

Interest Rate Forecasts (Jul)

Selena Ling

Head of Strategy and Research

+65 6530 4887

LingSSSelena@ocbc.com

Highlights

1. **The glass remains half full? Hopes for a 2H20 recovery story continued to sustain through June**, bolstered by tentative economic green shoots and the anticipation of further stimulus as central banks retained their cautious stance. While the US Conference Board consumer confidence rebounded more than expected from 85.9 to 98.1 in June and China's official manufacturing and non-electronics PMIs rose to 50.9 and 54.4 respectively in June, the IMF further downgraded its 2020 global growth forecast from -3% to -4.9% and the 2021 recovery is tipped to be more gradual than previously anticipated at 5.4% (which is some 6.5% points lower than the pre-Covid forecast of January 2020). Major central banks like FOMC and ECB remain clearly circumspect. FOMC minutes discussed "a more explicit form of forward guidance" but questioned the need for a Yield Cap or Target. Lingering questions also remain over the state of US-China bilateral relations remain with the US withdrawing Hong Kong's special trading status, China pressing ahead with the national security law implementation in Hong Kong and US' Federal Communications Commission also designating Huawei and ZTE Corp as national security threats. President Trump also tweeted that he is "more and more angry at China".
2. **Second wave of Covid-19 infections remain disturbing, but officials are reluctant to return to lockdowns at this juncture, albeit some re-opening measures have been slowed down in certain US states.** Global Covid-19 cases has crossed 10 million while number of deaths also hit 500,000, but the easing fatality rate is comforting in the interim as vaccine development remains far off. WHO chief warned that "the worst is yet to come" and the ILO also warned that the Covid-19 damage inflicted on the global labour market is worse than initially estimated with working hours 14% lower than pre-Covid (equivalent to 400 million full-time job losses) and this loss will not be repaired in 2H20. Our [2H20 mid-year outlook](#) articulated that the recovery trajectory and in tandem the current market euphoria will not be linear.

Rates Outlook

2 July 2020

| USD Interest Rates | 3Q20 | 4Q20 | 2021 | 2022 |
|-----------------------|---------|---------|---------|-----------|
| Fed Funds Target Rate | 0-0.25% | 0-0.25% | 0-0.25% | 0.5-0.75% |
| 1-month LIBOR | 0.17% | 0.15% | 0.30% | 0.80% |
| 2-month LIBOR | 0.24% | 0.22% | 0.35% | 0.83% |
| 3-month LIBOR | 0.30% | 0.28% | 0.40% | 0.85% |
| 6-month LIBOR | 0.37% | 0.35% | 0.45% | 0.90% |
| 12-month LIBOR | 0.56% | 0.54% | 0.65% | 0.95% |
| 1-year swap rate | 0.27% | 0.25% | 0.65% | 1.00% |
| 2-year swap rate | 0.23% | 0.21% | 0.67% | 1.10% |
| 3-year swap rate | 0.24% | 0.22% | 0.70% | 1.15% |
| 5-year swap rate | 0.35% | 0.33% | 0.75% | 1.20% |
| 10-year swap rate | 0.66% | 0.66% | 1.00% | 1.40% |
| 15-year swap rate | 0.84% | 0.85% | 1.08% | 1.50% |
| 20-year swap rate | 0.94% | 0.95% | 1.15% | 1.60% |
| 30-year swap rate | 0.99% | 1.00% | 1.25% | 1.70% |
| SGD Interest Rates | 3Q20 | 4Q20 | 2021 | 2022 |
| 1-month SIBOR | 0.23% | 0.22% | 0.40% | 0.60% |
| 1-month SOR | 0.03% | 0.01% | 0.20% | 0.30% |
| 3-month SIBOR | 0.55% | 0.45% | 0.70% | 0.87% |
| 3-month SOR | 0.13% | 0.10% | 0.25% | 0.35% |
| 6-month SIBOR | 0.70% | 0.65% | 0.88% | 0.97% |
| 6-month SOR | 0.20% | 0.16% | 0.28% | 0.40% |
| 12-month SIBOR | 0.97% | 0.95% | 1.10% | 1.25% |
| 1-year swap rate | 0.27% | 0.25% | 0.40% | 0.60% |
| 2-year swap rate | 0.32% | 0.30% | 0.50% | 0.70% |
| 3-year swap rate | 0.39% | 0.37% | 0.57% | 0.80% |
| 5-year swap rate | 0.53% | 0.50% | 0.70% | 1.00% |
| 10-year swap rate | 0.89% | 0.90% | 0.95% | 1.10% |
| 15-year swap rate | 1.05% | 1.04% | 1.11% | 1.22% |
| 20-year swap rate | 1.06% | 1.07% | 1.13% | 1.25% |
| 30-year swap rate | 1.07% | 1.10% | 1.15% | 1.35% |

Rates Outlook

2 July 2020

| MYR forecast | 3Q20 | 4Q20 | 2021 | 2022 |
|------------------------|-------|-------|-------|-------|
| OPR | 2.00% | 2.00% | 2.25% | 2.50% |
| 1-month KLIBOR | 2.20% | 2.20% | 2.30% | 2.65% |
| 3-month KLIBOR | 2.27% | 2.25% | 2.35% | 2.75% |
| 6-month KLIBOR | 2.45% | 2.40% | 2.50% | 2.80% |
| 12-month KLIBOR | 2.55% | 2.50% | 2.55% | 2.85% |
| 1-year swap rate | 2.10% | 2.05% | 2.25% | 2.50% |
| 2-year swap rate | 2.11% | 2.10% | 2.30% | 2.55% |
| 3-year swap rate | 2.14% | 2.13% | 2.34% | 2.63% |
| 5-year swap rate | 2.32% | 2.30% | 2.50% | 2.75% |
| 10-year swap rate | 2.72% | 2.70% | 2.90% | 3.05% |
| 15-year swap rate | 3.00% | 2.95% | 3.05% | 3.20% |
| 20-year swap rate | 3.15% | 3.10% | 3.15% | 3.30% |
| UST bond yields | 3Q20 | 4Q20 | 2021 | 2022 |
| 2-year UST bond yield | 0.16% | 0.15% | 0.38% | 0.64% |
| 5-year UST bond yield | 0.32% | 0.30% | 0.46% | 0.80% |
| 10-year UST bond yield | 0.70% | 0.65% | 0.91% | 1.18% |
| 30-year UST bond yield | 1.45% | 1.40% | 1.66% | 1.79% |
| SGS bond yields | 3Q20 | 4Q20 | 2021 | 2022 |
| 2-year SGS yield | 0.25% | 0.22% | 0.59% | 0.86% |
| 5-year SGS yield | 0.50% | 0.45% | 0.68% | 1.00% |
| 10-year SGS yield | 0.90% | 0.88% | 1.05% | 1.35% |
| 15-year SGS yield | 1.20% | 1.18% | 1.30% | 1.45% |
| 20-year SGS yield | 1.25% | 1.22% | 1.40% | 1.55% |
| 30-year SGS yield | 1.23% | 1.20% | 1.50% | 1.66% |
| MGS forecast | 3Q20 | 4Q20 | 2021 | 2022 |
| 3-year MSG yield | 2.22% | 2.20% | 2.35% | 2.60% |
| 5-year MGS yield | 2.41% | 2.40% | 2.63% | 2.85% |
| 10-year MGS yield | 2.84% | 2.80% | 3.00% | 3.20% |

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Research & Strategy

LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia

WellianWiranto@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities

HowieLee@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau

dicksnyu@ocbcwh.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).