

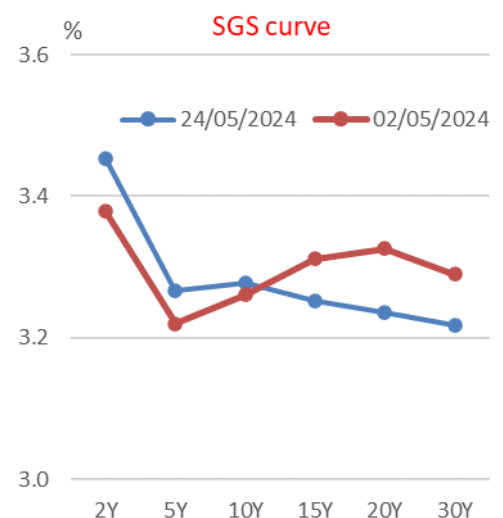
Interest Rates Focus

27 May 2024

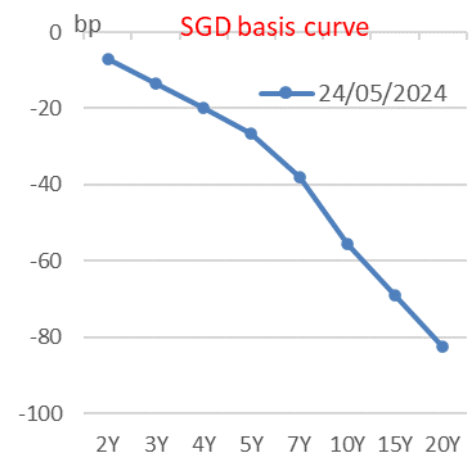
2Y SGS auction preview

- The size of the 2Y SGS (reopened) auction on 29 May has been announced at SGD2.9bn, 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 this year.
- The 2Y SGS auction is likely to be readily absorbed, on the recent cheapening in the bond (which might precisely reflect the preparation for the auction) while there appears to be a renewed expectation for rates to go lower, and on asset allocation needs. In addition, the 2Y bond/swap spread (OIS minus bond yield) is on the low side. The spread was last seen at -20bps, compared to a 2-year median of -5bps. Moreover, taking the longer history of bond/IRS spreads, these spreads tended to be higher at higher rates and yields levels. On balance, a 2Y cut-off in the range of 3.42-3.47%, or more than 17bps above 2Y SGD OIS is likely seen as attractive, barring any drastic moves in market levels between now and the auction day.
- USD-funded investors may still 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+75bps at 10Y SGS and around SOFR+115bps at 20Y SGS.
- At the front-end, the recent 4W and 12W MAS bills cut off at 3.89% and 3.87% respectively, while the recent 6M T-bills cut off at 3.65%. These bills auction outcomes may reflect increased expectation for rates to soften on a multi-month horizon. First, the spread between 6M T-bill cut-off and FX swap implied rate narrowed further; Second, based on 12M MAS bills cut-off and 6M T-bills cut-off, the implied 3M3M rate was lower than that in late April for a similar comparison.
- During the downward move in rates from end-April to 21 May, SGD OIS underperformed USD OIS, in line with historical pattern of relative performances. SGD-USD rates spreads have nevertheless narrowed back in recent sessions. Near-term, these rates spreads are likely to stayed deeply negative, before USD rates embark on a more sustained downtrend.

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Source: Bloomberg, OCBC Research



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