Economics

DBS Flash

SGD rates: Time to grab yield

Strategy/Singapore/Rates

Group Research

June 3, 2019

Eugene Leow
Rates Strategist

Please direct distribution queries to Violet Lee +65 68785281
violetleeyh@dbs.com

- *After months of underperformance, we think that SGD rates / SGSs are starting to look attractive*
- *With developed market yields pushing lower, investors would have to diversify, and Singapore is a logical destination*
- *SGSs are likely to do well on an absolute and relative basis versus peers.*

AAA-rated economies plus US	10Y Yields
United States	2.13
Singapore	**2.09**
Norway	1.55
Canada	1.49
Australia	1.48
Luxembourg	0.20
Sweden	0.10
Netherlands	-0.01
Denmark	-0.11
Germany	-0.20
Switzerland	-0.48

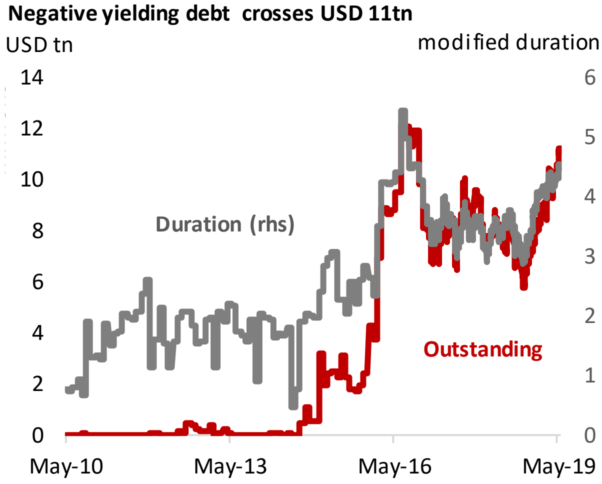
Source: Bloomberg, DBS

Rates: SGSs offer relatively high yields

After a sustained period of underperformance, Singapore government securities (SGSs) look very attractive compared to peers. Tight SGD liquidity that came about on the back of mismatches in issuances/maturities and a sustained period where the Monetary Authority of Singapore (MAS) is withdrawing liquidity (via bills and swaps) were the two key reasons behind why SGD funding costs have stayed elevated (see here). It probably does not help that the trade war has dented sentiment, driving the S$NEER lower and the USD/SGD higher. Persistent worries about USD strength have also eroded the investors' interest in taking on local currency debt (including SGSs) on an unhedged basis. To be sure, many of the forces driving SGD rates underperformance are still applicable. However, there are a couple of factors that suggests that this development could be ending.

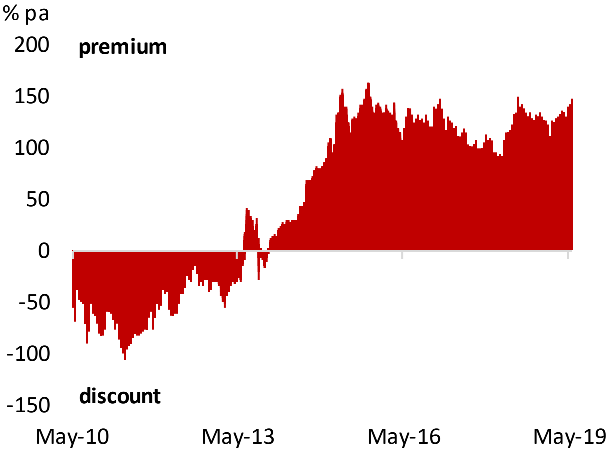
Firstly, the issuance/maturity profile should tilt in favour of longer-term SGSs in the coming months. Notably, the SGD rates space has had trouble digesting the 10Y, 15Y and 30Y auctions over the past few months. In the past two months, competition from the Land Transport Authority of Singapore (HDB) and Housing Development Board (HDB), which cumulatively raised

Negative yielding debt crosses USD 11tn



Source: Bloomberg, CEIC, DBS

Yld premium of 10Y SGS over average of AAA-peers



Source: Bloomberg, CEIC, DBS

Related pieces:

[USD Rates: Pause, not stop]

[SGS: Slim pickings]

[SGD Rates: Time to outperform]

[SGD Rates: The SSB swing factor]

[SGD Rates: Tight liquidity]

SGD 2.1bn) have added to the tightness. Going forward, the calendar becomes lighter with 20Y and 10Y auctions scheduled for end-June and end-August respectively. SGD rates should also get some respite with SGD 8.7bn worth of SGSs maturing over the weekend.

Secondly, we think that the global grab for yield will spill over into Singapore. Slowing global growth and increasing trade war risks have dragged 10Y US yields lower by more than 100bps to 2.12% from its peak last year. Across the developed markets, sentiment is similarly weak with yields in Germany and Australia pushing record lows**.** The total stock of negative yielding debt has ballooned to over USD 11tn and this will prompt DM investors (especially Europeans) to look towards higher yielding assets.

Within the AAA space (by all three major rating agencies), Singapore has the highest 10Y yield (2.09%). If we throw the US and Japan into the mix, Singapore ranks a close second (10Y US stands at 2.12% at the time of writing). **SGSs look cheap on other technical measures too.** Notably SGS yields are trading higher than swap rates across much of the curve while SGS and UST yields have practically converged from the 2Y tenor onwards. The front of the SGS curve is also much steeper than the US curve where the market is already pricing in aggressive Fed cuts.

The implications of a low-yielding world are clear. SGSs now look very attractive in level terms and compared to peers. We are not convinced that the 150bps premium that 10Y SGS holds over the average of AAA-rated peers is warranted. Going forward, **SGSs have scope to do well in relative and absolute terms.**

Group Research

Economics & Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
+65 6878-9548 taimurbaig@dbs.com

Nathan Chow
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

Radhika Rao
Economist - Eurozone & India
+65 6878-5282 radhikarao@dbs.com

Masyita Crystallin
Economist – Indonesia & Philippines
masyita@dbs.com

Irvin Seah
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

Joanne Goh
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

Samuel Tse
Economist - China & Hong Kong
+852 3668 5695 samueltse@dbs.com

Eugene Leow
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

Duncan Tan
FX and Rates Strategist - Asean
+65 6878-2140 duncantan@dbs.com

Chris Leung
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

Philip Wee
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com

Ma Tieying
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

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