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Rates Insights

SG Rates Back Off Lows Ahead Of Tonight's US Non-Farm Payrolls.

Friday, 3 February 2017

Heatmap of Daily Changes							
-	Singapore	Malaysia	Thailand	Indonesia	China	Hong Kong	
						HKD	CNH
Equity (%)	0.0%	0.5%	0.4%	0.2%	-0.6%	-0.2%	
USD_Asia FX (%)	0.2%	0.1%	0.0%	-0.1%	-0.2%	0.0%	-0.8%
Money Markets (bps)	0.0	0.0	-1.4	9.0	0.0	0.4	3.8
Short End IRS (bps)	2.3	0.0	1.0	1.6	17.0	0.0	5.0
Long End IRS (bps)	3.0	-1.0	1.5	-3.6	18.0	0.0	7.0

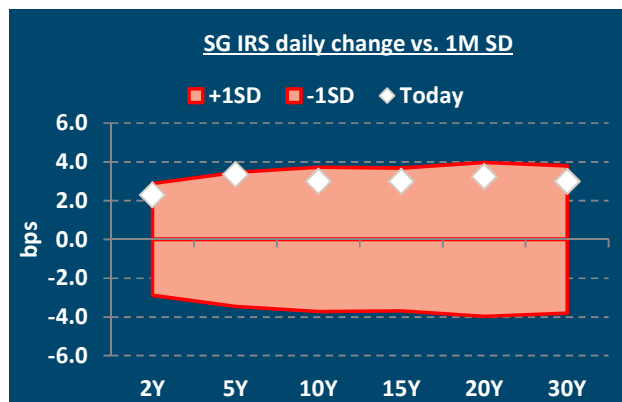
*Table is read horizontally. Price increase in Green. Price decrease in Red. Color intensity corresponds to rank.

Market Summary

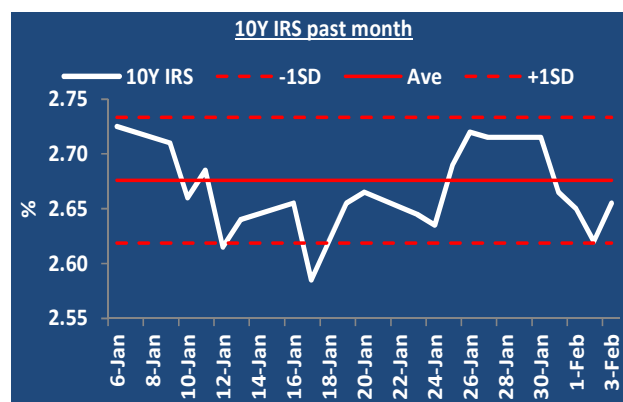
- SORs are implied to fix mostly higher by around 4.8bps, -0.3bps and 0bps in the 1M, 3M and 6M tenors respectively tonight based on the closing swap levels.
- 10Y UST yield gained 1.3bps during SG trading hours and extended it's overnight US session which saw yields moving higher. Turning to domestic markets, the performance today was consistent across both markets with yields shifting higher; 10Y IRS 3bps and 10Y SGS 2.9bps.
- SG curvature performance today saw the 2s10s steeper by 0.7bps in IRS and steeper by 6bps in SGS.
- Regional 10Y yields today were unchanged in Hong Kong, rose in Thailand, China, fell in Malaysia, Indonesia, and in terms of magnitude of change the largest positive yield change in the 10Y tenor was 16bps recorded by 10Y CNY IRS while the day's biggest yield drop was -3.6bps which was seen in 10Y IDR bond.

Major Indices - SG Hours	10Y UST	10Y Bunds	USD Index (DXY)	USD Index (ADXY)	Brent Oil	Asia ex Japan Equities
Open	2.476	0.450	99.85	104.96	56.92	993.88
Close	2.489	0.449	99.88	104.65	57.01	992.87
Change	1.3bps	-0.1 bps	0.02%	-0.30%	0.16%	-0.10%

