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- *Monetary policies from the Fed and MAS will take a backseat in driving SGD interest rates in 2020*
- *SGD rates outperformance over USTs already reflects the positive sentiment. Watch for another liquidity boost if the government expands NIRC*
- *In the near term, better SGD liquidity can be expressed via SGS-swap spreads*
- *The issuance calendar and maturity profile of SGS suggest that longer-tenor SGSs can outperform their US counterparts in 2H20*

SGD rates should do relatively well

The outlook for SGD rates is likely to be benign, with pockets of relative value plays through 2020. There are a couple of assumptions that we are holding. Firstly, we see the Fed on pause this year with the hurdle to move in either direction set relatively high. With the market seeing an asymmetrical risk towards easing, we think that this reflects a more cautious positioning (worries on duration), rather than an outright bet that the Fed will cut. Secondly, there is a good chance that Monetary Authority of Singapore (MAS) will also stand pat after easing policy in 2019. Taken together, **we think that monetary policy will be playing a more muted role in driving SGD interest rates this year.**

SGD interest rates have outperformed their USD counterparts over the past few months. **While we think that SGD rates can stay low in a benign environment, we are cognizant that a large part of move is probably already behind us.** Notably, the spread of 2Y SGD IRS over 2Y USD IRS is now at -23bps, compared to 13bps in early September. Accordingly, we think that the market is already reflecting the better global manufacturing outlook and a thaw in China-US trade tensions.

There will be opportunities when SGD liquidity gets more flush (more than what is being experienced due to current USD weakness) due to idiosyncratic factors. We think that **the upcoming budget could be more generous than previous years as the government takes**

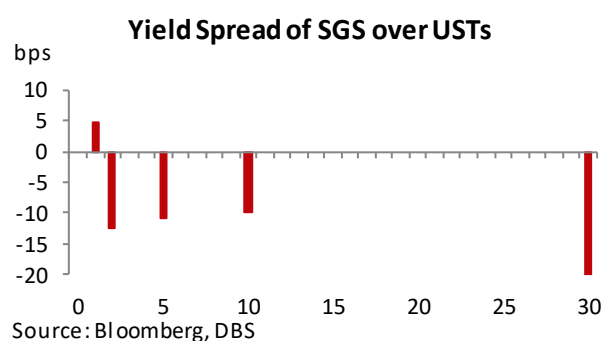
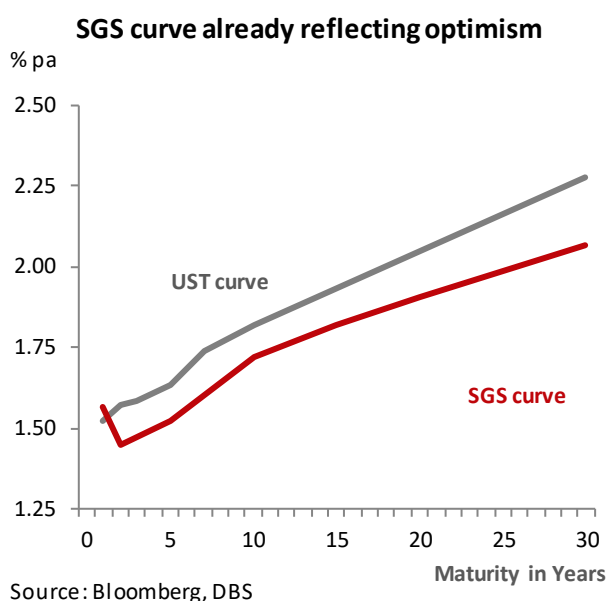
Rates (bps)	Spot	1W chg	1M chg
3M SOR	152	2	(1)
3M SIBOR	177	(0)	(0)
2Y SGS	147	0	(8)
5Y SGS	155	(0)	(5)
10Y SGS	174	1	(1)
2Y/10Y SGS	27	1	7

Source: Bloomberg

a fiscal tilt towards supporting the economy. For SGD rates, much would depend on the Net Investment Income>Returns contribution (NIRC) for 2020. Over the past few years, the amount of NIRC has been steadily increasing and is estimated to be around SGD 17bn (3.4% of GDP) for FY 2019. For FY 2020, the figure can be higher and should translate into an additional liquidity boost (probably staggered across several periods) later this year.

