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# Rates Insights

SG Rates, Opening Adjustments but little Follow Through Interest.

Tuesday, 21 February 2017

Heatmap of Daily Changes							
-	Singapore	Malaysia	Thailand	Indonesia	China	Hong Kong	
						HKD	CNH
Equity (%)	-0.1%	-0.3%	-0.4%	-0.1%	0.4%	-0.8%	
USD_Asia FX (%)	0.2%	0.0%	0.0%	0.1%	0.1%	0.0%	-0.2%
Money Markets (bps)	0.0	0.0	-0.1	12.5	-4.0	0.5	18.8
Short End IRS (bps)	-0.2	1.0	1.0	0.3	4.5	2.0	6.0
Long End IRS (bps)	0.0	-0.7	3.0	1.7	9.0	2.0	0.0

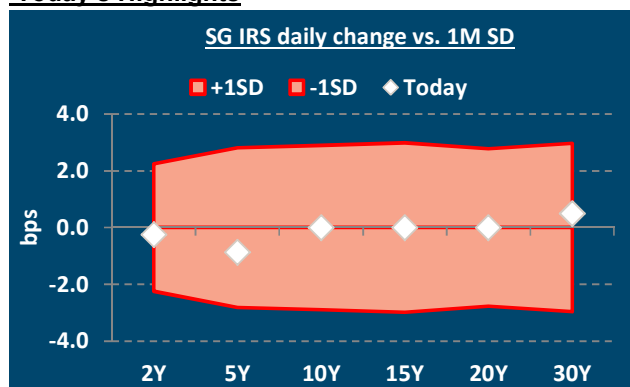
\*Table is read horizontally. Price increase in Green. Price decrease in Red. Color intensity corresponds to rank.

## Market Summary

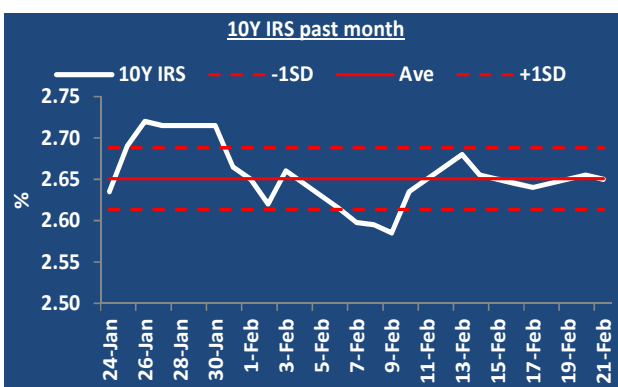
- SORs are implied to fix mostly higher by around 1.5bps, 1.1bps and -0.8bps in the 1M, 3M and 6M tenors respectively tonight based on the closing swap levels.
- 10Y UST yield was unchanged at 0bps during SG trading hours and this ran counter to it's overnight US session which saw yields unchanged. Turning to domestic markets, the performance today was mixed; 10Y IRS 0bps and 10Y SGS 1.4bps.
- SG curvature performance today saw the 2s10s steeper by 0.2bps in IRS and flatter by -3.3bps in SGS.
- Regional 10Y yields today rose in Thailand, Indonesia, China, Hong Kong, fell in Malaysia, and in terms of magnitude of change the largest positive yield change in the 10Y tenor was 6bps recorded by 10Y CNY IRS while the day's biggest yield drop was -0.7bps which was seen in 10Y MYR IRS.

Major Indices - SG Hours	10Y UST	10Y Bunds	USD Index (DXY)	USD Index (ADXY)	Brent Oil	Asia ex Japan Equities
Open	2.434	0.314	101.11	104.74	56.17	1025.78
Close	2.434	0.301	101.26	104.62	56.51	1025.39
Change	0bps	-1.3 bps	0.15%	-0.11%	0.61%	-0.04%