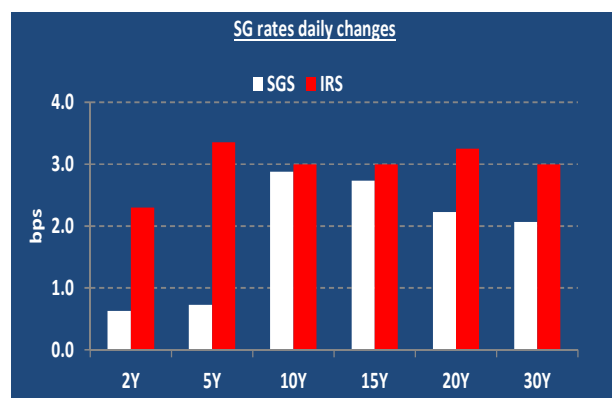
Today's Highlights



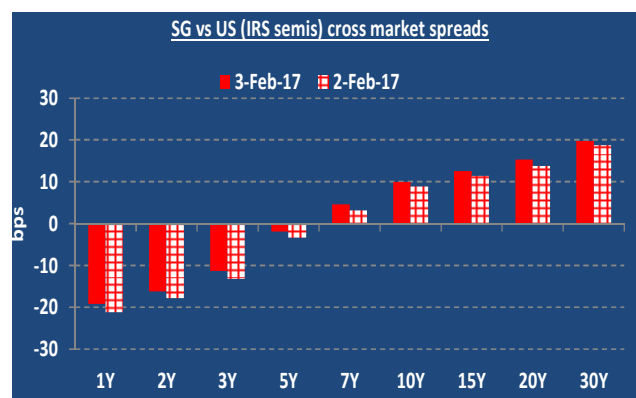
Source: Bloomberg



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

US non-farm payrolls (NFP)

Analysts median calling for 180K headline tonight, while the whisper number is slightly higher for 185k. Dispersion of estimates slightly higher this month compared to previous (1SD 20.88k FEB vs. 18.08k JAN). Overall tone points towards NFP estimates modelled along the lines of mean reversion with the 5Y average of NFP at 203k and the 2016 average at 186k. Surprise potential is tilted in favour of the upside given the improvements in ADP, ISM manufacturing and initial claims. In a positive surprise scenario, we would expect both USD and front end yields to be supported and for the curve to react in a flattening fashion.

SORs

Overnight and 1W FX swaps firmed ahead of the weekend and helped to anchor SOR rates. 1M FX swaps made new year to date lows intraday but closed higher and recovered their previous day's losses. Volatility spilled over from BOJ's bond buyback operation's impact on USDJPY which also pulled USDSGD slightly higher to inch the latter away from the 1.41 line in the sand. Upside for SORs next week will benefit from a positive surprise in tonight's NFP print, but new highs in SORs are an unlikely occurrence next week given the information gleaned from yesterday's FOMC.

Short term view:

Watching for wage components of Friday's NFP to stabilize USD and FED hike expectations. SOR volatility is more likely to pick up if USDSGD spot FX broke out of 1.41/1.43 range. 1Q 2017 expected 3M SOR range: 0.70% to 0.90%.

SGS and IRS

Market activity slowed to a crawl today as investors were unwilling to chance a break lower ahead of tonight's NFP. Yields have performed a U-turn and are back to around where they were pre Thursday's FOMC. An interesting note on the long end of the SGS curve has been in terms of the curvature adjustments of the 10s15s, 10s20s and 10s30s curves. The 10s15s started the year at 26bps and steepened to a mid January high of 35bps before turning lower to 27.5bps currently. The 10s20s and 10s30s also started 2017 low and steepened to year to date highs in mid January, but unlike 10s15s which has mostly reversed their steepening gains, the 10s20s and 10s30s curves are only slightly lower to unchanged from their highs. Put differently, the 10s15s20s constant maturity fly has richened from 29bps in early January to 20bps currently and the fly is only 3bps higher than

Rate Insights

3 February 2017

the lows of 2016. In a nutshell, the 15Y SGS region is relatively rich and may underperform the wings if reflation themes start to exert their pull on yields again.

Ranges: 10Y SG IRS consolidation range 2.60% to 2.75%, break of topside will likely coincide with 10Y UST moving above 2.60%. Better yield downside support can be expected between 2.50% and 2.55%.

SGS auctions and its surroundings	Next Auction:	Reopen 10Y (NZ07100S - 01 March 2027)
	Announcement date:	Friday, 17 February, 2017
	Size:	T.B.A.
	Auction date:	Friday, 24 February, 2017

Re-tap of March 2027 (10Y) in a nutshell

5Y region was the tenor of choice today. Buying flows there helped the 5Y SGS outperform swaps resulting in 5Y bondswap spread widening by 2bps. However, price adjustments in 10Y and beyond of the SGS curve did not pay much heed to the buying interest in 5Y and this led to the 5s10s SGS curve steepening by 2bps. March 2027 yields cancelled out previous day's loss but there was little change on a relative basis.

Lower yields for March 2027 from here will require a dovish boost from FOMC members talking points between meetings and/or escalation in US political risk. Otherwise consolidation between 2.38% and 2.48% looks the most likely scenario. Tactically, auction shorts look a reasonable proposition between 2.30% and 2.35% with stops at 2.25%.

March 2027 yield (%)	2.380	March 2027 vs 10Y SGS spread (bps)	8.5	March 2027 vs 10Y UST spread (bps)	-11.0	March 2027 vs 10Y SG IRS spread (bps)	28.0
Daily Change (bps)	2.5	Daily Change (bps)	-0.5	Daily Change (bps)	-0.5	Daily Change (bps)	1.0

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.

