

EM Alpha

Singapore Rates – SGD 1s5s flattener

Enter SGD SORA 1s5s flattener

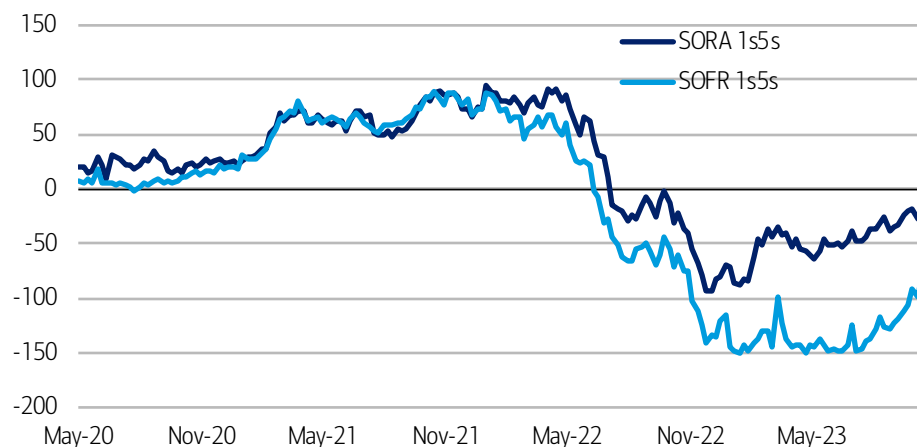
We recommend SGD SORA swaps 1s5s flattener (entry -14bps, target -30bp, stop 0bp, carry/roll 2bps/m). We expect sticky SORA fixings in the front-end due to MAS's comfort with the current policy setup on both rates and FX. Curve has steepened due to beta to US rates. But gradual disinflation and much better fiscal dynamics in Singapore would be consistent with lower rates over medium-term. Risk to the trade would arise from continued move higher in US rates which could result in steeper SGD rates.

SORA front-end has responded little to Fed hikes or higher US front-end rates this year leading to widening of front-end rates differentials. A reversal of US front-end rates may be unlikely to trigger a move lower in fixings in the near-term. Front-end SORA rates would be guided by MAS' inflation outlook over the next year. Thus, bull-steepening of US rates due to peaking policy rate expectations may still result in flatter SORA curve.

On the other hand, transmission of higher SGD rates to property markets, slowing loan growth and improving liquidity conditions limit the upside in forward SGD rates. That makes the risk-reward skewed towards outright receiving if growth slows further. The risk to that outlook could arise from a further pick-up in inflation, pointing to need for more tightening on both rates and FX. Flattener would mitigate risk of higher front-end rates if either MAS needs to tighten rates or neutral SGD basket interest rate goes higher due to hikes by regional central banks.

Exhibit 1: SORA curve is relatively steep vs SOFR

SORA and SOFR 1s5s curve (bps)



Source: BofA Global Research, Bloomberg

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For the complete list of open and closed trades in the last 12 months, please see [Global Emerging Markets Weekly: 20 October 2023](#)

Glossary:

MAS: Monetary Authority of Singapore

SNEER: SGD Nominal Effective Exchange rate

SOFR: Secured overnight financing rate

SORA: Singapore overnight rate average

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