

Updated interest rate forecasts (July 2019)

Tuesday, July 02, 2019

Highlights

- **Hope and anxiety are flip sides of the same coin, but can this post-G20 bout of optimism last through summer? We still see the Fed as frontloading “insurance” cuts from July.** The deterioration of the US-China trade situation from May was swiftly followed by the US Federal Reserve’s signalling of imminent rate cuts amid heightened uncertainties and disappointing inflation prints. Last weekend, US president Trump met with Chinese leader Xi and announced another temporary truce (albeit of indefinite timeframe this time round) to restart trade negotiations and will allow US companies to supply Huawei in the interim (even though it does not represent a “general amnesty” according to White House advisor Kudlow). While the post-G20 prospect of US-China restarting trade talks has prompted the recent improvement in global risk sentiments, this is unlikely to deter the Fed from delivering on their pledged July rate cut for now. The market will be watching the June nonfarm payrolls and labour market data on 5 July, but that is unlikely to be a deal-breaker either in our view. We look for the Fed to deliver 25bps at the July FOMC and follow through with another 25bps in September, with potentially the last tranche in 4Q19 before staying on hold in 2020. This is a frontloading of our previous call for one 25bp cut in 4Q19 and another 25bp cut in 1H20. If and when the Fed pushback against over-enthusiastic rate cut market pricing comes, UST bond yields may again recalibrate.
- **For Singapore, we have revised our house view from 1.8% to 1.3% (range 0.5-1.5%).** The path of least resistance would be to continue to taper S\$NEER expectations amid a potentially softer USD and without any fresh external or domestic catalysts in sight. Given ample fiscal ammunition, there may also be manoeuvre room for fiscal policy to step up if the business climate and consumer confidence retreats further. Note MAS has said the official 1.5-2.5% growth forecast for 2019 will be reviewed, and that 2Q19 growth may soften from 1Q19. Notwithstanding the latest turn in sentiments post-G20, there is a real risk of deeper and more widespread disruptions to global/regional supply chains, handicapping firms from their capex and hiring plans, and worsening business and consumer confidence. As such, the October monetary policy meeting remains “live” in terms of potentially taking back some of the earlier 2018 tightening should incoming economic data continue to deteriorate.
- **For Malaysia, BNM is likely to hold its policy rates static pending further growth cues.** The caveat is of course if growth deteriorates below BNM’s 2019 growth forecast of 4.3-4.8% yoy.

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Forecasts

USD Interest Rates	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	2021
Fed Funds Target Rate	1.75%-2.0%	1.50%-1.75%	1.50%-1.75%	1.50%-1.75%	1.50%-1.75%	1.50%-1.75%	1.50%-1.75%
1-month LIBOR	2.15%	1.90%	1.84%	1.78%	1.71%	1.65%	1.75%
2-month LIBOR	2.20%	1.95%	1.89%	1.83%	1.76%	1.70%	1.80%
3-month LIBOR	2.25%	2.00%	1.94%	1.88%	1.81%	1.75%	1.85%
6-month LIBOR	2.26%	2.10%	2.04%	1.98%	1.91%	1.85%	1.95%
12-month LIBOR	2.27%	2.20%	2.15%	2.10%	2.05%	2.00%	2.10%
1-year swap rate	2.00%	1.95%	1.98%	2.00%	2.03%	2.05%	2.13%
2-year swap rate	1.80%	1.75%	1.84%	1.93%	2.01%	2.10%	2.15%
3-year swap rate	1.73%	1.69%	1.81%	1.92%	2.04%	2.15%	2.25%
5-year swap rate	1.75%	1.70%	1.83%	1.95%	2.08%	2.20%	2.30%
10-year swap rate	1.95%	1.90%	2.01%	2.13%	2.24%	2.35%	2.45%
15-year swap rate	2.10%	2.00%	2.10%	2.21%	2.31%	2.41%	2.55%
20-year swap rate	2.19%	2.16%	2.24%	2.32%	2.40%	2.48%	2.60%
30-year swap rate	2.20%	2.18%	2.29%	2.39%	2.50%	2.60%	2.70%
SGD Interest Rates	3Q19	4Q19	1Q20	2Q20	3Q20	2020	2021
1-month SIBOR	1.85%	1.83%	1.85%	1.87%	1.88%	1.90%	1.95%
1-month SOR	1.80%	1.75%	1.81%	1.88%	1.94%	2.00%	2.05%
3-month SIBOR	2.00%	1.98%	2.00%	2.02%	2.03%	2.05%	2.10%
3-month SOR	1.83%	1.80%	1.88%	1.97%	2.05%	2.13%	2.15%
6-month SIBOR	2.06%	2.05%	2.08%	2.10%	2.13%	2.15%	2.20%
6-month SOR	1.70%	1.65%	1.78%	1.92%	2.05%	2.18%	2.25%
12-month SIBOR	2.18%	2.15%	2.17%	2.19%	2.20%	2.22%	2.28%
1-year swap rate	1.70%	1.65%	1.71%	1.78%	1.84%	1.90%	2.14%
2-year swap rate	1.63%	1.60%	1.65%	1.70%	1.75%	1.80%	1.90%
3-year swap rate	1.65%	1.63%	1.68%	1.73%	1.77%	1.82%	1.91%
5-year swap rate	1.72%	1.70%	1.74%	1.78%	1.81%	1.85%	1.93%
10-year swap rate	1.95%	1.90%	1.94%	1.98%	2.02%	2.06%	2.15%
15-year swap rate	1.98%	1.94%	2.01%	2.09%	2.17%	2.25%	2.29%
20-year swap rate	2.28%	2.26%	2.27%	2.29%	2.30%	2.31%	2.33%
30-year swap rate	2.29%	2.28%	2.29%	2.31%	2.32%	2.33%	2.38%

