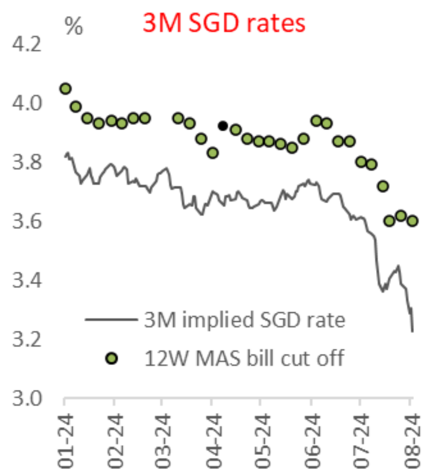
- In the recent leg of downward move between end-June and 23 August, SGD OIS underperformed USD OIS which was in line with historical pattern and our medium-term view. During this period, the passthrough from the falls in USD OIS onto SGD OIS was around 70% to 80%. SGD-USD rates spreads became mildly less negative as the result. The underperformance in SGD rates has not been more obvious, as there has been strong demand for SGS while MAS has maintained a positive S$NEER slope. Looking ahead, our medium-term view remains that room for short-end SGD rates to fall shall be less than that for USD rates to fall, leading to some further normalization in 1Y and 2Y SGD-USD OIS spreads.

- This spread normalization may gain more momentum should MAS ease its S$NEER policy. Singapore's headline inflation held steady at 2.4%YoY in July, but core CPI surprised to the downside printing 2.5%YoY. The overall inflationary trajectory should bode well for a potential monetary easing in the months ahead. This can take place by a slight reduction in policy slope, and we do not rule out a policy shift taking place as early as at the October meeting, should core CPI ease more in coming months.

- Recent T-bills and MAS bills auction results suggest the lower rate-view has become yet more entrenched. Cut-offs at recent T-bills and MAS bills auctions came in lower than those in July, unsurprisingly. Taking the most recent cut-offs at the 6M T-bills on 15 Aug and 12W MAS bills on 20 Aug, the implied 3M3M rate was 3.05%. Granted, the investor base to these two instruments is different which generally leads to higher MAS bills cut-off than T-bill cut-off, but comparing like to like, the implied 3M3M rate from the respective auctions around mid-July was 3.41%. These reflected a 36bp reduction in the expectation itself over a matter of one month. One interesting observation, however, is the recent falls in cut-offs were somewhat smaller than the falls in implied SGD rates, which may suggest that investors demand may not keep up entirely if the absolute levels of rates/yields are lower.



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

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