

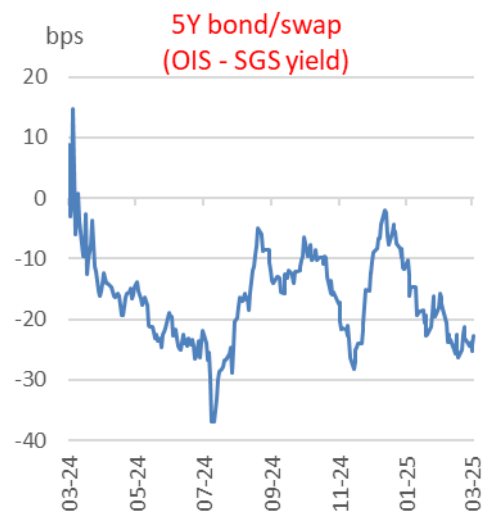
Interest Rates Focus

25 March 2025

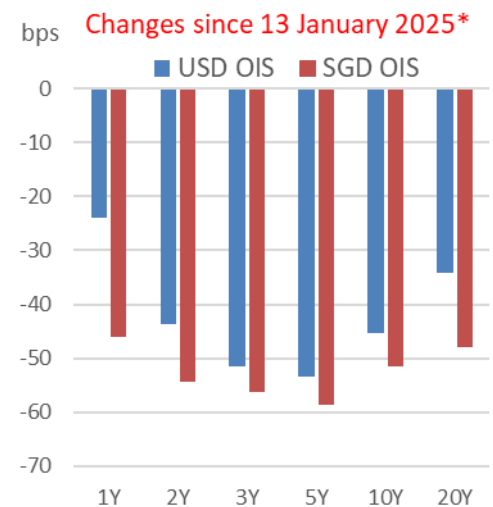
5Y SGS auction preview; SGD rates performance

- 5Y SGS auction.** The size of the new 5Y SGS (MD) auction on 26 March has been announced at SGD3.0bn, with MAS intending to take SGD300mn. We expect the bond sales to garner decent demand. First, the auction size was within expectations. The size may appear on the high side compared to historical auction sizes, but February’s SGD3.2bn sales of 10Y SGS (MD) was readily absorbed at a bid/cover ratio of 2.03x. Our full-year gross issuance expectation of SGD26-27bn has also assumed a growth rate in outstanding SGS at 3.5-4.0% in 2025 versus the 3% in 2024. Second, 5Y bond/swap spread (OIS – yield) last at around -24bps appears supportive of the bond, having fallen from the high of around -4bps in early January; the current spread compares favourably to its 2-year average of around -8bps, or the average of around -14bps since the spread turned negative in November 2023. On the other hand, 2s5s10s SGS is relatively low compared to levels earlier in the year, i.e. the 5Y bond has already outperformed mildly. On balance, a cut-off that is more than 20bps above SGD OIS may be seen as comfortable. Asset swap pick-up has improved from the lows observed in late February. Pick-up at 5Y SGS is fair, last at around SOFR+44bps (before bid/offer spread). Asset swap pick-up is more appealing further out the curve, at around SOFR+57bps at 10Y SGS, and around SOFR+63bps at 20Y SGS (on 10Y hedge).
- SGD rates versus USD rates.** SGD rates had further outperformed USD rates during the downtrend in rates from mid-January, until recent days. Implied SGD rates fell to the recent lows on 12 March as a result of lower USD rates, and more negative forward points notwithstanding the earlier reduction in the S\$NEER slope by MAS in January. Granted, the slope remains positive and there is room for S\$NEER to move within the current band. The outperformance in front-end SGD rates also reflected flush liquidity with SORA falling to a low of 2.08% on 12 March. We earlier wrote “for how long this flush liquidity condition will last is uncertain. Still, on the SORA OIS curve, the 2Y and 3Y rates represent the low points, at around 2.10-2.15% level, appearing to have incorporated the view for an extended period of flush liquidity; we see limited downside to these rates with risks of interim rebounds”. SORA recently rebounded and was last back at 2.65%. SGD SORA OIS have also rebounded from recent lows, by around 15bps. 2Y and 3Y SGD OIS remain as the low points on the curve; expected range is at 2.20-2.45%.

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Source: Bloomberg, OCBC Research



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