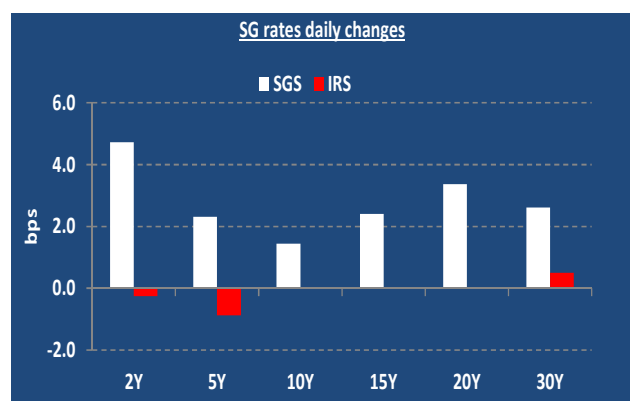
### Today's Highlights



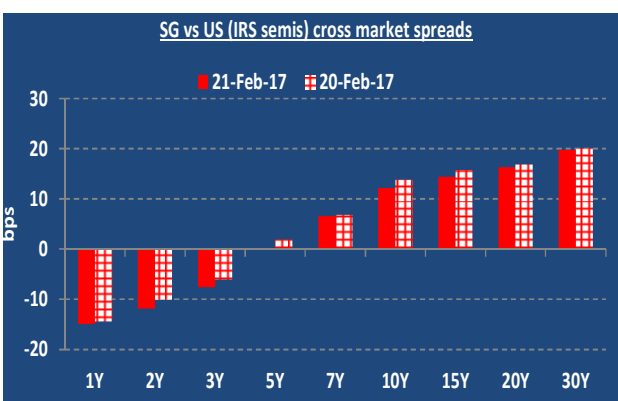
Source: Bloomberg



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

### SORs

1 day after Budget 2017, USDSGD spot poked back above 1.42 and the SG NEER was marginally weaker. However, today's reaction has been more a function of broad USD strength based on the DXY index gaining 32 points today. Big picture, Budget 2017 is an expansionary one and would reduce the need for further action by MAS. That said, positioning for SGD weakness and volatility over the April event risk is low and could be attractive to those looking for cheap hedges against both an MAS surprise as well as sharp broad USD appreciation over the same time frame. In this scenario, we expect 3M SOR to gravitate towards the topside of our 0.70%/0.90% expected range.

#### Short term view:

USD directional bias needs to be stronger to induce better SOR volatility when technical levels break in the USDSGD spot FX. 1Q 2017 expected 3M SOR range: 0.70% to 0.90%.

### SGS and IRS

Market activity picked up slightly today as SG rates adjusted to post holiday US yield changes, most of the interest was in the shorter end of the curve where liquidations caused the 2Y SGS to underperform and yields adjusted higher by as much as 5bps. Intraday directional impulse on the longer end of the curve was also low as the 10Y UST was little changed between 2.43% to 2.45% for most of the Asian session. SGS auction related flows were also missing today but that has not prevented March 2027 yield from creeping higher by 5bps from last week's low. We would recommend covering tactical auction shorts should March 2027 yield cross above 2.40%.

15s20s SGS curve steepener has been trying to capitalize on the lull in short covering activity. Since flattening to a historical low of -4bps last week, the 15s20s has inched its way higher to just above -2bps. We are unchanged in our view that curve inversion in 15s20s ought to be temporary and a recovery back to +4bps/+5bps will be more in line with fair value.

#### Short term view:

10Y SG IRS looking at consolidation between 2.65%/2.75%. Downside our expectation remains that better yield support lies between 2.50% and 2.55%.

<b>SGS auction and its surroundings</b>	Next Auction:	Reopen 10Y (NZ07100S - 01 March 2027)
	Announcement date:	Friday, 17 February, 2017
	Size:	SGD 2.3bio
	Auction date:	Friday, 24 February, 2017

### Reopen of March 2027 (10Y) in a nutshell

A bit of perspective on the long term historical performance of 10Y SGS. Since FED rate cuts bottomed out in 2009, the 10Y SGS constant maturity yield has averaged at 2.23%. Yield spikes have struggled to crack 3.00%, while the lows of 1.40% to 1.50% has not been seen since 2012/2013 (pre taper tantrum). Post taper tantrum average in 10Y SGS yield is higher at 2.37% and in line with what is currently on offer by March 2027. If we consider consensus expectations for FED rates and balance sheet run off potential ahead, then there is not a lot of buffer in the 10Y SGS from a buy and hold perspective.

Short term view:

7 February - Tactical short on the March 2027 at 2.30%, targeting a move back higher in yield to 2.40% with stop set at 2.20%.