MYR forecast	3Q19	4Q19	1Q20	2Q20	3Q20	2020	2021
OPR	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
1-month KLIBOR	3.16%	3.13%	3.16%	3.18%	3.21%	3.23%	3.25%
3-month KLIBOR	3.43%	3.40%	3.43%	3.45%	3.48%	3.50%	3.52%
6-month KLIBOR	3.53%	3.50%	3.53%	3.55%	3.58%	3.60%	3.62%
12-month KLIBOR	3.63%	3.60%	3.63%	3.65%	3.68%	3.70%	3.72%
1-year swap rate	3.38%	3.25%	3.26%	3.27%	3.28%	3.29%	3.39%
2-year swap rate	3.39%	3.26%	3.27%	3.28%	3.29%	3.30%	3.40%
3-year swap rate	3.41%	3.28%	3.29%	3.30%	3.31%	3.32%	3.42%
5-year swap rate	3.44%	3.31%	3.32%	3.33%	3.34%	3.35%	3.45%
10-year swap rate	3.69%	3.56%	3.57%	3.58%	3.59%	3.60%	3.70%
15-year swap rate	3.89%	3.76%	3.77%	3.78%	3.79%	3.80%	3.90%
20-year swap rate	4.04%	3.91%	3.92%	3.93%	3.94%	3.95%	4.05%
UST bond yields	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	2021
2-year UST bond yield	1.72%	1.64%	1.67%	1.70%	1.72%	1.75%	1.92%
5-year UST bond yield	1.75%	1.70%	1.75%	1.80%	1.85%	1.90%	2.08%
10-year UST bond yield	1.95%	1.90%	1.95%	1.99%	2.04%	2.08%	2.15%
30-year UST bond yield	2.50%	2.40%	2.44%	2.48%	2.51%	2.55%	2.62%
SGS bond yields	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	2021
2-year SGS yield	1.30%	1.57%	1.60%	1.62%	1.65%	1.67%	1.83%
5-year SGS yield	1.75%	1.72%	1.75%	1.79%	1.82%	1.85%	2.00%
10-year SGS yield	1.96%	1.94%	1.95%	1.97%	1.98%	1.99%	2.08%
15-year SGS yield	2.23%	2.08%	2.09%	2.09%	2.10%	2.10%	2.18%
20-year SGS yield	2.32%	2.20%	2.21%	2.22%	2.23%	2.25%	2.32%
30-year SGS yield	2.49%	2.45%	2.46%	2.48%	2.49%	2.50%	2.56%
MGS forecast	3Q19	4Q19	1Q20	2Q20	3Q20	2020	2021
5-year MGS yield	3.39%	3.30%	3.30%	3.30%	3.30%	3.30%	3.40%
10-year MGS yield	3.58%	3.48%	3.50%	3.52%	3.53%	3.55%	3.65%

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