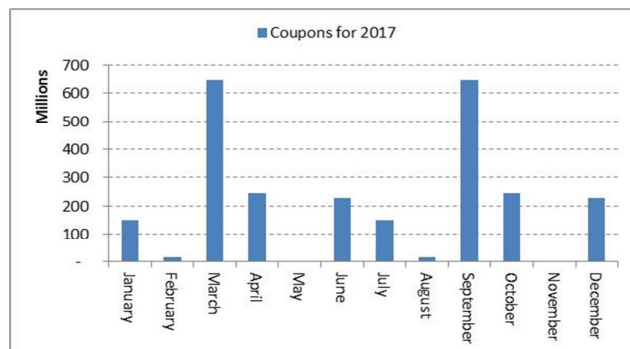
Yield observations

- * 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%.

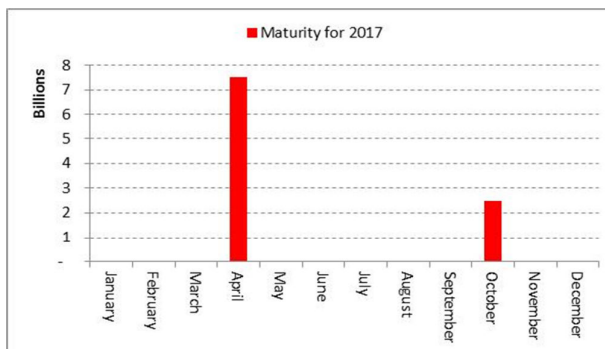
March 2027 will follow in the steps of June 2019 in crossing the SGD 8bio amount outstanding threshold. In addition, March 2027 will also be in a situation of abundance amidst scarcity, more so than June 2019. Good post auction potential for March 2027 to remain persistently cheap vs June 2026 and July 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
Friday, 20 January, 2017	SGD	Steepener	Long 5Y SGS Bmk vs. Short 15Y SGS Bmk	86bps	75bps	103bps	SGS curve is flat relative to inflation expectations and could benefit from any near term inflation overshooting fears.
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, 10 January, 2017	SGD	Widener	pay 10Y IRS, long 10Y benchmark SGS	28bps	20bps	40bps	The Bondswap spread has erased the majority of its post US election gains. Further downside is limited. Even though there is a 10Y SGS auction at the end of February the March 2027 bond will be re-opened instead of the current 10Y benchmark June 2026. Therefore supply overhang effect may be less of a drag to wider Bondswap spread.
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	Steeper	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	Steeper	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	2.38	↑ 2	↑ 10	↑ 66
	10Y UST	2.48	2.49	2.47	2.49	↑ 2	↑ 4	↑ 60
	2s10s UST	127	127	127	127	↑ 0	↑ 4	↑ 11
SG	10Y IRS	2.63	2.66	2.63	2.66	↑ 3	↓ -22	↓ -1
	10Y SGS	2.27	2.30	2.27	2.29	↑ 3	↓ -19	↑ 12
	2s10s IRS	109	110	109	110	↑ 1	↓ -1	↑ 27
MY	10Y IRS	4.08	4.08	4.07	4.07	↓ -1	↓ -10	↓ -9
	10Y MGS	4.13	4.15	4.13	4.14	↑ 1	↓ -6	↑ 21
	2s10s IRS	53	53	52	52	↓ -1	↓ -3	↑ 3
TH	10Y IRS	2.65	2.66	2.65	2.66	↑ 0	↓ -6	↑ 29
	10Y THB Bond	2.75	2.75	2.74	2.75	↑ 0	↑ 10	↑ 50
	2s10s IRS	98	97	98	98	↓ -1	↓ -1	↑ 26
ID	10Y IDR Bond	7.61	7.61	7.57	7.57	↓ -4	↓ -33	↓ -55
	2s10s Bond	74	72	71	69	↓ -5	↓ -5	↑ 24
CH	10Y IRS - 7D repos	4.14	4.52	4.14	4.50	↑ 16	↑ 13	↑ 157
	10Y CNY Bond	3.39	3.41	3.39	3.41	↑ 6	↑ 31	↑ 52
	2s10s IRS	77	91	77	90	↓ -2	↑ 2	↑ 30
HK	10Y IRS	2.52	2.53	2.51	2.52	→ 0	↓ -9	↑ 38
	10Y HKD Bond	1.85	1.87	1.85	1.86	↓ -2	↓ -6	↑ 28
	2s10s IRS	94	95	94	94	→ 0	↑ 8	↑ 20
	5Y CNH CCS	4.78	4.88	4.75	4.82	↑ 7	↓ -23	↑ 71



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Rate Insights

3 February 2017