

## Interest Rate Forecasts (Feb)

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### Highlights

1. **When China sneezes, the world catches the flu? The coronavirus is now the predominant risk to the green shoots theme for 2020.** The January rally has now at risk of giving way to a February stumble, with the S&P500 now underwater for the year-to-date and the de-risking contributing to a rally in the US Treasury bonds that has pushed the 10-year bond yield down to 1.50% (lowest since September 2019). Elsewhere in Asia, the re-opening of Chinese financial markets saw many stocks hitting their limit down on 3 February, the 10-year government bond yield plunging 17bps to 2.8% and China cutting its 7- and 14-day reverse repo rates by 10bps to 2.4% and 2.55% respectively. With the curtailment of travel, especially air travel, and more countries announcing border closures, the spillover effects from the coronavirus outbreak to disruptions to regional manufacturing and selected services (especially tourism and hospitality) will likely dent 1Q20 GDP growth.
2. **Risk-off appears to be the prevailing mood for now, notwithstanding the January manufacturing PMIs which may not have fully priced in the downside growth risks for 1Q20 GDP growth arising from the coronavirus.** Note that for the Asian manufacturing PMIs, slippage was most stark for Malaysia (fallen back into contraction territory at 48.8 from 50.0 previously), South Korea (also slipped back to contraction at 49.8 from 50.1 previously), and Thailand (also declined back to contraction at 49.9 from 50.1 previously), whereas a softening was also apparent for Japan (Jibun: 48.8 versus 49.3), China (Caixin: 51.1 versus 51.5) and Vietnam (50.6 versus 50.8). Only Myanmar (52.7 versus 52.0), Philippines (52.1 versus 51.7), and Taiwan (51.8 versus 50.8) actually defied the drag of the coronavirus outbreak.
3. **Global central banks have a challenging period ahead given we are currently dealing with the coronavirus outbreak which is an “unknown unknown” and the fear factor is still high.** While the FOMC signals monetary policy is on hold, nevertheless, Fed chair Clarida has opined that the coronavirus poses a “wild card”. Elsewhere, BNM surprised market with a 25bp rate cut, while BOE preferred to stay its hand for now. With the escalating infections and death toll, it is a relatively safe bet to guess that Asian central banks will prefer to lean to the dovish side given potential downside growth risks that could persist beyond 1Q20.

## Rates Outlook

4 February 2020

USD Interest Rates	1Q20	2Q20	3Q20	4Q20	2021	2022
Fed Funds Target Rate	1.5-1.75%	1.5-1.75%	1.5-1.75%	1.5-1.75%	1.5-1.75%	1.5-1.75%
1-month LIBOR	1.66%	1.69%	1.72%	1.75%	1.80%	1.85%
2-month LIBOR	1.73%	1.75%	1.76%	1.78%	1.85%	1.90%
3-month LIBOR	1.75%	1.77%	1.78%	1.80%	1.90%	1.95%
6-month LIBOR	1.75%	1.78%	1.82%	1.85%	1.93%	1.98%
12-month LIBOR	1.81%	1.84%	1.87%	1.90%	1.98%	2.05%
1-year swap rate	1.56%	1.56%	1.55%	1.55%	1.75%	2.05%
2-year swap rate	1.40%	1.46%	1.51%	1.56%	1.80%	2.07%
3-year swap rate	1.35%	1.42%	1.50%	1.58%	1.85%	2.08%
5-year swap rate	1.34%	1.43%	1.51%	1.60%	1.90%	2.10%
10-year swap rate	1.47%	1.55%	1.62%	1.70%	2.00%	2.22%
15-year swap rate	1.59%	1.64%	1.70%	1.75%	2.05%	2.26%
20-year swap rate	1.66%	1.70%	1.75%	1.80%	2.10%	2.30%
30-year swap rate	1.69%	1.74%	1.80%	1.85%	2.15%	2.40%
SGD Interest Rates	1Q20	2Q20	3Q20	4Q20	2021	2022
1-month SIBOR	1.69%	1.70%	1.72%	1.73%	1.79%	1.80%
1-month SOR	1.60%	1.62%	1.63%	1.65%	1.60%	1.64%
3-month SIBOR	1.71%	1.72%	1.74%	1.75%	1.80%	1.83%
3-month SOR	1.57%	1.58%	1.59%	1.60%	1.63%	1.68%
6-month SIBOR	1.83%	1.84%	1.84%	1.85%	1.90%	1.94%
6-month SOR	1.53%	1.54%	1.54%	1.55%	1.65%	1.73%
12-month SIBOR	1.96%	1.97%	1.97%	1.98%	1.99%	2.00%
1-year swap rate	1.45%	1.41%	1.36%	1.32%	1.60%	1.80%
2-year swap rate	1.34%	1.34%	1.33%	1.33%	1.62%	1.82%
3-year swap rate	1.33%	1.33%	1.34%	1.34%	1.65%	1.85%
5-year swap rate	1.33%	1.34%	1.34%	1.35%	1.75%	1.95%
10-year swap rate	1.50%	1.52%	1.53%	1.55%	1.87%	2.07%
15-year swap rate	1.61%	1.62%	1.64%	1.65%	1.91%	2.11%
20-year swap rate	1.66%	1.67%	1.69%	1.70%	1.97%	2.17%
30-year swap rate	1.67%	1.68%	1.69%	1.70%	1.99%	2.10%

