Economics

DBS Flash

SGD rates have outperformance potential

Group Research

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- SGD rates still have room to outperform USD rates over the medium term
- Receiving short-tenor SGD swaps is a strategy to take advantage of tighter MAS policy. However, this is only a short-term play
- The market is wary of duration risk but we think that longer-term SGS should stay supported
- Further widening in UST-SGS yield spreads in the longer tenors (>15y) could be one way to express this view

Rates (%, bps)	24-Jul	1W chg	1M chg
3M SOR	1.69	(1)	(1)
3M SIBOR	1.64	0	0
2Y SGS	2.02	(4)	5
5Y SGS	2.34	(6)	5
10Y SGS	2.59	(5)	7
2Y/10Y SGS	57	(0)	2

Source: Bloomberg

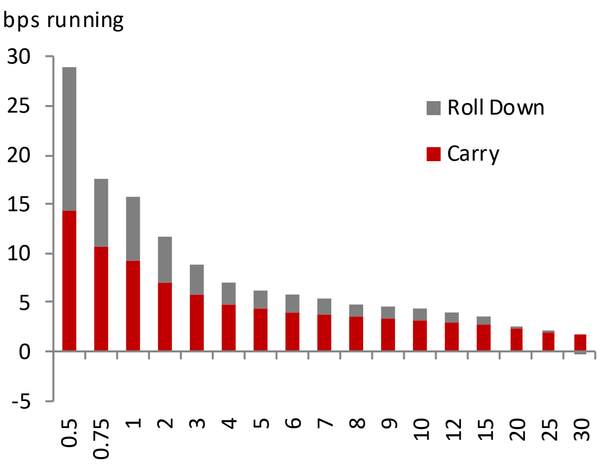
Nuancing the SGD curve

SGD interest rates are likely to continue outperforming their USD counterparts. 2Y SGD rates (IRS and SGS) have done particularly well since the start of 2018. Back then, the SGS-UST yield spread was -24bps. This spread has since widened to -85bps. This development was also echoed in the 10Y tenor where spreads have widened to 58bps, from -28bps at the start of the year.

A large part of this outperformance in SGD rates can be attributed to the pricing in of tighter policy from the Monetary Authority of Singapore (MAS). The MAS delivered, steepening the SGDNEER band twice this year (April and October) to an estimated 1% pa slope. **Further SGD rates outperformance lies ahead, however, the nuances across the tenors and the investment timeframes differ.**

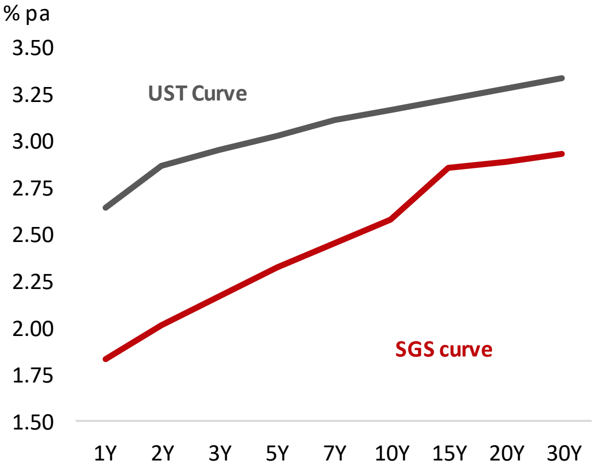
Receiving positions in the front of the SGD curve looks attractive in the immediate term. MAS tightening is putting modest downward pressures on SORs while longer-term SGD rates have been dragged higher over the past few months. Meanwhile, stretched USD funding is showing up in basis swaps (EUR and JPY) while spilling over to SORs (nudged lower). This development is likely to last till the end of the year, keeping SORs somewhat depressed. As such, the carry + rolldown in the front of the SGD swap curve (out to the 2Y, 3Y tenors) is

SGD Swap Curve: 3M Carry + Rolldown



Source: Bloomberg

Front of the SGS curve is rich



Source: Bloomberg

compelling and would appeal to market participants with a shorter investment timeframe. Beyond the short term, this trade may no longer be as attractive given that short-term SGD rates already look rich compared to their USD counterparts.

The intermediate tenors (4Y,5Y) are likely to trade mixed. The market is **awaiting the issue size for the upcoming 4Y mini auction** (capped at SGD1bn, to be announced on 22nd Oct). Temasek has also launched a 5Y bond offering that is available to institutional and retail investors. with a fixed rate of 2.7%, we suspect that interest could be high (Based on past data from Singapore Savings Bonds (SSB) auctions). Retail investors are yield sensitive and 2.7% should be sufficient to clear the hurdle rate. Note that the initial offer size is set at SGD400mn, with a possible SGD100mn upsize.

Meanwhile, market participants remain skittish on receiving longer-term SGD rates. 30Y SGS yields are hovering just shy of 3% (a key technical resistance line) as UST yields stayed buoyant. While taking on duration risk is no longer in vogue, there are a couple of factors that support SGD rates. Firstly, there appears to be a lack SGD issuance in the ultra-long tenors in the coming few months. Secondly, longer-term SGD rates are not as rich (relative to USD rates). **Without taking a directional call on rates, further US-SG spread widening may be the best way to express our view.**

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