

EM Alpha

Singapore Rates – Pay SORA 1y

Pay SGD SORA front-end – MAS to stay hawkish

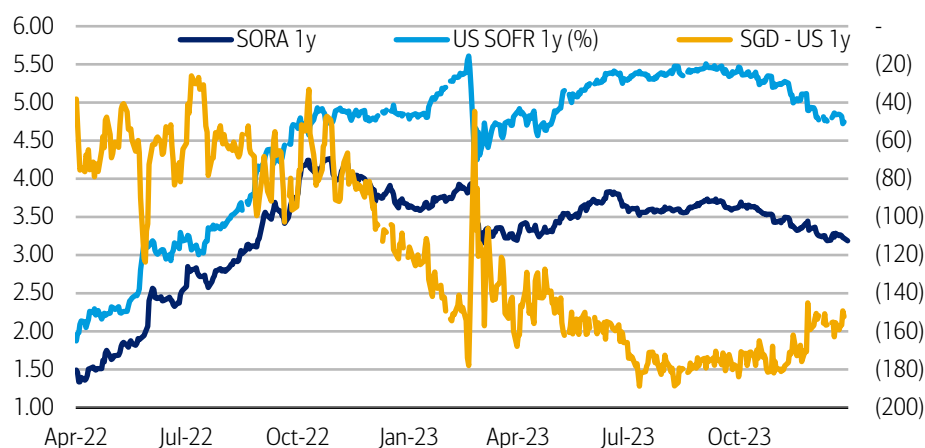
We recommend paying SGD SORA swaps 3m forward 1y (entry 2.94%, entry spot reference 1y 3.19%, target 3.2%, stop 2.7%, carry/roll +8 bps/m) on our expectations of a hawkish MAS policy meeting (to be held no later than 29th Jan'24). BofA economist expects no change in this meeting but expect MAS to continue to focus on inflation risks and reiterate need to maintain a 'sufficiently tight' stance (See [Singapore Watch: MAS Preview: Guarding against inflation risks 15 January 2024](#)). Risks to the trade are a dovish policy outlook from MAS along with a fall in SORA fixings.

We believe SORA fixings would continue to remain stable to ensure that monetary conditions remain tight and consistent with MAS' policy stance. SGD rates curve has flattened over the last few months as SORA fixings have remained steady while forward rates have moved in sympathy with US rates. While SORA 1m average is slightly lower due to year-end liquidity injection, 3m compounded-average has been around 3.7% while 3m forward 1y rate has declined below 3%. The front-end 1y roll-up has increased sharply and would likely be realized if the policy setup is kept unchanged over the next few months.

We also expect SORA spread compression against US rates to remain a theme for 2024 but current outright front-end levels look attractive enough for paying as a positive carry trade into the upcoming policy meeting, while the spread compression is partially priced into the curve which results in negative carry.

Exhibit 1: SORA front-end too low vs policy outlook. Spreads vs SOFR to compress further

SORA 1y, SOFR 1y (%), and spread curve (bps,rhs)



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

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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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