

EM Alpha

Singapore Rates – Receive SGD 1y1y vs US

Receive SGD SORA 1y1y vs US

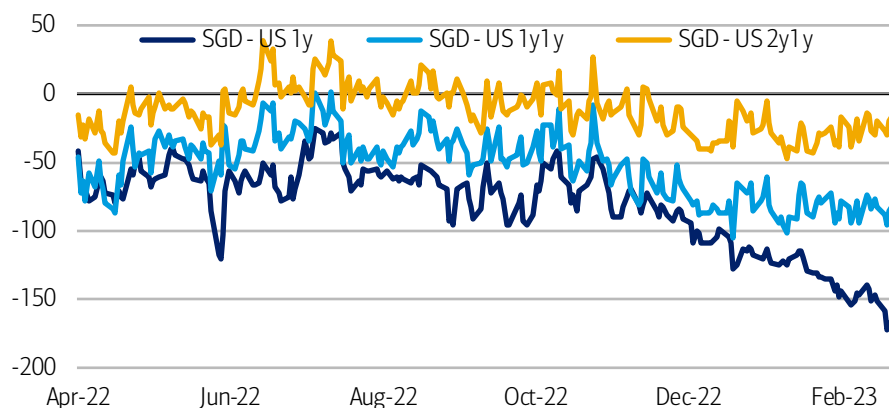
We recommend receiving SGD SORA 1y1y as a spread to USD SOFR 1y1y (entry -81bps, target -120bp, stop -40bp, carry/roll 9bps/m) as we expect SORA fixings to show a low beta to further Fed hikes. Recently, SORA 1y spread to US rates has widened to -165bps but 1y1y part has remained relatively steady after widening towards end of 2022 (see Exhibit 1). This divergence between 1y1y and 1y spreads offers attractive risk-reward to position for sticky SORA fixings and hawkish Fed over the next few months with positive carry of over 9bps/month.

Over 2022, MAS policy leaned more heavily towards a re-centering approach due to the immediate need to address imported price shocks. Recent comments from MAS officials suggest caution on more aggressive tightening as inflation is evolving in line with MAS projections and seen to be moderating. This reduces the need for simultaneous tightening via both interest rates and FX appreciation. BofA expects MAS to focus on tightening slope further this year due to more sustained price pressure from domestic sources which requires steady FX appreciation rather than large one-off moves (see [Singapore Watch: Jan Core picks up on GST hike: More pass-through ahead 23 February 2023](#)). Higher slope would add to positive carry on long SNEER, introducing a negative skew in the beta of SGD rates to moves in global rates even as Fed hikes rates further.

Risks to the trade come from a sharper increase in Singapore inflation which may lead to a reassessment of MAS' inflation projections. That could increase chances of re-centering and higher interest rates to tighten domestic funding conditions. Sharp correction lower in US rates or pricing of cuts in 1y1y could be another risk.

Exhibit 1: SORA 1y rates have collapsed due to steady SORA fixings

SGD SORA 1y and forward spread vs US rates (bps)



Source: BofA Global Research, Bloomberg

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For a complete list of our open trade recommendations, as well as our trade recommendations closed over the last 12 months, please see [Global Emerging Markets Weekly: Stay aboard but fasten the seatbelt 02 March 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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