DBS Flash

SGD rates: Introduction to SORA

Strategy/Singapore/Rates

Group Research

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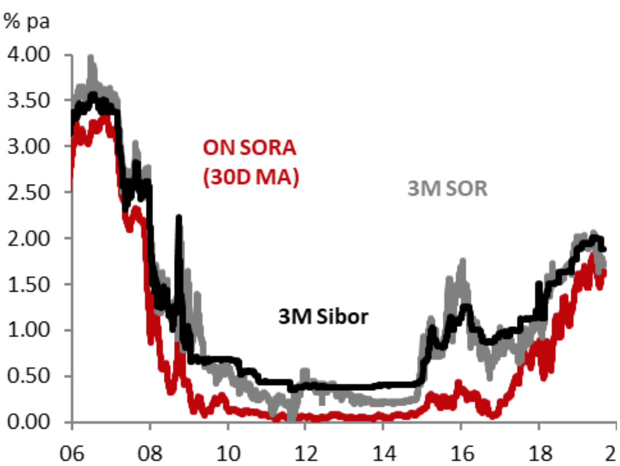
Eugene Leow
Rates Strategist

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

- *Singapore Overnight Rate Average (SORA) will be the new benchmark SGD interest rate.*
- *A two-year transition period is ahead as SOR and Sibor get phased out.*

SGD Interest Rates



Source: Bloomberg

The Association of Banks in Singapore (ABS) announced that the Singapore Overnight Rate Average (SORA) will be the preferred benchmark borrowing rate within the next two years (see here).This appears in line with part of the global push to have a transactions-based benchmark that is transparent with appropriate levels of governance (see SOFR piece here). Singapore has opted for a two-step process. **ABS has already commenced transitional testing for the enhanced Sibor** (see here) in July with further details likely to be made available next year. SORA will be the longer-term plan to transit towards an overnight rate.

The SORA is the weighted rate of all SGD overnight cash transactions brokered in Singapore. In many ways, this rate is similar to Sibor given that banks are the dominant players in this market and there are no FX dynamics that can directly skew rates. The two key differences (between SORA and Sibor) are that SORA is purely transactions-based and has no ”term” component.

However, **given that many financial products are linked to the SOR, it is probably worth considering the differences between SOR and SORA.** SORA measures demand for SGD without considering changes in USD dynamics (while some FX spillover is inevitable, SORA does not require FX forwards as inputs). This suggests that the odds of SORA turning negative (like what the SOR did in 2011) is low. Back then, demand for USD through the period of risk aversion perversely drove SORs negative, creating complications for SOR-linked products. SORA can also be calculated independent of Libor, which can reduce uncertainties when Libor ceases in 2021.

SOR will be phased out as the SORA gains traction. Selected segments of the financial system still rely on swaps to fund themselves and this is not likely to change. However, these will be bilateral transactions and there may not be any need to have SOR fixings. Accordingly, **we will have a period where SORA and Sibor will be the benchmark rates,** compared to Sibor and SOR currently. It is likely that new derivative products will reference the SORA while new cash products will reference the Sibor (or any other benchmark rates).

We are awaiting clarity on how the upcoming changes will affect existing contracts that reference SOR. As SOR fixings will be around for a period of time, it is possible for contract amendments to be done on a bilateral basis. Alternatively, the authority can provide a blanket conversion “spread” overlay for existing SOR-linked products (3M SOR = SORA + term premium + SORA-SOR basis). For reference purposes, the lifetime average spread of the SORA over the 1D SOR stands at -12bps.

The SORA will eventually become the key benchmark SGD interest rate. However, this would likely take several years. The SORA may be too volatile for commercial purposes. Once term SORA (1M, 3M, 6M) comes into the picture, SIbor would become obsolete.

Group Research

Economics & Strategy

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

Chang Wei Liang
Strategist
+65 6878-2072 weiliangchang@dbs.com

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

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

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

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

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

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

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

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

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

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

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

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