17 February - Long 10Y UST vs. short March 2027 at 10.5bps for unwinding on 24 February's auction.

Post auction view:

March 2027 will likely continue to display underperformance tendencies vs neighbouring bonds after the auction since it is the obvious pain point to push when bond sentiments subsequently turn negative. Therefore, we prefer to spread 10Y duration exposures across both benchmark and off the runs.

March 2027 yield (%):	2.374	March 2027 vs 10Y SGS spread (bps):	11.0	March 2027 vs 10Y UST spread (bps):	-6.0	March 2027 vs 10Y SG IRS spread (bps):	28.0
Daily Change (bps):	1.5	Daily Change (bps):	0.0	Daily Change (bps):	4.0	Daily Change (bps):	-1.5

### Size observations

- \* Average size for past 8 auctions is SGD 2.2bio (new issues average SGD 2.4bio, re-tap average SGD 2bio).
- \* Average bid to cover for past 8 auction is 1.94 times (new issues average 1.89 times, re-tap average 2.0 times).
- \* Amount outstanding for March 2027 is SGD 6bio compared to current 10Y benchmark of SGD 2.5bio and neighbouring issue July 2029 of SGD 2.2bio.

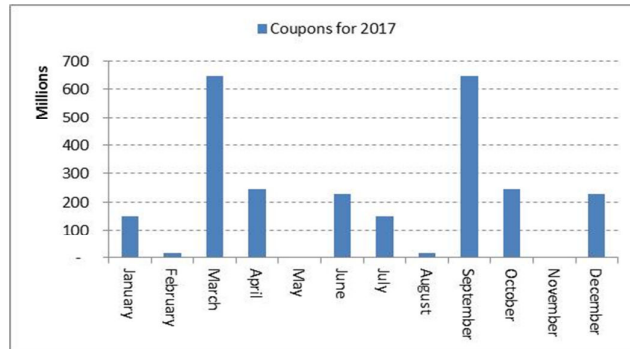
### Yield observations

- \* Downside yield support for March 2027 at 2.40% followed by stronger headwinds at 2.30%/2.33%.
- \* Upside yield resistance at 2.50% followed by stronger headwinds at 2.60%/2.65%.
- \* 1Y average yield for constant maturity 10Y SGS is at 2.10% and the 360D annualized yield volatility is 36%.

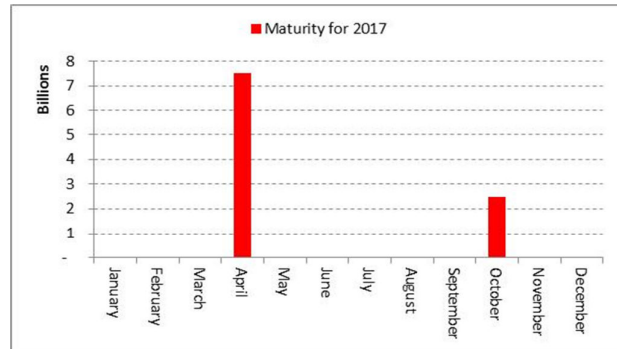
March 2027 will follow in the steps of June 2019 in crossing the SGD 8bio amount outstanding threshold. In addition, March 2027 will also be in a situation of abundance amidst scarcity, more so than June 2019. Good post auction potential for March 2027 to remain persistently cheap vs June 2026 and July 2029.

### Key notes on 2017 SGS cash flows

- \* March/September are chunky coupon months for SGS with SGD 646.1mio to be distributed.
- \* February/May/August/November are dry months for SGS coupons.
- \* No new coupons will be added to dry months in 2017.
- \* Maturities for 2017 total SGD 10bio due in April (SGD 7.5bio) and October (SGD 2.5bio).



