

Updated interest rate forecasts (April 2019)

Tuesday, April 02, 2019

Highlights

- **US:** The inversion of the 3-month to 10-year UST bond yield to ~ -5bps currently, likely reflects the increased expectations for FOMC rate cuts later this year, flight to safety, and increasingly attractive yield differentials favouring the US amid more downbeat expectations for Eurozone growth and ECB policy intentions. While President Trump, White House adviser Kudlow and even Trump's Fed pick Stephen Moore have piled on the pressure for the Fed to cut rates, we see the hurdle for any near-term rate cut as still relatively high, barring a downside surprise at the upcoming US' March nonfarm payrolls and unemployment report. For the latter, market consensus is looking for robust prints of 175k (after the +20k miss in February) and 3.8% (unchanged from February). The new regime is clearly "patient for longer" but the Fed remains reluctant doves at this juncture and policy gridlock is likely to stymie any fiscal stimulus in the near-term. Fed rhetoric from Bullard ("it would be premature to contemplate a rate cut") and Quarles ("further increases in the policy rate may be necessary at some point") have also downplayed the case for any near-term rate cuts. Our base case is for the Fed to be on hold in 2019, but will contemplate a 25bp rate cut positioned as a precautionary measure as the US economy continues to soften into 2020.
- **Singapore:** With most central banks on neutral mode and official rhetoric tilting towards a more dovish slant amid the global growth slowdown story, we see there is little impetus for MAS to lean against the wind by tightening for a third straight meeting. While the domestic 2-10 year SGS bond yield curve has not inverted yet and remains positive at 15bps (which is still the narrowest since January 2007!), the 3-month T-bill to 10-year SGS bond yield also briefly flatlined towards end-March, following its US counterpart which had garnered much market angst in recent weeks. Apart from a brief blip in Dec18, the last time the latter spread was sustained in inversion territory was in late 2006 to early 2007 (prior to GFC period), and this should give policymakers some food for thought. MAS core inflation is in fact moderating from the 1.9% high seen in October 2018. MAS-MTI indicated that external inflation sources have receded with retreating global oil prices which are now expected to be lower this year compared to 2018. Domestically, greater market competition in areas like telecommunications, electricity and retail consumer segments will cap the extent of the overall price increases. We tip 2019 headline and core inflation forecasts at 1.0% and 1.7% yoy (official: 0.5-1.5% and 1.5-2.5%) respectively. Consumer loans also slowed to just 0.5% yoy (-0.2% mom) in Feb, the slowest pace of expansion since at least 2005, weighed down by housing loans growth (1.2% yoy, slowest since 2004). URA flash data saw private home prices fall again by 0.6% qoq in 1Q19, and the private residential housing market is likely to remain subdued in the near-term

Treasury Research
Tel: 6530-8384

Selena Ling
Tel: 6530-4887
LingSSSelena@ocbc.com

due to the cooling measures. Services momentum is also likely to ease going ahead. We now see 1Q19 GDP growth moderating to 1.8% yoy, versus 1.9% yoy in 4Q18.

- **Malaysia:** Following a second monthly of yoy deflation (albeit due to transitory one-off factors like lower fuel and broadband prices and the replacement of GST with SST) and a more dovish tilt in BNM's tone of late flagging the downside growth risks, we have penciled in a 25bps OPR rate cut to 3% to happen in 3Q19. Essentially, this is unwinding the one hike that was executed in January 2018.

Forecasts

USD Interest Rates	2Q19	3Q19	4Q19	2020	2021
Fed Funds Target Rate	2.50%	2.50%	2.50%	2.25%	2.25%
1-month LIBOR	2.50%	2.51%	2.52%	2.28%	2.30%
2-month LIBOR	2.58%	2.59%	2.61%	2.32%	2.35%
3-month LIBOR	2.63%	2.66%	2.69%	2.34%	2.40%
6-month LIBOR	2.69%	2.72%	2.75%	2.40%	2.45%
12-month LIBOR	2.71%	2.70%	2.70%	2.45%	2.50%
1-year swap rate	2.57%	2.57%	2.58%	2.48%	2.53%
2-year swap rate	2.43%	2.45%	2.46%	2.50%	2.56%
3-year swap rate	2.39%	2.43%	2.47%	2.53%	2.58%
5-year swap rate	2.38%	2.43%	2.48%	2.55%	2.60%
7-year swap rate	0.83%	1.66%	2.49%	2.57%	2.61%
10-year swap rate	2.47%	2.49%	2.51%	2.60%	2.62%
15-year swap rate	2.57%	2.60%	2.62%	2.67%	2.70%
20-year swap rate	2.62%	2.65%	2.67%	2.70%	2.75%
30-year swap rate	2.63%	2.66%	2.68%	2.75%	2.80%

