

## Updated interest rate forecasts (Feb 2019)

Monday, February 04, 2019

### Highlights

- The Fed essentially conceded that it is “prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments”, in addition to reiterating its “patient” stance as it determines what future rate adjustments may be appropriate “in light of global economic and financial developments and muted inflation pressures”. The Fed unanimously kept its Fed Funds rate static at 2.25-2.5% as widely expected and dropped the references to “roughly balanced” risks and the need for “some further gradual” increases in the Fed Funds Rate target, albeit it “continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes”. The futures market is now pricing in only 10% probability of one rate hike by end-2019 and is starting to price in a possible rate cut next year. While Trump conceded to re-open the government, another shutdown on Feb 15 is impending if Trump still fails to receive wall funding by then and he re-threatened to declare a national emergency to build the border wall. The 10-year UST bond yield may make a run again for the recent 2.55% seen on 3 January. The 3-month LIBOR has also eased marginally from its recent 2.82375% high seen on 20 December to around 2.73625%.
- The 3-month SOR has retreated to 1.93524% down from the recent 2.02526% high seen on 23 January, but the 3-month SIBOR remains fairly stable around 1.89142%, notwithstanding the recent Fed capitulation. Note the 2-10 year SGS bond yield curve has collapsed further to just 16bps and is nearing the 14bps tightness last seen on 27 December. The recent auction of \$2.9b of new 5-year notes, of which MAS took \$200m, fetched a bid-cover ratio of 2.08x (or 2.23x excluding the \$200m) and a cut-off yield of 2.06. The front end of the yield curve is currently very flat and offering very little pick-up out, as such, fixed income investors are likely to extend duration to the belly of the curve and longer tenors for the yield pick-up. There are two other 5-year bond re-openings scheduled for 1 April and 1 August this year. The next will be a 30-year re-opening on 1 March, with the size announcement on 19 February and auction on 26 February.
- Bank Negara Malaysia likely to remain static for now.

Treasury Research

Tel: 6530-8384

Selena Ling

Tel: 6530-4887

[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

### Forecasts

<b>USD Interest Rates</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>2020</b>	<b>2021</b>
Fed Funds Target Rate	2.50%	2.50%	2.50%	2.50%	2.25%	2.25%
1-month LIBOR	2.53%	2.55%	2.58%	2.60%	2.35%	2.30%
2-month LIBOR	2.64%	2.66%	2.68%	2.70%	2.45%	2.40%
3-month LIBOR	2.81%	2.80%	2.80%	2.80%	2.55%	2.50%
6-month LIBOR	2.89%	2.91%	2.93%	2.95%	2.70%	2.65%
12-month LIBOR	3.03%	3.05%	3.08%	3.10%	2.85%	2.80%
1-year swap rate	2.85%	2.93%	3.02%	3.10%	2.85%	2.80%
2-year swap rate	2.80%	2.91%	3.03%	3.15%	2.90%	2.85%
3-year swap rate	2.76%	2.90%	3.04%	3.18%	2.93%	2.88%
5-year swap rate	2.76%	2.91%	3.05%	3.20%	2.95%	2.90%
10-year swap rate	2.88%	3.00%	3.13%	3.25%	3.00%	2.95%
15-year swap rate	2.95%	3.06%	3.17%	3.28%	3.03%	2.98%
20-year swap rate	2.97%	3.08%	3.19%	3.30%	3.05%	3.00%
30-year swap rate	2.98%	3.11%	3.23%	3.35%	3.10%	3.05%

