

EM Alpha

Singapore Rates – Close pay SORA vs US
2y

Close pay SGD SORA front-end vs US

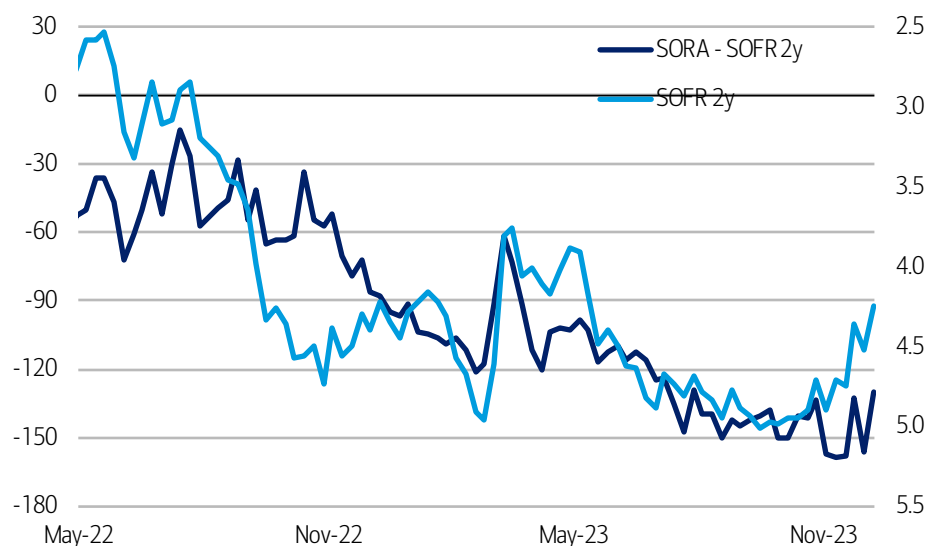
We close our recommendation to pay SGD SORA swaps 3m forward 2y vs US SOFR slightly short of the target on dated spread due to negative carry over the month (entry -145bps, entry spot 2y spread -158bps, current dated forward spread -123bps, target -120bp, stop -160bp, carry/roll -3.5bps/m) (see [EM Alpha: Singapore Rates – Pay SORA vs US 2y 16 November 2023](#)).

SORA fixings have remained stable and moving averages of SORA have edged higher over the last month even as market priced rate cuts in the US curves. We believe that SORA fixings are likely to remain sticky during the initial phase of Fed rate-cutting cycle. BofA economist expects MAS to stay put with the current policy setup for now and maintain a 'sufficiently tight' stance as further supply-side inflation adjustments are lined-up over the next few months.

Thus, the spread compression against US rates is likely to remain a theme for 2024. This is partially priced into the curve which results in negative holding carry but there is room for the further narrowing of SORA vs US curves beyond the current forward curve pricing over the next six months of around -109bps.

Exhibit 1: SORA beta to SOFR was too high in this move; room for spread compression

SORA and SOFR 2y spread curve (bps, lhs) and SOFR 2y (% , rhs)



Source: BofA Global Research, Bloomberg

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15 December 2023

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For the 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: 1,000 investors – no consensus 08 December 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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Timestamp: 14 December 2023 09:38PM EST

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