SGD Interest Rates	2Q19	3Q19	4Q19	2020	2021
1-month SIBOR	1.90%	1.97%	2.05%	2.10%	2.15%
1-month SOR	1.92%	2.01%	2.10%	2.13%	2.18%
3-month SIBOR	2.01%	2.08%	2.15%	2.18%	2.20%
3-month SOR	2.00%	2.07%	2.20%	2.23%	2.25%
6-month SIBOR	2.08%	2.16%	2.25%	2.30%	2.30%
6-month SOR	2.08%	2.16%	2.23%	2.33%	2.35%
12-month SIBOR	2.20%	2.24%	2.30%	2.32%	2.34%
1-year swap rate	1.97%	1.98%	2.00%	2.20%	2.34%
2-year swap rate	1.93%	1.96%	1.99%	2.25%	2.35%
3-year swap rate	1.94%	1.97%	1.99%	2.27%	2.36%
5-year swap rate	1.97%	1.98%	2.00%	2.30%	2.38%
10-year swap rate	2.22%	2.24%	2.25%	2.36%	2.40%
15-year swap rate	2.43%	2.45%	2.46%	2.48%	2.53%
20-year swap rate	2.52%	2.53%	2.54%	2.59%	2.63%
30-year swap rate	2.52%	2.54%	2.56%	2.60%	2.64%

Malaysia	2Q19	3Q19	4Q19	2020	2021
OPR	3.25%	3.00%	3.00%	3.00%	3.00%
1-month KLIBOR	3.37%	3.32%	3.26%	3.30%	3.35%
3-month KLIBOR	3.61%	3.53%	3.45%	3.50%	3.52%
6-month KLIBOR	3.69%	3.59%	3.48%	3.52%	3.53%
12-month KLIBOR	3.77%	3.63%	3.50%	3.53%	3.54%
1-year swap rate	3.52%	3.49%	3.47%	3.54%	3.55%
2-year swap rate	3.52%	3.51%	3.50%	3.55%	3.58%
3-year swap rate	3.55%	3.54%	3.53%	3.58%	3.62%
5-year swap rate	3.61%	3.58%	3.55%	3.60%	3.65%
10-year swap rate	3.95%	3.93%	3.90%	3.94%	3.97%
15-year swap rate	4.13%	4.10%	4.07%	4.11%	4.12%
20-year swap rate	4.27%	4.25%	4.22%	4.26%	4.28%

UST bond yields	2Q19	3Q19	4Q19	2020	2021
2-year UST bond yield	2.31%	2.32%	2.33%	2.38%	2.41%
5-year UST bond yield	2.31%	2.33%	2.36%	2.40%	2.45%
10-year UST bond yield	2.46%	2.48%	2.50%	2.55%	2.60%
30-year UST bond yield	2.86%	2.88%	2.90%	2.94%	2.97%
SGS bond yields	2Q19	3Q19	4Q19	2020	2021
2-year SGS yield	1.93%	1.94%	1.95%	2.04%	2.08%
5-year SGS yield	1.95%	1.96%	1.98%	2.09%	2.12%
10-year SGS yield	2.08%	2.09%	2.10%	2.17%	2.23%
15-year SGS yield	2.34%	2.37%	2.40%	2.46%	2.50%
20-year SGS yield	2.39%	2.41%	2.42%	2.48%	2.53%
30-year SGS yield	2.52%	2.53%	2.55%	2.59%	2.63%
MGS forecast	2Q19	3Q19	4Q19	2020	2021
5-year MGS yield	3.49%	3.44%	3.40%	3.46%	3.52%
10-year MGS yield	3.73%	3.69%	3.65%	3.70%	3.75%

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