

FOMC to prove its mettle at March FOMC

Friday, March 03, 2017

Highlights:

- It all started with Fed chair Yellen insisting that all meetings are “live”. Recent Fed rhetoric also accentuated the newfound hawkishness, even for some known doves. This week, we saw Brainard, Williams and Bullard essentially touting the case for serious consideration for a move in March, notwithstanding the fiscal policy uncertainties and as US president Trump’s Congressional speech failed to enlighten us on his exact execution of grand economic plans.
- While we’re still waiting for Yellen, Fischer et al to speak this weekend, the futures market has already at this juncture priced in 90% probability of the first hike coming in March. No point fighting the FOMC given that both labor market conditions and inflation data have been very resilient. This is clearly a case of the Fed fearing to be labeled being behind the curve.
- As such, we shift forward the first FOMC rate hike scenario to March, with the second hike likely to follow in 2Q17. Assuming that US president Trump delivers on his phenomenal tax plan and the infrastructure investment plan, the Fed may feel compelled to get a third hike in in 2H17 as well.
- With the SGD NEER trading above parity currently, there is room to be caught wrong-footed by the broad dollar if Yellen cements a green light for the March FOMC. While short-term SGD interest rates have been relatively well behaved for the year-to-date, the 3-month SOR has bounced off the recent low of 0.74% seen in late Jan. That said, things will likely get more exciting going into the March FOMC and subsequently. We hold to our year-end forecasts for the 3-month SIBOR and SOR to test 1.5% and 1.55% respectively.

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Forecasts

USD Interest Rates	1Q17	2Q17	3Q17	4Q17	2018	2019	2020
Fed Funds Target Rate	1.00%	1.25%	1.50%	1.50%	2.25%	2.75%	3.00%
Overnight rate	0.95%	1.15%	1.35%	1.55%	2.30%	2.80%	3.05%
1-month LIBOR	1.00%	1.19%	1.39%	1.58%	2.33%	2.85%	3.10%
2-month LIBOR	1.10%	1.28%	1.47%	1.65%	2.40%	2.90%	3.20%
3-month LIBOR	1.20%	1.38%	1.57%	1.75%	2.50%	3.00%	3.30%
6-month LIBOR	1.40%	1.58%	1.77%	1.95%	2.60%	3.10%	3.50%
12-month LIBOR	1.80%	1.87%	1.93%	2.00%	2.70%	3.25%	3.75%
1-year swap rate	1.50%	1.68%	1.87%	2.05%	2.75%	3.30%	3.80%
2-year swap rate	1.75%	1.87%	1.98%	2.10%	2.85%	3.50%	3.85%
3-year swap rate	2.05%	2.13%	2.22%	2.30%	3.05%	3.70%	3.95%
5-year swap rate	2.25%	2.37%	2.48%	2.60%	3.30%	3.80%	4.10%
10-year swap rate	2.55%	2.70%	2.85%	3.00%	3.65%	4.10%	4.30%
15-year swap rate	2.75%	2.88%	3.02%	3.15%	3.85%	4.30%	4.60%
20-year swap rate	2.80%	2.93%	3.07%	3.20%	3.90%	4.35%	4.85%
30-year swap rate	2.85%	2.98%	3.12%	3.25%	3.95%	4.40%	5.00%

SGD Interest Rates	1Q17	2Q17	3Q17	4Q17	2018	2019	2020
1M SIBOR	0.75%	0.93%	1.12%	1.30%	1.85%	2.15%	2.80%
1M SOR	0.75%	0.98%	1.22%	1.45%	1.90%	2.25%	2.85%
3-month SIBOR	1.00%	1.17%	1.33%	1.50%	1.95%	2.30%	2.90%
3M SOR	1.00%	1.18%	1.37%	1.55%	2.00%	2.50%	3.05%
6-month SIBOR	1.28%	1.39%	1.49%	1.60%	2.05%	2.55%	3.10%
6M SOR	1.30%	1.42%	1.53%	1.65%	2.10%	2.60%	3.10%
12-month SIBOR	1.44%	1.58%	1.73%	1.88%	2.30%	2.75%	3.15%
1-year swap rate	1.50%	1.65%	1.80%	1.95%	2.40%	2.80%	3.20%
2-year swap rate	1.70%	1.80%	1.90%	2.00%	2.55%	2.95%	3.40%
3-year swap rate	1.90%	2.03%	2.17%	2.30%	2.75%	3.20%	3.50%
5-year swap rate	2.20%	2.28%	2.37%	2.45%	3.10%	3.40%	3.60%
10-year swap rate	2.65%	2.70%	2.75%	2.80%	3.60%	3.80%	4.00%
15-year swap rate	2.86%	2.91%	2.95%	3.00%	3.65%	3.90%	4.10%
20-year swap rate	2.96%	3.04%	3.12%	3.20%	3.70%	3.95%	4.25%
30-year swap rate	3.00%	3.08%	3.17%	3.25%	3.80%	4.04%	4.35%

UST bond yields	1Q17	2Q17	3Q17	4Q17	2018	2019	2020
2-year	1.35%	1.57%	1.78%	2.00%	2.35%	2.90%	3.50%
5-year	2.07%	2.21%	2.36%	2.50%	2.53%	3.60%	3.70%
10-year	2.55%	2.67%	2.78%	2.90%	3.60%	4.00%	4.20%
30-year	3.10%	3.15%	3.20%	3.25%	3.75%	4.15%	4.80%

SGS bond yields	1Q17	2Q17	3Q17	4Q17	2018	2019	2020
2-year SGS yield	1.30%	1.42%	1.54%	1.66%	1.90%	2.20%	2.50%
5-year SGS yield	1.67%	1.87%	2.06%	2.25%	2.50%	2.75%	3.00%
10-year SGS yield	2.40%	2.52%	2.63%	2.75%	3.20%	3.40%	3.60%
15-year SGS yield	2.52%	2.66%	2.81%	2.95%	3.45%	3.60%	3.85%
20-year SGS yield	2.53%	2.74%	2.94%	3.15%	3.50%	3.70%	3.90%

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