Rates Strategy

Jul 2024: Singapore Government Securities (SGS) auction

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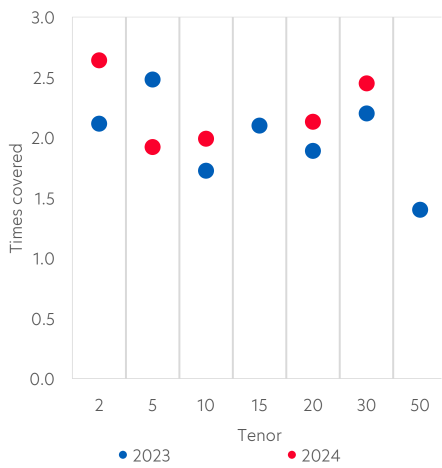
- SGD 1.7bn of Jul 2039 (15Y SGS) will be reopened on Mon 29 Jul.
- SGS curve has bull steepened in Jul and the curve belly is flat.
- Demand likely still supportive despite lower yields.

Auction details and recent trends

Next week's 15Y reopening of SGD 1.7bn is an increase of SGD 300mn over the last 15Y auction in Mar 2023. Comparing to this year's supply for tenors 10Y and greater, the upcoming auction will be the smallest we have had on a duration adjusted basis. This suggests that price concession pressures may be muted given the manageable supply duration.

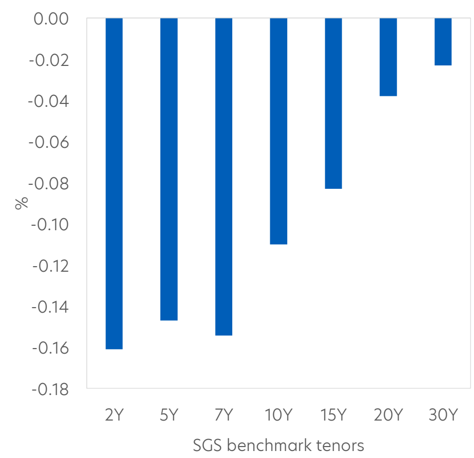
Average bid-to-cover

Source: Bloomberg, UOB Global Economics & Markets Research



Month to date (23 Jul) change

Source: Bloomberg, UOB Global Economics & Markets Research



We also note that 2024's auction bid to cover ratios (BTC) have been tracking higher than their 2023 average, except for the 5Y tenor, which can be seen as a positive sign for overall SGS demand. Historically, BTC for the 15Y tenor has usually fallen in line with the 10Y and 20Y auctions. The latter have clocked in at 1.99 and 2.13 respectively this year. Our base case is for next week's 15Y auction BTC to settle in between.

Right By You

15Y constant maturity SGS yield

Source: Bloomberg, UOB Global Economics & Markets Research

2s15s SGS

Source: Bloomberg, UOB Global Economics & Markets Research

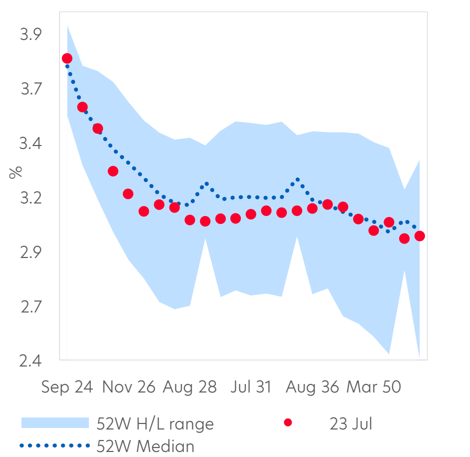
Recent SGS price action has been a bull steepener, driven by firmer expectations for the US Fed to begin easing monetary policy in Sep. The 15Y SGS yield fell to 3.00% briefly in Jul but has rebounded since. A decisive close below the 3.00% will represent a break of the rising trend line that's been in place since the start of the US rate hike cycle in 2022. We expect that this scenario will increasingly become likely as we get closer to the first US Fed rate cut. Meanwhile, the 2s15s SGS curve is approaching its steepest level in the past year (albeit still inverted) which translates to an improved roll down profile for a long bond position.

Our thoughts

The belly of the SGS curve is flat and yields as of 23 Jul close are below their 52W median. SGS has largely been priced in line with the UST market, thus incorporated most of the US rate cut expectations as well. The 5Y SGS yield may have some room to fall relative to UST, while the 5Y to 10Y segment of the SGS curve has been lagging behind the Sora curve's enthusiasm for lower yields. Having said that, Sora – SGS spread dynamics has been in line with Sofr – UST spreads. The possibility of a substantial and sustained move higher in swap spreads is rather low at this point given our location in the monetary policy cycle as well as the long standing regulatory and market structure architectures in place.

SGS Yield Curve

Source: Bloomberg, UOB Global Economics & Markets Research



SGS 52W Z-score

Source: Bloomberg, UOB Global Economics & Markets Research

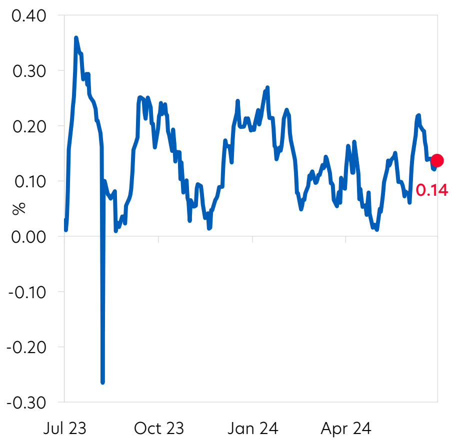
	Outright	vs. Sora	vs. UST
2Y	-1.8	0.1	0.3
5Y	-0.3	1.6	1.0
7Y	-0.3	1.6	0.6
10Y	-0.3	1.6	0.1
15Y	0.0	1.2	0.0
20Y	-0.1	0.7	-0.1
30Y	0.2	0.7	0.0

Cheap — Rich

The 15Y SGS yield is fair on the 5s15s30s curve, currently residing close to its average level over the past year. Zooming in the Jul 39 yield is also not dislocated compared to its Aug 36 and Apr 42 neighbouring issuances. Some relative cheapening could still occur, but accounting for the manageable supply duration, the magnitude of price concession is likely to be small.

5s15s30s SGS spread

Source: Bloomberg, UOB Global Economics & Markets Research



Jul 39 vs. Aug 36 and Apr 42 SGS spread

Source: Bloomberg, UOB Global Economics & Markets Research

In sum

Two main considerations come to mind when looking at the longer end of the yield curve; monetary policy and US politics. US rate cut expectations argues for locking in yields whilst they are still available, but the prospect of more fiscal profligacy and its inflationary potential suggests that a larger risk premium may be warranted. We think that SGS investors' sensitivity leans more on monetary policy considerations. The UST supply and deficit scenario will have some transmission but a large part of the UST repricing will come in the form of an issuer/country risk premium, which is something that does not translate into the SGS market. Therefore, we are not expecting next week's Jul 39 (15Y) reopening auction to perform too badly.

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