

Interest Rates Focus

21 March 2024

5Y SGS auction preview

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

- The size of the 5Y SGS (New) auction on 26 March has been announced at SGD2.8bn, with MAS intending to take SGD300mn; 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.
- The 5Y SGS auction is likely to garner decent demand from local investors, on the view for rates to go lower in the medium-term, and on asset allocation demand. The sales shall also benefit from the recent upticks in SGS yields in general. USD-funded investors may however prefer longer-tenor SGS for better asset swap pick-up. On balance, a 5Y cut-off in the range of 2.95-3.00%, or more than 5bps above 5Y SGD OIS is likely seen as attractive, barring any drastic moves in market levels between now and the auction day.
- On rates side, our medium-term view remains for SGD OIS to underperform USD OIS in a falling rates environment. We expect SGD OIS to gradually move lower over the course of the year, towards the 3% handle at the 6M and 1Y, and towards the 2.55-2.60% area at 2Y to 5Y tenors.

Auction Date	Tenor	New/Reopen	SGS Type	Total Amount Offered	Cut-off Yield	Bid to Cover Ratio
29/01/2024	2-year	Reopen	MD	S\$3.0 billion	3.04% p.a.	3.20
27/02/2024	20-year	Reopen	MD	S\$2.1 billion	3.08% p.a.	2.13
27/02/2024	5-year	Reopen	MD (Mini)	S\$1.5 billion	3.09% p.a.	1.81
26/03/2024	5-year	New	MD	S\$2.8 billion		
26/04/2024	10-year	New	MD			
29/05/2024	2-year	Reopen	MD			
26/06/2024	5-year	Reopen	MD			
29/07/2024	15-year	Reopen	MD			
28/08/2024	5-year	Reopen	MD			
26/09/2024	50-year	Reopen	Green Infra			
around mid-2024	30-year*	New (via Syn)	Green Infra			
Mini Auctions (Optional)						
26/06/2024				TBA		
22/08/2024				TBA		

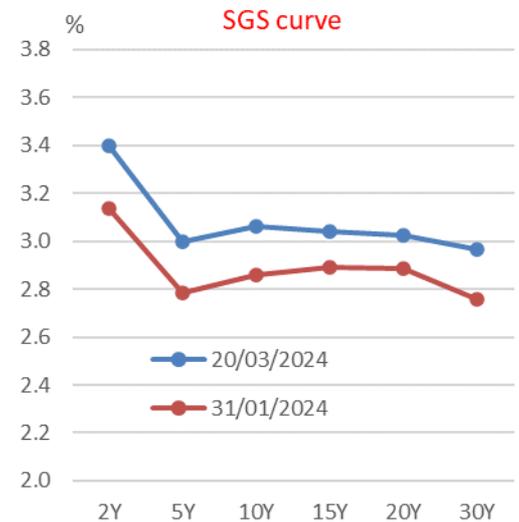
*subject to market conditions

Source: MAS, OCBC Research

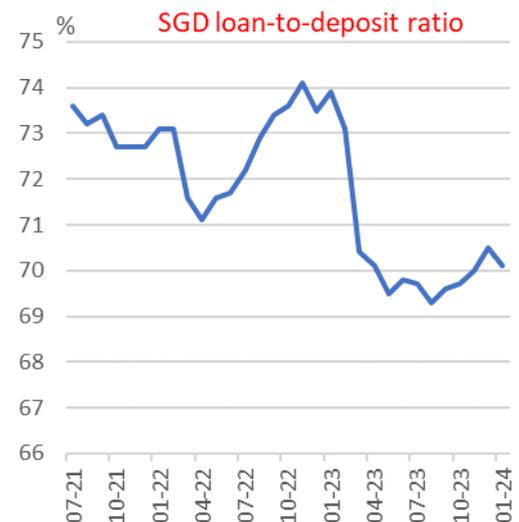
Interest Rates Focus

21 March 2024

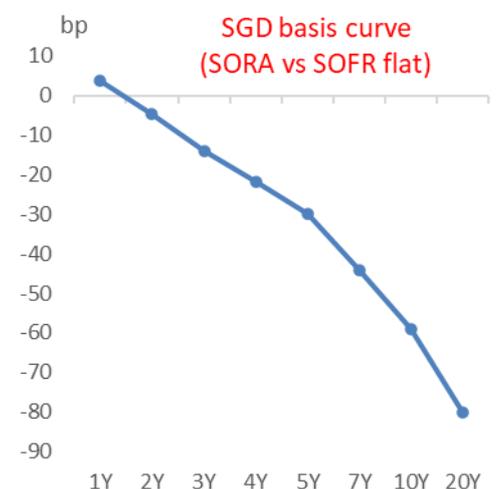
- SGS curve.** The SGS curve is inverted across 2s5s reflecting lower rates expectation. From 5Y out to 30Y, the curve is pretty flat. We have a steepening bias on the curve, mostly across 2s10s and 10s30s, while the 5s10s part may be relatively more stable. Still, investors with the view for rates to go lower in the medium-term may want to take advantage of the recent upticks in SGS yields in general. There may continue to be asset allocation demand into SGS. For one, commercial banks' non-bank loan-to-deposit ratio stayed at a relatively low level, at 70.1% as of January, as deposits have been growing steadily. On balance, a 5Y cut-off in the range of 2.95-3.00%, or more than 5bps above 5Y SGD OIS is likely seen as attractive, barring any drastic moves in market levels between now and the auction day.
- Bond/swap spreads.** The 5Y bond/swap spread (OIS – bond yield) last traded at -9bps. SGD SORA OIS does not have a very long history but last time when the 5Y yield and 5Y SGD OIS were around current levels, the bond/swap spread was around zero. In order to have a longer time series for comparison, one has to bridge the SOR IRS series and SORA OIS series. The 10-year average (to end-July 2023) of the 5Y bond/IRS spread was 21bps. Given that the 6M MMR adjustment spread is 31bps, while the 5Y SOR-SORA basis was mostly trading around 31/32bps in the months before liquidity died down in mid-2023, we use a spread of around 30bps for comparison. Deducting this 30bps from SGD IRS would mean a historical average of -9bps for 5Y bond/OIS spread; the current level is around this historical average. If past patten is any guide, the current levels of rates and yields shall mean a wider bond/swap spread.
- USD-funded investors.** On the other hand, foreign investors may prefer longer-tenor SGS. In terms of asset-swap pick-ups, it gets more favourable when USD-funded investors move further out the curve, as both the SGD OIS curve and the SGD basis curve are inverted. There is decent asset swap pick-up at 10Y SGS (around SOFR+65bps) and at 20Y SGS (around SOFR+100bps), and fair pick-up at 5Y SGS (around SOFR+30bps). We do note, however, that secondary market liquidity for long-tenor derivative instruments may not be as good; these levels are for reference only and investors may need to cross wider bid/offer spreads.



Source: Bloomberg, OCBC Research



Source: CEIC, OCBC Research



Source: Bloomberg, OCBC Research

Interest Rates Focus

21 March 2024

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
Cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Macau Economist
HerbertWong@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
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee, CFA
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).



Interest Rates Focus

21 March 2024

Co.Reg.no.: 193200032W