<b>SGD Interest Rates</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>2020</b>	<b>2021</b>
1-month SIBOR	1.78%	1.91%	2.05%	2.18%	2.28%	2.33%
1-month SOR	1.79%	1.93%	2.06%	2.20%	2.30%	2.35%
3-month SIBOR	1.91%	2.02%	2.12%	2.23%	2.33%	2.38%
3-month SOR	1.95%	2.05%	2.15%	2.25%	2.35%	2.40%
6-month SIBOR	1.96%	2.07%	2.19%	2.30%	2.40%	2.45%
6-month SOR	1.98%	2.12%	2.26%	2.40%	2.50%	2.55%
12-month SIBOR	2.14%	2.24%	2.35%	2.45%	2.55%	2.60%
1-year swap rate	2.00%	2.15%	2.31%	2.46%	2.56%	2.61%
2-year swap rate	2.00%	2.16%	2.32%	2.48%	2.58%	2.63%
3-year swap rate	2.03%	2.19%	2.34%	2.50%	2.60%	2.65%
5-year swap rate	2.08%	2.24%	2.39%	2.55%	2.65%	2.70%
10-year swap rate	2.33%	2.44%	2.54%	2.65%	2.75%	2.80%
15-year swap rate	2.60%	2.63%	2.67%	2.70%	2.80%	2.85%
20-year swap rate	2.74%	2.76%	2.78%	2.80%	2.90%	2.95%
30-year swap rate	2.75%	2.80%	2.85%	2.90%	3.00%	3.05%

Malaysia	1Q19	2Q19	3Q19	4Q19	2020	2021
OPR	3.25%	3.25%	3.25%	3.25%	3.50%	3.50%
1-month KLIBOR	3.50%	3.57%	3.63%	3.70%	3.75%	3.80%
3-month KLIBOR	3.74%	3.78%	3.83%	3.87%	3.95%	4.00%
6-month KLIBOR	3.83%	3.87%	3.90%	3.93%	4.00%	4.05%
12-month KLIBOR	3.92%	3.95%	3.97%	3.99%	4.05%	4.10%
1-year swap rate	3.71%	3.74%	3.76%	3.78%	3.85%	3.88%
2-year swap rate	3.72%	3.75%	3.78%	3.81%	3.88%	3.91%
3-year swap rate	3.75%	3.78%	3.81%	3.84%	3.91%	3.97%
5-year swap rate	3.84%	3.87%	3.89%	3.91%	3.98%	4.10%
10-year swap rate	4.15%	4.19%	4.22%	4.29%	4.32%	4.40%
15-year swap rate	4.38%	4.40%	4.43%	4.45%	4.55%	4.59%
20-year swap rate	4.57%	4.60%	4.62%	4.64%	4.71%	4.82%

UST bond yields	1Q19	2Q19	3Q19	4Q19	2020	2021
2-year UST bond yield	2.54%	2.60%	2.65%	2.70%	2.60%	2.55%
5-year UST bond yield	2.58%	2.66%	2.73%	2.80%	2.70%	2.65%
10-year UST bond yield	2.76%	2.84%	2.92%	3.00%	2.90%	2.85%
30-year UST bond yield	3.07%	3.13%	3.19%	3.25%	3.05%	3.00%
SGS bond yields	1Q19	2Q19	3Q19	4Q19	2020	2021
2-year SGS yield	2.01%	2.07%	2.13%	2.12%	2.20%	2.25%
5-year SGS yield	2.03%	2.10%	2.18%	2.20%	2.30%	2.35%
10-year SGS yield	2.20%	2.30%	2.40%	2.50%	2.60%	2.65%
15-year SGS yield	2.45%	2.51%	2.58%	2.64%	2.75%	2.80%
20-year SGS yield	2.51%	2.57%	2.64%	2.70%	2.80%	2.85%
30-year SGS yield	2.63%	2.67%	2.71%	2.75%	2.85%	2.95%
MGS forecast	1Q19	2Q19	3Q19	4Q19	2020	2021
6-month yield	3.31%	3.36%	3.40%	3.45%	3.50%	3.60%
5-year MGS yield	3.82%	3.84%	3.85%	3.87%	3.95%	4.09%
10-year MGS yield	4.24%	4.24%	4.24%	4.24%	4.37%	4.45%

---

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).

Co.Reg.no.:193200032W