

## Updated interest rate forecasts (Jan 2019)

Thursday, January 24, 2019

### Highlights

- Financial markets remain volatile through December, notwithstanding the Trump-Xi agreement for a 90-day truce on fresh tariffs on the sidelines of the G20 summit, and 2019 started trading with a notably risk-off tone as well. This culminated in the trifecta of the Powell, China's universal reserve requirement ratio (RRR) cut and an upside surprise of strong US nonfarm payrolls (NFP of 312k) to plug the blood-letting in the markets. Note the 10-year UST bond rallied nearly 70 bps from the 2018 high of 3.24% on 8 November to a low of 2.55% on 3 January 2019 before backing up to 2.67% on 4 January 2019 (post-NFP and Powell). Meanwhile, the S&P500 also corrected some 16% within December itself as VIX spiked to a high of 36.07 on 24 December 2018 before easing back to around 21 as of 4 January 2019. The futures market has flipped from pricing in 2-3 rate hikes for 2019 just two months ago to now essentially looking for no hikes this year to the possibility of a rate cut, coupled with speculation of a tweak to the Fed's balance sheet unwinding process tells you how far market sentiments have shifted. Powell's reassurance that he's "listening sensitively to the message that markets are sending" and "with the muted inflation readings that we've seen, we will be patient as we watch to see how the economy evolves", as well as the promise to "we will be prepared to adjust policy quickly and flexibly and to use all of our tools to support the economy should that be appropriate to keep the expansion on track" suggests that a pause is likely for 1Q18. As such, the risk-on appetite may extend in the interim while investors await for future clarity from Fedspeak from Powell later this week, as well as the December FOMC minutes due 9 January for more clues ahead of the 31 January FOMC meeting. Our view is that the Fed is likely under both market and Trump pressures to pause at the 31 January FOMC meeting.
- S'pore's economic data have been softening in 2H18 and is likely to continue to decelerate into 1Q19. GDP growth came in at a slower 2.2% yoy (1.6% qoq saar) in 4Q18, marking a modest slowdown from 2.3% yoy (3.5% qoq saar) in 3Q18 but also the slowest yoy growth since 3Q16 (1.7% yoy). This brought the full-year 2018 GDP growth to 3.3% yoy, which is a modest slowdown from 3.6% in 2017, but within our expectations and also within the government's 3.0-3.5% yoy forecast range. The official 2019 GDP growth forecast currently stands at 1.5-3.5% yoy, which suggests some potential downside risk from 2018's 3.3% yoy print. Our 2019 GDP growth forecast is 2.7% yoy. Given the external economic environment remains fraught with uncertainties such as whether the 90-day truce for the US-China trade war will materialise into a more lasting deal, geopolitical tensions and lingering questions over China's growth slowdown. This is also coupled with a climate of choppy financial markets, somewhat wavering business and consumer confidence, and uncertainty over tightening global financial

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conditions. For now, one key date ahead to watch includes the 2019 Budget on 18 February, which can incorporate a slightly looser fiscal stance if need be to accommodate any accentuated downside growth risks. Short-term SGD interest rates including the 3-month SIBOR and SOR have ticked higher into the year-end, which meant that SGS bond yields have also moved higher for the year-to-date despite the recent UST bond market rally.

- Malaysian interest rates remain fairly stable and BNM is unlikely to budge on the OPR for the course of 2019.

### 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%	2.75%	2.75%	3.00%	3.25%	3.25%
1-month LIBOR	2.64%	2.78%	2.91%	3.05%	3.30%	3.40%
2-month LIBOR	2.74%	2.86%	2.98%	3.10%	3.35%	3.45%
3-month LIBOR	2.89%	2.98%	3.06%	3.15%	3.40%	3.50%
6-month LIBOR	2.96%	3.04%	3.12%	3.20%	3.45%	3.60%
12-month LIBOR	3.07%	3.13%	3.19%	3.25%	3.60%	3.80%
1-year swap rate	2.88%	3.01%	3.13%	3.25%	3.65%	3.95%
2-year swap rate	2.83%	2.99%	3.14%	3.30%	3.68%	4.00%
3-year swap rate	2.80%	2.98%	3.17%	3.35%	3.70%	4.02%
5-year swap rate	2.82%	3.03%	3.24%	3.45%	3.73%	4.06%
10-year swap rate	2.92%	3.08%	3.24%	3.40%	3.82%	4.15%
15-year swap rate	2.99%	3.13%	3.28%	3.43%	3.87%	4.20%
20-year swap rate	3.01%	3.16%	3.30%	3.45%	3.91%	4.25%
30-year swap rate	3.02%	3.18%	3.34%	3.50%	4.00%	4.35%

<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	1.89%	2.02%	2.15%	2.28%	2.80%	3.05%
1-month SOR	1.93%	2.05%	2.18%	2.30%	2.83%	3.10%
3-month SIBOR	1.97%	2.09%	2.21%	2.33%	2.85%	3.25%
3-month SOR	2.10%	2.18%	2.27%	2.35%	2.86%	3.30%
6-month SIBOR	2.05%	2.17%	2.28%	2.40%	2.88%	3.37%
6-month SOR	2.05%	2.20%	2.35%	2.50%	2.89%	3.44%
12-month SIBOR	2.23%	2.34%	2.44%	2.55%	2.92%	3.47%
1-year swap rate	2.15%	2.29%	2.42%	2.56%	3.00%	3.49%
2-year swap rate	2.17%	2.31%	2.44%	2.58%	3.02%	3.51%
3-year swap rate	2.19%	2.33%	2.46%	2.60%	3.03%	3.53%
5-year swap rate	2.25%	2.38%	2.52%	2.65%	3.06%	3.56%
10-year swap rate	2.40%	2.52%	2.63%	2.75%	3.13%	3.64%
15-year swap rate	2.70%	2.73%	2.77%	2.80%	3.14%	3.65%
20-year swap rate	2.75%	2.80%	2.85%	2.90%	3.15%	3.67%
30-year swap rate	2.80%	2.86%	2.91%	2.97%	3.17%	3.70%

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	2.59%	2.70%	2.80%	2.90%	3.10%	3.33%
5-year UST bond yield	2.66%	2.80%	2.95%	3.09%	3.43%	3.53%
10-year UST bond yield	2.83%	2.97%	3.11%	3.25%	3.58%	3.80%
30-year UST bond yield	3.10%	3.19%	3.27%	3.36%	3.61%	4.00%
SGS bond yields	1Q19	2Q19	3Q19	4Q19	2020	2021
2-year SGS yield	1.94%	2.00%	2.06%	2.12%	2.30%	2.40%
5-year SGS yield	1.98%	2.05%	2.13%	2.20%	2.40%	2.50%
10-year SGS yield	2.20%	2.34%	2.48%	2.62%	2.77%	2.87%
15-year SGS yield	2.43%	2.53%	2.64%	2.74%	2.85%	2.96%
20-year SGS yield	2.50%	2.60%	2.71%	2.81%	2.95%	3.05%
30-year SGS yield	2.60%	2.68%	2.77%	2.85%	3.00%	3.10%
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%

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