Better SGD liquidity can be expressed by SGS-swap spreads. The issuance calendar is heavily tilted towards the longer tenors (10Y and 30Y announcements due on January 21 and February 19 respectively). There is an absence of issuances for the 5Y tenor in the first five months of the year. Moreover, optional mini auctions are only scheduled for June and August. This suggests that **5Y SGS-swap spread offers the best risk-to-reward in the near term.** Current SGS-swap spreads are wide ahead of upcoming longer-term issuances as bonds underperformed. However, this should reverse once the long-tenor SGS issuances are cleared in 1Q.

Longer-tenor SGS outperformance versus US Treasuries may be more interesting in 2H20. Aside from a lighter SGS longer-tenor issuance schedule, the maturity profile of SGSs (and comparables) is more favourable. Notably, there are two sizable SGS maturities, SGD 5.5bn and 8.0bn in July and September respectively. Amongst comparables (we screen only the government-linked entities, no private sector), only the SGD 1.2bn HDB bond (maturing November) stands out. Timing wise, we think that US yields may start to push meaningfully higher only in 2H. The mix of fiscal fears, US ultra-long issuances and a period of stable global growth may just be the trigger for longer-term USD rates underperformance. Under these conditions, we think that SGSs and SGD rates offer greater stability.



SGS-Swap spread	2Y	5Y	10Y	20Y
Spot (bps)	3.65	6.32	6.42	8.06
3M ago	6.68	9.85	7.88	12.06

*+ve means yields are higher than swaps

Source: Bloomberg, DBS

2020 Auction Calendar

Announcement Date	Auction Date	Issuance Date	Tenor	New issue/re-opening
21 Jan 2020	29 Jan 2020	03 Feb 2020	10-yr	Reopen
19 Feb 2020	26 Feb 2020	02 Mar 2020	30-yr	New
20 Mar 2020	27 Mar 2020	01 Apr 2020	2-yr	Reopen
21 Apr 2020	28 Apr 2020	04 May 2020	2-yr	Reopen
19 May 2020	27 May 2020	01 Jun 2020	15-yr	Reopen
19 Jun 2020	26 Jun 2020	01 Jul 2020	5-yr	Reopen
21 Jul 2020	28 Jul 2020	03 Aug 2020	10-yr	Reopen
20 Aug 2020	27 Aug 2020	01 Sep 2020	2-yr	Reopen
21 Sep 2020	28 Sep 2020	01 Oct 2020	20-yr	Reopen
21 Oct 2020	28 Oct 2020	02 Nov 2020	5-yr	New

Mini-Auctions (Optional)

Announcement Date	Size Announcement	Auction Date	Issuance Date	Tenor
01 Jun 2020	19 Jun 2020	26 Jun 2020	01 Jul 2020	TBA
03 Aug 2020	20 Aug 2020	27 Aug 2020	01 Sep 2020	TBA

Auction Results

Tenor	Amt (SGD mn)	Auction Date	Bid-to-cover ratio	Cutoff Yield
5 yr	2,900	29 Jan 2019	2.08	2.06
30 yr	1,600	26 Feb 2019	1.99	2.60
5 yr	2,000	27 Mar 2019	2.09	1.93
10 yr	2,400	26 Apr 2019	1.83	2.20
15 yr	900	29 May 2019	1.84	2.33
2 yr	2,900	29 May 2019	2.02	1.94
20 yr	1,900	26 Jun 2019	1.96	2.41
5 yr	2,300	29 Jul 2019	2.20	1.74
10 yr	2,900	28 Aug 2019	1.89	1.69
15 yr	800	26 Sep 2019	1.83	1.88
2 yr	3,000	26 Sep 2019	2.01	1.66
7 yr	1,400	29 Oct 2019	1.86	1.73

Source: www.sgs.gov.sg

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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