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MYR forecast	1Q20	2Q20	3Q20	4Q20	2021	2022
OPR	2.75%	2.50%	2.50%	2.50%	2.50%	2.50%
1-month KLIBOR	2.92%	2.67%	2.66%	2.65%	2.90%	2.95%
3-month KLIBOR	3.10%	2.85%	2.85%	2.85%	3.15%	3.15%
6-month KLIBOR	3.25%	3.00%	3.00%	3.00%	3.30%	3.35%
12-month KLIBOR	3.37%	3.12%	3.14%	3.15%	3.40%	3.15%
1-year swap rate	3.06%	2.82%	2.84%	2.85%	3.15%	3.20%
2-year swap rate	3.02%	2.85%	2.86%	2.86%	3.20%	3.25%
3-year swap rate	3.04%	2.88%	2.89%	2.90%	3.26%	3.30%
5-year swap rate	3.08%	2.93%	2.94%	2.95%	3.30%	3.35%
10-year swap rate	3.33%	3.23%	3.24%	3.25%	3.38%	3.45%
15-year swap rate	3.50%	3.40%	3.43%	3.45%	3.60%	3.65%
20-year swap rate	3.60%	3.50%	3.53%	3.55%	3.68%	3.75%
UST bond yields	1Q20	2Q20	3Q20	4Q20	2021	2022
2-year UST bond yield	1.33%	1.35%	1.38%	1.40%	1.55%	1.75%
5-year UST bond yield	1.33%	1.37%	1.41%	1.45%	1.60%	1.85%
10-year UST bond yield	1.52%	1.57%	1.61%	1.65%	1.80%	2.00%
30-year UST bond yield	2.01%	2.06%	2.10%	2.15%	2.30%	2.50%
SGS bond yields	1Q20	2Q20	3Q20	4Q20	2021	2022
2-year SGS yield	1.42%	1.44%	1.45%	1.47%	1.62%	1.70%
5-year SGS yield	1.44%	1.48%	1.52%	1.56%	1.71%	1.80%
10-year SGS yield	1.60%	1.65%	1.70%	1.75%	1.83%	1.91%
15-year SGS yield	1.74%	1.78%	1.81%	1.85%	1.92%	1.99%
20-year SGS yield	1.86%	1.88%	1.91%	1.93%	1.98%	2.03%
30-year SGS yield	2.00%	2.03%	2.06%	2.09%	2.12%	2.14%
MGS forecast	1Q20	2Q20	3Q20	4Q20	2021	2022
3-year MGS yield	2.83%	2.65%	2.68%	2.70%	2.75%	2.80%
5-year MGS yield	2.95%	2.80%	2.82%	2.85%	2.90%	2.95%
10-year MGS yield	3.13%	3.00%	3.01%	3.03%	3.10%	3.13%

## Treasury Research & Strategy

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