

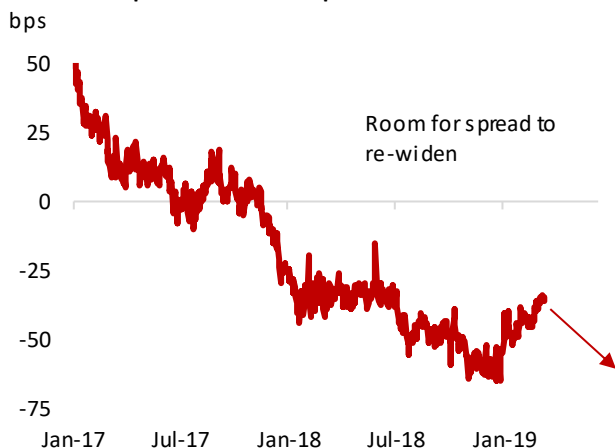
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- After months of underperformance, it is time for SGD rates to do well versus USD rates
- We think there is scope for greater outperformance in the 10Y tenor

10Y SGD swap less 10Y USD swap



Source: Bloomberg, CEIC, DBS

Time for SGD rates to outperform

We think that receiving 10Y SGD swap vs paying 10Y USD swap is now attractive (alternatively receiving 5Y5Y SGD swap and paying 5Y5Y USD swap also works). SGD rates have generally underperformed USD rates this year as bets of further tightening by the Monetary Authority of Singapore (MAS) got unwound while USD rates benefitted from the tailwind of a falling Libor. Notably, the spread of 10Y SGD swap over its USD counterpart has narrowed to -35bps, from as wide as -65bps in late December. Below, we lay out three reasons why SGD rates should outperform going forward.

Firstly, the 2Y/10Y segment of the SGD swap curve is still much steeper than the 2Y/10Y segment of the USD swap curve. Reasonably flush SGD liquidity appears to have kept a lid on upside in short-term SGD rates while longer-term SGD rates are still digesting the recent 30Y SGS issuance. **Secondly, the fall in Libor may be close to an end.** The 3M Libor has fallen by over 20bps since the peak in December. Most of this can be attributed to flush USD liquidity and muted T-bill and CP issuances. When the issuance of short-term paper picks up again, there would be scope for Libor to rise, widening the USD/SGD forward points, thereby driving SGD rates outperformance. **Lastly, SGS-swap spreads are relatively wide for the 10Y tenor** (around 10bps), compared to less than 5bps in the shorter tenors.

Key idea:

-Receive 10Y (or 5Y5Y) SGD swap vs pay 10Y (or 5y5Y) USD swap

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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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