

Interest Rate Forecasts (Aug)

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Highlights

1. **Post-reopening of economies, global Covid-19 cases have ticked higher, but market hopes for potential vaccine development remains.** Market players remain hopeful despite the current impasse over the new fiscal stimulus package following the expiry of the \$600 unemployment benefits which expired on 31 July. The upcoming July US' labour market report may shed light if the initial US rebound is sputtering. Given the long tail of the Covid-19 pandemic, the 2H20 recovery may also be bumpy and potentially run into some speed bumps ahead. The manufacturing recovery is likely to sustain in the months ahead, albeit the rest of Asia may lag behind China's First-In-First-Out momentum. Regional manufacturing PMI cues showed two distinct camps with China's Caixin ahead at 52.8, Taiwan back in expansion territory, and South Korea, Indonesia, Thailand, Japan playing catch-up in July. However, there was a retreat from June levels for Malaysia (back to just 50), the Philippines (48.4) and Vietnam (which slumped from 51.1 to 47.6), possibly due to the Covid-19 resurgence.
2. **Re-escalation of US-China tensions may be key risk to watch as we approach the US elections in November.** With Biden appearing to have gained an advantage ahead of Trump in polls, the inclination to ratchet up the sabre-rattling is obvious, especially with president Trump now eyeing TikTok and US secretary of state Pompeo suggesting potential measures against a broad array of Chinese software companies. Watch for further diversification of production chains to hedge against US-China bilateral tensions and post-pandemic conditions, which may imply costs could ratchet higher, albeit the ability to pass on the higher costs to end-consumers may be limited in the short-run since the global economy remains in recession.

Rates Outlook

4 August 2020

USD Interest Rates	4Q20	2021	2022
Fed Funds Target Rate	0-0.25%	0-0.25%	0-0.25%
1-month LIBOR	0.13%	0.20%	0.25%
2-month LIBOR	0.18%	0.25%	0.30%
3-month LIBOR	0.23%	0.30%	0.35%
6-month LIBOR	0.30%	0.35%	0.40%
12-month LIBOR	0.45%	0.50%	0.55%
2-year swap rate	0.16%	0.25%	0.40%
3-year swap rate	0.17%	0.30%	0.40%
5-year swap rate	0.25%	0.35%	0.45%
10-year swap rate	0.52%	0.60%	0.70%
15-year swap rate	0.68%	0.80%	0.90%
20-year swap rate	0.75%	0.85%	0.95%
30-year swap rate	0.77%	0.90%	1.00%
SGD Interest Rates	4Q20	2021	2022
1-month SIBOR	0.24%	0.30%	0.60%
1-month SOR	0.07%	0.20%	0.30%
3-month SIBOR	0.40%	0.70%	0.87%
3-month SOR	0.13%	0.25%	0.35%
6-month SIBOR	0.60%	0.88%	0.97%
6-month SOR	0.16%	0.28%	0.40%
12-month SIBOR	0.85%	1.10%	1.25%
1-year swap rate	0.20%	0.40%	0.60%
2-year swap rate	0.26%	0.50%	0.70%
3-year swap rate	0.30%	0.57%	0.80%
5-year swap rate	0.46%	0.70%	1.00%
10-year swap rate	0.76%	0.95%	1.10%
15-year swap rate	0.88%	1.11%	1.22%
20-year swap rate	0.89%	1.13%	1.25%
30-year swap rate	0.90%	1.15%	1.35%

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MYR forecast	4Q20	2021	2022
OPR	1.50%	1.75%	2.00%
1-month KLIBOR	1.65%	1.80%	2.10%
3-month KLIBOR	1.70%	1.85%	2.15%
6-month KLIBOR	1.85%	1.88%	2.30%
12-month KLIBOR	1.90%	1.90%	2.40%
1-year swap rate	1.70%	1.90%	2.45%
2-year swap rate	1.73%	1.95%	2.50%
3-year swap rate	1.75%	2.00%	2.55%
5-year swap rate	2.00%	2.20%	2.60%
10-year swap rate	2.50%	2.65%	2.85%
15-year swap rate	2.80%	2.90%	3.05%
20-year swap rate	3.00%	3.15%	3.30%
UST bond yields	4Q20	2021	2022
2-year UST bond yield	0.10%	0.20%	0.33%
5-year UST bond yield	0.20%	0.30%	0.40%
10-year UST bond yield	0.50%	0.55%	0.65%
30-year UST bond yield	1.20%	1.25%	1.30%
SGS bond yields	4Q20	2021	2022
2-year SGS yield	0.22%	0.30%	0.35%
5-year SGS yield	0.45%	0.50%	0.55%
10-year SGS yield	0.78%	0.85%	0.95%
15-year SGS yield	1.04%	1.10%	1.18%
20-year SGS yield	1.08%	1.15%	1.22%
30-year SGS yield	1.05%	1.18%	1.25%
MGS forecast	4Q20	2021	2022
3-year MGS yield	1.80%	1.95%	2.50%
5-year MGS yield	2.05%	2.15%	2.55%
10-year MGS yield	2.52%	2.60%	2.80%

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