Source: Bloomberg



Source: Bloomberg

### Rates Strategy

Inception Date	Currency	Type	Format	Entry	Stop	Target	Rationale at inception
Tuesday, 07 February, 2017	SGD	Tactical auction short	Short March 2027	2.30%	2.20%	2.40%	Tactical short for February's 10Y SGS auction.
Friday, 17 February, 2017			Long 10Y UST vs. Short March 2027	10.5bps	N/A	N/A	Repositioning tactical auction short into UST vs. SGS spread tightener after auction size announcement. Position to be unwound at auction.
Friday, 20 January, 2017	SGD	Steepener	Long 5Y SGS Bmk vs. Short 20Y SGS Bmk	<del>86bps</del> 82bps	75bps	103bps	SGS curve is flat relative to inflation expectations and could benefit from any near term inflation overshooting fears.  Switched from 5s15s to 5s20s on 16 February to fade the 15s20s curve inversion of -4bps.
Wednesday, 18 January, 2017	SGD	Widener	Pay 2F2Y IRS vs. receive 5Y IRS	29bps	20bps	50bps	Buying into pre US President inauguration dip. Expect IRS forwards to outpace spot IRS yield gains when reflationary momentum return.
Tuesday, 03 January, 2017	SGD	SGS outperform	short 10Y UST vs long 10Y SGS	-1.5bps	-20bps	30bps	Arguments for higher yields into 2017 are predominantly US centric. This being the case and in combination with our macro team's lukewarm but not recessionary growth outlook for Singapore, conditions are supportive of a lower beta SG rates market response to US rates changes on average in 2017. Therefore we expect to see 10Y UST – SGS spread moving further into positive territory over the course of 2017.

Tuesday, 03 January, 2017	SGD	Steepener	5s10s SG IRS	48.5bps	40bps	70bps	Trumpflation is expected to have negative implications on US deficit, which will drive a greater appreciation of duration risk and richer term premiums. For 2017 we expect to see the term premium repriced to a higher equilibrium level. From a SG rates market perspective, a steeper 5s10s IRS curve will be justified in the above scenario at least until the FED demonstrates a significantly more hawkish stance.
Tuesday, 03 January, 2017	SGD	Steepener	2F1Y vs 1F1Y SG IRS	45bps	35bps	75bps	Anticipated fiscal policy boost will contribute towards making the long espoused FED rate normalization a more credible objective in 2017. Rate hike expectations will likely shift in favour of a steeper rate hike trajectory when the new Trump administration announces their policy details. We expect to see the follow through repricing having a greater impact on the curve beyond 2018 since it is assumed that the FED will remain conservative and data dependent. The 2 year forward 1Y SG IRS will outpace the 1 year forward 1Y SG IRS when the aforementioned repricing in FED rate hike expectations takes place in 2017.

**Rates Benchmarks - SG Session**

Country	Benchmark	Open	High	Low	Close	Change (bps)		
						1D	1M	1Y
US	10Y IRS	2.36	2.39	2.36	2.37	↑ 2	↑ 9	↑ 78
	10Y UST	2.43	2.45	2.43	2.43	↑ 2	↓ -3	↑ 69
	2s10s UST	124	124	123	123	↑ 1	↓ -5	↑ 23
SG	10Y IRS	2.66	2.67	2.65	2.66	↔ 0	↔ 0	↑ 3
	10Y SGS	2.24	2.28	2.24	2.27	↑ 1	↓ -6	↑ 14
	2s10s IRS	103	103	103	103	↑ 0	↓ -2	↑ 28
MY	10Y IRS	4.05	4.06	4.05	4.05	↓ -1	↓ -1	↓ -5
	10Y MGS	4.03	4.04	4.03	4.04	↑ 1	↓ -18	↑ 12
	2s10s IRS	51	50	51	50	↓ -2	↓ -1	↓ -1
TH	10Y IRS	2.62	2.65	2.62	2.65	↑ 3	↑ 1	↑ 39
	10Y THB Bond	2.67	2.69	2.67	2.68	↑ 1	↑ 1	↑ 67
	2s10s IRS	93	95	93	96	↑ 2	↑ 1	↑ 33
ID	10Y IDR Bond	7.52	7.55	7.52	7.54	↑ 2	↑ 0	↓ -53
	2s10s Bond	61	63	61	63	↑ 1	↓ -5	↓ -10
CH	10Y IRS - 7D repos	4.16	4.43	4.16	4.43	↑ 6	↑ 28	↑ 154
	10Y CNY Bond	3.31	3.35	3.30	3.35	↑ 4	↑ 11	↑ 49
	2s10s IRS	72	89	72	89	↑ 1	↓ -2	↑ 29
HK	10Y IRS	2.45	2.48	2.45	2.47	↑ 2	↑ 6	↑ 67
	10Y HKD Bond	1.81	1.82	1.81	1.82	↓ -1	↑ 9	↑ 44
	2s10s IRS	89	90	89	89	↔ 0	↑ 3	↑ 24
	5Y CNH CCS	4.63	4.66	4.57	4.63	↔ 0	↓ -3	↑ 68



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